

APRIL 2014



# SYDNEY CBD OFFICE

Market Overview

## HIGHLIGHTS

- Net absorption in the Sydney CBD office market turned mildly positive in the six months to January 2014, however the vacancy rate broadly held steady at 9.0% given the addition of 40,762m<sup>2</sup> of net supply. The prime vacancy rate at 9.8% remains above the secondary rate at 8.1%.
- Tenant demand is anticipated to remain sub-trend over 2014, however with net supply not expected to rise materially until the second half of 2015, the vacancy rate is expected to plateau at current levels for the next 18 months before rising to 10% in 2016.
- Rental growth continues to reflect subdued tenant demand. For prime assets, any face growth has been offset by further rises in average incentive levels such that effective rents have recorded a modest fall over the past 12 months. Although somewhat inconsistent, average effective rental growth in the secondary market has remained positive with smaller, fitted-out space achieving relatively strong outcomes.
- The broad range of buyer groups active in the market continues to place competitive pressure on prices and yields. Although with the majority of prime CBD assets remaining tightly held, investors have become increasingly active in the core plus/value add part of the market. As a result, the yield compression that began in late 2012 for upper prime core assets has started to move into the broader A-grade and upper secondary market. Nevertheless, the yield spread between prime and secondary remains at historically high levels and currently measures 160bps.



## SYDNEY CBD OVERVIEW

Table 1  
Sydney CBD Office Market Indicators as at January 2014

Grade	Total Stock (m <sup>2</sup> )	Vacancy Rate (%)	Annual Net Absorption (m <sup>2</sup> )	Annual Net Additions (m <sup>2</sup> )	Average Gross Face Rent (\$/m <sup>2</sup> )	Average Incentive (%)	Average Core Market Yield (%)
Prime	2,614,195	9.8	26,186	107,723	700 - 1,050	30.0 - 32.0	6.00 - 7.25
Secondary	2,344,511	8.1	-19,881	-5,309	540 - 665	30.0	7.75 - 8.75
<b>Total</b>	<b>4,958,706</b>	<b>9.0</b>	<b>6,305</b>	<b>102,414</b>			

Source: Knight Frank/PCA NB. Average data is on a weighted basis

## SUPPLY &amp; DEVELOPMENT ACTIVITY

CBD gross office supply in 2013 measured 140,353m<sup>2</sup>, a level slightly below the long term trend rate. The bulk of this supply constituted two premium buildings namely 161 Castlereagh St (57,200m<sup>2</sup>, GPT (GWOF)/ LaSalle/ ISPT) and 8 Chifley Square (19,300m<sup>2</sup>, Mirvac/ Keppel REIT Asia). The balance of supply comprised refurbishments and most recently included 99 Elizabeth Street (7,751m<sup>2</sup>, Kyko), where Wilson HTM have leased three floors.

New supply in 2014 is projected to moderate to 71,941m<sup>2</sup>, which equates to slightly less than half of the long term average rate of new supply. New developments include Deco at 155 Clarence St (St Hilliers 12,000m<sup>2</sup>) and Transgrid's 14,000m<sup>2</sup> development in the Southern precinct. From 2015, the average size of projects due to complete start to become larger. Macquarie's development at 50 Martin Place (21,443m<sup>2</sup> for owner occupation), 20 Martin Place (Pembroke ~16,000m<sup>2</sup>) and 5 Martin Place (DEXUS/Cbus 31,280m<sup>2</sup>, 44% committed) are all anticipated to complete in the first half of 2015.

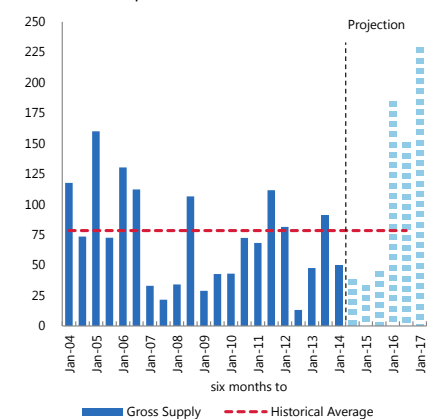
The first tower to complete at Barangaroo, T3, is due in the second half of 2015 and consists of 77,800m<sup>2</sup> office NLA. The second tower, T2 is due the first half of 2016 and comprises 88,200m<sup>2</sup>. This is the same half year period when 200 George St (Mirvac/ AMP, 39,000m<sup>2</sup>) is also due to come online.

