Edgecliff Commercial Centre Study

Prepared for Woollahra Municipal Council

22 December 2017

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1 Executive Summary

1.1 Scope

SJB have sub contracted JLL to undertake a market analysis study for the Edgecliff market. This study was to include research and analysis into the broader economic context, employment within the precinct and specific analysis on key asset classes within Edgecliff (residential, office and retail).

1.2 Date of Analysis

While we have provided observations on how the real estate market may change over the medium to longer term, we note the dynamic nature of the real estate market, specifically where development is involved. For reference we note our analysis informing our key findings was undertaken in late 2016, early 2017.

1.3 Key Findings

Provided below are a key findings from our report;

Economic Context and Implications

The economic conditions, particularly in NSW, are currently conducive of investment however this varies between the asset classes as discussed within this report.

Demographic Overview

The Edgecliff Commercial Centre is approximately 2.9km east of the Sydney CBD and sits within the Double Bay – Bellevue Hill SA2, which is the most comprehensive ABS classification at a small level area. More broadly, this SA2 is part of the greater Woollahra Local Government Area (LGA). As at June 2014, the population of Double Bay – Bellevue Hill SA2 was 27,300, which made up 46% of the LGA.

Edgecliff has a high socio economic status when compared to other areas in Sydney. These higher incomes suggest a level of financial means to enable residential development to become viable. Additionally, the current stock shows comfort with the higher density accommodation typology.

Residential Market in Context

Sydney residential markets are currently experiencing significant capital growth. Historically, the median unit value in Edgecliff has grown at a higher rate when compared with other areas in Woollahra and Greater Sydney more broadly.

Dwelling completions have been inconsistent over the last four years averaging 352 per annum, largely due to the strong increase in net completions within Woollahra in 2015. Approvals have remained relatively consistent with the exception of 2013 and 2014, where they were above the annual trend.

A major factor influencing demand within Sydney's residential market is the shift in density. There appears to have been a structural change in buyer preferences over the last decade. Buyers appear willing to trade space to live closer to, or with better transport links to, the Sydney CBD.

There is a very strong demand for residential product, both development site sales and end product in new developments, but also in the broader residential market. Despite a slight moderation in demand, JLL anticipates a strong but moderated demand for residential uses going forward given the underlying attributes of the area.

Office Market in Context

JLL defines the Sydney Fringe market into four precincts; Central Fringe Precinct, Inner Eastern Fringe Precinct, Outer Eastern Fringe Precinct and Western Fringe Precinct. Edgecliff sits within the Sydney Fringe Office Market and specifically within the Outer Eastern Fringe Precinct. While the Sydney Fringe office market represents a significant portion of the total Sydney office market, the Outer Eastern Fringe Precinct, being the precinct that includes Edgecliff and Bondi Junction, only makes up just under 10% of the Sydney Fringe market or just under 1% of the total Sydney office market monitored by JLL.

All precincts within the Fringe market have low levels of vacancy. As at Q2/2016, the Outer Eastern Fringe Precinct's vacancy was 4.36%. During the same period, the total stock across the 9 monitored metropolitan markets was 4.516 million sqm. The largest Sydney metropolitan market is the Sydney Fringe and it comprises 0.920 million sqm of stock and accounts for 9.6% of the total Sydney metropolitan market.

Sydney Retail Market Context and Implications

Australian retail is segmented geographically and by format. Enclosed shopping centres across metropolitan areas and regional Australia are categorised as regional, sub-regional and neighbourhood centres according to size and tenancy characteristics. The report provides both a background into the retail sector and to understand the current and future drivers of retail. A more focused analysis and assessment of Edgecliff can be derived off this background understanding.

Land Use Survey

The project team has undertaken a land use survey of all businesses within the Edgecliff Commercial Centre. This study area comprises the properties along New South Head Road and around Edgecliff Station and bus/rail interchange. The survey provides critical insight into the current employment, floor space and land use of these employment lands.

The main industries of employment, as categorised by ANZSIC code, in and around the Edgecliff Commercial Centre are; 'Rental, Hiring and Real Estate Services' accounting for 288 employees (25%) and 'Health Care and Social Assistance' accounting for 198 employees (17.2%).

The survey also concluded there was quality public transport available within close proximity to the Centre. The Centre's proximity to local schools, limited retail vacancy rates and strong retail amenity were considered to be strengths of the Centre. Conversely, limited car parking and traffic congestion remains a challenge for the area.

The demand for the development of residential dwellings is very high, despite the limited site areas, ownership and traffic exposure potentially impacting their development viability. Notwithstanding, the proximity to established public transport infrastructure and its location, proximate to Sydney CBD also provides an incentive for residential development.

Forecasting Land Uses

Edgecliff has, and will continue to have, high demand for residential accommodation, especially due to the larger catchment. Subject to site specific constraints, as well as issues of 'as is' vs development value, demand will outstrip supply.

Forecasting the non-residential market presents inherent challenges, given that no regard is had to specific controls that will impact a given site. The analysis included within the report presents a range in potential demand for non-residential users based on a lower growth outcome through to a high growth outcome. More recently we have supported SJB in their assessment of non-residential land use forecasts.

1.4 Report Authors

Tim Brown
National Director
Strategic Consulting, JLL
tim.brown@ap.jll.com
+61 2 9220 8440

Daniel Turini
Senior Analyst
Strategic Consulting, JLL
daniel.turini@ap.jll.com
+61 2 9220 8757

Bennett Campbell
Analyst
Strategic Consulting, JLL
bennett.campbell@ap.jll.com
+61 2 9220 8377

2 Economic Context and Implications

The objective of this section is to provide the economic context as to the factors which may impact the Edgecliff property market. This makes reference to the conditions which are currently being experienced in the global, national and state economies and how these will impact the property market.

2.1 Overview of Key Economic Considerations

Key Points

- Global growth is expected to be 3.0% in 2016 before picking up to 3.4% in 2017. Interest rates are now expected to stay 'lower for longer' amid concerns about low inflationary or even deflationary pressures and subdued growth.
- Exports are expected to continue to support growth over the next few years. DAE forecasts that Australian GDP will grow by 3.0% in 2016 before slowing to 2.7% in 2017. The transition of the economy away from the resources sector still has some way to go.
- The New South Wales economy has been one of the strongest performing state economies with State Final Demand (SFD) and Gross State Product (GSP) well outperforming the national average, and GSP the strongest of any state at 3.5% in the year to June 2016 (DAE).
- The outlook for the NSW economy is positive with State Final Demand growth forecast to be 4.0% for 2016 falling to 2.0% in 2017 (DAE). The fall in growth is a result of the peak in residential construction expected in 2016 and lower house price growth ensuring that consumer confidence will be below where it has been in recent times.

2.2 Implications for Edgecliff

The economic conditions, particularly in NSW, is currently conducive of investment. While these conditions are supported by a weight of money with a willingness to develop, the fundamentals of any investment / development remain the same – there needs to be an appropriate return commensurate with the risk of the venture. As such regard is required to the drivers of each individual asset class, as well as the relative viability between asset classes – these are discussed in more details within this report.

3 Demographic Overview

The purpose of this section is to provide an understanding of the demographic considerations which impact the Edgecliff Commercial Centre. This analysis has been undertaken at a top-down approach, firstly reviewing broader considerations to ultimately look at the specific implications for the ECC.

3.1 Demographic Profile

We have provided below a demographic snapshot of the area surrounding the Edgecliff Commercial Centre. We have done so with consideration primarily to the Statistical Area Level 2 (SA2) ABS data. This data set being the most comprehensive at a small level area. The Edgecliff Commercial Centre falls within the Double Bay - Bellevue Hill (SA2) with the demographic profile provided below.

Double Bay - Bellevue Hill (SA2)

Description

Edgecliff is approximately 2.9km east of the Sydney CBD. Edgecliff sits within a statistical area called the Double Bay - Bellevue Hill SA2. More broadly, the Double Bay - Bellevue Hill SA2 is a part of the greater Woollahra local government area (LGA). As of June 2014 the population of the Double Bay - Bellevue Hill SA2 was 27,300, which made up 46% of the LGA. The Double Bay - Bellevue Hill SA2 had a larger share of dwellings at 47%.

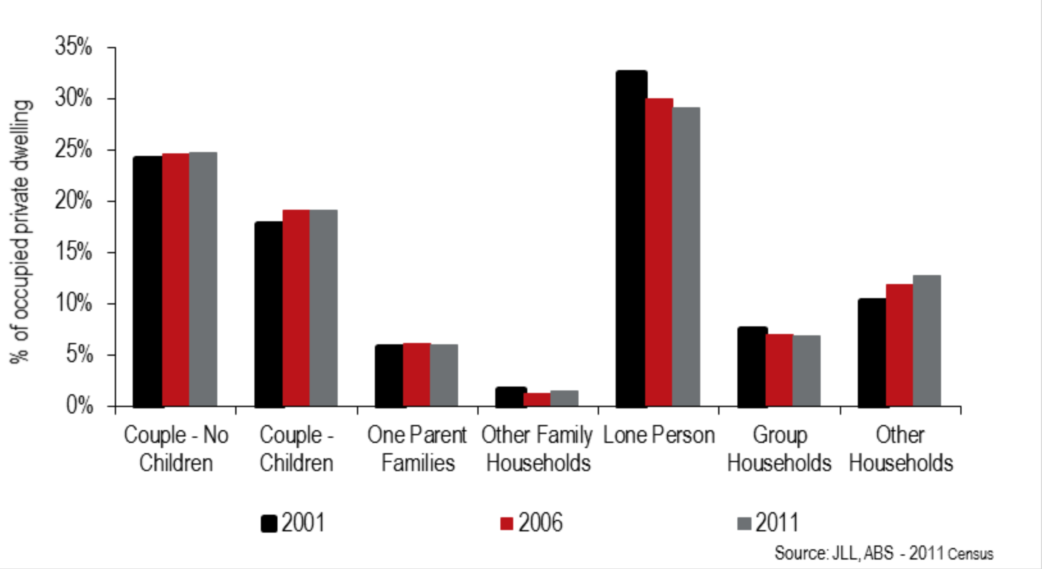
According to the NSW Department of Planning & Environment, the population of the Woollahra LGA is forecast to reach 67,250 by 2031. This reflects an average annual growth rate of 0.9% per annum, this being less than the growth rate of 1.6% per annum expected across the Greater Sydney metropolitan over this period.

Demographic	Double Bay - Bellevue Hill	Woollahra LGA	Greater Sydney
Population 2014 - ERP June 2014	27,253	58,619	4,840,628
Percentage change (2013-14)	1.6%	1.6%	1.8%
Annual % change (last five years)	1.7%	1.3%	1.5%
Population aged 14 years & younger (%)	14.5%	15.5%	19.1%
Population aged 65 years and older (%)	17.1%	14.7%	12.8%
Population forecast by 2031		67,250	5,861,850
Population growth per annum forecast to 2031		0.9%	1.6%
Median age	38	38	36
Unemployment rate % (June 2015)	2.2%	2.4%	5.2%
Median weekly personal income ($)	$1,161	$1,135	$617
Median weekly household income ($)	$2,424	$2,387	$1,444
Median number of people per household	2	2	3
Total occupied private dwellings	10,816	22,930	1,601,529
Dwellings rented (%)	40.1%	39.2%	32.6%

Source: Australian Bureau of Statistics (ABS), Australian Government Department of Employment, NSW Department of Planning

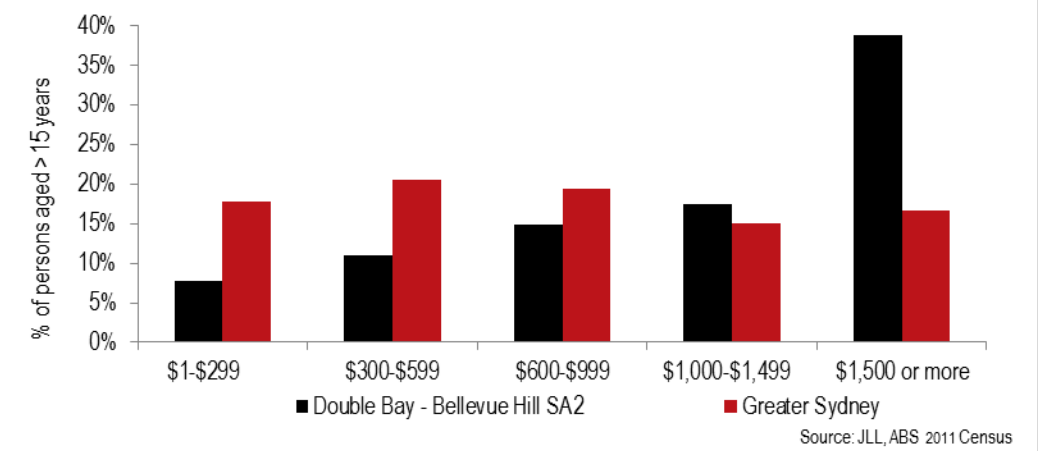
Household Type

- The SA2 is characterised by a mix of smaller and larger household types. Lone Person households are the largest single group comprising 29.1% of all households, which is much higher than their share across the Greater Sydney region (21.5%), and slightly higher than their share in the broader Woollahra LGA (28.5%). While the above is the largest single group, Couple – No Children and Couple – Children together forms approximately 44% of all households.
- In terms of age the SA2's is generally aligned with the Woollahra LGA and broader Sydney, with under 35's in the SA2 equating to 44.5%, compared to the LGA (44.6%) and Sydney (48.0%).



Weekly Personal Income

- The SA2's median weekly personal income of $1,161 is 47% greater than that of the Greater Sydney region. The SA2's median household income of $2,424 is approximately 40% above its Sydney metropolitan equivalent.
- Median personal and household incomes in the SA2 grew at an annualised rate of 4.0% and 4.7% between 2001 and 2011. This is higher than the annualised growth rate in personal and household incomes at the Greater Sydney level (3.3% and 3.9% respectively).
- Disaggregation of personal income by income band reveals that the SA2 has a much higher proportion of residents within the $1,500 or greater income band compared with Greater Sydney.

