

Overseas investors – Influence on the rise October 2008

Overseas investors are an increasingly important source of capital in Australia with net investments circa AUD 2.37bn since the beginning of 2007.

Investors from Asia, UK/Europe (in particular Germany), the Middle East and USA have all been active.

Recent falls in interest rates and the Australian dollar have made the Australian market more attractive to overseas investors, particularly as cap rates have softened and the yield spread has narrowed considerably.



Overseas investors – Influence on the rise

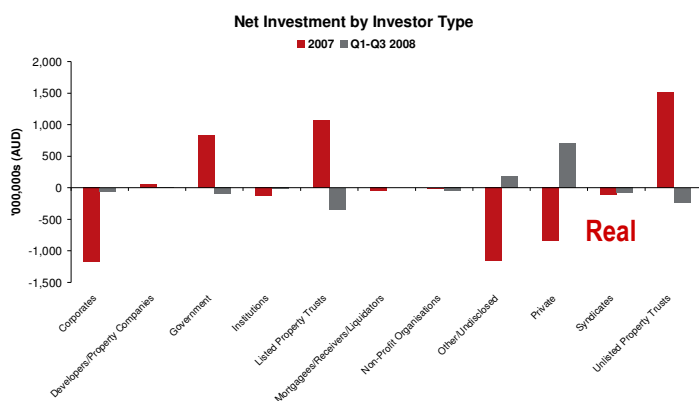
Overseas investors are increasingly playing a vital role in the Australian commercial property market and will remain a highly influential driving force behind investments over the next 18-months.

Investment activity throughout the Australian market over the nine months to September totals approximately AUD 4.86bn, a 53% drop compared to the same period last year. However, it must be noted that the last quarter of 2007 alone contributed more than AUD 6.73bn or 65% to the total of the 2007 figure. This slow-down can be mainly attributed to the continued economic global crisis which is placing considerable pressure on the availability of both debt and equity.

The Australian market has increasingly benefited from overseas investors in recent years. Indeed, in the first nine months of 2008, overseas investors accounted for 29% (by value) of investments made in Australia. This has almost a third higher than 2007, when just 21% (by value) of transactions were made by non-Australian investors.

Australian investors remain major buyers

Australian investors have undoubtedly been the major source of transactions in the Australian investment market, purchasing a total of AUD 3.44bn of assets by the end of Q3 2008. However, home-grown investors have also been the largest vendors, offloading a total of AUD 4.05bn of assets during the same period.



Private investors accounted for the largest portion of Australian purchasers so far in 2008, accounting for 32.3% of total sales, followed by Developer/Property Companies (23.1%) and Listed

Property Trusts (16.1%). On other side of the transaction, for domestic vendors, Private investors made up 26.1% of sellers, followed by Developer/Property Companies (18.8%) and Listed Property Trusts (15.8%). This 'domestic buyer, domestic seller' dominance is illustrated by the purchase of Vision Tower, 220-234 Margaret Street, Brisbane CBD by Austcorp (Developer/Property Companies) from Investa Property Group for AUD 185m, the largest office transaction throughout 2008.

Office transactions, across all vendor and purchaser types and origins, have accounted for 51% or AUD 2.48bn of total sales recorded so far in 2008; followed by Retail with 26% (AUD 1.26bn) and Industrial with 23% (AUD 1.11bn).

Largest Overseas Investments - Office Q1-Q3 2008

| Address | Price (AUD) | Initial Yield | Purchaser |
|--|-------------|---------------|--------------------------------------|
| BMW, 209 Kings Way, South Melbourne | 137 | 6.7% | Sachsenfonds |
| Commonwealth Bank Campus, Homebush Bay | 105 | n/a | Real I.S. |
| 505 Little Collins Street, Melbourne | 83 | 6.0% | Credit Suisse |
| Customs House 414 Latrobe Street Melbourne CBD | 67 | 6.1% | New star International Property Fund |
| Alinta Plaza, 12 The Esplanade, Perth | 64 | 5.5% | New Star International Property Fund |

Largest Australian Investments - Office Q1-Q3 2008

| Address | Price (AUD) | Initial Yield | Purchaser |
|--|-------------|---------------|------------------------|
| Vision Tower, 220-234 Margaret Street, Brisbane | 185 | | Investa Property Group |
| Tuggeranong Office Park, Canberra | 166 | 10.7% | Cromwell Group |
| William Buck Centre, 120 Edward Street, Brisbane | 122 | 6.6% | Undisclosed |
| Bankwest, 114 William Street, Melbourne | 95 | 6.2% | Kyko Group |
| Stocklands Parabanks, 68 John Street, Salisbury | 88 | 6.5% | Mr Nick Dimauro |

Source: Jones Lang LaSalle

Where do the non-Australian investors come from?

