

Market UPDATE



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

Sydney Property Market Update

Winter 2005

CBD Office Market Statistics

EXISTING STOCK
4,574,366 sqm

TOTAL VACANT
512,291 sqm

VACANCY RATE
10.2%

INCENTIVES
18-27%

Next six months...

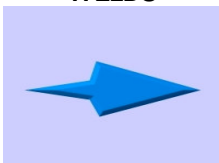
OFFICE SECTOR SENTIMENT



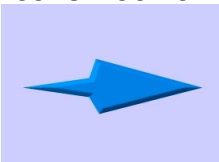
RENTS



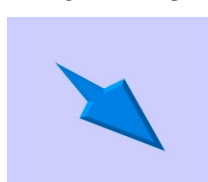
YIELDS



CONSTRUCTION



INCENTIVES



Sydney CBD COMMERCIAL

“Vendor Tax Abolished”

Leasing

- The Sydney CBD office market experienced positive net absorption in the period to July 2005, which built on the solid performance from the previous period. This positive leasing result equated to a net absorption of 41,661 sqm, which allowed for the CBD to post its first decrease in vacancy for 5 years.
- The overall vacancy rate decreased 110 basis points from the last period, residing at 10.2 percent as of July 2005.
- Another factor that looks set to drive the market is the forecast of strong white-collar employment growth for the remainder of the year and its correlation to increased uptake of floor space. This increase should see demand outstrip supply and create further positive net absorption figures for the following periods.
- These positive net absorption figures should continue unabated despite the large stock additions due in the next two years. In this period demand is set to be the major determinant of vacancy within the market, however due to strong pre-commitment across most of the new stock the prediction is for decreasing vacancy.
- In the period to July 2005 face rental rates have remained relatively stable and this trend looks set to continue in the short to medium term. The market appears to be experiencing a ‘flight to quality’ with tenants taking advantage of current market conditions to upgrade their space which bodes well for commercial leasing.
- Deals in this market are very much incentive driven and typically fall within the 18 to 27 percent range. Incentives are tipped to experience a moderate decline in the next 18 months. The highest rents are found in premium buildings in the core of the CBD, attracting gross rates of approximately \$800 to \$900/sqm whilst core A-grade gross rents are generally being quoted at between \$575 to \$700/sqm.
- Chesterton International recently negotiated a number of leasing transactions with one of these being to the Commonwealth Government for 4500 sqm of office space in the Met Centre at 60 Margaret Street. The term of the lease is 3.5 years with rent starting at \$585 sqm g. In another transaction Chesterton also leased 1300 sqm of space to Turner Freeman at 111 Elizabeth St. The term of the lease is for 5 years with the rental starting at \$440 sqm g.

Development

- It has been forecast that we are currently in the middle of a medium supply cycle, which will add approximately 10% of new stock to the market. Presently, there is about 310,000 sqm of mooted new development for the period from 2007 to 2010.
- The western corridor and core CBD office precincts are set to be the major areas of supply in the short to medium term. New developments under construction include 126 Phillip St, Darling Park Tower III and the KENS re-development site at 261-295 Kent St, which will add approximately 150,000 sqm to the market over the next 18 months.

RECENT CBD LEASING TRANSACTIONS

Tenant	Building Name	Address	Area	Rent/ sqm
Telstra Corporation	151 Clarence	151 Clarence St	8,980	\$360 g
Coudert Brothers	AMP Centre	46-60 Bridge St	3,500	\$800 g
Merryl Lynch	Governor Philip Tower	1 Farrer Place	5,000	\$800 n
Man Investments	Grosvenor Place	205-235 George St	1,505	\$825 g
HBOS Australia Pty Ltd	45 Clarence	45 Clarence St	4,149	n/a
Columbia Tristar Pictures	BT Tower	1-15 Market St	1,533	\$545 g
AON Risk Services Australia	AIDC Tower	201 Kent St	10,280	442 n
Bain International	Deutsche Bank Building	126 Phillip St	1,400	\$900 n
Allens Arthur Robinson	Deutsche Bank Building	126 Phillip St	13,000	950 n

