

# EXECUTIVE SUMMARY.

Welcome to our North Shore Office Market Update for the first half of 2019. We explore supply, investment, development, market trends and more.

The North Shore continues to be a destination for tenants, investors and developers. With total vacancy sitting at 6.5% (January 2019), this is significantly lower than the 8.4% recorded twelve months prior, in January 2018.

Tightening vacancy, strong pre-commitments to new developments and ongoing tenant demand are evident across the North Shore and extremely encouraging. We believe these conditions will see momentum continue throughout the first half of the year.

Other factors influencing the North Shore market include the continued strength of the Sydney CBD market, which North Sydney in particular, remains a beneficiary of. Infrastructure and transport developments continue to play a role too, including the highly anticipated completion of the North West Metro Line. This will stimulate ongoing demand from investors and developers, able to take advantage of this increasingly connected and accessible precinct.

We hope you find this Office Market Update interesting and a useful reference tool. The data quoted is from sources including CI Australia Research, RCA Analytics, Property Council of Australia (January 2019 Release) and publicly available industry reports.

If you have any questions or would like to request bespoke research or investment analysis, we'd be delighted to speak with you.

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## NORTH SYDNEY

#### ALIVE WITH ACTIVITY.

While vacancy rose slightly in the six months to January 2019, space remains tight, with total vacancy of just 6.8%. This is a reduction from the 7.9% recorded twelve months prior, in January 2018.

"A/Premium Grade gross rents are ranging from \$915 to \$1,040 per sqm per annum - a new record." B Grade rents are ranging from \$805 to \$905. Incentives meanwhile for A/Premium Grade are at 20-25% and for B Grade, at 20-30% Gross.

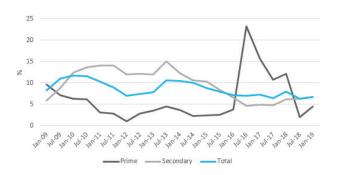
Tenant demand has been strong at the start of 2019 with sustained enquiry levels. New developments are attracting particular interest, as they did in 2018, with pre-commitments such as SAP's 5,682sqm at 1 Denison Street and strong interest for the highly anticipated 100 Mount Street. It is believed both these are now nearing capacity.

Meanwhile, the 20,000sqm pending within 100 Arthur Street remains the largest vacancy in the market. Space will also be available within 73 Miller Street in mid-2019 when tenant NSW Health relocates its approximate 12,000sqm footprint. The Government department will relocate temporarily to 100 Christie Street until its new site next to the hospital is constructed in 2020

Amenity for tenants in North Sydney will receive a boost too, with new restaurant openings at Northpoint, 100 Miller St including Green Moustache (506sqm), The Grounds (464sqm), and Japanese restaurant Ginza (308sqm).

1,000sqm of withdrawals were recorded in the six months to January 2019, accounting for 100% of withdrawals on the North Shore. Combined with no new supply, these factors have resulted in rental growth and lower incentives. Tenant relocations from the Sydney CBD will continue to impact these factors in addition to lowering vacancy.

#### VACANCY RATE



#### NET ABSORPTION 6 MONTHS



#### INVESTMENT & CAPITAL FLOWS.

North Sydney properties remain an attractive investment. The pricing differential compared to CBD assets, yet close proximity to city, high rental growth and competitive yields are key factors that have and will continue to keep buyers motivated from both domestic and offshore sources.

Whilst yields dropped in 2018, they are expected to consolidate between 5-5.50% (A-Grade). The yield compression in 2018 was evident through sale transactions including the sale of 123 Walker Street which was sold at a cap rate of c4.6% in April 2018 to One Smarter Pty Ltd; and Early Light International Group's purchase of a half stake in the \$600m asset at 100 Miller Street at c4.7%.

Looking ahead, the next five years will see numerous office, residential and retail developments complete in anticipation of the opening of the Sydney Metro in 2024. Preparations are underway to sell the air rights above the station where a 65,000sqm + Over Station Development (OSD) is envisaged, comprising office and retail space.

Both domestic and offshore commercial investors understand the investment proposition of North Sydney, which is being led by developments as outlined below. These key projects will be knitted together by the Central Laneways Precinct, a pedestrianised retail and public domain area that will facilitate interaction and movements throughout North Sydney.

