



Preston
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International Property Consultants

Sydney *Impact* Report

Office Market

2014
December Quarter Update

INSIDE THIS ISSUE:

Change is coming to Sydney

The Sydney office commercial market had seen to a number of sales and leasing transactions prior to the year end 2014. The market seems to be making a recovery due to the lowered Australian dollar and the renewed foreign investor interest in the Australian commercial market. Many investors and developers have been buying into the Australian market with the intention of future conversions of the commercial buildings with park or harbour views.

One of the most eye-catching sale in the December quarter was the sale of the 175 Liverpool Street located at Hyde Park. Singaporean sovereign wealth fund Government Investment Corporation Real Estate (GIC Real Estate) had sold the property for \$390 million to Shimao Property Holdings. The newly refurbished A-grade office tower has a 46,583 sqm NLA across 28 levels and is tenanted by Telstra, state and federal government tenants. The office tower has Hyde Park views and it is understood that Shimao Property Holdings will hold the property as an investment for about a decade before undertaking a development.

Sydney Office Market Highlights	2
Sydney CBD Office Market	3
North Sydney Office Market	6
Crows Nest/St Leonards Office Market	8
Parramatta CBD Office Market	9
Chatswood Office Market	11
North Ryde/Macquarie Park Office Market	13
NSW Suburban Business Hubs	14
Economic Fundamentals	15
About Preston Rowe Paterson	17
Contact Us	19



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Sydney Office Market Highlights

In the past six months to December 2014, the Sydney office market had recorded many major sales of office space to both domestic and foreign investors. As observed by Preston Rowe Paterson Research, foreign investors mostly purchased properties in the Sydney CBD with the purpose of potential mixed-use conversions and redevelopment. Most major sales and leasing transactions were concentrated in the Sydney CBD office market. However, the limited supply of quality and large format office stock in the Sydney CBD are increasing interests in the North Sydney, Parramatta and other business districts' office market.

Sales

Most major sales activity in the 2014 December quarter had occurred in the Sydney CBD, North Sydney and Parramatta office markets. The majority of vendors were property funds selling off property portfolios and a great number of purchasers were developers and listed funds.



A significant office sale in the December quarter was the sale of the **Gold Fields House** located at **1 Alfred Street** in Sydney's Circular Quay precinct. Blackstone Real Estate Partners VI (formerly Valad Property Group and its V-Plus Fund, prior to acquisition) had sold the property for **\$425 million** to Dalian Wanda Group on a tight, equated yield of approximately 4%. The 25 storey, A Grade office building comprise of a net lettable area of 21,511 sqm, 1,964 sqm of retail space and 118 car spaces. The property is 92% tenanted with a WALE of 2.6 years. The net passing income is believed to be approximately \$17.079 million per annum.

Leases

Preston Rowe Paterson Research had observed that the Sydney metropolitan office leasing activities has increased in the December quarter, particularly in the Sydney CBD market. The observed average rent was about \$547 psm across the Sydney metropolitan office market on an average term of 6 years. The overall rental market had been relatively slow in the past quarter, this was notable in the office markets outside of Sydney CBD and North Sydney. However, leasing activity to quality tenants over a medium term has increased in the Sydney CBD. The steady rise in major leasing activity may signify rental growth in 2015.

One of the significant leases signed in the December quarter was the lease of **Darling Park Tower 2** located at **201 Sussex Street** in the Sydney CBD office market to the multinational insurance group **Insurance Australia Group (IAG)** on a 12 year term. It is understood that IAG will lease approximately 33,000 sqm across the low and midrise floors. IAG will consolidate all three CBD offices and move to the Darling Park office in 2018, replacing the current tenant Pricewaterhouse Coopers (PwC).



Developments

There are a number of new developments in the Sydney CBD that are scheduled to be completed in 2015. There will be a new supply of approximately 253,500 sqm office space in the Sydney CBD by the end of 2015.

One of the anticipated development due for completion in the first quarter of 2015 is the **Money Box Building** located at **5 Martin Place** in Sydney CBD. The development of the iconic building will provide 33,000 sqm of net lettable office space over 19 levels. The average floor plate size is recorded to be about 2,400 sqm. The development project is owned by Colonial First State (Commonwealth Property Office Fund) & Cbus Property Pty Ltd.



Yield

As observed by Preston Rowe Paterson Research over six months to September 2014, the market yield in the Sydney metropolitan office market had shown to be approximately 7.08% average yield. The Sydney CBD office yields ranged from 4.02% to 8.40% to an average yield of approximately 6.57%. The North Sydney office market recorded an average yield of approximately 6.37% and Parramatta recorded an average yield of 7.78%.

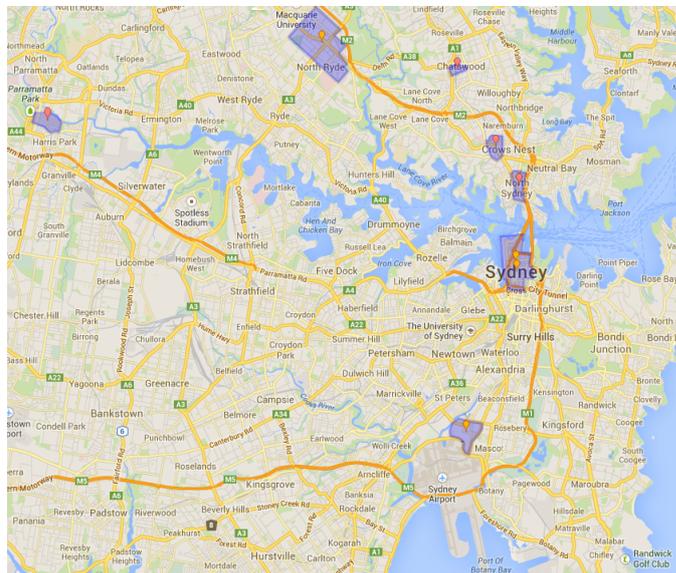


Image 1— Location map of major CBD in the Sydney metropolitan area—Source—Google Maps and Preston Rowe Paterson Research

Commercial Office Market

Sydney CBD

Investment Activity

The following table shows reported major sales transactions that occurred over six months to December 2014. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	BLGA	sc	Rate	psm	Yield
52 Martin Place, Sydney NSW 2000	\$ 555,000,000	QIC Global Real Estate	REST Industry Super	Jul-14	39,138		\$ 14,180.59		5.40%
201-211 Kent Street, Sydney NSW 2000	\$ 173,000,000	DEXUS Office Partnership	Investa Commercial Property Fund	Jul-14	39,932		\$ 4,332.37		undisclosed
8 Windmill Street, Millers Point NSW 2000	\$ 28,000,000	undisclosed	Mark Henderson	Jul-14	3,820		\$ 7,329.84		7.50%
1-3 Munn Street, Sydney NSW 2000	\$ 38,000,000	Woodben Pty Ltd	undisclosed	Jul-14	3,843		\$ 9,888.11		undisclosed
85 Harrington Street, Sydney NSW 2000	\$ 50,000,000	Arena Office Fund	Golden Age Group with joint venture partner Hannas Group	Sep-14	7,800		\$ 6,410.26		8.40%
31A Pitt Street, Sydney NSW 2000	\$ 21,000,000	The Rugby Club Ltd	31 Pitt Street Pty Ltd	Sep-14	1,500		\$ 14,000.00		undisclosed
484 Kent Street, Sydney NSW 2000	\$ 7,300,000	undisclosed	private investor	Oct-14	1,010		\$ 7,227.72		undisclosed
75 Elizabeth Street, Sydney NSW 2000	\$ 64,000,000	Uniting Church Australia	foreign investment group	Oct-14	6,234		\$ 10,266.28		6.50%
192 Pitt Street, Sydney NSW 2000	\$ 32,800,000	The Hour Glass Limited	Lee Tai Enterprises (Australia) Pty Ltd	Oct-14	659		\$ 49,772.38		undisclosed
50 Carrington Street, Sydney NSW 2000	\$ 88,000,000	DEXUS Property Group	Brookfield Office Properties	Nov-14	11,277		\$ 7,803.49		7.30%
208 Clarence Street, Sydney NSW 2000	\$ 8,530,000	Paramount Pictures Australia Government	Well Smart Investmet Group	Nov-14	1,306		\$ 6,531.39		undisclosed
175 Liverpool Street, Sydney NSW 2000	\$ 390,000,000	Investment Corporation Real Estate	Shimao Property Holdings	Nov-14	46,583		\$ 8,372.15		undisclosed
2 Elizabeth Plaza, North Sydney NSW 2060	\$ 45,000,000	Altis Property Partners	Marprop	Nov-14	8,000		\$ 5,625.00		8.00%
695-699 George Street, Sydney NSW 2000	\$ 40,000,000	undisclosed	private investor	Nov-14	3,374		\$ 11,855.36		4.88%
46-54 Pitt Street, Sydney NSW 2000	\$ 94,000,000	Hawaiian Group	CIMB-Trust Capital	Nov-14	9,897		\$ 9,497.83		7.00%
311-317 Sussex Street, Sydney NSW 2000	\$ 18,000,000	Peter and Vicki Kazacos	Guansheng Australia Pty Ltd	Nov-14	2,160		\$ 8,333.33		undisclosed
233 Castlereagh Street, Sydney NSW 2000	\$ 156,000,000	GDI Property Group	undisclosed	Nov-14	19,892		\$ 7,842.35		6.12%
19 Foster Street, Surry Hills NSW 2010	\$ 22,123,000	W Property	Security Capital	Dec-14	3,249		\$ 6,809.17		7.20%
1 Alfred Street, Sydney NSW 2000	\$ 425,000,000	Valad and V-Plus Fund	Dalian Wanda Group	Dec-14	23,515		\$ 18,073.57		4.02%

