- *Record development and investment*
- *Second largest CBD in NSW*
- *Increased prime vacancy presents opportunity for tenants*

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Parramatta Office Market

Market Report, March 2023

RECORD PRIVATE AND PUBLIC SECTOR DEVELOPMENT

2%
Rental growth over the year

72,550 sqm
of net additions over 12 months

33%
Increase in office stock base over four years

"Tenants now have a credible range of options that weren't previously available and existing occupiers now have the ability to upgrade their premises."

The Key Insights

Unprecedented private and public investment is strengthening Parramatta's position as a CBD centre with a vibrant and culturally diverse landscape.

Parramatta CBD is the second largest CBD in NSW by office stock size.

Parramatta prime grade vacancy rate sits at 17.8%, which presents an opportunity for new market entrants following an extended period of limited options.

With higher debt costs, yields have continued to soften in both the prime and secondary markets.

Parramatta CBD Office Market Indicators —January 2023

GRADE	TOTAL STOCK SQM	VACANCY RATE %	ANNUAL NET ABSORPTION SQM	ANNUAL NET ADDITIONS SQM	AVERAGE NET FACE RENT $/ SQM	INCENTIVE %	NET EFFECTIVE RENTAL GROWTH % YOY	CORE MARKET YIELD %*
Prime	549,408	18.0	60,704	73,000	600	33	-5.7	5.50-6.25
Secondary	410,410	18.3	-40,181	-450	494	35	-8.4	5.75-6.50
Total	**959,818**	**18.1**	**20,523**	**72,550**				

Source: Knight Frank Research/PCA *assuming WALE 5.0 years

NEW DEVELOPMENT RESHAPES PARRAMATTA

Parramatta second largest CBD in NSW

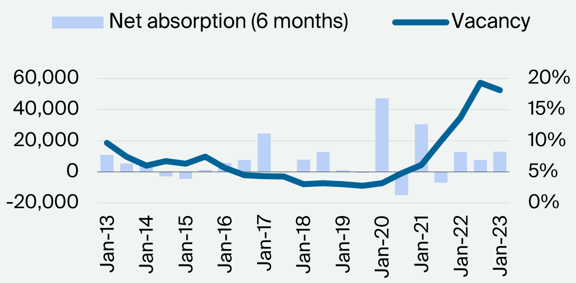
The Parramatta CBD office market is in the midst of major transition, as significant private sector investment coincides with a record level of State Government infrastructure investment to help strengthen the city's position as an emerging CBD centre with a vibrant and culturally diverse landscape. Over the last four years the office stock base has grown by an unprecedented 33% to now total 959,818sqm making it the second largest CBD in NSW. Furthermore, prime stock accounts for 57% of the total stock base, up from 45% two years prior.

Leading the transformation is Walker Corporation's Parramatta Square $2.8 billion development, which has added over 320,000 sqm of prime office space over the last three years. Over the last 18 months PSQ6 (71,000sqm) and PSQ8 (53,000sqm) were completed which marked the completion of the major development. Across the two towers, the commitment rate is c80% with major tenants including Property NSW, ATO, Endeavour Energy, Link Market Services, Westpac and Deloitte.

Outside of Parramatta Square, Charter Hall's partnered development with WSU at 6 Hassall Street (28,722 sqm) is now over c70% committed, anchored by UNSW and WSU, with HCF, Adecco and Hitachi Constructions also taking full floors in the building. Additionally, Holdmark Property's boutique development at 85 Macquarie Street (8,899 sqm) is currently under construction and due for completion by mid year, the building is anchored by Commonwealth Bank of Australia and remaining space will offer efficient floor plates of approx. 900 sqm.

Parramatta vacancy and net absorption

sqm, %



Source: Knight Frank Research, PCA

In terms of infrastructure investment, stage 1 of the Parramatta light rail project is underway and expected to open in 2024. Construction for the Sydney Metro West project is also underway with completion anticipated around 2030.

Available prime space presents opportunity for occupiers seeking new or upgraded space

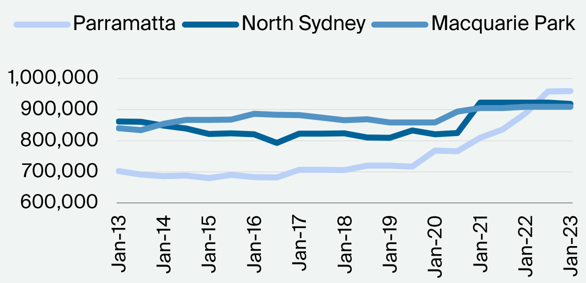
Parramatta vacancy has decreased slightly to 18.1% in the six months to January 2023, down from its record high of 19.3%. Whilst tenant activity has been positive with absorption levels of 12,985sqm recorded over the second half of 2022, the significant influx of new supply over the last two years has been the catalyst for the record high rates. With the current development cycle near over and the next wave of significant development not expected until at least 2025 the market is well placed to absorb the current levels of stock.

The increase in available stock has been prevalent in the prime market, which for the past decade has been near non-existent. Prime vacancy now sits at 17.8% as at January 2023. This increase now presents opportunity in a market that has been constrained for quality prime grade stock. New tenants now have a credible range of options that weren't previously available and existing occupiers have the option to upgrade their premises.

In the secondary market vacancy edged higher to 18.3% in the six months to January 2023, up from 17.2% following negative absorption of 2,891sqm. With more available prime space in the market and owners competing for tenants; the flight to quality trend will likely be more pronounced and see secondary grade owners potentially invest in refurbishing and upgrading these older assets.

