



NORTH SHORE OFFICE MARKET REPORT H1 2023

EXECUTIVE SUMMARY

Welcome to our H1 2023 North Shore Office Market Report.

This report casts a comprehensive look at the North Shore office market landscape from January 2023 to June 2023. The North Sydney market has witnessed an increment in vacancy rates, reaching a significant 22.66% as of July 2023, which starkly surpasses the historical average of 10.43%. The market's evolution has been characterised by a surging vacancy, particularly within B-Grade spaces, indicative of a shift in tenant preferences towards higher-quality offerings.

Despite this increase, the market has shown resilience through the 'flight-to-quality' trend, with a decrease in Premium Grade vacancies as companies realign their spatial strategies to higher-grade offerings. Incentive levels introduced to stimulate the market have been effective, mirroring the mid-30s percentage, signalling a vibrant response to the current office market's dynamics.

Tenant movements have been pivotal during this period, with Taylor Construction Group and Verint Systems Australia making notable relocations within North Sydney. Conversely, significant departures include WPP and The APP Group, who have sought opportunities beyond the North Shore.

Key capital transactions have underlined the market's investment potential, with properties like 54 Miller Street and 162 Blues Point Road being acquired for \$70 million and \$65.439 million respectively, post-July 2023.

Looking forward, we anticipate the market to introduce significant new stock, spurring transaction activity. Despite prevailing headwinds, the North Shore office market is positioned for a correction phase, presenting opportunities for proactive businesses and investors.

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

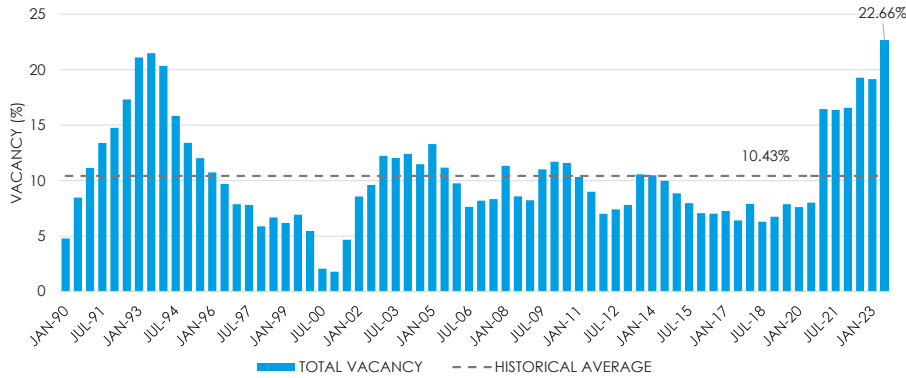
VACANCY BREAKDOWN

Amid recent office structural changes, the North Sydney office market has faced challenges. Total vacancy in North Sydney has increased by 349 basis points (bps) to 22.66% in the six months to July 2023, over double the historical average of 10.43%. This represents a total of 211,574 sqm of vacant stock on the market with B-Grade stock accounting for over half of this amount.

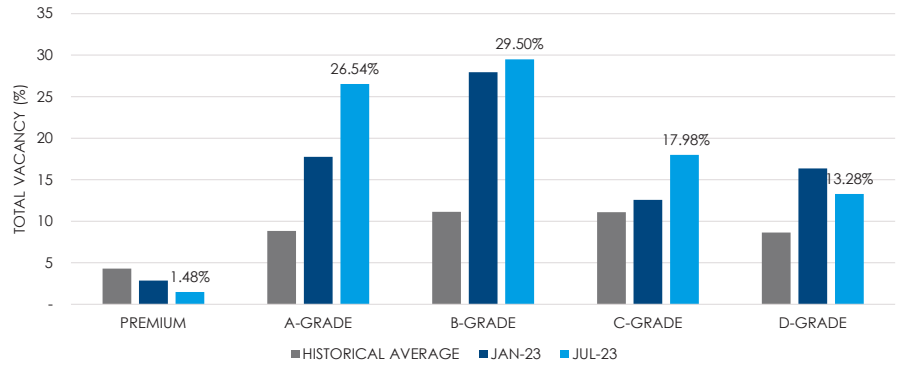
On the other hand, 'flight-to-quality' remains prevalent as Premium Grade was the only grade to witness a significant decrease in vacancy while A, B and C-Grade properties witnessed significant increases.

- Premium Grade saw a vacancy decrease of 137 bps to 1.48% or 1,888 sqm to 2,040 sqm.
- A-Grade saw a vacancy increase of 877 bps to 26.5% or 23,770 sqm to 64,105 sqm.
- B-grade saw a vacancy increase of 156 bps to 29.5% 6,273 sqm to 118,374 sqm (over half the vacant stock of the total market).
- C-Grade saw a vacancy increase of 542 bps to 18.0% or 7,567 sqm to 25,131 sqm.
- D-Grade saw a vacancy decrease of 307 bps to 13.3% or 386 sqm to 1,671 sqm.

TOTAL VACANCY VS HISTORICAL AVERAGE - NORTH SYDNEY



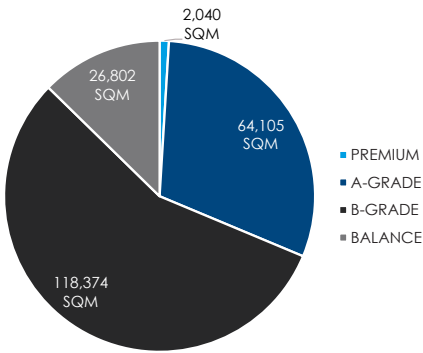
TOTAL VACANCY BY GRADE (%) - NORTH SYDNEY



The total market recorded 14,500 sqm of supply additions which is completely attributed to 2-4 Blue Street, Lendlease's recently completed A-Grade development. This brought total stock up to 932,643 sqm. With a change in vacancy of 35,336 sqm, North Sydney recorded a negative net absorption of -20,836 sqm in the six months to July 2023, below the historical average of -157 sqm.

