

FIGURES | PERTH CBD OFFICE | Q1 2024

Rent Growth Takes a Breather as Enquiries Rebound

▶ \$684/sqm

Prime net face rent (0% q-o-q, +4.4% y-o-y)

▶ 46.4%

Prime incentives (0bps q-o-q, -140bps y-o-y)

▲ 7.26%

Prime yield (+41 bps y-o-y)

Note: Arrows indicate change from previous year.

Key Points

- WA’s economic outlook remains positive but is forecast to slow due to a combination of softer commodity prices and the impact of higher interest rates on consumption.
- CBRE’s leasing enquiry volumes in the CBD had a slight rebound from a relatively quieter 4Q23, with total leasing enquiry volume of c.77,100 sqm in 1Q24 (+74% q-o-q, -35% y-o-y).
- Lower enquiry volumes in 2H23 resulted in slowed leasing activity in 1Q24 with c.6,200 sqm of new leasing volumes (transactions ≥ 500 sqm), down 74% y-o-y.
- Prime CBD net face rents held steady q-o-q at \$684/sqm (+4.4% y-o-y). Secondary net face rents were also unchanged q-o-q at \$461/sqm (+1.2% y-o-y) in 1Q24.
- Capital Square Tower 3 (~13,700 sqm) is scheduled to complete in 2Q24. A further c. 26,000 sqm is scheduled to become available in 2024 as refurbishments at QV1 and 186 St Georges are completed.
- There were no office transactions in Perth’s CBD in 1Q24.
- Prime indicative yields increased 8bps q-o-q at an average of 7.26%, with secondary yields also unchanged q-o-q at an average of 8.00%.

FIGURE 1: Summary of Key Indicators

Perth CBD	1Q24	4Q23	1Q23	Q-o-Q Change	Y-o-Y Change
Prime NFR	\$684/sqm	\$684/sqm	\$655/sqm	-	+4.4%
Incentives	46.4%	46.4%	47.8%	-	-140bps
Prime NER	\$368/sqm	\$368/sqm	\$343/sqm	-	+7.3%
Prime Yields	7.26%	7.18%	6.85%	+8bps	+41bps

Source: CBRE Research

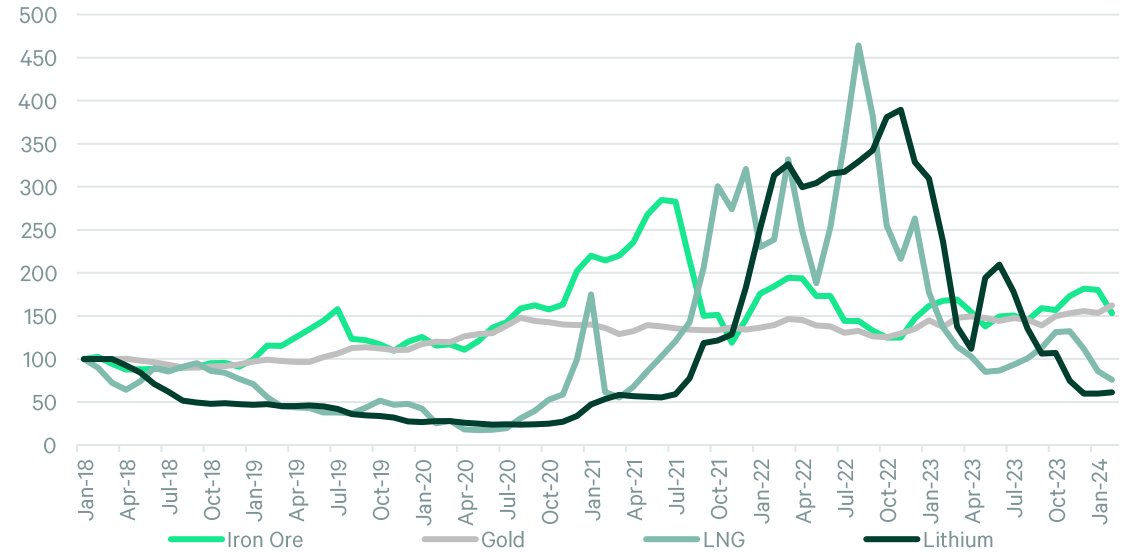
Economic Overview

After a period of strong economic growth spurred by the post-COVID recovery, Deloitte Access Economics forecasts the Australian economy to grow by 1.3% in 2024, despite above-average population growth. However, Australia’s economic growth outlook remains better than most of the developed economies. After outperforming the rest of the country in 2022-23, WA’s economic growth is forecast to normalize over the next few years due to a combination of slowing export growth and the impacts of higher interest rates. Iron ore prices have eased in recent months over concerns of slowing Chinese demand but remain above historic averages. Volatile lithium and nickel prices are also creating short-term headwinds for the WA economy.

Australia’s CPI rose 3.4% y-o-y in February 2024 and continues to decline from a peak of 8.4% from the Dec 2022. Following the latest rate increase in Nov 2023, market consensus is for likely rate cuts in the second half of 2024. Westpac’s Consumer Sentiment Index eased 1.9% month-on-month to 84.4 in Mar 24, after rebounding 6.2% in Feb 24. Despite the Feb rebound, consumer sentiment remains below 90, similar to levels seen during the recessions of the 1980s and 1990s.

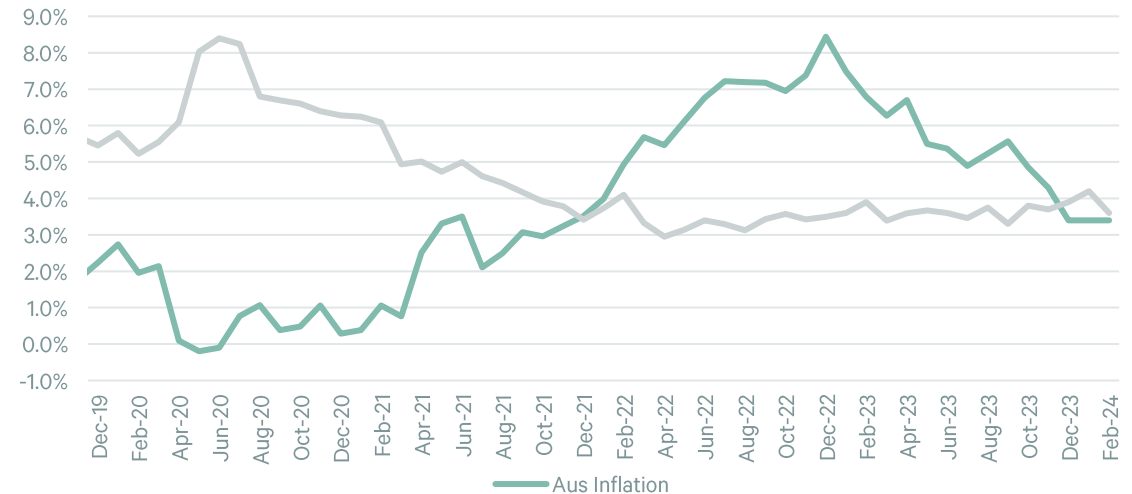
The WA labour market remains strong, with the unemployment rate of 3.6% in Feb 24 below the 10-year average of 5.4%. Underemployment of 6.4% in Feb 24 was also well below the 10-year average of 8.2%. Population growth will continue to be a key driver for the labour market and economy going forward, with Deloitte’s forecasting WA’s population to grow by an annual average of 1.4% over the next decade.

