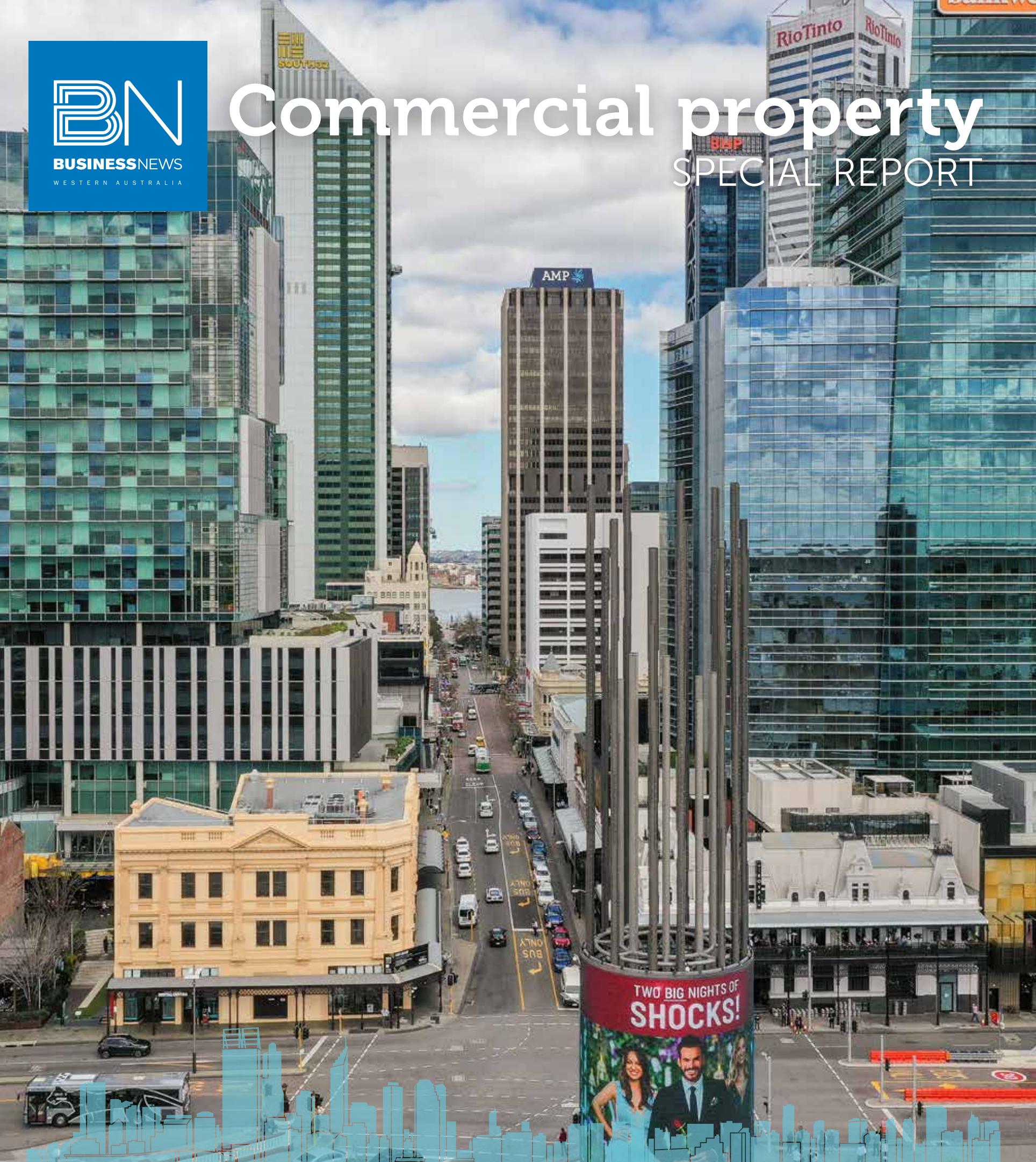


# Commercial property

## SPECIAL REPORT





Katie McDonald

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## 6-PAGE FEATURE

Although the pandemic has emphasised business can be done from anywhere, commercial property players are banking on the value of four walls.

