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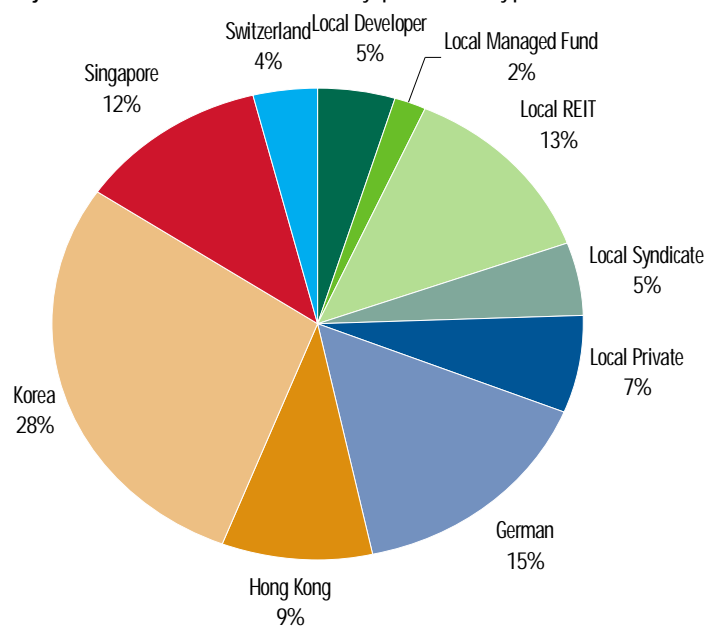
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Major office sales reach \$2.4 billion; foreign investors buy 70%

Sydney, NSW (9 June 2010)

Foreign investment in the Australian office sector has reached a record high, with a new analysis by CB Richard Ellis showing that 70% of all top end sales in the past 12 months have involved offshore buyers.

Major office sales, 2009/2010, by purchaser type & source



Source: CB Richard Ellis

Total office sales above \$50 mill in 2009/2010; \$2.4 bill

The CBRE review shows that major office sales (above \$50 million each) totaled \$2.4 billion in the 12 months to June 2010 taking into account 16 transactions.

This is a much healthier volume of transactions than what was witnessed in the depths of the Global Financial Crisis, when trading activity effectively stalled.

CBRE Executive Director, Global Research and Consulting, Kevin Stanley said that by value foreign investors accounted for 70% of the buying activity – well above the long term trend which put the share of purchases by foreign investors at around 5.0%.

Analysing the investment activity in the past 12 months, 49% of purchasers were from Asia, with Korean investors accounting for 28%, thanks to the purchase of Aurora Place for \$685 million.

“Interest in investing in Australian commercial property remains high from Asian institutions. Aurora aside, a much wider spread of interest is emerging, with 12% of the transactions in the past 12 months involving Singaporean purchasers and 9% involving Hong Kong buyers,” Mr Stanley said.

“Just 20% of the purchasers were from Europe, with 15% involving long time Australian investors based in Germany and 5% coming from Switzerland.”

CB Richard Ellis Senior Managing Director, International Investments, Rick Butler said a series of additional sales to foreign purchasers were currently in due diligence which would suggest that the share of purchases to foreign investors would remain relatively high in the short term despite the proposed Rudd government tax reforms.

Under the draft Federal Government legislation foreign investors will have to conform with new requirements for managed investment trusts or face the prospect of having to pay the full company tax rate of 30 per cent on dividends and capital gains.

“Notwithstanding these proposed reforms, we are seeing an increasing number of Asian delegations in Australia, with the market being buoyed by the gains many of these groups have made from Asian stock market or property investments,” Mr Butler said.

“Australia is seen to provide a transparent, safe market with growth potential. The Asian interest extends through to the smaller end of the market, and CBRE is in the process of forming a national Private Client Group team to capture the increasing share of Asian investment in Australia in the sub \$30 million price bracket.”

At the upper end, Mr Butler said it was important to note that foreign buyer interest was being primarily driven by all equity purchasers.

