RESEARCH


# NORTH SHORE

## OFFICE MARKET OVERVIEW AUGUST 2016

## HIGHLIGHTS

More than 80,000m$^2$ of office stock has been earmarked to be permanently withdrawn from the North Sydney market over the next four years.

The North Shore markets are expected to benefit from an exodus of displaced tenants from the Sydney CBD due to significant stock withdrawals.

St Leonards remains a hot spot for residential conversion. This will put further downward pressure on the availability of office stock and vacancies going forward.

# KEY FINDINGS

**The North Sydney vacancy rate declined to 7.0% as at July 2016** from 8.0% 12 months ago, underpinned by the significant withdrawal of stock.

**More than 80,000m$^2$ of office stock has been earmarked to be permanently withdrawn** from the North Sydney market over the next four years.

**The average secondary net effective rent increased by 11.0% in the 12 months to July 2016,** substantially higher than the 10-year average of 6.4%.

**The improvement in rental growth expectations will lead to further downward pressure on yields,** particularly for secondary assets.


ALEX PHAM

**Senior Research Manager**


# NORTH SYDNEY

## Development Activity

The completion of Suntec's 177 Pacific Highway will come as a welcome addition to the North Sydney market with stock levels having declined by 8.3% since the addition of 40 Mount Street in 2010 (last major project). The 39,144m$^2$ building reaches practical completion in August 2016 and is fully pre-committed (9.25 years WALE), with anchor tenants including Vodafone, CIMIC and Jacobs.

Construction is now underway at DEXUS' 100 Mount Street for a 34-level Premium office tower with completion scheduled in January 2019. The proposed tower incorporates 40,600m² of office space. DEXUS acquired the site for $41 million from Laing O'Rourke, who also pre-committed to 6,229m².

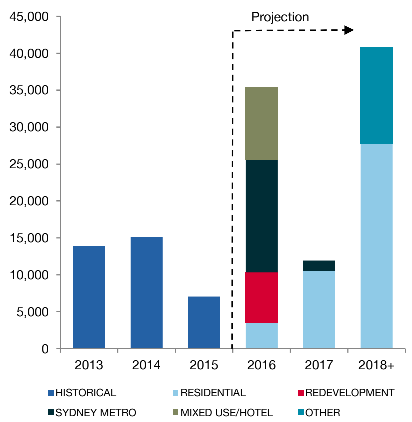
Beyond 100 Mount Street, the supply pipeline includes 1 Denison Street, which has approval for a mixed-used tower with 45,720m² of office component. Winten Property has recently acquired the site and 77 Berry Street for $80 million.

More than 80,000m$^2$ of office stock has been earmarked for permanent withdrawal from the North Sydney market from 2016 to 2019, due to the Sydney Metro project and residential conversions. Withdrawals in 2016 include 181 & 189 Miller Street (15,000m² withdrawn due to Sydney Metro), 90 &100 Mount Street (7,694m² demolished for the construction of 100 Mount Street) and Yuhu's 221 Miller Street (7,015m² converted to residential). Beyond 2016, major permanent withdrawals will include Aqualand's proposed developments at 61 Lavender Street (10,500m$^2$—2018) and 168 Walker Street (17,663m²—late 2019).

FIGURE 1

**North Sydney Withdrawals by Type**

Historical & Forecast




**Source:** Knight Frank Research

TABLE 1

**North Shore/North Ryde Office Market Indicators** as at July 2016

| Market | Grade | Total Stock | Vacancy Rate | Annual Net Absorption | Avg Net Face Rent | Outgoings ($/m²) | Average Incentive* | Average Core Market Yield |
|---|---|---|---|---|---|---|---|---|
| North Sydney | Prime | 217,083 | 10.5 | -21,157 | 696 | 119 | 25.6 | 5.75 - 6.25 |
| North Sydney | Secondary | 575,399 | 5.7 | 308 | 556 | 119 | 26.0 | 6.75 - 7.25 |
| **North Sydney** | **Total Market** | **792,482** | **7.0** | **-20,849** | **594** | **119** | **25.9** | **5.75 - 7.25** |
| Crows Nest/St Leonards | Prime | 102,699 | 2.9 | 8,241 | 517 | 113 | 27.7 | 6.75 - 7.25 |
| Crows Nest/St Leonards | Secondary | 230,932 | 10.7 | -10,306 | 456 | 98 | 29.0 | 7.25 - 7.75 |
| **Crows Nest/St Leonards** | **Total Market** | **333,631** | **8.3** | **-2,065** | **475** | **102** | **28.6** | **6.75 - 7.75** |
| Chatswood | Prime | 157,412 | 6.1 | 1,263 | 466 | 117 | 26.3 | 7.00 - 7.50 |
| Chatswood | Secondary | 121,507 | 7.1 | -5,818 | 395 | 101 | 27.3 | 7.00 - 8.00 |
| **Chatswood** | **Total Market** | **278,919** | **6.6** | **-4,555** | **435** | **110** | **26.8** | **7.00 - 8.00** |
| **North Shore** | **Total Market** | **1,405,032** | **7.2** | **-27,469** | **534** | **113** | **26.7** | **5.75 - 8.00** |
| North Ryde/Macquarie Park | Prime | 635,620 | 4.3 | 28,208 | 368 | 85 | 26.0‡ | 6.25 - 6.75 |
| North Ryde/Macquarie Park | Secondary | 247,747 | 14.5 | -4,037 | 310 | 95 | 28.0‡ | 7.25 - 7.75 |
| **North Ryde/Macquarie Park** | **Total Market** | **883,367** | **7.1** | **24,171** | **351** | **88** | **26.6‡** | **6.25 - 7.75** |

**Source:** Knight Frank Research/PCA * Incentives are on a Gross basis ‡ Incentives are on a Net basis

Note. Average data is on a weighted basis. Yield ranges reflect the average lower and 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.