Almost a third of anticipated supply over the next three years has been precommitted (refer Table 2). While the resulting backfill will place pressure on market vacancies, the immediate impact on the vacancy rate is forecast to be lagged by six months while several large backfill amounts are refurbished. As a result net supply is likely to pick up materially from the second half of 2015. Major backfill will extend from Barangaroo including; KPMG (10 Shelley Street, 27,500m<sup>2</sup>), Lend Lease (30 The Bond, 17,000m<sup>2</sup>), Gilbert + Tobin (2 Park St, 9,280m<sup>2</sup>) and Westpac (multiple tenancies, approximately 60,000m<sup>2</sup>). In addition EY will vacate 29,912m<sup>2</sup> at 680 George St and Macquarie circa 30,000m<sup>2</sup> at 1 Martin Place. Further precommitments at Barangaroo have been mooted, but are yet to be confirmed.

The strong level of offshore interest in residential development opportunities continues to see a number of office assets being sold with change of use potential. This has already seen a number of buildings withdrawn from the stock count during the past two years. Further withdrawals are

anticipated. Supply forecasts currently include 81,521m<sup>2</sup> of office buildings to be withdrawn from the stock count during the next three years with a further 42,487m<sup>2</sup> of buildings earmarked for conversion beyond 2016. There is the potential for these figures to increase as further assets are sold for change of use purposes.

Figure 1  
Sydney CBD Gross Supply  
Per six month period (000's m<sup>2</sup>)



Source: PCA/Knight Frank

Table 2  
Sydney CBD Future Supply Three year outlook  
2014 to 2016

	Gross New Supply (m <sup>2</sup> )	Gross Refurbs (m <sup>2</sup> )	Pre-comm (m <sup>2</sup> )	Pre-comm (%)	Backfill (m <sup>2</sup> )
2014	25,846	46,095	32,743	45.5%	28,100
2015	181,229	48,360	81,455	35.5%	93,988
2016	264,750	114,374	83,550	22.0%	73,288
<b>Total</b>	<b>471,825</b>	<b>208,829</b>	<b>197,748</b>	<b>29.1%</b>	<b>195,376</b>

