

# Market Pulse

North Shore Office Market

— Cadigal Research  
March 2023

Cadigal







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# Key Data At A Glance

		CHANGE LAST 12 MONTHS	EXPECTED CHANGE NEXT 12 MONTHS
<b>SUPPLY</b>			
<b>Total Stock*</b> (sqm, as at Jan-23)	<b>1,530,032</b>	↔	↑
North Sydney	918,143		
Crows Nest/St Leonards	340,886		
Chatswood	271,003		
<b>Completions*</b> (sqm, 6 months to Jan-23)	<b>21,000</b>	↔	↑
<b>Net Supply*</b> (sqm, 6 months to Jan-23)	<b>-7,101</b>	↔	↑
<b>DEMAND</b>			
<b>Net Absorption*</b> (sqm, 6 months to Jan-23)	<b>-12,551</b>	↔	↑
North Sydney	-2,642		
Crows Nest/St Leonards	-7,965		
Chatswood	-1,944		
<b>Tenant Enquiry</b> (sqm, as at Dec-22)	<b>58,990</b>	↓	↑
<b>VACANCY</b>			
<b>Vacancy Rate*</b> (% , as at Jan-23)	<b>19.4</b>	↑	↔
North Sydney	19.2		
Crows Nest/St Leonards	20.9		
Chatswood	18.3		
<b>Sublease Availability</b> (sqm, as at Dec-22)	<b>33,375</b>	↓	↔
<b>RENTS</b>			
<b>Net (Gross) Face Rents</b> (\$/sqm avg, as at Dec-22)			
<u>North Sydney</u>			
Premium	1,033N (1,199G)	↑	↑
A Grade	878N (1,025G)	↑	↑
B Grade	733N (877G)	↔	↔
<u>Crows Nest/St Leonards</u>			
A Grade	646N (792G)	↓	↔
B Grade	530N (670G)	↓	↔
<u>Chatswood</u>			
A Grade	659N (783G)	↑	↑
B Grade	537N (665G)	↓	↔
<b>Incentives</b> (% range, as at Dec-22)	33-38	↑	↔

\* Source: Property Council of Australia (PCA) Jan-23





## In Summary

There were no completions of major office developments on the North Shore over H2 2022 with total stock remaining static at 1.53 mil sqm.

There are four major projects under construction totalling 100,094sqm (6.5% of total stock) - three in North Sydney (88 Walker St, Blue & William and Victoria Cross) and one in St Leonards (558 Pacific Highway).

The North Shore recorded -12,551sqm of net absorption over H2 2022, an improvement on the -38,437sqm recorded in the prior period. However, the market has recorded three consecutive years of negative net absorption over 2020-2022.

There was 58,990sqm of tenant enquiry for the North Shore as at Dec-22, down 44% on the prior period and 64% below the 5-year average.

The overall North Shore vacancy rate edged up to 19.4% over H2 2022, within 50 basis points of the highest mark in 33 years.

Face rents grew 0.1% - 6.0% over 2022, with North Sydney seeing stronger growth and Crows Nest/St Leonards the weakest, whilst higher building grades, especially Premium, performed better than the lower grades.

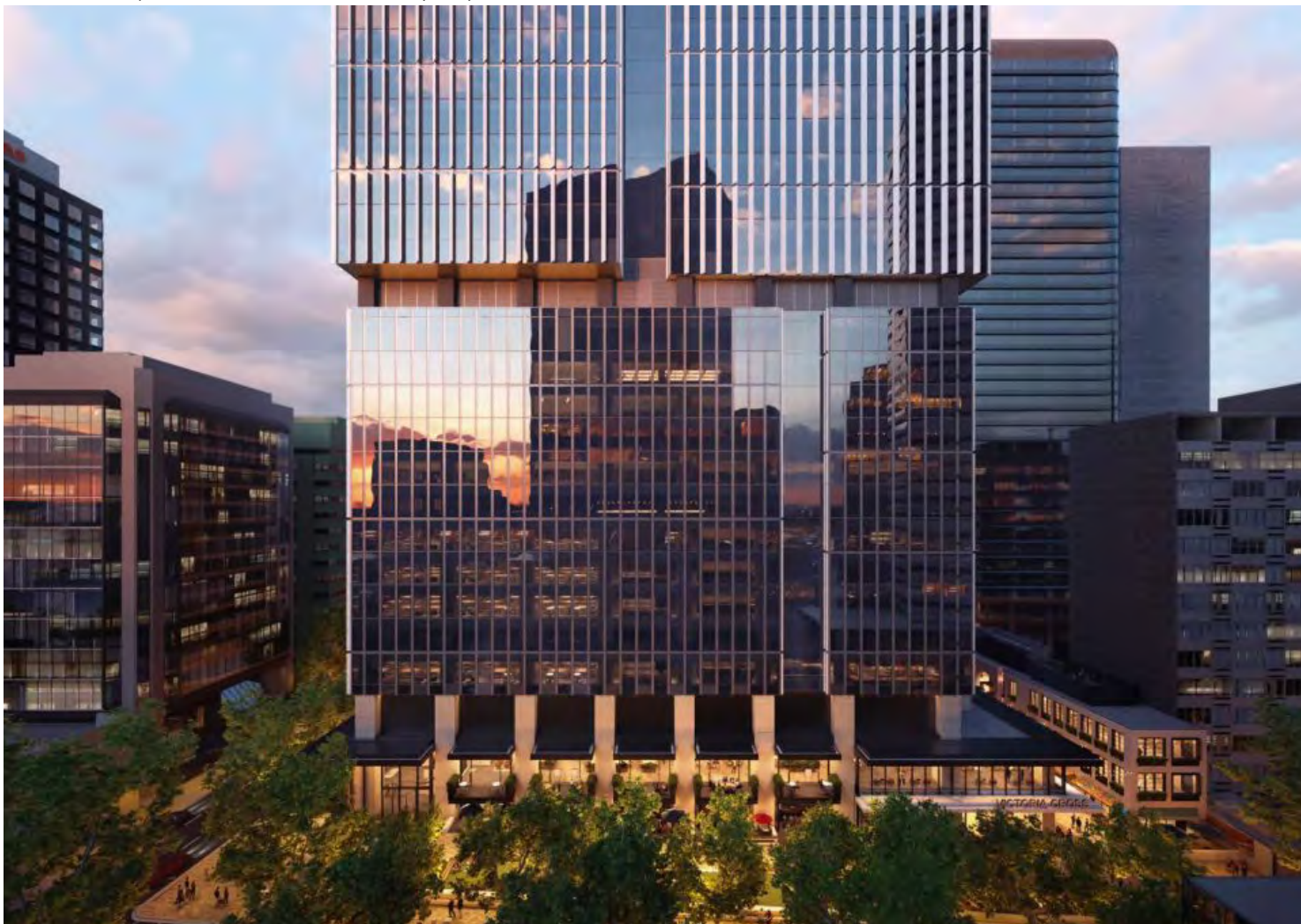
North Shore incentives rose over the 12 months to Dec-22, with lower incentives for North Sydney and higher in Crows Nest/St Leonards, as well as lower incentives in Premium and A grade space but higher for B grade.

