

**APPENDIX 7.**

DEMAND SUPPLY DYNAMICS REPORT  
CBRE



# M E M O

Date: 9 October 2008

To: Todd Murphy

From: Wayne Redman - Regional Director  
Kelwyn Teo - Director

Subject: Sydney CBD commercial / mixed use  
demand - supply dynamics

Dear Todd

As part of the ongoing financial and real estate advisory role of CBRE Structured Transactions & Advisory Services Group for the Barangaroo project, we have modelled the estimated financial outcomes for the NSW Government from the Barangaroo Project. Critical to the financial analysis has been the estimated development and take – up rates, and GFA values for the site. The expected demand for commercial space is factored into the financial analysis for the project. Barangaroo's development capacity is considered essential to meet the expected demand in the short and medium term and indeed for the growth of Sydney's CBD and the health of the city's economy

Sydney CBD more than any other Australian city centre is very constrained in terms of development capacity and growth to meet the changing needs of the white collar work force, particularly the financial, business and property services sectors which underpin the city's economy. As well as the obvious physical constraints in expanding the CBD, the existing CBD is highly fragmented in terms of land ownership whereby large sites are difficult to consolidate for major redevelopment. Furthermore, many of the existing buildings are constrained in terms of heritage and development rights which limit their ability to be redeveloped for the next generation of commercial and mixed use buildings.

The net new supply of commercial space in the Sydney CBD has been limited since the late 1990's, resulting in very low vacancy rates by conventional standards. In turn this has resulted in rental growth that has placed Sydney in one of the most expensive global cities in which to do business.

Concurrent with the above trends has been a rapid development of Asian cities which are now more aggressively competing with Sydney to attract the same industry sectors, albeit with stronger Government support for their establishment, and the benefit of more immediate access to these emerging economies. Sydney cannot afford to be unduly development constrained and / or uncompetitive in terms of occupancy costs.

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Sydney faces significant risks that business will choose not to locate in Sydney, or even worse, choose to relocate from Sydney to other Australian or Asian cities if it can not accommodate business growth at a reasonable cost. We understand that existing tenants representing some 450,000sqm of space have lease expiries over the next 5 years, and a significant proportion have an interest in relocation. This represents approximately 90,000sqm per year of potential new / refurbished space for existing business in addition to new space demand of 50,000 – 100,000sqm per year for new inward investment for business in the CBD. Accordingly, Sydney will need to provide up to 150,000sqm per year over the next 3-5 years subject to tenant relocation, then tailing off to 50,000 -100,000sqm per year as a long term average for Sydney to accommodate tenant demand.

With consideration of the above potential for office space demand there is a forecasted ten to fifteen year availability of commercial floor space in the Sydney CBD. This forecast is inclusive of the additional maximum GFA of 120,000sqm as included in the Concept Plan Modification (floor space) or a total GFA of 398,000sqm taking into account the commercial GFA already approved.

The Barangaroo project is absolutely essential in meeting occupier demand through relocation and attraction of new business to Sydney. This precinct will be complemented by single building redevelopment throughout the CBD. Barangaroo however, provides much greater flexibility in addressing the current and future accommodation requirements of the private sector. For example, it has the capacity to provide contiguous vertical and horizontal space for future occupier needs. It also will provide an integrated mixed use precinct including retail, hotel and residential uses to support a vibrant and attractive location for employees, which often represent the most valuable asset of the of the industry sectors represented in the CBD. The ability of companies to attract employees to 'a new' destination will influence their decision as to the location of their business.

Barangaroo will play a critical role in shaping Sydney's future in retaining successful companies and attracting new business to Sydney. Its planned increase in GFA capacity is fundamental in enabling Sydney's growth and economic sustainability.

Regards



Kelwyn Teo on Behalf of  
Wayne Redman - Regional Director - Structured Transactions & Advisory Services