



# GOLD COAST

## OFFICE MARKET BRIEF OCTOBER 2016

### Key Facts

**Total vacancy** was **14.3%** as at July 2016; slightly lower than the 14.8% recorded a year ago.

**Prime effective rents** increased by 6.7% over the past year; with average **face rents boosted**, however incentives have remained relatively steady.

**Yields** remain under **downward pressure**, however the **lack of core assets** for sale limits involvement from institutional investors.



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The Gold Coast office market plateaued during the first half of 2016, however the trend remains positive as both public and private sector construction increases. Investment demand remains hampered by limited prime stock.

The Gold Coast is Australia's sixth largest city with a population of 569,951 as at June 2015, reflecting annual growth of 1.8%. Population projections (QLD Govt 2015) indicate average annual population growth of 2.18% for the 20 years to 2036. With this strong expected population growth and activity in the city building in preparation for the 2018 Commonwealth Games there are sound fundamentals for the region.

### Development Activity

The supply of new office space on the Gold Coast has been low over the past 12 months with no new supply delivered in the PCA-surveyed precincts. While there was new construction delivered during 2015, it was concentrated in the first half of the year with City Pods, Robina Stage 3+4 (1,428m<sup>2</sup>) forming the new construction and Lakehouse Corporate Park Buildings 3+4 completing refurbishment.

There is construction activity, although outside of the recognised office precincts. Recently completed was a small building of

1,540m<sup>2</sup> at 108 Siganto Drive, Helensvale. Also under construction are 340 Hope Island Rd, Hope Island where a 2,315m<sup>2</sup> building is due for completion March 2017 and is 75% committed to the State Government. In Helensvale, 120 Siganto Drive remains under construction.

Over the past six months the PCA has recorded 800m<sup>2</sup> of supply in the major Gold coast precincts. This is the return of refurbished space within the Oasis on Broadbeach building and this will form part of the tenancy leased to Allianz.

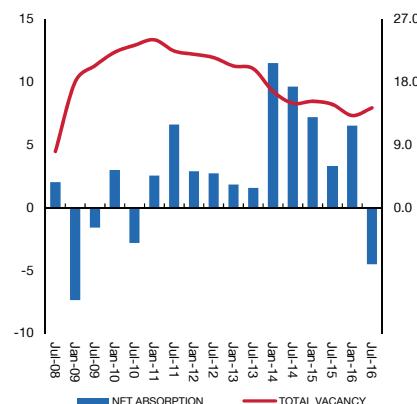
In the medium term refurbished accommodation is expected to be the dominant supply in the market with further refurbishment at Lakehouse Corporate Park and Oasis on Broadbeach. Additionally refurbishments of a number of smaller properties in Southport such as 33 Scarborough St are expected to progress. Longer term major mooted new construction remains limited with The Base (4,000m<sup>2</sup>) at Robina amongst the larger potential office developments.

## Net Absorption & Vacancy

Net Absorption within the core Gold Coast market was positive over the 12 months to July 2016 at 2,014m<sup>2</sup>. However H1 2016 was negative at -4,511m<sup>2</sup>, largely eroding the strong second half of 2015 at 6,525m<sup>2</sup>. This negative result in the first half of 2016 breaks a steady run of more than five straight years of positive net absorption. Much of this negative result was due to Members Alliance relinquishing some 3,500m<sup>2</sup> of sub-leased space in Robina.

The small precinct of Broadbeach remains the tightest market with a total vacancy rate of 8.8%. This is up from 3.7% at the start of the year due to the return of 800m<sup>2</sup> of refurbished space. As this space is part of the pre-commitment to Allianz Insurance this increase is expected to only be temporary. The Robina/Varsity Lakes precinct has also recorded an increase to total vacancy at

FIGURE 1  
**Gold Coast Core Office Market**  
'000m<sup>2</sup> net absorption LHS & % Total Vacancy RHS



Source: Knight Frank Research/PCA

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

Project	NLA m <sup>2</sup> & (% Occupied)	Developer	Status	Date
3+4/34 Glenferrie Dr, Robina #	3,196 (65%)	Private	Complete	Jun 15
249 Scottsdale Dr, Robina Stg 2	1,428 (80%)	Private	Complete	Jun 15
108 Siganto Dr, Helensvale	1,540	Private	Complete	Sep 16
120 Siganto Dr, Helensvale	4,491	AMMA	Construction	Jan 17
340 Hope Island Rd, Hope Island	2,315 (75%)	Private	Construction	Mar 17
1+2/34 Glenferrie Dr, Robina #	3,196	Private	Approved	Dec 17
33 Scarborough St, Southport#	2,755	Private	Mooted	Dec 17
GOLDOC Headquarters, Ashmore TAFE Campus ^	9,855 (100%)	State Govt	Construction	2016-2018
Oasis Centre, Broadbeach	3,500	Abacus/KKR	Conversion	2017+
197 Robina Town Centre Dr,	4,000	Robina Land	Mooted	2018+

Source: Knight Frank Research/PCA # refurbishment ^ Staged conversion of former TAFE bldg. to office

10.0%, up from 6.9% at the start of the year. This increase is largely due to sub-lease space, with the sub-lease vacancy rate now at 4.1%, compared to direct vacancy which is relatively tight at 6.0%.

