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International Property Consultants

Sydney Impact Report

Office Market

SHORT-TERM UNDERSUPPLY

The twelve months to September 2016 has seen positive news for landlords in Sydney's CBD office market as supply contracted due to withdrawals taking place from redevelopments, conversion and Sydney's Metro Line project. Sydney CBD's market performance is leading the rest of the country's, albeit the risk of undersupply undermining the market in the short term. Strong investment capital flowing into one of Australia's main attractor of capital has meant that demand is strong in Sydney CBD's rental market. The diminishing supply of space has worked in the favour of landlords as they looked to increase rents and decrease incentives. The presence of yield compression, combined with growth in the rental market is both good signs for the appreciation of capital value of Sydney CBD's offices.

Withdrawals have increased to 110,731 sqm as of July 2016, a figure that is reported by the Property Council of Australia as doubling that of historical average. Significant withdrawals include **10 Shelley Street** (formerly KPMG), **182 George Street** and **33-35 Pitt Street**- all of which have been withdrawn for refurbishment. Furthermore, supply has also been strong, with 126,474 sqm added in the half year to July 2016. The PCA reported that by the end of 2016, "more than 5% of Sydney CBD stock will be added to the market". Notable additions to the office supply include **Tower 3 of International Towers Sydney**, **200 George Street**, with **Tower 1, International Towers Sydney** and **333 George Street** to be completed towards the end of 2016.

September quarter 2016

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SYDNEY OFFICE MARKET HIGHLIGHTS

The six months to September brought through \$3 billion in sales of commercial offices in and around Sydney. The majority of sales occurred in Sydney's Central Business District and North Sydney markets, however sales were also recorded in Crows Nest/St Leonards, Parramatta, Chatswood, Macquarie Park and suburban business parks further out from the CBD. We expect that as the development of the metro lines continue through to 2017, more office spaces would be absorbed which may lead to a problem of short-term undersupply and an increase in rental prices. Bearing in mind, major office projects around the Barangaroo precinct will assist to contain the surge in demand, however with the estimated withdrawals combined with the declining gross supply within the next twelve months, Sydney CBD is still expected to suffer a period of undersupply.

Sales

Sydney CBD once again recorded the most commercial sales during the 6 months period to September 2016. Notably, the significant transactions took place during this period include that of Sydney CBD's 1 Shelley Street and 420 George Street, which were sold for \$525 million and \$442.5 million respectively.

Furthermore, a significant sale also took place in Rhodes, of 3 & 5 Rider Boulevard, which were acquired by Altis Property Management for a total of \$235 million. The sale reflects a rate of 11,520 per sqm and an annual yield of 6.05%.

Leases

The six months to September has brought along a number of significant leasing activities throughout Sydney's metropolitan area. The majority occurred in the Sydney CBD, however, Parramatta, Macquarie Park and suburban business park areas have all recorded notable transactions through the period. The observed average rent for Sydney metropolitan is \$435 per sqm, on an average term of 4.92 years.

A significant lease signed through the September quarter was one signed for 255 George Street, in Sydney's CBD. **Ord Minnett Ltd** agreed to a 6 year lease of the 2,741 sqm premises at a rate of \$750 per sqm, or \$2,055,525 per annum.



Further out in North Ryde, a 10 year lease has been signed by **Roche Diagnostics** at 2 Julius Avenue, at the rate of \$315 per sqm. The premise is 3,455 sqm in size, and has a per annum rent of \$1,088,325.

Developments

According to the Property Council of Australia, the second half of 2016 will bring along 140,191 sqm of office space through the completion of the major developments around Sydney CBD. The following major developments will bring along a total of 181,081 sqm of space for the year ending 2016:

International Towers Sydney Tower 3, part of the three high rise Premium Grade office buildings of International Sydney, is has been completed in the second quarter of 2016. The tower is bounded by Hickson Road, Shelley Street and Sydney Harbour at Welsh Bay. The owner of the tower, *Lend Lease*, will supply 79,352 sqm of net lettable area over 38 office floors, with the average floorplate size at 2,300 sqm. Retail space will take up 5,315sqm of the tower, with 167 car spaces available.

International Towers Sydney Tower 1 will see its development being completed by the fourth quarter of 2016. This larger development, under the same owner as Tower 2 (completed June 2015) and 3, will have a net lettable area of 101,729 sqm over 48 office floors and of which 8000 sqm will be retail space. The average floorplate size will be 2,300 sqm, and contain 167 carpark space in total.

Along with the two Barangaroo developments, **200 George Street** (38,590 sqm) and 8,532 sqm of refurbished space from **Governor Macquarie Tower**, along with other additions from the beginning of the year will contribute to the 2016 calendar year to a total of 5% of Sydney CBD stock added to the market.

Yield

Preston Rowe Paterson Research has observed that over the six months to September, yields have decreased to an average of 6.28% for commercial offices across the Sydney metropolitan market. This figure reflect the recent trend of compression of yields in the office markets around Sydney, as this is a decrease of 0.63% from the periods between June and December of 2015. Sydney CBD's yields averaged to 6.75% amongst the sales that took place during the six months to September. The Crows Nest/St Leonards precinct recorded the highest average yield of 7.83%, with Macquarie Park and surrounding areas recording the lowest, of 6.30%.

Locality	Yield (%)
Sydney	5.38
North Sydney	6.27
Crow's Nest/ St. Leonards	N/A
Parramatta	7.32
Chatswood	6.00
Macquarie	7.12
Suburban Business Parks	8.03
Average Yield	6.28

Table 1—Average Yields in Sydney's Office Market for transactions between April-September 2016
N/A = not currently available

COMMERCIAL OFFICE MARKET

Sydney CBD

Investment Activity

The following table shows reported major sales transactions that occurred over six months to September 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA sqm	Rate psm	Yield
420 George Street, Sydney, NSW 2000 **	\$ 150,000,000	Lendlease	Investa Commercial Property Fund	Aug-16	37,688	\$ 15,920.00	5.30%
36 Hickson Road, Sydney, NSW 2000	\$ 17,105,000	Khoury & Partners	DEXUS Property Group	Jul-16	1,146	\$ 11,837.00	N/A
10-14 Quay & 775-779 George Streets, Haymarket, NSW 200	\$ 42,000,000	Citadin	George 777 Pty (Hong Kong)	Jul-16	5,767	\$ 34,797.00	3.90%
287 Elizabeth & 136 Liverpool Streets, Sydney, NSW 2000	\$ 55,000,000	Citadin	AMA Holdings (Hong Kong)	Jul-16	5,566	\$ 9,392.00	4.90%
210 & 220 George Street, Sydney, NSW 2000	\$ 160,000,000	Anton Capital (G.S.)	Poly Real Estate	Jul-16	13,674	\$10,679- \$12,246	N/A
140 Sussex Street, Sydney, NSW 2000	\$ 130,000,000	RREEF	Bank of China	Jun-16	12,440	\$ 10,450.00	5.75%
3 Spring Street, Sydney, NSW 2000	\$ 70,000,000	Christie	Brookfield Prime Property Fund	Jun-16	7,450	\$ 9,396.00	6.50%
1 Shelley Street, Sydney, NSW 2000	\$ 525,000,000	Brookfield Office Properties	Charter Hall	May-16	32,986	\$ 15,916.00	5.25%
420 George Street, Sydney, NSW 2000*	\$ 442,500,000	Lendlease	Investa Commercial Property Fund	Apr-16	37,688	\$ 15,665.00	5.30%
71 Macquarie Street, Sydney, NSW 2000	\$ 158,500,000	AMP Capital	Macrolink/ Landream	Mar-16	9,447	\$ 16,778.00	N/A
149-151 Castlereagh Street, Sydney, NSW 2000	\$ 120,000,000	Blackstone	Deutsche AM	Mar-16	12,855	\$ 9,335.00	6.04%

