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Employment growth halts the rise in Sydney's sublease market

Sydney, NSW (9 March 2010)

The sublease office stock which swamped the Sydney market last year is fast evaporating. CB Richard Ellis's latest Sublease Barometer shows that the volume of CBD sublease space has dropped dramatically in recent months following a notable improvement in business sentiment.

Between November and the end of January the stock of sublease space dropped from 88,736 square metres to 66,525 square metres, and the forecast is for stock levels to continue to shrink in the short to medium term. This has been evidenced in preliminary figures for February which show a further reduction in stock to 63,410 square metres.

Rising white collar employment growth in NSW and strengthening economic conditions have underpinned the turnaround according to CBRE Global Research and Consulting Senior Director Jennifer Beard.

"White collar jobs are expected to grow by 1.4% in 2010 before climbing by an estimated 1.6% in 2011," Ms Beard said.

"This is a shorter and shallower downturn than many forecasters had anticipated and we expect this to drive a noticeable reduction in the volume of city sublease space over the next three to six months."

The stock of sublease space in Sydney soared last year as a slew of finance and legal firms sought to cut costs and reduce overheads.

However CBRE Office Services Senior Director Jenine Cranston said a shift was now evident, with the 22,210 square metre reduction in stock levels in the past two months being the largest recorded since CBRE began monitoring the market on a monthly basis in October 2008.

Over half of the 19 industry sectors monitored by CBRE decreased the amount of sublease space they had on the market in January compared to November.

“Business sentiment is increasingly positive and companies are continuing to take sublease space off the market to accommodate future growth requirements,” Ms Cranston said.

Ms Cranston said little new sublease space was coming on the market as companies revised their future growth strategies.

“In the finance sector in particular we’re beginning to see a change in sentiment with clients taking stock off the market with a view to requiring additional space in the next six to 12 months,” Ms Cranston said.

CBRE’s Sublease Barometer shows that sublease opportunities have reduced across all size ranges since the November edition. The 0-500 square metre range has the most individual sublease opportunities at present but accounts for the least space overall whereas the 1,001-2,000 square metre range has the most available space in square metres but the fewest number of opportunities, with just 25 areas of this size remaining the market.

“The city core remains the location most affected by sublease vacancy, accounting for 52% of the total number of sublease opportunities, while the Rocks precinct has the least amount of space, accounting for just 1% of total stock,” Ms Cranston said.

“This is driven by the tenant types in these precincts, with the CBD core housing a high proportion of finance tenants.”

Grade A space continues to account for the largest share of sublease space, followed by grade B stock. The vast majority of sublease space on the market continues to be space vacated by tenants in the finance industry, followed by the legal, accounting and recruitment sectors.

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