

Adelaide CBD Office Market



September 2024

Tenant movements are being heavily influenced by ESG factors leading to a “flight to experience” trend. Effective rents continue growth at a slowed pace and net absorption defies recent trends, recording the largest absorption since H1 2009.

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Key Insights

Net absorption has reached its highest level in 15 years with an uptick in demand and limited new supply additions.




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 **17.5%**

Total vacancy rising

Total vacancy decreased from 19.3% in January 2024 to 17.5% in July 2024.

Prime vacancy = 20.0%
Secondary vacancy = 15.2%

 **+29k**


Upsurge in net absorption

Net absorption increased from 673 sqm in January 2024 to 29,041 sqm in July 2024, well above the 10-year average of 3,955 sqm. This marks the largest 6-monthly absorption in 15 years (January 2009).

 **43k sqm**


New supply to be delivered between now and 2025

New supply additions expected by the end of 2025 equate to 43,176 sqm, significantly down on H2 2023 projections and last year's new supply delivered.

 **7.0%**

Average CBD prime yield

The current average prime yield for CBD assets is 7.03%, 33 bps above the 10-year average. Adelaide's average prime yield is softer than Sydney (6.03%) and Melbourne (6.39%), but sharper than Brisbane (7.25%).

 **0.7%**

Rental growth in H1 2024

Gross effective prime rents grew marginally in the quarter, while secondary rents declined.

Prime - \$431 (0.71%)
Secondary - \$283 (-0.49%)

 **\$84m**

H1 2024 transaction volumes (\$10m+)

Transaction volumes rose in the first half of 2024, but with just one CBD sale above \$10m.

Adelaide CBD Office Market Indicators – 1 July 2024

Grade	Total Stock sqm	Vacancy Rate %	Annual Net Absorption sqm	Annual Net Additions sqm	Av Gross Face Rent \$/sqm	Incentive %	Gross Effective Rent Gth % y/y	Core Market Yield %*
Prime	743,853	20.0%	14,755	0	656	34.3%	4.09%	7.03%
Secondary	819,864	15.2%	14,286	152	458	38.2%	2.77%	8.07%
Total	1,563,717	17.5%	29,041	152				

Source: Knight Frank Research/PCA * assuming WALE 5 years

Leasing

LOW SUPPLY ADDITIONS LEAD TO VACANCY DIP

Adelaide’s CBD office market has seen a notable shift in vacancy rates this year. The overall vacancy rate has decreased from 19.3% to 17.5% in the first half of 2024, driven by the largest net absorption in 15 years. This significant absorption of office space suggests a strengthening demand, particularly for prime office spaces, which is a positive indicator for the market.

On a property grade level, prime CBD vacancy has declined from 22.0% to 20.0% in H1 2024, while secondary vacancy has also declined, from 16.9% to 15.2% over the same period. This marks the first time this decade, that the secondary vacancy rate is below the 10-year running average (currently 16.3%).

ABSORPTION BUCKS TREND

H1 2024 saw Adelaide net absorption reach a near-record high at 29,041 sqm, the largest 6-monthly positive net absorption figure in over 15 years (January 2009). This marks the third consecutive positive six-monthly net absorption figure, indicating a likely change of trend.

Absorption between prime and secondary grade property were practically on-par during the period, recording 14,755 sqm and 14,286 sqm, respectively. In the 12 months to July 2024, prime absorption was 18,700 sqm, indicating a continuing trend of increasing movement, while secondary absorption over the 12-month period was less than the 6-monthly figure at 11,014 sqm.

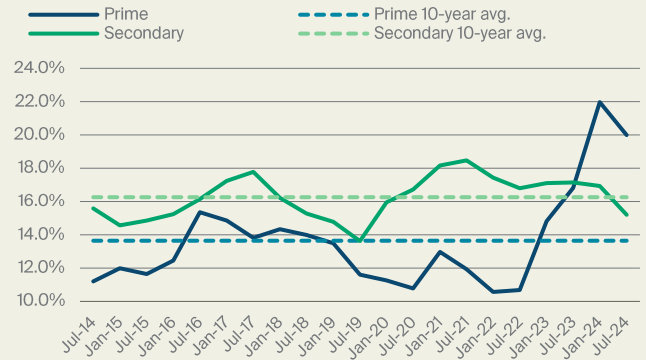
The stark contrast between H2 2023 (673 sqm) and H1 2024 absorption figures suggests an uptick in demand that is supplemented by limited new supply additions.

