HIGHLIGHTS

Positive tenant demand amid limited new supply has led to a decline in the Sydney CBD overall vacancy rate from 6.2% in January 2017, to 5.9% in July 2017, 130bps below the 10 year average of 7.2%.

Rising face rents and declined incentives have resulted in prime and secondary gross effective rents in the CBD rising by 10.3% and 16.3% respectively over the year to July 2017.

Investment volumes are expected to pick up this year, with $2.3 billion worth of assets already transacted since the beginning of the year and more than $2.0 billion being in the pipeline.
**KEY FINDINGS**

A total of 201,480m² of existing office stock in the CBD market, largely secondary grade, has been withdrawn in the year to July 2017.

Tenant demand in the Sydney CBD office market continued to gain traction over the past six months with an overall net absorption reading of 22,216m².

The Sydney CBD overall vacancy rate tightened from 6.2% in January 2017 to 5.9% in July 2017, 130bps below the 10-year average of 7.2%.

Sydney CBD’s prime and secondary gross effective rents have increased by 10.3% and 16.3% respectively over the past 12 months.

$2.3 billion worth of commercial buildings in the CBD has transacted over the first eight months of 2017, with at least $2.0 more billion in the pipeline.

Core yields for prime assets in the CBD currently range between 4.50% and 5.50%, while secondary yields measuring between 5.75% and 6.25%.

**SYMBOLS & DEVELOPMENT**

The Sydney CBD is entering a period of significantly constrained supply over the next two years, while vacancy continues to fall below the equilibrium levels.

Stock withdrawals continued to have a significant bearing on the Sydney CBD office market over the past six months, with a total of 75,621m² being withdrawn from the market. Of this amount, 76% or 57,835m² has been withdrawn permanently, with much of this being within the secondary market. Over the year to July 2017, 201,480m² of existing office stock (3.9% of the total stock as at July 2016) has been taken offline for the Sydney Metro construction, residential conversion and redevelopment.

Sizable buildings taken out of the market over the past six months include; 55 Hunter Street (13,622m²) and 175 Castlereagh Street (11,919m²), both are being demolished for the Sydney Metro project, 71-79 Macquarie Street (9,198m²) being converted to residential, and 140 Sussex Street (12,042m²), to be fully refurbished for the Bank of China’s new Sydney headquarters.

On the supply side, 83,534m² of office space was delivered over the past six months. Only 31% of this amount or 26,000m² was new completions, being the Darling Square project, while the rest was backfill supply stemming from 60 Margaret Street (10,003m²—Ex-Mirvac), Wynyard Green at 11-17 York Street (11,227m²—Ex-Navitas), Darling Park Tower 3 (14,823m²—Ex-Marsh), 80-82 Pitt Street (10,523m²—Ex-QBE) and 400 George Street (8,463m²—Ex-Telstra). This has taken the annual net supply to 7,713m², which is about half of the 10-year average of 14,682m².

The majority of the new supply over the past six months has been fully committed prior to or at completion, Darling Square was occupied by the Commonwealth Bank, the refurbished vacancy at 60 Margaret Street has been fully backfilled by ING DIRECT (moving out of 140 Sussex Street) and Wynyard Green has been leased to NSW Government for a new start-up and innovation hub. In addition, the backfill space at Darling Park Tower 3, left by Marsh, has almost been fully leased (86% committed) to various tenants including Avant Mutual and Dimension Data.

Looking forward, new office supply in the Sydney CBD is expected to be significantly constrained in the next two years amid rising stock withdrawals. New office buildings coming to fruition over the near term will include International House Sydney at Barangaroo (6,729m²—100% pre-committed) and Investa’s Barrack Place at 151 Clarence Street (21,000m²—37% pre-committed to ARUP). On the other hand, circa 300,000m² is earmarked for permanent withdrawals over the next 24 months, with the major buildings being 39 Martin Place (14,525m²—Sydney Metro), 35 Bridge Street (12,330m²—hotel), 570 George Street (21,930m²—residential) and 50 Bridge Street (54,980m²—redevelopment).