Table 2 — Sydney CBD Sales Transactions

*75% stake (Investa)

** 25% stake (Mercer)

N/A = not currently available

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lessee	Area sqm	Term	Start Date
123 Pitt Street, Sydney, NSW 2000	\$ 725	\$ 366,850	TNS	500	6	Sep-16
123 Pitt Street, Sydney, NSW 2000	\$ 675	\$ 298,350	CV Management Pty Ltd	442	2	Sep-16
383-395a Kent Street, Sydney, NSW 2000	\$ 685	\$ 228,790	Dexus Property Group	334	N/A	Aug-16
2 Chifley Square, Sydney, NSW 2000	N/A	N/A	KordaMentha	1,288	5	Aug-16
175 Liverpool Street, Sydney, NSW 2000	N/A	N/A	Ticketek	2,200	5	Aug-16
33-35 York Street, Sydney, NSW 2000	\$ 395	\$ 213,695	Deals.com.au Pty Ltd	541	1	Aug-16
75 Elizabeth Street, Sydney, NSW 2000	\$ 750	\$ 166,500	Serko Australia Pty Ltd	222	3	Aug-16
255 George Street, Sydney, NSW 2000	\$ 749	\$ 2,055,525	Ord Minnett Ltd	2,741	6	Jul-16

Level 4/233 Castlereagh Street, Sydney, NSW 2000	\$	400	\$	324,400	Alliance Australia	811	3	Jun-16
1-13 Bligh Street, Sydney, NSW 2000	\$	950	\$	177,650	JN Solutions Australia	187	3	Jun-16
72 Bathurst Street, Sydney, NSW 2000	\$	565	\$	326,570	Lonsdale Institution	578	3	Jun-16
55-67 Clarence Street Sydney, NSW 2000	\$	760	\$	156,560	Bureau van Dijk Electronic	206	4	Jun-16
1 Castlereagh Street, Sydney, NSW 2000	\$	795	\$	272,685	Evaesco Financial Services	343	N/A	May-16
76-78 Liverpool Street, Sydney, NSW 2000	\$	340	\$	85,000	Captain Cook Institute Pty Ltd	250	N/A	May-16
12 O'Connell Street, Sydney, NSW 2000	\$	600	\$	79,200	Emarsys Pty Ltd	132	1	May-16

Table 3—Sydney CBD Leasing Transactions
N/A = not currently available

Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2016 have recorded office developments that are in various stages of completion within Sydney's office pipeline.

Mirvac's new development, located close to Circular Quay at **190-200 George Street**, was completed during the second quarter of 2016. Jointly owned by Mirvac Property Trust and AMP Capital Wholesale Office Fund, the Premium Grade office tower features 39,225 sqm of net lettable space across 33 office floors, 476 sqm of retail area, 63 car spaces, 5-star NABERS Energy rating and 6-star Green Star rating. The property will be tenanted by accounting consultants EY across 28,300 sqm on a 10 year lease.



Additionally, *Charter Hall's* development at **333 George Street** is due to be completed in the fourth quarter of 2016, and will bring 12,514 sqm of net lettable area into Sydney CBD office market.

Supply by Grade (Stock)

The July 2016 Market Report from the Property Council of Australia (PCA) revealed an increase of 126,474 sqm in the supply of office space in Sydney's Central Business District. This was offset by a withdrawal of 110,731 sqm of space, resulting in a higher total stock of 5,082,215 sqm in office space within Sydney's CBD.

The increase in additional office space came solely from Premium Grade stock. Its supply increased by 122,724 sqm from previous figures in January 2016. Total stocks of Premium Grade, as at July 2016, stand at 1,052,848 sqm.

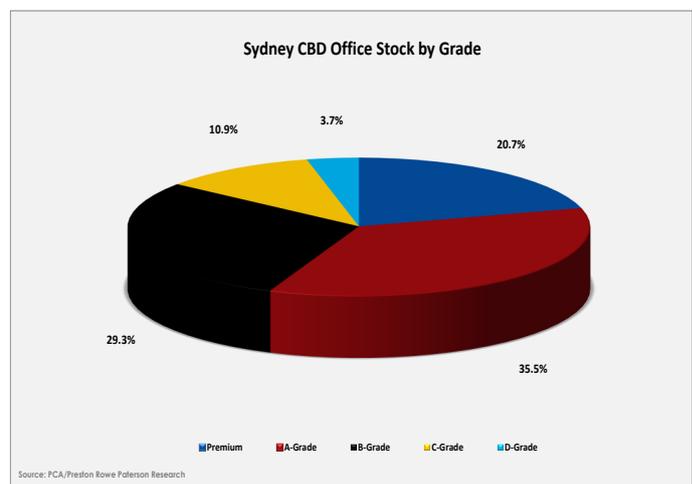


Chart 1 – Sydney CBD Total Stock by Grade – Source PCA

Net Absorption

The Sydney CBD office market has absorbed 147,245 sqm of space in the 12 months to July 2016. In the six months to January, the market absorbed 50,5000 sqm in office space.

In the six months to July 2016, only Premium and B Grade stocks recorded positive net absorptions. They increased by 79,170 sqm and 4,277 sqm respectively. On the other hand, A, C and D Grade office stocks experienced reductions in net absorption in the same period. A Grade offices declined the most, with 26,008 sqm of space taken away. C and D Offices experienced less dramatic decreases, of -4,788 sqm and -2,151 sqm respectively.

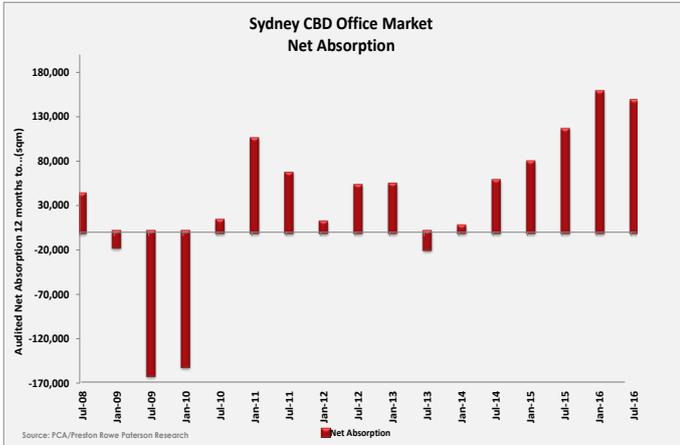


Chart 2 – Sydney CBD Office Net Absorption – Source PCA



Vacancy Rates

Vacancy in the Sydney CBD office market tightened during the six months to July 2016. Total office market vacancy had tightened by 0.7% down to 5.6% (282,457 sqm). Of the 5.6% vacancy, 4.9% was direct vacancy and 0.7% was sub-lease vacancy.

