



Preston
Rowe
Paterson

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National Property Consultants

Sydney Impact Report

Office Market

**2014
June Quarter Update**

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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.

Within this report we analysed the sales, leases and developments over the past six months to the reported quarter in the various Sydney Office markets of; Sydney, North Sydney, Crows Nest/ St Leonards, Parramatta, Chatswood, North Ryde/ Macquarie Park & other NSW suburban business hubs.

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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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.

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Economic Fundamentals

GDP

GDP figures for the June quarter are not available until the 3rd September 2014 however PRP Research over the March 2014 quarter revealed that the Australian economy recorded growth of 1.1% seasonally adjusted which reflected growth of 3.5% seasonally adjusted over the twelve months to March 2013.

In seasonally adjusted terms, the main contributors to GDP were Mining which increased by 8.6%, Financial and insuring services increasing by 2.8% and Construction (up 3%). Each of these industries accounted for 0.2% of the total increase in GDP.

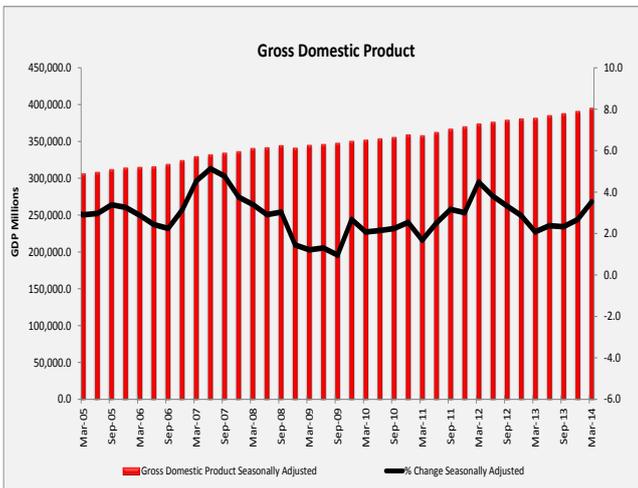


Chart 1 – Gross Domestic Product (GDP) – Source ABS

Labour force

Over the month to June 2014, the number of unemployed people increased by 20,322 from 721,330 in May to 742,652 in June which is a percentage decline over the month of 2.82%. In comparison to June 2013, the number of unemployed people has increased by 49,772 which reflected a percentage increase of 7.2%. The national unemployment rate is 6%.

Employment over the month to June 2014 recorded an increase of 20,300 persons from 11,562,300 in May to 11,578,200 in June, a percentage increase of 0.14%. In comparison to June 2013, employment in Australia recorded growth of 100,259 reflecting a percentage increase of 0.9%.

New South Wales experienced the largest absolute increase in seasonally adjusted employment by 10,000 persons. The unemployment status in New South Wales over the June Quarter increase by 0.5% to 5.7%.

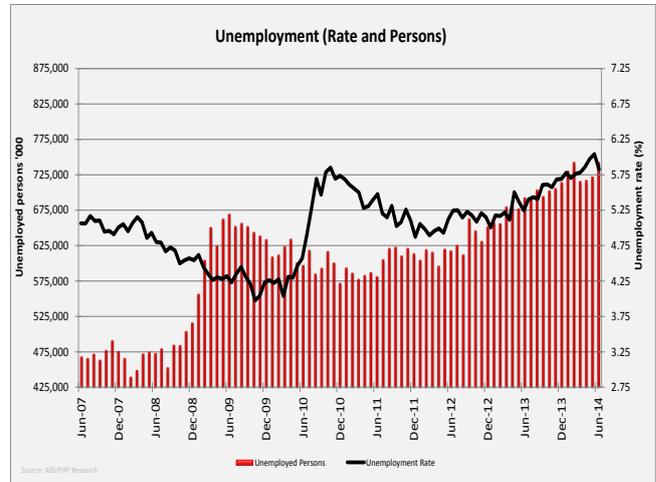


Chart 2 – Unemployment – Source ABS

Interest Rates

As at the date of publishing, the official Cash Rate over the June quarter 2014 remained unchanged at 2.50%. The Reserve Bank of Australia's Media Release for July 2014, released 1st July 2014 explained that;

"In Australia, recent data indicate somewhat firmer growth around the turn of the year, but this resulted mainly from very strong increases in resource exports as new capacity came on stream; smaller increases in such exports are likely in coming quarters. Moderate growth has been occurring in consumer demand. A strong expansion in housing construction is now under way. At the same time, resources sector investment spending is starting to decline significantly. Signs of improvement in investment intentions in some other sectors are emerging, but these plans remain tentative as firms wait for more evidence of improved conditions before committing to significant expansion. Public spending is scheduled to be subdued. Overall, the Bank still expects growth to be a little below trend over the year ahead."

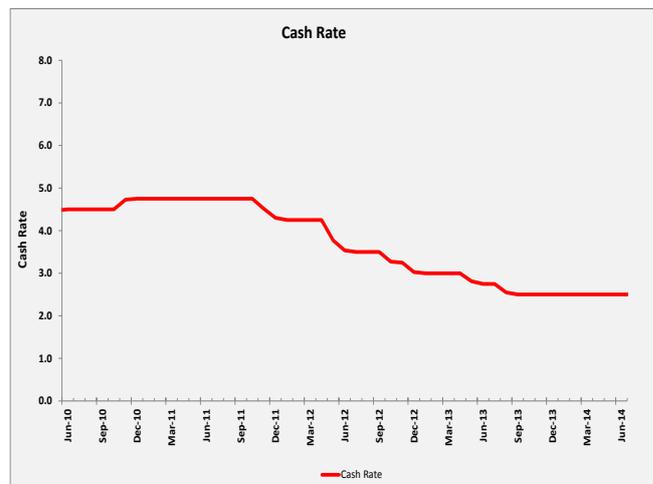


Chart 3 – Cash Rate – Source RBA

Bond Market

10 Year Bond & 90 Day Bill Rate

In the twelve months to June 2014, the 10 Year Bond Rate has increased by 16 basis points to 3.70%. Conversely, the 90 Day Bill Rate has declined by 10 basis points from 2.80% to 2.70%. Over the June 2014 quarter, 10 Year Government Bonds recorded a steady decline of 40 basis points from 4.10%.

The 90 Day Bill Rate recorded a steady increase over the June quarter by 4 basis points. Year on year analysis has revealed that the 90 Day Bill Rate has declined a total of 10 basis points since June 2013.

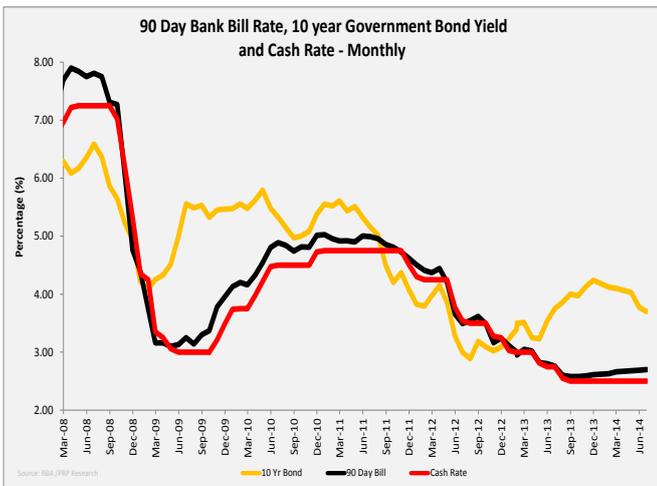


Chart 4 – 90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

Analysis of 10 Year Government Bonds has revealed an increase of 16 basis points over the month of June 2014 with the 10 year bond rate currently at 3.88%. 90 day bill rates remained relatively no changes over the month of June at 2.69%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 100 basis points.

