

Dexus office demand barometer

Conditions for Sydney CBD office demand are the best in seven years

October 2017

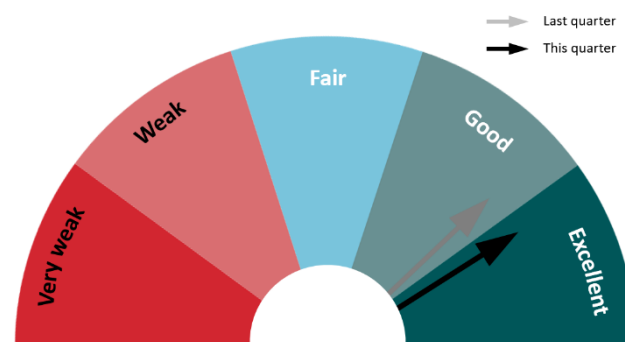
Barometer continues to strengthen

Conditions for leasing demand in Sydney CBD continued to strengthen in Q3 2017.

The Dexus Office Demand Barometer increased to +2.6% in the September 2017 quarter, up 0.2 percentage points from last quarter's reading, reaching its strongest level in seven years.

Two components driving the barometer into 'Excellent' territory were uplifts in ANZ job advertisements and the US ISM Manufacturing Index. Short term business travel departures and business confidence mildly weighed down the model this quarter.

The Dexus Office Demand Barometer



Components	Contribution to change (pp*)
ANZ job advertisement series	0.30 ↑
S&P/ASX 200 Index	0.03 ↑
Short term business travel departures	-0.14 ↓
NAB Business Confidence Index (FinPropBus)	-0.10 ↓
US ISM Manufacturing Index	0.24 ↑

*Percentage points

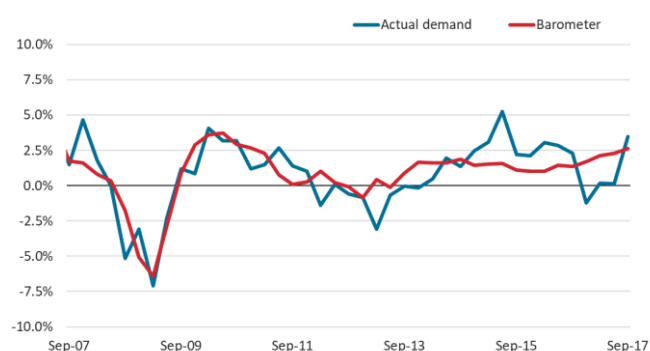
Rebound in office take-up

In line with the barometer, actual office take-up has rebounded over the past quarter driving Sydney CBD office vacancy lower to 6.0%, its lowest level since March 2008.

Demand was driven by major tenant movements into the CBD. The most notable was CBA's move into the pre-leased 27,000sqm Darling Square development.

The Professional Services sector was a key driver of office demand, having experienced increasing revenues and profits over the past year.

The Barometer vs actual office demand



Source: Dexus Research, JLL Research

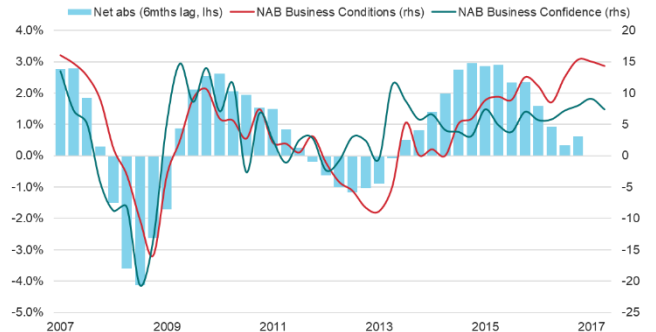
Business conditions overall positive

Positive business conditions and confidence are supporting demand for office space.

Expansionary fiscal policy including infrastructure investments continues to boost conditions in NSW.

The main area of weakness in the economy going forward could be the housing market as prices stabilize and construction softens.

Business conditions and confidence vs office demand



Source: Dexis Research, JLL Research

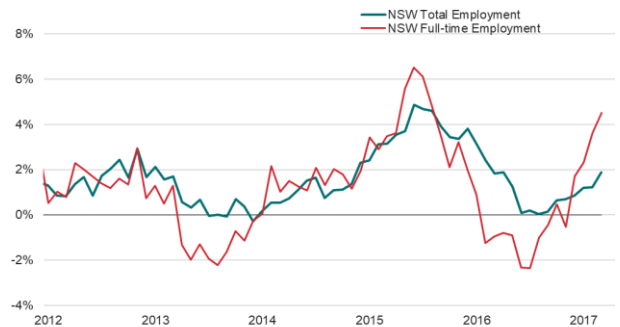
Labour market gathering momentum

The strengthening in business conditions has been accompanied by further acceleration in employment. Full time employment in NSW grew by 4.3% over the past year.

A rising proportion of full time employment is a sign that businesses are more confident about the outlook.

Although labour market conditions have improved, wages growth remains weak.

Employment growth – full time and total



Source: Dexis Research, JLL Research

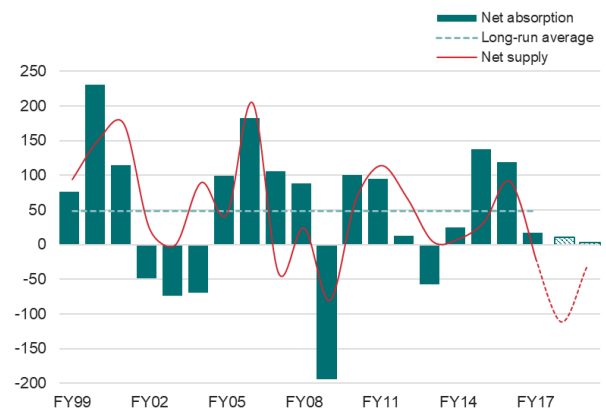
Lack of supply is expected to constrain demand going forward

Although conditions for demand are strong, it is likely actual take-up will be constrained in the next year or two by a lack of available space.

The level of vacant space in Sydney CBD is expected to fall to 3.4% in FY19 due to continued withdrawals and a lack of new development.

As the availability of space tightens, office tenants will tend to squeeze into existing space or consider a move to the Sydney fringe office markets, including North Sydney.

Net absorption vs net supply ('000sqm)



Source: Dexis 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

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