Table 1 — Sydney CBD Sales Transactions

The following table shows reported major leasing transactions that occurred over six months to December 2014. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lessee	Area sqm	Term	Lease Date
189-197 Kent Street, Sydney NSW 2000	\$ 485	\$ 240,075	Petrofin International	495	7	Jul-14
Tower C 300 Elizabeth Street, Sydney NSW 2000	\$ 600	\$ 3,120,000	Open Colleges	5,200	8	Aug-14
1-15 Market Street cnr Sussex Street, Sydney NSW 2000	\$ 735	\$ 798,945	Madison Marcus Law Firm	1,087	5	Aug-14
20 Bridge Street, Sydney NSW 2000	\$ 700	\$ 7,000,000	Australian Securities Exchange	10,000	10	Aug-14
151 Clarence Street, Sydney NSW 2000	\$ 575	\$ 472,075	Insurance Network Services Australia	821	1.5	Aug-14
680 George Street, Sydney NSW 2000	\$ 750	\$ 1,350,000	Freelancer.com	1,800	5.5	Aug-14
160-166 Sussex Street, Sydney NSW 2000	\$ 557	\$ 2,060,900	AIPE	3,700	7	Aug-14
20 Windmill Street, Walsh Bay NSW 2000	\$ 700	\$ 4,230,800	Dentsu Aegis Network (Aegis)	6,044	5	Aug-14
10 Bridge Street, Sydney NSW 2000	\$ 735	\$ 81,585	Media and Capital Partners	111	2	Oct-14
189 Kent Street, Sydney NSW 2000	\$ 486	\$ 121,589	Australian China Theme Park	250	3	Oct-14
19 Martin Place, Sydney NSW 2000	n/a	n/a	Sparke Helmore	5,000	5	Oct-14
75 Castlereagh Street, Sydney NSW 2000	\$ 515	\$ 248,075	Access Programs Australia	482	7	Nov-14
59 Goulburn Street, Sydney NSW 2000	\$ 450	\$ 292,500	IronFX Global	650	5	Nov-14
Darling Park Tower 3, 201 Sussex Street, Sydney NSW 2000	n/a	n/a	Rabobank	9,000	10	Nov-14
151 Castlereagh Street, Sydney NSW 2000	\$ 750	\$ 540,000	Pearson Australia Group	720	5	Nov-14
8 Windmill Street, Walsh Bay NSW 2000	\$ 664	\$ 495,000	Starcom Mediavest Group	746	5	Dec-14
20 Hunter Street, Sydney NSW 2000	\$ 702	\$ 339,768	One Investment Group	484	n/a	Dec-14
Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000	n/a	n/a	IAG	33,000	12	Dec-14
5 Martin Place, Sydney NSW 2000	Pre-commitment		Challenger Limited	9,127	n/a	Dec-14

Table 2 —Sydney CBD Leasing Transactions

Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2014 have recorded a few office developments that are in various stages of the Sydney office pipeline.



333 George Street office development is currently in the construction phase and is due to be completed in 2016 or later. The development will provide a 12,500 sqm of NLA over 14 office levels and include approximately 2,100 sqm of retail area. The average floor plate size is about 950 sqm and have 20 car spaces.



190-200 George Street development is owned by Mirvac Group and is estimated to be completed in 2016 or later. Site works are on site and the development is to yield approximately 68,676 sqm across 35 levels of office space, 476sqm of retail space and 63 car parking bays.

Supply by Grade (Stock)

Analysis of the PCA's Office Market Report July 2014 had revealed that the 5 Grades of office space has revealed that there was new supply entering the Sydney CBD Office Market over the six months to July 2014.

In the six months to July 2014, there was a new supply of 29,430 sqm of office space in the total Sydney CBD market which was offset by the 35,948 sqm withdrawals, resulting in decreasing the total Sydney CBD office market space to 4,952,188 sqm.

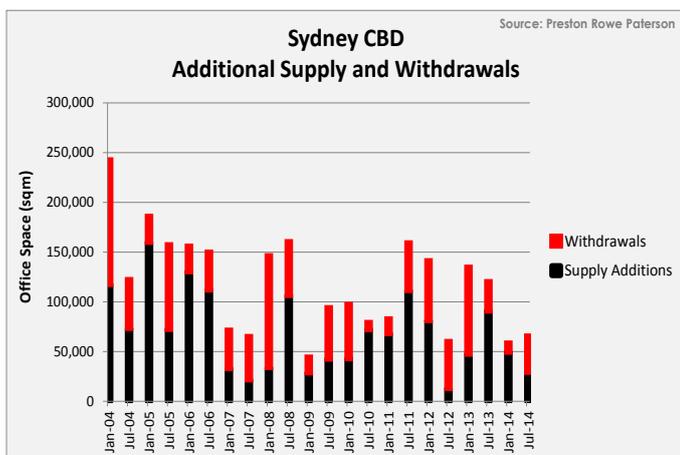


Chart 9 – Sydney CBD Office Additional Supply and Withdrawal – Source PCA

Premium Grade office stock accounted for 6,000 sqm of withdrawals with no additional supply in the six months to July 2014. Premium Grade space now comprises of 794,963 sqm of the market.

A Grade office stock experienced a supply increase of 15,256 sqm which was weighed against a 14,625 sqm of stock withdrawal. The withdrawals were most likely due to the redevelopment and refurbishments of A Grade properties. The total stock for A Grade office space was 1,813,863 sqm.

B Grade office stock growth was second to the A Grade stocks with 14,174 sqm of additional supply. However, there was a 2,062 sqm space withdrawal in the past 6 months. Total stock for B Grade account for 1,574,731 sqm.

Similar to the premium grade stock, the C Grade office space recorded the a supply withdrawal of 11,825 sqm. As at July 2014 total C Grade stock was recorded at 573,008 sqm. The D Grade office stock experienced a 1,436 sqm decrease in stock supply amounting to 175,623 sqm of total supply.

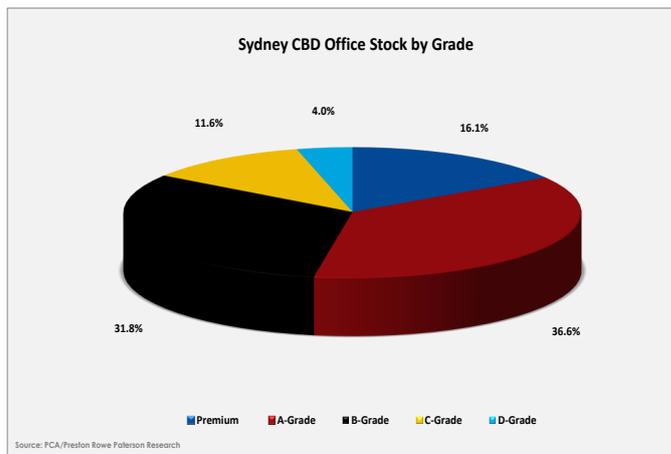


Chart 8 – Sydney CBD Total Stock by Grade – Source PCA

Vacancy Rates

The Sydney CBD office market vacancy as a whole had remained steady as at July 2014. In six months to July 2014, total office market vacancy had tightened by 0.6% to 414,359 sqm.

