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Melbourne Suburban Office Update

Limited sales activity in the Melbourne Suburban Office Market as private investors hold onto assets in anticipation of future growth

The limited recent sales activity has mostly been driven by property trusts disposing of non-core assets. Cashed up private investors and syndicators continue to be the dominate purchasers.

Private investors in general have been holding onto their existing assets. With the current tight suburban vacancy rate, most private investors have close to fully-leased buildings and are able to easily service debt obligations in most cases. There is therefore no compulsion for them to sell. There is also a widely held expectation that rents will increase further over the short term given limited new construction and pent up tenant demand.

Ongoing global economic uncertainty has also stifled transaction activity over recent months.

m3property have recorded an estimated \$65 million in sales so far this year in comparison to \$220 million last year in the above \$5 million price bracket. Market hot spots for recent sales activity have included Richmond, Mulgrave and South Melbourne.

Recent major suburban office sales evidence are listed in the table below.

In general properties with existing vacancy, short weighted average lease expiries or significant short term lease expiry risk have been discounted in the market due to the higher levels of equity required by banks.

Many of the sales represent property trust disposals, including:

- Lot 2, 658 Church Street, Richmond (ISPT)
- 271 Wellington Road, Mulgrave (Charter Hall)
- 18-20 Prospect Street, Box Hill (Opus Capital)
- Building 5, 658 Church Street, Richmond (Aust. Unity)



Lot 2, 658 Church Street, Richmond



17 Market Street, South Melbourne

Address	Suburb	Date	Price	NLA (m ²)	Market Yield	\$/m ²
599 Doncaster Road	Doncaster	May-11	\$5,500,000	1,663	8.60%	\$3,308
61-65 Anderson Street	Lilydale	Apr-11	\$7,490,000	2,304	7.74%	\$3,251
Bld 5, 658 Church Street	Richmond	Apr-11	\$8,050,000	2,245	8.60%	\$3,586
144 Moray Street	South Melbourne	Mar-11	\$5,000,000	1,218	6.49%	\$4,105
15-17 Shierlaw Avenue	Canterbury	Mar-11	\$8,000,000	2,361	8.57%	\$3,388
18-20 Prospect Street	Box Hill	Feb-11	\$8,100,000	2,426	8.31%	\$3,339
271 Wellington Road	Mulgrave	Feb-11	\$6,400,000	1,958	8.26%	\$3,268
17 Market Street	South Melbourne	Dec-10	\$8,950,000	2,596	9.17%	\$3,448
630 Church Street	Richmond	Dec-10	\$11,300,000	3,184	9.25%	\$3,549
Lot 2, 658 Church Street	Richmond	Dec-10	\$41,500,000	13,568	9.14%	\$3,059

Source: m3property

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Major leasing transactions of over 500 square metres are listed below:

Tenant	Address	Suburb	Area (m ²)	Comm. Date	Term (years)	Face Net Rental (\$/m ²)
Carsales.com	449 Punt Road	Richmond	5,154	Sep-11	8	\$323
Sportscover Australia	271 Wellington Road	Mulgrave	976	Jul-11	5	\$240
Hardie Grant	Bld 1, 658 Church Street	Richmond	1,882	Apr-11	5	\$280
Grimshaw Architects	21 Bouverie Street	Carlton	2,000	Feb-11	8	\$210
Community Housing	18-20 Prospect Street	Box Hill	1,029	Dec-10	8	\$245 & \$250
UTC Fire & Security	271 Wellington Road	Mulgrave	982	Dec-10	4	\$230
Aust. Christian Services	2-6 Railway Parade	Camberwell	880	Dec-10	5	\$290
BMS Telecorp	43 Elizabeth Street	Richmond	3,708	Nov-10	10	\$305
Newport	13-15 Compark Circuit	Mulgrave	1,459	Oct-10	5	\$200
Boral Resources	251 Salmon Street	Port Melbourne	2,973	Sep-10	8	\$220
Dept. of Justice	43 Elizabeth Street	Richmond	4,530	Sep-10	10	\$300
Mercy Health	43 Elizabeth Street	Richmond	2,315	Sep-10	10	\$305
PAS	17 Hardner Road	Mt Waverley	5,310	Sep-10	8	\$200
Kodak	436 Johnston Street	Abbotsford	1,607	Sep-10	5	\$285
Amgen	115 Cotham Road	Kew	1,102	Sep-10	5	\$330

Source: m3property

A further fall in vacancy and continued rental growth is forecast in 2012

Vacancy has fallen significantly over the past two years in the suburban market.

In 2008, just prior to the Global Financial Crisis, total vacancy was at an historic low of 5.0%. Speculative development, particularly in the City Fringe region was constructed to meet the then high levels of tenant demand. When the affects of the debt crisis were felt in early 2008, much of this new stock was completed creating oversupply.

By the end of 2009, the vacancy rate had peaked at 8.5%. Since then, vacancy has trended down to

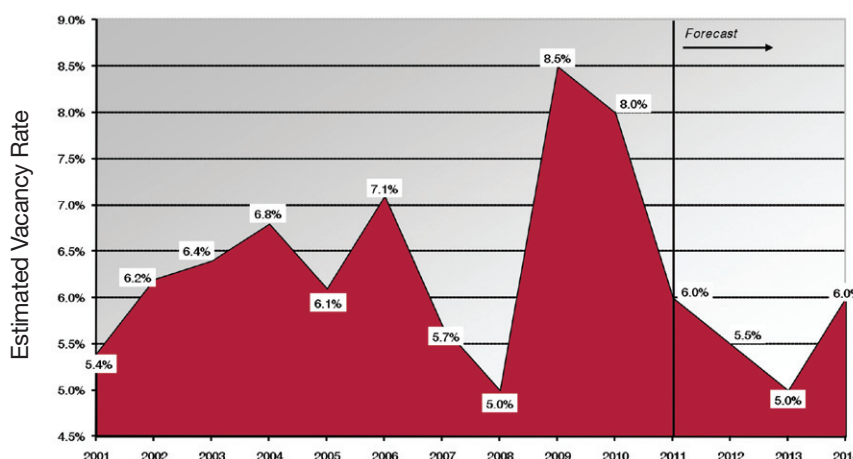
its current level of 6.0% due to improving domestic economic fundamentals and the absorption of new stock over most of 2010.

In the current economic environment, new development has been limited due to the significantly tighter credit conditions imposed by lenders. Market rents are also currently below economic rents making most new projects unfeasible. Only sufficiently pre-committed projects are being funded.

Over the next 12 months limited new construction is proposed. m3property forecast that further pent up tenant demand will underpin a marginal fall in total vacancy and moderate rental growth in the short term.

Melbourne Suburban Office Total Vacancy is shown at right:

Source: m3property



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