Prime and secondary stock have seen net face rents averaging at \$980 and \$730 per square metre respectively. With gross incentives averaging at 35% and 36%, this makes for net effective rents averaging \$590 and \$410 per square metre.

TOTAL VACANCY BY GRADE (SQM) - NORTH SYDNEY



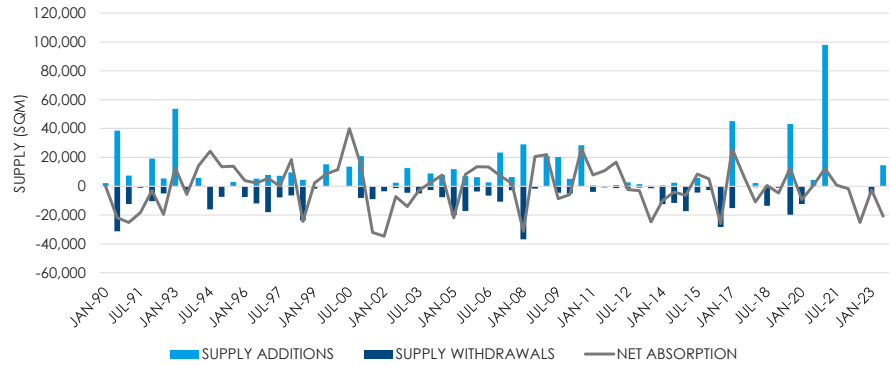
SUB-LEASING SPOTLIGHT

In the six months to July 2023, sub-lease vacancy in North Sydney increased by 141 bps to 2.42% which is over double the historical average of 1.16%. This represents 22,574 sqm of vacant sub-lease space available on the market.

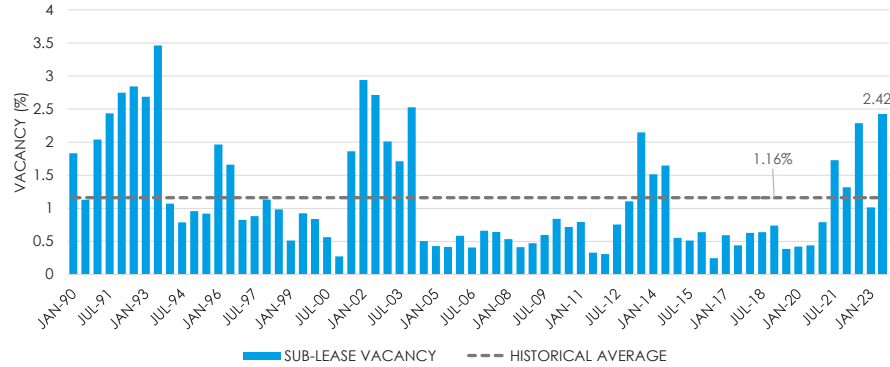
Similarly, to the total market, only Premium Grade saw a decrease in sub-lease vacancy while other grades saw an increase.

- Premium Grade decreased by 5 bps to 0.44% or 70 sqm to 600.
- A-Grade significantly increased by 463 bps to 6.83% or 11,500 sqm to 16,495 sqm.
- B-Grade increased by 40 bps to 1.13% or 1,603 sqm to 4,515 sqm.
- C-Grade increased by 16 bps to 0.69% or 230 sqm to 964 sqm.

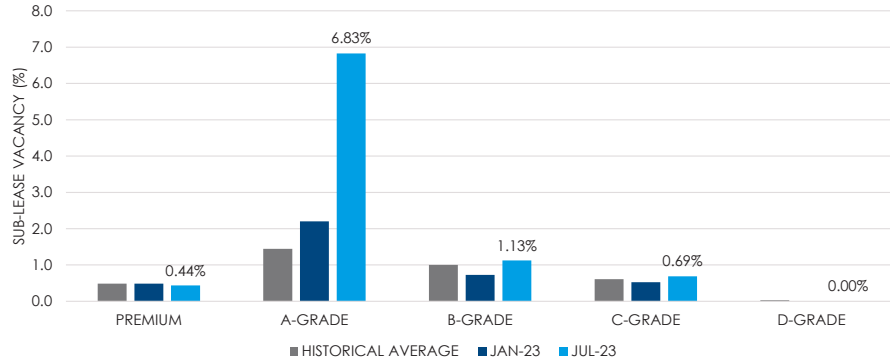
SIX MONTHLY SUPPLY ADDITIONS, WITHDRAWALS AND NET ABSORPTION - NORTH SYDNEY



TOTAL SUB-LEASE VACANCY VS HISTORICAL AVERAGE - NORTH SYDNEY



SUB-LEASE VACANCY BY GRADE - NORTH SYDNEY



KEY TENANT MOVEMENTS

Relocations within North Sydney

- **Taylor Construction Group** has taken up 1,269 sqm of A-Grade space at 100 Pacific Highway on level 16.
- **Verint Systems Australia** has taken up 561 sqm of A-Grade space at Suite 2.02, 76 Berry Street, relocating from 939 sqm of B-Grade space at 100 Miller Street.
- **Graymont** has taken up 811 sqm of A-Grade space at 118 Mount Street on level 9, relocating from A-Grade space at 111 Pacific Highway.
- **Servcorp Limited** has taken up 1,205 sqm of Premium space at 100 Mount Street on level 25, relocating from 986 sqm of Premium space at 101 Miller Street.
- **Ironfish** has taken up 642 sqm of B-Grade space at 5 Blue Street on level 9, relocating from 1,275 sqm of A-Grade space at 40 Miller Street.
- **MLC Life Insurance** has taken up 2,474 sqm of A-Grade space at 177 Pacific Highway across levels 5-6, relocating from 3,499 sqm of A-Grade space at 40 Mount Street.
- **Qualitas** has taken up 772 sqm of Premium space at 1 Denison Street on part of level 32, relocating from 272 sqm of B-Grade space at 140 Arthur Street.