Source: Knight Frank



# MAJOR OFFICE SUPPLY

- 1 161 Castlereagh St (242 Pitt St) - 54,450 m<sup>2</sup> [ANZ/Freehills]  
GPT (GWOF)/La Salle/ISPT - Q2 2013 - 100% committed
  - 2 8 Chifley Square - 19,300m<sup>2</sup> [Corrs/QBE/Quantum]  
Mirvac/Keppel REIT Asia - Q3 2013 - 97% committed
  - 3 175 Liverpool Street<sup>#</sup> - 13,500m<sup>2</sup>  
GIC - H2 2013 & H1 2014
  - 4 180 Thomas St - ~14,000m<sup>2</sup> [Transgrid] ~  
Transgrid - Q1 2014 - 35% committed
  - 5 Deco, 155 Clarence St - ~12,000m<sup>2</sup> [Tyro Payments]  
St Hilliers - Q3 2014 - 56% committed
  - 6 50 Martin Place<sup>#</sup> - 21,443m<sup>2</sup> [Macquarie<sup>‡</sup>]  
Macquarie Group - end 2014/early 2015 - 100% committed
  - 7 5 Martin Place - 31,280m<sup>2</sup> [Ashurst]  
Colonial (CPA)/Cbus - Q1 2015 - 44% committed
  - 8 20 Martin Pl<sup>#</sup> - 15,920m<sup>2</sup>  
Pembroke Real Estate - Q1 2015
  - 9 Barangaroo T2 & T3 - 88,200m<sup>2</sup> + 77,800m<sup>2</sup> [Westpac/KPMG]  
Lend Lease\* - 2015/16 - 70% committed
  - 10 200 George St - 38,000m<sup>2</sup> [EY]  
Mirvac/AMP - H1 2016 - 74% committed
  - 11 1 Martin Place<sup>#</sup> (ex Macquarie) - ~40,000m<sup>2</sup> [DLA Piper]  
Charter Hall Office Trust - 2015 - ~20% committed
  - 12 Grosvenor Place, 225 George St<sup>#</sup> (ex Ashurst) - 10,000m<sup>2</sup>  
DEXUS/Investa/CSC - 2015
  - 13 Central Park - ~45,000m<sup>2</sup>  
Fraser's - 2015+
  - 14 Barangaroo T1 - 101,500m<sup>2</sup>  
Lend Lease - 2016+
  - 15 680 George St - 23,600m<sup>2</sup> <sup>#</sup> (ex EY)  
Brookfield/Arcadia - 2016+
  - 16 333 George St - ~14,000m<sup>2</sup>  
Charter Hall Core Plus Office Fund - 2016+
  - 17 One Wharf Lane, 161 Sussex St - 4,800m<sup>2</sup>  
M&L Hospitality - 2016+
  - 18 10 Shelley St<sup>#</sup> (ex KPMG) - 27,500m<sup>2</sup>  
DEXUS/Brookfield - 2017
  - 19 30 The Bond, 30 Hickson Rd<sup>#</sup> (ex Lend Lease)- 16,000m<sup>2</sup>  
DEXUS - 2017
  - 20 55 Market St<sup>#</sup> (ex WBC) - 15,776m<sup>2</sup>  
Investa - 2017
  - 21 33 Bligh St - 26,000m<sup>2</sup>  
Energy Aust./Investa - 2018
  - 22 151 Clarence St - 21,000m<sup>2</sup>  
Investa - 2018 (Stage 1 DA Approved)
  - 23 The Ribbon, 1 Wheat Rd - 38,000m<sup>2</sup>  
Markham/Grocon/SHFA - 2016+
  - 24 430-450 Pitt St (Belmore Park) - 22,500m<sup>2</sup>  
Energy Australia - 2016+
  - 25 SICEEP The Haymarket - 22,000m<sup>2</sup>  
Lend Lease - 2016+
  - 26 182 George & 33 Pitt Sts - ~40,000m<sup>2</sup>  
Lend Lease - 2017+
  - 27 George, Underwood & Pitt Sts - 40,000m<sup>2</sup> +  
Mirvac - 2017+
  - 28 289-307 George St (City One) - 65,000m<sup>2</sup>  
Brookfield - 2018+
  - 29 Quay Quarter Sydney<sup>\*</sup> - ~40,000m<sup>2</sup>  
AMP - 2018+
  - 30 60 Martin Place - ~32,000m<sup>2</sup> (full redevelopment likely)  
Investa/Gwynvill Properties - 2018+
- Under Construction/Complete
- DA Approved / Confirmed / Site Works
- Mooted / Early Feasibility

NB. Dates are Knight Frank Research estimates  
Includes select CBD major office supply (NLA quoted)  
Major tenant precommitment in [brackets] next to NLA  
# Major refurbishment    ‡ owner occupier  
\* in conjunction with co-capital partners CPPIB, APFF  
Commercial, First State Super and Telstra Super  
» Proposal involves amalgamation of 33 Alfred St, 50 Bridge St and  
various buildings in Young and Loftus Streets into one precinct.  
Permissible NLA to be transferred between sites with net NLA  
increase totalling circa 40,000m<sup>2</sup>.



Source of Map: Knight Frank



# TENANT DEMAND & RENTS

The Sydney CBD vacancy rate recorded only a very minor change over the second half of 2013, increasing slightly to 9.0% as at January compared with 8.9% in mid-2013. In a positive sign for leasing conditions, net absorption turned mildly positive after the decline recorded in the previous half. Although occupied space increased 33,289m<sup>2</sup> during the half, total occupied space in the CBD still remains 0.4% lower than the peak recorded in July 2008.

