

RESEARCH



GOLD COAST

OFFICE MARKET OVERVIEW MARCH 2019



EFFECTIVE RENTAL GROWTH IS ENTRENCHED IN THE MARKET

KEY FINDINGS

Total **vacancy is 11.6% after hitting 12.0% in mid-2018 and up from the 10 year lows of 10.6% in January 2018.**

Supply remains low, however pre-committed new construction is beginning to flow through with **Acuity Business Park** to commence construction in Robina.

Rental growth is well entrenched with the Gold Coast region recording prime **effective rental growth of 5.9% y-o-y.**

Investment activity was low in 2018 with few assets on offer. This will change in 2019 with approx. **\$90 million in assets** actively offered to the market in Q1 2019.



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GOLD COAST OVERVIEW

Sustained population growth, forecast to average 2.0% p.a in the 25 year forecast horizon 2016-2041, will underpin the continued maturation of the Gold Coast as a service centre and business hub.

Population Growth to boost demand

The Gold Coast is Australia's sixth largest city with an estimated population of 591,356 as at June 2017, reflecting annual growth of 2.8% (ABS). The strong lifestyle draw of the Gold Coast is underlined by the fact that 80% of the population increase in 2016-17 was due to migration. Internal migration (relocation within Australia) accounted for 43% of population growth with 6,975 people relocating to the area. Additionally the education opportunities available in the region was a factor in net overseas migration of 5,934 persons.

Population projections (QLD Govt 2018) indicate average annual population growth of 2.0% for the 25 years to 2041 in the Gold Coast Region. Net interstate migration is forecast to remain a cornerstone of this population growth with estimates of a total net inflow between 2016 and 2041 of 129,000 persons. This is expected to equate to 28% of Queensland's total net interstate migrants.

Solid base of white collar workers in the region

Analysis of Census 2016 data indicates that 44% of workers that reside in the Gold Coast LGA are in roles which are typically defined as white collar (managers, professionals, clerical & admin) (Economy.id). While 80% of these

residents identify as also working within the Gold Coast, 20% do not work within the region. The leakage of workers is strongest to the Greater Brisbane region with 13% or 15,330 white collar workers living in the Gold Coast but travelling into the Greater Brisbane region to work.

Infrastructure investment remains high

Outside of the recent improvements and expansion to existing sporting & local road infrastructure required to host the Commonwealth Games, the Gold Coast has attracted high levels of investment in both private and public sector projects.

Major projects underway include:

- Cultural Precinct Bundall - 16.9ha site. Stage 1 - \$38 million
- Light Rail Stage 3—to extend the line from Broadbeach to Burleigh Heads, a 7km stretch with 7 proposed stations. Business case underway.
- Pacific Motorway Expansion Mudgeeraba to Varsity Lakes (\$198m).
- Gold Coast Airport expansion—Project LIFT \$370m project underway, an expansion to the southern terminal and Rydges Hotel for completion late 2019.
- Cruise Ship Terminal—State and local government continue to search for appropriate sites for a cruise ship terminal and potential new casino.

