



**Preston**  
*Rowe*  
Paterson

®  
International Property Consultants

# Sydney Impact Report

## Office Market

### SHORT-TERM UNDERSUPPLY

Amongst the background of global financial insecurity in early 2016, the Sydney office market remains an attractive destination for investments. Although the Sydney markets have experienced a relatively slow entry into the year 2016, the Sydney CBD office market continues to be in high demand over the March quarter. Property transaction values remained high in the quarter averaging at \$129.6 million. The Sydney office vacancy outlook may decrease and result in short-term undersupply as over 90,500 sqm of office space will be withdrawn from the market for the construction of the future metro rail stations across the Crows Nest/St Leonards, North Sydney and Sydney CBD markets.

A landmark sale in the quarter was the sale of **77 King Street**, located on the corner of King and George Street in the Sydney CBD. Also known as the **Apple Building**, *Keppel REIT* sold the A Grade office building to *Invesco Asset Management* under its unlisted property fund *Invesco Asia Core Fund* for **\$160 million**. The stratum sale excludes the retail podium that holds the *Apple* store still owned by *Kingvest*. The sale reflects an initial yield of 6.02%. The property features two basement level retail space totalling to 1,227 sqm, a 773sqm childcare centre on the first floor, 10,610 sqm of office space spread out to 18 levels. Major tenants in the building includes Apple, Facebook, Capgemini and Rebel Sports.

### March quarter 2016

#### INSIDE THIS ISSUE:

Sydney Office Market Highlights	2
Sydney CBD Office Market	3
North Sydney Office Market	6
Crows Nest/St Leonards Office Market	7
Parramatta CBD Office Market	9
Chatswood Office Market	11
North Ryde/Macquarie Park Office Market	12
Sydney Suburban Business Hubs	13
Economic Fundamentals	15
About Preston Rowe Paterson	17
Contact Us	19



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## SYDNEY OFFICE MARKET HIGHLIGHTS

The March quarter 2016 results revealed that there was \$1.8 billion worth of property that was sold, however, when compared to the same period in 2015 the number of office sales have decreased. Many of the sales transactions and leases occurred in the Sydney CBD and suburban office markets. Due to a number of properties being acquired for the development of the underground metro rail stations, the office market vacancy in various markets is expected to decrease as displaced tenants look for rental options. The short-term undersupply outlook may change when a number of developments reach completion towards the end of the year.

### Sales

The majority of major sales activity in the March quarter occurred in the Sydney CBD and North Sydney office markets. Many vendors were property funds and a number of purchasers were developers and listed funds.

A notable sale in the quarter was the sale of **1 Woolworths Way**, located in the **Norwest Business Park at Bella Vista**. The A Grade office campus was sold by **Mirvac Group to Inmark Asset Management for \$336 million**. The property is tenanted by Woolworths as its national headquarters and is on a 15-year lease which was signed in August 2015. The sale reflected an initial yield of 6.07% and a sales rate of \$7,500 psm. Bella Vista is located about 33 km north-west of the Sydney CBD.



### Leases

The number of Sydney metropolitan office significant leasing activities decreased in the March quarter. The Crows Nest/St Leonards market, Chatswood market and North Ryde/Macquarie Park market did not record major leasing deals in the quarter. The observed average rent was about \$435 psm across the Sydney metropolitan office market on an average term of 5.6 years.

One of the significant leases signed in the quarter was the **InvoCare Australia deal at 40 Miller Street, North Sydney**. InvoCare agreed to lease 1,650 sqm office space on an estimated rate of **\$606 psm** on a 5 year term, the lease will start in mid-2016. This reflects an annual rent of just over \$1 million. The reason for the move was due to tenant displacement by the new North Sydney railway station at 181 Miller Street. InvoCare plan to move its headquarters into the space in the second quarter of 2016.



## Developments

There's a number of new developments in Sydney that are scheduled to be completed in the first half of 2016. According to the Property Council of Australia, it is forecasted that a new supply of approximately 169,780 sqm office space will be released in the first six months of 2016 and are located in the Sydney CBD, North Sydney and Parramatta markets.

One of the anticipated development due for completion in the 2nd quarter of 2016 is the **International Towers Sydney, Tower 3**. The tower is located on **Hickson Road and Shelley Street** in the city of Sydney's **Barangaroo** district. The building is projected to provide 79,221 sqm NLA across 38 office levels on an average floorplate size of 2,300 sqm. The commercial tower will include 167 car spaces and approximately 5,315 sqm of retail space. The tower is currently 73% pre-leased with major tenants including **KPMG and Lend Lease**.



## Yield

As observed by Preston Rowe Paterson Research during the six months to March, the average yield in the Sydney metropolitan office market had shown to be approximately 6.7%. The Sydney CBD office yields ranged from 5% to 7% to an average yield of approximately 6.1%. The Parramatta office market recorded an average yield of approximately 6.65%.

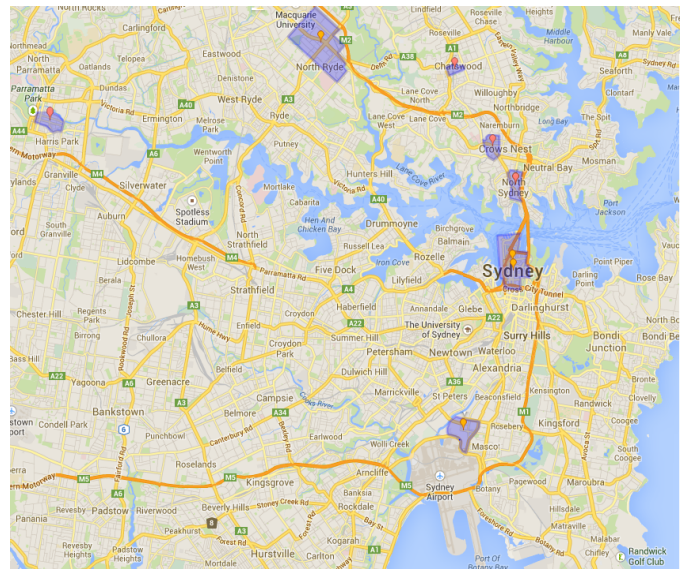


Image 1— Location map of major CBD in the Sydney metropolitan area—Source—Google Maps and Preston Rowe Paterson Research

