- *Signs of confidence emerging in leasing market*
- *Face rents are holding but incentives have increased*
- *2020 investment volumes only down 5% on five year average*

Knight Frank

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North Shore Office

Market Report, March 2021

SIGNS OF CONFIDENCE EMERGING

98,026sqm of new supply added to North Sydney over H2 2020

47% of all leases in North Sydney were to Tech occupiers

$1.9 BILLION TRANSACTIONS 2020

"...a rebound to activity in the second half of the year points to a shift in buyer strategy to target assets in growth areas, particularly those associated with the Sydney Metro project."

The Key Insights

The economic recovery is underway with business investment and consumer spending increasing beyond expectations, which is providing confidence to leasing and investment markets.

Constrained activity throughout 2020 has prompted a rise in incentives in all North Shore precincts to within a 30-35% range, putting downward pressure on effective rents.

Total investment volumes for the North Shore markets in 2020 reached $1.9 billion, only 5% below the five year average.

Pricing on North Shore prime assets during 2020 indicates that yields have held firm as Covid-19 has constrained investment activity.

The largest volume of new supply on record was added to North Sydney over the second half of 2020 with 98,026sqm, substantially pre-let.

North Shore Office Market Indicators—January 2021

MARKET	GRADE	TOTAL STOCK SQM	VACANCY RATE %	SIX MONTH NET ABSORPTION SQM	SIX MONTH NET ADDITIONS SQM	AVERAGE GROSS FACE RENT $/SQM	AVERAGE INCENTIVE %^	AVERAGE CORE MARKET YIELD %*
North Sydney	Prime	364,536	18.3	46,289	98,026	972	30-35	4.50-5.00
North Sydney	Secondary	558,257	20.4	-62,519	0	832	30-35	5.00–5.50
North Sydney	**Total**	**922,793**	**19.5**	**-16,230**	**98,026**			
St Leonards	Prime	107,912	1.2	26,607	27,000	764	30-35	5.00-5.50
St Leonards	Secondary	223,135	18.4	-14,698	0	663	30-35	5.75-6.25
St Leonards	**Total**	**331,047**	**12.8**	**11,909**	**27,000**			
Chatswood	Prime	132,181	15.6	-8,805	0	711	30-35	5.25-6.00
Chatswood	Secondary	141,273	10.6	-3,380	-570	611	30-35	5.50-6.00
Chatswood	**Total**	**273,454**	**13**	**-12,185**	**-570**			
Macquarie Park	Prime	631,600	10.1	-10,231	14,874	520	30-35‡	5.50-6.00
Macquarie Park	Secondary	273,110	8.6	-5,342	4,198	458	30-35‡	6.00-6.50
Macquarie Park	**Total**	**904,710**	**9.6**	**-15,573**	**10,676**			

Source: Knight Frank Research/PCA *assuming WALE 5.0 years ^Incentives are on a Gross basis ‡Incentives are on a net basis

NORTH SYDNEY

Constrained tenant demand and large tenant relocations hinder absorption levels

Similar to competing markets, tenant demand in North Sydney was constrained throughout 2020. Record levels of new supply in 2020 coincided with limited occupier demand due to Covid conditions, resulting in negative absorption of 15,605sqm being recorded in the 12 months to January 2021.

Additionally, several large tenant relocations have been a catalyst for the rising vacancy levels, which has climbed to 19.5% as at January 2021. In the largest movement, NAB are vacating 29,000sqm at 105 Miller Street and relocating to Parramatta Square. Goodman Fielder (4,000sqm) relocated to Macquarie Park, whilst U Bank (3,000sqm) and NSW Health (2,000sqm) also vacated their tenancies in North Sydney.

In a sign of confidence for 2021, market sources confirm there are over 12,000sqm of lease deals agreed across 1 Denison Street, 118 Mount Street and 100 Arthur Street. With the flight to quality trend to newer towers and greater emphasis on amenity in the workplace post-Covid, North Sydney may start to see a greater divergence between prime and secondary stock. Furthermore, ongoing expansion of the tech industry, along with North Sydney's highly skilled workforce and Sydney Metro upgrades bodes well for future demand.

