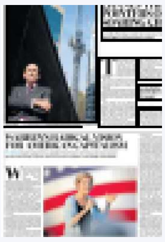

25 OCT, 2019
CRANES THE POINTERS OF SOARING CBDS
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CRANES THE POINTERS OF SOARING CBDS

Property The wave of downtown office developments is the result of booming central city economies, write **Michael Bleby** and **Ingrid Fuary-Wagner**.

To understand why new office buildings are going up like mushrooms in Australia's two largest cities, follow the numbers. Over the five years to 2018, the GDP of the Sydney central business district grew at an average annual rate of 3.8 per cent.

The economy of Melbourne's CBD grew 3.9 per cent over the same time. And even central Brisbane gained an average 2.7 per cent a year.

The CBDs of the three largest cities all outstripped the average 2.6 per cent national pace of growth over the same period, as business boomed for the services-intensive employers that dominate inner-city real estate.

"Inner Sydney and inner Melbourne, where you've got all the financial services, insurers and government administration officials – these economies are in a different league to the rest of the economy," says Terry Rawnsley, the principal of consultancy SGS Economics & Planning. "That's why there's a lot of demand and developers are picking up on this."

It's not just more of the same, either. The wave of new developments is responding to the demands of new sectors – think coworking and technology for starters – and blue-chip employers who want well-located offices with larger floor plates that give them the ability to reconfigure what they do and how they do it.

Developer Lendlease is doing just that at what will be Sydney's tallest office tower when complete in 2022. The 53-storey building at Circular Quay, which will be called Salesforce Tower to reflect its largest tenant, is part of a new precinct that will include a public plaza, retail laneways and wellness facilities.

"The deal we did for Salesforce reflects a couple of things – it reflects a company that's growing globally, but also wants a much different presence in the Sydney market," says John Burton, managing director of urban regeneration at Lendlease.

"Most of those people want well-curated, well-managed, mixed-use precincts. For their employees, the ability to connect to not just shopping but facilities and services and wellness and activation is critical."

As well-located sites become harder to find, developers are developing unconventional sites and capitalising on their quirks. Builder and developer Built is constructing a new office tower at 183-185 Clarence Street - which TH Real Estate bought last year for $180 million – on the site of an old power substation.

Built will retain the large ground-level hall for cultural and other activities.

Some drivers of demand are unusual. In the wake of last year's banking royal commission Australia's four largest banks are splitting from their troubled wealth-management divisions. Westpac is transferring its BT arm to Viridian, NAB will sell MLC, Commonwealth Bank is selling various assets as it exits from wealth management and ANZ is selling its pensions and investments arm to IOOF.

These transactions are also spurring demand for office space, Rawnsley says.

"These entities will be spun out and they definitely won't be in the same buildings any more. They'll be looking for 30,000-40,000 square metres of prime space."

Darren Steinberg, head of Dexus, the country's largest office landlord, says a further driver for demand is coming from the post-royal commission environment that is demanding a greater investment in compliance within financial services.

"Additional office space is being absorbed as groups spin off divisions, expanding to meet increasing compliance requirements and upgrading the technology needed to meet them," he says.

"We've seen major consultants taking additional space for IT projects associated with the increase in risk mitigation and control; a strong driver of take-up in Sydney and Melbourne."

Other sources of cranes are Brookfield's $1.8 billion Wynyard Place, a precinct at 10 Carrington Street that will feature a 59,000-square-metre office tower across 27 levels, two restored heritage buildings – Shell House and 285 George Street – and an upgrade of Wynyard train station's George Street entrance. Insurer Allianz and NAB are anchor tenants.

The strength of demand has pushed vacancy rates as low as 3.7 per cent in Sydney – an 11-year-low – and a near-record 3.3 per cent in Melbourne, and is not just a local thing. Steinberg says buoyant city economies is a global phenomenon.

"London's office market should be faltering as the Brexit chaos rolls on, instead its vacancy rate is only 5.5 per cent on the back of resilient demand," he says.

But how long will that demand last? Steinberg agrees it will ease, given that the current cycle of strong demand has been under way for four years already, but says the sustained strength of leasing markets is surprising.

His investors certainly see the cycle continuing for a while. Dexus shares rose more than 3 per cent on Wednesday after the developer and landlord said it expected to be able to raise rents further when leases due to expire in the next couple of years came up for renewal.

Industry estimates indicate net take-up of office space in the Sydney, Melbourne and Brisbane CBDs will remain strong for some years. They show nearly 183,000 square

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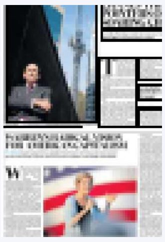

metres will be absorbed in the current year – with 70,000 square metres of that in Sydney and 100,000 square metres in Melbourne – followed by 116,500 square metres next year (as Sydney drops to just 10,000 square metres) and then picking up again to 192,000 square metres in 2022 and 199,000 square metres in 2023.

Lendlease's Burton, says the "pretty benign" office supply pipeline means Sydney's vacancy rate will only pick up to about 5 per cent by next year.

"What we are going through at the moment is what is nearly historically low levels of vacancy and that looks as though that will probably run for the next 18 months to two years before there is the likelihood of supply coming forward," he says.

