



# PARRAMATTA

## OFFICE MARKET BRIEF MARCH 2020

### Key Facts

**Over 216,000 sq m of stock is currently under construction, of which 60% has been pre-committed.**

The prime market vacancy rate remains one of the lowest in the country **measuring 0.4% as at January 2020.**



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At the time of writing this report, increased uncertainty in relation to the outbreak of Coronavirus (COVID-19) presents significant and evolving downside risks to the global economy that are impacting assumptions to short-term outlooks.

### Unprecedented level of investment in 2019

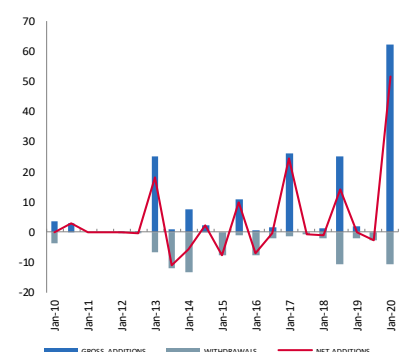
The Parramatta CBD office market is in the midst of major transition, as significant private sector investment coincides with a record level of State Government infrastructure investment to help strengthen the city's position as an emerging CBD centre with a vibrant and culturally diverse landscape.

The Sydney Metro West project was announced late 2019. The project will provide greater and more rapid connectivity to the Sydney CBD and surrounding suburbs. While acquisitions of several sites have begun and construction is planned to commence shortly, the impact of COVID-19 may delay target completion dates. Additionally, works have been advancing on Stage 1 of the Parramatta Light Rail project and the additional stages of the \$2.7 billion Parramatta Square urban renewal project.

### New development driving prime office demand

The flow-on effects as a result of the significant developments and investment have buoyed tenant demand for prime quality floor space in 2019, with the vacancy rate now the lowest nationally. It is estimated that 60% of the c216,000 sq m under construction has lease pre-commitments. Whilst demand was strong in 2019, evolving economic conditions may impact on office-based employment and see demand slow in the short-term due to the spill-over effects from a weaker economic climate.

FIGURE 1  
**Parramatta office Supply**  
Per six month period (000' sq m)



Source: Knight Frank Research/PCA

## Vacancy remains tight

The completion of PSQ4 in late 2019 was the only new addition in 2019, adding 63,000 sq m to the market, 98% pre-committed to NSW Government. With NSW Government consolidating into PSQ4 from multiple locations, including within Parramatta, this has left some backfill vacancy in the secondary market. As a result there has been a slight uptick in overall vacancy from 3.0% to 3.2% in the 12 months to January 2020. By grade, the prime market vacancy rate remains one of the lowest in the country measuring 0.4% as at January 2020, while secondary vacancy increased by 30bps to 5.2% over the last 12 months.

## New metro works imminent

The impending compulsory acquisitions of various sites for the Sydney Metro West project may see tenant displacement in mainly C and D grade office space from mid 2021. This may potentially lead to an uptick in tenant demand for secondary space from these displaced tenants and place downward pressure on secondary vacancy levels, which are already running well below the historical average. However, timing in the short-term may be impacted by the ongoing climate of uncertainty.

## Positive rental growth

The low vacancy rate in Parramatta, in conjunction with limited availability in the

prime market and the unprecedented levels of investment into the Parramatta CBD, continued to buoy face rental growth in both the prime and secondary markets in 2019.

In the 12 months to January 2020, average gross face rents reached \$707/sq m (\$588/sq m net), up 5.8% YoY above the 10-year average of 4.9%. Prime incentives have remained steady over the period to average around 18%, resulting in gross effective rental growth of 7.1% YoY (\$601/sq m).

In the secondary market, rental growth has been more subdued following growth rates outpacing the prime market in 2018 and early 2019. In the 12 months to January 2020, secondary gross rents have increased by 2.7% to \$592/sq m (\$476/sq m net). Similar to the prime market, secondary incentives have remained steady at 19.4%.

## Parramatta Square development taking shape

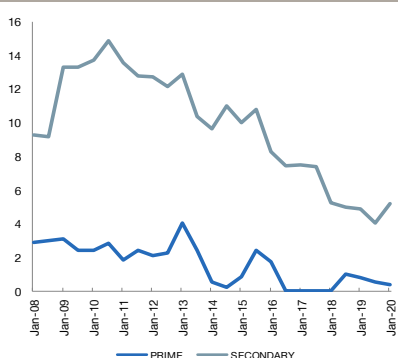
Walker Corporation's PSQ4 is now complete occupied by NSW Government across 65,000 sq m of premium office space. The next stage, 3PSQ, is due for practical completion in the coming months. The project will add a further 43,000 sq m to the market, which is predominately pre-committed to NAB.

