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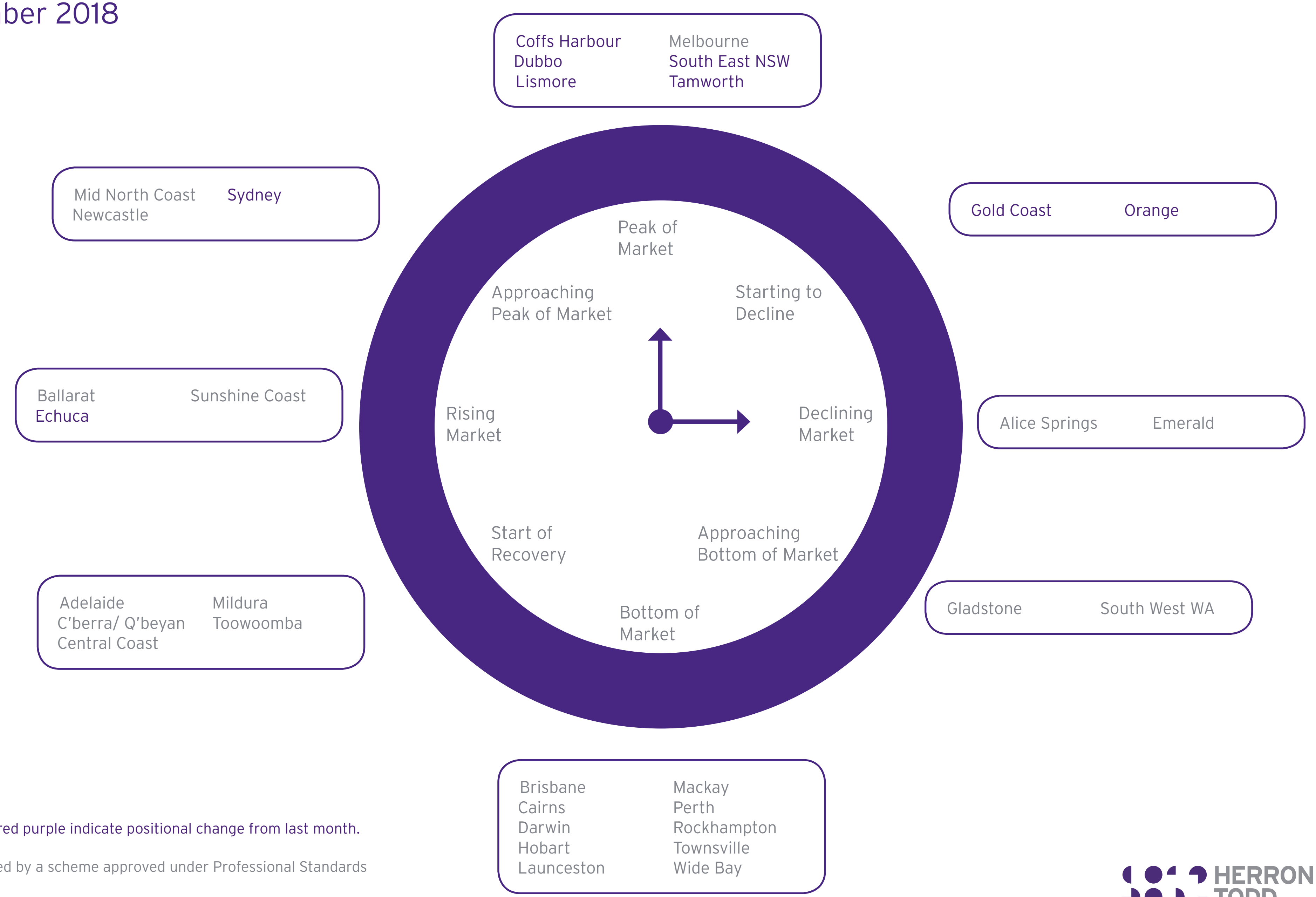
National Property Clock
November 2018
Office



Entries coloured purple indicate positional change from last month.

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New South Wales

Overview

We are in the final two months of 2018 and have hit the point where it's time to look back and take in how the annum has tracked in the office sector.

Office markets have brought mixed results. This month's submissions show why asset quality and location selection are key to investment success.

Sydney

Market demand for office space in Sydney in both the CBD and other commercial centres continued to strengthen throughout 2018. The CBD in particular saw strong growth in demand from tenants, investors and owner occupiers. Limited stock and strong tenancy demand helped tighten vacancy levels across the Sydney CBD, falling to 4.6 per cent in June 2018 (latest available figures) which is the lowest since the GFC and well below the ten year average of 7.3 per cent.

Growing demand and limited stock were also the catalysts for the compression of yields and decreasing rental incentives across the prime and secondary markets with average net yields in the range of 4.5 to 5.5 per cent (strata). Noonan Property also set a CBD commercial strata record of $25,900 per square metre at 187 Macquarie Street.

New office supply is projected to increase over the next few years with some major projects concluding circa 2022. These major developments include the Grimshaw-designed 210 George Street, the Hassell-designed 60 Martin Place and John Holland's 275 George Street development.

The commercial development of 60 Martin Place is an ambitious addition to the Sydney skyline as it will accommodate diverse workplace requirements and offer city views and roof top gardens. In addition to the innovative design, it will have end-of-trip facilities to accommodate people arriving to work on foot or by bike.

The NSW Government has also committed to deliver key infrastructure projects in metro and regional areas by the end of 2024. The development of the Sydney Metro city, metro north-west and south-west train lines are also driving factors in growing demand and economic growth.

Flexible work spaces are a growing discussion point within the Sydney office market as companies look towards co-working and sub-leasing to account for changing working requirements. Planning and tech companies are the major drivers in this creative workplace area as they look for flexible workspace configurations and hot-desk and satellite working options. Areas within the inner city and along the fringe are adapting to this demand. Particular interest has been spiked in Chippendale with the purchase of 29-43 Balfour Street for $30 million with intentions to redevelop into creative office spaces.

