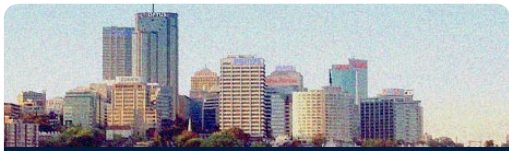


# North Sydney Demand Study



prepared for:  
North Sydney Council and  
The Property Council of Australia

November 2004



## North Sydney Demand Study

### Preface

The North Sydney Council and The Property Council of Australia have jointly commissioned UrbisJHD to undertake a research project into the demand drivers of the North Sydney commercial market. The aims of this project are;

1. To develop a research report that backgrounds property investment and development and gauges investor and tenant sentiment of the North Sydney CBD.
2. To provide the Property Council and North Sydney Council with research information for public policy and marketing strategies designed to encourage long term business commitment to, and property investment and redevelopment in North Sydney CBD.
3. To provide the Council and property investment community with an investment profile of the North Sydney CBD.
4. To reinforce the profile of North Sydney CBD with the property investment sector.

Any enquiries regarding this study or other property related matters should be directed to;

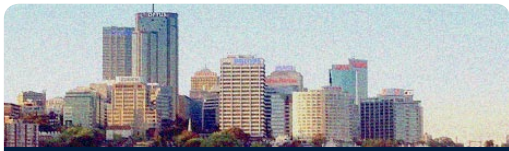
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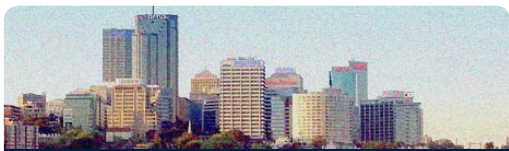
Tel + (02) 8233 9900



## North Sydney Demand Study

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## Attachments



## North Sydney Demand Study

### 1.0 Executive Summary

North Sydney Council and the Property Council of Australia commissioned UrbisJHD to undertake a research project into the demand drivers of the North Sydney commercial office market. This report analyses the results of surveys of tenants and investors in North Sydney, and makes recommendations to North Sydney Council for maintaining the economic status of the CBD.

North Sydney is one of Australia's key commercial markets, however tenant demand has softened recently with extended vacancies and lowered returns. High exposure to the technology sector and the 2001 crash contributes to the subdued performance.

Whilst there are currently two projects supplying 57,000m<sup>2</sup> underway on a speculative (uncommitted) basis, a lack of recent commercial development has biased existing stock towards older style buildings of mixed quality and a low proportion of 'A' and premium grade. The existing commercial buildings do not have large floor plates that are available in the emerging markets such as North Ryde. However with a relatively small median tenancy size of 481m<sup>2</sup> large floor plates may not be a fundamental demand driver.

An unusually high proportion of workers reside in North Sydney, with a majority located in the 'northern' sector of Sydney. Even so there is limited entertainment and no discount department store in the CBD, with the existing retail offering merely focussed on the needs of workers.

Comprehensive surveys were undertaken to gauge both tenant and investor sentiment.

Tenants indicated that they were most influenced in their choice of office space by cost, public transport, corporate image and availability of parking. Train and private car predominate workers' transport and as such the station upgrade and better knowledge of the existing car spaces are important issues, particularly when considered within the North Sydney competitive set of Sydney, St Leonards, Chatswood and North Ryde. Many tenants have taken advantage of the softer market conditions to upgrade the quality of their space, however there has been a steady outflow to alternate locations due primarily to cost and rationalisation. North Sydney's commercial environment remains under pressure with nearly two thirds of all tenancies expiring in the next two years.

Investors see North Sydney as a sound investment market. Their long-term view is uncertain, particularly in light of competition from emerging markets that have more flexible planning controls (especially on-site parking) which may erode North Sydney's commercial pricing. These factors combined with additional costs such as levies (parking and rail station) lower the potential return from development in North Sydney. Both investors and tenants felt that the CBD needed to be reinvigorated and for this reason the proposed Public Domain program is important.

The North Sydney CBD is to face numerous short term challenges. This report presents a detailed analysis of the challenges facing North Sydney, including the recommendations to North Sydney Council:

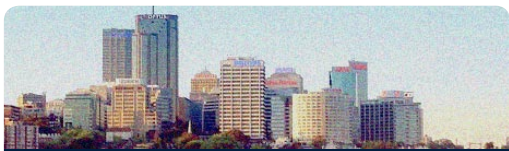
1. In partnership with the Property Council, develop a comprehensive marketing strategy to publicise the benefits of the North Sydney CBD to existing and potential tenants, investors, building owners and managers. This should include a detailed analysis of the trends in the major user groups in North Sydney, namely the property and business services sectors, targeting marketing of potential new users from those sectors.



## North Sydney Demand Study

2. Investigate creating a dedicated Council resource to actively support the North Sydney CBD and key revitalisation and investment projects. This resource would deliver the marketing strategy for the North Sydney CBD, as well as provide assistance to prospective tenants and investors in the CBD.
3. Ensure the delivery of the current CBD Public Domain Strategy by allocating Council funds to ensure the timely delivery of works and balance the reliance on income from development contributions. Consider additional funding mechanisms for the Public Domain Strategy.
4. Continue to protect the commercial and employment future of the North Sydney CBD by retaining the existing residential exclusion in the core, but invigorate the northern edge and the non commercial core of the city to support residential growth.
5. Investigate the development of a comprehensive “Living CBD” program to bring greater life into the city centre. This could include encouraging alternate retail and entertainment offerings, particularly outside standard business hours. This program should promote North Sydney’s lifestyle assets such as close proximity to Sydney Harbour, North Sydney pool, ovals and parks.
6. Develop a comprehensive traffic and transport management plan for the North Sydney CBD, incorporating:
  - a. Mitigation of the impact of through-traffic on the North Sydney CBD through calming or removal.
  - b. Promotion of greater public transport use and viability.

Lobbying the State Government to ensure the Railway Station upgrade proceeds in a timely manner and delivers the best outcomes for North Sydney tenants, investors and residents.
  - c. Investigate the cost to development and the competitive imbalance created within North Sydney by the various levies such as State Government parking and Railway station upgrade. Pressure for direct return of State Government levies.
  - d. Lobbying the State Government for the expenditure of 50% of the compulsory parking levy in the North Sydney CBD.
  - e. Promotion of the availability (location) and accessibility (visibility) of visitor and commuter parking.
  - f. Review of the DCP parking controls for new buildings.
7. Investigate the impact of State Government levies (parking and railway station upgrade) on the competitiveness of new development in North Sydney.
8. Continue to work closely with the State Government to reinforce the importance of the North Sydney CBD and its role within the emerging Metropolitan Strategy. North Sydney’s important position as the centre of Sydney’s “global arc” and second largest employment centre should be strongly emphasised.
9. Continue to monitor existing planning controls to ensure quality outcomes are achieved for the long term benefit of the CBD.
10. Prioritise and publicise the study and its recommendations in recognition of the short term challenges facing the CBD.



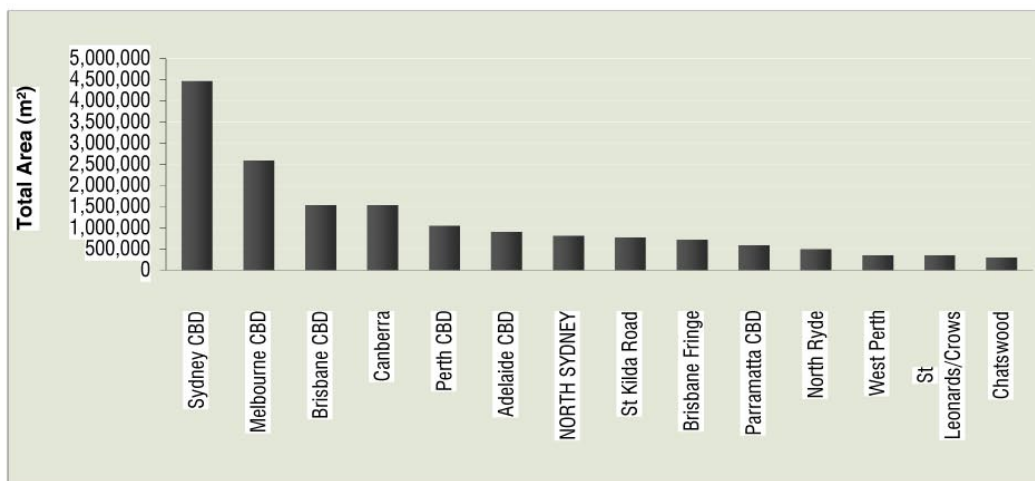
## North Sydney Demand Study

# 2.0 North Sydney Office Supply

## 2.1 Size of market

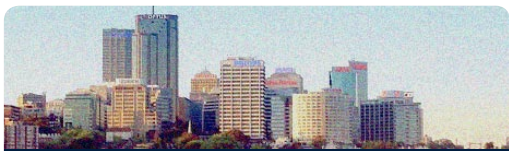
The North Sydney CBD office market comprises approximately 806,592m<sup>2</sup> of net lettable area (NLA) that includes McMahon's Point, Kirribilli and Milsons Point. For the purpose of this study these latter areas have been excluded to confine the area to prime North Sydney. On this basis the total commercial market is 738,286m<sup>2</sup> inclusive of strata stock (or 511,372m<sup>2</sup> exclusive of strata stock). A size comparison of North Sydney CBD with other major Australian office markets is provided below.

**Australian Major Office Markets Total Area (m<sup>2</sup>)**



Source :PCA, UrbisJHD

Fractured Sydney suburban markets have added additional floor space. Non-traditional commercial precincts such as Rhodes, Homebush Bay and Norwest continue to emerge adding additional floor space and supply. Government decentralisation to Parramatta will also add supply. The North Ryde commercial market is perceived to be limited to 'Research and Development' users. [Preliminary investigations reveal that there is potential for approximately 500,000m<sup>2</sup> further development surrounding the yet to be completed railway stations.] The draft LEP on exhibition at the moment makes allowances for up to 2,500,000m<sup>2</sup> of total space. This is clearly a large development supply pipeline that will compete directly with the North Sydney commercial market.

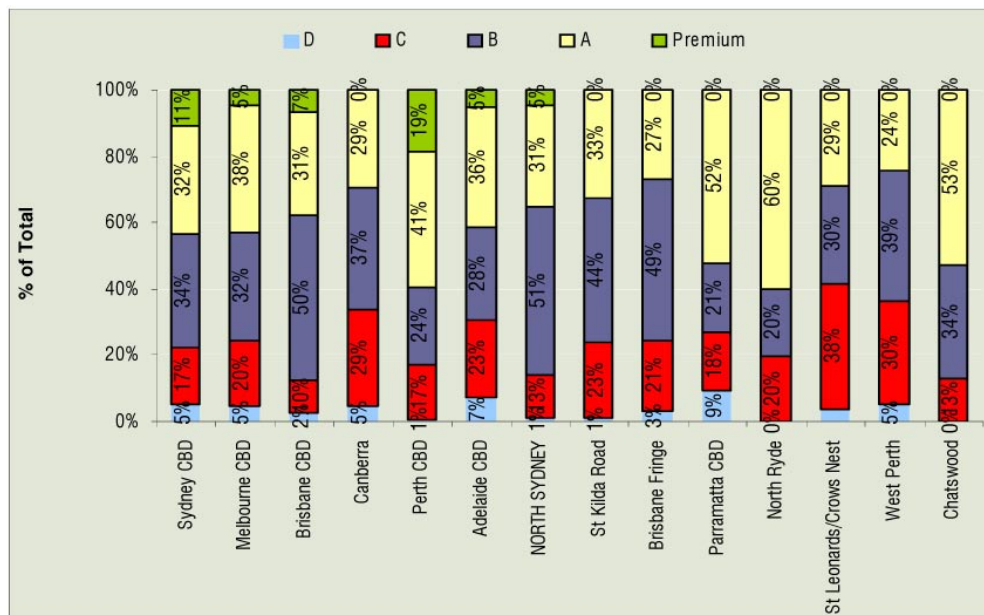


## North Sydney Demand Study

### 2.2 Office stock by grade

Secondary commercial space (B, C and D grade) comprises almost 65% of the total stock within North Sydney. This is a relatively high percentage when contrasted with nearby competing markets. Premium quality within North Sydney occupies 5% and 'A' grade 31% albeit this is predominantly older stock.

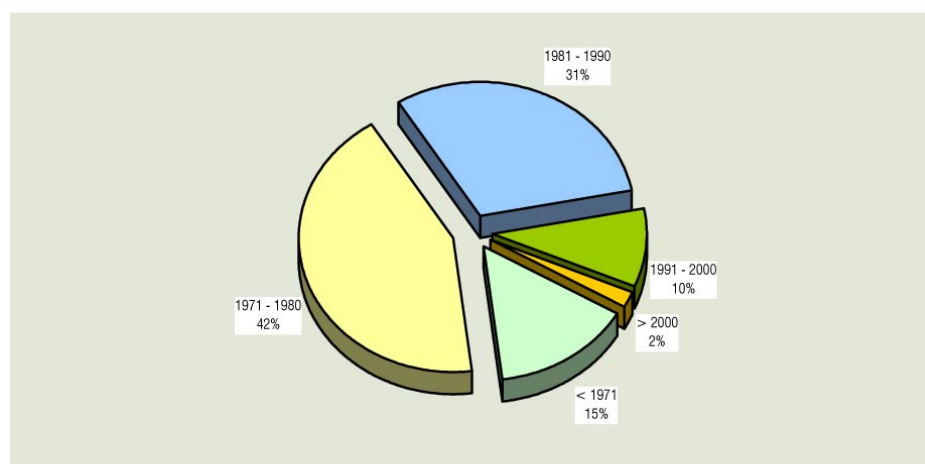
**Australian Office Market Apportionment of Accommodation by Grade**



Source : PCA, UrbisJHD

### 2.3 Age of stock

**Age of Office Stock by NLA**



Source : Citiscope, UrbisJHD



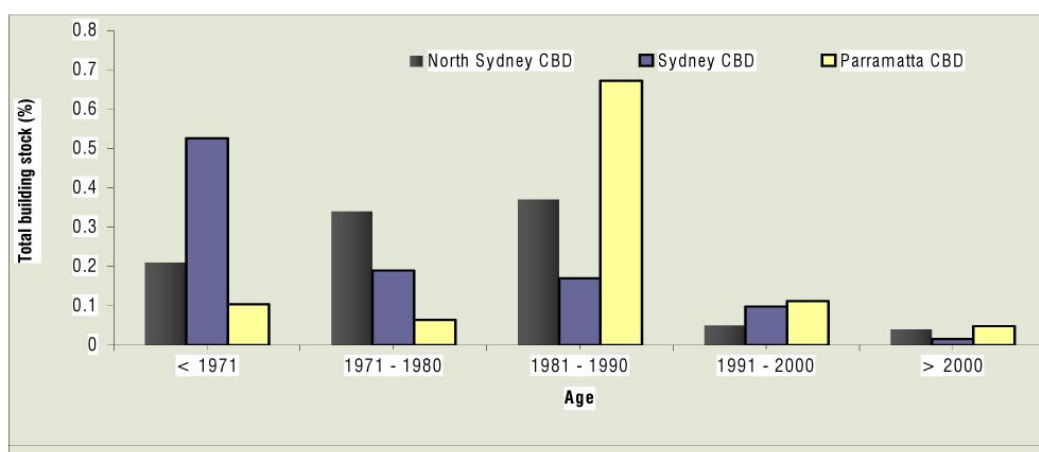


## North Sydney Demand Study

There is a low (12%) volume of buildings completed in the last decade however this is not dissimilar to other reference markets of Parramatta and Sydney. Of concern is the high representation (57%) of commercial stock that is almost 25 years or older. This is a significant volume of dated stock with Parramatta's majority (68%) stock spiked around two decades old. Given that there is now strong redevelopment potential in Parramatta and that much of Sydney's dated stock is refurbished then North Sydney may not be as competitive with age and quality of stock in the near future.

A 'pull forward' effect on building quality may occur when new stock is introduced to the market that causes tenants to relocate within that market. Obsolescence of existing buildings is hastened as tenants upgrade the quality of their space. The recent soft market has allowed this to occur within North Sydney, however there remains a relatively limited volume of premium and 'A' grade buildings that may compress demand within these grades.

**Age of Office Stock by Number - North Sydney, Sydney, Parramatta**



Source : UrbisJHD, Cityscope

The 'volume' of buildings clearly shows an age bias toward older buildings, however similar to alternate markets has experienced limited recent construction. There are significant precommitted developments to be completed over the near term in the alternate locations.

## 2.4 Existing Built Form

### Floor Plate Size (m<sup>2</sup>)

Mean	Median	>1,000m <sup>2</sup>
607	481	9%

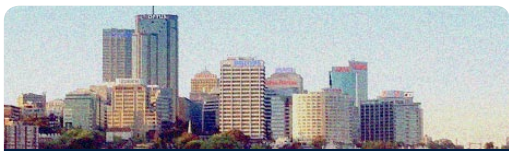
Source : Cityscope; UrbisJHD

### Building Size NLA (m<sup>2</sup>)

Total	Median	SD	Mean
738,286	4,533	6,976	6,773

Source : Cityscope; UrbisJHD





## North Sydney Demand Study

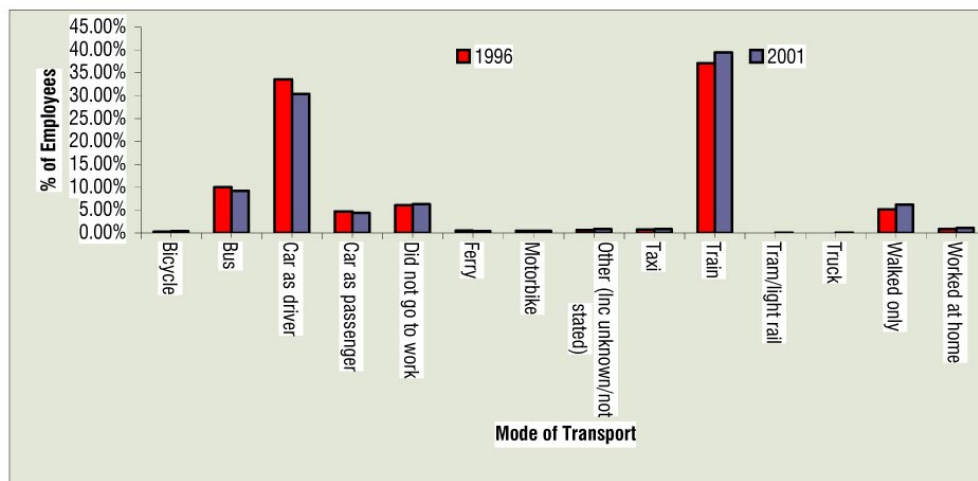
The existing market has a relatively limited supply of large footplates greater than 1,000m<sup>2</sup> (9%), with a median size of 481m<sup>2</sup>. North Sydney is well recognised as having a strong supply of smaller floorplates. Given the Sydney wide median tenancy requirement (A grade) of circa 600m<sup>2</sup> this should be an advantage presenting a 'deeper' supply of more commonly required product.

