

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
21.3% Vacancy Rate	▲	▲
18,826 6-month Net Absorption, sqm	▼	▼
\$349 Prime Net Effective, sqm pa	▬	▬

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
1.0 (National) GDP Growth	▼	▼
0.2% (New South Wales) State Final Demand Growth	▼	▲
4.2% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW:

The second-quarter GDP release was a key highlight among recent economic updates. It showed real growth slowing, with GDP increasing by 1% in the year to June 2024. Adjusted for population growth, however, per capita GDP declined by 1.5%, indicating weaker economic output per person. This highlights the economy's growing reliance on population growth, as net overseas migration surged to over 70,000 in Q2, contributing significantly to overall economic activity and helping offset productivity challenges.

Forecasts for New South Wales's gross state product remain modest for 2024, forecast to increase 0.6% over 2024, before recovering to grow 3.5% in 2025 and 2026.

DEMAND:

Demand over H1 2024 returned to positive for Macquarie Park, North Sydney and Parramatta, recording 6-month net absorption of 15,484 sqm, 9,994 sqm and 469 sqm after periods of significant negative net absorption. Chatswood and St Leonards however are still grappling with negative 6-month net absorption of -4,759 sqm and -2,363 sqm.

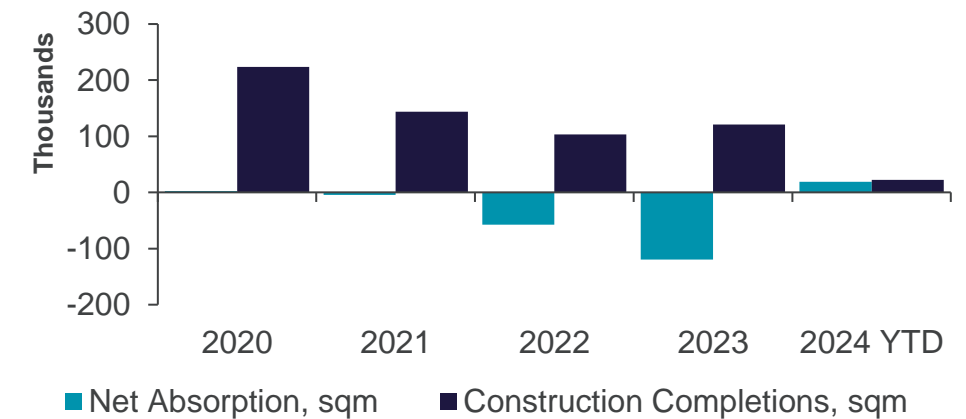
Looking forward it is expected that the opening of the Sydney Metro and improved demand conditions in Q3 will help improve deal flow over the remainder of 2024 and into 2025.

RENTS:

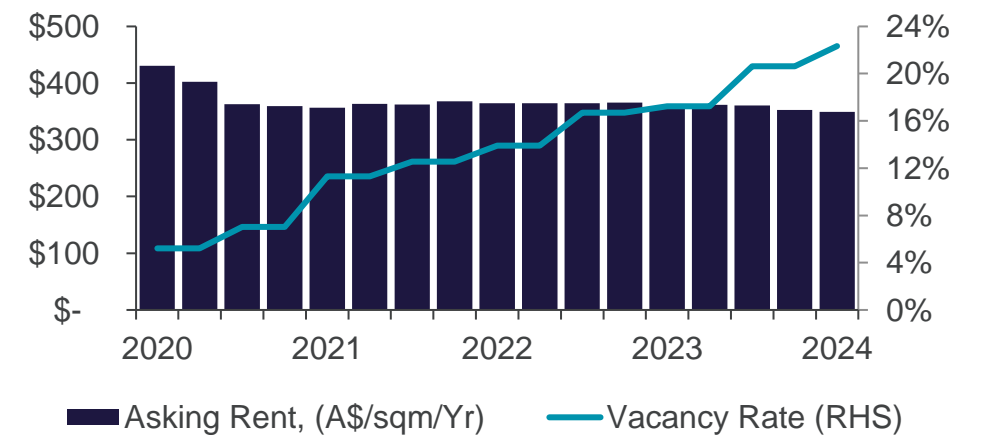
Net effective rents have remained relatively stable across the Sydney Metro market in Q3 2024, recording a 0.2% increase over the quarter, to reach an average of \$361 per sqm per annum (sqm pa). In line with demand conditions North Sydney and Parramatta both saw small increases in net effective rents, while these gains were offset by small declines in the other markets and increases in average outgoings, leaving average Sydney Metro rents flat.

Gross incentives have continued their stability for the third quarter in a row averaging 34.7% for Sydney Metro.

