SCENTRE GROUP

Westfield Parramatta Commercial Tower - Economic Assessment

Section 75W Modification (MOD 1) to the Approved Commercial Tower Building Envelope
Concept Approval Major Project MP10_0068
Westfield Shopping Centre Parramatta

Prepared for Scentre Group

15 May 2018

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1 Executive Summary

1.1 Background and Scope

As part of a prior Part 3A Planning Proposal, Scentre Group (formally Westfield Pty Ltd) submitted to the Department of Planning and Environment on the Westfield Parramatta asset which included ~ 35,000 sqm GFA in office uses. This Concept Plan was approved in February 2014 and since that time, Scentre has been exploring opportunities to attract suitable corporations to the Parramatta market. Feedback from the market suggested major prospective tenants require larger floor plates and larger total floor space. As such, Scentre have worked with Woods Bagot and proposed an alternative envelope with an increase in building height, floor space and the tower floor plate – while also addressing some of the concerns raised by Council.

This report is to provide context into the Sydney office markets, with specific focus on the Parramatta CBD, concluding with observations on the proposed commercial development.

1.2 Key Findings

The analysis within this report has derived the following key findings:

Introduction

- The proposed commercial development is to be located at central point in the Parramatta CBD, above Westfield Shopping Centre, on Argyle Street, approximately half-way between Church Street and Marsden Street. The site is directly opposite the Parramatta railway station, benefitting from access to retail and transport amenity and therefore being a highly suitable location for high-rise commercial development.
- The proposal is seeking to modify the approved Concept Plan to provide for an increase in building height, floor space and tower floor plate for the commercial tower.

Economic Context

- The most recent Australian Gross Domestic Product numbers show that Australia has had an unprecedented 27 years without recession, which is the only country in the developed world with a period of uninterrupted economic growth that long. New South Wales has recently experienced a strong state economy above the national average. Retail turnover growth (by volume) in New South Wales has been above the national average since mid-2013.
- The current economic conditions are conducive to investment, reflected in the long term growth in the Australian market and most recent strength in the NSW market.
- The conditions have specifically supported very strong growth in the Sydney property markets with all asset classes benefiting (residential, office, retail, industrial etc.). We expect the investment and development markets to moderate significantly.
- The JLL house-view is that conditions indicate a moderated growth outlook – with the key implication being that the recent investment levels may not be continued. This will most noticeable impact the development market where very significant activity has occurred recently.

Office Market Analysis

- The Sydney office markets monitored by JLL comprise 9.59 million sqm of office space, 52.5% of which is located in the Sydney CBD market, and 47.5% located in the nine major metropolitan office markets.
- As at Q1 2018, the total stock across the nine monitored metropolitan markets was 4.556 million sqm. The largest Sydney metropolitan market is the Sydney Fringe and it comprises 0.919 million sqm of stock, which accounts for 9.6% of the total Sydney office market.
- The Sydney CBD has 5.037 million sqm of office space, with 60.5% of stock considered Prime grade (Premium and A-grade) with the balance Secondary grade.

Table 1: Sydney Office Market Profile, Q1 2018

	Net Lettable Area	Prime Grade Stock	Secondary Grade Stock
	'000 sqm	% Total Stock	% Total Stock
CBD Markets			
Sydney CBD	5,037	60.5%	39.5%
Metropolitan Markets			
Sydney Fringe	919	42.4%	57.6%
North Sydney	818	44.8%	55.2%
Chatswood	303	44.2%	55.8%
St Leonards	310	28.7%	71.3%
Norwest	230	84.4%	15.6%
SOP/Rhodes	281	90.7%	9.3%
Sydney South	244	73.5%	26.5%
Macquarie Park	711	73.5%	26.5%
Parramatta	739	45.9%	54.1%
Sydney Metropolitan Markets	4,556	54.2%	45.8%

Source: JLL Research

- In order to understand the likely future growth of these precincts, we have to have an appreciation of what level of market share they are likely to hold going forward i.e. will their growth in stock as a proportion increase, maintain or lower. These markets cannot be considered in isolation and as such we have provided below our view of the likely change in market share. This view is broadly based on both current and anticipated demand trends, as well as, consideration to the precincts relatively hierarchy i.e. Parramatta CBD and SOP/Rhodes have an expectation of a higher commercial office role than say Chatswood or St Leonards by comparison.
- We have also considers the constraints of locations such as the Sydney CBD, where demand and growth is likely to be high but due to constraints they are unable to maintain their share of the total office market (as has been witnessed in the past).

Table 2: Future Role of Sydney's Competing Office Markets (Market Share of Growth Going Forward)

	Share
CBD Markets	
Sydney CBD	⬇
Metropolitan markets	
Sydney Fringe	⬇
North Sydney	⇦ ⇨
Chatswood	⬇
St Leonards	⬇
Norwest	⬆
SOP/Rhodes	⬆
Sydney South	⇦ ⇨
Macquarie Park	⬆
Parramatta	⬆
New Entrants: - *The Bays* - *Liverpool* - *Western Sydney Airport*	⬆

Source: JLL

Parramatta Investment Office Market

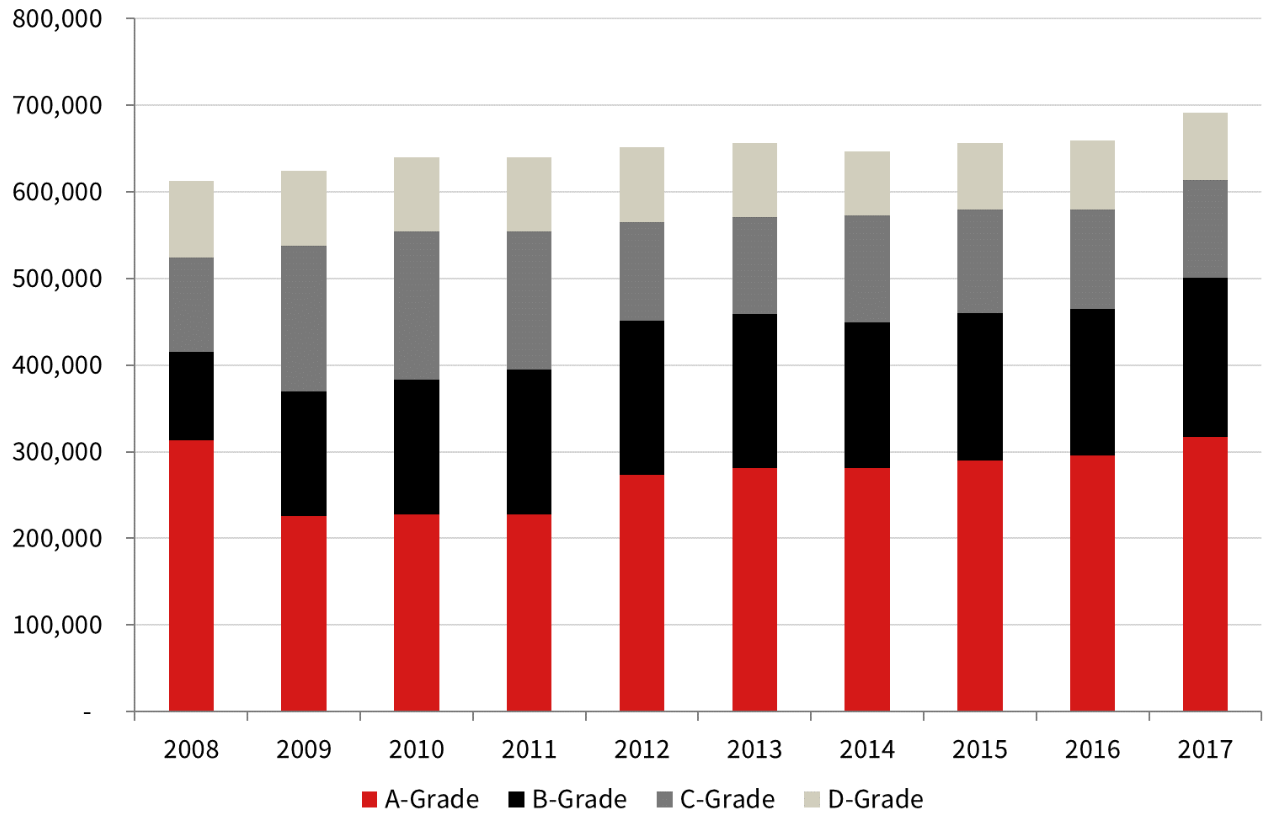
- JLL divides the Parramatta office market into four geographic precincts – Core, East, North and South
- The Core precinct accounts for 69.8% of office stock and continues to be the focus of new development with 56.8% of Parramatta's growth in stock over the past 10 years being focused in the Core.
- The Parramatta office market is made up of primarily A-grade with the rest split between B-grade, C-grade and D-grade buildings. 45.9% of the Parramatta office stock is A-grade with 26.1% B-grade, 17.0% C-Grade and 10.9% D-Grade. No stock is classified as Premium grade.
- Secondary stock (B, C & D) largely comprises small office buildings, some of which is strata stock with small floor plates. Parramatta's A-grade stock by comparison is confined to a few buildings with large floor plates.

Table 3: Parramatta Office Stock by Grade, Q1 2018

Quality	Stock	% of Total
A-Grade	339,627	45.9%
B-Grade	193,178	26.1%
C-Grade	125,656	17.0%
D-Grade	80,945	10.9%
Total	739,406	
Prime	339,627	45.9%
Secondary	399,779	54.1%
Total	739,406	

Source: JLL Research

Figure 1: Parramatta Occupied Office Stock by Grade, 2008 – 2018



Source: JLL Research

Table 4: Parramatta – Occupier Checklist

	Parramatta Assessment
Access	
Road	Good
Public transport	Excellent
Parking	Good
Proximity to an educated workforce	Very Good
Business to Business	
Clustering	Good
Recognized corporate location	Good
Specialised infrastructure	Good
Amenity	
Proximity to higher value housing	Fair / Good
Social infrastructure (retail, water, culture)	Very Good
Compatible surrounding uses	Good
Financial	
Affordability i.e. low economic rent	Fair / Good
'Buildability' i.e. availability of sites	Fair

Source: JLL

Observations on the Proposed Development

- In recent years there has been a growing demand for large floor plate office accommodation. Demand for large floor plates are driven by a number of factors as they enable:
  - Greater occupier efficiency and productivity outcomes for large tenants than buildings with smaller floor plates
  - A collaborative workplace that supports stronger relationships between specialist businesses
  - Shared spaces that allow for greater connections between team members
  - Flexibility in accommodating project space and adapting to changing space requirements
  - Occupancy cost minimisation
- This strong demand for quality large floor plate stock is further emphasised by the lower vacancy in these buildings. Analysis undertaken by JLL Research in the second half of 2017 found that the vacancy rate within the 2,000 sqm+ floor plate portion of the market was 4.7% compared with the average vacancy rate for the Sydney suburban office markets at 7.7%. Discussions with leasing operatives further supports the demand for large floor plate stock, particularly for major corporation and government departments, as they seek to unlock the benefits identified above.
- Recent briefs in the Parramatta CBD market have stated minimum requirements for floor plates or ideal sizes. A recent example being the Westpac brief in the market, looking for 10,000 sqm of NLA ideally not across more than five floors i.e. suggesting a preference for a floor plate of ~2,000 sqm. In terms of existing buildings as at Q1 2018 only four buildings meet this requirement in the Parramatta CBD. The proposed modifications from a GFA floor plate of 1,400 sqm to a typical NLA floor plate of 2,450 sqm therefore appears to be much more appropriate for the current demand in the market.
- Scentre Group has identified they have been in contact with several potential tenants who are or will be coming to the market for office spaces in Parramatta over the short term. These tenants include Commonwealth Bank, ANZ, NAB, Link Market Services, Telstra, AIG, Suncorp and Optus. Initial discussions with these tenants have noted a requirement for total office spaces of generally between 15,000-30,000 sqm, although there have been queries for spaces as large as 70,000 sqm.

- Scentre Group have suggested they are confident in securing pre-construction lease deals of at least two large tenants who would require 30,000 sqm each and therefore they believe this indicates economic feasibility for development of a building of circa 100,000m2 of NLA.
- We have separately attempted to understand the drivers for these tenants through discussion with our active leasing operators. They have noted, in line with comments above, larger floor plates are considered a superior offering – particularly as some of these large corporations which previously only considered business park locations will now consider CBD type locations, such as Parramatta. In terms of overall size, we acknowledge a number of these tenants are sizeable between 15,000-30,000sqm, while some are even as large as 70,000 sqm. In order to enable the development to unlock these large opportunities the modification has proposed a larger total GFA.

