

41 McLaren Street

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Executive Summary

Colliers have reviewed the Council's Draft Ward Street Masterplan and an alternative proposal prepared by the owners of 41 McLaren Street for the site bound by: Berry Street to the South, McLaren Street to the north, Ward and Harnett Streets to the east and Bullivant Lane to the west.

This report does not comment in detail on design, shadowing, traffic and other issues associated with the potential development, it only provides high level commentary on the commercial aspects of both the Master Plan and the alternative proposal.

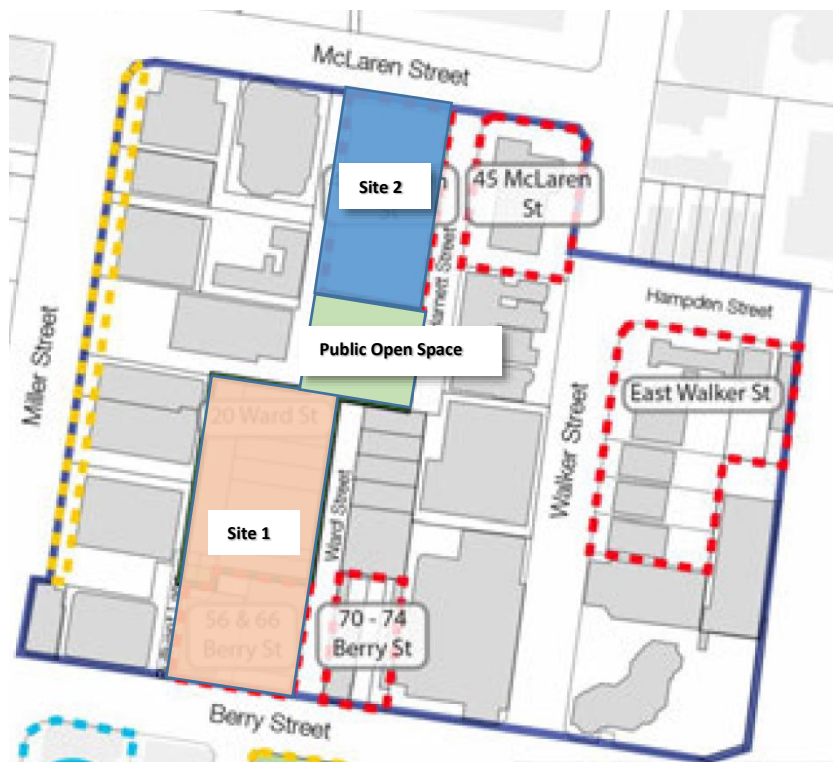
We have limited our review to the 'principal spine' of the Precinct and have excluded both 70-74 Berry Street and 45 McLaren Street.

In our view, the Council's Master Plan should adopt a different approach to viewing the sites. The sites should be considered as two separate development sites, separated by an open public domain to be situated on the current northern carpark site. Currently the master plan shows three developments, in four buildings (based on their existing ownership). The two development sites based on physical considerations in our opinion should be:

Site 1 – Berry Street, consolidated to include numbers 56 and 66 Berry Street, as well as the southern section of the Ward Street carpark, and;

Site 2 - 41 McLaren Street.

The northern Ward St. carpark fronting Harnett Street may be open public domain as depicted below.



From the commercial, design and use perspective, we believe that the development opportunities created include:

- A large commercial and hotel development (Site 1).
- Public Domain - North of Centre (NOC) Square and the pedestrianisation of Ward St.
- Existing commercial and residential at 41 McLaren St (site 2)
- The lower levels of 41 McLaren Street could provide direct access to the larger public open space.
- Community Collaborative Hub of 5,100 m² which may be integrated into either Site 1 or Site 2.
- Better chance for development to take place due to more commercially sustainable approach.
- Connectivity between Berry Street and McLaren Street.
- A signature commercial building on Berry St. will integrate more fully from the design / town planning and ownership perspective. (Delivering 69,000 m² of GFA compared to 17,065 m² GFA of commercial in the proposed master plan for 56 & 66 Berry and the Ward St carpark).
- Increased employment opportunities at the new Victoria Cross Metro Station.
- Car parking below ground.

The current Master Plan proposes a development concept based on existing property titles. From a commercial perspective there are a number issues that may negatively impact on the delivery of this concept, being:

- By separating the development of 56 and 66 Berry St and the Ward St carpark the built form is fragmented and will impact on the commercial viability of any proposed development.
- The proposed scheme includes mixed uses which do not integrate well. Mixed uses such as commercial with residential above are not likely to integrate well and should be avoided. This, in our opinion, will create design constraint issues and further problems associated with disjointed ownership structures which will have a negative impact on the commercial viability of the developments proposed, from both the occupants' and investors' perspective.
- The building proposed for what is currently 56 & 66 Berry St is compromised by having small podium floor plates of 944 m² for office usage which is not optimal, with current tenant demand requiring a preferred 1,500m² to 2,000 m² floorplates. The market also prefers consistent rectangular floorplates with a side core and a maximum core to perimeter width of 16m ensuring sufficient natural light penetration. Smaller floor plates with limited natural light will not be considered prime, will not attract prime rental levels and will be difficult to let.
- The hotel with irregular floorplates of approximately 300m² per floor will not be optimal in terms of operational efficiency. Furthermore, with the small floorplate overall and the required separation of entry lobbies and lift wells, such a development will be further compromised. The hotel entry needs consideration, as well as delivery routes into the hotel. There may be a need for a 'through' driveway.
- The hotel with a total GFA of 10,025 m² of GFA is producing 280 rooms or 35 m² of GFA per room, this seems too small, and may not include function space.
- The proposed development on the Ward St southern carpark site with a mix of residential over commercial space will not integrate well as noted above. The office space lacks exposure being at the rear of 56 – 66 Berry St. The commercial office is over 14 levels with the podium levels being 1,195 m² and the upper levels being 611 m². These floors, particularly the 7 upper levels are very small. This combined with the location at the rear

of 56 – 66 Berry St will be impacted further by reduced natural light as the podium is surrounded by existing commercial and residential buildings to the west and north. The office space will be suboptimal and both rentals and values will be compromised.

- The residential apartments will require separate entries and lobbies. The car parking should also be separated with separate ingress and egress for office users and residential occupants. Preferably the residential parking should by-pass the commercial parking through a separate ramp. This separation of assets, services and car parking add to development cost, whilst the mix will compromise both commercial rents and apartment sales revenues.
- A further issue relates to the ownership structure of the residential units over the commercial office space, which we assumed will be in single ownership as a stratum title. The residential strata, body corporate, will need to interface with the building owners for certain building maintenance issues. The Ward Street proposal incorporates uses which do not integrate well (residential and office) and which will impact negatively on both elements. An example of mixing residential with commercial office is 77 Berry Street where the commercial podium of 7,000 m² is leased at sub-optimal rents.
- The mix of differing usages in single building envelopes will impact on operational efficiency, quality of space and attractiveness to investors and occupiers.
- Treating each of the three sites as individual development opportunities, in our opinion, is ill advised as the current potential uplift will only engender the redevelopment of the Ward Street car park (North and South) and will leave both “book ends”, no’s 56 & 66 Berry Street and 41 McLaren Street, undeveloped due to the current inherent value of the existing assets and difficulties with the existing ownership structure.

