



THE SYDNEY CBD

Commercial Market Overview

Spring

2017

Feature Article:

A Combination of Old and New





The CI 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 office to discuss the potential of your assets and we will endeavour to make sure your key drivers are achieved.



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Market Feature



A Combination of Old and New

With the **anticipated arrival of new stock** to come online from 2019 and onwards, large tenants are patiently awaiting the arrival of new office opportunities. The **withdrawal of stock** continues to be the headline of 2017 with the first half seeing circa 110,000sqm withdrawn including buildings such as 71 Macquarie, 2 Bligh Street, 55 Hunter Street, and 5 Elizabeth Street. The second half of the year has seen further withdrawals of buildings such as 50 Bridge Street, the Young and Loftus Street precinct and 39 Martin Place, placing greater pressure on vacancy, rents and incentives.

The spotlight in 2017 has been on **smaller tenants who are competitively sourcing space** in the CBD due to a **shortage of options**. Due to the recent increase in rents, many tenants cannot afford a premium grade building subsequently they are looking for **buildings which have character via heritage or modern innovative design** and where they can **create a vibrant workplace dynamic**.

Another clear take out from the year is **the upward prices of net face rents** and **rising property values** which are being driven by major development sites such as the Light Rail and George Street precinct. The opening of Wynyard Walk at the end of 2016 has created a connection between Barangaroo and Wynyard, with more tenants interested in the **Western Corridor** than ever before.

Highlights

- New supply of office stock will be significantly limited in the short to medium term.
- Pressure will be placed on rents as there are fewer opportunities available for tenants to secure space.
- Demand from investors will continue, particularly for redevelopment opportunities.

The Market The Sydney CBD

The Sydney CBD is Australia's largest commercial property market comprising of **5,086,316sqm** of office stock. Characterised by a large Financial Services sector and more recently Information Technology, Sydney CBD is widely recognised as the financial hub of the nation, and it is typically growth in these industries that triggers major redevelopment and expansion.

The high tenant profile of major companies residing within the Sydney CBD increases the prestige of Sydney's inherent location, further evidenced through high rental levels and strong yield figures compared to nationwide commercial precincts.

The Sydney CBD consists of the following five major regions:

1. The Financial Core
2. The Western Corridor and Barangaroo
3. Walsh Bay and The Rocks
4. Midtown
5. Southern



Sydney CBD July 2017

Commercial Stock



Period	:	July 2017
Total Stock	:	5,086,316sqm
Total Vacancy	:	298,248sqm
Vacancy Factor	:	Total Market 5.9%
		City Core 3.5%
		Midtown 4.2%
		Southern 2.5%
		Western 6.6%
Net Absorption	:	-7,727sqm (12 month to July 2017)

Commercial Sales

Recent Activity : \$3.32B sold in July 2016 to July 2017

Market Yields : Premium 4.90% - 5.50%

A Grade 5.50% - 6.20%

Secondary Grades 5.80% - 6.40%



Andrew Hunter
CEO,
CI Australia

: *"The commercial investment market continues to remain strong with equal interest with both local institutions and offshore investors. We expect this to continue to at least the first half next year."*

Commercial Leasing

Recent Activity : Net absorption was 147,500sqm in the 12 months to July 2017 with withdrawal of 236,000sqm of office stock

Net Face Rent : \$925 - \$1,275 per sqm for Premium Grade property

\$775 - \$1,050 per sqm for an A Grade property

\$625 - \$825 per sqm for B Grade property



Ben Kardachi
Director,
CI Australia

: *"Over the next 6 months we anticipate incentives to remain at similar levels to that currently being seen. We believe there will be less desire for tenants to seriously consider a relocation if not essential, particularly if the incentive level does not make it a attractive proposition"*

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

What's Trending



Increased turnover as owners recognise profit opportunity while **skyrocketing prices** are pushing some investors to look elsewhere.



Major new developments will not be witnessed **until 2019** and onwards when at least **208,600sqm** of office space comes online.