1.3 Report Authors

Tim Brown	Daniel Turini	Bennett Campbell
National Director	Senior Analyst	Analyst
Strategic Consulting	Strategic Consulting	Strategic Consulting
JLL	JLL	JLL
tim.brown@ap.jll.com	daniel.turini@ap.jll.com	bennett.campbell@ap.jll.com
+61 2 9220 8440	+61 2 9220 8757	+61 2 9220 8377

2 Introduction

This section provides an overview of the subject sites location and the proposed modifications.

2.1 Site Location

The proposed commercial development is to be located at central point in the Parramatta CBD, above Westfield Shopping Centre, on Argyle Street, approximately half-way between Church Street and Marsden Street. The site is directly opposite the Parramatta railway station, benefitting from access to retail and transport amenity and therefore being a highly suitable location for high-rise commercial development.

2.2 The Proposal

The proposal is seeking to modify the approved Concept Plan to provide for an increase in building height, floor space and tower floor plate for the commercial tower. The below table summarises the key modifications to the Concept Plan.

Table 5: Summary of Key Modifications

Factors	Concept Plan Approval	Modification
Total GFA (m^2)	35,000m^2	112,000m^2
Storeys	25 storeys (20 office floors)	42 commercial storeys (including commercial lobby and 2x plant levels)
Height	120m above ground	RL 220 (approx.)
Floor Plate (GFA)	1,400m^2	2,750m^2

Source: The Argyle Tower prepared for the Department of Planning & Environment September 2017 (Scentre Group, GIC & Woods Baggot)

3 Economic Context and Implications

The objective of this section is to provide the economic context as to the factors which may impact the Sydney property market. We consider these factors have a 'short to medium' term impact on development based decisions.

3.1 Overview of Key Economic Metrics

Provided in the table below are a selection of historic, current and forecasts for economic and broader demographic considerations.

Table 6: Historic, Current and Forecast Economic Conditions (Average % or % p.a. CAGR)

National	Historic	Current	Forecast	Observations
Standard bank variable mortgage rate (average)	8.5% (1988-2017) 6.6% (2008-2017)	5.2% (2017)	6.2% (2018-2027)	Interest rates increasing albeit off historic lows
Treasury Bonds (10 year) (average)	6.6% (1988-2017) 4.0% (2008-2017)	2.7% (2017)	3.8% (2018-2027)	Risk free rates increasing albeit off historic lows
CPI (average)	2.8% (1988-2017) 4.0% (2008-2017)	2.1% (2017)	2.3% (2018-2027)	CPI to revert to slightly higher levels than current
NSW	**Historic**	**Current**	**Forecast**	**Observations**
Gross State Product (CAGR)	2.7% (1987-2017) 2.4% (2007-2017)	2.6% (2017)	2.6% (2017-2027)	Slight moderation in growth
Private housing investment (CAGR)	3.4% (1987-2017) 3.6% (2007-2017)	1.0% (2017)	1.4% (2017-2027)	Significant growth recently in housing investment, beginning and expected to continue to moderate
Retail turnover (CAGR)	3.3% (1987-2017) 2.9% (2007-2017)	3.0% (2017)	3.0% (2017-2027)	Retail turnover growth expected slightly below long term historic growth
Population growth (Sydney Metro) (CAGR)	1.7% (2006-2016)	1.9% (2016)	1.7% (2016-2026) 1.6% (2016-2036)	Population growth in line with recent historic average with an eventual moderation over the longer term
Employment growth (Sydney GCCSA) (CAGR)	1.7% (1987-2017) 1.8% (2007-2017)	3.3% (2017)	1.8% (2017-mid-2027)	Employment growth declining to long term average over next 10 years

Source: Australian Bureau of Statistics, Deloitte Access Economics, NSW Department of Planning & Environment, JLL

3.2 Implications of Economic Metrics

The most recent Australian Gross Domestic Product (GDP) numbers show that Australia has had an unprecedented 27 years without recession, which is the only country in the developed world with a period of uninterrupted economic growth that long. New South Wales has recently experienced a strong state economy above the national average. Retail turnover growth (by volume) in New South Wales has been above the national average since mid-2013.

Notwithstanding the above recent historic strength of the Australian and NSW economies, there is a risk of future moderation. The outlook for the NSW economy is for a slowdown of growth in State Final Demand and GSP. A decline in residential construction activity is expected, after a period of extraordinary growth, which will ultimately negatively impact on economic growth.

The Reserve Bank has kept the official cash rate on hold at its historic low of 1.5% since August 2016, however the market remains nervous about the future movements. Further there is also an expectation that borrowers should brace for the big banks to pre-emptively increase interest rates before the RBA.

Looking forward we consider a range of economic factors may impact the Sydney property market, however, we note specific sensitivity to interest rate increases and the impact that may have on pricing. Broadly the implications of the above identify:

- The current economic conditions are conducive to investment, reflected in the long term growth in the Australian market and most recent strength in the NSW market
- The conditions have specifically supported very strong growth in the Sydney property markets with all asset classes impacted (residential, office, retail, industrial etc.). We expect the investment and development markets to moderate significantly
- While the JLL house-view does not forecast any 'doom and gloom', our view is that conditions indicate a moderated growth outlook – with the key implication being that the recent investment levels will not be continued. This will most noticeably impact the development market where very significant activity has occurred recently

4 Sydney Office Market Analysis and Implications

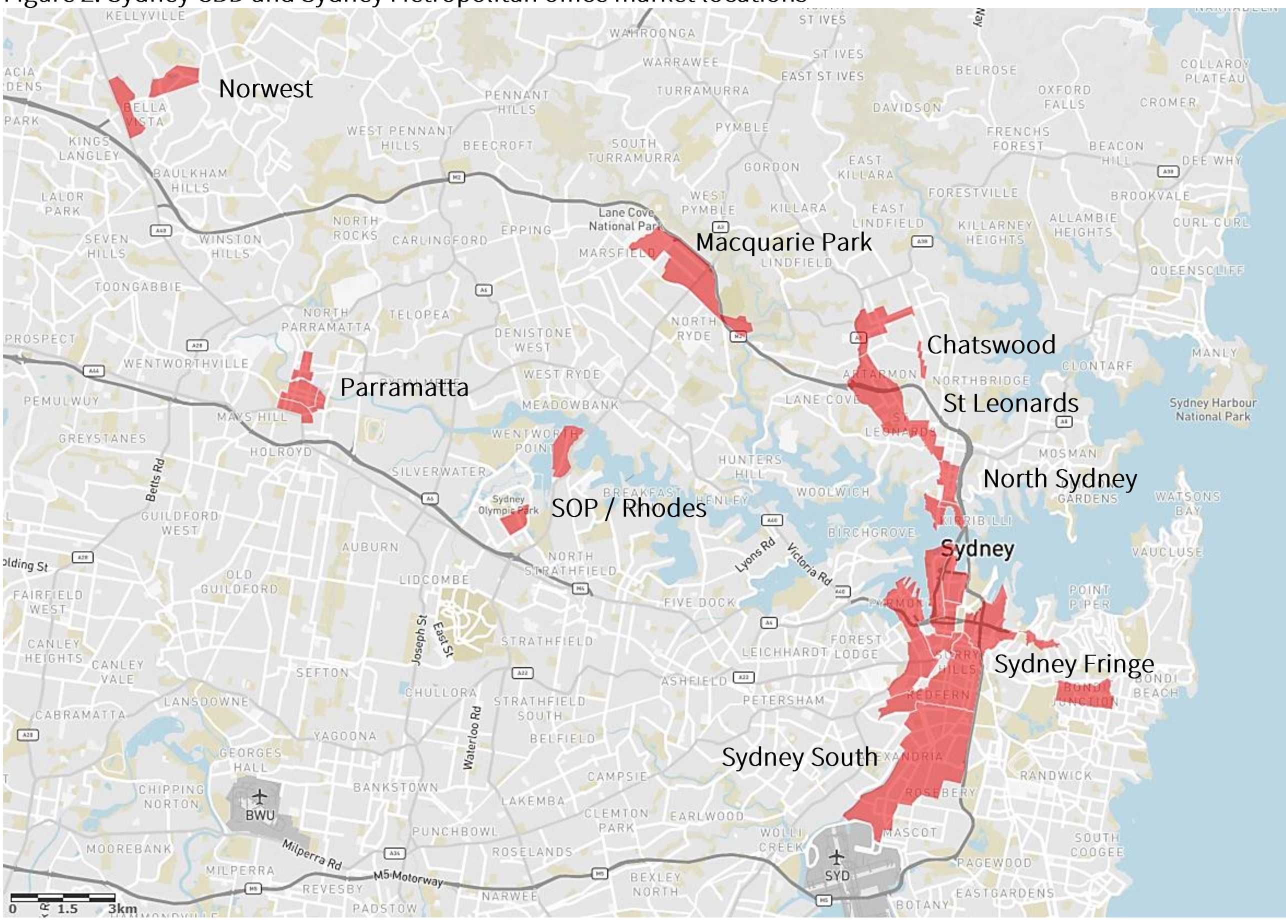
The objective of this section is to provide observations on the greater Sydney office market of which Parramatta is a critical part. This analysis enables us to make observations on the opportunities and challenges of Parramatta compared to the broader market.

4.1 Overview of Investment Grade Sydney Office Markets

The Sydney office markets monitored by JLL comprise 9.59 million sqm of office space, 52.5% of which is located in the Sydney CBD market, and 47.5% located in the nine major metropolitan office markets. The nine Sydney metropolitan markets monitored by JLL are:

- Sydney Fringe
- North Sydney
- Chatswood
- St Leonards
- Norwest
- Sydney Olympic Park/Rhodes
- Sydney South
- Macquarie Park (including North Ryde)
- Parramatta

Figure 2: Sydney CBD and Sydney Metropolitan office market locations



Source: JLL MapIT, ESRI

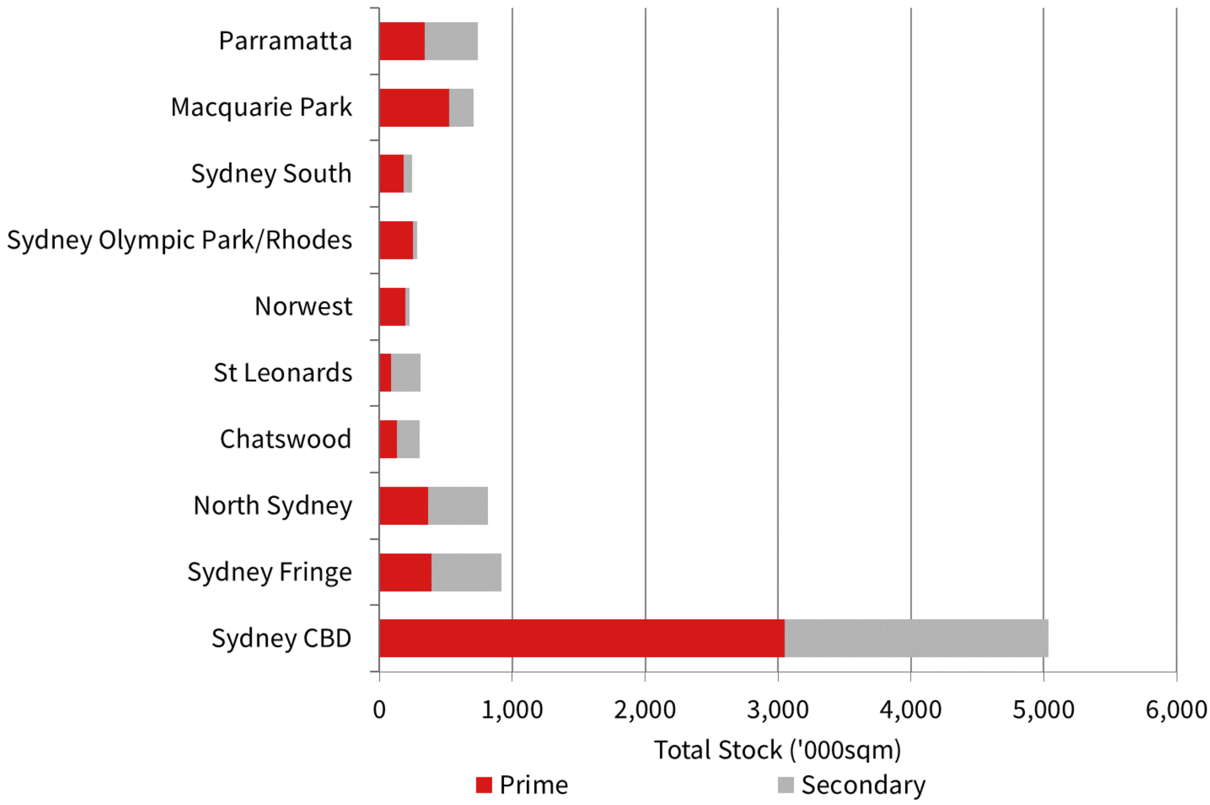
The metropolitan markets comprise a mix of fringe CBD locations, major suburban CBDs such as Parramatta and Chatswood, inner suburban locations and business parks. Each of these locations has quite different characteristics that may attract different occupiers.