The wave of office projects – at a time when residential projects are waning – represents a rebalancing of the development cycle. It's a far cry from the heady days of 2016 when the City of Sydney, concerned about the rapacious appetite for residential development, brought planning changes to limit the spread of new apartments in the CBD.

"Three or four years ago we were worried that residential development was crowding out commercial development in the most productive parts of our cities," Rawnsley says.

"Commercial's been able to reassert itself in its traditional locations."

The challenge, he says, is to consider where the prime locations for office space will be in the next cycle.

Burton expects to see a lot more construction in the Sydney CBD over the next few years.

"There is still a lot of stock in the overall Sydney CBD that is ripe for either serious replacement of refurbishment," he says. "Companies like ours never stop looking for those opportunities."

But Sydney's ongoing growth – particularly along new transport corridors – will extend a process of expansion out from the CBD, Rawnsley says.

"The Sydney metro crane map shows there's more expansion away from the traditional expensive CBD locations, providing for more high-quality office space across the city."

We are going through nearly historically low levels of vacancy.

John Burton, Lendlease

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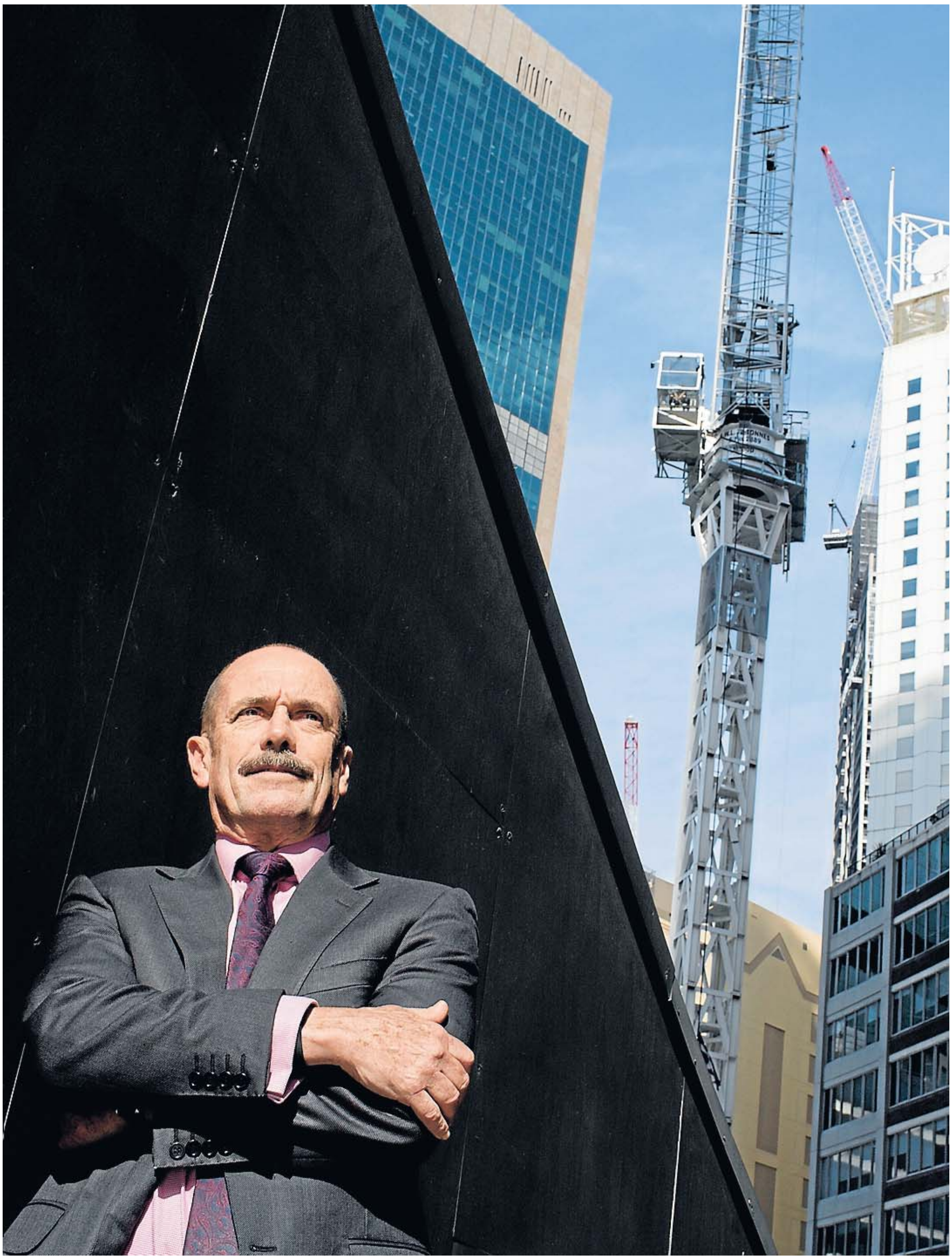

Lendlease's John Burton says employers want precincts not just office blocks. PHOTO: RYAN STUART

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Heavy lifters

Commercial project crane locations in central Sydney

Left: an artist's image of Brookfield's $1.8 billion Wynyard Place.

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