Relocations out of North Sydney

- **The APP Group** has taken up 1,813 sqm of B-Grade space at 10 Spring Street, Sydney across levels 10-11, relocating from 1,964 sqm of A-Grade space at 116 Miller Street, North Sydney.
- **WPP** has taken up 9,600 sqm of A-Grade space at 1 Shelley Street, Sydney across three floors, relocating from 6,912 sqm of A-Grade space at 65 Berry Street, North Sydney.

Relocations to North Sydney

- **HMM** has taken up 293 sqm of B-Grade space at Suite 6.02, 32 Walker Street, relocating from 347 sqm of B-Grade space at 154 Pacific Highway, St Leonards.
- **Foxtel** is yet to lock in a pre-lease deal for approximately 14,000 sqm of space at 189 Miller Street, the new Victoria Cross office development above the upcoming North Sydney Metro Station, as quoted by Property Daily. Foxtel currently has their primary tenancy located in Macquarie Park.

CAPITAL TRANSACTIONS

Although the following finalised after July 2023, significant transactions that were in progress during the six-month period include:

- 54 Miller Street – acquired by a private Hong Kong Investor for \$70,000,000 on 13 September 2023 with a net lettable area of 7,056 square metres.
- 162 Blues Point Road – acquired by Fortinet for \$65,439,000 on 23 August 2023 with a net lettable area of 4,056 square metres.



DEVELOPMENTS

	Project	Status	Year	Owner	Size (sqm)
1	107 Mount Street	DA Approved	Mooted	ABC Dynasty	29,631
2	110-122 Walker Street	DA Approved	Mooted	Stockland	60,445
3	153 Walker Street	DA Applied	Mooted	GPT	63,525
4	2-4 Blue Street	Recently Completed	2023	Lendlease/Keppel	14,961
5	88 Walker Street	Recently Completed	2023	LaSalle Investment Management	12,501
6	173 Pacific Highway	DA Approved	2024+	Maville	14,961
7	189 Miller Street (Victoria Cross OSD)	Construction	2025	Lendlease	58,000
8	100 Walker Street	DA Approved	2025	Pro-Invest	38,000

NORTH RYDE AND MACQUARIE PARK

LEASING OVERVIEW

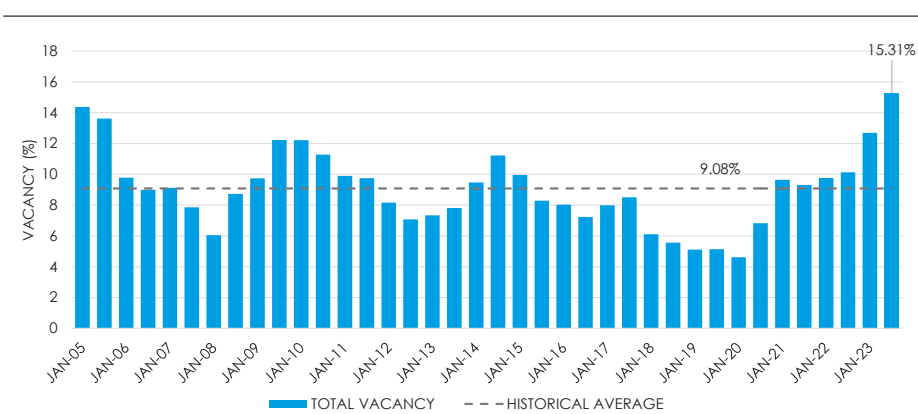
The leasing market for Macquarie Park and North Ryde continues to adjust in H1 2023. The total vacancy rate has increased by 260 bps to 15.3%, it is 623 bps higher than the historical average market vacancy rate of 9.08%. Macquarie Park attributes 88,879 sqm as the bulk of the vacant space in the local market.

- A-Grade vacancy increased by 250 bps to 14.72% or 14,709sqm
- B-Grade vacancy increased by 370bps to 17.96% or 7,767 sqm
- C-Grade vacancy decreased by 330bps to 8.51% or 1,106sqm

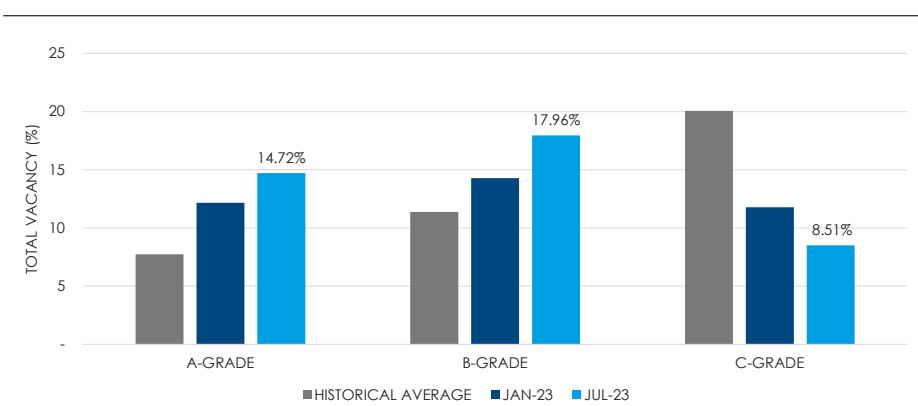
While the total vacancy rate for Macquarie Park and North Ryde has reached its highest point since 2005, it remains lower than the North Shore average vacancy rate of 21.9%. This rate is also lower than that of other major suburban markets, such as North Sydney at 22.7% and Parramatta at 23.4%.

According to the latest data released by PCA, there are 54,097 sqm of new office stock that will be available by December 2024. We expect there will be more internal market movement within the local area between the existing older A-Grade assets to newer properties.

