

Hartigan Bolt Market Update

SUMMER 2018



NORTH SHORE COMMERCIAL PROPERTY – LEASING SALES & MANAGEMENT

Department of Planning has released its draft plan for the future of Crows Nest / St Leonards 2036.

The review was triggered by the decision to build the Metro Line with a new Station at Crows Nest and at the existing St Leonards Station.

Key proposals include:

The heart of Crows Nest is to keep its village feel with modest height limits along Willoughby Road and Alexander Street.

The development over the future Metro Station will have a maximum of 27 storeys with heights tapering down on nearby sites. The Metro development envisages both residential and commercial uses.

Public amenity is to be increased with North Sydney's proposed park in Hume Street to be expanded further. This will involve the acquisition of additional buildings along Hume Street. Support is given to a proposed park in what is known as St Leonards South.

Close to St Leonards Station, height limits along the south side of Chandos Street range from 18 to 12 storeys and on the north side remain as they are to protect the Willoughby Estate.

The plan notes that there are existing approvals on certain properties and a few sites are designated as being Significant with planning controls not set at this stage.

For Artarmon there is no change with the area designated to remain as an employment / industrial hub.

The plan recommends an independent panel review Lane Cove Council's plan for St Leonards South with a view to having a gradual transition from low rise to high rise.

While height limits play an important part in the new plan floor site ratios (FSR) are also critical and in many cases require more commercial space than in the current LEP and have the effect of reducing overall density.

We regularly work with leading Architects to help owners fully assess the detail of Planning rules and would advise owners to consider this.

The report is out for consultation with submissions to be lodged by 8 February 2019.

It should be remembered that the plan is draft and may be further amended. There is also a State election next March which is likely to slow up the process and could result in further changes in due course.

Development over the new Station will have a maximum of 27 storeys with heights tapering down on nearby sites.

Contents

Crows Nest / St Leonards Planning Review

Rents Rise in Core Markets

Tenant Activity Fans Out

Sales Activity

Developers Target Sites for Commercial

Strata Strengthens

Management

Recent Lettings

Important Note – The information contained in this publication is for general guidance purposes only and must not be relied upon. Whilst the information has been obtained from sources that are deemed to be reliable no warranty is given as to accuracy and no liability will be accepted. No guarantee is given as to the continued availability of any property listed. All areas are approximate. All rents are quoted inclusive of year 1 outgoings.

83 Mount Street, North Sydney

Rents Rise in Core Markets

Vacancy rates in core CBD markets have been falling for some time as tenant demand has remained strong and new supply is limited.

The latest PCA figures show North Sydney's vacancy rate has fallen to 6.3% and in the CBD, it is even lower at 4.3%. A recent report by BIS Oxford Economics forecasts that vacancy rates will fall to 3% in Sydney and 4.5% outside of the CBD. These low levels of vacancy will make it harder for tenants to avoid higher rents.

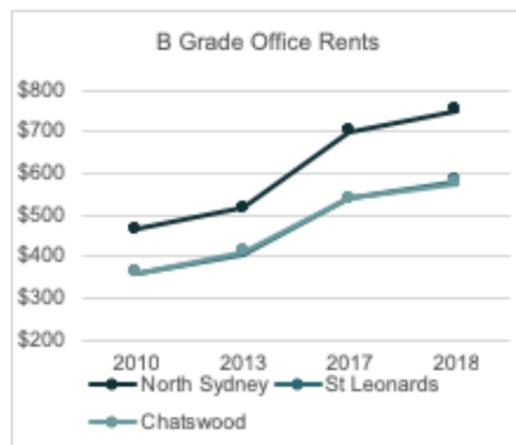
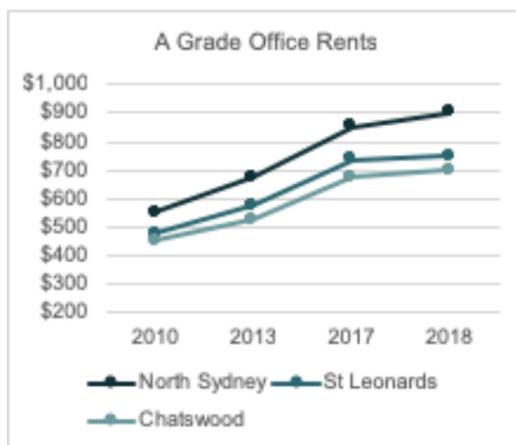
As a result of falling vacancies, Prime and A Grade rents have been rising sharply, with rents in the City now exceeding \$1,500/sqm. In North Sydney, A Grade rents are over \$900/sqm and rising.

