



# Perth Commercial Property Prospects 2011 – 2021



EXTRACT TO INDICATE THE GENERAL NATURE OF THE REPORT

COMMERCIAL PROPERTY



## Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>i</b>
<b>1. INTRODUCTION .....</b>	<b>1</b>
1.1 Introduction and major objectives of this report .....	3
1.2 How to use this report .....	4
<b>2. ECONOMIC OUTLOOK .....</b>	<b>5</b>
2.1 Australian economic outlook .....	7
2.1.1 State of play .....	7
2.1.2 Outlook for the Australian economy .....	8
2.1.3 Risks to our forecasts .....	10
2.2 Outlook for the West Australian economy .....	10
<b>3. THE DEMAND AND SUPPLY FOR OFFICE SPACE .....</b>	<b>15</b>
3.1 Key points .....	17
3.2 Office employment .....	19
3.2.1 Current state of play .....	19
3.2.2 Outlook for office employment .....	20
3.2.3 Risks to forecasts .....	22
3.3 The office workspace ratio .....	23
3.3.1 Current state of play .....	23
3.3.2 Outlook for the office workspace ratio .....	23
3.4 Net absorption .....	24
3.4.1 Current state of play .....	24
3.4.2 Outlook for net absorption .....	25
3.4.3 Risks to outlook for net absorption .....	27
3.5 Supply of office space .....	27
3.5.1 Outlook for office supply .....	29
3.5.2 Risks to forecasts .....	33
<b>4. VACANCY RATES .....</b>	<b>35</b>
4.1 Current state of play .....	38
4.1.1 CBD .....	38
4.1.2 West Perth and non-CBD .....	39
4.2 Outlook .....	39
4.3 Risks to our forecasts .....	40
<b>5. OFFICE RENTALS, YIELDS AND VALUES .....</b>	<b>41</b>
5.1 Key points .....	43
5.2 Rents .....	45

5.2.1	Current state of play .....	45
5.2.2	Short term outlook .....	47
5.2.3	Medium to long term outlook .....	48
5.2.4	Risks to our forecasts .....	48
5.3	Office yields and values .....	49
5.3.1	Current state of play .....	49
5.3.2	Short term outlook .....	51
5.3.3	Medium to long term prospects .....	52
<b>6.</b>	<b>INVESTMENT ISSUES.....</b>	<b>55</b>
6.1	Introduction .....	58
6.2	Risks to demand/supply assumptions.....	59
6.3	Investor issues .....	60
6.4	Development outlook .....	61
6.5	Tenants and leasing issues .....	62
6.6	Prospective returns .....	63
6.6.1	Perth office property .....	63
 <b>APPENDIX</b>		
	Methodology.....	A-1

## Tables

Table I:	Historic and forecast rents, values and IRRs.....	vi
Table II:	Strategy and opportunity matrix.....	vii
Table III:	Perth CBD net additions, net absorption and vacancy rates, base case and alternative scenarios .....	xii
Table IV:	Perth CBD net effective rents and vacancy rates, base case and alternative scenarios ....	xiii
Table V:	Supply and demand for Perth metropolitan office space, 1980 to 2021 .....	xiv
Table VI:	Supply and demand for Perth CBD office space, 1980 to 2021 .....	xv
Table VII:	Supply and demand for Perth non-CBD office space, 1980 to 2021 .....	xvi
Table VIII:	Perth CBD average prime net commercial rentals, 1980 to 2021 .....	xvii
Table IX:	Perth CBD average prime gross commercial rentals, 1980 to 2021 .....	xviii
Table X:	Perth CBD average prime commercial property, stated and effective rents, values and yields, 1980 to 2021 .....	xix
Table XI:	Perth CBD B grade net commercial rentals, 1985 to 2021.....	xx
Table XII:	Perth CBD B grade gross commercial rentals, 1985 to 2021 .....	xxi
Table XIII:	Perth CBD B grade commercial property, stated and effective rents, values and yields, 1980 to 2021 .....	xxii
Table 2.1:	Key economic indicators, Australia and Western Australia .....	11
Table 3.1:	Key indicators.....	17
Table 3.2:	Key supply indicators .....	18
Table 3.3:	Employment growth by sector, Perth metropolitan area.....	19
Table 3.4:	Average workspace ratios, Perth metro, CBD and non-CBD .....	23
Table 3.5:	Net absorption, metropolitan, CBD and non-CBD, 2011–2021 .....	25
Table 3.6:	Office supply pipeline, June 2011 .....	27
Table 3.7:	Current and future stock by region.....	29
Table 3.8:	Office project pipeline .....	30
Table 3.9:	Withdrawal of office buildings for refurbishment, year ended June .....	32
Table 4.1:	Key vacancy indicators .....	37
Table 4.2:	Office stock and vacancies by grade, Perth CBD, December 2010 .....	38
Table 5.1:	Key rental indicators .....	43
Table 5.2:	Key yield and value indicators .....	44
Table 5.3:	Outlook for Perth rents.....	47
Table 5.4:	Recent major office sales, Perth metropolitan area.....	51
Table 5.5:	Movement in office values this cycle.....	53
Table 6.1:	Historic and forecast rents, values and IRRs.....	58

