

# Briefing Parramatta Office

June 2019



## Highlights

- The Parramatta office market recorded the lowest prime grade vacancy in Australia at 0.8% (as at December 2018);
- Parramatta is forecasted to receive approximately 70,000 square metres of net supply across 2019;
- Capital values continued to trend upwards over the 12 months to June 2019, with average A Grade capital values now measuring \$10,300 per square metre.

A Grade Averages	Latest	Yr Change	Outlook
Rental – N.F. (\$/sq m)	555	+6.7%	↗
Incentives	17.5	+00bps	↘
Rental – N.E (\$/sq m)	460	+7.0%	↗
Yield – Market (%)	5.50	+00bps	↔
IRR (%)	6.90	-10bps	↔
Capital Values	10,300	+10.8%	↗

Demand & Supply	Latest	PCP*
Vacancy	3.0	3.0
Net Absorb. ('000 sq m)	13.6	7.5
Stock U/C ('000 sq m)	142.18	142.18
- % of market	19.8	19.8
- % committed	85.5	85.5

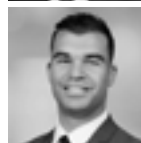
\*PCP = Previous Corresponding Period  
Source: Savills Research

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## Executive Summary

The Parramatta office market continues to identify itself as one of Australia's tightest markets, with one of the lowest total vacancy rates at just 3.0% and Prime grade vacancy sitting at 0.8%. This clearly outlines the heightened occupier demand for prime grade facilities and amenity. The market has benefitted in recent years from a spike in investor interest, after government initiatives aimed at repositioning the city as 'Sydney's second CBD'.

Parramatta is benefiting from strong tenant demand helped by the State Governments decentralisation plan and advantageous relative pricing dynamics versus Sydney CBD.

As several large developers and institutional investors have begun construction on their developments, Parramatta's demographic drivers remain as a strong component of confidence as it promotes ongoing commercial development activity. Developments across the retail and residential sectors will further enhance the appeal of the market to investors and tenants coupled with the broader community.

## PCA Summary Table – Parramatta (as at Dec-18)

	Prime	Secondary	Total	AUS Non-CBD
<b>Total Stock ('000)</b>	324.6	394.9	719.5	<b>7,284.3</b>
<b>Total Vacancy ('000)</b>	2.7	19.2	21.9	<b>662.1</b>
<b>Vacancy (%)</b>	0.8 (1.5)	4.9 (10.2)	3.0 (6.9)	<b>9.1 (9.4)</b>
<b>Net Absorption ('000)</b>	22.3 (12.1)	-8.7 (-1.7)	13.6 (10.5)	<b>7.6 (37.6)</b>
<b>Net Absorption (%)</b>	7.5 (4.8)	-2.3 (-0.4)	2.0 (1.6)	<b>0.1 (0.6)</b>
<b>Net Additions ('000)</b>	25.0 (11.8)	-10.9 (-5.8)	14.1 (6.0)	<b>18.1 (45.4)</b>
<b>- Stock Additions ('000)</b>	25.0	1.9	26.9	<b>133.0</b>
<b>- Stock Withdrawals ('000)</b>	0.0	12.8	12.8	<b>114.8</b>
<b>Net Additions (%)</b>	8.3 (4.6)	-2.7 (-1.4)	2.0 (0.9)	<b>0.2 (0.6)</b>

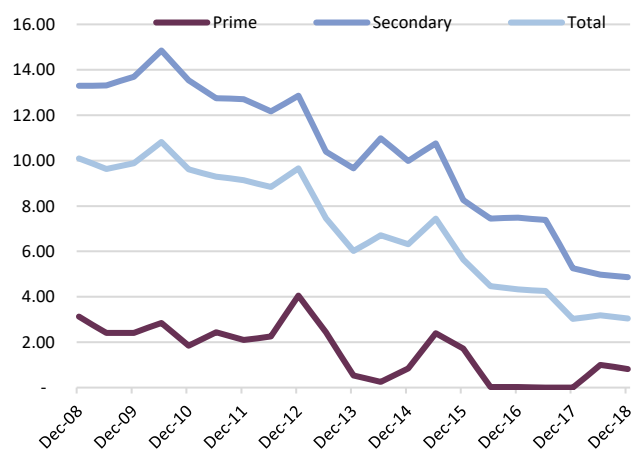
Source: Savills Research (10yr Averages shown in brackets; NB: Secondary Rents shown are for B grade; All rents equivalent to whole floor mid-rise)

## Vacancy

In December 2018, the total vacancy in Parramatta was recorded at 3.0%, the lowest market nationally, with A Grade vacancy recorded at a record low 0.8%. After 18 months of growth in rents in Parramatta, we are seeing this continue across both a net face and net effective basis, limiting options for current tenants, particularly across prime grade space.

