RESEARCH

NORTH SHORE

OFFICE MARKET OVERVIEW APRIL 2017

HIGHLIGHTS

Investment volumes into the North Sydney office market more than tripled in 2016 to $1.1 billion, the highest level in a decade. Of this amount, 41% was purchased by offshore investors.

Prime and secondary effective rents across the North Shore markets are expected to increase by 5.0% and 6.0% p.a. respectively over the next two years on the back of improved leasing fundamentals.

The convergence between prime and secondary yields has begun to occur due to limited opportunities, competitive pressure from multiple purchaser types and strong demand for value-add properties.

KEY FINDINGS

North Sydney's gross supply over the six months to January 2017 totalled 45,132m², the strongest level of new additions in the past decade.

Circa 41,147m² of existing office stock is expected to be permanently withdrawn in North Sydney for residential conversion over the next three years.

Prime and secondary gross effective rents in the North Sydney office market **have risen by 9.4% and 11.8%** respectively over the 12 months to April 2017.

North Sydney's **prime core market yields** currently range between **5.50%—6.25%** and **secondary yields are between 6.0%—6.75%**.

ALEX PHAM
Senior Research Manager

NORTH SYDNEY

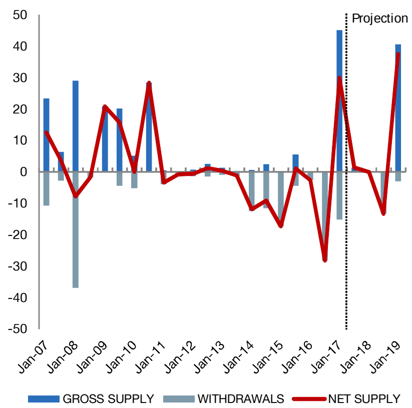
Development Activity

Following a sustained period of subdued construction activity, the completion of 177 Pacific Highway was a welcomed addition to the North Sydney market, delivering 39,419m² of new prime office space late 2016. This was North Sydney's first new prime office building in six years since 40 Mount Street (28,500m²) was completed in 2010. In addition, 5,713m² of refurbished space (part of the ex-RMS space) at 101 Miller Street was returned to the market in Q3 2016. This has taken gross supply over the six months to January 2017 to 45,132m², the strongest level of supply in the past decade.

This strong supply was counterbalanced by 15,118m² of stock withdrawal over the past six months. Of this amount, 13,710m² was withdrawn permanently for the construction of Sydney Metro and residential redevelopment. Three office buildings across 181, 189 and 194 Miller Street (9,578m² in total) will be demolished to make way for the construction of Victoria Cross Metro Station while 30 Alfred Street (3,952m²) was taken offline for residential conversion. A further 41,174m² is earmarked for residential redevelopment over the next three years.

On the supply side, new developments coming to fruition over the next five years will include 100 Mount Street (40,600m²), 15% pre-committed to Laing O'Rourke from Q1 2019, and 1 Denison Street (65,021m²), with a 15,500m² 12-year pre-lease to Channel 9 from H1 2020. Additionally, a DA for the redevelopment of 118 Mount Street (22,982m²) has been submitted, but timing is unconfirmed.

FIGURE 1
North Sydney Office Supply
Per six month period (000' m²)



Source: Knight Frank Research

TABLE 1
North Shore/North Ryde Office Market Indicators as at April 2017

Market	Grade	Total Stock (m²)^	Vacancy Rate (%)^	Annual Net Absorption (m²)^	Avg Net Face Rent ($/m²)	Outgoings ($/m²)	Average Incentive (%)*	Average Core Market Yield (%)
North Sydney	Prime	260,807	8.7	29,650	721	131	24.3	5.50 - 6.25
North Sydney	Secondary	561,689	6.4	-28,452	578	119	23.4	6.00 - 6.75
North Sydney	**Total Market**	**822,496**	**7.1**	**1,198**	**623**	**123**	**23.7**	**5.50 - 6.50**
Crows Nest/St Leonards	Prime	102,699	7.0	-3,534	542	119	27.0	6.50 - 7.00
Crows Nest/St Leonards	Secondary	212,843	12.2	-25,005	485	100	27.0	7.00 - 7.25
Crows Nest/St Leonards	**Total Market**	**315,542**	**10.5**	**-28,539**	**503**	**106**	**27.0**	**6.50 - 7.25**
Chatswood	Prime	157,412	8.0	-1,138	484	120	26.2	6.75 - 7.25
Chatswood	Secondary	121,507	7.4	947	421	102	27.3	6.00 - 6.75
Chatswood	**Total Market**	**278,919**	**7.7**	**-191**	**457**	**112**	**26.7**	**6.75 - 7.50**
North Ryde/Macquarie Park	Prime	640,620	5.1	765	372	89	25.3‡	6.00 - 6.50
North Ryde/Macquarie Park	Secondary	238,330	13.8	-4,033	322	95	28.0‡	7.00 - 7.25
North Ryde/Macquarie Park	**Total Market**	**878,950**	**7.5**	**-3,268**	**359**	**90**	**26.0‡**	**6.00 - 7.25**

