

Perth CBD Office Market Snapshot February 2022

Perth CBD has recorded the highest 12-month demand for office space since 2012. Overall vacancy is now 15.0%, the lowest vacancy rate in seven years. Both prime and secondary grades of stock showed decreases in vacancy.

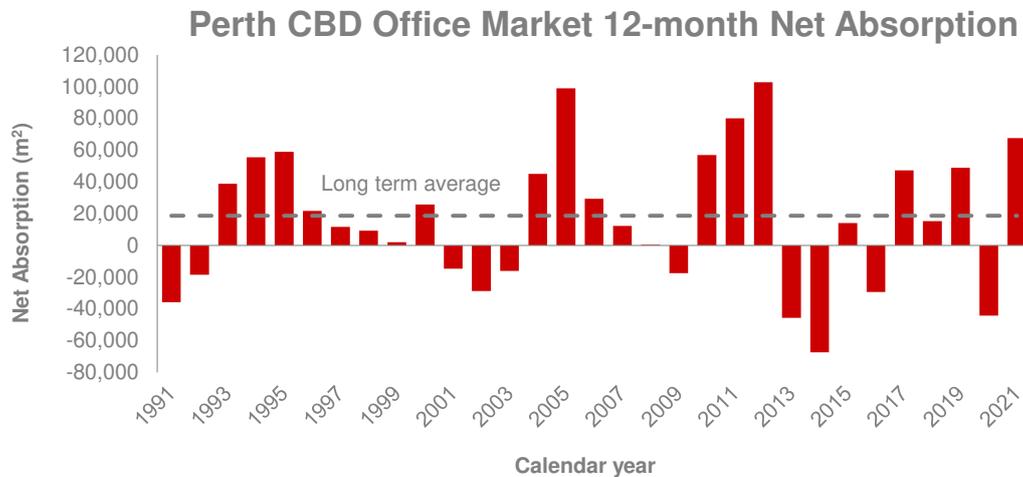
	2021/2022		Month/Qtr/ Biannual Increase	Annual Increase	Recent Trend
Economy (WA)					
Population	Jun (Q)	2.682 mill	0.18%	0.65%	▼
Unemployment (SA)	Dec (M)	3.4%	-0.4 ppt	-2.9 ppt	▼
State Final Demand	Sep (Q)	\$55.754 bill	0.58%	5.89%	▲
CPI	Dec (Q)	119.4 (index)	1.44%	5.66%	▲
CBD Office Market					
Overall Vacancy Rate	Jan (B)	15.0%	-1.8 ppt	-4.8 ppt	▼
Prime Grade Vacancy Rate	Jan (B)	11.5%	-1.6 ppt	-3.3 ppt	▼
Secondary Grade Vacancy Rate	Jan (B)	20.0%	-2.1 ppt	-6.9 ppt	▼
Sub-lease Vacancy as proportion of Total Vacancy	Jan (B)	5.7%	-2.2 ppt	-2.9 ppt	▼
Prime Net Face Rents	Dec (Q)	\$550-\$750	-	2.0%	→
Prime Incentives	Dec (Q)	45.0-52.5%	-	8.3%	→

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

- The Coronavirus (COVID-19) pandemic, which was first detected in December 2019, has changed the market dynamics of global and local economies. The long-term impact it will have on the local commercial property market is unclear and will depend on WA's ongoing responses to virus containment and re-opening of interstate and international borders; the effectiveness of stimulus measures by State and Federal Governments and the Reserve Bank of Australia; and consumer and business confidence levels.
- According to CommSec in their latest 'State of the States' report (January 2022)*, Western Australia is ranked fourth 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 retail spending. Construction work is down 40.9% on the decade average (WA in seventh position). (* Data reflects September 2021 quarter).
- Perth CBD total vacancy decreased to 15.0% in January 2022 from 16.8% in July 2021. Secondary space vacancy decreased to 20.0% from 22.1%, and prime space vacancy decreased to 11.5% from 13.1%.
- Sub-lease vacancy as a proportion of total vacancy decreased to 5.7% in January 2022, down from 7.9% in July 2021). At its peak, in January 2013, sub-lease space accounted for 41.6% of all vacant space in the CBD.
- Premium grade vacancy decreased to 6.7%, from 7.1% in July 2021, due to take-up of direct space. Sub-lease space increased over the second half of last year.
- Over 16,000 square metres of space was added to stock during the third quarter of 2021, at 98 Mounts Bay Road (Capital Square Tower 2). A further 7,243 square metres will be added to Capital Square Tower 2

during the first quarter of 2022. Office space of 9,100 square metres at 141 St Georges Terrace, Westralia Square 2, is expected to be completed in the third quarter of 2022.

- Demand



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

- 12-month net absorption, a proxy measure for demand, was 67,550 square metres in 2021, well above the long term (30 year) average of 18,714 square metres. In the second half of 2021 demand was highest for A-grade stock, with almost 28,000 square metres absorbed.
- 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.
- COVID-19's entry into the state makes it difficult to predict any likely impact on the office property market. However, even with continued demand, with almost 65,000 square metres of new and refurbished stock due to enter the market during 2022, it is unlikely that vacancy rates will fall significantly in the short term.
- A survey conducted by the PCA has indicated that Perth's CBD office occupancy decreased in November 2021, to 77% of pre-COVID levels.
- 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 robust in 2021, totalling approximately \$715 million (sales of properties greater than \$5 million), the highest level since 2013.

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

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