

THE NORTH SHORE

Commercial Market Overview

Spring

2017

Feature Article:

“Revitalising the North Shore”





The CI Team

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



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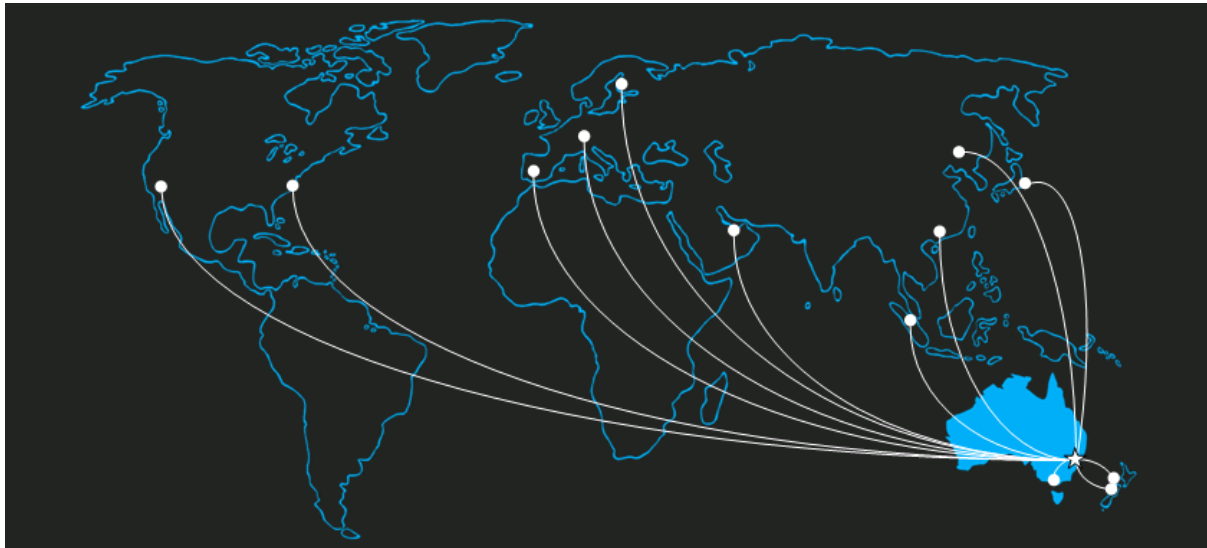
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Market Feature



Revitalising the North Shore

Domestic and **offshore investors** and **developers** alike are taking advantage of the North Shore market with the **billion dollar pipeline** of development including Victoria Cross Station and a number of new office, retail and hotel developments. In the medium term, the North Shore, in particular North Sydney and Macquarie Park are going to be more **accessible** than ever before with **improved transport** and retail **facilities**. Ultimately, the precincts will become essential elements of **Sydney's economic arc**.

As the area is becoming revitalised, **rental growth is expected** to grow, already witnessing a **25%** growth in the past 12 months alone. As such, expect further **downward pressure on yields** for the North Shore as effective rental growth crystallises and offshore group seek assets as stock in the **Sydney CBD remains scarce**.

Highlights

- Increase in infrastructure is repositioning the North Shore.
- Net effective rents are increasing as secondary stock is withdrawn for new office towers and building conversions.
- Major pre-commitments

The Market The North Shore

The Sydney North Shore is a collection of four dynamic commercial markets located within proximity to the Sydney CBD. The area encapsulated in this group extends from the Northern end of the Sydney Harbour Bridge through to major northern metropolitan areas, such as Macquarie Park.

Characterised by its dynamic central core, The North Sydney CBD has historically been regarded as the focal point of the North Shore office market. However, in terms of total office space, it has been eclipsed by Macquarie Park, which now sits as NSW's largest office market outside of the Sydney CBD. The North Shore area is an active environment for developers, investors and tenants seeking opportunities made available through its broad and diverse markets, offering a variety of size, use and growth potential.

