

**HERRON
TODD
WHITE**

Month in Review

COMMERCIAL PROPERTY

August 2021



A message from our CEO

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A primary method for overcoming the anxiety of uncertainty is to source reliable information.

A primary method for overcoming the anxiety of uncertainty is to source reliable information. Gathering the facts from experts in their field, studying their analysis and understanding the outcomes allows us to draw our own fully informed conclusions. This approach can be applied across most spheres of interest, but it is particularly prudent when it comes to property market analysis, especially in the current climate.

Many people have concerns about the coming months and years as we grapple with the financial fallout from the pandemic, but I've taken heart in research delivered by trusted industry sources, and our own experts. Here we are, some 18 months into the pandemic and there's cause for optimism about our nation's property sector. Analysis by our valuers aligns closely with several other sources. They suggest, for example, that the impact of the current Delta outbreaks on house prices has been minimal, with any softening unlikely to affect long term growth trends.

These conclusions are well-founded with economists noting double-digit price gains across 2021 - some markets are even predicted to see an upswing of 20-plus per cent for the year. And while it's expected capital gains will moderate to some degree in 2022, they're still anticipated to remain above the annual long-term average.

While we clearly operate in uncertain times this collation of information is cementing my positive long-term outlook for Australian real estate. It's an asset class of resilience and opportunity.

This month's Month In Review also delivers readers the best possible market information.

In this edition, our commercial specialists tackle the office property sector and discuss new constructions and developments in their service areas. They also reflect on innovations that are helping the sector adapt to new working environments.

Some of this month's stories of note include:

- Sydney - owner-occupier commercial property demand rises during the pandemic;
- Melbourne - flexible office-space assets are highly desired by corporate investors;
- Adelaide - the market has continued strengthening throughout 2021.

Please enjoy this latest edition of Month In Review.

Gary Brinkworth



CEO

Valuer's top renovation tips

Belinda Botzolis - Senior Property Advisor, Herron Todd White

Property renovation is pretty much a national pastime in Australia, with plenty of realty TV hopefuls helping bolster interest in the sector. But ask any property industry insider and they'll tell you realty TV is nothing like reality.

There are tough lessons delivered by renovation projects to anyone having their first go at swinging a hammer.

Belinda Botzolis, senior property advisor at Herron Todd White, is in a rare position. Not only does her day-to-day work involve tracking and reporting on construction costs, but she's personally completed numerous renovation projects, and recently built a new home.

Ms Botzolis said there are several drivers fuelling a ramp up in construction activity across the nation, including the way the pandemic has brought our homes' shortcomings into focus.

"COVID in particular has made people think, 'I need more room. I love my house. I love my street. My kids go to school near here and I love my neighbours, but my house is too small and we now need to either renovate or rebuild.'"

Ms Botzolis said her personal and professional experience has taught her a few lessons that could assist other renovators.

1. Start with the end in mind

Most people will have heard of overcapitalisation. It occurs when you spend more on upgrades than they add in value to your property. A great example is inground pools where it's easy to outlay \$50,000-plus dollars for a pool that might only add \$30,000 in value.

Ms Botzolis said renovators looking to avoid overcapitalisation need to approach their projects like a valuer.

"As valuers, we've been trained to just step back and really look at a property for what it's worth, not the romanticized idea of a renovation and what those works might add in value based on their cost.

"Often a valuer tells a bank, 'This is what the home will be worth once the reno is completed.' The bank lends the owner \$100,000 and that money gets eaten up pretty quickly. The owner then starts asking the bank for more money to finish the job, but at some point, the bank has to say no.

"Just because you need an extra \$50,000 to finish the job, doesn't mean the valuation will go up from \$2 million to \$2.2 million to justify the increase in funds. It simply means you didn't budget properly."

The key, she said, is to start with the end in mind, and be aware of what people expect and are willing to pay for your property in your area.

"If you're in a quite affluent area, you can push the envelope a bit on what you spend because your market expects something extra from those homes. But if you're in a basic suburban family area and homes are relatively generic, you probably don't have the same room to push the envelope.

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"In some areas you can spend \$500,000 and gain \$1 million in added value. In others you'll spend \$50,000 and be lucky to add \$30,000 in value. So, understanding your location is essential as well as what your property will be worth at the end of the project."

2. Avoiding blowouts

One of the most challenging aspects of a renovation or construction project is dealing with blowouts both in terms of time and budget.

Ms Botzolis said many first-time renovators don't understand just how expensive building works can be. They do rudimentary guestimates on cost and timing and it can lead to huge problems.

"Things you think will cost \$1000 or \$2000, will end up costing \$6000.

"And variations get owners all the time. An owner will come through and realise they now want to change a few things mid renovation and this can end up adding thousands to their bill as well as extending the build time."

Ms Botzolis said the time it takes to do the work is often underestimated too, and delays do translate into real money when it comes to building and renovation.

"You'll organise a builder and he'll turn up to start on a certain day, but materials are delayed because a shipment hasn't arrived or there's now a shortage on things like timber and bricks, so he has to put back his start time. Now you need to push back your plumber and sparky because the framing is delayed. This domino effect causes all sorts of grief."

She said these postponements come straight out of your hip pocket.

"Delays mean you can't move into the home

In some areas you can spend \$500,000 and gain \$1 million in added value. In others you'll spend \$50,000 and be lucky to add \$30,000 in value.

when you originally planned, so now you'll need to extend the lease on where you're staying. Also, there's loan interest mounting up at the bank while you wait for the setbacks to clear."

Ms Botzolis said, however, that there is a way to take the sting out of delays and budget overruns.

"Apply a contingency of 15 per cent to both your costs and to the timing.

"So, if costs blow out and the day you hoped to take possession gets pushed back, they're already factored into your schedule and budget.

"You need to have that wiggle room - even if it's just to remove the stress."

3. Get your depreciation schedule on an investment renovation at the right time

If you are undertaking a renovation on a property that is to become an investment and not your principle place of residence, it's important to budget for functionality over luxury items.

Ms Botzolis suggested reconsidering and evaluating the needs vs. wants within the property.

"An example I'd give to investment renovators is, will the 20mm stone bench top serve the same purpose as the 400mm European marble, or will the high end taps work the same as the entry level taps. Think about the useability and function of that item over the aesthetics that may not necessarily be practical."

All renovations on investment properties are considered tax deductible and Ms Botzolis strongly

recommends that a Tax Depreciation Schedule is used by property investors to substantially lower their tax liabilities and boost their annual returns.

Ms Botzolis said owners are often at two extremes in timing when it comes to ordering a schedule too. Some totally forget about it all together and end up missing out on thousands of dollars in deductions.

At the other end of the scale are those who are so eager, they order their schedule too soon and miss out on claiming some costs.

"The best time to order a schedule really is just before you need to send it to your accountant for your tax return.

"If you order too soon and there are some extra costs that come along after that that are capital works that need to be added to the report, you'll need to pay a fee for the report to be changed so it includes the new costs and updated outcomes.

"We're the ATO's worst nightmare because we want to maximize your return and get every possible cent back that you are entitled to."

4. Don't self-manage big projects

Ms Botzolis said identifying projects where you need to draw on expert help will assist in keeping you on track... and preserve your sanity!

"People often don't realize how much time, effort and stress emotionally, physically, financially a renovation or build takes on you. So, if you've got a full-time job and you're thinking, 'I'm going to completely project manage my renovation without any experience', because you've watched every

 *People often don't realize how much time, effort and stress emotionally, physically, financially a renovation or build takes on you.*

season of The Block, then you're in for a rude awakening."

She said basic renovations that are a simple collation of a couple of trades and where you can do easy work yourself are fine. Once you step beyond those and into extensions, raises or major structural jobs, it's time to think about using a project manager and/or head contractor.

"It also puts the onus on delivering the job on time and within budget back onto that professional."

5. Properly analyse your options

When it comes to renovation, you have options. You could choose to do something minor and cosmetic, you could do a full on structural change to your property, or you could even demolish and rebuild all together.

Ms Botzolis said owners need to analyse the true cost of what they want to do before they proceed.