Weak face rental growth plus further softening of incentives led to declining effective rents for B and A grade stock over 2022. But in Premium space, stronger growth in face rents offset the slight increase in incentives resulting in positive effective rental growth for the year.





New office developments currently under construction on the North Shore include Blue & William (above) and the Victoria Cross above-station development (below), both in North Sydney.





# Supply

## There were no completions of major office developments on the North Shore over H2 2022,

and as a result, total stock remained static at 1.53 mil sqm. The last major completion across the market was Dexus' North Shore Health Hub (15,750sqm NLA) in St Leonards over Q1 2021.

There are four major projects currently under construction totalling 100,094sqm of office NLA (or 6.5% of total North Shore stock) - three in North Sydney (**88 Walker St**, **Blue & William** and **Victoria Cross**)

plus one in St Leonards (**558 Pacific Highway**). Three of the four buildings are due to complete by mid-2023 with the largest, Lendlease's Victoria Cross over-station development, expected to be delivered at the end of 2024. Victoria Cross commenced construction during H2 2022 and when completed (Q4 2024) will see North Shore Premium grade stock having increased by 428% in the space of 6 years (Jan-19 to Jan-25).

Beyond the projects currently under construction there are a number of major developments proposed for the North Shore, totalling 318,086sqm (or 21% of current total stock). However, the majority of these are subject to tenant pre-commitment before proceeding.

### Major Office Developments Under Construction & Proposed

Project	Developer / Owner	Type	Office NLA	Precinct	Expected Completion	Comment
88 Walker Street	Bilbergia	New	13,602	North Sydney	Q1 2023	13,600sqm of office over 24 levels on top of a 252-room hotel. 10% committed to AirTrunk.
558 Pacific Highway	JQZ	New	16,738	St Leonards	Q1 2023	14-storey commercial tower, part of mixed-use development under construction. 7% pre-committed to A W Edwards.
Blue & William, 2 Blue Street	Lendlease / Keppel REIT	New	14,436	North Sydney	Q2 2023	10-storey boutique development currently under construction. 30% committed to Equifax.
Victoria Cross Metro Station OSD	Lendlease / APPF	New	55,318	North Sydney	Q4 2024	42-storey building over the future Victoria Cross Metro station to accommodate over 4,000 workers.
Affinity Place, 110 Walker Street	Stockland	New	59,000	North Sydney	Proposed	DA approved, consolidation of three B-grade buildings into 2,300sqm site.
105 Miller Street	Investa / Oxford	New	60,000	North Sydney	Proposed	DA submitted. Subject to DA approval and heritage listing.
29-57 Christie Street	Arrow / Starwood	New	24,100	St Leonards	Proposed	DA approved for two buildings of 8 storeys (8,500sqm) and 12 storeys (15,600sqm).
100-102 Walker Street	Pro-invest	New	38,000	North Sydney	Proposed	DA approval for 45-level timber and concrete building designed by Bates Smart.
Chatswood RSL 446 Victoria Avenue	Chatswood RSL	New	34,890	Chatswood	Proposed	Concept DA approved for commercial development above the Chatswood RSL Club.
Nicholson Place	Jemalong Property Group	New	c.30,000	St Leonards	Proposed	25-storey A grade development with 34,000sqm GFA and targetting 6-star Green Star. DA lodged, with planning proposal currently on exhibition.
Warada on Walker 63 Walker Street	Thirdi Group	New	25,226	North Sydney	Proposed	DA approval for 27-storey tower with 23 levels of office.
173 Pacific Hwy / 116 Miller Street	Maville	New	11,000	North Sydney	Proposed	DA approved for demolition of existing 4-storey building and construction of 33-storey tower.