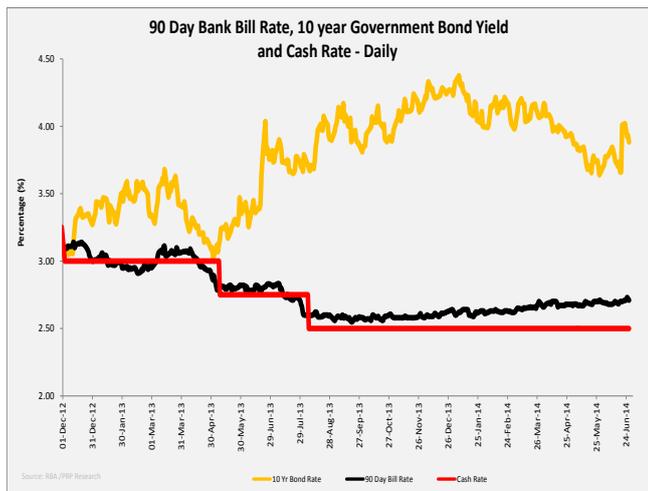


Chart 5 – 90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

CPI

According to the Australian Bureau of Statistics (June 2014), the Australia's All Groups CPI increased by 0.5% over the quarter to June 2014 from 105.4 to 105.9. The annual CPI change to June 2014 recorded a growth of 3%.

The most significant price rises over the June quarter were for medical and hospital services (+4.6%), tobacco (+3.1%) and new dwelling purchase by owner-occupiers (+1.6%). The insurance and financial services group remain unchanged over the June quarter.

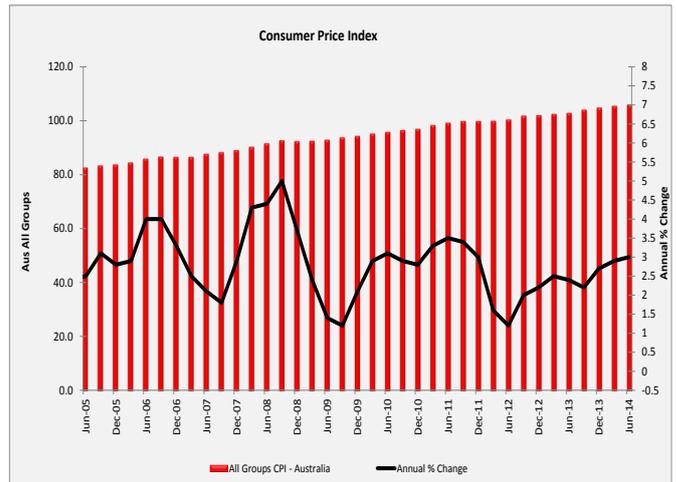


Chart 6 – Consumer Price Index—Source—ABS

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index increased by 0.3% in June from 92.9 index points in May to 93.2 index points in March. Over the quarter the index has declined by 6.3 points, a decline of 6.33%. Over the twelve months to June the index declined by 9 index points, reflecting a percentage decline of 8.79%.

The Index has risen from its lowest in May and is expected to continue to do so. Westpac's Senior Economist, Matthew Hassan stated; "Sentiment has stabilised after registering a sharp fall in the wake of the Federal Budget last month. The Index is still in firmly pessimistic territory however, down 6.6% from its pre-Budget level in April and 15.6% below its post-election high in November last year".

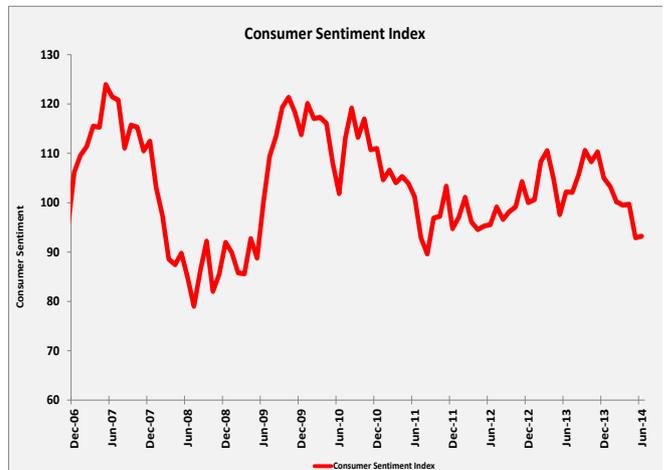


Chart 7 – Consumer Sentiment Index – Source - Westpac—Melbourne Institute Survey

Sydney Office Market Highlights

In the past six months to June 2014, the Sydney office market had experienced a change in environment where many sales of office space were to both domestic and foreign investors. Some of the off-shore investors purchased with the purpose of potential office-residential conversions, as observed by PRP Research. The Sydney CBD office market remains the most sought after commercial location where many business head offices are determined to stay. However, there are increasing interests on the North Sydney and Parramatta office markets because of the tightening of Sydney CBD supply for quality office space.

Sales

Most sales activity were in the Sydney CBD and North Sydney. The majority of vendors were property funds selling off property portfolios and buying into different regions at a later date. One of the significant sales of office space in the past quarter was **6-10 O'Connell Street** which was sold by Blackrock for \$140 million.



There is an emerging trend of hotels investors purchasing many office buildings in the Sydney metropolitan with the intention to redevelop it into a hotel or residential property. A significant example was the sale of the state government property **Ausgrid House on 570 George Street** to Far East Consortium for \$151.8 million. The foreign company have plans for the commercial building to be redeveloped into a residential tower.

Leases

There hadn't been many records of significant leasing activities in the Sydney metropolitan office market, as observed by PRP Research. The rental market had been slow in the past quarter, however, tenants had chosen Premium Grade office spaces in the Sydney CBD to lease and renew long term leases. One of the significant leases signed in the last quarter was the lease renewal at **Governor Phillip Tower 1 Farrer Place** to international law firm King & Wood Mallesons on a 10 year term.

Developments

There are a number of new developments that are scheduled to be completed in 2014, especially at Macquarie Park on Talavera Road. The Sydney office market will be welcoming a new supply of 253,500 sqm office space in 2015. These new developments includes the long awaited Money Box Building on **5 Martin Place**, Central Park on **Broadway**, **Chippendale** and the International Towers T2 & T3 at **Hickson Road, Barangaroo**.



