



# SYDNEY NORTH SHORE OFFICE MARKET UPDATE

APRIL 2021

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# EXECUTIVE SUMMARY

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Welcome to our North Shore Office Market Update. In what has been an unprecedented twelve months for the global business world, including national and local commercial property markets, Sydneysiders are emerging with a renewed strength and commitment to moving ahead with - and successfully delivering on - their business and real estate strategies.

With the North Shore as one of Sydney's best performing commercial property markets over the long-term, this report explores the challenges, opportunities and outlook it faces and thereby how investors and occupiers can adapt and thrive in this 'new normal'.

While increases in vacancy were recorded, key markets such as Macquarie Park and St Leonards remained resilient thanks to societal demand for their tenants' services throughout the pandemic such as information technology providers, pharmaceutical and related medical businesses.

Other trends to become particularly evident include the rise in subleasing vacancy rate, most notably in Chatswood where it reached 2.74% from 0.40% the previous reporting period; and the ongoing attraction to quality, well-leased buildings from the investment market despite the broader challenges.

As the market recovery continues, we expect the North Shore to remain a sought-after hub that offers quality and value-for-money solutions for investors and occupiers.

If you'd like to discuss this report or how selling, buying or leasing North Shore property can help you realise your business ambitions in 2021, we'd be delighted to speak with you.



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*Source of Report Data: CI Australia Research, Real Capital Analytics, Property Council of Australia (Jan-21 Release).*