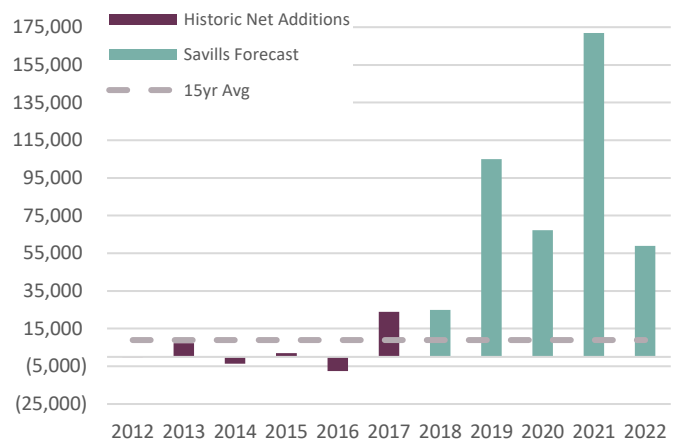
Savills Research expect ongoing growth across rents as space in upcoming developments is being quickly pre-committed. We are already seeing significant upward revisions in rents based on new pre-commitment deals signed at the end of 2018, with anecdotal evidence suggestive of further uplift in rents likely.

### Historic Vacancy



Source: PCA / Savills Research

### Net Supply by Year



Source: Savills Research

## Supply

The revitalisation of Parramatta’s office market continues, following the recent approval by NSW Planning of Walker Corporation’s development of 6 & 8 Parramatta Square. The two new office buildings are expected to have an end value of \$1.7 billion and add 125,000 square metres of space to Parramatta’s total stock. Additionally, Scentre Group’s redefined scope for their landmark office tower atop the existing Westfield Parramatta would provide over 110,000 square metres of office space. Even though plans are not yet approved, Scentre Group are aiming for a 2026 completion.

With over 400,000 square metres of developments due to hit the market by 2022, total stock will significantly exceed the one million square metre milestone. Demand for office space is likely to remain elevated, on the back of Government tenants decentralising from the Sydney CBD and occupiers moving from suburban markets due to residential redevelopments constricting the total available office stock across these suburban markets (particularly Sydney Olympic Park).

Major government and private sector tenants have already pre-committed to space in Parramatta’s upcoming developments. The NSW State Government recently unveiled plans to lease nearly 50,000 square metres of space in Parramatta in 2022, which will elevate pre-commitment levels. Already at record low levels, there is likely to be little relief for tenants in Parramatta as government and private sector tenants rush to sign leases on new developments.

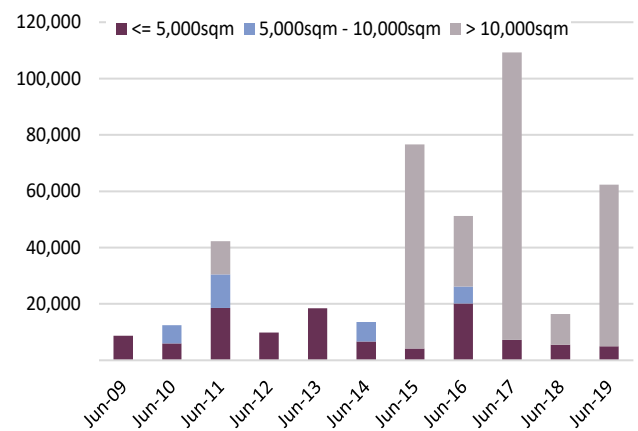
## Leasing Activity & Demand

In the 12 month period to June 2019, Savills Research identified over 62,000 square metres of office leasing activity in Parramatta. The majority of these leases were pre-commitments which was unsurprising considering the current low vacancy climate that is currently evident within Parramatta, particular within Prime grade stock.

The ‘Government & Community’ sector were the most dominant tenant in the 12 month period, accounting for over 70% of total volumes. This was mainly a result of Property NSW’s pre-commitment in Walker Corporations development 6 Parramatta Square. They will occupy 43,800 square metres in the A grade asset on a 12 year term. This follows the introduction of the State Government’s policy to create flexible work hubs in Parramatta. We are likely to continue to see more Government tenants relocate to Parramatta, particularly as it is seen as a viable option to Sydney CBD.

