



## Welcome

Welcome to the first edition of the Commercial Property Newsletter.

The State Government is the largest tenant of office accommodation in Western Australia and this newsletter will keep WA State Government agencies informed of current issues and developments in the Western Australian office accommodation and commercial property market.

The Commercial Property Directorate within the Department of Treasury and Finance's Building Management and Works business unit is responsible for the procurement and administration of the State Government's office accommodation portfolio.

To give an idea of the size of the commercial property task:

- the Commercial Property Directorate currently manages over 465 leases from the private property sector, covering approximately 385,000sqm of office space across WA;
- the annual rent roll is around \$108 million;
- accommodation costs represent between 5-10% of agencies' operating budgets, a substantial component of public expenditure.

The other roles and responsibilities of the Commercial Property Directorate include:

- achieving value for money accommodation solutions for Government;
- promoting compliance with the Government Office Accommodation Policies;
- improving the sustainability of government office accommodation; and
- supporting government planning objectives.

This edition of the newsletter will report on the current state of the Perth office market, the recent transfer of the Commercial Property Directorate from the Department of Housing and Works to the Department of Treasury and Finance and the CitySwitch program.



The Commercial Property Directorate looks forward to working with you, our client agencies across Western Australia, to provide office accommodation that supports your service delivery objectives while achieving good value for money.

Karen Schmidt  
Director, Commercial Property



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# Commercial Property Newsletter



## A new home for the Commercial Property Directorate

A new chapter in the life of the Commercial Property Directorate commenced in late 2008 with the transfer of the functions of the Works division of the Department of Housing and Works to the Department of Treasury and Finance.

The Department of Housing and Works has been abolished, with its housing responsibilities being carried by a newly-formed Department of Housing, and the former Works directorate became part of the Building Management and Works business unit of the Department of Treasury and Finance.

The Commercial Property Directorate will retain responsibility for the management of the government's commercial office portfolio as part of the Building Management and Works business unit of the Department of Treasury and Finance under the new model.

As part of the Building Management and Works business unit, the Commercial Property Directorate will continue to focus on the procurement of new office space and fit-out of government offices.

Commercial Property Director Karen Schmidt said the new arrangements were a great opportunity for the directorate.

“Being part of the Department of Treasury and Finance will strengthen our whole-of-government role. We are also better placed to assist agencies develop more robust business cases to support budget submissions for accommodation and fitout projects.”

“This new position in the State Government will give us the opportunity to contribute to a more centralised decision-making approach to commercial property management.” Karen said.

## Perth Office Market Report – February 2009

The global economic downturn has had a dramatic effect on the supply of commercial property especially in the Perth CBD and more broadly in the Perth metropolitan area.

The key questions for the Commercial Property Directorate are:

- how sharp will the downturn be, and
- how long will the recovery take?

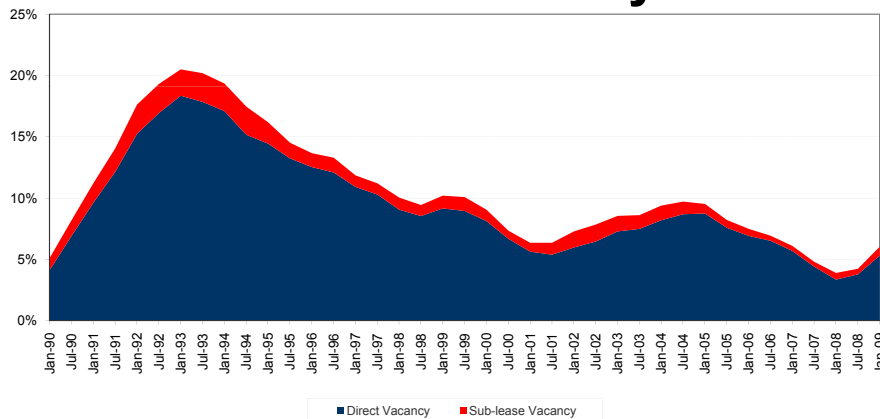
The vacancy rate in the Perth CBD office market increased from a record low of 0.3% in July 2008 to 1.3% in January 2009. According to the Property Council of Australia, this was the first increase in the vacancy rate since July 2004.