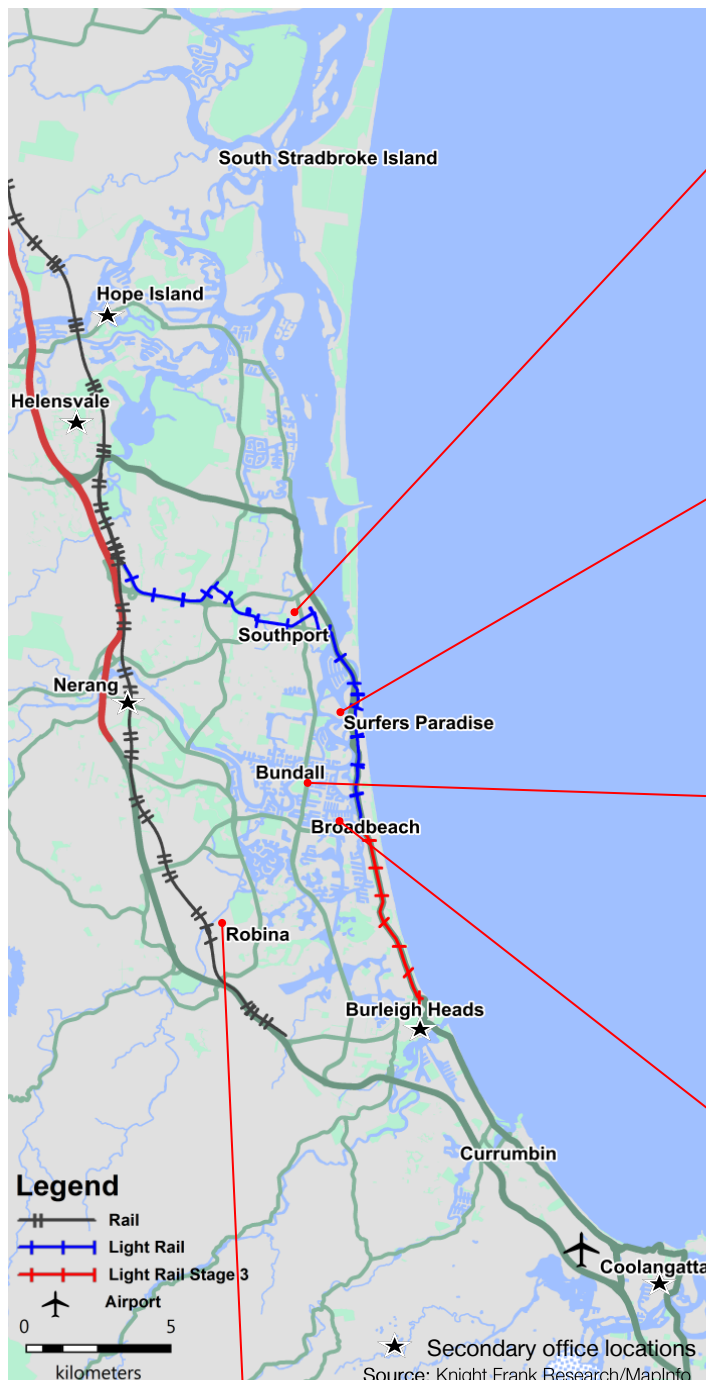
TABLE 1

Gold Coast Core Office Market Indicators as at January 2019

Grade	Total Stock (m ²)	Vacancy Rate (%)	Annual Net Absorption (m ²)	Annual Net Additions (m ²)	Average Gross Face Rent (\$/m ²)*	Average Incentive (%)*	Average Core Market Yield (%)
Prime	132,163	11.9	-3,923	-	482	16.0	6.75—8.00
Secondary	338,290	11.4	2,649	3,636	388	15.0	7.50—8.50
Total	470,453	11.6	-1,274	3,636			

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—500m²

KEY MARKET DATA



SOUTHPORT



Market Parameters:

Stock: 145,188 sqm
 Vacancy: 19,757 sqm (13.6%)
 Net Absorption -570 sqm (CY18)



Gross Face Rents:

Prime: \$412/sqm
 Secondary: \$395/sqm

Needs to capitalise on water views and transport links

SURFERS PARADISE



Market Parameters

Stock: 71,016 sqm
 Vacancy: 6,984sqm (9.8%)
 Net Absorption 1,528 sqm (CY18)



Gross Face Rents:

Prime: \$500/sqm
 Secondary: \$360/sqm

Limited locational demand from professional tenants

BUNDALL



Market Parameters

Stock: 85,100 sqm
 Vacancy: 8,008 sqm (9.4%)
 Net Absorption 2,053 sqm (CY18)



Gross Face Rents:

Prime: \$478/sqm
 Secondary: \$335/sqm

Many buildings are undergoing rejuvenation

BROADBEACH



Market Parameters

Stock: 30,833 sqm
 Vacancy: 3,041 sqm (9.9%)
 Net Absorption -170sqm (CY18)



Gross Face Rents:

Prime: \$540/sqm
 Secondary: \$465/sqm

Stock and opportunity for development remains limited

ROBINA/ VARSITY LAKES



Market Parameters

Stock: 138,316 sqm
 Vacancy: 16,636 sqm (12.0%)
 Net Absorption -4,115 sqm (CY18)



Gross Face Rents:

Prime: \$485/sqm
 Secondary: \$415/sqm

Tenants attracted to modern built form

TENANT DEMAND & ABSORPTION

Tenant demand remains dominated by local businesses

The tenant profile of the Gold Coast remains dominated by locally based businesses by quantum of tenants. However there is an growing core of larger corporates with branch or head offices located on the Gold Coast such as G8 Education and Mantra.

