



THE SYDNEY CBD
OFFICE MARKET UPDATE
SUMMER 2018



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SYDNEY CBD REGIONS

The Sydney CBD is Australia’s largest commercial property market comprising of **5,023,997sqm** of office space. Characterised by a large financial services sector, the market has seen a large influx by the Information Technology sector in the last few years. The Sydney CBD now consists of the following six major precincts. Each of these sub-markets have performed well over the last 6 months with vacancy sub 4% for all markets except Walsh Bay.





HIGHLIGHTS:

- Vacancy rates in the Sydney CBD decreased by 1.2% over the 6 months to January 2018 from 5.8% to 4.6%
- Over the same period, Sydney recorded approximately 100,000sqm of stock withdrawal
- Supply of 37,376sqm over the past six months was well below the historical average of 80,000sqm for the same period

MARKET UPDATE

The PCA Office Market figures released for 31 December 2017, show that the vacancy has reduced to 4.6% since 30 June 2017. The Sydney CBD recorded minimal net absorption, with the vacancy reducing due to the approximately 100,000sqm of stock withdrawn from the market over this time. Recent withdrawal has been predominantly based on the metro rail link and new commercial developments. Minimal new supply is due to come online in 2018 seeing downward pressure on vacancy rates.

WHAT'S TRENDING



4.6%

LOWEST VACANCY RATE IN ALMOST 10 YEARS: All building grades except in A-grade (which remains static) reduced in vacancy in the period from July 2017 to January 2018.



CONTINUED WITHDRAWALS: Further withdrawals anticipated for 2018 include 66 King Street (7,000sqm) which will be refurbished and 210-220 George Street (13,675sqm) and 33 Pitt Street (13,000sqm) for new commercial development.



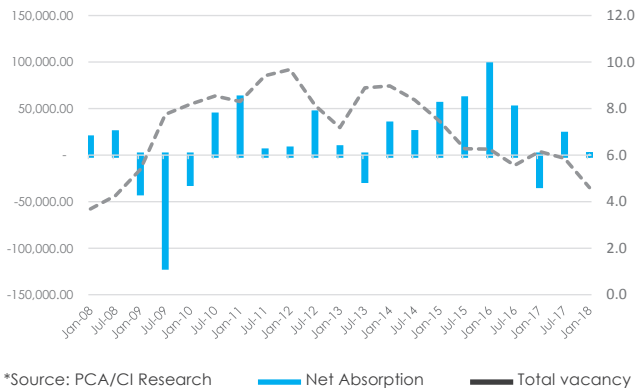
STRONG TENANT DEMAND: Strong tenant demand continues into the early part of 2018 with 47 represented enquires totalling just over 100,000sqm looking for space in the Sydney CBD and Fringe received.



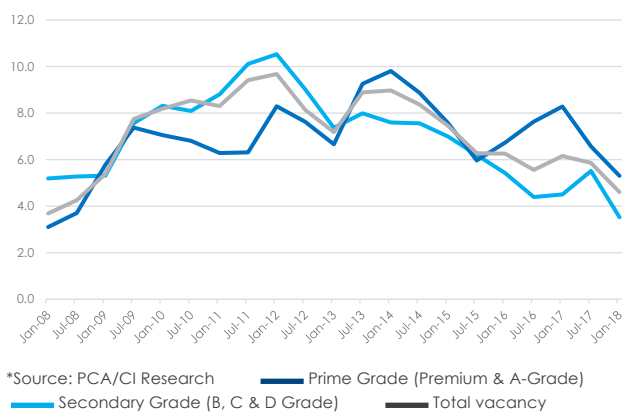
EFFICIENT USE OF SPACE: With reducing vacancy, increasing rental growth combined with a reduction in incentives, the efficient use of space occupied is paramount. More time and effort is focussed in the initial design stage of any new office fit-out, ensuring the business will perform at its optimum level, whilst factoring in future growth.