When combined, these four markets provide a total **2,289,125sqm** of commercial office space. These include:

1. North Sydney **822,496sqm**
2. Crows Nest/St Leonards **314,017sqm**
3. Chatswood **278,919sqm**
4. Macquarie Park (MP) **873,693sqm**



North Shore July 2017

Commercial Stock



Total Stock	:	2,289,125sqm (including Macquarie Park*)
Total Stock	:	1,415,432sqm (excluding Macquarie Park*)
Total Vacancy	:	111,593sqm (excluding Macquarie Park*)
Vacancy Factor	:	7.9% (excluding Macquarie Park*)
Net Absorption	:	950sqm (12 months to July 2017)

Commercial Sales

Recent Activity	:	\$2B (approx) sold in July 2016 to July 2017
Market Yields	:	A Grade 5.00% - 5.75%
		Secondary Grades 5.50% - 6.00%



Bevan Kenny
Managing Director,
CI Australia

"Offshore investors continue to lead the way, bidding aggressively for assets with large land holdings and redevelopment potential."

Commercial Leasing

Recent Activity	:	35,300sqm of commercial space leased July 16 to July 17
Net Face Rent	:	Approx. \$550 - \$850 per sqm for Prime Grades property
		Approx. \$445 - \$715 per sqm for Secondary Grades property
Market Incentives	:	Prime Stock – 20-28% gross
		Secondary Stock - 15 - 25% gross
		Depending on rental levels, product + availability



Anthony Merrett
Director,
CI Australia

"Net effective rentals will continue to improve with minimal new supply forecast"

Note: All Figures are approximate. Figures are sourced from the PCA and CI Research.

*Statistics and records for 'The North Shore' sourced from PCA do not include Macquarie Park in its figures. This is due to the variety and scale of stock in these precincts. For information about Macquarie Park/North Ryde, [click here](#)

What's Trending



Increased tenant demand is supporting strong effective rental growth with incentives reducing.



There is a consistent pipeline of new commercial supply however with few sites suitable for commercial premises, more developers are choosing to redevelop for residential purposes.



Permanent withdrawals of stock have made way for new residential and hotel development primarily in North Sydney, Milsons Point and St Leonards as well as the construction of the Sydney Metro.



Interest from onshore and offshore investors is strengthening the market.



Tenant dislocation from the Sydney CBD as well as North Sydney; has seen an increase in tenants looking to relocate.



Sydney's Metro project is the biggest transport development to be undertaken in Australia with the Northwest sector available in the first half of 2019. The project will create further connections to the North Shore, with the intention to provide one train every two minutes in both directions of the Sydney CBD during peak hours.



North Sydney CBD

Commercial Stock: 822,496sqm

Vacancy Rate: 6.4%

Based on Figures at July 2017
Source PCA & CI Australia Research

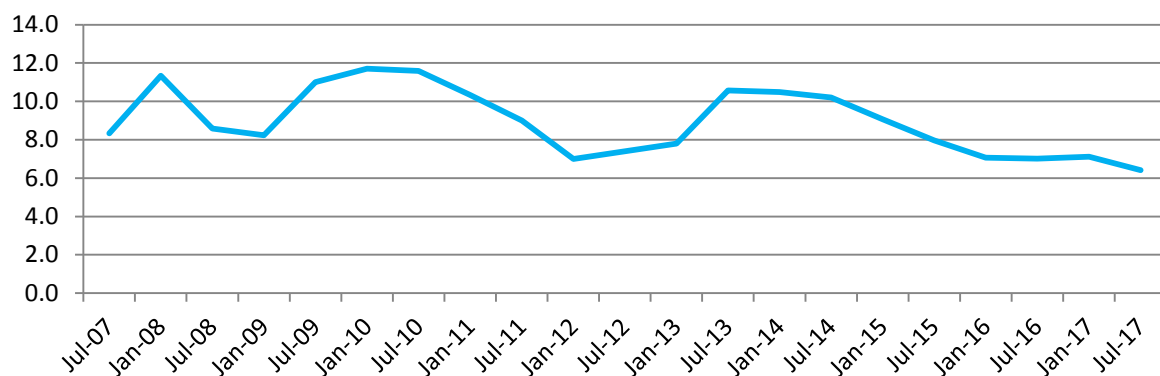
Vacancy Rates

The continuing **decrease** in vacancy rates can be attributed to the **increasing** demand for office space, stock withdrawal for residential development and the compulsory acquisitions of stock for the Victoria Cross station.

