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# METRO OFFICE

Second Half 2017



# EXPERTS

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# METRO OFFICE SNAPSHOT

	VACANCY RATE		NET FACE RENT	INCENTIVES		NET EFFECTIVE RENT	NET SUPPLY		YIELD	
	Current	Sept-18	Current	Current	Sept-18	y-o-y % change	Prev 12 months	Next 12 months	Current	12 month change (bps)
NSW										
North Sydney	6.4%	5.7%	\$740	21%	22%	12.7%	30,014	536	5.38%	-120
St Leonards	12.6%	12.5%	\$580	25%	N/A	15.1%	(19,614)	(7,331)	6.38%	-70
Chatswood	6.9%	6.6%	\$515	23%	N/A	5.2%	-	-	6.38%	-110
Macquarie Park	8.5%	7.3%	\$360	25%	N/A	10.2%	(13,174)	(22,060)	6.25%	-80
Norwest	N/A	N/A	\$310	26%	N/A	0.0%	N/A	N/A	7.38%	-20
Parramatta	4.3%	3.4%	\$475	15%	14%	5.3%	23,863	22,840	5.75%	-110
SOP	N/A	N/A	\$403	20%	N/A	6.5%	N/A	N/A	6.00%	-150
Rhodes	N/A	N/A	\$415	24%	N/A	10.5%	N/A	N/A	6.75%	-70
South Sydney	N/A	N/A	\$435	16%	N/A	11.1%	N/A	N/A	6.13%	0
CBD Fringe	N/A	N/A	\$675	15%	N/A	26.7%	N/A	N/A	5.63%	-50
Newcastle	8.6%	3.5%	\$395	12%	N/A	3.70%	6,894	Nil	6.75%	-25
VIC										
St Kilda Rd	6.1%	10.0%	\$368	23%	22%	17.3%	(18,894)	(10,162)	6.25%	-88
Southbank	3.2%	7.2%	\$490	30%	22%	4.0%	(2,939)	53,000	5.69%	-44
City Fringe	2.1%	2.9%	\$453	12%	18%	24.0%	(32,632)	6,000	5.75%	-63
Inner East	5.0%	3.7%	\$393	13%	15%	9.8%	(1,798)	-	5.75%	-75
Outer East	9.3%	9.4%	\$315	25%	28%	5.3%	18,455	23,000	6.88%	-37
South East	12.5%	10.8%	\$288	18%	28%	4.7%	305	-	7.75%	-38
North & West	5.3%	4.7%	\$300	25%	28%	14.3%	-	4,000	7.50%	-100
QLD										
Inner South	11.1%	10.1%	\$457	33%	33%	5.10%	22,100	(500)	6.75%	-38
Urban Renewal	13.9%	13.6%	\$453	34%	36%	-3.10%	(14,430)	31,744	6.75%	-38
Milton	17.9%	30.0%	\$403	35%	37%	0.16%	(764)	(500)	7.68%	-70
Spring Hill	18.4%	24.8%	\$410	35%	36%	-0.85%	(3,633)	(500)	7.75%	-38
Toowong	11.8%	15.5%	\$388	35%	33%	1.85%	(950)	-	7.88%	-37
Gold Coast	11.3%	10.0%	\$362	15%	15%	2.20%	(4,402)	(5,576)	7.50%	-65
SA										
Fringe	10.1%	NA	\$323	20%	NA	-4.03%	441	NA	6.63%	0
Inner Metro	5.9%	NA	\$298	20%	NA	-0.90%	-	NA	6.75%	25
WA										
West Perth	15.0%	14.6%	\$372.5	40%	40%	-6.3%	2,506	5,595	7.20%	-23



# NATIONAL OVERVIEW

By Anneke Thompson

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## Metro office markets heavily impacted by their CBDs

In a similar vein to their CBD counterparts, there is significant difference in the performance of Metro office precincts around the country. Sydney and Melbourne continue to experience significant downward pressure on vacancy rates, as tenant demand in those cities is strong right across the board. Conversely, in the other capital cities of Brisbane, Perth and Adelaide, generous incentives and good availability of space in those CBD markets means many tenants are taking the opportunity to centralise their office space, and, as a result, metro vacancy is rising.

Continuing our theme from our H1 2017 report, the Sydney and Melbourne City Fringe markets continue to lead the country in terms of rental growth, with each market recording City Fringe A Grade net effective rental growth of 27 per cent and 24 per cent respectively. Tenant activity in those markets is being impacted by the growing demand from emerging technology groups, who prefer a fringe precinct for the amenity and attractiveness to their employees. Across the other capital cities, effective rents were mostly flat or negative, with the Inner South of Brisbane seeing the biggest effective rental growth of 5.1 per cent.

While leasing markets are certainly 'two tier', demand for investment property is more evenly spread across the country. Sydney and Melbourne are certainly the preferred destination for capital. The average rate of compression over the year to September in each of those city's metro markets was 78 bps and 63 bps respectively. However, in Brisbane, where metro office vacancy is still elevated, average yield compression was 44 basis points across the precincts. Perth and Adelaide also experienced yield compression – although the Adelaide fringe market has been flat over the year.

As CBD prime grade assets in Sydney and Melbourne now routinely achieve sub 5 per cent reversionary yields, investors – particularly smaller cap unlisted funds, syndicators and private family offices, and in markets like St Kilda Road, offshore investors – are looking to more 'value add' opportunities with a more generous cap rate. These opportunities can be found in metro markets around the country, where yields range from 6.75 per cent in markets such as Brisbane's Inner South and Urban Renewal area, to 7.75 per cent in Toowong. There are few markets in Sydney or Melbourne where yields in those ranges can be found.

We expect that while the risk free rate remains low – and there are few indications at this point in time of an imminent rise – that investors will continue to search metro markets nationally for good returns.



101 Miller Street, North Sydney NSW

Leased on behalf of Mirvac Funds Management & TH Real Estate

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## MARKET HIGHLIGHTS

Sydney Metro continues to appeal to investors, as market fundamentals in core metro markets strengthen

North Sydney continues to position itself as the 'northern office hub'

Parramatta could see an addition of prime grade office space before 2020 due to potential new projects, planning changes and conversion

## Investment market

Market fundamentals continue to strengthen, with the biggest influence being constrained supply placing upward pressure on net effective rents in Sydney's Metro office markets. Suburban peripheral markets are especially impacted by residential encroachment, while tenant demand for the core metro office markets of North Sydney and Parramatta grows.

Infrastructure and amenity investment has contributed to an uplift in rent and competition for space amongst occupiers, especially within core metro markets, and it's likely that this will continue throughout the construction process to completion.

Average A Grade yields for Sydney Metro have tightened by 57bps over the past 6 months and annually by 79bps to average 6.20 per cent in September 2017. The secondary market experienced greater compression, with a reduction in the average yield of 62bps, settling on a yield of 6.76 per cent.

Good tenant demand, along with a contracting suburban office market, has resulted in a positive rental outlook, and will continue to assist within increasing capital values and yield compression.

While the yield arbitrage between Sydney Metro and Sydney CBD still exists, it is narrowing as value add opportunities continue to appeal to investors. Despite the narrowing yield gap, the Sydney metro yield spread over the risk-free rate of 381bps and 437bps for A and B grade respectively, suggests further compression is likely while investors continue to search for yield.

## Leasing Market

### North Shore

#### Revitalisation continues

A grade rents increased by 5.7 per cent over the 6 month to September 2017 while net effective rents increased 9.5 per cent. Incentives fell two percentage points to average 21 per cent. B Grade net face rents grew 9.7 per cent over the 6 months and net effective rents remained relatively in line with net face rents, as incentives held at 20 per cent for the period.

Looking forward, the market is anticipated to stabilise following a significant uplift in rents during 2016 and 2017 and a fall in incentive levels from the mid 30s to 20 per cent over the corresponding period. Colliers International expects total market vacancy to fall slightly over the next 12 months and stabilise until 2020, as several new and refurbished supply opportunities enter the market.

Even though the fundamentals of the market are not anticipated to change markedly, it's likely that the delivery of the new developments and refurbishment of 100 Miller Street and completion of Brett Whitely Square will add greatly to surrounding amenity and reposition North Sydney as a truly revitalised city centre.

#### Expansion results in declining vacancy

North Sydney experienced above-average net absorption (6,985sqm) for the six months to July 2017 as tenants expanded within their existing premises and relocated from outside market boundaries, contributing to over 5,000 sqm of net tenant demand.

