

Charter Insight

Subdivided Office

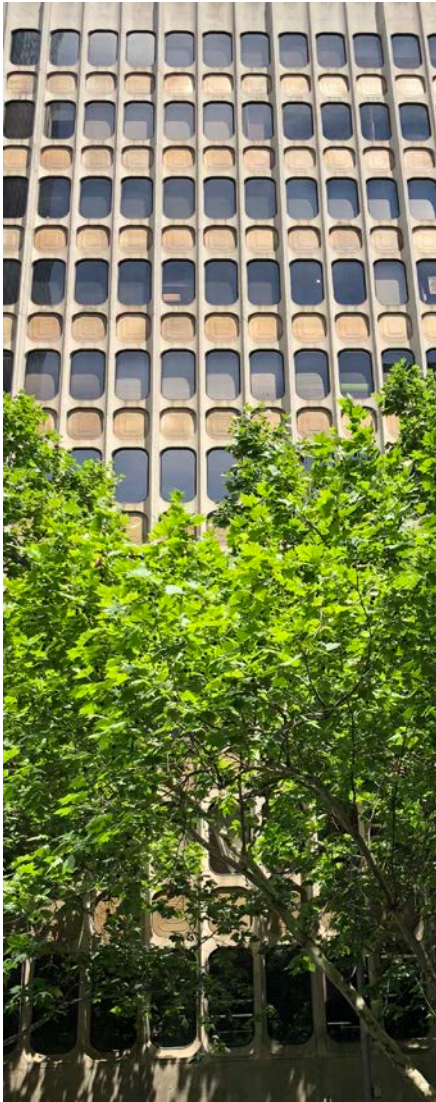
The Surge in Strata Value

Melbourne CBD

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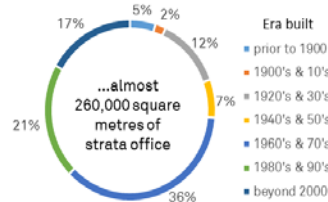
COMMERCIAL
VALUATIONS



Despite perceived pressures of the new collaborative working environment eroding tenant demand, the strata office market remains a popular asset class with owner occupiers in particular and to a lesser extent investors. This has been reflected by substantial increases in values supported by strong resales in the eighteen months.

The strata market has been part of the fabric of the CBD office market for a long time, inhabiting some of Melbourne's oldest office buildings, although not necessarily strata subdivided at the time. Many of these buildings were refurbished as strata opportunities in the 1980's.

How old is our strata market?



Source: Charter Keck Cramer
Melbourne CBD strata office market by year built

Melbourne added circa 1.5 million square metres of office space to the CBD over the 1970's & 80's, into a market that barely had 1 million square metres in total floor space at the beginning of the period. Over 70,000 square metres of existing office was either refurbished or subdivided as strata over the same period. A similar amount of floor space in strata office buildings were also constructed during that time. Very low vacancy rates were a feature of the CBD in the 1980's.

Melbourne's CBD Office

Melbourne's established office market remains concentrated in and around the CBD. Melbourne's road and rail infrastructure has been and remains radial in nature, feeding the inner city with a catchment of white collar workers via the transport linkages.

The inner city area accounts for approximately 75 percent of all Melbourne's office floor space, with the CBD accommodating over 4.5 million square metres alone. Although a significant suburban office market of approximately 2 million square metres exists in Melbourne, it is geographically dispersed compared with the agglomeration of office accommodation in the CBD.

Although the bulk of Melbourne's office floor space market resides in conventional office buildings, the CBD also provides for strata and serviced offices. Despite exhibiting many similarities, strata floors and serviced office suites are arguably different markets.

Strata floors are subdivided and offer individual ownership, offering little more than a physical commercial space for a small business or single operator.

Serviced offices are typically individual suites within a managed facility, with shared access to amenities such as meeting rooms, reception and administrative support.

Strata offices comprise less than six per cent of Melbourne's total CBD office floor space.

Vacancy

As CBD office vacancies continue their downward trajectory in Melbourne, upward pressure on face rents is unavoidable, or at the very least, there is a reduction in incentives required to lease the accommodation.

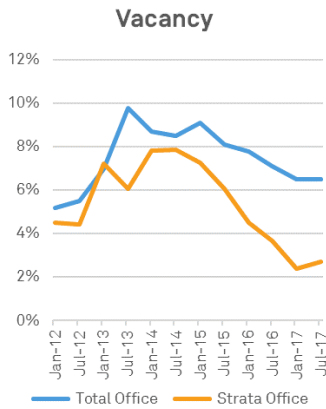
Strong employment growth, particularly in white collar industries, has provided the Melbourne market with a strong absorption scenario. A reduction in vacancies across the total CBD office market has also been replicated across the strata market.