Almost all grades of office stock recorded a decrease in vacancy except for D Grade. The Premium Grade stock experienced the largest fall in total vacancy of 1.6% to 65,311 sqm. Followed by both B and C Grade stock vacancy declining by 0.7% to 119,994 sqm and 40,705 sqm respectively. A Grade recorded a marginal tightening of 0.2% to the total vacancy at 172,808 sqm.

D Grade recorded 1.3% increase in office vacancy amounting to 15,541 sqm.

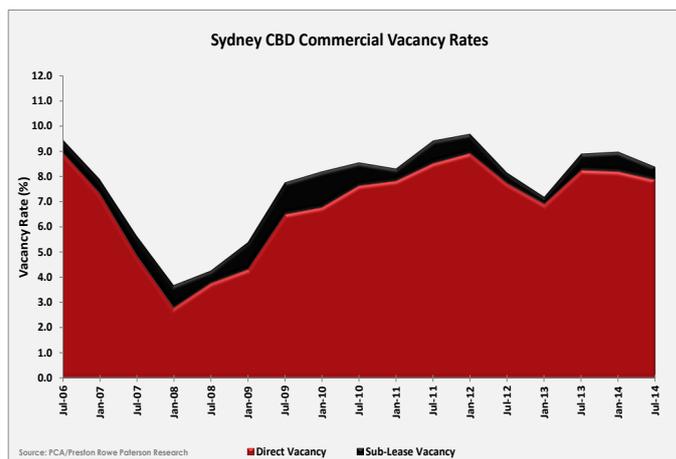


Chart 10 – Sydney CBD Vacancy Rates – Source PCA

North Sydney

Investment Activity

The following table shows reported major sales transactions that occurred over six months to December 2014. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	BLGA sqm	Rate psm	Yield
17-23 Myrtle Street, North Sydney NSW 2061	\$ 5,000,000	Owners Corporation Ltd	undisclosed	Aug-14	1,209	\$ 4,135.65	undisclosed
110 Pacific Highway North Sydney NSW 2061	\$ 16,500,000	undisclosed	Centuria Property Funds	Aug-14	976	\$ 16,905.74	undisclosed
221 Miller Street, North Sydney NSW 2060	\$ 40,000,000	all 54 strata owners	foreign developer	Oct-14	6,888*	\$ 5,807.20	undisclosed
101 Miller Street, North Sydney NSW 2060	\$ 300,000,000	Eureka Funds Management	TIAA Henderson Real Estate	Oct-14	37,549	\$ 7,989.56	6.50%
51 Mount Street, North Sydney NSW 2060	\$ 9,800,000	undisclosed	undisclosed	Oct-14	540	\$ 18,148.15	6.23%
132-138 Arthur Street, North Sydney NSW 2060	\$ 37,000,000	Valad Property Group	Centennial Property Group	Nov-14	7,829	\$ 4,726.02	undisclosed
2 Elizabeth Plaze, North Sydney NSW 2060	\$ 50,000,000	Altis Property Partners	Mirvac	Nov-14	7,713	\$ 6,482.56	undisclosed

Table 3 — North Sydney Sales Transactions

*estimate equated area

The following table shows reported major leasing transactions that occurred over six months to December 2014. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lesee	Area sqm	Term	Lease Date
73 Miller Street, North Sydney NSW 2060	\$ 600	\$ 6,828,000	LivingSocial	11380	Medium Term	Sep-14
165 Walker Street, North Sydney NSW 2060	\$ 480	\$ 1,152,000	Sony Australia	2400	7	Oct-14

Table 3 — North Sydney Leasing Transactions

Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2014 has been analysed to derive new commercial office building developments.



Laing O'Rourke's **100 Mount Street** development has obtained DA Approval and is planned be completed in 2016 or later. The development will provide 40,100 sqm of NLA over 32 office levels. The average floor plate size is about 1,250 sqm and have 113 car spaces. The development is located in the heart of the North Sydney CBD, within close proximity to the Greenwood Plaza and North Sydney train station.



The **Norberry Terrace** development located at **177-199 Pacific Highway** is recorded to be in the site works stage of development and is due for completion in 2016 or later. The office development is planned for 31 floors of office space with 39,383 sqm of net lettable area. The average floor plate size is 1,570 sqm and will include 112 car spaces. The development owned by *Suntec Real Estate Investment Trust* is located within close proximity to the Greenwood Plaza and the North Sydney train station.

Supply by Grade (Stock)

As shown in the PCA's Office Market Report July 2014, the total North Sydney office stock experienced a decline to 839,507 sqm as at July 2014. In the past 6 months there were only 2,472 sqm of additional supply offset by the 11,570 sqm withdrawals. The lack of new developments and office-residential conversions may have contributed to the limited new supply of office space.

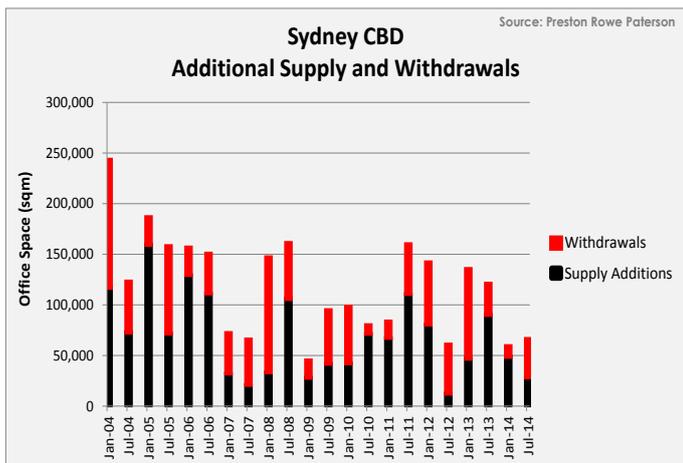


Chart 12 – North Sydney Office Additional Supply and Withdrawal – Source PCA

Premium Grade (36,500 sqm), A Grade (186,296 sqm) and B Grade (431,216 sqm) office stock remain unchanged with no new supply or withdrawals since July 2010.

However, the C Grade and D Grade stock had decreased to 167,871 sqm and 15,152 sqm respectively in the six months to July 2014.

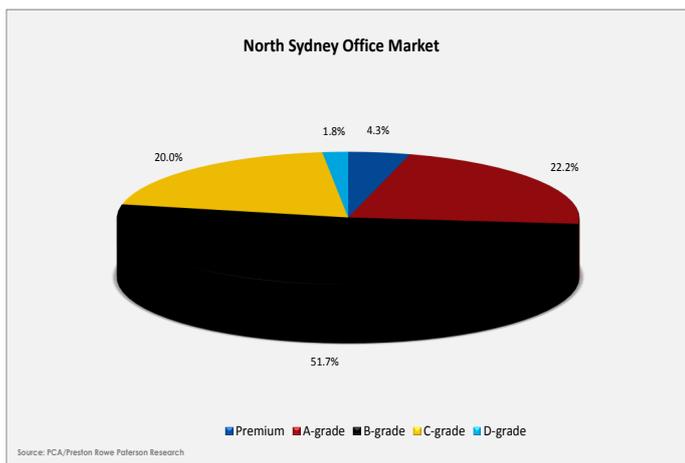


Chart 11 – North Sydney Total Stock Levels By Grade – Source PCA

Vacancy Rates

The North Sydney office market vacancy has remained relatively stable as at July 2014 with a slight decrease in total vacancy to 10.2%. A year on year analysis have shown that the total vacancy have decreased by 3,333 sqm to 85,604 sqm.

Over the six months to July 2014, there has been no vacancy recorded for Premium Grade office stock. A Grade, C Grade and D Grade office stock vacancy levels had tightened to 5.6%, 14.3% and 5.8% respectively. B Grade stock recorded a marginal rise of 0.1% to 11.6% in total vacancy.