"If you're thinking of extending, maybe going up a level, I would really consider chatting with builder before you pay for a designer. I would work out your costs on a rate per square metre. So, if the area you're renovating adds an extra hundred square meters, work out your rate per square meter for the renovation. Then work out what a builder would cost you to do a complete knock down and rebuild.

"You'll probably find the rate per square metre for a renovation is much higher than building new and that may change your thinking and a complete knock down rebuild is not much more than the

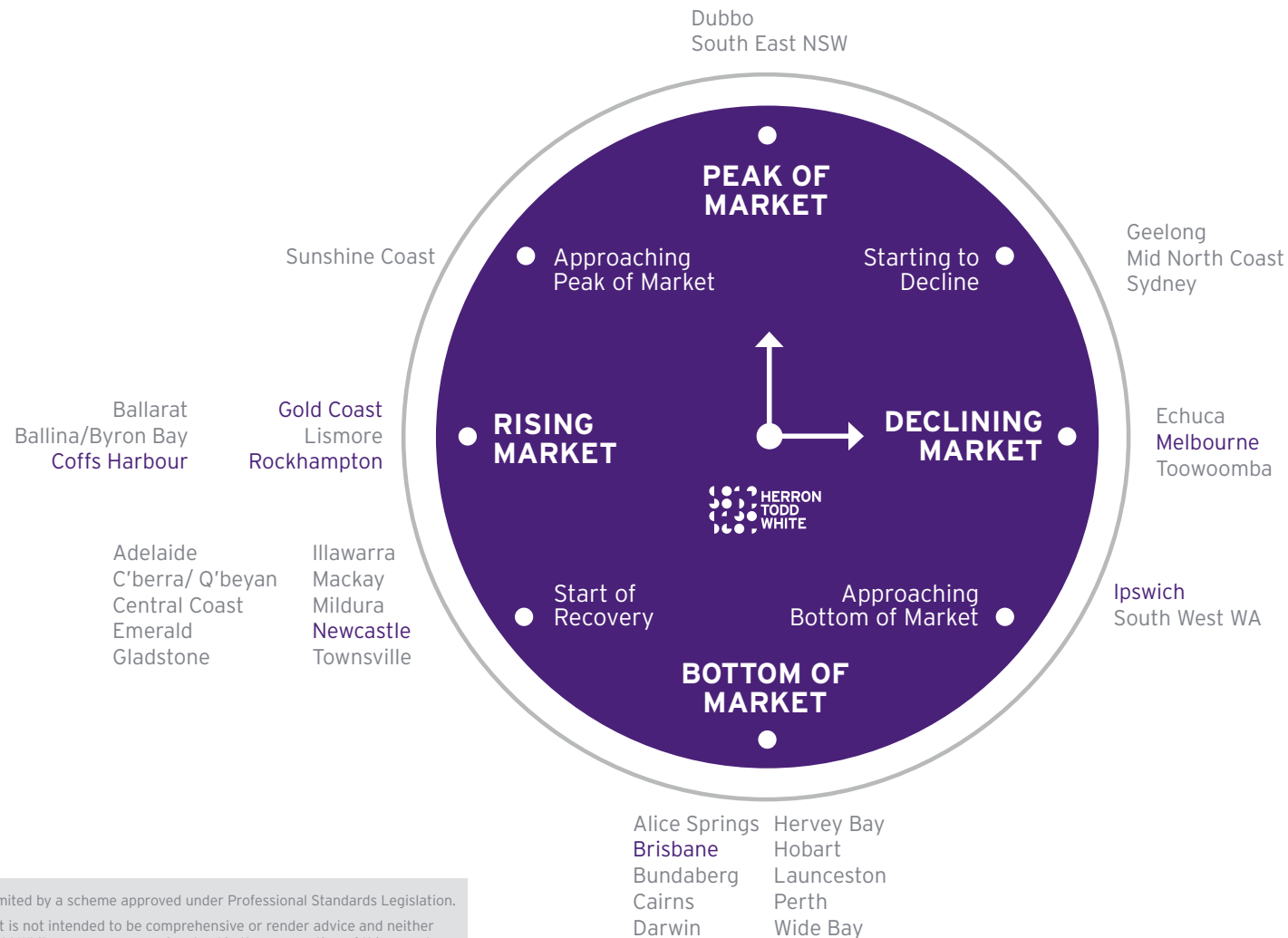
renovation"

Renovating your home is so much more complex than they make it look on TV. Although you can yield great results, don't underestimate the time it takes, the effort and the overall financial stress it can cause. Research, plan, budget - repeat, until you are satisfied that you have a winning recipe for a successful renovation.



National Property Clock Office

Entries coloured purple indicate positional change from last month.



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New South Wales

Overview

Office property has had to weather plenty of pandemic challenges over the past year and a half, but in response it has discovered ways to adapt and even thrive under trying circumstances.

This has also brought about innovation in office property - particularly in the new construction space.

This month, our teams discuss recent developments and new builds in their office property markets, and what they mean for stakeholders in the sector.

Sydney

The office market in Sydney continues to suffer from the impacts of COVID-19.

In particular, rental demand is slow and as a result, effective rent rates have declined significantly. The overall prospects for the office market have been quite pessimistic, a trend that in light of the recent lockdowns is now likely to continue throughout 2021.

The owner-occupier market is a different story. Demand for strata office space in the CBD and in some of the more favoured commercial centres has increased. In the CBD, this is a direct result of a lack of supply and the recent announcement of further acquisitions of 11 buildings, including three strata buildings, to make way for the most recently announced Hunter Street Metro Station. In the suburban office markets, we have seen good demand for leased investments due to the lack of availability of other investment type assets.



Within the CBD there have been several new and exciting additions to the skyline, however we understand that much of this space was pre-committed prior to completion.

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Bligh House, Sydney

Source: commercialrealestate.com.au

committed prior to completion. The developments are all targeted at high-end tenants with asking rates well above \$1,000 per square metre. These new developments do not cater for owner-occupiers, hence the strong demand from this sector.

Refurbishment of older CBD buildings has also been popular, with developments such as Bligh House being recently completed and re-added to the leasing market. If offering a sought after city core position and when executed well, such refurbishments are succeeding in attracting strong rental rates.

Another interesting trend to watch is the large increase in co-working spaces around the CBD but also in fringe and suburban areas. While appeal for shared space may have somewhat waned though this Coronavirus pandemic period, there may be a place for such accommodation from tenants who are transitioning from larger office space and working out what their new normal might look like going forward. Opportunities may exist for landlords to further consider this trend in undertaking new developments or refurbishments. Those who are flexible in how they offer their space are likely to find tenants sooner.

Angeline Mann
Commercial Director

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Newcastle

The Newcastle office market has fared reasonably well in these recent turbulent times. We understand our cousins in larger office markets, especially Melbourne, may be seeing significant downward pressure on equivalent rental rates with a massive increase in rental incentives recently. Larger companies are working out ways for staff to work at home on a more permanent basis, lowering the overall need for office space and hence, company costs.

New offices under construction then must be innovative and draw in the user, allow for a more fluid use of the space and further blur that line between home and office. One example of this is the GWH development known as Darby Plaza. Local Newcastle people will know Darby Street as a dining hub close to local beaches. Darby Plaza is positioned at the harbour end of Darby Street along what was once the heavy rail line.

According to the developer “Darby Plaza will deliver a state-of-the-art work and lifestyle destination that will enrich the lives of its occupants and the wider community. Already under construction, it’s due for completion in late 2021. The combination of smart building technologies, incredible end of trip facilities, informal meeting areas, lobby café and public plaza linking Darby Street to the Newcastle Foreshore will create an unrivalled and unique tenant and customer experience.

The central and convenient location offers a plethora of lifestyle and commercial conveniences. Darby Plaza is surrounded by numerous parks, waterfront walking and cycle paths, bustling Darby Street (Newcastle’s Eat Street) and the reinvention of Hunter Street Mall. With the light rail at your doorstep you are only



minutes to the Newcastle Transport Interchange and world renowned beaches.”

