Month in Review

Commerical - November 2024

The Month in Review identifies the latest movements and trends for property markets across Australia.

National Office Overview

The Australian office market in 2024 continues to experience significant volatility in much the same vein as 2023. Nationally, vacancy rates remain high and incentives are elevated, with demand still lagging behind pre-pandemic levels despite busier city centres.

Jason Stevens
Commercial Director

Tenant demand is increasingly focused on flexible workspaces, a consistent trend across Australia's major capital cities.

As of July 2024, the Property Council of Australia reported a total office vacancy rate of 13.6 per cent across all grades, up slightly from 13.5 per cent in January 2024. This reflects a significant increase from the pre-pandemic vacancy rate of eight per cent recorded in January 2020, indicating that the market has yet to fully recover.

Hobart maintains the lowest vacancy rate in the country, with a total of 2.8 per cent across all grades, while Melbourne and Adelaide have the highest vacancy rates, standing at 18 per cent and 17.5 per cent respectively.

Tenant demand is increasingly focused on flexible workspaces, a consistent trend across Australia's major capital cities. Companies are seeking to relocate or upgrade to better-quality office spaces, with premium and A-grade buildings continuing to attract stronger demand and exhibiting lower vacancy rates. In contrast, secondary office spaces remain harder to lease, contributing to the elevated overall vacancy levels.

Rental rates in 2024 have largely remained flat in line with 2023 levels, with only marginal signs of growth in certain markets where supply is limited. High incentives, reaching over 40 per cent in some CBDs, have persisted, keeping face rental growth subdued. Given the challenging leasing conditions and the prevalence of incentives, material rental increases are unlikely in the near future.

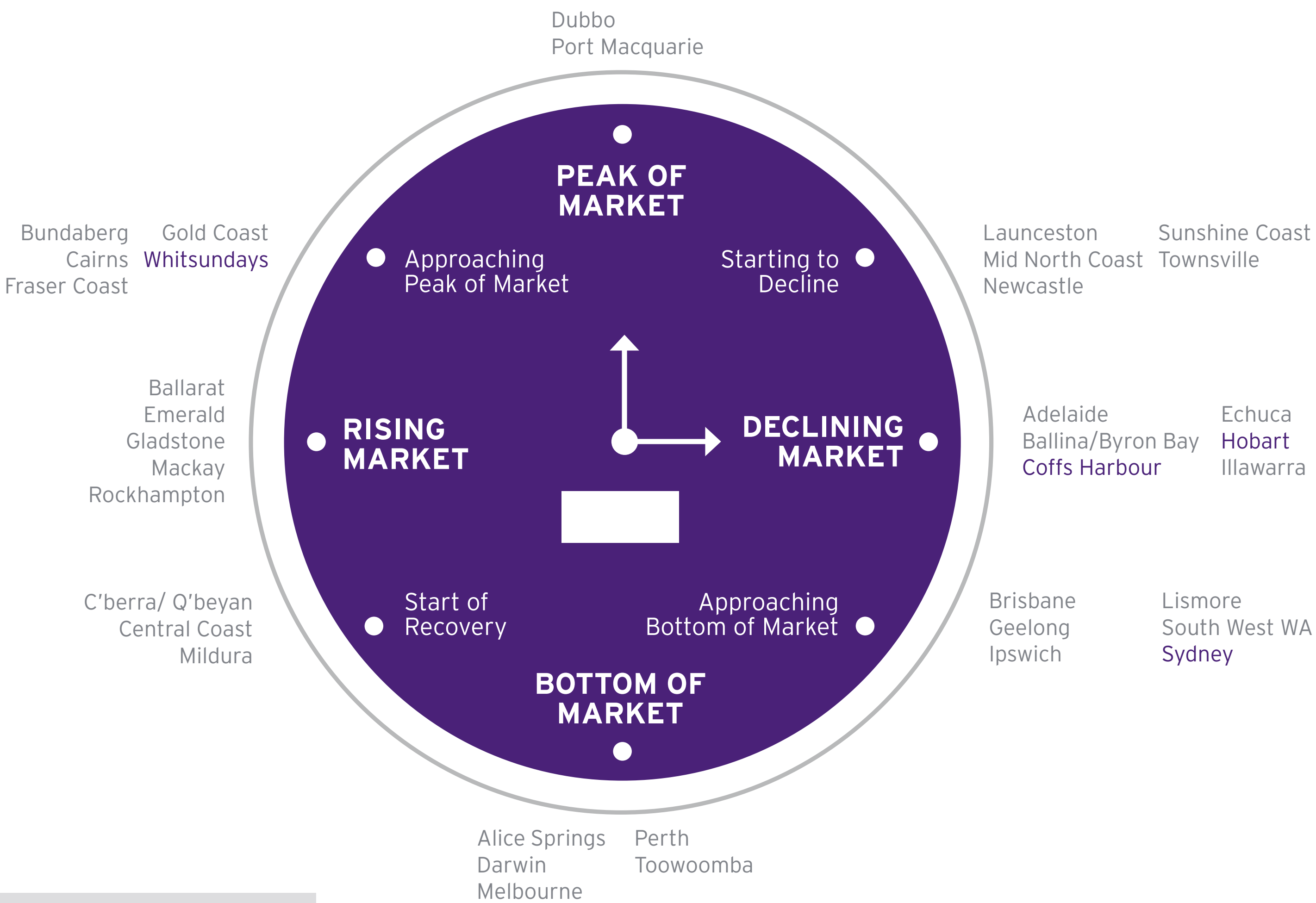
Economic uncertainty continues to weigh on the office market, driven by persistent inflationary pressures and elevated interest rates. Investors and businesses remain cautious, and this uncertainty has contributed to downward pressure on office property values. Yields have softened in some markets by as much as 250 basis points, reflecting weaker investor demand due to high vacancies and negative sentiment.