As a result, vacancy declined from 7.3 per cent to 6.4 per cent for the July 2017 period, according to the Property Council of Australia (PCA).

Looking forward, we expect total market vacancy to fall over the next 12 months to 5.7 per cent, accounting for continued tenant migration from suburban markets further afield. Furthermore, the Sydney CBD market will tighten further over the next two years, driving positive rental growth and as a result, sitting tenants may consider North Sydney as a viable alternative.

Once the Sydney Metro is completed, reducing commuter times from the North Shore markets towards the City, we anticipate North Sydney will be seen by occupiers more as an extension of, and comparable, to certain precincts within the Sydney CBD.

## Chatswood

Chatswood vacancy fell from 7.7 per cent to 6.9 per cent, with this trend expected to continue as the existing tenant base expands. Examples of this are the Department of Health taking an additional 3,000sqm in the Zenith and various tenants taking additional space from within 475 Victoria Avenue. As a result, the PCA recorded over 2,400sqm of net absorption in the 6 months to July 2017.

Additionally, landlords have catered for smaller occupiers by splitting floors in buildings such as 465 Victoria Avenue, Zenith and 12 Help Street. While whole floor demand has reduced, demand has grown in the sub 400sqm market, contributing to reduced vacancy.

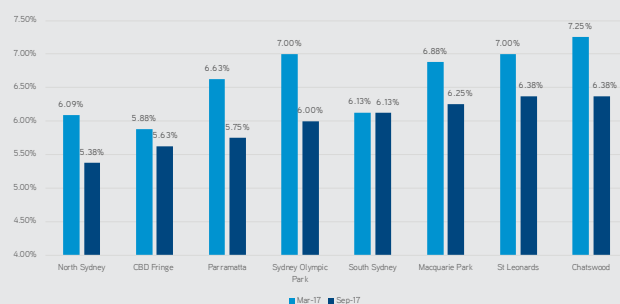
In the six months to September 2017 average A Grade net face rents increased marginally by 1 per cent while incentives fell from 25 per cent to 23 per cent as a result of declining vacancy.

## St Leonards

St Leonards continues to experience office erosion as stock continues to be earmarked for residential conversion. In the last six months, St Leonards' vacancy has increased from 10.5 per cent to 12.6 per cent in July 2017, as tenants relocate out of the area. While St Leonards remains a challenging market given the reduction in available space, there is still demand for A and B grade space, with a number of deals concluded at 201 Pacific Highway, St Leonards.

While many secondary grade buildings within St Leonards come with a demolition clause (prohibiting long-term leases) this, in turn, is offering advantages to buildings without such clauses, as landlords can offer longer lease terms. Off the back of constrained supply of long term office space, A grade net face rents have risen 2.2 per cent over the last 6 months, with net effective rents increasing 3.6 per cent, while average incentives fell one percentage point.

## Sydney Metro Yields



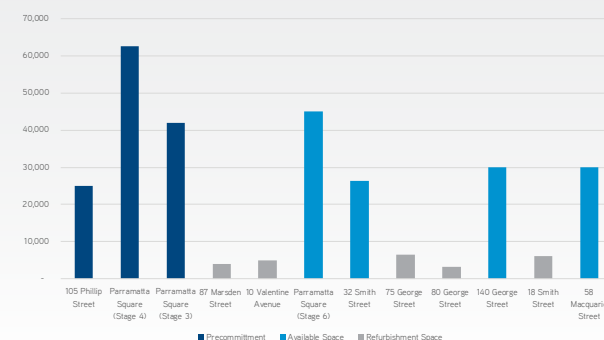
Source: Colliers Edge

## North Shore Metro Markets Net Absorption vs Vacancy July 2017



Source: Colliers Edge

## Parramatta Supply Pipeline



Source: Colliers Edge

Lot 4, Royal North Shore Hospital development (36,000sqm) is projected for completion in 2020, with it fully pre-committed to the Department of Health Infrastructure, relocating from 73 Miller Street in North Sydney. A refurbishment of 72 Christie street will bring over 11,000 sqm to market and mooted schemes remain at Gore Hill Technology Park (46,000sqm) and 18-20 Atchison Street (2,300sqm).

## Macquarie Park

Macquarie Park recorded negative net absorption over the six months to July 2017 according to the PCA, with this phenomenon

concentrated in the B grade segment, as 101-107 Waterloo Road was withdrawn for residential conversion. Delivery of 8 Khartoum Road weakened demand further as 10,800sqm was brought online in the A grade segment. Only 1,800sqm of positive net tenant demand recorded for the July 2017 period.

However, tenant enquiry from peripheral suburbs remains strong as Macquarie Park offers a relatively superior location and space suitable for larger occupiers, as tenants continue to be displaced due to residential conversions. A flight to quality is being experienced as Macquarie Park offers value for money, which has been appealing to tenants in the catchment area.

Some larger tenants are considering decentralisation, as a result of Macquarie Park's competitive price point relative to the all other Sydney office markets. The majority of these enquiries are for 'back of house' operations.

A grade net face rents have remained stable of the 6 months to September 2017, however net effective rents increased marginally as incentives reduced one percentage point to average 25 per cent. According to the PCA, vacancy increased from 7.9 per cent to 8.5 per cent over the 6 month period, however we expect continuing residential conversion from surrounding suburban markets, coupled with occupiers' need for larger volumes of space, to absorb this vacancy moving forward. Colliers expects over 20,000sqm of demand to enter the market from the relocation of tenants, particularly those in the pharmaceutical industry, from Ryde and West Ryde.

## Western Sydney

### Parramatta

#### A focus on freeing up space

A notable 15,000sqm of space could potentially become vacant in 2020 and 2021 if Parramatta City Council (126 Church Street), the Office of State Revenue (132 Marsden and 87 Marsden Streets), and the Department of Planning and Environment (10 Valentine) vacate their premises. Confirmed commitments to new premises include the Department of Education and Property NSW, who have fully committed to new developments 105 Phillip Street and Stage 4 Parramatta Square, respectively. Increasing pre-commitment rates will continue to fuel Parramatta's record low vacancy rate, which is currently 4.3 per cent.

However, several Development Applications have been submitted for new office projects, which are mostly slated for completion in 2019 and 2020. These projects include 32 Smith Street and 140 George Street. Developments such as 32 Smith Street (26,400sqm) will provide opportunity to single floor tenants or smaller local businesses to establish themselves in new office

space, whereas bigger developments have primarily facilitated larger occupiers, for example Walker Corporation's Parramatta Square.

Additionally, Parramatta Council is working through a change in the Local Environment Plan (LEP) for fringe sites, allowing higher Floor Space Ratios (FSRs), in the hopes of making available more office space.

Council is currently undergoing a process of reviewing the proposed scheme for Aspire Towers, a residential development which would allow the developer, Walker Corporation to change the building's use to commercial. This has occurred off the back of Parramatta Square's success, the office market's low vacancy, and strong commercial demand, along with a plateauing residential market.

According to a Council commissioned report, converting the building to commercial use would create an additional 71,000 sqm of much needed prime grade commercial space and, if we assume a projected completion date of 2020, this building will come at a time when we forecast vacancy to be at an all-time low of 3.5 per cent.

### Rental growth remains strong, B Grade outperforms

For the third consecutive period, A Grade space remains at full occupancy, fuelling good rental growth. Over the last 6 months, net face rents have increased 5.0 per cent and incentives remain stable at 15 per cent net.

Net effective rents in the B grade segment increased 14.1 per cent over 6 months largely due to a 4 per cent reduction in average incentives, falling to 12 per cent. Parramatta's B grade market is dominated by private owners, hence why incentives are lower relative to Parramatta's prime market, which primarily appeals to institutional investors.

Pre-commitment levels are likely to remain strong until 2020, placing continued downward pressure, particularly on A grade vacancy. We therefore anticipate net effective rental growth to exceed historical averages for A and B Grade space of 6.7 per cent and 6.2 per cent year on year respectively over the next three years. Over the next 12 months, net effective rents for A and B Grade are expected to grow by 11 per cent and 10 per cent respectively.

### Sydney Olympic Park/Rhodes

Net face rents continue to rise as office enquiry strengthens with a variety of tenant types showing interest in these markets. Average A grade net face rents for Sydney Olympic Park (SOP)/Rhodes have increased 7.3 per cent and 3.1 per cent respectively.



Incentives declined 2 percentage points in Rhodes, falling to 24 per cent, but remained stable for the third consecutive period at 20 per cent in SOP.

