

Perth CBD Office Market Snapshot August 2019

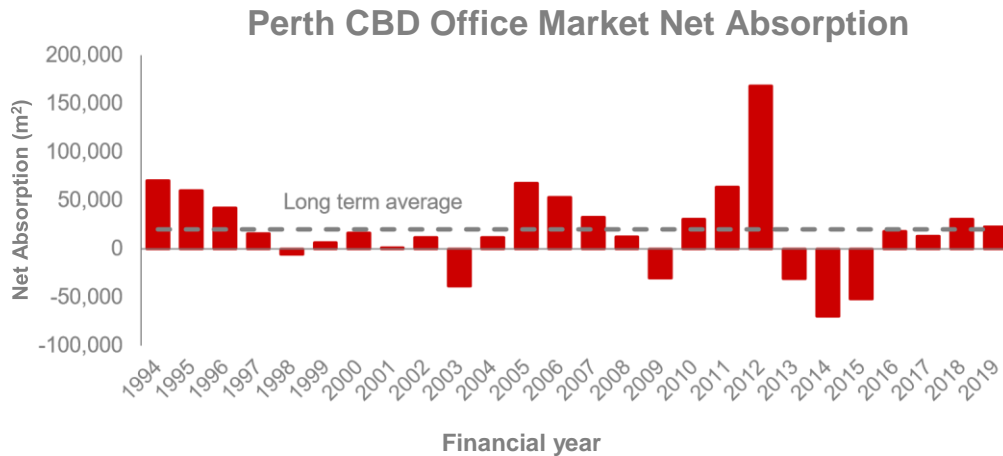
The Perth CBD market is showing signs of continuing, but slow, recovery, with falling vacancy rates and positive demand.

	2018/2019		Month/Qtr/ BiAnn Increase	Annual Increase	Recent Trend
Economy (WA)					
Population	Dec (Q)	2.606 mill	0.17%	0.93%	▲
Unemployment (SA)	Jun (M)	5.8%	-0.4 ppt	-0.4 ppt	~
State Final Demand	Mar (Q)	\$49.940 bill	-0.32%	-1.05%	▼
CPI	Jun (Q)	112.0 (index)	0.72%	1.63%	▲
CBD Office Market					
Overall Vacancy Rate	Jul (B)	18.4%	-0.1 ppt	-1.0 ppt	▼
Prime Grade Vacancy Rate	Jul (B)	14.8%	1.8 ppt	1.6 ppt	▲
Secondary Grade Vacancy Rate	Jul (B)	24.4%	-3.0 ppt	-4.5 ppt	▼
Sub-lease Vacancy as proportion of Total Vacancy	Jul (B)	6.2%	0.8 ppt	0.0 ppt	▼
Prime Net Face Rents	Jun (Q)	\$500-\$700	-	-	~
Prime Incentives	Jun (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 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.*'
- Perth CBD vacancy fell marginally to 18.4% in July 2019 from 18.5% at the start of 2019, and from 19.4% in July 2018. It is the lowest vacancy rate in four years.
- Sub-lease vacancy as a proportion of total vacancy increased to 6.2% in July 2019 (from 5.4% in January 2019). 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 prime vacancy rate at 14.8% and secondary at 24.4%. Premium grade vacancy is currently 8.1%.
- The only new stock to enter the market in 2019 (to date) is a 1,525 square metre extension at 300 Murray Street.
- While there are no further new buildings due to enter the market during the rest of 2019 there will be 29,045 square metres of refurbished stock re-entering the market.
- Chevron have committed to moving ahead with plans to build a \$360 million, 29 storey, approximately 54,000 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.

- 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 four years, and is currently sitting just above the long term (25 year) average.
 - The greatest net absorption for the six months to July 2019 was recorded for Premium grade stock with 20,417 square metres; and for the full 12 months 22,421 square metres, which is effectively 5.7% of all Premium grade stock.
 - The old Woodside building, Woodside Plaza on St Georges Terrace, which Woodside vacated earlier this year when they relocated to their new headquarters on mounts Bay Road, is now more than 90% leased.
 - Premium grade buildings are in high demand due to favourable rental conditions, and hence a flight to quality. As vacancy in these buildings approaches 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 coworking 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.
- 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 activity has been subdued during 2019 with only four sales (of properties greater than \$5 million) totalling just over \$183 million. The largest of these sales was 226 Adelaide Terrace which sold for \$86 million in January.

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

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