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High demand for Sydney CBD Strata

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The search for Sydney CBD strata office space is gathering momentum as developers scramble to deliver the next new strata project.

Increasing demand for CBD office space is the continued growth of white collar employment, which is projected to reach 2.4% in New South Wales during 2010, according to Access Economics.

The improving employment outlook is cementing strong net absorption forecasts with over 91,000 square metres of positive net absorption projected for 2010.

CB Richard Ellis forecast prime net face rental increase of 3% for 2010 with improving demand tipped to result in a significant rise of 19% over 2011 which will further drive demand.

CBRE's Director of City Strata, Gavin Lloyd said market supply for Sydney CBD strata office space was at the lowest point in a decade.

"The Sydney strata market is typically project based, with developers seeking an asset to refurbish and add value."

"High transaction costs and historic high book values means we need to think outside the square. We are exploring structured deals, joint venture opportunities and partnering with existing building owners and skilled strata developers to help satisfy their current market demand," Mr Lloyd said.

The high level of demand for northern CBD stock is likely to be constrained by stock shortages as no significant projects are currently forecast for the Sydney CBD.

Despite stock remaining limited, Mr Lloyd said CBRE had facilitated the transaction of 7,800 square metres worth of property since the beginning of the year.

2 August 2010

"A noted recent transaction is the sale of the former Barclays Bank headquarters at 111 Harrington Street, Sydney's largest strata floor comprising 1,680 square metres, which was exchanged in July for an undisclosed amount."

CBRE's City Sales Manager, Rohan Ramsay said this recent transaction highlighted the continued demand from both owner occupiers and investors for large Sydney Strata space opportunities.

"In recent years some investors have acquired whole strata floors of existing strata buildings with the intention of subdividing the level into smaller lots and selling to meet demand."

"The recent sales of two levels at 22 Market Street, comprising 950 square metres for \$2.9 million and two levels at 37 Bligh Street comprising 1,000 square metres, sold in June for \$4.16 million are examples of where this is possible."

Mr Ramsay said the majority of purchases during 2010 were made by small to medium enterprise owner occupiers via personal self managed superannuation funds.

"A trend during the first half of 2010 has been for business owners to acquire an office asset through their self managed super fund then lease the property to their own business."

"Owning your office allows businesses to protect themselves against future rental increases as well as create wealth by adding to their property portfolio. The objective of many business owners is to pay off the mortgage and eventually utilise the office for rental income," Mr Ramsay said.

Mr Ramsay also noted that the first owner to deliver a new project to the market will catch the current upswing and meet the overwhelming demand.

About CB Richard Ellis

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