SCENTRE GROUP

JLL

Westfield Parramatta Commercial Tower - Updated 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

23 June 2020

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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.

This culminated in a design in 2018, which has now been adjusted including:

- The tower has been relocated from the middle of the block on Argyle street to the corner of Marsden and Argyle street in response to issues raised by government authorities.
- The tower has been reduced in size from 112,000 sqm GFA to 104,522 sqm GFA to provide greater articulation and building form.

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 28 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. However, the economic shock caused by the COVID-19 pandemic may impact growth throughout 2020 and beyond.
- Notwithstanding the recent historic strength of the Australian and NSW economies, there is a risk of future moderation before the onset of the COVID-19 pandemic. The outlook for the NSW economy was for a slowdown of growth in State Final Demand and Gross State Product (GSP).
- Economic uncertainty has consequences for property markets. Factors affecting value could include reduced investor and occupier confidence, softening investment yields, reduced occupier demand, lower rental values and higher vacancy rates.
- In addition, reduced transaction and development activity across all sectors is likely as decision making could be delayed in light of the current economic uncertainty.

Office Market Analysis

- The Sydney office markets monitored by JLL comprise 9.78 million sqm of office space, 51.2% of which is located in the Sydney CBD market, and 48.8% located in the nine major metropolitan office markets.
- As at Q1 2020, the total stock across the nine monitored metropolitan markets was 4.77 million sqm. The largest Sydney metropolitan market is the Sydney Fringe and it comprises 1.006 million sqm of stock, which accounts for 10.3% of the total Sydney office market.
- The Sydney CBD has 5.008 million sqm of office space, with 61.3% of stock considered Prime grade (Premium and A-grade) with the balance Secondary grade.

Table 1: Sydney Office Market Profile, Q1 2020

	Net Lettable Area	Prime Grade Stock	Secondary Grade Stock
	'000 sqm	% Total Stock	% Total Stock
CBD Markets			
Sydney CBD	5,008	61.3%	38.7%
Metropolitan Markets			
Sydney Fringe	1,006	45.3%	54.7%
North Sydney	825	47.7%	52.3%
Chatswood	303	44.2%	55.8%
St Leonards	313	28.4%	71.6%
Norwest	246	85.4%	14.6%
Sydney Olympic Park/Rhodes	297	93.1%	6.9%
Sydney South	260	76.3%	23.7%
Macquarie Park	736	75.8%	24.2%
Parramatta	790	43.0%	57.0%

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

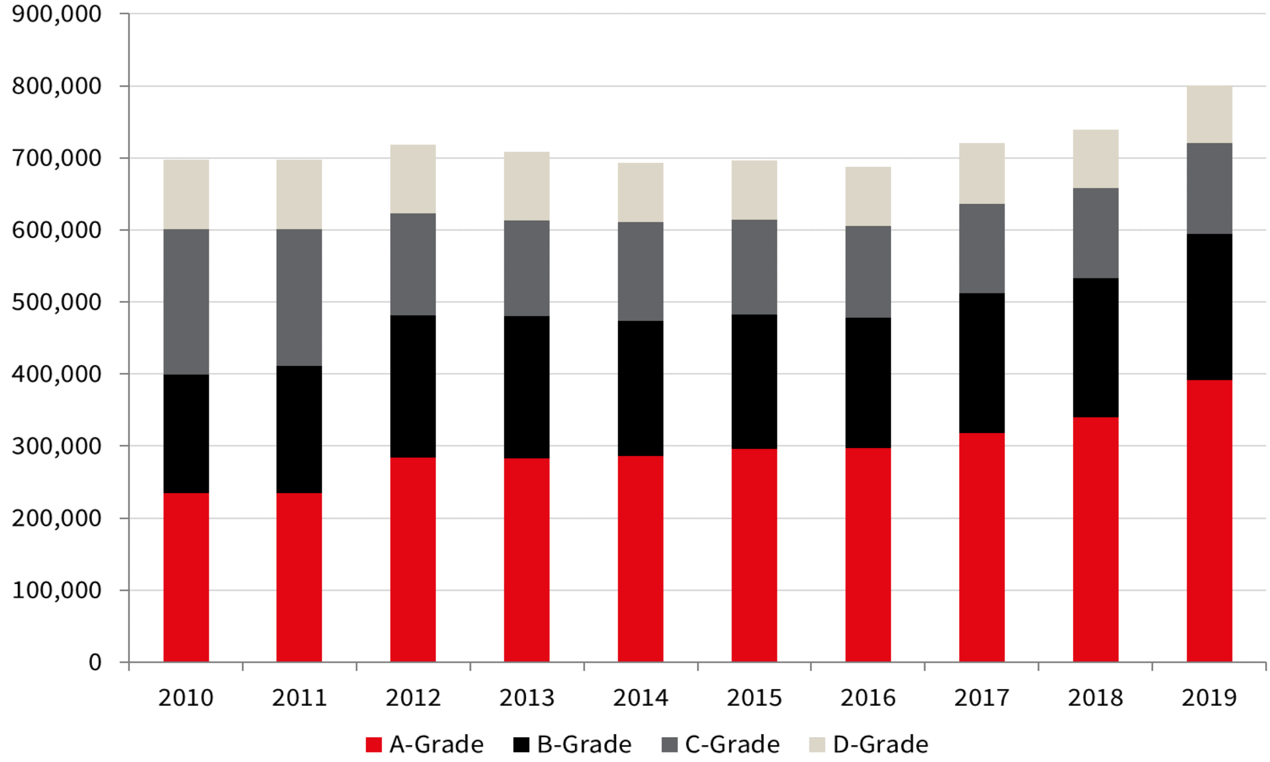
- JLL divides the Parramatta office market into four geographic precincts – Core, East, North and South
- The Core precinct accounts for 71.5% of office stock and continues to be the focus of new development with 70.7% of Parramatta's growth in stock over the past 10 years being focused in the Core.
- The Parramatta office market is made up of primarily A-grade with the rest split between B-grade, C-grade and D-grade buildings. 43.0% of the Parramatta office stock is A-grade with 27.2% B-grade, 19.9% C-Grade and 9.9% 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 2020

Quality	Stock	% of Total
A-Grade	339,419	43.0%
B-Grade	214,984	27.2%
C-Grade	156,860	19.9%
D-Grade	78,302	9.9%
Total	789,565	
Prime	339,419	43.0%
Secondary	450,146	57.0%
Total	789,565	

Source: JLL Research

Figure 1: Parramatta Occupied Office Stock by Grade, 2010-2019



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 found that the vacancy rate at Q1 2020 with 2,000 sqm+ floor plate portion of the market is approximately 8.8% compared with the average vacancy rate for the Sydney suburban office markets at 7.8%. However, this high vacancy rate is largely contributed to the high vacancy rate in the Sydney Olympic Park / Rhodes market. Excluding the Sydney Olympic Park / Rhodes precinct from this analysis results in a vacancy rate of 5.0% for the remaining assets. 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. The proposed modifications from a GFA floor plate of 1,400 sqm to a typical NLA floor plate of between ~2,000 sqm and ~2,500 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.

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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 the corner of Argyle Street and Marsden Street. The site is directly opposite the railway line and a short walk to 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	New Planning Proposal
Total GFA (m^2)	35,000m^2	104,522m^2
Storeys	25 storeys (20 office floors)	47 commercial storeys (including 5x commercial / plant / services levels) And 5 potential reconfigured retail storeys (including 2x potential main lobby levels)
Height	120m above ground	RL 220 (approx.)
Floor Plate (GFA)	1,400m^2	Low Rise: 2,534m^2 Mid Rise: 2,390m^2 High Rise 1: 2,115m^2 High Rise 2: 2,032m^2

Source: Westfield Parramatta Argyle Tower Reference Design Scheme November 2019 (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. Note these figures are based on pre-COVID-19 forecasts and will likely change as the economic impacts of the COVID-19 pandemic are further understood.

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

National	Historic	Current	Forecast	Observations
Standard bank variable mortgage rate (average)	8.3% (FY89-FY18) 6.4% (FY09-FY18)	5.2% (FY18)	6.4% (FY19-FY28)	Interest rates increasing albeit off historic lows
Treasury Bonds (10 year) (average)	6.4% (FY89-FY18) 3.8% (FY09-2018)	2.6% (FY18)	4.0% (FY19-FY28)	Risk free rates increasing albeit off historic lows
CPI (average)	3.0% (FY89-FY18) 2.5% (FY09-FY18)	2.0% (FY18)	2.3% (FY19-FY28)	CPI to revert to slightly higher levels than current
NSW	**Historic**	**Current**	**Forecast**	**Observations**
Gross State Product (CAGR)	2.7% (FY88-FY18) 2.5% (FY08-FY18)	3.1% (FY18)	2.5% (FY18-FY28)	Slight moderation in growth
Private housing investment (CAGR)	3.2% (FY88-FY18) 4.1% (FY08-FY18)	1.6% (FY18)	0.3% (FY18-FY28)	Significant growth recently in housing investment, beginning and expected to continue to moderate
Retail turnover (CAGR)	3.3% (FY88-FY18) 3.0% (FY08-FY18)	3.0% (FY18)	3.0% (FY18-FY28)	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)	1.8% (FY88-FY18) 2.3% (FY08-FY18)	3.9% (FY18)	1.6% (FY18-FY28)	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
Notes:
CAGR – Compound Annual Growth Rate
GCCSA – Greater Capital City Statistical Area

3.2 Implications of Economic Metrics

The most recent Australian Gross Domestic Product (GDP) numbers show that Australia has had an unprecedented 28 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. However, the economic shock caused by the COVID-19 pandemic may impact growth throughout 2020 and beyond.

Notwithstanding the recent historic strength of the Australian and NSW economies, there was already beginning to be signs of future moderation, even before the onset of the COVID-19 pandemic. The outlook for the NSW economy was for a slowdown of growth in State Final Demand and Gross State Product (GSP). A decline in residential construction activity was also expected, after a period of extraordinary growth, which may be accelerated due to the economic impacts of the COVID-19 pandemic.

The Reserve Bank lowered the cash rate twice in March 2020 from 0.75% to 0.50% on 3 March 2020 and again to 0.25% in an out of schedule meeting on 19 March 2020 in response to the impacts pf the COVID-19 pandemic.

Economic uncertainty has consequences for property markets. Factors affecting value could include reduced investor and occupier confidence, softening investment yields, reduced occupier demand, lower rental values and higher vacancy rates. In addition, reduced transaction and development activity across all sectors is likely as decision making could be delayed in light of the current economic uncertainty. Property industry bodies are recommending valuers adopt 'material uncertainty clauses, where appropriate to reflect the current property market and economic backdrop.

