

# METRO OFFICE

First Half 2019

# EXPERTS

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# METRO OFFICE SNAPSHOT

	VACANCY RATE		NET FACE RENT	INCENTIVES	NET EFFECTIVE RENT	NET SUPPLY		YIELD	
	Current	Sep-19	Current	Current	y-o-y % change	Previous 12 months	Next 12 months	Current	12 month historic change (bps)
NSW									
North Sydney	6.8%	6.4%	\$805	21%	0.8%	14,552	22,100	5.13%	-25
St Leonards	6.1%	5.6%	\$620	19%	0.7%	(850)	4,800	5.88%	-50
Chatswood	6.2%	6.2%	\$590	19%	3.8%	-	-	6.0%	-25
Macquarie Park	4.8%	4.8%	\$398	21%	5.9%	(40,793)	(68,000)	5.5%	-25
Norwest	n/a	7.1%	\$330	22%	-6.3%	n/a	n/a	6.25%	-75
Parramatta	3.0%	2.5%	\$545	15%	12.3%	(14,131)	58,184	5.25%	-37.5
SOP	n/a	n/a	\$435	23%	0.0%	n/a	n/a	5.88%	-12.5
Rhodes	n/a	n/a	\$433	23%	4.1%	n/a	n/a	6.0%	0
South Sydney	n/a	n/a	\$440	13%	4.0%	n/a	n/a	6.0%	-12.5
CBD Fringe	n/a	n/a	\$725	15%	4.7%	n/a	n/a	5.38%	-12.5
VIC									
St Kilda Rd	6.6%	6.8%	\$425	20%	6.4%	(1,211)	(17,414)	5.75%	0
Southbank	10.7%	6.1%	\$528	28%	8.9%	10,169	-	5.25%	-12.5
City Fringe	4.5%	4.5%	\$493	12%	5.3%	(10,855)	62,200	5.50%	0
Inner East	3.6%	3.3%	\$420	16%	2.1%	(1,900)	-	5.63%	-12.5
Outer East	8.7%	7.8%	\$340	26%	3.1%	1,000	31,000	6.38%	-25
South East	6.8%	6.5%	\$300	20%	-0.8%	-	5,000	7.5%	-25
North & West	4.5%	4.1%	\$330	24%	12.2%	-	16,919	6.0%	-100
QLD									
Inner South	10%	9.6%	\$466	34%	-0.4%	-	-	6.2%	-68.75
Urban Renewal	14.2%	13.8%	\$479	36%	4.1%	33,400	12,500	5.75%	-37.5
Milton	21.5%	19.2%	\$433	38%	4.6%	8,144	13,199	7.4%	-37.5
Spring Hill	17.0%	17.0%	\$420	37%	0.2%	-	-	7.13%	-37.5
Toowong	11.4%	10.7%	\$393	36%	0.5%	-	-	7.25%	-25
SA									
Fringe	11.3%	NA	\$288	17.5%	6.7%	1,440	-	6.5%	12.5
Inner Metro	5.2%	NA	\$295	20%	-3.2%	-	-	6.75%	0
WA									
West Perth	14.8%	14.4%	\$368	38%	3.5%	-3,724	1,595	7.0%	0

# NATIONAL OVERVIEW

By Anneke Thompson  
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## Continued rental growth in eastern seaboard metro markets

Metro office markets continue to experience strong demand conditions along the eastern seaboard, as the pool of occupiers that have a preference for a metro location deepens. This 'pool' of includes occupiers involved in the creative type industries, technology, property and the health and education sectors.

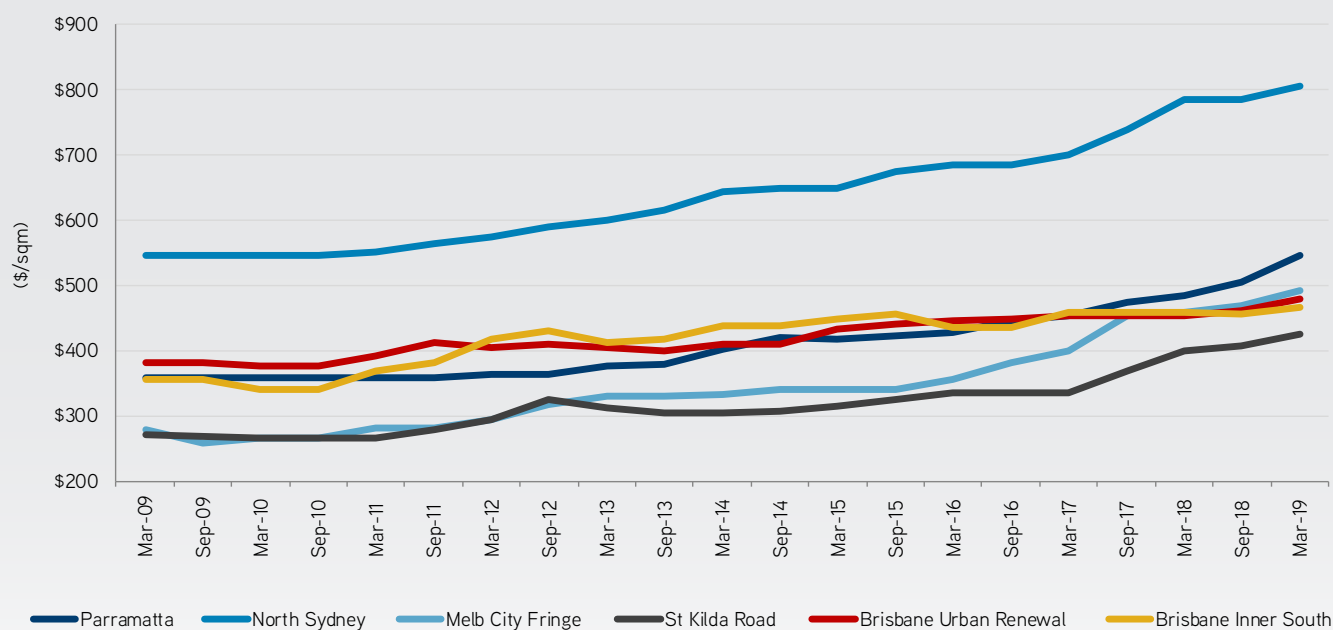
All major metro office precincts experienced an increase in net face rents over the last year, the largest increase being felt in Parramatta, which grew 12.4 per cent over the year to March 2019. Prime Grade incentives, on the other hand, did rise marginally in a number of markets, including in most Melbourne precincts, North Sydney and the Sydney City Fringe. In Melbourne, this is due to an upcoming boost to supply in both CBD and City Fringe markets, which means there are both landlords and developers competing for

upcoming tenant requirements. North Sydney also has some new development space coming online in 2019, and while we expect that this will be mostly pre-committed, the market will have some backfill space to work through.

The subdued conditions in the residential market are also starting to have an impact on the metro office supply outlook. This is most evident in the Sydney South and Melbourne City Fringe markets, where development sites previously earmarked for residential conversion are now being considered as potential office development sites. In South Sydney, this means there is less tenant displacement activity than the previous few years, while in Melbourne City Fringe, the potential office supply pipeline continues to grow, particularly in projects proposed by smaller, local developers, who would have traditionally built residential space.

While office supply will continue to grow in our metro office markets, it does not necessarily mean a more relaxed rental growth outlook. Rents in metro office markets can benefit from increased supply, as this supply improves the overall quality of office stock available and creates a critical mass that some occupiers need before they are willing to move to a precinct. Looking at the supply pipeline in Parramatta and rental growth over the past few years is a good case in point. Our view also is that over the longer term, the Sydney and Melbourne CBD markets will continue to be supply constrained, with vacancy well below long term averages even through their upcoming supply cycles. This means metro office markets will play a more critical role in absorbing office demand in these cities over the short and longer term.

Australian major metro office markets Net Face Rents, March 2009 to March 2019



Source: Colliers International

By **Anneke Thompson**  
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## MARKET HIGHLIGHTS

North Sydney now a genuine alternative market to the Sydney CBD for occupiers

Macquarie Park and St Leonards vacancy now lowest on record

South Sydney secondary market starting to see an impact from residential market conditions

## North Shore

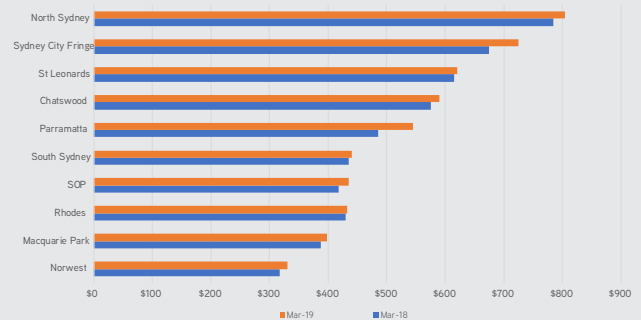
### North Sydney

#### Very limited Prime Grade options for occupiers in North Sydney

Vacancy in the North Sydney office market remains well below the long term average of 8.7 per cent. As at January 2019, the vacancy rate is 6.8 per cent. Vacancy in the A Grade market, which makes up almost one third of office stock in North Sydney, is still extremely low, at only 3.1 per cent. This represents just 7,000sqm of available A Grade stock. There is a further 2,000sqm of Premium Grade stock available. Coupled with continued low vacancy levels in the Sydney CBD, there are very limited 'near city' Prime Grade options for tenants in Sydney. For this reason, net face rents have grown by \$20 per sqm (or 2.5 per cent) over the six months to March 2019.

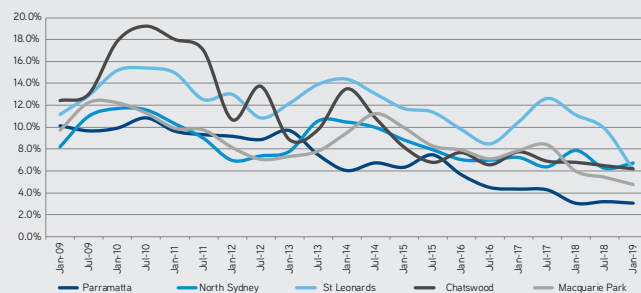
Despite this rental growth, North Sydney is becoming an increasingly attractive option for Sydney tenants who may traditionally have looked in the CBD only. The spread between A Grade face rents in the Sydney CBD and North Sydney has grown from \$64 per sqm in March 2014, to \$69 per sqm. On an effective basis, this turnaround in affordability is even more pronounced.

