

RESEARCH



# GOLD COAST

OFFICE MARKET OVERVIEW MARCH 2018

SUSTAINED ABSORPTION

LOW SUPPLY PIPELINE

INTERNATIONAL PROFILE

## KEY FINDINGS

Total **vacancy has continued to steadily fall, now 10.6%**. Prime vacancy is now at **10 year lows**, falling to 8.9%.

Despite **steady and sustained net absorption** over the past four years the pipeline of **new supply remains limited**.

The steady demand and falling vacancy has **not yet translated into rental growth** for the market, with only Broadbeach recording significant effective rent growth during 2017.

The Gold Coast office market has continued to benefit from **unfulfilled demand flowing from mainstream capital city markets**, however the average size of assets has continued to restrict the buyer profile to domestic institutions or private investors.



**JENNELLE WILSON**  
Senior Director – Research QLD

## GOLD COAST OVERVIEW

Both continued organic demand from sustained population growth in the region, and the infrastructure investment which comes with the Commonwealth Games are boosting office demand.

The Gold Coast is Australia's sixth largest city with a population of 591,570 as at June 2016, reflecting annual growth of 2.4%. Over the ten years between 2006 and 2016 the population grew by a total of 27.9%, well ahead of the Queensland total of 21.0% and reflective of the high levels of greenfield and higher density residential development which has catered for these additional residents. Population projections (QLD Govt 2015) indicate average annual population growth of 2.18% for the 20 years to 2036. The continued expected strong population growth and maturation of the city as a service centre for the region will continue to draw both infrastructure investment and commercial demand.

### Commonwealth Games to raise profile

The Gold Coast is the venue of the Commonwealth Games to be held 4th–15th April 2018. The sporting event will host more than 6,600 athletes and team officials from 70 Commonwealth nations and territories. This will be the largest sporting event to be staged in Australia this decade with 50,000 workers and volunteers, 3,000 media personnel and up to 1.2 million spectators. The Games will feature the largest integrated sports program in Commonwealth Games history, comprising 18 sports and seven para-sports.

The Games and the associated infrastructure will cement the Gold Coast as a major conference and sports-tourism destination, as well as provide global exposure for the region.

### Infrastructure investment is being boosted

Outside of the improvements and expansion to existing sporting infrastructure required to host the Commonwealth Games the Gold Coast has attracted high levels of investment in both private and public sector projects.

Major projects underway include:

