

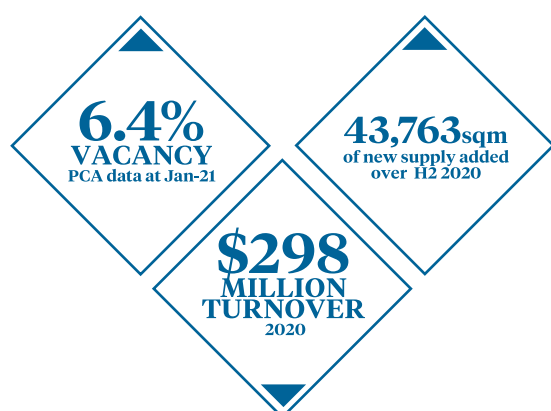
- *Record development and investment reshaping the Parramatta CBD*
- *Face rents are holding but incentives have increased*

Parramatta Office Market

Market Report, April 2021



RECORD PRIVATE AND PUBLIC SECTOR DEVELOPMENT



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“...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.”

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The Key Insights

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

Uncertainty over the outlook of office demand and the increase in leasing options for tenants has halted any further face rental growth and seen incentives rise during since early 2020

Investment volumes for 2020 totalled \$298.9 million of which all was domestic capital.

Over the next two years the Parramatta CBD will become the second largest CBD by office stock size behind the Sydney CBD.

Prime yields are holding firm between 5.00% and 5.75% after sustained compression prior to the pandemic.

Parramatta CBD Office Market Indicators—January 2021

GRADE	TOTAL STOCK SQM	VACANCY RATE %	ANNUAL NET ABSORPTION SQM	ANNUAL NET ADDITIONS SQM	AVERAGE GROSS FACE RENT \$/SQM	AVERAGE INCENTIVE %	EFFECTIVE RENTAL GROWTH % YOY (net)	AVERAGE CORE MARKET YIELD %*
Prime	368,113	3.4	30,917	42,000	707	25-30	-8.5	5.00-5.75
Secondary	441,413	8.9	-17,207	-895	592	25-30	-12.5	6.00-6.50
Total	809,526	6.4	13,710	41,105				

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

PARRAMATTA TRANSFORMATION IN FULL SWING

Record development and investment reshaping the Parramatta CBD

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 next two years the Parramatta CBD will become the second largest CBD by office stock size behind the Sydney CBD.

Leading the transformation is Walker Corporation’s Parramatta Square development which has already added over 130,000sqm of prime office space in the past three years. The latest tower to be completed, PSQ3 (42,000sqm), is primarily pre-committed to NAB. However, given COVID-19 implications NAB has opted to sub-lease 14,500sqm of its space, now occupying 50% of the building. The final and largest stage of the development, PSQ6&8 is currently under construction will deliver 120,000sqm over the next two years. The towers have already achieved a 60% commitment rate to Property NSW, Link Market Services and Westpac.

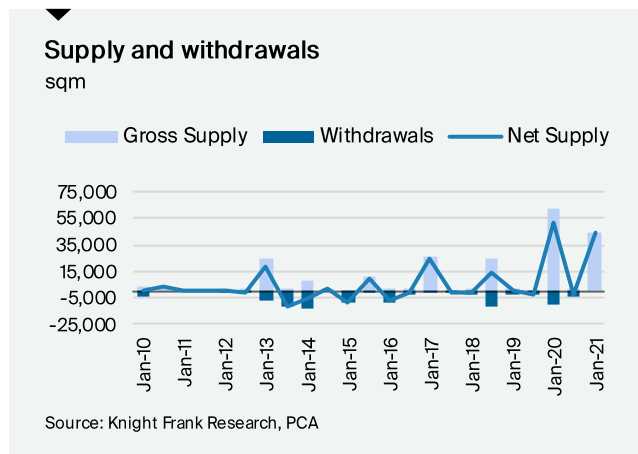
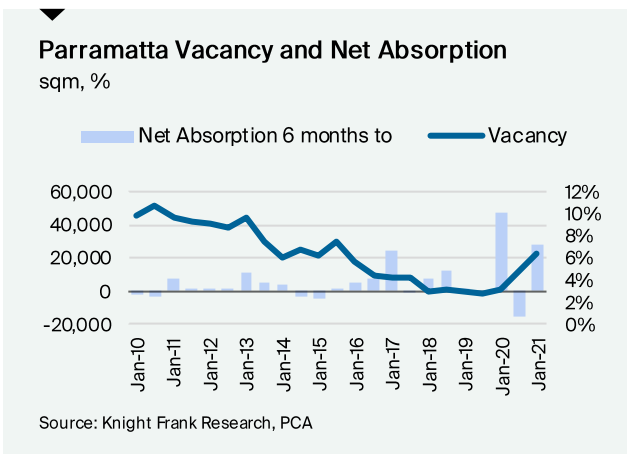
Outside Parramatta Square, GPT’s 32 Smith Street recently reached practical completion, adding 26,400sqm of office space. QBE the anchor tenant will relocate from 60 Station Street by mid year and occupy 13,000sqm of the building along with Coleman Greig taking 1,355sqm. Charter Hall’s partnered development with WSU at 2-6 Hassall Street (27,000sqm) is also underway. The development will create a new Engineering Innovation Hub, is already 40% pre-committed to UNSW and WSU.