Demand for B Grade space is equally strong with rents in North Sydney reaching \$700/sqm - \$750/sqm and in St Leonards and Chatswood \$550/sqm - \$600/sqm. This represents growth of over 6% p.a. since the low point of 2010.

Rents have grown at over 6% p.a. since 2010.

Increased rents would normally lead to an increase in supply in the form of new developments and major refurbishments. While there are three developments under construction in North Sydney each has a significant level of pre-commitment.

New refurbishments are equally limited as many older buildings in areas such as St Leonards have been redeveloped for residential. This withdrawal of stock is unprecedented and a significant reason why vacancy rates have fallen so low and will remain low for some time.



Office rents for older buildings, that don't have modern amenities have seen less growth and rents remain at a much lower level.

Some of these are in locations where re-development for residential is planned and owners have understandably been reluctant to spend money on upgrades.

Where re-development is not planned we should see more office refurbishments take place as owners see the potential to achieve much higher rents.

Tenant Activity Fans Out

With B Grade rents in North Sydney starting at \$700/sqm we are seeing an increase in enquiry for St Leonards, Chatswood and Lane Cove where good quality offices can be secured at more competitive rents.

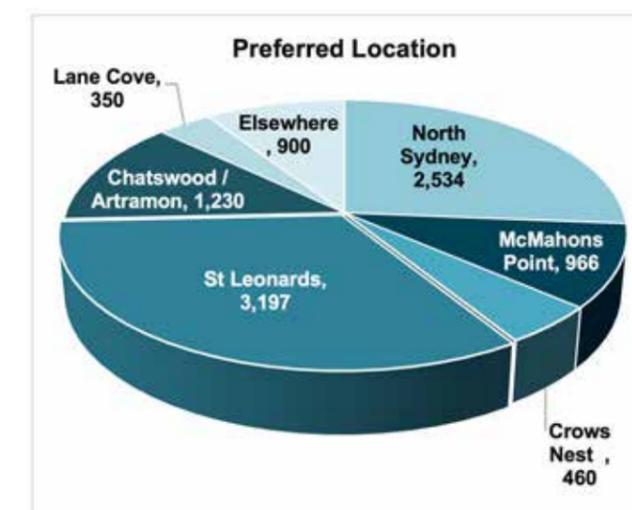
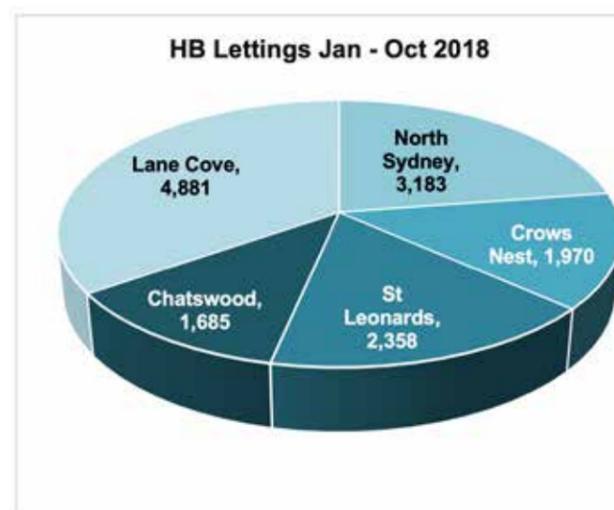
At the end of October our leasing teams in North Sydney and Chatswood were dealing with over 9,600sqm of active tenant enquiry of which over 50% was directed towards these locations.

Over 9,600sqm of active tenant enquiry

Recent office lettings in these areas include:

| Address | Sqm Leased | Gr Rent /sqm |
|--------------------------------|------------|---------------|
| 39 Chandos Street, St Leonards | 350sqm | \$570/sqm |
| 407 Pacific Highway, Artarmon | 292sqm | \$415/sqm |
| 1-5 Railway Street, Chatswood | 8 deals | \$550-610/sqm |
| 11 Help Street, Chatswood | 315sqm | \$512/sqm |
| 71 Longueville Road, Lane Cove | 320sqm | \$500/sqm |
| 7-9 Orion Road, Lane Cove West | 676sqm | \$300/sqm |
| 25 Sirius Road, Lane Cove West | 380sqm | \$305/sqm |

407 Pacific Highway, Artarmon



Recent Sales

617 Harris Street, Ultimo

Sale in due diligence.



