

East Coast CBD Office Market Update

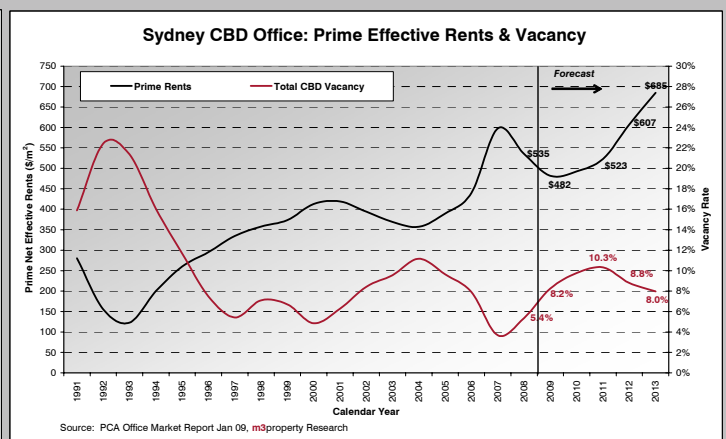
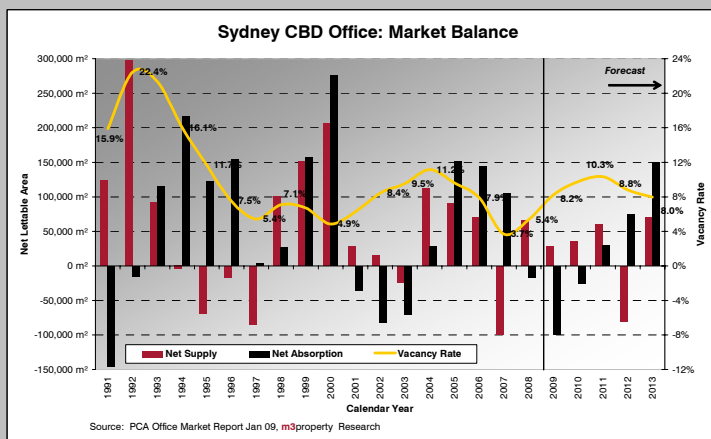
May 2009

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Sydney

New office construction will be at historical low levels over the next three years. The fall in new supply is expected to result in a shortage of accommodation options for tenants by 2010-11. Net absorption is forecast to be strongly negative in 2009 before a cyclical rebound in 2011 on the back of improving white collar employment. In the meantime, vacancy is forecast to peak at 10.3% in 2011 before falling back to the long term average by 2013. Tenant demand is currently at all time lows with the strong representation of finance & insurance / property & business services sectors leading the decline for office accommodation. Area available for sub-lease (estimated at between 80,000m² – 100,000m² currently) is increasing although tenant retention rates are good due to the unwillingness to commit to new leases by companies. Effective rents are in decline as incentives rise on weaker market fundamentals, currently above 20% for a new lease.



