

Perth CBD Office Market Snapshot February 2019

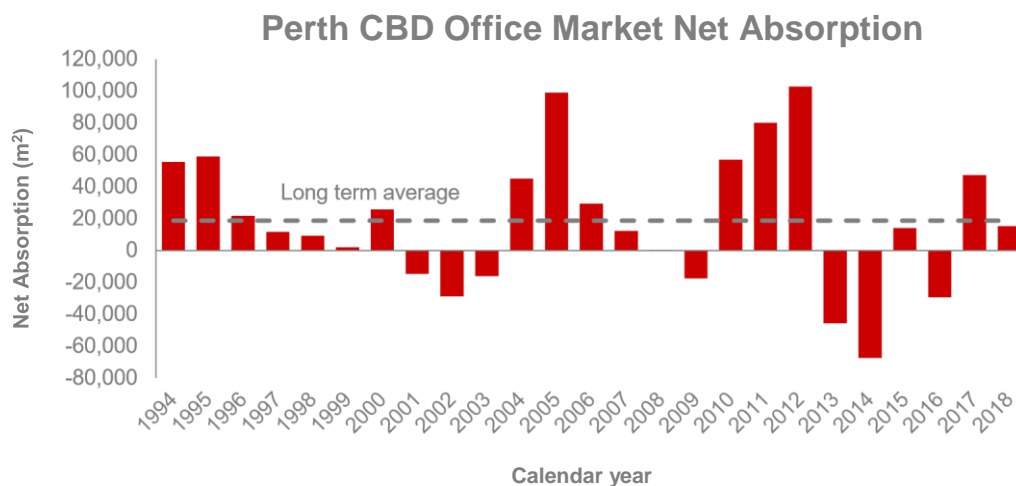
After a difficult few years, the Perth CBD market is showing signs of recovery, with falling vacancy rates and positive demand.

	2018/2019		Month/Qtr/ BiAnn Increase	Annual Increase	Recent Trend
Economy					
Population	Jun (Q)	2.596 mill	0.18%	0.84%	▲
Unemployment (SA)	Dec (M)	6.3%	-0.2 ppt	+0.6 ppt	▲
State Final Demand	Sep (Q)	\$50.649 bill	0.38%	-0.56%	▲
CPI	Dec (Q)	111.3 (index)	0.45%	1.27%	▲
CBD Office Market					
Overall Vacancy Rate	Jan (B)	18.5%	-0.9 ppt	-1.3 ppt	▼
Prime Grade Vacancy Rate	Jan (B)	13.0%	-0.2 ppt	-1.2 ppt	▼
Secondary Grade Vacancy Rate	Jan (B)	27.4%	-1.6 ppt	-1.4 ppt	▼
Sub-lease Vacancy as proportion of Total Vacancy	Jan (B)	5.4%	-0.8 ppt	-2.0 ppt	▼
Prime Net Face Rents	Dec (Q)	\$500-\$700	-	-	~
Prime Incentives	Dec (Q)	35%-50%	-	-	~

Source: ABS; Property Council of Australia Office Market Report; PVA Research. (SA=Seasonally adjusted; M=Monthly; Q=Quarterly; B=Bi-annually)

- According to CommSec, in their latest 'State of the States' report, '...while WA continues to perform poorly compared with its 10-year average or "normal rate", key measures are pointing in the right direction.'
- While population growth in WA has reduced by more than 50,000 people per year from its peak in 2012, the annual increase is at its highest level in almost three years.
- Perth CBD vacancy dropped to 18.5% at the start of 2019, from 19.4% in July 2018, the lowest vacancy rate in four years.
- Sub-lease vacancy as a proportion of total vacancy decreased to 5.4% in January 2019 (from 6.2% in July 2018). Sub-lease vacancy, as a percentage of total vacancy, is at its lowest level in ten years. At its peak, in January 2013, sub-lease space accounted for 41.6% of all vacant space in the CBD.
- The gap between prime and secondary grade vacancy rates remains, with primary vacancy rate at 13.0% and secondary at 27.4%. Premium grade vacancy rate is currently 4.5%.
- Woodside's new headquarters at Capital Square added 55,000 square metres to stock in the CBD during 2018. This was the only new stock to enter the market during that time.
- There will only be 2,300 square metres of new stock entering the market during 2019, at 300 Murray Street.

- In addition to the new stock there will be 68,597 square metres of refurbished stock entering the market during 2019.
- Chevron have committed to moving ahead with plans to build a \$360 million, 29 storey, approximately 52,000 square metre Australian headquarters tower at Elizabeth Quay. Their current lease at QV1 expires in 2023. Chevron will occupy 20 levels of the building, with a secondary tenant occupying six floors, and retail and dining outlets occupying the ground and remaining floors.
- Brookfield Property Partners have committed to developing a \$1.1 billion mixed-use twin tower at Elizabeth Quay. The first tower, which will include 17,000sqm of office space, is expected to be complete by 2023. The twin tower will be Perth's tallest tower once completed.
- Demand



Source: Property Council of Australia OMR, PVA(WA) Research

- While 12 month net absorption (a proxy measure for demand) has been positive over the last two years, it is currently sitting below the long term (25 year) average.
- The greatest net absorption for the six months to January 2019 was recorded for A-grade stock with 56,791 square metres; and for the full 12 months 58,875 square metres, which is effectively 7.5% of all A-grade stock.
- Agents are reporting stronger leasing enquiry, and due to limited new supply it is likely that effective rents will start to rise. However, it is also likely that incentives will reduce before there is any growth in net face rentals. There are signs that incentives may have reached their peak, but are still likely to remain high in the medium term until vacancy rates substantially decline.
- Sales activity was subdued during 2018 with only \$220 million of sales recorded in the CBD (sales of properties greater than \$5 million). The largest of these sales was \$73.4 million, a 50% stake in 235 St Georges Terrace, which was sold to a related party. 55 St Georges Terrace sold to the Chinese Property Developer Zone Q for \$44.2 million in February, and 6-8 Bennett Street in East Perth sold for \$43.15 million in February.
- 8 St Georges Terrace, an eight level, 4,586 square metre office building, has reportedly sold with vacant possession for just over \$9 million, and Exchange Tower, 2 The Esplanade, has reportedly sold for more than \$320 million. Both of these sales have yet to be finalised and confirmed

Source: ABS; Property Council of Australia's Office Market Report; CommSec; PVA(WA) Research.

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