

Perth CBD Office Market with West Perth update



September 2024

The CBD market is relatively stable; vacancies rise as some prime developments complete, but rents hold firm. The investment market remains quiet.

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Key Insights

Market moderates following growth over the last 12 months, whilst refurbishment of CBD stock continues

 **15.5%**

Total vacancy

Total vacancy rose 0.8% to 15.5% across H1-2024 in Perth's CBD, following 39,732 sqm of additions, predominantly comprising Premium grade stock. The A grade vacancy rate fell 170 bps from H2-2023 to 13.9%.

 **-10k**


Sqm net absorption

H1 2024 saw net absorption of -9,811 sqm, though majority of the loss or negative absorption (-6,511 sqm) was in the secondary market.

 **62k**

New supply 2024-2027

There are limited completions prior to 2028. 9 The Esplanade will account for 33,500 sqm in H1 2025, with the remainder of the 62,427 sqm comprising of several building refurbishments.

 **12.9%**

Prime effective rent growth

Prime effective rents are up 12.9% y/y but are flat on the quarter and up only 2.4% on the half year.

 **46.0%**

Prime incentives

Prime incentives have dropped 30 bps since H2 2023 (and 280bps y/y), but flat on the quarter. Secondary incentives are also flat at 50.0% having fallen 230 bps y/y.

 **7.4%**

Prime yields

Prime yields have moved out to 7.4%, but on very limited evidence.

Perth CBD Office Market Indicators – 1 July 2024

Grade	Total Stock sqm	Vacancy Rate %	Annual Net Absorption sqm	Annual Net Additions sqm	Av Net Face Rent \$/sqm	Incentive %	Net Effective Rent Growth % y/y	Core Market Yield %*
Prime	1,128,171	13.3	30,722	41,246	726	46.0	12.9	7.13-7.63
Secondary	647,994	19.3	-77,190	-105,032	469	50.0	14.3	7.85-8.40
Total	1,776,165	15.5	-46,468	-63,786				

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

Economic outlook

CONFIDENCE SLOWS IN 2024

In line with the Australian economy generally and the broader global environment, Perth has seen a slowdown in its economy during 2024. This general weakening is being felt by most major capital cities, but to a lesser extent in Perth.

Despite GSP growth slowing in 2024, it is expected to rebound to just below 3% in 2025. Western Australia's strong fiscal position is supporting a high level of infrastructure investment. Also, Perth, like Melbourne, benefits from strong population growth (0.9% above the national average). This will help underscore the 2025 performance.

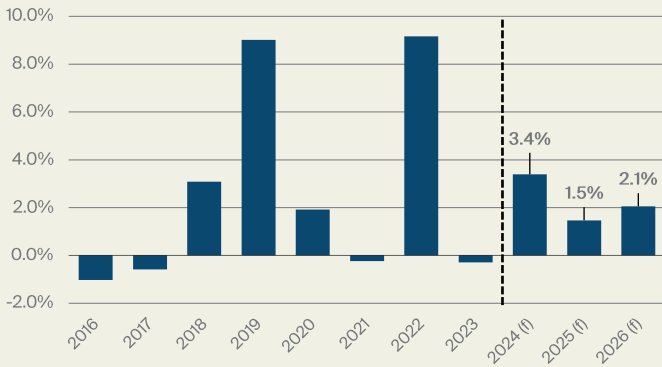
CBD EMPLOYMENT GROWTH RETURNS

CBD employment took a bit of a hit in 2023, falling 0.3% due to the uncertainties within the market. However, it is expected to continue to recover throughout the remaining part of 2024 and have solid growth in 2025 and 2026.

A major part of the economy is linked to mining and industry. In the medium-term mining employment is expected to grow by 1.1% p.a. between 2025 - 2032. This compares to 1.9% p.a. for professional services and 2.6% p.a. for health care.