Source: Knight Frank Research/PCA * Incentives are on a Gross basis ‡ Incentives are on a Net basis ^ As at January 2017
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

Despite the significant supply over the past six months, North Sydney's overall vacancy rate has only edged up marginally from 7.0% in July 2016 to 7.1% as at January 2017, two percentage points below the 10-year average of 9.1%. The strong inbound tenant migration into North Sydney's prime premises from other precincts resulted in a sharp decline in the prime vacancy rate falling to 8.7% in January 2017 from 10.5% six months prior. In contrast, secondary vacancy increased from 5.7% in July 2016 to 6.4% in January 2017, albeit the current level is significantly below the 10 year average of 9.7%.

Driving the reduction in vacancy in the upper end of the market was a solid prime net take-up figure of 43,749m² in the six months to January 2017, the strongest demand level for prime space in the North Sydney market since the PCA began collecting its data in 1990. This was largely attributed to North Sydney's latest A-Grade office tower, 177 Pacific Highway, being taken up by inbound tenants including Jacobs taking 6,720m², moving from St Leonards, Vodafone consolidating its offices from Chatswood and North Sydney taking approximately 10,000m² and CIMIC talking 6,500m² coming from St Leonards and Chatswood. While the prime market experienced robust tenant demand over the past six months, the secondary market recorded negative net absorption of 16,681m², taking the overall absorption to 27,068m². The soft result for secondary absorption was partly a consequence of the depletion of secondary stock, which declined by 36,000m² last year.

With vacancy rates being below the long-term average, gross face rents continued to rise across the board while incentives trended down further over the past 12 months. Average prime gross face rents increased by 7.3% YoY to $852/m² ($721/m² net face) as at April 2017. In addition, average prime incentives declined to 24.3% from 25.8% a year ago, resulting in gross effective rental growth of 9.4% YoY. In the secondary market, while gross face rents, currently at $697/m², have increased at a slower pace to prime rents, at 5.7% in the past year, the lack of available options have seen secondary landlords being more aggressive in dropping incentives. As a result, secondary incentives fell from 27.6% a year ago to 23.4% as at April 2017, lifting gross effective rents by 11.8% YoY.

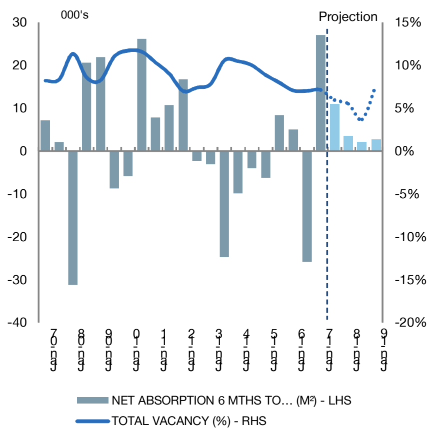
Tenant activity in the North Sydney office market is expected to improve over the next two years, underpinned by solid enquiry levels for prime office space. With prime gross face rents being 25% lower than that in the CBD, the North Sydney office market will be a preferred option for tenants seeking quality office space on an affordable budget. Major tenants migrating to the North Sydney over the next three years will include US Consulate General (5,000m²) and Channel 9 (15,500m²) while Origin Energy is looking for 8,000m² in the market. With short-term supply being limited, North Sydney's overall vacancy rate is forecast to trend down to circa 4.0% over the next 24 months before rising to circa 7.5% in early 2019 upon the completion of 100 Mount Street. Prime gross face rents are forecast to rise by 4.0%—4.5% p.a. and incentives to decline to 20%—22% over the next two years. Secondary face rents are expected to grow slightly faster than prime face rents at annual growth rates of between 4.25% and 4.75% pa. Moreover, secondary incentives are expected to fall to 17%—18% over the corresponding period.

Sales and Investment Activity

Investment volumes into the North Sydney office market more than tripled in 2016 to $1.1 billion, the highest level in a decade. Of this amount, 41% was purchased by offshore buyers with a total purchase volume of $458 million. The largest deal last year was made by Singapore's Ascendas-Singbridge purchasing 100 Arthur Street from Townwood for $313.25 million on a core market yield of 6.3% and a 3.7 year WALE. Chinese-backed developer Aqualand continued its expansion in North Sydney with the acquisitions of 132 Arthur Street and 15 Blue Street for $70 million (7,900/m²) and $167.2 million (10,530/m²) respectively.