In terms of infrastructure investment, stage 1 of the Parramatta light rail project is underway and expected to open by in 2023. Preparation for the Sydney Metro West Project has commenced with a number of properties across the 2.4Ha site around Horwood Place being compulsorily acquired with the aim for site works to commence by mid year. There will be significant short term disruption for landowners, especially those with short term lease tails. The long term benefits will see significant development around the metro station in the heart of the commercial core from 2030.

Absorption levels bolstered by NAB relocation, however backfill and sublease availability to rise

Whilst tenant activity has been limited, absorption levels over the second half of 2020 were driven by NAB moving into PSQ3, this resulted in positive net absorption of 28,673sqm across the total market in the six months to January 2021. Whilst absorption levels were positive, a rise in vacancy was recorded due to the increase in supply and constrained demand in the secondary market. Overall vacancy increased from 3.2% to 6.4% in the 12 months to January 2021. By grade, the prime market measures 3.4% as at January 2021, while secondary vacancy increased to 8.9% over the last 12 months.

Vacancy is likely to rise in the near term on the back of backfill space, rising sublease availability and occupier contraction. AMP is subleasing 2,600sqm of space at Jesse Street centre in addition to the ATO looking to downsize its 28,000sqm within Jesse Street to approx. 18,000sqm. Furthermore Sydney Water are currently occupying 23,000sqm at PSQ1 and are considering options to downsize to 17,000sqm and relocate within Parramatta.



RESILIENT CAPITAL VALUES

Rental growth halts and incentives rise

After several years of strong rental growth, uncertainty over the outlook of office demand and the increase in leasing options for tenants has halted any further face rental growth and seen incentives rise during since early 2020.

As a result, average prime gross rents have remained unchanged since January 2021, measuring \$707/sqm (\$588/sqm net face). Similarly in the secondary market gross rents are unchanged at \$592/sqm (\$476/sqm net face) as at January 2021.

Similar to competing markets, incentives have risen as owners seek to attract and retain tenants. Average prime incentives have increased to 25%, decreasing net effective rents to \$441/sqm, down 8.5% in the 12 months to January 2021. Average secondary incentives have risen to 27%, declining net effective rents by 12.5% to \$316/sqm.

Tightly held market restricts investment activity

As experienced across all office markets investment activity in 2020 was limited as landowners opted to halt trading amidst the volatility within the market. Following a record year of transaction volumes in 2019 of \$746.9 million, volumes for 2020 totalled \$298.9 million of which all was domestic capital.

The last major transaction occurred at the end of last year with a private investor acquiring 27 Argyle Street from developer Dyldam. The property sold for \$73.9 million on a market yield of 5.56% with a 2.7 year WALE, fully leased to Property NSW.

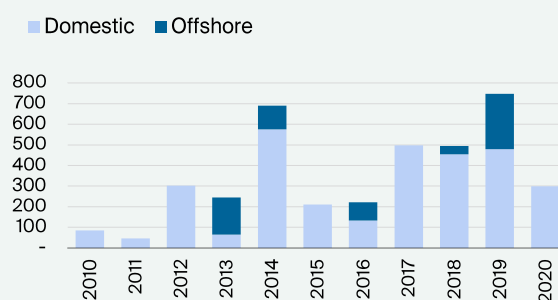
Looking forward, the increasing institutionalisation of ownership in Parramatta, coupled with new quality stock and improved infrastructure, will help reinforce Parramatta's profile as an attractive investment destination for both local and offshore investors.

Competitive yield pricing

In addition to the unprecedented private and public sector development, competitive yield pricing has been a key attraction for investors. There remains a 107bps positive prime yield arbitrage between Parramatta and the Sydney CBD market, providing an attractive pricing spread for investors.

Prime yields have remained steady over the past year to average 5.45% as at January 2021, with the top end prime assets likely to achieve sharper metrics towards 5%. This trend is expected to continue in 2021 with yields likely to hold in the short-term.

▼
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
27 Argyle Street	73.9	5.56	10,399	7,113	2.7	Private	Dyldam	Oct-20
16-18 Wentworth Street	40.0	U/D	6,400	6,250	U/D	Private	Private	Jun-20
110 George Street (50%)	95.0	6.00	21,082	9,012	3.5	Corval	Longbow	Jan-20

Parramatta major office supply

Address	Area (sqm)	Developer	Major Tenants	Commitment level (%)	Stage	Est. Date of Compl
PSQ4	65,000	Walker Corp	NSW Govt	100%	Complete	H1 2020
PSQ3	42,000	Walker Corp	NAB	85%*	Complete	H2 2020
32 Smith Street	26,400	GPT	QBE, Coleman Greig	55%	Complete	H1 2021
97 Macquarie Street	8,900	Private	CBA	30%	U/C	H2 2021
2-6 Hassall Street	28,722	Charter Hall/WSU	UNSW, WSU	40%	U/C	H2 2021
PSQ6&8	120,000	Walker Corp	NSW Govt, Link Marketing, Westpac	60%	U/C	H2 2022
140 George Street	43,800	Dexus	-	-	DA Approved	2024+
159 Church Street	112,000	Scentre Group	-	-	Mooted	2024+

* NAB has subleased 14,500sqm

Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	FACE RENT \$/SQM (n)	TERM YRS	START DATE
Coleman Greig#	32 Smith Street	1,355	647	7.5	Apr-21
QBE#	32 Smith Street	13,600	655	10	Apr-21
Property NSW~	9 George Street	849	530	7+5	Mar-21
Sedgewick~	91 Phillip Street	970	560	5	Dec-20
Ernst Young ~	25 Smith Street	1,298	610	5	Jul-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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