## COMMERCIAL OFFICE MARKET

### Sydney CBD

#### Investment Activity

The following table shows reported major sales transactions that occurred over six months to March 2016. 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
160 Sussex Street, Sydney NSW 2000	\$ 60,000,000	JP Morgan Asset Management	Burcher Property Group	Oct-15	8,275	\$ 7,250.76	7.00%
1-3 Munn Street, Millers Point NSW 2000	\$ 40,000,000	Primary Health Care	private developer	Nov-15	3,843	\$ 10,408.53	n/a
204 Clarence Street, Sydney NSW 2000	\$ 15,500,000	Greenpath	foreign investor	Nov-15	2,242	\$ 6,913.47	n/a
432 Kent Street, Sydney NSW 2000	\$ 13,800,000	KSO	foreign investor	Nov-15	1,339	\$ 10,306.20	n/a
117 Clarence Street, Sydney NSW 2000	\$ 81,000,000	Altis Property Partners	Roxy Pacific Holdings	Dec-15	12,546	\$ 6,456.24	6.20%
175 Castlereagh Street, Sydney NSW 2000	\$ 98,000,000	Centuria Property Fund	Transport for NSW	Dec-15	11,848	\$ 8,271.44	n/a
International Tower 1, Hickson Road, Barangaroo NSW 2000	\$ 350,000,000*	Lend Lease	foreign investor	Dec-15	n/a	n/a	n/a
179 Elizabeth Street, Sydney NSW 2000	\$ 148,800,000	LaSalle Asia Opportunity Fund III	Markham	Dec-15	15,000	\$ 9,920.00	7.00%
71 Macquarie Street, Sydney NSW 2000	\$ 158,500,000	AMP	Macrolink Group and Landream	Jan-16	12,000	\$ 13,208.33	n/a
77 King Street, Sydney NSW 2000	\$ 160,000,000	Keppel REIT	Invesco Asset Management	Jan-16	13,622	\$ 11,745.71	6.02%
61 York Street, Sydney NSW 2000	\$ 33,000,000	Nick Minettas	private investor	Feb-16	2,667	\$ 12,373.45	5.00%
332 Pitt Street, Sydney NSW 2000	\$ 30,000,000	private vendor	Visionary Investment Group	Feb-16	2,173	\$ 13,805.80	n/a
151 Castlereagh Street, Sydney NSW 2000	\$ 120,000,000	private fund	Deutsche Asset Management	Mar-16	12,847	\$ 9,340.70	5.50%

Table 1 — Sydney CBD Sales Transactions  
 \*25% stake n/a = not currently available

## Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to March 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

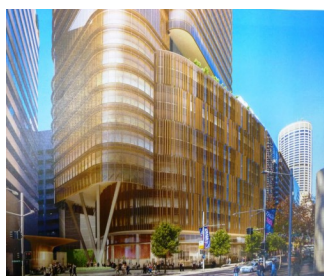
Address	Rent psm	Rent pa	Lessee	Area sqm	Term	Date
9-11 South Street, Sydney NSW 2000	\$ 150	\$ 173,100	Allworth Homes	1,154	5	Oct-15
201 Sussex Street, Sydney NSW 2000	\$ 795	\$ 1,202,040	Salesforce	1,512	5	Oct-15
11-17 York Street, Sydney NSW 2000	n/a	n/a	Bridge Business College	5,000	10	Oct-15
1 Martin Place, Sydney NSW 2000	\$ 800	\$ 3,600,000	Expedia	4,500	n/a	Nov-15
130 Pitt Street, Sydney NSW 2000	\$ 800	\$ 1,231,200	Sensis	1,539	1.6	Nov-15
570 Bourke Street, Sydney NSW 2000	\$ 410	\$ 5,740,000	Department of Social Services	14,000	n/a	Nov-15
338 Pitt Street, Sydney NSW 2000	\$ 500	\$ 500,000	SportsBet	1,000	n/a	Nov-15
2 Park Street, Sydney NSW 2000	n/a	n/a	Amazon	9,230	7	Dec-15
200 George Street, Sydney NSW 2000	\$ 1,100*	\$ 3,850,000*	AGL Energy	3,500	10*	Dec-15
233 Castlereagh Street, Sydney NSW 2000	\$ 495	\$ 800,910	Group Colleges Australia	1,618	5	Feb-16
338 Pitt Street, Sydney Nsw 2000	\$ 445	\$ 420,080	The Australian Academy of Commerce	944	5	Feb-16
60 Margaret Street, Sydney NSW 2000	n/a	n/a	ING Direct headquarters	10,030	10	Feb-16

Table 2—Sydney CBD Leasing Transactions  
n/a = not currently available \*pre-lease

## Development Sites

The Property Council of Australia's (PCA) Office Market Report January 2016 have recorded office developments that are in various stages of the Sydney office pipeline.

Mirvac's new development located close to Circular Quay at **190-200 George Street** is due for completion in the 2nd quarter of 2016. The Premium Grade office tower features 38,676 sqm of office space across 35 levels, 476 sqm of retail area, 63 car spaces, 5-star NABERS Energy rating and 6-star Green Star rating. The property will be tenanted by accounting consultants EY across 28,300 sqm on a 10 year lease.



## Supply by Grade (Stock)

Analysis of the PCA's Office Market Report January 2016 has revealed that there was an additional supply of 149,498 sqm of office space released in the six months to January. This was offset by the 47,217 sqm withdrawals, resulting in an increase of the total Sydney CBD office market space to 5,066,472 sqm.

The additional supply of office space was attributed to the Premium and A Grade office stock supply and stock withdrawal was recorded in the B and C Grade.

The Sydney CBD office market is dominated by the A and B Grade stock, assuming up to 36.7% and 30.3% of total supply respectively. Followed by Premium Grade accounting for 18.4%, C Grade at 10.9% and D Grade at 3.7%.

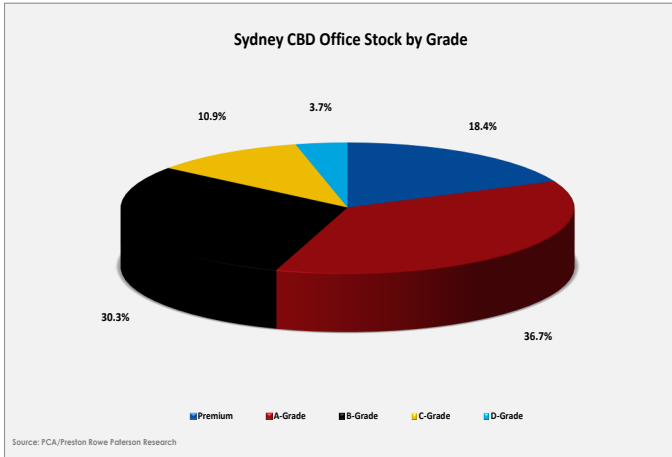


Chart 1 – Sydney CBD Total Stock by Grade – Source PCA

### Net Absorption

The Sydney CBD office market has absorbed 157,150 sqm of space in the 12 months to January 2016. In the six months to January, the market absorbed 96,745 sqm.

Positive net absorption was recorded across all office grades bar B Grade stock which recorded -47,644 sqm net absorption in the six months to January. Premium Grade absorbed the largest amount at 100,139 sqm, followed by A Grade at 38,897sqm, C Grade at 2,725 sqm and D Grade at 2,628 sqm.

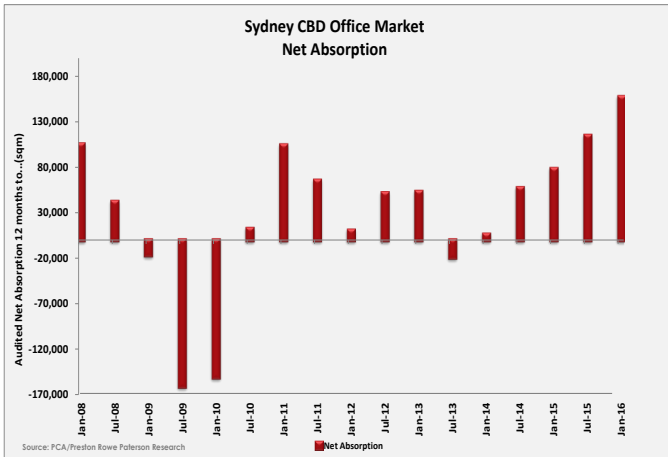


Chart 2 – Sydney CBD Office Net Absorption – Source PCA

### Vacancy Rates

The Sydney CBD office market vacancy remain unchanged in the six months to January 2016. The total office market vacancy increased to 6.3%, reflecting 317,214 sqm.