Interestingly, the building is even providing a pod site within the secure car park for rideshare vehicles. This building, which is due for completion in early 2022, is targeting a NABERS rating of 4.5 stars and certainly appears to tick all of those boxes required for a modern, progressive workspace in the heart of the city.

Ed Thwaites
Director

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Victoria

Melbourne

The repercussions of the Coronavirus pandemic are still being felt, not only in Victoria but across all Australian property markets. Undoubtedly the Melbourne office market has been one of the hardest hit office markets due to the continuous lockdowns. This is best illustrated by overall vacancy rates having increased significantly across all office classes as well as prime net face rents softening in the year prior to Quarter 1, 2021. According to online property reports, leasing demand within the Melbourne CBD is starting to rebound as total office stock recorded positive net absorption of 6600 square metres, primarily driven by flight to quality. The Melbourne city fringe and south-east metropolitan office markets also recorded positive net absorption for Quarter 2, 2021.

Whilst net absorption is starting to trend in the right direction, CBD vacancy rates still face headwinds. According to Knight Frank research, vacancy rates are forecast to rise above 11 per cent by the end of 2021 with net effective rents bottoming out by the end of the year. It is estimated that approximately 90,000 square metres of new stock is set to be added to the supply along with 112,800 square metres of refurbished stock, of which over 60 per cent is uncommitted. Leasing agents indicate that sub-500 square metres prime space leasing continues to be strong however secondary B, C and D-grade stock is difficult to shift because of the flight to quality.

Flexible office space is the greatest requirement and many corporate real estate portfolios are increasing the proportion of this type of space.

Whilst the future working model is still to be determined, the hybrid model is the front runner although the balance of time spent in the office versus time spent at home is still up for debate. Business owners have a strong desire to bring employees back to the office but at the same time are willing to offer a greater degree of flexibility and choice. Many businesses vocalise that working together in an office is important for morale and work efficiency and that the office is more effective in supporting collaboration, team productivity, employee engagement, innovation and employee learning and development. Therefore, as most companies move towards requiring employees to spend more of their working week in the office, the adoption of hybrid work practices may only have a limited downside impact on future office demand once COVID vaccine levels are sufficiently high to justify more workers returning safely to the office.

Workspace in new office developments is being designed to be COVID compliant and meet the demands of the hybrid working environment. Flexible office space is the greatest requirement and many corporate real estate portfolios are increasing the proportion of this type of space. Results from a Future of Office survey conducted by CBRE indicate that as the flexible space industry continues to evolve, a broader range of services

ranging from on-demand meeting spaces to customised private suites is becoming available. Flexible office operators and landlord-backed brands are also differentiating themselves through providing premium service offerings featuring advanced technologies.

James Feeney
Valuer

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Queensland

Brisbane

Despite the uncertainty surrounding the Brisbane commercial office sector, the market remains relatively optimistic as capital values have continued to increase since the peak of the pandemic.

With the impacts of COVID-19 still well and truly at the forefront of any decision making, Brisbane is still a very attractive investment proposition for investors across the board from the private to the institutional level. This is due to the record low interest rate environment, Queensland's fortune in having sustained a low number of COVID lockdowns with minimal interruptions and the notable yield spread between Brisbane and its southern counterparts. Furthermore, its announcement as the host city of the 2032 Olympic Games will set Brisbane up for significant infrastructure investment over the next 10 years. It will also entrench Brisbane as a world class destination and a recognised global city. These factors are likely to continue to underpin Brisbane's commercial markets, irrespective of COVID uncertainties.

This optimism aside, there are still significant challenges in the office leasing market at the present time. The market is very uncertain and building owners are grappling with how to most cost-effectively maintain occupancy. The majority of leasing deals currently being undertaken are for small, sub 500 square metre tenancies, whilst tenants of larger office requirements in the 1,500 square metre and above segment are still assessing their future needs. It appears that space reductions of around 20 per cent are likely for

larger renewing tenants, which is likely to continue to increase the quantity of sub-lease space over the next two years. It is likely that the large space user segment of the market will remain stagnant in the foreseeable future until corporations have more certainty surrounding the work from home model (which does appear to be losing its appeal for employees).

In the face of this uncertainty and rising sub lease vacancy, it is becoming a tenant's market. As such, the ability to maintain face rents will become more difficult as vacancy rates are tipped to increase further over the next six to 12 months. Incentive levels across the board have increased since COVID-19 with 40 per cent now effectively a base incentive level and up to 50 per cent now being achieved for longer term leases on new deals. Even renewing tenants are seeing incentive levels of up to 40 per cent, which represents an increase of circa 20 per cent from pre-COVID-19 levels.

Unfitted office accommodation (warm shell) is becoming less desirable as construction and fit out costs have increased and businesses re-evaluate the cost involved with undertaking a new fit out versus taking an existing fit out and benefiting from the increasing incentives on offer. In effect, effective rents are now diminishing and should vacancy levels increase, it will become more difficult for landlords to maintain face rental levels unless they have the ability to sit and wait.

With this backdrop, it is difficult to make new development feasible and certainly not possible without significant levels of pre-commitment.

This notwithstanding, there are currently two CBD projects under construction and four in the fringe. The CBD buildings are the Midtown Centre and 80 Ann Street. These will add circa 110,000 square metres of NLA to the market over the next 12 months.

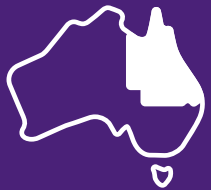
In the fringe areas, projects underway include: Jubilee Place on St Pauls Terrace; 895 Ann Street; 134 Merivale Street; and 31 Duncan Street. These will collectively add a further 78,500 square metres to the fringe office pool.



Jubilee Place, St Pauls Terrace, Fortitude Valley

Source: JGL Properties

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Whilst much of this new accommodation is pre-committed, it will create increased backfill vacancies and potentially even more sub-lease space.

Alistair Weir
Director

Gold Coast

Several new office building developments have been undertaken on the Gold Coast in recent times... although the stimulus for these has been pre commitment, including the driver of owner-occupation for some smaller buildings.

Alceon Queensland is developing Acuity Business Park at Robina comprising three buildings with circa 15,000 square metres NLA. Metricon was secured for the majority of Building 1 and the remaining areas were leased up during or reasonably quickly after completion at the end of 2020. This prompted commencement of Building 2 as a spec development, with completion anticipated later this year. Building 3 is also under construction following pre-commitment from TAFE Queensland. The Park has the prospect to expand further with Stages 4 and 5, although these are more likely in the medium than short term.

QIC is developing The Base also at Robina, with expected completion in 2023. Industry sources indicate that the 5,100 square metre NLA building has pre-commitment from Services Australia.

There are also examples of new office premises prompted by owner-occupation. These are generally of smaller sub-2000 square metre

NLA size, with the owner or developer looking to occupy a reasonable proportion of the floor space. Examples include 62-64 Davenport Street, Southport (late 2019) and 26-28 Lawson Street, Southport (to commence construction shortly with completion in early 2022).

Further north, 96-98 York Street, Beenleigh is an A-grade office building of 4,661 square metres NLA purpose-built for majority occupation by the Logan City Council, subject to a 10+5+5-year lease. The asset has been acquired by Australian Unity Office Fund for \$33.52 million at a purported yield of 5.75%. Of note is the reflected \$7,193 per square metre value rate on lettable area. The Metricon Building at Robina mentioned above sold in August 2020 for \$41.297 million, reflecting an analysed yield of 6% and just under \$7,000 per square metre value rate on lettable area. Given Beenleigh is considered an inferior location to Robina, it highlights the premium attached to a government-backed lease in a brand new building of this nature.

By comparison, older office buildings on the Gold Coast have reflected value rates on lettable area in the low \$3,000 per square metre. As a consequence, refurbishment or repositioning of established buildings represent other opportunities for entrepreneurial investors within the Gold Coast office sector. These buildings are generally well positioned in established business areas where availability of land is limited or too expensive to demolish and reinstate a new building. If the layout, floor plate size and provision of car parking are all suitable, then financially viable refurbishment

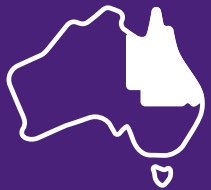
outcomes can be achieved. These opportunities seem to be more prevalent in the established office precincts of Southport and Bundall, where existing buildings are now up to 20 to 30 years of age. Examples of successful refurbishments or conversions include Seabank (12-14 Marine Parade), Zupp Place (64 Marine Parade), 7-11 Short Street in Southport and 128 Bundall Road, 130 Bundall Road and 140 Bundall Road at Bundall.

