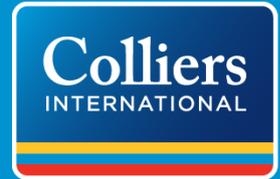


29 September 2017



LandCorp

# Ocean Reef Marina Development

## Retail and Commercial Floorspace Demand Analysis



Accelerating success.



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# INTRODUCTION

# 01

## Introduction

### Purpose and Objectives

Colliers International have been commissioned by LandCorp to undertake a retail floorspace demand analysis for the proposed Ocean Reef Marina to inform the appropriate scale and type of retail floorspace to be incorporated in the proposed development.

Specifically, the objectives of this report are to provide a retail and commercial floorspace demand estimate:

- generated by the proposed development's forecast residents under two development options, with the second option incorporating a higher residential density;
- generated by residents within a defined primary retail trade area determined by drivetime parameters; and
- generated by visitors to the area, in particular day-trippers and short-stay visitors.

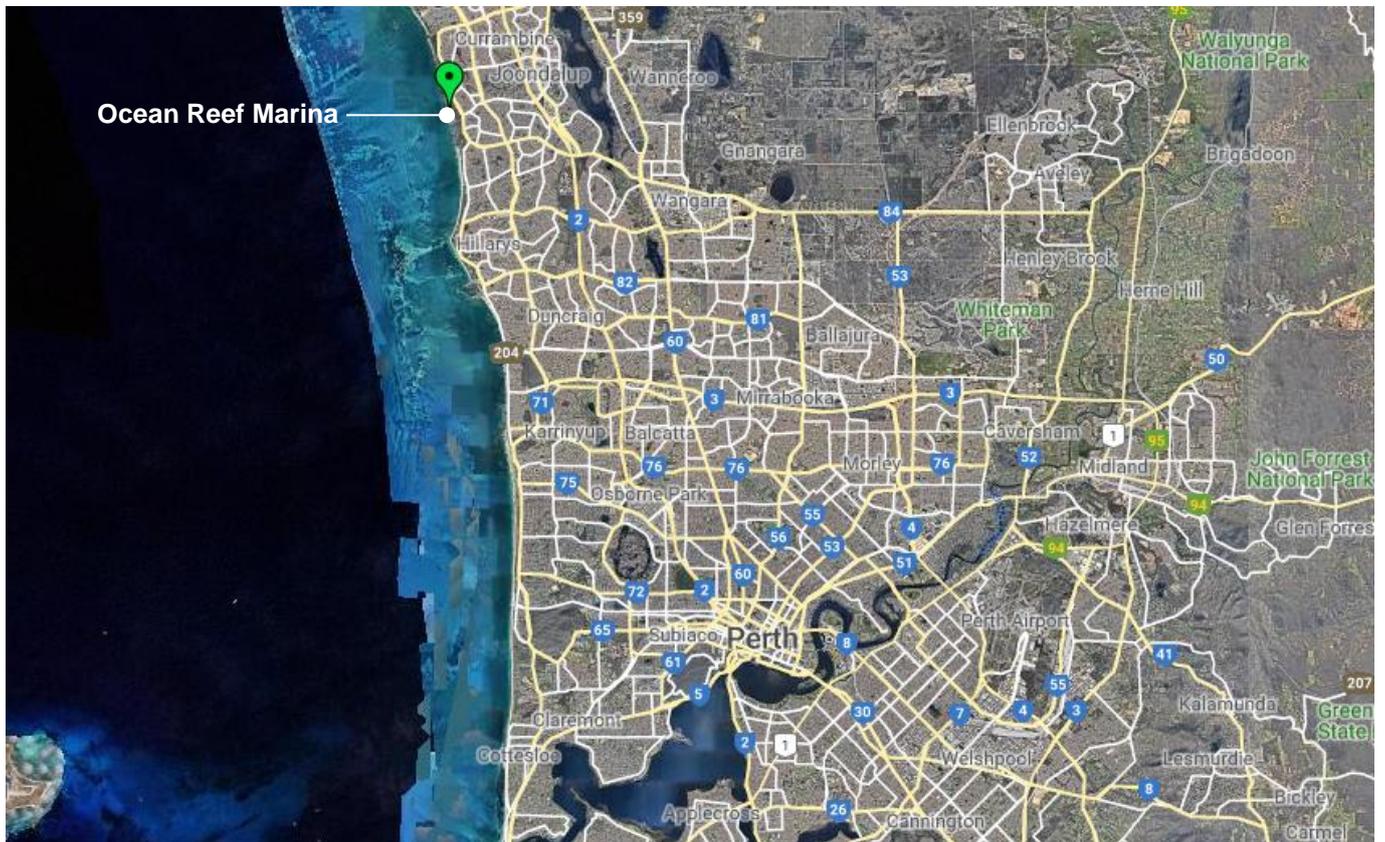
The floorspace demand analysis will be based on the following methodology:

- Estimation of current and projected on-site and catchment population density
- Estimation of visitor numbers
- Socio-demographic analysis, including factors affecting retail expenditure such as household income and household composition
- Estimation of retail expenditure generated by on-site residents and residents living within the retail catchment;
- Estimation of retail expenditure generated by forecast visitors to the marina;
- Translation of retail expenditure into floorspace demand based on assumed expenditure retention rates and retail turnover productivity rates; and
- The extent of existing and proposed retail supply within the defined retail catchment, and reconciliation of retail supply and demand to recommend an appropriate retail floorspace provision for the proposed development.

### Location

The proposed Ocean Reef Marina development is located at the existing Ocean Reef Boat Harbour, approximately 28 radial kilometres north of Perth CBD and 5 km west of Joondalup CBD. Figure 1 shows the location of the subject site in the context of Joondalup and Perth.

Figure 1. Development Location Regional Context



## Proposed Development

The Ocean Reef Marina development proposes to create a vibrant waterfront living precinct providing a range of recreation, tourism, residential, boating and employment activities.

As it stands, the Preferred Concept Plan with two development options is being considered, with the second option providing a higher residential density. Both development options summarised below.

Option 1 is proposed to comprise:

- 21,700m<sup>2</sup> of retail and commercial net lettable area
- 260 hotel rooms
- 932 dwellings comprising 792 apartments and 140 detached dwellings

Option 2 is proposed to comprise:

- 21,700m<sup>2</sup> of retail and commercial net lettable area
- 260 hotel rooms
- 1,568 dwellings comprising 1,238 apartments and 331 detached dwellings

# RETAIL FLOORSPACE ANALYSIS

# 02

## Retail Demand

### Population and Demographics

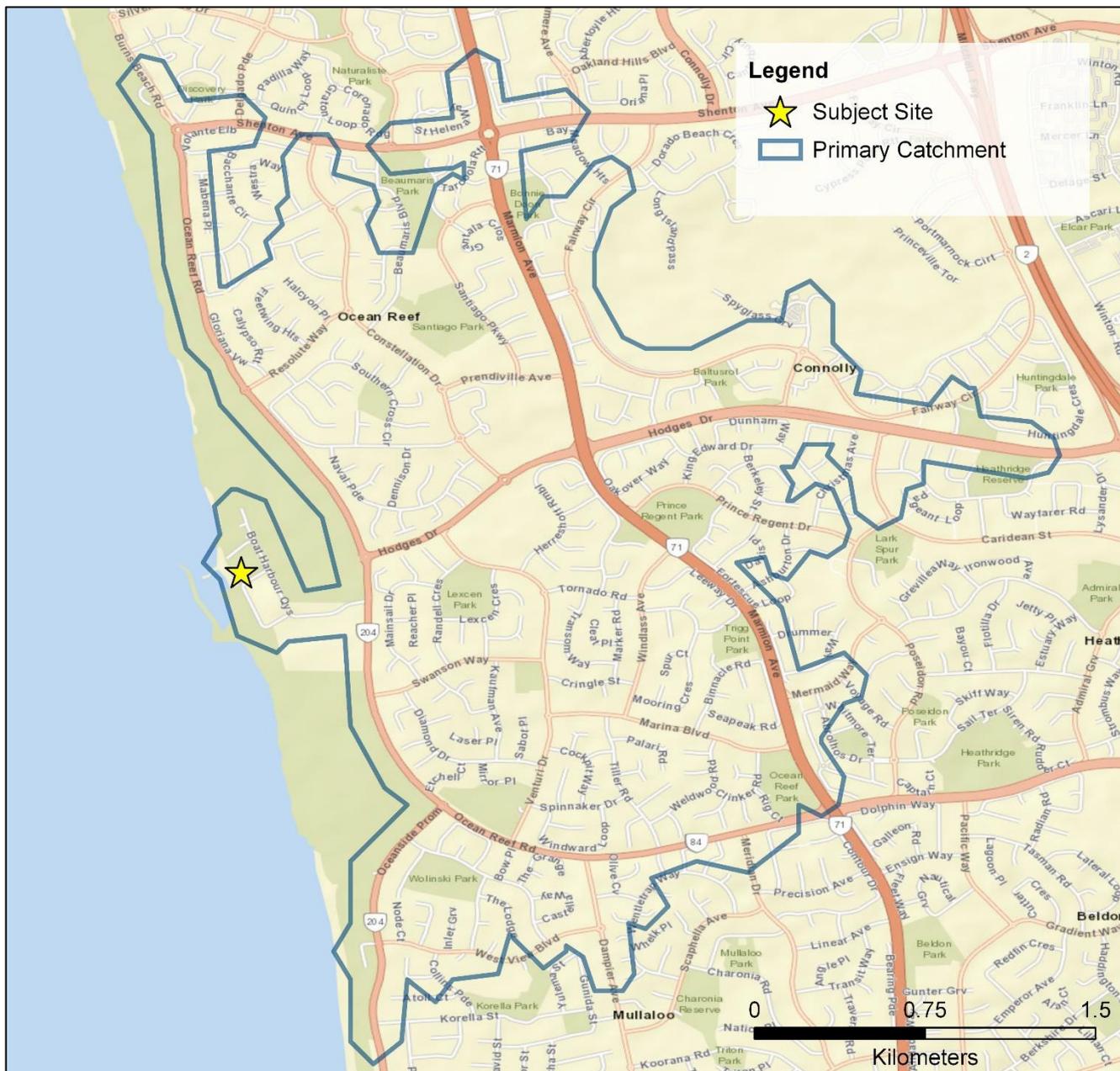
#### Permanent Residents and Resident Catchment

