

Research &
Forecast Report



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CBD OFFICE

Second Half 2019





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CBD OFFICE SNAPSHOT

	VACANCY RATE		NET SUPPLY (SQM)		NET FACE RENTS (\$/SQM)		INCENTIVES		NET EFFECTIVE RENTS (\$/SQM)		YIELD	
	Current	Jul-20 (f)	Year to Jun-2019	Year to Jun-2020 (f)	Current	Jul-20 (f)	Current	Jul-20 (f)	Current	Jul-20 (f)	Current	Jul-20 (f)
SYDNEY	3.7%	3.8%	-50,335	-7,638								
Premium	2.7%	1.5%			\$1,153	\$1,198	20%	21%	\$884	\$903	4.6%	4.4%
A Grade	3.2%	1.3%			\$905	\$940	19%	20%	\$699	\$717	5.0%	4.9%
B Grade	4.1%	7.3%			\$778	\$788	18%	19%	\$609	\$608	5.3%	5.3%
MELBOURNE	3.3%	4.3%	72,494	221,200								
Premium	4.1%	5.8%			\$749	\$813	26%	26%	\$554	\$601	4.6%	4.5%
A Grade	1.5%	2.8%			\$601	\$650	28%	29%	\$430	\$462	5.0%	4.8%
B Grade	7.2%	7.1%			\$500	\$527	25%	25%	\$373	\$393	5.1%	5.1%
BRISBANE	11.9%	11.6%	-31,723	39,600								
Premium	8.7%	5.9%			\$679	\$687	38%	34%	\$361	\$390	5.1%	5.0%
A Grade	10.0%	12.2%			\$578	\$581	38%	35%	\$305	\$321	5.8%	5.6%
B Grade	14.5%	12.2%			\$473	\$477	41%	39%	\$221	\$231	6.8%	6.7%
PERTH	18.4%	18.0%	-3,048	66,338								
Premium	8.1%	6.1%			\$710	\$715	41%	36%	\$417	\$456	6.0%	5.6%
A Grade	18.5%	16.3%			\$568	\$568	50%	40%	\$284	\$341	6.7%	6.5%
B Grade	26.9%	28.9%			\$385	\$385	50%	45%	\$193	\$212	7.2%	7.0%
ADELAIDE	12.8%	14.3%	-5,744	44,908								
Premium	2.6%	7.4%			\$386	\$391	34%	30%	\$210	\$231	6.5%	6.4%
A Grade	12.3%	15.5%			\$401	\$410	34%	30%	\$229	\$252	6.7%	6.5%
B Grade	12.9%	12.8%			\$350	\$356	37%	37%	\$184	\$184	7.3%	7.2%
CANBERRA	12.0%	15.1%	-17,867	15,894								
A Grade	1.7%	2.5%			\$395	\$394	15%	16%	\$321	\$317	6.0%	5.9%
B Grade	20.5%	26.3%			\$284	\$282	22%	22%	\$197	\$195	7.5%	7.5%
AUCKLAND	5.0%	6.6%	-17,158	32,546								
Premium	0.9%	4.5%			\$548	\$590	9.0%	15.0%	\$493	\$501	5.5%	5.2%
A Grade	4.1%	5.5%			\$439	\$446	10.3%	14.6%	\$394	\$381	6.4%	6.1%
B Grade	6.7%	26.1%			\$333	\$336	12.3%	13.3%	\$292	\$291	6.6%	6.3%

Note: 'current' refers to June 2019 figures.

NATIONAL OVERVIEW

By Anneke Thompson

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What could demand look like over the next five years?

Understanding supply and demand fundamentals in our key office markets is crucial to understanding growth in income potential, as well as relative value of office assets into the future. In the short term, we can look at new supply, pre-commitment deals, treatment of backfill space and withdrawal activity to help inform the supply, demand and vacancy outlook. However, over the longer term, this is much harder, as much of this activity remains unknown. This article explains the key pieces of data we consider when forming our view of supply and demand in a post 2024 world.

Changes in employment trends

The number one leading indicator is the growth in employment, and more specifically, white collar employment. However, growth in jobs in and of itself doesn't tell the full picture, and we need to look at the changing trends in jobs, and how they occupy office space.

The key driver of employment in Australia currently are in government, health, education and government-related services (i.e. professional services such as accountants, consultants, IT). Where jobs are declining are in the retail trade, construction and manufacturing sectors, which have far less of an impact on the office sector. One question to ask when thinking about long term demand, is do we expect these trends to continue? On balance, it is likely that they will. The RBA has recently revised its determination of 'full employment' from 5 per cent, down to 4.5 per cent. At the time of writing, seasonally adjusted unemployment is 5.2 per cent. For the RBA to succeed in its mandate of maintaining full employment in Australia (it's other mandate is to maintain inflation within a band of 2 and 3 per cent), then Australia will need to add around 225,000 jobs a year to keep pace with expected population growth and full

employment targets. Data available from the ABS have shown that job vacancies over the past five years – in fact since the rise in employment growth began – have been overwhelmingly in favour of white collar jobs. In fact, 44 per cent of all jobs growth now are white collar jobs, up from 40 per cent in 2014. This means that on the most positive estimations, being if the RBA succeeds in getting Australia to 'full employment' of 4.5 per cent, circa 100,000 white collar jobs would be created each year. This equates to about 1 million sqm of office demand Australia wide each year.

Will Australia reach full employment?

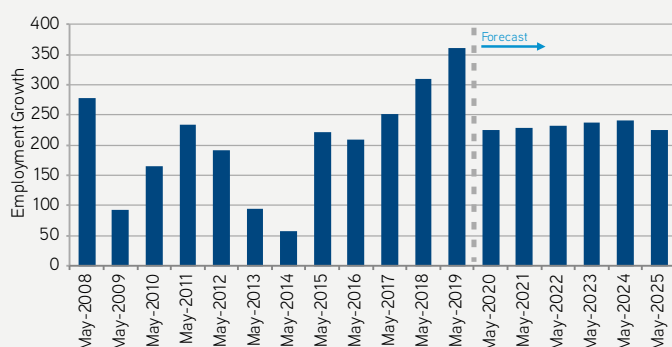
While on face value reaching an unemployment rate of 4.5 per cent seems like a lofty goal, consider that Australia's unemployment rate globally is high compared to other G20 nations. Australia sits about middle of the pack in terms of unemployment, with the US, UK, China & Germany all having sub 4 per cent unemployment rates. 'Lower for longer' bond yields have kept economic stimulus high in countries around the world, not just Australia. Given that this phenomenon is expected to continue, with two further cash rate cuts in Australia likely over the next 12 months, it is not too high a growth scenario to consider strong employment conditions will continue.



388 George Street, Sydney

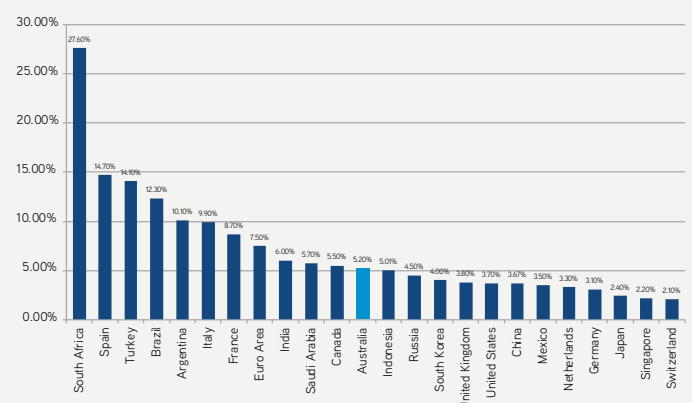
Colliers Tenant Advisory team secured space on behalf of QBE Insurance Group (Approx. 12,000sqm)

Employment growth required for Australia to reach unemployment by 2025



Source: Colliers International, ABS Labour Force

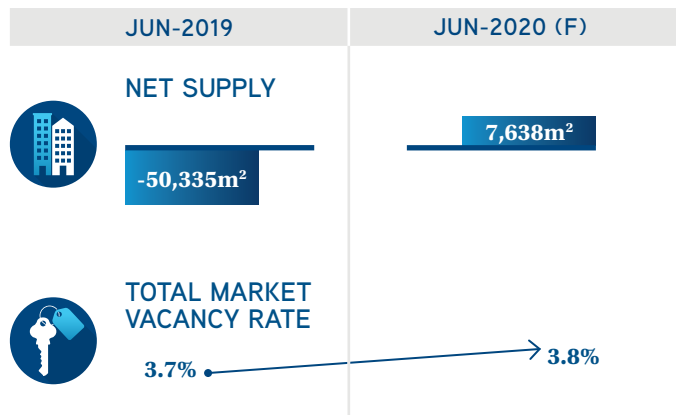
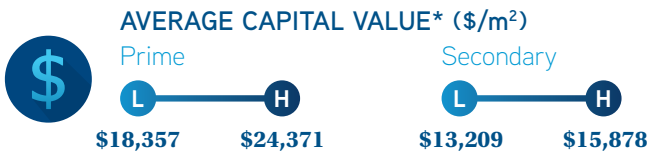
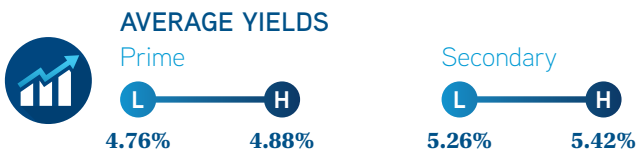
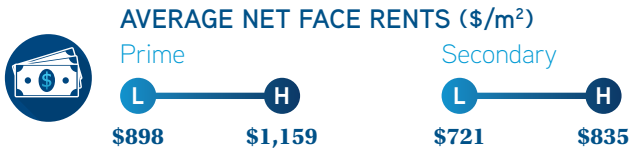
G20 Unemployment Rates



Source: Colliers International, Thomson Reuters

SYDNEY OVERVIEW

Market Indicators - June 2019



Prime net face rents continue to grow well above long term averages. Face rental growth across Premium and A Grade stock has accelerated over the past year, when compared to the last three years. Premium and A Grade net face rents grew by 7.6 and 9.7% respectively over the past year. Secondary grade rents grew by 12.2 per cent.