Table 3  
Sydney CBD Total Vacancy Rates  
Jan 2013 to Jan 2014

Grade	Jan 2013 %	July 2013 %	Jan 2014 %
Premium	6.0	8.3	9.9
A Grade	7.4	10.2	9.8
B Grade	7.2	8.0	8.3
C & D Grade	7.9	8.3	7.5
<b>Total</b>	<b>7.2</b>	<b>8.9</b>	<b>9.0</b>

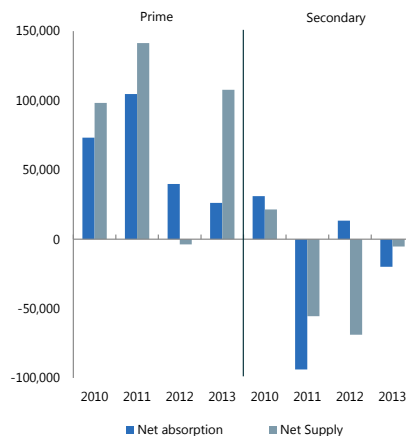
Source: PCA

While the improvement in the net absorption figures indicates an improvement in tenant demand, conditions nevertheless remain challenging. February employment data indicated a year on year 0.83% decline in full-time employment for NSW, while hours worked, a leading indicator for jobs growth also contracted. As a result, underlying growth in tenant demand for 2014 is forecast to track at a third of the long run average with approximately 15,000m<sup>2</sup> of net absorption anticipated. Several factors point to an improvement from mid-2014 and into 2015 when demand levels should revert to trend levels. Underpinning this outlook is the emerging signs of recent acceleration in non-mining GDP (2.2% yoy growth in December quarter, up from 1.1% yoy in the

September quarter), while NSW should be a key beneficiary of the improving housing investment sector.

The prime vacancy rate at 9.8% remains above the secondary rate at 8.1%. However despite this disparity, prime grade stock has been recording stronger absorption levels as tenants take advantage of the elevated incentive climate. As such, the higher prime vacancy rate has largely been a function of supply. This is shown in Figure 2, where, in the case of prime, positive net absorption is more than offset by net supply. Conversely, secondary vacancy has been assisted by negative net supply. Prime demand has been a function of both some pre-commitment leases commencing, but also the tenant flight to quality from smaller tenants taking advantage of attractive incentives available in refurbished lower A-grade stock.

Figure 2  
Net Absorption and Net Supply  
Prime vs Secondary

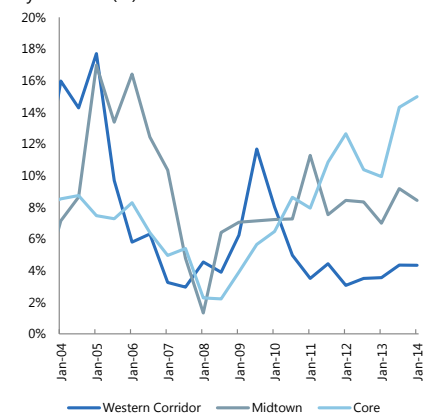


Source: PCA

The other divergent vacancy trend continues to be the performance of the different precincts. In the Core, the prime vacancy has risen to an almost 20 year high of 15.0%. By contrast the Western Corridor prime market is relatively tighter at 4.3%. While backfill from some of the CBD's larger recent developments has been a key impact on the Core market, relative rental costs have also been a driver for smaller tenants who occupy a significant proportion of the lower A-grade to B-grade part of the market. For instance,

as at January Western Corridor prime gross face rents measured \$703/m<sup>2</sup>, which is a 33% discount on the average rate of \$1,049/m<sup>2</sup> in the core. Owners of assets in the Core precinct are using the higher vacancy rates as an opportunity to refurbish assets, with areas such as Martin Place experiencing some of the major refurbishments.

Figure 3  
Sydney CBD Vacancy Rate  
By Precinct (%)



Source: PCA

Leasing activity continues to remain most buoyant at the smaller end of the market. A number of owners have achieved success subdividing whole floors into fitted out, sub-500m<sup>2</sup> suites. While this strategy has led to faster letting up periods in many instances it has also indicated a number of tenants are preferring to receive incentives in the form of a rental abatement. Letting up periods for larger areas, particularly whole, contiguous floors remain relatively longer given a lack of urgency from larger tenants to make leasing decisions. Such floor areas are exhibiting larger incentives compared to smaller suites.