Yield

The market yield in the Sydney metropolitan office market had shown to be approximately 7.76% average yield, as observed by PRP Research over six months to June 2014. The Sydney office yields range from 6.14% to 8.78% to an average yield of approximately 7.04%, and the North Sydney office market recorded an average yield of approximately 8.93%.

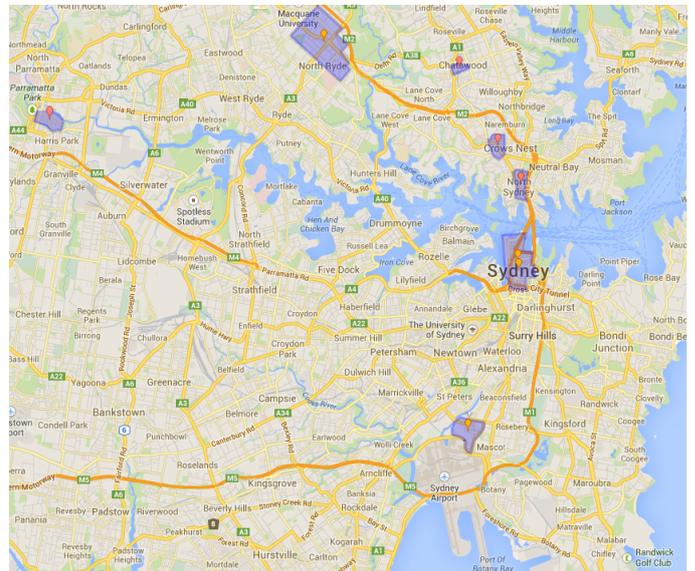


Image 1— Location map of major CBD in the Sydney metropolitan area—Source—Google Maps and PRP Research

Commercial Office Market

Sydney CBD

Investment Activity

The following table shows reported sales transactions that occurred over 6 months to June 2014. Transaction information has been gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	BLGA sqm	Rate psm	Yield
25-29 Dixon Street, Sydney NSW 2000	\$ 10,000,000	Aymcrow Pty Ltd	private investor	Jan-14	700	\$ 14,285.71	-
61-101 Phillip Street, Sydney NSW 2000	\$ 200,000,000	LaSalle Asia Opportunity Fund III	undisclosed	Jan-14	35920	\$ 5,567.93	-
2a Macquarie Street, Sydney NSW 2000	\$ 80,000,000	Real Estate Capital Partners Trust No. 3	Wilson Parking Australia 1992 Pty Ltd	14/01/2014	30000	\$ 2,666.67	-
133-145 Castlereagh Street, Sydney NSW 2000	\$ 194,250,000	Stockland Property Trust	Investa Office Fund	Feb-14	43879	\$ 4,426.95	-
243-259 George Street, Sydney	\$ 115,000,000	Brookfield Australia Funds Management Li	AMP Capital Investors Limited	Feb-14	38981	\$ 2,950.16	-
36 Hickson Road, Sydney NSW 2000	\$ 45,500,000	W Projects (No 31) Pty Ltd	undisclosed	Feb-14	1200	\$ 37,916.67	-
275 Kent Street, Sydney NSW 2000	\$ 440,000,000	Mirvac Group	undisclosed	Feb-14	77125	\$ 5,705.02	-
52-56 Martin Place cnr Elizabeth Street, Sydney NSW 2000	\$ 500,000,000	Queensland Investment Corporation	undisclosed	Feb-14	39071	\$ 12,797.22	6.50%
50-58 Park Street, Sydney NSW 2000	\$ 127,000,000	Kyko Group	Far East Consortium	Feb-14	18138	\$ 7,001.87	-
19-31 Pitt Street, Sydney NSW 2000	\$ 55,000,000	Cambooya Properties Pty Ltd	AXF Group and Ever Bright Group	Feb-14	5561	\$ 9,890.31	-
135 King Street, Sydney NSW 2000	\$ 130,000,000	Colonial First State Property (PPS Fund)	Investa Commercial Property Fund	4/02/2014	30987	\$ 4,195.31	7%
80-92 Pitt Street, Sydney NSW 2000	\$ 46,500,000	QBE Insurance Group Ltd	Yorkban Pty Ltd	26/02/2014	12719	\$ 3,655.95	-
38-52 Carrington Street, Sydney NSW 2000	\$ 90,000,000	DEXUS Property Group	undisclosed	Mar-14	11291	\$ 7,970.95	-
88 Cumberland Street, Sydney NSW 2000	\$ 25,000,000	St Hilliers	undisclosed	Mar-14	4676	\$ 5,346.45	8.78%
312 George Street, Sydney NSW 2000	\$ 8,500,000	Gwynvill Group	Australia The Gift	Mar-14	437	\$ 19,450.80	-
570 George Street, Sydney NSW 2000	\$ 151,800,000	Ausgrid	Far East Consortium	Mar-14	21930	\$ 6,922.02	-
135 King Street, Sydney, NSW 2000	\$ 130,000,000	Colonial First State Property (PPS Fund)	Investa Commercial Property Fund	25/03/2014	31030	\$ 4,189.49	7%
1-7 Castlereagh Street, Sydney NSW 2000	\$ 64,300,000	Mirvac Group	undisclosed	Apr-14	11635	\$ 5,526.43	-
161 Elizabeth Street, Sydney NSW 2000	\$ 450,000,000	Starwood Hotels & Resorts	undisclosed	Apr-14	3636	\$ 123,762.00	-
280-288 George Street cnr Hunter, Sydney NSW 2000	\$ 54,000,000	Arena Investment Management	undisclosed	Apr-14	5000	\$ 10,800.00	-
59-69 Goulburn Street, Sydney NSW 2000	\$ 90,200,000	Charter Hall Office Trust	Roxy Pacific Holdings	Apr-14	19586	\$ 4,605.33	8.76%
63 York Street, Sydney NSW 2000	\$ 11,200,000	undisclosed	undisclosed	Apr-14	1296	\$ 8,641.98	5.10%
6-10 O'Connell Street, Sydney NSW 2000	\$ 140,000,000	BlackRock	undisclosed	4/04/2014	16286	\$ 8,596.34	6.14%

Table 1 —Sydney CBD Sales Transactions

The following table shows reported leasing transactions that occurred over six months to June 2014.

Address	Rent psm	Rent pa	Lesee	Area sqm	Term (years)
1 Farrer Place, Sydney, NSW 2000	\$ 1,000	\$ 11,982,000	King & Wood Mallesons	11982	10
680 George Street, Sydney, NSW 2000	\$600 - \$800	\$600,000 - \$800,000	Tabcorp Holdings	5000	10 + 1 option
201-207 Kent Street, Sydney, NSW 2000	\$ 655	\$867,875 net	De Lage Landen	1325	5
175 Liverpool Street, Sydney NSW 2000	\$ 750	\$2,377,500 gross	Commonwealth Director of Public Prosecutions	3170	10
123 Pitt Street, Sydney NSW 2000	-	-	Perpetual Limited	10000	11

Table 2 —Sydney CBD Leasing Transactions

Development Sites

The Property Council of Australia's (PCA) Office Market Report January 2014 has been analysed to derive new commercial office building developments.