# Leasing Market and Rents

The North Sydney vacancy rate fell slightly from 7.1% in January to 7.0% in July 2016, the lowest level in four years. The withdrawals for the construction of the Sydney Metro project and residential conversions have underpinned this decline in vacancy. 28,265m$^2$ of office space has been withdrawn, 80% of this was permanently, over the six months to July 2016. These withdrawals have offset the negative demand over the period, which measured -25,870m$^2$ in the six months to July 2016. This was due primarily to the relocation of the RMS from 15,614m$^2$ at 101 Miller Street to their other offices in Parramatta and Rozelle.

The significant withdrawal of secondary stock resulted in secondary vacancy rate declining sharply to 5.7% in July 2016 from 7.3% in January 2016, well below the 10-year average of 9.7%. Limited availabilities in the secondary market are putting downward pressure on incentives, leading to strong effective rental growth.

On the back of a sharp decline in vacancies, the average secondary net effective rent increased by 11.0% in the 12 months to July 2016 to \$380/m$^2$ (\$556/m$^2$ face). This growth rate is significantly higher than the 10-year average of 6.4%. At the same time, secondary incentives fell to between 25% and 27% as at July 2016, from above 30% a year ago.

The prime market has also seen positive rental growth, albeit not as strong as the secondary market. This is due to a number of factors; including a relatively higher vacancy rate and tenant departures from the North Sydney market.

The prime vacancy rate increased from 6.4% in January 2016 to 10.5% in July 2016. Accordingly, the average prime net effective rent rose by a more moderate rate of 5.4% yoy to \$487/m$^2$ (\$696/m$^2$ face), in line with the 10-year average of 5.1%. Prime incentives measured between 23% and 27% as at July 2016.

Looking ahead, we expect the secondary market to continue to outperform the primary market in rental growth, due to the continued depletion of secondary stock. B-Grade tenants, who wish to remain in the North Sydney market, will find themselves competing for limited availabilities, hence pushing up effective rents. However, as the spread between prime and secondary rents narrows, we expect some secondary tenants to find it relatively more feasible to upgrade to prime premises.

In addition, we also anticipate an exodus of tenants from the Sydney CBD into North Sydney and the other North Shore markets over the next two years due to the significant stock withdrawals in the Sydney CBD.

As a result of these dynamics, the projection for the overall vacancy rate over the next three years is for a moderate increase in second half of 2016, the bulk of which will be in prime grade, before a steady decrease through to 2018.

Given the tightening of stock within the secondary market, relatively firm rates of net face growth are forecast at around 4.9% p.a. over the next two years, while effective rents are expected to be boosted by a material fall in average incentive metrics. In the prime market, the net face rental growth rate is forecast to measure 4.6% p.a. over the next two years.

# Sales and Investment Activity

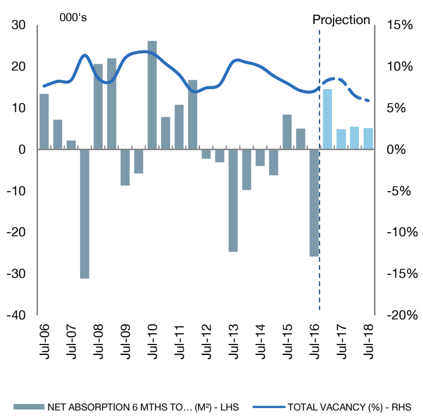
The largest transaction since the beginning of 2016 is Ascendas-Singbridge's acquisition of 100 Arthur Street from Townwood (advised by Altis) for \$313.25 million. The deal was struck at a core market yield of 6.3% and a 3.7 year WALE.

The NSW Government has completed the first acquisition for the Sydney Metro project in North Sydney at 181 Miller Street for \$101 million. The existing building will be demolished in mid 2017.

Deutsche Asset Management, on behalf of a German pension fund, has acquired 90 Arthur Street from Blackstone-controlled 151 Property for \$73.5 million (7,941/m$^2$ of NLA). The 9,256m$^2$ office building was sold at a core market yield of 7.5% and a 3.7 year WALE.

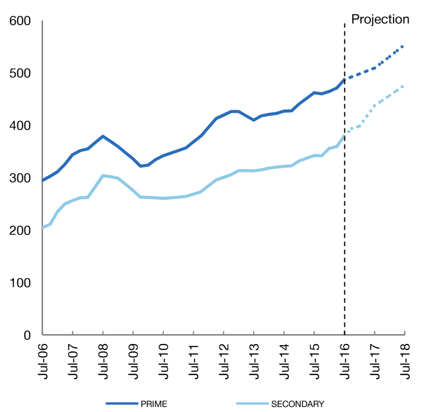
As unsatisfied capital continues to seek investment opportunities in the North Sydney market, further compression has been seen in both prime and secondary markets. As at July 2016, prime core market yields ranged between 5.75% to 6.25% and secondary core market yields measured between 6.75% and 7.25% .

