



**Preston  
Rowe  
Paterson**

National Property Consultants

# Sydney *Market* Report

## Office Market

### About This Report

Preston Rowe Paterson prepare standard research reports covering the main markets within which we operate in each of our capital cities and major regional locations.

The markets covered in this research report include the commercial office market, industrial market, retail market, hotel and leisure market and residential market as well as economic factors impacting on the real estate markets within we operate.

We regularly undertake valuations of commercial, retail, industrial, hotel and leisure, residential and special purpose properties for many varied reasons, as set out later herein. We also provide property management services, asset and facilities management services for commercial, retail, industrial property as well as plant and machinery valuation.

To compile the research report we have considered the most recently available statistics from known sources. Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them. Where possible we consider short term movement in the statistics by looking at daily published data in the financial press. Where this shows notable fluctuation, when compared to the formal published numbers we have commented accordingly.

### A Year in Review

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# Economic Fundamentals

## GDP

GDP figures for the September quarter are not available until 4<sup>th</sup> December 2013, however PRP research over the June 2013 quarter has revealed that the Australian economy recorded steady growth, with the quarter GDP growth at 0.6% seasonally adjusted which resulted in annual growth to June 2013 increasing by 2.6%. The main contributors to GDP over the June quarter were Financial and Insurance Services which increased by 2.1% reflecting a 0.2% contribution to the GDP growth and Construction which increased by 1.9% reflecting a 0.1% contribution to GDP growth.

The Terms of Trade over the quarter rose by a marginal 0.1% following a 3.1% increase in the March quarter. Over the twelve months to June 2013 the Terms of Trade has fallen 4.9% signalling that export prices are declining at a faster rate than import prices.

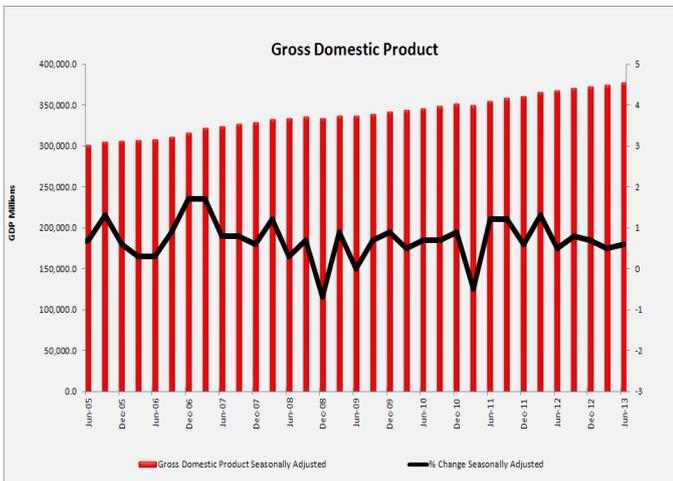


Chart 1 – Gross Domestic Product (GDP) – Source ABS

## Labour force

The official employment figures released from the Australian Bureau of Statistics revealed that the unemployment rate decreased by 0.2 percentage points to 5.6% seasonally adjusted as at September 2013.

Employment over the month to September 2013 recorded an increase of 9,106 persons from 11,636,716 in August to 11,645,822 in September a percentage increase of 0.08%.

Full time employment over the month to September increased by 0.06 percentage points from 8,128,742 to 8,133,731 an increase of 4,989 persons. Part time employment recorded growth of 0.12% over the month to September to 3,512,091 persons. In comparison to September 2012, there was a 2.95% growth which is an increase of 100,691 persons.

The participation rate recorded a marginal decline of 0.1 percentage points to 64.9% as at September 2013, with year on year comparison revealing a 0.5 percentage point decline.

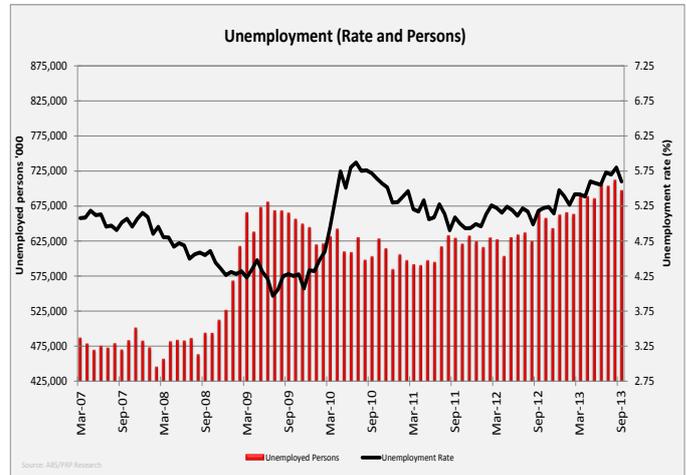


Chart 2 – Unemployment – Source ABS

## Interest Rates

At the date of publishing, the official Cash Rate over the September quarter 2013 declined by 25 basis points to 2.50%. The decline took place in May and remained unchanged for the months of April and June. The Reserve Bank of Australia’s Media Release for August 2013 explained that;

“In Australia, the economy has been growing a bit below trend over the past year. This is expected to continue in the near term as the economy adjusts to lower levels of mining investment. The unemployment rate has edged higher. Recent data confirm that inflation has been consistent with the medium-term target. With growth in labour costs moderating, this is expected to remain the case over the next one to two years, even with the effects of the recent depreciation of the exchange rate.”

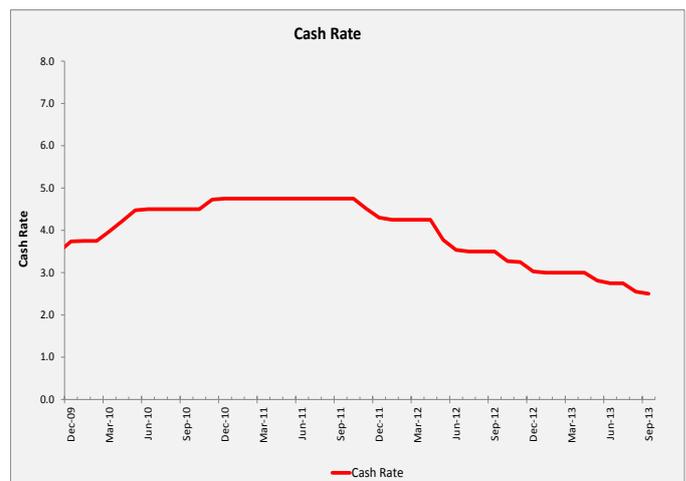


Chart 3 – Cash Rate – Source RBA

## Bond Market

### 10 Year Bond & 90 Day Bill Rate

In the twelve months to September 2013, the 10 year Bond rate has increased by 91 basis points to 4.00%. Conversely, the 90 Day Bill Rate has decreased by 91 basis points from 3.49% to 2.58%. Over the September 2013 quarter, 10 Year Government Bonds gained 25 basis points due to declines in both July and August of 11 basis points and 14 basis points respectively.

The 90 Day Bill Rate recorded monthly declines throughout the September quarter with decreases of 16 basis points in July and 2 basis points in August. Year on year analysis has revealed that the 90 Day Bill Rate has declined a total of 91 basis points since September 2012.

