- *Improved leasing market conditions*
- *Face rents are holding but incentives remain above average*
- *Domestic and offshore capital seeking core assets*

Knight Frank

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North Shore Office

Market Report, March 2022

CONFIDENCE IN THE MARKET REMAINS STRONG

45%
of investment volumes from domestic capital (2021)

30%
Of deal activity from professional services (2021)

$1.1
Billion in transaction volumes 2021

"Buyer appetite to allocate capital to the North Shore has been demonstrated by a recent run of deal activity"

The Key Insights

Improved economic conditions have translated into positive demand levels, with increased enquiries and deals being signed.

With no new significant supply anticipated for North Sydney until at least 2024 the market is well placed to absorb the current availability of stock and drive vacancy down.

Strong buyer appetite from both domestic and offshore groups for core assets in the North Shore, particularly for North Sydney and Macquarie Park, which have accounted for the bulk of transaction activity recently.

Core assets remain a priority but investors are making strategic acquisitions amid the improved outlook.

North Shore Office Market Indicators—January 2022

MARKET	GRADE	TOTAL STOCK SQM	VACANCY RATE %	SIX MONTH NET ABSORPTION SQM	SIX MONTH NET ADDITIONS SQM	AVERAGE NET FACE RENT $/ SQM	INCENTIVE %^	CORE MARKET YIELD %*
North Sydney	Prime	364,536	14.9	-3,778	0	842	30-35	4.50-5.00
North Sydney	Secondary	558,257	17.6	2,020	0	701	30-35	5.00–5.50
North Sydney	**Total**	**922,793**	**16.6**	**-1,758**	**0**			
St Leonards	Prime	118,585	15.2	-6,103	3,285	634	30-35	5.00-5.50
St Leonards	Secondary	223,301	17.3	3,215	-834	558	30-35	5.75-6.25
St Leonards	**Total**	**340,886**	**16.5**	**-2,888**	**-2,451**			
Chatswood	Prime	132,181	18.3	-608	0	578	30-35	5.25-6.00
Chatswood	Secondary	141,273	13.8	-1,673	0	497	30-35	5.50-6.00
Chatswood	**Total**	**273,454**	**15.9**	**-2,281**	**0**			
Macquarie Park	Prime	631,600	8.2	3,628	0	420	30-35‡	5.25-5.75
Macquarie Park	Secondary	277,869	13.3	-3,403	4,579	358	30-35‡	5.75-6.25
Macquarie Park	**Total**	**904,710**	**9.6**	**-15,573**	**4,579**			

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

NORTH SYDNEY

Improved activity, specifically for top end assets

Whilst North Sydney has experienced a significant influx of new supply over the last two years and seen some large tenant relocations, the overall vacancy rate remained steady over the last 12 months to measure 16.6% as at January 2022. There was a pick up in activity throughout 2021 in North Sydney and with "return to office" policies being encouraged across private and public sector, there is increased confidence in the market.

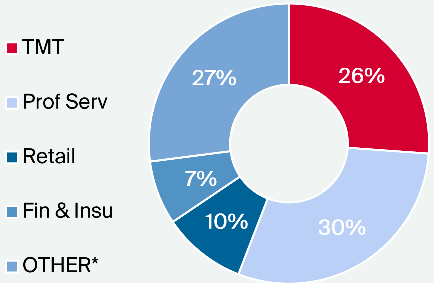
The premium market remains resilient, with a significant decline in premium grade vacancy from 17.7% down to 6.1% in the 12 months to January 2022. Specifically, 100 Mount Street is fully occupied, 1 Denison is over 95% leased and 118 Mount Street is now over 80% committed, emphasising the demand and flight to quality trend for top end assets.

Lease deal volumes for 2021 were triple the level of 2020, which indicates market confidence and its progression back to more historical levels. The tech sector and professional services were the most dominant in 2021, representing 26% and 30% respectively of total deal volumes. There has been strong tenant enquiry to kick off the year and deal flow activity is expected to pick up with a number of deals at final stages of being signed according to market sources.