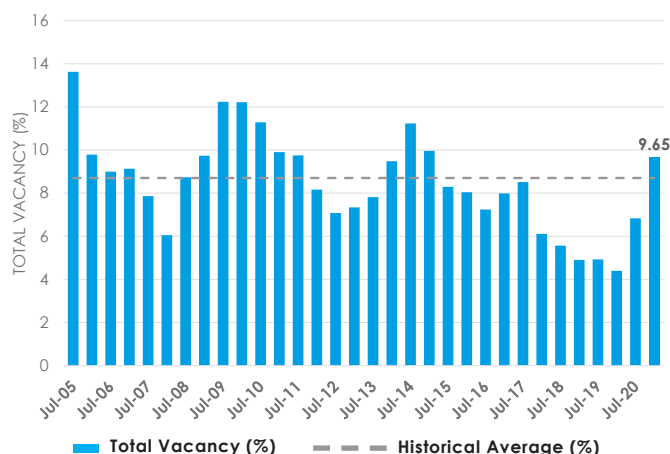
# MACQUARIE PARK

Lowest vacancy rate across the North Shore

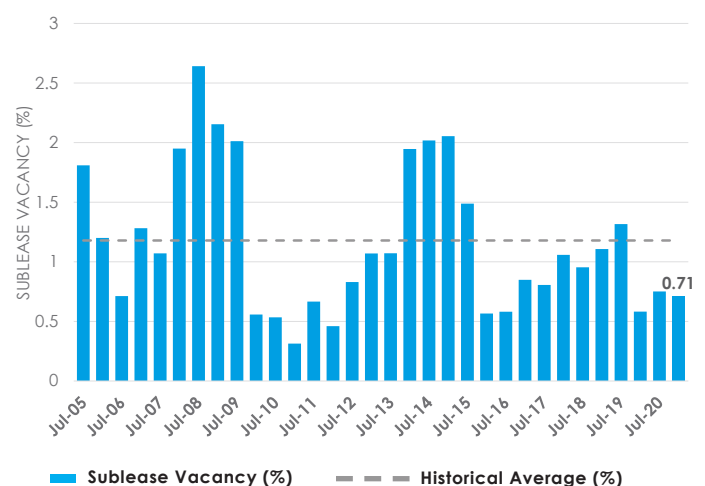
## LEASING

- **TOTAL VACANCY** rose just one percent above the 15-year historical average to 9.65% - the lowest vacancy rate across the North Shore precinct.
- A lack of occupier movement was driven by the specialised nature of the market's tenant profile of information technology and medical services. These providers require specific, tailored office fit-outs and are therefore less likely to relocate occupational solutions unless necessary.
- However, the completion of purpose-built developments both within Macquarie Park and other key markets has led to 73% of the total vacant stock in Macquarie Park being **A-GRADE**.
- Microsoft vacated 1 Epping Road, North Ryde for North Sydney's flagship tower at 1 Denison Street, resulting in an 11,788sqm vacancy across four floors.
- The completion of Goodman's 2 Banfield Road, Macquarie Park, added 6,157sqm of vacant A-grade stock to the market, with pre-commitments to over 78% of the building.
- Additionally, Schneider Electric - the anchor pre-commitment for 2 Banfield Road - relocated from its former office at 78 Waterloo Road, leaving 9,617sqm of A-grade stock behind.
- **SUBLEASING VACANCY** decreased by 4 basis points to 0.7%, demonstrating the resilience of the tenants within Macquarie Park.
- With growing demand for IT and medical-related services during the pandemic, these businesses – which comprise the majority of tenants in Macquarie Park – remained resilient and therefore did not have the need to contract and/or sublease their physical office requirements. Tenants include Optus, Foxtel, Aristocrat Technologies, Fuji Xerox, Lavery Pathology, Medtronic Australasia and Contract Pharmaceutical.
- For the first time in two years, **NET ABSORPTION** was negative at - 15,573sqm
- Contributed to by the completion of 2 Banfield Road which added 14,874sqm to the market. 22% remains vacant and available for lease.

### TOTAL VACANCY VS HISTORICAL AVERAGE



### SUBLEASE VACANCY VS HISTORICAL AVERAGE



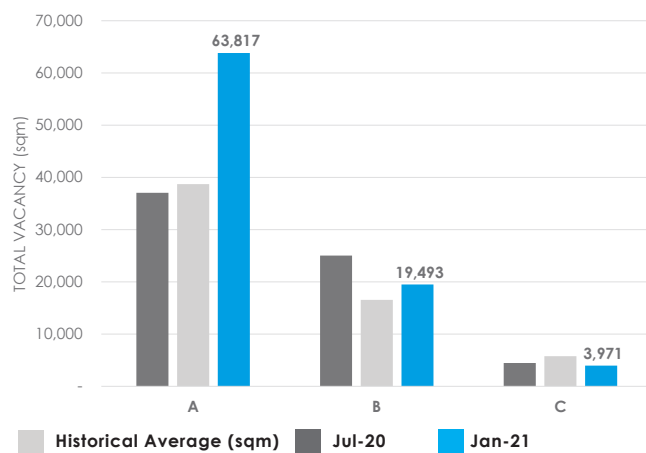




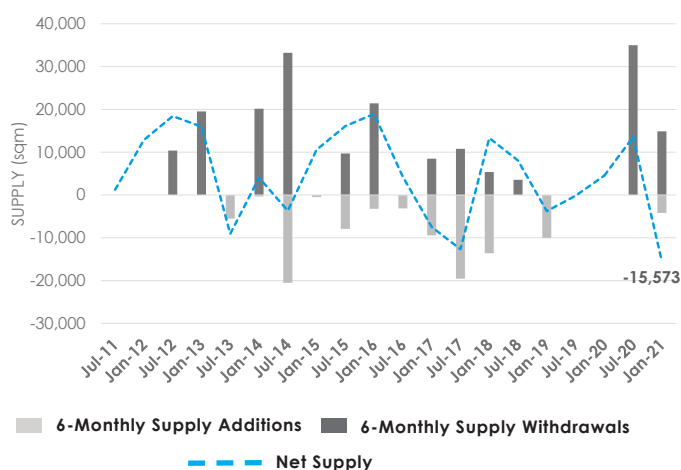
## CAPITAL FLOW

A positive outlook following an active transactional market and development progress.