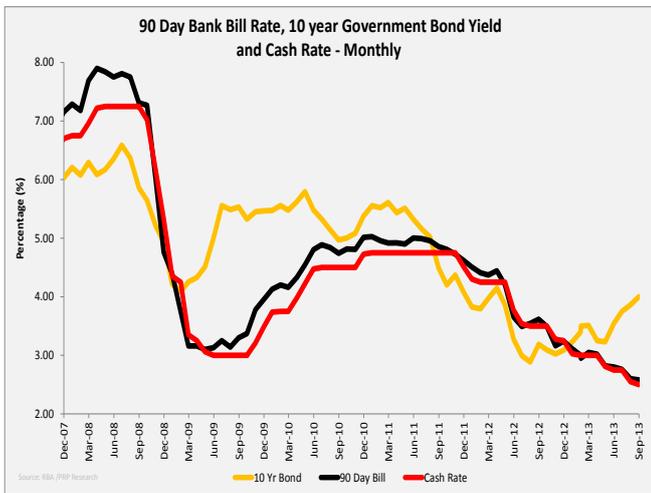


Chart 4 – 90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

Analysis of 10 year Government Bonds has revealed an increase of 36 basis points over the month of June 2013 with the 10 year bond rate currently at 3.76%. 90 Day Bill rates revealed growth of 4 basis points over the month of June. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 74 basis points.

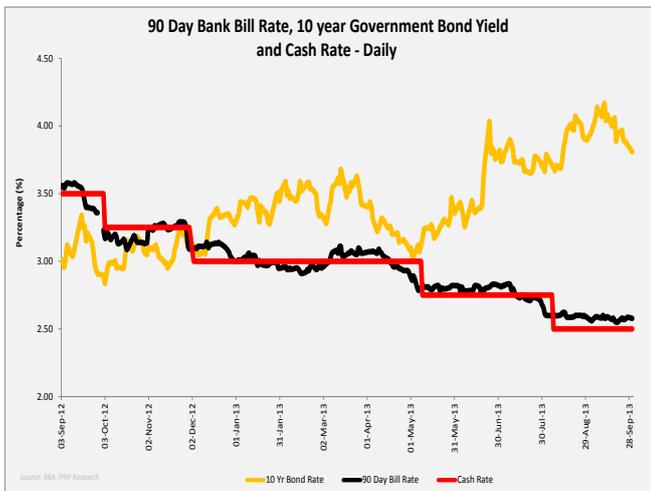


Chart 5 – 90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

## CPI

The Consumer Price Index (CPI) rose by 1.2% in the September quarter 2013 with the index now recording 104.0, reflecting an annual growth to September of 2.2%. The most significant price rises this quarter were for water and sewerage, property rates and charges and automotive fuel with increases of 9.7%, 7.9% and 7.6% respectively.

The most significant price decline over the September 2013 quarter was attributed to vegetables, which declined by 4.5%.



Chart 4 – Consumer Price Index—Source—ABS

## Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index increased by 4.7% in September from 105.7 in August to 110.6 in September. Over the quarter the index has increased by 8.4 points, an increase of 8.24%. Over the twelve months to September the Index increased by 12.4 Index points, reflecting a percentage increase of 12.64%.

The Index has now reached its highest level since December 2010, when it was recorded at 111 Index Points. Westpac's Chief Economist, Bill Evans, stated "Confidence is also high around the housing market. The sub-index tracking assessments of 'whether now is a good time to buy a dwelling' jumped 6.5% to its highest level since August 2009".



Chart 5 – Consumer Sentiment Index – Source - Westpac—Melbourne Institute Survey

## Commercial Office Market

### Sydney CBD

#### Investment Activity

| ADDRESS                    | SALEPRICE           | VENDOR                            | PURCHASER                         | SALE DATE | BLG AREA m2 | RATE/m2  | YIELD  |
|----------------------------|---------------------|-----------------------------------|-----------------------------------|-----------|-------------|----------|--------|
| 1 Dixon Street             | \$8,050,000         | Hyperion Property Syndicate No 11 | Undisclosed                       | 26-Sep-13 | 3,524       | \$2,284  | -      |
| 130-134 Elizabeth Street   | \$50,000,000        | GE Real Estate Capital            | Blackstone                        | 14-Sep-13 | 10,308      | \$4,851  | -      |
| 396-412 Kent Street        | \$58,000,000        | The Trust Company Ltd             | Kent Street Real Estate Holdings  | 7-Aug-13  | 10,461      | \$5,544  | 7.85%  |
| 46-50 Margaret Street      | \$65,300,000        | Margaret Street Investments       | The Trust Company (Australia) Ltd | 19-Sep-13 | 8,722       | \$7,487  | 5.57%  |
| 1 Martin Place             | \$220,000,000 (50%) | Charter Hall Group                | Charter Hall Office Trust         | 15-Aug-13 | 40,676      | \$10,817 | -      |
| 16 Spring Street           | \$21,900,000        | Standard Life                     | Malaysian Group                   | 24-Aug-13 | 3,172       | \$6,904  | 6.62%  |
| 9-11 Castlereagh Street    | \$172,500,000       | Stockland                         | Core Plus Office Fund             | 4-Jan-13  | 20,989      | \$8,219  | -      |
| 76-80 Clarence Street      | \$31,000,000        | Australian Executor Trustees Ltd  | Undisclosed                       | 1-Feb-13  | 5,567       | \$5,569  | -      |
| 260-300 Elizabeth Street   | \$320,000,000       | Investa Property Group            | Undisclosed                       | 24-Jan-13 | 53,635      | \$5,966  | -      |
| 160-166 Sussex Street      | \$35,000,000        | Aviva Investors                   | Conrad Properties                 | 31-Jan-13 | 8,400       | \$4,167  | -      |
| 175-183 Castlereagh Street | \$56,000,000        | Stockland                         | Centuria                          | 9-Jan-13  | 11,859      | \$4,722  | 12.25% |
| 231 Elizabeth Street       | \$201,000,000       | Investa Property Group            | Bright Ruby                       | 1-Mar-13  | -           | -        | -      |
| 117 Clarence Street        | \$61,250,000        | AMP Capital Investors             | Altis Property Partners           | 2-Apr-13  | 12,571      | \$4,872  | 9.25%  |

Table 1—Sydney CBD Sales Transactions

The following table shows reported sales transactions that occurred over the year. Transaction. Information has been gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

The following table shows reported leasing transactions that occurred over the year.

| ADDRESS                  | RENT PSM | RENT PA           | LESSEE                        | AREA SQM | TERM | LEASE DATE |
|--------------------------|----------|-------------------|-------------------------------|----------|------|------------|
| 8-12 Chifley Square      | \$1,000  | \$2,494,000 Net   | Quantium                      | 2,594    | 7    | 15-Aug-13  |
| 88 Cumberland Street     | \$740    | \$1,583,600 Net   | Government Property Australia | 2,140    | 5    | 1-Aug-13   |
| 407-419 Elizabeth Street | \$400    | \$1,517,200 Net   | Nationwide News               | 3,793    | -    | 26-Aug-13  |
| 205-235 George Street    | \$1,225  | \$2,048,200 Gross | Barclays                      | 1,672    | 3    | 1-Jul-13   |
| 264-278 George Street    | \$650    | \$3,900,000 Net   | HWL Ebsworth                  | 6,000    | 10   | 19-Sep-13  |
| 1-15 Market Street       | \$700    | \$764,400 Net     | Atradius Credit Insurance     | 1,092    | 10   | 15-Aug-13  |
| 11-31 York Street        | \$595    | \$658,963 Gross   | Employment Innovations        | 1,107    | 3    | 27-Aug-13  |
| 190-200 George St        | \$1,000  | \$28,000,000      | Ernst & Young                 | 28,000   | 10   | 22-Dec-12  |
| 383-395a Kent Street     | \$600    | \$946,200         | WorkCover                     | 1,577    | 2    | 5-Feb-13   |
| 338 Pitt Street          | \$550    | \$660,000 Gross   | Hipages Group                 | 1,200    | -    | 22-Oct-13  |

Table 2—Sydney CBD Leasing Transactions

#### Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report July 2013 have been analysed to derive at the following findings:

#### Supply by Grade (Stock)

Over the six months to July 2013, there has been 90,843 sqm of new supply added to the market which was offset by 29,191 sqm of withdrawals resulting in net supply of 61,652 sqm. This brings total Sydney CBD office stock to 4,917,944 sqm. New supply was attributed to completion of the development at 161-163 Castlereagh Street which accounted for 57,200 sqm. Partial supply of 33,643 sqm made up the remainder of supply additions due to various building refurbishments.