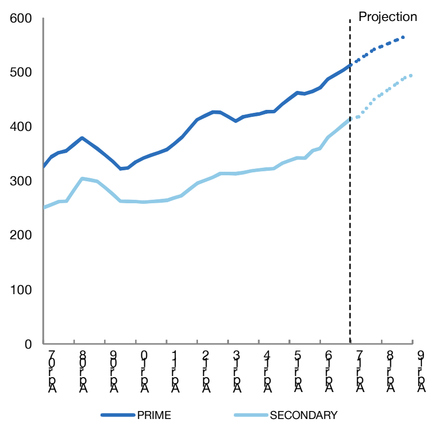
A benchmark deal in Q1 2017 was the acquisition of 2 Elizabeth Plaza by BlackRock for $81 million on a 6.3% initial yield from Marprop Real Estate, which recycled part of the capital into the purchase of 88 Walker Street for $20 million. The latter deal will likely see 88 Walker Street remaining commercial as opposed to being converted into a hotel. As at April 2017, prime and secondary core market yields ranged between 5.5%—6.25% and 6.0%—6.75% respectively.

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



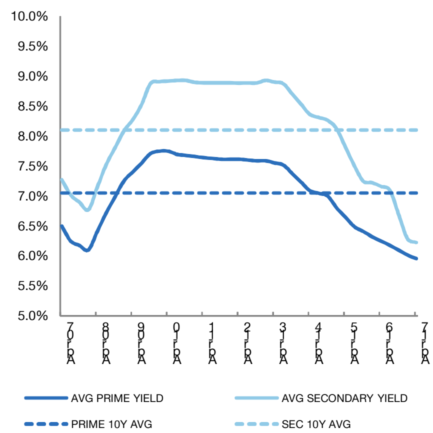
Source: Knight Frank Research/PCA

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

Residential development activity continues to encroach on the commercial core of Crows Nest and St Leonards. This resulted in 16,664m² of existing office floor space being withdrawn permanently for residential redevelopment over the six months to January 2017. Annually, 29,655m² was removed from the market in 2016. This is equivalent to 8.6% of the total office stock at the beginning of the year.

Sizable office buildings that were demolished for residential construction last year included 504-520 Pacific Highway (7,300m²), 486-494 Pacific Highway (5,677m²) and 472 Pacific Highway (4,833m²). These trends are expected to continue over the next few years with existing buildings earmarked for residential redevelopment including 617-621 Pacific Highway (5,317m²), 22 Atchison Street (2,700m²) and 100 Christie Street (9,631m²). Additionally, construction of the Sydney Metro project will result in 14-20A Clarke Street (3,217m²) and 511-519 Pacific Highway (1,433m²) being demolished this year.

Gross supply of office space in the Crows Nest / St Leonards market is expected to remain constrained over the next 12 months, with the modest addition in 2017 stemming from 1,825m² of refurbished space at 1-3 Atchison Street. Beyond 2018, additional commercial space will be derived from the mixed-use developments at 18-22 Atchison Street (2,362m²), 472-486 Pacific Highway (3,695m²), 500 Pacific Highway (2,825m²) and 88 Christie Street (4,661m²). Elsewhere, the proposed development sites at Gore Hill Technology Park (219-247 Pacific Highway) with a combined NLA of up to 46,000m² remained mooted as at April 2017. Without pre-commitment these projects are unlikely to commence, while residential development activity will be a significant influence in the precinct. Another potential office development is at the Royal North Shore Hospital precinct with scope for a circa 20,000m² office building to be developed by the NSW Government. The plans are for the new building to house NSW Health's agencies upon completion mid-2019.

Leasing Market and Rents

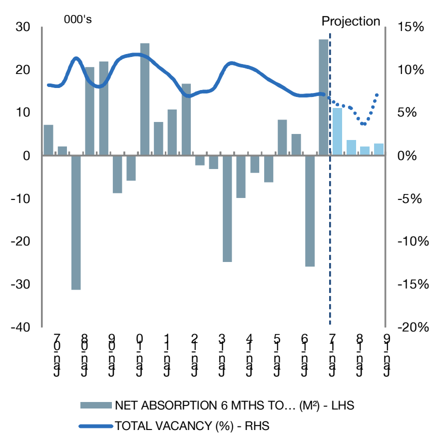
The total occupied space over the six months to January 2017 decreased by 23,936m² due to a number of major tenants being driven out of the Crows Nest / St Leonards office market as their premises were scheduled for demolition. Consequently, the overall vacancy rate increased from 8.3% in July 2016 to 10.5% in January 2017. Nevertheless, Knight Frank believes the vacancy figure was overstated to some degree since there are a few buildings vacated for redevelopment but yet to be taken off the stock base, hence pushing up vacancy artificially. One example is 100 Christie Street which was vacated when Jacobs moved to North Sydney late last year, but development will not start until Q1 2019.

In spite of the seemingly high vacancy rate, effective rents continued to rise over the past 12 months as available options were fairly limited. Average prime gross face rents increased by 6.7% YoY to \$660/m² (\$542/m² net face) as at April 2017. Secondary gross face rents escalated more quickly than prime gross face rents, rising by 8.1% over the past 12 months to \$585/m² (\$485/m² net). Prime and secondary incentives are currently measuring 27% on average.

FIGURE 5

Crows Nest/St Leonards Net Absorption & Vacancy

Per six month period (000's m², %)



Source: Knight Frank Research/PCA

Sales and Investment Activity

Following a strong year of investment in 2015, transaction volumes in the Crows Nest / St Leonard office market moderated in 2016 due to the lack of available stock on the market. Sales volumes over 2016 registered \$222 million, less than a third of a total of \$792 million a year ago. Property developers accounted for 82% the total transaction value last year.

