

# ST KILDA ROAD & SOUTHBANK

## OFFICE MARKET BRIEF MARCH 2020

### TIGHT INNER MELBOURNE OFFICE MARKETS LEAD TO RENTAL GROWTH

#### Key Findings

**Vacancy** in the **Southbank** office market has fallen to its lowest level in 2 years (**9.7%**).

**Prime net face rents** in the **St Kilda Road** office market grew by 8.4% in CY 2019.

**Office sales volume** in CY 2019, for both St Kilda Road and Southbank were above the long-term averages.

**Prime yields** in the St Kilda Road and Southbank office markets **compressed by 25 basis points** over CY 2019.



**FINN TREMBATH**  
Associate Director

A solid 12 months of positive net absorption sees office vacancy in the Southbank precinct drop to under 10% marking its lowest level in 2 years.

#### Southbank vacancy falls under 10%

Office vacancy in the Southbank precinct has fallen under 10% (9.7%), the decline marking Southbank's lowest vacancy level for 2 years. The decline in vacancy was caused by solid positive net absorption being recorded during 2019 CY.

The amount of office space absorbed over the last 12 months (12,566 sq m) was in stark contrast to the negative absorption (-21,398 sq m) recorded the previous 12 months (2018 CY), and was driven by 40-60 City Road now being virtually completely occupied, the PWC backfill vacancy at 2 Riverside Quay being filled, and Asahi taking up space at 58 Queensbridge Street. Outside of 12 Riverside Quay which is currently sitting dormant, the Southbank market is tightly held.

#### St Kilda Road vacancy rises marginally

Office vacancy in the St Kilda Road precinct currently sits at 8.7% having risen

marginally over the last 12 months (8.3% Jan 2019). For the last 2 years, vacancy along St Kilda Road has hovered between 7.2% to 8.7%. The minor uplift in vacancy has in part been triggered by 12 months of negative net absorption (-13,504), with the rise in vacant space driven by a spate of tenants vacating their premises. In moving to Malvern Road, Tandem Corp vacated 1,800 sq m of office space at 417 St Kilda Road, and Ascender will soon vacate 484 St Kilda Road to move to 35 City Road at Southbank.

#### Metro Tunnel to revitalise St Kilda Road

As is the case currently with the CBD, St Kilda Road's recent negative absorption can be linked less to a lack of tenant demand for the area and more to a current shortage of prime offerings. However, with the Metro Tunnel project coming online in 2025, we expect development activity to increase in the area which should pave the way for an increase in prime office accommodation for the precinct.

## St Kilda Road set to cater to large spaces

For many years the St Kilda Road office market was starved of available large-scale office space, new supply tending to stem from partial floors or at best multiple floors. However, with 412 St Kilda Road coming on stream as a refurbished, repositioned whole office building, and with 541 St Kilda Road likely to follow suit once SEEK vacates to move to Cremorne, the commercial landscape along Melbourne's leafy boulevard stands to be transformed with revitalised, entire building offerings.

## Retail brands lured to Southbank

Over the last 12 months several major FMCG brands have moved to the Southbank precinct. As previously signposted, in February 2019 Japanese

beverage behemoth Asahi took up 5,000 sq m at 58 Queensbridge Street; in September 2019 Kraft Heinz signed a 10 year lease for 1,873 sq m at 2 Southbank Boulevard; and in April 2019 JB Hi Fi moved to 60 City Road where it acquired 9,500 sq m. For JB Hi Fi the move to Southbank was driven by a desire to consolidate their business operations with the recently acquired 'The Good Guys' and achieve a flight to quality.

## Southbank tenants elect to stay Southbank

Recent years has seen a number of major tenants elect to stay in Southbank when they could have looked to leave the precinct. The trend began when PWC vacated 2 Southbank Boulevard but shifted their headquarters around the corner to 2 Riverside Quay. The ABC revamped their Southbank studios at the corner of Sturt Street and Southbank

Boulevard in the heart of Melbourne's Arts precinct. And Carlton and United Breweries moved to 2 Southbank Boulevard, where previously Fosters' headquarters were located at the corner of Sturt Street and Southbank Boulevard.