**A**MONG the many lessons learned during this period of worldwide upheaval, one of the clearest in the Western Australian context is that business knows no boundaries.

Whether people are working from a multi-storey office complex or remotely, events of 2020 have demonstrated that 'business as usual' does not necessarily depend on the physical environment, at least in the short term.

Amid enforced crash courses in remote working and virtual meetings, offices across major cities have sat empty, the staple hustle and bustle of workplace lobbies silenced by the threat of a highly contagious virus.

While Perth's flattening of the COVID curve has put it in good stead, cities such as Melbourne haven't been as lucky, with some white-collar professionals working almost entirely from home since the start of this year.

The pandemic has brought the function of a traditional office into question, sparking many

## Commercial property



# The office is still open for business

**DEVELOPMENT:** Just two new office buildings are under construction in the CBD, with several more projects proposed.

**Photo:** Gabriel Oliveira

debates and hypotheses about the future requirements of working environments.

But has COVID-19 truly undermined the value of the office and put its role in jeopardy?

GDI Property Group managing director Steve Gillard doesn't think so.

His confidence is backed by GDI's intentions to build two new offices in Perth's CBD.

The Sydney-based ASX-listed group has had Perth top of mind in recent years, actively building its portfolio of offices, which comprises Westralia Square and three additional properties that form the Mill Green Complex on St Georges Terrace.

It added another asset to its collection last year, paying \$12 million for 180 Hay Street in East Perth, the former headquarters of Chamber and Commerce and Industry of WA.

And Mr Gillard is planning to keep Perth firmly in his sights.

"We'd like to buy more, we're just looking for opportunities."

Mr Gillard told *Business News*.

"It's a counter cyclical market to the east coast; we can see there's a significant amount of infrastructure spend and [resources] projects coming up."

"Once the borders are lifted, you'll have huge population growth from those projects."

"And there's potential for some of the Hong Kong companies to reside in Perth, from the point of view of time zone."

The group has lodged a development application for a 9,500 square metre timber-steel hybrid office adjacent to its Westralia Square building, with the company also progressing plans to demolish and build a new office within the Mill Green Complex.

Once complete, those developments could lift GDI up the ranks of Perth's top 10 commercial property owners, determined by net lettable area, to become one of the state's largest office owners (see page 32).

Mr Gillard said the group was unlikely to proceed with its

second development without tenant pre-commitment, but overall was not perturbed by the Perth CBD office vacancy rate of just over 20 per cent (the highest in the country).

"While the vacancy is high, the vacancy in premium stock in Perth is only about 6.8 per cent ... and there's limited continuous floors in great locations," he said.

"We found that in the last cycle, a lot of tenants went into space they didn't want to because it got down to close to zero vacancy ... but people want a St Georges Terrace address with views of the Swan River."

"A lot of it [vacancy] is older buildings, which will be refurbished or knocked down."

"And the beautiful thing is, there are not many development sites around."

## Office demand

More than 324,000sqm worth of new office stock is either proposed or under construction in the CBD, with Elizabeth Quay

earmarked for most of that space.

Last week, the state government approved Brookfield Properties' two-tower project on Lots 5 and 6 of the waterfront site, which is expected to deliver more than 52,000sqm of office space.

The project adds to Brookfield's existing development pipeline, which includes Chevron's new \$360-million, 54,000sqm headquarters adjacent to Lots 5 and 6 at Elizabeth Quay, now under construction.

Also under way is Malaysian-backed AAIG's Capital Square Tower 2, comprising 25,200sqm of office accommodation, next to Woodside Petroleum's headquarters.

JLL's Q3 'Perth Office Market Snapshot' outlined that development proposals for both the Perth CBD and West Perth office market remained limited, given elevated vacancy rates.