TENANT EXPERIENCE VITAL

While “flight to quality” has been a continuing trend in recent years, the tenant “experience” picture of late shows an evolution in the needs and desires of tenants in Adelaide beyond mere aesthetic appeal. Observations indicate that tenants have been moving to higher quality office space with a greater level of amenities and more environmentally sustainable initiatives at their disposal, with a clear focus on the overall tenant experience, and encouraging staff back into the office.

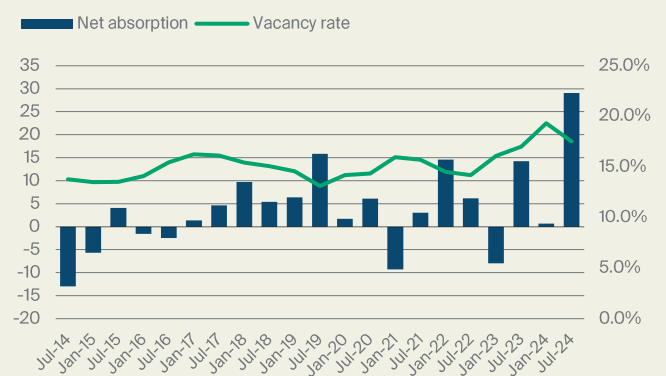
As a result, newer generation stock (post 2006) continues to attract the greatest demand, with a vacancy spread between new (11.08%) and old (37.17%) generation stock of 26.09 percentage points.

CBD office vacancy by grade, %



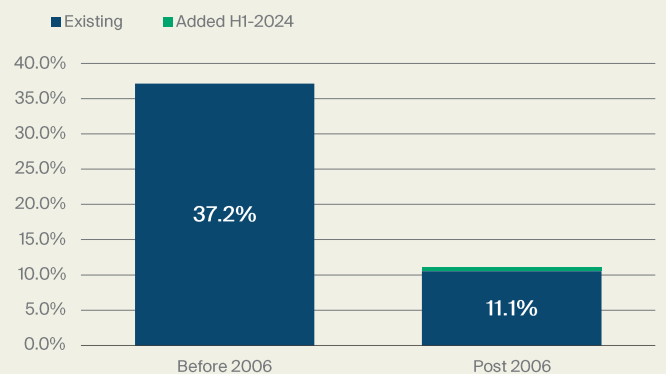
Source: Knight Frank Research

CBD office net absorption and vacancy 6-months to the year in 000's sqm (LHS), and % (RHS)



Source: Knight Frank Research, PCA

Core precinct prime vacancy rate by age of stock, %



Source: Knight Frank Research, PCA

Developments

REFURBISHED SUPPLY TAKING CHARGE

New development supply in the Adelaide CBD office market has been all-but non-existent in the first half of 2024, with no new development additions recorded in the period. This is in stark contrast to the last three six-monthly reporting periods recording over 30,000 sqm each, with the most recent completions being Walker Corporation’s One Festival Tower and Palumbo’s 185 Pirie Street in H2 2023.

Refurbished space is carrying the supply figures in Adelaide, however, with 744 sqm added to the market from 440 King William Street and 30 Pirie Street adding 24,000 sqm. Additionally, more than 44,000 sqm of upgraded space is due in H2 2024 with 150 Grenfell Street (+9,485 sqm), 45 Pirie Street (+19,580 sqm) and 100 King William Street (+15,112 sqm) all on the cusp of completion.

150 Grenfell Street will see the full reconstruction and expansion of two existing five-storey commercial office buildings in which a sixth level will be added and a single floorplate design created across both buildings. At 45 Pirie Street, Curated Capital are undertaking a significant refurbishment that will add 17-storeys of refreshed space, while Quintessential’s former CBA building at 100 King William Street is undergoing a similar regeneration of its 15-storeys.

