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Office vacancies hit 11-year high

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Reuters

Australia's aggregate office vacancy rate rose to an 11-year high in the six months to July as new supply came onto the market, although demand was also picking up, the Australian Property Council says.

The vacancy rate for office space hit 10 per cent in July, up from 9.3 per cent in January and the highest since July 1999, the council said.

Adam Learmonth, director for real estate investment advisory firm Anvil Capital, said tenant demand was picking up but future supply in the pipeline could push the vacancy rate up further.

"Tenants are expanding but they're just not expanding at the same rate at which new office supply is coming to the market," he said.

"In the next two years, it's not massive, but there's still further supply in the pipeline that's under construction right now. I would expect the vacancy rate to continue to rise for the next 12 months."

Over the last six months, net absorption was 332,922 square metres, nearly double the 20-year average, according to the council data. The bulk of new stock to be added in the second half of 2010 is expected to be in Australia's central business district (CBD) markets.

"At the depth of the global financial crisis, not many people would have predicted just a 10 per cent vacancy rate and such strong demand figures at this early stage," Property Council's acting CEO Ken Morrison said in a statement.

During the recession in the early 1990s, the national office vacancy rate climbed to more than 20 per cent.

Office vacancies for CBD markets rose to 8.9 per cent in July from eight per cent in January, the level last seen in January 2005, although results were mixed for some of the major cities. In Sydney's CBD, empty offices space totalled 8.5 per cent in July, up from 8.1 per cent in January while Brisbane, supported by healthy demand for A Grade space, saw the vacancy rate fall to 10.9 per cent from 11.3 per cent.

The brightest spot was Melbourne CBD with the lowest vacancy rate of 6.5 per cent among all CBD markets surveyed. Learmonth said Melbourne's cheap office rents helped attract tenants.

"It's a good place to set up your business if you are a new entrant into the Australian market place," he said.

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