

**315,000** sqm of new Metro Sydney office supply due in 2020

**15** Major projects under construction (at Dec 2019)

**20%** Average gross incentive for A-Grade stock

## ECONOMIC INDICATORS Q4 2019

Q2 19 Q3 19 12-Mo. Forecast

GDP Growth (National)\* **2.0%** **1.8%** ▲

State Final Demand Growth (NSW)\* **2.1%** **1.4%** ▲

Unemployment (NSW)† **4.6%** **4.5%** ▲

\*Average annual growth rate, †Seasonally adjusted  
Source: ABS; Deloitte Access Economics; Cushman & Wakefield Research

## ECONOMIC OVERVIEW:

The Economic growth has slowed recently, and September GDP results were the weakest in over a decade. However, growth is forecast to increase and average 2.4% over the following five years. Australian economic headwinds include global economic uncertainty, the ongoing drought, bushfires, and relatively weak wages growth. On a positive note, the residential housing market is improving (particularly in Sydney and Melbourne), and the broader economy is being supported by record low interest rates, tax cuts, infrastructure development and solid employment growth. New South Wales State Final Demand growth has softened considerably, down from 3.5% in Sept 2018 to 1.4% in Sept 2019. According to Deloitte Access Economics, Greater Sydney white collar employment growth is forecast to slow from a relatively strong 3.1% in 2019, to average just 1.3% over the next five years.

## SUPPLY AND DEMAND

2019 marked the first set of completions in Sydney's current major fringe and metropolitan office supply wave. Three new developments reached completion in 2019 (146,000sqm), and included 100 Mount Street, Axel at South Eveleigh, and 4 Parramatta Square. In 2020, another ten major developments totaling 315,000sqm are due for completion. For 2021 and beyond there is a significant pipeline of underway and potential projects. Such development activity has not been limited to just the major metro markets of North Sydney, Parramatta and Macquarie Park, with less established markets such as Hurstville, Campbelltown, and Penrith all attracting new developments. Although Government is driving a consolidation and decentralisation strategy of their property portfolio, relatively few larger organisations have executed decentralisation strategies, however, this may yet change if CBD face rental growth continues in the next two to three years. Notably, the largest leasing deals in H2 2019 all included tenants remaining in fringe/metropolitan markets. These included: Optus (84,194sqm) opting to renew at Macquarie Park, NSW Police renewing at 1 Charles Street Parramatta, and Microsoft (10,655sqm) precommitting to the new development at 1 Denison Street, relocating from North Ryde. In a more challenging market, landlords who have been active in terms of general capex and high quality speculative fit outs have had success in attracting tenants.

## RENTS

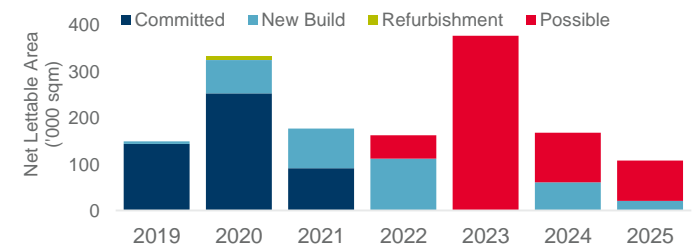
Rental trends across Sydney vary market-to-market but from a high level perspective the key changes in the second half of 2019 have been slowing face rent growth and increasing incentives. Whilst face rent growth is past the peak, it has remained positive in all markets and strong growth was achieved in Macquarie Park, North Sydney, Rhodes and Parramatta over 2019. In a response to softer demand landlords have become more negotiable on incentives, focusing on securing quality covenants on new long term deals. See chart below for A-Grade face rents around Sydney.

## A-GRADE METRO NET FACE RENTS



Source: Cushman & Wakefield Research

## METRO SYDNEY SUPPLY PIPELINE



Source: Cushman & Wakefield Research; PCA

## MARKET STATISTICS

MARKET	A-GRADE			GROSS EFFECTIVE RENT (A-GRADE)		
	NET FACE RENT (A\$)	OUTGOINGS (A\$)	GROSS INCENTIVES	A\$/SQM/YR	US\$/SQM/YR	EUR/SQM/YR
Sydney CBD	1055	185	20	990	695	619
North Sydney	830	130	21	760	535	476
Pymont Ultimo	750	130	18	715	503	448
City Fringe	715	110	17	710	499	445
St Leonards	610	125	21	570	402	358
Chatswood	575	120	20	550	388	346
Parramatta	550	110	15	555	389	347
Rhodes	460	105	23	435	305	272
South Sydney	450	90	20	430	302	269
Macquarie Park	420	95	20	410	288	257
Sydney Olympic Park	415	95	25	375	265	236

AUD/USD = 0.7030; AUD/EUR = 0.6261 as at 31st December 2019

## KEY LEASING TRANSACTIONS H2 2019

PROPERTY	MARKET	TENANT	SQM	LEASE TYPE
1-5 Lyonpark Road	Macquarie Park	Optus	84,194	Renewal
1 Charles Street	Parramatta	NSW Police	32,356	Renewal
1 Denison Street	North Sydney	Microsoft	10,655	Pre-commitment
73 Miller Street	North Sydney	oOh!media	6,858	Direct (Expansion)

Source: Cushman &amp; Wakefield Research

## SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROPERTY	MARKET	MAJOR TENANTS	SQM	COMPLETION DATE
45 Waterloo Road	Macquarie Park	NSW Government	35,000	Q1 2020
21 Harris Street	Pymont	Publicis	15,100	Q1 2020
3 Parramatta Square	Parramatta	NAB	42,000	Q2 2020
The Foundry – South Eveleigh	City Fringe	Commonwealth Bank	51,000	Q2 2020
1 Denison Street	North Sydney	Channel Nine, Microsoft	61,032	Q3 2020
118 Mount Street	North Sydney	Zurich Financial Services	20,000	Q4 2020
32 Smith Street	Parramatta	QBE	26,400	Q3 2020
97 Waterloo Road	Macquarie Park	Schneider Electric	14,900	Q4 2020

Source: Cushman &amp; Wakefield Research

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