STRATEGIC MARKET ASSESSMENT ADDENDUM

APPENDIX U

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RE CROWS NEST OSD – AMENDED SSD APPLICATION - STRATEGIC MARKET ASSESSMENT

Macroplan have been instructed by Sydney Metro to undertake a review of Appendix R - Strategic Market Assessment report (prepared by macroplan) as exhibited with the Crows Nest SSD Application. Following exhibition, Sydney Metro are proposing an amended scheme to address issues raised during exhibition.

In 2018, macroplan undertook a strategic market assessment on the property sectors planned to be accommodated within the OSD including residential, retail, hotel and commercial floorspace. Macroplan has reviewed the 2019 revised plans for the Crows Nest OSD which now include the development of residential, retail and commercial floorspace. The table below details key revisions.

Table 1. Crows Nest OSD Revised Floorspace Allocations

Site	Uses	Original Allocation (m²)	Revised Allocation (m²)
A	**Residential**	37,500	-
	Commercial	-	38,607
	Retail	-	1,600
B *Option 1*	**Residential**	-	12,579
	Commercial	15,200	-
	Retail	-	267
B *Option 2*	**Residential**	-	12,579
	Hotel	15,200	-
	Retail	-	267
C	**Commercial**	2,700	3,031

Macroplan has provided an updated overview of market conditions in relation to each property sector as they relate to the OSD's revised plans.

1.0 Residential Market

1.1 Property Price Trends

- The period of property market weakness in prices across Sydney following the sharp rise from 2012-17 appears to have come to an end with prices rising in the last three months. This reflects a response to several factors – the election result removing threats to investors – but the over-riding factor has been the cuts in interest rates.

- As of June 2019, the median house price in Crows Nest was $1,900,000 a decline of 9.1% from the year previous whilst the median unit price was $975,000, an increase of 4.3%. However, the reported rise in unit prices could reflect a change in the mix of units in the area with the delivery of new premium stock such as 61 Atchison Street and 78a Albany Street (like for like, prices are more likely to have fallen).
- A high level analysis indicated that on average off the plan apartments in the Crows Nest/St Leonards precinct are selling for around $17,000/m². The analysis also indicated that apartments without a car park on average were selling for around $1,700 - $2,000 less per/m².
- 'Alexander Residences' located at 137-139 Alexander Street is currently selling off the plan apartments. 1 bedroom apartments start at $1.11 million; 2 bedrooms cost upwards of $1.55 million and 3 bedroom units are priced from $3.6 million. The development is boutique with just nine residences which would be contributing to pricing well above the suburbs median, however, its location, just a 5-minute walk to the future Crows Nest station (hence the OSD), makes the site particularly attractive.
- Just a 7-minute walk north, 'The Landmark' at 500 Pacific Highway, St Leonards is a large-scale project totalling 43-storeys and provides resort-style services and amenities. Prices at the building start at $600,000 for studios to more than $4 million for sky homes. Apartments currently for sale include a studio priced at $620,000, 1 bed ,1 bath, no car priced at $760,000 and a 2 bed, 2 bath,1 car is being advertised for $1.14 million.

1.2 Supply Pipeline

- There are currently 12 residential projects approved or under construction in Crows Nest which in sum will deliver 217 units. Most projects are relatively small with the largest project just 8 storeys with 35 apartments. St Leonards – a key competitor in terms of new apartment stock – has 8 projects approved or underway, however, these projects are of a much larger scale with unit delivery expected to total 1,937 with 1 project spanning 47 levels with a total of 654 apartments.

1.3 OSD Target Market and Residential Market Outlook

- Macroplan still expect that a large proportion of total households at the OSD will be 'double income no kids' households whilst other key occupiers will be lone person households, most likely young professionals and single retirees.
- The bottoming out of the residential market indicates that the medium to long-term outlook for residential investment at Crows Nest remains very positive.

2.0 Commercial Market – Crows Nest/St Leonards Precinct[1]

Below details the trends in the Crows Nest/St Leonard Precinct's commercial property market (as of January 2019). The commercial floorspace in the Crows Nest OSD will be A-grade when measured using the PCA '*A Guide to Office Building Quality'* criteria. Whilst the development is prime, macroplan has provided an overview of both the prime and secondary market to provide insight into overall market performance.

- **Vacancy -** the headline vacancy rate was 6.6%, down from 11.1% at the same time last year – this was demand driven. Prime vacancy fell from 14.8% in July 2018 to 1.9% in January 2019 - the largest fall in

[1] Data sourced from Knight Frank (2019)

15 years. Secondary vacancy on the other hand increased to 8.2% (+0.8% YoY), however, still running well below its long-run historical average of 11.0%.

- **Net Absorption -** Annual net absorption totalled 14,602m². Leasing absorption trends were led by Mastercard securing 11,259m² at St Leonards.
- **Rent -** average prime gross face rents were $726/m² (+7.9% YoY) and secondary gross face rents reached $645/m² (+4.8% YoY). Prime incentives fell to 21.3% (-3.2% YoY) whilst in the secondary market, incentives dropped to an average 22.3%.
- **Yields -** average prime yields ranged from 5.50%-6.00% (-0.45% YoY). Secondary market yields averaged 5.75%-6.25%, (-0.5% YoY).
- **Total stock –** precinct stock totalled 306,881m², 204,182m² of which was secondary stock.

