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Business contraction drives Melbourne sub lease market

Melbourne, VIC (4 May 2009)

The volume of Melbourne office space available for sub-lease space has increased by 23% in just two months according to new CB Richard Ellis research highlighting the impact of the current economic downturn.

Some 74,500 square metres of sub lease space is now available in the Melbourne CBD and Docklands area, up from 60,000 square metres in February, according to CBRE's bi-monthly Sublease Barometer.

CBRE Regional Director, Office Services, Hamish Sutherland said the increase had occurred, despite a significant level of activity in the sub lease market.

"Given the level of activity which has occurred in recent months, we were surprised to see the sub lease vacancy rise," Mr Sutherland said.

"We expect more sub lease space to come on to the market in the short term, as businesses contract and seek out cost recovery options. This will lead to an increase in activity in this area of the market, which typically involved fitted out space, to the detriment of space with no existing fitout"

One of the biggest sub lease disposals to have occurred this year involved 13,000 square metres of Deloitte space (occurring from its relocation to 555 Bourke Street). The Deloitte offices at 180 Lonsdale Street were recently surrendered in favour of a new lease to Telstra. Mr Sutherland said the demand for fitted space in Melbourne remained strong with several interested parties missing out on the Deloitte tenancy.

However the Deloitte deal and a range of smaller sub leases failed to offset an increase in the Melbourne sub lease vacancy rate.

Mr Sutherland said the Sublease Barometer highlighted business contraction as the main driver of Melbourne's sub lease market. And this had become more prevalent in the past two months, with contraction the main reason behind 59.3% of the sub lease offerings in the Melbourne CBD and Docklands area, up from 52% in February. Other reasons cited in the April Barometer were relocation (31.3%), excess expansion space (6.3%) and amalgamation (3.1%).

"Not surprisingly, the finance industry is offering the largest number of sub lease opportunities as this industry bears the initial brunt of the economic downturn," Mr Sutherland said.

"However, if you drill down and look at the square metres of space of offer, Call Centres are leading the charge, with more than 14,000 square metres of Call Centre space available for sub lease. This is not entirely unexpected, as Call Centre users are typically large space occupiers. In Melbourne and, indeed, nationally, Call Centres seem to be suffering markedly from this economic downturn as contracts are lost to cheaper overseas alternatives."

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