Increasing tenant enquiry continues to be driven by location, being at the geographic centre of Sydney, with good access and amenity, offering an alternative to Parramatta. As A grade vacancy in Parramatta remains at zero, coupled with its relatively higher price point for secondary grade stock, larger, quality space in SOP/Rhodes is experiencing strong demand conditions. A flight to quality trend is emerging, as tenants seek a higher level of amenity and infrastructure from surrounding suburban markets that are not as established.

Furthermore, residential and mixed-use conversions within peripheral suburban markets (Burwood, Ashfield, Homebush, Lidcombe and Silverwater) is set to benefit SOP/Rhodes, as displaced tenants look for opportunities to secure quality space in a wider contracting market.

In December 2017, 2 Dawn Fraser becomes available. This building is currently occupied by CBA, who will move to a new building in Darling Square. FDC's development at 11 Murray Rose will reach completion at a similar time, offering 6,000 sqm of A grade space. Current demand for A grade space is healthy with several tenants actively looking at SOP.

By the end of 2018, 4 Murray Rose, with a pre-lease to Rural Fire Services of 9,240 sqm comes, will complete. A further 6,500 sqm of space available for pre-lease

## City Fringe

There is growing urgency amongst creative industries and (increasingly) tech companies to secure unique, quality space, as limited supply within the cluster of City Fringe suburbs continues. Tech companies are particularly focussed on the role their premises play in their rapid business and staff growth.

For tech tenants, retention of staff is a primary driver when choosing the location and character of the space. Recently the City Fringe office market has been flooded with tech start-ups. The importance of location, amenity and type of space comes as the competitiveness between tech companies grows.

What appears to be a recurring theme among the top performing buildings for rental growth and tenant engagement is high quality food operators located prominently on the ground floor of the building. A balance of work and play, coupled with creating a destination and brand for the building, can contribute greatly to

position office buildings into true 'place makers'. The owners of 50 Holt Street, 285a Crown Street and 64 Kippax Street, Surry Hills have recognised this and made food and beverage use a key component.

Additionally, constrained supply has continued to drive positive rental growth over the last 6 months, especially in the B grade market, despite the lack of amenity relative to A grade space. A grade net face and net effective rents have grown 3.8 per cent and 10.3 per cent respectively, with B grade increasing 9.1 per cent and 11.9 per cent respectively. As competition between tech tenants for space increases, incentives have declined, with A grade falling 4 percentage points to average 15 per cent and B grade falling one percentage point to 15 per cent. We forecast more downward pressure on incentives with more examples emerging of sub-10% in some cases.

## South Sydney

The South Sydney office market is experiencing a change of use as buildings on Bourke Road and Ralph Street in Alexandria and streets within Rosebery and Beaconsfield have converted from industrial to commercial uses.

Due to the area's industrial influences, some properties have strong potential for start-up and co-working usage, provided they haven't been rezoned to residential. Recently, La Porte Space, an industry vertical hub, secured 1,800sqm of contemporary office space on Epsom Road, Rosebery and several other co-working and incubator operators are evaluating suitable properties close to transport nodes.

The South Sydney office market continues to appeal to institutional investors, the prime example being Mirvac's development of the Australian Technology Precinct (ATP) and its pre-commitment to CBA. AMP Capital has also purchased Corporate Connect Stages 1 and 2 and DEXUS has purchased The Mill on Bourke Road, Alexandria, which is fully leased. This suggests the South Sydney market can successfully accommodate new developments outside of current CBD boundaries.

Net face rental growth in the A grade market has increased by 10 per cent over the 6 months to September 2017 with incentives falling 2 percentage points to average 16 percent. The strong rental growth is largely attributed by good access to infrastructure, constrained supply, high rents and low vacancy in the Fringe and the owners adapting their stock to achieve highest and best use.

By Anika Wong  
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## MARKET HIGHLIGHTS

Limited options for major tenants (5,000sqm+)

Investors continue to broaden their interest to the Outer East, due to scarce opportunities in the Fringe and Inner East markets

Competitive capital values in the Outer East attracting high demand from local and offshore purchasers

## City Fringe

### Tenant demand continues to flourish

Demand for office space continues to be strong in the City Fringe, particularly in Cremorne, Richmond and South Yarra. Net effective rents for prime and secondary grade assets experienced double-digit growth, underpinned by strong face rental growth rising 13 and 12 per cent respectively in the six months to September 2017.

Incentives were relatively stable between March and September 2017, with only a slight reduction recorded across both grades. Incentives are at their lowest levels since the first half of 2012, averaging 12 per cent and 15 per cent respectively for A and B grade space.

Limited options for tenants seeking more than 1,000sqm in suburbs including Richmond, Cremorne and South Yarra has driven strong face rental growth and elevated levels of tenant committing to space prior to building completion. The Walt Disney Company secured a five year lease at Building 10, 658 Church Street, Richmond (2,657sqm) on a rate per sqm between \$415 to \$420 prior to the space becoming vacant. This was also the case at 35-39 Elizabeth St, Richmond, with 3,600sqm being leased to a call centre before vacancy was recorded.

Over the six months to September 2017, we recorded negative net absorption of 14,314sqm, although this was a result of supply decreasing by 28,000sqm, as stock was withdrawn for refurbishment. The largest impact was the withdrawal of space for refurbishment at Botannica, in anticipation of the arrival of Country Road and David Jones. The City Fringe precinct is expected to see additions of 134,900sqm of proposed developments, across twelve buildings, over 2018-2020. Much of the development is to be delivered in Richmond, Cremorne and Collingwood. Included in this is 60 Cremorne Street, which will encompass 19,300sqm of office accommodation expected to complete by 2021. The commercial development has already secured a lease over the entirety of the space, with SEEK relocating their head office from 541 St Kilda Road.

Vacancy levels in the City Fringe are currently 2.09 per cent. This is the lowest levels in the Melbourne Metro market and the lowest since Colliers began recording vacancy. We forecast vacancy to remain well below the long-term average of 6.07 per cent until March 2020, before a new supply wave hits the market, and vacancy climbs to around 7.9 per cent.

Investment activity in the second half of 2017 reached \$169.5 million over the course of 2017. Notable sales (over \$20 million) were Building 8, 658 Church St, Richmond, 10-16 Dorcas Street, South Melbourne and 110 Church St, Richmond. The result of strong investment in the fringe area has seen prime grade yields tighten by 25bps over the six months to September 2017 and now sitting at all-time lows (since Colliers International recorded in 2004) of 5.75 per cent - demonstrated by the recent sale of 110 Church St, Richmond reflecting a 5.25 per cent yield.

## Inner East

Continued increasing popularity in the Inner East precinct is driving upwards pressure on net face rents, rising 4 per cent and 6 per cent for A and B grade space respectively in the six months to September 2017. Capitalising on pent up tenant demand, prime grade incentives reduced to 13 per cent.

Positive net absorption of 5,846sqm was recorded in the six months to September 2017. No new supply will be added to the market until 2019, when 135-155 Camberwell Road, Camberwell will deliver 8,000sqm of office space. Vacancy levels fell below the long term average to 4.9 per cent, down from 6.3 per cent in March 2017. The low vacancy is a result of growing tenant appeal in Fringe and Inner East markets, with tenants focusing on attracting and retaining employees coupled with the lack of new supply. As a result of this, we forecast face rents to lift circa 6 per cent over the next 12 months as competition for leasing opportunities continue and demand surpasses supply during this period.

Yields tightened across all prime and secondary classes with good investor interest over the course of the year. Yields for A grade assets fell 25bps and B grade assets fell 38bps over the six months to September 2017, with yields now sitting at 5.75 per cent and 6.5 per cent respectively.

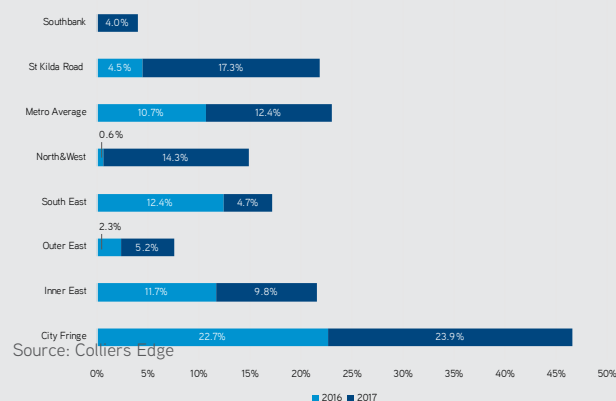
## Outer East

Supply constraints and competition of limited stock in the CBD and Fringe markets has resulted in rental growth in the Outer East market where affordability of prime space continues to remain attractive to large corporate occupiers. Larger tenants seeking cheaper rents without the desire to be in the Fringe precincts can occupy space in the Outer East that offers a comparatively affordable rent base to the major metro markets. The Outer East also has the development capacity to capture demand. Prime face rates per sqm in the Outer East range between \$300 to \$330/sqm in comparison to Inner East markets (\$385 to 400/sqm) and City Fringe (\$420 to \$485/sqm).