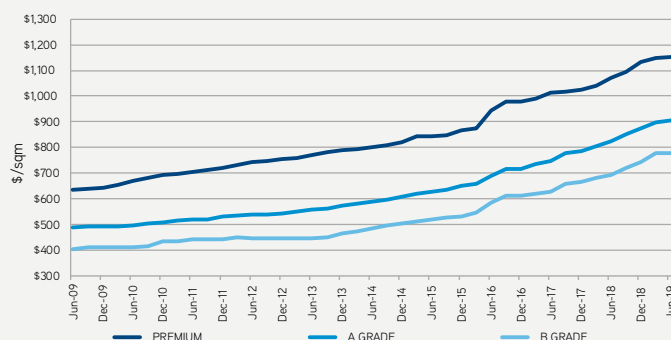
Demand has been fuelled by the technology and co-working industries, which together have replaced the finance industry as the biggest driver of space demand in the Sydney CBD. Sydney is now home to 60% of Australia's fintech (Financial Technology) companies and 48% of start-ups in the country.

The long term outlook for Sydney should see more supply and demand activity around the Central Station precinct. The creation of the Innovation and Technology Precinct in Southern Sydney is expected to add 25,000 more jobs alone and boost office demand by 250,000 sqm over the development period.

We expect further yield reduction due to an even more extensive 'lower for longer' bond yield outlook.

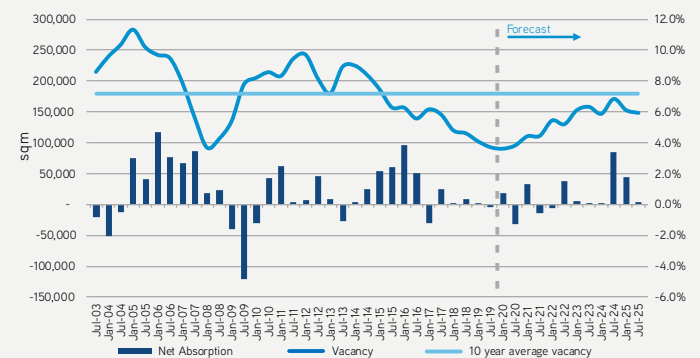
Expect an uptick in outgoings next quarter, as June budgeting is being prepared. We have revised our outgoings outlook upwards, which impacts effective rental growth, as Sydney incentives are calculated off the face rent and outgoings.

Sydney CBD Average Net Face Rents



Source: Colliers International

Sydney CBD Office Vacancy Rate and Net Absorption



Source: Colliers International, PCA OMR July 2019

By Anneke Thompson
National Director | Research
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A lack of prime grade full floors available in the CBD has seen landlords push rents further when one does become available. This has driven net face rents 0.5 per cent higher in premium grade, and 0.7 per cent higher in A grade over the quarter, equating to 7.6 per cent and 9.7 per cent annually respectively. This rental growth is reflective of the demand from flexible workspace providers, with many groups looking to increase their footprint in the Sydney CBD.

The outlook for demand looks set to be influenced by more negative short term impacts, but positive long term ones. In the short term, two cash rate cuts by the RBA totalling 50 bps seems to have impacted sentiment of corporates. Many are taking a 'wait and see' approach to occupancy decisions. The longer term outlook, however, appears more positive. Sydney is firmly entrenched as the home of the technology sector, and many of these groups have expanded dramatically over the past five years. We expect that this expansion will continue, as the importance of technology as a service to all sectors of the economy continues to grow. Our analysis of the top seven technology occupiers in Sydney – including Atlassian, Facebook, Google, LinkedIn amongst others – shows that the aggregate floorspace occupied by these groups has grown by 220 per cent over the past five years. The space occupied by the top seven banking/finance tenants, on the other hand, has grown by only 15 per cent in the CBD. Sydney is unique in the Australian market as a technology dominated demand market, as the global groups are firmly entrenched in the Sydney CBD as their preferred market.

In the long run, we expect that the opening up of the Southern precinct around Central Station to new development will work towards fulfilling the occupancy needs of the expanding technology sector.

Our view on the long term vacancy outlook has changed quite markedly for the 2024/2025 period, due to more clarity being had on the next supply cycle in the Sydney CBD. This period is when significant new supply will come online as part of the Over Station Developments (OSD) and the potential for redevelopments on and around Central Station. Whilst these projects are still at very early stages of planning, the timelines are now more well known than 6 months ago, as it is expected that the office towers will need to be constructed on or around the time of delivery of the new Metro stations, which is scheduled for 2024.

The shorter term outlook has not changed greatly, and we expect tight conditions in the Sydney CBD until early 2022. More known pre-commitment activity means that our forecast peak of vacancy in Jan 2022 of 6.2 per cent, has been revised down to 5.4 per cent. We now expect a peak in vacancy of 6.8 per cent in July 2024, however this outlook is set to change as we get more clarity on the OSDs and Central Station developments over the next year or so.

Forecast net absorption over the next 10 years is broadly in line with what has occurred over the past 10 years (circa 26,500sqm per annum). While over the previous 10 years the market has been impacted by withdrawals, the next 10 years will be impacted by increased supply competition from North Sydney (Victoria Cross OSD) and Parramatta.

2024 supply cycle emerging

The 2024 supply boost thanks to the OSDs means that the Sydney CBD may see the largest boost to net supply over the past 20 years. However, while we have certainty around upcoming supply, there is less certainty around withdrawals. Currently, our forecasts for the 2023 to 2026 period assume a level of withdrawals. However, given the large amount of secondary grade stock still present in the Sydney CBD (two million sqm or 40 per cent of the market), there is still significant opportunity for stock withdrawals for either refurbishment or alternative use.

Over the past 20 years, secondary stock in the Sydney CBD has reduced by 21 per cent, or 541,000sqm, with this trend accelerating over the past five years. As transport infrastructure in the Sydney CBD is improving dramatically (light rail and Sydney Metro), and continued high overseas migration levels into Sydney are being maintained, we expect the trend of withdrawals of secondary stock for conversion to alternative uses such as residential or hotels to continue in the longer term outlook.

Global conditions changing the yield outlook

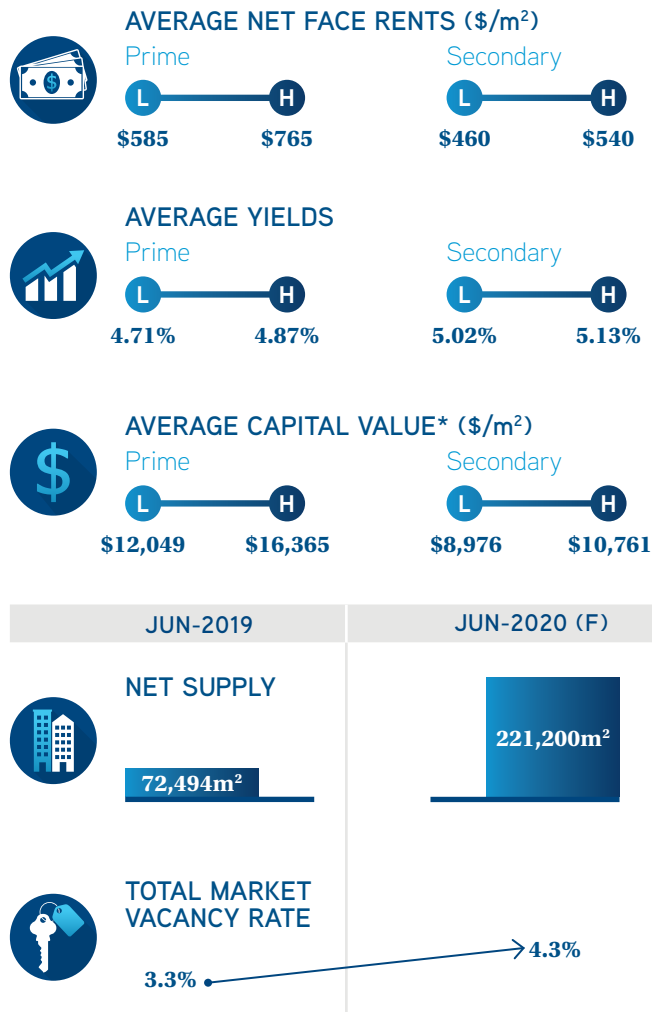
Our yield outlook for all CBD office markets has changed considerably, given the RBAs cash rate cuts, and the expectation of further cuts, with Sydney CBD being no exception. As the outlook for Sydney CBD office remains positive, and the market continues to be well occupied, we expect that both domestic and global capital looking for Sydney CBD office space will grow. We are currently pricing in a further 15 to 20 bps in yield compression for prime grade assets. Our outlook for secondary grade assets is for relatively stable yields, although the fluidity of the 10 year bond outlook means that our yield outlook continues to be revised.