### Sydney Metro Office Net Face A Grade Rents



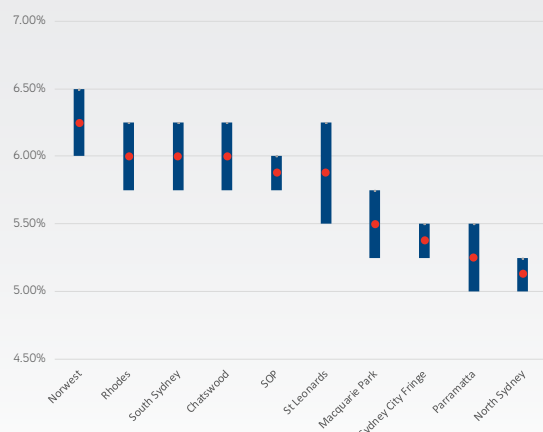
Source: Colliers International

### Sydney Metro Office Vacancy



Source: PCA OMR Jan 2019, Colliers International

### Sydney Metro office Average A Grade Yields



Source: Colliers International

In March 2014, it was actually \$70 per sqm more expensive to occupy space in North Sydney. This dynamic has now flipped, with A Grade space in North Sydney now \$70 more affordable than the Sydney CBD on an effective basis.

As North Sydney has become more affordable versus the Sydney CBD, demand has also risen from tenants from other North Shore markets looking for more centralised locations. This is due to either the loss of office space they were occupying (St Leonards has lost a net 50,000sqm of office space over the last 10 years) or the occupier's preference for space in a more centralised location. The improvement in amenity in North Sydney has also contributed to improved tenant demand.

Supply of Prime Grade space will improve in the second half of 2019, when Dexus' 100 Mount Street is due for completion. This development is well over 50 per cent pre-committed by Laing O'Rourke and NBN, and we expect that the building will be fully occupied upon completion, such is current demand for the space. This development will create some backfill in the market – particularly in 100 Arthur Street – and we expect the A Grade vacancy rate to increase to around 5.5 per cent. However, given the lack of Prime Grade space in the market now, as well as in the Sydney CBD, we expect good take up of this new and mostly refurbished A Grade space.

While rents have seen movement over the past six months, we have not recorded any change in yields for A Grade or B Grade space. We expect good transaction activity in the next 6 months, which will give a better indication of investor appetite in the North Sydney market. One of the most recent major transactions was the 25 per cent sale of 40 Mount Street, which sold to M & G Real Estate in late 2018. The portion of the asset was sold by South Korea's National Pension Service (NPS) for \$109.5 million, with NPS retaining 25 percent and Investa Commercial Property Fund owning the other 50 per cent. The building is occupied by Coca Cola and Goodman Fielder.

## Chatswood

Prime Grade vacancy in Chatswood has declined from 6.6 per cent in July 2018 to 3.9 per cent in January 2019. The market in total only saw a modest decline in vacancy over the same period, from 6.5 per cent to 6.2 per cent, due to a significant increase in vacancy in secondary market. In total, there is just over 6,000sqm of Prime Grade vacancy, and 11,000sqm of Secondary Grade vacancy.

Despite the decrease in vacancy, our view is that rents have remained steady over the six months to January 2019, after a significant uptick in rents through this cycle. Net face rents sit 32 per cent higher than they did five years ago, while incentives have reduced from 26 per cent to an average of 19 per cent. Unlike nearby St Leonards, office supply in Chatswood has remained steady with no new supply or withdrawals over the past three years.

Much like other North Shore markets, demand has remained strong through the first quarter of 2019. The imminent opening of the Baulkham Hills to Chatswood section of Metro north is only a positive for the market, and is opening up North Shore office markets to new demand sectors.

## St Leonards

Occupiers in St Leonards have experienced a heightened degree of uncertainty over the past few years, as stock has been withdrawn from the market for conversion to residential. This has resulted in vacancy remaining high over a period of time, despite reducing supply, as some tenants have chosen to leave the precinct for other more established and growing office markets. The previous six months, however, has bucked this trend, and net absorption was strongly positive for the first time in six years. The vacancy rate reduced from 9.9 per cent to 6.1 per cent, representing 11,512 sqm of net absorption. Vacancy in St Leonards is now the lowest it has been since January 2001.

The majority of the drop in the vacancy rate in St Leonards was due to the Department of Health's take up of circa 10,000sqm at 100 Christie Street. A number of single floor tenants took space at 118 – 120 Pacific Highway and Mastercard took a further 2,300 sqm at 72 Christie Street.

While face rents in St Leonards have remained relatively steady over the past 12 to 18 months, incentives have dropped dramatically, from an average of 25 per cent to an average of 19 per cent for Prime Grade space.



**67 Albert Street, Chatswood, NSW**  
Sold on behalf of Corval

## Macquarie Park

Vacancy in Macquarie Park decreased from 5.4 per cent to 4.8 per cent. This is a record low vacancy rate for Macquarie Park, since the PCA started recording vacancy in 2005. The reduction in the vacancy rate was helped by the withdrawal of 112 Talavera Road, which was a 10,000sqm B Grade building being converted for residential use.

Demand in Macquarie Park has been driven by a number of factors, including the imminent re-opening of Macquarie Park station, which will connect through to the Sydney CBD by 2023, as well as the affordability factor. Rents for new development space are circa \$450 per sqm, compared to Parramatta, which achieves up to \$620 per sqm for new development space. For this reason, multinational groups that are headquartered offshore view Macquarie Park as a good option, as these groups tend to work to a cost per employee model, which they benchmark globally.

Only one new building is currently under construction in Macquarie Park, that being Building C, 45 Waterloo Road. This is a 35,000sqm building that is around 70 per cent pre-committed to the Department of Transport. The building is being developed by John Holland.

## Western Sydney

### Parramatta

#### Tightest office market in the country

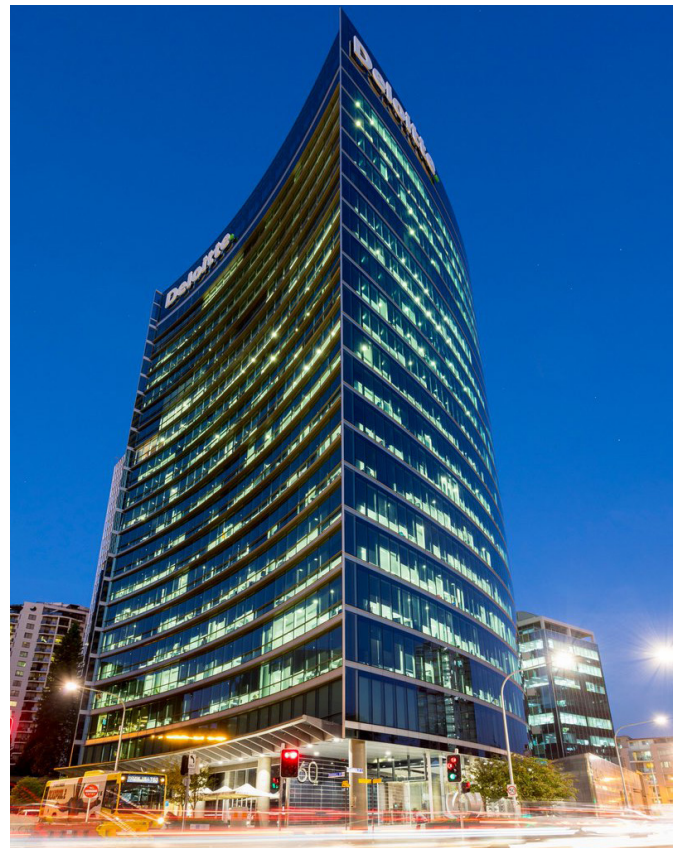
Parramatta maintains the record as the tightest office market in Australia with a vacancy rate of 3.0 per cent as at January 2019. Prime office space remains at a severe shortage, with the A Grade vacancy rate was sitting at 0.8 per cent. Following the completion of 25,000 sqm 105 Phillip Street, which has been leased to capacity by the Department of Education and Property NSW, there has been no new supply in the region over the past six months. The lack of supply is expected to continue until at least until the end of 2020, when several new office developments will complete. Nevertheless, speculative supply will be limited as most of the upcoming developments have high levels of pre-commitment.

Major office schemes coming online beyond 2020 will include 3 Parramatta Square (43,000 sqm – pre-committed by NAB), 4 Parramatta Square (62,552 sqm – fully leased to Property NSW), 6 Hassall Street (28,000 sqm – 50% pre-committed to UWS and UNSW) and 32 Smith Street (26,000 sqm – 50% pre-leased to QBE). Backfill supply, however, is expected to increase due to some tenants vacating their existing premises for these new developments. Specifically, backfill options will include 11,600 sqm at 60 Station Street following the departure of QBE as well as circa 15,000 sqm when the Office of State Revenue (132 Marsden and 87 Marsden Streets), and the Department of Planning and Environment (10 Valentine) relocate.

Colliers International expects the vacancy rate to trend down below 2.0 percent by the end of 2019 before gradually rising toward 4.3 per cent over the following 12 months. With the majority of backfill supply being in the prime market, A Grade vacancy is forecast to be above 7.0 per cent by early 2021, whilst secondary vacancy is expected to remain below 2.0 per cent. Nevertheless, we anticipate the net absorption will be commensurate with the increase in backfill space. Demand is expected to generate from tenant migration from surrounding suburban locations as well as an emergence of flexible and co-working operators in the market.

