

- *Record development and investment*
- *On track to become second largest CBD in NSW*
- *Increased prime vacancy presents opportunity for tenants*



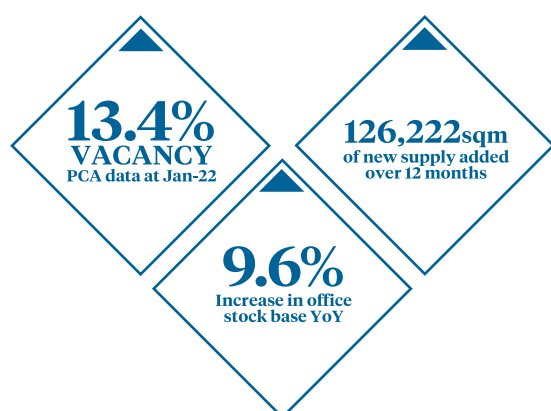
Parramatta Office Market

Market Report, March 2022

knightfrank.com/research



RECORD PRIVATE AND PUBLIC SECTOR DEVELOPMENT



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“Tenants now have a credible range of options that weren’t previously available and existing occupiers now have the ability to upgrade their premises.”

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The Key Insights

Unprecedented private and public investment is strengthening Parramatta’s position as an emerging CBD centre with a vibrant and culturally diverse landscape.

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

Parramatta has hit its highest vacancy rate in over 20 years, recording 13.4%, which presents an opportunity for new market entrants following an extended period of limited options.

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

Parramatta CBD Office Market Indicators –January 2022

GRADE	TOTAL STOCK SQM	VACANCY RATE %	ANNUAL NET ABSORPTION SQM	ANNUAL NET ADDITIONS SQM	AVERAGE NET FACE RENT \$/SQM	INCENTIVE %	EFFECTIVE RENTAL GROWTH % YOY (net)	CORE MARKET YIELD %*
Prime	476,408	17.6	36,620	108,295	588	25-30	-2.7	5.00-5.75
Secondary	410,860	8.6	-28,574	-30,533	476	25-30	-5.6	6.00-6.50
Total	887,268	13.4	8,046	77,742				

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

NEW DEVELOPMENT RESHAPING PARRAMATTA

Parramatta CBD on track to become second largest CBD in NSW

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 last 12 months the office stock base has grown by an unprecedented 9.6% and prime stock now accounts for more than half the total stock base for the first time on record. With the current developments under construction Parramatta will become the second largest CBD in NSW by next year.

Leading the transformation is Walker Corporation’s Parramatta Square development, which has already added over 200,000 sqm of prime office space over the last three years. Most recently, the completion of PSQ6 (71,000 sqm) late last year. The final stage PSQ8 is due for completion imminently and will add a further 53,000 sqm of prime office space. Both towers have achieved commitments rates in excess of 60% with major tenants including Property NSW, Link Market Services, Westpac and Deloitte.

Outside Parramatta Square, Charter Hall’s partnered development with WSU at 6 Hassall Street (28,722 sqm) is now complete and over 50% committed, anchored by UNSW and WSU, the development boasts a world class Engineering Innovation hub. Additionally, Holdmark Property’s boutique development at 85 Macquarie Street (8,899 sqm) is currently under construction and due for completion by the end of the year, the building is anchored by Commonwealth Bank of Australia and remaining space will offer efficient floor plates of approx. 900 sqm.

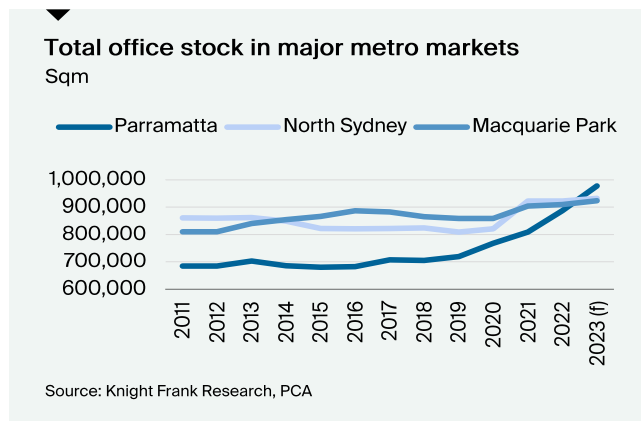
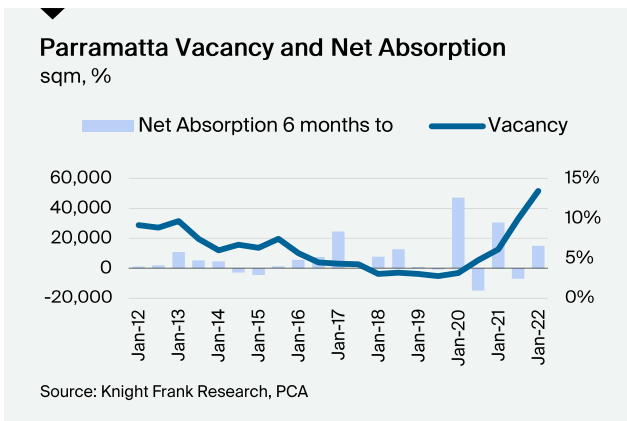
In terms of infrastructure investment, stage 1 of the Parramatta light rail project is underway and expected to open in 2023. Preparation for the Sydney Metro West project has commenced with a number of properties across the 2.4Ha site around Horwood Place and Macquarie Street compulsorily acquired and works commencing.

