



SYDNEY'S NORTH SHORE OFFICE MARKET UPDATE

CI AUSTRALIA
APRIL 2020





EXECUTIVE SUMMARY

At the time of writing, the Australian business community is dealing with COVID-19. The impact was immediate with many retail businesses closing and a marked slowdown in commercial activity. Nevertheless, swift implementation of the Government's stimulus packages and the entrepreneurial spirit are expected to prevail over the remainder of 2020. A snapshot of the year to date is detailed below.

The North Shore continues to be an attractive option for tenants, investors and developers. This is demonstrated by a tight vacancy rate of 6.7% only slightly increasing from 6.5% in January 2019. North Sydney, especially, saw a resurgence in the market coupled with significant infrastructure spending. This includes the highly anticipated completion of the North West Metro Line and the Victoria Cross Metro Station scheduled for 2024, making North Sydney even more accessible. North Sydney has also seen a number of new office developments which include 1 Denison Street, 100 Mount Street, 118 Mount Street and the 88 Walker Street mixed office/hotel development. Most major investment and leasing decisions are now on hold until clarity emerges around the post COVID-19 business environment.

We hope you find this Office Market Update an interesting and useful reference tool. The data quoted is from sources including CI Australia Research, RCA Analytics, Property Council of Australia (January 2020 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.