The final and largest stage of the development, PSQ6&8 has commenced construction. It will provide 120,000 sq m of premium grade office space and is the largest office tower under construction in the country. Due for completion in two years time, this stage has already achieved a 60% pre-commitment rate. Property NSW committed to 43,800 sq m for its "Hub 2", whilst Link Market Services has secured c20,000 sq m to consolidate their current Rhodes and Sydney CBD offices, and Westpac have recently secured c10,000 sq m in the development.

Outside Parramatta Square, GPT's 32 Smith Street is on track for completion, for January 2021. QBE will relocate and consolidate from 60 Station and Sydney Olympic Park into the new development across c13,000 sq m. More recently Coleman Greig Lawyers, secured 1,355 sq m and will relocate from 100 George Street. Charter Hall's partnered development with WSU at 2-6 Hassall Street (27,000 sq m) is also underway. The project, will create a new Engineering Innovation Hub, is 40% pre-committed to UNSW and WSU

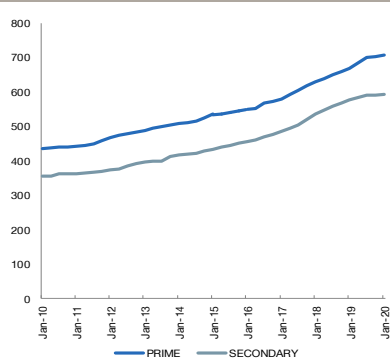
The recent level of public and private investment will benefit Parramatta significantly in the future as a place to both live and work and will continue to attract strong interest from both domestic and offshore investors as a safe investment option among Australian office markets.

FIGURE 2  
Parramatta Vacancy  
Total vacancy by grade (%)



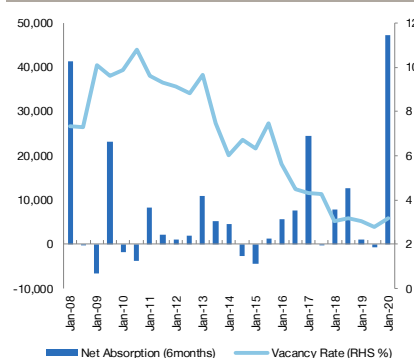
Source: Knight Frank Research/PCA

FIGURE 3  
Average Gross Face Rent  
Parramatta (\$/sq m)



Source: Knight Frank Research

FIGURE 4  
Net Absorption and Vacancy  
Per six month period (000's, %)



Source: Knight Frank Research/PCA

TABLE 1  
Parramatta Office Market Indicators as at January 2020

Grade	Total Stock (sq m)	Vacancy Rate (%)	Six Month Net Absorption (sq m)	Annual Net Additions (sq m)	Average Gross Face Rent (\$/sq m)	Outgoings (\$/sq m)	Average Net Incentive (%)	Average Core Market Yield (%) <sup>^</sup>
Prime	326,113	0.4	62,301	62,174	707	119	18.0	5.25 - 5.75
Secondary	394,930	4.5	-15,100	-13,300	592	116	19.4	5.50 - 6.00
<b>Total</b>	<b>768,421</b>	<b>3.2</b>	<b>47,201</b>	<b>51,646</b>				

2 Source: Knight Frank Research/PCA

<sup>^</sup> Based on an assumed 5 year WALE

## New capital chases long-term growth potential

By the end of 2019 it was clear that Parramatta's status as a desired location for investment had reached a new high following a surge of new capital inflows into the market. Investment volumes for 2019 reached \$746 million. This is a rise of 51% on 2018 and double the 10-year average of \$353 million.

Investor appetite has been diverse, with institutional investors competing with private, mostly offshore investors, to re-weight portfolios to include Parramatta office assets and strategically position their balance sheets to take advantage of the underlying long-term growth potential. This sentiment has not only led to a record deal volume in 2019, it has also seen yields compress to their lowest ever level.

## Investment reflects long-term support for Sydney's west

As part of a strategy to fund its development pipeline, Brookfield Office Properties sold down a series of assets nationally, including the largest office tower in Parramatta, Jessie Street Centre. The tower, which comprises 53,900 sq m, was acquired by sovereign wealth fund, GIC, in a joint venture with Charter Hall for

\$420 million. The sale price represented a core market yield of 6.50% and a WALE of 3.9 years. The acquisition increases their exposure and suggests that there are long-term positive views surrounding the planned infrastructure enhancements and the potential for long-term income growth in Parramatta.