The ongoing challenge across Australia's major cities is the lack of office property transactions, making it difficult to assess the full extent of market softening. Transaction volumes in Perth and Melbourne have shown a small decline while Sydney, Brisbane and Adelaide are showing signs of increased activity. We are now seeing more distressed sales which further muddies the waters as these tend to distort valuations by impacting the perception of market values.

Looking ahead, the office market faces ongoing challenges. With economic conditions expected to remain weak and vacancy rates still elevated, it is likely that the volatility in the office sector will persist throughout the remainder of 2024 and beyond. Investors and occupiers alike will continue to navigate a cautious market environment.

National Property Clock: *Office*

Entries coloured purple indicate positional change from last month.



New South Wales - Office 2024

Sydney

Once again, it has been an unsteady year for the office sector, especially within the Sydney CBD. The difficulties this market experienced in 2023 have continued in 2024. This market continues to be plagued by high vacancy rates and subdued leasing conditions leading to a decline in values. Overall the market is entering a period of decline with lower volumes of sales and leasing and limited demand overall.

The Property Council of Australia reported office vacancy rates for the Sydney metro areas showed marginal improvement in the six months from January 2024 to July 2024. Whilst this is an improvement, this marginal increase is not considered to reflect a significant overall improvement in demand.

Incentives across the board remain high although we have seen some improvement from the peak in 2023. Face rates remain reasonably stable with incentives being used to attract tenants. In markets considered secondary offerings, there are indications of declining rental rates particularly if there is an oversupply in the market. For example we have noted a decline in rental rates in the Macquarie Park office precinct of circa 10 per cent.

On a positive note, there is indication that offices are returning to a new normal with increased foot traffic within the Sydney CBD. The hybrid working environment remains popular however more businesses are encouraging staff to attend the office and this would appear to be giving businesses more confidence in securing office space.

Overall, the office market is suffering as a result of a number of issues. Changes to tenant demand and soft economic conditions including interest rates and inflation have led to continued uncertainty for the office market. We anticipate, optimistically, that there may be some improvement next year as interest rates may potentially reduce and hopefully economic conditions will improve. We are hopeful that this may lead to more confidence in the office market and commercial markets more generally.

Angeline Mann
Commercial Director

On a positive note, there is indication that offices are returning to a new normal with increased foot traffic within the Sydney CBD.

Victoria - Office 2024

Melbourne

The Melbourne CBD office market in 2024 continues to face challenges as the sector struggles to recover fully from the impacts of the pandemic and shifting work trends. Despite increased foot traffic and a more active city centre, office demand remains subdued compared to pre-pandemic levels, with vacancy rates staying high and incentives at elevated levels.

According to the Property Council of Australia's Office Market Report, Melbourne's CBD office overall vacancy rate increased from 16.6 per cent to 18 per cent over the six months to 1 July 2024. While some businesses have returned to the office, the widespread adoption of hybrid working models has contributed to ongoing underutilisation of office space.

Tenant demand in the Melbourne CBD continues to centre on flexible, high-quality spaces. Premium and A-grade buildings remain in higher demand, with lower vacancy rates compared to older, less desirable secondary properties. Tenants are looking to upgrade to more modern spaces with better amenities, especially as the flight to quality trend persists. Many businesses prefer smaller, flexible floor plans that can adapt to hybrid working models, with an emphasis on sustainability and wellness features becoming increasingly important.

Co-working spaces and flexible leasing terms are also gaining traction, as businesses seek to remain agile in the face of economic uncertainty. Leasing vacant space with no existing fitout in place is proving very difficult as businesses seek to utilise second generation fitout where possible.

Tenant demand in the Melbourne CBD continues to centre on flexible, high-quality spaces.

