



RESEARCH



# NORTH SHORE

OFFICE MARKET OVERVIEW NOVEMBER 2014

## HIGHLIGHTS

Improvement in tenant demand, with net absorption across the combined North Shore and North Ryde market totalling 4,923m<sup>2</sup> over the six months to July 2014.

Office stock continues to be withdrawn from the market, making way for residential and mixed use developments. This trend remains concentrated in the North Sydney and St Leonards markets.

Supply pipeline is relatively limited with only 3 major projects (10,000m<sup>2</sup>+) to be completed over the next two years. This is anticipated to underpin a moderation in the vacancy rate.



## KEY FINDINGS

**North Shore vacancy rate** fell to 11.0% in the first half of 2014 although rising backfill in North Ryde saw an increase to 11.2%.

**In the six months to July 2014, net absorption** across the North Shore and Macquarie Park/North Ryde market totalled 4,923m<sup>2</sup>.

**Rental growth** has been most pronounced within the North Sydney and Chatswood prime markets over the past year.

**Commercial sales remain strong** totalling \$1,193.3 million over the 2014 calendar year to date.



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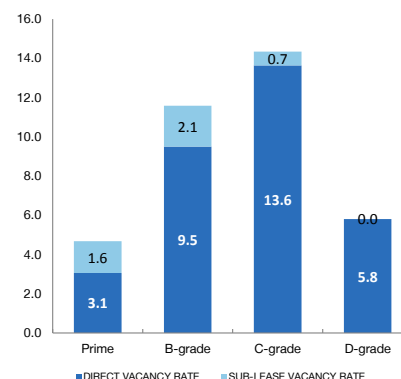
# NORTH SYDNEY

## Leasing Market and Rents

Following a period of subdued tenant demand, leasing conditions in North Sydney are showing modest signs of recovery. Although the first half of 2014 marked the fifth consecutive six monthly period of negative net absorption, demand for prime stock has now been positive for 12 months with the significant rise in sub-lease vacancy experienced in FY2013 starting to unwind. The prime vacancy rate has now reduced to 4.7% with sub-lease vacancy measuring 1.9%.

Leasing conditions in the secondary market have been more challenging, with net absorption contracting over the first half of 2014 by a further 6,644m<sup>2</sup> (negative 19,715m<sup>2</sup> over the past year). The secondary vacancy rate now measures 12.2% with sub-lease vacancy rising to 1.7%, the majority of which is located within B-grade buildings.

FIGURE 1  
**Vacancy by Quality Grade**  
North Sydney, July 2014 (% vacant)



Source: Knight Frank/PCA

These dynamics have resulted in a modest reduction in the total vacancy rate as at July 2014 to 10.2% compared to 10.6% a year earlier. It is worth noting that the overall vacancy rate continues to benefit from the substantial demand from investors looking for redevelopment

TABLE 1

### North Shore/North Ryde Office Market Indicators as at October 2014

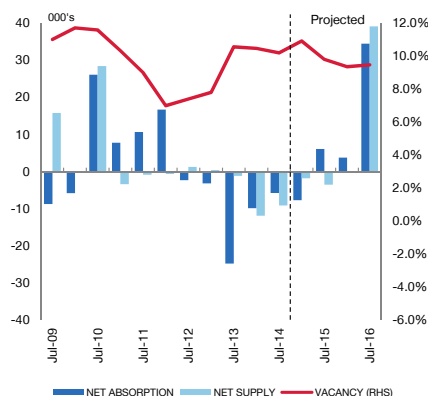
Grade	Grade	Total Stock (m <sup>2</sup> ) <sup>^</sup>	Vacancy Rate (%) <sup>^</sup>	Annual Net Absorption (m <sup>2</sup> ) <sup>^</sup>	Avg Net Face Rent (\$/m <sup>2</sup> )	Outgoings (\$/m <sup>2</sup> )	Average Incentive (%) <sup>*</sup>	Average Core Market Yield (%)
North Sydney	Prime	222,796	4.7	4,103	631	117	27.1	6.50 - 7.50
North Sydney	Secondary	616,711	12.2	-19,715	508	117	29.6	7.75 - 8.75
<b>North Sydney</b>	<b>Total Market</b>	<b>839,507</b>	<b>10.2</b>	<b>-15,612</b>	<b>540</b>	<b>117</b>	<b>28.9</b>	<b>6.50 - 8.75</b>
Crows Nest/St Leonards	Prime	102,699	15.8	-1,490	468	112	30.5	7.75 - 8.75
Crows Nest/St Leonards	Secondary	252,606	11.7	-2,888	399	99	30.0	8.50 - 9.25
<b>Crows Nest/St Leonards</b>	<b>Total Market</b>	<b>355,305</b>	<b>12.9</b>	<b>-4,378</b>	<b>418</b>	<b>103</b>	<b>30.1</b>	<b>7.75 - 9.25</b>
Chatswood	Prime	161,812	12.4	400	435	113	28.9	8.00 - 8.75
Chatswood	Secondary	123,433	8.8	1,937	346	99	30.6	8.75 - 9.25
<b>Chatswood</b>	<b>Total Market</b>	<b>285,245</b>	<b>10.8</b>	<b>2,337</b>	<b>397</b>	<b>107</b>	<b>29.6</b>	<b>8.00 - 9.25</b>
<b>North Shore</b>	<b>Total Market</b>	<b>1,480,057</b>	<b>11.0</b>	<b>-17,653</b>	<b>483</b>	<b>112</b>	<b>29.3</b>	<b>6.50 - 9.25</b>
North Ryde/Macquarie Park	Prime	616,197	9.2	10,828	340	80	29.0 <sub>‡</sub>	7.50 - 8.00
North Ryde/Macquarie Park	Secondary	250,764	16.2	-10,453	283	95	30.0 <sub>‡</sub>	8.75 - 9.50
<b>North Ryde/Macquarie</b>	<b>Total Market</b>	<b>866,961</b>	<b>11.2</b>	<b>375</b>	<b>323</b>	<b>84</b>	<b>29.3<sub>‡</sub></b>	<b>7.50 - 9.50</b>

