



SEPTEMBER 2012
**WEST PERTH
OFFICE**

Market Overview
Knight Frank

HIGHLIGHTS

- The total vacancy rate for West Perth was 3.2% as at July 2012, down from 4.4% as at January 2012 (and 5.4% a year earlier) - as recorded by the Property Council of Australia (PCA).
- New development at 1120 Hay Street and refurbished space at Dumas House added 18,642m² of gross supply additions. This space was fully pre-committed prior to completion.
- The six-month net absorption of 19,943m² to July 2012 is the highest level ever recorded in West Perth.
- Average Prime net face rents range between \$525/m² and \$600/m². Secondary-grade net face rents are between \$450/m² and \$540/m².
- Two major asset sales have occurred this year in West Perth for a total consideration of \$43.485 million. Core market yields average 8.5% for Prime-grade assets and 9.0% for Secondary-grade.

SEPTEMBER 2012 WEST PERTH OFFICE

Market Overview

Table 1
West Perth Office Market Indicators as at September 2012

Grade	Total Stock (m ²) ^	Vacancy Rate (%)^	Annual Net Absorption (m ²)^	Annual Net Additions (m ²) ^	Average Net Face Rent (\$/m ²)	Average Incentive (%)	Average Core Market Yield (%)
Prime	128,939	1.2	10,160	5,066	525 – 600	5.0	8.5
Secondary	266,586	4.1	-1,282	-5,010	450 – 540	8.5	9.0
Total	395,525	3.2	8,878	56			

Source: Knight Frank/PCA ^ as at July 2012

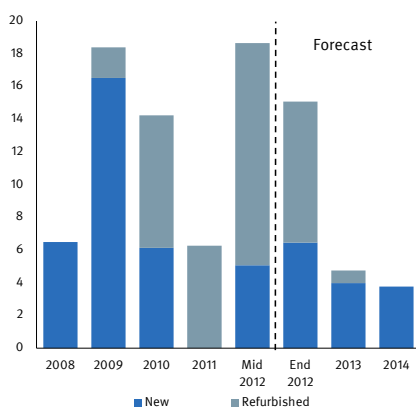
Supply and Development

The PCA recorded gross supply additions to the West Perth area of 18,642m² in the six months to July 2012, with withdrawals of 2,675m² over the same period (net additions 15,967m²).

In the first half of 2012 one new development was completed being 5,066m² at 1120 Hay Street. This building was fully pre-committed prior to its completion in May by Technip Oceania, who expanded their operations from neighbouring premises.

In addition, 13,576m² of refurbished space in Dumas House was completed in the period to July 2012, on top of the 2,144m² that was refurbished in 2011. This State Government owned and leased building has a further 4,287m² being refurbished and due for completion by the close of 2012.

Figure 1
West Perth Office Supply
New and refurbished Stock ('000m²)



Source: Knight Frank/PCA

Table 2
West Perth New Development

Address	NLA (m ²)	Estimated Completion
100 Havelock St	4,600	Q4 2012
34 Parliament Pl	1,848	Q4 2012
1 Ord St	3,980	mid 2013
1160 Hay St	1,500	2014
1101 Hay St	2,443	2014
Total	14,371	

Source: Knight Frank

Vacancy and Tenant Demand

The PCA's total vacancy rate for West Perth dropped to 3.2% as at July 2012, down from 4.4% in January 2012.

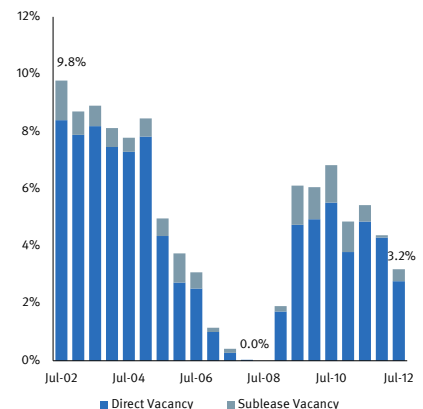
Total vacant space decreased by a total of 3,976m² from January 2012, to be at 12,635m², which continues the downward trend over the last twelve months. Whilst direct vacancy decreased to 10,964m², sub-lease vacancy increased marginally in the period to July 2012 to 1,671m².

The PCA data shows that around two-thirds of the buildings in West Perth with vacant space have vacancies in the sub-300m² range. Larger areas are fewer in number, with vacant full-floors, at the time of PCA publication, being in 1 Altona Street, 2 Kings Park Road, 46 Ventnor Avenue, a part-floor at 46-50 Kings Park Road, and a full building at 6 Gordon Street.