Rental rates in the Melbourne CBD have largely stagnated in 2024, with little movement due to the high vacancy rates and strong competition among landlords to attract tenants. In some fringe CBD areas, there are small signs of rental growth where supply is more constrained, but the core market remains flat.

Incentives continue to be a key factor in securing leases, with Cushman & Wakefield reporting A-grade incentive levels at 46.2 per cent. This is a continuation of the trend in 2023, as landlords are forced to offer significant concessions to attract and retain tenants in a competitive market.

Investment activity in the Melbourne CBD office market has slowed, reflecting broader national trends. Rising interest rates, economic uncertainty and high vacancy rates have all contributed to reduced investor appetite. Cushman & Wakefield have also reported softening yields with premium assets ranging from 5.25% to 6%, A-grade assets ranging from 6.6% to 7% and secondary assets ranging from 7.3% to 7.8%. Yield softening in secondary assets has been by as much as 250 basis points.

There has also been a notable reduction in office property transactions, making it difficult to gauge the full extent of the market's softening. Agents report longer transaction times and a growing reluctance from buyers to proceed with deals, especially for lower-grade office assets. Distressed sales however are increasing as owners are finding it harder to maintain cashflow and service debt.

The outlook for the Melbourne CBD office market remains cautious for the rest of 2024. Economic headwinds, including high inflation and elevated interest rates, continue to dampen confidence in the office sector. Vacancy rates are expected to remain high as hybrid work becomes more entrenched, and rental growth is likely to stay flat due to the elevated levels of incentives.

Jason Stevens
Director

Queensland - Office 2024

Brisbane

The Brisbane office market has undoubtedly outperformed most major Australian cities this year and it's expected that its run will continue next year.

The strong population growth has driven demand, and this is evident in the return to offices as the overall PCA Brisbane CBD vacancy rates compressed to 9.5 per cent which is the lowest level since January 2013.

The flight to quality theme is still very much at the forefront as businesses are still seeking high quality fitouts as they encourage staff back to the office. The premium and A-grade sectors of the market are benefiting the most as businesses look to upgrade from their previous tenancies and businesses are even starting to migrate back from fringe precincts to the CBD.

Prime and A-grade vacancy rates are both sitting below 10 per cent which is putting upward pressure on face and effective rents as demand increases and there are no significant developments to be completed until H2 in 2025/2026. Accordingly, it's plausible that vacancies will further compress, and further rental growth is expected into 2025.

The secondary segment of the market is not performing at the same level as the premium end of the market as vacancies have in fact increased in the past 12 months. The B-grade vacancy rate softened from 9.9 per cent to 13.0 per cent and the C-grade vacancy rate softened from 10.6 per cent to 12.0 per cent in a 12-month period. There were also two significant building withdrawals from the market totalling circa 40,000 square metres (41 George Street and 150 Charlotte Street). If it wasn't for these withdrawals, the vacancy rates would in fact have been higher. Despite this, the higher B-grade buildings which have upgraded building services and are well located still have good demand as they provide a more affordable alternative to the premium grade market.

The flight to quality theme is still very much at the forefront as businesses are still seeking high quality fitouts as they encourage staff back to the office.

The institutional investment market was extremely slow in 2023 with little transaction activity as the price gap between vendor and buyer expectations remains due to a legacy of inflated book values. This has made it difficult for funds and syndicators to on-sell their assets. However, there have now been a couple of larger office transactions which have settled this year as prices and capitalisation rates start to readjust. It's probably too early to say that we have approached the bottom of the cycle as these transactions represent counter-cyclical plays, but it does feel as though we are approaching the bottom of the cycle.

There will be a number of major government infrastructure requirements in the coming years as Brisbane prepares for the 2032 Olympic Games. This infrastructure injection has and will continue to attract significant interest from institutional investors, REITs, superannuation funds and private equity. Buoyant leasing market conditions are also playing an important role with the recovery of the investment market and further improving leasing conditions will also enhance investors' appetite.

At the other end of the spectrum, the owner-occupier market has performed strongly this year and this is expected to continue as there is a critical shortage of stock available on the market. Continual, year on year strong interstate migration and population growth in south-east Queensland will continue to place upward pressure on this market.

A prime example of the current strength of the owner-occupier market is the recent sale of 447 Upper Edward Street, Spring Hill.

447 Upper Edward Street, Spring Hill — Source: realcommercial.com.au

COMMERCIAL - OFFICE

The building was previously purchased for $3.3 million in 2021 and subsequently underwent a substantial refurbishment which was completed with a high-quality speculative fitout. It recently transacted for $9.8 million in July, reflecting a rate of $8,201 per square metre of net lettable area.