Source: Knight Frank Research/PCA <sup>^</sup> as at July 2014 <sup>\*</sup> Incentives on a Gross basis <sub>‡</sub> Incentives are on a Net basis NB. Average data is on a weighted basis Yield ranges reflect the average lower and average upper yields for a select basket of office assets in each market and Grade Grade: Prime includes modern and A-Grade stock whilst Secondary includes B, C and D quality Grade.

opportunities with a number of office buildings having been acquired for residential change of use. The majority of these buildings have been located in the Milsons Point area or north of Berry Street with the intention to not compromise the integrity of the core office market. Approximately 7,710m<sup>2</sup> has been withdrawn for change of use at this stage including 80 Arthur Street (6,510m<sup>2</sup>), however a further 45,993m<sup>2</sup> has been earmarked for potential withdrawal over the next three years.

With business conditions starting to improve in NSW, the early stages of improving leasing activity are anticipated to steadily gain some momentum into 2015. While this is likely to drive some downward pressure on the prime vacancy rate, the market will experience several tenant departures, namely Symantec (vacating 4,962m<sup>2</sup> at 181 Miller Street) and Havas Worldwide (vacating 2,347m<sup>2</sup> at 60 Miller Street), who will both move to the CBD. Nevertheless, incoming tenant moves including Jemena (5,600m<sup>2</sup> at 99 Walker Street), Sony Australia (2,400m<sup>2</sup> at 165 Walker Street) and LivingSocial (1,382m<sup>2</sup> at 73 Miller Street) will add to net absorption during 2015. Tenant demand is anticipated to remain focused on sub 500m<sup>2</sup> premises before a large boost in 2016 from Leighton's occupation of 177 Pacific Highway (approximately 30,000m<sup>2</sup>).

FIGURE 2  
**Net Supply, Net Absorption & Vacancy**  
North Sydney forecast

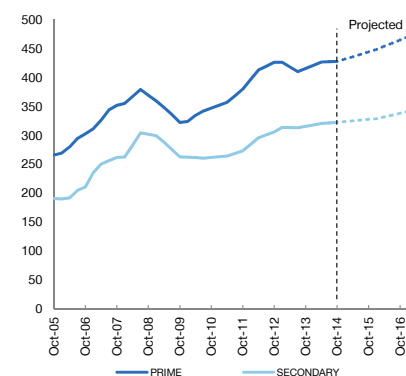


Source: Knight Frank/PCA

North Sydney continues to be one of the stand out performers in terms of rental

growth, not only in the North Shore, but across Sydney's broader office markets. Over the past 12 months to October, prime net face rents increased 2.7% to \$631/m<sup>2</sup>, although a very modest increase in average incentives constrained rental growth on an effective basis. For the secondary market, net face rents have experienced annual growth of 2.3% to \$508/m<sup>2</sup> over the past 12 months, while secondary gross incentives have remained steady at 29.6%.

FIGURE 3  
**Average Net Effective Rents**  
Prime & Secondary, North Sydney (\$/m<sup>2</sup>)



Source: Knight Frank

Over the next two years, rental growth in North Sydney's prime market is anticipated to consist of CPI aligned face growth. While the forecast moderation in the prime vacancy rate suggests scope for a reduction in incentives, the large incentives available in the CBD market will constrain the rate at which this can occur. Prime incentives are therefore expected to decline modestly from the current level of 27.1% to 26% and 25% by the end of 2015 and 2016 respectively.