### TOTAL VACANCY BY GRADE



### NET SUPPLY - 6-MONTHLY SUPPLY ADDITIONS AND WITHDRAWALS



- SOLD 44-50 Waterloo Road, Macquarie Park:**  
 ESR Australia purchased this 1.5Ha land bank development site from AMP Capital Diversified Property Fund in December 2020, following an EOI campaign executed by CI Australia. With the major tenant as Macquarie University School of Engineering, the building was sold at an initial passing yield of 2.40% and \$9,922 psm of NLA.
- SOLD Riverview Business Park, 3 Richardson Place, North Ryde:**  
 Quintessential Equity purchased this 17,407sqm twin tower complex for \$115m in March 2021. This represents a net yield of 6.60% and a rate of \$6,606 psm. Major tenants include City of Ryde Council, NTT Data, Rexel, Boral and Ingredion.
- SOLD MQX4, 1 Giffnock Avenue, Macquarie Park:**  
 Ascendas REIT purchased this 19,384sqm net lettable area (NLA) development site – part of a larger four-office development - from Frasers Property and Winten Property for \$167,200,000, settling February 2021. Due for completion in 2022.
- SOLD Thomas Holt Drive Office Park, 1 Thomas Holt Drive, Macquarie Park:**  
 Ascendas REIT purchased the 39,370sqm, B-grade office building from AMP Capital for \$288,900,000, settling January 2021. This represents a net passing yield of 5.69% on the 93% occupied asset.
- SOLD Macquarie Corporate Centre, 2 Banfield Road, Macquarie Park:**  
 AEW Capital purchased this newly-constructed 14,874sqm, A-grade office building from Goodman, with Schneider Electric as the anchor tenant, for \$144,000,000, settling January 2021. This represents a reported yield of 5.10%, with 22% vacancy.
- SOLD Pinnacle Office Park, 6 Giffnock Avenue and 85 Epping Road, Macquarie Park:**  
 Keppel REIT purchased two A-grade office buildings (3,940sqm and 31,191sqm NLA) from Goodman for a total of \$306,000,000. This represents a net passing yield of 5.25%.
- DEVELOPMENT SITE 40 – 52 Talavera Road, LaSalle Investment Management:**  
 Concept Development Applications have been submitted for this commercial and community building. The development will consist of three 7-storey buildings, offering 11,639sqm NLA of office, a childcare centre and ancillary restaurants and cafes.



