

Occupancy

Demand for office space across Australia has strengthened after a bottoming of markets in 2009. The rise in leasing inquiry levels witnessed in late 2009 has resulted in an increase in take up levels. As a result we expect to see an end to negative absorption across all capital cities; however, take up in the Perth and Brisbane markets may slow due to the impact of the proposed resource tax.

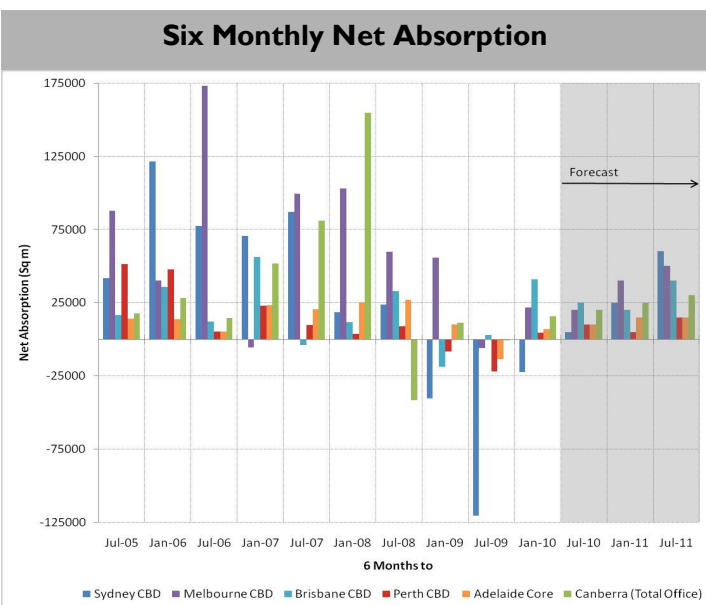
Despite numerous developments being shelved during the GFC, some supply continues to flow through due to construction time lags. While pre-commitments are high, the resulting backfill is likely to see overall vacancy levels continue to rise over the next six months. The only exception to this is the Adelaide market where new supply is proportionally less than other capital cities. Looking beyond 2011, we expect overall vacancy levels will begin to tighten as new supply tapers off.

Whilst Premium and A-grade rents have remained relatively steady over the last six months, secondary rents softened. During the downturn a wave of low grade tenants upgraded their accommodation by taking advantage of hefty incentives offered by prime landlords. Consequently, vacancy shifted from prime space to secondary, altering the supply and demand equilibrium in both sub-markets. Average incentives have since eased approximately 20 percent, however, some landlords are still offering very attractive packages to secure the right tenant.

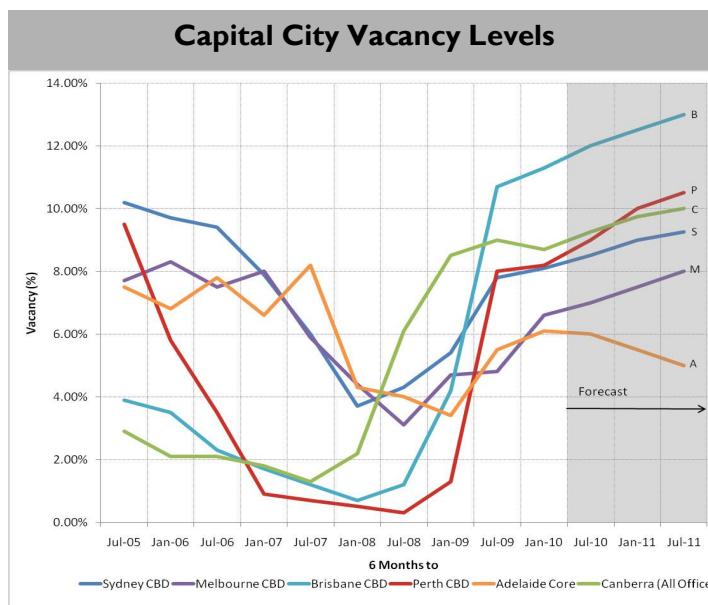
Given the existing conditions and expected direction of the markets we see a number of issues confronting tenants who have an upcoming lease expiry or renewal. Please contact us on 1300 883 609 to discuss your strategy.