The suburb will continue to see positive growth with new developments and the $955 million railway transformation.

29-73 Balfour St, Chippendale. (*Source: Financial Review*)

Other growing suburban centres include Parramatta, Norwest and Macquarie Park as they adapt to the growing market demand for modern and flexible work spaces. The strong demand has stemmed from a combination of tenant relocation and organic expansion reflecting solid employment growth.

Parramatta has seen major growth with the Parramatta Square development and the relocation of the NSW Education Department, resulting in Parramatta becoming a strong education centre.

Rental growth from the Sydney CBD has also flowed into the North Shore markets. In conjunction with

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falling incentives, strong investor demand and foreign investment, suburbs such as Crows Nest and St Leonards continue to remains strong.

With the bulk of new supply not due to hit the market unit 2022 and continued declining vacancy rates, projections for the CBD, North Shore and Parramatta office markets in 2019 could see vacancy rates continue to tighten and result in healthy rental growth.

South East NSW – Wollongong/Illawarra

While record prices were achieved in the Wollongong CBD office market in 2017, sales volumes are down this year. Despite the decline in transactions, local agents are reporting continued strong buyer interest, however owners have been unwilling to sell and as such there have been few listings.

The reported level of interest and market conditions will be put to the test by 90 Crown Street, Wollongong recently being listed for sale through Knight Frank and MMJ via an expressions of interest campaign that closes on 22 November 2018. The property was purchased by Castlerock Property in 2016 for $43.9 million ($4,786 per square metre of lettable area) with agents expecting the asset to sell for more than $50 million given the high concentration of government tenancies in the Wollongong CBD and the building's prime position. Despite the sector still seemingly remaining strong,

90 Crown Street, Wollongong *(Source: www.realcommercial.com.au)*

most participants are of the view that yields have reached the low point of the current cycle and at this juncture, long term investment strategies and exploring value add opportunities are considered prudent.

2018 saw construction commence on two new office buildings in the Wollongong CBD, five years since completion of the purpose built ATO building. One of the buildings will be fully occupied by IMB Bank and the second will see circa 5,300 square metres of space brought to the leasing market.

Office leasing conditions in the Illawarra region have continued to improve throughout 2018 with local agents reporting increased enquiry levels and reduced vacancy periods for well-placed tenancies in good quality buildings. Incentives remain common with discounts of up to 15 per cent of gross annual rent typically required to attract a new tenant, although this discount has reduced for A-grade space given the low vacancy rate. While rents for B- and C-grades remained relatively flat throughout the course of the year, there is upward pressure on rents for A-grade space with some agents forecasting A-grade rents to push the $500 per square metre of lettable area gross barrier next year.

Lismore

The office market over the entire North Coast has remained relatively stable over the past 12 months, performing at stronger levels than the prior four years. Rental levels have predominantly held across the board, with yields and value levels remaining relatively unchanged.

Office markets on the Far North Coast of NSW have not seen any significant changes. The biggest driver is government leasing.

Another significant proportion of new tenants includes non-profit organisations and employment companies, helping to balance the supply and demand and taking up the spaces vacated by government tenants.

Lismore CBD is becoming increasingly more reliant on the office market. The office market and associated café market are becoming the driver for the Lismore CBD. This trend is extending to offices occupying previously traditional retail spaces. This process is being intensified by the weakness in the retail sector.

This has been less evident in the stronger coastal markets of Byron Bay and Ballina. Byron Bay is driven by retail as a result of the strong tourism industry. Within recent times, the retail recovery has lessened the trend which is more evident in Lismore.

Coffs Harbour

The office market has remained relatively stable through 2018 with limited leasing enquiry and stable rental levels. The slight oversupply of office space is restricting rental increases. This oversupply is gradually being taken up by the market. Good quality office space is priced at $350 to $400 per square metre per annum. Secondary office accommodation has proven difficult to lease, with rentals in the vicinity of $200 to $300 per square metre depending on size, quality and location.

There has been limited demand from the government sector, although a recently completed double storey office complex attracted NSW Forestry on a long-term lease. There has been increased demand for office accommodation from participants in the National Disability Scheme with a number of organisations establishing locally.

The reported sale of the MBT Building in Moonee Street at $10.2 million represents an analysed initial yield of 8.5 per cent or $3,065 per square metre for 3,328 square metres of net lettable area, plus 42 basement secured car spaces. The tenant mix includes 1,726 square metres of government tenants with the balance being local tenancies over eight levels.

Office development site sales range from $850 to $1,000 per square metre with limited demand, but a number of sales were effected in 2018.

Overall the local market is best described as steady with office use now filling vacated secondary retail premises.

Hunter Region

As we reflect on office property in Newcastle in 2018, we can look back on a market that was in a state of change.

The changes have been multiple, most notably around the location of office activity. The pre-commitment of the Newcastle Council Administrative Centre to the Gateway Building on Stewart Avenue in Newcastle West was the first major office move to this area, the second was the announcement of the construction of 15,000 square metres of office as part of Doma Group's re-development of The Store building. Circa 10,000 square metres of this space has been pre-leased to a NSW Government tenant.

The NSW Government's cost cutting push for high quality office accommodation outside of Sydney's CBD has benefited markets in regional areas such as Gosford where the recently constructed Taxation Office sold for $43.5 million at a yield of 6.96 per cent.

In Armidale, the move of government department Australian Pesticides and Veterinary Medicines Authority to a new 4.5 NABERS rated building will add circa 150 local jobs to the local economy. Some of those will be relocating from the department's previous headquarters in Canberra.

In Newcastle, we have seen pre-commitments of a large (as yet unnamed) government tenancy, bolstering the local market and employment opportunities.

A little further to the east around what is becoming the new legal precinct on Hunter Street in the area surrounding the new law courts, we're seeing retail space being vacated, primarily due to the works associated with the light rail works, and legal office tenants moving in. We're anticipating the retail area will become more centralised around the Hunter Street Mall and the East End development, where a Woolworths Metro store pre-commitment has been announced.