FIGURE 2
**North Sydney Net Absorption & Vacancy**
Per six month period (000's m², %)



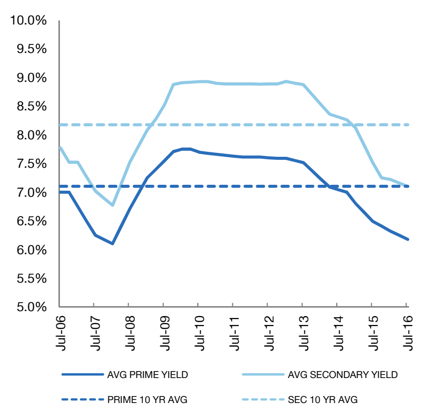

Source: Knight Frank Research/PCA

FIGURE 3
**Average Net Effective Rents**
Prime & Secondary, North Sydney (\$/m²)




Source: Knight Frank Research

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




Source: Knight Frank Research

# CROWS NEST/ST LEONARDS

## Development Activity

Commercial development activity in the Crows Nest / St Leonards market remains relatively dormant with no new developments currently under construction, other than the 400m$^2$ refurbished space at 28 Chandos Street as at July 2016. The lack of tenant interest in pre-commitment and the strong preference for residential conversion have been the main reasons for developers to withhold commercial development.

There are three DA approved sites at the Gore Hill Technology Park (219-247 Pacific Highway), for a combined NLA of up to 46,000m$^2$. However, they are currently mooted pending pre-commitment. Channel 9 has been looking at the Gore Hill precinct, along with Moore Park Entertainment Quarter, Mirvac's Habourside project and 1 Denison Street, for their new Sydney headquarters. However, Moore Park is reportedly the preferred option by Channel 9 as at July 2016.

The initial plan for a 16 level office building of 28,500m² at 88 Christie Street has been abandoned. Instead, the site has received approval for a mixed-used development for up to 777 apartments and a commercial tower, fronting Pacific Highway, of 4,661m$^2$ of office space. In addition, approximately 6,900m$^2$ of office space is expected to be added from the mixed-use developments at 472-486 Pacific Highway (4,600m$^2$ Q4 2018) and 18-20 Atchison Street (2,300m$^2$ 2019+).

At the Royal North Shore Hospital precinct, the NSW Government has scrapped plans to sell land. Instead, the Government will develop the site (c. 25,000m$^2$) to accommodate NSW Health agencies. Construction will commence in early 2017 and completion is expected in 2019. Upon completion, NSW Health will likely relocate a number of their existing offices across various locations, including; 73 Miller Street and 77 Pacific Highway in North Sydney and "The Zenith", 821 Pacific Highway and 67 Albert Avenue in Chatswood.

## Leasing Market and Rents

The Crows Nest / St Leonards vacancy rate fell to 8.3% in July 2016 from 9.6% in January 2016. This is the lowest level of vacancy in 15 years. The recent drop in vacancy continues to be driven primarily by residential encroachment into the commercial precinct. 11,166m$^2$ has been permanently withdrawn over the six months to January 2016.

Over the last three years, the office stock in the Crows Nest / St Leonards market has declined by 9.5%, to give way for residential developments. Looking forward, a further 30,000m$^2$ will be permanently withdrawn over the next three years. This will have significant bearing on the vacancy rate, which is forecast to fall to circa 4% by 2018.

The net absorption in the six months to July 2016 measures –5,661m$^2$. The negative net absorption was due to a number of significant tenant departures including the relocation of FlexiGroup (3,600m$^2$) to the Sydney CBD. Looking forward, the relocation of Jacobs (c. 9,000m$^2$) to North Sydney in the second half of 2016 will put further pressure on the net absorption. However, the vacancy rate is projected to fall due to the stronger rate of stock withdrawals.

On the back of falling vacancies, effective rents have increased across both prime and secondary grades, more so in the secondary market where the majority of withdrawals have occurred. Consequently, the average secondary net effective rent increased significantly by 11.6% yoy to \$295/m$^2$ (\$456/m$^2$ face) as at July 2016. Over the same period, the average prime net effective rent increased by 11.5% to \$343/m$^2$ (\$517/m$^2$ face).

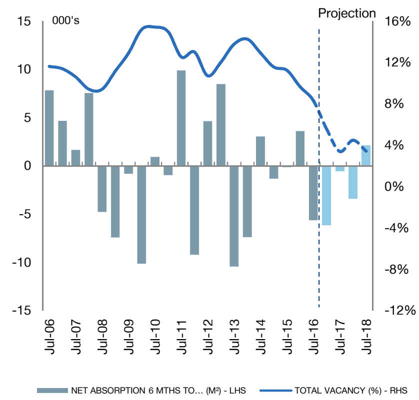
## Sales and Investment Activity

Investment activity has been relatively active over the past 12 months, particularly for secondary assets with redevelopment potential. This is evident by Altis' sale of 100 Christie Street to private developer Greg Gav for \$62.5 million. The 1,000m$^2$ site has potential for a 15-storey tower with 140 apartments.

In addition, local developer Dyldam has finalised the acquisition of 88 Christie Street for circa \$120 million. This follows Pindan Capital's purchase of the Warner Music building at 39 Albany St, Crows Nest for \$13.3 million in early 2016.

