Preston Rowe Paterson®

International Property Consultants

# Office Market Report

## Sydney Metropolitan

## First Half 2017

### HIGHLIGHTS

- The strong office market in Sydney CBD is reiterated by its lowest vacancy rates out of all major cities around Australia, as well as the large amount of office supply that is expected to enter Sydney's market by 2019.
- North Sydney has experienced strong growths in office developments over the past eighteen months as a result of strong demand from expanding commerce industries. Notably, Premium Grade and A Grade stock increased over the six months to January.
- Parramatta is experiencing extensive changes in their urban landscape, with more than $12 billion worth of investment in its pipeline, including the upgrade of the Civic Square which alone costs around $2 billion.
- Total office space in the North Ryde/ Macquarie Park zone stands at 878,950 square metres, an increase of over 60% when compared to ten years prior. Vacancy rate across the North Ryde/ Macquarie Park office market increased by 0.4% to 7.5% over the six months to January 2017.

**INSIDE THIS ISSUE:**





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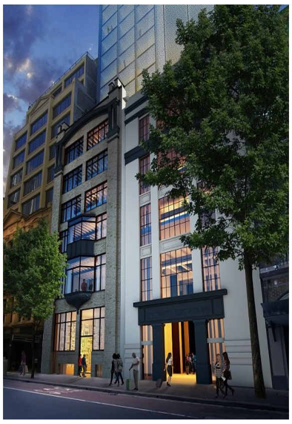
## Sydney CBD

### SALES



**183-185 Clarence Street, Sydney, NSW 2000**

Built has purchased a 99-year leasehold to a 3,600 m2 office building for $22.75 million. The 1,000 m2 site was sold by Vietnamese Vingroup. The new owners plan to refurbish to create up to 8,000 m2 of office and retail with up to seven additional levels on the current buildings. The sale reflects a rate of $22,750 psm.

**296 and Lot 1, 300 George Street, Sydney, NSW 2000**

A Hong Kong investor has sold a three-level commercial property to another Asian investor for $9 million. The 423.3 m2 property occupies an 82.2 m2 site and is home to Lee's Malaysian restaurant. The restaurant brings in a gross annual rent of $197,389 but the rest of the property is vacant. If the property was fully leased, it could return about $607,389 in gross annual rent. The sale reflects a rate of $21,262 psm.

**20 Bridge Street, Sydney, NSW 2000**

Kumpulan Wang Persaraan has sold a 13-level office tower to a Hong Kong buyer for between $330 and $350 million. The property known as Exchange Centre is an A-grade office complex with 20,347 m2 of net lettable area. ASX Group occupies over 45% of the building with 11 years left on their lease. The WALE of the building is around 7-years. The property could be redeveloped with a higher height potential.

**275 George Street, Sydney, NSW 2000**

John Holland has bought a 14-storey, 7,357 m2 office building from QIC Global Real Estate for over $82 million. The B-grade building, formerly known as the ANZ Bank Building, was constructed in 1966 and was last refurbished in 2003. The buyer plans to demolish the office tower and construct a new 15-storey building of around 8,023 m2. The sale reflects a rate of $11,146 psm.

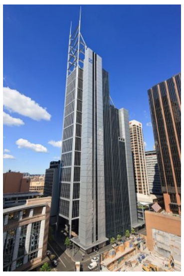
**320 Pitt Street, Sydney, NSW 2000**

ARA Asset Management has bought a 21,159 m2 office tower from Propertylink Office Partnership II for $280 million. The property is leased to Telstra until 2020 and has sold on an initial yield of 6.26%. The sale reflects a rate of $13,233 psm.

### LEASES

**126 Phillip Street, Sydney, NSW 2000**

Allens Linklaters has re-signed to lease office space for 7.5-years. The company will occupy 8,424 m2 of space for an undisclosed amount.



**Lvl 10/111 Elizabeth Street, Sydney, NSW 2000**

16 Wardell Chambers has moved from their 39 Martin Place offices to a newly lease 753 m2 B-grade office after being displaced by the Sydney Metro construction. The chambers agreed to a 7-year lease at a gross annual rent of $845 psm.

**Level 19, 66 Goulburn Street, Sydney, NSW 2000**

National Disability Services Limited has agreed to a 5-year lease for a whole-floor 937 m2 office. GDI Property Group is the landlord and the net annual rent is $665 psm for the A-grade space.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**1 Farrer Place, Sydney, NSW 2000**

Savills Australia has secured 2,200 m2 of premium-grade office space at Governor Phillip Tower for 9-years. The company will occupy all of Level 25 and part of Level 24 and pay a net annual rent of between about $1,200 to $1,600 psm.

**223 Liverpool Street, Sydney, NSW 2000**

Hub Australia will take over almost all the floors in a commercial building. The company will occupy 4,200 m2 of the building which includes four of the five floors.

**140 Elizabeth Street, Sydney, NSW 2000**

A circa 1990 office building on a 1,047 m2 site has found a new tenant. The Australian Academy of Commerce & Cambridge will occupy 2,900 m2 of space in the B-grade, 10-level building from the Salvation Army (NSW) Property Trust on a 5-year lease. The lease is for levels 5 to 10 and four parking spaces. The

## DEVELOPMENTS

According to the Property Council of Australia, the completion of mainly full and partial refurbishment around the Sydney Central Business District will result in the addition of approximately 84,364 square metres of net lettable area for over the first half of 2017, though no new development is expected to be completed within this time. This is an addition on top of 2016's completed construction, which has added 119,305 square metres of space over the 2016 calendar year. PRP notes however, that a total of 128,326 square metres of office space was withdrawn over the six months to January 2016, through the conversion of office space for residential and hotel use, demolition and partial or full refurbishment. We outline below some of the construction that have been completed in 2016 as well as those that are expected to be refurbished by the first half of 2017.

**Tower 1, International Towers Sydney**

The completion of this building in the fourth quarter of 2016 has added an extra 103,041 square metres of net lettable area into Sydney's office market. The tower also houses 8,000 square metres of retail space ad 1,100 square metres of space of other uses. A total of 48 levels and a larger-than-average floorplate size of 2,300 square metres adds uniqueness to this Lendlease-owned Premium Grade building. Currently, major tenants of Tower 1 include wholesaler and liquor importer Pernod Ricard Winemakers, HSBC, PwC, Marsh & McLennan and Servcorp.

**333 George Street**

Charter Hall-owned 333 George Street was completed in the fourth quarter of 2016 and adds an extra 12,514 square metres of office space in Sydney's commercial office market. Furthermore, there's a retail area of 2,100 square metres in size. There are 14 office levels throughout the building, with an average floorplate size of 950 square metres and a total of 20 car spaces. Major tenants of this building include law firm Clyde & Co and National Australia Bank, HSBC and Woolworths in the main George Street frontage.


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| Project Address | Development Type | Owner | NLA | Expected Completion Date |
|---|---|---|---|---|
| 80-82 Pitt Street | Full Refurbishment | Yorkban Pty Ltd | 9,700 | Q1 2017 |
| 60 Margaret Street | Partial Refurbishment | Mirvac Group (50%) / Pacific Alliance Group (50%) | 10,030 | Q1 2017 |
| 1 Farrer Place | Partial Refurbishment | DEXUS Property Group (50%) & Lendlease (25%) & The GPT Group (25%) | 1,234 | Q2 2017 |
| 400 George Street | Partial Refurbishment | Investa Property Group (75%) / Prudential Australia Property Trust (25%) | 8,463 | Q2 2017 |
| 680 George Street | Partial Refurbishment | Australian Wholesale Property Fund (50%) / Brookfield Australia (50%) | 2,667 | Q2 2017 |
| 10 Shelley Street | Full Refurbishment | Brookfield Asset Management | 24,986 | Q2 2017 |
| 11-17 York Street | Full Refurbishment | Memocorp Australia Pty Ltd | 11,227 | Q2 2017 |
| 201 Sussex Street (Tower 3) | Partial Refurbishment | The GPT Group | 14,823 | Q2 2017 |

Table 1– Developments in Sydney CBD over the first half of 2017— Source— PCA

## OFFICE STOCK

Sydney's office buildings continue to be one of Australia's most sought after assets by both foreign and domestic investors. Its strong performance is reiterated by its lowest vacancy rates out of all major cities around Australia, as well as the large amount of office supply that is expected to enter Sydney's market by 2019. Sydney's office stock mirror that of the rest of Australia in that it is predominantly A Grade stock. For January 2017, total A Grade stock increased slightly to 1,809,622 square metres. Over the same period, Premium Grade stock also increased to 1,118,972 square metres. In contrast, B Grade, C Grade and D Grade offices experienced declines over the period. B Grade stock currently stand at 1,439,949 square metres, C Grade stock at 525,730 square metres and D Grade stock at 185,626 square metres.

