



THE SYDNEY CBD

Commercial Market Overview

Summer
2017

Feature Article:

One City – One Dynamic Uplift



The CI Team

The Sydney CBD Team at CI comprises of professional individuals, devoted to ensuring all client needs are met with precision and efficiency. Please contact our office to discuss the potential of your assets and we will endeavour to make sure your key drivers are achieved.



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Market Feature



One City - One Dynamic Uplift

In 2016 the CBD experienced a **dynamic uplift** in investor and tenant demand. A wave of new developments in non-core locations attracted major tenants from traditional central business regions and we expect this to continue through 2017. Also many small tenants will follow this trend seeking more **desirable office accommodation** offering better staff amenity within the building and surrounding infrastructures. This will add to investor interest and create new **active hot spots** within the CBD, leaving existing regions and buildings with the need to compete, which will occur through refurbishment and enhancement improving functionality and creating more flexible workplaces.

Another clear take out from 2016 was the substantial take up of space by businesses offering co-working facilities. These organisations provide an easy solution for many sole proprietors or small businesses by **offering a walk in walk out platform, flexible lease terms, creative environment** and the ability to tap into the broader network offered by being a part of the culture they offer.

Highlights

- Tenant movement across the CBD into new hot spots will continue through 2017
- Existing buildings to compete through refurbishments and increased incentives
- Result will be a growth in demand on building infrastructure to provide flexible workspaces with increased I.T. functionality

The Market

The Sydney CBD

The Sydney CBD is the Australia's largest commercial property market comprising of **5,079,899sqm** of office stock.

Characterised by a large financial services sector and more recently Information Technology, Sydney CBD is widely recognised as the financial hub of the nation, and it is typically growth in these industries that triggers major redevelopment and expansion. A high tenant profile of major companies increase the prestige of Sydney's inherent location, further evidenced through high rental levels and strong yield figures compared to nationwide commercial precincts.

The Sydney CBD consists of the following five major regions:

1. The Financial Core
2. The Western Corridor and Barangaroo
3. Walsh Bay and The Rocks
4. Midtown
5. Southern





FH 2017 Summary

Commercial Stock

Period	:	January 2017
Total Stock	:	5,079,899sqm
Total Vacancy	:	312,677sqm
Vacancy Factor	:	Total Market 6.2%
		City Core 4.1%
		Midtown 5.1%
		Southern 1.5%
		Western 3.9%
Net Absorption	:	17,964 sqm (12 month to January 2017)

Commercial Sales

Recent Activity	:	\$3.60B sold in January 2016 to December 2016
Market Yields	:	Premium 5.00% - 5.50%
		A Grade 5.25% - 5.75%
		Secondary Grades 5.75% - 6.75%
Trends	:	Continued pressure on yield compression is expected due to volume of investment funds available

"We are seeing a more vibrant investment market where investors are capitalising on substantial recent gain. This trend will continue in the short term whilst interest rate remains low and equity is prominent."

- **Andrew Hunter**
CEO, CI Australia

Commercial Leasing

Recent Activity	:	250,000sqm of commercial space was leased in 2016
Net Face Rent	:	\$1,100 - \$1,500 per sqm for Premium Grade property
		\$850 - \$1,200 per sqm for an A Grade property
		\$725 - \$925 per sqm for B Grade property
Incentives	:	Incentives have reduced substantially, particularly in the B Grade market and also small suites sub 300sqm to be in single figures

"With many more buildings to be withdrawn throughout 2017, we anticipate Rents to continue to increase and incentives contract further."

- **Ben Kardachi**
Director, CI Australia

Note: All Figures are approximate. Figures are sourced from the PCA and CI Research.

What's Trending

The market is experiencing an interesting combination of increased rentals which allows a substantial pipeline of future commercial and residential redevelopments to be completed in the next four years. Key drivers include:



Increased turnover as owners **recognise profit opportunity** coupled with continued interest overseas



Major **development approvals** within the CBD

Three major developments of premium grade segment are anticipated to be completed in the next three to five years. They are 10 Carrington Street (Wynyard Place), a 27-floor building with total NLA of 59,000sqm; 60 Martin Place, a 33-floor building with total NLA of 40,000sqm; and Quay Quarter Sydney 90,000sqm including 50 Bridge Street, a 49-floor building with total NLA of 54,980sqm.