FOR LEASE



60 Margaret St, Sydney
Various Sizes Available

LEASED



83 Clarence St
Various Leasings

FOR LEASE



201 Elizabeth St
4,214 sqm

Chesterton International is part of the Chesterton Blumenauer Binswanger group

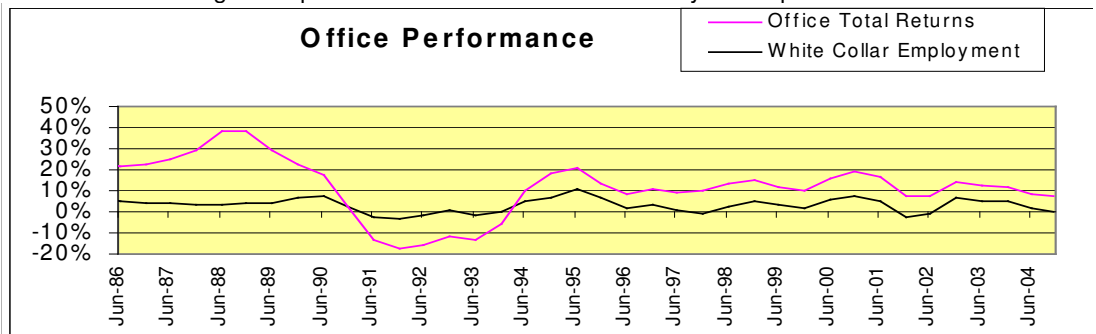
160 offices worldwide

North America South America
Europe Middle East Asia
Australia



Sales

- During the past few months we have witnessed an increasing level of sales activity within the Sydney CBD office market. This is in contrast to the previous months where the market had been considerably softer. It had been seen that it was difficult to find vendors within this market as the positive outlook for interest rates and the leasing market had investors holding onto their assets.
- The increase in sales activity can be partially attributed to a number of principal commercial spaces being added to the stock. Some recent sales have included the sale of 140 Sussex St for \$59.8 million to Eureka Funds, 107 Pitt St for \$23 million to Reserve Bank Superannuation and 39 Hunter St for \$29.2 million to a private investor.
- The CBD office sales market looks set to experience a further increase in activity with a number of pre-eminent transactions looking close to being finalised. The largest of these is the attainment of the Chifley Tower and Plaza by the Morgan Stanley Real Estate Fund for a figure reported to be around \$710 million dollars. This coupled with the sale of a 50 percent interest by Multiplex, in its Latitude Development for \$336 m, looks set to drive the market into more positive territory.
- The Sydney CBD office market has experienced progressive increases in capital values since the early 1990's. Capital Values are expected to remain relatively stagnant in the 0-3% range for the remainder of the year. Yields are also expected to remain constant with the possibility of tightening in some markets. They currently reside in the 6.25 to 7.25% range for prime office.
- The abolishment of the vendor tax looks set to provide a major injection into the Sydney CBD office market and the property investment market as a whole. The tax on the sale of investment properties became a major restriction upon the market causing contraction and with the tax being eradicated the signs are positive for increased levels of activity and expansion of the market.



SIGNIFICANT CBD SALES TRANSACTIONS 2003					
Building Name	Address	Area	Price	\$/ sqm/ bga	
Telstra Building	310-322 Pitt Street	29,159	\$66.375 m	\$4,553	
120 Sussex Street	118-130 Sussex Street	6,200	\$25.00 m	\$4,032	
140 Sussex Street	140-152 Sussex Street	11,500	\$59.80 m	\$5,200	
Chifley Tower	2 Chifley Square	64,682	\$700.00 m	\$10,792	
396-410 George Street	400 George Street	50,716	\$98.20 m	\$14,894	
Ernst and Young Centre	50 Goulburn St	68,156	\$231.00 m	\$6,779	
396-410 George Street	400 George Street	50,716	\$81.80 m	\$8,105	
Underwood House	37-49 Pitt Street	12,130	\$48.50 m	\$3,998	
Perpetual Trustees Chamber	33-39 Hunter Street	6,509	\$29.20m	\$4,486	

Outlook

- The outlook for the Sydney CBD office market for the rest of 2005 remains positive. With the abolition of the vendor tax, increasing demand and growing white collar employment we should see the market continue to strengthen and post another period of positive net absorption. It is forecast that we should see vacancy decreases continue despite the stock additions, due to increasing demand and solid levels of pre-commitment. Gross face rents are not expected to change considerably in the next 18 months but rather remain steady at their current levels until 2007 when the overall vacancy level should decrease as the supply cycle slows further and higher take up occurs. The investment market is set to improve further as the Vendor stamp duty is abolished and owners look set to consider offers with a number of major transactions looking set to drive the market.
- Whilst there are some predictions of vigorous growth the economic indicators point more closely to a healthy performance of the market with both sales and leasing activity increasing leading to a positive end to 2005.

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