Record development completions

Following a decade of limited new developments, the largest volume of new supply on record was added to North Sydney over the second half of 2020, with 98,026sqm across three major developments, taking total office stock to 922,793sqm.

The completion of 1 Denison Street (58,964sqm) with a commitment rate of c.85% represents the largest office development in North Sydney and could be the last premium building constructed for at least four years.

118 Mount Street (20,770sqm), which is 65% committed to Zurich Financial Services, reached practical completion in late 2020. Following a full refurbishment, ESR's 73 Miller Street (19,062sqm) came back online late last year, with commitments to oOh!media (7,000sqm) and more recently, Taylor Thomson Whitting (1,720sqm) securing space and relocating from 48 Chandos Street, St Leonards.

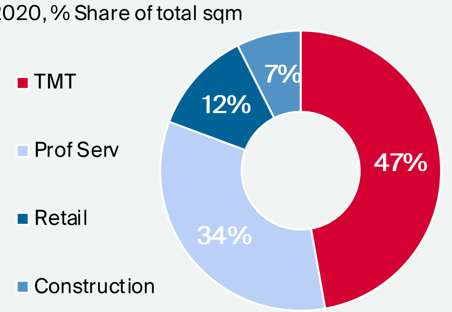
Rental growth halts and incentives rise

Market uncertainty due to Covid-19 caused a decline in activity in 2020 and the strong rental growth rates experienced over the last couple of years have halted. While on a average gross face basis, rents are unchanged in January 2021, measuring $972/sqm ($829/sqm net face), rising incentives have put downward pressure on effective rents. Prime incentives have risen to average 30.2% as at January 2021, up from 21.3% in January 2020. This has led to net effective rents dropping by 13.9%YoY to measure $535/sqm. As the tenant demand pool remains limited, landlords have increased incentives in order to retain and attract tenants.

Similarly, in the secondary market gross rents are unchanged at $832/sqm ($694/sqm net face) as at January 2021. Secondary incentives have climbed to 28.8%, resulting in net effective rents dropping by 13.1% to record $455/sqm.

Lease Deals by Industry Sector

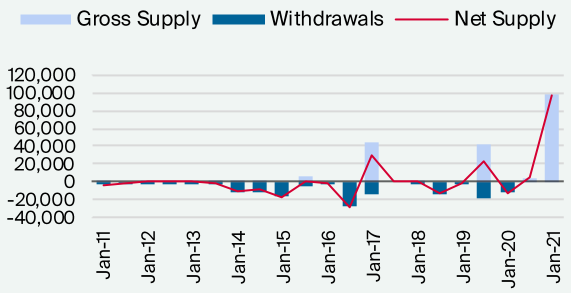
2020, % Share of total sqm



Source: Knight Frank Research TMT= Technology, Media, Telecoms

North Sydney Net Supply

sqm



Source: Knight Frank Research, PCA

ST LEONARDS

NSW health relocation bolsters absorption

Whilst tenant activity has been limited across St Leonards, absorption levels over the second half of 2020 were driven by the relocation and consolidation of the NSW Department of Health into the recently completed Royal North Shore Hospital Southern Campus (27,000sqm). The new development is fully committed to NSW Health and resulted in positive net absorption of 11,909sqm across the total market in the six months to January 2021.

Prime space remains tightly held

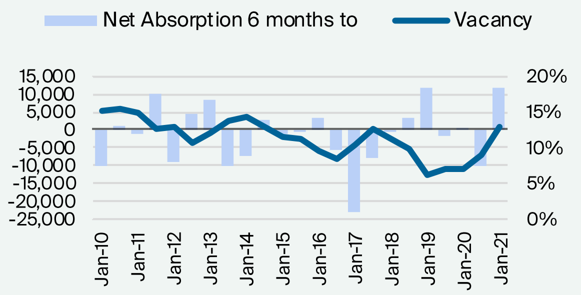
Despite the lack of tenant activity across the wider market, prime grade space in St Leonards remains scarce with the prime vacancy rate remaining steady at 1.2% as at January 2021.

Prime absorption levels in the six months to January 2021 reached a record high of 26,607sqm on the back of the NSW Health moving into its new headquarters, consolidating and relocating from 100 Christie Street (10,000sqm) and Zenith Towers in Chatswood.

