

PERTH CBD OFFICE MARKET SNAPSHOT FEBRUARY 2023

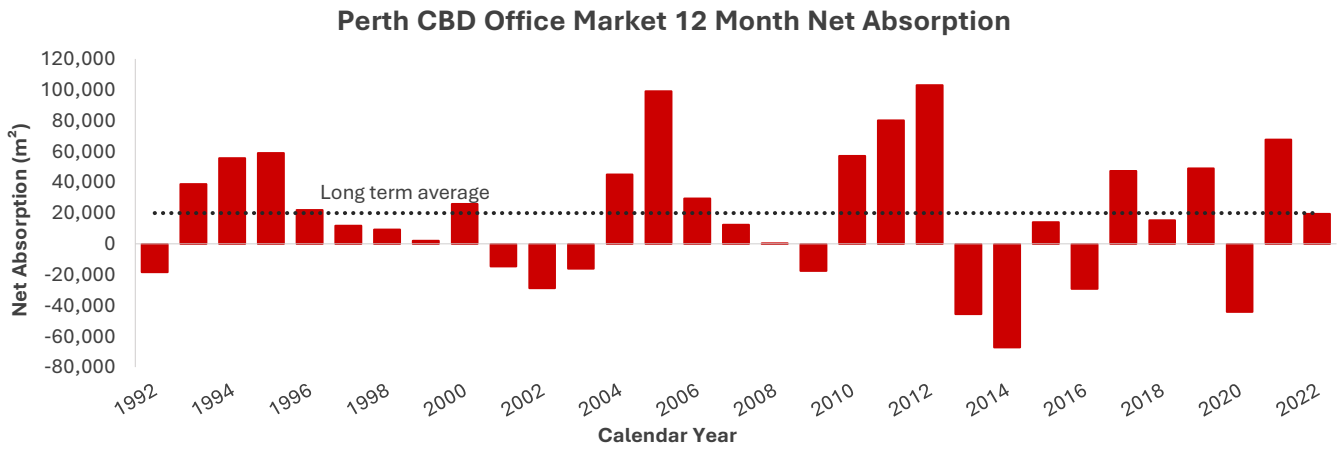
Overall demand decreased during the second half of 2022. Whilst demand was still positive, it was below the long term (30 year) average. Overall vacancy decreased by 0.2 points to 15.6%.

	2022/23		Month/Qtr/ Biannual Increase	Annual Increase	Recent Trend
Economy (WA)					
Population	Jun (Q)	2.785 mill	0.43%	1.29%	▲
Unemployment (SA)	Dec (M)	3.5%	+ 0.1 ppt	+0.1 ppt	→
State Final Demand	Sep (Q)	\$58.625 bill	0.6%	3.3%	▼
CPI	Dec (Q)	129.3 (index)	3.6%	8.3%	▲
CBD Office Market					
Overall Vacancy Rate	Jan (B)	15.6%	-0.2 ppt	+0.6 ppt	▼
Prime Grade Vacancy Rate	Jan (B)	12.8%	+0.8ppt	+1.3 ppt	▲
Secondary Grade Vacancy Rate	Jan (B)	19.8%	-1.4 ppt	-0.2 ppt	▼
Sub-lease Vacancy as proportion of Total Vacancy	Jan (B)	3.9%	+2.6 ppt	-1.8 ppt	▲
Prime Net Face Rents	Dec (Q)	\$575-\$800	-	5.6%	▲
Prime Incentives	Dec (Q)	47.0-52.5%	-	2.2%	→

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

- A survey conducted by the PCA has indicated that Perth's CBD office occupancy was 80% in November 2022, the highest level since November 2020.
- According to CommSec in their latest 'State of the States' report (January 2023), Western Australia is ranked seventh 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 in terms of unemployment. Construction work is down 34.9% on the decade average (WA in seventh position), and dwelling starts are 36.6% down on the decade average (WA in eighth position).
- Perth CBD total vacancy decreased to 15.6% in January 2023 from 15.8% in July 2022. Secondary space vacancy decreased to 19.8% from 21.2%, and prime space vacancy increased to 12.8% from 12.0%.
- Sub-lease vacancy as a proportion of total vacancy increased to 3.9% in January 2023, down from 1.3% in July 2022. At its peak, in January 2013, sub-lease space accounted for 41.6% of all vacant space in the CBD.
- Premium grade vacancy increased to 6.6%, from 4.8% in July 2022. Sub-lease space increased to 0.5% of all available premium space, but it remains below the long term average of 1.6%.
- There was an increase in supply in the second half of 2022 of 13,788 square metres, due entirely to completion of refurbished offices. Chevron's new headquarters at Elizabeth Quay is due for completion in the first quarter of 2023, as well as Westralia Square 2 at 141 St Georges Terrace. In total this will add 61,500 square metres of new stock to the CBD. A further new development, Capital Square 3 at 98 Mounts Bay Road, will add 16,000 square metres of new office space in Quarter 2 of 2023.

- Demand



Source: Property Council of Australia OMR, PVAWA

- 12-month net absorption, a proxy measure for demand, was 19,388 square metres in 2022, sitting close to the long term (30 year) average of 19,973 square metres. In the second half of 2022 demand was highest for A-grade stock, with 12,405 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 close to 98,000 square metres of new and refurbished stock due to enter the market during 2023, it is unlikely that vacancy rates will decrease substantially in the medium term despite continued demand. It is difficult to predict any likely impact on the office property market due to global factors such as the war in Ukraine, disrupted supply chain, high inflation and rising interest rates. However there is a high level of business confidence in WA which could result in companies choosing WA for their headquarters.
- There has been a shift from mostly desk office space to the addition of collaboration spaces and areas to socialise.
- Sales in 2022 total approximately \$681 million (sales of properties greater than \$5 million), just slightly less than in 2021. 186 St Georges Terrace sold for \$16.1 million in May, 216 St Georges Terrace (London House) sold for \$102 million in July. Sales of 108 St Georges Terrace and 77 St Georges Terrace have yet to be finalised and confirmed.

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

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