The median building size is 4,500m<sup>2</sup>. That combined with the floorplates analysis shows clearly a large supply of smaller buildings. PCA data excludes buildings under 1,000m<sup>2</sup>, however this has been added back in for this analysis.

### 2.5 Parking / Mode of Travel

ABS Journey to Work data has been contrasted across the two periods 1996 and 2001. There has been a slight increase in train use while travel by car as a driver has decreased slightly. These two modes of transport heavily outweigh all other.

**Mode of Travel to Work in North Sydney**



Source : UrbisJHD, ABS Journey to Work Data 1996, 2001

In 2003 North Sydney station had a daily through put (in / out) of approximately 23,000 passengers.

The total number of parking bays in the study area provides broadly for 1 space / 71m<sup>2</sup> NLA, however this includes street parking. When street parking is excluded a ratio of 1 bay / 89m<sup>2</sup> NLA is disclosed.

There would appear to be sufficient existing bays to service the study area. This is supported by the tenant survey that indicated two thirds of respondents felt they did not need more bays.



## North Sydney Demand Study

### Carparking

Private	Public	Street	Bays per NLA	Total
7,029	2,311	1,115	71	<b>10,526</b>

Source : North Sydney Council; Cityscope; UrbisJHD

As a broad comparison, the Sydney CBD Car Parking availability achieves 1 bay / 112m<sup>2</sup>, albeit this is across multiple sectors with numerous influences such as train stations, ferry arrivals, residential occupiers etc.

### Sydney CBD Car Parking

Private	Public	Total	Bays per NLA
23,000	16,904	39,904	112

Source : PCA, UrbisJHD

For commercial development, the DCP requirement is 1 space / 400m<sup>2</sup> NLA that is significantly lower than competing locations such as North Ryde / Macquarie Park, which under the Macquarie Park Masterplan ranges from 1:46m<sup>2</sup> NLA to 1:80m<sup>2</sup> NLA, depending on proximity to railway stations. The Sydney DCP provides for a parking ratio derived from the following formula; commercial area x site area / 50. This yields a very low parking ratio.

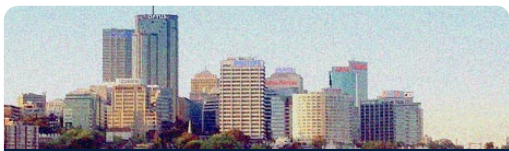
## 2.6 Historic and forecast completion levels

The North Sydney CBD office market has witnessed a lack of construction over the last decade with an average amount of approximately 14,000m<sup>2</sup> pa built over the period January 1991 to January 2004. The amount of stock withdrawn over the the same period equates to 166,005m<sup>2</sup> indicating removal possibly for residential / strata conversions and refurbishment. A negative net absorption of office space has occurred over the past 3 years.

The most recent commercial strata completions (both refurbished and new) to be removed from the commercial leasing market have been 83 Mount Street into 50 lots and 'Blade' at 71 Walker Street into 22 suites. Recent strata titled buildings that have been marketed include 83 Mount Street (50 suites), 121 Walker Street (40-50 suites) and a possibility of strata conversion of 75 Miller Street. Both 90 and 100 Mount Street are also potentially earmarked for strata conversion.

There are several projects underway to refurbish existing stock; 201 Miller Street, 168 Walker Street (partly refurbished), 2 Elizabeth Plaza (partly refurbished), 32 Walker Street (partly refurbished), 1 Pacific Highway (partly refurbished), 80 Mount Street (partly refurbished) and 165 Walker Street (partly refurbished).

There are two major commercial developments underway that will deliver approximately 57,000m<sup>2</sup> of space over the period 2006 – 2007. 100 Pacific Highway is being developed by Leightons / ISPT and will provide 21,800m<sup>2</sup>. 100 Arthur Street is the Tenix site and will deliver 24,800m<sup>2</sup>. Both these projects are presently uncommitted although Tenix have taken a favourable lease nearby possibly with the intention of occupation on



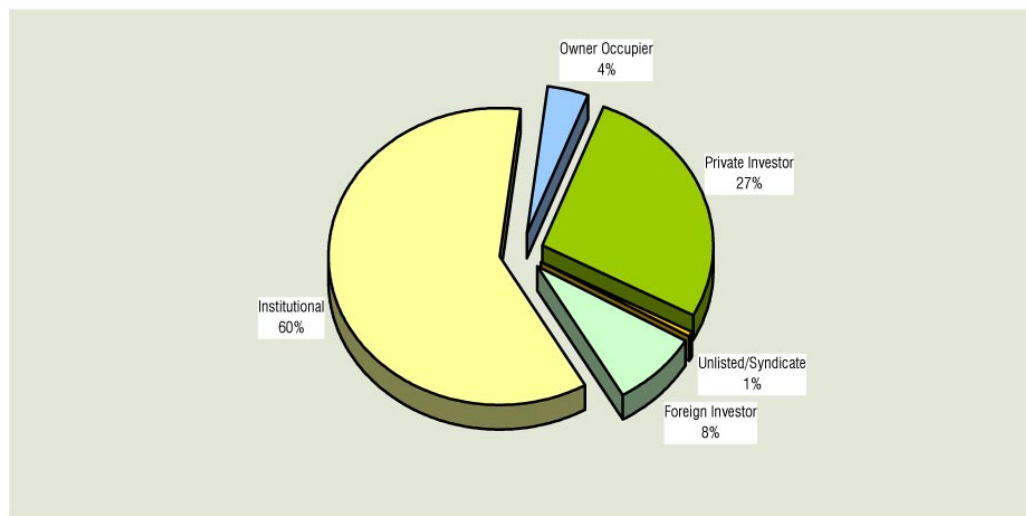
## North Sydney Demand Study

completion. The third site under construction at Berry street is for 35,000m<sup>2</sup> of residential uses and importantly will redeliver a central retail component.

### 2.7 Key owners in North Sydney

There is a significant volume of investment stock in the North Sydney market that is held by predominantly institutional owners. Non institutional ownership is 40% of which private owners are 27%.

#### Ownership by NLA



Source : Cityscope, UrbisJHD

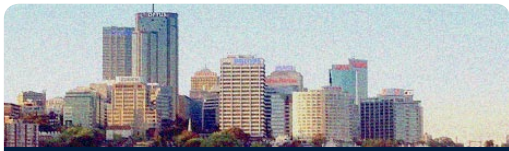
A large volume of the Institutional stock in North Sydney is held in Trusts that represent pooled retirement funds such as Superannuation etc. Institutional owners generally have longer investment horizons and are therefore more attuned to cyclical variations, resulting in 'smoother' investment performance. Institutional stock is held in large and 'lumpy' (high value) assets rather than the smaller assets held in private ownership. With good management of tenancy exposure the majority of Institutionally owned assets have performed well against other geographic locations. Single assets purchased speculatively or lower quality stocks with high exposure to the tech sector have clearly underperformed.

Many Institutional owners occupy the key locations (eg: gateway positions, view corridors, near rail etc.) as well as having stricter capital and repairs and maintenance regimes than private owners. The effect of this is to maintain the higher-grade stock at the expense of the lower grades ie; there is a widening gap between the grades.

Institutional owners can actively manage their properties at a portfolio level, contrasted against private owners who may only control a single building that is necessarily 'worked harder'. Eg: where an institution owns property within competing locations then tenants can be potentially relocated away from North Sydney.

### 2.8 Tenant pool / occupancy

The chart below indicates the initial term expiry for North Sydney tenants. Of concern is that approximately

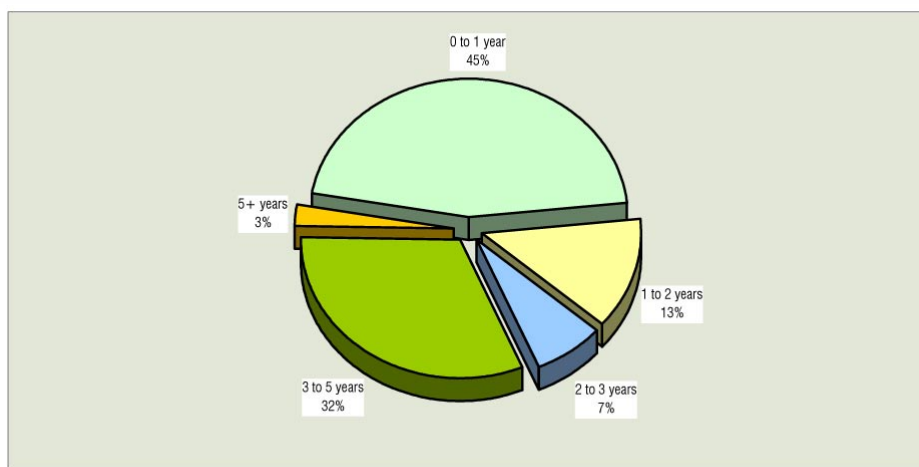


## North Sydney Demand Study

65% of tenancies expire within 3 years. This factor combined with a high degree of options (rights of renewal) over shortening terms is generally reflective of the soft demand or 'tenants market' over the recent past. As tenants have upgraded their quality of accommodation they have also been able to negotiate shorter initial terms. The weighted average lease expiry is detailed below and has been calculated on the basis of the total stock pool as well as larger tenants (over 1,000m<sup>2</sup>). The 'larger tenants' expiry profile is approximately 36% lower than the total stock pool.

- Total Stock Pool (498,892m<sup>2</sup>) 1.80 years
- Tenants over 1,000m<sup>2</sup> (253,345m<sup>2</sup>) 1.16 years

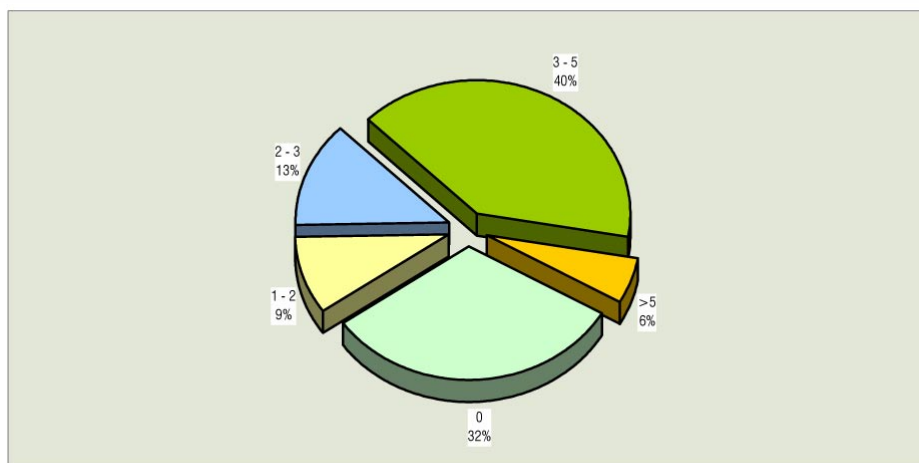
### Initial Lease Term Expiry



Source : Cityscope, UrbisJHD

Importantly 32% of leases do not have options. This may provide landlords with some degree of negotiating leverage, however may also provide the catalyst for tenants considering transactions in the North Sydney market or potentially alternate locations.

### Tenant Options Analysis



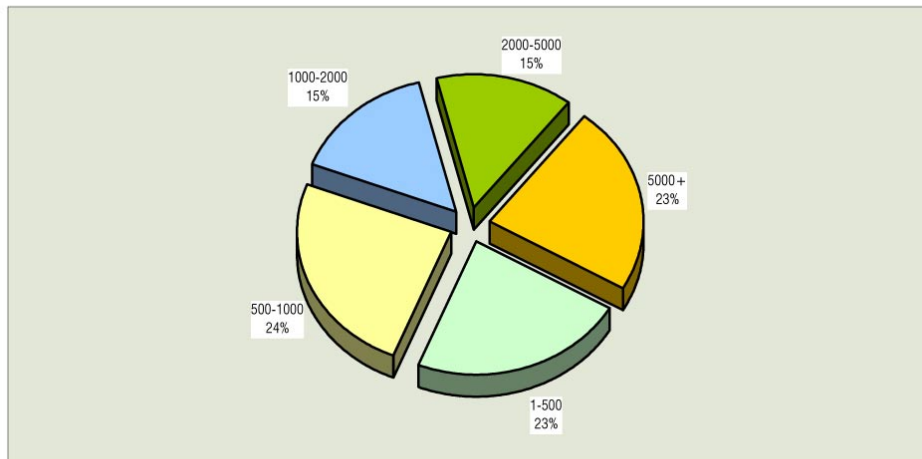
Source : Cityscope, UrbisJHD



## North Sydney Demand Study

As illustrated there is a relatively even distribution over the occupancy sizes of the tenant pool. The median tenancy size from the existing tenancy profile is 412m<sup>2</sup> with 47% of all tenancies occupying less than 1,000m<sup>2</sup>. However, it could be reasonably expected that with strengthening demand and further take up of space throughout the study area that the median would increase to the Sydney median of circa 600m<sup>2</sup>.

### Tenant Pool by Occupied NLA



Source : Cityscope, UrbisJHD

The table below contrasts North Sydney tenancy sizes with the Sydney CBD.

### Commercial Tenancy Size (m<sup>2</sup>)

Total	>1,000m <sup>2</sup>	Median	SD	Mean
511,372	262,465	412	1,759	737

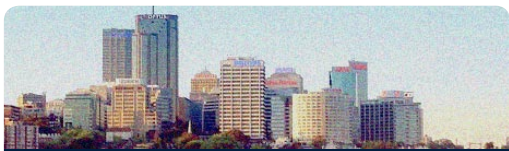
Source : Cityscope; UrbisJHD

### Sydney CBD Commercial Tenancy Size (m<sup>2</sup>)

Total* (m <sup>2</sup> )	No. of Tenants	Mean
3,531,000	4,087	864

Source : Sydney City Council; UrbisJHD

\* Indicates NLA of tenants surveyed

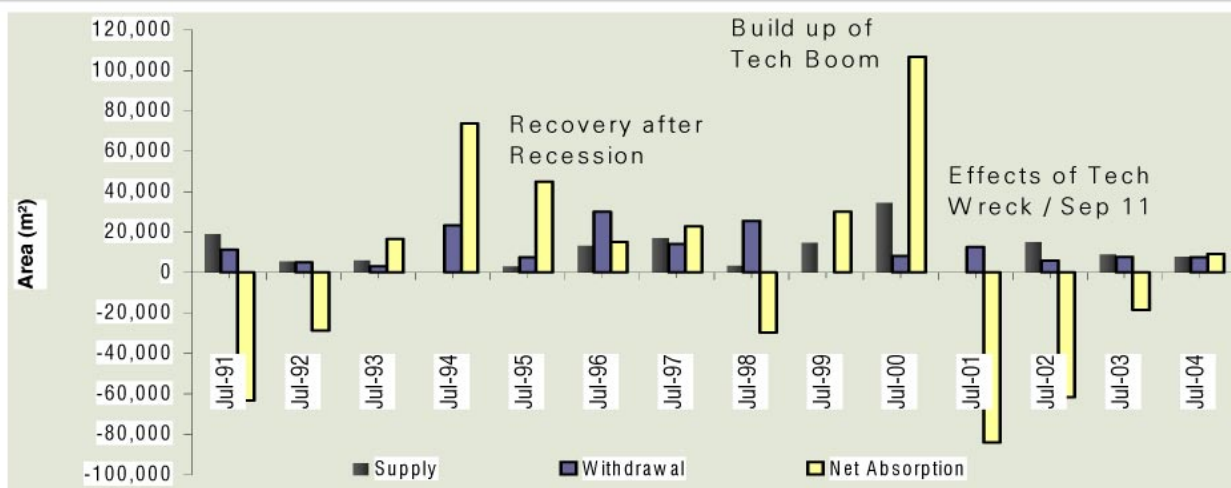


## North Sydney Demand Study

### 3.0 Office Demand in North Sydney

#### 3.1 Historic absorption and demand levels.

**Net Absorption July 1991 - July 2004**



Source : UrbisJHD, PCA

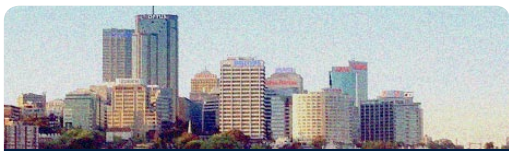
The most recent major influence on the North Sydney market was the tech crash of 2001 combined with an overall softer commercial market throughout most Australian CBDs. At the height of the tech boom there was considerable cost pressure on traditional North Sydney occupants who were competing with the influx of new IT related tenants. This surge in demand supported by a tight clustering and high exposure to a single industry created a fragile environment. In concert with the build up in demand, heavy Merger and Acquisition activity followed by rationalisation occurred throughout the sector.

Effectively traditional North Sydney tenants were forced to look at alternate locations, as they could not compete with the new demand. An example of this was the move by George Patterson Bates from 107 Mount St to the CBD Western Corridor. With the subsequent contraction and industry exposure a void in demand was created that is now being slowly taken up. An effect of the softer market is that North Sydney tenants who wish to maintain the location have had the ability to upgrade their quality at competitive rentals with favourable terms.

Agents and owners in North Sydney now report a more lively market with steady enquiry across a range of size requirements and a broader tenant mix.

Within a broader metropolitan context, the Sydney CBD is showing signs of a recovery, with tenant enquiries increasing over the past 3-4 months and a number of large deals being signed including Mercer/Marsh pre-committing to 14,322m² of space at the to be completed Darling Park III tower. As a result of these deals, the Sydney CBD has reported a positive net absorption level after approximately 3 years of negative net absorption.





## North Sydney Demand Study

A strong economy and low interest rate environment has improved business confidence and profitability, stimulating employment growth. This has resulted in tenants taking up extra space within their existing premises, or looking for alternative options. Tenants currently have a wide range of options to consider and as such agents are reporting some delay as they consider the differing options available to them.

Concurrent with North Sydney, tenants within the Sydney CBD are also considering not only alternate building options in the CBD, but geographic locations such as Homebush, Rhodes, North Ryde and Parramatta.

The current soft leasing market is compounded by the increase in strata conversion, with developers targeting owner occupiers who see the benefit in the current purchaser friendly conditions.

Sydney suburban commercial markets have performed reasonably over the recent past, however are not considered to be in the same competitive set as North Sydney. Most suburban markets have relatively small volumes leased to a limited number of key tenants. Noticeably Parramatta has benefited from a concerted State government decentralisation, a presence that is very limited within the North Sydney commercial market.

The following table provides a competitor analysis of the broad advantages and disadvantages to tenants of alternate markets to North Sydney CBD.