TOTAL VACANCY VS HISTORICAL AVERAGE - MACQUARIE PARK & NORTH RYDE



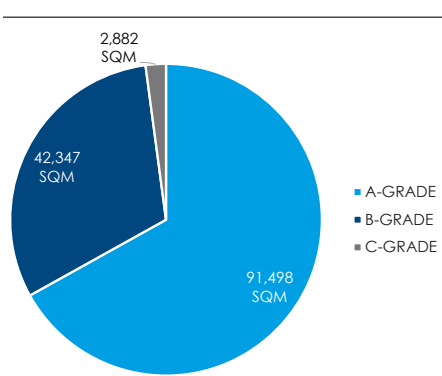
TOTAL VACANCY BY GRADE - MACQUARIE PARK & NORTH RYDE



Leasing incentives in North Ryde are anticipated to continually increase over the next six months. This rise is due to Macquarie Park offering a similar location with superior public transportation and newer, high-quality office spaces.

Prime and secondary stock currently average net face rents of \$450 and \$400 per square metre, respectively. With gross incentives averaging at 35.5%, which results in net effective rents averaging at \$300 and \$260 per square metre, respectively.

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



NET ABSORPTION

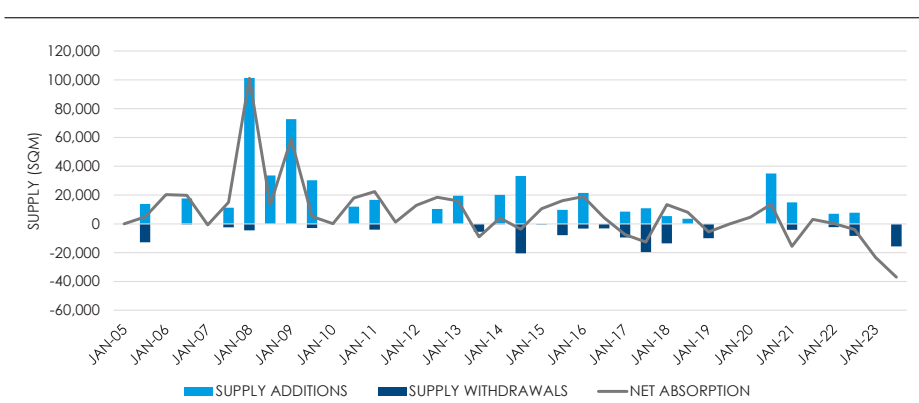
During H1 2023, 15,617 sqm of stock was withdrawn from the market, with 59.5% of the withdrawn stock being A-Grade and the rest being B-Grade. The Net Absorption for Macquarie Park and North Ryde is at its lowest point since 2005, standing at -36,987 sqm.

SUB-LEASING SPOTLIGHT

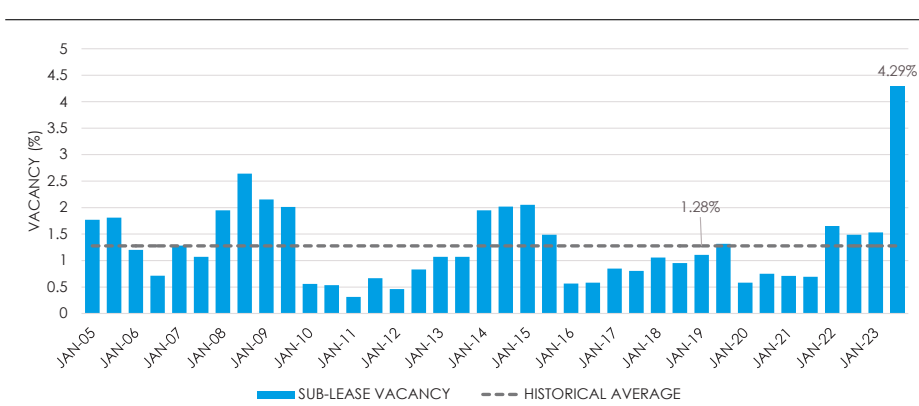
The sub-leasing vacancy for the Macquarie Park and North Ryde office market has increased by 280bps to 4.3% by the end of H1 2023. This represents 38,313 sqm sub-lease vacant space in the market.

- A-Grade sub-lease vacancy rate has increased by 357bps to 4.97% or 22,392 sqm to 30,919 sqm.
- B-Grade sub-lease vacancy rate has increased by 94bps to 3.14% or 2,000 sqm to 7,394 sqm.

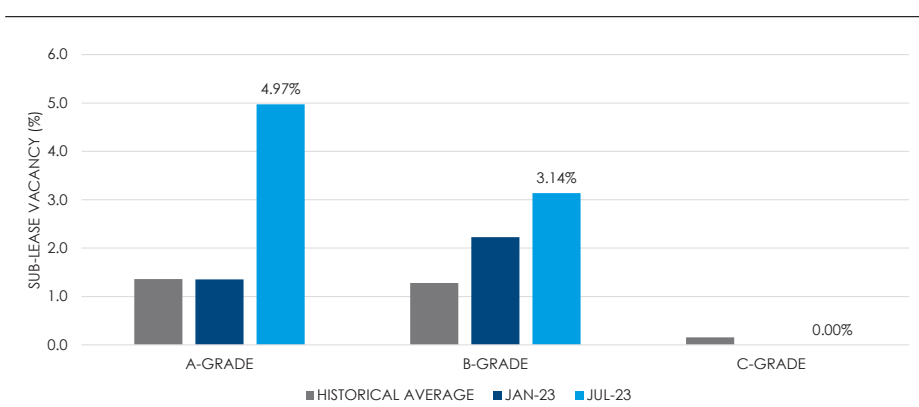
HISTORICAL SUPPLY ADDITIONS, WITHDRAWALS AND NET ABSORPTION - MACQUARIE PARK & NORTH RYDE



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



SUB-LEASE VACANCY BY GRADE -MACQUARIE PARK & NORTH RYDE





KEY TENANT MOVEMENTS

- **Certis Security** relocated to 54 Waterloo Road, Macquarie Park from 937 Victoria Road, West Ryde as quoted by Property Daily. The new A-Grade office space has a total area of 1,530.9 sqm with a 7+7 years lease term.
- **Raytheon Australia** relocated to 12 Talavera Road, Macquarie Park from 5 Talavera Road with a 5+5 years lease term over 2,005.3 sqm A-Grade space.
- **Convergint** has entered into a 5 year lease over 1,078.6 sqm office and warehouse space in 4 Talavera Road, Macquarie Park.
- **Wise Medical** has pre-committed 1,800 sqm office space to Stockland's M_Park development at 1-5 Khartoum Road in Macquarie Park as quote by Property Daily. Its current lease has an expiry on 31 December 2023.