Chifley Freehold, 2 Chifley Square, Sydney
Sold on behalf of Chifley Freehold Limited

MELBOURNE OVERVIEW

Market Indicators - June 2019



The overall CBD office vacancy rate increased slightly to 3.3 per cent in July 2019, compared to 3.2 per cent 6 months ago. However, A grade vacancy dropped to 1.5 per cent from 2.3 per cent. The small increase in vacancy was due to an increase in sublease vacancy. Direct vacancy reduced from 133,000sqm to circa 122,000sqm over the last six months. This is the lowest amount of direct vacancy available in 11 years.

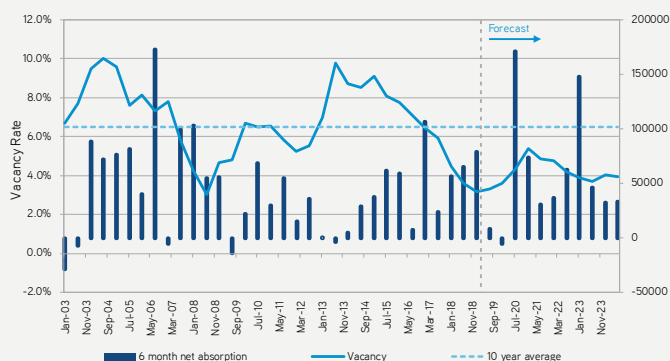
Low vacancy has led to competition for remaining spaces, driving up net face rents in the last 12 months. A Grade face rents have grown by 5.9% over the past year, while premium grade has grown a more modest 1.4 per cent. However, over the past three years, Premium and A Grade rents have grown by an average of 8.4% and 7.8% respectively. The slowdown in rental growth over the last year is due primarily to a lack of deal activity due to the shortage of space.

The Melbourne CBD currently comprises 4,614,349sqm in stock across all grades. We are forecasting almost 800,000sqm of additional supply to be added to the CBD market to the end of 2025, with circa 685,000sqm of net absorption over the same period. The vast majority of this supply (71%) will be completed over the next 3 and a half years. Beyond that time, the C270 planning rule works to reduce the available new supply to the Melbourne market.

Investors continue to be attracted to the Melbourne CBD office market and the city's growth fundamentals. Yields have compressed by 8 and 13 bps over the past year for Premium and A Grade respectively. The outlook for yield compression has been strengthened following the two cash rate cuts and a very low 10 year bond rate outlook.

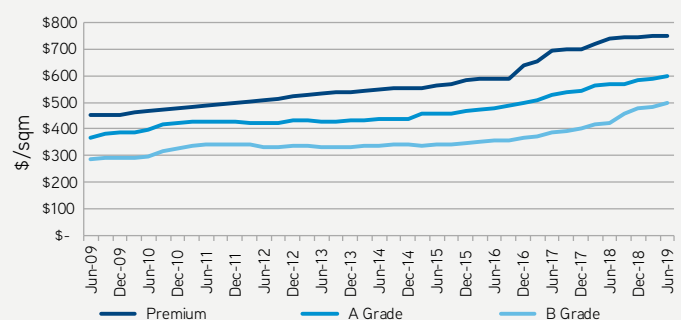
Capital values in the Melbourne CBD continue to offer investors significant value, and this is serving to boost flows of capital from both domestic and offshore sources. Average prime grade capital values are 50% cheaper than prime grade Sydney CBD, and only 22% more expensive than the Brisbane CBD.

Melbourne CBD Office Vacancy Rate and Net Absorption



Colliers International, PCA OMR July 2019

Melbourne CBD Net Face Rents



Source: Colliers International

By Sarah Walker
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The Melbourne CBD office market is the tightest of all Australian CBDs, currently 3.3 per cent as at July 2019. Astute private and institutional developers are now planning for the next supply cycle. Even though circa 457,000sqm of space is currently under construction, 83 per cent of this space is pre-committed. The tight office market is supported by Melbourne's outperforming population growth. Melbourne's population is forecast to reach 6 million by 2028, up from 5 million currently. The difficulty posed for the first time in the Melbourne office market is the limited availability of land suited to an office development. Previously, Docklands provided a large supply of developable land which has now reached near capacity. Since the first development fifteen years ago in 2004, Docklands has added 1,000,000sqm to the overall CBD stock. Docklands land supply has now primarily been exhausted in the prime sought after locations along Collins and Bourke Streets.

The implementation of planning rule C270 by the Planning Minister in 2016 has added a further challenge for developers to find sizable land to develop into an office tower. The 'set back' and FSR restrictions that C270 has introduced means that it is now very difficult to find parcels of land in the CBD that can accommodate a floorplate greater than 1,800sqm, which is generally the minimum floorplate size that larger occupiers prefer.

With this added constraint, developers are now needing to consolidate to obtain a developable envelope. The significant amalgamation of 4 sites by Cbus Property to the corner of Bourke and Queen Street will be developed into 435 Bourke Street – a proposed 60,000sqm prime grade office grade building. In addition, Dexu recently purchased 60 and 52 Collins Streets, comprising a total land area of just under 2,000 sqm. Dexu are also proposing to develop the site to provide a new office tower to sit alongside their more recent acquisition of 80 Collins Street. The new development at 52 and 60 Collins is likely to supply approximately 30,000sqm.

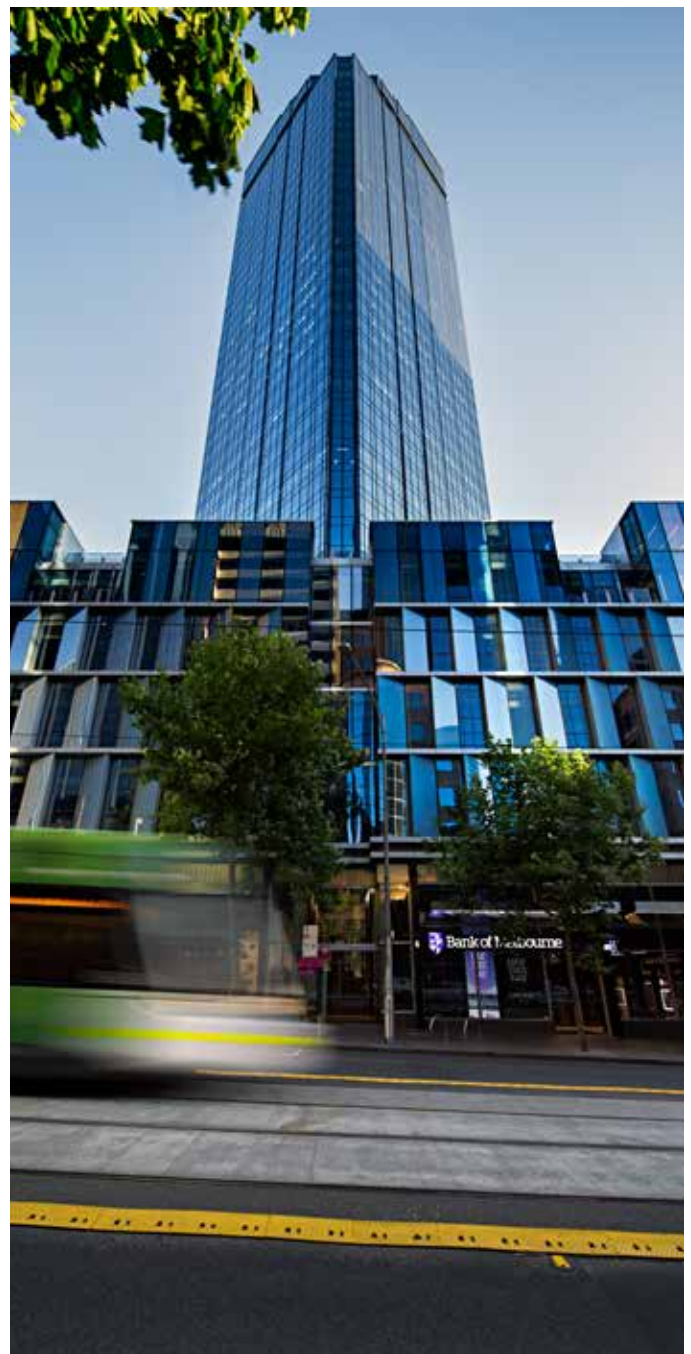
Charter Hall strategically acquired 555 Collins Street and 55 King Street with plans to develop two towers of approximately 45,000sqm and 35,000sqm respectively. These towers will sit on or close to the coveted Collins Street spine of the CBD, in what is now roughly the geographic centre of the Melbourne CBD grid. Last year, Mirvac purchased the former Australian Federal Police Headquarters at 383 La Trobe Street which they plan to develop into a 40,000sqm office tower.

All of the proposed developments are still subject to planning approvals and estimated to be delivered between 2022 and 2025.

