

PRESS RELEASE

Prime Full Floor Office Availability Tightening – Savills

The availability of full floor leasing options in Australia's key CBD office markets is tightening in line with an upswing in market sentiment, according to new research from global property advisor Savills.

Savills' latest *Prime Full Floor Availability* research shows improved take-up of office space in the second half of 2009 is starting to restrict the number of full floor leasing options available to tenants.

Savills National Head of Research Tony Crabb said the increase in vacancy in office markets has largely halted. In fact, tenant demand is increasing to the point where sublease is being withdrawn and, in some markets, tenant options have decreased to the point where new construction is necessary. Other markets are still several years away from new supply.

"Full floor availability in the Sydney and Melbourne markets has stabilised at 12.5% and 10% respectively," Mr Crabb said.

"Availability has hardly moved in Sydney over the past six months which heralds an end to the downsizing and subleasing which dominated the end of 2008 and beginning of 2009. Melbourne saw a slight increase due to the relocations of ANZ and Australia Post but, putting these aside, actually tightened over the second half of 2009. This momentum in demand has continued into 2010.

"The Brisbane and Perth markets, which were hit hard by large supply and the onset of the global financial crisis and its effect on the resources industries, have also stabilised and are now showing lower availability."

SYDNEY

12.5%; 294 prime full floors available; 340, 589 sq m prime full floor availability

Sydney Full Floor Availability currently reports 206 full floors available in the next six months, but only 294 floors available in total, including future development and existing refurbishments.

In regards to future availability, it is very much a case of refurbished and new stock coming onto the market in mid-late 2010. Whole buildings, including 420 George Street (27,000 sq m), 175 Pitt Street (21,600 sq m), 260 Elizabeth Street (14,600 sq m) and 147 Castlereagh Street (10,700 sq m) will be available in 2010. 20 Bond Street (28,700 sq m) will be available in early 2011.

These buildings will also compete directly with large contiguous areas of refurbished stock coming onto the market including 1 O'Connell St (31,600 sq m in 2012), 39 Martin Place (15,000 sq m in April 2010), 363 George Street, (6,000 sq m in Jan 2011) and 1 Martin Place (10,396 sq m in Jul 2010). There are currently 11 options available over the next three years for tenants requiring 10,000 sq m.

Nevertheless, the report has begun to show a fall in the total number of floors and stock available since reaching a high of 13.6% availability in September 2009. This is a clear indicator that the Sydney CBD market has entered the 'early upswing' phase of the cycle.

Rob Dickins, Savills National Head of Office Leasing, said: "The current level of demand, particularly from tenants greater than 2,500 sq m, has been the strongest we have witnessed for over two years."

Ongoing requirements from many financial services organisations supported the recent announcements of Statestreet and JPMorgan.

Mr Dickins said it appeared most active tenants have acknowledged that they were taking advantage of the current market conditions as it was unlikely they would last.

MELBOURNE

10.0%; 152 prime full floors available; 199,585 sq m prime full floor availability

Savills' Prime Full Floor Availability figures for the Melbourne CBD support the strong short-term outlook for the city's office leasing market.

Melbourne currently has 152 prime full floors available for lease, with premium grade accommodation contributing 31 of these floors and A-grade 121 floors.

Take-up of space from July 2009 in the Melbourne CBD saw the number of whole floors immediately available rise slightly from 40 to 49 floors available as a result of ANZ moving to Docklands.

Competition for full floor tenants is confined to two buildings on either side of the road – the Rialto and Telstra future vacancy and 530 Collins St with ANZ existing vacancy.

Nicholas Farley, Savills Head of Office Leasing in Victoria, said: "The flurry of leasing activity towards the end of 2009 (over 100,000 sq m) heralded the end of the economic slowdown in Victoria. Businesses clearly felt confident enough to invest in new office accommodation and this is in keeping with the resurgence in business confidence and the strength of the Victorian economy.

"We anticipate net face rents will show strong growth over the course of 2010 and, coupled with the lack of new building construction stemming from the global financial crisis, the market can be expected to move firmly in the landlords favour for several years to come."

BRISBANE

14.2%; 122 prime full floors available; 154,375 sq m prime full floor availability

The Brisbane CBD has 122 prime full floors available for lease, with premium grade accommodation contributing 48 of these floors and A-grade 74 floors.

Late 2009 / early 2010 saw a dramatic turnaround in leasing enquiry in Brisbane, driven mainly by the mining and mining construction and engineering sectors, reflecting an encouraging boost in business confidence as firms make quick decisions to commit to space

Stuart Moody, Savills QLD Divisional Director of Commercial Leasing said: "older A-grade and B-grade buildings are likely to suffer higher vacancy as the new spate of quality developments are filled."

However, Mr Moody said: "capital remains restricted and this is making fully fitted out accommodation attractive to moving tenants. The majority of tenants remain conscious of pricing and are negotiating on numerous properties in the aim to secure more favorable terms now that there is some abundance of

office space. Accordingly, rents remained under pressure and incentives ranged between 22% and 32% for unfitted space which compensated for the cost of a fit-out." The great unknown at the moment is the QLD resources sector and what projects will emerge from this sector in the coming months/years.

PERTH

11.3%; 113 prime full floors available; 115,426 sq m prime full floor availability

The Perth CBD has 113 prime full floors available for lease, with premium grade accommodation contributing 40 of these floors and A-grade 73 floors.

Competition is still strong to secure full floor tenants into future backfill space. However, tenants requiring whole floors immediately are finding fewer buildings available to accommodate them with larger tenants limited to one or two existing options.

Take-up of space from July 2009 to January 2010 saw the number of whole floors immediately available for tenants seeking Perth CBD space fall from 134 to 113 floors available. The impact of the global credit crisis now appears to have abated and the economy is being driven strongly by mining investment.

Graham Postma, Savills WA Divisional Director, Office Leasing, said: "Our Full Floor figures support the view that the short term outlook for the office leasing market in Perth is upbeat".

"In particular, we anticipate that net face rents should remain stable over the coming months before experiencing some upward shift during the second half of 2010."

Access Economics forecasts gross state product for Western Australia should be the fastest in the country for 2010 recording a growth rate of 5.6%. Consequently this is likely to result in a significant increase in net absorption levels compared to 2008/2009's negative 22,015 sq m recorded.

"Despite this we anticipate that resulting backfill and new supply will more than satisfy the pent up demand generated during 2010 and consequently vacancy should rise slightly to sit between 10% and 12% by the end of 2010," Mr Postma said.

ADELAIDE

10.5%; full floors available 40; 62, 974 sq m prime full floor availability

The Adelaide CBD has 40 full floors available for lease, of which two are premium and 38 A-grade.

Future full floor availability is expected to remain confined as commercial development has come to a standstill in the Adelaide Core market. With the only major announced project being the Yorke Campus development at 140 Angas Street, pressures are expected to mount on existing supply in form of considering refurbishments in the latter half of this year. The Yorke Campus development has been fully committed to SA Police and is expected to be completed in late 2011.

Peter Isaksson, Savills SA Divisional Director of Commercial Leasing said: "In a market that has the lowest vacancy rate in the country; tenants are finding it increasingly difficult to satisfy their accommodation requirements. This is a market which desperately needs new stock and with long lead times for new stock to come online, our vacancy rate will only contract further."

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