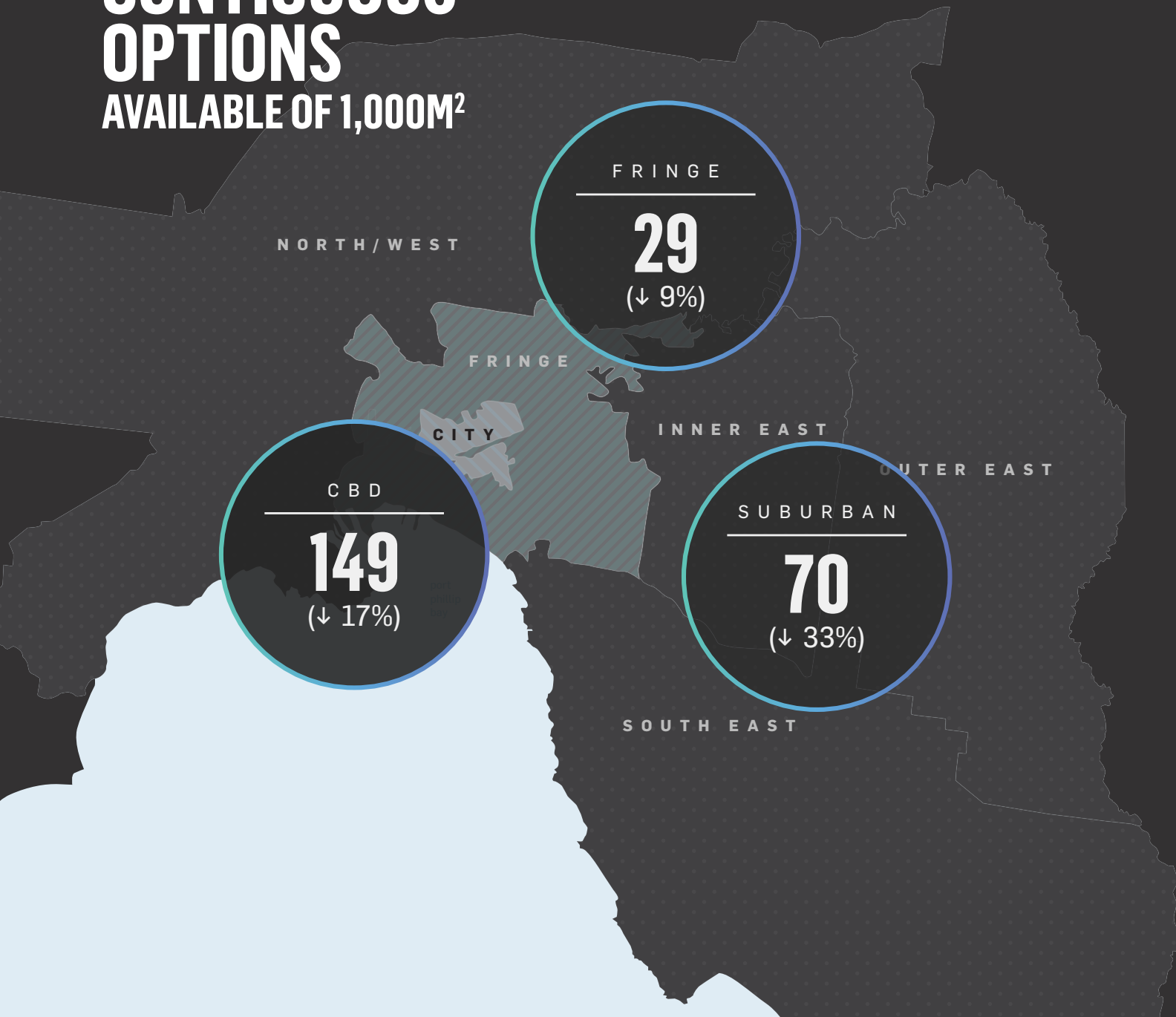


# MELBOURNE OFFICE CONTIGUOUS SPACE STUDY

November 2016

URBIS

# CONTIGUOUS OPTIONS AVAILABLE OF 1,000M<sup>2</sup>



**Ben Koops**  
Associate Director

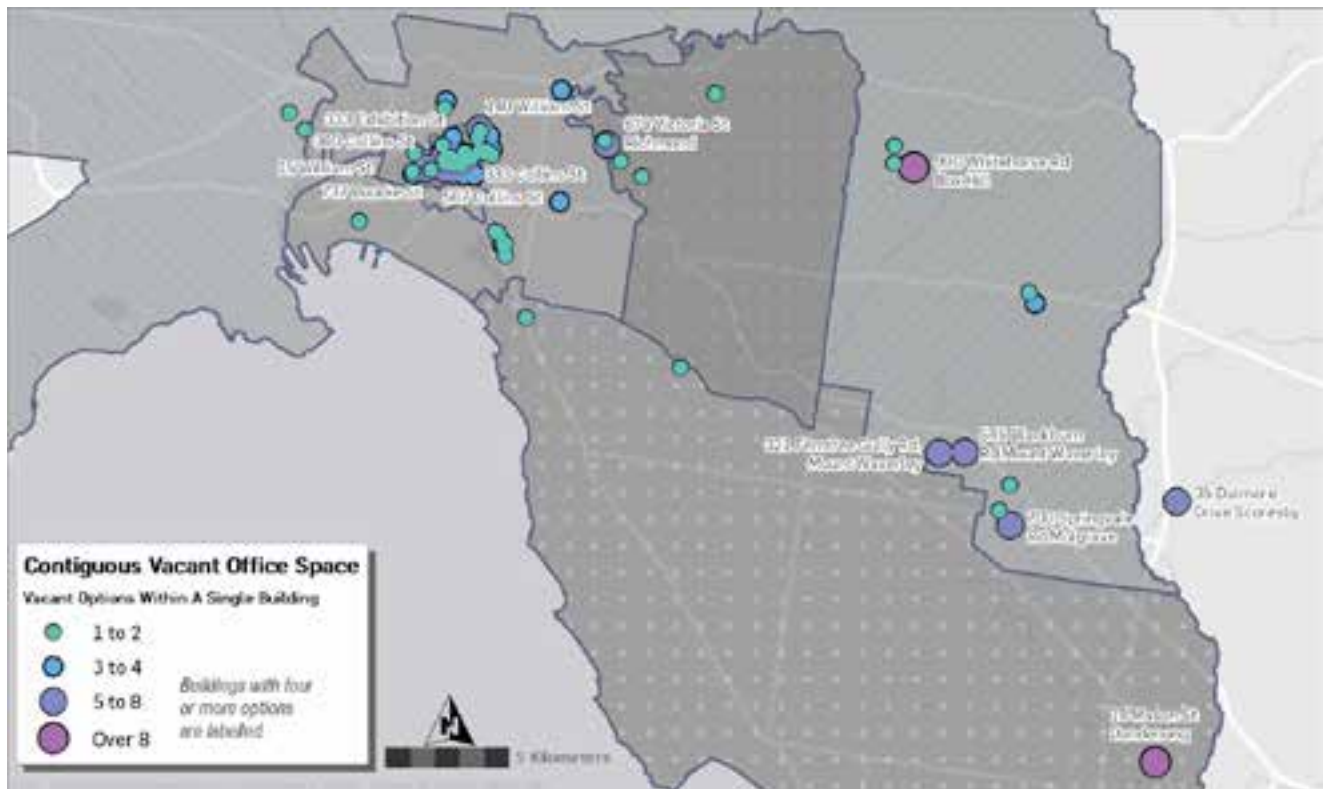
The independence of Urbis' Real Estate Advisory (REA) team helps maximise industry buy-in when undertaking our regular office market contiguous space surveys.

Our analysis provides an indicator of the state of the office leasing market and highlights trends in activity across all Victorian office markets and submarkets.

As a client of REA and as a landlord, we hope that you will benefit from our analysis and gain a better understanding of your assets position within a competitive market. We expect that the outcomes revealed by our analysis will assist you as owners to be better informed in your lease negotiations.