A Grade office space continues to hold the majority of the Sydney CBD Office market with 36.9%, an increase of 0.1% compared to January 2013. B Grade follows with 31.6% and the remaining grades of Premium, C and D grade comprise of 15.8%, 11.8% and 4% respectively.

#### Development Sites

8-12 Chifley Square comprising 19,320 sqm is expected to be completed this year. It is owned by K-REIT Asia. The completion of the development at 180 Thomas Street has been pushed back to the first quarter of 2014 which will add 13,941 sqm of office space to the market.

In 2015+ there is over 300,000 sqm of office space mooted, to enter the market with construction having commenced at International Towers – T3 located at Barangaroo. This tower is expected to add a 78,000 sqm of office space to the market. Site works have commenced on International Towers – T2, with the T1 tower having been DA Approved. The remaining two towers of T1 and T2 are expected to add 101,000 sqm and 87,500 sqm of office space to the market respectively.

As at July 2013, there is an expected 47,124 sqm of new supply expected to enter the Sydney CBD Office market later in the year. In 2014 there is an estimated 53,192 sqm of supply expected with 41.84% pre-committed. In 2015+ there is a further 322,167 sqm of new supply anticipated, with 49.8% having been pre-committed. The International Towers T3 & T2 at Barangaroo will account for 78,000 sqm and 87,500 sqm of this new supply respectively.

There are 3 new developments which are currently mooted and will account for 138,500 sqm of the supply. All 3 developments have been DA Approved and are the International Towers – T1 at Barangaroo, 33 Bligh Street and 383 George Street. The developments will provide office supply of 101,000 sqm, 24,000 sqm and 13,500 sqm respectively.

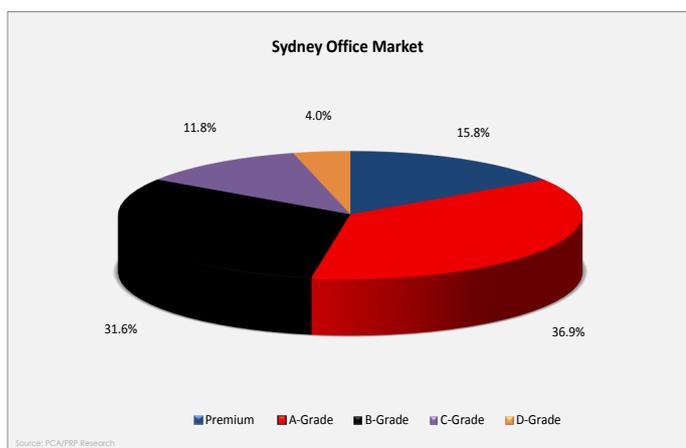


Chart 6 – Sydney CBD Total Stock by Grade – Source PCA

### Occupation Levels

In regard to occupied stock levels, the Sydney CBD Office Market recorded a decline of 0.4% in the twelve months to July 2013.

Over twelve months to July 2013, all grades of office space apart from Premium Grade recorded declines in the occupied stock levels, premium grade increasing by 7.3%. B grade experienced the greatest decline of 2.4% followed by C grade with 2.2%, D grade with 1.8% and A grade with 1.1%.

### North Sydney

#### Investment Activity

The following table displays reported sales transactions that occurred in North Sydney over the past year.

| ADDRESS              | SALE PRICE    | VENDOR                                       | PURCHASER                                    | SALE DATE | BLG AREA SQM | RATE PER SQM | YIELD  |
|----------------------|---------------|--|--|-----------|--------------|--------------|--------|
| 80 Arthur Street     | \$20,500,000  | Medi-Aid Centre Foundation Ltd               | Karimbla Properties (No. 37) Pty Ltd         | 6-Sep-13  | 6,510        | \$3,149      |        |
| 88-94 Arthur Street  | \$45,250,000  | GE Real Estate Investments Australia Pty Ltd | Australiagen Office Portfolio Sub Tc Pty Ltd | 31-Jul-13 | 9,146        | \$4,948      |        |
| 162 Blues Point Road | \$20,000,000  | AMP Capital                                  | Kingsmede                                    | 13-Nov-13 | 4,056        | \$4,931      | 9.66%  |
| 54 Miller Street     | \$24,000,000  | Investa Property Group                       | Australian Development Corporation Group     | 27-Nov-12 | 7,056        | \$3,401      | 8.89%  |
| 80 Alfred Street     | \$49,000,000  | Australand                                   | Chinese Developer                            | 10-Dec-12 | 10,285       | \$4,764      | 10.44% |
| 99 Walker Street     | \$124,900,000 | Investa Office Fund                          | GE Capital                                   | 2-Jul-13  | 17,200       | \$7,261      | 7.90%  |
| 30 Alfred Street     | \$26,250,000  | Centuria Property Fund                       | Undisclosed                                  | 1-Aug-13  | 3,706        | \$7,083      | -      |
| 88-92 Walker Street  | \$10,000,000  | Eastmark Holdings                            | Undisclosed                                  | 15-Aug-13 | 3,064        | \$3,264      | -      |

Table 3— North Sydney Sales Transactions

### Net Absorption & Vacancy Levels

Latest figures from the Property Council of Australia's (PCA) Office Market Report July 2013 have shown an increase in the Vacancy factor for the Sydney CBD commercial office market.

Total vacancy for the Sydney CBD commercial office market increased from 7.2% in January 2013 to 8.9% in July 2013, an increase of 1.7%. This is the largest six-monthly increase recorded since July 2009, when the vacancy rate increased from 5.4% to 7.8%.

All grades of office space contributed to the increase in vacancy, with the greatest increase attributed to A Grade, with a 2.8% increase to 10.2%. Premium grade followed with a 2.3% increase to 8.3%. The remaining 3 grades of B, C and D grade recorded increases of 0.8%, 0.2% and 0.9% to vacancy levels of 8%, 8.6% and 7.4% respectively.

The entire Sydney CBD office market recorded net absorption of -26,984 sqm, reflecting net absorption of -19,083 sqm in the twelve months to July 2013. All grades of office space recorded declines in net absorption in the six months to July 2013 apart from Premium grade which recorded positive absorption of 36,393 sqm. A grade and B grade office stock recorded the most significant declines in net absorption with 27,846 sqm and 27,070 sqm respectively. C grade and D grade reported negative net absorption of 2,753 sqm and -5,708 sqm respectively.