Proposed new office projects were likely to require significant pre-commitment to proceed, the report noted, outlining a

## Office Developments

### Perth CBD

#### Under construction

Chevron HQ, Elizabeth Quay

Capital Square Tower 2

#### Planned

Broofield Properties Lots 5 & 6, Elizabeth Quay

GDI Property Group Timber Office, Westralia Square

Carillon City Office Tower

Brookfield Esplanade Tower

Bishops See Stage 2

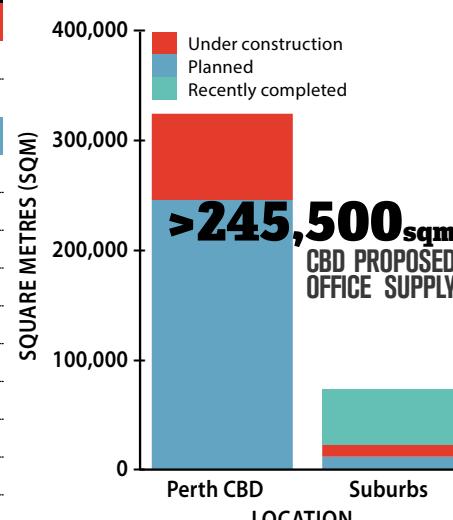
480 Hay Street

Capital Square Tower 3

QV2

QV3

The Campus Waterbank



Source: Y Research, JLL, Business News | \*Recently completed in last 18 months

further eight office developments planned for the CBD, totalling 184,000sqm, however construction start times are yet to be finalised for most projects.

This includes Dexus Wholesale Property Funds' Carillon redevelopment between the Hay and Murray street malls, which, in addition to retail and entertainment tenancies, features a

22,000sqm, 21-storey office tower.

Savills WA managing director Graham Postma said although COVID-19 had disrupted office markets, casting some doubt over future demand levels, tenants still had a strong appetite to reside in the newest buildings.

"That's what drives these new developments," Mr Postma told *Business News*.

"New developments happen because tenants want a new product that's not available in the marketplace; they want the best.

"What needs to be highlighted is we've got very big differentials between stock.

"Pre COVID the Perth CBD, and more particularly the premium and A-grade sectors of the market, were recovering, with

vacancy in the premium stock falling from 8.1 per cent to 6.8 per cent and A-grade falling from 18.5 per cent to 15.8 per cent in the 12 months to July 2020.

"It's that flight to quality that will continue."

Mr Postma said COVID-19 had prompted some businesses to reduce their office footprint and encourage staff to work from

home, but increasing space ratio requirements in light of social distancing could potentially offset any reduction in head count.

"Many groups, particularly in the IT sector, have tried the working-from-home model for a large percentage of their staff in the past, with most if not all reverting to the traditional model to encourage collaboration, innovation, and corporate culture," he said.

"While vacancy will likely increase in the official vacancy figures in January, our strong resources sector, and growing education sector in the CBD, will have positive outcomes in demand terms in the medium to long term.

"One thing history has taught us in WA is our markets can swing very quickly and absorb space in short periods of time."

JLL WA managing director John Williams said while Perth recorded three months of little to no activity during the peak of lockdown, tenant enquiry levels had bounced back.