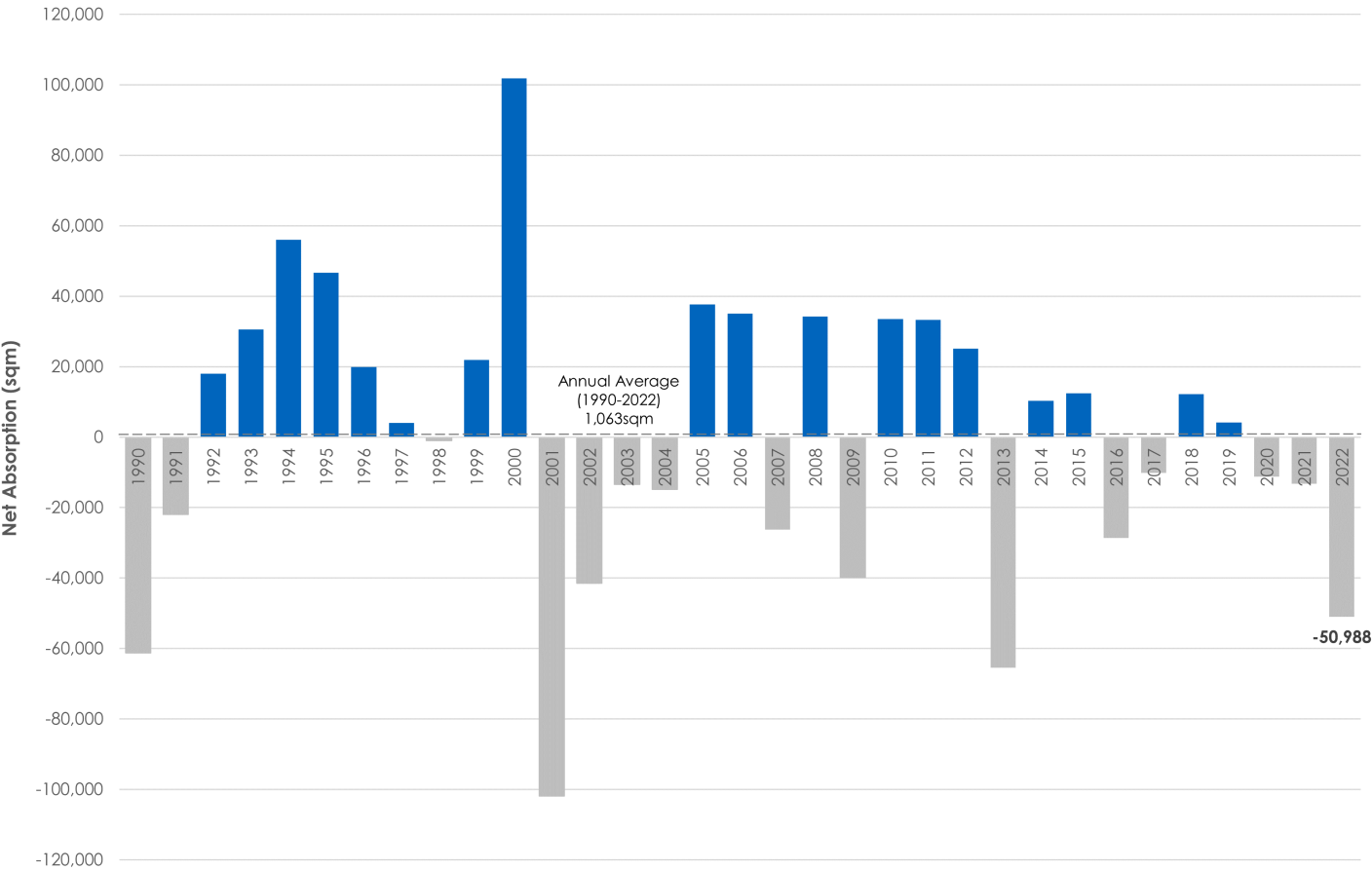
# Tenant Demand

## Net Absorption

Tenant demand, as measured by net absorption, continues to be weak across the North Shore with -12,551sqm tallied over H2 2022, an improvement on the -38,437sqm recorded in the prior period. However, 2022 marked three consecutive years of negative net absorption for the market, exceeded only by the four years 2001-2004 as the longest period of negative net absorption on record.

Total net absorption on the North Shore over the last 10 years (2013-2022) is -140,803sqm, in other words, there is 140,803sqm less occupied office space in Jan-23 than in Jan-13. Whilst net absorption was negative in each of the last three years (2020-2022), the total quantum was -75,468sqm, which is less than half the four-year total of -171,595sqm recorded over 2001-2004 in the aftermath of the dot-com crash.

Annual Net Absorption - North Shore 1990-2022



Source: PCA Jan-23





Net absorption was negative across all three major North Shore precincts over both 6-, and 12-, month periods (as was the case in the prior period).

Across the precincts, Crows Nest/St Leonards (-7,965sqm) was the worst performer whilst North Sydney recorded just -2,642sqm of net absorption despite contributing 60% of the North Shore's total office space.