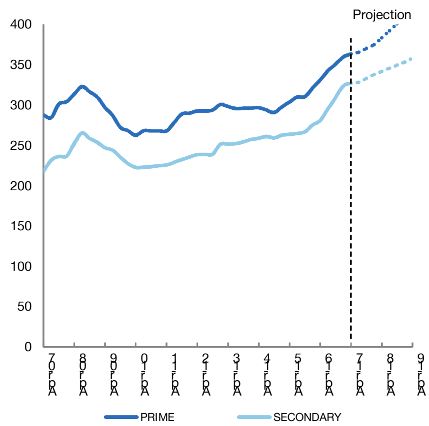
A highlight deal late last year was the sale of the CBA building at 51-53 Willoughby Road for \$10.3 million on a net passing yield of 4.2%. This tight yield reflects the mixed-use zoning of the site and the potential for residential redevelopment. The strong transaction momentum continued into early 2017, which saw the transaction of Ogilvy House at 72 Christie Street purchased for \$76 million by a joint venture of Anton Capital and Proprium Capital Partners from Emboss Capital (on behalf of Brompton Asset Management). The deal was concluded on a core market yield of 7.2%. The short WALE of less than a year represents a value-add opportunity for the new owners.

As at April 2017, core market yields for prime assets, with 5 year WALEs, are estimated to range between 6.5% and 7.0%. Secondary assets with 5 year WALEs are expected trade at 7.0%—7.25% core market yields.

FIGURE 6

Average Net Effective Rents

Prime & Secondary, Crows Nest/St Leonards (\$/m²)



Source: Knight Frank Research

CHATSWOOD

Development Activity

The Chatswood office market remained in hibernation mode over the past year with no additional supply, whilst residential activity is outpacing commercial development. The lack of suitable development sites remains the biggest hurdle on development in addition to a residential focus.

The drought of office supply is expected to continue over the next two years with no new developments being planned as at April 2017. The only modest supply in the long-term could potentially come from 1,860m² office component at the proposed redevelopment of the Australia Post Chatswood site, which is yet to have a DA approved.

Leasing Market and Rents

Chatswood's overall vacancy rate increased from 6.6% in July 2016 to 7.7% in January 2017. Nevertheless, the current vacancy level still tracks well below the 10 year average of 11.4%. The prime vacancy rate has increased from 6.1% in July 2016 to 8.0% (vs the 10-year average of 12.4%) in January 2017 due to a number of significant tenant departures to other markets including Vodafone leaving 4,638m² at 465 Victoria Avenue for the newly completed 177 Pacific Highway in North Sydney. This has resulted in a 2,932m² decline in prime net absorption over the six months to January 2017 and 1,138m² over the past year. In the secondary market, the vacancy rate recorded a slight increase from 7.1% in July 2016 to 7.4% in January 2017. Secondary net absorption over second half of 2016 registered a negative reading of 378m². However, this was offset by the 1,325m² net take-up over the first half of the year.

Despite the relatively soft absorption figure over the past six months, Chatwood's landlords continue to push effective rents in anticipation of the cascading demand stemming from displaced tenants from the surrounding markets, affected by stock withdrawal. The anticipated completion of the Sydney Metro Northwest in 2019 with Chatswood being a major connecting hub is expected to further enhance its appeal to outside tenants.

Over the 12 months to April 2017, the average prime gross face rents in Chatswood increased by 4.7% to $604/m² ($484/m² net face). In addition, the average prime incentives decreased from 27.1% a year ago to 26.2% as at April 2017 boosting effective rental growth to 6.0% YoY. In the secondary market, average gross face rents increased by 5.4% YoY to $523/m² ($421/m² net face). Secondary incentives fell from circa 30% 12 months ago to around 27.3% of gross rents as at April 2017.

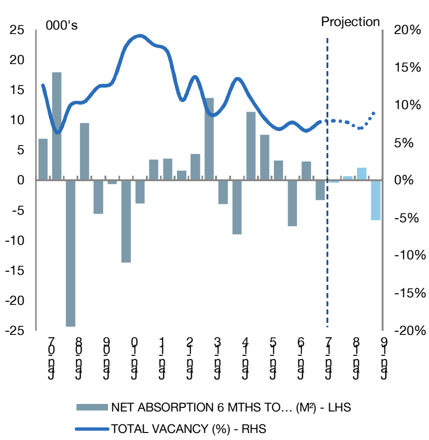
Sales and Investment Activity

Investment volumes ($10 million+) in the Chatswood office market totalled $363 million in the 2016 calendar year. The most significant transaction last year was the acquisition of "The Zenith" at 821-843 Pacific Highway, the largest office tower in Chatswood, by a joint venture of Centuria and BlackRock for $279 million. The 44,389m² twin towers were purchased from DEXUS and GPT Wholesale Office Fund at a core market yield of 7.5% and 2.7 year WALE.

