

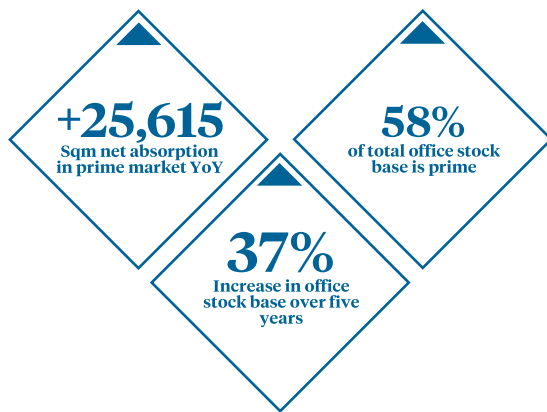
- *Prime vacancy presents opportunity for tenants*
- *Yield softening continues*

# Parramatta Office Market

Market Report, August 2023



# 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

Private and public investment is strengthening Parramatta’s position as a CBD centre with a vibrant and culturally diverse landscape.

Major investment in transport, residential development, hospitality as well as new civic and cultural spaces.

Parramatta prime grade vacancy rate sits at 19.4%, which presents an opportunity for new market entrants following an extended period of limited options.

With higher debt costs, yields have continued to soften in both the prime and secondary markets.

## Parramatta CBD Office Market Indicators –July 2023

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	571,372	19.4	25,615	21,964	586	36	-10.2	6.25-7.00
Secondary	409,463	29.0	-47,653	853	492	38	-11.5	7.00-7.50
<b>Total</b>	<b>980,835</b>	<b>23.4</b>	<b>-22,038</b>	<b>22,817</b>				

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

# POSITIVE TENANT DEMAND FOR PRIME SPACE

## Major developments enhancing Parramatta

The Parramatta CBD office market has undergone a major transformation over the last five years which has helped strengthen the city's position as a major CBD centre with a vibrant and culturally diverse landscape. Over the last five years the office stock base has grown by an unprecedented 37% to total 980,835sqm making it the second largest CBD in NSW. Furthermore, prime stock accounts for 58% of the total stock base, up from 47% two years prior.

Leading the office market transformation has been Walker Corporation's Parramatta Square \$2.8 billion development, now complete it has added over 320,000 sqm of prime office space. With the major development cycle now over, new supply is limited to Holdmark Property's development at 82 Macquarie Street (8,899 sqm) currently under construction and due for completion by the end of year,

Beyond the office market transformation there is currently major investment in transport, residential development, hospitality as well as new civic and cultural spaces. In terms of infrastructure investment, stage 1 of the Parramatta light rail project is expected to open by the end of the year. Construction for the \$26 billion Sydney Metro West project is also underway with completion anticipated around 2030.

The booming build to rent sector is making its mark in Parramatta with a number of projects in the pipeline which will help the housing supply shortage and boost the local economy. Furthermore, luxury hotel brand InterContinental will be opening its first hotel in Greater Western Sydney, located in the heart of the Parramatta CBD by the end of 2025.

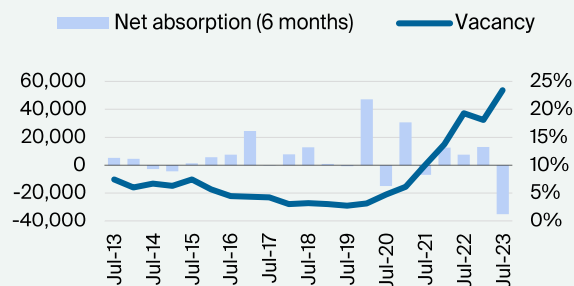
## Flight to quality trend continues

Parramatta vacancy has climbed to a record high in the first half of 2023, recording 23.4% as at July 2023 as a result of negative net absorption of 35,023 sqm in the six months to July 2023. The significant influx of new supply since early 2020 has also been a contributing factor to the rise in vacancy.

The increase in available stock in the prime market has been prevalent, with the prime stock office base doubling over the last four years, which prior to this prime availability was near non-existent. The slight increase in prime vacancy over the first half of 2023 from 18.0% to 19.4% largely resulted from 150 George Street coming back to market after its major refurbishment. Despite the increase in vacancy there was positive net absorption of 9,739 sqm recorded in the prime market in the six months to July 2023, which highlights the flight to quality trend. With the current development cycle near the end the market is well placed to absorb current supply levels as the potential for any new major developments is not expected until at least 2026.

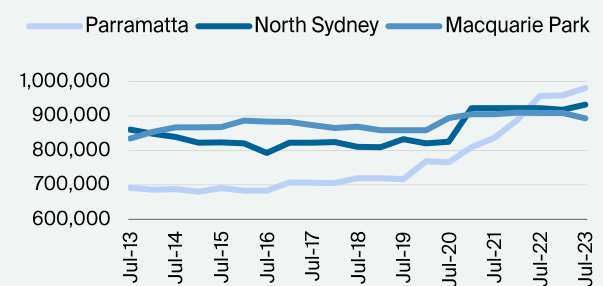
In the secondary market, overall vacancy lifted to 29% as at July 2023, up from 18.3% in January 2023, following negative absorption of 44,762 sqm. Since January 2020 the secondary market has struggled with many occupiers within Parramatta upgrading their space to prime stock, this is reflected in the negative absorption levels of 143,810sqm since January 2020. Whilst the prime market has surged with positive net absorption of 197,864 sqm over the same period. The flight to quality trend will likely be more pronounced in the coming years and see secondary grade owners potentially invest in refurbishing and upgrading these older assets.

