

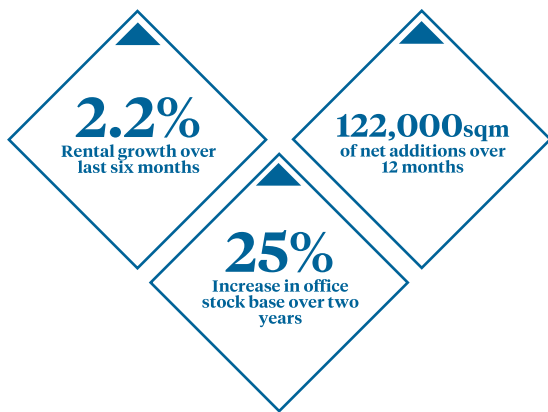
- *Record development and investment*
- *Now second largest CBD in NSW*
- *Increased prime vacancy presents opportunity for tenants*

Parramatta Office Market

Market Report, September 2022



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.

Parramatta CBD has overtaken North Sydney and Macquarie Park to become NSW second largest CBD by office stock size.

Parramatta has hit its highest prime grade vacancy rate, recording 20.8%, which presents an opportunity for new market entrants following an extended period of limited options.

Yields softening for the first time since 2009.

Parramatta CBD Office Market Indicators –July 2022

GRADE	TOTAL STOCK SQM	VACANCY RATE %	ANNUAL NET ABSORPTION SQM	ANNUAL NET ADDITIONS SQM	AVERAGE NET FACE RENT \$/SQM	INCENTIVE %	NET EFFECTIVE RENTAL GROWTH % YOY	CORE MARKET YIELD %*
Prime	549,408	20.9	85,164	154,795	600	30	-2.2	5.25-6.00
Secondary	408,610	17.3	-65,193	-32,803	477	33	-5.3	5.75-6.50
Total	958,018	19.3	19,971	121,992				

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

NEW DEVELOPMENT RESHAPING PARRAMATTA

Parramatta CBD now 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 two years the office stock base has grown by an unprecedented 25% to now total 958,018sqm making it the second largest CBD in NSW. Furthermore, prime stock accounts for 57% of the total stock base, up from 40% two years prior.

Leading the transformation is Walker Corporation’s Parramatta Square development, which has added over 320,000 sqm of prime office space over the last three years. Late last year PSQ6 (71,000sqm) was completed and more recently the final stage PSQ8 reached practical completion (53,000sqm). 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 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 refurbished stock, 150 George Street (21,964sqm) will come back to market early next year, following CBA vacating the building.

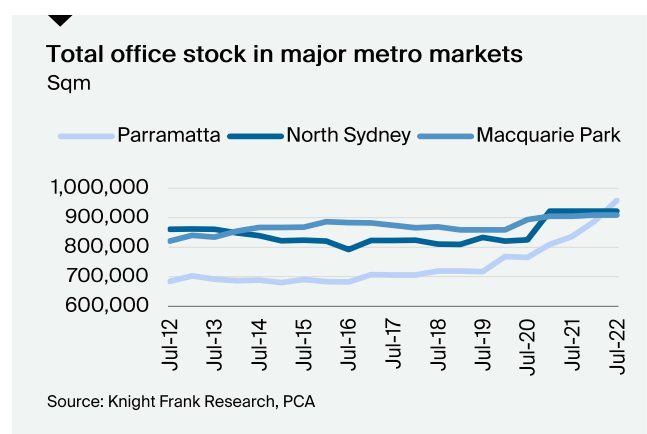
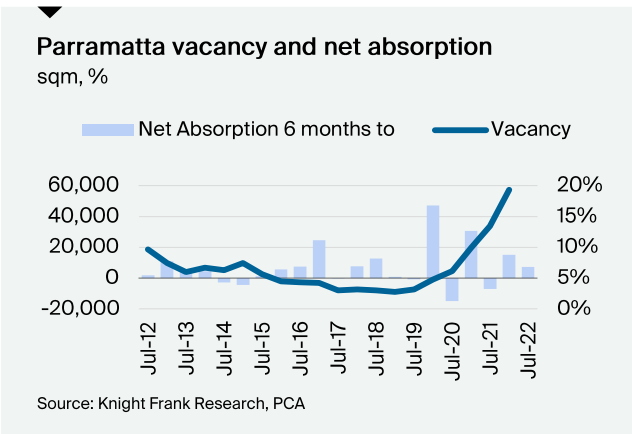
In terms of infrastructure investment, stage 1 of the Parramatta light rail project is underway and expected to open in 2023. Preparation for the Sydney Metro West project has commenced with a number of properties across the 2.4Ha site around Horwood Place and Macquarie Street compulsorily acquired.

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

Parramatta vacancy has recorded its highest rate on record to measure 19.3% as at July-22, well above the record lows of 3% in 2019. Whilst tenant activity has been positive with absorption levels of 7,327sqm recorded over the first half of 2022, the significant influx of new supply over the last year has been the catalyst for the rise. With the next wave of significant development not expected until at least 2024 the market has time to consolidate and absorb the current levels of stock and likely see vacancy pressure ease.