Therefore there are a number of requirements an office asset must satisfy to be attractive to all tenant types. Locally based businesses are driven by both locational convenience for business owners and customers with an overlaying cost sensitivity; while larger corporates bring the requirements of public transport, green ratings, staff amenity & retention and efficiency of floorplate to the table when choosing a location.

With only 37,500sqm of supply added to the Gold Coast market over the past 10 years (9% growth in the stock base) there is a relatively small pool of modern assets which can handle the higher employee densities required for major corporate branch offices, processing centres and call centres.

This concentrates demand into these relatively few assets and can require tenants to compromise on location or efficiency. This disconnect between the wish lists of tenants and the available stock on the ground is likely to only widen in the coming years with limited supply anticipated.

At the same time tenant demand itself has shown steady improvement. Following a first half of 2018 where business was interrupted by the Commonwealth Games, the second half of 2018 and into 2019 has seen stronger levels of tenant enquiry.

“This disconnect between the wish lists of tenants and the available stock on the ground is likely to only widen in the coming years with limited supply anticipated.”

Employment growth to underscore office demand

The Gold Coast unemployment rate was a low 4.3% as at December 2018, well below Queensland average of 6.1%. Employment levels have shown strong growth across the Gold Coast, in line with population growth and the city's maturation as a service centre.

The number of workers in the Gold Coast has grown by 24% in the five years to November 2018 at 340,200 (LMIP). The core office-using industries of Information Media & Telecoms, Finance & Insurance, Rental, Hiring & Real Estate, Professional, Scientific & Technical Services, Administrative & Support Services, Public Administration & Safety and Education & Training accounts for 29% of Gold Coast workers. These industries have grown their workforces by a total of 26% over the five years from November 2013, a rate above the total employment growth for the city (24%).

The two fastest growing white collar sectors over the five year period were Finance & Insurance (up 58% over the 5 years) and Education & Training employment which grew by 45% with private colleges and training facilities a major user of office space across the Gold Coast region.

Net Absorption & Outlook

Prime H2 2018: 1,583sqm

Secondary H2 2018: 1,403sqm

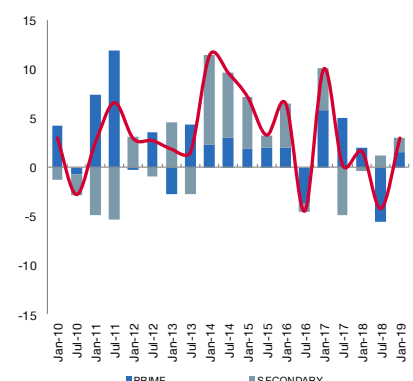
Source: Knight Frank Research/PCA

Net Absorption across the Gold Coast region rebounded in the second half of 2018 to 2,986sqm after falling during H1 2018 due to Foxtel's downsizing of their operations by c6,000sqm. As a relatively small market the Gold Coast statistics remain subject to relatively large fluctuations due to the actions of single tenants within the market.

The average net absorption over the past five years equates to 6,550sqm per annum and while recent results have been below this level, tenant enquiry is indicative of a stronger result for H12019.

Net absorption during 2018 was highest in Bundall at 2,053sqm where refurbished stock has been well absorbed. Surfers Paradise with 1,528sqm of net absorption was the second most active market and again the result can be linked to the relatively strong leasing activity in a refurbished asset, most notably 50 Cavill Avenue. This underscores the appetite from Gold Coast tenants for new or refreshed space, which largely remains unfulfilled.

FIGURE 1
Gold Coast Office Demand
'000m² net absorption (LHS)



Source: Knight Frank Research/PCA

SUPPLY & DEVELOPMENT

Supply expected to remain small, sporadic and pre-commitment driven

The supply of new office space across the core Gold Coast precincts remained stalled during 2018 with only 2,744sqm of refurbished space returning to the market.

Supply is expected to remain modest in the medium term and be driven by pre-commitment activity. This is despite many tenants stating a preference for new, large floorplate buildings with services able to cope with higher occupant density. While prime rents are now showing sustained growth, they remain below the levels required to trigger extensive construction.