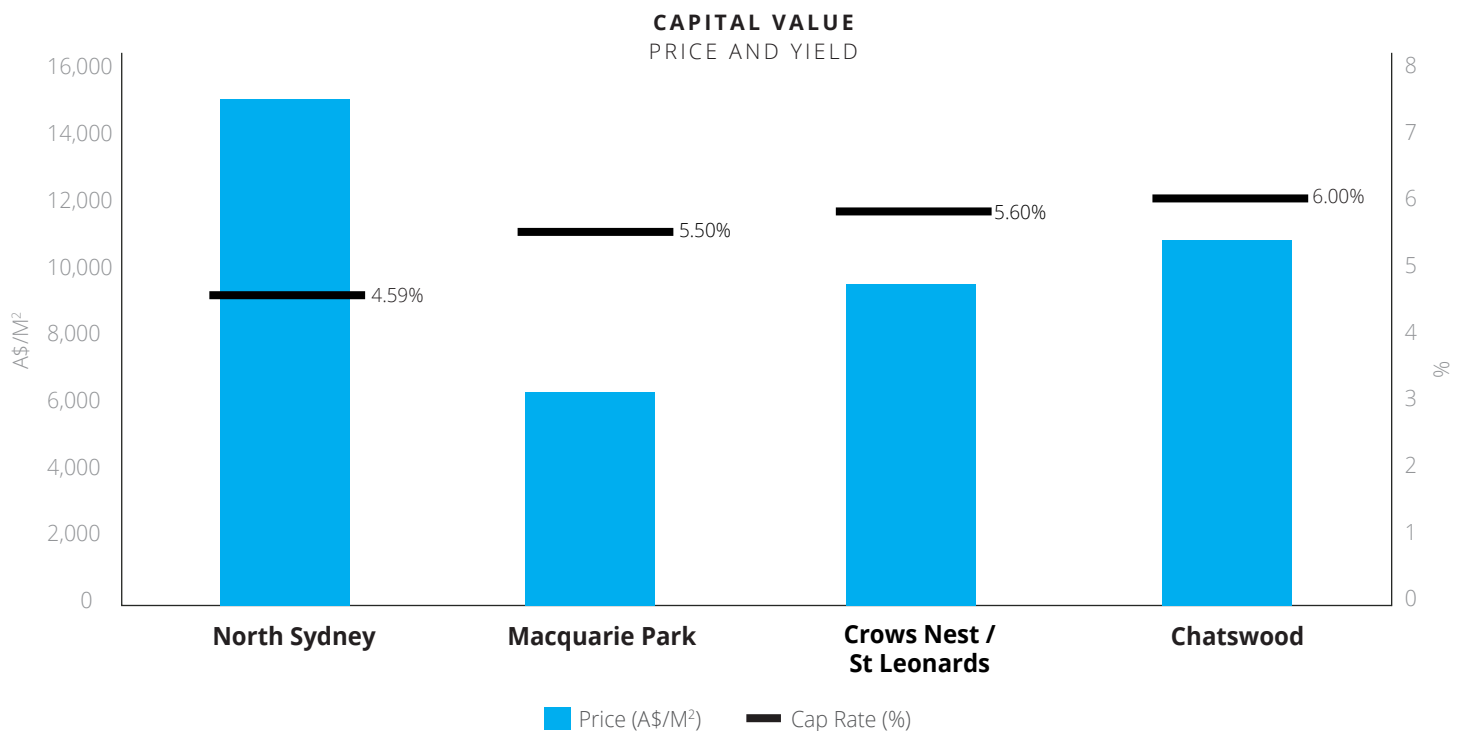
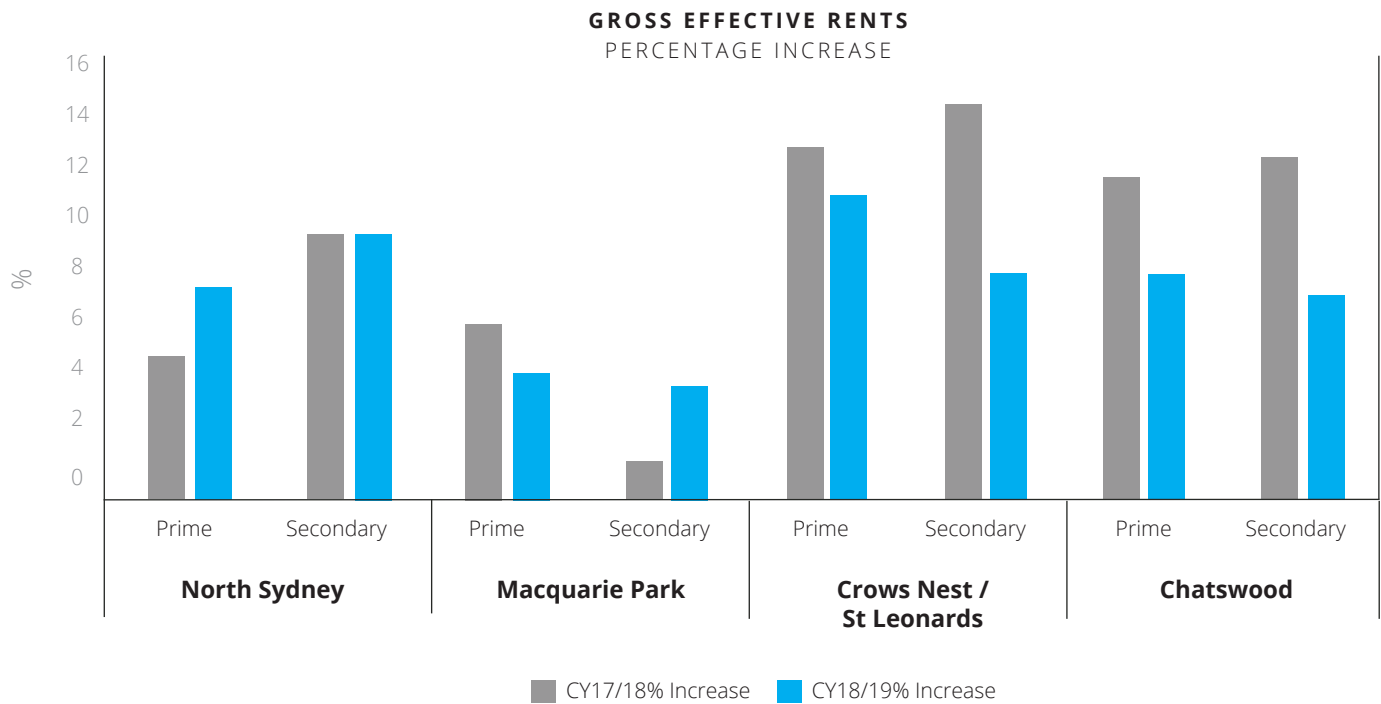
BEVAN KENNY

MANAGING DIRECTOR,
NORTH SYDNEY
+61 411 223 213



SUBURB OVERVIEW

Outlined below are the gross effective rents and capital value for each of the North Shore suburbs.