- The Sydney Fringe office market adjoins the CBD market and provides a viable near city alternative to the CBD. Typically, occupancy costs are lower (both rents and parking costs) and car parking provision is higher. The Fringe locations suit companies that desire an affordable, central location with better access to low cost parking for both workers and customers e.g. creative industries.
- Suburban CBDs include Parramatta, North Sydney and Chatswood. Some of these markets have attracted a large government workforce (e.g. Parramatta) with the State Government in particular decentralising some of their services to these locations. The markets generally have reasonable access to public transport and a good mix of support services. Rents are significantly lower than the Sydney CBD market.
- Business parks are typically lower density office locations providing modern, affordable accommodation with plentiful parking for workers and customers. Low rise buildings with large floor plates are common, providing greater flexibility and efficiency. Examples in Sydney include Norwest and Sydney Olympic Park.
- Other inner suburban locations are often an extension of fringe markets and have attracted office accommodation due largely to their relatively central location and good access to transport e.g. St. Leonards / Crow Nest. These markets have often been attracted to their proximity to higher socio-economic residential areas which are where a high proportion of the employees reside.

Supply and Demand

As at Q1 2018, the total stock across the nine monitored metropolitan markets was 4.556 million sqm. The largest Sydney metropolitan market is the Sydney Fringe and it comprises 0.919 million sqm of stock, which accounts for 9.6% of the total Sydney office market, which includes Sydney CBD.

Figure 3: Prime and Secondary Grade Stock by Metropolitan Market, Q1 2018



Source: JLL Research

Table 7: Sydney Office Market Profile, Q1 2018

	Net Lettable Area	Prime Grade Stock	Secondary Grade Stock
	'000 sqm	% Total Stock	% Total Stock
CBD Markets			
Sydney CBD	5,037	60.5%	39.5%
Metropolitan Markets			
Sydney Fringe	919	42.4%	57.6%
North Sydney	818	44.8%	55.2%
Chatswood	303	44.2%	55.8%
St Leonards	310	28.7%	71.3%
Norwest	230	84.4%	15.6%
SOP/Rhodes	281	90.7%	9.3%
Sydney South	244	73.5%	26.5%
Macquarie Park	711	73.5%	26.5%
Parramatta	739	45.9%	54.1%
Sydney Metropolitan Markets	4,556	54.2%	45.8%

Source: JLL Research

The Sydney leasing market has been buoyant across both the overall metropolitan markets and the CBD market, with a positive net absorption in occupied stock in the 12 months to Q1 2018. While the Sydney markets overall expanded by 42,807 sqm, there was some considerable divergence between the best performing and worst performing, with the largest expansion coming from Parramatta (19,230 sqm) and the largest contraction coming from Sydney Fringe (-18,431) driven primarily by stock withdrawals for residential development.

New supply in the 12 months to Q1 2018 totalled 52,750sqm across the nine metropolitan office markets, equivalent to 1.2% of existing stock in this market. Of the nine metropolitan markets, six recorded no new supply – Sydney Fringe, North Sydney, Chatswood, St Leonards, Norwest and SOP/Rhodes. The stand out of contributors to new supply was Parramatta which contributed 22,852 sqm, equating to 3.1% of its existing stock. During this same period, Sydney CBD saw completions total 33,973 sqm, equivalent to 0.7% of existing stock.

Projects currently under construction across the nine metropolitan office markets as at Q1 2018 totalled 331,337 sqm, equivalent to 7.3% of existing stock. This is a relatively high level of construction activity when compared to CBD market, where 125,601 sqm, equivalent to 2.5% of CBD stock, is under construction. Most of the metropolitan projects under construction are attributed to the Sydney Fringe, North Sydney and Parramatta markets, which together account for 85.1% of the total construction across the nine metropolitan office markets.

Table 8: Sydney Office Market Profile, Stock, Supply and Net Absorption, Q1 201

	Net Lettable Area	Net Absorption 12 mths to Q1 2018	Completions 12 mths to Q1 2018	Completions 12 mths to Q1 2018	Under Construction	Under Construction
	'000 sqm	'000 sqm	'000 sqm	% of NLA	'000 sqm	% of NLA
CBD Markets						
Sydney CBD	5,037	13.1	34.0	0.7%	125.6	2.5%
Metropolitan markets						
Sydney Fringe	919	-18.4	0.0	0.0%	110.2	12.0%
North Sydney	818	2.5	0.0	0.0%	109.8	13.4%
Chatswood	303	16.4	0.0	0.0%	0.0	0.0%
St Leonards	310	4.8	0.0	0.0%	7.0	2.3%
Norwest	230	6.1	0.0	0.0%	0.0	0.0%
SOP/Rhodes	281	-16.2	0.0	0.0%	21.7	7.7%
Sydney South	244	12.4	18.2	7.4%	20.7	8.5%
Macquarie Park	711	3.0	11.7	1.6%	0.0	0.0%
Parramatta	739	19.2	22.9	3.1%	62.0	8.4%

Source: JLL Research

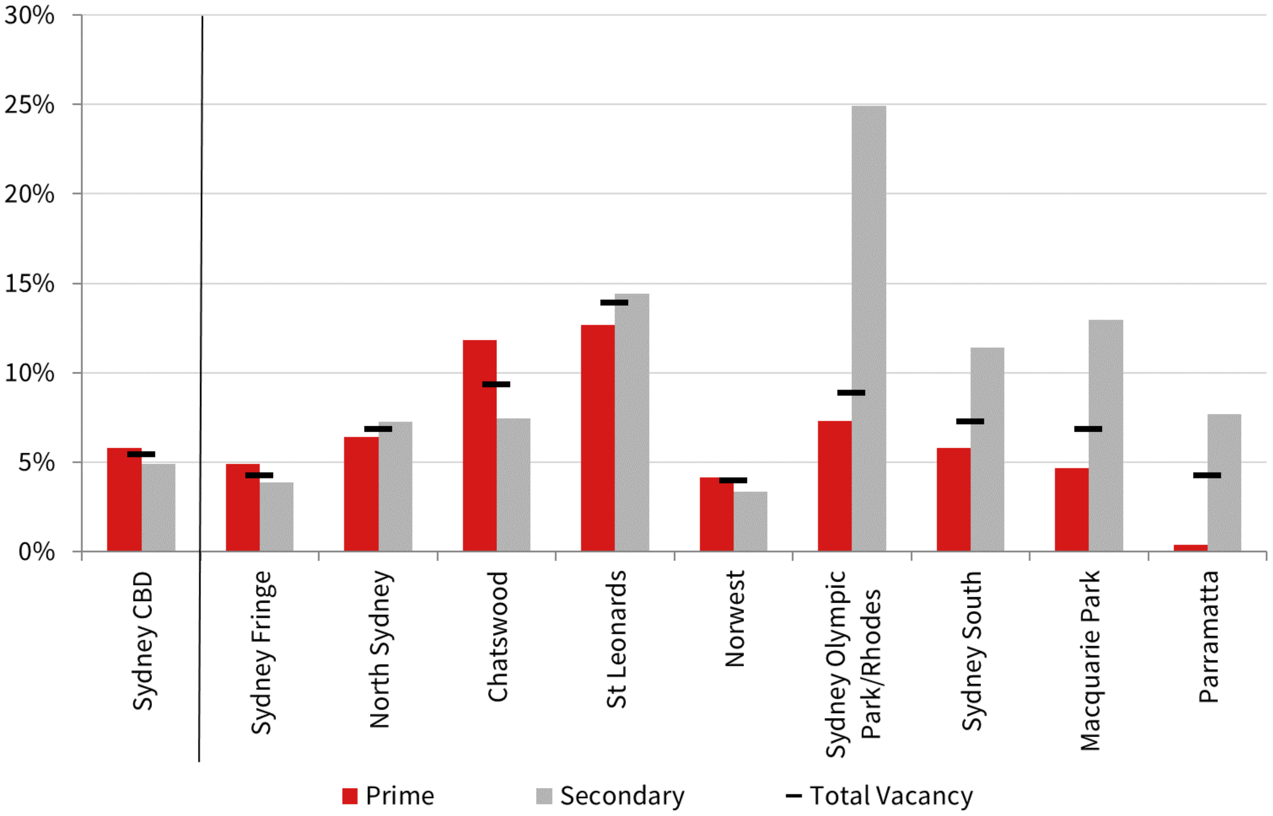
Vacancy

As at Q1 2018, the total prime grade vacancy rate in metropolitan markets was 5.4% compared to 5.8% for the Sydney CBD market. The total metropolitan markets' vacancy was 6.6% while the total vacancy for the Sydney CBD market was 5.5%. Norwest currently has the lowest overall vacancy rate of 4.0%, however, Parramatta has the lowest prime grade vacancy of any market at just 0.4%.

Historically the metropolitan and CBD markets have typically had higher vacancy rates in secondary stock, however, more recently this has become more market specific. Three of the nine metropolitan markets (Sydney Fringe, Chatswood and Norwest) recorded a higher prime-grade vacancy than secondary-grade vacancy.

Within the Sydney office markets, St Leonards has the highest total vacancy (13.9%) as well as the highest vacancy in prime stock (12.7%) and secondary stock (14.4%).

Figure 4: Prime and Secondary Vacancy Rates, Q1 2018



Source: JLL Research

Market-specific vacancy is provided in the following table:

Table 9: Sydney Office Market Profile Vacancy, Q1 2018

	Vacancy	Prime Grade Vacancy	Secondary Grade Vacancy
	% NLA	% NLA	% NLA
CBD Markets			
Sydney CBD	5.5%	5.8%	4.9%
Metropolitan Markets			
Sydney Fringe	4.3%	4.9%	3.9%
North Sydney	6.9%	6.4%	7.3%
Chatswood	9.4%	11.8%	7.5%
St Leonards	13.9%	12.7%	14.4%
Norwest	4.0%	4.1%	3.4%
SOP/Rhodes	8.9%	7.3%	24.9%
Sydney South	7.3%	5.8%	11.4%
Macquarie Park	6.9%	4.7%	12.9%
Parramatta	4.3%	0.4%	7.7%

Source: JLL Research

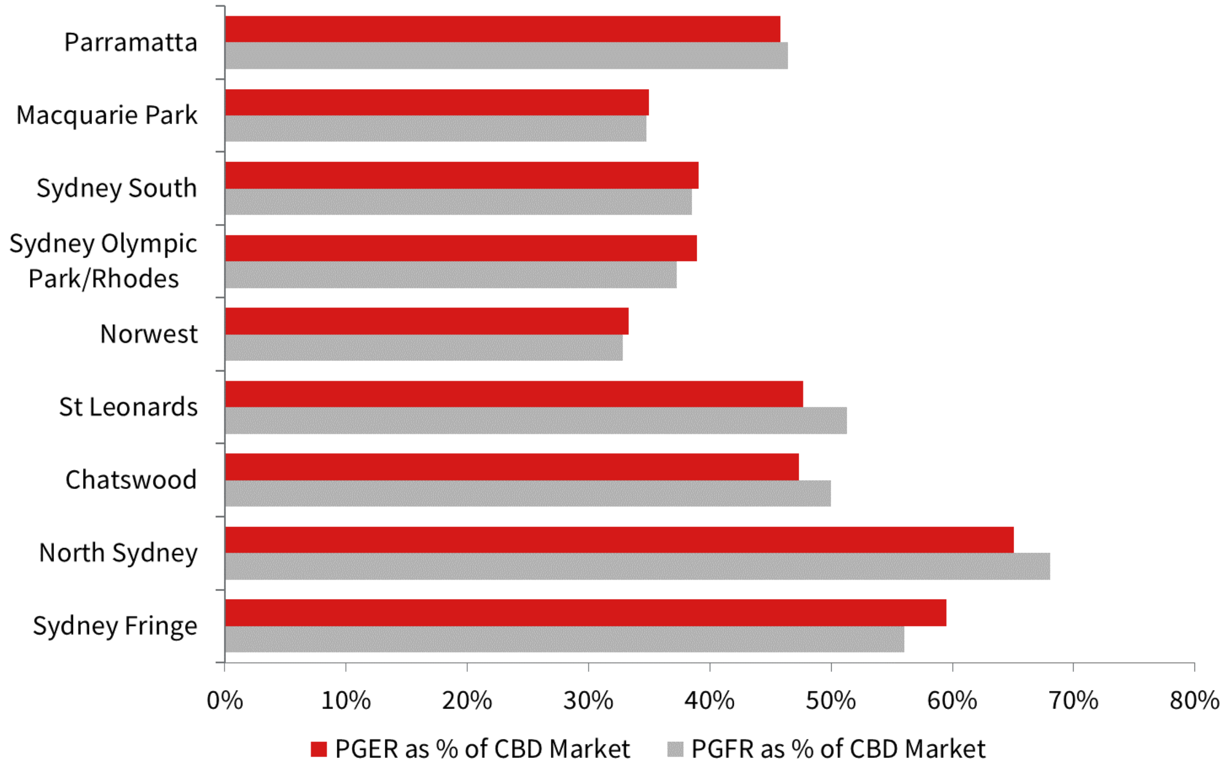
Rental Market

Metropolitan markets are more affordable than the CBD market. Generally, affordability is a key driver attracting occupiers to metropolitan markets, however, each market can also have alternative drivers e.g. proximity to demand driver i.e. university, hospital, etc. or clustering of certain industries.

