

An aerial photograph of Sydney, Australia, showing the city skyline, the Sydney Harbour Bridge, the Sydney Opera House, and the surrounding water and suburbs. The image is used as a background for the report cover.

# NORTH SHORE OFFICE MARKET REPORT H2 2022



# EXECUTIVE SUMMARY

## Welcome to our H2 2022 North Shore Office Market Report.

The North Shore property market has seen mixed trends recently. While the total vacancy rate has increased to 19.4%, the net supply of -7,101 sqm indicates promising future supply. Additionally, the 'flight-to-quality' trend is evident with the decrease in sub-lease vacancy, primarily driven by Premium and A-grade offices in North Sydney. The significant net absorption of 13,797 sqm for premium-grade offices highlights high demand, providing investment opportunities for interested parties.

In the past six months leading up to January 2023, we've seen a 12 basis point decrease in the total vacancy rate, which now sits at 19.2% in North Sydney. However, this still remains above the historical average of 10.25%.

While there were no new properties added to the market, we did see a decrease in supply with withdrawals of 4,650 sqm, mainly from C-grade properties. The net absorption rate in North Sydney was negative at -2,642 sqm, but this is more indicative of a preference for premium properties.

The North Sydney sub-leasing vacancy rates decreased by 128 basis points to 1.01%, with prime stock being the biggest contributor. This decrease is mostly attributed to the 7,000 sqm of Premium-grade vacant space listed by NBN for sub-lease at 100 Mount Street in the previous reporting period, which has since been taken by Hollard Insurance.

Key tenant movements included companies like Verint Systems Australia, Griffith Hack, and Ferrovial Agroman relocating within North Sydney to A or Premium-grade

space. On the other hand, Schawk, BT Australasia, and Business Australia moved out of North Sydney to A or Premium-grade space in Sydney, while Aurecon, Lego Australia, Luxottica, and Jacobs Douwe Egberts relocated to North Sydney.

Despite these movements, net effective rents remained stable, with incentives being offered at around 30-35%.

There were also three notable capital transactions, all of which were acquired by either Singaporean or Swiss investors, showing the strong international demand for North Sydney properties.

Overall, the North Sydney office market continues to show signs of stability and growth, with a focus on premium properties driving the market.

If you would like to discuss this report or enquire about how a bespoke market analysis can help you achieve prosperity through property, we'd be delighted to speak with you.



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# NORTH SYDNEY

## VACANCY BREAKDOWN

Total vacancy in North Sydney has decreased by 12 basis points (bps) to 19.2% in the six months to January 2023, remaining above the historical average of 10.25%. This represents a total of 175,985 sqm of vacant stock on the market, with B-grade properties making up more than half of this amount. 'Flight-to-quality' remains prevalent as the most significant decrease in vacancy being seen in Premium properties.

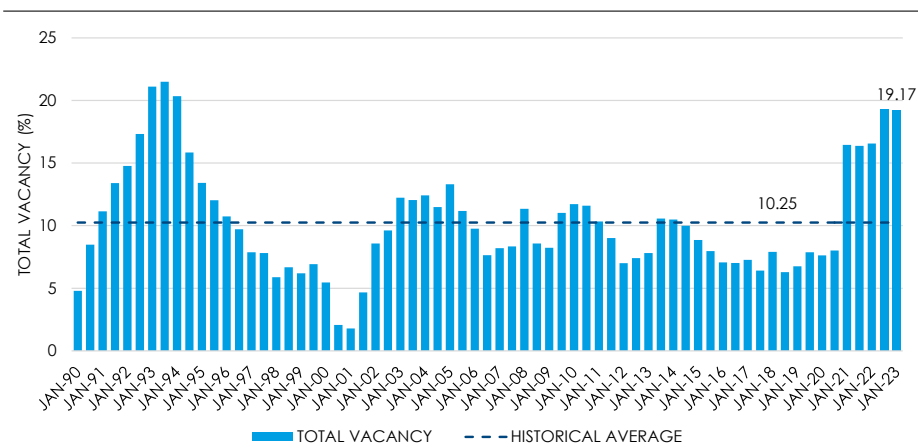
- Premium-grade experienced a decrease of 1,003 bps to 2.9% or 13,797 sqm to 3,928 sqm.

The other grades saw smaller changes in vacancy:

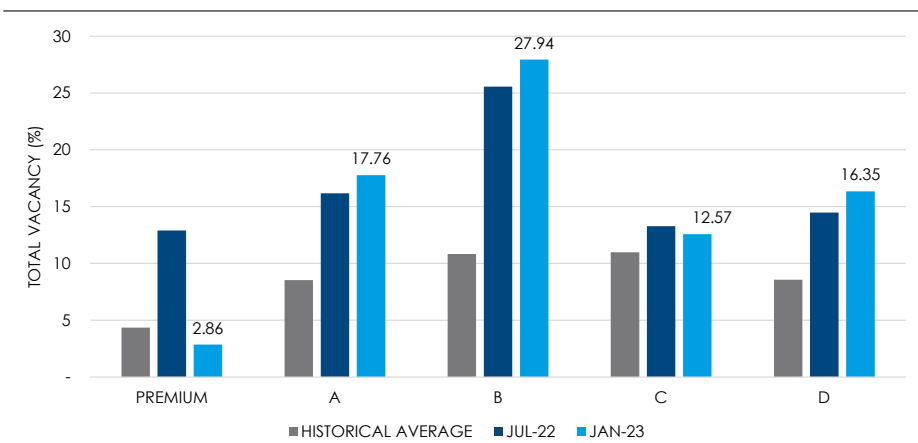
- A-grade increasing by 159 bps to 17.76% or by 3,622 sqm to 40,335 sqm
- B-grade increasing by 238 bps to 27.94% or by 9,521 sqm to 112,101 sqm
- C-grade decreasing by 70 bps to 12.57% or by 1,590 sqm to 17,564 sqm
- D-grade increasing by 188 bps to 16.35 or by 236 sqm to 2,057 sqm

While there were no new properties added to the market, there were supply withdrawals of 4,650 sqm, mainly from C-grade properties.