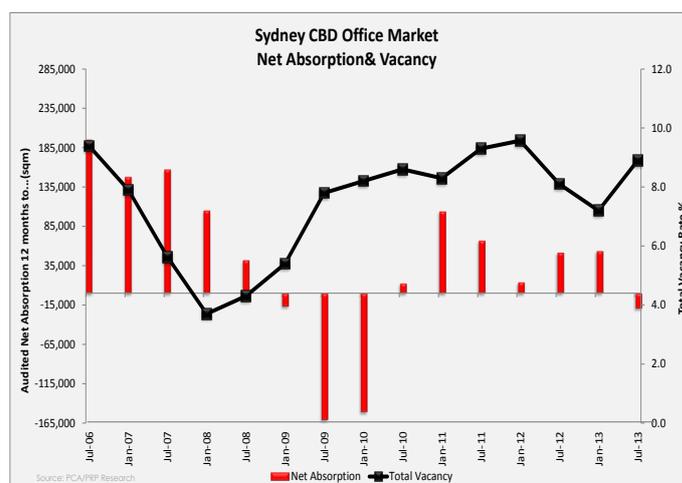


Chart 7 – Sydney CBD Commercial Vacancy Rates – Source PCA

## Leasing Activity

PRP Research recorded relatively few major leasing transactions that occurred in the North Sydney Office Market over the past year.

| ADDRESS            | RENT PSM | RENT PA     | LESSEE                     | AREA SQM | TERM | LEASE DATE |
|--------------------|----------|-------------|----------------------------|----------|------|------------|
| 76 Berry Street    | \$540    | \$540,000   | Akamai Technology          | 1,000    | -    | 26-Aug-13  |
| 16-40 Mount Street | \$645    | \$1,593,150 | Meat & Livestock Australia | 2,470    | 10   | 9-Jul-13   |

Table 4— North Sydney Leasing Transactions

## Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report July 2013 have been analysed to derive at the following findings:

### Supply & Occupation

Over the six months to July 2013, the North Sydney Office Market total stock has decreased by 1,093 sqm from 861,554 sqm to 860,461 sqm. B Grade recorded supply addition of 350 sqm and C Grade recorded stock withdrawal of 1,443 sqm. All other grades of office stock remained unchanged.

Over the six months to July 2013, occupied stock levels declined in all grades apart from Premium grade which remained unchanged. The most significant decline was attributed to C grade with a decline of 9.4%, followed by A grade with 2.3%, B grade with 1.3% and D grade with 0.2%.

Analysis of the PCA July 2013 office market report has revealed that B Grade office stock continues to maintain over 50% of the market, followed by A grade with 21.6%, C grade with 21.5%, Premium grade with 4.2% and D grade with 2.5%.

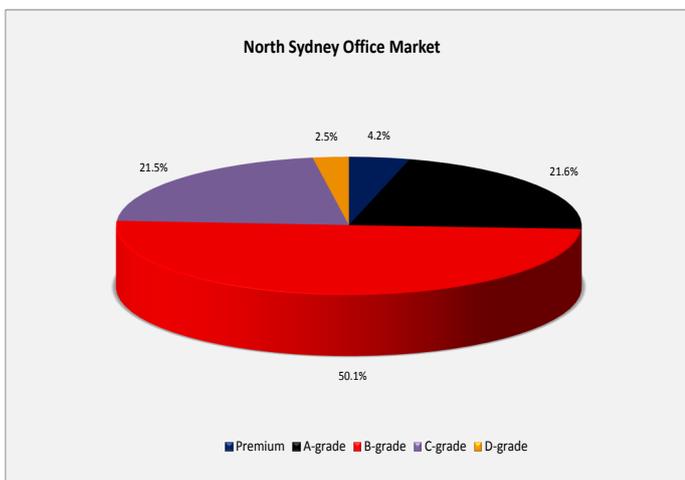


Chart 8 – North Sydney CBD Stock Levels By Grade – Source PCA

### Vacancy Rates

In the six months to July 2013, the North Sydney office market total market vacancy has increased by 2.8% to 10.6% reflecting its highest vacancy rate since July 2010. All grades apart from Premium grade office space recorded increases in total vacancy, with C grade accounting for the greatest increase of 8.2% to 18.2%. Premium grade office space remained unchanged at 1.6%.

A grade recorded the second highest increase in total vacancy of 2.2% to 7.5%, followed by B grade with 1.2% to 9% and D grade, which increased by 0.2% to 17.9%.

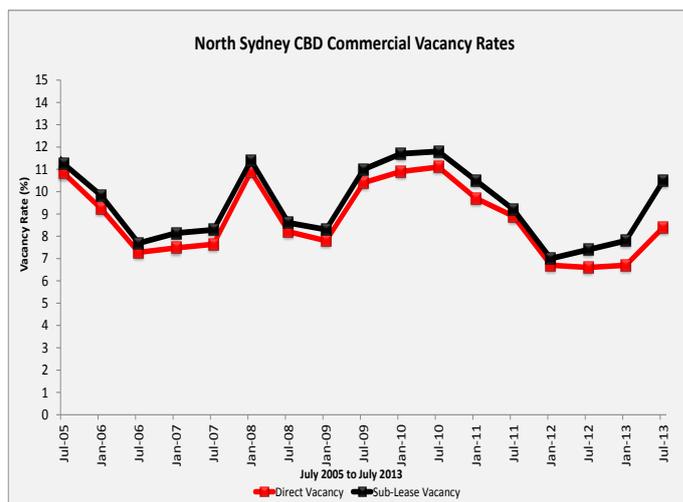


Chart 9 – North Sydney CBD Commercial Vacancy Rates – Source PCA

### Net Absorption

The North Sydney office market recorded a decline of 24,773 sqm in total net absorption over the six months to July 2013. This decline reflected an annual decline of 27,904 sqm. Over the twelve months to July 2013 all grades of office space recorded negative net absorption apart from Premium grade which recorded positive 716 sqm. C Grade office space recorded the greatest decline of 15,234 sqm, followed by A grade with 10,146 sqm, B Grade with 2,784 sqm and D Grade with a mere 456 sqm decline.

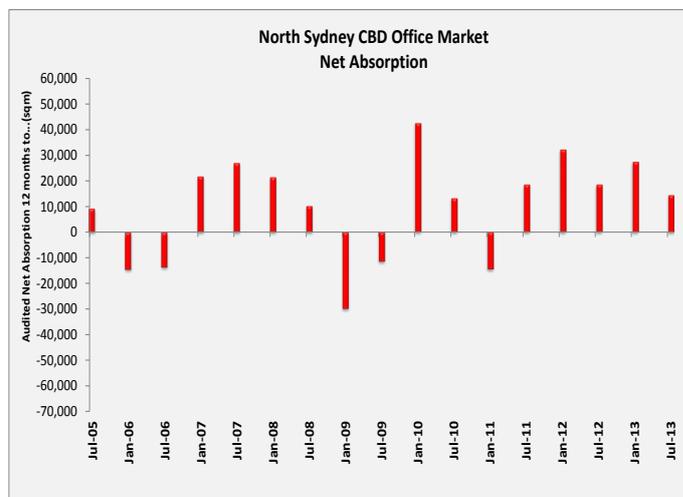


Chart 10 – North Sydney CBD Office Market Net Absorption – Source PCA

## Crow's Nest/St Leonards

### Investment Activity

The following table displays reported major sales transactions that occurred in Crows Nest/St Leonards office market over the past year.

| ADDRESS             | SUBURB      | SALE PRICE   | VENDOR                  | PURCHASER               | SALE DATE | BLG AREA | RATE PER SQM | YIELD  |
|---------------------|-------------|--------------|-------------------------|-------------------------|-----------|----------|--------------|--------|
| 92-104 Christie St  | St Leonards | \$42,000,000 | Local Government Super  | Altis Property Partners | 6-Feb-13  | 10,000   | \$4,200      | 10.20% |
| 118-120 Pacific Hwy | St Leonards | \$24,200,000 | Stockland Trust Group   | W & W Property Pty Ltd  | 7-Dec-12  | 5,131    | \$4,716      | -      |
| 207 Pacific Hwy     | St Leonards | \$61,500,000 | Eureka Funds Management | Primewest Management    | 19-Feb-13 | 20,037   | \$3,069      | 8.50%  |

Table 5— Crow's Nest/St Leonards Sales Transactions

### Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report July 2013 have been analysed to derive at the following findings:

### Supply & Occupation

Over the six months to July 2013, the Crow's Nest & St Leonards Office market total stock declined by 4,668 sqm from 368,596 sqm to 363,928 sqm. The stock withdrawal was attributed to C Grade due to a building demolition. The majority of the office market comprises of C Grade office space with 48.5%, followed by A Grade with 28.2%, B Grade with 19% and D Grade with 4.3%.