Edward Cox
Associate Director

Gold Coast

Throughout 2024, the Gold Coast office market has been marked by a persistent lack of supply, driven by the combination of high land, construction and borrowing costs. This scarcity has kept vacancy rates low, averaging around six per cent across the region. Demand remains high despite a significant portion of office spaces still being under-utilized due to continued remote work practices. Core office precincts such as Broadbeach, Bundall, Surfers Paradise, and Southport have held firm vacancy rates at three per cent, 4.8 per cent, 9.3 per cent, and six per cent respectively, with A-grade office accommodations seeing an especially tight vacancy rate of 3.5 per cent.

Rental rates have continued on an upward trajectory in 2024, with prime office spaces frequently commanding rents over $500 per square metre per annum, plus costs for parking and GST. Incentives have moderated, typically falling between ten and 20 per cent, with the higher end of this range generally offered for larger or bare spaces that require substantial fitouts. The cost of fitting out office spaces has surged, reflecting both the increased demand for modern office configurations and rising construction expenses.

Given the constraints on new development, there is significant potential for refurbishing older office assets to cater to the sustained demand for high-quality spaces.

The demand for office buildings priced under $15 million has been robust, keeping yields relatively stable at around 6.5% to 7.0%. Lower-valued assets have occasionally yielded below 6.5%, supported by a continued interest in the cost and risk of replacement. Conversely, larger, older, or unique properties often see yields closer to 8.0%, with investors accounting for potentially high renovation costs.

One recent sale example is Alder Place at 116 Siganto Drive, Helensvale, which is a modern (2014 construction) office building located on the northern Gold Coast. It was purchased by an investor in June 2024 for $9 million. It is a multi-tenant office building with the anchor tenant being the vendor, Alder Constructions, a well-known construction and development company. The reflected floor area rate is $6,016 per square metre over the 1,496 square metres of net lettable area, being below replacement cost (for land and buildings). The WALE is 3.20 years and Herron Todd White has assessed the analysed market yield at 6.68%.

Given the constraints on new development, there is significant potential for refurbishing older office assets to cater to the sustained demand for high-quality spaces. Rising construction costs however present a barrier to achieving viable returns on such projects. A major recent refurbishment is the $8 million upgrade of 33 Scarborough Street in Southport, which brought 3,000 square metres of modern office space to the market in late 2024.

In the Gold Coast Health and Knowledge Precinct, the Proxima building was completed, adding 11,500 square metres of lettable space, largely aimed at medical and allied health services, with an early learning centre as its anchor tenant. As the first private commercial project within the Lumina Cluster, Proxima represents a new model for future developments catering to niche markets within the Gold Coast.

With land scarcity and rising construction expenses limiting new developments in traditional core precincts, future office supply is increasingly expected to come from non-core areas like the M1 corridor. Meanwhile, office micro-locations in areas such as Miami and Mermaid Beach are gaining traction as new beachside hubs, appealing to businesses that value proximity to lifestyle amenities.

As demand continues to outpace supply, the Gold Coast office market is likely to see further rental growth in 2025, particularly for high-quality fitted spaces over 300 square metres. Vacancy constraints are expected to push rents higher and the trend towards upgrading older properties may further evolve to meet demand. The geographic focus of new developments may also expand, with increased interest in non-core locations and refurbished assets poised to play a more significant role in the office market's future landscape.

Ryan Kohler
Director

Sunshine Coast

We began the year with a sense of optimism, acknowledging speculation that interest rates might have peaked and potential rate cuts were on the horizon. At that time, agents reported a renewed sense of confidence across most sectors. However, as the months progressed, it became clear that this optimism was short-lived, with fresh data revealing that the inflation challenge was far from over and further interest rate hikes were now a possibility.

As the year unfolded, interest rate cuts did not materialize and inflation remained sticky. This dampened investor appetite for investment-grade office properties across the Sunshine Coast. However, a limited supply of smaller strata units in the region helped to underpin the owner-occupier market.

As economic uncertainty persisted, a softening of yields continued for leased office investments, particularly in larger buildings. Despite the Sunshine Coast maintaining one of the tightest vacancy rates in the country (around five per cent), agents reported that buyer sentiment mirrored the caution seen in capital city markets.

A significant transaction in 2024 was the sale of Foundation Place in the Maroochydore CBD, which sold in June for $27.3 million, reflecting a yield of 7.68%. The building was fully leased to a mix of national and local tenants. It is worth noting that the property had sold in March 2021 for $31.2 million at a yield of approximately 6.34%, highlighting the shift in investor appetite for large office assets.


Foundation Place, Maroochydore Source: Adam + Sparks Town Planning

Another notable sale was an office investment in Birtinya, with 4/4-6 Innovation Parkway under contract for $2.579 million, reflecting a yield of approximately 7.5%.


4/4-6 Innovation Parkway, Birtinya Source: realcommercial.com.au

While the investment market has softened, the consistently low vacancy rate (circa five per cent) has generally supported rental rates. Demand for office space has been somewhat inconsistent, with strong interest for high-quality offices such as those in the Maroochydore CBD, and less demand for secondary locations. Strong leasing interest has been reported for the proposed 50 First Avenue in the Maroochydore CBD developed by Walker Corporation, set for completion in 2025, with incentives around 20 per cent.

