JONES LANG LASALLE

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November 9, 2010

Linda Hobson
Lend Lease
30 Hickson Road
Millers Point NSW 2000

Dear Linda

Jones Lang LaSalle was requested by Lend Lease to provide an insight into one of major trends in office accommodation. Our global research indicates a trend towards new office developments in CBD locations that have typical floor plates in excess of 2,000 sqm*. This trend is not only evident domestically, but also in major financial centres in Asia, Western Europe and North America.

Feedback from large occupiers is that they are most efficient on large floor plates for the following reasons:

- Opportunity to create a collaborative workplace that enables stronger relationships between specialist businesses, by offering greater line of sight between inter-dependant teams;
- Large floor plates and shared spaces allows for greater connections between team members;
- Large and efficient floor plates provide flexibility in accommodating project space and adapting to changing space requirements;
- Interaction is enhanced by the centralisation of gathering points such as breakout lounges, kitchens and meeting rooms;
- The efficiency gains can ultimately lead to a cost saving on the overall tenancy; and
- A more efficient balance is achieved between horizontal and vertical connectivity.

Jones Lang LaSalle estimates that 8.9% of the prime grade stock in the Sydney CBD is located in buildings with average floor plates in excess of 2,000 sqm (Appendix 1 provides a list of these buildings, and other significant buildings with large floor plates). It is interesting to note that all of the buildings with typical floor plates above 2,000 sqm were built in the last six years.

* Note: All areas referenced in square metres (sqm) are Net Lettable Areas (NLA)

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The vacancy rate for buildings with average floor plates in excess of 2,000 sqm is 4.8% and is estimated to be only 1.1% upon completion of the leasing campaign for the recently completed 100 Market Street.

In contrast, the vacancy rate for prime grade buildings with average floor plates below 1,800 sqm is 9.3%. Vacancy in Prime grade building with floors under 1,000 sqm is up to 12.9%. This is partly a result of the speculative refurbishments that completed in the Sydney CBD in 2010. Despite the availability of this space, at attractive rental levels, a number of tenants have discounted these buildings as viable, in favour of new developments that can offer large floor plates in excess of 1,500 to 2,000 sqm. Since the start of 2008, four new developments (in excess of 10,000 sqm) have commenced in the Sydney CBD, underpinned by large pre-commitments (Appendix 2 provides a list of these buildings).

The move by large corporates to new buildings with large floor plates is also evident in Melbourne and Perth. The availability of land in Melbourne's Docklands was the catalyst for large campus style developments in the Melbourne CBD. While Docklands has received the bulk of publicity (Docklands buildings are shown in Appendix 3), new development in the traditional CBD core have shown the move towards large floor plates (Appendix 4 highlights the recent developments in the Melbourne CBD core with floor plates in excess of 1,750 sqm). Similar to Sydney, most of the buildings were constructed in the past five years.

In the smaller CBD office market of Perth, where there are a limited number of large tenants compared with Sydney and Melbourne, the recent projects are being developed with floor plates above 1,500 sqm (Appendix 5 shows the recent completions in Perth and a snapshot of buildings in Brisbane with large floor plates).

In Australia, the focus is on office buildings with floor plates in excess of 2,000 sqm. However, in a number of international finance centres, multi-national firms in the finance, insurance, accountancy and legal sectors are moving towards office accommodation with even large floor plates (in excess of 2,700 sqm). In a recent white paper[1], Jones Lang LaSalle explored the evolution of this trend across global international finance centres.

[1] Jones Lang LaSalle, Leading Asia to Dominance: How a contemporary commercial real estate platform will consolidate Hong Kong's regional position, October 2010

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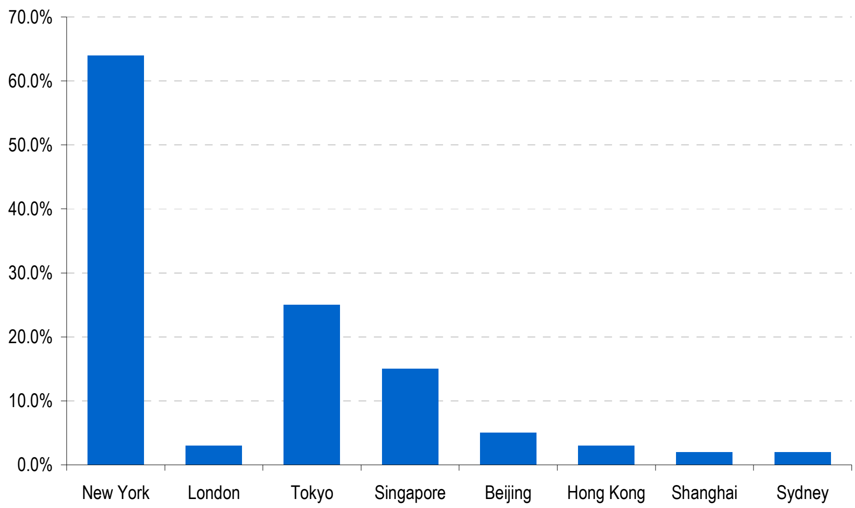
Figure 1 is taken from the white paper and shown below (for the purpose of this letter, we have converted the charts from square foot, to the local convention of square metres). Approximately 2% of Sydney's prime grade supply has floor plates in excess of 2,700 sqm. This figure is comparable with other global financial centres such as Shanghai (2%), Hong Kong (3%) and London (3%). The level of stock in Sydney is, however, significantly below that of Singapore (15%), Tokyo (25%) and New York (64%).

Figure 1: Large floor plate (in excess of 2,700 sqm) as a percentage of existing prime grade stock



Source: Jones Lang LaSalle

Where the difference between Sydney and other financial centres in the Asian region becomes apparent, is in the upcoming supply of large floor plate buildings (greater than 2,700 sqm). Figure 2 shows the development pipeline across global financial centres. Singapore (344,000 sqm) and Shanghai (167,000 sqm) have strong upcoming supply of large floor plate buildings. In contrast, the Sydney CBD, similar to Hong Kong, has limited supply of space with large floor plates under construction. All of Sydney's supply is located in a new development at Harbour Street and is 100% pre-committed by the Commonwealth Bank of Australia.

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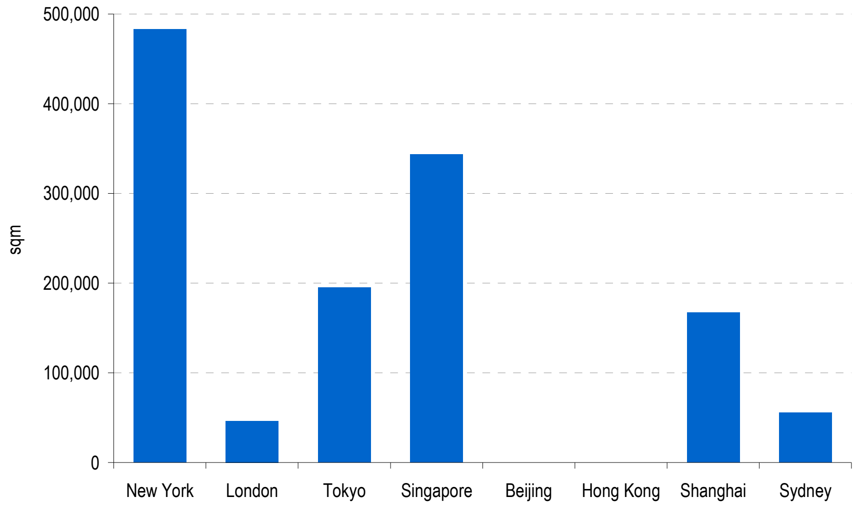
Figure 2: Future supply of large floor plate (in excess of 2,700 sqm), 2011 to 2014



Source: Jones Lang LaSalle

The move by large corporate tenants to modern office accommodation with large floor plates has been evident over the past five years. In Sydney, Melbourne and Perth, a high proportion of new supply over this timeframe has had typical floor plates above 1,750 sqm.