## Driven by take-up in 1 Denison, Premium was the clear outperformer amongst the building grades

for net absorption, being the only grade to record positive net absorption in either 6- or 12-month periods. Total net absorption for the last three years (2020-2022) was positive for both Premium (57,893sqm) and A grade (9,045sqm), but negative for B (-106,056sqm), C (-36,212sqm) and D (-138sqm) grade stock, lending support to the flight-to-quality theme.

### Net absorption by precinct

Precinct	6 Months to Jan-23	12 Months to Jan-23
North Sydney	-2,642	-27,800
Crows Nest/St Leonards	-7,965	-14,964
Chatswood	-1,944	-8,224
<b>Sydney North Shore</b>	<b>-12,551</b>	<b>-50,988</b>

### Net absorption by building grade

Building Grade	6 Months to Jan-23	12 Months to Jan-23
Premium	13,797	4,569
A Grade	-14,114	-3,732
B Grade	-5,797	-36,777
C Grade	-6,135	-13,139
D Grade	-302	-1,909
<b>Sydney North Shore</b>	<b>-12,551</b>	<b>-50,988</b>

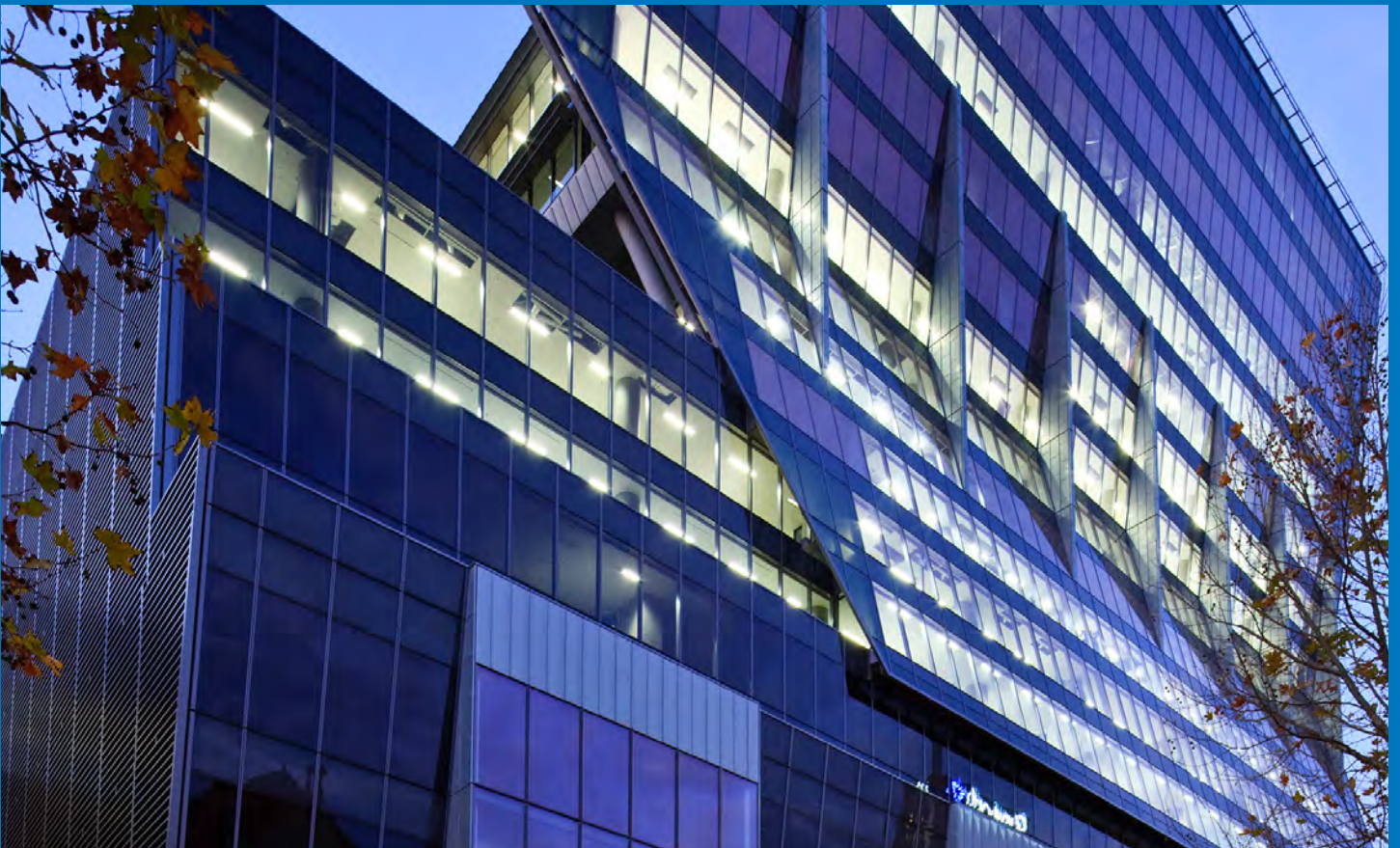
Source: PCA Jan-23



# Tenant Demand



Significant leasing activity has occurred recently at 100 Mount Street (above), 2 Blue Street and 40 Mount Street (below), all in North Sydney