### Competitive Set

Location	Advantages	Disadvantages
Chatswood	Cost, Generous Incentives, North Shore location.	Proximity to CBD, weak leasing market, fractured ownership and CBD, residential primacy.
St Leonards	Cost, Proximity to CBD and Public Transport.	Proximity to CBD, small market area.
North Ryde	Quality of accommodation, competitively priced, generous car parking, improving infrastructure, campus facilities, large floor plates.	Lack of public transport, proximity to CBD, limited amenities.
Parramatta	Central location, Cost, Proximity to workforce, Strong government support.	Quality of accommodation, proximity to clients, Non corporate location.
Ultimo / Pyrmont	Fringe CBD location, views, contemporary accommodation.	Small market area, public transport.
Western Corridor	Relative cost of accommodation, CBD location, access to public transport.	Lack of parking, quality of accommodation.
Homebush / Rhodes	Infrastructure and quality of accommodation.	Lack of critical mass.
Sydney	Central location, proximity to clients/suppliers, public transport availability.	Cost, Lack of parking, proximity to workforce.

Source : UrbisJHD



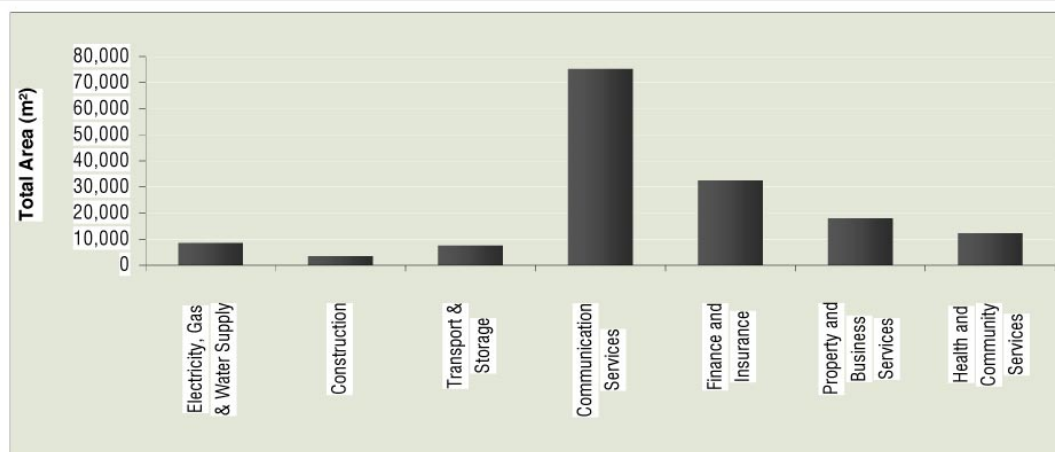


## North Sydney Demand Study

### 3.2 Office space occupied by industry group, 2004

Industries have had ANZSIC codes applied and grouped according to NLA occupied at 2004. The major tenancies are represented below with Communication, Finance and Insurance and Property and Business Services all heavily represented.

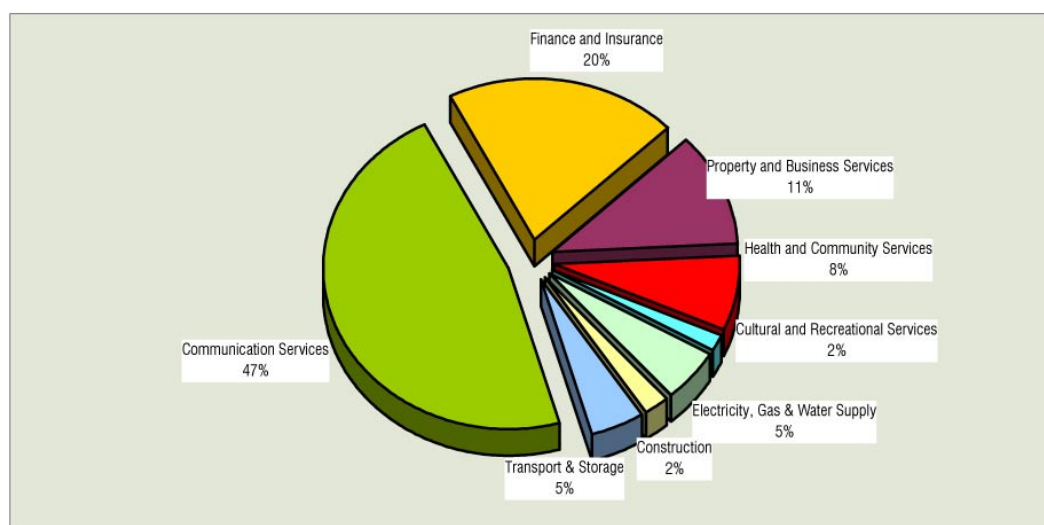
**North Sydney CBD 20 Major Tenants by Industry Grouping and NLA**



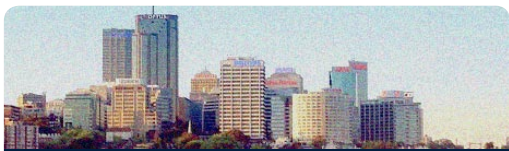
Source : Cityscope, UrbisJHD

As this is the freshest representation of the current profile of North Sydney the occupancy by percentage (largest groups) has also been charted. Greater dissection of this type of data is included within the Tenant Sentiment Survey at 4.0.

**North Sydney CBD 20 Major Tenants by Industry Grouping and % of Market**



Source : Cityscope, UrbisJHD

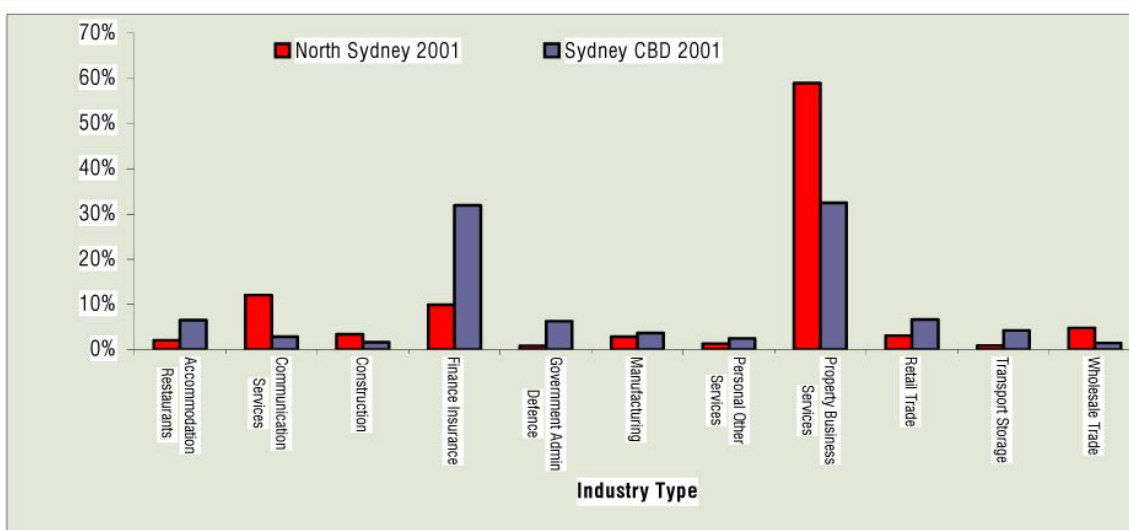


## North Sydney Demand Study

Noticeably there is very little government representation, that when contrasted with other Sydney suburban centres is significantly under represented by this industry group. Parramatta has been used as a comparison centre throughout this study and with the recent levels of government commitment is a case in point.

A comparison of industry type (by employee) drawn from Journey to Work data at 2001 is provided between Sydney and North Sydney. Almost 60% of North Sydney employees are in the Property and Business sector. This sector comprises such industries as Information Technology, Property, Marketing and Management, Legal and Technical services.

### Major Industries in North Sydney and Sydney CBD 2001



Source : UrbisJHD, ABS Journey to Work Data 2001- North Sydney & Sydney CBD



## North Sydney Demand Study

### 3.3 Major office tenants by size (2004)

The table below shows the 20 largest tenants within the North Sydney CBD in regard to area occupied.

#### 20 Major Tenants by NLA

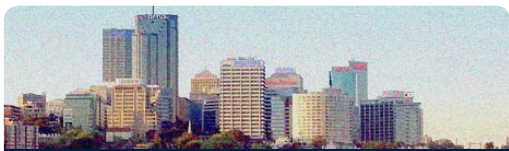
Rank	Tenant	Building Name	Address	NLA	Term Remaining (years)	Option (years)
1	Optus	Optus Centre	83-103 Miller Street	30,350	3.13	4.00
2	MLC Management	MLC Building	105-153 Miller Street	26,644	3.71	5.00
3	Cisco Systems Australia* Health Administration Corporation		80 Pacific Highway	17,259	3.79	4.00
4		Leo Burnett House	73 Miller Street	12,285	4.79	5.00
5	Optus Administration		50 Miller Street	9,940	0.05	4.00
6	AGL*		111 Pacific Highway	8,583	1.17	4.00
7	QANTAS Airways Limited*		141 Walker Street	7,477	0.00	2.00
8	Accenture Solutions*		141 Walker Street	6,543	3.79	2.00
9	NCR Australia Pty Ltd	NCR House	8-20 Napier Street	5,940	3.79	8.00
10	KVB Visual Concepts*	Mount Street Plaza	99 Mount Street	4,828	0.38	10.00
11	Unisys Australia*	Unisys Building	213 Miller Street	3,714	0.26	10.00
12	Young and Rubicam*	The Denison	65 Berry Street	3,496	4.05	5.00
13	Boulderstone Hornibrook*		40 Miller Street	3,454	4.27	0.00
14	Marconi Australia*	Commercial Union House	90 Arthur Street	3,027	2.20	0.00
15	IBM Global Services Australia Combined Insurance	Ice House	20 Berry Street	3,009	0.00	3.00
16	Company of America*	Combined Insurance House	49A-51 Berry Street	2,942	2.46	5.00
17	National Australia Bank	Northpoint	100 Miller Street	2,814	3.13	3.00
18	EDS Australia*	EDS Centre	124-126 Walker Street	2,700	0.21	2.00
19	Australian Rugby Union Ltd	Australian Rugby House	181 Miller Street	2,500	1.46	4.00
20	EMC Global Holdings Co	Victoria Cross	37-47 Mount Street	2,346	0.00	2.00
<b>Total</b>				<b>159,851</b>	<b>2.13</b>	<b>4.10</b>

Source : Cityscope; UrbisJHD  
\* Indicates Estimated Area

### 3.4 North Sydney CBD employment

The chart below shows the relative representation of employment industries (by employee) in North Sydney (ANZSIC codes / business classifications are attached at the appendices). The Property and Business sector saw substantial growth between 1996 and 2001 in North Sydney. In contrast the Finance and Insurance sector and the Transport and Storage sector have diminished considerably between 1996 and 2001.

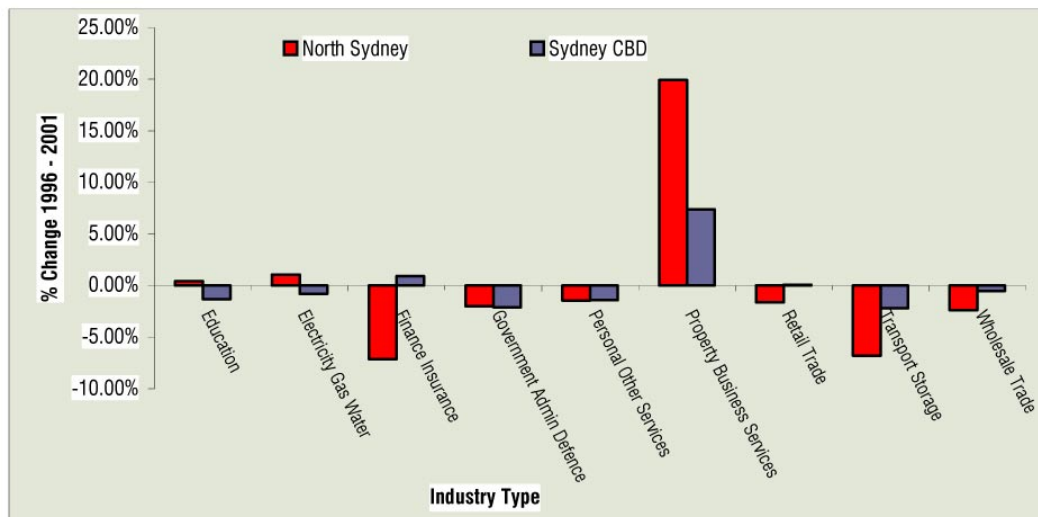
The higher growth in the Property and Business sector is explained as this sector includes Information Technology, Property, Marketing and Management, Legal and Technical services. Particularly IT had a strong run into 2001 (census date) with a substantial drop off following, which will not be represented.



## North Sydney Demand Study

Government / Admin / Defence experienced negative growth over the study period.

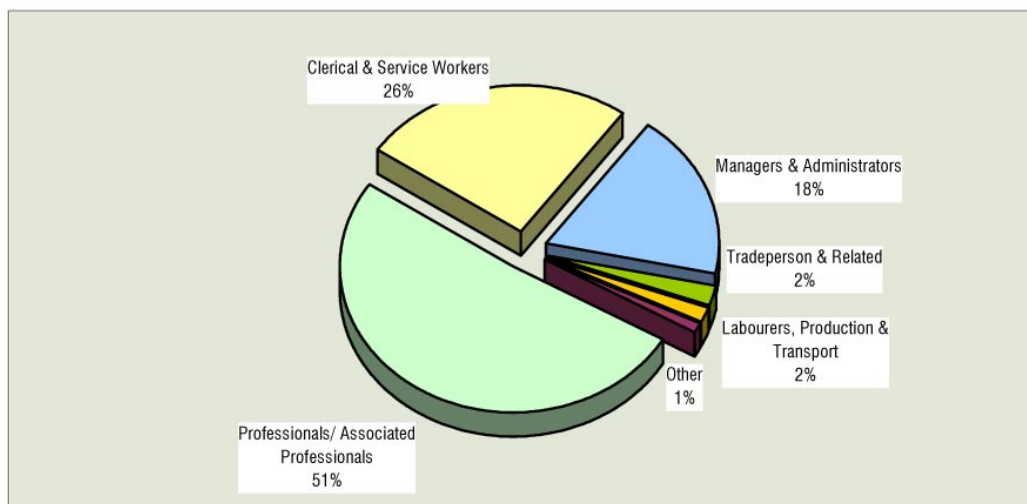
### Industries in North Sydney Experiencing Significant Changes in Growth 1996-2001



Source : UrbisJHD, ABS Journey to Work Data Origin SLA 1996, 2001- North Sydney & Sydney CBD

The occupation makeup is representative of a typical CBD with limited representation in trade and production related workers contrasted against high levels of professional, managerial and clerical and administrative positions.

### Occupation Types Represented in North Sydney 2001



Source : UrbisJHD, ABS Journey to Work Data 1996, 2001- North Sydney

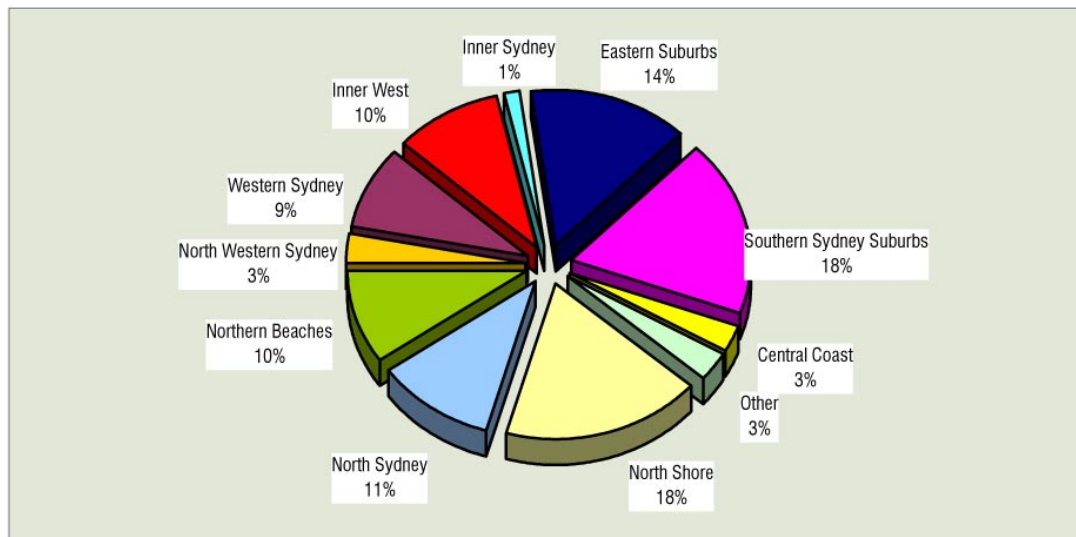
39% of workers in North Sydney reside on the North Shore, North Sydney or Northern Beaches, with 52% from the 'northern' sector. The Eastern suburbs and Southern Sydney are also a source of many North Sydney workers. There are few people working in North Sydney who travel from North Western Sydney, the Central Coast and Inner Sydney.



## North Sydney Demand Study

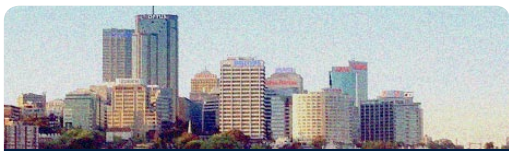
Interestingly, a large proportion (11 %) of North Sydney workers are residents in the area, possibly indicating that it is a good place to work and live. The suburbs of Milsons Point and Lavender Bay still have residential sites to be developed.

### North Sydney Employees Place of Origin



Source : UrbisJHD, ABS Journey to Work Data 2001- North Sydney





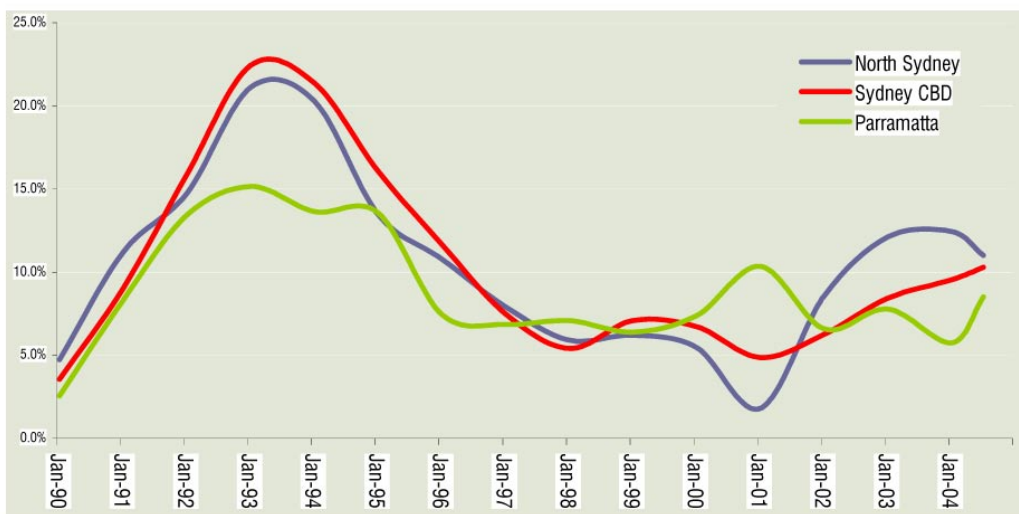
## North Sydney Demand Study

### 4.0 North Sydney Office Market Performance

#### 4.1 Historic vacancy levels

The graph below shows the total vacancy rate in the North Sydney CBD office market from January 1990 to January 2004 plotted against the Sydney CBD and Parramatta markets. The effect of the tech boom and subsequent crash are particularly noticeable, the flow on effects of this exposure to a single sector now being felt.