Mixed results were recorded across all grades of office stock. Premium Grade stock recorded a 2.8% increase in vacancy to 8.1%, B Grade vacancy grew by 0.6% to 6.8%. Whilst C Grade vacancy tightened by -1.5% to 5.3%, followed by D Grade stock (-1.4%) at 4.2% and A Grade stock (-1.3%) at 5.4%.

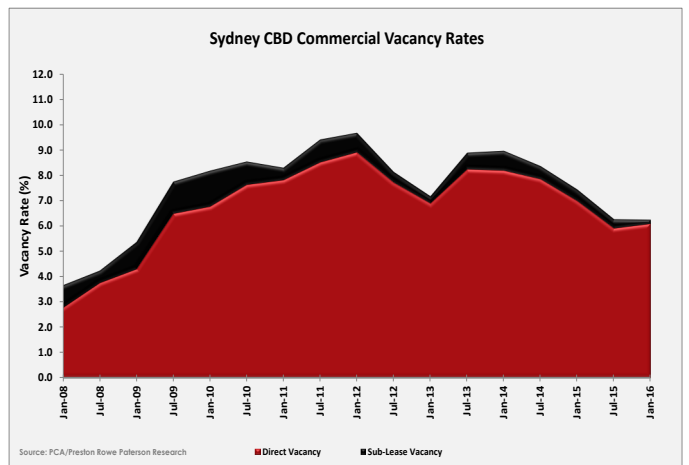


Chart 3 – Sydney CBD Vacancy Rates – Source PCA

## North Sydney

### Investment Activity

The following table shows reported major sales transactions that occurred over six months to March 2016. 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
100 Arthur Street, North Sydney NSW 2060	\$ 315,000,000	Salteri family	Ascendas	Jan-16	27,196	\$ 11,582.59	6.20%
90-100 Mount Street, North Sydney NSW 2060	\$ 470,000,000	Laing O'Rourke	DEXUS Property Group	Feb-16	41,163	\$ 11,418.02	Under Construction

Table 3 — North Sydney Sales Transactions

### Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to March 2016. 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
177 Pacific Highway, North Sydney NSW 2060	\$ 700	\$ 4,810,400	Jacobs	6,872	n/a	Dec-15
40 Miller Street, North Sydney NSW 2060	\$ 606	\$ 1,000,000	InvoCare Australia	1,650	5	Mar-16

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

### Development Sites

The PCA Office Market Report January 2016 was 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 January 2016, the total North Sydney office stock recorded 2,604 sqm of stock withdrawals and no additional supply. The total office market stock was 280,747 sqm.

B Grade stock dominates the North Sydney market, taking 52% of total market share. A and C Grade have similar market shares at 22.6% and 19.1% respectively. Premium Grade assumed 4.4% and D Grade accounted for 1.6%.

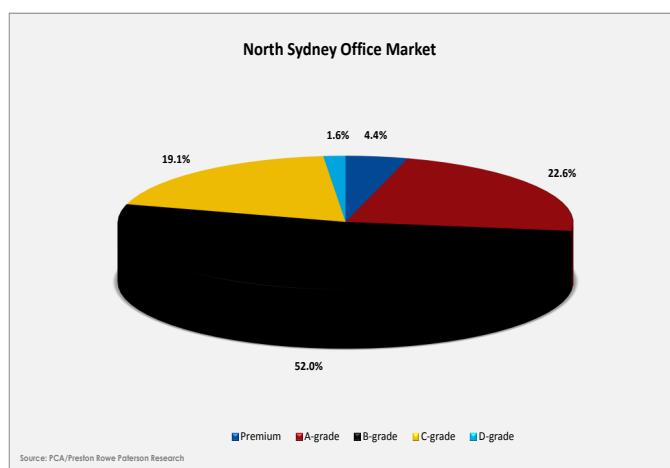


Chart 4 – North Sydney Total Stock Levels By Grade – Source PCA

## Net Absorption

The North Sydney office market has absorbed 13,384 sqm of space in the 12 months to January 2016. In the six months to January, the market absorbed 5,021 sqm.

Positive net absorption was recorded across all office grades in the six months to January, except for A and D Grade stock that showed negative results of -7,456 sqm and -124 sqm respectively.

The largest positive absorption was reflected in C Grade space which absorbed 6,600 sqm. Followed by B Grade at 5,603 sqm and Premium Grade at 488 sqm.

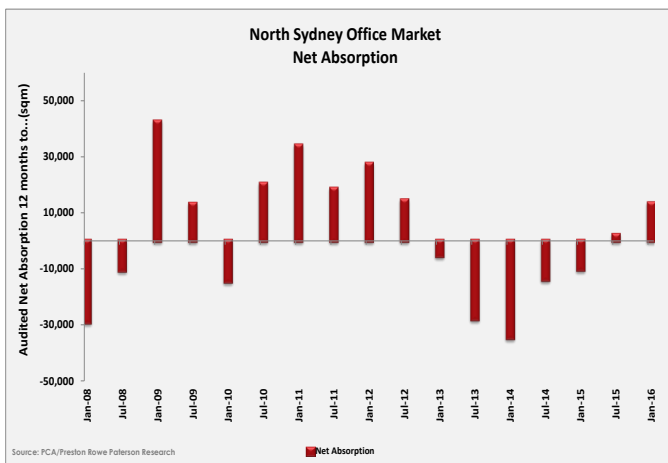


Chart 5 – North Sydney Office Net Absorption – Source PCA

## Vacancy Rates

The total North Sydney office market vacancy has tightened by 0.9% to 7.1% in the six months to January 2016. This reflected approximately 57,998 sqm of vacant space.

Premium Grade office recorded no vacancy in the six months to January. The A Grade vacancy rate grew by 4.1% to 7.7%, followed by D Grade vacancy which increased by 1% to 6.7%. C Grade vacancy tightened the most by -4.2% to 5%, followed by B Grade vacancy falling by -1.9% to 8.1%.

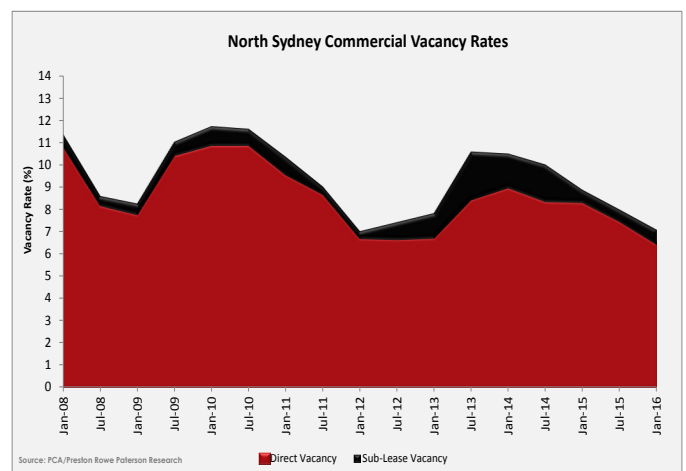


Chart 6 – North Sydney Office Vacancy Rates – Source PCA

## Crows Nest/ St Leonards

### Investment Activity

The following table shows reported major sales transactions that occurred over six months to March 2016. 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
203 Pacific Highway, St Leonards NSW 2065	\$ 86,000,000	Challenger Life Company	Centuria Property Funds	Oct-15	11,764	\$ 7,310.44	n/a
38 Pacific Highway, St Leonards NSW 2065	\$ 21,000,000	undisclosed	Edsgear	Nov-15	1,600	\$ 13,125.00	5.24%

Table 5 – Crows Nest/St Leonards Sales Transactions  
n/a = not currently available

## Supply by Grade (Stock)

The PCA's Office Market Report January 2016 detailed that in the Crows Nest/St Leonards office market recorded an additional supply of 1,435 sqm and withdrawal of 3,572 sqm, this bring the total market stock levels to 344,797 sqm.