## Development Activity

Office development in North Sydney remains underpinned by the construction of 177 Pacific Highway (39,144m<sup>2</sup>), where Leighton's will occupy around 76%, and is expected to reach completion in Q2 2016. The supply pipeline continues to include the major DA approved projects of 100 Mount Street (40,100m<sup>2</sup>) and 1 Denison

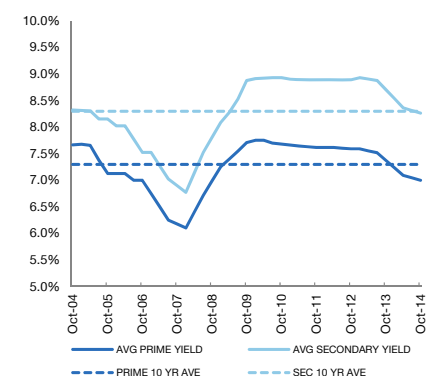
Street (45,270m<sup>2</sup>), although timing remains uncertain given the need for tenant pre-commitments. Smaller increments of supply are also expected to eventuate as part of mixed use formats such as Skye by Crown at 233 Pacific Highway.

## Sales and Investment Activity

The sales momentum experienced during 2013 has continued well into 2014 with several large sales recorded in recent months. The largest sale over the past six months was the 50% acquisition of 101 Miller Street for over \$300 million (approximately), reflecting a reported core market yield of circa 6.25%.

Average prime yields are estimated to range between 6.50% to 7.50%, which represents tightening of 38bps over the year to October. As a result, prime assets are now trading at yields below the 10 year average. For secondary assets, core market yields over the 12 months to October 2014 tightened by 44bps to range from 7.75% to 8.75%. Secondary yields have firmed to a level around the 10 year average with sales evidence yet to support compression to the same extent of what has occurred within the A-grade market.

FIGURE 4  
**Average Core Market Yields**  
North Sydney



Source: Knight Frank

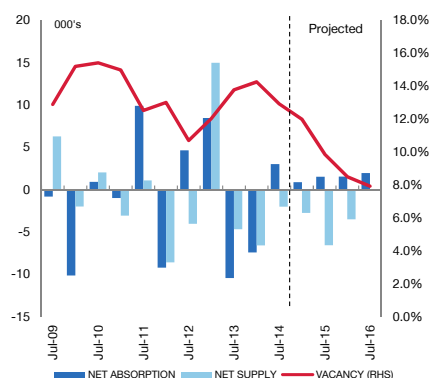
# CROWS NEST/ST LEONARDS

## Leasing Market and Rents

The Crows Nest/St Leonards office market has experienced a modest turnaround over the first half of 2014 with the vacancy rate falling from 14.3% to 12.9%, taking total vacant stock to 45,865m<sup>2</sup>. This outcome was brought about by an increase in leasing activity and enduring stock withdrawals. From a demand perspective, 3,027m<sup>2</sup> of positive net absorption was recorded over the first half of 2014.

The improvement has primarily come from secondary stock, accounting for 73% of net absorption over the six monthly period. By contrast, leasing demand within the prime market has been relatively softer and the vacancy rate remains elevated at 15.8% with only limited enquiry levels.

FIGURE 5  
**Net Supply, Net Absorption & Vacancy**  
Crows Nest/St Leonards forecast

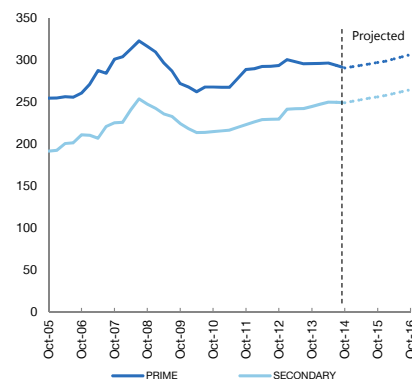


Source: Knight Frank/PCA

In line with recent demand, net face rental growth in the prime market increased by a modest 0.4% to \$468/m<sup>2</sup> over the past 12 months. Alternatively, rental growth was more pronounced within the secondary market, increasing by 1.8% to \$399/m<sup>2</sup>. Prime gross incentives increased to 30.5% from 29.5% while no change was recorded for the secondary market, which have remained stable at 30%.

Stock withdrawals continue to have a significant bearing on the Crows Nest/St Leonards office market, which has resulted in total stock declining 3.6% since the end of 2012. This trend is expected to continue, where approximately 23,000m<sup>2</sup> of office stock has been identified for withdrawal over the next 2-3 years. In turn, the vacancy rate is expected to decline to approximately 8% by mid 2016.

FIGURE 6  
**Average Net Effective Rents**  
Prime & Secondary, Crows Nest/St Leonards (\$/m<sup>2</sup>)



Source: Knight Frank

Prime rental growth is likely to remain restrained over the next 12 months to an average sub CPI 2% with incentives expected to remain steady. Slightly stronger rental growth of 2.5% is forecast within the secondary market.

## Development Activity

A lack of office demand and the recent surge in residential prices across the North Shore has suppressed new office projects in the area, with the focus shifting to residential and mixed use formats. The gravitation towards apartments reflects a pronounced shift in Sydney's demographic structure, while weaker employment growth (relative to the historical trend) has constrained office demand in recent years. Limited demand from anchor private sector tenants (5,000m<sup>2</sup> or more) led to the deferral of a number of projects as pre-

commitments proved challenging. Furthermore, given the tighter lending criteria applied by banks since the GFC, the level of pre-commitments required for development has also increased significantly, which in turn has swayed developers to pursue residential formats.