NORTH SYDNEY

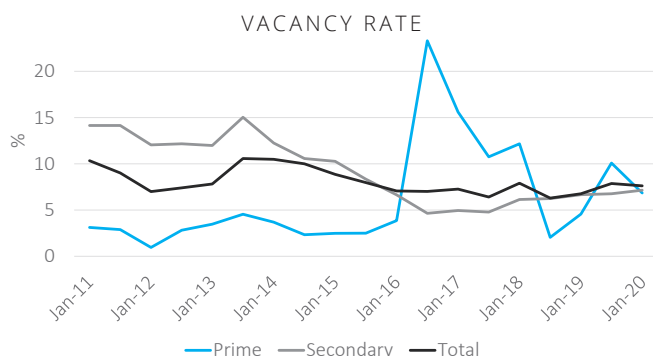
AN INTERNATIONALLY RECOGNISED MARKET

LEASING

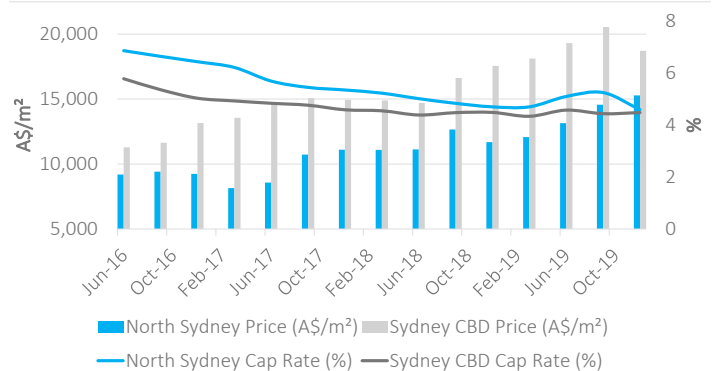
North Sydney has been a prime candidate for tenants looking to consolidate their businesses to one central location. Key examples include Nine Entertainment Co. and Microsoft Australia, who have both chosen 1 Denison Street as their new headquarters despite an 8% rise in prime gross rents over the year of 2019. With a confirmed 98,026 m² of net lettable area due for completion over the next three quarters, we expect vacancy to rise and leasing activity to be 'on-hold' with incentives set to increase over the coming months.

MAJOR TENANT MOVEMENTS

- **Nine Entertainment Co.** has pre-committed 25,000 m² of office space at 1 Denison Street, consolidating all operational divisions in Sydney CBD, Pyrmont and Willoughby. The Head of Property Operations noted that their choice to house their new headquarters in North Sydney was highly dependent on the connectivity and value proposition offered by this suburb.
- **Microsoft Australia** will also join Nine Media at 1 Denison Street, pre-committing to 10,000 m² of office space in a move to consolidate their Sydney and North Ryde offices. The Managing Director indicated that basing their new Australian headquarters in the "heart of North Sydney's CBD" will boost opportunities due to proximity to their partners and customer base.
- **NSW Health** will be moving out of its interim office at 40 Mount Street, placing 5,900 m² of office space back on the market. Along with other interim offices taken up in Chatswood and St Leonards, major divisions including the Ministry of Health and the Health and Education Training Institute will be consolidating to their new headquarters in St Leonards' Royal North Shore Hospital later this year.
- **oOh!media** will be moving out of 76 Berry Street to absorb 6,858 m² of office space in 73 Miller Street, once the \$60 million refurbishment of the B-grade building is complete. This move will consolidate all their Sydney offices to one central location, accommodating for their rapid expansion over the 2018 – 2019 period.