The headline vacancy rate figures all tell a similar story across the board. The total vacancy rate is at 8.5 per cent, down from 12.4 per cent in July 2016.

The A-grade vacancy rate is at 6.4 per cent, down from 9.7 per cent in July 2016. B-grade vacancy is also down to 10.1 per cent. C-grade is mostly steady and D-grade is down significantly. Stock withdrawals have helped bolster lower vacancy rates across C- and D-grade buildings, as many of these buildings have been or are in the process of being converted to residential developments. These figures are as at July 2018 however and the most recent talk from commercial letting agents is that vacancy rates may be creeping up again in certain areas.

In light of the change, we'll keep a good eye on those areas benefitting from the current development cycle and those areas that may be being left behind.

Dubbo

Sales of smaller office space (less than 220 square metres) in Dubbo have been strong in recent months with properties under $600,000 selling readily to owner-occupiers and self-managed superannuation funds. Analysed yields of circa 6.3 per cent are typical.

Two large office buildings have sold in the past twelve month period: 165 Brisbane Street for $3.695 million (analysed 6.4 per cent yield) and 23-29 Hawthorn Street for $6.6 million (analysed 10.1 per cent yield). Hawthorn Street is fully leased to a non-government organisation, however is particularly poorly located in an industrial zone.

Victoria

Melbourne

According to the Property Council of Australia's Office Market Report, Melbourne CBD's overall vacancy rate reduced to 3.6 per cent over the six months to July 2018 which puts Melbourne CBD below Sydney CBD for the lowest vacancy rate amongst all of Australia's CBDs. The reduction in the vacancy rate is mainly due to the high net absorption rate of prime Melbourne CBD office stock.

The north-eastern and eastern cores have the lowest vacancy rates at 0.6 and 1.4 per cent respectively, while vacancy rates are highest in the western and Spencer precincts, reflecting vacancy rates of 6.7 and 4.3 per cent respectively.

There is limited new prime office supply due for completion over the next two years before a large deluge of supply is forecast for 2020. Therefore, it is anticipated that vacancy rates will continue to fall over 2018 and 2019 before rising again in 2020. Correspondingly, we expect to see potentially sharp rental growth over the next two years as well as a decline in incentives, before levelling back out again from 2020.

Leasing demand also continues to rise for good quality office stock within city fringe suburbs, particularly in Cremorne and Richmond which have transformed into thriving technology precincts in recent years. Local agents are reporting a shortage of space and strong growth in face rents with reducing incentives. Net rents are in excess of $500 per square metre net for new boutique office space in Cremorne and Richmond with minimal incentives offered.

Investment assets with high underlying land values are still highly sought after by self-managed superannuation funds, private investors and syndicates. Overseas private investors are also currently prevalent in the market.

Three recent sales demonstrate strong results:

- **210 Kings Way**, a five-storey office building, was sold for $32.01 million in October 2018 on a tight passing yield of 4.78 per cent. The island site is zoned mixed use and offers redevelopment upside with vacant possession available from June 2021.
- **105 York Street**, a circa 2010 five-storey office building, was sold for $49 million in September 2018 to a private investor. The sale reflects a capital value rate of $9,606 per square metre and a passing yield of 5.35 per cent.
- **17-21 Harcourt Parade, Cremorne**, an eight-storey A-grade office building expected to be completed in 2020 was sold off market to AXA Investment Managers in August 2018 for $100.5 million. MYOB has pre-committed to over 8,800 square metres of net lettable area for an initial term of ten years.

105 York St, South Melbourne *(Source: www.commercialrealestate.com.au)*

  The sale reflects a record high capital value rate of $10,404 per square metre and a yield of 5.4 per cent.

There has been particularly strong demand in recent years for well-located development sites within the Melbourne CBD and fringe suburbs. Specific areas that have seen most activity are typically characterised by the presence of older-style, single and low-rise industrial and commercial buildings which are considered to under-utilise the site at present by no longer representing the highest and best use.

Cremorne and Richmond have seen very strong demand for commercial development sites, dominated by creative and technology industries, which has driven strong capital growth over the past two years.

Recent development site sales in Cremorne reflect land rates of well above $10,000 per square metre and include 102-106 Stephenson Street which sold for $7.1 million, representing a land rate of $12,909 per square metre.

Overall, the commercial office market in Melbourne experienced a strong year however we are cautious on the short to medium term outlook as we consider the market has potentially reached its peak. The commercial investment market has experienced notable increases in activity and price levels over recent years. We consider this strong market sentiment has largely been fuelled by the prevailing low interest rate environment. Given the recent slowdown in the local residential market, we caution that any uplift in interest rates or lending tightening in the commercial space may potentially reduce buyer demand which may correspond to a reduction in commercial property value levels.

South Australia

Adelaide

The South Australian vacancy rate is the third highest in the country at 14.7 per cent but is down from the 18 year high of 16.2 per cent recorded in January last year (Property Council of Australia July 2018).

Adelaide CBD Office Market Summary as at July 2018:

	Stock (sqm)	Vacancy (sqm)	Vacancy Rate (%)	Net Absorption (sqm)
Core	114,716	17,177	15	5,506 (12 months)
Frame	24,653	6,086	24.7	-2,137 (12 months)

(Source: PCA and Herron Todd White research)

As can be seen in the following table, the vacancy rate sits higher in the lower grades, with A-grade space 12 per cent higher than premium grade which reduced from 9.3 per cent in January 2018 to 2.8 per cent in July 2018 (PCA, July 2018).

Agents are reporting an increase in demand and predictions are for a continuing reduction in the vacancy rate as developments currently in the pipeline are completed.