# TOTAL MELBOURNE MARKET



## NOVEMBER 2016 RESULTS

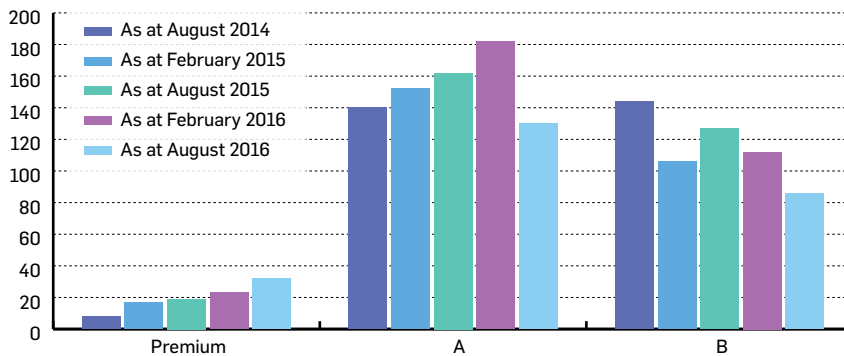
Sum of 1,000m <sup>2</sup> Options	CBD	Fringe	Suburban	Grand Total
Premium	32	0	0	32
A	71	10	49	130
B	46	19	21	86
<b>Total Sum of Options</b>	<b>149</b>	<b>29</b>	<b>70</b>	<b>248</b>
Change since February 2016	-17%	-9%	-33%	-22%

Sum of NLA (m <sup>2</sup> )	CBD	Fringe	Suburban	Grand Total
Premium	38,677	-	-	38,677
A	82,974	11,392	51,843	146,209
B	55,626	23,408	25,523	104,557
<b>Total Sum of NLA (m<sup>2</sup>)</b>	<b>177,277</b>	<b>34,800</b>	<b>77,366</b>	<b>289,444</b>

# TOTAL MELBOURNE MARKET

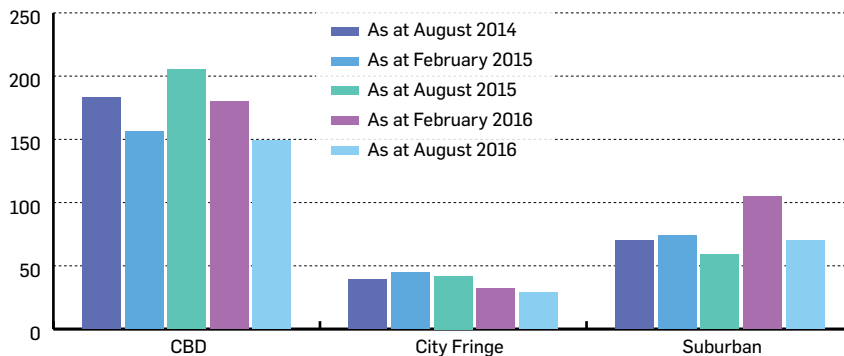
## TENANT OPTIONS (OF 1,000M<sup>2</sup>) OVER TIME

Total options - Melbourne by grade



## TENANT OPTIONS (OF 1,000M<sup>2</sup>) OVER TIME

Total options - Melbourne by location



## SUMMARY OF FINDINGS

- CBD market reduced by 17%, the Fringe contracted by 9% and Suburban market by 33% of total options available on the previous half year.
- Total Premium grade options increased by 39%, with total A grade and B grade contracting by 28% and 23% respectively since February 2016.
- The trend of tenants moving from a very short supply Fringe to the CBD market continues.
- Tenants appear to be looking to new or recently refurbished buildings, with older stock making up the majority of contiguous space currently available in the market.
- Tenants remain price sensitive and are becoming more informed (through tenant representatives) as to the optimum timing and pricing of their space requirements. Value appears to be a major driver with tenants opting for modern buildings, typically A grade stock, which is competitive in quality and pricing.
- Stark contrast between Docklands and Western Core. Despite being in close proximity, available contiguous options in the Western Core are dominated by older stock, whereas Docklands options comprise modern space. Consequently, Docklands has experienced a comparatively greater reduction in available stock.