In summary, the office market in 2024 has exhibited varying dynamics. Demand from entry-level to mid-level owner-occupiers has remained resilient, supported by low supply, while the investment market has softened due to higher borrowing costs and broader uncertainty around the asset class.


Jaydon McDowell
Associate Director

Rockhampton

As we approach the end of 2024, the Rockhampton office market has shown a positive trajectory, reflecting broader economic recovery trends and our predictions earlier in the year.

Throughout 2024, Rockhampton's office market tracked steadily, benefiting from increased local business activity and infrastructure investments. The demand for office accommodation from both owner-occupiers and tenants has remained steady.

In 2024, there hasn't been a landmark office sale, with most sales below $2 million. Agents are continuing to note good interest from investors for well-tenanted properties, however there is limited supply coming to the market. Owner-occupiers have remained active, as delayed building time frames and elevated building costs are making good quality established properties more desirable. The strong competition from owner-occupiers in the sub $2 million space is keeping yields compressed.

As economic uncertainty persisted, a softening of yields continued for leased office investments, particularly in larger buildings.

The diminishing supply of good quality office accommodation is putting upward pressure on rents, with premium office accommodation now at circa $450 per square metre.

In summary, Rockhampton's office property market in 2024 has demonstrated resilience characterized by steadily rising rents and stable yields.

Gregory Williams
Director

Gladstone

As we near the end of 2024, the Gladstone office market has demonstrated a positive upward trend, aligning with broader economic recovery patterns and our earlier forecasts. Throughout the year, the market has shown steady growth, fueled by increased local business activity. Demand for office space from both owner-occupiers and tenants has remained consistent.

This year has been marked by investment-grade office building sales primarily under $3 million, with investors attracted to the higher yields compared to those in major cities. Local investors have also been active in this price range. Owner-occupiers have focused on properties priced below $2 million, seeking established locations to bypass rising construction costs and lengthy building timelines.

While rental rates have been steadily increasing, yields have remained solid. However, investors remain vigilant regarding lease covenants and expiration dates. In summary, 2024 has unfolded as anticipated, and we look forward to what 2025 will bring.

Graham Gross
Valuer

As we near the end of 2024, the Gladstone office market has demonstrated a positive upward trend, aligning with broader economic recovery patterns and our earlier forecasts.

Mackay and Whitsundays

A two-level walk-up office property at 17 Brisbane Street, Mackay recently sold for $3.73 million. This is an unusual transaction where all six units within a Community Management Scheme were sold under three sale contracts. Most of the upper level was leased back to Taylor Solicitors. Legal Aid Queensland occupies the lower level. The building was constructed around 1990 and has a net lettable area of 1,038 square metres with 16 mostly undercroft car parks. This sale shows an analysed market yield of 8.0% (WALE of 1.9 years) or $3593 per square metre of net lettable area. As a bonus, the property had a healthy sinking fund balance.

Better quality office rents have now risen to around $600 per square metre per annum gross in the North Mackay Central. This is a fairly modern retail and office development with good car parking at 25 Evans Avenue. Other fair quality tenancies in Mackay City have now risen to around $450 per square metre per annum gross.

In the Whitsundays, a 500 square metre ground floor office unit at Whitsunday Business Centre, 228 Shute Harbour Road, Cannonvale has sold for $2.1 million showing an analysed market yield of 7.75% with an unexpired lease term of three years or $4,200 per square metre. This is a prominent office property which has been occupied by PRD Whitsunday (real estate) since the complex was developed in 2007.

Gregory Williams
Director

Townsville

Office markets remained relatively steady throughout 2024. The suburban office market saw a higher volume of sales activity than the Townsville CBD market which is mainly due to the CBD comprising older assets with high levels of obsolescence issues and vacancies.

Some sales that occurred in the CBD fringe show yields in the low 6% to early 7% with average WALEs of two to three years, the highest sale in this area being just north of $2.1 million.

Sales in the suburban office market ranged from $720,000 for a small, converted dwelling style building that analysed to a net yield of 6.06% with a lease expiry profile of three years to $3.825 million for a large office building with a floor plate of 1240 square metres that was acquired for owner-occupation and analysed to reflect a net yield of 7.06%.

The suburban office market saw two brand new office and allied health buildings sold to southern investors at prices of $1.6 million and $3.82 million that analyse to net yields of 6.25% and 6.48% and building rates of $5,128 per square metre and $5,141 per square metre respectively. Both sales had average WALEs of circa three years.

