

APRIL 2014

# SYDNEY CBD STRATA OFFICE

Market Brief

## HIGHLIGHTS

- Sydney CBD strata office sales volume, by value, totalled \$121.8 million in the 2013 calendar year, representing a 10.7% decrease on the 2012 result. However, on the back of the relatively strong demand for smaller strata opportunities, the volume of sales by number increased by 14.5% to 190 transactions.
- Underpinning buyer demand has been strong activity from owner occupiers, particularly via self-managed super funds (SMSF). Offshore buyers have also been active with notable interest from Asian investors for sub-100m<sup>2</sup> opportunities.
- Throughout 2013, the bulk of sales continued to be concentrated in the Core precinct (38.5% of total sales by value) followed by Midtown with 25.6%. Total sales by value in the Western Corridor decreased by 44.5% compared to CY2012 to account for 17.8% of total sales.

APRIL 2014

# SYDNEY CBD STRATA OFFICE

Market Brief

Table 1  
Sydney CBD Strata Office Market Indicators

2013 Calendar Year data

Precinct	Number of Transactions		Total Sales Volume by Value		Total Area of Sales (m <sup>2</sup> )	Average Rate Per Square Metre*	Average Sale Price*		
	(No.)	(%p.a)	(\$m)	(%p.a)		(\$/m <sup>2</sup> )	(%p.a)	(\\$)	(%p.a)
Core	74	51.0	46.9	25.1	7,210	6,504	11.5	633,760	-17.2
Western Corridor	24	-25.0	21.7	-44.5	4,621	4,698	-6.0	904,666	-26.0
Midtown	53	-11.7	31.2	-20.6	6,038	5,171	-3.9	589,183	-10.1
Southern	30	50.0	12.4	-16.8	2,406	5,148	31.9	412,942	-44.6
Waterfront	9	80.0	9.6	70.9	1,221	7,876	-5.7	1,068,591	-5.0
<b>Total#</b>	<b>190</b>	<b>14.5</b>	<b>121.8</b>	<b>-10.7</b>	<b>21,496</b>	<b>5,668</b>	<b>10.7</b>	<b>641,277</b>	<b>-22.0</b>

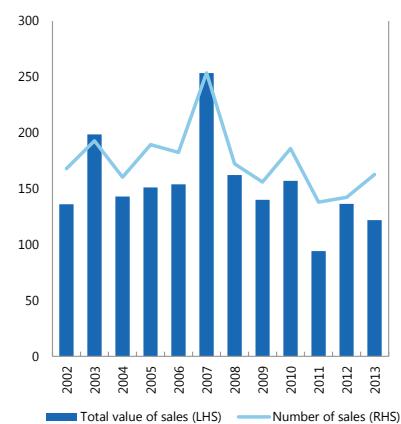
Source: Cityscope/Knight Frank Research

\* Transaction values adjusted to exclude car parking

# Weighted average based on volume of transactions per precinct

Despite some early signs of improving business conditions, CBD strata sales continue to trend below pre-GFC levels. In 2013, sales amounted to \$121.8 million, a 10.7% decrease compared to 2012 and 19.5% below the 10 year average. However, relatively stronger demand for sub-100m<sup>2</sup> suites resulted in a 14.5% increase in sales volume by number, which measured 190 transactions. This was the second successive annual increase by number.

Figure 1  
Sydney CBD Strata Annual Sales  
\$ million value (LHS) and number (RHS)



Source: Cityscope/Knight Frank

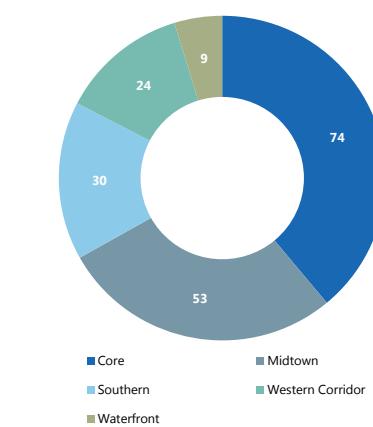
## Sales Activity by Precinct

The majority of buyer enquiry continues to be focussed in the core precinct which contains majority of the stock. By value, the core accounted for 38.5% of total sales, equivalent to \$46.9 million. By number, the

Core increased a substantial 51% from the 2012 level to measure 74 sales.

The Midtown and Western Corridor accounted for 25.6% and 17.8% of sales by value respectively. After recording higher sales volumes compared to the Core in 2012, activity declined in both precincts in 2013 as buyer demand shifted towards the Core.

