



**Preston**  
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International Property Consultants

# Sydney Impact Report

## Office Market

### INTERESTS OUTSIDE THE SYDNEY CBD

In the year to September 2015, investor interest in the suburban commercial office markets had increased as quality stock is becoming limited in the Sydney CBD. It was observed that investors spent almost \$900 million on commercial office properties outside of the Sydney CBD during the September quarter; Many significant transactions occurred in the North Sydney and Crows Nest/St Leonards office markets. Whilst the Parramatta market also attracted investors' interest, many were buying with the intention of converting office to mixed-use and medium-to-high density residential developments.

A notable sale in the September quarter was the sale of **Space 207** located at **207 Pacific Highway, St Leonards**. *Primewest* and *Valad Property Group* sold 100% interests in the property to *Altis Property Partners* for **\$170 million**. 'Space 207' incorporates two A Grade office buildings: Building A has 6,626 sqm of office space across 6 levels and ground floor retail area of 809 sqm; Building B includes 11,431 sqm of office space over 10 levels, 2 lower levels of retail space totalling about 1,212 sqm and a basement parking for 200 cars. Both buildings are fully leased with major tenants including *Toyota*, *Medibank*, *UBS* and *Campari*. The buildings are located adjacent to the St Leonards train station and *Forum* retail complex.

### September quarter 2015

#### INSIDE THIS ISSUE:

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	10
Chatswood Office Market	12
North Ryde/Macquarie Park Office Market	13
NSW Suburban Business Hubs	15
Economic Fundamentals	16
About Preston Rowe Paterson	18
Contact Us	20



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## SYDNEY OFFICE MARKET HIGHLIGHTS

The Sydney office market performance was relatively strong during the September quarter where a majority of recorded significant sales price were over \$50 million. The quarterly results revealed that there were higher interests for properties in the suburban office markets. Many developers purchased established office buildings for mixed-use, residential or hotel conversions. This was particularly notable in the Sydney CBD, St Leonards and Parramatta markets. As a result, the overall Sydney market vacancy and supply has tightened in the quarter.

### Sales

The September quarter revealed many significant sales had occurred in the Sydney CBD, Crows Nest/St Leonards and Parramatta office markets. Some sales in the quarter were earmarked for residential conversion and mixed use redevelopment, this was more particularly in notable Parramatta.



A significant office sale in the September quarter was the sale of **155 Clarence Street**, former **Red Cross House**, located at **153-159 Clarence Street** in Sydney CBD. German property investor *Union Investment Real Estate* acquired the recently redeveloped A Grade office building from *St Hilliers Property* for **\$140 million**, reflecting approximately **6% yield**. The redeveloped heritage listed 1930s office building is 11 stories and comprise of approximately 12,000 sqm office space, underground parking and end-of-trip facilities. It is set to achieve a 5-star Green Star Design and As Built rating, and a 4.5-star NABERS Energy rating.

### Leases

It is observed that the number of Sydney metropolitan office significant leasing activities has increased in the September 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.



One of the significant leases signed in the quarter was the lease renewal of insurance firm *Employers Mutual* located at **345 George Street, Sydney CBD**. *ISPT* secured the workers compensation insurance provider on a **\$632 psm net rent** across an area of about 6,727 sqm on an **8 year term**, reflecting an annual net rent of approximately \$4.25 million. *Mutual* will progressively fit out the 5 floors for a contemporary work space. *Mutual* first moved to the building in 2006.

## Developments

There are a number of new developments in Sydney that are scheduled to be completed in the 2016. It is forecasted that a new supply of approximately 129,176 sqm office space will be released in 2016.

One of the anticipated development is the **333 George Street** mix-use property owned by *Charter Hall Core Plus Office Fund*. It is estimated to be completed in the 1st quarter of 2016. Construction of the A Grade office tower is underway and is projected to yield approximately 12,500 sqm across 14 levels of office space, 2,100 sqm of retail space across three ground levels and 20 car parking bays.



## Yield

As observed by Preston Rowe Paterson Research during the six months to September, the average yield in the Sydney metropolitan office market had shown to be approximately 7.13%. The Sydney CBD office yields ranged from 3.3% to 8.26% to an average yield of approximately 6.25%. The North Sydney office market recorded an average yield of approximately 7.4% and Parramatta recorded an average yield of 8%.

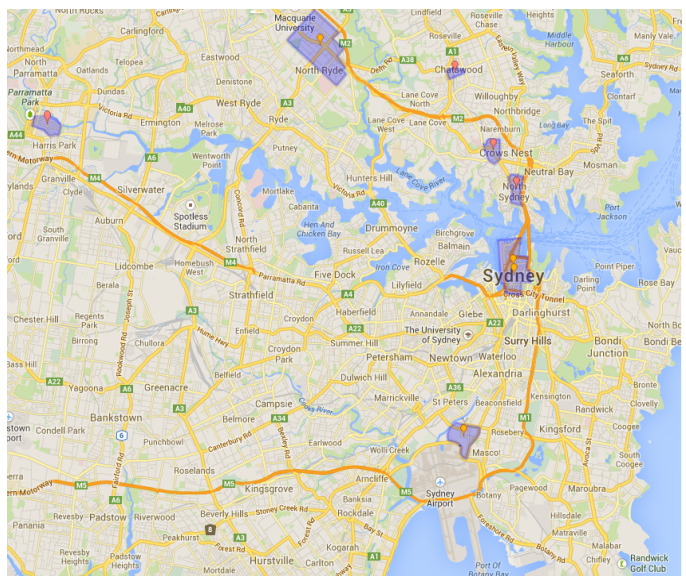


Image 1— Location map of major CBD in the Sydney metropolitan area—Source—Google Maps and Preston Rowe Paterson Research

## COMMERCIAL OFFICE MARKET

### Sydney CBD

#### Investment Activity

The following table shows reported major sales transactions that occurred over six months to September 2015. 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	NLA sqm	Rate psm	Yield
161 Castlereagh Street, Sydney NSW 2000	\$ 240,000,000*	LaSalle Investment Management	Ivanhoe Cambridge	Apr-15	64,400	\$ 3,726.71	5.60%
36 Carrington Street, Sydney NSW 2000	\$ 20,000,000	Adamovich family	Brookfield Office Properties	Apr-15	2,297	\$ 8,707.01	5.11%
143-145 York Street, Sydney NSW 2000	\$ 21,250,000	Tramdex Pty Ltd, Norman Chan Pty Ltd & Sisbro Pty Ltd	Sydney Hotel City Pty Ltd	Apr-15	2,655	\$ 8,003.77	3.30%
53-55 Liverpool Street, Sydney NSW 2000	\$ 19,100,000	a syndicate of 3 families	foreign syndicate	May-15	n/a	n/a	n/a
210 George Street, Sydney NSW 2000	\$ 33,100,000	Mirvac Capital	Anton Capital	May-15	4,758	\$ 6,956.70	7.00%
220 George Street, Sydney NSW 2000	\$ 66,100,000	Mirvac Capital	Anton Capital	May-15	8,916	\$ 7,413.64	7.00%
204-206 Clarence Street, Sydney NSW 2000	\$ 15,500,000	Greenpath	Rmmk Investment Holdings	May-15	2,104	\$ 7,366.92	n/a
545-553 Kent Street, Sydney NSW 2000	\$ 45,300,000	Matthew Lepouris Pty Ltd & Wfm	Gold Pond Investments	May-15	5,960	\$ 7,600.67	n/a
310-322 Pitt Street, Sydney NSW 2000	\$ 200,000,000	Macarthur Cook Industrial Property	Propertylink	Jun-15	29,159	\$ 6,858.95	8.26%
178-186 George Street, Sydney NSW 2000	\$ 79,500,000	St George Bank	Lend Lease	Jun-15	13,277	\$ 5,987.80	VP
1-3 Munn Street, Millers Point NSW 2000	\$ 39,800,000	Barangaroo Development Authority	Primary Health Care	Jun-15	3,843	\$ 10,356.49	6.53%
4-6 Bligh Street, Sydney NSW 2000	\$ 68,000,000	Cromwell Property Group	Real Estate Capital Asia Partners IV	Jul-15	9,964	\$ 6,824.57	7.50%
93 York Street, Sydney NSW 2000	\$ 11,250,000	R K Szeto Corporation	Fullyvast Group	Jul-15	2,497	\$ 4,505.41	n/a
153-159 Clarence Street, Sydney NSW 2000	\$ 140,000,000	St Hilliers Property	Union Investment Real Estate	Jul-15	11,972	\$ 11,693.95	6.07%