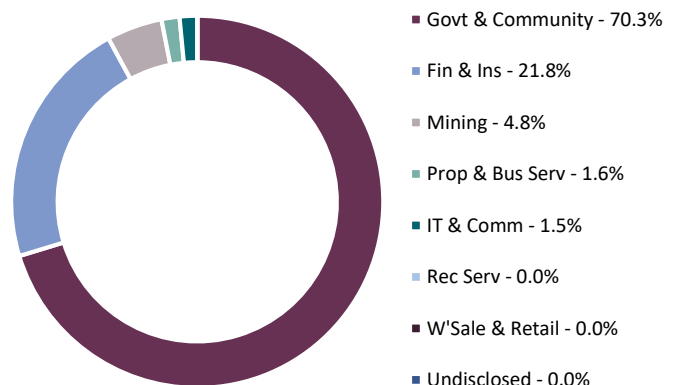
12 month net absorption was recorded at 13,614 square metres (December 2018) representing 2.0% of occupied stock, compared to a national average of non-CBD office markets of 0.1%. This was largely due to absorption in Parramatta being development led, whilst other fringe markets nationally have been restricted over the recent past by ongoing withdrawals for conversions to alternative use projects (particularly residential). Future absorption is expected to remain positive with the delivery of 4 Parramatta Square (circa 120,000 square metres) and 3 Parramatta Square (circa 46,000 square metres) in Q4 2019.

### Leasing Activity by Size (> 500 square metres)



Source: Savills Research

### Leasing Activity by Tenant Type (> 500 square metres)



Source: Savills Research

## Recent Notable Leases (by Area Leased)

Property	Tenant	Date   NLA (sqm)	Type   Rent   Term
6 Parramatta Sq	NSW Government	Apr-19   43,800	Precommit   n.a   12
32 Smith St	QBE	Dec-18   13,577	Precommit   650 (N)   10
31-39 Macquarie St	Downer Group, CPB contractors, NSW Transport, Transdev	Mar-19   3,012	Direct   450 (N)   3
91 Phillip St	KPMG	Oct-18   972	Renewal   475 (N)   5
87 Marsden St	Wipro	Jun-19   948	Direct   515 (N)   5

Source: Savills Research

## Sales

Over the 12 months to June 2019, Savills Research recorded \$454.8 million (>\$5 million) of office transactions in Parramatta. This is significantly above the 10 year average of \$244.4 million, which is attributed to an increase in the volumes in the above \$100 million category.

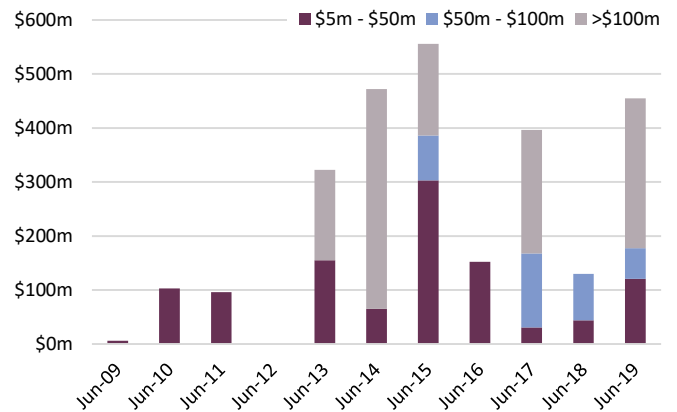
A noteworthy sale in the last 12 months include GPT's acquisition of Eclipse Tower at 60 Station Street from vendor REST Super which transacted for \$277.6 million making it the largest transaction in the Parramatta office market to date. The A grade asset sold on an equated yield of 5.23% and a capital value of \$10,789 per square metre.

Foreign investors demonstrated a renewed interest in Parramatta's office market after several years of subdued activity. US asset management giant BlackRock acquired the KPMG Building located at 91 Phillip Street for \$56.63 million in October 2018 which reflected an equated yield of 5.56%. Singapore-based investors (Roxy-Pacific Holdings & Tong Eng Group) purchased 33 Argyle Street for \$40.80 million.

Over the 12 month period to June 2019, average market yields remained flat for A grade, recorded at 5.5% and average B grade yields compressed 15 basis points to 6.0%. Average capital values in Parramatta demonstrated a significant uplift over the 12 month period, with average A grade values recorded at \$10,300 per square metre and B grade capital values at \$8,000 per square metre.

