

A quarterly newsletter for tenants and occupiers of commercial premises

**April 2010**

## Commercial Office Market Overview The tide is turning...

Australia has so far escaped the worst of the global financial crisis. From a tenant of commercial premises perspective there are a number of outcomes worthy of note and consideration.

Prior to the crisis, vacancy rates in Melbourne were at their lowest in living records with overall direct vacancy in the CBD standing somewhere below 3.8%. The prospect of shortage and rental inflation appeared inevitable. The GFC saw the tide turn with a minor flood of vacancy and effective rents decline as nervous landlords offered increased incentives to lock in tenants. The drying up of credit witnessed the shelving of many new developments. With the prospect of renewed economic vigour and confidence looming over the horizon, what are the consequences of the past events for the tenants of commercial premises?

Not everyone believes the worst is over and, with the build up of vacancy, building owners have been offering attractive incentives to secure new and retain existing tenants. Face or quoting rents are being maintained whilst the underlying effective rents, after accounting for incentives, have reduced. There are therefore some attractive deals to be done. Another effect of the meltdown is that corporate Australia has slashed capital expenditure resulting in construction costs tumbling as builders fight for their share of the ever diminishing market. Hence construction costs for fit out are at a record low level not seen for a sometime.

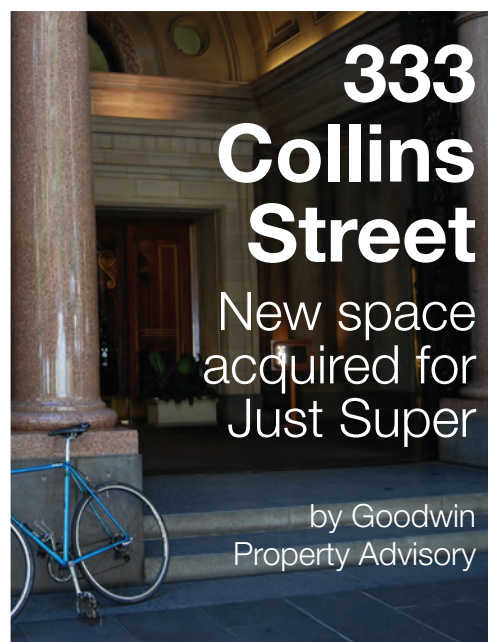
A cocktail of attractive incentives and low fit out costs means now is still a good time to relocate or renew existing leases, or upgrade premises to take advantage of what is unlikely to continue for much longer.

On the other side of the coin we will see in the coming years a shortage of quality premises resulting from the abandonment of many large-scale projects that were planned for Melbourne. This is particularly likely to be the case for organisations seeking to secure existing contiguous floor plates. With the economy kicking in, vacancy will begin to reduce. Once more there is little doubt rents will escalate dramatically. Melbourne will most likely feel the effects before other centres such as Brisbane and Perth where there was, prior to GFC, a dearth of new development desperately seeking tenants.

So if you are able, lock in and fix your rent before building owners and developers start calling the shots again. Whatever you do avoid agreeing to regular market rent reviews with ratchet clauses. Some tenants, particularly in Brisbane and Perth prior to the large scale rental escalation, did this two years ago. Many of these tenants are now paying an unsustainable price for such action.

### goodwin tip

“ As the market swings back in favour of the landlord penal clauses can sometimes slip into new leases between the time of agreeing commercial heads of terms and the lease. Such clauses include requiring the tenant to re-carpet at lease expiry, onerous make goods provisions, ratchets and disregard clauses at review. Beware and check carefully that which is agreed is accurately reflected in the final lease. ”



## market watch

### Green Leasing

The Victorian Government environmental sustainable development policy has focussed on improving environmental performance and energy savings.

The intent is to reduce carbon and water usage within their property portfolio. These guidelines readily apply to other organisations seeking to improve their own environmental credentials.

The current Government message to commercial occupiers is to focus on energy and water efficiency initiatives within existing premises to ensure cost savings and reduce environmental impact.

The prime thrust being to apply NABERS (National Australian Built Environment Rating System) tools to improve efficiencies in existing buildings as opposed to moving to new Green Star rated buildings. Upgrading existing premises is far more sustainable and employs considerably less energy and resources than relocating to new purpose built accommodation.

NABERS tools rate the energy, water and waste usage of both the base building and individual tenancies with voluntary compliance falling upon owner and tenant alike. Reporting by owners and tenants of premises over certain sizes will become compulsory in the near future.

## January 2010 Office Vacancy

The Property Council of Australia's national office market report for the six months to January 2010 show the number of empty offices in Melbourne and Sydney has increased significantly in the past six months to reach a four year high with vacancy standing at 7.8% and 6.6% for Sydney and Melbourne respectively. However the figures are not as bad as expected with the market believing the current vacancy to be the new peak as demand for space improves.

## Better Choice in the West

The western quadrant of Melbourne's CBD currently has 1,590,379 sqm of office space with 8.3% vacancy compared with the Eastern sector with some 673,633 square metres and vacancy of 4.6%

## Just Super

Self managed super funds "Just Super" have relocated to new premises at 333 Collins Street. Their brief was clear as they needed to move quickly into existing fitted out space in the heart of Melbourne's CBD. The new premises of 396 sqm was secured by Goodwin Property Advisory.

## Rumour and fact

Australian Tax Office is reported to be moving to a new purpose built office of some 38,000 sqm in Melbourne's Docklands. The Banking Ombudsman, AIG, Marsh and Channel 9 have committed to some 27,000 sqm of new office space at 717 Bourke Street Melbourne. Cadbury is on the move to South Wharf. TRU Energy re-commit to 8000 sqm at 385 Bourke Street.



### Property address:

Part Level 26 385 Bourke St. Melbourne

**Client:** Saha International

### Brief:

Requirement to relocate to larger better quality accommodation and dispose of existing lease of premises at 190 Queen Street, Melbourne

**Timing:** Seven months

### Key points:

- With a limited supply of quality premises and strong competition from other tenants terms were successfully negotiated for new premises at Level 26 385 Bourke Street Melbourne.
- Leasing of Saha International existing premises co-ordinated and successfully executed.

In reviewing options to accommodate existing and future requirements there are a number of critical issues that need to be considered:

## Timing

It is often surprising how long the process can take and one of the biggest pitfalls organisations encounter is not allowing sufficient time to thoroughly evaluate alternative accommodation options and permit an orderly transition.

Dependent upon the size of the organisation the process can take anything from three months to three years! Adequate time should therefore be allowed to review requirements, identify, evaluate and secure appropriate premises, design and construct office fit out as required, make good existing premises etc.

To make certain double overheads are not incurred and a seamless transition plan well in advance.

## Budget

Don't allow for any unforeseen surprises. Work out an accommodation budget to include:

- Make good of existing premises if relocating
- Any fit out costs for new premises
- Rent
- Outgoings
- Car parking
- Tenancy costs such as electricity cleaning etc
- IT relocation
- Removal costs



## contact US

Chris Goodwin T 03 8601 1179 | M 0412 048 848

E [chris@goodwinpropertyadvisory.com.au](mailto:chris@goodwinpropertyadvisory.com.au)

Level 8, 350 Collins Street Melbourne 3000

[www.goodwinpropertyadvisory.com.au](http://www.goodwinpropertyadvisory.com.au)