



Melbourne's Near City and Suburban Office Markets 2011 – 2021



EXTRACT TO INDICATE THE GENERAL NATURE OF THE REPORT

COMMERCIAL PROPERTY

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1. INTRODUCTION

1.1 Introduction and major objectives of this report

Melbourne's Near City and Suburban Office Markets 2011 to 2021 is the tenth focused study of the non-CBD Melbourne office market undertaken by BIS Shrapnel. It is a companion report to the *Melbourne Commercial Property Prospects* study on the metropolitan market and the CBD (including Docklands), which we have produced since 1989.

The report provides detailed forecasts for the near city markets of St Kilda Road and Southbank, and for three regions in the south-eastern suburban market—the fringe, inner east and south-east. The report also discusses smaller and emerging centres and office/business parks outside this area.

Melbourne's office market has entered a cyclical upswing, following the mild and short-lived GFC-induced downturn. The CBD is leading the way. However, there are differences in the strength of the recovery being experienced across the non-CBD markets, with the strongest performance to date in Southbank and the CBD fringe markets. Across most suburban markets, however, vacancy rates appear to have peaked and prime net effective rents have risen, generally regaining most of the ground lost through the GFC.

The investment market—whilst booming in the CBD—is lagging behind in the suburban markets. Here, yields have shown tentative signs of firming and capital values have grown, but remain well below their 2008 peak levels.

Melbourne's recovery has been aided by sustained strong employment growth—though net absorption, whilst improving, has failed to keep pace. At the same time, building activity—particularly across suburban markets—has slumped in response to the GFC impacts and it will take some years for the pick-up in the suburbs to match the strength of activity within the CBD & Docklands.

The short term prospects for the Melbourne office market are strong. This is a market clearly in favour with investors that offers excellent investment returns. But the upswing won't last forever. There are opportunities and challenges for all market players. Investors, developers and tenants will need a clear strategy to extract the maximum benefit from the upswing, whilst limiting the risks from the inevitable downturn to follow.

Our report looks in detail at the timing and extent of the property cycle. In particular, we address the following issues:

- What are the prospects for the Victorian economy and how will that translate into demand for office space?
- How will patterns of demand and supply differ across the metropolitan area?
- How low will vacancy rates go and for how long will they stay low?
- What is the timing of the next peak and what order of magnitude of rental and capital growth can be expected?
- How large will the next wave of supply be, and how long will it last?
- What are the risks that could interrupt the upswing?

- What are the prospects for the latter part of the forecast period, beyond the next market peak?
- Does the suburban office market represent a good investment opportunity? How does it compare with the CBD?

The answers we provide in this study are essential for investors and developers. Our forecasts indicate timing for investors and developers purchasing sites or commencing office buildings.

1.2 How to use this report

The **Executive Summary** provides a snapshot of the Melbourne near city and suburban markets for commercial property, our key forecasts and our views on timing for investment in the market.

Chapter 2 introduces the characteristics of Melbourne's metropolitan office markets and discusses where the future focus for development will be in the light of planning policy. We also examine emerging office precincts and consider their potential to develop into stand alone office precincts over the next decade.

In **Chapter 3** we provide background information of relevance to each of the suburban markets in order to avoid repetition in the following chapters. We examine the outlook for the economy and provide a synopsis of Melbourne's office cycle.

Chapter 4 discusses the current state of play and future outlook for the major near city sub-markets of St Kilda Road and Southbank. We provide detailed forecast of office related employment, building completions, average workspace ratios, rentals, yields and property prices to 2021.

Chapter 5 covers the same ground for the residual suburban market, focusing on three regions: the fringe, inner east and south-east. We provide details on the current state of play, outlook over the upswing, and longer term outlook including forecasts of rents, yields and values to 2021.

In the last chapter, **Chapter 6**, we discuss issues relating to investment strategies. The commercial office cycle provides opportunities for the timing of profitable purchases, sales, site acquisitions and leasing strategies. We provide forecasts for expected returns for the major sub-markets.

Finally, the **Appendix** gives a detailed account of definitions, our methodology and sources of data.



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