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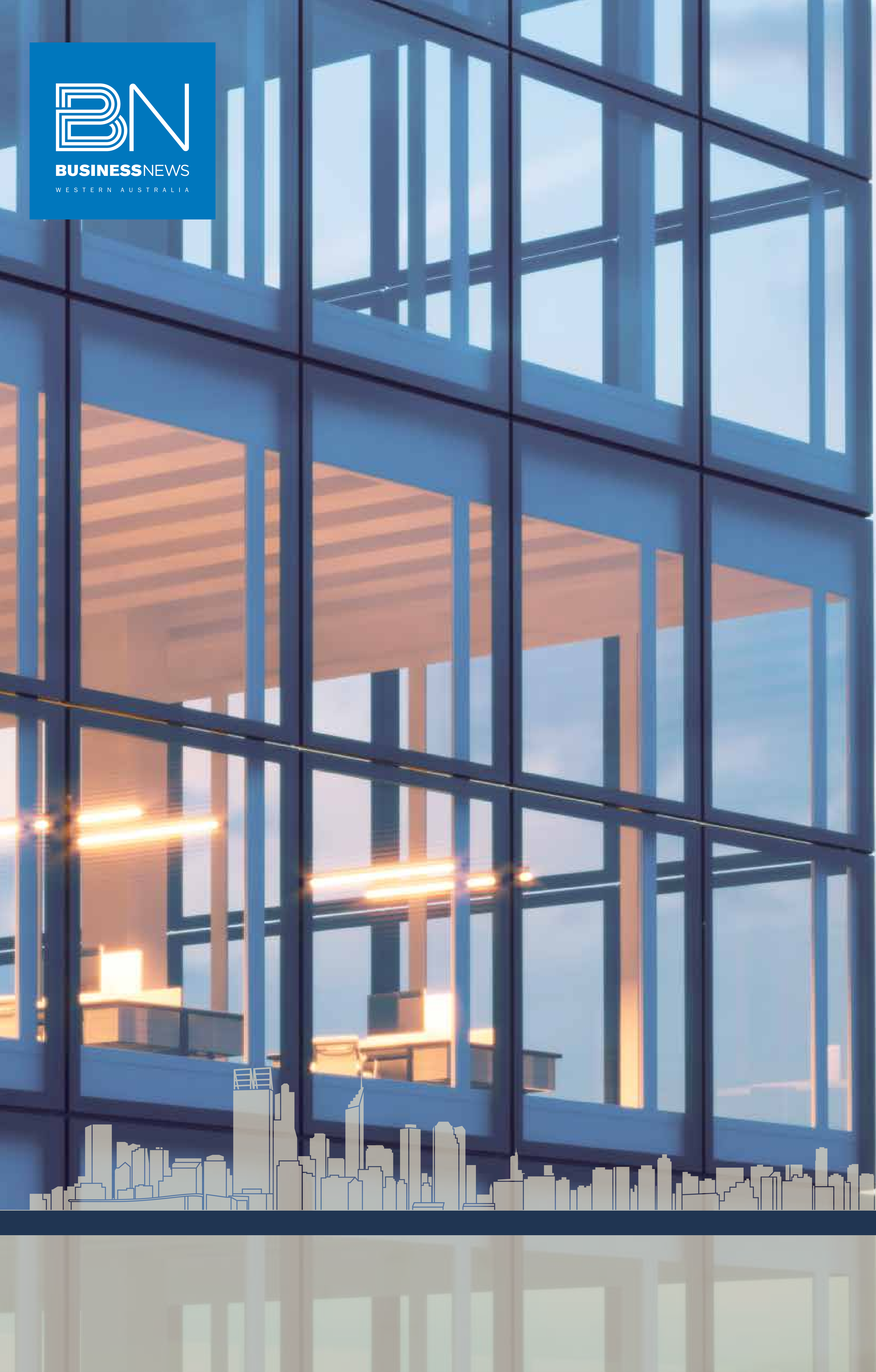
COMMERCIAL PROPERTY

SPECIAL REPORT



BN FEATURE

Commercial property

Office players lining up for next wave

Key takeaways

- Optimism returning to office market as vacancies gradually fall
- Rents starting to grow, incentives pulling back
- Developers seeking new approvals to benefit from demand uptick
- Chevron HQ construction to mark turning point in office sentiment

FOCAL POINT: Elizabeth Quay is expected to be a fulcrum for Perth office development in coming years, but there is also potential for new builds elsewhere in the CBD. **Photo: Gabriel Oliveira**

Commercial developers are continuing to prepare for more favourable conditions in Perth's office market.