Economic Indicators		
GDP March 2010 (Seasonally Adjusted)	Quarterly Change	0.5%
	Year to March	2.7%
CPI to March 2010	Quarterly Change	0.9%
	Yearly Change	2.9%
RBA Cash Rate	Currently	4.5%
	April Level	4.25%
Current Unemployment Rate (June 2010)	Trend	5.2%
	Seasonally Adj.	5.1%
Retail Trade (Seasonally Adjusted)	Month to May	0.2%
	Year to May	1.2%
Non Res Building Approvals Value Change (Seasonally Adjusted)	Month to May	9.1%
	Year to May	-6.1%

Source: Australian Bureau of Statistics, Property Dynamics. The above statistics relate to all of Australia.



Source: PCA, Property Dynamics. Note: Forecasts are indicative only.



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CBD Net Face Rents	Sydney	Melbourne	Brisbane	Perth	Adelaide	Canberra
Premium & A-Grade	\$600—\$1000	\$350—\$600	\$450—\$675	\$500—\$800	\$275—\$400	\$300—\$350
B-Grade	\$450—\$600	\$250—\$350	\$300—\$475	\$350—\$450	\$175—\$275	\$200—\$300
Incentives (net)	22%—33%	15%—25%	15%—30%	10% - 20%	0%—20%	10%—20%

Source: Property Dynamics. Note: Indicative only, A-Grade only in Canberra

Sales & Investment

The rise in the number of properties under due diligence in late 2009 has resulted in more office transactions and given us a clearer understanding of where the commercial market lies.

Encouraging economic results and an increase in leasing activity saw investment sentiment improve and investment activity return resulting in a gentle tightening of yields across most capital cities. Despite this, caution among lenders remains after values approximately 20% from their peak during the downturn.

Australian banks have repositioned their loan exposures to the commercial property market by reducing lending and improving gearing and loan to value measures in response to the current Basel 2 rules, which now require lenders to have higher capital reserves.

Having sorted through large scale exposures including the REITS, banks are wary of the difficulties yet to flow through from unlisted and lower grade properties. As a result, lending in the commercial sector will remain tight which will limit growth for the remainder of 2010.

CBD Office Yields	Sydney	Melbourne	Brisbane	Canberra	Adelaide	Perth
Premium & A-Grade	6.5%-7.5%	6.75%-8.25%	7.75%-9.25%	7.0%—8.5%	8.25%-10.25%	7.25%-9%
Secondary	7.5%-9.0%	8.25%-10%	9.25%-11%	8.5%—9.5%	9%-10.75%	8.5%-11%

Source: Property Dynamics Note: Indicative only, A-Grade only in Canberra

Directions Summary

Leasing Demand	↑	Concern in Brisbane & Perth (Resources tax).	Rental Incentives	↓	Easing in most cities except Perth & Brisbane
Supply	↓	Limited new supply as a result of the GFC.	Yields	↓	Tightening, however growth limited (Credit).
Vacancy	↑ ↓	Short term increase before tightening. Varies from market to market.	Capital Values	↑	Increasing, however growth limited (Credit).
Rental Levels	↔ ↑	Growth limited in Perth & Brisbane (Vacancy).	Sales Activity	↑	Increasing.

New Appointments

Chris Torr AAPI, Director: Having a reputation for intellectually sound, pragmatic thinking and 35 years experience in specialised valuations and strategic land management practice, Chris' addition to the team is highly welcomed. Strategic expertise includes highest and best use assessment, internal use value quantification, and optimising negotiation strategy in acquisitions and disposals. Chris is a recognised specialist valuer and negotiator in compensation/compulsory acquisitions, and has wide expertise in multiple property projects and litigated valuation disputes.

John Clarke, Director: John has enjoyed a long and successful career with some of Melbourne's major commercial real estate agencies. Being involved in significant project leasing assignments and the letting of some of Melbourne's major buildings, John has developed a sound understanding of the leasing process. For the last five years John has been advising tenants, delivering significant and tangible outcomes for his valued clients. John's highly regarded negotiating skills and strong market knowledge adds a unique edge to our advisory team.

Ray Dean, Senior Consultant: Ray has been actively involved in the property industry for over thirty years. His broad range of experience encompasses most aspects of the industry and includes Property Valuation and Advisory Services, Property Development, Corporate Real Estate, Real Estate Agency (Commercial / Industrial and Residential), Retirement Living (Retirement Villages and Aged Care) and Investment Banking. This wide background has enabled Ray to provide the right advice to clients over the full range of property issues.

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Disclaimer: Please note that information provided above has been based on a varying range of resources. Figures quoted are approximate and indicative only and should not be relied upon other than for a general guide of the current market conditions. If you wish to receive more specific advice regarding any of the above information please contact our offices during business hours on 1300 883 609 or at info@propertydynamics.com.au.

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