All grades of office stocks recorded a decrease in vacancy—except for Premium and C Grade office stocks—which increased by 3.2% and 0.6% to 11.3% and 6.0% respectively. The largest fall in total vacancy was reported by B Grade stocks, which fell by 3.3% to 3.5%. This is followed by a decline of 1.4% in A Grade stock to a total of 4.0%.

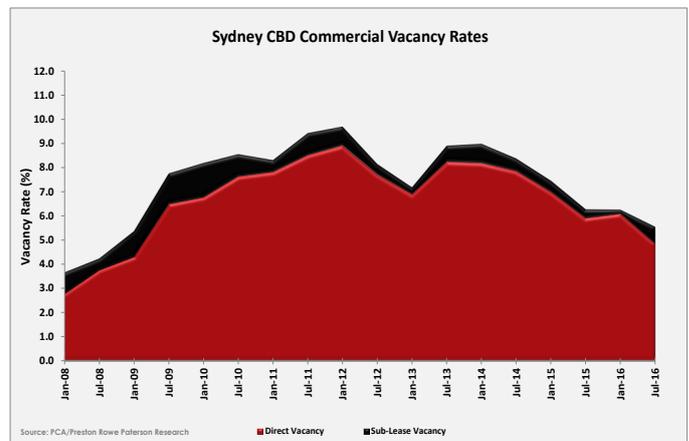


Chart 3 – Sydney CBD Vacancy Rates – Source PCA

North Sydney

Investment Activity

The following table shows reported major sales transactions that occurred over six months to September 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA sqm	Rate psm	Yield
90 Arthur Street, North Sydney, NSW 2060	\$ 75,000,000	151 Property Group	Deutsche AM	Aug-16	9,256	\$7,914.00	6.27%
61 Lavender Street, Milsons Point, NSW 2061	\$ 140,000,000	Barana Group	Aqualand	Jul-16	10,500	\$13,333.00	N/A
1 Denison Street & 77 Berry Street, North Sydney, NSW 2060	\$ 80,000,000	Eastmark	Winten	Jul-16	N/A	\$21,333.33	N/A
52 Alfred Street, Milsons Point, NSW 2061	\$ 130,000,000	Bridgehill Group	Private investor	Jun-16	10,000	\$13,000.00	N/A
90 & 100 Mount Street, North Sydney NSW 2060	\$ 41,000,000	Laing O'Rourke	DEXUS Property Group(50%); DEXUS Wholesale Property Fund (50%)	Apr-16	41,163	N/A	N/A

Table 4 – North Sydney Sales Transactions
N/A= not currently available

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lessee	Area sqm	Term	Date
77 Berry Street, North Sydney, NSW 2060	\$ 395	\$ 358,265	Eastmark Holdings Pty Ltd	907	3	Aug-16
77 Berry Street, North Sydney, NSW 2060	\$ 395	\$ 358,265	Platinum Finance	907	3	Aug-16

Table 5— North Sydney Leasing Transactions
n/a = not currently available

Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2016 noted that there are two active development in the North Sydney office market:

177-199 Pacific Highway, North Sydney, NSW 2060

The Norberry Terrace project, located at the corner of Berry Street and Pacific Highway, is due to be completed in the fourth quarter of 2016. The development will provide 39,383 sqm of net lettable area over 31 office levels. Its average floorplate size stands at approximately 1570 sqm, with the additional 112 car park spaces available.

Supply by Grade (Stock)

As shown in the PCA's Office Market Report July 2016, North Sydney's office market recorded a withdrawal of 28,265 sqm in office stock and zero additional supply for the half year to July 2016.

These withdrawals resulted in the decline in Premium Grade, B Grade and C Grade stocks of 5,713sqm, 9,096 sqm and 13,456 sqm respectively. As of July 2016, their respective total supply stands at 30,787 sqm, 418,966sqm and 143,501 sqm.

There was no change in the supply in the A-Grade and D-Grade stocks, remaining at 186,296 sqm and 12,932 sqm respectively.

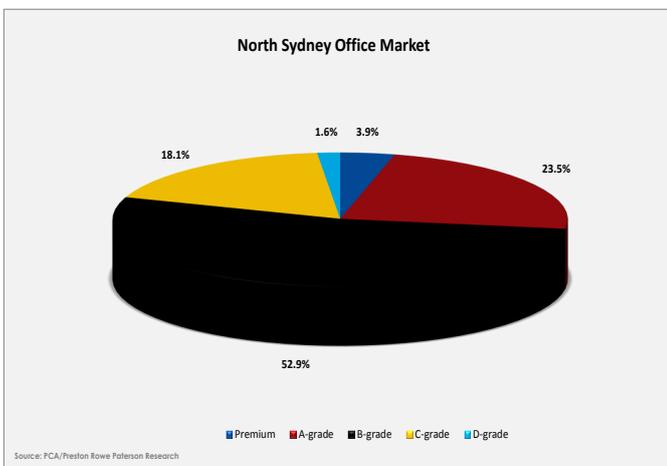


Chart 4 – North Sydney Total Stock Levels By Grade – Source PCA

Net Absorption

Net absorption of offices in the North Sydney CBD market decreased by 20,849 sqm during the 12 months to July 2016. Furthermore, the 6 months to July brought upon a decline of 25,870 sqm in net absorption.

Positive net absorption was recorded for A, B and D Grade offices, of 4,305 sqm, 377 sqm and 490 sqm respectively. On the other hand, large negative net absorptions were recorded for Premium and C Grade offices. The larger of the decline in net absorption stemmed from Premium Grade offices, of –18,404 sqm. C Grade office stocks suffered a decline of –12,638 sqm in net absorption.



Chart 5 – North Sydney Office Net Absorption – Source PCA



Vacancy Rates

North Sydney's office market vacancy rate increased slightly by 0.3% over the six months to July 2016. As at July 2016, 55,603 sqm of vacant space was available, with 6.8% being direct vacancy and 0.2% as sub-lease vacancy.

It is worth noting that over the six months to July, the vacancy rate of Premium stock had increased by 41.2% from a fully occupied state in the first half of the year. All other office stocks experienced a decrease in vacancy rate from January 2016. A Grade, B Grade, C Grade and D Grade vacancy rates decreased by 5.4%, 6.1%, 4.9% and 3.0% respectively, and now stand at 5.4%, 6.1%, 4.9% and 3.0% respectively.