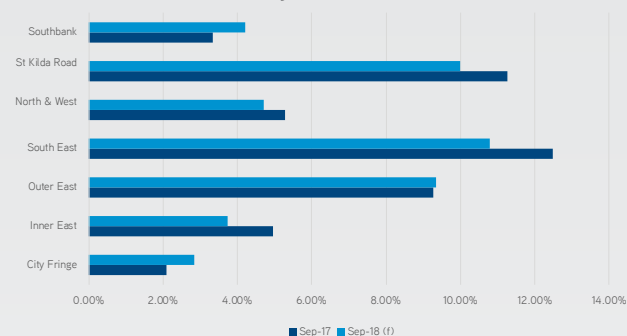
Limited availability of existing secondary supply has seen landlords opting for floor by floor speculative fitout strategies. This strategy offers occupiers turn-key quality fit outs, and tenants can move in almost immediately. As a result, both prime and secondary grade effective rents delivered some growth in the six months to September 2017, growing 5 per cent and 19.5 per cent respectively. A grade average incentives fell two percentage points to 25 per cent whilst B grade incentives recorded a significant fall to 30 per cent, from 38 per cent in March 2017.

Vacancy levels have been well above the long-term average for some time, but have now fallen to 9.26 per cent, down from 10.7 per cent in March 2017. This was a result of a high net absorption levels of 18,550sqm, and only 6,210sqm of net supply additions over the same period. We anticipate vacancy in the Outer East will continue to trend around the long term average level of 9.7 per cent over the next 18 months. New developments and affordability in the Outer East region are attracting significant interest, with 10 Nexus Court, Mulgrave yielding several prospective tenants

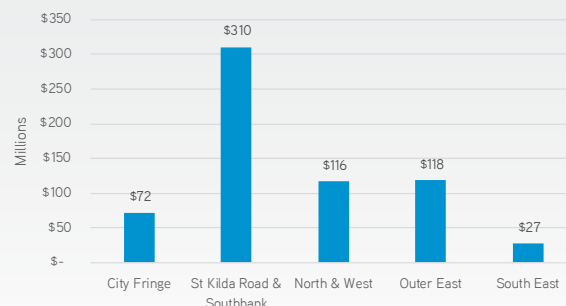
### Melbourne Metro A Grade Net Effective Rental Growth



### Melbourne Metro Vacancy Rates



### Melbourne Investment Sales >\$20 million



prior to anticipated building completion in May 2018. The 4.5 Star NABERS energy rated development will come onto the market offering 8,000sqm of office accommodation over six levels.

Over the six months to September 2017, there were a total of \$118.3 million transactions across three sales. The largest transaction being the Ferntree Business Park purchased by the Goodman Group for \$195 million. Average prime yields now stand 146bps lower than the long-term average of 8.34 per cent, averaging at 6.8 per cent and 8 per cent for prime and secondary assets respectively. This was demonstrated by the recent sale of 495-501 Blackburn Road, Mount Waverley purchased by FIFE Capital (7 per cent) and Century Walk Shopping centre (6.3 per cent) transactional yields. Average capital values in the Outer East



of \$4,600/ sqm for prime grade space are attracting the interest of major institutional buyers. Given capital values average between \$7,000 and \$8,000/sqm in the City Fringe and Inner East markets, there is significant value to be found in the Outer East market, particularly given falling vacancy and a muted supply outlook.

## North & West

Prime effective rents in the North and Western region surged 14 per cent in the last six months with secondary stock increasing approximately 9 per cent. The diminishing level of new additions in the first and second half of the year has pushed strong rental growth and has seen positive net absorption levels of 2,069sqm of the existing vacancy. As a result, vacancy levels reduced to 5.29 per cent during the same period. Due to the limited supply levels, we anticipate vacancy levels to continue a downward trajectory below its long term average of 4.97 per cent in the first half of 2018 and tighten further below 3.5 per cent in the second half of 2020.

Leasing activity in the North and West office markets will look to gain momentum with the recent office developments in Essendon Fields and the completion of development in Bundoora offering 4,000sqm of office accommodation in the first half of 2018.

Growing white collar employment, particularly in the Health Care

and Education sector in Melbourne's suburban office markets, will also attract more skilled workers and development activity to this precinct.

Over the course of 2017, there have been five transactions in excess of \$20 million totalling \$186.2 million in value. This translated to yields compressing 100bps for prime grade assets and 50bps for secondary grade assets since March 2017. Most recently, Centuria acquired Target HQ for \$58.2 million from Cedar Woods at Williams Landing over 13,000sqm on a yield of 6.5 per cent

## South East

The South-East market experienced soft tenant demand over the last six months. However, with no new supply additions for the remainder of the year, upwards pressure is being placed on rents. While net face rents remained relatively subdued for prime grade space, effective rents grew 5 per cent whilst secondary grade space grew 6 per cent since March 2017 to average \$237/ sqm and \$154/sqm respectively. A grade average incentives decreased to 18 per cent, down from 21 per cent whilst incentives for secondary stock remained unchanged averaging at 28 per cent in the six months to September 2017.



**Building 8, 658 Church Street, Richmond**

Sold on behalf of Property Bank



Vacancy levels remain elevated at 11.5 per cent having dropped off slightly from its peak at 12.5 per cent in March 2017. Negative net absorption of 467sqm was recorded in the South East with no new supply anticipated until 2019-2020 being two A grade developments; 450 Nepean Hwy, Frankston (10,534sqm) and Moorabbin HQ, Moorabbin (20,000sqm). Looking ahead, we forecast vacancy levels to tighten further in the coming twelve months to 10.8 per cent, as a result of the limited supply pipeline.

Emerging and gentrifying locations in the South East including Cheltenham will soon benefit from the new Southland train station due to open by the end of 2017. This has added to the attraction in Melbourne's outer suburbs for investors seeking high-yielding opportunities. This is demonstrated by the recent sale of the iSelect Building in Cheltenham, purchased by Singapore's fund management ZACD Group for \$27.3 million reflecting 8.42 per cent yield. This translated in yield compression for secondary grade stock by 25bps averaging at 8.38 per cent, which is still the highest return offered across all metro markets.

## St Kilda Road & Southbank

Effective rents for prime grade stock on St Kilda Road increased by 17 per cent over the year and 10 per cent in last six months to September 2017. Net face rents for prime grade space grew 10 per cent after being stagnate over the course of 2016. Secondary grade assets also experienced an uplift in rents, growing 8 per cent due to lack of available stock in the prime category. Incentives for both primary and secondary stock have remained stable over 2017, averaging between 28 and 30 per cent respectively.

The St Kilda Road office market shrunk by 16,655sqm in the six months to July 17, according to the PCA. Net absorption levels were negative at -1,535sqm, with the market recording negative supply of -16,655sqm over the same period as space continues to be withdrawn for alternative uses. Vacancy rates in the St Kilda Road market fell to 11.3 per cent down from 13.2 per cent in the first half of 2017. Some of the larger vacancies in the market are actually unavailable for long term occupation. 601 St Kilda Road (10,162sqm) will soon be withdrawn for residential conversion and 457 St Kilda Road (9,500sqm) has been recently been purchased by the owner of The Just Group, who will move to the space from Richmond late this year. We are confident that vacancy levels will further decline over the short term, as further stock is removed from the market.

