

APRIL 2014

WEST  
PERTH

Office Market Brief

## HIGHLIGHTS

- The effects of a soft West Perth leasing market, coupled with tenant relocations and company consolidations, saw further negative net absorption during the second half of 2013 taking the yearly total to -7,586m<sup>2</sup>. As a result, vacancy rates rose to an eleven and a half year high of 9.2% (from 7.6% in July 2013) which was predominantly evident in Prime-grade vacancy, rising by 280bps to 5.5% (from 2.7% in July 2013).
- Rents have come under pressure over the past twelve months, impacted by increasing levels of vacancy. Current average prime net face rents as at April 2014 are \$518/m<sup>2</sup> (vs. \$545/m<sup>2</sup> in Apr-13) with net incentives at 20% (vs. 5% Apr-13). Average secondary net face rents are \$444/m<sup>2</sup> (vs. \$479/m<sup>2</sup> in Apr-13) with net incentives at 20% (vs. 8.5% Apr-13). Increased incentives and further moderation in rents is expected to favour tenant migration to higher quality premises.
- Three major transactions have occurred in West Perth over the past twelve months totalling \$29.8 million. Core market yields for Prime-grade buildings on average range from 8.25% to 8.75%, while Secondary-grade properties are recording an average range of 8.75% to 9.25%. Yields have remained fairly static since July 2012.

# APRIL 2014

## WEST PERTH

Office Market Brief

Table 1  
West Perth Office Market Indicators as at April 2014

Grade	Total Stock (m <sup>2</sup> ) <sup>^</sup>	Vacancy Rate (%) <sup>^</sup>	Annual Net Absorption (m <sup>2</sup> ) <sup>^</sup>	Annual Net Additions (m <sup>2</sup> ) <sup>^</sup>	Average Net Face Rent (\$/m <sup>2</sup> )	Average Net Incentive (%)	Average Core Market Yield (%)
Prime	137,055	5.5	2,332	8,116	485 - 550	20.0	8.25 – 8.65
Secondary	282,491	11.0	-9,918	4,569	415 - 475	20.0	8.75 – 9.25
<b>Total</b>	<b>419,546</b>	<b>9.2</b>	<b>-7,586</b>	<b>12,685</b>			

Source: Knight Frank    <sup>^</sup>PCA OMR as at January

## Supply & Development

The PCA recorded net supply additions to the West Perth area of 5,357m<sup>2</sup> in the six months to January 2014. This level of supply represents 1.3% of stock, a rate that exceeds the 20 year average of 0.6%. Of these net additions, 3,488m<sup>2</sup> was a new development at 1 Ord Street, which was completed in the final quarter of 2013. No stock was withdrawn from the market during the equivalent period and as a result, net additions during 2013 reached 12,685m<sup>2</sup>.

Table 2  
West Perth New Development

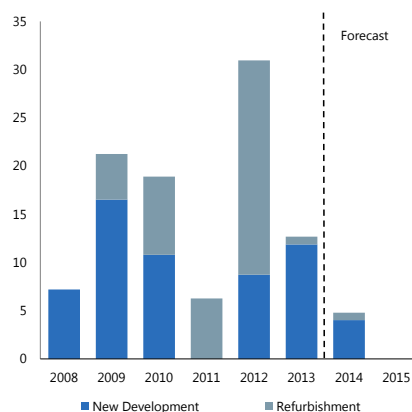
Address	NLA (m <sup>2</sup> )	Estimated Completion
1160 Hay Street	1,500	Q2 2014
1101 Hay Street	2,523	Q2 2014
11-13 Lucknow Place	765	Q2 2014
<b>Total</b>	<b>4,788</b>	

Source: Knight Frank/PCA

It is anticipated that 4,788m<sup>2</sup> of new supply will enter the West Perth market during the first half of 2014. This level of supply represents a 34.7% reduction from the same period in 2013, however, sits above the ten year average of 3,166m<sup>2</sup>. The majority of new supply will comprise developments at 1160 Hay Street and 1101 Hay Street which are both due for completion in the second quarter of 2014 and will deliver 1,500m<sup>2</sup> and 2,523m<sup>2</sup> of supply respectively. An additional 765m<sup>2</sup> of fully refurbished NLA at 11-13 Lucknow Place will come online in Q2 2014. Lastly, 1,414m<sup>2</sup> is DA pending at 957-959 Wellington Street. There is currently no supply under construction or being

refurbished that is due for completion in the second half of 2014 and beyond.