Table 1 — Sydney CBD Sales Transactions

\*25% stake acquired

VP = vacant possession

n/a = not currently available



## Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2015. 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	Date
338 Pitt Street, Sydney NSW 2000	\$ 550	\$ 550,000	Get Up!	1,000	5	Apr-15
1 Bligh Street, Sydney NSW 2000	\$ 1,000	\$ 1,150,000	Holman Fenwick Willan	1,150	7 + 3	Apr-15
275 Kent Street, Sydney NSW 2000	\$ 900	\$ 52,560,000	Westpac	58,400	12	May-15
201 Elizabeth Street, Sydney NSW 2000	\$ 800	\$ 1,440,000	Study Group	1,800	5	May-15
9 Castlereagh Street, Sydney NSW 2000	\$ 800	\$ 1,160,000	Compass Offices	1,450	10	Jun-15
60 Margaret Street, Sydney NSW 2000	\$ 685	\$ 998,045	Serco Australia	1,457	5	Jun-15
2 Park Street, Sydney NSW 2000	\$ 880	\$ 1,760,000	Twitter	2,000	n/a	Jun-15
201 Kent Street, Sydney NSW 2000	\$ 675	\$ 2,025,000	Credit Corp Group	3,000	5	Jun-15
255 Elizabeth Street, Sydney NSW 2000	\$ 650	\$ 15,600,000	Navitas	24,000	14	Jun-15
Tower 1 Hickson Road, Barangaroo NSW 2000	pre-commitment		Marsh & McLennon Companies	10,400	n/a	Jun-15
Tower 1 Hickson Road, Barangaroo NSW 2001	pre-commitment		Servcorp	23,000	n/a	Jun-15
345 George Street, Sydney NSW 2000	\$ 632	\$ 4,251,464	Employers Mutual	6,727	8	Jul-15
201 Kent Street, Sydney NSW 2000	\$ 685	\$ 1,192,585	Aussie Commerce Group	1,741	5	Jul-15
201 Kent Street, Sydney NSW 2000	\$ 685	\$ 1,192,585	Deals Sydney	1,741	n/a	Jul-15
201 Kent Street, Sydney NSW 2000	\$ 784	\$ 1,038,800	Crown Sydney Property	1,325	n/a	Jul-15
127 Liverpool Street, Sydney NSW 2000	\$ 460	\$ 1,196,920	Group Colleges Australia	2,602	5	Aug-15
66-68 Goulburn Street, Sydney NSW 2000	\$ 575	\$ 862,500	Copyright Agency	1,500	n/a	Aug-15
55 Hunter Street, Sydney NSW 2000	\$ 630	\$ 630,000	Ultimate Office Solutions	1,000	7	Sep-15

Table 2 — Sydney CBD Leasing Transactions  
n/a = not currently available



## Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2015 have recorded a few office developments that are in various stages of the Sydney office pipeline.



Along with the progressive opening of the Barangaroo office precinct's International Tower 2 in July 2015, construction of International Tower 3 is expected to be completed in the 1st quarter of 2016. Tower 3 will comprise of 78,000 sqm of office space over 38 floors on an average floorplate of 2,300 sqm, 5,315 sqm of retail space on the lower levels and provide 167 underground car spaces. Accounting firm KPMG and developer Lend Lease have pre-committed to lease over half of the

available office space in Tower 3.

## Supply by Grade (Stock)

Analysis of the PCA's Office Market Report July 2015 has revealed that there was an additional supply of 23,633 sqm of office space released in the six months to July. This was offset by the 21,170 sqm withdrawals, resulting in an increase of the total Sydney CBD office market space to 4,964,191 sqm.

The increase in additional office space is attributed to the growth of Premium and A Grade stock supply. The Sydney CBD office market continues to be dominated by the A and B Grade stock, taking up 37.1% and 31.8% of total stock respectively. Premium Grade stock assumes 16% whilst C and D Grade office space sums up to 11.3% and 3.8% respectively.

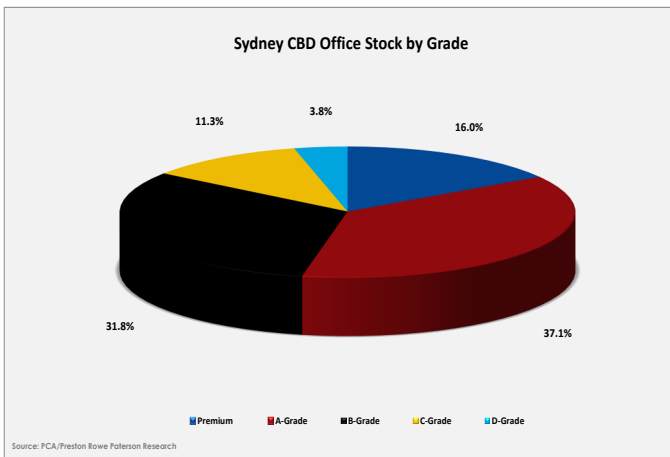


Chart 1 – Sydney CBD Total Stock by Grade – Source PCA

## Net Absorption

The Sydney CBD office market has absorbed 114,684 sqm of space in the 12 months to July 2015. The total market net absorption in the six months to July was 60,405 sqm.

Positive absorption was recorded in the Premium, A and B Grade stock in the six months to July. A Grade absorbed the largest amount of space at 30,813 sqm, followed by Premium Grade at 17,924 sqm and B Grade at 17,985 sqm. C and D Grade stock recorded negative absorptions of -5,295 sqm and -1,022 sqm respectively.

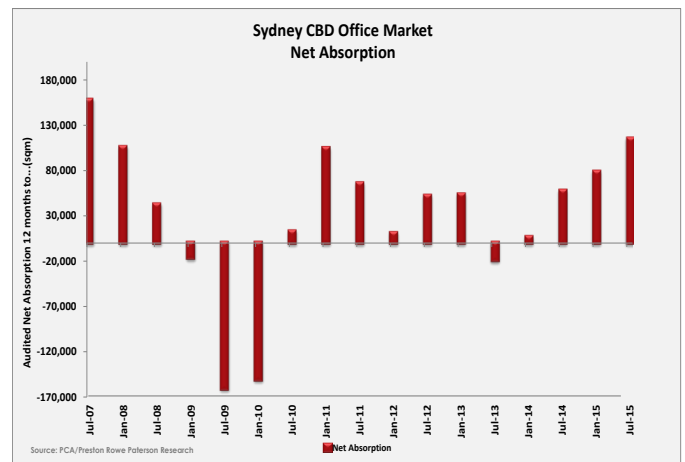


Chart 2 – Sydney CBD Office Net Absorption– Source PCA

## Vacancy Rates

The Sydney CBD office market vacancy has tightened in the six months to July 2015. The total office market vacancy declined by 1.1% to 6.3%, reflecting a total of 311,678 sqm vacant space.

All grades of office stock recorded a decrease in vacancy except for C Grade which increased by 0.2% to 6.9% vacancy. Premium Grade stock recorded the largest decrease in vacancy of -1.9% to 5.2%. Followed by A, B and D Grade vacancy reported to 6.7%, 6.2% and 5.5% respectively.