In the secondary market, investor demand remained focused on lower grade office buildings with development upside. A recent example was the sale of two commercial buildings at 282 and 284 Victoria Avenue to a private investor for $40 million. The properties, sitting on a 2,175m² site, have a combined NLA of 5,572m² and a mixed use zoning allowing for residential and retail development. Another major secondary deal last year was 15 Help Street sold to an offshore purchaser, One Pro Group, for $43.8 million representing a rate of $8,119/m² and a core market yield of 5.62%. These transactions underscore the strong demand for secondary assets in Chatswood, which has resulted in the strong convergence of prime and secondary grade yields.

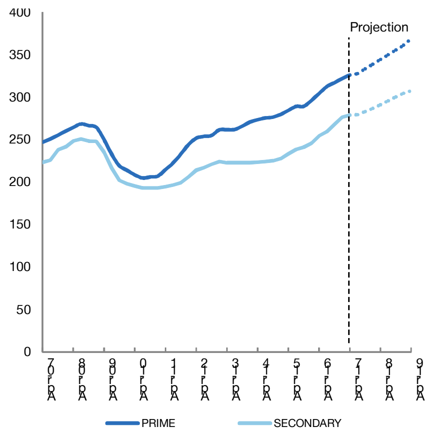
With the transaction of "The Zenith" completed almost a year ago at a 7.5% core market yield, assets with 5 year WALEs in the current market are expected to trade at 6.75% to 7.25% core market yields. These are 50—60bps lower than 12 months ago. The strong demand for older stock with repositioning potential has resulted in significant compression in secondary yields over the past 12 months to now range between 6.00%—6.75%.

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



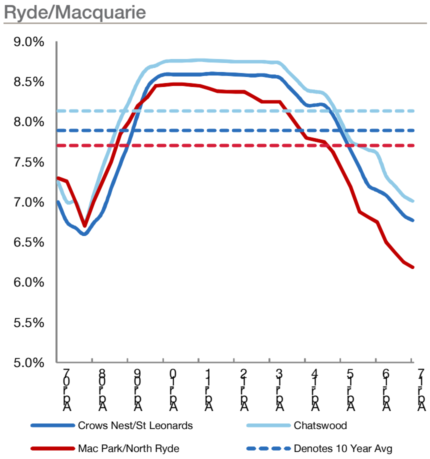
Source: Knight Frank Research/PCA

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

New additions in the Macquarie Park / North Ryde market was overwhelmed by higher levels of withdrawals, resulting in negative net supply of 4,417m² over the six months to January 2017. As a consequence, the total stock base contracted by 7,549m² over the 2016 calendar year to reach 878,950m². Contributing to the high withdrawal amount was the removal of 9,417m² for refurbishment at 97-99 Waterloo Road, vacated by Medtronic moving to 5 Alma Road, Macquarie Park. This space is expected to come back to the market in Q3 2017. Permanent withdrawals are expected to increase over the next 12 months, with circa 35,000m² earmarked to be permanently withdrawn for residential conversion across 112-118 Talavera Road, 82-84 Waterloo Road, 101 Waterloo Road and 80 Waterloo Road and 3 Byfield Street.

On the supply side, the second half of 2016 saw the delivery of approximately 5,000m² of new office space at 66-82 Talavera Road, in which circa 3,000m² was leased to Astra Zeneca. Looking forward, new addition is expected to be limited over the next 12 months with the only building to be completed, 8 Khartoum Road with 11,000m² of NLA, fully pre-leased to Fuji Xerox. Beyond 2017, there are a number of approved development sites across the Macquarie Park / North Ryde precinct but most remain mooted as at April 2017 pending further clarification regarding tenant pre-commitment and potential rezoning.

A major influence on Macquarie Park's commercial core is the anticipated outcome of the ongoing planning study conducted by the Department of Planning and Environment and City of Ryde Council. While the key aim of the investigation is to preserve a commercial core, there is potential for mixed-use rezoning in areas with close proximity to the proposed metro stations. In addition, the opening of Sydney Metro Northwest in 2019 will be a catalyst to Macquarie Park to evolve from a traditional campus-style office park to a more diverse commercial hub catering for a broader range of industries. Nevertheless, the temporary closure of the Epping to Chatwood rail line from Q3 2018 for an estimated 9 months will have some negative market effect.

Leasing Market and Rents

Following a strong surge in demand over the two years to July 2016 with average net take up of 25,000m² pa, the total net absorption moderated in the second half of 2016 falling by 7,475m². As a result, the overall vacancy increased slightly from 7.1% in July 2016 to 7.5% in January 2017, 150bps below the 10 year average of 9.0%. Part of the increase in vacancy stemmed from the departure of Goodman Fielder to North Sydney, vacating 8,526m² at 39 Delhi Road, which will be partially backfilled by Boral taking 5,000m². Nevertheless, the prime vacancy rate edged up from 4.3% in July 2016 to 5.1% in January 2017. Average prime gross face rents saw a moderate increase of 1.9% YoY to $461/m² ($372/m² net face) whilst prime net incentives fell to 25% in April 2017 from 28% a year earlier resulting in effective growth of 5.3% YoY.

