Ray White

BETWEEN THE LINES

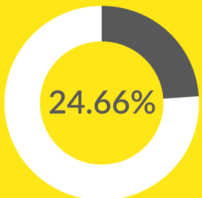
Sydney CBD Office (including Strata) Overview

February 2019

2018
Volumes of Sales
$151.93 million

2018
Average $/sqm
$12,144/sqm

Annual Growth



2018 Capital Value by precinct

$12,877/sqm
Core

$11,755/sqm
Western Corridor

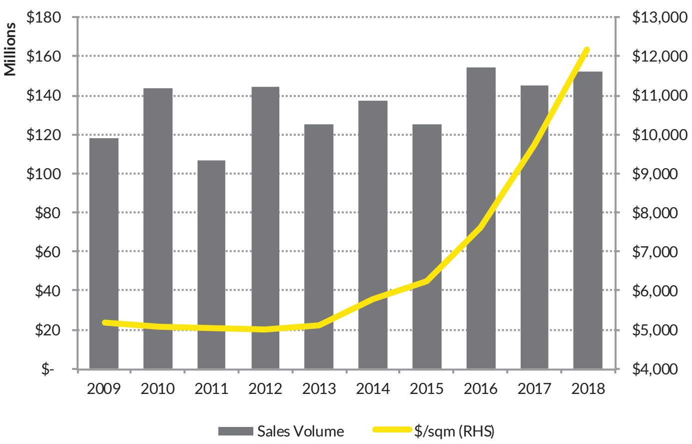
$11,768/sqm
Midtown

$10,172/sqm
Southern

Source: Ray White Commercial

SYDNEY CBD VOLUME & CAPITAL VALUES

Strata Office



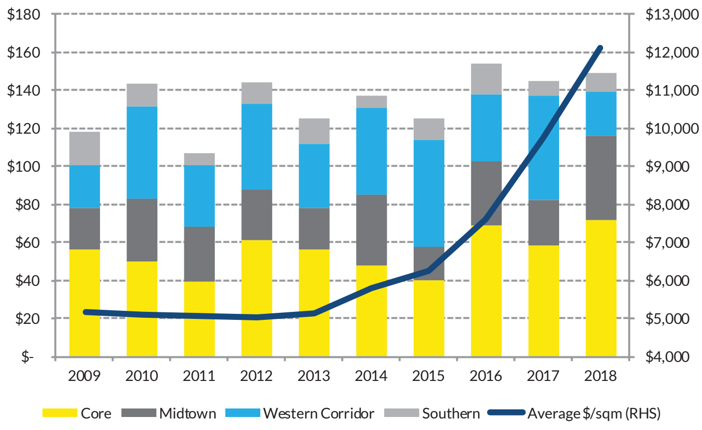
Source: Cityscope, Ray White Commercial

Demand levels continue to be robust for Sydney CBD Strata office assets. As vacancy levels continue to maintain a low rate across the broader Sydney CBD market, rents remain expensive which has seen more occupiers looking to shelter from further increases. Limited supply available for sale has also increased competition and been instrumental in growing capital values into 2018 after stand out increases in 2016 and 2017.

The 2018 calendar year has seen $151.93million change hands across 100 transactions bringing the average sale price to over $1.50million for this first time in history. On a per square metre basis the overall capital value saw an increase of 24.66% compared to 2017 annual results which is an average of $12,144/sqm (on an adjusted basis), more than doubling the value achieved in 2014. In 2018 we have seen a greater volume of multiple purchases where buyers are seeking to amalgamate adjoining lots, despite this the average sale size remains low at 124sqm slightly up on 2017 result of 117sqm.

SYDNEY CBD VOLUME OF SALES BY PRECINCT

Strata Office



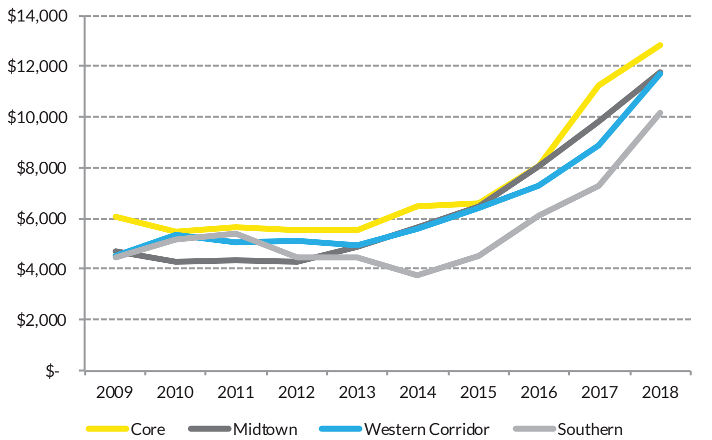
Source: Cityscope, Ray White Commercial

Looking historically at volumes, the level of investment during 2018 has been in line with those results of the past few years; however, the number of transactions which has taken place has declined resulting in this capital value improvement. Historically investment has had a strong emphasis on Core locations which has resulted in a rapid value escalation, as such buyers have sought after investment in the more affordable Midtown and Western Corridor locations which have now also benefitted from these price rises.

