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HD **Asian developers fuelling Sydney's office conversions ; Trend reflects low interest rates that have drawn foreign buyers to Australia's housing market**

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SYDNEY — Developers are finding more lucrative uses for older **commercial** sites in a booming housing market, as the supply of new office space in Australian cities surges and tenant demand falters.

Almost 47,000 sq m of office space was withdrawn from the market last year to turn into apartments, said Jones Lang LaSalle — the most since the broker began keeping track in 2007 and almost double the 25,794 sq m in 2012. Developers last year bought A$364 million (S$419.7 million) worth of office buildings in Sydney to turn into apartments, said broker Colliers International.

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The increase in conversions has been driven by the entry of Asian developers, including Singapore's Far East Organization Centre and **Chinese** state-owned Greenland Holding **Group**, said Ms Rupa Ganguli, Director of Australian **Residential** Research at Jones Lang LaSalle.

Greenland's **purchase** of the 50-year-old former water **board** office in downtown Sydney for A$107.5 million, as well as the acquisition by Far East and Australian pension fund CBUS Super of two buildings overlooking the city's Hyde **Park** for A$143 million and A$59 million respectively were among the biggest **transactions** for conversion last year, Colliers said.

"You've got a lot of new buildings being developed and a lot of tenants moving out of older buildings into newer ones," said Mr David Milton, Managing Director for **Residential** at CBRE **Group**. He added that with the values it has seen in **residential**, the best use for outdated office buildings is conversion to apartments.

The trend reflects record-low interest rates that have drawn foreign buyers and domestic investors to Australia's housing market, boosting dwelling prices. At the same time, an unemployment rate at a decade-high of 6 per cent has weighed on office demand.

The average **apartment** price in Sydney, where about half the conversions were located last year, based on the Jones Lang LaSalle figures, rose more than 10 per cent in the year ending Feb 28 to a record A$573,323, said the RP Data-Rismark Home Value Index. The average price in Melbourne rose 7 per cent to A$488,827 — also a historical high.

In contrast, Sydney's office vacancy rate climbed to 9 per cent at the start of the year from 7.2 per cent a year earlier, Colliers said. In Melbourne, this figure increased to 8.7 per cent from 6.9 per cent a year ago, and is expected to rise to 9.7 per cent by the end of this year.

But conversions are not without risks. Replacing an office building with apartments can take as many as four years, from application for government approvals to the end of construction, said Mr Milton.

In that amount of time, following its peak in July 2006, the United States housing market plunged 28 per cent, the S&P/Case-Shiller price index showed.

Far East, Singapore's biggest closely-held developer, bought 227 Elizabeth Street in Sydney late last year. Jones Lang LaSalle, which marketed the **property**, highlighted the opportunity for conversion and a tentative design by PTW Architects to create 114 apartments and some retail space.

Conversion is a “possible long-term plan”, though Far East does not currently have any concrete proposals, said a **company** spokeswoman.

Far East has since bought a 23-storey office building in Sydney’s centre for A$151.8 million from the New South Wales state government. The late 1960s building could be converted to a **hotel**, retail and **residential** complex, said a statement from Mr Andrew Constance, New South Wales Minister for Finance and Services.

Far East has also bought two towers near Hyde **Park** from closely-held developer Kyko **Group** for A$127 million. BLOOMBERG

CO sgregc : Greenland Holding Group Company Limited

IN i501 : Building Construction | i5010021 : Land Development/Subdivision | iconst : Construction | icre : Real Estate/Construction

NS ereal : Real Estate Markets | e11 : Economic Performance/Indicators | ecat : Economic News

RE austr : Australia | sydney : Sydney | apacz : Asia Pacific | ausnz : Australia/Oceania | nswals : New South Wales

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