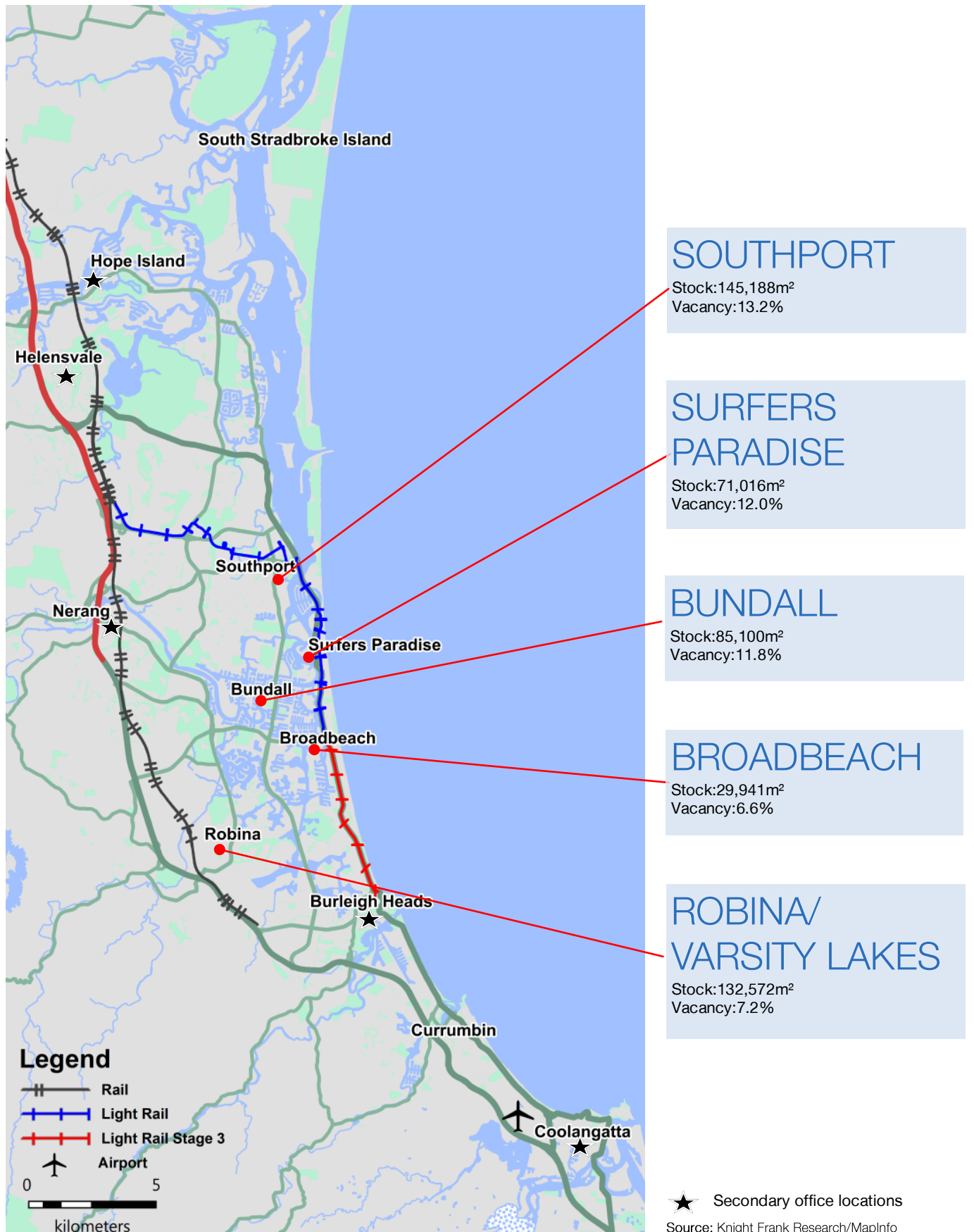
- Cultural Precinct Bundall - 16.9ha site. Stage 1 - \$38 million
- Light Rail Stage 3—further stage of the light rail to extend the line from Broadbeach to Burleigh Heads, a 7km stretch with 7 proposed stations. Business case underway.
- Gold Coast Airport expansion—while the airport had a facelift/apron capacity increase for the Commonwealth Games, construction will commence in Q3 2018 on an expansion to the southern terminal and Rydges Hotel for completion late 2019.
- Cruise Ship Terminal—State and local government continue to search for appropriate sites for a cruise ship terminal and potential new casino.

TABLE 1  
**Gold Coast Core Office Market Indicators as at January 2018**

Grade	Total Stock (m <sup>2</sup> )	Vacancy Rate (%)	Annual Net Absorption (m <sup>2</sup> )	Annual Net Additions (m <sup>2</sup> )	Average Gross Face Rent (\$/m <sup>2</sup> )*	Average Incentive (%)*	Average Core Market Yield (%)
Prime	132,163	8.9	7,030	2,059	456	17.0	7.00—8.00
Secondary	334,654	11.3	-5,229	-8,209	365	13.0	7.75—8.50
<b>Total</b>	<b>466,817</b>	<b>10.6</b>	<b>1,801</b>	<b>-6,150</b>			

Source: Knight Frank Research/PCA The Core Office market is defined as the precincts covered by the PCA OMR survey \*based on tenancies of 250—500m<sup>2</sup>

# GOLD COAST OFFICE MARKETS



# SUPPLY & DEVELOPMENT

## Recent supply has been low with a limited pipeline

The supply of new office space across the core Gold Coast precincts has stalled in the past five years with the current stock of 466,817m<sup>2</sup> in line with the levels seen in 2012 (Figure 1). While there was a level of over-building in 2009 and 2010, taking the vacancy rate beyond 20%, the steady improvement in demand, particularly since 2014, has not been matched by a supply response. There were no changes to the prime stock base during the past six months and there is no new prime space anticipated to be delivered to the market during 2018.

