South-east suburbs' office market sets pace

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With no speculative development and low vacancies, Hawthorn leads the way, writes Mark Phillips.
Hawthorn has been the pacesetter in Melbourne's suburban office market this year with limited opportunities for new development and tenant demand for extra or improved space driving up rents and pushing down vacancies.

But while Hawthorn - and particularly Burwood Road - in the inner east has been red hot, the opposite story has come out of the suburbs of Mount Waverley and Mulgrave, where an over-supply of office stock has failed to be absorbed and rents have been stagnant.

The two precincts provide contrasting experiences in arguably the strongest office market in Australia.
A recent report by Jones Lang LaSalle says the office market in the south-east of Melbourne has led the nation for the past decade, with tenant demand holding up in each year over that period.

On a percentage of total stock basis, the absorption rate in south-east Melbourne has been the best in Australia, the research paper says.

It identified the south-east - which stretches from Richmond, Burnley and South Yarra out to Dandenong - as having a total vacancy rate of 7.4 per cent, almost exactly the same as the 7.5 per cent level in the CBD.

Construction levels across the south-east were the highest since 1990 with almost 80,000 sq m of new stock completed in 2005, JLL says.

This has slowed in the first half of this year to 23,800 sq m, but another 50,000 sq m is expected to be added to the market in the next 12 months, keeping vacancy levels above 7 per cent for the forseeable future.

The JLL report - authored by researchers Nerida Conisbee and Darren Krakowiak, and by commercial sales and leasing director Richard Height - says speculative construction is more prevalent in the suburban market, with developers prepared to build with less than 50 per cent pre-commitment, compared with the CBD.

"The high level of speculative construction has not resulted in higher levels of vacancy due to the extraordinary on-going strength in net absorption," the report notes.

Separate research by Colliers International found the Melbourne metropolitan office market - which includes the city fringe but excludes the CBD - had an overall vacancy rate of 6.63 per cent from 2.3 million sq m of stock in May.

But Colliers notes that rate has risen from 5.99 per cent in October because of strong levels of construction activity and refurbished stock.

Within that broader market there are distinct variations.

Rob Joyes, the chief executive of Colliers' eastern office, says the best performing area of the past 12 months has been Hawthorn.

Hawthorn is part of the inner-east region, which had a vacancy rate of 5.56 per cent in May and stock of 450,299 sq m.

Hawthorn East had a vacancy rate of 2.7 per cent, Hawthorn was 8.7 per cent and Camberwell was at 6.4 per cent.

Average rents in Hawthorn/Camberwell are $230 to $275 a square metre and are expected to rise 10 to 15 per cent this year.

Joyes says Hawthorn is a highly-popular office market because of its local amenities, proximity to public transport, and car parking ratios, which are all driven by the imperative of attracting and retaining good staff.

Joyes says speculative development has been rare in Hawthorn.

Instead, because of the lack of office supply, tenants are precommitting to development sites, with at least 10,000 sq m of precommitments already this year.

Tenant demand is predominantly from local occupiers seeking to expand.

"They're all growing and also want to upgrade the quality of their space," Joyes says.

"There hasn't been any speculative development which has meant they've had to precommit to get buildings out of the ground."

He said the one speculative development in Hawthorn at present is a 14,000 sq m project by Queensland-based First State Developments at 109-133 Burwood Road.

Major precommitments this year include Guild Financial Insurance to 3985 sq m at 5 Burwood Road at $265 per sq m; and McLean Delmo to 1800 sq m at 320 Burwood Road at $275 per sq m.

It is a contrasting story about 15 minutes' drive away in the suburbs of Mount Waverley and Mulgrave, where a spate of building activity in recent years has created an over-supply of office accommodation.

Jones Lang LaSalle says the vacancy rate in the Monash precinct, which includes the two suburbs, was more than 20 per cent, due to about 58,000 sq m of construction which has been completed over the past 18 months.

Joyes says there was about 30,000 sq m of unoccupied new or refurbished office space in Mount Waverley and Mulgrave.

He says much of the new construction has been speculative without any firm precommitments, and developers' expectations may have been unrealistic.

Rents in the area have remained stable at $210 to $220 a sq m, and incentives have increased to about 15 per cent to secure deals.

"It's not doom and gloom, but there's a lot of supply which hasn't been taken up and we've got to absorb the speculative space which has come on to the market before we see any rental growth," Joyes says.

However, access to the Eastlink tollway should enhance the long-term prospects of the Monash office market.

Of the other Melbourne suburban markets, Joyes says the south-east/bayside area is yet to prove itself. Moorabbin and Cheltenham have vacancy levels of 17.6 per cent and 14.3 per cent respectively.
Dandenong is the largest office market in the south-east with more than 80,000 sq m of supply and a 6.5 per cent vacancy rate.

Rents there have risen from about $120 last year to $160 this year, and the suburb should benefit from increased state government investment to revitalise the Dandenong CBD.

Suburban strata office hot spots include Bundoora, Maribyrnong, Caroline Springs, Sandringham, Port Melbourne, and Narre Warren.

Kicking goals

* Melbourne has led the nation's office market for the past decade, with the best absorption rate.

* Construction levels across the south-east are the highest since 1990, with almost 80,000 sq m completed.
* High building activity in the Mount Waverley and Mulgrave areas has led to an over-supply.