A strong start to 2016 for the Sydney and Melbourne leasing markets

However, the divergence in vacancy between Sydney and Perth has widened to 17.7 percentage points in 1Q16

AUSTRALIA, 14 APRIL 2016 – JLL Research has released 1Q16 statistics on national office markets. The figures showed positive net absorption of 67,300 sqm over the quarter across CBD office markets and 273,000 sqm over the past 12 months.

As a result, the national CBD office market vacancy rate compressed from 12.6% in 2015 to 12.4% in 1Q16. However, the divergence between CBD office markets widened further with vacancy in Sydney compressing to 6.8%, while Perth increased to 24.5%.

JLL's Head of Strategic Research Australia Andrew Ballantyne said, "Financial market volatility had limited impact on leasing enquiry and activity over Q1. An improvement in business conditions over the quarter showed that companies were willing to look through the short-term volatility and make long-term strategic real estate decisions."

"One of the drivers of leasing activity is companies seeking to evolve organisational culture. Real estate is a visual element of corporate culture and the implementation of an innovative fit-out can assist with collaboration, innovation and team work," said Mr Ballantyne.

The **Sydney** CBD recorded positive net absorption of 35,800 sqm in 1Q16 and 145,700 sqm over the past 12 months. As a result, the Sydney CBD vacancy rate tightened from 7.8% in 4Q15 to 6.8% in 1Q16. Vacancy is now below 7.0% for the first time since mid-2008 in the Sydney CBD.

JLL's Head of Office Leasing, Australia, Tim O'Connor said, "The tenant demand recovery has broadened across the Sydney CBD and leasing activity was positive across a wide range of industry sectors. The professional services and education sectors are in expansionary mode, while enquiry is at very high levels from small and medium-sized businesses."

"The compulsory acquisition of assets for the Sydney Metro project and the conversion or redevelopment of office assets will displace tenants and is generating an additional source of leasing enquiry in the Sydney CBD. Over 300 tenants are in the process of being displaced and this will exert downward pressure on A and B Grade vacancy rates and upward pressure on effective rents," said Mr O'Connor.

Prime gross effective rents in the Sydney CBD increased by 2.9% in Q1 and by 11.3% over the past 12 months. From the most recent trough in prime gross effective rents (4Q13), Sydney CBD prime gross effective rents have increased by 15.9%.

Mr O'Connor said, "The headline vacancy rate will record a marginal increase over the second half of 2016 as new development completes. However, the organic growth we are seeing across a range of industry sectors is leading to above-trend net absorption and the cyclical vacancy peak will be lower than we expected 18 months ago. Vacancy will compress sharply in the Sydney CBD over 2017 and 2018 as stock is withdrawn from the market."

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The **Melbourne** CBD recorded 31,400 sqm of positive net absorption in 1Q16 and 107,000 sqm over the past 12 months. As a result, the vacancy rate compressed from 10.0% in 2015 to 9.2% in 1Q16.

Mr O'Connor said, "The contribution of centralisation to the Melbourne CBD net absorption result was minimal in Q1. The strong net absorption figure was related to the organic growth of existing CBD based occupiers with strong activity from public sector, education users and professional services firms."

While the physical market recovery in Melbourne has mirrored Sydney, Melbourne CBD rental growth has underperformed relative to the Sydney CBD. Prime gross effective rents increased by 0.7% in 1Q16 and by 2.5% over the past 12 months.

While Sydney and Melbourne were responsible for a high proportion of CBD office market net absorption over the quarter, five of the six monitored CBD office markets recorded positive net absorption over 1Q16.

Canberra recorded above-trend net positive net absorption of 13,700 sqm in 1Q16 and 27,800 sqm over the past 12 months. As a result, Canberra's vacancy rate tightened to 13.4% in 1Q16.

Mr Ballantyne said, "The vacancy rate provides an insight into the health of the market. However, it is important to look behind the headlines of the Canberra vacancy rate – Canberra has the second tightest prime grade vacancy across monitored CBD office market and there are limited options for A Grade contiguous space in the core precincts of Civic and Barton."

JLL recorded a fifth successive quarter of positive net absorption in the **Brisbane** CBD. Net absorption was 2,600 sqm in the quarter and 22,100 sqm over the 12 months to 1Q16.

Mr Ballantyne said, "While net absorption was positive in the Brisbane CBD, it was unable to stem the rise in vacancy. The Brisbane CBD vacancy increased to 18.2% over the quarter and is now at the highest level since JLL started detailed monitoring of the Brisbane CBD office market in 1970."

The **Perth** CBD was the only monitored CBD office market to record negative net absorption in 1Q16 (-17,100 sqm). A number of mining and professional services firms relinquished excess space and vacancy increased to 24.5% – the highest rate since 1993. Prime gross effective rents fell by 5.1% in Q1 and have contracted by 43.1% from the cyclical peak in mid-2012.

The **Adelaide** CBD recorded net absorption of 1,000 sqm in 1Q16 and vacancy tightened to 16.6%.

Mr O'Connor said, "While the improvement in the Sydney and Melbourne CBDs has captured attention, JLL tracks 19 office markets across Australia and six of the seven tightest markets are located in suburban locations with the Sydney Fringe and Parramatta recording the lowest vacancy in Australia."