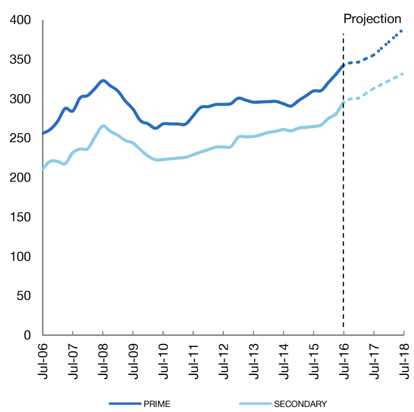
Despite the lack of pure-play office transactions over the last six months, core market yields for prime assets, with 5 year WALEs, are estimated to range between 6.75% and 7.25% as at July 2016. Secondary yields are estimated to range between 7.25% and 7.75%.

FIGURE 5
**Crows Nest/St Leonards Net Absorption & Vacancy**
Per six month period (000's m², %)




**Source:** Knight Frank Research/PCA

FIGURE 6
**Average Net Effective Rents**
Prime & Secondary, Crows Nest/St Leonards (\$/m²)




**Source:** Knight Frank Research

# CHATSWOOD

## Development Activity

There are currently no new office developments in the Chatswood market. In fact, the market has been relying on refurbished supply rather than new supply for the last two decades. The lack of suitable sites and fragmented land ownership have been the main hurdles for greenfield development.

This lack of new supply is further exacerbated by increasing stock withdrawals. The 12 months to July 2016 saw 5,546m$^2$ taken offline for residential conversion, comprising almost 2% of the current stock. Looking forward, we expect the dry spell of supply in Chatswood to remain in the medium term with no projects being planned for development over the next two years.

## Leasing Market and Rents

Leasing conditions have picked up in the Chatswood market, registering 3,119m$^2$ net absorption in the six months to July 2016. Demand over the last six months has been underpinned by a mixture of engineering, health, media and financial companies.

Consequently, the overall vacancy rate decreased to 6.6% in July 2016 from 7.7% six months earlier. The prime vacancy rate dropped from 7.3% in January 2016 to 6.1% in July 2016, whilst the secondary vacancy rate fell from 8.2% to 7.1% correspondingly.

The falling vacancy rates have led to rising face rents and falling incentives. As at July 2016, the average prime net effective rent grew by 8.1% yoy to \$312/m$^2$ (\$466 face) and incentives are currently between 25% and 27%.

The withdrawal of secondary stock has resulted in slightly stronger rental growth in the secondary market. The average secondary net effective rent increased by 8.8% yoy to \$259/m$^2$ (\$395/m$^2$ face). Secondary incentives fell from above 30% 12 months ago to around 26% to 28% as at July 2016.

Looking forward, whilst the market expects to see some backfill space coming online over the next two years, the depletion of stock in the absence of new supply will partially counterbalance any significant increase in vacancy. In addition, the substantial withdrawal of existing office stock in the other North Shore and Sydney CBD markets is expected to drive some tenants to Chatswood over the next two years.

Consequently, the vacancy rate is expected to pick up slightly by the end of 2016, before declining gradually over the following 12 months. Over the next two years, prime net face rents are expected to grow by 3.7% p.a., whilst the average prime incentive is forecast to fall below 25%. Secondary net face rents are forecast to rise by 3.2% p.a. and the average secondary incentive is predicted to decline below 26%.

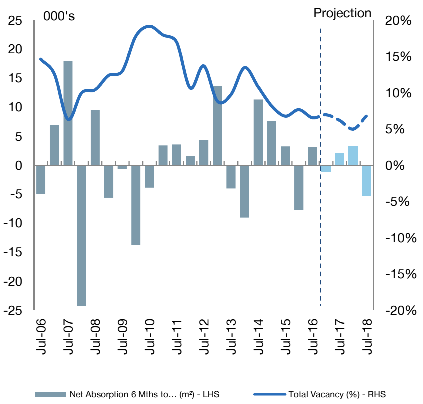
## Sales and Investment Activity

Chatswood has seen strong investor demand from both local and foreign groups over the last six months. Centuria and BlackRock have acquired "The Zenith" at 821-843 Pacific Highway for \$279 million from DEXUS and GPT Wholesale Office Fund. The twin towers have a total NLA of 44,389m$^2$ and are 93% occupied with the dominant tenants including State and Federal Government departments and Lendlease. The deal was struck at a combined WALE of 2.7 years and a core market yield of approximately 7.5%.

In the secondary market, China's One Pro Group has purchased an office building at 15 Help Street for \$43.8 million from Intera Group. The 5,395m$^2$ building was purchased on a sharp yield of sub-6% and a WALE of 3.1 years. This is one of the sharpest yields for a secondary asset without residential upside in a suburban market. However, it further highlights the strong appetite of Chinese investors for commercial properties in the sub-\$50 million price bracket in Chatswood, which is home to a large Chinese community in Sydney.

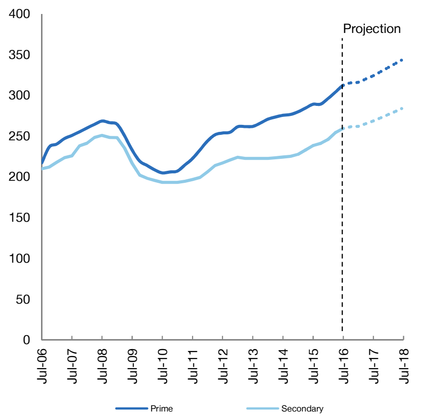
As at July 2016, core market yields for prime assets are estimated to range between 7.00% and 7.50%. In the secondary market, core market yields for pure-play office buildings with 5 years WALEs are estimated to be around 7.00% to 8.00%.