Total office stock in major metro markets

sqm



Source: Knight Frank Research, PCA

CONSTRAINED INVESTMENT ACTIVITY

Rising incentives put downward pressure on net effective rents

The significant influx of new supply in 2022 not only piled on vacancy pressure but also increased the competition amongst prime assets, with landlords all competing for a select pool of occupiers. Parramatta's average prime net face rent increased slightly by 2% in the 12 months to January 2023 to measure $600/sqm ($725/sqm gross face). As for the secondary market, face rents increased by 3.7% over the same period to average $494/sqm ($631/sqm gross face).

Unsurprisingly, given the increasing availability of stock on the market, landlords have pushed incentives to retain and attract tenants. Average prime incentive increased from 30% to 32.5% over the second half of 2022. This resulted in net effective rents declining by 5.7% over the year to average $405/sqm. Similarly, secondary incentives climbed to 35%, up from 32.5% over the same period, resulting in net effective rents dipping by 8.4% to average of $273/sqm.

Decade-low investment volumes in 2022

Parramatta has historically been a thinly traded market, more so now as owners look to hold assets for the longer term given the significant private and public sector investment that is playing out in the market.

Investment volumes in 2022 hit a decade-low with $136.9 million transacting across two assets. 20 Smith Street was offloaded by Australian Unity the building for $87.2 million mid 2022. The sale reflected a core market yield of 5.0% on a 1.5 year WALE. While the building comes with some leasing risk with a 1.5 year WALE, it enables the purchaser the chance to reposition the asset and seek rental uplift. Secondly, exchanging in late 2022, 9 George Street was acquired by a domestic private investor for $49.6 million.

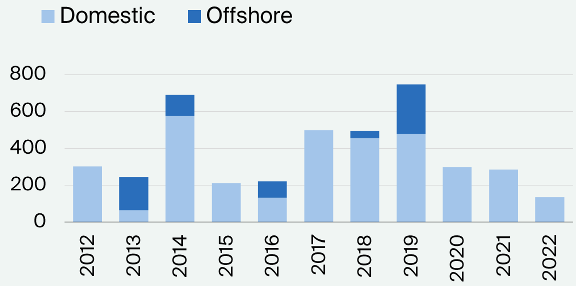
Yields continue to soften

Investors entering Parramatta understand the long term play, as the market is supported by long-term government strategic investment. The new quality stock and infrastructure improvement further strengthen Parramatta's profile as an appealing investment destination for both onshore and offshore investors.

The solid demand fundamentals in Parramatta are recognised by private and institutional investors and thus are eager to compete for any scare purchasing opportunities that become available in this tightly held market. In addition, the prime yield arbitrage between Parramatta and Sydney CBD stands at 113bps, offering an attractive pricing spread for investors.

As a result of higher funding costs, yields have continued to soften on both prime and secondary markets. Over the six months to January 2023, average prime and secondary yields shifted by 31bps to 5.88% and 21bps to 6.33% respectively. The softening trend is anticipated to continue in 2023 with further rates rises likely over the first half 2023.

Parramatta office sales $10m+
By Purchaser($m), Domestic v Offshore



Source: Knight Frank Research

Recent significant sales

PROPERTY	PRICE $M	CORE MARKET YIELD %	NLA SQM	$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
9 George Street	49.6	6.16*	5,479	9,058	2.8	Private	City of Brisbane Investment Corp	Dec-22^
20 Smith St	87.2	4.96	7,353	11,866	1.5	Smith Street Consolidated	Australian Unity	May-22
32 Phillip Street	66.0	5.34	6,759	9,765	1.7	LC Partners	Australian Unity Fund	Dec-21

*Fully Leased yield ^Exchanged in December 2022 with Settlement February 2023

Parramatta major office supply

Address	Area (sqm)	Developer	Major Tenants	Commitment Rate (%)	Stage	Est. Date of Compl
32 Smith Street	26,500	GPT	QBE, Coleman Greig	75%	Complete	H1 2021
6 Hassall Street	28,722	Charter Hall/ WSU	UNSW, WSU, Pepper, CBHS	70%	Complete	H2 2021
PSQ6	53,000	Walker Corp	NSW Govt, Link Marketing	100%	Complete	H2 2021
PSQ8	71,000	Walker Corp	Westpac, Deloitte, Regus	60%	Complete	H1 2022
85 Macquarie Street	8,900	Holdmark	CBA	50%	U/C	H1 2023
150 George Street#	21,964	Mintus	-	-	Refurbishment	H1 2023
140 George Street	43,800	Mintus	-	-	DA Approved	2025+
2 Valentine Street	28,000	Australian Unity	-	-	DA Approved	2025+
87-91 George Street	84,000	GPT	-	-	DA Approved	2025+
110 George Street	53,000	RF Corval/ Longbow	-	-	DA Approved	2025+

Backfill space from relocation of CBA.

Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	FACE RENT $/ SQM (n)	TERM YRS	START DATE
KPMG~	3 Parramatta Square	3,000	U/D	U/D	Q3-23
ATO~	6 Parramatta Square	17,551	U/D	U/D	Q2-23
Gamuda~	60 Station Street	2,646	595	5	Q3-22
Procare Group~	18 Smith Street	286	560	3	Q3-22
CBHS Health~	6 Hassall Street	1,534	630	U/D	Q3-22
Pepper Money~	6 Hassall Street	1,534	630	U/D	Q3-22
JLL~	32 Smith Street	1,042	660	8	Q2-22
Department of Home	101 George Street	13,974	U/D	10	Q2-22

Pre-commitment ^ Renewal ~Direct *Sublease

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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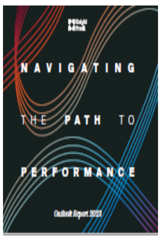
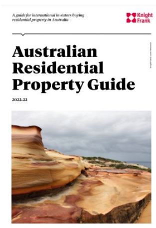


Outlook Report 2022



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