Dan Wilkie
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THE chances of any new major office tower emerging in Perth's CBD in recent years have been slim at best.

Office vacancies hit a 22-year high of 22.5 per cent in early 2018, in line with an environment of cost cutting and a widespread reduction in head counts at Western Australia's biggest commercial tenants.

In late 2019, however, national and local commercial developers have become quietly optimistic that improving economic conditions could spark a revival in office development across the CBD.

Investment in the resources sector has steadily risen since the middle of last year, with the state's biggest players seeking to launch new projects across WA.

As a result, tenants are starting to expand their footprints across the city, driving a rebound in rents and a vast reduction in the availability of large, contiguous office floors.

The latest data from commercial agency CBRE showed prime rents in Perth rose by 11.6 per cent in the first three quarters of 2019, the highest growth in the country.

CBRE said incentives – where office landlords offer rent-free periods or contribute to the cost of fitouts to secure tenants – were also falling in line with a reduction in available quality office space.

JLL managing director John Williams told *Business News* there were several firms in Perth with large office requirements that were highly likely to trigger new office development.

"That's because there are fewer large contiguous floorplates left for these requirements to be satisfied,' Mr Williams said.

"So if these larger tenants are looking to move, then their only alternative is going to be a new build."

While Mr Williams would not be drawn on the identities of those tenants, discussions with several industry sources unearthed a significant list of companies with upcoming lease expiries and large space requirements.

Sources suggest businesses such as Fortescue Metals Group, ConocoPhilips, Santos, Downer EDI and Bankwest could seek to occupy a new building, while *Business News* understands the state government is keen to stimulate the commercial market by building a new headquarters for WA Police.

22.5% CBD OFFICE VACANCIES EARLY 2018

While WA Police recently extended its lease at Westralia Square, *Business News* understands the terms of that deal would allow for the time it would take to secure a deal with a prospective developer and construction of a new building.

In addition to the corporate sector, *Business News* reported last week that The University of Western Australia and Murdoch University were in the early stages of planning new CBD campuses, with the institutions' space requirements understood to comprise around 10,000 square metres each.

Mr Williams said developers across the city were positioning themselves to deliver any new office opportunities if they emerged.