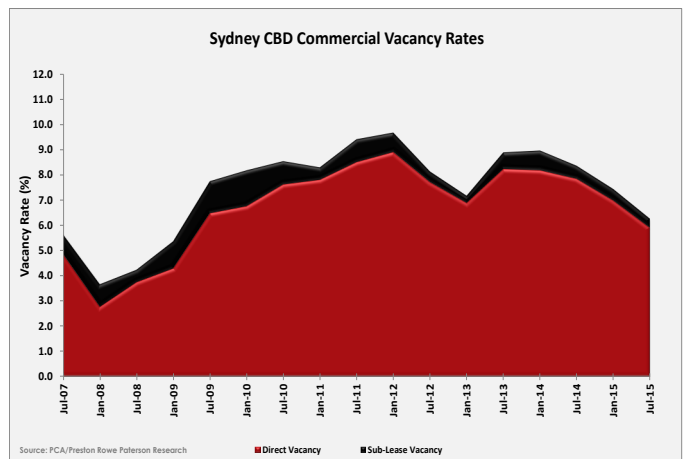


Chart 3 – Sydney CBD Vacancy Rates – Source PCA

## North Sydney

### Investment Activity

The following table shows reported major sales transactions that occurred over six months to September 2015. 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	NLA sqm	Rate psm	Yield
140-144 Arthur Street, North Sydney NSW 2060	\$ 58,000,000	Victorian Funds Management Corporation, Funds SA and Future Fund	HK Realway	Jun-15	8,300	\$ 6,987.95	7.50%
20 Berry Street, North Sydney 2060	\$ 60,000,000	Velment	YUHU Group	Jul-15	9,723	\$ 6,170.93	7.25%
33 Berry Street, North Sydney NSW 2060	\$ 90,000,000	Horaco Property	Australian Catholic University	Sep-15	13,000	\$ 6,923.08	n/a

Table 3 — North Sydney Sales Transactions  
n/a = not currently available

### Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2015. 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	Date
35-51 Mitchell Road, McMahons Point NSW 2060	\$ 550	\$ 990,000	BBC Worldwide Australia	1800	10	Jun-15
40 Mount Street, North Sydney NSW 2060	\$ 750	\$ 1,694,250	Gartner	2259	10	Jul-15
124-126 Walker Street, North Sydney NSW 2060	\$ 550	\$ 678,700	3P Learning	1234	n/a	Jul-15
90 Arthur Street, North Sydney NSW 2060	\$ 495	\$ 403,920	ACN Pacific	816	5	Jul-15

Table 4 — North Sydney Leasing Transactions  
n/a = not currently available



## Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2015 has been analysed to derive new commercial office building developments.

The **Norberry Terrace** development located at **177-199 Pacific Highway** is recorded to be in the construction phase of development and is due for completion in the 2nd quarter of 2016. The office development is planned for 39,383 sqm NLA of office space spanning over 31 levels on an average floor plate size of 1,570 sqm. The development will include 370sqm of retail space and 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 2015, the total North Sydney office stock recorded 5,600 sqm of additional supply offset by 4,439 sqm of withdrawals, bringing the total office market stock to 823,351 sqm.

The B Grade stock dominates the North Sydney market totals to 52.3% market share. A and C Grade have similar market shares at 22.6% and 19.1% respectively. Premium Grade summed up to 4.4% and D Grade accounted for only 1.6%.

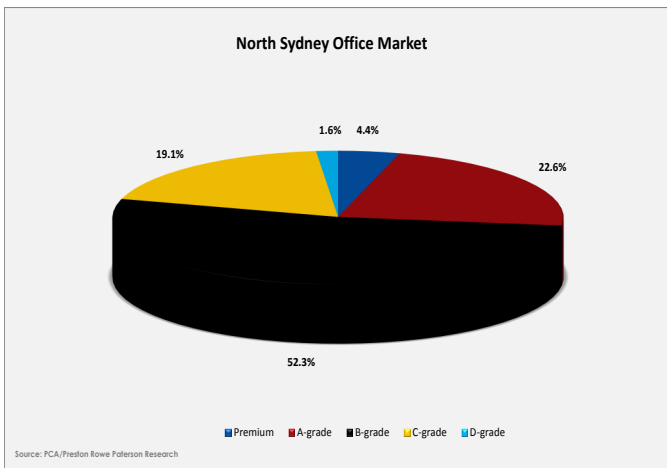


Chart 4 – North Sydney Total Stock Levels By Grade – Source PCA

## Net Absorption

The North Sydney office market net absorption was positive, taking in 2,095 sqm in the 12 months to July 2015. The total market net absorption in the six months to July was 8,363 sqm.

Positive absorption were reflected in the A and B Grade stock at 2,408 sqm and 8,210 sqm respectively in the six months to July. The largest negative absorption was recorded in C Grade stock of -1,565 sqm, followed by Premium Grade at -488 sqm and D Grade at -202 sqm.

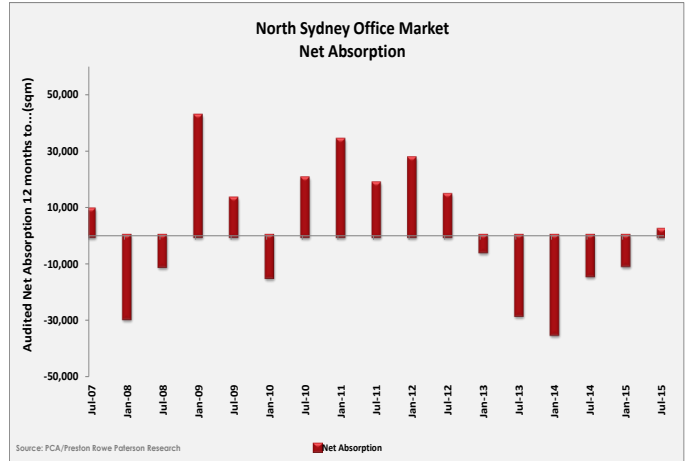


Chart 5 – North Sydney Office Net Absorption – Source PCA

## Vacancy Rates

The total North Sydney office market vacancy has tightened by 0.9% to 8% in July 2015. This reflects approximately 65,623 sqm of vacant space in the market.

Over the six months to July 2015, there has been Premium Grade office recorded 1.3% vacancy. D Grade noted the largest decrease in vacancy of -4.10% to 5.8%. A, B and C grade office vacancy declined by -1.3%, -0.9% and -0.8% to the vacancy rate of 3.7%, 10% and 9.2% respectively.