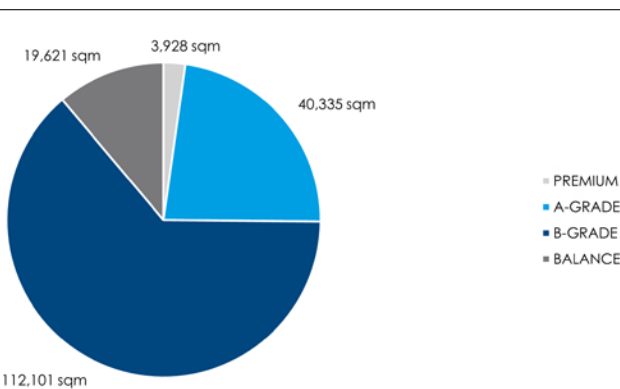
TOTAL VACANCY VS HISTORICAL AVERAGE - NORTH SYDNEY



TOTAL VACANCY BY GRADE (%) - NORTH SYDNEY



TOTAL VACANCY BY GRADE (SQM) - NORTH SYDNEY



North Sydney recorded a negative net absorption of -2,642 sqm in the six months to January 2023, below the historical average of 156 sqm.

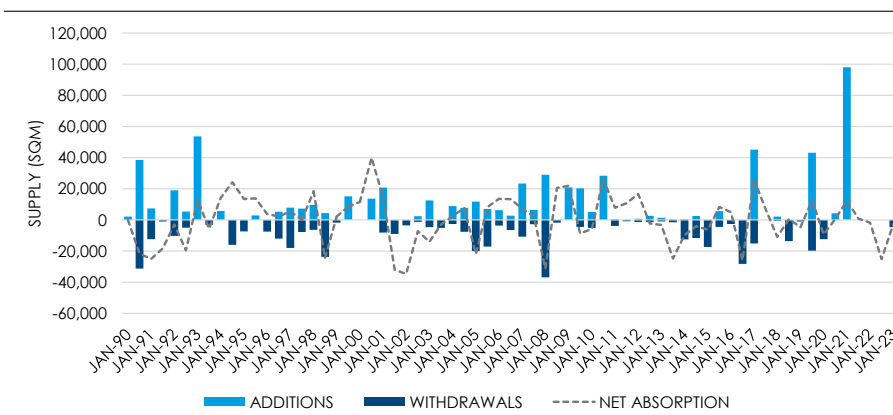
Net effective rents have remained stable over the past 12 months, with incentives being offered at around 30-35%.

## SUB-LEASING SPOTLIGHT

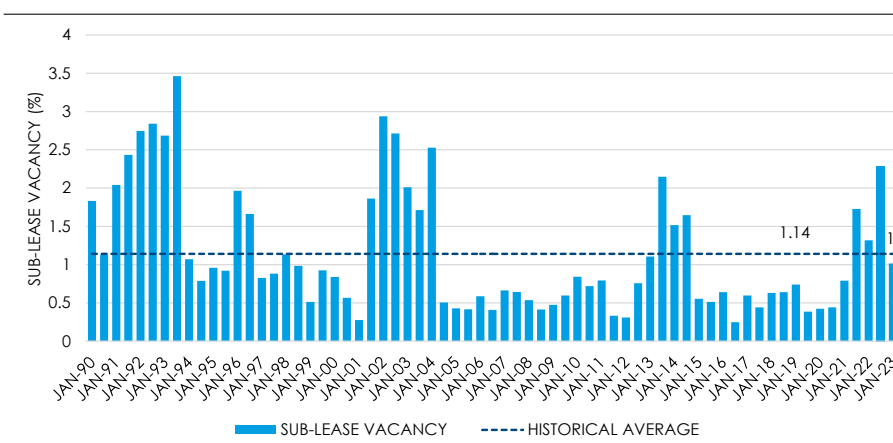
In the six months leading up to January 2023, the vacancy rate for sub-leasing decreased by 128 basis points (bps) to 1.01%, which is lower than the historical average of 1.14%. Currently, there are 9,311 sqm of vacant sub-leasing properties available on the market.

The significant decrease in sub-lease vacancy is mostly attributed to prime stock, with Premium stock experiencing a decrease of 787 bps to 0.49%, or 10,818 sqm to 670 sqm. This decrease can be attributed to the 7,000 sqm of Premium-grade vacant space that NBN listed for sub-lease within 100 Mount Street in the previous reporting period. This space has since been taken by Hollard Insurance.