A retail catchment is defined as the geographic area for which a centre generates the majority of its turnover and visitation. The extent of a catchment is driven by a range of accessibility and convenience factors including:

- Centre attraction relative to the competition, including tenancy mix, car -parking and co-location with higher order facilities and/or services. The key factors that determine the strength and attraction of any shopping centre are primarily the scale and composition of the centre, in particular the anchor tenant(s), car parking, including access and ease of use and ambience and presentation of the centre.
- The surrounding competitive framework and existing supply. While the strength and appeal of a centre directly impacts its ability to extract market share, the proximity and attraction of competitive retail centres impacts the extent of a centres trade area. In essence, all being equal, consumers naturally gravitate to the most convenient retail option.
- Road networks and traffic flows. The available road network, public transport service and journey to work patterns all effect centre access and impact on a centres convenience and relative attractiveness
- Natural and man-made physical boundaries such as rivers, rail, freeways etc. Significant physical barriers often act to delineate a trade area boundary. Evidence indicates that the more difficult a barrier to negotiate, the larger the decrease in customer patronage and market share is experienced.

The Ocean Reef Marina retail catchment has been defined with regard to these factors and has therefore been defined based on a five minute (primary) catchment.

Figure 2. Ocean Reef Marina Primary Catchment

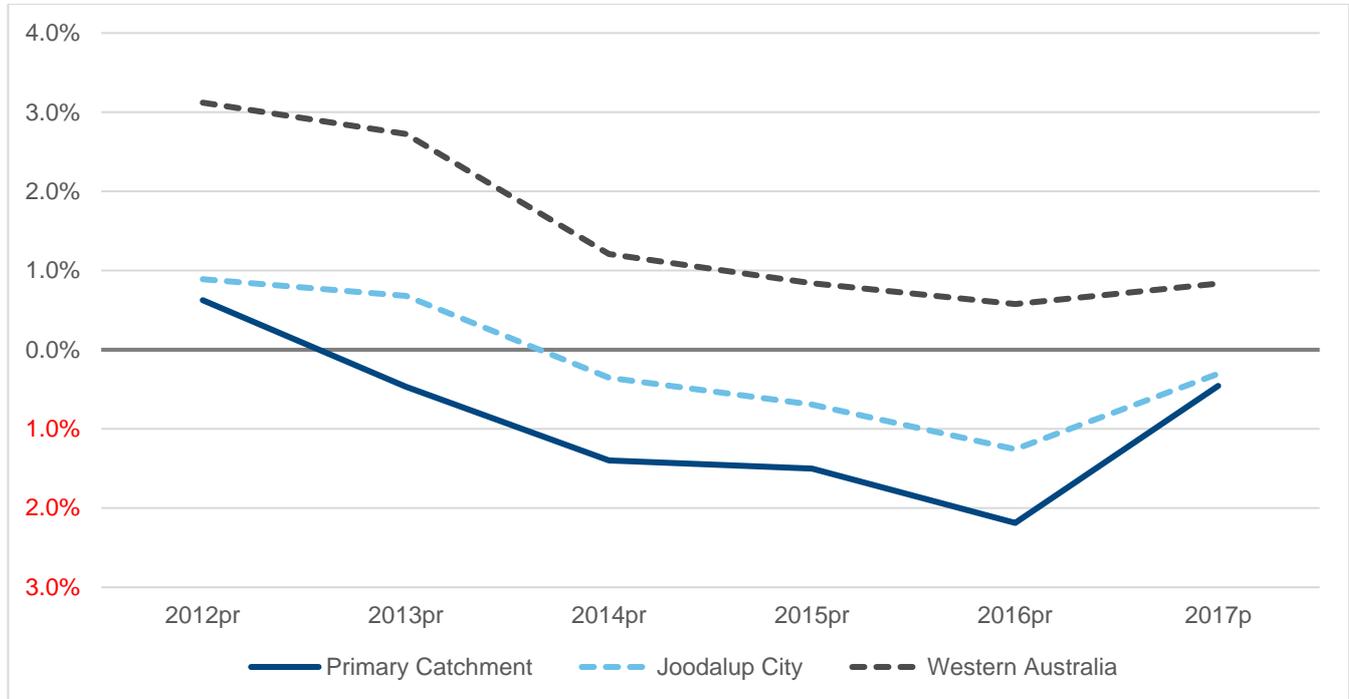


\*for the map above can a perimeter from the Subject Site star be included??? The primary catchment is shown???

## Historic Population

As at June 2017, it is estimated that the resident population of the primary catchment was 13,933 persons. Over the five years to 2017, the population in the catchment declined 5.9%. For comparison, the population of Joondalup LGA declined by 1.9%, while Western Australia grew by 6.3%.

**Figure 3. Annual Population Growth Rates 2012-2017, Primary Catchment and Benchmarks**



Sources: Colliers International and ABS ERP

## Key Socio-Demographic Characteristics

Of relevance to the retail floorspace demand analysis, the 2016 Census shows that the primary catchment has a relatively high average annual household income at \$118,200 compared to Joondalup LGA (\$110,500). The catchment also has a relatively high proportion of couple households with children and a relatively low proportion of single parent and lone person person households.

## Projected Population

Based on state government projections and current development parametres, two ultimate population density options are to be considered.

As seen in Table 1 below, Option 1 comprising 932 dwellings, is estimated to yield an ultimate population of 1,705 persons based on household sizes Joondalup LGA household size averages.

Option 2 comprising 1,568 dwellings is estimated to yield an ultimate population of 2,697.

**Table 1. Ultimate Population Yields, Oceans Reef Marina**

	Option 1	Option 2
No. Apartments	792	1,238
Household Size	1.65	
<b>Population Yield</b>	<b>1,310</b>	<b>2,047</b>
No. Townhouses	0	331

Household Size	1.96	
<b>Population Yield</b>	<b>0</b>	<b>649</b>
No. Detached Dwellings	140	0
Household Size	2.82	
<b>Population Yield</b>	<b>395</b>	<b>0</b>
<b>Total Population</b>	<b>1,705</b>	<b>2,697</b>

Sources: Colliers International, ABS Tourism Accommodation Statistics

Option 1, or the base population projections scenario, is based on an ultimate population density of 1,705 persons as defined in the above table. The population forecast under this scenario is expected to be limited up until 2021 before experiencing a more sizeable growth. The population is projected to reach 15,657 persons by 2026 and 17,474 by 2031, averaging an annual growth of 1.6% over the 14 year period.

Based on development option 2, with an ultimate population yield estimated at 2,697 persons, it is forecast that the catchment population will reach 16,257 persons by 2026 and 18,474 persons by 2031, averaging an annual growth of 2.0% over the 14 year period.

For comparison, Joondalup LGA is projected to experience slightly slower growth, averaging 0.6% over the same period.