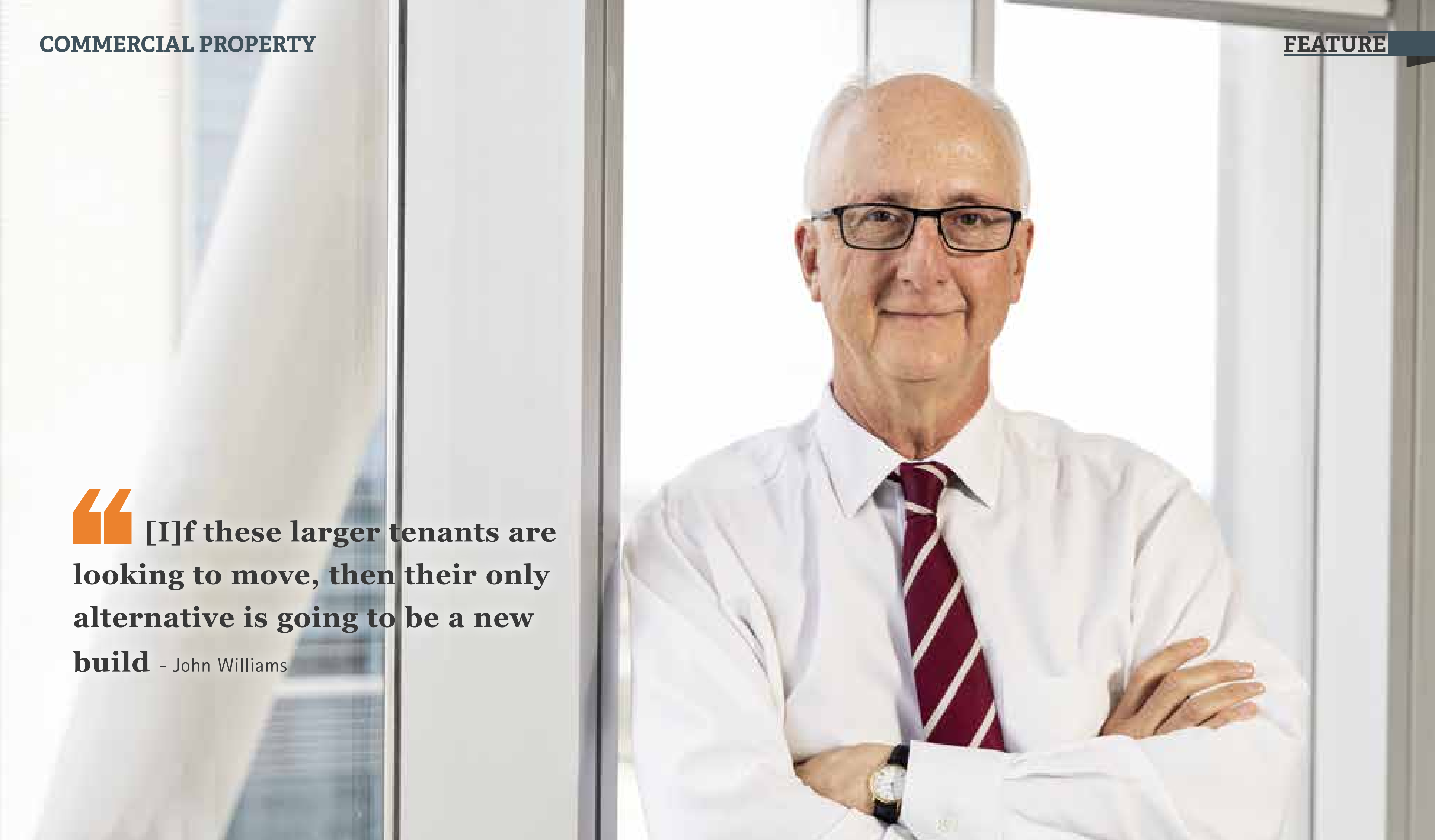
Developers with plans for major office projects include Canadian giant Brookfield, which has three commercial towers in the pipeline, national listed player Dexus, and Victor Goh's AAIG (see details p26).

"There are plenty of alternatives, and there are plenty of groups with big balance sheets behind those sites that can deliver the end product," Mr Williams said.

"They'll only build if they have a pre-commitment, and developers are aware there are some bona fide potential occupiers out there.

"All the plans have been dusted off and ready to go; they are all primed, set and ready and can pitch these buildings at tenants, and there will be a few that come up."

Urbis director of economics David Cresp was less optimistic



> [I]f these larger tenants are looking to move, then their only alternative is going to be a new build - John Williams

OPTIMIST: John Williams says it's highly likely several new towers will be built in Perth in the next five to 10 years. **Photo: Gabriel Oliveira**

around the prospects of any new buildings outside of Chevron's new headquarters emerging in Perth in the next couple of years.

"The challenge is for a tenant that has an existing building that could potentially continue to suit them, is that someone can't build a new building for rents that are in line with the deal that they have in the building that they're in,' Mr Cresp told *Business News*.

"For tenants that are in a premium building, the economics of it make it difficult to stack up.

"Is a new building going to happen? That's going to depend on a tenant pre-commitment and a tenant possibly deciding that they no longer want to be in the building that they're currently in and isn't able to find anything else in an existing building that's going to suit them.

"That may lead to a new development, but it's very much going to depend on tenant pre-commitment."

