Analysts agree: 2007 a hard act to follow

Property observed

Robert Harley

Last year was one of the strongest for Australia's office markets. Rents soared and not since 1971 has so much space – almost 1 million square metres, according to Jones Lang LaSalle – been committed in 12 months.

But the outlook is less bullish. Global economic uncertainty will make tenants more cautious in 2008 and some international financial houses could shed space.

The head of property research at Adviser Edge, Louis Christopher, says the CBD office markets will be the best performing sector of 2008 – but without the explosive strength of 2007.

"The dynamic rental growth of the previous year is predicted to slow in 2008 as economic uncertainty, coupled with an increased inventory of office space, takes the heat out of the market," he writes in the firm's second annual property review, released yesterday.

The Property Council of Australia's definitive numbers on office market demand and supply will be out next week, but JLL's numbers – collated on a slightly different basis and released yesterday – leave no doubt as to the strength of 2007.

JLL analyst Jatin Chand says strong demand has been driven by the resources boom in Western Australia, early mineral exploration work in South Australia, strong public infrastructure investment in Queensland, government expansion in Canberra and the pick-up in fixed business investment in NSW and Victoria.

With few new towers completed in 2007 – apart from in Canberra – vacancies fell and rents rose. (Vacancies did rise in Canberra but despite the addition of a massive 253,000 sq m of new space during the year, the December 2007 vacancy was a surprisingly tight 4 per cent.)

In Brisbane, prime gross effective rents jumped 72 per cent and in Perth the figure rose 62 per cent. The other states showed satisfactory rental growth, Sydney up 19 per cent, Canberra 10 per cent, Melbourne 9 per cent and Adelaide 5 per cent.

> **"States endowed with natural resources should remain strong."**

"Office markets across the country enter 2008 with low levels of vacancy and very healthy levels of tenant demand that is still being supported by a robust Australian economy," Chand says. "Australian GDP is forecast to continue at above average levels over the next few years.

"States endowed with natural resources, such as WA and Queensland, should remain particularly strong."

The guys at the coalface are more cautious.

One Sydney agent, Tim Green of Tim Green Commercial, says leasing activity peaked in his patch in October-November.

"There is no question leasing demand will come off; incentives have bottomed," he says.

JLL's national leasing director, Kevin George, says the finance and insurance sectors are tempering their growth expectations but he is yet to see any increase in one key metric – the space for sub-lease.

"No doubt continued market volatility will impact business confidence and sentiment, but we are unlikely to see the impact of a change to sentiment until the latter part of 2008," he says.

"And you talk to Brisbane and Perth about the finance sector ... they just shrug their shoulders; 'It's not affecting us', they say."

The national director of office leasing at Colliers International, Cameron Williams, notes that the United States has just recorded its first rise in office vacancy since 2003 – to a national 12.5 per cent – but he believes the dynamics are different in Australia.

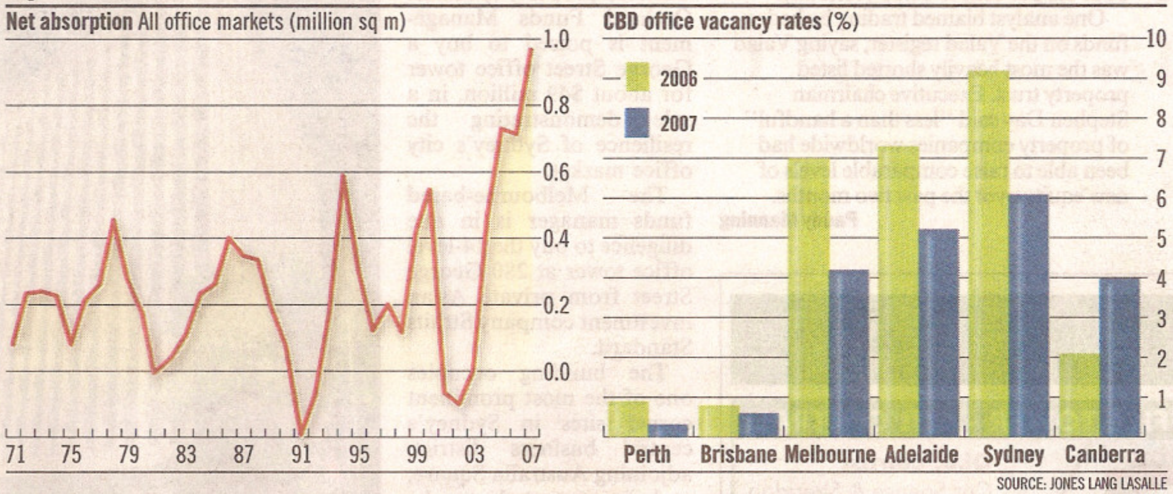
"Some major tenants believe the market has swung back in their favour. However, analysis of availability and timing on the development of new office towers indicates that this undersupply will get worse before it improves," he says.

And that is the point. This is not 1989.

The level of new supply is manageable and the demand outlook still robust.

Tenants might become more cautious, and owner forecasts more conservative, but short of a global recession Australia's tight office market is not going to reverse.

Space race



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