Large multi-national firms are gravitating to buildings with a minimum floor plate of 2,000 sqm. The next generation of office buildings in Singapore, Shanghai and Beijing increasingly have floor plates in excess of 2,700 sqm. Once the efficiency gains are realised by multi-national firms, they will start to demand this type of accommodation in all markets which they operate in. It will therefore be important for Sydney to underpin its future economic growth by creating more suitable and relevant office stock to accommodate this demand trend.

Yours sincerely

Kevin George
International Director,
Australian Head - Leasing

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Appendix 1 – Sydney CBD : Current stock of large floor plate buildings

Building	Address	Year of Completion	NLA (sqm)	Major Tenant (s)	Typical Floor Plates (sqm)
Westpac Place	221-293 Kent Street	2006	73,620	Westpac	1,880 to 3,500
Allianz Centre	2 Market Street	1990	33,176	Allianz	2,000
One Shelley	1 Shelley Street	2009	31,225	Macquarie	2,290 to 3,590
Centrepoint	100 Market Street	2010	26,650	ASIC	2,981 to 3,124
ATO	52 Goulburn Street	2007	23,103	ATO	2,500
30 The Bond	30-34 Hickson Road	2004	31,800	Morgan Stanley Lend Lease	2,000
	201 Sussex Street	1999	52,000	PwC	1,950
	201 Sussex Street	1993	51,979	CBA	1,950
Grosvenor Place	225 George Street		80,144	JP Morgan Blake Dawson Waldron	1,800

Source: Jones Lang LaSalle

Appendix 2 – Sydney CBD : Current stock of large floor plate buildings

Building	Address	Year of Completion	NLA (sqm)	Major Tenant (s)	Typical Floor Plates (sqm)
Darling Walk	Harbour Street	2011	58,000	CBA	3,500
Space	1 O'Connell Street	2011	37,500	Clayton Utz	1,600
	85 Castlereagh Street	2012	35,030	JP Morgan	1,500
	161 Castlereagh Street	2013	53,700	ANZ Freehills	1,500

Source: Jones Lang LaSalle

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Appendix 3 – Melbourne Docklands: Current stock of large floor plate buildings (greater than 15,000 sqm)

Building	Address	Year of Completion	NLA (sqm)	Major Tenant (s)	Typical Floor Plates (sqm)
ANZ Centre	833 Collins Street	2009	83,500	ANZ	3,500 to 9,800
NAB	800 Bourke Street	2004	56,000	NAB	8,000
AXA	750 Collins Street	2007	36,000	AXA	5,500
	700 Collins Street	2004	32,000	Medibank	3,000
Myer	800 Collins Street	2010	28,676	Myer	2,800
Ericsson	818 Bourke Street	2008	21,700	Ericsson	3,450
Media House	643 Collins Street	2010	18,000	Fairfax	2,500

Source: Jones Lang LaSalle

Appendix 4 – Melbourne CBD core: Current stock of large floor plate buildings

Building	Address	Year of Completion	NLA (sqm)	Major Tenant (s)	Typical Floor Plates (sqm)
Rialto	501-535 Collins Street	1986	83,700	Multi tenanted	1,900
SX1	121 Exhibition Street	2006	78,167	State Government	2,200
	333 Collins Street	1990	57,147	Multi tenanted	1,980
181	181 William Street	2008	49,400	CGU	1,830
SX2	111 Bourke Street	2009	42,000	Australia Post	1,900
15W	15 William Street	2006*	40,000	Pitcher Partners	2,000
KPMG House	161 Collins Street	1931	39,500	KPMG	4,000
Twenty8	2-50 Southbank Boulevard	2009	34,000	Parsons Brinckerhoff	1,780

Source: Jones Lang LaSalle

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Appendix 5 – Brisbane CBD & Perth CBD: Current stock of large floor plate buildings

Building	Address	Year of Completion	NLA (sqm)	Major Tenant (s)	Typical Floor Plates (sqm)
Brisbane					
Waterfront Place	1 Eagle Street	1990	60,132	Multi tenanted	1,800
Mincom Central	193-219 Turbot Street	1999	22,335	Mincom	2,800
Neville Bonner House	75 William Street	1998	18,600	State Government	3,100
Perth					
	141 St Georges Terrace	1991	32,700	United Group Resources	1,800
Century City	100 St Georges Terrace	2009	30,005	NAB	1,800
	235 St Georges Terrace	2009	18,00	KPMG Macquarie	2,100

Source: Jones Lang LaSalle

Jones Lang LaSalle

Real value in a changing world

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November 2010

Barangaroo: In Perspective

The next evolution of the Sydney CBD office market

Executive Summary

- Barangaroo covers 22 ha of land across the former container port on the western rim of the Sydney CBD. Upon completion, the site – which is planned to have 300,000 sqm (NLA) of commercial office space – is expected to be home to approximately 22,000 workers.
- Barangaroo represents a unique opportunity to create a large scale master planned office development in the Sydney CBD. Nevertheless, Barangaroo is only expected to deliver additional space equivalent to 6% of the Sydney CBD office market based on an estimate of 2013 stock levels.
- Barangaroo is an urban renewal project, offering tenants the benefit of modern accommodation in a central location, which is integrated with the Sydney CBD office market.
- The design and development of the commercial buildings in the Barangaroo precinct will be the next big move in office design and amenity. Office buildings at Barangaroo will be designed to a minimum 6 Star Green Star rating and the precinct is aiming to achieve a climate positive outcome which includes being carbon neutral, zero waste and water positive.
- The Sydney CBD office market is in the recovery phase. Net absorption over the past 12 months was 115,600 sqm (40 year average is 62,000 sqm) and we believe vacancy is at the cyclical peak of 8.1% (3Q10).
- The Sydney CBD has limited spare capacity for this stage of the recovery. In comparison, previous cyclical peaks in the Sydney CBD occurred at 13.0% (mid 1970s), 4.3% (early 1980s), 22.5% (early 1990s) and 11.9% (post 2000 slowdown).
- A number of modern corporate occupiers are most efficient on floor plates of 2,000 sqm. The vacancy rate for buildings with average floor plates above 2,000 sqm is 4.8%, compared to the total market vacancy rate of 8.1% in the Sydney CBD.
- Net absorption from 2011 to 2020 in the Sydney CBD is forecast at 635,000 sqm. The Financial and Insurances (F&I) sector is a growth sector of the New South Wales (NSW) economy and our modelling suggests it will account for almost 40% of the additional demand.
- Development cycles in the Sydney CBD occur in periods of low vacancy and above trend rental growth. Vacancy is forecast to tighten to 6.3% by 2013 and prime gross effective rents are projected to increase by an average of 8.5% per annum between 2011 and 2013.
- Based on current vacancy and rent projections, Sydney is scheduled to have an increase in commencements in 2011 and 2012. The availability of land, limited sites in the Sydney CBD core and evolving tenant requirements for floor plates of 2,000 sqm, determines that Barangaroo will be the location for a high

Artist Impression: Barangaroo

proportion of the supply, which will be completed in the 2014 to 2016 timeframe.