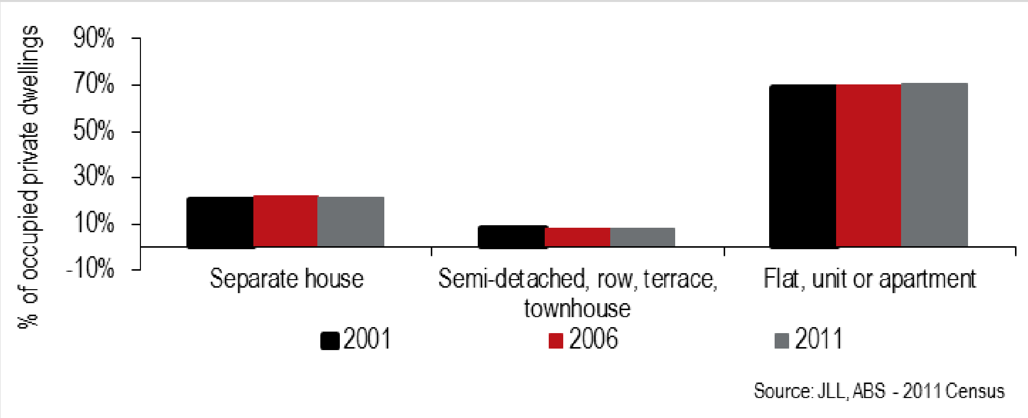


Housing Tenure

- The SA2's proportion of renters at 34.7%, is on par when compared to that across the Woollahra LGA (34.6%) and slightly high when compared to Greater Sydney (30.4%).
- The share of owner occupiers in the SA2 has fallen from 43.3% in 2001 to 32.2% in 2011. This has, however, been offset by an increase in the rate of home purchase which has risen to 19.2%.

Dwelling Structure

- The majority of the SA2's stock is medium or high density dwellings, with flat, unit or apartment stock comprising 70.3% of the total occupied private dwelling stock. This is much higher than the share of this stock seen in the broader Sydney market (26.9%) and the Woolahra LGA (54.2%). The share between the densities has remained relatively unchanged since 2001.
- The higher density within the SA2 clearly reflects the good amenity and transport connections of the location.



3.2 Implications for the Edgecliff Commercial Centre

Observations from the above include;

- Edgecliff clearly has metrics that show is high socio economic status – these higher incomes suggest a level of financial means to enable residential development to become viable.
- The current stock show comfort with the higher density accommodation typology.

4 Residential Market in Context

4.1 Overview

The objective of this section is to provide guidance on the opportunity and challenges associated with the residential asset class within the Edgecliff Commercial Centre. Ultimately, this section looks at providing; an insight into broader Sydney, as well as specific Edgecliff residential markets. This background understanding will then assist the more focused analysis and assessment of Edgecliff Commercial Centre.

Sydney Residential Market Overview

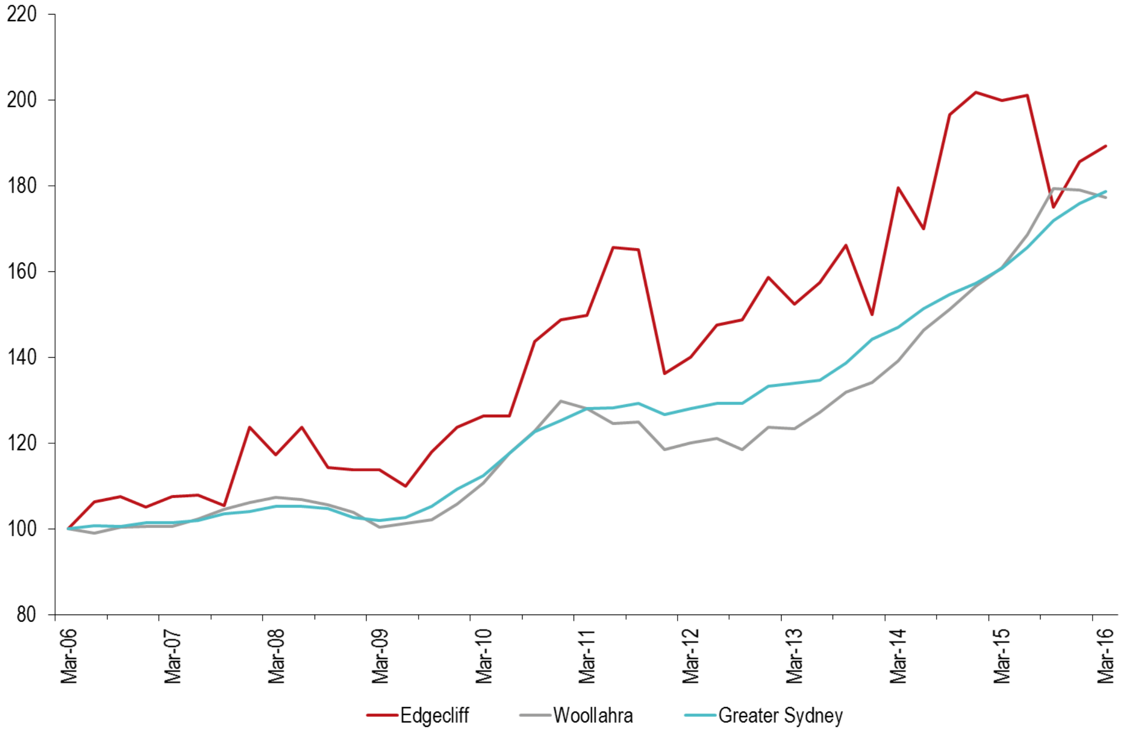
The Sydney residential market has recently experienced a housing upturn; significant capital growth being experienced, as well as, unprecedented sale rates particularly for new product. Our view is that during this time of substantial growth and demand the misconception arises that demand will continue in its current form unabated. As such, this section has at times reference to metrics and data points that articulate the historic Sydney residential market cycles which we are able to draw some conclusions from as it relates to future demand.

Historic Pricing Context

In order to showcase the significant growth described above, we have graphed in the figure below the median unit value growth for the suburb of Edgecliff, the local government area of Woollahra and Greater Sydney. In order to appropriately compare the growth we have based each at 100 at Q1 2006.

The suburb of Edgecliff has historically experienced greater growth than both Woollahra LGA and Greater Sydney, with a dip experienced in late-2015. This is while pricing for Woollahra LGA and Greater Sydney has generally grown in line.

Figure 1: Median Unit Value Growth (Based to 100), Q1 2006 to Q1 2016

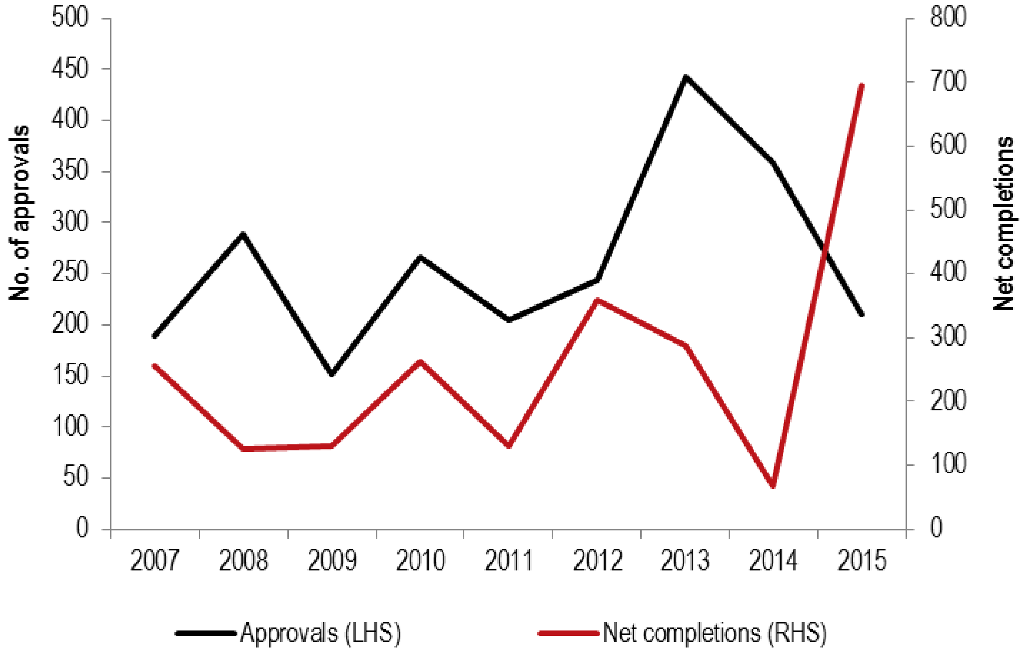


Source: JLL and Core Logic

Supply Side Analysis

In order to have an understanding of the supply within the Woollahra local government area, we have made reference to the NSW Government's Metropolitan Development Program (MDP). The MDP monitors approvals and completions for each local government area across the Greater Sydney region. The figure below illustrates the trend in approvals and completions over the last five financial years. Following a large increase in dwelling approvals which reached a peak of 443 in 2013, there has been a steady decline back to 2011 and 2012 levels – currently 210 as of 2015. Conversely, net dwelling completions within the Woollahra local government area have experienced very strong growth. In 2014 there were 67 completed dwellings compared to the 694 completions recorded in 2015.

Figure 2: Dwelling Approvals and Completions, Woollahra Local Government Area



Source: JLL, NSW Government, Metropolitan Development Plan

The following broad trends are noted:

- Completions have been inconsistent over the last four years averaging 352 per annum, largely due to the strong increase in net completions within Woollahra in 2015; and
- Approvals have remained relatively consistent with the exception of 2013 and 2014.

Demand Side Analysis

A major factor that has, and will likely continue to influence demand within the Sydney residential market is the shift to density which we have been experiencing.

Compared with many other cities around the world, Sydney has, in fact, a relatively low housing density. However, over the past decade, there appears to have been a structural change in buyer preferences, particularly amongst younger cohorts. With many buyers appearing willing to trade space for the convenience of living in areas closer to, or with better transport links to, Sydney CBD. The higher land prices associated with these locations, of course, necessitate higher housing densities. This trend is evident in building approvals data for Sydney (seen in the below figure) with over 60% of approvals since 2010 being associated to attached dwellings.

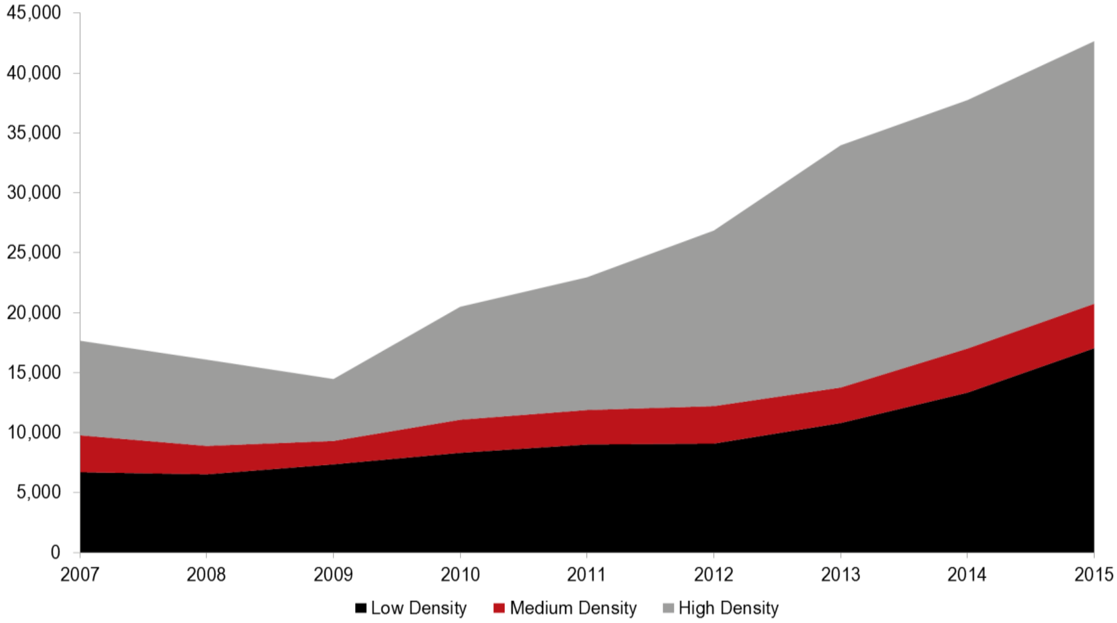
However, higher residential densities are unlikely to be confined solely to inner city locations. The Priority Precincts announced by the State Government in early 2013 aim to deliver higher density housing in highly accessible suburbs. These include Epping, North Ryde and Wentworth Point, allowing housing supply to increase in areas with close proximity to infrastructure, transport, services and jobs.

Higher residential densities are also proposed for suitable development sites located both within and on the periphery of the CBDs of regional cities such as Parramatta, Liverpool and Penrith.

A more recent trend is the inclusion of higher density housing in master plan communities. These are often located in outer Sydney in areas dominated by detached dwellings. Whilst apartments make up a relatively small proportion of the proposed housing in these schemes, they are seen as a way of both attracting investors and addressing the affordability issue facing many owner occupiers owing to their lower price points.

Indeed, in view of the challenges surrounding both housing supply and affordability in Sydney, it would appear that the trend of living in higher density housing will continue in the future. The majority will be located close to public transport, infrastructure and employment hubs.

Figure 3: Number of Sydney Private Sector Dwelling Approvals



Source: JLL, Australian Bureau of Statistics (only includes private sector new dwelling approvals)

4.2 Edgecliff Context

The Inner Sydney Residential apartment development market is extremely tightly held and sought after especially when referring to new development stock. Owner occupiers, local inventors and overseas buyers all seek quality apartments in locations in and around the Sydney CBD.

