

## Perth CBD Office Market Snapshot August 2020

While the Perth CBD market in general remains subdued, Premium grade buildings continue to perform well, with positive demand and fewer vacancies.

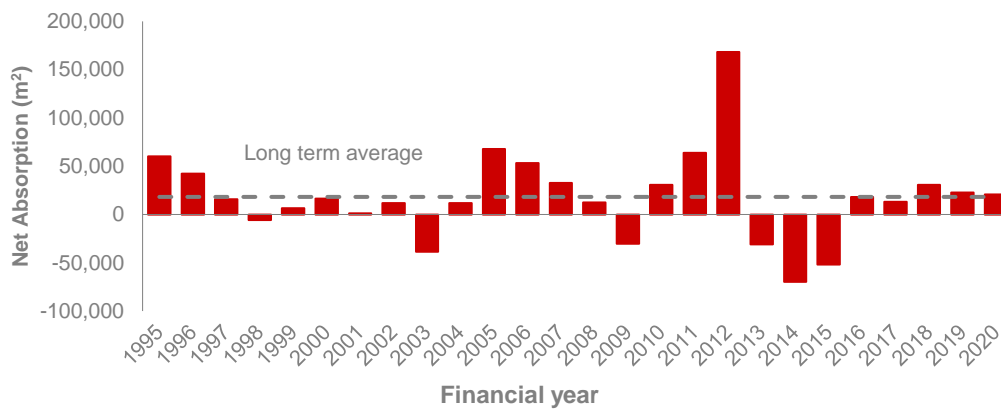
	2019/2020		Month/Qtr/ BiAnn Increase	Annual Increase	Recent Trend
<b>Economy (WA)</b>					
Population*	Dec (Q)	2.639 mill	0.31%	1.28%	▲
Unemployment (SA)	Jul (M)	8.3%	-0.4 ppt	2.3 ppt	▲
State Final Demand*	Mar (Q)	\$51.641 bill	0.93%	3.43%	▲
CPI	Jun (Q)	112.1 (index)	-1.23%	0.09%	▼
<b>CBD Office Market</b>					
Overall Vacancy Rate	Jul (B)	18.4%	0.9ppt	0.0 ppt	▲
Prime Grade Vacancy Rate	Jul (B)	12.2%	-0.3 ppt	-2.6 ppt	▼
Secondary Grade Vacancy Rate	Jul (B)	26.9%	2.4 ppt	2.5 ppt	▲
Sub-lease Vacancy as proportion of Total Vacancy	Jul (B)	4.8%	-1.8 ppt	-1.4 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) \* 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 stable during these times of uncertainty.
- According to CommSec in their latest 'State of the States' report (July 2020), despite ranking seven out of eight States and Territories overall, '*Western Australia is ranked second on both relative economic growth and equipment investment*'. (\* Data reflect March 2020 quarter, which is prior to the major effects of COVID-19 in Australia).
- Perth CBD total vacancy increased to 18.4% in July 2020 from 17.5% in January 2020. While secondary space vacancy increased from 24.5% to 26.9%, prime space vacancy decreased from 12.5% to 12.2%.
- Sub-lease vacancy as a proportion of total vacancy decreased to 4.8% in July 2020 (from 6.6% in January 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%, down from 7.4% in January 2020.
- The only new additions to enter the market in the first half of 2020 were two partial refurbishments and two full refurbishments totalling 17,174 square metres.
- There is 87,300 square metres of new development stock across five projects mooted beyond 2021.

- Demand

### Perth CBD Office Market Net Absorption



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

- 12-month net absorption (a proxy measure for demand) has been positive over the last five financial years and is currently sitting just above the long term (25 year) average.
- The positive net absorption for total stock masks the variations in demand for the different grades of stock. While Premium and B-grade space showed positive 12-month net absorption, demand for A, C and D-grade space was negative
- The greatest net absorption for the 12 months to July 2020 was recorded for Premium grade stock with 20,623 square metres of stock absorbed. This is effectively 5.0% of all current Premium grade stock.
- 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 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 have been subdued during 2020 with only one sale in the CBD (of properties greater than \$5 million), that of 1162 Hay Street which sold for \$10.6 million in March.

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

Our Team of Valuers at Property Valuation & Advisory have extensive experience in the valuation of property assets. Please contact us if you would like more information, or to discuss a valuation requirement.

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