An alternative scheme produced by Architectus addresses some of the matters raised and proposes complementary uses such as a commercial building with a hotel on the upper levels of a single tower for Berry St, an open public space behind and residential apartments on the McLaren St. frontage. The design also allows for larger commercial floorplates of approximately 1,400 m² and hotel levels with 16 rooms per floor plus maids’ room, making the hotel component more efficient from an operations cost perspective. We believe this would be more attractive to a hotel operator. The approach adopted by the alternative scheme is:

- Rather than considering four separate buildings on the subject site, a better outcome is the construction of two buildings, one addressing Berry St and the other addressing McLaren St both on contiguous and regular sites.
- This will produce a coherent development for both Site 1 and Site 2 and free-up a greater area on the ground floor. Looking at the entire site from Berry Street through to McLaren Street has merits,
- In our opinion, the uses as outlined above are simpler and have complementary user groups that better integrate the end assets e.g. commercial and a hotel use above.
- The alternative concept would allow the Community Collaborative Hub to be incorporated into the proposed Berry Street office or into 41 McLaren Street
- The proposal provides an opportunity to create a large plaza on the current northern car park that would then link with the NOC.

In summary, the following issues have been identified with the proposed master plan scheme and likely solutions offered:

a) Issues with existing concept “Ward Street Precinct Plan”:

- Hotel component compromised, small irregular floor plan Average of 35 m² GFA per key seems too tight.
- Office space at podium level with small floor plates and some office space located at the rear makes the office space suboptimal. Delivers 17,065 m² GFA of office, at 85% efficiency delivers about 14,500 m² of net lettable office area.
- Ward Street proposal incorporates uses which do not integrate well (residential and office) and which will impact negatively on both elements
- Too many buildings proposed – development becomes too fragmented

b) Solution

- Consolidate into two sites – Berry Street and McLaren Street sites
- Berry St. site should have a cogent concept that optimises commercial outcomes:
 - Mixed use buildings with uses that integrate better such as commercial and hotel.
 - Commercial building with 44,000 m² of net lettable area (almost 4 times)
 - Hotel shows function space, restaurants, bars and recreation.
 - Large and regular shaped commercial office floorplate to ensure better natural light penetration and more efficient use
 - Optimise hotel efficiency, for example: increase number of rooms per floor and include maids’ room on each floor for operational efficiency.
- The northern car park to be set aside for a public space, such as plaza
- The Community Collaborative Hub be incorporated into the commercial building on Berry St or 41 McLaren St (thus providing the opportunity to create a large plaza on the northern car park that would then link with the NOC)
- That 41 McLaren Street be a residential apartment development.

It is our strong view that if the Draft Ward Street Scheme was to be adopted then an integrated repositioned developed asset would be limited to the Ward Street car park and the ‘book end’ would remain in their current configuration.

Introduction

Colliers International have undertaken the following in this assessment:

- Considered preliminary issue of whether, from a commercial perspective, the office and hotel market proposed for the Council's mixed use tower on its Ward Street Carpark site and hotel tower on the amalgamated 56 & 66 Berry Street site, is a superior or inferior option to 41 McLaren's planning proposal and proposed masterplan for these sites.
- Prepared strategic advice in respect of a submission to Council regarding the Draft Masterplan.
- Prepared advice comparing the planning proposal and master plan prepared by 41 McLaren Street and Council's Draft Masterplan, including:
 - Commentary on market conditions within North Sydney – current and future requirements (next 5 – 10 years) for office and hotel space
 - Reviewed the Draft Masterplan and commented on consistency with market conditions and the objectives for North Sydney (including North Sydney Centre and Ward Street precincts)
- Commentary on appropriateness of the hotel – built form and floor plate size
- Commentary on appropriateness of the commercial mixed use building – built form and floor plate size
- Commentary on public open space and pedestrian connectivity

The Site

The site is bound by Berry Street to the South; McLaren Street to the North, Ward Street and Harnett Street to the East and Bullivant Lane to the West.

The total site is not regular in shape as the Berry Street site to the south does not align with the McLaren Street and northern car park site as can be seen by the non-alignment of Ward Street and Harnett Street on the eastern boundary. The site is best seen as two independent development sites, however, with an inherent relationship due to their proximity to each other:

Site 1. The site fronting Berry Street (No. 56 & 66) and the southern car park, bound by Ward Street to the east and Bullivant Lane to the west.

Site 2. The site fronting McLaren Street (No. 41)

Public Domain. Occupying the northern car park with Harnett Street to the east.

