

Years before office market heads south

VACANCIES in the Gold Coast's supply-choked office market are set to hit the highs of the early 1990s and will take years to head south again, according to industry forecasters.

The latest Midwood Report predicts that it will take four to five years for the city to absorb the present swag of vacant space along with the stock scheduled to come on line this year – together totalling almost 104,000sqm.

It forecasts that the present vacancy rate of 18 per cent – more than double the rate in July, 2008 – will rise to 'at least 22 per cent' in the next 12 months.

"An additional 25,271sqm is forecast to be released in the year so, assuming zero (or even negative) absorption over the next 12 months, the Gold Coast's vacancy rate will rise to at least 103,797sqm or 22 per cent," the report states.

And Landmark White, in its latest Gold Coast Office Forecast, says it expects the vacancy rate to peak at 22.9 per cent in January, 2011, and then fall to 17.8 per cent by January, 2014.

Such a scenario would bring the city's market to just under the 24 per cent vacancy rate it recorded in 1990-91 when the Gold Coast experienced a whopping 52 per cent increase in office space ahead of a decade-long slump.

"The trend is similar to that seen in 1990-91," the Midwood Report says.

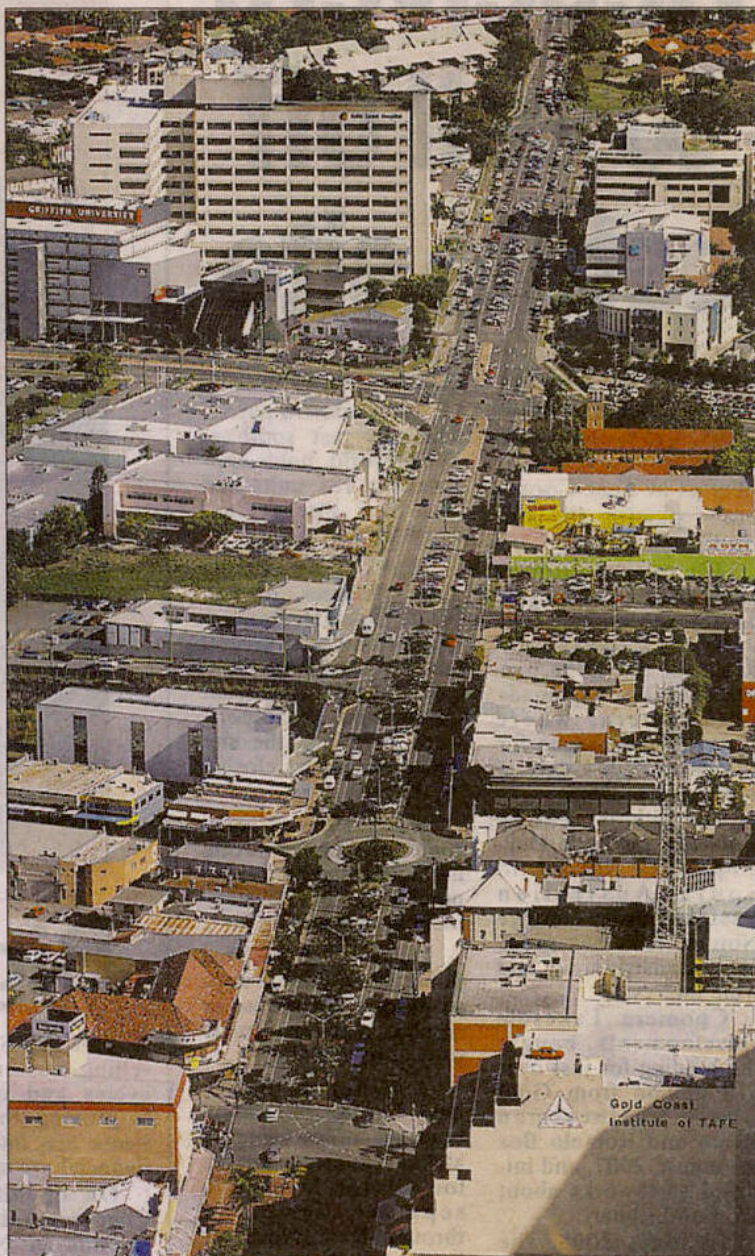
"The Gold Coast is right on the money to reach a similar vacancy rate.

"The office building boom we have seen over the last few years is over and it will take another four to five years for this space to be absorbed."

Most of the growth in the city's market has occurred in A-grade stock, of which 33.2 per cent is vacant, more than triple the rate six months earlier.

Report author Bill Morris says the signs of a looming oversupply of A-grade stock were beginning to emerge two years ago, well before the impact of the global economic downturn.

Office projects and developments with an office component that are under way include Southport Central stage three (two medium-rise buildings with a total of 3673sqm), The Rocket at Robina (11,280sqm), Corporate



Southport CBD . . . city's office vacancy rate is set to hit 22 per cent

Centre stage two 8000qm) and H20 at Southport (1196sqm).

The flipside of the supply glut is better deals for tenants.

LMW expects face rents to decline by at least 10 per cent while effective rents will drop by more than 20 per cent, with incentive schemes expected to represent average cuts of 25 per cent.

"The rental decline is anticipated to continue throughout 2011 before a recovery . . . as economic conditions improve and businesses feel more confident in

taking up office space," it states.

The report says it expects office yields to soften further this year and to then stabilise and remain between 7.7 per cent and 9.4 per cent next year.

It describes the investment activity in the market for 2008 as slow with 10 transactions totalling \$64 million, all to private investors.

"The buyer profile of these investors has changed significantly with property trusts, syndicates and larger corporates all but disappearing from the market," it states.