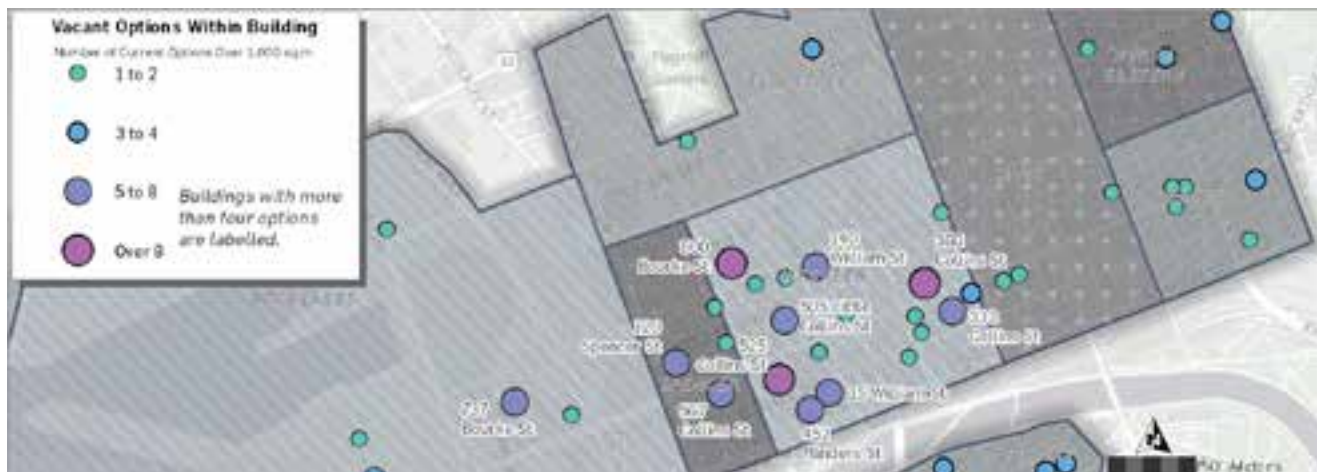
Total premium grade



Contiguous options

**SIGNIFICANT REDUCTIONS IN CONTIGUOUS AVAILABILITY ACROSS MOST PRECINCTS & GRADES**

# CBD MARKET



## LOCATION

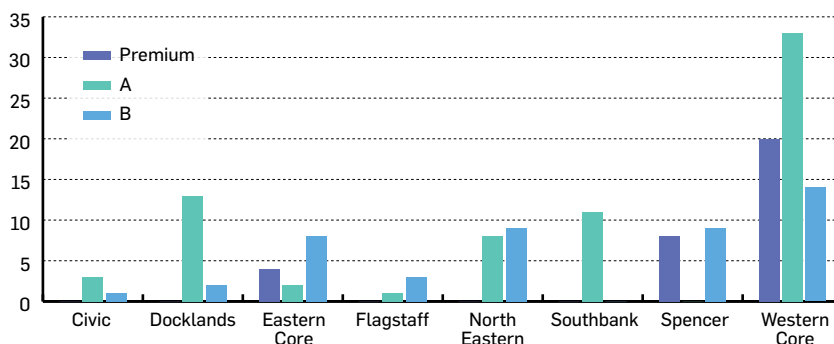
- Total of 149 contiguous options available within the CBD, a decrease of 17% since February 2016. Largest reduction in CBD contiguous options recorded.
- Majority of the contiguous options are available in the Western Core, reflecting 45% of the total 149 options.
- The Spencer and North Eastern precincts now have greater availability than Docklands which has seen a 57% reduction in contiguous options. Flagstaff has enjoyed a similar reduction, contracting by 75% from 16 options in February 2016 to 4 options currently. Much of this reduction can be attributed to recent leasing at 485 La Trobe Street.
- Civic and Flagstaff precincts have the least options, with a total availability of only 8 options across the two precincts combined.