Net absorption for the six-month period to July 2012 totalled 19,943m², the highest recorded for West Perth. This followed on

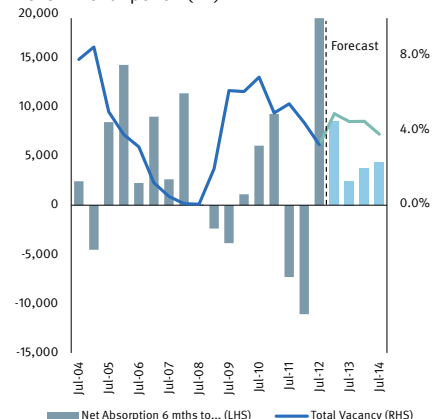
from negative absorption of 11,065m² recorded in January 2012. The full pre-commitment to space in Dumas House and 1120 Hay Street helped achieve this positive absorption.

Figure 2
West Perth Historical Vacancy
Direct and Sub-lease Vacancy (%)



Source: PCA

Figure 3
West Perth Vacancy and Net Absorption
Per six month period (m²)



Source: Knight Frank/PCA



To the close of 2012 the level of net absorption is anticipated to remain positive and above the 10-year average six-month net absorption figure of 4,105m². With supply additions of almost 16,000m² estimated over this period, research by Knight Frank indicates that the PCA vacancy will increase to 4.8% by the close 2012. Continued lower levels of new supply with average levels of net absorption will see vacancy rates steadily decrease to 4.4% by the close of 2013.

Rental Levels

Decreasing levels of vacancy over the past twelve months in West Perth have increased Prime net face rents to range between \$525/m² - \$600/m². Secondary-grade net face rents have remained steady at between \$450/m² and \$540/m².

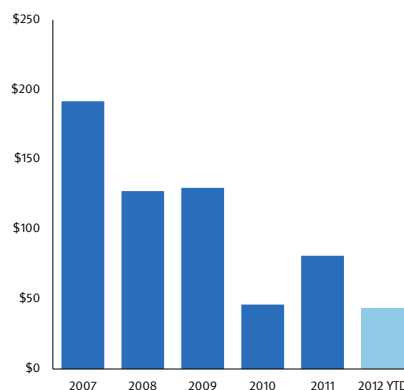
Enquiry for space continues from resource and financial companies, with most demand for property between 200m² and 500m², full-floor plates or contiguous space. However, with the majority of space available being sub-300m², satisfying this demand in the current low supply market will be difficult until new space comes online.

Incentives for all grades of property range between 0% and 10%, with properties that have a fit-out in place being highly desirable and attracting little or no incentive.

Investment Activity

Two major investments (over \$5 million) have transacted in the first half of 2012, totalling \$43.485 million.

Figure 4
West Perth Sales Activity
Sales value >\$5 million (\$ million)



Source: Knight Frank

1110 Hay Street sold for \$29.90 million in February 2012 on an initial passing yield of 8.60%. At the time of sale, the building had no vacancy with a WALE on income of 1.7 years. An analysed core market yield of 9.37% sees the potential for future income growth, particularly with the immediate lease expiry of Technip Oceania which occupied 33% of the building.

The recent transaction of 10 Ord Street continues the activity of private investors purchasing in West Perth. The building sold on a passing initial yield of 8.34% with a WALE on income of 3.2 years. The core market yield of 8.92% is reflective of its nil vacancy and longer WALE.

Core market yields for Prime-grade buildings are on average around 8.5%, with Secondary-grade buildings at 9.0%.

Outlook

Like most markets around Australia, the West Perth market will be shaped by international economic factors that are filtering through to the domestic market, especially relating to the resources sector.

Beyond 2012, new supply in West Perth tapers along with net absorption, with the vacancy rate gradually decreasing to sub-4% by 2014. Financing for new development is also impacting the level of new supply, coupled with the limited availability of suitable development sites.

The level of investment sales is anticipated to be lower, particularly with fewer distressed sales coming to market. Whilst the two major transactions this year have been to private investors, syndicated parties have been active in seeking out well-placed investment properties.

Table 3
Recent Leasing Activity West Perth

Address	Area (sq m)	Net Face Rental (\$/m ²)	Term (yrs)	Lease Type	Tenant	Start Date
28 Kings Park Road	233	430	2.0	Direct Lease	Everstone Group	Aug 2012
66 Kings Park Road	190	550	4.0	Direct Lease	NWQ	Jul 2012
35 Havelock Street	330	530	5.0	Direct Lease	Crusader Resources	Jun 2012
2 Kings Park Road	1,440	575	6.0	Direct Lease	Mount Gibson Iron	May 2012
41 – 47 Colin Street	483	525	5.0	Direct Lease	IMX Resources	May 2012
66 Kings Park Road	244	600	4.3	Direct Lease	Extension Hill	Apr 2012
10 Ord Street	710	475	5.0	Direct Lease	Lend Lease	Mar 2012

Table 4
Recent Sales Activity West Perth

Address	Price (\$ mil)	Core Market Yield (%)	NLA (m ²)	\$/m ² NLA	Vendor	Purchaser	Sale Date
10 Ord Street	13.585	8.92	1,958	6,938	Private Investor	Private Investor	Jul 2012
1110 Hay Street	29.90	9.37	4,453	6,715	Private Investor	Private Investor	Feb 2012

Source: Knight Frank



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