Office rents within the Townsville CBD and immediate surrounds remained stable ranging from circa $200 per square metre for older tenancies to $380 per square metre for smaller tenancies within the heart of the CBD whilst suburban office rents are ranging from $220 per square metre for older tenancies with limited exposure to $420 per square metre for modern tenancies that are generally situated along designated corridors and benefit from good exposure attributes and onsite parking.

Buyers' agents are still active within the Townsville office market and are chasing quality buildings with good lease covenants and income profiles which continues to place pressure on yields in the suburban areas.

Jamison Sayce
Associate Director

Cairns

The Cairns office market is relatively shallow and has experienced limited new development, with the last major office development being the State Government office tower completed in 2010. There have been several smaller (sub 2500 square metre) tenant-initiated design and construct projects completed, however there are no known significant new developments in the pipeline.

The recent redevelopment of the old Masters building into the new Centrelink premises has made available some larger areas in different buildings within the CBD.

Quality green star and NABERS/BEEC rated premises, of which there are only a handful of in Cairns, achieve high levels of occupancy and higher rental levels with these primarily appealing to state and federal government entities. Rentals for A-grade office are strong and have been increasing in line with holding andfit out costs as lessors try to maintain a base yield. This rental market is considered somewhat reactive to asking rentals with government tenants more often deal takers than negotiators of asking levels.

The rental market for B-grade office accommodation has been reasonably strong in recent years appearing to be fuelled largely by a substantial pool of NDIS funding and a surge in NDIS providers establishing in the region over this period. Demand for lesser quality space in the CBD remains limited, however this is typically a result of buildings being very dated and offering poor quality accommodation or having very limited to no onsite parking. Non-inner CBD and well exposed secondary space appears to be moderately strong however demand begins to fall away above circa 500 square metres.

There have been limited quality office properties presented to the market in recent years which has resulted in very limited sales activity. Many of the larger inner city office complexes are held by long term established families and are very seldom released to the open market.

Local and southern investor demand remains relatively strong but agents have advised a softening of yields over the past nine months for anything that does not represent a blue chip investment property. Agents have advised that prospective purchasers are typically looking to achieve a yield of 7% and above depending on the scale and quality of both the asset and lease/s in place. Unfortunately this is yet to be reflected in the evidence with activity once again limited by a severe shortage of investment stock.

Shane Quinn
Director

Many of the larger inner city office complexes are held by long term established families and are very seldom released to the open market.

Toowoomba

Entry level office properties in Toowoomba consist primarily of converted dwellings and strata office suites around the fringes of the Toowoomba CBD. Over the previous two years, demand for converted dwellings has continued to grow, underpinned by owner-occupiers and this market is now tightly held. Few properties of this nature have transacted on the open market year to date in 2024 and it is rare for these properties to sell to investors. Demand for quality tenanted strata office suites has continued in recent times however there are once again limited options available to prospective buyers with very limited supply.

A prospective buyer can expect to pay $750,000 to $1 million for entry level freestanding offices in Toowoomba. If a property is leased with an average or above average lease term (three to five years) a sub 6% yield is readily achievable. The major risk for an investor is a prolonged period of vacancy at the conclusion of the current lease term. Prime office accommodation in the city centre is likely to experience increased vacancy through the next two to three years which will provide tenants increased incentive to move their premises and cause reduced demand in entry level properties surrounding the CBD.

As with 2023, there has been limited demand for new office space in Toowoomba during 2024. The exception has been smaller tenancies between 100 and 200 square metres which continue to experience moderate levels of activity, particularly associated with the inner city area which consists of a high proportion of former dwellings converted to office space suited to professional users both as owner-occupiers and tenants.

There have been very few new office projects commenced in 2024 and this is attributed to high construction costs, labour and material shortages and increased finance costs combined with tighter credit assessment guidelines. Several projects have been completed by existing inner city tenants and include construction of a new NAB branch and Business Banking Centre within the city centre and the purchase and major refurbishment of two existing office buildings by a local accounting group and national building firm. In the government sector the former Suncorp Call Centre was purchased and refurbished for the Main Roads department as their main office and a former bank building in the CBD has been refurbished for their customer service centre. Both of these projects have resulted in additional vacant floorspace following relocation of their operations into the new floorspace during the first half of 2024.

Other projects in the planning stage include redevelopment of an inner city site as the new seven-storey Heritage Bank head office and a new administration building for the Toowoomba Regional Council. The Council currently leases office space in and around the Toowoomba city centre which has affected vacancy rates and will likely increase when the new Civic Administration Centre is completed. A development application has also been lodged for the former Gasworks site which sits within a Toowoomba Railway Priority Development Area on the CBD fringe comprising 56 apartments over nine levels with ground floor retail tenancies.

Growth continues to be experienced in the NDIS sector with strong lease terms obtained by property owners, although these generally relate to fringe CBD areas.

Investor demand continues to be very strong with interest from non-local buyers and properties generally marketed direct to potential purchasers.

