

## Perth CBD Office Market Snapshot August 2022

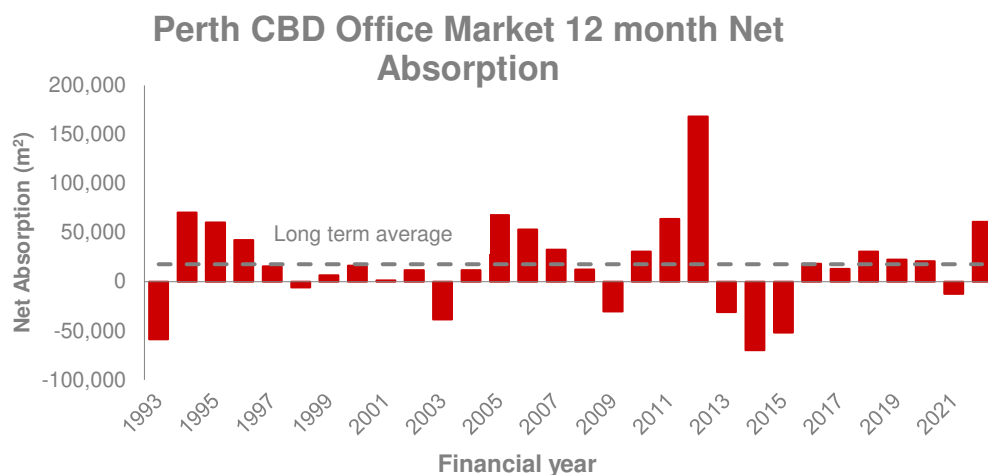
Overall demand decreased during the first half of 2022 in the Perth CBD but was nevertheless at a 10-year financial year high. Overall vacancy is now 15.8%, a slight increase since the start of the year, due mainly to refurbished supply additions.

		2021/2022	Month/Qtr/ Biannual Increase	Annual Increase	Recent Trend
<b>Economy (WA)</b>					
Population	Dec (Q)	2.762 mill	0.29%	1.12%	▲
Unemployment (SA)	Jun (M)	3.4%	+ 0.3 ppt	-1.7 ppt	→
State Final Demand	Mar (Q)	\$57.511 bill	2.22%	7.02%	▲
CPI	Jun (Q)	125.4 (index)	1.7%	7.4%	▲
<b>CBD Office Market</b>					
Overall Vacancy Rate	Jul (B)	15.8%	+0.8 ppt	-1.0 ppt	▲
Prime Grade Vacancy Rate	Jul (B)	12.0%	+0.5 ppt	-1.1 ppt	▲
Secondary Grade Vacancy Rate	Jul (B)	21.1%	+1.2 ppt	-0.9 ppt	▲
Sub-lease Vacancy as proportion of Total Vacancy	Jul (B)	1.3%	-4.4 ppt	-6.6 ppt	▼
Prime Net Face Rents	Jun (Q)	\$550-\$800	-	5.9%	▲
Prime Incentives	Jun (Q)	45.0-52.5%	-	2.6%	→

Source: ABS; Property Council of Australia Office Market Report; PVAWA. (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 response to virus containment; the effectiveness of stimulus measures by State and Federal Governments and the Reserve Bank of Australia; and consumer and business confidence levels. Interstate and international borders are now fully open. Other current potential market disrupters are the war in Ukraine, global supply constraints and the Chinese economy slowdown.
- According to CommSec in their latest 'State of the States' report (July 2022)\*, Western Australia is ranked fifth out of eight States and Territories overall. Western Australia is ranked first in terms of relative economic growth, second in terms of unemployment, second in terms of population growth and third in terms of equipment investment. Construction work is down 37.8% on the decade average (WA in seventh position).
- Perth CBD total vacancy increased to 15.8% in July 2022 from 15.0% in January 2022. Secondary space vacancy increased to 21.2% from 20.0%, and prime space vacancy increased to 12.0% from 11.5%.
- Sub-lease vacancy as a proportion of total vacancy decreased to 1.3% in July 2022, down from 5.7% in January 2022). At its peak, in January 2013, sub-lease space accounted for 41.6% of all vacant space in the CBD. It is now at its lowest level since June 2008.
- Premium grade vacancy decreased to 4.8%, from 6.7% in January 2022, due to take-up of sub-lease space. Sub-lease space decreased to 0.2% of all available premium space.

- The completion of Capital Square Tower 2 in quarter 1 of 2022 added 7,243 square metres of new space to stock. 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, PVAWA

- 12-month net absorption, a proxy measure for demand, was 67,550 square metres in financial year 2022, well above the long term (30 year) average of 17,806 square metres. In the first half of 2022 demand was highest for Premium grade stock, with 6,125 square metres absorbed.
- 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.
- With more than 100,000 square metres of new and refurbished stock due to enter the market during the remainder of 2022 and 2023, it is unlikely that vacancy rates will decrease in the short to medium term despite continued demand. It is difficult to predict any likely impact on the office property market due to the continued impacts of COVID-19 and global factors such as the war in Ukraine, disrupted supply chain, high inflation and rising interest rates.
- A survey conducted by the PCA has indicated that Perth's CBD office occupancy increased in May 2022 to 63% of pre-COVID levels, from 50% in April 2022.
- Leasing agents are reporting that leasing enquiry remains strong. Much of the activity is around tenants, particularly in the mining and professional services sectors, seeking to expand.
- Sales were robust in 2021, totalling approximately \$715 million (sales of properties greater than \$5 million), the highest level since 2013. Sales have been slow to date in 2022, with only one sale greater than \$5 million, that of 186 St Georges Terrace which sold for \$16.1 million in May.

Source: ABS; Property Council of Australia's Office Market Report; CommSec; CoreLogic; PVAWA.

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