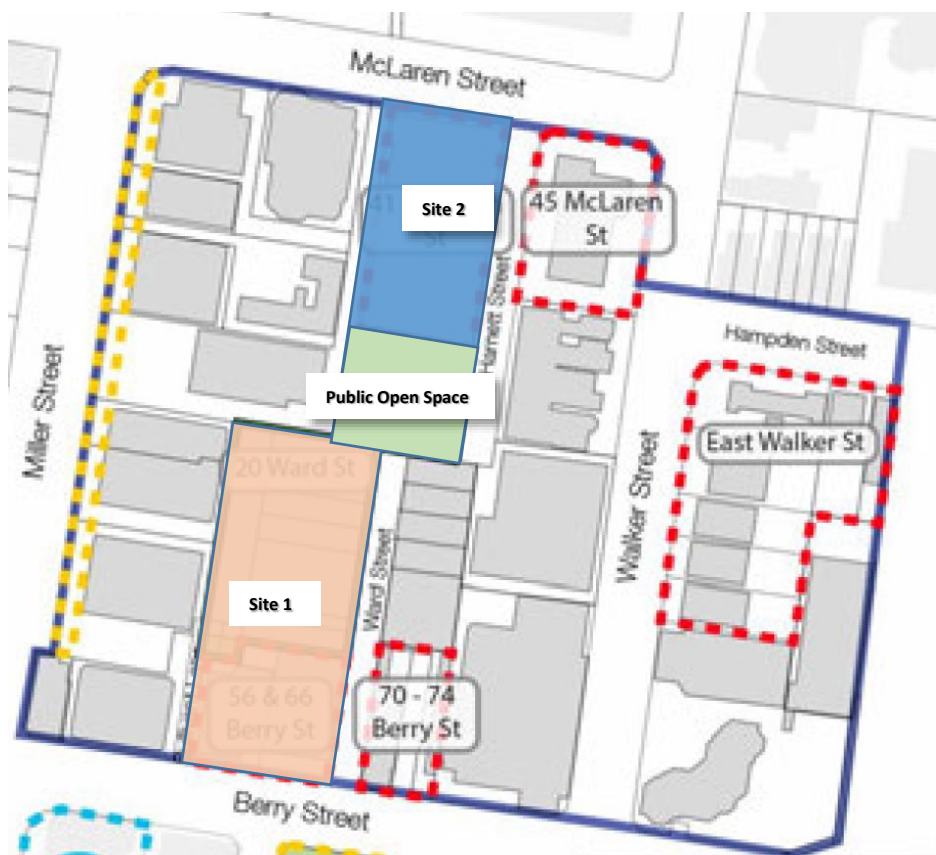


Figure 1: The subject site showing the recommended two sites layout

Source: Ward Street Precinct Masterplan – pre-exhibition report

Proposed - Draft Ward Street Precinct Masterplan

The proposed development of the Ward Street car park and adjacent existing buildings is depicted below:

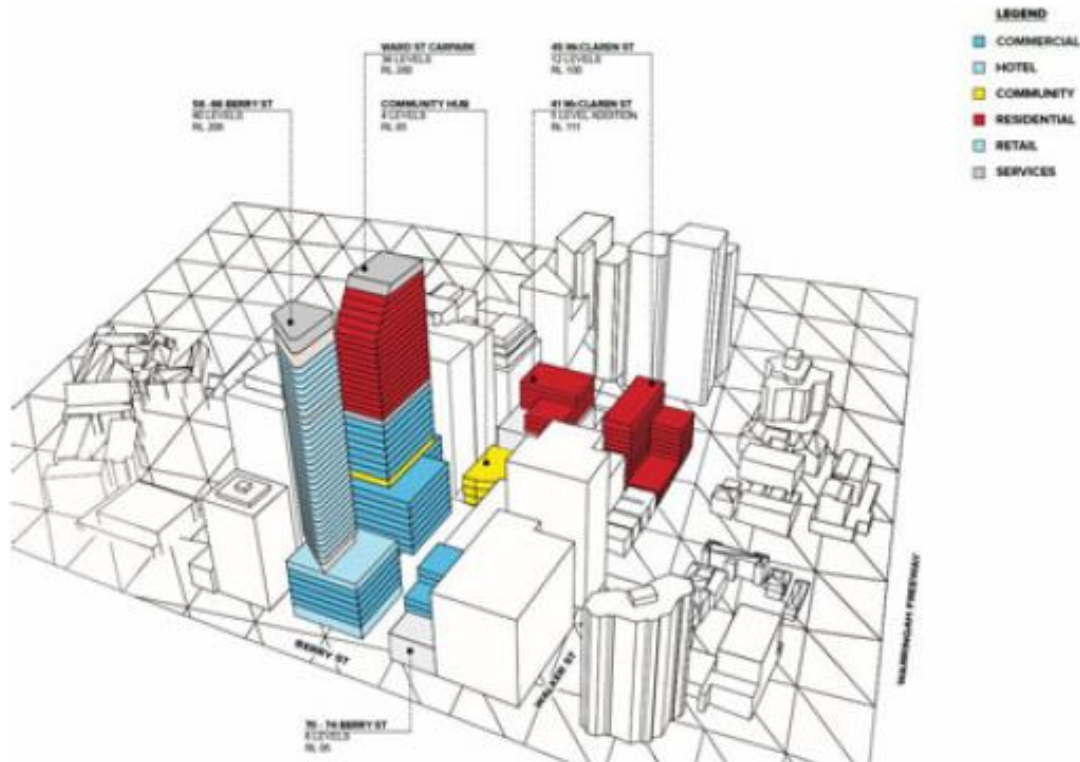


Figure 2: The Draft Built Form Masterplan, as view from the south. Source: Ward Street Precinct Masterplan – pre-exhibition report

Four separate development opportunities, as outlined in the Draft Built Form Masterplan, are described below:

1. On the Berry Street frontage (No's 56 and 66 Berry Street)
 - A podium with 5 levels of office (5,095 m² GFA) with a typical floorplate of 944 m².
 - Retail space on the ground level 364 m² GFA
 - 31 levels of hotel above the office (10,025 m² GFA – 280 keys) with hotel recreation on levels 7 and 39. Average of 35 m² per key seems too small. May not have considered function areas.
2. On the Ward Street (South) car park site:
 - Ground floor retail of 463 m² (GFA)
 - Commercial office space of 11,970 m² GFA over 14 levels with typical floor plates of 1,195 m² and 611 m².
 - Residential apartments of approximately 9,849 m² GFA over 17 levels with 50 – 85 apartments subject to mix. We note that based on the proposed dimensions the apartments appear to be larger than what is observed in the market place. With reduced dimensions per apartment, the number of units could be increased to over 100, making the project more profitable.

3. On the Ward Street (North) car park site:

- Community Collaborative Hub (4 levels) planned for the rear portion of the Ward Street carpark with Hartnett Street frontage. This facility has about 5,100 m² of GFA.

4. 41 McLaren Street:

- The proposal retains the existing building and proposes an additional 5 levels of residential apartments over. The floor plates would be 915 m² on the lower levels and 586 m² floor plates for the residential above. Proposed 5 – 7 apartments per floor is noted for the residential floors. The plan does not specify the usage for the existing building to be retained.

Other sites (not specifically addressed here):

- 45 McLaren Street for residential use.
- 70 – 74 Berry for retail and commercial usage.



Figure 3: The existing layout of the site. Source: North Sydney – North of Centre Precinct Plan.



Figure 4: The Draft Public Domain Masterplan.

DEVELOPMENT SITE REALISATION – USE

Commercial realisation for the various elements of development site on a GFA basis will vary according to the use, with the ranking being: residential, commercial and hotel. The gross realisation of each use has a direct impact on the land sale price for the existing assets.

The order of potential land prices will vary according to specific site conditions but broadly will be in the order of \$4,250 to \$5,000 per m² of GFA for residential, \$1,500 to \$1,800 per m² of GFA for commercial and \$1,400 to \$1,500 per m² of GFA for hotel component.

The objective of looking at the entire site from Berry Street through to McLaren Street has merits, but by treating each of the four sites as individual development opportunities, in our opinion, is ill advised as the current potential uplift will only engender the redevelopment of the Ward Street car park (North and South) and will leave both “book ends”, no’s 56 & 66 Berry Street and 41 McLaren Street, undeveloped due to the current inherent value of the existing assets, the limited “real” upside and difficulties with the existing ownership structure.

It is our strong view that if the Draft Ward Street Scheme was to be adopted then an integrated repositioned developed asset would be limited to the Ward Street car park and the ‘book end’ would remain in their current configuration.