VACANCY & NET ABSORPTION

NET ABSORPTION (6 MTHS TO) & VACANCY



SYDNEY CBD VACANCY FACTOR (%)



All Grades decreased in vacancy, except for A-Grade, with the C & D Grade markets having dramatic reductions in their vacancy rates over the last 6 months due to withdrawals of 99,695sqm and net absorption being 345sqm in the Sydney CBD.

Details of vacancy is as follows:

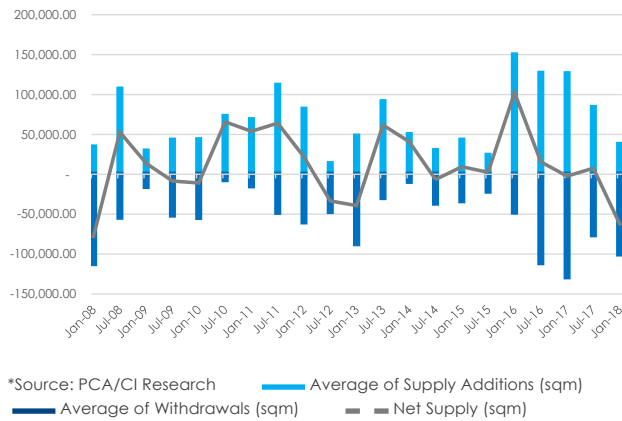
- Premium - 6.9% reducing from 9.5%
- A Grade - 3.7% remained at 3.7%
- B Grade - 4.8% reducing from 5.8%
- C Grade - 3.7% reducing from 6.9%
- D Grade - 2.1% reducing from 3.8%

MARKET	VACANCY JAN 2018 (%)	VACANCY JUL 2017 (%)	NET ABSORPTION, 6 MONTHS TO JAN 2018 (SQM)	NET ABSORPTION, 12 MONTHS TO JAN 2018 (SQM)
City Core	3.9	3.5	-95,514	-103,732
Midtown	3.8	4.2	3,657	11,852
Southern	0.9	2.5	5,715	27,596
Western	3.9	6.6	52,436	36,152
The Rocks	3.4	5.1	611	-4,187
Walsh Bay	19.0	28.3	33,440	57,146
Total Market	4.6	5.8	345	24,827

*Source: PCA/CI Research

COMMERCIAL STOCK

NET SUPPLY (SQM)



The Sydney CBD recorded well below the average supply additions of only 37,376sqm while withdrawals were 99,695sqm for the six month period to January 2018. The historical average of net supply is over 80,000sqm for six months and we believe supply will remain below the historical average over the next three years. The withdrawals mainly occurred due to infrastructure development.

The reduction of available office supply combined with increased demand from tenants resulted in a continued upward pressure on face rents and a reduction in incentives.

MARKET	WITHDRAWALS (JULY 2017) (SQM)	WITHDRAWALS (JAN 2018) (SQM)	TOTAL STOCK (JAN 2018) (SQM)
City Core	44,260	92,564	1,969,551
Midtown	11,919	480	1,182,981
Southern	0	0	378,927
Western	12,042	6,251	1,122,196
The Rocks	7,600	0	34,901
Walsh Bay	0	400	33,441
Total Market	75,821	99,695	5,023,997

*Source: PCA/CI Research

SALES ACTIVITY

2017 saw a resurgence of investment activity in the Sydney CBD with office investment transactions up year on year to approximately \$4.98 billion. Strong investment activity towards the end of the year produced some strong results and caused yields to compress further. The high volume of transactions is reflective of both an increase in core assets put to the market and a high level of investor demand, particularly from overseas buyers.

Foreign investors dominated the market in 2017 accounting for a large proportion approximately 40%

of the total acquisitions and interestingly approximately 50% of the vendors were foreign investors. The most active foreign purchasers were from Singapore and Hong Kong whereas the most active sellers were from the US and the UK.

