

PARRAMATTA

OFFICE MARKET BRIEF SEPTEMBER 2016

Key Facts

Total vacancy measured 4.5%, while prime vacancy was 0.0%, the lowest prime vacancy rate across all Sydney office markets as at July 2016.

The construction of Stage 1 Parramatta Square is just months from completion, with WSU committing 100% (26,000m²) to the site (and PwC subleasing one floor).

Prime annual face rental growth measured 5.2% year on year, while growth in secondary measured 4.1% year on year as at July 2016.

Prime yields have firmed 103 bps over the year to July 2016, while secondary yields have firmed 114 bps.



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Investment activity has increased, with the most recent prime building (18 Smith Street) most recently selling in August for \$84.8 million. Prime stock is now full, with vacancy compressing 240 bps in the 12 months to July 2016. Tenants seeking prime space must now look to refurbished secondary assets.

Development Activity

New developments in Parramatta have been constrained since the completion of the last significant project, Eclipse in 2012 (25,728m²). However, 26,000m² of office space will reach completion in late 2016, namely the first stage of Parramatta Square (1PSQ). Western Sydney University (WSU) has pre-committed to the entire building, with PricewaterhouseCoopers (PwC) recently subleasing one floor (2,500m²), relocating its existing 'Private Clients' Norwest business from Baulkham Hills. 1PSQ is owned by two of Charter Hall's managed funds and is being developed by Charter Hall and constructed by John Holland.

The generation of new supply expected in the short-term is largely underpinned by Parramatta Square in late 2016, as well as DEXUS' 105 Phillip Street site (25,000m²) in 2018, where the NSW Department of Education has pre-committed to 100% of the building (decentralising from Sydney CBD). Further developments, including Parramatta Square Stages 3, 4 and 6,

Westfield and 127 Argyle Street are expected over the next five years (refer to Development Map), largely dependent on tenant pre-commitments.

Infrastructure development across the Greater Western Sydney market is beginning to gather traction, facilitating the additional significant population, jobs and dwellings growth expected from the Parramatta Road Urban Transformation Program. Construction for the Parramatta Light Rail is expected to commence in 2018 and take four years to complete, while the WestConnex is expected to reach completion in 2019.

The Sydney Metro Northwest (formally known as the North West Rail Link) will deliver eight new railway stations and 4,000 commuter car parking spaces to North West Sydney. A new line between the Sydney CBD and Parramatta, named Sydney West Metro Link, is currently in the very early stages of planning, which will provide a direct service between the dual CBDs. The Metro line is anticipated to initially join Parramatta to the Sydney CBD via potential

routes of Olympic Park, Strathfield and the Bays Precinct in Rozelle, where the large urban regeneration project White Bay Power Station will soon be developed. Further expansions to the line may see it extend further west to Sydney's future second airport, Badgery's Creek, as well as to the south-east to Maroubra.

Three major construction firms have been short-listed to build the new Western Sydney Stadium, set to replace the current Pirtek Stadium in Parramatta. The new stadium is expected to hold 30,000 seats, almost 10,000 more than the current stadium which opened in 1987. The venue will solidify Western Sydney as a national sporting and entertainment hub.

Draft zoning and planning control amendments have been put forward by the City of Parramatta Council in response to the impending strong population, jobs and dwellings growth expected in the Parramatta and Western Sydney region. The primary purpose of the current draft plan is to provide for an expanded and protected commercial core while also increasing higher density mixed use sites with respect to overshadowing regulations. It is expected that the

changes will provide capacity for an additional 48,760 jobs and 20,300 dwellings.

Walker Corporation is appointed as developer for three of the largest development stages of the Parramatta Square development. The first comprises the Aspire residential tower. The second, collectively known as Stages 4 and 6, will comprise approximately 110,000m² of office space across two proposed commercial towers (in addition to a retail podium) which are yet to be approved. The third, known as Stage 3 at 153 Macquarie Street, is a proposed 35,000m², 16 level A-grade office tower with additional retail and childcare facilities. A formal development application still needs to be approved for construction to commence.

