



MARCH 2013
WEST PERTH
OFFICE

Market Overview
Knight Frank

HIGHLIGHTS

- Positive net absorption was recorded by the Property Council of Australia (PCA) for the six months to January 2013, totalling 6,201m². This follows the 19,943m² that was absorbed in the first half of 2012.
- The PCA total vacancy rate increased to 4.5%, up from 3.3% in July 2012. However, this is on a par with the vacancy rate recorded in January 2012. Knight Frank has calculated that the level of space being actively marketed in West Perth was 9.9% of total stock as at January 2013.
- Three major transactions occurred in West Perth totalling \$63.485 million. Core market yields for Prime-grade buildings are on average 8.5% with Secondary-grade properties yielding an average of 9.0%. These yields have remained stable since September 2012.

WEST PERTH OFFICE

Market Overview

Table 1
West Perth Office Market Indicators as at March 2013

Grade	Total Stock (m ²) ^	Vacancy Rate (%)^	Annual Net Absorption (m ²)^	Annual Net Additions (m ²) ^	Average Net Face Rent (\$/m ²)	Average Incentive (%)	Average Core Market Yield (%)
Prime	128,939	1.4	5,225	5,066	500 – 575	5.0	8.5
Secondary	277,922	5.9	20,919	22,410	425 – 500	8.5	9.0
Total	406,861	4.5	26,144	27,476			

Source: Knight Frank/PCA ^ as at January 2013

Supply & Development

The PCA have recorded in their office market report net supply additions to the West Perth market of 27,476m² for the 2012 year.

New development of 8,734m² was completed during 2012, which included 1120 Hay Street (5,066m²), 578 Murray Street (2,063m²), 629 Murray Street (630m²) and 682 Murray Street (975m²).

In addition, refurbishments were completed at 2 Havelock Street (17,863m²), 35 Havelock Street (1,630m²), 668 Murray Street (1,256m²) and 673 Murray Street (1,480m²). Stock of 3,487m² was withdrawn during 2012, all of which is to be refurbished.

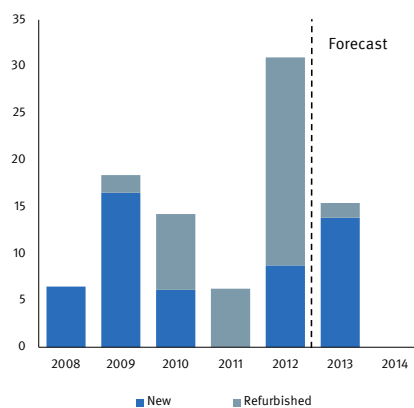
Table 2
West Perth New Development

Address	NLA (m ²)	Estimated Completion
34 Parliament Pl	1,848	Q1 2013
100 Havelock St	4,600	Q2 2013
1 Ord St	3,448	Q3 2013
1154-1160 Hay St	1,500	Q3 2013
1101 Hay St	2,443	Q4 2013
Total	13,839	

Source: Knight Frank

This year it is anticipated that new supply in West Perth will total 15,416m², the majority of which will comprise new development. 34 Parliament Place (1,848m²) was completed in January 2013. 100 Havelock Street (4,600m²) is due for completion in the second quarter of this year.

Figure 1
West Perth Office Supply
New and Refurbished Stock ('000m²)



Source: PCA/Knight Frank

There is currently no supply under construction or being refurbished that is due for completion in 2014 and beyond. Whilst development applications have been applied for and some approved, no construction has yet to begin on these sites. Potential future office development in the West Perth area includes: 25 Prowse Street for a proposed 4-storey office building; 16-18 Ventnor Avenue for offices and residences; 24 Prowse Street for a 4-storey office building; and 3 Prowse Street for a 5-level office development.

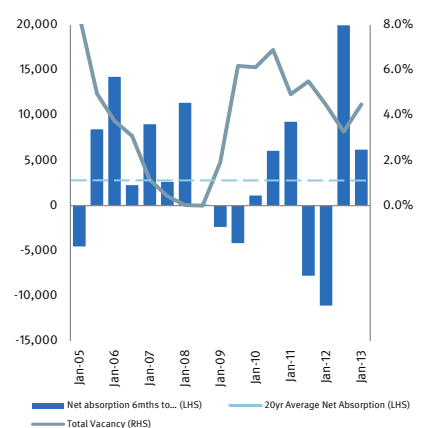
Future new development in West Perth continues to be inhibited by the limited availability of land as well as the size of lots. However, the City of Perth has recently gazetted amendments to the plot ratio through parts of the city. Amendment 25 covers West Perth and allows for an increase in the plot ratio with a 20% bonus for special

residential development on the site or 40% bonus in plot ratio for hotel development.