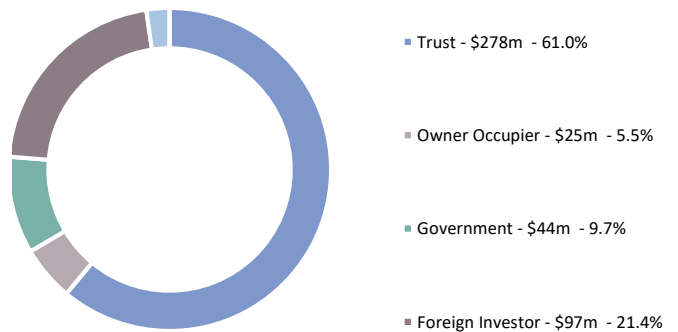
Recently, GPT sold their 50% share in the A Grade office and retail tower, MLC Centre, in Sydney's CBD with the intention of re-investing into their new office tower located at 32 Smith Street in Parramatta. This is an indication that GPT (and other domestic institutional investors) is seeing the potential and future opportunity with Parramatta's evolving office market.

## Sales Activity by Size (Parramatta)



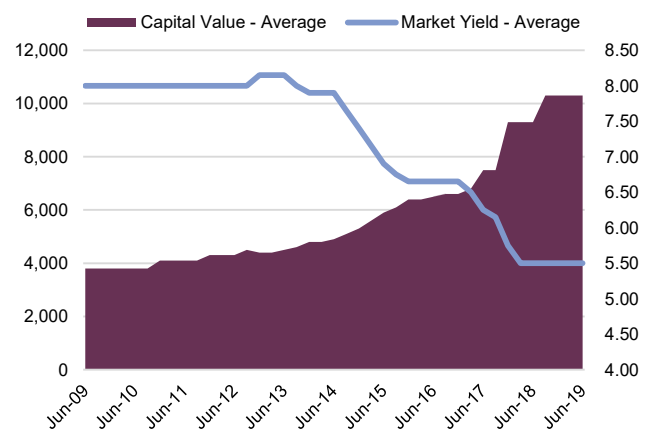
Source: Savills Research

## Sales Activity by Purchaser Type



Source: Savills Research

## Capital Values (\$/sq m) vs. Market Yield



Source: Savills Research

### Recent Notable Sales (by Sale Price)

Property	Price (\$m)   Date   NLA (sq m)	Yield   Type   \$/sq m
60 Station St	277.60   Aug-18   25,729	5.23   e   10,789
91 Phillip St	56.63   Oct-18   6,094	5.56   e   9,293
9 George St	44.30   Mar-19   5,000	6.30   r   8,860
33 Argyle St	40.80   Nov-18   5,279	n.a   n.a   7,729
470 Church St	24.50   Jun-19   3,667	n.a   n.a   6,681
12-14 Wentworth St	10.50   Aug-18   1,243	n.a   n.a   8,447

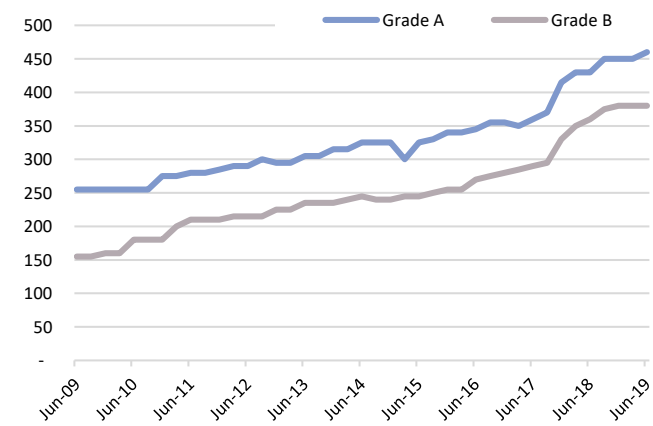
Source: Savills Research; Yield Types: i = Initial, r = Reported, e = Equated, v = Vacant, dev = development

### Rents

Rental rates in Parramatta’s office market have experienced substantial growth over the 12 months to June 2019, with average net effective A grade rents growing 6.5% to reach a rate of \$460 per square metre per annum, and B grade rents 5.3% to \$380 per square metre per annum. When looking at rental growth over the last 2 to 3 years, B grade growth has been more pronounced as a flow on effect from sub 1% vacancy over the last 3 year in Prime grade stock.