- Consequently, Jones Lang LaSalle believes that the development of Barangaroo will have a positive impact on the Sydney CBD office market, encouraging a new wave of development at a time when the office market is expected to be strong enough to support the increase in supply.

Addressing the requirements of modern corporate occupiers

Barangaroo is an urban renewal project, a part of which will be seeking to offer modern office accommodation in the Sydney CBD. The proposed development is designed to serve the evolving needs of large modern corporate occupiers, including those in the F&I sector.

The F&I sector is a growth sector of the NSW economy and the largest occupier of space in the Sydney CBD. In early 2010, we estimated that the sector occupied 35% of the stock in the Sydney CBD.

Space requirements for modern corporate occupiers continue to evolve. Tenants now consider a range of factors when reviewing their accommodation strategies, which include an emphasis on building design, greater efficiencies, environmental sustainability as well as how the format supports staff interaction and corporate culture.

This paper provides an overview of what the Barangaroo precinct will offer the Sydney CBD and corporate occupiers. We will look at the quantum of space to be delivered and consider the impact on the Sydney CBD office market.

Jones Lang LaSalle will define the property requirements for modern corporate occupiers and describe the characteristics of the current stock in the Sydney CBD. We consider the F&I sector employment growth as the driver for demand in the Sydney CBD. While the F&I sector is the key industry sector for demand in the Sydney office market, we also consider the contribution from other industry sectors including professional and business services. This will provide a guide to underlying demand in the Sydney CBD over the next 10 years.

What does Barangaroo offer?

Barangaroo will provide tenants with the benefits of modern accommodation in a central location, which is an extension of the Sydney CBD office market. Barangaroo covers 22 ha of land across the former container port on the western rim of the city. Upon completion, 22,000 people are expected to work at Barangaroo. An estimated 20 million visitors are expected to be attracted to the precinct each year to enjoy restaurants, shopping, special events and recreational activities.

Barangaroo has three distinct precincts: Headland Park, Barangaroo Central and Barangaroo South. The commercial component is located in Barangaroo South and is likely to consist of 300,000 sqm (NLA) of office space.

Sustainable growth

The design and development of the commercial buildings at Barangaroo are aimed at making the region a world leader in terms of office design and amenity.

Strong sustainability credentials will be at the heart of the development, and all office buildings will be designed to a minimum 6 Star Green Star rating. The NSW Government and Lend Lease have set the following sustainable outcome targets:

- Water positive – a community that recycles and exports more water than it uses;
- Zero waste – a community that reduces, recycles and treats its waste offsite to create energy and minimise the amount going to landfill; and
- Carbon neutral – a community that is powered by onsite and offsite renewable energy.

Connectivity with the Sydney CBD core

Metropolitan Sydney has the highest public transport usage of any capital city in Australia[1]. The Australian Bureau of Statistics Census (2006) provides a breakdown of the method of travel to work to the Sydney Local Government Area (LGA), an area larger than the Sydney CBD. However, the figure is considered an accurate reflection of transportation methods.

Figure 1 shows that over 60% of the workers in the Sydney LGA use some form of public transport (train, bus, ferry or tram, including light rail).

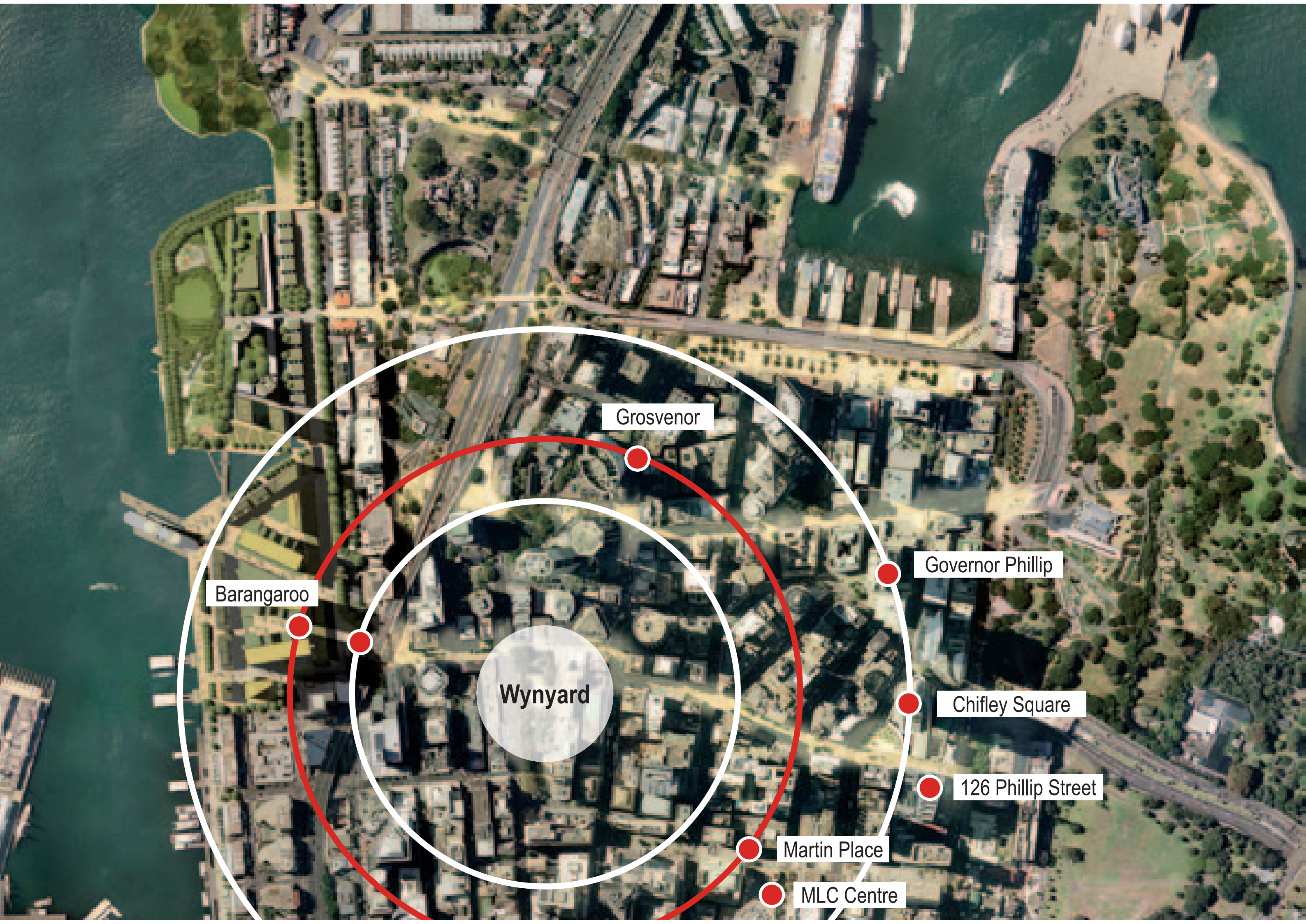
Therefore, proximity to key public transportation nodes is important for commercial development. Barangaroo is located adjacent to the proposed Hickson Road bus and light rail network, within a 4½ minute walk to the Wynyard transportation hub and 12½ minutes to the ferry system at Circular Quay. A current concept plan provides

Figure 1: Method of travel to work, Sydney LGA, Census

Source: Australian Bureau of Statistics, Jones Lang LaSalle

1 Australian Bureau of Statistics, '4102.0 – Australian Social Trends, 2008, Public Transport Use for Work and Study'.

Relative Distances from Wynyard Transport Hub



for a new ferry terminal at Barangaroo. This new ferry terminal will enhance access to the Western Corridor and Mid-town, as well as easing the congestion at Circular Quay.