NORTH SYDNEY VS SYDNEY



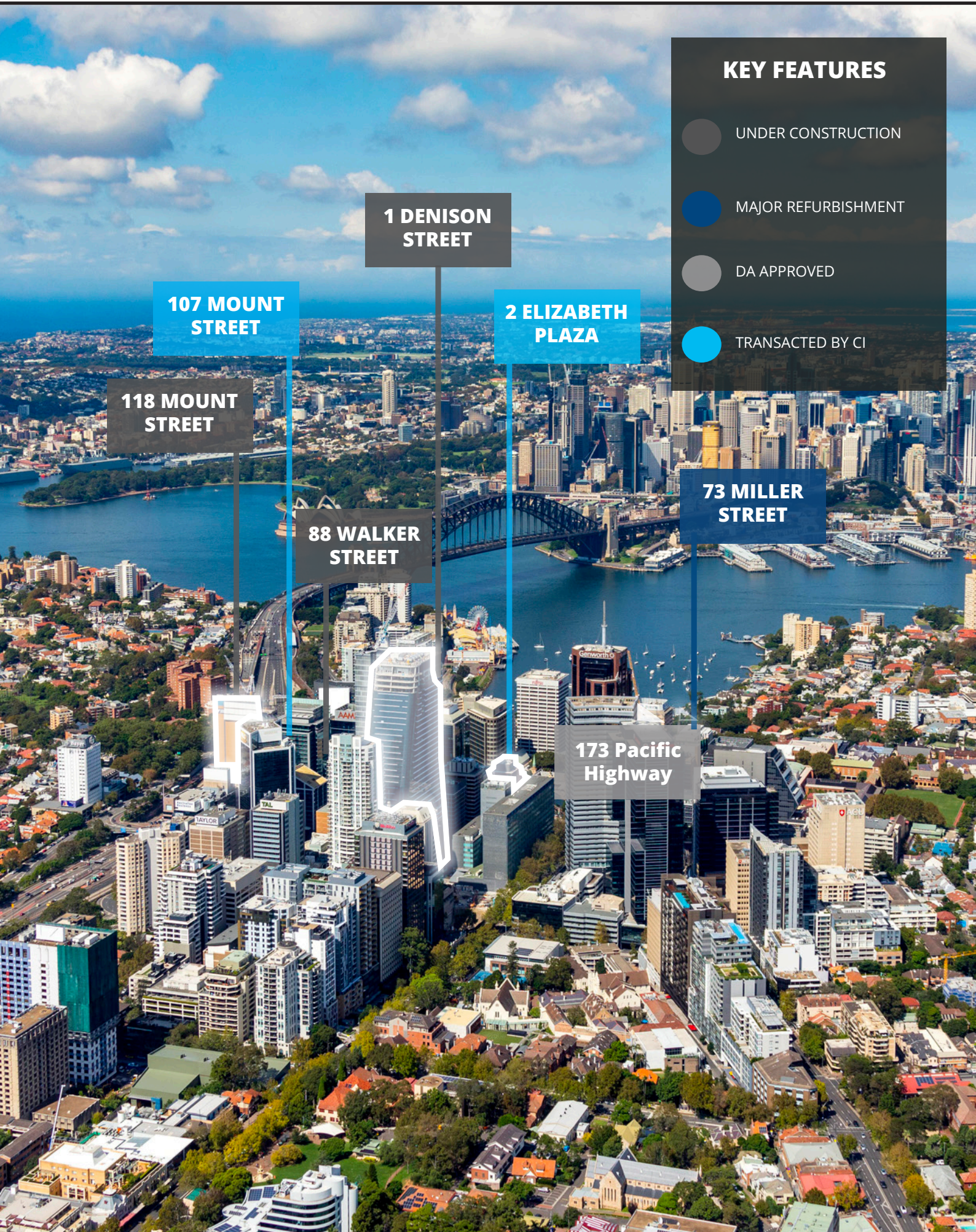
INVESTMENT & CAPITAL FLOWS

North Sydney has observed major growth and development activity over the year to date. With a smaller base supply of 821,132 m², compared to the 4,952,281 m² of space available in the Sydney CBD, it is unsurprising that rising investor demand has driven cap rates as low as 4%. Transactional activity and enquiry have dampened since March 2020.





MAJOR DEVELOPMENTS AND TRANSACTIONS

- **1 Denison Street, North Sydney**, currently set for completion at the end of 2020, will become North Sydney's largest premium building. With 80% pre-committed to major tenants such as Channel 9 and Microsoft, the building will contribute approximately 61,000 m² of lettable office area to the market. In addition, 1,600 m² of food and beverage amenity will be introduced to North Sydney, through the building's mezzanine bar, lobby café and the Spring Street retail precinct.
- **118 Mount Street, North Sydney**, was purchased by CBRE Global Investors for \$352 million. The sale of this pre-committed leaseback from Zurich Insurance represented the biggest transaction by volume in 2019. The construction of this A-grade building is set for completion at the end of 2020.
- **99 Walker Street, North Sydney**, was purchased by Abacus Property for \$311.3 million. The sale of this multi-tenanted A-grade building represents an investment of \$16,134/m².
- **107 Mount Street, North Sydney**, was purchased by a private investor for \$115 million, setting a record rate of \$17,230/m² for B-grade assets in North Sydney. Whilst the asset was sold as an investment, the site also holds significant re-development potential, as reflected in the tight passing yield of 3.98%. 
- **2 Elizabeth Plaza, North Sydney**, sold for \$127 million to Singaporean based SC Capital representing a yield of 5%. SC Capital plans to reposition the asset, taking advantage of its proximity to the Central Laneways Precinct and the Victoria Cross Metro Station. 