Likely **shorter lease terms** for increased flexibility, co-working opportunities and greater political and economic uncertainty



Over 299,826sqm of **commercial space** set to enter the market by 2019

Strong demand from the Property & Business Services as well as Financial, IT and Insurance sectors throughout the past 12 months

Previously tenants came to the market at least 12 months in advance of their lease expiry, however 2016 has already witnessed a substantial change to this trend with tenants coming to the market with much shorter lead time



Continued **share market strength**, particularly financial, as proposed global restrictions are either delayed or reduced

The Facts

Vacancy Rates

Whilst the vacancy rates in Sydney CBD have increased since July 2016, this was due to the completion of several major CBD properties. The balance of the market being A, B and C Grades have all enjoyed a reduction in vacancy mainly due to the withdrawals of space for redevelopment to residential and infrastructure projects. This withdrawal of space has accounted for approximately 108,000sqm which has left a balance of 18,000sqm being the overall increase in vacancy. We believe the low vacancy rates will continue until the completion of major redevelopments including Wynyard Place, 60 Martin Place and 50 Bridge Street. The pressure on vacancy rates and rentals will continue until further completion is completed in surrounding areas, such as North Sydney, Pyrmont and Ultimo. We have noted a slight deduction in sub-lease vacancy from 0.7% in July 2016 to 0.6% in January 2017, however it sits within the historical average range.

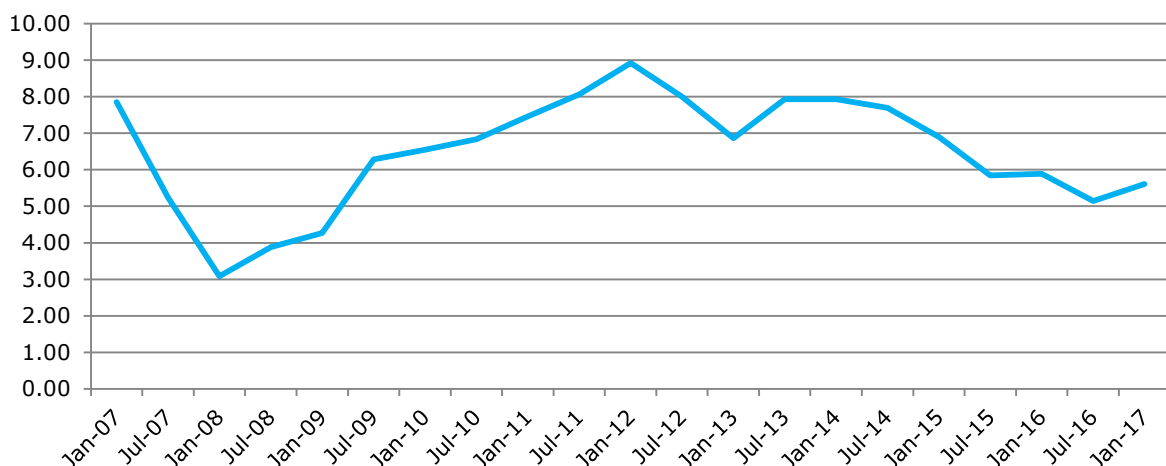
SYDNEY CBD (AGGREGATE) KEY MARKET INDICATORS

Based on figures at January 2017 (Source PCA/CI Research)

Grade	Vacancy January 2017 (%)	Vacancy January 2016 (%)	Net Absorption, 6 months January 2017 (sqm)	Net Absorption, 12 months to January 2017 (sqm)
Premium	12.3	8.1	46,643	125,813
A	4.2	5.4	361	-25,647
B	4.0	6.8	-53,382	-49,105
C	6.6	5.3	-27,787	-32,575
D	2.9	4.2	1,629	-522
Total Average	6.2	6.3	-32,536	17,964

Sydney CBD 10-Year Vacancy

Based on figures at January 2017 (Source PCA/CI Australia)



Commercial Stock

Vacancy rate stated by the PCA has increased by 0.6% to 6.2% over the 6 months to January 2017.

Net absorption was down to -32,500sqm in this same 6 months period, the lowest level since July 2009. Total stock remained stable with 126,010 of new stock coming online with 128,326 being withdrawn over the same 6 months.