Prime gross face rents in Sydney metropolitan markets range from an average of 32.8% of Sydney CBD rents in Norwest to 56.0% of CBD rents in Sydney Fringe, with other metropolitan markets in between these levels. The North Sydney market is comparatively much closer to Sydney CBD rents, with prime gross face rents averaging 68.1% of Sydney CBD rents.

However, when incentives are taken into account, the proportion of metropolitan to CBD rent changes increases for all Sydney metropolitan markets with the exception of Parramatta, St Leonards, Chatswood and North Sydney as evident below:

Figure 5: Prime Gross Face versus Effective Rents Compared to Sydney CBD Market, Q1 2018



Source: JLL Research

As discussed, the resurgence in the Sydney office leasing market resulted in positive growth in prime gross face rents across all markets (Sydney CBD and metropolitan) in the 12 months to Q1 2018, this growth ranged from 1.0% in SOP/Rhodes to 11.9% in Parramatta, with the market overall averaging growth of 6.3%.

In addition to rental growth, incentives have also fallen. In all markets except SOP/Rhodes, Prime gross effective rents (rents adjusted for incentives) grew faster than Prime gross face rents.

Table 10: Sydney Office Market Profile Rents, Q1 2018

	Prime Gross Face Rent	Annual Growth % Year to Q1 2018	Prime Gross Effective Rent	Annual Growth % Year to Q1 2018
	$/sqm p.a.	%	$/sqm p.a.	%
CBD Markets				
Sydney CBD	1,271	8.5%	997	16.3%
Metropolitan markets				
Sydney Fringe	712	8.2%	593	13.2%
North Sydney	865	4.2%	649	6.9%
Chatswood	635	7.2%	472	12.2%
St Leonards	652	4.2%	476	6.1%
Norwest	417	11.5%	332	21.1%
SOP/Rhodes	474	1.0%	388	0.8%
Sydney South	490	4.8%	389	5.7%
Macquarie Park	442	1.3%	349	4.2%
Parramatta	590	11.9%	457	15.8%

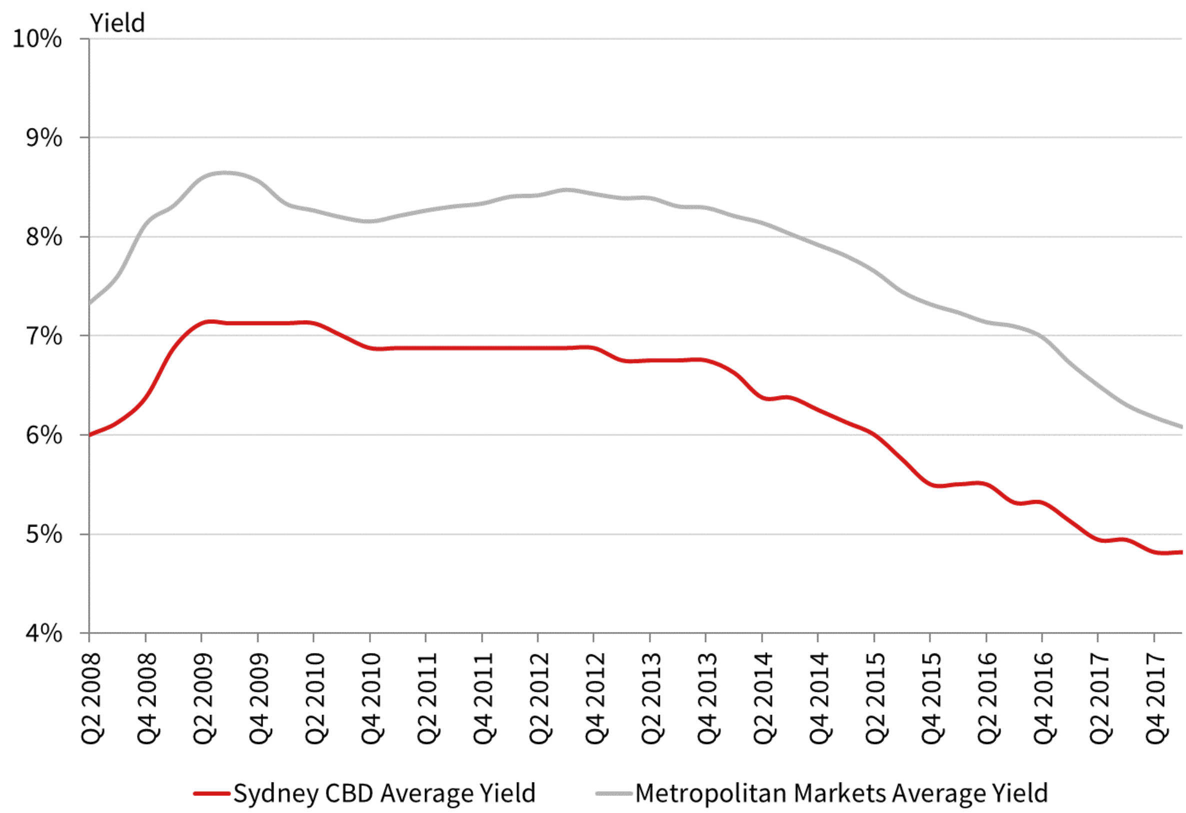
Source: JLL Research

Yield and Capital Values

All Sydney metropolitan markets have experienced at least some yield compression for prime grade assets over the 12 months to Q1 2018, the main standout during the period being Norwest, where the upper and lower yields compressed by 150 basis points.

Yields for metropolitan assets are higher than CBD assets, however, this spread has declined significantly in recent years. The yield spread between average prime yields across the CBD market and average prime metropolitan yields was 127 basis points in Q1 2018. The yield spread is the lowest it has been since Q3 2010 (119 basis points) and is considerably lower than the historic average over the last 10-year period of 152 basis points.

Figure 6: Yield Spread between Sydney CBD and Metropolitan Markets, Q2 2008 to Q1 2018 [1]



Source: JLL Research

Specific yield ranges for each of the office markets as at Q1 2018 are provided below:

Table 11: Sydney Office Market Profile, Yields Q1 2018

	Prime Yield as at Q1 2018
	%
CBD Markets	
Sydney CBD	4.63 - 5.00
Metropolitan markets	
Sydney Fringe	5.25 - 5.50
North Sydney	5.25 - 5.75
Chatswood	6.00 - 6.75
St Leonards	5.75 - 6.50
Norwest	6.25 - 7.25
SOP/Rhodes	6.00 - 7.25
Sydney South	5.75 - 6.25
Macquarie Park	5.50 - 6.50
Parramatta	5.25 - 6.75

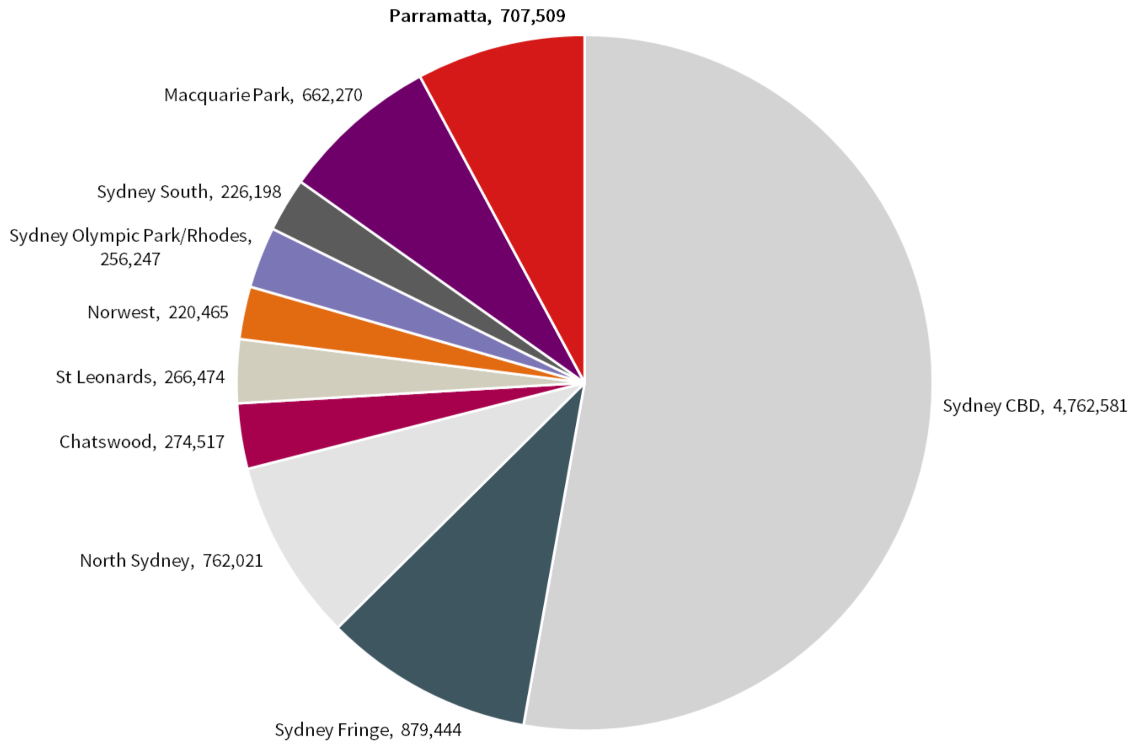
Source: JLL Research

[1] We note that not all Sydney metropolitan market yields were monitored from the start of the above period. The markets which were not monitored include; Norwest (from Q1 2010), Sydney Fringe (from Q1 2008), SOP/Rhodes (from Q1 2010) and Sydney South (from Q1 2010).

Observations on the Historic Growth of the Suburban Markets

Our starting point for our detailed analysis of Parramatta is to understand the size of the Sydney Office Market. As at Q1 2018 the occupied office space in the markets tracked by JLL totalled 9,017,726 sqm. Parramatta, highlighted in the figure below, as at this time equated to a total of 707,509 sqm in occupied stock, comprising approximately 7.8% of the total Sydney office market.

Figure 7: Sydney Office Markets – Current Occupied Stock Levels, Q1 2018

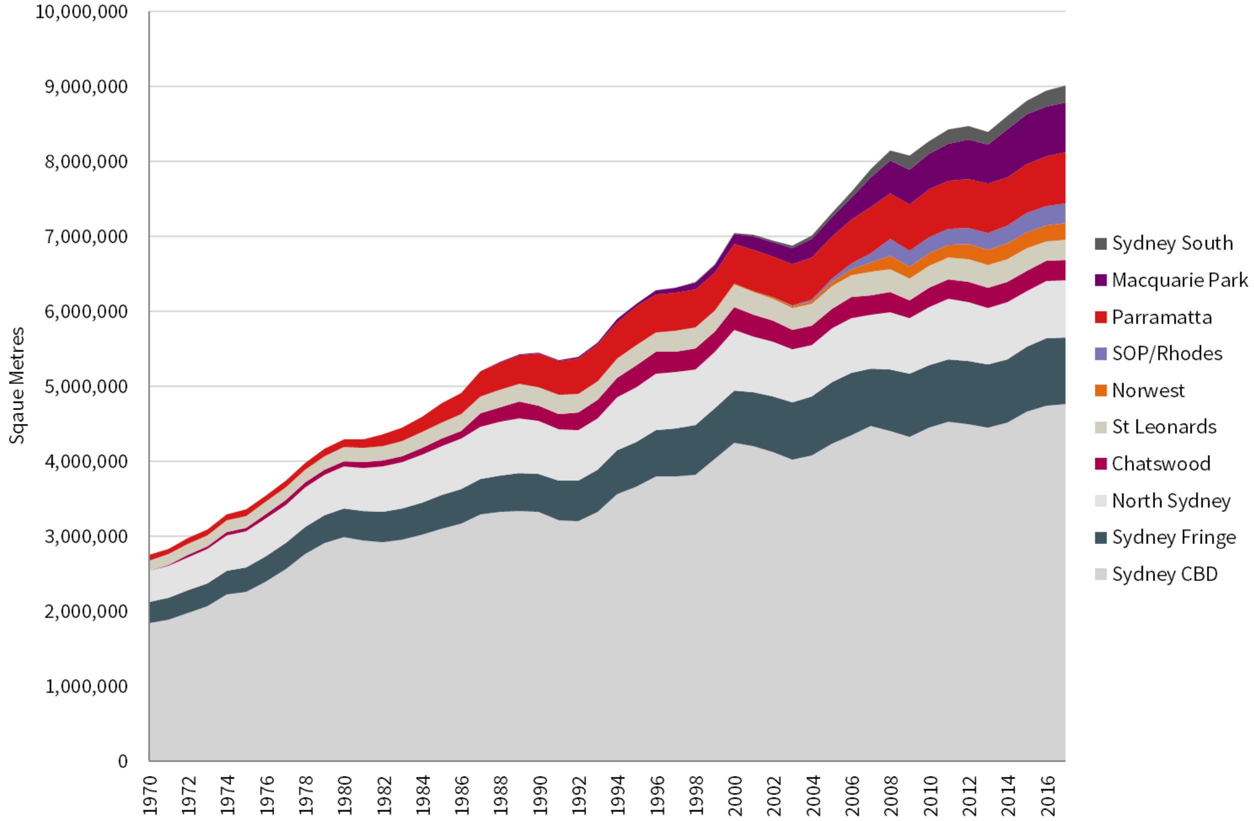


Source: JLL Research

JLL has had reference to its historic occupied stock data to derive historic demand for each of the office precincts in Sydney. In undertaking this exercise JLL has made specific assumptions about historic take up rates beyond our current data records for all markets other than Sydney CBD and Chatswood. Specifically we have assumed:

- Parramatta, Sydney Fringe, North Sydney and St Leonards historically grew at 3.0% p.a. up to the date JLL tracked these markets, which are 1977, 2006, 1998 and 1989 respectively.
- For Norwest, Macquarie Park, Sydney Olympic Park/Rhodes and South Sydney we have assumed 'material' office stock was developed and occupied in 2000, 1986, 2001 and 1997 respectively.