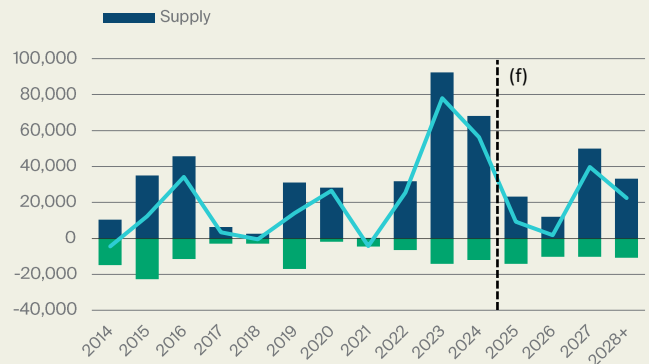
SUPPLY DYNAMICS SHIFTING

Beyond 2024, new development supply expected between 2025 and 2027 comprises 42-56 Franklin Street, Victoria Tower, Market Square and Walker Tower 2.

Kyren Group’s Franklin Street development, known as 50 Franklin, is a 17-storey office building delivering approximately 21,000 sqm of A-grade space in 2025. Also expected in the latter half of 2025, Auta Group’s Victoria Tower development is a mixed-use development providing nine levels of office accommodation for a total of 2,324 sqm.

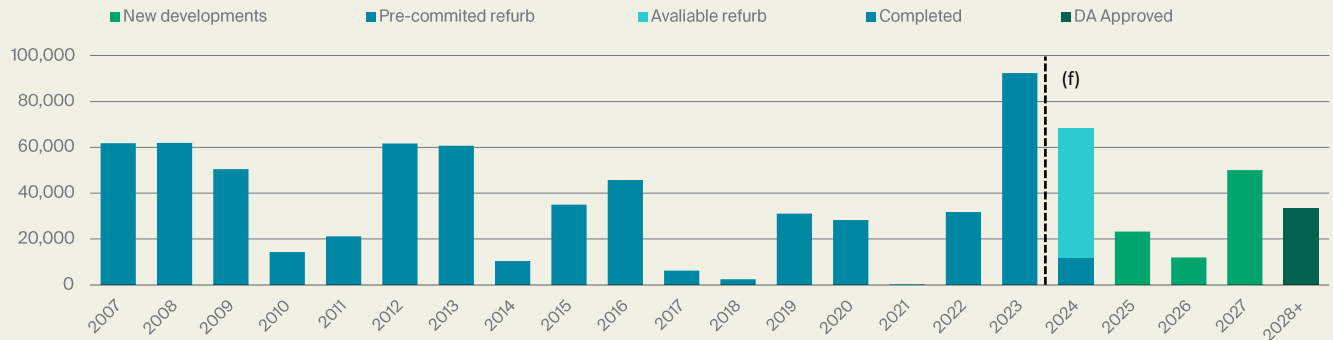
ICD Property Group’s Market Square development isn’t expected until 2026, however once complete will provide an additional 12,000 sqm of office space spread over three towers. Walker Tower 2 is the next major office tower development due, with completion expected in 2027. The high-rise will be a 38-storey mixed use tower providing approximately 50,000 sqm of office supply. Projects in early stages include 200 North Terrace and 120 Frome Street (combined for approximately 33,000 sqm).