Grade	Vacancy July 2017 (%)	Vacancy July 2016 (%)	Net Absorption, 6 months to July 2017 (sqm)	Net Absorption, 12 months to July 2017 (sqm)
Premium	17.4	41.2	2,832	12,051
A	4.1	5.4	4,346	38,876
B	7.8	6.1	-121	-14,918
C	3.6	4.9	-156	-3,119
D	3.0	3.0	84	-7
Total Market	6.4	7.0	6,985	32,883

North Sydney 10-Year Total Vacancy Factor (%)

Based on figures at July 2017 (Source PCA/CI Australia)



Sales Activity



Presently, the market is witnessing a tightening of yields.



There has been an increased interest from offshore investors.

No.	Address	Area (sqm)	Date	Price (\$)	Yield (%)
165	Walker Street	5254	Aug 17	55,900,000	5.3
116 173	Miller Street Pacific Highway	8,452	Jul 17	134,000,000	5.25
146	Arthur Street	8,195	Mar 17	78,000,000	5.5
2	Elizabeth Plaza	7,642	Mar 17	81,000,000	6.2
88-92	Walker Street	2,972	Mar 17	20,000,000	N/A
15	Blue Street	16,869	Mar 17	168,000,000	5.50
30	Alfred Street, North Sydney	3,706	Dec 16	55,000,000	N/A

Leasing Activity



There were no additions or withdrawals in stock in the last 6 months to July 2017.



Premium Stock recorded a decrease of 7.8% in vacancy over the last 6 months to July 2017.



Incentive levels remained relatively steady with B Grade at 25-30% and A Grade at 25-28% (Gross).



B Grade rental levels are set to increase with already a 25-30% increase in the last 12 months.

No.	Address	Area (sqm)	Date	Price (\$/sqm)	Tenant
99	Mount Street	320	Sept 17	775 (G)	Dept Fix
99	Mount Street	132	Sept 17	745 (G)	Sungrow Power
141	Walker Street	967	July 17	800 (N)	Genesys
201	Miller Street	405	July 17	650 (n)	Veva Systems
141	Walker Street	468	Feb 17	795 (N)	Loftex
153	Walker Street	373	Oct 17	580 (G)	Next Gen Distributions

Development Activity



The 2016 completion of 177-199 Pacific Highway North Sydney (39,383sqm) (Suntec REIT) was the largest contributor to new stock. Since, there have been no new additions.



Future supply in North Sydney will come from 1 Denison Street (seeking 65,021sqm – early 2020) and 100 Mount Street (40,608sqm – early 2019).



Withdrawal for residential conversion include 168 Walker Street (17,873sqm) and 61 Lavender Street (10,500sqm).



Recently, the DA at 118 Mount Street was approved which will add an additional 20,000sqm of office stock.

No.	Address	Status	Completion	NLA (sqm)
100	Pacific Hwy, North Sydney	Partial Refurbishment	Q3 2017	1,408
100	Mount St, North Sydney	Construction	Q1 2019+	42,000
1	Denison, North Sydney	Site Works	Q1 2019+	45,720
118	Mount Street	DA Approved	Q4 2020 +	21,000