Figure 8: Growth of Sydney Office Markets (with Assumptions), 1970 to 2017

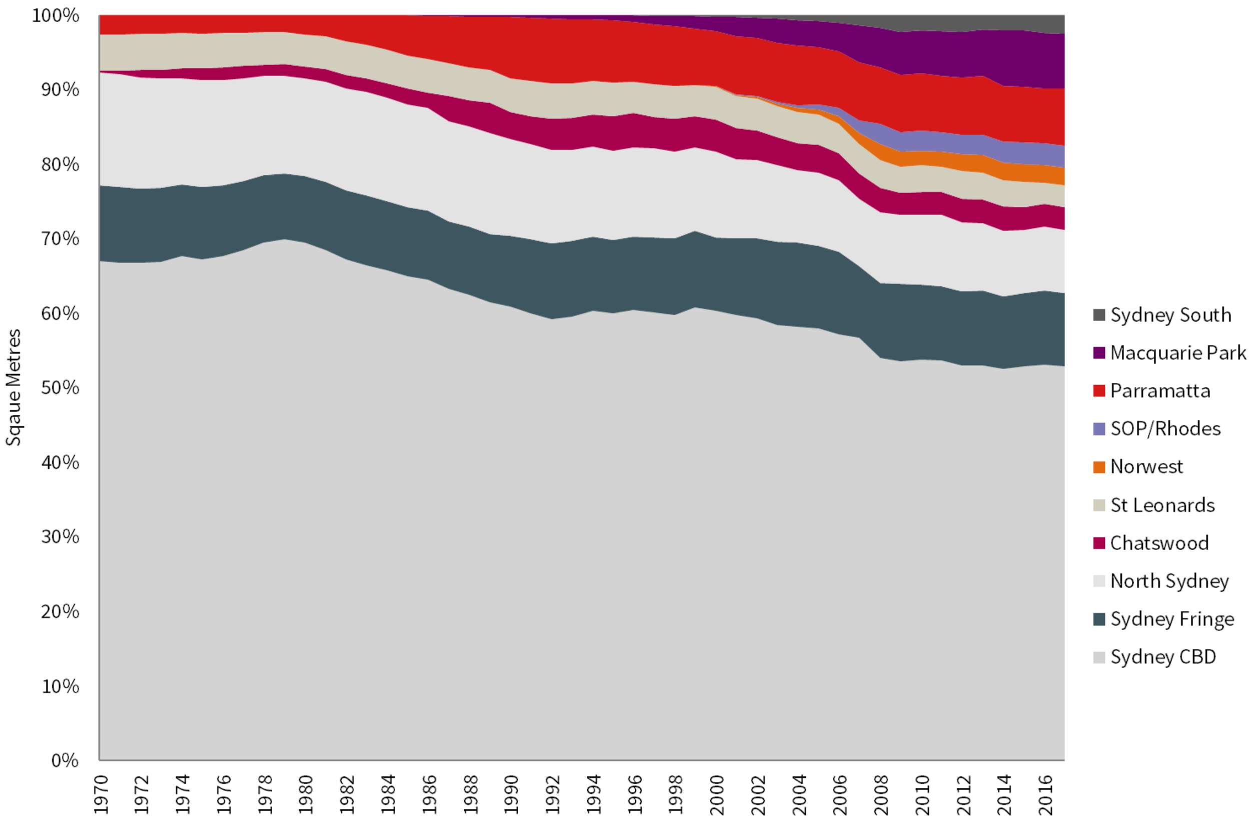


Source: JLL Research

The figure above shows the quantum increase of stock in the Sydney office markets. Based on the data above, and after making assumptions regarding the existing stock JLL has shown the relative contribution of each office market to the overall total over time. Of note from this analysis are the following changes in the 1970-2017 periods:

- Sydney CBD has declined from 67% to 53%
- Parramatta started at 3%, rose to 8% and has generally held onto this share
- Macquarie Park which started as a traditional industrial park and now has 7% of market share
- Sydney Olympic Park / Rhodes which started originally as an industrial location and which now attracts 3% market share

Figure 9: Sydney Office Market NLA (Proportion), 1970-2017



Source: JLL Research

The table below provides five and 10 year (and selective longer term) occupied stock growth trends based on JLL actual data series. Some markets do not have a long enough time series to calculate a 5 or 10 year trend.

Table 12: Net Absorption Trends – Sydney Office Markets, 2017

	5 Year Average	10 Year Average	Longer Term Averages
	sqm	sqm	sqm
CBD Markets			
Sydney CBD	54,905	29,230	62,291 (47 years)
Metropolitan markets			
Sydney Fringe	8,692	12,885	N/A
North Sydney	-4,145	4,522	1,586 (29 years)
Chatswood	224	467	5,620 (47 years)
St Leonards	-8,231	-4,274	907 (28 years)
Norwest	5,108	N/A	N/A
SOP/Rhodes	6,445	N/A	N/A
Sydney South	7,344	N/A	N/A
Macquarie Park	7,484	16,151	24,827 (18 years)
Parramatta	8,070	7,618	15,429 (39 years)

Source: JLL Research

In order to understand the likely future growth of these precincts, we have to have an appreciation of what level of market share they are likely to hold going forward i.e. will their growth in stock as a proportion increase, maintain or lower. These markets cannot be considered in isolation and as such we have provided below our view of the likely change in market share. This view is broadly based on both current and anticipated demand trends, as well as, consideration to the precincts relatively hierarchy i.e. Parramatta CBD and SOP/Rhodes have an expectation of a higher commercial office role than Chatswood or St Leonards. It also considers the constraints of locations such as the Sydney CBD, where demand and growth is likely to be high but due to constraints they are unable to maintain their share of the total office market (as has been witnessed in the past).

Table 13: Future Role of Sydney's Competing Office Markets (Market Share of Growth Going Forward)

	Share
CBD Markets	
Sydney CBD	↓
Metropolitan markets	
Sydney Fringe	↓
North Sydney	⬅ ➡
Chatswood	↓
St Leonards	↓
Norwest	↑
SOP/Rhodes	↑
Sydney South	⬅ ➡
Macquarie Park	↑
Parramatta	↑
New Entrants: - *The Bays* - *Liverpool* - *Western Sydney Airport*	↑

Source: JLL

Risks to Underlying Demand for Office Uses

The analysis provided above is based on the JLL historic net absorption data going back to 1970. In our view there is risk that the historic performance / take up will not be repeated due to the following reasons.

1. Structural change from blue collar to white collar employment

Over the period from 1970 to now the Australia, NSW and Sydney economies have undergone a structural change where a significant proportion of employment changed to being office based. Over this same period white collar employment grew by 2.0% p.a. and blue collar employment grew by 0.5% (Sydney Metropolitan Area). Clearly the growth in white collar jobs, relative to blue collar is unsustainable and this will be reflected in slower growth in office demand.

2. Offshoring

Some evidence exists of Australian firms' offshoring 'back of house' jobs to countries with a lower cost base. This will primarily impact secondary office location where call centre / process centric roles are located.

3. Impact of Technology

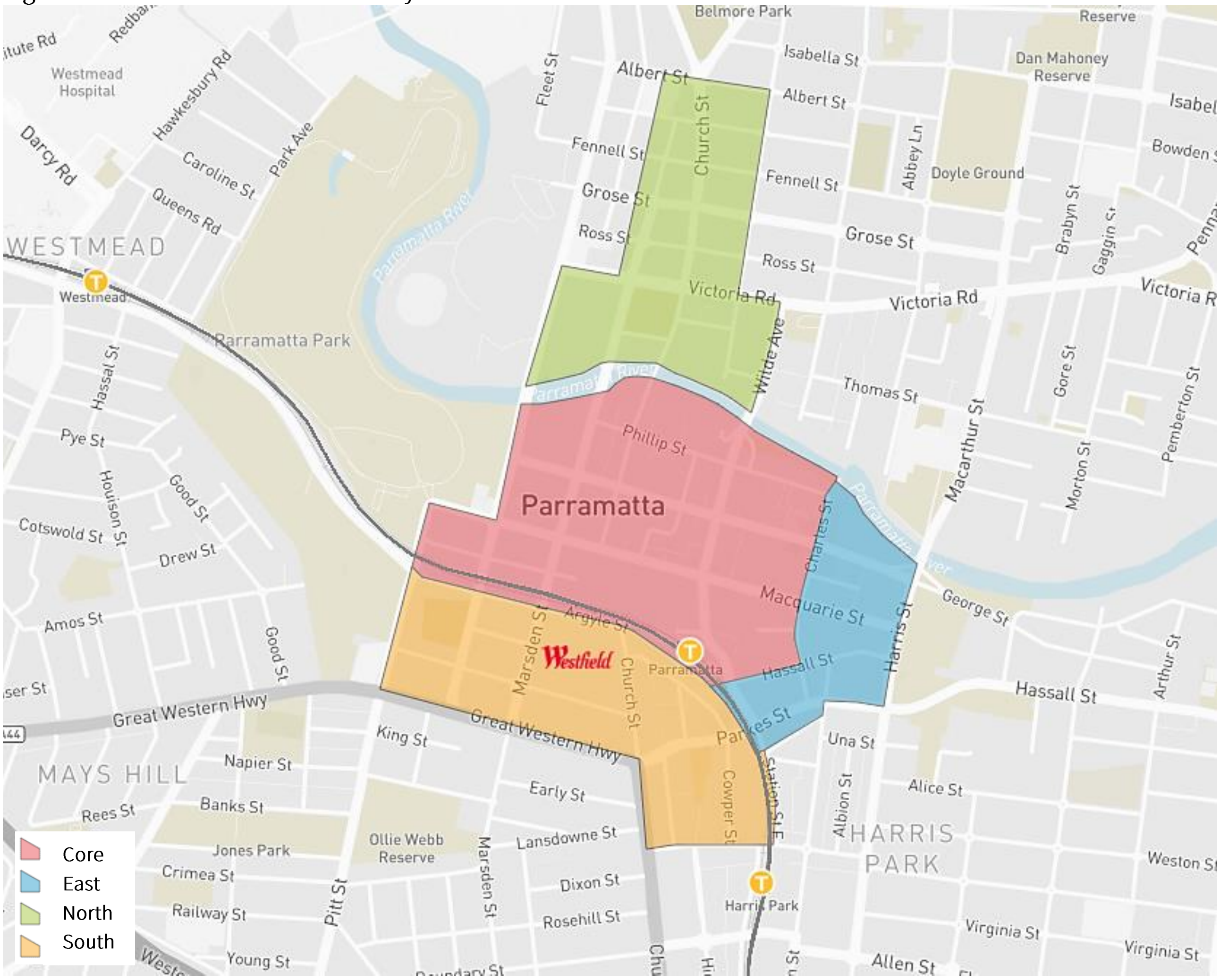
Similar to the offshoring risk identified above, evidence exists of the greater role of technology as a disruptor for office based jobs. Again, this will primarily impact secondary office location where call centre / process centric roles are located.

5 Parramatta Investment Office Market

The objective of this section is to provide the context into the current and historic performance of the Parramatta office market.

Parramatta is a suburban CBD within metropolitan Sydney and is located approximately 25km west of the Sydney CBD by road. JLL began tracking this market in the late 1970s. The below figure shows an indicative outline of the Parramatta office market.

