

Thursday 22 January, 2009 (AEST)

Vacancy rises across Australia

by Mark Bristow : Thursday, January 22, 2009

December quarter statistics from Jones Lang LaSalle have indicated that tenant demand for office space has moderated further in light of weakening economic conditions both locally and overseas.

Jones Lang LaSalle associate director of research, Andrew Ballantyne, said that the Australian commercial market experienced a turbulent year in 2008, characterised by softening demand, rising vacancy, moderating rental growth and a decompression of investment yields.

Q4 figures revealed that the aggregate vacancy rate across all CBD office markets monitored by JLL nationally increased by 0.9% to 5.5% in the December quarter.

Vacancy pressures were found to be increasing, though the headline vacancy rate is remaining below the long-term equilibrium of between 7% and 8%.

The research found that when looking at each of the CBD markets individually, all recorded an uplift in vacancy, with the exception of Adelaide where vacancy increased only marginally to 3.9% from the all-time low of 3.8% in the September quarter.

Jones Lang LaSalle national head of leasing, Kevin George, said that turbulent conditions are evident in the market, with the economic slowdown and reduced profitability forcing organisations to address their cost base.

"For the majority of companies in CBD markets, labour is the largest cost, followed by rent or IT," said Mr George.

"Staff layoffs and a re-evaluation of floor space needed in the medium term has resulted in rising sub-lease vacancies."

Similar to 1991 and 2001, the upturn in sub-lease vacancy is most notable in the financial centres, according to JLL, with sub-lease space being actively marketed in the Sydney CBD increasing to 76,000 sqm in Q4 from 42,400 sqm in Q3, while in the Melbourne CBD it climbed to 30,250 sqm from 11,700 sqm in Q3.

"It is important to put the current sub-lease statistics into an historical context," said Mr Ballantyne.

"As a percentage of total stock, both Sydney (1.6%) and Melbourne (0.7%) are around long-term averages."

"However with unemployment set to rise in 2009, the likelihood of further sub-lease being made available to the market increases."

Across the major CBD office markets, net absorption was found by the research to be approximately 44,200 sqm in Q4, with the annualised figure of 148,300 sqm in 2008 being the lowest yearly total since 2003.

According to JLL, the Sydney CBD had its second consecutive quarter of negative absorption, with a figure of -28,450 sqm being recorded.

A negative figure of -9574 sqm was also recorded in the Perth CBD, while negligible net absorption of 1750 sqm was recorded in Canberra and 1200 sqm was recorded Brisbane.

The Melbourne CBD and Adelaide both recorded strong levels of net absorption, reaching 38,900 sqm and 40,400 sqm respectively, however in the case of Melbourne, this was reflective of pre-commitments and relocations to the CBD as opposed to the strength of underlying demand.

"There will clearly be a softer demand environment in 2009 with the risks most evident in the financial centres of Sydney and Melbourne," said Mr George.

"Perth and to a lesser extent Brisbane will be impacted by the slowdown in the resource sector with a number of second tier miners fighting for survival and the larger resource houses postponing their growth plans and cutting costs."

"As the construction pipeline has a high level of pre-commitment, the slowdown will negatively impact demand for backfill space in 2009 and 2010."

Mr Ballantyne added that despite the weaker demand conditions, there was limited risk of an over-supply in CBD markets.

"Across monitored Australian CBD office markets, there was approximately 1.4 million sqm of space under construction at the end of 2008, equating to 9.5% of the total stock," said Mr Ballantyne.

"In the past 6 months, the number of projects moving from the planning stage to construction has slowed markedly and this will significantly impact supply

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Rising vacancy is understood to have increased the bargaining power of tenants, resulting in higher incentive levels and downward pressure on effective rents in a number of markets.

Over the quarter, prime gross effective rents were found to have declined in the Brisbane CBD by -11.2%, -10.4% in the Sydney CBD, -6.7% in the Melbourne CBD and -0.1% in Canberra.

"The supply constrained markets may save landlords the pain of further falls beyond 2009," said Mr George.

"The next six months may prove to be the most favourable for tenants in this cycle."

Adelaide was found to be the exception to the CBD theme of declining effective rents, with prime gross effective rents increasing by 0.2% over the quarter, and 21.1% in the past 12 months.

Adelaide is understood to be continuing to experience relatively strong tenant enquiry, especially from tenants associated with mining and infrastructure projects and the education sector.

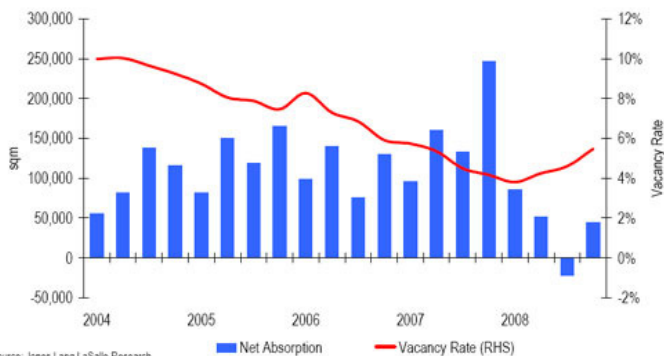
In the investment market, Jones Lang LaSalle recorded a further decompression of prime and secondary yields.

Weighted average prime yields softened by 40 basis points, while secondary yields experienced greater decompression of 50 basis points in Q4.

Transaction volumes for 2008 were found to be down significantly on previous years.

Nationally, Jones Lang LaSalle noted a 60% reduction in 2008 volumes compared with 2007.

National CBD Net Absorption & Vacancy Rate, 2004 to 2008



Source: Jones Lang LaSalle Research

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