**Table 2. Primary Catchment Projected Population Growth 2017-2031**

	2017	2021	2026	2031	Avg Annual Growth
<b>Primary Catchment Option 1</b>					
Population	13,933	14,078	15,657	17,474	1.6%
Households	4,723	4,828	5,381	6,025	
<b>Primary Catchment Option 2</b>					
Population	13,933	14,378	16,257	18,474	2.0%
Households	4,723	4,941	5,587	6,370	
<b>Joondalup City</b>					
Population	160,507	164,759	168,331	172,703	0.5%
Households	58,579	60,293	62,334	64,413	

Sources: Colliers International, Planning WA

## Short-Stay Residents

The latest development parameters shows a total of 260 hotel rooms to be incorporated as part of the Oceans Reef Marina development. Based on the latest ABS Tourism Accommodation statistics this is estimated to yield an average daily population of 295 persons.

**Table 3. Average Daily Short-Stay Population**

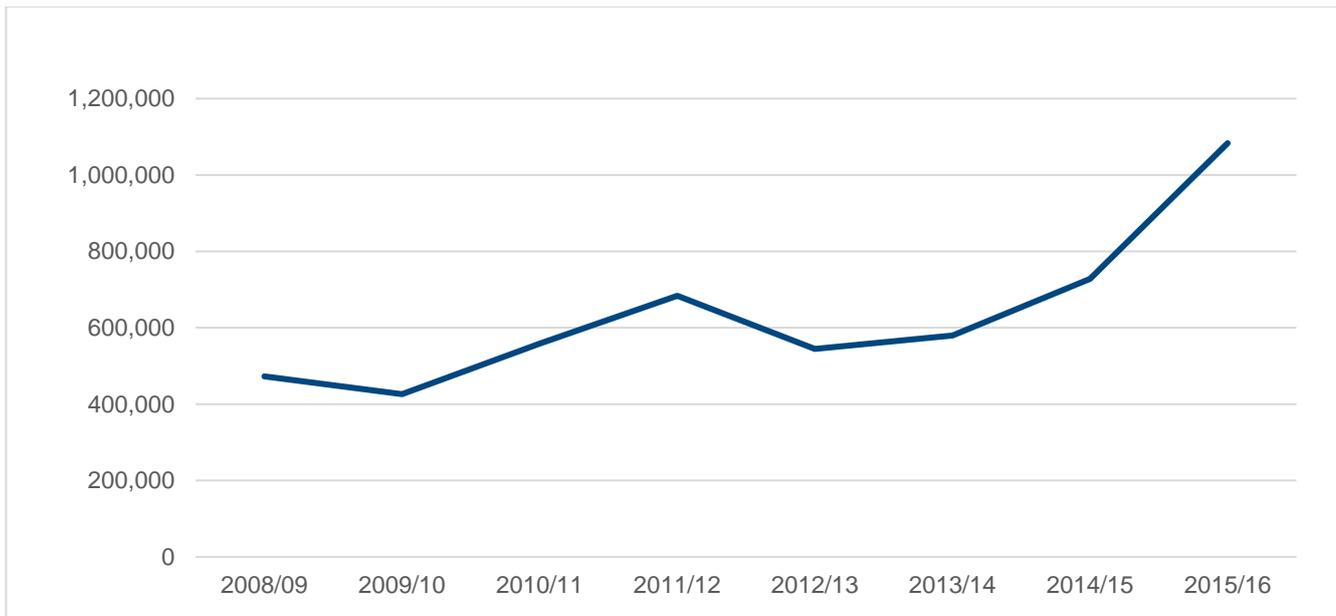
	Rooms	Occupancy Rate	Avg. Persons per Room	Avg. Persons per Day
Short-Stay Accommodation	260	75.00%	1.5	295

Sources: Colliers International, ABS Tourism Accommodation Statistics

## Day-Trippers

According to .id's profile of Joondalup LGA, there were 1,083,368 daytrip visitors to the LGA in the year ending June 2016. Since June 2009 this has increased at an average annual growth of 12.6%, or an average of 87,200 persons per year.

**Figure 4. Number of Domestic Daytrips, Joondalup LGA, YE June 2009 - 2016**

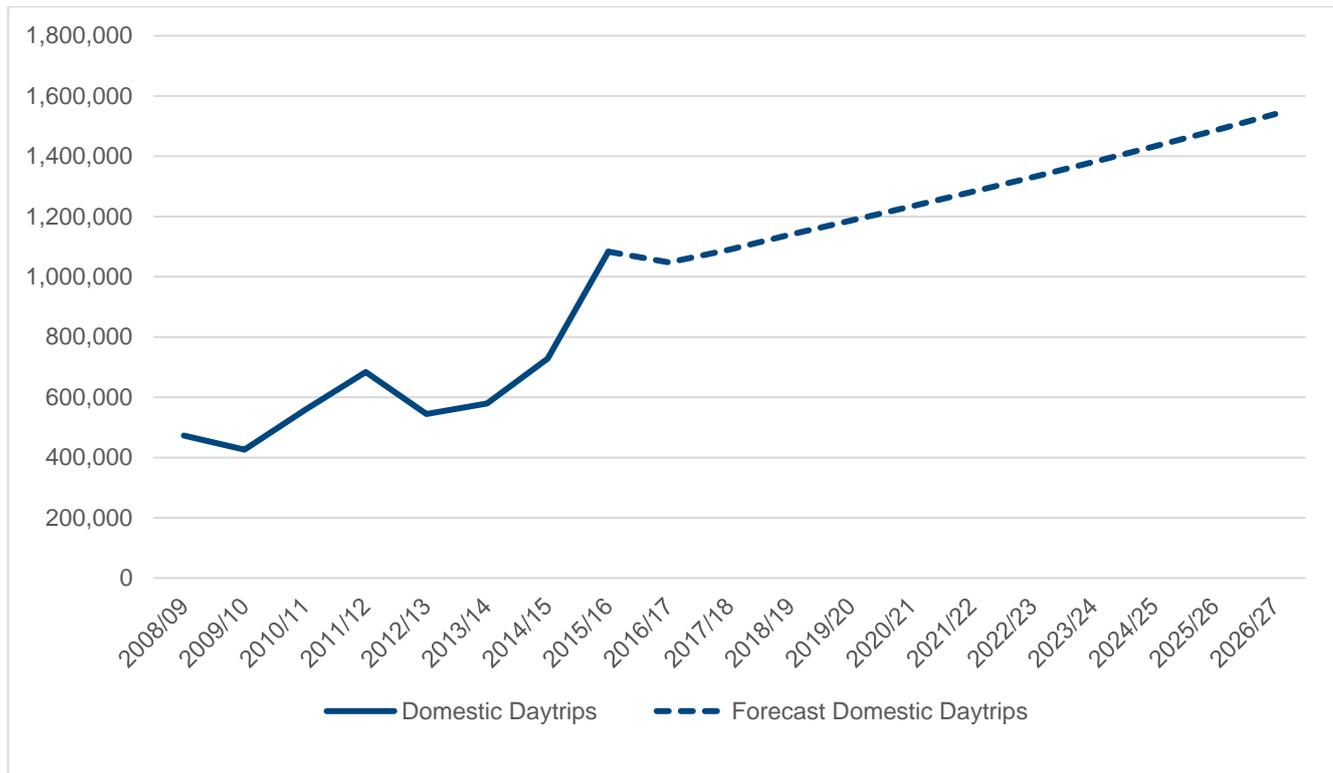


Sources: .id, TRA

There is limited information published on forecast day-trip visitors, especially at the local level. TRA's overall tourist population forecasts for Western Australia forecast that the annual growth in daytrippers will be, on average, 3.3% over the forecast period to June 2027.

With consideration of the success of Hillarys Boat Harbour as Western Australia's premier tourist destination attracting in the order of 5 million visitors per annum, and the potential of Ocean Reef Marina to compete and attract a proportion of the existing market. This is likely to grow over time as amenities and services are provided within the development. Accordingly, Colliers International assumes that a market share of 10% of Hillarys Boat Harbour daytrippers could be achieved upon development delivery and approximately 30% market share as entertainment, amenities and services are improved over time.

**Figure 5. Forecast Number of Domestic Daytrips, Joondalup LGA, YE June 2017 - 2027**



Source: TRA

It is difficult to provide an estimate how many of these daytrippers will be visiting Ocean Reef Marina, however, we've assumed a penetration rate of 10% of total daytrippers to visit the marina. This equates to 108,337 annual daytrippers, or an average of 297 visitors per day (2015/16 figures).

For the purpose of this analysis, a further 5% of Hillarys Boat Harbour daytrip market share are expected to be attracted to the development from 2026 and 10% by 2031 equating to approximately 423,561 daytrippers per annum by 2026 and 728,867 by 2031. While forecast daytrippers are difficult to estimate without detailed , supported by tenant attraction, destination management and marketing.

## Retail Expenditure

Retail Expenditure estimates for on-site permanent and short-stay residents as well as catchment residents has been based on Map Data Services expenditure data extracted through ArcGIS. The expenditure profile determined for the primary catchment has been adopted for on-site residents, while visitor expenditure benchmarking has been applied to short stay residents and daytrippers.