At Elizabeth Quay, cranes are expected on lots seven and eight early next year, with Multiplex scheduled to start work on Chevron's new 55,000sqm, purpose-built headquarters.

The Chevron headquarters, being developed by Brookfield on behalf of the energy giant, will be the first major tower to start construction in Perth since Woodside Petroleum's Mia Yellagonga office building was completed in 2017.

Brookfield head of development Carl Schibrowski described the Chevron deal as an "out-of-the-box opportunity" that came about through its construction subsidiary Multiplex, which had been working with Chevron under an early contractor involvement model.

Chevron had initially planned to develop its headquarters itself, but Mr Schibrowski said those discussions with Multiplex unearthed the opportunity for Brookfield to get involved and take on the development risk.

"We've been Chevron's landlord and business partner in California through various opportunities there, so we were able to draw on the global business in those relationships," he said.

"So when they had a bit of a change of heart and decided they didn't want to be in the business of real estate development, we were able to provide them with a solution to the building they were designing for themselves, and we were also able to provide them with four alternatives as well.

"They were able to look at what the full market in Perth could offer them, which gave them confidence to go back to the plan that they had, but do it in more of an outsourced model."

Mr Schibrowski said the international office landlord and developer had taken a long-term approach to Perth, with its presence in the market dating back to the early days of Multiplex.

Mr Schibrowski said Brookfield had taken a similar view on Perth as it did on other major resources hubs such as Calgary and Houston, which also had highly cyclical office markets.

Other than Chevron, Brookfield has an approval in place to build an eight-storey office tower above the Esplanade Busport, while its 52-storey Perth Plus mixed-use proposal at Elizabeth Quay includes around 40,000sqm of office space across two buildings.

11.6% INCREASE IN PERTH PRIME RENTS FIRST THREE-QUARTERS 2019

"Our approach to the market is very much portfolio-driven," Mr Schibrowski said.

"We keep an eye on each of the new requirements coming up, and because we're able to present a couple of different options each time that really means that we are well set to answer what those significant players really need."

ASX-listed Dexus is another major player with a significant office proposal in the works, with a $200 million redevelopment of Carillon City approved by planning authorities earlier this year.

Dexus head of office leasing Chris Hynes said the Carillon proposal followed its significant redevelopment of 240 St Georges Terrace, which included a new street entry, improved retail, a new childcare centre and a flexible office facility known as Dexus Place.

He said Dexus was taking a positive view of the Perth office market.

"We are seeing considerable investment by the government in transport infrastructure and the private sector in new mining and oil and gas initiatives – reportedly $168 billion planned over the next five years," Mr Hynes said.

"Perth is now clearly in a recovery phase and we have conviction in the continued growth of the city as it diversifies its investment opportunities."

Outside of the CBD, Sirona Capital managing director Matthew McNeilly said he was positioning his company to take advantage of an anticipated upturn in office demand.

He said Sirona, which was midway through developing a $270 million office building in the centre of Fremantle, was increasingly busy in seeking planning approvals.

"I'm picking particular parts of the market … I think there is room for more offices in Fremantle for instance," Mr McNeilly said.

"Now is the time, in my view, to be mobilising and getting ready for the next development cycle.





NEXT WAVE: (Clockwise from top left) Brookfield's Perth Plus, Chevron's new headquarters, Esplanade Plaza, Dexus' Carillon City and AAIG's Capital Square.
Images: Brookfield, Dexus, City of Perth

Office players mobilise for next cycle

"But we've got to think beyond just the traditional oil and gas, resources and government tenants; we've got to be thinking more widely than that."

Not so optimistic was APIL Group managing director Peter Hughes, who said market conditions would have to improve much more significantly for the developer-landlord to pursue new commercial office opportunities.

Instead, Mr Hughes said APIL had concentrated its efforts in recent years on upgrading its existing office portfolio.

"To keep your tenants you've got to do a new fitout, give them a proper incentive and reset the rent," he said.

"If you don't do that you'll lose your tenant, so you're kind of forced into it. Our project management team has been very busy for the last five years.

"Having been in the game for 42 years, I've seen it all. You don't get lucky in this game, you have to see the trends.