“Lack of leverage continues to put the focus on all equity foreign investors and means that some property offerings are receiving 60-90 per cent foreign interest at bid time. Hedging remains an issue for many overseas groups, meaning most open ended offshore funds simply can't buy at the moment,” Mr Butler said.

CBRE's analysis shows that domestic investors have accounted for just 31% of all major office purchases in the past 12 months. Of these, REIT's accounted for the largest single purchaser group (13%).

“Local REIT's would typically represent 20%-30% of all purchases; this is clearly still the missing piece of the investment scene in Australia,” Mr Stanley said.

CBRE Regional Director, Institutional Investment Properties, Rob Sewell said interest from the domestic REIT's and super funds to acquire large office investments was building. However these onshore groups were still lacking the conviction of the international funds.

"We suspect many wish to see some real signs that the leasing markets have truly recovered and the growth predictions are real rather than a promise," Mr Sewell said.

"International investors are coming to Australia with firm mandates approved and the equity to spend. They are confident about our real estate and see exceptionally good growth prospects compared to the rest of the globe. If the assets fit the brief they come to the table and bid."

With the domestic REIT's largely trading on discounts to NTA, Mr Sewell said it remained very complicated for these groups to acquire assets valued at \$100 million or above. However, with the Australian unlisted funds attracting fresh capital, Mr Sewell said a number of these groups were becoming very serious about onshore acquisitions.

"In the second half of the year offshore groups are likely to continue to dominate when it comes to the purchase of core assets, however we suspect the trend will start to change next year as domestic groups reappear on the radar," Mr Sewell said.

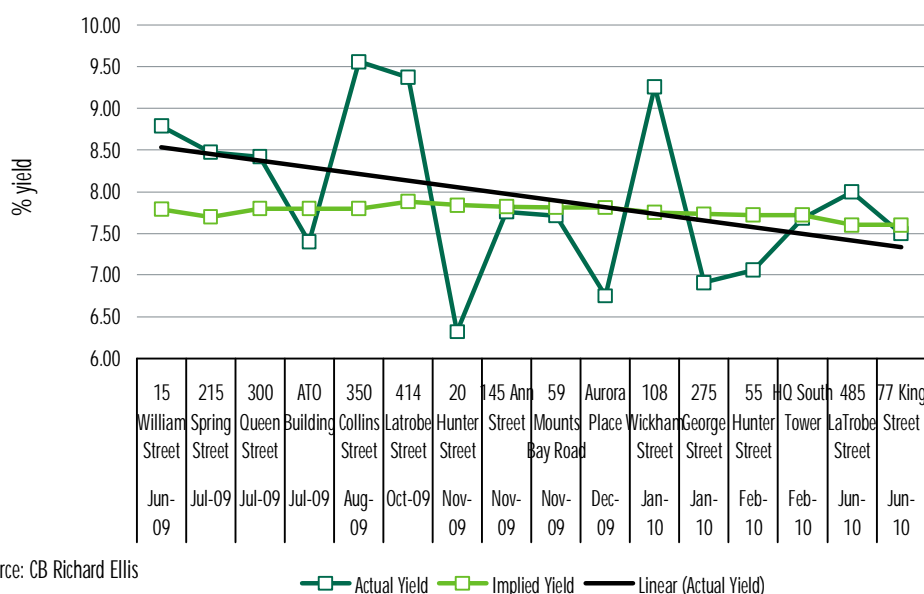
Providing comfort for domestic investors will be increased volume of major office sales which has given a better understanding of pricing trends in the office sector.

Mr Stanley said CBRE's analysis showed the yield for major sales had now settled into a tighter range that was consistent with what analysts were quoting.

"7.50%-8.00% appears to be the sweet spot for pricing at the moment," Mr Stanley said.

"The yield for actual sales and the yields analysts have been quoting have now all converged in this range. This yield range provides for a globally-competitive yield and a decent spread to the risk free rate. So, at present, the market is nicely balanced. In turn, this is leading to a higher volume of sales."

Australian prime CBD office yield 2009/2010



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