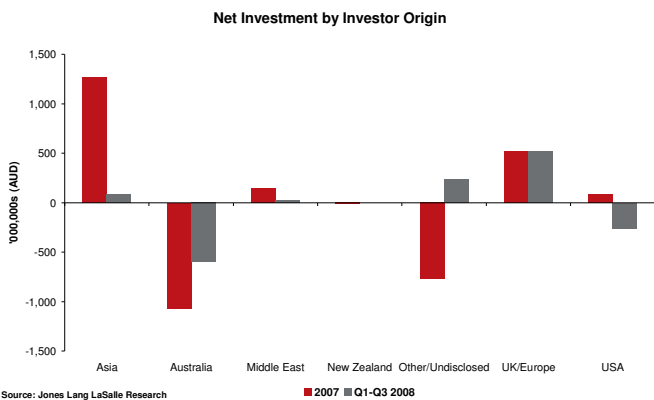
UK/Europe were the largest net purchasers in the nine months to Q3 2008, with investments totalling AUD 516.64m; this is slightly lower than the 2007 figure of AUD 522.95m. German investors have shown an increased interest in the Australian property market. Indeed, the largest deal by a European investor so far in 2008 was the AUD 137.0m purchase of 209 Kings Way, South Melbourne by SachsenFonds from Investa Property Group. Further evidence of the appetite of European investors for Australian assets can be found with the purchase of M4 Greystanes Industrial Park from Stockland for AUD 53.5m, also pointing to the asset diversification being sought by foreign investors.

Asia, not including Other/Undisclosed investors, has been the second largest net purchaser so far in 2008, with investments totalling AUD 89.49m. This is a role reversal with the UK/Europe investors from 2007, when Asian investors were the No.1 net purchaser with investments totalling AUD 1.27bn. The standout

purchase by an Asian investor was KK DaVinci Advisors purchase of The Foundry, 399 Bourke Street, Melbourne CBD from The Donnelly Group for AUD 43.5m.

Middle Eastern investors have also been active so far this year with net investments totalling AUD 26.6m. This amount was achieved via the purchase of One One One, 111 Eagle Street, Brisbane CBD by Abu Dhabi Investment Authority from GPT Group. This is following on from 2007 when they were once again the third largest net purchasers with transactions totalling AUD 147.2m. Australia continues to see healthy levels of enquiry from Abu Dhabi, Kuwait and Qatar.

However, as global credit crisis continues its rapid evolution, some of the buyers who had been active are also beginning to suffer and this may reduce their interest. German retail investors are reportedly beginning to reallocate investments from the open ended funds to government guaranteed bank deposits. While the German funds reportedly have significant capital to invest, the increase in redemptions may cause them to shelve some purchase plans. Wobbles in the Dubai property market may also prompt Middle Eastern investors to divert funds to local businesses and infrastructure projects.



Outlook for Australia

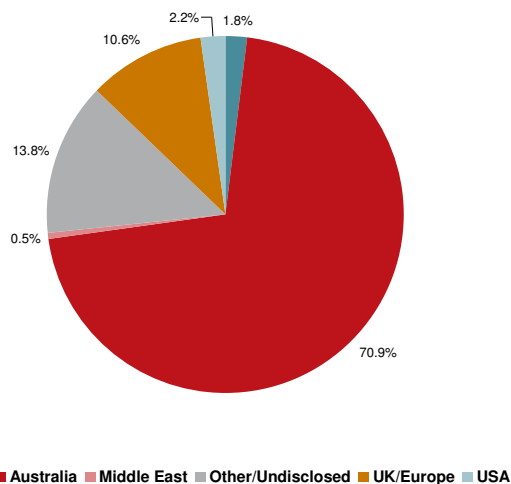
The 2008 Jones Lang LaSalle Real Estate Transparency Index ranked Australia the second most transparent market globally. Although the disconnect between the pricing expectations of vendors and purchasers persists, recent falls in interest rates and the Australian dollar have raised the interest of offshore buyers in local commercial property. As well as falls in capital value of 10% to 20% over 2008, since the July peak, Australian dollar has fallen by nearly 30% relative to the US dollar, making Australian property more attractive to equity rich overseas investors.

Who is targeting the Australian market?

UK/European investors, and increasingly, Middle East investors continue to target the Australian commercial property market. German open and closed end funds have been progressively more active recently, as have Asian and Middle Eastern sovereign wealth funds, as well as Asian institutional investors. All of these investors are looking to diversify their geographic and asset class/type exposure.

Downside risks to the economy are increasing, though Consensus Economics October forecasts predict that Australian GDP growth should only slow to 2.1% in 2009. This suggests that just as in the 2001 US and European recessions, Australia should maintain positive, though weak, economic growth. Support continues to come from the rising terms of trade as exports also benefit from the weaker Australian dollar, though like 2001, the financial centres such as Sydney and Melbourne will suffer more. Nevertheless, while demand for office space has stalled, vacancy rates are low and most of the proposed new supply has been shelved. This should allow a relatively quick rebound in rental growth when world economic growth reaccelerates, as is currently forecast in 2010 by the IMF.

Purchaser Q1-Q3 2008 by Country of Origin



Anecdotal evidence suggests that foreign investors are likely to continue to be focussing on the Australian market heading into 2009. This focus could be intensified if the AUD remains at current lows, interest rates continue to fall and if there is further yield decompression across the market. Whilst the market fundamentals are starting to cool and moderate, on a relative basis, the Australian market is still holding up well compared to Europe and the US and this will see Australia increasingly viewed as a safe haven investment destination by foreign buyers.