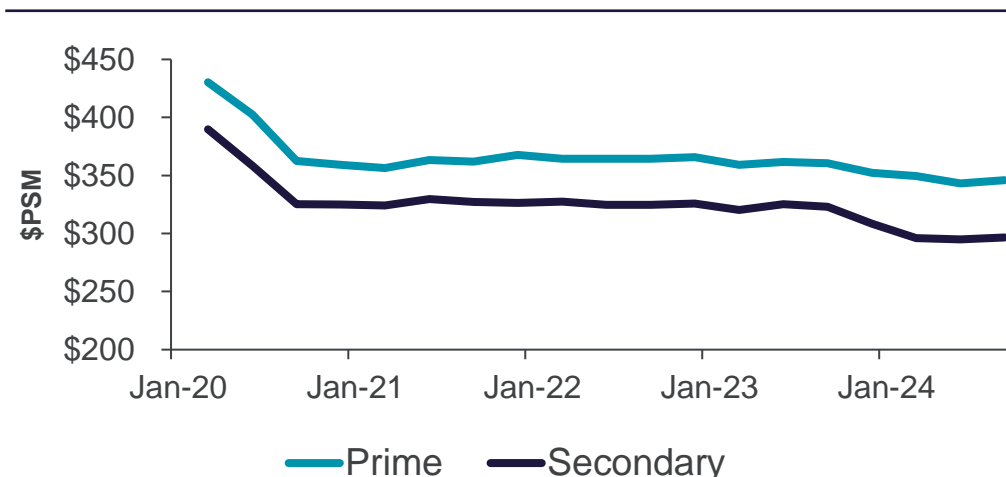
SPACE DEMAND / DELIVERIES



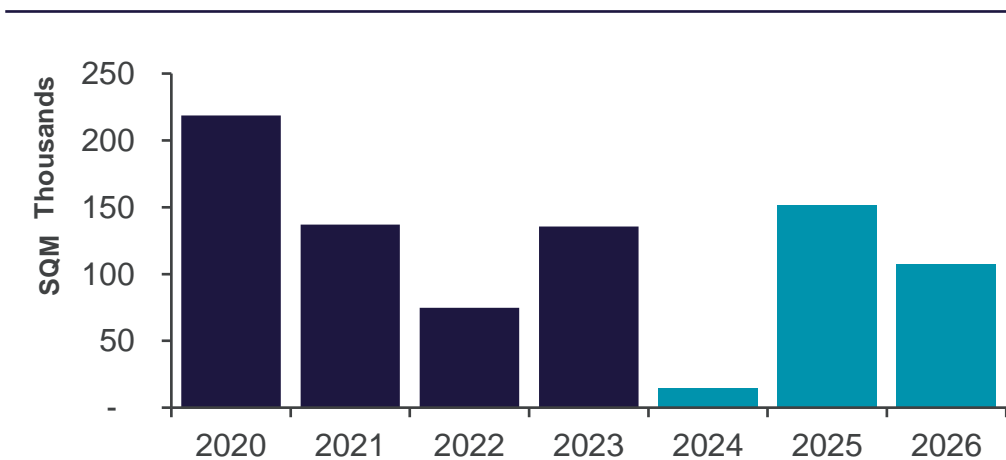
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



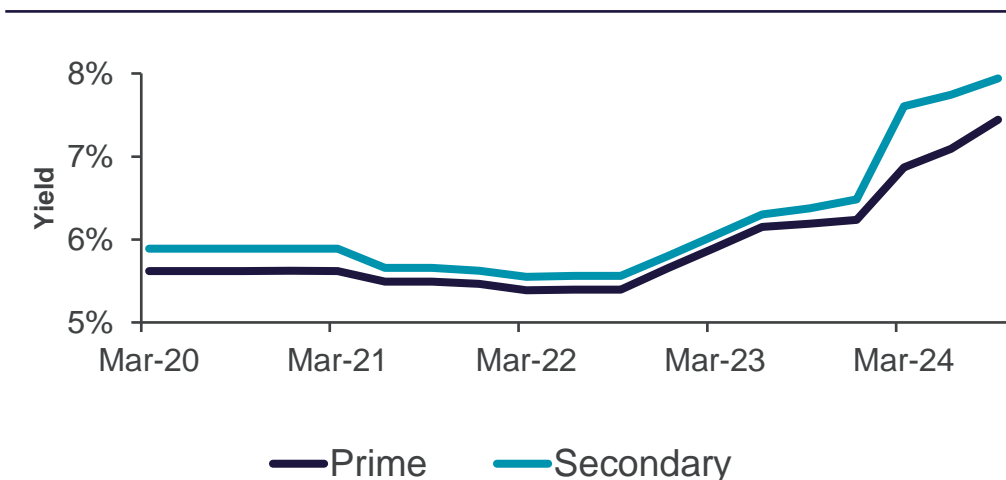
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

Over 2023, circa 145,000 sqm of office space came online, with a further 67,000 sqm scheduled to come online over 2024. Over H1 2024 circa 33,000sqm has been withdrawn from the metro market, with the bulk of this being in Parramatta. 13,597 sqm of new stock has been added to market across Macquarie Park and North Sydney.