Overview of Sydney's office stock

The Sydney CBD office market comprises 4.82 million sqm, divided into 2.59 million sqm of prime grade space (premium and Grade A) and 2.23 million sqm of secondary grade space (all other grades).

Between 1970 and 2009, the office floor area of the Sydney CBD increased at an average rate of 2.4% per annum. The annualised growth rate is inflated by the construction booms of the mid-1970s and late-1980s. The majority of the Australian office markets experienced strong development activity between 2004 and 2008. However, the development cycle largely bypassed Sydney, and over the past ten years (2000–2009), the average annual growth rate of office floor area was 0.7% per annum.

Limited development activity is reflected by the age composition of office stock in the Sydney CBD office market compared with other Australian CBD office markets. Figure 2 shows the age cohort of office stock at ten yearly intervals. Only 10% of Sydney's office stock is less than ten years old, while almost 47% of the stock is more than 30 years old, the highest proportion in any Australian CBD office market.

Increasingly, Sydney's building stock represents the designs and characteristics of the 1980s, or earlier. Large corporate tenants now demand environmentally sustainable features as well as stipulated minimum Green Star and NABERS energy ratings in market briefs. The introduction of Commercial Building Disclosure from 1 November 2010 – ensures that credible and meaningful energy-efficiency information is given to prospective purchasers and lessees of large commercial office space (>2,000 sqm) – to further increase the move towards sustainable commercial real estate.

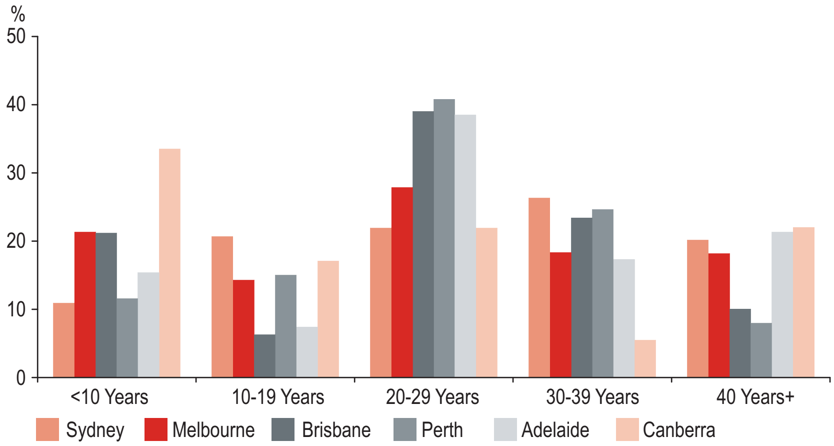
Multinational companies are seeking space in prime buildings with large floor plates. Recent moves and pre-commitments made by large corporates show that there is a clear preference for buildings with average floor plates above 1,500 sqm, and increasingly towards floor plates in excess of 2,000 sqm. There have been new developments with average floor plates above 2,000 sqm including One Shelley Street and Darling Walk, which is scheduled to reach practical completion in 2011. There is a shortage of prime stock in the Sydney CBD that fits this requirement. Around one-third of the prime grade stock in the Sydney CBD, in terms of NLA, has an average floor plate above 1,500 sqm (Figure 3). However, when this figure is analysed by the number of floors, which is a more relevant comparison, only 23% of the prime floors in Sydney are above 1,500 sqm, and only 4.7% are above the 2,000 sqm threshold (Figure 4).

Financial services sector in NSW

NSW is the most populous state in Australia. The NSW economy produced AUD 392 billion in 2009–2010 or about 32% of Australia's GDP. This figure is one-third larger than that of the second-largest state in the country, which is Victoria. The Sydney metropolitan area alone is estimated to account for almost one quarter of Australia's GDP.

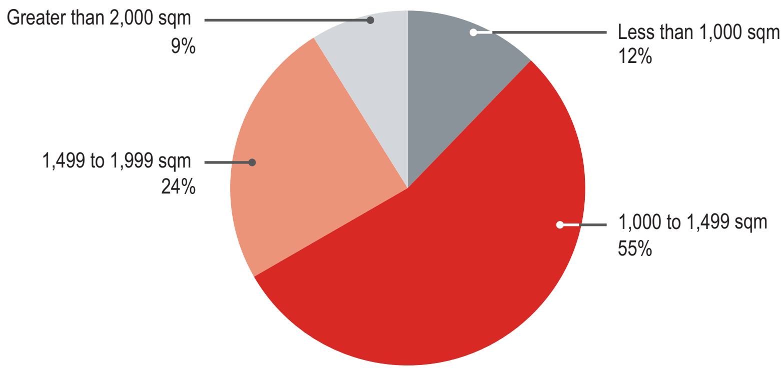
The importance of the F&I sector to the NSW economy has increased over the past decade as this sector has one of the highest sectoral growth rates in NSW. Consequently, its share of gross

Figure 2: Age composition of stock in Australian CBD office markets



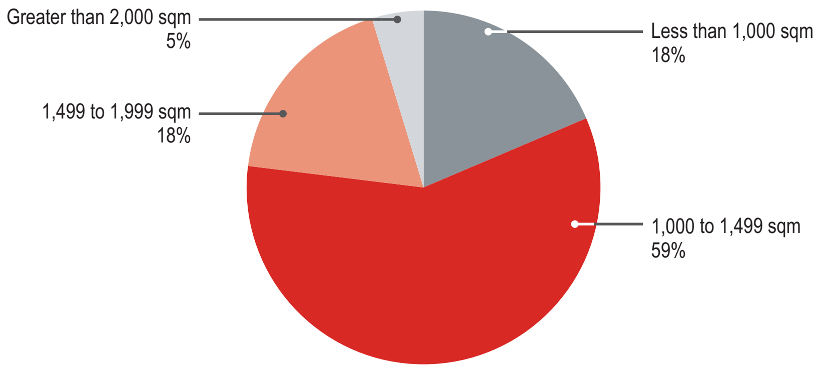
Source: Jones Lang LaSalle

Figure 3: Sydney CBD prime stock by NLA



Source: Jones Lang LaSalle

Figure 4: Sydney CBD prime stock by number of floors



Source: Jones Lang LaSalle

output increased from 9.7% during 1998–1999 to 14.1% during 2008–2009.

Banking is the dominant sector of the Australian financial services industry, accounting for 60%[2] of the total financial institutions assets as of December 2009. The sector continues to grow, with the recent establishment of several offshore banks in Sydney including China Construction Bank, Bank of Communications, Bank of Baroda and The People's Bank of China, which is Australia's first foreign central bank.

The finance and insurance sector will be a key driver of Sydney's growth

The level of F&I sector output has a contemporaneous impact on this sector's employment level in the Sydney CBD (Figure 5).