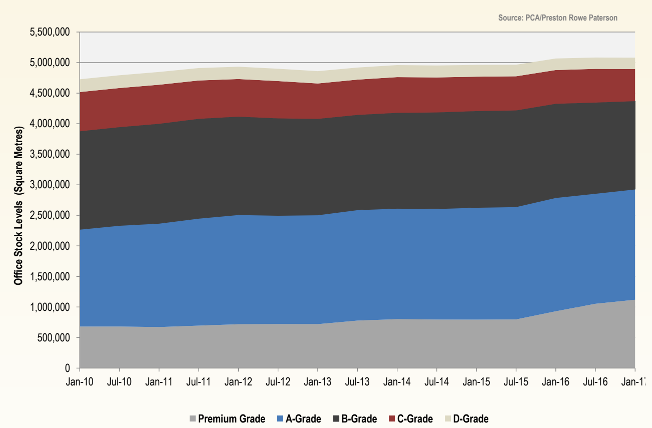


Chart 1– Sydney CBD Office Stock Vacancy by Grade— Source— PCA

Even though there has been a high volume of space added over the year to January, a significant amount of office space have been withdrawn over the same period due to major infrastructure changes, refurbishments and conversions throughout the Sydney CBD, which ultimately resulted in a negative net supply of -2,316 square metres. Overall in Sydney's office market, supply additions declined by 23,488 square metres over the year to 126,010 square metres, whilst withdrawals increased by 81,109 square metres to 128,326 square metres.

## VACANCY RATES

Total vacancy of Sydney CBD's office space increased over the half year to January 2017, by 0.6% to 6.2%. This increase was attributed to the increase in direct vacancy, which jumped 0.7% to 5.6% over the period. Sub-lease vacancy declined by 0.1% down to 0.6%. All office grades, except for D-Grade offices, experience increased in their vacancy rates over the six month period. Premium Offices experienced an increase of 1.1% in vacancy to 12.3%, whilst A, B and C Grade Offices increased to 4.2% (+ 0.2%), 4.0% (+0.6%) and 6.6% (+0.7%) respectively. D Grade buildings experienced a decline of 0.9%, down to 2.9% during the period. According to the Property Council of Australia, the decline in demand calls for the need to boost economic growth and encouragement of businesses to start up around the central business district in order to cater for the growing population in conjunction with remaining internationally competitive in the global economy.

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Demand for Sydney CBD's office stock has stemmed from a variety of sectors, including finance & insurance, government departments, technology companies and media & advertising. Notably, tech companies have taken up office spaces left behind by downsizing law firms, including Uber and Amazon, both of whom have signed tenancy deals to lease offices around the Sydney CBD. An increased number of small businesses have also demand Sydney office spaces over the year to 2017, of which the trend seems to be for these small businesses to move into more efficient and higher quality spaces in a much sought after location.

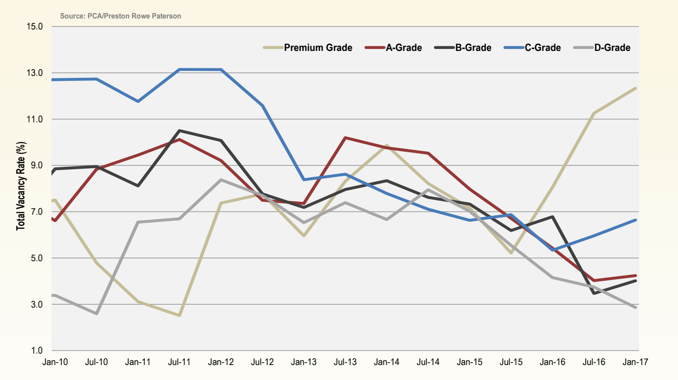


Chart 2– Sydney CBD Total Vacancy Rate (%)— Source— PCA

## NET ABSORPTION

The Sydney CBD office market absorbed 17,964 square metres over six months to January 2017. Over the twelve months to January 2017, net absorption over the year declined by 139,186 square metres. Over the same period, all graded stock experienced a decline in their net absorption, with Premium Grade experiencing the highest decline, of 9.0% over the year. C-Grade stock declined by 5.8%, A-Grade stock declined by 2.2%, whilst B Grade and D Grade stock declined by 0.5% and 0.6%, respectively.

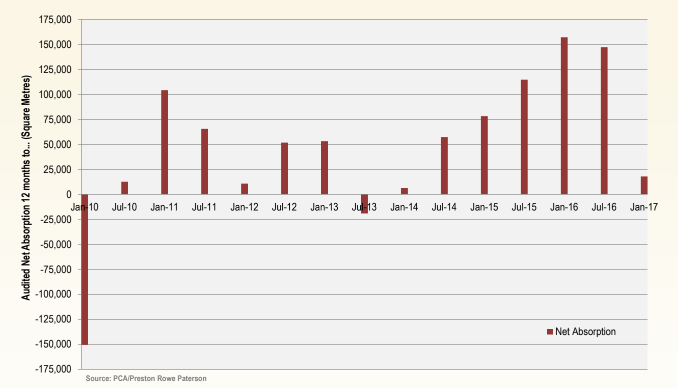


Chart 3– Sydney CBD Net Absorption, 12 months to…— Source— PCA

# NORTH SYDNEY

## SALES

**146 Arthur Street, North Sydney, NSW 2060**

Chinese-backed Aqualand has purchased an office block from General Nice Group for $78 million. The building was constructed in 1989 and was recently refurbished. The 8,171 m2 of net lettable area property features 10 levels of office space, three levels of basement car parking for 124 vehicles and views of Neutral Bay and Sydney Harbour. The sale reflects a rate of $9,546 psm. North Sydney is located about 3.8 km north of the Sydney CBD.

## LEASES

**80 Pacific Highway, North Sydney, NSW 2060**

Arthur J Gallagher will pay a net annual rent of between $700 to $800 psm for 2,026 m2 of office space as it consolidates its operations into one location. Mirvac leased the A-grade space to the insurance company for 7-years. The property is undergoing renovations. North Sydney is located 3.8 km north of Sydney's CBD.

## DEVELOPMENT

North Sydney is currently experiencing strong office developments throughout city, fuelled by a changing infrastructure and commercial environment. Notably, the planned Sydney Metro Line has had a significant impact on the restructuring and reallocation of tenants in and around Sydney's office spaces, with many opting to relocating up North Sydney and other north shore markets. North Sydney's office market will receive an extra 134,260 square metres of space through developments and refurbishments by the end of 2019. At this stage, there is a total of 15,118 square metres of stock that have been withdrawal, through demolition, conversion to residential sites or partial refurbishments.

**177 Pacific Highway**

This new A Grade office tower, located on the corner of Berry Street and Pacific Highway and recently completed in the fourth quarter of 2016, will provide close to 40,000 square metres of Net Lettable Area into North


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Sydney's office market. Furthermore, an addition of 370 square metres of retail space will be available, that will provide an array of contemporary restaurants and cafes, as well as laneway style retailers. The new building will provide large and flexible floor plate sizes which ranges from 1,198 to 1,565 square metres with in-built access floors and end-core that can create large, efficient, flexible office spaces in combination with extensive city views. The building boasts 31 levels of office and retail space, along with 4 levels of underground parking with 112 car spaces in total.

**100 Mount Street**

A new office building is under construction at 100 Mount Street, and will become North Sydney's tallest and largest office tower upon its expected completion in the first half of 2019. The building will provide 42,000 square metres of Net Lettable Area, along with 400 square metres of retail space over 34 office levels. The development will offer floor plate sizes ranging from 1,200-1,300 square metres, and will target 5-Star Green Star and 5-Star NABERS Energy Ratings. The building will have an open public space at ground level, two ground-floor retail areas, end of trip facilities that will provide change room amenities, as well as showers and lockers. Furthermore, the building will be fitted with premium quality finishes and services, along with basement level parking for 113 vehicles.

| Project Address | Development Type | Owner | NLA | Expected Completion Date |
|---|---|---|---|---|
| 1 Denison | New Development (DA Approved) | Winten property Group | 45,720 | Mooted |
| 101 Miller Street | Partial | Mirvac Group (50%) / TIAA Henderson (50%) | 5,713 | Q3 2016 |
| 100 Pacific Highway | Partial | Leighton Properties / ISPT | 1,408 | Q1 2017 |

Table 2– Developments in North Sydney over the first half of 2017— Source— PCA

## OFFICE STOCK

North Sydney has experienced strong growths in office developments over the past eighteen months as a result of strong demand from expanding commerce industries. Notably, Premium Grade and A Grade stock increased over the six months to January. Premium Grade market experienced an increase of 5,713 square metres to 36,500 square metres, whilst A-Grade stock increased by 38,011 square metres to 224,307 square metres. In contrast, B Grade and C Grade offices experienced declines in their stock over the same period. B Grade stock declined by 8,462 square metres to 410,504 square metres, whilst C Grade office stock declined by 5,248 square metres to 138,253 square metres. D Grade stock experienced no change in their stock, remaining at 12,932 square metres over the six months to January 2017. Overall, North Sydney's total office stock increased by 30,014 square metres.