With the benefit of close proximity to the CBD but without the hustle and bustle of the city, and with good transport access and bountiful amenity, tenants are seeing the value of the Southbank area at a time when flight to quality is paramount. Be it upgrading existing office accommodation or relocating within the precinct, tenants deciding to stay in Southbank speaks volumes for the strength of the precinct.

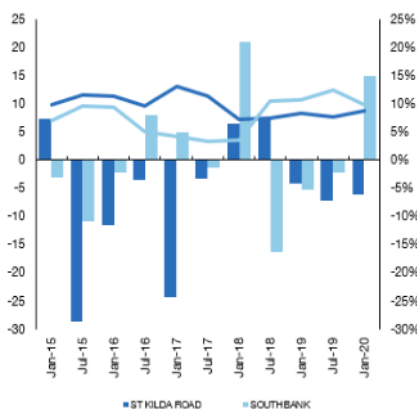
## Transformation of Southbank Boulevard

The Southbank office precinct stands to benefit from the Southbank Boulevard project, an ambitious project that will transform Southbank Boulevard and adjoining Dodds Street into 2.5 hectares of open space. Boasting five new public spaces, neighbourhood parks with 300 new trees, public art spaces and new bike lanes, the project will connect Southbank to Domain Parklands to the Yarra River. Construction commenced in 2018 and when complete will result in improved amenity which will have a positive flow-on effect on the appeal of the important commercial precinct.

## Next wave of development for Southbank

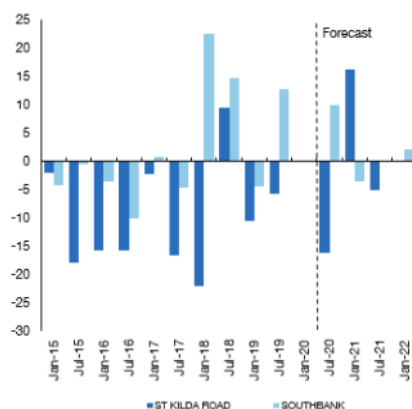
The next wave of office development for the Southbank precinct is on the horizon with a number of developments either currently underway or being touted. OSK

FIGURE 1  
Vacancy & Absorption by Precincts  
Net Absorption ('000 sq m), Vacancy (in %)



Source: Knight Frank Research/PCA

FIGURE 2  
Net Supply by Precincts  
New Supply ('000 sq m)



Source: Knight Frank Research, PCA

TABLE 1  
St Kilda Road & Southbank Office Market Indicators as at Jan 2020

Grade	Market	Total Stock (sq m)*	Total Vacancy Rate (%)*	Annual Net Absorption (sq m)^	Annual Net Additions (sq m)^	Net Face Rents (\$/sq m)	Incentives (%)	Core Market Yield (%)
Prime	St Kilda Road	251,505	4.1	-1,080	0	400–500	15–22	5.00–5.50
	Southbank	294,410	9.9	14,262	8,145	490–660	19–22	5.00–5.50
Secondary	St Kilda Road	392,652	11.6	-12,424	-12,291	310–380	15–23	5.50–6.00
	Southbank	152,459	9.3	-1,696	1,294	310–400	20–25	5.50–6.00
<b>Total Market</b>	<b>St Kilda Road</b>	<b>644,157</b>	<b>8.7</b>	<b>-13,504</b>	<b>-12,291</b>			
	<b>Southbank</b>	<b>446,869</b>	<b>9.7</b>	<b>12,566</b>	<b>9,439</b>			

Source: Knight Frank Research/PCA

\*As at 1st Jan 20

^12months to 1st Jan 20.

Property are currently in the midst of developing Melbourne Square at 93-119 Kavanagh Street. The \$2.8 billion mixed use development will comprise 6 towers of which one will be a 38,000 sq m, 37-floor office tower. And with Exxon Mobil having exited 12 Riverside Quay and the future of the building undecided, there is potential the prestigious Waterfront property could be developed for commercial use.