On that score, the supply pipeline for office stock remains limited. Supply could potentially stem from the 28,500m<sup>2</sup> DA approved site at 88 Christie Street, however indications suggest that the project is likely to proceed as residential. There remains several DA approved sites at the Gore Hill Technology Park although it is understood that progression as office space is unlikely in the short term. At present, NSW Government Property is running an Expression of Interest (EOI) campaign to sell land within the North Shore Hospital precinct. The site has the potential for up to 34,700m<sup>2</sup> of office space, where NSW Government will pre-lease a minimum of 20,000m<sup>2</sup>.

## Sales and Investment Activity

The bulk of recent sales activity has stemmed from developers seeking to pursue residential and mixed use formats. Since June, sales have included 619 Pacific Highway for \$40 million which has DA approval for 69 apartments. The site was sold to an undisclosed overseas developer. Beyond this, there have been a number of smaller sales such as the \$10.9 million acquisition of 34-36 Chandos Street.

Core market yields have firmed notably over the past 12 months. Average prime core market yields have firmed 28bps over the past year to range from 7.75% and 8.75%, just above the 10 year average. Similarly, secondary core market yields tightened by 57bps to range between 8.50% and 9.25%. The more pronounced firming within the secondary market reflects the development upside or owner occupation of such buildings. Looking forward, there remains further scope for firming of both prime and secondary yields.

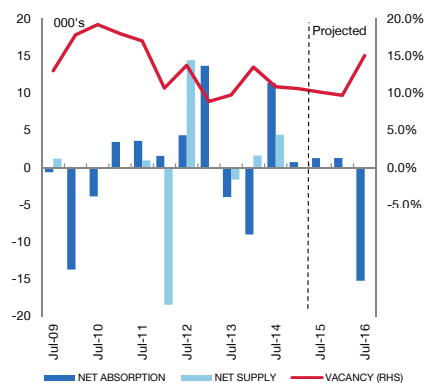
# CHATSWOOD

## Leasing Market and Rents

A number of large lease deals agreed earlier in the year resulted in some positive absorption and vacancy results for Chatswood in the July PCA data. As reported previously, these lease deals included Lend Lease (3,120m<sup>2</sup>) and Government Property NSW (2,116m<sup>2</sup>) taking up space within the Zenith building.

From a demand perspective, 11,344m<sup>2</sup> of positive net absorption was recorded over the first half of 2014, with the majority of this occurring in the prime market, which reversed the negative net absorption that occurred six months earlier (400m<sup>2</sup> for the year).

FIGURE 7  
Net Supply, Net Absorption & Vacancy  
Chatswood forecast



Source: Knight Frank/PCA

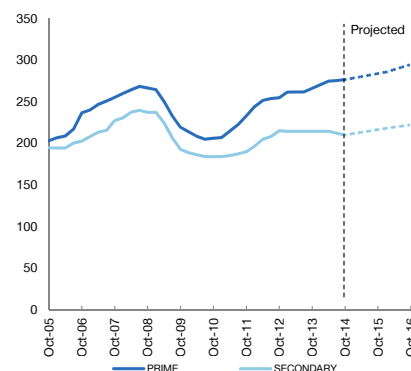
As at July 2014, the Chatswood vacancy rate fell to 10.8% compared to 13.5% six months earlier. The A-grade vacancy rate fell from 15.6% to 12.4%, however it remains considerably above the vacancy rate in the secondary market (8.8%).

Over the balance of 2014 and 2015, the vacancy rate is expected to continue trending down moderately given no new supply is expected during this period. There is a considerable amount of backfill space due to impact the market in 2016 when Leighton's relocate to their new premises in North Sydney. The

backfill space, estimated to measure approximately 17,000m<sup>2</sup>, will result in a vacancy rise should a new tenant not be sourced in the interim.

Recent leasing activity resulted in relatively strong prime rental growth in Chatswood of 3.5% over the 12 months to October 2014. Prime net face rents currently average \$435/m<sup>2</sup> with gross incentives experiencing a small increase to average 28.9%. Growth in secondary net face rents remains limited with no growth recorded over the past 12 months, remaining at \$346/m<sup>2</sup>, while secondary gross incentives remain unchanged at just under 31%. Given the substantial backfill space expected during the first half of 2016, incentives for both prime and secondary buildings are expected to remain elevated until further clarity about the Leighton backfill emerges.

FIGURE 8  
Average Net Effective Rents  
Prime & Secondary, Chatswood (\$/m<sup>2</sup>)



Source: Knight Frank

## Development Activity

Following the completion of Mirvac's ERA development at 7 Railway Street (4,400m<sup>2</sup>) at the beginning of 2014, the supply pipeline is slim, with no major commercial projects in the pipeline for the Chatswood market. In this case, any supply is likely to consist of refurbishments stemming from tenant turnover. There is however the potential

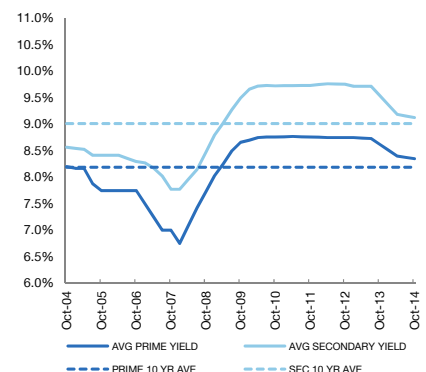
for small increments of supply as part of mixed use formats including the Australia Post office site at 45 Victor St where indicative plans suggest the inclusion of 1,860m<sup>2</sup> commercial space. However, their impact on the market will be minimal.

