Pullinen Property Group

Office – Sydney CBD – April 2015

Basic Statistics – Sydney CBD office market

Period	Inventory	Vacancy (m^2)	Vacancy (%)	Absorption(m^2) Net 6 mnths	Absorption(m^2) Net 12 mnths
July 2014	4,952,188	414,359	8.4	23,983	57,272
Jan 2015	4,961,728	368,620	7.4	54,279	78,262

Source; Property Council of Australia, Office Market Report, Jan 2015

The Sydney CBD is Australia's largest office market with almost 5,000,000 m^2 of stock. It is the financial hub of Australia and is home to countless major national and international organisations doing business in Australia.

Vacancy

The Sydney CBD office market vacancy rate fell from 8.4% in mid-2014 to 7.4% in January 2015. Vacancy fell across all grades and fell in all sectors except in The Rocks where vacancy increased dramatically (be it a micro market) and the Core where vacancy remained the same. This is the second 6 month fall in vacancy since early 2014.
The decrease in vacancy is due to a rise in new supply (42,604 m^2) being counter balanced by almost the same amount of withdrawals (33,064 m^2) and healthy net positive absorption (54,279 m^2). It is anticipated vacancy may fall marginally again for the first half of 2015 following an active period in the smaller tenant market.

Supply

Over the next 3 years close to 420,000 m^2 (8% of the market) of new and refurbished supply will be added to stock. This includes Barrangaroo (266,000 m^2), 5 Martin Place (33,000 m^2), 333 George Street (12,500 m^2), 20 Martin Place (16,000 m^2) and 200 George Street (38,000 m^2). Withdrawals are expected to average 60,000 m^2 per annum in the coming years and approximately half of this shall be added back as new stock. As a result it is estimated net supply shall increase by some 300,000-350,000 m^2 over the next 3 years and the majority shall be Premium or A grade.

Demand

Net absorption for the second half of 2014 was positive 54,279 m^2. This is only the 4th time in 8 years that positive net absorption has been greater than 40,000 m^2; considered the long term 6 month average for the Sydney CBD. Demand was good in the SME and technology sectors and very generous incentives are allowing firms to "right size" their premises upon lease expiry. However continued high rents, a slowing economy, the lower margin business environment, internal cost pressures and increased competition in all sectors will ensure that demand remains at subdued levels.

Rents and incentives

Face rents in the CBD have increased slowly over the last several years and have been matched by an increase in incentives. As a result effective rents have increased ever so marginally. With the influx of new and backfill space, competition for tenants shall remain high and as a result incentive levels shall remain the same now for the foreseeable future.

Summary

Overall with the anticipated increase in supply, subdued economic growth and continued rightsizing of tenants, absorption is likely to remain below the longer term average and as a result is very likely to increase the overall vacancy rate to more than 10% in the coming years. This will intern keep growth in rents to a minimum and leave incentive levels at roughly the same for the foreseeable future.

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