The enthusiasm of developers in securing sites for the next supply cycle shows confidence in the CBD office market and the continuation of already strong absorption levels. The tight market has resulted in strong absorption levels of 83,312 sqm in the last 12 months to July this year. The scarcity of available land is also driving up capital values which we forecast to increase over the next 12 months by 11-12 per cent for prime assets and 5 per cent for secondary assets.

Occupier activity has been strong in the Melbourne CBD and city fringe for a number of years now. The major reason for this has been strong population growth, and commensurate jobs growth. The Melbourne CBD benefits from being the most diverse tenant market in the country, and has many industries that grow broadly in line with population growth. As the home of the Super Fund industry, there is also a steady and assured increase in funds being managed out of Melbourne, which also contributes to demand from the finance and related sectors.

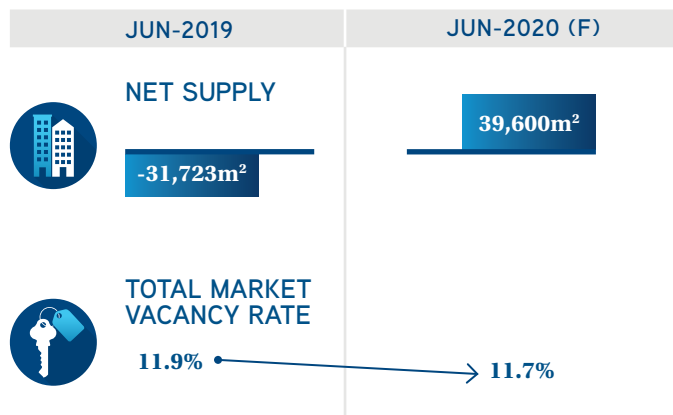
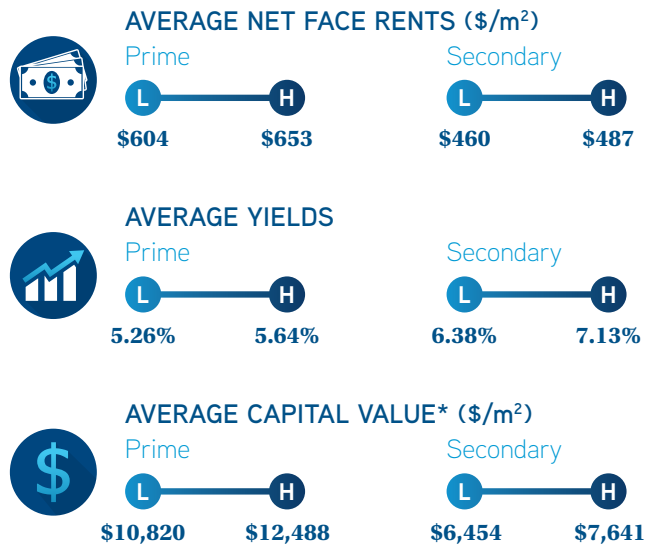
Our view is that the Melbourne CBD offers significant opportunity for rental growth, both as a result of strong, population driven demand, a low supply outlook thanks to the drying up of Docklands sites and C270, and the relatively low face rent rate when compared to Sydney, Brisbane and even Perth CBD markets. Over the next three years, we expect prime grade face rents to grow by 6.4 per cent annually.



Rialto, 525 Collins Street, Melbourne
 Leasing on behalf of Rialto Joint Venture

BRISBANE OVERVIEW

Market Indicators - June 2019



The Brisbane CBD vacancy tightened from 13% in early-2019 to 11.9% in mid-2019, underpinned by a positive net absorption of circa 9,000 sqm over the past 6 months. Demand levels remain above the long-term average annual net absorption of circa 18,000 sqm.

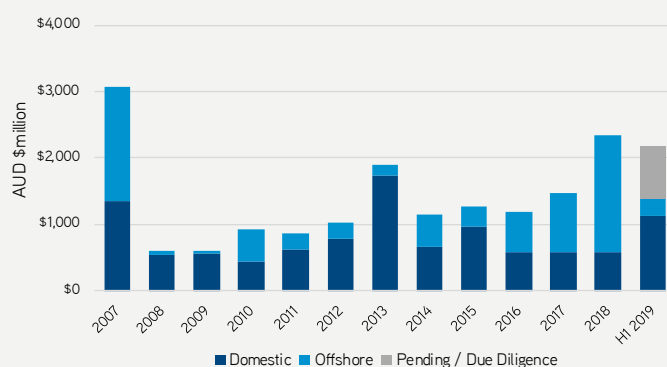
New supply under construction with expected practical completion from 2019 to 2022, is estimated at 155,000 sqm. Circa 63,000 sqm of the supply under construction is pre-committed, leaving circa 92,000 sqm of new stock available for rent over the next four years.

Average gross face rents increased in the range of 2.5% to 6% across the different asset classes over the year to June 2019, reaching levels last seen about a decade ago. Incentives have become a powerful tool to attract and retain tenants, with average incentives remaining elevated in the range of 38% to 41%.

2019 is on track to be a record year for the investment market. The estimated volume of sales (settled, pending and under due diligence) reached circa \$2 billion for H1 2019.

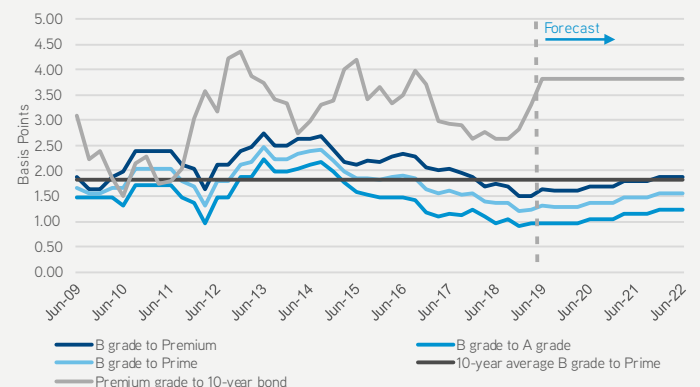
Average prime and secondary yields sharpened to 5.45% and 6.75% respectively in June 2019. The yield compression of prime grade assets outpaced the secondary yield compression over the past six months, widening the secondary to prime yield spread. Brisbane offers a 60-70 bp prime yield spread with Sydney and Melbourne.

Brisbane CBD Office Sales (>\$5million)



Source: Colliers Edge

Brisbane CBD Yield Spread by Grade



Source: Colliers Edge

By Karina Salas
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Investment Market

Institutional investors dominating

The Brisbane CBD office market continues to attract interest from institutional investors looking for solid investment opportunities offering yield arbitrage compared to the largest capital cities. The value of settled sales sits at circa \$1.2 billion, with Australian institutional investors dominating the market over the first half of the year. This trend could change once further details of transactions under due diligence and pending are released.

Colliers International anticipates that the recent introduction of the land surcharge for foreign capital investing in Queensland will have ramifications on the investor's ownership structure favouring joint venture arrangements between national and offshore parties wherein nationals retain at least 50 per cent control and ownership.

The most notable settled transaction in H1 2019 was the portfolio sale of the B grade buildings located at 15 Adelaide Street and 239 George Street for \$220 million to the unlisted Australian fund, Anton Capital at an initial yield of 6.5 per cent. QIC have launched the sale campaign for Q&A Centre which could significantly add to transaction numbers this year.

Over the past six months, the average Premium yield of 5.13 per cent recorded a larger compression than the average A grade yield of 5.78 per cent. The average Premium yield compressed 12 bp compared to the A grade yield compression of 6.3 bp. No changes on the average B grade yield of 6.75 per cent were recorded over the past six months. Colliers International anticipates that yields will continue to follow a modest downward trend over the remainder of 2019 supported by a further official cash rate cut. The outlook of the CBD office yield is relatively steady from 2020 to 2022.

Leasing Market

Solid demand from resources, government and co-working

Demand holds firm across the market, driven by activity from diversified tenants looking for contiguous high-quality office space, relocating within the CBD area or relocating from suburban locations to A grade accommodation in the city. The mining and resources sector, the federal government and co-working operators are the main sectors driving healthy levels of demand.

The market is benefitting from a resurgence in the resource sector. We have seen the three largest mining corporates BHP, Rio Tinto and Anglo American committing to renew, relocate or expand their operations within the CBD. While in each instance the increase in demand has its own drivers, we understand that the mining and resources sector has entered an era of technology transformation. Colliers International understands that some new space occupied by mining companies within the CBD has been assigned to staff working on technology projects.

A few prime grade buildings reaching full occupancy

The Premium grade market performed strongly over the first half of 2019, with the vacancy tightening to single digit levels of 8.7 per cent following a positive net absorption of circa 5,660 sqm for the past six months. We expect the Premium grade vacancy will continue to decline rapidly to circa 6 per cent over the next 6-12 months as Riverside Centre, 111 Eagle Street and Waterfront Place approach full occupancy.

We estimate that the relocation of Westpac to Riverside Centre (occupying 6,750 sqm) and the new commitment of WeWork at Riverside Centre (occupying 4,400 sqm) represent a Premium market net absorption of 11,150 sqm equivalent to nearly 40 per cent of the current Premium grade vacant space.

We expect A grade vacancy will ease over the next six months as less than 10 per cent of 300 George Street scheduled for completion in Q3 this year has agreed pre-leasing deals. On the positive side, 180 Ann Street is now 100 per cent leased marking a significant milestone for the developer and owner Daisho Co.

