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Solid forecast for Perth office market

Perth, WA (8 June 2010)

Perth's CBD office market is set to have a finely balanced year according to the latest Perth MarketView report by CB Richard Ellis.

While improved economic conditions are leading to increased tenant demand, the large amount of new supply coming onto the market is likely to impact vacancy rates.

CBRE's Senior Researcher, Kelly Dyball said the improved economic sentiment would benefit the Perth office market which was inextricably tied to the mining and resources sector.

"The mining and resource sector accounts for 40% of the total office space in the CBD, thus the forecast of a 4.6% annual average of real output growth expected for Western Australia should underpin the sector's recovery over the next five year period," Ms Dyball said.

"As a result, an increase in white collar employment growth is expected to follow between 2010 and 2012 as new resources projects begin to come online, leading to employment growth across all industry sectors.

CBRE's Senior Director, Andrew Denny said the mining sector was driving increased tenant demand for CBD office space, especially enquiry for expansionary space which was an indication that businesses were once again "future forecasting".

However, Mr Denny said the market was finely balanced given the quantum of new development currently underway.

"Approximately 100,000 square metres of new stock is set to become available during 2010 which will account for a total increase of 7.3% in Perth's total office stock – the largest increase in almost two decades. This will have a knock on effect on vacancy rates in the short term," Mr Denny said.

"Net absorption is expected to rebound in 2010, underpinned by increased tenant demand, however this may not be sufficient to account for the total amount of new stock that is expected to come to the market this year."

Perth's new supply pipeline is set to remain limited after 2012, Mr Denny said, with no new projects on the horizon due to the difficulties associated with securing tenant pre-commitments.

Given the supply and demand projections, Mr Denny said the market could still go either way, as evidenced by the peak of the last resources boom when 100,000sqm of office space was absorbed in just one year. If net absorption follows the trend set in the last boom, vacancy should not be a problem for the Perth CBD.

The market that is expected to be hardest hit by new supply is the secondary market as a flood of modern, energy efficient buildings impact demand for older, lower grade stock.

In regard to incentives, CBRE's MarketView report shows that incentives rose during 2009, with the current average being 15% for prime CBD buildings and 20% for secondary stock. During the remainder of 2010, incentive levels are forecast to remain constant and any further declines in net face rentals are expected to be minimal.

Looking outside the CBD, the West Perth market is likely to remain more stable than the city market, with just 12,000 square metres of new supply coming on stream in this area in 2010. Consequently, the West Perth vacancy rate is expected to plateau during 2010 as demand improves and supply remains limited.

CBRE's Associate Director, Andrew Woodley-Page said buyer demand continued to be strong, particularly from private investors and syndicates with a renewed interest from AREITS and unlisted funds, after a period of absence.

"Yields and investment markets appear to be stabilising with a return of confidence leading to an increase in sales volume, with Perth's indicative prime CBD yield remaining stable at 8.2% as at March 2010."

"Institutional buyers have recapitalised and are re-entering the investment market for specific assets. Similarly, overseas investor interest in Perth has never been stronger, with European and Asian investors making acquisitions in Perth in the recent 12 months," Mr Woodley-Page said.

"The sale of a 50% interest in the Alluvion office development to the Commonwealth Property Fund in November 2009, on an initial yield of 7.74% was the largest transaction in the CBD since 2007. The sales indicate buyers for high value assets are beginning to come back into acquisition mode once again."

Mr Woodley-Page said the expected rise in vacancy rates was unlikely to impact the CBD investment market.

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