FIGURE 2: Commodity Prices (Index Jan 2018)



Source: CBRE Research, Deloitte Access Economics

FIGURE 3: WA Unemployment Rate and Perth Inflation Rate



Source: CBRE Research, Deloitte Access Economics, RBA

Leasing Velocity

Leasing Activity Slows in 1Q24 while Enquiry Levels Normalise

Leasing activity slowed in 1Q24, with total leasing volumes (exc. renewals) fell 74% y-o-y to c. 6,200 sqm (transactions ≥ 500 sqm). Leasing volumes fell primarily due to a lower leasing enquiries in 2H23. There were 7 new deals over 500 sqm signed during the quarter, down from 15 new lease deals in 1Q23.

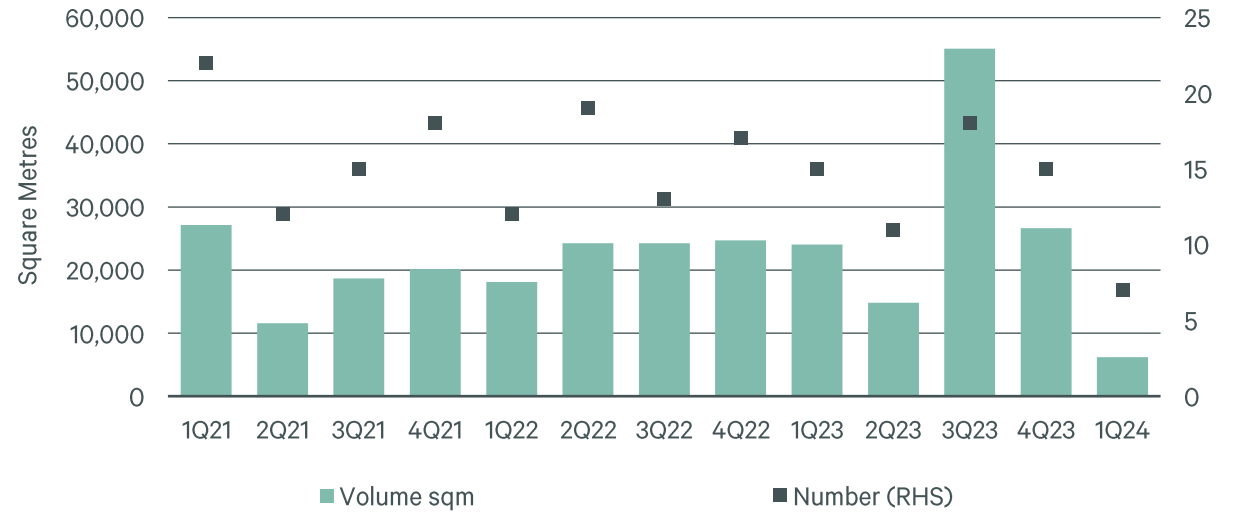
CBRE’s enquiry volumes rebounded from a soft 4Q23, increasing 74% q-o-q to c.77,100 sqm to more normalised levels. However, leasing volumes remain lower than the record levels we saw in 1Q24 (-35% y-o-y).

1Q24 saw a continuation of the flight to quality, with 29% of deals (by number) resulting in tenants relocating their office space to higher quality buildings. The flight to centre trend has also continued in 1Q24, with 29% of new lease deals seeing tenants moving from suburban locations into the CBD.

86% of the deals (by number) in 1Q24 were recorded in prime grade buildings (Premium, A+ and A) with secondary grade buildings accounting for just 14%, highlighting the preference for higher grade buildings amongst larger tenants in the market.

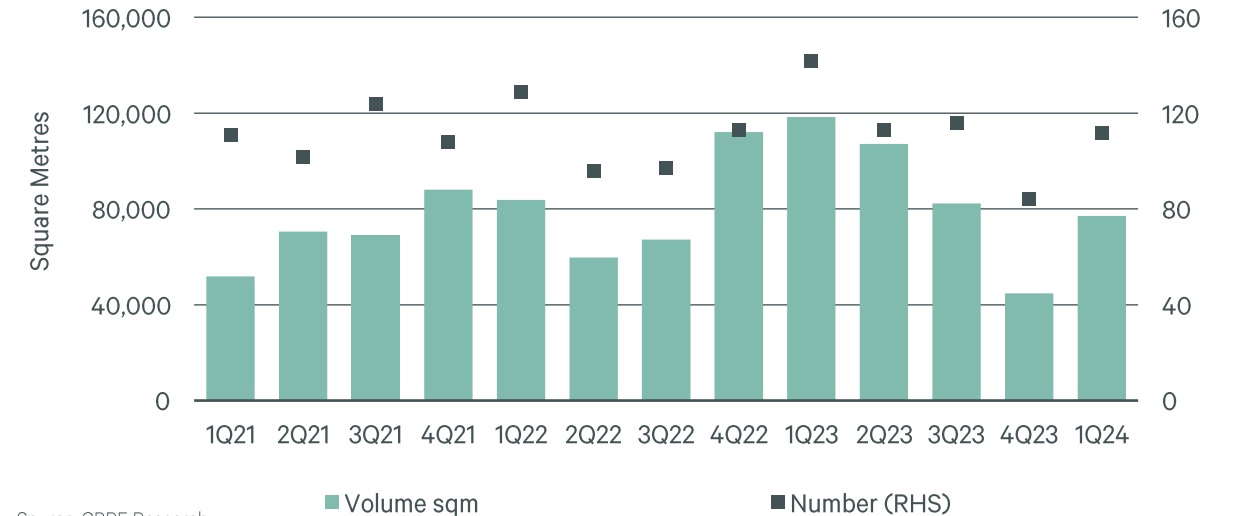
Occupiers continued to expand their office footprint in 1Q24, accounting for 43% of deals, while a further 43% of occupiers maintained the size of their existing footprint and just 14% of occupiers reducing their footprint.