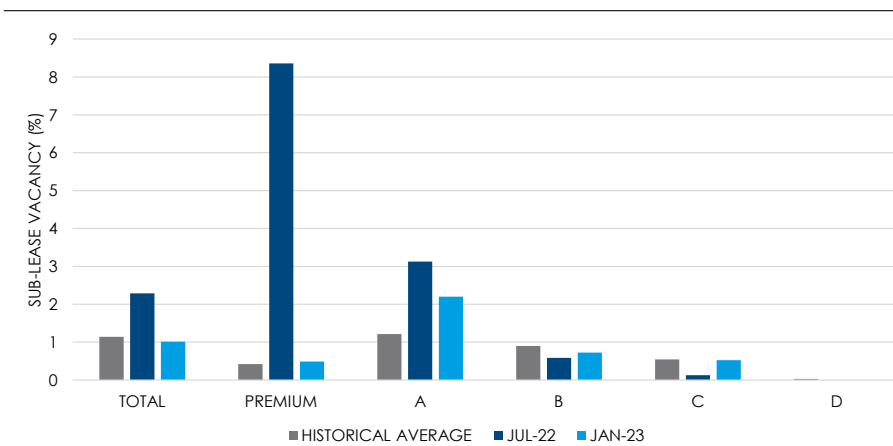
SIX MONTHLY SUPPLY ADDITIONS, WITHDRAWALS AND NET ABSORPTION - NORTH SYDNEY



TOTAL SUB-LEASE VACANCY VS HISTORICAL AVERAGE - NORTH SYDNEY



SUB-LEASE VACANCY BY GRADE - NORTH SYDNEY





KEY TENANT MOVEMENTS

Relocations within North Sydney

- **Verint Systems Australia** has vacated 939 sqm of B-grade space in 100 Miller Street to relocate to 600 sqm of A-grade space in 76 Berry Street.
- **Griffith Hack** has vacated 1,838 sqm of B-grade space in 100 Miller Street to relocate to 400 sqm of A-grade space in 100 Arthur Street.
- **Ferrovia Agroman** has vacated 444 sqm of B-grade space in 65 Berry Street to relocate to 423 sqm of Premium grade space in 1 Denison Street.

Relocations out of North Sydney

- **Schawk** has vacated 800 sqm of A-grade space in 99 Walker Street to relocate to 800 sqm of A-grade space in 1 Innovation Road, Macquarie Park.
- **BT Australasia** has vacated 1,428 sqm of A-grade space in 76 Berry Street to relocate to 887 sqm of A-grade space in 420 George Street, Sydney.
- **Business Australia (Business NSW)** has vacated 4,086 sqm of B-grade space in 140 Arthur Street to relocate to 2,594 sqm of Premium grade space in 8 Chifley Square, Sydney.

Relocations to North Sydney

- **Aurecon** has vacated 5,793 sqm of space in 116 Military Road, Neutral Bay to relocate to 1,400 sqm of A-grade space in 73 Miller Street.
- **Lego Australia** has vacated 1,053 sqm of A-grade space in 1 Innovation Road, Macquarie Park to relocate to 856 sqm of B-grade space in 5 Blue Street.
- **Luxottica** has vacated 4,048 sqm of A-grade space in 75 Talavera Road, Macquarie Park to relocate to 3,158 sqm of Premium grade space in 1 Denison Street, North Sydney.
- **Jacobs Douwe Egberts (JDE)** has vacated 1,347 sqm of A-grade space in 924 Pacific Highway, Gordon to relocate to 887 sqm of A-grade space in 80 Pacific Highway, North Sydney.
- **Hollard Insurance** has committed to 7,000 sqm of Premium space in 100 Mount Street.

CAPITAL TRANSACTIONS

There have been three notable transactions within North Sydney in the six months to January 2023. International demand remains strong as all transactions were acquired by either Singaporean or Swiss investors.

- 73 Miller Street was acquired by UBS (Switzerland) on behalf of a client for \$400,000,000 at a yield of 4.7% on 15 September. With a NLA of 19,114 sqm, this makes for a price PSM of \$20,927.
- 50 Miller Street was acquired by Sun Venture (Singapore) for \$148,000,000 at a yield of 5.5% on 17 November. With an NLA of 10,427 sqm, this makes for a price PSM of \$14,194.
- 165 Walker Street was acquired by Roxy-Pacific (Singapore) for \$68,736,875 at a yield of 5.0% on 17 August. With an NLA of 5,221 sqm, this makes for a price PSM of \$13,165.



DEVELOPMENTS

	Address	Completion Date	Developer	GFA (sqm)
1	88 Walker Street	2023	Billbergia	12,501
2	2-6 Blue Street	2023	Lendlease/Keppel	14,961
3	173 Pacific Highway	2024+	Maville Group	11,000
4	Victoria Cross OSD (189 Miller Street)	2025+	Lendlease	55,980
5	63-83 Walker Street	Mooted	Thirdi	33,000
6	20 Berry Street	Mooted	Holdmark	22,000
7	110 Walker Street	Mooted	Stockland	60,445
8	MLC Building (105-153 Miller Street)	Mooted	Investa	74,000
9	153-157 Walker Street	Mooted	Various	63,525
10	70-76 Berry Street	Mooted	Active Super	66,000
11	15 Blue Street	Mooted	Aqualand	35,000
12	100 Walker Street	Mooted	Pro-Invest	40,000
13	107 Mount Street	Mooted	ABC Dynasty	27,000