Three major premium grade developments in the pipeline include **10 Carrington Street** (Wynyard Place), a 27-floor building with total NLA of 56,000sqm (Q1 2019+); **60 Martin Place**, a 33-floor building with total NLA of 38,600sqm (Q3 2019+); and **Quay Quarter Sydney** 90,000sqm including 50 Bridge Street, a 49-floor building with total NLA of 54,980sqm (Q3 2019+).



As many tenants are being given notice due to development approval, **short term leases and co-working opportunities** are becoming popular due to the continued rental growth across the market. Short term leases offer flexibility and (usually) the ability to walk into a fit-out.



There has been strong demand from the **Property & Business Services** as well as **Financial, IT and Insurance sectors** throughout the past 12 months including WeWork moving into its new location at 333 George Street and IRESS Market occupying 3,433sqm at 10 Shelley Street.



The **prime market** has experienced strong **leasing** performance, while the **secondary market** has experienced strong **sales** performance with buyers looking to acquire sites to redevelop.

The Facts

Vacancy Rates



In the 6 months to July 2017, vacancy rates decreased overall coupled with positive demand.



Vacancy rates for B, C & D Grade increased (in comparison to overall decrease) with tenants hesitant due to short term leases opportunities.



The pressure on vacancy rates will continue as new development opportunities are completed in surrounding suburbs including North Sydney, Pyrmont and Ultimo.

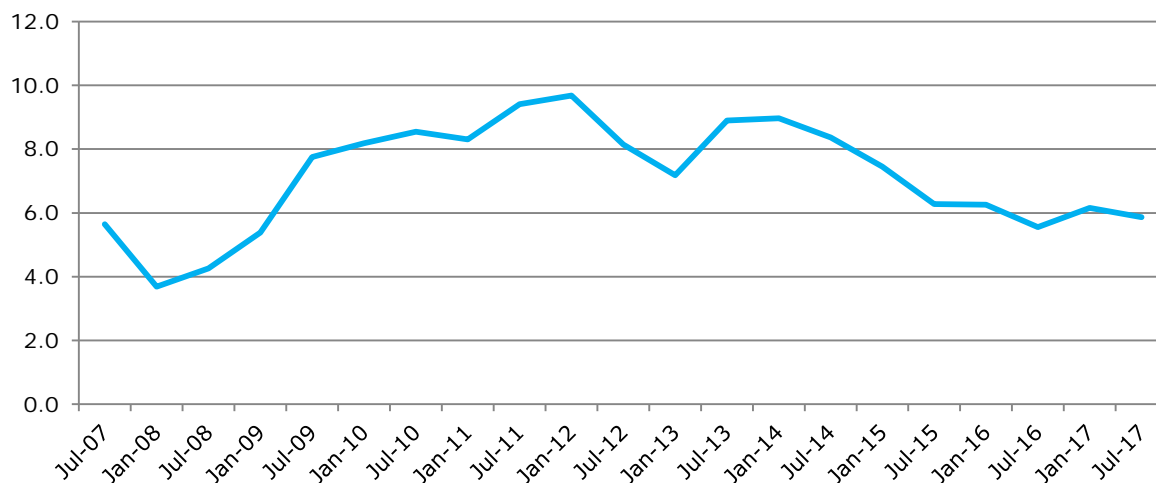


There has been a slight decrease in sub-lease vacancy from 0.5% in Jan 2017 to 0.3% in Jul 2017.

Grade	Vacancy July 2017 (%)	Vacancy July 2016 (%)	Net Absorption, 6 months July 2017 (sqm)	Net Absorption, 12 months to July 2017 (sqm)
Premium	9.5	11.3	35,930	82,573
A	3.6	4.0	66,313	69,267
B	5.8	3.5	-48,084	-101,466
C	6.9	6.0	-28,807	-56,594
D	3.8	3.7	-3,136	-1,507
Total Average	5.9	6.2	22,216	-7,727

Sydney CBD 10-Year Total Vacancy Factor (%)

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



Commercial Stock



Total stock remained stable with 83,534sqm of new stock coming online in the first half of 2017. Over the same 6 months, 75,821sqm was withdrawn.