Crows Nest/St Leonards

Commercial Stock: 314,017sqm

Vacancy Rate: 12.6%

Based on Figures at July 2017
Source PCA & CI Australia Research

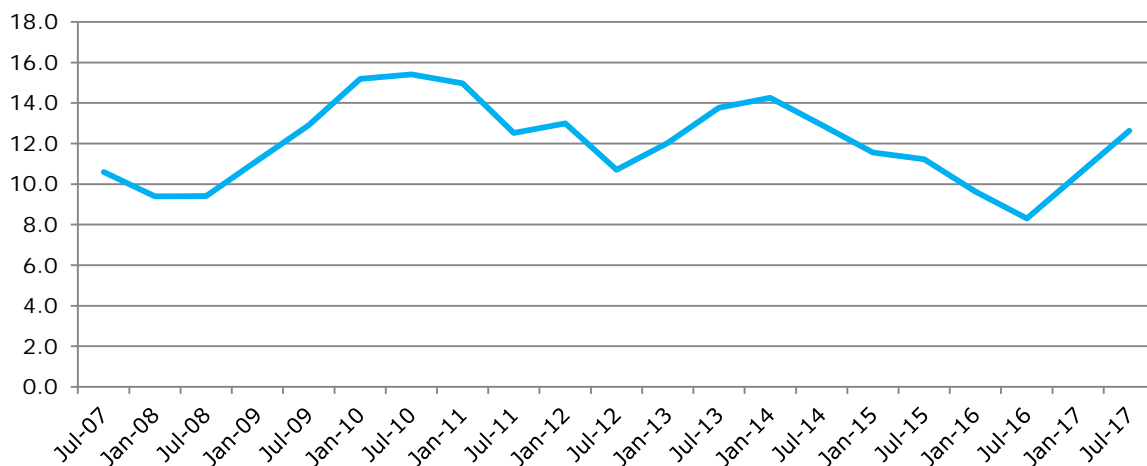
Vacancy Rates

Vacancy Rates in Crows Nest/St Leonards have **increased** by 2.1% over the 6 months to July 2017.

Grade	Vacancy July 2017 (%)	Vacancy July 2016 (%)	Net Absorption, 6 months to July 2017 (sqm)	Net Absorption, 12 months to July 2017 (sqm)
Premium	-	-	-	-
A	14.9	2.9	-8,182	-12,336
B	15.0	6.3	1,738	-10,080
C	9.9	12.7	-1,846	-9,068
D	10.9	14.6	142	458
Total Market	12.6	8.3	-8,148	-31,026

Crows Nest 10-Year Total Vacancy Factor (%)

Based on figures at July 2017 (Source PCA/CI Australia)



Sales Activity



Due to withdrawal for residential development, commercial activity has predominately been close to St Leonard's railway station.



So far this year, there has been a lack of stock brought to the market.

No.	Address	Area (sqm)	Date	Price (\$)	Yield (%)
39-47	Albany Street, Crows Nest	3,286	May 17	22,000,000	N/A
2	Elizabeth Plaza, St Leonards	7,002	Mar 17	81,000,000	6.2
72	Christie Street, St Leonards	11,321	Feb 17	76,000,000	8.50
51-53	Willoughby Road, Crows Nest	754	Nov 16	10,350,000	4.20
100	Christie Street, St Leonards	10,040	May 16	62,500,000	7.20

Leasing Activity



Vacancy has increased due to 8,148sqm of negative net absorption.



A further increase in A Grade vacancy is expected with WPP AUNZ vacating 71 Christie Street, adding a further 11,221sqm in Q3 2017.



Vacancy has increased primarily in A Grade which increased from 2.9% in July 2016 to 14.9% in July 2017.



Prime gross face rents have increased to \$660/sqm in April 2017.

No.	Address	Area (sqm)	Date	Price (\$/sqm)	Tenant
170	Pacific Hwy, St Leonards	1,449	Q2 17	425 (N)	Mainbrace Constructions
29	Christie Street, St Leonards	2,158	May 17	465 (N)	GHD Pty
154	Pacific Hwy, St Leonards	457	Feb 17	405 (N)	Healthy Thinking Group
70-76	Alexander Street, Crows Nest	250	Jul-17	500 (G)	Nexus Hospital
69	Christie Street, St Leonards	125	Apr-17	360 (N)	SPS AU
657	Pacific Highway, St Leonards	68	Mar-17	430 (N)	DBA Services
100	Christie Street, St Leonards	848	Sep-17	275 (G)	Hire Up*
100	Christie Street, St Leonards	400	Aug-17	280 (G)	Risk Frontier*

Development Activity



Sites by developers have primarily been obtained for residential conversion. Buildings that are expected to withdrawn from the office market include 100 Christie Street, 14-20A Clarke Street and 621 Pacific Highway.



Commercial development will not be witnessed until 2019 when 472 Pacific Highway comes online. Small amounts of office stock will come online prior when mixed-use developments are complete.