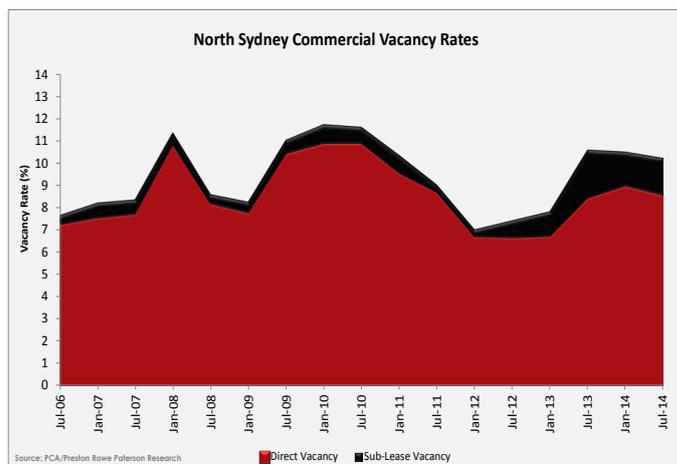


Chart 13 – North Sydney Office Vacancy Rates – Source PCA

Crows Nest/St Leonards

Investment Activity

The following table shows reported major sales transactions that occurred over six months to December 2014. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	BLGA sqm	Rate psm	Yield
34-36 Chandos Street, St Leonards NSW 2065	\$ 10,850,000	Sandhurst Trustees Limited	34-36 Chandos Street St Leonards Pty Ltd	Aug-14	2,079	\$ 5,219	9.26%
617-621 Pacific Highway, St Leonards NSW 2065	\$ 40,000,000	Legacy Property	foreign developer	Oct-14	2,206	\$ 18,132	undisclosed

Table 4 — Crows Nest/St Leonards Sales Transactions

Supply by Grade (Stock)

The PCA's Office Market Report July 2014 detailed that in the six months to July 2014 the Crows Nest/St Leonards Office market recorded a decrease of 2,028 sqm to 355,305 sqm which was reflected in the stock withdrawals as there were no additional supply.

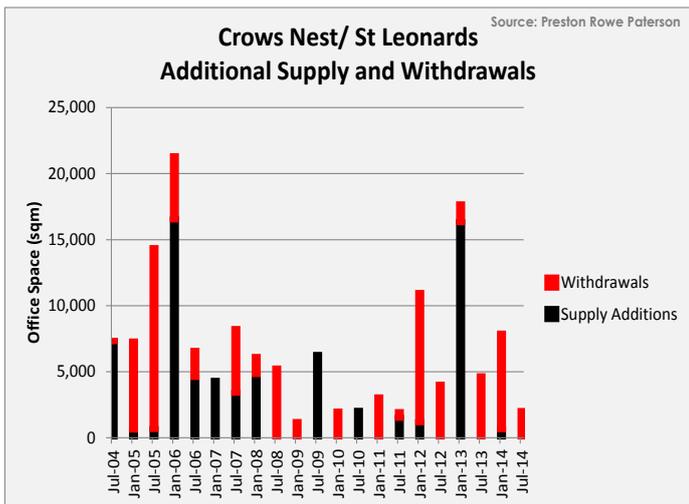


Chart 15 – Crows Nest/St Leonards Office Additional Supply and Withdrawals – Source PCA

It was the C Grade stock that recorded the only withdrawal in Crows Nest/St Leonards office market, at 169,672 sqm as at July 2014. Crows Nest/ St Leonards A Grade, B Grade and D Grade stock experienced neither new supply nor withdrawals. A Grade and B Grade stock totalled 102,699 sqm and 69,288 sqm respectively. D Grade stock only assumes 3.8% of total stock at 13,646 sqm.

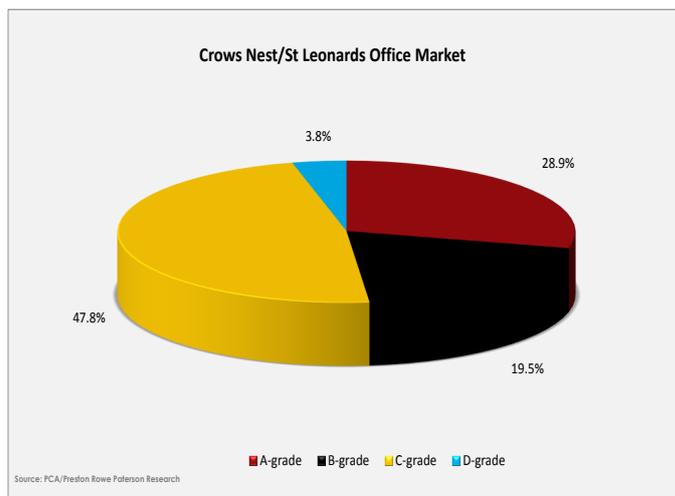


Chart 14 – Crows Nest/St Leonards Total Stock Levels by Grade – Source PCA

Total Vacancy

Total office market vacancy rate in Crows Nest/St Leonards had decreased over the six months to July 2014 by 1.3% to 12.9%.

Varied results were recorded across the four grades of office space, with A Grade and C Grade decreased by 0.8% and 2.4% respectively to total vacancy levels of 15.8% and 13%. B Grade stock's total vacancy remained stable at 8% and D Grade recorded growth of 1.5% to total vacancy rate of 14.4%.

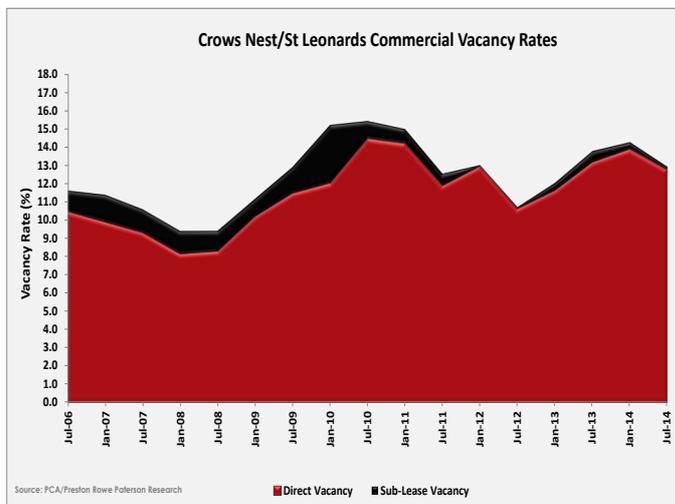


Chart 16 – Crows Nest/St Leonards Office Market Vacancy – Source PCA

Parramatta CBD

Investment Activity

The following table shows reported major sales transactions that occurred over six months to December 2014. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	BLGA sqm	Rate psm	Yield
1-3 Fitzwilliam Street, Parramatta NSW 2150	\$29,000,000	Action Office Pty Ltd	Raffles Education Corporation	Jul-14	9,782	\$ 2,964.63	undisclosed
1 Wentworth Street, Parramatta NSW 2150	\$13,900,000	Rothby Holdings	private investor	Jul-14	4,408	\$ 3,153.36	8.63%*
153 Macquarie Street, Parramatta NSW 2150	\$19,500,000	Australia Post	Parramatta City Council	Oct-14	659	\$ 29,590.29	development site
110 George Street, Parramatta NSW 2150	\$83,000,000	Westlawn Property Trust & PFA Diversified Property Trust	Longbow Holdings	Oct-14	20,841	\$ 3,982.53	8.50%
2-10 Wentworth Street, Parramatta NSW 2150	\$45,000,000	Charter Hall Group's Direct Office Fund (DOF)	Centuria Capital	Nov-14	10,943	\$ 4,112.22	8.00%
4 George Street & 160 Marsden Street, Parramatta NSW 2150	\$170,100,000	NSW Government	Eureka Funds Management	Dec-14	22,000	\$ 7,731.82	undisclosed
169 Macquarie Street, Parramatta NSW 2150	\$16,250,000	Leighton Properties	Charter Hall Group	Dec-14	5,000	\$ 3,250.00	development site
90 Phillip Street, Parramatta NSW 2150	\$16,750,000	Mevote Pty Ltd	private investor	Dec-14	2,944	\$ 5,689.54	5.97%

Table 5 — Parramatta CBD Sales Transactions
*equated yield

The following table shows reported major leasing transactions that occurred over six months to December 2014. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lessee	Area sqm	Term	Date	Lease Date
169 Macquarie Street, Parramatta NSW 2150	undisclosed	undisclosed	University of Western Sydney	26,000	undisclosed	Aug-14	Precommitment
89-91 Phillip Street, Parramatta NSW 2150	\$ 450	\$ 423,000	KPMG	940	undisclosed	Aug-14	Sep-14

Table 6 — Parramatta CBD Leasing Transactions

Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2014 has been analysed to derive new commercial office building developments.