CBD supply and withdrawals
000's sqm



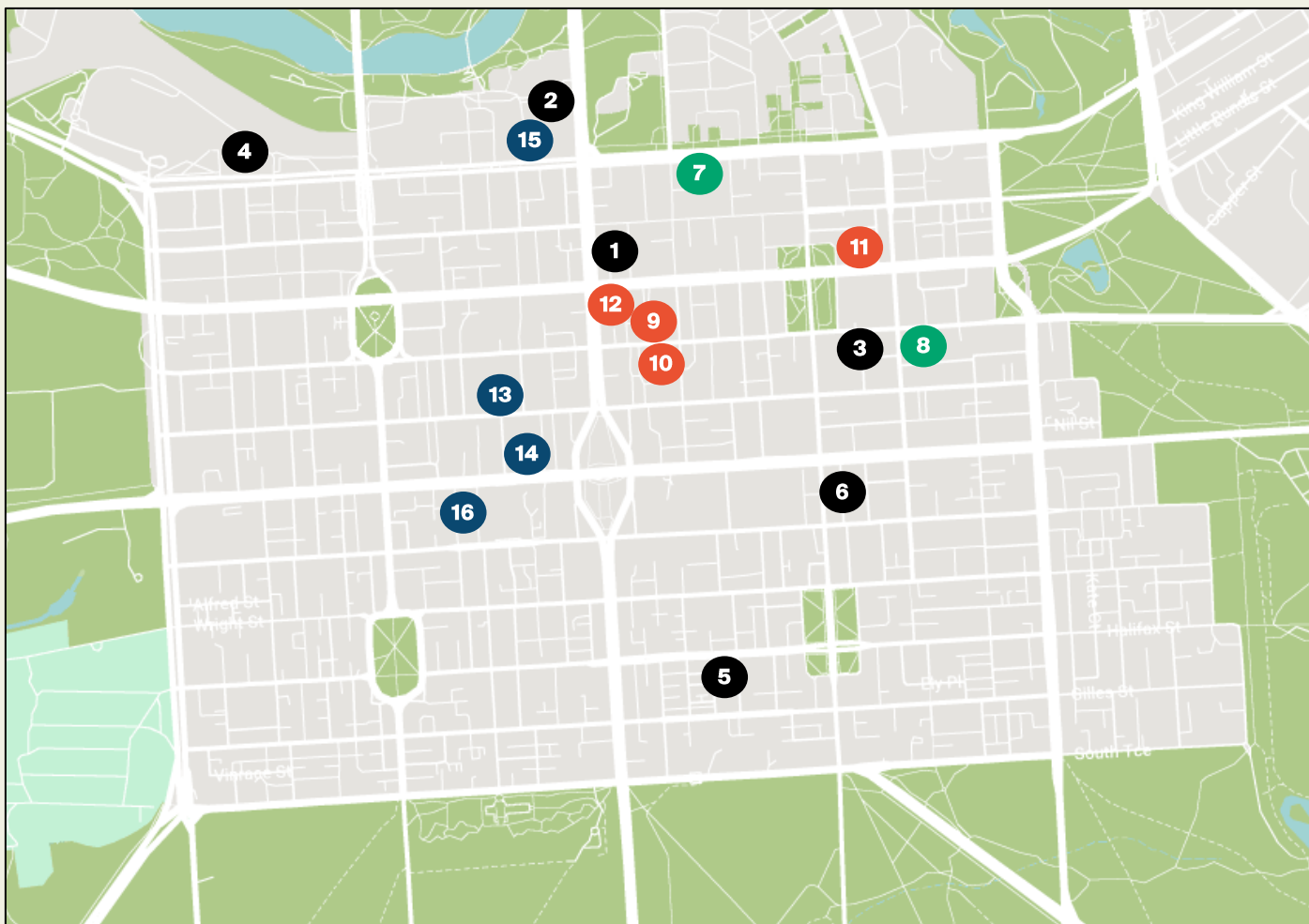
Source: Knight Frank Research, PCA

Adelaide CBD historic and forthcoming supply
by development type, 000's sqm



Source: Knight Frank Research, PCA

Major office supply



Recently completed

#	Address	SQM	Status
1	60 King William St	40,000	Complete
2	One Festival Tower	44,500	Complete
3	185 Pirie St	6,328	Complete
4	SAHMRI 2	20,000	Complete
5	91 Halifax St	627	Complete
6	274 Pulteney St	1,890	Complete

Mooted

#	Address	SQM	Completion
7	200 North Tce	26,000	2028+
8	120 Frome St	7,310	2028+

Refurbishments

#	Address	SQM	Completion
9	30 Pirie St	24,000	H2 2024
10	45 Pirie St	24,000	H2 2024
11	150 Grenfell St	9,485	H2 2024
12	100 King William St	15,112	H2 2024

New developments

#	Address	SQM	Completion
13	42-56 Franklin St	21,000	H2 2025
14	Victoria Tower	2,324	H2 2025
15	Market Square	12,000	H2 2026
16	Walker Tower 2	50,000	H2 2027

Rents / deals

RENTAL GROWTH SLOWING

Gross rental rates increased significantly in H2 2023, with prime and secondary stock averaging \$649/sqm and \$455/sqm, respectively. This was a 7.00% increase for prime stock and a 2.63% increase for secondary stock. However, in H1 2024 the growth rate slowed down considerably, with prime stock averaging \$656/sqm (+1.00%) and secondary stock averaging \$458/sqm (+0.60%).