## Charts

Chart I:	Perth CBD vacancies, prime and B grade values, rents and yields, 1980 to 2021 .....	ii
Chart II:	West Australian construction, value of work done .....	iv
Chart III:	Perth CBD vacancy rates, base case and alternative scenarios.....	xii
Chart IV:	Perth CBD net effective rents, base case and alternative scenarios.....	xiii
Chart 2.1:	Economic indicators, Australia and Western Australia, 1980 to 2016 .....	6
Chart 3.1:	Perth stand-alone office workforce, workspace ratio and net absorption, metropolitan and CBD, 1980 to 2021 .....	16
Chart 3.2:	Office workforce by industry, major sectors .....	20
Chart 3.3:	Perth stand-alone office workforce, WA private investment and State Final Demand, 2000 to 2016 .....	21
Chart 3.4:	Office completions and net additions, 1980 to 2021 .....	28
Chart 4.1:	Vacancy rates, net additions and net absorption, 1980 to 2021 .....	36
Chart 5.1:	Perth CBD capital values, net rents and yields, 1980 to 2021 .....	46
Chart 6.1:	5 year IRRs, market price vs. investment value and contribution to capital gain Perth CBD, 1980 to 2021 .....	56

## 1. INTRODUCTION

### 1.1 Introduction and major objectives of this report

*Perth Commercial Property Prospects 2011–2021* is the 15th edition of BIS Shrapnel's demand and supply analysis of the Perth office market.

The Perth office market has continued its strong post GFC-recovery, with an exceptionally strong pick-up in employment growth and net absorption of office space during 2010–11. Resources companies and those who service them are continuing to gear up to service record levels of minerals investment. Metro-wide, net absorption has returned to boom levels at an estimated 120,000 square metres, with take-up in the CBD outpacing the non-CBD.

The leasing market is being dominated by resources companies with property & business service providers a distant second. In this sense, the recovery in demand is not yet broadly based. Not all sectors are enjoying healthy trading conditions and many businesses remain in cost containment mode.

On the supply side, Perth's office market is nearing the end of a major round of construction which has come on stream in stops and starts. The combination of a temporary lull in completions over the last 12 months together with near record levels of net absorption has seen the Perth metropolitan and CBD vacancy rates fall markedly since peaking at 8.8% and 9.9% respectively in June 2010.

The development market remains broadly constrained, with pre-conditions attached to project finance difficult to achieve and with current average rents still below feasibility levels given prevailing yields and construction costs. Most new development requires substantial pre-commitment—typically of between 50 to 80%, at above average market rents to stack up.

In the investment market, overall activity has picked up this year but is mostly focused on secondary buildings. The most active buyers are private investors and private funds. However, foreign investors have also recently returned to the market. The most highly sought after assets are prime buildings with long leases, which are thin on the ground. In the process, prime yields have firmed modestly, with B grade yields remaining steady.