## TENANT OPTIONS (OF 1,000M<sup>2</sup>)

	Premium	A	B	Total
Civic	0	3	1	4
Docklands	0	13	2	15
Eastern Core	4	2	8	14
Flagstaff	0	1	3	4
North Eastern	0	8	9	17
Southbank	0	11	0	11
Spencer	8	0	9	17
Western Core	20	33	14	67
Grand Total	32	71	46	149

## TENANT OPTIONS (OF 1,000M<sup>2</sup>) OVER TIME

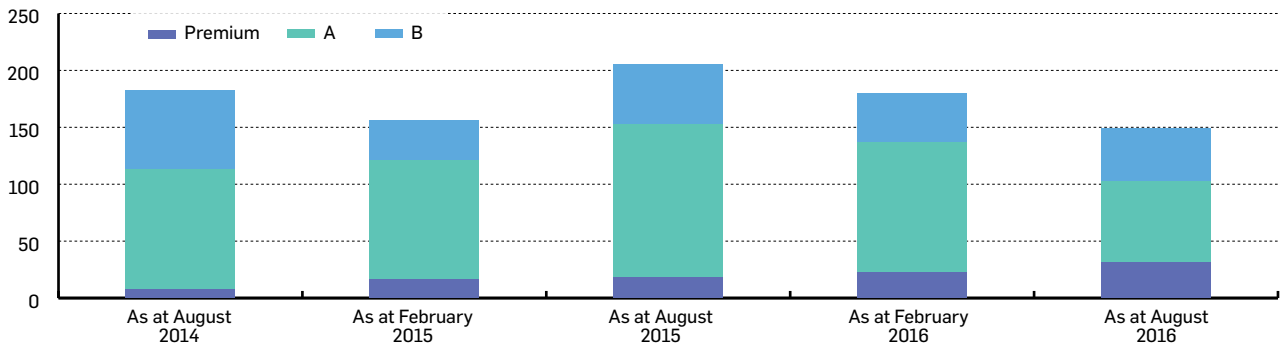
Melbourne CBD by sector and grade



# CBD MARKET

## TENANT OPTIONS (OF 1,000M<sup>2</sup>) OVER TIME

Melbourne CBD by grade

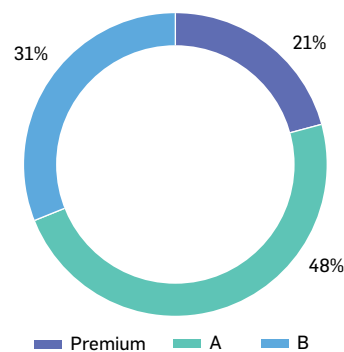


## QUALITY

- Headline trend in the CBD is the significant reduction in A grade contiguous options over the last 6 months from a total of 114 to 71 options, a 38% reduction. This is the largest decline in any grade or market recorded.
- In contrast, Premium grade options increased by 39%, predominantly a result of availability within 525 Collins Street.
- The overall prime market (Premium and A grade) availability reflects a 25% reduction in contiguous options in the last 6 months. The B grade market generally tracked sideways with only nominal change in availability.
- Contraction in A grade availability reflects the market's desire to occupy high quality space considered to be good value. This has also caused an increase in premium availability.
- We consider the current grading of office buildings does not necessarily reflect the desires or demands of modern tenants. The majority of 'premium' grade buildings are becoming dated and compete with most modern A grade buildings.
- Despite strong supply, Docklands has performed well over the last 6 months with a substantial reduction in options available, likely due to the significant rent differential to the traditional CBD grid. Docklands offers tenants high quality space at competitive rents.
- Western Core is the largest precinct in the CBD and contains the largest proportion of older buildings. Western Core represents 45% of available contiguous options in the CBD market (67 options), with the youngest building constructed in 1992. Obsolescence is clearly a factor that has impacted on vacancy in this precinct.