Figure 1  
West Perth Office Supply  
New and Refurbished Stock ('000m<sup>2</sup>)



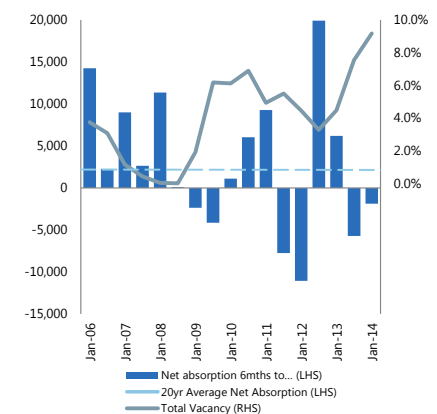
Source: Knight Frank/PCA

## Net Absorption & Vacancy

Total net absorption for the twelve months to January 2014 was -7,586m<sup>2</sup> which represents the lowest level recorded since January 2012. This was made up of -5,720m<sup>2</sup> in the six months to July 2013, and -1,866m<sup>2</sup> in the second half of the year. Although the level of net absorption edged closer to a positive reading in the second half of the year, take-up in Prime-grade office space, which totalled 2,796m<sup>2</sup> as at July, retracted in the six months to Jan-14, down to -464m<sup>2</sup>. The driving factors behind this retraction include elevated top end rents that have been slow to adjust to softer demand, as well as cost consolidation and company downsizing. Furthermore, West Perth

absorption is closely tied to conditions in the Perth CBD office leasing market. Tenants who had previously been priced out of the CBD market now have CBD leasing options that are similarly affordable to offerings in West Perth. As a result, enquiry levels from companies looking to relocate from fringe markets to the CBD have increased, though, not all tenants fit this category.

Figure 2  
West Perth Vacancy and Net Absorption  
Per six month period (m<sup>2</sup>)



Source: Knight Frank/PCA

With negative net absorption in the second-half of 2013, the total vacancy rate increased to 9.2%, rising 160bps from 7.6% recorded six months prior. This is the highest vacancy rate recorded since July 2002. Prime-grade vacancy reached 7,573m<sup>2</sup> representing 5.5% of total prime stock. Within this, direct vacancy experienced the largest increases, rising from 3,352m<sup>2</sup> to 7,323m<sup>2</sup> over the past six months. Secondary-grade experienced an increase in vacancy from 27,629m<sup>2</sup> to 30,940m<sup>2</sup> which represents 11.0% of total





secondary stock. Knight Frank anticipates that vacancy will continue to rise in the near term.

## Rents & Tenant Demand

Leasing activity has been soft in West Perth over the past six months. Rental levels have been under pressure with incentives growing to average 20% for both prime and secondary-grade buildings; increasing from circa 15% six months ago. Average prime-grade net face rents have softened by 5.0% over the past 12 months and currently range between \$485/m<sup>2</sup> and \$550/m<sup>2</sup>. Secondary-grade net face rents fell by 7.2% over the same period to a current average range of \$415/m<sup>2</sup> to \$475/m<sup>2</sup>.

## Investment Activity

Despite record high levels of capital being allocated to real estate within the Perth CBD during 2013, transactional activity in West Perth remained subdued (see figure 3). Three acquisitions totalling \$29.8 million occurred in West Perth, with only one sale transacting in the second half of 2013. Commercial House, at 668 Murray Street, sold in November 2013 to a private investor for \$7.75 million reflecting an initial yield of 8.0%. Core market yields for prime-grade buildings average 8.45% with secondary-grade properties yielding an average of 9.0%. This has remained stable since July 2012.