4 Sydney Office Market Analysis and Implications

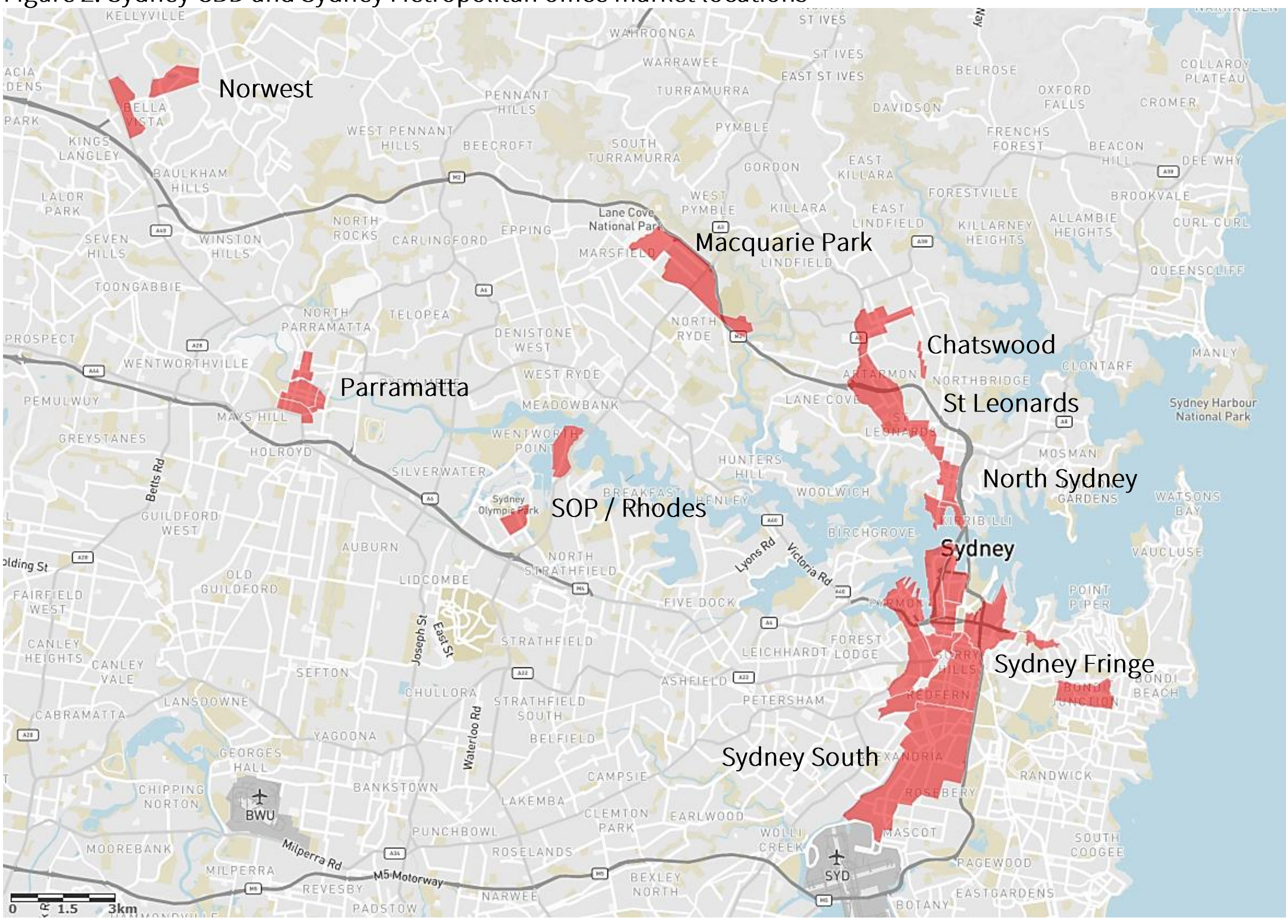
The objective of this section is to provide observations on the Greater Sydney office market of which Parramatta is a critical part. This analysis enables us to make observations on the opportunities and challenges of Parramatta compared to the broader market.

4.1 Overview of Investment Grade Sydney Office Markets

The Sydney office markets monitored by JLL comprise 9.78 million sqm of office space, 5.01 million sqm (51.2%) of which is located in the Sydney CBD market, and ~4.7 million sqm (48.8%) 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

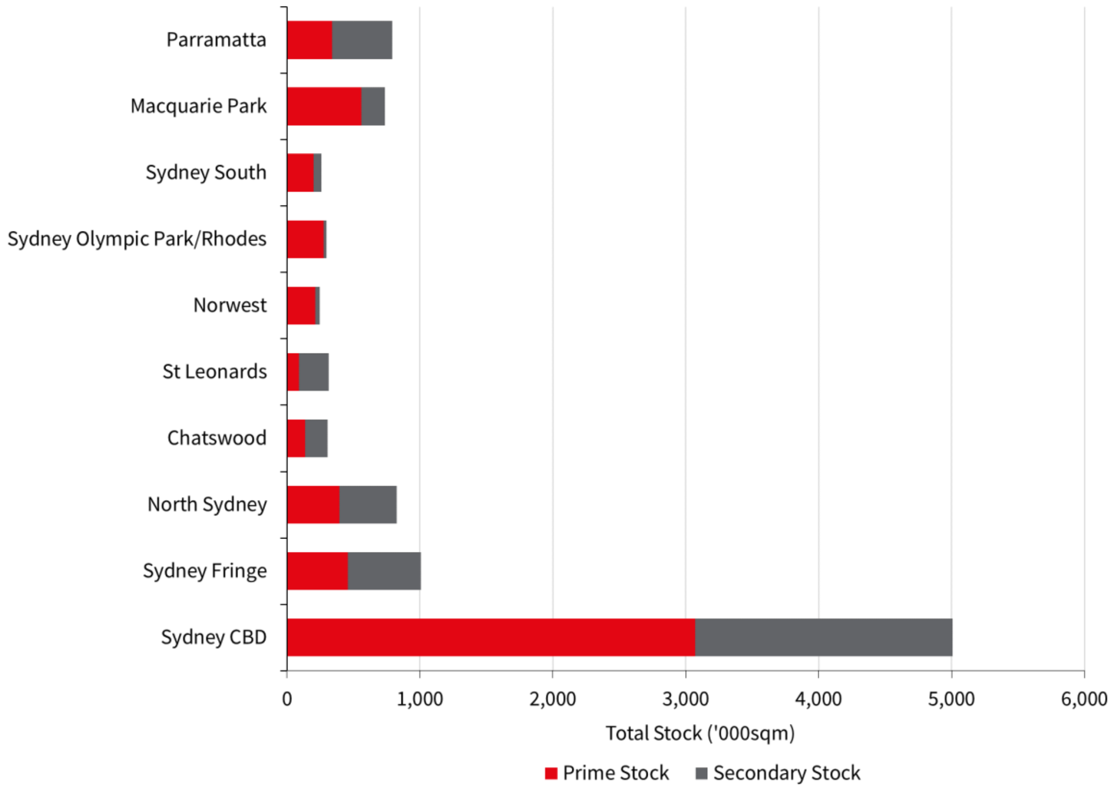
The metropolitan markets comprise a mix of fringe CBD locations, major suburban CBDs such as Parramatta and Chatswood, inner suburban locations and business parks. Each of these locations has quite different characteristics that may attract different occupiers.

- 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.
- Suburban CBDs include Parramatta, North Sydney and Chatswood. Some of these markets have attracted a large government workforce (e.g. Parramatta) with 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 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 2020, the total stock across the nine monitored metropolitan markets was 4.77 million sqm. The largest Sydney metropolitan market is the Sydney Fringe and it comprises 1.006 million sqm of stock, accounting for 10.3% of the total Sydney office market, which includes Sydney CBD.

Figure 3: Prime and Secondary Grade Stock by Metropolitan Market, Q1 2020



Source: JLL Research

Table 7: Sydney Office Market Profile, Q1 2020

	Net Lettable Area	Prime Grade Stock	Secondary Grade Stock
	'000 sqm	% Total Stock	% Total Stock
CBD Markets			
Sydney CBD	5,008	61.3%	38.7%
Metropolitan Markets			
Sydney Fringe	1,006	45.3%	54.7%
North Sydney	825	47.7%	52.3%
Chatswood	303	44.2%	55.8%
St Leonards	313	28.4%	71.6%
Norwest	246	85.4%	14.6%
Sydney Olympic Park/Rhodes	297	93.1%	6.9%
Sydney South	260	76.3%	23.7%
Macquarie Park	736	75.8%	24.2%
Parramatta	790	43.0%	57.0%

Source: JLL Research

The Sydney leasing market has been positive across the majority of the metropolitan markets, however negative overall with a net absorption of -14,600 sqm in Sydney's total occupied stock in the 12 months to Q1 2020. The reduction in total occupied stock over this period is attributable to the decrease across the Sydney CBD, Chatswood and Sydney Olympic Park / Rhodes office markets. There was some considerable divergence between the best performing and worst performing Sydney office markets, with the largest expansion coming from Sydney Fringe (48,159 sqm) and the largest contraction coming from Sydney CBD (-118,809 sqm) driven in Q1 2020 by the relocation of Transport NSW from their 13,634 sqm tenancy at 14-18 Lee Street to Glasshouse, 45-61 Waterloo Road in Macquarie Park after it reached practical completion. Another contributor to the negative absorption was Ausgrid from their 21,930sqm space at 570 George Street to 24 Campbell Street, while refurbishment is undertaken.

New supply in the 12 months to Q1 2020 totalled 222,840 sqm across the nine metropolitan office markets, equivalent to 4.7% of existing stock in this market. Of the nine metropolitan markets, three recorded no new supply in the 12 months to Q1 2020 – Chatswood, Norwest, and Sydney South. The stand out of contributors to new supply was Sydney Fringe, which contributed 79,050 sqm, equating to 7.9% of its existing stock, and Parramatta, which contributed 62,000 sqm, equating to 7.9% of its existing stock. During this same period, Sydney CBD saw completions total 50,032 sqm, equivalent to 1.0% of existing stock.

Projects currently under construction across the nine metropolitan office markets as at Q1 2020 totalled 488,662 sqm, equivalent to 10.2% of existing stock. This is a relatively high level of construction activity when compared to CBD market, where 369,063 sqm, equivalent to 7.4% of CBD stock, is under construction. Most of the metropolitan projects under construction are attributed to the Sydney Fringe, North Sydney and Parramatta office markets, which together account for 84.6% of the total construction across the nine metropolitan office markets.