Activity in this sector is expected to remain stable throughout the remainder of 2024 with minimal variation in yields, rental rates and vacancy rates. A factor that may affect these metrics includes the number of properties vacated as current tenants or owners relocate to newly developed or refurbished premises. The vacated premises are generally larger office buildings that will require refurbishment and potentially reconfiguration to provide smaller tenancies with incentives to attract tenants likely. Given refurbishment costs may not be viable there is likely to be an increase in secondary quality space which has limited demand unless the rental rate is competitively low.

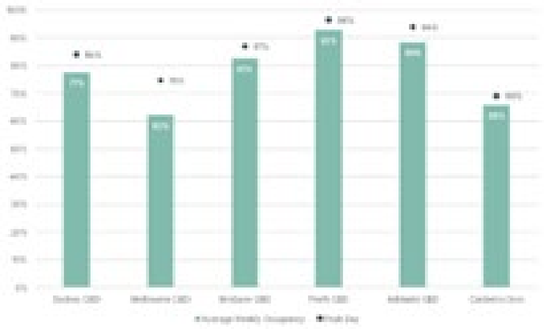
Ian Douglas
Director

South Australia - Office 2024

Adelaide

Headlines for the office sector in recent times have highlighted the full-time return to the office, lead by global tech giant Amazon where this return has been mandated from January 2025. In Australia, betting agency Tabcorp has followed suit, scrapping work-from-home allowances, whilst recently Perth mining boss Chris Ellison of Mineral Resources went as far as to say that he didn't want employees stepping out of the office for coffee. This may seem off-topic, but as some businesses push to have employees in the office, there are significant impacts on the office property sector. Whilst it remains to be seen how these changes will impact the office market and whether other businesses will follow suit, it's time to take a look back at Adelaide's office property sector in 2024. Here, we will highlight key performance metrics, underlying market drivers, and the development and lease commitments from 2024.

The Property Council of Australia (PCA) recorded nation-wide office occupancy at 76 per cent of pre-COVID levels in Quarter 1 for 2024, however Adelaide ranked only behind Perth in this metric, recording 88 per cent average weekly office occupancy in comparison to its pre-COVID rate.



Australian Office Occupancy by CBD Market in Q1 2024 compared to pre-COVID levels Source: Property Council of Australia

Net absorption in the Adelaide office space was at its highest level in over 15 years, recording 29,041 square metres of office space taken up by new tenants between January and July in 2024. These levels reflect the demand for high quality office space in the CBD, with an array of tenants looking to upgrade their office spaces. Coupled with high levels of absorption, vacancy rates also decreased from 19.3 per cent recorded in January to 17.5 per cent in July, per the latest PCA office market report. Greg Ratsch, general manager of the Adelaide Economic Development Agency, states that major businesses, such as the SA Police, Tetra Tech and the Australia Aviation Agency, made the move from the suburbs to the CBD. Further to this, the RAA will be moving approximately 1300 staff from Mile End to the development at 150 Grenfell Street from 2025.

Artist impression of the development at 150 Grenfell Street Source: RAA Daily

There are some significant developments in the office sector commencing at the back end of 2024, with the Market Square and Central Market Arcade projects now turning soil as cranes were installed in July. Furthermore, the completion of the 9,000 square metre Festival Tower development on the riverbank now houses Deloitte, Origin Energy, Allianz, Mott MacDonald and Sparke Helmore Lawyers within the 5.5 star NABERs energy rated building. This highlights the flight to quality that major office tenants are taking up in the Adelaide space, with the PCA and CBRE reporting over two-thirds of relocations in nation-wide office spaces were for upgrades to higher-quality spaces, a

> *In Australia, betting agency Tabcorp has followed suit, scrapping work-from-home allowances, whilst recently Perth mining boss Chris Ellison of Mineral Resources went as far as to say that he didn't want employees stepping out of the office for coffee.*

driver for the increased rates of employees coming back to the office and working from home less frequently.

Further relocation announcements are headlined by BAE Systems, with their move to Lot Fourteen. The Innovation District on North Terrace will become home to BAE's Adelaide operation and is touted to bring over 500 employees to the development. The pre-commitment level is now at 77 per cent, positioning BAE alongside three state and Australian government tenants at Lot Fourteen.

Development plans for Lot Fourteen on North Terrace
Source: Lot Fourteen Master Plan

As the flight to quality continues in Adelaide's market and businesses look to provide attractive workspaces that cater to staff needs, the demand for prime office space is expected to remain strong. Refurbishments also look set to continue as secondary spaces are updated, meeting environmental targets for building owners and tenants' demands for quality facilities.

Matt Slack
Assistant Commercial Valuer

Western Australia - Office 2024

Perth

The Perth office property market experienced a mixed bag of dynamics and trends during the 2024 calendar year.