Development Sites

Within the Edgecliff and broader region there have been a number of developments that have been sold. These development site sales show the strong underlying demand for developers. These sales generally reflect development values between $7,000 to $10,000 sqm GFA and $500,000 to $1,200,000 per unit.

4.3 Key Observations

As evidenced above there has been very strong demand for residential product, both in the form of development site sales, end product in new developments but also in the broader residential market. While we are now seeing a slight moderation in demand, based on the underlying attributes of the area JLL anticipates strong but moderated demand for residential uses going forward.

5 Office Market in Context

The objective of this section is to provide both a background into the Sydney office markets, particularly the relationship between the CBD and suburban markets, and to understand the current and future drivers of office. In addition JLL will define and discuss the nature of ‘support’ office uses. This background understanding will then assist the more focused analysis and assessment of Edgecliff Commercial Centre.

5.1 Office Market Definition

Office uses broadly fit into three category types, these are:

1. **Investment grade office assets**. These are generally defined as large floor plate office buildings within ‘defined’ office precincts. Within Sydney these include Sydney CBD, Sydney Fringe, Macquarie Park and Parramatta, as well as others identified within this report. While Edgecliff is considered an investment grade location (within the Sydney Fringe), this is a secondary location that the majority of the A-REITS, which own the majority of investment grade assets, would consider Edgecliff outside their investment profile.
2. **Support office uses**. These uses generally provide localised services to the community and share some characteristics to retail uses. They often benefit from access to the public and therefore car parking and exposure are important considerations. Examples include real estate agents and local solicitors’ offices.
3. **Office uses that support another primary land use** e.g. a small amount of office within an industrial facility or medical facility. This is not considered in significant detail in this report as the nature of this type of product is generally found outside the CBD. Note, for the purposes of definition we have assumed the small amount of office that supports retail uses within the ‘support office uses’ above.

5.2 Overview – Investment Grade Office Markets

The Sydney office markets monitored by JLL comprise just over 9.612 million sqm of office space, 53% of which is located in the Sydney CBD market, and 47% located in the 9 major metropolitan office markets. The Sydney metropolitan markets monitored by JLL include the following:

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

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

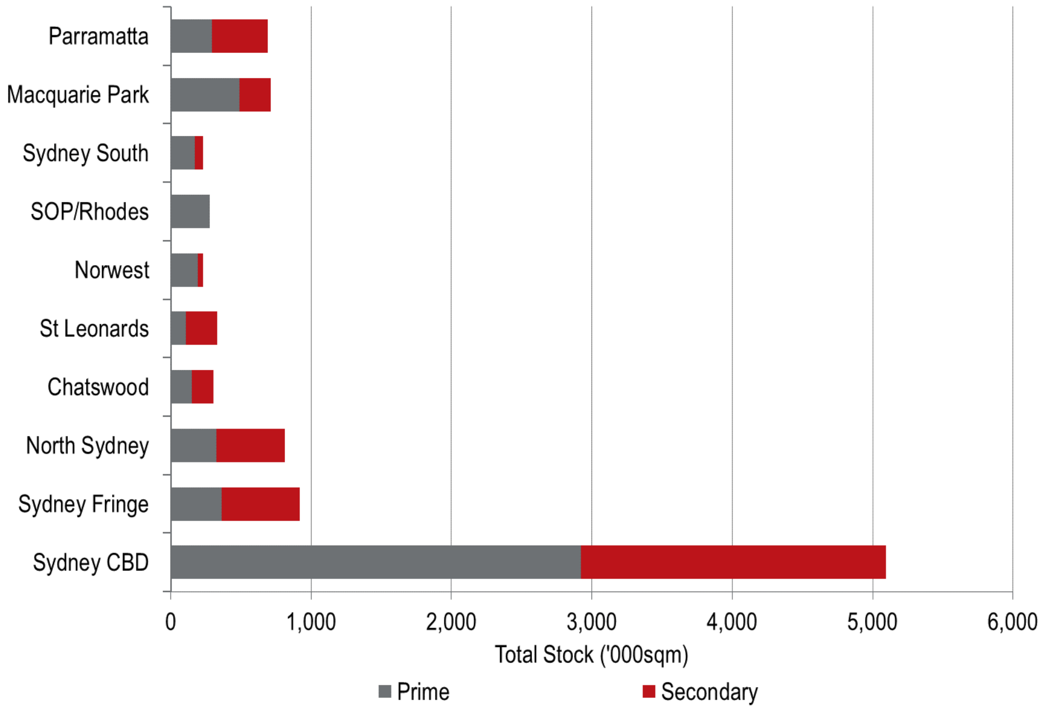
large floor plates are common, providing greater flexibility and efficiency. Examples in Sydney include Norwest and Sydney Olympic Park.

- 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 Q2/2016, the total stock across the 9 monitored metropolitan markets was 4.516 million sqm. The Sydney largest metropolitan market is the Sydney Fringe and it comprises 0.920 million sqm of stock and accounts for 9.6% of the total Sydney metropolitan market.

Figure 4: Prime and Secondary Grade Stock by Metropolitan Market, Q2/2016



Source: JLL Research

Table 1: Sydney Office Market Profile, Q2/2016

	Total Net Lettable Area	Prime Grade Stock	Secondary Grade Stock
	'000 sqm	% Total Stock	% Total Stock
CBD Market			
Sydney CBD	5,096	57.4%	42.6%
Metropolitan markets[1]			
Sydney Fringe	920	39.5%	60.5%
North Sydney	816	40.1%	59.9%
Chatswood	304	48.9%	51.1%
St Leonards	332	32.9%	67.1%
Norwest	230	84.5%	15.5%
SOP/Rhodes	279	100.0%	0.0%
Sydney South	228	74.5%	25.5%
Macquarie Park	715	68.4%	31.6%
Parramatta	691	42.8%	57.2%
Sydney Metropolitan Markets	**4,516**	**52.7%**	**47.3%**

Source: JLL Research

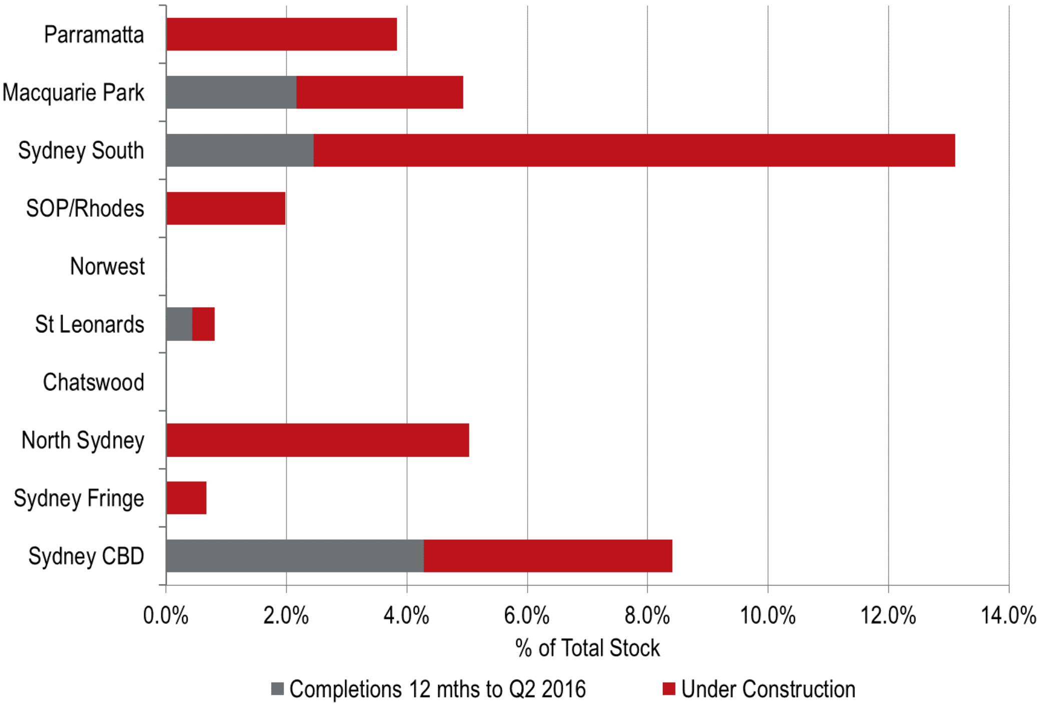
The Sydney leasing market has been buoyant across both the overall metropolitan market and the CBD market, with a net absorption in occupied stock in the 12 months to Q2 2016. While the Sydney metropolitan markets overall expanded by 74,614sqm, there was some considerable divergence between the best performing and worst performing, with the largest expansion coming from the Sydney Fringe (24,247sqm) and the largest contraction coming from North Sydney (22,837sqm). The level of expansion, however, was considerably less than the CBD market, which during the same period grew by 119,095sqm of occupied space.

New supply in the 12 months to Q2 2016 totalled 22,529sqm across the 9 metropolitan office markets, equivalent to just 0.5% of existing stock in this market. Of the 9 markets, 6 recorded no new supply with Macquarie Park, Sydney South and St Leonards being the only contributors. The stand out of these, having consideration to size, being Sydney South which contributed 5,592sqm equating to 2.5% of existing stock. During this same period the CBD saw supply of 217,980sqm, equivalent to 4.3% of existing stock.

Projects currently under construction across the Sydney metropolitan markets as at Q2 2016 totalled 124,638sqm, equivalent to 2.8% of existing stock. This is a relatively low level of construction activity when compared to CBD market, where 210,538sqm, equivalent to 4.1% of CBD stock, was under construction. Most of the metropolitan projects under construction are attributed to the North Sydney, South Sydney and Parramatta markets, which together account for 74% of the total construction across the metropolitan office markets.

[1] Only Prime Grade office stock is monitored at Sydney Olympic Park / Rhodes

Figure 5: Recent Construction Activity as % of Total Stock, Q2 2016



Source: JLL Research

Table 2: Sydney Office Market Profile, Stock, Supply and Net Absorption, Q2 2016

	Net Lettable Area	Net Absorption 12 mths to Q2 2016	Completions 12 mths to Q2 2016	Completions 12 mths to Q2 2016	Under Construction	Under Construction
	'000 sqm	'000 sqm	'000 sqm	% of NLA	'000 sqm	% of NLA
CBD Market						
Sydney CBD	5,096	119.1	218.0	4.3%	210.5	4.1%
Suburban markets						
Sydney Fringe	920	24.2	0.0	0.0%	6.1	0.7%
North Sydney	816	-22.8	0.0	0.0%	41.1	5.0%
Chatswood	304	-2.7	0.0	0.0%	0.0	0.0%
St Leonards	332	2.2	1.4	0.4%	1.3	0.4%
Norwest	230	8.0	0.0	0.0%	0.0	0.0%
SOP/Rhodes	279	16.5	0.0	0.0%	5.5	2.0%
Sydney South	228	18.5	5.6	2.5%	24.3	10.7%
Macquarie Park	715	20.9	15.5	2.2%	19.8	2.8%
Parramatta	691	9.9	0.0	0.0%	26.5	3.8%
Sydney Metropolitan Markets	**4,516**	**74.6**	**22.5**	**0.5%**	**124.6**	**2.8%**

Source: JLL Research

Vacancy

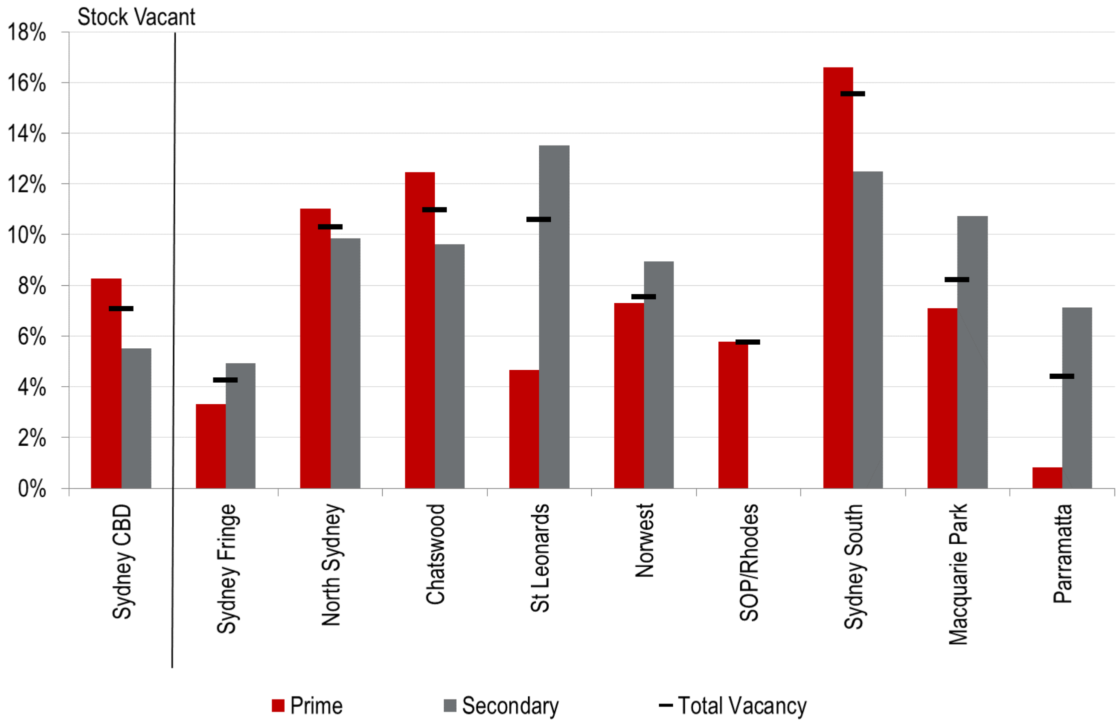
As at Quarter 2 2016, the average prime grade vacancy rate in metropolitan markets was 7.0% compared to 8.3% for the Sydney CBD market. Total vacancy was 7.8% while total vacancy for the CBD market was 7.1%%. The Sydney Fringe currently has the lowest overall vacancy rate of 4.3%, however, Parramatta has the lowest vacancy prime grade vacancy of any market at just 0.8%.