DEVELOPMENTS AND TRANSACTIONS



KEY FEATURES

-  UNDER CONSTRUCTION
-  MAJOR REFURBISHMENT
-  DA APPROVED
-  TRANSACTION BY CI

**1 DENISON
STREET**

**107 MOUNT
STREET**

**118 MOUNT
STREET**

**88 WALKER
STREET**

**2 ELIZABETH
PLAZA**

**73 MILLER
STREET**

**173 Pacific
Highway**

MACQUARIE PARK AND NORTH RYDE

RECORD LOW VACANCY

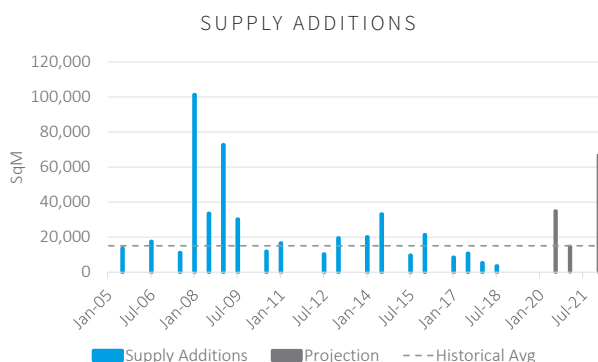
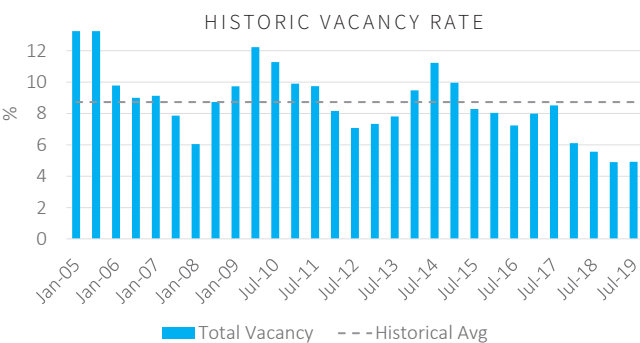
LEASING

The lack of new developments in the Macquarie Park and North Ryde area has caused vacancy rates to dip to record lows of 4.4% in late 2019. Over the last ten years, total stock has increased by just 6%, bringing the suburb stock total to 859,034 m² as at January 2020. It is expected that vacancy will rise back to levels similar to the historical average, given the influx of new supply such as the John Holland development at 45 – 61 Waterloo Road and the Goodman construction at 97 Waterloo Road, contributing to a 23.3% increase in stock within the next five years. It is noted that these developments are, on average, 76% pre-committed as at January 2020.

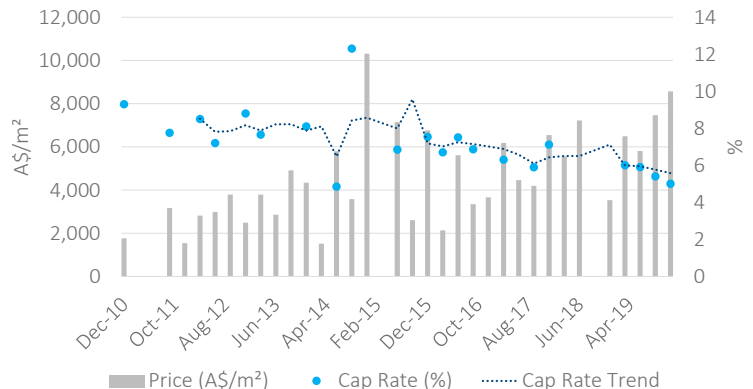
Rents in Macquarie Park have not attained the same level of growth as other major centres along the North Shore, but we anticipate that the increased connectivity provided by the new Sydney Metro and the general uplift in stock quality, provided by the aforementioned new developments, will provide a much needed boost to rental values in the long term. We do expect that major leasing decisions will be held over for several months and incentives will increase.

MAJOR TENANT MOVEMENTS

- **Schneider Electric** has pre-committed to 8,200 m² of office space at 97 Waterloo Road (Macquarie Corporate Centre).
- **Transport for NSW** has pre-committed to almost 25,000 m² of office space at 45–61 Waterloo Road (Glasshouse).





CAPITAL GROWTH



INVESTMENT AND CAPITAL FLOWS

Yields in Macquarie Park and North Ryde have tightened at a slow but sustainable rate over the last decade, with properties currently transacting between 5% – 6%. The market presents a definite value alternative for many private and institutional investors, given its high potential to undergo some of the more dramatic growth experienced by its neighbours along the North Shore. This was largely caused by the lack of appropriate infrastructure funding and connectivity, which has since been addressed with the recent completion of the Sydney Metro through Macquarie Park and North Ryde. As a result, developments such as 45 – 61 Waterloo Road, strategically located a 3-minute walk from the Sydney Metro, will form the first of many projects to incorporate large-scale amenity to its sites, with the introduction of a new dining-and-retail precinct and a 7,000 m² public park.

TRANSACTIONS

- **1 Richardson Place, North Ryde**, was purchased by a client of JGS Property for \$44.74 million. The dual-building asset had been extensively refurbished and presents future development potential under the Ryde LEP 2014. The property sold on a fully leased yield of 5.2%. 
- **12 Waterloo Road, Macquarie Park**, was sold by Lester Property Group for \$26.25 million, at a passing yield of 5.1%. The 4-storey, B-grade building is strategically located within walking distance from the Macquarie Park Metro and the new Lachlan's line high-density residential precinct. 

"Investors looking to get in front of the curve recognise the buying opportunity and growth prospects in the precinct. Macquarie Park has the lowest vacancy rate in its recorded history and office rents some \$100 - \$150/sqm cheaper than competing markets Chatswood and Parramatta. The present development activity and Sydney Metro South connection in 2024 will positively re-rate this market."

