

GOLD COAST

OFFICE MARKET BRIEF SEPTEMBER 2015

Key Facts

Total vacancy was **14.8%** as at July 2015; reflecting steady improvement from the **high point of 24.1% in January 2011**.

Prime effective rents fell by 0.4% over the past year; but have remained relatively stable at **approx. \$345/m²** gross over the past three years.

The **strong investment demand** Australia-wide for office assets is **flowing through to the Gold Coast** market—improving demand and firming yields.



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The Gold Coast office market has continued to show improvement to mid-2015. Increased construction and confidence in the city is expected to flow over to the office market. Meanwhile investment demand is building.

The Gold Coast is Australia's sixth largest city with a population of 560,266 as at June 2014. The city has a strong infrastructure backbone in health and education and along with the construction sector these are important employers. The Gold Coast office market is made up of the core areas of Bundall, Broadbeach, Surfers Paradise, Southport and Robina/Varsity Lakes however there are also growing alternate commercial hubs in the region.

The Gold Coast was hit hard by the GFC with an overhang of both residential/hotel and commercial construction adding to the downturn for the region. While recovery has been long-standing, the rate of improvement in confidence and activity has accelerated markedly in the past two years. The awarding of the 2018 Commonwealth Games has played a major part in this improvement. Recent improvements in both the tourism and residential markets have provided an additional boost with more than 12 million tourists visiting the city each year.

Development Activity

The Gold Coast experienced high supply levels in the lead-up to the GFC and beyond with 237,984m² of stock added to the core market in the eight years to mid-2010. In the five years since, supply has been far lower, totalling 42,455m².

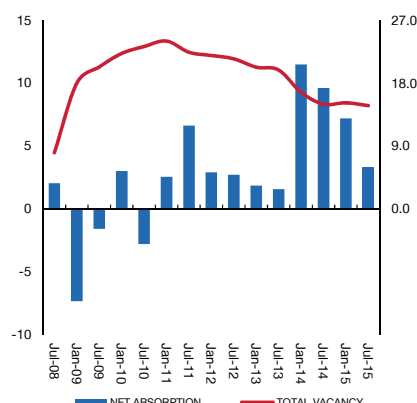
Supply during the past 18 months has been dominated by the return of refurbished office accommodation, particularly related to the Gold Coast City Council's relocation to Bundall. Of the 32,817m² of supply to the market in 2014 and 2015, 25,658m² (or 78%) was refurbished stock. New additions have entailed smaller developments with the most recent 130 Siganto Dr, Helensvale (1,560m²) and the remaining stages of the City Pods development at Robina (1,428m²). The supply pipeline remains relatively low with The Base (4,000m²) in Robina balanced by projects outside of the core areas such as the proposed AMMA Head office. With the residential market currently dominating, few sites in core locations are currently earmarked for office development.

Net Absorption & Vacancy

Net Absorption within the core Gold Coast market remained positive in the first half of 2015. However at 3,291m², it was lower than the results recorded across the preceding 18 months. The Gold Coast market has now recorded five years of back to back positive net absorption, albeit sometimes at small levels, as the market has been recovery.

Across the core precincts Broadbeach has the lowest vacancy at 4.2%. The relatively modern accommodation in this small precinct is in strong demand with several tenants seeking expansion space. Robina/Varsity Lakes at 8.6% is the only other precinct under double figures, its vacancy decreased due to net absorption being stronger than supply over the past year. Southport has continued to show some improvement with the vacancy now at 14% as owner occupier activity in the Southport Central complex benefits the

FIGURE 1
Gold Coast Core Office Market
'000m² net absorption LHS & % Total Vacancy RHS



Source: Knight Frank Research/PCA

TABLE 2
Major Gold Coast Office Projects (1,000m²+)

Project	NLA m ² & (% Occupied)	Developer	Status	Date
27 Elkhorn Ave, Surfers Paradise	2,319 (18%)	Private	Complete	2014
8 Karp Court, Bundall #	6,069 (100%)	GCCC	Complete	2014
Waterside East & West, Bundall #	13,197 (100%)	GCCC	Complete	2014
249 Scottsdale Dr, Robina Stg 1	1,852 (80%)	Private	Complete	2014
130 Siganto Dr, Helensvale	1,560	Private	Complete	Mar 15
34 Glenferrie Dr, Robina #	6,392	Private	Complete	Jun 15
249 Scottsdale Dr, Robina Stg 2	1,428 (60%)	Private	Complete	Jul 15
GOLDOC Headquarters, Ashmore TAFE Campus ^	9,855 (100%)	State Govt	Construction	Dec 16
120 Siganto Dr, Helensvale	4,491	AMMA	Construction	2016+
197 Robina Town Centre Dr,	4,000	Robina Land	Mooted	2016+

Source: Knight Frank Research/PCA # refurbishment ^ conversion of former TAFE bldg. to office

market. The Bundall vacancy rate is now 17.2% and the precinct is expected to show benefits from tenants wishing to co-locate with the GCCC, but much of the building fabric requires upgrading. The Surfers Paradise market remains the most challenging with 29.9% vacancy, dominated by smaller semi retail or service oriented tenants, the market is characterised by smaller tenants on short lease terms which makes for a high churn rate in that market.