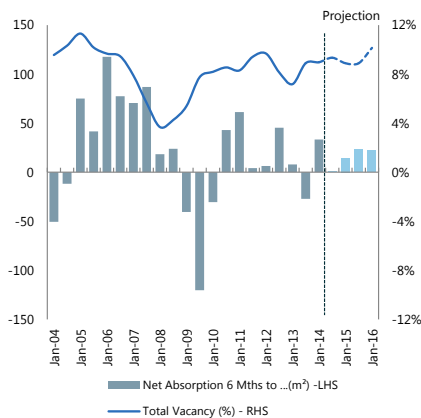
## Anticipated Vacancy Levels

Although forecast net supply is relatively modest until mid 2015, the vacancy rate is not expected to demonstrate any material improvement given persisting soft demand conditions. From mid 2015, improving demand conditions are anticipated to coincide with increasing net supply such that the vacancy rate will show some upward movement to approximately 10% by the end



of 2015/beginning of 2016. Assuming the third Barangaroo tower (T1) comes online in the second half of 2016, a vacancy rate peak of around 12% looks likely at this stage.

Figure 4  
Sydney CBD Net Absorption & Vacancy per six month period (000's m<sup>2</sup>, %)



Source: PCA/Knight Frank

## Rental Levels

Subdued tenant demand resulted in the modest face rental growth recorded in the second half of 2013 being offset by further increases to average incentive levels. For

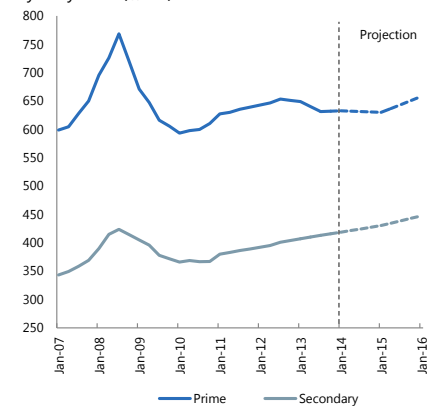
prime grade, this resulted in effective rents declining during 2013 by 2.5% on a gross basis. Prime grade gross face rents as at January average \$913/m<sup>2</sup> (761/m<sup>2</sup> net) with gross incentives at 30.7% (vs 27.4% Jan 13). The spread between prime incentives for lease renewals and new leases is relatively tight with renewal incentives averaging between 26% and 28%.

The secondary market, which has been relatively steadier given stronger sub-500m<sup>2</sup> activity and the relative affordability of upper secondary assets, managed to maintain positive effective rental growth of 2.8% over 2013. Average secondary gross face rents as at January measure \$597/m<sup>2</sup> (\$473/m<sup>2</sup> net) with gross incentives at 29.9% (vs 28.8% Jan 13). These average rental levels reflect a full floor lease, however it is noted that smaller, sub-divided spaces will generally lease at a premium to these rates. Some inherent growth on the back of sitting tenant renewals has also been evident.

It is likely that prime rental growth for new leases will continued to be limited by soft take-up and tenants exercising constraint

when making decisions on their premises. This is expected to see stagnant face rental growth over the next 12 months with incentives remaining at current levels. However early signs of sub-lease space starting to contract and an anticipated improvement in demand conditions in 2015 are expected to lay the foundations for CPI growth in 2015 and 2016.