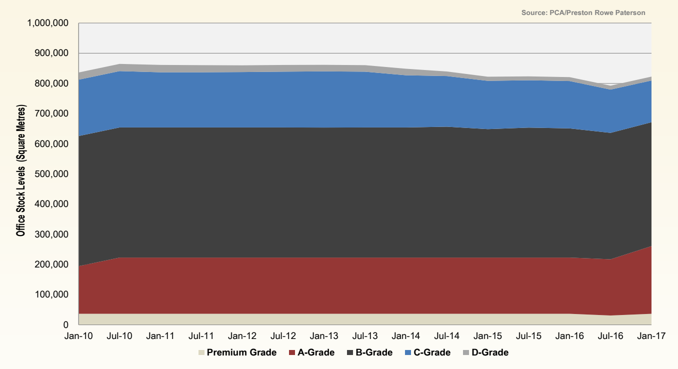


Chart 4– North Sydney Office Stock Vacancy by Grade— Source— PCA

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## VACANCY RATE

Total office vacancy in North Sydney's office market increased by 0.1%, from 7.0% in July 2016, to 7.1% in January 2017. Direct Vacancy declined by 0.2% to 6.5%, whilst sub-lease vacancy increased by 0.3% to 0.6%.

When we look at the different office grades in North Sydney, Premium Grade office vacancy declined by 16.1% from 41.2% to 25.2%. Similarly, but not to the same extent, A Grade and C Grade office vacancies declined by 0.2% and 1.3%, respectively, down to 5.2% and 3.5%. In contrast, B Grade and D Grade office vacancy increased by 1.0% and 0.4%, respectively, up to 6.7% and 3.3%. The planned Sydney Metro Line from Chatswood through to the Sydney Central Business District, have led to a decline in stock withdrawal from compulsory acquisition, with four buildings withdrawn in the third quarter of 2016 from North Sydney alone.

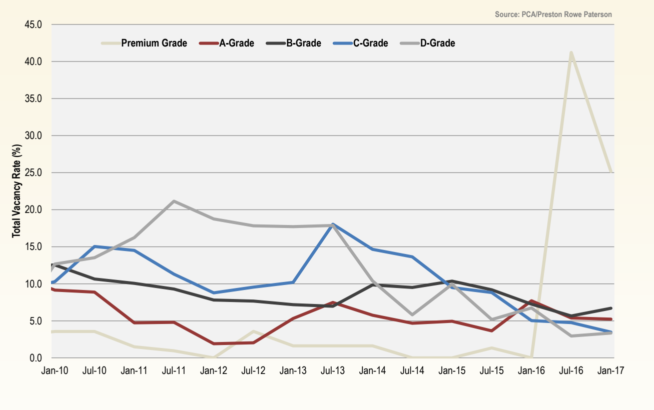


Chart 5– North Sydney Total Vacancy Rate (%)— Source— PCA

## NET ABSORPTION

Net absorption in North Sydney's office market stood at 1,198 square metres of space over the six months to January 2017. This figure comes after a decline in net absorption of 20,849 square metres over the six months to July 2016. When we look at the change in occupied stock over the twelve months to January, total change stands at 0.2%, an increase of 2.9% from July 2016's figure. Premium Grade stock experienced a decline of 25.2% in occupied stock over the period, whilst B Grade and C Grade buildings experienced a decline of -3.4% and -10.5%, respectively. A Grade stock experienced an increase of 22.6% in their occupied stock over the year, whilst D Grade stock experienced an increase of 3.3% in occupied stock.

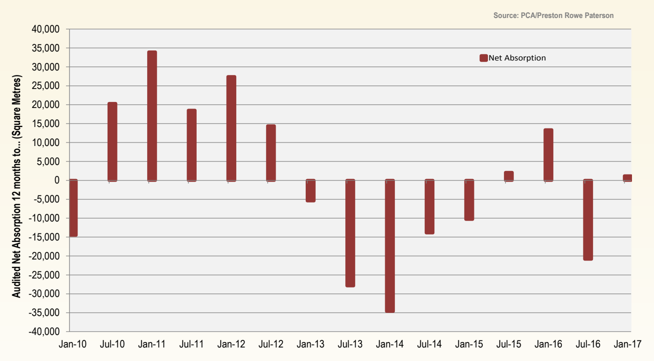


Chart 6– North Sydney Net Absorption, 12 months to…— Source— PCA

# CROWS NEST/ ST LEONARDS

## SALES

**84 Alexander Street, Crows Nest, NSW 2065**

REGNO has paid $8 million for 12 office strata units in one line. The buyer also owns an adjoining site that has DA approval for 16 apartments with retail space so the buyer has the ability to apply for development across the two sites totalling 1,000 m2. The sale reflects a rate of $666,667 per strata unit. Crows Nest is located around 6 km north of the Sydney CBD.

**39-47 Albany Street, Crows Nest, NSW 2065**

A fully-leased, 3-storey office building has been sold by *Pindan Capital* for **$22 million** at a **4% yield**. The 3,286 m2 building has three street frontages and 40 Car spaces. The site is zoned mixed-use so it has development upside post 2021 when the leases for the three tenants cease. The sale reflects a **rate of $6,695 psm**. Crows Nest is located about 6 km north of Sydney's CBD.

### LEASES

**Level 2, 170 Pacific Highway, St Leonards, NSW 2065**

A private landlord has leased a B-grade, 1,006 m2 whole-floor office to SFI Australia for 7-years. SFI will occupy the property for a net annual rent of around $420 psm. The lobby, car park and lifts in the property have recently been refurbished. St Leonards is located around 6.6 km north of the Sydney CBD.


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# CROWS NEST/ ST LEONARDS

## DEVELOPMENTS

| Project Address | Development Type | Owner | NLA | Expected Completion Date |
|---|---|---|---|---|
| 472-494 Pacific Highway | New Development (Construction Stage) | Mirvac Group | 4,600 | Q4 2019 |
| 18-20 Atchison Street | New Development (DA Applied) | Electroboard | 2,300 | Mooted |
| 219-247 Pacific Highway (Gore Hill Technology Park – Building D1) | New Development (DA Approved) | Lindsay Bennelong Development | 16,000 | Mooted |
| 219-247 Pacific Highway (Gore Hill Technology Park – Building D2) | New Development (DA Approved) | Lindsay Bennelong Development | 15,000 | Mooted |
| 219-247 Pacific Highway Gore Hill Technology Park – Building D3) | New Development (DA Approved) | Lindsay Bennelong Development | 15,000 | Mooted |
| 28 Chandos Street | Partial Refurbishment | Myrna Pty Ltd | 400 | Q4 2016 |
| 1-3 Atchison Street | Partial Refurbishment | Mews Investments Bondi Pty Ltd | 1,825 | Q1 2017 |

Table 3– Developments in Crows Nest/ St Leonards over the first half of 2017— Source— PCA

## OFFICE STOCK

The Crow's Nest/ St Leonard's office market remain dominated by C-Grade towers, which currently take up 44.4% of total office stock. Preston Rowe Paterson notes, however, that C Grade stock have slowly diminished over time, with a withdrawal around 13,000 square metres of C -Grade space over the six months to January 2017. A-Grade buildings currently take up 32.5% of total office space, with total A-Grade space having remained unchanged since January 2013 at 102,699 square metres. B Grade stock in this area have declined by 4,833 square metres over the six months to January, declining to 63,377 square metres. They currently take up 20.1% of total space in Crow's Nest/St Leonards. D Grade stock remain unchanged at 12,569 square metres, and take up 4.0% of total office stock as of January 2017. Total stock declined by 18,089 square metres down to 315,542 square metres.

## VACANCY RATES

Total office vacancy in Crow's Nest/St Leonards office market increased by 2.2% over the half year to January, from July 2016's rate of 8.3% to January's 10.5% vacancy rate. This change was attributed to by an increase in direct vacancy rate to 9.5%, whilst sub-lease vacancy remained unchanged at 1.0%. Total vacancy increased in A-Grade and B-Grade offices, and declined in C-Grade and D-Grade offices. A Grade vacancy increased by 3.0% to 7.0%, whilst B Grade vacancy increased by 11.5% to 17.8%. In contrast, C-Grade vacancy declined by 2.8% to 9.6%, whilst D Grade vacancy declined by 2.5% to 12.1%. The decline in C-Grade and D-Grade vacancy is mainly attributed to the withdrawal of space over the past six months and from the demolition of properties for the Sydney Metro rail system.

