



Preston
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International Property Consultants

Office Market Report

Australian CBD

First Half 2018

HIGHLIGHTS

- ◆ Demand for Australian CBD offices continue to grow, as vacancy rates across the country continue to decline. Australia's overall vacancy rate declined for the seventh period in a row, down to 9.6%.
- ◆ Vacancy in Sydney and Melbourne continue to be tight, declining to 4.6% each over the six months to January 2018.
- ◆ Perth CBD continues to show signs of improvement, with a second consecutive period of positive demand. Vacancy, although having declined over the six months, to 19.8%, remains at very high levels.
- ◆ Hobart showed positive signs of improvement, with the highest volume of new space additions in twenty five years, and vacancy rate remaining stable.

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Commercial Office Report

AUSTRALIA

The Australian office market experienced strong growth over the 2017 calendar year, of which will further improve throughout as high prices and firming yields dominate the office market on the eastern seaboard. The presence of foreign buyers began to stabilise over the second half of 2017, with capital restrictions from China the main driver of the decline in foreign investments in Australian office stock to its lowest level since June 2015. In saying this, there remains an active influence from non-Chinese buyers. Sydney and Melbourne continue to lead the charge in demand, with strong rental growths in Sydney and strong net absorptions recorded in Melbourne over the six months to January 2018, whilst Brisbane continue to show signs of recovery with positive net absorptions and improving gross face rents (+2.5% over the year). Both the Perth and Adelaide office markets have also showed signs of improvements over 2017 and is expected to pick up over 2018 as positive net absorptions and a declining vacancy rate bring in positive signs for the future.

	Australian CBD	Australian Non-CBD	Total Australian Offices
Total Stock (SQM)	17,936,827	7,273,315	25,210,142
Total Vacancy (SQM)	1,763,253	660,692	2,423,945
Total Vacancy Rate (%)	9.8%	9.1%	9.6%
Supply Additions	146,577	76,438	223,015
Withdrawals	206,538	70,139	276,677
Net Absorption over 12 months to January 2018 (SQM)	142,321	11,506	153,827

Table 1: Australian Office Market as at January 2018 — Source: PCA/ PRP

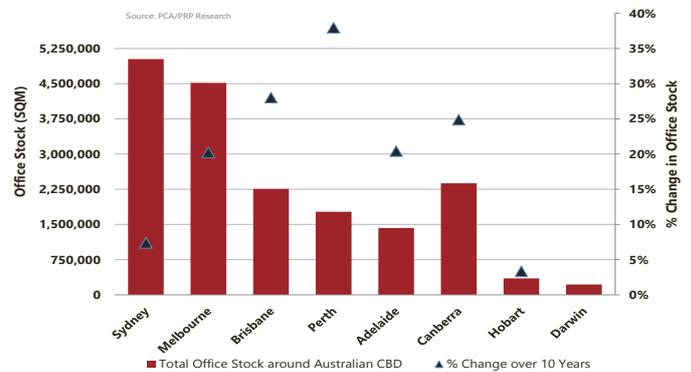


Figure 1: Total office stock around Australian Central Business Districts and % Change over ten years — Source: PCA/ PRP Research

The Australian Real Estate Investment Trusts (AREITs) endured mediocre growths over the year to 2018. Over the six months to March, the S&P/ASX 200 A-REIT Index increased by 6.3%- underperforming the wider ASX 200 Index by 2.26%. Strong increases in US bond yields over the past six months (i.e. just above 2 per cent in August to 2.92% as at 22nd Feb 2018), will result in another headwind for AREITs. The increased likelihood of an interest

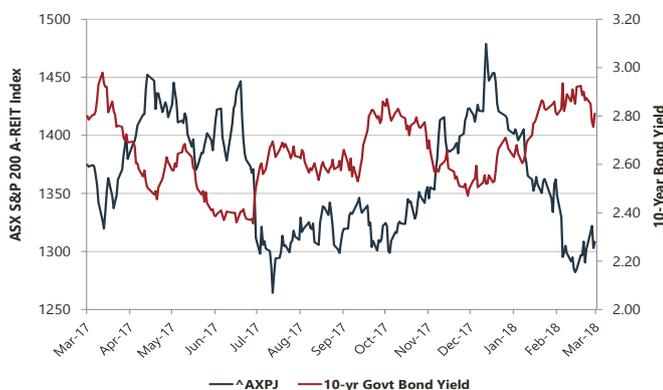


Figure 2: Movement of ASX S&P 200 A-REIT Index vs. 10 Year Australian Bond Yields over the year to March 2018 — Source: PCA/ PRP Research

