

## Perth CBD Office Market Snapshot August 2021

Perth CBD has recorded its lowest overall vacancy in six years. 16.8% of all office space is now currently vacant, down from 19.9% in January. Both prime grade and secondary grade stock showed decreases in vacancy.

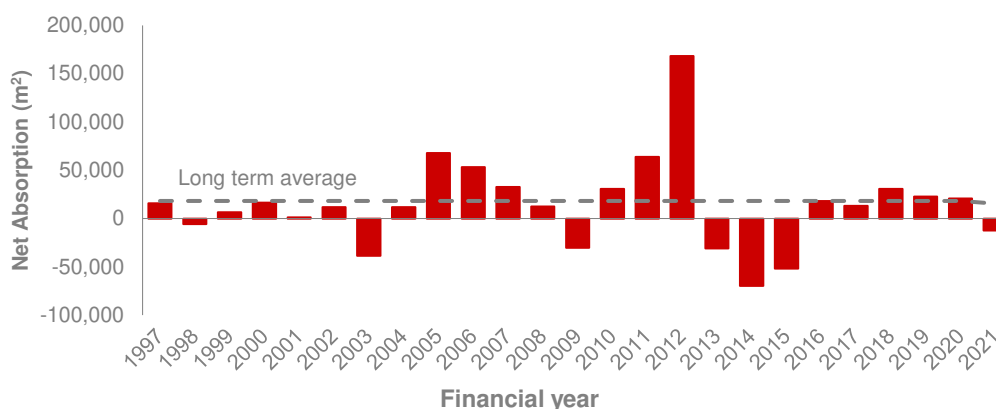
|  | 2020/2021 |               | Month/Qtr/<br>BiAnn<br>Increase | Annual<br>Increase | Recent<br>Trend |
|--|-----------|---------------|---------------------------------|--------------------|-----------------|
| <b>Economy (WA)</b>                              |           |               |                                 |                    |                 |
| Population                                       | Dec (Q)   | 2.670 mill    | 0.12%                           | 0.93%              | ▼               |
| Unemployment (SA)                                | Jun (M)   | 5.1%          | 0.4 ppt                         | -3.4 ppt           | ▼               |
| State Final Demand                               | Mar (Q)   | \$53.856 bill | 2.96%                           | 3.81%              | ▲               |
| CPI  | Jun (Q)   | 116.8 (index) | 1.92%                           | 4.19%              | ▲               |
| <b>CBD Office Market</b>                         |           |               |                                 |                    |                 |
| Overall Vacancy Rate                             | Jul (B)   | 16.8%         | -3.1 ppt                        | -1.6 ppt           | ▼               |
| Prime Grade Vacancy Rate                         | Jul (B)   | 13.1%         | -1.7 ppt                        | 0.9 ppt            | ▼               |
| Secondary Grade Vacancy Rate                     | Jul (B)   | 22.1%         | -4.8 ppt                        | -4.9 ppt           | ▼               |
| Sub-lease Vacancy as proportion of Total Vacancy | Jul (B)   | 7.9%          | -0.7 ppt                        | 3.1 ppt            | ▼               |
| Prime Net Face Rents                             | Jun (Q)   | \$525-\$750   | -                               | -                  | →               |
| Prime Incentives                                 | Jun (Q)   | 42.5-52.5%    | -                               | -                  | →               |

Source: ABS; Property Council of Australia Office Market Report; PVA Research. (SA=Seasonally adjusted; M=Monthly; Q=Quarterly; B=Bi-annually)

- 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 success of the roll-out of the vaccine program in Australia; the effectiveness of stimulus measures by Federal Government and the Reserve Bank of Australia; and consumer and business confidence levels.
- With the exception of two recent lockdown grants, which are available to qualifying small businesses, all Government assistance packages and stimulus measures have now ceased.
- According to CommSec in their latest 'State of the States' report (July 2021)\*, Western Australia is ranked sixth out of eight States and Territories overall. Western Australia is ranked first in terms of relative economic growth, second in terms of population growth and third on equipment investment. Construction work is down 37.1% on the decade average (WA in 7<sup>th</sup> position). (\* Data reflects March 2021 quarter).
- Perth CBD total vacancy decreased to 16.8% in July 2021 from 19.9% in January 2021. Secondary space vacancy decreased to 22.1% from 26.9%, and prime space vacancy decreased to 13.1% from 14.8%.
- Sub-lease vacancy as a proportion of total vacancy decreased to 7.9% in July 2021 (from 8.6% in January 2021). At its peak, in January 2013, sub-lease space accounted for 41.6% of all vacant space in the CBD.
- Premium grade vacancy increased slightly to 7.1%, from 6.8% in January 2021 due to supply additions of 3,064 square metres.

- There were no new buildings completed during the first half of 2021. One new building is due to be completed later in 2021, 25,200 square metres at 98 Mounts Bay Road (Capital Square 2).
- There is 147,100 square metres of new development stock, across six projects, committed or 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), which had been positive during 2016 to 2020, was negative in the financial year 2021. At -12,410 square metres, demand was well below the long term (24 year) average of 15,425 square metres. However, in the six months to July 2021 net absorption was 19,697 square metres, driven by demand for B-grade space.
- The 'flight to quality' has slowed as space options have become limited. Tenants have taken advantage of softer market conditions to negotiate long leases, so it will likely be some time before substantial premium spaces becomes vacant again. Smaller tenants may still be able to benefit, but tenants requiring larger floor plates and more space may be forced to look at pre-committing to new buildings.
- 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.
- A survey conducted by the PCA has indicated that, Perth's CBD office occupancy remained stable in June 2021 at 76% of pre-COVID levels. The survey period was 21 to 23 June 2021, just prior to the Perth & Peel four day snap lockdown and increased restrictions.
- 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 the first half of 2021 with only one market related sale in the CBD (of properties greater than \$5 million), that of 14-16 Victoria Avenue, which sold for \$18.2 million in March.

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

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