### Permanent On-Site and Catchment Residents

The retail catchment expenditure profile growth is based on the population projections in the previous section as well as a nominal growth rate of 0.5% per annum to account for inflation.

**Table 4. Total Retail Expenditure, Catchment Residents – million \$ values (Option 1)**

	Take Home Food & Tobacco	Take-Home Alcohol	Meals Out/ TA	Clothing & Footwear	Conv. Items & Services	Bulky Goods & Other Comp. Items/Services	Total
2017	64.4	10.2	24.6	20.6	47.7	59.0	226.5
2021	66.9	10.6	25.5	21.4	49.5	61.3	235.2

2026	76.1	12.1	29.0	24.3	56.3	69.7	267.5
2031	86.92	13.8	33.2	27.7	64.3	79.6	305.5

**Table 5. Total Retail Expenditure, Catchment Residents – million \$ values (Option 2)**

	Take Home Food & Tobacco	Take-Home Alcohol	Meals Out /TA	Clothing & Footwear	Conv. Items & Services	Bulky Goods & Other Comp. Items/Services	Total
2017	67.0	10.7	24.9	20.8	48.6	59.9	231.8
2021	71.2	11.3	26.5	22.1	51.7	63.7	246.4
2026	82.1	13.1	30.6	25.5	59.6	73.5	284.3
2031	95.5	15.2	35.6	29.6	69.3	85.5	330.6

Based on the development options proposed, there is likely to be approximately an additional \$25 million available retail expenditure within the primary catchment by 2031 under Option 2 of the proposed development.

## Short-Stay Visitors and Daytrippers

Visitor expenditure data on a local level is limited. Expenditure data for this segment has therefore been based on Tourism Research Australia's (TRA) National and International Visitor Surveys.

For the purpose of the retail expenditure estimates, the annual number of visitors is assumed to grow in line with TRA's forecast short-stay and daytripper visitor growth of 3.3% per annum, in addition to the destination appeal of Ocean Reef Marina . A nominal expenditure growth rate of 0.5% per annum has been assumed to account for inflation. The expenditure has been calculated on the basis of the hotel being fully operational by 2021 and reaching median occupancy rates after a three year trading up period. The above assumptions also assume that short-term accommodation is provided in general accordance with market demand, which is reasonable given the emergence of AirBnB and other social networking sites, in addition to the development of traditional accommodation offerings.

**Table 6. Total Retail Expenditure, Short-Stay Visitors – million \$ values**

	Number of Short-Stay/Year	Shopping	Food & Drink	Total
2017	36,624	2.4	2.9	5.3
2021	65,427	2.4	3.0	5.4
2026	84,935	2.5	3.1	5.5
2031	99,905	2.5	3.1	5.7

**Table 7. Total Retail Expenditure, Daytrippers – million \$ values**

	Number of Daytrippers/Year	Shopping	Food & Drink	Total
2017	104,764	3.2	3.7	6.9
2021	123,390	3.8	4.5	8.2
2026	423,561	13.4	15.6	29.1
2031	728,867	23.6	27.7	51.3

## Retail Expenditure Summary

Based on the forecast population growth of the primary trade area, in addition to forecast visitor growth to the area, it is anticipated that the total retail expenditure pool would be approximately \$260 million at 2021 and \$387.6 million at 2031.

# 03

## Supply-Demand Analysis

### Retail Floorspace Supply

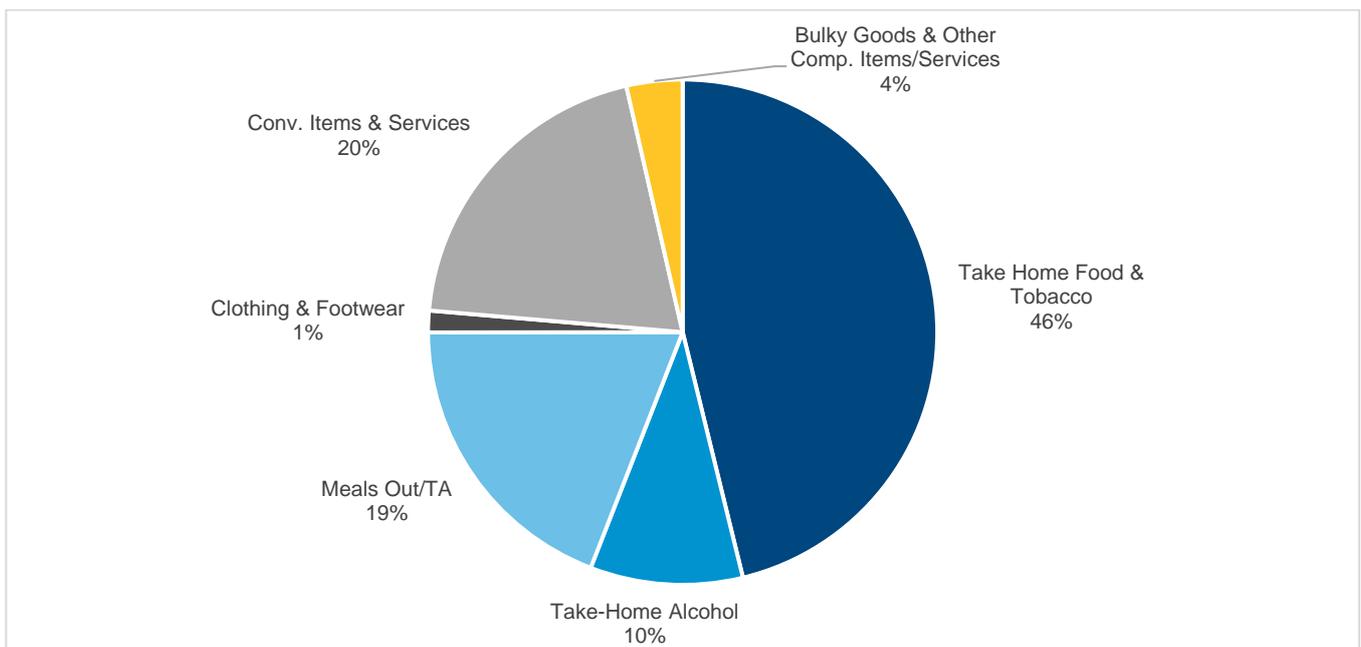
#### Existing

As it stands, there is an estimated 7,224m<sup>2</sup> of gross lettable area of retail (GLAR) floorspace within the primary catchment, and 267,201m<sup>2</sup> retail floorspace in the secondary catchment as shown in the Table 8 and Figure 6 below.

**Table 8. Primary Catchment Retail Supply**

Centre Name	Centre Type	GLA	GLAR
Beaumaris City SC	Convenience	4,258	2,794
Ocean Reef SC	Convenience	2,156	2,050
Connolly SC	Convenience	2,530	2,380
<b>Total Catchment</b>		<b>8,944</b>	<b>7,224</b>