FIGURE 4: Perth CBD leasing volumes, 500+ sqm new deals



Source: CBRE Research

FIGURE 5: Perth CBD CBRE enquiry volumes



Source: CBRE Research

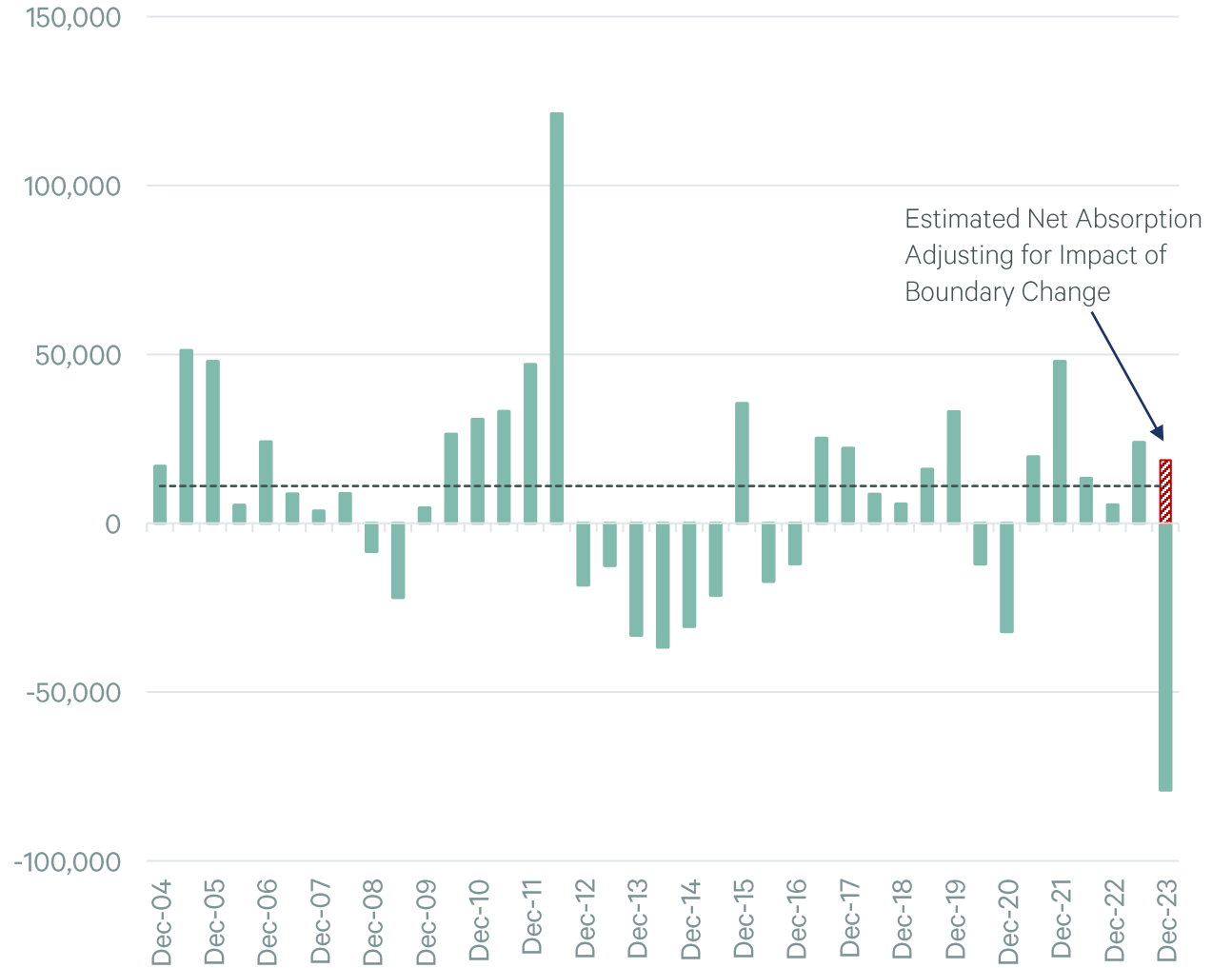
Net Absorption

PCA Boundary Changes Lead to One-off Impact to Net Absorption

The Perth CBD officially recorded net absorption of -79,031 sqm in 2H23. However, this figure was distorted by a change in PCA’s boundaries for Perth CBD which has removed office stock east of Hill Street and extended the boundary further north. CBRE research estimates that adjusting for the impact of this boundary change, estimated net absorption in 2H23 was c. 18,700 sqm. This brings 2023 adjusted net absorption to c. 42,700 sqm, nearly double the 20-year annual average of c. 22,000 sqm.

Nationally, 2H23 net absorption was negative in every capital city apart from Adelaide. After adjusting for the boundary change, CBRE research estimates net absorption would have been c18,700 sqm, maintaining Perth as one of the nation’s best performing office markets. Major occupiers continue to benefit from above average commodity prices, helping drive healthy demand from producers as well as the downfield beneficiaries such as professional services firms, as well as construction and engineering firms.

FIGURE 7: Perth CBD Historical Net Absorption



Source: Property Council of Australia, CBRE Research

Supply

Capital Square 3 to complete in 2Q24

Capital Square 3 (c. 13,700 sqm) is now scheduled to complete in 2Q24. A further c. 26,000 sqm is scheduled to become available in 2024 as refurbishments at QV1 and 186 St Georges are completed. Total new supply was 24,415 sqm in 2H23, driven by the completion of Westralia Square 2 (8,660 sqm), the completion of some refurbishments at QV1 (6,687 sqm) and the addition of 9,068 sqm of new stock from the expansion of the Perth CBD northern boundary. 139,603 sqm of total stock was withdrawn in 2H23 primarily due to the removal of office stock west of Hill Street from the CBD boundary. This effectively removed all statistical division 6 and parts of statistical division 1 & 5. The majority of stock removed resulting from the boundary change was secondary grade.