Turnover this period has been its highest in the Core with the bulk of transactions occurring in quality strata buildings along Hunter and Pitt Streets with many achieving new highs in capital value, however activity in the Macquarie and Elizabeth Street precincts have also been elevated this year. The Core recorded $71.67million followed by Midtown with $44.06million and Western Corridor $23.49million changing hands while the Southern precinct due to its limited stock has recorded just $9.79million for the full 2018 calendar year.

SYDNEY CBD CAPITAL VALUES BY PRECINCT

Strata Office ($/sqm)



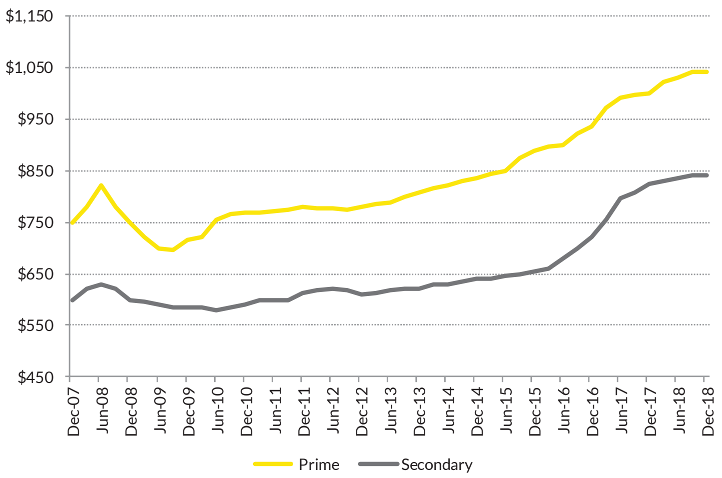
Source: Cityscope, Ray White Commercial

Considering the annual capital values by precinct, 2018 saw outstanding growth across all regions adding to the last five years where value increases have been substantial. The Core continues to be the most expensive precinct which has increased to $12,877/sqm, up 14.36% over the last year followed by Midtown up 19.98% to $11,768/sqm. Limited transactions across the Western Corridor and Southern precincts has resulted in some volatility in results with annual growth of 32.60% and 39.99% respectively recorded. Bringing Western Corridor results more in line with Midtown at $11,755/sqm while the Southern precinct has achieved over $10,000/sqm for the first time.

Over a five-year period, the growth in this segment of the market has been remarkable, particularly given the prolonged period where limited change occurred in values for this asset class. Overall the Sydney CBD Strata market has yielded annual growth of 27.69% per annum, the most stable growth rate being in the Core up 26.81% per annum over this period. Midtown and Western Corridor have also recorded substantial improvement with 28.23% and 27.94% annual growth respectively. The Southern precinct is by far the smallest of the strata office precincts in Sydney CBD, the various quality and limited stock levels have not dampened its value growth which was recorded at 25.89% per annum over this same period.

SYDNEY CBD NET FACE RENTS

$/sqm



Source: Ray White Commercial

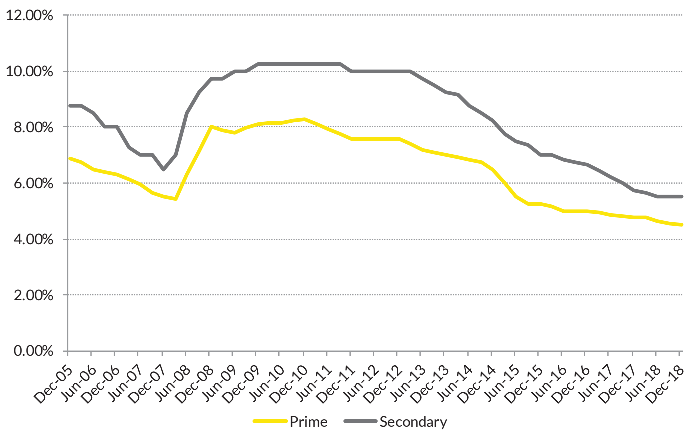
The Sydney CBD market continues to enjoy record low vacancy rates ensuring that average net face rents remain elevated. Incentives also continue to erode now representing 10-12% on average yet do range substantially based on both quality of the premises and other agreed lease terms. Affordability continues to be at a record low across the Sydney CBD market. The robust demand for stock has seen growth in rental rates, not limited to the CBD with North Shore, City Fringe and key suburban markets such as Parramatta all enjoying sizeable rental increases with limited prime stock availability.