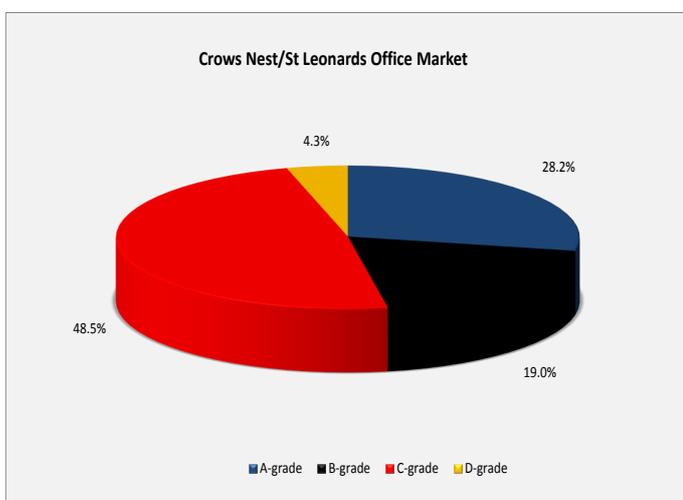


Chart 11 – Crow's Nest/St Leonards Stock Levels by Grade – Source PCA

### Total Vacancy

Total office market vacancy in the Crow's Nest/St Leonards market tightened over the six months to July 2013 by 1.8% from 12% to 13.8%. There were mixed results with total vacancy across the four grades of office space, with A Grade and C Grade increasing by 2.5% and 2.9% respectively. B Grade and D Grade recorded declines of 1.8% and 0.8% respectively.

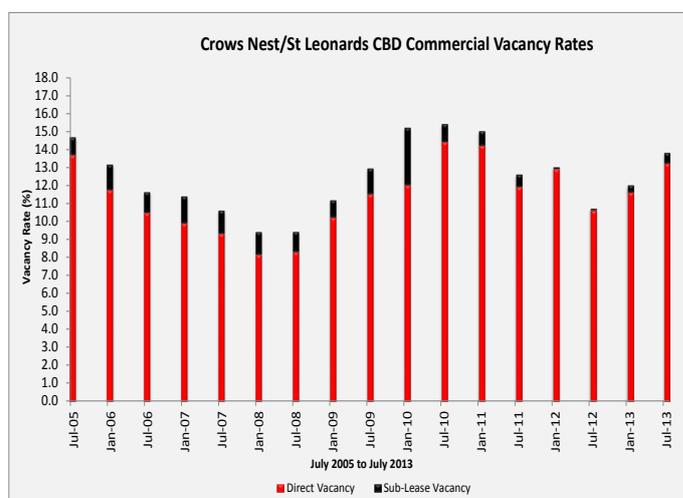


Chart 12 – Crow's Nest CBD Commercial Vacancy Rates – Source PCA

### Net Absorption

Total market net absorption in the Crow's Nest/St Leonards market for the six months to July 2013 recorded -10,436 sqm. Positive net absorption was experienced in the B Grade and D Grade markets, with absorption of 1,280 sqm and 119 sqm respectively. Negative net absorption was reported in the A Grade and C Grade markets, with absorption of -2,506 sqm and -9,329 sqm respectively.

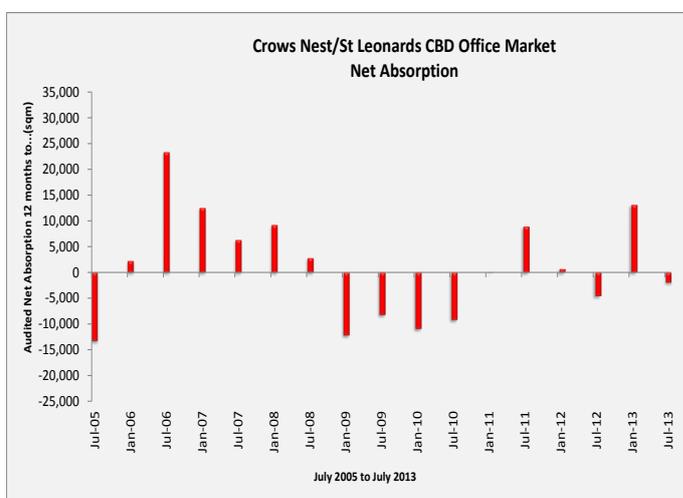


Chart 13 – Crow's Nest CBD Office Market Net Absorption – Source PCA

## Parramatta

### Investment Activity

The following table displays reported major sales transactions that occurred in the Parramatta office market over the past year.

| ADDRESS                | SALE PRICE    | VENDOR                                   | PURCHASER                       | SALE DATE | BLG AREA SQM | AREA PSM | YIELD  |
|------------------------|---------------|--|---------------------------------|-----------|--------------|----------|--------|
| 75 George Street       | \$32,550,000  | Undisclosed                              | Corval 75 George Street Pty Ltd | 19-Dec-12 | 9,535        | \$3,414  | -      |
| 130-132 Marsden Street | \$25,425,000  | Strategic Property Holdings No.7 Pty Ltd | Sandran Pty Ltd                 | 11-Mar-13 | 15,534       | \$1,637  | 10.24% |
| 16-18 Smith Street     | \$47,500,000  | Capital Corporation                      | Altis Property Partners         | 1-Jan-13  | 11,984       | \$3,964  | 9.82%  |
| 40-60 Darcy Street     | \$175,000,000 | Brookfield Multiplex                     | Undisclosed                     | 11-Sep-13 | 23,331       | \$7,501  | -      |
| 1-5 Charles Street     | \$240,000,000 | No.1 Charles Street No.1 Pty Ltd         | Undisclosed                     | 11-Sep-13 | 32,984       | \$7,276  | -      |
| 60 Station Street      | \$167,500,000 | Undisclosed                              | REST Industry Super             | 27-Nov-12 | 25,660       | \$6,528  | 7.28%  |
| 82-88 Phillip Street   | \$14,000,000  | GE Capital (Beldon) Pty Ltd              | CC Nominees No.1 Pty Ltd        | 24-Jun-13 | 5,209        | \$2,688  | 15.00% |

Table 6— Parramatta Sales Transactions

### Leasing Activity

The following table displays reported major leasing transactions that occurred in the Parramatta office market over the past year.

| ADDRESS              | RENT PSM | RENT PA     | LESSEE                  | AREA SQM | TERM | LEASE DATE |
|----------------------|----------|-------------|-------------------------|----------|------|------------|
| 82-88 Phillip Street | \$355    | \$395,825   | Lend Lease Communities  | 1,115    | -    | 26-Aug-13  |
| 10-14 Smith Street   | \$396    | \$1,416,492 | Government Property NSW | 3,577    | -    | 26-Aug-13  |
| 60-62 Station Street | \$470    | \$1,865,900 | Government Property NSW | 3,970    | -    | 26-Aug-13  |

Table 7— Parramatta Leasing Transactions

### Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report July 2013 have been analysed to derive at the following findings:

#### Supply & Occupation

The Parramatta CBD office market total stock recorded a decline of 11,018 sqm from 702,721 sqm to 691,703 sqm in the six months to July 2013. A Grade and C Grade office stock remained unchanged with no new supply additions or withdrawals whereas B Grade recorded supply additions of 881 sqm and withdrawal of 4,070 sqm to total stock levels of 155,467 sqm. D Grade reported no supply additions, however withdrawals accounted for 7,829 sqm.