Over the medium term, the next wave of supply is expected to arrive from 2020 onwards. The proposed new office developments beyond 2020 will include 275 George Street (c.7,000m²—H1 2020), 60 Martin Place (40,000m²—H1 2020), Barangaroo C2 (11,250m²—2020+), Wynyard Place (68,200m²—H2 2020—45% pre-committed by NAB), 210-220 George Street (c.16,000m²—2021), Lendlease’s CQT (55,000m²—H1 2021) and AMP’s QQT (c.90,000m²—H1 2021—40% pre-committed by AMP).

**TABLE 1**

<table>
<thead>
<tr>
<th>Grade</th>
<th>Total Stock (m²)</th>
<th>Vacancy Rate (%)</th>
<th>Annual Net Absorption (m²)</th>
<th>Annual Net Additions (m²)</th>
<th>Average Gross Face Rent ($/m²)</th>
<th>Average Incentive (%)</th>
<th>Average Core Market Yield (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime</td>
<td>2,989,082</td>
<td>5.8</td>
<td>151,840</td>
<td>137,960</td>
<td>1,100—1,300</td>
<td>20.0—27.0</td>
<td>4.50—5.50</td>
</tr>
<tr>
<td>Secondary</td>
<td>2,097,234</td>
<td>5.9</td>
<td>-159,567</td>
<td>-125,616</td>
<td>750—950</td>
<td>17.0—20.0</td>
<td>5.75—6.25</td>
</tr>
<tr>
<td>Total</td>
<td>5,086,316</td>
<td>5.9</td>
<td>-7,727</td>
<td>12,344</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Knight Frank Research/PCA  *Assuming full floor, mid rise, clear space and a 5 year lease
MAJOR OFFICE SUPPLY

Barangaroo T2 - 88,200m² [Westpac/Gilbert + Tobin/St George/BT]
LLITST - Q3 2015 - 84% committed

Barangaroo T3 - 79,221m² [KPMG/Lendlease]
LLITST - Q3 2016 - 79% committed

Barangaroo T1 - 101,571m² [PWC/HSBC/Marsh & McLennan]
LLITST - Q4 2016 - 77% committed

One/Wheat Lane, 161 Sussex St - 6,700m²
ML Hospitality - Q3 2016 - 67% committed

80 Pitt St (ex QBE) - 10,527m²
Yorkbar Ltd - Q1 2017

60 Margaret St (ex Mirvac, Suncorp) - 14,174m² [ING]
Mirvac - H1 2017 - 81% committed

201 Sussex St, DPI# (ex Marsh & McLennan) - 10,343m² [Advan]
GPT (QVDF)/AMP (ACPF)/Brookfield - H1 2017 - 48% committed

International House Sydney (Barangaroo C2) - 7,440m² [Accenture]
LLITST - H1 2017 - 100% committed