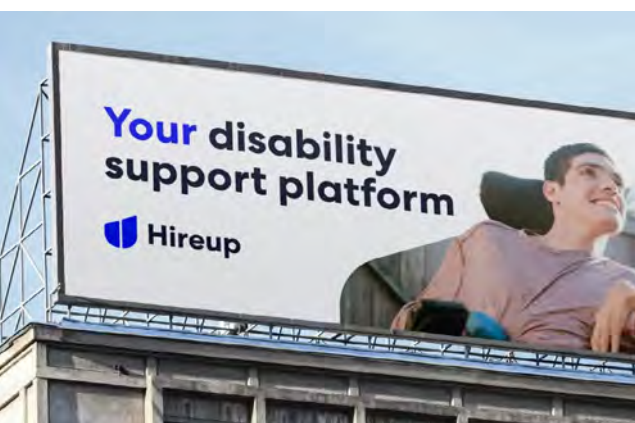
Despite continued weak net absorption, there has been a flurry of larger, multi-floor lease transactions recorded across the North Shore. Examples include pre-commitments to under-construction projects (**Equifax**, **AirTrunk**), subleases (**Hollard Insurance**) as well as direct leases in existing buildings (**SMEC**, **MLC Life** and **CrowdStrike**).

Most of the sample transactions listed in the table below involve tenants moving within the North Shore, apart from **Danone Nutricia** (from Macquarie Park). Whilst the list includes some significant reductions in leased area - **Equifax** (from 5,750sqm to 4,350sqm), **SMEC** (4,762sqm to 3,498sqm) and **MLC Life** (3,498sqm to 2,474sqm), it also included some examples of expansion - **Royal Caribbean** (from 639sqm to 1,427sqm) and **AirTrunk** (705sqm to 1,400sqm).

### Recent major lease transactions

Tenant	Address	Precinct	Level	Area (sqm)	LCD	Type
Hollard Insurance	100 Mount Street	North Sydney	2-8	8,444	Dec-23	Sub-lease
Equifax	Blue & William, 2 Blue St	North Sydney	5-7	4,350	Dec-23	Pre-Commit
SMEC	40 Mount Street	North Sydney	6-7	3,498	Aug-23	New
MLC Life Insurance	177 Pacific Highway	North Sydney	5-6	2,474	Jul-23	New
CrowdStrike	141 Walker Street	North Sydney	5, 8, pt.18, pt.22	1,800	TBC	New
Royal Caribbean	101 Miller Street	North Sydney	15	1,427	Dec-22	New
AirTrunk	88 Walker Street	North Sydney	45-47	1,400	TBC	Pre-Commit
Rhipe <sup>#</sup>	100 Arthur Street	North Sydney	18	1,371	Aug-22	New
AW Edwards	558 Pacific Highway	St Leonards	14	1,155	TBC	New
UGL <sup>#</sup>	12 Help Street	Chatswood	6-7	2,404	Mar-23	New
CMC Markets <sup>#</sup>	67 Albert Street	Chatswood	4	1,090	Nov-22	New
Danone Nutricia <sup>#</sup>	Zenith Tower B, 821 Pacific Hwy	Chatswood	12	1,039	Sep-23	New

<sup>#</sup> Cadigal was involved in these transactions



Enquiries recently coming to market on the North Shore include Ventia, Gallagher, Timezone's parent company TEEG, and Hireup.

# Tenant Enquiry

The quantum of tenant enquiry considering the North Shore has been substantially low,

albeit exhibiting significant volatility. Just 58,990sqm of enquiry was recorded as at Dec-22, down 44% on the Jun-22 figure (106,055sqm) and a mere 23% of the 253,525sqm tallied in Jun-17. Enquiry averaged 213,333sqm in the three years to Jun-20, but only 99,301sqm in the two-and-a-half years to Dec-22.

The current enquiry is comprised of 50 separate requirements, translating into an average enquiry size of 1,180sqm, the lowest average size in 5 years, reflecting the dearth of larger enquiries in the market.

Examples of more substantial enquiries to recently come to market on the North Shore include infrastructure services provider **Ventia** (seeking 3,400-4,400sqm, currently located in North Sydney), insurance and risk consultancy **Gallagher** (1,600-2,400sqm, North Sydney), family entertainment group **TEEG** (1,800-2,200sqm, North Sydney) and disability support platform **Hireup** (1,500-2,000sqm, St Leonards).

The breakdown of North Shore enquiry by industry sector shows **Architectural, Engineering & Technical Services** (22.9% of total enquiry), **Info Media, Telecomms & Related Services** (19.5%) and **Manufacturing** (16.4%) all featuring prominently in the current small sample size.

