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FROM STRENGTH TO STRENGTH

TIGHT MARKET CONDITIONS TO CONTINUE

The solid run in Sydney CBD office market conditions in recent years is likely to continue into 2018, and for another decade to come.

SOLID OFFICE-BASED EMPLOYMENT

The outperformance of the NSW economy, with the lowest unemployment rate of all states and territories, has been driven in part by the strength of Sydney's office-based business sector. Strong business conditions have supported expansion in property and business services and government employment, which are likely to continue in 2018.

LIMITED OFFICE SUPPLY

In addition to solid underlying demand for office space, market conditions are expected to tighten further on limited supply of office space.

Subdued new office development combined with the withdrawal of lower-grade office space for either redevelopment, conversion for other use or to make way for Metro Rail construction will drive the sharpest contraction in Sydney CBD office supply since 1996-97.

FIGURE 1: BUSINESS CONDITIONS SUPPORT A POSITIVE SYDNEY OFFICE MARKET OUTLOOK

Sources: NAB, Property Council and Investa Research

TIGHTEST MARKET CONDITIONS IN ALMOST 30 YEARS

Consequently, leasing market conditions will strengthen to a generational low vacancy rate of 3.25% by mid-2020. Tight supply and robust demand will also drive solid rental growth and downward pressure on leasing incentives.

SYDNEY RENT PREMIUM

Sydney's CBD office market has always leased at a rent premium to the surrounding Sydney fringe and suburban markets. However strong underlying demand for the Sydney CBD market, particularly from multinational businesses, has driven the Sydney CBD rent premium to neighbouring markets higher over the past decade.

SYDNEY CBD-NORTH SYDNEY CORRELATION

The main exception has been North Sydney, where prime office rent growth has been marginally stronger than Sydney CBD over the past decade (at 61% and 59% respectively).

FURTHER INFORMATION

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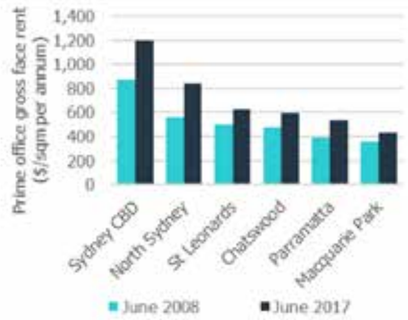
ABOUT INVESTA

Investa is a leading Australian real estate company managing more than A$11 billion of institutional-grade office real estate. The Investa Research team focuses on understanding the drivers and analysing trends within the Australian office sector, publishing regular updates on the performance of the major office markets across Australia.

Looking ahead, rent growth in the Sydney CBD is likely to outpace North Sydney in 2017-18, while leasing incentives are expected to remain higher in North Sydney.

FIGURE 2: SYDNEY CBD VS SYDNEY FRINGE/SUBURBAN PRIME OFFICE RENT



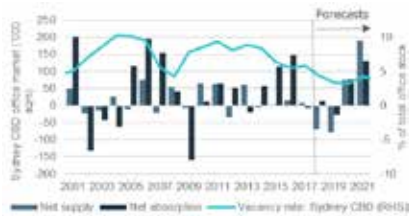
Sources: JLL Research and Investa Research

Nonetheless, constrained supply of secondary market office space in Sydney's CBD combined with the dislocation of tenants from withdrawn office buildings will provide positive spill over to tenant demand for the North Sydney market.

NEW OFFICE DEVELOPMENT

While withdrawals will limit the supply of Sydney CBD office space in the coming years, the development cycle is activating construction of new office options that will add to the prime space offering in the not-too-distant future. In particular, construction of Barrack Place at 151 Clarence Street, Sydney and 60 Martin Place, Sydney will lead a 'turning in the tide' of office supply in the positive, adding around 22,000 and 40,000 of prime space to the Sydney CBD office market in 2018 and 2019 respectively.

FIGURE 3: SYDNEY CBD MARKET BALANCE



Sources: Property Council and Investa Research (forecasts)