

# 2010: A TIME FOR ACTION IN THE OFFICE LEASING MARKET?

It is hard to believe that just two years ago office availability in Perth's CBD had virtually dried up and vacancy rates were as low as 0.3%. Those unprecedented days were before the Global Financial Crisis (GFC) arrived to ease availability shortages and set the stage for vacancy rates to climb steadily to their current levels of around 8%. Looking forward from this point on, we gain some useful insights from industry expert Graham Postma, Savills Australia's Divisional Director of WA Office Leasing as we look at what the rest of 2010 might offer in terms of vacancy rates, likely trends, and their possible implications.

With the office leasing market seemingly reaching a ceiling in terms of rent prices, and with vacancy rates not expected to increase beyond predicted levels of up to 12% by the end of 2010, the current market might represent a good period for some companies to act; or at least appraise their options. Graham Postma from Savills explains: *"If companies have any plans in relation to their office accommodation, now is the time to start getting organised"*.

When reflecting on how Savills have found things in the past year in Perth, Graham comments *"from our perspective there's been increased levels of enquiry in 2010, and more importantly an increasing number of deals being concluded. We believe rents have now stabilised and are unlikely to reduce further, so from the tenants perspective - things are about as good as they're going to get"*.

Graham's anecdotal observations are reinforced by official figures released in the latest Property Council of Australia's Office Market Report, whereby the vacancy rate for Perth CBD offices reached 8.2% in the six months to January 2010, up slightly from the previous six months' figure of 8.0%.

There is currently 144,140m<sup>2</sup> of new office space within the CBD due for completion in 2010, of which 85% is currently pre-committed. The resulting backfill opportunities are likely to push the vacancy rate up to between 10% and 12% by the end of this year. Projects currently under construction include Raine Square, 140 William Street, Alluvion, City Square, Westralia Plaza and Dynons Plaza. Looking beyond 2010, there is an additional 96,450m<sup>2</sup> of new supply due for completion in 2012, of which 75% is pre-committed.

Despite this immediate increase in vacancies, the future looks bright for the Perth CBD office market. Current trends suggest that most companies are preparing for future growth, expansion plans are being dusted off, unemployment is trending down and sub-leasing opportunities are on



the decline. Reflecting this trend there was a return to positive net absorption for the six months to January 2010 of 4,541m<sup>2</sup>.

A pick-up in business confidence mid last year saw an increase in leasing enquiries take place, especially from small professional firms looking for offices of around 500m<sup>2</sup>. More recently, however, there has been increased demand from large space users, and especially those in the mining, construction and engineering sectors. The average enquiry for office space in Perth CBD now appears to be circa 1,000m<sup>2</sup>.

The vacancy rate for office space in West Perth remained steady at 6.2% for the six months to January 2010. West Perth recorded a positive net absorption of 1,112m<sup>2</sup> for this same six month period, and looking forward, the West Perth office market has a mere 20,450m<sup>2</sup> of office space scheduled to come online by 2012. Given improved economic conditions this level of new supply is unlikely to meet tenant demand and consequently firms may need to look to inner suburbs such as Subiaco and Herdsman to meet their future accommodation requirements.

*With thanks to Graham Postma for his assistance with this article and the information contained within it.*

*Savills is a publicly listed property solutions company providing services in sales, leasing, valuations, project delivery, corporate real estate, marketing and all aspects of commercial and retail property management.*

#### GLOSSARY:

- **"Backfill opportunities"** are vacancies created in existing buildings when tenants relocate to new buildings.
- **"Pre-committed"** refers to Agreements to Lease signed in relation to new buildings before completion of the building.
- A **"sub lease"** is when a Lessee *on leases* premises to a third party.
- A positive **"net absorption"** occurs when the total occupied stock at the end of a period is greater than at the beginning of a period, after accounting for new supply.