Additionally, market evidence highlights occupiers seeking whole floor options rather than suites, with over 69% of deals being done across the 500-2,500 sqm size range. This is in stark contrast with the Sydney CBD where 53% of deals are being done in the sub 500 sqm range. Several new lease deals at 73 Miller Street include Aurecon securing several floors and Sony taking a whole floor.

Lease Deals by Industry Sector

2021, % Share of total sqm



Source: Knight Frank Research TMT= Technology, Media, Telecoms *Other includes Construction, Admin, Utilities, Manufacturing, Logistics, Health, Wholesale Trade

Market well placed to absorb current stock levels

Following completions reaching an all time high in 2020 and the North Sydney office stock base increasing by 12%, there were no new completions or withdrawals throughout 2021.

Only two boutique developments are under construction; including 88 Walker Street by Billbergia Group, which will encompass 13,000sqm of commercial space across a mixed use development, due for completion by year end. Furthermore, in late 2021, Lendlease, with Keppel REIT, acquired the development site at 2-4 Blue Street and 1-5 William Street from Thirdi Group. Lendlease will develop the new boutique office building which will offer c14,000sqm of prime space, with completion anticipated by end of 2023.

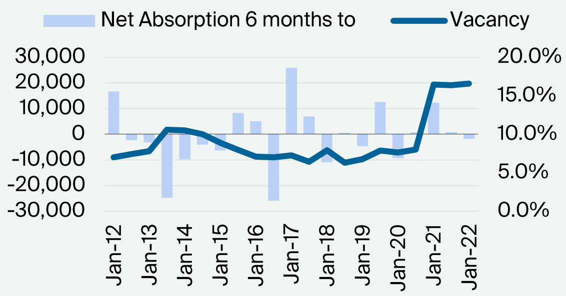
With no new significant supply anticipated until at least 2024 when the Victoria Cross OSD is completed, the market is well placed to absorb the current availability of stock and drive vacancy down, especially in the prime market where tenants have previously been unable to obtain a foothold in North Sydney due to lack of availability.

Net effective rents begin to stabilise

The introduction of new premium grade office stock has raised the bar for average rents across North Sydney. On average, prime net face rents have increased slightly over the last 12 months to measure $842/sqm ($992/sqm gross) as at January 2022. In the secondary market net rents have remained steady over the same period at $701/sqm ($844/sqm gross face). Incentives across both prime and secondary assets have likely peaked to average 30%-35%, which has stabilised net effective rents to measure $519/sqm and $448/sqm for prime and secondary respectively.

North Sydney Vacancy / Net Absorption

sqm, %



Source: Knight Frank Research, PCA

ST LEONARDS

Constrained demand hinders vacancy levels

Lease deal activity and demand has remained fairly subdued in the St Leonards office market since the onset of the pandemic, with the only major movement circulating around the relocation of NSW Health into the Royal North Shore Health Precinct over the last 18 months. The limited activity, coupled with a rise in sublease availability, has seen overall vacancy rise to 16.5% as at January 2022, up from 15.1% six months prior.

By grade, the prime market has seen vacancy increase to 15.2% up from a record low of 1.2% in the 12 months to January 2022. With the completion of 7 Westbourne Street (7,388sqm) by Dexus and 500 Pacific Highway (3,285sqm) over the last year, both adding to new supply levels in conjunction with pockets of sub lease and direct vacancy across multiple buildings have been the catalyst in the rise of prime vacancy. In the secondary market, vacancy has begun to stabilise following its sharp increase throughout 2020, to now measure 17.3% as at January 2022, a decline from 18.4% over the last 12 months.

Thriving healthcare precinct and new metro to drive future demand

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. This will not only appeal to investors but also have a positive impact on demand with occupiers, seeking prime grade amenity in proximity to a health and education precinct.

Furthermore, the mixed use development currently under construction at 558 Pacific Highway by JQZ, will add a further 16,000sqm of prime office space in conjunction with new retail amenity and improved public domain for St Leonards to the market in H1 2023. With the Crows Nest Metro station to be delivered by the end of 2024 this will only enhance the appeal of the precinct to occupiers. With the increased prime grade availability and the arrival of new stock there will be strong appeal to occupiers in secondary assets to upgrade, which will likely see a greater divergence between the prime and secondary grade.