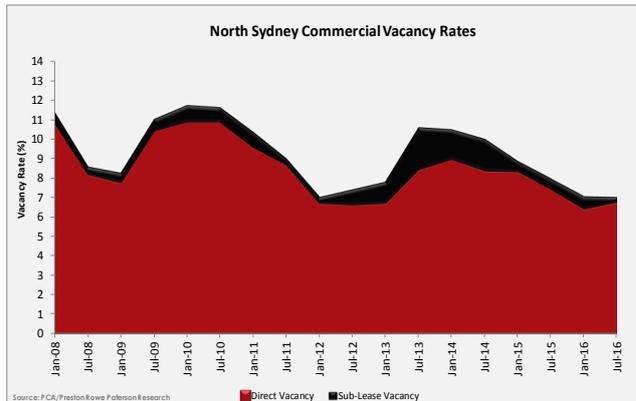


Chart 6 – North Sydney Office Vacancy Rates – Source PCA

Crows Nest/ St Leonards

Investment Activity

The following table shows reported major sales transactions that occurred over six months to March 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA sqm	Rate psm	Yield
84-90 Christie Street & 75-79 Lithgow Street, St Leonards, NSW 2065	\$ 120,000,000	Winten	Dyldam	Jun-16	7,200	\$16,667.00	N/A
100 Christie Street, St Leonards, NSW 2065	\$ 88,888,888	Altis	Greg Gav	Jun-16	10,040	\$6,250.00	N/A

Table 6 – Crows Nest/St Leonards Sales Transactions
n/a = not currently available

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lesee	Area sqm	Term	Date
39 Herbert Street, St Leonards, NSW 2065	\$ 267	\$ 245,106	North Shore BMW	918	5	May-16

Table 7—Crows Nest/St Leonards Leasing Transactions

Supply by Grade (Stock)

The PCA's Office Market Report July 2016 detailed that the Crows Nest/St Leonards office market recorded no additional supply and a withdrawal of 11,166 sqm of office space, bringing the total stock available down to 333,631 sqm. Notably, the stock withdrawals were attributed to the tightening of C Grade space. In saying this, C Grade stocks still dominate the Crows Nest/ St Leonards market, taking up 45% of total stock. A Grade and B Grade stock levels increased to their respective percentage of 30.8% and 20.4%. D Grade stocks take up the smallest share Crows Nest/St Leonards' office spaces, of 3.8%.

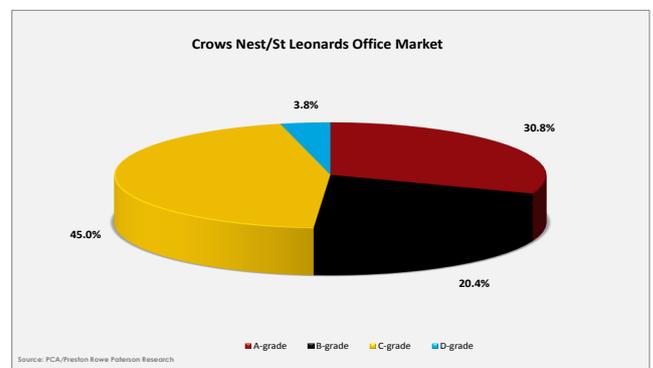


Chart 7 – Crows Nest/St Leonards Total Stock Levels by Grade – Source PCA

Net Absorption

Crows Nest/St Leonards' office market recorded a decline of 2,065 sqm in net absorption during the 12 months period to July. Furthermore, the market recorded a larger decline of 5,661 sqm in the 6 months to July.

The largest decline in net absorption stemmed from C-Grade markets, with 13,684 sqm of decline over the 12 months to July. D Grade offices experienced -1,239 sqm of net absorption. A and B Grade offices both experienced positive net absorption, of 8,241 sqm and 4,617 sqm respectively.

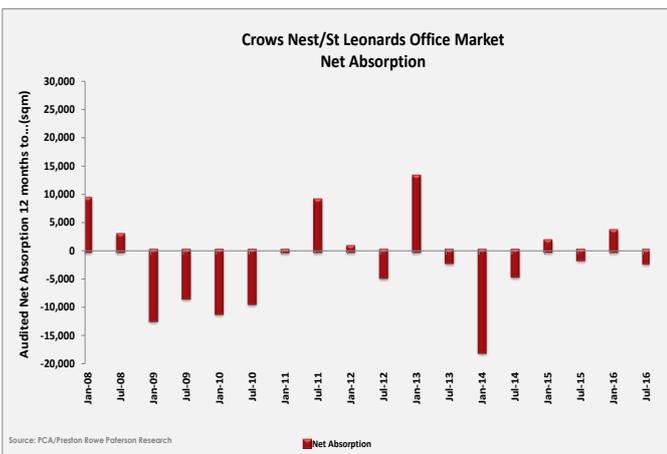


Chart 8 – Crows Nest/St Leonards Office Net Absorption – Source PCA

Total Vacancy

Over the six months to July 2016, Crows Nest/St Leonards recorded a decrease in total market vacancy rate of 1.3% to 8.3%. Amongst this, direct vacancy decreased by 1.1% to reach a vacancy rate of 7.3% and sub-lease vacancy reducing by 0.2% to a new rate of 1.0%.

The only increase in vacancy rate came from D Grade office stock, which increased by 5.4% to 14.6% vacancy. We observe the largest decrease in vacancy rate in the B-Grade stock, which decreased by 2.8% to a new rate of 6.3%. A Grade and C Grade stocks also experience decline in vacancy, of 0.6% and 1.4% respectively, to their new respective rates of 2.9% and

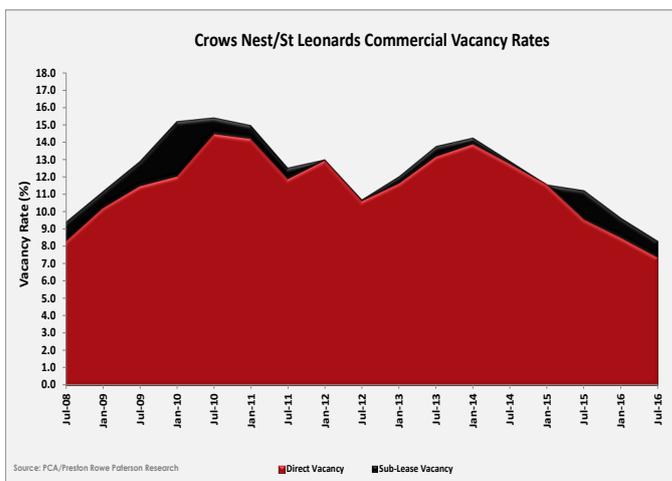


Chart 9 – Crows Nest/St Leonards Office Market Vacancy – Source PCA

Parramatta CBD

Investment Activity

The following table shows reported major sales transactions that occurred over six months to September 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA sqm	Rate psm	Yield
18 Smith Street, Parramatta, NSW 2150	\$ 84,800,000	Altis Property Partners	Eureka Funds Management	Aug-16	12,069	\$ 7,022.00	6.75%
126 Church Street, Parramatta, NSW 2150	\$ 42,000,000	Gemnoll Pty Ltd	Marprop	May-16	9,809	\$ 4,284.00	8.30%
9 Wentworth Street, Parramatta, NSW 2150	\$ 42,200,000	PFA Diversified Property Trust- Charter Hall	Charter Hall Office Trust	Mar-16	7,682	\$ 5,495.00	6.90%

Table 8— Parramatta CBD Sales Transactions

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lessee	Area sqm	Term	Date
80 George Street, Parramatta, NSW 2150	\$ 410	\$ 114,800	Ray White	280	5	Jul-16
56 Station Street, Parramatta, NSW 2150	\$ 380	\$ 573,420	Australian Unity	1,509	7	Jun-16
7 Hassall Street, Parramatta, NSW 2150	\$ 350	\$ 623,350	NSW Police	1,781	5	May-16
18 Smith Street, Parramatta, NSW 2150	\$ 420	\$ 116,340	Peppers Australia	277	6.5	Apr-16

Table 9—Parramatta CBD Leasing Transactions

Development Sites

169 Macquarie Street, Parramatta NSW 2150

Stage 1 development of Parramatta Square is reported to be completed by the fourth quarter of 2016. Under its owner, *Charter Hall Group*, the site will provide a net lettable area of 26,000 sqm over 14 office levels. Its average floorplate size will be 2200 sqm, with 108 carpark spaces available upon completion.