Net Absorption & Vacancy

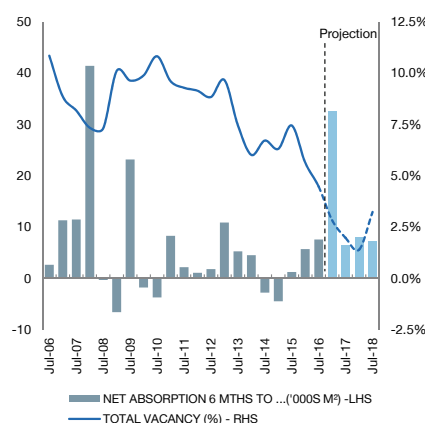
The overall vacancy rate as at July 2016 decreased by 290 bps to measure 4.5% (vs 7.4% as at July 2015), substantially below the 10 year average of 8.3%. Split by grade, vacancy rates have decreased by 240 bps to 0.0% for prime and 340

bps to 7.4% for secondary since July 2015. With prime office stock fully occupied, vacancy is undoubtedly trending below the 10 year average of 3.0%. Parramatta's prime vacancy rate (at 0.0%) is also the lowest of suburban markets in Sydney—with Crows Nest/St Leonards and Sydney CBD behind at 2.9% and 4.0% respectively.

Leasing activity in the prime market is currently constrained by a total lack of vacant space. The secondary market has experienced heightened leasing activity over the 12 months to July 2016, with occupied space increasing by 14,398m².

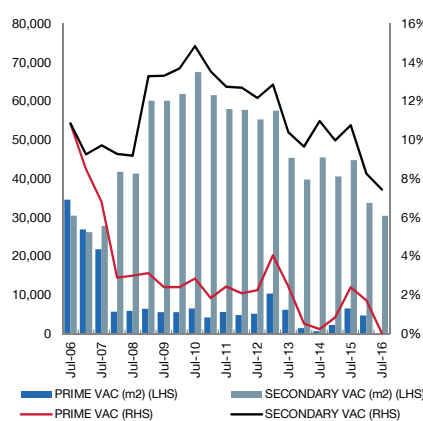
The low vacancy rate in Parramatta is evidence of strong tenant demand, coupled with limited churn space available. Another of the "big four" accounting firms is reportedly seeking space within the Parramatta precinct, with current refurbished B-grade stock the current sole option (notwithstanding pre-lease options at the Parramatta Square development). Engineering groups are also reportedly seeking space within the precinct, in order to reside within close proximity of the large infrastructure developments occurring over the coming

FIGURE 1
Net Absorption and Vacancy
Per six month period ('000's, %)



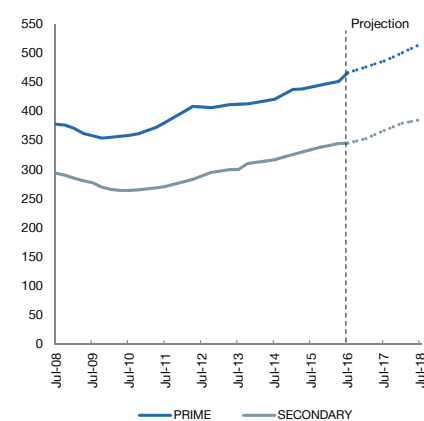
Source: Knight Frank Research/PCA

FIGURE 2
Parramatta Vacancy
Total vacancy by grade (m², %)



Source: Knight Frank Research/PCA

FIGURE 3
Average Gross Effective Rent
Parramatta (\$/m²)



Source: Knight Frank Research

TABLE 1
Parramatta Office Market Indicators as at July 2016

Grade	Total Stock (m ²) [^]	Vacancy Rate (%) [^]	Annual Net Absorption (m ²) [^]	Annual Net Additions (m ²) [^]	Average Gross Face Rent (\$/m ²)	Outgoings (\$/m ²)	Average Net Incentive (%)	Average Core Market Yield (%)
Prime	273,617	0.0	6,503	0	559	111	20.0 - 22.5	6.50 - 7.00*
Secondary	408,852	7.4	6,794	-7,640	460	115	20.0 - 25.0	7.25 - 8.00
Total	682,469	4.5	13,297	-7,640				

Source: Knight Frank Research/PCA

[^] Data as at July 2016

* Upper prime assets with long WALEs are trading below this range (sub 6.50%)

years. NSW Government will also relocate a further 55,000m² to Parramatta over the next five years, anticipated to occupy a future development by either Walker Corporation (Parramatta Square) or Westfield.