Parramatta Square (stage 1) has obtained DA Approval and is planned be completed in 2016 or later. The development on 169 Macquarie Street will provide 24,500 sqm of NLA over 14 office levels and 800 sqm of retail area. The average floor plate size is about 2,200 sqm and includes 108 car spaces. The Parramatta Square development site will provide commercial and residential space over 6 projects. It is located north to the Sydney Water building and within close proximity to the Parramatta transport interchange and Westfield Parramatta shopping centre.

Supply by Grade (Stock)

The PCA Office Market Report July 2014 recorded that the total office stock in the Parramatta office market had increased to 688,028 sqm over the six months to July 2014. The growth was attributed to the 2,150 sqm supply gain of B Grade office space and no overall stock withdrawals.

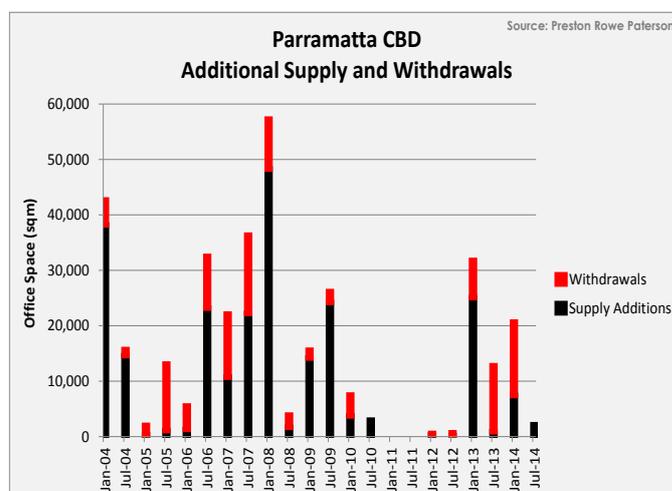


Chart 18 – Parramatta CBD Office Net Absorption – Source PCA



A Grade, C Grade and D Grade office stock levels remained unchanged in 6 months to July 2014. A Grade assumed the largest share of stock at 273,617 sqm followed by B Grade space at 212,026 sqm. C Grade and D Grade had similar stock amount at 104,972 sqm and 97,413 sqm respectively.

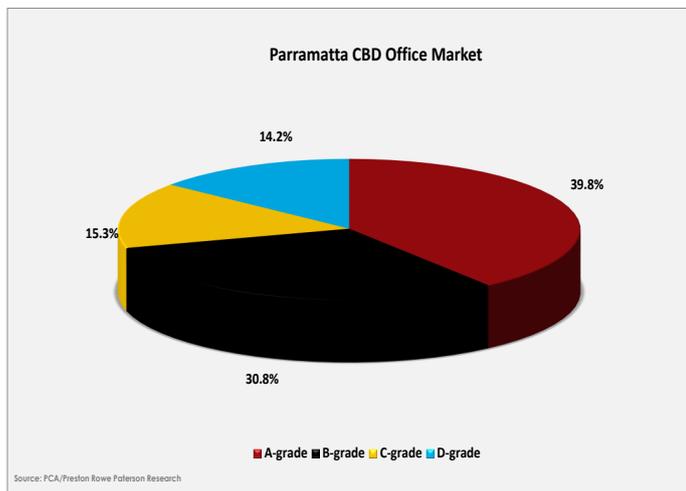


Chart 17 – Parramatta CBD Total Stock Levels by Grade – Source PCA

Vacancy Rates

The total vacancy in the Parramatta office market has increased by 0.7% to 6.7% in the past 6 months to July 2014. The amount of vacant office space is 46,187 sqm.

The main contributor to the rise in vacancy is the B Grade stock, a 3% rise to 9.5% in 6 months to July 2014. Other grades of A, C and D grade office stock recorded marginal vacancy rate decreases of 0.3%, 0.4% and 0.3% to 0.2%, 18.3% and 6.3% respectively.

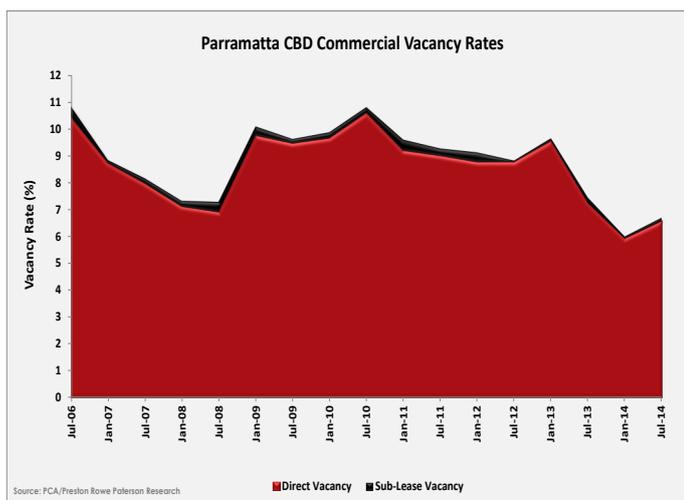


Chart 19 – Parramatta CBD Office Market Vacancy – Source PCA

Chatswood

Investment Activity

The following table shows reported major leasing transactions that occurred over six months to December 2014. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lesee	Area sqm	Term	Lease Date
72-74 Gibbes Street, Chatswood NSW 2067	\$ 200	\$ 249,000	Sports Acrobatics Australia	1,245	5 + 5	Aug-14

Table 8 — Chatswood Leasing Transactions

Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2014 has been analysed to derive new commercial office building developments.



No. 1 Pacific Place mixed-use development located at **7 Railway Street** was completed in Q1 2014. It comprises of 4,400 sqm of office space over 5 floors with a floor plate size of 900 sqm and include 30 car spaces. The 42 storey building offers 295 apartments and public and private open space.

Supply by Grade (Stock)

The PCA Office Market Report July 2014 noted that the total office stock in the Chatswood Office Market increased by 4,400 sqm to 285,245 sqm over the six months to July 2014, with the entirety of additional supply attributed to the A Grade stock. The additional supply was due to the completion of the **No. 1 Pacific Place** office development in early 2014.

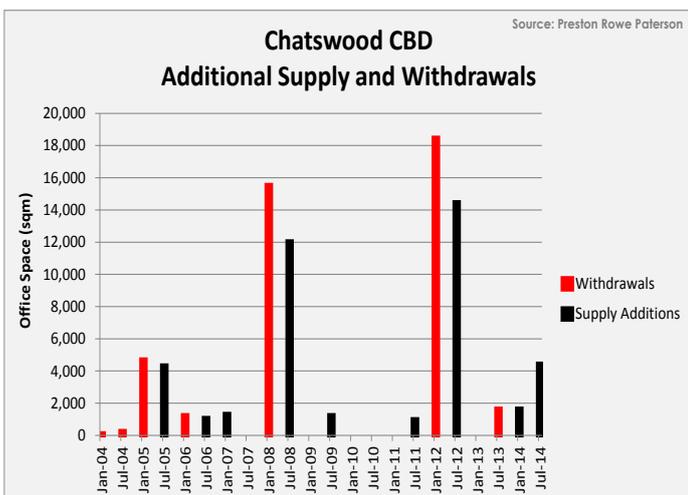


Chart 21 – Chatswood CBD Office Additional Supply and Withdrawals – Source PCA

A Grade office space continues to maintain a majority share of the Chatswood office market at 161,812 sqm (56.7%). B Grade, C Grade and D Grade office stock all remained unchanged over the six months to July 2014, with no supply or withdrawals recorded. B Grade of 76,746 sqm followed by C Grade with 46,233 sqm and D Grade with 454 sqm of office stock.