CAPITAL TRANSACTIONS

There were no significant office transactions in Macquarie Park and North Ryde during H1 2023.

DEVELOPMENTS

	Address	Development Type	Development Stage	GFA (sqm)
1	1-5 Khartoum Road	New Development	DA Pending	41,219
2	144 Wicks Road	New Development	Pre-DA	30,007
3	67-75 Epping Road	New Development	DA Approved	34,759
4	4-38 Talavera Road	New Development	DA Pending	64,627
5	12 Lyonpark Road & 68-72 Waterloo Road	New Development	DA Pending	54,138
6	63-71 Waterloo Road	New Development	DA Approved	34,759
7	Macquarie Square, 45-61 Waterloo Road	New Development	DA Approved	117,070
8	45-47 Epping Road	New Development	DA Approved	16,216
9	8 & 10 University Avenue	New Development	Pre-DA	50,000
10	40-52 Talavera Road	New Development	DA Approved	34,000
11	307 Lane Cove Road	New Development	DA Approved	24,680
12	M_Park, 11-17 Khartoum Road	New Development	Construction in Progress	16,800
13	1 Eden Park Drive	New Development	Construction	10,000
14	Macquarie Exchange, 396 Lane Cove Road	New Development	Construction	18,000

ST LEONARDS AND CROWS NEST

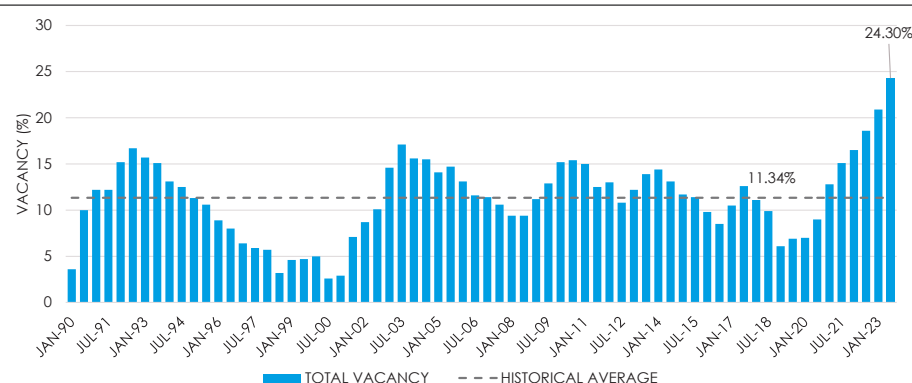
VACANCY AND ABSORPTION

In H1 2023, the total office vacancy rate for St Leonards and Crows Nest has escalated by 340bps to 24.3%. It is at the highest level since 1990, more than doubling the historical average figure of 11.34%. A-Grade assets attribute 41.5% of the total vacancy, followed by B-Grade assets with 31.3%.

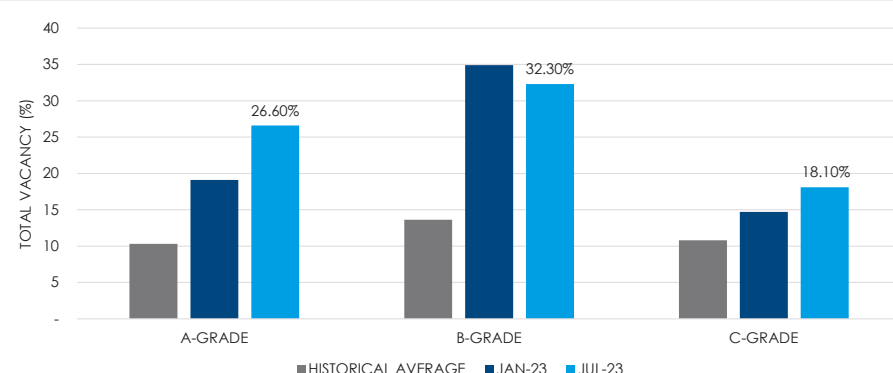
- A-Grade office vacancy has increased by 750bps to 26.6% or 13,386 sqm to 36,049 sqm.
- B-Grade office vacancy has dropped by 260bps to 32.3% or 2,193 sqm to 27,216 sqm.
- C-Grade office vacancy has increased by 340bps to 18.1% or 4,335 sqm to 23,003 sqm.

558 Pacific Highway was completed in Q1 2023 resulting in a 16,738 sqm A-Grade office space added to the local market. The Crows Nest and St Leonards market had its first positive net absorption since July 2021. The market shows positive demand for A-Grade and B-Grade assets as positive net absorption figures. C-Grade and D-Grade assets had negative net absorption figures due to the newly introduced market stock and flight-to-quality.

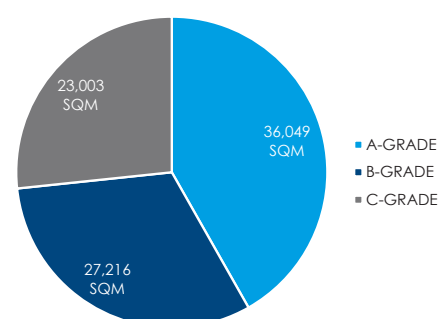
TOTAL VACANCY VS HISTORICAL AVERAGE - ST LEONARDS & CROWS NEST



TOTAL VACANCY BY GRADE - ST LEONARDS & CROWS NEST



TOTAL VACANCY BY GRADE (SQM) - ST LEONARDS & CROWS NEST



Prime and secondary stock have seen net face rents averaging at \$680 and \$520 per square metre respectively. With gross incentives averaging 37% and 36%, this makes for net effective rents averaging \$380 and \$280 per square metre.