At the same time there had been an increase in availability of

Continued on page 30

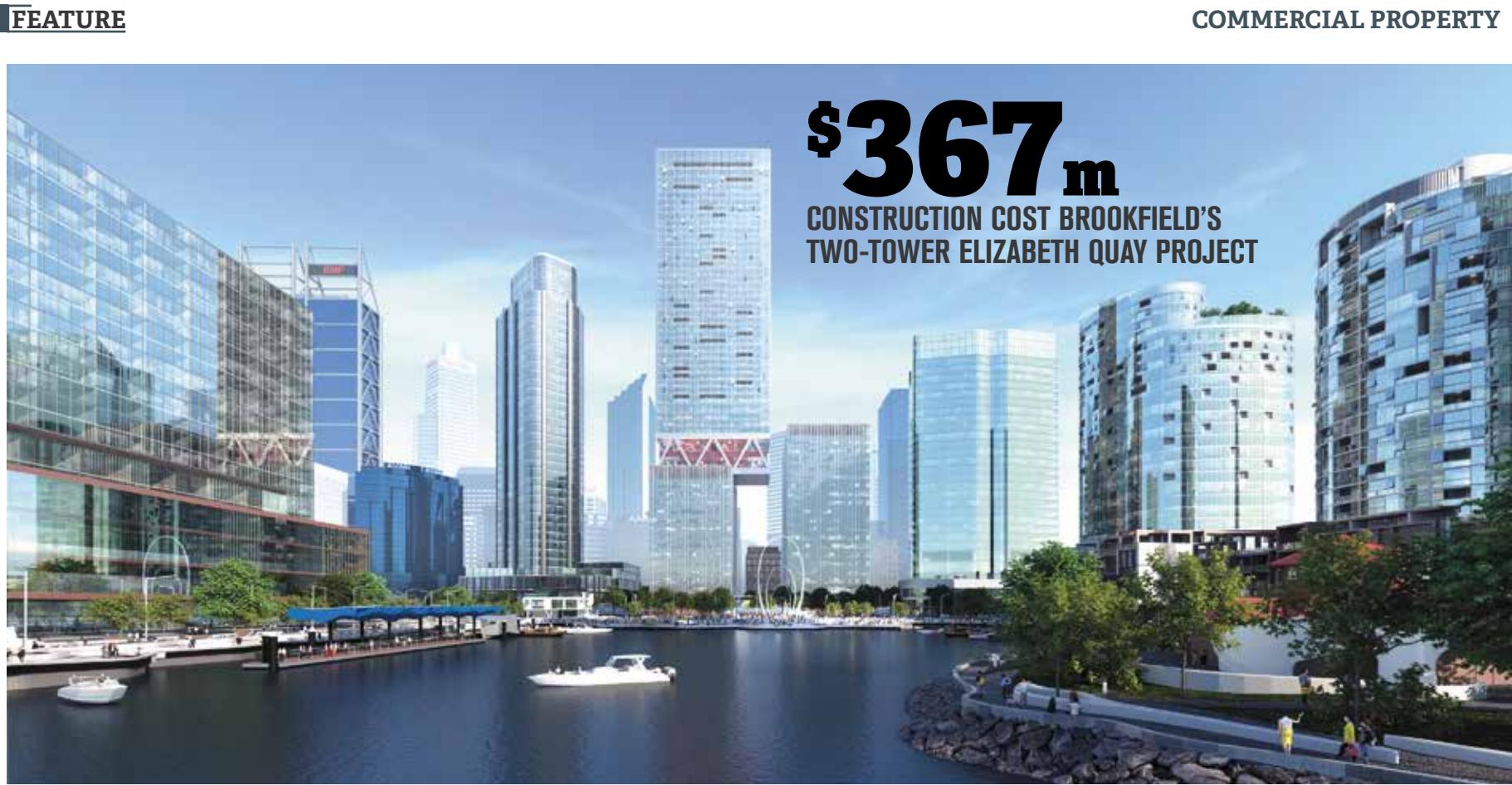
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# \$367m

CONSTRUCTION COST BROOKFIELD'S  
TWO-TOWER ELIZABETH QUAY PROJECT



**APPROVED:** Brookfield Properties has received approval for two towers at Elizabeth Quay, featuring more than 52,000sqm of office space.  
Image: Rex Architecture, Hassell

## The office is still open for business

From page 29

sub-lease opportunities, with JLL recording a negative net absorption of space for the third quarter of 2020, largely driven by Worley Parsons offering two floors for sub-lease at 240 St Georges Terrace.

"None of this has played out long enough for anyone to actually have a clear sense as to how it's impacted the market," Mr Williams told *Business News*.

"But what I can say is tenants are out there looking around for space in the same numbers at least what they were this time last year."

"So the next three to six months will be interesting to see whether that activity translates into deals."

The market remained favourable for tenants, he said, with many businesses facing upcoming lease expiry.

Beyond space requirements, Mr Williams said COVID-19 had prompted a rethink of the office itself, with his colleagues nationally and globally increasingly referring to 'hub and spoke' models.

Under this model, businesses have a central 'hub', as well as satellite offices that provide

an alternative for staff to work remotely, or close to home.

"I think that's really more appropriate for London or New York, those bigger global cities, where you've got one- to two-hour commutes," he said.

"Perth, it ain't that big."