# NORTH RYDE AND MACQUARIE PARK

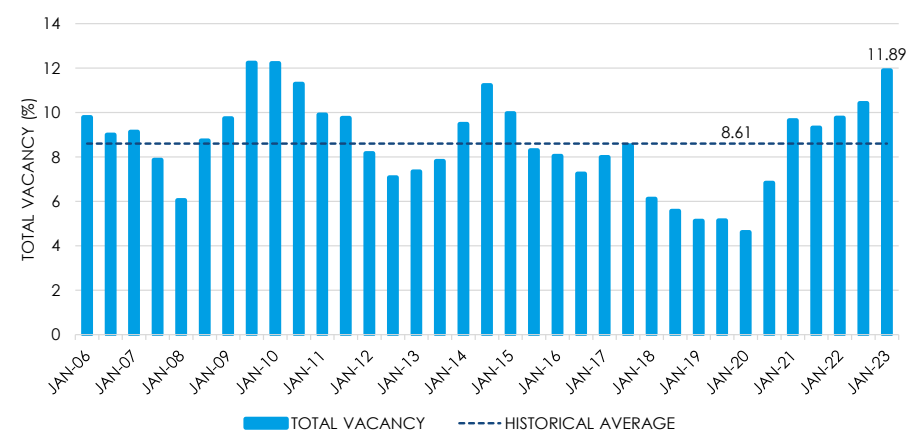
## LEASING OVERVIEW

The office market in Macquarie Park and North Ryde experienced challenges in the six months to 2023, as reflected in the total vacancy rate of 11.89%. This is a 147 bps increase from the previous reporting period and above the historical average of 8.61%.

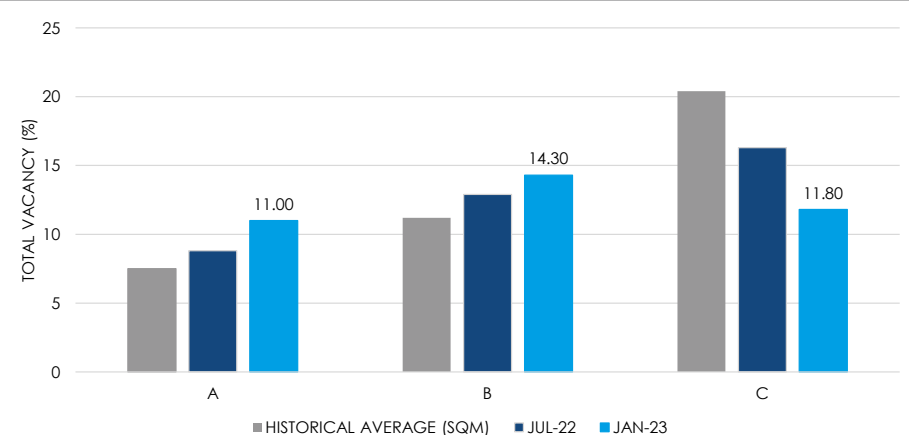
A-grade sees 69,492 sqm of vacant stock, accounting for over half of the vacancies in the total market. 'Flight-to-quality' is a contributing factor for the increase in the A-grade vacancy rate. The A-grade stock in the local area was struggling to compete with the A-grade stock from other suburbs in Sydney.

B-Grade assets account for 32% of total vacancies, with 34,580 sqm available, and a vacancy rate of 14.3% as of the end of 2022.