Historically the metropolitan and CBD market has typically had higher vacancy rates in secondary stock, however, more recently this has shifted with an almost even split between the markets.

Three of the nine metropolitan markets (North Sydney, Chatswood and South Sydney), along with the CBD, recorded a higher prime-grade vacancy than secondary-grade vacancy.

The relatively small South Sydney market has the highest vacancy rate of all monitored markets (15.6%) and the highest prime grade vacancy rate, 16.6%. Surprisingly, despite this vacancy level there had been an increase of 5,592sqm in the 12 months to Q2/2016, with additional stock of 24,314sqm currently under construction representing 10.7% of NLA, which will likely result in a continued increase to the vacancy rate in the next 12-24 months.

Figure 6: Prime and Secondary Vacancy Rates, Q2/2016



Source: JLL Research

Centre specific vacancy is provided in the following table.

Table 3: Australian Office Market Profile Vacancy, Q4/2016

	Vacancy	Prime Grade Vacancy	Secondary Grade Vacancy
	% NLA	% NLA	% NLA
CBD Market			
Sydney	7.1%	8.3%	5.5%
Metropolitan markets			
Sydney Fringe	4.3%	3.3%	4.9%
North Sydney	10.3%	11.0%	9.9%
Chatswood	11.0%	12.5%	9.6%
St Leonards	10.6%	4.7%	13.5%
Norwest	7.6%	7.3%	9.0%
SOP/Rhodes	5.8%	5.8%	n.a.
Sydney South	15.6%	16.6%	12.5%
Macquarie Park	8.2%	7.1%	10.7%
Parramatta	4.4%	0.8%	7.1%
Sydney Metropolitan	**7.8%**	**7.0%**	**8.6%**

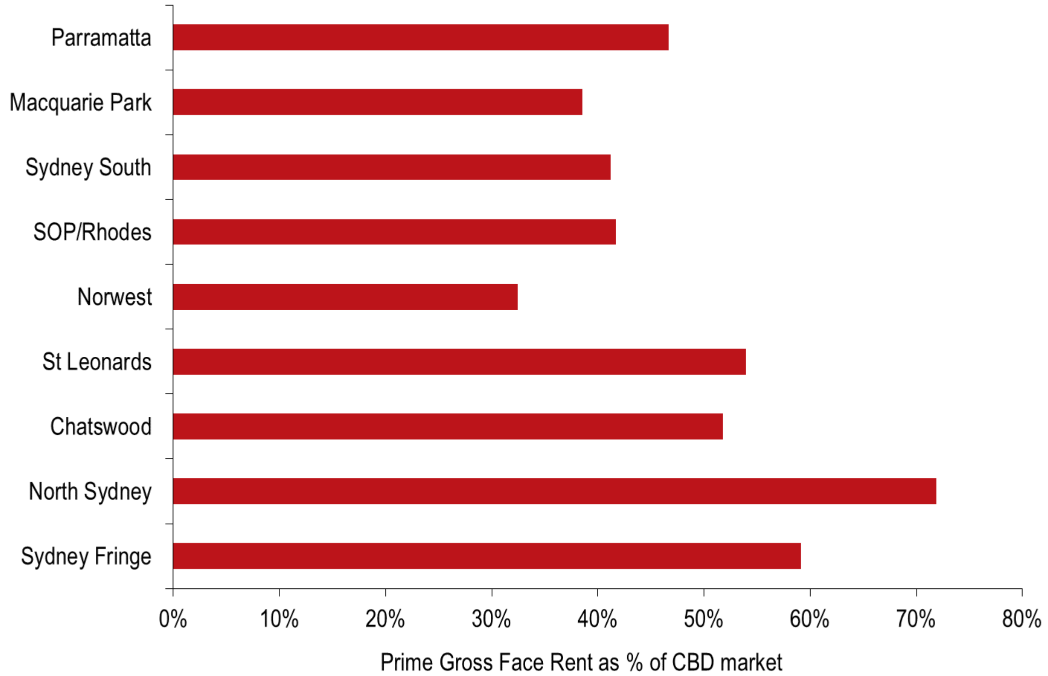
Source: JLL Research

Rental Market

Metropolitan markets are more affordable than the CBD market. Affordability is one of the key drivers attracting occupiers to metropolitan markets.

Prime gross face rents in Sydney metropolitan markets range from an average 32.5% of Sydney CBD rents in Norwest Business Park to 59.2% of CBD rents in Sydney Fringe, with other metropolitan markets in between these levels. The North Sydney market is closer to Sydney CBD rents with prime gross face rents averaging 71.9% of Sydney CBD rents.

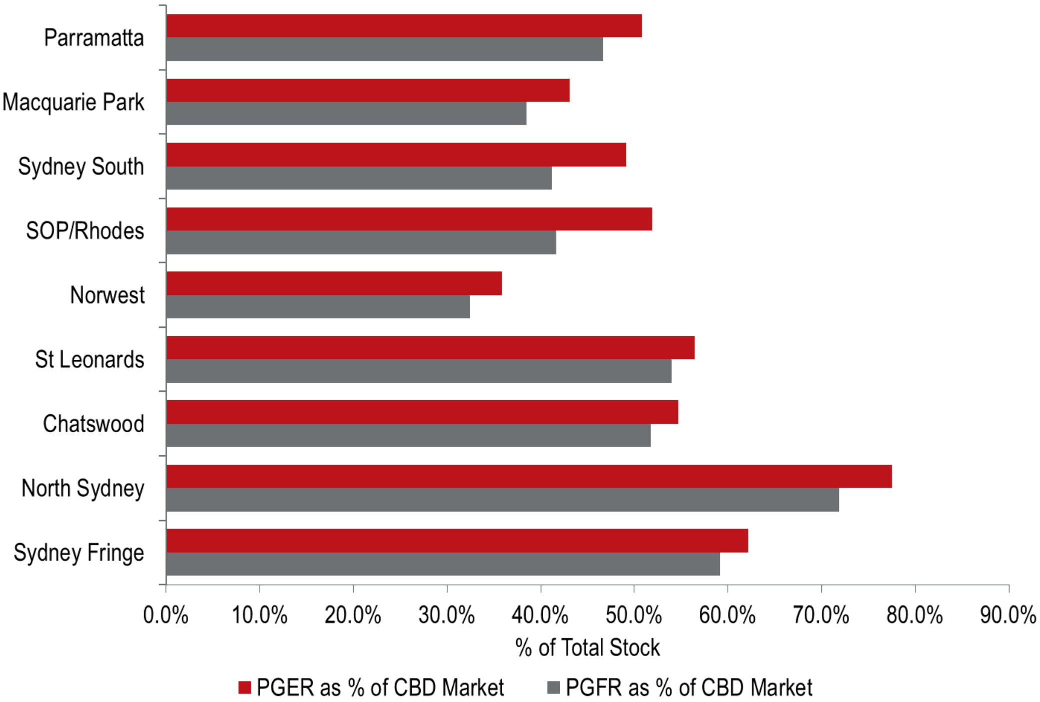
Figure 7: Gross Face Rents Compared to Sydney CBD Market, Q2 2016



Source: JLL Research

However, when incentives are taken into account the proportion of metropolitan to CBD rent increases for all Sydney metropolitan markets. See below.

Figure 8: Gross Face versus Effective Rents Compared to Sydney CBD Market, Q2 2016



Source: JLL Research

As discussed, the resurgence in the Sydney office leasing market resulted in positive growth in prime gross face rents across practically all markets in the 12 months to Q2 2016 (exception being Norwest with no change), this growth ranged from 7.9% in North Sydney to moderate growth experienced in SOP/Rhodes (1.2%), with the market overall averaging growth of around 3.8%.

Incentives have also fallen, except within Sydney South, with markets recording greater growth in effective rentals (rents adjusted for incentives). The decline was significant in the Sydney CBD and North Sydney which recorded growth in effective rents of approximately double the rate than that in face rents.

Table 4: Sydney Office Market Profile Rents, Q2/2016

	Prime Gross Face Rent	Annual Growth % Year to Q2 2016	Prime Gross Effective Rent	Annual Growth % Year to Q2 2016
	$/sqm p.a.	%	$/sqm p.a.	%
CBD Market				
Sydney CBD	1,085	5.7%	714	12.2%
Metropolitan markets[2]				
Sydney Fringe	642	7.8%	444	15.6%
North Sydney	780	7.9%	554	8.5%
Chatswood	562	6.3%	390	7.9%
St Leonards	585	4.3%	403	6.0%
Norwest	352	0.0%	256	0.9%
SOP/Rhodes	452	1.2%	371	2.2%
Sydney South	447	2.4%	351	2.3%
Macquarie Park	418	1.7%	308	3.2%
Parramatta	506	0.8%	363	0.9%

Source: JLL Research

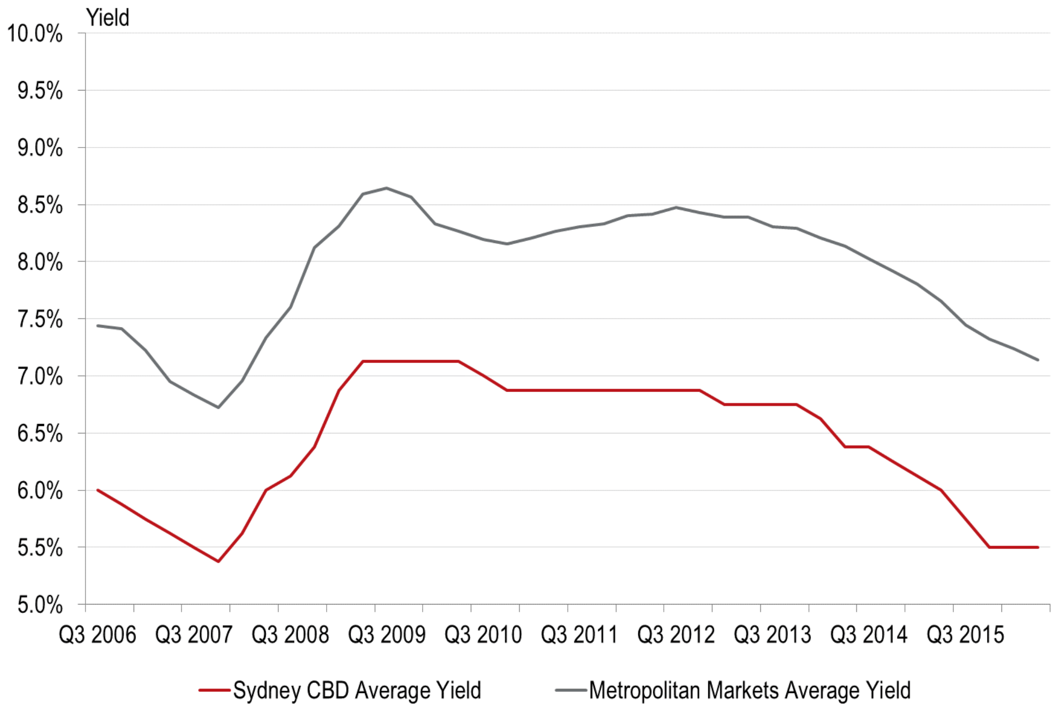
[2] Incentives based on 10 year lease deal except Macquarie Park, Sydney Olympic Park/Rhodes, Norwest, Sydney South (5 years)

Yields and Capital Values

All Sydney metropolitan markets have experienced at least some yield compression for prime grade assets over the 12 months to Q2/2016, the main standouts during the period being the Chatswood, Macquarie Park, St Leonards and Sydney Fringe markets where the upper and/or lower yields compressed by at least 75 basis points.

Compared to the Sydney CBD market, yields for metropolitan assets are quite high. The yield spread between average prime yields across the CBD market and average prime metropolitan yields was 164 basis points in Q2/2016. The yield spread has just passed a peak period and is starting to return to closer to historic averages. Over the last 10 year period, the yield spread has historically averaged 150 basis points.

Figure 9: Yield Spread between Sydney CBD and Metropolitan Markets, Q12006 to Q42015[3]



Source: JLL Research

Specific yield ranges for each of the office markets as at Q2 2016 are provided below.

[3] JLL 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 Q2 2009), Sydney Fringe (from Q3 2007), SOP/Rhodes (from Q4 2009) and Sydney South (from Q1 2010).