We are aware that such a proposal is being contemplated for Kaybank Plaza at 33 Scarborough Street, Southport.

Also in Beenleigh, 96 George Street, a circa 1991 building, was substantially refurbished both externally and internally, including installation of a lift and roof top solar system, improvement of the aesthetic appearance, floor space quality and internal access and more efficient cost of property outgoings.

The refurbishment route will generally enable a landlord to offer better quality floor space at more affordable rental levels than a brand-new building with a higher cost base requiring a higher level of rental.

As mentioned in our last Month in Review, a twist to the option of a building refurbishment is building repositioning. The Aspect office building at 154 Varsity Parade, Varsity Lakes is an example. This 13-year-old building demonstrated a high level of vacancy. The buyer proposes to reposition the asset and add value through undertaking minor external and internal works, dividing the existing large floor



The refurbishment route will generally enable a landlord to offer better quality floor space at more affordable rental levels than a brand-new building with a higher cost base requiring a higher level of rental.



96-98 York Street, Beenleigh - Artist Impression

Source: Conrad Gargelt Architects

plates into several smaller tenancies and offer the floor space inclusive of speculative fit outs.

Whether a new office building, a refurbished older office building or a repositioned modern office building opportunity, Gold Coast based tenants have traditionally sought quality at affordable rental, tenancy size flexibility and availability of on-site car parking... typical expectations for prospective office occupants in regional areas. Other attractions being incorporated into office buildings in more recent times have been end of trip facilities such as secure bicycle parking and

access to change rooms with shower facilities. Several buildings have also incorporated roof top entertainment or lunch areas, although tenants are reluctant to pay extra rental for such attributes.

The Gold Coast still has a relatively high vacancy level across its office sector (circa 13 per cent). There is also a mooted pipeline of circa 50,000 square metres of office projects, which includes 20,000 square metres within the Lumina Health and Knowledge precinct at Southport (west), being the former 2018 Commonwealth Games athletes village. On one hand, such fundamentals

could be construed as disadvantageous in respect to development of new office building projects elsewhere in the city, unless there was a degree of pre-commitment for the floor space.

On the other hand, in view of the continuing low interest rate environment, refurbishment or repositioning options for already established office buildings may offer a more attractive prospect.

Ryan Kohler
Director

Sunshine Coast

The office market on the Sunshine Coast saw a significant drop in vacancy across 2019 and 2020. The latest PCA report indicates that rates fell from 21.9 per cent in January 2019 to 13 per cent in January 2021. During this period, we saw absorption of 10,038 square metres in 2019 and 9,780 square metres in 2020.

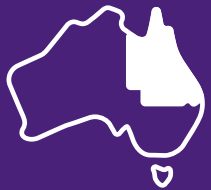
We have seen some very strong recent demand for leased office assets across the Sunshine Coast over the past couple of years and even into the 2021 year despite the uncertainty in the market due to COVID-19. These sales have generally seen yields compress to a range from circa 6.0% to circa 7.5%.

Sales of note include 54 Canberra Terrace, Caloundra which sold in March 2021 for \$8.5 million, reflecting a yield of 6.43%. The property was fully leased to predominantly government tenants with a WALE of 2.21 years.

The first completed office building within the new SunCentral Maroochydore CBD, Foundation Place, sold in March 2021 for circa \$31.1 million at a reported 6.31% yield. The building was 100 per cent leased with a five-year rental guarantee in place over any tenants that vacate during this time.

After the success of Foundation Place, local

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8 Maroochydore Road, Maroochydore circa 2015 Source: Herron Todd White

developer Evans Long is seeking leasing commitments for its second office building within the Maroochydore CBD, A1. The A1 building will comprise ground floor retail, podium level carparking and three levels of office space with an additional roof terrace and a five-star NABERS rating.

Other office buildings which have recently completed construction include Vitality Village within the Birtinya health precinct and Atria, located at Sippy Downs near the University of the Sunshine Coast. Both complexes had over 50 per cent lease pre-commitments prior to completion. These complexes provide a mix of office and allied health accommodation which have been well received and are in demand across the Sunshine Coast.

Further we are seeing the refurbishment of older office buildings for use as medical space. Examples include the purchase of a vacant office building in the township of Maleny for \$1.3 million, which has been renovated for use as an owner-occupied doctor's surgery, and a walk up, strata titled office in Buddina which was purchased by a medical owner-occupier who will undertake internal refurbishment as well as provide lift access. There have also been several sales of



8 Maroochydore Road, Maroochydore 2021 Source: Herron Todd White

mixed use and residential properties along Nicklin Way to local investors, where the zoning allows for redevelopment for office or medical use.

An extensive office refurbishment example is the property located at 8 Maroochydore Road, Maroochydore. Prior to refurbishment, the property comprised a 1113 square metre holding improved with a circa 1990s two level office building having a total lettable area of 498 square metres. As part of the re-development, the adjoining vacant land was amalgamated with the subject site for a total of 2,938 square metres. The original building was preserved, and a new six level retail and office building adjoining the property added, featuring two additional drive-through tenancies and a rooftop bar and terrace.

The strong population growth rate for the Sunshine Coast over the past five years as well as the improved infrastructure has led to increased demand for office space overall. The long-term Maroochydore CBD development and the announcement of the 2032 Olympics to be held across south-east Queensland is expected to have a positive impact on the region moving forward.

Stacey Sager
Commercial Valuer

Townsville

Positive sentiment is improving around the CBD office sector and we are continuing to see healthy levels of owner-occupier activity in the sub \$1 million bracket. A large portion of this owner-occupier product is circa 1980s style buildings, which are being purchased and renovated or refurbished to bring them up to modern standards.

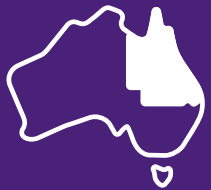
Quasi office, retail and residential developments underpinned by allied health is another sector that is currently seeing interest. These mixed-use style developments are typically located in suburban areas along arterial roadways. Both redevelopment opportunities and new construction are being considered.

In the current uncertain times, there is little impetus for new and large-scale office developments given the readily available quality office space at affordable rates and limited demand. Being a regional centre, our office market does not typically experience the quantum change that metro centres do.

The most recent new office building constructed in the CBD was the Australian Taxation Office (ATO) building, which was completed in early 2020 and purpose built for the ATO. There have also been a number of redevelopments and refurbishments over the past five to ten years, with the last large-scale refurbishment being completed in 2019.

Investors are also active. The largest office sale to date in 2021 was a mixed-use commercial complex in the CBD that sold for \$26 million. The property sold fully leased with a WALE of five years and an analysed net yield of 6%. The property comprised a mix of office accommodation and retail.

Jason Searston
Director





Rockhampton

There is currently limited construction of new office accommodation in the Rockhampton and Gladstone areas due to the ample supply of existing accommodation as well as the limited supply of vacant land or redevelopment sites in sought after office localities. The CBD is considered the premium office locality however it contains a number of heritage and character buildings, which further limits new building opportunities. As such, most activity has been owner-occupiers acquiring existing offices and renovating for their intended use, particularly in the health services sector. This can often be more cost effective than new construction as office accommodation can trade below replacement cost. Most activity remains in the sub 300 square metre market, with ideally a preference for onsite car parking. It is expected that the renovation market will be most active compared to new builds in the near future.