"Perth property might be worth a look in the next year or two, but it's not going to do a lot until we get vacancies and incentives a bit more under control.

"Our investors want a dividend, and so if you're giving cash to a tenant, there's none for the investor."

BNiQ SEARCHENGINE ...your key to WA business

WA's LARGEST COMMERCIAL PROPERTY OWNERS

RANKED BY TOTAL LETTABLE AREA IN M2

Rank	Change from previos year	Company name	Senior executive and title	Total lettable area in m2	Properties owned
1	—	**Brookfield**	Mr Nick Ozich Regional director, developments	**186,656**	Brookfield Place (86,000), Brookfield Place Tower 2 (34,000), 108 St Georges Terrace (38,982), Bishop's See (17,600), EY Centre (11,511)
2	—	**Dexus**	Mr Scott Travers Regional general manager, office and industrial investments	**138,003**	240 St Georges Tce (47,300), Kings Square 1 (23,000), Kings Square 2 (20,440), Kings Square 3 (9,185), 50% stake in Alluvion (11,200), Carillon & City Arcades and office tower (18,006), SGIO Building (8,872)
3	↑	**Charter Hall**	Mr Miles Rowe Regional portfolio manager, WA	**103,118**	33% stake in Raine Square (14,500), Emirates House (3,588), Eastpoint Plaza (11,515), WorkZone West (15,602), SevenOaks (20,837), 225 St Georges Terrace (20,960), Optima Centre Osborne Park (16,116)
4	↓	**GDI Property**	Mr Steven Gillard Managing director	**102,746**	Mill Green (40,280), Westralia Square (32,635), 251 Adelaide Terrace (10,006), 1 Adelaide Terrace (19,825)
5	—	**Primewest**	Mr John Bond Co-founder, executive chair	**102,171**	The Quadrant (23,309), Australia Place (15,355), ENI House (14,391), 251 St Georges Terrace (9,745), IBM Centre (8,466), 1 Forrest Place (6,543), 20 Parkland Road Osborne Park (4,825), Joondalup House (4,352), Lawrence House Mt Pleasant (3,876), 619 Murray Street (3,950), 67 St Georges Terrace (3,484), 307 Murray Street (3,250), 255 St Georges Terrace (625)
6	↑	**Perron Group**	Mr Ross Robertson Managing director	**67,524**	50% stake in Central Park (66,059), Perron Group HQ - 4 Plain St (1,465)
7	↑	**Centuria**	Mr John McBain Joint chief executive	**65,328**	45 Francis St (22,013), 111 St Georges Tce (18,978), 144 Stirling Street (11,042), SGIO Building at 46 Colin Street (8,439), Havelock House at 29 Havelock St (4,856)
8	↓	**BGC Australia**	Mr Daniel Cooper Chief executive	**NFP**	22 Mount Street (6,874), 18 Mount Street (4,030), BGC Centre at 28 The Esplanade (15,314), 20 Walters Drive (14,837), 67 Walters Drive (6,368), 5 Hopewell Street (4,245), Rowe Ave (10,570)
9	↑	**Mirvac**	Mr Matthew Lutman Portfolio manager WA	**60,951**	Allendale Square (29,070), David Malcolm Justice Centre - 50% MPT, 50% Keppel REIT (30,992), 585 Hay Street (889)
10	↓	**GIC Real Estate**		**57,710**	The Quadrant (23,309), Exchange Tower (34,401)
11	↓	**Investa Property**		**54,679**	50% stake in QV1 (31,260), Subsea7 House (11,447), Wellington Central (11,972)
12	—	**Perth Diocesan Trustees**	Mr Brian Dixon Secretary	**41,143**	235 St Georges Terrace (17,836), QBE House (19,807), City of Perth Library (3,500), 565 Hay Street (7,900)
13	—	**St Martins Properties**	Mr Nicholas Ozlanski Property manager, WA	**39,582**	St Martins Tower (21,470), Calibre House (10,661), 40 St Georges Terrace (7,451)
15	↑	**Qube Property Group**	Mr Mark Hector Managing director & partner	**37,850**	430 Roberts Rd Subiaco (1,657), 437 Roberts Rd Subiaco (3,695), 450 Roberts Rd Subiaco (2,198), 100 Havelock St West Perth (4,670), 170 Railway Rd West Leederville (3,285 JV with WALGA), 999 Hay Street (11,770), Hilton Shopping Centre (1,900), Bennett Springs Shopping Centre (8,672 JV with Erceg Management)
16	↓	**Cbus Super**		**36,000**	one40william (36,000)