Table 8: Sydney Office Market Profile, Stock, Supply and Net Absorption, Q1 2020

	Net Lettable Area	Net Absorption 12 mths to Q1 2020	Completions 12 mths to Q1 2020	Completions 12 mths to Q1 2020	Under Construction	Under Construction
	'000 sqm	'000 sqm	'000 sqm	% of NLA	'000 sqm	% of NLA
CBD Markets						
Sydney CBD	5,008	-118.8	50.0	1.0%	369.1	7.4%
Metropolitan markets						
Sydney Fringe	1,006	48.2	79.1	7.9%	80.8	8.0%
North Sydney	825	3.5	40.6	4.9%	114.5	13.9%
Chatswood	303	-18.0	0.0	0.0%	0.0	0.0%
St Leonards	313	3.1	3.7	1.2%	38.5	12.3%
Norwest	246	12.6	0.0	0.0%	12.1	4.9%
Sydney Olympic Park/Rhodes	297	-17.5	2.5	0.9%	0.0	0.0%
Sydney South	260	9.3	0.0	0.0%	10.4	4.0%
Macquarie Park	736	18.9	34.9	4.8%	14.4	2.0%
Parramatta	790	44.2	62.0	7.9%	217.9	27.6%

Source: JLL Research

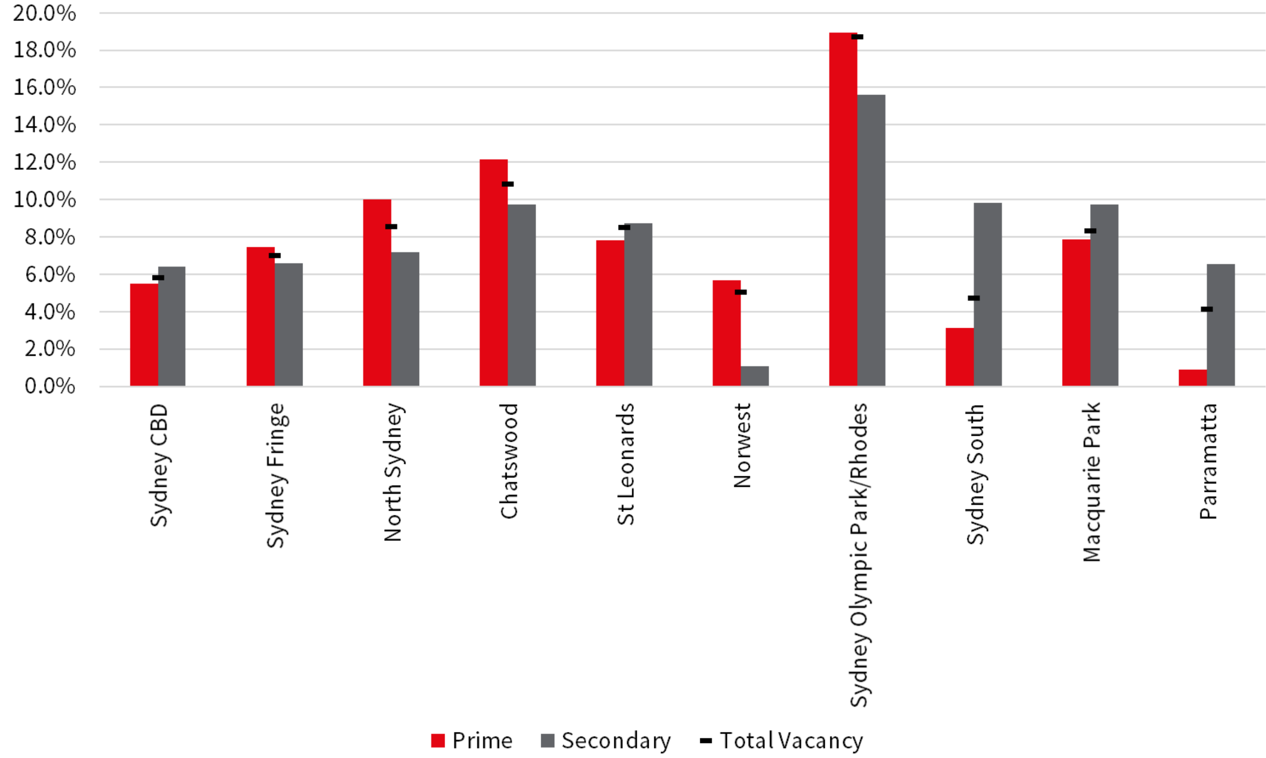
Vacancy

As at Q1 2020, the total prime grade vacancy rate in the nine metropolitan markets was 8.1% compared to 5.5% for the Sydney CBD market. The total metropolitan markets' vacancy was 7.8% while the total vacancy for the Sydney CBD market was 5.8%. In the metropolitan markets, Parramatta currently has the lowest overall vacancy rate of 4.1% as well as the lowest prime grade vacancy of any market at just 0.9%.

Historically the metropolitan and CBD markets have typically had higher vacancy rates in secondary stock, however, more recently this has become more market specific. Five of the nine metropolitan markets (Sydney Fringe, North Sydney, Chatswood, Norwest and Sydney Olympic Park) recorded a higher prime-grade vacancy than secondary-grade vacancy in Q1 2020.

Within the Sydney office markets, Sydney Olympic Park/Rhodes has the highest total vacancy (18.7%) as well as the highest vacancy in prime stock (18.9%) and secondary stock (15.6%). Commonwealth Bank of Australia has begun relocating from 10 Dawn Fraser Avenue, Sydney Olympic Park, consolidating to Australian Technology Park, Eveleigh. An estimated 20,000sqm has been handed back. This explains the large increase in the Sydney Olympic Park/Rhodes' total vacancy rate from 12 months ago (14.5% in Q1 2019).

Figure 4: Prime and Secondary Vacancy Rates, Q1 2020



Source: JLL Research

Market-specific vacancy, as tracked by JLL Research, is provided in the following table:

Table 9: Sydney Office Market Profile Vacancy, Q1 2020

	Vacancy	Prime Grade Vacancy	Secondary Grade Vacancy
	% NLA	% NLA	% NLA
CBD Markets			
Sydney CBD	5.8%	5.5%	6.4%
Metropolitan Markets			
Sydney Fringe	7.0%	7.4%	6.6%
North Sydney	8.5%	10.0%	7.2%
Chatswood	10.8%	12.2%	9.8%
St Leonards	8.5%	7.8%	8.7%
Norwest	5.0%	5.7%	1.1%
Sydney Olympic Park/Rhodes	18.7%	18.9%	15.6%
Sydney South	4.7%	3.1%	9.8%
Macquarie Park	8.3%	7.8%	9.7%
Parramatta	4.1%	0.9%	6.5%

Source: JLL Research

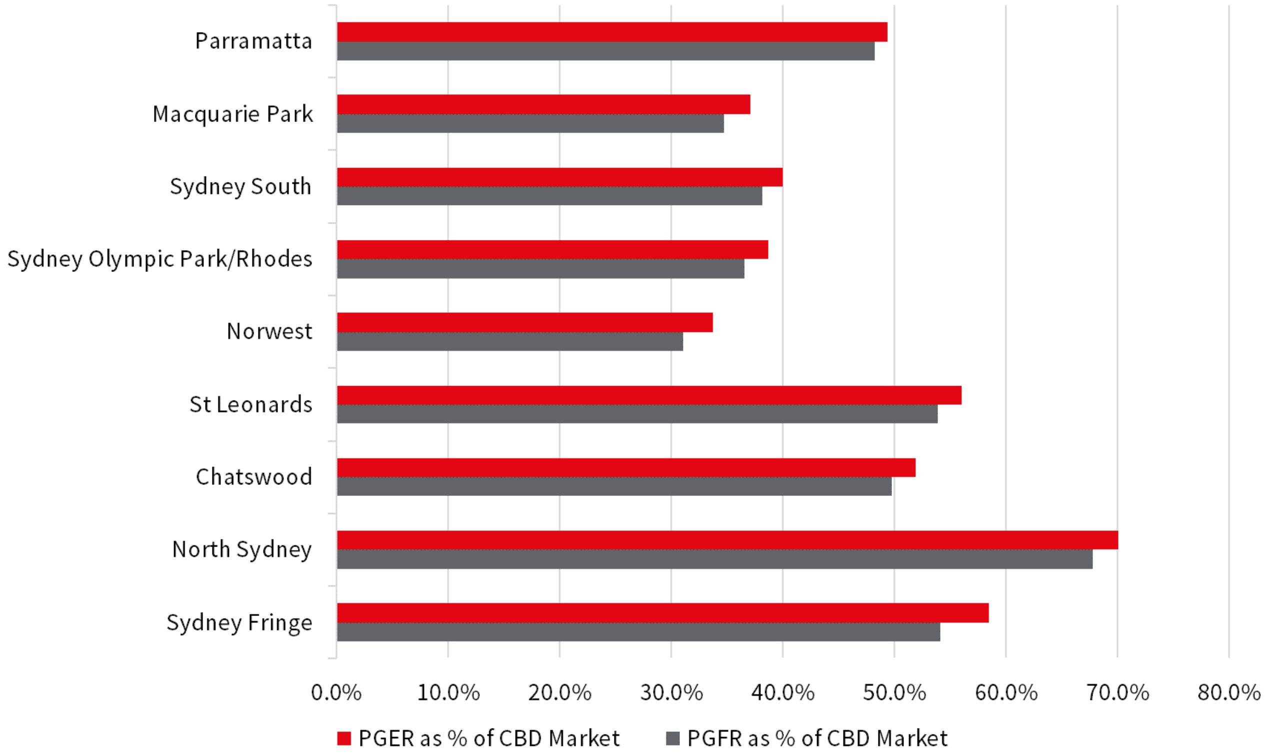
Rental Market

This section provides context on the Sydney metropolitan rental markets and their comparability with the Sydney CBD. 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 31.1% of Sydney CBD rents in Norwest to 54.1% 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 67.8% of Sydney CBD rents.

However, when incentives are taken into account, the proportion of metropolitan to CBD rent increases for all Sydney metropolitan markets, as these markets have a proportionally lower incentive, as evident below:

Figure 5: Prime Gross Face (PGFR) versus Effective Rents (PGER) Compared to Sydney CBD Market, Q1 2020



Source: JLL Research

As discussed, the positive Sydney leasing market has resulted in positive growth in prime gross face rents across all markets (Sydney CBD and metropolitan) in the 12 months to Q1 2020. This growth in all markets ranged from 1.45% in Norwest to 9.41% in Parramatta, with the market overall averaging growth of 4.86%.

Of the nine metropolitan markets, four recorded that prime gross effective rents (rents adjusted for incentives) grew faster than prime gross face rents as incentives have fallen - North Sydney, Chatswood, St Leonards and Norwest. One of the potential reasons for the growth in incentives in markets such as SOP/Rhodes may relate to the relatively high vacancy (at Q1 2020 this market had the highest overall vacancy of any Sydney metropolitan market) with landlords prioritising the letting of vacant space.

