

- *Record development and investment reshaping the Parramatta CBD*
- *Face rents holding firm*
- *Increased vacancy presents opportunity for potential new entrants*



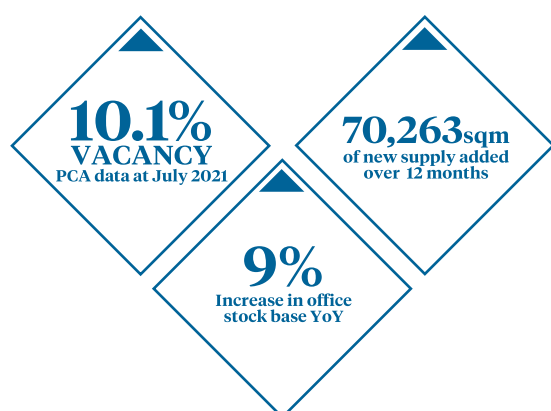
Parramatta Office Market

Market Report, September 2021

knightfrank.com/research



RECORD PRIVATE AND PUBLIC SECTOR DEVELOPMENT



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“New quality stock and improved infrastructure, will help reinforce Parramatta’s profile as an attractive investment destination for both local and offshore investors.”

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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 level in over 10 years, recording 10.1%, which presents an opportunity for new market entrants following a 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—July 2021

GRADE	TOTAL STOCK SQM	VACANCY RATE %	ANNUAL NET ABSORPTION SQM	ANNUAL NET ADDITIONS SQM	AVERAGE NET FACE RENT \$/ SQM	AVERAGE INCENTIVE %	EFFECTIVE RENTAL GROWTH % YOY (net)	AVERAGE CORE MARKET YIELD %*
Prime	394,613	11.4	27,495	68,500	588	25-30	-7.6	5.00-5.75
Secondary	441,413	9.1	-5,838	1,763	476	25-30	-10	6.00-6.50
Total	830,026	10.1	21,657	70,263				

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

NEW DEVELOPMENT RESHAPING PARRAMATTA

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 130,000 sqm of prime office space in the past three years. The final and largest stage of the development, PSQ6&8 is currently under construction will deliver 120,000 sqm over the next year. The towers have already achieved a 60% commitment rate to Property NSW, Link Market Services, Westpac and recently Deloitte.

Outside Parramatta Square, GPT’s 32 Smith Street (26,400sqm) completed earlier this year and now has a commitment rate of c75%. Charter Hall’s partnered development with WSU at 2-6 Hassall Street (27,000 sqm) is near completion and will boast a Engineering Innovation Hub, already 40% pre-committed to UNSW and WSU. More recently, Scentre Group obtained approval to increase height for its proposed office tower on Parramatta Westfield allowing up to 105,000 sqm of commercial GFA, this project would represent the next development cycle beyond 2025.

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

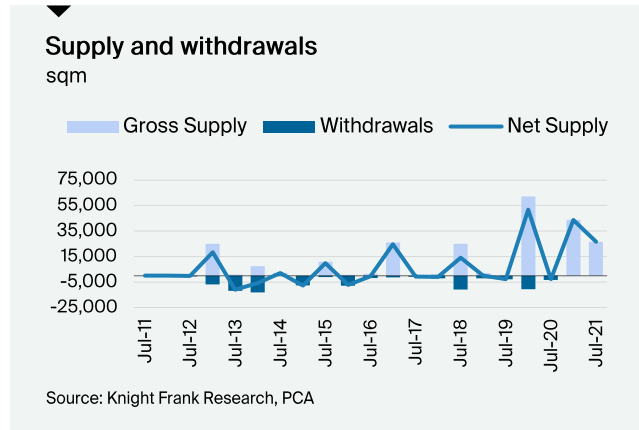
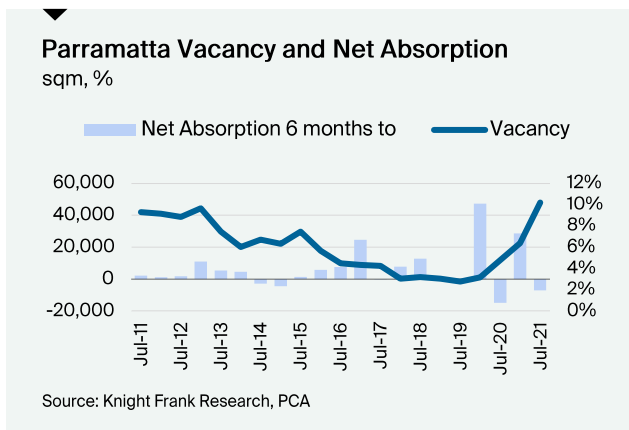
project has commenced with a number of properties across the 2.4Ha site around Horwood Place being compulsorily acquired and site works commencing imminently.