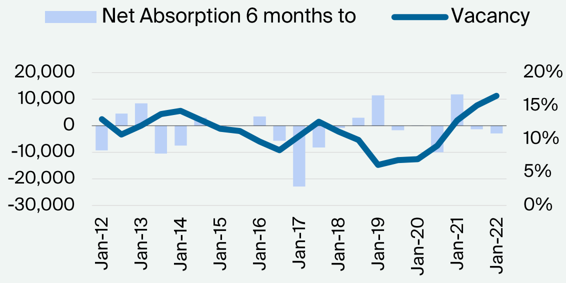
Rents and incentives remain stable

Amidst the limited tenant demand, the above trend rental growth rates experienced over the last few years have halted. Similar to competing markets, face rents and incentives have held over the last six months. Average prime net face rents currently measure $634/sqm ($770/sqm gross) with incentives at 33% and have likely peaked. In the secondary market average net face rents measure $558/sqm ($673/sqm gross) as at January 2022.

Pressure on net effective rents has now eased with incentives stabilising. In the 12 months to January 2022 net effective rents have declined by 6.6% to measure $380/sqm, this is a vast improvement on the double digit declines experienced in late 2020. Similarly in the secondary market, net effective rents have declined by 6.5% over the last 12 months to measure $336/sqm. With an improved outlook for demand over the next 12-24 months on the back of new prime stock and Crows Nest Metro Station effective rents will begin to bounce back.

St Leonards Vacancy and Net Absorption

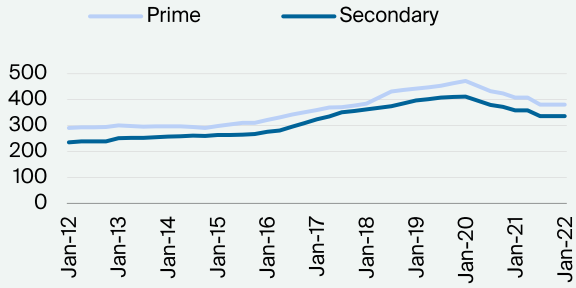
sqm, %



Source: Knight Frank Research, PCA

St Leonards Net Effective Rent

Average Rent $/sqm, By Grade



Source: Knight Frank Research

CHATSWOOD

Limited tenant activity continues to impact vacancy levels

Limited tenant activity in the Chatswood office market over the last two years, in conjunction with rising sublease availabilities, have been the catalyst for overall vacancy more than tripling over this period and hitting a decade high.

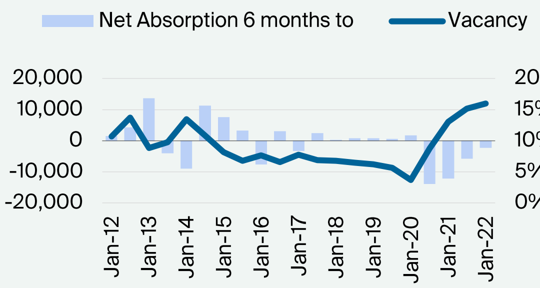
Several direct whole floors have come back to the market and sublease vacancy has also increased. After reaching a 20-year low of 3.7% in January 2020, total vacancy in Chatswood now measures 15.9% as at January 2022. Both prime and secondary grades recorded an increase in vacancy over the period, with total net absorption declining by 2,281sqm in the six months to January 2022

More specifically, sublease vacancy has risen to 3.8% as at January 2022, this being a sharp rise from the zero sub lease availability in January 2020. The rise in sublease vacancy stems from the availability of several whole floors at 799 Pacific Highway (Citadel towers) and 821 Pacific Highway (Zenith Towers).

The relocation of the NSW Department of Health to St Leonards and Transport NSW to Macquarie Park from the Zenith Towers over the last two years has been the catalyst for the large backfill arising in the towers and contributing to the rise in vacancy. A large portion of this space has since been secured by Dell, with Arrow capital announcing last year that Dell will occupy 5,200sqm over a long term lease, which will see Dell consolidate from multiple offices in Frenches Forest, St Leonards and Macquarie Park. Dell is expected to move into its new offices which will provide a positive boost for absorption levels and likely see the vacancy rate tighten.