"And the net effective rents for tenants [in the CBD] are unbelievably attractive ... so I just don't see enough scale to impact the market."

### Working from the burbs

The appeal to work from home – or at least, closer to home – varies depending on whom you ask.

But the flurry of new commercial office stock taking shape across Perth's suburban areas over the past 18 months could potentially influence future tenant preferences (see graph).

More than 50,000sqm of office stock has recently been delivered across Perth's inner and outer suburbs.

The largest of these, Sirona Capital's King Square Fremantle, created 20,563sqm of new office space (leased to the Department of Communities) with the redevelopment of the former Myer building.

Nearby, Yolk Property Group's six-storey mass-timber framed

office is under construction, and will add a further 2,000sqm of office space to the Fremantle market.

Also in Fremantle, Silverleaf's restoration of the heritage-listed Manning Buildings is proving popular.

Norfolk Commercial managing director Sonia Fairhead said the team had leased most of the 3,000sqm office building in recent months (just one 133sqm tenancy remaining) with most tenants coming from outside of the Fremantle area.

Y Research director Damian Stone said Fremantle's hospitality strip, train line and rents presented all the drawcards for office demand: amenity, convenience, transport connectivity and affordability.

"The city [Perth] is still going to be the primary option," Mr Stone said.

"If businesses come out to the suburbs, it's going to be this flight to affordability."

"It comes down to what tenants want from a building or a location."

"And until we know how long we're going to live with the virus, it's really all up in the air still."

Urbis director of investment management Tony Mount is more

certain of the virus's impact, even once a vaccine is found.

"There's no doubt people are still seeing the value in their office space and accommodation," Mr Mount said.

"And for reasons outside of the office sector, there's continued strong demand for office property investment as an asset class (see page 31)."

"Although there is some supply coming, I think you'll start to see increasingly more people focus their attention on the Perth office market than what we've seen in the past few years."

"Out of all of this, I think there will be a level of innovation and change that we haven't seen in the use of office space."

### Future

CONVENiO, an Airbnb-like platform for the office market, is one emerging innovation.

Co-founder Peter Stansfield said he'd been in discussion with some Perth office owners since launching in September.

The platform builds on the premise offered by flexible workspace providers: on-demand, short-term office space.

Perhaps one signal of future preferences, flexible workspace providers Liberty and

Spacecubed have both expanded their offerings during COVID-19, adding more CBD space to their portfolios.

Beyond a place to work, Dexus executive general manager Kevin George said the reactivation of the CBD's office buildings would play an important role in Perth's overall economic recovery in the coming months.

Some workforces were yet to fully return to the office, with occupancy levels across Dexus's Perth buildings, which includes 240 St Georges Terrace, now at 77 per cent of pre-COVID levels.

"It's important for organisations to encourage their workers back to the office, both to drive economic activity in our CBDs and their own business productivity," Mr George said.

"The value of the CBD and building amenity to support networking, and a place to socialise after work, cannot be underestimated."

"Offices have a core role to play in developing culture and fostering collaboration and innovation, and businesses will need to understand the organisational cost and compromises of a dispersed workforce versus the opportunities before settling on a new normal."

# Appetite for Perth office investments

Limited new supply, high yields and a rebounding resources sector are elevating the appeal of Perth's office assets.

**Katie McDonald**

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ENSURING a secure return is a dominant consideration for investors at any time, but even more so in an economic environment subdued by the pall cast by the COVID-19 pandemic.

And office buildings are being touted as the type of investment to fit that bill.

JLL WA managing director John Williams said COVID-19 had not eroded investor appetite, having recently run processes for the sale of assets, both in and outside of the city.

Those deals, he said, were about two to four weeks away from being announced.

"Money hasn't gone away," Mr Williams told *Business News*.

"COVID has not impacted the capital markets to any large degree ... you're still accruing superannuation, that cash is piling up globally and that cash needs to be invested."

"The issue is – and has been the issue for many years now – that the amount of capital looking to invest is greater than the assets available to invest in."

According to CBRE's recent report 'Investors Digging for Deals', more than \$1.6 billion worth of capital is active in Perth's commercial property market.