No.	Address	Status	Completion	NLA (sqm)
1-3	Atchison St, St Leonards	Construction	Q3 2017	1,825
472-494	Pacific Hwy, St Leonards	Construction	Q4 2019+	4,600
18-20	Atchison St, St Leonards	DA Applied	DA Applied	2,300
Bldg D1 219-247	Pacific Hwy, St Leonards	DA Approved	Mooted	16,000
Bldg D2 219-247	Pacific Hwy, St Leonards	DA Approved	Mooted	15,000
Bldg D3 219-247	Pacific Hwy, St Leonards	DA Approved	Mooted	15,000



Chatswood

Commercial Stock: 278,919sqm

Vacancy Rate: 6.9%

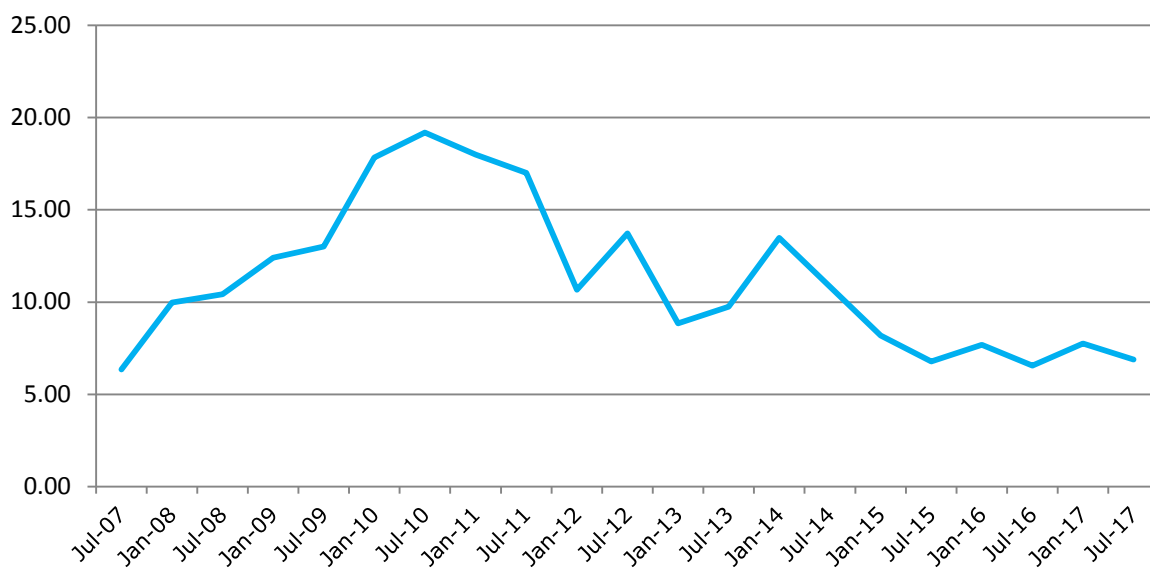
Based on Figures at July 2017
Source PCA & CI Australia Research

Vacancy Rates

Grade	Vacancy July 2017 (%)	Vacancy July 2016 (%)	Net Absorption, 6 months to July 2017 (sqm)	Net Absorption, 12 months to July 2017 (sqm)
Premium	-	-	-	-
A	6.6	6.1	2,199	-733
B	8.9	9.9	29	738
C	3.5	2.5	175	-458
D	100.0	0.0	0	-454
Total Market	6.9	6.6	2,403	-907

Chatswood 10-Year Total Vacancy Factor (%)

Based on figures at July 2017 (Source PCA/CI Australia)



Sales Activity



Several major transactions are underway, including the freehold of 1-5 Railway Street, being offered by RailCorp.



The interest in Chatswood is increasing, with new rail and retail infrastructure supporting the growth.

No.	Address	Area (sqm)	Date	Price (\$)	Yield (%)
1	Railway Street, Chatswood	17,372	Jun 17	115,000,000	N/A
282-284	Victoria Avenue, Chatswood	5,572	Nov 16	46,500,000	5.61
270	Victoria Ave, Chatswood	2,295	Jul 16	22,300,000	N/A
15	Help Street, Chatswood	5,407	Jun 16	43,800,000	N/A

Leasing Activity



Chatswood is becoming a more cost effective option in comparison to North Sydney, evident from Carnival Cruises moving from North Sydney to 465 Victoria Street, Chatswood.



The vacancy rate has risen from 6.9% in January 2017 due to 3,310sqm of negative net absorption.



B Grade stock remains a strong performer particularly in sub 350sqm suites.

