

Dexus Office Demand Barometer

Sydney CBD office demand benefits from positive indicators

January 2018

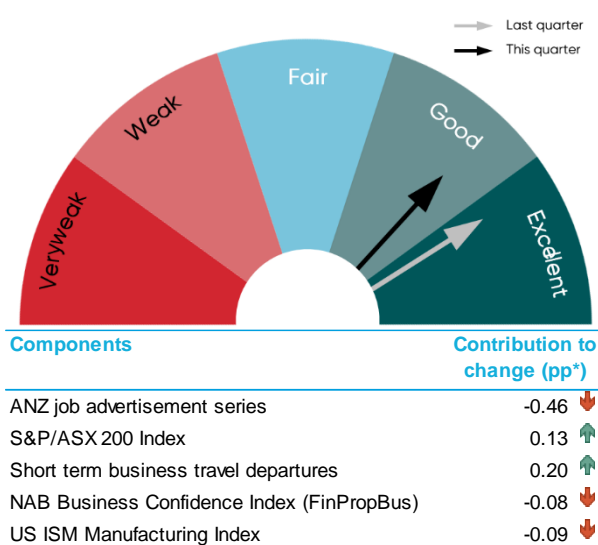
Barometer remains strong

Conditions for office demand in the Sydney CBD remained strong in Q4 2017, reflected in another quarter of positive movement in the Dexus Office Demand Barometer.

The Barometer moved to +2.1% in the December 2017 quarter, remaining at a high level despite easing 0.3 percentage points from the prior quarter's level.

Strong performance from the Australian share market and short-term business travel departures positively impacted the barometer. In addition, business confidence remains buoyant despite easing back a little in the quarter. Similarly, ANZ job advertisements still indicate a healthy labour market despite easing a little in the quarter.

Dexus Office Demand Barometer



*Percentage points

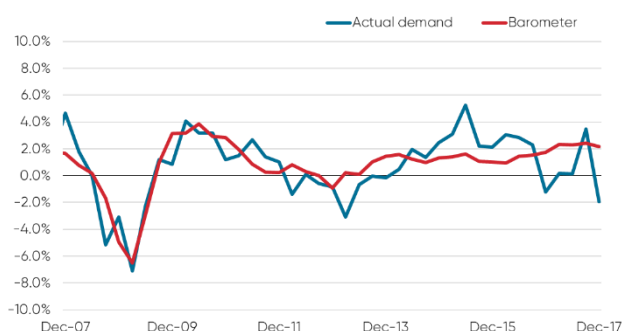
Take-up remains positive for the year

Overall net absorption was around 22,000 sqm for the year in 2017, despite recording a negative reading in Q4 2017.

The Q4 number reflected a large number of space consolidations, the largest move being AMP's consolidation into 33 Alfred Street.

Going forward we expect to see a rebound in net absorption given positive business conditions and sustained momentum in leasing activity through December and January.

Barometer vs actual office demand



Source: Dexus Research, JLL Research

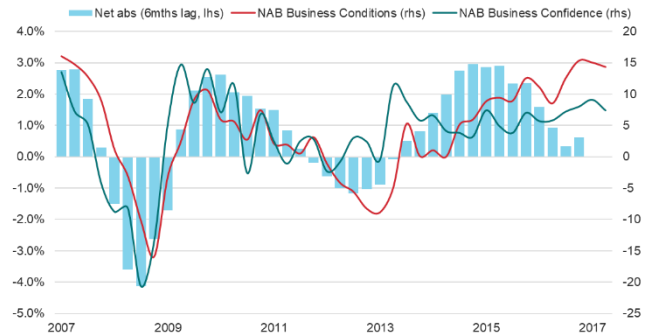
Business conditions remain positive

Business activity remains supported in NSW by solid population growth and high levels of infrastructure spending.

Business conditions are as high as they have been for a decade. Business confidence has also improved over the past year.

Leasing inquiry reflects growth among small to medium enterprises including the information technology sector.

Business conditions vs office demand

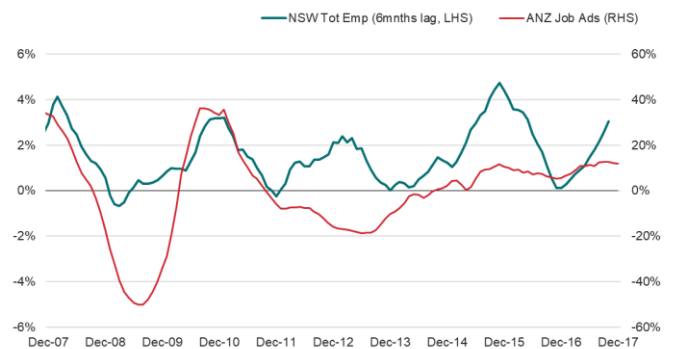


Source: Dexus Research, JLL Research

Labour market positive

Around 139,000 jobs were created in NSW last year, up 3.7% from December 2016. Growth was broad-based across industries. Although white collar employment growth eased slightly in NSW over the year, leading indicators such as job advertisements and business confidence suggests the lull will be temporary.

Employment growth vs ANZ Job Advertisements



Source: Dexus Research, JLL Research

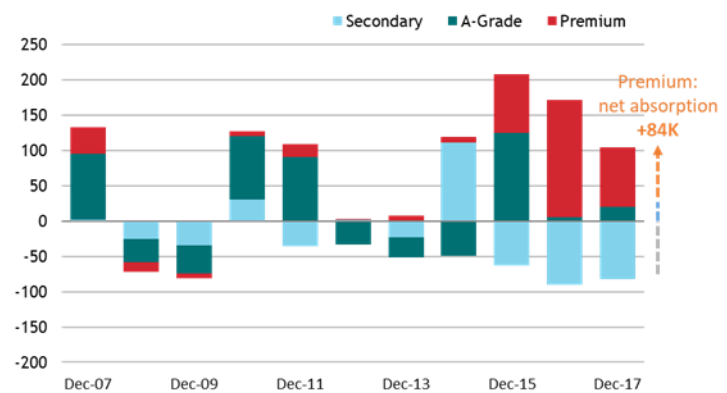
Pronounced flight to quality

Companies continued upgrading to better quality space in 2017 with premium net absorption of 84,000sqm keeping net demand in positive territory.

These figures have been driven by a significant withdrawal of older buildings to make way for the Sydney Metro and residential conversions and the desire to upgrade working environments.

The vacancy rate in the Sydney office market is the lowest it has been in over a decade.

Annual net absorption by grade ('000sqm)



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

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