With the withdrawal of several buildings over the next 6 months including 71 Macquarie, 2 Bligh, 55 Hunter and 5 Elizabeth Street, we anticipate greater pressure to be put on vacancy, rents and incentives.

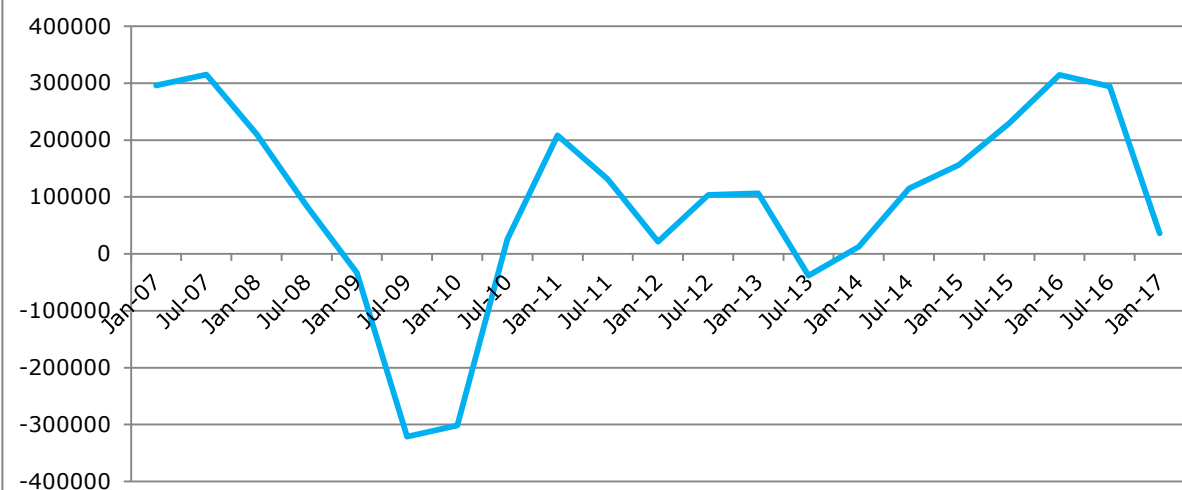
SYDNEY CBD TOTAL COMMERCIAL STOCK (sqm)

Based on figures at January 2017 (Source PCA/CI Research)

Grade	Total Stock (sqm)	Withdrawal (sqm)
Premium	1,118,972	40,667
A	1,809,622	14,823
B	525,730	47,088
C	185,626	25,748
D	185,626	0
Total	5,079,899	128,326

Sydney CBD Net Absorption

Based on figures at January 2017 (Source PCA/CI Australia)



Sales Activity

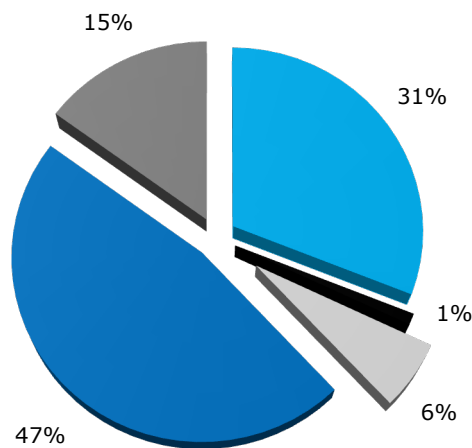
Sydney CBD commercial market sales totalled approximately \$3.60B over the last year. This figure is below the 5 year average of \$5.40B.

Foreign investors purchased approximately 31% of the commercial stock which is a reduction from 55% on the previous year. Australian based institutions and funds were more active accounting for 47% of investment activity and government were extremely active at 15% due to the demand for public infrastructure. We believe volume will increase throughout this year with continued demand from local institutions and trusts and to a lesser extent overseas buyers who are encountering restrictions and opportunities from other major international markets.

