

# SURGE FOR OFFICE SUITES - SOUTH YARRA

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In May 2008, I distributed a Commentary, on the "unprecedented demand" in the "Forrest Hill Precinct", summarising the surge in residential and commercial developments along Claremont and Yarra Streets, and projecting sustainability and strength within that market. Now, 20 months later, I again confirm my confidence.

Well located at the corner of Toorak Road with Chapel Street, with links to Alexandra Avenue and the South Yarra station, the precinct lay dormant for years, when in 2002 developer Michael Yates acquired a site of 8,000 sq.m., his plans for which have been the catalyst attracting other developers who now have projects which over the next few years, will culminate in up to 2,400 new apartments, and 90,000 sq.m. of prestige office space, providing for a total of 9,900 new occupants, including 5,400 residents, and 4,500 commercial office and retail occupants.

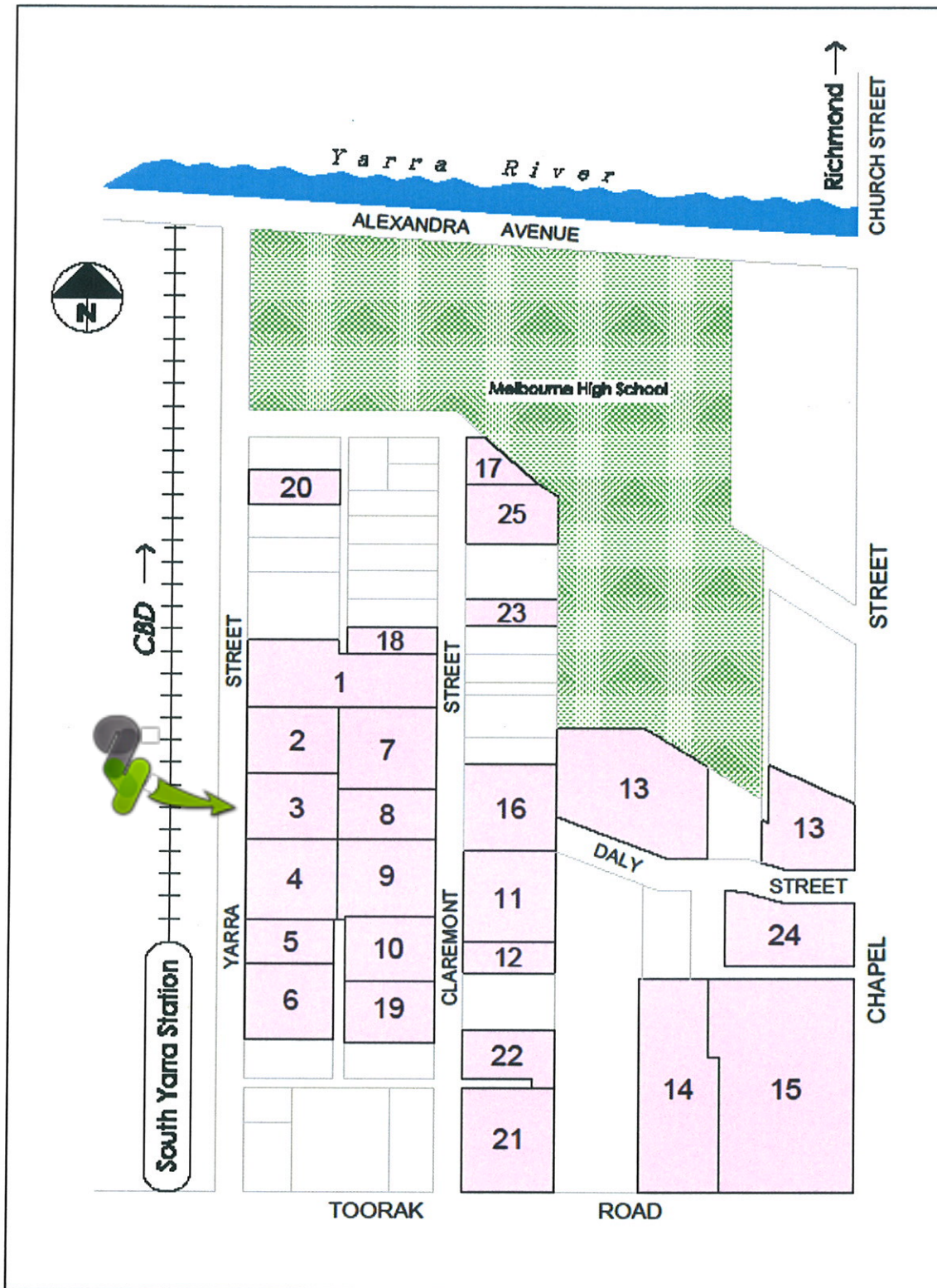
A high standard "mixed use" retail and office amenity has been established which, in relatively short supply, has been strongly underwritten. Specifically, this has been highlighted by the current success of "Yarra 9" at 8 - 9 Yarra Street, a prestigious 16 level tower, incorporating individual office suites. Of the 84 on offer in the size range 34 - 120 sq.m., with an average of 64.5 sq.m., 56 or 66% with parking have been sold at prices on average at \$7,900 p.s.m., but up to \$9,520 p.s.m. overall across the 14th floor, relating to rental rates of up to \$400 p.s.m.p.a. nett (exclusive of parking), and a capitalisation rate or yield to the order of 6%. It is expected that the remaining unsold suites will be quickly committed as the project is relatively the largest and best standard source of office suites in a precinct which is already under-supplied and in consequence of which it can be expected that they will provide strong rental and capital growth.

