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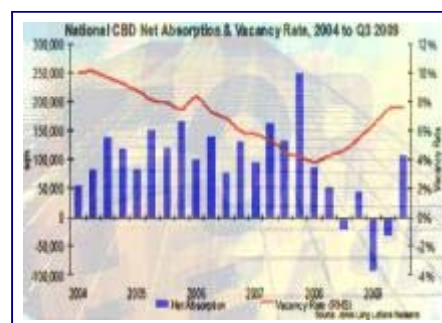
Offices start to bottom out, JLL

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SYDNEY and Melbourne office markets are close to bottoming out, according to the latest research by Jones Lang LaSalle.

September quarter data released yesterday by JLL Research reveals that conditions in Australia's office markets are stabilising in the financial centres of Sydney and Melbourne, whilst the rate of decline slowed in the Perth and Brisbane resource-dominated markets.

Third quarter figures show the aggregate vacancy rate across all Australian CBD office markets increased by only 0.1% to 7.6%.



National office analyst Andrew Ballantyne believes the marginal rise in vacancy was attributable to the increased availability of backfill space as tenants moved into newly completed buildings.

JLL found that positive net absorption of 105,000 sqm was recorded in the quarter. This follows two successive quarters of negative net absorption and is the highest net absorption figure since December 2007.

"This is solid evidence that the Sydney and Melbourne office market is close to the trough in the current cycle," Ballantyne said.

With the exception of Perth (-24,700 sqm), all CBD office markets recorded positive net absorption in the quarter. Melbourne (59,500 sqm) recorded the highest figure, followed by Canberra (35,100 sqm), Brisbane (14,400 sqm), Sydney (12,700 sqm) and Adelaide (7,900 sqm).

JLL's national head of leasing, Kevin George added that a stronger than expected domestic economy has under-written an improvement in business confidence.

"With the headline rate of unemployment declining, corporations have moved from a consolidation mode to planning for future growth, electing to retain hidden vacancy rather than explore options to sub-lease," George said.

"If sub-lease availability is a barometer of the health of the national office market, the sick patient is now clearly in a state of recovery,"

Across the monitored national office markets, the availability of sub-lease accommodation actually contracted in Q3 by approximately 48,000 sqm and now equates to 1.8% of total stock.

Ballantyne said the story this quarter was all about Sydney and Melbourne.

"Vacancy in the Sydney CBD declined to 8.5% in Q3 from 8.8% in Q2, while prime gross effective rents were unchanged in the quarter. The peak to trough decline in Sydney rents in this cycle has occurred over 5 quarters, compared with 18 quarters in the 1990s recession and 9 quarters in the post-2000 slowdown.

"Despite the practical completion of the ANZ Headquarters at 833 Collins Street and SX2 at 111 Bourke Street, which delivered 125,500 sqm of new space to the Melbourne CBD in the September quarter, vacancy only increased to 6.6% in Q3 from 5.9%.

"The Melbourne market is less reliant on the volatile Finance & Insurance sector, while the availability of prime contiguous space has allowed occupiers to upgrade or consolidate at very affordable rental levels," Ballantyne said.

Outside of the Financial centres, vacancy declined in Canberra (7.9. Vacancy increased by 0.8% in the Brisbane CBD (8.3%) and Adelaide CBD (6.1%), and by 1.7% in the Perth CBD to 8.3%.

George said positive fundamentals and improved sentiment resulted in the stabilisation of Sydney rental levels.

"Over the quarter, prime gross effective rents increased in the Melbourne CBD (0.7%) and Adelaide (0.4%).

There were further rental corrections in the Brisbane CBD (-12.3%) and Perth CBD (-6.1%) as these markets continue to adjust from the rental spike in 2006-07, when market rents rose above the economic rent. Canberra (-2.1%) also recorded a decline.

“The rate of decline in Brisbane and Perth rental levels will start to moderate as the market rents are now approaching the rent required to support new construction within each of those markets,” George said.

The supply outlook continues to contract across the national market. The development pipeline is now 985,000 sqm (61% pre-committed) or 7.3% of existing stock with no new developments commencing across monitored CBD office markets in the September quarter. This compares with an estimate of 1.17 million sqm in Q2.

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