The Money Box Building development, owned by Colonial First State (Commonwealth Property Office Fund) & Cbus Property Pty Ltd, on 5 Martin Place is scheduled to be completed in the 1st quarter of 2015. It will provide 33,000 sqm NLA and will consist of 19 office levels and 10 car spaces. The average floor size is 2,400 sqm.

The Sydney Airport's International Towers T3 and T2 bounded by Hickson Road, Shelley Street and Sydney Harbour are due to be completed in the 4th quarter of 2015. The developments are currently in the construction and site works phase respectively. It will provide a combined 165,500 sqm of NLA. Tower T3 will provide 39 office levels at floorplate size of 2,000 sqm and Tower T2 will supply 42 office levels at floorplate size of 2,400 sqm.

Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report January 2014 have been analysed to derive at the following findings:

Supply by Grade (Stock)

Analysis of the 5 Grades of office space has revealed that there was new supply entering the Sydney CBD Office Market over the six months to January 2014. The supply additions for the different office grades of stock are attributed to the completion of partial and full refurbishments.

Premium Grade office stock accounted for 23,164 sqm of supply and no withdrawals in the six months to January 2013. Premium Grade now comprises of 800,963 sqm of the market.

A Grade office stock experienced a slight supply increase from the last 6 months which provided 4,296 sqm of supply and 3,378 sqm of stock withdrawal which brings total stock for A Grade to 1,813,232 sqm.

B Grade office stock growth is second to the premium grade stocks with 15,471 sqm. However, there was 5,370 sqm space withdrawal in the past 6 months. Total stock for B Grade accounts for 1,562,619 sqm.

Similar to the premium grade stock, the C Grade office space recorded the a rise in supply with 6,579 sqm and no withdrawals. As at January 2014 total C Grade stock was recorded at 584,833 sqm.

The worst performing grade is the D Grade office stock with neither and increase nor decrease in stock supply at 197,059 sqm.

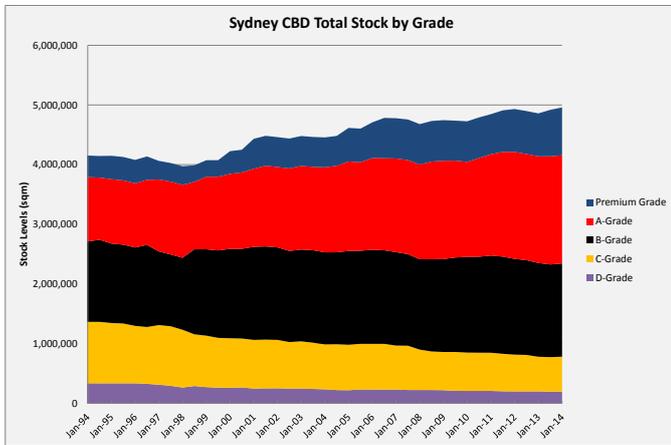


Chart 8 – Sydney CBD Total Stock by Grade – Source PCA

Net Absorption

The entire Sydney CBD office market recorded net absorption of 33,289 sqm, reflecting net absorption of 6,305 sqm in the twelve months to January 2014. All grades of office space recorded growth in net absorption in the six months to January 2014. C Grade office reflected the highest growth in net absorption at 10,873 sqm, followed by Premium Grade at 8,851 sqm. A Grade, B Grade and D Grade recorded net absorptions of 8,788 sqm, 3,345 sqm and 1,432 sqm respectively.

Total Vacancy

The Sydney CBD office market vacancy as a whole had remained steady as at January 2014. The direct vacancy level is at 8.2% and remain unchanged since July 2013. The sub-lease vacancy accounted for 0.80% of total vacancy. The rise in both office stocks and vacancy accounts to a reserved market.

Total vacancy as at January 2014 was recorded at 444,860 sqm which is an increase when compared to twelve months prior in January 2013 when the total vacancy was 437,387 sqm, reflecting a percentage increase of 1.8%.

Premium Grade office stock recorded 79,009 sqm of vacant space as at January 2014 which reflects a vacancy percentage of 9.9%. A Grade vacancy was 176,873 sqm accounting for 9.8% of the A Grade market. B Grade stock was 130,313 sqm and 8.3% followed by C Grade and D Grade with 45,539 sqm (7.8%) and 13,126 sqm (6.7%) respectively.

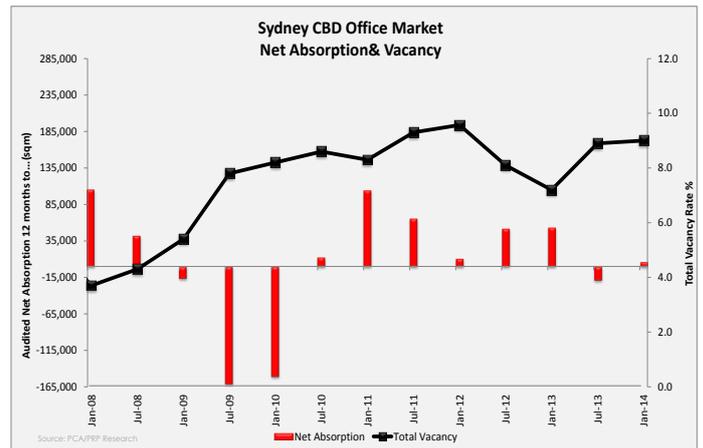


Chart 9 – Sydney CBD Commercial Net Absorption & Vacancy – Source PCA

North Sydney

Investment Activity

The following table shows reported sales transactions that occurred over 6 months to June 2014. Transaction information has been gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	BLGA sqm	Rate psm	Yield
52 Alfred Street, Milsons Point NSW 2061	\$ 80,000,000	Bob Ell	Bridgehill	Feb-14	10,000	\$ 8,000	-
74-82 Alfred Street, Milsons Point NSW 2061	\$ 49,000,000	Australand Industrial No. 90 Pty Ltd, Aus	Bridgehill (Milsons Point) Pty Ltd	Feb-14	10285	\$ 4,764.22	10.44%
19-21 Berry Street, North Sydney NSW 2060	\$ 12,888,000	undisclosed	undisclosed	Mar-14	2424	\$ 5,316.83	7.41%
144 Pacific Highway, North Sydney, NSW 2055	\$ 25,070,000	Dunnet Properties Pty Ltd and Lilywo	Fu Ji (North Sydney) Pty Ltd	Feb-14	2575	\$ 9,736	-
225-229 Pacific Highway, North Sydney NSW 2060	\$ 58,000,000	undisclosed	Greenland Holding Group Overseas Investment	Mar-14	1200	\$ 48,333.33	-

Table 3 — North Sydney Sales Transactions

Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report January 2014 have been analysed to derive at the following findings:

Supply by Grade (Stock)

In the six months to January 2014 the total North Sydney office market experienced a decline of 11,856 sqm. The total North Sydney office stock was 848,605 sqm as at January 2014. The lack of new developments have contributed to the limited new supply of office space.

Premium Grade (36,500 sqm), A Grade (186,296 sqm), B Grade (431,216 sqm) and D Grade (21,662 sqm) office space did not record any supply additions or withdrawals over the six months to January.