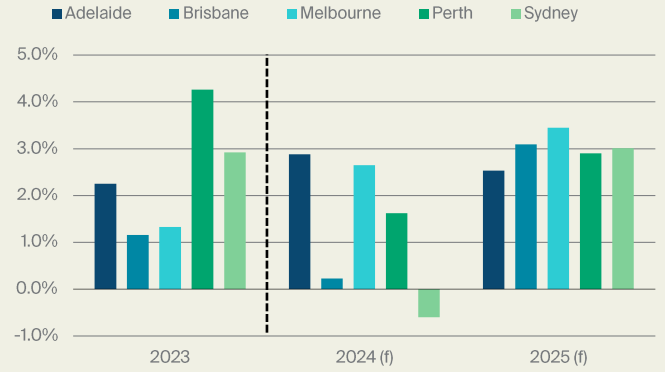
This is important given the continual discussions about the strength or otherwise of different parts of the mining sector.

Perth CBD office employment growth per annum, %



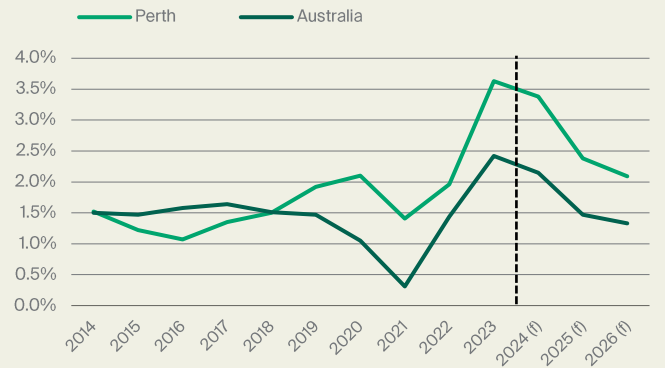
Source: Knight Frank Research, Oxford Economics

GSP growth by capital city, per annum, %



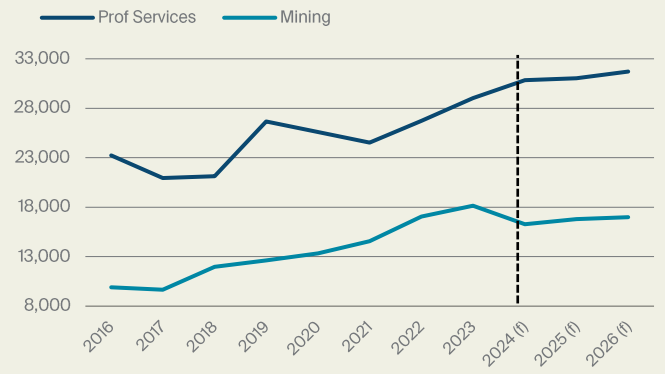
Source: Knight Frank Research, Oxford Economics

Population growth by locale, per annum, %



Source: Knight Frank Research, Oxford Economics

Perth CBD employment levels by industry, no. of employees



Source: Knight Frank Research, Oxford Economics

Sustained demand for prime space

New assets, and those which have undergone significant refurbishment, are experiencing the highest level of demand. Prime stock continues to outperform sitting at 13.3% vacancy in contrast to secondary stock at 19.3%.

Despite A-grade vacancy reducing, it remains reasonably high at 13.9%. The higher quality A-grade assets which have kept up with the demands of occupiers, being service, experience and amenity, are outperforming this rate in a segment which captures a broad level of quality.

NET ABSORPTION NEGATIVE IN H1

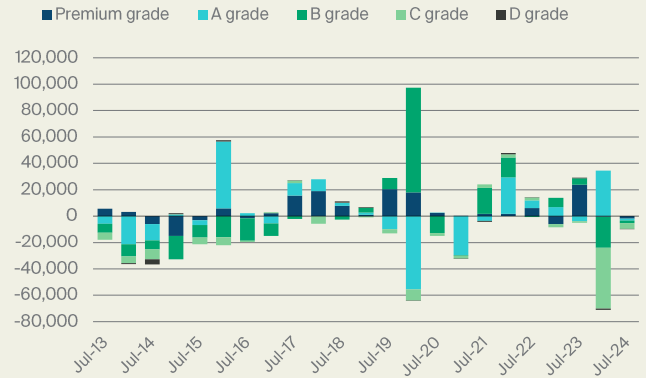
Whilst net absorption was negative across all grades, secondary stock was in least demand, with a net absorption of -6,511 sqm.

Nationally, net absorption was positive (31,826 sqm) but concentrated in Adelaide and Brisbane with strong numbers. Other cities, such as Perth, showed moderate declines as the Australian economy slowed.

Despite differing conditions, all markets are experiencing the greatest level of demand for Prime space.