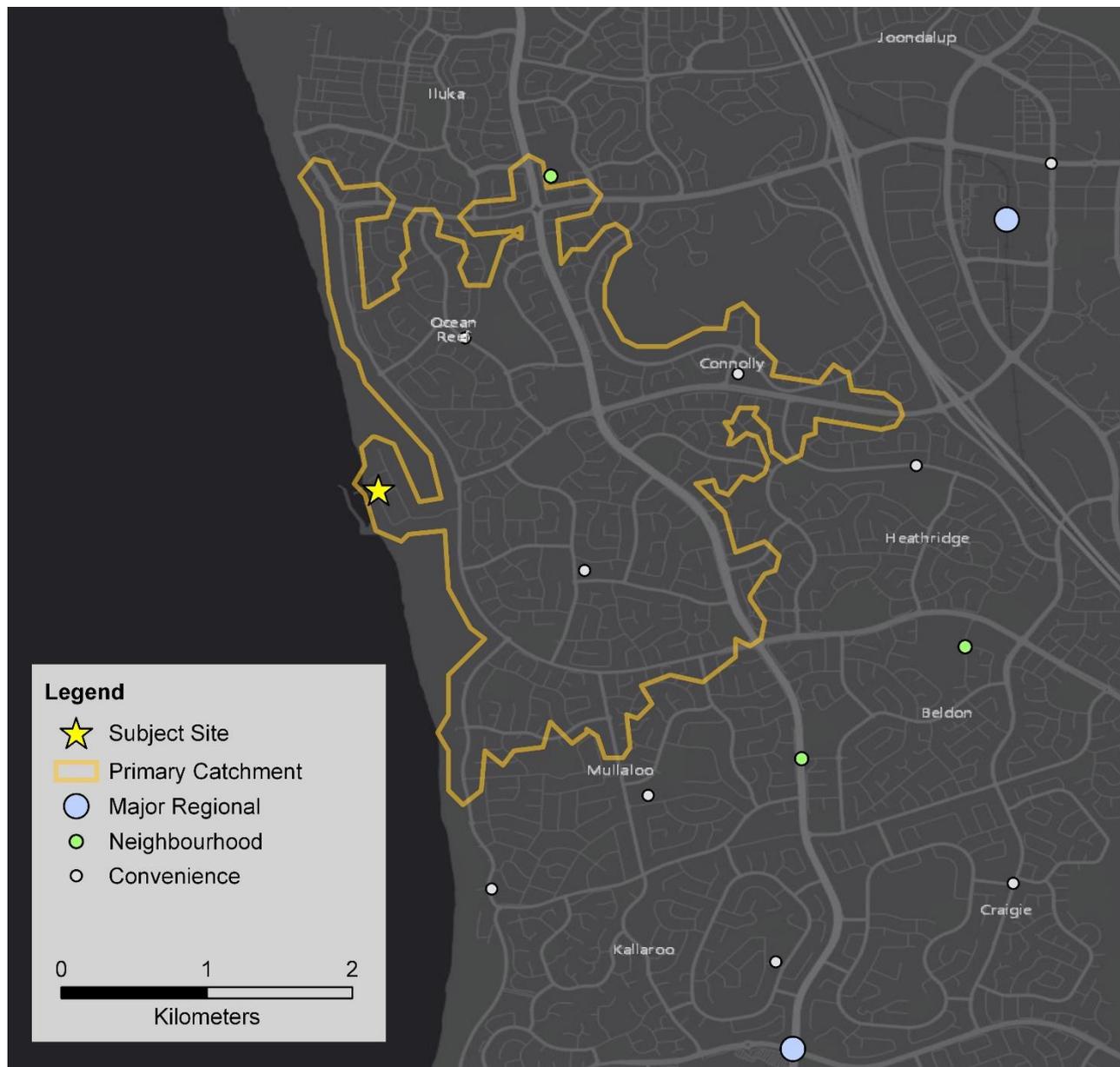
**Figure 6. Primary Catchment Retail Supply Breakdown by Categories**



A majority of the retail floorspace provided is allocated to Take Home Food, Personal Services and Convenience Items and Restaurants/Take Away.

Figure 7 below shows the location of existing retail supply within the primary catchment.

**Figure 7. Retail Catchment Boundaries and Retail Supply**



### Proposed Competing Projects

A number of small scale competing developments are proposed or intended for areas outside the primary trade area.

- A small local centre is intended within the Burns Beach masterplan, in addition to a neighbourhood centre at Iluka, on Burns Beach Road, as documented in the draft Burns Beach masterplan.
- Mixed Use development at 470 Whitfords Ave, Hillarys. Development approval of a \$42 million mixed use project including apartments and 4,400sqm of commercial/retail. Adjacent to Westfield Whitford City, developed by Scentre Group

- Ocean Reef Shopping Centre redevelopment. Development approval, deferred. \$8 million redevelopment including an expansion of 440sqm.

The proposed Ocean Reef Marina’s superior amenity offerings, destination attraction, and distance to competing retail facilities are considered to have a negligible impact on retail demand of the project, as detailed in the following section of this Report.

## Retail Floorspace Demand

To assess the market demand for potential retail floorspace within the Trade Area, we have examined the current and future demand for retail floorspace generated by the primary and secondary catchment population and compared these estimates with the existing and proposed supply of such floorspace.

Floorspace estimates are generated by applying appropriate thresholds of retail turnover densities (RTD), to the available expenditure volume. For the purposes of calculating the estimated gap we have undertaken the following steps:

- Estimated the current and future population within the main trade area over the period 2017 – 2031.
- Estimated per capita expenditure on each retail category based on MapData Services.
- Multiplied per capita retail expenditure directed to each retail category by the available population to determine the total available retail expenditure pool by category.
- Applied a suitable retention rate of available expenditure within the catchment areas. Given only three convenience shopping centre exists within the primary Trade Area, we have assumed a lower outflow of 10% of total take home food and convenience expenditure, i.e. 90% of supermarket expenditure generated by main trade area residents is estimated to be retained within the trade area, if a suitable quantum of floorspace (>3,000sqm) is provided within the proposed development, and a higher outflow of categories poorly represented in the area. This is offset however, by not allowing for inflow from customers who live beyond the main trade area, normally estimated at around 25%.
- The total retail expenditure pool is then translated into retail floorspace demand by retail sector, by dividing an applied retail turnover density (RTD) suitable for viable trade. We have applied an RTD as per the Table below, which we consider would reflect a successful and profitable average trading level in 2018.

**Table 9. Retail Expenditure Retention Assumptions**

	Take Home Food/ Tobacco	Take Home Liquor	Dining Out/ Take-Away	Clothing/ Footwear	Convenience Retail/ Personal Services	Bulky Goods/Other Comp. Retail
Productivity (m2)	10,000	9,000	6,500	5,000	7,000	5,500
Retention Rates	90%	90%	80%	20%	60%	10%

Total retail expenditure is detailed in a number of categories, as follows:

- Take-home food and tobacco – goods typically sold in supermarkets and specialty fresh food stores and tobacco sales.
- Take-home Alcohol – packaged beer, wine and spirits such as those purchased at bottleshops and liquor outlets.
- Meals out/Take Away – cafes, take-away outlets and restaurants, including liquor consumed on such premises.
- Clothing and Footwear – clothing, footwear, fashion and accessories.
- Household Goods – giftware, electrical, computers, furniture, homewares, and hardware goods.
- Leisure – sporting goods, music, DVDs, games, books, newsagents and film processing/photography.

- Convenience items and retail services – pharmaceutical goods, cosmetics, toys, florists, mobile phones and retail services such as key cutting, shoe repairs, hair and beauty.

Table 10 shows that residents of the main trade area generated an estimated total retail floorspace demand of 15,845m<sup>2</sup> within the trade area in 2017 and a forecast demand of 21,677m<sup>2</sup> by 2031.

**Table 10. Total Retail Floorspace Demand 2017-2031 – Sqm (Option 1)**

	Take Home Food & Tobacco	Take-Home Alcohol	Meals Out/TA	Clothing & Footwear	Conv. Items & Services	Bulky Goods & Other Comp. Items/Services	Total Retail Floorspace Demand
2017	5,805	1,024	3,029	823	4,091	1,073	15,845
2021	6,053	1,068	3,159	859	4,267	1,119	16,525
2026	6,917	1,220	3,610	981	4,875	1,279	18,882
2031	7,942	1,401	4,144	1,126	5,596	1,468	21,677

**Table 11. Total Retail Floorspace Demand 2017-2031 – Sqm (Option 2)**

	Take Home Food & Tobacco	Take-Home Alcohol	Meals Out/TA	Clothing & Footwear	Conv. Items & Services	Bulky Goods & Other Comp. Items/Services	Total Retail Floorspace Demand
2017	5,805	1,024	3,029	823	4,091	1,073	15,845
2021	6,196	1,093	3,233	879	4,366	1,145	16,912
2026	7,182	1,267	3,748	1,019	5,061	1,328	19,605
2031	8,396	1,481	4,382	1,191	5,917	1,552	22,919

Resident retail demand reconciliation with existing supply within the primary trade area is provided in Tables 12 and 13 below, showing the potential retail supply profile of Options 1 and 2 of the proposed Ocean Reef Marina. It is noted that Ocean Reef Shopping Centre, with approximately 2,050sqm retail GLA has been included in the supply accounts given its recent development approval, however it is noted that the vast majority of the centre is vacant, with only one tenant (take-home alcohol) remaining trading.

Ocean Reef Shopping Centre was marketed for sale in early 2018, however failed to transact due to limited tenant interest. The neighbourhood centre is poorly located for retail trade and its conversion to alternative uses would aid the retail floorspace demand available at Ocean Reef Marina.

The impact of proposed or mooted competing retail floorspace is considered negligible given the limited quantum of retail floorspace proposed, their location outside the primary trade area, and the existing status of the centre hierarchy. The demand for retail floorspace is likely to increase in line with population growth and household income levels.