## TENANT OPTIONS (OF 1,000M<sup>2</sup>)

Melbourne CBD by grade



# FRINGE MARKET



## SUMMARY OF FINDINGS

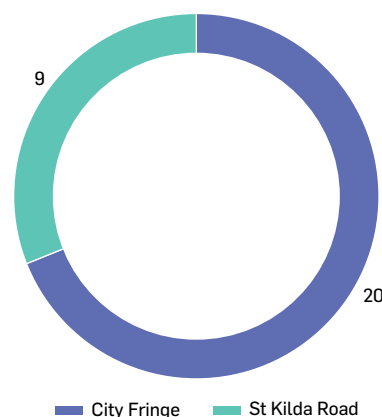
- The Fringe experienced a 9% reduction in total contiguous availability since February 2016. This is the lowest number of contiguous options recorded in this market.
- The St Kilda Road market has performed well and has seen a reduction of 53% in contiguous options over 1,000m<sup>2</sup>.
- Despite strong demand and very little supply, the fringe market has remained relatively stable over the last 6 months. The introduction of the Victorian Comprehensive Cancer Centre in Parkville is the only new supply added to the market although is targeted towards medical related tenants.
- The general lack of activity is reflective of the low vacancy level throughout the market. The current availability is the minimum required for the market to function and is unlikely to change substantially unless tenants consider the CBD as an alternative.
- The growth experienced in the fringe over the last 12 months now places fringe net effective rents in line with some CBD A grade offerings. Any tenant looking for fringe space will find the CBD as a financially compelling alternative.

## TENANT OPTIONS (OF 1,000M<sup>2</sup>)

	A	B	Total
City Fringe	9	11	20
St Kilda Road	1	8	9
Grand Total	10	19	29

## TENANT OPTIONS (OF 1,000M<sup>2</sup>)

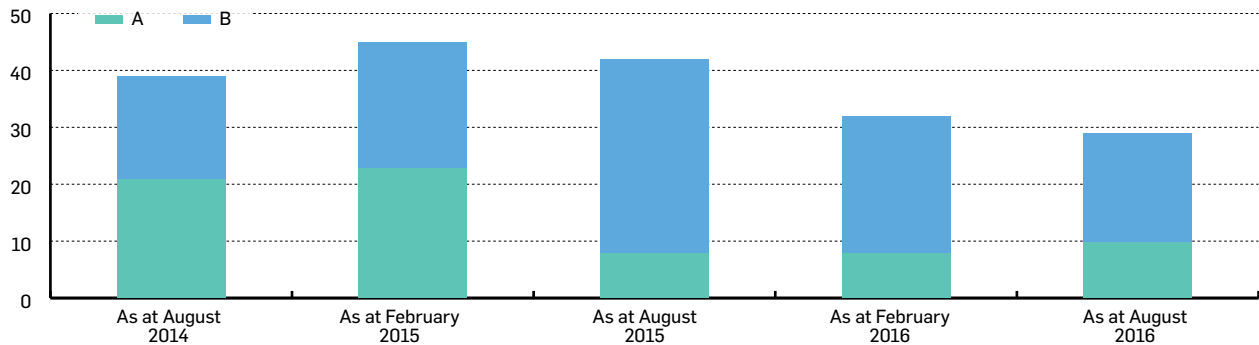
Melbourne fringe by sector



# FRINGE MARKET

## TENANT OPTIONS (OF 1,000M<sup>2</sup>) OVER TIME

Melbourne fringe by grade

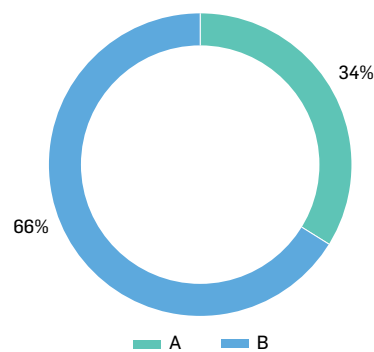


## QUALITY

- Like the CBD, A grade stock has seen a significant reduction in availability, particularly in the St Kilda Road precinct which only has a single A grade option available.
- B grade options have decreased although there remains 8 options available within secondary buildings. Obsolescence appears to be detracting from some buildings' performance reflective of the large number of options available.
- Demand for Fringe space remains strong with some very large lease deals completed over the last 6 months. The largest office deal announced this year was in the fringe market with the leasing of Building 1, 2 and 3 at Botanicca Business Park by Woolworths/Country Road Group.
- Overall the Fringe is a very constrained market with the only significant availability being within secondary buildings. Continued rental growth should trigger some new developments, although there remains intense competition for sites from residential use.

