

METRO SYDNEY

Office Q4 2022

0.3% Average YoY increase in A-grade gross face metro rents

35% Average metro A-grade incentives

820k sqm In potential projects over the next three years

ECONOMIC INDICATORS To Q3 2022



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

ECONOMIC OVERVIEW:

After weathering the COVID-19 induced recession of 2020 as well as the subsequent waves of the virus and inclement weather in 2021 and early 2022, the Australian economy was poised for recovery. This has been tempered to a degree as inflationary pressures have pushed forward interest rate rises and lowered the outlook for growth. Despite this, the economy is still expected to have expanded at an above-average rate in 2022. Deloitte Access Economics (DAE) is predicting that Australia's real GDP increased 3.9% in 2022 but is expected to slow to 2.0% in 2023 as the impact of higher interest rates begin to materialize in the data. DAE forecast that New South Wales (NSW) gross state product (GSP) increased 4.6% in 2022, well above the annual average growth rate in the decade prior to the pandemic (2010-2019) of 2.5%. However, GSP growth is expected to slow to 1.8% in 2023.

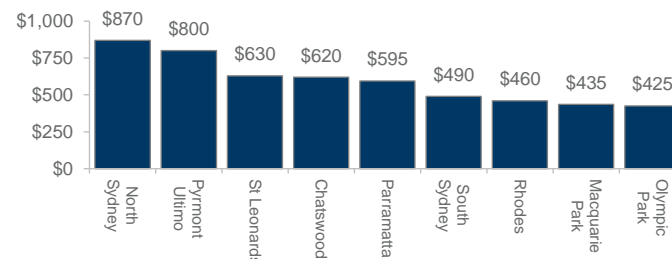
SUPPLY AND DEMAND

After more than 500,000 square metres (sqm) of new and refurbished office space hit Sydney office markets during 2020 and 2021, no new office space was completed during 2022. This is expected to rebound in 2023 with more than 130,000 sqm scheduled to complete, headlined by a number of new developments in Macquarie Park including MQX4 (net lettable area of 18,000 sqm) M Park (NLA 16,000 sqm) and Array (NLA 10,000 sqm) all expected in Q2 of 2023. New supply is expected to surge in 2024 and 2025, with 365,000 sqm and 320,000 sqm of new and refurbished space forecast to be completed respectively. A substantial portion of this new supply, however, will depend on the ability to secure precommitment. Concerns surrounding inflation and the subsequent rapid escalation of interest rates have pushed consumer confidence to the lowest levels since 2020, while business confidence has begun to waiver. Anecdotally, Cushman & Wakefield's office leasing team reports that tenants are seeking high quality assets in core locations as hiring and staff retention remain in focus in a historically tight labour market.

RENTS

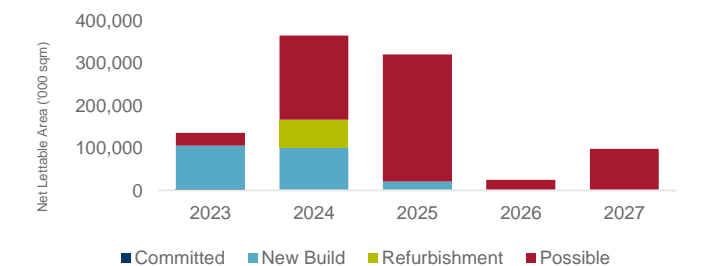
Rental conditions in Sydney office markets have entered a period of stabilization after a period of weakness caused by the COVID-19 pandemic. Incentives remain elevated but remained broadly unchanged throughout 2022. On average across Sydney metro markets A-grade net effective rents were down 0.6% over the course of 2022 but were little changed in the second half of 2022. Yields have started to move higher as there is evidence emerging of transactions reflecting metrics softening in Q4 2022, with a risk of further softening into 2023. Whilst the market continues to demonstrate activity and liquidity (to varied degrees), it remains in a cautious price discovery period, biased towards potential value downside.

A-GRADE METRO NET FACE RENTS (AVERAGE)



Source: Cushman & Wakefield Research

METRO SYDNEY SUPPLY PIPELINE



Source: Cushman & Wakefield Research; PCA

MARKET STATISTICS

MARKET	A-GRADE (AVERAGE)			GROSS EFFECTIVE RENT (A-GRADE)		
	NET FACE RENT (A\$)	OUTGOINGS (A\$)	GROSS INCENTIVES	A\$/SQM/YR	US\$/SQM/YR	EUR/SQM/YR
Sydney CBD	1120	215	35%	860	600	555
North Sydney	870	140	33%	680	475	435
Pyrmont Ultimo	800	150	30%	660	460	425
St Leonards	630	125	33%	505	355	325
Chatswood	630	120	33%	500	350	325
Parramatta	595	115	29%	500	350	320
Rhodes	460	105	29%	400	280	260
South Sydney	490	85	25%	445	310	285
Macquarie Park	435	100	27%	390	275	250
Sydney Olympic Park	425	95	35%	335	235	215

AUD/USD = 0.6988; AUD/EUR = 0.6439 as at 18 January 2023

KEY LEASING TRANSACTIONS H2 2022

PROPERTY	MARKET	TENANT	SQM	LEASE TYPE
177 Pacific Hwy	North Sydney	MLC Insurance	2,474	Direct
2-4 Blue Street	North Sydney	Equifax	4,300	Direct
207 Pacific Hwy	St Leonards	Casella Family Brands	936	Direct
821 Pacific Hwy	Chatswood	Nutricia	1,039	Direct
54 Waterloo Road	Macquarie Park	Certis Security	1,530	Direct
6 Hassall Street	Parramatta	HCF Insurance	2,280	Direct

Source: Cushman & Wakefield Research

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROPERTY	MARKET	MAJOR TENANTS	SQM	COMPLETION DATE
M Park Building A	Macquarie Park		16,000	Q2 2023
MQX4	Macquarie Park		17,000	Q2 2023
88 Walker Street	North Sydney		11,739	Q1 2023
2-4 Blue Street	North Sydney		15,000	Q2 2023
85 Macquarie Street	Parramatta		10,000	Q4 2023

Source: Cushman & Wakefield Research

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