With no major new office supply under construction and the slow but steady net absorption levels, the total vacancy as a whole across the Gold Coast market, is expected to continue to gradually fall, from 14.8% currently to 10.8% as at July 2017. The level of prime vacancy at 17.4% is still higher than the secondary at 13.8%, however the gap will narrow absent any material new supply and as more corporate tenants take up space in the lead-up to the 2018 Commonwealth Games.

Tenant Demand & Rents

Despite a few recent larger deals, see Table 3, the majority of the Gold Coast tenant market is in the vicinity of 250m² - 500m² and with a budget targeting sub-\$350/m² gross occupancy costs. Demand has been steadily increasing as confidence has returned to the Gold Coast market, initially through general recovery which more recently has been boosted by the wider residential and tourism uptick, is bringing developers and associated industries back to the Gold Coast.

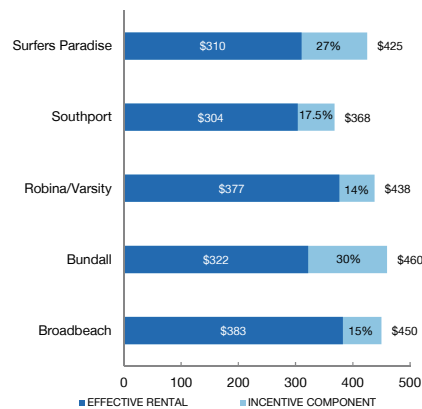
Across the core precincts the average gross face rent for the Gold Coast is \$428/m² with an average incentive of 19.3%. This represents an average gross effective rent of \$345/m², down 0.4% from a year ago. However each precinct has quite different market parameters depending on the demand,

TABLE 1
Gold Coast Office Market Indicators as at July 2015

Grade	Total Stock (m ²)	Vacancy Rate (%)	Annual Net Absorption (m ²)	Annual Net Additions (m ²)	Average Gross Face Rent (\$/m ²)*	Average Incentive (%)*	Average Core Market Yield (%)
Prime	132,163	17.4	4,928	2,207	428	19.3	8.00—8.50
Secondary	341,287	13.8	11,907	9,236	357	14.8	8.50—9.50
Total	473,450	14.8	16,835	11,443			

Source: Knight Frank Research/PCA *tenancies of 250—500m²

FIGURE 2

Gold Coast Office Market Rent\$/m² gross face rent by Core precinct

Source: Knight Frank Research

built form and owner type in the region. As shown in Figure 2 the face rents, incentive levels and effective rents are quite different between the precincts. Overall the Gold Coast office market is quite fragmented with the recent major requirement of the GOLDOC going outside of the core locations to Ashmore.

The secondary market has average gross face rents of \$357/m², across a wide range of \$270/m² to \$450/m² with incentives relatively low at 14.8% on average. In contrast to many major markets the secondary incentive levels are lower than in the prime market. In the case of the Gold Coast this is due to the ownership structure of the majority of secondary assets, with private owners unwilling or unable to fund large capital incentives, preferring instead to keep face rents modest.

TABLE 3

Recent Major Leasing Activity Gold Coast

Address	NLA m ²	Est Face Rent \$/m ²	Term yrs	Incentive (%)	Tenant	Date
82 Marine Pde, Southport	1,302	365 g	3	c.15.0	Lives Lived Well	Mar 15
9 Ouyan St, Surfers Paradise	638	420 g	5	c.15.0	Cambio Group	Mar 15
194 Varsity Pde, Varsity Lakes	2,000	350 g	5	c.20.0	Coral Homes	Mar 15
14 Edgewater Dr, Robina	1,000	375 g	4	c.20.0	Department of Defence	Feb 15
169 Varsity Pde, Varsity Lakes	1,355	300 g	5	c.20.0	Bank of Qld Service Centre	Feb 15

*estimated incentive calculated on a straight line basis # approx. g gross n net c. circa

Source: Knight Frank Research

Investment Activity & Yields

The Australian office investment market recorded historically high turnover levels in 2014, with \$17.3 billion in sales (\$10 million+). This was boosted by strong offshore activity which accounted for 40% of the transactions. As competition for core assets multiplied and yields fell purchasers have also been increasingly moving up the risk curve. This has resulted in demand spilling over into non-CBD markets and the Gold Coast is beginning to benefit from this demand.