FIGURE 7
**Chatswood Net Absorption & Vacancy**
Per six month period (000's m², %)



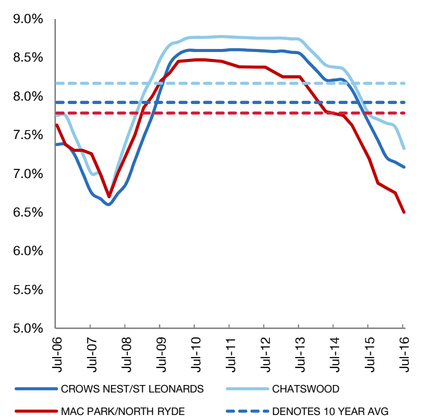

Source: Knight Frank Research/PCA

FIGURE 8
**Average Net Effective Rents**
Prime & Secondary, Chatswood (\$/m²)




Source: Knight Frank Research

FIGURE 9
**Average Prime Core Market Yields**
Crows Nest/St Leonards, Chatswood and North Ryde/Macquarie




Source: Knight Frank Research

# MACQUARIE PARK /NORTH RYDE

## Development Activity

Changes in zoning and land use controls continue to have significant bearing on commercial development activity in the Macquarie Park / North Ryde market. Following the mixed-use rezoning of the Herring Road and North Ryde Station Activation precincts, a number of office buildings have been earmarked for residential conversion, which will result in significant tenant displacement over the coming months.

80 Waterloo Road and 16 Byfield Street (6,866m$^2$ collectively) were sold by Centuria to a Chinese developer and are expected to be demolished late 2016. Moreover, other office buildings earmarked for residential conversion include 82 Waterloo Road, 112-118 Talavera Road and 101 Waterloo Road.

These withdrawals are triggering new office developments to accommodate the displaced tenants. Construction of 10,800m$^2$ of office space at 8 Khartoum Road has commenced and is scheduled for completion in Q2 2017. The building has been fully pre-committed by Fuji Xerox. In addition, AstraZeneca has pre-committed to 3,000m$^2$ at the proposed building at 66-82 Talavera Road, to be delivered in 2017.

Macquarie University has announced plans for two new office buildings of up to 50,000m$^2$ to attract corporate tenants on to its campus. If approved, construction is expected to start in late 2017 for completion by the end of 2019. The University is expected to take 3,000m$^2$ in one of the new buildings and one of its corporate partners has already committed to another 3,000m$^2$.

The majority of the proposed commercial developments, however, remained mooted as at July 2016, pending further clarity regarding the proposed zoning changes in the Macquarie Park precinct. The NSW Government and the City of Ryde are conducting an investigation for the revitalisation of the Macquarie Park and North Ryde precincts to leverage on the proposed Metro stations. The draft plan won't be released until late 2016, but there is potential for rezoning of land, particularly in the areas surrounding the new metro stations. This would have significant implications on property values and future office space supply.

The completion of the Sydney Metro Northwest in the first half of 2019, is expected to further improve connectivity for the Macquarie Park / North Ryde precinct. Notwithstanding the long-term benefits from the new metro line, commercial activities are expected to be affected by the temporary closure of the existing train services in Macquarie Park and North Ryde for seven months in late 2018 and early 2019.

## Leasing Market and Rents

The Macquarie Park / North Ryde market continued to see strong tenant demand in the first half of 2016, resulting in a decline in the vacancy rate from 7.9% in January 2016 to 7.1% in July 2016. Major leasing deals since the beginning of 2016 include Ryde City Council taking 4,190m$^2$ at 3 Richardson Place, North Ryde (relocating from the Ryde Civic Centre), Roche Diagnostics and Sharp taking 3,455m$^2$ and 2,605m$^2$ respectively at 2 Julius Avenue.

The average prime net effective rent grew by 4.2% yoy to reach 272/m$^2$ ($368/m$^2$ face) and the average prime incentive fell to 26% in July 2016 from 28% a year earlier. In the secondary market, the average net effective rent rose by 8.8% yoy to measure $223/m$^2$ ($310/m$^2$ face) and the average incentive decreased from 30% in July 2015 to around 28% in July 2016.

## Sales and Investment Activity

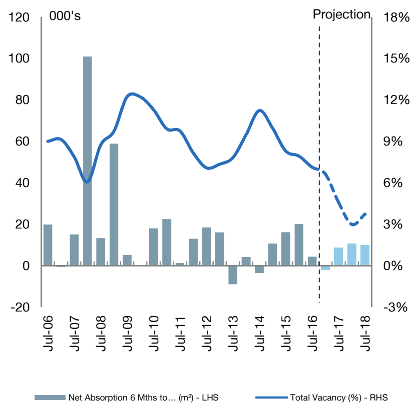
The largest deal since the beginning of 2016 is the portfolio sale of four buildings in the Riverside Corporate Park by Blackstone-owned 151 Property to a joint venture of Propertylink and Grosvenor Group for $94 million. The buildings have a combined area of 20,341m$^2$ and a WALE of 5.2 years.

Aqualand has purchased 40-50 Talavera Road from Altis for $54 million. The 13,185m$^2$ office/warehouse building sits on a land site of 2.5 hectares. Another office/warehouse building at 113 Wicks Road was exchanged for $23.26 million at a core market yield of 6.9%. In addition, Abacus has recently sold a 8,009m$^2$ commercial building at 37-39 Epping Road to CorVal for $34 million.

Charter Hall is putting Avaya House, 123 Epping Road on the market as at July 2016. The A-grade office building has a total NLA of 16,158m$^2$ and a WALE of 3.7 years. The property is tipped to sell for over $100 million.

