



OCTOBER 2013  
PARRAMATTA  
OFFICE  
Market Brief

## HIGHLIGHTS

- With the new supply added to the market in 2012 (Eclipse Tower, 25,728m<sup>2</sup>) having now been absorbed, the Parramatta prime vacancy rate has once again reverted to a sub 3% level (2.4% as at July 2013, equivalent to only 6,214m<sup>2</sup>).
- Despite tenant enquiry having been impacted by generally soft levels of business confidence, net absorption has held up remarkably well with Parramatta significantly outperforming the national average. In the first six months of 2013, occupied stock increased 0.8%, which was the second highest result of the 25 Australian office markets measured by the PCA and well above the average decline of 0.8%.
- The lack of quality stock has underpinned a continuation of prime gross face rental growth, which on an annual basis measured 4.6% as at October. This rate is broadly in line with the average rate of 5.3% since the beginning of 2012. However, an increase in average incentives for new leases, predominantly driven by lower A-grade assets, has offset the full impact of prime face growth on an effective basis.
- Despite a major office sales transaction yet to be recorded in 2013, the relatively stronger level of investor demand for upper prime buildings has seen some modest tightening estimated for this type of asset. Further clarity should emerge should several major asset sales reportedly in negotiation be finalised. Prime core market yields based on a five year WALE are estimated to range from 8.00% to 9.50%, although modern buildings with longer lease expiries ("upper prime") are being priced at a significant premium to this range.

# OCTOBER 2013 PARRAMATTA OFFICE

Market Brief

## PARRAMATTA OFFICE OVERVIEW

Grade	Total Stock (m <sup>2</sup> ) <sup>^</sup>	Vacancy Rate (%) <sup>^</sup>	Annual Net Absorption (m <sup>2</sup> ) <sup>^</sup>	Annual Net Additions (m <sup>2</sup> ) <sup>^</sup>	Avg Gross Face Rent (\$/m <sup>2</sup> )	Outgoings (\$/m <sup>2</sup> )	Average Incentive (%)	Average Core Market Yield (%)
Prime	255,017	2.4	24,007	25,050	455 - 555 (498 Avg)	109	20.0-25.0	8.00 - 9.50*
Secondary	436,686	10.4	-7,838	-17,747	360 - 435 (404 Avg)	105	22.5 - 27.5	10.00 - 11.00
<b>Total Market</b>	<b>691,703</b>	<b>7.5</b>	<b>16,169</b>	<b>7,303</b>				

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).

Grade: Prime includes modern and A-grade stock whilst secondary includes B, C and D quality grade.

Source: Knight Frank/PCA      <sup>^</sup> as at Jul 2013      \*upper prime assets with long WALEs trading below this range (sub 8%)

### Development Activity

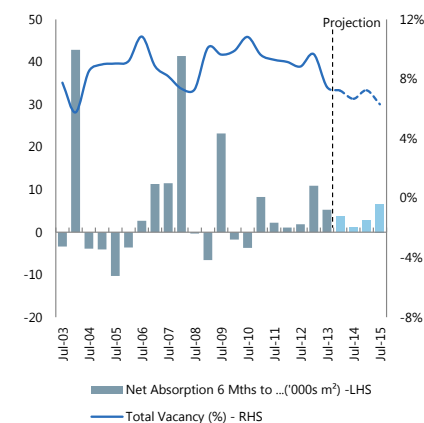
With the Parramatta market having absorbed the 2012 completion of 'Eclipse Tower' at 60 Station Street, the next wave of major new office supply is anticipated to stem from the progression of Parramatta Square. Council have announced that Stage 1 will be developed by Leighton (169 Macquarie St, 24,500m<sup>2</sup>) and Stage 3 by Alfasi Property Development (153 Macquarie St, 24,000m<sup>2</sup>). Commencement has been proposed for late 2013 and early 2014 respectively with potential completion by 2015/early 2016. Stage 2 comprises residential apartments and will likely be developed simultaneously. With regards to pre-commitments, Council have entered into a heads of agreement for approximately 7,000m<sup>2</sup> at 153 Macquarie St.

In the meantime supply is set to be made up of refurbished backfill options. These include 56 Station St, where 4,800m<sup>2</sup> has been refurbished following QBE's departure to Eclipse. The other refurbishment project consists of 1-3 Fitzwilliam St, from where the State Property Authority have vacated in order to move into both Eclipse and 10 Smith St. This refurbishment will provide 9,700m<sup>2</sup> of space.

There remains a number of significant project sites in the Parramatta market with the potential to progress. Of the DA approved projects, stage one of 142 Macquarie St (11,980m<sup>2</sup>) by News Limited is

proposed for owner occupation. The other DA approved projects, 89 George Street and 105 Phillip Street, will however require pre-commitment. Other potential projects include the Westfield expansion and the final stages of Parramatta Square (refer supply map page 4).