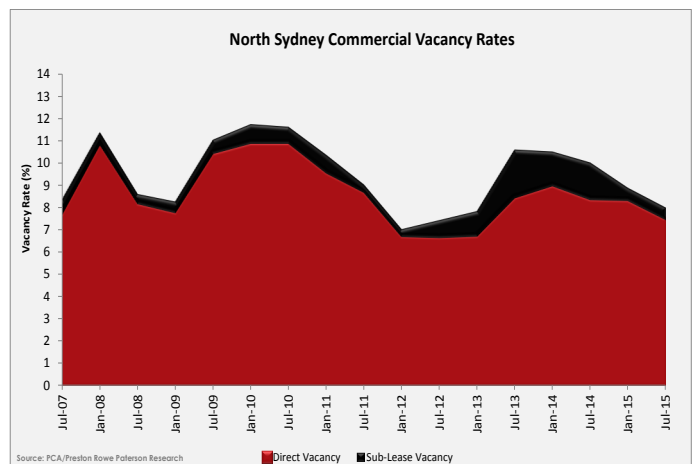


Chart 6 – North Sydney Office Vacancy Rates – Source PCA

## Crows Nest/ St Leonards

### Investment Activity

The following table shows reported major sales transactions that occurred over six months to September 2015. 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	NLA sqm	Rate psm	Yield
170 Pacific Highway, St Leonards NSW 2065	\$ 18,500,000	Southern Cross Austereo	private syndicate	Apr-15	4,464	\$ 4,144.27	8.70%
201-205 Pacific Highway, St Leonards NSW 2065	\$115,000,000*	Challenger Life	Abacus Property Group & Goldman Sachs	Jun-15	16,578	\$ 6,936.90	8.50%
472-494 Pacific Highway, St Leonards NSW 2065	\$ 121,000,000	Cimic Group	Mirvac Group	Jun-15	11,618	\$ 10,414.87	n/a
407 Pacific Highway, Artarmon NSW 2064	\$ 16,100,000	Denison Funds Management	Jadan Property Group	Aug-15	5,991	\$ 2,687.36	9.75%
207 Pacific Highway, St Leonard NSW 2065	\$ 170,000,000	Primewest and Valad Property Group	Altis Property Partners	Aug-15	19,864	\$ 8,558.20	8.50%
504 Pacific Highway, St Leonards NSW 2065	\$ 150,000,000	Charter Hall	New Hope Real Estate Development & VIC Investment Management Group	Aug-15	11,080	\$ 13,537.91	n/a

Table 5 — Crows Nest/St Leonards Sales Transactions

\*50% stake for each joint venture partner n/a = not currently available

### Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2015. 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	Date
34-36 Chandos Street, St Leonards NSW 2065	\$ 460	\$ 956,340	Aspen Pharmacare Australia	2079	n/a	Jul-15
203 Pacific Highway, St Leonards NSW 2065	\$ 470	\$ 1,957,080	Primary Health Care	4164	7	Aug-15

Table 6 — Crows Nest/ St Leonards Leasing Transactions

n/a = not currently available





### Supply by Grade (Stock)

The PCA's Office Market Report July 2015 detailed that in the Crows Nest/St Leonards office market recorded a withdrawal of 1,435 sqm, this bring the total market stock levels to 346,934 sqm. No additional supply was recorded.

The recorded stock withdrawal occurred in the C Grade stock which dominates the Crows Nest/St Leonards market at 47.2% market share. The A , B and D Grade stock levels remain unchanged in the six months to July reflecting market shares of 29.6%, 19.2% and 3.9% respectively.

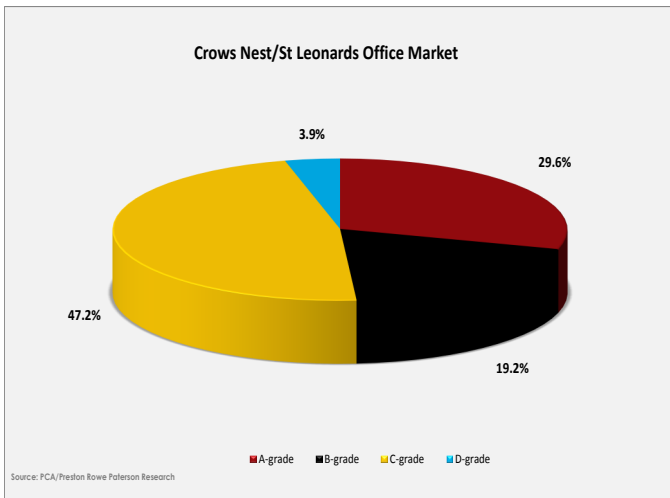


Chart 7 – Crows Nest/St Leonards Total Stock Levels by Grade – Source PCA

### Net Absorption

The total market net absorption in the Crows Nest/St Leonards office market recorded a negative result of –1,468 sqm in the 12 months to July 2015. The market also recorded –132 sqm of absorption in the six months to July.

B Grade stock recorded the only negative absorption in the market at –1,395 sqm in the six months to July. Positive market absorption was recorded in A Grade at 126sqm, C Grade at 577 sqm and D Grade at 260 sqm.

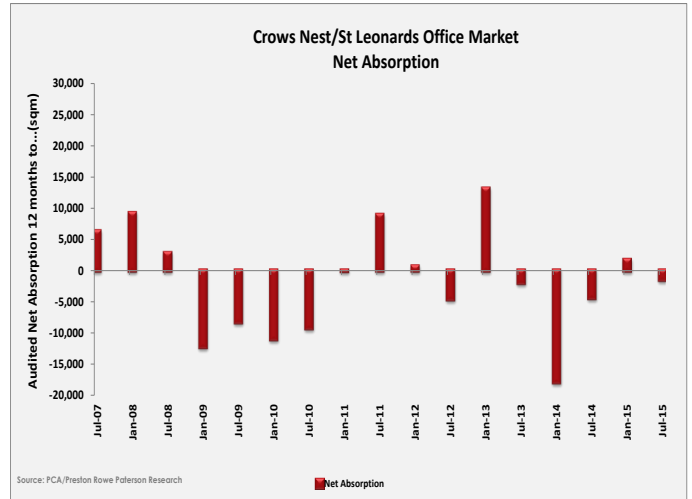


Chart 8 – Crows Nest/St Leonards Office Net Absorption – Source PCA

### Total Vacancy

Total office market vacancy rate in Crows Nest/St Leonard's had decreased over the six months to July 2015 by –0.3% to 11.2%. This reflects a total stock vacancy of 38,962 sqm.

D Grade vacancy fell by –4.1% to 12.2%, C Grade vacancy declined to –0.1% to 11%. B Grade recorded an increase in vacancy to 2.1% and 11.2% respectively.

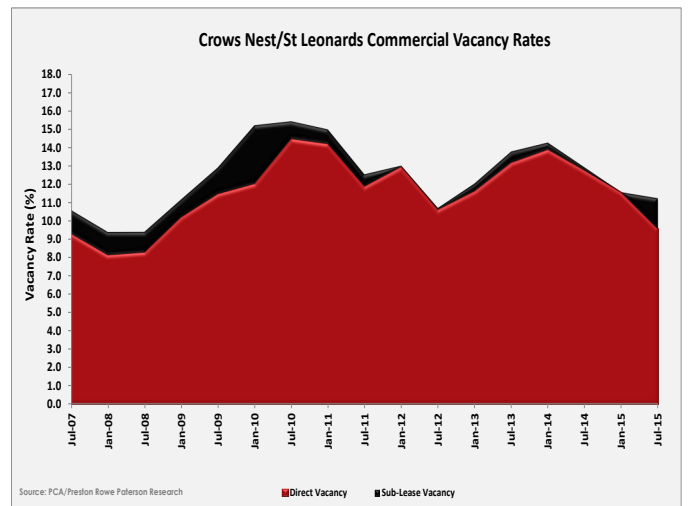


Chart 9 – Crows Nest/St Leonards Office Market Vacancy – Source PCA

## Parramatta CBD

### Investment Activity

The following table shows reported major sales transactions that occurred over six months to September 2015. 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	NLA sqm	Rate psm	Yield
80 George Street, Parramatta NSW 2150	\$ 38,700,000	Heathley Keystone Property Fund	GDI Property Group	Apr-15	8,120	\$ 4,766.01	8.50%
91 Phillip Street, Parramatta NSW 2150	\$ 30,000,000	Fortius Funds Management	Capital Property Funds	Jun-15	5,704	\$ 5,259.47	7.80%
460 Church Street, Parramatta NSW 2150	\$ 24,000,000	undisclosed	Dyldam Developments	Sep-15	7,500	\$ 3,200.00	n/a
83, 63 & 57 Church Street and 44 Early Street, Parramatta NSW 2150	\$ 150,000,000	Heartland Group	Dyldam Developments	Sep-15	143,000	\$ 1,048.95	n/a
9 George Street, Parramatta NSW 2150	\$ 30,000,000	Hyperion Property Syndicates	Hadley Green	Sep-15	5,414	\$ 5,541.19	7.80%

Table 7 — Parramatta CBD Sales Transactions

\*50% stake acquired VP = vacant possession \*\*equated yield n/a = not currently available

### Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2015. 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
20 Smith Street, Parramatta NSW 2150	\$ 490	\$ 439,530	Injury Treatment	897	5	Sep-15

Table 8 —Parramatta CBD Leasing Transactions

### Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2015 has been analysed to derive new commercial office building developments.