Figure 10: Parramatta Office Market by Precinct



Source: JLL MapIT

5.1 Physical Market

Precinct Analysis

JLL divides the Parramatta office market into four geographic precincts, the areas of which have been outlined below. The Core precinct accounts for 69.8% of office stock. This precinct continues to be the focus of new development with 56.8% of Parramatta's growth in stock over the past 10 years being focused in the Core.

Table 14: Parramatta Office Precincts by Size, Q1 2018

Precinct	Stock	% Total	Growth, Last 10 years	Growth as % of 10-year total
Core	516,040	69.8%	39,994	56.8%
East	52,534	7.1%	16,664	23.7%
North	45,354	6.1%	-407	-0.6%
South	125,478	17.0%	14,109	20.1%
	739,406	100.0%	70,360	

Parramatta can be broken down into the following precincts:

Core The Core is the main location for major office buildings and continues to attract most new office development, accounting for 56.8% of the growth in stock over the last decade. The majority of Parramatta's A-grade building stock is in the Core. The Core is also the main location of government administrative offices as well as the traditional retail main street of Church Street. There is limited residential population in the Core.

East The East is a natural extension of the Core, comprising blocks to the east of Charles Street and south of Hassall Street. While the office stock is relatively low at 52,534sqm, the precinct includes one of the largest and highest quality buildings in Parramatta – The Eclipse. There is an emerging residential population in this precinct, as well as serviced apartment accommodation.

North The North is the smallest in terms of office stock and has virtually had the same stock level over the past 10 years. Most of the stock is of low quality, being classified as C and D grade stock. A large part of this precinct is dedicated to cultural and recreational uses.

South The South has grown significantly in the past four years by 22,493sqm. The proximity to high quality retail (Westfield Parramatta) and Parramatta train station ensure the South precinct remains an attractive location for businesses. This may have been a catalyst for recent development in the precinct, given that 20.1% of all growth over the last decade within Parramatta has been attributed to the South precinct.

Grade Analysis

Analysis of the Parramatta office stock provides good insights into the changing nature of accommodation requirements. Secondary stock (B, C & D) predominantly comprises small office buildings, some of which is strata stock with small floor plates. Parramatta's A-grade stock by comparison is confined to a few buildings with large floor plates.

Table 15: Parramatta Office Buildings by Grade, Q1 2018

Quality	Number of Buildings	Total NLA	Average Building NLA
A-Grade	16	339,627	21,227
B-Grade	34	193,178	5,682
C-Grade	54	125,656	2,327
D-Grade	81	80,945	999
Total	185	739,406	3,997

Source: JLL Research

The Parramatta office market is made up of primarily A-grade with the rest split between B-grade, C-grade and D-grade buildings. This is despite a reasonably healthy level of new office stock being added to the market in recent years (new stock is typically classified as A-grade space).

45.9% of the Parramatta office stock is A-grade with 26.1% B-grade, 17.0% C-Grade and 10.9% D-Grade. No stock is classified as Premium grade. This proportion of Prime grade stock (which includes both Premium grade and A-grade assets) is in line with other suburban markets such as North Sydney (44.8%) and Sydney Fringe (42.4%) but is relatively low when compared to the Sydney CBD market (60.5%).

Table 16: Parramatta Office Stock by Grade, Q1 2018

Quality	Stock	% of Total
A-Grade	339,627	45.9%
B-Grade	193,178	26.1%
C-Grade	125,656	17.0%
D-Grade	80,945	10.9%
Total	739,406	
Prime	339,627	45.9%
Secondary	399,779	54.1%
Total	739,406	

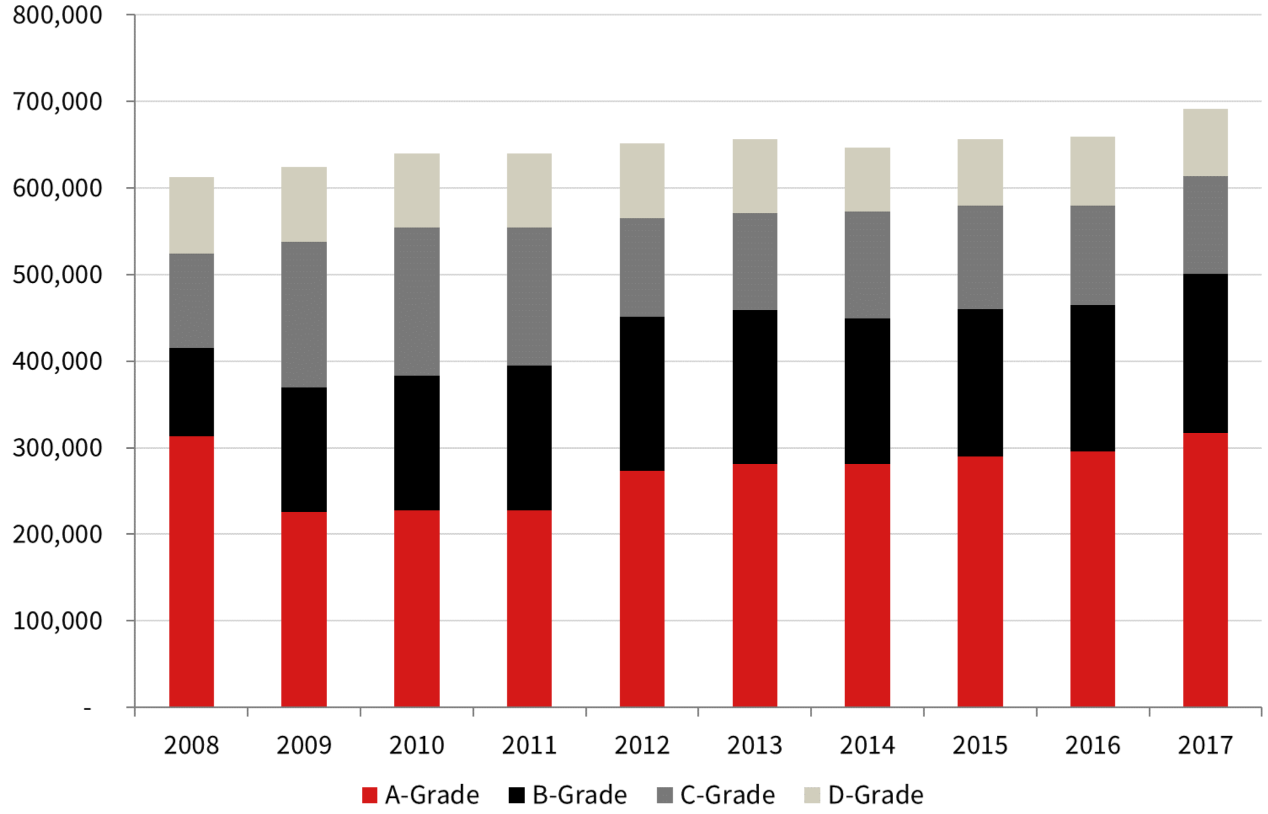
Source: JLL Research

Parramatta has experienced a significant level of net office growth over the past decade. In the ten years to Q1 2018, there has been 70,360 added (7,036 sqm p.a.). As space is added through both refurbishments and new completions, we have seen a steady increase in A-grade stock in the market (as seen in the figure below). The recent significant construction activity has been mostly attributed to the completion of 105 Phillip Street. The 22,292 sqm office building completed in Q1 2018 is entirely pre-leased to the NSW Department of Education.

This significant construction activity is not expected to be slowing with Walker Corporation's Stage 4 (4PSQ), expected to complete in Q4 2019. The 36-storey, 62,000 sqm office tower will be the tallest in the market upon completion and is fully pre-leased by the NSW Government.

The competition amongst tenants seeking new space in the short-term is likely to intensify as all major office projects anticipated for completion within the next two years have been fully pre-leased.

Figure 11: Parramatta Occupied Office Stock by Grade, 2008 – 2018



Source: JLL Research

Vacancy by Grade

The Parramatta A-grade stock has a very low vacancy rate, with only 1,273sqm (0.37%) of space available for lease in Q1 2018. This low vacancy rate has been a strength of the Parramatta market for the last nine years as A-grade vacancy rates have remained below 5%, with the only exception being in Q3 2012.

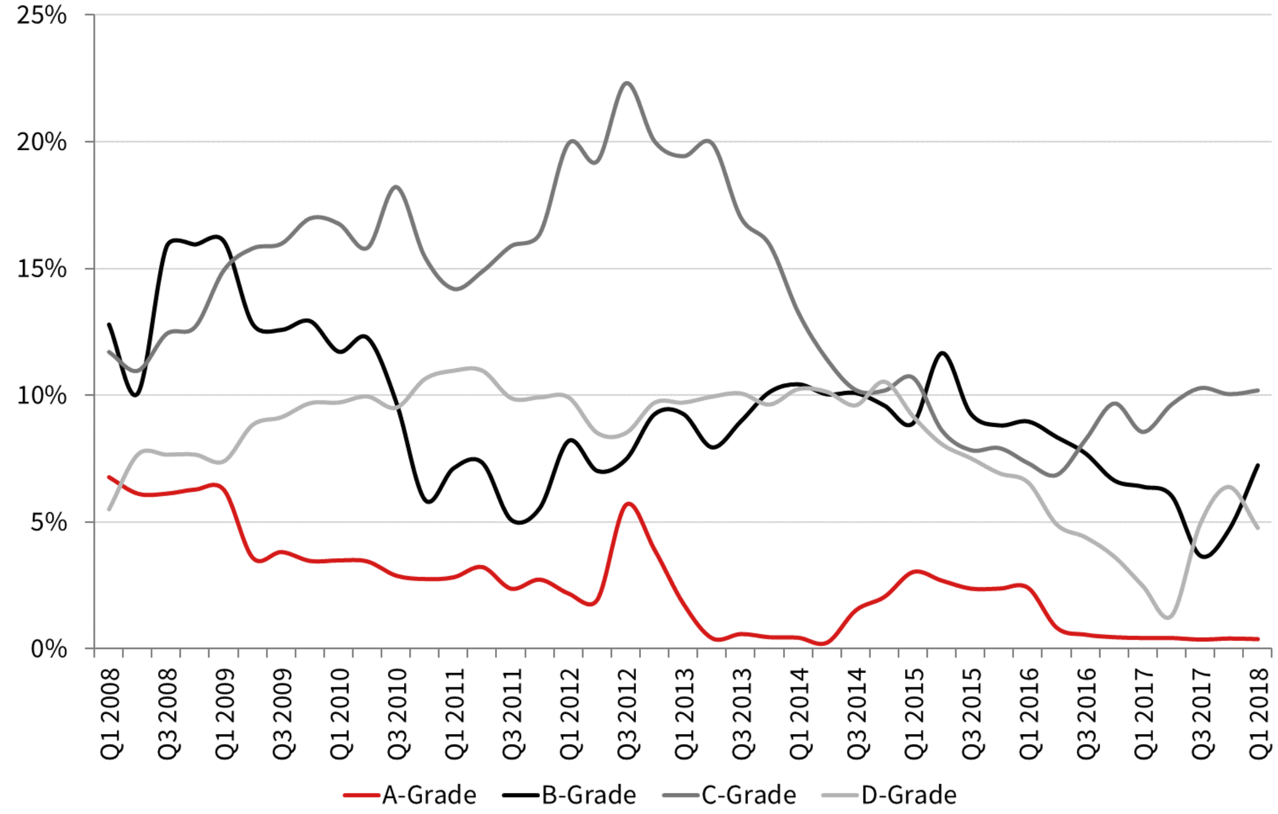
The overall low rate of A-grade vacancy relative to other building grades (B, C and D) suggests a preference exists for higher quality accommodation, despite the higher rental costs required to secure quality space. Across both Prime and Secondary grade office accommodation, Parramatta has a low vacancy rate of 4.31% at Q1 2018, which is half the vacancy rate of Sydney Olympic Park / Rhodes, which is currently 8.9% and a third of the vacancy levels that currently exist within the St Leonards office market (13.9%). The Parramatta office market has benefited from positive tenant demand, particularly from government tenants. The higher quality A-grade stock has generally had a lower vacancy rate than other grades of office stock.

Table 17: Parramatta Vacancy by Grade, Q1 2018

Quality	Vacant Space	Stock	Occupied Stock	Vacancy rate (%)
A-Grade	1,273	339,627	338,354	0.37%
B-Grade	13,964	193,178	179,214	7.23%
C-Grade	12,799	125,656	112,857	10.19%
D-Grade	3,861	80,945	77,084	4.77%
Total	31,897	739,406	707,509	4.31%

Source: JLL Research

Figure 12: Parramatta Vacancy by Grade, 2008-2018



Source: JLL Research

Tenant and Occupier Profile

Parramatta office market is home to a number of multi-national firms, government departments as well as education providers. Within recent years there has been a large number of State Government Departments requiring office accommodation within Parramatta, including the Department of Human Services and Government Property NSW.