A total of 27 assets transacted last year with 10 transacting in Q4 alone. Whilst lower than the previous year of 33, it shows an increase in average transaction size of approximately 50%. This is attributed to a higher number of core assets being traded and the recent dramatic capital value growth in the Sydney CBD.

NO.	ADDRESS	NLA APPROX. (SQM)	DATE	PRICE (\$)	YIELD (%)
88	Cumberland St	4,675	Feb 18	56,000,000	4.2
1	York St	18,408	Jan 18	204,075,486	N/A
299	Elizabeth St	5,974	Jan 18	90,000,000	4.2
231	Elizabeth St	23,274	Dec 17	342,000,000	5.2
1	Castlereagh St	11,659	Dec 17	220,000,000	3.8
10	Barrack St	9,595	Dec 17	138,000,000	N/A
160	Sussex St	8,369	Dec 17	94,580,000	4.9
9	Hunter St	15,644	Nov 17	202,000,000	4.9
20	Hunter St	10,147	Nov 17	192,500,000	N/A
130	Pitt St	9,600	Nov 17	229,000,000	3.8
66-68	Goulburn St	23,188	Nov 17	252,000,000	5.3
18-20	York St	2,050	Oct 17	30,700,000	4.7
210	Clarence St	3,860	Oct 17	43,880,000	3.9
50	Pitt St	9,897	Sep 17	165,000,000	4.8
10	Spring St	13,871	Sep 17	270,050,000	3.9
10	Carrington St	66,998	Sep 17	1,916,000,000	4.8
332-338	Kent St	1,570	Sep 17	25,000,000	4.0
59	Goulburn St	19,552	Jul 17	158,000,000	6.0
131	Macquarie St	523	Jul 17	7,860,000	N/A
70	Castlereagh St	389	Jul 17	4,900,000	N/A
112-120	Castlereagh St	1,700	Jul 17	59,000,000	3.8

*Source: CI Research

LEASING ACTIVITY



HIGH DEMAND
FROM CO-WORKING
& TECH FIRMS

The current trend continuing in the Sydney CBD market is the demand from both the tech sector as well as the co-working sector. Hub Australia have secured a lease over 66 King Street totalling 7,000sqm and WeWork having another circa 20,000sqm under offer including 403 George Street (3,500sqm) and 383 George Street (4,000sqm). Also Workclub have agreed terms to lease space in 201 Kent Street (approx 2,000sqm).

NO.	ADDRESS	NLA APPROX. (SQM)	DATE	RENT (\$/SQM)	TENANT
151	Clarence St	4,640	Dec 17	1,065	Pfizer
280	Elizabeth St	5,335	Nov 17	595	Department of Veteran's Affairs
580	George St	2,015	Sep 17	925 G	APT Management Services
580	George St	2,000	Sep 17	925	APA Group
225	George St	3,149	Sep 17	1,215	Jardine Lloyd Thompson
259	George St	4,750	Sep 17	995 G	Aust. Inst. Of Comp. Directors
126	Phillip St	2,888	Sep 17	910 N	Treasury Corp
201	Sussex St	2,940	Sep 17	920 N	Dimension Data
201	Sussex St	3,079	Sep 17	1,010 N	Adobe Systems
363	George St	2,538	Aug 17	925 G	Atlassian
19	Martin Place	2,240	Jun 17	960 N	Magellan Asset Management

*Source: CI Research

TENANT REPRESENTATION ACTIVITY



TURNKEY
PROJECTS

Direct vacancy has been reported at 4.4% which is the lowest reported since January 2009. This trend is set to continue in 2018. The lack of supply drives net rental increases and lower incentives and the landlords market continues. This drives tenants to explore the North Shore and City Fringe markets, which will continue until the next supply cycle in 2020 - 2022. Its not all bad news for tenants, who are saving large upfront costs as we see landlords offering turnkey solutions to compete with the expanding co-working environments designed for smaller tenants.