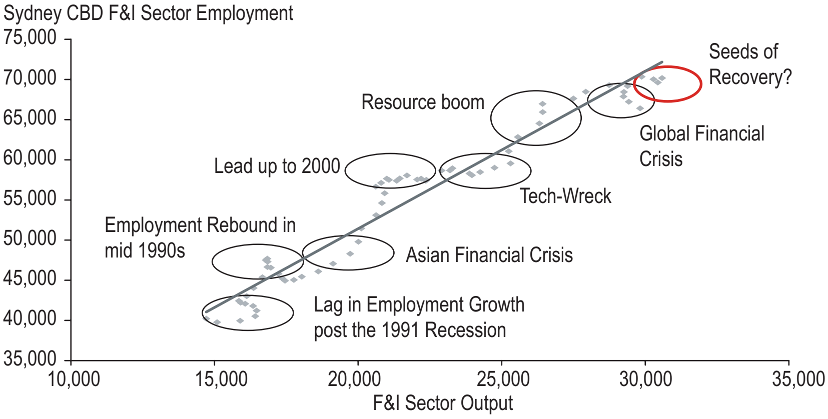
Since 1993, employment in the F&I sector in the Sydney CBD has followed its output. However, employment shows greater sensitivity than output in economic slowdowns such as during the Asian Financial Crisis, Tech Wreck and Global Financial Crisis (GFC), when the change in employment is larger than the change in the F&I sector output predicted. Conversely, in periods of strong economic growth, employment growth increases at a rate higher than output would predict.

The Sydney CBD is in the early stage of a recovery cycle. Net absorption for FY 2009–2010 was 100,000 sqm. This follows a contraction of 194,700 sqm in FY 2008–2009. F&I sector employment is rising as the continued growth among Australian retail banks was supported by investment banks, which hired aggressively in early 2010.

From 2011 to 2020, our base case forecasts show that the F&I sector's employment level in the Sydney CBD will grow by 2.8% per annum, which equates to an additional 20,500 workers in the F&I sector in the Sydney CBD (Figure 6).

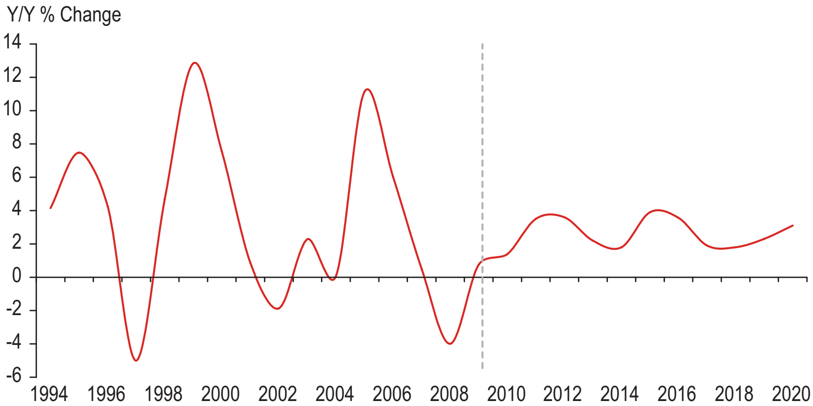
Australia is an international finance centre, and it is expected that the Sydney CBD would benefit from higher employment growth rates in the F&I sector and increased demand for office space.

Figure 5: Finance and insurance sector output and Sydney CBD finance and insurance white collar employment, 1993 to 2010



Source: Jones Lang LaSalle, Access Economics

Figure 6: Sydney CBD finance and insurance sector white collar employment, 1994 to 2020



Source: Jones Lang LaSalle (Forecast), Access Economics (Historical Data)

2 Reserve Bank of Australia, Assets and Liabilities of Financial Institutions and Non-Financial Sectors, Table B1 – Assets of Financial Institutions. Reserve Bank assets included as total financial assets

Where are the potential areas of growth?

Funds management is expected to be a growth engine for financial services in NSW. Australia's fund management sector has burgeoned since the nationally mandated retirement income scheme commenced in 1992. Recommendations from the Henry Tax Review in June 2010 provided further growth potential for the funds management sector in Australia. Superannuation inflows may increase through the increase of the superannuation levy from 9% to 12% in stages until 2020, if the recommendations are implemented.

Funds management is one potential source for the above trend growth in the F&I sector output. However, a more significant contribution may come from the increased export of financial services, in part from the expansion plans into Asian markets by four big commercial banks. Australia is situated close to the fastest growing region in the world namely China and Emerging Asia. In many countries within the region, growth in income and wealth, along with demographic factors, will increasingly require the development of a wider range of financial services. These include capital markets to help finance development, retirement income schemes as well as asset management and insurance products to provide wealth management and its protection. Over time, this is likely to require a further opening up of their financial markets to innovation and competition from new entrants.

Australia has arguably the most sophisticated and advanced financial sector in the Asia Pacific region. Australia's financial sector ranks close to many other advanced economies such as the US, UK, Japan and Canada in terms of its contribution to the nation's GDP. However, while Australia is an open trading economy overall and exports and imports of financial services as a percentage of GDP are increasing, by international standards, they remain low (Figure 7).

Funds management operations are expanding in Sydney due to the following:

- Australia has the fourth-largest asset pool in the world;
- A mature and innovative funds management sector;
- A highly skilled and multilingual workforce;
- Competitive costs;
- A safe, low risk business and legal environment;
- A world-class telecommunications infrastructure; and
- A time zone that spans the United States and European markets.

Source: NSW Department of State and Regional Development, Jones Lang LaSallle

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Stronger growth in either the funds management sector or increased financial services exports would have a positive impact on the F&I sector's output. Under our modelled higher growth rate for the F&I sector's output, which increases output growth by 1 percentage point per annum, F&I employment growth in the Sydney CBD would increase by 3.5% per annum to 2020, equating to an additional 6,630 workers.

Table 1: Implied Net Absorption from F&I Sector Growth

Workspace Ratio	Base Case	High Case
8:1	164,000	217,000
10:1	205,000	272,000
12:1	246,000	326,000
15:1	308,000	407,000

Source: Jones Lang LaSalle, Access Economics

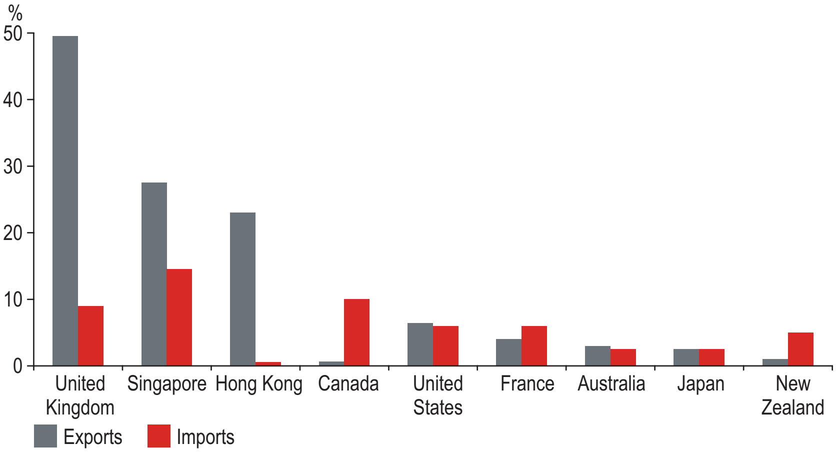
The next step of the process is the conversion of employment growth to the implied demand for office space. Table 1 shows the underlying demand for office space in the Sydney CBD from the F&I sector over the next ten years (2011 to 2020) based on a range of workspace ratios.

