

Dexus office demand barometer

Lead indicators for office demand reach highest level in six years

August 2017

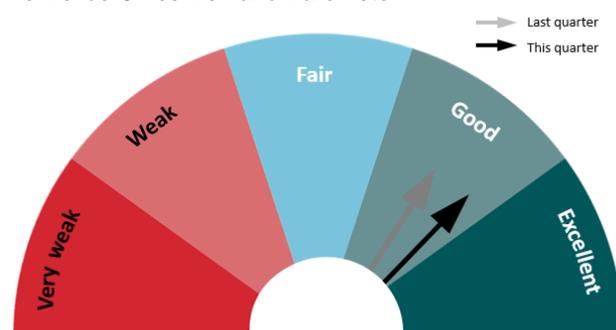
Barometer indicators push to six year high

The Dexus Office Demand Barometer increased in Q2 2017 to the highest level recorded since late 2010, signalling improving conditions for leasing demand in office buildings in the Sydney CBD.

The Barometer increased to +2.4% in the June 2017 quarter, up 0.4 percentage points from from last quarter's reading.

Factors driving the Barometer higher were uplifts in ANZ job advertisements and business confidence, with minor improvements in business travel departures and US economic activity. The share market, which had buoyed the Barometer in previous quarters, detracted somewhat this quarter.

The Dexus Office Demand Barometer



Components	Contribution to change (pp*)
ANZ job advertisement series	0.23 ↑
S&P/ASX 200 Index	-0.11 ↓
Short term business travel departures	0.07 ↑
NAB Business Confidence Index (FinPropBus)	0.14 ↑
US ISM Manufacturing Index	0.05 ↑

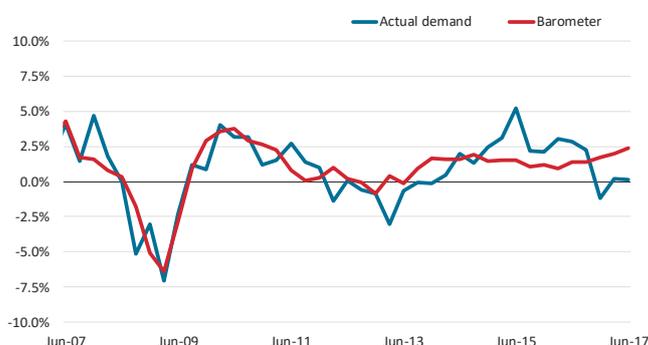
*Percentage points

Take-up constrained by lack of available space

Although the Barometer has strengthened, actual net absorption of office space has been constrained by a shortage of space. Sydney's vacancy rate has tightened to 6.4%, the lowest level in nine years.

Leasing enquiries for the first half of 2017 were predominantly from the business services sector followed by the IT, and health and community services sectors. Enquiry has also been skewed to smaller tenancies, reflecting growth among small to medium enterprises.

The Barometer vs actual office demand



Source: Dexus Research, JLL Research

Business conditions continue to improve

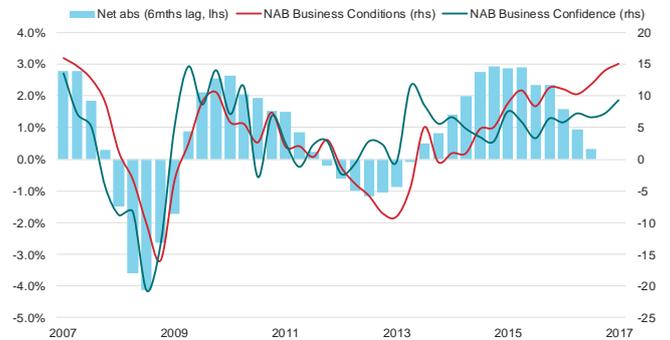
In NSW, business activity has been supported by solid population growth and high levels of infrastructure spending.

Business conditions have been steadily improving, along with business confidence.

Conditions are expected to remain positive in the short to medium term, although longer term growth in NSW may be tempered by a softening in the housing market.