In contrast with the secondary market, vacancy has increased to an all time high of 18.4% as at January 2021, following negative absorption levels of 14,698sqm over the second half of 2020. Occupier preference for quality stock within the market is clear and the divergence between prime and secondary stock will likely continue.

St Leonards Vacancy and Net Absorption

sqm, %



Source: Knight Frank Research, PCA

Thriving healthcare precinct

The North Shore health care precinct is tracking towards a world class $1 billion healthcare and educational hub and is leading the way for healthcare-related real estate to be recognised as an institutional investment target rather than a boutique asset class.

Following the Government led development of the Royal North Shore Hospital Southern Campus, the next major development by Dexus has recently been completed. The North Shore Health Hub at 7 Westbourne Street will encompass 15,800sqm of medical/consulting space across two buildings, of which over 75% has already been committed, including space leased to Ramsay Health Care and Genesis Care.

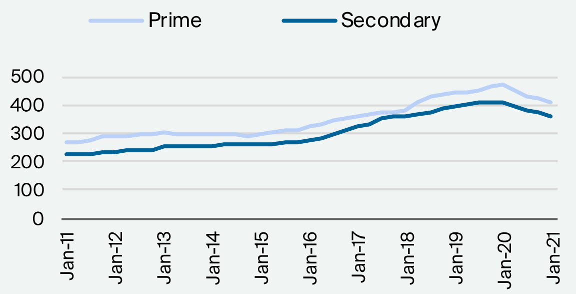
Rents halt and incentives rise

Amidst the market uncertainty and limited tenant demand due to Covid-19, the above trend rental growth rates experienced over the last few years have halted. Similar to competing markets, face rents have held stable while incentives have risen as owners seek to attract and retain tenants. Average prime incentives have increased to 29.8%, decreasing net effective rents to $407/sqm, down 13.8% in the 12 months to January 2021. Average secondary incentives have risen to 30%, declining net effective rents by 12.9% to $359/sqm.

On a 12 month basis (to January 2021), average prime gross face rents are stable at $764/sqm ($634/sqm net face) and average gross face secondary rents are $663/sqm ($558/sqm net face), also unchanged since January 2020.

St Leonards Net Effective rent

Average Rent $/sqm, By Grade



Source: Knight Frank Research

CHATSWOOD

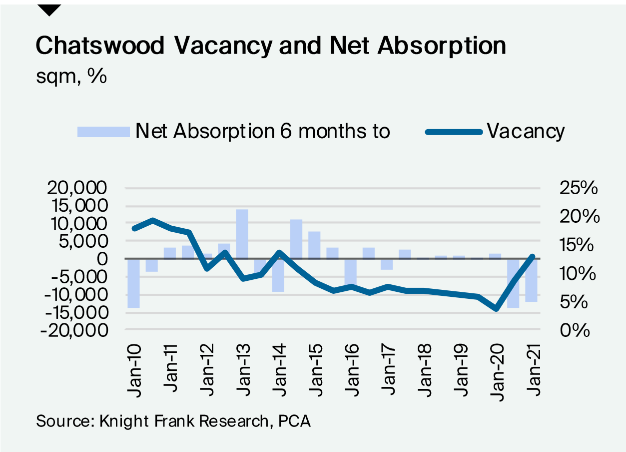
Rising sublease space and constrained demand continues to impact vacancy levels

Chatswood office market has been heavily impacted by a decline in tenant demand as occupiers continue to impose remote working policies brought on by Covid-19. This has seen a surge in the availability of sub-lease space which has resulted in Chatswood's vacancy rate more than tripling since the pandemic started.

After reaching a 20-year low of 3.7% in January 2020, total vacancy in Chatswood has increased to 13% as at January 2021. All grades recorded an increase in vacancy over the period, with total net absorption declining by 12,185sqm in the six months to January 2021.

More specifically, sub-lease vacancy has risen to 2.7% as at January 2021, up from 0.4% in July 2020. The rise in sub-lease vacancy stems from the availability of several whole floors at 799 Pacific Highway (Citadel tower) and 821 Pacific Highway (Zenith Towers).

Furthermore, the relocation of the NSW Department of Health from the Zenith Towers to St Leonards has added further backfill space to the towers following the departure of Transport NSW to Macquarie Park earlier in 2020.