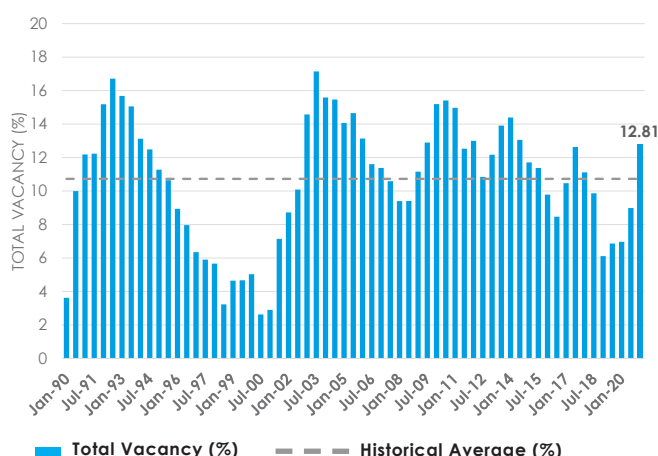
# ST LEONARDS

## Quality buildings retain tenants

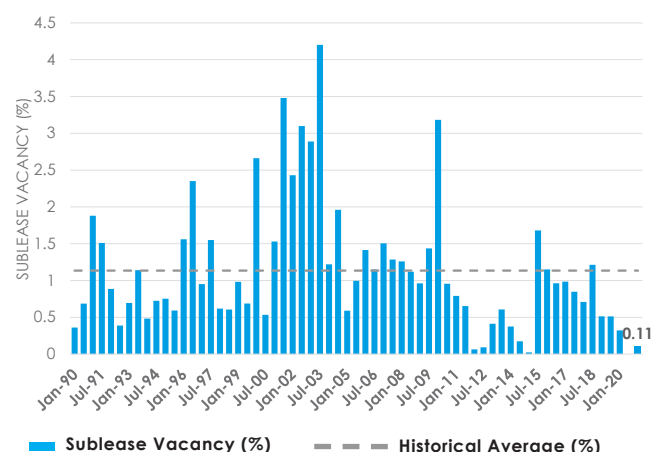
### LEASING

- **TOTAL VACANCY** rose almost 2% above the 30-year historical average, to 12.81% following the impacts of the pandemic.
- However, strong market activity remains as tenants undertake a flight to quality. This has seen **B-GRADE STOCK** account for 60% of the total vacant stock in St Leonards. B-grade assets with the largest vacancies include:
  - 100 Christie Street – NSW Health vacated the premises as part of a consolidation within the new Royal North Shore Hospital (1 Reserve Road), returning 9,941sqm of B-grade space to market.
  - 657 Pacific Highway – various smaller tenants have vacated, totalling 1,200sqm.
  - 154 Pacific Highway – NSW Farmers relocated to a company-owned property, vacating 2,700sqm of B-grade space. Ramsay Healthcare will also vacate 4,000sqm within the asset in favour of the newly completed Dexu North Shore Health Hub.
  - Outside these new developments, quality existing A-grade stock remained resilient which contributed to limited supply in this grade in St Leonards.
- **SUBLEASING VACANCY** saw a slight uptick from zero in June 2020 to 11 basis points this reporting period.
  - Similar to Macquarie Park, demand for tenant services throughout the pandemic led to fewer physical space contractions. The largest tenants in the market are finance and IT-related businesses including Mastercard Australia, Toyota Finance, Interactive Pty Ltd and Cisco.
- **NET ABSORPTION** rose to 11,909sqm with the consolidation of NSW Health within the newly completed Royal North Shore Hospital. This minimised the increase in vacancy despite an increase in supply. The department relocated its interim offices at Chatswood's Zenith Centre, North Sydney's 40 Mount Street and St Leonards' 100 Christie Street.
- St Leonards and Parramatta are the only two markets across NSW that recorded positive net absorption this reporting period.

**TOTAL VACANCY VS HISTORICAL AVERAGE**



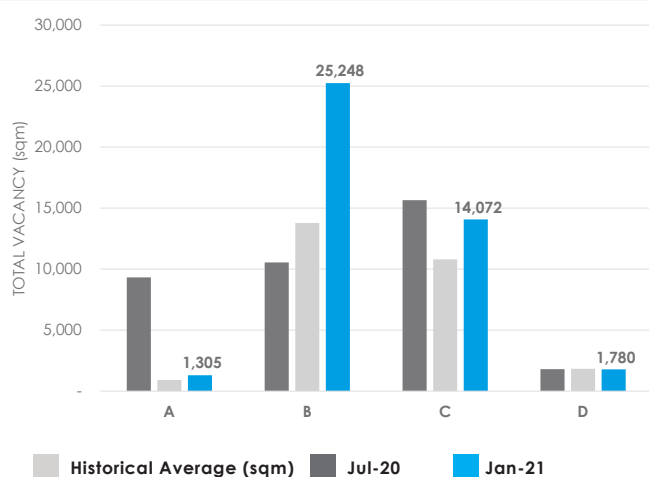
**SUBLEASE VACANCY VS HISTORICAL AVERAGE**