C Grade stock dominates the Crows Nest/ St Leonards market assuming 46.5% of total stock. A Grade and B Grade stock levels take up 29.6% and 19.7% respectively, and D Grade stock takes up 3.6%.

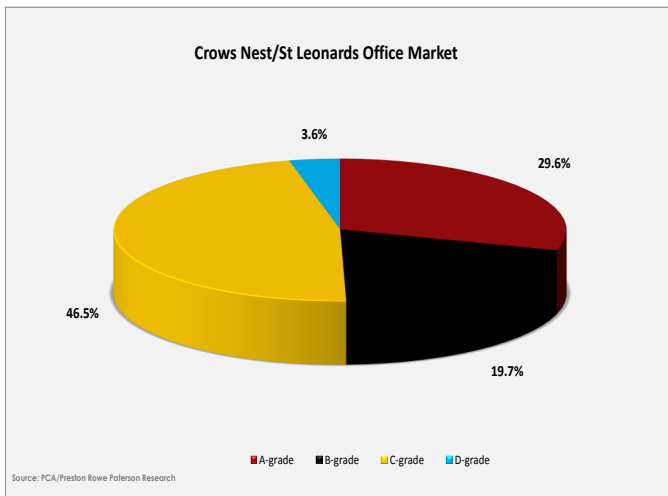


Chart 7 – Crows Nest/St Leonards Total Stock Levels by Grade – Source PCA

## Net Absorption

Total office market absorption in Crows Nest/St Leonard's recorded approximately 3,464 sqm absorption in the 12 months to January. The market also recorded 3,596 sqm of absorption in the six months to January.

The largest net absorption occurred in A Grade stock which absorbed 7,621 sqm in the six months to January, followed by B Grade stock which absorbed 2,722 sqm. Both C and D Grade stocks reflected negative net absorption of -6,181 sqm and -566 sqm respectively.

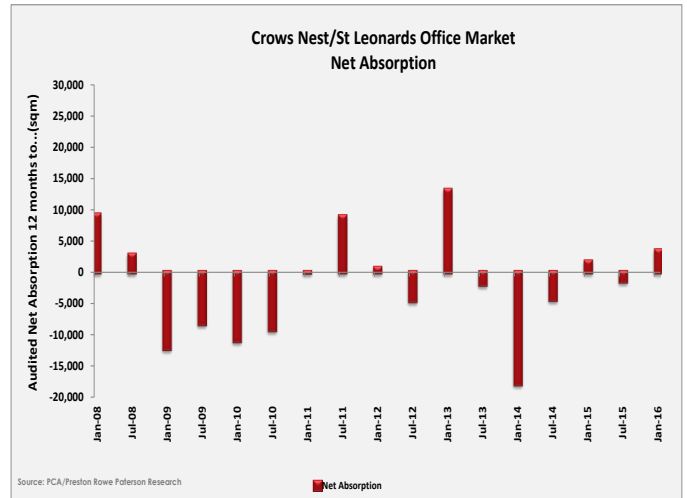


Chart 8 – Crows Nest/St Leonards Office Net Absorption – Source PCA

## Total Vacancy

Total office market vacancy rate in Crows Nest/St Leonard's decreased over the six months to January 2016 by -1.6% to 9.6%. This reflects approximately 33,229 sqm of total vacant stock.

The office market vacancy rate has fallen across all office stocks except for C Grade which recorded a 2.5% growth in vacancy rate to 13.8%. The largest decline in vacancy rate was noted in A Grade stock which fell by -7.4% to 3.5%. Followed by D Grade stock (-3%) at 9.2% and B Grade stock (-2.1%) at 9.1%.

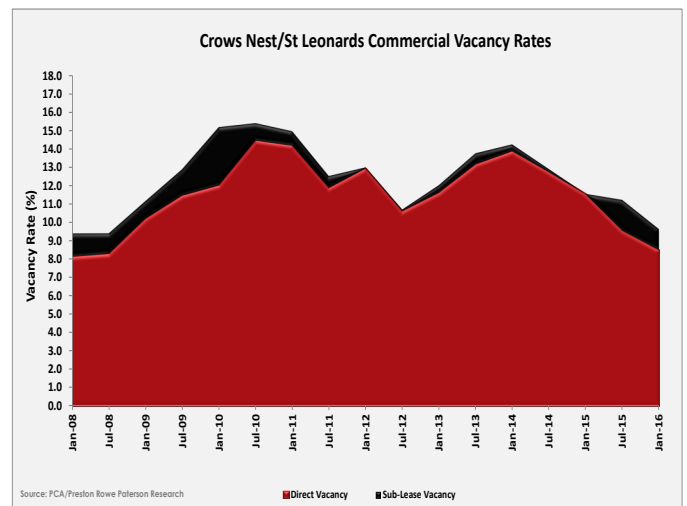


Chart 9 – Crows Nest/St Leonards Office Market Vacancy – Source PCA



## Parramatta CBD

### Investment Activity

The following table shows reported major sales transactions that occurred over six months to March 2016. 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
93 George Street, Parramatta, NSW 2150	\$ 37,300,000	Marprop	Rathdrum Properties	Nov-15	7,127	\$ 5,233.62	8.00%
17-21 Macquarie Street, Parramatta NSW 2150	\$ 18,700,000	undisclosed	Lederer Group	Nov-15	4,717	\$ 3,964.38	5.30%

Table 6 — Parramatta CBD Sales Transactions

### Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to March 2016. 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
56 Station Street, Parramatta NSW 2150	\$380 - \$400	\$419,140 - \$441,200	Infosys	1,103	3	Dec-15
2-8 South Street, Rydalmere NSW 2116	\$ 135	\$ 897,210	Sapphire Group	6,646	5	Dec-15

Table 7 — Parramatta CBD Leasing Transactions

### Development Sites

The PCA Office Market Report January 2016 revealed that the **Parramatta Square (stage 1)** development is in the construction stage and is expected to be completed in the 4th quarter of 2016. The *Charter Hall Group* development on **169 Macquarie Street** will provide 24,500 sqm of net lettable area 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 planned commercial and residential spaces 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**.



In conjunction with the Parramatta Stage 1 development, the other significant development is **Parramatta Square (Stage 3)** project located on **153 Macquarie Street**. It is currently in its early feasibility stage. The Parramatta City Council proposed that the third stage of development will include 35,000 sqm of NLA over a 14 storey office tower, feature a 7,000 sqm are of public facilities including a civic building, community centre, library and facilitate a car park with 170 spaces. The project is expected to be completed in the 2nd quarter of 2018 or later.



## Supply by Grade (Stock)

The PCA Office Market Report January 2016 recorded an additional supply of 600 sqm offset by 7,766 sqm of stock withdrawal in the Parramatta office market. The total market supply sums up to 682,907 sqm.

The Parramatta office market is dominated by both A and B Grade stock which assumes 39.7% and 31.7% respectively of total market share. C Grade stock takes up 14.5% and D Grade stock totals to 13%.