The site is best developed in a coherent manner giving greater regard to contiguous site characteristics, potential use, and particularly taking regard of the proximity to the new Victoria Cross Metro Station, whilst putting aside the existing ownership title issues, in order to allow optimal development of the site.

SITE DIVISION ANALYSIS

The proposed Masterplan addresses the property on the basis of the existing titles in place which creates a fragmented scheme and a poor development outcome for the hotel, commercial and residential components, which in turn compromises the financial viability of the development outcome.

In our view, the development should consist of two coherent sites, as follows:

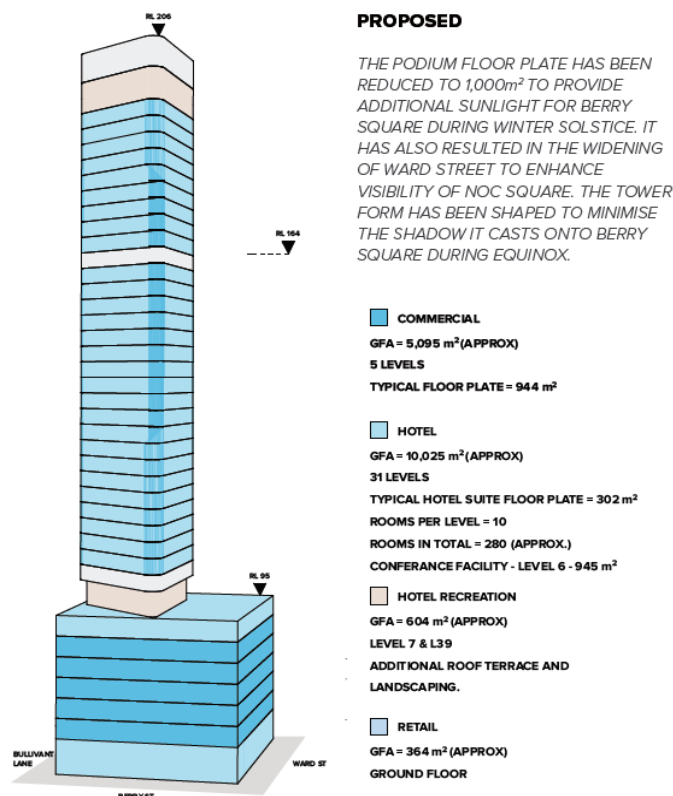
1. Berry Street site which includes the Ward Street southern car park.
2. 41 McLaren Street.

In relation to the car park, we believe it should be split with the southern car park consolidated with 56 & 66 Berry St and the opportunity to create a large plaza on the northern car park that would then link with the NOC.

The Community Collaborative Hub, could be integrated into either the commercial building on 56 – 66 Berry St or 41 McLaren St.

56 AND 66 BERRY STREET

Proposed concept depicting commercial, hotel, hotel recreation and retail is depicted below.



North Sydney - North of Centre Precinct Plan



Figure 4: Proposed Concept and Uses - Berry Street

The proposed podium floor, as shown above, has been reduced to 1,000 m² to provide additional sunlight for Berry Square during winter solstice. It has also resulted in the widening of Ward Street to enhance visibility of NOC Square. The tower form has been shaped to minimise the shadow it casts onto Berry Square during equinox.

The podium level is made up of 364 m² of retail space and 5,095 m² of GFA with typical floor plates of 944 m². The 944 m² floorplates are not optimal for commercial office space. It would be preferable to have 1,600m² to 2,000 m² floor plates as exemplified by 1 Denison Street. The market prefers rectangular floors and floor plates that have a maximum width of 16m from the core to perimeter to ensure sufficient natural light penetration. Smaller floor plates with limited natural light will not be considered prime and will not attract prime rental levels.

In addition, it will be considered secondary space in a similar way to office space located on the podium level below Bel Monde Apartments, which achieves rental levels 20% below market.

The proposed retail space, given its relatively small size, is not considered to be negatively impacted nor will it greatly impact on the commercial success of the development.

The integration of a hotel with a commercial space is acceptable but would require further consideration as both uses will require separate entries, lift lobbies, parking, services and the hotel will require a “port cochere”, and the following issues will require further consideration:

- The commercial space delivers a total net lettable area in the order of 14,500 m² assuming efficiency is at 85% for the 56 – 66 Berry St and Ward St carpark.
- The hotel delivers 280 keys in 10,000 m² of GFA. With a 302 m² floorplate, it will be restricted in delivering meaningful function space.
- The integrity of design of the hotel located over commercial space and duplication of entries, lift wells and services in such a small footprint.
- Position of the ‘port cochere’ if the entry is on Berry Street and the associated traffic issues on such a busy street.
- Deliveries and the likely location of the loading docks.

The proposed hotel element has 10,025 m² of GFA arranged over 31 levels with an approximate number of rooms given as 280. Whilst there may be a demand for a hotel in North Sydney, the proposed location needs to be considered in a greater detail in order to determine whether it is suitable for a hotel.

The proposed floorplate for the hotel is irregular in shape and as such is likely to be inefficient. The floorplate is shown to be as 302 m² with 10 rooms (keys) proposed per floor. Consideration needs to be given to operational costs of running such a configuration. With only 10 rooms per floor, the servicing of the rooms may not be optimal. There is likely to be a need for a maids’ room on each floor for example, which may not have been considered given the proposed floorplate size vis a vis the number of rooms. It will not have a meaningful function centre with a 302 m² floorplate.

The size and configuration of the proposed hotel has been severely compromised by the desire to retain light penetration to the Bel Monde Plaza forecourt fronting Berry Street.



Figure 5: Proposed floorplate for the hotel

WARD STREET CAR PARK SITE

Proposed concept depicting commercial, residential, community and retail is provided below. It sits behind the 56 & 66 Berry Street proposal and will be compromised as a result.

