m3property Update

National CBD Office Update & Outlook

March 2018

“ The office sector is expected to outperform in 2018. While vacancy will vary significantly between capital cities over the year, overall it is expected to fall. ”

Forecast summary

Influences

Since the Global Financial Crisis the office sector has seen rapid change. Buildings now offer end-of-trip facilities, building portals, wellness programmes, entertainment and a range of services that make the office more like home. This has been combined with the rise in activity based workplaces and co-working spaces, which are allowing firms to move out of silo based management structures to embrace creativity and flexibility for staff and deal with complexity issues which arise on a day-to-day basis. While this often results in a reduction in the amount of space that businesses require, it has left landlords with backfill space as firms refit and contract on lease expiry and increased cost as landlords use space to offer the new ‘essential’ facilities.

Fortunately for landlords this trend is occurring at a time when older style or less efficient buildings that are unable to adapt to the new working style requirements of tenants are being withdrawn for refurbishment, redevelopment and change of use and we are seeing increased demand for space from industries that are embracing the opportunities arising from the new way the world operates. This is leading to expansion of the IT and Communications and Business Services sectors and their take-up of office space across the States.

The short-term outlook is positive for the major CBD office markets in Australia. With demand forecast to be positive and supply limited, face rents are forecast to rise significantly in Sydney CBD and Melbourne CBD over 2018. Brisbane, Adelaide and Canberra CBDs are forecast to see slight face rental growth and Perth CBD is expected to have reached the bottom of the cycle and will therefore stabilise over the year. Due to continued high vacancy, incentives are set to remain high over 2018 in Perth and Brisbane CBDs. Sydney, Adelaide and Canberra CBDs, are expected to see falling incentives over the next 12 months.

2018 Outlook	Sydney CBD	Melbourne CBD	Brisbane CBD	Perth CBD	Adelaide CBD	Canberra
Net Absorption (m^2)	43,500	67,700	6,100	16,300	6,400	14.500
Vacancy	↓ to 4.1%	↔ 4.7%	↓ 15.2%	↓ 19.2%	↓ 14.7%	↓ 12.3%
Face rents	↑	↑	↑	↔	↑	↑
Incentives	↓	↔	↔	↔	↓	↓

The historical supply, net absorption and vacancy data within this report has been sourced from the Property Council of Australia’s Office Market Report January 2018. All other data is sourced from m3property.

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Demand

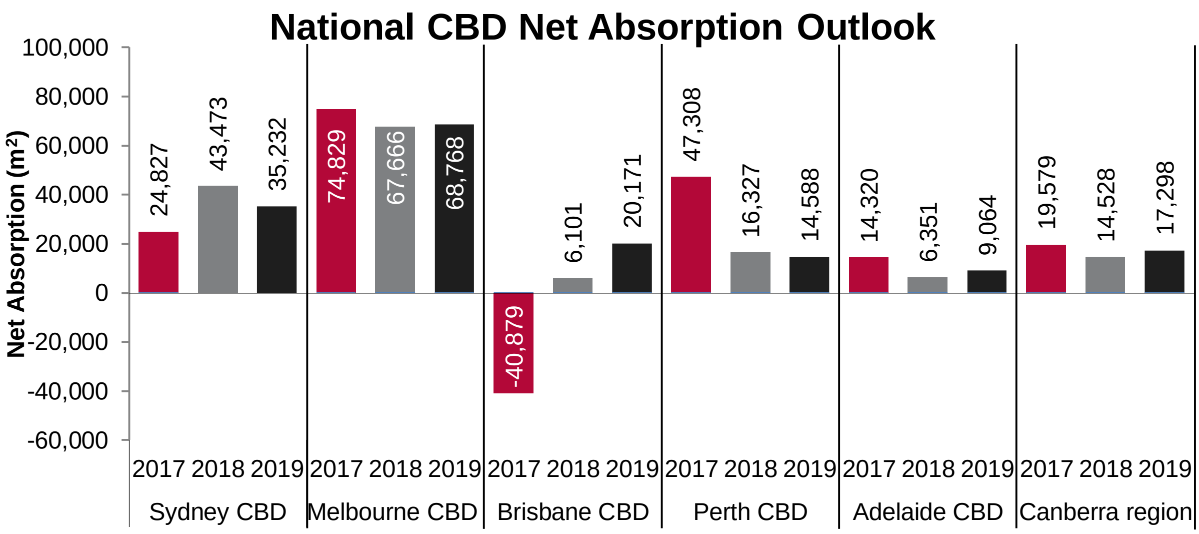
Current

Overall net absorption was positive across the CBDs with 142,321 square metres recorded in the year to January 2018. Net absorption levels in the Melbourne (74,829 square metres) and Perth (47,308 square metres) CBD's were the highest over the period. Both markets were above their long-term annual averages. Net absorption decreased markedly in Brisbane CBD (from 94,601 to -40,879 square metres). The reduction in occupied space during 2017 was a result of the withdrawal of some large buildings as well as the State Government returning space to the market following their temporary increase in occupied space in 2016 (which significantly inflated the 2016 net absorption figure).