259 George St (ex Suncorp) - 20,352m²
Mercoor-Australia - H2 2017

680 George St (ex EY) - 28,033m² [DPNSW]
Brookfield/L’acadia - 2017 - 79% committed

201 Sussex St, DPI# (ex Marsh & McLennan) - 10,343m² [Advan]
GPT (QVDF)/AMP (ACPF)/Brookfield - 2018 - 100% committed

151 Clarence St - 22,000m² [ARUP]
Investa - Q3 2018 - 37% committed

201 & 207 Kent St (ex ARUP)
Cromwell/Investa - Q3 2018

388 George St - 36,151m² [ex AMG]
Investa/Brookfield - H1 2020

275 Kent St (ex Westpac) - 17,976m²
Blackstone/Mirvac - H2 2019

60 Martin Place - 40,000m²
Investa/Gawleyn Group - H1 2020

44 Martin Pl - 9,500m² (ex Henry Davis York)
Gawleyn Group - H2 2020

Wynyard Pl - 68,250m² [NAB]
Brookfield - H1 2020 - 44% committed

275 George St - 6,519m²
John Holland - H1 2020

55 Market St - 22,300m² (ex Westpac)
Mirvac - H1 2020

231 Elizabeth St - 22,864m² (ex Telstra)
Glory Property - H1 2021

320 Pitt St - 29,159m² (ex Telstra)
ARA - H1 2021

2 Market - 18,800m² (ex Allianz)
Allianz/Charter Hall - H1 2021

255 George St - 22,500m² (ex NAB)
AMP - H2 2021

Barangaroo C1 - c. 11,000m²
LLITST - 2019+

Quay Quarter Tower (QQT) - 90,000m²
AMP - H1 2021

Circular Quay Tower (CQT), 182 George & 33 Pitt St - 55,000m²
Lendlease - H2 2021

210-220 George St - 17,000m²
Poly Real Estate - H2 2021

33 Bligh St - 26,000m²
Energy Australia/Investa - Mooted

55 Pitt St - 30,000m²+
Mirvac - 2022+

Darling Park Tower 4 - 70,000m²
GPT/Brookfield/AMP - 2022+

Central Barangaroo - TBC+

Martin Place Metro Station north tower - ex-55 Hunter Street
TBCs - 2024+

Martin Place Metro Station south tower - ex-39 Martin Place
TBCs - 2024+

NB. Dates are Knight Frank Research estimates.
Includes select CBD major office supply (NLA quoted)
Major tenant precommitment in [brackets] next to NLA
LLITST refers Land Lease One International Towers Sydney Trust (50% CPPIB, 25% APF, 15% Land Lease, 10% APG)
LLITST refers Land Lease One International Towers Sydney Trust (37.5% Land Lease, 37.5% QA, 25% APF/Commercial)

1. Major refurbishment/retail
2. Under the current plans, a maximum above-ground GFA of 150,000m² and an unlimited amount underground are allowed. It is uncertain how much of this will be office space as at March 2017.
3. A consortium consisting of Grocon, Scenicare and Aquadale is reportedly the lead contender for development rights.
4. Mirvac Group has submitted an unsolicited proposal for development, which is being considered by the State Government.
Tenants demand in the Sydney CBD market continued to gain traction over the past six months, as evidenced by an overall net absorption reading of 22,216m². This is circa 7% above the 10-year average of 20,737m². Contributing to this strong take-up was the solid leasing activity in the prime market with a total of 102,243m² absorbed over the past six months. Within the prime market, A-Grade space experienced the strongest level of demand, with 66,313m² taken up over the period (65% of the total prime), while Premium-Grade’s absorption measured 35,930m². This is the second highest absorption level in the Prime market in the past decade.

The TAMI (Technology, Advertising, Media and Information) sector was the major driver of leasing activity in the prime market over the past six months. Significant TAMI tenant moves include advertising firm WPP AUNZ taking up 6,463m² at 30 The Bond, 30-34 Hickson Road (Ex-Lendlease) and shared workspace operator, WeWork moving into its new location across 4,295m² at the brand new 333 George Street building, which was fully occupied upon completion. Additionally, fintech software supplier IRESS Market has moved into 3,433m² at 10 Shelly Street, joining Suncorp to bring the recently refurbished building to full occupancy. Other TAMI tenants active in the market include Atlissant, expanding across two additional floors of 2,590m² at 363 George Street and LogMeln, joining Apple at 20 Martin Place across the two top floors of 1,620m².

The Barangaroo International Towers have achieved strong leasing results in recent months, with the latest committed tenants, including; ICBC (4,939m²), Pernod Ricard (2,521m²), Susquehanna International (2,521m²), Morningstar (2,418m²), Ferrier Hodgson (1,400m²) and Coverforce (800m²) in Tower 1 (82% committed), Visa International (2340m²) in Tower 2 (87% committed), the Executive Centre (2,328m²) and various sub-lease tenants in Tower 3 (75% leased). These deals followed the announcement that Baker McKenzie will be relocating into 7,368m² at the International Tower 1 upon their departure from 50 Bridge Street in early 2018.