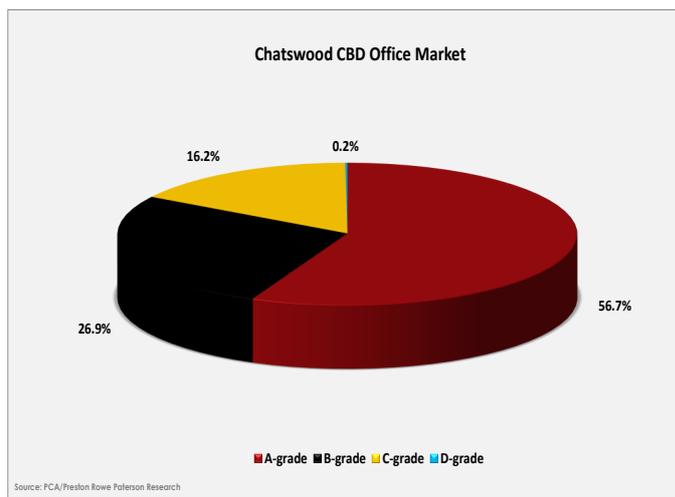


Chart 20 – Chatswood CBD Total Stock Levels by Grade – Source PCA

Total Vacancy

The Chatswood CBD office market recorded a tightening of 2.6% to 10.8% in total vacancy in the six months to July 2014 with total vacant space amounting to 30,910 sqm.

The overall vacancy rates across all grades of office space in Chatswood had tightened. Corresponding with the additional supply, the A Grade stock had experienced a decrease in total vacancy to 12.4%. B Grade and C Grade total vacancy has fallen to 9.3% and 8.1% respectively.

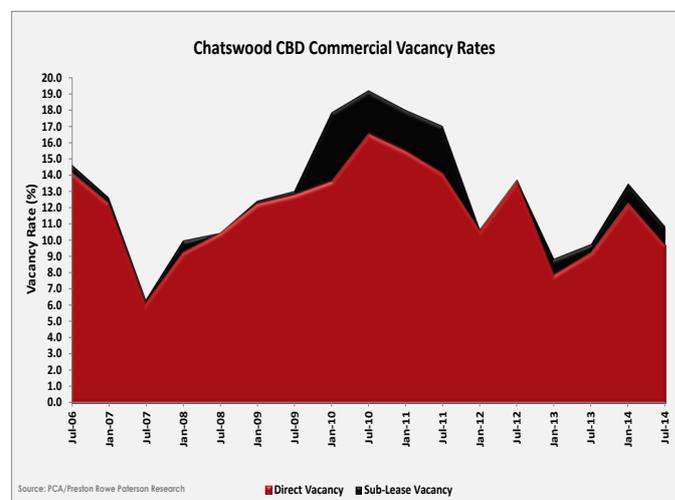


Chart 22 – Chatswood CBD Office Market Vacancy – Source PCA

North Ryde/Macquarie Park

Investment Activity

The following table shows reported major sales transactions that occurred over six months to December 2014. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	BLGA sqm	Rate psm	Yield
11 Julius Avenue, North Ryde NSW 2113	\$ 170,000,000	Challenger Life Company	Aqualand Australia	Aug-14	41,652	\$ 4,081.44	undisclosed

Table 9 — North Ryde/Macquarie Park Sales Transactions

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to December 2014. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lessee	Area sqm	Term	Lease Date
5 Talavera Road, Macquarie Park NSW 2113	\$ 354	\$ 338,424	Terumo Australia Pty Ltd	956	7	Nov-14

Table 10 — North Ryde/Macquarie Park Leasing Transactions

Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2014 has been analysed to derive new commercial office building developments.



52-54 Waterloo Road (DEV) at North Ryde is currently in the site works in phase and is planned to be completed in 2016 or later. The development owned by Novartis Pharmaceuticals Australia will provide 10,000 sqm of NLA. The development site is located within close proximity to both the Macquarie Park and

Macquarie University train station, and the Macquarie Centre shopping centre.



The **Canon Building** development located at **1 Thomas Holt Drive** is due to be completed in 2016 or later. The development owned by Canon is currently in the site works phase. The office building comprise of 11,500 sqm of net lettable area over 6 storeys with floor plate size of 1,840 sqm. The property

is located within close proximity to the Macquarie Park train station.

Supply by Grade (Stock)

The PCA Office Market Report July 2014 recorded that the total office stock in the North Ryde/Macquarie Park total office stock level increased by 12,710 sqm to 866,961 sqm. The North Ryde/Macquarie Park office market recorded 33,0236 sqm of additional supply which was offset by 20,526 sqm of withdrawals.

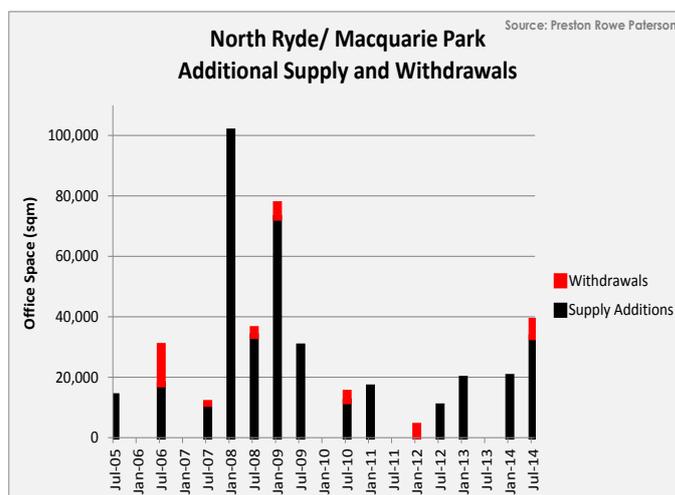


Chart 24 – North Ryde/ Macquarie Park Office Additional Supply and Withdrawals – Source PCA



A Grade office space continues to maintain a majority share of the North Ryde office market accounting for 616,1971 sqm and recording an additional supply of 26,476 sqm with no withdrawals.

The B Grade office space tightened to 228,026 sqm due to a 20,526 sqm withdrawal which overshadowed a 6,760 sqm additional supply. Both C Grade and D Grade stock recorded no additional supply or withdrawals in the 6 months to July 2014, remaining at 20,017 sqm and 2,721 sqm respectively.

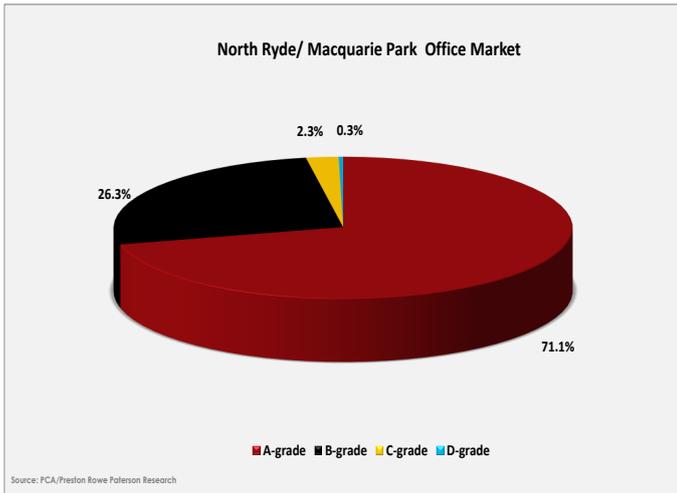


Chart 23 – North Ryde/ Macquarie Park Total Stock Levels by Grade – Source PCA

Vacancy Rates

The North Ryde/Macquarie Park market recorded an increase in total vacancy in the six months to July 2014 at 11.2% to 97,337 sqm.

All office grades recorded an increase in total vacancy rate, except for D Grade office space which remained unchanged in the six months to July 2014. B Grade recorded the highest total vacancy increase of 3.9% to 16%, A Grade noted 9.2% total vacancy and C Grade total vacancy increase to 20%.