Increased prime vacancy presents opportunity for occupiers seeking new or upgraded space

Parramatta vacancy hit its highest vacancy level in over 20 years, recording 13.4% as at January 2022, well above the record lows of 3% recorded prior to Covid pandemic. Whilst tenant activity has been positive with absorption levels of 15,062 sqm recorded over the second half of 2021, the record level of new supply for a single six month period of 99,722 sqm has been the catalyst for the rise in vacancy.

The increase in available stock has been prevalent in the prime market, which for the past decade has been near non-existent. Prime vacancy has jumped to 17.6% as at January 2022, up from 3.4% in January 2021. This increase now presents opportunity in a market that has been constrained for quality prime grade stock. New tenants now have a credible range of options that weren’t previously available and existing occupiers have the option to upgrade their premises, as seen by CBHS Health who will upgrade from 79 George Street into 6 Hassall Street later this year.

In the secondary market vacancy has remained steady at 8.6% over the six months to January 2022. With more available prime space in the market and owners competing for tenants the flight to quality trend will likely be more pronounced over the coming years and see secondary grade owners potentially invest in refurbishing and upgrading these older assets.



RESILIENT CAPITAL VALUES

Face rents and incentives holding

With the rise in vacancy and onset of the pandemic there has been no rental growth recorded in Parramatta given the increased competition of stock across the market that previously was non-existent.

As a result, average prime net face rents have remained unchanged since January 2020, measuring \$588/sqm (\$707/sqm gross face). Similarly in the secondary market net face rents are unchanged at \$476/sqm (\$593/sqm gross face) as at January 2022.

Similar to competing markets, incentives have remain above average as owners seek to attract and retain tenants. Average prime incentives measure 27% as at January 2022, decreasing net effective rents to \$429/sqm, down 2.6% in the 12 months to January 2022. Average secondary incentives have risen to 30%, declining net effective rents by 5.6% to \$298/sqm over the same period.

Scarce investment opportunities

Parramatta has historically been a thinly traded market, more so now as owners look to hold assets for the longer term given the significant private and public sector investment that is playing out in the market.

Investment volumes for 2021 reached \$284.5 million, all of which was driven by domestic based capital. Two large transactions late last year propelled investment volumes, including domestic investor LC Partners acquiring 32 Phillip Street for \$66 million on a core market yield of 5.3% from Australian Unity Fund. Additionally, private investor Mintus acquired 140&150 George Street from Dexu/CPPI for \$154.5 million, the asset was sold with vacant possession.

Competitive yield pricing

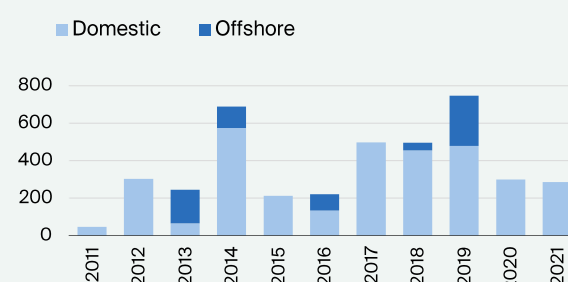
Looking forward, the increasing institutionalisation of ownership in Parramatta, coupled with new quality stock and improved infrastructure, will help reinforce Parramatta's profile as an attractive investment destination for both local and offshore investors.

Local and offshore private and institutional investors appreciate the Parramatta growth story and are very keen to contest any scarce purchase opportunities that become available in this tightly held market. Additionally, there remains a 105bps 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 2022, with the top end prime assets likely to achieve sharper metrics towards 5%. This trend is expected to continue in 2022 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
140 & 150 George Street	154.5	VP	21,964	7,034	N/A	Mintus	Dexu/CPPI*	Dec-21
32 Phillip Street	66.0	5.34	6,759	9,765	1.7	LC Partners	Australian Unity Fund	Dec-21
9 Wentworth Street	64.0	5.07	7,651	8,365	2.3	Parramatta Council	Mayrin Group	Sep-21

*Canada Pension Plan Investment Board

Parramatta major office supply

Address	Area (sqm)	Developer	Major Tenants	Commitment Rate (%)	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	26,500	GPT	QBE, Coleman Greig	75%	Complete	H1 2021
6 Hassall Street	28,722	Charter Hall/WSU	UNSW, WSU, Pepper, CBHS	50%	Complete	H2 2021
PSQ6	53,000	Walker Corp	NSW Govt, Link Marketing	100%	Complete	H2 2021
85 Macquarie Street	8,900	Holdmark	CBA	30%	U/C	H1 2022
PSQ8	71,000	Walker Corp	Westpac, Deloitte, Regus	60%	U/C	H1 2022
150 George Street#	21,964	Mintus	-	-	Refurbishment	H2 2022
140 George Street	43,800	Mintus	-	-	DA Approved	2025+
2 Valentine Street	28,000	Australian Unity	-	-	DA Approved	2025+

* NAB is subleasing 14,500 sqm

Backfill space from relocation of CBA.

Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	FACE RENT \$/SQM (n)	TERM YRS	START DATE
CBHS Health~	6 Hassall Street	1,534	630	U/D	Q3-22
Pepper Money~	6 Hassall Street	1,534	630	U/D	Q3-22
Department of Home Affairs#	101 George Street	13,974	U/D	10	Q2-22
Centre of Mathematics~	2 Wentworth Street	533	535	6	Q4-21
Workspace365~	60 Station Street	1,320	570	5	Q4-21
Spry Roughey & Co	3 Horwood Place	550	485	5	Q4-21
Arab Bank~	20 Smith Street	484	530	5	Q3-21
Techwave~	80 George Street	300	495	7	Q4-21
Lendlease~	25 Smith Street	1,297	570	5	Q3-21

Pre-commitment ^ Renewal ~Direct *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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