Similarly, Southbank's stock levels have depleted, and net supply was negative 4,595sqm over the first half of 2017. Vacancy levels are at 3.34 per cent down from 4.1 per cent in January 2017 -

their lowest levels since 2008, and well below the long-term average of 7 per cent. The withdrawn stock in Southbank is to be converted to two hotels and two residential developments. Approximately 24,500sqm of backfill is anticipated in 2018 including Exxon Mobil, which is vacating their recently sold premises at 12 Riverside Quay. The new owner of 12 Riverside Quay is yet to decide on the future of this asset, with office and hotel use both potential outcomes. The only new development close to completion is the newly upgraded and expanded ABC headquarters, expected to be finalised over Q3/Q4 2017. This 30,000sqm development is fully committed by the ABC, who will move out of their Ripponlea complex. The other supply forecast is refurbishment space at 2 Southbank Boulevard (23,000sqm) due to come to the market Q4 2017. Looking ahead, we expect vacancy levels will remain stable until the first half of 2019 because of the continued reduction of stock in the near term and limited new developments coming online. This is in turn expected to place upwards pressure on rents.

St Kilda Road dominated sales in the metro market with a total of \$310.25 million transactions accounting across three properties in the six months to September 2017. Singapore based investors have been the leading purchasers, making up 78 per cent of the total sales volume over the six months to September 2017. Mapletree has added an additional asset to their portfolio, with the recent purchase of 417 St Kilda Rd at \$144 million purchased from Newmark Capital in May on a 6.15 per cent yield.

While the value of properties in the precinct increase, St Kilda Road still offers significant value when compared to the CBD, and as a result the strength of demand continues for quality assets in the St Kilda Road Boulevard. 420 St Kilda Road sold to Vantage Property Investments on behalf of KKR for \$68.8 million, reflecting an equivalent reversionary yield of 6.01 per cent. 390 St Kilda Road sold to Rockworth Capital Partners for \$97.85 million reflecting a 5.97 per cent yield. The 4-Star NABERS energy rated building offers a net lettable area of 16,307 sqm with tenants including Toll Transport, Quest Serviced Apartments and Aioi Nissay Dowa Insurance.

The weight of capital flowing to in the St Kilda Road office market continued the trend of yield compression for both A grade and B grade assets. Yields have tightened across prime grade stock, to now range between 6 per cent and 6.5 per cent, a firming of 38bps in the last six months. Southbank had no office investment sales in the six months to September 2017, however the looming sale of CUB's 77 Southbank Boulevard will offer sales evidence over the next half. Prime grade assets in Southbank over the six months have compressed 19bps to 5.7 per cent and secondary grade assets reducing 37bps to an average of 6.11 per cent.

By Helen Swanson  
Manager | Research  
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## MARKET HIGHLIGHTS

Vacancy has risen from 12.9 per cent in Jan 2017 to sit at 14.4 per cent in July 2017

The service sector led the take up of office space in Brisbane's metro office market

\$789.5 million of metro office transactions (> \$5 million) have been finalised 2017 YTD, with 48 per cent of buyers offshore and 52 per cent domestic

- 1231-1241 Sandgate Road, Nundah. Acquired by Centuria Property Funds for \$106.25 million, reflecting a market yield of 6.38 per cent.
- 25 King Street, Fortitude Valley. Acquired on a pre-sale and fund-through basis by Impact Investment Group for approximately \$140 million, reflecting an initial yield of approximately 6.50 per cent.
- 164 Grey Street, South Brisbane. Acquired by Marquette Properties and Moelis Asset Management for \$30.30 million, reflecting a market yield of 6.1 per cent.

Modern assets located in outer metro areas and suburban office parks possessing strong tenant covenants are also attracting strong interest from private investors (increasingly from Sydney and Melbourne), syndicators, and unlisted fund managers. One recent example was 12-14 The Circuit, Brisbane Airport (CASA Building), a major asset transacted by Colliers International. It was acquired by private investor Patella Properties for \$23 million, reflecting a market yield of 7.43 per cent.

## Investment market

### Investment demand remains strong, despite vacancy rising

\$789.5 million of metro office transactions (> \$5 million) have been finalised 2017 YTD, with 48 per cent purchased by offshore buyers and 52 per cent by domestic buyers.

Major office sales transactions which have been finalised 2017 YTD include:

- 505 St Pauls Terrace, Fortitude Valley (Green Square South Tower). Acquired by Eureka Real Assets on behalf of Korean Teachers Pension Fund (KTPF) for \$205.5 million, reflecting a market yield of 5.75 per cent.
- 520 Wickham Street, Fortitude Valley (HQ South Tower). Acquired by UK-based global investment manager M&G Investments for \$119.15 million, reflecting a market yield of 6.18 per cent.

### Precinct spotlight – Urban renewal

A grade office yields in the Urban Renewal Area currently sit between 6.5 and 7.4 per cent and have tightened 110 basis points since June 2014. Whilst yields are not quite as tight as what they were in mid 2007, they are anticipated to reach this level by the end of the year, which would mean a further 25 basis point tightening over the next 6 months. Given the region's high level of amenity, efficient public transport and proximity to the CBD, the Urban Renewal office precinct is likely to continue to grow and be recognised as a natural extension of the City. Not surprisingly, given the favourable credit market conditions, there has been strong demand for office assets in this precinct by investors. However, with the low supply of quality, fully leased properties available, yields are likely to remain sharp.

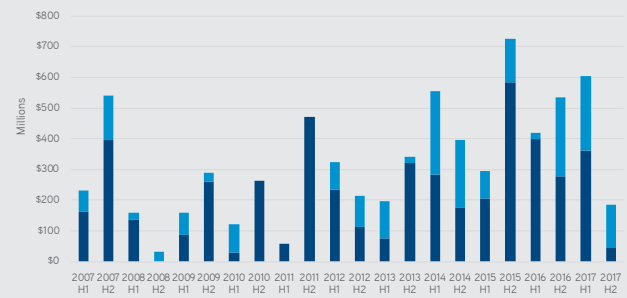
## Leasing market

Brisbane's metro office vacancy rate has risen 1.5 percentage points from 12.9 per cent in Jan 2017 to sit at 14.4 per cent as at July 2017. Although the vacancy rate has risen in the metro it remains below that of the CBD, which recorded 15.9 per cent. Vacancy across all office grades rose over the six month period. A grade vacancy was 12.4 per cent up from 11 per cent in January 2017 and B grade vacancy rose from 15.6 per cent to 16.1 per cent. Unsurprisingly six month net absorption was -28,553 sqm. There were no new supply additions added to the market over the six-month period while there was 11,764 sqm of withdrawals.

Spring Hill recorded the largest increase in vacancy with the rate heading north by 3.4 percentage points to sit at 18.4 per cent. Contributing to the overall rise in vacancy in Spring Hill was the relocation of the Australian Federal Police from Wharf street along with the addition of 196 Wharf Street, 152 Wharf Street and 211 Leichardt Street back into supply (previously development sites). This was followed by the Urban Renewal Area where vacancy increased 2.8 percentage points to sit at 13.9 per cent. Milton was the only precinct to record a decline over the six month period although it was the second highest of all metro precincts. Competitive rents on offer in Milton and lease deals completed, particularly in the Coronation Drive Office Park (CDOP), contributed to the decline in vacancy with one of the more significant deals to take place being Golding Contractors sub leasing 1,278 sqm over a three year term at CDOP 1. Other deals to take place in Milton over the last six months include British American Tobacco, Austin Engineering, BGC Contracting and Gray Robinson and Cottrell. The next significant challenge for the Milton market will come when Origin Energy move from its current premises in mid 2018 within the suburb to its new office at 180 Ann Street.

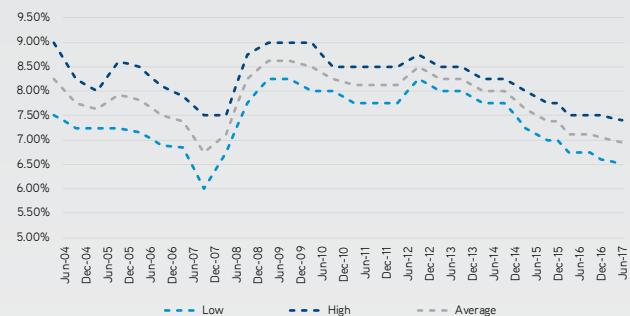
The service sector continued to dominate and feature prominently across all metro precincts. The education sector in particular was active with one of the larger deals being Imagine Education at 150 Leichardt Street in Spring Hill. The education company took 1,308 sqm at a gross face rent of \$460/sqm. IT companies also featured prominently with some of these deals including Shortcuts Software taking 1,014 sqm at 10 Browning Street, South Brisbane for a gross face rental of \$535/sqm over a 7-year term. Harris Technology also occupying 2,241 sqm at Hamilton Northshore development (375 Macarthur Avenue) for a gross face rent of \$450/sqm.