No.	Address	Area (sqm)	Date	Price (\$/sqm)	Tenant
67	Albert Ave, Chatswood	932	Feb 17	470 (G)	GP Technology Solutions
475	Victoria Street, Chatswood	518	Sep-17	500 (N)	Filter Media
475	Victoria Street, Chatswood	101	Sep-17	520 (N)	Pronovate
799	Pacific Highway, Chatswood	900	Sept 17	465 (N)	Kumon Australia
799	Pacific Highway	563	Sept-17	495 (N)	Retriever Communications
799	Pacific Highway	1100	Sept-17	\$490 (N)	Benevolent Society
9	Help Street, Chatswood	166	Aug-17	430 (N)	Clearview
67	Albert Avenue, Chatswood	738	Nov-17	\$535 (N)	CMC Markets

Development Activity



No new office development in Chatswood primarily as there is a lack of suitable development sites and a focus on residential conversion.



Chatswood should expect limited development to come online between July 2017 and 2019 with no DA approvals recorded.



Macquarie Park

Commercial Stock: 873,693sqm

Vacancy Rate: 8.5%

Based on Figures at July 2017
Source PCA & CI Australia Research

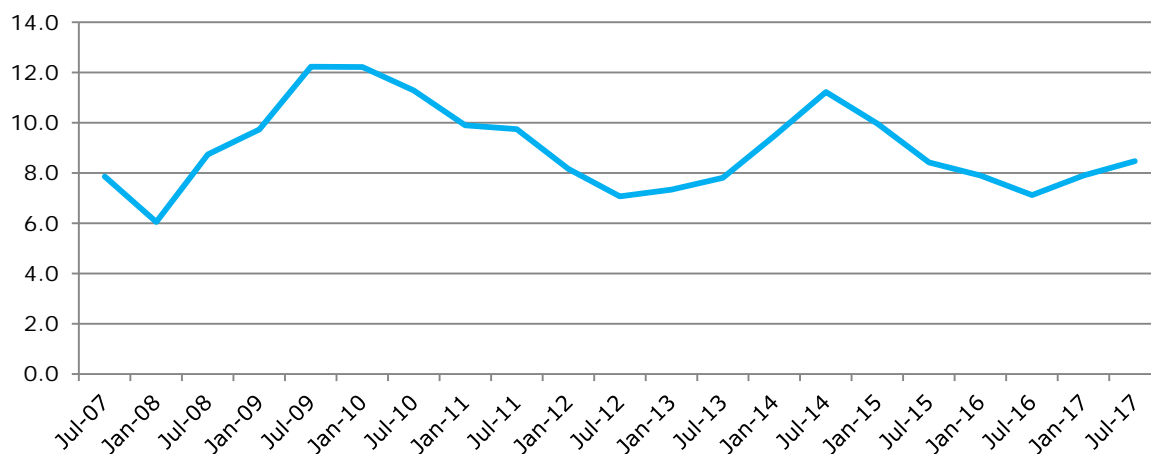
Vacancy Rates

Vacancy Rates in Macquarie Park have increased by 0.6% since January 2017.

Grade	Vacancy July 2017 (%)	Vacancy July 2016 (%)	Net Absorption, 6 months to July 2017 (sqm)	Net Absorption, 12 months to July 2017 (sqm)
Premium	-	-	-	-
A	6.2	4.3	1,816	912
B	15.4	14.9	-14,964	-21,485
C	12.0	10.4	-200	-250
D	0.0	0.0	0	0
Total Market	8.5	7.1	-13,348	-20,823

Macquarie Park 10-Year Total Vacancy Factor (%)

Based on figures at July 2017 (Source PCA/CI Australia)



Sales Activity



Macquarie Park is strengthening as a commercial market.



The redevelopment of the Macquarie Shopping Centre and new public transport links have supported price growth.

No.	Address	Area (sqm)	Date	Price (\$)	Yield (%)
82	Waterloo Road, Macquarie Park	10,410	Jan 17	120,000,000	N/A
114	Talavera Road, Macquarie Park	11,662	Jan 17	80,000,000	N/A
123	Epping Road, Macquarie Park	16,159	Jan 17	118,000,000	6.50
112	Talavera Road, Macquarie Park	22,273	Sep 16	200,000,000	N/A
37	Epping Road, Macquarie Park	8,009	Aug 16	34,000,000	7.65
113	Wicks Road, Macquarie Park	6,253	Jun 16	23,260,000	6.90

Leasing Activity



Macquarie Park's current vacancy rate is 8.5% as at July 2017, an increase from 7.9% in January 2017.