To put these figures in perspective, the total amount of vacant space increased from 3,746sqm in July 2008 to 16,567sqm in January 2009; an increase equivalent to 9 floors in Dumas House.

In the West Perth market, the vacancy rate has gone from zero in July 2008 to 7,168sqm or 1.9% in January 2009; an increase equivalent to 5 floors in Dumas House.



## Historical Total Vacancy Factor



Historical total vacancy factor, Perth CBD, 1990-2009. Source: Property Council of Australia

The graph above demonstrates the trend in the Perth CBD market with the direct vacancy in blue and the sub-lease vacancy in red.

Business research and forecasting company BIS Shrapnel reports that while the pent-up demand for space in the Perth CBD has eased over the past year, the vacancy rate will increase gradually in 2009.

Rents for 'A-Grade' space in the Perth CBD increased by 50% in the 2007-08 financial year. Since July 2008 the same rents have only increased by 3% to an average of \$825/sqm. BIS Sharpnel reports that in December 2008 the average rent for B-Grade space was \$620/sqm. Average market rents are continuing to decline in 2009.

As the Perth vacancy rate edges higher, incentives are being re-introduced to attract or retain tenants. Prominent property manager Knight Frank has confirmed that incentives are creeping back into the market as landlords seek to maintain the capital value of their buildings and net high yields on their asset values by maintaining higher rents.

With the high cost of office fitouts, rent-free periods are likely to remain landlords' preferred incentive option as the balance in negotiating power tips towards tenants in 2009.

Looking at the 'supply' side, 14 major projects are currently under construction in the Perth CBD. This will add more than 280,000sqm to stock over the next four years.

In the Perth metropolitan area, BIS Shrapnel is

forecasting that stock will increase by about 120,000sqm by mid-2010. Major projects are underway in Northbridge, Subiaco, Herdsman, Victoria Park and Rivervale. However, the number of developments shelved in both the Perth CBD and metropolitan office market since the second half of 2008 confirms that the days of speculative commercial office building are over. This will mean a decrease in the anticipated stock available.

Businesses have been squeezing a larger workforce into existing space for the past four years. The average workspace ratio in the Perth CBD in December 2008 was less than 15sqm per person, according to the Property Council of Australia. Jones Lang LaSalle predicts that the amount of space available for sub-lease will increase. The market is experiencing rising levels of sub-lease space as companies with excess space seek to rationalise their accommodation costs. When the sub-lease market is taken into account the real vacancy rate in the Perth CBD could be up to 3.5% according to the West Australian Newspaper.

What does all this market intelligence mean for the remainder of 2009? In summary:

- office space will be difficult to obtain unless it is by way of sub-lease;
- sitting tenants re-negotiating leases or market reviews should see a reduction in their rents;
- rental incentives will become available, especially on longer lease terms and;
- occupancy density will increase slightly as businesses move into pre-committed space.



## Making the CitySwitch

Government agencies with offices in the CBD are being invited to join the City of Perth's CitySwitch Green Office initiative.

The key objective of CitySwitch is to improve the greenhouse performance of commercial tenancies by way of energy efficiency, which reduces carbon dioxide emissions associated with global warming.

State Government agencies are already committed to reducing energy use and greenhouse gas emissions through current office accommodation policies and other mechanisms such as Energy Smart Government and its associated reporting requirements. Having these sustainability initiatives already in place streamlines an agency's commitment to the CitySwitch program, potentially delivering benefits much sooner than anticipated.

Agencies who commit to the program will be rewarded with the opportunity to network with like-minded businesses, receive public recognition of their achievements and more importantly play a role in environmental leadership, as well as reducing operating costs and creating a greenhouse-friendly workplace.

To be eligible an agency simply commits to achieve and maintain a certified 4-Star or higher NABERS Energy tenancy rating (formerly ABGR Rating). The NABERS rating is the only cost associated with the program.

If you're interested, contact Grant Peers at DTF Building Management and Works on 9488 2636 or visit [www.cityswitch.net.au](http://www.cityswitch.net.au).



About Commercial Property Newsletter  
Commercial Property Newsletter is published by the Commercial Property Directorate of the Department of Treasury and Finance's Building Management and Works business unit.

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Useful links: [Office Accommodation Policies](#) & [Perth Metro Office Accommodation Strategic Plan](#)