

PRESS RELEASE

SYDNEY CBD STRATA MARKET NEEDS NEW SUPPLY TO REMAIN HEALTHY – SAVILLS

The Sydney CBD strata office market is suffering from a lack of quality project stock, placing growing pressure on supply and leaving pent-up demand from prospective buyers unfulfilled.

Savills' latest *Sydney CBD Office Market Report* highlights falling transaction levels and capital values – which can be attributed largely to the lack of new project stock.

“The performance of the strata market is very much dictated by new supply,” said Savills' Associate Director, Strata Sales Ben Azar.

“With each new project we see benchmark capital rates and sale take up rates achieved. However there has been no significant stock supply in the past two years, and new product is required to maintain a healthy market.”

Just like Sydney CBD freehold property, strata sales activity has fallen considerably over the past two years as a result of the global financial crises.

Savills' Mr Azar said the strata office market is faring somewhat better due to the lower price range being attractive to private owners and investors. These purchaser types have been more immune to the downturn than their institutional counterparts.

The Savills' *Sydney CBD Strata Office Market Report* shows that average capital values fell in the third quarter of 2009, due largely to the lack of project stock. For the past 20 years, project stock has consistently fetched prices above resale prices. .

“A lack of project stock is really evident when you look at the proportion of sales activity. In 2007, project stock accounted for 66% of all sales. In 2009, they account for just 21%,” said Savills NSW Divisional Director, Research Belinda Nowland.

“This shows just how much of a major effect the lack of new project stock available to prospective purchasers is having on the Sydney CBD strata market.”

In the year to September 2009, the average rate per sq m for Sydney CBD strata office was \$5,034. This was down 12.8% on the previous 12 months. In the September quarter, the average rate per sq m was \$4,016, on stock sold.

Savills' Mr Azar believes this fall in rates was primarily due to a number of secondary large whole floor holdings in the western sector being sold. Rates will quickly turn around when new supply comes to the market.

“With some forecast new supply next year, including the refurbished 265 Castlereagh Street due for completion mid-2010, we should see activity from those purchasers that are holding off for a specific product to come to the market and rates achieved should be back at levels achieved pre financial crises.”

The Sydney CBD strata office market totals 470,000 sq m, or approximately 10% of overall Sydney CBD office stock. Its size places it somewhere between the Parramatta and Gold Coast office markets.

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