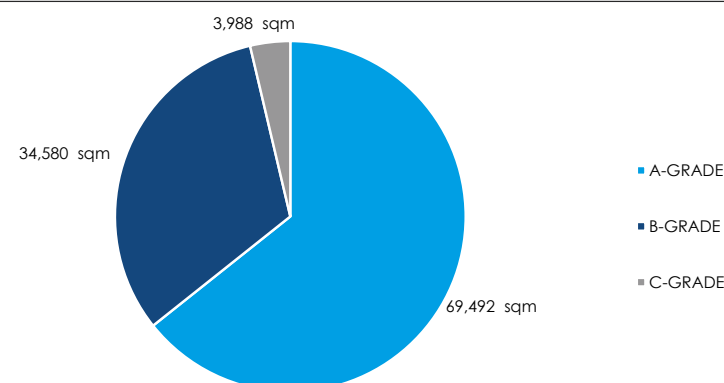
TOTAL VACANCY VS HISTORICAL AVERAGE - MACQUARIE PARK & NORTH RYDE



TOTAL VACANCY BY GRADE - MACQUARIE PARK & NORTH RYDE



TOTAL VACANCY BY GRADE (SQM) - MACQUARIE PARK & NORTH RYDE

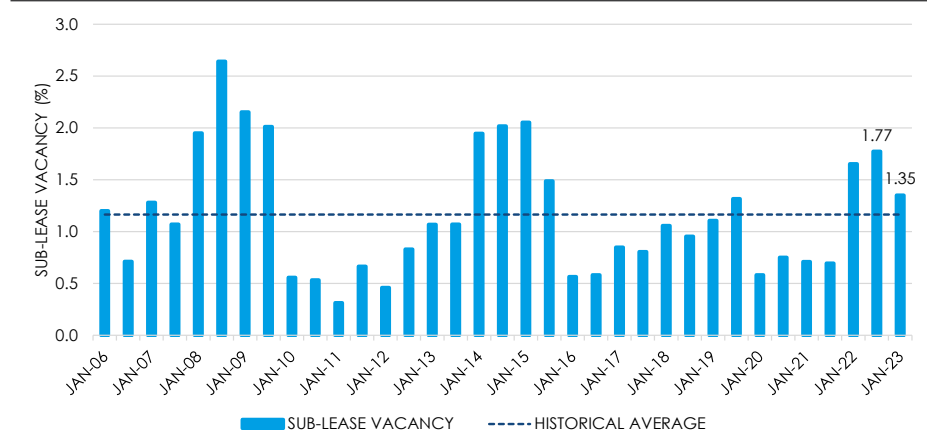


## NEW SUPPLY VS INCENTIVES

The Macquarie Park and North Ryde leasing market is set to be more active in 2023 than it was in 2022. The latest PCA data shows that an additional 61,000 sqm of space will be added to the market in 2023. The new A-grade office spaces will enhance the competitiveness of Macquarie Park within the Sydney commercial property market.

Macquarie Park and North Sydney stand out as the only two areas in the Sydney North Shore that will receive new supply in 2023, making them an attractive option for business owners seeking large office spaces in brand-new, high-quality buildings on a limited budget. Higher rental incentives are expected in the short term as the market needs time to find the equilibrium between supply and demand.

SUB-LEASING VACANCY VS HISTORICAL AVERAGE - MACQUARIE PARK & NORTH RYDE



## NET ABSORPTION

During H2 2022, there were no changes in the supply or withdrawal of the Macquarie Park and North Ryde markets. The market saw a net absorption rate of -15,969 sqm, making it the suburb with the lowest net absorption rate in the Sydney North Shore. The negative net absorption rate was primarily due to the company downsizing office space and tenants leaving for better-quality spaces in North Sydney and other Sydney suburbs.

## SUB-LEASING SPOTLIGHT

The sub-leasing vacancy rate in Macquarie Park and North Ryde decreased by 42 basis points (bps) to 1.35%, the A-grade sub-leasing market experienced a significant increase, doubling in size within six months and reaching 1.4%. The B-grade vacant sub-leasing space decreased by 3,800 square meters, with a rate of 2.2%.

The decrease in sub-leasing vacancy suggests that there is still a high demand for office space in the area.



KEY TENANT MOVEMENTS

Relocations within Macquarie Park and North Ryde

- **Raytheon Australia** has vacated 4,187 sqm of A-grade space in 5 Talavera Road, Macquarie Park to relocate to 2,000 sqm of A-grade space in 12 Talavera Road, Macquarie Park.
- **SIEMENS** has vacated 8,811 sqm of space at 160 Herring Road, Macquarie Park to relocate to 1,900 sqm of A-grade in 3 Richardson Place, North Ryde.
- **Kyocera** has vacated 1,755 sqm of space at 6-10 Talavera Road, Macquarie Park to relocate to 1,811 sqm of A-grade space in 1 Epping Road, North Ryde.

Relocations out of Macquarie Park and North Ryde

- **Lego Australia** has vacated 1,053 sqm of A-grade space at 1 Innovation Road, Macquarie Park to relocate to 856 sqm of B-grade space in 5 Blues Street, North Sydney.
- **Endress & Hauser** will be vacating 797 sqm of office space and 892 sqm of warehouse space in in 16 Giffnock Avenue, Macquarie Park to relocate to 1,550 sqm of office space and 1,550 sqm of warehouse space in 5 Broughton Road, Artarmon.

Movement to Macquarie Park and North Ryde

- **Healius Pathology** has committed to 1,185 sqm of A-grade space in 22 Giffnock Avenue, Macquarie Park.
- **Certis Security** has committed to 1,530 sqm of A-grade space at 54 Waterloo Road, Macquarie Park.

CAPITAL TRANSACTIONS

The Macquarie Park and North Ryde commercial markets were under pressure from high-interest rates and rising vacancy rates. During the second half of 2022, the capital transaction market was quiet compared to pre-pandemic periods. The most significant deal was LaSalle's acquisition of 15 Talavera Road, Macquarie Park, from EST for \$111.45 million reflecting a \$8,813/sqm (NLA).



DEVELOPMENTS

	Address	Development Type	Development Stage	GFA (sqm)
1	M_Park, 11-17 Khartoum Road	New Development	Construction in Progress	17,759
2	1-5 Khartoum Road	New Development	DA Pending	10,000
3	17-23 Talavera Road	New Development	DA Pending	9,097
4	40-52 Talavera Road	New Development	DA Approved	37,542
5	45-47 Epping Road (not pictured)	New Development	DA Approved	16,216
6	City Views Business Park, 67-75 Epping Road	New Development	DA Approved	34,759
7	Central House Macquarie Square 45-61 Waterloo Road	New Development	DA Approved	117,070
8	63-71 Waterloo Road	New Development	DA Approved	62,404
9	85-91 Waterloo Road	New Development	DA Approved	22,550
10	Macquarie Exchange, 396 Lane Cove Road, 32-46 Waterloo Road & 1 Giffnock Avenue	New Development	DA Approved	83,368