**Parramatta Square (stage 1)** is reported to have started its construction phase and is planned to be completed in the 4th quarter of 2016. 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 2015 recorded an additional supply of 10,933 sqm offset by 1,177 sqm of stock withdrawal in the Parramatta office market. The additional stock supply was attributed to the B and D Grade stock.

The Parramatta office market is dominated by A and B Grade stock which assumed 39.7% and 31.9% respectively of the total market share. C Grade takes up 15.2% and D Grade totals to 13.3%.

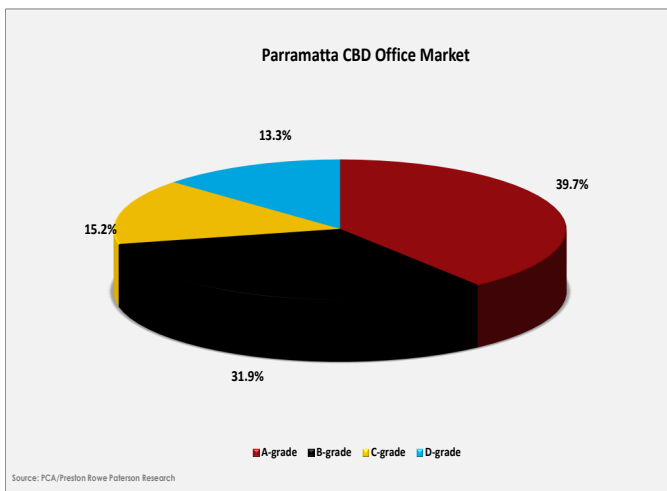


Chart 10 – Parramatta CBD Total Stock Levels by Grade – Source PCA

## Net Absorption

The total market net absorption in the Parramatta office market was recorded to –3,167 sqm over the 12 months to July 2015. Contrarily in the six months to July, the market recorded 1,283 sqm of net absorption.

The only negative absorption was recorded in the A Grade stock where –4,257 sqm of stock was not absorbed in the six months to July. B Grade recorded the highest absorption at 3,098, followed by C Grade at 1,824 sqm and D Grade at 618 sqm.

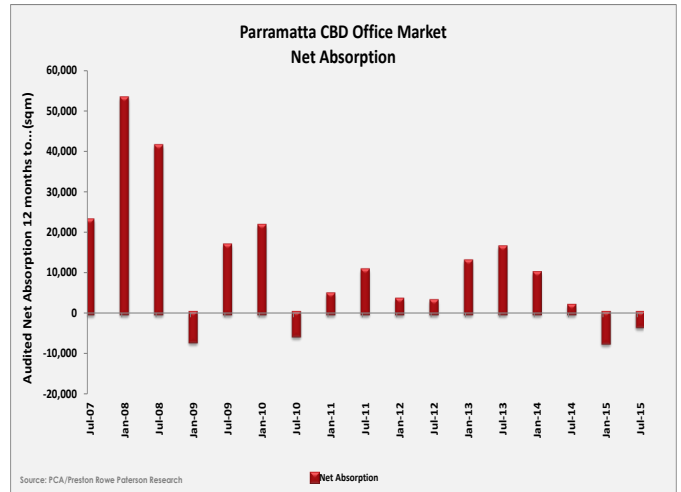


Chart 11 – Parramatta CBD Office Net Absorption – Source PCA

## Vacancy Rates

The total vacancy in the Parramatta office market has increased by 0.1% to 7.4% in the six months to July 2015. This reflects a total stock vacancy of 51,399 sqm.

All office stock grades recorded growth in vacancy rates in the six months to July, except for C Grade which tightened by –1.7% to 17.1%. B Grade vacancy increased by 2.3% to 11%, A Grade vacancy grew by 1.6% to 2.4% and D Grade vacancy recorded a small increase of 0.2% to 2.9%.

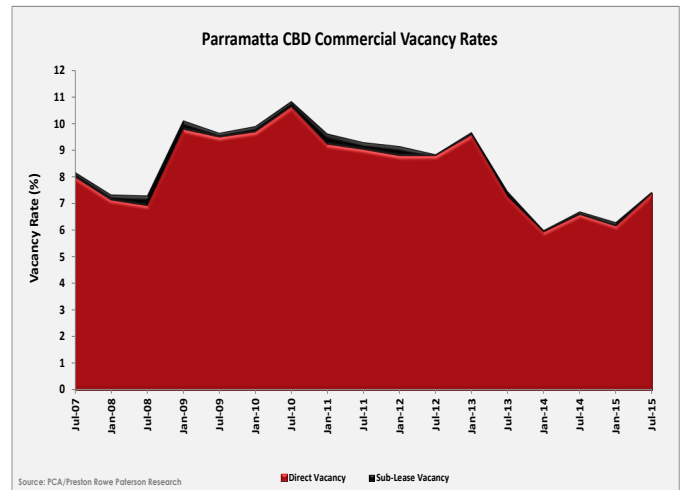


Chart 12 – Parramatta CBD Office Market Vacancy – Source PCA

## Chatswood

### Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2015. 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
779 Pacific Highway, Chatswood NSW 2067	\$ 558	\$ 189,720	Asthma Foundation of NSW	340	7	Jul-15

Table 9 — Chatswood Leasing Transactions

### Supply by Grade (Stock)

The PCA Office Market Report July 2015 has revealed that there was a supply withdrawal of 780sqm in the Chatswood office market. The withdrawal is attributed to the tightening of C Grade stock. No additional stock supply was recorded in the six months to July 2015.

All stock levels remain unchanged in the six months to July, except for C Grade which now assumes 16% of total market share. A Grade office stock dominates the Chatswood market assuming 55.3% of the total market share, B Grade takes up 28.5% and D Grade totals to 0.2%.

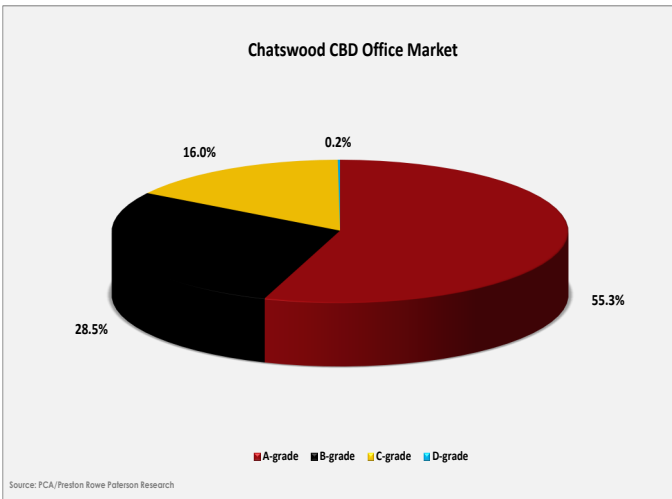


Chart 13 – Chatswood CBD Total Stock Levels by Grade– Source PCA

### Net Absorption

In the 12 months to July 2015, the Chatswood office market recorded a positive net absorption of 10,841 sqm. The market net absorption in the six months to July was 3,267 sqm.

All grades of office stock produced positive net absorption results in the six months to July, except for D Grade which recorded a –178sqm absorption. A Grade absorbed the highest amount of floor space at 2,755 sqm, followed by B Grade at 689 sqm and C Grade at 1sqm.