Solid tenant demand for secondary space led to a decline in the secondary vacancy rate from 14.5% to 13.8% over the six months to January 2017. This has translated to a 4.5% YoY increase in secondary gross face rents ($418/m²) while effective rents rose by 6.2% YoY.

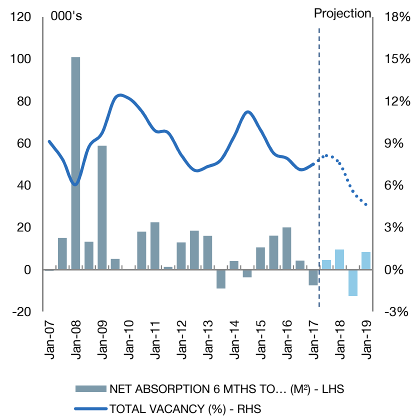
Sales and Investment Activity

Transaction volume in the Macquarie Park / North Ryde market totalled $337 million in 2016, 40% of which was acquired by offshore purchasers. The strong capital interest from cross-border buyers was evidenced by the sale of Avaya House, 123 Epping Road sold to a joint venture of Shanghai-based Shimao Property Group and its local partner B1 Shiying Group for $118 million. The property was purchased from Charter Hall on a core market yield of 6.2% and a 3.7 year WALE.

Investment momentum continued to build over the first quarter of 2017 with the purchase of Everglade Campus, 82 Waterloo Road, Macquarie Park, by residential developer Romeciti from Goodman for $120 million. The one hectare site with an existing 11,500m² office building is expected to be redeveloped to residential. Another highlight early this year was the sale of 2 Richardson Place in Riverside Corporate Park, North Ryde for $85 million by Blackstone to South African-listed Investec Australian Property Fund. The deal, sold as part of a portfolio with 20 Rodborough Road in Frenchs Forest, represents a net passing yield of 7.0%.

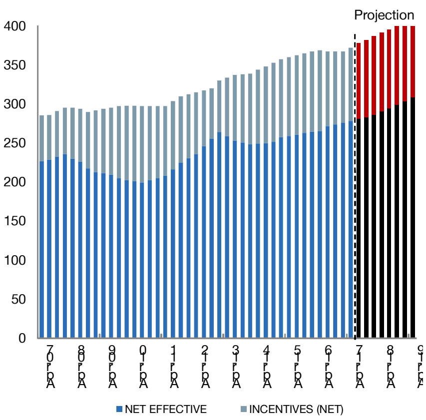
Currently, prime office buildings in the Macquarie Park / North Ryde market are estimated to trade at 6.0%—6.50% core yields. Secondary core market yields are expected to range between 7.0% and 7.25%.

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
1 Innovation Rd	Macquarie Park	1,053	350n	5	Renewal	Lego Australia	Q3-17
101 Miller St	North Sydney	1,428	745n	U/D	New	Bedford Titley	Q3-17
177 Pacific Hwy	North Sydney	3,138	675n	7	New	Pepper	Q2-17
170 Pacific Hwy	St Leonards	1,449	425n	5	Renewal	Mainbrace Constructions	Q2-17
29 Christie St	St Leonards	2,158	465n	7	New	GHD Pty	May-17
154 Pacific Hwy	St Leonards	457	405n	2	New	Healthy Thinking Group	Q1-17
9 Help St	Chatswood	166	395n	3	New	Bella Jones Pty	Q1-17
12 Talavera Rd	Macquarie Park	516	345n	5	New	Atlantis Healthcare	Q1-17
67 Albert Ave	Chatswood	932	470g	5	New	GP Technology Solutions	Q1-17
2 Lyonpark Rd	Macquarie Park	550	350n	5	New	Groupe SEB Australia	Mar-17
177 Pacific Hwy	North Sydney	4,679	675n	7	New	Cisco	Feb-17
177 Pacific Hwy	North Sydney	1,517	790n	7	New	Objective Consulting	Feb-17
101 Miller St	North Sydney	3,569	745n	10	New	Chubb Insurance	Feb-17
821 Pacific Hwy	Chatswood	2,152	480n	5	New	Sage	Jan-17
101 Miller St	North Sydney	1,427	720n	5	New	White Clark	Nov-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
15 Blue Street	North Sydney	167.2	U/D	15,800	10,530	U/D	Denwol Group	Aqualand	Apr-17
88-92 Walker St>	North Sydney	20.0	N/A>	2,972	6,729	N/A>	Macly Group	Marpop RE	Mar-17
2 Elizabeth Plaza	North Sydney	81.0	6.2*	7,642	10,599	U/D	Marprop RE	BlackRock	Mar-17
2 Richardson Road	North Ryde	85.0	7.0*	15,095	5,631	U/D	Blackstone	IAPF	Mar-17
72 Christie St	St Leonards	38.0	7.2	11,107	6,843	0.4	Emboss Capital (obo Brompton AM)	Anton Capital/ Proprium Capital	Feb-17
82 Waterloo Rd^	North Ryde	120.0	N/A^	10,415	11,522	N/A	Goodman/CPPIB/ CIC/ABP	Romeciti	Jan-17
123 Epping Rd	North Ryde	118.0	6.2	16,161	7,302	3.7	GIC/PSPI/Charter Hall	B1 Shiying/Shimao Property	Dec-16
42-44 Victoria St	North Sydney	12.8	5.8*	1,178	10,823	c.7.0	Private	Tara Shore Pty	Dec-16
30 Alfred St^	North Sydney	55.0	N/A	3,706	14,841	N/A	Fu Ji Property	Zone Q	Dec-16
51-53 Willoughby Rd	Crows Nest	10.3	4.2*	417	24,700	U/D	Tinwane Pty	Everlee Enterprise	Nov-16
282 & 284 Victoria Ave	Chatswood	40.0	6.2*	5,572	7,179	U/D	Private	Private	Nov-16
132 Arthur St	North Sydney	70.0	5.5*	8,861	7,900	U/D	Centennial Property	Aqualand	Oct-16
54 Miller St	North Sydney	52.3	6.6	6,955	7,520	2.6	Private	Private	Oct-16
90 Arthur St	North Sydney	73.5	7.5	9,257	7,940	3.7	151 Property (Blackstone)	Deutsche Asset Management	Aug-16
3 Innovation Pl	North Ryde	40.0	U/D	5,276	7,582	4.6	IOOF	Macquarie Uni.	Jul-16
270 Victoria Ave	Chatswood	22.3	U/D	2,295	9,717	U/D	Lonsyd Properties	Jovicsan Pty	Jul-16
15 Help St	Chatswood	43.8	5.6	5,395	8,119	3.1	Intera Group	One Pro Group	Jun-16