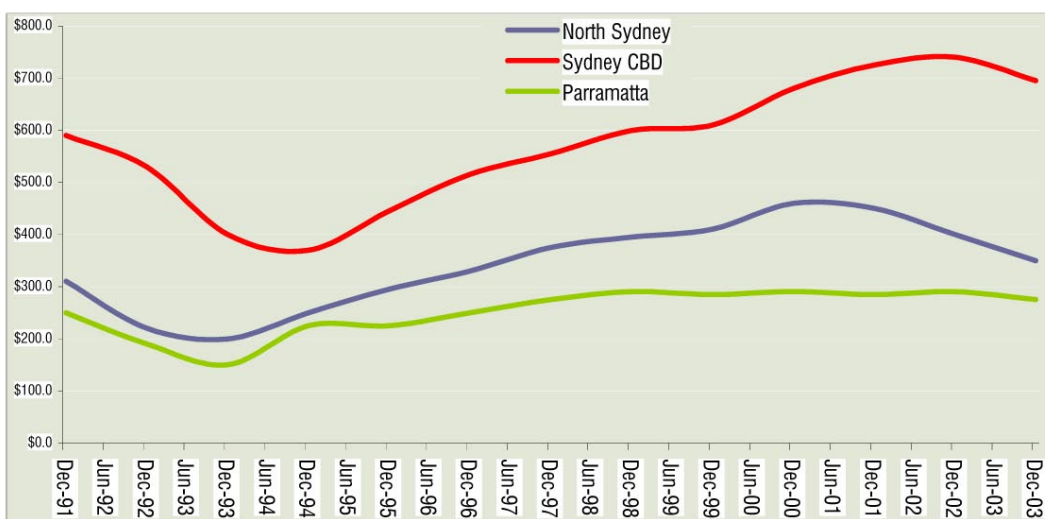
**Major Office Market Vacancy 1990-2004**



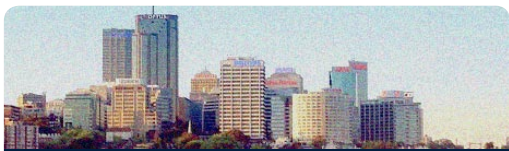
Source : UrbisJHD, PCA

#### 4.2 Historic gross effective rents

**Prime Gross Effective Rents**



Source : UrbisJHD, PCA

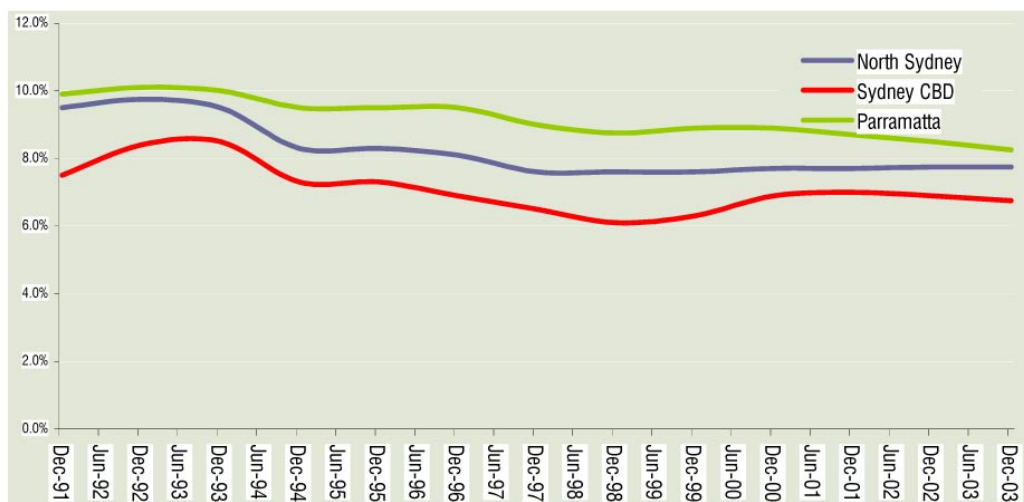


## North Sydney Demand Study

Incentives in the North Sydney market have fallen from their highs of 40% back to a range of 25% to 30% with expectations of a further lowering to circa 20% over the next 12 months. Recent modal transactions for refurbished 'A' grade space are indicated at approximately \$380/m<sup>2</sup> - \$420/m<sup>2</sup> gross with \$80/m<sup>2</sup> outgoings and 30% incentives. Incentives generally remain as a contribution to capital cost / fitout.

### 4.3 Historic yields

**Prime Effective Yields 1991 to 2003**



Source : UrbisJHD

Increased competitive pressure for prime Sydney CBD properties is now influencing potential purchasers to look at alternate (longer yielding) markets including North Sydney. The recent purchase of the AGL building by ING was rationalised on this basis with a firm view that the North Sydney market had reached the bottom of the current cycle. The limited volatility in yields reflects the strong demand and recent sound investment perceptions of all markets.

### 4.4 Office market returns from PCA Property Index

The PCA Investment Performance Index shows that total returns for North Sydney have underperformed alongside Sydney CBD and Parramatta. This is not surprising given the soft leasing market, rental voids and higher than normal incentives. Interestingly the 3 and 5-year returns show solid growth and sound returns however this will not be achieved without some challenges.

**Annualised Total Returns to September 2003**

Annualised Total Returns to September 2003 - Investment Performance Index.			
Office Market	1 Year Return (%)	3 Year Return (%)	5 Year Return (%)
North Sydney	4.59	9.79	10.66
Sydney CBD	6.25	8.26	8.12
Parramatta	11.56	10.52	12.34

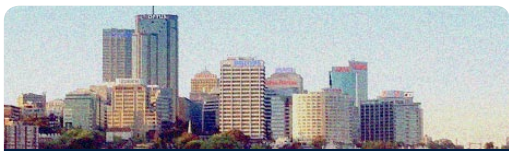
Source : UrbisJHD, PCA Investment Performance Index, September 2003.

**Annualised Total Returns to September 2003**

Returns Year Ending September 2003 - Investment Performance Index		
Office Market	Capital Return (%)	Total Return (%)
North Sydney	-3.36	3.2
Sydney CBD	0.37	6.38
Parramatta	9.62	12.35

Source : UrbisJHD, PCA Investment Performance Index, September 2003.





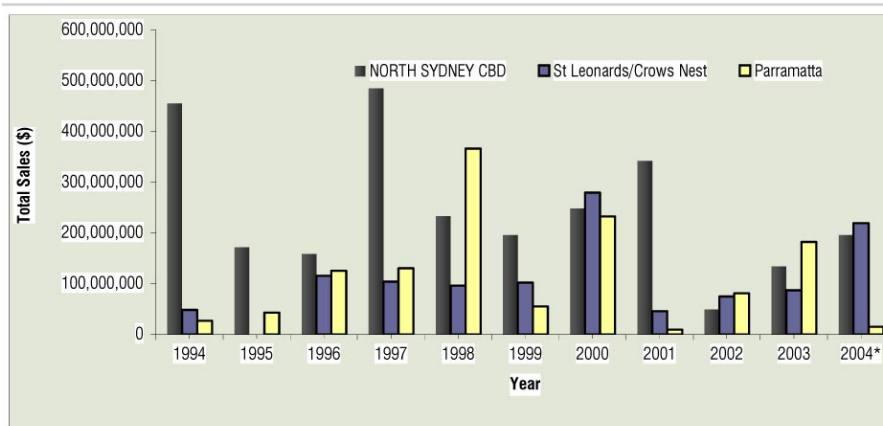
## North Sydney Demand Study

In comparison to other markets the longer term outlook ranks North Sydney (coming off the lowest performance indicator) between Sydney and Parramatta. This reflects an appropriate amount of risk / reward relationship and investor perceptions of performance. The lower returns of Sydney and North Sydney are reflective of a sound and stable market as opposed to Parramatta that reflects risk in the longer yield / returns.

### 4.5 Recent commercial sales

In line with other North Shore locations North Sydney had a severe contraction following the tech collapse post 2001. There has been steady growth since, similarly in Parramatta (except 2004) and Sydney.

**Office Sales over \$2m - North Sydney CBD, St Leonards / Crows Nest & Parramatta**



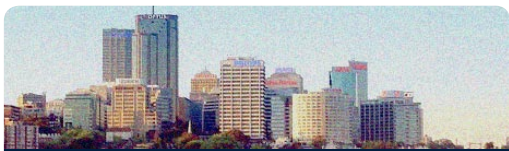
\* to 31 August  
Source : UrbisJHD

Recent (post 2001) major sales are detailed below. Purchaser motives vary from 'yield plays' and strata conversion to pure investment.

#### North Sydney CBD Sales 2001 - 2004

Address	Date	Price (\$m)	Purchaser	Motive
116 Miller Street	Nov-04	57.5	AMP Capital Investors	Investment
99 Walker Street	Sep-04	91.575	Cape Bouvard	Investment
86-96 Mount St	Jul-04	24	Max Delmege	Strata Conversion
111 Pacific Hwy	Jun-04	92.5	ING Office Fund	Investment
63-67 Walker St	Oct-02	11.4	Somersby Springs	Strata Conversion
51 Berry St	Aug-03	14	Berry 51 Pty Ltd	Strata Conversion
201-211 Miller St	Jun-03	68.5	Commonwealth Property Office Fund	Investment
146 Arthur St	Mar-03	40.9	Valad Property Group Fund No. 10	Syndication
122 Walker St	Dec-01	7.75	Century Funds Management	Syndication
163-165 Walker St	Oct-01	25.6	Macquarie Direct Property Management	Investment
107-109 Mount St	Jul-01	32	James Fielding Investments	Investment
88-92 Walker St	Aug-01	12.7	J & Ezee	Strata Conversion
80 Pacific Highway	May-01	91.3	Investa	Investment

Source : UrbisJHD, Cityscope



### 5.0 Retail Offering

This section of the report provides an overview of the retail provision in North Sydney. Retailing is an important component of major commercial centres both in terms of the facilities that are made available to the workforce and the added activity that is added to the centre, helping to enhance the vitality and vibrancy of the environment, particularly at the weekends and in the evenings.

#### 5.1 Existing Retail Composition

We estimate that the total amount of retail floorspace in the North Sydney CBD is currently around 31,000 m<sup>2</sup>, comprising approximately 315 individual shops.

Much of the retail provision is contained within a number of small shopping centres, and is largely provided over 2-3 levels. The surrounding streets account for the balance of floor space.

Table 1 provides a breakdown of floor space in North Sydney based on a survey undertaken by this office in October 2004. The key points are as follows:

- Around 10,700 m<sup>2</sup>, or 35% of floor space is occupied by food catering tenancies, namely restaurants, cafes or take away food outlets. This high proportion reflects the strong demand for daytime eateries from the office workforce.
- There are five main foodcourts in North Sydney, the largest of which are at Northpoint and Greenwood Plaza.
- The provision of food retail (i.e. food to take home) is quite small, at under 5,000 m<sup>2</sup>, with only one relatively small supermarket located in Greenwood Plaza.
- The non food provision of around 11,500 m<sup>2</sup> is highly focused on convenience retailing and the needs of office workers, with many stores in the newsagent, pharmacy, office supplies & stationery and copy shop categories. Only in Greenwood Plaza is there a comparison shopping offer of any significance, with several apparel, homewares and gifts retailers.
- Retail services are strongly represented, again reflecting the demand from the local workforce, with a good provision of hair and beauty shops, dry cleaners, opticians and the like.
- There is also a significant provision of non retail services, such as travel agents and banks, which are not detailed in Table 1.

#### 5.2 Comparative Provision

The key features of the North Sydney retail offer are the absence of any major retailers and the generally low level of total retail floor space.



## North Sydney Demand Study

**North Sydney CBA**

**Estimated Retail Floorspace (Sq.m) and Composition, 2004<sup>1</sup>**

**Table 1**

	Catering	Food Retailing	TOTAL	Non Food	Retail Services <sup>2</sup>	Total Retail
Mount St	1,050	100	1,150	400	0	1,550
Walker Street	950	400	1,350	1,850	200	3,400
N Sydney Shopping World	1,300	700	2,000	3,400	900	6,300
Miller St	2,100	500	2,600	1,700	1,000	5,300
Berry St	500	100	600	100	0	700
Blue St	650	100	750	500	200	1,450
Greenwood Plaza	800	2,760	3,560	3,395	950	7,905
Mount Street Plaza	1,300	50	1,350	100	450	1,900
Tower Square	2,050	150	2,200	0	300	2,500
<b>Total</b>	<b>10,700</b>	<b>4,860</b>	<b>15,560</b>	<b>11,445</b>	<b>4,000</b>	<b>31,005</b>
<i>% of Total</i>	<i>35%</i>	<i>16%</i>	<i>50%</i>	<i>37%</i>	<i>13%</i>	<i>100%</i>

1. Floorspace is an UrbisJHD estimate, premises were not measured.

2. Retail Services include Hairdressing, Dry-Cleaning, Film Processing, Key Cutting, Shoe Repairs, Optometrists and Video Shop

Source : UrbisJHD

Table 2 details the provision of commercial and retail floor space in the other major commercial centres in Sydney. The Sydney CBD, Parramatta, Chatswood and North Ryde are major regional shopping centres as well as being major commercial centres. Each provides for the major shopping needs of a regional catchment population, both in terms of convenience / supermarket retailing and non food comparison shopping.

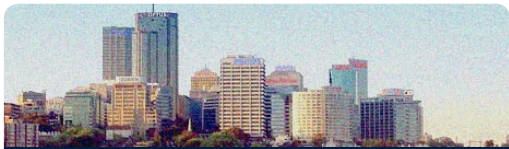
The retail role of North Sydney is very different, being highly focused on the shopping needs of the daytime workforce. The lower north shore is a densely populated and affluent catchment, however residents do not use North Sydney to any great extent for shopping purposes and this is reflected in the lack of activity in North Sydney in the evening and weekend periods.

**North Sydney and Competing Centres  
Retail Provision, 2004**

**Table 2**

	Commercial Floor Space ('000Sq.m)	Est. Retail GLA ('000Sq.m)	Major Retailers
Sydney CBD	4,468.0	530.0	David Jones, Myer, Coles, Woolworks
North Sydney	806.6	31.0	-
Parramatta	588.8	150.0	David Jones, Myer, Target, Kmart, Coles, Wool's
North Ryde	497.5	77.0	Myer, Big W, Target, Coles, Woolworths
Chatswood	298.5	145.0	David Jones, Myer, Target, Kmart, Coles

Source : UrbisJHD



## North Sydney Demand Study

### Ratio of Commercial to Retail Space

Location	Ratio (Commercial:Retail)
North Sydney CBD	1:26
Sydney CBD	1:8
North Ryde	1:6.5
Parramatta	1:4

Source : UrbisJHD



Map 1 – North Sydney Retail Provision



# 6.0 Tenant Sentiment Survey

## 6.1 Survey methodology

The sample for the survey was taken from a database of some 700 business who were listed in the Citiscope index as currently leasing office space in North Sydney. An initial round of 150 phone calls generated 26 complete surveys, while another 30 businesses asked to be sent the questionnaire by email. This was followed up by a mail-out to 200 businesses who had not been contacted by phone. 37 surveys were achieved through the email / mail-out. A total of 63 responses were received. Additionally 5 major tenants who had recently moved from North Sydney to alternate locations were interviewed.

Surveys were initially directed to the General Manager (or equivalent), but respondents were invited to redirect the survey if someone else in their business was better placed to answer the questions. The survey was completely confidential, and respondents were offered the chance to win a meal for two at a local restaurant and / or receive a summary of the survey results at the conclusion of the project. <sup>1</sup>

The survey took less than 10 minutes to complete.

## 6.2 Description of the sample

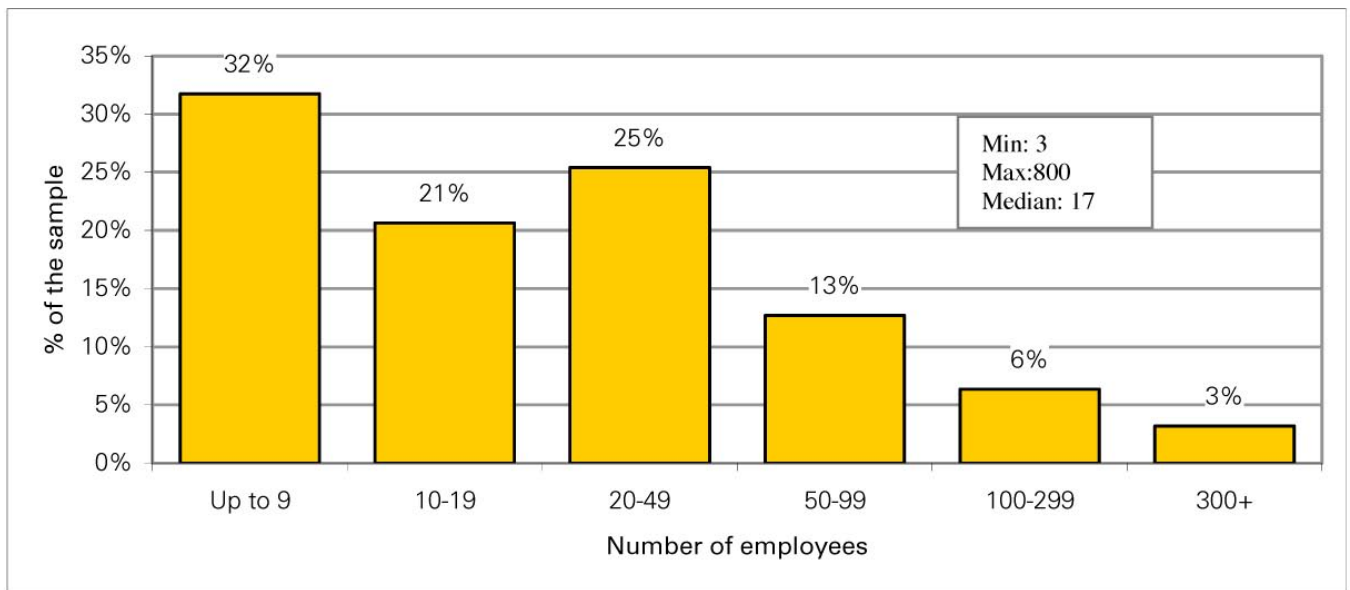


Figure 1 – Number of staff

<sup>1</sup> Respondents were informed that their survey responses would in no way effect their chances of winning the prize draw. The draw was conducted by a Director of UrbisJHD and witnessed by a representative of the Property Council of Australia, with the winner announced in the PCA's newsletter 'Property News'.





