Perth Office Market July 2018

Perth's CBD office market is showing signs of recovery after more than five years of economic downturn and large increases in supply resulting in high office vacancy rates, high incentives and a drop of more than 50% in effective rents.

The latest office data from the Property Council of Australia (PCA) states that there was an increase in office supply in the CBD during the 12 months to July 2018 of only 108 square metres. In the previous six years the average increase was over 50,000 square metres per annum.

The PCA also report that vacancy rates have decreased from 19.8% in January 2018 to 19.4% in July 2018, the lowest level in three years. At 28.9%, Secondary grade vacancy rate is double that of Prime grade vacancy, which is currently at 13.2%. The vacancy rate in Premium grade space is 4.1%, which has restricted availability for larger tenants (5,000 to 10,000 square metres), and possibly creating opportunities in the lower grades.

The only new space due to come online this year is Woodside's 48,484 square metre new headquarters, at 98 Mounts Bay Road. The backfill space in their current headquarters at 240 St George's Terrace is predominantly pre-committed.

The mining industry is showing some signs of recovery with several new projects starting in the state. Requirements for project space and co-working space should drive demand, mainly in Prime space, in the medium term. Co-working space has become popular, especially with small companies or individuals requiring flexibility and opportunities for collaboration, and this kind of work space is expected to continue to rise. The premium in occupancy cost over traditional tenancies is not significant, and flexibility is superior.

National Australia Bank, in their *Commercial Property Survey - Q2 2018,* report that confidence in the office market is still in negative territory in Western Australia, with a return to positive in the next 12 months. Survey participants expect that capital values will return to positive growth in 2020, and that gross rents will start to rise within the next 12 months. The pressure for incentives to decrease should see net effective rents start to rise in the next year. Incentives have been in the region of 40% to 50% for some time now.

Confidence in the market has translated into transactional activity in the first half of 2018, with around $250 million of sales reported in the CBD. 836 Wellington Street sold for $91.3 million recently, and 6 - 8 Bennett Street sold earlier in the year for $43.5 million. 441 Murray Street and 45 St Georges Terrace also sold earlier this year for $22 million and $53.6 million respectively to a private equity firm. The Premium building Exchange Tower is currently for sale and expected to sell for around $350 million.

Recovery, however, is expected to be slow. It will take some time for excess supply to be absorbed. Chevron have given the go-ahead for Brookfield to develop their new headquarters at Elizabeth Quay which will include more than 52,000 square metres of office space, and is expected to be complete in 2023. Brookfield are also in early feasibility stages for building a mixed-use twin tower at Elizabeth Quay, next door to Chevron, which will include around 15,000 square metres of office space in the first tower. Other projects mooted for development, subject to pre-sales, are 46,000 square metres at 239 St Georges Terrace, 34,000 square metres at 480 Hay Street and 10,000 square metres at 950 Hay Street.

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