Figure 5  
Average Gross Effective Rents Sydney CBD (\$/m<sup>2</sup>)



Source: Knight Frank

Table 4  
Major Leasing Activity Sydney CBD

Address	Precinct	Area (m <sup>2</sup> )	Term (yrs)	Lease Type	Tenant	Start Date
123 Pitt Street	Core	2,806	10	Renewal	Accor	Dec-14
8 Chifley Square	Core	2,594	U/D	New	PPB Advisory	Dec-14
1 Martin Place	Core	6,000	10	New	DLA Piper	Aug-14
2 Park Street	Midtown	18,469	10	Renewal	Citigroup	Jul-14
680 George Street	Midtown	3,642	10	New	SAI Global	Jul-14
201 Elizabeth Street	Midtown	1,063	10	New	SGE	May-14
201 Elizabeth Street	Midtown	1,084	5	New	Anchor	Apr-14
2 Park Street	Midtown	1,839	11	New	Hall Chadwick	Mar-14
121 Harrington Street	Core	6,219	5	Renewal	Dimension Data	Feb-14
126 Phillip Street	Core	1,444	7	New	FIIG Securities	Jan-14
179 Elizabeth Street	Midtown	990	5	New	Ellerston Capital	Jan-14
77 King Street	Midtown	1,406	5	Renewal	CapGemini	Dec-13
55 Hunter Street	Core	2,650	5	New	Amazon	Oct-13
338 Pitt Street	Midtown	1,093	5	New	Hipages Group	Oct-13
45 Clarence Street	Western	1,245	8	New	Oakton	Sep-13
1 Market Street	Western	1,092	10	New	Atradius Credit Insurance	Sep-13
7 Macquarie Street	Core	3,000	10	New	AIM	Jul-13
2 Chifley Square	Core	1,600	4	Sub-lease	Corp. Travel Management	Jul-13

Source: Knight Frank U/D refers undisclosed



# INVESTMENT ACTIVITY & YIELDS

CBD office assets continue to be keenly sought after by a broad range of both domestic and offshore buyer groups. Already in the first quarter of 2014, \$688.6 million of sales (\$10m+) have been recorded. This is after a particularly strong year in 2013 where total sales volumes increased 80% to \$3.0 billion. However with fewer owners looking to divest, particularly given the yield compression currently being recorded, opportunities to invest in the prime market are relatively limited at present.

At the larger end of the market, some of the major institutions have sold down part shares in assets as part of capital reallocation initiatives. Examples have included Brookfield, who sold their 25% share in NAB House with the capital from the core asset sale to be redirected to development opportunities. Stockland have also undertaken capital recycling initiatives selling

down a 50% share in the Piccadilly Complex for \$194.25 million. The 50% share was acquired by Investa Office Fund and marked a second joint venture between the two groups following Investa Commercial Property Fund acquiring a 50% share in 135 King Street from the Colonial First State managed PPS Fund in December 2013. The 50% share was acquired for approximately \$140 million via pre-emptive rights to Stockland, who own the other 50%.

There has been an unprecedented level of site sales occurring in and adjacent to the Sydney CBD market, driven predominately by Asian developers, as the 'highest and best use' of sites are increasingly being slanted towards residential rather than commercial use. Most recently, Far East Organization have agreed to acquire both 570 George Street from Ausgrid for \$151.8 million and 50 & 54 Park Street for \$127.0 million. It is

understood both have been purchased with the intention of medium term residential conversion. In November, 227 Elizabeth Street sold to an Asian investor for \$145.0 million and although the asset was near fully leased, with a high proportion of Government tenants, leases were subject to break/demolition clauses between 2015 and 2016. Other residential conversion sales to offshore Asian buyers have been sub \$100 million and include 19-31 Pitt Street (\$55.0 million) and 286 Sussex Street (\$55.0 million).

The general movement up the risk curve by investors has seen a number of lower A-grade and B-grade assets transact in the last six months, often with sub two or three year WALEs. For instance Abacus sold 171 Clarence Street for \$37.9 million with a 1.9 year WALE, while QBE, as owner occupiers, sold 80-82 Pitt Street on a six month leaseback for \$46.5 million. These sales firstly