CURRENT ENQUIRIES

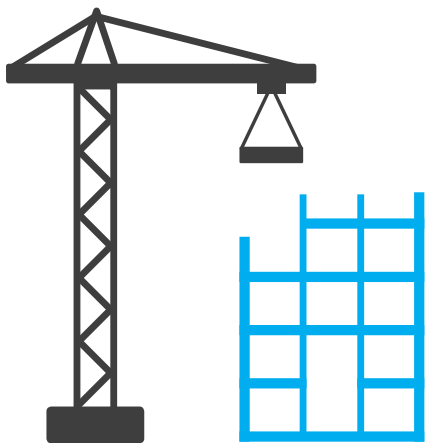
TENANT	SUBURB	AREA (SQM)	OCCUPATION
BlueChilli Group	Sydney	1,500	2019
Curwoods Lawyers	Sydney	3,000 - 4,000	2019
ELMO Software Limited	Sydney	1,200 - 1,600	Q2 2018
NPS MedicineWise	Sydney and city fringe	2,500	Q4 2018
WPP AUNZ (GroupM)	Sydney, North Sydney and city fringe	10,000 - 12,000	Q1 2019
Publicis Groupe	Sydney, North Sydney and city fringe	9,000 - 11,000	Q2 2018
Employsure	Sydney and city fringe	1,300 - 1,600	Q2 2019
Australia Council for the Arts	Sydney and city fringe	2,500 - 3,000	Q1 2019

*Source: CI Research

DEVELOPMENT ACTIVITY

NO.	ADDRESS	STATUS	COMPLETION	NLA (SQM)
3	Sussex Street	Complete	Q3 2017	6,885
10	Shelley Street	Complete	Q3 2017	27,718
201	Sussex Street (Tower 2)	Complete	Q3 2017	2,773
167	Phillip Street	Construction	Q1 2018	2,106
140	Sussex Street	Construction	Q1 2018	12,042
201	Sussex Street (Tower 2)	Construction	Q2 2018	35,227
345	George Street	Construction	Q2 2018	1,244
2	Bligh Street	Construction	Q3 2018	4,454
151	Clarence Street	Construction	Q3 2018	22,000
309	Kent Street	Construction	Q4 2018	3,192
100	Broadway	Construction	Q4 2018	5,447
283-285	Clarence Street	Site Works	Q1 2019	1,878
275	George Street	DA Approved	Q3 2019	6,363
60	Martin Place	Site Works	Q3 2019	40,000
10	Carrington Street	Site Works	Q1 2020+	58,974
50	Bridge Street	DA Approved	Q3 2020+	88,274
210-220	George Street	DA Submitted	Q2 2021	17,000
174-182	Circular Quay Tower: George Street	DA Submitted	Q4 2022	55,500
33-37	Pitt Street			
6	York Street	DA Approved	Mooted	6,000
33	Bligh Street	DA Approved	Mooted	24,000

*Source: PCA/CI Research



At present Sydney CBD has approximately 305,000sqm of office space under construction or with planning approved. The most notable of the projects being Brookfield's \$1.8 billion Wynyard Place development, which is set to deliver approx. 75,400sqm, and Investa and Gwynvill's 60 Martin Place, which will deliver 40,000sqm, to the market.

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CI CBD TEAM

The Sydney CBD Team at CI comprises of professional individuals, devoted to ensuring all client needs are met with precision and efficiency. Please contact our team to discuss the potential of your assets and we will endeavour to make sure your key drivers are achieved.

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- Commercial Leasing
- Tenant Representation Services
- Investment Sales
- Asset Management
- Engineering & Facilities Management
- Valuations & Advisory
- Marketing & Research

The CI Research department benefits from a vast network of industry connections and the inherent resource of property knowledge that accompanies. The teams at CI are dedicated in providing their personal knowledge and market opinions in the construction of this report, and work closely with our research teams to ensure an accurate market overview is achieved.

CI RECENT RESEARCH PUBLICATION



Martin Place Research Report - January 2018



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