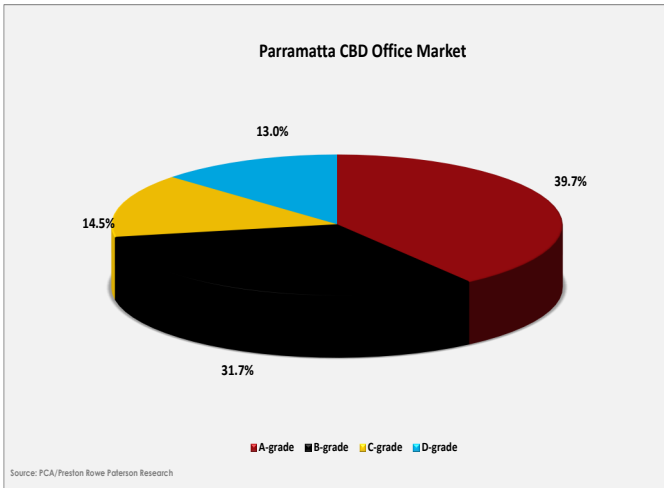


Chart 10 – Parramatta CBD Total Stock Levels by Grade – Source PCA

## Net Absorption

The total market net absorption was 6,998 sqm in the 12 months to January. The market also recorded 5,715 sqm of absorption in the six months to January.

The only negative net absorption was recorded in D Grade stock where -1,643 sqm of stock was not absorbed in the six months to January. B Grade recorded the highest net absorption of 4,816 sqm, followed by A Grade at 1,856 sqm and C Grade at 686 sqm.

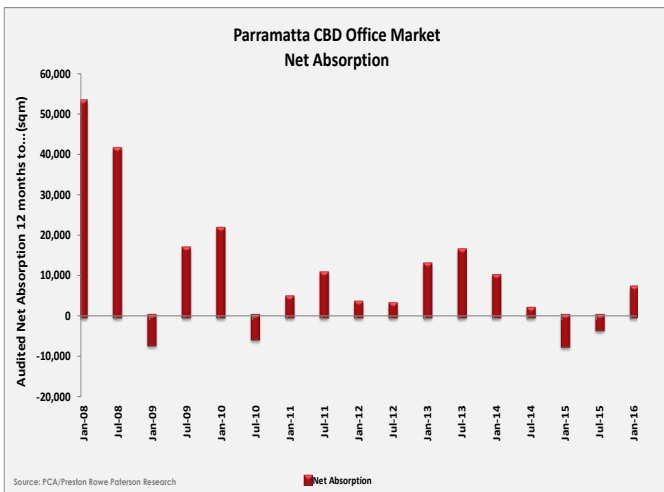


Chart 11 – Parramatta CBD Office Net Absorption – Source PCA

## Vacancy Rates

The total vacancy in the Parramatta office market has decreased by -1.8% to 5.6% in the six months to January 2016. This reflects a total stock vacancy of 38,518 sqm.

All office stock grades recorded decrease in vacancy rates in the six months to January, except for D Grade which increased by 0.2% to 3.1%. The largest tightening of vacancy rate occurred in C Grade stock which fell by -4.5% to 12.6%. B Grade vacancy decreased by -2.6% to 8.4% and A Grade vacancy declined by -0.7% to 1.7%.

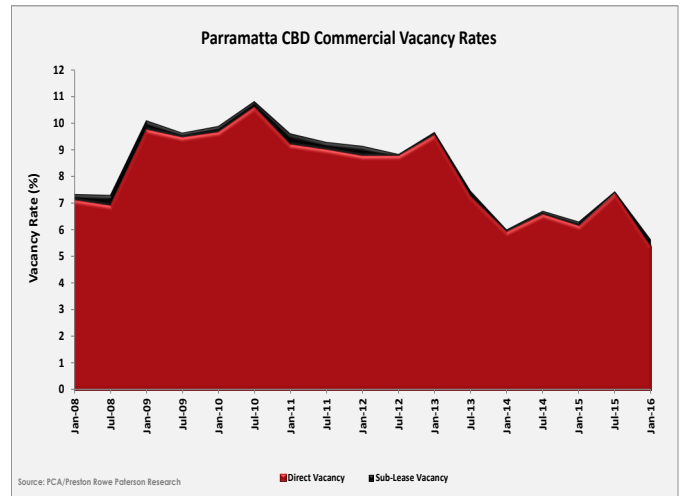


Chart 12 – Parramatta CBD Office Market Vacancy – Source PCA

## Chatswood

### Supply by Grade (Stock)

The PCA Office Market Report January 2016 has revealed that there was a supply withdrawal of 5,546 sqm in the Chatswood office market. No additional stock supply was recorded in the six months to January. The total market supply was 278,919 sqm.

The A Grade stock remain as the dominant category of office space in the Chatswood market, accounting for 55.3% of total market share. B and C Grade stock tightened to 26.7% and 15.8% respectively, and D Grade remain unchanged at 0.2%.

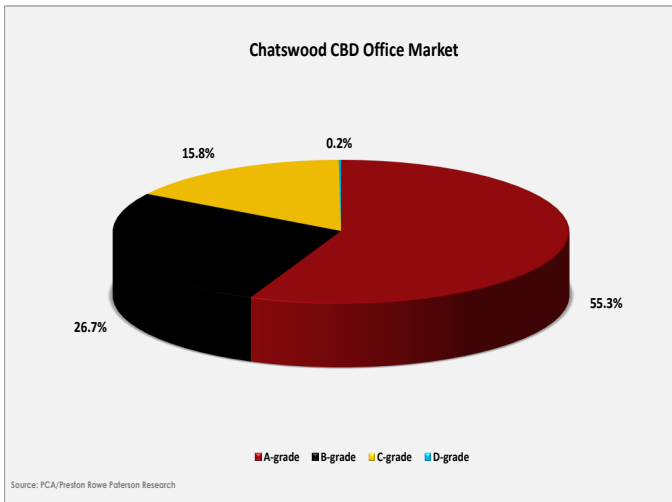


Chart 13 – Chatswood CBD Total Stock Levels by Grade– Source PCA

### Net Absorption

In the 12 months to January 2016, the Chatswood office market recorded negative net absorption of –4,407 sqm. The market net absorption in the six months to January was –7,674 sqm.

The largest negative absorption in the six months to January was recorded in B Grade stock at –6,513 sqm. A and C Grade stock recorded –531 sqm and –808 sqm absorption, whilst D Grade noted a 178 sqm absorption.

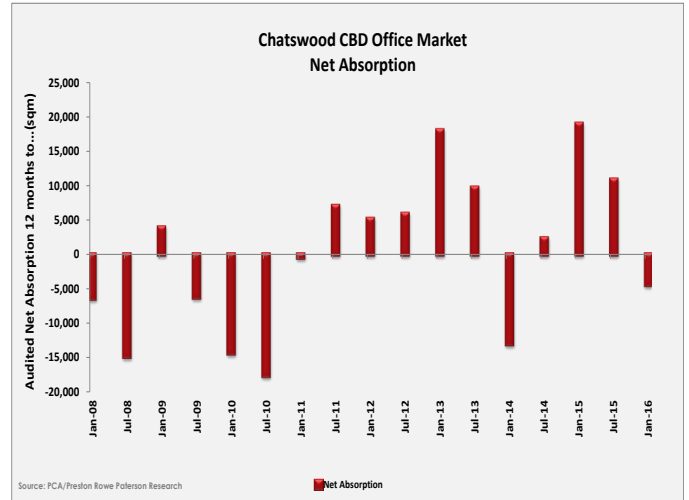


Chart 14 – Chatswood CBD Office Net Absorption – Source PCA

### Total Vacancy

The Chatswood office market recorded an increase in total office vacancy rate of 0.9% to 7.7% in the six months to January 2016.