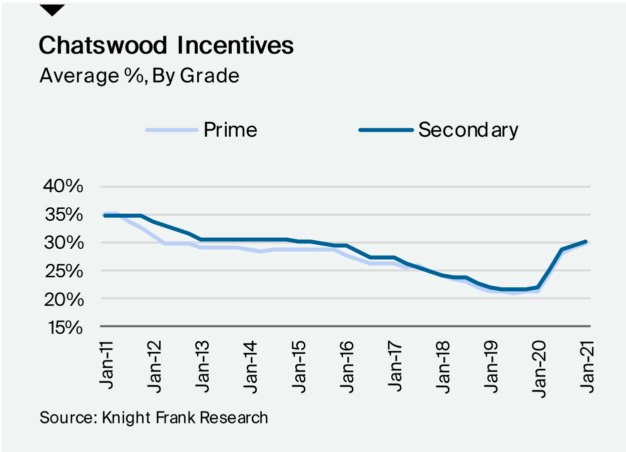


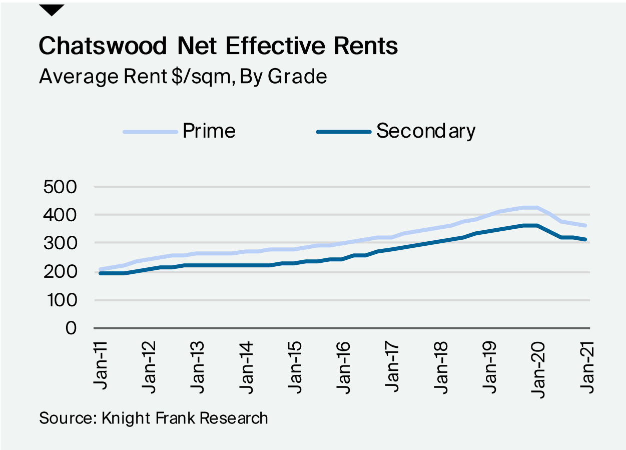
Rental growth on hold as incentives lift due to Covid-19

After several years of strong rental growth rates, uncertainty relating to the pandemic and subsequent increase in vacancy levels has halted any further face rental growth and seen average incentives rise consistently during 2020.

Average prime incentives have increased to 30%, decreasing net effective rents to $365/sqm, down 3.8% in the six months to January 2021, and down 14.5% YoY. Average secondary incentives have risen to 30.2%, declining net effective rents by 2.8% to $312/sqm on a six monthly basis and down 13.8% YoY.

On a 12 month basis (to January 2021), average prime gross face rents are unchanged at $711/sqm ($578/sqm net face). Similarly, secondary rents remained steady in the 12 months to January 2021 to $611/sqm ($497/sqm net face).





MACQUARIE PARK

Rise in office vacancy rates due to completion of new supply

Vacancy increased to 9.6%, as at January 2021, up from 4.6% at the same time last year due to new uncommitted supply coming online amid a reduction in leasing demand. All grades recorded negative demand in the second half of 2020, resulting in negative 15,573sqm of net absorption over the period.

Low leasing volume but limited sublease reflects

Leasing activity declined in 2020 to about half the volume seen in 2019 due to Covid market conditions. However, sub-lease availability remains low, supported by the well-established industry clusters including government, tech pharma and biotech.

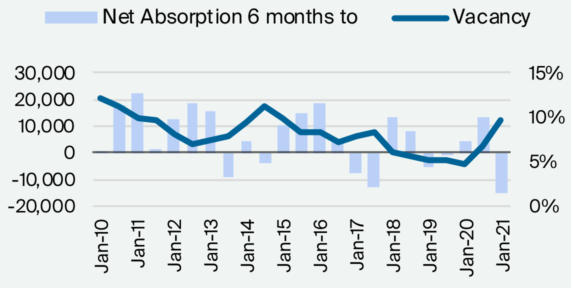
Largest volume of new supply since 2014

Almost 50,000sqm of new office space was completed during 2020. The last time Macquarie Park saw this volume of new supply in one 12 month period was in 2014. The largest project with c.34,500sqm of office space was the first stage of the Macquarie Square development, known as the "Glasshouse" (Building C). The building, anchored by the NSW government, was developed by John Holland and sold to Charter Hall in 2019.