No New Supply Scheduled Beyond 2025

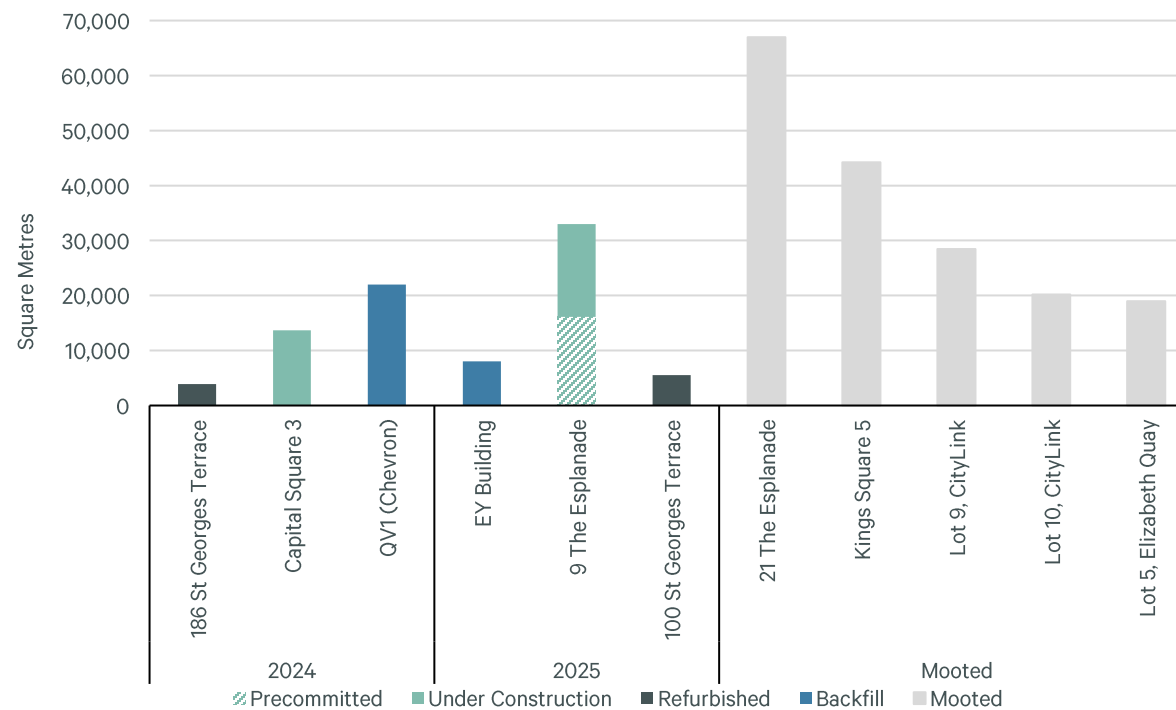
Looking ahead the scheduled supply in 2024 – 2025 is slightly above the historical 20-year average (c. 30,000 sqm). With work on 21 The Esplanade (c. 67,000 sqm) currently paused; we have shifted the project’s expected completion out until works resume on the development. Approximately 86,000 sqm (roughly 5% of current stock levels) of new supply is expected to hit the market in 2024 and 2025. Comparatively, net absorption over the past 20-years has averaged c.22,000 sqm p.a. which would not keep pace with the upcoming supply pipeline. However, if recent net absorption trends continue (average of c. 43,000 sqm per year since 2021) then net absorption would outpace with new supply additions. Nine The Esplanade (33,000 sqm) is scheduled to complete in 2025 with roughly half of Nine the Esplanade currently pre-leased.

FIGURE 8: Perth CBD Supply and Withdrawal Volumes

	2H23	1H23	2H22	H-o-H Change	Y-o-Y Change
Supply (sqm)	24,415	67,579	13,788	-43,164	10,627
Withdrawal (sqm)	139,603	34,420	10,325	105,183	129,278
Net Supply/(Withdrawal) (sqm)	-115,188	33,159	3,463	-148,347	-118,651

Source: Property Council of Australia, CBRE Research

FIGURE 9: Perth CBD Supply Pipeline



Source: CBRE Research

To note: new developments/refurbishments > 4,000 sqm and backfill supply > 8,000 sqm. Mooted developments only include those that at the time are mostly likely to proceed.

Market Vacancy

Market vacancy falls from a combination of organic net absorption and removal of higher vacancy stock

Vacancy rates in Perth’s CBD fell 100bps h-o-h to 14.9% in Dec 2023. CBRE research forecasts that office vacancy would be approximately 15.2% excluding the impact from the boundary changes. We calculate the removal of secondary stock with above average vacancy resulted in a one-off decrease in vacancy of roughly 30bps.

Prime vacancy fell 10bps h-o-h to 12.7% in 2H23. Secondary grade vacancy fell 460bps h-o-h to 15.7% in Dec 2023, as a significant amount of secondary stock with higher vacancy was removed from the Perth CBD stocklist due to the boundary changes.

Looking ahead, vacancy in the Perth CBD is likely to gradually trend down as net absorption outpaces limited supply in the near-term

Sublease space ticks up from historic lows

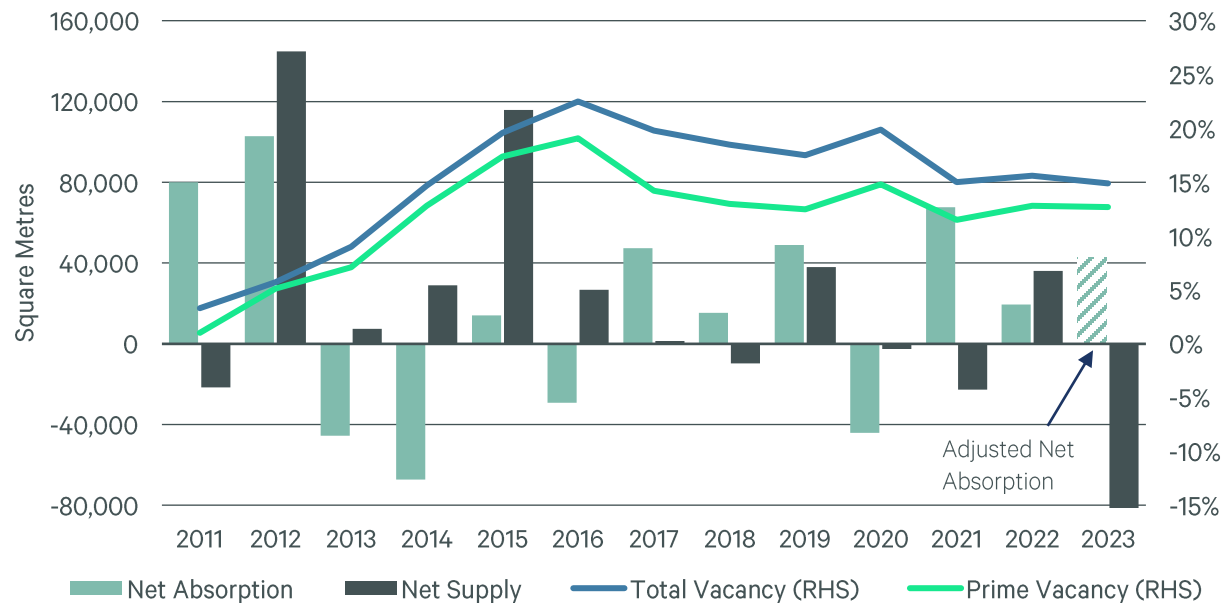
Sublease availability ticked back up c.3,000 sqm q-o-q to c. 9,100 sqm as at the end of 1Q24. Weakness in lithium prices are a contributor to the increase in sublease availability, however, sublease space remains well below the historical 10-year average at c.41,000 sqm.