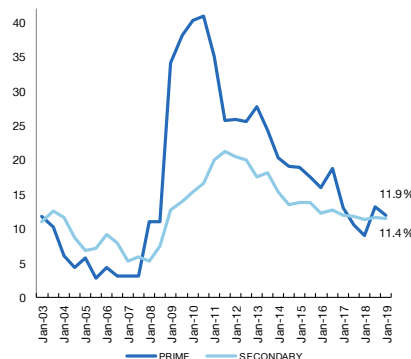
Focus on Robina & Southport for new supply

Robina is the precinct with commercial zoned sites ready to progress to construction. Stage 1 of the Acuity Business Park, 209 Robina Town Centre Dr, Robina will soon start construction with Metricon committing to 4,465sqm. The project will consist of three buildings with a total NLA of a little over 15,000sqm. Buildings 1 and 2 with share basement parking facilities however only Building 1 is confirmed to proceed to construction at this stage.

A Federal Government requirement of c6,200sqm also has the potential to kickstart further development with the shortlisted options reportedly in Robina.



While Southport has a number of large development sites, these are aimed at residential/hotel development. There are two proposed refurbishments and one smaller development which will be partially committed by the developer. As sites in Robina are taken up attention will turn to opportunities in the Southport market.

FIGURE 2
Gold Coast Office Vacancy
% vacancy rate prime v secondary



Source: Knight Frank Research/PCA

Vacancy Rate & Outlook

Prime	11.9% +300 bps y-o-y	
Secondary	11.4% -10bps y-o-y	

Source: Knight Frank Research/PCA

Prime vacancy to improve after rebounding to 11.9%

The vacancy rate across the Gold Coast has steadied over the past 18 months after sustained and considerable improvement during the past seven years from a peak vacancy of 24.1% to a low of 10.6% in January 2018. The total vacancy has since increased slightly to 11.6% in January 2019 attributable in part to downsizing by corporate tenants such as Foxtel.

The impact of these tenants were felt in the prime market with vacancy rebounding from a 10 year low of 8.9% to 11.9% over the past year. With tenant preference clearly for prime space these contiguous prime opportunities will be taken-up by the market, returning the prime vacancy to single figures. As seen on page 3 there is considerable variability in the vacancy rates across the different precincts with Surfers Paradise, Bundall and Broadbeach all below 10%. The two largest precincts of Robina/Varsity Lakes (12.0%) and Southport (13.6%) remain higher, influencing the total vacancy rate.

TABLE 3

Major Gold Coast Office Projects (1,000m²+)

Project	Precinct	NLA m ²	% Leased	Major Tenant/s	Developer	Status	Date
2481 Gold Coast Hwy, Mermaid Beach	Non-PCA	1,500	82%	Marino Law	Marino Group	Complete	Sep 18
33 Scarborough St, Southport	Southport	2,755	-	-	Private Investor	Refurbishment	Tbc
12-14 Marine Pde, Southport	Southport	8,492	-	-	Strada Office	Refurbishment	Tbc
Acuity Business Park 1, Robina	Robina/Varsity	5,937	75%	Metricon	Alceon	Site Works	Jul 20
26 Lawson St, Southport	Southport	3,000	23%	OMB Lawyers	OMB	Approved	Dec 20
Oasis Office Expansion, Stg 2	Broadbeach	c3,000	-	-	Abacus/KKR	Mooted	STP
197 Robina Town Centre Dr, Robina	Robina/Varsity	4,000	-	-	Robina Land Corporation	Mooted	STP
Acuity Business Park 2, Robina	Robina/Varsity	3,627	-	-	Alecon	Likely	STP

Source: Knight Frank Research/PCA STP = subject to precommitment

RENTS & RECENT TRANSACTIONS



Rents, Incentives & Outlook

Prime Rents (g)	\$482/sqm face 4.7% y-o-y \$404/sqm eff 5.9% y-o-y	↗
Secondary Rents (g)	\$388/sqm face 6.4% y-o-y \$330/sqm eff 4.0% y-o-y	↗
Incentives	P:16.0% S:15.0%	→

Series is based on smaller tenants 200-500sqm

Competition for the limited prime options has triggered rental growth

Despite the total vacancy rate stalling in double figures at 11.6%, and prime vacancy plateauing at 11.9%, there has been sustained prime rental growth across the Gold Coast. This is due to the relatively low number of quality options available. With only 28% of the Gold Coast's office stock classified as prime, there are frequently fewer options than tenants were expecting, engendering competition.

