

# Market UPDATE



Property Consultants, Land Economists,  
Real Estate Agents, Valuers, Asset  
Managers & Auctioneers

Covering the office areas of North Sydney, Crows Nest, St Leonards & Chatswood

Winter 2005

## North Shore Statistics

**TOTAL STOCK**  
1,444,645 sqm

**TOTAL VACANT**  
203,694 sqm

**AV. NET FACE RENT**  
\$366 sqm

**VACANCY RATE**  
13.0%

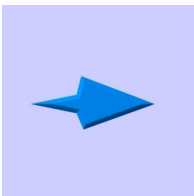
**AV. PRIME YIELD**  
7.83%

Next six months...

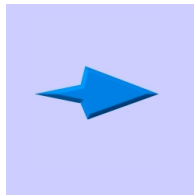
## OFFICE SECTOR PERFORMANCE



### RENTS



### YIELDS



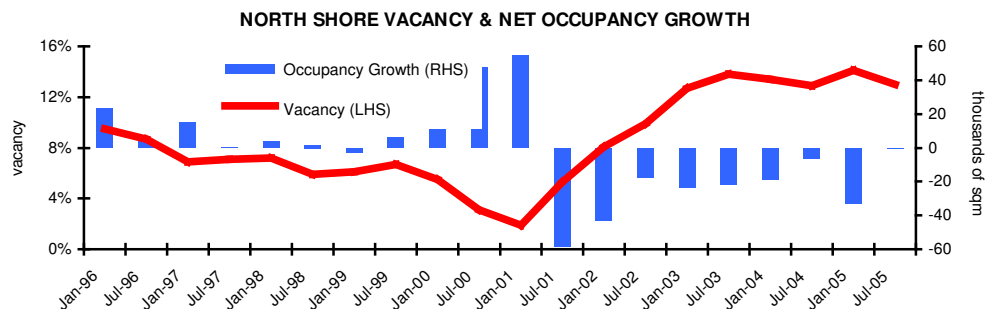
### CONSTRUCTION



# North Shore COMMERCIAL

## Leasing

- The North Shore office market appears set to finally turn the corner after a number of years of lacklustre performance and begin posting some more positive results. This comes on the back of a number of positive indicators including the forecast for robust white collar growth in the North Sydney region during the second half of 2005 and the Hudson Report indicating that the expectation of permanent employment had increased by 1.7%.
- The North Shore experienced an aggregate net absorption of -216sqm in the period to July 2005 which represents a significantly better result than in previous periods. Chatswood and North Sydney were the best performed markets within the North Shore with both precincts posting respectable positive net absorption figures that further point towards the recovery of these markets. The results in these precincts was driven by supply and this factor will continue to determine the future performance of these markets.
- North Sydney looks poised to continue its recovery within this market with the driving force being the creation of 80,000sqm of new supply in the form of large, prime, contiguous floor space over the next three years. The expectation of this space being absorbed is based upon a number of factors which include withdrawal of existing stock, continuing employment growth in key sectors, a flight to quality, attractiveness of the new developments and levels of pre-commitment, lack of new supply in the Sydney CBD and the availability of large floor plates.
- Vacancy levels in the period to July 2005 have shown further signs of improvement with overall levels decreasing to 13%. North Sydney was the best performed sector shedding 2.2% off its January 2005 vacancy figure which now resides at 11.2% whilst Chatswood's result was also positive decreasing 0.4% to 15.5%. In North Sydney this result can be heavily attributed to the withdrawal of stock from the market as further residential conversions continue to occur. Crows Nest/ St Leonards looks to have become stagnant with their vacancy rate rising 0.7% as the other sectors within this region have become more attractive drawing businesses away from this precinct.
- Incentives have stayed relatively stable in the first half of 2005 with average incentives in the range of 25-30% with some harder to move stock now being seen to be offering incentives as high as 35%. Face rentals have remained stagnant with incremental growth forecast in the short term.



## RECENT NORTH SHORE LEASING TRANSACTIONS

Tenant	Building Name	Address	Area	Rent/ sqm
Young and Rubicam	The Denison	65-69 Berry St, North Sydney	3,496	\$351 n
Ad-venture Advertising	Raymond Purves	140-144 Arthur St, North Sydney	335	\$405 g
Broadcast Australia	Citadel Towers	783-803 Pacific Hwy, Chatswood	2,100	\$476.19 g
Australis Mining Corp	Northpoint	76-110 Miller St, North Sydney	297	\$515 n
Vero Insurance Limited	463-465 Victoria Ave	463-465 Victoria Ave, Chatswood	15,158	422.99 n
Australian Fitness Network	40 Oxley St	40 Oxley St, St Leonards	1,005	\$260 n
Hutchinson 3G Australia	Space 207	207 Pacific Hwy, St Leonards	303	\$330 n
Financial Index Services	FAI Insurance House	617-619 Pacific Hwy St Leonards	204	\$230 g
Open Telecommunications	Leo Burnett House	73 Miller St, North Sydney	1,382	\$360 n
Computer Fleet Management	The Denison	65-69 Berry St, North Sydney	871	\$330 n

