

MEDIA MONITORING

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Incentives to stay as CBD office vacancy rate tipped to hit 13pc

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Tenant incentives and rent discounting will remain part of Perth's office market for some time with vacancy rates to hit double-digits next year, but the long-term outlook is improving, according to Colliers International autumn office report.

The report on the CBD office market, scheduled to be released tomorrow, predicts Perth's CBD vacancy rate will surpass the pivotal 10 per cent mark next year, climbing as high as 13 per cent in January.

But Colliers has revised down its peak rate compared with its earlier prediction of 15 per cent because of improving economic conditions. This has prompted research manager Erwin Edlinger to say that a vacancy rate of 10 per cent would create a balanced property market.

"It's almost a point of equilibrium," Mr Edlinger said.

"And if you get down to the levels we had before, zero to 5 per cent, it becomes unsustainable for tenants because the rents just keep increasing if the supply isn't being delivered."

The Property Council of Australia found Perth's office vacancy rate rose to 8.2 per cent in January.

Colliers found CBD rents fell 10 per cent to 30 per cent between December 2008 and June 2009 but stabilised in the second half of the year, with A-grade rents fetching between \$560/sqm and \$650/sqm.

However, with a flood of new office supply coming on the market, Colliers said tenants would maintain the upper hand when negotiating rents and were benefitting from incentives, including rent discounts of up to 20 per cent.

"The dynamics of the Perth CBD market have changed substantially during 2009, from a previously landlord-dominated market to a tenants' market," the report said.

"This scenario is providing flexible leasing options for tenants and placing downward pressure on effective rents. As the supply cycle delivers both new and backfill space to the market and vacancy levels continue to grow, incentives are likely to play a greater role in lease negotiations."

But even with 228,640sqm of office space to come online by 2012, which will hamper Perth's office market recovery, the net absorption rate is



Market tipsters: Colliers International's Erwin Edlinger, left, and Neil Kidd predict an improvement in the CBD leasing market next year.

Picture: Bill Hatto

expected to stay in positive territory.

In figures released last month the Property Council recorded an uptake of 4541sqm of office space in the CBD in the six months to December 31 and uptake is expected to continue to improve until 2012.

Because of renewed optimism in WA's business conditions, with resource projects gaining traction, the number of jobs is expected to climb.

WA's white-collar employment growth shrank 0.9 per cent in the six months to June 30 but Access Economics says it will move into positive territory by the end of the year.

But while vacancy rates remain high, Colliers' office leasing director Neil Kidd said demand for space was improving, with inquiries covering 30,000sqm received so far this year.

"We have been taking a lot of calls regarding the availability of office space in the CBD market in recent weeks," Mr Kidd said.

"We are seeing a number of these inquiries coming from the resource sector, but they are certainly not limited to those businesses."

PERTH CBD FUTURE NEW OFFICE SUPPLY