Table 5: Sydney Office Market Profile, Yields Q2/2016

	Prime Yield as at Q2 2016
	%
CBD Markets	
Sydney CBD	5.00 - 6.00
Metropolitan markets	
Sydney Fringe	6.25 - 7.00
North Sydney	5.75 - 6.75
Chatswood	7.00 - 7.25
St Leonards	6.75 - 7.25
Norwest	8.50 - 9.00
SOP/Rhodes	6.75 - 8.50
Sydney South	6.50 - 7.00
Macquarie Park	6.25 – 7.50
Parramatta	6.25 - 8.25

Source: JLL Research

Historic Net Absorption

The table below provides 5 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 6: Net Absorption Trends – Sydney Office Markets

	5 Year Average (sqm)	10 Year Average (sqm)	Longer Term Averages (sqm)
CBD Markets			
Sydney CBD	42,826	42,586	60,237 (40 years)
Metropolitan markets			
Sydney Fringe	7,493	N/A	N/A
North Sydney	-7,354	2,241	835 (27 years)
Chatswood	3,292	7	5,398 (40 years)
St Leonards	1,474	381	2,293 (26 years)
Norwest	9,153	N/A	N/A
SOP/Rhodes	7,915	N/A	N/A
Sydney South	3,346	N/A	N/A
Macquarie Park	14,974	29,767	27,780 (16 years)
Parramatta	3,465	9,443	15,317 (37 years)

Source: JLL Research

5.3 Office Market Demand

5.3.1 Sydney Overview

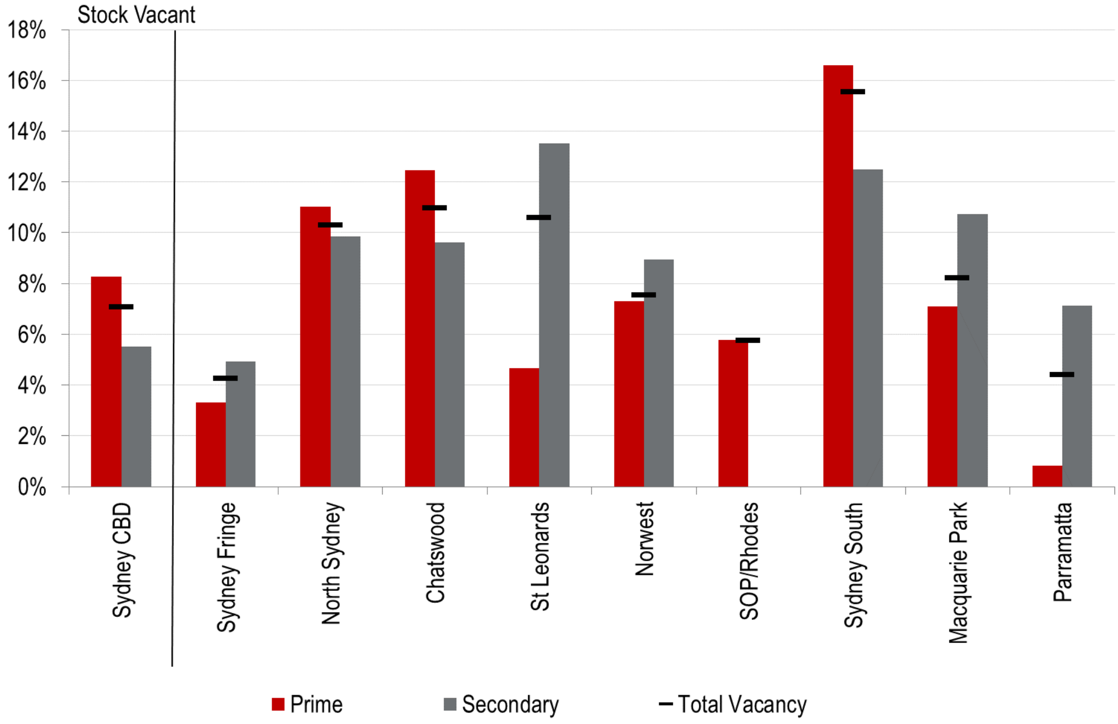
Vacancy

As at Quarter 2 2016, the average prime grade vacancy rate in metropolitan markets was 7.0% compared to 8.3% for the Sydney CBD market. Total vacancy was 7.8% while total vacancy for the CBD market was 7.1%%. The Sydney Fringe currently has the lowest overall vacancy rate of 4.3%, however, Parramatta has the lowest vacancy prime grade vacancy of any market at just 0.8%.

Historically the metropolitan and CBD market has typically had higher vacancy rates in secondary stock, however, more recently this has shifted with an almost even split between the markets. Three of the nine metropolitan markets (North Sydney, Chatswood and South Sydney), along with the CBD, recorded a higher prime-grade vacancy than secondary-grade vacancy.

The relatively small South Sydney market has the highest vacancy rate of all monitored markets (15.6%) and the highest prime grade vacancy rate, 16.6%. Surprisingly, despite this vacancy level there had been an increase of 5,592sqm in the 12 months to Q2/2016, with additional stock of 24,314sqm currently under construction representing 10.7% of NLA, which will likely result in a continued increase to the vacancy rate in the next 12-24 months.

Figure 10: Prime and Secondary Vacancy Rates, Q2/2016



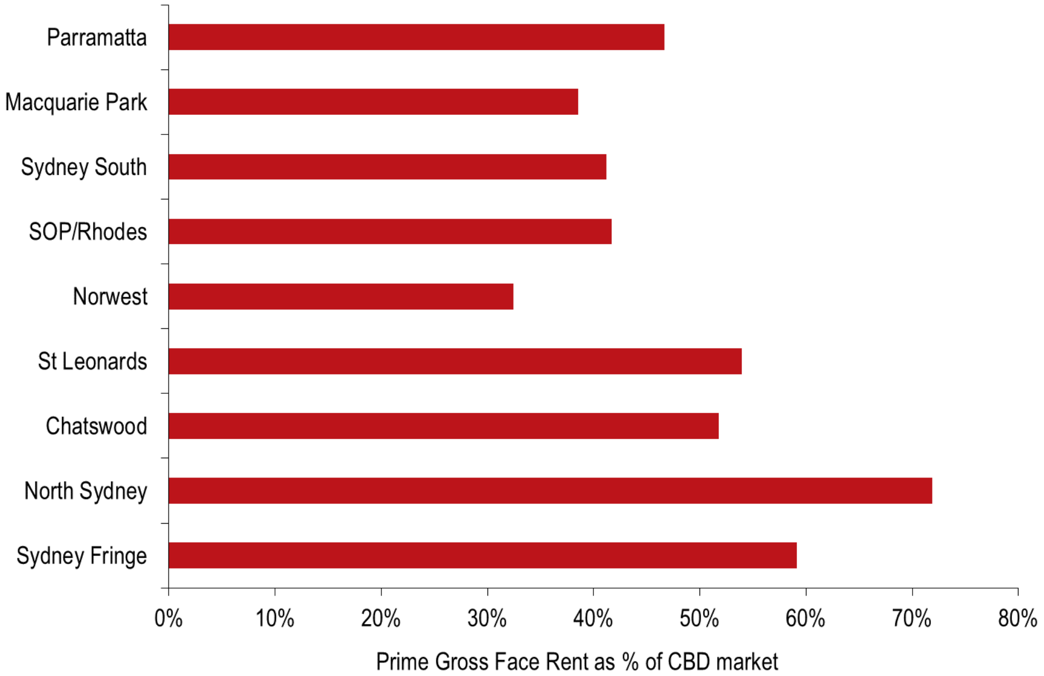
Source: JLL Research

Rental Market

Metropolitan markets are more affordable than the CBD market. Affordability is one of the key drivers attracting occupiers to metropolitan markets.

Prime gross face rents in Sydney metropolitan markets range from an average 32.5% of Sydney CBD rents in Norwest Business Park to 59.2% of CBD rents in Sydney Fringe, with other metropolitan markets in between these levels. The North Sydney market is closer to Sydney CBD rents with prime gross face rents averaging 71.9% of Sydney CBD rents.

Figure 11: Gross Face Rents Compared to Sydney CBD Market, Q2/2016



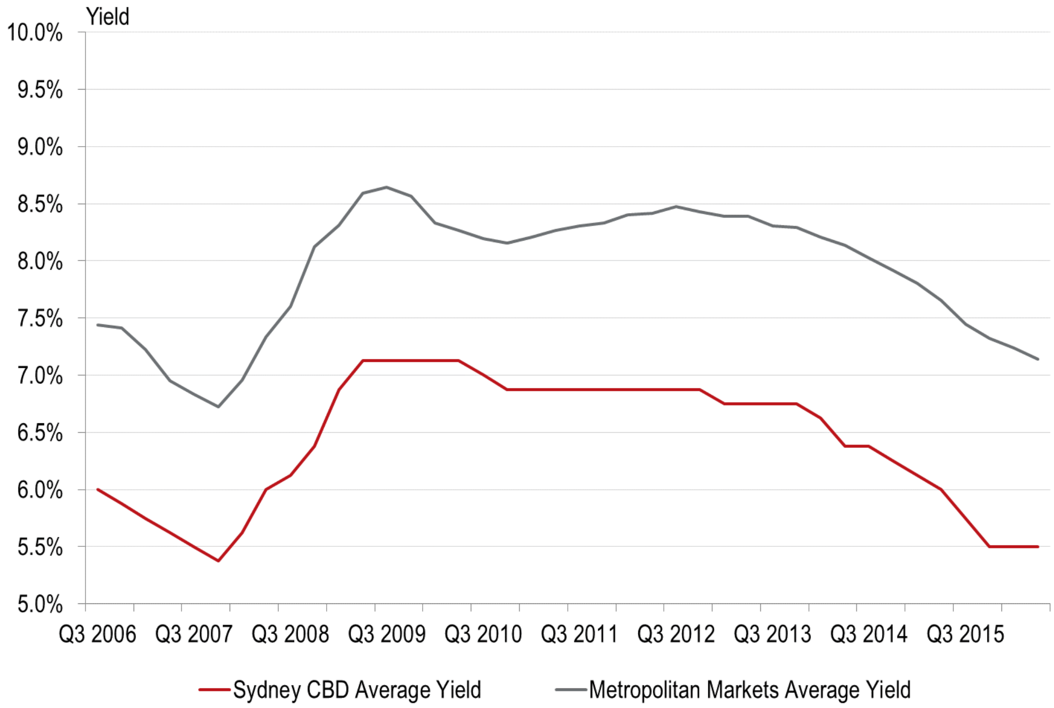
Source: JLL Research

Yields and Capital Values

All Sydney metropolitan markets have experienced at least some yield compression for prime grade assets over the 12 months to Q2/2016, the main standouts during the period being the Chatswood, Macquarie Park, St Leonards and Sydney Fringe markets where the upper and/or lower yields compressed by at least 75 basis points.

Compared to the Sydney CBD market, yields for metropolitan assets are quite high. The yield spread between average prime yields across the CBD market and average prime metropolitan yields was 164 basis points in Q2/2016. The yield spread has just passed a peak period and is starting to return to closer to historic averages. Over the last 10 year period, the yield spread has historically averaged 150 basis points.

Figure 12: Yield Spread between Sydney CBD and Metro Markets, Q1 2006 to Q4 2015[4]



Source: JLL Research

Specific yield ranges for each of the office markets as at Q2 2016 are provided below.

Table 7: Sydney Office Market Profile, Yields Q2/2016

	Prime Yield as at Q2 2016
	%
CBD Markets	
Sydney CBD	5.00 - 6.00
Metropolitan markets	
Sydney Fringe	6.25 - 7.00
North Sydney	5.75 - 6.75
Chatswood	7.00 - 7.25
St Leonards	6.75 - 7.25
Norwest	8.50 - 9.00
SOP/Rhodes	6.75 - 8.50
Sydney South	6.50 - 7.00
Macquarie Park	6.25 - 7.50
Parramatta	6.25 - 8.25

Source: JLL Research

[4] JLL 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 Q2 2009), Sydney Fringe (from Q3 2007), SOP/Rhodes (from Q4 2009) and Sydney South (from Q1 2010).

Development Site Sales

Another important indicator of demand is the rates achieved for commercial development site sales. During the global financial crisis there were very few commercial development site transactions, and those that did sell were sold at a significant discount (with a number being sold mortgagee in possession). More recently there has been renewed interest and stronger prices achieved.

Our analysis of development site sales for office uses in suburban office markets shows a general range of between $400 to up to $1,000/sqm in markets such as Parramatta, Macquarie Park and Sydney Fringe

Sydney Business Parks

Over the past 20 years, jobs in Sydney's business parks have grown at between two and three times the rate of Sydney's major urban centres. Business parks are generally high amenity large employment areas providing for multiple high value-added industrial activities characterised by different combinations of research, technology based production, distribution and office based activities. There are a number of different types of business parks, which are greatly influenced by industry clustering. Some are based around scientific and technology-intensive industries, with a strong presence of research and educational institutions i.e. Macquarie Park. Others are dominated by offices and white collar jobs, and are more office parks than business parks i.e. Sydney Olympic Park.

Examples of criteria measured against previous business park success has been summarised into the below points:

- Zoning flexibility – can enable campus style accommodation with large floor plates, plentiful parking and opportunities to integrate various business functions including; research, manufacturing, management and distribution activities;
- A sizeable catchment containing a large proportion of residents with a mix of both technically and not technically skilled;
- Proximity to research, innovative firms and higher education facilities;
- Outstanding amenities including childcare facilities, entertainment, recreational and cultural facilities;
- Outstanding transport, energy and communications infrastructure and good access for suppliers and customers.

Key Influences on Future Demand

The objective of this section is to provide information on various factors that may influence office uses in the future.

Infrastructure

In July 2011, Infrastructure NSW was tasked with preparing a 20 year Strategy that assesses the current state of infrastructure and identifies strategic priorities. This strategy was subsequently updated in 2014. The Strategy is independent advice to the Government on the specific infrastructure investments and reforms recommended to make NSW number one again. Following analysis and extensive consultation, in June 2014 the NSW Government determined to fully adopt the recommendations proposed by the Strategy through the Rebuilding NSW Plan.

Rebuilding NSW is an initiative of the NSW Government which is attempting to boost the NSW economy by investing $20 billion in infrastructure related to transport, water, education, health sports and arts. The allocation of funds into the various projects is summarised below.