The major office tenants within the Parramatta market include the following:

- Western Sydney University
- NSW Department of Education
- QBE Insurance Australia
- Parramatta City Council
- Deloitte
- WaterNSW
- Office of Fair Trading
- NSW Department of Finance

The above list, as well as the below table, confirms the importance of Public Administration & Safety as well as Education & Training and Finance & Insurance Services sectors to Parramatta. Parramatta benefits from strong public transport links with a major railway station located within the precinct. The office market itself has significantly lower accommodation costs compared to the Sydney CBD. For example, as at Q1 2018 gross effective rents for Prime grade accommodation in Parramatta were only 45.8% of the Prime grade rents in the Sydney CBD.

Table 18: Major Gross Take-up, Parramatta 2010-2018 (greater than 1,000sq.m)

Industry Group	Leased (sqm)	Vacated (sqm)	Net Change (sqm)
Administrative & Support Services	0	1,000	-1,000
Construction	1,115	0	1,115
Education & Training	35,663	9,590	26,073
Finance & Insurance Services	19,064	12,145	6,919
Health Care & Social Assistance	3,361	1,500	1,861
Information Media & Telecommunications	2,303	10,400	-8,097
Manufacturing	1,831	3,656	-1,825
Professional, Scientific & Technical Services	11,188	2,300	8,888
Public Administration & Safety	60,079	27,150	32,929
Rental Hiring & Real Estate Services	5,088	4,000	1,088
Other	1,381	0	1,381
Total – Major Moves	141,073	71,741	69,332

Source: JLL Research

Net Absorption

JLL has been tracking net absorption in Parramatta since the late 1970s, which has averaged 15,429 sqm over this period. 2017 saw positive leasing activity and resulted in the largest positive net absorption in 10 years at 32,960 sqm, primarily due to the completion of Western Sydney University's Parramatta City campus (22,500 sqm) at One Parramatta Square (1PSQ).

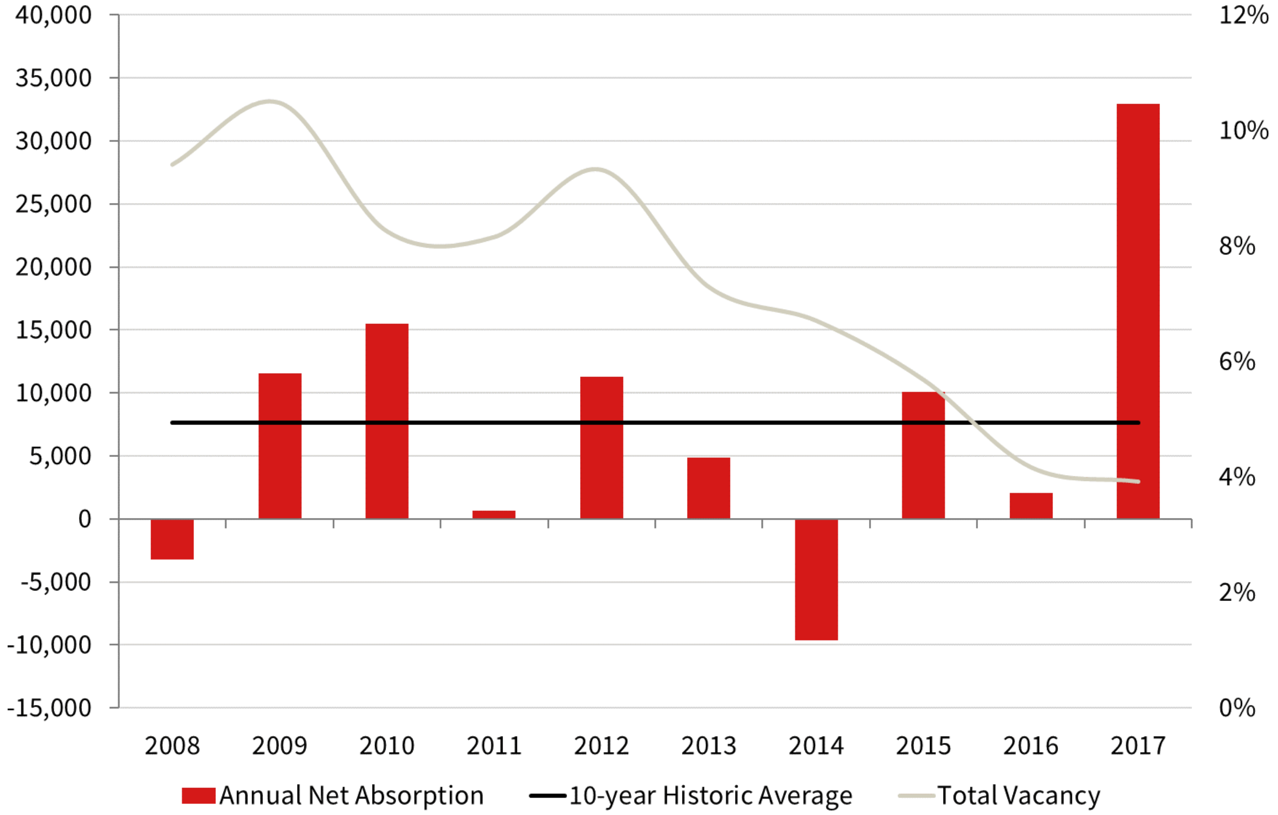
Table 19: Parramatta Average Net Absorption by date

39 years *(1979 – 2017)*	20 years *(1998 – 2017)*	10 years *(2008 – 2017)*	5 years *(2013 – 2017)*	2017
15,429	9,161	7,618	8,070	32,960

Source: JLL Research

Growth in the suburban Sydney office market has supported growth in the Parramatta office market, however, suburban markets do compete for tenants. This is particularly the case for large space needs, such as back office accommodation for finance and insurance companies, as these companies tend to be relatively flexible in terms of location. As such, continued growth in suburban Sydney does not necessarily result in continued growth in Parramatta. Potential competition may come from Macquarie Park, Norwest and Sydney Olympic Park.

Figure 13: Parramatta Historic Net Absorption



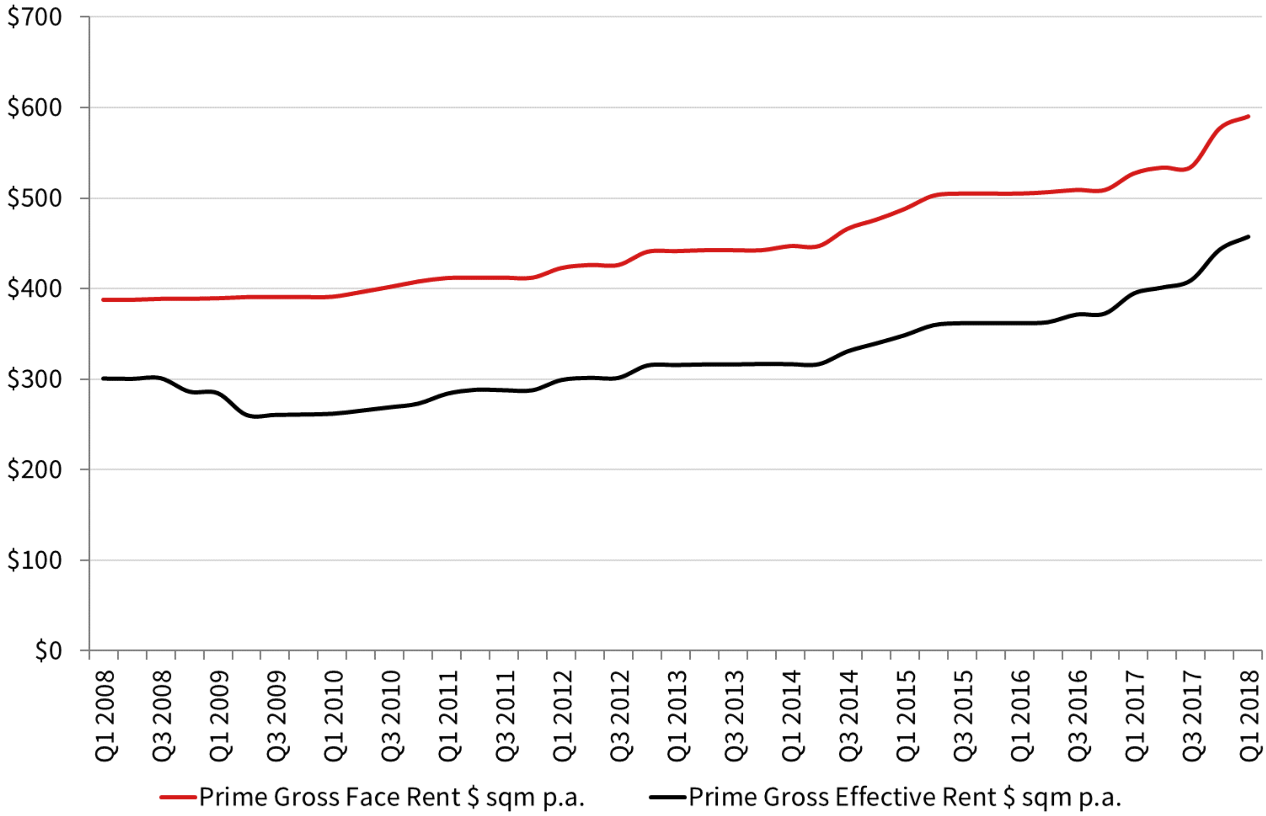
Source: JLL Research

5.2 Financial Market

Historic Rental Levels and Incentives

As at Q1 2018 the average prime gross effective rent (adjusted for incentives) was $457 per sqm p.a. having grown by circa 16% over the past 12 months, by comparison to average secondary gross effective at $343 per sqm p.a. which has grown by circa 17% over the past 12 months.

Figure 14: Historic Growth in Parramatta's Prime Gross Face and Effective Rents

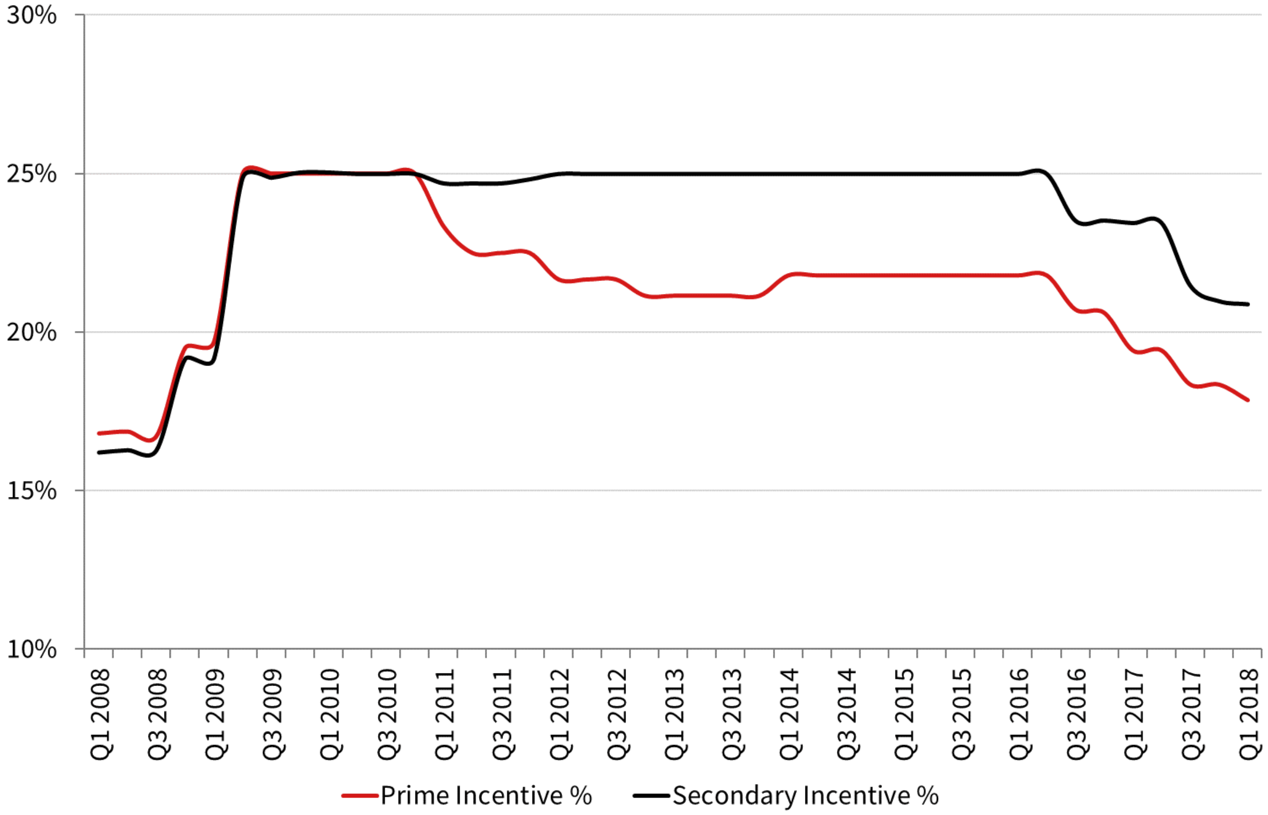


Source: JLL Research

Prime gross face rents are currently $590 sqm p.a., having grown circa 11.9% in the 12 months to Q1 2018 and outperforming the ten year average annual growth rate (4.3%). This growth has been proportionate to the growth in effective rents as incentives have remained reasonably stable over this period. The exception to this was the period immediately following the GFC where incentives rose to circa 25% for a two year period.