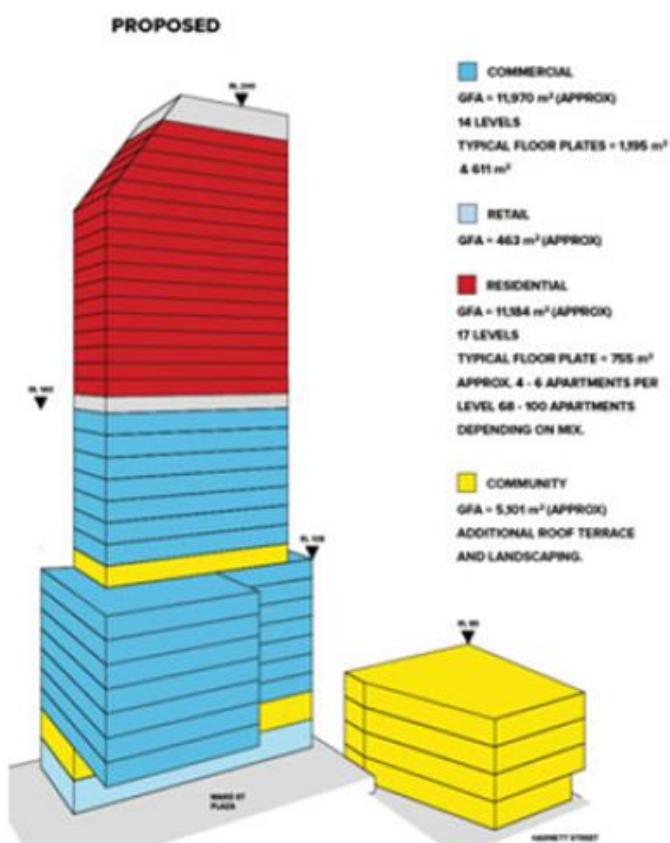


Figure 7: The proposed envelopes envisaged on the Ward Street car park, comprising a mixed use building (left) and community building (right) around a public square (centre).

The Ward Street car park site includes 11,970 m² of GFA with typical floor plates of 1,195 m² and 611 m² over 14 levels. As for the Berry Street sites, as mentioned above, the floor plates are very small and therefore would not be considered as premium office. In addition, commercial space located behind the Berry Street proposal, lacks exposure, and being located on the lower floors, will be impacted further by reduced natural light as again the podium is surrounded by existing commercial and residential buildings to the west and north.

This will make letting more difficult and is likely to attract rents at reduced levels. It is also noted that such commercial space will compete with sub-rental metropolitan markets such as St Leonards and Chatswood.

A key consideration for this proposed plan is the integration of residential and office components which do not integrate well. There will be a requirement for separate entries and lobbies. The car parking should also be separated with separate ingress and egress for office users and residential occupants. Preferably the residential parking should bypass the commercial parking through a separate ramp. This separation of assets, services and car parking add to development cost, whilst the mix will compromise commercial rents and apartment sales revenues.

A further issue relates to the ownership structure of the residential units over the commercial office space, which is assumed to be in single ownership as a stratum title. The residential strata, body corporate, will need to interface with the building owners for certain building maintenance issues. An example of mixing residential with commercial office is 77 Berry Street where the commercial podium of 7,000 m² is leased at sub-optimal rents and may have impact on residential sales realisations.

41 MCAREN STREET

The 41 McLaren Street development, as currently shown, has 5 levels of residential over the existing commercial use. The same arguments, as mentioned above, will apply to mixing commercial and residential use in this building. The proposed layout will also isolate the Community Hub to be located at the rear of 41 McLaren Street.

The current proposed uplift to 41 McLaren Street is of limited value providing a maximum capacity of 35-45 residential units. The prospect for the development of the existing asset is extremely low and thus the asset would remain, as this would produce the highest and best economic result.

The site at 41 McLaren Street, if consolidated with the southern car park, would provide a development opportunity to deliver both community facilities fronting McLaren Street and residential apartments set back from McLaren Street, over what is the main part of the existing building.

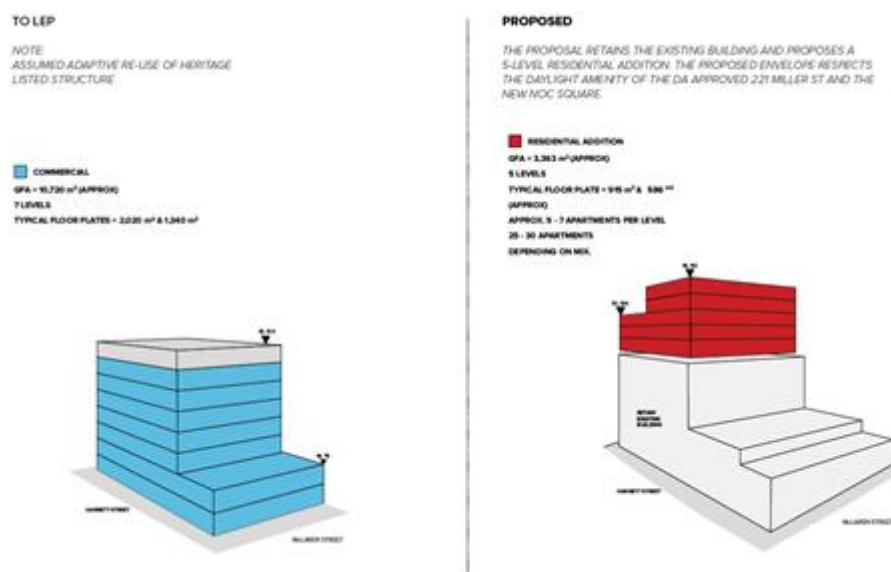


Figure 8: 41 McLaren Street, commercial element; residential element whilst retaining existing building.

OWNERSHIP & DEVELOPMENT

The ownership structure of any given development with different use groups will require detailed consideration. Investors will often focus on an investment grade/class of asset but when uses are mixed, a dilutionary impact on value often results. Commercial office investors may not have an appetite to own a hotel. In delivering a cogent development outcome consideration should be given to the structure, ownership, design and location of the development sites. Fragmentation of ownership, when considering larger scale developments, does not lead to good financial and town planning outcomes, and consideration should be given to consolidating the 56 – 66 and Ward St southern car park sites as it then may deliver the quantum and configuration of commercial space that may deliver a viable redevelopment of the site.

As mentioned above, looking at the entire site from Berry Street through to McLaren Street has merits, but by treating each of the four sites as individual development opportunities, in our opinion, is ill advised as the current potential uplift will only engender the redevelopment of the Ward Street car park (North and South) and will leave both “book ends”, no’s 56 & 66 Berry Street and 41 McLaren Street, undeveloped due to the current inherent value of the existing assets, the limited “real” upside and difficulties with the existing ownership structure.