Table 10: Sydney Office Market Profile Rents, Q1 2020

	Prime Gross Face Rent	Annual Growth % Year to Q1 2020	Prime Gross Effective Rent	Annual Growth % Year to Q1 2020
	$/sqm p.a.	%	$/sqm p.a.	%
CBD Markets				
Sydney CBD	1,412	4.78%	1,058	1.75%
Metropolitan markets				
Sydney Fringe	763	1.89%	618	-2.43%
North Sydney	957	4.54%	741	6.21%
Chatswood	703	3.72%	549	4.80%
St Leonards	761	4.28%	592	5.57%
Norwest	439	1.45%	357	1.59%
Sydney Olympic Park/Rhodes	517	7.75%	409	4.42%
Sydney South	539	4.76%	423	2.39%
Macquarie Park	490	6.09%	392	5.42%
Parramatta	681	9.41%	522	6.03%

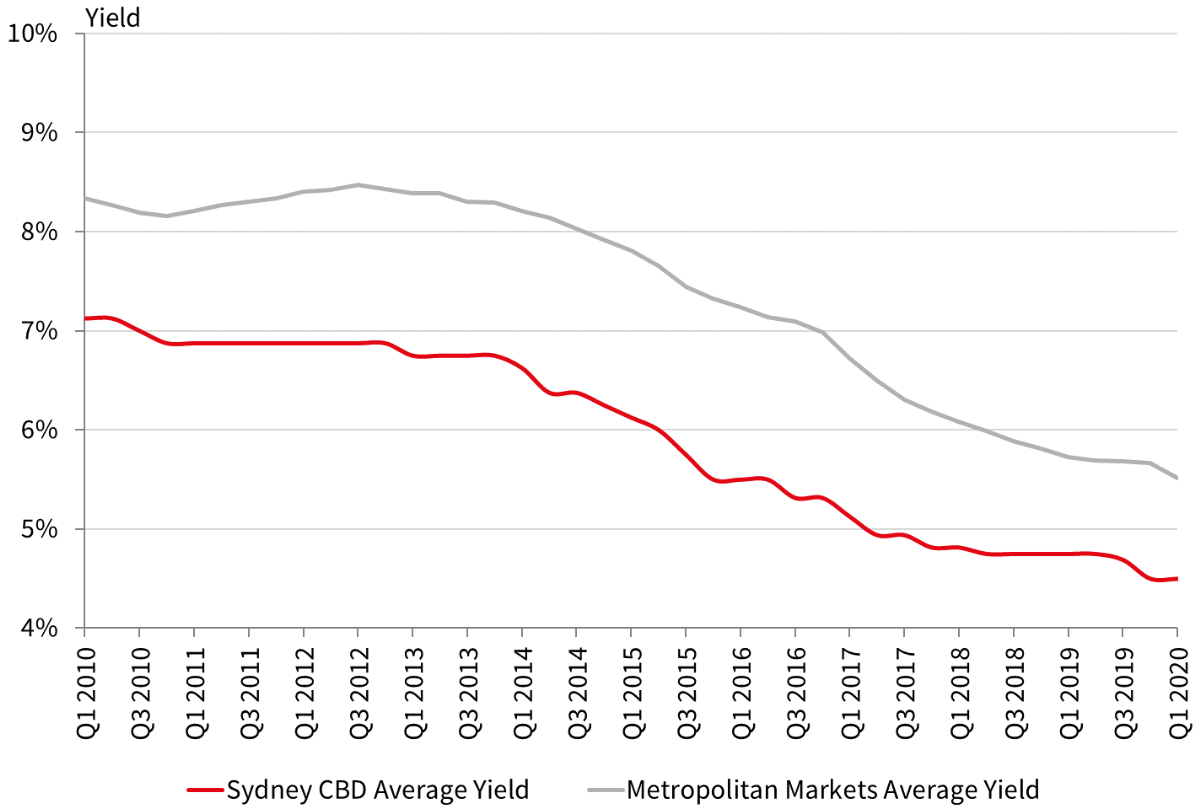
Source: JLL Research

Yield and Capital Values

Seven out of the nine Sydney metropolitan markets have experienced at least some yield compression for prime grade assets over the 12 months to Q1 2020 (apart from Chatswood and Sydney South). 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 101 basis points in Q1 2020. The yield spread is considerably lower than the historic average over the last 10-year period of 144 basis points. There are a number of reasons for this compression, including the notion that during an improving market the difference between superior and inferior assets reduces, which has been the case recently. In addition, this compression can also relate to the metropolitan markets becoming more attractive, including:

- In recent years investors with desire or requirement to invest in the Sydney office market have in some instances been priced out of the Sydney CBD, as such, they have looked to the metropolitan markets in order to enable exposure to the office market.
- Development of new, large office assets in the metropolitan markets provides both better quality assets and as these assets are normally pre-committed with major tenants, they also often benefit from longer weighted average lease expires (WALE).
- In certain metropolitan locations, yields have also been influenced by acquisitions seeking development upside. This could either be for additional commercial floor area than currently allowable or seek to alter use i.e. a mixed-use, primarily residential development.

Figure 6: Yield Spread between Sydney CBD and Metropolitan Markets, Q1 2010 to Q1 2020



Source: JLL Research

Specific yield ranges for each of the office markets as at Q1 2020 are provided below:

Table 11: Sydney Office Market Profile, Yields Q1 2020

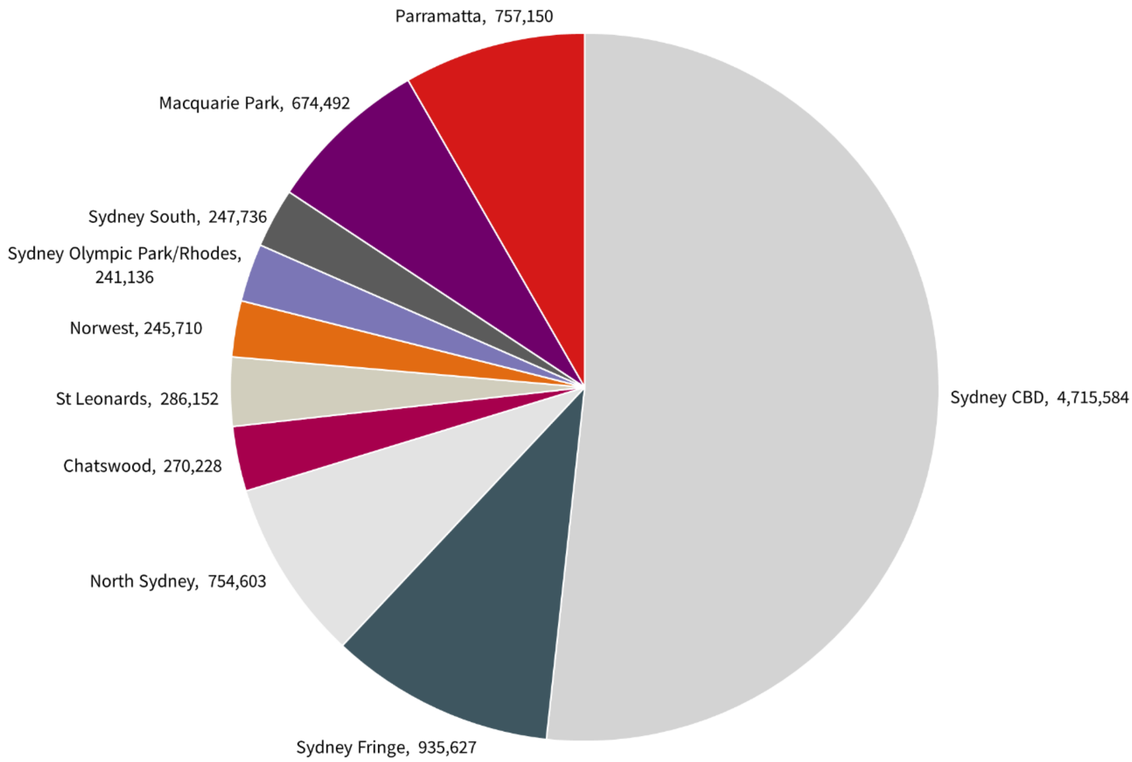
	Prime Yield as at Q1 2020
	%
CBD Markets	
Sydney CBD	4.25 - 4.75
Metropolitan markets	
Sydney Fringe	4.75 - 5.00
North Sydney	4.75 - 5.00
Chatswood	5.50 - 6.25
St Leonards	5.00 - 5.25
Norwest	5.75 - 6.75
Sydney Olympic Park/Rhodes	5.50 - 6.50
Sydney South	5.25 - 6.00
Macquarie Park	5.00 - 6.00
Parramatta	4.88 - 6.13

Source: JLL Research

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 2020 the occupied office space in the markets tracked by JLL totalled 9,116,096 sqm. Parramatta, highlighted in the following figure, as at this time equated to a total of 757,150 sqm in occupied stock, comprising approximately 8.3% of the total Sydney office market.

Figure 7: Sydney Office Markets – Current Occupied Stock Levels, Q1 2020

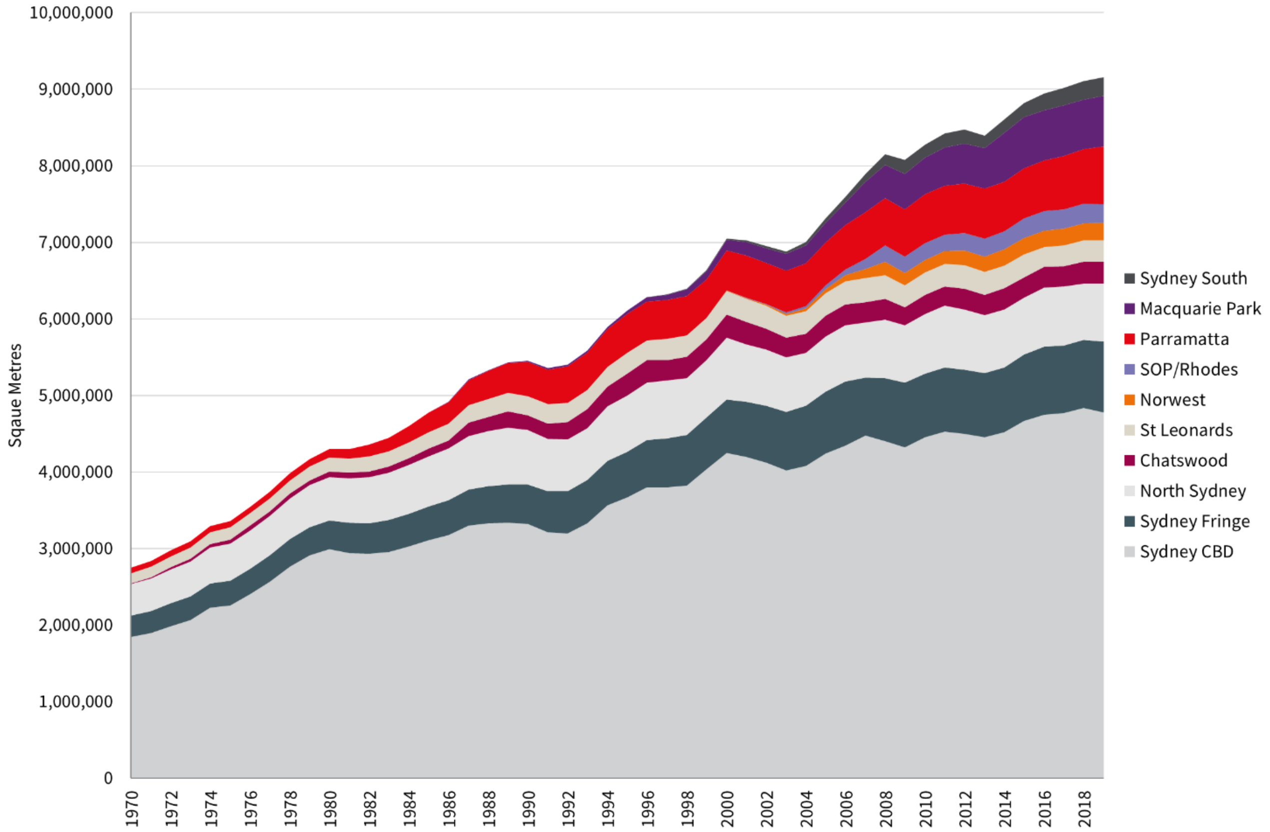


Source: JLL Research

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 Sydney South 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 2019