Adelaide CBD Office Vacancy Percentage by Grade:

	Jan -14	Jul - 14	Jan - 15	Jul - 15	Jan - 16	Jul - 16	Jan - 17	Jul - 17	Jan - 18	Jul - 18
Premium	6.3	11.6	10.7	9.4	7.7	8.3	8.3	10.2	9.3	2.8
A Grade	12.9	13.1	13.6	14	15.1	17	17.6	15.8	14.7	14.8
B Grade	15.2	16.2	11.7	10.8	11	14.8	16.3	17.8	14.6	14.5
C Grade	12.8	18.6	21.4	21.6	19.9	19.2	21.2	21.4	17.3	15.7
D Grade	18.1	19.5	20.8	20.9	21.9	21.6	21.9	20.3	18.4	16.7

(Source: PCA and Herron Todd White research)

The improved demand over the past six months is in part due to the significant increase in defence spending and the establishment of the 10 Gigabit City which is a partnership between TPGH Telecom and the City of Adelaide. This is already transferring to rental growth within the CBD. Colliers reports an increase of 2.7 per cent in gross face rents in the premium grade and 1.8 per cent in A-grade space. There is also a reported reduction in incentives which have been as high as 40 per cent for A-grade space and are now reportedly reduced to the mid-30 per cent range.

The investment market has also begun to show improved strength with a tightening of yields within the higher grades due to improved demand from syndicates and private investor groups. Secondary yields have remained stable but numerous property analysts are reporting a general tightening of yields across the CBD market.

Major developments under construction include the following:

Location	Project Address	Project Name	Construction Type	Completion Year	Development Stage	Owner	NLA(sqm)	Floorplate-Size	Car spaces-Total
Adelaide CBD	74 Pirie Street		Full Refurb	Q3, 2018	Construction	Maras Group	1570		0
Adelaide CBD	82 Flinders Street		Full Refurb	Q4, 2018	Construction	Ginos Group	735		
Adelaide CBD	82-98 Wakefield Street	82-98 Wakefield Str	Full Refurb	Q2, 2019	DA Applied		2200		
Adelaide CBD	10 Franklin Street	GPO Tower	New Development	Q3, 2019	Construction	Charter Hall / Telstr	24500	1300	30
Adelaide CBD	1 King William Street	1 King William Stree	Partial Refurb	Q2, 2018	Complete	Prime Super	2521	N/A	N/A
Adelaide CBD	461-465 Pulteney Street		Partial Refurb	Q3, 2018	Construction		595	N/A	N/A
Adelaide Fringe	100 Greenhill Road		Full Refurb	Q3, 2018	Construction		1440		

Commercial

Queensland

Brisbane

CBD Office Markets

Development in the CBD is now ramping up significantly with projects such as Queens Wharf (now a very big hole!), the Howard Smith Wharves (nearing completion) and 80 Ann Street (under demolition), as well as the major infrastructure projects of the Cross River Rail and Brisbane Metro shortly to commence. The full breadth of projects proposed will fundamentally reshape the CBD over the next five years with a significant impact on office markets. The downside is the likely major disruption to the CBD over this period.

The Brisbane CBD commercial leasing market has continued to strengthen over the past six months with strong leasing activity pushing vacancy rates from 16.1 per cent in January to the current position of 14.6 per cent. The strongest performer has been the premium grade accommodation where vacancies have fallen from 12 to 9.5 per cent in a six-month period. A-grade has also improved to 11.7 per cent whilst B- and C-grade accommodation have improved but still remain very high, with vacancies at greater than 20 and 15 per cent respectively. Notable leasing transactions include 80 Ann Street which had 39,600 square metres pre-leased to Suncorp on a ten-year lease term, 266 George Street which had 17,200 square metres leased to QSuper on a 15-year lease term and 480 Queen Street which had 6,400

The Brisbane Transit Centre...To be demolished for the Cross River Rail Project *(Source: Herron Todd White)*

square metres leased to The Department of Veteran Affairs on a ten-year lease term.

We also note that the withdrawal of the Brisbane Transit Centre from the market (to be demolished for the Cross River Rail project) is necessitating the relocation of some 17,000 square metres of office tenant space from the building.

Incentives for premium grade space are starting to tighten and are expected to further do so as the availability of contiguous floor space diminishes.

Investment markets have been very strong with sales totalling $1.1 billion to date this year. Whilst this figure dropped slightly from last year, this is due largely to a lack of quality stock in the CBD. Notable sales in 2018 include 53 Albert Street which sold for $250 million by JP Morgan at a reported yield of 6.4 per cent, 260 Queen Street which sold to Hines (US fund) at a reported yield of 4.46 per cent (only one year remaining on the principal lease) and 127 Creek Street which sold to the Singaporean group Firmus for $129.13 million at a reported yield of 6.58 per cent. Strong investment appetite indicates transaction volume will remain high leading into 2019.

Fringe Office Markets

Brisbane's metro and fringe commercial markets remained relatively stagnant throughout 2018. Transaction levels have dropped year on year from 2017 with $383 million in sales to date. This is not reflective of demand but rather the low levels of quality stock in the market. Notable sales in 2018 include 130 Commercial Road, Newstead which sold for $20.35 million at a reported yield of 7.73 per cent and 8 Musk Avenue at Kelvin Grove, which sold to Queensland University of Technology for $84 million at a reported yield of 7.3 per cent.

Leasing conditions have not seen much change over the past six months with nominal rental growth and incentives remaining at high levels. Vacancy rates have climbed slightly from 13.8 per cent in January to where they now sit at 14.5 per cent. This is largely a result of Origin Energy's withdrawal from the Milton market.

There have been some notable leasing transactions, however including Downer EDI taking 7,099 square metres of space at 135 Coronation Drive, Milton on a five year lease term, 358 St Pauls Terrace, Fortitude Valley which has 3,000 square metres leased to Sunwater on a ten year lease term and 61 Petrie Terrace, Petrie Terrace which has renewed a 6,600 square metre lease to Hatch on a five-year term. Whilst there are numerous sites mooted for development, no new activity is anticipated without significant pre-leasing. Incentives remain high at 40 to 45 per cent.