## Privates and REITs compete to increase market exposure

2019 was a record year for Parramatta as investors sought to gain exposure to the precinct as it undergoes transformation on all fronts. The depth of the buyer pool expanded last year to include several new entrants, mostly private offshore funds, due to the availability of assets in the sub \$100 million segment. Private buyers, both domestic and offshore, have traditionally accounted for about 9% of asset sales in Parramatta over the last decade but last year this rose to nearly 30%.

## Market sees further yield compression

Assets continued to trade below historical yield trends in 2019, reflective of the strong rental growth profile in conjunction with its relative yield value to the Sydney CBD market. Additionally, the unprecedented private and public sector investment in Parramatta, which is improving

connectivity to other strategic centres, continued to reinforce investor confidence to increase market exposure last year.

The ongoing appetite for core and core plus assets has driven further yield compression during the last 12 months across prime and secondary grade asset classes. Average prime yields compressed 29 bps to average between 5.25-5.65% and average secondary yields compressed 32 bps to range between 5.45-6.00% over the 12 months to January 2020. The rate of yield compression in the secondary market continued to outpace the prime market, indicative of secondary assets trading with future redevelopment potential and rental reversion upside.

## Prime and Secondary yield spread narrows to record level

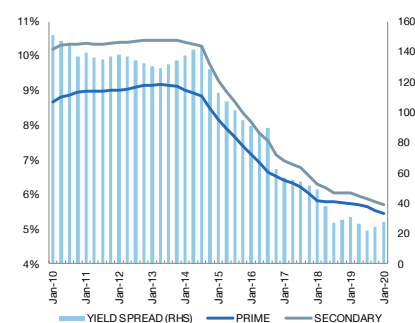
The high level of transactions in 2019 and the depth of the buyer pool has caused a tightening of the yield spread between the prime and secondary market. The growing interest in investing in Parramatta, underpinned by the strong occupational trends and compelling infrastructure enhancements, has reinforced this trend.

TABLE 2  
Recent Leasing Activity Parramatta

Address	NLA (m <sup>2</sup> )	Face Rental (\$/m <sup>2</sup> )	Term yrs	Lease Type	Tenant	Lease start date
32 Smith Street	13,600	655n	10	Pre-comm	QBE	Dec-20
4PSQ	448	620n	5	Pre-comm	GT Insurance	Dec-19
4PSQ	200	630n	5	New	MTAA Super	Feb-20
1 Charles Street	32,356	596	25	Renewal	NSW Police	Jan-20
20 Smith Street	1,345	475n	3	New	GHD Services	Jan-20

Source: Knight Frank Research n refers net g refers gross

FIGURE 5  
Average Core Market Yields  
Parramatta Yield (LHS) and Spread bps (RHS)