A Grade office space continues to maintain the majority share of the office market with 255,017 sqm of stock reflecting 36.9% of the market. B Grade follows, with 22.5%, C Grade with 20.9% and D Grade with 19.7%. 9,785 sqm of supply is expected to enter the Parramatta office market in 2014 due to a refurbishment of 1-3 Fitzwilliam Street. In 2015+ there is 54,000 sqm of new supply anticipated due to Westfield Groups development at 159-175 Church Street which will comprise 30,000 sqm. The remaining 24,000 sqm is due to Leighton Properties development at 169 Macquarie Street.

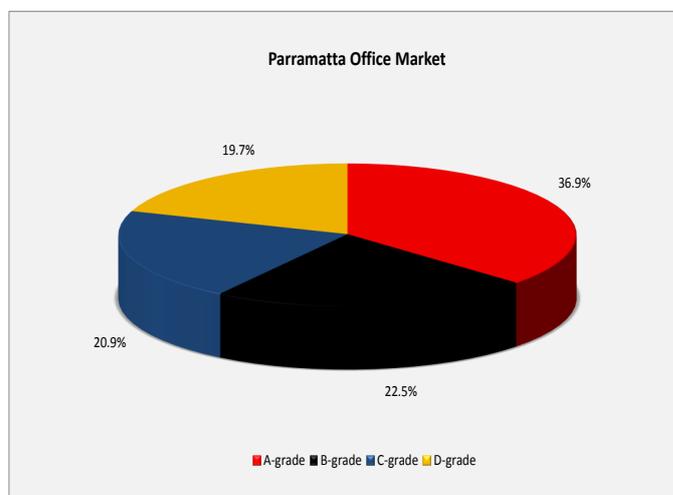


Chart 14 – Parramatta CBD Stock Levels by Grade – Source PCA

### Vacancy Rates

Vacancy rates for the Parramatta CBD Office Market have tightened from 9.7% to 7.5%, a decline of 2.2% over the six months to July 2013. All grades of office space recorded declines in total vacancy, with the most significant decrease attributed to D Grade of 4.7%, followed by C Grade with 2.2%, A Grade with 1.7% and B Grade with 0.8%.

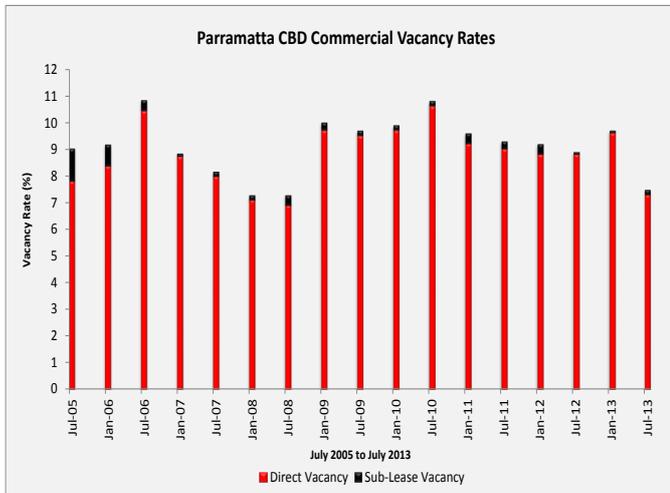


Chart 15 – Parramatta CBD Commercial Vacancy Rates – Source PCA

### Net Absorption

Total market net absorption in the Parramatta office market was recorded at 5,281 sqm over the six months to July 2013. A Grade and C Grade office space recorded positive net absorption over the six month period of 4,124 sqm and 3,190 sqm respectively. B Grade and D Grade reported negative net absorption of -1,732 sqm and -301 sqm respectively.

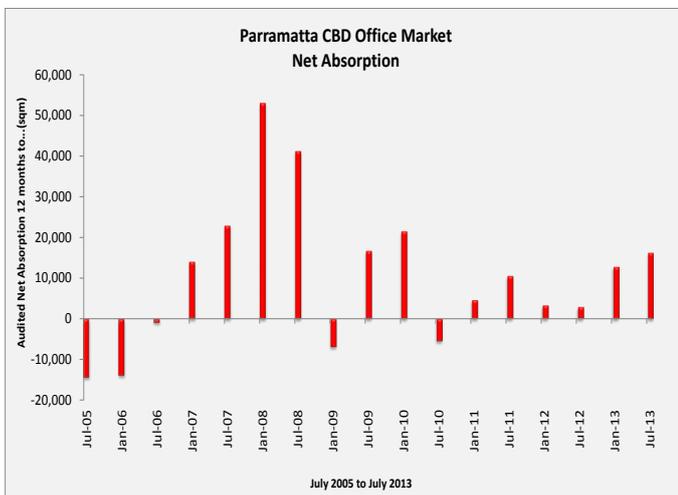


Chart 16 – Parramatta CBD Office Market Net Absorption – Source PCA

### Chatswood

#### Investment Activity

PRP Research recorded few major sales transactions that occurred in the Chatswood Office Market over the past year, however;

Hines Global REIT has purchased a 15-level office tower at **465 Victoria Avenue, Chatswood** with **14,400 sqm** of floor space from FKP Property Group for a reported **\$92 million** on a passing yield of **7.79%**.

#### Leasing Activity

McConnell Dowell has leased **1,091 sqm** of office space at **799 Pacific Highway, Chatswood** for a **1 year term** at a floor rate of **\$400 per sqm** reflecting **\$434,400 p.a.**

#### Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report July 2013 have been analysed to derive at the following findings:

#### Supply & Occupation

The Chatswood Office Market total stock recorded in the six months to July 2013 declined by 1,617 sqm to 279,228 sqm. The entirety of the withdrawal was attributed to A Grade stock. In 2014 there is an expected 4,400 sqm of new supply to enter the market due to completion of 7 Railway Street.

Following the decline of A grade stock over the six months to July, A grade's share of the market declined marginally by 0.2% to 55.8%. B Grade follows with a 27.5% share, C Grade with 16.6% and D Grade with 0.2%.

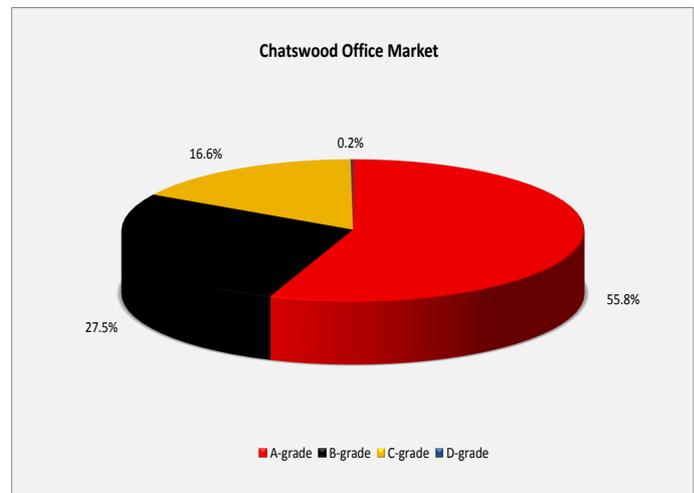


Chart 17 – Chatswood CBD Total Stock Levels – Source PCA

#### Total Vacancy

The Chatswood Office Market total vacancy rates have increased by 0.9% from 8.9% to 9.8%. All grades apart from D Grade recorded increases in total vacancy, with B Grade experiencing the most significant increase of 2.4% to 13%, followed by C Grade with 1.2% and A Grade with a marginal 0.1%. Sub-lease vacancy for the total Chatswood office market tightened by half a percentage point to 0.5% as at July 2013.