**1 Denison Street** - A 63,000sqm Premium Grade office tower that will dominate the North Sydney skyline and deliver a vibrant street level experience for the community, including Channel 9's live television studios. Completion is expected in 2020.

**100 Mount Street** - Construction of this 35-level 42,000sqm Premium Grade office tower is well advanced, with approximately 60% pre-committed. It is expected to complete in this calendar year.

**118 Mount Street** - The development of Zurich Financial Services Australia's new country headquarters commenced in May 2018, and will deliver a 20,000 sqm, 25-storey commercial tower. Completion is expected in 2020.

**88 Walker Street** - DA approval has been granted for a now taller, 48-storey tower, increasing from the previous 35-storey proposal. The scheme utilises the air space above the heritage 'Firehouse Hotel' currently on the site.

**168 Walker Street** - Aqualand is proceeding with its residential development on the site that will house up to 415 luxury apartments. This redevelopment will displace tenants equating to over 8,000sqm of space, including First Data, Ipsos and Ferrero.

**73 Miller Street** - Landlord Propertylink has a DA pending to refurbish the asset after NSW Health relocates to 100 Christie Street St Leonards, as temporary accommodation whilst their new facility is constructed in the Royal North Shore Hospital Precinct. The scheme comprises a full refurbishment of floors and services, including an extension of the floor plate into balcony areas which increase the available area to almost 18,000sqm of space over 15 storeys.



## ST LEONARDS & CROWS NEST

STRONG TENANT DEMAND.

The vacancy rate has dropped significantly from 11.1% in January 2018 to just 6.1% as at January 2019. This was stimulated by activity such as MasterCard's 10-year lease of 12,000sqm at 72 Christie Street and Virgin Active securing 1,150sqm within the new St Leonards Square development at 472 – 486 Pacific Highway.

Strong leasing activing has been seen at 120 Pacific Highway, the former home of advertising agency Clemenger, with the majority of the 5,200sqm building now leased or under offer. The agency relocated to Walsh Bay. Meanwhile, NSW Health has taken 10,000sqm at 100 Christie Street temporarily until its new site next to the hospital will be constructed in 2020.

Incentives are sitting at approximately 19%. Stock levels remain low, particularly for suites less than 300sqm. "In fact, some tenants have reported difficulties in finding properties without demolition clauses."

With no stock to come online in the short to medium term, demand could increase further and trigger an increase in net effective rents.





#### INVESTMENT & CAPITAL FLOWS.

Key transactions throughout 2018 are as follows;

- The sale of 72 Christie Street for \$154.52 million in December 2018. The transaction of the 11,000sqm (approximate) asset achieved a 4.96% yield and rate of \$13,724 per sqm.
- The fully leased office asset at 154 Pacific Highway sold for \$60 million in July 2018 at a passing yield of c.5.9%, in a deal brokered by CI Australia.

Meanwhile, two key mixed-use developments will push the further development of the market.

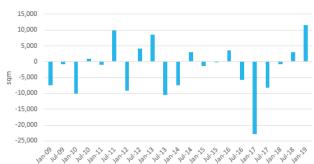
#### **St Leonards Square**

The retail and commercial space at St Leonards Square (472 – 486 Pacific Highway), expected to complete this year, will comprise about 7,500 square metres, with office space accounting for 4,300 square metres. The two-tower development is being developed by Mirvac.

#### 88 Christie Street

This \$1.6 billion development by JQZ will encompass a 15-storey office tower, a 26-storey luxury apartment tower and retail space. 'Eighty Eight' will also see the addition of a new 780sqm public plaza built over the existing rail line; a new public library; and a major supermarket which will form part of the multi-storey retail and dining precinct. It is forecast to complete by 2022.

#### NET ABSORPTION 6 MONTHS



Source: PCA/CI



# SUBURB SPOTLIGHT

#### INVESTORS FLOCK TO CROWS NEST

What factors are ensuring this popular residential and commercial hub is one of the most sought-after investment destinations on the North Shore? CI Australia's Associate Director of Investment Sales, Nick Lowry, explains.