Greg Williams
Director

Wide Bay

Redevelopment for office premises within the Bundaberg, Hervey Bay and Maryborough CBDs has been very limited in recent years, constrained in part by limited car parking, soft demand within the CBD for tenancies and a stagnant rental market for professional office space. Demand however from health and allied professionals has improved but in a market segment focused on smaller lettable areas up to approximately 200 square metres for consulting or treatment of patients. We see the professional office market remaining challenging over the next six to 12 months for large tenancies, while the continued trend of developing new medical and allied health buildings in fringe commercial locations will continue in the Wide Bay,

Agents report an upswing in enquiry for office tenancies in Mackay as a consequence of the general improvement in local economic conditions and population growth.

particularly for medical premises of scale if an arbitrary benefit can be achieved with a purchase price in the \$100 to \$200 per square metre range for the land and net rents remaining at around the \$300 per square metre mark.

Ben Harnell
Property Valuer

Mackay

A good example of commercial redevelopment is the old Mackay Auto Spares property at 21 Sydney Street which was acquired in 2018 as an old retail showroom with a mechanical workshop off its rear Brisbane Street frontage. It has now been converted into good quality office and retail accommodation and is now substantially occupied by financial advisors. It has the benefit of a large site area that provides good on-site car parking. On-site car parking is a major constraint of many office tenancies around the city. This project is a good example of how to provide the on-site car

parking needed to meet market requirements.

Agents report an upswing in enquiry for office tenancies in Mackay as a consequence of the general improvement in local economic conditions and population growth. There are still plenty of office tenancies available for lease.

Notable office transactions include the leaseback sale of 12 Gregory Street, Mackay at \$2.55 million at a passing yield of around 7% and the sale of 10 Carlisle Street, Mackay at \$910,000 at an analysed market yield of around 7%. These are the tightest yields recorded in the current market cycle.

Greg Williams
Director

Toowoomba

Leasing demand for offices in Toowoomba has been moderate over the past three years and has declined further since the impact of COVID-19. Office rentals have remained relatively static to



21 Sydney Street - before redevelopment for parking Source: government mapping



21 Sydney Street - after redevelopment for parking Source: government mapping

date, although some rental incentives are available as landlords compete for tenants.

Market-leading rents are usually required to make new projects feasible. The mix of subdued leasing demand and the recent increase in building costs have made the feasibility of new developments questionable. The only saving grace has been the low interest rates and the firming of yields if developers are fortunate enough to secure tenants.

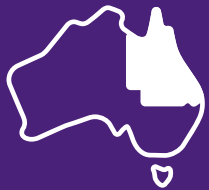
The last development completed in Toowoomba was South Central, a multi-storey retail, office and accommodation complex located at 677-681 Ruthven Street in South Toowoomba. Construction of this building was completed in 2020 and offers a range of office accommodation from 150 square metres. The feasibility of this project was likely aided by the mixed-use nature of the building.

Currently under construction is a new commercial building at 131 Margaret Street, Toowoomba City. This is the site of the former Amigos Bar & Grill which was destroyed by fire in 2017. The new building will have approximately 822 square metres of office accommodation over two levels, configured to provide four tenancy areas with 24 on-site car parks (mix of open and basement) provided.

There are a number of new medical facilities proposed in Toowoomba. These developments appear to be driven by owner-occupiers with most located in East Toowoomba near St Vincent's hospital.

Ian Douglas
Director

Month in Review
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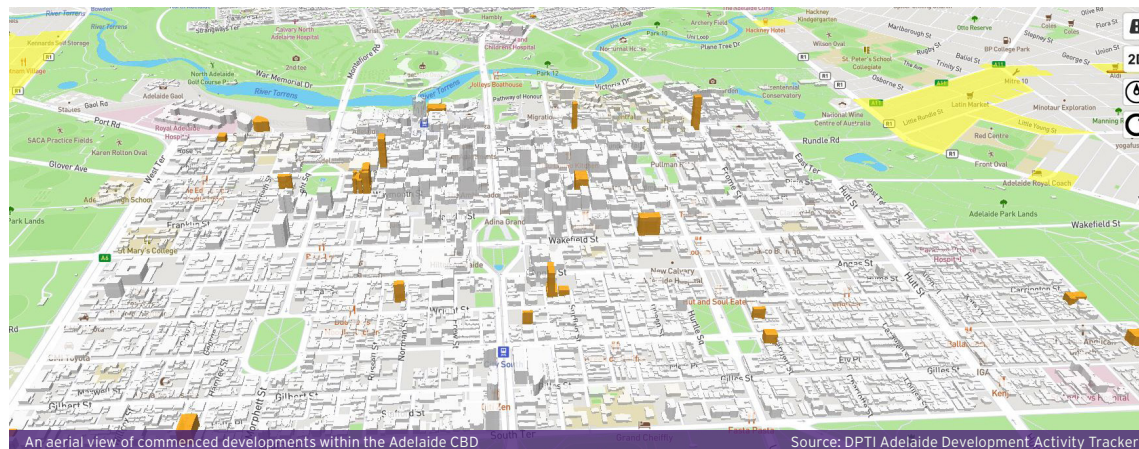
South Australia

Adelaide

Adelaide's office market is continuing the strong trends that emerged over the first half of 2021. A snap lockdown in South Australia towards the end of July was enough to halt any COVID-19 community transmission and the state emerged from lockdown after just one week, albeit with some more restrictions within the community. Despite this, we expect purchaser confidence for owner-occupiers and investors to remain high.

The most recent vacancy rates published in the Property Council of Australia (PCA) office market report for January 2021 indicate some significant increases in vacancies. Total CBD vacancies have increased by 1.8 per cent in the six months to January 2021, offset by a reduction in Adelaide fringe vacancies by 2.8 per cent. As highlighted in our recent office market update, the development of the 14-storey office tower on Wakefield Street is a major contributor to the increase in CBD vacancies. The Wakefield Street addition comprises over 14,000 square metres of A-grade office space that has been added to the market, ready for tenants to absorb the space.

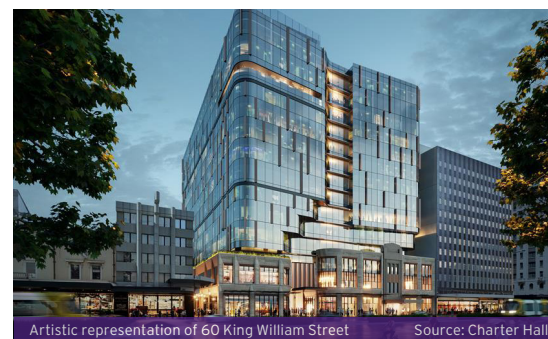
One of the most significant CBD developments is the construction of 73-85 Pirie Street, Adelaide. The owner, CBUS Property, has enlisted Woods Bagot Architects to design the 21-storey building at the former Planet nightclub site. 73-85 Pirie Street will add 30,000 square metres of lettable area to the market and contain 122 car parking spaces and 205 bicycle parks on completion in late 2022. In addition to this, the Festival Plaza project



at Station Road will provide in excess of 43,000 square metres of commercial office space, along with a 5,000 square metre city square and public realm. The Festival Plaza development sits behind Old Parliament House. The project is expected to be completed towards the end of 2022.

60 King William Street is another CBD development under construction. The Charter Hall development will incorporate and restore the state heritage listed Sands and MacDougall façade whilst constructing the 14-storey A-grade office tower. The building will include approximately 40,000 square metres of office space and 3,600 square metres of retail space. Services Australia has pre-committed to the Charter Hall Development and will occupy 28,500 square metres over ten floors.

Overall, the Adelaide property market has remained resilient, with investor confidence currently strong. The PCA and ANZ survey for the March 2021



quarter has South Australian confidence levels sitting at 142 points, 23 points higher than the state's historic average. CBD office occupancy sits at 70 per cent as South Australia continues to bounce back with outlooks now looking a lot more positive across all sectors.

Chris Winter
Commercial Director

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Western Australia

Perth

As we embark on the 2021/22 financial year post the advent of the COVID-19 pandemic, the Perth office property market continues to experience subdued conditions.

The latest PCA Office Market Report indicates Perth's office vacancy rate rose to 20 per cent in the six months to January 2021, up from 18.4 per cent, with the vacancy rate in West Perth unchanged at 22.1 per cent over the same period.

There remains a visible vacancy factor in Perth's traditional office districts. It would appear that businesses have cautiously embraced a work from home policy, at the very least providing greater flexibility for employees as to their preferred working environment.