D Grade stock vacancy recorded no vacancy. A Grade vacancy increased by 0.3% to 7.3%, B Grade vacancy grew by 2.4% to 10.1% and C Grade vacancy rose by 0.8% to 5.1%.

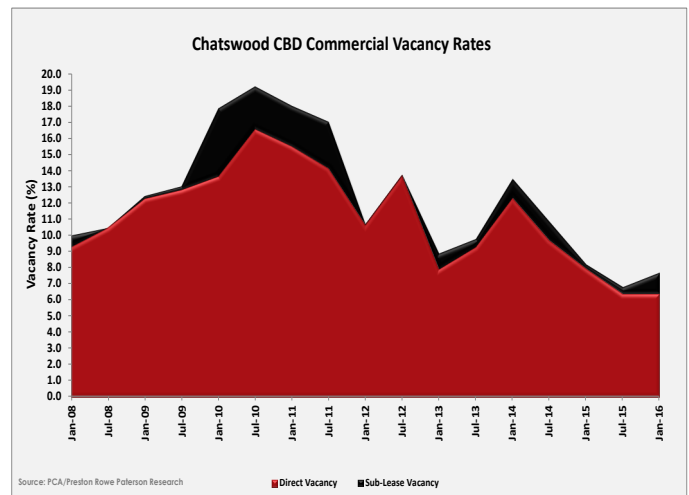


Chart 15 – Chatswood CBD Office Market Vacancy – Source PCA

## North Ryde/ Macquarie Park

### Investment Activity

The following table shows reported major sales transactions that occurred over six months to March 2016. 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
12 Waterloo Road, Macquarie Park NSW 2113	\$ 14,560,000	Twelve Waterloo Macquarie Park	Lester Group	Nov-15	3,887	\$ 3,745.82	n/a
78 Waterloo Road, Macquarie Park NSW 2113	\$ 106,000,000	Corval	Mapletree Investments	Nov-15	14,672	\$ 7,224.65	6.30%
80 Waterloo Road and 16 Byfield Street, Macquarie Park NSW 2113	\$ 101,000,000	Centuria Property Funds	local developer	Dec-15	39,993	\$ 2,525.44	n/a
1 & 10A Lucknow Road and 10 & 12 Julius Avenue, North Ryde NSW 2113	\$ 94,000,000	151 Property	Propertylink and Grosvenor Group	Feb-16	20,455	\$ 4,595.45	7.82%*

Table 8 — North Ryde/Macquarie Park Sales Transactions  
n/a = not currently available \*blended yield

### Supply by Grade (Stock)

The PCA Office Market Report January 2016 the North Ryde/ Macquarie Park market recorded an additional supply of 21,423 sqm which was offset by 3,219 sqm of withdrawals The total office stock level is 886,499 sqm.

The North Ryde/Macquarie Park market is heavily populated with A Grade stock which accounts for 73.2% of total market share. B Grade stock assumes 26.6% and C and D Grade stock levels remained unchanged at 1.9% and 0.3% respectively.

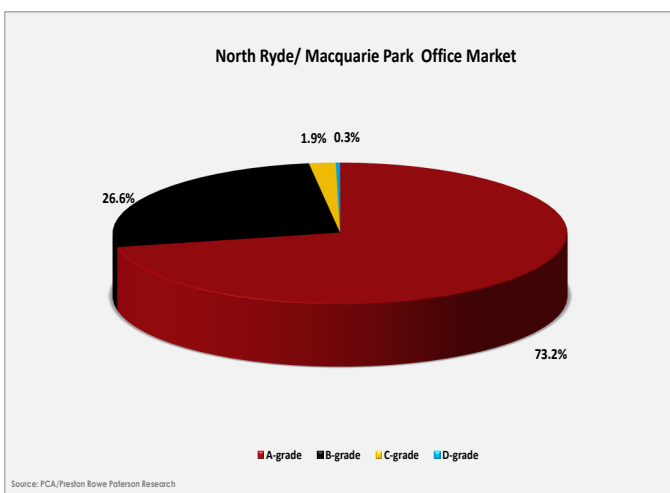


Chart 16 – North Ryde/ Macquarie Park Total Stock Levels by Grade – Source PCA

### Net Absorption

The total market net absorption in the North Ryde/Macquarie Park market was recorded to 33,3331 sqm in the 12 months of January 2016. In the six months to January, the market absorption was 18,329 sqm.

A and C Grade stock reported 24,904 sqm and 180sqm respectively of net absorption in the six months to January. B Grade stock recorded a negative absorption of -6,755 sqm and D Grade stock remain unchanged with no recorded absorpency.

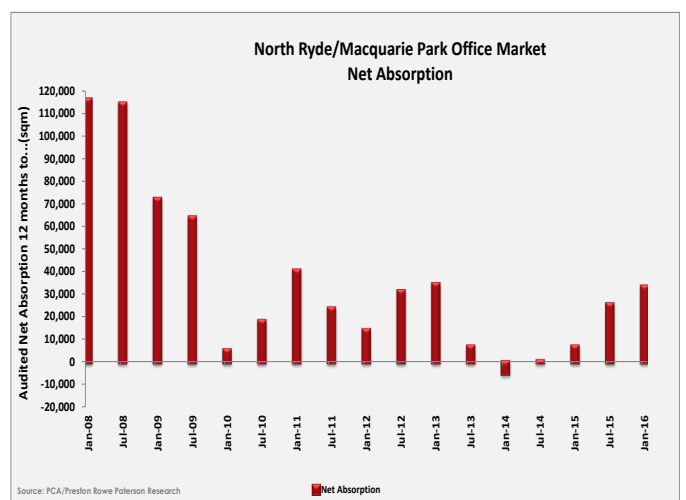


Chart 17– North Ryde/ Macquarie Park Office Net Absorption – Source PCA

## Vacancy Rates

The North Ryde/Macquarie Park market recorded a decrease in total vacancy rate of -0.2% to 8.2% in the six months to January 2016. The market recorded 72,979 sqm of vacant space.

C Grade stock recorded a 2.3% increase in vacancy to 17.5% in the six months to January. Whilst A and B Grade vacancy reported a decline of -1% and -1.1% to 4.8% and 12.4% respectively. No vacancy results were recorded for D Grade office space.

