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## Finance block on new office space

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THERE is a "drought" of new office buildings in Melbourne's suburbs, and sales are also down, but demand for space remains high, pushing down vacancy rates, according to new Colliers International research.

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Only six buildings have been completed so far this year, adding just 17,000 square metres to the market, Colliers' latest Melbourne Metropolitan Report shows. "This is a minimal 0.6 per cent increase in total stock levels," said Amita Mehrotra, Colliers international research manager.

Other highlights of the report include:

- In the year to date, 13 sales (above \$5 million) of office buildings totalled \$185 million - well down on last year's \$387 million.
- Melbourne metro's overall vacancy rate declined to 7.3 per cent in October.
- Tenant demand is strong, with increases in net leases of 96,043 square metres in the year to date.

Ms Mehrotra said the low investment sales showed that owners were less likely to sell their suburban assets after the global financial crisis. "Private investors and syndicates were the main purchasers during 2010," she said. "Yields have firmed 0.25 per cent over the last six months in all regions."

Rob Joyes, Colliers' office leasing director, said despite strong tenant demand developers were cautious about speculative projects. "However, what really kills this discussion is the onerous finance terms the lending markets are offering," he said.

"Many business 2-zoned sites purchased for commercial devolvement in the metropolitan regions have since been converted to residential in order to achieve higher returns and the ability to pre-sell the project and obtain funding to proceed."

Mr Joyes said rents for commercial buildings remained too low to warrant their development when compared to residential. "If tenants want to relocate in suburban markets, rents are going to have to increase significantly and quickly," he said.

The research found there was only 29,800 sq m of office floor space in the pipeline for the rest of this year and next, most of which was already committed.

The report said tenant demand was strongest in the city fringe and outer east regions as government decentralisation continued. Vacancy rates fell in all regions over the past six months except the south-east, where it rose from 6.9 per cent in April to 8 per cent.

Over the past year, the outer east vacancy declined from 11.7 per cent to 8.2 per cent, while the inner east went from 9.1 per cent to 5.3 per cent. "With limited new supply and strong tenant demand, we forecast the vacancy rate to decline to 5.5 per cent by the end of 2011," Ms Mehrotra said.

She said rents were stable in the past six months after an increase earlier this year. Overall, net rents rose by an average 5 per cent from last year, with the outer east registering the strongest increase of 8.5 per cent since last year.

Incentives remained stable in all regions except the outer east, where they fell from 15 to 25 per cent earlier this year to 15 to 20 per cent now. "Strong demand and limited supply means we should expect strong growth over the next 12 months and a further decrease in the incentive levels," Ms Mehrotra said.

*This story was found at: <http://www.theage.com.au/business/property/finance-block-on-new-office-space-20101123-185q7.html>*