## Sales and Investment Activity

Underpinned by foreign investment, sales activity over the first half of 2014 was solid which followed several large purchasers during 2013. However, more recently sales activity has been concentrated in the sub \$5 million range, with no significant sales recorded over the second half of 2014.

In light of sale transactions that occurred over the first half of 2014, core market yields have tightened 26bps over the past 12 months to range from 8.00% to 8.75%. Similarly, the secondary market experienced a firming of 41bps to range between 8.75% to 9.25%. The relatively strong yield compression has meant that both prime and secondary yields are almost on par with their 10 year averages. Firming in the secondary market is being driven by development site demand.

FIGURE 9  
Average Core Market Yields  
Chatswood



Source: Knight Frank

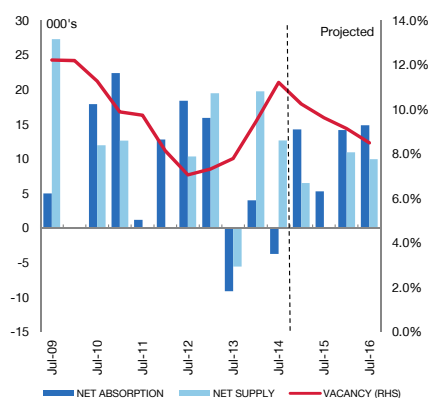
# MACQUARIE PARK/NORTH RYDE

## Leasing Market and Rents

The completion of the pre-leased facilities to Fujitsu (9,542m<sup>2</sup> at 112 Talavera Road) and Canon (11,238m<sup>2</sup> at 5 Talavera Road) underpinned a large boost in A-grade net absorption of 17,598m<sup>2</sup> over the first half of 2014. However, resultant backfill space in the secondary market led to negative net absorption of 21,281m<sup>2</sup> over the same period, which included Fujitsu's 6,554m<sup>2</sup> backfill space at 2 Julius Avenue and Canon's 11,500m<sup>2</sup> backfill space at 1 Thomas Holt Drive.

Overall, vacancy rates increased to 11.2% from 9.5% six months earlier, while recent leasing activity in the prime market led to a more moderate 1.1% uplift to 9.2%. For the secondary market, the vacancy rate market remains high at 16.2%.

FIGURE 10  
Net Supply, Net Absorption & Vacancy  
Macquarie Park/North Ryde forecast



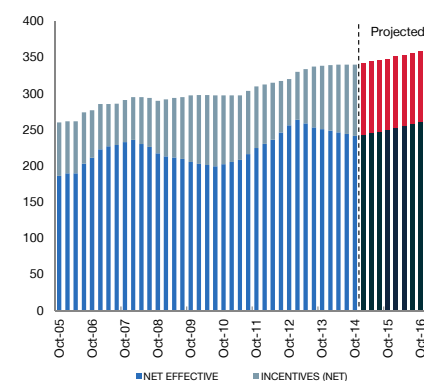
Source: Knight Frank/PCA

Looking ahead, the outlook within the prime market is positive following leases to North West Rail (10,000m<sup>2</sup> at the Optus sub-lease space at 22 Giffnock Avenue beginning in December 2014) and Metcash (9,000m<sup>2</sup> at the ex-Canon backfill space at 1 Thomas Holt Drive beginning later in 2015). Additionally, Novartis will owner-occupy 10,000m<sup>2</sup> at 52-58 Waterloo Road from late 2015.

These deals, coupled with a steady improvement in employment growth is expected to support net absorption in the order of 25,000m<sup>2</sup> per annum over the next two years. On that score, the vacancy rate is expected to decline, with the effects expected to be greatest within the prime market.

The rate of growth within the rental market has eased over the past year, with prime net face rents increasing 0.5% in the year to October to \$340/m<sup>2</sup>. However, on an effective basis, prime rents have contracted by 3.8% due to net incentives increasing to 29.0% compared with 25.8% a year earlier. No change has been recorded for secondary grade rents, with net face rents and net incentives both holding steady at \$283/m<sup>2</sup> and 30% respectively. Looking ahead, face growth of between 3.0% and 3.5% is anticipated for prime over the next two years, while lower growth for secondary is likely given pressure from backfill space.