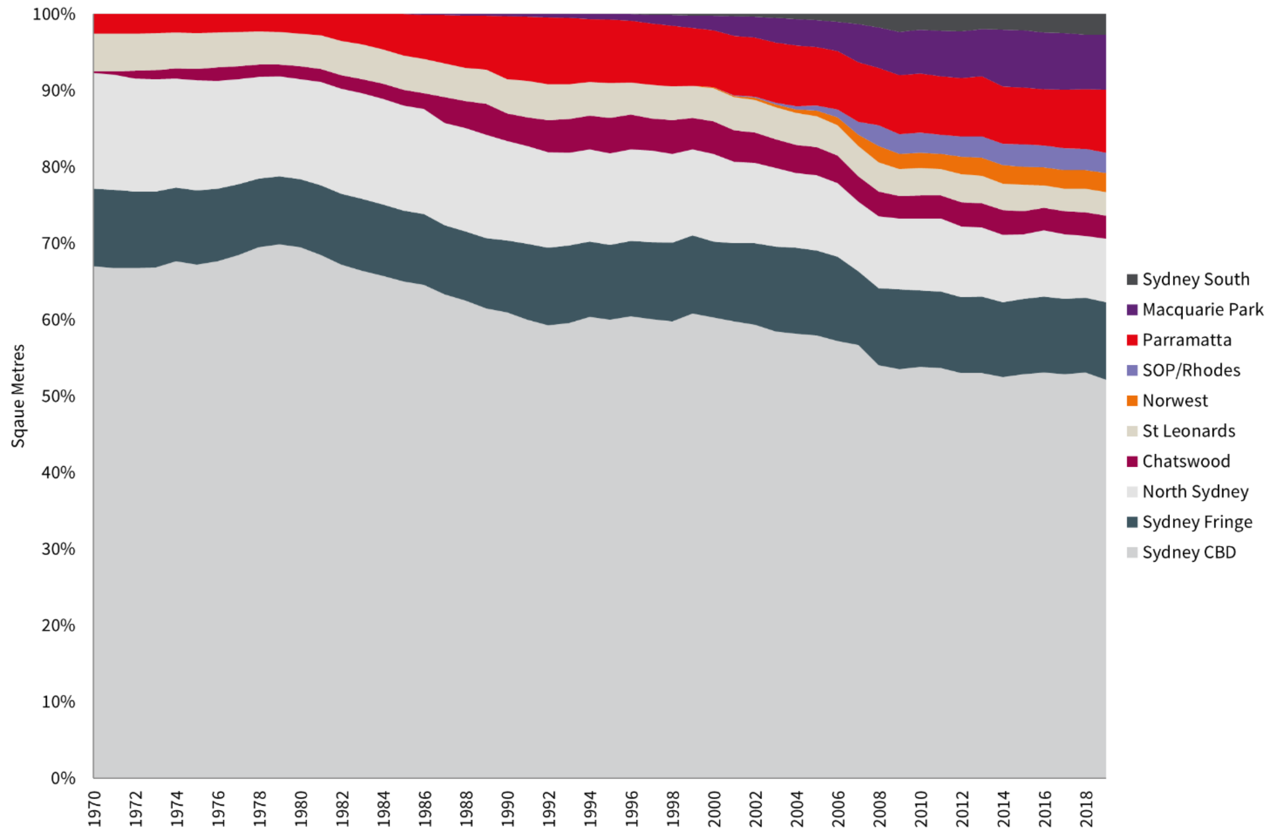


Source: JLL Research

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 1970-2019 periods:

- Sydney CBD market share has declined from 67% to 51%
- 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 originally started as an industrial location and which now attracts 3% market share

Figure 9: Sydney Office Market NLA (Proportion), 1970-2019



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, 2019

	5 Year Average	10 Year Average	Longer Term Averages
	sqm	sqm	sqm
CBD Markets			
Sydney CBD	50,882	45,044	59,866 (49 years)
Metropolitan markets			
Sydney Fringe	17,797	8,872	N/A
North Sydney	-399	-6,026	1,213 (31 years)
Chatswood	687	4,324	5,597 (49 years)
St Leonards	-3,706	-648	1,262 (30 years)
Norwest	3,967	6,873	N/A
SOP/Rhodes	1,137	3,411	N/A
Sydney South	13,594	5,971	N/A
Macquarie Park	4,392	8,988	22,017 (20 years)
Parramatta	22,067	13,309	16,268 (41 years)

Source: JLL Research

In order to understand the likely future growth of these precincts, we require 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 can't 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)

	Expected Absolute Growth	Expected Rate of Growth
CBD Markets		
Sydney CBD	↑	↓
Metropolitan markets		
Sydney Fringe	↑	↓
North Sydney	↑	↔
Chatswood	↑	↓
St Leonards	↑	↓
Norwest	↑	↑
SOP/Rhodes	↑	↑
Sydney South	↑	↔
Macquarie Park	↑	↑
Parramatta	↑	↑
New Entrants		
Liverpool	↑	↑
The Bays Precinct	↑	↑
Western Sydney Airport	↑	↑

Source: JLL

Risks to Underlying Demand for Office Uses

Outlined below are a range of considerations that we consider may impact long net absorption. As such they are not necessary a comment on investment risk, but more an observation on how the markets may change over time.

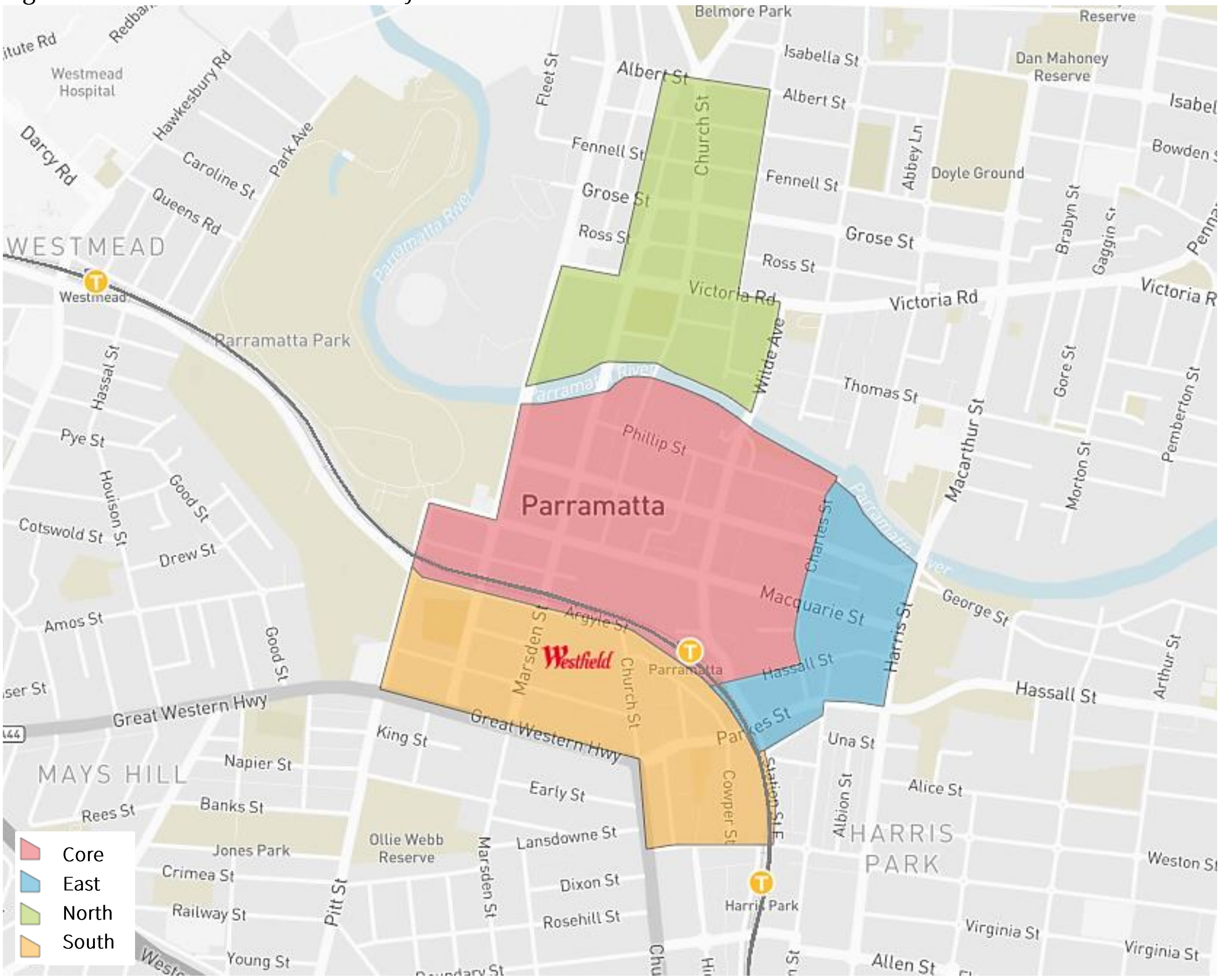
1. **Structural change from blue collar to white collar employment:** Over the period from 1970 to now, the Australia, NSW and Sydney economies have undergone a structural change where a significant proportion of employment changed to being office based. Over this same period white collar employment 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.
4. **Work from Home:** As identified by the Australian Bureau of Statistics (ABS), almost a third (3.5 million) of all employed Australian's regularly worked from home in their main job or business. 42 per cent of those who regularly work from home cited catching up on work as the main reason. A further 20 per cent regularly worked from home because they wanted an office or didn't want to pay rent or overheads. A consequence of COVID-19 has been the testing of the ability for large portions of the white collar workforce to work from home. In the wake of these changed work patterns, we understand some large organisations are already beginning to investigate this further in workplace strategies, which will likely impact future office demand.