The B grade market reported the largest net absorption of circa 7,240 sqm, supporting tighter vacancy of 14.5 per cent. The relocation of Queensland Rail to 30 Makerston Street from the resumed Brisbane Transit Centre and a strong uptake of space by a number of tenants in the newly refurbished 300 Adelaide Street helped to drive the decline in vacancy.

Proactive management of development risk

We have seen enquiry levels on the remaining space at The Annex, Midtown Centre and 80 Ann Street projects gaining momentum and entering into the negotiation stage. Colliers International anticipates that the 10-year forecast demand of 240,000 sqm will gradually absorb the new stock under construction without pre-commitments.

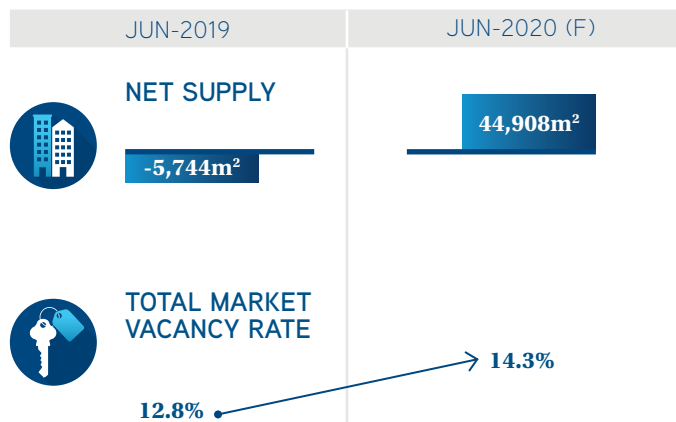
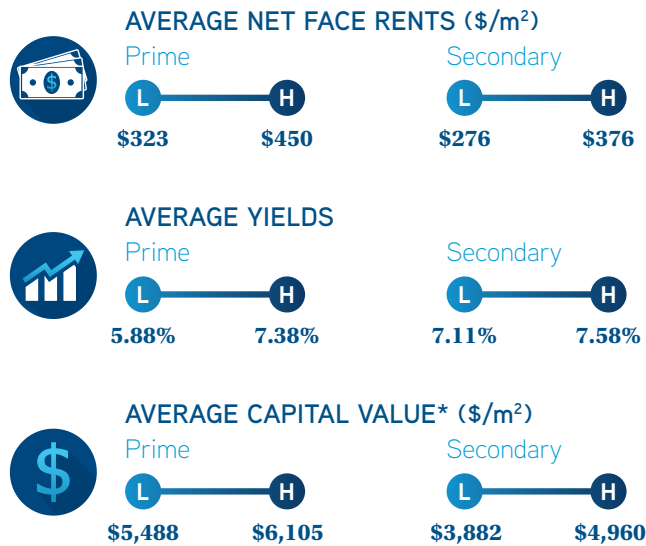
The mooted development supply pipeline has expanded following the recent announcement of the Cbus and Nielson Properties project at 205 North Quay. Developers continue to proactively manage development risk as the commencement of projects remains generally subject to achieving the required level of pre-commitment. Whilst this creates challenges for developers, it prevents sharp increases in new supply and assists the market returning closer to a better equilibrium between supply and demand.



Midtown Centre, 155 Charlotte and 150 Mary Street, Brisbane
Leasing on behalf of AsheMorgan and DMANN Corporation

ADELAIDE OVERVIEW

Market Indicators - June 2019



Adelaide has seen the highest levels of business confidence since 2009. This has been driven by spending in defence, space, education and tourism.

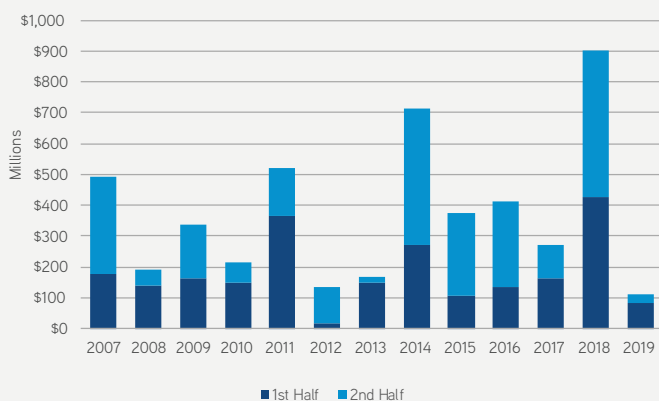
The Adelaide CBD has seen strong absorption for New Generation A grade space. This has resulted in a vacancy rate of 3.7 percent for this grade. Total market vacancy has fallen to 12.8 percent.

With the removal of stamp duty on commercial transactions and higher yields on offer compared to other CBD office markets, the Adelaide office investment markets are expected to remain attractive.

Rental growth has remained subdued, however incentives are beginning to fall. This is led by new generation A grade space with incentives between 30 to 35 per cent.

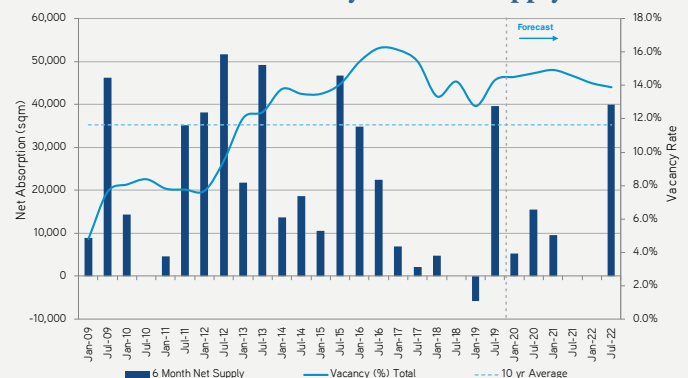
New construction will see 31,100 sqm complete this year. Beyond June 2020, supply is expected to be limited until 2023, with only 108 Wakefield Street (14,000 sqm) under construction. This project is expected to complete in late 2020.

Adelaide CBD Office Sales Volumes



Source: Colliers Edge

Adelaide CBD Office Vacancy Rate and Supply



Source: Colliers International, PCA OMR July 2019

By Kate Gray
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It is an exciting prospect that business confidence in the Adelaide market has hit its peak since 2009. Adelaide is a diversified economy and overall growth is generally a contribution by several sectors rather than one primary mover. The notable sectors contributing to this upside include; the expanding mining and tourism sectors, increased defence sector spend, growing creative industries sector, significant healthcare sector infrastructure investment, energy sector investments in renewables, and the Australian Space Agency headquarters being established at Lot Fourteen. The Adelaide economy is bucking the trend in comparison to the east coast in its acceleration of growth resulting in continued confidence in the Adelaide property market.

Investment Market

The Adelaide office market has seen a record year with over \$900 million of assets changing hands during 2018. The three major settled sales are 121 King William Street for \$82.250 million, 176 Grenfell Street sold for \$13.5 million and 89 Pirie Street, \$14 million. However, four additional assets - 80 Flinders Street subject to settlement, 25 Grenfell Street subject to due diligence, two to FIRB (55 Currie Street and 99 Gawler Place) –will see this figure exceed \$558 million when settled, primarily sold to institutional owners. 100 Waymouth Street is currently still on the market.

This trend was mirrored throughout 2018, seeing a considerable depth of buyers actively looking in the market. These clients range from off shore investors to institutional and private interstate investors (notably Melbourne based). Notwithstanding the depth in the buyer pool there are limitations in the availability of investment grade assets on market. Institutional investors remain a significant force in the Adelaide market having accounted for 64 per cent of the total sales volume over the last 12 months.

The market has experienced a marginal tightening in yields over the year to June 2019, with A Grade office assets tightening 22 basis points and B Grade office assets firming by 25 basis points over the year.

Leasing Market

The second quarter in the Adelaide leasing market has seen an increase in activity in terms of tenants committing to and occupying space, however net absorption was impacted with the relocation of State Government (Shared Services) from 91 King William Street (10,000 sqm) to Port Adelaide. Importantly, this tenant was on track to renew for 5 years until the decision was overruled by Treasury seeking operational value from the head lease commitment to the new generation office. Examples of large CBD tenant commitments in the first half include defence related players Boeing and BAE Systems. Both have taken additional sub-lease space at 30 Pirie Street with Boeing taking 3,000 sqm and BAE Systems 2,000 sqm.

The PCA Office Market Report states the total vacancy in the Adelaide market is currently 12.8%, remaining largely stable over the first half. Rental growth has remained subdued across the

consolidated A Grade sector with only 0.8 per cent growth over the year. However, with new generation office vacancy at 4.7 per cent, gross face rents have grown by 2.1 per cent with incentives between 30-35 per cent. The B Grade sub-sector has also seen gross face rental growth of 2.3 per cent, whilst incentives have remained high at 34-39 per cent. Proactive landlords are being rewarded through greater engagement with occupiers, giving them a greater competitive opportunity to transact and reducing letting up periods.

The GPO Exchange tower is nearing completion with the Attorney General's Department and BHP expected to take occupation in November 2019. To date, there is currently only part of one floor available for lease. The Uniting Communities development at 43 Franklin Street (a unique mixed-use asset) has been completed in July 2019 and will owner occupy 3,600 sqm, while the remainder has recently been committed by Finlaysons who will occupy in July 2020. 108 Wakefield Street has commenced construction (14,000 sqm) without pre-committed and an expected completion date of Q3 2020. The developer, Kyren Group, has had a track record in speculatively building office space in the past based around expected demand and supply dynamics.