**SOLD**



181 Miller St, North Sydney

**FOR SALE**



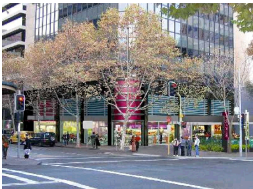
924 Pacific Hwy Gordon

**FOR SALE**



8 Thomas St Chatswood

**FOR LEASE**



189 Miller St North Sydney

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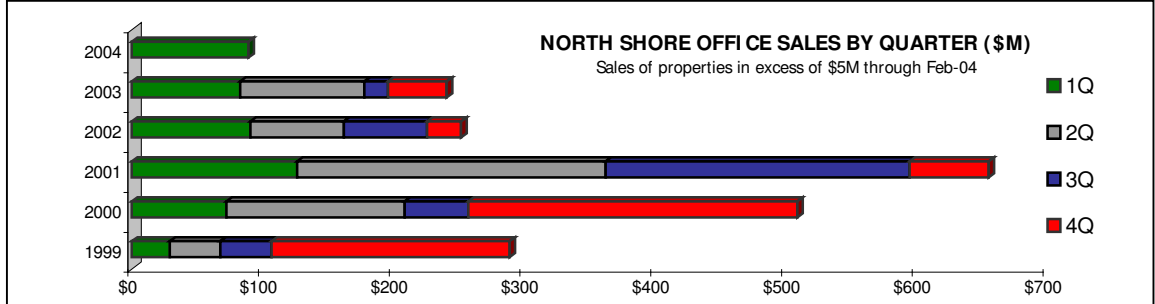
160 offices worldwide

North America South America  
Europe Middle East Asia  
Australia



**Sales**

- The demand for investment grade properties on the North Shore remains strong with a number of speculative investors purchasing before the anticipated upturn in the leasing market.
- This strong demand has resulted in capital values rising across the North Shore office market with average values typically residing in the \$4,000- \$5,750 sqm range. Capital values have been seen to be outside this range where premium or poorer B-Grade stock is concerned. These figures had generally experienced growth of between 3-4% in the preceding 12 months with figures forecast to continue rising at the same rate over the next year.
- In the last year we have seen another tightening in yields across most commercial areas on the North Shore with typical yields falling in the 7.25-8.75% range.
- Investment sales has experienced a considerable increase in activity with \$642.60 m recorded in the 12 month period prior to March 2005 which as the graph illustrates is a substantial increase on previous years.



SELECTED NORTH SHORE OFFICE SALES TRANSACTIONS				
Building Name	Address	Area	Price	Price per sqm
90 Mount St	90 Mount Street, North Sydney	4,522	\$22.95m	\$4,965
75 Miller St	75 Miller Street, North Sydney	5,024	\$19.35m	\$3,851
461-471 Victoria Ave	461-471 Victoria Ave, Chatswood	15,157	\$86.00m	\$5,674
50 Miller St	50 Miller St, North Sydney	10,594	\$36.25m	\$3,422
116 Miller & 173 Pacific Hwy	116 Miller & 173 Pacific Hwy, Nth Syd	10,312	\$57.50m	\$5,576
100 Mount Street	100 Mount Street, North Sydney	3,222	\$16.50m	\$5,121
AAMI	99 Walker Street, North Sydney	17,568	\$91.6m	\$5,214
8 West St	8 West St, North Sydney	5,910	\$20.50m	\$3,469
ARU House	181 Miller Street, North Sydney	12,111	\$54.5m	\$4,500

**Development**

- In North Sydney, Leighton Properties and ISPT are currently constructing a 23,000 sqm A-Grade building at 108 Pacific Highway with construction expected to be finished by mid-2006. While Tenix is constructing a 26,000sqm A-grade building at 100 Arthur Street with construction beginning late 2005 and completion anticipated in mid 2007.
- Major Developments within the established commercial region of the North shore have been subdued for a number of years with St Leonards and Chatswood not expecting any new large-scale developments in the next 2 years. Whereas North Sydney is looking set to experience increased tenant demand with 80,000sqm of new supply to enter the market in the next three years.
- According to the Property Council of Australia only 5,355sqm of projects are being completed in North Sydney in 2005 whereas the two developments mentioned above along with other projects will increase the supply in this area significantly and will supply quality stock to the A-grade market.

**Outlook**

- The outlook for the North Shore Commercial market is increasingly positive after a considerable time of negative forecasts. With increasing white collar job growth, expectations for permanent employment being positive, the continuing tech recovery and solid economic growth in Australia the outlook is looking increasingly more favourable.
- Tenant demand is set to increase in North Sydney as large, prime, contiguous space becomes available and the further positive effects of the North Sydney Council's marketing and Public Domain Strategy are felt. This coupled with the further withdrawal of stock from the market looks set to drive the market into healthier territory. Chatswood has experienced a demand turnaround in the last 6 months posting positive net absorption and a decrease in vacancy. This trend looks set to continue as no supply is going to enter the market in the next 18 months which should see the current stock absorbed and vacancy decrease further.
- The investment sales market looks set to continue its strong performance as evidence of counter cyclical sales occur and speculative investors purchase before the anticipated upturn in the leasing market.

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