While some major space users are transitioning significant parts of their operations to 'Activity Based Workplace', this style of workplace is not yet suitable to the entire sector and will have an overall impact of approximately 10–15% of space saving to the relevant business unit. *The City of Sydney's Floor Space & Employment Survey*, 2006; estimates open plan offices to have a workspace ratio of 12 sqm per person.

Therefore, the most relevant workspace ratio is 12 sqm per person. Under that assumption, the underlying demand for office space from the F&I sector in the Sydney CBD is 246,000 sqm. On our base case scenario, approximately 82% of the capacity at Barangaroo could be absorbed by the growth in the F&I sector alone over the next ten years.

This section of the report focuses on the underlying demand from the F&I sector, as the

Figure 7: Internationalisation of financial services sector



Source: UN, OECD

catalyst for growth in the Sydney CBD. While the rate of growth in the F&I sector will have a positive impact on other industry sectors, such as professional and business services, the rate of NSW Gross State Product growth will be the key determinant in increasing the level of employment in the broader NSW economy.

Jones Lang LaSalle Research forecast that the underlying demand for space in the Sydney CBD between 2011 and 2020 is 636,000 sqm. Excluding the F&I sector, other industry sectors will contribute 390,000 sqm, or 61% of net absorption over the next 10 years. Based on this underlying demand projection, the capacity at Barangaroo will only be able to absorb 47% of the expected new demand in the Sydney CBD to 2020.

What are modern corporate occupiers looking for?

Physical flexibility

The shape, size and layout of a building's floor plate will contribute to occupier efficiencies. Modern corporate occupiers are seeking large floors, preferably a minimum of 2,000 sqm with minimal intrusions in terms of columns and core areas. A rectangular design with a side core and column free floors allows for higher occupational densities and reduced circulation space.

Not all, but many tenants in excess of 3,000 to 4,000 sqm are most efficient on floor plates of 2,000 sqm, and above, for the following reasons:

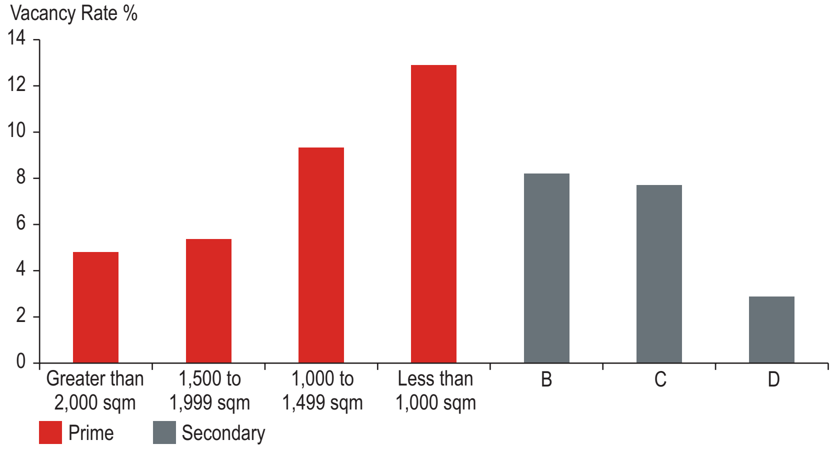
- It creates a collaborative workplace that enables stronger relationship between specialist businesses;
- Large floor plates and shared spaces allows for greater connections between team members;
- Large and efficient floor plates provide flexibility in accommodating project space and adapting to changing space requirements;
- Interaction is enhanced by the centralisation of gathering points such as breakout lounges, kitchens and meeting rooms;
- The efficiency gains can ultimately lead to a cost saving on the overall tenancy; and
- A more efficient balance is achieved between horizontal and vertical connectivity.

The preference shown by larger tenants for floor plates is highlighted by the breakdown of the Sydney CBD vacancy rate. The total market vacancy in 3Q10 for all building grades was 8.1%, but for prime buildings with average floor plates between 1,500 sqm and 1,999 sqm, the vacancy rate was at 5.4%. Meanwhile, a vacancy level of only 4.8% for buildings with average floor plates in excess of 2,000 sqm was recorded (three-quarters of the vacant space is located in a recently completed refurbishment at 100 Market Street). In contrast, vacancy rates for buildings with average floor plates from 1,000–1,499 sqm and sub-1,000 sqm were at 9.3% and 12.9%, respectively.

High technical specifications

A major consideration in any office set-up or relocation is the initial capital expenditure (CAPEX) cost involved in setting up premises. Modern buildings, which are designed with the occupier in mind, provide infrastructure such as water supply to each floor, knock out panels for internal staircases, heavy load areas for compact uses/safes (negating the need for weight spreading floors) and tenant-dedicated risers to allow cabling between floors. The move towards activity-based working has increased the importance of telecommunications infrastructure to support wireless technology.

Figure 8: Sydney CBD vacancy rates, prime (by floor plate size) and secondary grade, Q3/2010



Source: Jones Lang LaSalle

This type of infrastructure will substantially reduce the upfront CAPEX costs and reinstatement costs at the end of the lease.

A workplace that assists in attracting and retaining staff

People are very mobile in the F&I and professional services sectors. Therefore, employee satisfaction and retention as well as the ability to attract workers are important factors for large businesses.

Increasingly, a workplace should assist staff to manage a work-life balance. Facilities can include service retailing, bars, restaurants, entertainment, open spaces, gymnasiums and childcare.

In the Sydney LGA, over 60% of the CBD workers commute to and from work using some form of public transport. Proximity to the public transport network is an important factor for most large businesses.

Space that assists in meeting corporate social responsibility targets

Large multinational firms are committed to meeting and reporting on Corporate Social Responsibility (CSR) targets. As part of CSR, there is an overarching theme to minimise a corporate carbon footprint, and in many instances, this is expressed through a desire or aim to be carbon neutral.

Improving the design and operation of building portfolios is a key part of the strategy adopted by businesses to reduce energy use and greenhouse emissions.

The McKinsey Quarterly[3] concluded that ensuring the efficient operation of commercial buildings represents one of the lowest cost options for effectively reducing greenhouse gas emissions. As a perceived low-cost option, commercial property has been at the forefront of meeting the environmental component of CSR.

A number of firms are implementing performance contracts with facilities managers, smart meters, which enable electricity usage to be monitored and improved, as well as efficiency audits.

A location that provides clustering benefits

The NSW and Commonwealth Government continue to promote Australia as a global financial centre and as a regional financial services hub. The Sydney CBD and, specifically, the Western Corridor, is recognised as a hub for the F&I sector. The Westpac Banking Corporation (275 Kent Street) and Macquarie (One Shelley Street) have relocated a number of business units to new developments in this part of the CBD and in 2011, the Commonwealth Bank will consolidate 12 CBD tenancies to Darling Walk. Barangaroo offers an opportunity for the extension of this hub of large floor plate buildings accommodating the requirements of the modern larger buildings.