## North Sydney Demand Study

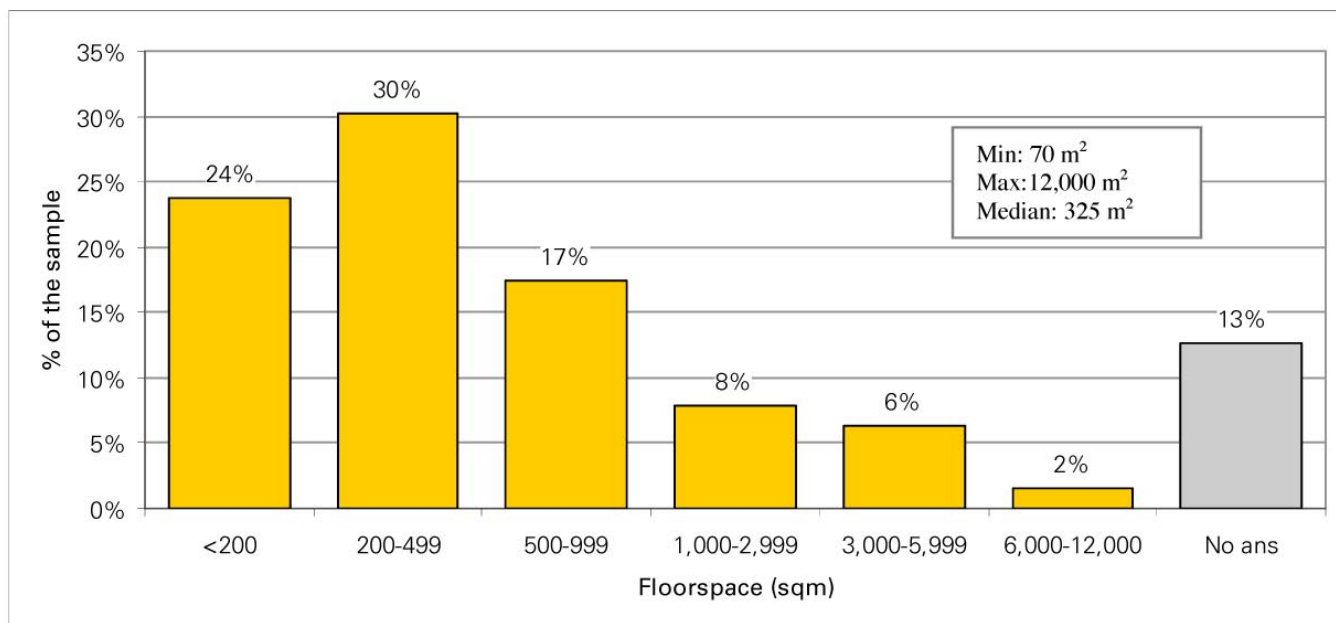


Figure 2 – Floorspace

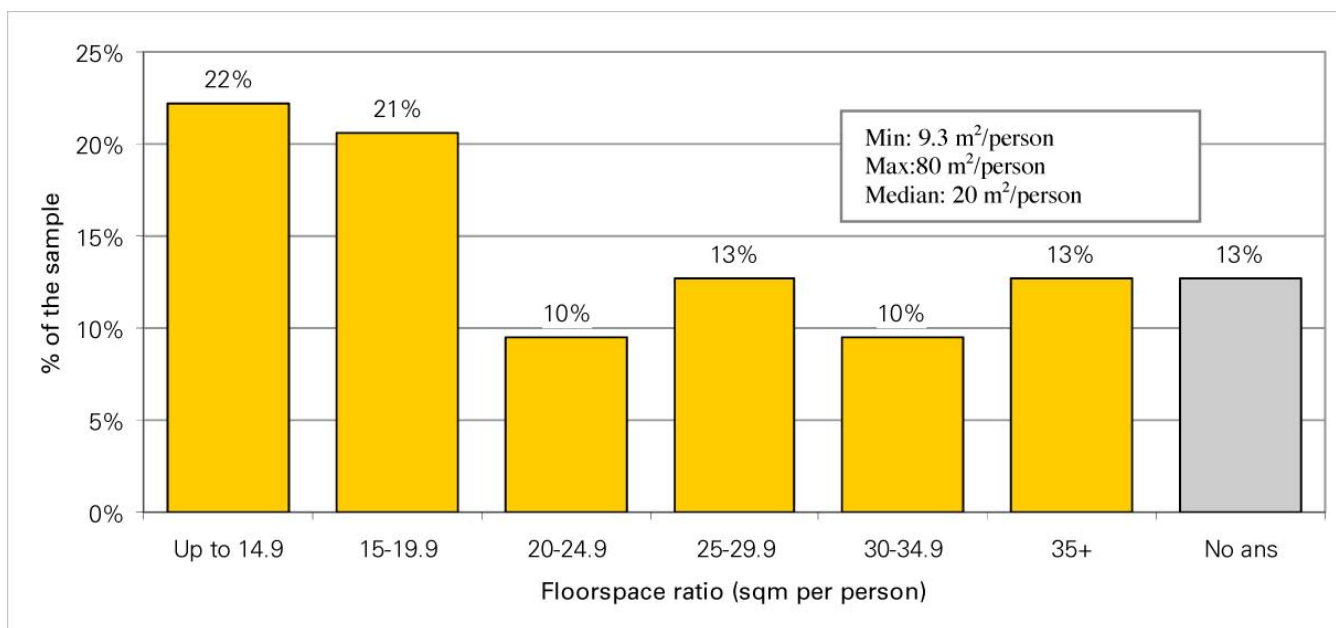
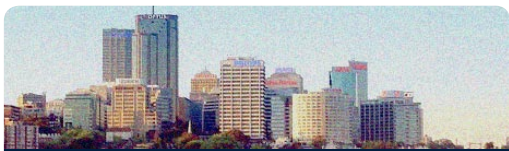


Figure 3 – Floorspace ratio



## North Sydney Demand Study

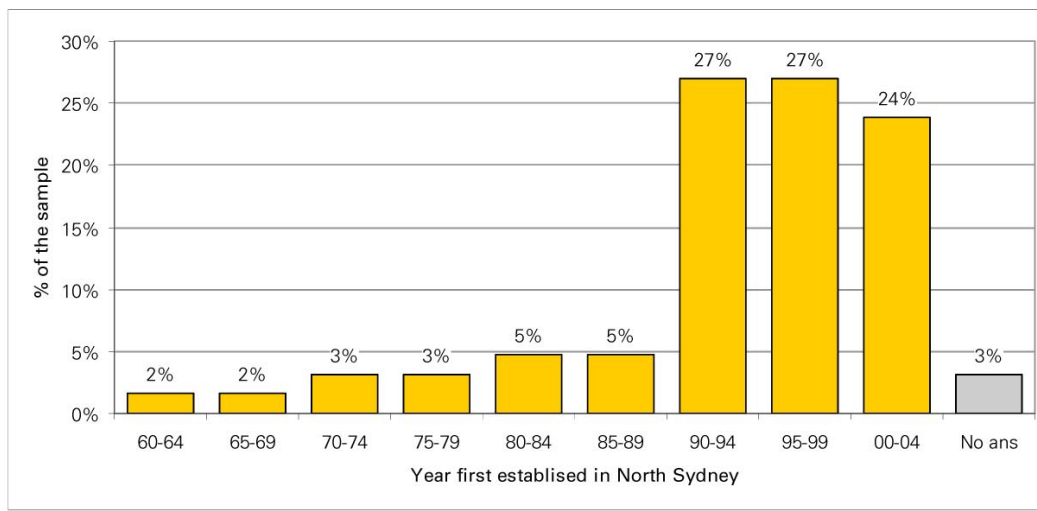


Figure 4 – Year in which businesses had first set up in North Sydney

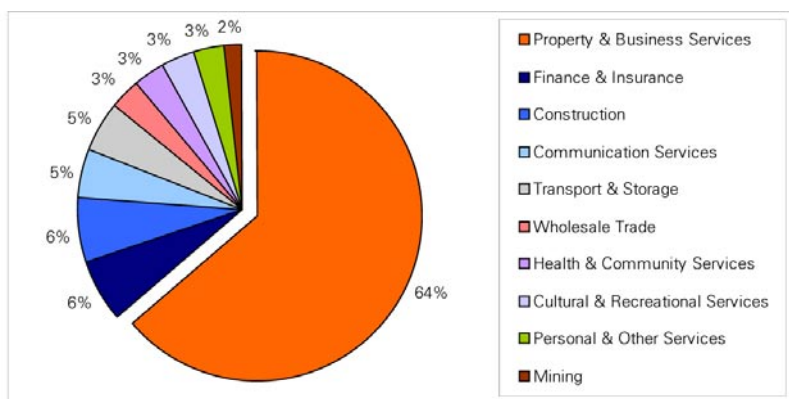


Figure 5 – Business type

(Note: 27% of businesses were in IT and telecommunications)

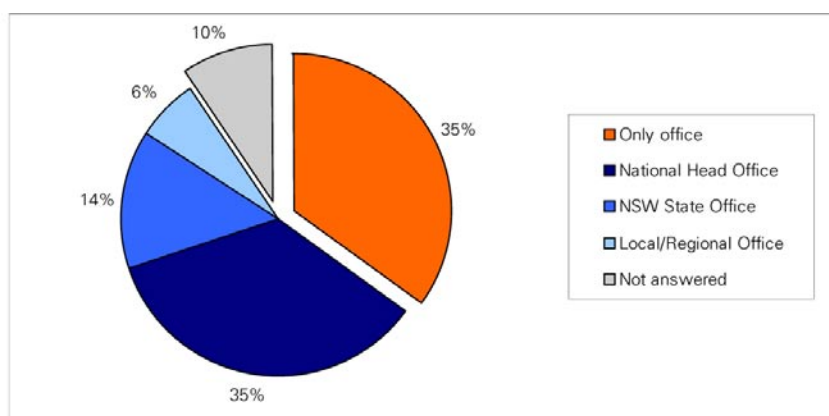
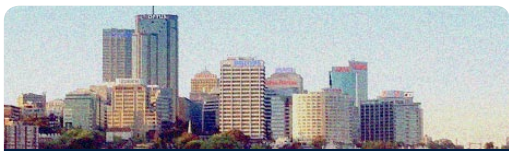


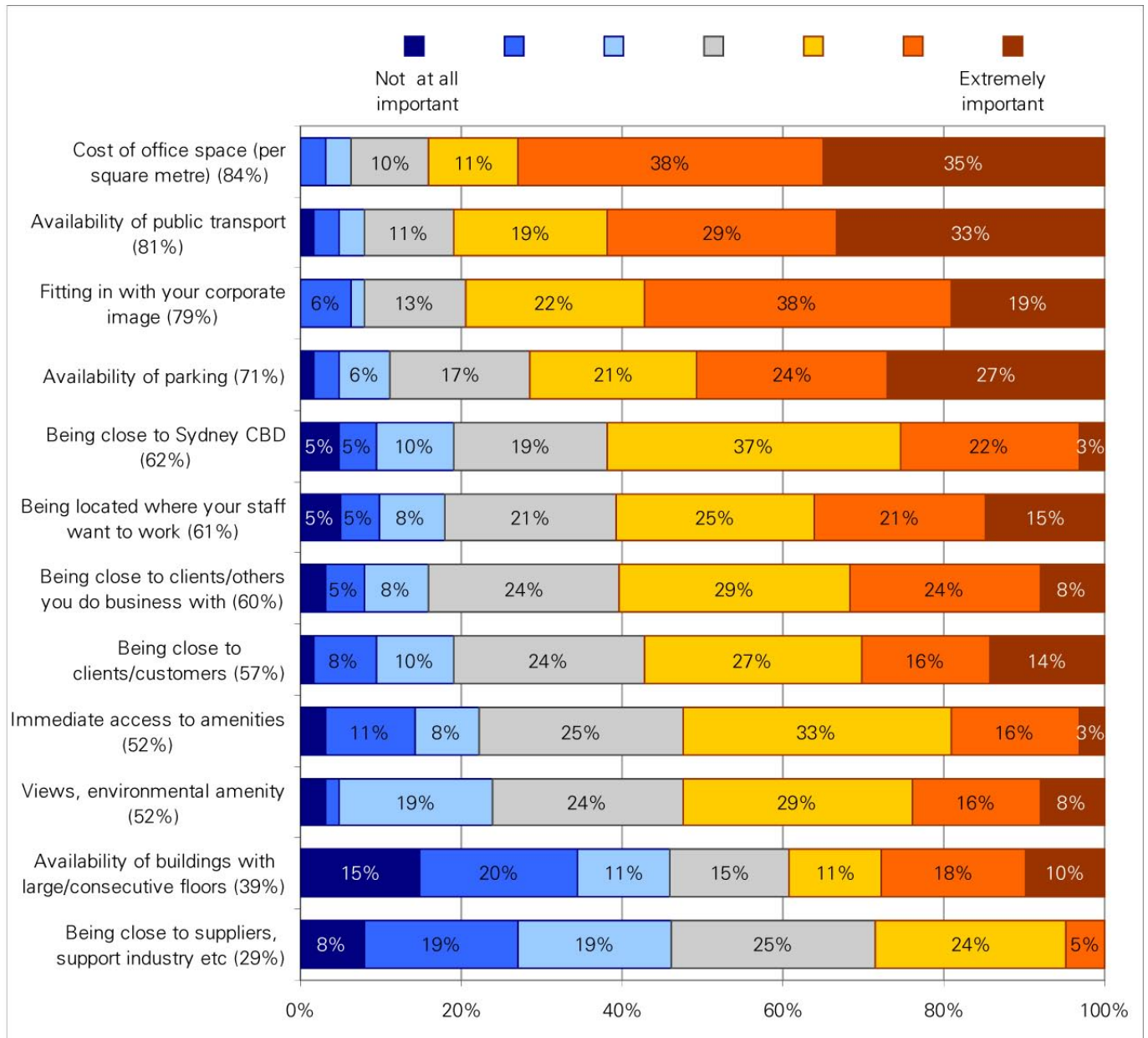
Figure 6 – Status of the North Sydney office





## North Sydney Demand Study

### 6.3 Factors that affect choice of office location



Other *extremely important* factors: Building quality and infrastructure (eg data services/stability, air conditioning, lifts), high relocation costs that inhibit moving, access to business services (eg banks), access to the airport, being 'presentable' for overseas visitors, good vehicular access, close proximity to where key staff live (eg CEO), atmosphere (eg tidy, vital, 'no hooligans running around'), and lower density development (eg 'uncluttered ... spacious').



## North Sydney Demand Study

	Greater importance than average	Less importance than average
Being close to clients / customers		Some of the large established operators in the CBD core
Being located where your staff want to work	Large, sub-offices	
Being located close to clients	Large, established	
Being located close to support industry	Large, IT+T	
Being located close to Sydney CBD	National head offices, established, large	
Views	National head offices, large	
Public transport	Established, large staff	Lone-offices, small operators
Parking	Fringe, small staff, sub-offices, non IT+T	
Cost per sqm	Head offices, tightly packed, fringe dwellers	
Large floor plates etc	Established, IT+T, tightly packed, large sqm, lots of staff	
Access to amenities (childcare etc)	ONLY SMALL DIFFERENCES: Larger staff, more tightly packed, fringe	
Fitting in with corporate image	Sub or national head offices, non-IT+T, large staff+space, tightly packed, fringe	

### 6.4 Parking

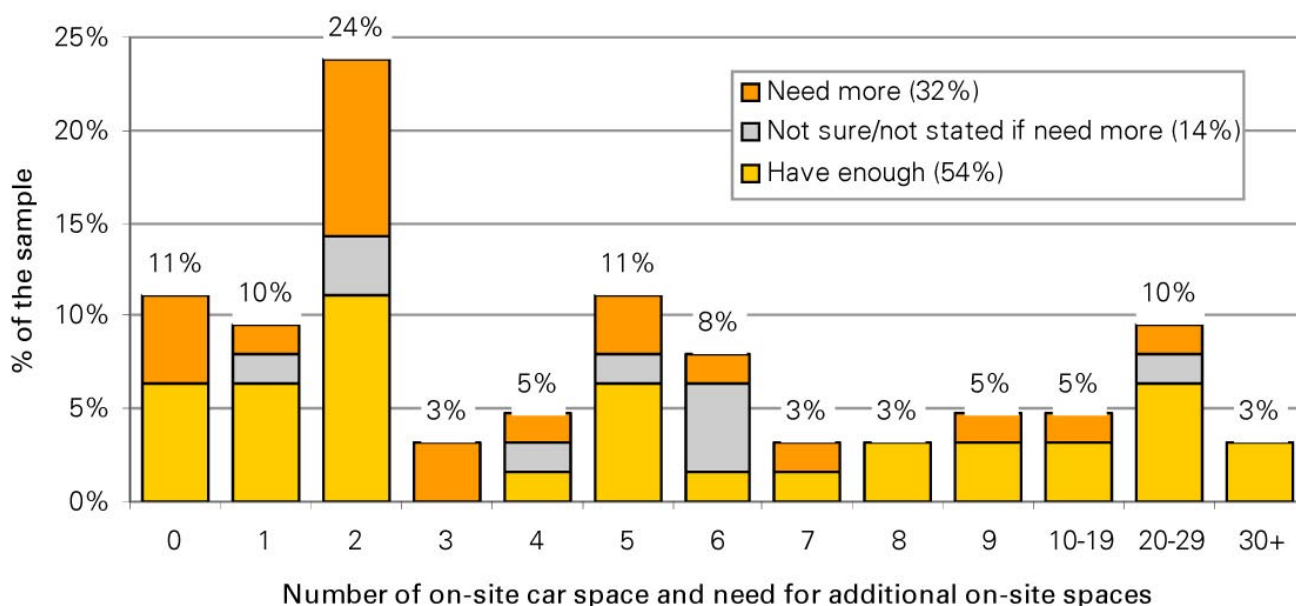


Figure 7 – Number of on-site parking spaces



## North Sydney Demand Study

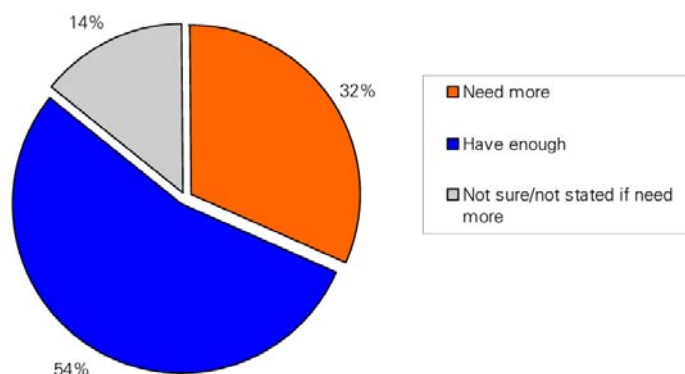


Figure 8 – Need for more on-site spaces

Need for more on-site spaces was greater for small operators, lone offices and recently establishing tenants. Unaffected by the number of on-site spaces the tenants already had.