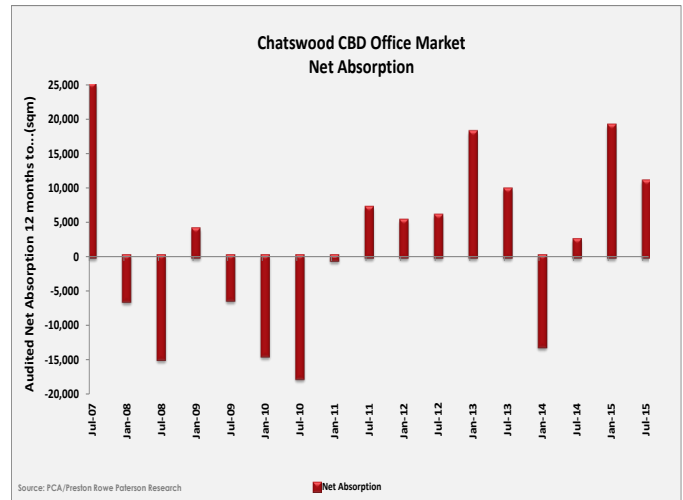


Chart 14 – Chatswood CBD Office Net Absorption – Source PCA

### Total Vacancy

The Chatswood office market recorded a decline in total office vacancy rate of –1.4% to 6.8% in the six months to July 2015 with a total vacant space amounting to 19,289 sqm.

D Grade stock recorded the largest vacancy increase to 39.2%. A Grade vacancy decreased by –1.8% to 6.9%, B Grade vacancy fell by –0.8% to 7.7% and C Grade vacancy tightened by –1.6% to 4.2%.

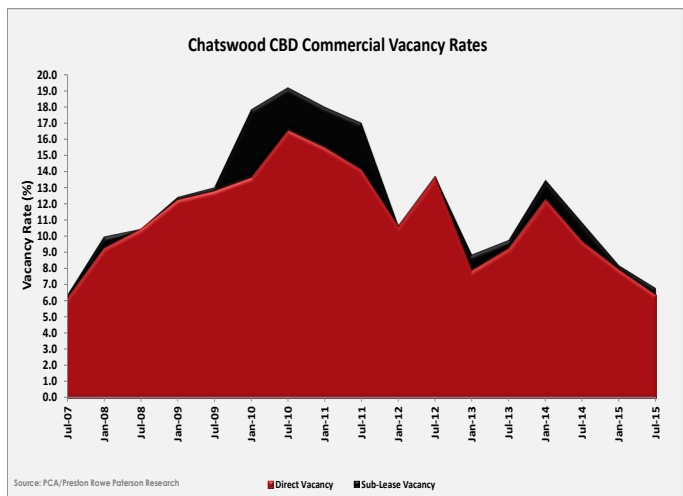


Chart 15 – Chatswood CBD Office Market Vacancy – Source PCA

## North Ryde/ Macquarie Park

### Investment Activity

The following table shows reported major sales transactions that occurred over six months to September 2015. 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	NLA sqm	Rate psm	Yield
22 Giffnock Avenue, Macquarie Park NSW 2113	\$ 74,000,000	The Trust Company	Perpetual Trustee Com	May-15	13,595	\$ 5,443.18	n/a
17-23 Talavera Road, Macquarie Park NSW 2113	\$ 43,300,000	Macquarie Telecom	Keppel DC REIT	May-15	8,169	\$ 5,300.53	7.10%

Table 10 — North Ryde/Macquarie Park Sales Transactions

### Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2015 has been analysed to derive new commercial office building developments.



The **Canon Building** development located at **1 Thomas Holt Drive** is to be completed in the 3rd quarter of 2015. The development owned by Canon is currently construction phase. The office building comprise of 11,500 sqm NLA over 6 storeys with floor plate size of 1,840 sqm. The property is

located within close proximity to the Macquarie Park train station.

**52-54 Waterloo Road** at North Ryde is currently in the construction phase and to be completed in the 3rd quarter of 2015. The development owned by Novartis Pharmaceuticals Australia will provide 10,000 sqm NLA. The site is located within close proximity to both the Macquarie Park and Macquarie University train station, and the Macquarie Centre shopping centre.



### Supply by Grade (Stock)

The PCA Office Market Report July 2015 the North Ryde/ Macquarie Park market recorded an additional supply of 9,714 sqm in B Grade stock which was offset by 7,899 sqm of withdrawals in the B and C Grade stock. The total office stock level is 868,295 sqm.

The North Ryde/Macquarie Park office market is heavily populated by A Grade office stock. The A Grade stock level accounts for 70.9% of total market share, followed by B Grade stock at 26.8%. C Grade stock levels tightened to 1.9% and D Grade remain unchanged assuming just 0.3% of total market share.

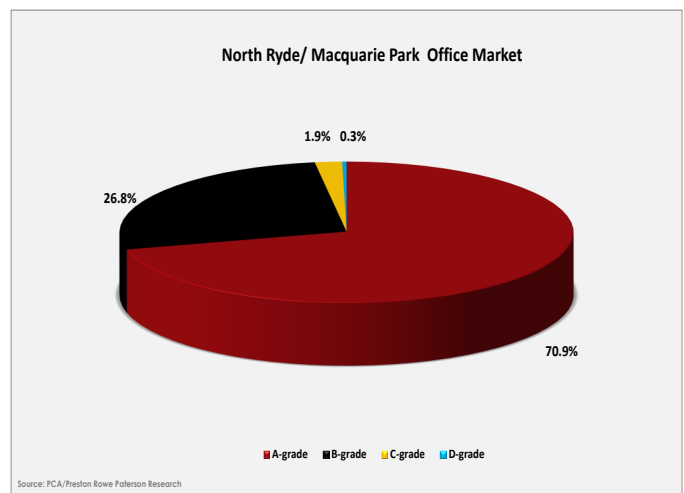


Chart 16 – North Ryde/ Macquarie Park Total Stock Levels by Grade – Source PCA





### Net Absorption

The North Ryde/Macquarie Park office market reflected a 25,567 sqm net absorption in the 12 months to July 2015. The net absorption over the six months to July was 15,002 sqm.

A and B Grade stock reported positive net absorption of 14,140 sqm and 5,222 sqm respectively. C Grade recorded a negative absorption of -4,360 and D Grade stock remain unchanged with no recorded absorbency.

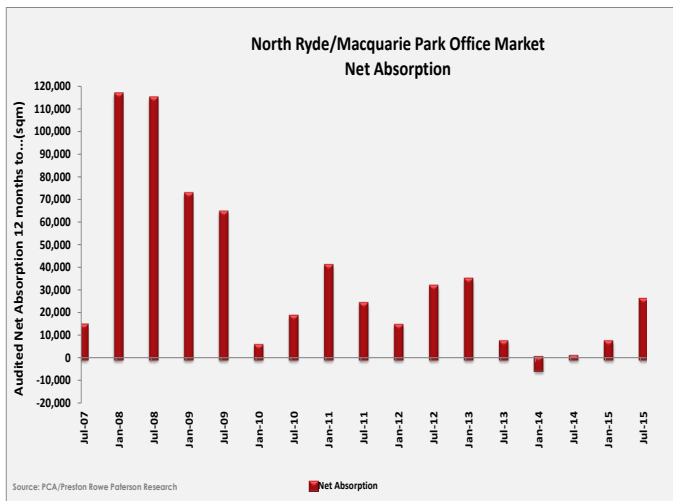


Chart 17- North Ryde/ Macquarie Park Office Net Absorption – Source PCA

### Vacancy Rates

The North Ryde/Macquarie Park market recorded a decrease in total vacancy rate of -1.5% to 8.4% in the six months to July 2015. There were 73,104sqm of vacant space.

C Grade stock recorded an 8.4% increase in vacancy to 13.5 in the six months to July. Whilst A and B Grade vacancy reported a decline of -2.3% and -0.5% to 5.7% and 15.2% respectively. No vacancy results were recorded for D Grade office space.