SUB-LEASING

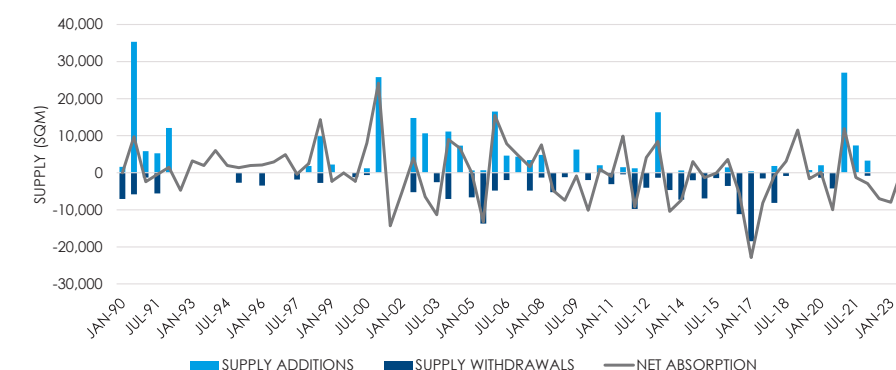
In the six months to July 2023, sub-lease vacancy in Crows Nest and St Leonards decreased by 44 bps to 0.52% which is below the historical average of 1.12%. This represents 1,873 sqm of vacant sub-lease space available on the market.

As of H1 2023, the Crows Nest and St Leonards market has a sub-leasing vacancy rate of 0.5%. it is 50 bps lower compared to the previous report period and 63 bps lower than the historical average.

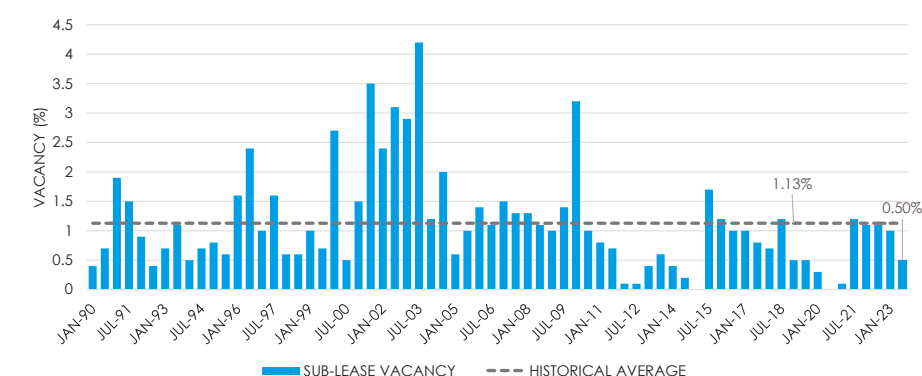
- A-Grade sub-lease vacancy rate has decreased by 130bps to 1.0% or 1,422 sqm to 1,300 sqm.
- B-Grade has no sub-lease vacant space available on the market.
- C-Grade sub-lease vacancy rate remained unchanged at 0.5%.

The 1422 sqm reduction on the A-Grade sub-leasing market is a strong signal that shows the local market demand for A-Grade office space, especially those high-quality sub-leasing office spaces that have less cost on fit-out and make good compared to direct lease assets. Tenants are more price-sensitive during the economic downturn period.

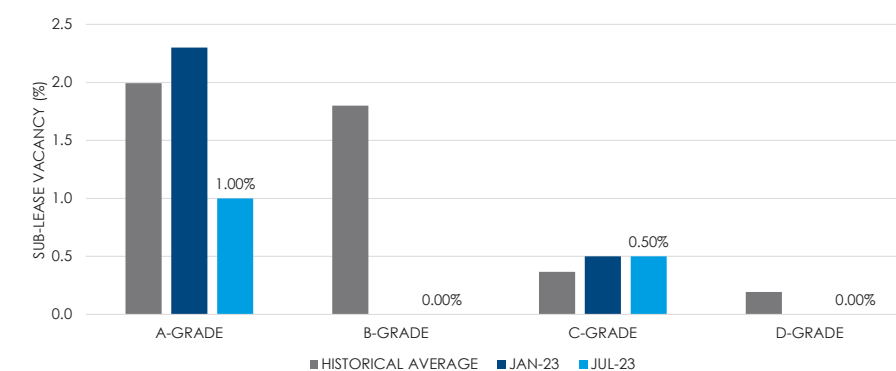
SIX MONTHLY SUPPLY ADDITIONS, WITHDRAWALS AND NET ABSORPTION - ST LEONARDS & CROWS NEST



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



SUB-LEASE VACANCY BY GRADE - ST LEONARDS & CROWS NEST





KEY TENANT MOVEMENTS

- **Tomra Collection** has occupied 915 sqm of B-Grade office space at 207 Pacific Highway. The lease term is 4 years with an additional 2-year option.
- **Casella Family Brands** has moved into a 936.2 sqm B-Grade office space at 207 Pacific Highway. It has a lease term of 6 years with 3 years option.
- **HMM** has taken up 293 sqm of B-Grade space at 32 Walker Street on suite 6.02, relocating from 347 sqm of B-Grade space at 154 Pacific Highway, St Leonards.

CAPITAL TRANSACTIONS

50-56 Atchison Street St Leonards was sold as a development site in May 2023 with a final price of \$35 million. It contains 2 existing commercial buildings with a combined floor area of 2,161 sqm and 31 carpark spaces. It is located in the B4 Mixed Use zoning within walking distance from St Leonards train station. It has a 6,887 sqm permissible GFA with 56 metre height limits.