Suburban Office Markets

Suburban office markets remain becalmed with limited leasing activity and sales activity primarily confined to well leased assets. Rentals are flat, there is significant vacancy in second tier areas and incentives remain fairly high.

Gold Coast

This month we are looking at the office sector for 2018 and proffering our thoughts of what conditions may be like in 2019.

Of course, the highlight for the Gold Coast in 2018 was the very successfully run Commonwealth Games in April. It is fair to say that direct impact on the Gold Coast commercial property market was less than expected. Notwithstanding this, the legacy of the new or improved infrastructure associated with the event has certainly produced positive sentiment for the region that will have all manner of benefits in the future.

The Gold Coast office market remained buoyant over the first three quarters of 2018. Tenant enquiry remained reasonably good, more so for A- and B-grade stock, influenced by the fact that there have been no new office buildings in the market place for several years and there is no shovel ready construction in the immediate pipeline. The C- and D-grade stock sectors, particularly older buildings or those in secondary or fringe locations, have exhibited an increasing level of "for lease" signs throughout 2018 to date. The Property Council of Australia office vacancy data for the Gold Coast for the six-month period to 30 June 2018 was 12 per cent. This was up 1.4 per cent over the level of 10.6 per cent at 31 December 2017 and slightly higher than twelve months ago (11.3 per cent at 30 June 2017).

Rental levels for A- and B-grade space have moved up over the course of 2018 to more commonly fall within the range of $400 to $550 per square metre per annum gross. C- and D-grade rentals remained steady, although more recently appear to be experiencing downward pressure due to tenants being prepared to move to and pay higher rental for better quality space. Rentals for this floor space category more commonly fall within the range

$300 to $400 per square metre gross. The level of incentives across the board has remained fairly static at circa 10 per cent of the first term's rental.

Notable sales of larger office buildings concluded over the course of 2018 to date include Icon Energy at 4 Miami Key, Broadbeach in February for $7.81 million (reflecting an analysed yield of 6.2 per cent and $5,416 per square metre on lettable area), Southport Chambers at 56 Nerang Street, Southport in April for $6.973 million (reflecting an analysed yield of 6.7 per cent and $3,467 per square metre on lettable area) and 140 Bundall Road, Bundall in August for $7.05 million (reflecting an analysed yield of 7.5 per cent and $2,243 per square metre on lettable area, however circa 44 per cent vacant).

In this latter portion of 2018, we note that several further office buildings have been listed for sale. Possibly this is a reflection of owners seeking to capitalise on the more buoyant conditions that have prevailed within the Gold Coast office sector over the past few years. At the time of writing, these included:

- **154 Varsity Parade, Varsity Lakes** – 3,994 square metres lettable area.
- **50 Cavill Avenue, Surfers Paradise** – 16,625 square metres lettable area.
- **1 Bellvue Drive, Varsity Lakes** – 3,764 square metres lettable area.
- **169 Varsity Parade, Varsity Lakes** – 3,364 square metres lettable area.

50 Cavill Avenue in particular will be a litmus test of market sentiment. This A-grade office building was purchased in early 2016 at which time it had a reported vacancy of circa 45 per cent. Following significant refurbishment and a leasing campaign, the building is now reported as 97 per cent leased reflecting a WALE of 4.21 years and an income stream of circa $7.6 million per annum net (fully leased).

50 Cavill Avenue (*Source: www.commercialrealestate.com.au*)

Moving into 2019, we anticipate economic and political factors (both domestic and international) are likely to be more influential on the Australian commercial property sector. In particular, the financing environment (interest rates, borrowing conditions, etc) are likely to become more difficult.

This may result in a higher incidence of commercial property being placed on the market, more so investment property, as owners seek to realise capital gains created by firming yields in more recent times.

In respect to the Gold Coast office sector, we consider the above mentioned pool of Gold Coast located office buildings currently listed for sale is an early indicator of this scenario.

In respect to other metrics, despite a slight upward tick in the vacancy levels reported in the PCA July 2018 Office Market Report, the general downward trajectory of vacancy levels on the Gold Coast that has prevailed over the past few years is anticipated to continue. The rate of growth in rental levels is coming off a base that has been recalibrated (generally downward) over the past few years. Based on these suppositions and observations, positive annual rental growth is likely to be achievable, but in a more controlled mode, however a more difficult borrowing environment (including higher interest rates) may result in a softening of yields and investment returns. Overall, taking into account all of these elements, we consider the net effect for 2019 will be that value levels will remain reasonably consistent with those demonstrated in office building sales concluded during 2018.

Toowoomba

Leasing demand for commercial office accommodation in Toowoomba was subdued in 2018 which continued the trend of the previous couple of years. As a result, there has not been a significant growth in rentals and there is evidence that some lease incentives may be required to secure tenants.

Owner-occupier demand has continued to be strong, particularly for premises with floor areas of up to 300 square metres. There has been a reduced supply in this market segment which has resulted in some sales achieving premium prices.

The inclusion of good on-site car-parking is a major feature sought by buyers and tenants, with under serviced properties often struggling to sell or lease.

Following years of limited new office development in Toowoomba, construction has commenced on a new building located on the corner of Campbell and Raff Streets in the northern fringes of Toowoomba's CBD. The building is to be multi-level and will contain a food or café tenancy on the ground level. This project appears to be driven by multiple owner-occupiers.