That figure is based on CBRE's bid tally for recent sale campaigns of assets collectively worth about \$350 million, with domestic investors representing 94 per cent of bids.

CBRE WA head of capital markets Aaron Desange said investors had taken notice of

Perth's relatively insulated nature compared to other markets, with the economy underpinned by a strong resources sector and consumer confidence.

"Property remains compelling from an investment perspective given the stable and greater returns it offers compared to cash and bonds," Mr Desange said.

"Additional to this, some property sectors have been less volatile than equities, which has been particularly pertinent in the current environment."

He said Perth's office market yields were another drawcard.

According to CBRE, as of September 2020, Perth prime office market yields were 6.27 per cent, compared to 4.83 per cent and 4.56 per cent for Melbourne and Sydney, respectively.

Looking at major international office markets, prime yields were 2.6 per cent for Tokyo, 2.55 per cent for Hong Kong and 3.61 per cent for Singapore.

"As investors prioritise security and yield in a low-return environment, Perth will continue to be a target market," Mr Desange said.

## Office appetite

CBRE's report also shows that private investors are emerging as the frontrunner for office assets, representing just over 50 per cent of the Perth bidder profiles in 2020.

Next in line were listed entities (representing about 43 per cent of the bidding market), with owner-occupiers representing just over 3 per cent.

That trend appears to be reflective of the Perth transaction market, with a single



**OPPORTUNITY:** John Meredith says Fiveeight is focused on the long-term investment horizon. Photo: Benjamin Horgan

## Major office sales calendar year 2020\*

Property	Sale price (\$m)	Net Lettable Area (square metres)	Buyer	Seller
<b>Newspaper House, 50 Hasler Road, Osborne Park</b>	<b>75.0</b>	42,561	Primewest	Seven West Media
<b>20 Walters Drive, Osborne Park</b>	<b>60.5</b>	14,837	Mineral Resources	BGC Australia
<b>66 Kings Park Road, West Perth</b>	<b>33.1</b>	4,700	Primewest	Black Oak Capital
<b>12 Newcastle Street, Northbridge</b>	<b>24.2</b>	4,637	Dorado Property	Undisclosed
<b>180 Hay Street, East Perth</b>	<b>12.6</b>	4,925	GDI Property Group	Chamber of Commerce and Industry WA
<b>1162 Hay Street, West Perth</b>	<b>10.6</b>	1,424	Mair Property Funds	Undisclosed

\*Office sales (offers/settlements) >\$10m | Source: *Business News* research

owner-occupier deal for the 2020 calendar year so far: Mineral Resources' \$60.5 million purchase of 20 Walters Drive Osborne Park (see table).

The Walters Drive property formed part of BGC Australia's property portfolio, which the company is selling off.

Remaining properties are believed to be valued at about \$300 million, presenting significant buying opportunities.

Andrew Forrest's property arm, Fiveeight, is one Perth-based group actively seeking opportunities.

The Fiveeight portfolio

comprises apartments in the Pilbara region, the Old Swan Brewery mixed-use building (headquarters of Mr Forrest's investment vehicle, Tattarang), as well as a 50 per cent stake in the Roe Highway Logistics Park.

The group could potentially add another asset to its portfolio in the coming months, as it is thought to be one of several investors vying for the Credit Suisse-owned office tower at 190 St Georges Terrace, which is being marketed by both JLL and CBRE.

Tattarang recruited former Lendlease and Mirvac executive

John Meredith to lead Fiveeight earlier this year.

Remaining tight-lipped on potential acquisition opportunities, Mr Meredith said the company did not favour any particular sector and had a flexible mandate, anchored by a long-term investment outlook.

"We're happy to look through the cycle, and if we see value or particular opportunities that appeal to us on a long-term basis, then we'll take advantage of them," Mr Meredith told *Business News*.

When it came to the Perth office market, Mr Meredith was confident of the asset class's future.

"The reality is the physical workplace is irreplaceable from the perspective of culture, communication and innovation," he said.

"The fortunate thing for Perth is we're starting from a position of already depressed rents and elevated incentives."