#### Face rents continue to climb

Net face rents for pre-committed deals are currently sitting between \$570 and \$620 per sqm with incentives being offered at around 18 to 24 per cent. This is, however, still around 40-50 per cent more affordable than similar office accommodation in the CBD and 20-30 per cent more affordable than North Sydney. Net face rents for existing A Grade stock are currently between \$510 and \$580 per sqm with incentive levels running at 12 to 18 per cent. B Grade net face rents are standing at around \$425 and \$500 per sqm with incentives sitting at between 10 to 20 per cent.



60 Station Street, Parramatta, NSW  
Valued on behalf of GPT RE Limited

## Increasing appeal for institutional investors

Parramatta has continued to attract significant investor interest due to its strong fundamentals and attractive pricing. The market recorded a total of \$430 million worth of office buildings transacted over the past 12 months. The largest deal during this period was 60 Station Street sold by REST Super for \$277.6 million to GPT. The deal reflects an initial yield of 5.34 per cent and provides GPT with some flexibility options with the tenant QBE if required, as they are the anchor tenant in GPT's new development at 32 Smith Street. The first quarter of 2019 saw 9 George Street transacted for \$44.3 million. The building purchased by The City of Brisbane Investment Corporation (CBIC) from by Hadley Green Investment Group on an initial and fully let yield of 4.3 and 5.7 per cent respectively.

Prime office buildings in Parramatta are expected to trade at equivalent yields of between 5.0 and 5.5 per cent as at Q1 2019. Compared to a year ago, A Grade yields have compressed by 25 to 50 basis points and are expected to continue to remain tight given the strong demand amid limited availability of institutional grade assets in the market. B Grade yields currently range between 5.5 and 6.0 per cent having tightened by between 50 and 75 basis points since last year.

## Sydney Olympic Park

A Grade net face rents in the Sydney Olympic Park precincts are currently sitting at between \$420 and \$450 per sqm. Face rents have increased by 4.2 per cent over the past 6 months with incentive levels remaining at around 20 to 25 per cent. The market has seen strong take up from both renewals and new leases over the past 6 months. Element 8 has taken up 5,500 sqm at 2 Dawn Fraser Avenue whilst Toyota has leased 2,500 sqm at 4 Murray Rose Avenue. Additionally, CBA has retained 6,000 sqm at 10 Dawn Fraser Avenue and renewed the lease across 14,000 sqm at 4 Dawn Fraser Avenue. Core market yields for A Grade assets in the Sydney Olympic Park market are current around 5.75 and 6.00 per cent.

## Rhodes

The Rhodes commercial precinct has also experienced strong leasing activity over the past six months. At the Rhodes Corporate Park, major deals include KPMG occupying 5,000 sqm and Super Retail Group leasing 3,500 sqm. On the back of the strong tenant demand, A Grade net face rents have increased by 4.2 per cent over the past 12 months, consequently allowing rents to range between \$415 and \$450 per sqm. Incentives are approximately 20 to 25 per cent. A Grade office yields in Rhodes are on average 5.75 to 6.00 per cent as at March 2019.



101 Miller Street, North Sydney, NSW  
Leased on behalf of Mirvac & Nuveen Global

## City Fringe

There has been a shift in demand conditions in City Fringe market over the first quarter of 2019, when compared to 2018. Demand from technology sector tenants was particularly strong in 2018, and while this sector is still performing well, the peak in leasing activity seems to have passed.

Demand for Prime Grade space has been noticeably more subdued, as the run up in rents over the last few years has started to impact occupiers' appetite for Prime Grade space. The Secondary Grade market, however, is still experiencing good demand, and we have recorded net face rental growth of 4.2 per cent. There is a deeper pool of occupiers for the Secondary Grade space, given the palatable rents on offer. We have also recorded a slight uptick in incentives in both the A and B Grade markets, as landlords have to improve the deal offering for occupiers in this market.

The PCA have recently begun to monitor vacancy activity in the Bondi Junction market, and as at January 2019, have recorded total vacancy of 2.4 per cent, or only 2,100sqm. Vacancy in the City Fringe continues to remain tight, and the precinct is still very popular with 'creative' type occupiers such as architects, media, marketing and software companies.

## South Sydney

The South Sydney market is one of the few metro markets nationally that is feeling the impact of the downturn in the residential market. For a number of years, supply in South Sydney was heavily impacted by office stock being withdrawn for residential conversion, and this kept supply low and created a pool of displaced occupiers that needed a new home. Now, however, a number of office buildings that were earmarked for residential conversion are being retained as office buildings, and hence the supply of Secondary Grade stock is plateauing.

A number of landlords have begun the task of renegotiating longer term leases with occupiers who were on short term 'holdover' style leases, in an attempt to retain them in their current space. This trend has had a knock on effect, as some of these tenants were looking at alternative spaces in South Sydney, and it means landlords are now having to reduce rents to attract occupiers into these spaces. Thus far, the impact on rents has been muted, with no change in Prime Grade rents, and a slight reduction of 1.3 per cent in net effective rents in the Secondary Grade market over the last six months.



Buildings B, D, E & F, Rhodes Corporate Park, NSW  
Valued on behalf of Frasers Property

By Sarah Walker  
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## MARKET HIGHLIGHTS

City Fringe, Inner East and Outer East vacancy rates all well below long term average vacancy levels

Tenant demand continues to rise in the City Fringe

Current low metro vacancy means that we expect vacancy to rise to only long term average levels through the next supply cycle (2020 to 2022)

## City Fringe

### Supply outlook improves in South Yarra

The City Fringe precinct is an increasingly popular destination for younger, educated professionals, many of whom would like to work in proximity to where they live. Vacancy in the Fringe remains low at 4.47 per cent. This rise in vacancy from the previous quarter when it was 3.46 per cent was primarily due to a significant vacancy of 6,000sqm at Building 3, 658 Church Street, Richmond being created as to retailer Country Road relocated to Botanicca Business Park.

Over the last 12 months, South Yarra has been experiencing increasing tenant enquiry and activity. Whilst it is not traditionally known as an office destination, an improving supply outlook means that South Yarra is starting to be viewed by tenants as an alternative option to Richmond and Cremorne. Currently the total net lettable area in South Yarra is approximately 97,000 sqm which will double with an additional 80,000 sqm over three new developments to 2021. These include Chapel Plaza (4,000sqm), 627 Chapel Street (25,000sqm) and the Jam Factory redevelopment (50,000sqm).

These developments provide a supply pipeline through to 2023 and are supported by complimentary new development in the Stonnington area such as Capitol Grand and Cato Square. Capitol Grand, on the corner of Chapel Street and Toorak Road, will include a significant new retail precinct with high end stores and will be anchored by a David Jones Food Hall due to open at the end of 2019. Cato Square, incorporating 10,000sqm of multi-functional urban parkland, is also due for completion for the end of 2019. We anticipate that the surrounding new infrastructure and amenity in this precinct will help secure and futureproof it as an office hub appealing to tenants who also like areas such as Cremorne and Richmond.

Net face rents have increased over the last 6 months in the City Fringe market. Rents for new developments on average grew 4 per cent to \$563 per sqm. Existing A Grade space increased by 4.8 per cent over 6 months to \$493 per sqm and B Grade 6 per cent to an average of \$398 per sqm. There was significant change in incentives, particularly for new A Grade developments. Incentives rose from an average of 16 per cent to 21 per cent. This is due to fringe projects having to compete for tenants with CBD developments, such as Wesley Place, as well as an increasing number of projects within the City Fringe.

Fund-through transactions are proving to be an emerging trend in the Melbourne metropolitan office market. The strong commercial development pipeline, coupled with significant rental growth over the past 24 months and several pre-commitments to high quality tenants, has drawn considerable investor attention to the City Fringe office market. A prime example of this was the sale of MYOB's new Melbourne premises in Cremorne at 17-21 Harcourt Parade. This development was pre-committed to by MYOB for 10 years, sold as a fund through transaction to AXA Investment Managers for \$100.1 million, reflecting a yield of 5.43 per cent. Yields on average for new developments have reduced 25 basis points in the last 6 months averaging 5.25 per cent, A Grade remained the same at 5.5 per cent and B Grade reduced 25 basis points to 5.75 per cent.

# Inner East

## Tight supply results in increasing rents

The Inner East is a tightly held market, with tenants already located in this market tending to remain within the precinct. Vacancy fell to 3.58 per cent making it the lowest vacancy of all the Melbourne metro precincts. The only upcoming development in this market is 141 Camberwell Road, Hawthorn East comprising of 8,500sqm speculative office space to be delivered in the second half of this year. With no further planned office developments in this market, we forecast that vacancy will fall even lower in the Inner East. This sub-market is a popular location for high end residential developments especially in suburbs such as Hawthorn and Camberwell which appeal to downsizers.

Net face rentals for new A Grade developments increased 5 per cent in 6 months to \$473 per sqm. Existing A Grade space face rents increased 6.3 per cent to \$420 per sqm and B Grade remained steady at \$360 per sqm. Average outgoings across all submarkets have risen. New development outgoings increased from an average of \$95 per sqm to \$110 per sqm over a 6 month period. This is due to increasing land tax as well as absentee owner tax increases.