This has seen prime rents continue to appreciate up by 4.7% on a face basis across the whole market. The continued, gradual, reduction of average incentives has seen the effective rent increase by 5.9% over the year to January 2019.

Broadbeach remains the most expensive precinct

Broadbeach has remained the most expensive precinct with the fastest rental growth of 6.9% on an effective basis y-o-y. With the Oracle buildings achieving \$600/sqm+ gross face the precinct is hampered by the lack of available high quality space. Small/medium sized tenants will continue to push the rents higher to move into or remain within the central Broadbeach precinct.

Bundall (5.3%), Robina/Varsity Lakes (5.5%) and Surfers Paradise (5.7%) have also continued to show good annual growth in prime effective rents with the relativity between the precincts remaining stable, as shown in Figure 3. Only Southport recorded a fall in prime effective rents (-2.6% y-o-y) with an increase in contiguous vacancy resulting in a slight moderation of face rental expectations and a slight increase to incentives.

Despite this, incentives remain higher in Bundall and Surfers Paradise at an average of 20%. In part this reflects the more sophisticated ownership base of the prime assets in these markets with those owners more willing and able to fund higher incentive levels than smaller, private investors.

Larger tenants have, and will continue to, push incentive levels higher than the market average. While not the norm incentives of 30% for existing assets is understood to occur, however the Gold Coast has remained well below the incentive levels still prevalent in the Brisbane market.

With tenants upgrading to prime space while it remains affordable, secondary rents have lagged. Investment to improve secondary assets remains isolated, however has contributed to a lift in face rents. Despite this, the level of choice has seen incentives grow slightly, keeping secondary effective rental growth to 4.0% y-o-y.

FIGURE 3
Gold Coast Prime Rental by Precinct
\$/m² gross effective rent

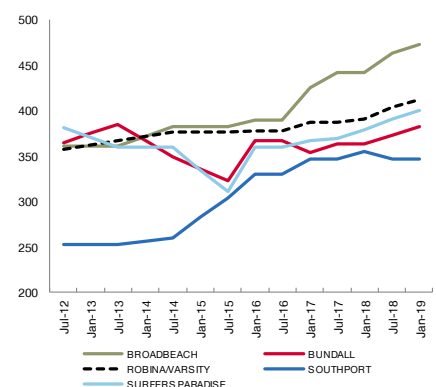
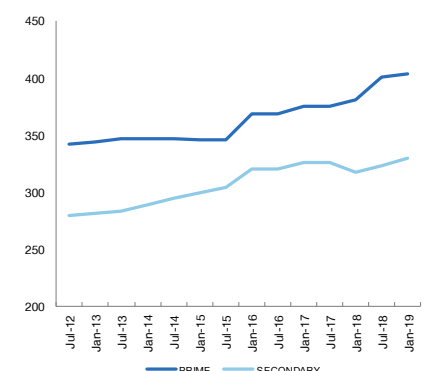


FIGURE 4
Gold Coast Prime & Secondary Rent
\$/m² gross effective rent



Source: Knight Frank Research

TABLE 4

Recent Major Leasing Activity Gold Coast

Address	NLA m ²	Est Face Rent \$/m ²	Term yrs	Incentive (%)`	Tenant	Date
130 Bundall Rd, Bundall	623	365 g	5	15-20	Gemini Accident Repair Centre	Dec 18
192 Ashmore Rd, Benowa	700	428 g	10	undis	Wiltshire Lawyers	Dec 18
50 Cavill Ave, Surfers Paradise	672	555 g	5	20-25	Smarter Communities	Nov 18
Wyndham Corporate Centre, Bundall	1,032	447 g	5	20-25	Undisclosed Tenant	Jun 18
36 Laver Dr, Robina	1,882	435 g	5	20-25	Gold Coast Innovation Hub	Jun 18

Source: Knight Frank Research `estimated incentive calculated on a straight line basis n net g gross

INVESTMENT ACTIVITY & YIELDS

Investment activity to increase in 2019

Transaction activity in the Gold Coast was lower during 2018 with only one office building sale of over \$10 million completed during the year. This is likely to change in the short term with approximately \$90 million in assets actively offered in the market.