Chatswood Vacancy and Net Absorption

sqm, %



Source: Knight Frank Research, PCA

Face rents remain steady

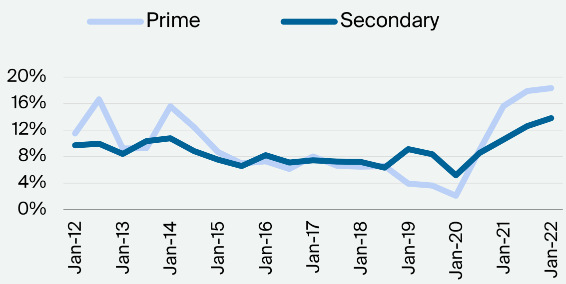
The subsequent increase in vacancy levels has halted any face rental growth and seen average incentives remain above 30% since the onset of the pandemic.

Prime incentives have held firm at 33%, decreasing net effective rents to $342/sqm, down 6.3% in the 12 months to January 2022. Average secondary incentives have peaked at 31.2%, declining net effective rents by 2.8% to $304/sqm on a 12 month basis.

On a 12 month basis (to January 2022), average prime net face rents are unchanged at $578/sqm ($716/sqm gross face). Similarly, secondary rents remained steady in the 12 months to January 2022 to $497/sqm ($619/sqm gross face).

Chatswood Vacancy

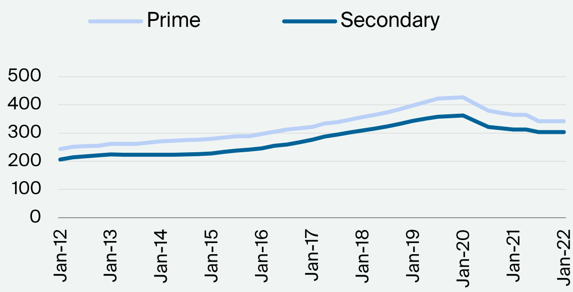
% By Grade



Source: Knight Frank Research, PCA

Chatswood Net Effective Rents

Average Rent $/sqm, By Grade



Source: Knight Frank Research

MACQUARIE PARK

Flight to quality driving prime vacancy down

Vacancy increased to 9.8%, as at January 2022, up from 9.3% in July 2021 and up from 9.6% at the same time last year, with a contraction in secondary grade office space demand offsetting any positive absorption indicators in prime space.

By building grade, prime vacancy decreased to 8.2% in January 2022, down from 10.1% in January 2021 with 12,107 sqm of positive net absorption recorded in this period. Secondary vacancy increased from 8.6% in January 2021 to 13.3% in January 2022 and negative net absorption of 8,841 sqm.

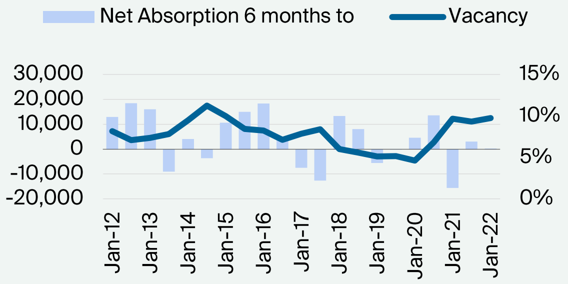
The flight to quality trend has been a contributing factor to a decline in secondary grade occupancy, with the pandemic increasing demand for buildings with higher ranked indoor environmental qualities, such as air systems and the office layout.

Signs of market confidence with improved leasing activity

Leasing activity improved throughout 2021 with a number of new deals being signed, surpassing the levels recorded in 2020, highlighting a return to confidence in the market. The bulk of activity came from the manufacturing and tech sector accounting for 58% of deal volumes.

With a strong pipeline of prime grade office stock there is a likelihood to see more tenant relocations within Macquarie Park from secondary stock to prime stock as seen by Schneider Electric relocating from 78 Waterloo Road to 2 Banfield Street.