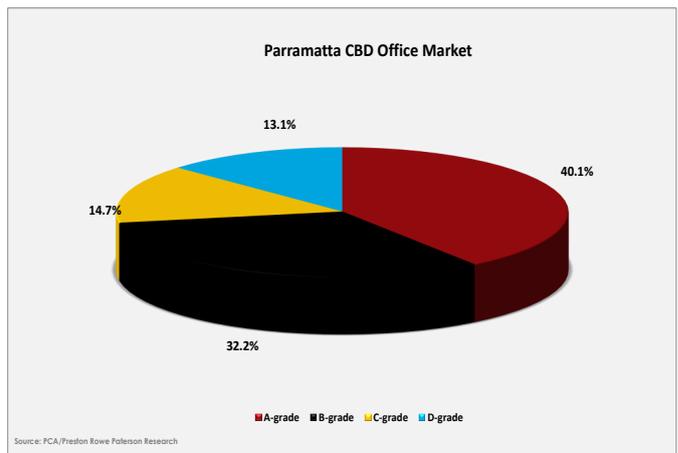
In conjunction with the Parramatta Stage 1 development, the other significant development is **Parramatta Square (Stage 3)** project located on **153 Macquarie Street**. It is currently in its early feasibility stage. The Parramatta City Council proposed that the third stage of development will include 35,000 sqm of NLA over a 14 storey office tower, feature a 7,000 sqm are of public facilities including a civic building, community centre, library and facilitate a car park with 170 spaces. The project is expected to be completed in the 2nd quarter of 2018 or later.



Supply by Grade (Stock)

The PCA Office Market Report July 2016 indicate that there has been 1,470 sqm of supply added to Parramatta's office market, offset by 1,908 sqm of withdrawals within the 6 months to July. Total market supply now stands at 682,469 sqm.

Parramatta's office market is still dominated by A and B Grade stocks, which assumes 40.1% and 32.2% respectively. C and D Grade stocks take up smaller shares, of 14.7% and 13.1% respectively.



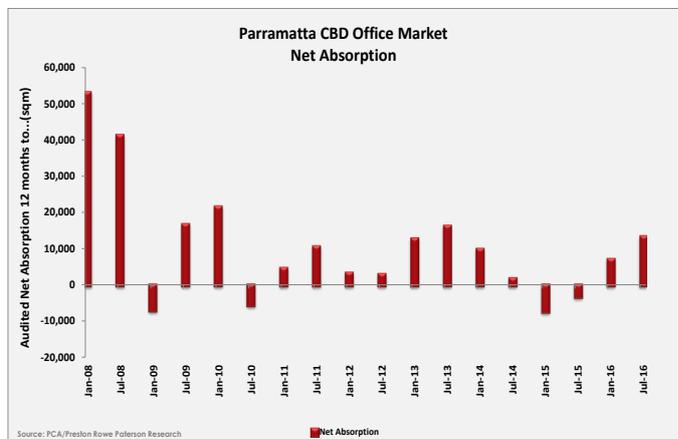
Source: PCA/Preston Rowe Paterson Research

Chart 10 – Parramatta CBD Total Stock Levels by Grade – Source PCA

Net Absorption

Total net absorption for the 12 months to July was 13,297 sqm. In the 6 months to July, Parramatta's office market recorded 7,582 sqm of net absorption.

Only D Grade stocks experienced negative net absorption, of -2,543 sqm during the six months to July. A and B Grade stocks recorded the largest net absorption, of 4,647 sqm and 3,868 sqm respectively. C Grade stocks experienced a more moderate increase of 1,610 sqm during the same period.



Source: PCA/Preston Rowe Paterson Research

Chart 11 – Parramatta CBD Office Net Absorption – Source PCA

Vacancy Rates

The total vacancy in the Parramatta office market has reduced to 4.5% over the six months to July, down from 5.6% during the six months to January.

Vacancy rate reduced from 1.7% to 0% for A Grade office buildings. B and C Grade building also experienced a reduction in their vacancy rates, down to 6.8% and 11% respectively for the period. D Grade office buildings experienced an increase in their overall vacancy, increasing from 3.1% to 5.1%.



Chart 12 – Parramatta CBD Office Market Vacancy – Source PCA

Chatswood

Investment Activity

The following table shows reported major sales transactions that occurred over six months to September 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA sqm	Rate psm	Yield
15 Help Street, Chatswood NSW 2067	\$ 43,800,000	Intera	One Pro Group	Jun-16	5395	8119	6.00%

Table 10 — Chatswood Sale Transactions

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lesee	Area sqm	Term	Date
9 Help Street, Chatswood, NSW 2067	\$ 395	\$ 51,350	Heart Diagnostics	130	5	Sep-16
15 Help Street, Chatswood, NSW 2067	\$ 410	\$ 450,180	United Resource Mgmt	1,098	5	Aug-16

Table 11 — Chatswood Leasing Transactions

Supply by Grade (Stock)

The PCA Office Market Report July 2016 revealed that there were no changes in both supply and withdrawal numbers in the six months to July, with total stock supply remaining unchanged at 278,919 sqm.

The A Grade stock remain as the dominant category of office space in the Chatswood market, accounting for 55.3% of total market share. B, C and D Grade office stocks remained unchanged, at 26.7%, 15.8% and 0.2% respectively.

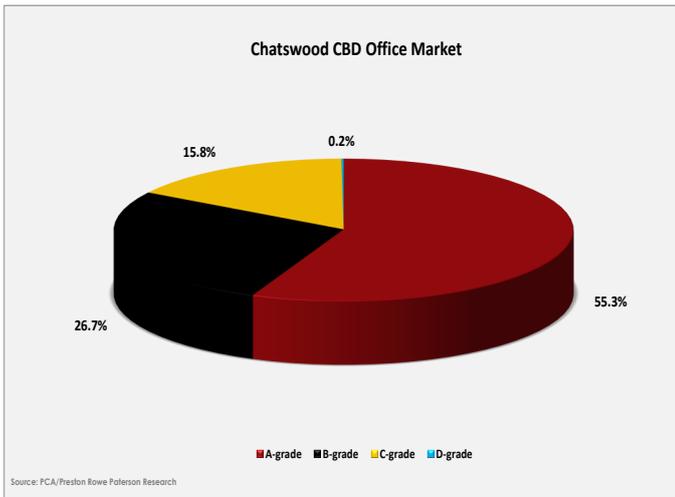


Chart 13 – Chatswood CBD Total Stock Levels by Grade– Source PCA

Net Absorption

In the 12 months to July 2016, the Chatswood office market recorded a negative net absorption of –4,555 sqm. In contrast, the 6 months to July brought upon 3,119 sqm of net absorption.

