



SOUTHBANK

DOMINATING NON-CBD SECTOR

There has been a shift in the Melbourne non-CBD office market during the past few years, with Southbank forging ahead of St Kilda Road and now making a move on Melbourne's CBD.

According to the Property Council of Australia *Office Market Report* for the six months to January 2008, Southbank has a vacancy rate of just 2.3 percent compared to St Kilda Road's 6.2 percent.

"In the past St Kilda Road and Southbank were seen as closely related, but in the last two to three years on the back of [Australand's 55,000sqm Twenty8] Freshwater, Southbank is seen as having a much stronger link to the CBD than St Kilda Road," says Kenny Thorburn, senior director at CB Richard Ellis.

Following Twenty8 Freshwater and other new developments under construction, including the 27,345sqm South Wharf, Southbank has caused a stir in Melbourne's office market, with tenants from the CBD and Docklands relocating to the city fringe.

"For the larger tenants, Southbank competes directly now with the CBD and Docklands and there's plenty of opportunity in Docklands. Geographically it's actually better constrained [than the CBD]," says Thorburn. "There are not really any other buildings or areas where you can develop more commercial in Southbank, so it's limited."

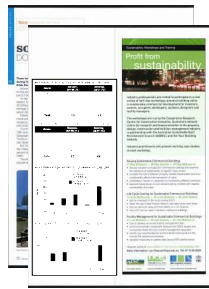
But Thorburn sees this as an opportunity rather than a hindrance to the market, with its lowest vacancy rates on record, dropping by 2.1 percent and a healthy net absorption of 9186sqm, according to the OMR.

"Southbank is more of a precinct of the CBD now ... It's very, very popular at the moment and I see that continuing," he says.

Vacancy rates in Grades A, B and C fell in comparison to the previous six month period, with outstanding results from C Grade – dropping from 11.2 percent to 4.2 percent. The exception was D Grade, which escalated 7.1 percent to 21.7 percent.

"You can say D Grade is unlettable because C Grade's verging on unlettable. So there is no market for D Grade," says Thorburn. "I would imagine it's a couple of pretty poor buildings and there's an extra floor available and that's why the percentage jumped up."

A further 33,953sqm of stock will enter Southbank's market in 2008, representing 9.2 percent of its total office space. In 2010 and onwards, 27,345sqm of new stock is planned.



St Kilda's sprucing up

In comparison, St Kilda Road has no stock entering the market in the short term; it is also looking tight for the street's office market.

"Rents are going to start to rise and incentives have already started to drop. Owners are now in the process of upgrading buildings that are now 20 to 30 years old. But that means St Kilda Road is fundamentally very strong at the moment. It's probably stronger than it has been in the past 10 years and for the first time in a long time we're actually seeing an inflow of tenants into that market," says Thorburn.

This agrees with the OMR finding St Kilda Road experienced 5619sqm of withdrawals and a net absorption of 13,414sqm.

"It use to be a churn of tenants going into the market from one building to another, but in the last 12 months we've actually seen tenants from outside St Kilda Road coming in. It has a very good

balance between commercial and residential, so the fundamentals are the strongest it's ever been."

However, St Kilda Road's vacancy rate is 0.3 percent higher than the national non-CBD office market average. Thorburn explains this result as coming off a high base with at least four vacancies hitting the market at the same time in the first half of 2007.

"There was about 8000sqm at 407 St Kilda Road, 4500-5000sqm at 380 St Kilda Road, about 5000sqm at 564 St Kilda Road and another 5000 at 541 St Kilda Road. So we had four or five large vacancies all at the one time last year, so that's why the rates dropped significantly, but it was coming off a pretty high base."

All grades of stock in St Kilda Road also experienced decreases in office vacancy except D Grade, which increased by 3.3 percent to 4.8 percent.

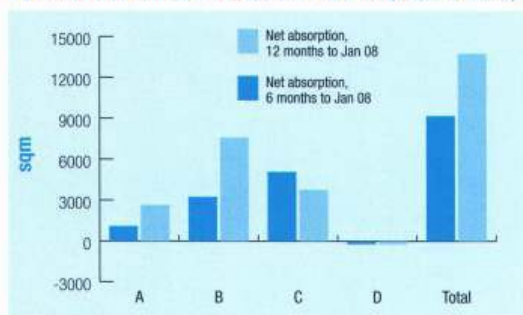
KEY MARKET INDICATORS, SOUTHBANK (AGGREGATE)

Grade	Vacancy, Jan 08 (%)	Vacancy, Jul 07 (%)
A	1.0	1.6
B	2.9	4.8
C	4.2	11.2
D	21.7	14.6
Total	2.3	4.4

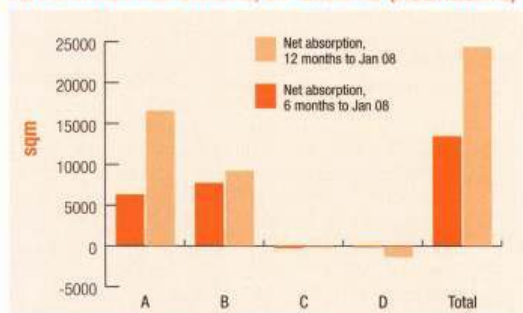
KEY MARKET INDICATORS, ST KILDA RD (AGGREGATE)

Grade	Vacancy, Jan 08 (%)	Vacancy, Jul 07 (%)
A	7.0	9.5
B	5.8	8.1
C	5.8	8.7
D	4.8	1.5
Total	6.2	8.6

KEY MARKET INDICATORS, SOUTHBANK (AGGREGATE)



KEY MARKET INDICATORS, ST KILDA RD (AGGREGATE)





Property Australia
April, 2008
Page: 70
General News
Region: National Circulation: 10000
Type: Magazines Trade
Size: 617.44 sq.cms
Monthly



Southbank is forging ahead of the St Kilda Road office market and is now making a move on Melbourne's CBD.