Source: Knight Frank Research n refers net g refers gross *Net passing yield U/D refers undisclosed N/A refers not applicable
GIC refers Government of Singapore Investment Corporation PSPI refers PSP Investments (Canada) IAPF refers Investec Australia Property Fund
CPPIB refers Canada Pension Plan Investment Board CIC refers China Investment Corporation ABP refers Stichting Pensioenfonds ABP (Netherlands)
>property has a DA approved for hotel redevelopment but likely to remain commercial under the new owners ^purchased for residential redevelopment

Outlook

New supply across the North Shore and North Ryde markets over the next three years will be limited, with only North Sydney and Macquarie Park expected to see new additions coming to fruition. Future supply in North Sydney will come from 100 Mount Street (40,608m²—end of 2018) and 1 Denison Street (seeking 65,021m²—early 2020). In Macquarie Park, the only new addition in 2017 is the 10,000m² new building at 8 Khartoum Road, fully pre-leased to Fuji Xerox.

Tenant demand is expected to continue to improve on the back of the significant infrastructure investment program across the North Shore and North West region, driving tenancy needs for engineering firms and project space. In addition, the significant withdrawal of stock and rising rents in the Sydney CBD will lead to an influx of displaced tenants opting to relocate to the North Shore markets over the next 24 months. Major inbound tenants into the North Shore market will include US Consulate General (5,000m²), moving from the Sydney CBD, and Channel 9 (circa 15,500m²), relocating from Willoughby.

Over the next two years, prime gross face rents across the North Shore markets are forecast to rise between 4.0% to 4.5% pa, while effective rents will be boosted to 5.0% pa or above due to the declining incentives. In the secondary markets, net face rents are expected to grow at a faster pace than prime rents at 4.25%—4.75% pa while the declining incentives will see effective rents rising at 6.0% or above pa.

Investment interest is expected to remain solid, with demand stemming from both local and offshore investors moving up the risk curve. While opportunities for prime assets will be constrained by the lack of available stock on the market, there are still pockets of value for value-add and opportunistic investors targeting properties with repositioning or redevelopment upside.

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.

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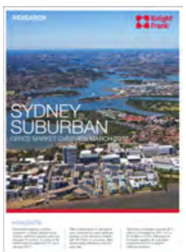