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	Completed	16,738

CHATSWOOD

VACANCY AND ABSORPTION

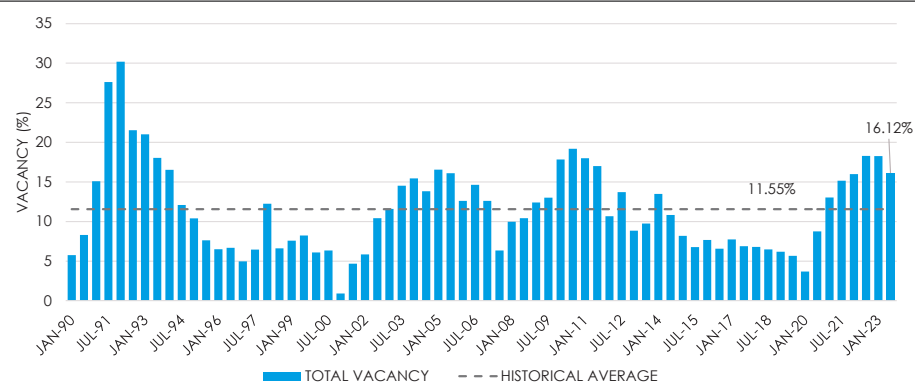
While the North Shore office market has witnessed a trend of rising vacancy and declining demand, Chatswood stands out as an exception. Total vacancy in Chatswood has decreased by 214 bps to 16.12% in the six months to July 2023, remaining above the historical average of 11.55%. This represents a total of 43,698 sqm of vacant stock on the market with A-Grade stock accounting for over half of this amount.

Decreases in vacancy were seen across all grades. It should be noted that Chatswood does not have any Premium Grade stock.

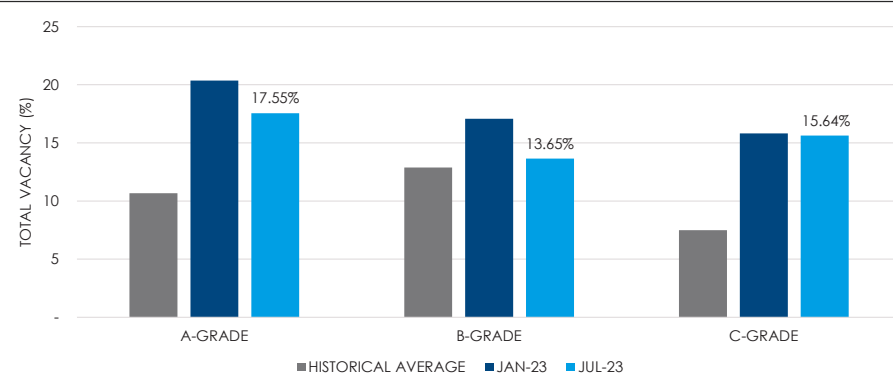
- A-Grade saw a vacancy decrease of 282 bps to 17.55% or 3,653 sqm to 22,768 sqm.
- B-Grade saw a vacancy decrease of 342 bps to 13.65% or 1,996 sqm to 7,971 sqm.
- C-Grade saw a vacancy decrease of 18 bps to 17.55% or 147 sqm to 12,959 sqm.

The total market recorded no changes to supply additions or withdrawals. As a result, the recorded positive net absorption of 5,796 sqm in the six months to July 2023 was completely attributable to changes in total vacancy.

TOTAL VACANCY VS HISTORICAL AVERAGE - CHATSWOOD



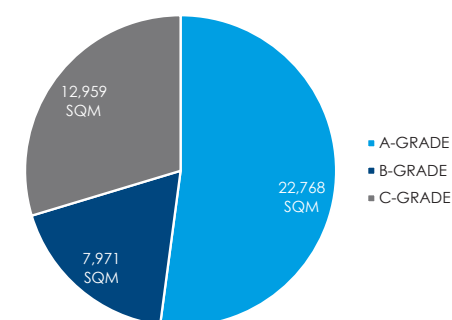
TOTAL VACANCY BY GRADE - CHATSWOOD



Prime and secondary stock have seen net face rents averaging at \$610 and \$440 per square metre respectively. With gross incentives averaging at 38%, this makes for net effective rents averaging \$330 and \$230 per square metre.

While net face rents have remained relatively stable, the increase in incentives has led to lower net effective rents in Chatswood, making it one of the most affordable options on the North Shore. This has played a significant role in reducing vacancy rates and driving up demand in the area.