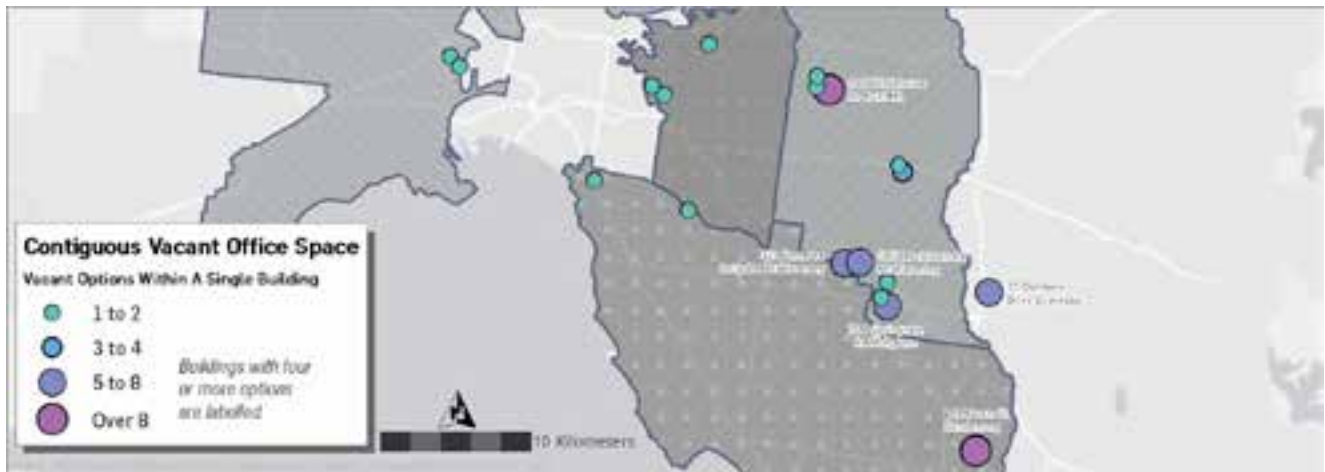
## TENANT OPTIONS (OF 1,000M<sup>2</sup>)

Melbourne fringe by grade





# SUBURBAN MARKET



## SUMMARY OF FINDINGS

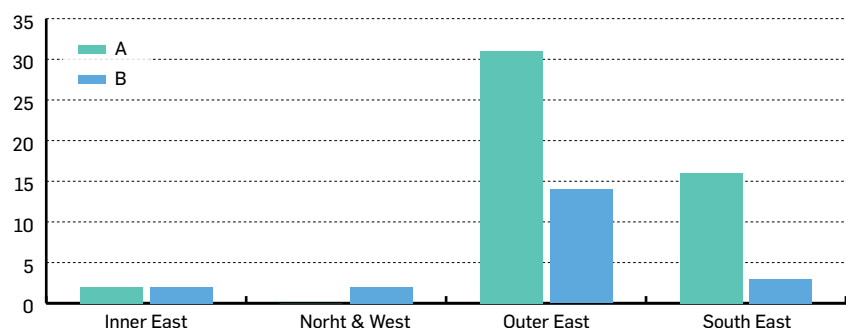
- Each suburban submarket has seen a reduction in total options available over the last 6 months. Current total of 70 options is a 33% reduction from the 105 total options available in February 2016.
- Submarket with the greatest availability is the Outer East with 45 options, reflecting 65% of the total suburban contiguous availability.
- Inner East and North West submarkets have the least number of options available, with a combined total of 6 contiguous options. Similar to the Fringe, the Inner East market has seen a dramatic reduction from 12 to 4 total options. The Inner East market is considered a strong alternative for tenants who have not found space in the fringe market.
- The reduction of space is notable as it is a reversal of the trend established over the last two years of increasing availability of contiguous space. This trend has also been experienced in the CBD and Fringe.