Office Market Outlook

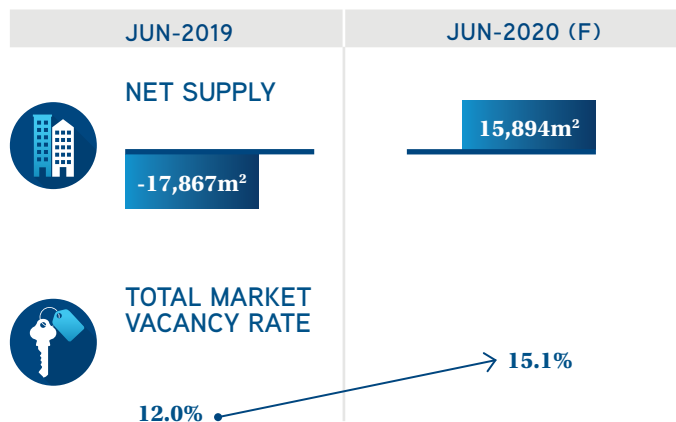
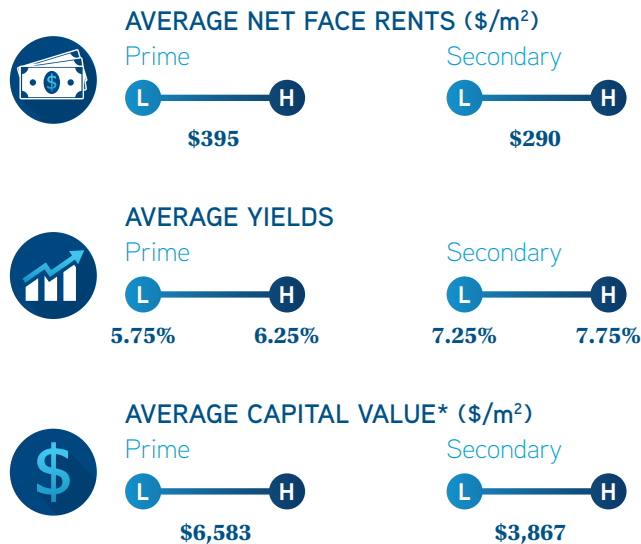
We expect that there will be a continued centralisation towards the CBD market at the expense of the Fringe and metro markets as the demand is expected to grow. This boost will correlate directly with net absorption above the softer white-collar employment forecasts from Deloitte Economics. There is limited new supply (108 Wakefield Street of 14,000 sqm in Q3 2020) expected through to the end of 2022 which combined with white collar employment growth and centralisation, will see vacancy tighten ahead of pre-commitment driven supply events in 2023.



121 King William Road, Adelaide
 Leasing on behalf of Charter Hall

CANBERRA OVERVIEW

Market Indicators - June 2019



The overall CBD office vacancy rate decreased to 12.0 per cent in July 2019, compared to 12.5 per cent 6 months ago. However, A grade vacancy dropped to 1.7 per cent from 2.3 per cent.

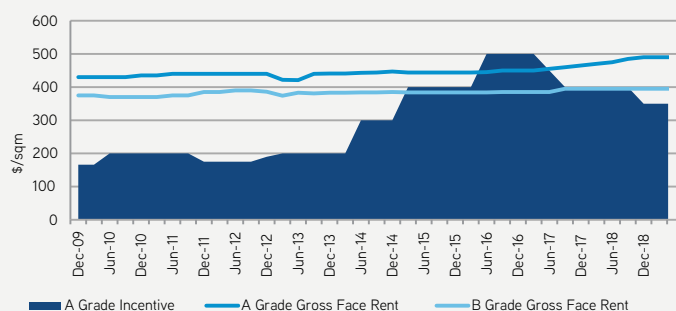
We forecast that for the remainder of 2019, vacancy levels will remain stable and increase gradually as new developments are completed. The increase will be most prevalent in secondary stock.

The two new office developments (Constitution Place and Civic Quarter), once completed by 2020, will add 9.1% of additional office stock to the Canberra CBD.

Prime yields are remaining stable at 6.0% for A grade. With the 10 year bond yield forecast to continue falling, we see these levels remaining.

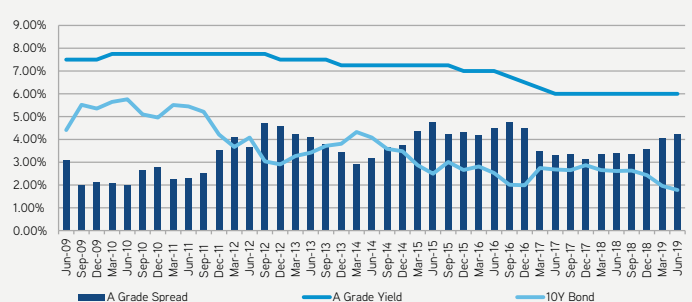
Canberra CBD Investment Sales to date are already higher than all of 2018, approximately \$286 million this year when compared to last years total sales volume of \$224 million.

Canberra CBD Gross Face Rents and Incentives



Source: Colliers International

Canberra CBD A Grade Yield Spreads



Source: Colliers International

By Sarah Walker
 Manager | Research
sarah.walker@colliers.com

Two major developments under construction for the private sector are Constitution Place and Civic Quarter. Constitution Place comprises two towers totalling 35,000sqm to be delivered in the second half of 2020, with the taller tower receiving commitments from KPMG, MinterEllison, King & Wood Mallesons and other corporate tenants. Civic Quarter comprises 15,000sqm and is to be completed by the end of 2019. Both new developments will be complemented by ground floor retail activation.

The Coalition party were re-elected this year and will continue to push to reduce wasted service office space through its Operation Tetrakis project to gain occupation efficiencies for government. The government will continue to upgrade to more efficient spaces, the issue is for secondary buildings which do not meet the current efficiency requirement. Of the 60,000sqm of upcoming new development space, 45,000sqm of this are pre-committed to both ACT government and corporate tenants.

Challenges that will become prevalent to the Canberra office market will be the increase of secondary grade stock. This will be as a result of the completion of the new developments in the next couple of years, including the addition of the Government tenants' backfill as they move into their new spaces plus existing tenants upgrading to better more efficient spaces. We forecast that for the remainder of 2019, vacancy levels will remain stable at the current level of 12.0 per cent (Property Council Australia, July 2019) and gradually

increase in line with the abovementioned additional supply coming to the market. The market is two tiered where the A grade supply in the CBD has a very low 1.7 per cent vacancy compared to the rest of the market which averages 20.5 per cent across B, C and D grades.

While the Australian economy is strong and unemployment levels are on the decline due to the addition of new jobs, the ACT still outperformed the national metrics for economic and population growth and has the lowest unemployment rate at 3.4% (ACT Government, June 2019). A growth in public sector jobs which have previously remained relatively stagnant, will also add growth to the office market in Canberra.

As the new incoming supply will be A Grade, the A grade vacancy rate is likely to increase only slightly as pre-commitment levels have been strong, with roughly 45,000 sqm of the 60,000 sqm already pre-committed. The expectation that tenants are more likely to upgrade remains strong. Older buildings are slowly vacated as tenants upgrade, and landlords seek alternative uses for their assets. Canberra civic is undergoing a period of mixed use development with a more diverse mix of hotels and residential and within a previously dominated office environment.

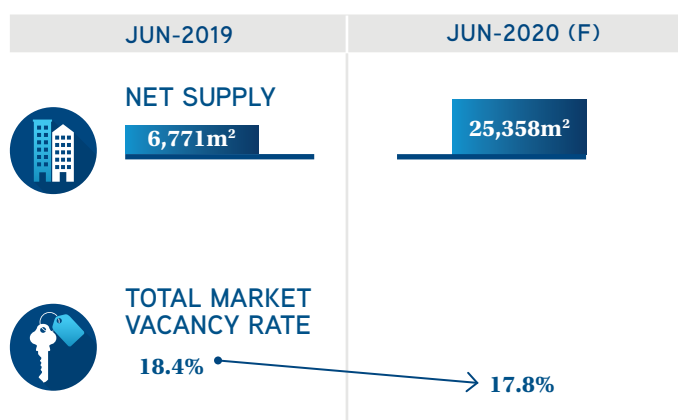
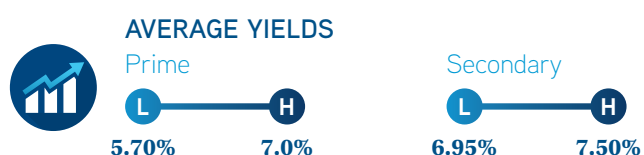
Additionally, with an increase of focus in employee health and wellbeing, workplaces must compete to retain staff and talent. This has led to an increasing number of tenants upgrading their spaces to provide better quality workplaces. Staff recognise the importance of greener healthier buildings with more outdoor spaces and abundant light only achievable with higher grade buildings that can result in higher productivity and happier staff.