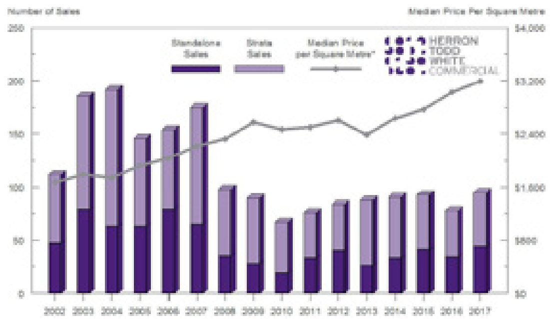
Major office buildings in Toowoomba have been tightly held over the past five years with very limited investments sales of note. This drought appears likely to end soon with a number of office investments currently being marketed for sale. These opportunities include:

- **146 Herries Street, Toowoomba City** - This is a two level building with a net lettable area of 1,615 square metres and 60 on-site car-parks. The building is fully leased to two government tenants with a reported passing net income of circa $600,000.
- **174 Hume Street, East Toowoomba** - This is a single level building with a net lettable area of 1,070 square metres and 35 on-site car-parks. The building is fully leased to National Australia Bank (Business Banking and Agribusiness) with a reported passing net income of circa $370,000.
- **131a Herries Street, Toowoomba City** - This is a single level building with a net lettable area of 654 square metres and 25 on-site basement car-parks. The building is fully leased to six tenants of mixed quality with a reported passing net income of circa $185,000.
- **Easternwell Centre, 10 Russell Street, Toowoomba City** - This is an eight level building with a net lettable area of 7,126 square metres and 101 on-site basement car-parks. The building is leased to a mixed of tenants including Easternwell Group and Southern Cross Austereo.

Cairns

The Cairns office market is relatively shallow and experiences limited sales activity. The market has also experienced limited new development, with the

Commercial Property Sales in Cairns



* For strata sales only
Source: HTW Analysis of RPData

Commercial

last large office building constructed in Cairns being the state government office tower completed in 2010. There are no known new developments in the pipeline.

The level of general commercial property sales in Cairns, inclusive of retail and commercial office premises, highlights that activity in the Cairns commercial market remains well below the levels achieved in the 2003 to 2007 period. Sales volumes have been gradually rebuilding over the past nine years but are still only averaging around 90 to 100 sales per annum. Median prices paid specifically for strata titled premises have increased mildly over the past seven years, but our general impression is that prices per square metre of floor area are mostly stable within the $2,500 to $4,500 range.

Most new office space leasing demand is for smaller areas and for modern, good quality green star rated premises, however there is only a handful of such buildings in Cairns. These buildings achieve high levels of occupancy and are experiencing stable rent levels, typically of $350 to $450 per square metre per annum. Demand for lesser quality space remains limited and there is a large oversupply of good quality non-inner CBD and well exposed secondary space in the $200 to $300 per square metre per annum rental range. These conditions have placed downward pressure on secondary rents and have seen the emergence of incentives.

The Cairns office market overall has experienced little change thus far during 2018 and is expected to maintain little change moving forward in the short term.

Townsville

Throughout 2018, the Townsville office market has performed as expected and although the market continues to be surrounded by positive sentiment, it's yet to budge from the bottom of the market cycle.

Activity within this sector to date has seen a few sales in the over-$1 million price bracket including an office building located along Ross River Road, which sold in March 2018 for $2.45 million along with a $15.5 million sale for an inner city CBD eight-storey office building. The latter sale reflected a weighted average yield expiry (WALE) of 4.6 years and an analysed yield of 9.15 per cent.

It has been announced that a new $25 million office building will be constructed in the fringing city centre to accommodate a move by the Australian Taxation Office (ATO). The current ATO lease is due to expire in 2020, which will see them vacant their current office space in Stanley Place. This new office will be a four-level lifted office with the ATO to occupy about 4,000 square metres.

Leasing activity throughout the year has resulted in a reduction in the overall CBD office vacancy rate from 32.2 per cent as at January 2018 to 30.2 per cent at July 2018. The CBD office market experienced positive net absorption of rental space over the six months, despite the office rental market experiencing generally slow leasing conditions.

We are still seeing a large amount of tenant churn as tenants adjust their space requirements and needs. Office rental rates remain soft with high levels of leasing incentives required in order to attract or secure tenants.

Sunshine Coast

The Sunshine Coast office market commenced 2018 with a high level of overall stock in the market and ended with a high level of overall stock still available. Overall absorption of stock though generally appeared to be strong with owners generally offering strong incentives to entice tenants to either upgrade space or take long term leases. Historically, incentives have not been strong in this market, typically limited to up to three months of rent free, however, with such a high level of stock available, we saw general incentives reach up to 25 per cent of face gross rentals for five plus five year lease terms.

Overall effective rentals have generally fallen over the past 12 months, though some strong locations around the Maroochy River appear to have generally remained stable.

30 Main Drive, Warana *(Source: RP Data)*

One of the interesting facts to appear in the market was the sale of a number of complexes across the coast. Sales that occurred later in 2018 include:

3 Nicklin Way, Minyama *(Source: RP Data)*

- 30 Main Drive, Warana - an 884 square metre modern complex split into four tenancy areas with a WALE of 1.75 years sold for $4.3 million, indicating a yield of 6.68 per cent and $4,864 per square metre.

9 Nicklin Way, Minyama *(Source: Valuation)*

- 3 Nicklin Way, Minyama - a 1,250 square metre modern complex split into four tenancy areas with a WALE of 3.68 years sold for $5.75 million, indicating a yield of 6.99 per cent and $4,600 per square metre.
- 9 Nicklin Way, Minyama - a 1,222 square metre modern complex split into eight tenancy areas with a WALE of 2.73 years sold for $5.5 million, indicating a yield of 7.43 per cent and $4,500 per square metre.

We have also been confidentially made aware of a sale of a property in Maroochydore for circa $11 million, indicating a yield of circa 7.5 per cent.

This shows the overall strength of the local investment market in general, even though some of the fundamentals in terms of high levels of supply are still evident within the office market sector.

Rockhampton

2018 has been a relatively stable year for the office market in Rockhampton. On the back of some poorer performing years across Central Queensland, we have now started to see an overall increase in market sentiment and confidence. Whilst we have not seen any strong evidence of rental or capital growth, a stable office market continued throughout the year, with rentals indicating continued stability.