Alternative “Architectus” Concept

The alternative concept as proposed is far simpler in its design and proposes uses that integrate better. This concept also splits the site in the manner we believe is more likely to produce better commercial and town planning outcomes:

- The Berry Street site (including southern car park)
- McLaren Street site

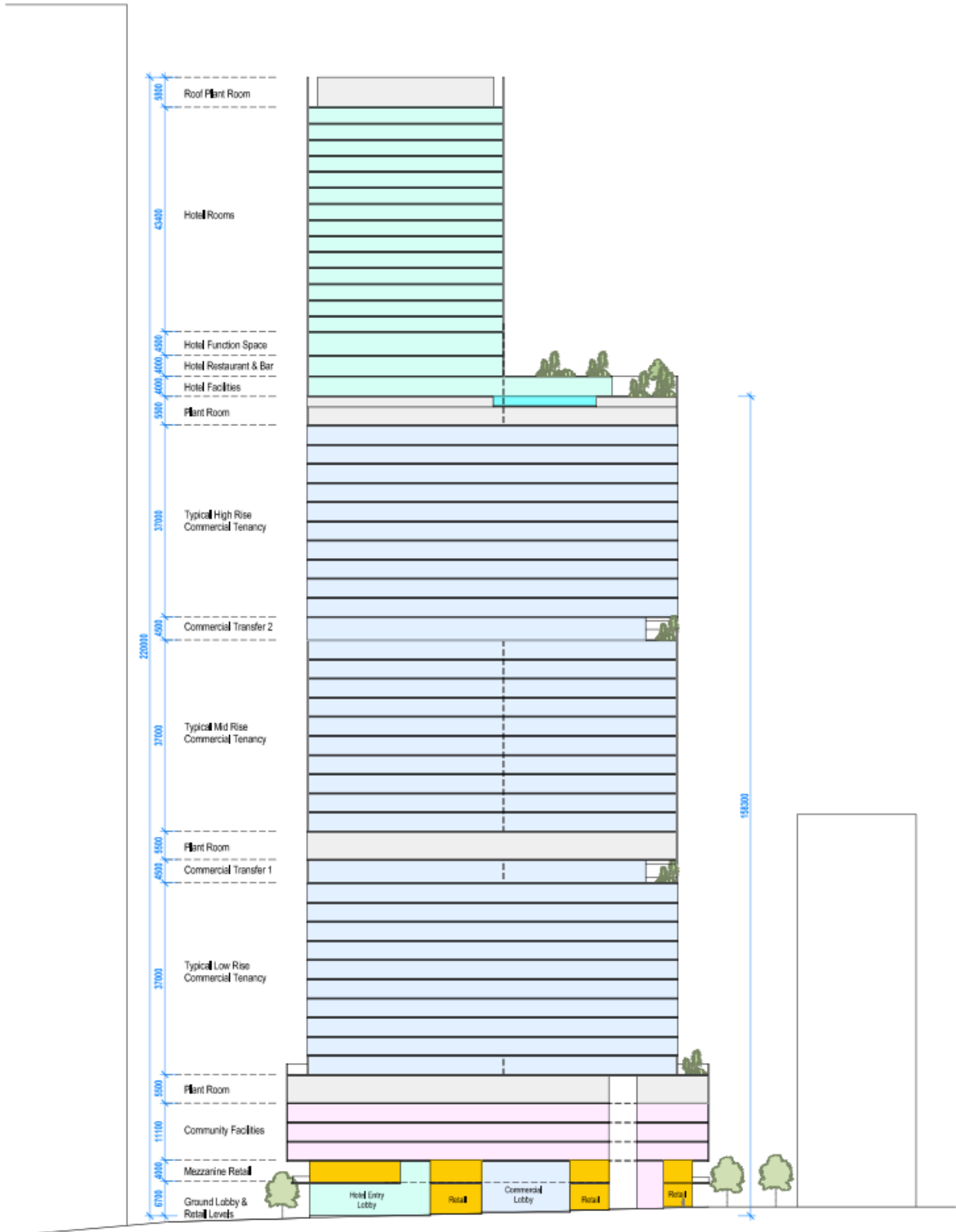
SITE 1, BERRY STREET

Includes the development of commercial office with a hotel above:

- It is a single development over a contiguous site
- The proposed office floorplates at around 1,400 m² NLA and a total of 44,000 m² of NLA (compared to 14,500 m² NLA) are preferable, in line with market requirements and allow better natural light penetration.
- The hotel element is better designed with regular floorplates and 16 rooms per floor as well as maids' room on each floor – offering better operational outcomes. It also shows function facilities.

The proposal for Berry Street is illustrated overleaf:

Site 2



Area Schedule

Total GLAR (Retail)	1217 m²	
Total NLA Community	6237 m²	
Total NLA Commercial	44006 m²	
Total GFA Hotel	13274 m²	224 Keys

	No. Levels	RL	Height (m)	GBA (m ²)	GFA (m ²)	NLA/NSA (m ²)	GLAR (m ²)
Basement							
Total							
Ground Hotel Lobby	1	67	6.7	1478	301		
Ground Commercial Lobby					395		
Community Facilities Lobby					36		
Ground Retail					465		465
Mezzanine Retail	1	73.7	4	1295	926		752
Mezzanine Hotel					88		
Typical Podium Level	3	77.7	3.7	2397	2067		
Total			11.1	7191	6201		
Plant Level	1	88.8	5.5	2506			
Typical Low Rise Level	10	94.3	3.7	1735	1454	1344	
Total			37	17350	14540	13440	
Transfer 1	1	131.3	4.5	1489	1210	1071	
Plant Level	1	135.8	5.5	2506			
Typical Mid Rise Level	10	141.3	3.7	1735	1507	1395	
Total			37	17350	15070	13950	
Transfer 2	1	178.3	4.5	1472	1246	1105	
Typical High Rise Level	10	182.8	3.7	1735	1554	1444	
Total			37	17350	15540	14440	
Plant Level	1	219.8	5.5	1735			
Hotel Facilities (Pool Deck)	1	225.3	4	1103	977		
Hotel Restaurant & Bar	1	229.3	4	836	720		
Hotel Function Space	1	233.3	4.5	836	716		
Typical Hotel Levels	14	237.8	3.1	840	748	573	Hotel Keys 16
Total			43.4	11760	10472		224
Plant Level	1	281.2	5.8	750			
Grand Total	58	287	220	87007	68903		

CAR PARKING

Car parking	rate assumed	sqm GFA	spaces reqd	sqm basement / space	sqm reqd
Retail	1/100sqm GFA*	1391	14	36	501
Community	0 assumed	6201	0	0	0
Hotel	1/5 bedrooms	(224 rooms)	45	36	1613
Commercial	1/400sqm GFA	47606	119	36	4285
Total		55198	178		6398