The popular residential and commercial hub of Sydney's Crows Nest has quickly become one of the most sought-after investment destinations across the Lower North Shore, according to CI Australia.

Its excellent long-term growth prospects, stimulated by the proposed Crows Nest Metro Station, associated infrastructure and substantial mixed-use developments rejuvenating the Pacific Highway, are key reasons for the continued attraction of buyers. The proximity and accessibility of Crows Nest to the Sydney CBD and surrounding St Leonards and North Sydney add to its proposition further.

"The Crows Nest commercial property market is seen as mature and is presenting a compelling offering for buyers, including that it offers freehold property investment opportunities at an entry level price point, compared with the Sydney CBD, North Sydney and St Leonards," said Nick Lowry, CI Australia's Associate Director of Investment Sales.

"We continue to see substantial investor demand in the precinct, and this is heavily outweighing the number of willing sellers. Some owners have even sold only parts of their holdings to take advantage of the apparent capital gains, whilst keeping a foothold in the market given the exciting developments. Furthermore, while Crows Nest has provided stable returns for landlords for some time, the expectation that rents and capital values are likely to increase is ensuring fierce competition."

CI Australia's recent off market sale of 72 – 72A Willoughby Road, Crows Nest, located less than 100 metres from the proposed Metro Station, was competitively bid for and sold to a private investor for \$4.75 Million. This reflected a yield of **3.5% Net for the property**; a strong result Mr Lowry believes, given broader market conditions.

Prior to this, CI Australia also sold 54 Alexander Street, Crows Nest, for \$6.4 Million, representing a yield of **3.75% Net.** The asset was an 800 square metre, three-level retail and office building which returned income of approximately \$240,000 Net + GST. The recent sale of Roth House for above \$10 million for a 4% Net yield also demonstrates the strength of this market.

Of the sales of 54 Alexander Street and 72-72A Willoughby Road Crows Nest, Mr Lowry said, "Both properties were acquired by private investors that had commercial assets recently acquired by Government bodies. Allowances such as delayed stamp duty are also seeing some purchasers able to be more competitive than the rest of the market."

The key commercial areas in the Crows Nest precinct are located on Alexander Street, Clarke Street & Hume Lane. Its popular retail precinct is around the high-street retail strip of Willoughby Road, which comprises an eclectic mix of cafes, restaurants, wine bars and specialty retailers. Many of its retail freeholds are owned by local investors who are now looking to sell to take advantage of strong capital gains. It is also supported by supermarket giants Woolworths and Coles, the latter which is under construction, and four council car parks.



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# CHATSWOOD

#### ATTRACTING ATTENTION.

With a vacancy rate of just 6.2%, the Chatswood market is now the tighest it has been since 2007. Leasing activity remains strong, with tenancies under 300sqm remaining in short supply. It is possible rents will increase further in 2019 as a result of this. The only key source of upcoming supply for the market will be within the Zenith in mid-2020, with over 9,500sqm becoming available.

Incentives in B Grade space are approximately 15% Gross, with A Grade incentives at approximately 19%.

More broadly, Chatswood continues to be a sought-after destination for tenants, with its strong amenity and transport links providing accessibility from not only the Sydney CBD but also the broader Sydney metropolitan area and Central Coast. These factors have been cited in major tenant relocations, as it provides access and exceptional facilities to a more diverse workforce.

#### INVESTMENT & CAPITAL FLOWS.

It is expected that office investment demand will remain strong. As one of Sydney's most mature and successful mixed-use precincts, its major public transport junction, comprehensive retail offerings and vibrant local cultural scene continue to create a compelling investment offering for both domestic and offshore investors.

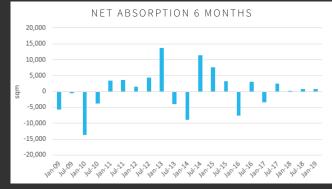
#### Two key transactions took place in the second half of 2018:

The sale of 465 Victoria Avenue in October 2018 for \$116.40 million at a yield of 5.4%; and 67 Albert Avenue in November 2018 for \$158 million, with a yield of 5.7%.

"The earlier 2018 sale of 1-5 Railway Street also settled in December, which sold for \$107 million to iProsperity Group in a deal brokered by CI Australia."







