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HD **Busy year as offices become residences**

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SYDNEY could be facing another bumper year of office to **residential** conversions, with more than 7 per cent of CBD office stock identified for redevelopment to apartments, according to a Macquarie Research analysis.

The research comes as a private **Chinese group** emerged as the buyer of a conversion possibility at 299 Elizabeth Street on the city's eastern flank.

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The 12-storey building was **sold** by Burcher **Property Group** earlier this year, with Sydney-based Xinhua Zhong and Jingru Lin taking a half-stake each for a total price of $45 million.

The building, completed in 1989, has 385sq m of ground floor retail and 5943sq m of office space, with a top-floor penthouse.

At the time of the **sale**, co-selling agent John Bowie Wilson of Knight Frank, who handled the **sale** with CBRE, said the building sat in a part of the CBD where office buildings were being replaced by luxurious **residential apartment** complexes.

"There is much more **residential** development planned within 500 metres of 299 Elizabeth Street, and it is forecast that the ratio of office space to **residential** space will be very different within the next 10 years," he said.

Nearby office towers slated for other uses include Cbus **Property**'s 130 Elizabeth Street that could have a 36-level **apartment** tower on Hyde **Park**.

Chinese group Shimao could also convert its recently acquired 175 Liverpool Street, and 233 Castlereagh Street, which **China**'s VIG has under option, is also slated for an **apartment** tower.

Close by, Coronation **Property** is planning for a 31-storey **apartment** and **hotel** tower in Commonwealth Street on the southern fringe of the Sydney CBD, with a design by architects FJMT.

About 365,000sq m of Sydney's total CBD office stock has been **purchased** or identified as conversion opportunities with some impact on the office market, according to the Macquarie Research.

"While eventual conversion of this stock will depend on a number of factors including demand for apartments, DA approval and net absorption in the office market, such stock withdrawals will support a reduction in the office vacancy rate," analysts Paul Checchin and Rob Freeman wrote.

But despite the level of stock withdrawal, "an elevated level of supply will sustain an above average level of vacancy in the Sydney CBD office market, making it difficult to see effective rental growth exceed expectations in the near term," they wrote.Despite significant new supply putting upward pressure on vacancy rates, Macquarie retained an outperform rating on GPT **Group**, Investa Office and Charter Hall Office, while it downgraded Dexus to neutral due to a strong share price performance in recent months, and maintained an underperform rating on Cromwell **Property Group**, given its low exposure to the Sydney CBD market.

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