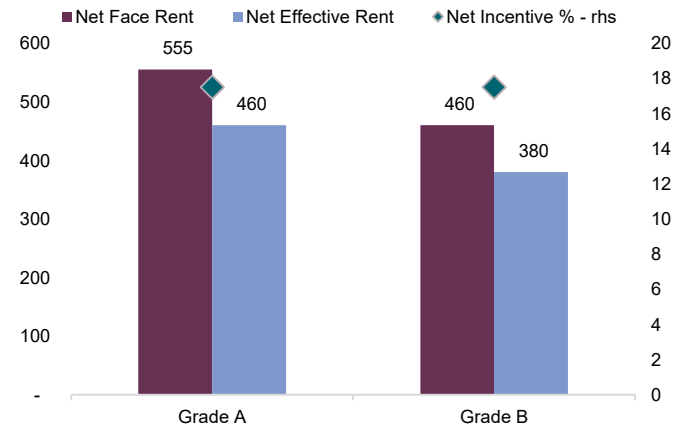
Incentives in the Parramatta office market have trended downwards over the last 3 years on the back of heightened demand and low vacancy however over the last 12 months net incentives remained flat, with average incentives for both A and B grade assets recorded at 17.5% as at June 2019. Anecdotal evidence from recent leasing deals however still demonstrates incentives to be at the higher end of the scale as we are still seeing incentives as high as 20%.

Net Effective Rents by Grade



Source: Savills Research

Net Face & Net Effective Rents (as at Jun-19)



Source: Savills Research

## Outlook

Looking forward, Parramatta as a CBD features heavily in the NSW Government's plan for Greater Sydney over the next two decades and is expected to play a vital role in Sydney's future economic landscape. Parramatta's future commercial viability is currently supported by planning policies and increased infrastructure investment. Western Sydney's increased accessibility to public transport services such as the Sydney Metro West are likely to further heighten demand.

We anticipate that Parramatta may remain as one of Australia's tightest office markets, with the outlook of falling vacancy rates coupled with withdrawals in Sydney's other fringe office markets could to place additional upward pressure on rents over the short to medium term.

Ongoing demand from State Government as well as small to mid-size private sector tenants are expected to drive the majority of Parramatta's leasing activity over the short to medium term. We are seeing more businesses explore tenancy options in Parramatta's office market as rents in Sydney CBD and its neighbouring fringe markets reach record high levels. The current rental rates on new developments in Parramatta are still relatively affordable in comparison to other office markets in Sydney, proving an attractive alternative.

## Development

The table below summarises some of the major upcoming and planned development projects in the Parramatta office market.

Building Address	Dev Stage	NLA (sq m)	Exp. Comp	Tenants
4 Parramatta Square	UC	70,000	2019	NSW Government
3 Parramatta Square	UC	46,188	2020	NAB
32 Smith St	UC	26,000	2020	QBE
6 & 8 Parramatta Square	DA	128,568	2021	NSW Government & Link Market Services
140 George St	DA	48,338	2021	
50 Macquarie St	DA	36,963	2022	
2-6 Hassall St (Engineering Innovation Hub)	PS	27,000	2022	WSU, UNSW
10 Valentine Ave	PS	30,000	2022	
The Argyle Tower – Westfield Parramatta	PS	112,000	2026	

Source: Savills Research; UC = Under Construction; DA = Development Approved; PS = Plans Submitted; EP = Early Planning

## Parramatta Key Indicators (Q2-19)

Parramatta	A Grade		B Grade	
	Low	High	Low	High
Rental - Gross Face (\$/sq m)	645	715	550	610
Rental - Net Face (\$/sq m)	520	590	430	490
Incentive Level Net	15%	20%	15%	20%
Rental - Net Effective (\$/sq m)	430	485	355	405
Outgoings - Operating (\$/sq m)	80	90	75	85
Outgoings - Statutory (\$/sq m)	35	45	35	45
Outgoings - Total (\$/sq m)	115	135	110	130
Typical Lease Term	5	10	3	7
Yield - Market (% Net Face Rental)	5.25	5.75	5.75	6.25
IRR (%)	6.75	7.00	7.00	7.50
Cars Permanent Reserved (\$/pcm)	325	375	275	325
Cars Permanent (\$/pcm)	250	300	225	275
Office Capital Values (\$/sq m)	9,500	11,000	7,000	9,000

Source: Savills Research NB: All rents equivalent to whole floor mid-rise



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