Prime grade incentives are currently at 17.9% (based on a new 10-year lease term), which is the lowest it has been since pre-GFC. However it is relatively high given the healthy state of the leasing market and extremely low level of prime grade vacancy (0.37%) that exists within the Parramatta market. In the past when overall vacancy rates sat under 6% (in 2001), incentives were less than 10%. High incentives have become a common occurrence across virtually all Australian office markets since the onset of the GFC, evident in the figure below.

Figure 15: Parramatta Prime and Secondary Incentives, Q1 2008 – Q1 2018



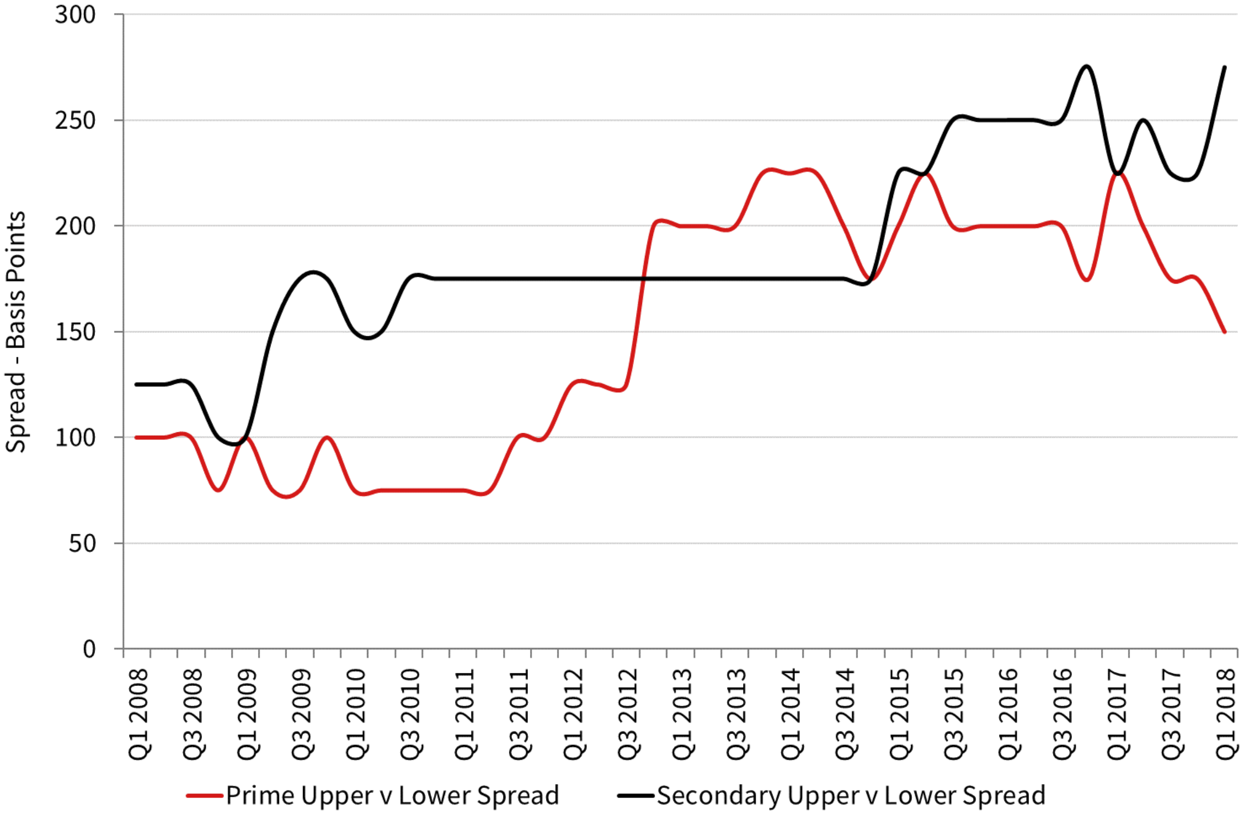
Source: JLL Research

As noted earlier, Prime grade gross effective rents in Parramatta are significantly lower than Sydney CBD rents. As at Q1 2018 they were only 45.8% of the gross effective rents in the Sydney CBD.

Yields and Investment Activity

The key trend in investment yields over the past five years has been a widening of the yield spread between the best and worst assets in the market. This trend is evident in Parramatta, with prime grade yields currently ranging from 5.25% to 6.75% as of Q1 2018, compared with 7.0% to 8.0% in the same quarter, 10 years ago. The yield spread, while large, has continually fluctuated over the past few years with the only constant being an overall compression in yields.

Figure 16: Parramatta Prime & Secondary Grade Yield Spreads, Q1 2008 – Q1 2018



Source: JLL Research

Secondary grade yields ranged from 6.0% to 8.75% in Q1 2018, representing a yield spread of 275 basis points. This has been driven largely by the significant yield compression for the better quality Secondary grade office assets.

An additional trend we can see from the figure below is the reducing differential in yields between primary and secondary overall. This is likely supported by the increased demand for commercial property as an investment. The graph below also shows the recent tightening in yields which has supported investment and development activity.

Figure 17: Parramatta Prime & Secondary Grade Yields, Q1 2008 – Q1 2018

Source: JLL Research

Investment activity in Parramatta has been strong in recent years. In the ten years since 2008, in excess of $2.5 billion in major assets have transacted (≥ $5.0 million) with the growth in sale values supported by a compression in yields. 74% of these transactions have occurred in the Core precinct and 12% in the South precinct.

Since 2014, each year has managed a total sales value in excess of $180 million with an average total sale value of $440 million. 2014 in particular was Parramatta's strongest year with $890 million in office assets transacting, supported by the $240 million 1 Charles Street sale. 2017 was also a strong year with $460 million transacted.

5.3 Occupier and Investor Drivers

The success, or otherwise, of office precincts is ultimately determined by the coming together of the requirements of occupiers and investors / developers. The requirements of these are considered below:

Investors / Developers

These groups are ultimately after financial returns in the form of recurring income and capital growth (total income). Given most of the contribution comes from the recurring income (rent), investors are most concerned with ensuring their assets are fully occupied. Precincts that have a longer history of low vacancy trade at lower yields compared with precincts that have higher average vacancy rates. Ultimately investors and developers will invest in locations where occupiers / tenant want to be located.

Occupiers / Tenants

Based on the above, locality of office locations / precincts are determined by occupiers. Provided below is a summary of the key factors we see influencing this decision, as well as an assessment of how these are perceived for the Parramatta market:

- Access – *is the workforce able to get to work?*
- Business to Business – *is the business able to connect to its clients and suppliers?*
- Amenity – *does the location have amenity that will attract its workforce to the location?*
- Financial – *are their site that can be developed at a competitive economic rent?*

Table 20: Parramatta – Occupier Checklist

	Parramatta Assessment
Access	
Road	Good
Public transport	Excellent
Parking	Good
Proximity to an educated workforce	Very Good
Business to Business	
Clustering	Good
Recognized corporate location	Good
Specialised infrastructure	Good
Amenity	
Proximity to higher value housing	Fair / Good
Social infrastructure (retail, water, culture)	Very Good
Compatible surrounding uses	Good
Financial	
Affordability i.e. low economic rent	Fair / Good
'Buildability' i.e. availability of sites	Fair

Source: JLL

6 Observations on the Proposed Development

The objective of this section is to provide observations regarding the proposed commercial development and how it aligns with the current requirements being seen from tenants in the market.

6.1 Suburban Market Demand for Large Floor Plates

In recent years there has been a growing demand for large floor plate office accommodation. Part of this demand within more CBD type locations e.g. North Sydney, Parramatta CBD, has been driven by large corporations relocating from campus style accommodation into well located transport nodes, while still having a desire for large floor plates – due to greater occupation density and therefore cost reduction.

JLL Research has undertaken analysis in the second half of 2017, which have assessed that there are an estimated 38 assets with large floor plates (>2,000 sqm) across nine of Sydney's suburban office markets. Together, these assets total approximately 706,600 sqm or 15.5% of the monitored 4.6 million sqm of office stock in Sydney's suburban markets. However, this number is growing, with an expectation for new major office developments to contain large floor plates.

Demand for large floor plates are driven by a number of factors as they enable:

- Greater occupier efficiency and productivity outcomes for large tenants than buildings with smaller floor plates
- A collaborative workplace that supports stronger relationships between specialist businesses
- Shared spaces that allow for greater connections between team members
- Flexibility in accommodating project space and adapting to changing space requirements
- Occupancy cost minimisation

This strong demand for quality large floor plate stock is further emphasised by the lower vacancy in these buildings. The analysis undertaken found that the vacancy rate within the 2,000 sqm floor plate and above portion of the market was 4.7% compared with the average vacancy rate for the Sydney suburban office markets at 7.7%. Discussions with leasing operatives further supports the demand for large floor plate stock, particularly for major corporation and government departments, as they seek to unlock the benefits identified above.

While JLL's recent analysis has assessed both the benefits and demand for larger floor plates, we note that this has been a trend in the market for some years. A 2015 Urbis report[2], which sought to assess the requirements for attracting additional A-Grade commercial floorspace within Parramatta CBD, also highlighted the benefits of providing larger floor plates. Urbis' analysis also found that enabling these larger and accessible floorplates allowed businesses to be more efficient, have more staff on the same floor and improve social interaction in the office.

6.2 Large Floor Plates Demand in Parramatta CBD

As identified above, in recent years a growing demand for large floor plates has been experienced across the Sydney suburban market – particularly in transport node type markets such as the Parramatta CBD. Recent briefs in the market have stated minimum requirements for floor plates or ideal sizes. A recent example being the Westpac brief in the market, looking for 10,000 sqm of NLA ideally not across more than five floors i.e. suggesting a preference for a floor plate of ~2,000 sqm. In terms of existing buildings as at Q1 2018 only four buildings meet this requirement in the Parramatta CBD.

Moving forward new developments are looking to ensure they meet the market demand, with developments such as 3 Parramatta Square and 4 Parramatta Square containing floor plates of between 2,500 sqm and 3,100 sqm[3]. The proposed modifications from a GFA floor plate of 1,400 sqm to a typical NLA floor plate of 2,450 sqm therefore appears to be much

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[2] "Achieving A-Grade Office Space in the Parramatta CBD – Economic Review" – Urbis October 2015

[3] The Argyle Tower prepared for the Department of Planning & Environment September 2017 (Scentre Group, GIC & Woods Baggot)

more appropriate for the current demand in the market. Provided below are further comments regarding tenant specific observations.

6.3 Tenant Observations

Scentre Group has identified they have been in contact with several potential tenants who are or will be coming to the market for office spaces in Parramatta over the short term. These tenants include Commonwealth Bank, ANZ, NAB, Link Market Services, Telstra, AIG, Suncorp and Optus. Initial discussions with these tenants have noted a requirement for total office spaces of generally between 15,000-30,000 sqm, although there have been queries for spaces as large as 70,000 sqm.

Scentre Group have suggested they are confident in securing pre-construction lease deals of at least two large tenants who would require 30,000 sqm each and therefore they believe this indicates economic feasibility for development of a building of circa 100,000m2 of NLA.

We have separately attempted to understand the drivers for these tenants through discussion with our active leasing operators. They have noted, in line with comments above, larger floor plates are considered a superior offering – particularly as some of these large corporations which previously only considered business park locations will now consider CBD type locations, such as Parramatta. In terms of overall size, we acknowledge a number of these tenants are sizeable between 15,000-30,000sqm, while some are even as large as 70,000 sqm. In order to enable the development to unlock these large opportunities the modification has proposed a larger total GFA.

Tim Brown
National Director
Strategic Consulting
Level 25, 420 George Street
Sydney NSW 2000
+ 61 2 9220 8440
tim.brown@ap.jll.com

Daniel Turini
Senior Analyst
Strategic Consulting
Level 25, 420 George Street
Sydney NSW 2000
+ 61 2 9220 8757
daniel.turini@ap.jll.com

Bennett Campbell
Analyst
Strategic Consulting
Level 25, 420 George Street
Sydney NSW 2000
+ 61 2 9220 8377
bennett.campbell@ap.jll.com