New supply in 2024 is limited to two projects, 5,000 sqm at 7 Charles Street in Parramatta and 9,297 sqm 73 Talavera Road in Macquarie Park. Supply delivery is set to pick up again in 2025 with circa 151,000 sqm of new and refurbished office space slated for completion.

YIELDS:

The trend of yield softening has persisted in Sydney Metro. Over the past 12 months the average prime yield increased by 126 basis points to reach 7.5%, while secondary yields widened by 164 basis points to 7.9% over the 12 months to September 2024.

With yields having significantly adjusted in the Metro Sydney market and greater clarity emerging in the macroeconomic landscape, investment activity is expected to increase as more investors return to acquisition approaches and more formal on market campaigns are launched. The gap between vendor and buyer expectations, along with bid spreads over the past 18 months, is starting to narrow, driven by reductions in book values, which should further support transaction volumes.

INVESTMENT MARKET:

Transactional activity across Metro Sydney saw a sharp decline throughout 2023 but began to recover slightly in H1 2024. This momentum has continued to grow into Q3 2024, with several assets in North Sydney and Parramatta either sold or in the process of transacting. Although volumes remain below long-term averages, the recent uptick suggests that the market is approaching the bottom of the cycle, with investor confidence beginning to return.

Key transactions include the off-market sale of 130 George Street, Parramatta, a B-grade building for \$69.1 million by Dexu to Mintus. In another off-market deal in Parramatta, Australian Unity sold 2-10 Valentine Avenue from its Office Fund to an undisclosed buyer for \$82 million. It includes a refurbished office building and an adjacent sex level carpark. Additionally, in North Sydney, Mirvac sold 40 Miller Street, an A-grade commercial building to Barings for \$141 million and Chinese-backed Maville Group sold 116 Miller Street and 173 Pacific Highway which comprises two commercial B-grade buildings on one title, for \$80 million.

OUTLOOK

- Economic growth is expected to strengthen in Q4 and through 2025, as Gross State Produce reverts to align with longer term averages.
- The opening of the Sydney Metro is projected to boost occupier demand in nearby precincts, accelerating the recovery of certain areas.
- Overall average Metro rents are expected to remain relatively stable for the remainder of the year. Through 2025 growth is expected in North Sydney, Macquarie Park and Parramatta, while the remaining markets see rents continue to stabilise.
- Vacancy is expected to remain relatively stable for the remainder of 2024, with positive absorption expected in North Sydney, Macquarie Park and Parramatta. However, St Leonards and Chatswood are expected to see negative absorption, keeping the vacancy rate stable.
- No new supply in Q4 2024 is expected to help aid the stabilisation of vacancy.

MARKET STATISTICS

SUBMARKET	INVENTORY (SQM)	VACANT (SQM)	OVERALL VACANCY RATE	6-MONTH NET ABSORPTION (SQM)	UNDER CONSTRUCTION (SQM)	NET FACE RENT (\$ SQM PA)	AVERAGE GROSS INCENTIVES	AVERAGE OUTGOINGS (\$ SQM PA)
North Sydney	941,214	221,184	23.5%	9,994	55,980	\$890	43%	\$146
St Leonards	357,418	94,890	26.5%	-2,362		\$654	39%	\$156
Chatswood	271,003	55,717	19.6%	-4,759		\$663	37%	\$128
Parramatta	932,544	181,105	19.4%	469	5,000	\$574	35%	\$138
Macquarie Park	945,349	182,355	19.3%	15,484		\$467	29%	\$111
Sydney Olympic Park						\$458	33%	\$105
Pyrmont Ultimo						\$806	38%	\$154
Rhodes						\$466	35%	\$101
SYDNEY METRO TOTALS	3,447,528	735,251	21.3%	18,826	55,000	\$765	34.7%	\$153

*Rental rates reflect full service asking A-grade properties

KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
99 Walker Street	North Sydney	Webuild S.P.A	602	Direct
821 Pacific Highway (Tower B)	Chatswood	FMS	1,035	Direct
9 Help Street	Chatswood	Berry Actuarial Planning	411	Direct
78 Waterloo Road	Macquarie Park	Groupe SEB	1,107	Direct
6 Eden Park Drive	Macquarie Park	SNAP	351	Direct

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE (AUD M)
116 Miller Street & 173 Pacific Highway	North Sydney	Maville Bay / undisclosed	11,368	\$90
2-10 Valentine Street	Parramatta	Australian Unity / undisclosed	15,594	\$80.5
130 George Street	Parramatta	Dexus / Mintus	19,778	\$69.1

KEY PROJECTS UNDER CONSTRUCTION & COMPLETIONS

PROPERTY	SUBMARKET	MAJOR TENANT	SQM	OWNER/DEVELOPER
7 Charles Street	Parramatta	N/A	5,000	
73 Talavera Road	Macquarie Park	Woolcock Clinic	9,297	Macquarie University

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