News Release

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St Kilda Road prime office rents soar by 17% as vacancy plummets.

Melbourne's iconic St Kilda Road precinct has seen rents soar by 17% over the past year as office vacancy hits record lows.

Knight Frank's Adam Jones Director, Office Leasing VIC, said fuelled by Victoria's strong economy and population growth, Melbourne's CBD has the tightest office market in the nation which is causing tenants to expand their search into fringe areas such as St Kilda Road and Southbank.

"With CBD office vacancy forecast to remain low over the year, the spill-over in tenant demand is expected to continue until the next wave of new supply reaches the CBD office market in 2020 and rental growth slows," he said.

According to Knight Frank, demand for St Kilda Road and Southbank office space in the past year was driven by growth in professional services and manufacturing.

Mr Jones said, "In recent times we have witnessed numerous groups presently housed along St Kilda Road test the wider marketplace only to renew their leases in the area, and despite a relative lack of large contiguous tracts of space, a number of new tenants found new accommodation along St Kilda Road in 2018".

He said, "growing demand for speculative fitouts in sub-500 sq m office space is prompting more and more landlords to adopt this strategy in their St Kilda Road buildings. Not only do speculative fitouts appeal to a wider range of tenants, they help reduce letting-up periods as well. Speculative fitouts are beneficial for smaller tenants as they are financially attractive and allow for a relatively quick and easy move-in."

According to **Jane Wong Knight Frank's Research Analyst, VIC**, "In the six months to January 2019, one building at 424 St Kilda Road (12,357 sq m) was withdrawn from the St Kilda Road office market for residential conversion, underpinning the fall in office vacancy from 7.4% to 6.6% over the period. For years, office buildings along the leafy boulevard have been subjected to residential conversions, given the willingness of buyers to pay a premium to live close to the CBD, trams and parkland, and the large availability of older convertible stock.

Ms Wong said that with the nation's current housing slowdown, however, the environment has changed. Developers have begun revising their residential development intentions as demand falls and pre-sales fail to reach settlement.

"On the flip side, this has created more opportunities for office developments. In the CBD, sites with permit approvals for residential/mixed-use towers are being replaced with commercial schemes (555 Collins Street and 383 La Trobe Street). This might set a precedent for 424 St Kilda Road and other sites earmarked for residential developments to be added back to the office market.

"Southbank, which has a higher proportion of newer prime grade stock, is less susceptible to these impacts," **Ms Wong** said.

Mr Jones commented, "St Kilda Road office market saw the strongest rental growth over the past year as tenants' desire to be located in fringe areas and falling stock have placed upward pressure on rents.

"This was more apparent in the shrinking St Kilda Road office market as it recorded the strongest year-on-year rental growth since the start of the series. St Kilda Road prime net face rents grew by 16.9% in the 12 months to January 2019 to average $415 per square metre, while secondary net face rents grew by 14.5% to average 315 per square metre. Once again, prime rental growth in the St Kilda Road office market surpassed that of the CBD (+13.2%).

Following rising demand and ongoing office refurbishments in the Southbank office market, prime net face rents grew by 9.5% over the same period to average $548 per square metre. Secondary net face rents grew by 8.9% to average $338 per square metre," **Mr Jones** said.

"According to the Knight Frank report, St Kilda Road's prime city fringe location and declining stock has made it one of Melbourne's most sought-after investment markets. Towards the end of 2018, 509 St Kilda Road sold for a record price of $163 million on a 4.90% core market yield. Tenants occupying the building include Fair Work Australia and AIA Insurance. Tenants occupying the building include Fair Work Australia and AIA Insurance. The previous record sale was a $144.4 million deal at 417 St Kilda Road in 2017.

"Prime yields in the St Kilda Road office market compressed by 63 points in the 12 months to January 2019."

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Notes to Editors

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