St Kilda Road office rents soar to new highs

Larry Schlesinger

Office rents on Melbourne's St Kilda Road boulevard are surging to new highs as vacancy rates tumble and cost-conscious tenants seek alternatives to the pricey, tightly-held CBD office market.

Local fund manager Vantage Property Investments, led by Hamish de Crespigny and Matt Spring, is claiming a new record per square metre rate in the key fringe office market after local construction group 360 Built agreed to pay a net rent of $550 per square metre for a 130-square-metre office space at 420 St Kilda Road

The distinctive, glass-fronted tower, owned by Vantage and private equity firm KKR, recently underwent a significant refurbishment program and is now listed for sale with a $92 million-plus price tag.

The record leasing deal was negotiated by Tristan Parker, Matt Cosgrave and Chris Meehan from Colliers International and follow a number of recent deals struck in the building at rental rates of between $440 and $460 per sq m.

"Throughout and following the recent refurbishment program, we have consistently seen this building set new benchmark rental levels for the St Kilda Road market," said Mr Parker. All the indicators on St Kilda Road – vacancy rates, rents and incentives – have all swung in favour of landlords in the past 12 months as the likes of Toyota, Evolution Health and insurance broker Choosewell have taken space on the business strip.

The latest figures from the Property Council show the St Kilda Road office vacancy rate fell to 6.6 per cent in January from 12.9 per cent two years ago with prime grade vacancy rate at just 4.9 per cent.

At the same time, prime net effective rents have surged 27 per cent in the past 12 months to $347 per square metre from $273 per square metre, according to CBRE Research.

CBRE research analyst Aiden Bresolin said further rental growth was expected over the next few years as high rents in the CBD market push tenants into fringe locations.

"With a seven-year annual growth rate of 5.4 per cent, St Kilda Road has also outperformed the similarly sized markets of Macquarie Park (3.4 per cent), Parramatta (5.2 per cent), and Southbank (3.8 per cent)," Mr Bresolin said.

According to CBRE Research, St Kilda Road office incentives have fallen nearly 400 basis points over the past year to 17.4 per cent with net absorption over the year to January 2019 recorded at 20,000 sq m, more than twice the 10-year average.

Amid these strong market conditions, Vantage and KKR are now looking to capitalise with a timely exit and a significant capital gain.

Vantage and KKR paid $68 million for the five-storey property in 2017 when they bought it off CEL Australia, the local arm of Singapore-listed property group Chip Eng Seng, with the deal struck on a 5.6 per cent passing yield.

The glass-fronted building at 420 St Kilda Road has been significantly refurbished.