### Brisbane Metro Office Sales



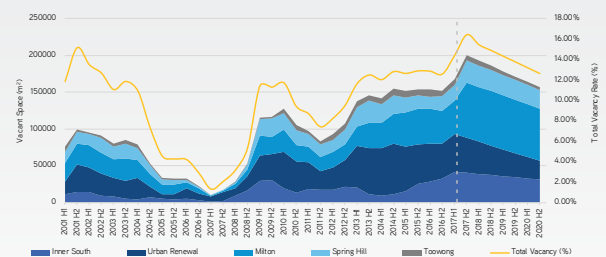
Source: Colliers Edge

### Urban Renewal A Grade Office Initial Yield (%)



Source: Colliers Edge

### Brisbane Fringe Office - Vacancy Forecast



Source: PCA OMR Jul-17 / Colliers International

Looking forward, we anticipate vacancy in the metro market will rise as sub lease space, such as Ergon Energy's 6,500sqm at 825 Ann Street and Aurizon's 7,500sqm at 900 Ann street enters the market next year. Other space to come online mid next year includes 100 Brookes Street, Origin Energy's backfill at Milton and Hatch's potential sub lease space at Petrie Barracks. Our forecasts suggest vacancy could reach circa 16 per cent by early next year. Consequently, we also forecast net effective rental growth for A and B grade office product in the metro to be in negative territory, falling 1.58 percent and equivalently -0.70 percentage points for the YoY to September 2018.



By Kate Gray  
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## MARKET HIGHLIGHTS

Improvement in white collar employment growth

Vacancy falls in suburban and Fringe markets

Fringe market records positive net absorption

### White collar employment forecast to improve

White collar employment across South Australia has remained static during 2016 and first half of 2017, however the forecasts heading into the second half of 2017 and 2018 expect that growth in employment will pick up pace. According to Deloitte Access Economics (DAE), white collar employment is expected to grow by 0.9 per cent annually by the March 2018 quarter. This rate is expected to gain pace during 2018 up to 1.8 per cent by the end of 2018. Major areas of growth are expected in health and professional services. This is likely to be supported by growth in the defence, health and mining industries. This is also supported by the most recent labour force figures which has seen a sharp fall in the unemployment rate to 5.7 percent (seasonally adjusted) which is the lowest rate in five years.

### Adelaide suburban office vacancy falls

The Adelaide Fringe and suburban markets have seen vacancy fall in both markets. Vacancy in the Adelaide metropolitan markets has fallen to 5.9 per cent compared to 6.5 per cent six months prior. This is the best result for the Adelaide market since Colliers International started this series in 2013. The strength in this market has been a result of limited new supply coming to the market with no new supply being completed in the last six months. There is one project currently

under construction at Montacute Road, Campbelltown which is being marketed as medical suites.

The suburban office rental market has remained stable, with no growth recorded over the last 12 months. The current rental range for inner suburban markets range from \$360/sqm to \$430/sqm. Incentives have also remained stable in the range of 15 to 25 per cent. As there has been a tightening in the vacancy rate there is support for growth in rents over the next 12 months. This outlook however, needs to be balanced against the high vacancy rates in the CBD and Fringe markets which is still likely to provide a dampening effect on the office market. On a positive note, we have seen an improvement in net absorption in both the CBD and Fringe markets, with vacancy starting to fall in both these markets which is likely to support rental growth in metropolitan markets.

### Fringe market records positive net absorption

The Adelaide Fringe market has also seen vacancy fall over the last six months to 10.1 percent down from 11.3 percent six months prior. This was a result of net absorption of 3,305 sqm over the six months which saw annual net absorption of 2,045 sqm. This is the highest level of net absorption recorded in the Adelaide office market since January 2014 and is the first positive net absorption result since July 2015. The Fringe market has also seen several refurbishments over the last 18 months mostly located along Greenhill Road. The most recent refurbishment to be completed is 127-128 Greenhill Road (2,000 sqm) which was partially occupied by Lifecare. There are a further two refurbishments underway. The first is at 161 Greenhill Road (1,302 sqm) which is due to complete by the end of the year and the second at 100 Greenhill Road (1,440 sqm) which is due to complete in the first half of 2018.

There is one new development mooted for 162 Fullarton Road, Dulwich (2,530 sqm) which has submitted a new application and has an expected completion date in late 2018. This development is being developed by Medallion Homes and includes two penthouse apartments above the offices and is expected to be occupied by Thomas Foods on completion.

At the beginning of the year there were changes to the parking restrictions along Greenhill Road, with clearways in place until 10 am and then from 3pm. This restricts client parking and is likely to



restrict demand in the future. Staff parking can also be an issue as when most of these buildings were built in the 1980s, there was 1 person per 25 sqm. Now the ratios are more like 1 person to 12 sqm to 15 sqm. This means that there may not be sufficient car staff carparking on site which is compounded by the parking restrictions on Greenhill Road and surrounding streets. Most of Greenhill Road was rezoned in recent years to allow for higher building heights and mixed use, including residential. There are two residential projects which are currently in presales, but construction is yet to commence. Over the next five years we expect the Fringe market to see more withdrawals, which will result in new developments with a change of use.

## Investment market activity falls

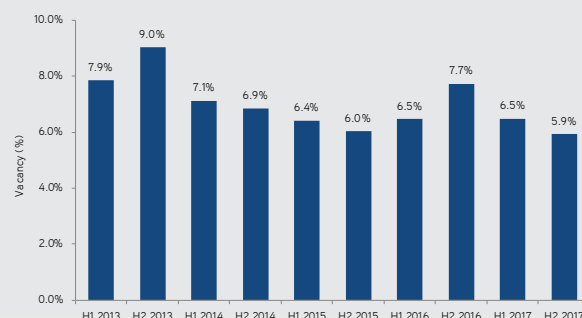
Our last report saw a significant jump in investment activity in second half of 2016 in the Adelaide metropolitan markets, however there has been no transactions over \$5 million since the first quarter of this year. Total transaction volumes for the Fringe and suburban markets for 2017 was \$7.5 million compared to \$103.08 million in 2016. This slow down in activity is more a result of the lack of large transaction listings rather than a lack

### Adelaide metropolitan office market

Indicators	Fringe	Suburban
Grade A Gross Rents (\$/m <sup>2</sup> )	\$425	\$395
Grade A Gross Rental Growth p.a.	-2.3%	0%
Prime Incentives	15-25%	15-25%
Total Market Vacancy Rate	10.1%	5.9%
Average Prime Grade Yields	6.25-7.0%	6.0%-7.5%
Prime Grade Capital Values	\$4,800-\$5,000	\$4,380-\$4,440
New Supply Additions (m <sup>2</sup> )	2,000	0

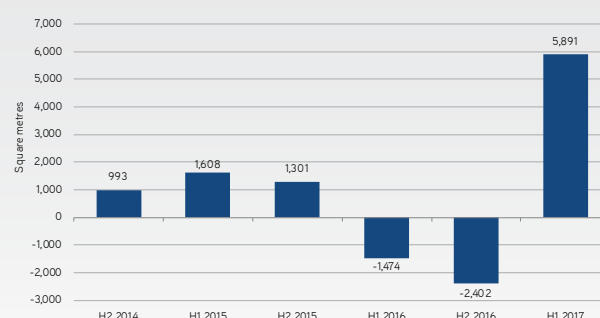
Source: Colliers Edge

### Adelaide Suburban Vacancy



Source: Colliers International

### Adelaide Suburban Net Absorption



Source: Colliers International

of demand for this sort of stock. For large office transactions yields for the metro office markets fall on the range of 6.0 percent to 7.5 percent. There is however evidence below the \$5 million thresholds for tighter yields than the quoted ranges for larger transactions. Both the Fringe and suburban markets tend to have smaller sized accommodation and therefore there is a lack of stock available for sale. These markets are driven by private investors.



**123 Greenhill Road, Unley**

Leased on behalf of The Hills Cider Company & eTrain Interactive

By **Quyen Quach**

Senior Research Analyst | Research  
quyen.quach@colliers.com

## MARKET HIGHLIGHTS

Encouraging improvement in West Perth vacancy

Institutional investors dominate the counter cyclical scene

State government decentralisation has underpinned future supply

## Economic activity to stabilise vacancy

The past year has seen conditions in the Perth suburban office market continue to be challenging for some landlords. White-collar employment and office space demand has continued to contract. As a consequence, Perth office vacancy has spiked and suburban office markets have not been spared. This weak demand environment has produced a market where tenants have become increasingly discerning.