FIGURE 10: Summary of Perth CBD Office Market

Market/Grade	Stock (sqm)	Adjusted Net Absorption 6 months (sqm)	Adjusted Net Absorption 12 months (sqm)	Net Supply/ (Withdrawal) 6 months (sqm)	Net Supply/ (Withdrawal) 12 months (sqm)	Vacancy % Dec 23	Vacancy % Jun 23
Prime	1,082,749	n.a. ¹	n.a. ¹	-4,176	19,831	12.7%	12.8%
Secondary	642,014	n.a. ¹	n.a. ¹	-111,012	-101,860	18.5%	20.3%
Total	1,724,763	c.18,700	c.42,700	33,159	36,622	14.9%	15.9%

Note 1: Currently unable to calculate adjusted net absorption by grade due to limited information availability
 Source: Property Council of Australia, CBRE Research

FIGURE 11: Perth CBD Office Market Balance



Source: Property Council of Australia, CBRE Research

Rental Performance

Rent growth takes a breather in 1Q24

Average prime net face rents held steady q-o-q at \$684/sqm (+4.4% y-o-y), as rent growth took a breather from a solid 2023. Secondary grade net face rents also remained unchanged q-o-q at \$461/sqm (+1.2% y-o-y).

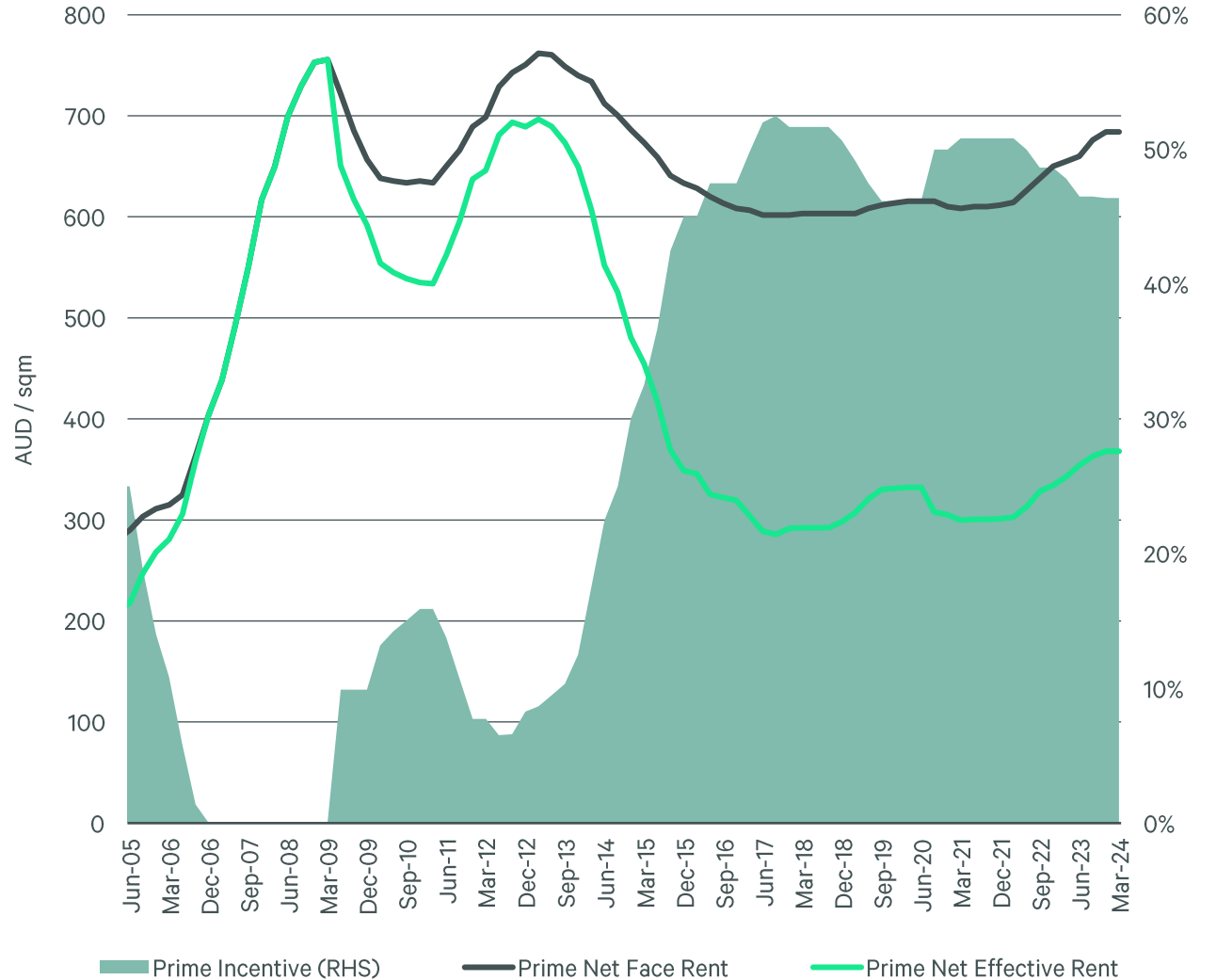
The flight to quality trend has also benefitted prime grade buildings as we've seen increased leasing activity in these buildings and a decline in leasing activity in secondary grade buildings over the past 12-15 months (new transactions \geq 500 sqm). There has been high demand for fitted office space which has driven face rent growth in A grade buildings (due to high fit out costs and landlords increasing their face rents to offset high fit out incentives).

Incentives hold steady after significant tightening in 2023

Average prime grade incentives remained unchanged q-o-q at 46.4% (-140 bps y-o-y) as the market stabilises following the slowdown in enquiries witnessed in 2H23. Incentives in prime grade buildings stabilized after a period of significant decreases over the past year.