On the other hand net absorption strengthened markedly in Perth CBD over the year from -29,245 square metres in 2016 to 47,308 square metres in 2017. Adelaide CBD also saw net absorption strengthen from a negative year over the 12 months to January 2017 (-1,056sqm), to a positive result over the year to January 2018 (14,320sqm).

Outlook

Looking forward, national net absorption is expected to be positive over 2018 and 2019. Continued demand is expected to come from the finance and insurance, government, education, business services and IT and Communication sectors over the next two years.



Source: Property Council of Australia OMR and m3property

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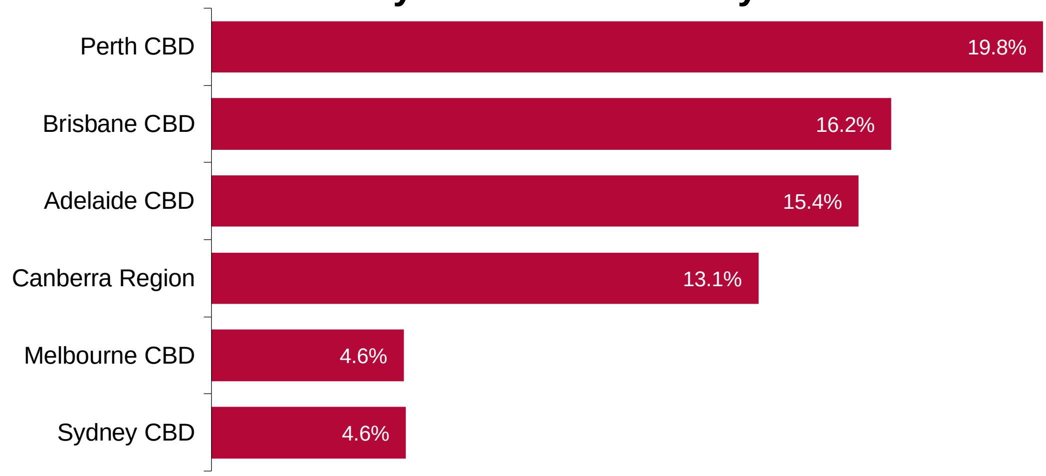
Vacancy

Current

The lowest vacancy rates for the major CBD office markets continued to be recorded in Sydney and Melbourne CBDs (both 4.6%) with finance and insurance, IT and communications, business services and education sector tenants driving demand.