423-427 Harris Street, Ultimo



47a Penrose Street, Lane Cove

Freehold sold \$3.6m.



Sales Activity

The sales market has seen low selling volumes as private owners have generally preferred to hold even though prices have been at record levels. There has also been a slow-down in the sale of major assets (\$10m+) with just over \$1.1bn of major North Shore sales this year compared with \$3.5bn of transactions in 2017.

The pull back in lending by the main banks is having some impact on private investors but there is still more demand than there are commercial owners looking to sell.

The downturn in the residential market has had some impact on areas where commercial prices were driven by developers buying to develop residential. Reduced demand from developers may give commercial buyers more opportunities in these areas in the next 12 months.

Sale volumes have been down due to owners being reluctant to sell despite record prices

Sales Activity

As mentioned on page 8, an increase in commercial rents and values is prompting developers and property owners to look at potential sites for new office developments. So far this has been focused on the main CBD's but will radiate out to suburban markets as rents and capital values continue to rise.

For large A Grade, office buildings in North Sydney prices have reached \$17,000/sqm and for a new development the capital price would be higher. In Sydney CBD a new development on George Street sold at a capital rate in excess of \$30,000/sqm.

B Grade office buildings in North Sydney have been sold at rates of around \$12,000/sqm and in St Leonards and Chatswood at around \$10,000/sqm.

There has been limited sales of smaller, suburban buildings but prices are generally in the range of \$5,000 to \$8,500/sqm depending on condition and location. Crows Nest which has the benefit of the future Metro would be at the top of this range.

Older style industrial buildings with loading are in strong demand with Artarmon recording some strong sale prices.

We have been active across the Sydney market with recent sales including:

617 Harris Street & 423-427 Harris Street, Ultimo – Two freehold properties on the City Fringe operating as Student Accommodation. We have recently closed EOI's and are in due diligence with a selected buyer. 617 Harris Street comprises a 4 storey building on a 220sqm site. 423-427 Harris Street comprises 3 terraces on a single title of 341sqm. The properties are close to numerous private colleges and universities.

47a Penrose Street, Lane Cove – Two storey freehold office of 717sqm on a site of 1,100sqm. Sold for \$3.6m. The property was sold fully leased following our letting of a vacant office of 162sqm. The property has been acquired with cash flow and future development potential.

55 Blaxland Road, Campbelltown – Main road, retail warehouse on a site of 2,023sqm. Sold for \$2.6m. The property is leased to a single tenant to 2019 with a further 3 year option and was sold at a tight yield of under 4% net.

We have a number of sales campaigns due to commence in the first quarter of 2019.



The continuing strength of the core office markets is prompting owners and developers to look at options for developing new office buildings with a number of sites being considered in North Sydney.

Vacancy rates are low and likely to remain tight for the next couple of years as new supply is running at modest levels.

North Sydney has three office developments under construction, which is higher than would be normal however all have significant levels of pre-commitment.

| Development | Size sqm | Completion | Pre-Commitment |
|------------------|----------|------------|---|
| 100 Mount Street | 42,134 | 2019 | 58% Pre-committed with NBN taking 20,364sqm |
| 1 Denison | 58,000 | 2020 | 40% Pre-committed to Channel 9 & SAP – It is expected that Fairfax will also relocate here following their take over by Channel 9 |
| 118 Mount Street | 20,000 | 2020 | 60% Pre-committed to owner Zurich Insurance |

In the Sydney CBD, the immediate supply pipeline is very tight with only one development due for completion this year which is 83% leased. There are two developments scheduled for completion in 2019 adding 45,900sqm, of which 10,000sqm is pre-committed.

Finding viable development sites in the established CBD's is not easy and will involve the acquisition of large, existing buildings. In many cases adjoining sites need to be amalgamated which adds to the complications and time required.

In North Sydney a number of older strata buildings are being touted as potential development sites as strata owners and developers use the new strata legislation to promote whole of strata sales.

Given the time line for assembling a site, securing consents and construction, any site that is being considered today is unlikely to reach the market for a few years. This will keep downward pressure on vacancy rates and upward pressure on rents.