Some recent leasing transactions through the year show standard CBD office rentals falling within the $200 to $300 per square metre gross range, depending on a variety of factors. In some instances, we are still seeing the presence of incentives, however in other instances we have seen no incentives included in negotiations.

Larger tenancies in excess of 300 square metres appear to still be difficult to lease in the current market.

Most sales activity has been in the sub $1 million price bracket to a mixture of owner-occupiers and investors. Owner-occupiers are continuing to take advantage of the low interest rates which is driving most purchases of vacant office properties.

Investors remain cautious about potential letting up periods and are therefore rarely competing for these vacant properties. Investors have remained active for leased office properties with a decent unexpired lease term (at least two to three years), however remain sensitive to tenant strength. There have been no known notable sales of office properties above $2 million, however we have been keeping an eye on Stirling Place (152-156 Bolsover Street) which has undergone a substantial marketing campaign by Burgess Rawson. This is a multi-level office building that has undergone a comprehensive refurbishment in recent years, with a reported net income of circa $511,000 per annum.

Gladstone
The office market has remained relatively flat in Gladstone for the 2018 period so far. There has been limited activity, however overall conditions appear to be stabilising.

Office sales have been thinly traded, however most (if not all) of these have been to owner-occupiers who have made it through the past five years of tough local economic conditions and are taking advantage of the continuing relatively weak market conditions and low interest rates. This activity has remained sub-$750,000, however in most instance sub-$500,000 which appears to be the most affordable price bracket for local owner-occupiers.

There have been no known passive investment sales of office properties in 2018; investors remain cautious and there have been few quality investment options available as existing owners are reluctant to sell unless necessary given the current market conditions. Rental rates appear to have stabilised, however incentives continue to remain a part of leasing transactions in many cases.

Wide Bay
The office markets throughout the Wide Bay have held relatively firm in 2018.

Bundaberg recorded a couple of larger office sales, a new office development was launched in Hervey Bay and Maryborough followed its ever stable trend. Here is our yearly wrap of the 2018 office market in each major locality.

Bundaberg
Bundaberg showed cautious optimism in 2018 with a few new leases established to disability support service businesses under the National Disability Insurance Scheme (NDIS) banner. These rentals were generally established on relatively short lease terms of one to three years and reflected a gross rental range in the order of $200 to $250 per square metre. These rental rates appeared to be consistent with the market rental rates for average quality office tenancies around Bundaberg.

32 Crofton Street sold in March subject to a new lease (disability support services tenant) and reflected an analysed yield of circa eight per cent. This exemplifies the attractive market yields Bundaberg has on offer compared to larger city markets.

At the top end of town, 70 Barolin Street sold in May subject to a long term lease and a very well-established tenant. The property sold at a national auction and achieved an analysed yield of circa 7.3 per cent. This sale demonstrates good demand for good quality office stock with established tenants and good lease covenants.

Hervey Bay
It was a relatively quiet year for office sales in Hervey Bay. Perhaps one of the more intriguing market movements has been the new community titled office development on Torquay Road called The Avenue. The proposed development is to incorporate 20 community titled offices in a laneway style setting. The listing agent has reported 25 per cent pre-sales with a further 20 per cent of the units under contract. Construction is due to commence in December 2018.

There appears to be a limited number of new office leases established in 2018, with the better quality medical office stock absorbed within the market. There has been little movement at the top end of town.

Maryborough
Maryborough experienced another slow year with a low volume of sales and a low volume of office leases established. It is important to consider that 2018 was a relatively consistent year in terms of activity when compared to previous years.

Some investment activity did occur within the retail and low impact industry market sectors, which did demonstrate that investors are active within the market, albeit at lower levels than owner-occupiers.

Mackay

Office rents settled during 2018 at new lower levels and leasing activity continued to improve throughout the year. This was caused by greater confidence in the local economic outlook which in Mackay is largely driven by regional coal mining. The effects of substantial new office supply in recent years in addition to the extended period of economic downturn from which we are now emerging have now become fully apparent as new leases and market reviews are now being struck at approximately 20 per cent below the 2012 market peak.

Leasing enquiry is improving and an extensive number of vacant office tenancies are steadily becoming tenanted.

There was very little office sales activity during the year. Most sales occurred at prices below $750,000 and were fairly evenly spread amongst investors and owner-occupiers.

An interesting sale which occurred during the year was an office property located in the main industrial area of Paget at 14 John Vella Drive which sold at $630,000 ($1,304 per square metre of building area) for a 483 square metre building. This followed another office sale at 89 Connors Road, Paget for $1.1 million in December 2017. Both of these were acquired by owner-occupiers and demonstrate that not all office users in the Mackay market require a typical CBD location from which to operate.

Northern Territory

Darwin

The commercial office market in the Darwin CBD and indeed across greater Darwin continues to languish with little new demand evident. Leasings are difficult to come by in the current market.

It has recently been announced that the TIO Building at 24 Mitchell Street is to be put on the market. This is undoubtedly one of Darwin's better commercial office buildings and is well located close to Parliament House. The results of the marketing campaign will be closely monitored as an indicator of yields for CBD office space in Darwin. We are also aware of the impending sale of another significant office holding in the CBD which should provide further evidence. We hope to provide further advice about this soon.

Some additional details have emerged regarding the Northern Territory Government's new CBD Derelict and Vacant Property Levy which commences on 1 July 2019, with the first assessments made in July 2020. The levy will be at a rate of two per cent on vacant land within the CBD area and one per cent on improved properties which have a vacancy rate of 50 per cent or higher.

The area to which the levy applies has now been more clearly defined to the core area of the CBD bounded by the Esplanade, Daly Street and McMinn Street. This excludes peripheral areas which are zoned CB (Central Business) but are outside the core CBD area, such as the old Shell site on the north-eastern side of McMinn Street.

It has also been announced that it will be restricted to commercial buildings within the core area, therefore excluding residential unit buildings.

