

SYDNEY CBD & NORTH SHORE STRATA

MARKET BRIEF OCTOBER 2017

Highlights

Sydney CBD strata office sales totalled **\$225.0 million** for 2016/17, well above the **10 year average of \$166.6 million**.

The Core precinct continues to dominate sales among all precincts, **accounting for 40% of total sales across the CBD strata market**.

Across all precincts, average rates per sqm has **risen by 26.8% YoY to \$9,270/m²**.

Retail strata transactions in Sydney CBD for the 2016/17 totalled **\$47.7 million across 26 transactions**.

North Shore strata sales measured **\$98.5 million across 118 transactions** for 2016/17, a slight increase of 2.8% from 2015/16.

A 1.5% increase on average rates per sqm across the **North Shore precincts was recorded, pushing the average rate to \$5,916/m²**.

North Shore retail transactions measured **\$39.5 million across 32 strata sales for 2016/17**, well above the 10 year average of \$27.5 million.

Limited new supply and low interest rates are anticipated to continue the strong demand for strata suites.



MARCO MASCITELLI
Research Analyst

Follow @ KnightFrankAu

Favourable economic conditions coupled with withdrawals of secondary stock has fuelled the increase in demand for strata space. This has resulted in strong capital appreciation for owners in both the Sydney CBD and North Shore markets.

Sydney CBD

The Sydney CBD strata office market continues to go from strength to strength amidst favourable economic conditions. Historically low interest rates which have remained unchanged at 1.50% since August 2016, coupled with State Government spending on infrastructure has contributed to the demand for strata titled properties. Over \$15 billion is being spent across numerous projects across the CBD alone.

Significant stock withdrawals in the Sydney CBD (201,480m²) in the 12 months to July 2017, in conjunction with the strata vacancy rate at a five year low of 3.9% has aided record transaction volume levels. Owners have capitalised on the positive market conditions, reflected by total transaction volumes for 2016/17 at \$225.0 million, 35.1% above the 10 year average of \$166.6 million. The total number of sales decreased from 228 in 2015/16 to 220 in 2016/17, although remaining above the 10 year average of 205 sales. By area 24,773m² of strata space was transacted in 2016/17, below the 10 year average of 27,788m².

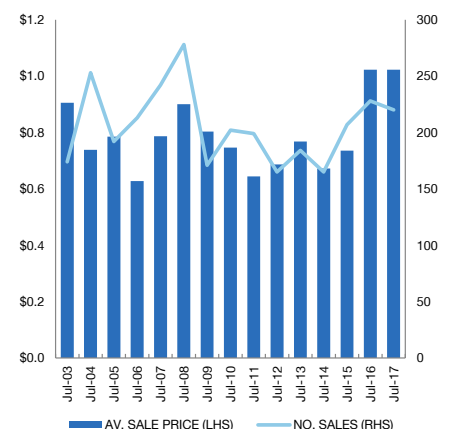
With limited space available across the Sydney CBD market for sub 500m² space, in addition to rising rents and declining incentives, owner occupiers continue to dominate the strata market as an alternative to renting space. Additionally, the strata market represents a more affordable entry point into the property market for an investor as opposed to the residential market. With strata spaces generally providing secure long term leases for landlords and capital value appreciation, investors have been drawn to the market due to low interest rates and a secure option for SMSFs. This has resulted in the average sale price per transaction across all precincts measuring \$1,022,900 up 39.1% in the past two years.

Sales Activity by Precinct

For the second consecutive year the largest proportion of strata sales were recorded in the Core precinct. During the 12 months to July 2017 \$90.0 million transacted within the Core precinct, 40% of all sales, a figure 38.0% above the 10 year average of \$65.2 million. By number, 86 transactions were recorded in the Core precinct, up from 80 in 2016/17. The Core precinct has experienced strong buyer demand due to its prime location to amenities, development activity and infrastructure works underway such as the Sydney Metro and Sydney Light Rail.

The Western Corridor and Midtown precincts accounted for 32.0% and 19.1% of total sales respectively. The Western Corridor totalled \$71.9 million in transaction volume, almost double the 10 year average of \$42.3 million. Excluding the Waterfront precinct, the Western Corridor continues to record the highest average sale price by precinct (since 2009), currently at \$1,673,400. However, by number Midtown achieved more sales with 66 transactions as opposed to 43 in the Western Corridor.