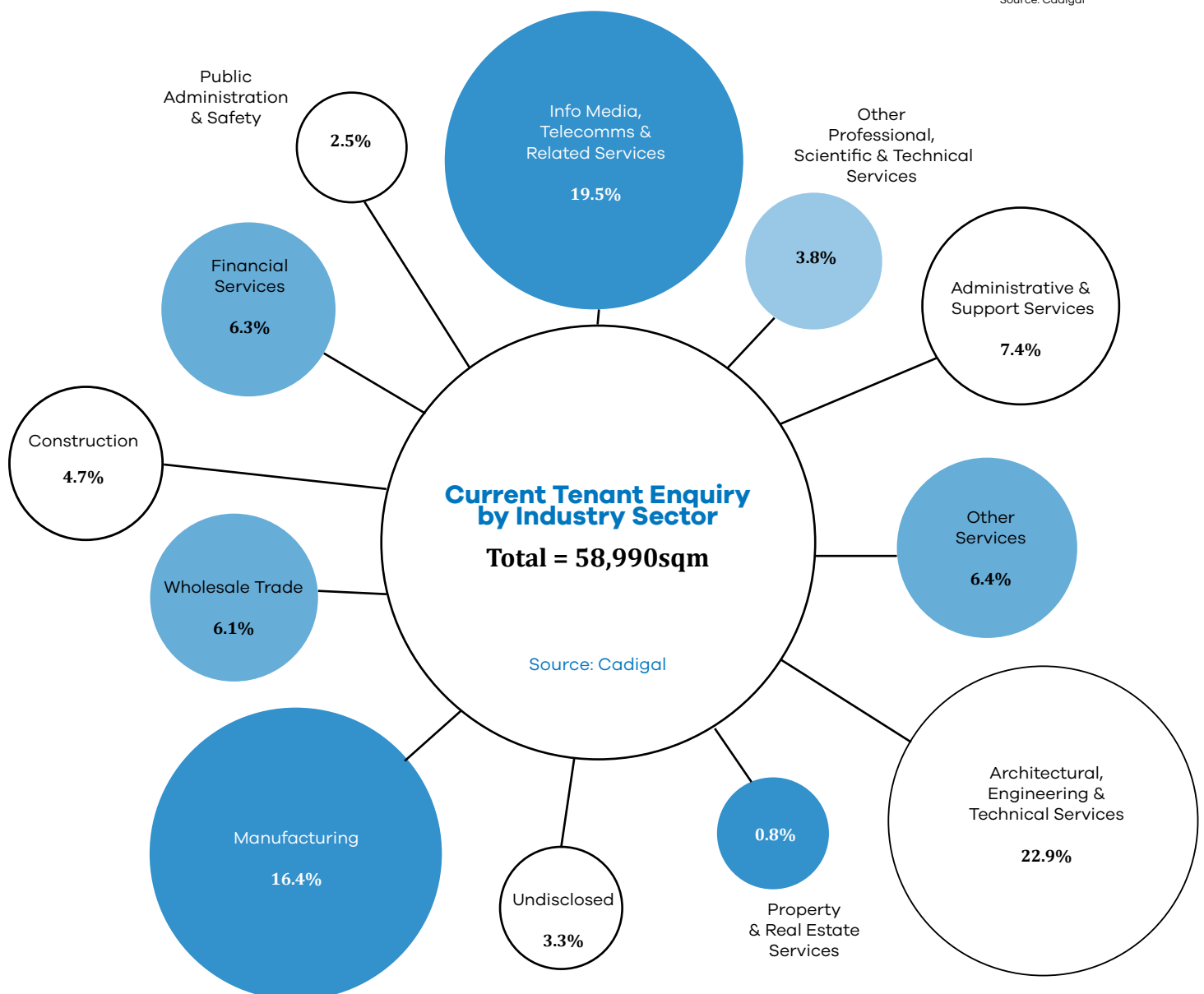
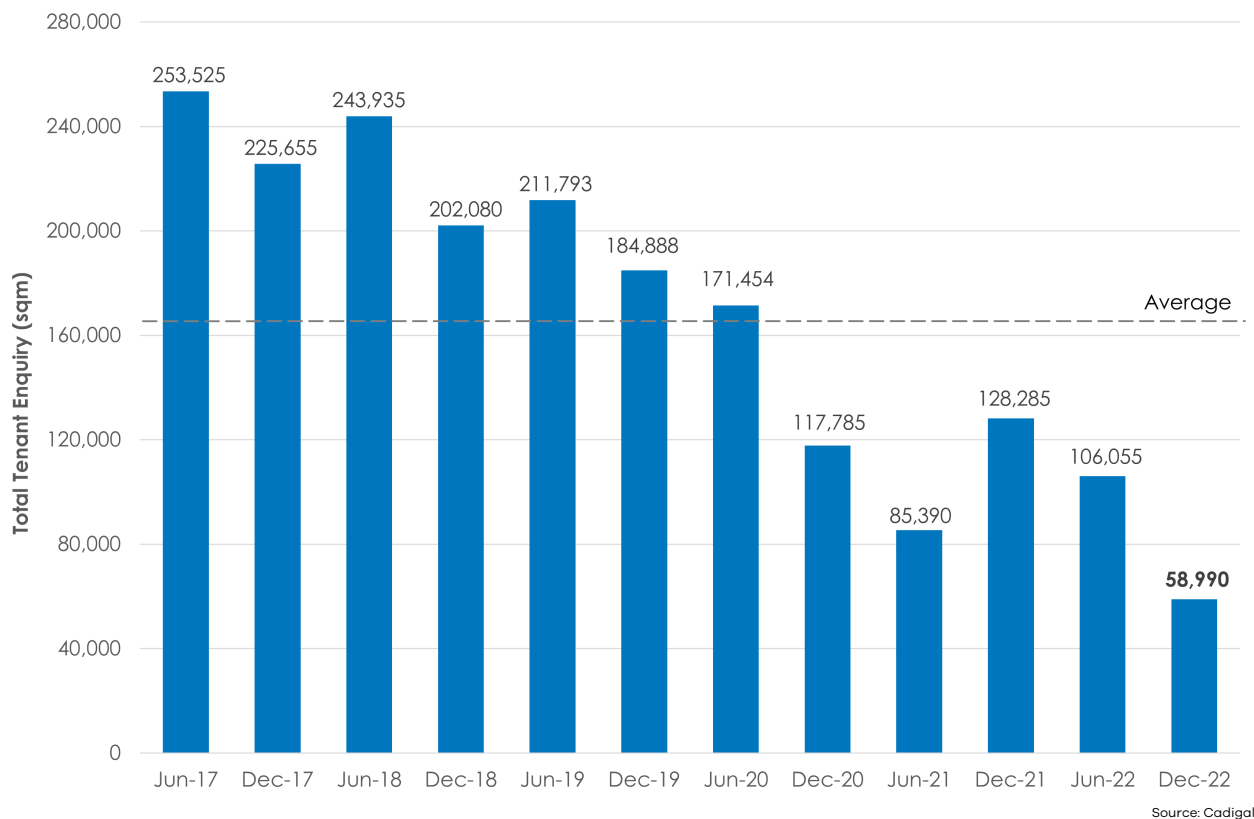
## Current Tenant Enquiry by Size - North Shore