Figure 1  
Vacancy and Net absorption  
Parramatta – per six month period (000's m<sup>2</sup>)



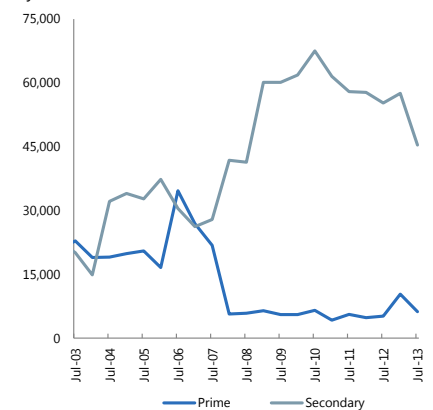
Source: PCA/Knight Frank

### Vacancy & Tenant Demand

Contrary to the decline in tenant demand recorded at a national level over the past 6 and 12 month periods, Parramatta has continued to post positive net absorption. Although boosted by the commencement of previously executed Eclipse Tower pre-lease deals, the 12 month net absorption of

16,169m<sup>2</sup> was the highest level of all 25 Australian office markets covered by the PCA. On a six month basis, the positive net absorption of 5,281m<sup>2</sup> to July 2013 was the second highest amount nationally.

Figure 2  
Parramatta Vacant Stock  
By Area (m<sup>2</sup>)



Source: PCA

The total market vacancy rate now measures 7.5%, which is the lowest rate since mid-2008. The lack of large, quality leasing options is reflected in the prime vacancy rate, which measures 2.4% or just 6,214m<sup>2</sup>. The Parramatta prime vacancy rate has averaged 2.7% since the start of 2008. Vacant stock by grade is shown in Figure 2 and in addition to illustrating the lack of quality leasing options available, it also shows that vacant secondary stock levels

have been declining since mid-2010. However during this three year period, only 14% of net absorption has stemmed from secondary stock with the decline largely been driven by stock withdrawals.

### Leasing Market and Rents

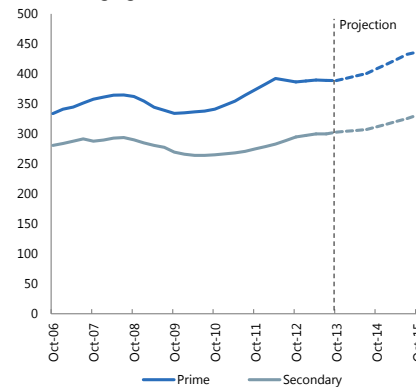
In contrast to the benign rental growth across many of Sydney's office markets, the constrained supply of leasing options continues to support rental growth in the Parramatta market. Prime gross face rents recorded annual growth of 4.6% in the year to October 2013 to currently measure \$498/m<sup>2</sup> (\$389/m<sup>2</sup> net). A modest rise in average incentive levels for incoming tenants has constrained effective rental growth (refer Figure 3). However over the last six months, this has predominantly been limited to lower A-grade assets. Incentives for upper prime assets are estimated to have held steady and have therefore underpinned some relative outperformance on an effective basis.

Annual face rental growth in the secondary market has softened from the circa 5% growth experienced in 2012 to 2.7% as at October. This growth has flowed directly through to effective rents with incentives holding steady at an average range of 22.5% to 27.5%.

Although the labour market remains relatively soft, rents are anticipated to generate further supply induced growth over the course of the next two years. Knight

Frank forecast prime gross face rental growth to average 3.5% p.a. over FY14 and FY15. Incentives are unlikely to materially reduce until demand conditions improve, however with consensus economic growth forecasts reflecting improvement over 2014, prime incentives are expected to reduce from mid-2014, underpinning effective rental growth.

Figure 3  
Parramatta Rents  
\$/m<sup>2</sup> average gross effective rent



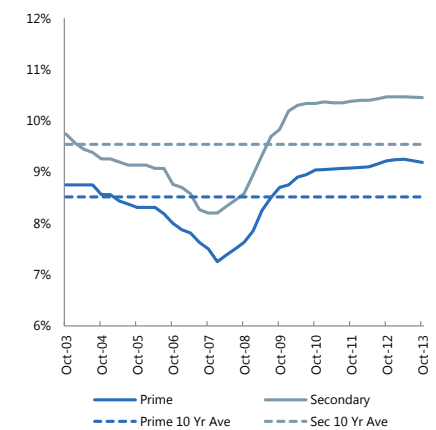
Source: Knight Frank

### Sales & Investment Activity

After several sales in late 2012, Parramatta is yet to record a major office sale in 2013. A number of assets are currently available for sale, including the 23,000m<sup>2</sup> Sydney Water building at 1 Smith St, which is reportedly under due diligence. 1 Charles St (NSW Police) has also been reported as a potential

sale. Should these upper prime sales proceed, it is anticipated that their long term, passive income profiles would support a sub 7.25% yield. Similar to the sale of Eclipse Tower on a yield of 7.3%, this would indicate a significant premium to average A-grade core market yields, which, based on a five year WALE, are estimated to range between 8.0% and 9.50%. Average secondary core market yields are estimated to range between 10.0% and 11.0%. With CBD investment opportunities becoming more limited and office markets experiencing strong buyer demand from both local institutions as well as offshore groups, sales in non-CBD locations such as Parramatta are anticipated to pick up.