Vacancy rates are expected to remain particularly tight over the next two years, with both 1PSQ and 105 Phillip Street in the development pipeline both with pre-committed tenants. The two developments are expected to reach completion in late 2016 and 2018 respectively. WSU and PwC have pre-committed to 1PSQ, while the NSW Department of Education has pre-committed to the entire 105 Phillip Street development—with 1,800 staff relocating from the Sydney CBD.

Rents & Incentives

Parramatta's relative tightness has furthered rental growth in the market. The average prime net face rent measured \$448/m² (\$559/m² gross), reflecting strong annual growth of 5.2% year on year to July 2016. Prime face rentals are expected to grow by an average of 5% per annum over the next two years—in excess of forecast CPI.

Prime net incentives have tightened slightly, currently ranging between 20.0% and 22.5% as at July 2016. Incentives are expected to fall during the 2018 calendar year, to 15% - 20%. The degree of any reduction will partially be offset by the competing, relatively high incentives in other Sydney suburban markets.

The lack of available prime grade office stock has driven tenants to secondary grade space to satisfy their tenancy needs. Refurbished assets of both lower

TABLE 2

Recent Leasing Activity Parramatta

Address	NLA (m ²)	Face Rental (\$/m ²)	Term yrs	Lease Type	Tenant	Date
105 Phillip St	25,000	545n	10	Pre-com	Department of Education	Mar-18
One Parramatta Sq.	26,500	540n	15	Pre-com	WSU	Dec-16
80 George St	1,025	395n	5	Renewal	Westpac	Oct-16
80 George St	280	410n	5	New	Ray White	Jul-16
56 Station St	1,509	385n	7	New	Australian Unity	Jun-16
18 Smith St	277	420n	6.5	New	Pepper Australia	Apr-16

Source: Knight Frank Research n refers net

A-grade and upper B-grade continue to attract the greatest demand for tenants. For the medium term, it will be these refurbished spaces that attract the highest demand until the upcoming prime developments in the pipeline begin to reach completion. Secondary net face rents averaged \$345/m² (\$460/m² gross) - a strong annual increase of 4.1% year on year as at July 2016. Secondary incentives have contracted slightly, with moderate downward pressure expected over the next two years.

Investment Activity & Yields

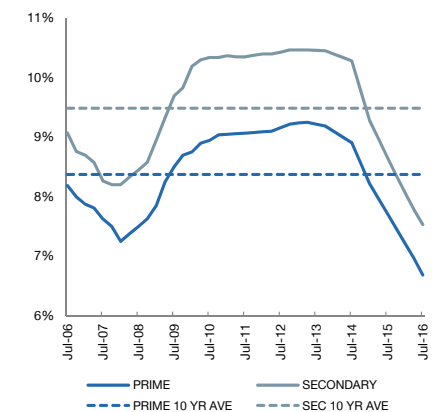
Investment sales over the past 12 months (to September 2016) amounted to \$243.5 million, less than the \$572.4 million recorded in the 12 months to September 2015. Sales activity in the Parramatta region has remained relatively stable over the past 12 months, with a total of five properties transacting (\$5 million+). The most recent transaction, an A-grade building at 18 Smith Street, sold in

August 2016, achieving a sale price of \$84.8 million and core market yield of circa 6.75% for the former Century Centre.