Building refurbishments nationally have expanded to include the introduction of wellness and fitness facilities, business lounges and overhauls of tenant engagement programmes to improve the appeal of the modern-day working environment.

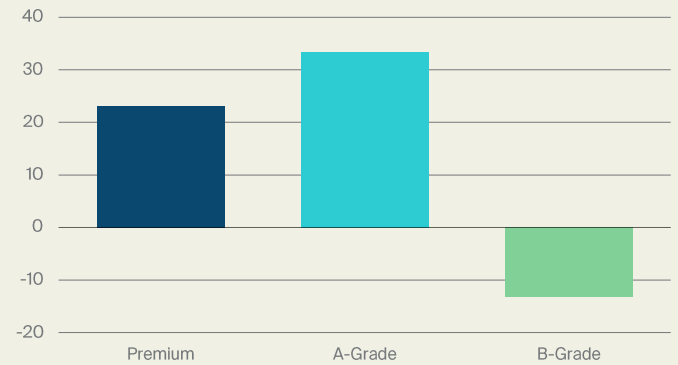
Net absorption by grade, total sqm



Source: Knight Frank Research, PCA

Perth CBD net absorption

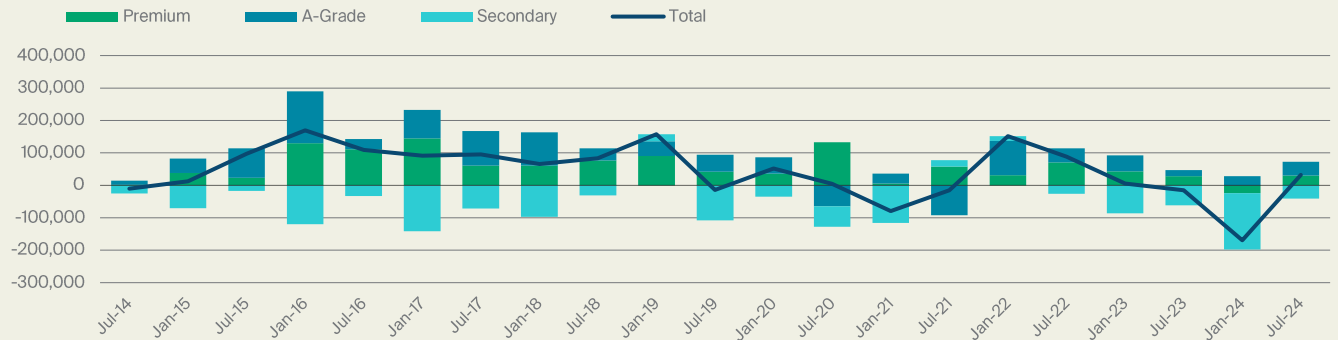
by grade, in 000's sqm; Jul 2021 to Jul 2024



Source: Knight Frank Research, PCA

Office demand in Australian CBDs

sqm net absorption by grade



Source: Knight Frank Research, PCA

Supply additions drive vacancy

VACANCY RATE RISES DUE TO COMPLETIONS

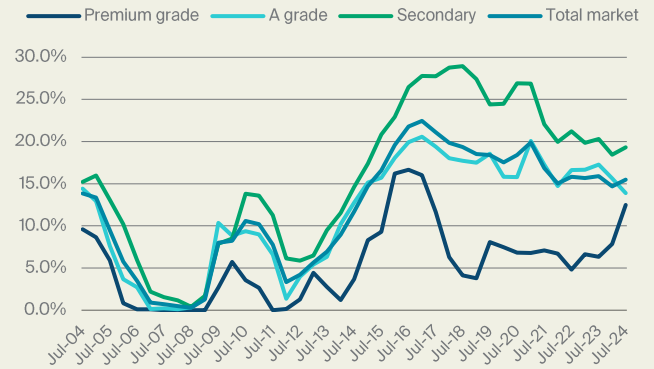
The Perth CBD showed a rise of 0.8% in the headline vacancy rate. Premium vacancy rose to 12.5% (from 7.8%), with supply being the driving force as the refurbishment of the former Chevron space at QV1 saw 21,306 sqm of premium space enter the market.