Two examples of this have been the sale of the Foxtel building at Robina for \$46 million and The Rocket, Robina which is under contract for \$70 million to Sentinel

Property Group for a single asset syndicate.

The Foxtel building was constructed in 2001 and is fully leased to Foxtel with an 8.3 year WALE at the time of sale. The Centuria Metropolitan REIT was listed in late 2014 specifically to invest in assets outside of core CBD locations in order to provide a higher income yield.

Prime core market yields currently range from 7.0–8.0% across the Gold Coast for significant office assets as increasing demand from value add and private investors takes hold. It is also expected that the current strong off-shore purchasing of retail and hotel assets in the region will extend to the office market should there be an asset of sufficient scale.

TABLE 4

Recent Major Sales Activity Gold Coast

Address	Grade	Price \$ mil	Core Market Yield %	NLA m ²	\$/m ² NLA	WALE	Vendor	Purchaser	Sale Date
The Rocket, Robina	A	70.00	8.60	12,814	5,462	2.8	Robina Land Corporation	Sentinel Robina Office Trust	Sep 15
15 Albert St, Broadbeach *	B	3.10	6.35^	402	7,711	n/a	Maylake	Private Investor	May 15
35 Robina Town Centre Dr, Robina	A	46.00	7.80^	9,814	4,687	8.3	Alceon Group	Centuria Metropolitan REIT	Apr 15
24 White St, Nerang	B	3.35	7.98^	808	4,146	c.5.0	Ringbark Properties Pty Ltd	Private Investor	Apr 15
16-18 Ashmore Rd, Bundall	B	2.90	7.06^	658	4,415	n/a	Private Investor	Private Investor	Mar 15
9 Trickett St, Surfers Paradise#	A	5.15	10.00^	2,749	1,873	5.0	DBI Design	Private Investor	Jan 15

Source: Knight Frank Research ^ passing yield #vendor leaseback of multiple commercial units within the Surfers International Complex * development site

Outlook

The Gold Coast market has faced tough conditions in the past five years, with vacancy peaking at 24.1% in January 2011. However over the past two years the city has seen a slow but steady recovery accelerate into a more meaningful change. This was boosted by the Commonwealth Games and a lower AUD supporting both the tourism and education sectors. Early indications of a recovery is supported by international visitor nights up by 10% in the year ending December 2014, while domestic visitor nights were down by 3.7% weighed by poor business travel. Anecdotally 2015 has continued strongly in a similar vein with domestic tourism also increasing.

Residential and hotel development has returned to the Gold Coast with 702 apartments delivered since the start of 2014 and a further 1,753 under construction at this time. There is also an additional 3,633 units with development approval in the pipeline with potential delivery prior to the end of 2018.

These drivers of the Gold Coast economy are expected to continue to support steady improvement in the office sector. The lack of major new office construction will assist in further gradual reduction in the vacancy levels, although the pace of

this reduction has slowed as the market steadies. Any new additions will be on a smaller scale forming part of mixed use developments along the coastal strip.

Tenants largely remain cost sensitive and are taking advantage of the market conditions to control their occupancy costs. Spending money to refurbish or improve an asset, particularly secondary stock, will have a real benefit in the leasing activity within the building. Prime rents are expected to remain stable in the near term across the market as tenants retain the upper hand, with the exception potentially in markets like Broadbeach where the limited accommodation is subject to competition. We expect rental growth in secondary grade assets to outperform A-grade over the next 12-18 months.

The strong investment demand is likely to draw further assets to the market, particularly those which have been distressed or in the hands of receivers for some time. Investors moving into the value-add market will pay a premium for a longer WALE and the market will remain relatively unforgiving of excessive exposure to the leasing market in the short term. The longer term upside to the Gold Coast and the office market will continue to draw investors with longer term investment horizons.

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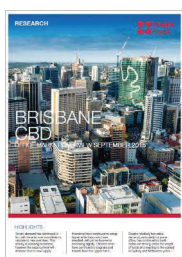
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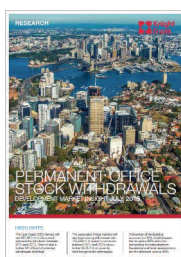
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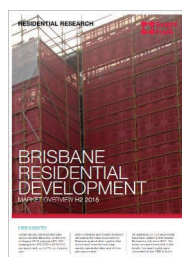
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