However, the North Sydney C Grade stock had lost 12,438 sqm of office space. In the past 6 months there was only 582 sqm additional supply, realising an annual decline of -11.7% of stock.

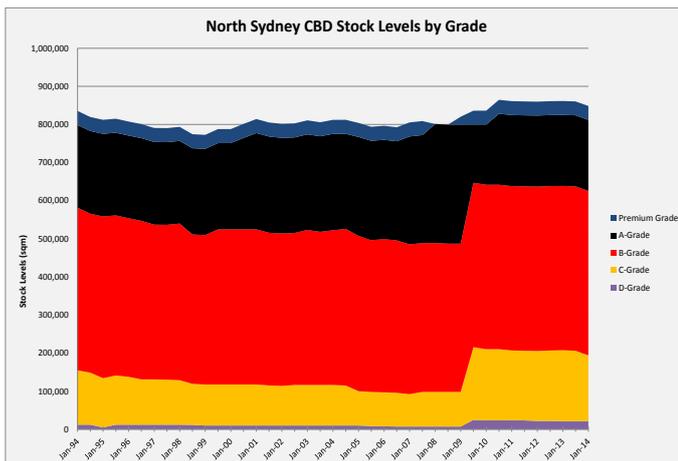


Chart 10 – North Sydney CBD Stock Levels By Grade – Source PCA

Net Absorption

The net absorption of the total North Sydney office market recorded a negative at -9,847 sqm, and -34,620 sqm in 12 months to January 2014.

Premium Grade stock recorded no absorption. A Grade and D Grade office saw to a positive net absorption of 3,224 sqm and 1,622 sqm 6 months to January 2014.

B Grade stock experienced the largest decline at -10,824 sqm followed by C Grade stock at -3,869 sqm net absorption.

Vacancy Rates

In the past six months the North Sydney office market vacancy has remained stable as at January 2014 with a slight decrease in total vacancy at 10.5%. The direct vacancy accounted to 9% and the sub-leasing vacancy at 1.5%. However, year on year comparison has seen total vacancy increase by 21,671 sqm to 88,937 sqm.

Over the six months to January 2014, Premium Grade office stock reflected the lowest vacancy rate with the sub-lease vacancy remained stable with total vacancy of 1.6% at 591 sqm.

A Grade total vacancy was 10,711 sqm as at January which reflects a decrease of -2.2% to 5.7%. The B Grade office stock has seen an increase in total vacancy of 10,824 sqm to 49,795 sqm, bringing the vacancy to 11.5%. The C Grade office stock vacancy decreased by 3.4% to 14.8% as to January 2014. The decrease in total vacant space of 7,987 sqm reflects the fall in vacancy resulting a total of 25,591 sqm vacant stock. Finally D Grade office stock tightened by 7.5% to 10.4% which reflects a decrease of 1622 sqm and brings total vacant space to 2,249 sqm as at January 2014.

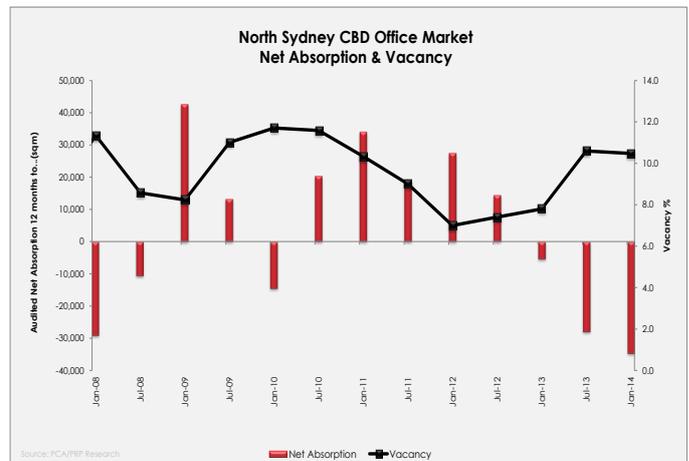


Chart 11 – North Sydney CBD Commercial Vacancy Rates – Source PCA

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 6 months to June 2014.

Address	Sale Price	Vendor	Purchaser	Sale Date	BLGA	sqm	Rate	psm	Yield
29-57 Christie Street, St Leonards NSW 2065	\$ 96,400,000	Charter Hall Office Trust	Australian Property Investments & Wing	Apr-14	14403	\$	6,693	9%	
33 Herbert Street, Sr Leonards NSW 2065	\$ 25,000,000	Amp Property Income Fund	Altis Property Group	Mar-14	6064	\$	4,123	11.80%	
110 Pacific Highway, St Leonards NSW 2065	\$ 16,500,000	Canturia Property Funds	undisclosed	Feb-14	3431	\$	4,809	-	

Table 4 — 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 January 2014 have been analysed to derive at the following findings:

Supply by Grade (Stock)

In the six months to January 2014 the Crow's Nest/St Leonards Office market recorded a decrease of 6,595 sqm to 357,333 sqm which is reflected in the marginal new supply which amounted to 650 sqm against the 7,245 sqm withdrawal.

Crow's Nest/ St Leonards A Grade and B Grade stock experienced neither new supply nor withdrawals. A Grade and B Grade stock accounts to 102,699 sqm and 69,288 sqm respectively.

C Grade stock saw to 4,638 sqm withdrawal lowering the total stock to 171,700 sqm. D Grade stock experienced a 650 sqm additional supply with a 2,607 sqm withdrawal in the overall 13,646 sqm.

Net Absorption

Total market net absorption in the Crow's Nest/St Leonards market for the six months to January 2014 recorded -7,405 sqm. Positive net absorption was experienced in the B Grade markets, with absorption of 1,147 sqm. Negative net absorption was reported in the A Grade, C Grade and D Grade markets, with absorption of -2,305 sqm, -5,553 sqm and -694 sqm respectively.

Total Vacancy

Total office market vacancy in Crow's Nest/St Leonard's increased over the six months to January 2014 by 0.5% from 13.8% to 14.3%. The direct vacancy assumed 13.9% and sub-lease vacancy was 0.4%. The total vacancy space amounts to 50,920 sqm.

Varied results were recorded across the four grades of office space, with A Grade and C Grade increasing by 2.2% and 1% respectively to total vacancy levels of 16.6% and 15.5%. B Grade office space was the best performer with a 1.7% decline in total vacancy at 8% and D Grade recorded declines 6.5% respectively to total vacancy levels of 12.9%.