Table 8: Rebuilding NSW – Infrastructure Resource Allocation

Sector	Project	Reservation	Funding from
Urban Public Transport	Sydney Rapid Transit	$7,000m	2016-17
	Sydney's Rail Future 2 Upgrades	$1,000m	2015-16
	Parramatta Light Rail (Additional funds)	$600m	2017-18
	Bus Rapid Transit and Bus Priority Infrastructure	$300m	2016-17
	Subtotal	**$8,900m**	
Urban roads	WestConnex northern and southern extensions; Western Harbour Tunnel	$1,100m	2015-16
	Pinch Points & Clearways	$400m	2015-16
	Smart Motorways	$400m	2015-16
	Gateway to the South	$300m	2015-16
	Traffic Management Upgrades	$200m	2015-16
	Subtotal	**$2,400m**	
Regional transport	Regional Road Freight Corridor	$2,000m	2015-16
	Regional Growth Roads	$1,000m	2015-16
	Fixing Country Roads	$500m	2015-16
	Fixing Country Rail	$400m	2018-19
	Bridges for the Bush	$200m	2015-16
	Subtotal	**$4,100m**	
Water security	Regional Water Security and Supply Fund	$1,000m	2017-18
Education	Future Focused Schools	$700m	2016-17
	Regional Schools Renewal program	$300m	2016-17
	Subtotal	**$2,000m**	
Health	Hospitals Growth Program	$600m	2018-19
	Regional Multipurpose Facilities	$300m	2015-16
	Care Co-location Program	$100m	2016-17
	Subtotal	**$1,000m**	
Culture & Sport	Culture and Arts	$600m	2017-18
	Sports Stadia	$600m	2017-18
	Regional Environment and Tourism Fund	$300m	2017-18
	Subtotal	**$1,500m**	
Other Opportunities	Corridor Identification and Reservation	$100m	2016-17
Total		**$20,000m**	

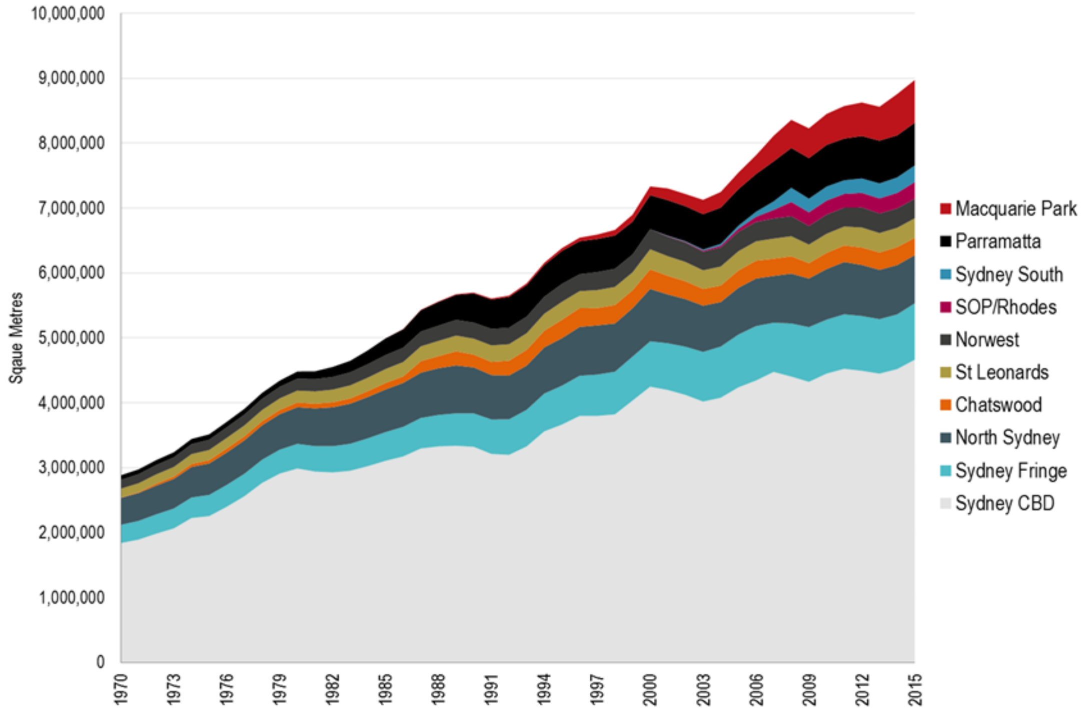
Source: NSW Government http://www.nsw.gov.au/initiative/state-infrastructure-strategy

Historic Growth

Our starting point for our analysis is to understand the size of the Sydney Office Market. As at Quarter 2 2016 the occupied office space in the markets tracked by JLL totalled 8,899,566 sqm. In addition, we require an understanding of the historic growth of the stock.

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. The graph below represents the historic growth seen across the various Sydney office markets.

Figure 13: Growth of Sydney Office Markets (with Assumptions), 1970 to 2015



Source: JLL Research

Historic Net Absorption

The table provides a more specific understanding into the performance of specific markets. It provides 5 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 9: Net Absorption Trends – Sydney Office Markets

	5 Year Average	10 Year Average	Longer Term Averages
	sqm	sqm	sqm
CBD Markets			
Sydney CBD	42,826	42,586	60,237 (40 years)
Metropolitan markets			
Sydney Fringe	7,493	N/A	N/A
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Macquarie Park	14,974	29,767	27,780 (16 years)
Parramatta	3,465	9,443	15,317 (37 years)

Source: JLL Research

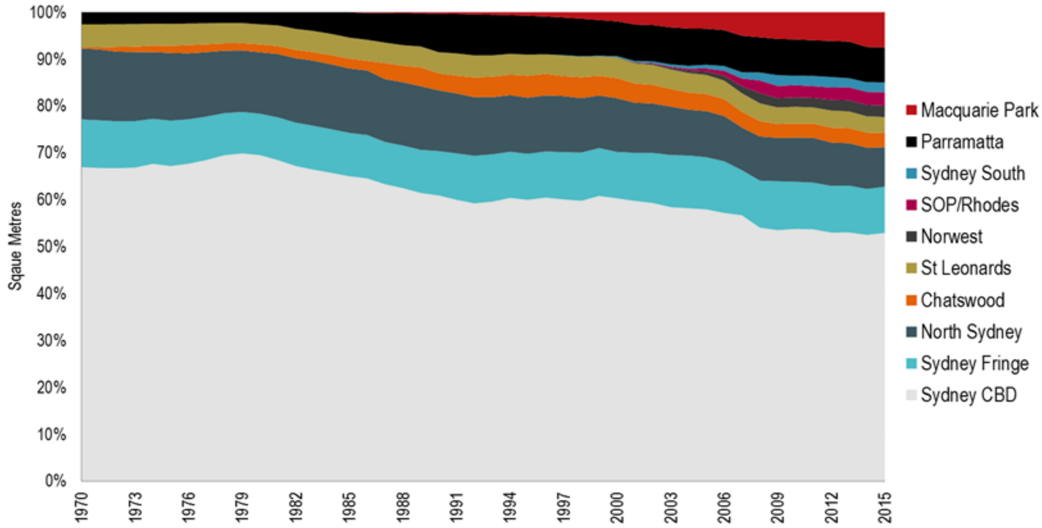
Historic Changes in Sydney's Office Markets

Figure 13 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 have 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 1970-2015 periods:

- Sydney CBD has declined from 67% to 53%
- Parramatta started at 3%, rose to 9% and have more recently declined to 7% (i.e. generally holding onto its 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.

Thus, there has been a general shift toward suburban office accommodation which we have found is in line with more international benchmarks (see below).

Figure 14: Sydney Office Market NLA (Proportion) 1970-2015



Source: JLL Research

International Benchmarks (United States Office Markets)

JLL have looked internationally to understand the CBD to Metropolitan relationship in more mature markets. The United States of America provides support to the trend away from the CBD markets with approximately 2/3rds of stock located in suburban office markets. One of the drivers for higher suburban offices has occurred through increased urban sprawl, resulting in greater reliance of cars and need for higher car space ratios.

Table 10: International Benchmarks – CBD vs. Suburban Office Markets

United States	Square feet	%
Total CBD Office Markets	1,176,266,814	33%
Total Suburban Office Markets	2,411,607,674	67%
	3,587,874,488	100%

Source: JLL Research

Occupiers Requirements

The previous section discussed the main influences on future demand; however, key to an understanding of demand for users within a specific precinct is an understanding of the attributes that will attract them to the location. JLL have outlined below these attributes:

Table 11: Occupier Requirements

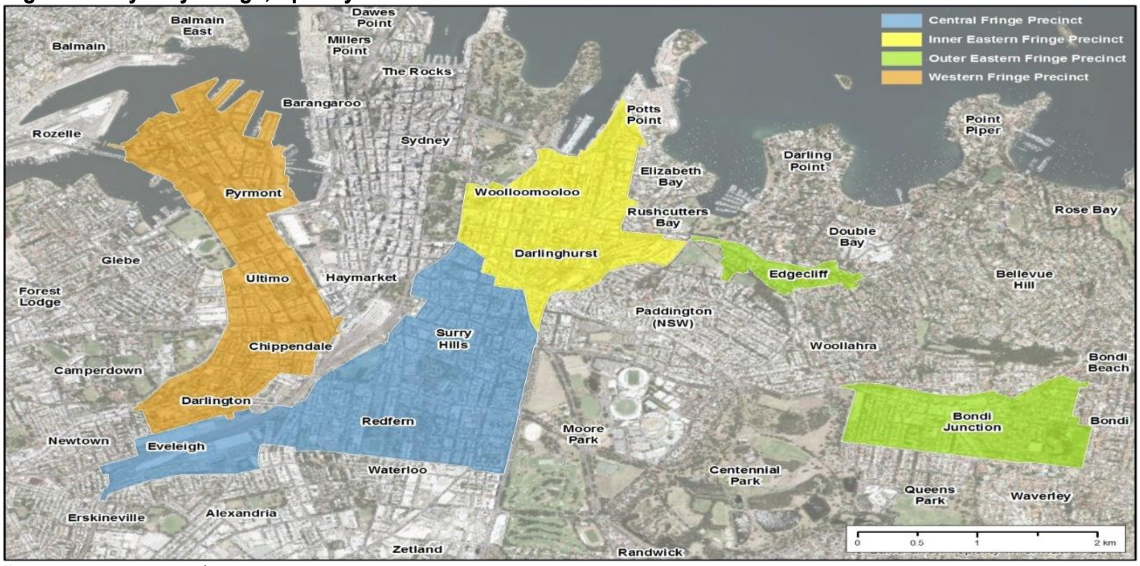
Metropolitan Market Attributes	
Access	
Road infrastructure	• Car is the predominant model of transport for workers to get to work. This is especially true of metropolitan office markets where car is the preferred mode of transport in excess of 80% of the time. • New transport infrastructure provides additional demand. By example the M2 in Sydney has had a positive impact on the demand for Macquarie Park and Norwest.
Proximity to CBD	• Some metropolitan office markets leverage off their close proximity to CBD with more affordable rents. • Locations such as St Leonards also benefit from their relatively close proximity to the CBD with the availability of good transport options to commute to North Sydney and Sydney's CBD.
Proximity to suppliers & customers	• In making decision on where to locate, occupiers take into account the location of their suppliers (which provide inputs) and also their customers.
Car parking	• With the high use of car as the primary mode of transport any office location will need to provide appropriate car parking • Car parking ratios vary significantly between locations. The market has had a strong preference to the more generous car parking ratios.
Public transport	• While public transport has lower patronage compared to car travel, public transport is a strong attractive feature when occupiers are choosing their locational preference.
Surrounding Influences	
Proximity to workforce	• A close proximity to a well-educated workforce supports the demand for office uses. • This partly overlaps with the 'access' issues identified i.e. the ability for workers to get to their employment
Strong residential location	• Strong residential locations are shown to provide support for office uses due to following reasons: - Higher socio-economic locations generally have higher proportions of white collar employees, which require offices - The 'corporate identity' as discussed below generally prefers association with higher priced suburbs - The location of key decision makers (e.g. CEO) within the firm can influence the location decision.
Surrounding amenity	• Primarily driven by retail uses inclusive of food and beverage for lunchtime and after work social events. • Parks, water, sporting facilities and other types of amenity can also add value.
Specific industry drivers	• Specific industries such as hospitals and universities can key materially influence the demand for occupiers. Such occupiers provide the location with 'identity' which encourages clustering.
Compatible uses	• While residential uses are often quoted as bringing 'after hours' activity they can also dilute the 'office' based offering. Comparable uses that provide amenity (see above) support the demand for office uses.
Existing Offering	
Clustering	• Clustering can vary significantly by industry, however, is generally considered an important driver of demand. Medical, pharmaceutical, IT and education are examples of industries that like to cluster.
Corporate identity	• Corporate identify varies significantly by industry, however, unlike some industrial users which are only influenced by access and cost, most office based users care about their corporate identity.
Build-ability considerations	• Small lot sizes, existing strata product, topography, existing buildings and environmental issues are key inhibiting factors to development. Conversely large Greenfield sites which are easy to build provide highly competitive economic rents.
Affordability	• While affordability is a key determining factor in influencing location this generally is used to decide between CBD and non CBD locations. The small (comparatively) difference between metropolitan office markets means that other influences, as discussed above, play a more important role.

Source: JLL Strategic Consulting

5.4 Edgecliff Context

As identified above, Edgecliff sits within the Sydney Fringe market. JLL defines the Sydney Fringe market into four precincts, these precincts can be seen below.

Figure 15: Sydney Fringe, Split by Precincts



Source: JLL Research

While the Sydney Fringe office market represents a significant portion of the total Sydney office market, the Outer Eastern Fringe Precinct, being the precinct that includes Edgecliff and Bondi Junction, only makes up just under 10% of the Sydney Fringe market or just under 1% of the total Sydney office market monitored by JLL as seen in the following table.