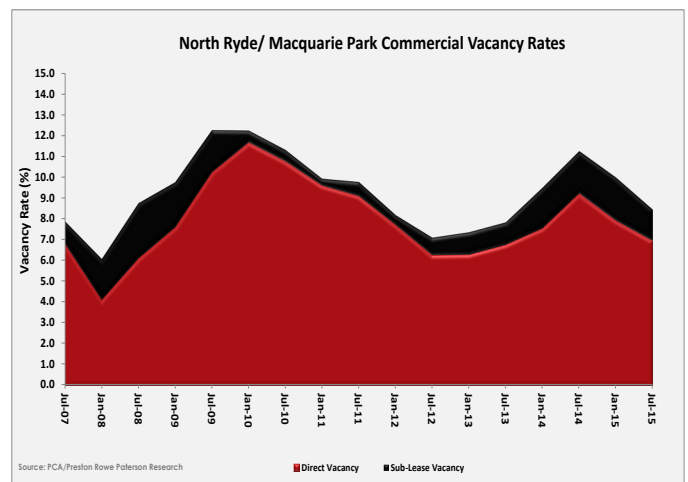


Chart 18 – North Ryde/ Macquarie Park Office Vacancy – Source PCA

## NSW Suburban Business Hubs

### Investment Activity

The following table shows reported major sales transactions that occurred over six months to September 2015. 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	NLA sqm	Rate psm	Yield
149-163 Milton Street, Ashbury NSW 2193	\$ 31,000,000	UTC Building & Industrial Systems	Tepcorp Developments	Apr-15	6,397	\$ 4,846.02	n/a
223-237 Liverpool Road, Ashfield NSW 2131	\$ 35,000,000	CC Nominees	GDI Property Group	Sep-15	9,694	\$ 3,610.48	7.50%
2A Rowntree Street, Balmain NSW 2041	\$ 17,500,000	private investor	Made Proeprty Group	Jun-15	13,807	\$ 1,267.47	5.47%
85-89 North Terrace, Bankstown NSW 2200	\$ 45,000,000	The Banna Property Group	Ganhui Pty Ltf	Apr-15	8,173	\$ 5,505.93	n/a
2-14 Meredith Street, Bankstown NSW 2200	\$ 52,500,000	Fortius Funds Management	SC Capital Partners	May-15	13,807	\$ 3,802.42	10.00%
36 George Street, Burwood NSW 2134	\$ 95,000,000	DEXUS Property Group	Holdmark Property Group	Sep-15	14,172	\$ 6,703.36	5.47%
8 Central Avenue, Eveleigh NSW 2015	\$ 110,000,000*	UrbanGrowth NSW	Centuria Capital	Apr-15	36,451	\$ 3,017.75	n/a
359 Hume Highway, Liverpool NSW 2170	\$ 6,330,000	The Commissioner for Motor Transport	local developer	Jun-15	4,210	\$ 1,503.56	VP
1 City View Road, Pennant Hills NSW 2120	\$ 40,000,000	CorVal	Pitt Street Real Estate Partners	Sep-15	8,484	\$ 4,714.76	8.50%
19-21 Harris Street, Pyrmont NSW 2009	\$ 92,000,000	LaSalle Asia Opportunity Fund IV	UBS Global Asset Management &	Jun-15	12,000	\$ 7,666.67	7.00%
65-67 Foveaux Street, Surry Hills NSW 2010	\$ 10,750,000	Styu Pty Ltd	private investor	Jun-15	1,455	\$ 7,388.32	6.46%
64-76 Kippax Street, Surry Hills NSW 2010	\$ 31,500,000	undisclosed	private investor	Sep-15	5,467	\$ 5,761.84	4.25%

Table 11 — NSW Suburban Office Sales Transactions

\*50% stake acquired VP = vacant possession n/a = not currently available

### Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2015. 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	Date
1 Figtree Drive, Homebush Bay NSW 2144	\$ 433	\$ 810,576	Energizer	1,872	n/a	Jul-15
235 Pyrmont Street, Pyrmont NSW 2009	\$ 410	\$ 688,800	Parkview Constructions	1,680	n/a	Apr-15
60 Union Street, Pyrmont NSW 2009	\$ 595	\$ 1,190,000	NSN Solutions	2,000	4	Apr-15
60 Union Street, Pyrmont NSW 2009	\$ 595	\$ 1,785,000	Echo Entertainment	3,000	4	Apr-15
100 Harris Street, Pyrmont NSW 2009	\$ 685	\$ 2,740,000	Domain Group	4,000	7	Jul-15

Table 12 — NSW Suburban Office Leasing Transactions

n/a—not currently available

## ECONOMIC FUNDAMENTALS

### GDP

GDP figures for the September quarter 2015 are not available until the 2nd December 2015, however, over the June 2015 quarter revealed that the Australian economy recorded growth of 0.2% seasonally adjusted which reflected growth of 2% seasonally adjusted over the twelve months to June 2015.

In seasonally adjusted terms, the main industry gross value added contributors to GDP were Financial and insurance services (+0.6%), Information media and telecommunications (+0.3%) and Healthcare and social assistance (+0.3%). In trend terms, the largest detractor were the Professional, scientific and technical services (-0.1%) and Construction (-0.2%).

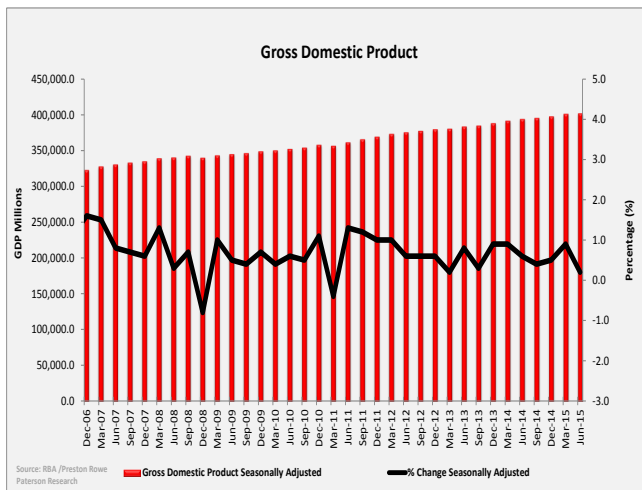


Chart 19 – Gross Domestic Product (GDP) – Source ABS

### Interest Rates

As at the date of publishing, the official Cash Rate over the September quarter 2015 has remain steady at 2%. The Reserve Bank of Australia's Media Release for September 2015, released 1st September 2015 explained that;

*"The global economy is expanding in a moderate pace, with some further softening in conditions in China and east Asia of late, but stronger US growth. Key commodity prices are much lower than a year ago, in part reflecting increased supply, including Australia. Australia's terms of trade are falling...In Australia the available information suggests moderate expansion in the economy continues. While growth has been somewhat below long-term averages for some time, it has been accompanied with somewhat stronger growth of employment and steady rate of unemployment over the past year. Overall the economy is likely to be operating with a degree of spare capacity for some time yet, with domestic inflationary pressures contained. Inflation is thus forecast to remain consistent with the target over the next one to two years, even with a lower exchange rate."*

The media release also stated that inflation is as expected to be consistent.