Some employees, retaining a need for collaboration, problem-solving and social interaction, are continuing to demonstrate a need to return to the office, however a majority of workers have also shown a preference to work from home, despite the obvious distractions, citing improved productivity and a better work-life balance.

Perhaps as a consequence, our team has noted that demand for large scale floor plates greater than say 500 square metres has diminished considerably with such premises proving difficult to lease, even with significant incentives and/or discounted face rents.

What has also become clear is that a two-tier market has emerged as companies take advantage of the considerable incentives on offer to relocate

to premium and A-grade accommodation whilst lesser grades are left languishing with minimal enquiry in this space, particularly in the fringe East and West Perth markets where deals below \$100 per square metre per annum net (effective) are becoming more commonplace.

In terms of capital transactions, the questionable financial strength of incumbent office tenants brought on by the pandemic has seen investors tread carefully. Until recently, it appeared that prospective buyers in this sector had shelved acquisition plans unless presented with distinct value-add opportunities that may offer longer-term benefits.

Positively there has been a spate of recent sales of office buildings in West Perth during the past six months including:

Address	Sale Date	Sale Price	Analysed Market Yield	\$/m ² NLA
5 Ord Street	Jan-21	\$7,500,000	7.00%	\$4,526
677 Murray Street	Jan-21	\$4,150,000	7.81%	\$4,516
28 Kings Park Road	Apr-21	\$5,000,000	6.27%	\$3,756
38 Richardson Street	Under Contract (Apr-21)	\$4,200,000	7.08%	\$3,481

XGxGxGx Source: Herron Todd White

All but 38 Richardson Street were sold with existing or looming vacancies.

Additionally, we are aware of at least two other properties in West Perth currently under contract subject to due diligence.

It would seem the West Perth market has emerged as an opportunity for the astute, high net worth investor to acquire an older building and embark on a refurbishment program with a view to securing tenants ahead of the next upswing in this sector.

Generally, for older office premises across Perth, refurbishment has been prevalent and, under prevailing market conditions, considered a necessity in order to compete for a limited pool of prospective tenants.

Not surprisingly, construction activity in this sector has been almost non-existent. Of note however is the construction of Rhodes House, a state of the art, architecturally designed office building on Ord Street, West Perth. The approximately 2,850 square metre NLA building features a HVAC displacement air-conditioning system, three-metre floor to ceiling glass on three sides of the building, solar panels, communal roof-top terrace, EV charging stations and the obligatory end-of-trip facilities. Aspects of this design are likely to become more common in the near future.

Against a background of a robust mining and resources sector together with the state government's successful record of keeping COVID-19 outside Western Australia's borders, there is cause for optimism in the office property sector, noting the recent uptick in purchase activity perhaps signalling that the market has bottomed out.

Greg Lamborn
Director

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Northern Territory

Darwin

There remains little to report on the Darwin office market scene. This market segment was already in oversupply pre-COVID and the events of the past 18 months have done little to alleviate the situation. It is difficult to see how a new office development could be justified in the current market, unless it was strongly backed by a pre-lease, with the most likely tenant in this scenario being the Northern Territory government.

Of interest is the pending sale of the Darwin Transit Centre. This large block in the core CBD area is improved with two hotels, two backpacker lodges and a number of smaller retail tenancies fronting Mitchell Street and within two arcades. It has been offered for sale by expressions of interest closing in late July, with good interest evident.

Occasionally a smaller scale strata office can become available for sale, with some still exhibiting yields in the order of 7% or more which is an attractive return in the current interest rate environment.

Construction activity in the CBD remains limited. The refurbishment of Energy House, which includes the provision of a childcare centre and additional carparking in Litchfield Street,



continues apace. Construction of the new Charles Darwin University site adjacent to the GPO has commenced. It is hoped that completion of this building will spark development of support areas such as residential and office accommodation to revitalise this precinct. Finally, we note that a new

Quest development of 84 serviced apartments has been proposed for a site in Daly Street. It is hoped that this will kickstart construction in the CBD.

Terry Roth
Director

It is difficult to see how a new office development could be justified in the current market, unless it was strongly backed by a pre-lease, with the most likely tenant in this scenario being the Northern Territory government.

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Australian Capital Territory

Canberra

The Canberra office market has continued to perform relatively well in 2021 given the effects of COVID-19 and staff working from home, however there is uncertainty about future office space requirements

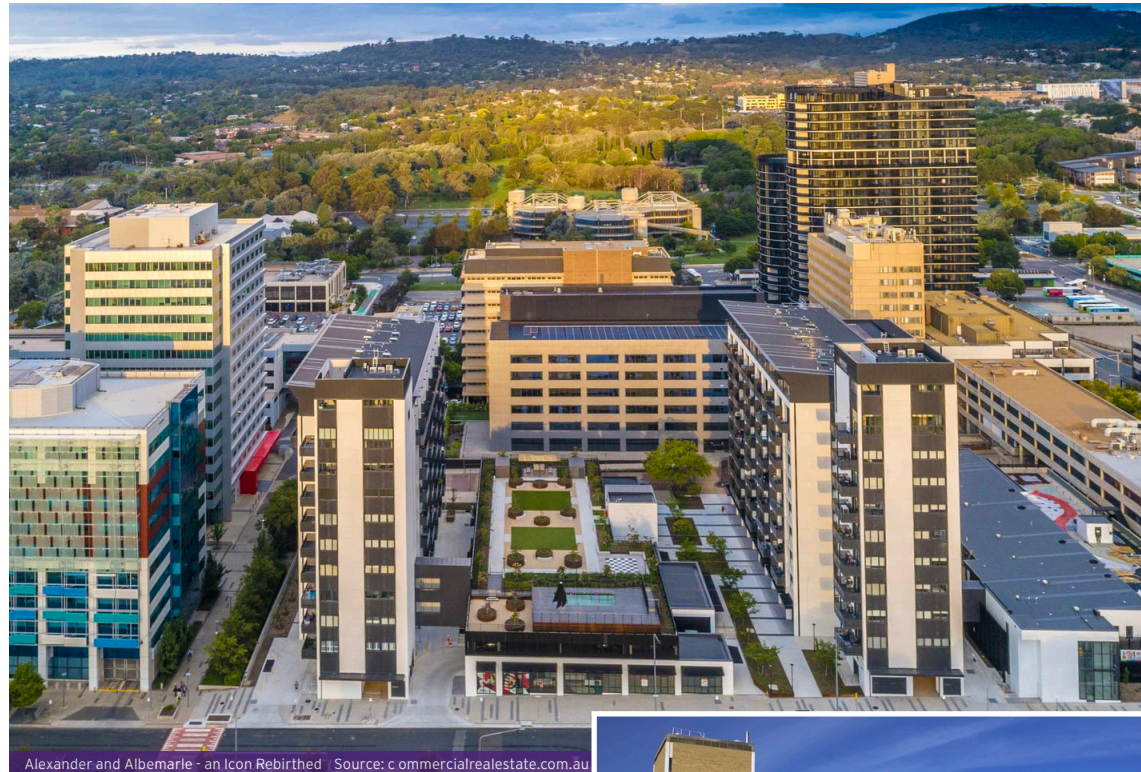
We have seen strong buyer demand for standalone office buildings, particularly in Deakin where we have seen yields compress below 6% with a mix of owner-occupiers and investors active in the market.

Office rents have continued to remain relatively flat throughout the ACT and this trend is expected to continue.

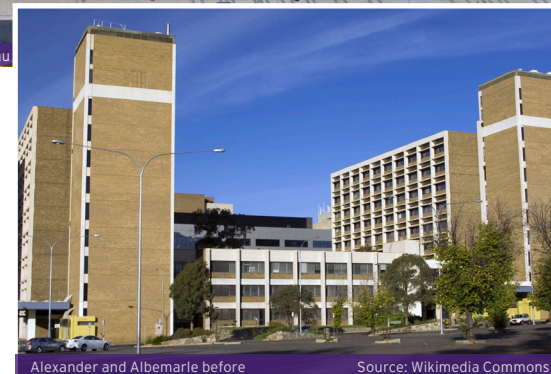
There have been examples of refurbishment of office buildings to residential towers with a recent example being conversion of the Alexander and Albemarle buildings in Woden into residential towers.