Table 12: Stock within the Sydney Fringe Market Q2/2016

	Total Stock	Proportion of Sydney Fringe Market
Central Fringe	371,320	40%
Inner Eastern Fringe	129,847	14%
Outer Eastern Fringe	**90,692**	**10%**
Western Fringe	328,482	36%
Total	920,341	

Source: JLL Research

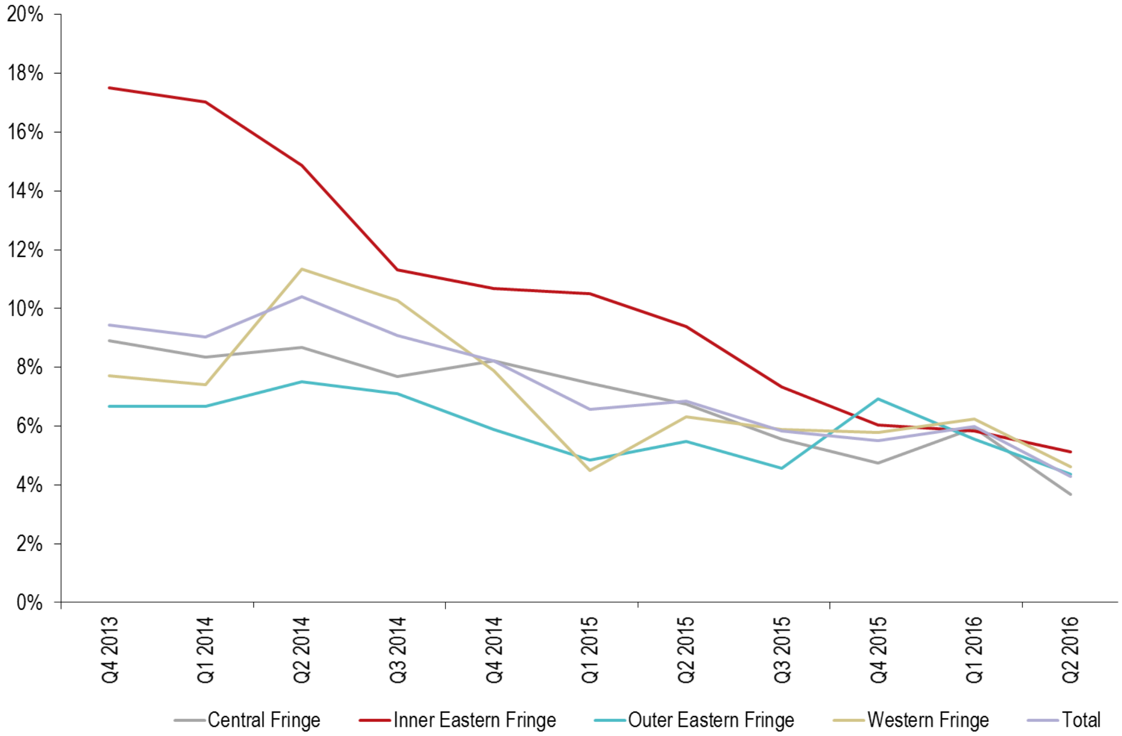
Of note is the low vacancy of all precincts within the Fringe market, seen in the table below, this has primarily been driven by conversions to residential and the inherent result of a growing population with the need for support office. The steady decline can be seen in the figure overleaf.

Table 13: Vacancy within the Sydney Fringe Market Q2/2016

	Total Stock
Central Fringe	3.69%
Inner Eastern Fringe	5.12%
Outer Eastern Fringe	**4.36%**
Western Fringe	4.62%
Total	4.29%

Source: JLL Research

Figure 16: Change in Vacancy Rates of Sydney Fringe by Precinct Q4 2013 to Q2 2016



Source: JLL Research

Edgecliff, accounts for approximately 24% of the Outer Eastern Fringe Precinct (or ~21,400 sqm), as tracked by JLL, this is made up of the following buildings:

Table 14: Commercial Office Buildings in Edgecliff, Q3 2016

Building name	Address	Building Grade	Area sqm
Edgecliff Centre	203-233 New South Head Road, Edgecliff	B	8,083
	100 New South Head Road, Edgecliff	B	2,000
Edgecliff Mews Professional Centre	193-201 New South Head Road, Edgecliff	C	1,500
Eastpoint Tower	235-285 New South Head Road, Edgecliff	C	1,500
	287 New South Head Road, Edgecliff	B	1,500
	179-191 New South Head Road, Edgecliff	B	1,500
	135-153 New South Head Road, Edgecliff	C	1,424
	2 McLean Street, Edgecliff	D	1,000
	62 New South Head Road, Edgecliff	D	1,000
	90 New South Head Road, Edgecliff	B	960
Trust House	80-84 New South Head Road, Edgecliff	A	900

Source: JLL Research

The above shows a prevalence of B grade stock exists within the market, accounting for approximately 66% of total stock, with most of this existing within the Edgecliff Centre (38% of total stock). The Edgecliff market is relatively small by comparison to its peers with:

- **Bondi Junction** equating to ~69,300 sqm with about a third of this stock held within the Westfield Bondi Junction towers at 500 Oxford and 101 Grafton Streets, and as a result just over half of the market being considered A grade.

- **Darlinghurst** equating to ~49,100 sqm with almost 40% of this stock within 1 Oxford Street, and as a result 64% of the Darlinghurst tracked office market is considered A grade.

Opportunities and Challenges

It can be difficult to provide an assessment of the opportunities and challenges associated to the use of office within Edgecliff because, unlike residential, offices are divided into multiple categories. As such, we have provided separate rationale in order to understand the opportunities and challenges for both types of office uses.

Investment Grade Office

Edgecliff is considered an investment grade location, albeit a secondary location due primarily to its lack of scale and therefore recognition as a key office market. In the current environment the market would require a major tenant pre-commitment prior to commencement.

Support Office

JLL anticipates that future demand will exist from ‘support office’ uses however this growth is expected to be broadly in line with population growth.

6 Sydney Retail Market Context and Implications

6.1 Overview

The objective of this section is to provide both a background into the retail sector and to understand the current and future drivers of retail. This background understanding will then assist the more focused analysis and assessment of Edgecliff.

Australian retail is segmented geographically and by format. Enclosed shopping centres across metropolitan areas and regional Australia are categorised as regional, sub-regional and neighbourhood centres according to size and tenancy characteristics. Other formats are bulky goods (big box) retailing, strip shopping precincts and CBD retail centres. CBD centres include a mix of retail outlets at the podium levels of mixed use developments (typically an office or residential tower above the retail) or large multi-storey retail centres.

Risk

The retail market is significantly susceptible to risk. The three main types of risk that influence the commercial success of major ancillary retail developments are:

- Market Risk – Market risk refers to the risk of providing a quantum of retail floor space that cannot be supported by the core consumer market.
- Design Risk – Design risk refers to the risk of developing poorly utilised spaces that the core consumer market are unlikely to use and, as a result, discounted rents or operator churn results.
- Operator Risk – Operator risk refers to the quality of the operator. Operator risk is less of an issue in highly trafficked retail spaces but is a much higher risk in poorly designed space. Quality operators can make poor spaces successful through non-traditional market catchment measures (i.e. marketing, operator reputation, delivery of unique concept etc.)

Market Risk

- CBD & Retail Landscape – what drives activity in the CBD and local area and where is competing supply located
- Market Identification – what is the size and spending pool of the core catchment for the retail scheme This dictates the total retail spend potentially able to be captured (and supportable quantum of space and rental levels)
- Spend Catchment Assessment – an assessment of how the core markets are likely to interact with the retail space and what the expected levels of spend catchment are.
- CBD Retail Benchmarking – identification of the market metrics between retail supply and core catchment of other similar developments to determine whether the current scheme is over/undersupplied for retail space

Design Risk

- CBD Retail Benchmarking – Lessons learnt from other CBD retail development design
- Design & Site Critique – Identification of quality and difficult space to mitigate design of un-leasable or low value space

Operator Risk

- CBD & Retail Landscape– Identification of high quality retailers, including those appropriate for the subject site development
- Design & Site Critique – Assessment of tenancy quality and outline of indicative tenant types

Typical Lease Terms and Structures

Lease terms in Australia tend to be very favourable from an investment perspective when compared with similar terms in other markets. Typically, the length of the lease as well as the annual upwardly revised lease structures give way to a steady cash flow and less vacancy risk.

However, lease structures in Australian shopping centres vary considerably between anchor tenants and specialty retailers. Below sets out the key terms for anchor tenants and specialty retailers with regards to rents, lease terms, rental reviews and occupancy cost.

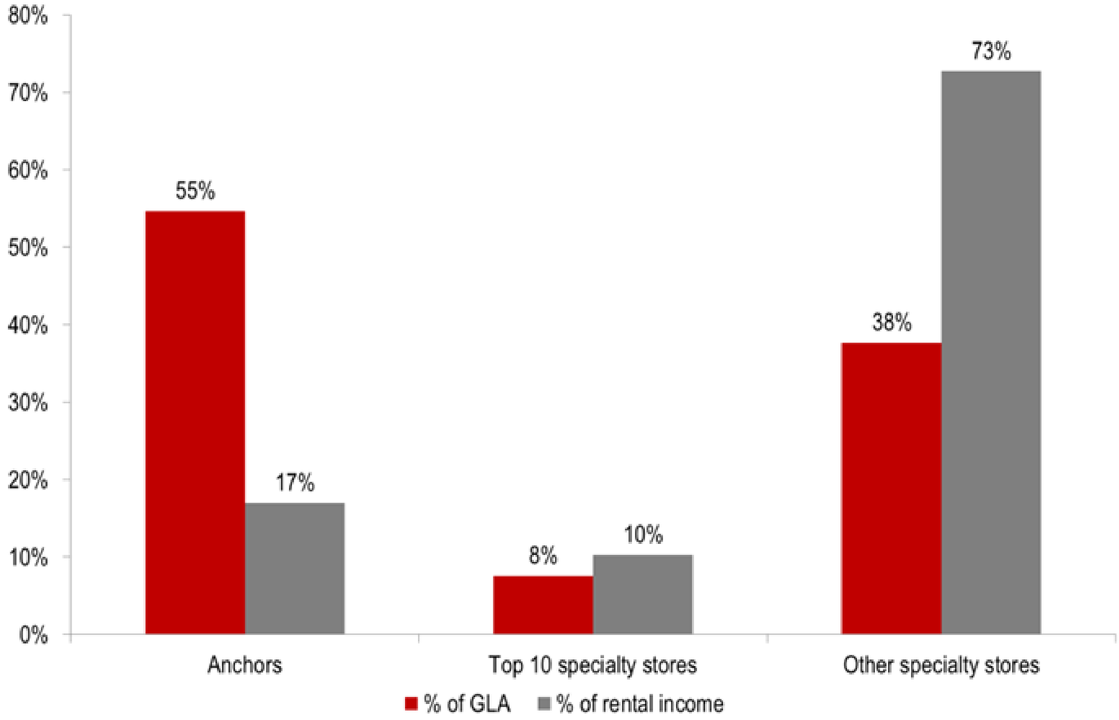
Table 15: Lease Structures by Tenant Type

Item	Anchor Tenant	Specialty Retailers
Average Rent per sqm (Regional centre)	$250 - $500	$1,200 - $2,000
Occupancy Cost (%)	3% - 5%	14% - 22%
Typical lease term	15-30 years	5 years
Annual rent review	Minimum threshold + turnover linked[5]	CPI + 1%

Source: JLL Strategic Consulting

Given the disparities in rental rates per square metre, the overall rental income of a centre can vary considerably from the floor space occupied by certain types of tenants. Anchor tenants of course can occupy a large portion of the overall shopping centre; however the vast majority of the rental income will be paid by the specialty shops. The anchor tenants however drive foot traffic through a centre and generally occupy some of the less core space. Anchor tenants are fairly broad in their description but include supermarkets and department stores, as well as discount department stores, cinemas and other large, well-recognised retailers. The below chart highlights the differences between anchor tenants and specialty stores by their share of centre GLA and rental income.

Figure 17: Centre Occupancy and Income by Tenant Type[6]



Source: Westfield Shopping Centre Operational Performance Report December 2013

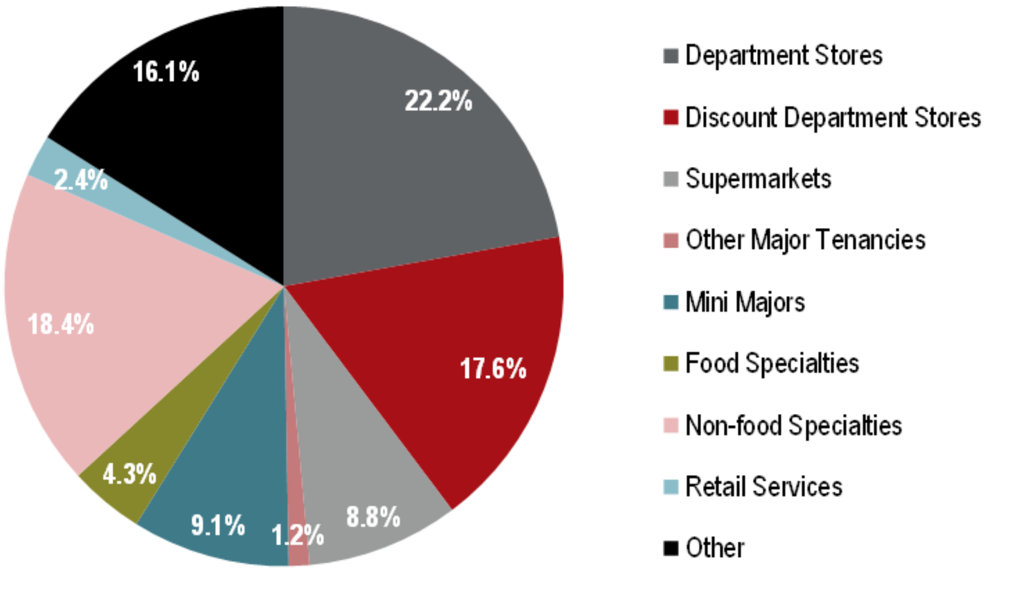
[5] Typically an Anchor tenant will have in the lease a defined minimum rental amount, regardless of turnover or CPI. The rental escalations come via an agreed percentage rent linked to turnover above a certain turnover threshold, as well as a review of the minimum rental payment every 3-5 years.
[6] Includes Centres in both Australia and New Zealand.

Typical Tenancy Mix and Unit Sizes

Tenancy mix is largely a reflection of the type of shopping centre. For example, regional centres will have a much broader mix of tenants, with the main anchor tenants of department stores, discount department stores and supermarkets making up around 50% of the total floor space.

Non-food specialties comprise around 18% of total floor area with the apparel sector typically accounting for around 60% of all non-food specialty space.