Investor demand still remains high, with significant assets attracting considerable interest when coming to market, despite the bulk of significant assets trading over

FIGURE 4

Average Core Market Yields Parramatta (%)



Source: Knight Frank Research

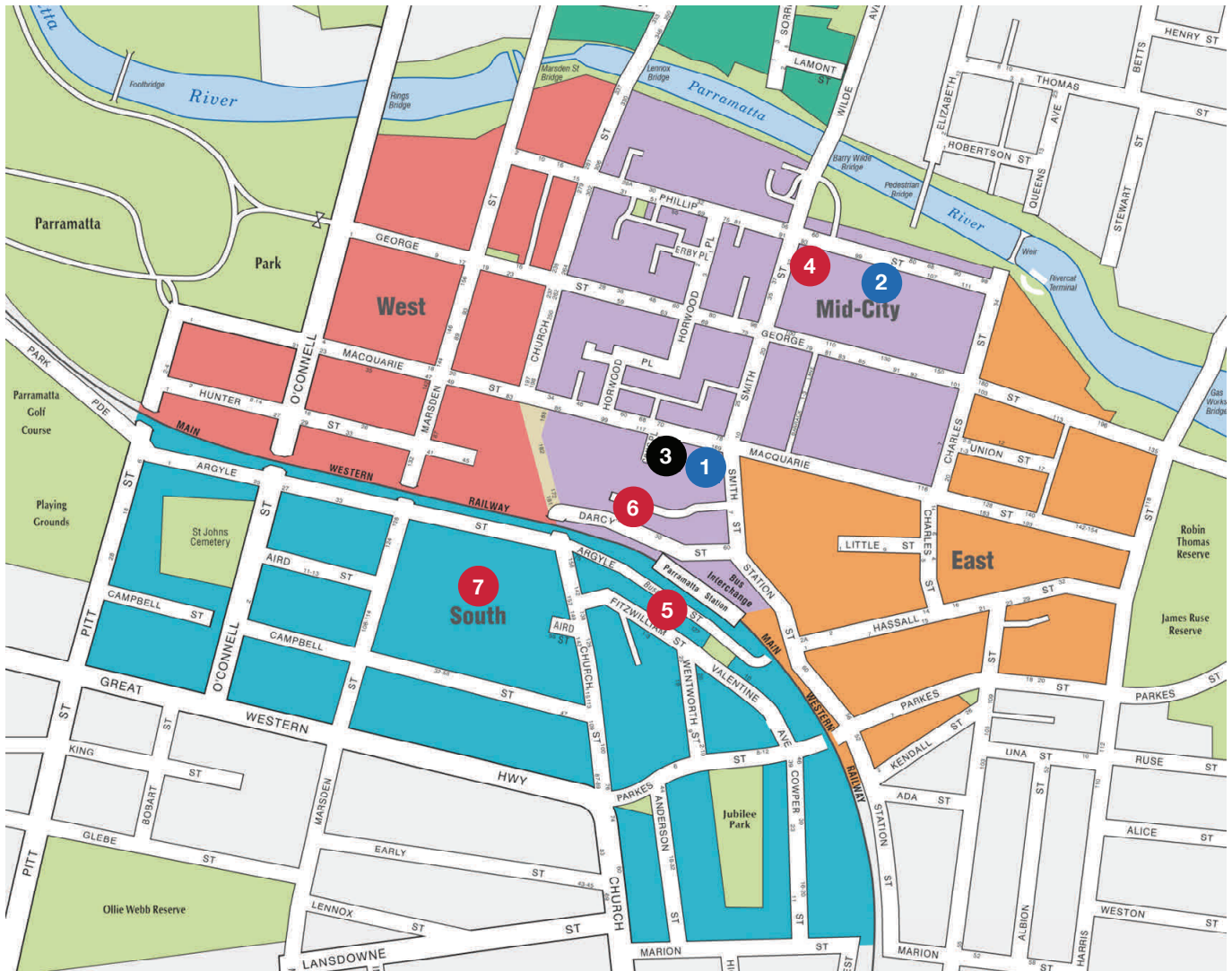
TABLE 3

Recent Sales Activity Parramatta

Address	Price (\$ mil)	Core Mkt Yield (%)	NLA (m ²)	\$/m ² NLA	WALE (yrs)	Vendor	Purchaser	Sale Date
18 Smith St	84.8	c.6.75	12,069	7,022	3.7	Altis Property	Eureka Funds Management	Aug-16
126 Church St	42.0	8.30	9,809	4,284	2.2	Gemnoll Pty Ltd	Marprop	May-16
9 Wentworth St	42.2	6.90	7,682	5,495	6.5	PFA Diversified Property Trust (Charter Hall)	Charter Hall Office Trust	Mar-16
93 George St	37.2	8.50	7,127	5,234	2.9	Marprop	Rathdrum	Oct-15
17-21 Macquarie St	18.8	8.10	4,718	3,975	2.1	Caleven Property	Lederer Group	Sep-15
20 Charles St	31.1	7.90	6,364	4,871	2.9	Global Three	Rathdrum	Jul-15

Source: Knight Frank Research

MAJOR OFFICE SUPPLY



Source of map: Knight Frank

- 1** 1PSQ, 169 Macquarie St[^] - 26,000m² [WSU & PwC]
Charter Hall - late 2016 - 100% committed
- 2** 105 Phillip St - 25,000m² [NSW Department of Education]
DEXUS - 2018 - 100% committed
- 3** 153 Macquarie St (Parramatta Square Stage 3)[^] - 35,000m²
City of Parramatta Council (Walker Corporation) - 2019+
- 4** 93 & 95 Phillip St & 32 Smith St - 28,048m²
Salvation Army (NSW) Property Trust - 2019+
- 5** 127 Argyle St & 2 Fitzwilliam St - 16,872m²
Transport for NSW - 2019+
- 6** Parramatta Sq. Stages 4 & 6[^] - 110,000m²
City of Parramatta Council (Walker Corporation) - 2020+
- 7** Westfield, 159 Church St - 35,000m²
Westfield - 2020+

- 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
Major refurbishment
[^] Part of Parramatta Square project



2013 and 2014 including the Justice Precinct, Sydney Water, Eclipse and NSW Police. Currently, the Transport for NSW building (at 127 Argyle Street) and Salvation Army site (at 93 and 95 Phillip Street and 32 Smith Street) are listed on the market, mooted for further office development. Across the past 18 months to September, buying activity has been solely concentrated on sub \$50 million secondary assets in the market—with the exception of the recently sold 18 Smith Street. These properties were purchased primarily by local buyers—unlisted funds, syndicates and private investors.