FIGURE 11  
A-Grade Net Rents & Incentives  
Macquarie Park/North Ryde, Prime



Source: Knight Frank

## Development Activity

Current development activity remains relatively weak with the market expected to see an 12-18 month absence of supply until the completion of 52-58 Waterloo Rd Macquarie Park (10,000m<sup>2</sup> - 100% occupied by Novartis) and 66-82

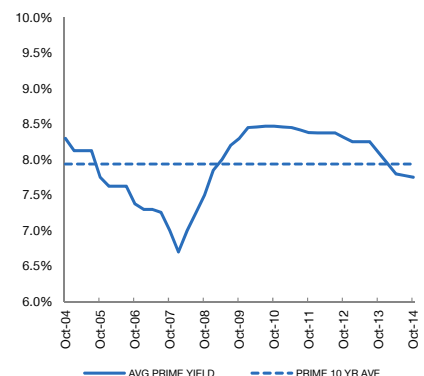
Talavera Road (100% leased to AstraZeneca). Beyond this, the pipeline consists of a large number of potential development sites, six of which have DA approval (refer Development Map). However timing remains uncertain given it is unlikely for any projects to progress without a sufficient pre-commitment.

## Sales and Investment Activity

There has been four major sales in the North Ryde market in 2014. The largest sale was the September 2014 acquisition of the CSIRO site on the corner of Julius Avenue and Delhi Road for \$170 million. The site was purchased by Shanghai Shenglong Investment Group Co LTD from Challenger Life. Other notable sales included the sale of 15 Talavera Road for \$34 million and the acquisition of 10 and 12 Julius Avenue by Blackstone from Mirvac in July as part of a portfolio sale.

Relatively strong yield compression has been recorded over the past year with core prime market yields firming 33bps over the period, ranging between 7.50% to 8.00%. This range is below the 10 year average. For the secondary market, core market yields tightened by 29bps to range between 8.75% and 9.50%.

FIGURE 12  
Average Prime Core Market Yields  
Macquarie Park/North Ryde



Source: Knight Frank



# RECENT TRANSACTIONS

TABLE 2

## Recent Leasing Activity North Shore and North Ryde/Macquarie Park

Address	Region	Area (m <sup>2</sup> )	Face Rental (\$/m <sup>2</sup> )	Term (yrs)	Lease Type	Tenant	Start Date
99 Walker Street	North Sydney	5,600	U/D	13	New	Jemena	Apr-15
165 Walker Street	North Sydney	2,400	470 (n)	7	New	Sony	Feb-15
201 Miller Street	North Sydney	227	575 (n)	5	New	Muller Partnership	Jan-15
73 Miller Street	North Sydney	1,382	550 (n)	4	New	LivingSocial	Dec-14
601 Pacific Highway	North Sydney	918	475 (n)	5	New	Brown Consulting	Oct-14
50 Miller Street	North Sydney	750	625 (g)	5	New	Ebiquity	Oct-14
132 Arthur Street	North Sydney	623	485 (g)	5	New	Harlequin Publishers	Apr-14
40 Mount Street	North Sydney	1,962	528 (n)	8	New	Boral	Jan-14
12 Help Street	Chatswood	2,000	365 (n)	5	New	Lenovo	Jan-15
475 Victoria Avenue	Chatswood	918	420 (n)	4	New	Laing O'Rourke	Oct-14
475 Victoria Avenue	Chatswood	918	420 (n)	5	New	Permission Corp	Sep-14
12 Help Street	Chatswood	2,200	365 (n)	10	New	Quick Service Restaurants (QSR)	Aug-14
1 Thomas Holt Drive	Macquarie Park	9,000	380 (n)	10	New	Metcash	Q3 2015
22 Giffnock Avenue	Macquarie Park	10,000	U/D	5	Sub Lease	North West Rail	Dec-14
2 Richardson Place	North Ryde	6,000	290 (n)	10	New	Ricoh	Sep-14

TABLE 3

## Recent Sales Activity North Shore and North Ryde/Macquarie Park

Address	Region	Price (\$ mil)	Core Market Yield	NLA (m <sup>2</sup> )	\$/m <sup>2</sup> NLA	WALE (Years)	Vendor	Purchaser	Sale Date
101 Miller Street	North Sydney	300.0	c.6.30	45,242	13,262	3.1	Eureka Core Prop. Fund 3	TIAA Henderson Real Estate	Oct-14
132 Arthur Street	North Sydney	36.8	8.70	7,829	4,694	2.3	Valad Property Group	Centennial Property Group	Sep-14
221 Miller Street	North Sydney	56.0	N/A*	7,015	7,983	1.0	Legacy Property	Yuhu Group	Aug-14
50 Miller Street	North Sydney	60.0	8.80	10,357	5,793	3.0	Abacus Miller Street	Sumner Capital	May-14
88 Walker Street	North Sydney	12.5	Dev	3,064	4,080	N/A	Eastmark Holdings	Offshore Developer	May-14
15 Blue Street	North Sydney	c. 89.0	c. 9.50	15,940	5,583	2.2	Brookfield Australia Prop.Trust	Denwol Blue Pty Ltd	Mar-14
619 Pacific Hwy	St Leonards	40.0	N/A*	2,206	18,132	U/D	Legacy Property Pty Ltd	Offshore Developer	Oct-14
34-36 Chandos	St Leonards	10.9	9.30	2,079	5,219	U/D	Denison	Private	Jul-14
124 Pacific Hwy	Greenwich	9.6	9.20	2,112	4,545	4.3	Dong Yi Investment Pty Ltd	Pacific Equity 124 Pty Ltd	Jun-14
33 Chandos Street	St Leonards	15.5	8.50	3,516	4,408	1.5	Private	Private	May-14
67 Albert Street	Chatswood	84.4	8.30	15,241	5,538	2.9	Eureka Core Prop. Fund 3	CorVal	May-14
CSIRO Site	North Ryde	170.0	8.80	41,652	4,081	7.2	Challenger Life	Shanghai Shenglong Investment Group Co Ltd	Sep-14
10 Julius Avenue	North Ryde	51.4	8.18	13,341	3,853	5.5	Mirvac	Blackstone	Jul-14
15 Talavera Road	North Ryde	34.1	9.60	12,612	2,703	2.1	AMP (PIF)	Propertylink	Jul-14
12 Julius Avenue	North Ryde	21.3	8.50	7,031	3,029	3.1	Mirvac	Blackstone	Jul-14

