FINANCIAL REVIEW

SE Property

HD **More vacancies than ever before**

BY Brisbane Mercedes Ruehl

WC 578 words

PD 6 February 2014

SN The Australian Financial Review

SC AFNR

ED First

PG 40

LA English

LP

Dire straits. This is one way to sum up the state of Brisbane's office sector.

The Property Council of Australia's Office Market Report confirmed what other property industry figures earlier this month revealed: the number of Brisbane offices lying empty is the highest ever recorded.

TD

Vacancy in the CBD has shot up to 14.2 per cent, while the city's fringe buildings have recorded a vacancy of 12.7 per cent, the most since 2002.

"The results emphasise the urgent need for a focus on the health of Brisbane's commercial markets from all levels of government," Queensland executive director of the Property Council of Australia Kathy MacDermott said. "The release of the Queensland government's long-term office strategy and clarity about their future office requirements is also essential for the industry's ability to plan and mitigate for future demand."

Net absorption for 2013 in Brisbane was the world on record at about negative 100,000 square metres.

One bright spot was the tourism hubs of the Gold and Sunshine Coasts, which were two of the six markets across Australia to experience a decline in vacancies. "Queensland's economy is rebalancing from one driven by resource/energy-focused engineering investment, to one driven by a much broader range of industries, not all of which will be major direct generators of office-based employment," CBRE's head of research, Stephen McNabb, said.Fire sales of space

CBRE director David Prosser said Brisbane's available sublease space had been a big contributor to higher vacancy. "A large proportion of sublease tenancies available are whole floors, which do not split easily. Given the active enquiry is weighted more heavily towards smaller space users at the current time, demand for sublease space is weak," Mr Prosser said. This is leading to "fire sales" of space, well below market rents.

At the premium 111 Eagle Street tower, one of the newest, biggest office buildings in Brisbane, Arrow Energy has just offered more than 14,000 back to the market. In the same building, global corporate advisory firm EY is giving back two floors and Xstrata Coal is also offering 1.5 floors. This is while three floors are yet to be let.

"Brisbane is going to get worse and it is going to get even worse because of the additional supply coming up,"Jones Lang LaSalle's head of tenant representation, Steve Urwin, said, adding that demand was also worsening. "Sentiment globally is poor; there have been concerns about emerging markets. That affects markets like Brisbane as it is a resources-based economy. And the main feeders for resources are China and other emerging markets."

As with other cities, incentives in Brisbane are shooting up, particularly with some projects being built speculatively such as the 180 Ann St office development.

"Face rents are static but incentives will continue to rise. The average is about the low 30s but there are more instances approaching 40 per cent," Mr Urwin said.

Colliers International's Mark McCann, however, is predicting an improvement for Brisbane in terms of leasing activity. "Double-digit vacancy is set to continue in the Brisbane CBD in 2014, but we are expecting the volume of lease **transactions** to vastly improve this year when compared with the 2013 numbers – renewed business sentiment, lease expiry profile and improving economic conditions will all contribute to improved market conditions in the CBD."

CO prpcna : Property Council of Australia

IN i8500021 : Office Real Estate | ireest : Real Estate | i85 : Real Estate Transactions | icireal : Commercial/Industrial Real Estate | icre : Real Estate/Construction

RE austr : Australia | brisbn : Brisbane | queensl : Queensland | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB Fairfax Media Management Pty Limited

AN Document AFNR000020140205ea2600012