With the prime vacancy for the Gold Coast market now below 10%, the focus is increasingly on the potential supply pipeline. To date the feasibility for new development has been hampered by only limited rental growth across the prime Gold Coast market.

## Beachside locations are hampered by high site values and high density zoning

The beachside core office locations of Broadbeach, Southport and Surfers Paradise are further hampered by the

high density development encouraged by town planning and alternative demand for residential and hotel uses, which confines office development to podium floors within large scale developments. While a number of large mixed use developments in Southport and Broadbeach currently have podium commercial space proposed, the slow progress, or in some cases stalling, of these projects means these projects are medium term only.

Recent and proposed supply has remained predominantly small scale, with refurbishment projects dominant, i.e 60 High St, Southport and 12-14 Marine Parade, Southport. There has also been development outside of the core office precincts, where land is more affordable and rental hurdle rates are more in line with current market conditions. Areas such as Hope Island and Helensvale have seen small-scale office development and this is likely to continue with greater density to emerge in nodes adjacent to major public transport.

The core Gold Coast office precinct with the greatest potential to provide new office development in the short term is Robina, where a number of development sites remain available. One of these is The Base at Robina, owned by Robina Land Corp. Other sites in the precinct have mixed use or the potential to flow from residential, aged care or commercial

use depending on demand at the time of site activation.

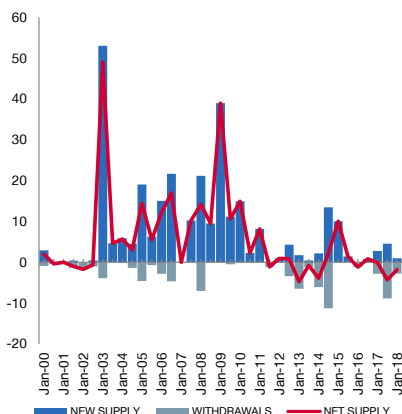
The refurbishment of stock, particularly older buildings in central locations such as Southport and Bundall, are essential to provide space to the market which is in line with tenant demand. In the absence of additional or refreshed prime supply the core Gold Coast risks losing potential occupiers to other markets if demand cannot be satisfied, potentially further fragmenting the market.

TABLE 2  
Gold Coast – Vacancy Rates

Precinct	Jan 17 (%)	Jan 18 (%)
A Grade	12.9	8.9
<b>Prime</b>	<b>12.9</b>	<b>8.9</b>
B Grade	11.1	10.9
C Grade	12.4	11.8
D Grade	17.0	11.7
<b>Secondary</b>	<b>11.9</b>	<b>11.3</b>
Broadbeach	10.8	6.6
Bundall	14.1	11.8
Robina/Varsity	6.9	7.2
Southport	13.2	13.2
Surfers Paradise	18.4	12.0
<b>Total</b>	<b>12.2</b>	<b>10.6</b>

Source: Knight Frank Research/PCA

FIGURE 1  
Gold Coast Office Supply  
('000m<sup>2</sup>) per 6 month period



Source: Knight Frank Research/PCA  
NB—Jan 2003 = entrance of Robina/Varsity Lakes market into the PCA survey

TABLE 3  
Major Gold Coast Office Projects (1,000m<sup>2</sup>+)

