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Suburban Sydney weathers the Global Financial Crisis

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Sydney's suburban office sector has emerged as one of the more resilient markets in the face of the global financial crisis, as tenants seek out more cost effective tenancy solutions.

The latest Sydney Metropolitan Office MarketView report from CB Richard Ellis highlights that the vacancy rate in suburban Sydney fell to 7.3% during 2008, while net absorption topped 200,000 square metres.

The net absorption figure is the second highest since monitoring began by CBRE and the forecast is for another positive result this year according to CBRE Research Manager Luke Nixon.

"While there remains significant downward pressure on rents and upward pressure on incentives, the Sydney suburban market is one of the few places not forecast to witness negative net absorption over the next two years, given that the majority of the new supply is largely precommitted," Mr Nixon said.

"Absorption will, however, be at greatly reduced levels and the suburban vacancy rate is forecast to peak at 13.1% in 2010, which would make it the highest suburban vacancy rate recorded by CB Richard Ellis. Net face rents are forecast to decline by 5.1% over the 2009/2010 period before rebounding strongly in 2011."

CBRE's suburban research focuses on the office markets outside the key CBD centres of the North Shore, Parramatta and Macquarie Park. It takes into account the City Fringe market as well as office locations throughout the metropolitan Sydney region.

CBRE Office Services Director Oliver Freer said the suburban markets were drawing increased tenant interest as companies looked at more cost effective office solutions given current market conditions.

"Net absorption was recorded at 202,000 square metres for the year as tenants like the Commonwealth Bank continued to realise the benefits of emerging office markets," Mr Freer said.

"One of the most active markets continued to be the City Fringe sector, which benefited from the stock shortages in the Sydney CBD during 2008 as well as some significant improvements in the quality of stock, with buildings such as Workplace 6 entering the market."

Other new projects include the \$200 million 8 Central Avenue development at the Australian Technology Park in Redfern. The 38,000 square metre complex involves an 11-storey media and office complex which is due to be completed in early 2010. The top four floors of the building - involving 12,000 square metres of space - are being pre-leased through CBRE with the remaining space to be the production studios and offices of Seven Network, Global Television and Pacific Magazines.

The Sydney Metropolitan Office MarketView shows that net face rents in the fringe grew by 9.7% to an indicative \$381 per square metre over the 12 months to March 2009.

"While the global financial crisis is likely to curtail this growth over the short term and over the six months to March we saw face rents begin to fall in the South and North sub regions, while rents stabilised in the Central West, South West and the West," Mr Freer said.

"Incentives, however, have risen across the board to average 15.7% in the suburban markets. Owners are having to be more creative with their deals in order to negate the potential risks associated with taking up new premises."

The MarketView report shows that new office construction reached near record levels in Sydney's suburban office market during 2008. While the global financial crisis is causing projects such as the Carlton & United Brewery site at Chippendale at the Cooks Cove development in Arncliffe to be either delayed or abandoned, CBRE is forecasting that supply is still likely to be relatively high during 2009 and 2010, as major projects such as the Channel 7 building in the Australian Technology Park at Redfern near completion.

Norwest Business Park will contribute to the construction pipeline, with a number of new buildings likely to be completed in the next two years.

In relation to the investment market, the report highlights the effects of the global financial crisis with only one major office deal (the \$70 million sale of 19 Harris Street, Pyrmont) recorded in the City Fringe submarket in the year to March.

"With transaction volumes down, indicative yields in the City Fringe are thought to have softened by 100 basis points over the 12 months to March 2009 to sit at an average of 8.17%," Mr Nixon said.

"Over the same period, indicative yields in the North sub-region are also likely to have softened, gaining 100 basis points to stand at 8.86%. The South sub-region also shared in this upward shift in yields, albeit at a smaller rate of 67 basis points to 8.63%. The firming yield trend also ended for the Central West, West and South West sub-regions, with average indicative yields rising to 8.69%, 9.96% and 10% respectively in March 2009."

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