"Nationally we do see an inevitable flight to quality from an occupier perspective, both in location and workplace, and really that creates opportunities for investors who understand this and can deliver on true value for tenants; I think it's important to flag that value is much broader than a pure race to the bottom in terms of effective rents."

## Data &amp; Insights

## WA's LARGEST COMMERCIAL PROPERTY OWNERS

Ranked by size of total area in m<sup>2</sup> and then by total assets

Rank	Company name	Senior executive and title	Net lettable area (sqm)	Properties owned
1	<b>Primewest</b>	Mr John Bond Co-founder, executive chair	<b>194,548</b>	1 Forrest Place (6,543), 619 Murray St (3,950), Australia Place (15,626), IBM Centre 1060 Hay St (8,411), Joondalup House (4,352), 15 Ogilvie Road (3,828), 267 St Georges Terrace (3,506), 251 St Georges Terrace - 255 SGT (625), 251 St Georges Terrace - 251 SGT (9,745), PW Osborne Park, 71 Walters Drive (3,815), PW Diversified Income Trust No 2 - 20 Parkland Drive (4,825), PCCT - Quadrant, 1 William (23,399), Prime House - 8 Davidson Terrace, Joondalup (10,045) PCCT - Esplanade Property Trust (34,234), PW Office Trust No. 1 - 226 Adelaide Terrace (14,391), 66 Kings Park Road, West Perth (4,692), Newspaper House, Osborne Park (42,561)
2	<b>Brookfield</b>	Mr Nick Ozich Regional director, property & developments	<b>177,744</b>	108 St Georges Terrace (38,396), Bishop's See 235 St Georges Terrace - 50% Brookfield, 50% Hawaiian (8,875 (Total: 17,750)), Brookfield Place Tower 1 (85,762), Brookfield Place Tower 2 (33,349), EY Building (11,362)
3	<b>Dexus</b>	Mr Kevin George Executive general manager, office	<b>116,670</b>	240 St Georges Terrace (47,275), Kings Square Welling Street - Dexus 50%, Dexus Wholesale Property Fund 50% (52,316), Carillon Hay St Perth - Dexus Wholesale Property Fund (5,909), 58 Mounts Bay Road - Dexus Office Partnership 50%, Cape Boulevard Investments 50% (11,170 (total 22,341))
4	<b>Charter Hall</b>	Mr Miles Rowe, Regional portfolio manager, WA	<b>116,188</b>	225 St Georges Terrace (20,766), Bankwest Place (43,517), Optima Centre Osborne Park (16,116), 181 St Georges Terrace (3,590), 303 Sevenoaks St Cannington (20,837), Eastpoint Plaza 233 Adelaide Terrace (11,362)
5	<b>GDI Property Group</b>	Mr Steven Gillard, Managing director	<b>98,747</b>	Mill Green Complex: 197 St Georges (26,336), 5 Mill St (7,148), 1 Mill St (6,648). Westralia Square (32,635), 1 Adelaide Terrace (19,967), 180 Hay Street (4,925), 251 Adelaide Terrace (1,088)
6	<b>Centuria Group</b>	Mr John McBain, Joint chief executive	<b>87,011</b>	111 St Georges Terrace (18,896), Havelock House West Perth (4,856), 144 Stirling Street (11,042), 42-46 Colin Street, West Perth WA (8,439), 45 Francis St (22,013), William Square Northbridge (21,765)
7	<b>GIC Real Estate</b>	Mr Lim Chow Kiat Chief executive	<b>57,788</b>	The Quadrant (23,309), Exchange Tower (34,479)
8	<b>Investa Property</b>	Mr Jonathan Callaghan Chief executive	<b>54,679</b>	50% stake in QV1 (31,260 (Total: 63,964)), Subsea7 House (11,447), Wellington Central (11,972)
9	<b>Perth Diocesan Trustees</b>	Mr Keith Stephens Secretary & executive officer	<b>51,143</b>	235 St Georges Terrace (17,836), QBE House (19,807), City of Perth Library (3,500), 565 Hay Street (7,900)
10	<b>Mirvac</b>	Mr Matthew Lutman Portfolio manager WA	<b>45,010</b>	Allendale Square (29,070), 585 Hay St Perth - 50% Mirvac, 50% KEPPEL REIT (444.5 (Total: 889)), David Malcolm Justice Centre - 50% Mirvac, 50% Keppel REIT (15,496 (Total: 30,992))

11  
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Data &amp; Insights

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WND: Would Not Disclose, NFP: Not For Publication, N/A: Not Applicable or Not Available.