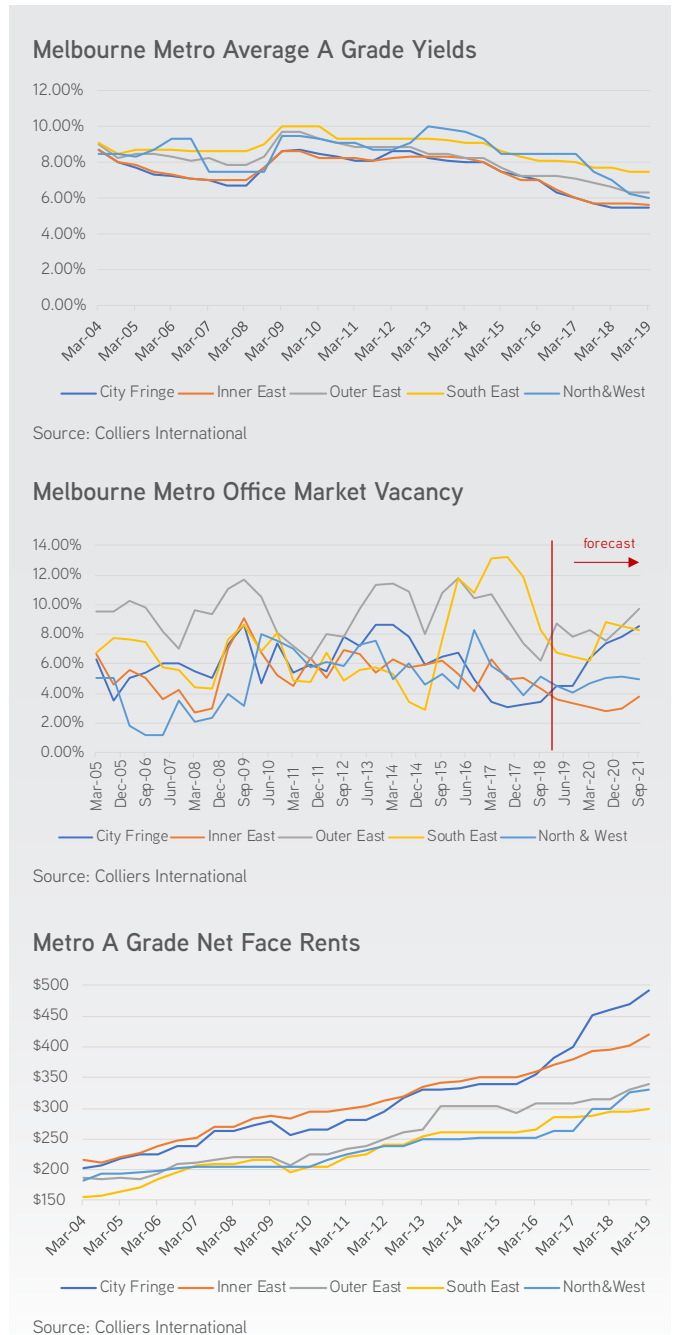
The Inner East, being such a tightly held market, has recorded few transactions for the year (in excess of \$5 million). Two transactions to the end of 2018 were both located in Balwyn. 313-315 Whitehorse Road sold for \$7.3 million fully leased on a 5.7 per cent yield to Botree Investments Pty Ltd. The second transaction in Balwyn, 317-321 Whitehorse Road sold for \$6.58 million with vacant possession to an owner occupier. Yields for new Inner East developments compressed 25 basis points over the last 6 months averaging 5.50 per cent, A Grade reduced 12 basis points to 5.63 per cent and B Grade reduced 37 basis points to 5.88 per cent.

# Outer East

## The affordable rent option

Due to the tightening of vacancy in the City Fringe and Inner East markets, larger tenants view the Outer East as a more affordable option. New developments in the Outer East are achieving face rents on average of \$343 per sqm and rents in this market have remained steady for the last 18 months. A Grade rents on existing space have grown 3 per cent averaging \$340 per sqm and B Grade has remained steady at \$250 per sqm. Incentives grew primarily for new developments which rose from 25 per cent to 29 per cent due to increased competition from new developments.

There are multiple new developments to be completed over the next few years to the end of 2021, which will add 92,000 sqm of office space. 31 Dalmore Drive, Scoresby is nearing completion and will provide 8,000sqm. Currently 95 per cent of this development



is pre-committed. Tenants for this development include Toyota and Johnson & Johnson. After a period of declining vacancy, the Outer East has tipped upwards to 8.74 per cent however still remains below the long term average of 9.56 per cent. This increase is due to the number of new developments being completed in this market. With a shortage of existing A Grade stock currently available - the majority of existing vacancy is in Secondary Grade space - new developments are attracting tenants looking to increase the quality of their office accommodation.

Incentives increased for new developments from an average of 25 per cent 6 months prior, to 29 per cent. A Grade incentives also rose from 25 per cent to 26 per cent over the last 6 months and B Grade remained the same at 30 per cent. B Grade incentives

have averaged above 30 per cent for the last 4 years as tenants in this market are generally looking to upgrade to new premises, coupled with lower rents when compared with the Inner and Fringe markets.

Yields for both new development and A Grade stock have not moved over the past six months and remain at 6.13 per cent and 6.38 per cent respectively. B Grade asset yields reduced 25 basis points to 7.13 per cent on average. A notable sale was 60-62 Maroondah Highway, Ringwood which sold for \$28.3 million, as a full fund through off the plan sale on a 5.30 per cent yield to an offshore investor. The property was sold fully leased to the State Government (Department of Justice) on a 12 year lease term.

## South East

### Another large decline in vacancy

The South East market has again experienced a large drop in vacancy from the previous 6 months. We are currently recording vacancy at 6.75 per cent, where it was 11.87 per cent only 12 months prior. Upcoming development for this market is limited to Morris Moor, Moorabbin (20,000sqm) due in 2021 and the Southland development (10,000sqm) in 2022. With no additional new developments until then, we forecast vacancy to continue to decline. Tighter vacancy will support rental uplift and incentives to also remain at current levels for the next 12 months.

Average rents grew slightly over the last 6 months, after no change 6 months prior. New development rents increased 5 per cent to average \$325 per sqm, A Grade increased 2 per cent to average \$300 per sqm and B Grade rose 6 per cent to \$260 per sqm. Incentives were unchanged for both new developments and A Grade for the last 6 months, both at an average of 20 per cent. Notable leasing transactions included two floors at 500 Princess Street, Noble Park leased to Berry Street and Fulton Hogan totalling 3,000sqm.

Much like the Inner East, the South East market has always been traditionally tightly held. In the last 12 months there has only been one transaction above \$5 million. 269 Centre Road, Bentleigh transacted at the end of 2019 for \$10.3 million on a tight 4.23 per cent yield to a private investor. The property consisted of an office fully leased to nine tenants. Due to so few transactions in the South East, yields have stayed the same over the last six months for new developments, A Grade and B Grade at 7.25 per cent, 7.50 per cent and 8.13 per cent respectively.



68 Clarke Street, South Melbourne, VIC  
Office for lease | Due for completion December 2019



**10 Nexus Court, Mulgrave, VIC**  
Leased on behalf of Salta Properties

## North & West

### Face rents continue to rise

The North & West sub market has recorded gradual growth in net face rentals over the last 6 months. A Grade stock increased 1.5 per cent to average \$330 per sqm and B Grade stock increased 5 per cent to \$225 per sqm. Incentives declined for A Grade stock by one percentage point to 24 per cent whilst increased two percentage points to 25 per cent for B Grade.

Vacancy tipped downwards to 4.48 per cent, previously 5.15 per cent six months prior. A new development to be completed this year is 2 Kendall Street, Williams Landing which will comprise of approximately 13,000 sqm, the building to be fully occupied by Target. Looking forward, the next development to be completed in this precinct will be Essendon Fields comprising 8,000sqm not completed until 2021. A substantial addition to vacancy was 6,300 sqm at 22 Gladstone Street, Moonee Ponds, vacated by the Australian Tax Office (ATO) as they downsize their Melbourne presence. The entire building will undergo a refurbishment including upgrading of all services, a café and new end of trip facilities.

Yields for a grade stock tightened 25 basis points over the 6 months to 6.0 per cent and still no change for B Grade averaging 7.0 per cent. The former Target Head Office at 12-14 Thompsons Road, North Geelong sold for \$10.6 million and included a large land holding of approximately 38,000sqm. The property has been earmarked for a mixed-use rezone and sold with vacant possession.

## St Kilda Road & Southbank

### Lowest vacancy in over ten years

St Kilda Road vacancy has reached its lowest point in over a decade when vacancy was recorded by the Property Council Australia (PCA) at 6.68 per cent in July 2008. At present, vacancy is 6.6 per cent which is primarily due to withdrawals from the market. The overall amount of stock has decreased by 10,000 sqm as 424-426 St Kilda Road (Illoura Plaza) was withdrawn over the period. The property will be developed by Bates Smart into 163 new residences conveniently located across the road from the new Anzac station at Domain Interchange, which is part of the new Metro Tunnel project. We forecast that vacancy will trend downwards as further stock is converted to residential, especially by the end of this year when we expect vacancy to fall to closer to 6 per cent.

Current vacancy in Southbank recorded by the PCA is 10.65 per cent, which increased 27 basis points over the last six months. The only withdrawal was the partial refurbishment of 58 to 82 Queensbridge Street 'The Atrium' comprising 4,500 sqm to come back to market in late 2019 with a major tenant commitment already in place. Space at 40 City Road (HWT Tower) comprising of 3,800sqm is to be withdrawn from stock in the latter half of the year for partial refurbishment.

Average net face rents for A Grade St Kilda Road stock increased 4.3 per cent in six months averaging \$425 per sqm. Incentives in this same period recorded no change remaining at 20 per cent. B Grade stock increased 3.5 per cent in 6 months to average \$368 per sqm and incentives 23 per cent, recording no change for 2 years. Southbank face rents for A Grade stock increased 3.5 per cent over the six month period to \$528 per sqm and remained at \$415 per sqm for B Grade stock. Incentives were unchanged for both A and B Grade stock, at 28 per cent and 27 per cent respectively. Both St Kilda Road and Southbank are more affordable options for tenants looking to be close to the CBD and have the added attraction of the corporate surroundings not typically associated with the City Fringe market.

Two recent notable sales in the St Kilda Road market included 509 St Kilda Road "Aviva House" which sold for \$163 million to a private investor with an initial yield of 4.96 per cent. The second sale of 541 St Kilda Road also on a tight 5.0 per cent yield sold for \$65 million to Marprop joint venture with GLL Real Estate Partners. GPT's 50 per cent interest purchase of 2 Southbank Boulevard was the only transaction for Southbank in the last 6 months. They purchased the partial interest for \$342 million for a 5.0 per cent initial yield, the vendor was Frasers Property, with GPT already owning the remaining 50 per cent of the building, taking their ownership to 100 per cent.

