



**Adelaide CBD Office Market -
2020 and Beyond**
Spring 2020

M3property

There is approximately 92,386sqm of new supply forecast to be added to the Adelaide CBD over 2020-2023 with circa 53,300sqm pre-committed. New supply is forecast to result in 39,086sqm of backfill space becoming available within the CBD.

Whilst restrictions in South Australia (SA) have eased, tenant demand continues to be impacted negatively by the uncertainty driven by the COVID-19 health and economic crisis, which continues to unfold.

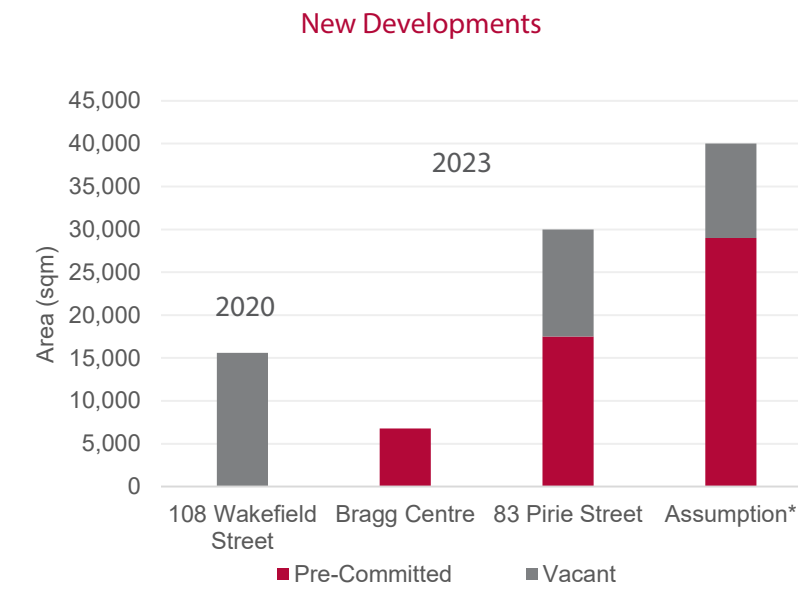
Vacancy is expected to rise in the short term, however, the Adelaide CBD office market is potentially more insulated to sharp economic downturns than the eastern states due to the relatively low number of large corporate occupiers.



New Developments Under Construction

- » COVID-19 presents potential challenges to the supply pipeline due to the delay of building materials from international suppliers and reduced number of workers on-site as per social distancing restrictions and future potential positive COVID-19 cases.
- » There are currently two developments under construction and one nearing completion. Kyren's speculative development at 108 Wakefield Street is expected to complete in November this year, with no known pre-commitments at the time of this report. Commercial and General's Australian Bragg Centre for Proton Therapy (SAHMRI 2) development is underway, with the Department of Health and Wellbeing (DHW) pre-committing to five levels, including four levels of office. The total office component of this development is still undecided, with the development's usage heavily focused on research and 'next generation' cancer treatment. For the purpose of this analysis, we have reported the office component of the development to be fully committed.
- » Tender submissions for Cbus's development at the former Planet Night Club (83 Pirie Street) closed in mid-August, with construction likely to commence towards the end of the year. The development has secured a pre-commitment of circa 58% (17,500sqm) by the Department of Transport and Infrastructure (DIT), formerly the Department of Planning, Transport and Infrastructure (DPTI).
- » Two further developments (Lang Walker's Festival Plaza office tower and Charter Hall's Southern Cross development, both 40,000sqm) in the pipeline are competing for the same tenant requirement for the Commonwealth Department of Human Services of approximately 29,000sqm. It is likely however that only one of these developments will proceed and complete prior to the end of 2023. Our analysis therefore assumes only one 40,000sqm development will proceed and that it will be circa 73% (29,000sqm) pre-committed.
- » Looking at the developments currently under construction, together with 83 Pirie Street and one of the 40,000sqm developments, it is forecast that we will see approximately 92,386sqm of office space added within the next three years. Taking into consideration the above assumptions, approximately 58% is pre-committed, leaving 39,086sqm available for lease.
- » There are a number of additional developments in the pipeline, however, they're unlikely to proceed to construction in the absence of a substantial level of pre-commitment.

