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## **Strong rent increases on the cards for Sydney office landlords**

Sydney, NSW (26 August 2010)

Improving tenant demand and the development of new generation office stock is expected to underpin significant increases in Sydney's prime CBD rents in 2011 according to new forecasts from CB Richard Ellis.

CBRE's latest Sydney CBD MarketView report tips that prime net face rents in the CBD will grow by 14.3% next year, following an expected 2.5% increase this year.

CBRE Senior Director, Global Research and Consulting, Jennifer Williams, said effective rentals were expected to record even stronger growth over the next two years as tenant incentives were reined in.

"An improving employment outlook has cemented our strong net absorption forecasts for 2010," Ms Williams said.

"Over 92,000 square metres of positive net absorption is forecast for this year and this will help drive rental increases in 2011 after the market adjusts to the relatively high levels of new office supply which are expected to be delivered to the market this year."

CBRE Senior Director, Office Services, Jenine Cranston said overall confidence in the Sydney CBD leasing market had improved this year relative to 2009, however tenants still required a sound, strategic and financially positive reason to relocate.

"A range of tenant behaviours are evident," Ms Cranston said.

"On one hand, the banks have moved on from their malaise and several chunks of space across the city comprising approximately 21,000 square metres have been leased by Westpac and Macquarie Bank. ANZ is also in the market for an additional 3,000 square metres and other enquiries exist for this sector in the range of 2,000 to 5,000 square metres."

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Ms Cranston said the level of enquiry demonstrated that the finance sector in Sydney CBD had improved markedly as there has been no evidence of organic growth since 2008.

"Recruiters are also back in expansion phase, which is a far cry from the massive contraction the industry went through in 2009," Ms Cranston said.

"A reasonable level of enquiry has come from start-ups as well as firms experiencing organic expansion."

On the flipside, Ms Cranston said overall business confidence had fallen away since the first quarter with many tenants not taking the critical step to commit without a compelling reason to do so.

"Most of the market, outside banking and recruitment are showing more tentative behaviours in respect to strategic lease commitments," Ms Cranston said.

"It's a loud and consistent message from potential tenants, be they large or small and ranging from creative groups to accountants."

Improving tenant demand will help drive the market forward according to CBRE's new MarketView report.

Access Economics' latest forecasts are for white collar employment growth to rise by 2.4% this year and 2.3% in 2011 – significantly higher than the previous estimates of 1.4% growth this year and an additional 1.8% rise the year after.

While relatively high levels of new construction will moderate rental growth this year (some 146,000 square metres of net supply additions are forecast in 2010), rising tenant demand will help propel rental increases in the short to medium term.

"The effects of the Global Financial Crisis while evident have dissipated," Ms Williams said.

"A resurgence in take up from the financial and insurance sectors is supporting positive net absorption with our five year outlook for net absorption being significantly higher than the historical average."

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