The largest sale during 2018 was 2 Short St which is a modern building, currently largely leased to medical tenants, located in the Southport office precinct. The building was purchased by the Australian Unity Healthcare Property Trust for \$17.5 million and has a 4 year WALE with the largest tenant being Ramsay Health.

Outside of this purchase the transactions during 2018 were largely of smaller secondary assets which realised in the order of \$7 million each. While this is reflective of the scale of much of the Gold Coast office stock there remains purchaser interest for much larger assets.

The largest recent sale is the 2017 purchase of the Bundall Corporate Centre for \$89 million to CorVal. With limited assets of this scale in the region these \$50 million+ assets remain tightly held.

Current Yields & Outlook

Prime 6.75% - 8.00%
-13bps y-o-y

Secondary 7.50% - 8.50%
stable y-o-y

Assumed WALE Prime: 4-6 yrs,
Secondary 2-5 yrs

Rental growth underlies the region's appeal to income focussed investors

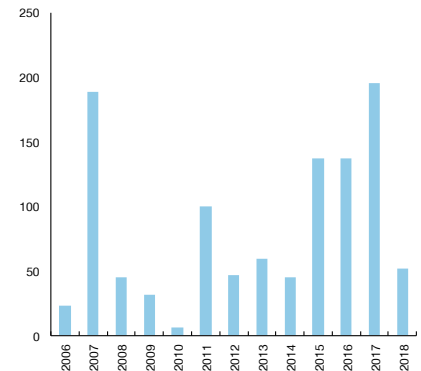
Traditionally the Gold Coast investment market has been dominated by private investors and syndicators given the relatively smaller investment scale. Value-add wholesale investors and selected REITs have also shown appetite, although listed entity investment has been focussed on medially oriented assets with Australian Unity Healthcare Trust investing some \$53 million in office/medical centre assets on the Gold Coast since 2016.

As confidence is gradually building in the level of tenant demand and depth of the market the Gold Coast is likely to appear on the radar for a greater swathe of investors. The relatively higher yields on offer will become more favourably considered as the buyer climate shifts from capital growth due to yield compression to become investment focussed on income maximisation.

FIGURE 5

Gold Coast Office Market Turnover

\$million sales of assets \$5m+



Source: Knight Frank Research

With new supply expected to remain limited the genuine desire for tenants for higher quality accommodation will continue to spur refurbishment activity with value-add investors to take greater positions in the market.

Prime yields remain on a firming trend, however the Gold Coast market never reached the levels of contraction seen in other major markets. The expectation is for some further improvement as prime rental growth accelerates in the medium term and a lack of investment opportunities sees more investors embracing a regional location.

TABLE 5

Recent Major Sales Activity Gold Coast

Address	Grade	Price \$ mil	Core Market Yield %	NLA m ²	\$/m ² NLA	WALE	Vendor	Purchaser	Sale Date
2 Short St Southport	A	17.50	6.21 [^]	2,339	8,842	4.0	Private Investor	Australian Unity Healthcare Prop Trust	Sep 18
140 Bundall Rd, Bundall	B	7.05	n/a [#]	3,143	2,243	n/a	Jarema Pty Ltd	Zupp Commercial	Jun 18
56-58 Nerang St, Southport	B	6.97	7.54 [^]	2,145	3,251	undis	Private Investor	Private Investor	Mar 18
4 Miami Key, Broadbeach Waters	B	7.10	7.80	1,442	4,924	3	Icon Energy	Private Investor	Feb 18
130 Bundall Rd, Bundall	B	7.50	8.60	3,705	2,024	0.7	Jarema Pty Ltd	Private Syndicate	Jan 18

Source: Knight Frank Research

[#] sold more than half vacant, refurbishment opportunity

[^] passing yield

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Definitions:

Core Market Yield: The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).

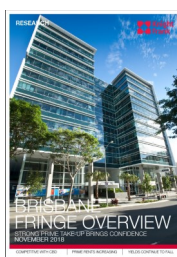
WALE: Weighted Average Lease Expiry

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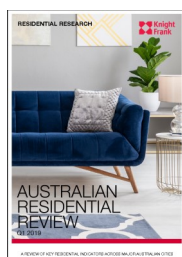
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