While the prime market has experienced strong leasing performance, absorption in the secondary market was influenced by stock withdrawals, lack of availability and rising effective rents. As secondary rents continue to rise and the secondary-prime rental spreads narrow, a number of B-Grade tenants with space requirements in the CBD are finding it relatively more affordable to upgrade to the prime market while others are becoming more space efficient to manage rising occupancy costs. Consequently, secondary absorption declined by 80,027m² over the six months to July 2017. This was partly in line with 75,821m² of secondary stock being withdrawn over the same period.

Looking forward, secondary gross absorption is expected to improve over the next 12 months on the back of the recent commitment by the NSW Government taking up the head lease over 17,244m² at the refurbished Wynyard Green building at 11-17 York Street. This lease commitment will be for an innovation and start-up hub to be opened in Q1 2018. Co-working operators Fishburners and Stone & Chalk have pre-committed to 4,269m² and 4,253m² respectively.

On the back of strong absorption and limited new supply, the Sydney CBD overall vacancy rate tightened from 6.2% in January 2017 to 5.9% in July 2017. The current vacancy level is 130bps below the 10 year average of 7.2%, which further tips the balance of power in favour of landlords. With the Barangaroo precinct excluded, the overall vacancy rate in the Sydney CBD was only 4.1% as at July 2017, according to Knight Frank Research.

Tenant activity in the prime market has resulted in a sharp decline in the prime vacancy rate from 7.3% to 5.8% over the past six months. On the other hand, the secondary vacancy rate has edged up from 4.6% to 5.9% over the same period. However, Knight Frank Research believes the secondary vacancy rate is slightly overstated and should track closer to 5.0% once the buildings earmarked for withdrawals over the next 12 months are taken into account. These include 333 Kent Street, 2-10 & 20 Loftus Street, 9-13 & 15-17 Yong Street and 6-8 Underwood Street, among others. Additionally, even though Wynyard Green, 11-17 York Street is fully committed to the NSW Government, the entire building is still classified as vacant by the PCA as it is yet to be physically occupied.
Within the CBD sub-markets, the Southern precinct had the lowest vacancy rate of 2.5% as at July 2017. Availability for A-Grade space in the Southern market was extremely tight with only 0.3% of the stock available for lease. The City Core was the second tightest sub-market in Sydney with a vacancy rate of 3.5% as at July 2017, down from 4.1% six months ago.

Looking forward, the overall vacancy rate in the CBD is expected to trend down gradually towards 3.5% and 3.0% by 2018 and 2019 respectively. From 2020 onwards, we expect the overall vacancy rate to gradually revert to the long-term equilibrium level at circa 7.0% as the next cycle of supply expands.

Rental Levels
On the back of declining vacancy, Sydney CBD effective rents have risen across the grades, albeit at a relatively more moderate pace compared to the prior year. Average prime gross face rents have increased by 5.3% over the last year to $1,127/m² (net face 952/m²). Prime incentives have fallen to circa 24% on average as at July 2017, although there are higher incentives for pre-committing tenants being proactively renewed within existing assets. The declined incentives saw prime effective gross face rents increased by 10.3% YoY to $850/m².

In the secondary market, face and effective rents continued to trend upward over the last six months due to limited availability of B-Grade stock and partly to Government’s subsidies provided to displaced tenants from buildings being compulsorily acquired for the construction of the Sydney Metro. Average secondary gross face rents have increased by 11.7% YoY to $841/m² (net face 705/m²), while secondary incentives trended down to circa 21% on average as at July 2017. The falling incentives have boosted effective secondary gross face rents by 16.3% to $668/m² over the past 12 months. Nevertheless, secondary rents and incentives remain asset and location specific, with some buildings clipping on $1,000/m² gross with incentives as low as 15%. While rising rental levels continue to benefit landlords, they will have significant implications on secondary tenants’ location choice and occupancy strategy.