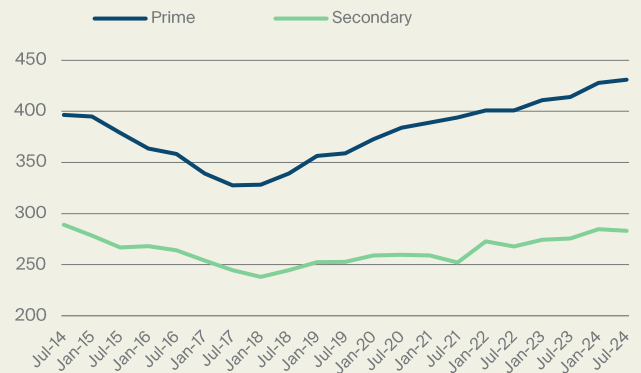
In H1 2024, prime gross effective rents rose by just 0.71% (\$428/sqm to \$431/sqm), while secondary gross effective rents bucked the trend with a minor decline of 0.48% (\$285/sqm to \$283/sqm). Despite a slowing growth rate, rental growth over the last 12 months indicates a strong overall performance, with prime net effective rents up 4.09% and secondary up 2.77% on the year.

INCENTIVES AND FORECASTS

With greater absorption, lower levels of new supply and continued strong demand from market participants, incentive levels haven't shifted much during the six months to July 2024. Incentives for prime assets increased by 0.56% to be at 34.27%, while secondary incentives rose by more than double the rate of prime incentives, increasing 1.79% to 38.16%. The expectation is that incentives will see upward pressure for secondary assets for the foreseeable future, while prime assets should see incentives stabilise.

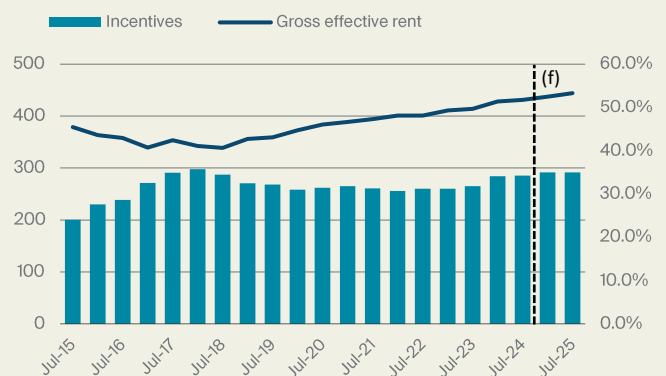
The three-year compound annual growth rate forecasts indicate an average increase of 5.63% p.a. in prime gross effective rents up to 2027, while prime incentives are expected to decline to between 32.50% and 30.00% by 2027.

CBD gross effective rents by grade, \$/sqm



Source: Knight Frank Research

CBD office rents and incentives
gross effective rents \$/sqm (LHS), and % (RHS)



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Face Rent \$/sqm	Term yrs	Start Date
Confidential	100 King William Street	Core	3,000	588 g	10	Apr-25
CBRE	83 Pirie Street	Core	1,150	760 g	10	Sep-24
Confidential	60 Light Square	Core	1,245	530 g	8	Apr 24
SA State Government	250 Victoria Square	Frame	4,466	635 g	5	Mar 24
Our Money Market	83 Pirie Street	Core	1,047	755 g	10	Mar 24
SA State Government	11 Waymouth Street	Core	2,928	640 g	10	Feb 24

Source: Knight Frank Research/PCA n Net g Gross

Adelaide Fringe Update

AVAILABILITY UP TO ITS HIGHEST LEVEL IN A YEAR

The Fringe market recorded a net absorption of -1,954 sqm in H1 2024, below the 10-year average of -546 sqm and the second largest negative absorption figure in the last five years. The lack of any new supply additions in the period coupled with an increase in vacancy due to tenant movements has led to the negative absorption.