Sydney CBD Investor Type

Jan 16 - Dec 16

■ Foreign Investor
 ■ Developer
 ■ Private
 ■ Trust & Fund
 ■ Government



SYDNEY CBD SALES ACTIVITY

Based on figures at January 2017 (Source CI Research)

No.	Address	NLA Approx. (sqm)	Date	Price (\$)	Yield (%)
33	Alfred Street	32,353	Dec 16	Approx. 430,000,000	N/A
92	Pitt Street	4,642	Oct 16	52,170,000	4.70*
55	Clarence Street	14,962	Nov 16	Approx. 170,000,000	5.40*
39	Martin Place	16,341	Nov 16	332,000,000	N/A
303-305	Pitt Street	3,410	Sep 16	43,000,000	N/A
333	Kent Street	8,938	Sep 16	88,880,000	5.96*
28	O'Connell Street	6,109	Sep 16	91,000,000	c.4.75
420	George Street (25%)	37,733	Aug 16	150,000,000	5.23
284-287	Elizabeth Street	5,566	Jul 16	55,000,000	4.90
220	George Street	8,916	Jul 16	106,666,667	N/A
210	George Street	4,758	Jul 16	53,333,333	N/A
724-728	George Street	3,384	Jun 16	32,800,000	4.88*
140	Sussex Street	12,440	Jun 16	130,000,000	c.5.75
3	Spring Street	7,450	Jun 16	70,000,000	c.6.50
1	Shelley Street	32,986	May 16	525,000,000	5.48
420	George Street (75%)	37,733	Apr 16	442,500,000	5.30*
10-14	Quay Street	4,381	Mar 16	42,000,000	3.90*
151	Castlereagh Street	12,847	Mar 16	120,000,000	5.50*
Precinct 1 & 3	King Street Wharf	5,645	Feb 16	90,000,000	c.6.00
77	King Street	12,610	Jan 16	158,016,586	5.80

* Initial yield

Leasing Activity

The Financial, Legal and Insurance services sector has seen the largest proportion of leasing deals and demand in the past 12 months accounting for approximately 40% of all leasing transactions.

In the past 12 months, 251,780sqm of space were leased, down on the previous 12 months by 35%. The largest single transaction was the NAB pre-commitment of Wynyard Place, 10 Carrington Street of 31,000sqm.

One reason for the reduced take up is the shortage of available stock to expand into, particularly for secondary space users. This is causing firms to delay or reassess their expansion plans. The recent growth in rents could also be a factor given the obvious cost implications.

Examples of recent larger leasing activity are detailed below.

SYDNEY CBD LEASING ACTIVITY					
Based on figures at January 2017 (Source CI Research)					
No.	Address	Date	NLA (sqm)	Rent (\$/sqm)	Tenant
T1	Barangaroo	Dec 20	8,000	Approx. \$1,000 (N)	HSBC
2	Chifley Square	Nov 18	17,848	Approx. \$900 (N)	UBS (renewal)
275	Kent Street	Nov 18	58,400	N/A	Westpac (renewal)
2	Sussex Street	Oct 18	33,000	\$835 (N)	IAG
	Darling Harbour Live	Dec 17	22,000	\$650 (N)	Commonwealth Bank
1	Bligh Street	Nov 17	1,150	\$950 (N)	Holman Fenwick Willan
10	Shelley Street	Sep 17	24,300	TBA	Suncorp
60	Margaret Street	May 17	10,030	\$910 (G)	ING Direct
201	Sussex Street	Apr 17	5,180	TBA	Avant Insurance
363	George Street	Mar 17	5,500	TBA	Atlassian
190-200	George Street	Dec 16	28,300	Approx. \$900 (N)	Ernst & Young
T3	Barangaroo	Dec 16	19,800	\$970 (N)	Lend Lease
T1	Barangaroo	Nov 16	10,400	TBA	Marsh & McLennon
GMT 1	Farrer Place	Oct 16	11,982	\$1,420 (G)	King & Wood Mallesons
GMT 1	Farrer Place	Oct 16	9,500	Approx. \$900 (N)	Minter Ellison
255	Elizabeth Street	Sep 16	24,000	Approx. \$600 (N)	Navitas
179	Elizabeth Street	Aug 16	5,300	\$770	GPS Wealth (Flexigroup)

Tenant Representation Activity

The Sydney CBD office market has entered a period of significant withdrawal of stock for Sydney Metro construction, residential conversion or redevelopment. This is not good news from a tenant's perspective. By Q2 of 2016 we had seen 111,000sqm withdrawn from the office market and more than half was withdrawn permanently. This is the highest amount of stock withdrawal in 18 years. Demand from tenants in the Sydney CBD has continued into 2017. It is the second largest level of demand in eight years, following the unprecedented absorption of 157,150sqm in 2015. The average B Grade incentives have reduced to between 12 and 18% with A Grade incentives between 18 – 24%.