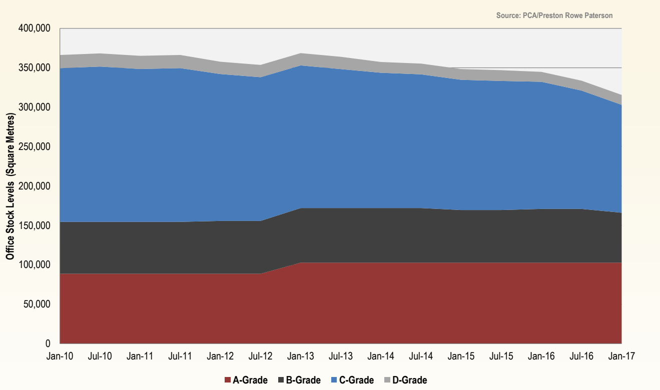


Chart 7– Crows Nest/ St Leonards Office Stock Vacancy by Grade— Source— PCA

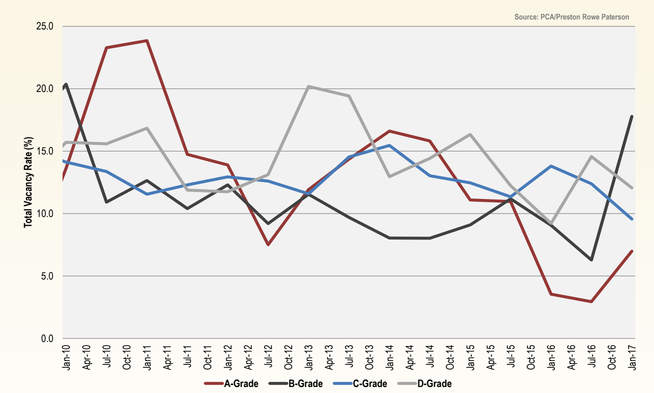


Chart 8– Crows Nest/ St Leonards Total Vacancy Rate — Source— PCA

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## NET ABSORPTION

Net absorption in the Crow's Nest/ St Leonards stood at -28,539 square metres for January 2017, a decline of 26,474 square metres over the six months from July 2016. When we look at the total change in occupied stock over the twelve months to January, the PCA recorded a decline of 9.2% in Crow's Nest/ St Leonards total market. Notably, B-Grade stock experienced a decline of 16.0% in occupied stock, whilst C Grade experienced a decline of 10.6%. A Grade and D Grade stock also experienced a decline in occupied stock, though to a much less extent, of 3.6% and 3.1% respectively.

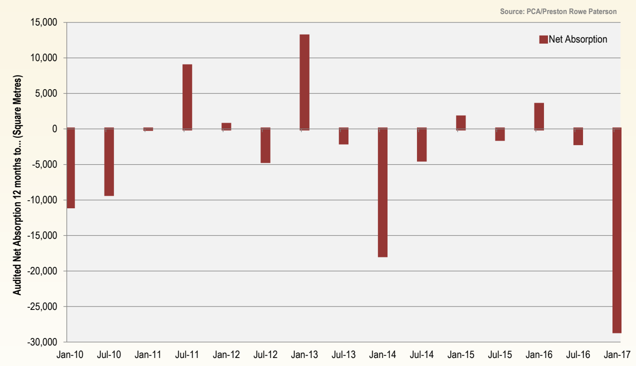


Chart 9– Crows Nest/ St Leonards Net Absorption 12 months to…— Source— PCA

# PARRAMATTA

## DEVELOPMENTS

### Parramatta Square

The multi-stage redevelopment of Parramatta Square will result in a revitalisation of Parramatta's city centre with new A-Grade office buildings, residential apartments, retail spaces and other facilities. Valued at over $2 billion, the development will affect more than 240,000 square metres of domain and which will enhance Parramatta's status as Sydney's second Central Business District. The project is split into different stages of development, with Stage 1 having being completed in the fourth quarter of 2016. Stage 2 have not gone through the implementation process, whilst Stages 4,5 and 6 have begun with its construction and Stage 3 recently gone through the DA application process.

Stage1 (169 Macquarie Street): covers approximately 26,500 square metres of space over 14 levels, the new $220.5 million A-Grade commercial tower will be the new campus for 10,000 University of Western Sydney students. The building will have highly integrated space with inter-floor connectivity within the levels of buildings, amenities onsite and a roof terrace with views to the north and east.

Stage 2 (Corner Church and Darcy Streets): The Aspire tower will become a 72-storey mixed-use tower with 700 apartments, 150 hotels room and ground level retail space. The tower itself will become Parramatta's tallest tower at 233 metres upon completion in 2020. Development application has been submitted to the council, however a second development application has been submitted for the building to be 20 levels taller (92-levels in total) or close to 300 metres in height. However, this second application will highly be rejected as it exceeds the Civil Aviation Safety Authority (CASA) maximum height of 243 metres (In Sydney Metro area).

Stage 3 (153 Macquarie Street): Development approval has been applied for the construction of the Parramatta commercial and community facilities over 24,000 square metres of office space and 7,000 square metres of public facilities.

Stage 4 & 6 (30 Darcy Street): This development will include two multi-use commercial buildings, totalling 110,000 square metres in A Grade office space and 4,500 square metres of retail area over 25 levels of space. Notably, the lower ground level of this building will provide an important underground walk way to Parramatta's railway station. The floorplate size will average around 2,000 square metres. The building is expected to be completed in the fourth quarter of 2019.

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| Project Address | Development Type | Owner | NLA | Expected Completion Date |
|---|---|---|---|---|
| 159-175 Church Street | New Development (DA Approved) | Scentre Group | 35,000 | Mooted |
| 169 Macquarie Street | New Development (Complete) | Charter Hall Group | 26,000 | Q4 2016 |
| 105 Phillip Street | New Development (Construction) | DEXUS Property Group | 25,000 | Q2 2018 |
| 30 Darcy Street | New Development (Construction) | Parramatta City Council | 110,000 | Q4 2019 |
| 153 Macquarie Street | New Development (DA Applied) | Parramatta City Council / Walker Corporation | 42,000 | Mooted |

Table 4– Developments in Parramatta over the first half of 2017— Source— PCA

## OFFICE STOCK

Parramatta City is experiencing extensive changes in their urban landscape, with more than $12 billion worth of investment in its pipeline, including the upgrade of the Civic Square which alone costs around $2 billion. In pursuit of being Sydney's other major capital city, Parramatta currently boasts major upgrades to its town centre, Pirtek sporting stadium, Riverbank Precinct, the completion of a new University of Western Sydney campus, the proposed fast train from the new airport at Badgerys Creek to Sydney CBD and a light rail network that will connect the two Sydney CBD's together. All these factors will work together to boost Parramatta's appeal as a commercial centre as Preston Rowe Paterson notes through the development of office stock, notably that of middle quality assets, over the last ten years. Total office stock over the last ten years had grown by 18%, to the current figure of 707,099 square metres for January 2017. We note that B Grade and D Grade office stock both increased by more than 70% over the last ten years. There's currently 219.303 square metres of B Grade office stock, whilst D Grade stock stand at 87,806 square metres. Over the ten year period, A Grade assets declined by 5%, down to the current 299,617 square metres and C Grade assets declined by 4% to 100,373 square metres.

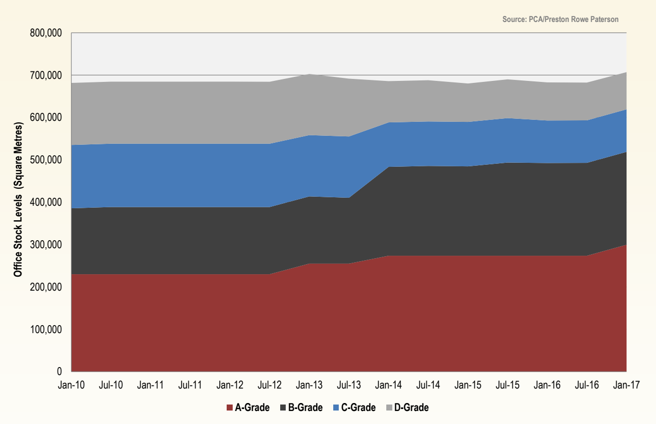


Chart 10– Parramatta Office Stock Vacancy by Grade— Source— PCA

## VACANCY RATES

According to the PCA, Parramatta's office market has the third lowest vacancy rate in Australia. Over the half year to January 2017, total vacancy rate declined by 0.2% to 4.3%, with East Melbourne and Southbank in Victoria experiencing lower vacancy rates. This change is attributed to a decline of 0.3% in direct vacancy, whilst sub-lease vacancy increased by 0.1%. Over six months, B Grade and D Grade office vacancy declined by 0.6% and 0.8%, respectively. Their respective vacancy rate stand at 6.2% and 4.3%. A Grade offices remain fully occupied, though over the year had declined by 1.7%. C Grade offices increased by 2.2% over six months to January 2017. According to the Property Council's NSW Executive Director, Jane Fitzgerald, Parramatta's low vacancy rate means that it will become harder to obtain office space, especially if there is no A Grade space available. Even though 30 per cent of Australia's top 500 companies have offices in Parramatta, if you are a big company looking for A Grade space, you will have to look outside Parramatta.