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 71.5% of office stock. This precinct continues to be the focus of new development with 70.7% of Parramatta's growth in stock over the past 10 years being focused in the Core.

Table 14: Parramatta Office Precincts by Size, Q1 2020

Precinct	Stock	% Total	Growth, Last 10 years	Growth as % of 10-year total
Core	564,711	71.5%	65,424	70.7%
East	52,534	6.7%	11,611	12.5%
North	45,104	5.7%	-357	-0.4%
South	127,216	16.1%	15,847	17.1%
	789,565	100.0%	92,525	

Source: JLL Research

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 71.5% of the growth in stock over the last decade. Most of the 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 had very little change in stock since Q1 2015 (less than 1,500sqm). Despite this, the proximity to high quality retail (Westfield Parramatta) and Parramatta train station ensure the South precinct remains an attractive location for businesses. The precinct remains as the second largest precinct and the second highest in new stock given that 17.1% 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 2020

Quality	Number of Buildings	Total NLA	Average Building NLA
A-Grade	13	339,419	26,109
B-Grade	30	214,984	7,166
C-Grade	60	156,860	2,614
D-Grade	77	78,302	1,017
Total	180	789,565	4,386

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).

43.0% of the Parramatta office stock is A-grade with 27.2% B-grade, 19.9% C-Grade and 9.9% 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 (47.7%) and Sydney Fringe (45.3%) but is relatively low when compared to the Sydney CBD market (61.3%).

Table 16: Parramatta Office Stock by Grade, Q1 2020

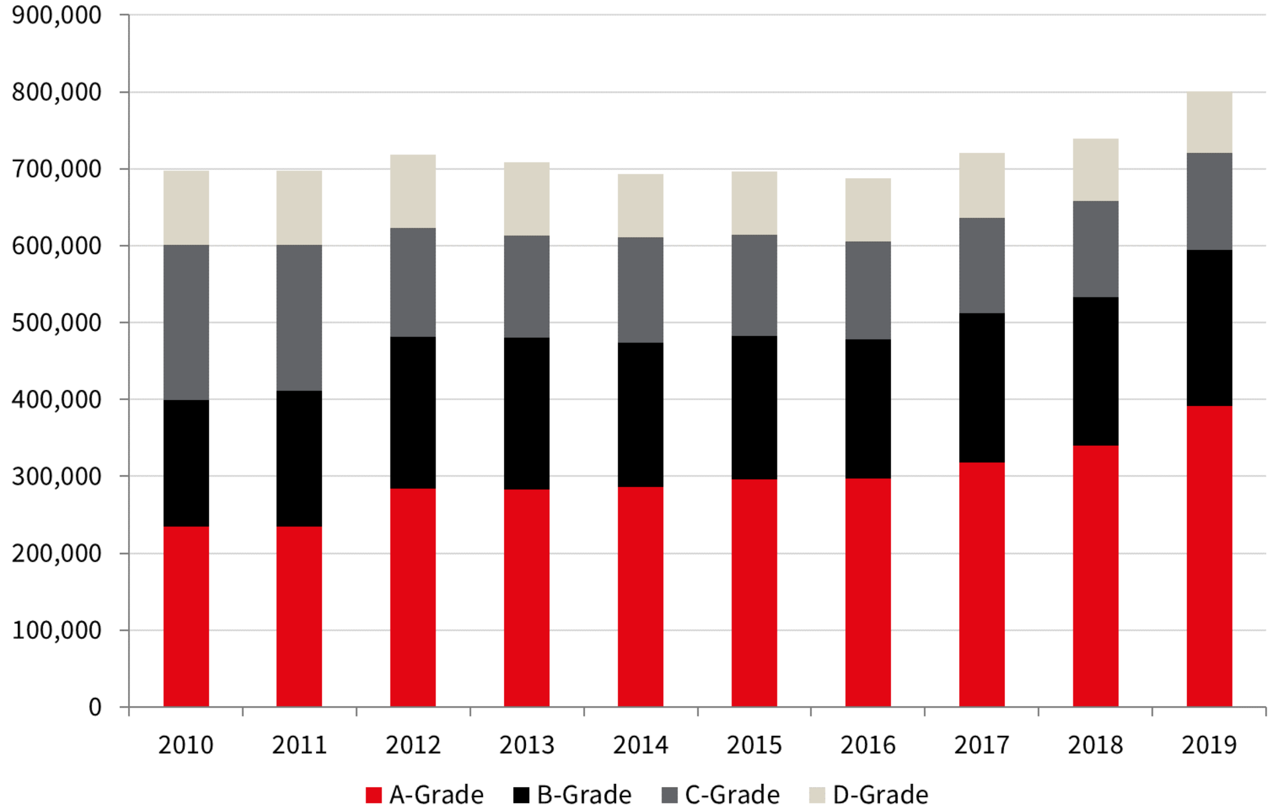
Quality	Stock	% of Total
A-Grade	339,419	43.0%
B-Grade	214,984	27.2%
C-Grade	156,860	19.9%
D-Grade	78,302	9.9%
Total	789,565	
Prime	339,419	43.0%
Secondary	450,146	57.0%
Total	789,565	

Source: JLL Research

Parramatta has experienced a significant level of net office growth over the past decade. In the ten years to Q1 2020, there has been 92,525 added (9,252.5 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). Despite positive year on year growth to Q1 2020 by 50,939 sqm, there has been no development completions in Q1 2020 and three assets withdrawn, contributing to a decline in stock from Q4 2019 by 11,061 sqm.

Despite the recent withdrawals, significant construction activity is expected in the short term with Walker Corporation's Stage 3 (3PSQ), expected to complete in Q2 2020. The commercial tower will provide a total 43,959 sqm of office space across 17 floors and National Australia Bank (NAB) has pre-committed to the entire building.

Figure 11: Parramatta Occupied Office Stock by Grade, 2010-2019



Source: JLL Research

Vacancy by Grade

The Parramatta A-grade stock has a very low vacancy rate, with only 3,067sqm (0.90%) of space available for lease in Q1 2020. This low vacancy rate has been a strength of the Parramatta market for the last eleven years as A-grade vacancy rates have remained below 5%, with the only exception being in Q3 2012.

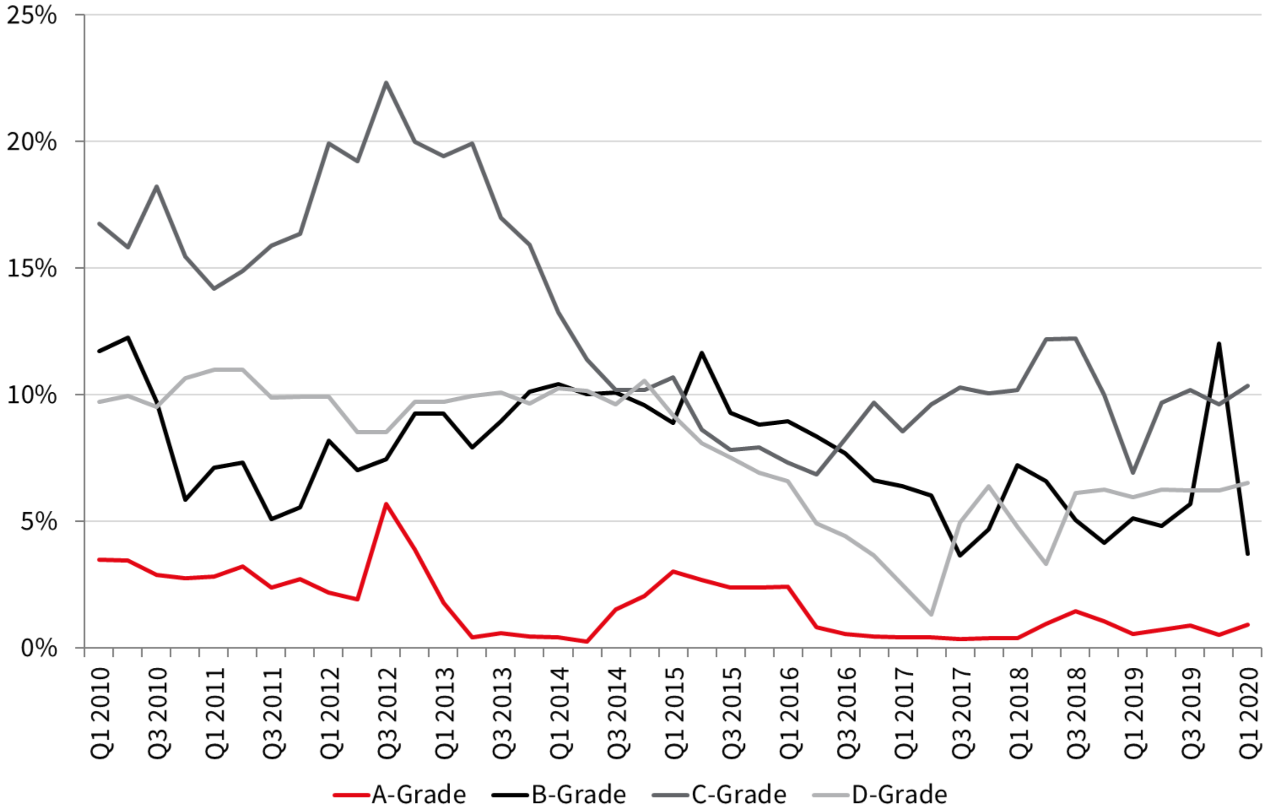
The overall low rate of A-grade vacancy relative to other building grades (B, C and D) suggests a preference exists for higher quality accommodation, despite the higher rental costs required to secure quality space. Across both Prime and Secondary grade office accommodation, Parramatta has a low vacancy rate of 4.1% at Q1 2020, which is less than half the vacancy rates of Macquarie Park (8.3%), North Sydney (8.5%) and St Leonards (8.5%). 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	3,067	339,419	336,352	0.90%
B-Grade	7,988	214,984	206,996	3.72%
C-Grade	16,265	156,860	140,595	10.37%
D-Grade	5,095	78,302	73,207	6.51%
Total	32,415	789,565	757,150	4.11%

Source: JLL Research

Figure 12: Parramatta Vacancy by Grade, 2010-2020



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 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 2020 gross effective rents for Prime grade accommodation in Parramatta were only 49.4% of the Prime grade rents in the Sydney CBD.