There has been continued growth in the availability of A-grade office space in the ACT. We have seen the recent completion of Constitution Place with a mix of large commercial and government tenants and future supply is expected this year in Majura Park.

James Feeney
Valuer



Alexander and Albemarle - an Icon Reborned · Source: commercialrealestate.com.au



Alexander and Albemarle before

Source: Wikimedia Commons

Month in Review
August 2021



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Property Market Indicators

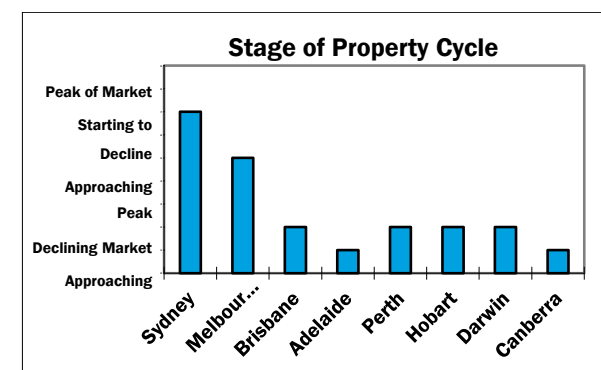
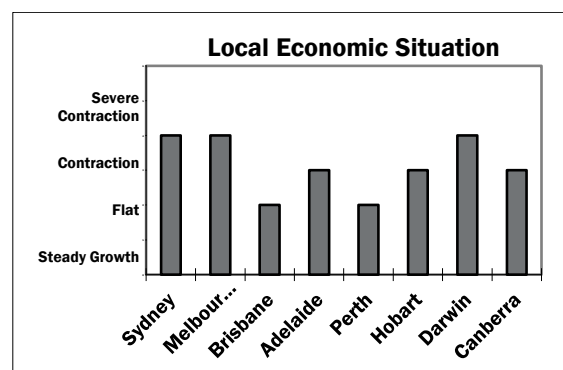
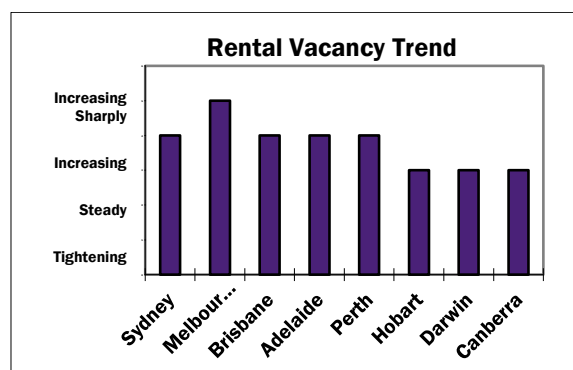
August 2021

Capital City Property Market Indicators – Office

Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Over-supply of available property relative to demand	Large over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Large over-supply of available property relative to demand	Balanced market
Rental Vacancy Trend	Increasing	Increasing sharply	Increasing	Increasing	Increasing	Steady	Steady	Steady
Rental Rate Trend	Declining	Declining	Declining	Stable	Declining	Declining	Stable	Stable
Volume of Property Sales	Declining	Declining	Increasing	Steady	Declining significantly	Steady	Steady	Steady
Stage of Property Cycle	Starting to decline	Declining market	Bottom of market	Start of recovery	Bottom of market	Bottom of market	Bottom of market	Start of recovery
Local Economic Situation	Contraction	Contraction	Steady growth	Flat	Steady growth	Flat	Contraction	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Large	Significant	Large	Significant	Large	Large

Red entries indicate change from 3 months ago to a higher risk-rating

Blue entries indicate change from 3 months ago to a lower risk-rating

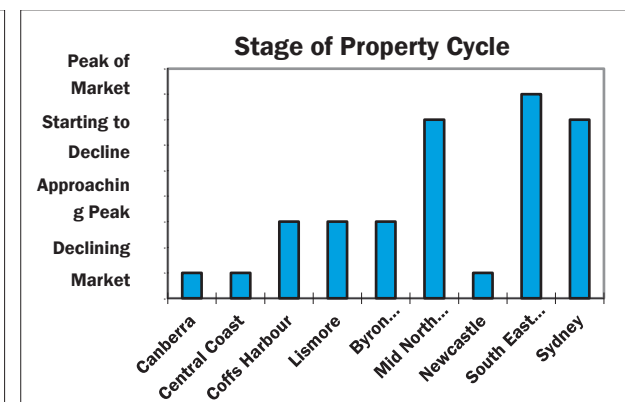
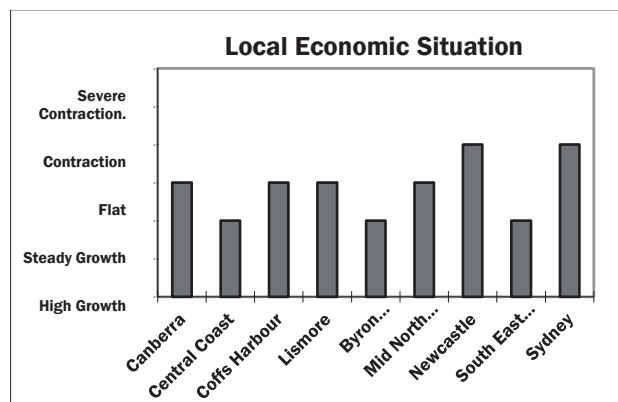
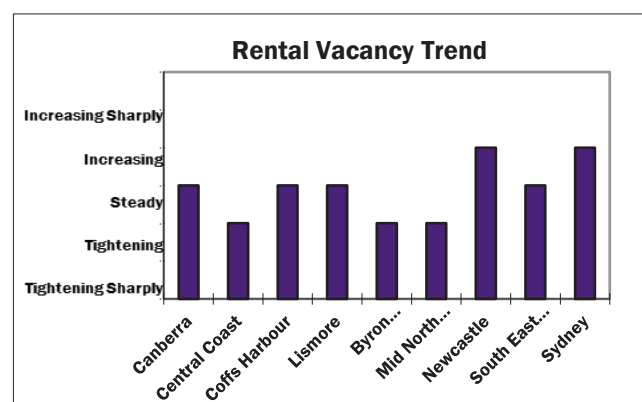


East Coast & Country New South Wales Property Market Indicators – Office

Factor	Canberra	Central Coast	Coffs Harbour	Lismore	Ballina/Byron Bay	Mid North Coast	Newcastle	South Est NSW	Sydney
Rental Vacancy Situation	Balanced market	Balanced market	Over-supply of available property relative to demand	Balanced market	Shortage of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Tightening	Steady	Steady	Tightening	Tightening	Increasing	Steady	Increasing
Rental Rate Trend	Stable	Stable	Stable	Stable	Stable	Stable	Declining	Stable	Declining
Volume of Property Sales	Steady	Increasing	Steady	Steady	Increasing	Declining	Declining	Steady	Declining
Stage of Property Cycle	Start of recovery	Start of recovery	Rising market	Rising market	Rising market	Starting to decline	Start of recovery	Peak of market	Starting to decline
Local Economic Situation	Flat	Steady growth	Flat	Flat	Steady growth	Flat	Contraction	Steady growth	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Large	Significant	Significant	Significant	Small	Large	Large	Significant	Significant