FIGURE 1
Sydney CBD Strata Annual Sales
\$ Million Value (LHS) and Number (RHS)



Source: Knight Frank Research, Cityscope

Sales activity in the Southern precinct totalled \$10.6 million down 56.8% from 2015/16. By number, 21 transactions were recorded in 2016/17. The average sale price per transaction for the Southern precinct currently sits at \$506,100, below the 10 year average of \$620,000. In stark contrast, sales volumes across the Waterfront precinct in 2016/17 almost tripled that of 2015/16 to total \$9.5 million, across four transactions at King Street Wharf.

Rates Per Sqm

Significant increases across the board for average rates per sqm were achieved in the year ending July 2017, providing substantial capital appreciation for owners. Across all precincts for 2016/17 the average sale rate measured \$9,270/m², an annual increase of 26.8% from \$7,310/m². The Western Corridor recorded the largest annual increase of 34.8% to measure \$8,142/m² as at July 2017.

The Waterfront precinct remains the standout performer with rates now at \$11,665/m². Limited available stock and only a small number of transactions per year, reflects its high rates in comparison to other precincts. Excluding the Waterfront precinct, the Core precinct has the highest average rate per sqm of \$10,105/m² for 2016/17, 26.7% increase on 2015/16. Recent sales at 195 Macquarie Street (Agricultural House) and 58 Pitt Street which both sold in excess of \$14,000/m², have fuelled the average price increase for the precinct.

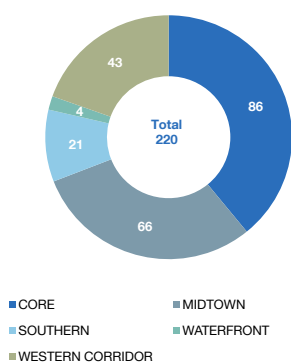
The most sought after strata suites by size are the sub 200m² units, representing 52.9% of sales. This is reflected in the rate per sqm for sub 50m² suites which average \$9,558/m² and 51-100m² range at \$9,273/m². In the medium size bracket units, of 101-200m² and 201-500m² in size average \$8,741m² and \$8,780m² respectively.

The medium sized units experienced a higher annual increase of 40.9% and 40.8% in comparison to the sub 50sqm units and 51-100sqm units recording increases of 17.8% and 16.4%. The larger strata suites over 501m² average \$11,598/m² for 2016/17, a 56% increase on the previous year of \$7,435/m².

Retail Sector

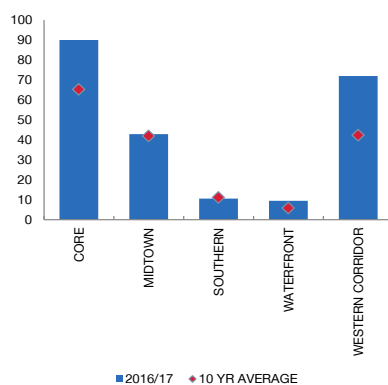
Retail strata transactions for year ending July 2017 totalled \$47.7 million across 26 transactions. Transaction volume was concentrated within the Core precinct for the third consecutive period accounting for 62% of total sales (\$29.6 million). The Western corridor measured \$12.6 million in sales transactions. One of the notable sales for the year was at 4 Bridge Street transacting for \$2.75 million at a rate of \$9,821/m². This was purchased with vacant possession.

FIGURE 2
2016/17 Sales Volume by Number
Number of Transactions per CBD Precinct



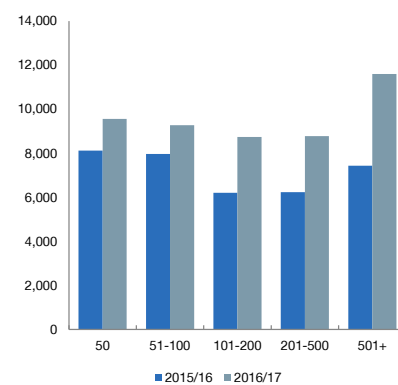
Source: Knight Frank Research, Cityscope

FIGURE 3
Annual Sales Volumes by Value
By Precinct—2016/17 vs 10 Year Average (\$m)