Positive business conditions are good for office demand.

Business conditions and confidence vs office demand



Source: Dexus Research, JLL Research

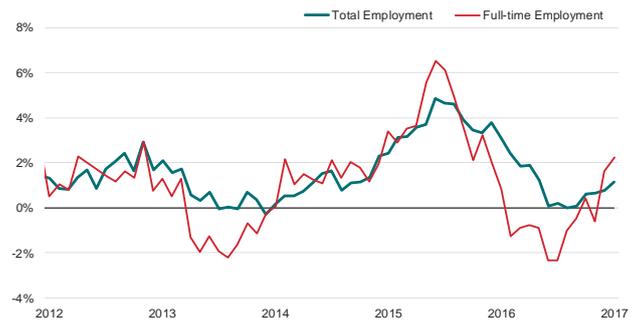
Businesses hiring full time staff again

A firming labour market has been a significant driver of office demand in NSW. Rising job advertisements are a sign that companies are becoming more confident about hiring staff.

An increase in the share of full time jobs relative to part time jobs in NSW in recent months is another sign of business confidence.

The NSW economy added 42,000 jobs over the past year, with many of these in the business services sector.

Employment growth – full time and total



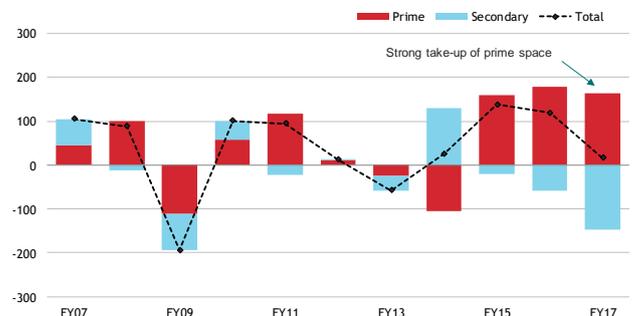
Source: Dexus Research, JLL Research

Companies upgrading to better quality space

Withdrawals of a significant number of older buildings, either to make way for the Sydney Metro rail line or redevelop for alternate uses, has led to a shortage of secondary office space. This in turn has led to a rapid migration to prime office space.

The flight to quality has also been driven by a desire to upgrade and modernise workplaces.

Absorption of prime vs secondary office space in Sydney CBD



Source: Dexus Research, JLL Research

About the Barometer

Dexus's Office Demand Barometer is a specialised model providing a leading indicator for conditions which determine the level of leasing demand for Sydney CBD over the next six months. The Barometer is expressed as a percentage of occupied stock.

The Barometer includes five variables which have been carefully selected based on their high correlation with Sydney CBD office demand, including:

- ANZ job advertisement series
- US ISM Manufacturing Index
- Short term business travel departures
- NAB Business Confidence Index – finance/business/property sectors
- S&P/ASX 200 Index

Date of issue: 1 August 2017

For further information, please contact:



Peter Studley
Head of Research
peter.studley@dexus.com

This report makes reference to historical property data sourced from JLL Research (unless otherwise stated), current as at 'Q2/2017'. Jones Lang LaSalle accepts no liability for damages suffered by any party resulting from their use of this document. All analysis and views of future market conditions are solely those of Dexus.

Issued by Dexus Funds Management Limited ABN 24 060 920 783, Australian Financial Services Licence holder. This is not an offer of securities or financial product advice. The repayment and performance of an investment is not guaranteed by Dexus Funds Management Limited, any of its related bodies corporate or any other person or organisation. This document is provided in good faith, it is not intended to create any legal liability on the part of Dexus Funds Management Limited.

This economic and property analysis is for information only, and Dexus Funds Management Limited specifically disclaims any responsibility for any use of the information contained by any third party. Opinions expressed are our present opinions only, reflecting prevailing market conditions, and are subject to change. In preparing this publication, we have obtained information from sources we believe to be reliable, but do not offer any guarantees as to its accuracy or completeness. This publication is only intended for the information of professional, business or experienced investors.