ENQUIRY SIZE	AREA (sqm)	NUMBER
3,000sqm+	14,500	3
1,000-2,999sqm	32,550	18
500-999sqm	6,175	9
0-499sqm	5,765	20
<b>Total</b>	<b>58,990</b>	<b>50</b>

Data as at Dec-22



## Known tenant enquiry - North Shore



# Vacancy

The **overall North Shore vacancy rate** edged up further, to 19.4%, over H2 2022 and within 50 basis points of the highest mark in 33 years of records. With supply remaining static, the latest increase in vacancy rate was solely driven by negative net absorption.

The **Crows Nest/St Leonards** vacancy rate rising from 18.6% to 20.9% was the main driver behind the overall North Shore rate edging higher, as the **North Sydney** (19.2%) and **Chatswood** (18.3%) vacancy rates remained static over the second half of the year.

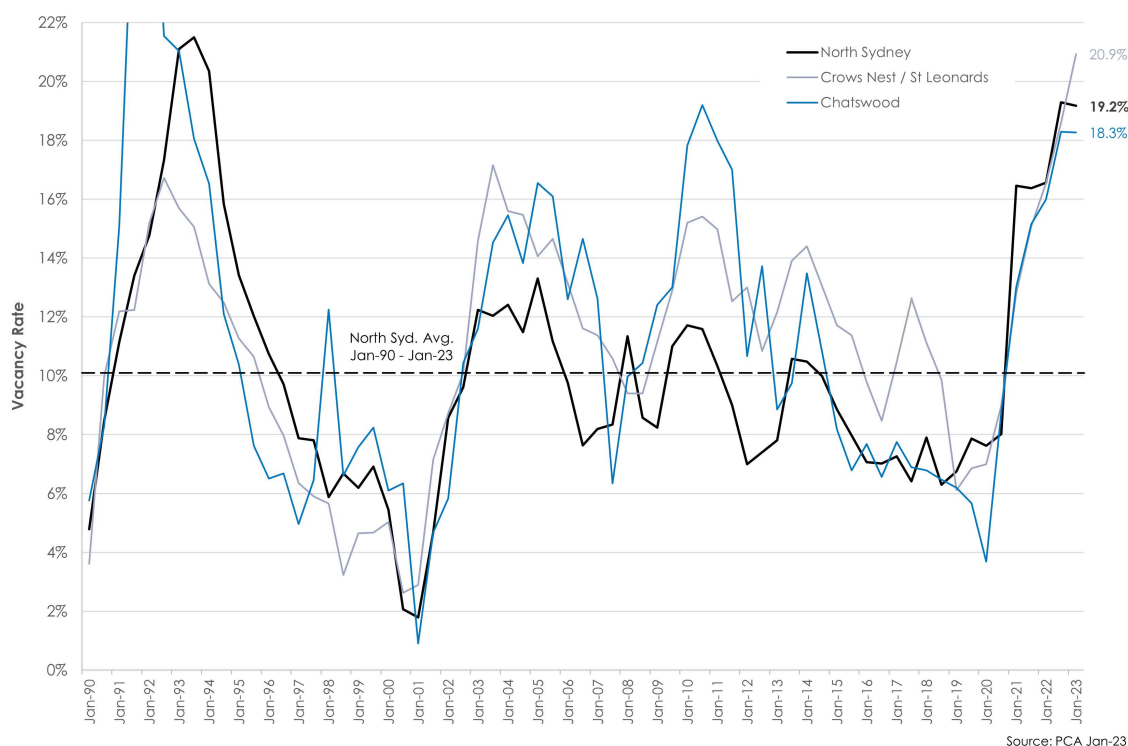
The vacancy rates across the building grades currently span a broad range, from 2.9% for Premium all the way up to 27.8% for B grade.

## The Premium vacancy rate dropped 1,000 basis points from 12.9% to 2.9% over H2 2022

and was the only building grade to record a fall in vacancy rate.

The amount of **available sublease space** across the North Shore remains well-contained, with 33,375sqm (2.2% of total stock) recorded as at Dec-22, down 10% on Jun-22. Substantial parcels of sublease space can be found at **177 Pacific Highway** (9,220sqm from TPG), at **101 Miller Street** (4,284sqm, Allianz) and **141 Walker Street** (1,934sqm, Worley Parsons), all located within the major North Sydney precinct.