1 Spring St also completed adding a further 13,681 sqm of grade A space, but continued withdrawals of buildings on St Georges Terrace for refurbishment and upgrading meant that the vacancy rate for grade A buildings fell to 13.9%, despite negative net absorption (-1,291 sqm). With new supply comes new expectations, and the refurbishment cycle continues despite elevated construction costs. B Grade vacancies are hovering around 20%. Sub-leasing space also ticked up (to 0.7%) but remains of little concern compared to other cities.

PIPELINE REMAINS SUBDUED

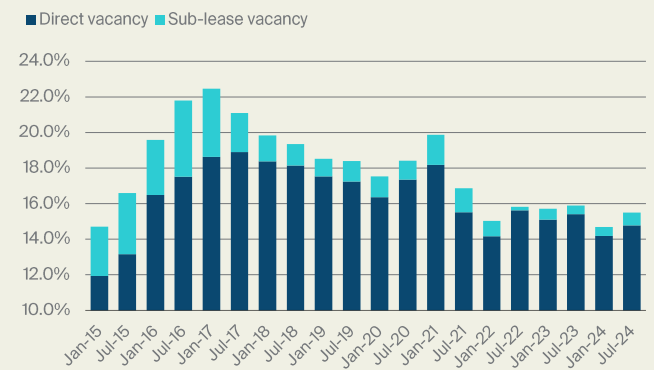
Following the burst of activity in 2023 and the continued refurbishments through 2024, completions will slow going forward. The delivery of 9 The Esplanade in H1 2025 will impact the vacancy rate. Further out, new supply is limited as a large gap remains between market and economic rents with elevated construction costs and uncertainty on interest rates. For example, doubt remains on the timing of Lot 4 at Elizabeth Quay (60,000 sqm, originally due for completion in 2027 – but now stalled). Whilst 2026/27 appears empty, this may well change if the market improves in 2025 with possible new refurbishments to attract tenants. Regardless, expectations are for a pipeline that is releasing below average amounts of space in the current development cycle.

Vacancy rate
by building grade, percent (%)



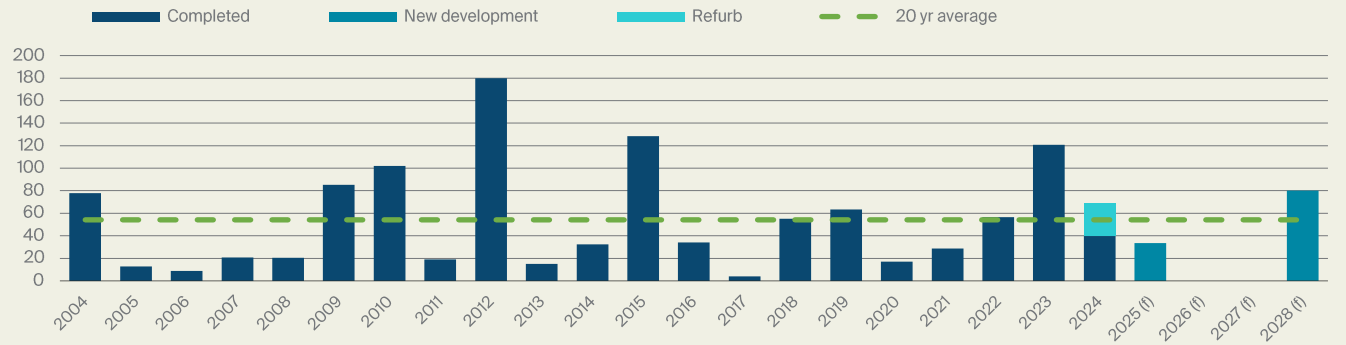
Source: Knight Frank Research, PCA

Vacancy rate
by type of vacancy, percent (%)