Obtaining pre-commitments from non-government tenants has become more difficult due to economic uncertainty and delaying of tenant decisions due to COVID-19. Weakening demand is forecast to result in a short-term oversupply of office space and rising vacancy by the years' end.



Source: PCA, Sensational Adelaide and m3property. *Assumption based on either Festival Plaza or Southern Cross going ahead.

- » Approximately 39,086sqm of new vacant space available over the next three years.
- » When considering the amount of new space added and pre-committed by year, there will only be 15,586sqm of vacant new space available until 2023, when 23,500sqm of vacant new space will become available.

Developments Under Construction (2020 - 2023)

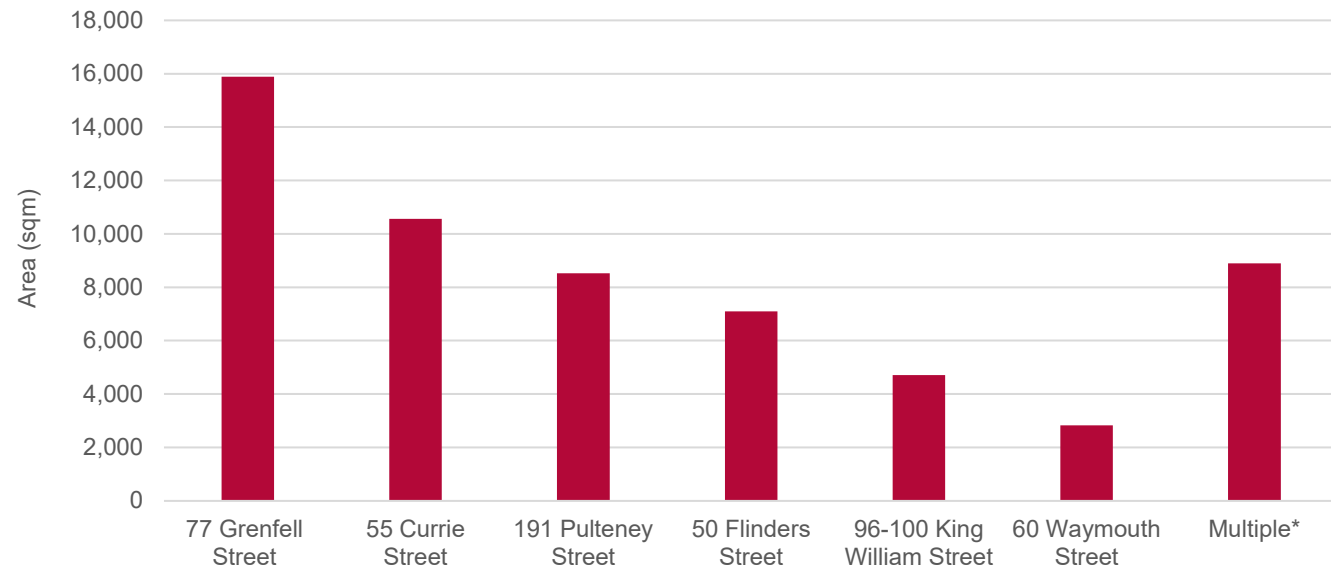
	New NLA (sqm)	Pre-Committed (sqm)	Vacant (sqm)
2020	15,586	0	15,586
2021	-	-	-
2022	-	-	-
2023	76,800	53,300	23,500
Total	92,386	53,300	39,086

Source: PCA, Sensational Adelaide and m3property. *Amount based on DHS pre-committing to 29,000m2 soon to a new build (Festival Plaza or Southern Cross).