Goodman Group's development, Macquarie Corporate Centre at 2 Banfield Road, was completed late last year. It was recently sold to AEW Capital Management for approximately $140 million.

Macquarie Park Vacancy and Net Absorption

sqm, %



Source: Knight Frank Research, PCA

The 14,874sqm building is anchored by a c.6,900sqm commitment from Schneider Electric, who relocated from 78 Waterloo Road. Biogen Australia and Endotherapeutics have also secured terms.

No new space in 2021, next wave of stock coming

Although there is an extensive pipeline of development, no new supply is expected to come online during 2021.

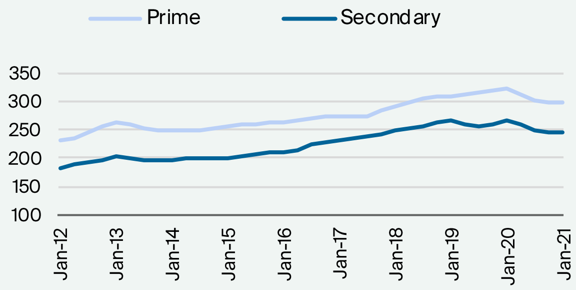
Stockland is looking for a capital partner on its M_Park campus style development. The first stage (16,800sqm) is due late 2022. Stockland also has approval a further 38,000sqm, which is mooted pending pre-commitment and completion of the first stage. Frasers and Winten Property have development approval for a 74,000sqm of commercial space at 396 Lane Cove Road, known as "Macquarie exchange". Stage 1 encompasses 18,000sqm and is due for completion by the end of 2022.

Face rents still holding but incentives have increased

There has been a substantial uplift in average incentives since the onset of the pandemic, which has impacted effective rents. Containment measures and subsequent public health orders to work from home where possible saw leasing activity subside significantly. As a result, landlords increased incentives in Q2 and Q3 of 2020 to now average 28% in prime and 30% in secondary stock. Incentives held steady in Q4 . On a 12 months basis to January 2021, prime net effective rents have declined 7.7% to average $299/sqm and secondary net effective rents are down 8.0% to $246/sqm over the same period.

Macquarie Park Net Effective Rents

Average Rent $/sqm by grade



Source: Knight Frank Research

NORTH SHORE INVESTMENT

Investment volumes rebound in H2 2020 after pandemic slows down momentum

The deterioration of global economic conditions brought about by the pandemic triggered a complete stop on transactional activity during Q2. Despite this, the $1.9 billion of investment volumes recorded for 2020 was only 5% short of the North Shore's five-year average of $2.0 billion.

The rebound to activity came in the second half of the year and points to shift in buyer strategy to target assets in growth areas, particularly those associated with the Sydney Metro project.

Almost 80% ($1.6 billion) of transactions in 2020 occurred during Q3 and Q4, after restrictions began to ease and signs the economy was beginning to recover provided investors the impetus to move forward with deals.

Offshore investors dominate transactions

With higher risk to incomes and lower expectations for capital growth in global markets more prevalent, offshore buyers are stepping up their exposure in Sydney markets.

Offshore investors accounted for 66% of acquisitions last year, and the volume of large-scale assets that changed hands remains at the elevated levels the market has seen since 2018.

Macquarie Park continued its record run of deals, accounting for almost half of deals by value last year, outperforming North Sydney, which remained tightly held.

Singaporean investors dominated acquisitions, especially in Macquarie Park. Domestic investors were the most active in St Leonards, Chatswood and North Sydney.

Investors hold a long-term view

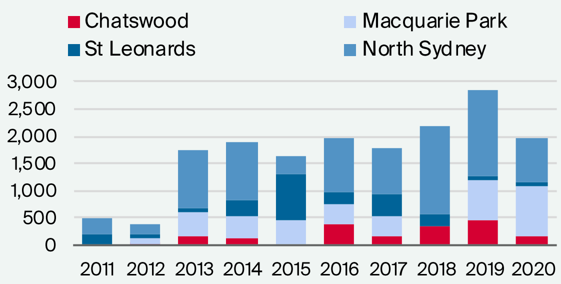
In Q4, 60 Miller Street and 65 Berry Street, North Sydney, sold at a premium to their June 2020 book values to separate groups. Given the properties short WALEs, the pricing suggests that investors hold a long-term view that demand will improve.