By Karina Salas  
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## MARKET HIGHLIGHTS

Domestic institutional investors dominating the investment market

Vacancy rates weakened as new supply exceeded positive net absorption

Urban Renewal precinct experienced major expansion over the past decade

## Investment Market

### Sales volumes above long-term average

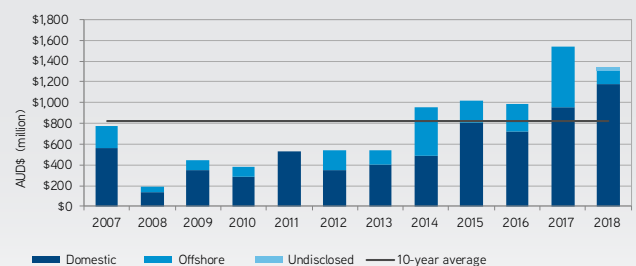
The volume of office transactions (above \$5 million) fell by 10 per cent, to \$1.38 billion for the YoY to December 2018, but it still held above the long-term average of \$832 million.

As opposed to the Brisbane CBD office market, the Brisbane metro investment market relies heavily on domestic capital, with domestic investment representing 86 per cent of the sales volume for the YoY to December 2018 and sitting above the 10-year average contribution of 74 per cent.

Domestic institutional investors dominated the market settling nearly 80 per cent of the sales (\$1.06 billion) for the year to December 2018. The positive Brisbane Metro to CBD office yield spreads in the range of 50 to 100bp positions the metro market as an attractive investment option for institutional investors trying to secure high-growth performance assets.

The participation of private investors in the metro office market continued decreasing for the year to December 2018, falling from 50 per cent (\$485 million) in 2016 to 23 per cent (\$357 million) in 2017 and to 11 per cent (\$147 million) in 2018. The more strenuous

Brisbane Metro Office Sales (\$AUD)



Source: Colliers International

requirements to access debt funding and the low yield environment has driven the decrease in private investor activity in the Brisbane metro office market.

The largest 2018 investment transaction was the sale of BOQ House at 100 Skyring Terrace Newstead acquired by the Australian REIT, Growthpoint Properties, for \$250 million at a yield of 6.02 per cent. Another notable sale exchanging contracts in 2018 and settling in 2019 was the sale of the Barracks mixed-use precinct in Milton, which sold for \$162.3 million at a yield of 6.79 per cent (more than 50 per cent of the precinct's net lettable area and revenue is supported by commercial office leasing activity).

We have noted a surge of listing activity over the first quarter of 2019, supporting a positive outlook for the Brisbane Metro office market this year. The most significant reported sale to date is the Forza Russell Street Fund purchase of the three-level building at 55 Russell Street in South Brisbane for \$23.65 million at an initial yield of 6.8 per cent. The asset has a 5.5 year lease with Child Protection Services to occupy two floors in the building and one floor is currently vacant.

We anticipate that domestic institutional investors will remain predominant in the metro office investment market in 2019 as portfolio sales and sales above \$100 million are becoming more predominant comprising 61 per cent of the dollar sales volume in 2018 compared to 52 per cent in 2017.

## Yield compression continues

Average prime and secondary yields in all precincts continued tightening, in the range of 10 to 40bp over the year to March 2019, with the fall depending on the grade and location of the asset. The extent of the compression generally slowed down over the second half of 2018 as investors were then expecting a cash rate increase in 2019.

In light of the RBA announcement of the neutral bias monetary stance in February 2019, we anticipate that yield compression will continue, although it may slow down. The lack of alternative investment options has proven to discourage divestment in 2018 regardless of the ideal market conditions and increasing capital values seen 2018.

Average capital values in the A Grade market increased over 10 per cent for the year to March 2019 driven by the yield compression and the increase in net face rents. We also anticipate this growth will slow down in 2019 probably to closer levels to the 10-year average of 3.5 per cent per annum.

## Leasing Market

Leasing market activity performed strongly in 2018, with Colliers International recording circa 115,000 sqm of deals (including renewals) compared to circa 69,000 sqm recorded in 2017.

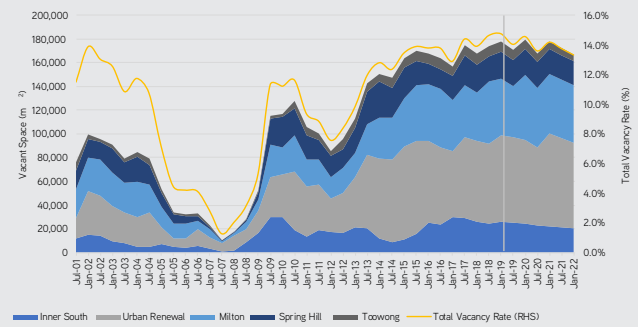
According to Deloitte Access Economics, white-collar employment is anticipated to increase by about 29,000 jobs in the Brisbane near city area compared to 19,000 jobs in the Brisbane CBD area over the next seven years to 2025. This trend reveals that the Brisbane metro market will experience a higher demand for office accommodation compared to the CBD area. Colliers International anticipates that the forecast higher demand will support a tightening in metro vacancy rates over the medium term, albeit dependent on new supply being restricted to that which has good pre-commitment activity.

An increase in jobs in health care, social assistance, professional, scientific and technical services and education and training sectors is forecast support over 76 per cent of the Brisbane near city workforce growth.

## Developers holding commencement of projects

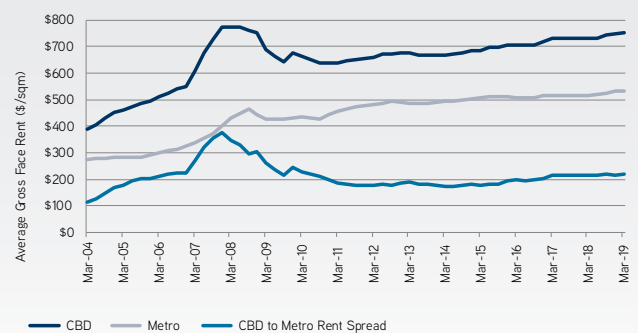
The start of construction of circa 370,000 sqm mooted projects mostly remains on hold until these projects have pre-commitments. In light of the current vacant supply of circa 100,000 sqm for the A Grade market and circa 51,000 sqm for the B Grade market, this approach will allow vacancy to stabilise, subject to developers continuing to hold on speculative investments.

Brisbane Fringe Office - Vacant Space and Vacancy Rate



Source: Colliers International

Brisbane CBD and Brisbane Metro - A Grade Average Gross Face Rent



Source: Colliers International



Green Square North Tower, Brisbane, QLD  
Leased on behalf of ISPT

We anticipate that supply in the Brisbane metro office market will increase by circa 50,000 sqm over the next two years, representing less than 5 per cent of the current market supply. Transport House at 230 Brunswick Street in Fortitude Valley (9,000 sqm), 339 Coronation Drive in Milton (13,199 sqm) and 89 McLachlan Street in Fortitude Valley (3,500 sqm) are anticipated to be completed this year. The projects located at 12 Stratton Street in Newstead (8,000 sqm) and Jubilee Site at 470 St Paul's Tce in Fortitude Valley (6,000 sqm) will reach practical completion in 2020. About 8,000 sqm of A Grade office space in the Jubilee project is already pre-committed to Watpac and Regus.

The largest increase in supply (circa 37,000 sqm of new or refurbished space) will be added to the Urban Renewal precinct over the next two years. This precinct is the fastest growing and preferred location for new developments with the stock nearly doubling in size over the past decade (circa 243,000 sqm of new supply). The Urban Renewal precinct provides a well located and affordable option for tenants, however the current vacant stock of circa 72,500 sqm has reached the highest level in three years, potentially revealing an oversupply in the market.

### **Inner south, the tightest market for the past two years**

According to the PCA, vacancy rates weakened slightly over the past six months to 14.8 per cent, remaining above the 10-year average of 9.1 per cent. The limited absorption of new supply entering the

market last year at 25 King Street Fortitude Valley (14,430 sqm) caused the weakening of vacancy rates. Colliers International understands that there is still about 8,000 sqm of vacant stock in this new development.

The Inner South has the lowest vacancy rate of 10 per cent, with the forecast supply holding steady over the next 12 to 24 months as no new developments are under construction. The only significant project in the Inner South pipeline is the Mobo development, proposing to add 17,000 sqm of net lettable area. It will create a subtropical designed commercial tower including a rooftop landscape deck and a swimming pool.

The Inner South's average gross face rents for A Grade stock increased below CPI in 2018, remaining as one of the most desired and expensive Brisbane fringe locations due to its proximity to the CBD. Similar to other precincts and due to the larger than average vacant stock levels, landlords remain willing to offer higher than average incentives of 34 per cent for the A Grade market and 36 per cent for the B Grade market.

Historically, Milton and Spring Hill have recorded the highest vacancy rates, currently sitting at 21.5 per cent and 17 per cent. Colliers International anticipates that vacancy rates in these two precincts will remain above 15 per cent for the foreseeable future due to the competitive rents on offer in other precincts closer to the CBD and the lower grade quality of the vacant stock in these locations.



**2 King Street, Fortitude Valley, QLD**  
Sold on behalf of Impact Investment Group

By Kate Gray

Director | Research

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## MARKET HIGHLIGHTS

New supply in suburban markets

Falling vacancy in Suburban markets

Strong sales volumes in both Fringe and suburban markets

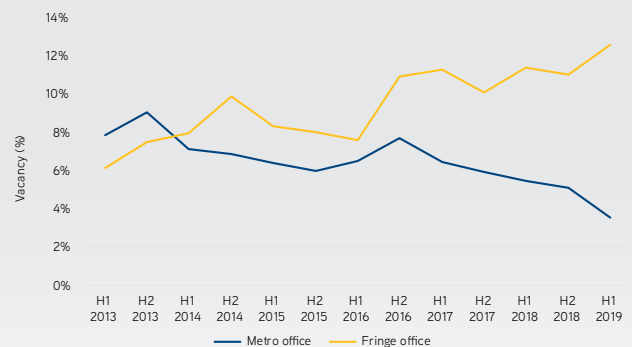
## Leasing market

The Adelaide Fringe and Suburban office markets have seen improved levels of activity over the second half of 2018 and into 2019, with several significant office relocations taking place. These include Sonic Innovations relocating to 161 Greenhill Road (1,116 sqm), Metricon Homes relocating to 162 Greenhill Road (1,500 sqm) and FMG Engineering relocating to 67 Greenhill Road (1,586 sqm).