Source: Knight Frank Research, Cityscope

FIGURE 4
Average \$/m² Value by Size Bracket
(\$/m²) per size Bracket



Source: Knight Frank Research, Cityscope

TABLE 1
Sydney CBD Strata Office Market Indicators—2016/17

Precinct	Number of Transactions		Total Sales Volume by Value		Total Area of Sales	Average Rate Per Square Metre [^]		Average Sale Price per Transaction ^{^^}	
	(No.)	Growth (%p.a.)	(\$m)	Growth (%p.a.)	(m ²)	(\$/m ²)	Growth (%p.a.)	(\$)	Growth (%p.a.)
Core	86	7.5	90.0	-1.2	9,010	10,105	26.7	1,046,900	-8.1
Midtown	66	-1.5	42.8	-1.7	4,742	9,008	17.6	649,600	-0.2
Southern	21	0.0	10.6	-56.8	1,404	8,314	22.0	506,100	-56.8
Western Corridor	43	-24.6	71.9	2.6	8,827	8,142	34.8	1,673,400	36.1
Waterfront	4	33.3	9.5	163.2	790	11,665	25.8	2,385,500	97.4
Total#	220	-3.5	225.0	-3.5	24,773	9,270	26.8	1,002,900	0.0

Source: Knight Frank Research, Cityscope
Weighted average based on volume of transactions per precinct

[^] Transaction values adjusted to exclude car parking
^{^^} Recorded to nearest 100

North Shore

The North Shore Strata office market remains buoyant amidst positive economic conditions and public and private developments. The 12 months to July 2017 recorded slightly higher transaction volumes of \$98.5 million across 118 sales, a 2.8% increase YoY and well above the 10 year average of \$65.2 million. As at July 2017 the PCA strata vacancy rate measured 2.8% for North Sydney, the lowest on record whilst vacancy on the lower North Shore recorded 4.9%, below the 10 year average of 5.4%. Increasing sale rates in the Sydney CBD strata market has increased investors activity on the North Shore, as it offers a more affordable price bracket.

Sales Activity by Precinct

Sales activity for 2016/17 was predominantly shared between the North Sydney precinct and Crows Nest precinct, accounting for 37.3% and 38.3% respectively. Crows Nest recorded \$37.7 million in total sales across 33 suites, almost triple the previous year. This increase was fuelled by the purchase of a number of suites at 260-284 & 270 Pacific Highway by the same purchaser for potential redevelopment purposes. The North Sydney market experienced \$36.8 million in transactions over 2016/17, although down from \$56.8 million in 2015/16, this is still well above the 10 year average of \$29.7 million. Coming off a strong year the average sale price in North Sydney eased by 3.7% to \$817,700 for 2016/17, however still remaining 20.4% above the 10 year average.

Milsons Point recorded the highest average selling price for 2016/17 of \$2.5 million, however this number is significantly skewed being across only three sales. This was followed by Crows Nest with an average sale price of \$1,143,800 over 33 transactions. St Leonards recorded the lowest average sale price of \$398,000, down from \$896,200. Across all precincts average sale prices fell 5% to \$835,200 reflecting a shift in buyer preferences towards smaller sized suites sub 200m². This was highlighted by the increase in the number of sales in this size bracket from 87 to 102.

Rates Per Sqm

The average rate per square metre across all precincts for 2016/17 averaged \$5,916/m², a slight increase of 1.5% from 2015/16. By precinct, Milsons Point has the highest rate per sqm for the second consecutive year at \$7,263/m². This is mainly a result of limited stock and limited turnover, with an average of five sales per annum over the last 10 years. St Leonards recorded the highest annual increase of 16.8% to average \$6,644/m². Prices in St Leonards have been driven by its proximity to the North Shore Hospital precinct which has seen a number of suites along the Pacific highway achieve rates of above \$7,000/m². Similarly in North Sydney a slight increase of 4.5% was experienced with average rates achieving its highest rate on record of \$6,054/m², driven by limited stock and the Sydney Metro infrastructure project. The smaller sized strata units sub 50m² experienced the strongest demand for 2016/17 with a 13.8% YoY increase to average \$6,255/m². This has been driven by owner occupiers and a number of "mum & dad" investors turning to commercial property investment.

Retail Sector

Retail transactions for 2016/17 measured \$39.5 million across 32 sales, well above the 10 year average of \$27.5 million. North Sydney remains the dominant precinct in the North Shore market for retail sales with \$18.2 million in transactions over 20 sales. Notable sales include a 360m² suite selling for \$6.55 million at 516-520 Miller Street, Cammeray and a \$3.52 million sale at 148 Wycombe Road, Neutral Bay. In North Sydney multiple sales were recorded at 155-167 Miller Street, acquired by Transport NSW to make way for the Sydney Metro project.