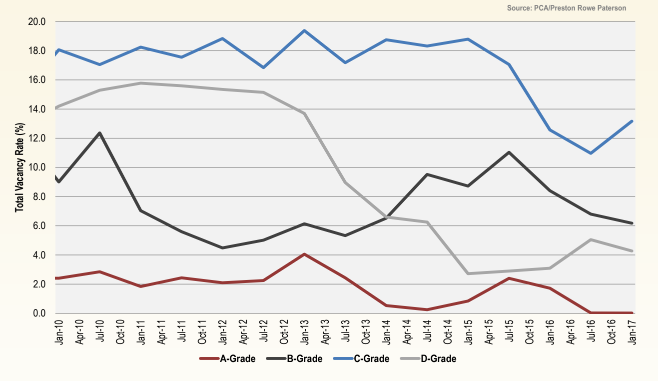


Chart 11– Parramatta Total Vacancy Rate (%)— Source— PCA

## NET ABSORPTION

Net absorption in Parramatta's office market stands at 32,128 square metres for January 2017, an increase of 18,831 square metres over six months. When we look at the change in stock, we note that Parramatta experienced a change of 5.0% over the twelve months to January. A Grade stock experienced a change of 11.4%

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in total occupied stock over the twelve months, whilst B Grade stock experienced a 2.6% in total occupied stock. In contrast, C Grade and D Grade stock experienced declines in their total occupied stock. C Grade experienced a decline of 0.7% in occupied stock over twelve months, whilst D Grade stock experienced a decline of 3.6%.

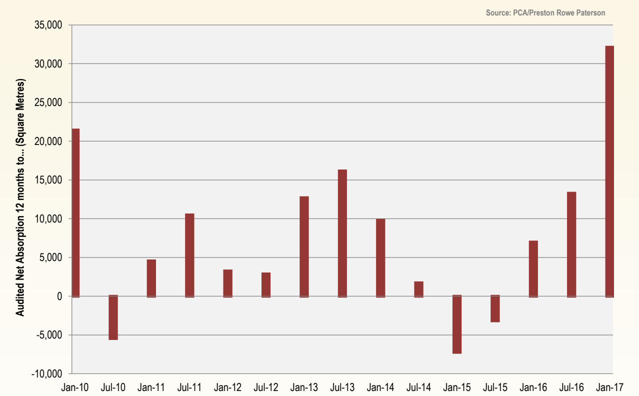


Chart 12- Parramatta Net Absorption 12 months to…— Source— PCA

# CHATSWOOD

## SALES

**1-5 Railway Street, Chatswood, NSW 2067**

Chatswood Central has sold to Lotus Group and iProsperity Group for around $115 million. The two commercial offices that are linked by a retail podium are 96% leased and have a total lettable area of 18,247 m2. The properties have a WALE of 3-years and the 3,806 m2 site has development upside. There is also basement parking accessed from Railway Street. The sale reflects a rate of $6,241 psm. Chatswood is located about 12.2 km north of the Sydney CBD.

## LEASES

**465 Victoria Avenue, Chatswood, NSW 2067**

*Carnival Australia* will occupy 3,500 m2 of office space in levels three to six of a 15-level A-grade commercial office. *Hines Global REIT* leased the property to the new tenant for a **net annual rent of around $460 to $500 psm.** Chatswood is located about 12.2 km north of Sydney's CBD.

## OFFICE STOCK

Chatswood benefits from being one of Sydney Metropolitan's largest mixed-used centres that entails a thorough mix of commercial, retail and residential developments. However, Chatswood's office market has not changed for eighteen months with no withdrawals or additional supply. The lack of addition to this niche office market is mainly influenced by the lack of development sites as well as the largest focus being placed on residential development in the area. No new developments have been approved or planned and this means that the lack of supply with continue for at least another two years. Chatswood's office market current remain dominated by A Grade office stock, which take up 56% of total stock with 157,412 square metres of space. B Grade and C Grade stock take up a respective 27% and 16% of total stock, with 76,046 square metres and 45,007 square metres respectively. D Grade stock take up close to 0.2% of total stock, with 454 square metres.

## VACANCY RATES

The North Shore office market, which consists of offices in North Sydney, Crows Nest/ St Leonards and Chatswood, experienced an overall increase in their vacancy rate over the six months to January 2017, from 7.3% to 8.0%. This change was mainly attributed to the increase in supply combined with increased demand in most of the areas in the North Shore. For office buildings in Chatswood, total vacancy increased by 1.2% to 7.7% over the six months to January 2017. The increase was mainly attributed to by a rise in direct vacancy, which increased by 2.0% to 7.2%. This was offset by a decline in sub -lease vacancy, which decreased by 0.8% down to 0.5%. A Grade, C Grade and D Grade vacancy increased over the half year, to 8.0 %(+1.9%), 3.9% (+1.4%) and 100% (+100%) respectively. In contrast, B Grade offices experienced a decline in vacancy, of 0.9% down to 8.9%.

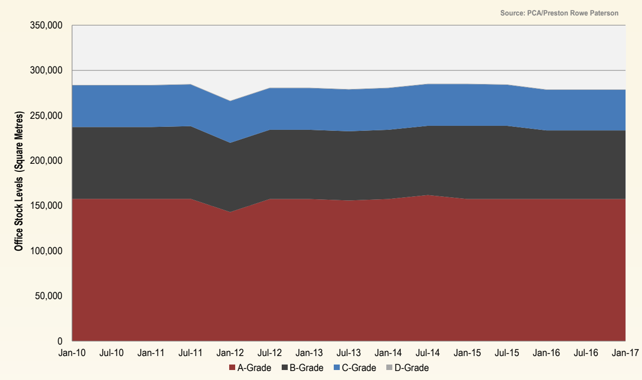


Chart 13– Chatswood Office Stock Levels by Grade— Source— PCA

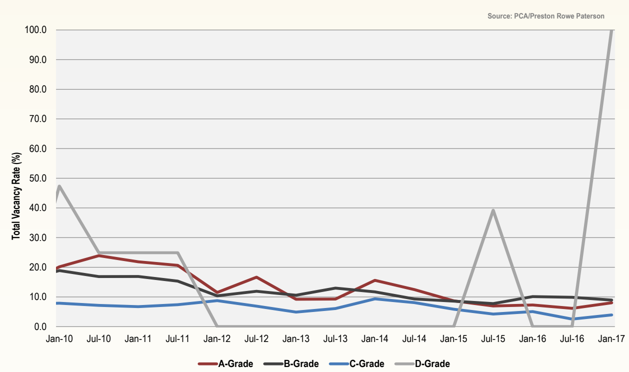


Chart 14– Chatswood Total Vacancy Rate (%)— Source— PCA

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## NET ABSORPTION

Over the twelve months to January 2017, Chatswood experienced 191 square metres of negative net absorption. Over the six months to January, there was 3,310 square metres of negative net absorption, which inevitably influenced Chatswood's vacancy rate to increase to 7.7% over the same period. Total percentage change in occupied stock over the twelve months is -0.1%. A Grade experienced a decline of 0.8% in occupied stock, whilst D Grade experienced a 100% decline. B Grade and C Grade experienced an increase in the percentage of occupied stock over twelve months, of 1.3% and 1.2% respectively.