Table 18: Major Gross Take-up, Parramatta 2010-2020 (greater than 1,000sq.m)

Industry Group	Leased (sqm)	Vacated (sqm)	Net Change (sqm)
Administrative & Support Services	1,068	1,354	-286
Construction	4,127	0	4,127
Education & Training	35,190	8,322	26,868
Finance & Insurance Services	19,968	15,695	4,273
Health Care & Social Assistance	2,551	0	2,551
Information Media & Telecommunications	2,303	11,650	-9,347
Manufacturing	1,831	3,656	-1,825
Professional, Scientific & Technical Services	11,188	2,300	8,888
Public Administration & Safety	125,289	43,647	81,642
Rental Hiring & Real Estate Services	5,088	4,000	1,088
Other	1,381	0	1,381
Total - Major Moves	209,984	90,624	119,360

Source: JLL Research

Net Absorption

JLL has been tracking net absorption in Parramatta since the late 1970s. In the 30 years to 2019 (1990 to 2019), Parramatta has averaged 10,285 sqm over this period. 2019 saw positive leasing activity and resulted in the largest positive net absorption in 10 years at 46,854 sqm, primarily contributed by the relocation of multiple NSW Government departments from the Sydney CBD into 4 Parramatta Square (62,000 sqm).

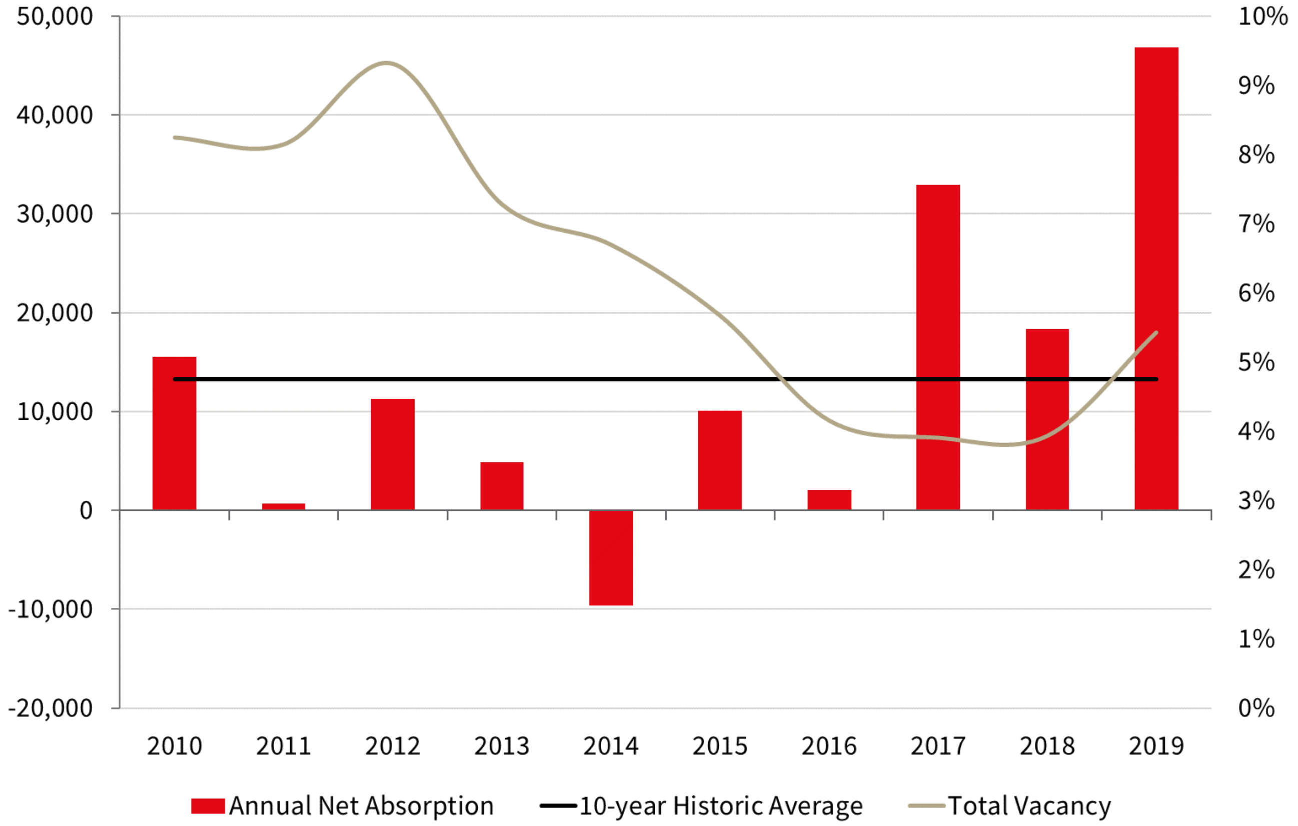
Table 19: Parramatta Average Net Absorption (sqm) by date

30 years *(1990 – 2019)*	20 years *(2000 – 2019)*	10 years *(2010 – 2019)*	5 years *(2015 – 2019)*	2019
10,285	12,639	13,309	22,067	46,854

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



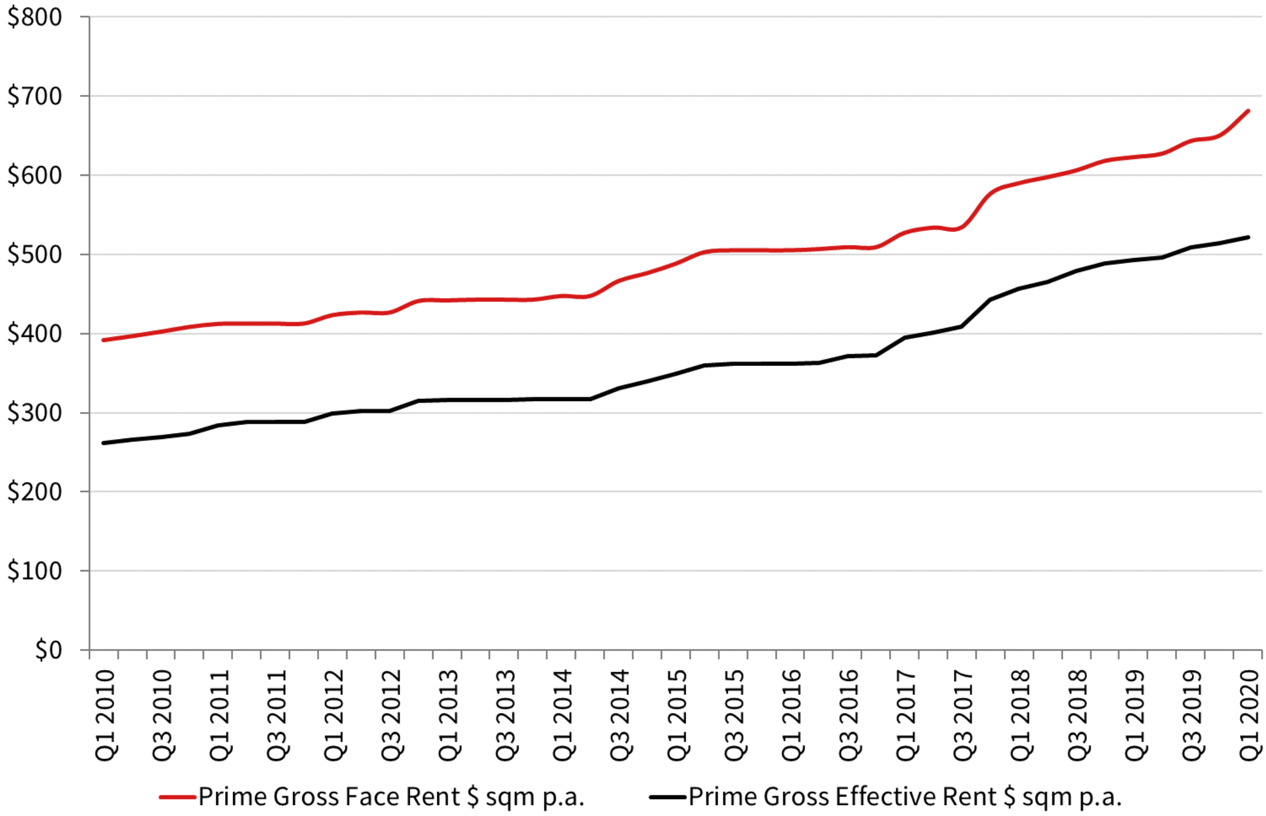
Source: JLL Research

5.2 Financial Market

Historic Rental Levels and Incentives

As at Q1 2020 the average prime gross effective rent (adjusted for incentives) was $522 per sqm p.a. having grown by circa 6.0% over the past 12 months, by comparison to average secondary gross effective at $399 per sqm p.a. which has grown by circa 7.2% over the past 12 months.

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

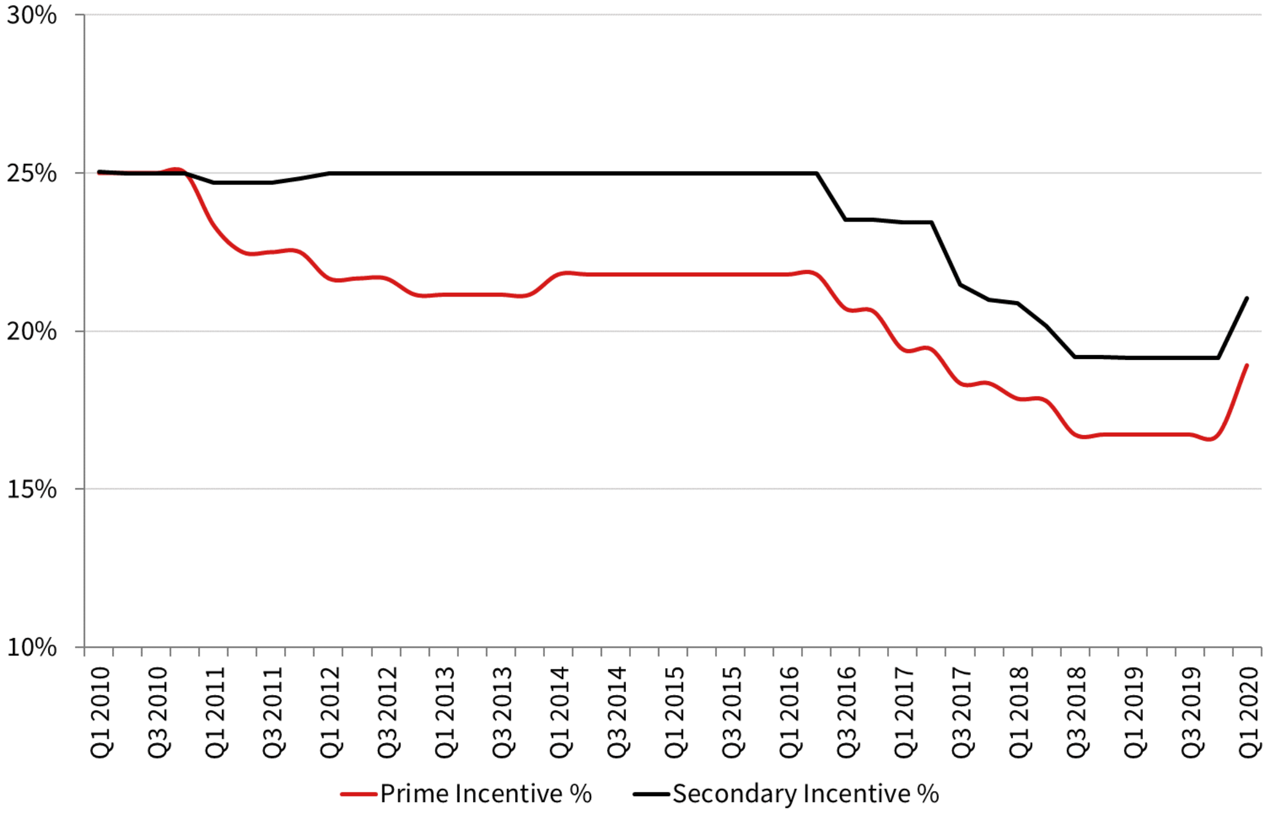


Source: JLL Research

Prime gross face rents are currently $681 sqm p.a., having grown circa 9.4% in the 12 months to Q1 2020 and outperforming the ten-year average annual growth rate (5.7%). 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 2010 period, where following the GFC incentives rose to circa 25% for a two year period.