CHRIS VEITCH
DIRECTOR, INVESTMENT SALES



ST LEONARDS AND CROWS NEST

STRONG PRIME RENTAL GROWTH

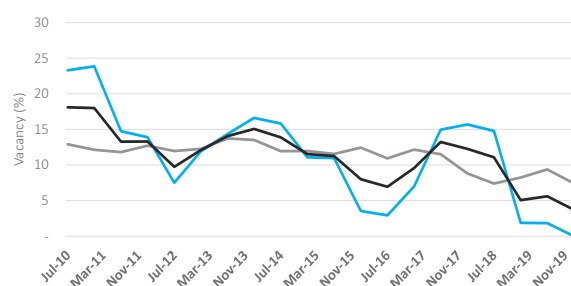
LEASING

Net supply in Crows Nest and St Leonards has remained negative over the last five years, as owner-occupiers continue to purchase in the area and infrastructure development removes stock from the market. With continued off-spill of tenants from North Sydney looking for cheaper alternatives along the North Shore, Crows Nest and St Leonards achieved the strongest prime rental growth out of the four key suburbs. It is expected that rents will hold and incentives will increase with the current COVID-19 situation, growing public infrastructure and amenity invested into the area and whilst development activity remains subdued.

MAJOR TENANT MOVEMENTS

- **NSW Health** will be moving out of their three interim offices at 100 Christie Street, St Leonards, Tower B of Zenith Centre in Chatswood and 40 Mount Street, North Sydney, to consolidate operations at the Royal North Shore Hospital re-development later this year. The completed Southern Campus will provide 27,000 m2 of office space, with an additional estimated 79,000 m2 to be built or refurbished in the \$1.127 billion project.

VACANCY RATE



Source: PCA/CI

INVESTMENT AND CAPITAL FLOWS

Private investors continue to dominate the lower capital market in Crows Nest and St Leonards. The entry-level price point, combined with yields favourable to other investment options will continue to drive this market.

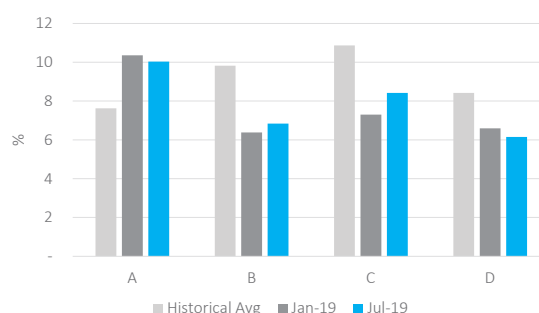
With major plans for the renewal of St Leonards and Crows Nest as outlined in the 2036 Draft LUIP, knowledge employment is forecasted to grow by 28.5% whilst health and education will increase by almost 70%. Subject to the impact of COVID-19, we expect that development activity will pick up over the next five years, as the opening of the Crows Nest Sydney Metro Station draws closer. With building height limits increased to a maximum equivalent of 27 storeys and the introduction of a Design Excellence clause, a new standard for quality for Crows Nest and St Leonards region will be set.

MAJOR DEVELOPMENTS AND TRANSACTIONS

- **7 Westbourne Street, St Leonards**, otherwise known as the Dexu Health Hub, is nearing completion this quarter. The development will contribute 15,750 m2 of office space for tenants in related medical industries, as the project features a direct bridge link to North Shore Private Hospital.
- **107 Alexander Street, Crows Nest**, was purchased by a private investor for \$6.215 million. The sale of this prime commercial asset represented a fully-leased yield of 4.25%.



HISTORIC VACANCY RATE





CHATSWOOD

IMMENSE DEVELOPMENT POTENTIAL

LEASING

Chatswood is experiencing its lowest vacancy rate in 20 years. Restricted by its considerably smaller office stock of 274,478 m², the vacancy rate is highly sensitive to major tenant movements compared to other metro suburbs along the North Shore. Current tenant demand has remained strong as the Chatswood Interchange continues to provide triple connectivity to the suburb and rents remain significantly lower than those in North Sydney. Whilst large amounts of stock will be back on the market due to Transport for NSW vacating Building A of the Zenith Centre, there is no significant development activity planned for the immediate future. We expect that vacancy will rise slightly, whilst sustained levels of demand (subject to the impact of COVID-19) will see effective rents hold and incentives increase.

MAJOR TENANT MOVEMENTS

- **Transport for NSW** will be vacating approximately 9,000 m² at Tower A, 821 Pacific Highway (The Zenith Centre) in July this year.
- **Huawei Technologies** is confirmed to have renewed their lease at 799 Pacific Highway.