Macquarie Park Vacancy and Net Absorption
sqm, %



Source: Knight Frank Research, PCA

New development stock to offer prime grade space at competitive discount to competing markets

Macquarie Park remains the second largest metropolitan market in NSW, just behind North Sydney with 909,469sqm of office stock, with prime stock accounting for 70% of the total stock base in Macquarie Park, a higher proportion than both the Sydney CBD and North Sydney. With a healthy development pipeline this will continue to grow.

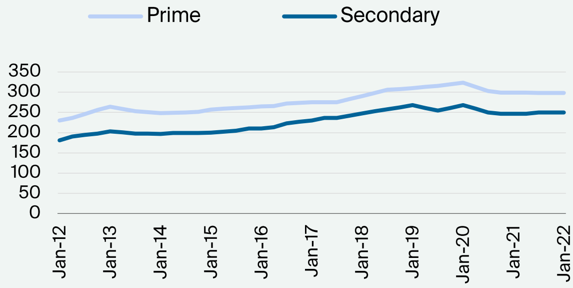
Stockland has commenced construction at its project M_Park at 11-17 Khartoum Road, the site spans over 3Ha and will become a vibrant commercial and retail precinct. Stage 1 will deliver 16,920sqm of prime office space with a typical floor plate of 1,800sqm. This building will become the new consolidated Australian Headquarters for Johnson and Johnson with completion scheduled in 2023.

Additionally, construction is well underway at the Macquarie Exchange development at 396 Lane Cove Road. Stage 1 due for completion this year will deliver a c18,000sqm prime office building. Frasers and Winten Property Group sold the building to Ascendas REIT in September 2020 for $167.2 million, agreeing to provide a three-year rental guarantee from completion of the property for any vacant spaces.

Rents and incentives hold firm

On a 12 month basis (to January 2022), average prime net face rents are unchanged at $420/sqm ($530/sqm gross face). Similarly, secondary rents remained steady in the 12 months to January 2022 to $358/sqm ($468/sqm gross face). On a net effective basis prime rents remained unchanged over the last year to measure $298/sqm with average prime incentives firm at 29%.

Macquarie Park Net Effective Rents
Average Rent $/sqm by grade



Source: Knight Frank Research

NORTH SHORE INVESTMENT

Pricing holding despite drop in overall volumes as investors actively pursue all available options

$1.1 billion in investment volumes was recorded in 2021 across the North Shore markets, 44% below volumes recorded in 2020 and 48% below the five year annual average of $2.2 billion. The decrease in activity mostly reflects the shortage of sellers and tightly held nature of the North Shore assets, particularly in Chatswood and St Leonards, where no assets have traded since December 2020.

Of the North Shore markets, North Sydney and Macquarie Park remain the most active, accounting for 69% and 31% of investment volumes in 2021.

Core assets remain a priority but investors making strategic acquisitions amid outlook for recovery

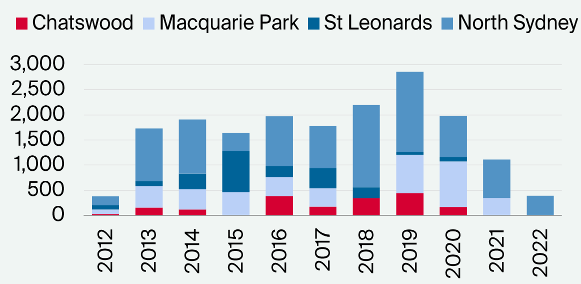
Focusing on North Sydney and Macquarie Park, which are the largest in the North Shore area and second and third largest metropolitan office markets nationally, pricing has been resilient with strong income returns attracting both domestic and offshore capital. While assets with strong lease covenants are attracting attention, there has been a shift in demand to acquire assets on an opportunistic basis, with investor appetite being fuelled by the government's investment in the Sydney Metro project, specifically the Victoria Cross Sydney Metro site.

In one example, Lendlease and Keppel REIT, a Singaporean based REIT, partnered to buy the office development at 2-4 Blue Street for $327.7 million in an off-market play, with the trust forecasting an initial yield of 4.5% and rental guarantees to Keppel, who will own the building upon completion. In another example, LaSalle Investment Management acquired a 201 Miller Street for $152.4 million from Dexus Office Partnership, on a core market yield of 5.89%. The asset sold with 84% occupancy but had a short 1.9 year WALE. Dexus will use the sales proceeds to pay down debt.