2.1 Commercial Market Outlook

- Increasing demand for office space in North Shore markets such as Crows Nest/St Leonards has been driven by factors such as decreased vacancy/increasing prices in Sydney CBD – this trend is expected to continue.
- The precinct is expected to benefit significantly from the construction of the new Metro railway line, which will improve its connectivity to the CBD, lift the area's accessibility and amenity, and hence elevate its employment status.
- However, there is currently around 30,000m² of approved/under construction commercial supply in the pipeline to 2022 in Crows Nest/St Leonards, which is equivalent to 10% of existing stock. This coupled with current plans for the OSD, which supports an additional 39,359m² of commercial space, is equivalent to increasing stock by over 20%.
- In this context, whilst demand is increasing in the precinct – there is a significant amount of supply in the pipeline. Whilst Crows Nest OSD has a locational advantage (i.e. above a train station) it will still be operating in a highly competitive market. This will impact take-up rates, rent and incentives. Crows Nest OSD will need to harness features such its large floorplates which may allow the development to secure a lease such as the Mastercard example. Attracting large established businesses will somewhat help to offset future market conditions particularly the rate at which supply is taken up.

3.0 Retail Market[2]

- In terms of Sydney's key retail market indicators (Table 2), over the year to March 2019 changes in market conditions were minimal. Yield's across all property types moved only marginally and outside of the CBD, average gross face rents were almost static. The largest but still modest change was in average incentives at sub-regional and neighbourhood centres which both increased (by 2.5% and 1.0%, respectively).
- With small retail floorplates, performance of the retail property sector at the OSD will be informed by trends in wider neighbourhood retail sector.
- The 2019 ANZ-Property Council Survey indicated investment sentiment towards retail had softened over the past 12 months, impacting both demand and asset pricing.
- Uncertainty has been impacted by many factors including zero growth in consumption per person over the past 12 months and caution surrounding the trend in online retailing.

[2] JLL (2019), Colliers (2018 & 2019), ANZ (2019), Reserve Bank of Australia (2019).

- However, nationally there is a widening gap between office/industrial yields and yields in the retail property sector. Retail sector yields have remained relatively stagnant, even increasing marginally in 2019, while office and industrial yields have continued to fall. Hence, despite some weakness in certain market factors, major investors in the retail space are still seeing opportunities for well-located retail sites (JLL, 2019).

Table 2. Sydney Retail Market Snapshot, March 2019

	Average Gross Face Rent (m²)	Change YOY	Average Incentive	Change YOY	Average Yield	Change YOY
CBD	$12,825	↑ (+$572)	9.4%	-	4.7%	-
Regional	$1,950	↓ (-$44)	14.0%	-	4.8%	↓ (-0.08%)
Sub-regional	$1,275	↓ (-$50)	17.5%	↑ (+2.5%)	6.3%	↑ (+0.17%)
Neighbourhood	$1,000	↓(-$50)	16.0%	↑ (+1.0%)	6.4%	↑(+0.27%)
Large Format	$492	-	8.0%	↑ (+0.5%)	6.9%	↑ (+0.04%)

Source: Colliers (2018), Colliers (2019)

- With the completion of Crows Nest Plaza (Coles), Crow Nest's 2019 retail floorspace was equal to around 30,000m².
- There is currently no major retail projects approved or under construction in Crows Nest with the supply pipeline made up of small, ground floor retail, most of which is located below new residential developments. The current pipeline to 2021 will deliver approximately 2,300m² of additional retail floorspace.
- An increasing population and local workforce, coupled with (future) commuter foot traffic, demand for retail floorspace at OSD is expected to be robust.

4.0 Concluding Remarks

- Population growth will be the critical driver of demand for housing in Crows Nest in the short and long-term. Crows Nest station is expected to encourage local population growth with people attracted to the area due to its increased accessibility and amenity. Furthermore, the large gap between unit and house prices leaves Crows Nest an ideal market for downsizers to make a profit and young professionals/dual income no kids to be well located at unit prices.
- The commercial market in Sydney CBD and North Sydney is tightening with low vacancy rates and increasing rental levels likely to continue, there will be strong tenant demand in alternative commercial precincts, in particular the location of future stations (such as Crows Nest).
- The OSD's significant resident and worker population coupled with future commuter foot traffic is expected to make retail floorspace particularly attractive for renters and investors.
- The OSD has the potential to respond to demand from a range of different uses. The existing strengths of Crows Nest, as well as its future strengths stemming from the development of the Sydney metro, in

particular, its proximity to the CBD (only 7 minutes on the metro), indicate that the OSD will be a strategic location for many businesses to locate, as well a convenient place for people to live.

Yours sincerely,

Michael Tilt
CEO