**Parramatta vacancy and net absorption**  
sqm, %



Source: Knight Frank Research, PCA

**Total office stock in major metro markets**  
sqm



Source: Knight Frank Research, PCA

# CONSTRAINED INVESTMENT ACTIVITY

## The significant influx of supply and subdued demand has hindered rental performance

Parramatta has seen over 260,000 sqm of net prime office space added to the market since January 2020, which has inevitably increased the competition amongst prime buildings as landlords offer more attractive rentals to secure tenants. In the 12 months to July 2023, the average prime net face rent in Parramatta decreased by 2.3% to \$586/sqm (\$722/sqm gross face). This is the first time in a decade that there was a decline in rents. As for secondary market, net face rents average \$492/sqm (\$634/sqm gross face).

Unsurprisingly, incentives have increased to retain and attract new tenants. The average prime incentives increased from 32.5% to 35.7% over the first half of 2023. As a result, the prime average net effective rents dropped 10% over the year to \$377/sqm. The secondary market reported a similar trend over the same period, with secondary incentives elevating to 38.1% and average net effective rents declining by 12% to average \$250/sqm.

## Tightly held market with one transaction settled in the first half of 2023

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 activity has been limited to only one transaction of 144 Marsden Street so far for 2023. The Uniting Church in Australia Property Trust (NSW) acquired the building for \$18 million on a core market yield of c5.4%. The building comes with 1.7 year WALE, which provides the purchaser, who also owns the adjacent property, the opportunity to upgrade and occupy the building.

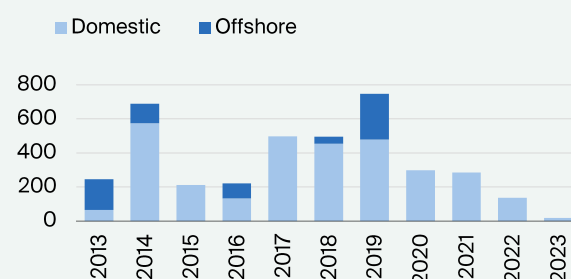
## Yields softening trend in line with other markets

Supported by long-term government strategic investment and an ongoing infrastructure pipeline, the Parramatta office market has always been an appealing investment to institutional and private investors. The prime yield arbitrage between Parramatta and Sydney CBD remains positive at 122 bps, offering an attractive pricing spread for investors.

Similar to competing markets, yields have continued to soften in both prime and secondary markets in Parramatta since mid-2022, with the higher funding costs filtering through the market. The average prime yield has shifted by 74 basis points to 6.63% in 6 months to July 2023. Similar shifting has been reported in the secondary market, with yields averaging 7.17% as of July 2023.

The continuous expansion of yields and the weak rental performance have contributed to capital values depreciating for both prime and secondary buildings. Looking ahead, further yield expansion is expected over the second half of the year as higher funding costs still filter through the market.

**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
<b>144 Marsden Street</b>	18.0	5.44	2,584	6,964	1.7	The Uniting Church in Australia Property Trust (NSW)	Premier Real Estate Pty Ltd	Feb-23
<b>9 George Street</b>	49.6	6.16*	5,479	9,058	2.8	Private	City of Brisbane Investment Corp	Dec-22^
<b>20 Smith St</b>	87.2	4.96	7,353	11,866	1.5	Smith Street Consolidated	Australian Unity	May-22

\*Fully Leased yield    ^Exchanged in December 2022 with Settlement February 2023



**Parramatta major office vacancy 7,500sqm +**

Address	Area (sqm)	Owner	Building Grade
<b>2-12 Macquarie Street</b>	25,000	Charter Hall	A
<b>150 George Street</b>	20,000	Mintus	A
<b>110 George Street</b>	17,500	RF Corval/ Longbow	A
<b>10 Valentine Street</b>	16,000	Aust Unity	A
<b>27 Argyle Street</b>	10,000	HYG	B
<b>60 Station Street</b>	9,500	GPT	A
<b>6&amp;8PSQ</b>	9,000	Walker Corp	A

**Recent significant tenant commitments**

OCCUPIER	PROPERTY	SIZE SQM	FACE RENT \$/SQM (n)	TERM YRS	START DATE
<b>KPMG ~</b>	3 Parramatta Square	3,544	653	12	Q1-23
<b>Anglicare~</b>	20 Charles Street	683	495	5	Q1-23
<b>Matrix~</b>	1-3 Fitzwilliam Street	1,284	470	10	Q1-23
<b>Constant Security ~</b>	87 Marsden St	200	540	4	Q1-23
<b>Longton Legal ~</b>	87 Marsden St	529	540	5	Q4-22

# Pre-commitment ~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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