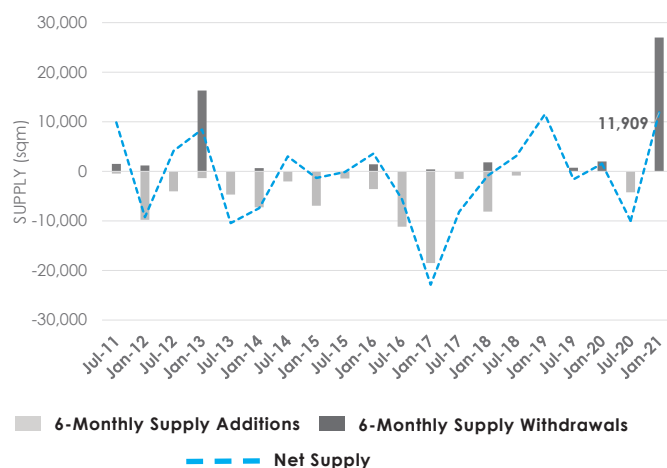




## TOTAL VACANCY BY GRADE



## NET SUPPLY - 6-MONTHLY SUPPLY ADDITIONS AND WITHDRAWALS



## CAPITAL FLOW

An active 2021 is expected following subdued transactional activity and limited new developments in 2020.

- SOLD 170 Pacific Highway, St Leonards:**  
 Realside purchased this 4,465sqm, B-grade office building from Property Bank Australia for \$42,000,000 in September 2020. The sale represents a net passing yield of 6.43%.
- DEVELOPMENT SITE North Shore Health Hub, 7 Westbourne Street St Leonards, Dexu:**  
 Practical completion is not far off for this \*60% pre-committed development, set to deliver 15,800sqm NLA of office space to this established yet growing medical services precinct. The remaining 40% of vacant A-Grade space (6,320sqm) will be added to the market this quarter once completed.
- DEVELOPMENT SITE 88 Christie Street, St Leonards, JQZ:**  
 Construction is well underway for the first building in JQZ's mixed-use development. In addition to 6,000sqm NLA of commercial office space, the development will offer 10,000sqm of retail including a supermarket, a public library and two, 47-storey residential towers of 654 apartments. The development is due for completion in 2024.

\*Approximately.