The Southport market is continuing to drift with total vacancy at 15.5%, higher than the 14.2% as at January 2016. With no changes to the stock base during H1 2016 Southport is suffering from a lack of prime contiguous space and losing tenants to other areas. Bundall has recorded a slight fall in total vacancy to 16.9% with modest net absorption of 73m<sup>2</sup> over the first half of 2016.

The Surfers Paradise market has also recorded a decrease in total vacancy which at 19.3% represents the first time vacancy has been under 20% since mid-2010. There were no changes to stock in Surfers Paradise over the past six months with most activity reported to have come from the refurbished 50 Cavill Avenue and Circle on Cavill.

## Tenant Demand & Rents

Leasing demand and tenant activity have been stable during 2016 with only modest activity across the broader market. On a positive note there has been some uplift in demand from larger (500m<sup>2</sup>+ ) tenants with State Government, education users and finance/property companies more active, as shown in Table 3.

Despite the vacancy remaining at the relatively high 14.3% for the total market and 18.7% for prime space, there are limited opportunities for prime contiguous vacancies 1,000m<sup>2</sup>. With the development market remaining subdued, additional new prime stock is expected to be slow to come to the market, further boosting the likelihood of refurbishment in the established markets of Southport, Surfers Paradise and Broadbeach to meet this prime demand.

TABLE 1  
**Gold Coast Core Office Market Indicators as at July 2016**

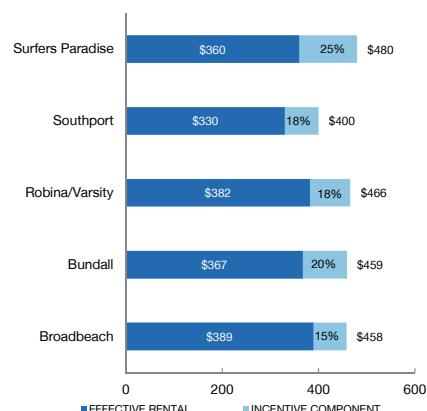
Grade	Total Stock (m <sup>2</sup> )	Vacancy Rate (%)	Annual Net Absorption (m <sup>2</sup> )	Annual Net Additions (m <sup>2</sup> )	Average Gross Face Rent (\$/m <sup>2</sup> )*	Average Incentive (%)*	Average Core Market Yield (%)
Prime	132,163	18.7	-1,641	-	452	18.5	7.50–8.00
Secondary	340,887	12.6	3,655	-400	378	15.5	8.25–9.50
<b>Total</b>	<b>473,050</b>	<b>14.3</b>	<b>2,014</b>	<b>-400</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>

FIGURE 2  
**Gold Coast Office Market Rent**  
\$/m<sup>2</sup> gross rent by Core precinct



Source: Knight Frank Research

Across the core precincts the average gross face rent for the Gold Coast is \$452/m<sup>2</sup> with an average incentive of 18.5%. This represents an average gross effective rent of \$368/m<sup>2</sup>, up by 6.7% from a year ago. Each precinct has different market parameters as shown in Figure 2 with Broadbeach and Robina/Varsity having the highest average gross effective rents at \$389/m<sup>2</sup> and \$382/m<sup>2</sup> respectively, largely due to lower average incentives aligned with lower vacancy.

In contrast, while the Surfers Paradise market has the highest average prime face rent, due to a recent boost in interest now the light rail is bedded down, the precinct's higher incentives have kept the average effective rent behind Broadbeach and Robina, albeit increasing to \$360/m<sup>2</sup> gross.

TABLE 3  
**Recent Major Leasing Activity Gold Coast**

Address	NLA m <sup>2</sup>	Est Face Rent \$/m <sup>2</sup>	Term yrs	Incentive (%) <sup>a</sup>	Tenant	Date
Oasis on Broadbeach, Broadbeach	2,100	450 g	7	undis	Allianz Insurance	Jan 17
100 Scarborough St, Southport	732	390 g	5	undis	State Government	Sep 16
34 Glenferrie Dr, Robina	451	400 g	5	10-15	RPS Australia	Jun 16
121 Scarborough St, Southport	820	undis	8	undis	State Government	Mar 16
Circle on Cavill, Surfers Paradise	1,125	400 g	5	undis	Holmes College	Mar 16

Source: Knight Frank Research

<sup>a</sup>estimated incentive calculated on a straight line basis g gross

The Gold Coast secondary market encompasses a wide diversity of rents. In the precincts of Broadbeach and Robina/Varsity Lakes there is very little differential between average prime and secondary rents, while Bundall, Southport and Surfers Paradise have far larger market stratification. On average, across the Gold Coast secondary gross face rents are \$378/m<sup>2</sup> with incentives of 15.5%. The relatively lower incentives in the secondary market remain reflective of private owners, less willing to fund higher incentives for uplifted face rents.