Figure 4  
Average Core Market Yields  
Parramatta



Source: Knight Frank

Table 2  
Recent Leasing Activity Parramatta

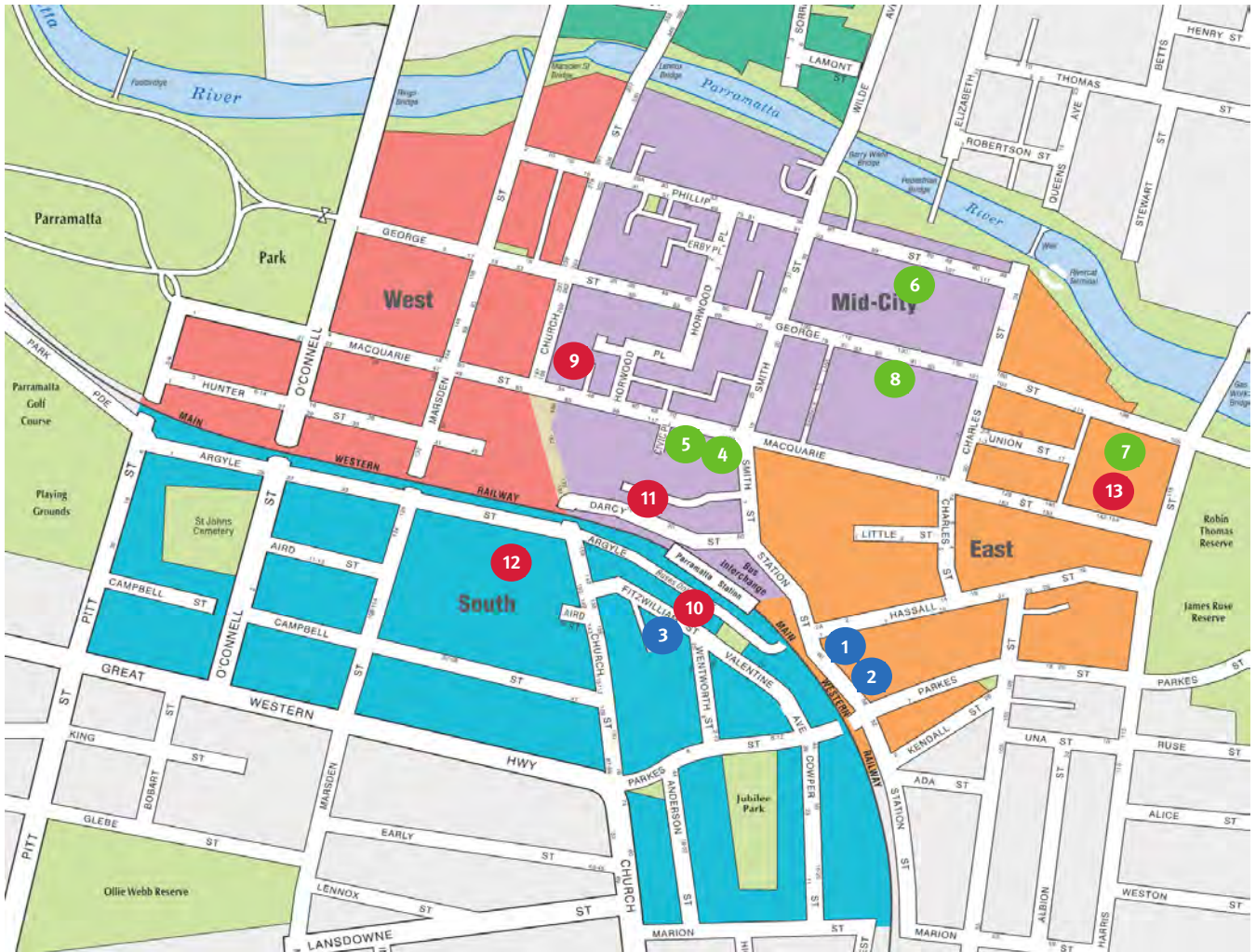
Address	Face Rental (\$/m <sup>2</sup> )	Area (m <sup>2</sup> )	Term (yrs)	Lease Type	Tenant	Start Date
17-21 Hunter St	303g	446	5	New	The Smith Family	Jul-13
10 Smith St	396n	3,577	5	New	Government Property NSW	Jun-13
88 Phillip St	355n	1,115	5	New	Lend Lease Communities	Jul-13
88 Phillip St	310n	499	5	New	Huge WOFTAM	May-13
60 Station St (Eclipse)	470n	3,970	5	New	Government Property NSW	Feb-13