**Table 12. Retail Supply Demand Reconciliation – Sqm (Option 1)**

	Take Home Food & Tobacco	Take-Home Alcohol	Meals Out/TA	Clothing & Footwear	Conv. Items & Services	Bulky Goods & Other Comp. Items/Services	TOTAL
2017	-2,468	-324	-1,649	-723	-2,641	-816	-8,621
2021	-2,716	-368	-1,779	-759	-2,817	-862	-9,301

2026	-3,580	-520	-2,230	-881	-3,425	-1,022	-11,658
2031	-4,605	-701	-2,764	-1,026	-4,146	-1,211	-14,453

**Table 13. Retail Supply Demand Reconciliation – Sqm (Option 2)**

	Take Home Food & Tobacco	Take-Home Alcohol	Meals Out/TA	Clothing & Footwear	Conv. Items & Services	Bulky Goods & Other Comp. Items/Services	TOTAL
2017	-2,468	-324	-1,649	-723	-2,641	-816	-8,621
2021	-2,859	-393	-1,853	-779	-2,916	-888	-9,688
2026	-3,845	-567	-2,368	-919	-3,611	-1,071	-12,381
2031	-5,059	-781	-3,002	-1,091	-4,467	-1,295	-15,695

The retail demand profile from residents in the primary trade area translates to an undersupply of approximately 8,621sqm in 2017, and expanding to an undersupply of approximately 14,450sqm under option 1 and 15,700sqm under option 2 by 2031.

It is noted, in the absence of Ocean Reef Shopping Centre should it be converted to alternative uses, a further 2,050sqm of retail floorspace demand would be available at 2017, allowing for a full-line supermarket to provided within the development benefiting rental returns and yields of other speciality retail tenants.

## Visitor Retail Floorspace Demand

The destination offering of the proposed Ocean Reef Marina will allow it to capture an increased proportion of visitor expenditure compared to local and neighbourhood retail offerings in the area. It is expected that visitors visiting the proposed Ocean Reef Marina, in particular daytrippers, will spend a significant portion of their available expenditure within the development, should a high amenity shopping and dining precinct be created. Retail expenditure escape assumptions are provided in Table 14 below.

**Table 14. Retail Expenditure Retention Assumptions**

	Shopping	Food/Drink
Productivity (m2)	\$6,000	\$8,500
Retention Rates - Short Stay	70%	80%
Retention Rates - Daytrippers	90%	90%

The expected retail floorspace demand generated by visitors is likely to aid the diversity and viability of retail within the development, in particular food and beverage offerings. The expected retail floorspace demand generated by visitors is provided in Tables 15 and 16 below for short-stay and daytrippers respectively.

**Table 15. Retail Floorspace Demand, Short Stay Residents – sqm**

	Shopping	Food & Drink	Total
2017	276	275	551
2021	282	281	562
2026	289	288	577
2031	296	295	591

**Table 16. Retail Floorspace Demand – Daytrippers – sqm**

	Shopping	Food & Drink	Total
2017	474	393	866

2021	569	472	1,041
2026	2,027	1,605	3,632
2031	3,610	2,766	6,376

In summary, it is expected that the visitor economy is likely to generate approximately 1,400sqm of additional retail floorspace demand in 2017, expanding to over 7,000sqm in 2031. It should be noted, that demand from visitors could expand by an order of magnitude once the development progresses and the destination appeal of the proposed Marina compounds as further entertainment and attraction offerings are provided.

## Retail Floorspace Demand Summary

Based on the method and findings presented in this report, Colliers International anticipates that approximately:

- 10,038sqm of retail floorspace demand is available as at 2017 to be potentially incorporated within the development;
- This is likely to reduce in initial stages, however to allow for the destination appeal of the development to be established and the incorporation of a preferred mix of retail tenants;
- The accelerated establishment of retail floorspace would be aided by the repositioning of the Ocean Reef Shopping Centre to an alternative use, and the provision of a full-line supermarket within the development to aid attraction of specialty tenants;
- By 2031 it is anticipated that up to 16,500sqm of retail floorspace could be supported within the development under Option 1, with an additional 1,250sqm of retail floorspace under Option 2;
- We note the tenant mix provided within the development may reduce potential floorspace estimates given the significant undersupply of convenience items and services. Colliers International is of the view that a reduction of convenience floorspace could be offset with an increased provision of food and dining offerings, in the form of a pub, bars and restaurants in the later stages of development, and once the destination appeal of the development is established.

# COMMERCIAL OPPORTUNITIES ASSESSMENT

# 04

## Commercial Analysis

### Commercial Office Market

The supply and demand for commercial office space within outer and suburban locations of Australian capital cities are heavily influenced by trends in the primary CBD and fringe office markets. This section provides an overview of the Greater Perth office market and the dynamics of supply and demand in outer sub-markets.

#### Macro-economic Drivers

The Perth CBD office market has seen its first signs of recovery with the Western Australian economy gradually making its way onto a more settled and sustainable growth path. While mining remains a huge driver of the economy, the State is restructuring and rebalancing seeking non-mining related sources of growth. Business confidence has rebounded from previous lows, but it still remains the second lowest rank in Australia. Business investment remains flat, and has been since 2016, sitting at 16% of the State economy, down from previous highs of 39%.

Mining sector employment has grown 18.8 per cent in the year to June 2018, while Administration and Support Services expanded 17.3 per cent and Public Administration and Safety are up 22.9 per cent. Employment growth in these sectors has underpinned white collar worker growth in the Perth CBD.

#### Classifying the Greater Perth Office Market

From our investigation, Colliers International has devised a series of benchmarks that have been used to classify the Greater Perth office market. Benchmarks used to classify office markets include quantity of floorspace, quality composition, industry or sectoral mix, tenant characteristics, building structure and car parking, as presented in the following table.

**Table 17. Office Market Classification Benchmarks**

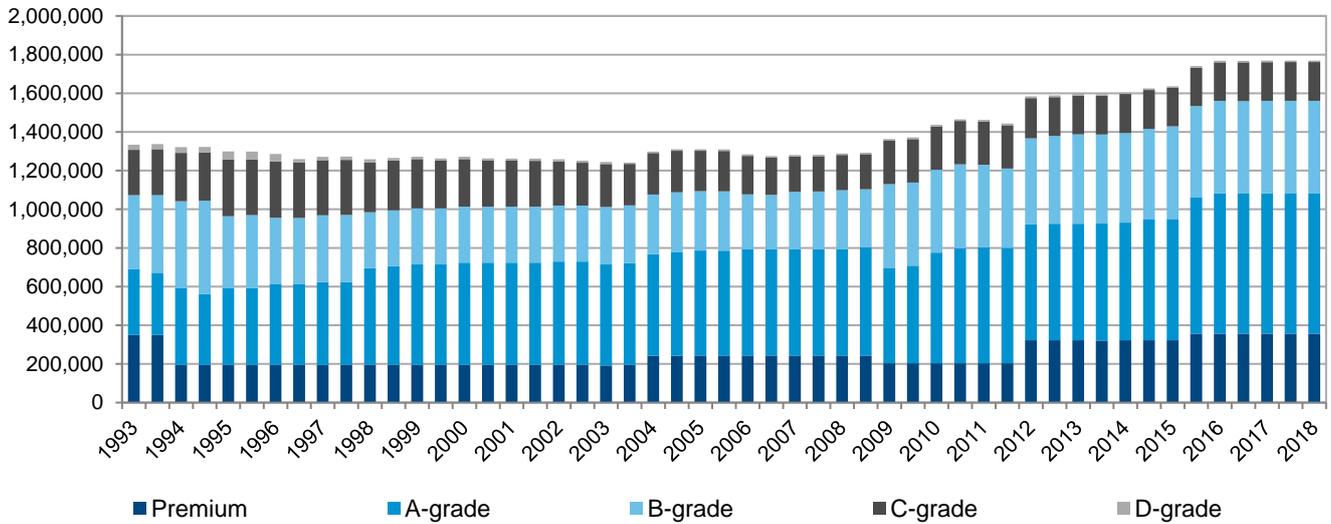
Trait, parameter or metric	Central Business District (CBD)	Metropolitan market	Suburban or local market
Quantum of floorspace	1,000,000 sqm plus	200,000 – 900,000 sqm	Less than 100,000 sqm
Grade or quality composition	Mostly higher-grade – combination of Premium and A-Grade	Mostly A and B Grade Limited or no Premium grade stock Some lower grade provision	Mostly B-Grade and below Limited A-Grade provision
Industry or sectoral mix	Predominantly financial, business and insurance services, IT, public sector (government), business and professional services	Medical, pharmaceutical, information technology, education, medical, telecommunications, technology, some lower-order professional, business and technical services and government	Local business and professional services, medical and health, social assistance and local government
Tenant characteristics	Significant multinational corporation presence (investment banks, law firms, management consulting firms), major government departments (ATO, State Government Departments) and domestic national corporations (local financial institutions, telecommunication firms, etc.)	Some multinational corporation presence and national firms, small to medium sized enterprises (specialised consultancy firms, engineering solutions, IT, etc.) and micro-businesses	Local micro business and professional service firms (solicitor, tax professionals, local real estate agencies, financial planners) or branches of national or government networks (financial institutions, Service NSW, private health funds, etc)
Building structure or format	Predominantly high-rise commercial towers in the core (commonly above 30 levels), with some medium-sized multi-storey buildings on the periphery	Can vary from location to location  Predominantly campus-style buildings (3-6 storeys) with some medium to high-rise towers	Predominantly single or two-storey street-strip premises or ground floor of newer mixed use buildings, although there are some purpose-built 2-3 storey commercial buildings e.g. council chambers, medical and allied health centre
Car parking	Mainly underground	Mostly at or above grade, although the incidence of underground car parking has increased more recently	Limited dedicated car parking, usually rely on street parking provided in the town or neighbourhood centre

Source: Colliers International

## Perth CBD Office Market

The Perth CBD office market has increased by almost 28% over the 10 years to July 2018. The majority of stock can be currently classified (according to the Property Council Australia (PCA)), as either A Grade (41%) or B Grade (27%).