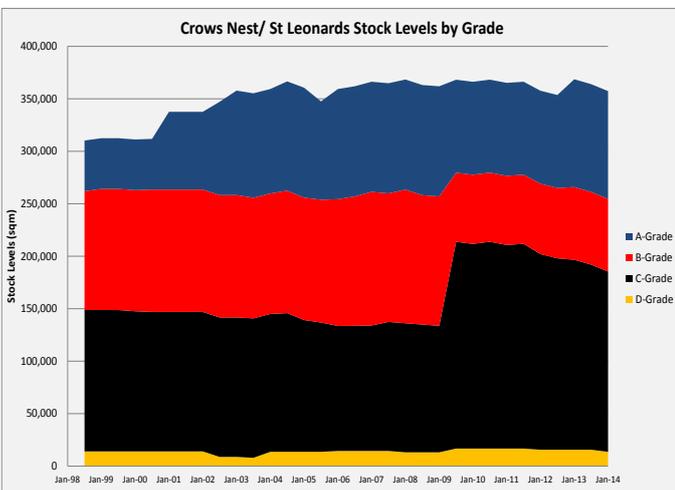


Chart 12 – Crow's Nest/St Leonards Stock Levels by Grade – Source PCA

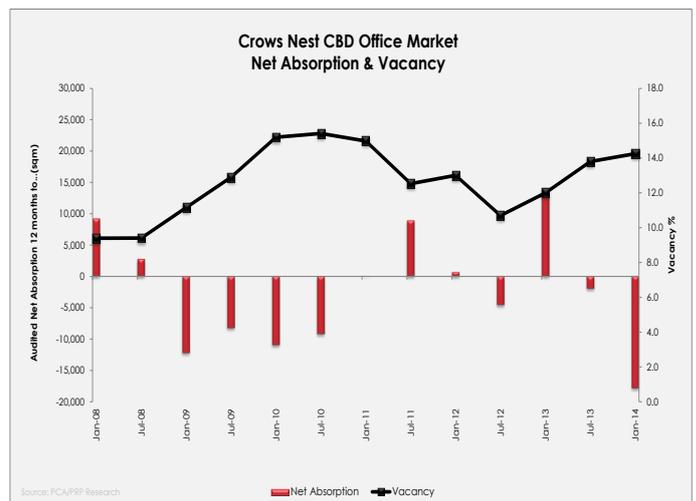


Chart 13 – Crow's Nest CBD Office Market Net Absorption & Vacancy – Source PCA

Parramatta

Investment Activity

The following table displays reported major sales transactions that occurred in the Parramatta office market over 6 months to June 2014.

Address	Sale Price	Vendor	Purchaser	Sale Date	BLGA sqm	Rate psm	Yield
93 George Street, Parramatta, NSW 2150	\$ 28,750,000	Quintessential Equity	Marprop	Dec-13	7127	\$ 4,033.96	9%
20-22 Mons Road, Westmead 2145	\$ 21,500,000	Westmead Project Pty Ltd	Heathley Medical Property Fund No. 1	Feb-14	2898	\$ 7,418.91	7.45%

Table 5 — Parramatta Sales Transactions

Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report January 2014 have been analysed to derive at the following findings:

Supply by Grade (Stock)

Total office stock in the Parramatta office market recorded an overall tightening of 5,825 sqm to 685,878 sqm over the six months to July 2014. There was a 7,408 sqm supply gain and 13,233 sqm of stock withdrawal.

A Grade stock realised neither supply nor withdrawal of office space. B Grade office space recorded a large withdrawal of 11,237 sqm with additional supply of 7,100 sqm. C Grade office stock remained relatively unchanged over the six months to July 2014 with stock levels of 104,972 sqm with additional supply of 308 sqm.

Finally, D Grade which recorded withdrawals of 1,996 sqm and no new stock supply resulting a decline of total stock to 97,413 sqm.

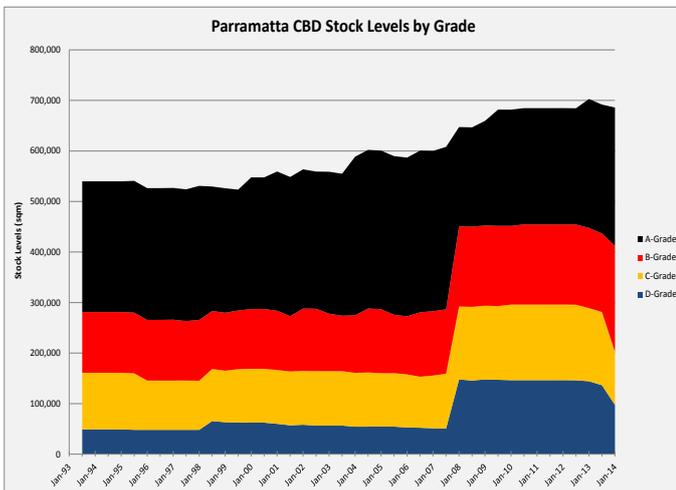


Chart 14 – Parramatta CBD Stock Levels by Grade – Source PCA

Net Absorption

Total market net absorption in the Parramatta office market was recorded at 4,523 sqm over the six months to January 2014 whereas the 12 months net absorption was 9,804 sqm. A Grade and B Grade office space recorded positive net absorption over the six month period of 23,364 sqm and 49,000 sqm respectively.

C Grade and D Grade reported negative net absorption of -34,584 sqm and -33,257 sqm respectively. This may be due to the lack of new developments in Parramatta CBD and higher demand for A Grade and B Grade office space.

Vacancy Rates

The total vacancy in the Parramatta office market has declined by 0.5% to 6% in the past 6 months to January 2014. Total vacancy comprises of 40,703 sqm (5.9%) of direct vacancy and 548 sqm (0.1%) of sub-lease vacancy.

A Grade stock realised a tightening of vacancy space both direct and sub-lease, bringing it down to 1.9% at 1,450 sqm of total vacancy. B Grade and C Grade realised a gain in total vacancies at 6.5% (13,688 sqm) and 18.8% (19,684 sqm) respectively. D Grade office space only comprised of direct vacancy at 6.6% (6,429 sqm).

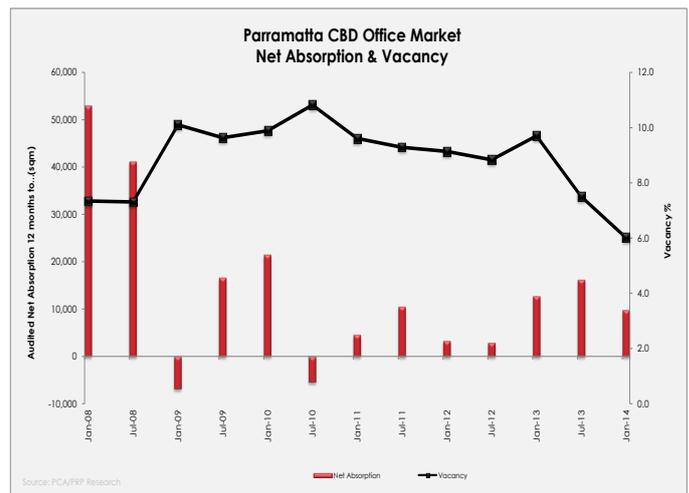


Chart 15 – Parramatta CBD Office Market Net Absorption & Vacancy – Source PCA

Chatswood

Investment Activity

PRP Research recorded few major sales transactions that occurred in the Chatswood Office Market over 6 months to June 2014.