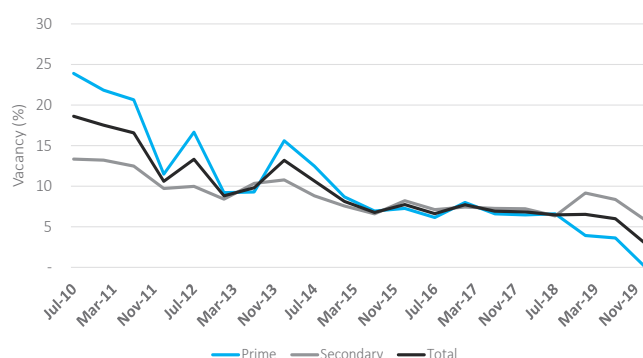
INVESTMENT AND CAPITAL FLOWS

The draft Chatswood CBD Planning and Urban Design Strategy released by Willoughby Council in 2018 has been garnering investor attention, with the significant potential upside provided by the proposed boundary expansion of B3 Commercial Core zoning. In addition, the plans indicate that maximum restrictions of Floor Space Ratios (FSRs) for properties along Pacific Highway, Albert Avenue, Victoria Avenue and Help Street can be removed entirely for purely commercial developments. With office employment forecasted to almost double between 2016 and 2036, it is anticipated that the application of this new LEP could potentially lift stock levels by almost 70%.

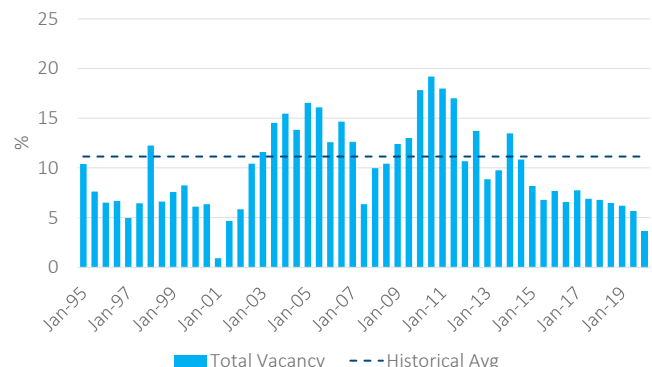
MAJOR DEVELOPMENTS AND TRANSACTIONS

- **821-843 Pacific Highway, Chatswood**, otherwise known as The Zenith, was sold to Arrow Capital Partners for \$440 million. The local fund purchased the A-grade asset on a quoted yield of 6.4%, allowing Centuria and BlackRock to collect profits of nearly 60% as the building last transacted for \$279 million in May 2016.
- **845 Pacific Highway, Chatswood**, a 7-storey, B-grade building, was sold to a developer for approximately \$53 million. The site holds the upside potential for a 37-storey tower under the FSR bonus provided by the draft Chatswood CBD Plan.

VACANCY RATE



HISTORIC VACANCY RATE



TRANSACTION ACTIVITY

RECENT SALE TRANSACTIONS

Date	Address	Suburb	M²	Price (A\$)	A\$/m²	Cap Rate	Purchaser	Vendor
Dec-19	845 Pacific Hwy	Chatswood	4,329	\$53,000,000	\$12,243	-	845 Pacific Hwy Chatswood Pty Ltd	Leaftide Pty Limited
Dec-19	1 Richardson Pl	Macquarie Park	5,969	\$44,740,000	\$7,496	5.19%	Confidential	Goodman Group
Dec-19	99 Walker St	North Sydney	19,295	\$311,300,000	\$16,134	-	Abacus Property Group	Oxford Properties Group
Dec-19	15B Chatham Rd	West Ryde	3,985	\$23,850,000	\$5,985	5.85%	Somerset Properties Pty Ltd	Coles Group
Dec-19	20 Berry St	North Sydney	9,723	\$114,000,000	\$11,725		Holdmark Property Group	Yuhu Group
Nov-19	45-61 Waterloo Rd	Macquarie Park	34,897	\$331,370,000	\$9,496	5.00%	Charter Long WALE, Charter Hall REIT	John Holland Group
Nov-19	12-14 Waterloo Rd	Macquarie Park	3,946	\$26,250,000	\$6,652	5.10%	Confidential	Lester Group
Nov-19	2-4 Thomas St	Chatswood	1,512	\$25,150,000	\$16,634	-	Chatswood Rsl Club Limited	Guide Dog Association of NSW
Nov-19	118 Walker St	North Sydney	3,846	\$85,660,328	\$22,273	-	Stockland	Graf Family
Nov-19	118 Mount St	North Sydney	21,011	\$352,000,000	\$16,753		CBRE Global Investors	Zurich Insurance
Oct-19	2 Elizabeth Plz	North Sydney	7,581	\$127,000,000	\$16,752	5.00%	SC Capital Partners	BlackRock
Oct-19	54 Waterloo Rd	Macquarie Park	8,134	\$62,200,000	\$7,647	-	CorVal	Novartis Pharmaceuticals
Sep-19	34-36 Chandos St	St Leonards	2,079	\$32,300,000	\$15,537	4.00%	Ausiway Pty Ltd	Property Bank Australia
Sep-19	107 Mount St	North Sydney	6,675	\$115,000,000	\$17,229	3.98%	Confidential	Burcher Property Group
Aug-19	13-15 Lyonpark Rd	Macquarie Park	7,500	\$438,200,000	\$6,443	-	F Hannan Properties	Goodman Group
Aug-19	821 Pacific Hwy	Chatswood	44,300	-	\$9,732	-	Arrow Capital	BlackRock/ Centuria