rate increase within the US economy will further stimulate increases in the international bond market, as evidenced in the increase in Australia's bond yields. Bond yields and AREIT prices have an inverse relationship. The discount rate used in REIT valuation models increases with the increase in government bond yields which ultimately has a negative impact on valuations. Furthermore, higher bond yields also increase the long-term cost of debt servicing. Nevertheless, Australia's office market remains the strongest sector as it continues to be supported by strong fundamentals, low supply pipeline and widening re-leasing spread. The pricing cycle is forecasted to stabilise within the next eighteen to twenty four months as capitalisation rates are predicted to flatten and hence leading to softening capital growth.

OFFICE STOCK

Total office stock in Australia stands at just above 25,210,000 square metres as at January 2018. This figure indicates an increase of 18.3% over the past ten years, with the majority of space additions located in Australia’s major central business districts (CBD). Across Australia, the majority of office stock is classed as A Grade office space, with close to 11,100,000 square metres of space (or 44% of total space). B Grade and C Grade buildings take up 28% (7,000,000 square metres) and 15% (3,700,000 square metres), respectively, of total office stock. Premium Grade office space takes up 10% of total office stock in Australia with 2,700,000 square metres of space. Notably, over the past ten years, total Premium Grade office space had increased by 56%, whilst A Grade office space increased by 44%. D Grade office stock in Australia takes up 3% of total stock with 814,000 square metres of space. Over the past decade, total D Grade office stock had declined by 11%, whilst total C Grade office stock declined by 9%.

Approximately 18,000,000 square metres of office space (or 71% of total stock in Australia) are located within Australia’s CBD. Sydney and Melbourne have a larger stock of office space in comparison to the rest of the country, with approximately 5,024,000 square metres and 4,516,000 square metres of space, respectively. We note however, that total stock in Sydney had increased by just 7% over the past ten years, whilst total stock in Melbourne increased by 20% over the same period. Brisbane, Perth, Adelaide and Canberra have all recorded tremendous growth in office space over the past decade.

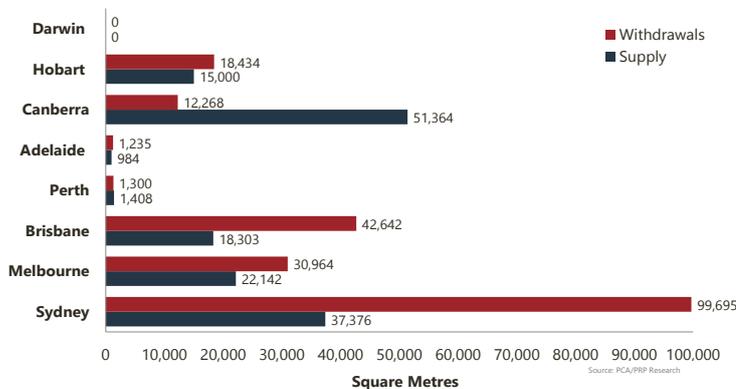


Figure 4: Supply and Withdrawal of office space around Australian CBDs as at January 2018— Source: PCA/ PRP Research

