

Perth CBD Office Market Snapshot February 2021

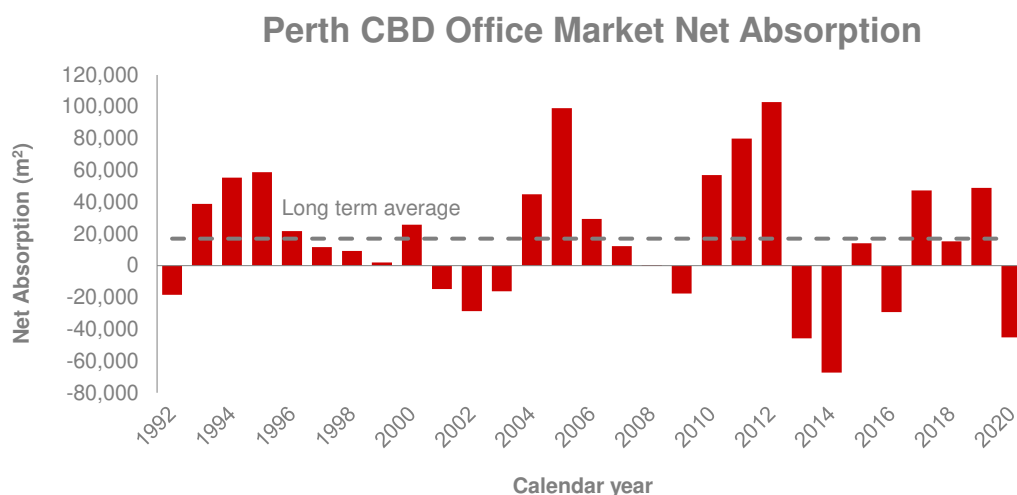
Due to the effects of COVID-19, 2020 has brought about a reversal to the upward momentum in the Perth CBD office market. 20% of all office space is now currently vacant. Premium grade buildings continue to perform well at the expense of lower grade buildings.

	2020/2021		Month/Qtr/ BiAnn Increase	Annual Increase	Recent Trend
Economy (WA)					
Population*	Jun (Q)	2.662 mill	0.14%	1.47%	▼
Unemployment (SA)	Dec (M)	6.2%	-0.2 ppt	0.8 ppt	▼
State Final Demand*	Sep (Q)	\$51.107 bill	4.91%	0.27%	▲
CPI	Dec (Q)	113.0 (index)	-0.96%	-0.09%	▼
CBD Office Market					
Overall Vacancy Rate	Jan (B)	20.0%	1.6 ppt	2.5 ppt	▲
Prime Grade Vacancy Rate	Jan (B)	15.1%	2.9 ppt	2.6 ppt	▲
Secondary Grade Vacancy Rate	Jan (B)	27.0%	0.1 ppt	2.5 ppt	▲
Sub-lease Vacancy as proportion of Total Vacancy	Jan (B)	7.6%	2.8 ppt	1.0 ppt	▲
Prime Net Face Rents	Dec (Q)	\$525-\$775	-	-	▲
Prime Incentives	Dec (Q)	40%-50%	-	-	▲

Source: ABS; Property Council of Australia Office Market Report; PVA Research. (SA=Seasonally adjusted; M=Monthly; Q=Quarterly; B=Bi-annually) * Data is prior to the major effects of COVID-19 in Australia

- The outbreak of Coronavirus (COVID-19), which was first detected in December 2019, has become one of the largest threats to the global and local economy. The impact it will have on the commercial property market is as yet unclear and will depend on how quickly the virus is contained; the effectiveness of stimulus measures by Federal Government and the Reserve Bank of Australia; and consumer and business confidence levels.
- Government stimulus measures, particularly the JobKeeper scheme, which has been extended to March 2021, may help to keep the office market relatively stable during these times of uncertainty.
- According to CommSec in their latest 'State of the States' report (January 2021)*, despite ranking joint sixth out of eight States and Territories overall, Western Australia is ranked third in terms of economic growth, second on equipment investment and third on relative economic growth. (* Data reflects September 2020 quarter).
- Perth CBD total vacancy increased to 20.0% in January 2021 from 18.4% in July 2020. Secondary space vacancy increased to 27.0% from 26.9%, and Prime space vacancy increased to 15.1% from 12.2%.
- Sub-lease vacancy as a proportion of total vacancy increased to 7.6% in January 2021 (from 4.8% in July 2020). At its peak, in January 2013, sub-lease space accounted for 41.6% of all vacant space in the CBD.
- Premium grade vacancy is currently 6.8%, which is the same as the vacancy rate in July 2020.

- There were no new buildings completed during 2020. The only new additions to enter the market during 2020 were two partial refurbishments and two full refurbishments totalling 17,174 square metres.
- One building is due to be completed in the first half of 2021, consisting of 25,200 square metres of office space at 98 Mounts Bay Road (Capital Square Tower 2). There is 147,100 square metres of new development stock, across six projects, mooted and committed beyond 2021.
- Demand



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

- 12-month net absorption (a proxy measure for demand), which had been positive during 2017 to 2019, was negative in 2020. At -45,098 square metres, demand is well below the long term (28 year) average of 16,999 square metres.
- With 2,717 square metres of 12-month net absorption, Premium space was the only grade of office space in demand during 2020.
- 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.
- Many employers extended a 'work-from-home' policy during the initial lock-down phase in WA, and for many the *experiment* was successful. It is possible that some companies may adjust their office space requirements in the future if they continue to extend flexible work arrangements to their employees. Coupled with the potential closure of some companies post Government stimulus measures, it is possible that demand will decline further over the short term.
- However, leasing agents are reporting that leasing enquiry is still strong, and that tenant requirements have not changed significantly. The full impact may not yet be apparent due to existing tenants being locked into pre-COVID leases.
- Sales were subdued during 2020 with only two sales in the CBD (of properties greater than \$5 million) totalling \$61.5 million. 1 Howard Street sold for \$10.4 million in October, and 190 St Georges Terrace for \$51.1 million in November.

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

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