According to the PCA OMR January 2019, the Adelaide Fringe market has seen vacancy increase to 12.6 per cent over the half up from 11.0 per cent. However, when analysing the vacancy by building grade, the A Grade sector has seen a reduction from 8.4 per cent to 5.0 per cent. This trend in tenant demand is consistent with the Adelaide CBD, with tenants seeking quality accommodation within new and regenerated assets. Highlighting this further, a recent survey undertaken by Colliers International into the makeup of Fringe vacancy found that approximately 60 per cent of vacancy sits above ground level in buildings without lift access. In an equal opportunity employment environment, lift access has become a necessity rather than a luxury.

A Grade office space constitutes less than 20 per cent of the overall market in the Fringe and predominantly consists of refurbished older generation assets. As a result, tenants seeking quality accommodation have been driven towards these repurposed buildings. An example of this is 100 Greenhill Road, which

## Metro and Fringe Office Vacancy



Source: Colliers International

underwent a significant refurbishment to an A Grade standard and was added back into supply in the second half of 2018. Having consolidated from suburban and CBD markets, the property will be largely occupied by Life Without Barriers, who have committed to a new lease over 1,044 sqm.

New office supply in the Fringe is limited only to the mixed-use development at 162 Fullarton Road, which is due for completion in late 2019. Upon completion, 162 Fullarton Road will be owner occupied by Thomas Foods and will comprise 2,285sqm of high-quality office accommodation over four levels and a residential penthouse apartment on the upper floor. A refurbishment of 153 Greenhill Road, Parkside is underway for Micronix and is scheduled to be complete in 2021. Mooted refurbishment projects requiring pre-commitment include 2-3 Greenhill Road, Wayville and 1 Goodwood Road, Wayville.

Residential developments currently under construction include One Park (1 George Street, Parkside) and Minno Apartments (56 Greenhill Road, Wayville), however residential still constitutes only a small portion of the Fringe market.

The suburban market has continued to perform well and has recorded a vacancy rate of 3.6 per cent which has fallen from 5.1 per cent in September 2018. As with the Fringe, there is a lack of new supply being delivered in the suburban markets over the past 5 years, however this is set to change over the coming 18 months, with construction set to commence on several significant buildings.

These include:

- Peregrine – 270 The Parade, Norwood – 6,200 sqm
- Clinpath: James Congdon Drive, Mile End, 3,500 sqm
- Novita, 341 Port Road, Hindmarsh – 2,000 sqm
- Mitsubishi – Adelaide Airport – circa 5,000 sqm

Face rentals in the Fringe and Suburban markets were unchanged over the past 6 months across all grades. In the Fringe, a decrease in the top range of incentives from 15 - 25 per cent to 15 - 20 per cent saw effective rents rise by 6.4 per cent for A Grade properties and 3.4 per cent for B Grade properties. In the Suburban market, incentives were unchanged at 15 - 25 per cent.

## Investment market

There were 9 transactions (over \$5 million) totalling \$123.415 million across the Fringe and Suburban markets in 2018. The largest transaction in 2018 was the purchase of 196 OG Road, Felixtow for \$35m on a passing yield of 7.90 per cent by Elanor, a Sydney based investment group. 2019 has started strong with 3 transactions (over \$5 million) for a total sales volume of \$40.34 million year to date.

172 Glynburn Road Tranmere, a 2012 built office / medical consulting facility, transacted for \$18.3 million. This property was fully leased to two Government tenants with a WALE in excess of 7 years. This sale equated to a tight passing yield of approximately

6.00 per cent and a capital value of \$7,057 per square metre, reflective of what premium investors are willing to pay for securely leased, well located medical grade assets.

67 Greenhill Road transacted for \$16.005 million on a passing yield of 6.71 per cent and a capital value of \$4,838 per square metre. This fully leased asset has a WALE of 5.5 years. 48 Greenhill Road transacted for \$6.035 million and was sold with vacant possession, equating to \$4,828 per square metre.

### Adelaide metro office outlook

The Fringe and Suburban markets can expect to see a further decline in vacancy and a gradual decrease in incentives during 2019, resulting in effective rental growth over the period.

Solid market fundamentals and growth projections, coupled with yield compression in other markets, has seen some evidence of yield tightening in the Adelaide Fringe and Metro office markets. Demand for investment grade stock is expected to remain high, particularly for long WALE prime assets.

We expect that interstate and institutional investors will remain active and this is likely to drive a further tightening in yields over the coming 12 months. Whilst we are expecting a limited supply of quality assets coming to market in 2019, we do expect values to improve on the back of interstate investors increasingly seeing great value in South Australian commercial assets. This is expected to result in an increase to face rents and a reduction to incentives.



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## MARKET HIGHLIGHTS

Leasing conditions in West Perth improving

Sluggish net tenant demand means competition is still high

Limited new supply in the pipeline

## West Perth vacancy continues to moderate

Leasing conditions improved in the West Perth market, over the six months to January 2019, with a reported net absorption of 5,248 sqm.

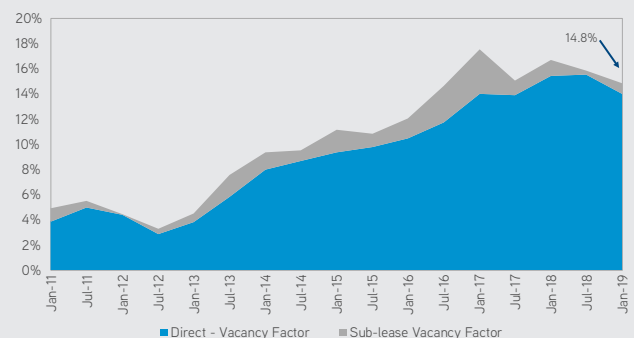
Positive net absorption assisted in driving the West Perth vacancy rate lower for a second time in 12 months to 14.8 per cent, as reported by the Property Council of Australia, and was down from a cyclical high of 17.5 per cent in January 2017. This was largely driven by absorption of 5,699 sqm of vacant A Grade space.

The reduction in vacancy was in spite of West Perth stock increasing 1,220 sqm, to reach a total of 425,140 sqm. However, competition for tenants in the overall Perth market is still strong with a combined 388,896 sqm of office space remaining vacant in West Perth and nearby Perth CBD precincts.

Whilst the West Perth and CBD markets continue to go through an improvement phase, most major suburban markets are still struggling. Sluggish economic growth in 2018 and low or negative tenant demand in certain areas, due in part to the centralisation shift, has meant vacancy in suburban locations is still lagging Perth and West Perth.

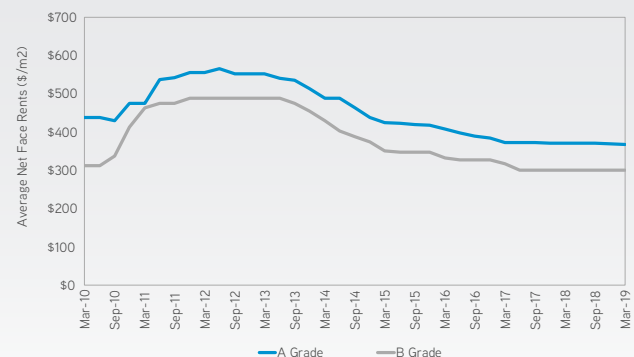
Colliers International recently surveyed the Subiaco office market, finding that office space for lease amounted to 31,950 sqm or 17.4 per cent of stock with NLA over 1,000 sqm. The last time Colliers surveyed the Subiaco market in August 2015 it had 24,425 sqm of space for lease or 15.1 per cent of stock.

## West Perth Vacancy Rate



Source: PCA OMR Jan 2019, Colliers International

## Average West Perth Net Face Rents



Source: Colliers International

## State government major driver of new supply

Growth in resource sector activity looks to have translated to an increase in demand for project space. Colliers International leasing agents note an increase in project space enquiries during the first half of 2018. Judging from increased project announcements over the past year, Colliers is expecting further growth in project space demand over the next two years, as the projects ramp-up towards the construction phase.

Over the past two years to the end of 2018, Perth's suburban office market has seen the delivery of approximately 43,115 sqm of space in buildings over 1,000 sqm.

Major buildings delivered in 2017 included 10,335 sqm at 25 Rowe Ave, Rivervale (which is anchored by Bunnings) and 6,535 sqm at 5 Milldale Way, Mirrabooka which was fully pre-committed by the WA State Government.

Over 2018, the largest building delivered was 8 Davidson Terrace, Joondalup with approximately 9,600 sqm of office, which was also fully pre-leased to the WA State Government. The other significant addition was 1 Hood Street, Subiaco, part of a mixed use development with approximately 5,000 sqm office, which had proceeded speculatively.

There is currently 37,140 sqm of office space under construction in suburban Perth. The largest of these buildings (to be delivered in 2020) is 2 Newman Court, Fremantle which will be anchored by the WA State Government.

The other major building is SubiXO at 500 Hay Street, Subiaco, which will have approximately 10,325 sqm of office space. This was originally scheduled for delivery in early 2018 but construction was delayed due to a payment dispute between the developers and the previous builder. However, it has been reported that a new builder has been appointed and completion is now scheduled for 2019.

Although construction proceeded without a pre-commitment in place, it was reported in late 2018 that Mineral Resources was negotiating to relocate to this address, from its current Applecross offices. This outcome would leave a large hole to fill in the Applecross precinct, and is further evidence of the continued migration to more central locations as leasing conditions remain favourable.