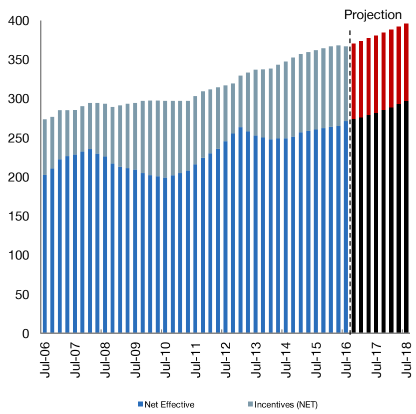
As at July 2016, the core market yields for prime assets in the Macquarie Park / North Ryde market are estimated to range from 6.25% to 6.75%. Secondary core market yields are estimated to range between 7.25% and 7.75%.

FIGURE 10
**Macquarie Park/North Ryde Net Absorption & Vacancy**
Per six month period (000's m², %)




Source: Knight Frank Research/PCA

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




Source: Knight Frank Research

# RECENT TRANSACTIONS

TABLE 2

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

| Address | Region | Area (m²) | Face Rental ($/m²) | Term (yrs) | Lease Type | Tenant | Start Date |
|---|---|---|---|---|---|---|---|
| 177 Pacific Highway | North Sydney | 6,720 | 650n | U/D | New | Jacobs | Oct-16 |
| 177 Pacific Highway | North Sydney | 15,284 | 675n | U/D | New | Vodafone | Oct-16 |
| 177 Pacific Highway | North Sydney | 4,679 | 675n | U/D | New | Cisco | Feb-17 |
| 177 Pacific Highway | North Sydney | 3,138 | 675n | U/D | New | Pepper | Q2-17 |
| 177 Pacific Highway | North Sydney | 1,517 | 790n | U/D | New | Objective Consulting | Q1-17 |
| 40 Mount Street | North Sydney | 3,728 | U/D | 3.5 | New | NAB / Nippon / MLC Life | Nov-17 |
| 40 Mount Street | North Sydney | 2,000 | U/D | 3.5 | New | Goodman Fielder | Nov-16 |
| 9 Help Street | Chatswood | 304 | 395n | 5 | New | Printing Industries | Oct-16 |
| 9 Help Street | Chatswood | 130 | 395n | 5 | New | Heart Diagnostics | Sep-16 |
| 15 Help Street | Chatswood | 1,098 | 410n | 5 | Renewal | United Resource Mnmt | Aug-16 |
| 2 Lyonpark Road | Macquarie Park | 1,495 | 340n | 5 + 5 | New | Keller | Dec-16 |
| 2 Julius Avenue | North Ryde | 2,605 | 315n | 3 | New | Sharp | Nov-16 |
| 2 Julius Avenue | North Ryde | 3,455 | 315n | 10 | New | Roche Diagnostics | Jun-16 |
| 3 Richardson Place | North Ryde | 4,190 | 300n | 5 | New | Ryde City Council | May-16 |
| 6 Eden Park Drive | Macquarie Park | 2,000 | 345n | 5 + 5 | New | AP Facilities | May-16 |

TABLE 3

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

| Address | Region | Price ($ mil) | Core Market Yield (%) | NLA (m²) | $/m² NLA | WALE (Yrs) | Vendor | Purchaser | Sale Date |
|---|---|---|---|---|---|---|---|---|---|
| 90 Arthur St | North Sydney | 73.50 | 7.50 | 9,256 | 7,914 | 3.7 | 151 Property (Blackstone) | Deutsche AM | Aug-16 |
| 37-39 Epping Rd | Macquarie Park | 34.00 | U/D | 8,009 | 4,245 | N/A | Abacus | CorVal | Aug-16 |
| 40-50 Talavera Rd | Macquarie Park | 54.00 | 5.79≠ | 13,185 | 4,096 | 5.1 | Altis | Aqualand | Jul-16 |
| 61 Lavender St≡ | North Sydney | 140.00 | N/A | 10,500 | 13,333 | N/A | Barana Group | Aqualand | Jul-16 |
| 1 Denison & 77 Berry St≤ | North Sydney | 80.00 | N/A | c. 8,000≤ | N/A | N/A | Eastmark≤ | Winten | Jun-16 |
| 113 Wicks Rd÷ | Macquarie Park | 23.26 | 6.90 | 6,253 | 3,719 | 4.1 | Shannon | Investec | Jun-16 |
| 15 Help St | Chatswood | 43.80 | sub-6 | 5,395 | 8,119 | 3.1 | Intera | One Pro Group | Jun-16 |
| 84-90 Christie St & 75-79 Lithgow St# | St Leonards | 120.00 | N/A | c. 7,200# | 16,667 | N/A | Winten | Dyldam | Jun-16 |
| 52 Alfred Stø | North Sydney | 130.00 | N/A | 9,947 | 13,069 | N/A | Bridgehill | Private | Jun-16 |
| 100 Christie St≡ | St Leonards | 62.50 | N/A | 10,000 | 6,250 | N/A | Altis | Greg Gav | Jun-16 |
| 821-843 Pacific Hwy | Chatswood | 279.05 | 7.50 | 44,389 | 6,299 | 2.7 | DEXUS/GPT | Centuria/BlackRock | May-16 |
| 181 Miller St+ | North Sydney | 101.00 | N/A | 12,074 | 8,365 | 3.5 | Local Gov. Super | NSW Government | Apr-16 |
| 100 Mount St> | North Sydney | 41.00 | N/A | N/A | N/A | N/A | Laing O'Rourke | DEXUS> | Apr-16 |
| 10 & 10A Julie Ave, 12 Julius Ave & 1 Lucknow Rd | North Ryde | 94.00 | 7.73 | 20,341 | 4,621 | 5.2 | 151 Property (Blackstone) | Propertylink/ Grosvenor | Feb-16 |
| 100 Arthur St | North Sydney | 313.25 | 6.30 | 27,395 | 11,435 | 3.7 | Townwood± | Ascendas-Singbridge | Jan-16 |