Supply

No new supply is anticipated to come to market in the near term across all precincts. Residential conversions have dominated the North Shore. 100 Mount Street, North Sydney, the previously strata titled has been redeveloped to provide 41,419m² of new Torrens title office accommodation.

FIGURE 5
North Shore Precinct Strata Annual Sales

\$ Rate per Sqm (LHS) and Number (RHS)



Source: Knight Frank Research, Cityscope

TABLE 2

North Shore CBD Strata Office Market Indicators – 2016/17

Precinct	Number of Transactions		Total Sales Volume by Value		Total Area of Sales	Average Rate Per Square Metre [^]		Average Sale Price per Transaction ^{^^}	
	(No.)	(%p.a.)	(\$m)	(%p.a.)	(m ²)	(\$/m ²)	(%p.a.)	(\$)	(%p.a.)
North Sydney	45	-32.8	36.8	-35.2	6,037	6,054	4.5	817,700	-3.5
St Leonards	16	-20.0	6.4	-64.5	889	6,644	16.8	398,000	-55.6
Crows Nest	33	312.5	37.7	295.9	5,844	5,178	6.4	1,143,800	-4.0
Milsons Point	3	-32.8	7.6	55.6	1,184	7,263	-6.6	2,541,700	159.3
Other	21	133.3	10.0	49.6	1,804	5,714	-7.4	477,400	-35.9
North Shore#	118	8.3	98.5	2.8	15,757	5,916	1.5	835,200	-5.0

Source: Knight Frank Research, Cityscope Note Figures subject to volatility as based on transactions only
Weighted average based on volume of transactions per precinct

[^] Transaction values adjusted to exclude car parking
^{^^} Rounded to nearest 100

Outlook

The Sydney CBD strata market is anticipated to continue strengthening and record above average sales for 2017/18. With minimal new supply for commercial strata suites as developers opt for residential and freehold commercial towers, the opportunity to own your own commercial office is limited and therefore increasing demand and pricing.

Furthermore as interest rates remain low and demand for renting office space in the CBD remains high, the attractiveness for tenants to purchase office space rather than lease is expected to see the demand for strata suites increase. Early indications for the next financial year have already showed signs of growth with recent strata suite sales at 234 George Street and 37 Bligh Street selling at circa \$15,000/m².

Commercial strata buildings have attracted interest from developers for some time due to the lack of development opportunities, thus paying a premium to obtain a controlling stake. Prime example being 100 Mount Street in North Sydney which was previously strata titled and now being developed into a commercial office tower.

The outlook in the North Shore for the strata market remains positive for the remainder of 2017 and 2018. Price growth is expected to be maintained, albeit at a slower pace than over the last two years. It's likely that this growth will moderate later next year due to increased stock levels higher and higher interest rates from banks on investor favoured loans.

RESEARCH

Marco Mascitelli
Research Analyst, NSW
+61 2 9036 6656
Marco.Mascitelli@au.knightfrank.com

Alex Pham
Associate Director, Research
+61 2 9036 6631
Alex.Pham@au.knightfrank.com

CAPITAL MARKETS

Daniel Courtnall
Sales Executive, Sydney CBD
+61 2 9036 6717
Daniel.Courtnall@au.knightfrank.com

Daniel Francis
Sales Executive, Sydney CBD
+61 2 9036 6826
Daniel.Francis@au.knightfrank.com

Fiona Cutler
Sales Executive, North Sydney
+61 2 9028 1107
Fiona.Cutler@au.knightfrank.com

Andy Hu
Director, Asian Markets
+61 2 9036 6613
Andy.Hu@au.knightfrank.com

VALUATIONS

David Castles
National Director
+61 2 9036 6648
David.Castles@au.knightfrank.com

NSW

Richard Horne
Managing Director, NSW
+61 2 9036 6622
Richard.Horne@au.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Sydney CBD Retail
Market Brief
July 2017



Sydney CBD Office
Market Overview
September 2017



Office Market
Transactions Update
July 2017



Active Capital
2017

Knight Frank Research Reports are available at KnightFrank.com.au/Research

© Knight Frank Australia Pty Ltd 2017 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Australia Pty Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Australia Pty Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Australia Pty Ltd to the form and content within which it appears.