Source: CI / RCA / Real Capital Analytics
*Approximate figures; does not include all transactions in office or all transactions across asset classes.

TRANSACTION ACTIVITY

RECENT LEASING TRANSACTIONS

Tenant	Address	Suburb	Area M ²	Lease Start Date	Rent \$/m ²	Term
Nine Entertainment Co.	1 Denison St	North Sydney	25,000	Jul-20	U/D	12
NBN Co Ltd	100 Mount St	North Sydney	20,234	Jan-20	\$775	7
Microsoft	1 Denison St	North Sydney	10,655	Jun-21	U/D	10
oOh! Media	73 Miller St	North Sydney	6,858	Dec-20	**\$850	10
Toyota Financial Services	207 Pacific Hwy	St Leonards	5,600	Oct-19	U/D	5
Chanel	100 Mount	North Sydney	2,600	Q1 2020	\$960	U/D
Epson	3 Talerva Road	Macquarie Park	1,930	Nov-20	\$350	5
Data#3 Limited	100 Arthur St	North Sydney	1,304	Nov-19	\$780	7
Mortgage Choice	100 Pacific Hwy	North Sydney	1,221	Oct-19	\$770	5
Compass Offices	141 Walker Street	North Sydney	980	Sep-19	U/D	10
Campari Australia PL	141 Walker St	North Sydney	967	Jan-20	\$885	10

Source: CI / Empirical Analytics
*Approximate figures; does not include all transactions in office or all transactions across asset classes.
** Anecdotal Only



LIKE WHAT YOU'VE READ?

We offer our clients bespoke reports and analyses on specific property markets and/or assets to help inform their investment decisions. If you'd like to chat to us about your requirements, we'd be delighted to hear from you.

PERSONALISED PROPERTY SERVICES AND STRATEGIC ADVICE IS AT THE HEART OF WHAT WE DO. AND IT HAS BEEN FOR OVER 100 YEARS.

True specialists in investment sales, commercial leasing and asset management, we have the knowledge and connections to deliver for you, across Australia and internationally. Our scale is furthered by our dedicated Asia Desk and the connections to our parent companies – APP, Broadspectrum and Ferrovial - which means we can help you achieve your business goals, no matter how large or small.

With a rich history, the firm we are today is a story of growth. Consistent dedication to our clients, employees and communities has allowed us to expand our services, teams and presence.

Our key services:

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

OUR TEAM



BEVAN KENNY
MANAGING DIRECTOR, NORTH SYDNEY
+61 411 223 213



CHRIS VEITCH
DIRECTOR, INVESTMENT SALES
+61 434 566 355



NICK LOWRY
ASSOC. DIRECTOR, INVESTMENT SALES
+61 408 891 376



ADDISON HUNTER
SENIOR SALES EXECUTIVE,
INVESTMENT SALES
+61 408 670 879



ANTHONY MERRETT
DIRECTOR, LEASING
+61 405 719 566



JARED HILLS
EXECUTIVE, LEASING
+61 423 218 283

RESEARCH



SHIRLEY FAN
HEAD OF ASIA DESK
+61 452 531 797



VIVIENNE CHEN
HEAD OF RESEARCH
/INVESTMENT ANALYTICS
+61 466 303 100



CI AUSTRALIA PTY LIMITED

Level 7, 2 Elizabeth Plaza

North Sydney, 2060

www.ciaustralia.com.au



Disclaimer: This report has been prepared by CI Australia Pty Limited ("CI") concerning information on the North Shore Market Update. This report is given for information purposes only. CI does not give any warranty of reliability, accuracy, currency or completeness of any of the information supplied nor does it accept any responsibility arising in any way (including by reason of negligence) for any errors or omissions in the information provided. The information in this report is subject to change without notice and may include certain statements, estimates and projections with respect to anticipated future performance. No representations or warranties are made as to the validity of those assumptions or the accuracy of those statements, estimates or projections. Any interested party should form its own views as to what information is relevant to any decisions it makes and make its own independent investigations and obtain its own independent advice. This report does not form part of or constitute an offer or contract. The information in this report must not be copied, reproduced or distributed without the prior written approval of CI.