Table 5  
Recent Sales Activity Sydney CBD

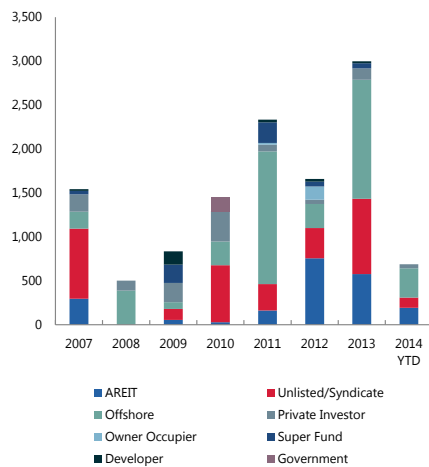
Address	Price (\$ mil)	Core Mrkt Yield (%)	NLA (m <sup>2</sup> )	\$/m <sup>2</sup> NLA	WALE (yrs)	Purchaser	Vendor	Sale Date
570 George St <sup>^</sup>	151.80	N/A	21,930	6,922	U/D	Far East Organization	Ausgrid	Mar-14
133 Castlereagh St*	194.25 <sup>‡</sup>	7.10 <sup>»</sup>	~42,000	~9,250	5.3 <sup>»</sup>	Investa Office Fund	Stockland	Feb-14
50 & 54 Park St <sup>^</sup>	126.50	N/A	21,153	5,980	2.6	Far East Organization	Kyko Group	Feb-14
255 George St (25% share)	116.00	6.70	39,981	11,605	5.9	AMP Capital	Brookfield	Feb-14
19-31 Pitt St <sup>^</sup>	55.00	N/A	5,561	9,890	U/D	Asian developer	Cambooya	Feb-14
135 King St*	~140.00	7.10	31,098	~8,950	3.6	Investa Commercial Property Fund	Colonial PPS	Dec-13
80-82 Pitt St	46.50	8.60	12,719	3,656	0.7	Yorkban	QBE Insurance	Dec-13
260-300 Elizabeth St	305.00	8.20	53,639	5,686	3.5	CIC (China)	Investa (IOF)/ Australian Unity	Nov-13
227 Elizabeth St <sup>^</sup>	145.00	N/A	17,254	8,404	N/A	Asian Offshore	Valad V-Plus Fund	Nov-13
286 Sussex St <sup>^</sup>	55.00	N/A	6,152	8,941	0.6	Ausbao	Cornerstone Prop.	Nov-13
171 Clarence St	37.90	7.61	6,484	5,845	1.9	Longbow Properties	Abacus	Nov-13
20 Hunter Street	96.00	7.00	9,936	10,376	2.9	TIAA-CREF#	CLSA Partners	Oct-13
35-55 & 75 Harrington St	72.00	N/A	7,137	10,088	U/D	Far East Organization	Leda Holdings	Oct-13
230 Clarence St	11.95	6.80	2,368	5,045	0.7	Private Investor	SGE Credit Union	Oct-13
16 Spring St	21.90	7.0	3,172	6,905	2.1	Offshore Private	Standard Life Inv.	Aug-13

Source: Knight Frank    <sup>^</sup> bought for potential residential redevelopment    U/D refers undisclosed    <sup>‡</sup> subject to adjustments for lease incentives  
<sup>#</sup> Teachers Insurance and Annuity Association - College Retirement Equities Fund    \* 50% share    <sup>»</sup> reported



show a degree of appetite for leasing risk, however also provided some evidence of secondary yield compression with the 171 Clarence Street asset reflecting a core yield of 7.61%.

Figure 6  
Sydney CBD Sales \$10million+  
By Purchaser Type - (\$m)



Source: Knight Frank

Average yields have shown further yield compression over the past six months as demand for prime CBD exposure has outweighed the negative influence of current leasing challenges. While in early 2013, the majority of compression stemmed from premium, 'trophy' type assets, more recently the bulk of firming has been evident in A and B-grade stock. This generally reflects the higher level of core plus sales although it is anticipated that were an 'upper prime' asset sold in the current market, a further re-rating or tightening would be experienced.