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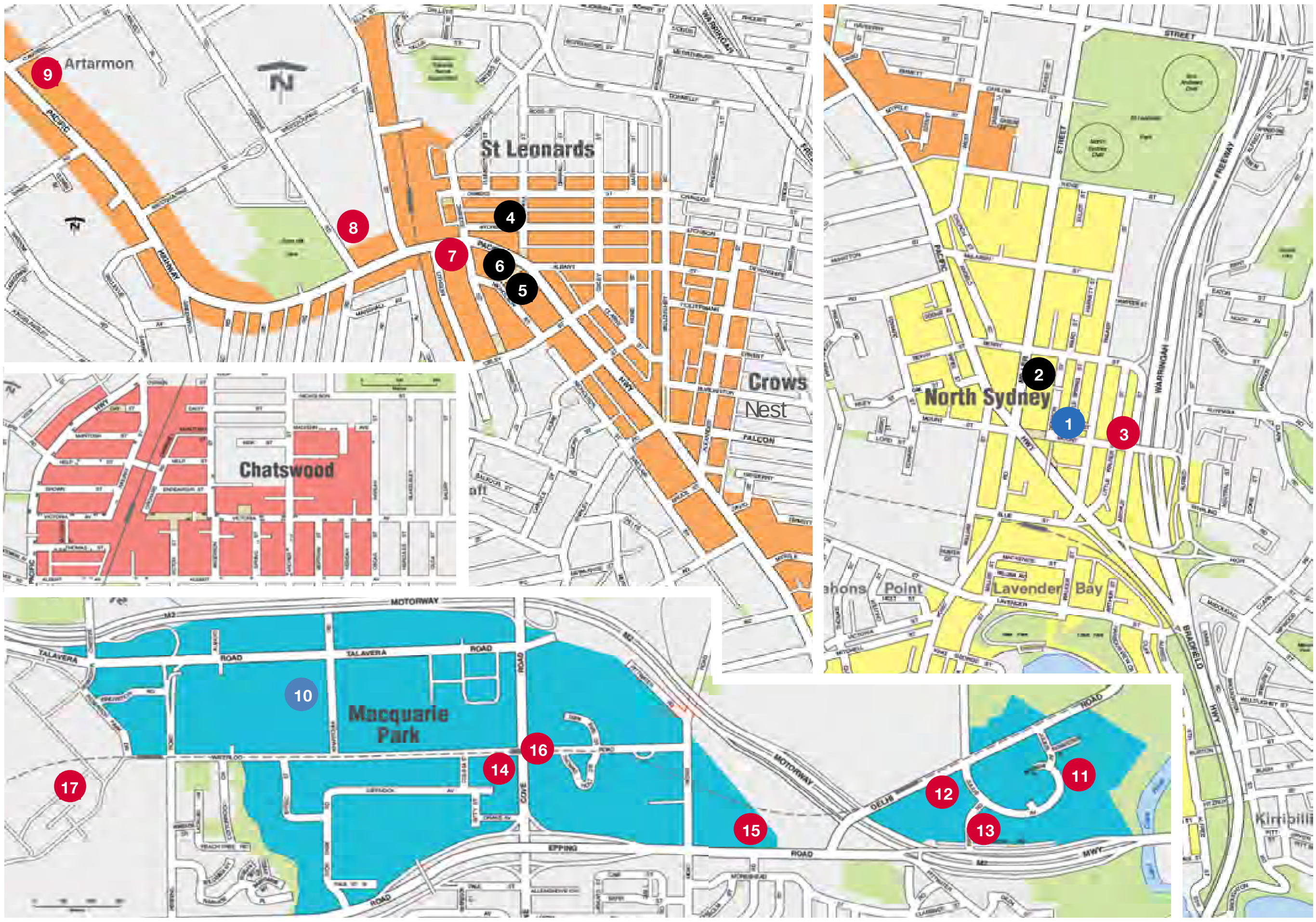

Source of Map: Knight Frank

North Sydney

1. 100 Mount St - 40,600m^2 [Laing O'Rourke]
Dexus^ Q4 2018 - 15% committed
2. 1 Denison St - 65,021m^2# [Channel 9]
Winten Property Group H1 2020 - 24% committed
3. 118 Mount St - 21,103m^2<
Zurich - DA Submitted

Crows Nest/St Leonards

4. 19-22 Atchison St - 2,362m^2
Radaca Investments / CVWL Atchison 2019+
5. 472-486 Pacific Hwy - 3,695m^2
Mirvac 2019+
6. 500 Pacific Hwy - 2,825m^2
New Hope / VIMG 2020+
7. 88 Christie St (Fronting Pacific Hwy) ‡ - 4,661m^2
Dyldam 2020+
8. RNS Hospital site - c.25,000 m^2
NSW Government - Mid 2019
9. Gore Hill Technology Park - up to 46,000m^2
Lindsay Bennelong Development - Mooted

Macquarie Park/North Ryde

10. 8 Khartoum Rd - 10,800m^2 [Fuji Xerox]
Goodman Q2 2017 - 100% committed
11. Epicentre at Riverside, 6-8 Julius Ave - 34,194m^2
ISPT - Mooted
12. 39 Delhi Rd - 30,000m^2
Stockland - Mooted
13. 1 Rivett Rd (Stage 2) - 11,380m^2
Pathway Property - Mooted
14. 396 Lane Cove Rd - 74,000m^2
Frasers Property / Winten Property Group - Mooted
15. 29-35 Epping Rd -14,500m^2
Harvey Norman Holdings - Mooted
16. 271 Lane Cove Rd - c.34,000m^2
Mirvac - Mooted
17. 8-10 University Ave - c.50,000m^2
Macquarie University - Early Feasibility

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
# Office NLA has been increased from 45,270m² to 65,021m²
< Existing office building of 4,034m² to be demolished
‡ Site has been rezone to mixed-use. Predominantly residential w ith an axillary amount of commercial space.