Source: Knight Frank n refers net g refers gross c. circa Dev refers Development Site ~ risk adjusted yield ~ 50% share—approx. price  
 \* bought for residential and mixed use development # Owner-occupied U/D refers undisclosed



## COMMERCIAL BRIEFING

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## Outlook

Leasing enquiries are expected to improve in coming years, buoyed by a recovery in business confidence and an uplift in employment growth. Net absorption is expected to remain positive over the next two years.

If North Sydney rental growth continues to outstrip the rate of growth in the CBD, some tenants may continue to explore their options in the CBD.

Rental growth is expected to remain solid, however varying considerably by market and grade. Growth is expected to remain most pronounced within North Sydney and Chatswood, while secondary rents in Macquarie Park/North Ryde are expected to ease as a considerable amount of backfill space enters the market over the next two years.

The relatively tighter prime vacancy rate is likely to continue in the medium term given the limited supply pipeline and the recent improvement in enquiries.

The recent surge in residential prices is expected to provide the catalyst for further office stock withdrawals. This environment is expected to remain heavily concentrated in the North Sydney and St Leonards markets.

The withdrawal of office stock has coincided with a limited supply pipeline. Over the next two years, the bulk of new supply is expected within North Sydney (177 Pacific Highway—39,144m<sup>2</sup>) and Macquarie Park/North Ryde (52-58 Waterloo Road—10,000m<sup>2</sup>).

Sales activity is expected to remain solid as a result of high investor demand and residential conversion opportunities.

### Definition:

**Core Market Yield:** The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).

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



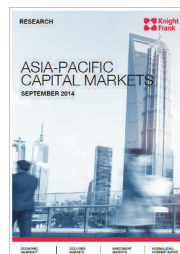
Sydney CBD Office Market Overview  
September 2014



Sydney Industrial Market Brief  
November 2014



Sydney Residential Development Insight  
November 2014



Asia Pacific Capital Markets  
September 2014

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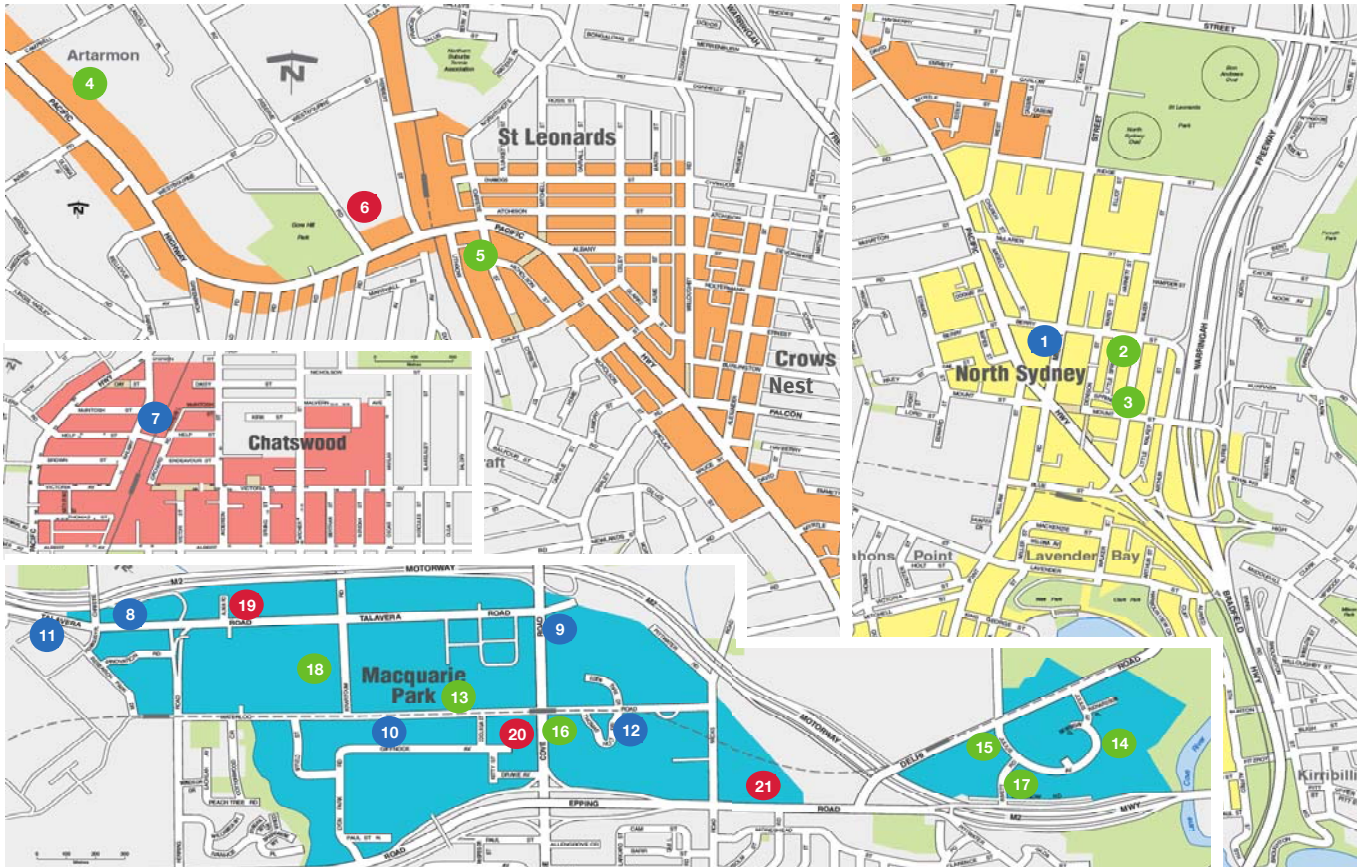
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Newmark  
Knight Frank  
Global