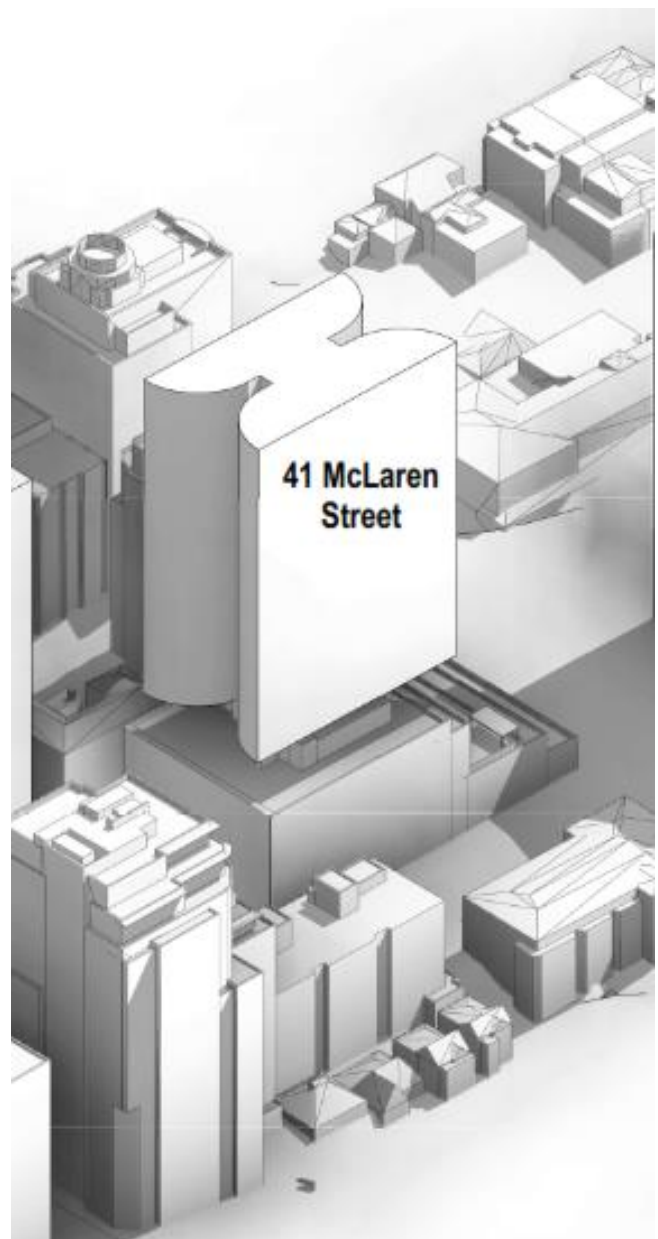
Area of basement (sqm)	4862
Basement storeys required	1.3

* Retail rate based on approximation of different uses

- may include food and drink 1 space / 50sqm, commercial 1 space / 400sqm

SITE 2, 41 MCLAREN STREET

This site incorporates the existing commercial building and residential tower above. We note that the site could incorporate the Community Collaborative Hub into what is the existing office, thus providing an opportunity to create a large plaza on the northern car park that would then link with the NOC.



Market Commentary

NORTH SYDNEY OFFICE MARKET

According to the PCA Office Market Review (January 2017) North Sydney's total vacancy rate, entire office stock, was 7.1%, it increased slightly from 7.0% reported in July 2016 but largely remained stable throughout the year. Over a ten year period, total vacancy rate has fluctuated, with 9.8% recorded in January 2006, lowest rates recorded at 7.0% in January 2012 and 2017 and its highest level at 11.7% in January 2010.

Direct vacancy decreased by 0.3 percentage points over the 6 month period, whilst sub-lease vacancy increased 0.4 percentage points over the same period.

It is worth noting that Premium Grade office space recorded vacancy rate of 25.2% in January 2017, down from 41.2% reported in July 2016. Grade A vacancy rate was reported to be 6% in January 2017, up from 5.4% in July 2016. Similarly Grade B vacancy rate increased from 6.1% as at July 2016 to 7.4% as at January 2017.

Overall, whilst a positive net absorption of 27,068 m² was recorded as at January 2017 over the six month period, there was a slight increase in total vacancy rate which can be in part attributed to the supply additions, recorded at 45,132 m². We note there were some stock withdrawals, recorded 15,118 m².

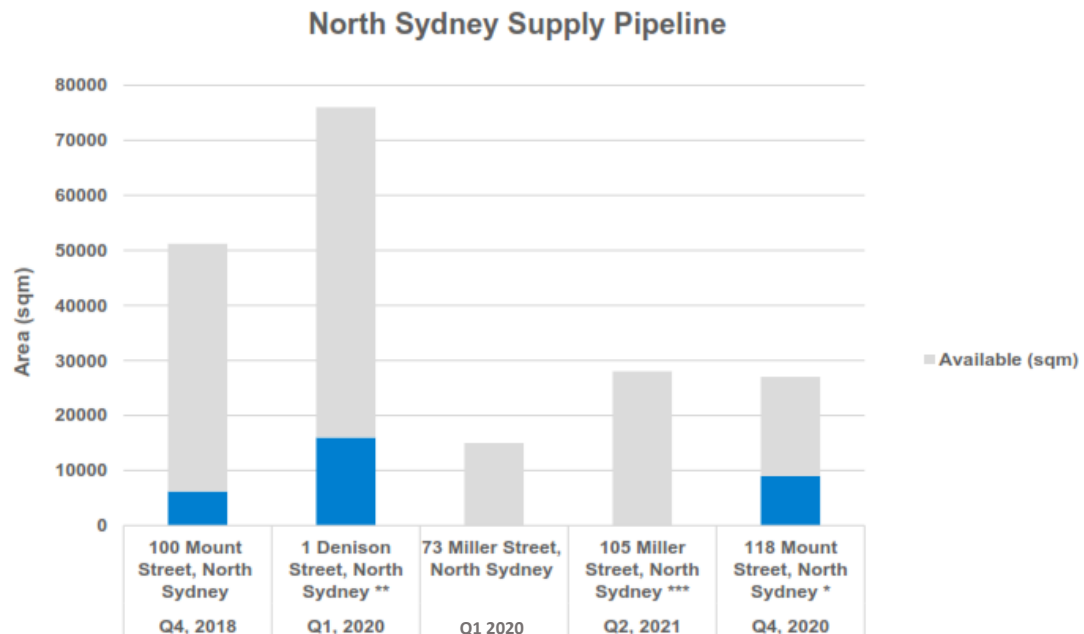
The January 2017 PCA Office Market Report notes the following broad performance measures for North Sydney:

North Sydney	Jan-17	Jul-16	6 Month Variance
Total Stock (m ²)	822,496	792,482	+30,014
Total Vacancy Rate	7.10%	7.00%	- 0.10%
Supply Additions	45,132	0	+ 45,132
Withdrawals	15,118	28,265	- 13,147
Net Supply	30,014	28,265	+1,749
Net Absorption (m ²) 6 Months	27,068	-25,870	+ 1,198

We highlight that the PCA has a specific approach to calculating the vacancy forecasts, noting it is done at a point in time (i.e. for this release as at 31 December 2016) and actual occupancy as at the date of assessment. This has resulted in a slight 'bump' to the vacancy which differs from our internal house view.

In terms of projected future supply we have provided a graph below showing North Sydney supply analysis years 2018 to 2020.