Total vacancy rate (Jan 1990 - Jan 2023)



Vacancy Rate by Precinct

Precinct	As At Jan-23	As At Jul-22
North Sydney	19.2%	19.3%
Crows Nest/St Leonards	20.9%	18.6%
Chatswood	18.3%	18.3%
Sydney North Shore	19.4%	19.0%

Data as at Jan-23

Vacancy Rate by Building Grade

Building Grade	As at Jan-23	As at Jul-22
Premium	2.9%	12.9%
A Grade	18.8%	16.3%
B Grade	27.8%	26.8%
C Grade	14.1%	13.5%
D Grade	11.4%	10.1%
Sydney North Shore	19.4%	19.0%



# Rents

Growth in **face rents** across the North Shore has generally been weak, reflecting the high vacancy rates and soft tenant demand. Over the 12 months to Dec-22 face rents rose between 0.1% and 6.0%, with North Sydney seeing stronger growth and Crows Nest/St Leonards the weakest, whilst the higher building grades (especially Premium) performed better than the lower grades. Stronger face rental growth was witnessed over H2 2022 compared to the first half of the year.

Currently, **incentives** across the North Shore typically range between 33%-38% and are at higher levels than 12 months prior. Similar trends to face rents are being

witnessed in incentives i.e. lower incentives for North Sydney and higher in Crows Nest/St Leonards as well as lower incentives in Premium and A grade space, and higher for B grade.

Over 2022, weak face rental growth plus further softening of incentives has led to declining **effective rents** for B (-8.2% to -4.1%) and A (-8.7% to 3.6%) grade stock. However, stronger growth in Premium face rents offset the slight increase in incentives resulting in weak (but positive) effective rental growth of 2.3%-3.9% for the year.

## Rents by Precinct and Grade

	PREMIUM			A GRADE			B GRADE		
	Average Rate	6 months to Dec-22	12 months to Dec-22	Average Rate	6 months to Dec-22	12 months to Dec-22	Average Rate	6 months to Dec-22	12 months to Dec-22
<b>North Sydney</b>									
Net Face Rent	\$1,003	4.2%	5.3%	\$878	1.4%	0.7%	\$733	0.3%	0.3%
Gross Face Rent	\$1,199	4.0%	6.0%	\$1,025	1.8%	1.3%	\$877	0.1%	0.1%
Net Effective Rent	\$634	5.7%	2.3%	\$511	-0.5%	-3.6%	\$399	-1.6%	-5.2%
Gross Effective Rent	\$799	5.0%	3.9%	\$658	0.6%	-1.8%	\$544	-1.5%	-4.1%
<b>Crows Nest / St Leonards</b>									
Net Face Rent				\$646	0.0%	-1.5%	\$530	0.0%	-1.7%
Gross Face Rent	-	-	-	\$792	0.0%	-0.4%	\$670	0.0%	-1.3%
Net Effective Rent	-			\$345	0.0%	-8.7%	\$275	0.0%	-7.8%
Gross Effective Rent	-	-	-	\$491	0.0%	-5.0%	\$416	0.0%	-5.1%
<b>Chatswood</b>									
Net Face Rent				\$659	5.6%	6.1%	\$537	1.2%	-1.0%
Gross Face Rent	-	-	-	\$783	4.7%	5.1%	\$665	1.6%	-0.1%
Net Effective Rent				\$375	3.5%	3.6%	\$284	-3.6%	-8.2%
Gross Effective Rent	-	-	-	\$499	2.7%	2.7%	\$412	-1.6%	-4.7%
<b>North Shore</b>									
Net Face Rent	\$1,033	4.2%	5.3%	\$739	2.1%	1.5%	\$606	0.5%	0.4%
Gross Face Rent	\$1,199	4.0%	6.0%	\$879	2.1%	1.9%	\$743	0.5%	0.5%
Net Effective Rent	\$634	5.7%	2.3%	\$418	0.7%	-3.1%	\$324	-1.9%	-5.7%
Gross Effective Rent	\$799	5.0%	3.9%	\$558	1.0%	-1.5%	\$461	-1.2%	-3.8%

Data as at Dec-22

# Outlook



The total supply of North Shore office stock has remained relatively static over the last two years and with the majority (55%) of the 100,093sqm of NLA under construction not due until end-2024, supply will increase modestly in the next two years.

There are a number of new office projects with space totalling 21% of current stock proposed for the market, but the majority are not expected to proceed without substantial tenant pre- commitments.

Tenant demand on the North Shore remains weak and with similarly weak tenant enquiry, a pick-up in demand is not foreseen in the near-term. We expect tenant enquiry to improve over the medium term as companies land on their future real estate strategies and staff numbers returning to the office increase.

Whilst vacancy rates rose further in Crows Nest/St Leonards, they plateaued in both North Sydney and

Chatswood over H2 2022. Although tenant demand is expected to continue to be weak in the near-term, modest new supply will help contain further increases in vacancy rates through to 2024. The flight-to-quality theme, together with the current low Premium vacancy rate, will put added upward pressure on B grade vacancy.

The amount of available sublease space on the North Shore is currently low and relatively stable to which we don't see significant changes over the near-term.

Effective rents declined materially over 2022 in B grade space, less so for A grade and saw weak positive growth in Premium. Whilst B grade vacancy rates remain high across the market, effective rents will continue to experience downward pressure. But with lower A grade vacancy, together with an extremely low Premium vacancy rate (2.9%), an end to falling A grade effective rents is expected.

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