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Melbourne office market recovery to gather pace in 2010

Melbourne, VIC (24 February 2010)

Melbourne is one of only two CBD office markets in the country where the vacancy rate has already peaked according to new CB Richard Ellis forecasts which point to a steady recovery in commercial property values in the short to medium term.

Speaking at the firm's annual Market Outlook breakfast in Melbourne, CBRE Executive Director, Global Research and Consulting, Kevin Stanley said Melbourne's office vacancy had peaked at an "extraordinarily low" level of just 6.6%.

Looking forward, CBRE's outlook is for Melbourne's office investment yields to compress by 55 basis points in 2010 – a movement which would add 7% to capital values.

"Melbourne and Adelaide are the two cities in Australia where the peak in office vacancy has already passed," Mr Stanley said.

"Many cities in the world would see 6.6% as a trough in vacancy rather than a peak. We expect this to underpin double digit growth in Melbourne's office rents next year, with prime rentals to hit $500 a square metre for the first time in the city's history by 2013."

Strong white collar employment growth will be one of the drivers for the Melbourne market according to Mr Stanley, who told attendees at today's breakfast that Melbourne was expected to lead the nation in terms of employment growth.

The affordability factor will be another boon for Melbourne, given that office rentals are tracking well below competing markets such as Sydney, Brisbane and Perth.

"Melbourne still represents good value by national and international standards," Mr Stanley said.

"Limited new construction will help put upward pressure on rents with supply expected to remain constrained over the next few years."

It has been a subdued period for the Melbourne office market with limited leasing and investment activity and an associated drop in prime commercial values in the order of 18%.

However, a shift is already occurring according to CBRE Director, Office Services, Shane Burns. Speaking at today's breakfast, Mr Burns said a number of large tenant requirements totalling up to 100,000 square metres were currently in the market involving corporates such as NAB, Freehills and BHP.

Mr Burns said there were already signs of a "creep" in rents, which was expected to be more pronounced in 2011 and 2012.

"In 2009, incentives peaked at above 25% in some instances," Mr Burns said.

"During this year and again into next year we expect to see these incentives reduce to around 20%. Melbourne was not as hard hit as the other capital city markets and with limited new supply we expect to see some upward pressure on rents."

On the investment front, CBRE Senior Director, Institutional Investment Properties, Mark Coster said investment activity in Melbourne had been primarily driven last year by private investors and internationally-based funds and international investors chasing higher yields and properties offering strong income profile. Domestic funds were now also returning to the market.

"We've got a much wider range of buyers in the market now," Mr Coster said.

"Domestic funds are really starting to look at Melbourne because of the rental growth profile and cheaper capital values."