Economic conditions have seen demand for smaller tenancy configurations rising, as large businesses continue to tightly control costs and investment spending. Proactive landlords are reconfiguring large floors to fill vacancies.

More recently the WA economy has exhibited signs of stabilising. Mineral exploration spend has continued to improve, which is offsetting the decline in oil and gas exploration. Ongoing and new public infrastructure projects are also assisting the construction sector. The retail sector continues to expand modestly, with turnover increasing 1.4 per cent year-on-year in July 2017. The tourism sector is also improving, with Tourism WA reporting an 8.8 per cent increase in international visitor numbers in the year to June 2017.

These positive developments look to have flowed into improvements in CBD and West Perth office space absorption. Perth's CBD office vacancy crept one percentage point lower, from 22.1 per cent to 21.1 per cent in July 2017. West Perth also shifted lower, falling to 15 per cent, down from 17.5 per cent in January 2017. However, these improvements have been to the detriment of other precincts. This is evident in recent tenant movements from non-central locations and further increases in vacancy rates for some suburban precincts.

Investors continued to circle the market seeking counter-cyclical opportunities, and sales in the past financial year indicate institutional demand has remained robust for quality assets. During 2016-17, \$290 million of assets changed hands in the Perth suburban office market, with institutional buyers accounting for 77 per cent of these transactions. Yields achieved for the major assets averaged 7.35 per cent, with 6.8 per cent being the lowest achieved.

## A lost decade of rental growth

Notwithstanding the recent improvements in the CBD and West Perth, vacancy is still high. Highly attractive space offerings are creating a flight to quality, meaning some suburban landlords have had to fight hard to keep tenants. Suburban owners who are not abreast of market dynamics or proactive in tenant retention, are experiencing higher vacancies - particularly where ongoing capital expenditure has not been maintained.

The higher vacancy and low demand has led to net face rents being offered today in some assets and precincts that are comparable to rates achieved in late 2006. If inflation and current incentive levels are factored into the asking rent, the scenario deteriorates. For example, average A grade face rents in West Perth in the June 2017 quarter were 9.7 per cent lower than June 2007. Take into account incentives and the effective difference is almost 46 per cent lower.

Capital values have been underpinned by lower interest rates and investor acceptance of tighter IRRs. If rental conditions remain

subdued and interest rates materially increase from the historic low offerings, capital values may be negatively affected.

## Suburban recovery likely to be slow

Colliers International recently assessed vacancy in the Herdsman/Osborne Park precinct and the Great Eastern Hwy precinct. Vacancy in some suburban locations has increased significantly over the past two years. Herdsman/Osborne Park is one of the precincts that went through a significant increase in stock and has seen vacancy move from 6.2 per cent in February 2015 to 17.1 per cent in August 2017. This represents an increase in vacant space of 21,955sqm.

Vacancy data for the Great Eastern Highway precinct revealed an increase of 4,510sqm over the year to August 2017, lifting the vacancy rate to 21.8 per cent from 16.3 per cent in 2016.

Herdsman/Osborne Park and Great Eastern Hwy precinct are two of the larger suburban precincts which catered for larger occupiers. Locations with relatively low stock and limited new supply added over the past ten years continue to fare better and are also showing signs of stability, as most tenants with the flexibility to relocate have likely moved.

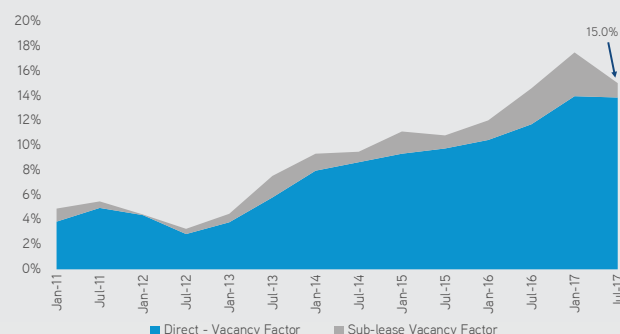
Occupiers in these smaller commercial precincts are usually service businesses or tenants catering for the local population. Hence these tenants tend to be more 'sticky' in nature, being more inclined to stay within an existing location to cater to their customer base.

As the economic recovery in WA is currently expected to be gradual, we anticipate the improvement in suburban vacancy



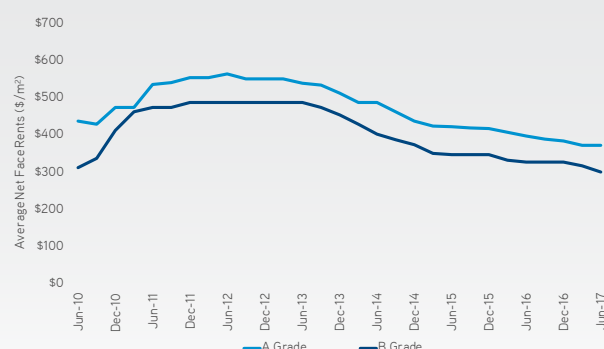
**'Marine House' 1 Essex Street, Fremantle**  
Valued on behalf of Bankwest

### West Perth Vacancy Rate



Source: Property Council of Australia, Colliers International

### West Perth Average Net Face Rents



Source: Colliers International

to reflect this, hindered by both soft demand and a protracted decline in CBD vacancy. The CBD is expecting delivery of another 54,000sqm of Premium grade space in 2018. The negative impact of the resultant Premium backfill is likely to flow through to the suburban markets.

## Government decentralisation driving future supply

During 2016-17, a total of 21,660sqm of new office space was delivered to the Perth suburban office market - for buildings over 1,000sqm. There is currently 56,608sqm of space under construction and scheduled for delivery over the next two and a half years. A large proportion of this space comprises two projects that the WA State Government has pre-committed to as part of its decentralisation process. This comprises Primewest's 9,600sqm 8 Davidson Terrace, Joondalup and Sirona Capital's 20,000sqm Kings Square redevelopment in Fremantle. A further project, to be delivered in 2017, is 500 Hay Street in Subiaco; a mixed-use development that includes 10,325sqm of office space.

# NEWCASTLE

Metro Office | Second Half 2017

By Peter Macadam  
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## MARKET HIGHLIGHTS

Improving business confidence resulting in increased leasing activity

Ongoing demand from Investors and Self-Managed Super Funds (SMSFs) to acquire rather than lease

Continued strong demand within the CBD to capitalise on the public investment in infrastructure

## Diversified economy improving leasing fundamentals

The Hunter Region has often been known as a mining based economy, and whilst it remains an important industry for the Region, it only represents 4.90 per cent of the Hunter Region's employment.

Manufacturing represents 22.8 per cent of the Hunter Region's Gross Regional Product of \$44.435 billion, with mining representing 11.8 per cent. However in terms of employers in the region, the major contributors are health care and social assistance (13.8 per cent), retail trade (11.8 per cent), and manufacturing (10.2 per cent). Mining is the 9th largest employer in the region – a fact that is often misjudged from further afield.

The diversified economy and improvement in business confidence has led to strong leasing fundamentals across all grades, with total vacancy within the market falling from 13 per cent to 9.3 per cent as at January 2017. According to the Hunter Research Foundation, business performance is heading back to pre-GFC levels, with forward indicators including hiring intentions, capital expenditure and expectations of future orders also above long term averages.

## Leasing performance is strong

The improvement in business confidence has been evidenced with strong levels of enquiry, with our research indicating significantly

## Newcastle CBD Leasing Demand



enhanced leasing demand within the Newcastle CBD since January 2016. The contraction in 2015 was a result of the uncertainty within the mining sector, with many associated industries downsizing or sub-leasing space over that time.

## Investor demand continues

There have been no notable investment transactions within our market, however there remains strong demand from investors across the market, whether it be for an asset worth \$500,000 or \$50 million. At the lower end of the market (sub \$5 million) many groups are still looking to purchase within their SMSF, with that demand coupled with continued investor interest in the Newcastle market resulting in ongoing yield compression.

## Planning initiatives add to the underlying fundamentals

The benefits of the public investment in infrastructure within the Newcastle CBD have often been discussed, and they continue to attract new investment within the market. The demand is, however, associated with non-commercial users with residential demand continuing to improve as the awareness of the lifestyle offering and relative affordability improves. Importantly, many non-local buyers are looking to relocate to Newcastle, also drawn by our diversified economy and employment opportunities.