A recent report by BIS Oxford Economics forecasts vacancy rates in Sydney CBD will fall to 3% and 4.5% in the wider Metropolitan market.

With vacancy rates at these levels it is no surprise that developers are looking to provide new buildings for the next cycle

Getting a new development out of the ground is a lengthy process which will ensure that vacancy rates remain low for some time.

Strata office prices have continued to climb during 2018 and have reached \$9,000/sqm in North Sydney and St Leonards with higher prices being paid where there is development potential.

Like the freehold market, sale volumes have been low as owners have been happy to hold as prices rise. As a result, demand from owner occupiers and investors exceeds supply, and this is adding to the pressure on prices.

Rising rents and the growth of personal superannuation are adding to demand as owner occupiers seek to fix their occupancy costs and purchase a long-term asset.

The NSW Government's changes to strata legislation, that came into effect 2 years ago have encouraged developers to target entire strata buildings for re-development. In many cases strata owners have organised whole of building sales with a view to securing a premium over market prices.

Initially developer interest was focused on strata buildings in locations where residential was possible. In Crows Nest sales have reached over \$12,000/sqm for strata close to the future Metro Station.

Developers are now looking at strata buildings as potential sites for large scale office development which in some cases is delivering windfall gains to owners.

Recent strata sales have included:

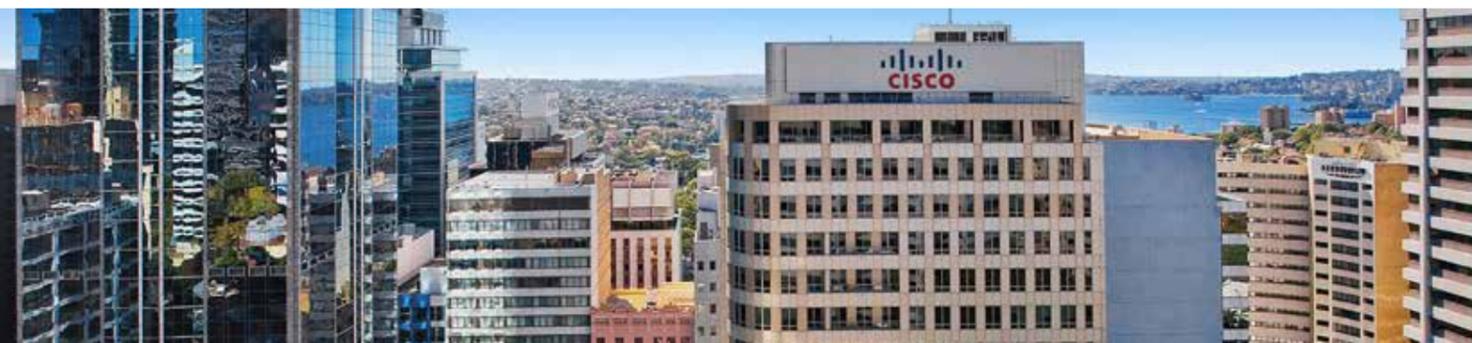
L8, 83 Mount Street, North Sydney

Excellent strata office of 125sqm + 1 car space sold for \$1.32m.

L2, 30 Atchison Street, St Leonards

Corner strata office of 318sqm + 2 car spaces sold for \$2.05m

Having targeted strata buildings for residential developers are now looking at redeveloping older strata buildings for offices.



Our management team looks after more than 60 properties across the North Shore ranging from individual properties to large multi-leased office buildings.

Our portfolio extends right across the North Shore including North Sydney, Crows Nest, St Leonards and Chatswood as well as properties in Lane Cove, Epping, Northbridge and Manly.

Complying with an increasing number of government regulations is a significant part of our role. While acknowledging the importance of compliance, we understand that owners want this to be done as cost effectively as possible and that consultants need to justify what is being recommended.

Our management team works closely with our leasing agents to ensure that vacancies are filled as quickly as possible and that rents and cash flow is maximised.

At 7-9 Orion Road, Lane Cove we have leased over 3,000sqm in 3 transactions resulting in the building being fully leased.