Increased vacancy presents opportunity for potential new entrants

Parramatta has hit its highest vacancy level in over 10 years, recording 10.1% as at July 2021, more than triple the level since the onset of the pandemic. Whilst tenant activity has been limited, the new development has been the catalyst for the rise in vacancy rather than significant loss of tenants. Since July 2016 the volume of office stock has increased by over 22% and this has been particularly pronounced over the past 12 months with a 9% jump in supply.

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 11.4% as at July 2021, up from 1.2% in July 2020. This increase now presents opportunity in a market that has been constrained for quality prime grade stock. Potential new entrants now have a credible range of options that weren’t previously available and local businesses are finally able to upgrade their premises to an equivalent standard enjoyed by their peers in North Sydney or Sydney CBD.

In the secondary market vacancy has stabilised at 9.1% as at July 2021, up from 8.9% six months prior. The secondary market has generally seen steady demand over the years on the back of the limited availability in the prime market. With more prime stock now available owners of older A Grade and B Grade buildings will likely need to make significant investment in refurbishing and spec fitting vacant tenancies and upgrading building facilities to attract tenants.



RESILIENT CAPITAL VALUES

Rental growth halts and incentives rise

After several years of strong rental growth coupled with a rise in vacancy has halted any further face rental growth and seen incentives rise since the onset of the pandemic.

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 July 2021.

Similar to competing markets, incentives have risen as owners seek to attract and retain tenants. Average prime incentives have increased to 27%, decreasing net effective rents to \$429/sqm, down 7.6% in the 12 months to July 2021. Average secondary incentives have risen to 30%, declining net effective rents by 10% to \$298/sqm.

Scarce investment opportunities

As experienced across all office markets investment activity has been limited over the last 18 months. Landlords have opted to hold on to assets throughout this period and with Parramatta historically being a thinly traded market investment volumes have been down over the last 18 months.

The recent transaction of 9 Wentworth Street marks the only major transaction of 2021. Parramatta Council acquired the asset from Mayrin Group for \$64 million. The major tenant (62%), Department of Home affairs will be vacating in mid 2023 which will see Council relocate its administration facilities from 126 Church Street into part of the building.

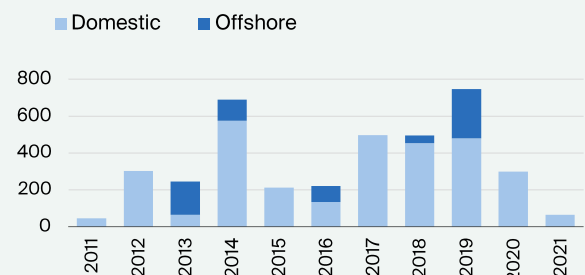
Competitive yield pricing

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 July 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
9 Wentworth Street	64.0	5.07	7,651	8,365	2.3	Parramatta Council	Mayrin Group	Sep-21
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

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	75%	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	2025+
159 Church Street	105,000	Scentre Group	-	-	DA Approved	2025+

* NAB has subleased 14,500 sqm

Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	FACE RENT \$/SQM (n)	TERM YRS	START DATE
Keshab Accountants~	32 Smith Street	660	660	5	Jul-21
AIPC~	31-39 Macquarie Street	557	500g	3	Apr-21
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

Pre-commitment ^ Renewal ~Existing space *Sublease AIPC- Australian institute professional counsellors

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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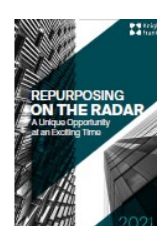
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