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Savills Prime Full Floor Report – January 2009

What a difference 12 months and an economic crisis can make. Savills Full Floor Availability nationally remains just below 10% in January 2009, but Sydney and Melbourne are telling very different tales.

The full effect of the global economic downturn has not yet been felt, but the amount of sublease accommodation available in Sydney has pushed the total square metres available up by 2 percent in 12 months.

Demand has fallen and tenant confidence collapsed, as can be seen by the increase in full floor sublease activity.

Fortunately however this figure is down on the highs seen in September 2008 (8.6%) as landlords grit their teeth and commit to higher incentives to bring vacancies down.

Melbourne, however, is telling a very different tale. Melbourne's exposure to other industries than the Finance and Insurance industry (such as Mining and Education) coupled also with comparatively affordable effective rents seems to be cushioning the fall in demand.

Melbourne has also benefited from the downturn as plans to develop additional supply (such as Quattro, and Bourke Junction) are abandoned.

Prime Full Floor Availability (sqm %)

	Sydney	Melbourne	Brisbane	Perth	Adelaide	Total
January 2009	8.4%	8.9%	14.1%	11.8%	7.9%	9.8%
12 months prior	5.9%	10.8%	17.2%	10.1%	5.1%	9.6%

Sydney

Sydney Full Floor Availability currently reports 114 full floors available in the next 6 months, and 181 floors available in total.

This is broken up into 80 direct floors and 34 floors available for sublease. The number of full floors available for sublease is up substantially from the 19 recorded in the 12 months prior.

Divisional Director Office Leasing, Grant Jennings said "The majority of availability is one or two contiguous floors, with the larger options of 5,000 – 10,000sqm still hard to find"

Jennings also said "Whilst the sublease market is definitely increasing the number of floors available, the sublease space is providing quality fitted out opportunities at competitive rents which in turn is creating strong market activity"

Melbourne

The Melbourne Full Floor Availability Report currently shows a total of 143 floors becoming available, with just over a third of these, 56 floors (43,396sqm), being available over the next six months.

Nicholas Farley, Divisional Director Office Leasing VIC notes "there are instances of sublease spaces coming onto the market now, and more are expected to come, however that increase in supply is tempered by the withdrawal from market of a number of office developments, such as Quattro, and Bourke Junction.

"There are still relatively few large contiguous spaces to be brought to market, such as 530 Collins Street, 222 Exhibition Street and 321 Exhibition Street. These require substantial refurbishment and/or building upgrades, which will further prolong their delivery to market.

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"Of the remainder, a number of single and two floor options spread throughout the CBD could easily be taken up by tenant growth within the buildings or in their immediate areas, upon an upturn in business confidence.

"With relatively little oncoming supply over the next 3 years, and extremely competitive prime grade rentals on a national basis, the office market in Melbourne is expected to weather the global turmoil quite well.

"We are expecting 2009 to deliver an increase in the vacancy rate and little rental growth across the market, but it isn't likely to be disastrous. However 2010 and 2011 are expected to be a strong year for landlords with growth continuing for several years thereafter. Overall our outlook is quite positive." Farley notes

Brisbane

The Brisbane CBD office full floor availability rate is definitely creeping up, as forecasted in earlier reports, from 2.3% in July 2008 to 4.4% in January 2009.

Brisbane's Full Floor Availability report is showing a dramatic decrease since highs of 18.2% in September 2008, as new developments secure new commitments (an example of this is 400 George Street, EPA).

Stuart Moody, Divisional Director Office Leasing QLD, notes that "the Full Floor Availability figure differs from the Property Council vacancy rate as it refers to vacancy as at January 2009 as well as vacancies coming up within the next 6 months as a result of backfill for those large tenants committing to new developments".

Examples of buildings that have been vacated and are undergoing some degree of refurbishment works to attract new tenants, include 369 Ann Street, 410 Ann Street, 40 Creek Street, 488 Queen Street, and 157 Ann Street.

Gross rents in these types of buildings have come under pressure, and are now in the low \$600's (per sqm). Incentives are also creeping up well over 10%.

Perth

The Perth Prime Full Floor (as expected) continues to show the vacancy trend in the Perth CBD increasing with immediate availability sitting at approx 2.5% and is likely to remain below 5% throughout 2009, which is still very low by historical standards.

Graham Postma comments believes that "demand levels in the New Year have certainly declined from there peak in mid 2008 as a direct result of the current economic climate and its influence on the resource sector.

"Having said this we continue to receive significant levels of enquiry."

As a result of the increasing supply (much of which is available on sub-lease basis) and the changing economic conditions, landlords are re-assessing asking rates.

Postma believes that "To date there has been limited transactional evidence to quantify the real effect on rents, but it is fair to say that given the market sentiment, face rents will experience downward pressure in the short term."

In terms of the headline vacancy within the Perth FFR, it is important to note that approx half of the full floors noted as available do not become vacant until 2010.

Adelaide

On looking at figures to date it appears our vacancy will be approaching three percent, a further reduction from last report.

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Peter Isaksson noted that Savills have recently finalised three deals in December with two whole floors in 108 King Will St now gone, being Levels 9 and 12.

“With Origin Energy and SAPOL (Police), soon to announce their intentions and with State Govt. renewing their Lease at 77 Grenfell St., we believe for Dept. of Road Transport (former SA Water space) who would relocate from outside the CBD the market still has ample activity and enquiry is still strong.” Isaksson notes.

The Savills Prime Full Floor Availability Report has been created to provide a graphical and statistical view of the leasing market. Savills believes this report provides a more accurate representation of high quality leasing options available to large tenants than standard vacancy surveys; which provide a snapshot of physically vacant space in the market at a given point in time. (Savills does not however believe that the PCA is wrong in its methodology, rather it is a different methodology.)

This is due to the Savills Full Floor Availability Report taking into account developments under construction and actively seeking tenants and floors that are currently occupied but are, or are soon to be, actively being marketed due to pending tenant relocation or intentions to sublease, and tenants who have agreed terms on floors and are waiting complete documentation.

Ends

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