**Source:** Knight Frank Research    n refers net    ≠ Net passing yield    U/D refers undisclosed

≤ Receivership sale. Existing structures comprise 5,000m$^2$ of retail (Berry Square) and 3,000m$^2$ of office space. There is a DA approved for a 30-storey office tower with 53,800m$^2$ of office and retail space.

÷ Mixed-use building. Office/industrial split is 50/50.

+ Compulsorily acquired by the NSW Government. Existing building will be demolished for the construction of a new Metro station.

> Development site purchased by DEXUS Property Group (50%) and DEXUS Wholesale Property Fund (50%). A 41,163m2 premium office tower in under construction as at July 2016.

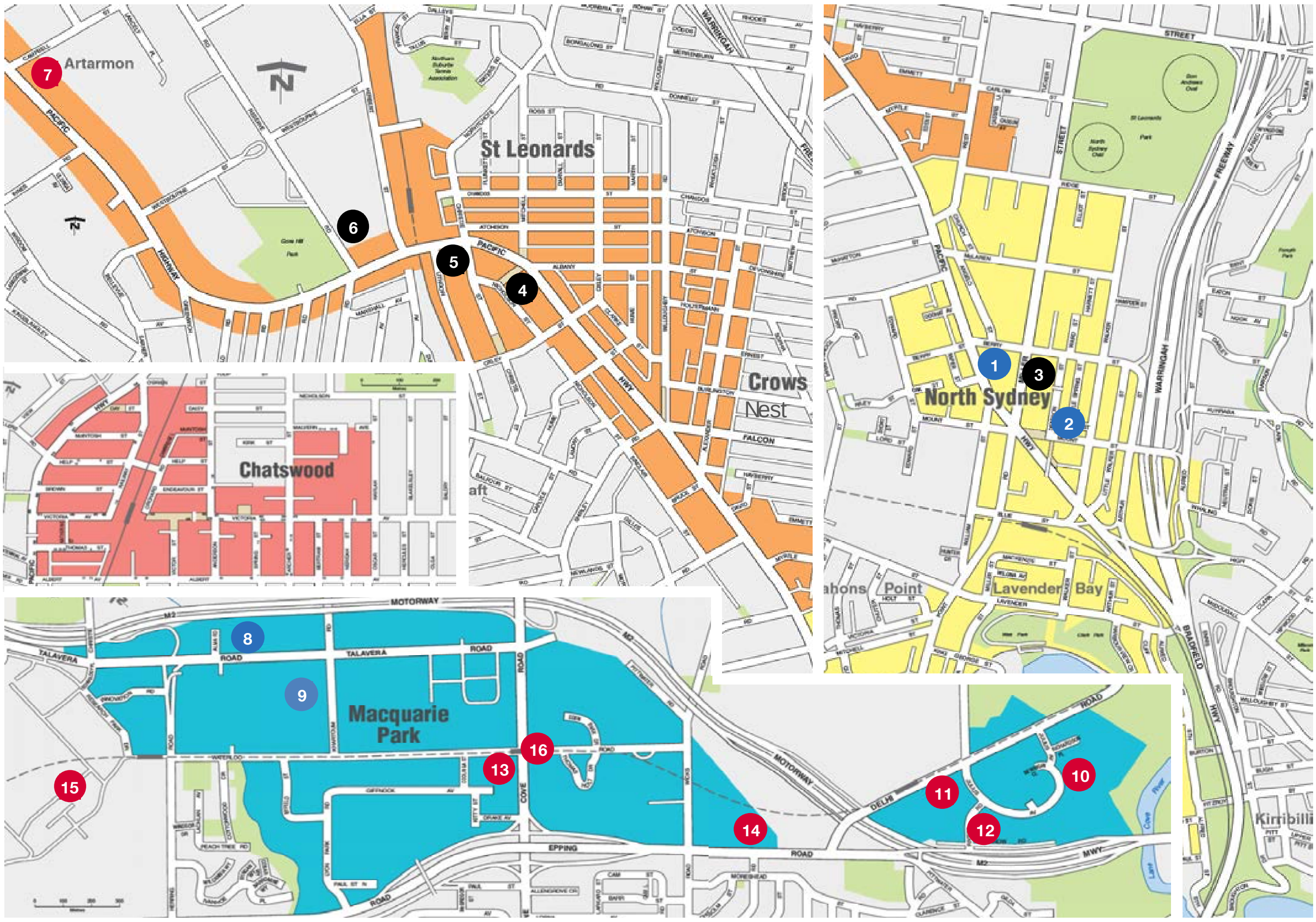
± Advised by Altis Property Partners

# Bought for residential re-development. The existing buildings have a combined NLA of approximately 7,200m$^2$.

≡ Bought for residential re-development.

