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A quarterly newsletter for tenants and occupiers of commercial premises

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NATIONAL OFFICE MARKET REVIEW

By Chris Goodwin of Goodwin Property Advisory

Statistical information is often open to a wide variety of interpretation dependent upon whether you are a glass half full or glass half empty type of person.

This could be said of some of the emphasis placed upon the reporting of the Property Council of Australia's recently released July 2010 office market report. Headlines such as "demand for office space in Australia over the past 6 months was double the 20 year average" and "national office vacancies have more than doubled in two and half years from 3.9% in January 2008" would appear to be contradictory. Both statements are however true. Whilst there has been strong net absorption i.e. leasing of space this has been outstripped by the amount of new space coming onto the market. It should be remembered vacancy levels in 2008 were at an historical low prior to the onslaught of the global financial crisis.

The Property Council office market report illustrates that the overall national office vacancy rate over the past six month has risen from 9.3% to 10%. Further examination will reveal large discrepancies across the capital cities with some centres out performing others dependent upon where they sit in the development cycle and respective demand. Overall opinion would seem to suggest vacancy rates are nearing a peak and will in the next six to twelve month period beginning to head south. So looking across the country we see the following trends for the past six months.

• Perth

Vacancy rose to the highest level since 2005 peaking from 8.2% in January to a 9.9% high in July. The cycle in Perth, similar to Brisbane, has been far more pronounced as the local economies have mirrored the fortunes of the resources sector. Between 2004 and 2008 the resources boom and lack of supply saw rentals grow 250%. This fuelled a renewed development cycle with new stock coming to the market during the midsts and tail end of the crisis. Four new buildings were completed in early 2010 resulting in a blow out in vacancy despite increased business confidence and strong absorption.

• Brisbane

Brisbane similar to Perth has been caught up in the same development cycle. Brisbane's vacancy has actually fallen in the past 6 months from 11.35 to 10.9% despite the availability of an extra 23,000 sqm. Whilst there are signs of increased economic confidence and demand the large oversupply of stock is likely to see rental levels remain static over the coming year or so.

With a glut of new space hitting the Canberra office market vacancy has blown out from 8.6 to 13.6%. Other problem areas include Chatswood and the Gold Coast where vacancy has deteriorated from 22.4 to 23.4% and 17.8 to 19.2% respectively – good news for local tenants!!

• Sydney

Vacancy in Sydney's CBD increased from 8.1% to 8.5% from six months ago. Negative demand has seen vacancy increase though with an improving local economy and the worst of the GFC over this situation is about to change.

Colliers are forecasting vacancy rates as low as 3.4% by 2014.

• Melbourne

One of the stronger performing centres Melbourne has seen vacancy reduce from 6.6 to 6.5% off the back of strong tenant demand. Interestingly A and B grade vacancy increased from 4.5-5.5% and 8-8.4% respectively whilst Premium grade vacancy has decreased substantially by 4.7% to 5.9%.

The outlook over the next two years does not look bright if you are a tenant with JLL forecasting a shortfall of quality office accommodation of 102,000 square metres, and Colliers predicting net effective rents to increase by 6% for Premium and A grade premises with incentives diminishing.

Whilst there are a number of new developments in the pipeline difficulties in securing finance for such schemes will result in a shortage of new quality premises meeting the environmental qualifications of many corporate and government organisations.

GENERAL COMMENT

"Market sentiment regarding the commercial property market is generally positive albeit concerns linger regarding overseas sovereign debt and availability of investment capital. Should the Australian economy continue to perform then supply issues and rental inflation will no doubt have a severe impact on the ease with which company's can grow and bottom line profitability particularly for those located in Melbourne and Sydney.

With "a glass half full" outlook on the market commercial tenants would be well advised to consider taking advantage of the low rental levels and attractive incentive still being offered before these factors are reversed. Securing adequate space for future growth and locking in occupational costs today for the foreseeable future may well overcome the angst of negotiating in a market heavily weighted towards the landlord that is likely to occur over the next few years."

Chris Goodwin is the Principal of Goodwin Property Advisory whom specialise in the provision of independent real estate advice to tenants and occupiers of commercial and industrial premises.

www.goodwinpropertyadvisory.com.au

TOP 10 BUDGET TRIMMING IDEAS

Case study

In leaner economic times every budgeted dollar must add value. Gab Aghion of BRM brings you the top ten ways to... trim your search, fitout and relocation budget:

1 Think open plan.

In addition to improving communication, natural light and providing flowing layouts there are excellent financial reasons to consider open plan: lower rent, fewer partitions, less furniture and joinery, reduced A/C and ceiling works and improved air flow.

2 Second hand is the new black!

Traditionally frowned upon, preloved furniture can still be high quality, carries short lead times and is the ultimate environmental policy. Chairs, workstations, storage, reception, meeting and lunch areas are all zones worth considering.

3 Review your lease.

Landlord incentives still abound. Rental rates remain extremely competitive. Vacancy rates remain static though are set to plummet with a reasonable supply of quality office space and existing fitouts available. Now is an excellent time to review your lease, know the market and negotiate with confidence.

4 Go green.

There can be an initial premium with environmental projects, but some of the largest opportunities are cost free. There are three major components of a green project – selecting the area and premises; design and fitout; ongoing management and monitoring. Implementing the right green principles can have quick payoffs in addition to the environmental and social positives.

5 Conduct a spatial and needs analysis before searching for office space.

Clients often go looking for space before knowing exactly what is needed. Being committed to surplus space is a nightmare. Not enough means you will need to do it all over again sooner than necessary. Do some pre-search planning to help tighten the search criteria.

6 Delay the right areas.

When projects close, so do the purse strings. Ensure that the important areas are delivered upfront. Adding joinery, partitions and upgrading floor finishes are less likely to proceed after occupation. Upgrading loose furniture is a simpler scenario. If staging the fitout, create plans that help implement the vision over time.

7 Consider an existing fitout or subleasing on a short term until the market returns.

With careful planning, existing fitouts can be cost effectively adapted to suit your requirements. Ensure your make good obligations are considered, when taking on another company's fitout.

8 Thorough planning.

Timelines, budgets and investing time in the pre-design stages will save you money in down-time, variations, extensive plan revisions, and receiving fitouts that lack future flexibility. Quantify all costs upfront to prevent budget blowouts. Include the make good, relocation and post relocation components.

9 Review the quality of finishes.

Are high-end front of house areas important? Or maybe staff facilities are key to your company's values? Laminate, timber, stone, or feature finishes? Allocate the right budget to the zones that are important to your project, whilst saving on others.

10 Appoint consultants aligned with your design and budget goals.

Selecting project managers, architects, engineers and builders who regularly deliver projects above or below your project standard can lead to frustration and additional costs. When appointing fitout providers ask questions, visit projects, look at website galleries and chat to previous clients who match your scope and budget level.

Gab Aghion is the principal of Business Relocation Management **www.businessrelocation.com.au**

Over a year ago most recruitment company's were actively consolidating and reducing the amount of leased space in line with the downward trend in the economy. The reverse is now true as corporates start to staff up reflecting overall economic confidence. Morgan Consulting one of Melbourne's leading recruiters has recently committed to another floor at 356 Collins Street nearly doubling their floor space and securing new suburban offices to better serve the needs of their ever growing client base.

CURRENT REQUIREMENT

Goodwin Property Advisory has been appointed to identify a City fringe site of 6000 sqm for an owner occupier. For further information contact Chris Goodwin 0412 048848

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