The combination of stable rents and incentives resulted in prime net effective rents remaining flat q-o-q at \$368/sqm (+7.3% y-o-y) in 1Q24. Secondary face rents and incentives were also stable in 1Q24 at \$221/sqm (+2.1% y-o-y).

FIGURE 12: Perth CBD Prime Office Net Face, Net Effective Rents and Incentives



Source: CBRE Research

Investment Market

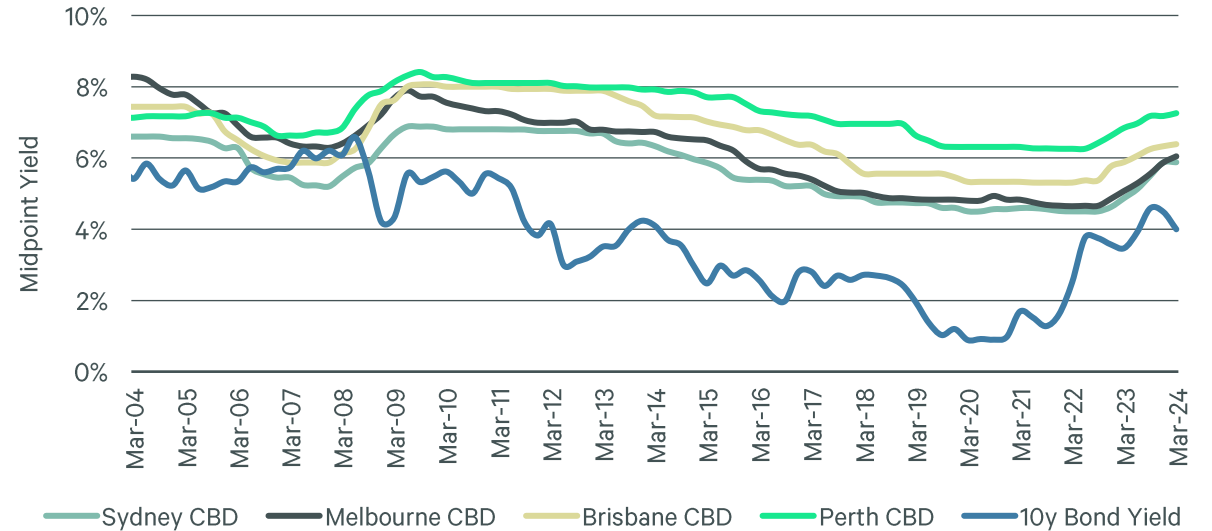
Muted investment transaction activity

Investment transaction activity remained muted in 1Q24 with no office transaction in the CBD, as a significant gap remains between pricing expectations of potential buyers and sellers. This was reflected in 2023 office investment volume of just \$294 million, well below the 10-year historical average of c. \$892 million per annum.

The most significant transaction in 2023 remains the Joint Venture between Brookfield and Cbus Property to develop Perth’s new \$500 million premium grade office tower, Nine The Esplanade. The transaction highlights investor appetite for premium office assets in Perth which have tight vacancy rates and are attracting tenants from lower quality buildings. Nine The Esplanade is currently under construction and due to complete in early 2025. Approximately half of Nine The Esplanade has been pre-committed with tenants including EY, Multiplex, Argonaut and Hub Australia.

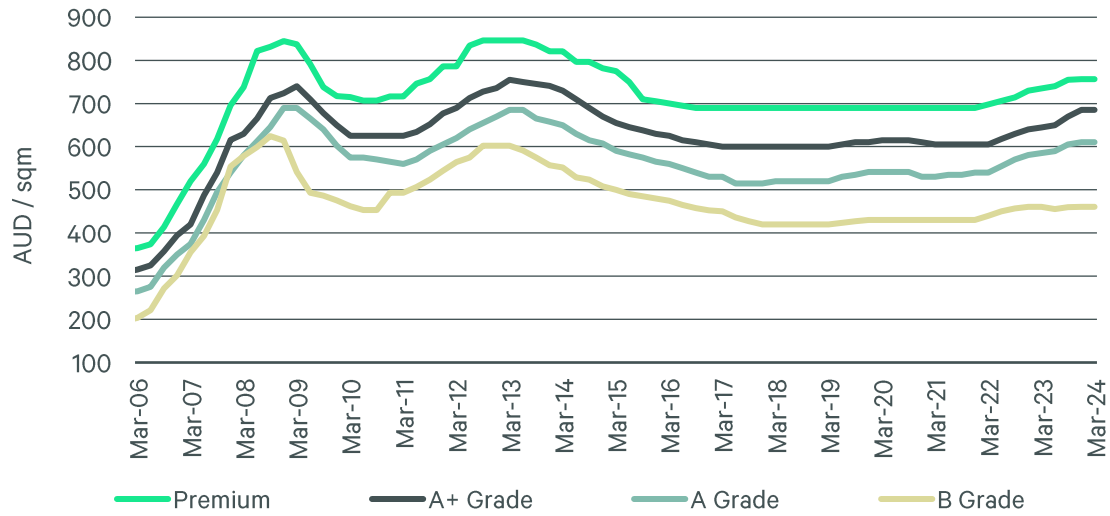
Perth CBD prime midpoint office yields edged up 8bps q-o-q at 7.26% (+41bps y-o-y) while secondary grade midpoint yields held steady q-o-q at 8.00% (+25bps y-o-y). There continues to be a lack of relevant office transactions to provide greater visibility on current yields, with a 10-15% gap remaining between buyer and seller pricing expectations.