Figure 2  
2013 Sales Volumes by Number  
Number of transactions per CBD precinct

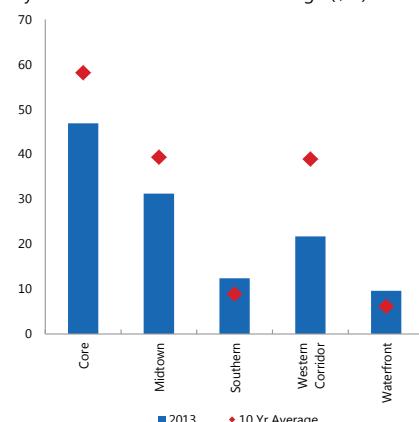


Source: Cityscope/Knight Frank

The Southern and Waterfront precincts were the only two areas to record sales volumes above their 10 year averages (refer Figure 3). However, these regions combined, have historically only accounted for approximately 10% of total volume and therefore the increase has not been sufficient to offset the lower levels in the other, larger precincts. The Southern precinct continues to benefit from strong Asian investment given its

proximity to China Town and a number of educational institutions.

Figure 3  
Annual Sales Volumes by Value  
By Precinct – 2013 vs 10 Year Average (\$m)



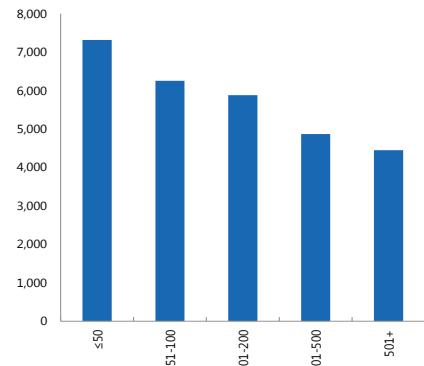
Source: Cityscope/Knight Frank

## Rates per square metre

The average rate per square metre achieved throughout 2013 measured \$5,668/m<sup>2</sup>, an annual increase of 10.7%. However, a key factor underpinning the increase was a greater share of sales constituting smaller floor areas, where rates per square metre tend to be higher. For instance, in 2013, the rate for strata sales in excess of 500m<sup>2</sup> was \$4,448/m<sup>2</sup>. However, by comparison, sub-50m<sup>2</sup> strata sales reflected an average rate of \$7,315/m<sup>2</sup>, a 64% premium. Illustrative of the increase in sales volumes of smaller sized product, the sales of sub-100m<sup>2</sup> suites almost doubled in 2013, while the number of

sales achieved for strata suites above 100m<sup>2</sup> declined by 34%.

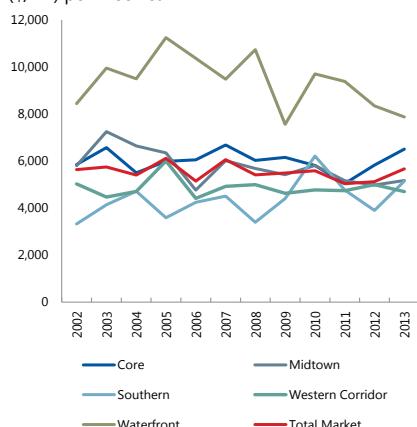
Figure 4  
Average \$/m<sup>2</sup> Value by Size Bracket (\$/m<sup>2</sup>) per size bracket



Source: Cityscope/Knight Frank

Amongst the precincts, the Core and Southern areas posted annual increases in average rate per square metre of 11.5% and 31.9% respectively. Although impacted by the aforementioned variation in average sale size by area, the increase in these two precincts nevertheless reflects comparatively firmer demand in the Core and the strong offshore interest in the Southern precinct. The Waterfront and Western Corridor saw modest declines in rates per square metre of 5.7% and 6% respectively. The Waterfront remains the most expensive precinct at an average rate per square metre of \$7,876/m<sup>2</sup>, reflecting a 42% premium above other areas.

Figure 5  
Average Capital Value (\$/m<sup>2</sup>) per Precinct

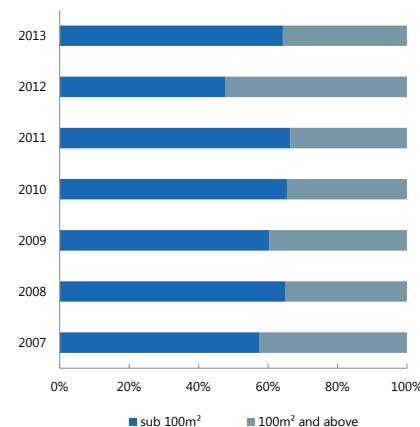


Source: Cityscope/Knight Frank

## Average Sale Size

The average 2013 strata sale price was \$641,277, which was down 22% from the previous year. All precincts recorded a decrease. This trend was another result of relatively stronger sales activity amongst smaller strata suite areas. Sales of suites less than 100m<sup>2</sup> accounted for 64.2% of total sales. Although this is reasonably in line with the historical norm, it was a marked increase from the relatively low 47.6% recorded in 2012.