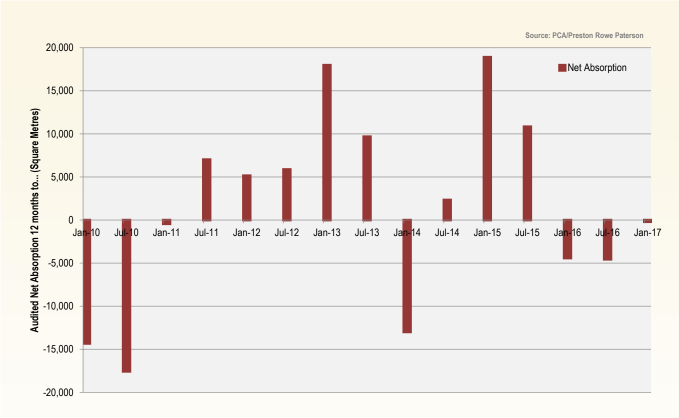


Chart 15– Chatswood Net Absorption 12 months to…— Source— PCA

# NORTH RYDE/ MACQUARIE PARK

## DEVELOPMENT

| Project Address | Development Type | Owner | NLA | Expected Completion Date |
|---|---|---|---|---|
| 66-82 Talavera Road | New Development (Complete) | Holdmark | 5,000 | Q3 2016 |
| 8 Khartoum Road (DEV) | New Development (Construction stage ) | Goodman | 10,000 | Q2 2017 |
| 396 Lane Cove Road | New Development (Early Feasibility stage) | Frasers Property / Winten Property Group | 74,000 | Mooted |
| 31-35 Epping Road | New Development (DA Applied) | Harvey Norman Group | 14,477 | Mooted |
| Lot 8 Julius Avenue (Incl Lot 9) | New Development (DA Approved) | ISPT Pty Ltd | 34,194 | Mooted |
| 97-99 Waterloo Road | Full Refurbishment | Goodman | 8,146 | Q3 2017 |

Table 5– Developments in North Ryde/ Macquarie Park over the first half of 2017— Source— PCA

## OFFICE STOCK

The North Ryde/ Macquarie Park office market boasts as Australia's largest non-CBD office market and as an economic hub of global businesses that specialise in commercial and technology intensive activities. The 200 hectare employment area was formed in the late 1960s in order to support the intertwining of technology businesses with the then newly built Macquarie University. The planned Sydney Metro and significant employment growth over the years will benefit the city substantial, though investment needs to be encouraged to support this growth. Today, total office space in the North Ryde/ Macquarie Park zone stands at 878,950 square metres, an increase of over 60% when compared to ten years prior. A Grade office stock take up 73% of total office stock in North Ryde/ Macquarie Park with a total of 640,620 square metres. This figure represents increase of 5,000 square metres over the six months to January 2017. B Grade stock take up 25% of total stock with 220,224 square metres, though this figure represents a decline of 9,417 square metres. C Grade and D Grade stock remain unchanged at 1.8% and 0.3% of total stock respectively, at 15,385 square metres and 2,721 square metres. Over the six months, total supply stand at 5,000 square metres, and withdrawals amounting to 9,417 square metres.

## Vacancy Rates

Vacancy rate across the North Ryde/ Macquarie Park office market increased by 0.4% to 7.5% over the six months to January 2017. Direct vacancy declined by 0.5%, to 6.7%, whilst sub-lease vacancy increased


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by 0.3% to 0.9%. According to data from the PCA, vacancy rate in this area increased due to declining demand across all grades of offices. The NSW Executive Director, Jane Fitzgerald, states that the North Ryde/ Macquarie Park office market softened, with negative demand across all graded spaces over the six months to January. A Grade and C Grade offices experienced a respective increase of 0.9% and 0.3% in vacancy rate, to 5.1% and 10.7%, respectively. In contrast, B Grade offices experienced a decline in vacancy rate, of 0.7% down to 14.2%.

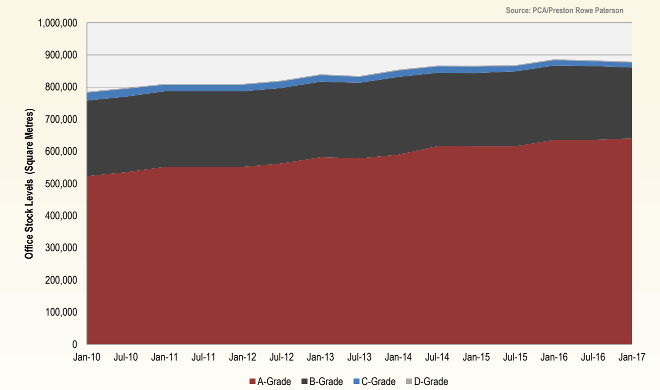


Chart 16– North Ryde/ Macquarie Park Office Stock Vacancy by Grade— Source— PCA

## NET ABSORPTION

Net absorption of office spaces in North Ryde/Macquarie Park over the twelve months to January 2017 stand at a negative 3,268 square metres. The total change in occupied stock over twelve months stand at -0.4%. B Grade and C Grade stock experienced a decline of -1.5% and -7.3% in occupied stock over twelve months, whilst A Grade stock experienced a change of 0.1% over the same period.

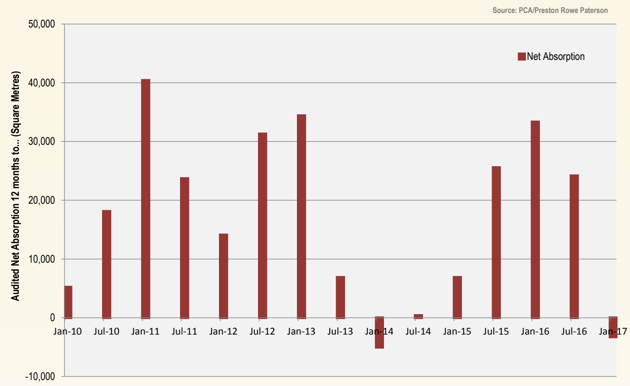


Chart 17– North Ryde/ Macquarie Park Net Absorption 12 months to…— Source— PCA

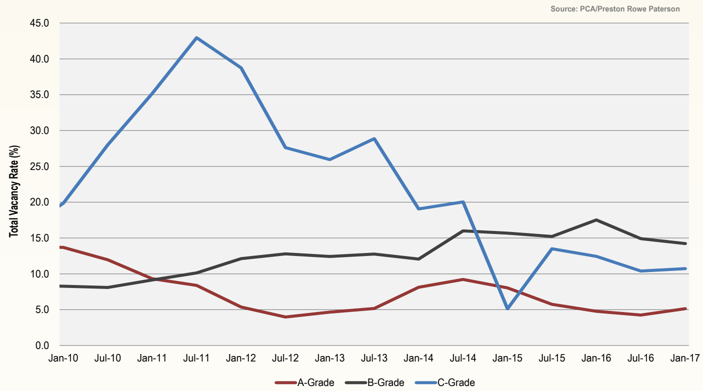


Chart 18– North Ryde/Macquarie Park Total Vacancy Rate (%)— Source— PCA


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# Economic Fundamentals

## Consumer Price Index

The June quarter Consumer Price Index (CPI) figures will not be available until 27th July, hence March quarter figures will be used for the following analysis. CPI increased by 0.5% over the March quarter, following an increase of 0.5% in the December quarter 2016. The main contributor to this increase was the Housing group (+0.8% over the quarter), the Transport group (+1.5% over the quarter), the Health group (+2.0%), Education group (+3.1%) and the Alcohol and tobacco Group (+1.1%). In contrast, the main inhibitors to further increases in CPI were the Furnishing, household equipment & services group (-1.0%), Recreation & culture group (-0.7%), Clothing and footwear group (-1.4%), Communications group (-0.3%) and Food & alcoholic beverage group (-0.2%).

Over the year to March 2017, All Groups CPI increased across all eight capital cities in Australia, with Melbourne and Sydney recording the biggest yearly increase, of +2.5% and +2.4% respectively. In contrast, Darwin recorded the lowest increase, with an annual change of 0.5%. Over the March quarter, CPI increased in all capital cities, except for Darwin.

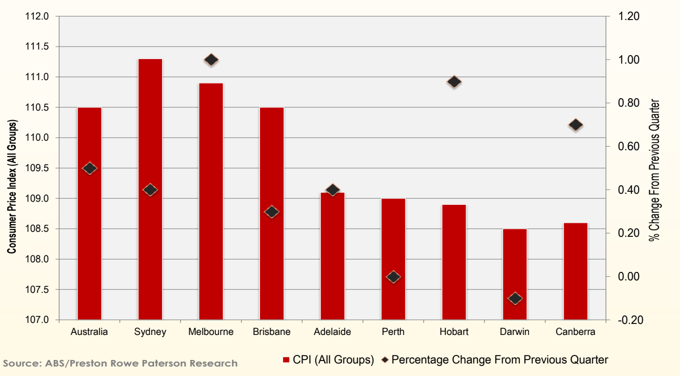


Chart 1—All Group CPI (Capital Cities) and Percentage Change from December 2016 to March 2017—Source—ABS

## Business Sentiment

Both business conditions and business confidence declined over the month of May. Figures released by National Australia Bank indicate that business conditions dropped by 1 point, to +12 index points, whilst business confidence index fell by 6 points to +7 index points. In stating this, both indices remain slightly above their long-run average index (+5 for business conditions, +6 for business confidence), with leading indicators for both business condition and business confidence remaining relatively strong. NAB's chief economist, Alan Oster, noted that a disconnect is present when we look at evidence of solid business activity in conjunction with data that indicates a slowdown in consumer spending. With weak household data and wage growth remaining at record low, and a strong business sector, Mr Oster have noted how this 'disparity resolves itself will be critical to the outlook for growth'.

| | Net Balance | | |
|---|---|---|---|
| | March 2017 | April 2017 | May 2017 |
| Business confidence | 7 | 13 | 7 |
| Business conditions | 14 | 13 | 12 |

Table 1— Monthly Net Balance of Business confidence index and Business conditions index — Source— National

## Consumer Sentiment

According to the Westpac Melbourne Institute Index of Consumer Sentiment, consumers over the month of June are feeling the most pessimistic since the Reserve Bank's 2016 rate cuts. The index fell 1.8% from 98.0 in May to 96.2 in June, with a reading below 100 indicating that the number of pessimists outweigh optimists in their outlook of the economy. The main contributor to the results stems from the March quarter GDP figures, which produced relatively weak results. Annual growth had declined to 1.7%, the slowest increase since the GFC prompting consumers' pessimistic responses during the June survey.