Address	Sale Price	Vendor	Purchaser	Sale Date	BLGA sqm	Rate psm	Yield
432 Victoria Avenue, Chatswood NSW 2067	\$ 38,000,000	Transport for NSW	Venus Chatswood Pty Ltd	Mar-14	9943	\$ 3,821.78	-

Table 6— Chatswood Sales Transactions

Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report January 2014 have been analysed to derive at the following findings:

Supply by Grade (Stock)

The total office stock in the Chatswood Office Market increased by 1,617 sqm to 280,845 sqm over the six months to January 2014, with the entirety of the supply attributed to the A Grade stock. A Grade office space continues to maintain a majority share of the Chatswood market with 157,412 sqm (56%).

B Grade, C Grade and D Grade office stock all remained unchanged over the six months to July 2014, with no supply or withdrawals recorded. B Grade comprises 76,746 sqm (27.3%) of the total office market, followed by C Grade with 46,233 sqm (16.5%) and D Grade with 454 sqm (0.2%).

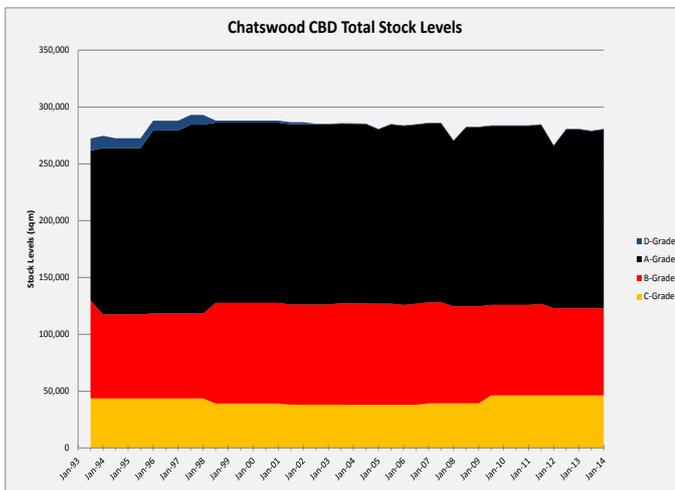


Chart 16 – Chatswood CBD Total Stock Levels – Source PCA

Net Absorption

Market Net Absorption in the Chatswood CBD office market reflected –9,007 sqm in the six months to January 2014. This negative net absorption resulted in net absorption over the twelve months to January of 12,989 sqm.

A Grade and C Grade experienced a negative absorption of 8,482 sqm and 1,506 sqm. Whereas B Grade office space had a positive absorption of 981 sqm. D Grade stock recorded no absorption levels in six and twelve month period to January 2014.

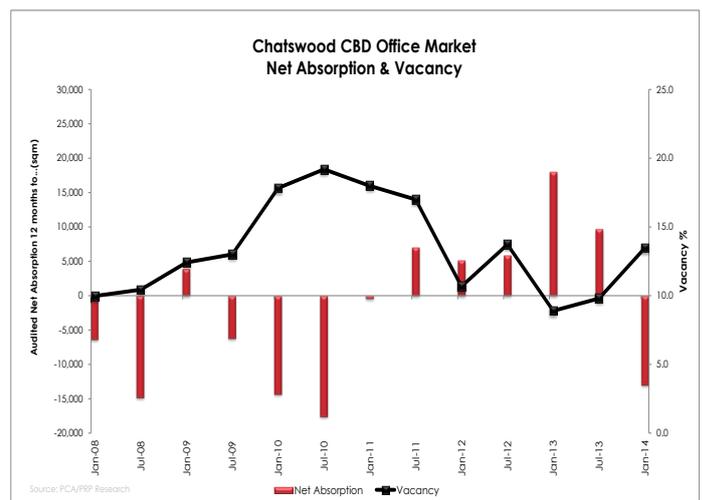


Chart 17 – Chatswood CBD Office Market Net Absorption & Vacancy – Source PCA

Total Vacancy

The Chatswood CBD office market recorded an increase of 3.7% in total vacancy in the six months to January 2014 with total vacant space now at 37,854 sqm. Direct vacancy increased to 34,517 sqm and sub-lease vacancy to 3,337 sqm.

A Grade office space has substantially increased by 6.3% in the last 6 months to January 2014. The direct vacancy was 21,222 sqm (13.5%) and sun-lease vacancy was 3,337 sqm (2.1%).

B Grade direct vacancy increased was attributed with the direct vacancies of 8,971 sqm (11.7%). Similarly the C Grade direct vacancy recorded no sub-lease vacancy and realised an increase in direct vacancy at 4,324 sqm (9.4%).

D Grade direct and sub-lease vacancy remained unchanged over the six months to January recording no vacant stock.

North Ryde/Macquarie Park

Investment Activity

PRP Research recorded few major sales transactions that occurred in the North Ryde/Macquarie Park Office Market over 6 months to June 2014.

Address	Sale Price	Vendor	Purchaser	Sale Date	BLGA sqm	Rate psm	Yield
66-82 Talavera Road, Macquarie Park NSW 2113	\$ 32,000,000	Aztrazene Pty Ltd	Macquarie Park Investments Pty Ltd	Apr-14	30,000	\$ 1,066.67	-
5 Whiteside Street, North Ryde NSW 2113	\$ 25,117,000	EG Funds Management	chinese fund manager	Nov-13	13936	\$ 1,802.31	-

Table 7 — 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 six months to June 2014.

Address	Rent psm	Rent pa	Lesee	Area sqm	Term (years)
4 Talavera Road, Macquarie Park NSW 2113	\$ 270	\$ 343,440	Maquet Australia	1272	8

Table 8 — North Ryde/Macquarie Park Leasing Transactions

Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report January 2014 have been analysed to derive at the following findings:

Supply by Grade (Stock)

Over the six months to January 2014, the North Ryde/Macquarie Park office market increased by 180194 sqm to 854,251 sqm. A Grade office space continues to maintain a majority share of the North Ryde office market, accounting for 589,721 sqm (69%) recording additional supply of 11,294 sqm with no withdrawals. The completed 7 office level new development by Goodman Group contributed to the North Ryde/Macquarie total office space.

For the first time since July 2009, the B Grade office space saw to a 2.9% increase to 241,792 sqm. C Grade office stock also recorded a stock supply increase of 1,532 sqm to result in 20,017 sqm of market share. D Grade remained unchanged at 2,721 sqm and comprises 0.2% of the total North Ryde/Macquarie Park office market.

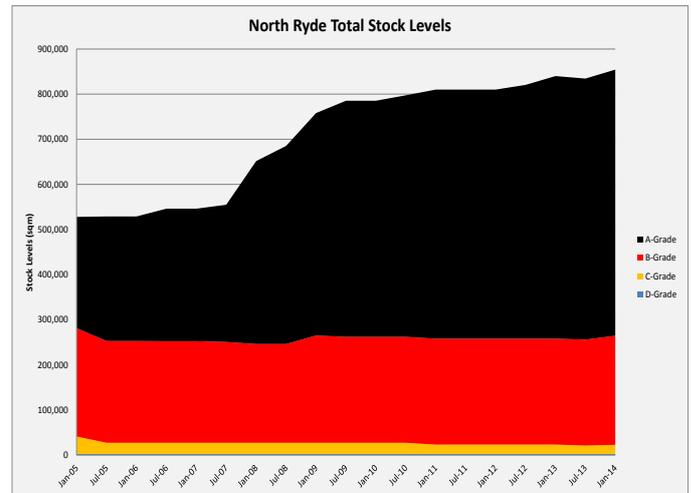


Chart 18 – North Ryde Office Market – Source PCA

Net Absorption

Market net absorption in the North Ryde/ Macquarie Park office market reflected 4,058 sqm in the six months to January 2014. The net absorption over the twelve months to January was -5,020 sqm.