COVID-19 to weaken tenant demand over the next 12- 18 months

Backfill Space Availability

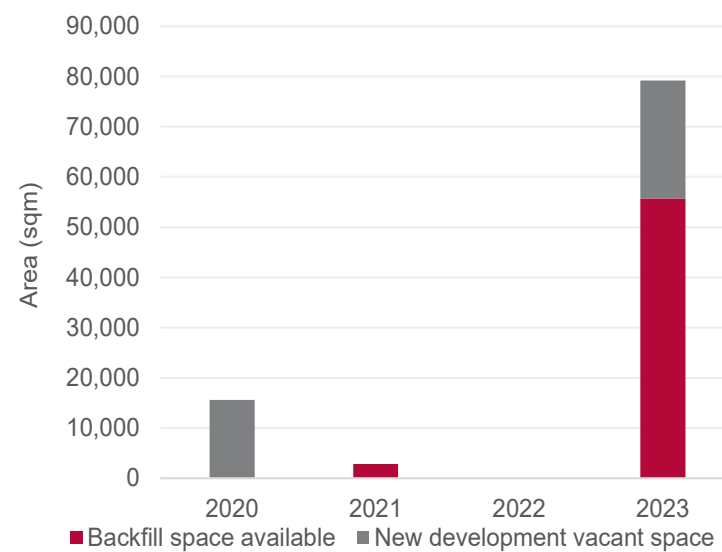
Back Fill Space Available for Occupancy



Source: m3property

- » Total space currently occupied by tenants who have pre-committed to new developments under construction or to be completed over the next three years is approximately 55,680sqm.
- » In addition, the South Australian Fire and Emergency Services Commission (SAFECOM) has pre-committed to the second stage of the Worldpark development outside of the CBD, which will potentially create a further circa 2,820sqm.
- » At this stage, none of the backfill space is planned to be withdrawn for refurbishment, leaving the full amount available for lease.
- » The total vacant space available for occupation over the next three years is approximately 97,586sqm including new and backfill space. Only 18,406sqm is expected to be available over 2020 to 2022, with most of this space becoming available in 2023 (79,180sqm).
- » One of the largest areas available for lease within a single building will be the whole of 77 Grenfell Street at 15,888sqm available across 18 floors. Another large portion of backfill space becoming available will be 10,561sqm of non-continuous space in Allianz House at 55 Currie Street currently occupied by DHS.

Overall Vacant Space Availability



Source: m3property

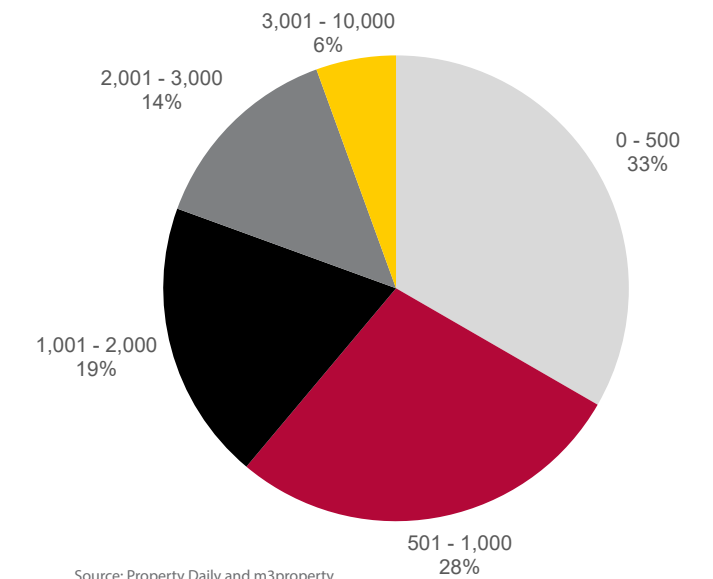
Leasing Requirements

Current leasing requirements where tenants are considering the Adelaide CBD as a potential or likely location, totals circa 41,510sqm (exc DHS)

- » For the purpose of this analysis, we have not included the DHS requirement (29,000sqm) but have added it to the level of pre-commitment for new developments.
- » According to the lease requirements listed on Property Daily, of the tenants considering a CBD location, there were more listings for spaces under 500sqm compared to any other space range.
- » Number of active leasing requirements for space required under 500sqm contributed to approximately 33% of total number of enquiries, whilst number of requirements for areas between 3,001 to 10,000sqm was only 6%.
- » The total area by tenant enquiry for spaces under 500sqm was only 3,811sqm whilst the total area by enquiry for spaces between 3,001 to 10,000sqm was nearly double.
- » Even though the demand for spaces under 500sqm contributed to the highest proportion of listings, they only make up 9.18% of the total area required. This is a smaller proportion of total area when compared to all other space ranges.

- » Current tenants with active leasing requirements in the Adelaide CBD total approximately 41,510sqm.
- » We expect requirements for space less than 3,000sqm to be most impacted with many decisions on hold for SME's over the next 12-18 months. There is an increased probability for tenants within this size range to exercise options in existing premises with some likely to reduce space where possible.