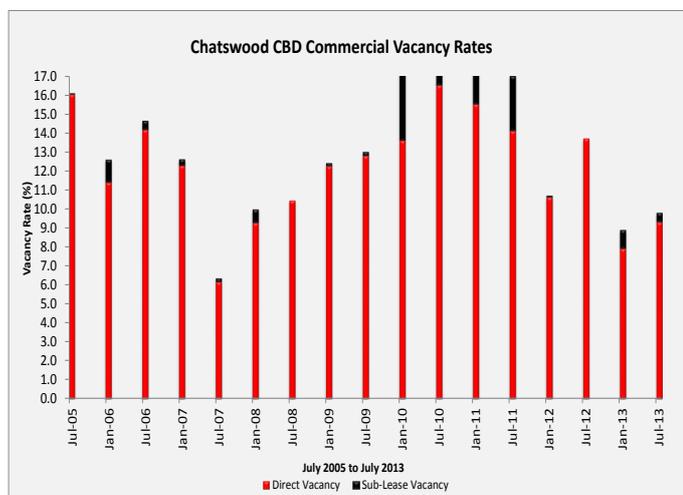


Chart 18 – Chatswood CBD Commercial Vacancy Rates – Source PCA

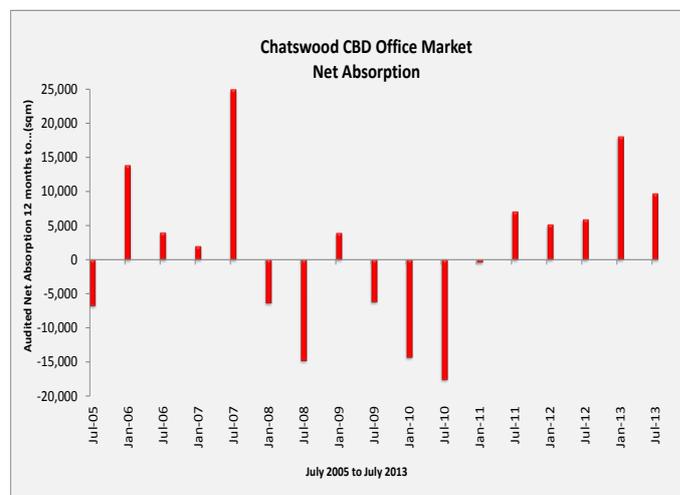


Chart 19 – Chatswood CBD Office Market Net Absorption – Source PCA

### Net Absorption

Market Net Absorption in the Chatswood CBD office market reflected -3,982 sqm in the six months to July 2013. This negative net absorption resulted in net absorption over the twelve months to July of 9,680 sqm. All grades of office stock contributed to the negative net absorption apart from D Grade which remained unchanged. A Grade office stock recorded -1,576 sqm, B Grade recorded -1,849 sqm and C Grade recorded -554 sqm between January and July.

### North Ryde/Macquarie Park

#### Investment Activity

PRP Research recorded few major sales transactions that occurred in the North Ryde/Macquarie Park Office Market over the past year however;

| ADDRESS           | SUBURB         | SALE PRICE   | VENDOR      | PURCHASER                    | SALE DATE | BLG AREA SQM | RATE PER SQM | YIELD |
|-------------------|----------------|--------------|-------------|------------------------------|-----------|--------------|--------------|-------|
| 37 Epping Road    | Macquarie Park | \$17,350,000 | Undisclosed | Abacus Property Group        | 10-Dec-12 | 8,009        | \$2,166      | 9.00% |
| 73 Talavera Road  | Macquarie Park | \$35,250,000 | Siemens Ltd | The Macquarie University     | 20-Feb-13 | 9,297        | \$3,468      | -     |
| 78 Waterloo Road  | Macquarie Park | \$72,000,000 | Stockland   | CorVal                       | 1-Oct-13  | 14,672       | \$4,907      | 7-8%  |
| 4 Eden Park Drive | Macquarie Park | \$12,500,000 | Nextdc Ltd  | Asia Pacific Data Centre Ltd | 30-Apr-13 | -            | -            | -     |

Table 8— North Ryde/Macquarie Park Sales Transactions

### Leasing Activity

PRP Research recorded few major leasing transactions that occurred in the North Ryde/Macquarie Park Office Market over the past year however;

| ADDRESS            | SUBURB         | RENT PSM | RENT PA     | LESSEE                      | AREA SQM | TERM | LEASE DATE |
|--------------------|----------------|----------|-------------|-----------------------------|----------|------|------------|
| 7 Eden Park Drive  | North Ryde     | \$316    | \$355,816   | Regus Serviced Offices      | 1,126    | 6    | 30-Oct-13  |
| 2 Richardson Place | North Ryde     | \$290    | \$369,460   | Lanier Australia            | 1,274    | 4    | 27-Nov-13  |
| 15 Talavera Road   | Macquarie Park | \$270    | \$355,590   | British Standards Institute | 1,317    | -    | 26-Aug-13  |
| 26 Talavera Road   | Macquarie Park | \$320    | \$1,783,040 | Merck Sharpe Dome           | 5,572    | -    | 26-Aug-13  |
| 5 Eden Park Drive  | North Ryde     | \$317    | \$351,236   | Fisher & Paykel             | 1,108    | -    | 26-Aug-13  |

Table 9— North Ryde/Macquarie Park Leasing Transactions

### Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report July 2013 have been analysed to derive at the following findings:

### Supply & Occupation

The North Ryde office market total stock recorded a decline of 5,504 sqm of stock in the six months to July 2013 to 834,445 sqm. A Grade and C Grade were responsible for the decline of stock, with withdrawals of 3,419 sqm and 2,085 sqm respectively.

A Grade stock still accounts for a vast majority of the total stock with 69.3% (578,427 sqm) of the market, followed by B Grade with 28.1% (234,812 sqm), C Grade with 2.2% (18,485 sqm) and D Grade with 0.3% (2,721 sqm).

The North Ryde/Macquarie Park office market has 4 developments in the pipeline which are currently mooted. 3 of the four developments have been DA Approved, with the fourth DA Applied. These four developments are anticipated to provide 100,604 sqm of new supply to the market.

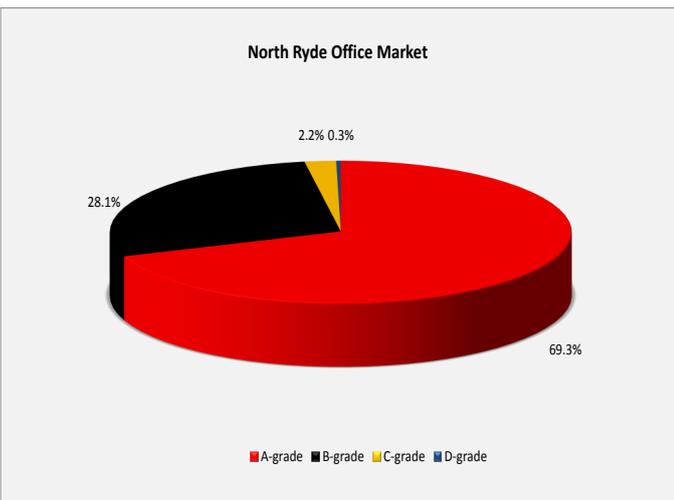


Chart 20 – North Ryde Office Market – Source PCA

### Vacancy Rates

Vacancy rates in the North Ryde commercial office market experienced a 0.5% increase to 7.8% in total vacancy over the six months to July 2013. Over the year, total vacancy has increased by 0.7%.

