The Sydney Morning Herald

Office market landlords having a day in the sun

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2/8/2017

Folkestone has listed 43 Burelli Street,Wollongong, known as Corporate Square for sale. Photo: Mark Merton

Office landlords and investors are in a very sweet spot of falling vacancy rates, softening supply and high demand from new tenants wanting CBD locations, according to experts.

This is leading to less incentives being offered and a rise in net rents. The improving conditions are also enticing sales as owners take advantage of the rising demand for higher yielding assets.

One of the latest to be offered is by Folkestone: an A-grade building in the heart of Wollongong's CBD. The property, Corporate Square, at 43 Burelli Street, comprises 9688 sqm of lettable office space, with a 5-star NABERS energy rating and 98.7 per cent occupancy of Commonwealth and state government tenants.

The property is being sold through Knight Frank's Tyler Talbot and Ben Mostyn, with CBRE's Scott Gray-Spencer and James Parry. Price expectations are just over $40 million.

According to Knight Frank research, A-grade vacancy in Wollongong is predicted to reach 1 per cent by next January.

Similar conditions are being experienced in the capital cities, with Sydney and Melbourne vacancy rates tipped to show a decline in the Property Council of Australia's six-month office market report, due out on Thursday.

Agents said the average vacancy rate in Sydney could fall to about 6.4 per cent, its lowest since early 2008, while Melbourne is tipped at about 4.1 per cent. Rents could rise between 3 to 5 per cent, as more tenants arrive to soak up excess space.

Source: http://www.smh.com.au/business/property/office-market-landlords-having-a-day-in-the-sun-20170801-gxn27l.html

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It has been said that Origin Energy is looking at space in Tower 1, Barangaroo, Sydney.

The national director research at Cushman & Wakefield, John Sears, said the rise of tech firms in the CBD has been much broader based, with many smaller firms taking up space across the CBD.

"Cushman & Wakefield Research identified around 40 leases signed over the past 12 months across the CBD, in building grades ranging from Premium to C grade. Lease size varied considerably also, with space requirements ranging from 100 sq m to over 17,000 sqm," Mr Sears said.

The influx of staff to the city has seen the lead indicators for Sydney office demand improve, with the Dexus Office Demand Barometer for the quarter ended June 2017, reaching its highest level in six years, according to Peter Studley, Dexus general manager, research

"The main factors driving the barometer higher were lifts in ANZ job advertisements and business confidence," Mr Studley said.

"A firming labour market has been a significant driver of office demand in NSW. Rising job advertisements are a sign that companies are becoming more confident about hiring staff."

But a wave of new supply is on the horizon for Sydney's office market, providing a plethora of prime-grade options.

CBRE's latest *Viewpoint, Sydney Office: The next supply cycle…have no fear*, says Sydney is facing historic vacancy lows over the next two years as the city awaits the next tranche of supply.

CBRE research manager Alexander Tan said beyond 2020, the next supply cycle will provide more options for office tenants across Sydney, with strong competition expected for those looking to secure tenants in major projects such as the CBD's Wynyard Place, Quay Quarter Tower and North Sydney's 100 Mount Street and 1 Denison Street.

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