Project	NLA m <sup>2</sup>	Developer	Status	Date
340 Hope Island Rd, Hope Island	2,315	Private Investor	Complete	Mar 17
Oasis Broadbeach expansion	3,500	Abacus/KKR	Complete	Jul 17
60 High St, Southport #	3,725	Private Investors	Complete	Dec 17
108 Siganto Dr, Helensvale	1,800	AMMA	Complete	Jan 18
1+2/34 Glenferrie Dr, Robina #	3,196	Private Investor	Complete	Jan 18
33 Scarborough St, Southport#	2,755	Private Investor	Mooted	Dec 19
12-14 Maine Pde, Southport #	8,492	Strada Office	Mooted	Dec 19
197 Robina Town Centre Dr, Robina	4,000	Robina Land Corporation	Mooted	Dec 19
829 Southport –Nerang Rd, Nerang	6,627 GFA	Turner Development	Application	TBA

Source: Knight Frank Research/PCA # refurbishment

# TENANT DEMAND & RENTS

## Net Absorption has been steadily higher since 2014

While the first half of 2017 was relatively quiet in terms of total net absorption (164m<sup>2</sup>), the six months to January 2018 was stronger at 1,637m<sup>2</sup>. The Gold Coast market has recorded positive net absorption in all but two of the past ten years. While the ten year average annual net absorption is a relatively modest 5,705m<sup>2</sup> per annum, since the market recovery began in earnest in 2014 the annual average has been roughly double, at 10,118m<sup>2</sup>.

With population growth, infrastructure development and current high levels of private sector construction across the Gold Coast region, the level of net absorption is expected to remain positive and potentially reach new highs if sufficient stock is available.

The Gold Coast unemployment rate was a low 5.0% as at December 2017, well below Queensland average of 5.9%. While the Gold Coast region provides 30,626 workers to Brisbane every day (Census 2016) the core of workers in the Gold Coast has grown as the city matures—up by 17% in the five years to 320,500. As at November 2017 the core office using industries of Information Media & Telecoms, Finance & Insurance, Rental, Hiring & Real Estate, Professional, Scientific & Technical Services, Administrative & Support

Services and Public Administration & Safety accounted for 25% of Gold Coast workers. These industries have grown their workforces by a total of 29% over the five years from November 2012, a rate well above the total employment growth for the city (17%). Outside of the above the dominant industry type in the Gold Coast was Health Care & Social Assistance (13%) followed by Construction (11%), Retail Trade (11%) and accommodation and Food Services (10%).

## Vacancy improving but still material differences between the precincts

The Gold Coast market has recorded further improvements to the vacancy rate, sitting at 10.6% as at January 2018, down from the 12.2% recorded a year earlier. The bulk of the improvement in the Gold Coast has arisen due to the steady improvement in the prime market, with direct prime vacancy now below double-digits and at 10 year lows.

The prime market vacancy has fallen sharply since January 2015 when it was 18.9%. A lack of new prime supply since that time, along with prime net absorption in excess of 13,000m<sup>2</sup> has driven this reduction in the vacancy rate. With sub-lease virtually non-existent at 0.2% (200m<sup>2</sup>) the vacancy rate is being driven by direct space.

The secondary market has continued to show slow but steady improvement, with the current vacancy rate 11.3%, down from 11.9% a year earlier. Benefitting from demand overflowing from prime space, the B grade market recorded a decrease in vacancy to 10.9% with 1,590m<sup>2</sup> of positive net absorption. The C Grade (11.8%) and D Grade (11.7%) markets remain the sub-markets with the greatest vacancy rates. With prime rents stable during 2017 tenants had the ability to upgrade their accommodation.

The small precinct of Broadbeach is the tightest market with 6.6% vacancy, coming from only 1,979m<sup>2</sup>. The beachside location combined with the light rail station provides strong locational advantages for both small and larger tenants. However there is no meaningful supply anticipated for Broadbeach with high land values restricting future office development to podium floors within mixed use towers.

The Robina/Varsity Lakes precinct has a total vacancy rate of 7.2%, up slightly from 6.8% six months earlier. The imminent return to the market of the refurbished Lakehouse Corporate Space Bld 1+2 will provide additional options for occupiers.