# APIL casts its eye as retail bounces back



Floreat Forum

The retail sector is showing signs of recovery following the COVID 19 emergency period according to Perth-based property investment group APIL managing director Peter Hughes, who says the company is now actively casting an eye over retail properties to add to its already strong retail portfolio.

APIL targets properties with capital growth potential such as large-format retail centres and suburban neighbourhood shopping centres in strategic locations throughout Australia.

From its beginnings in 2001, the company has established 28 property syndicates with more than 300 commercial tenancies across Australia with a combined value of more than \$1billion. It manages more than 1,000 investors made up of individuals, companies, self-managed super funds and trusts.

APIL has in its portfolio such iconic Perth centres as Joondalup Gate, Flinders Square, Byford Market Place, Carine Glades Shopping Centre and Floreat Forum.

Mr Hughes says there's no doubt that nationally the retail sector took a major hit in the pandemic with mandated shop closures and enforced restrictions but APIL's retail portfolio has weathered the storm quite well because of two main factors.

Firstly, he says all of our retail properties are either in Perth or Brisbane, the two capital cities to have endured the pandemic better than most other cities and secondly, the majority of our retail shopping centres are neighbourhood shopping centres underpinned by strong performing Coles and Woolworths supermarkets with a focus on creating a convenient shopping experience for consumers.

"Retail is proving to be robust with new businesses taking up premises that have been offered-up by departing businesses succumbing to new shopping trends. These new businesses are in the services sector, personal grooming, food and beverage, health and wellbeing," he says.

"With restrictions on travel, shoppers now find that they have surplus cash, and they are spending it on themselves particularly in personal grooming, food offerings or choosing to redecorate their homes."

"At Joondalup Gate for example, which is one of our biggest retail centres, we're in advanced negotiations with a fitness group to occupy nearly 2,000 square metres."

"Floreat Forum has also seen renewed leasing interest with two new restaurants to join the Outdoor Forum Restaurant Precinct. This is on the back of recently finalising agreements with

Go Swimming, Kumon Education and a Ministerial Office for the Local Member of Parliament."

Research shows large-format retailers specialising in homewares and furniture like Harvey Norman, Spotlight and Amart performed strongly in Perth and Brisbane with rents remaining fairly stable over the pandemic period.

Mr Hughes says COVID-19 created a "nesting" effect, driving increased consumer demand for household goods. Consumers took the lockdown opportunity to redirect their surplus cash to upgrade their homes which resulted in increased patronage to Large Format Centres such as APIL's Freedom Lifestyle Centre, Capalaba, 5 Clayton Street, Midland and Joondalup Gate. The "convenience" factor was paramount in consumer's destination of choice.

"You get in your car and drive specifically to the larger retailer to make your purchase. It's safe, easy and convenient – you pull up in your car right out the front of the premises," he explains.

Future retail acquisitions will follow our successful model of convenience-based neighbourhood properties with fewer specialties and precinct-based large format centres underpinned by strong national retailers."

"JLL research backs this; it shows neighbourhood properties with fewer

specialties have outperformed the sector with the easing of COVID-19 restrictions."

"Staff working from home have been frequenting their local shopping centres, as opposed to the major CBD and regional centres."

"JLL data also supports this, with turnover accelerating by 6.2 percent for both food retailing nationally and WA's household goods categories."

"This indicates people are spending more time at home, rather than being out and about."

At just \$50,000 APIL has a low minimum investment to participate in a property investment trust, meaning investors can spread their risk by investing in multiple syndicates across different locations and sectors."

Mr Hughes says a low threshold to invest gives almost everyone a chance to participate in assets well beyond their personal scope for investing.

For more information visit  
[www.apilgroup.com](http://www.apilgroup.com)

### Data & Insights

Showing 6 of 378

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