Looking ahead, positive effective rental growth is expected to be maintained over the next two years as demand will outstrip net supply and vacancy continues to trend below the equilibrium levels. Our expectations are for prime gross face rents to grow by 4.5%-5.0% pa over the next two years, while prime incentives are projected to fall to circa 23% on average over the same period. In the secondary market, the lack of stock will result in secondary rents rising at a faster rate than prime at circa 5.5%-6.0% pa over the next two years and average incentives are expected to trend down closer to 15%.

**TABLE 2**

**Recent Leasing Activity Sydney CBD**

<table>
<thead>
<tr>
<th>Address</th>
<th>Precinct</th>
<th>NLA (m²)</th>
<th>Term (yrs)</th>
<th>Lease Type</th>
<th>Tenant</th>
<th>Sector</th>
<th>Start Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>201 Sussex Street</td>
<td>Western</td>
<td>1,954</td>
<td>11.0</td>
<td>Direct</td>
<td>Spruon &amp; Ferguson</td>
<td>Legal</td>
<td>Apr-18</td>
</tr>
<tr>
<td>175 Liverpool Street</td>
<td>Mid-town</td>
<td>625</td>
<td>6.0</td>
<td>Direct</td>
<td>Evolution Mining</td>
<td>Mining</td>
<td>Mar-18</td>
</tr>
<tr>
<td>201 Sussex Street</td>
<td>Western</td>
<td>950</td>
<td>5.0</td>
<td>Direct</td>
<td>Attorney Generals Department</td>
<td>Government</td>
<td>Nov-17</td>
</tr>
<tr>
<td>580 George Street</td>
<td>Mid-town</td>
<td>2,000</td>
<td>7.0</td>
<td>Direct</td>
<td>APA Group</td>
<td>Oil &amp; Gas</td>
<td>Oct-17</td>
</tr>
<tr>
<td>66 Goulburn Street</td>
<td>Mid-town</td>
<td>937</td>
<td>5.0</td>
<td>Direct</td>
<td>Heart of Asia</td>
<td>Food</td>
<td>Sep-17</td>
</tr>
<tr>
<td>6 O’Connell Street</td>
<td>Core</td>
<td>625</td>
<td>5.0</td>
<td>Direct</td>
<td>Axiom</td>
<td>IT</td>
<td>Sep-17</td>
</tr>
<tr>
<td>20 Martin Place</td>
<td>Core</td>
<td>1,620</td>
<td>5.0</td>
<td>Direct</td>
<td>LogMeln</td>
<td>IT</td>
<td>Aug-17</td>
</tr>
<tr>
<td>309 Kent Street</td>
<td>Western</td>
<td>1,045</td>
<td>10.0</td>
<td>Direct</td>
<td>Catholic Church Insurance</td>
<td>Finance</td>
<td>Aug-17</td>
</tr>
<tr>
<td>9 Hunter Street</td>
<td>Core</td>
<td>951</td>
<td>3.0</td>
<td>Direct</td>
<td>Groupon</td>
<td>IT</td>
<td>Aug-17</td>
</tr>
<tr>
<td>490 Crown Street</td>
<td>Fringe</td>
<td>1,234</td>
<td>8.0</td>
<td>Direct</td>
<td>SJB Architects</td>
<td>Real Estate</td>
<td>Jul-17</td>
</tr>
<tr>
<td>161 Sussex Street</td>
<td>Western</td>
<td>1,491</td>
<td>6.0</td>
<td>Direct</td>
<td>Instructure Australia</td>
<td>IT</td>
<td>Jun-17</td>
</tr>
<tr>
<td>55 Market Street</td>
<td>Mid-town</td>
<td>1,034</td>
<td>2.3</td>
<td>Direct</td>
<td>Australian International Studies</td>
<td>Education</td>
<td>Jun-17</td>
</tr>
<tr>
<td>9 Castlereagh Street</td>
<td>Core</td>
<td>662</td>
<td>5.0</td>
<td>Direct</td>
<td>YHA</td>
<td>Tourism</td>
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<tr>
<td>161 Sussex Street</td>
<td>Western</td>
<td>1,490</td>
<td>5.0</td>
<td>Direct</td>
<td>Spotify</td>
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<tr>
<td>300 Barangaroo</td>
<td>Walsh Bay</td>
<td>2,328</td>
<td>9.2</td>
<td>Direct</td>
<td>The Executive Centre</td>
<td>Serviced Offices</td>
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<tr>
<td>9 Castlereagh Street</td>
<td>Core</td>
<td>675</td>
<td>5.0</td>
<td>Direct</td>
<td>Phoenix HSL</td>
<td>IT</td>
<td>Mar-17</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research