Average prime and secondary yields across the broader Parramatta market have compressed by a significant 103 bps and 114 bps respectively (or 168 bps and 195 bps below the 10 year average) since July 2015, to now range between 6.50% to 7.00% and 7.25% to 8.00% respectively (assuming a five year WALE). However, if an upper prime asset with a 10 to 15 year WALE came to market, it would trade sub 6.50%.

Outlook

The significant amount of infrastructure development (totaling \$8 billion) directly impacting Parramatta will ease traffic congestion in the coming years to facilitate an upwardly revised population and jobs growth forecast, particularly in

response to the influx from Parramatta Road Urban Transformation Program. Office supply across the Parramatta market is expected to undergo significant rejuvenation over the next five years, as substantial developments reach completion, including 1PSQ at the end of 2016 (26,000m²), 105 Phillip Street in 2018 (25,000m²), Parramatta Square Stage 3 in 2019 (35,000m²) and Stages 4 and 6 in 2020 (110,000m²). Further pre-committments are expected to emerge from both existing Parramatta tenants, displaced suburban tenants, government agencies and some corporate operations decentralising from Sydney CBD.

The increased supply will also be supported with the departure of Commonwealth Bank of Australia (39,891m² across 101 and 150 George Street) to the Australian Technology Park, expected in 2020+, creating some much needed occupier options.

Strong effective rental growth is expected across both the prime and secondary sector over the next two years, supported by a fall in average incentive metrics while vacant space remains minimal. Total vacancy, and particularly prime vacancy, is expected to remain very tight over the next three years, with the next two significant developments both achieving 100% pre-committments (1PSQ and 105 Phillip Street).

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