# MAJOR OFFICE SUPPLY



Source of Map: Knight Frank

## North Sydney

- 1 177-199 Pacific Hwy - 39,144m<sup>2</sup> [Leightons]  
Suntec REIT Q2 2016 - 76% committed
- 2 1 Denison St - 45,270m<sup>2</sup>  
Eastmark Holdings 2017+
- 3 100 Mount St - 40,100m<sup>2</sup>  
Laing O'Rourke (Mirvac MoU) 2017+

## Crows Nest/St Leonards

- 4 Gore Hill Technology Park - up to 46,000m<sup>2</sup>  
Lindsay Bennelong Development 2017+
- 5 88 Christie St, St Leonards - 28,500m<sup>2</sup>  
Winten Property Group 2017+
- 6 Reserve Road, St Leonards - 34,700m<sup>2</sup>  
NSW Govt. Property\* - Site for sale\* - 2018+

## Chatswood

- 7 ERA, 7 Railway St - 4,400m<sup>2</sup>  
Mirvac - Completed Q2 2014 - 80% committed

## Macquarie Park/North Ryde

- 8 112 Talavera Rd - 11,728m<sup>2</sup> [Fujitsu]  
Goodman - Completed Q2 2014 - 100% occupied
- 9 5 Talavera Rd - 13,053m<sup>2</sup> [Canon]  
Goodman - Completed Q2 2014 - 85% committed
- 10 52-58 Waterloo Rd - 10,000m<sup>2</sup> [Novartis]  
Novartis (owner-occupied) - Q4 2015
- 11 66-82 Talavera Road - 3,000m<sup>2</sup> [AstraZeneca]  
Holdmark early 2016 - 100% committed
- 12 1 Thomas Holt Drive # - 11,500m<sup>2</sup> [Metcash]  
AMP H2 2015 - 80% committed
- 13 M Central, 63-71 Waterloo Rd - 40,030m<sup>2</sup>  
TPG 2017+
- 14 Epicentre at Riverside, Julius Ave - 34,000m<sup>2</sup>  
ISPT 2017+
- 15 39 Delhi Rd - 30,000m<sup>2</sup>  
Stockland 2017+
- 16 271 Lane Cove Rd - 22,000m<sup>2</sup>  
Mirvac 2019+

- 17 1 Rivett Rd (Stage 2) - 11,380m<sup>2</sup>  
Pathway Property 2017+
- 18 8 Khartoum Rd - 11,360m<sup>2</sup>  
Goodman 2017+
- 19 66 Talavera Rd - 4,400m<sup>2</sup>  
Holdmark Developers 2016
- 20 396 Lane Cove Rd - 79,736m<sup>2</sup>  
Winten and Australand 2018+
- 21 29-35 Epping Rd - 14,500m<sup>2</sup>  
Harvey Norman Holdings 2018+

- Under Construction/Complete
- DA Approved/Confirmed/Site Works
- Mooted / Early Feasibility

NB. Dates are Knight Frank Research estimates  
Office NLA quoted, Major tenant precommitment in [brackets]  
# Major refurbishment/backfill  
\* NSW Govt. Property to pre-lease min 20,000m<sup>2</sup>