Source: Knight Frank Research, PCA

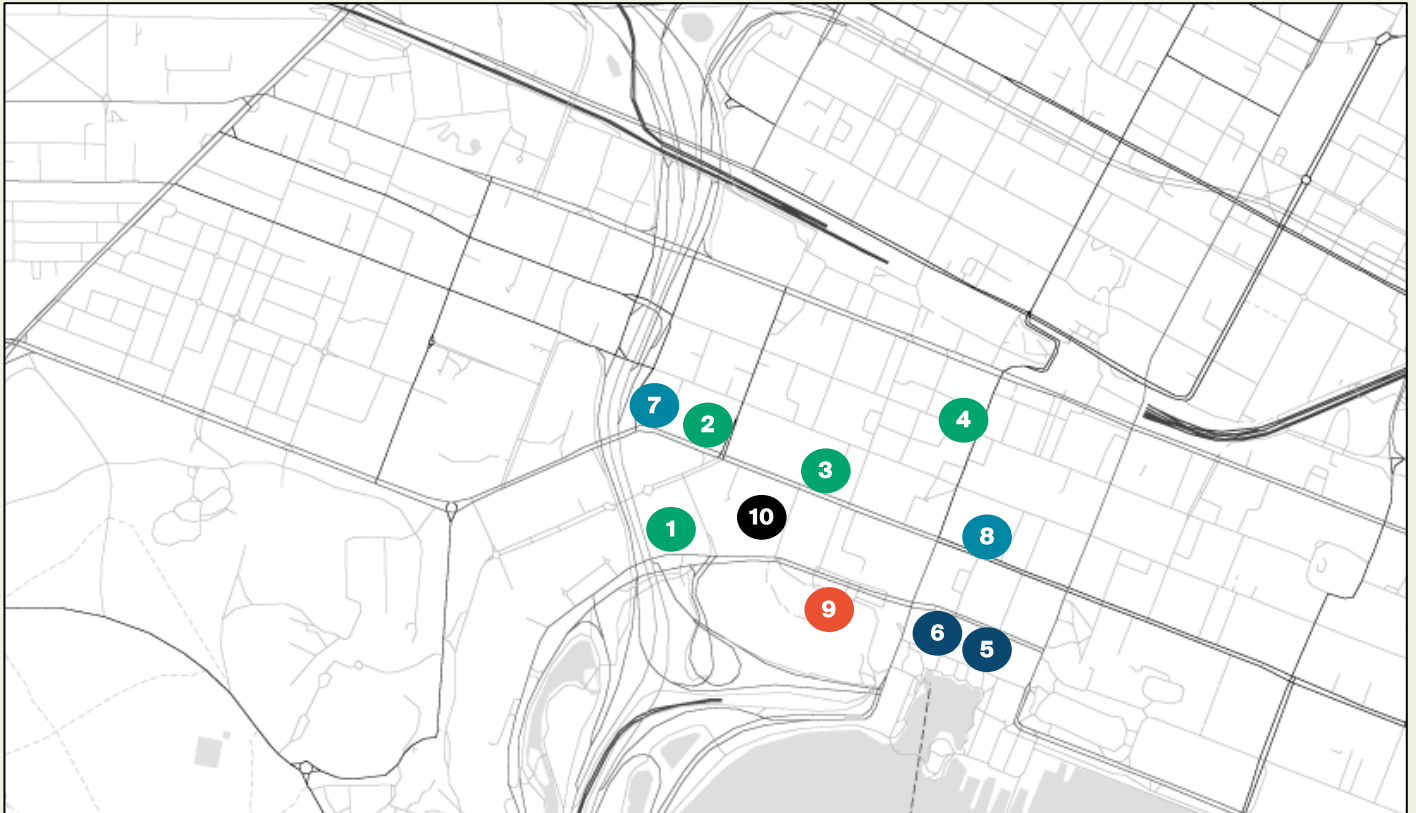
Perth CBD development pipeline
by type, 000's sqm



Source: Knight Frank Research, PCA

Major office supply

Perth CBD and West Perth



Complete				
#	Address	Type	SQM	Delivered
1	1 Spring St	New	13,681	H1 2024
2	QV1	Refurb	21,306	H1 2024
3	186 St Georges Tce	Refurb	3,920	H1 2024
4	306 Murray St	Refurb	825	H1 2024

New developments				
#	Address	Developer	SQM	Due
5	9 The Esplanade	Brookfield/CBUS	33,500	H1 2025
6	Lot 4 Elizabeth Quay	CA Corporation	60,000	H1 2028

Refurbishments				
#	Address	Developer	SQM	Due
7	256 St Georges Tce	Evergreen	22,727	H2 2024
8	100 St Georges Tce	ISPT	6,200	H2 2024

DA Approved				
#	Address	Developer	SQM	Due
9	1 & 21 Mounts Bay Rd	Brookfield	20,000	H1 2028