Over the last year prime net face rents recorded only a small 1.82% increase, to average $1,040/sqm yet within a range of $925/sqm to $1,200/sqm, well below the 14.58% growth recorded for the prior year. Secondary space has also been in high demand resulting in a narrowing gap between prime and secondary space. Net face rents across secondary can range widely between $700/sqm and $950/sqm with the current average recorded at $840/sqm, representing 4.00% annual growth.

9 Barrack Street, Sydney

SYDNEY CBD AVERAGE YIELDS

Total Office market by quality grade



Source: Ray White Commercial

Despite all the disruption to the city and Sydney CBD not currently not showing itself in the best light, there is no doubt Sydney is a truly global city. This landmark city continues to be in strong demand by both domestic and international investors with many institutional buyers competing, resulting in strong reductions in yields. The weight of funds looking to secure quality investments suggests this demand level will still be here for some time keeping yields at these record lows, albeit further compression may be limited. There is no doubt this has an impact on the smaller strata market which despite funding uncertainty has seen several private buyers at this lower price point also seek a foot on the Sydney CBD office ladder.

Institutional grade assets now are the most expensive in the country with prime yields now averaging 4.50% as more secondary assets now achieve an indicative rate of 5.50% bridging the gap between quality grades. However, these secondary assets do range significantly around this value with many smaller strata office investments achieving well below this average.

SYDNEY CBD STRATA OFFICE TRANSACTIONS

Address	Precinct	NLA	Date	Price	$/sqm	Reported Yield
70 Castlereagh Street	Core	163	Dec-18	$2,650,000	$16,257	-
3B Macquarie Street	Core	96	Nov-18	$2,100,000	$21,875	3.6%
99 Bathurst Street	Midtown	105	Nov-18	$1,712,000	$16,305	3.3%
64 Castlereagh Street	Core	63	Oct-18	$961,000	$15,254	-
84 Pitt Street	Core	161	Oct-18	$2,000,000	$12,422	6.4%
55 York Street	Western Corridor	227	Oct-18	$2,400,000	$10,573	-
321 Pitt Street	Midtown	253	Sep-18	$2,600,000	$10,254	-
88 Pitt Street	Core	60	Sep-18	$781,580	$13,026	7.2%
309 Pitt Street	Midtown	385*	Sep-18	$4,180,000	$10,857	-
650 George Street	Southern	88	Sep-18	$890,000	$10,114	-

*Source: Ray White Commercial *carspaces*

Sydney CBD Stock
5,009,233sqm

Net Supply
26,935sqm

Net Absorption (6 months)
1,299sqm

Total Vacancy ↓ **4.1%**

Net Face Rents

Prime ↗ **$1,040/sqm**

Secondary ↗ **$840/sqm**

Investment Yields

Prime ↘ **4.50%**

Secondary ↘ **5.50%**

Incentives: 10-12% range

Vacancy by Precinct

Core ↓ **4.1%**

Western Corridor ↗ **3.3%**

Midtown ↗ **3.0%**

Southern ↑ **6.9%**

Vacancy by Quality Grade

Premium ↓ **3.8%**

A ↓ **3.6%**

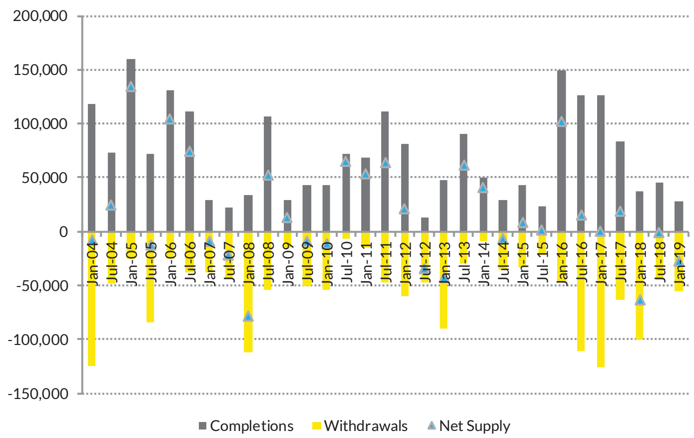
B ↓ **4.5%**

C ↑ **4.8%**

D ↑ **5.8%**

Source: Ray White Commercial, PCA

SYDNEY CBD NET SUPPLY
Total Office Market (sqm)

