

\$925 Prime Gross Effective Rents (per sqm p.a)

-11.3% YoY Prime Gross Effective Rent growth

\$705 B-Grade Gross Effective Rents (per sqm p.a)

ECONOMIC INDICATORS Q3 2020

| | Q220 | Q3 20 | 12-Mo. Forecast |
|----------------------------------|-------|-------|-----------------|
| GDP Growth (National)* | -0.2% | -1.7% | ▲ |
| State Final Demand Growth (NSW)* | -2.0% | -2.7% | ▲ |
| Unemployment (NSW)† | 6.9% | 7.1% | ▲ |

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

ECONOMIC OVERVIEW

The COVID-19 pandemic caused a short sharp recession in Australia during Q1 and Q2 2020. Data to September 2020 indicate the Australian economy returned to growth in Q3, rising 3.3% over the quarter after a 7.3% decline in Q2. Real state final demand in New South Wales (NSW) also bounced strongly, rising 6.8% over Q3 after declining 8.8% in Q2. Assuming the pandemic is contained globally, both NSW's and Australia's economic growth rates are expected to remain positive over the forecast horizon with relatively strong growth expected over the next few years. Deloitte Access Economics forecast real gross state product (GSP) to increase by 3.4% over calendar 2021 and 3.5% in both 2022 and 2023. Over the past 10 years, NSW GSP annual growth has averaged 2.4%.

SUPPLY AND DEMAND

Around 105,000 square metre (sqm) of new and refurbished space were anticipated to complete in the Sydney CBD in 2020. Pending pre-commitment, the potential exists for over 750,000 sqm of supply to enter the CBD market over the next five years. Notable premium grade towers currently underway include Wynyard Place (68,000 sqm with 80% pre-committed) due for completion in mid 2021, Salesforce Tower (54,000 sqm with 50% pre-committed) and Quay Quarter Tower (88,000 sqm with 87% pre-committed) are due to complete in 2022.

According to the Property Council of Australia, vacancy rates in the CBD increased sharply across all grades – with total market availability increasing from 3.9% to 5.6% in the six month period to July. Sub-lease availability tracked by Cushman & Wakefield continued to build during the quarter, with over 150,000 sqm of space estimated to be available in the CBD. Despite the rise in sub-lease space, leasing activity continued to slowly build in Q4 with several larger transactions occurring. Most notable was Corrs Chambers Westgarth committing to approximately 8,000 sqm at Quay Quarter Tower.

RENTS

The pandemic induced rise in incentives slowed in Q4. While the average prime gross incentive rose from around 21% to 31% over the first three quarters of 2020, the average incentive increased only moderately to 32% over Q4. Gross face rental growth remained unchanged over Q4, Prime grade averaging \$1,355 sqm per annum. The Premium and A-Grade gross face rents averaging \$1,485 and \$1,275 respectively. B-grade were also unchanged at an average of \$1,035. Gross incentives across all grades range from 29% to 35% with an average of around 32%.

As a result of the higher incentives, Prime gross effective rents in the Sydney CBD fell 1.6% quarter-on-quarter (QoQ) and 11.3% year-on-year (YoY). Rents ranging from \$820 to \$1,020/sqm pa with the average prime gross effective rent \$925 sqm pa. A-grade gross effective rents ranged between \$775 and \$950 sqm pa, averaging \$870 per sqm pa, recording a decrease of 11.9% (YoY) and decreasing by 1.6% (QoQ).

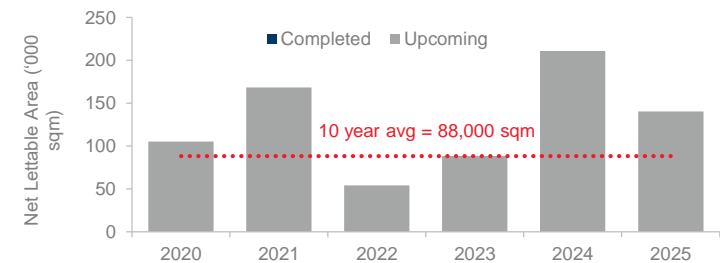
B-grade gross effective rents ranged between \$745 and \$655 sqm pa, averaging \$705 per sqm pa, a decrease of 13.8% (YoY) and 0.4% (QoQ).

PRIME GROSS EFFECTIVE RENT, OVERALL VACANCY (6 MONTHLY)



Source: PCA; Cushman & Wakefield Research

SUPPLY PIPELINE: NEW DEVELOPMENTS & MAJOR REURBS



Source: PCA; Cushman & Wakefield Research



MARKET STATISTICS

| SUBMARKET | INVENTORY [^] (SQM) | VACANCY RATE* | UNDER CONSTRUCTION (SQM) | GROSS EFFECTIVE RENT | | |
|-------------------------------------|---------------------------------|------------------|--------------------------------|----------------------|-------------|------------|
| | | | | A\$/SQM/YR | US\$/SQM/YR | EUR/SQM/YR |
| Premium | 1,196,828 | 3.8% | 220,000 | 1,015 | 789 | 643 |
| A-Grade | 1,839,973 | 4.7% | 70,000 | 870 | 676 | 551 |
| Prime* | 3,036,801 | 4.3% | 290,000 | 925 | 719 | 586 |
| B-Grade | 1,314,011 | 7.5% | 29,000 | 705 | 548 | 447 |
| SYDNEY CBD TOTAL[^] | 4,977,938 | 5.6% | 320,000 | | | |

* Prime Grade is a combination of Premium and A-Grade

[^]All-Grades *As at 01/07/2020

AUD/USD = 0.7769; AUD/EUR = 0.6336 as at 11th January 2021

KEY LEASING TRANSACTIONS Q4 2020

| | SUBMARKET | TENANT | SQM | LEASE TYPE |
|------------------------|-----------|--------------------------|---------------|------------|
| 50 Bridge Street | Core | Corrs Chambers Westgarth | 8,000 approx. | Direct |
| 161 Castlereagh Street | Core | Blackwattle | 3,600 | Sublease |
| 400 George Street | Mid | Resolution Life | 3,500 | Sublease |
| 1 Macquarie Place | Core | FTI | 1,205 | Direct |
| 126 Phillip Street | Core | HFW | 1,400 | Direct |

Source: Cushman & Wakefield Research

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

| PROPERTY | SUBMARKET | MAJOR TENANTS | SQM | COMPLETION DATE |
|--------------------------------------|-----------|---------------|--------|-----------------|
| 183 Clarence Street | Western | Built | 7,800 | 2021 Q1 |
| Wynyard Place, 10 Carrington Street | Core | NAB, Allianz | 68,808 | 2021 Q1 |
| Salesforce Tower, 180 George Street | Core | Salesforce | 54,000 | 2022 Q2 |
| Quay Quarter Tower, 50 Bridge Street | Core | AMP, Deloitte | 88,274 | 2023 Q1 |

Source: Cushman & Wakefield Research

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