Table 3  
Recent Sales Activity Parramatta

Address	Price (\$ mil)	Core Market Yield (%)	NLA (m <sup>2</sup> )	\$/m <sup>2</sup> NLA	WALE (Years)	Vendor	Purchaser	Sale Date
18 Smith St	47.50	10.20	12,041	3,963	3.2	Capital Corporation	Altis Property Grp	Dec-12
75 George St	32.55	10.14	9,535	3,414	3.8	Stockland	CorVal	Dec-12
60 Station St	167.50	7.35	25,728	6,510	8.6	Grosvenor & Leighton Prop.	REST	Nov-12

Source: Knight Frank g gross n net

# MAJOR OFFICE SUPPLY



Source of Map: Knight Frank

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li><b>1</b> 60 Station St - 25,728m<sup>2</sup> [Deloitte/QBE/Landcom]<br/>REST - Q3 2012 - 100% committed</li> <li><b>2</b> 56 Station St<sup>#</sup> - 4,800m<sup>2</sup><br/>Yangdo Pty Ltd - Q3 2013</li> <li><b>3</b> 1-3 Fitzwilliam St<sup>#</sup> - 9,700m<sup>2</sup><br/>ICUC Holdings - Q3 2014</li> <li><b>4</b> 169 Macquarie St<sup>^</sup> - 24,500m<sup>2</sup><br/>Leighton - Q4 2015</li> <li><b>5</b> 153 Macquarie St<sup>^</sup> - 24,000m<sup>2</sup><br/>Alfasi - H1 2016 - ~29% committed †</li> <li><b>6</b> 105 Phillip St - 20,000m<sup>2</sup><br/>DEXUS - 2016+</li> <li><b>7</b> 142 Macquarie St - Stage 1 - 11,980m<sup>2</sup><br/>News Limited - 2016+</li> <li><b>8</b> 89 George St - 11,567m<sup>2</sup><br/>Webb Property - 2016+</li> <li><b>9</b> Greenway Arc, 48 Macquarie St - 20,000m<sup>2</sup><br/>Drivas/Telado - 2017+</li> </ul> | <ul style="list-style-type: none"> <li><b>10</b> 2 Fitzwilliam St - 16,260m<sup>2</sup><br/>Transport for NSW - 2017+</li> <li><b>11</b> Parramatta Sq. Stages 5 &amp; 6<sup>^</sup> - 100,000m<sup>2</sup><br/>Parramatta City Council - 2018+</li> <li><b>12</b> Westfield, 159 Church St - 30,000m<sup>2</sup><br/>Westfield - 2018+</li> <li><b>13</b> 142 Macquarie St - Stage 2 - 35,000m<sup>2</sup><br/>News Limited - 2019+</li> </ul> <p><b>Blue Circle</b> Under Construction/Complete</p> <p><b>Green Circle</b> DA Approved / Confirmed / Site Works</p> <p><b>Red Circle</b> Mooted / Early Feasibility</p> <p>NB. Dates are Knight Frank Research estimates<br/>             Includes select major office supply (NLA quoted)<br/>             Major tenant precommitment in [brackets] next to NLA<br/>             # Major refurbishment<br/>             ^ Part of Parramatta Square project<br/>             † comprises Heads of Agreement commitment</p> |
|--|---|

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Chile

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Abu Dhabi, UAE

**Knight Frank Research****Nick Hoskins**

Associate Director – NSW Research  
+61 2 9036 6766  
Nick.Hoskins@au.knightfrank.com

**Matt Whitby**

National Director  
Head of Research and Consulting  
+61 2 9036 6616  
Matt.Whitby@au.knightfrank.com

**Knight Frank Valuations****David Castles**

State Director, Knight Frank Valuations  
+61 2 9036 6648  
David.Castles@au.knightfrank.com

**Adam Elias**

Associate Director, Knight Frank Valuations  
+61 2 9036 6771  
Adam.Elias@au.knightfrank.com

**Tim Miles**

Associate Director, Knight Frank Valuations  
+61 2 9036 6701  
Tim.Miles@au.knightfrank.com

**Commercial Agency****Wally Scales**

Director, Metropolitan Sales & Leasing  
+61 2 9761 1813  
Wally.Scales@au.knightfrank.com

**Derek Erwin**

Managing Director, West Sydney  
+61 2 9791 1836  
Derek.Erwin@au.knightfrank.com

**James Parry**

Managing Director  
Capital Markets Australia  
+61 2 9036 6758  
James.Parry@au.knightfrank.com

**Richard Horne**

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

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