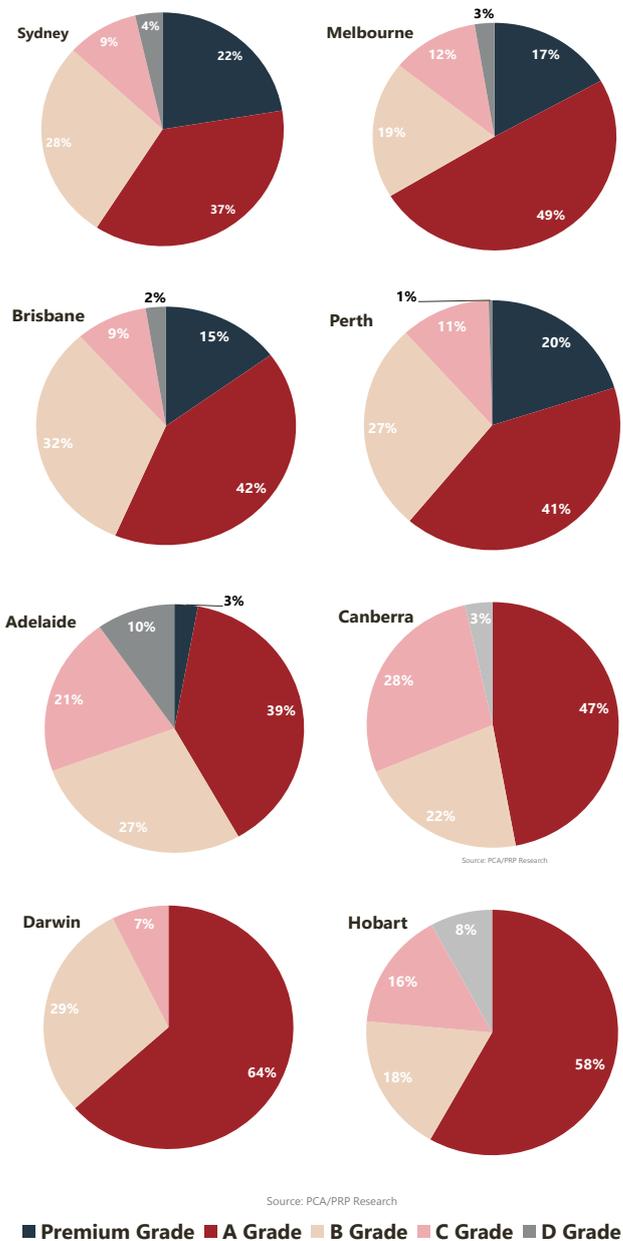


Figure 3: Office Stock around Australian CBD as at January 2018— Source: PCA/ PRP Research

Total office stock in Brisbane and Perth increased by 28% and 38%, respectively, to 2,255,000 square metres and 1,769,000 square metres. In similar style, Adelaide and Canberra office markets recorded growth in total stocks of 20% and 25%, respectively, to 1,424,000 square metres and 2,377,000 square metres. Having the smallest market out of Australia’s capital cities, total stock in Hobart grew by just 3% over the past ten years, to 351,400 square metres.

OFFICE VACANCY

Vacancy rates of Australian office buildings overall declined from 10.5% in January 2017 to 9.6% in January 2018. Direct vacancy declined by 0.4% to 9.0%, whilst sub-lease vacancy declined by 0.5% to 0.6%. The decline in vacancy across the country is driven mainly by the Sydney and Melbourne markets, of which total vacancy had declined to 4.6% each. Tenants in these two capitals cities face a shortage of supply and tenants are restricted on their options in the face of space withdrawals for future redevelopments. The tightening of Australia's office market reflects the strengthening domestic economy, with modest growths in economic output and white-collar employment.

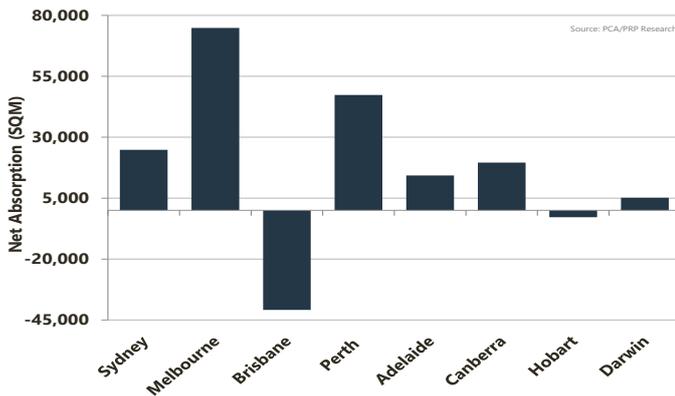


Figure 6: Net Absorption over the twelve months to January 2018— Source: PCA/ PRP Research

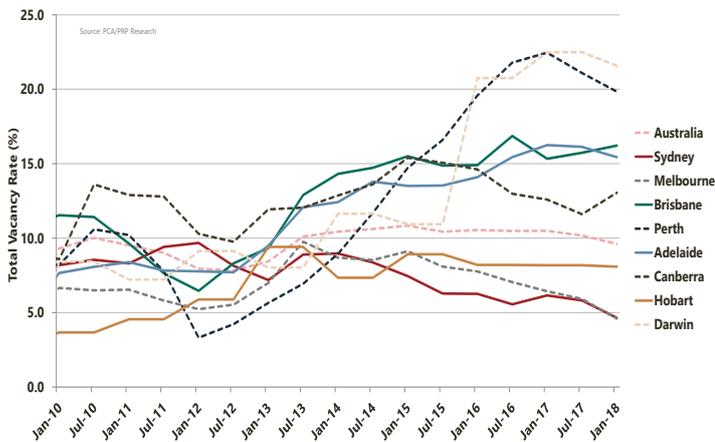


Figure 7: Office Vacancy Rates across Australia over the last eight years to January 2018— Source: PCA/ PRP Research