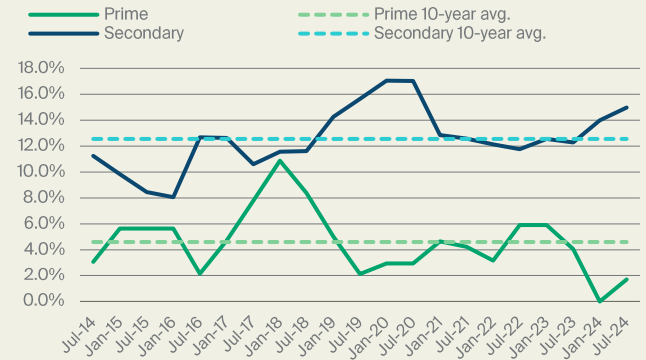
Despite the latest figures, the Fringe is still an attractive option for many, evidenced by a notable leasing deal in Wayville, which secured a rate of \$390/sqm gross of NLA. Metropolitan locations are also emerging as viable alternatives for businesses not strictly tied to the city centre; however, the Fringe remains the first choice after the CBD.

In the first half of 2024, the Fringe saw a slight uptick in overall vacancy rates, rising from 11.1% to 12.0%. On a grade level, prime vacancy rose from 0.0% to 1.7% in the period, while secondary vacancy experienced a similar rise from 14.0% to 15.0%. Despite this, prime vacancy remains below the 10-year average of 4.6%, while secondary vacancy is above its 10-year average of 12.6%.

Prime gross effective rents experienced minor movements, rising \$2/sqm to \$371/sqm, while secondary gross effective rents remained unchanged at \$272/sqm. Incentives and yields have seen no movement in the period in either prime or secondary offices, remaining at 27% / 7.23% for prime, and 30% / 7.40% for secondary.

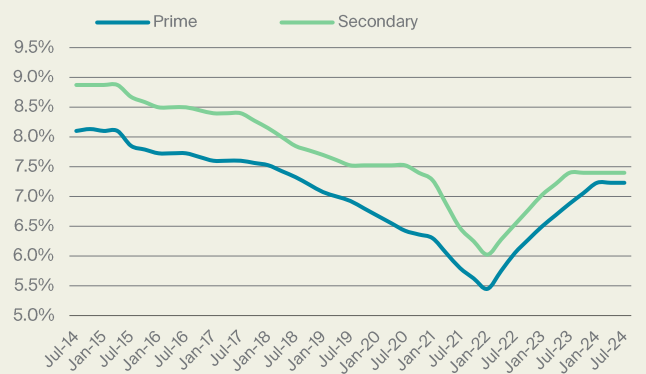
The previously reported sale of 1 Richmond Road, Keswick has now settled, recording a contract price of \$38.25m for a CMY of 7.84%.

Adelaide Fringe office vacancy by grade, %



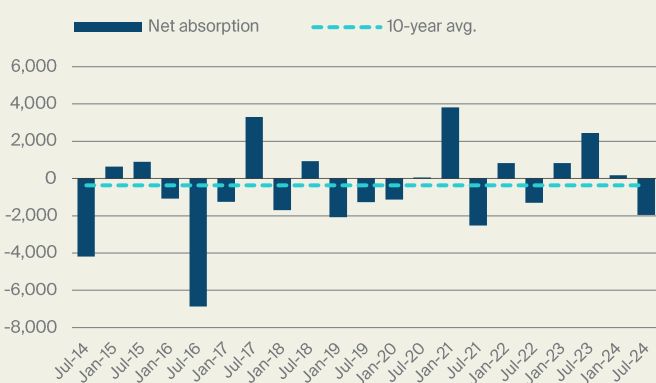
Source: Knight Frank Research

Adelaide Fringe core market yields by market and grade, %



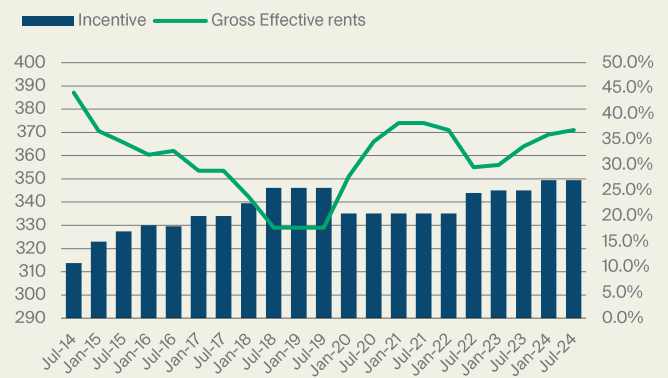
Source: Knight Frank Research

Adelaide Fringe office net absorption 000's sqm



Source: Knight Frank Research, PCA

Adelaide Fringe prime rents and incentives by gross effective rent \$/sqm (LHS), and % (RHS)



Source: Knight Frank Research

Investment

\$10M+ SALES SUBDUED

Transaction activity for assets \$10m+ thus far in 2024 have been limited with only one recorded within the CBD, being 121 King William Street. The property sold to a local private buyer for \$84.1m (7.62% Core Market Yield 'CMY').