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 20.8% as at July 2022, up from 11.4% 12 months prior. 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.

In the secondary market vacancy has jumped to 17.2% following negative absorption of 37,501sqm. With more available prime space in the market and owners competing for tenants; the flight to quality trend will likely be more pronounced and see secondary grade owners potentially invest in refurbishing and upgrading these older assets.



CONSTRAINED INVESTMENT ACTIVITY

Face rents and incentives rise

Similar to competing markets, Parramatta has experienced face rental growth in the prime market over the last six months on the back of inflationary pressures and new stock entering the market. As a result, average prime net face rents have increased for the first time since January 2020, up 2%, measuring \$600/sqm (\$725/sqm gross face). As for the secondary market, face rents have remained steady at \$477/sqm (\$597/sqm gross).

With increasing availability of stock on the market incentives have edged higher as landlords look to attract tenants. Prime incentives now average 30% as at July-22, this has resulted net effective rents declining 2.2% over the last 12 months to measure \$420/sqm. Similarly, in the secondary market, incentives have edged higher to 32.5%, resulting in net effective rents declining by 5.3% over the year to average \$283/sqm.

Tightly held market

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. The higher funding costs and economic uncertainty is also impacting investment sentiment.

Following the sales of 32 Phillip Street and 140&150 George Street late last year, investment activity has been limited to one transaction thus far for 2022. Australian Unity placed 20 Smith Street on the market earlier this year and was acquired by a private investor for \$87.2 million on a core market yield of just under 5%. The asset comes with leasing risk with a 1.5 year WALE, however this allowed the purchaser to enter a tightly held market with opportunity to reposition the asset.

Recent significant sales

PROPERTY	PRICE \$M	CORE MARKET YIELD %	NLA SQM	\$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
20 Smith St	87.2	4.96	7,353	11,866	1.5	Smith Street Consolidated	Australian Unity	May-22
140 & 150 George Street	154.5	VP	21,964	7,034	0	Mintus	Dexus/CPPI*	Dec-21
32 Phillip Street	66.0	5.34	6,759	9,765	1.7	LC Partners	Australian Unity Fund	Dec-21

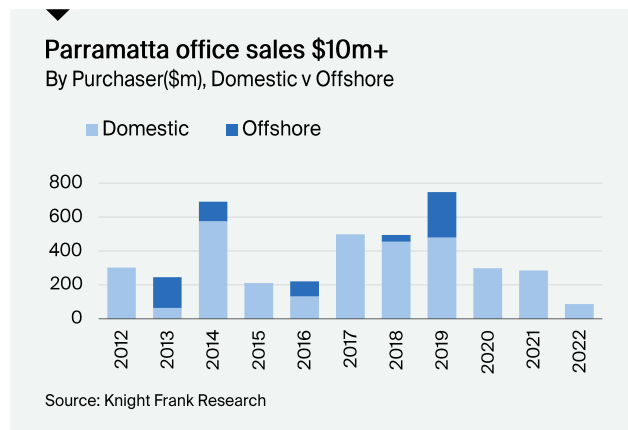
*Canada Pension Plan Investment Board

Yields begin to soften

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.

The impact of higher funding costs on pricing is starting to become apparent; however, it is too early to judge the full impact especially as further rate rises are still to come. Average prime yields in Parramatta have shifted up by 12.5 basis points to 5.6% similar to secondary yields now averaging 6.1%. Further softening of yields is anticipated throughout the year as the impact of higher funding costs filters through the market.



Parramatta major office supply

Address	Area (sqm)	Developer	Major Tenants	Commitment Rate (%)	Stage	Est. Date of Compl
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
PSQ8	71,000	Walker Corp	Westpac, Deloitte, Regus	60%	Complete	H1 2022
85 Macquarie Street	8,900	Holdmark	CBA	30%	U/C	H2 2022
150 George Street#	21,964	Mintus	-	-	Refurbishment	H1 2023
140 George Street	43,800	Mintus	-	-	DA Approved	2024+
2 Valentine Street	28,000	Australian Unity	-	-	DA Approved	2024+
87-91 George Street	84,000	GPT	-	-	DA Approved	2024+
110 George Street	53,000	RF Corval/Longbow	-	-	DA Approved	2024+

Backfill space from relocation of CBA.

Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	FACE RENT \$/SQM (n)	TERM YRS	START DATE
Gamuda~	60 Station Street	2,646	595	5	Q3-22
Procure Group~	18 Smith Street	286	560	3	Q3-22
CBHS Health~	6 Hassall Street	1,534	630	U/D	Q3-22
Pepper Money~	6 Hassall Street	1,534	630	U/D	Q3-22
JLL~	32 Smith Street	1,042	660	8	Q2-22
Department of Home	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

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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