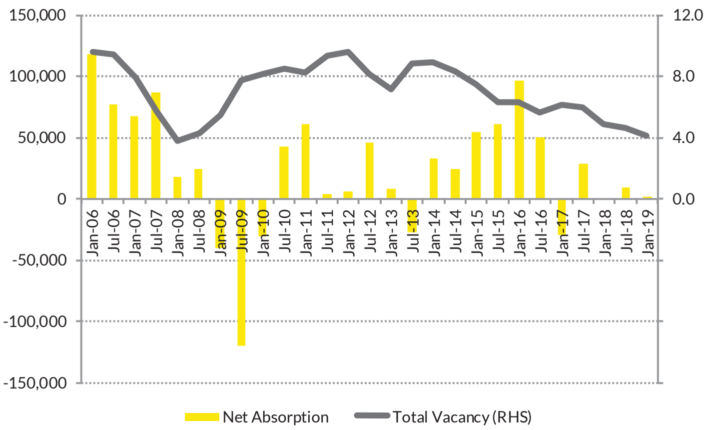


Source: PCA, Office Market Report, January 2019

The trend we have seen over the past few years of limited net supply additions has continued into 2018. With withdrawals this period of 55,147sqm including the demolition of 210 and 220 George Street and the large refurbishment project at 388 George Street. Only major new supply during this period has been the completion of 151 Clarence Street (20,795sqm) resulted in the net supply addition this period of -26,935sqm. Stock levels have reduced to their lowest level since 2015 at just over 5millionsqm of office space, this however is projected to start moving upwards over the next year with 60 Martin Place bringing 38,600sqm into the market together with several smaller new buildings and refurbishments which will an additional 40,000sqm re-enter the market in the short term. The next major new development being the AMP Precinct, Quay Quarter which isn't expected to be completed for a number of years, yet will add over 88,000sqm of much needed Core located Premium grade office stock into the market.

SYDNEY CBD NET ABSORPTION & TOTAL VACANCY

Total Office Market (sqm), %

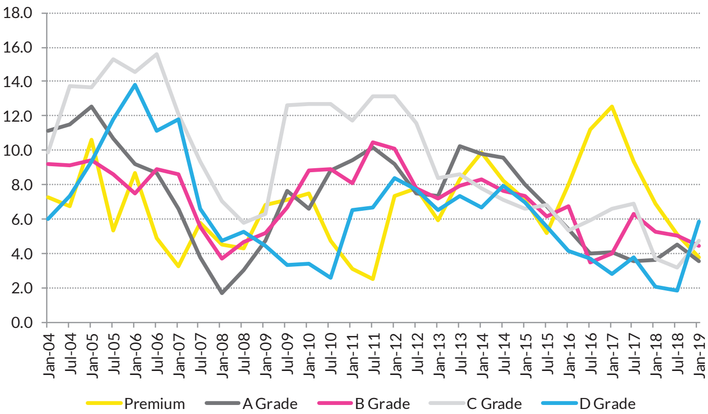


Source: PCA, Office Market Report, January 2019

The six months to January 2019 have recorded limited change in absorption continuing its falling trend. Take up over this time was recorded at just 1,299sqm taking the annual rate to 10,443sqm. After several consecutive 50,000sqm+ six monthly absorption rates during the 2014-2016 period, the Sydney CBD office market continues in its phase of tempered demand levels. The volatility in take up levels seen in recent years continues to result in the strong reduction in overall vacancy albeit this has been driven strongly by withdrawal of stock. Currently vacancy across the CBD is recorded at 4.1%, a 50-basis points improvement over the last six months and the lowest rate since the GFC period. Vacancy is represented by 203,917sqm of the market with the sublease factor minimal at just 0.3%, this further emphasises the limited opportunities for occupiers and justifies the upward pressure on rents across the city. Issues associated with affordability are also key to the longevity of take up in Sydney CBD, with many secondary market locations such as the North Shore and Parramatta benefiting from increased occupation costs and limited availability.

SYDNEY CBD VACANCY

By precinct (%)



Source: PCA, Office Market Report, January 2019

The outstanding vacancy results for the Sydney CBD office market continued through to the end of 2018 with current vacancy of just 4.1%, representing 203,917sqm of vacant stock. Premium grade stock has continued it strong decrease in vacancy over the past few years, currently 3.8% after peaking at 12.5% in January 2017. A grade vacancy has also recorded improved results, down 100 basis points from six month ago to record 3.6%, however this market benefited from the withdrawal of 388 George Street despite the completion of 151 Clarence Street keeping net supply in negative.

The secondary grade assets have had some recent mixed results. After a few years of sizeable reductions due to the high level of withdrawal coupled with increased demand for more affordable accommodation, many strata assets also fall into this quality grade. C grade and D grade both saw a small supply addition with refurbished stock re-enter the market, both markets recording an increase in vacancies over the last six months to 4.8% and 5.8% respectively. B grade has shown a 60-basis point improvement in vacancy over the same period to record 4.5% aided by considerable withdrawal of stock along George Street. Considering the precincts in Sydney CBD, the Core continues to be the most active and enjoyed a 2.9 percentage point reduction in vacancy to just 4.0%.

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