# ST LEONARDS AND CROWS NEST

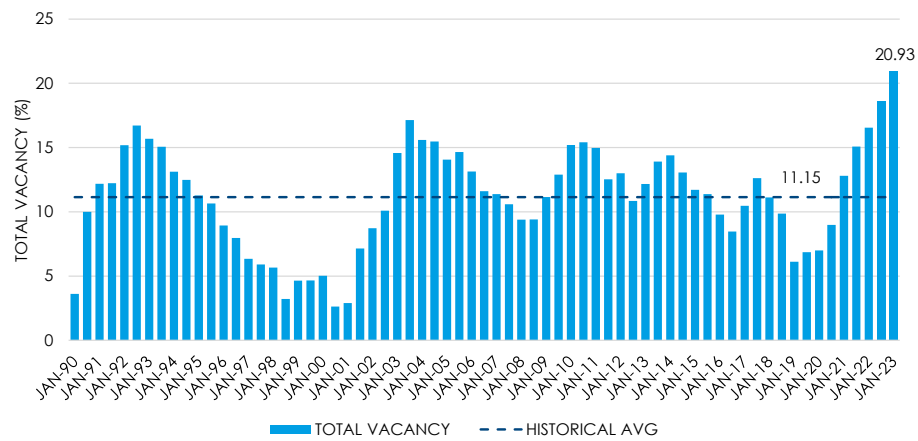
## VACANCY AND ABSORPTION

Since the onset of the pandemic, the St Leonards office market has experienced a decrease in leasing activity and demand. As a result, the total vacancy rate increased by 234 basis points (bps) to 20.93% in the six months to January.

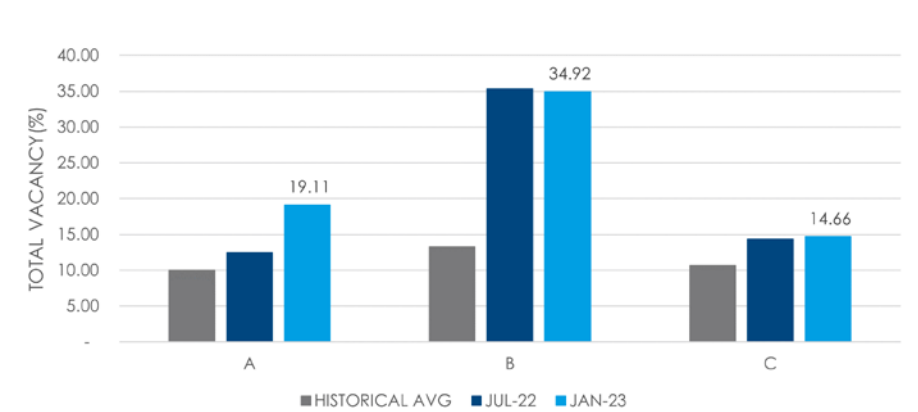
However, the A-grade saw a substantial change, increasing by 662 bps to 19.11%, while the other grades remained relatively stable.

As net supply has remained unchanged, tenant demand is the sole reason for the elevated vacancy rate. St Leonards and Crows Nest saw a negative net absorption of -7,965 sqm. This is attributed to the lack of demand for office space resulting from the pandemic and uncertainty surrounding flexible work arrangements.