Civic Quarter, 68 Northbourne Avenue, Canberra
 Leasing on behalf of Amalgamated Property Group

PERTH OVERVIEW

Market Indicators - June 2019



Robust absorption of space over the past year has led to premium occupancy rising to 364,062 sqm in July 2019 compared to 341,641 sqm a year earlier. Over the same time A-grade occupancy has declined 8,142 sqm, from 596,393 sqm to 588,251 sqm.

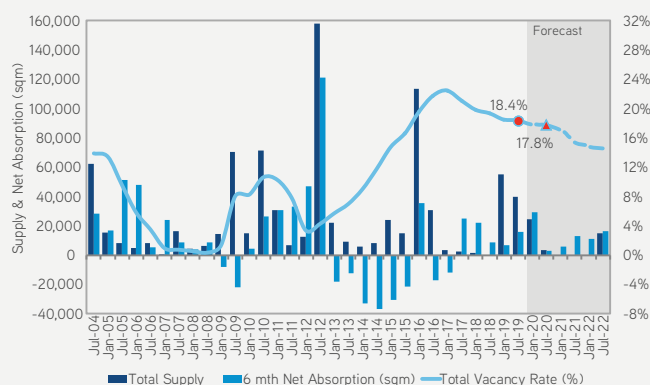
Secondary space still under pressure from high vacancy and soft net tenant demand, however, competitive landlord offers along with quality speculative fit-outs have seen B-grade space occupancy increase 12,038 sqm in the past twelve months.

Despite the increase in Prime grade vacancy over the past six months, Landlords are exerting upward pressure on rents. The absorption of Woodside's backfill space has significantly reduced availability of large contiguous space in Premium buildings.

Over the next two to three years Perth CBD will see limited new supply. The next two major buildings are expected to be Chevron's new HQ at Elizabeth Quay and a second building next to Woodside's HQ at Capital Square.

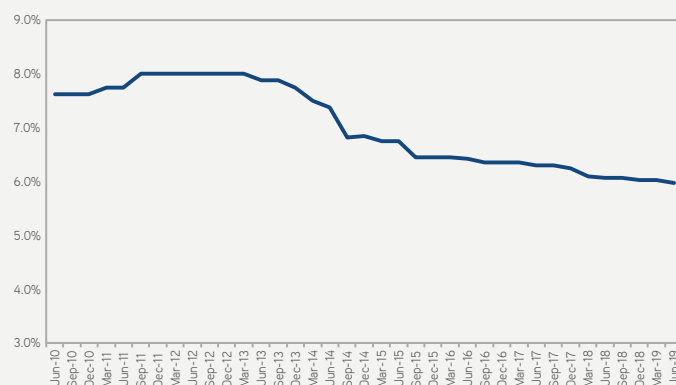
International investors increasingly interested in the Perth market due to its favourable yield spread and stage in the market cycle. This increased interest has caused yield expectations to tighten

Perth CBD Supply, Net Absorption & Vacancy Rate



Source: Colliers International, PCA OMR July 2019

Perth CBD Average Premium Grade Yields



Source: Colliers Edge

By Quyen Quach
Associate Director | Research
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Strengthening absorption of Prime Space

Perth CBD vacancy has continued to decline, with the latest Property Council of Australia reporting total vacancy tightening to 18.4 percent. The strengthening demand for prime (Premium and A-grade) space drove net absorption of 14,279sqm during the twelve months to July 2019. However, competitive secondary-grade (B-D grade) landlords have also been able to whittle away at vacancy in the lower end of the market, with net absorption amounting to 8,396sqm over the same period.

Major leasing deals executed over the past year in prime assets have included St John of God, BG&E, P&N Bank, WA Local Financial Services, Macquarie Bank, Minister for Works, Worley, Iluka Resources, Rio Tinto, TechnipFMC and BP. These deals, in addition to earlier deals in 2018, helped to absorb most of the approximately 85,000sqm of space that had been available at 240 St Georges Terrace, KS1, 140 St Georges Terrace and 1 William Street.

Secondary Grade still struggling with vacancy

Despite the strong absorption witnessed in prime space from the flurry of new leasing deals, the pace of recovery continues to be gradual. The majority of deals have been tenants migrating between CBD buildings. This, in combination with the new supply in 2018, has resulted in only a modest improvement in the overall CBD vacancy rate.

Secondary space vacancy remains elevated at 24.4 percent or 160,578sqm of floor area.

Another factor likely to be contributing to the slow absorption is a moderation in work-point density. Colliers has noted increasingly higher density office designs being drafted for potential fit-out of vacant space over the past few years.

We believe this trend towards higher density via the utilisation of open-plan and flexible workspaces, has contributed to a slower vacancy absorption that is likely to continue in Perth's CBD going forward.

Additional new supply limited over the next two years

Current space under construction, inclusive of refurbishments, totals 37,693sqm. Outside of these projects there is unlikely to be any meaningful stock growth until possibly 2022-23.

The Western Australian Police have committed to remain at Westralia Plaza and iron ore producer Fortescue Metals Group looks likely to remain at their current location – it was reported they had recently taken on additional space nearby. These two tenants were reported last year to be potential drivers of additional new builds during the next five years, however, this now looks unlikely. Notwithstanding this, those new build potentials remain for the longer term.

Over the next five years there is approximately 105,000sqm of space proposed, in addition to the 37,693sqm under construction, that could expand Perth's CBD stock. This includes Chevron's new 52,000sqm headquarters at Elizabeth Quay, – which has been confirmed, and also a second building at Capital Square.

Where are rents and incentives headed?

The improvements in the office vacancy has had a stabilising effect on premium and A-grade net face rents. Premium availabilities continued to remain low relative to other office grades, bolstering the confidence of premium landlords to implement incentives reduction and push for rental growth.

Colliers International expects Perth face rents to be generally stable over the next six months. The absorption rate, although showing encouraging signs, has been slow and is likely to remain so over this period. Whole-of-market net tenant demand is expected to remain sluggish, and the trend of tenants migrating between buildings is expected to continue. However, vacancy will likely trend gradually lower and eventually shift the demand-supply balance in favour of landlords, hence we expect prime incentives to come under downward pressure – giving rise to further effective rental growth over the medium term.

Yields and capital transactions

In financial year 2018-19, Colliers saw increased interest from local and foreign institutional investors for core and core-plus assets. Domestic syndicators have also been actively looking for opportunities. The strong level of interest, low availability of asset for sale and the shifting bond yield and interest rate environment has seen Perth CBD yield expectations shift lower over the past year.

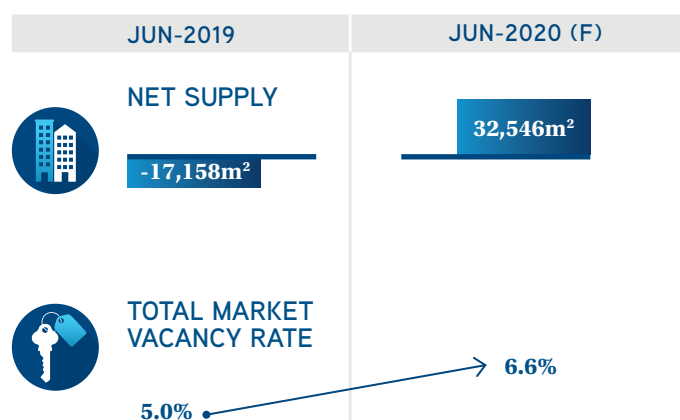
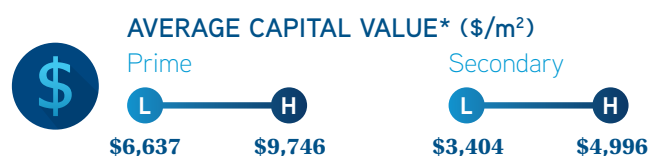
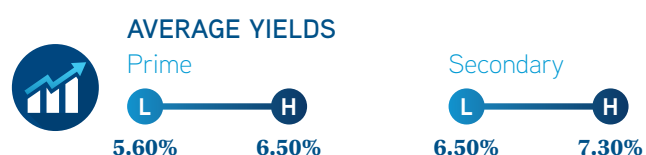
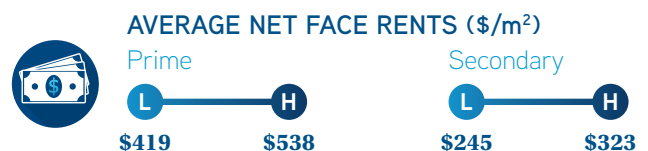
Colliers expects competitive bidding for the few available assets and keen investors seeking off-market deals to continue to keep yields tight for the next six to 12 months.



Capital Square, 98 Mount Street, Perth
Valued on behalf of AAIG Nominees

AUCKLAND OVERVIEW

Market Indicators - June 2019



The vacancy rate is now at 5.0 per cent, representing less than 72,000 sqm of office space available to lease – the lowest level since Colliers' records began in the mid-1990s.

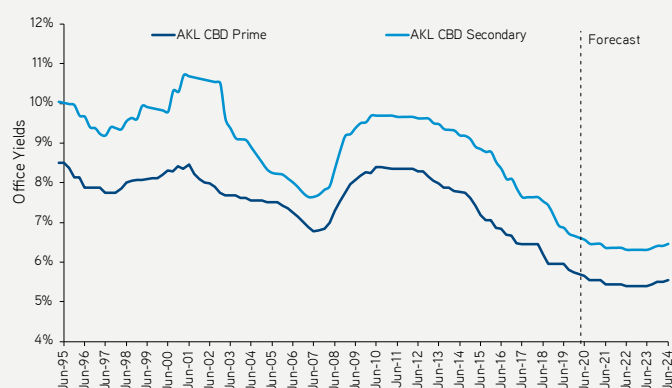
Approximately 96,000 sqm of office space is under construction. This represents around 6.7% of current stock. Net face rents will continue to push higher over the next few years led by new-build premium rates.