The economic benefits of clusters are well established. Firms gain from economies of agglomeration due to their proximity to other related firms, which will allow face-to-face contact in business environments. The benefits include the following:

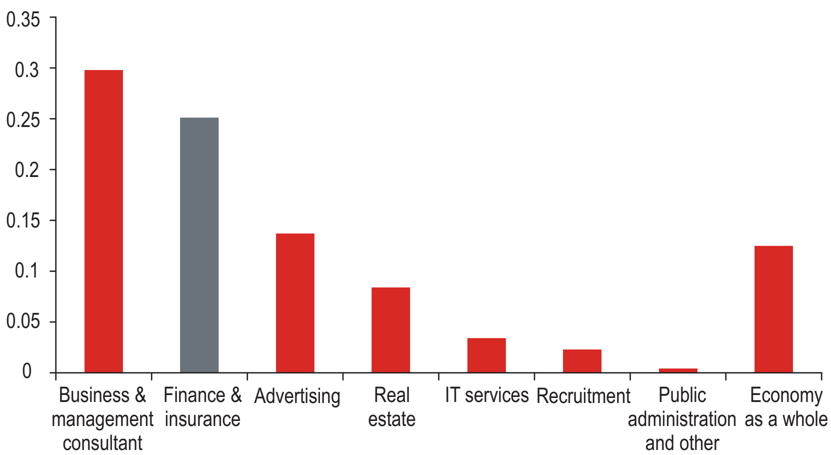
- Technology Spillovers – firms are more likely to learn from innovations of other firms if they are physically close to each other, and more so if the firms are from the same sector;
- Input Market Effects – there is a greater variety of inputs from suppliers where many firms are located close together, and competition between suppliers will exert downward pressure on prices; and
- Labour Market Effects – when more firms are located together, suitably experienced and qualified workers target the area or country.

Economic clusters act as a comparative advantage for a city, country or region, and in part, offset the negative influences of higher labour costs, accommodation costs, transport costs and other price factors. There are indirect benefits to the wider economy with increased competition between firms that are closely related together. Essentially, competition drives down costs and improves productivity.

Productivity benefits caused by proximity to other related firms differ by industry sector. In Figure 9, the elasticity shown measures the percentage change in the productivity of workers in the industry sector in response to a 1% increase in the effective density of employment[4].

F&I is one of the industry sectors that benefits from clustering, and the Western Corridor of the Sydney CBD will facilitate the agglomeration of the finance sector in the Sydney CBD and support government policy to promote Sydney as a regional financial centre.

Figure 9: Elasticity of productivity by sector



Source: UK Department of Transport, Jones Lang LaSalle

3 The McKinsey Quarterly, 'How the world should invest in energy efficiency' (July 2008).
4 Daniel J Graham, 'Wider Economic Benefits of Transport Improvements; Link Between Agglomeration and Productivity, Stage 2 Report', report for the Department of Transport, 2006.

Westpac Banking Corporation

During late 2006, Westpac consolidated from 11 Sydney CBD sites to its new headquarters at Westpac Place, 275 Kent Street, Sydney. Located in the Western Corridor of the Sydney CBD and originally known as the KENS project, the site covers an entire 1-ha city block.

The building includes two towers of 32 and 21 levels, providing for over 77,000 sqm of office space. The site also features two retail levels, tenant car parking for 214 cars and a childcare centre. The project was built to incorporate the principles of Environmentally Sustainable Design.

The bank's objectives during the design stages were to provide a workplace that fostered teamwork and collaboration and offered employees flexibility and mobility. One of the keys to achieving this objective was to be more innovative with space utilisation. The project was developed and built by Leighton Contractors, which won the 2006 NSW Urban Taskforces Development Excellence Award and the MBA Excellence in construction award for best new commercial development of over AUD 250 million.

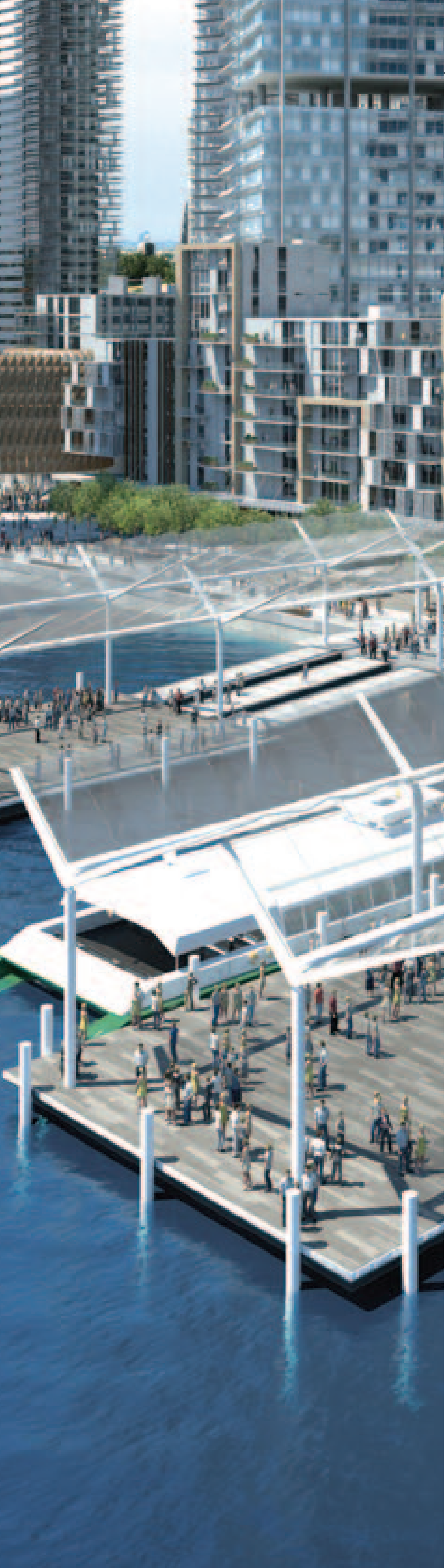
A unique part of the design was the active barometer on the top of the building, providing real time weather information to the city. Westpac Place has set new standards in environmental sustainability and work place design with an Energy Monitoring and Control System (EMCS), which has enhanced energy efficiency and productivity. This assisted in delivering a 4 Star NABERS Energy Rating. Some of the specific sustainability initiatives that were adopted included the following:

- Façade design, which incorporates 'low-e' double glazing, and a wall cavity ventilation system on the high-rise level areas to provide improved thermal performance and internal comfort;
- Automated internal blind control system on the building's western façade to offset heat from the sun;
- Energy-efficient light fittings throughout the building and an intelligent lighting control system, which maintains required illuminations levels via management of artificial lighting and natural light interface; and

Provision of a storm water harvesting system, which collects the rainwater run-off used in the air conditioning system cooling towers.

The 'campus' style floor plates provide operating efficiencies with a high workplace amenity and built-in flexibility for team-based activities. Floor plate sizes vary from 3,500 sqm in the podium to 2,600 sqm in the mid rise and 1,880 sqm in the high rise.