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**FIGURE 4**

**Net Absorption & Vacancy**
Sydney CBD, per six month period (000’s m², %)

**FIGURE 5**

**Average Gross Effective Rents**
Sydney CBD ($/m²)

Source: Knight Frank Research
INVESTMENT ACTIVITY & YIELDS

Investment activity in the Sydney CBD office market since the beginning of the year has been relatively upbeat, following a decline in volumes due to a lack of trading stock last year. A total of $2.3 billion worth of commercial buildings ($10 million+) in the CBD has transacted over the first eight months of 2017. The pipeline of deals for the remainder of the year is solid with more than $2.0 billion worth of properties currently on or about to hit the market, according to Knight Frank Research.

The largest transaction over the past six months was the sale of a 50% stake in the MLC Centre at 19 Martin Place for $722.5 million. DEXUS Property Group and DEXUS Wholesale Property Fund (DWPF) purchased the partial interest from QIC on a core market yield of 4.95% and a 4.8 year WALE. This deal followed another divestment by QIC off of 275 George Street to Chinese-owned construction firm John Holland for $81 million. The vacant B-Grade building is being redeveloped into a new office and retail building of 7,866m² GFA, schedule for completion in 2019.

Another highlight deal was 20 Bridge Street. It was purchased by a private investor from Hong Kong for $335 million, on a core market yield of 4.7% and a rate of $18,158/m². The A-Grade building located in the Core CBD of Sydney is anchored by ASX with a WALE of 6.8 years.

The Mid-town precinct has also seen strong transaction activity in recent months with major sales including: 66 Goulburn Street ($252 million), 320 Pitt Street ($275 million) and 458-472 George Street ($116 million). The leasehold interest in 66 Goulburn Street was purchased by Singapore’s Ascendas-Singbridge on core market yield of 6.0% and a rate $11,009/m². Another purchase by a Singaporean group was ‘Telstra Plaza’ at 320 Pitt Street bought by ARA on a 6.2% core market yield. The 3.2 year WALE indicates a repositioning play for the asset, which has been vacated by Telstra and subleased to various tenants. Additionally, 458-472 George Street was traded on a firm yield of 2.6%, reflecting the amalgamation value as the site was purchased by the adjoining cinema operator, EVENT Hospitality.

In the Southern precinct, 59 Goulburn Street was another repositioning play, which was purchased by Fortius Funds Management from Roxy Pacific for $158 million with a 2.3 year WALE. Although the site has a DA approved for hotel conversion, it is expected to remain commercial with the new owner.

Over the remainder of the year, the Sydney CBD market is expected to see a throng of assets being traded, with the

![Figure 6](Image)

**Sydney CBD Sales $10 million+**

By Purchaser Type ($m)