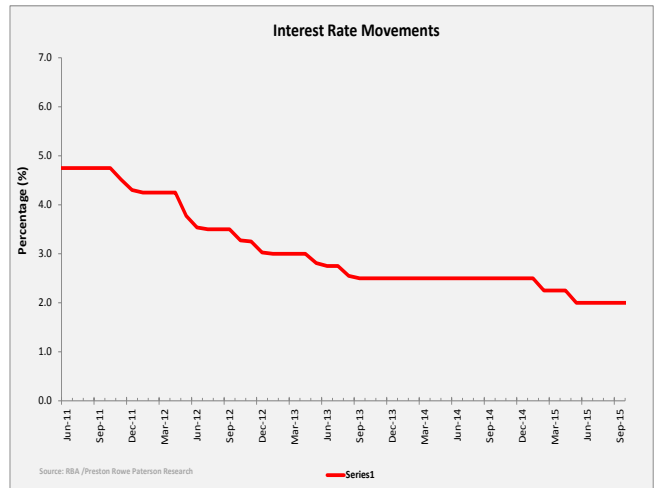


Chart 20 – Cash Rate – Source RBA

### CPI

According to the Australian Bureau of Statistics (September 2015), the Australia's All Groups CPI increased by 0.5% over the September quarter from 107.5 to 108. The annual CPI change to September 2015 recorded a growth of 1.5%.

The most significant price rises over the September quarter were International holiday travel and accommodation (+4.6%), Fruit (+8.2%) and Property rates and charges (+4.6%). The greatest price fall over the quarter was attributed to are Vegetables (-5.9%), Telecommunication equipment and services (-2%) and Automotive fuel (-1.7%).

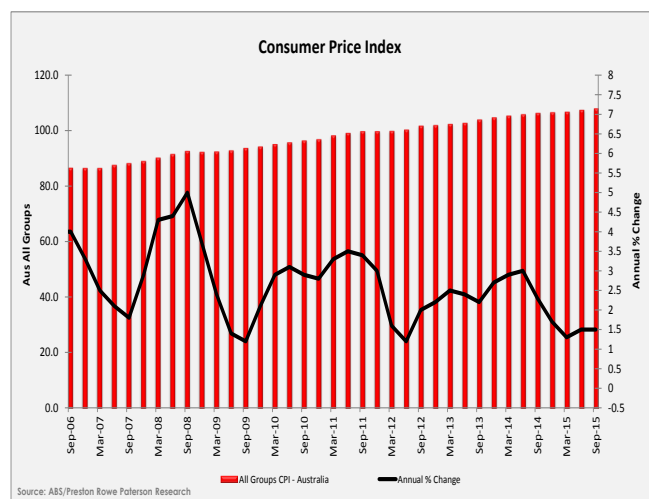


Chart 21 – Consumer Price Index – Source ABS

### 10 Year Bond & 90 Day Bill Rate

Over the September 2015 quarter, the 10 Year Government Bonds recorded a decline of 29 basis points from 2.7%. The 90 Day Bill Rate recorded a 2 basis points growth over the quarter from 2.17%.

In the twelve months to September 2015, the monthly 10 Year Bond Rate has decreased by 86 basis points from 3.55%. Similarly, the monthly 90 Day Bill Rate fell by 49 basis points from 2.66%.

Analysis of the daily 10 Year Government Bonds has revealed a decrease of 2 basis points over the month of September ending to 2.61%. The 90 day bill rates had increased by 3 basis points to the month end of 2.19%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 23 basis points.

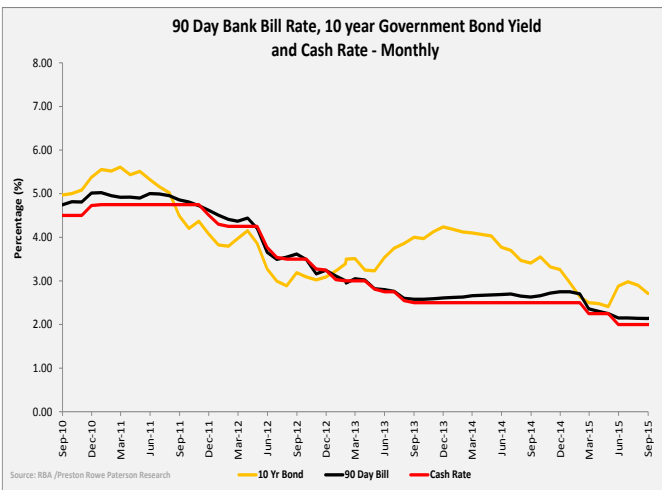


Chart 22 –90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

### Labour force

Over the month to September 2015, the number of unemployed people has declined by 8,139 from 780,677 in August to 772,538 in September, reflecting a -1% decrease. In comparison to September 2014, the number of unemployed people had increased by 7,650 reflecting an annual increase of 1%. The unemployment rate was 6.2% as at September 2015.

The number of unemployed seeking full time employment recorded a decrease in September by 6,200 to 556,100 persons. The number of unemployed seeking part time employment recorded a decrease over the month by 2,200 to 216,500 persons.

New South Wales experienced a large absolute decrease in seasonally adjusted employment by -1,276 persons to 3.736 million persons over the month of September. The unemployment status in New South Wales over the quarter increase by 0.1% to 5.9%.

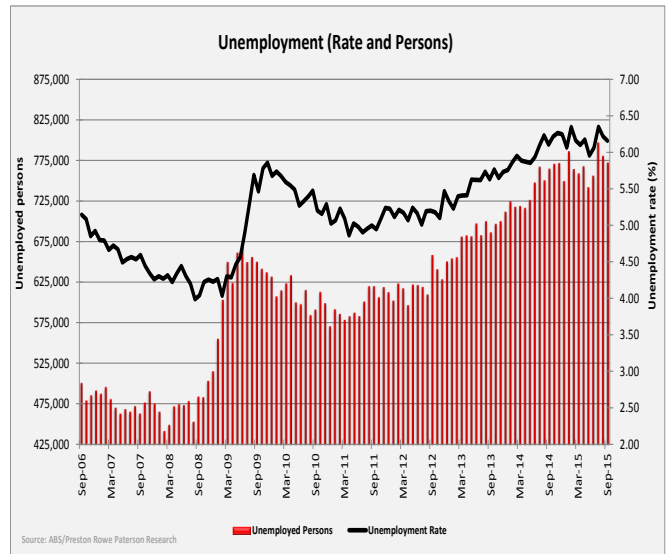


Chart 24- Unemployment—Source—ABS

### Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 5.6% from 99.5 index points in August to 93.9 index points in September. Over the quarter the index has decreased by -1.4 points and recorded a -0.11% annual decline.

Westpac's Economist, Bill Evans commented; "This solid fall comes as no surprise...violent gyrations in both Australian and overseas equity markets, poor economic data from China, disappointing report on Australia's growth rate and weakness in the Australian dollar were likely to have unnerved households."

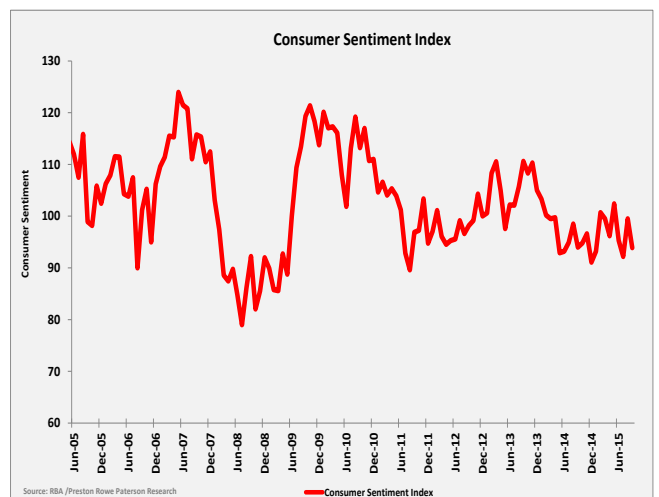


Chart 25 – Consumer Sentiment Index – Source - Westpac—Melbourne Institute Survey



## 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 & 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

## 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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Brisbane

Hobart

Melbourne

Sydney

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Ballarat

Bendigo

Central Coast/Gosford

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Darwin

Perth

Other regional areas

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Greymouth

Hamilton & Morrinsville

Tauranga

Wellington

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