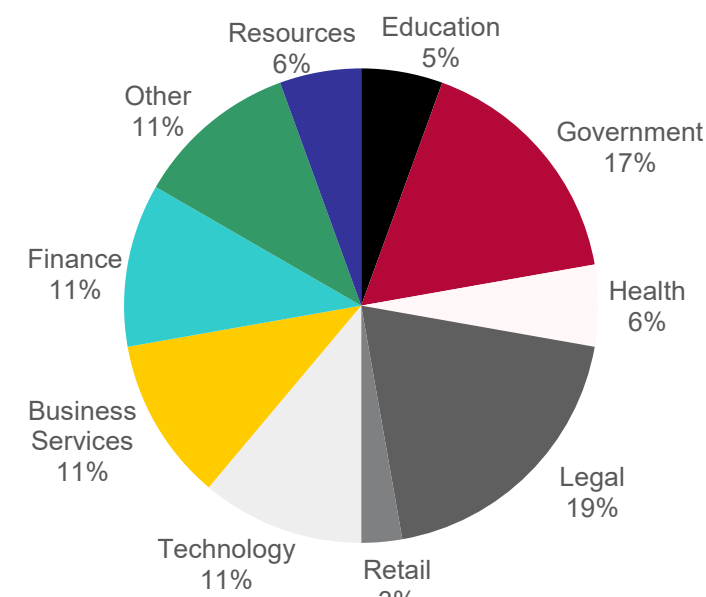
Leasing Requirement by Number of Listings



Source: Property Daily and m3property

Leasing Requirements By Industry Category

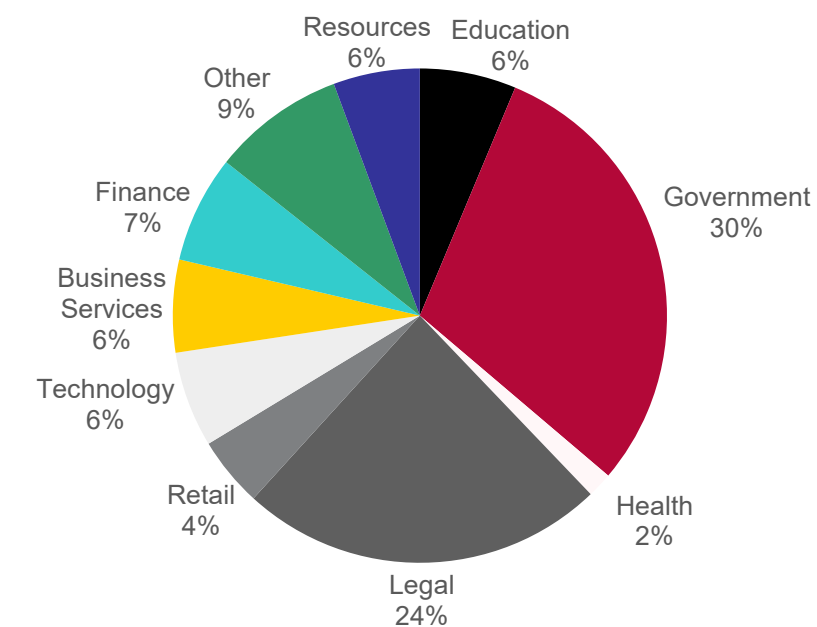
Leasing Requirements by Number



Source: Property Daily and m3property

- » There were a total of 36 active enquiries listed on Property Daily during 2019 and YTD 2020. The Legal (19%) and Government (17%) sectors make up the greatest proportion of total enquiries.

Leasing Requirements by Area (sqm)



Source: Property Daily and m3property

- » In terms of total area required by industry category Government with 30% (12,410sqm) and Legal with 24% (9,923sqm) makes up the highest proportion of total leasing requirements in Adelaide CBD.

Conclusions

Whilst the most likely path for vacancy over the next three years is around the base case forecast, there is scope for the rate to range down to “scenario one” or up to “scenario two”.

If demand quickly resumes and confidence returns to the economy and the Adelaide office market (According to the Property Council of Australia - SA, circa 61% of office workers had returned to the CBD), we would be likely to see forecast vacancy move towards “scenario one”.

However, if the economic recession results in a financial crisis or a second wave of the COVID-19 virus forces further restrictions, the outlook is likely to head up towards “scenario two”.



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- Portfolio valuations

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