TABLE 4  
Recent Major Leasing Activity Gold Coast

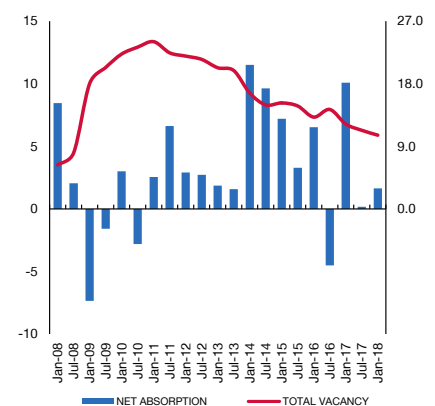
Address	NLA m <sup>2</sup>	Est Face Rent \$/m <sup>2</sup>	Term yrs	Incentive (%)`	Tenant	Date
9 Ouyan St, Bundall	787	450 g	5	undis	NewBook	Jan 18
7 Short St, Southport	320	325 g	3	5-10	Eureka Group	Jun 17
Oracle, 6 Charles Ave, Broadbeach	319	600 g	4	5-10	ETZ Technologies	Mar 17
1 Lake Orr Dr, Varsity Lakes	283	340 g	3	undis	Turner Freeman	Jan 17
Oasis on Broadbeach, Broadbeach	2,100	450 g	7	undis	Allianz Insurance	Jan 17

Source: Knight Frank Research

`estimated incentive calculated on a straight line basis g gross

FIGURE 2  
Gold Coast Demand & Vacancy

'000m<sup>2</sup> net absorption (LHS) & vacancy % (RHS)



Source: Knight Frank Research

Bundall's vacancy has stabilised over the past six months at 11.8% but remains on a downward trend. The annual net absorption of 1,936m<sup>2</sup> is likely to be stimulated by the refurbishment of assets over the course of 2018.

Surfers Paradise total vacancy is now 12.0%, down from 22.6% two years ago. Recent improvement has been attributed to leasing activity within 50 Cavill Ave. Meanwhile Southport, the largest market, remains the precinct with the highest vacancy at 13.2%. While the improved public transport and council focus on creating a CBD is assisting the precinct, fragmented ownership and older assets continues to hold the market back.

### Effective rents grew by 4% p.a in Broadbeach

Supporting tenants' ability to upgrade their accommodation, but constraining feasibility for major new supply, the average effective rents for the Gold Coast core markets have shown only modest increases.

As shown in Figure 3 there has been discrepancy in rental movements across the precincts with Broadbeach showing good growth over the past year as the low vacancy prompted rental growth. Bundall and Surfers Paradise have recorded 2.6% and 3.2% effective rental growth respectively. After recovering

from a low base the Southport market has maintained its improving trend with 2.5% effective growth, but further growth is hampered by the precinct's high vacancy and lack of contiguous space.

As a blended figure the median Gold Coast gross face rent is \$456/m<sup>2</sup> with an average incentive of 17.5%. Even though the direct prime vacancy rate has been consistently falling, there was not enough competition in the market to engender material increases to prime rents during 2017. However as the market continues to tighten, particularly in a relatively small market like the Gold Coast, rents have the potential to shift quickly, as is already being demonstrated in isolation within the Broadbeach market.

The secondary market rent has fallen on an effective basis over the past year, with the current gross effective rent of \$317/m<sup>2</sup>, 2.5% lower than a year earlier. This came after a period of solid recovery from 2012-2017 when secondary effective rents grew by a total of 15%. More recently, as the upgrading trend became entrenched within the market, demand for secondary stock reduced. Over the past year gross face rents fell to \$365/m<sup>2</sup> from \$374/m<sup>2</sup> while incentives remained stable at 13%. Secondary incentives peaked in 2014 at just under 16% but since then the largely private ownership base of secondary assets have moved towards dropping face rents rather than providing greater incentives.