**TABLE 3**

<table>
<thead>
<tr>
<th>Address</th>
<th>Price ($m)</th>
<th>Core Mkt Yield (%)</th>
<th>NLA (m²)</th>
<th>$/m² NLA</th>
<th>WALE (yrs)</th>
<th>Vendor</th>
<th>Purchaser</th>
<th>Sale Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>66 Goulburn St</td>
<td>252.0</td>
<td>6.04</td>
<td>23,890</td>
<td>11,009</td>
<td>6.1</td>
<td>GDI Property</td>
<td>Ascendas-Singbridge</td>
<td>Aug-17</td>
</tr>
<tr>
<td>59 Goulburn St</td>
<td>158.0</td>
<td>6.04</td>
<td>19,406</td>
<td>8,142</td>
<td>2.3</td>
<td>Roxy Pacific</td>
<td>Fortius</td>
<td>Jul-17</td>
</tr>
<tr>
<td>320 Pitt St</td>
<td>275.0</td>
<td>5.25</td>
<td>29,158</td>
<td>9,431</td>
<td>3.2</td>
<td>Propertylink</td>
<td>ARA</td>
<td>Jul-17</td>
</tr>
<tr>
<td>458-472 George St±</td>
<td>116.0</td>
<td>2.55</td>
<td>1,726</td>
<td>67,207</td>
<td>1.3</td>
<td>Private</td>
<td>EVENT Hospitality</td>
<td>Jul-17</td>
</tr>
<tr>
<td>MLC, 19 Martin Pl (50%)</td>
<td>722.5</td>
<td>4.95</td>
<td>73,115</td>
<td>19,766</td>
<td>4.8</td>
<td>QIC~</td>
<td>DEXUS/DWPF#</td>
<td>Jul-17</td>
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<td>630 George St</td>
<td>60.0</td>
<td>N/A</td>
<td>3,166</td>
<td>18,951</td>
<td>N/A</td>
<td>Private</td>
<td>Private</td>
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<td>275 George St</td>
<td>81.0</td>
<td>VP</td>
<td>7,367=</td>
<td>10,095</td>
<td>VP</td>
<td>QIC~</td>
<td>John Holland</td>
<td>Jul-17</td>
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<tr>
<td>4-10 Goulburn St</td>
<td>27.2</td>
<td>N/A</td>
<td>3,809</td>
<td>7,141</td>
<td>N/A</td>
<td>Trades Hall Association</td>
<td>Private</td>
<td>Jul-17</td>
</tr>
<tr>
<td>112 Castlereagh St</td>
<td>59.0</td>
<td>3.79*</td>
<td>1,561x</td>
<td>37,808=</td>
<td>7.5</td>
<td>Private</td>
<td>Private</td>
<td>Jul-17</td>
</tr>
<tr>
<td>20 Bridge St</td>
<td>335.0</td>
<td>4.73</td>
<td>18,449</td>
<td>18,158</td>
<td>6.8</td>
<td>KWAP^</td>
<td>Private</td>
<td>Apr-17</td>
</tr>
<tr>
<td>98-104 Goulburn St</td>
<td>20.3</td>
<td>4.19</td>
<td>1,658</td>
<td>12,244</td>
<td>0.4</td>
<td>City State</td>
<td>Haosheng Investment</td>
<td>Mar-17</td>
</tr>
<tr>
<td>156 Clarence St</td>
<td>40.2</td>
<td>5.50</td>
<td>3,300</td>
<td>12,171</td>
<td>2.0</td>
<td>Private</td>
<td>Fife Capital</td>
<td>Mar-17</td>
</tr>
<tr>
<td>82-84 Dixon St</td>
<td>19.9</td>
<td>3.14</td>
<td>983</td>
<td>20,244</td>
<td>0.1</td>
<td>Private</td>
<td>Private</td>
<td>Mar-17</td>
</tr>
<tr>
<td>8 Spring St</td>
<td>68.9</td>
<td>5.10</td>
<td>5,140</td>
<td>13,400</td>
<td>N/A</td>
<td>Heathley#</td>
<td>ADIA/Lendlease±</td>
<td>Jan-17</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research