	No on-site spaces	No persons per on-site space	Floorspace (m <sup>2</sup> ) per on-site space
Min	0	0	0
Max	69	25	400
Median	4	4.5	90

Table 1 – Number of on-site parking spaces

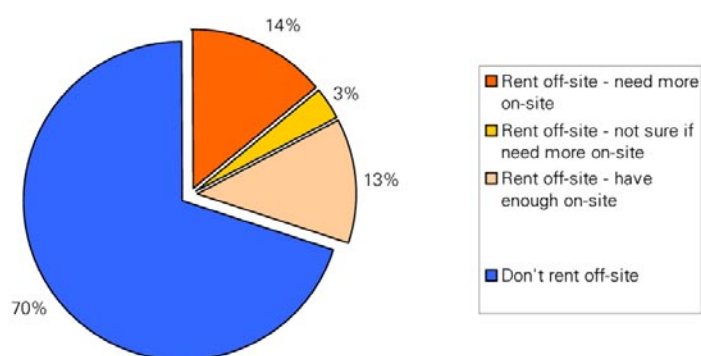


Figure 9 – Leasing off-site car spaces

Location of rented off-site spaces (excluding six not stated): Wilsons Parking, Ward St Parking Station (x3), Tower Square, Residential North Sydney, Ridge St Carpark, Miller St, Hill St, Harbourview & Dennison Building, Elizabeth Plaza Carpark (x3), and 19 Berry St.



## North Sydney Demand Study

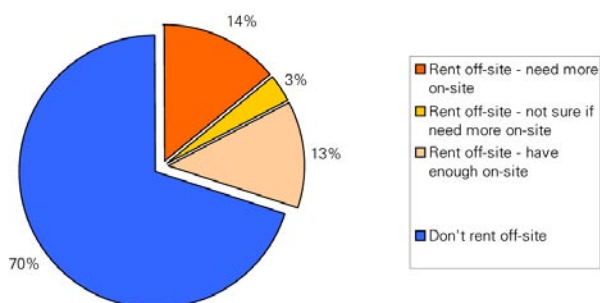


Figure 10 – How easy it is for visitors to find parking nearby

Visitor parking was slightly easier for larger tenants, but notable easier for fringe dwellers (43% *very easy*, 0% *not at all easy*) than tenants in the CBD core (17% *very easy*, 20% *not at all easy*)

## 6.5 Suitability of locations

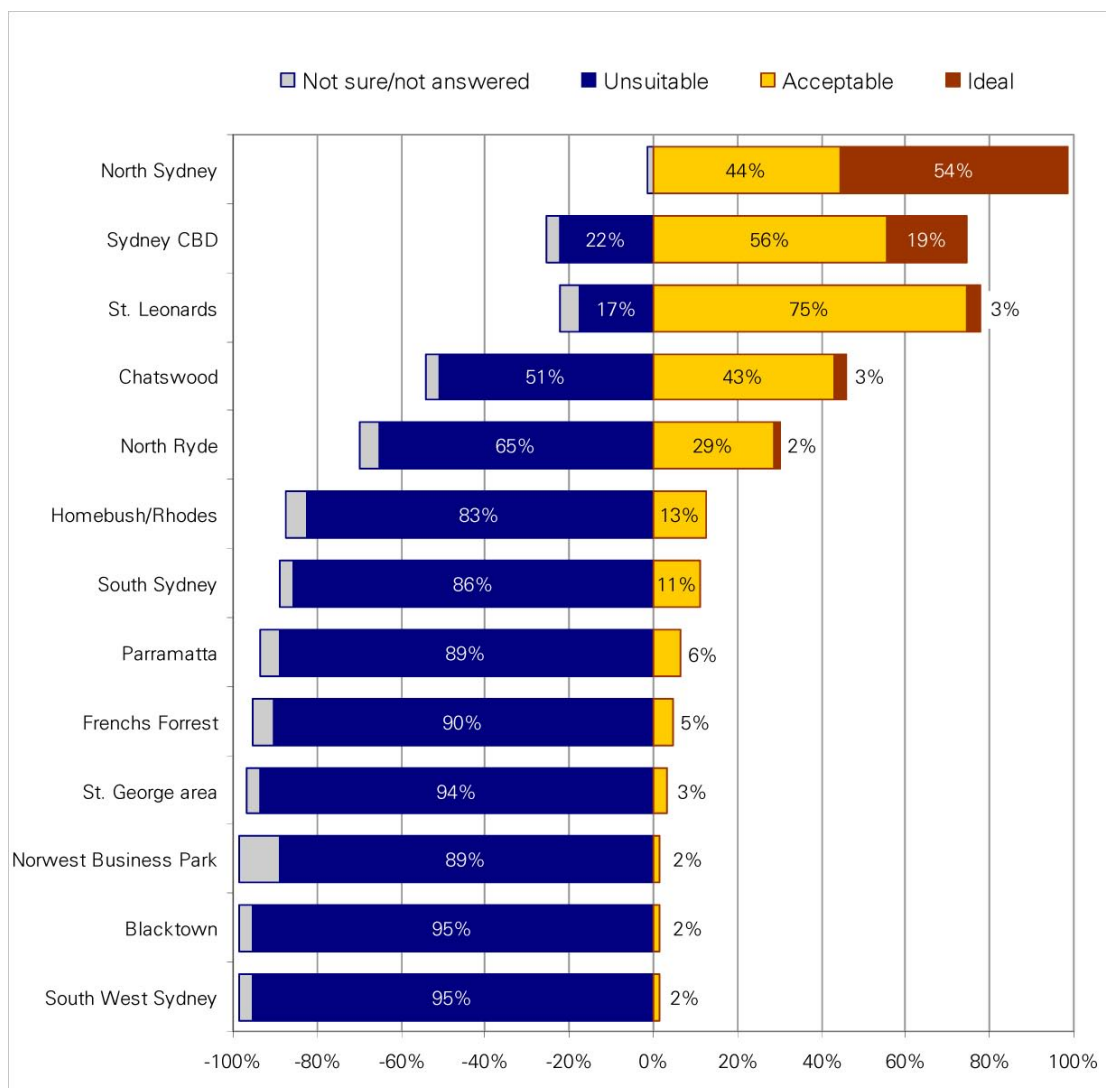


Figure 11 – Suitability of North Sydney and other locations for your business



## North Sydney Demand Study

Crosstab analysis	more popular among
Sydney CBD	Sub-offices (state office, local office), large, core
Nth Ryde	Sub offices, IT+T and large tenants, large, core
Chatswood	Sub-offices and recent movers to North Sydney (in last 10 years), large, core
St.Leonards	Head offices, IT+T large, core

In regards to how tenants rated North Sydney as a business location, no respondents indicated that they felt that North Sydney was unsuitable. Instead, all respondents rated North Sydney as either acceptable or ideal.

Of the tenants that rated North Sydney as being acceptable rather than ideal the primary issue was the cost of rents (14%) and problems with parking. A number of tenants could access cheaper rents in other locations such as North Ryde and St Leonards. This suggests that tenants feel that they are not getting satisfactory returns for the rent that they are paying. There seems to be the implication that some tenants feel that while they are paying premium rents but they are not being provided with a commensurate business location. Some of the issues coming out of the survey indicate dissatisfaction with the retail shopping in North Sydney and also that there is a lack of A Grade and Premium accommodation available.

11% of respondents commented that parking was a problem. "All round, it is pretty much ideal, but issues such as parking are not ideal". Cost seems to be an issue with the parking, as well as the availability and short time limits. Tenants have said that this has been of concern to clients as well as staff.

54% of tenants rated North Sydney as an ideal business location and 44% rated it as acceptable. 11% of respondents expressed satisfaction in being close to public transport. This contrasts to 6% of respondents who felt that the public transport was not convenient. This is most likely to be a concern of tenants that are located on the periphery of the North Sydney CBD. Proximity to road networks was also a positive factor raised. 8% of respondents felt that being near the Sydney CBD gave their business an advantage. It would seem that tenants gain the benefits of being relatively close to clients and industry professionals in the Sydney CBD while avoiding the negative aspects of higher rents and congestion.

A recurring theme has been the importance of the locality that staff reside in has on the business location decision-making. 6% of respondents felt that North Sydney was ideal because it was close to where staff lived along the North Shore. This would be one of the contributing factors to why there is a reluctance to move to other business districts. Samples of comments are included below:

*"Much of the IT industry has left North Sydney. The area is not seen to be 'The place to be'."*

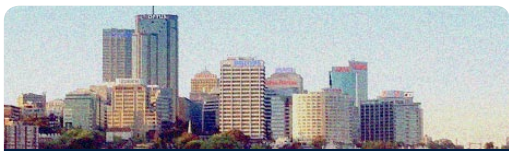
*"I think it needs a new image - it has lost its way somewhat. Should become more like The Village in New York- people working & living in the area."*

*"Well known overseas, easy transport, suitable rents"*

*"Centrally located is fine but cost is an issue. Many comments on the cost of parking from our visitors."*

*"CBD would be better choice but lifestyle in North Sydney better for staff."*





### 6.6 Expectations of growth

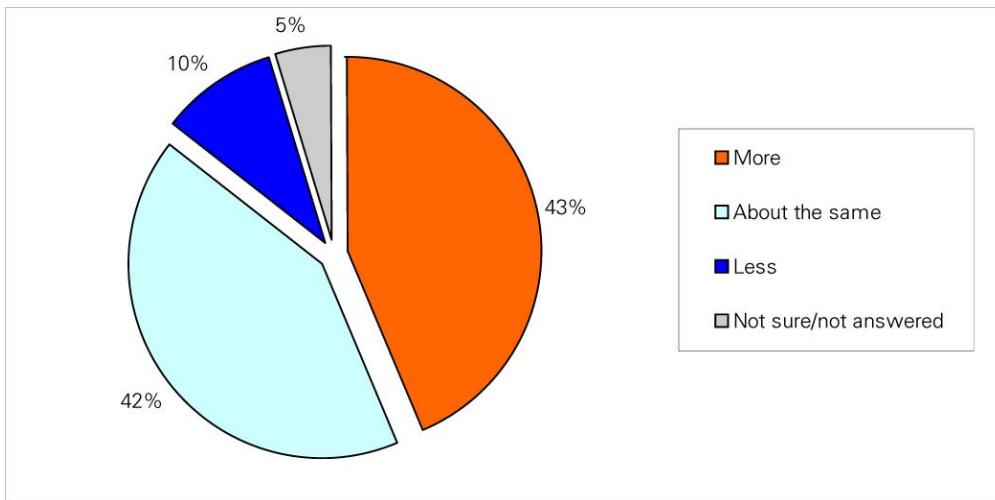


Figure 12 – Anticipated office space needs in five years time (2009)

**How much more?** Average increase of 55% (range from 11% increase to 125% increase). Based on 21 respondents, with current areas between 80m<sup>2</sup> and 5,600m<sup>2</sup>.

**How much less?** Average drop of 41% (range from 31% drop to 46% drop). Based on three respondents only, with current areas between 650m<sup>2</sup> and 3,240m<sup>2</sup>.

Expectations of decline were higher among IT+T and tenants with large floorspace. Fringe-dwellers had higher expectations of growth than CBD core. Sub-offices were the least stable – more likely to expect growth *and* decline.

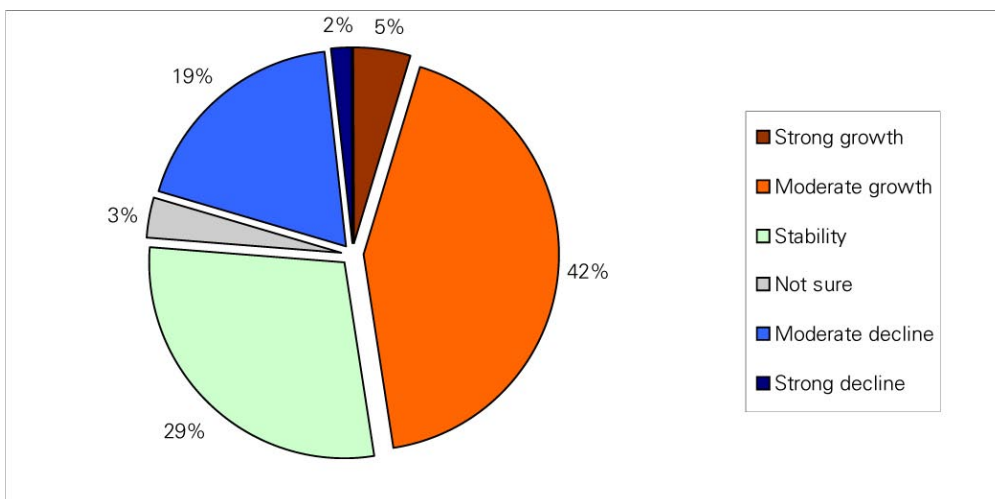
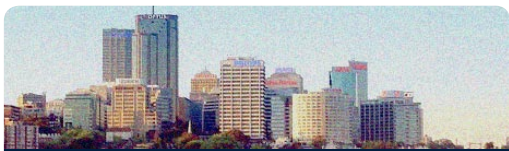


Figure 13 – Anticipated growth of the North Sydney CBD



## North Sydney Demand Study

### Crosstab analysis

- Growth was more commonly expected by recent tenants (last 10 years), large and IT+T.
- Stability was more commonly expected by sub-offices and fringe dwellers.

The vacancy rate in North Sydney seems to be a significant issue. 22% of respondents expressed concern about the amount of vacant space at present and that key tenants had recently vacated North Sydney. Comments included:

*"High current vacancies - need to achieve past levels before real growth can recommence."*

*"Desirable location, but quite a lot of vacant space now. Unless rents drop, I can't see it 'growing' a lot."*

*"Lack of development. Large tenants leaving (e.g. CSC, Optus). Relatively expensive but not CBD."*

These comments exemplify sentiment among some of the tenants in North Sydney. Many tenants felt that there was not going to be moderate or strong growth. 14% of respondents commented on the increasing competitiveness of campus developments such as North Ryde and the North West and 6% of these tenants were either considering themselves, or knew tenants considering, to move out of North Sydney.

Other concerns raised were the cost of rents in North Sydney and the state of accommodation. A number of respondents felt that growth would be achieved when more refurbishment had taken place.

Despite these concerns it would seem that many tenants are positive about future growth. 16% of respondents said that there would be growth because North Sydney is a well-established area in a good location. There were comments that the expanding business areas would make North Sydney more central. While there are a number of tenants concerned about the exit of many advertising agencies and creative companies there also seems to be a sentiment that the technology crash of 2001 has passed and that there will be stability or growth now.

### 6.7 Best and worst things about North Sydney

Overall there seems to be much optimism about North Sydney as a business location. The best factor about North Sydney would be transport with 44% of respondents commenting on the good transport facilities. This suggests that having a location with good public transport facilities is a major consideration in a company's choice of office location. This would be a contributing factor to the lack of attraction to other business locations such as those in North West and South West Sydney where public transport provisions are inadequate. 10% of respondents also commented on the good road access in and out of North Sydney. A sample of positive comments is included:

*"Topology of the landscape. Range of streetscapes. Ambience. Not grotty or oppressive. Is business like."*

*"Provides good transport services for employees. Road access to rest of Sydney is good. More sensible development in North Sydney compared to Sydney CBD."*

*"Close to CBD so accessible- Fringe of the city scenario. Nicer streetscape, more parks, less congested."*

*"Central to CBD. Is like a mini CBD without the huge size and large number of people. Streetscape is not as crowded as Sydney CBD."*





## North Sydney Demand Study

32% of respondents were happy with the access to amenities, services and retail. 11% of respondents were also happy with the streetscape and general ambience of North Sydney. 8% felt that a positive aspect of North Sydney was the reduced congestion in comparison to Sydney CBD.

Apropos of location, 32% of tenants surveyed felt that being in close proximity to Sydney CBD was positive for their businesses. 24% commented that their businesses benefited from being close to their clients, 11% remarked that their staff lived near by which made North Sydney a convenient location.

### 6.8 Aspects of North Sydney that detract from its appeal as a business location?

Of the 63 respondents to this question 10% stated that they did not feel that there were any factors that reduced the appeal of North Sydney as a business location.

The major detractors of North Sydney as a business location related to parking and costs of rents. 30% of respondent's comments related to dissatisfaction with parking in terms of either being too expensive or too difficult to find. 19% commented that rents were too expensive. A sample of comments is included;

*"The parking issue. Accessibility problems."*

*"No. I love North Sydney as a location."*

*"Biggest competitor is Western corridor- Sydney Harbour. 12% vacancy in North Sydney. When Optus leave it will be worse. Northpoint food court patronage is down."*

*"More expensive - rents and car parking are too high. Bad access. Has lost its urban heart. Not as dynamic as it was. Quality of accommodation falling."*

*"Lacks planning and is getting 'run down'."*

Another concern raised by respondents was that there was not enough entertainment related services in North Sydney. Some said that there is a need for more restaurants. Others commented that there was not enough retail offering. Finally, 6% of tenants commented that there was an overall loss of ambience and vibrancy in North Sydney.

### 6.9 Recent tenant movements

Tenants who moved from North Sydney or who could possibly have chosen North Sydney as a business location were also considered and surveyed.

Several tenants who had recently relocated their companies from North Sydney to other business locations were surveyed. Two tenants had been in North Sydney for over twenty-five years. Each of the companies surveyed were part of the property and business and finance sectors. These companies had relocated due to cost, the image of the company, location and the need to secure large floor spaces.

Three of the four tenants had moved into suburbs surrounding North Sydney. This substantiates the lack of interest in moving to more outlying areas and instead opting to stay within close proximity to Sydney CBD and the North Shore. Three tenants had moved for various reasons including less congestion, parking costs and greater variety in office space quality and size.



## North Sydney Demand Study

A fourth large tenant had moved in order to consolidate their offices distributed around Sydney and were looking for campus style accommodation. They did not feel that this was attainable in North Sydney due to the limited supply of large floor plates available.

Two of the companies believed that it would be better to be located near their industry groups. They felt that while their particular industry groups had traditionally had a strong presence in North Sydney there had now been a shift by their respective industries to alternative locations. Both companies indicated the importance of being seen in the marketplace.

All respondents felt that there would be stable or moderate to strong growth in the North Sydney business district. Respondents contributed this to the nature of North Sydney in being a CBD close to Sydney CBD yet with less costly rents and also the push of residential development that some tenants feel will bring more people into North Sydney. This optimism is surprising considering their decision to leave North Sydney. The ease of access via public transport and the local cafes and services were positive aspects of North Sydney as a business district.

Anecdotally, Oracle moved from North Sydney to North Ryde as a result of consolidation and cost savings. However they have subsequently taken space back in North Sydney for a sales office and corporate presence. The initial bleed to North Ryde may have occurred with swinging tenants now consolidated. Chatswood is a more favourable target for future leakage to North Ryde. Cost imperatives will remain for tenants who do not require the corporate image that North Sydney may offer.

Many tenants have moved within the North Sydney market to upgrade the quality of their accommodation. Additional pressures for landlords in the current environment are shorter initial terms and options thrown in, resulting in a termination cycle within 3 years and a tenant market prevailing for some time. Recent tenant movements into North Sydney include; Creator, Vignette, and Weight Watchers.

The following tenants have recently or will move from North Sydney due to cost; George Patterson Bates (to the Western corridor), Optus (to North Ryde), DDB Needham (to Ultimo), AGL (to St Leonards), and First Data (to Chatswood).