Mooted				
#	Address	Developer	SQM	Due
10	5 Mill St	GDI Property	30,000	2028+

Deal metrics

PRIME RENTS STABILISE

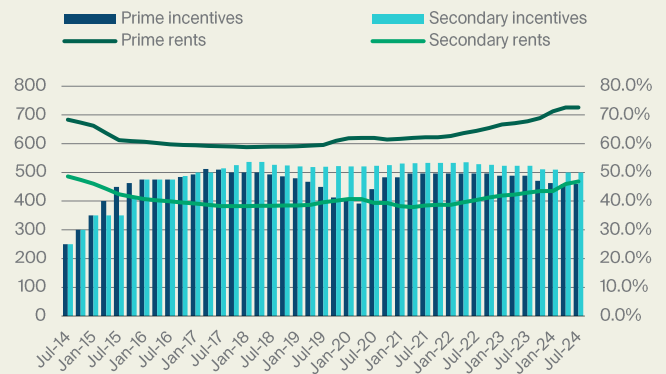
Perth, together with Brisbane, lead the way in effective rental growth as other capital cities struggle with rising incentives. Perth has experienced strong face rental growth recently, but with an increase in prime stock and a softening of demand, prime net face rents paused in the last quarter and have risen a minimal 1.8% since the start of the year. Rents are now at \$726/sqm compared to \$713/sqm at the start of the year. Incentives also remained flat at 46.0% q/q but are down from 46.3% at the start of the year, hence net effective rents are up 2.4% since the start of the year to stand at \$392/sqm. The annual performance remains strong. A 7.1% rise in net face rents, combined with a 280bps reduction in incentives, led to effective rents rising by 12.9%.

SECONDARY RENTS CONTINUE TO TICK UP

Secondary net face rents continued to tick up, rising to \$469/sqm (up 2.1% q/q and 7.8% in H1). Incentives remained flat on the quarter but are still down 100bps since the start of the year to sit at 50.0%. This has caused effective rents to rise by 10.0% since the start of the year to stand at \$235/sqm. Secondary rental growth has now outperformed prime y/y, growing by 9.1% for face rents and 14.3% in effective terms. The continued reduction in the vacancy rate (it is down to 19.3% from 26.9% in 2020) has been a major factor. This has partly been caused by the upgrading of the CBD's overall offer. Secondary space now makes up only 36.5% of space, down from 42.0% in 2020.

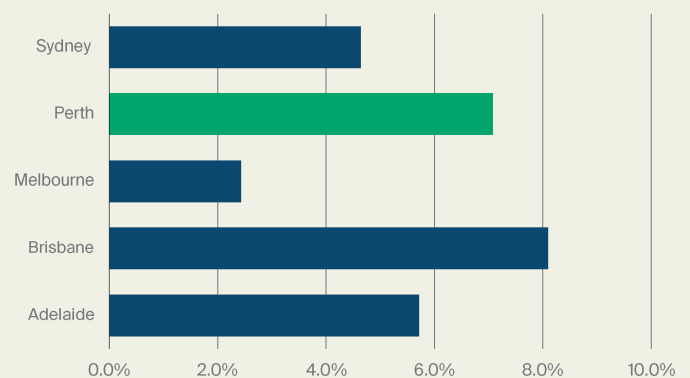
The rising cost of fit outs remains challenging, and consequently demand remains strongest for fitted space. Tenants are now accustomed to the cost of their fit outs being covered and this is keeping incentives raised. There has been an also increasing scrutiny of leasing costs through 2024. Added to this greater flexibility in the lease structure is being requested due to the greater level of uncertainty in the market.

Perth CBD rents and incentives
by grade, net face \$/sqm (LHS), % (RHS)



Source: Knight Frank Research

Prime annual CBD rental growth
by capital city, %



Source: Knight Frank Research

West Perth Update

MARKET REMAINS ATTRACTIVE ALTERNATIVE

West Perth continues to attract tenants with net absorption of 2,553 sqm in H1 2024. Illustrating the fact that it attracts a different clientele, it was grade B buildings (+5,298 sqm) that were the most in demand, whilst there was a slight outflow from grade A buildings (-2,983 sqm).