Figure 6  
Composition of Sales by Size Bracket (% Of Transactions)



Source: Cityscope/Knight Frank

A key factor behind the relatively stronger demand for smaller suites has been demand from owner occupiers acquiring business premises via a self-managed superannuation fund (SMSF). Rent can then be paid directly into the SMSF at the market rate. SMSF enquiry, however, is predominantly confined to sub \$1 million opportunities.

## DEMAND CONTINUES TO BE RELATIVELY FIRMER FOR SUB 100M<sup>2</sup> PRODUCT

Although buyer activity has been less buoyant for larger suite sizes, there has been some tentative signs of demand from larger owner occupiers in the finance, legal or medical sectors. In a number of these cases, the purchased strata suite has been larger than immediately required, however this has provided flexibility for future growth or contemporary fit outs. In many cases, such activity has been supported by relatively low borrowing costs.

## New Supply

Since the GFC, strata supply has been very limited with only three new projects completing. These included 350 George Street, which was acquired by Abacus Property Group and W Property in 2010. The building underwent a full refurbishment and has now been fully sold as strata. Supply has also stemmed from 265 Castlereagh Street following a full refurbishment of the 5,543m<sup>2</sup> building by Henroth. The building has now been sold as strata with only three suites remaining available for sale. In the only post GFC supply to consist of a new building, 257 Clarence Street was built following the demolition of the previous building in 2008. Developed by Alliance Française, the new building consists of 15 levels with an average floor plate of 285m<sup>2</sup>. All strata suites in the building have now been sold. No new supply was added in 2013.

## Outlook

The themes that characterised the CBD strata market in 2013 are expected to continue over the coming year. Demand continues to be relatively firmer for sub-100m<sup>2</sup> product, particularly that with a quality fit out in place. The steady flow of offshore demand, largely emanating from Asia, is also expected to be sustained with active enquiry from Singapore, Hong Kong and mainland China currently in the market. In terms of price point, the majority of strata buyers are continuing to show a preference for suites below \$1 million.

# RESEARCH



## Americas

USA  
Bermuda  
Brazil  
Canada  
Caribbean  
Chile

## Australasia

Australia  
New Zealand

## Europe

UK  
Belgium  
Czech Republic  
France  
Germany  
Hungary  
Ireland  
Italy  
Monaco  
Poland  
Portugal  
Romania  
Russia  
Spain  
The Netherlands  
Ukraine

## Africa

Botswana  
Kenya  
Malawi  
Nigeria  
South Africa  
Tanzania  
Uganda  
Zambia  
Zimbabwe

## Asia

Cambodia  
China  
Hong Kong  
India  
Indonesia  
Macau  
Malaysia  
Singapore  
South Korea  
Thailand  
Vietnam

## The Gulf

Bahrain  
Abu Dhabi, UAE

## Knight Frank Research

**Matt Whitby**  
National Director,  
Head of Research & Consultancy  
+61 2 9036 6616  
Matt.Whitby@au.knightfrank.com

**Nick Hoskins**  
Associate Director, NSW Research  
+61 2 9036 6766  
Nick.Hoskins@au.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, financial and corporate institutions. All recognise the need for the provision of expert independent advice customised to their specific needs.

Knight Frank Research reports are also available at [KnightFrank.com.au](http://KnightFrank.com.au)

### © Knight Frank 2014

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not permitted without prior consent of, and proper reference to Knight Frank Research.

## Commercial Agency Contacts

**John Bowie Wilson**  
Director, City Sales  
+61 2 9036 6743  
John.BowieWilson@au.knightfrank.com

**Andrew Palmer**  
Executive, City Sales  
+61 2 9036 6646  
Andrew.Palmer@au.knightfrank.com

**Andy Hu**  
Executive, Asian Markets & Commercial Sales  
+61 2 9036 6613  
Andy.Hu@au.knightfrank.com

**John Swanson**  
Executive, Commercial Sales City Fringe  
+61 2 9036 6802  
John.Swanson@au.knightfrank.com

**Richard Horne**  
Managing Director, NSW  
+61 2 9036 6622  
Richard.Horne@au.knightfrank.com