"Historically, a reasonably high degree of correlation exists between vacancy rates across CBD office markets. However, the wide divergence in occupancy rates between markets and grades makes it necessary for owners to have a flexible approach to leasing strategies identifying opportunities to capture income growth or repositioning assets to maintain occupancy rates," concluded Mr O'Connor.

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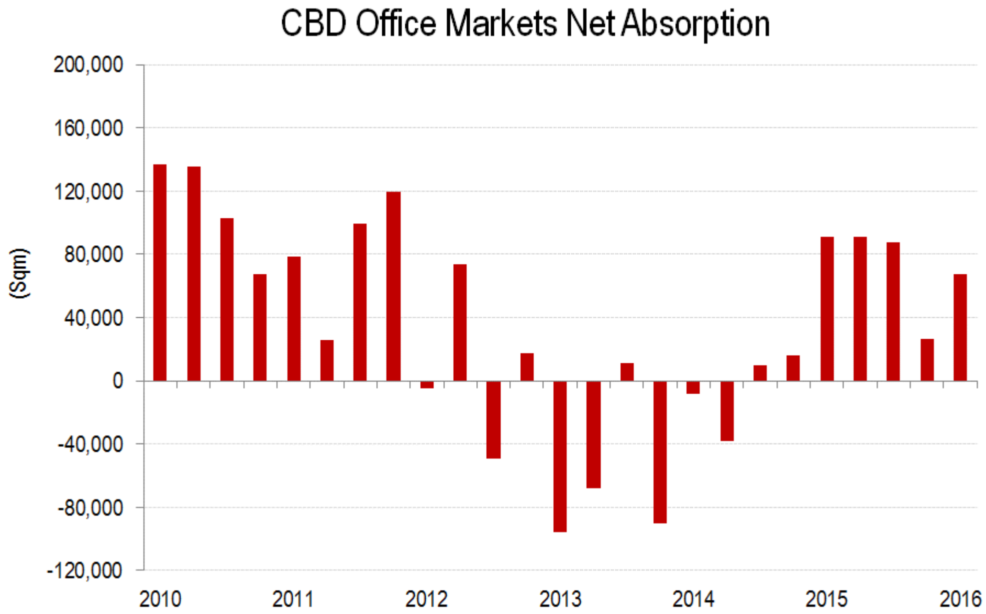
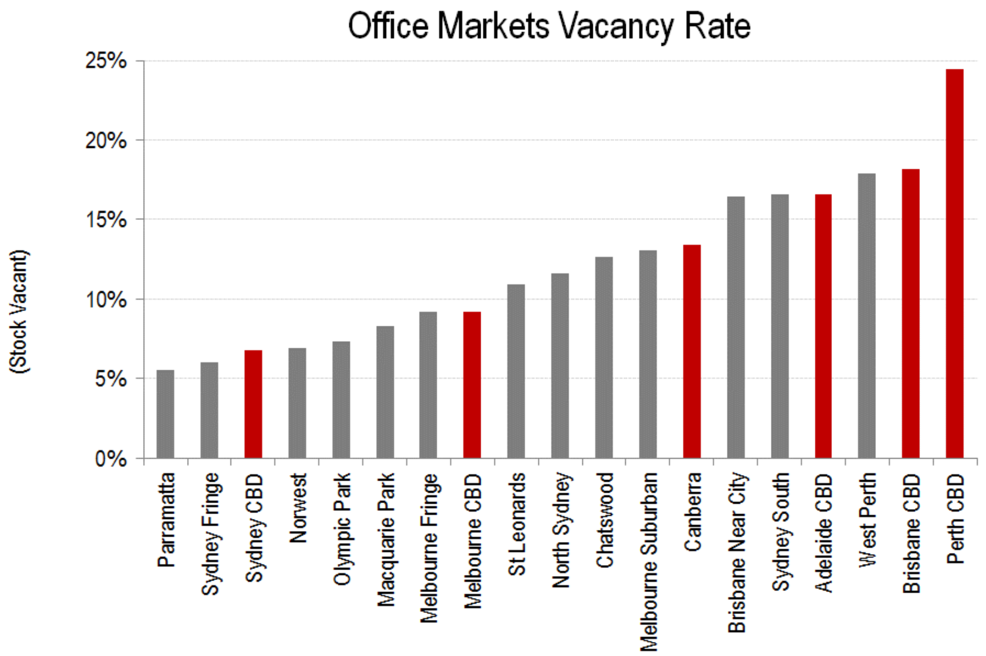


Source: JLL Research



Source: JLL Research

About JLL

JLL (NYSE:JLL) is a professional services and investment management firm offering specialized real estate services to clients seeking increased value by owning, occupying and investing in real estate. With annual revenue of $4 billion, JLL operates in 75 countries worldwide. On behalf of its clients, the firm provides management and real estate outsourcing services for a property portfolio of 3 billion square feet and completed $99 billion in sales, acquisitions and finance transactions in 2013. Its investment management business, LaSalle Investment Management, has $47.6 billion of real estate assets under management.

JLL has over 50 years of experience in Asia Pacific, with over 27,500 employees operating in 80 offices in 15 countries across the region. We were the first global commercial property firm to establish an Australian presence in 1958 and currently employ over 1,800 employees throughout our 10 offices across the country. The firm was named 'Best Property Consultancy' in three Asia Pacific countries at the International Property Awards Asia Pacific 2013, and won nine Asia Pacific awards in the Euromoney Real Estate Awards 2013.
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