Vacancy rate rank - January 2018

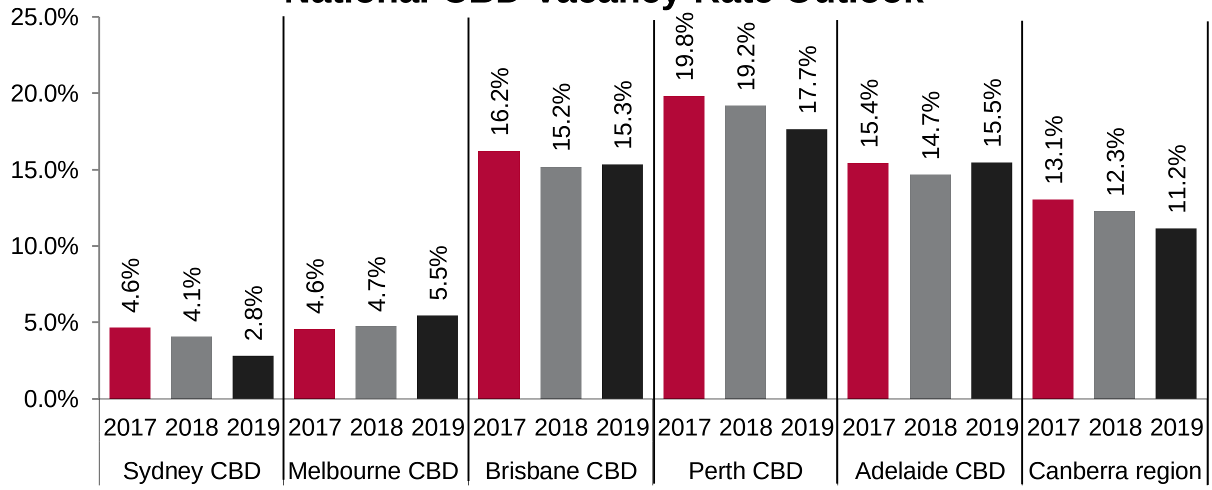


Source: Property Council of Australia OMR and **m3**property

Outlook

Vacancy is expected to decrease over 2018 in all major CBD markets, except Melbourne (which is set to stabilise). The rise of the ‘gig’ economy is expected to continue to drive demand for space while withdrawals reduce stock and displace tenants into remaining stock.

National CBD Vacancy Rate Outlook



Source: Property Council of Australia OMR and **m3**property

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Rents and Incentives

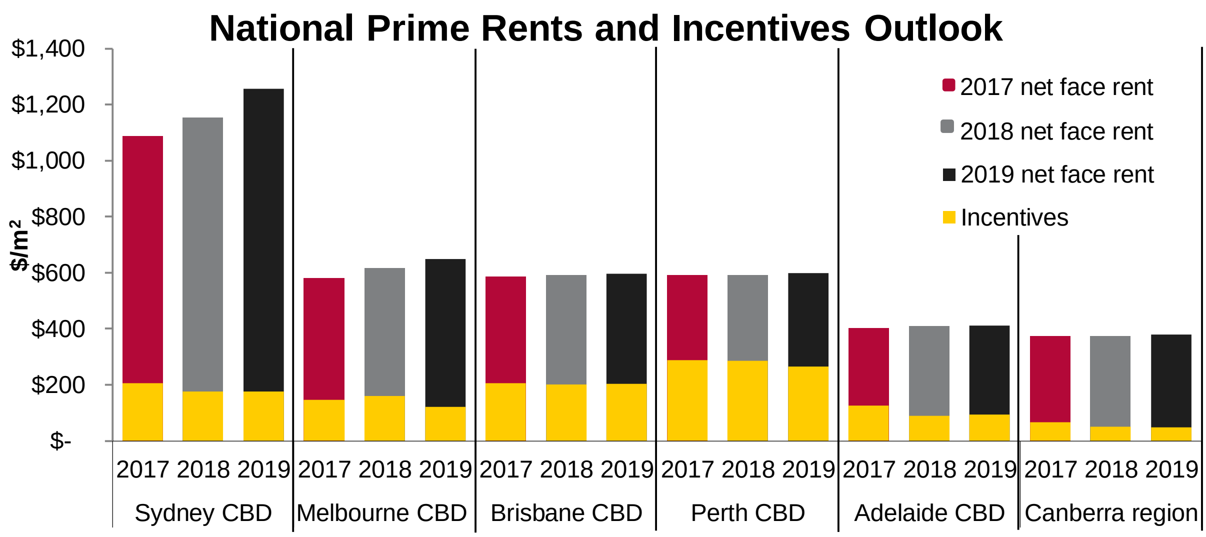
Current

A wide variation in vacancy rates across both states and grades have resulted in varied rental growth across the markets over the year to January 2018. Overall net face rents rose moderately over the year due to solid growth in Melbourne and Sydney CBDs and slight growth in Canberra Civic and Brisbane CBD being offset by a decline in the Perth CBD. Adelaide was stable over the year. Nationally incentives have reduced in 2017 with Sydney, Melbourne and Canberra CBDs driving the result.

Outlook

The outlook for face rents is for further significant rises in Sydney and Melbourne CBDs over 2018. Brisbane, Adelaide and Canberra CBDs are forecast to see slight face rental growth and Perth CBD is expected to have reached the bottom of the cycle and will therefore stabilise over the year. Due to continued high vacancy, incentives are set to remain high over 2018 in Perth and Brisbane CBDs. Sydney, Adelaide and Canberra CBDs, are expected to see falling incentives over the next 12 months.

There is an increasing price differential between prime and secondary rentals within the CBD markets. But also between the CBD's and their corresponding suburban markets. This is due to newer space being more flexible and therefore better able to adjust to take on activity based workspace. Tenants are able to take less space in these more efficient buildings, which allows them to move to better quality space for a similar total cost given the reduction in overall NLA required. Another major concern of tenants is attracting and retaining high quality staff in a period of very low unemployment. End-of-trip facilities and other amenities are therefore considered a good investment, compared to the cost of hiring and training replacement staff.



Source: Property Council of Australia OMR and m3property

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