## Outlook

Tenant enquiry levels indicate net absorption will remain subdued for the remainder of 2014. However, it is expected that the worst of the contractionary influences are in the past, which is evident by a reduction in the

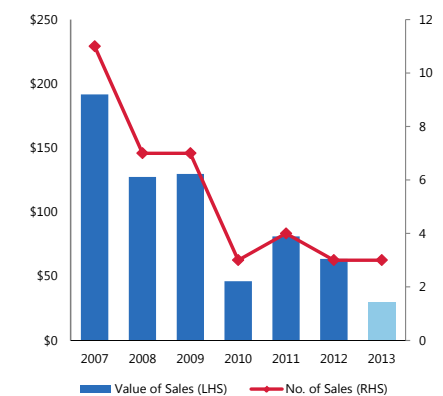
Address	Area (m <sup>2</sup> )	Net Face Rental (\$/m <sup>2</sup> )	Term	Tenant	Start Date
Havelock Street (B-grade)	820	360	7+3+5	Undisclosed	Apr-14
Havelock Street (B-grade)	808	450	3	Undisclosed	Mar-14
12 Prowse Street	140	250	3+3	Intouch Tech Group	Mar-14
9 Havelock Street	158	395	3+2	Undisclosed	Jan-14
25 Collin Street	279	330	3+3	Undisclosed	Jan-14
18-32 Parliament Place	1,852	525	6	AGC	Dec-13
18-32 Parliament Place	1,853	375	6	Clough Projects	Dec-13
708 Murray Street	116	300	5+5	IPWEA	Dec-13
35 Outram Street	249	425	5	Undisclosed	Dec-13
1101 Hay Street	1,090	525	10	Saipem Australia	Dec-13
6 Altona Street	130	410	2	Undisclosed	Oct-13
1238 Hay Street	684	475	10	NAB	Sep-13
18 Richardson Street	220	450	3+3	Carnavale Resources	Aug-13

Source: Knight Frank

level of sub-lease space available in the market. The effects of a prolonged period of low interest rates, as well as increased activity among population growth driven services, such as legal and accounting firms, is providing encouraging signs that tenant demand will likely gain momentum during 2014. The level of available space in West Perth is expected to increase with 4,788m<sup>2</sup> of new gross supply forecast to come online by mid-2014. Consequently, Knight Frank expects the vacancy rate to rise above 11% during the same period. Face rents are expected to moderate further while incentives are forecast to remain at their elevated levels for the remainder of the year. The level of investment in West Perth during 2013 does not accurately reflect the level of investor interest for office real estate assets. The limited number of sales is partly attributable to the tightly held nature of the market, with few properties being listed for sale. However, with domestic institutional

investors seeking to expand their presence in the Perth market, and continued interest from offshore investors, it is anticipated that demand for West Perth office assets will remain strong throughout 2014.

Figure 3  
West Perth Sales Activity  
(\$ million) Sales value > \$5 million



Source: Knight Frank

Address	Price (\$ mil)	Core Market Yield (%)	NLA (m <sup>2</sup> )	\$/m <sup>2</sup> NLA	Vendor	Purchaser	Sale Date
664A-668 Murray Street	7.75	8.0	1,207	6,507	Indigo Group	Max Alice 2 Pty Ltd	Nov-13
647-659 Murray Street #	10.55	Site	3,410 #	3,094 #	Clinipath	Finbar Group JV	Apr-13
15-17 Altona Street	11.50	9.4	2,290	5,021	WALGA	BR3 P/L & Trout Holdings P/L	Mar-13

Source: Knight Frank #Purchased for residential redevelopment - existing improvements to be demolished in June 2014. Reflected a land rate of \$3,094/m<sup>2</sup>

## Americas

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Brazil  
Canada  
Caribbean  
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