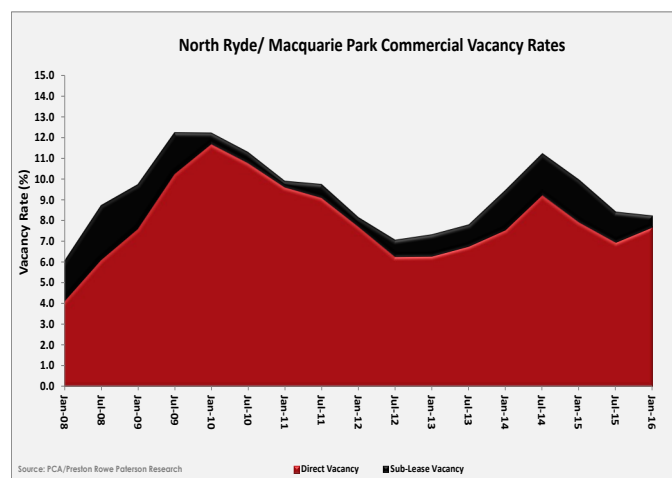


Chart 18 – North Ryde/ Macquarie Park Office Vacancy – Source PCA

## Sydney Suburban Business Hubs

### Investment Activity

The following table shows reported major sales transactions that occurred over six months to March 2016. 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
567 Smollett Street, Albury NSW 2640	\$ 64,800,000	Multiplex	FG Asset Management	Oct-15	10,807	\$ 5,996.11	7.00%
1 Woolworths Way, Bella Vista NSW 2153	\$ 336,000,000	Mirvac Group	Inmark Asset Management	Jan-16	44,800	\$ 7,500.00	6.07%
22 Main Street, Blacktown NSW 2148	\$ 17,150,000	Government Property NSW	Blacktown City Council	Dec-15	1,174	\$ 14,608.18	n/a
81-85 Flushcombe Road, Blacktown NSW 2148	\$ 20,600,000	Denison Funds Management	undisclosed	Feb-16	8,537	\$ 2,413.03	8.45%*
638 Pittwater Road, Brookvale NSW 2100	\$ 11,000,000	St Vincent de Paul Society NSW	private investor	Jan-16	2,290	\$ 4,803.49	VP
16-18 Bridge Street, Epping NSW 2121	\$ 18,650,000	Peak Equities	not for profit age care provider	Oct-15	3,177	\$ 5,870.32	n/a
400-426 Victoria Road, Gladesville NSW 2111	\$ 20,000,000	Combined Projects (Gladesville)	private developer	Mar-16	3,262	\$ 6,131.21	n/a
166 Epping Road, Lane Cove NSW 2066	\$ 27,800,000	Quintessential Equity	Epic Doncaster	Dec-15	7,129	\$ 3,899.57	9.00%
15 Orion Road, Lane Cove NSW 2066	\$ 21,000,000	Oakland Property Holdings	Intrasia Oxley Real Estate	Feb-16	9,838	\$ 2,134.58	6.70%
7 City View Road, Pennant Hills NSW 2120	\$ 25,000,000	foreign investor	Pitt Street Real Estate Partners	Jan-16	7,124	\$ 3,509.26	8%*
110 Goulburn Street, Surry Hills NSW 2010	\$ 150,000,000	Kinder Investments Pty Ltd	Commerz Real AG	Oct-15	14,188	\$ 10,572.31	n/a
1-3 Smail Street, Ultimo NSW 2007	\$ 55,000,000	Anton Capital	Mirvac	Nov-15	n/a	n/a	6.30%

Table 9 – NSW Suburban Office Sales Transactions  
n/a = not currently available VP = vacant possession \*estimated yield



## Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to March 2016. 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
9/9-11 South Street, Rydalmere NSW 2116	\$ 150	\$ 173,100	Allworth Homes	1,154	5	Oct-15
32 Slough Avenue, Silverwater NSW 2128	\$ 125	\$ 120,625	Bentley Safes	965	3	Oct-15
482 Riley Street, Surry Hills NSW 2010	\$ 500	\$ 400,000	Ideal Space	800	6	Dec-15
13 Bowden Street, Alexandria NSW 2015	pre-lease		Webster Holdings	4,000	n/a	Mar-16
197 Prospect Highway, Seven Hills NSW 2147	\$ 265	\$ 266,855	Gaming Laboratories International	1,007	5	Mar-16
Holket Street, Silverwater NSW 2128	\$ 125	\$ 129,000	HY Bond Warehouse	1,032	3	Mar-16
198 Walters Road, Arndell Park NSW 2148	\$ 109	\$ 334,957	ECL Group Australia	3,073	7	Mar-16
10-14 Kellogg Road, Glendenning NSW 2761	\$ 105	\$ 589,050	Evolutions Precast Systems	5,610	5 + 5	Mar-16

Table 10 — NSW Suburban Office Leasing Transactions  
n/a—not currently available

## ECONOMIC FUNDAMENTALS

### GDP

GDP figures for the March quarter 2016 are not available until the 1st June, however, over the December 2015 quarter revealed that the Australian economy recorded growth of 0.6% seasonally adjusted which reflected growth of 3% seasonally adjusted over the twelve months to December 2015.

In seasonally adjusted terms, the main industry gross value added contributors to GDP were Mining (+0.4%), Finance and insurance services (+0.4%), Construction (+0.3%), Public administration and safety (+0.3%), and Healthcare and social assistance (+0.3%). In trend terms, the largest detractor was Manufacturing (-0.2%).

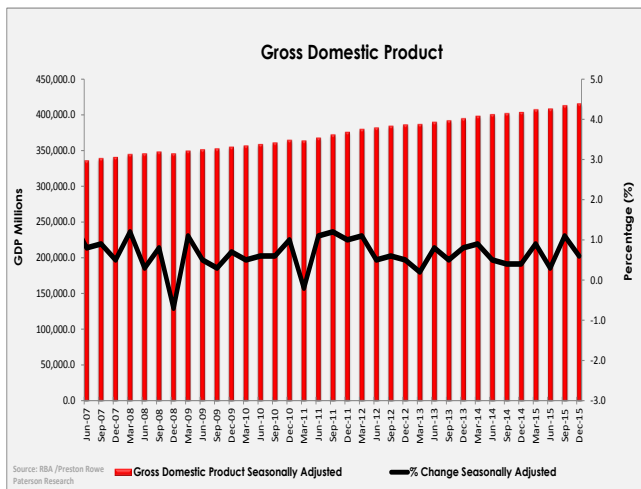


Chart 19 – Gross Domestic Product (GDP) – Source ABS

### Interest Rate Movements

As at the date of publishing, the official Cash Rate over the March quarter 2016 has remain steady at 2%. The Reserve Bank of Australia's Media Release for March 2016, released on 1st March explained that;

*"The global economy is continuing to grow, though at a slightly slower pace than expected. While several advanced economies have recorded improved growth over the past year, conditions have become more difficult for a number of emerging market economies. Commodity prices have declined very substantially over the past couple of years... The decline in Australia's terms of trade has continued... Financial markets have once again exhibited heightened volatility over recent months, as participants grapple with uncertainty about the global economic outlook and foreign policy settings among major jurisdictions... In Australia, the available information suggests that the expansion in the non-mining parts of the economy strengthened in 2015 despite contraction in spending in mining investments. This is reflected in improved labour market conditions. The pace of lending to*

*businesses also picked up. Inflation is quite low. With growth in labour costs continuing to be quite subdued as well, and inflation restrained elsewhere in the world, inflation is likely to remain low over the next year or two."*

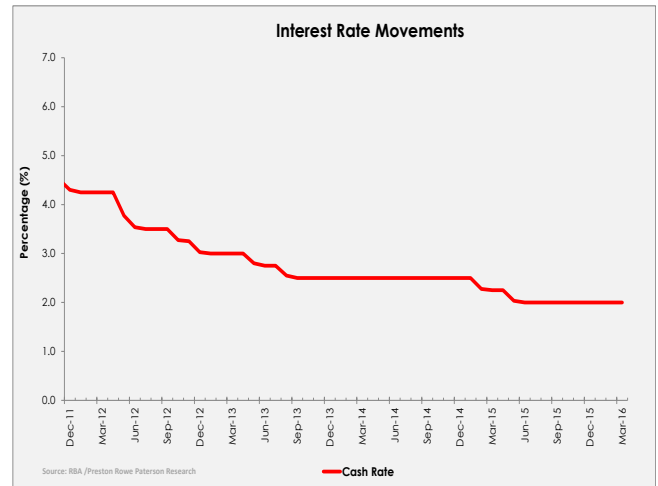


Chart 20 – Cash Rate – Source RBA

### CPI

According to the Australian Bureau of Statistics (March 2016), the Australia's All Groups CPI decreased by 0.2% over the March quarter from 108.4 to 108.2. The annual CPI change to March 2016 recorded a growth of 1.3%.