Additional West Perth supply is currently limited to 1,595 sqm of space in a mixed use development at 18 Ventnor Ave, West Perth, which is expected to be delivered in 2019. With the current high vacancy rate and a weak leasing environment, it appears unlikely



**269 Albany Highway, Victoria Park, WA**  
Leased on behalf of Private Investor

any further supply will proceed in West Perth without a significant pre-commitment.

## Rents stabilising

Rents and incentives continue to be relatively stable in the West Perth office precinct. However, the market remains highly competitive, as vacancy in other precincts remain well above equilibrium.

West Perth A Grade net face rents averaged \$367.5 per sqm over the March 2019 quarter; which was down marginally from \$370 per sqm in the March 2018 quarter. A Grade incentives generally ranged between 35 per cent and 40 per cent during the March 2019 quarter. Average B Grade net face rents were static at \$300 per sqm during the March quarter 2019; with incentives also ranging between 35 per cent and 40 per cent.

Subiaco rents remained under pressure in the first quarter of 2019, as competition with more central locations remained high. Colliers survey noted average asking rents were now circa 20 per cent below levels obtained in our August 2015 survey.

## Investors sensing a brighter future

Over 2018, there were 16 major investment sales in suburban Perth and the CBD fringe markets. This was slightly lower than the 2017 total of 19 transactions.

Notwithstanding the lower volume in 2018, at \$549 million the total value of transactions was more than double the 2017 total of \$257.6 million. This large jump in annual transaction value was driven by two of the largest suburban office asset sales on record. These consisted of Workzone West at 202 Pier Street, Perth (\$125.25 million) and the Optima building at 133 Hasler Road, Osborne Park (\$125.1 million).

The lower yield environment is continuing to assist Perth's suburban office capital values in a soft leasing market. The Optima building transaction, which sold with a WALE of just over 11 years, achieved a market yield of circa 6.15 per cent. The Optima building had previously transacted for \$105.7 million in January 2013, with an estimated market yield of circa 8.0 per cent.

The most recent major transaction in West Perth was 1101 Hay Street, which sold for \$16.6m in November 2018. This asset sold for an equated market yield of 6.5 per cent, confirming the persistently tight yield environment for good quality securely leased assets.

Reports of WA economic conditions starting to bottom out and a projected return to growth over the next financial year has seen investors sensing a brighter future ahead for the Perth office market. Major investors, both domestic and foreign, are actively seeking opportunities to increase their exposure in a recovering Perth market and take advantage of the relatively high yields compared to other major Australia cities. This is expected to keep securely leased Perth office asset yields relatively tight over 2019.

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## MARKET HIGHLIGHTS

Newcastle continues to record exceptionally low Prime Grade vacancy

A Grade vacancy declining from 6.4% to 2.8%, and forecast to track lower over the next 12 months

A lack of quality investment opportunities, coupled with excellent business fundamentals and weight of capital will result in low yields being maintained for quality investment opportunities.

## Prime Grade vacancy exceptionally low

The Newcastle and Charlestown markets provide commercial stock of 303,500 sqm, with a combined vacancy of 7.2 per cent as at January 2019, down 200 basis points over the last 12 months. In both markets, the A Grade vacancy rate is 2.8 per cent, as tenants are attracted to quality office accommodation offerings to provide better staff amenity and aid in staff attraction / retention. The A Grade vacancy is forecast to fall further given the fully leased circa 10,100 sqm Gateway Stage II project is anticipated to open in Q2 2019.

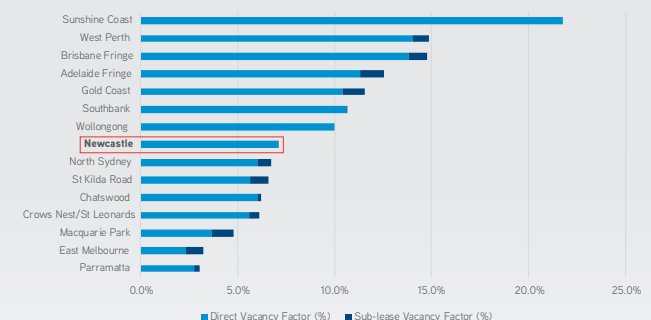
The PCA's OMR shows Newcastle is performing well against all non-CBD office markets, with all markets that have a lower vacancy rate located in metropolitan locations.

As the A Grade options have diluted we have seen evidence of lower incentives, coupled with positive net effective rental growth.

## Staff attraction and retention fundamentals attracting corporate tenants to the cbd

Lower gross occupancy costs by comparison to other markets, coupled with the lifestyle offering and relative affordability in the region, continues to attract corporate tenants to the Newcastle market. Recent expansions and new tenants entering the market

## Non CBD Office Vacancy Comparison



Source: PCA OMR Jan 2019 / Colliers International Research

## Analysis of transaction

Address	199 – 201 Hunter Street, Newcastle
Sale Date	November 2018
Sale Price	\$3,350,000
Lettable Area	444 square metres
Unexpired Term	6.1 years
Initial Yield	5.14%
Capital Value	\$7,538/sqm NLA

Source: PCA OMR Jan 2019

has driven the A Grade vacancy to 2.8 per cent, well below the 10 year average of 5.6 per cent. New supply in the market will include the development of a circa 15,000 sqm office tower adjacent to the Newcastle Interchange on Stewart Avenue, which benefits from a large pre-commitment from Property NSW.

Projects that with appropriate tenant pre-commitment that can further add to A Grade stock include Core Project Group's circa 11,000 sqm Birdwood Business Centre on Hunter Street, and GWH's circa 8,000 sqm project located at the junction of Hunter Street and Darby Street within Newcastle's CBD.

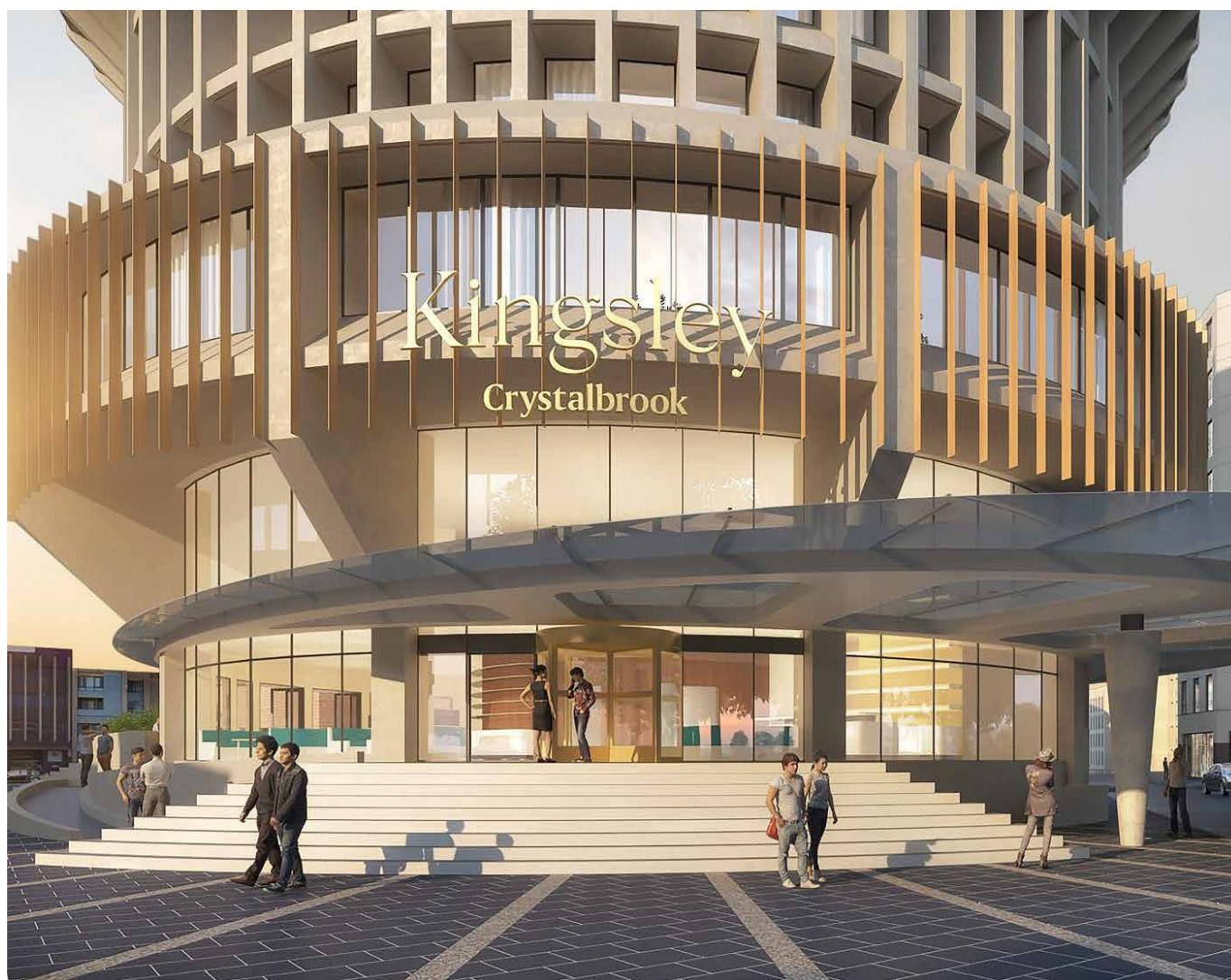
## Investment demand continues for quality investment offerings

Limited quality investment offerings and continued strong local economy fundamentals has seen investor demand continue in the local market, with the most recent investment property sale of 199-201 Hunter Street reflecting a net initial yield of 5.14 per cent. This follows the sale of a stratum at 18 Honeysuckle Drive in February 2018, which reflected a net initial yield of 4.63 per cent and a capital value of \$9,037 per sqm.

Given the paucity of investment stock within the region and the weight of investment capital increasing competition, we are anticipating yields for quality investment offerings at all capital value levels to remain strong.

## CBD fundamentals drive non-residential outcomes

The underlying fundamentals of the CBD continues to attract international and national interest for non-residential development. In Q4 2018 Colliers International marketed For Sale 282 King Street, Newcastle on behalf of the Newcastle City Council. The purchaser was a Syrian billionaire who is proposing a five star hotel for his Australian luxury hotel business Crystallbrook Collection. The expansion of the University of Newcastle and the Japanese based Nihon University within the CBD is also generating interest from associated educational users.