It is anticipated that in the second half of 2017, there will be approximately 125,000sqm withdrawn.



With buildings being upgraded and new developments in the pipeline, greater pressure is being put on vacancy, rents and incentives.

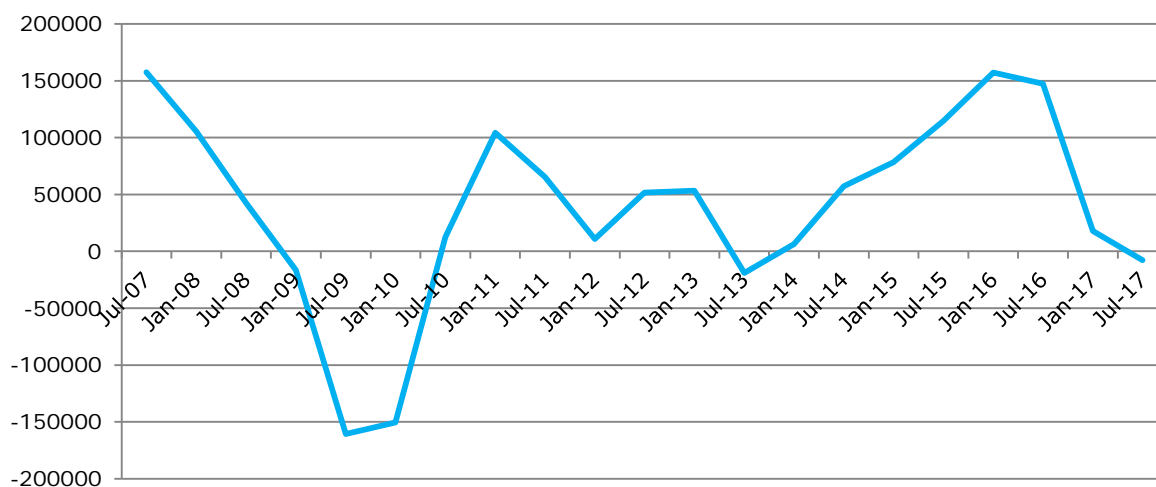


Stock withdrawn includes 175 Castlereagh Street (11,919sqm) which was demolished for the Sydney Metro, 140 Sussex Street (12,042sqm) which is to be refurbished for the Bank of China HQ and 71-79 Macquarie Street (9,198sqm) which is to be converted to residential.

Grade	Total Stock (sqm)	Withdrawal (sqm)
Premium	1,124,107	0
A	1,864,975	0
B	1,416,735	44,964
C	496,363	29,367
D	184,136	1,490
Total	5,086,316	75,821

Sydney CBD Net Absorption 12 Months

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



Sales Activity



Offshore purchasers have picked up in 2017 with unlisted funds continuing to be active with both groups having a purchase value of over \$1.5B in the Sydney CBD.



Offshore demand continues to put pressure on yields as their driver is not always return. We have seen a further 25 bps movement across prime and secondary stock.