All grades apart from D Grade of office space recorded increases over the six months to July 2013, with C Grade experiencing the most marked increase of 3% to 28.9%, followed by A Grade with 0.5% to 5.2% and B Grade with 0.4% to 12.8%.

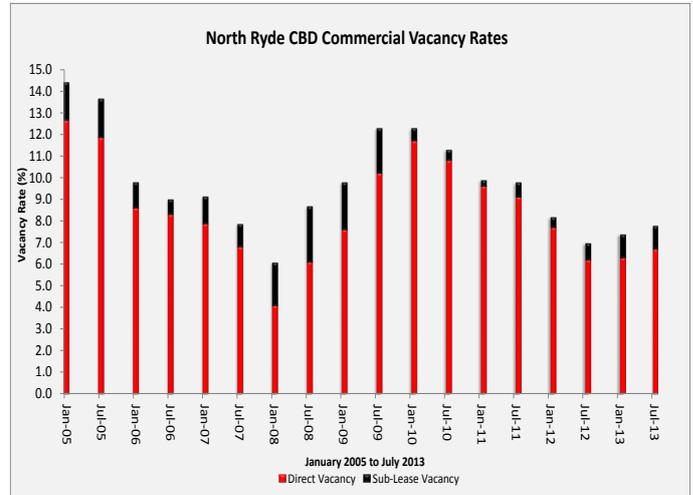


Chart 21 – North Ryde CBD Commercial Vacancy Rates – Source PCA

### Net Absorption

Market Net Absorption in the North Ryde commercial office market recorded -9,078 sqm in the six months to July 2013. Over the twelve months to July net absorption was recorded at 6,887 sqm. All Grades of office stock experienced negative net absorption in the six months to July apart from D Grade which remained unchanged. A Grade recorded -6,209 sqm, B Grade; -784 sqm and C Grade; -2,085 sqm.

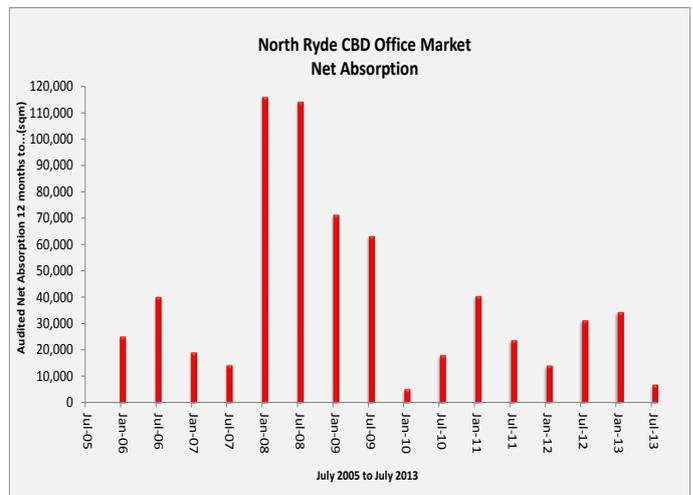


Chart 22 – North Ryde CBD Office Market Net Absorption – Source PCA



## Our Research

At Preston Rowe Paterson, we pride ourselves on the research which we prepare in the market sectors within which we operate. These include Commercial, Retail, Industrial, Hotel & Leisure and Residential property markets as well as infrastructure, capital and plant and machinery markets

## We have *property* covered

- Investment
- Development
- Asset
- Corporate Real Estate
- Mortgage
- Government
- Insurance
- Occupancy
- Sustainability
- Research
- Real Estate Investment Valuation
- Real Estate Development Valuation
- Property Consultancy and Advisory
- Transaction Advisory
- Property and Asset Management
- Listed Fund, Property Trust, Super Fund and Syndicate Advisors
- Plant & Machinery Valuation
- General and Insurance Valuation
- Economic and Property Market Research

## We have all *real estate* types covered

We regularly provide valuation, property and asset management, consultancy and leasing services for all types of Real Estate including:

- CBD and Metropolitan commercial office buildings
- Retail shopping centres and shops
- Industrial, office/warehouses and factories
- Business parks
- Hotels (accommodation) and resorts
- Hotels (pubs), motels and caravan parks
- Residential development projects
- Residential dwellings (individual houses and apartments/units)
- Rural properties
- Special purpose properties such as: nursing homes; private hospitals, service stations, oil terminals and refineries, theatre complexes; etc.
- Infrastructure

## We have all types of *plant & machinery* covered

We regularly undertake valuations of all forms of plant, machinery, furniture, fittings and equipment including:

- Mining & earth moving equipment/road plant
- Office fit outs, equipment & furniture
- Agricultural machinery & equipment
- Heavy, light commercial & passenger vehicles
- Industrial manufacturing equipment
- Wineries and processing plants
- Special purpose plant, machinery & equipment
- Extractive industries, land fills and resource based enterprises
- Hotel furniture, fittings & equipment

## We have all *client profiles* covered

Preston Rowe Paterson acts for an array of clients with all types of real estate, plant, machinery and equipment interests such as:

- Accountants
- Banks, finance companies and lending institutions
- Commercial and Residential non bank lenders
- Co-operatives
- Developers
- Finance and mortgage brokers
- Hotel owners and operators
- Institutional investors
- Insurance brokers and companies
- Investment advisors
- Lessors and lessees
- Listed and private companies corporations
- Listed Property Trusts
- Local, State and Federal Government Departments and Agencies
- Mining companies
- Mortgage trusts
- Overseas clients
- Private investors
- Property Syndication Managers
- Rural landholders
- Self managed super funds
- Solicitors and barristers
- Sovereign wealth funds
- Stock brokers
- Trustee and Custodial companies



## **We have all *locations* covered**

From our central office location within the Sydney Central Business District we serve our clients' needs throughout the Sydney CBD, greater Sydney metropolitan area, throughout the state of New South Wales. For special purpose real estate asset classes, infrastructure, and plant & machinery we operate throughout Australia and globally either directly or through our relationship offices.

## **We have *your needs* covered**

Our clients seek our property (real estate, infrastructure, plant and machinery) services for a multitude of reasons including:

- Acquisitions & Disposals
- Alternative use & highest and best use analysis
- Asset Management
- Asset Valuations for financial reporting to meet ASIC, AASB, IFRS & IVSC guidelines
- Compulsory acquisition and resumption
- Corporate merger & acquisition real estate due diligence
- Due Diligence management for acquisitions and sales
- Facilities management
- Feasibility studies
- Funds management advice & portfolio analysis
- Income and outgoings projections and analysis
- Insurance valuations (replacement & reinstatement costs)
- Leasing vacant space within managed properties
- Listed property trust & investment fund valuations & re-valuations
- Litigation support
- Marketing & development strategies
- Mortgage valuations
- Property Management
- Property syndicate valuations and re-valuations
- Rating and taxing objections
- Receivership, Insolvency and liquidation valuations and support/advice
- Relocation advice, strategies and consultancy
- Rental assessments and determinations
- Sensitivity analysis
- Strategic property planning

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### Capital City Offices

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Brisbane

Melbourne

Sydney

### Regional Offices

Albury Wodonga

Ballarat

Bendigo

Cairns

Central Coast/Gosford

Geelong

Gold Coast

Gippsland

Mornington

Newcastle

Wagga Wagga

### Relationship Offices

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Darwin

Hobart

Perth

Other regional areas