ø Currently not approved for residential but re-development is likely in the future

# MAJOR OFFICE SUPPLY




Source of Map: Knight Frank

**North Sydney**

1. 177 Pacific Hwy - 39,144m² [Leighton]
Suntec REIT Q2 2016 - 100% committed
2. 100 Mount St - 40,600m² [Laing O'Rourke]
Dexus^ Q4 2018 - 15% committed
3. 1 Denison St - 45,270m²
Winten Property Group 2020+

**Crows Nest/St Leonards**

4. 472-486 Pacific Hwy - 4,600m²
Mirvac Q4 2018+
5. 88 Christie St (Fronting Pacific Hwy) ‡ - 4,661m²
Dyldam 2019+
6. RNS Hospital site - ~25,000 m² [NSW Health]
NSW Government 2018+
7. Gore Hill Technology Park - up to 46,000m²
Lindsay Bennelong Development 2019+

**Macquarie Park/North Ryde**

8. 66-82 Talavera Road - 8,000m² [AstraZeneca]
Holdmark Holdings 2017 - 37.5% committed
9. 8 Khartoum Rd - 10,800m² [Fuji Xerox]
Goodman Q2 2017 - 100% committed
10. Epicentre at Riverside, 6-8 Julius Ave - 34,194m²
ISPT 2018+
11. 39 Delhi Rd - 30,000m²
Stockland 2019+
12. 1 Rivett Rd (Stage 2) - 11,380m²
Pathway Property 2019+
13. 396 Lane Cove Rd - 74,000m²
Frasers Property / Winten Property Group 2019+
14. 29-35 Epping Rd -14,500m²
Harvey Norman Holdings 2019+
15. 8-10 University Ave - ~50,000m²
Macquarie University 2019+
16. 271 Lane Cove Rd - ~34,000m²
Mirvac 2020+

**Chatswood**

N/A

**Under Construction/Complete** (blue)

**DA Approved/Confirmed/Site Works** (black)

**Mooted / Early Feasibility** (red)

NB. Dates are Knight Frank Research estimates
Office NLA quoted, Major tenant precommitment in [brackets]
^ Laing O'Rourke is the constructor. Total development cost is $476.5 million
‡ Site has been rezone to mixed-use. Predominantly residential with an axillary amount of commercial space.

COMMERCIAL BRIEFING
For the latest news, views and analysis of the commercial property market, visit knightfrankblog.com/commercial-briefing/

# Outlook

The North Shore and North Ryde office markets are expected to experience improved fundamentals over the next 12 months. Future supply from new developments remains fairly constrained with the majority of this supply coming from 100 Mount Street, of which 15% has been pre-committed. At the same time, the withdrawal of stock for residential conversions and the construction of Sydney Metro continue to put further pressure on already tightening markets.

On the demand side, the ongoing infrastructure investment boom in NSW is driving significant tenant demand across the North Shore markets, with demand stemming from engineering and construction firms. Coupled with the declining stock levels, this will see effective rents tracking above the long-term averages over the next 12 months, with slightly stronger growth expected in the secondary market.

The weight of capital will continue to drive investor demand from both domestic and offshore groups into the North Shore markets over the next 12 months. The cash rate as at August is 50bps lower than a year ago and the market is pricing further rate cuts over the next 12 months.

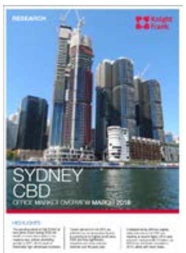
The lower-for-longer growth environment coupled with an improvement in rental growth expectations will lead to further downward pressure on yields, especially for secondary assets, which will experience stronger effective growth. Consequently, we expect the yield spread between prime and secondary assets to compress further over the next 12 months.

However, despite the strong investor demand, investment volumes are expected to moderate further in the second half of 2016 due to the lack of stock on the market.

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 March 2016

Sydney CBD Retail Market Brief July 2016

Australian Residential Review August 2016

The Wealth Report 2016

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



**RESEARCH**
**Alex Pham**
Senior Research Manager – NSW
+61 2 9036 6631
Alex.Pham@au.knightfrank.com

**Matt Whitby**
Group Director
Head of Research & Consultancy
+61 2 9036 6616
Matt.Whitby@au.knightfrank.com

**NSW**
**Angus Klem**
Managing Director, North Sydney
+61 2 9028 1110
Angus.Klem@au.knightfrank.com

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

**OFFICE LEASING**
**John Preece**
Head of Office Agency - Australia
+61 2 9036 6705
John.Preece@au.knightfrank.com

**Giuseppe Ruberto**
Director - Office Leasing, North Shore
+61 2 9028 1115
Giuseppe.Ruberto@au.knightfrank.com

**Arland Domingo**
Director - Office Leasing, North Shore
+61 2 9028 1122
Arland.Domingo@au.knightfrank.com

**CAPITAL MARKETS**
**James Parry**
Head of Institutional Sales
Capital Markets Australia
+61 2 9036 6758
James.Parry@au.knightfrank.com

**Tyler Talbot**
Director - Institutional Sales
+61 2 9028 1148
Tyler.Talbot@au.knightfrank.com

**Brett Burridge**
Director - Commercial Sales
+61 2 9028 1139
Brett.Burridge@au.knightfrank.com

**Michael Wydeman**
Director - Business Space
+61 2 9028 1127
Michael.Wydeman@au.knightfrank.com

**VALUATIONS**
**Lachlan Graham**
Divisional Director, North Sydney
+61 2 9028 1132
Lachlan.Graham@au.knightfrank.com

Knight Frank

Newmark Knight Frank Global