Looking to the Adelaide metropolitan market, two significant sales provide context and give a holistic view at the office market in Adelaide. The first is a five-storey asset at 1 Richmond Road, Keswick that sold to Leyton Funds for \$38.25m (7.78% CMY). The other significant metropolitan sale was the Community Mental Health Centre (SA Health) at 7-9 Park Terrace, Salisbury, which was purchased by a local private investor for \$13.0m (6.27% CMY). The vendor, MA Financial, acquired the property in 2021 for \$15.0m as part of a buyout of Ascot Capital. Ascot Capital acquired the property in 2016 for \$11.4m at a CMY of 6.23%.

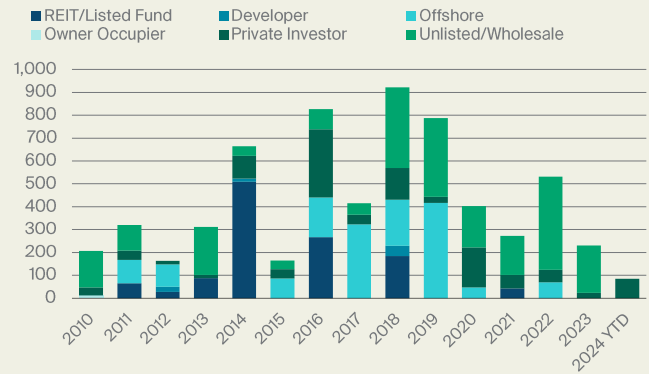
OUTGOINGS STABILIZING

For the most part, outgoings recorded minimal material changes in H1 2024, despite an increase in statutory rates and taxes after the most recently issued statutory revaluations. However, the sentiment within the market continues to support an upward trend in outgoings for the foreseeable future.

YIELD PICTURE CHANGING

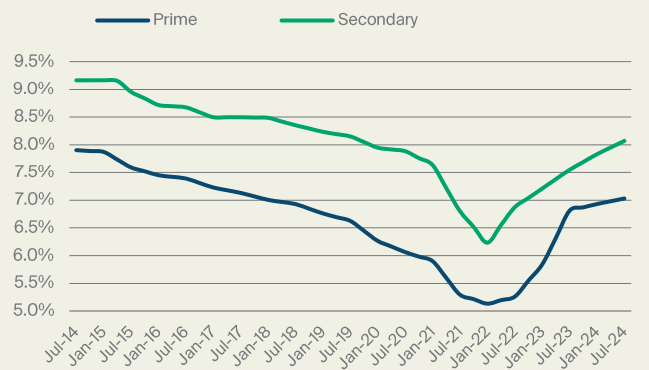
Prime yields softened a further 10 bps in the six months to July 2024, representing the lowest six-monthly yield increase since the softening began in 2021. For context, the previous two six-monthly periods saw a softening of 12 bps and 97 bps, respectively. This trend suggest that a potential peak looms for this softening cycle.