Other tenant movements out of North Sydney possibly not as heavily influenced by cost include; Unisys, Zenith, Channel 7, Transfield, BMC, Phillips, McCann Erickson, and EDS. The table below outlines recent tenant movements in and out of North Sydney.



## North Sydney Demand Study

### Recent Tenant Movements

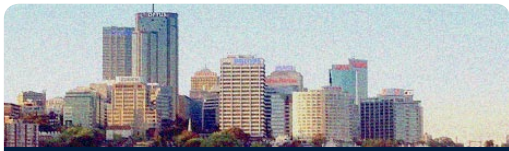
Date	Tenant	Moved From	Moved To	Influences
February 2005	Creator	Thornleigh	North Sydney	CBD Locality
	Lexmark	Frenchs Forest	North Sydney	Proximity to CBD
	Millward Brown	Cremorne	North Sydney	Wanted CBD Location, accessibility for clients/staff
	George Patterson Bates	North Sydney	Sydney CBD	Cost
July 2007	Optus	North Sydney	North Ryde	Cost, consolidation of North Shore tenancies
April 2003	DDB Needham	North Sydney	Ultimo	Cost
June 2004	AGL	North Sydney	St Leonards	Cost
	First Data	North Sydney	Chatswood	Cost
	Channel 7	North Sydney	Sydney CBD	Cost and consolidation
June 2003	Transfield	North Sydney	Sydney CBD	Financial, quality, convenience
August 2001	Phillips	North Sydney	North Ryde	Cost, location suitability
	McCann Erickson	North Sydney	Woolloomoolloo	Cost, Style of accommodation
March 2004	Unisys	North Sydney	Rhodes	Cost, new building
May 2002	Computer Sciences Corp	North Sydney	North Ryde	Consolidation of offices
	Termguard	North Sydney	McMahons Point	Location, cost
Late 2004	EDS	North Sydney	Sydney CBD	Cost, quality and age of building, consolidation.

Source : UrbisJHD

### Tenant Movements and Markets Considered

Tenant	Considered	Chose	Reason
Grand United	North Sydney, North Shore, Sydney CBD	Sydney CBD	Favourable lease terms
Protocol	Sydney CBD, North Sydney	Sydney CBD	Favourable lease terms
ANZ	All options presented	321 Kent Street, Sydney	Favourable lease terms
ThreeCom	North Ryde, St Leonards, North Sydney	North Sydney	Favourable lease terms
BMC Software	North Ryde	North Ryde	Cost
Baycorp	North Sydney, Sydney CBD	North Sydney	Cost

Source : UrbisJHD



## North Sydney Demand Study

### Recent Tenant Precommitments

Tenant	Address	Moved From	NLA (m <sup>2</sup> )
Nestle	1B Homebush Bay Drive, Rhodes	Sydney CBD	17,000
Ernst & Young	Latitude at World Square	Western Corridor	36,200
AAPT	Latitude at World Square	Sydney CBD Core	9,500
Deutsche Bank	126 Phillip Street, Sydney	Western Corridor	17,000
Ebsworth & Ebsworth	126 Phillip Street, Sydney	Sydney CBD	5,000
Westpac	KENS Site	Numerous Locations	73,920
Mercer and Marsh	Darling Park III	Sydney CBD	14,322
Commonwealth DPP	Civic Tower, 66-68 Goulburn Street	Sydney CBD	4,800
CSC	26 Talavera Road, Macquarie Park	Chatswood	22,416
KPMG	Shelley Street, Sydney	Western Corridor	26,000

Source : UrbisJHD



# 7.0 Investor Sentiment Survey

## 7.1 Survey methodology and owners interviewed

Owners were interviewed face-to-face utilising semi structured interviews comprising a series of prompts. A sample of the prompts is included at the appendices. Representatives of the following owners were interviewed; Macquarie Office Trust, Investa, James Fielding Group, AMP, Stockland, Leightons, Mirvac, ING and numerous private owners.

This group owns or controls well in excess of 50% of the study area by Net Lettable Area. They are a good sample of the investment population with interests in key commercial markets throughout Australia.

## 7.2 Overall sentiment and comments

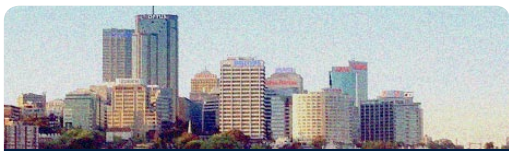
- There are mixed attitudes in relation to controls that exclude residential development from the City Centre. The 'investment' opinion is that this has the effect of reducing potential supply and coupled with the limited number of potential development sites will protect it for the future therefore maintaining investment returns. Alternatively the 'development' opinion is that the lack of vibrancy and life within the CBD by excluding residential development will continue.
- Removing the CBD core exclusion for residential development based on merit (view corridors etc) was felt to be a key factor in bringing 'life' to the CBD. Owners were not against CBD residential development in key locations provided issues such as parking provision for existing commercial space was not diminished. Chatswood was repeatedly cited as a case in point of poor CBD planning.
- The CBD is "...dull, drab and boring..." The 'public domain strategy' by Council is welcomed as a positive and much needed initiative in addressing the amenity of the CBD. Owners see this as a positive step by Council in addressing an overdue issue. The location of a central Mall as a focus point and to address retailing / cafes etc was suggested.
- The promise of high expenditure on public domain was questioned given Council intends to fund this predominantly through section 94 obligations, with only two (uncommitted) developments currently contributing.
- The North Sydney CBD is disconnected from eastern North Shore locations (Neutral Bay, Mosman) that have a village feel to them. The Pacific Highway and feeder access routes further dissect the CBD preventing a consolidated centre. Solutions offered included re routing traffic flows, slowing Pacific Highway traffic, and 'roofing' the Warringah freeway to provide parking or a retail offering.
- The station upgrade was felt to be a positive move (particularly as it was to be paid for from development contributions and not at existing investors expense) with specific comments relating to the present 'dirty' appearance. However the alternate opinion on the upgrade was that that it may not provide direct returns as workers were going to use trains regardless of the condition of the station (eg: the poor amenity yet higher patronage of Wynyard station was cited).



## North Sydney Demand Study

- The release of additional commercial floorspace was questioned particularly with the present strong supply of competing locations and current vacancy levels. It is uncertain whether the existing level of commercial supply in North Sydney needs to be maintained. However, the potential to add FSR to existing buildings lowered the return threshold and potentially allowed more viable solutions.
- Previous solutions to CBD issues were cited such as incentives or additional floorspace ratios for residential uses. 'Energetic' solutions were required. Political motivation was questioned with North Sydney Council essentially a residential municipality with Councillors elected for a limited term but controlling a major commercial centre requiring long term planning.
- Amalgamation of sites for development is difficult and will continue to be problematic with further strata subdivision occurring. Body corporate governance or alternate impositions are required for unwinding strata from obsolete buildings.
- Development levies (train station and sec 94s) lack parity with other locations where many owners also have development pipelines such as North Ryde. Notwithstanding returns within North Sydney have sufficient margin against competing locations to prop up viability. Price / quality points are maintained against other North Shore locations, however have fallen against the strong supply of Western Corridor and Ultimo stock. Whilst development levies were cited as being prohibitive the existing speculative developers were not overly critical of the impost they are to bear.
- The LEP and its controls were overly restrictive and inequitable. Performance or merit-based development was preferred to take advantage of sites that offered potentially better outcomes and achieve more flexible solutions. Poor planning outcomes in Chatswood were repeatedly referenced.
- Parking controls prevent development 'suitable' for North Sydney tenants by significant 'under parking' in comparison to other locations. There is a disconnect between local and state government imperatives. The move to reduce traffic and parking within the CBD was one example. In North Sydney with a large amount of workers driving, then parking is considered a valuable resource. In a development underway the high parking ratio was cited as an advantage against other potential market participants.
- The State Government parking levy is inequitable.
- Some owners felt that over the longer term Council had consistently created difficulty through their processes and manner and were now feeling the effect of these attitudes. This effectively created a barrier to entry for other participants however also frustrated and prevented opportunities from being capitalised upon. Alternatively other participants felt that Council were relatively easy to deal with.
- North Sydney offers a sound product orientated toward smaller users. Opinions diverged as to whether it formed a natural extension of the Sydney CBD, or not. Larger tenant orientation generally moved the market pool to an extension of the Sydney CBD.
- Comments were made as to the quality of the retail offering spiralling downwards. [With the loss of high spending advertising companies etc. the viability of restaurants and support retailers has reduced, this has flowed through the non-commercial market.] The recent co location of restaurateurs at Crows Nest was noted as a successful private enterprise initiative.





## North Sydney Demand Study

- The existing retail mix was poor and without well-developed amenity could not achieve the 'village atmosphere' often touted. The lack of a strong 'anchor' retailer (Discount Department Store etc) or entertainment precinct prevents weekend potential.

### 7.3 Future outlook for North Sydney

- A consensus view that the commercial market appears sound, however reflecting the influences of a larger market contraction. There are some challenges for owners in the near term.
- Most institutional owners are long-term investors with 'lumpy' assets that are comfortable with property cycles. In the majority of cases Institutions own the better 'gateway' sites and can afford to maintain competitive quality, however are pressured by existing returns.
- North Sydney is a naturally 'different' market that has strong focus on smaller tenancies. Commercial demand has been soft with a lowered demand for space throughout most commercial markets.
- Many owners also have exposure to North Ryde. This is a primary competing market that has established competitive (cheaper) rentals, a strong supply pipeline and recently significant FSR bonuses for many owners. Leakage to this location will invariably continue, however this location does not suit all tenants. In North Sydney there is a bias toward small tenants who require high levels of amenity that cannot be provided at North Ryde. North Ryde may become more competitive with the completion of the rail link.
- Aging small stock held by private investors and one off purchasers will increasingly struggle to compete as the gap in quality widens. In the absence of interest rate rises or Body Corporate governance / legislation then strata subdivision will continue.
- Provided corporate management remained with North Shore residents then commercial demand would also exist. There is a gradual take up in space at locations that have been primary competition to North Sydney (eg: western corridor) that will now allow spill over from the Sydney CBD to North Sydney.
- Whilst potentially flooding the market, the 'Optus factor' is not considered to be overly detrimental as the exposure and quality of the space should readily attract and maintain alternate Sydney CBD tenants.
- There is some hope that the two developments currently uncommitted and under way may establish new benchmark returns that will assist with viability for future developments. Recent St Leonards deals (in excess of \$400/m<sup>2</sup> net face) for new quality stock may underwrite this potential.
- There is a definite timeline running in the near term, with several major events occurring that may influence the immediate future of the North Sydney CBD. Ie: Current refurbishment programs, completion of uncommitted developments in 2006 & 2007, Optus and AGL relocations, completion of rail link to North Ryde etc.



## North Sydney Demand Study

# 8.0 Conclusions

## 8.1 Summary

### Supply

- A key national commercial market
- Limited stocks of Premium and 'A' grade buildings
- Large volume of older stock that is becoming obsolete
- Orientated towards small floorplates
- Existing parking appears adequate for existing needs
- Strata subdivision increasing in a conducive environment
- Two major developments underway that are uncommitted
- High proportion of institutional ownership, however also many private owners
- Low weighted lease expiry (58% will expire within 2 years)
- Median tenancy size 481m<sup>2</sup>, mostly smaller tenants

### Demand

- Recent soft commercial demand in North Sydney and other commercial markets
- Tech crash of 2001 exacerbated by exposure to a single sector
- Market improving, steady enquiry
- Existing tenants have upgraded quality
- High proportion of Communication Services, Finance & Insurance, Property & Business Services (white collar growth)
- Limited government representation
- 52% of workers reside in Northern sector, 11% are resident in the area
- Predominantly train users (~40%) with lowering car use (~35%)

### Performance

- Higher recent exposure to vacancies than other markets
- Incentives decreasing, effective rents holding
- Prime yields pressured
- Recent total returns have been poor however outlook is firmer
- Sales volume increasing with varied motivation



## North Sydney Demand Study

### **Retail offering**

- Absence of major retailers
- Retail role is focussed on needs of workers

### **Tenant Sentiment**

- Mostly (49%) State or Regional offices
- Most important factors influencing choice; Cost, public transport, corporate image, availability of parking
- Existing Car parking appears sufficient for existing needs
- Alternate locations in competitive set; Sydney, St Leonards, Chatswood and North Ryde
- 55% of tenants surveyed will need more space over the next 5 years

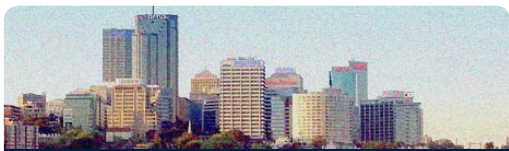
### **Investor Sentiment**

- Sound investment market with underperforming recent history
- Long term view however uncertain unless new benchmarks can be established
- North Sydney offers a product that differs from other markets, particularly North Ryde that has a strong potential supply
- Mixed responses to LEP and controls, flexibility needs to be promoted
- Levies (parking, rail station) are inequitable
- Public Domain program requires pull forward and Council impetus
- Perception of lack of Council pro activity in the past
- Concern that short term political objectives may over ride long term commercial perspectives

## 8.2 SWOT Analysis

### **Strengths**

- North Sydney retains an image as a desirable location and good corporate position.
- There is good public transport and parking available for the commercial users.
- An extension of the Sydney CBD is possible for large tenants allowing spill over in demand.
- The smaller tenancy sizes that North Sydney has on offer suits a large proportion of the commercial market pool.
- Many of the existing tenants are reasonably satisfied with the nature of the North Sydney commercial offer.



## North Sydney Demand Study

### Weaknesses

- There is a disproportionately high volume of ageing smaller buildings that are held in private ownership.
- In the current economic environment commercial strata demand will continue to be strong. This will promote strata subdivision of the smaller buildings that may lock out key development sites in the future.
- The CBD is without retail or entertainment offerings that exist at many other major commercial centres. Even with a strong nearby resident population there is little 'life' in the city.
- The dissection of the CBD by the Pacific Highway and the feeder roads for the freeway fracture the CBD core. Existing traffic flows and routes prevent continuity.
- There is a lack of coherence in the overall Planning approach. Future strategy and objectives need to be considered carefully.
- Public Domain is poor.
- Levies such as parking and station upgrade appear inequitable.

### Opportunities

- North Sydney Council and the Property Council of Australia have joined forces in undertaking this project and can effectively position for the future. Key stakeholders are engaged and conscious of the challenges over the immediate future.
- The new LEP provides for potential development of additional FSR from existing buildings that is more viable than securing an entire site however it is uncertain whether this can occur practically.
- The two projects currently underway could achieve new benchmark rentals that would allow growth to filter through to the rest of the market.
- The CBD may be re invigorated with the Public Domain strategy, promoting confidence and effectively increasing the 'offer' of North Sydney.
- The Rail Station refurbishment may provide an enhanced 'gateway' to the city for the majority of the commercial users.
- The Sydney Metropolitan Strategy may assist in positioning North Sydney as a fundamental commercial centre.

### Threats

- There has been a significant increase in the potential supply of commercial space in competing locations such as North Ryde. Alternative commercial markets continue to emerge as well as suburban nodes.
- There is potential for the rental differential to lower in comparison to other locations. Previously North Sydney has retained a price point for its offer however this may be under pressure.
- There are a number of near term influences that promote volatility such as; North Ryde supply increase in 2004, North Ryde train station opening in 2007, two uncommitted projects in North Sydney due for completion in 2006 & 2007, Optus departure in 2007 and prospect of global downturn in 2008 etc.

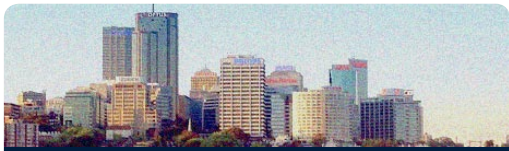


## North Sydney Demand Study

### 8.3 Recommendations

1. In partnership with the Property Council, develop a comprehensive marketing strategy to publicise the benefits of the North Sydney CBD to existing and potential tenants, investors, building owners and managers. This should include a detailed analysis of the trends in the major user groups in North Sydney, namely the property and business services sectors, targeting marketing of potential new users from those sectors.
2. Investigate creating a dedicated Council resource to actively support the North Sydney CBD and key revitalisation and investment projects. This resource would deliver the marketing strategy for the North Sydney CBD, as well as provide assistance to prospective tenants and investors in the CBD.
3. Ensure the delivery of the current CBD Public Domain Strategy by allocating Council funds to ensure the timely delivery of works and balance the reliance on income from development contributions. Consider additional funding mechanisms for the Public Domain Strategy.
4. Continue to protect the commercial and employment future of the North Sydney CBD by retaining the existing residential exclusion in the core, but invigorate the northern edge and the non commercial core of the city to support residential growth.
5. Investigate the development of a comprehensive “Living CBD” program to bring greater life into the city centre. This could include encouraging alternate retail and entertainment offerings, particularly outside standard business hours. This program should promote North Sydney’s lifestyle assets such as close proximity to Sydney Harbour, North Sydney pool, ovals and parks.
6. Develop a comprehensive traffic and transport management plan for the North Sydney CBD, incorporating:
  - a. Mitigation of the impact of through-traffic on the North Sydney CBD through calming or removal.
  - b. Promotion of greater public transport use and viability.

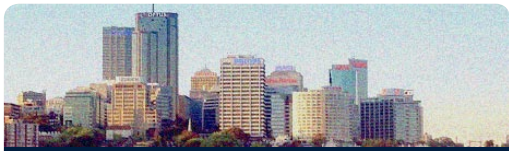
Lobbying the State Government to ensure the Railway Station upgrade proceeds in a timely manner and delivers the best outcomes for North Sydney tenants, investors and residents.
  - c. Investigate the cost to development and the competitive imbalance created within North Sydney by the various levies such as State Government parking and Railway station upgrade. Pressure for direct return of State Government levies.
  - d. Lobbying the State Government for the expenditure of 50% of the compulsory parking levy in the North Sydney CBD.
  - e. Promotion of the availability (location) and accessibility (visibility) of visitor and commuter parking.
  - f. Review of the DCP parking controls for new buildings.
7. Investigate the impact of State Government levies (parking and railway station upgrade) on the competitiveness of new development in North Sydney.



## North Sydney Demand Study

8. Continue to work closely with the State Government to reinforce the importance of the North Sydney CBD and its role within the emerging Metropolitan Strategy. North Sydney's important position as the centre of Sydney's "global arc" and second largest employment centre should be strongly emphasised.
9. Continue to monitor existing planning controls to ensure quality outcomes are achieved for the long term benefit of the CBD.
10. Prioritise and publicise the study and its recommendations in recognition of the short term challenges facing the CBD.