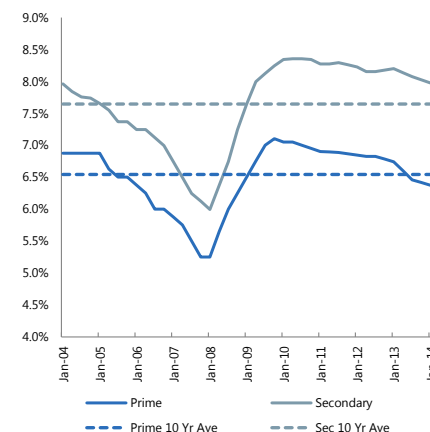
Average prime yields are estimated to range between 6.0% and 7.25% and are now trading below their 10 year average (refer Figure 7). This reflects almost 75bps of tightening so far over the course of the tightening cycle that commenced around three years ago. Cumulative firming for secondary assets amounts to 35bps, which is slightly less than half that for prime. Average secondary yields range between 7.75% and 8.75% and continue to reflect a positive spread compared to the 10 year average.

## OUTLOOK

Although tenant demand is expected to remain challenging in 2014, there are emerging signs that conditions should improve as we approach 2015. Lower interest rates are beginning to stimulate a strong response in the form of housing construction and retail spending, while State Government infrastructure expenditure should also assist. These factors are expected to support employment growth in NSW despite the present weakness in labour conditions. The deterioration in job advertisements (ANZ) experienced in 2013 has now stabilised with the most recent result indicating a degree of improvement.

Occupied stock over the course of 2014 is anticipated to rise by 0.4%, equivalent to approximately one third of the long run trend, before increasing to 1.0% in 2015. Coupled with net supply, which is not expected to rise materially until the second half of 2015, the vacancy rate is expected to plateau at current levels for the next 18 months before rising to 10% in 2016.

Figure 7  
Sydney CBD Average Yields  
Prime and Secondary Core Market Yields



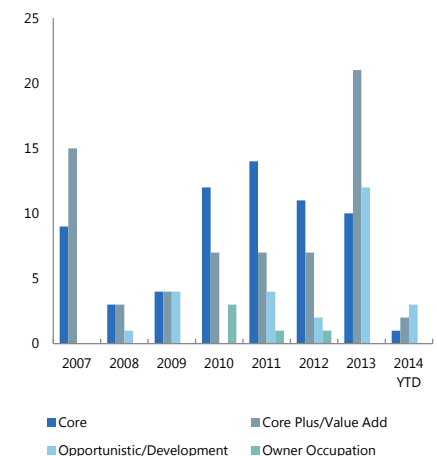
Source: Knight Frank

Supported by a considerable depth of willing buyers in the market, sales activity is expected to remain at elevated levels throughout 2014. Although there is a

relatively low amount of prime assets officially available for sale, further rebalancing of portfolios by local funds is anticipated to continue with a number of potential sales in the pipeline. In the secondary market, the momentum built over 2013 should also persist with owners actively looking to engage with buyers. In addition, investors are having to look to non-CBD markets in order to satisfy their demand for investment opportunities. This has seen a dramatic rise in non-CBD Sydney sales, which measured \$2.55 billion in 2013. This was 115% higher than 2012.

With these factors set to sustain buoyant sales activity across Sydney in 2014, yields should show some further compression as benchmark deals confirm the "notionally" tight yield levels. In the secondary part of the market, further yield compression is also expected following the increased number of sales comprising 'core plus/value add' opportunities (refer Figure 8). Nevertheless, it is noted that while buyer depth, from local and offshore investors, remains the predominant driver, long term borrowing rates have been trending higher and may be a potential headwind for the extent of further yield compression, absent a material pick up in tenant demand.

Figure 8  
Number of Sales by Purchaser Focus  
Sydney CBD sales over \$10 million



Source: Knight Frank



## Americas

USA  
Bermuda  
Brazil  
Canada  
Caribbean  
Chile

## Australasia

Australia  
New Zealand

## Europe

UK  
Belgium  
Czech Republic  
France  
Germany  
Hungary  
Ireland  
Italy  
Monaco  
Poland  
Portugal  
Romania  
Russia  
Spain  
The Netherlands  
Ukraine

## Africa

Botswana  
Kenya  
Malawi  
Nigeria  
South Africa  
Tanzania  
Uganda  
Zambia  
Zimbabwe

## Asia

Cambodia  
China  
Hong Kong  
India  
Indonesia  
Macau  
Malaysia  
Singapore  
South Korea  
Thailand  
Vietnam

## The Gulf

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Abu Dhabi, UAE

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