*net passing yield
VP refers vacant possession
+Purchased by the adjoining owner
^KWAP refers Malaysia’s Kumpulan Wang Persaraan
*Existing office NLA. Approved redevelopment for 7,866m² GFA (inc. 1,030m² retail)
~QIC refers Queensland Investment Corporation
≈includes 552m² of retail space which accounts for 78% of net income
#Blended retail and commercial sale rate
=Purchased by DEXUS Property (25%) & DEXUS Wholesale Property Fund (25%) #Heathley Diversified Property Fund
+ADIA-ref Abu Dhabi Investment Authority
Australian Prime Property Fund Commercial (APPFC)
The majority of them being within the secondary market that has benefited significantly from recent strong rental growth. Those assets include 10 Bridge Street (~$130 million), 9 Hunter Street (~$200 million), 10 Spring Street (~$220 million), 50 Pitt Street (~$150 million), 20 Hunter Street (~$180 million), 1 Castlereagh Street (~$150 million) and 231 Elizabeth Street (~$350 million), among others. In addition, the conclusion of the partial fund-through sale of the Wynyard Place development is imminent. The 25% stake is expected to fetch $450 to $500 million with two local funds reported as the front-runners. It is reported that an additional 25% stake could be up for grabs by investors.

Offshore and unlisted funds were the most active players on both sides of the market over the year to date (YTD) (Figure 7). Investment activity by offshore buyers has picked up significantly with a total YTD purchase value of $996 million, almost four times the corresponding figure last year. On a net purchase basis, offshore buyers have bought a total of $453 million over the period. Singapore was the largest source of offshore capital, followed by Hong Kong, Mainland China and the UAE. They are followed by unlisted funds and syndicates, which bought $619 billion worth of properties and equally strong on the sell side with $525 million worth of disposal. The largest net sellers this year were superannuation funds due to QIC’s divestment out of the MLC and 275 George Street for a total of $856 million.

The strong investor demand, particularly from offshore investors, is putting significant pressure on yields across the grades, but more so on secondary assets. With core market yields for secondary assets with five years WALEs currently measured between 5.75% and 6.25%, about 25bps lower than a year ago. However, the depth of the market will be further tested over the remainder of this year once the aforementioned deals flow through.

In the prime market, the sale of 20 Bridge Street on a sub-5% core market yield indicates that Prime assets in the CBD Core are expected to be traded between 4.50% and 5.25%. This will be further affirmed when the sale of Wynyard Place is concluded, with market expectation for a yield of close to 4.7%. The spreads between prime yields and indexed bond rates are currently around 393bps, which is 100bps lower than a year ago.

### Outlook

- **Net supply of office space in Sydney** will be extremely low over the next two years due to stock withdrawals amid limited new additions.
- **New additions over the next 18 months** will include International House Sydney at Barangaroo (6,729m²—100% pre-committed to Accenture) and Barrack Place at 151 Clarence Street (21,000m²—37% pre-committed to ARUP).
- **The supply pipeline is expected to expand from 2020 onwards, with new developments including 275 George Street (c.7,000m²—H1 2020), 60 Martin Place (40,000m²—H1 2020), Barangaroo C2 (11,250m²—2020+), Wynyard Place (68,200m²—H2 2020—45% pre-committed by NAB), Lendlease’s CQT (55,000m²—H1 2021) and AMP’s QQT (c.90,000m²—H1 2021—40% pre-committed by AMP).**
- **While the latent demand in the Sydney CBD market remains strong, net absorption is expected to be lower due to the lack of available space and rising effective rents. Specifically, secondary net absorption is forecast to be negative over the next two years due to secondary stock withdrawals.**
- **SMEs, TAMI (Technology, Advertising, Media and Information) and co-working tenants will continue to drive tenant demand growth in the CBD over the coming years.**
- **Looking forward, the overall vacancy rate in the CBD is expected to trend down towards circa 5.0% and 3.5% by the end of 2017 and 2018 respectively.**
- **While the Prime vacancy rate is forecast to fall below 4.0% over the next two years, the secondary vacancy rate is expected to trend below 3.0% over the same period.**
- **Beyond 2019, we expect the overall vacancy rate to revert to its historical long term average (which is around 7.0% and 7.5%) from 2019 through to 2022, corresponding to the gradual increase in supply.**
- **The average secondary gross face rent is forecast to grow by 5.5-6.0% pa over the next two years and secondary incentives are expected to trend down closer to 15% on average.**
- **In the prime market, gross face rents are expected to rise by circa 4.5-5.0% pa, whilst average prime incentives are projected to fall to circa 23% on average over the next two years.**
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