## North Sydney Demand Study

Any enquiries regarding this study or other property related matters should be directed to;

Troy Griffiths

Director, Property Investment & Advisory

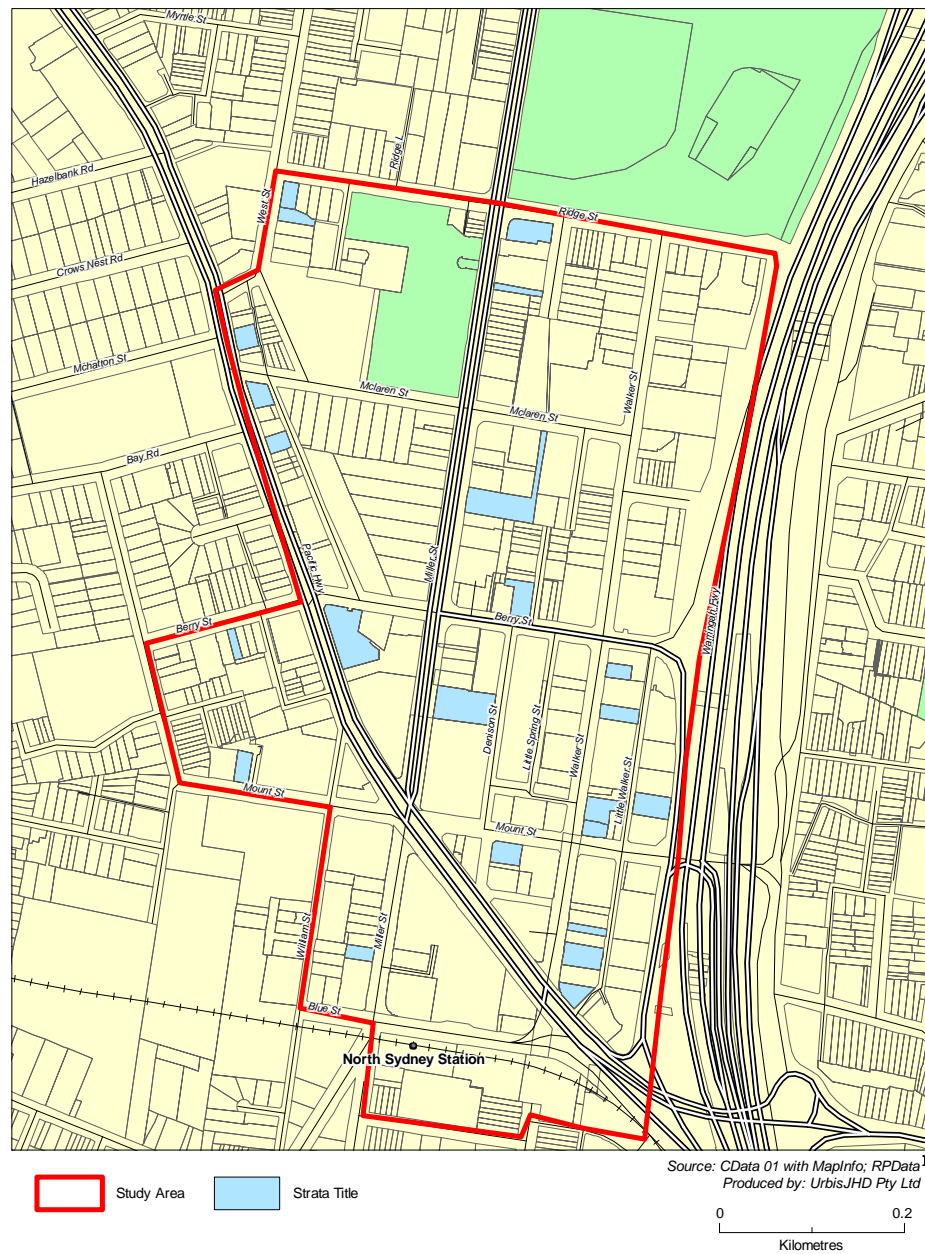
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Tel + (02) 8233 9900

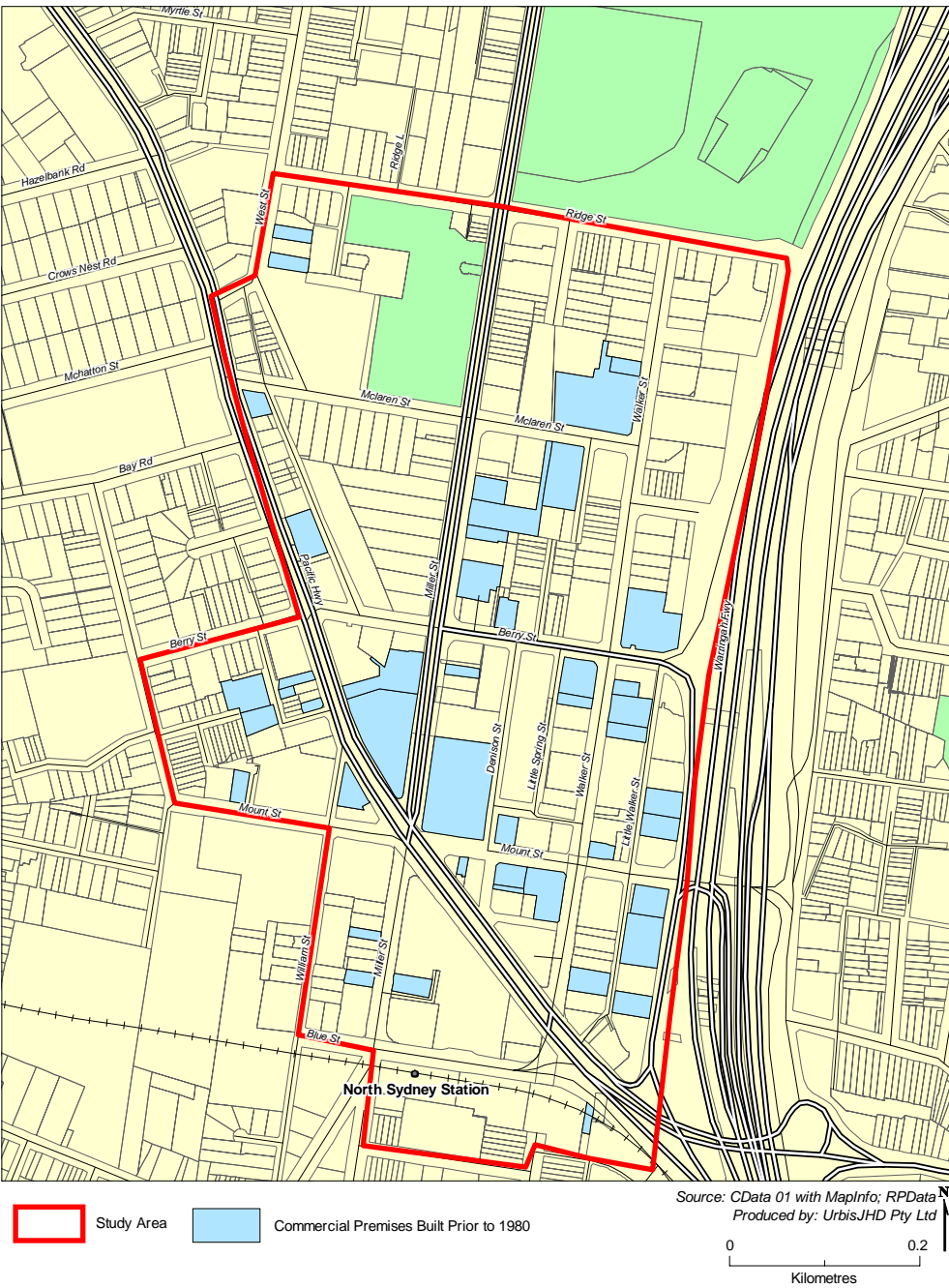
# Strata Title

## North Sydney



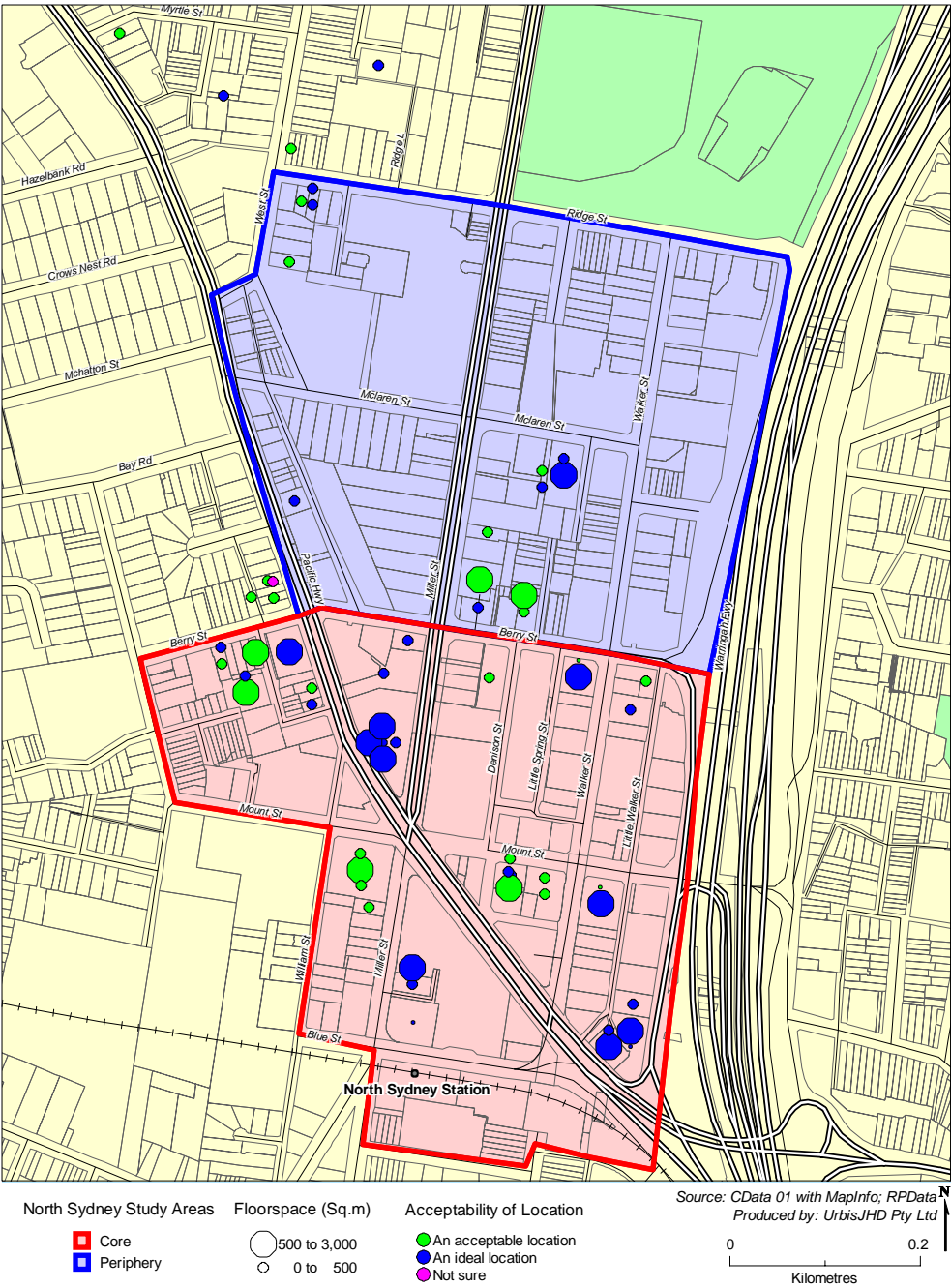
# Commercial Premises Built Prior to 1980

## North Sydney



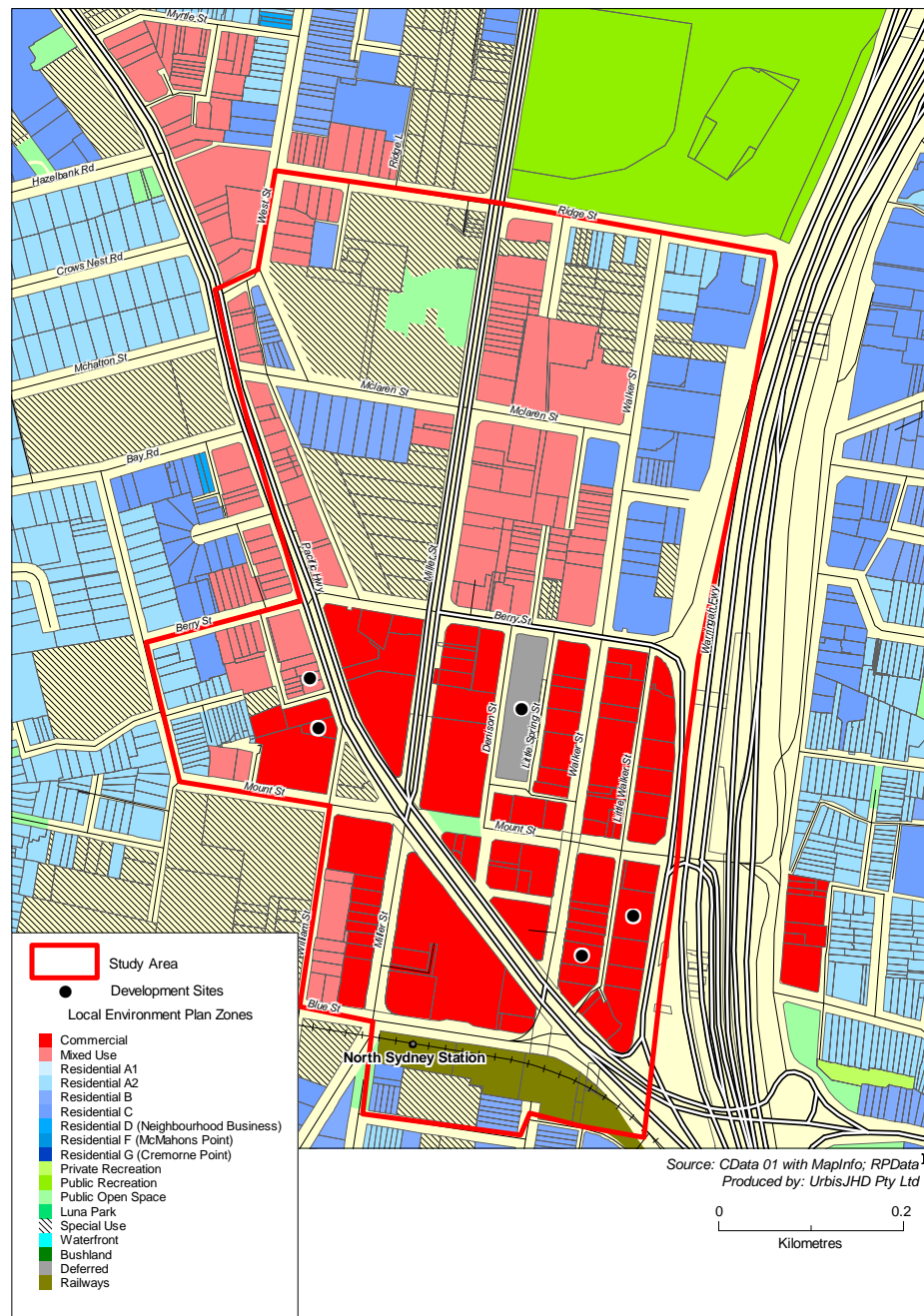
# Survey Respondents

Tenant Survey, 2004



# Commercial Development Sites and Zoning

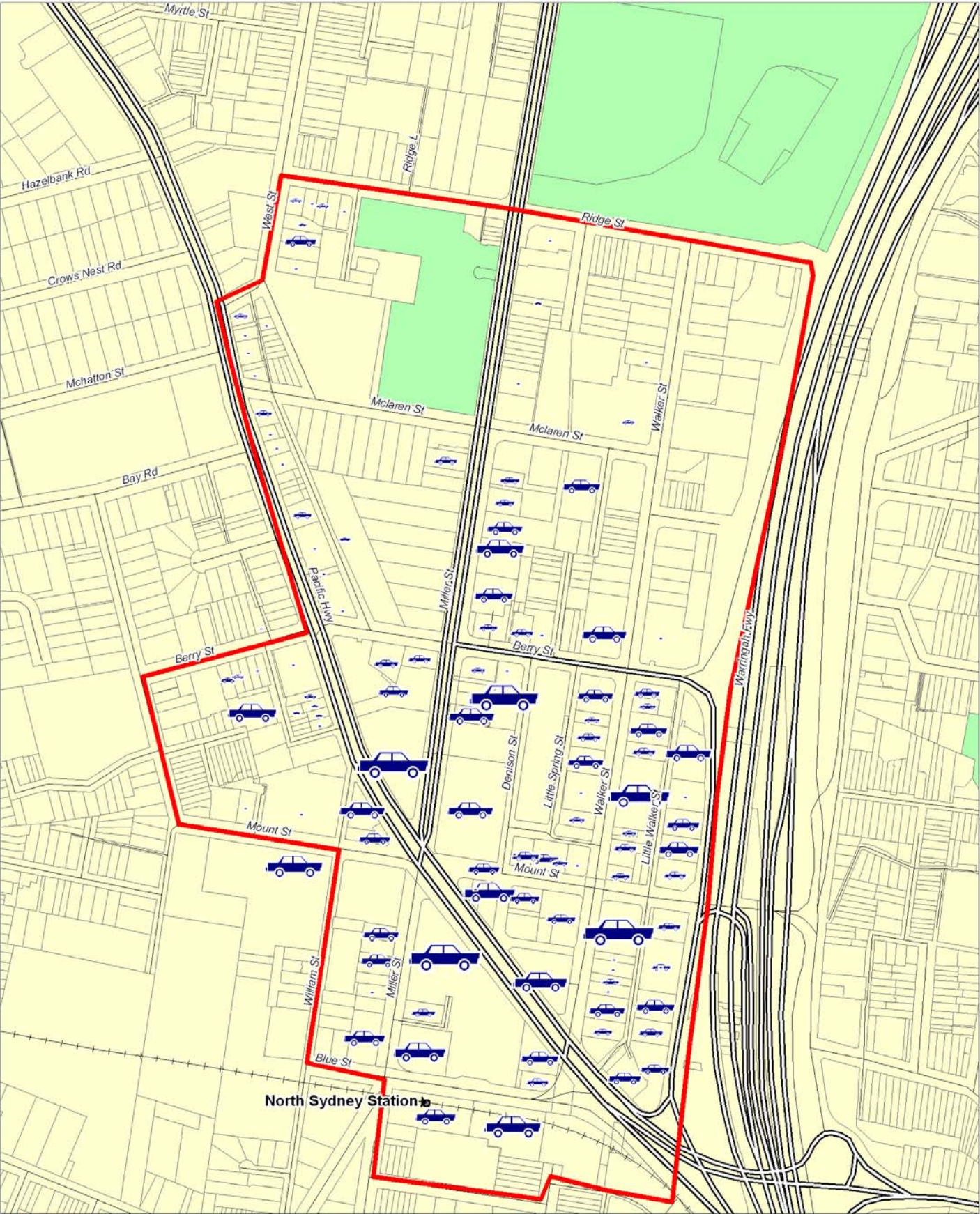
## North Sydney





# Car Parking Areas and Bays

## North Sydney



 Study Area

Car Parks by Car Bays

 200

 100

 20

Source: CData 01 with MapInfo; RPData  
Produced by: UrbisJHD Pty Ltd

0 0.2  
Kilometres