The tighter geographical area of the levy means that some of the larger disused sites are now excluded, so the government revenue from the levy will be reduced. The levy also encourages activation of affected properties which will avoid or mitigate the imposition of the levy. For example, even if a tenant is found at a nominal rent, this will still count as a reduction of the building's vacancy rate.

The limited tax base of the levy means that the cost of collection will be high and might even outweigh the revenue raised. The government will be hoping that the payout will be in the form of a more vibrant CBD that will attract both tenants and patrons.

TIO Building, 24 Mitchell Street Darwin *(Source: www.realcommercial.com.au)*

Commercial

Western Australia

Perth

The most recent Property Council of Australia figures for the Perth CBD office market indicate that the total vacancy rate decreased marginally from 19.8 per cent to 19.4 per cent in the six months to July 2018. The total vacancy rate in West Perth also dropped slightly from 16.7 per cent to 15.8 per cent for the same period.

Whilst there is some positive news with vacancy rates reducing overall, Perth's CBD still has the second highest vacancy rate of all capital cities in Australia.

The reduction in the overall vacancy rate can be attributed to a flight to quality phenomenon with the level of vacancy in the premium and A-grade buildings being significantly less compared to that shown for B-, C- and D-grade space.

With a glut in the office leasing market and a flight to quality occurring, owners of B- and C-grade buildings are looking for conversion opportunities to residential, educational and even hospitality uses.

The significant deterioration in the Perth CBD and West Perth office leasing markets during 2016 (mainly as a result of reduced demand from resource sector tenants) coupled with historically low occupancy costs for office space in these traditional office districts, has caused a rise in tenant migration from peripheral office precincts but also in tenants up-scaling to better quality accommodation.

Property owners have had to become proactive in trying to entice existing tenants to recommit and also in order to attract new tenants. This has resulted in substantial incentives being offered in the market place (typically between 30 and 55 per cent).

Workzone West, Perth *(Source: www.realcommercial.com.au)*

Furthermore, landlords are providing their existing and prospective tenants with bespoke floor plates, flexible work spaces, meeting hubs, refurbished foyers, some featuring concierge services, gymnasiums or wellness centres with some more innovative landlords looking at child care or child minding facilities within their buildings, in addition to the obligatory end of trip facilities, bike storage rooms and in some cases bike repair shops.

Despite the findings of the PCA Office Market Report, discussions with real estate agents active in this sector confirm a generally soft office leasing market with downward pressure still being exerted on asking rental rates and a large volume of space available coinciding with a lack of demand, particularly for secondary premises. In many cases, tenancies are listed for extended periods and with multiple agents.

In terms of capital transactions, demand for office property in the Perth CBD has been felt predominantly from institutions and foreign (south-east Asian) buyers seeking counter-cyclical

Exchange Tower, Perth *(Source: www.realcommercial.com.au)*

acquisitions of secondary assets with good prospects for re-positioning.

Nine major CBD and fringe office buildings transacted during the 2018 calendar year with one of the more notable being Workzone West, 202 Pier Street, Perth which was bought by Charter Hall for just over $125 million in June 2018. Furthermore, it has been recently reported that Exchange Tower, 2 The Esplanade, Perth has been acquired by GIC, the Singaporean Government's sovereign investment fund, at a price of around $320 million.

Sales activity has however almost ceased within West Perth over the past 12 months although we are aware of a handful of assets that are currently under contract subject to due diligence. The lack of quality office stock with medium to long term WALEs combined with subdued economic conditions has affected transaction activity.

The outlook for the Perth office leasing market is a stabilisation in rental incentives and rents over the short term and no significant new building activity until at least 2020.

Overall, we anticipate that vacancies in the core Perth CBD will stabilise and that vacancies in West Perth and in buildings at the eastern periphery of the Perth CBD will increase further as tenants look to relocate back to the core Perth CBD area. This will potentially lead to further deterioration in face rents in these locations.

As tenants make the flight to quality, a two-tier market may eventuate with less attractive, lower grade buildings increasing in vacancy and those more attractive premium and A-grade assets in good central locations showing a decrease in vacancy.

Australian Capital Territory

Canberra

The latter half of 2018 has seen a continued stable employment rate and economic environment fostering a growing workforce, both public and private, and driving demand for quality office space. These factors have resulted in a steady office market.

According to the PCA Office Market Insight Report, vacancy rates across the ACT decreased by 0.7 per cent to 12.5 per cent between January and July 2018. Canberra Civic vacancy rates decreased 0.8 per cent to 10.5 per cent. Non-Civic vacancy rates decreased 0.8 per cent to 13.2 per cent. A-grade vacancy rates continued to decrease, down by 0.3 per cent to 8.5 per cent as at July 2018. This has been driven by demand from occupants wanting quality office space over secondary space. New office space due for completion over the next three years is said to be fully committed by private and public sector tenants. This trend has led to limited demand for secondary office space, particularly for C- and D-grade stock with July vacancy rates at 19.1 per cent and 18.6 per cent respectively.

In July this year, the ACT Government abolished stamp duty on commercial property transfers under $1.5 million to help drive up interest in this market. We expect to see increased demand in this sector driven by owner-occupiers and investors taking advantage of this incentive. Office space in this price range is available in most town centres around Canberra as units or smaller properties.

Listed below are Canberra's market indicators for the six months to July 2018. These indicators provide an overview of the current state of the office market as well as where market growth or retraction has occurred:

- Average vacancy rate for the total ACT office market as a whole decreased by 0.7 per cent to 12.5 per cent.
- There was lower than average vacancy for A-grade office space at 8.5 per cent, higher than the average vacancy rates for C- and D-grade office space at 19.1 per cent and 18.6 per cent respectively.
- Gross face rents are between $405 and $480 per square metre per annum for A-grade office premises.
- Net absorption of A-grade stock was 6,936 square metres for the six months to July 2018. Secondary stock net absorption of -32,691 square metres was driven mainly by C-grade stock net absorption of -33,629 square metres.