

West Perth Office Market Snapshot August 2019

West Perth has yet to respond to changes in the economy. Its office market is characterised by static supply, falling demand and an increasing vacancy rate.

	2018/2019		Month/Qtr/ BiAnn Increase	Annual Increase	Recent Trend
Economy (WA)					
Population	Dec (Q)	2.606 mill	0.17%	0.93%	▲
Unemployment (SA)	Jul (M)	5.9%	+0.2 ppt	-0.2 ppt	~
State Final Demand	Mar (Q)	\$49.940 bill	-0.32%	-1.05%	▼
CPI	Jun (Q)	112.0 (index)	0.72%	1.63%	▲
West Perth Office Market					
Overall Vacancy Rate	Jul (B)	16.9%	+2.1 ppt	+1.1 ppt	▲
Prime Grade Vacancy Rate	Jul (B)	11.2%	-0.3 ppt	-4.4 ppt	▼
Secondary Grade Vacancy Rate	Jul (B)	19.6%	+3.1 ppt	+2.9 ppt	▲
Sub-lease Vacancy as proportion of Total Vacancy	Jul (B)	0.9%	+0.1 ppt	+0.5 ppt	▲
Prime Net Face Rents	Jun (Q)	\$295-\$400	-	-	▲
Prime Incentives	Jun (Q)	30%-45%	-	-	~

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, '*... Western Australia continues to record the fastest nominal economic growth in the country, up 10.6 per cent in the year to March. Also encouragingly, population growth is now the strongest in four years.*'
- In contrast to the CBD, West Perth vacancy rose to 16.9% in July 2019 from 14.8% at the start of 2019, and edging closer to its recent high of 17.5% in January 2017. (CBD vacancy fell marginally from 18.5% to 18.4% in the same period).
- Again, in contrast to the CBD, prime grade vacancy fell from 11.5% to 11.2% in the six month period, while secondary grade vacancy rose from 15.5% to 18.6%. (In the CBD prime vacancy increased from 13.0% to 14.8%, while secondary vacancy fell from 27.4% to 24.4%).
- Since 2013 increases in vacancy have been driven primarily by a softening in the resources sector. West Perth is particularly sensitive to changes in the resources sector as this is traditionally where many midsize mining companies have been located.
- Sub-lease vacancy as a proportion of total vacancy decreased to 5.3% in July 2019 (from 5.7% in January 2019), an indication that companies may be taking back space which they originally attempted to sub-lease. At its peak, in July 2013, sub-lease space accounted for 22.9%.
- No new stock has entered the market in 2019, and there is nothing in the pipeline. There is a new 1,414 square metre development at 957 Wellington Street, which is mooted beyond 2020.
- Demand (illustrated in the following chart)

West Perth Office Market Net Absorption



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

- 12 month net absorption (a proxy measure for demand) has been negative over the last six years. In the first six months of 2019, there was negative net absorption of 7,288 square metres, which came exclusively from secondary stock.
 - West Perth prime grade buildings are still in demand due to favourable rental conditions, and hence a flight to quality. However, West Perth has no premium grade stock, and is likely to continue losing out to the CBD until face rents in the CBD increase or incentives fall further.
 - While there has been a more recent upswing in activity in resources industries, and companies have started to re-hire, West Perth has yet to feel the benefits. Many companies have taken advantage of softer rental conditions in the market and have secured leases in premium CBD office buildings on favourable terms.
- Assets in the West Perth market are tightly held, largely by private investors who view the investments as long term holdings. In 2018 there were five sales greater than \$5 million, bringing the total for 2018 to \$179 million, the highest level of sales since 2009. There has only been one sale to date in 2019, that of 146 Colin Street in February for \$15.25 million. Sales will most likely remain slow during the remainder of 2019.
 - As with the CBD, some older office buildings could be refurbished; sold off as leases start to expire over the next few years, to make way for new development such as apartments; or converted for alternative uses in the medical, education, retail or tourism sectors. In August last year, 18 Prowse Street was sold to Montserrat Day Hospitals for conversion to a medical day clinic.

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

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