**Figure 8. Perth CBD Office, Total Floorspace by Building Grade**

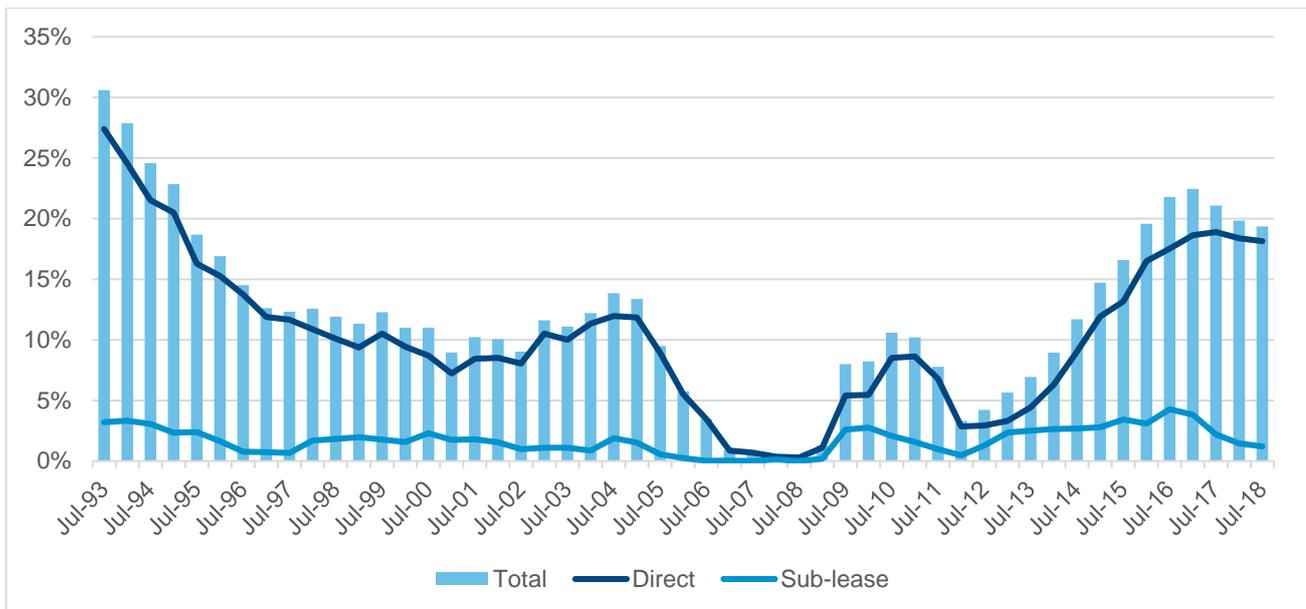


Source: Colliers International

The Perth CBD has recorded improved office space net absorption over the 2017-18 financial year, suggesting the bottom of the market has arrived and a steady road to recovery can begin. Net absorption over the past 12 months to July was 30,759sqm according to the Property Council of Australia (PCA) data. This robust level of tenant take up has underpinned the decline in CBD vacancy from 21.1 per cent in July 2017 to 19.4 per cent in July 2018.

Prime office stock recorded net absorption of 9,878sqm while secondary stock recorded -1,297sqm, highlighting a distinct flight-to-quality over the first half of 2018. Only the B Grade segment recorded negative demand. There were no supply additions or withdrawals over the period.

**Figure 9. Perth CBD Office Vacancy by Type (%)**



Improving economic conditions is likely to see vacancy within the CBD steadily decline over the short term, however persistent high vacancy rates may see the high incentive environment continue, as CBD landlords compete to entice tenants to their buildings.

The steady decline in net face rents since 2015 remains a lure for tenants at fringe or suburban locations to upgrade in quality and location, with A-grade rents now sitting between \$520-\$600/sqm.

## Metro and Suburban Office Markets

The suburban office market is estimated to comprise over 300,000 sqm of office floorspace. As it stands there is an estimated vacancy of around 16%.

Suburban vacancy rates generally lag that of the CBD in property cycles, as fringe and suburban tenants return to the CBD during downturns, when CBD leasing rates become more affordable, tenants can upgrade in building quality, and higher incentives support relocation costs.

Vacancy rates in suburban locations of Perth are significantly influenced by the quality of office stock available. Almost half of stock is C Grade (48%) with A Grade stock, comprising just over 20% of total floorspace. Perth suburban office market has significant variation in terms of building quality and age, with almost half of all current supply developed prior to or during the 1980s (48%). Only 28% is less than 10 years old.

It is expected that upward pressure will continue to be placed on suburban and fringe office markets over the short to medium term as economic conditions continue to recover, and CBD office floorspace is absorbed and vacancy and incentives reduce.

## Joondalup

The State Government has become increasingly active in suburban office markets within Greater Perth through a decentralisation program benefitting major activity centres. Joondalup's recently completed 8,500sqm commercial building by Prime West is an example of this, which was fully pre-committed prior to construction by the State.

Accordingly, the Joondalup City Centre will be the focus of further commercial floorspace to consolidate white collar employment as the economy recovers. Critical mass is necessary to support the City Centre and ensure a Greater Perth office sub-market can be established. Its links with a range of higher order services and transport make it the logical choice for tenant location within the region.

As it stands, it is estimated that the City Centre comprises approximately 70,000sqm of commercial floorspace, with no approved or expected new supply in the short to medium term.

# Commercial Tenant Needs and Drivers

## Tenant Needs and Drivers

The primary driver of office development is tenant needs and tenant attraction, in addition to the general property market and the value of commercial versus residential development. Both factors appear to be present in current Joondalup office markets, as evidenced by the virtually non-existent commercial office development pipeline.

As it stands, residential development has a higher return than commercial projects, and therefore raises competition and land value for competing sites. Ultimately the purchase price of land, in addition to construction costs, dictate the feasibility of use mix within a development. Moreover, residential developments are typically undertaken by residential developers that have limited experience in delivering the appropriate floorspace as well as engaging and attracting commercial tenants early in the development process.

Tenant attraction can be a long term process in new and emerging office markets, and is ultimately successful if tenant needs can be met in a way that is superior to other competing office markets. Tenant needs change as a business grows, and are therefore often related to the scale of a business, in addition to the industry sector they service. Colliers International has identified the primary drivers of tenant location and migration according to business scale, which include:

- Value and affordability, as compared to competitor markets;
- Building quality, typically A-Grade office buildings;

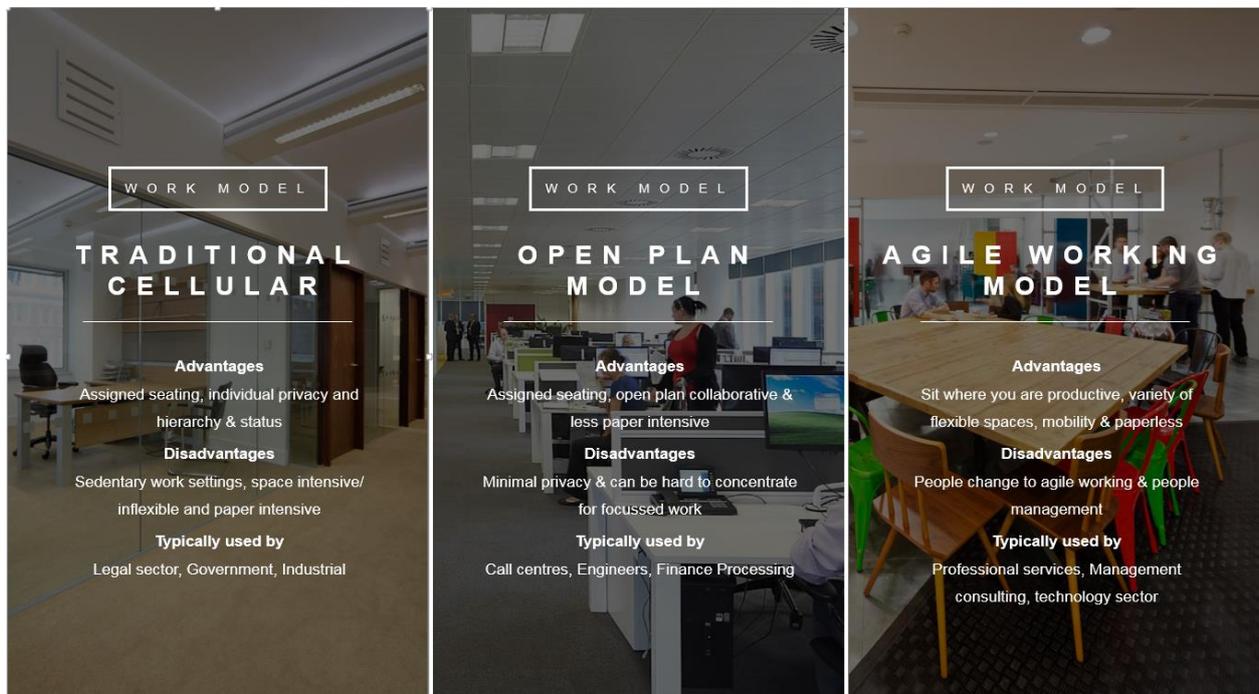
- Purpose design and build opportunities to meet specific business needs;
- Proximity to labour force;
- Proximity to markets and supply chains, including co-location with upstream vendors and downstream purchasers;
- Appropriate amenity offerings.