FIGURE 3  
Gold Coast Rental by Precinct  
\$/m<sup>2</sup> gross effective rent

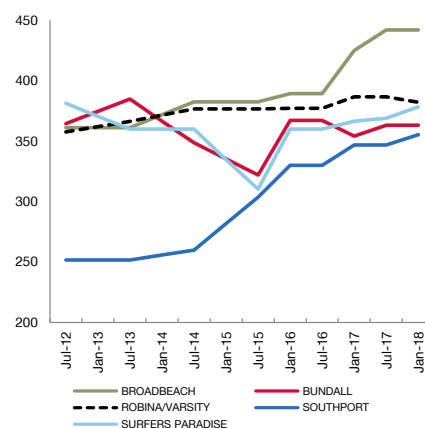
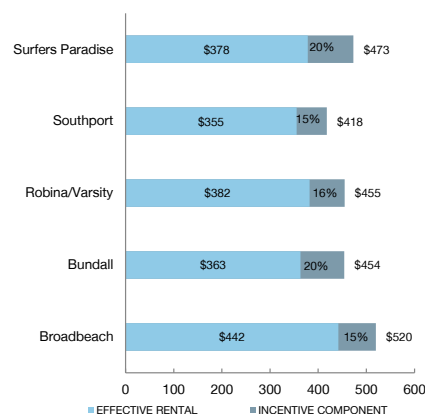


FIGURE 4  
Gold Coast Face & Effective Rents  
\$/m<sup>2</sup> gross face rent and incentive component



Source: Knight Frank Research

TABLE 5

### Recent Major Sales Activity Gold Coast

Address	Grade	Price \$ mil	Core Market Yield %	NLA m <sup>2</sup>	\$/m <sup>2</sup> NLA	WALE	Vendor	Purchaser	Sale Date
130 Bundall Rd, Bundall	B	7.50	8.60	3,705	2,024	0.7	Jarema Pty Ltd	Private Syndicate	Jan 18
12 – 14 Marine Pde, Southport	A	34.05	8.65	8,547	3,984	1.4	Receivers for Chung Southport	Strada Office Fund	Oct 17
37 Connor St, Burleigh Heads	B	8.30	7.58^	1,817	4,568	n/a	McDonald House	Private Investor	Oct 17
2 Boston Court, Varsity Lakes	A	15.00	undis	3,436	4,366	2.4	Various Strata unit owners	Private Investor	Sep 17
68 Marine Pde, Southport	B	10.50	undis	1,468	7,153	undis	Private Investor	CJQ Investments Pty Ltd	Jul 17
2 Corporate Court, Bundall	A	89.00	7.09^	19,574	4,547	undis	Cromwell Group	CorVal Partners	Jun 17
69 Laver Dr, Robina	A	7.60	7.22	1,502	5,053	5.3	Robina Land Corporation	Peak Equities	May 17
183 Varsity Pde, Varsity Lakes	A	11.80	7.82	3,153	3,742	2.2	Peak Equities	Clarence Property Corporation	Feb 17

Source: Knight Frank Research ^ passing yield

# INVESTMENT ACTIVITY & YIELDS

## Investment demand building in line with wider climate

The level of investment interest in the Gold Coast office market has continued to grow as the high level of demand for office investments flows over from the capital city markets and into more regional centres.

There were five sales in excess of \$10 million during 2017, slightly stronger than the four \$10 million+ sales of 2016. Over the past three years a number of the Gold Coast's largest office buildings have transacted with The Rocket, Robina (\$70 million 2015), 50 Cavill Ave, Surfers Paradise (\$48.75 million 2016) and, most recently, 2 Corporate Ct, Bundall transacting for \$89 million in June 2017. The asset at 2 Corporate Ct, also known as Bundall Corporate Centre, contains two office buildings totalling 20,565m<sup>2</sup> of office space plus a fitness centre and the potential for future development on the 26,800m<sup>2</sup> site. The asset was purchased by CorVal Partners for \$89 million which reflected a passing yield of 7.09%.