B Grade stocks contributed most the drop in net absorption, as its net absorption declined by 6,331 sqm in the six months to July. A, C and D Grade stocks all experienced positive net absorptions, of 1,263 sqm, 335 sqm and 178 sqm respectively.

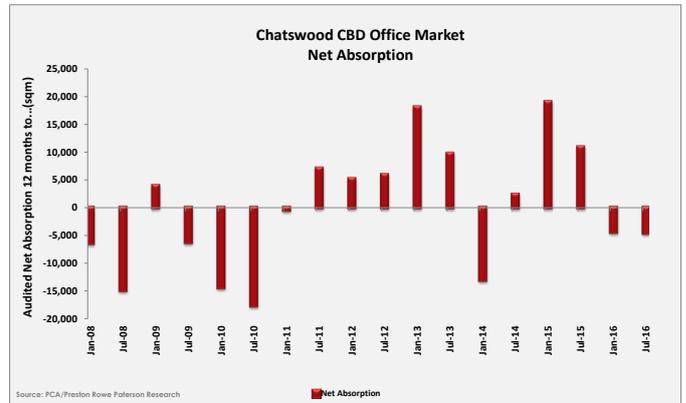


Chart 14 – Chatswood CBD Office Net Absorption – Source PCA

Total Vacancy

Total vacancy in Chatswood's office market reduced from 7.7% to 6.6% over the six months to July. This decrease was stemmed from a drop in direct vacancy rate from 6.4% to 5.3%. Sub-lease vacancy remain unchanged at 1.3%.

A Grade vacancy decreased to 6.1%, from 7.3% over the six months. B and C Grade also experienced decreases in their vacancy rates, to 9.9% and 2.5% respectively. D Grade office buildings remain fully occupied for the period.

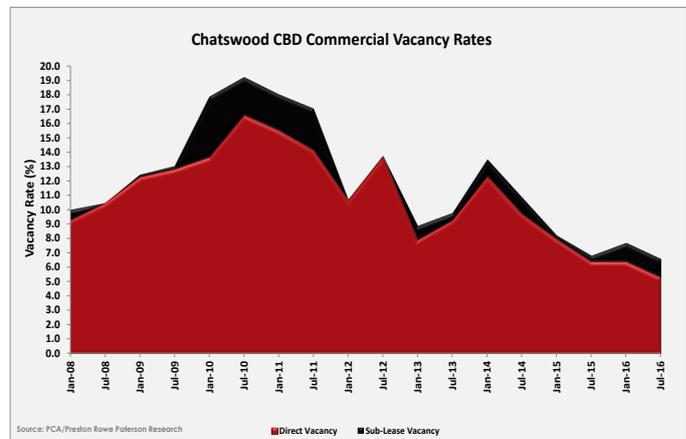


Chart 15 – Chatswood CBD Office Market Vacancy – Source PCA

North Ryde/ Macquarie Park

Investment Activity

The following table shows reported major sales transactions that occurred over six months to September 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA sqm	Rate psm	Yield
37-39 Epping Road, Macquarie Park NSW 2113	\$ 34,000,000	Abacus Property Group	CorVal	Aug-16	8,009	\$ 4,245.00	N/A
40-50 Talavera Road, Macquarie Park NSW 2113	\$ 54,000,000	Altis Property Partners	Aqualand	Jul-16	13,185	\$ 4,096.00	5.79%

Table 12— North Ryde/Macquarie Park Sale Transactions

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lesee	Area sqm	Term	Date
2 Lyonpark Road, Macquarie Park, NSW 2113	\$ 340	\$ 44,200	Keller	130	5	Sep-16
2 Julius Avenue, North Ryde, NSW 2113	\$ 315	\$ 1,088,325	Roche Diagnostics	3,455	10	Jun-16
6 Eden Park Drive, Macquarie Park, NSW 2113	\$ 345	\$ 690,000	AP Facilities	2,000	5+5	May-16
3 Richardson Place, North Ryde, NSW 2113	\$ 300	\$ 1,257,000	Ryde City Council	4,190	5	May-16

Table 13— North Ryde/Macquarie Park Leasing Transactions

Supply by Grade (Stock)

The PCA Office Market Report July 2016 indicates that the North Ryde/ Macquarie Park office market recorded no additional supply, and 3,132 sqm of withdrawals during the 6 months to July.

A Grade offices remain the dominant stocks in North Ryde/ Macquarie Park's market, taking up 72% of total stocks. B Grade stocks take up a modest 26% of the market, with C and D Grade stocks taking up 1.7% and 0.3% respectively.

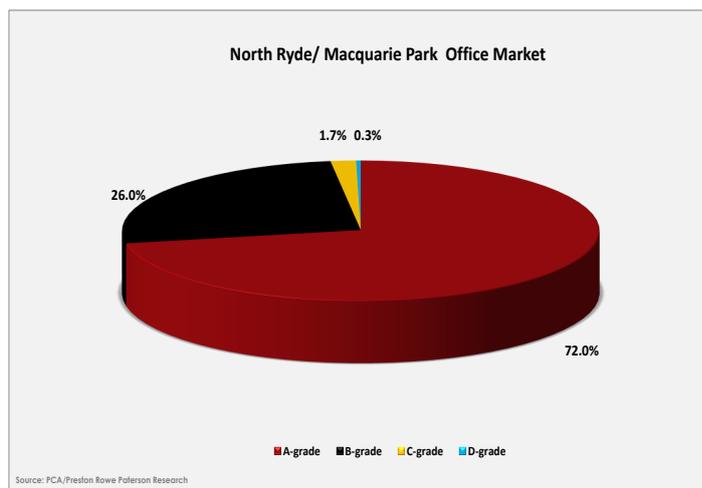


Chart 16 – North Ryde/ Macquarie Park Total Stock Levels by Grade – Source PCA

Net Absorption

The 12 months to July 2016 resulted in 24,171 sqm of net absorption in the North Ryde/Macquarie Park office market. In the six months to July, the market absorbed 4,207 sqm of space.

A and B Grade stocks reported 1,669 sqm and 3,565 sqm respectively of net absorption in the six months to July. C Grade stock recorded a negative absorption of -1,027 sqm and D Grade stock remain unchanged with no recorded absorberency.

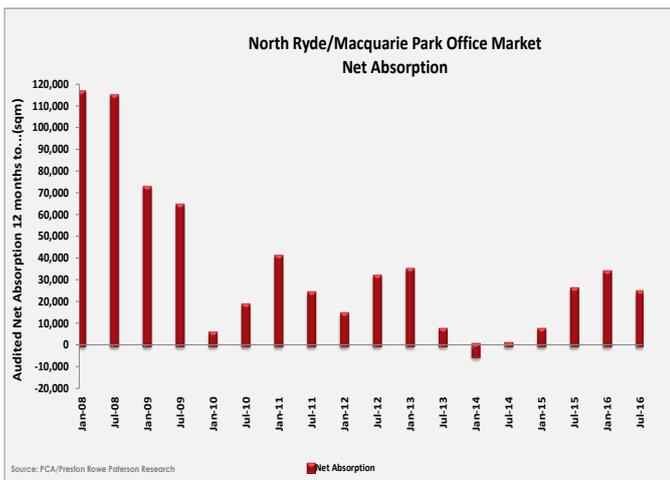


Chart 17– North Ryde/ Macquarie Park Office Net Absorption – Source PCA

Vacancy Rates

The North Ryde/Macquarie Park market recorded a decrease of 0.8% in total vacancy rate to 7.1% in the six months to July 2016. Total vacant space was reported to be approximately 62,903 sqm.