North Sydney supply analysis (2018 to 2021+)



Notes:

- * Assumes ~9,000m² commitment to Zurich
- ** Assumes ~ 16,000m² commitment to Channel 9
- *** Assumes ~ MLC vacates

Total = 166,000m²

Source: Colliers International database

We have listed rental levels and incentives for North Sydney for different office grades below as well as a chart showing key transactions in North Sydney:

- New Grade A: \$750 - \$790 / sqm net face
- Existing A Grade: \$620 - \$780 / sqm net case
- A Grade incentives 22-28% gross
- B Grade \$450-\$575 / sqm net face
- B Grade incentives 10-22% gross

Grade A office commercial space yields are in the order of 5.5% - 6%.

NORTH SYDNEY DEALS

141 Walker St	80 Pacific Highway	101 Miller Street	40 Miller Street	124 Walker Street
				
942sqm	2,020sqm	3,500sqm	1,133sqm	617.3sqm
Mulesoft \$620 Net 5 years 27% Gross Incentive	AJ Gallagher \$708 Net 7 years 25% Gross Incentive	ACE Insurance \$745 Net 10 years 29% Gross Incentive	Infor Global \$660 Net 5 years 27% Gross Incentive	DNV \$550 Net 5 years 22% Gross Incentive

Source: Colliers International database

Residential Commentary

LOCATION

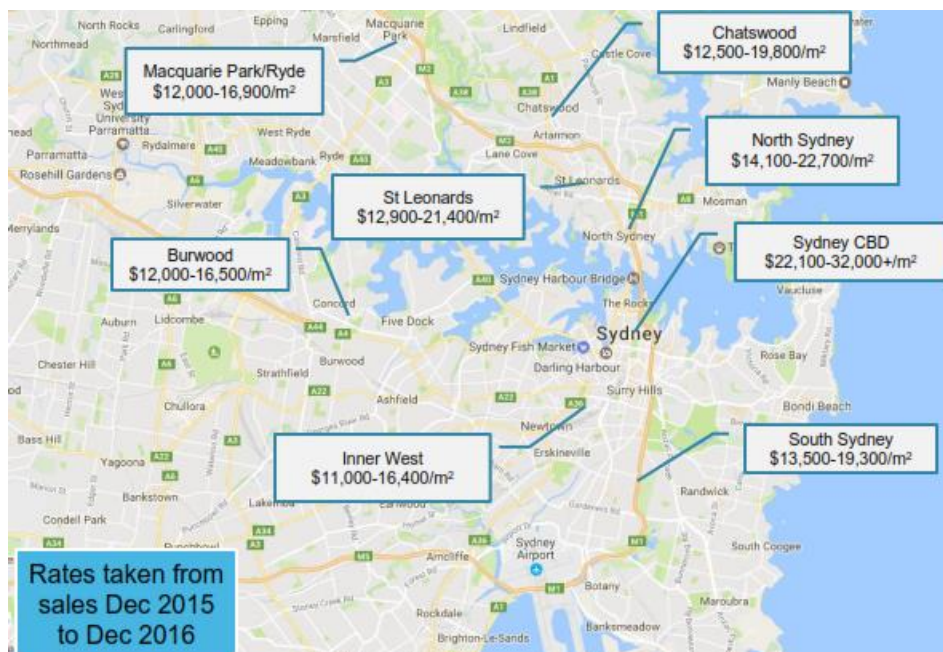
The North Sydney LGA has taken part in the NSW Government's initiative to increase local infrastructure to better service the growing population of Sydney. In close proximity to the site will be the station for the new Sydney Metro train link which will connect residents at new metro stations between Crows Nest and Sydenham. It is anticipated from the plans provided that there may be direct access to the North Sydney Metro train station via the council carpark. Due to be open in 2024 using Sydney's new generation of fully-automated metro trains, with trains every 2 minutes.

Considering the location and the scale of the project, the apartments on the higher levels (approx. level 20+) will experience great outlooks with the prime outlook being South and South-East towards Sydney CBD, overlooking the Harbour Bridge and Sydney Harbour. There are numerous surrounding developments within North Sydney CBD that will compete for a portion of these views, yet the South-East aspect will gain unobstructed views on the higher levels.

GROSS REALISATIONS

From actual residential project sales, Colliers International has collated average gross realisations across Metropolitan (presented in the map below). Notably, gross realisation on a project-by-project basis can vary significantly, owing to site specific factors and traits such as views or proximity to water.

Estimated Gross Realisations across Sydney, New Apartments (December 2015 – December 2016)



Source: Colliers International

DEMOGRAPHIC

The North Sydney population is forecasted to grow at a rate of 2.2% of the next 20 years to 11,205 residents, this being higher than the forecasted growth rate of Sydney over the same period. According to Census 2011, the largest proportion (18.5%) of the North Sydney households earn an income of \$2,500 - \$3,000 per week (\$10,833 - \$13,000 per month), whereas the highest proportion of home owners pay \$3,000 - \$4,000 per month in mortgage repayments.

According to Census 2011, in North Sydney there was an even mix of investors and owner occupiers, 53.1% and 35.3% respectively. We forecast that there will still be a high uptake from investors within the North Sydney market, yet with bank lending conditions we believe more owner occupiers will be present in the market than previous years.

In May 2016, the median apartment price in North Sydney was \$807,500 representing a 14.3% average annual growth rate since 2013.

APARTMENT MIX

A residential apartment project of the location around McLaren Street will have an apartment mix that should include the majority of studio / 1 and 2 bedroom apartments on the lower levels, with 2 and 3 bedroom apartments occupying the higher levels, taking advantage of the premium outlooks. The spread of purchase power within North Sydney is quite large compared to other Sydney suburbs and allows us to place 2 and 3 bedroom apartments in a premium position yet creating value for investors through the studio / 1 and 2 bedroom apartments on the lower levels.

A suggested mix could be a maximum of 10 – 20% studio / 1 bedroom apartments, 65 – 75% 2 bedroom apartments and 5 – 10% 3 bedroom apartments.

PRICING

Based on research from surrounding projects in North Sydney, we believe an average rate per m² of \$17,500 to \$18,500 is achievable.

We believe a standard residential parking space in North Sydney would be a value of \$120,000

Disclaimer

In the preparation of this consultancy report we have made a variety of key assumptions and important comments. In this regard we advise that this entire report, must be read and understood by the nominated parties in order that the various assumptions and comments are understood in the context of the adopted conclusions.

We have relied upon information as available as at the date of compilation of this report. We highlight that the proposed masterplans have utilised the concepts as referred to herein in undertaking our assessments. Should the plans change from those herein, this report should be revised accordingly.

The assessment is not a valuation and has been prepared for consultancy purposes only and is a high level commercial assessment of the master plans cited. It does not consider detailed design issues, shadowing, traffic or other details beyond the commercial overview. No responsibility is accepted to any third party and neither the whole of the report or any part or reference thereto may be published in any document, statement or circular nor in any communication with third parties without our prior written approval of the form and context in which it will appear.

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