Melbourne

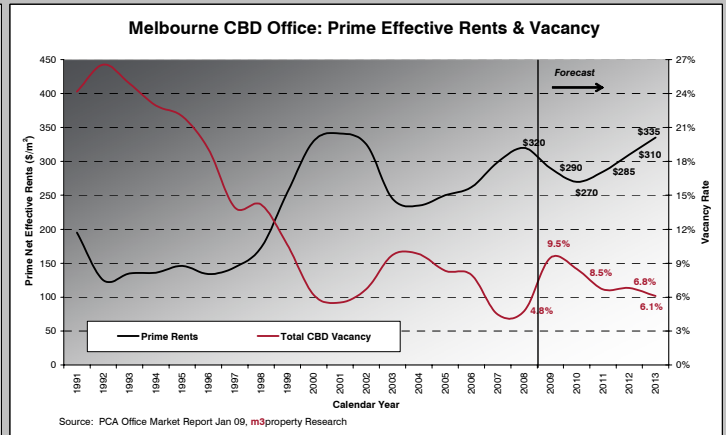
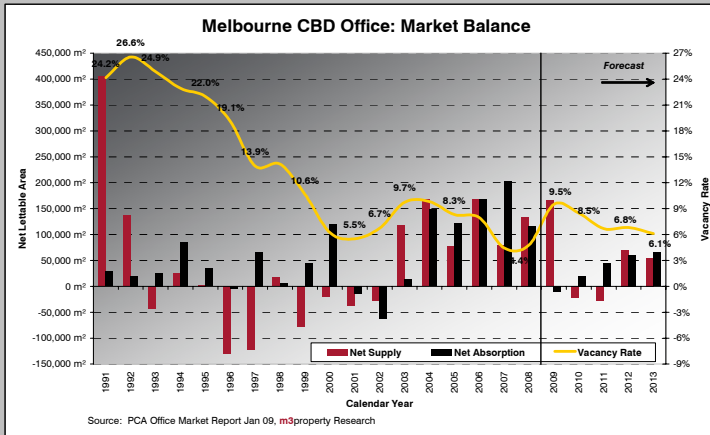
The vacancy rate in Melbourne is forecast to peak at 9.8% in 2010 with backfill space and sub-lease vacancy underpinning the rise. This vacancy will essentially be concentrated within a small number of landmark buildings with larger impending tenant relocations over 2009-10 (including ANZ out of 530 Collins Street and Australia Post out of 321 Exhibition Street). The short term sub-lease vacancy impact (currently in the order of 60,000m² – 75,000m²) appears to be overstated particularly given the volume of deferred and abandoned development. Anecdotal evidence suggests a continued “flight to quality” of second tier legal and accounting firms is likely to absorb some of this area over the medium term. Melbourne’s tenancy profile is very broad, spread across several key industry sectors. Coupled with cheaper rents (when compared to other larger CBDs), Melbourne is less exposed to a downturn in any particular industry.

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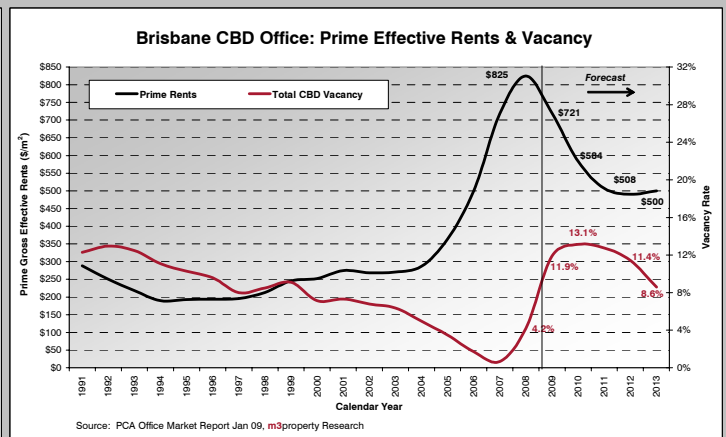
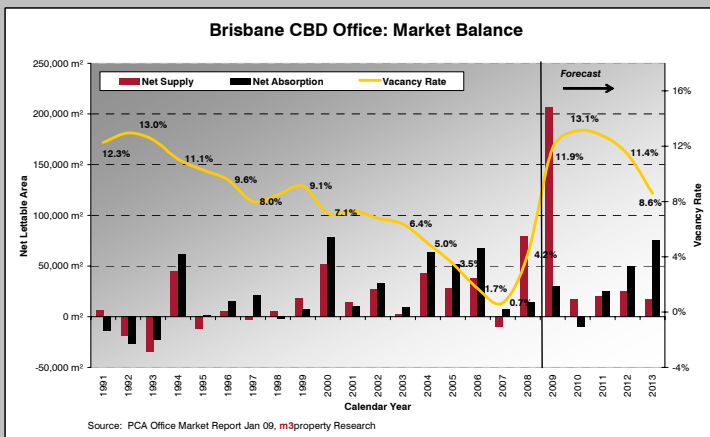
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Brisbane

The market is entering a period of considerable development completions (over 220,000m²) in 2009, albeit with pre-commitment of approximately 80% of total impending supply, which is positive. The bad news is the creation of around 100,000m² in backfill secondary grade space as a result of this large development pipeline. Office vacancy is a concern, forecast to rise above 13% over 2010-11 on the back of slowing white collar employment and backfill. Strong rental gains recorded over 2007-08 are now under pressure by rising incentives and set to be eroded over the short term by the combination of weaker tenant demand and increasing sub-lease space (currently up to 60,000m²). In 2009, rental growth is forecast to fall by around 12%, with incentives increasing above 20% on full floor new leases. CBD landlords aim to secure existing tenants despite strong competition from the 'Near-City' office market offering lucrative rents in new buildings.



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