Artist Impression: Barangaroo



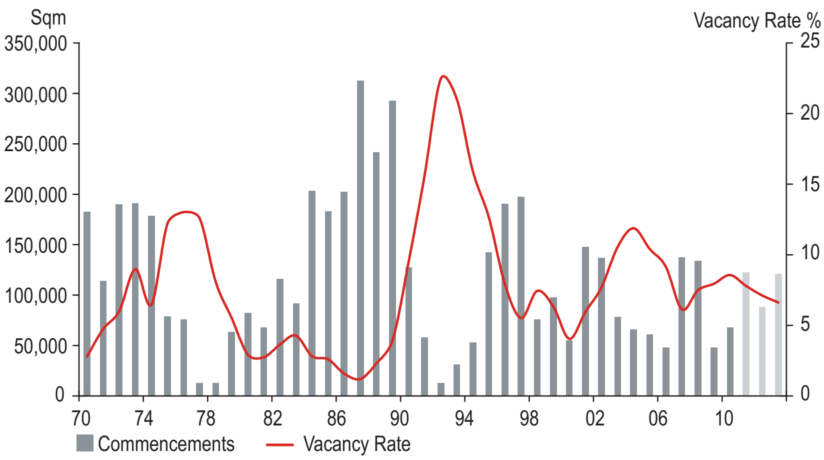
The impact of Barangaroo on the Sydney office market

Jones Lang LaSalle believes that the development of Barangaroo will have a positive impact on the Sydney CBD office market. Barangaroo will encourage a new wave of development to meet the evolving requirements of large occupiers at a time when market demand is expected to be strong enough to support the increase in supply.

The Sydney CBD vacancy rate is at the cyclical peak (8.1% in 3Q10). In comparison, previous cyclical peaks have occurred at 13.0% (mid 1970s recession), 4.3% (early 1980s recession), 22.5% (early 1990s recession) and 11.9% (post 2000 slowdown). Therefore, the Sydney CBD has limited spare capacity for this stage of the recovery. With limited supply scheduled to complete in 2011 and 2012, along with a rebound in demand forecast, total market vacancy is forecast to tighten to 6.3% by 2013

Figure 10 shows commencements in the Sydney CBD over the past 40 years and Jones Lang LaSalle's forecast over the next three years. Development cycles in the Sydney CBD commence in periods of low vacancy (reference: early 1970s, early-to-mid 1980s and 2000) and in a period of above trend rental growth. Jones Lang LaSalle Research forecast prime gross effective rents will increase by an average of 8.5% per annum between 2011 and 2013. Therefore, based

Figure 10: Sydney CBD vacancy rate and commencements



Source: Jones Lang LaSalle

on our current vacancy and rent projections, the Sydney CBD is scheduled to have a development cycle in 2011 and 2012.

At a minimum, the Sydney CBD requires an additional 636,000 sqm of space over the next 10 years to meet our net absorption forecast to 2020 and maintain a vacancy rate at the equilibrium position of 8.0%. In reality, older style buildings may be withdrawn or converted and the additional supply will have to be higher.

Jones Lang LaSalle has identified approximately 90,000 sqm of projects in the Sydney CBD with development approval that are actively seeking tenant pre-commitment. In a number of cases, the proposed development includes the demolition of existing building(s). The demolition of an existing building increases the overall construction cost and raises the required rent for a developer's feasibility model. Furthermore, in a number of instances, the size of the available sites means that a number of proposals will be unable to deliver the large floor plates required by modern corporate occupiers.

Based on our current forecasts, Sydney will be pushing up against supply-side constraints in 2012. Consequently, the availability of land and tenant preference for the type of product to be developed at Barangaroo ensures that a high proportion of the additional supply in our forecast is expected to be located at Barangaroo.

Barangaroo has been inaccurately referred to as Sydney's equivalent to Melbourne's Docklands. While there are similarities in the type of product to be delivered to meet the evolving requirements of corporate tenants, Barangaroo is expected to deliver 300,000 sqm of commercial office space compared with 920,000 sqm in Melbourne's Docklands. Table 2 shows that the development potential in Barangaroo equates to 6% of the Sydney CBD office market, based on an estimate of 2013 stock levels, compared with 27% for Melbourne's Docklands in 2003, prior to the first completion in 2004. Therefore, the impact on rental levels and vacancy rates in the Sydney CBD from the increased supply will be limited.

Table 2: Supply potential at Barangaroo and Docklands relative to existing CBD

Market	Total Stock	Size of Urban Renewal Project	Percentage of Existing Stock
Sydney CBD	5.0 mn sqm (2013 estimate)	300,000 sqm	6%
Melbourne CBD	3.4 mn sqm (2003)	925,000 sqm	27%

Source: Jones Lang LaSalle Research, Lend Lease, VicUrban

Conclusion

The Sydney CBD entered the GFC with a low vacancy rate and a moderate development pipeline. As a result, vacancy increased from 6.1% to a forecast cyclical peak of 8.1% in 3Q10. In comparison, previous cyclical peaks in the Sydney CBD have occurred at 13.0% (mid 1970s recession), 4.3% (early 1980s recession), 22.5% (early 1990s recession) and 11.9% (post 2000 slowdown).

The outlook for tenant demand is improving. F&I sector output has rebounded following the GFC, and occupiers in this sector are starting to increase head count. A recovery in employment is evident across the NSW economy. The Australian Bureau of Statistics Labour Force Survey (September 2010) estimates that employment in NSW has increased by 94,700 people in 2010.

Jones Lang LaSalle forecast net absorption of 636,000 sqm in the Sydney CBD from 2011 to 2020. Our base case modelling suggests that the F&I sector employment in the Sydney CBD will increase by an average of 2.8% per annum from 2011 to 2020, equivalent to 20,500 workers or 246,000 sqm of space with a workspace ratio of 12 sqm per person. Other industry sectors will account for 390,000 sqm or 61% of the additional demand to 2020.

The Sydney CBD office market is expected to push up against supply-side constraints by 2012. A number of large corporate occupiers, which require more than 3,000 sqm of space, are most efficient in buildings with a side core design and rectangular floor plates in excess of 2,000 sqm. The vacancy rate for prime assets in the Sydney CBD with average floor plates in excess of 2,000 sqm is 4.8% (three-quarters of this space is located in the recently completed refurbishment at 100 Market Street).

Based on our current vacancy and rental projections, Sydney is scheduled to have a development cycle in 2011 and 2012. However, the availability of land, limited sites in the Sydney CBD core and evolving tenant requirements for modern space, which has a minimum floor plate of 2,000 sqm, determines that Barangaroo will be the location for a high proportion of the supply, which will be completed in the 2014–2016 timeframe.

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David joined Jones Lang LaSalle in 2008 as Head of Research, Australasia. He is responsible for the preparation and dissemination of research market data, forecasts and strategic analysis relating to commercial real estate markets in the region.

David is an economist and statistician by training. Prior to joining Jones Lang LaSalle David was Director of Research at Mirvac Group.

In addition to real estate, David has wide experience across all asset markets. As Head of Research at Commonwealth Bank he led a team of researchers covering economics, credit and foreign exchange markets, as well as equity research for Comsec, Australia’s largest on-line share broker. At Bankers Trust he held the position of Chief Equity Strategist in the investment banking division.

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Andrew joined Jones Lang LaSalle in July 2007 and is a Director within the national research division. He is responsible for managing the provision of strategic research services across all Jones Lang LaSalle business lines and for conducting primary research on the national office markets. Andrew also undertakes consultancy assignments across the property sectors for overseas and domestic clients and is a key resource for the Jones Lang LaSalle: Real Estate Intelligence Service.

Andrew is an experienced industry researcher with over nine years experience in the property and transport & logistics industries. Andrew holds a Bachelors degree in Business Economics (with honours) and a Master of Applied Research from the University of Westminster.

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Jones Lang LaSalle has over 50 years of experience in Asia Pacific, with over 19,000 employees operating in 77 offices in 13 countries across the region.

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