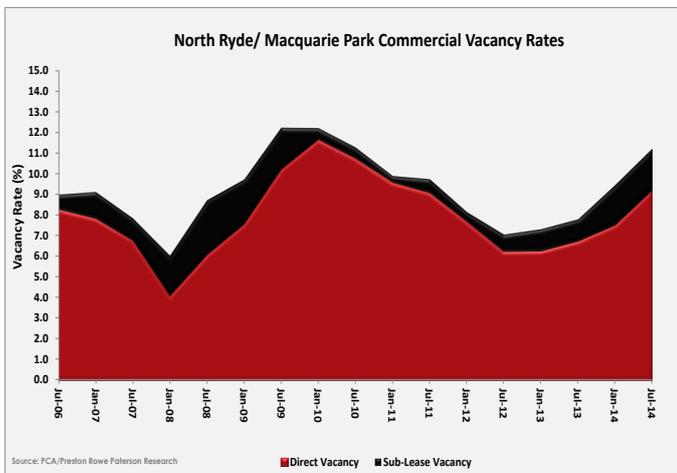


Chart 25 – North Ryde/ Macquarie Park Office Vacancy – Source PCA



NSW Suburban Business Hubs

Investment Activity

The following table shows reported major sales transactions that occurred over six months to December 2014. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	BLGA sqm	Rate psm	Yield
12 Langston Place, Epping NSW 2747	\$ 85,000,000	undisclosed	Cbus Property	Oct-14	8,787	\$ 9,673.38	4.24%*
37-41 Oxford Street, Epping NSW 2747	\$ 110,000,000	Goodman	China Poly Group	Dec-14	8,314	\$ 13,230.70	undisclosed
9 Gloucester Road, Hurstville NSW 2220	\$ 50,000,000	GE Capital Real Estate	undisclosed foreing investor	Jul-14	10,000	\$ 5,000.00	undisclosed
12-22 Woniara Road, Hurstville NSW 2220	\$ 47,000,000	undisclosed	360 Capital Group	Oct-14	13,531	\$ 3,473.51	undisclosed
36 Honeysuckle Drive, Newcastle NSW 2300	\$ 25,800,000	Hunter Water Corporation	Patella Holdings	Jul-14	5,379	\$ 4,796.43	7.94%
183-187 Harris Street, Pyrmont NSW 2009	\$ 4,170,000	undisclosed	undisclosed	Jul-14	700	\$ 5,957.14	7.20%*
55 Pyrmont Bridge Road, Pyrmont NSW 2009	\$ 80,000,000	National Australia Bank	Blackwall Property Funds	Oct-14	15,000	\$ 5,333.33	undisclosed
Wharf 10, 50-52 Pirrama Road, Pyrmont NSW 2009	\$ 40,000,000	undisclosed	Marks Henderson	Nov-14	4,346	\$ 9,203.87	7.50%
63-79 Miller Street, Pyrmont NSW 2009	\$ 20,000,000	Aveo Group	EG Funds Management	Dec-14	4,869	\$ 4,107.62	8.80%
26-32 Waterloo Street, Surry Hills NSW 2010	\$ 31,000,000	Centennial Property Group	Intrasia Oxley Real Estate	Jul-14	7,300	\$ 4,246.58	7.96%

Table 11 — NSW Suburban Office Sales Transactions
*equated yield

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to December 2014. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lessee	Area sqm	Term	Lease Date
706-708 Mowbray Road, Lane Cove 2066	\$ 100	\$ 150,000	ACS Bathrooms	1,500	4	Jul-14
65 Pirrama Road, Pyrmont NSW 2009	\$ 540	\$ 801,900	Paramount Pictures Australia	1,485	5	Jul-14
84-86 Mary Street, Surry Hills NSW 2010	\$ 350	\$ 402,500	NSW Business College	1,150	5	Sep-14

Table 12 — NSW Suburban Office Leasing Transactions

Economic Fundamentals

GDP

GDP figures for the December quarter are not available until the 4th March 2015 however Preston Rowe Paterson Research over the September 2014 quarter revealed that the Australian economy recorded growth of 0.3% seasonally adjusted which reflected growth of 2.7% seasonally adjusted over the twelve months to September 2013.

In seasonally adjusted terms, the main industry gross value added contributors to GDP were Financial and insurance services which increased by 0.2%, Mining and Information media and telecommunications each increased by 0.1% to the increase in GDP.

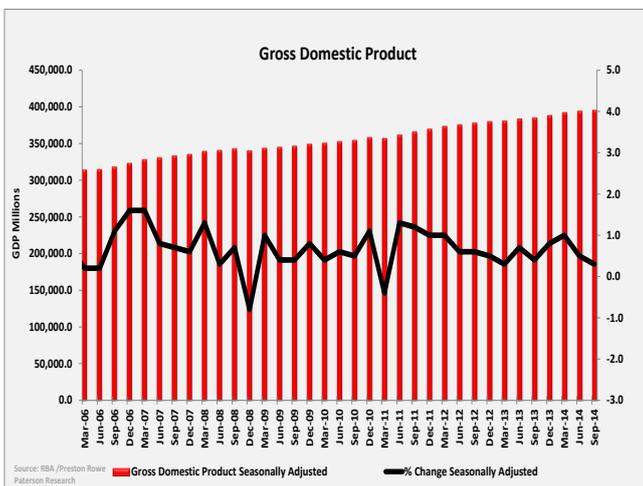


Chart 1 – Gross Domestic Product (GDP) – Source ABS

Labour force

Over the month to December 2014, the number of unemployed people decreased by 16,220 from 775,377 in November to 759,156 in December which is a 2.09% decrease. In comparison to December 2013, the number of unemployed people has increased by 40,135 which reflected an annual increase of 5.58%. The unemployment rate as at December 2014 is 6.1%.

The number of unemployed seeking full time employment recorded an increase over the month of December by 6,048 to 551,459 persons, reflecting a growth of 1.11%. The number of unemployed seeking part time employment recorded a decrease over the month by 22,269 to 207,697 persons, reflecting a growth of 2%.

New South Wales experienced a large absolute decrease in seasonally adjusted employment by 3,700 persons to 3.633 million persons. The unemployment status in New South Wales over the December Quarter decrease by 0.1% to 5.9%.

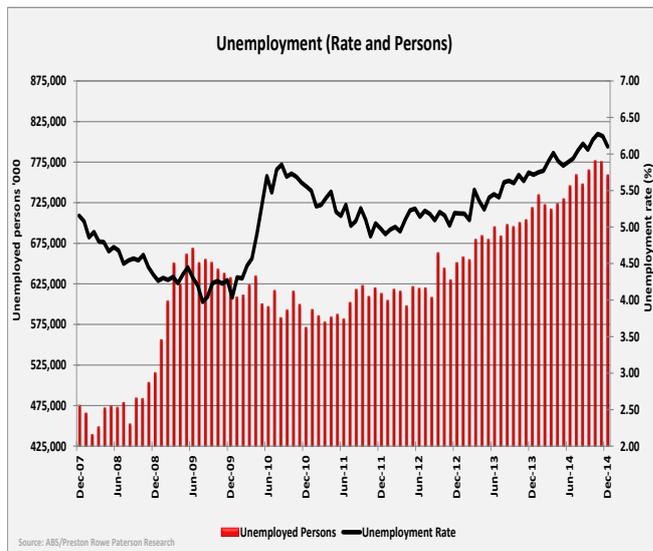


Chart 2 – Unemployment – Source ABS

Interest Rates

As at the date of publishing, the official Cash Rate over the December quarter 2014 remained unchanged at 2.50%. The Reserve Bank of Australia's Media Release for December 2014, released 2nd December 2014 explained that;

"In Australia, most data are consistent with moderate growth in the economy. Resources sector investment spending is starting to decline significantly, while some other areas of private demand are seeing expansion, at varying rates. Public spending is scheduled to be subdued. Overall, the Bank still expects growth to be a little below trend for the next several quarters."

The media release also stated that inflation is as expected to be consistent with its 2%-3% target over the next two years. The cash rate has remained unchanged since September 2013.