However with only few assets of such scale in existence on the Gold Coast the majority of transactions are within properties of \$35 million and below. These smaller assets tend to be purchased by a mixture of private investors, private syndicates and unlisted funds rather than the major domestic and international institutional investors, generally seeking greater scale of investment. Aside from CorVal, unlisted funds such as Strada Office Fund, Peak Equities and Clarence Property Corporation were also active in 2017.

While the majority of Gold Coast office assets are too small for major institutional investors, the overall investment climate has been impacted by the weight of money seeking to invest in national and international office markets. With competition for CBD and non-CBD assets in the major capital cities at peak levels, compressing yields and leaving investment mandates unfulfilled, demand for investments has increasingly spilled over into the Gold Coast market.

The median prime core market yield is currently 7.50%, across a range of 7.00% - 8.00%, and this represents tightening of 13 basis points over the past year. This tightening yield bias is expected to be maintained over the course of 2018, with further firming expected as the Gold Coast region is in the spotlight and further geographical diversification is embraced by investors.

Assets which can be refurbished to prime grade accommodation, particularly in the core office locations of Broadbeach, Surfers Paradise, Southport and Bundall are expected to be highly sought by value-add investors to gain exposure to the improving tenant demand and potential for rental growth.

“Well located assets with the potential to be refurbished to prime space will be highly sought by value-add investors.”

## Outlook

- The Gold Coast economy is on an upswing with strong population growth, infrastructure development, domestic and offshore tourism and the Commonwealth Games injecting activity and confidence in to the region. The maturation of the Gold Coast as a regional service centre will continue in the medium term.
- The steady net absorption has now erased the overhang of supply which impacted the market in 2009 and 2010 with prime vacancy at 10 year lows. Despite this demonstrated demand the pipeline for future supply has not yet responded. In part this is due to competing uses for beachside locations with high density development sought, limiting office use to podium floors of mixed use buildings.
- This will limit future supply in Broadbeach, Surfers Paradise and Southport with Robina and Bundall the precincts most likely to host dedicated office development. The limited prospects for major supply will continue to see smaller developments pop up in non-core locations, further fragmenting the Gold Coast office market.
- The vacancy is expected to continue to decrease over 2018 and 2019 with total net absorption potentially limited by insufficient options for tenants, particularly in the prime market. To date rental growth has been modest across the Gold Coast as a whole, however as more competition for tenancies build, this may accelerate. However this is likely to be patchy and not across the whole market.
- Investment demand is expected to continue to build with international exposure of the Gold Coast and sustained tenant demand to underpin confidence in the market. Nationally and internationally the demand for office investment will remain high with the Gold Coast to benefit from investors moving up the yield curve to secure assets.

## RESEARCH & CONSULTING

### Jennelle Wilson

Senior Director  
+61 7 3246 8830  
[Jennelle.Wilson@au.knightfrank.com](mailto:Jennelle.Wilson@au.knightfrank.com)

### Ben Burston

Group Director  
+61 2 9036 6756  
[Ben.Burston@au.knightfrank.com](mailto:Ben.Burston@au.knightfrank.com)

## GOLD COAST

### Mark Witheriff

Joint Managing Director – Gold Coast  
+61 7 5636 0803  
[Mark.Witheriff@au.knightfrank.com](mailto:Mark.Witheriff@au.knightfrank.com)

### Tania Moore

Joint Managing Director – Gold Coast  
+61 7 5636 0801  
[Tania.Moore@au.knightfrank.com](mailto:Tania.Moore@au.knightfrank.com)

## QUEENSLAND

### Ben McGrath

Managing Director – QLD  
+61 7 3246 8888  
[Ben.McGrath@au.knightfrank.com](mailto:Ben.McGrath@au.knightfrank.com)

### Definitions:

**Core Market Yield:** The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).

**WALE:** Weighted Average Lease Expiry

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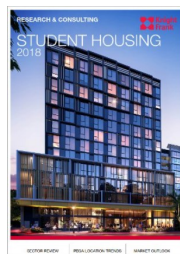
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