Source: Knight Frank Research

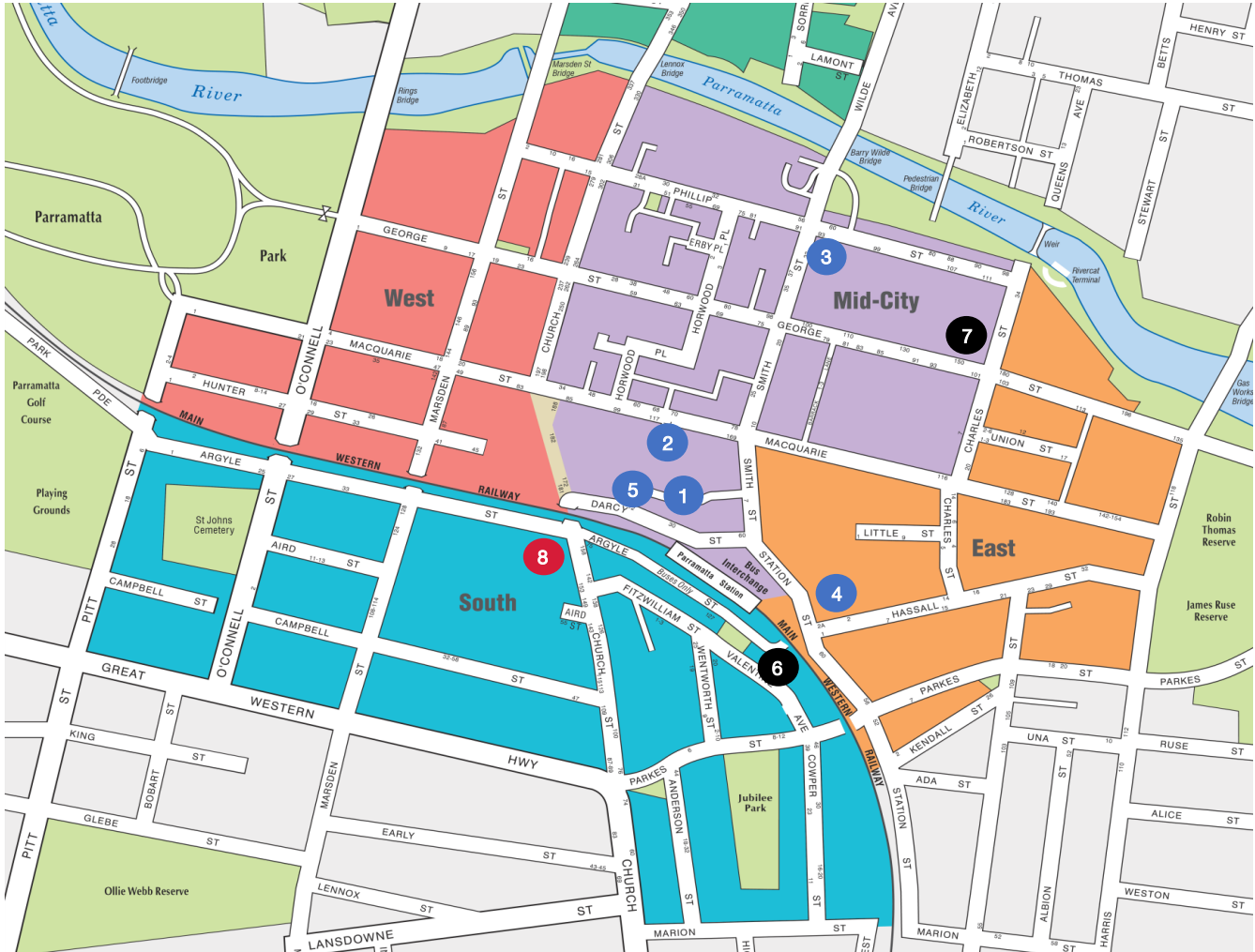
TABLE 3  
Recent Sales Activity Parramatta (\$10m+)

Address	Price (\$ mil)	Reported Mkt Yield (%)	NLA (sq m)	\$/sq m NLA	WALE (yrs)	Vendor	Purchaser	Sale Date
2-10 Wentworth Street	105.3	5.60%	10,940	9,625	4.1	Centuria Property Funds	SC Capital	Dec-19
9 Wentworth Street	64.3	5.60%	7,650	8,399	3.5	Charter Hall <sup>1</sup>	Private	Nov-19
1-3 Fitzwilliam Street	80.0	5.60%	9,673	8,270	2.9	Raffles Education	Wentruith Pty Ltd	Nov-19
80 George Street	82.4	5.15%	8,093	10,179	3.7	Private	Private	Oct-19
2-12 Macquarie Street	415.0	6.50%	53,903	7,699	4.2	Brookfield	GIC JV Charter Hall	Sep-19

<sup>3</sup> Source: Knight Frank Research

<sup>1</sup> Charter Hall Direct PFA Fund

# MAJOR OFFICE SUPPLY



Source of map: Knight Frank

- 1** Parramatta Sq. Stage 4<sup>^</sup> - 65,000m<sup>2</sup> [NSW Government]  
Walker Corporation - Complete
- 2** Parramatta Square Stage 3<sup>^</sup> - 43,000m<sup>2</sup> [NAB]  
Walker Corporation - H2 2020
- 3** 32 Smith St - 26,000m<sup>2</sup> - [QBE -51%]  
GPT - H2 2020
- 4** 2-6 Hassall Street - 27,000m<sup>2</sup> [UNSW & WSU]  
Charter Hall - Q3 2021
- 5** Parramatta Sq. Stage 6&8<sup>^</sup> - 120,000m<sup>2</sup> [NSW Government]  
Walker Corporation - 2022
- 6** 2-10 Valentine Street - 28,000m<sup>2</sup>  
Australian Unity - 2023+
- 7** 140 George Street - 45,000m<sup>2</sup>  
Dexus -2023+
- 8** Westfield, 159 Church St - 112,000m<sup>2</sup>  
Scentre Group - 2023+

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

NB: Dates are Knight Frank Research estimates  
Includes select major office supply (NLA quoted)  
Major tenant pre-commitment in [brackets] next to NLA  
<sup>\*</sup> Part of Parramatta Square project



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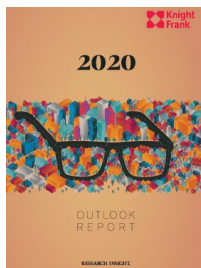
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