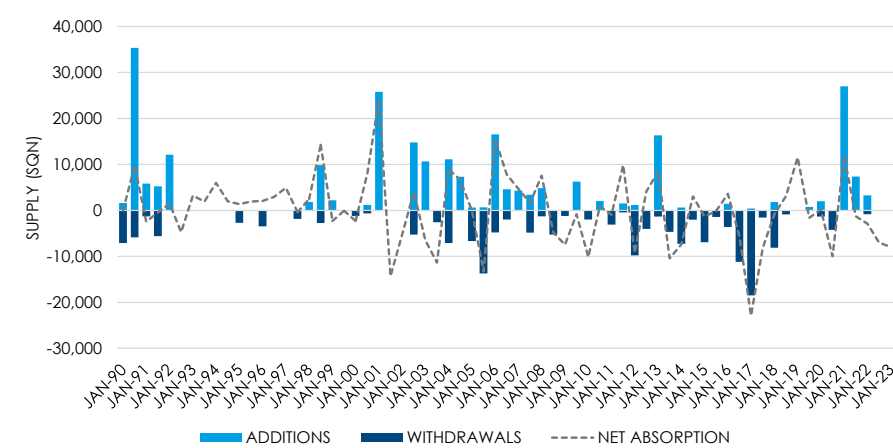
TOTAL VACANCY VS HISTORICAL AVERAGE - ST LEONARDS & CROWS NEST



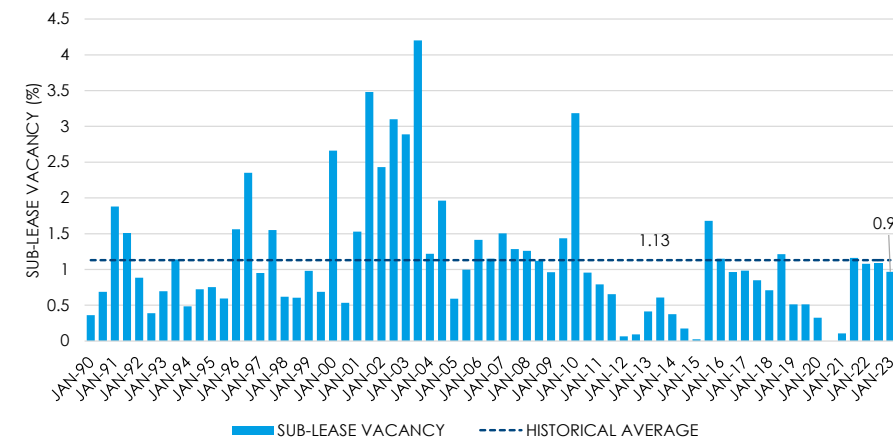
TOTAL VACANCY BY GRADE - ST LEONARDS & CROWS NEST



SIX MONTHLY SUPPLY ADDITIONS, WITHDRAWALS AND NET ABSORPTION - ST LEONARDS & CROWS NEST



TOTAL SUB-LEASE VACANCY VS HISTORICAL AVERAGE - ST LEONARDS & CROWS NEST



## SUB-LEASING

In the six months leading up to January 2023, the overall sub-leasing vacancy rate decreased by 11 bps to 0.97%. The decline was solely due to the 32 bps decrease in A-grade sub-leasing vacancy, which dropped to 2.3%. The C-grade category remained unchanged, and the remaining grades had no sub-leasing properties available..



FLOURISHING HEALTHCARE PRECINCT

Royal North Shore Hospital has been a pivotal aspect of St Leonards and the northern region of Sydney since the early 1900s. Along with the growth of the hospital, the surrounding area has evolved to incorporate various healthcare services, including community health, mental health, drug and alcohol services, North Shore Private Hospital, The Kolling Institute, and the University of Sydney’s Northern Clinical School. The precinct is located close to TAFE NSW and the NSW Ministry of Health and its related entities, which have relocated to the area.

In September 2022, the Northern Sydney Local Health District released its NSLHD Strategic Plan 2022-2027, with the goal of establishing itself as a world-renowned hub for healthcare and education.

This recognition of healthcare-related real estate as a legitimate institutional investment target, rather than just a niche asset class, is paving the way for growth and success. Not only will this attract investors, but it will also drive demand among occupiers who are seeking top-notch amenities in close proximity to a thriving healthcare and educational precinct.

KEY TENANT MOVEMENTS

- **Adstream** has vacated 618 sqm of A-grade space in 207 Pacific Highway, St Leonards to relocate to 241 sqm of A-grade space in 475 Victoria Avenue, Chatswood.
- **Warner Bros** will be vacating 1,244 sqm of space in 116 Military Road, Neutral Bay to relocate to 2,427 sqm of A-grade space in 203 Pacific Highway, St Leonards.
- **AW Edwards** will be vacating the first floor in 131 Sailors Bay Road, Northbridge to relocate to 1,155 sqm of A-grade space in 558 Pacific Highway, St Leonards.

CAPITAL TRANSACTIONS

There were four notable transactions in St Leonards and Crows Nest:

- Stephen Edwards Constructions Pty Ltd acquired 36-38 Willoughby Road, a two-story structure with a NLA of 852 sqm, for a purchase price of \$10,350,000 equating to \$12,147/sqm.
- Ausibling Pty Ltd acquired 160 Willoughby Road for \$6,920,000, reflecting an initial yield of 3.83% based on an annual income of \$265,000. The property has an NLA of 457 sqm equating to \$15,142/sqm.
- 116 Alexander Street was sold by Salvatore Restifa for \$5,075,000. This 4-story building boasts a refurbished design from 1989 and offers secure parking for 8 vehicles. Additionally, the NLA of the building is 636 sqm equating to \$7,979/sqm.
- Level 3, 69 Christie Street has been sold for \$7,550,000. The floor's NLA is 849 sqm and the current Net Passing Income is \$214,426 equating to a capital value of \$8,892/sqm and yield of 2.85%



DEVELOPMENTS

	Address	Development Type	Development Stage	GFA (sqm)
1	Herbert Street Precinct, Royal North Shore Hospital Campus, 1 Reserve Road	New Development	Stage 2 DA Approval	75,688
2	619 Pacific Highway	New Development	Planning Proposal Approval	24,880
3	18-20 Atchison Street	New Development	Early Planning	6,189
4	23-35 Atchison Street	New Development	Stage 2 DA Approval	13,292
5	575-583 Pacific Highway	New Development	Planning Proposal Approval	9,156
6	100 Christie Street	New Development	Planning Proposal Approval	24,174
7	558 Pacific Highway	New Development	Construction in Progress	16,738



# CHATSWOOD

## VACANCY AND ABSORPTION

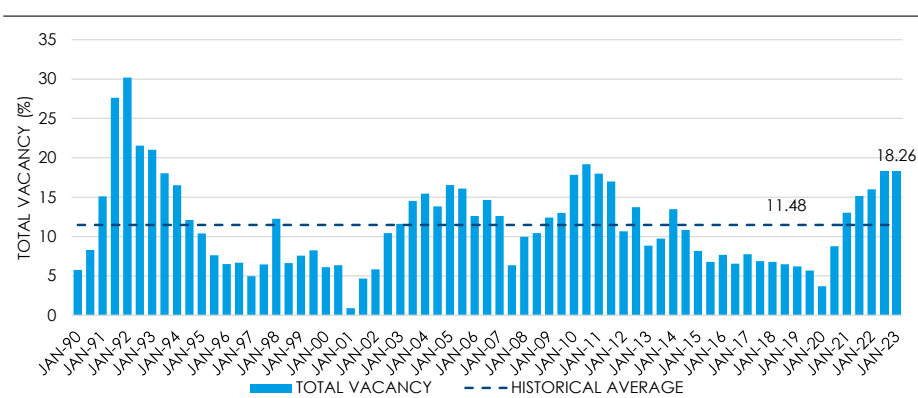
The overall vacancy rate has decreased by 2 basis points to 18.26% in the six months leading up to January 2023. However, it still remains significantly higher than the historical average of 11.48%.