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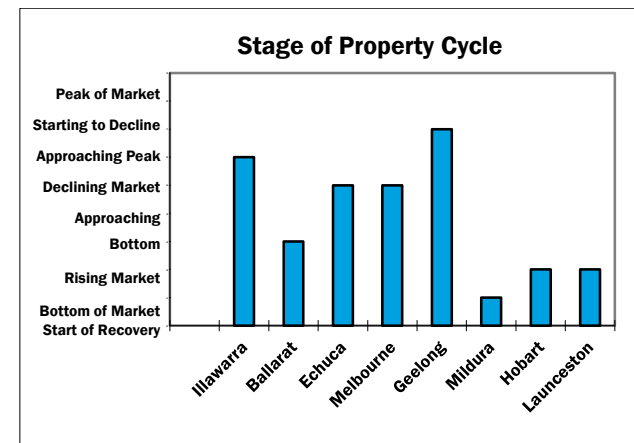
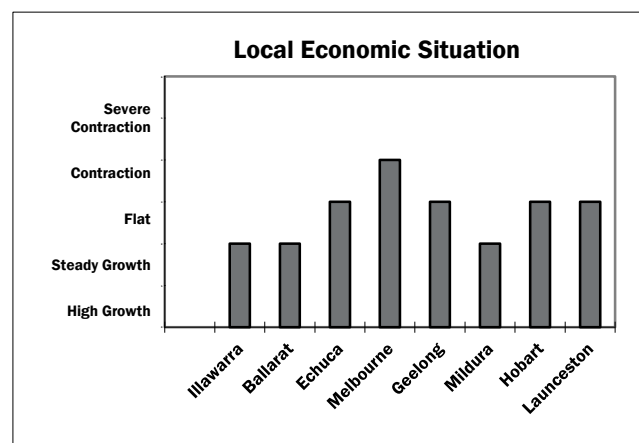
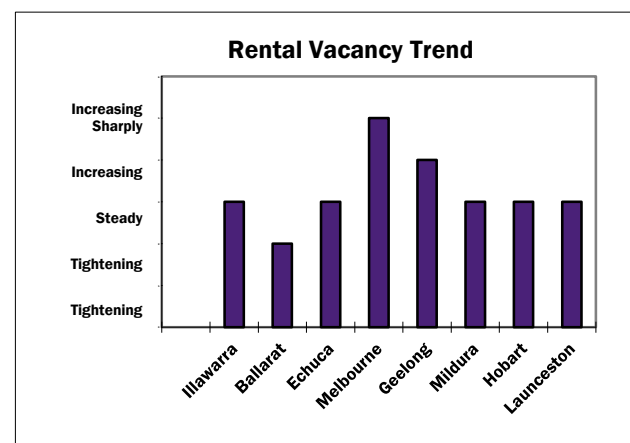


Victorian and Tasmanian Property Market Indicators – Office

Factor	Illawarra	Ballarat	Echuca	Melbourne	Geelong	Mildura	Hobart	Launceston
Rental Vacancy Situation	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Large over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Tightening	Steady	Increasing sharply	Increasing	Steady	Steady	Steady
Rental Rate Trend	Stable	Increasing	Declining	Declining	Declining	Stable	Declining	Declining
Volume of Property Sales	Steady	Increasing	Steady	Declining	Declining	Declining	Steady	Steady
Stage of Property Cycle	Start of recovery	Rising market	Declining market	Declining market	Starting to decline	Start of recovery	Bottom of market	Bottom of market
Local Economic Situation	Steady growth	Steady growth	Flat	Contraction	Contraction	Steady growth	Flat	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Large	Small	Small	Significant	Significant	Small	Significant	Significant

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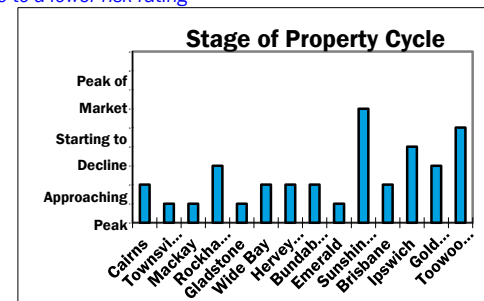
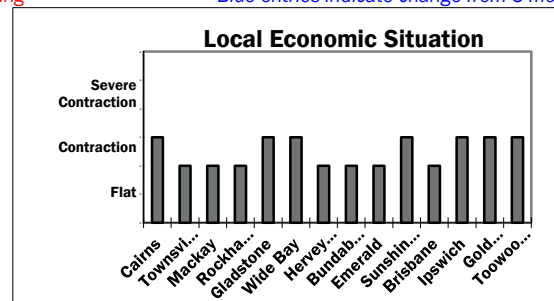
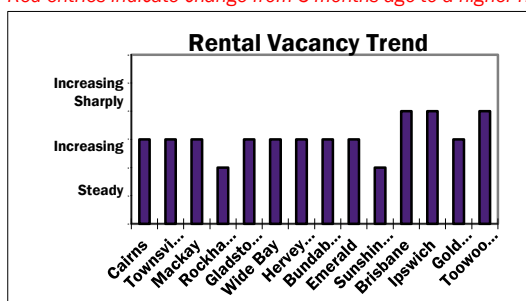


Queensland Property Market Indicators – Office

Factor	Cairns	Townsville	Mackay	Rockhampton	Gladstone	Wide Bay	Hervey Bay	Bundaberg	Emerald	Sunshine Coast	Brisbane	Ipswich	Gold Coast	Toowoomba
Rental Vacancy Situation	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Steady	Steady	Tightening	Steady	Steady	Steady	Steady	Steady	Tightening	Increasing	Increasing	Steady	Increasing
Rental Rate Trend	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Declining	Declining	Increasing	Declining
Volume of Property Sales	Steady	Increasing	Steady	Increasing	Steady	Steady	Declining	Declining	Steady	Steady	Increasing	Steady	Declining	Steady
Stage of Property Cycle	Bottom of market	Start of recovery	Start of recovery	Rising market	Start of recovery	Bottom of market	Bottom of market	Bottom of market	Start of recovery	Approaching peak of market	Bottom of market	Approaching bottom of market	Rising market	Declining market
Local Economic Situation	Flat	Steady growth	Steady growth	Steady growth	Flat	Flat	Steady growth	Steady growth	Steady growth	Flat	Steady growth	Flat	Flat	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Significant	Significant	Significant	Significant	Significant	Significant	Small	Small	Large	Large	Significant	Large

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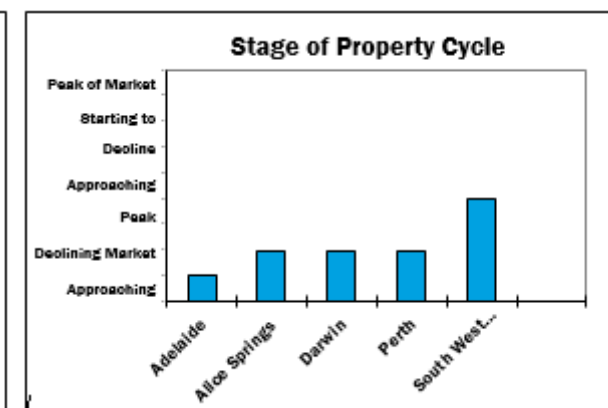
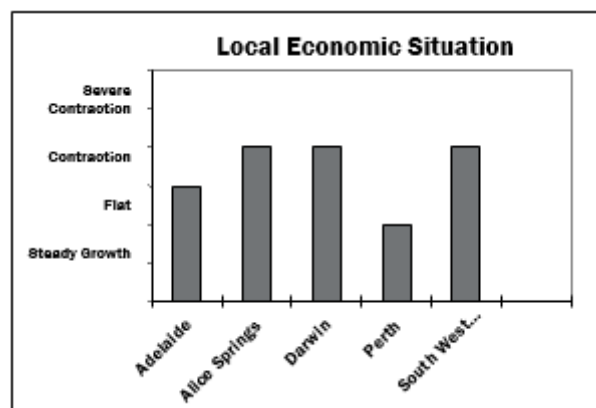


SA, NT and WA Property Market Indicators – Office

Factor	Adelaide	Alice Springs	Darwin	Perth	South West WA
Rental Vacancy Situation	Over-supply of available property relative to demand	Balanced market	Large over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Increasing	Steady	Steady	Increasing	Increasing
Rental Rate Trend	Stable	Stable	Stable	Declining	Declining
Volume of Property Sales	Steady	Steady	Steady	Declining significantly	Declining
Stage of Property Cycle	Start of recovery	Bottom of market	Bottom of market	Bottom of market	Approaching bottom of market
Local Economic Situation	Flat	Contraction	Contraction	Steady growth	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Large	Large	Small

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