Larger tenant briefs in the market are shown below.

TENANT REPRESENTATION ACTIVITY			
Based on Figures at January 2017 (CI Research)			
Tenant	Suburb	Area	Occupation
ABN AMRO Clearing	CBD	1,100	Q4 2017
Allianz Australia	CBD	25,000	Q3 2020
APN News & Media	CBD, Fringe	6,200	Q3 2018
Australian Computer Society	CBD	1,000	Q4 2017
Australian Financial Security Authority (AFSA)	CBD	1,500	Q4 2017
Australian Institute of Company Directors (AICD)	CBD	5,000	Q4 2017
Davies Collison Cave	CBD	1,250	Q2 2018
Fetch TV	CBD, Fringe and North Sydney	1,400	Q1 2018
Fishburners	CBD and Fringe	7,000	Q1 2018
Hannover Re	CBD	2,000	Q1 2018
Healthcare Australia	CBD	1,000	Q4 2017
Law Partners Personal Injury Lawyers	CBD	800	Q3 2017
NSW Crown Solicitors Office	CBD	8,000	Q4 2017
Origin Energy	CBD or Metropolitan area	7,800	Q4 2019
Port Jackson Partners	CBD	1,550	Q3 2017
Robert Half Sydney	CBD	1,100	Q4 2017
TPG	CBD and North Sydney	2,000	Q2 2018
TravelEdge	CBD	2,000	Q4 2017

Development Activity

Development activity within the Sydney CBD continues space, 2016 saw the completion of Mirvac's 190-200 George Street, Lend Lease's three premium International Towers at Barangaroo and shortly the low rise office building International House - Sydney's first timber framed commercial office construction (total NLA 6,850sqm).

Moving into the next phase of development between the present and 2019/20 we will witness the construction of Wynyard place (10 Carrington Street) by Brookfield, 50 Bridge Street by AMP Capital, and 60 Martin Place by Investa/Gwynville, adding another 190,000sqm of premium office space to the market. The well established robust trend of rising effective rentals coupled with compression of capitalisation rates has stimulated the third phase of development within the Sydney CBD – new site amalgamations.

From Circular Quay to Town Hall we are increasingly seeing record prices as B and C Grade office towers are snapped up by adjoining owners to create lucrative site amalgamations for beyond 2020. In the northern CBD this trend has been augmented by the changes to height limits which will allow developments up to 300 metres thus making sites which were moribund very viable.

The below table details major development projects and their current status within the Sydney CBD.

COMMERCIAL DEVELOPMENT ACTIVITY				
Based on Figures at January 2017 (Source PCA/CI Research)				
No.	Address	Status	Completion	NLA (sqm)
	Quay Quarter Sydney/AMP Precinct	DA Approved	Q3 2019+	90,000
60	Martin Place	Site Works	Q3 2019+	38,600
10	Carrington Street	DA Approved	Q2 2019+	56,000
275	George Street	DA Approved	Q3 2018	6,363
151	Clarence Street	Construction	Q3 2018	22,000
100	Broadway	Construction	Q2 2018	5,447
201	Sussex Street (Tower 2)	Partial Refurbishment	Q1 2018	38,000
201	Sussex Street (Tower 3)	Partial Refurbishment	Q2 2017	14,823
10	Shelley Street	Full Refurbishment	Q2 2017	24,986
11-17	York Street	Full Refurbishment	Q2 2017	11,227
400	George Street	Construction	Q2 2017	8,463
680	George Street	Partial Refurbishment	Q2 2017	2,667
1	Farrer Place (GMT)	Partial Refurbishment	Q2 2017	1,234
80-82	Pitt Street	Full Refurbishment	Q1 2017	9,700
60	Margaret Street	Partial Refurbishment	Q1 2017	10,030
33	Bligh Street	DA Approved	Mooted	24,000

CI Research

CI Australia is widely regarded as a market leader within the property and real estate industry, specialising in the areas of:

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

The CI Research department benefits from a vast network of industry connections and the inherent resource of property knowledge that accompanies. The teams at CI are dedicated in providing their personal knowledge and market opinions in the construction of this report, and work closely with our research teams to ensure an accurate market overview is achieved.

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