D Grade stock remained unchanged with no absorbency. A Grade office stock recorded -6,770 sqm, B Grade recorded 7,775 sqm and C Grade recorded 3,053 sqm between July 2013 and January 2014.

Vacancy Rates

The North Ryde/Macquarie Park market recorded an increase in total vacancy in the six months to January 2014 of 1.7%. Direct vacancy and sub-lease vacancy increased by 0.8% to 7.5% and 0.2% to 1.9% respectively. The increase in vacancy reflected an increase of 8,060 sqm for direct vacancy and 7,688 sqm for sub-lease vacancy.

A Grade direct vacancy increased 1.1% to 33,108 sqm and sub-lease vacancy also increased 1.9% to 14,851 sqm. B Grade direct vacancy increased 0.8% to 27,389 sqm, whereas sub-lease vacancy declined by 1.5% to 1,780 sqm. C Grade had no sub-lease vacancy however total vacancy recorded an decrease of 9.2% to 19.4% due to the lack of withdrawals on the market. D Grade remained unchanged recording no direct or sub-lease vacancy in the six months to January 2014.

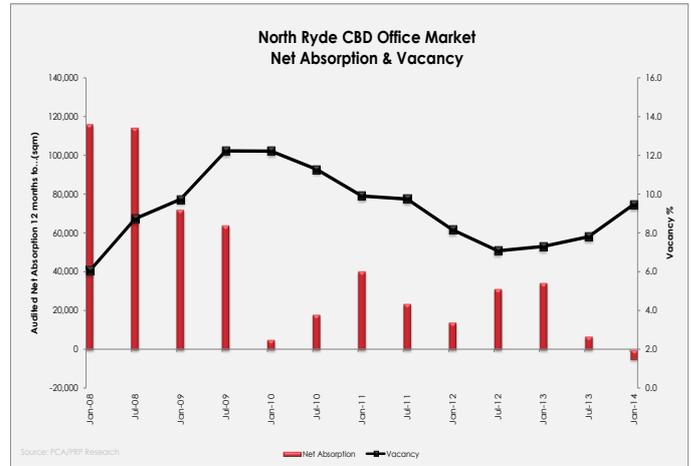


Chart 19 – North Ryde CBD Commercial Net Absorption & Vacancy – Source PCA

NSW Suburban Business Hubs

Investment Activity

PRP Research recorded few major sales transactions that occurred in NSW suburban office hubs over 6 months to June 2014.

Address	Sale Price	Vendor	Purchaser	Sale Date	BLGA sqm	Rate psm	Yield
65-71 Whiting Street, Artarmon NSW 2064	\$ 6,550,000	Propertylink (Holdings) Limited	Mitsa Pty Ltd	Feb-14	3000	\$ 2,183.33	-
93 Oxford Street, Bondi Junction NSW 2022	\$ 5,325,000	Undisclosed	undisclosed	Feb-14	384	\$ 13,867.19	4.76%
241-243 Oxford Street, Bondi Junction NSW 2022	\$ 6,100,000	Jevorette Pty Limited	Hollywood Apartments Pty Ltd	Mar-14	664	\$ 9,186.75	-
245 Oxford Street, Bondi Junction NSW 2022	\$ 6,000,000	Sleek Pty Limited	Hollywood Apartments Pty Ltd	Mar-14	380	\$ 15,789.47	-
2a Waverley Street, Bondi Junction NSW 2022	\$ 8,000,000	Jevorette Pty Limited	Hollywood Apartments Pty Ltd	Mar-14	253	\$ 31,620.55	-
32a Oxford Street, Darlinghurst NSW 2010	\$ 17,450,000	In Adam Pty Ltd	The Trust Company (Re Services) Ltd	Mar-14	4471	\$ 3,902.93	9.12%
4-8 Woodville Street, Hurstville NSW 2220	\$ 17,350,000	Centuria Property Funds	undisclosed	Feb-14	4763	\$ 3,642.66	8.30%
71 Longueville Road, Lane Cove, NSW 2066	\$ 13,000,000	Private investor	Property Bank Australia	Jan-14	4077	\$ 3,188.62	9.56%
1-3 Ricketty Street, Mascot NSW 2020	\$ 14,500,000	Durian (Holdings) Pty Ltd	Industrial Rural Marine & Leisure Pty Ltd	Mar-14	4433	\$ 3,270.92	-
1 Honeysuckle Drive, Newcastle NSW 2300	\$ 12,000,000	Centuria Property Funds	undisclosed	Sep-14	2889	\$ 4,153.69	9.03%
521-527 High Street, Penrith NSW	\$ 8,100,000	Spotlight Group	local self-managed super fund	Feb-14	6358	\$ 1,273.99	10.19%
122-124 Victoria Street, Potts Point NSW 2011	\$ 5,900,000	Australian Heritage Corporation	Jude and Graham Turner (Flight Centre)	Apr-14	437	\$ 13,501.14	7.30%
19-21 Harris Street, Pyrmont NSW 2009	\$ 70,000,000	Lend Lease Core Plus Fund	undisclosed	Feb-14	12000	\$ 5,833.33	-
119 Kippax Street, Surry Hills NSW 2010	\$ 24,475,000	Undisclosed	Cornerstone Property Group	Apr-14	6752	\$ 3,624.85	-
71 Cooper Street, Surry Hills NSW 2010	\$ 30,000,000	Readers Digest Building Pty Ltd	Intrasia Oxley (Rbd) Pty Limited	Mar-14	7500	\$ 4,000.00	-
360-370 Elizabeth Street, Surry Hills NSW 2010	\$ 6,000,000	Surfside Hotel Group	undisclosed	Apr-14	1123	\$ 5,342.83	-
495 Harris Street, Ultimo 2007	\$ 63,000,000	Amp Capital Wholesale Office Fund	Auswin TWT Development	Feb-14	9643	\$ 6,533.24	-
2-14 Cliff Road, Wollongong NSW 2500	\$ 48,000,000	Brookefield Asset Management	Bill Gravanis	Feb-14	980	\$ 48,979.59	1.57%
243-251 Crown Street, Wollongong NSW 2500	\$ 6,020,000	Commonwealth Bank of Australia	Win Propertirs Pty Ltd	Mar-14	3000	\$ 2,006.67	-

Table 9 — NSW Suburban Office Sales Transactions

Leasing Activity

PRP Research recorded few major leasing transactions that occurred in the NSW suburban office hubs over six months to June 2014

Address	Rent psm	Rent pa	Lesee	Area sqm	Term (year)
5 Rider Boulevard, Rhodes NSW 2138	\$ 370	\$ 620,860	Zoetis	1678	5

Table 10 — NSW Suburban Office Leasing Transactions



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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