Incentives in the B Grade market are currently circa 30% compared to A Grade at circa 26% Gross.



CI anticipates a further decline in incentives as demand increases causing net effective rents to rise.

No.	Address	Area (sqm)	Date	Price (\$/sqm)	Tenant
39	Delhi Road	1,200	Oct 17	350 (N)	Nick Scali
12	Waterloo Road	525	Sept 17	310 (N)	SunPharma
123	Epping Road	517	Sep 17	350 (N)	Linear Healthcare
2	Lyon Park Road, Macquarie Park	1,495	Dec 16	340 (N)	Keller
2	Julius Avenue, North Ryde	2,605	Nov 16	315 (N)	Sharp

Development Activity



The only new addition in 2017 is the 10,000sqm new building at 8 Khartoum Road, fully pre-leased to Fuji Xeroz.



There are currently multiple developments with DA applications waiting for approval including 45 Waterloo Road and 8-12 University Avenue. Most requiring pre-commitments.



In July 2017 the negative net supply was primarily due to two major office building withdrawals, 101 Waterloo Road and 16 Byfield Street (both for residential conversion).

No.	Address	Status	Completion	NLA (sqm)
45	Waterloo Rd, Macquarie Park	DA Applied	2019	25,000
97-99	Waterloo Rd, Macquarie Park	Full Refurbishment	2017	8,146
95	Waterloo Road, Macquarie Park	DA Applied	Mooted	14,874
11	Talavera Road, Macquarie Park	DA Applied	Mooted	32,000
8-12	University Avenue, Macquarie Park	DA Applied	Mooted	50,000
31-35	Epping Road, Macquarie Park	DA Applied	Mooted	14,477
396	Lane Cove Road, Macquarie Park	Early Feasibility	Mooted	74,000
Lot 8 & 9	Julius Avenue, Macquarie Park	DA Approved	Mooted	34,194

Tenant Representation Activity



Even with vacancy rates below the long term average and incentives trending down, the North Shore market is still very active and is expected to improve.



Prime gross face rents are 25% lower than that in the CBD, meaning displaced tenants are choosing to relocate to the North Shore.

Tenant Representation Appointments

Based on figures at July 2017 (Source CI Research)

Tenant	Suburb	Area (sqm)	Occupation
Equifax (Veda Advantage)	CBD and North Shore	7,500	Dec 2018
GroupM (WPP)	CBD, North Sydney, fringe	6,000	
Pfizer Australia	North Sydney, Green Square, Chatswood, Macquarie Park, North Ryde, Sydney Olympic Park, Parramatta, Norwest, and the CBD.	5,500	Dec 2018 or 2019
APN News & Media	CBD, fringe, North Sydney and St Leonards.	6,200	Mid 2018 – Mid 2019
Huawei	CBD, North Sydney	6,000	
Konica Minolta	Macquarie Park, North Ryde, Rhodes, Sydney Olympic Park, Parramatta, Chatswood, St Leonards	4,000	Sep 2019
Melbourne IT	North Sydney, Pyrmont, Ultimo, Surry Hills	6,000	Q1 2018
MetLife Insurance	CBD and North Sydney	3,500	Q1 2019
Employers Mutual Management	CBD & North Sydney	6,000	Nov 2017
Healthdirect	CBD, fringe, North Sydney, Macquarie Park	2,750	Oct 2018
NSW Business Chamber	North Sydney, Chatswood, St Leonards, Macquarie Park	3,500	Feb 2018
Henry Schein Australia	Chatswood, Lower North Shore, Macquarie Park, North Ryde, St Leonards	3,000	
The Benevolent Society	Chatswood	1,000	Q4 2017
INC Research	North Shore, North Sydney to Gordon	650	Oct 2017



CI Research

CI Australia is widely regarded as a market leader within the property and real estate industry, specialising in the areas of:

- 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.

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