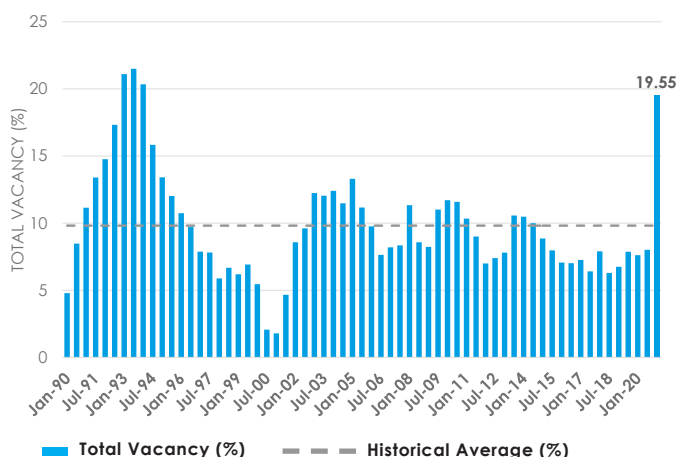
# NORTH SYDNEY

## Completions and contractions shape market

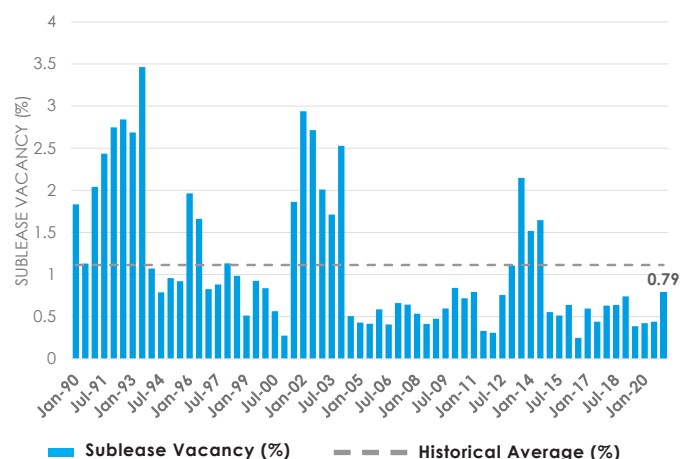
### LEASING

- **TOTAL VACANCY** rose almost 10% above the 30-year historical average to 19.55%.
- **VACANT B-GRADE STOCK** accounts for 54% of the total vacant stock in North Sydney, a significant portion of which is attributable to a number of smaller tenants contracting post-COVID and/or working from home. B-grade buildings with large vacancies include:
  - 5 Blue Street – 8,074sqm - Zurich Insurance vacated the entire building and relocated to their new head office at 118 Mount Street
  - 213 Miller Street – 3,059sqm
  - 107 Mount Street – 2,499sqm
  - 99 Mount Street – 2,023sqm
  - 100 Miller Street – 3,742sqm
  - 124 Walker Street – 1,924sqm
  - 201 Miller Street – 2,991sqm
- **SUBLEASING VACANCY** doubled to 79 basis points - equating to 7,300sqm - yet remains relatively low compared to Sydney CBD and Chatswood. Additionally, the demand for fitted-out space among tenants remains evident, with this comprising 90% of leasing transactions in 2020.
- North Sydney recorded **NEGATIVE NET ABSORPTION** of -16,230sqm.
  - The completion of 1 Denison Street and 118 Mount Street saw an additional 58,964sqm of office space added to the market. Of this, 19,377sqm is available for lease. Anchor tenants across the assets include Microsoft, Nine Entertainment Corporation, SAP and Zurich Insurance.
  - 73 Miller Street was returned to market after a full refurbishment. 55% of the 18,872sqm office building is available, after commitments to oOh!media and TTW Engineering Consultants.

TOTAL VACANCY VS HISTORICAL AVERAGE



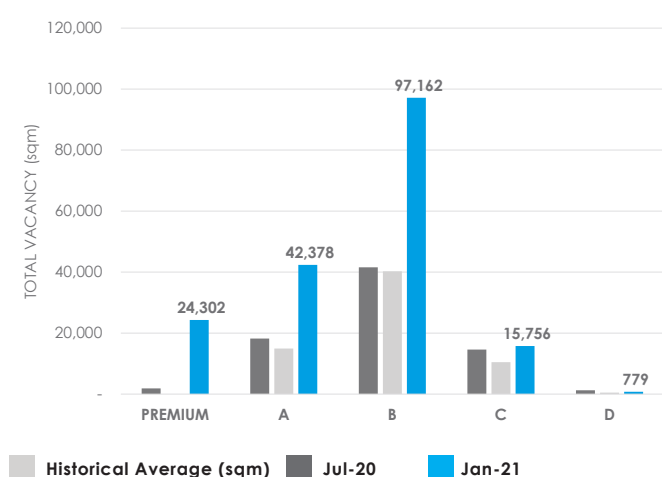
SUBLEASE VACANCY VS HISTORICAL AVERAGE



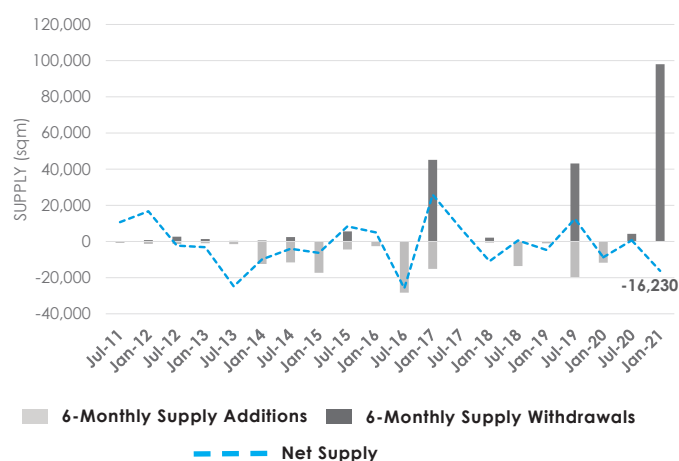




## TOTAL VACANCY BY GRADE



## NET SUPPLY - 6-MONTHLY SUPPLY ADDITIONS AND WITHDRAWALS



## CAPITAL FLOW

Quality, well-leased buildings remain the focus for investors.