The broad mood in Perth is very optimistic, but are people starting to get ahead of themselves? Within our report, we carefully analyse the market and set out our forecasts for office demand and supply over the next 10 years, as well as forecasting rents, yields and capital values. In particular, we address the following issues:

- What are the prospects for the West Australian economy? Will resources investment be sustained at record levels and what will this mean for demand for office space?
- There is still a substantial chunk of supply due for completion in the short term. Does this pose any problems for the market?
- Where to next for yields? What will be the impact on values?
- Should investors buy or sell Perth commercial property? What are the prospects for investment returns and how does Perth compare to the other major office markets?

The forecasts within our report are essential for all market participants—investors, developers, tenants, planners. Our forecasts provide an independent view, divorced from swings in market sentiment, of the prospects for Perth's commercial markets.

## 1.2 How to use this report

Our report is not intended for one-off reading; it is meant to be a constant reference for practitioners. The following is a guide to assist your reading.

**The Executive Summary** provides a snapshot of the Perth commercial property market, our key forecasts and our views on timing for investment in the market. The supply and demand tables and the forecasts of rents and property values are the key elements for providing realistic escalation assumptions in financial analyses. We also trace through the consequence of the main alternative scenarios, testing their sensitivity on vacancy rates and rents.

**Chapter 2** provides the economic backdrop to our forecasts. We discuss the current state of play and outlook for the Australian and Western Australian economies. Forecasts of key economic indicators including GSP/GDP, interest rates and employment are included.

In **Chapter 3** we examine demand and supply. We analyse the two major determinants of office demand—growth of the office related workforce and the average workspace ratio. We put these together to forecast net absorption over the next 10 years. We also consider supply of office space in Perth and discuss the impact of the credit squeeze on office development and the timing of the next supply cycle.

The vacancy rate, discussed in **Chapter 4**, is the outcome of the demand and supply process. It is the major indicator of market conditions and the driver of rents and values.

In **Chapter 5** we examine the current state of play for office rents, yields and commercial property values and provide our forecasts for prime and B grade CBD rents, yields and values to 2021.

In the final chapter, **Chapter 6**, we discuss investment and development issues from the perspective of different market players. The chapter also provides indicative IRRs and a comparison with other property markets and sectors.

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

# Perth Commercial Office Property 2011 – 2021 Subscription Form



COMMERCIAL PROPERTY

Please send me the above report:

- |  |          |          |
|--|----------|----------|
| <input type="checkbox"/> Subscription                    | \$10,450 | \$ _____ |
| <input type="checkbox"/> Re-subscription                 | \$8,800  | \$ _____ |
| <input type="checkbox"/> _____ extra copies @ \$770 each |          | \$ _____ |
|  | Total    | \$ _____ |

All prices quoted are inclusive of GST.

Mr/Mrs/Ms: \_\_\_\_\_

Title: \_\_\_\_\_

Company: \_\_\_\_\_

Street address: (for courier) \_\_\_\_\_

Postal address: \_\_\_\_\_ Postcode: \_\_\_\_\_

Phone: (0 ) \_\_\_\_\_ Fax: (0 ) \_\_\_\_\_

Email: \_\_\_\_\_

- A cheque for \$ \_\_\_\_\_ is enclosed.
- On delivery please bill me \$ \_\_\_\_\_ at the above address.

I confirm that this report is for the internal use of my organisation and its branches or subsidiaries only, and will not be made available or copied for the benefit of other organisations.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Please fax to: **BIS Shrapnel Pty Ltd**  
**F: (02) 9959 5795**  
**T: (02) 8458 4200**  
**www.bis.com.au**

or post to: **BIS Shrapnel Pty Ltd**  
**Level 8, 99 Walker Street**  
**North Sydney NSW 2060**  
**AUSTRALIA**

**For further enquiries please contact:**

Lee Walker ([lwalker@bis.com.au](mailto:lwalker@bis.com.au)) or Beverley Taylor ([btaylor@bis.com.au](mailto:btaylor@bis.com.au)) at our Sydney office.