Incentives are likely to edge up slightly over the next 12 months as we near the completion of some of the major office buildings. The best tenants will secure the best terms.

Investment activity has been strong, fuelled on by low interest rates. Both offshore and local purchasers are active.

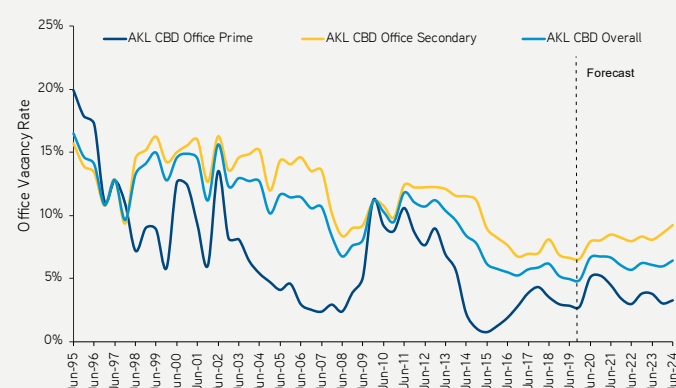
Office was a stand-out sector for 2018. There were almost 600 sales representing \$3 billion of transactions in 2018, the strongest annual result for office since our monitoring began in the late 1980s. 2019 is already showing signs of buoyant sales activity and we expected another strong year.

Auckland CBD Office Yields



Source: Colliers International Research

Auckland CBD Office Vacancy Rate



Source: Colliers International Research

Note: Low and high indicators are based on averages across multiple precincts and do not represent the minimum or maximum rates being achieved.

By Chris Dibble
 Director | Research
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Vacancy hits another record low

Office leasing continues to be buoyant for all grades of office space in Auckland's CBD.

The vacancy rate is now at 5.0 per cent, representing less than 72,000 sqm of office space available to lease in the Auckland CBD – the lowest level since Colliers' records began in the mid-1990s. It is also below the record low achieved in December 2018 when the vacancy rate reached 5.2 per cent.

The current record low means that in the past 25 years, tenants have always had more options to pursue.

The prime vacancy rate is at 2.8%, representing approximately 18,000 sqm of space. Given there really are only pockets of vacant space scattered across the city, tenant requirements are not always matchable with available space.

This has meant tenants with the ability to remain in their current location for now, are waiting until more opportunities arise as new office developments complete and existing space is freed-up after tenants relocate.

New developments will unlock options, but pre-commitment rising

One of the first major office developments to complete will be Precinct Properties' billion-dollar development – Commercial Bay. However, the 39,000 sqm of office space scheduled to be finished next year is already over 80 per cent pre-committed, according to company records.

Precinct Properties is also developing around 8,200 sqm of space at 10 Madden Street in Wynyard Quarter, with Media Design School securing 60 per cent of the premises. The space they leave behind will be converted into hotel accommodation.

While Bell Gully will be moving into newly redeveloped space at One Queen Street in 2023, around 8,000 sqm of existing office space will be repositioned to make way for a new flagship hotel, InterContinental Auckland.

Many current tenants relocating from the One Queen Street redevelopment, along with companies located from around the Auckland region, will secure back-fill space in Precinct Properties' premises at AMP Centre and PwC Centre at 188 Quay Street.

In Wynyard Quarter, Mansons TCLM's development at 155 Fanshawe Street is on target to complete next year, already with 63 per cent pre-commitment. Large portions of the back-fill space are anecdotally already being negotiated.

The success of this 6-star Green Star rated building has led Mansons TCLM to start development of 136 Fanshawe Street with completion expected in 2021, providing approximately 20,000 sqm of available space.

Precinct Properties, perhaps also recognising what seems to be a relatively balanced supply response given the extreme lows in current available space, is also looking to market new office space in

the Innovation Precinct in Wynyard Quarter, with availability around two to three years away.

The recent purchase of Auckland Council's 35 Graham Street by Asset Plus has already sparked discussions about the provision of new supply upon council's lease expiry in two years. An additional two to three levels of office space (subject to resource consents) could be pursued to cater to market demand.

Rents to increase

While progress is underway and new options will gradually become available, it doesn't leave many significant opportunities for tenants in the short-term, meaning rents will likely keep rising for now.

Net face rents will continue to push higher over the next few years led by new-build premium rates that currently range between \$575 per sqm and \$795 per sqm, with varying levels of incentives to secure the best tenants on the best terms.

Locals rally as offshore investors scour for more opportunities

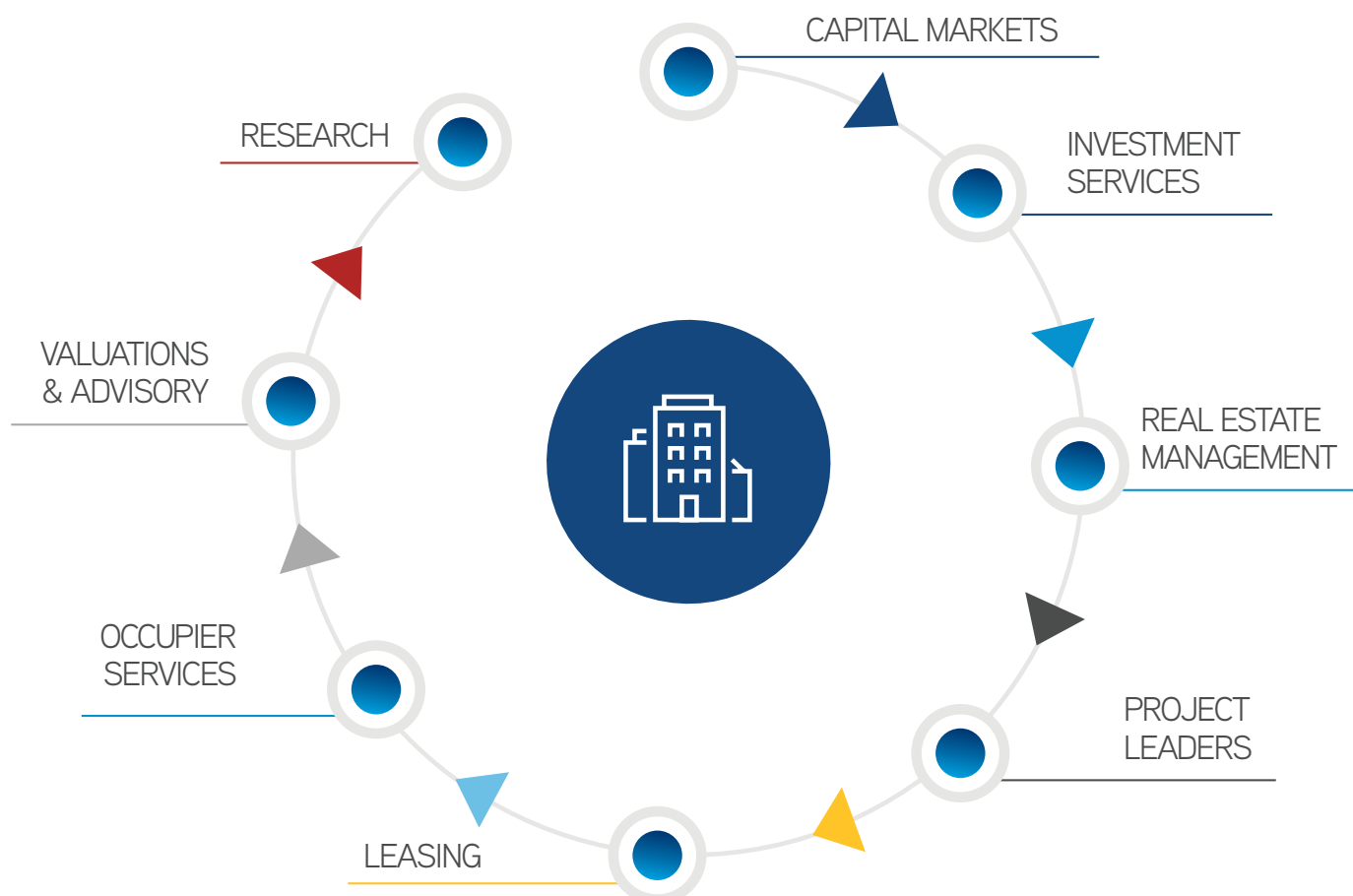
In 2017 and 2018, an aggregated NZD\$3.2 billion of Auckland office transactions for property over \$50m was recorded (some deals conditional). This was a stand-out for two reasons. Auckland's flagship office sector received a significant amount of interest, and offshore investors were dominating activity with 85% of all purchases.

While offshore investors remain keen on securing more Auckland CBD office premises, local investors have rallied in 2019. This will likely lead to a more balanced investor profile in 2019.



General Building, 29-33 Shortland Street, Auckland
 Sold on behalf of Zen Vanguard Investments Limited

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