FIGURE 13: Australian CBD Markets Prime Yield



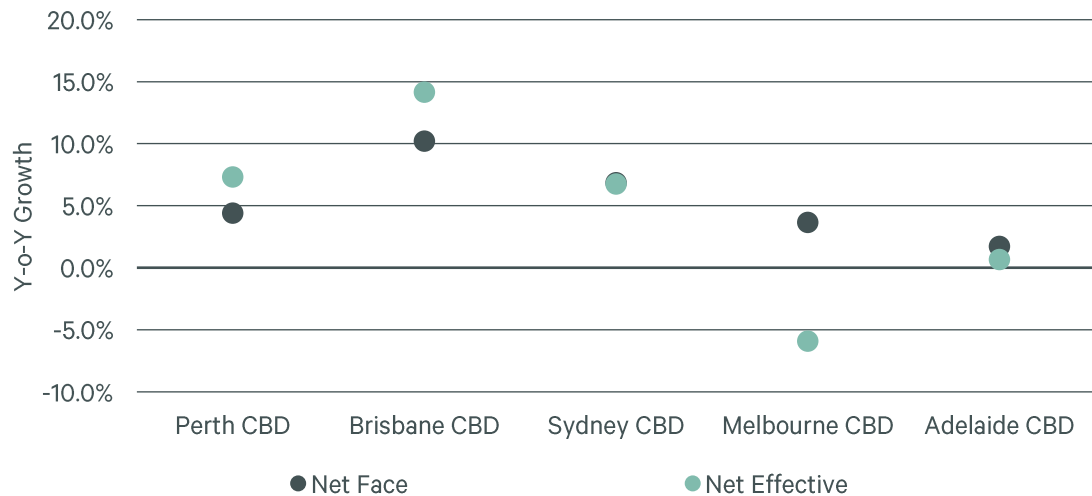
Source: CBRE Research

FIGURE 14: Perth CBD Net Face Rents By Grade



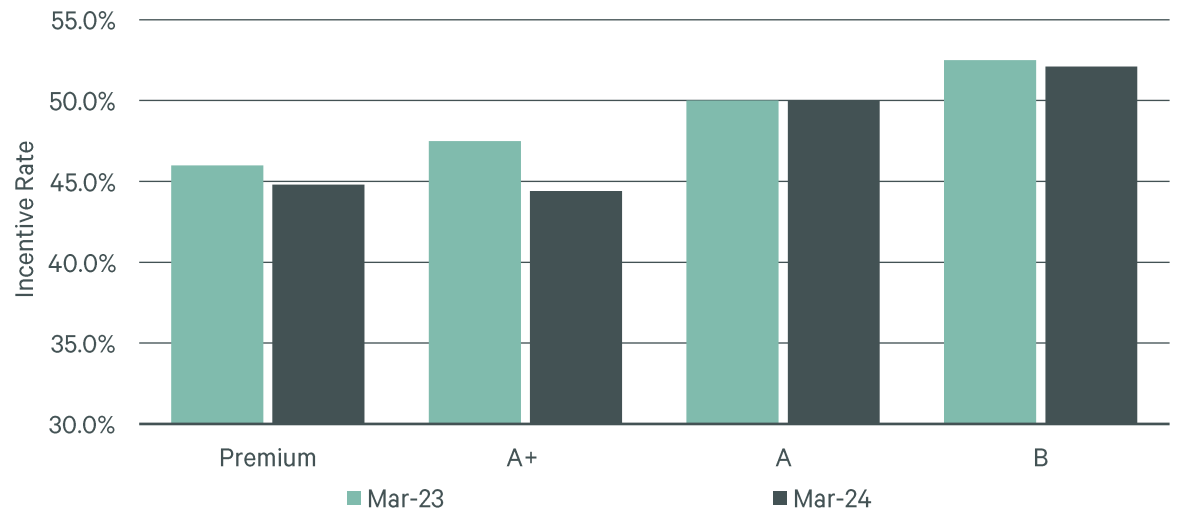
Source: CBRE Research

FIGURE 15: Q1 2024 Prime Rent Growth By Market (Y-o-Y)