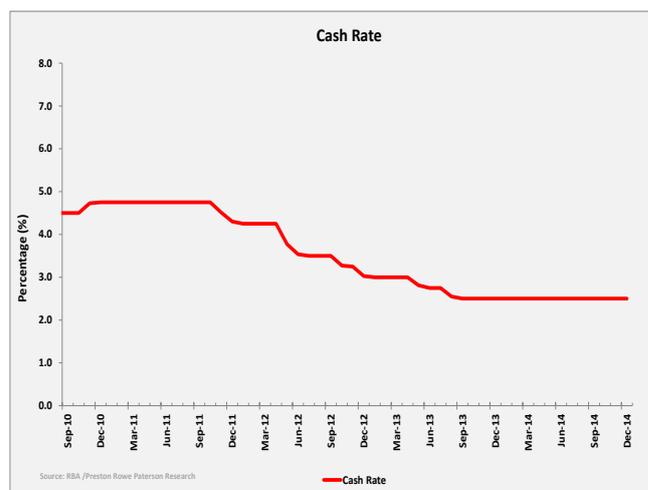


Chart 3 – Cash Rate – Source RBA

Bond Market

10 Year Bond & 90 Day Bill Rate

In the twelve months to December 2014, the 10 Year Bond Rate has decreased by 128 basis points to 2.96%. Conversely, the 90 Day Bill Rate increased by 14 basis points to 2.75%.

Over the December 2014 quarter, 10 Year Government Bonds recorded a decline of 59 basis points from 3.55%. The 90 Day Bill Rate recorded a steady increase over the December quarter of 9 basis points. Year on year analysis has revealed that the 90 Day Bill Rate has increased by 147 basis points since December 2013.

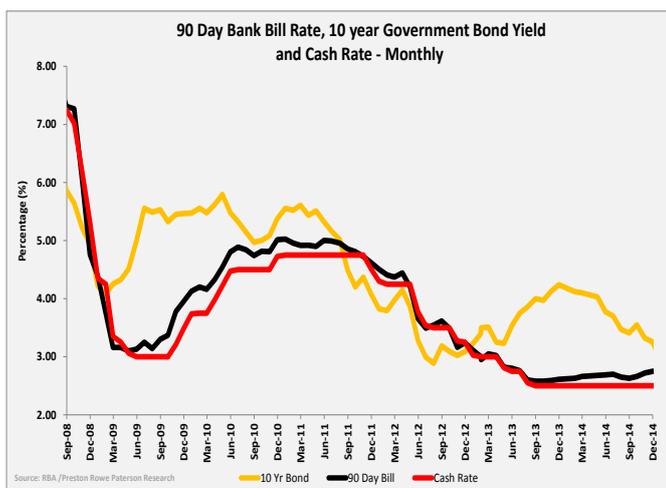


Chart 4 –90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

Analysis of 10 Year Government Bonds has revealed an increase of 30 basis points over the month of December 2014 with the 10 year bond rate currently at 2.96%. 90 day bill rates experienced no changes in the December month, remaining at 2.75%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 4 basis points.

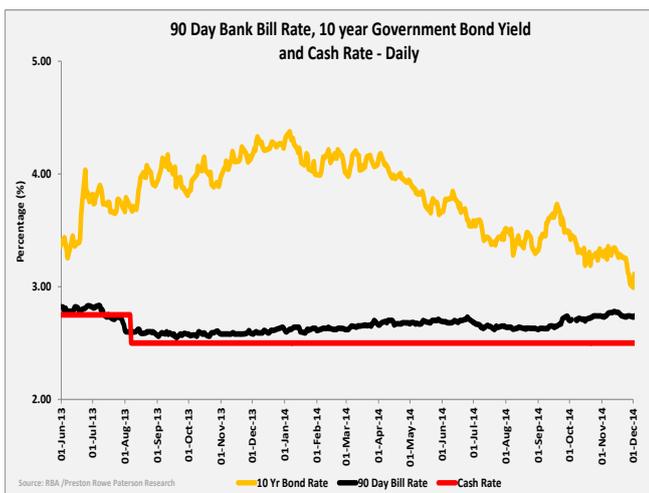


Chart 5 –90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

CPI

According to the Australian Bureau of Statistics (September 2014), the Australia's All Groups CPI increased by 0.5% over the September quarter from 105.9 to 106.4. The annual CPI change to September 2014 recorded a growth of 2.3%.

The most significant price rises over the September quarter were for fruit (+14.7%), and property rates and changes (6.3%). The greatest price fall over the quarter was attributed to electricity (-5.1%) and automotive fuel (-2.5%).

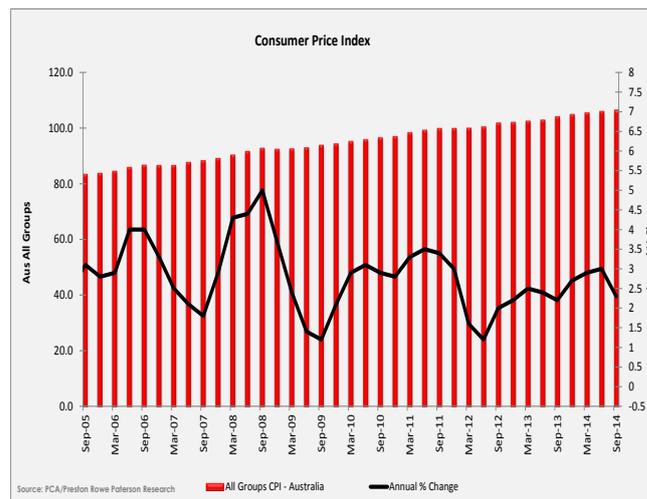


Chart 6– Consumer Price Index—Source—ABS

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 5.7% in December from 96.6 index points in November to 91.1 index points in December. Over the quarter the index has decreased by –2.9 points, a 3.09% fall. Over the twelve months to December the index declined by –13.9 index points, reflecting a percentage decline of –13.24%.

The Index has fell below the August 2011 record low. Westpac's Chief Economist, Bill Evans stated; "This is a very disturbing result... the economy had been limping along at a 1.6% annualised growth pace for the last six months, with national incomes declining and overall activity contracting in the quarter in every state except NSW."

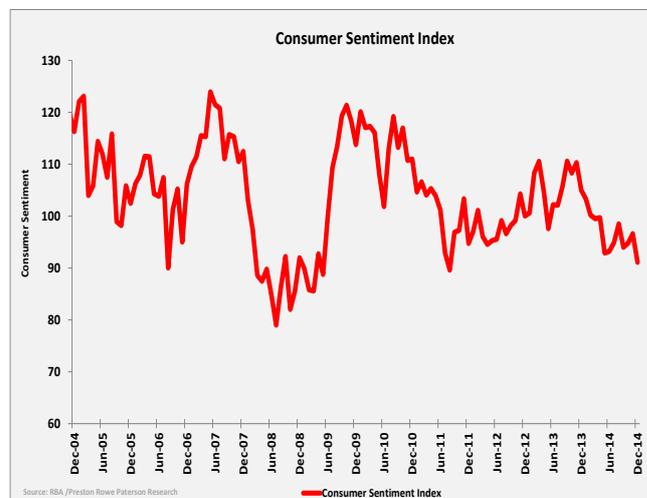


Chart 7 – Consumer Sentiment Index – Source - Westpac—Melbourne Institute Survey



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

We have all *client profiles* covered

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

- Accountants
- Banks, finance companies and lending institutions
- 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



We have all *locations* covered

From our central office location within the Sydney Central Business District we serve our clients' needs throughout the Sydney CBD, greater Sydney metropolitan area, throughout the state of New South Wales. For special purpose real estate asset classes, infrastructure, and plant & machinery we operate throughout Australia and globally either directly or through our relationship offices.

We have your *needs* covered

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

- Acquisitions & Disposals
- 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 & re-valuations
- 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

About This Report

Preston Rowe Paterson prepare standard research reports covering the main markets within which we operate in each of our capital cities and major regional locations.

Within this report we analysed the sales, leases and developments over the past six months to the reported quarter in the various Sydney Office markets of; Sydney, North Sydney, Crows Nest/ St Leonards, Parramatta, Chatswood, North Ryde/ Macquarie Park & other NSW suburban business hubs.

To compile the research report we have considered the most recently available statistics from known sources. Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them. Where possible we consider short term movement in the statistics by looking at daily published data in the financial press. Where this shows notable fluctuation, when compared to the formal published numbers we have commented accordingly.



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