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Low interest rates drive activity in Sydney's strata office market

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Owner occupiers are fuelling demand in the Sydney strata office sector, according to a new CB Richard Ellis report which highlights a surge in sales activity in recent weeks.

Low interest rates are underpinning the market, encouraging business owners to switch out of the leasing market to acquire their own premises.

CB Richard Ellis Director, City Sales & Strata Project Marketing, Gavin Lloyd said the spike in activity had spurred a number of building owners to assess the potential to strata-title buildings their CBD properties. While freehold values had fallen considerably, Mr Lloyd said CBRE's research showed that CBD strata values had dipped by just 1%.

"By undertaking a strata title conversion, these owners are seeking to achieve a premium value for their assets while resolving their emerging vacancy issues," Mr Lloyd said.

"The strongest demand at present is for vacant strata stock, as business owners capitalise on lower borrowing costs to acquire their own premises."

CBRE Negotiator Rohan Ramsay said more than \$4.5 million in strata deals had been finalised in the past week, with all three deals involving owner occupiers.

In the largest transaction, IT services company Frontline Systems outlaid \$2.05 million for a level one strata floor in 6 Bridge Street. The 258 square metre floor was sold with four car spaces.

While the property is occupied for another two years, Mr Ramsay said the purchaser planned to move into the offices when the existing lease expired. Frontline Systems preferred to buy, rather than lease, space within the Bridge Street building where it was currently headquartered and had seized the opportunity to locate in owned offices.

Leading Australian consulting group AEC is also making the switch from the leasing market, having paid \$615,000 for a vacant strata suite in Danchen House at 507 Kent Street. The level three strata office suite has a total lettable area of 117 square metres and includes one car space.

"The purchaser has a pending lease expiry and plans to move in on settlement," Mr Ramsay said.

"This is further evidence that companies are securing well located commercial strata with the intent of owning rather than renting, given that interest rates are at historic lows."

In a third owner occupier deal, a 346 square metre floor in 276 Pitt Street has sold for \$1.53 million. The entire level seven floor, which includes two car spaces, was acquired by Badderly Pty Ltd, a North Sydney insurance business which currently leases office space in North Sydney.

Mr Ramsay said a growing number of business owners were buying strata offices through their self managed superannuation funds, to capitalise on recent legislative changes which had allowed SMSF's to borrow to acquire residential and commercial property.

In one recent deal, Mr Ramsay said five company directors had banded together to acquire their own premises - each using their self managed super fund to finance the acquisition.

Availability remains the key issue for the Sydney strata market according to CBRE's market analysis, which highlights a lack of new strata projects in the CBD in recent years.

While the annual supply of strata averaged 35,000 square metres to 45,000 square metres between 2005 and 2007, Mr Lloyd said there now was just 5,000 square metres of stock available in the city.

"There is currently a disconnect between supply and demand, particularly for whole floor strata suites," Mr Lloyd said.

"If the supply pipeline can be filled, we expect to see strong sales activity in the CBD strata market over the next 12 months. "

CBRE research shows that strata sales volumes in the Sydney CBD peaked during 2007 at close to \$214 million. In 2008, sales volumes dropped by 22% to circa \$166 million as a direct result of the global financial crisis

"2009 has brought with it renewed demand in the Sydney CBD strata office market with a number of larger transactions taking place in the first half," Mr Lloyd said.

"While banks are more stringent with regards to their lending criteria than they have been in the past, purchasers who are able to obtain finance are able to do so at a much more attractive rate than over the past few years."

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