# GOLD COAST

Metro Office | Second Half 2017

By Helen Swanson

Manager | Research

helen.swanson@colliers.com

## Gold coast leasing market turns a corner with lowest vacancy recorded since July 2008

The office market on the Gold Coast has improved remarkably since 2011/12. According to the PCA, office vacancy on the Gold Coast for July 2017 was 11.3 per cent. This is the lowest vacancy has been recorded in the series since July 2008, when it was 8.05 per cent. Net absorption for the 12 months to January 2017 was an impressive 10,252 sqm. This compares to the Brisbane CBD and Brisbane Fringe office leasing markets where vacancy was well above the Gold Coast at 15.7 per cent and 14.4 per cent respectively.

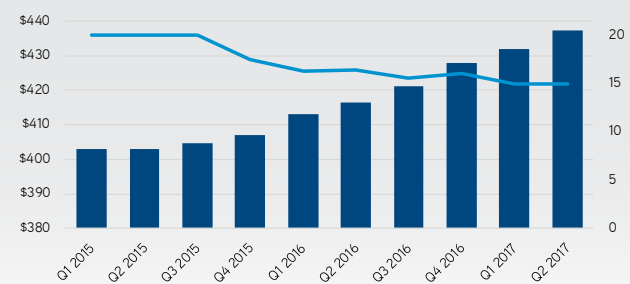
The change in vacancy by Gold Coast precinct over the six months to July 2017 is shown in the below table. All precincts except Southport recorded a decline in vacancy over the six month period to July 2017. The largest decline in vacancy occurred in the Surfers Paradise precinct where vacancy fell from 18.4 per cent to 15.1 per cent. Contributing to the decline in vacancy in Surfers Paradise was the take up of a number of smaller tenancies sized 200 sqm to 300 sqm at 50 Cavill Avenue along with the increase in office accommodation by Sunshine Loans from 180 sqm to 800 sqm within the same building.

### Gold Coast office vacancy by precinct

PRECINCT	JAN-17	JUL-17	CHANGE
Broadbeach	10.8%	8.7%	▼ 2.1 ppts
Bundall	14.1%	11.5%	▼ 2.6 ppts
Robina	6.9%	6.8%	▼ 0.1 ppts
Surfer Paradise	18.4%	15.1%	▼ 3.3 ppts
Southport	13.2%	14.0%	▲ 0.8 ppts

Source: PCA OMR July 2017

### Gold Coast Office Gross Face Rents (\$/sqm) & Average Incentives (%)



Source: Colliers International

In summary, with no new major supply additions to enter the market over the short term, a decrease in vacancy is forecast over the coming 12 months and anticipated to sit at sub 10 per cent by July 2018. Prime grade incentives are likely to reduce slightly from the current rate of 10 to 20 per cent to sit between 10 to 15 per cent by July 2018. Furthermore, positive absorption rates recently experienced across the Gold Coast office precincts should continue to strengthen the rental market. Many office premises have seen moderate rental uplift along with a slight easing in incentives. A grade gross face rents are currently achieving between \$390/sqm to \$485/sqm with incentives at 10 to 20 per cent. It must be noted that gross face rents can vary across precincts and are influenced by current supply and demand levels. At present Robina is achieving gross face rents of between \$450-\$525/sqm due to low supply and low vacancy rates.

## Fierce competition for office assets leads to further tightening of yields

Whilst the total dollar volume of sales for office priced \$2 to \$10 million fell from \$42.69m in 2011/12 to \$31.31m in 2016/17 the level of competition remained fierce for office assets providing positive cash flow and located in major centre locations serviced by public transport, retail amenity and parking options. It was the limited stock available which influenced the dollar volume of sales which occurred in 2016/17. As a result of pent up demand for office assets on the Gold Coast combined with a lack of supply, yields have compressed significantly since 2011/12.

# OUR EXPERIENCE METRO OFFICE

## LEASED



**2-6 Bowes Street  
Phillip, ACT**

**10,931m<sup>2</sup>**

On behalf of  
Quintessential Equity



**101 Miller Street  
North Sydney NSW**

**5,657m<sup>2</sup>**

On behalf of Mirvac Funds  
Management & TH Real Estate



**Level 3, Building 10,  
658 Church Street  
Richmond, VIC**

**2,658m<sup>2</sup>**

On behalf of BlackRock

## MANAGED



**Macquarie University  
Portfolio, NSW**

**86,000m<sup>2</sup>**

On behalf of Macquarie  
University



**The National Archives  
Preservation Facility, ACT**

**18,000m<sup>2</sup>**

On behalf of Doma Group



**17-21 Hardner Road  
Mount Waverley, VIC**

**6,412m<sup>2</sup>**

On behalf of Private Client

## SOLD



**45 Waterloo Road  
Macquarie Park, NSW**

**\$170 million**

On behalf of Property NSW



**241 O'Riordan Street  
Mascot, NSW**

**\$128.4 million**

On Behalf of 151 Property  
Group



**2-6 Bowes Street  
Phillip, ACT**

**\$58.4 million**

On behalf of Quintessential  
Equity

## VALUED



**Block 4N, Central Park Office  
Stratum, 100 Broadway  
Chippendale, NSW**

**57,870m<sup>2</sup>**

On behalf of Impact  
Investment Group Pty Limited



**Locomotive Workshop,  
Australia Technology Park  
Eveleigh, NSW**

**26,248m<sup>2</sup>**

On behalf of Mirvac Funds  
Limited



**ATO Dandenong  
11-13 Robinson Street  
Dandenong, VIC**

**13,865m<sup>2</sup>**

On behalf of Cromwell  
Property Group

## PROJECT MANAGED



**North Sydney, NSW**

**16,000m<sup>2</sup>**

On behalf of  
Nine Entertainment Co.



**Macquarie Park, NSW**

**2,000m<sup>2</sup>**

On behalf of Apotex



**Bayswater, VIC**

**1,600m<sup>2</sup>**

On behalf of Merck Millipore

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# AUSTRALIA

## IN THE LAST 12 MONTHS

**314** deals for **322,696** square metres of metro office space



**225 Balcatta Road**  
**Balcatta, WA**  
**2,500m<sup>2</sup>**

On behalf of Jarodi Pty Ltd



**371-385 Macarthur Avenue**  
**Hamilton, QLD**  
**2,100m<sup>2</sup>**

On behalf of Alceon Group



**205 Greenhill Road**  
**Eastwood SA**  
**729 sqm (Ground) &**  
**766 sqm (Level 1)**

Ground leased to Minister for Environment; Lvl 1 leased to Principals Australia Institute

**500** metro office assets achieving a **96%** occupancy rate



**51-55 & 61 Bolton Street**  
**Newcastle, NSW**  
**6,142m<sup>2</sup>**

On behalf of Private Client



**2 Luton Lane**  
**Hawthorn, VIC**  
**5,661m<sup>2</sup>**

On behalf of Private Client



**8 Gardner Close, QLD**  
**4,532m<sup>2</sup>**

On behalf of Private Client

**186** deals for **\$2.25** billion of metro office assets



**Building 8,**  
**658 Church Street**  
**Richmond, VIC**  
**\$44.6 million**

On behalf of Property Bank



**Bank West Business Centre**  
**Southport, QLD**  
**\$10.5 million**

On behalf of Keith Lloyd



**298-302 Main North Road**  
**Prospect, SA**  
**\$7.47 million**

On behalf of a private investor

**1.6** million square metres totalling over **\$8.3** billion worth in value



**35-49 Elizabeth Street**  
**Richmond, VIC**  
**11,916m<sup>2</sup>**

On behalf of Investec Bank (Australia) Limited



**'Building A4',**  
**52 Merivale Street**  
**South Brisbane, QLD**  
**9,405m<sup>2</sup>**

On behalf of Growthpoint Properties Australia Limited



**'Marine House'**  
**1 Essex Street**  
**Fremantle, WA**  
**4,795m<sup>2</sup>**

On behalf of Bankwest

Projects delivered by our **award winning** team



**Parramatta, NSW**  
**1,500m<sup>2</sup>**

On behalf of AMA Projects



**Hamilton, QLD**  
**1,400m<sup>2</sup>**

On behalf of Domino's Pizza Enterprises



**Chadstone, VIC**  
**550m<sup>2</sup>**

On behalf of Colliers International



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**554** offices in  
**66** countries on  
**6** continents

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**\$2.5**  
billion in  
annual revenue

**610**  
million square feet  
under management

**16,000**  
professionals  
and staff

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