17–34 **GET THE FULL LIST ONLINE** businessnews.com.au/List/property_commercial_owners

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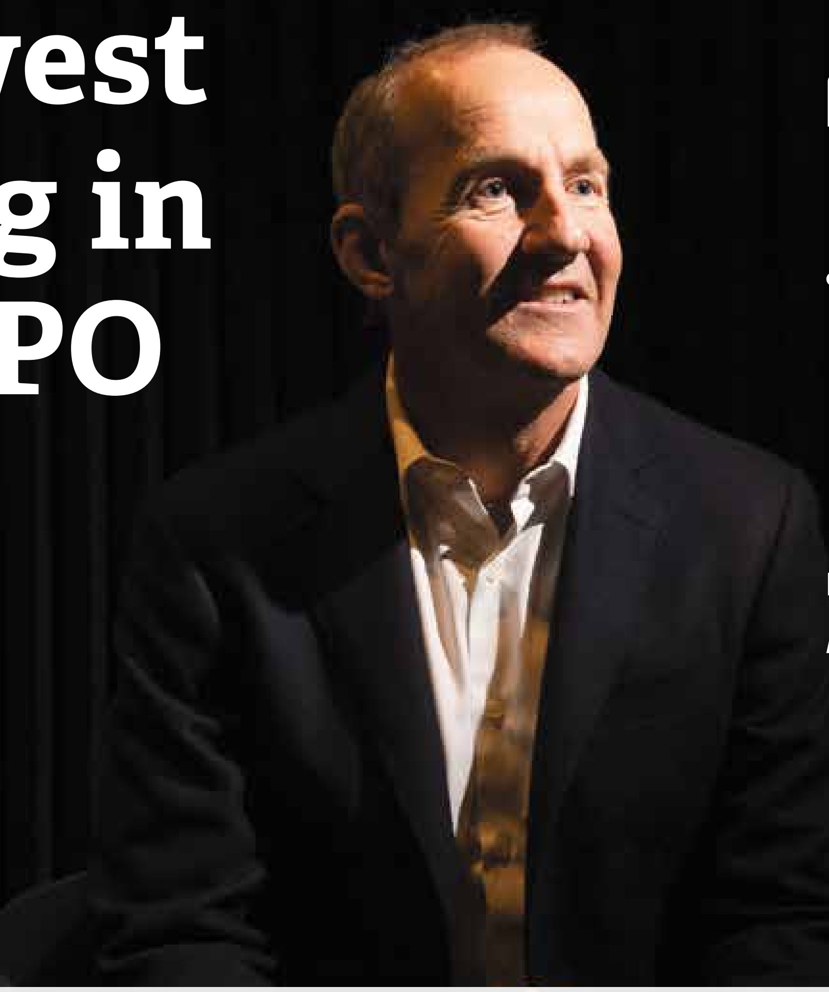
WND: Would Not Disclose, NFP: Not For Publication, N/A: Not Applicable or Not Available.

Primewest winning in tough IPO market



primewest

ANATOMY OF A FLOAT

Offer price: **$1** per share

Capital raise: **$100m** for a **29%** interest

FY19 net revenue: **$25.6m**

Funds under management: **76**

Assets under management: **$3.9bn**

Employees: **31**

GROWING UP: John Bond is looking forward to the new opportunities an ASX listing will bring Primewest. **Photos: Attila Csaszar**

Investors across Australia have backed Primewest's ambitions to expand its offering via an ASX listing.

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PRIMEWEST has braved the most difficult initial public offerings market in years as it closes in on an ASX listing. The business has managed to raise its targeted $100 million at the same time that billions of dollars in floats are being pulled over concerns of overly-high valuations and continuing global economic uncertainty.

