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Prime Sydney office space back in favour

Sydney, NSW (2 March 2010)

Sydney office rents are forecast to grow by 3% this year and by a much more significant 19% in 2011 according to new CB Richard Ellis forecasts which highlight a rise in demand for prime office space.

With white collar employment expected to rise this year and next, CBRE's latest Office MarketView report forecasts over 100,000 square metres of positive net absorption this year.

Much of the activity is expected to be in the prime market, with tenants again seeking top end CBD offices as economic conditions improve.

The pick up in enquiry rates has been reflected in new briefs from companies such as Goldman Sachs, Susquehanna, Maple Brown Abbott and Morgan Stanley and in premium leases deals such as Barclays taking an additional half floor lease in Grosvenor Place, JP Morgan committing to 16,700 square metres in Westfield's 85 Castlereagh Street development and the consolidation of State Street's operations from 338 Pitt Street and Aurora to 420 George Street.

CBRE Office Services Director Lynda Patmore said the shift followed a subdued 12 months during which companies had focused on bottom line cost savings.

"What we're finding this year is that companies are much more tolerant to taking on additional costs and as a result we've been inundated with enquiry for space in prime and premium buildings such as Chifley Tower and 363 George Street," Ms Patmore said.

CBRE's Sydney CBD Office MarketView shows that net absorption in 2009 dipped into negative territory for the first time since 2003, totalling -142,498 square metres. This was on the back of weak white collar employment growth generally and, more specifically, a significant retreat from the market by the finance and insurance sector over this period according to CBRE Research & Consulting Director Jennifer Beard.

Rising vacancy and negative net absorption resulted in a fall in both face and effective rents in all property grades over 2009, with prime and secondary net face rents both declining by 3.6% over the year to December 2009 to \$618/sq m and \$430/sq m respectively.

Increasing incentives resulted in an even more significant drop in effective rents over the same period with prime net effective rents falling by 20.5% to \$389/sq m and secondary net effective rents falling by 15.7% to \$273/sq m.

However, with white collar employment expected to rise in 2010 and 2011, Ms Beard said CBRE was forecasting 3% growth in 2010 and much more significant growth of 19% in 2011.

"Incentives are likely to decrease over the two year period resulting in even stronger face rents," Ms Beard said.

The premium market is expected to be one of the primary beneficiaries given the rebound in tenant enquiry.

"Premium tenants are re-forecasting their growth expectations and there's a general acknowledgement that some companies divested too many staff," Ms Patmore said.

"We're finding that a growing number of companies are looking for expansion space and are seeking to improve their profile as economic conditions continue to improve."

#### About CB Richard Ellis

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