Job security remains a topic on most consumers' mind, with the Westpac Melbourne Institute Unemployment Expectations Index increasing from 135.5 to 140.3, with a lower number indicating that fewer consumers expect unemployment to rise over the next twelve months. In saying this, job figures have come out positive, with unemployment expectations showing a positive improvement, as average index figures for 2015 and 2016 were both at 144 points.

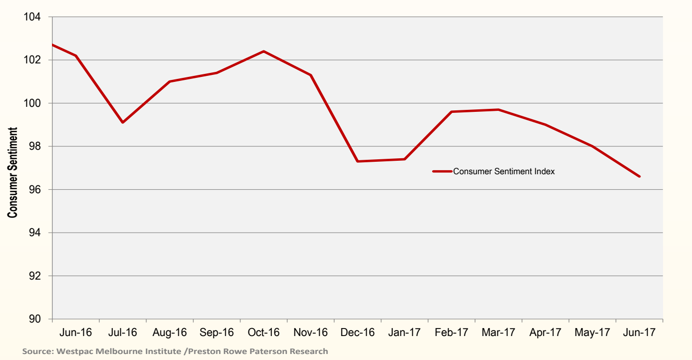


Chart 2—Consumer Sentiment Index, February 2016 to February 2017—Source—Westpac Melbourne Institute Survey

| | June 2016 | May 2017 | June 2017 |
|---|---|---|---|
| Consumer Sentiment Index | 102.2 | 98 | 111.3 |
| Family finance vs. a year ago | 90.3 | 82.6 | 81.4 |
| Economic conditions next 12 months | 97.9 | 95.9 | 91.3 |
| Time to buy a dwelling | 103.7 | 90.0 | 90.9 |

Table 2— Consumer Sentiment– June 2017 — Source— National Australia Bank


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## Gross Domestic Product

Over the first quarter of 2017, Australia's gross domestic product (GDP) increased by a seasonally adjusted 0.3%- a relatively weak figure when compared to December 2016 quarterly increase of 1.1%. Over the twelve months to March 2017, Australia's economy grew by 1.7%, relatively weaker than the 2.4% yearly increase in the fourth quarter 2016. Many economists had anticipated weaker growth over March quarter, after current account figures had indicated a dramatic slowdown in exports over the three months. However, the quarter's growth now means that Australia has experienced 103 quarters without a technical recession (defined as two consecutive quarters of negative growths).

We note that export of goods and services declined by a seasonally adjusted 1.6% over the quarter. The main influence was a decline in the export of mineral ores and coal, which contributed to a 2.6% decline in the export of goods. The export of services partially offset this decline by increasing by 2.5% over the quarter, though was not enough to stimulate an overall positive growth after the previous six quarters of growth. Moreover, terms of trade increased by 6.6% over the quarter, a decline from the 9.6% increase from last quarter.

Dwelling investments declined by 4.4% over the March quarter, though over the twelve months, dwelling investment has declined by 2.5%. Victoria was the only state to experience an increase in dwelling investment over the quarter, though at a

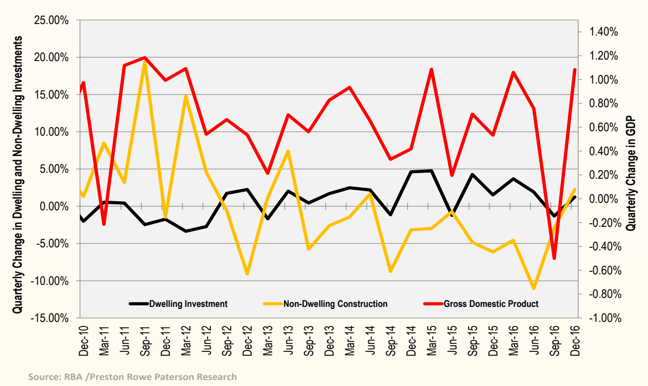


Chart 3— Percentage Change in Dwelling, Non-Dwelling Investments and GDP— Source: ABS

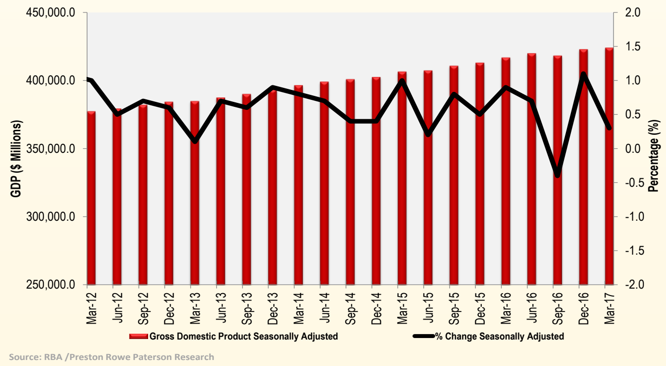


Chart 4— Seasonally Adjusted GDP and Seasonally Adjusted Change in GDP— Source: ABS

## Unemployment

Over the month to May 2017, seasonally adjusted unemployment rate declined to 5.5%, the lowest level since February 2013. There were 52,100 new persons in full time employment, though the number of persons starting part-time roles declined by 10,100- bringing the net total number of employed persons to 42,000 over the month. Over the same period, the participation rate declined to 64.9% (-0.1%), underemployment rate declined to 8.8% (-0.1%) and the underutilisation rate declined to 14.4% (-0.4%).

New South Wales experienced the largest month-on-month increase in employment with 32,600 persons. Victoria and Queensland experienced the next largest increases, with 6,900 persons and 5,500 persons respectively. When we look at the unemployment rate around the country, South Australia and Western Australia experienced the largest decline, both by -0.4%. Tasmania experienced an increase of 0.2%, whilst New South Wales increased by 0.1%. Tasmania experienced an increase of 0.8% in their participation rate, whilst Western Australia experienced a decline of 0.1% in theirs.

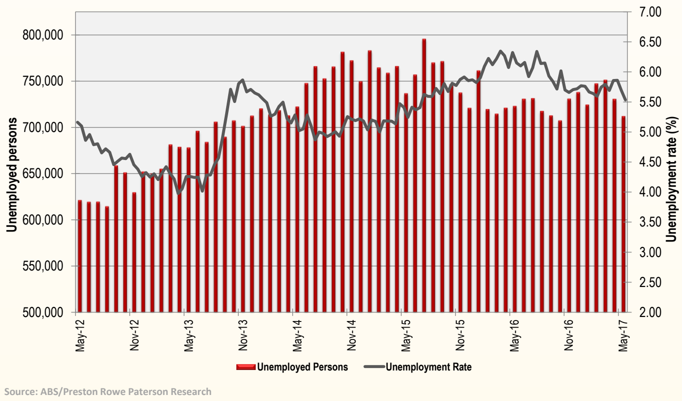


Chart 5— Unemployment Persons and Unemployment Rate, March 2011 to March 2017 — Source: ABS

| | Unemployment Rate (%) | | | Participation Rate (%) | | |
|---|---|---|---|---|---|---|
| | April | May | | April | May | |
| Australia | 5.7 | 5.5 | ▼ | 64.9 | 64.9 | — |
| New South Wales | 4.7 | 4.8 | ▲ | 65.3 | 65.2 | ▼ |
| Victoria | 6.1 | 6.0 | ▼ | 66.0 | 65.5 | ▼ |
| Queensland | 6.3 | 6.1 | ▼ | 69.0 | 68.1 | ▼ |
| South Australia | 7.3 | 6.9 | ▼ | 65.0 | 64.8 | ▼ |
| Western Australia | 5.9 | 5.5 | ▼ | 68.8 | 67.5 | ▼ |
| Tasmania | 5.9 | 6.1 | ▲ | 59.5 | 59.9 | ▲ |
| Northern Territory* | 3.3 | 3.2 | ▼ | 74.3 | 65.6 | ▼ |
| Australian Capital Territory* | 3.6 | 3.5 | ▼ | 67.8 | 66.1 | ▼ |

Table 3— Unemployment Rate and Participation Rate, February vs. March 2017 — Source: ABS

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## 10 Year Bond & 90 Day Bill Rate

10-year government bond yield in Australia declined by 0.14% to 2.41% over the month to June 2017. Over three months, the 10-year bond yields declined by 0.40%, though when compared to June 2016, yields had increased by 0.29%. Australia's 90-day bill rate declined by 0.01% over the month, to 1.72%. This figure signifies a 0.07% decline over the quarter and a 0.27% decline over the year. Historically, Australian government yields are usually higher than that of the US government yields. However, the differential between Australian and US 10-year government bonds have narrowed to just 16 basis points at the end of June as global investors price in more monetary tightening by the Federal Reserve. We note that Australian 10-year bond yields, being influenced by the global increase in yields, had increased by 53 basis points since August last year, during which yields dropped to a historical low of 1.88%. Preston Rowe Paterson notes that long term bond yields have been declining gradually since the 1980's, and we consider the sharp increase in late December 2016 and the current elevated bond yields a normalisation of 10-year government bonds after it dropped to a record low in August 2016.