A, B and C Grade stocks all recorded a decline in their vacancy rates during the 6 months to July. A Grade vacancy dropped from 4.5% to 4.3%. B Grade vacancy reduced from 17% to 14.9%, whereas C Grade stocks reduced from 12.4% to 10.4%. No vacancy results were recorded for D Grade office space.

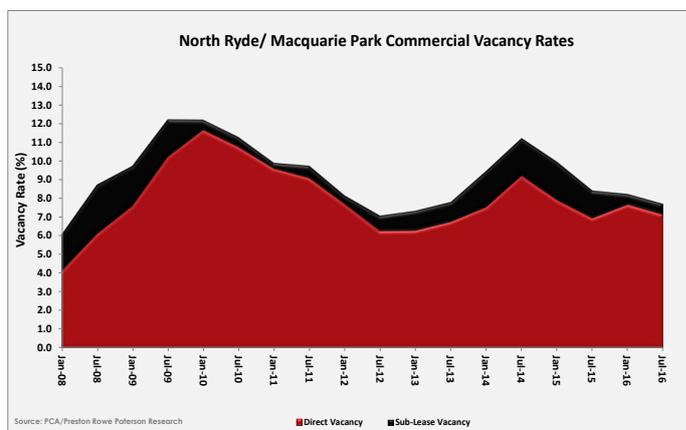


Chart 18 – North Ryde/ Macquarie Park Office Vacancy – Source PCA

Sydney Suburban Business Hubs

Investment Activity

The following table shows reported major sales transactions that occurred over six months to September 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA sqm	Rate psm	Yield
10 Dawn Fraser Avenue, Sydney Olympic Park, NSW 2127	\$ 80,000,000	Real I.S. Group	Sandran Property Group	Apr-16	4,800	\$ 16,700.00	10.00%
120 Chalmers Road, Surry Hills, NSW 2010	\$ 12,000,000	JLL	Analypsi	Jul-16	1,500	\$ 8,000.00	N/A
3 & 5 Rider Boulevard, Rhodes, NSW 2138	\$ 235,000,000	Mirvac Group	Altis Property Management	Jun-16	41,700	\$ 5,600.00	7.51%
810 Pacific Highway, Gordon, NSW 2072	\$ 26,500,000		Aldi	May-16	2,300	\$ 11,520.00	6.05%

Table 14— NSW Suburban Office Sales Transactions
N/A = not currently available



Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lessee	Area sqm	Term	Date
76 Heathcote Road, Moorebank, NSW 2170	\$ 120	\$ 324,000	Grosvenor Engineering Group	2,700	5	Aug-16
2 Ainslie Close, Somersby, NSW 2250	\$ 75	\$ 149,925	NSW Government	1,999	1	Aug-16
40 Marigold Street, Revesby, NSW 2212	\$ 110	\$ 475,530	Verosol Australia	4,323	5	Aug-16
Unit E1A, 35-39 Bourke Road, Alexandria, NSW 2015	N/A	N/A	Fresco Gourmet	1,539	10	Aug-16
Unit 2, 14A Baker Street, Banksmeadow, NSW 2019	N/A	N/A	Alpha Flight	2,033	3	Aug-16
86 Dickson Avenue, Artarmon, NSW 2064	\$ 282	\$ 310,200	Little Learning School	1,100	15	Jun-16

Table 15 — NSW Suburban Office Leasing Transactions
N/A—not currently available

ECONOMIC FUNDAMENTALS

GDP

GDP figures for the September quarter will not be available until the 7th of December, and hence we will use June's figure for the following analysis of growth in the Australian economy. A seasonally adjusted chain volume growth of 0.5% was recorded for the second quarter, and 3.3% for the twelve months to June. The quarterly figure signifies 21 consecutive quarters of growth for Australia, with our last recession occurring 25 years ago in 1991. In trend terms, annual growth stood at 3.1%, with the main sources of growth being Mining (0.8%), Financial and insurance services (0.5%), Public administration and safety (0.3%), Construction (0.2%) and Wholesale trade (0.2%) industries. In contrast, the largest detractor to growth was manufacturing (-0.2%).

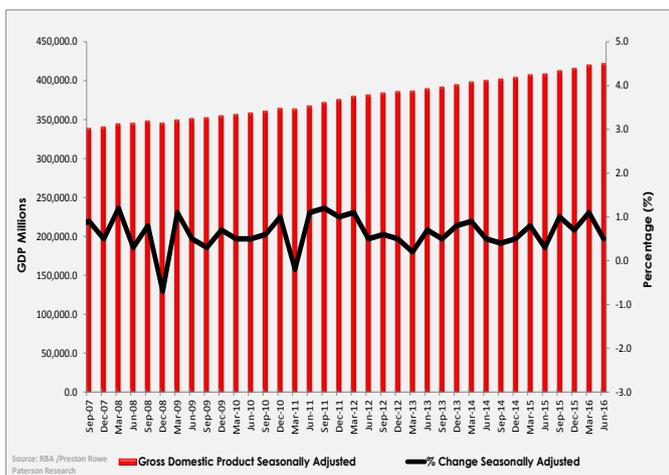


Chart 19 – Gross Domestic Product (GDP) – Source ABS

Interest Rate Movements

Following the Reserve Bank of Australia's monthly meeting, the Board kept interest rates unchanged at 1.50% for October 2016. This comes at the back of the RBA's decision to cut interest rates to historic lows in August, as a result of inflation declining to its lowest level since 1999, in conjunction with slower than average growth in the world economy. The decision to have rates unchanged for the second month in a row is backed by modest improvements in Australia's economy, with declines in the mining industry being offset by growths in residential construction, public demand and imports. Furthermore, the RBA reiterated that commodity prices had been rising over the past few months, coming off the reduction in demand from China from the previous few years.

In relations to the housing market, the Central bank noted that growth in lending for housing has been on a downward trajectory throughout the year as lenders take more precautions with their lending practice.

Furthermore, house prices are still increasing, albeit at a slower pace than the past year, with the exception of the persistently strong housing markets in Sydney and Melbourne. The RBA is sure to be monitoring the housing market closely in the near future, especially for signs of increases in capital gains or an increase in speculatively purchases in the future.