Net Absorption & Vacancy

Positive net absorption was recorded by the PCA for the six months to January 2013, totalling 6,201m². This follows the 19,943m² that was absorbed in the first half of 2012. The majority of the net absorption over 2012 was in 2 Havelock Street (17,863m²) following the completion of its full refurbishment. The other major area of absorption was due to the completion of 1120 Hay Street that was fully pre-committed prior to completion mid-year.

Figure 2
West Perth Vacancy and Net Absorption
Per six month period (m²)



Source: PCA/Knight Frank

With lower net absorption in the second-half of 2012, the total vacancy rate increased to 4.5%. However, whilst this was an increase on the July 2012 figure (3.5%) it is equivalent to that recorded in January 2012.



The Prime-grade vacancy totalled 1,789m² (1.4% of stock), and whilst the direct vacancy decreased by 7.4% to 1,480m², sub-lease vacancy was recorded at 309m² (previously 0m² through 2012).

The Secondary-grade vacancy totalled 16,453m², mostly due to an increase in the direct vacancy in this grade. This includes 6 Gordon Street which had the highest level of direct space available (1,356m²). The Sub-lease vacancy also saw an increase during the second half of 2012, to 2,441m².

Knight Frank has calculated that the level of space being actively marketed in West Perth was 9.9% of total stock as at January 2013. This is an increase on the space being actively marketed in September last year, which was recorded at 4.3%.

Rents & Tenant Demand

There has been limited leasing activity in the West Perth area over the past six months. Prime-grade net face rents have fallen back around 4.4% since September 2012 to average between \$500/m² and \$575/m², mostly due to a fall in demand and increase in sub-lease space.

Secondary-grade net face rents have also decreased by 6.5% on average over this time to now sit between \$425/m² and \$500/m².

Generally, incentives in West Perth have not changed and are on average between 0% – 5% for fitted-out offices, with a 10% incentive given for space with no fit-out.

Investment Activity

Three major transactions over \$10 million occurred in West Perth during the 2012 year,

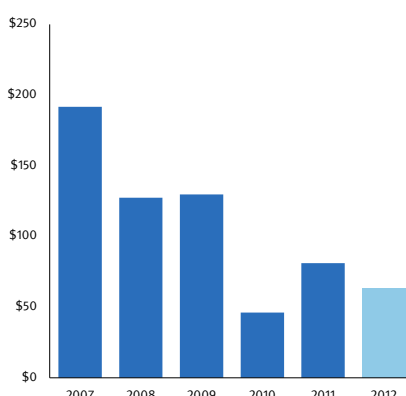
Table 3
Recent Leasing Activity West Perth

Address	Area (sq m)	Net face Rental (\$/m ²)	Term	Tenant	Date
41-47 Colin St	972	500	5.0	Tap Oil Limited	Feb '13
1 Altona St	784	500	6.0	Professional Public Relations	Dec '12
16 Altona St	545	500	6.0	Sec Cap Corp	Dec '12
42-46 Colin St	8,760	580	5.0	Insurance Australia Ltd	Oct '12
28 Troode St	2,194	550	10.0	VDM Developments	Oct '12

Source: Knight Frank

for a total consideration of \$63.485 million. Private investors and unlisted syndicates continue to dominate the purchaser profile in the area.

Figure 3
West Perth Sales Activity
(\$ million) Sales value >\$10 million



Source: Knight Frank

In July 2012, 22 Delhi Street sold for \$20.0 million with a WALE of 1.3 years. The current major tenant of the building, Australian Finance Group, indicated that they would be vacating at the end of their lease. They currently occupy almost 70% of the building

and will be moving to 100 Havelock Street upon its completion.

The West Perth area continues to see the turnover of converted houses that are currently used as either office of consulting rooms. 1 & 3 Ventnor Street sold for \$6.75 million with two buildings on 1,546m² of land (\$4,366/m²) in August 2012; 58 Colin Street for \$3.2 million (\$4,354/m²) in October 2012; and 28 Outram Street for \$1.615 million in November 2012 (\$4,792/m²).

Core market yields for Prime-grade buildings are on average 8.5% with Secondary-grade properties yielding an average of 9.0%. This has remained stable since September 2012.

Outlook

Like the Perth CBD, West Perth is shaped by economic events, particularly those impacting on commodities and associated areas. A slightly slower market at present may see some short-term increases in the vacancy rate. However, market conditions are anticipated to improve by the close of 2013. Combined with no new supply in the pipeline beyond 2013 this should see the vacancy remain tight.

Table 4
Recent Sales Activity West Perth

Address	Price (\$ mil)	Core Market Yield (%)	NLA (m ²)	\$/m ² NLA	Vendor	Purchaser	Sale Date
22 Delhi Street	20.00	9.28	3,193	6,264	First State Group	Kingslane Group	Jul '12
10 Ord Street	13.585	8.92	1,958	6,938	Private Investor	Private Investor	Jul '12
1110 Hay Street	29.90	9.37	4,453	6,715	Private Investor	Private Investor	Feb '12

Source: Knight Frank



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