65 Walker Street, North Sydney



68 Alexander Street, Crows Nest



55 Chandos Street, St Leonards



407 Pacific Highway, Artarmon



11 Help Street, Chatswood



7-9 Orion Road, Lane Cove



North Sydney

| Street | Sq M | Gr Rent PSM |
|-------------------------------------|------|-------------|
| Suite 203, 65 Walker Street | 67 | \$625.0 |
| 3-5 West Street, North Sydney | 171 | \$620.0 |
| 53 Walker Street, North Sydney | 340 | \$550.0 |
| 110 Pacific Highway, North Sydney | 61 | \$675.0 |
| 65 Walker Street, North Sydney | 65 | \$625.0 |
| 20 Cliff Street, Milsons Point | 167 | \$450.0 |
| Suite 104, 110 Pacific Highway | 41 | \$675.0 |
| 58 Victoria Street, McMahon's Point | 750 | \$480.0 |
| 53 Berry Street, North Sydney | 242 | \$720.0 |
| 275 Alfred Street, North Sydney | 104 | \$650.0 |
| 110 Walker Street, North Sydney | 405 | \$702.0 |
| 83 Walker Street, North Sydney | 136 | \$400.0 |
| 8 West Street, North Sydney | 278 | \$582.0 |
| 8 West Street, North Sydney | 276 | \$582.0 |
| 71 Walker Street, North Sydney | 80 | \$650.0 |

Crows Nest

| Street | Sq M | Gr Rent PSM |
|----------------------------------|------|-------------|
| 7-11 Clarke Street, Crows Nest | 55 | \$471.0 |
| 68 Alexander Street, Crows Nest | 25 | \$416.0 |
| 270 Pacific Highway, Crows Nest | 70 | \$315.0 |
| 107 Alexander Street, Crows Nest | 35 | \$510.0 |
| 107 Alexander Street, Crows Nest | 40 | \$511.0 |
| 270 Pacific Highway, Crows Nest | 124 | \$350.0 |
| 68 Alexander Street, Crows Nest | 45 | \$425.0 |
| 59 Hume Street, Crows Nest | 72 | \$347.0 |
| 59 Hume Street, Crows Nest | 57 | \$438.0 |
| 7-11 Clarke Street, Crows Nest | 26 | \$535.0 |
| 64 Alexander Street, Crows Nest | 180 | \$400.0 |
| 90 Alexander Street, Crows Nest | 46 | \$480.0 |
| 31-35 Hume Street, Crows Nest | 145 | \$242.0 |
| 306 Pacific Hwy, Crows Nest | 450 | \$450.0 |
| 27 Willoughby Road, Crows Nest | 110 | \$218.0 |

St Leonards

| Street | Sq M | Gr Rent PSM |
|-----------------------------------|------|-------------|
| 38 Oxley Street, St Leonards | 169 | \$450.0 |
| 120 Christie Street, St Leonards | 305 | \$585.0 |
| 33 Atchison Street, St Leonards | 106 | \$300.0 |
| 30 Atchison Street, St Leonards | 115 | \$500.0 |
| 14-16 Chandos Street, St Leonards | 518 | \$480.0 |
| 55 Chandos Street, St Leonards | 317 | \$350.0 |
| 33 Atchison Street, St Leonards | 145 | \$300.0 |
| 39 Chandos Street, St Leonards | 140 | \$530.0 |
| 71 Chandos Street, St Leonards | 88 | \$300.0 |
| 39 Chandos Street, St Leonards | 350 | \$572.0 |
| 1 Chandos Street, St Leonards | 105 | \$520.0 |

Artarmon / Chatswood

| Street | Sq M | Gr Rent PSM |
|-------------------------------|------|-------------|
| 44 Hampden Road, Artarmon | 150 | \$520.0 |
| 44 Hampden Road, Artarmon | 320 | \$520.0 |
| 1-5 Railway Street, Chatswood | 90 | \$600.0 |
| 11 Help Street, Chatswood | 189 | \$522.0 |
| 10 Help Street, Chatswood | 83 | \$400.0 |
| 1-5 Railway Street, Chatswood | 238 | \$600.0 |
| 1-5 Railway Street, Chatswood | 75 | \$610.0 |
| 1-5 Railway Street, Chatswood | 75 | \$610.0 |
| 13 Spring Street, Chatswood | 125 | \$325.0 |
| 1-5 Railway Street, Chatswood | 90 | \$610.0 |
| 1-5 Railway Street, Chatswood | 210 | \$550.0 |



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