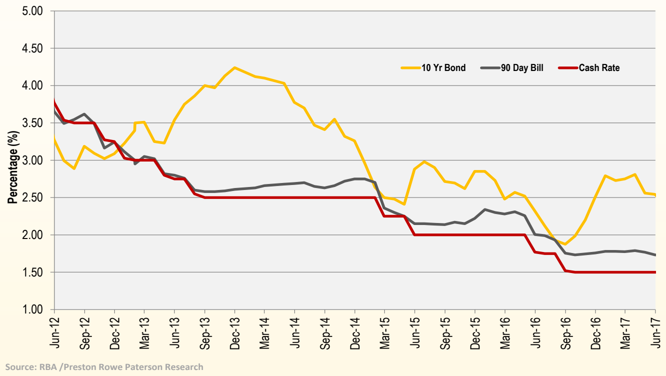


Chart 6— Monthly Movement of 90-day Bill, 10-year bond yields and Cash rate—Source: RBA

## Interest Rates

The Board of the Reserve Bank left rates unchanged at 1.5% for the tenth consecutive month at their June meeting. The main concerns brought up at the board meeting included concerns surrounding Australia's low wage growth and the imbalance between the housing markets around various parts of Australia. Ultimately, the Reserve Bank strives to achieve financial stability by pursuing an inflation target of two to three percent over the medium term. As the nation transitions through the mining boom investment phase, interest rates were cut to its lowest historical levels in order to support economic growth within the country. Reserve Bank board members noted the importance of a prudent regulatory body in promoting financial stability, and noted the need for a strong relationship built between the Bank and banking regulators, especially Australia Prudential Regulatory Authority (APRA).

The Board's decision to keep interest rates unchanged stemmed from upbeat messages from world economic growth, in conjunction with the prospect of world-wide increase of wages and prices as the labour markets in many countries begin to improve. It was also noted that headline inflation in many countries have increased over the past twelve months, though core inflation remain relatively low. In the domestic economy, improvements in business conditions and business investments, in the parts of the economy that was not directly affected by the slowdown in mining investments contributed to the Board's interest rate decisions. Slow wage growth continue to highlighted, with members pointing out the low increase in income and high levels of household debts as being the main inhibitors to household consumption.

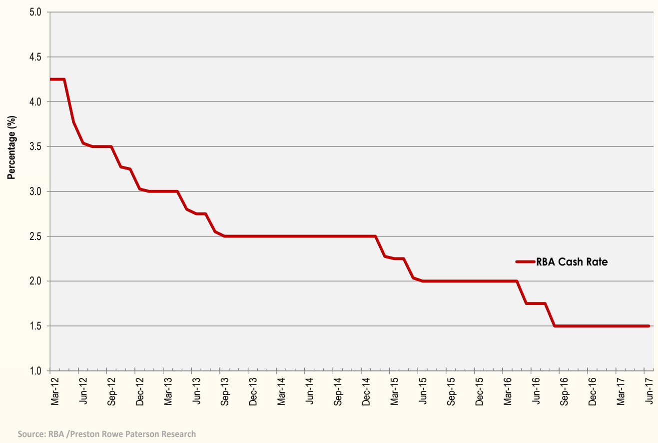


Chart 7— Reserve Bank of Australia Overnight Cash rate—Source: RBA

## Exchange Rate

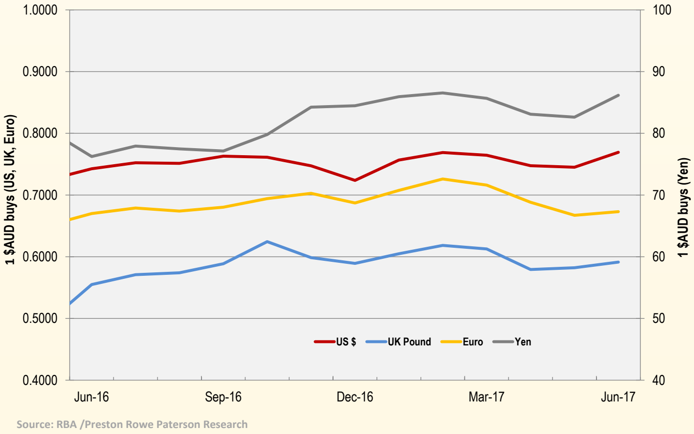


Chart 8— Movement in Exchange Rate over the year to March 2016— Source: RBA

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## Our Research

At Preston Rowe Paterson, we pride ourselves on the research which we prepare in the market sectors within which we operate. These include Commercial, Retail, Industrial, Hotel & Leisure and Residential property markets as well as infrastructure, capital and plant and machinery markets

## We have *property* covered

- Investment
- Development
- Asset
- Corporate Real Estate
- Mortgage
- Government
- Insurance
- Occupancy
- Sustainability
- Research
- Real Estate Investment Valuation
- Real Estate Development Valuation
- Property Consultancy and Advisory
- Transaction Advisory
- Property and Asset Management
- Listed Fund, Property Trust, Super Fund and Syndicate Advisors
- Plant & Machinery Valuation
- General and Insurance Valuation
- Economic and Property Market Research

## We have all *real estate* types covered

We regularly provide valuation, property and asset management, consultancy and leasing services for all types of Real Estate including:

- CBD and Metropolitan commercial office buildings
- Retail shopping centres and shops
- Industrial, office/warehouses and factories
- Business parks
- Hotels (accommodation) and resorts
- Hotels (pubs), motels and caravan parks
- Residential development projects
- Residential dwellings (individual houses and apartments/ units)
- Rural properties
- Special purpose properties such as: nursing homes; private hospitals, service stations, oil terminals and refineries, theatre complexes; etc.
- Infrastructure

## We have all types of *plant & machinery* covered

We regularly undertake valuations of all forms of plant, machinery, furniture, fittings and equipment including:

- Mining & earth moving equipment/road plant
- Office fit outs, equipment & furniture
- Agricultural machinery & equipment
- Heavy, light commercial & passenger vehicles
- Industrial manufacturing equipment
- Wineries and processing plants
- Special purpose plant, machinery & equipment
- Extractive industries, land fills and resource based enterprises
- Hotel furniture, fittings & equipment

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Preston Rowe Paterson acts for an array of clients with all types of real estate, plant, machinery and equipment interests such as:

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- Commercial and Residential non bank lenders
- Co-operatives
- Developers
- Finance and mortgage brokers
- Hotel owners and operators
- Institutional investors
- Insurance brokers and companies
- Investment advisors
- Lessors and lessees
- Listed and private companies corporations
- Listed Property Trusts
- Local, State and Federal Government Departments and Agencies
- Mining companies
- Mortgage trusts
- Overseas clients
- Private investors
- Property Syndication Managers
- Rural landholders
- Self managed super funds
- Solicitors and barristers
- Sovereign wealth funds
- Stock brokers
- Trustee and Custodial companies

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Our clients seek our property (real estate, infrastructure, plant and machinery) services for a multitude of reasons including:

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- Alternative use & highest and best use analysis
- Asset Management
- Asset Valuations for financial reporting to meet ASIC, AASB, IFRS & IVSC guidelines
- Compulsory acquisition and resumption
- Corporate merger & acquisition real estate due diligence
- Due Diligence management for acquisitions and sales
- Facilities management
- Feasibility studies
- Funds management advice & portfolio analysis
- Income and outgoings projections and analysis
- Insurance valuations (replacement & reinstatement costs)
- Leasing vacant space within managed properties
- Listed property trust & investment fund valuations & revaluations
- Litigation support
- Marketing & development strategies
- Mortgage valuations
- Property Management
- Property syndicate valuations and re-valuations
- Rating and taxing objections
- Receivership, Insolvency and liquidation valuations and support/advice
- Relocation advice, strategies and consultancy
- Rental assessments and determinations
- Sensitivity analysis
- Strategic property planning

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