News Release

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Tenant demand set to push vacancy down in Gold Coast office market

Headline summary:

- **Tenant demand in the Gold Coast office market is steadily improving, coming from local businesses as well as a growing core of larger corporates**
- **Vacancy levels are expected to reduce during 2019, with likely fluctuations over the 2020/2021 period**

Sustained population and employment growth on the Gold Coast will underpin the city's continued maturation as a service centre and business hub, which will in turn strengthen its office market, according to recent research from Knight Frank.

Tania Moore, Knight Frank Partner and Joint Head of Gold Coast, said tenant demand in the region's office market was steadily improving following the first half of 2018 where business was interrupted by the Commonwealth Games.

"The second half of 2018 and into 2019 has seen stronger levels of tenant enquiry, and we forecast this will only get stronger as the city's population continues to grow, along with employment growth, which is underscoring office demand," she said.

The *Gold Coast Office Market Overview March 2019* found population growth in the region was forecast to average two per cent per annum over the 25 years from 2016 to 2041, with the majority of growth to come from both internal and overseas migration due to lifestyle and educational opportunities.

There are jobs to support the people moving in, with the Gold Coast unemployment rate at a low of 4.3 per cent as at the end of December 2018, well below the Queensland average of 6.1 per cent.

The number of workers on the Gold Coast grew by 24 per cent in the five years to November 2018, with the two fastest growing white collar sectors being Finance & Insurance (up 58 per cent) and Education & Training (up 45 per cent).

Ms Moore said tenant demand in the Gold Coast's office market had remained dominated by local businesses, but there was a growing core of larger corporates with branch or head offices located in the region, including National Disability Insurance Agency, Mantra Group (Accor) and Wyndham Vacation Resorts and Asia Pacific, creating competition between the two tenant groups for limited stock.

"There are a number of requirements an office asset must satisfy to be attractive to all tenant types. Locally-based businesses are driven by both locational convenience for business owners and customers with an overlaying cost sensitivity, while larger corporates bring the requirements of public transport, green ratings, staff amenity and retention and efficiency of floorplate to the table when choosing a location.

“With only 37,500sqm of supply added to the Gold Coast market over the past 10 years, equating to a nine per cent growth in the stock base, there is a relatively small pool of modern assets which can handle the higher employee densities required for major corporate branch offices, processing centres and call centres.

“This concentrates demand into these relatively few assets and can require tenants to compromise on location or efficiency.

“This disconnect between the wish lists of tenants and the available stock on the ground is likely to only widen in the coming years with limited supply anticipated.”

The Knight Frank research found supply in the Gold Coast office market remained low but pre-committed new construction was beginning to flow through with Acuity Business Park to start construction in Robina.

“The supply of new office space across the core Gold Coast precincts remained stalled during 2018 with only 2,744 square metres of refurbished space returning to the market,” said Jennelle Wilson, Knight Frank Partner, Research and Consulting.

“Supply is expected to remain small, sporadic and pre-commitment driven in the medium term.”

The Knight Frank report commented that total vacancy in the Gold Coast office market was 11.6 per cent after hitting 12 per cent in mid 2018, and up from the 10-year lows of 10.6% in January 2018, according to Property Council of Australia figures.

“Despite the vacancy rate on the Gold Coast stalling at double figures, rental growth is well entrenched due to the relatively low number of quality options available, with prime effective rental growth of 5.9 per cent year-on-year recorded,” said Ms Wilson.

Net absorption rebounded in the second half of 2018 to 2,986sqm after falling during the first half of 2018 due to Foxtel’s downsizing of their operations by around 6,000sqm, and tenant enquiry is indicative of a stronger result in the first half of 2019.

“We anticipate vacancy levels will see further reductions during 2019 due to tenant demand, however we expect fluctuations in vacancy over the 2020/2021 period as new supply is delivered,” Ms Moore said.

“Whilst there are levels of pre-commitment to these projects, most are from existing tenants in the market that are relocating to consolidate their business operations.”

While investment activity in the Gold Coast office market was low in 2018 with few assets on offer, the report found this will change in 2019 with approximately $90 million in assets actively offered to the market in the first quarter.

Traditionally the Gold Coast investment market has been dominated by private investors and syndicators given the relatively smaller investment scale, but as confidence builds with a higher level of tenant demand and the depth of the market, the region is likely to appear on the radar for a greater swathe of investors, said **Mark Witheriff, Knight Frank Partner and Joint Head of Gold Coast**

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"The relatively higher yields on offer will become more favourably considered as the buyer climate shifts from capital growth due to yield compression to become investment focussed on income maximisation.

"Prime yields remain on a firming trend, however the Gold Coast market never reached the levels of contraction seen in other major markets.

"The expectation is for some further improvement as prime rental growth accelerates in the medium term and a lack of investment opportunities sees more investors embracing a regional location."

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