

Perth CBD Office Market Snapshot February 2020

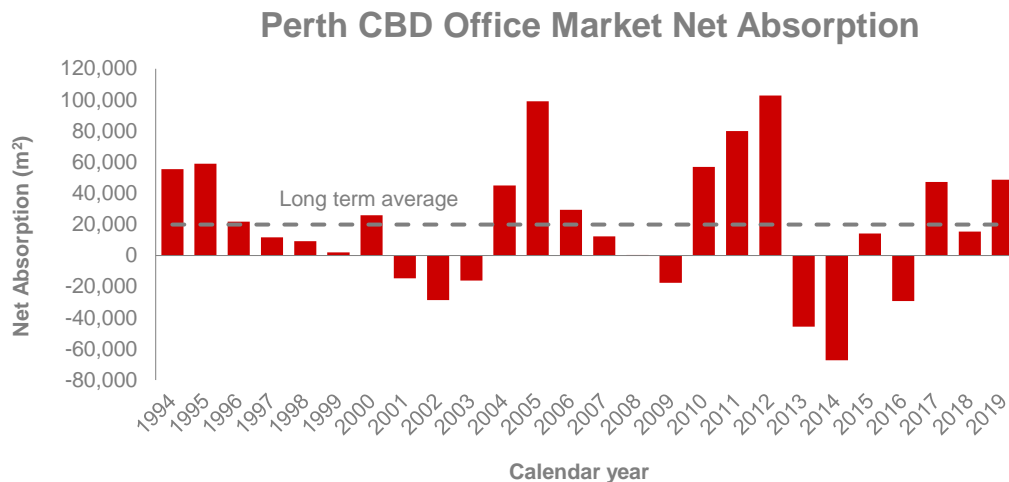
The Perth CBD market is showing signs of continuing recovery, particularly in prime grade buildings, with falling vacancy rates and positive demand.

	2019/2020		Month/Qtr/ BiAnn Increase	Annual Increase	Recent Trend
Economy (WA)					
Population	Jun (Q)	2.622 mill	0.22%	1.06%	▲
Unemployment (SA)	Dec (M)	5.4%	-0.3 ppt	-1.0 ppt	▼
State Final Demand	Sep (Q)	\$50.424 bill	-0.21%	-0.77%	▼
CPI	Dec (Q)	113.1 (index)	0.44%	1.62%	▼
CBD Office Market					
Overall Vacancy Rate	Jan (B)	17.6%	-0.8ppt	-0.9 ppt	▼
Prime Grade Vacancy Rate	Jan (B)	13.2%	-1.6 ppt	0.2 ppt	▼
Secondary Grade Vacancy Rate	Jan (B)	25.1%	0.7 ppt	-2.3 ppt	▼
Sub-lease Vacancy as proportion of Total Vacancy	Jan (B)	6.6%	0.4 ppt	1.2 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, 'Western Australia recorded the fastest nominal economic growth, up 12.9 per cent over the year to September, supported by stronger exports and weaker imports'.
- Perth CBD vacancy fell to 17.6% in January 2020 from 18.4% in July 2019, and from 18.5% in January 2019. It is the lowest vacancy rate in four and a half years.
- Sub-lease vacancy as a proportion of total vacancy increased to 6.6% in January 2020 (from 6.2% in July 2020). 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 has increased, with prime vacancy rate at 13.2% and secondary at 25.1%. Premium grade vacancy is currently 8.1%.
- The only new stock to enter the market in the last half of 2019 was two partial refurbishments, 4,655 square metres at 150 St Georges Terrace; and 16,871 square metres at 152-158 St Georges Terrace (Central Park).
- Brookfield have commenced construction of the new Chevron \$360 million headquarters at Elizabeth Quay. The tower will be 29 storeys and have approximately 57,000 square metres of office and retail space. Chevron will occupy 42,000 square metres on a 15 year lease. Their current lease at QV1 expires in 2023, which is when the building is due to be completed. A secondary tenant will occupy six floors, and retail and dining outlets will occupy the ground and remaining floors.
- There is 119,700 square metres of new development stock across six projects mooted beyond 2020.

- Demand



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

- 12 month net absorption (a proxy measure for demand) has been positive over the last three years and is currently sitting above the long term (25 year) average.
- The greatest net absorption for the 12 months to January 2020 was recorded for Premium grade stock with 35,844 square metres of stock absorbed. This is effectively 8.7% of all current Premium grade stock.
- Demand for co-working space is increasing as is the number of players entering the market. There are currently 18 co-working operators in the CBD and the Perth Metro, occupying over 40,000 square metres of space. Co-working space is becoming more popular as an answer to more flexible and collaborative working environments.
- Premium grade buildings are in high demand due to favourable rental conditions, and hence a flight to quality. As vacancies in these buildings approach 0%, demand for A-grade accommodation is likely to increase.
- There are several new mining projects which are expected to buoy demand for prime space in the CBD, as well as demand for co-working space. The premium in occupancy cost for co-working space is not significant, and flexibility is superior. However, options for tenants with large space requirements in prime grade buildings are scarce, and these could underpin construction of new buildings.
- During 2020 it is generally expected that incentives will start to fall but will remain higher than average while vacancy rates remain high. Along with falling incentives it is likely that face rents will remain stable, with the overall effect of increasing effective rents.
- Sales were subdued during 2019 with only seven sales (of properties greater than \$5 million) totalling just over \$382 million. The largest of these sales was 28 The Esplanade which sold for \$100.6 million in September.

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

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