# MACQUARIE PARK & NORTH RYDE

#### RECORD LOW VACANCY.

Macquarie Park is Sydney's third largest business district, offering approximately 850,000sqm of commercial space. However, vacancy at January 2019 was sitting at a record low of 4.8%. The circa 13,000sqm that has been withdrawn due to residential development remains a contributing factor to this.

This has led to limited opportunities for commercial tenants. A Grade rents are sitting between \$320-\$420psm net, with incentives for A Grade stock ranging from 25-30% and B Grade at 22% approximately.

The new Metro Station, which will connect Macquarie Park directly to Chatswood, North Sydney, Barangaroo and Martin Place, is due to open by mid 2019.

#### INVESTMENT & CAPITAL FLOWS.

Much of the investment into the area has not been to commercial assets, but to new residential developments and improving transport and amenity.

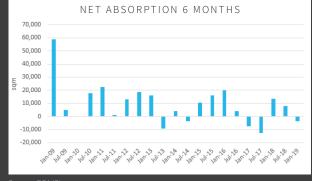
"The John Holland development at 43-61 Waterloo Road, Macquarie Park, due to complete construction in 2020, will add an additional 100,000sqm of A Grade office space to the market." NSW Transport is an anchor tenant and has precommitted to 25,000sqm.

Meanwhile, Winten Property Group has concept plan approval for its Macquarie Park Commerce Centre, which will consist of approximately 83,000sqm of office and retail at 36-42 Waterloo Road. With generous landscape areas and amenity, the development will sit directly above the new Macquarie Park Metro Station.

More broadly, The Department of Planning and Environment is working with City of Ryde Council and Transport for NSW to develop new plans for Macquarie Park. This will include identifying opportunities to enhance the area's existing role as a major commercial centre and innovation district.







Source: PCA/C

#### RECENT LEASING TRANSACTIONS ACROSS THE NORTH SHORE

Tenant Name	Property Address	Area m²	Lease Start Date		Lease Term
NCR Learning	799 Pacific Highway, Chatswood	300	Jul-18	535 Net	5 years
McCabe Curwood	821 Pacific Highway, Chatswood	1,870	Nov-18	620 Net	U/D
Nextmedia	205 Pacific Highway, St Leonards	1,325	Apr-18	U/D	U /D
WeWork	50 Miller Street, North Sydney	4,155	Aug-18	U/D	U/D
Nokia	111 Pacific Highway, North Sydney	4,880	Sep-18	U/D	U/D
Antunes Lawyers	15 Blue Street, North Sydney	720	Oct-18	730 Net	7 years
Micro Focus	76 Berry Street, North Sydney	1,050	Oct-18	U/D	U/D
ARCS	Level 17, 99 Mount Street, North Sydney	180	Oct-18	800 Gross	6 years
Global Steel	100 Miller Street, North Sydney	140	Nov-18	885 Gross	5 years
Fairfield East	65 Berry Street, North Sydney	116	Jan-19	650 Net	3 years
MDA Australia	Level 2, 2 Elizabeth Plaza	241	Jan-19	675 Net	5 years