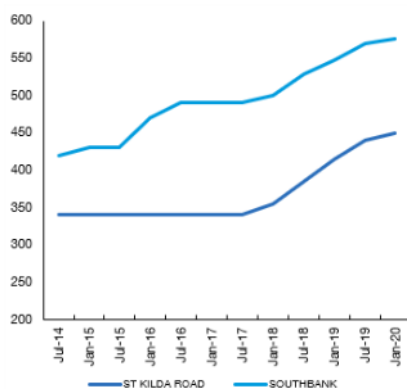
## Rents increase

Prime net face rents have risen for both the St Kilda Road and Southbank precincts over the last 12 months. Along St Kilda Road rents are up by 8.4% to now sit at \$450, whereas along Southbank rents are up by 5.0% to now sit at \$575. Rents in both precincts have grown considerably since 2018.

While rental growth has historically been more pronounced in Southbank due to the lack of space within the precinct, and the quality of stock and amenity in the area, St Kilda Road rents have grown noticeably since 2018.

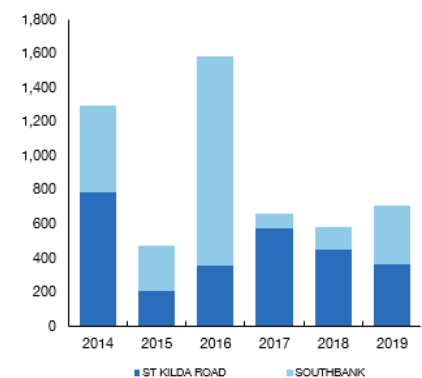
As a consequence of the strong sales activity, prime office yields in both the St Kilda Road and Southbank office markets compressed by 25 basis points over the last 12 months. In both precincts, prime yields now average 5.00% - these are the lowest yield levels recorded since 2003.

FIGURE 3  
Office Rents By Precincts  
Prime net face rents (\$/sq m)



Source: Knight Frank Research

FIGURE 4  
Office Transactions By Precincts  
\$10mIn+ Sales—CY2019 (\$ millions)



Source: Knight Frank Research

## Above average sales leads to sustained yield compression

Office sales volume in the St Kilda Road and Southbank office markets in CY 2019 totalled \$704.3 million across 8 transactions. The level of sales was above the long-term average (\$499.8 million) and above the levels recorded in 2018 (\$584.9 million) and 2017 (\$658.3 million).

TABLE 2  
Recent Leasing Activity St Kilda Road & Southbank

Address	NLA (sq m)	Term (yrs)	Lease Type	Tenant	Sector	Start Date
75 Dorcas Street, Southbank	13,744	6	Renewal	ANZ Bank	Finance	Q3-20
10 Dorcas Street, Melbourne	3,230	5	New	AI English	Education	Q4-19
35 City Road, Southbank	1,503	5	New	Ascender Pay	Admin.	Q2-20
636 St Kilda Road, Melbourne	954	7	New	Freedom Finance	Finance	Q2-20
417 St Kilda Road, Melbourne	465	5	New	Foresters Financial	Finance	Q1-20

Source: Knight Frank Research

TABLE 3  
Recent Sales Activity St Kilda Road & Southbank

Address	Price (\$ mil)	Core Market Yield (%)	NLA (sq m)	\$/sq m NLA	Vendor	Purchaser	Sale Date
412 St Kilda Road, Melbourne	107.1	VP	16,285	6,575	UEM Sunrise	SC Capital / Artifex	Nov-19
574 St Kilda Road, Melbourne	58.0	6.10	7,742	7,492	SHL Nominees	Vantage Property Investments	Dec-19
1 Bowen Crescent, Melbourne	17.5	4.90	2,686	6,515	Private Investor	Sullivan Property	Oct-19
85 Coventry Street, Southbank	15.0	U/D	2,006	7,478	R & Y Pty Ltd	Guangdong Carrington Real Estate Co.	Sep-19

Source: Knight Frank Research U/D-Undisclosed

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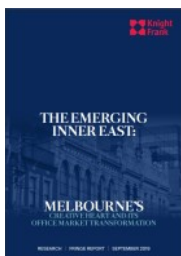
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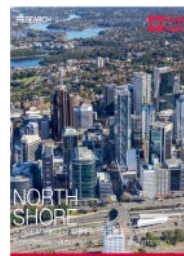
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