The increased State Government leasing activity is indicative of preparation for the Commonwealth Games, however wider private sector tenant growth is still limited with broadcast rights holder NEP Australia taking 320m<sup>2</sup>.

TABLE 4  
**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
2 Investigator Dr, Robina	A	26.23	7.70 <sup>^</sup>	4,404	5,955	c1.0	Robina Group	Australian Unity Healthcare Prop. Trust	Aug 16
33 Scarborough St, Southport	B	5.80	VP	2,755	2,105	VP	Private Investor	Private Investor	Mar 16
121 Scarborough St, Southport	B	11.60	5.69 <sup>^</sup>	3,158	3,673	5.8	Abacus Diversified Income Fund II	Peak Equities	Feb 16
26 Marine Pde, Southport	B	9.70	7.35 <sup>^</sup>	2,839	3,417	n/a	Private Investor	Greenery Developments	Jan 16
50 Cavill Ave, Surfers Paradise#	A	48.75	6.40 <sup>^</sup>	16,565	2,943	4.5	Receivers for Chung Group	GDI Property Group	Dec 15
The Rocket, Robina	A	70.00	8.60	12,814	5,462	2.8	Robina Land Corporation	Sentinel Robina Office Trust & Clarence Property Group	Sep 15

Source: Knight Frank Research

<sup>a</sup> passing yield

#building was c54% occupied at the time of sale

## Investment Activity & Yields

The Australian office investment market has continued to record high demand and turnover levels with more than \$14 billion in annual turnover (\$10 million+) in the past three calendar years. As on-market opportunities diminish and prime yields for core assets continue to fall to new lows it is noticeable that some purchasers have been actively moving up the risk curve to non-CBD and regional markets.

The Gold Coast market has remained dominated by investment from high net worth individuals and syndicates due to the relatively smaller asset sizes and inherent risk. A recent exception has been 50 Cavill Ave, Surfers Paradise which was purchased by AREIT GDI Property Group for \$48.75 million in late 2015. The high



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profile asset was sold by Receivers for the Chung Group and was in need of refurbishment at the time of sale, making it a core plus/value add proposition.

Purchase for refurbishment is also occurring through Southport where there is a dearth of larger prime leasing options available. 33 Scarborough St, 26 Marine Parade and 121 Scarborough St have all recently been purchased with refurbishment and repositioning anticipated from the new owners.

With the lack of prime investment options available to the market and sustained yield compression across the wider commercial investment environment, prime yields on the Gold Coast currently range between 7.50% and 8.00%.

## Outlook

The Gold Coast market remains a secondary service area to Brisbane, however there are a number of positive factors which will drive the market in the coming years. Tourism numbers have shown good growth injecting money into the region and encouraging further development. In the year to March 2016 the number of visitors to the Gold Coast increased by 10.3% with solid increases from both domestic (up 10.1%) and international (up 11.0%) visitors. The 4.63 million annual visitors to the Gold Coast spent an estimated \$4.13 billion in the

region, an uplift of 3.9% over the year. However international visitors' expenditure increased by 15.4% over the 12 month period, led by Chinese visitors who now account for 28% of offshore visitors.

Residential and hotel development has accelerated across the Gold Coast with 957 apartments delivered during 2014 & 2015. There have been an additional 416 units completed in 2016 to date with a further 539 under construction for completion during 2016 and a further 2,398 under construction for a 2017+ completion. Additionally there are a further 9,108 units which have development approval and potential delivery prior to the end of 2019. However financiers have remained wary of the Gold Coast market, curtailing the numbers of units progressing to the construction phase. Nevertheless, when combined with the increased public sector construction aligned with the Commonwealth Games, this has boosted demand from property and construction related users.

Occupier demand for office space is set to remain steady into 2017 underpinned by population growth, tourism and high construction activity. Demand for investment continues to build as the global hunt for yield accelerates and the Gold Coast is likely to continue to share in this demand, albeit largely remaining the remit of private investors and syndicators or wholesale funds.

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## GOLD COAST

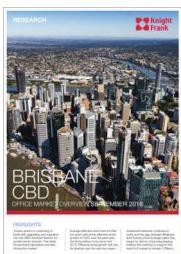
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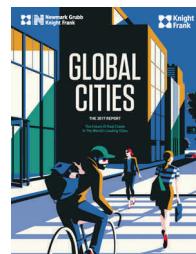
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