No.	Address	NLA Approx. (sqm)	Date	Price (\$)	Yield (%)
50	Pitt Street	10,078	Nov 17	165,000,000	N/A
26-38	Clarence Street (the upper stratum airspace)	-	Nov 17	Undisclosed	-
20	Hunter Street	10,147	Oct 17 (Pending)	Approx. 191,000,000	N/A
112	Castlereagh Street	1,700	Oct 17	59,000,000	3.80
210	Castlereagh Street	3,860	Oct 17	44,000,000	3.93
332	Kent Street	1,569	Oct 17	25,000,000	4.00
10	Carrington Street (Wynyard Place)	67,000	Sep 17 (Pending)	Approx. 1,850,000,000	4.35
10	Spring Street	13,871	Sep 17	270,050,000	N/A
66	Goulburn Street	23,890	Aug 17	252,000,000	6.04
19	Martin Place (MLC) (50%)	77,400	Jun 17	722,600,000	4.5
275	George Street	7,367	Jun 17	Approx. 82,000,000	N/A
320	Pitt Street	29,159	May 17	275,000,000	5.81
59	Goulburn Street	19,721	May 17	158,000,000	5.30
458-472	George Street	1,676	May 17	116,000,000	2.11
20	Bridge Street	19,905	Apr 17	335,000,000	4.67*
183-185	Clarence Street	3,600	Jan 17	22,750,000	N/A
8	Spring Street	5,132	Jan 17	69,000,000	N/A
33	Alfred Street	32,353	Dec 16	Approx. 445,000,000	N/A
92	Pitt Street	4,642	Oct 16	52,170,000	4.70*
55	Clarence Street	14,962	Nov 16	Approx. 170,000,000	5.40*
39	Martin Place	16,341	Nov 16	332,000,000	N/A
303-305	Pitt Street	3,410	Sep 16	43,000,000	N/A



333	Kent Street	8,938	Sep 16	88,880,000	5.96*
28	O'Connell Street	6,109	Sep 16	91,000,000	c.4.75
77	Market Street	21,390	Aug 16	360,000,000	4.5
420	George Street (25%)	37,733	Aug 16	150,000,000	5.23

* Initial yield

Leasing Activity



In the past 12 months, 251,780sqm of space was leased.



The amount of space leased was down as firms are delaying or reassessing their expansion plans due to shortage of available stock as well as cost implications.



The largest single transaction was the Government commitment to 17,500sqm of space within Wynyard Green, 11-17 York Street, with the anticipation to help accelerate the IT incubator hub concept.

No.	Address	Date	NLA (sqm)	Rent (\$/sqm)	Tenant
2	Chifley Square	Nov 18	17,848	Approx. \$900 (N)	UBS (renewal)
275	Kent Street	Nov 18	58,400	N/A	Westpac (renewal)
151	Clarence Street	Oct 18	6,032	\$935 (G)	ARUP
201	Sussex Street (Darling Park 2)	Oct 18	33,000	\$835 (N)	IAG
	Darling Harbour Live	Dec 17	22,000	\$650 (N)	Commonwealth Bank
680	George Street	Nov 17	7,108	N/A	WSP Parsons
1	Bligh Street	Nov 17	1,150	\$950 (N)	Holman Fenwick Willan
10	Shelley Street	Sep 17	3,433	\$810 (G)	IRESS Market
10	Shelley Street	Sep 17	24,300	TBA	Suncorp
161	Sussex Street	Aug 17	1,500	\$925 (N)	Instructure
680	George Street	Jun 17	3,018	\$866 (G)	Reckitt Benckiser
T1	Barangaroo	Jun 17	7,500	\$1,400 (G)	Baker McKenzie
60	Margaret Street	May 17	10,030	\$910 (G)	ING Direct
201	Sussex Street	Apr 17	5,180	TBA	Avant Insurance
161	Sussex Street	Mar 17	745	\$925 (N)	Spotify
363	George Street	Mar 17	5,500	\$1,016 (G)	Atlassian
	World Square	Jan 17	10,990	\$725 (N)	Department of Transport

Tenant Representation Activity



The market continues to be in the landlords favour considering the lack of supply due to the withdrawal of buildings for the Sydney Metro.



Lower grade space has been absorbed over the past 12 months due to the lack of available options and high effective rents in the prime market.



With limited secondary stock for lease, B-Grade tenants are being presented with opportunities in the prime market or have to be more space efficient.



Over the next couple of years the lack of supply places downward pressure on vacancy through to next supply cycle in 2020 as major projects are delivered.