For cautious investors who already have a residential portfolio, commercial office suites provide a low risk diversification, offering, as a contrast to apartments, longer lease terms, usually 3 - 5 years, net rental returns as lessee's pay all outgoings, a diversified market segment, and relatively low entry price point, often cheaper than apartments within the same precinct. Such diversification spreads risk, and is only possible at this price point, in the office market, as retail properties are substantially more expensive.

Office suites are now an established market sector, in new developments now moving to a higher level, combining prime locations with innovative design conceptualised to serve owner occupiers and lessees seeking quality accommodation and prime location. Small businesses, whilst conscious of operational costs, nonetheless acknowledge that in an increasingly competitive business environment, presentation is crucial. For these reasons, it is evident, that well located quality suites in the size range 30 - 100 square metres (sq.m.), are now achieving unprecedented rental rates moving beyond \$400 per square metre per annum (p.s.m.p.a.) net, however in weekly, monthly or annual terms, the actual rental amount is not a big figure. The arithmetic is simple, a 30 sq.m. quality office suite might sound expensive at \$450 p.s.m.p.a. net, yet is only \$260 per week. With lessee contributions to overheads, and one car park, this would rise to a gross occupancy cost of approximately \$340 a week. In perspective, little more than lunch for three or the leasing cost of a moderately cheap car.

Insofar as economic benefits are concerned, within the Forrest Hill Precinct, Charter Keck Cramer has made a preliminary analysis of the increase in discretionary and commercial related expenditure which to be generated from the increased populous, can be expected to be of direct benefit to the immediate community. In total, retail expenditure is to be in the order of **\$75.0M per annum**. Of this, \$60.0M is expected to be from new resident population. In recognition of the unique array of opportunities the precinct offers, combined with the 'lifestyle oriented' focus of future residents, retail expenditure per capita is expected to be higher than surrounding areas. On this basis, it is forecast that of the total \$60.0M expenditure, \$20.0M will be spent on *fresh food and groceries*, \$8.0M at *restaurants*, \$9.0M on *specialty items* and \$8.0M on *clothing*.

The following plan and the associated explanation key as summarised, provides an overview of very recent and current proposed activity within the Precinct.