## Workspace Trends

The average amount of floorspace per worker has contracted over time. As a result of businesses seeking to reduce overheads and operational costs, workplace layouts have evolved significantly over the past decade. Specific drivers and trends influencing change in the workplace market space include:

- Demographic changes – higher concentration in Gen Y and Millennials in the workplace, who are accustomed to mobile and virtual work environments;
- Benchmarking – broader industry shift to agile work practices and workflows to improve efficiencies, as well as foster innovation through interaction;
- Mobility supporting productivity – technology has enabled mobile work arrangements, but also real-time monitoring of performance and productivity; and
- Future proofing – preparing for future workflow trends including the removal of modularity.

The main shift has been from traditional cellular layouts to agile working models (via open plan models), with the latter incorporating a more dynamic, flexible and interactive layout solution, which is more workflow friendly and suitable for contemporary activity based practices. The benefits and disadvantages of each workplace format is summarised in the next figure.



In addition to being more efficient, this shift has lowered the average amount of floorspace occupied on a per worker basis (i.e. employment density). Where an open space or agile working model has been adopted, the average employment density has contracted from 20 sqm to as low as 10 sqm.

While providing long-term operational savings, these contemporary fitouts are costly. The cost of delivering an agile workplace can be readily absorbed in CBD markets where rents are high (fitouts are usually provided in the form of incentives), but somewhat challenging in suburban and local office markets where rental levels are lower. On that

score, while there may be potential for fitout activity in some sub-markets and buildings, we have decided to adopt a conservative employment density (being around 18 sqm per worker), which assumes limited contemporary fitout activity in Joondalup.

## Distribution of Future Office Floorspace

The distribution of future office floorspace is a function of both policy and market drivers. While employment projections provide a reasonable benchmark as to the expected demand for office floorspace, policy and market factors can either assist in capturing additional employment growth, or discourage the provision of commercial development through compliance cost barriers or inappropriate market outcomes.

In many cases, such as the State Government's decentralisation policy, the importance of both government and market collaboration in facilitating and delivering employment growth and office floorspace, particularly within non-traditional locations and in establishing new markets, cannot be overstated.

Given the land available for commercial office development within the Joondalup CBD, coupled with the lack of tenant needs at Ocean Reef, in particular access to transport, labour force and supply chains, it is unlikely any significant commercial development would take place within the Ocean Reef Development.

Notwithstanding, niche sectors and tenants associated with the marine and tourist industries, in addition to flexible and agile small-medium enterprise that are not wedded to location, may be attracted to the location on supply chain (co-location) or amenity grounds. Accordingly it is estimated that between 5,000 – 10,000sqm of floorspace could be accommodated for within the development, through the provision of mixed use outcomes, supported by one to two purpose built A-grade buildings of between 2,500 to 5,000sqm NLA.

# KEY FINDINGS AND RECOMMENDATIONS

# 05

## Key Findings and Recommendations

### Key Findings and Recommendations

#### Retail

Colliers International anticipates that approximately:

- 10,038sqm of retail floorspace demand is available as at 2017 to be potentially incorporated within the development;
- Tenant demand is likely to be subdued in initial stages, however, as the destination appeal of the development is established and a preferred mix of retail tenants evolves;
- The accelerated establishment of retail floorspace would be aided by the repositioning of the Ocean Reef Shopping Centre to an alternative use, and the provision of a full-line supermarket within the development to aid attraction of specialty tenants;
- By 2031 it is anticipated that up to 21,420sqm of retail floorspace could be supported within the development under Option 1, with an additional 1,250sqm of retail floorspace under Option 2;
- Approximately 6,400sqm of retail floorspace would be directly supported by the anticipated daytripper numbers, requiring a focus on delivery of attractions and entertainment options to support visitation.
- We note the tenant mix provided within the development may reduce potential floorspace estimates given the significant undersupply of convenience items and services. Colliers International is of the view that a reduction of convenience floorspace could be offset with an increased provision of food and dining offerings, in the form of a pub, bars and restaurants in the later stages of development, and once the destination appeal of the development is established.
- Targeting food and beverage tenants early in the development will assist with precinct activation, amenity offerings and ultimately sales of residential product.
- Our recommendations on tenant mix and tenant floorspace needs at 2031 are included in the Table below.

Tenant Sector	Tenancy Size	Number of Tenants
Full-line Supermarket	3,000 – 3,500m <sup>2</sup>	1
Pharmacy	150-250m <sup>2</sup>	1
Speciality Take-Home Foodl (Bakery/Deli/Butcher etc.)	70-150m <sup>2</sup>	2-3
Bottle Shop	100-200m <sup>2</sup>	1
Retail Services (Hairdresser/ Beauty/Nail Salon etc.)	70-150m <sup>2</sup>	4
Take Away	70-150m <sup>2</sup>	3-5

Clothing/Footwear	70-150m <sup>2</sup>	2-3
Café/Restaurants	250-500m <sup>2</sup>	3-5
Bar/Nightclubs	1,500-2,000m	2-4

## Office

- The supply and demand for commercial office space within outer and suburban locations of Australian capital cities are heavily influenced by trends in the primary CBD and fringe office markets.
- Net absorption in the Perth CBD over the 12 months to July 2018 was 30,759sqm according to the Property Council of Australia (PCA) data. This robust level of tenant take up has underpinned the decline in CBD vacancy from 21.1 per cent in July 2017 to 19.4 per cent in July 2018.
- Improving economic conditions is likely to see vacancy within the CBD steadily decline over the short term, however persistent high vacancy rates may see the high incentive environment continue, as CBD landlords compete to entice tenants to their buildings.
- The steady decline in net face rents since 2015 remains a lure for tenants at fringe or suburban locations to upgrade in quality and location, with A-grade rents now sitting between \$520-\$600/sqm.
- Suburban vacancy rates generally lag that of the CBD in property cycles, as fringe and suburban tenants return to the CBD during downturns, when CBD leasing rates become more affordable, tenants can upgrade in building quality, and higher incentives support relocation costs.
- It is expected that upward pressure will continue to be placed on suburban and fringe office markets over the short to medium term as economic conditions continue to recover, and CBD office floorspace is absorbed and vacancy and incentives reduce.
- The State Government has become increasingly active in suburban office markets within Greater Perth through a decentralisation program benefitting major activity centres. Joondalup's recently completed 8,500sqm commercial building by Prime West is an example of this, which was fully pre-committed prior to construction by the State.
- As it stands, it is estimated that the Joondalup City Centre comprises approximately 70,000sqm of commercial floorspace, with no approved or expected new supply in the short to medium term.
- Employment projections for the City of Joondalup, in particular white collar employment growth, suggests that commercial office floorspace demand will expand significantly from approximately 110,000sqm in 2018 to around 220,000 by 2031.
- The majority of this floorspace will be concentrated in the City Centre, given the presence of an existing office market, co-located services and amenities, and availability of commercially suitable land.
- Ocean Reef does not cater for broader tenant needs for office location, in particular access to transport, labour force and supply chains, and is therefore unlikely that any significant commercial development would take place within the Ocean Reef Development.
- Niche sectors and tenants associated with the marine and tourist industries, in addition to flexible and agile small-medium enterprise that are not wedded to location, may be attracted to Ocean Reef on supply chain (co-location) or amenity grounds. Accordingly it is estimated that between 5,000 – 10,000sqm of floorspace could be accommodated for within the development, through the provision of mixed use outcomes, supported by one to two purpose built A-grade buildings of between 2,500 to 5,000sqm NLA.

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