**A Crystabrook Collection Hotel, Kingsley, Newcastle**  
Sold on behalf of Colliers International Newcastle

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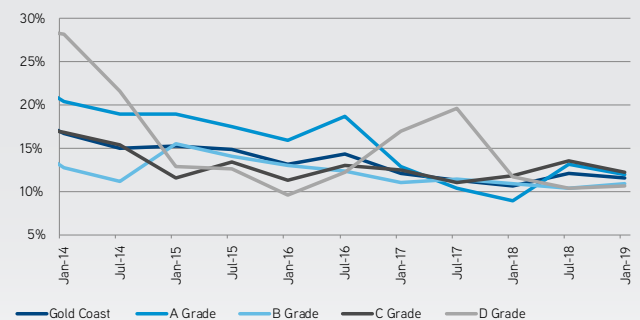
## MARKET HIGHLIGHTS

New supply concentrated in Robina

Landlords closing deals without compromising on higher incentives

Investment market reached a record capital value of circa \$7,500 per sqm

Gold Coast Office Market Vacancy Rate by Grade (%)



Source: Colliers International

## Leasing market

### Large new development in Robina

As vacancy rates are gradually tightening and approaching 10 per cent, developers are considering the Gold Coast and specifically Robina as a potential location for new developments. In early 2019, Alceon acquired a 9,921 sqm development site at 209 Robina Town Centre Drive for \$7.3 million, proposing to develop the Acuity Business Park. According to Cordell Connect, this development is expected to add 15,000 sqm of new supply by 2022.

The \$50 million project will offer second to none facilities in three-standalone buildings, including onsite coffee shop, equipped gym, break-out areas, two lifts and amenities on every floor and shared facilities like bike racks, lockers and showers. The development has already achieved circa 4,500 sqm of pre-commitments with Metricon in building 1, which is equivalent to 30 per cent of the proposed net lettable area.

Another mooted project owned by Robina Land Corporation is located at 197 Robina Town Centre Drive and proposes to build 5,100 sqm of office accommodation.

### Positive net absorption driving vacancy down

Vacancy rates tightened slightly from 12 per cent in July 2018 to 11.6 per cent in January 2019, now sitting below the 5-year and 10-year average. The gradual tightening of vacancy (which commenced about 8 years ago) and the limited new supply, support our view that the regional market conditions will continue strengthening over the next 18 to 24 months.

According to the PCA, the market absorbed 2,986 sqm of vacant space over the past 6 months driven by the increase in leasing activity in Robina-Varsity Lakes, Surfers Paradise and Southport.

Looking at the vacancy by building grade, the A Grade market recorded the largest tightening of vacancy from 13.1 per cent in July 2018 to 11.9 per cent in January 2019, absorbing a total of 1,583 sqm of vacant office space. Colliers International anticipates that demand for Prime Grade office in the Gold Coast market will continue increasing as vacancy is gradually tightening and prime stock is limited, representing less than 30 per cent of the regional supply.

## Downward trend in incentives

The gradual recovery of the rental market has translated in lower incentives granted to tenants to secure deals. Average rental incentives sit at 12 per cent as at 31 March 2019 compared to the four-year average of 15.4 per cent. Rental incentives in Broadbeach are generally slightly lower than the rest of the market sitting at about 10 per cent.

Colliers International anticipates that rents will hold firm over the second half of 2019 as a fall in incentives usually precedes a future increase in rents.

## Investment market

### Record capital value sale

The average capital value in the Gold Coast generally fluctuates in the range of \$3,350 and \$4,625 per sqm, with an average for the region of \$4,040 per sqm.

2018 saw the settlement of the sale of 2 Short Street in Southport for \$17.5 million, which achieved a record capital value for the region of \$7,498 per sqm. The property was fully leased at the time of sale primarily to a number of tenants operating in the health sector. The initial yield for the transaction was 6.79 per cent and the equivalent yield was close behind at 6.67 per cent.



**Southport Chambers' 56-58 Nerang Street, Southport, QLD**  
Sold on behalf of Life Settlements Funds Pty Ltd

# OUR EXPERIENCE METRO OFFICE

## LEASED



23 Furzer Street, Phillip,  
ACT

45,967m<sup>2</sup>

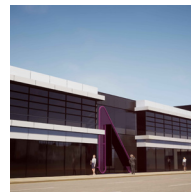
On behalf of Mirvac



10 Nexus Court, Mulgrave,  
VIC

4,500m<sup>2</sup>

On behalf of Salta Properties



341 Port Road, Hindmarsh,  
SA

2,050m<sup>2</sup>

Precommitment on behalf of  
KAS Property Group

## SOLD



67 Albert Street, Chatswood,  
NSW

\$158 million

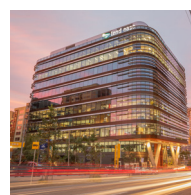
Vendor: Corval  
Purchaser: Mapletree



MYOB Building 17-21 Harcourt  
Parade, Cremorne, VIC

\$100 million

Vendor: Caydon Property  
Purchaser: AXA IM – Real  
Assets

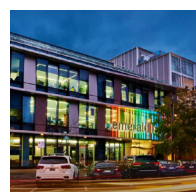


2 King Street, Fortitude  
Valley, QLD

\$85 million

Vendor: Impact Investment  
Group  
Purchaser: Heitman

## MANAGED



Emerald House, 105 York  
Street, South Melbourne, VIC

3,527m<sup>2</sup>

On behalf of Private Client



18-20 Prospect Street,  
Box Hill, VIC

2,388m<sup>2</sup>

On behalf of Private Client



66 Talavera Road,  
Macquarie Park, NSW

2,314m<sup>2</sup>

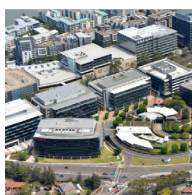
On behalf of Holdmark  
Property Group

## VALUED



Talavera Corporate Centre,  
Macquarie Park, NSW

On behalf of Goodman



Buildings B, D, E & F,  
Rhodes Corporate Park, NSW

On behalf of Frasers Property



80 Pacific Highway,  
North Sydney, NSW

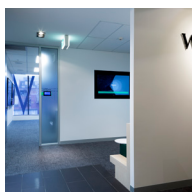
On behalf of Mirvac

## PROJECT MANAGEMENT



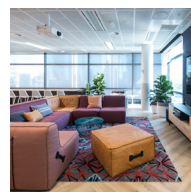
Sydney Olympic Park, NSW  
Approx. 877m<sup>2</sup>

On behalf of JLT



Richmond, VIC  
Approx. 1,200m<sup>2</sup>

On behalf of Joh Wiley  
& Sons



North Sydney, NSW  
Approx. 1,380m<sup>2</sup>

On behalf of Fetch TV

Accelerating success.



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[au.office@colliers.com](mailto:au.office@colliers.com)

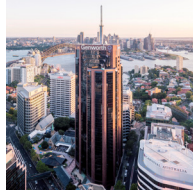
# AUSTRALIA

## IN THE LAST 12 MONTHS

**430** deals totalling **351,000** square metres of office space in the last financial year



**Kings Row Office Park, Milton, QLD**  
**1,158m<sup>2</sup>**  
On behalf of Shayher

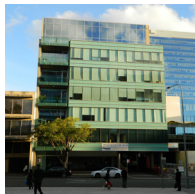


**101 Miller Street, North Sydney, NSW**  
**929.5m<sup>2</sup>**  
On behalf of Mirvac & Nuveen Global



**15 Leila St, Cannington, WA**  
**796.5m<sup>2</sup>**  
On behalf of Patdan Pty Ltd

**102** transactions equating to **1.4 billion** worth of metro office sales



**9 George Street, Parramatta, NSW**  
**\$44.3 million**  
Vendor: Hadley Green  
Purchaser: City of Brisbane Investment Corporation



**64-78 Trenerry Crescent, Abbotsford, VIC**  
**\$41 million**  
Vendor: TKG Australia  
Purchaser: EPC Pacific



**6 National Circuit, Barton, ACT**  
**\$37.5 million**  
Vendor: Doma Group  
Purchaser: ISPT

over **1,371** assets totalling over **2 million** square metres of metro office space



**35 Chandos Street, St Leonards, NSW**  
**2,200m<sup>2</sup>**  
On behalf of Holdmark Property Group



**NFF House, 14-16 Brisbane Avenue, Barton, ACT**  
**1,800m<sup>2</sup>**  
On behalf of National Farmers Federation

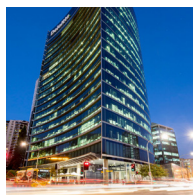


**42 Nelson Street, Stepney, SA**  
**986m<sup>2</sup>**  
On behalf of Private Client

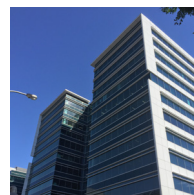
valued **1.74 million** square metres totalling over **11.9 billion** worth in value



**'TAC' 60 Brougham Street, Geelong, VIC**  
On behalf of Centuria Capital

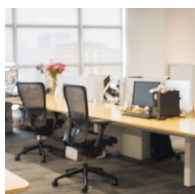


**60 Station Street, Parramatta, NSW**  
On behalf of GPT Group



**'HQ North' 520-540 Wickham Street, Fortitude Valley, QLD**  
On behalf of Cromwell Property Securities Limited

project management solutions delivered by **Colliers International** experts



**Mulgrave, VIC**  
**Approx. 4,500m<sup>2</sup>**  
On behalf of Coles



**Rhodes, NSW**  
**Approx. 11,000m<sup>2</sup>**  
On behalf of Nestle



**North Sydney, NSW**  
**Approx. 16,000m<sup>2</sup>**  
On behalf of Nine Entertainment Co.



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

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**\$2.275**  
billion in  
annual revenue

**2**  
billion square feet  
under management

**15,000**  
professionals  
and staff

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