Prime yields still holding at low levels, reflecting sustained investor demand despite the pandemic

Prime yields continue to remain stable. Buyer appetite to allocate capital to the North Shore has been demonstrated by the run of deals through the last two quarters, with the yield resilience reflecting the relative value proposition in these markets. In line with the trends across the wider office sector, yields are expected to remain stable in the short term.

North Shore Office Sales $10m+
By Precinct ($m), 2012 to 2022YTD



Source: Knight Frank Research

Recent significant sales

PROPERTY	PRICE $M	CORE MARKET YIELD %	NLA SQM	$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
101 Miller Street, North Sydney (50%)	330^	5.16	37,473	17,613	3.6	CapitalLand Integrated Commercial Trust	Nuveen Real Estate	Jan-22
75 Miller Street, North Sydney	65.5	5.06	4,930	13,286	2.5	Private	Huge Linkage Limited	Dec-21
2-4 Blue Street, North Sydney<	327.7	4.5*	14,000	23,407	3.0"	Keppel REIT	Thirdi Group	Dec-21
201 Miller Street, North Sydney	152.4	5.89	14,602	20,874	1.9	LaSalle Investment Management	Dexus Office Partnership	Dec-21#
37 Epping Road, Macquarie Park	55	5.42	8,067	6,818	3.2	Charter Hall Deep Value property Fund	Corval	Jun-21

*Initial Yield ^Price excludes Greenwood Plaza retail component <100% interest acquired by Keppel REIT with Lendlease as developer until completion of project
#Exchanged Dec-21, Settled Feb-22 "Property Sold with three year rental guarantee

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	95%	Complete	H2 2020
118 Mount Street	North Sydney	20,770	Zurich	Zurich	85%	Complete	H2 2020
RNS Hospital Southern Campus	St Leonards	27,000	NSW Govt	NSW Health	100%	Complete	H2 2020
Macquarie Corporate Centre	Macq Park	14,700	Goodman	Schneider	75%	Complete	H2 2020
7 Westbourne Street	St Leonards	7,388	Dexus	Multiple	75%	Complete	H1 2021
500 Pacific Highway	St Leonards	3,285	Landmark	-	-	Complete	H2 2021
88 Walker Street	North Sydney	13,000	Billbergia	-	-	U/C	H2 2022
558 Pacific Highway	St Leonards	16,738	JQZ	-	-	U/C	H1 2023
2-4 Blue Street	North Sydney	14,000	Lendlease/ Keppel REIT	-	-	U/C	H2 2023
Macquarie Exchange Stage 1, 396 Lane Cove Road	Macq Park	18,000	Frasers/Winten	-	-	U/C	H2 2022
M_Park Stage 1, 11 Khartoum Road	Macq Park	16,920	Stockland	Johnson & Johnson	-	U/C	2023
Victoria Cross OSD	North Sydney	55,000	Lendlease	-	-	DA Approved	H2 2024
173 Pacific Highway	North Sydney	11,000	Maville Group	-	-	DA Approved	2024+
110 Walker Street	North Sydney	60,000	Stockland	-	-	DA Applied	2024+
446 Victoria Avenue	Chatswood	26,000	Chatswood RSL Club	-	-	DA Approved	2024+

Recent significant tenant commitments

OCCUPIER	PROPERTY	MARKET	SIZE SQM	FACE RENT $/SQM (n)	INCENTIVE (%)	TERM YRS	START DATE
Till Payments~	78 Waterloo Road	Macq Park	1,800	440	30	7	Apr-22
Cincom~	39 Delhi Road	Macq Park	286	410	28	3	Feb-22
Finclear~	118 Mount Street	North Sydney	900	895	32	5	Jan-22
Petbarn~	1 Epping Road	North Ryde	2,706	365	30	5	Jan-22
Shore Financial~	124 Walker Street	North Sydney	615	790	38	5	Sep-21
Resonate Solutions~	111 Pacific Highway	North Sydney	410	835	34	5	Sep21

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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