The percentage of sub-lease vacancies has decreased by 0.36% to 2.32%, which is higher than the historical average of 1.38%. This decrease is solely due to the decrease of 0.70% in the sub-lease vacancies of A-grade properties, which now stands at 4.47%. There has been no change in B-grade properties, and there are no sub-lease stocks for the rest of the grade

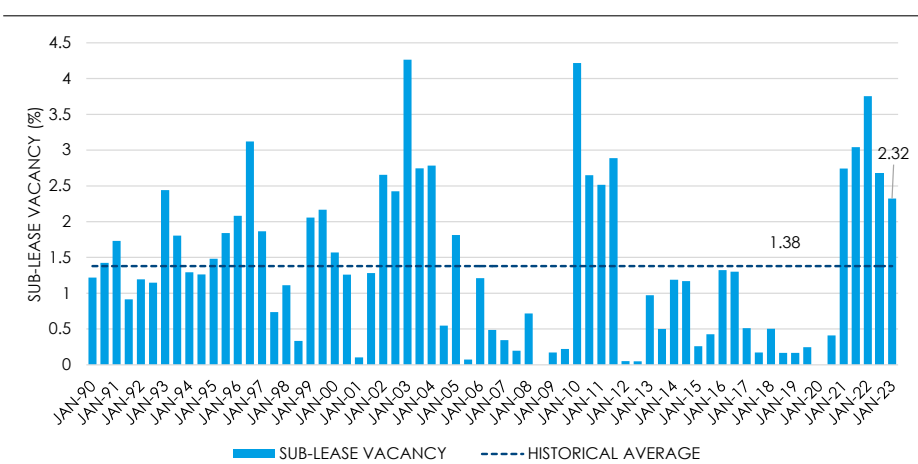
At 1-5 Railway St, long-leaseholder, Gong Capital Pty Ltd, has subleased units 6.03 and 8.09 to Eltax Pty Ltd and Call Design Pty Ltd, respectively.

CI Australia understands PepsiCo is looking to sublease 1,100sqm on level 2 in Tower A at 799 Pacific Highway in Chatswood.

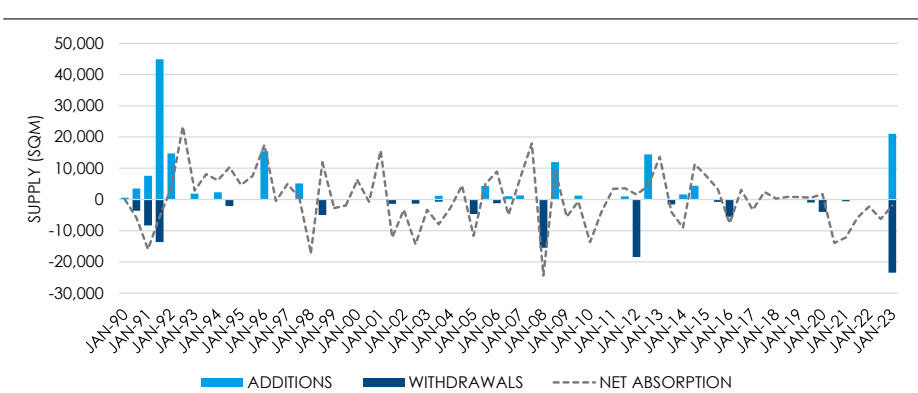
TOTAL VACANCY VS HISTORICAL AVERAGE - CHATSWOOD



TOTAL SUB-LEASE VACANCY VS HISTORICAL AVERAGE - CHATSWOOD



SIX MONTHLY SUPPLY ADDITIONS, WITHDRAWALS AND NET ABSORPTION - CHATSWOOD



## CAPITAL TRANSACTIONS

During 2022 H2, there were only a limited number of transactions, the most notable being:

- Shineland Chatswood Pty Ltd bought 6 Help Street at \$39,200,000. The Net lettable office area is 4,348 sqm equating to \$9,015/sqm.

## KEY TENANT MOVEMENTS

- CM Markets** has expanded their existing A-grade space of 700 sqm in 67 Albert Avenue, Chatswood to take up 1,090 sqm of a whole floor.
- Dell** closed its three current New South Wales sites in Frenchs Forest, St Leonards and Macquarie Park, and moved its Australian and New Zealand head office to 5,936 sqm in The Zenith Towers in Chatswood in December 2022.
- UGL** have taken a 7-year lease for both levels 6 & 7 at 12 Help Street, Chatswood, relocating 240 staff from 3 Bridge Street, Pymble where they currently have a lease until 30 June 2025.





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Our key services:

- Commercial Leasing
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- Investment Sales
- Asset Management
- Engineering and Facilities Management
- Strategy and Advisory
- Marketing and Research

### DEVELOPMENTS

	Address	Development Type	Development Stage	GFA (sqm)
1	845 Pacific Highway	New Development	Early Planning	35,000
2	Vibe Hotel & Office, 475-501 Victoria Avenue	New Development	Development Approval	40,988
3	446 Victoria Avenue	New Development	Stage 1 DA Approval	34,860
4	The Bertram, 51-61 Archer Street, 30-32A Bertram Street, 34, 34A and 34B Albert Avenue	New Development	Early Planning	32,604

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