Prime yields holding firm

Average prime office yields have remained stable since the onset of the pandemic. However, there is an increasing focus on covenant strength and security of income. This trend is expected to continue in 2021, with yields likely to hold in the short-term.

North Shore Office Sales $10m+

By Precinct ($m), 2010 to 2020



Source: Knight Frank Research

Recent significant sales

PROPERTY	PRICE $M	CORE MARKET YIELD %	NLA SQM	$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
65 Berry Street, North Sydney	211.8	4.95	14,507	14,601	2.3	Intera Group	Charter Hall	Dec-20
1-5 Thomas Holt Drive, Macquarie Park	288.9	5.71	39,188	7,372	4.5	Ascendas REIT	AMP	Dec-20
53 Berry Street, North Sydney	54.0	5.0	3,442	15,690	2.3	Lederer Group	Property Bank Australia	Oct-20
1 Giffnock Ave, Macquarie Park~	167.2	6.1*	19,384	8,628	3.0	Ascendas REIT	Frasers,Winten	Sep-20
4 Drake Ave, Macquarie Park	306	5.2*	41,595	7,356	4.8	Keppel Capital	Goodman Group	Sep-20
2 Banfield Road, Macquarie Park	144.5	5.10	14,675	9,867	7.3	AEW	Goodman Group	Aug-20

*Initial Yield ~Fun d through deal

North Shore major office supply

Address	Region	Area (sqm)	Developer	Major Tenants	Commitment level (%)	Stage	Est. Date of Compl
1 Denison Street	North Sydney	60,338	Winten Property	Nine, Microsoft, SAP	85%	Complete	H2 2020
118 Mount Street	North Sydney	20,770	Zurich	Zurich	65%	Complete	H2 2020
73 Miller Street*	North Sydney	19,000	ESR	oOh!media	50%	Complete	H2 2020
88 Walker Street	North Sydney	13,000	Billbergia	-	-	U/C	2022
173 Pacific Highway	North Sydney	11,000	Maville Group	-	-	DA Applied	2024+
110 Walker Street	North Sydney	75,000	Stockland	-	-	DA Applied	2024+
Victoria Cross OSD	North Sydney	55,000	Lendlease	-	-	DA Approved	2024+
RNS Hospital Southern Campus	St Leonards	27,000	NSW Govt	NSW Health	100%	Complete	H2 2020
7 Westbourne Street	St Leonards	15,000	Dexus	Multiple	75%	Complete	H1 2021
The Glasshouse	Macq Park	34,500	Charter Hall	Transport NSW	100%	Complete	H1 2020
Macquarie Corporate Centre	Macq Park	14,700	Goodman	Schneider	75%	Complete	H2 2020
Macq Exchange Stage 1	Macq Park	18,000	Frasers/Winten	-	-	Site Works	H2 2022
11 Khartoum Road, Stage 1	Macq Park	16,800	Stockland	-	-	Site Works	H2 2022
475 Victoria Avenue	Chatswood	6,500	Blackrock/ Cromwell	Pending Pre-comm	-	DA Approved	2024+

* Refurbishment

Recent significant tenant commitments

OCCUPIER	PROPERTY	MARKET	SIZE SQM	FACE RENT $/SQM (n)	INCENTIVE	TERM YRS	START DATE
Taylor Thomson Whitting~	73 Miller Street	North Sydney	1,720	U/D	U/D	7.5	Jul-21
Confluence Water~	475 Victoria Street	Chatswood	1,848	560	26%	5	May-21
Calumo Australia	40 Talavera Road	Macq Park	583	340	fitout	3	Feb-21
Gartner Rose	15 Blue Street	North Sydney	600	835	29%	5	Jan-21
Okta~	80 Pacific Highway	North Sydney	1,790	885	28%	5	Feb-21
Access CN~	100 Miller Street	North Sydney	994	830	24%	5	Dec-20

Pre-commitment ^ Renewal ~Existing space *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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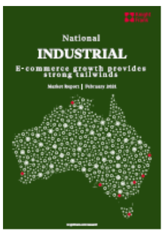

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