CBD office investment volumes
by type of investor, \$M



Source: Knight Frank Research, SALIS

Adelaide CBD core market yields
by grade, %



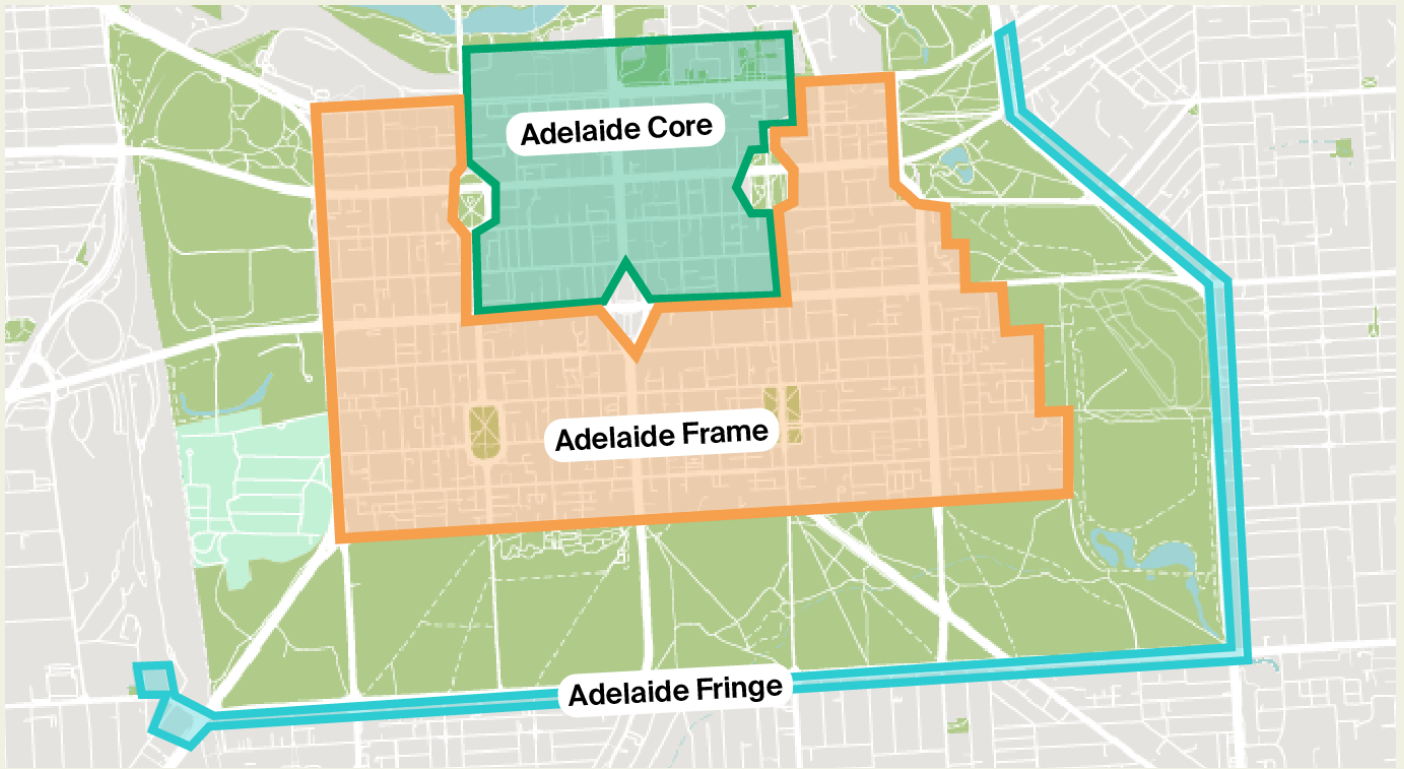
Source: Knight Frank Research

Recent significant sales

Property	Price \$M	Core Market Yield %	NLA sqm	\$/sqm NLA	WALE	Purchaser	Vendor	Sale Date
121 King William Street	84.11	7.62	12,616	6,667	4.26	Local Private	Charter Hall	Jul-24
104 Frome Street	14.20	c.8.5	4,387	3,098	1.70	Private - as 5 transactions	Private	May-24
1 Richmond Road, Keswick ^F	38.25	7.84	8,087	4,730	3.51	Centuria Property Funds	Lleyton Funds	Apr-24
5=10 Third Avenue, Mawson Lakes ^M	28.20	7.06	5,358	5,263	4.95	GDA Diversified Property Trust	Interstate Private Syndicate	Nov-23
99 Frome Street	13.00	7.52	3,432	3,788	1.01	Private	Private	Jul 23

Source: Knight Frank Research ^ includes income support * Not settled ^F Fringe Sale ^M Metro Sale CONF Confidential

Map of Adelaide CBD & Fringe



We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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Recent Research



Brisbane CBD Office Market
Mary 2023



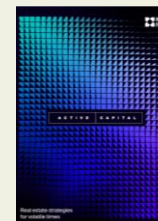
Australian Industrial Review
REPORT TITLE Q2 2023



Brisbane Suburban office
report February 2023



Brisbane's Accelerated
Development



Active Capital Report
2023



The Wealth Report
2023



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