- SOLD The Denison, 65 Berry Street, North Sydney:**  
 Charter Hall has sold a 100% stake in the 14,503sqm NLA, A-grade building to Intera Group. With 98% occupancy and 2.5 year weighted average lease expiry (WALE) by income, the building was traded for \$211,812,000 in December 2020, representing a net passing yield of 5.21%.
- SOLD Victoria Cross, 60 Miller Street, North Sydney:**  
 Dexus sold 60 Miller Street to interests related to Hong Kong-based investor, Huge Linkage, for \$273,000,000 in November 2020. The 19,350sqm, A-grade building is 97% occupied with a 3.5 year WALE by income, dropping the net passing yield to 4.90%.
- SOLD 53 Berry Street, North Sydney:**  
 Property Bank Australia sold this 15,315sqm, B-grade office building to Lederer Group for \$54,000,000 in October 2020. With a 2.2 year WALE by income, the sale represented a net passing yield of 4.72%.



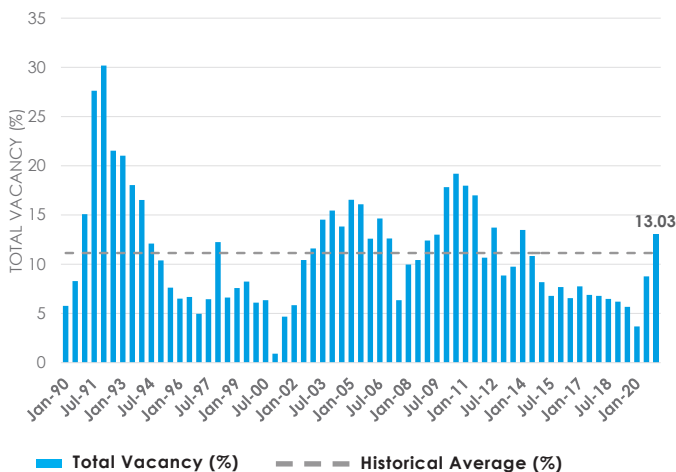
# CHATSWOOD

## Tenant movements trigger sublease rise

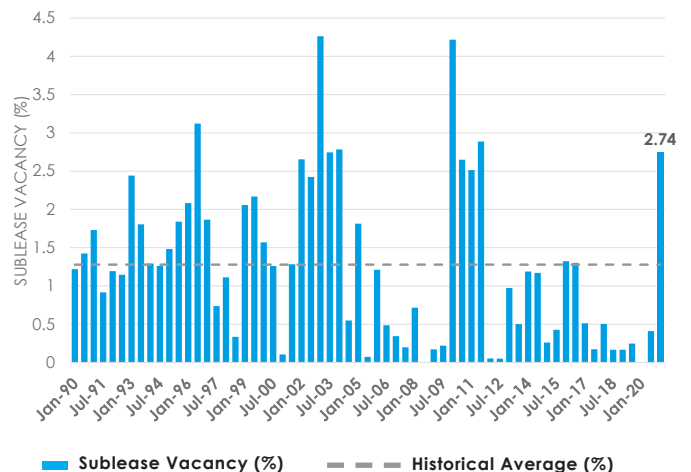
### LEASING

- **TOTAL VACANCY** rose almost 1.5 percent above the 30-year historical average to 13.03%. No new supply and minimal withdrawals (570sqm) were recorded.
- **VACANT A-GRADE STOCK** now accounts for 58% of the total vacant stock in Chatswood.
  - NSW Health's relocation from Towers A and B of the Zenith Centre at 821 Pacific Highway placed 14,300sqm of stock back onto the market.
  - Transport for NSW's relocation out of the Zenith Centre returned an additional 8,710sqm of space to market.
  - Property NSW vacated 3,130sqm of A-grade stock within 12 Help Street, consolidating with Property Development NSW in the new Western Sydney development, 4 Parramatta Square.
- **SUBLEASING VACANCY** rose significantly over the reporting period, from 0.40% to 2.74%. This equates to 6,377sqm of A-grade stock.
  - Ventia placed approximately 1,500sqm of A-grade stock at Levels 2, 3 and 4 of 495 Victoria Avenue back on the market, as it reassesses space requirements post-COVID.
  - Leightons Contractors returned approximately 3,692sqm of A-grade stock at Levels 2, 3 and 4 of 475 Victoria Avenue to the market.
- **NET ABSORPTION** dropped to -12,185sqm due to various State Government tenancies (NSW Health and Property NSW) relocating out of Chatswood to their respective new headquarters.