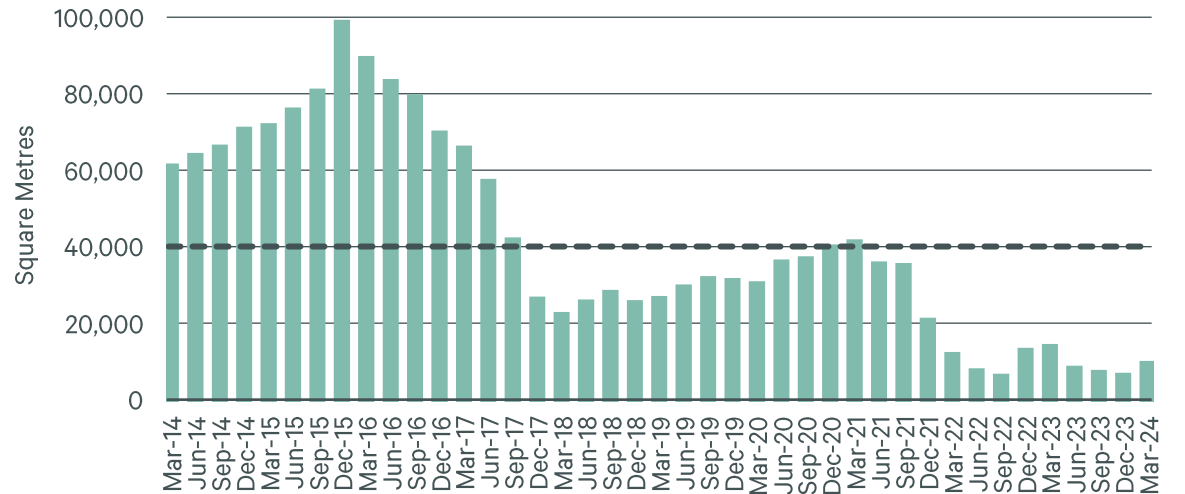
Source: CBRE Research

FIGURE 16: Perth CBD Incentives By Grade



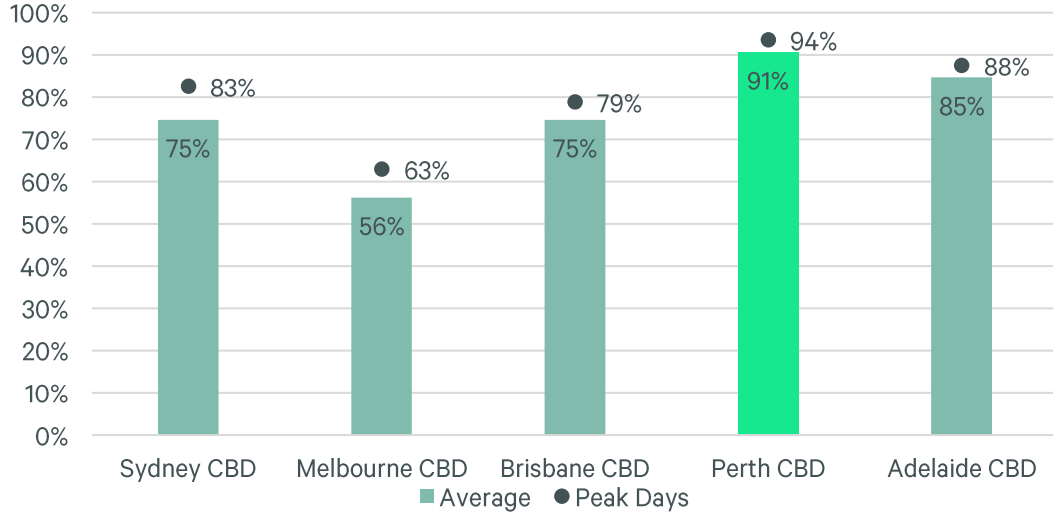
Source: CBRE Research

FIGURE 17: Perth CBD Sublease Availability



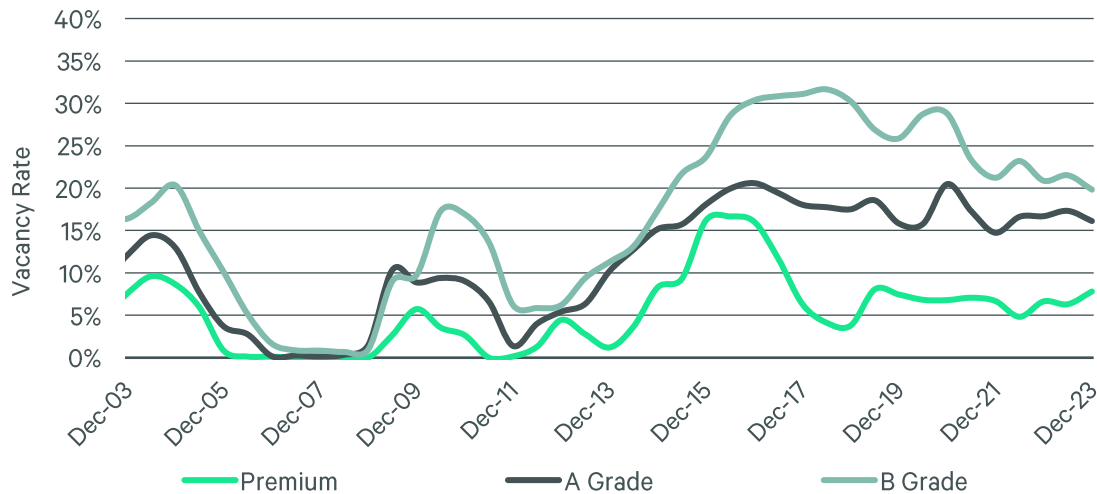
Source: CBRE Research

FIGURE 18: CBRE Return to Office Indicator as at 3Q23



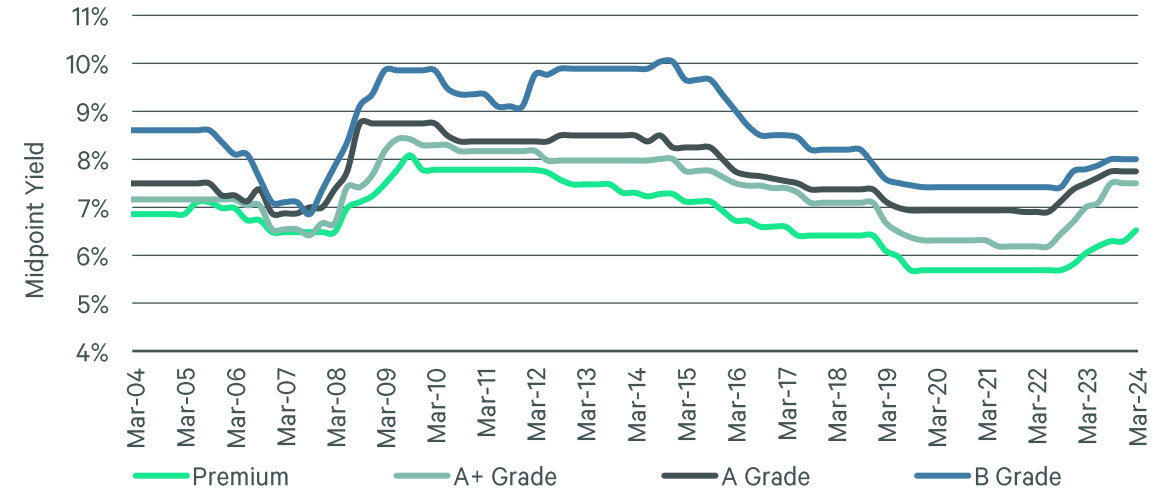
Source: Property Council of Australia, CBRE Research

FIGURE 19: Perth CBD Vacancy Rate By Grade



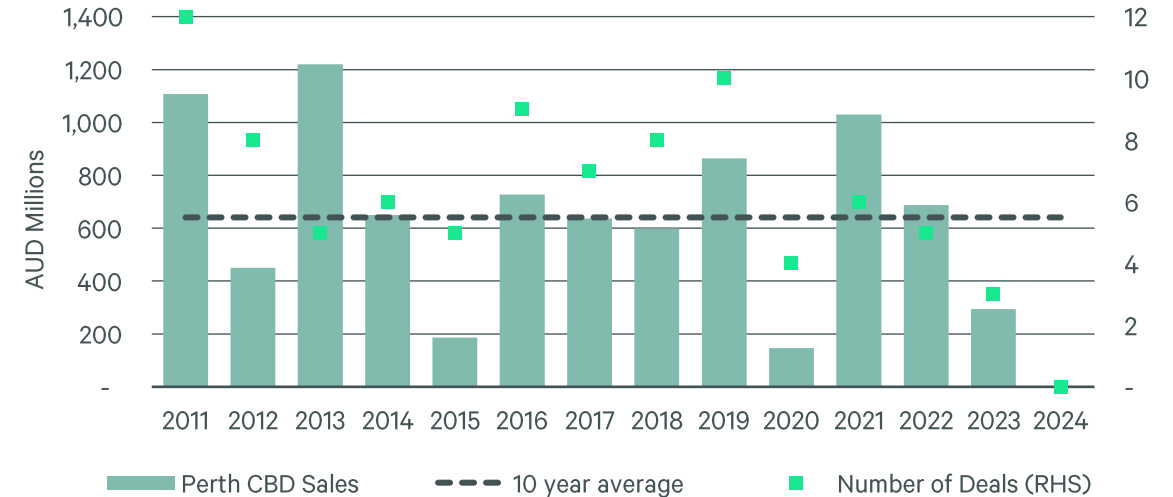
Source: Property Council of Australia, CBRE Research

FIGURE 20: Perth CBD Office Yields By Grade



Source: CBRE Research

FIGURE 21: Perth CBD Office Sales (greater than AUD 5 million)



Source: CBRE Research

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