## Map Key

1. **12 Yarra Street** (incl. 27 - 29 Claremont St) "SXY". 128 OYO and serviced apartments, 1,040 sq.m. commercial, and parking. Building complete. Potential 250 residents and 60 office occupants.
2. **10 - 11 Yarra Street** Building complete, 69 office suites of 4,700 sq.m. with parking. Potential 320 office occupants.
3. **8 - 9 Yarra Street** Soon to be completed 16 storey prestige retail/office of 6,926 sq.m. with parking. Very successful early sales of quality office suites completed. Potential 460 office occupants.
4. **5 - 7 Yarra Street** Now nearing completion, a 22 level prestige residential development of 78 OYO and 72 serviced apartments, office suites and retail with parking. Most apartments are now sold, with lower level office and retail accommodation meeting with strong interest. Potential for 370 residents and 70 commercial occupants.
- 5 + 6. **2 - 4 Yarra Street** Comprising a "Business 2" zoned development site with a combined area of 2,146 sq.m. The property is now at the advanced planning stage, with an application for a 35 storey mixed use mainly residential tower before the Planning Tribunal. Potential for 750+ occupants.
7. **25 Claremont Street** Completed commercial development of 40 office suites of 3,374 sq.m. with parking. Potential for 225 occupants.
8. **15 - 19 Claremont Street** Recently completed. Prestige retail/contemporary office development of 3,869 sq.m. with parking. Potential for 260 occupants.
9. **9 - 13 Claremont Street** Five level contemporary mixed use retail/commercial development. Comprising 5,550 sq.m. and parking. Potential for 370 occupants.
10. **7 Claremont Street** Medium term redevelopment site for residential/mixed use with potential for 200 occupants. Owner purchased adjoining site at 3 - 5 Claremont Street.
11. **12 - 14 Claremont Street** Probable redevelopment with office up to 10,000 sq.m. with parking. Potential for up to 670 occupants.
12. **10 Claremont Street** Approval for 12 storey development of 60 apartments with potential for 120 residents.
13. **Corner Chapel and Daly Street** Now nearing completion, "The Whiteley", a \$180.0M "singles village", with apartments for sale and rental. Up to 400 apartments for rental. Potential for 500 residents.
14. **227 - 233 Toorak Road** Recently purchased by a private developer from ANZ. Site of 3,200 sq.m. with existing buildings. To be refurbished/extended to provide either residential/commercial/hotel. Existing building potential for 750 - 850 occupants.
15. **257 Toorak Rd, Corner Chapel Street** Approval for mixed use high rise 27 storey development with parking. Potential for up to 700 residential and 500 commercial occupants.
16. **16 - 20 Claremont Street** An allotment of 2,156 sq.m., approved for prestige quality medium density residential development. Planning application in place for 14 level office building providing up to 20,000 sq.m. of NLA and with the potential for 1,200+ occupants.
17. **56 - 58 Claremont Street** Comprising a four level office building of approximately 1,000 sq.m. Building to be completely refurbished and utilised for office purposes. Potential for 65 occupants. Upper level strata to be incorporated with adjoining property to south in prestige development of residential apartments.
18. **33 Claremont Street** Comprising a "Business 2" zoned site of 490 sq.m. Proposed nine level boutique hotel with up to 53 rooms. Potential for 50 - 80 non-permanent occupants.
19. **3 - 5 Claremont Street** Comprising a "Business 2" zoned site of 1,065 sq.m. purchased by the adjoining owner (7 Claremont Street). Total cumulative site area approximately 1,669 sq.m. Permit now issued for 15 level quality mixed use development. Potential for 700 occupants.
20. **18 Yarra Street** Comprising a "Business 2" zoned site of approximately 600 sq.m. with the potential to be amalgamated with the adjoining site (17 Yarra Street) and developed with a residential/commercial tower of approximately 20 levels with the potential for up to 500 occupants.
21. **199 Toorak Road** A four level office building of 4,000 sq.m. which is planned to undergo refurbishment with the potential for 250 occupants.
22. **2 Claremont Street** 12 strata titled office/residential units. Individual owners agreed to sale of entire property to adjoining owner of Property No 21.
23. **38 - 40 Claremont Street** Comprising a "Business 2" zoned site of 480 sq.m. improved with a two level commercial office building. Building to be entirely refurbished and utilised for commercial office purposes. Potential for 65 occupants.
24. **627 Chapel Street** A six level office building which has recently been refurbished providing 6,000 sq.m. NLA and potential for 400 occupants.
25. **50 Claremont Street** Proposed new development "Kookai", for which a formal planning approval has been issued for a 21 storey prestigious development of 177 apartments.

Estimated New Occupants to Precinct June 2008 - June 2011	
Residential	5,400
Commercial	4,500
<b>Total</b>	<b>9,900</b>