Western Australia's biggest home-grown property play will begin trading on the ASX on November 8.

Chief executive John Bond said Primewest had been able to source $50 million of investment from its existing clients, while Sydney-based lead manager Moelis Australia secured the remaining capital.

Mr Bond said there was significant interest in the float, with both tranches significantly oversubscribed.

"We are lucky that the property space is definitely in demand and yield is definitely in demand, so we happen to be providing two of those key ingredients that are of interest to investors," Mr Bond told *Business News*.

"We'll be paying a 5 per cent yield, which will be fully franked, so that's pretty attractive in this market."

Mr Bond said Primewest would use the capital raised to expand its wholesale mandate business, building on capacity developed following a tie-up with Singapore's GIC, which recently appointed Primewest to seek investment opportunities in commercial property in Perth and Brisbane.

"Typically they require an investment manager to have equity in the deals, so we'd like to be able to put that in off our balance sheet rather than go to syndicate investors," Mr Bond said.

"It's much more seamless to do that, and it's an alignment of interests with the institutions.

"Other than that, we think there are lots of opportunities where we can deploy equity. We've been a management company solely, we haven't had a balance sheet.

"We get lots of opportunities across our desks that we haven't been able to do anything with.

"I think it's going to be an interesting time in the property space; I can't go into too much detail, but we have things that we are looking at and talking about."

Primewest's float success comes at a time when major floats are being pulled from the market en masse, with investors showing little appetite for new companies on the ASX.

Several high-value IPOs have been scrapped in recent weeks, including Singapore-based Property Guru's $1.4 billion plan, Latitude Financial's $3.2 billion float, and Retail Zo's $482 million listing.

Data from EY shows that, in the first half of 2019, IPOs in Australia had declined 43 per cent by volume and had plunged 73 per cent in value compared with the first six months of 2018, with small-cap listings in technology, materials and healthcare drawing the most investor interest.

HLB Mann Judd partner Marcus Ohm described the IPO market as the worst he'd seen for quite a number of years.

"We've been reporting the IPO market since 2005, and it's pretty bad out there at the moment, unfortunately," Mr Ohm told *Business News*.

$50m
EXISTING CLIENTS' CONTRIBUTION TO PRIMEWEST IPO

"We were hoping it would improve quite a bit over the second part of the year but it's just not happened, people just aren't willing to support what IPOs are on offer at the moment.

"And that's a challenge. The large ones aren't getting away, primarily on valuation issues, and the smaller part of the market's not there either; it's pretty dire at the moment."

Primewest's listing follows WA residential property play Nicheliving having several stalled attempts at getting an ASX float over the line in the past two years.

Nicheliving announced plans to list on the ASX in late 2017, seeking to raise up to $12 million.

Midway through last year, however, Nicheliving revised its listing plans, reducing the capital amount to $5.7 million after a Singaporean investment group took a cornerstone stake in the company.

The builder-developer withdrew its float in December, while Nicheliving managing director Ronnie Michel-Elhaj told *Business News* this week the company was simply waiting for the right time to relaunch the IPO.

"In our first path to IPO we actually achieved what we needed to achieve in terms of capital raising – the interest was certainly there," Mr Michel-Elhaj said.

"With the fact that we are now the largest medium-density developer in WA, our focus is now to get to a critical point where our projects are at the right level and we are trying to reach the right timing to be able to relaunch when we feel there is demand."

Established: **1995**

Founding directors: **John Bond, Jim Litis and David Schwartz**

PRIMEWEST WA ASSETS

Commercial property: **$1.1bn**

Large format retail: **$436.9m**

Convenience: **$427.6m**

Industrial: **$76.3m**

Other: **$200.6m**

PRIMEWEST ASSETS OUTSIDE OF WA

Commercial property: **$389.5m**

Large format retail: **$514.1m**

Convenience: **$380.5m**

Industrial: **$299.5m**

ASSET: The Quadrant at 1 William Street is Primewest's highest value commercial building in WA, having been independently valued at $206 million.

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