#### TOTAL VACANCY VS HISTORICAL AVERAGE



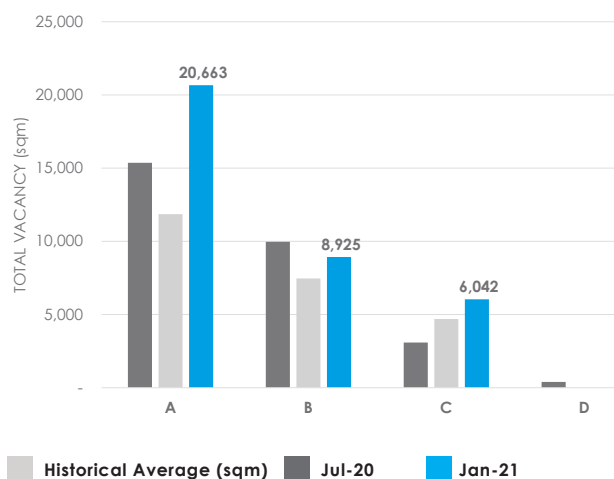
#### SUBLEASE VACANCY VS HISTORICAL AVERAGE



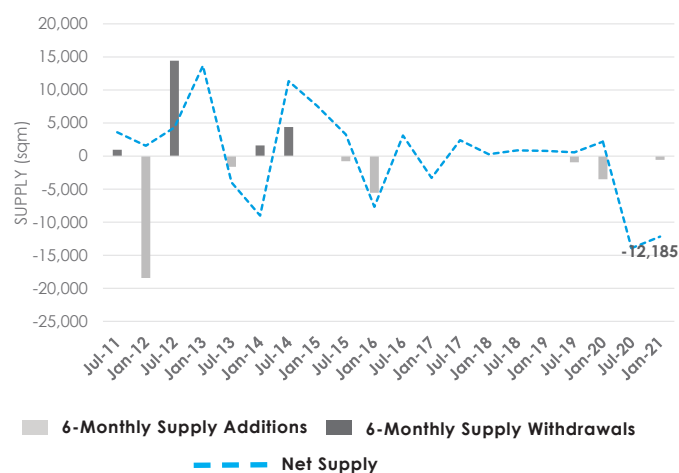




## TOTAL VACANCY BY GRADE



## NET SUPPLY - 6-MONTHLY SUPPLY ADDITIONS AND WITHDRAWALS



## CAPITAL FLOW

Minimal transactions and development activity reflects a COVID-impacted market.

- SOLD (PARTIAL INTEREST) Vevo Insurance HQ, 465 Victoria Avenue, Chatswood:** Centuria has sold a 25% interest in the 15,644sqm, A-grade building for \$44,700,000, settling in February 2021.
- DEVELOPMENT SITE 501 Victoria Avenue, Chatswood, Cromwell:** A development application has been lodged to include the addition of six storeys to the existing building, relocation of entry lobby and addition of a cafe retail space.
- DEVELOPMENT SITE 444-458 Victoria Avenue, Chatswood:** Concept Approval was granted in October 2020 for a 22 storey A-Grade commercial tower designed by NettletonTribe Architects. The development will comprise a public plaza at street level, a purpose-built RSL Club over four levels (6,790sqm), 18 storeys of commercial space totalling 28,070sqm and 263 basement car spaces.





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