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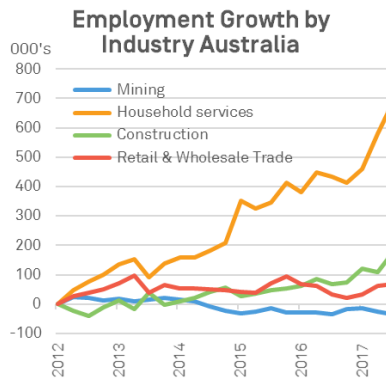
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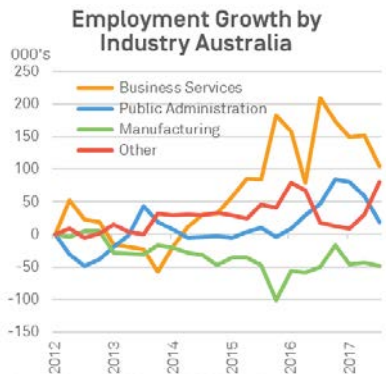
Source: Charter Keck Cramer & Property Council of Austral

Of our labour market, the Business Services Sector has become increasingly important in the Australian economy. The growth in its output and employment is driven by the demand for professional inputs from firms in this sector such as financial, legal, accounting, insurance, engineering, and property and real estate services. These sectors are key drivers of office accommodation, particularly for strata offices.

Strong employment growth within the Household Services Sector is also significant and particularly relevant in Melbourne, as it includes education. The education sector is a substantial occupier of office space in Melbourne with most leading tertiary educators having some presence in the CBD. International student enrolments in Victoria have enjoyed double digit growth year on year since 2014.



Source: Charter Keck Cramer & ABS Labour Force Cumulative change since February 2012



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It is worth noting that changes in generational employment and technology are providing challenges within workspaces, particularly in the coworking environment where collaboration is sought by occupiers

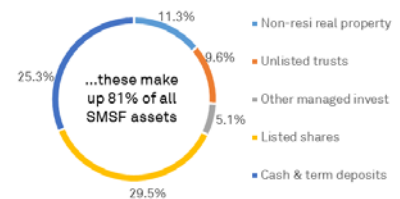
Although coworking space appeals to individuals and small business, the traditional strata office user, it is likely to erode the depth of the occupier market in the serviced office suite market where tenants seek access to a wider range of supporting facilities.

Investment class

Purchaser demand for Melbourne CBD strata office has strengthened in recent years. Owner occupiers of strata office have prospered in the current low interest rate environment, a genuine alternative to leasing.

At their price point, strata offices offer affordability to both owner occupiers and commercial property investors, this is despite recent significant increases in value being achieved. Whilst the owner occupier market has been providing for the bulk of strata office sales, the price point satisfies SMSF investors looking to include commercial property as part of their Fund. Of the almost \$700 billion invested by SMSFs, there is a significant allocation towards non-residential real property assets.

Top 5 assets held by SMSF



Source: Charter Keck Cramer & ATO (2016) Top 5 asset allocations by value of Australian investment

Sales & Re-sales

Recent sales evidence suggests that the value of strata office has increased significantly over the preceding 12 to 18 months. On a rate per square metre basis, sales have achieved consistently between \$6,500/sqm and \$9,500/sqm. "Re-sales" of subdivided floors within the same building (but not necessarily the same floor) provide a solid indicator of how strong the recent surge in value has been.

Select strata floor sales by address	Floor area (sq.m.)	Sale price/date	Value rate (per sq.m.)
Strata floor (part) 11-19 Bank Place	286.0	\$2,300,000 Oct17	\$8,042
Strata floor 313 Flinders Lane	268.0	\$2,010,000 Jun 17	\$7,500
Strata floor 415 Bourke Street	233.0	\$2,200,000 May 17	\$9,442
Strata floor 552 Lonsdale Street	258.0	\$2,000,000 Apr 17	\$7,752
Strata floor 412 Queen Street	305.0	\$2,500,000 Apr 17	\$7,705
Strata floor 50 Market Street	461.7	\$3,075,000 Jan 17	\$6,660
Select "re-sales" of similar sized floors	1st Sale price/date	2nd Sale price/date	% change/time period
271 William Street	\$1,450,000 Mar 16	\$2,500,000 Oct 17	72% over 19 months
41 Exhibition Street	\$3,000,000 Jun 16	\$4,040,000 Jun 17	35% over 12 months
221 Queen Street	\$2,030,000 Aug 16	\$3,000,000 Dec 16	48% over 4 months

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