## TENANT OPTIONS (OF 1,000M<sup>2</sup>)

	A	B	Total
Inner East	2	2	4
North & West	0	2	2
Outer East	31	14	45
South East	16	3	19
<b>Grand Total</b>	<b>49</b>	<b>21</b>	<b>70</b>

## TENANT OPTIONS (OF 1,000M<sup>2</sup>)

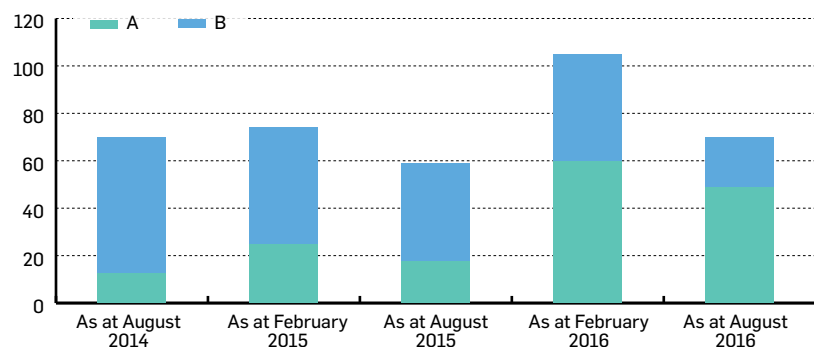
Melbourne suburban by sector



# SUBURBAN MARKET

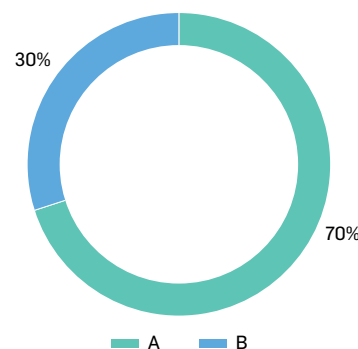
## TENANT OPTIONS (OF 1,000M<sup>2</sup>) OVER TIME

Melbourne suburban by grade



## TENANT OPTIONS (OF 1,000M<sup>2</sup>)

Melbourne suburban by grade



## QUALITY

- Speculative construction in the Outer East and South East has added A grade supply, leading to the slight increase in availability of A grade stock in these markets on the previous half year.
- Expectations that residential development would take up obsolete office stock have been tempered over recent months in the outer suburban markets.
- Likely a result of lending constraints being imposed on residential developers and cooling of the residential development market in the outer established suburbs.
- Obsolete stock may weigh down the outer suburban office market for some time.

### Methodology

We have conducted a survey of advertised options available to tenants across all Victorian office markets. The trends uncovered in our regular studies reveal the best performing leasing markets in the CBD, Fringe and Suburban areas. Additionally, the trends and patterns provide an insight as to the likely fortunes of each market into the future.

We have surveyed all advertised office accommodation in all CBD, Fringe and Suburban markets which meet the following minimum criteria:

- Currently available contiguous space of 1,000m<sup>2</sup> of NLA. Each building's total available contiguous space is divided by 1,000 to determine the total number of 1,000m<sup>2</sup> 'options' available to tenants within each building.
- Office accommodation must be graded Premium, A or B under PCA guidelines.
- Available options may be direct or sub-lease, however they must be advertised and available immediately for occupation.

We have divided the Victorian office market into three separate markets. Each market is further divided into submarkets to provide a more detailed view of trends in specific locations.

- CBD – includes traditional Hoddle grid, Docklands and Southbank.
- Fringe – includes St Kilda Road and fringe locations such as West Melbourne, North Melbourne, Parkville, Carlton, Abbotsford, Richmond, East Melbourne, South Yarra, Port Melbourne and South Melbourne.
- Suburban – contains all suburban locations not listed above, submarkets include Inner East, Outer East, South East, and North and West, broadly along municipal boundaries.

With the above data we have reported the following headline figures:

- Number of options by location and grade
- Total NLA of options by location and grade

# ABOUT URBIS

Our advisory team combines countless years of experience across every property sector – residential, retail, commercial, industrial and self-storage – in every Australian city and region. But much more than real estate knowledge goes into our valuations.

At Urbis, we draw on all the know-how only we can pull together to provide the best services in institutional valuations and advice, rental advisory, feasibility studies, due diligence for acquisition, disposal, rationalisation and compensation.

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**WE LOOK AT PROPERTY  
FROM MORE ANGLES TO  
GIVE YOU A CLEARER  
SENSE OF VALUE – AND  
HOW TO MAXIMISE IT.**



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