The most significant price rises over the March quarter were Pharmaceutical products (+4.8%), Secondary education (+4.6%), and Medical and hospital services(+1.6%). The greatest price fall over the quarter was attributed to are Fruit (-11.1%), Automotive fuel (-10%), and International holiday travel and accommodation (-2%).

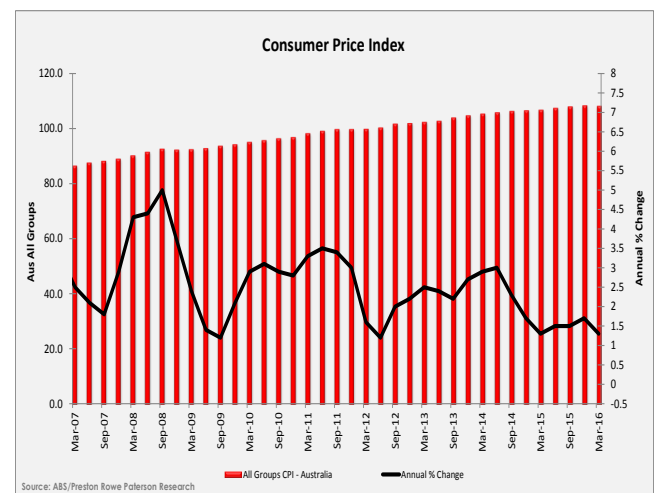


Chart 21 – Consumer Price Index – Source ABS

### 10 Year Bond & 90 Day Bill Rate

Analysis of the daily 10 Year Government Bonds has revealed a 9 basis point increase over the month of March to 2.57%. The 90 day bill rates had increased by 3 basis points to the month end of 2.31%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of -5 basis points.

Over the March 2016 quarter, the 10 Year Government Bonds recorded a decrease of -28 basis points from 2.85%. The 90 Day Bill Rate recorded a decline of -3 basis points over the quarter from 2.34%.

In the twelve months to March 2016, the monthly 10 Year Bond Rate has increased by 9 basis points from 2.48%. Similarly, the monthly 90 Day Bill Rate rose by 1 basis points from 2.30%.

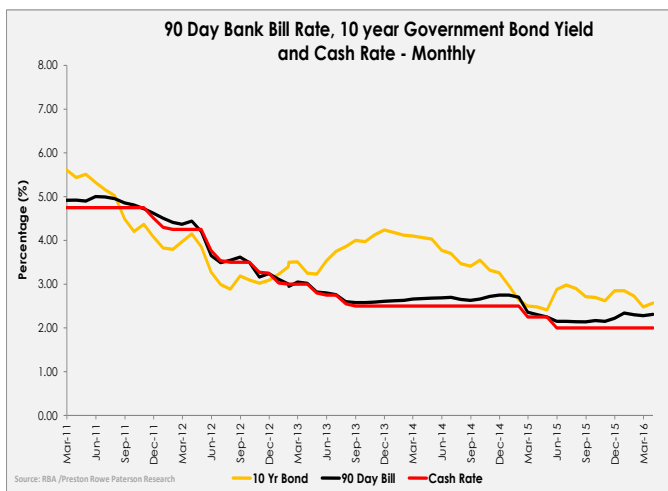


Chart 22 –90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

### Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by -2.2% from 101.3 index points in February to 99.1 index points in March. Over the March quarter the index has decreased by -1.7 points and recorded 0.4% annual decline.

Westpac's Economist, Bill Evans commented; "The Index is back to around its average reading over the last six months...the market volatility and unfavourable media coverage on property markets appears to have triggered a reassessment of risk preferences...risk averse preferences also saw a 4.5% increase in the proportion of respondents favoured fixed interest investments, including bank deposits with significant reductions in the proportion nominating real estate and shares...We expect growth in the Australian economy of 2.8% in 2016 with the genuine prospect for some stability in our terms of trade through the year laying a foundation for a lift in incomes and spending going into 2017."

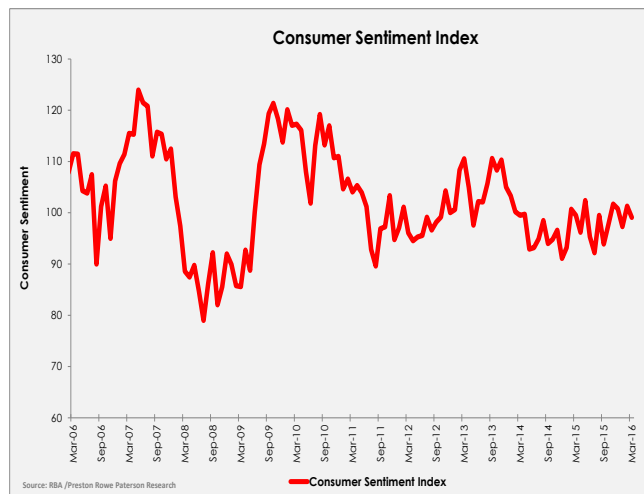


Chart 25 – Consumer Sentiment Index – Source - Westpac—Melbourne Institute Survey

### Labour force

Over the month to March 2016, the number of unemployed people has declined by 7,283 from 730,395 in February to 723,122 in March, reflecting a 1% decrease. In comparison to March 2015, the number of unemployed people had decreased by 42,903 reflecting an annual decline of -5.6%. The unemployment rate was 5.7% as at March 2016.

The number of unemployed seeking full time employment recorded a decrease in March by 7,900 to 515,900 persons. The number of unemployed seeking part time employment also decreased over the month by 1,800 to 208,400 persons.

New South Wales experienced a large absolute increase in seasonally adjusted employment by 5,794 persons to 3.783 million persons over the month of March. The unemployment status in New South Wales over the quarter increased by 0.1% to 5.3%.

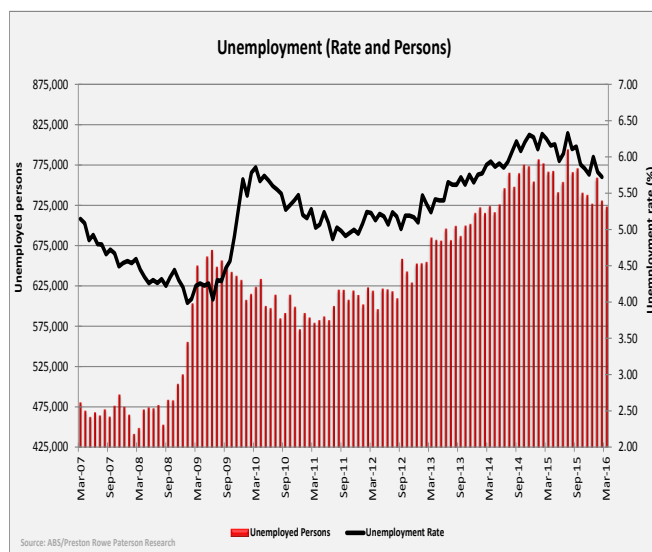


Chart 24– Unemployment—Source—ABS





## 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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Ballarat

Bendigo

Central Coast/Gosford

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Tauranga

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