Prime grade incentives are currently at 18.9% (based on a new 10-year lease term), which is the highest it has been since Q2 2017. This it is relatively high given the healthy state of the leasing market and extremely low level of prime grade vacancy (0.9%) 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 2010 – Q1 2020



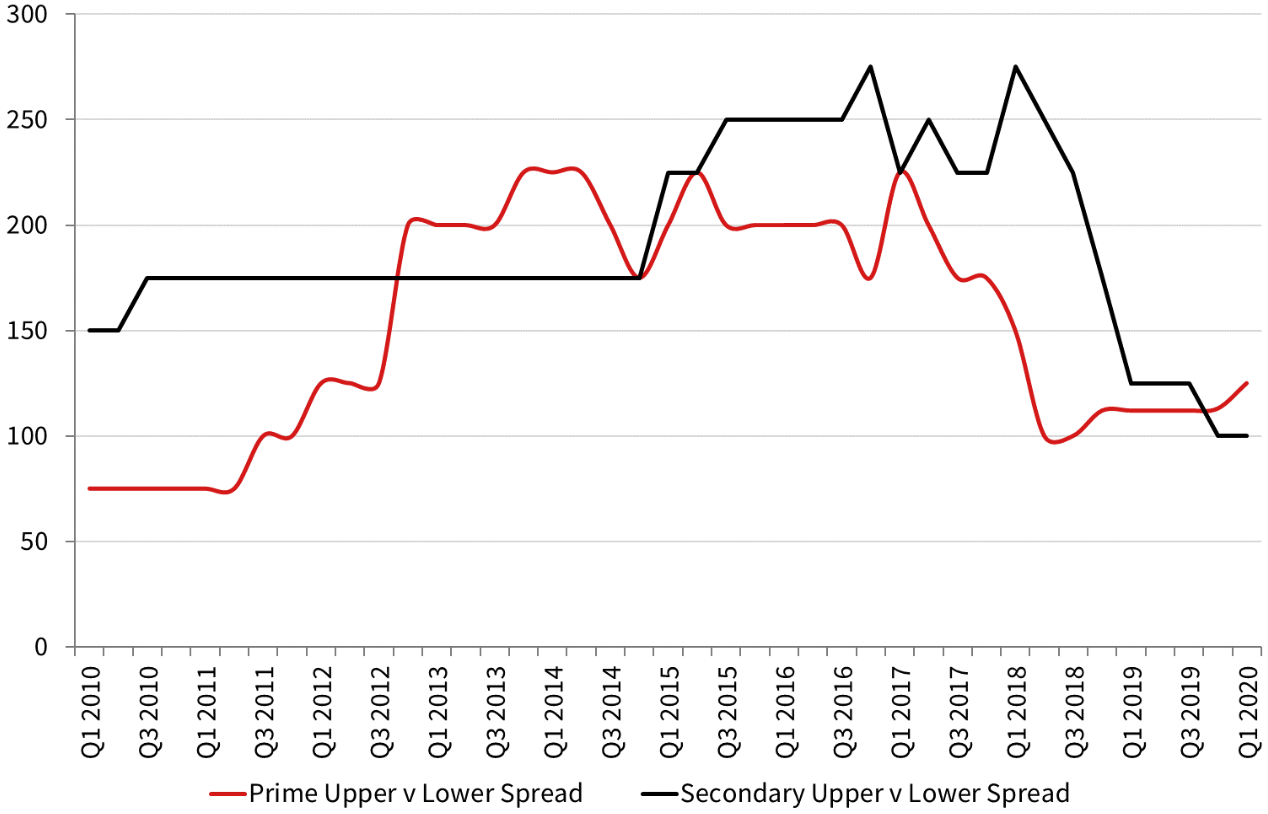
Source: JLL Research

As noted earlier, Prime grade gross effective rents in Parramatta are significantly lower than Sydney CBD rents. As at Q1 2020 they were only 49.4% of the gross effective rents in the Sydney CBD.

Yields and Investment Activity

The key trend in investment yields over the past few years had been a widening of the yield spread between the best and worst assets in the market, although more recently this trend has begun to reverse, particularly over the past three years.

Figure 16: Parramatta Prime & Secondary Grade Yield Spreads, Q1 2010 – Q1 2020

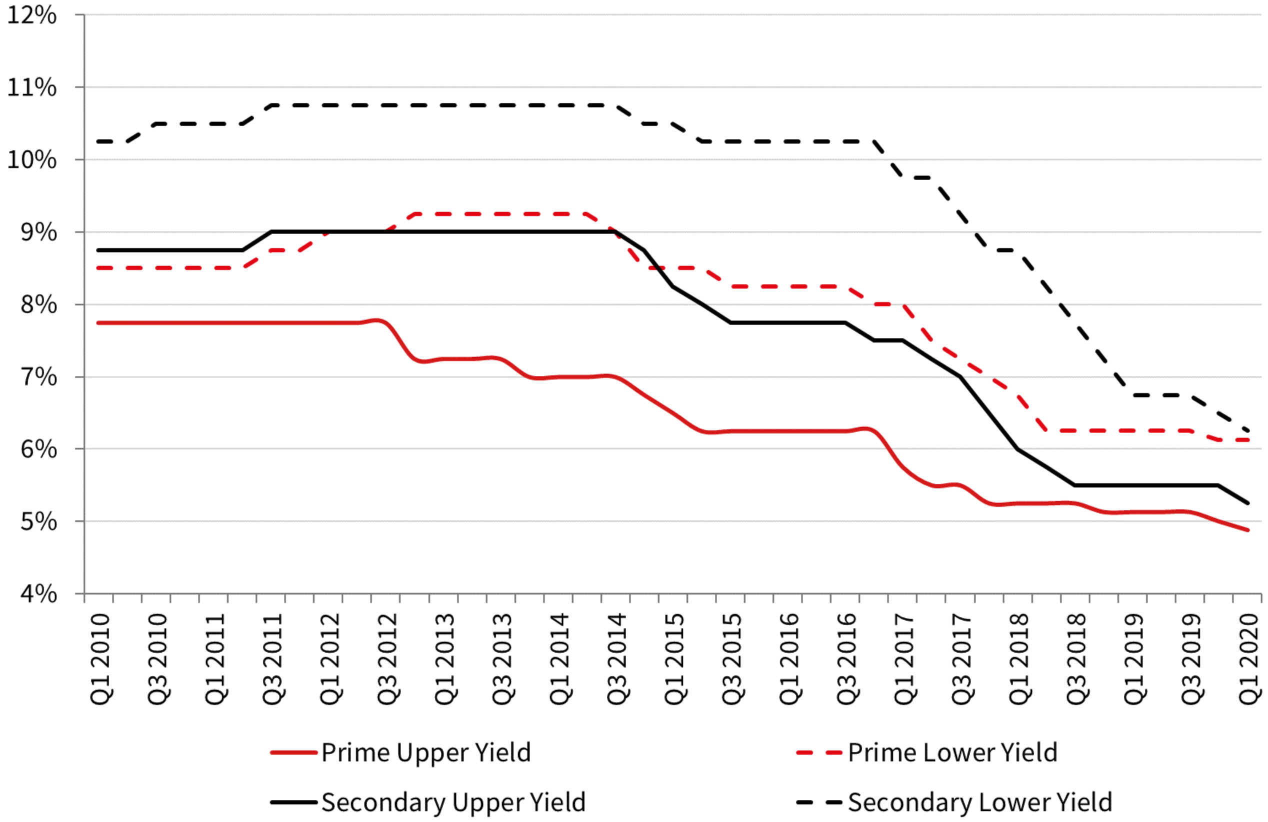


Source: JLL Research

Secondary grade yields ranged from 5.25% to 6.25% in Q1 2020, representing a yield spread of 100 basis points. Over the last two quarters, the prime grade yield spread has been larger than the secondary grade yield spread. This has not occurred since Q3 2014. 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 2010 – Q1 2020



Source: JLL Research

Investment activity in Parramatta has been strong in recent years. In the ten years since 2010, in excess of $3.7 billion in major assets have transacted (≥ $5.0 million) with the growth in sale values supported by a compression in yields. 68% of these transactions have occurred in the Core precinct and 16% in the South precinct.

Between 2012 and 109, each year managed a total sales value in excess of $180 million with an average total sale value of $448 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. 2019 was also a strong year with $804 million transacted, supported by the sale of Jessie Street Centre for $420 million.

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 recently on floorplates in the Sydney suburban office markets and estimated there are 44 assets with large floor plates (>2,000 sqm). Together, these assets total approximately 908,200 sqm or 19.0% of the monitored 4.8 million sqm of office stock in Sydney's suburban markets (excluding the Sydney CBD). This number is continuing to grow 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 is approximately 8.8% compared with the average vacancy rate for the Sydney suburban office markets at 7.8%. However, this high vacancy rate is largely contributed to the high vacancy rate in the Sydney Olympic Park / Rhodes market. This market alone contributes ~42,700 sqm of the total vacant space of the ~79,700 sqm across all nine suburban markets for buildings with floorplates >2,000 sqm.

The high vacancy in assets with floorplates above 2,000 sqm for the Sydney Olympic Park / Rhodes market is owing to the Commonwealth Bank of Australia's vacating space, coupled with the movement in space across some other large floorplate assets. Excluding the Sydney Olympic Park / Rhodes precinct from this analysis results in a vacancy rate of 5.0% for the remaining assets with larger floor plates. 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[1], 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.

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

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[2]. The proposed modifications from a GFA floor plate of 1,400 sqm to a typical NLA floor plate of between ~2,000 sqm and ~2,500 sqm therefore appears to be much 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.

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

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