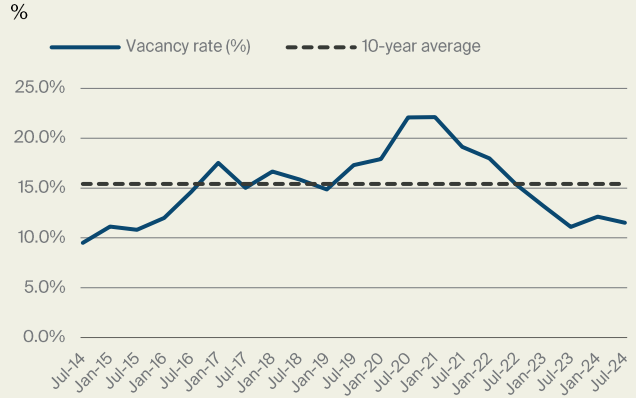
Face rents remain significantly below prime rents in the CBD, and below even those of secondary CBD buildings, at \$413/sqm. However, it is a tighter market in West Perth, and with average incentives of 32.5% this means that effective rents, whilst still well below prime CBD, are above secondary effective rents in the CBD, at \$278/sqm. This keeps the area attractive for SME's and new businesses in the perpetually changing extraction sector.

The vacancy rate dipped in H1 2024 to 11.5% from 12.1%, well below its long run average of 15.4%. The area compares well to other overflow markets in Melbourne and Sydney. Its vacancy rate is much more like that in other smaller CBD fringes.

Larger requirements (1,000 sqm+) were down markedly on levels experienced in 2022. This has directly impacted the A grade vacancy rate. In January 2024 it sat at 5% and represented 9% of total vacancy in West Perth, but it has jumped to 8% and is 16% of total vacancy now.

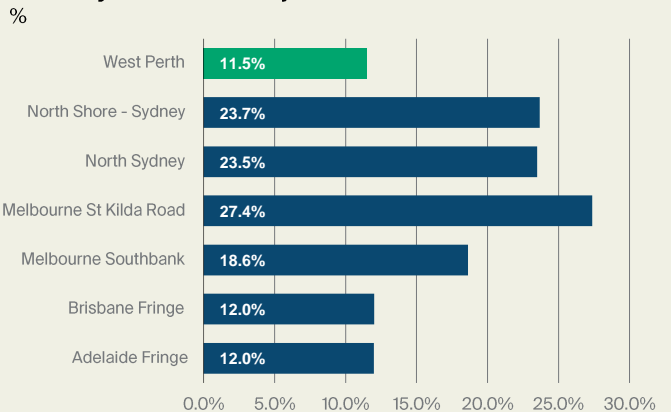
It should be remembered that West Perth is still a fraction of the CBD's size, totalling 418,571 sqm. The pipeline is also scarce, with only two minor refurbishments at 619 Murray St (4,056 sqm) due in H2 2024 and 28 Kings Park Rd (1,331 sqm) in 2028. West Perth will thus remain a localised market.

West Perth office vacancy rate



Source: Knight Frank Research, PCA

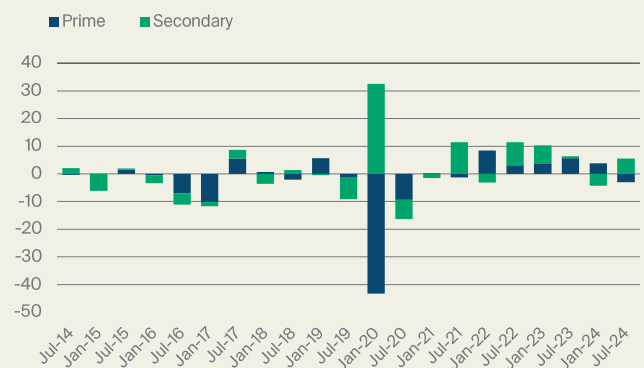
Vacancy rate in CBD-adjacent markets



Source: Knight Frank Research, PCA

West Perth office net absorption

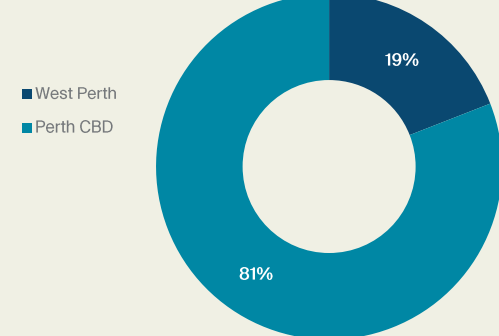
by grade, 6 months to the year, 000's sqm