Figure 18: Typical Tenancy Mix for Australian Regional Centres



Source: Urbis Retail Averages, JLL Strategic Consulting

A supermarket based neighbourhood centre will often have more than 50% of its total floor area in the supermarket tenancy. Relatively small (less than 200sqm) tenants make up the majority of the remaining space, with an emphasis on convenience based retailers (food specialties, cafes & take-away food, pharmacy, newsagent, hairdresser, services). Apparel / fashion retailing tends to be a small part of neighbourhood centre tenancy mix.

Likewise, sub-regional centre floor area is dominated by major tenants, typically a discount department store and supermarket(s) that combined are likely to represent more than 50% of the total floor area. Convenience based retailers are well represented while discretionary retailers including apparel / fashion are reasonably well represented.

The table below highlights typical unit size by store type. Most retail specialty stores are between 80sqm and 150sqm. There are always some exceptions, with fashion retailers, pharmacies, sporting goods, book stores and discount variety stores often occupying stores in excess of 200sqm.

Small tenancies in regional shopping centres are often located in kiosks within the centre of the mall – these will generally be less than 10sqm.

Table 16: Typical Unit Size by Retail Category

Category	Unit Size (sqm)
Department Stores	12,000-18,000
Discount Department Stores	6,500-8,000
Major Supermarkets	3,500-4,500
Mini Majors	400-800
Food Specialties	80-150
Cafes, Take-away food	50-100
Apparel	80-150
Retail Services	40-60

Source: JLL Strategic Consulting

6.2 Demand for Retail Use

Demand for retail is primarily determined by access to an appropriate 'catchment' – this can be in the form of both a residential population or by worker population.

Tabled below is a summary the demand for retail uses per capita.

Table 17: Demand for Retail per Capital

	Toal Provision GLAR			Provision Per Capita (1,000 sqm per people)			Proportions	
	Organised Retail (i.e. Shopping Centres)	Unorganised Retail (i.e. Strip)	Total	Organised Retail (i.e. Shopping Centres)	Unorganised Retail (i.e. Strip)	Total	Organised Retail (i.e. Shopping Centres)	Unorganised Retail (i.e. Strip)
Sydney								
CBD	211,131	n.a.	n.a.	49	n.a.	n.a.		
Regional	1,688,344	n.a.	n.a.	393	n.a.	n.a.		
Sub-Regional	886,236	n.a.	n.a.	206	n.a.	n.a.		
Neighbourhood w/ Major Smkt	547,799	n.a.	n.a.	127	n.a.	n.a.		
Neighbourhood w/ Small Smkt	145,935	n.a.	n.a.	34	n.a.	n.a.		
Bulky Goods	517,580	n.a.	n.a.	120	n.a.	n.a.		
Outlet	65,884	n.a.	n.a.	15	n.a.	n.a.		
Other	130,527	n.a.	n.a.	30	n.a.	n.a.		
TOTAL	**4,193,436**	**4,077,808**	**8,271,244**	**976**	**949**	**1,925**		
Proportion of Total	*51%*	*49%*		*51%*	*49%*			
Sydney								
Department Stores	504,489	32,605	537,094	117	8	125	12%	1%
Discount Department Stores	590,524	53,989	644,513	137	13	150	14%	1%
Major Supermarkets	584,576	167,355	751,931	136	39	175	14%	4%
Other Supermarkets	121,164	201,092	322,256	28	47	75	3%	5%
Bulky Goods	517,580	1,550,231	2,067,811	120	361	481	12%	38%
Total Major Uses	2,318,333	2,005,272	4,323,605	540	467	1006	55%	49%
Total 'Other' Retail	*1,875,103*	*2,072,536*	*3,947,639*	436	482	919	45%	51%
TOTAL	**4,193,436**	**4,077,808**	**8,271,244**	**976**	**949**	**1,925**	**51%**	**49%**
Proportion of Total	*51%*	*49%*		*51%*	*49%*			

Source: JLL; PCA Shopping Centre Database; ABS; International Council of Shopping Centre Country FactSheets: Aust

Transactional evidence for development site sales is limited for retail based development, typically this is with a supermarket anchor. As mentioned, the following sales have been considered in arriving at our rate of retail for feasibility.

Table 18: Supermarket Anchored Retail Sales

Property	Sale Date	Sale Price	Area (m²)	$/m²	Comments
2, 2a & Part 2b Hector Court, Kellyville, NSW	May-14	$12,500,000	15,987m²	$781.89m²	A large triangular shaped lot in a highly accessible location in close proximity to Memorial Avenue. The site is relatively level with limited vegetation and an existing residential dwelling. The zoning (B2 Local Centre) permits a mixture of retail and shop top housing with a permitted FSR of 1:1. The site is located in close proximity to the proposed Bella Vista Railway Station. The site was acquired by Fabcot Pty Ltd (Woolworths) unconditionally via an EOI campaign.
The Ponds Shopping Centre, NSW	Nov-13	$7,000,000	13,500m²	$518.52/m²	The sale of the Ponds Shopping Centre on a fund through basis. The total transaction reflected a value of $39,700,000 with a value of $7,000,000 apportioned to the land. The property is zoned 3(a) General Business and was approved for a neighbourhood shopping centre anchored by a Woolworths Supermarket, providing a total GLA of approximately 7,091m².
607-611 Hume Highway, Casula, NSW	Oct-13	$8,450,000	10,908m²	$774.66m²	Three adjoining allotments fronting the Hume Highway, a major arterial roadway in western Sydney. The allotments are zoned B2 Local Centre under the Liverpool LEP 2008 and were purchased by Fabcot for the construction of a 4,300m² supermarket with at-grade car parking.
1975-1985 Camden Valley Way, Prestons, NSW	Feb-13	$7,000,000	15,801m²	$443.01m²	Two adjoining allotments fronting Camden Valley Way, a major arterial roadway in western Sydney. The allotments are zoned B6 Enterprise Corridor under the Liverpool LEP 2008 and were purchased by Fabcot for the construction of a neighbourhood shopping centre including a 4,094m² supermarket, 175m² BWS and 914m² of specialty tenancies together with 253 parking spaces. The site sold without Development Consent.
Lot 1120 Water Gum Drive, Jordan Springs NSW	Nov-12	$5,400,000	17,700m²	$305.08m²	A vacant business zoned allotment, situated within a new residential estate known as Jordan Springs within the Penrith LGA, some 4 kilometres north east of the Penrith City Centre. The site was marketed with development potential for a supermarket and speciality stores to be erected. The site was benched and ready to be constructed on at the time of sale. The selling agent has advised that Woolworths Limited purchased the site and constructed a purpose built supermarket with adjoining specialty store, which has since materialised.

Source: JLL, Various Other

7 Land Use Survey

The project team has undertaken a land use survey of all businesses within the Edgecliff Commercial Centre. This study area comprises the properties along New South Head Road and around Edgecliff Station and bus/rail interchange. The survey provides critical insight into the current employment, floor space and land use of these employment lands.

The study will form part of Woollahra Council's ongoing strategic planning work with the aim to support business activity in the centre.

7.1 Survey Background

The survey provides critical insight into the current employment, floor space and land use of these employment lands.

JLL conducted a door-to-door survey of all businesses located within the study area. The questionnaire included the following key information:

- Business Name
- Industry Type – coded to the Australian and New Zealand Standard Industrial Classification (ANZSIC). ANZSIC is a standard classification developed by the Australian Bureau of Statistics which is used to analyse industry statistics. There are 19 broad industry divisions. The classification refers to the primary industry that a business is engaged (e.g. manufacturing, mining, retail trade) rather than the land use of a particular premises (office, shop, storage).
- Number of Full-time equivalent (FTE) employees. The calculation of FTE for part-time staff is based on the proportion of time worked compared to that worked by full-time staff performing similar duties.

Gross building areas and number of defined or allocated car spaces was gathered from the NSW Government's Land and Property Information Spatial Information Exchange website.

7.2 Survey Limitations

There are a number of limitations associated with this survey, including:

- Reliance on the accuracy of information provided by individual business representatives;
- It is likely that off-site employment or employees that work between various sites may not have been included;
- The industry classification uses does not necessarily describe the actual land use. It describes the primary industry of the business only;
- GFA's are approximate – calculated via scaled measurement of satellite imagery; and,
- In determination of the GFA, the survey had primary regard to the primary use of the land; while this may have enabled a more accurate employment density it likely discounted some building efficiency.

7.3 Survey Definitions

As related to the above survey limitation, the industry classification does not necessarily describe the actual land use; however, JLL has had primary reference to the ANZSIC industry classification as it provides the best resource to determine the land use.

7.4 Precinct Analysis

JLL has provided a snapshot of the LGA in the following tables. JLL have at times compared these results to those seen in the Parramatta industrial lands. However, we acknowledge the use differential impacts greatly and these are therefore only used to provide better context to Georges River's industrial land.

The tables below identifies the largest employment uses by ANZISC code, Employment efficiency and GFA per employee within the Edgecliff study area.

Table 19: Employees by 1 Digit ANZSIC code

1 Digit ANZSIC code	Sum of Number of Employees	Percentage
0 - Vacant Property	0	0.0%
A- Agriculture, Forestry and Fishing	4	0.3%
E - Construction	25	2.2%
F - Wholesale Trade	25	2.2%
G - Retail Trade	113.7	9.9%
H - Accommodation and Food Services	55	4.8%
I - Transport, Posal and Warehousing	5	0.4%
J - Information Media and Telecommunications	8	0.7%
K - Financial and Insurance Services	126.5	11.0%
L - Rental, Hiring and Real Estate Services	288.2	25.0%
M - Professional, Scientific and Technical Services	113.5	9.9%
N - Administrative and Support Services	89.5	7.8%
O - Public Administration and Safety	16	1.4%
P - Education and Training	16	1.4%
Q - Health Care and Social Assistance	198.5	17.2%
R - Arts and Recreation Services	22	1.9%
S - Other Services	45	3.9%
Grand Total	**1150.9**	**100%**

Table 20: Employment Building Efficiency by Precinct

Neighbourhood centre	Sum of Land Area	Sum of GFA	Building Efficiency
Darling point	1,193	1,623	1.4
Edgecliff	52,959	77,506	1.5
Grand Total	**54,152**	**79,129**	**1.5**

Table 21: GFA per employee by Precinct

Suburb	Sum of Number of Employees	Sum of GFA	Employment Density (GFA per employee)
Edgecliff	1151	54152	47

Table 22: Top 5 Employers in Edgecliff

Business Name (ANZSIC Single Digit)	Number of Employees (FTE)
McGrath	100
Dewcape	71
Bongiorno	65
UOS- Serviced Offices	65
P&B	25

Table 23: Edgecliff SWOT Analysis

Strengths	Weaknesses
• Quality and proximity of public transport • Proximity to school/s • Limited retail vacancy • Retail amenity	• Limited car parking • Traffic
Opportunities	**Threats**
• Passing trade from New South Head Road and overall traffic from the train station and bus depot • Potential for improvement of the employment land efficiency • Potential for investment in both employment and residential land uses.	• Competition from other suburban markets for office based employment

Table 24: Demand for Potential Land Uses

Land Use	Development Opportunity	Comment
Office	Medium	Potential for the development of additional 'support' office uses
Retail	Medium	Potential for the development of additional retail uses leveraging off assumed growth in the precinct.
Residential	Very high	Generally high demand for residential uses exist however the limited site areas, ownership and traffic exposure may impact their viable development. Proximity to school, Edgecliff train station and position in relation to Sydney CBD also provides an incentive for residential development.

8 Forecasting Demand for Land Uses

In line with our land use analysis JLL has analysed the employment based land uses and provided an overview of residential and non-residential future demand. We have based our scenario analysis on varying growth numbers for employment based land uses.

8.1 Residential Market

As outlined earlier in this report the Sydney residential market has recently experienced a housing upturn; significant capital growth being experienced, as well as, unprecedented sale rates particularly for new product.

Overall we have determined that Edgecliff has, and will continue to have, high demand for residential accommodation, especially due to the larger catchment.

Broadly we consider, subject to site specific constraints, as well as issues of 'as is' vs development value, demand will outstrip supply. Therefore, subject to developers being provided with enough development opportunity, the constraints will lie on the supply side.

8.2 Non-Residential Market

Provided within this report are details on both office markets (investment grade and support) as well as retail uses.

Providing forecasts on these uses on a precinct basis is challenging as no regard is had to specific controls that will impact any given site. As such the outcome of this analysis is to identify a level of demand for non-residential uses, should these planning control support this level of demand.

A key challenge that exists in the Edgecliff market is the relative viability of non-residential vs. residential uses where demand may exist to draw from a larger catchment however the 'value in the land' is too high to achieve such an outcome.

Lower growth outcome

This scenario represents a sub-par population growth rate. The rationale for this scenario is as follows:

- Assumes growth (in absolute terms) but assumes the Edgecliff market loses market share to other office market locations.
- Assumes demand from 'support' office and retail uses
- Based on a growth rate of 0.75% equates to 257 sqm p.a.

Growth at population growth

This scenario represents a sub-par population growth rate. The rationale for this scenario is as follows:

- Assumes growth in line with population growth
- Based on a growth rate of 1.2% equates to 411 sqm p.a.

Higher growth outcome

This scenario represents a sub-par population growth rate. The rationale for this scenario is as follows:

- Assumes growth (in absolute terms) and relative terms i.e. Edgecliff picks up market share to other office market locations.
- Assumes demand from 'support' office and retail uses
- Based on a growth rate of 1.65% equates to 565 sqm p.a.

Assessed growth outcome

Say 1.00% growth p.a. equals 342 sqm p.a.

We note the sensitivity of the analysis to significant market changes e.g. there may be extended periods of time where no additional stock is added, and in a single development a significant proportion of stock is added.   As such the below forecast take up rates are unlikely to occur in a smooth annualised manner. They draw on our observation that there is a strong catchment that will have growing needs to expand over time. Based on our analysis we have provided the following range in potential demand for non-residential uses.

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