The most recent PCA Office Market Report indicates Perth's CBD total vacancy rate was 15.5 per cent for the six months to July 2024, an increase from that recorded in January 2024 (14.7 per cent).

The West Perth vacancy rate however demonstrated a slight drop, recording a total vacancy rate of 11.7 per cent down from 12.1 per cent over the same period.

Nonetheless there remains a visible vacancy factor in Perth's traditional office districts, particularly for non-premium grade accommodation. The level of occupancy, as opposed to vacancy, is proving to be a key statistical distinction in the performance of the office property sector given the work from home phenomenon.

Companies continued to reduce their workspace footprint with some downsizing or reconfiguring their office layouts to accommodate a more flexible workforce.

Tenant demand for large-scale floor plates greater than say 500 square metres was soft as prospective occupants demonstrated a preference for smaller premises, citing the resilience of the hybrid working model.

Positively there was a marked uptick in demand for tenancies between 200 and 350 square metres. Availability of this stock in certain fringe CBD locations was constrained and this exerted upward pressure on achievable rental rates.

Although demand increased in this segment, it has not yet translated into substantial rental price growth. Rental rates for office space overall remained relatively stable in 2024. A two tier market was clear as companies took advantage of the incentives on offer to relocate to Premium and A-grade accommodation whilst lesser grades languished.

From a sales perspective, there has been very limited stock put to market this year and we anticipate owners will continue to hold-tight in the short term.

Of those assets available for purchase, prospective owner-occupiers waived large scale floor plates (larger than 350 square metres), as did prospective investors unless such properties were securely leased to established tenants on attractive terms.

Tenant demand for large-scale floor plates greater than say 500 square metres was soft as prospective occupants demonstrated a preference for smaller premises, citing the resilience of the hybrid working model.

Market participants suggest yield expectations have generally softened and the variance between prime and secondary assets has widened over the course of the year, noting uncertainty over the short term direction of the cash rate, which also impacts transactional volumes.

Of the limited sales in the core office districts, we highlight the sale of 15-19 Altona Street, West Perth. The property comprises a land holding of 1,656 square metres improved with a multi-level, mixed use (office and residential) development estimated to have been constructed in two stages between 1980 and 1985. The office component comprises four tenancies with a net lettable area of 1,987.20 square metres. Two tenancies are occupied on a periodic basis whilst the other two tenancies are vacant (unoccupied). There are also three residential apartments each offering two-bedroom, two-bathroom accommodation. The property was purchased by an allied-health care provider for $8.9 million (GST-free as a going concern) in May 2024 reflecting $4,479 per square metre on net lettable area.

As Perth adapts to the changing landscape of work, the office property market will likely remain a dynamic and evolving sector. Together with the city's strong economic fundamentals, the outlook for Perth's office property sector in 2025 is positive.

Greg Lamborn
Director

Northern Territory - Office 2024

Darwin

2024 is proving to be a year of consolidation within the Darwin CBD office market.

The completion of the new Charles Darwin University campus adjacent to the GPO has been the standout feature for the Darwin CBD for the year. It is expected that the influx of students, including international students, will reinvigorate the Darwin CBD. The construction of new student accommodation behind the campus (on part of the old Darwin Primary School site) will assist in this regard.

The sale of the Westpac Bank building in The Mall has been the highest profile office sale in the Darwin CBD this year so far. This heritage listed two-level building has somehow survived numerous cyclones and bombings. It is still subject to a lease to Westpac and was purchased by an interstate investor who has significant other property interests in the Darwin CBD.

But the year is not yet over and we note that the old Minerals House at 66 Esplanade in the Darwin CBD is marketed for sale. This 2030 square metre block accommodates a three-level office building having a total net lettable area of 2607 square metres, with two levels occupied by NEC and the third level vacant. This has attracted good interest in the market and a sale would provide a good indicator of current yields expected for CBD office property.

The lack of availability of A-grade space continues to put upward pressure on rents. The difficulty is that rentals are still nowhere near the levels that would be required to make a new office development economically viable. We are not aware of any prospective tenants who would trigger enough demand to justify a new development, excepting possibly government in some form.

And so we are seeing some examples of refurbishment of existing buildings where the base structure can still be utilised to reduce costs. One example is the Cavenagh City Centre located directly opposite the new university campus. On completion this building will increase supply of quality space and we are aware of considerable interest from a number of tenants. There are other such opportunities around the CBD including the old Health House at 87 Mitchell Street.

Is it more viable to resurrect these old buildings, or demolish them and build from new without the constraints imposed by the older buildings' base structure? Some other buildings such as Palm Court at 8 Cavenagh Street have been razed to the ground so that they are shovel-ready when a new opportunity arises. This is a decision that each owner will have to face, taking into consideration the individual characteristics of their property. The alternative is that they are left behind with an older style building which is not sought after by the market at all.

Terry Roth
Director

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COMMERCIAL - OFFICE