Source: Knight Frank Research, PCA

Perth share of office stock

by locale, %



Source: Knight Frank Research, PCA

Investment

IN-LINE WITH THE REST OF AUSTRALIA THE MARKET IS SUBDUED

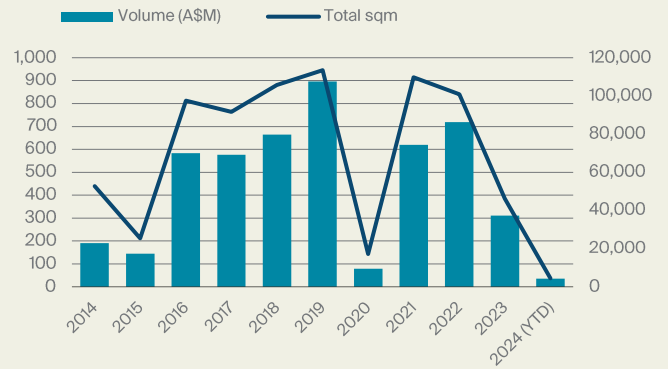
Following on from what appeared to be a particularly quiet 2023, when only \$311m of deals were carried out, 2024 has gone even quieter. So far in 2024 there has been only one major transaction. The sale of 181 St George Street, sold by Charter Hall to Yamamoto Realty of Japan. The \$26.5m price is the vast majority of the \$36m of deals done so far in 2024.

The quietness of the market is in line with the Australian investment market overall, which has seen another quiet year so far on the back of uncertainty about the general economy, as well as the trajectory for capital pricing. Delays in cutting interest rates, both here and in the US have led to the market pausing to get clarity.

YIELDS MOVED OUT BUT MORE ON SENTIMENT

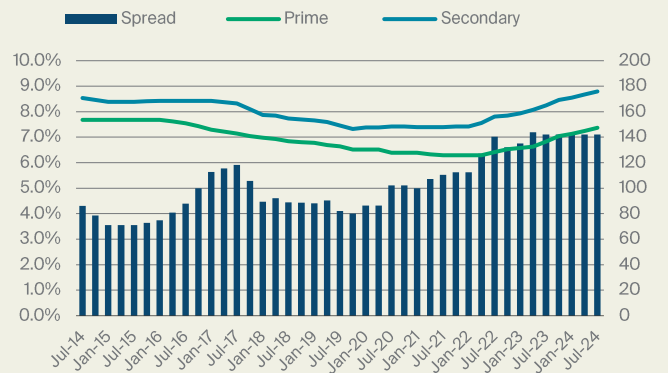
Yields have been moving out over the last year and prime yields are now sat at 7.4% with secondary yields at 8.8%. With limited market evidence, these levels are based on sentiment and relative movements. Greater certainty will only come about as the investment market picks up. As uncertainty in the market has increased so, naturally, has the spread between prime and secondary, with it now standing at 142 bps.

Perth CBD office investment volumes
by \$M (LHS), and sqm (RHS); transactions >\$5M



Source: Knight Frank Research, RCA

Perth CBD office yield and spread
by grade, % (LHS) and bps (RHS)



Source: Knight Frank Research

Recent transactions

Property	Price \$m	Core Market Yield % (cap rate)	NLA sqm	\$/sqm NLA	WALE	Purchaser	Vendor	Sale Date
181 St Georges Terrace	26.5	6.12	3,590	7,382	2.5	Yamamoto	Charter Hall	Apr-24
10 William Street	21.0	9.08	4,248	4,944	2.4	Stanley Intl. College	Conf.	Nov-23
503 Murray Street	33.2	7.47	7,299	4,552	0.2	Properties & Pathways	Fair-world Holdings	Sep-23

Source: Knight Frank Research, RCA

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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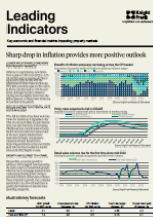


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Recent Research



Economic Indicators Report



Build to rent report



Melbourne CBD Office Market – March 2024



Sydney CBD Office Market – Feb 2024



Active Capital Report 2024



The Wealth Report 2024



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