Figure 5: Office Vacancy Rates across Australian CBDs— Source: PCA/ PRP Research

Declines in office vacancy were recorded across most of Australia's CBDs, with Perth recording the largest decline over the last twelve months. Total vacancy in Perth fell by 2.6% to 19.8%, and albeit still high, this change is showing signs that the Perth CBD market is starting to recover. Vacancy rates in Sydney and Melbourne fell by 1.5% and 1.8%, respectively, to 4.6% each. The Adelaide, Darwin and Hobart office markets all experienced declines in vacancy, of 0.8%, 0.9% and 0.1%, respectively. Vacancy rate in Adelaide now stands at 15.4%, whilst vacancy in Hobart is at 8.1% and in Darwin has declined to 21.6%. Vacancy rates for the Brisbane and Canberra office markets increased over the twelve months to January 2018, by 0.9% and 0.5% respectively. Office vacancy in Brisbane increased to 16.2%, whilst vacancy in Canberra increased to 13.1%.

The Average vacancy rate in Australia over the last eight years stands at 9.8%. Over the same period, only Sydney, Melbourne and Hobart's office markets had average vacancy rates lower than this, at 7.5%, 7.0% and 7.1% respectively. We note that the Perth and Brisbane office markets have experienced dramatic changes over the period. Vacancy rates reached the lowest for Brisbane and Perth in January 2012, at 6.5% and 3.3%, respectively. However, as the endowments of the mining boom came and went, vacancy rates increased to its highest of 16.9% in Brisbane and 22.5% in Perth in 2016. As 2018 approaches, Perth's office markets appear to have reached the bottom of the trough and appears to be improving from now onwards, whilst Brisbane also continue to show signs of recovery.

OFFICE DEVELOPMENT DETAILS

Over the next two years, Australia's office market will continue to grow as new developments add approximately 1,200,000 square metres of new office space into Australia's major Central Business Districts. Notably, 46% of this new space will be added onto Melbourne CBD's office market alone, whilst Sydney and Perth takes a share of 21.5% and 12.9%, respectively, of these new office space. The table below provides a list of new developments that are expected to be completed within the next two years across Australia's major cities:

Project Address	Location	Project Name	Development Stage	Owner	Net Lettable Area (SQM)	Floorplate Size (SQM)	Expected Completion Period
10 Franklin Street	Adelaide CBD	GPO Tower	DA Applied	Charter Hall / Telstra Super Fund	24,500	1,300	Q3 2019
300 George Street	Brisbane CBD	300 George Street	Construction	Shayher Group/Bao Jia Development	47,700	1,460	Q3 2019
68-72 Northbourne Avenue	Canberra	Civic Quarter	Construction	Amalgamated Property Group	15,500	1,605	Q2 2019
Cnr Constitution Avenue & London Circuit	Canberra	Constitution Place	DA Approved	Capital Airport Group	32,000		Q2 2020+
Block 35 Section 100	Canberra	ACT Government Offices	Construction	Capital Airport Group	24,000	4,100	Q4 2020+
44 Thesiger Court	Canberra	Pharmacy House	Construction	Pharmacy Guild of Australia	1,000	600	Q1 2018
Dickson Motor Registry	Canberra	Dickson Motor Registry	DA Approved		13,000	2,350	Q2 2020+
2 Faulding Street	Canberra	Block 22 Section 112 Symonston	Complete	Evri Group	8,400	1,600	Q4 2017
71 Athlton Drive	Canberra	DSS Headquarter Building	Complete	Cromwell	31,568		Q3 2017
4 Salamanaca Place	Hobart CBD	Parliament Square	Complete	Undisclosed	15,000	1,941	Q3 2017
36 Argyle Street	Hobart CBD	36 Argyle Street	DA Approved	Raadas Property	3,800		Q4 2019
145-167 Liverpool Street & 104-110 Murray Street	Hobart CBD	145-167 Liverpool Street & 104-110 Murray Street	DA Approved	Riverlea Australia Pty Ltd	18,420	3,800	Mooted
664 Collins Street	Melbourne CBD	664 Collins Street	Construction	Mirvac Group (50%) / Morgan Stanley Real Estate (50%)	26,395	3,170	Q2 2018
699 Collins Street	Melbourne CBD	One Melbourne Quarter	Construction	APPF Commercial	26,400		Q3 2018
737 Collins Street (5CSQ)	Melbourne CBD	Tower 5 - Collins Square	Construction	Walker Corporation Pty Ltd	40,000	2,000	Q4 2018
839 Collins Street	Melbourne CBD	ANZ	Construction	Invesco / Challenger	39,000	1,950	Q1 2019
311 Spencer Street	Melbourne CBD	VIC Police Centre	Construction	Cbus Property / Australia Post	65,000	2,000	Q1 2020+
693 Collins Street	Melbourne CBD	Melbourne Quarter Tower	Site Works		61,000		Mooted
396 Docklands Drive	Melbourne CBD	396 Docklands Drive	DA Approved	MAB Corporation	8,880	1,500	Mooted
80 Collins Street	Melbourne CBD	80 Collins Street South	Construction	Queensland Investment Corporation (QIC)	43,000	1,250	Q1 2020+
271 Spring Street	Melbourne CBD	271 Spring Street	Construction	ISPT	15,600		Q3 2019
130 Lonsdale Street	Melbourne CBD	Wesley Church Development	Site Works	Charter Hall	55,000		Q1 2020+
525 Collins Street (Podium)	Melbourne CBD	Rialto (Podium)	Complete	St Martins Victoria Pty Ltd / Grollo Australia Pty Ltd	3,589		Q3 2017
447 Collins Street	Melbourne CBD	Collins Arch	Construction	Cbus Property	49,000	1,600	Q4 2019
477 Collins Street	Melbourne CBD	The Olderfleet	Construction	Mirvac Group	50,000	1,600	Q1 2020+
405 Bourke Street	Melbourne CBD		Site Works	Brookfield Office Properties (Brookfield Multiplex)	66,000	2,330	Q1 2020+
950 Hay Street	Perth CBD	950 The Melbourne	DA Approved	Oakesfield Pty Ltd	10,000	1,000	Mooted
480 Hay Street	Perth CBD	480 Hay Street	DA Approved	FES Ministerial Body	34,000	1,700	Mooted
98 Mounts Bay Road	Perth CBD	Capital Square	Construction	AAIG	48,484		Q4 2018
239 St Georges Terrace	Perth CBD	Bishops See - Tower 2	DA Approved	Australian City Properties (Hawaiian) / Brookfield Multiplex	46,000	1,950	Mooted
Elizabeth Quay 2	Perth CBD	Elizabeth Quay 2	Early Feasibility	Brookfield	15,000		Mooted
275 George Street	Sydney CBD	275 George Street	DA Approved	John Holland Group	6,363	505	Q3 2019
60 Martin Place	Sydney CBD	60 Martin Place	Site Works	Investa Property Trust/Martin Place Wholesale Syndicate	38,600	1,300	Q3 2019
10 Carrington Street	Sydney CBD	Wynyard Place	Site Works	Sovereign Wynyard Centre Pty Ltd	58,974	2,500	Q1 2020+
50 Bridge Street	Sydney CBD	Quay Quarter Sydney/AMP Precinct	DA Approved	AMP Capital Investors (AMP Wholesale Office Fund)	88,274	1,200	Q3 2020+
6 York Street	Sydney CBD	6 York Street	DA Approved	NGI Investments	6,000	500	Mooted
33 Bligh Street	Sydney CBD	Kindersley House	DA Approved	Investa + Ausgrid	24,000	1,200	Mooted
100 Broadway	Sydney CBD	Central Park	Construction	Frasers Property Group / Seksui House Australia	5,447	3,500	Q4 2018
3 Sussex Street	Sydney CBD	International House Sydney	Complete	Lendlease	6,885	1,240	Q3 2017
151 Clarence Street	Sydney CBD	Barrack Place	Construction	Investa Office Fund	22,000	1,161	Q3 2018

Table 2: Office space developments in across Australia's major Central Business Districts — Source: PCA/ PRP Research



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 capital city and regional office locations we serve our client's needs throughout Australia. Globally, we operate directly or via our relationship offices for special purpose real estate asset classes, infrastructure and plant & machinery.

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



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