Source: Cl

# TRANSACTION & DEVELOPMENT ACTIVITY

#### RECENT SALE TRANSACTIONS

Date	Address	Suburb	Price (\$M)	NLA (sqm)	Fully leased yield	\$psm/ NLA	Purchaser	Vendor
Dec-18	72 Christie St	St Leonards	\$154.52	11,259	4.96%	\$13,724	UOL (Realmont)	Proprium
Dec-18	67 Albert Ave	Chatswood	\$158.00	14,766	5.70%	\$10,700	Mapletree	CorVal
Nov-18	80 Mount St	North Sydney	\$71.00	6,104	5.40%	\$11,445	CKK Enterprises	Propertylink JV Goldman Sachs
Oct-18	465 Victoria Ave	Chatswood	\$166.40	14,465	5.40%	\$11,504	Centuria (Portfolio)	Hines
Jul-18	100 Miller St (50%)	North Sydney	\$212.50	35,145	4.67%	\$12,093	Francis Choi	Redefine
May-18	154 Pacific Hwy	St Leonards	\$60.20	6,299	5.97%	9,557	NSW Farmers	Cabrita Pty Limited
Apr-18	201 Pacific Hwy	St Leonards	\$171.80	16,577	6.50%	10,364	Centuria	Abacus Property Group
Mar-18	1-5 Railway St	Chatswood	\$107.00	18,247	6.60%	6,450	iProsperity	Taverner Value Funds
Mar-18	77 Pacific Hwy	North Sydney	\$112.35	9,379	5.75%	11,979	Ma Family	Stockland
Mar-18	54 Miller St	North Sydney	\$59.40	7,056	5.00%	8,418	AEW Capital	Aqualand Projects
Feb-18	123 Walker St	North Sydney	\$21.30	1,985	4.6%	10,731	Private Investor	Private Investor
Jan-18	157 Walker St	North Sydney	\$79.05	8,928	6.00%	8,854	GLL RE Partners, Marprop Development	Epsom Nominees Pty Ltd & M Arch Nominees Pty Ltd
Nov-17	75 Miller St	North Sydney	\$51.80	5,024	5.60%	10,311	Huge Linkage Limited	Security Capital Corp, Property Bank Australia
Oct-17	815 Pacific Hwy	Chatswood	\$54.50	7,116	N/A	7,659	Qtkt Chatswood	Lindfield Developements Pty Ltd
Oct-17	32 Walker St	North Sydney	\$74.75	6,619	5.7%	11,294	Swiss RE, AMP Capital	Abacus Property Group, Heitman
Oct-17	56 Berry St	North Sydney	\$62.00	5,175	5.48%	11,981	DEXUS	Christie Corporate
Sep-17	1-5 Railway St (Land)	Chatswood	\$38.00	3,806	N/A	9,984	Barana Group	Transport for NSW
Sep-17	1 Pacific Hwy	North Sydney	\$114.44	7,642	4.75%	14,976	Zhuhai Hualong Investment	AMP Capital
	8-22 West St	North Sydney	\$58.88	6,023	5.44%	9,796	Maville Group	Proberty Bank Australia JV Security Capital Corp
Jul-17	165 Walker St	North Sydney	\$55.90	5,221	5.39%	10,707	Albert Malki	Charter Hall REIT
	116 Miller St	North Sydney	\$133.94	11,352	5.25%	11,799	Maville Group	Property Bank Australia, Rifici Group, Security Capital Corp

Source: CI / RCA Analytics

Approximate figures; does not include all transactions in office or all transactions across asset classes

# DEVELOPMENT ACTIVITY

Suburb	Completion Year	Project Address	Development Stage	Owner	NLA (sqm)
Crows Nest/St Leonards	Q4 2019	St Leonards Square - 472-494 Pacific Highway	Construction	Mirvac Group	4.200
Crows Nest/St Leonards	2020	Electroboard - 18-20 Atchison Street	DA Applied	Electroboard	2,300
Crows Nest/St Leonards	Q4 2020	Royal North Shore Hospital - Southern Campus 51 Reserve Road	Construction	NSW Department of Health	27,000
Crows Nest/St Leonards	2021+	88 Christie Street	DA Applied	JQZ Pty Ltd	22,000
Macquarie Park	Q4 2019	45 Waterloo Road - Building C	Construction	John Holland Group	25,000
Macquarie Park	Mooted	8-12 University Avenue	DA Applied	Macquarie University	50,000
Macquarie Park	Mooted	95 Waterloo Road	DA Applied	Goodman	14,874
Macquarie Park	Mooted	396 Lane Cove Road	DA Applied	Frasers Property / Winten Property Group	45,000
Macquarie Park	Mooted	31-35 Epping Road	DA Applied	Harvey Norman Group	14,477
Macquarie Park	Mooted	Epicentre (Riverside Corporate Park) - Lot 8 Julius Avenue (Incl Lot 9)	DA Approved	ISPT Pty Ltd	34,194
North Sydney	Q2 2019	100 Mount Street	Construction	DEXUS Property Group	42,000
North Sydney	2020+	Shopping World Site - 1 Denison St	Construction	Winten Property Group	63,000
North Sydney	2020+	118 Mount Street	Construction	Zurich Australia Ltd	20,000

Source: PCA/CI





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