TOTAL VACANCY BY GRADE (SQM) - CHATSWOOD

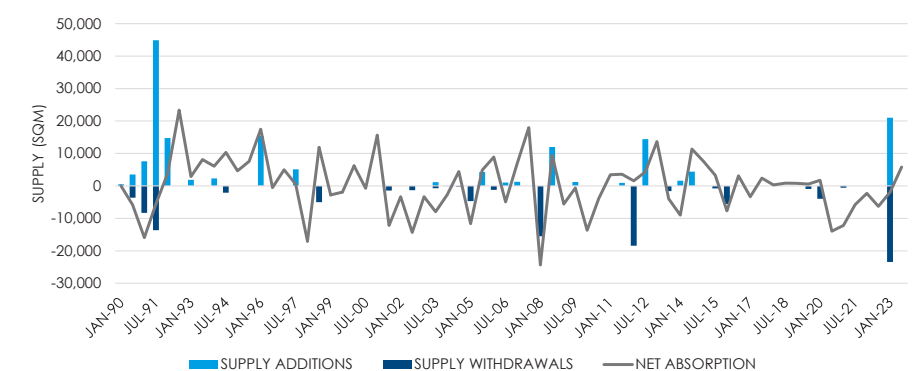


SUB-LEASE SPOTLIGHT

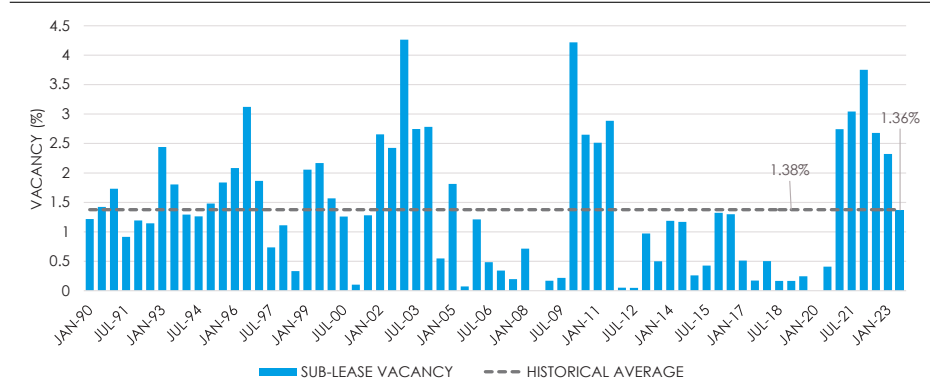
In the six months to July 2023, sub-lease vacancy in Chatswood decreased by 96 bps to 1.36%, which is slightly below the historical average of 1.38%. This represents 3,698 sqm of vacant sub-lease space available on the market.

- A-Grade decreased by 199 bps to 2.48% or 2,577 sqm to 3,216 sqm.
- B-Grade decreased by 27 bps to 0.59% or 153 sqm to 347 sqm.
- C-Grade increased to 0.16% or 135 sqm from having no vacant sub-lease stock.

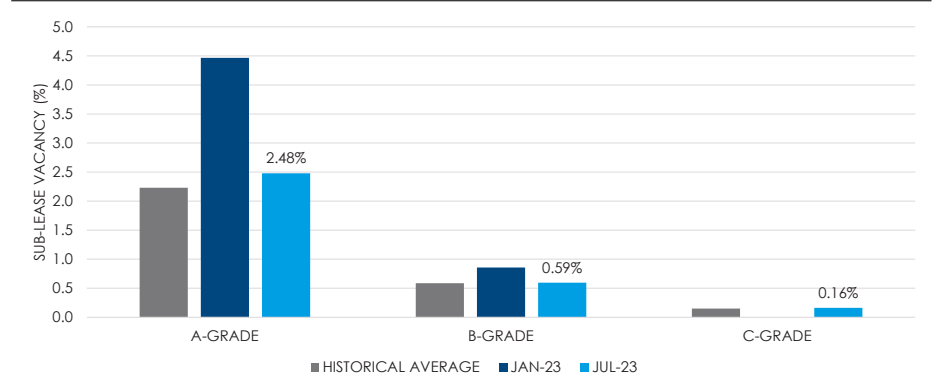
SIX MONTHLY SUPPLY ADDITIONS, WITHDRAWALS AND NET ABSORPTION - CHATSWOOD



TOTAL SUB-LEASE VACANCY VS HISTORICAL AVERAGE - CHATSWOOD



SUB-LEASE VACANCY BY GRADE - CHATSWOOD





CAPITAL TRANSACTIONS

In the six months to July 2023, there were only a limited number of strata transactions, with the most notable being:

- 6 McIntosh Street (Unit 2) – Acquired by Victoria Gateway Pty Ltd for \$1,125,000 on 4 April 2023 with a net lettable area of 123 square metres.
- 809-811 Pacific Highway (Lot 3) – Acquired by H&C Engineering Solution Pty Ltd for \$1,280,000 on 28 March 2023 with a net lettable area of 72 square metres.
- 809-811 Pacific Highway (Lot 11) – Acquired by Sydney Multicultural Community Services Limited for \$1,265,000 on 23 March 2023 with a net lettable area of 117 square metres.

KEY TENANT MOVEMENTS

- **Centuria Capital Cirque** has taken up 1,206 sqm of A-Grade space at 9 Help Street in suite 7.01.
- **AARNet** has renewed 1,097 sqm of A-Grade space at 799 Pacific Highway on level 7 of Tower A.
- **Sennheiser** has renewed 567 sqm of A-Grade space at 821 Pacific Highway in suite 14.01.

DEVELOPMENTS

	Address	Status	Size (sqm)	Storeys
1	845 Pacific Highway	Pre-DA	35,000	37
2	Chatswood RSL Club, 446 Victoria Avenue	DA Approved	34,860	22
3	284 Victoria Avenue	DA Pending	2,323	4
4	Australia Post Office Site, 45 Victor Street	Pre-DA	-	42

WHAT'S NEXT?

Generally, across the board, we will continue to experience headwinds in the commercial markets throughout Sydney and the metropolitan markets. We expect vacancy to increase across the North Shore market due to upcoming supply additions and the diminished demand affected by the general economic climate together with the work-from-home trend. Although, we expect the work-from-home trend will continue to decline over the next year. This will then allow companies to crystallise their future workplace requirements and plans for continued use of office space.

As a result of a weakened rental market, we expect the overall trend for incentives to continue to increase, albeit at a reduced rate. Yields are also projected to climb as they align with the upward trajectory of government bond yields and elevated interest rates and the risk return required for investors in this market sector. In turn, capital property values are expected to decline.

However, the upcoming infrastructure upgrades, including the metro line, offer potential for growth in specific areas within the North Shore rental market.

	North Sydney	St Leonards & Lane Cove	Macquarie Park & North Ryde	Chatswood
VACANCY	▲	➤	▲	➤
RENTS	➤	➤	➤	➤
INCENTIVES	▲	▲	▲	➤
YIELDS	▲	▲	▲	▲



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- Tenant Representation Services
- Investment Sales
- Asset Management
- Engineering and Facilities Management
- Strategy and Advisory
- Marketing and Research

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