Tenant	Suburb	Area (sqm)	Occupation
Link Market Services	Sydney CBD	18,000 to 20,000	Q2 2021
Naked Hub	Sydney CBD	1,500 to 10,000	Q2 2019
Givaudan Australia	Baulkham Hills	1,400	Aug 2018
Curwoods Lawyers	Sydney CBD	3,000 – 4,000	Nov 2018
Yokogawa Australia	Macquarie Park, North Ryde, Rhodes & Baulkham Hills	1,500-1,800	Nov 2018
Mills Oakley	Sydney CBD	5,000 – 6,000	Jun 2022
Publicis Groupe	Sydney CBD	9,000 – 11,000	Jun 2022
Grant Samuel	Sydney CBD	1,950	Dec 2019
NTT Communications ICT Solutions	CBD (midtown and Western corridor) and North Sydney	1,800	N/A
Becton Dickinson	Macquarie Park, North Ryde and Northwest	4,000 – 6,000	Mar 2020
Yancoal	CBD and North Sydney	1800	Jun 2018
Fortnum Financial Group	CBD - specifically within an area bounded by Circular Quay to the North, Macquarie Street to East, Goulburn Street to the South and Sussex Street to the West	350	Q3 2017
Naked Hub	CBD, North Sydney, fringe	10,000	Q4 2017/2018-2022
Fetch TV	CBD, fringe, North Sydney	1,400	Feb 2018



Tenant	Suburb	Area (sqm)	Occupation
Edelman	CBD, fringe, North Sydney	1500	Apr 2018
Bravura Solutions	CBD and North Sydney	1,100	Jul 2018
The Benevolent Society	CBD	4000	Q4 2017
GTA Consultants	CBD, North Sydney, Chatswood	700	May 2018
Allianz Australia	CBD - specifically north of Druitt and Park Streets	25,000	Q3 2020
Employers Mutual Management	CBD & North Sydney	6,000	Nov 2017
InfoTrack	CBD core, Western Core, midtown	4,500	Q1-Q3 2018
Virgin Active	CBD and fringe	3,500	N/A
Pitcher Partners	CBD financial core	3,300	N/A
John Swire & Sons	CBD	2,200	Jul 2018

Development Activity



26-38 Clarence Street is the first CBD site positioned over a train station sold. Marketed by CI Australia the property was sold on behalf of Property NSW to Doma Group.



From Circular Quay to Town Hall we are increasingly seeing record prices as B and C Grade office towers are snapped up by adjoining owners to create lucrative site amalgamations for beyond 2020 (458-472 George Street).



Moving into the next phase of development between the present and 2019/20 we will witness the construction of Wynyard place (10 Carrington Street) by Brookfield, Quay Quarter by AMP Capital, and 60 Martin Place by Investa/Gwynville, adding another 184,600sqm of premium office space to the market.

No.	Address	Status	Completion	NLA (sqm)
	Quay Quarter Sydney/AMP Precinct	DA Approved	Q3 2019+	90,000
60	Martin Place	Site Works	Q3 2019+	38,600
10	Carrington Street	Site Works	Q1 2019+	56,000
275	George Street	DA Approved	Q3 2018	6,363
2	Bligh Street	Full Refurbishment	Q3 2018	4,454
151	Clarence Street	Construction	Q3 2018	22,000
100	Broadway	Construction	Q2 2018	5,447
201	Sussex Street (Tower 2)	Partial Refurbishment	Q2 2018	38,000
140	Sussex Street	Full Refurbishment	Q4 2017	12,042
167	Phillip Street	Full Refurbishment	Q4 2017	2,106
10	Shelley Street	Full Refurbishment	Q3 2017	27,718
11-17	York Street	Full Refurbishment	Q2 2017	11,227
680	George Street	Partial Refurbishment	Q2 2017	2,667
33	Bligh Street	DA Approved	Mooted	24,000

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.

For more information on any of our research items, or to request a personalised research document specific to a certain market or asset, please contact our offices:



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