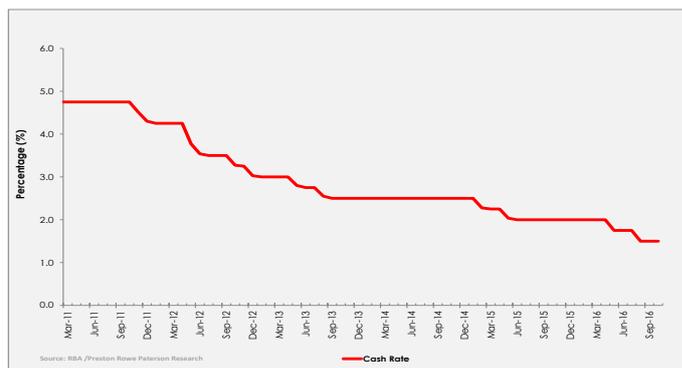


Chart 20 – Cash Rate – Source RBA

CPI

Figures from the Australian Bureau of Statistics indicate that headline inflation in the third quarter of 2016 grew by 0.7%, during the September quarter, with year-on-year growth increasing to 1.3%. These figures show strong improvements in inflation from the last quarter, which only increased by 0.4% over the quarter and 1.0% over the year to June. When we look at underlying inflation for September, which measure inflationary pressures from only changes in market forces, a quarterly rise of 0.35% and yearly change of 1.5% were recorded.

The largest contributors to the hike in prices stemmed from Fruit (19.5%), Vegetables (5.9%), Electricity (5.4%) and Property rates (4.0%). In contrast to this, Index figures for Fuel and Telecommunications both declined over the quarter, by -2.9% and -2.5% respectively.



Chart 21 – Consumer Price Index – Source ABS

10 Year Bond & 90 Day Bill Rate

Over the month to September, Australia's 10-Year Government Bonds rate had increased by 11 basis points to 1.99%. This rate however, reflects a 0.14% (0.71%) decrease from three (twelve) months prior. The 90-Day Bill rate decreased by 0.02% over the month to 1.73%. This rate also reflects a decrease of 0.26% (0.44%) from the previous three (twelve) months. The monthly changes in the 10-Year bonds rate and the 90-Day bill rate reflect a yield spread of 2 basis points.

The 10-Year government bond rate reached an all-time low of 1.82% at the start of August, following drops in yields in the US and major European countries like Britain and Germany during that time. However, upward movements have been recorded ever since as the Australian bond market continue to mirror changes occurring in the US's bond market, reaching 34 basis points higher than its lowest, to a high 2.17% at one stage.

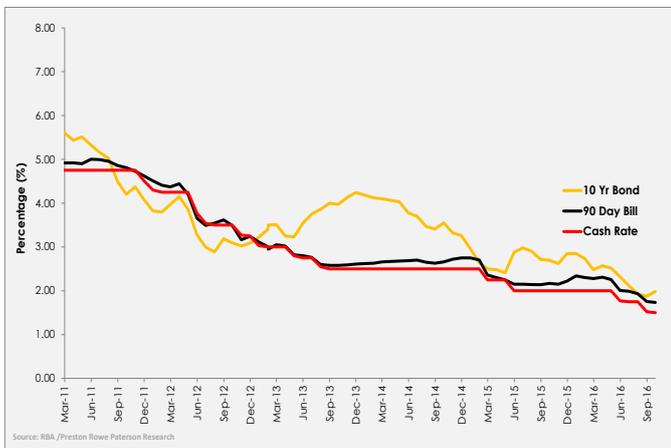


Chart 22 –90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

Consumer Sentiment

September of 2016 brings in positive gains in consumer sentiment, in which the Westpac Melbourne Institute of Consumer Sentiment increased by 0.4% to 101.4 over the month. However, when compared to three months prior, consumer sentiment had decreased by 0.8%, from June's index of 102.2.

Westpac's Chief Economist, Bill Evans, did state that the index has remained relatively stable over the half year to September, despite the many economic events occurring during that time. Notably, two interest rate cuts (May and August), the Federal Election and Federal Budget, as well as major political changes occurring overseas (Brexit, US Elections) have all occurred during this time-though when combined, have not led to any major changes in overall consumer sentiment.

Consumers are showing more confidence in the housing market, with the 'time to buy a dwelling' index falling 2.5 basis points to 109.3 from August's 112.1. Furthermore, the Consumer House Price Expectation Index improved by 3% over the month and 6% over the year to September.

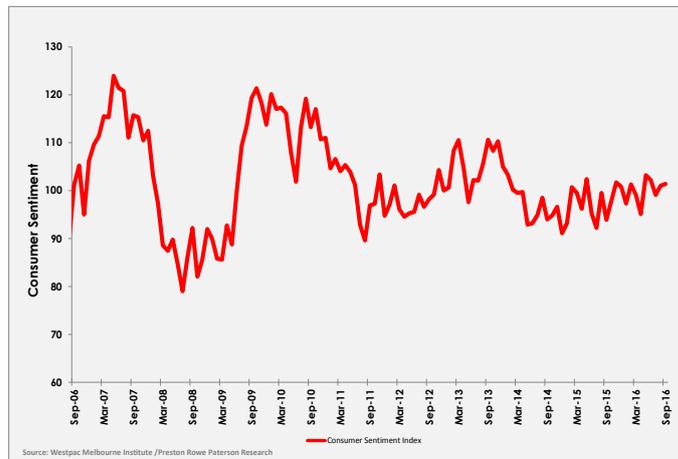


Chart 24 – Consumer Sentiment Index – Source - Westpac—Melbourne Institute Survey

Labour force

Unemployment rate fell 0.1 percentage point to 5.6% in September, with total number of people with jobs falling by 9,800 (seasonally adjusted) in the month. Furthermore, full time employment reduced by 53,000 persons, and notably, part-time employment increased by 43,200 persons. When we look seasonally adjusted figures for states and territories, New South Wales and Tasmania were the only states to record an increase in employment over the month.

Employment in New South Wales improved throughout the month to September 2016, with 6,666 persons entering the workforce. Seasonally adjusted total number of employed persons currently stands at 3.814million in New South Wales for September 2016. NSW's seasonally adjusted unemployment rate decreased by 0.1 percent, to 4.9% for the month.

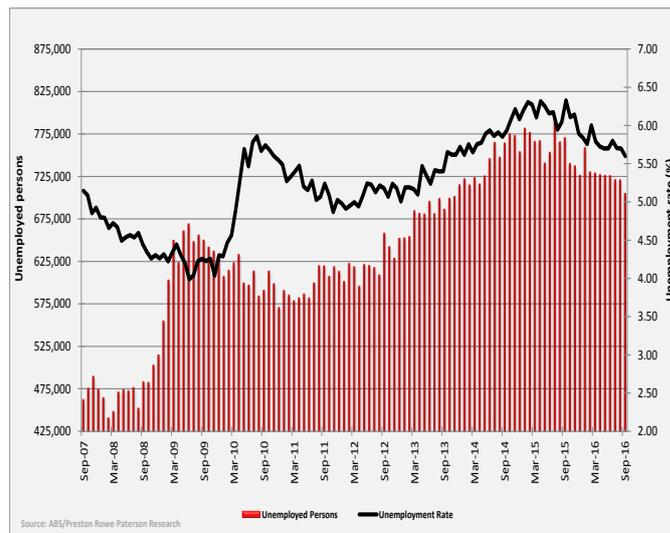


Chart 25– Unemployment—Source—ABS



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 & revaluations
- 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

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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