

Limited space likely to keep rents in North Sydney rising

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OFFICE rents in parts of northern Sydney are expected to grow ahead of inflation next year as supply remains limited, according to new research.

The rental growth will be below the considerable lift in rents recorded last year when demand from corporates outstripped supply of prime office space.

The North Ryde and north shore markets were expected to be the strongest. Within the north shore, for the year to October, the best market was North Sydney, Knight Frank found.

Vacancy rates in prime office towers in North Sydney have remained at 2.3 per cent over the past six months, while at the same time vacancy rates across the overall North Sydney market rose by 0.4 per cent to 7.4 per cent.

This compares with a vacancy rate in the Crows Nest and St Leonards prime office markets of 7.5 per cent, 16.7 per cent for Chatswood and 4 per cent in North Ryde and Macquarie Park.

"Since the beginning of 2011, North Sydney has been the standout performer in terms of rental growth, not only in the north shore, but right across Sydney's office markets," Knight Frank associate director NSW research Nick Hoskins says.

"While the majority of rental growth has stemmed from face rents, the last six months saw incentives start to give way due to the tight leasing metrics."

In the six months to October, prime net face rents in North Sydney have increased 3.3 per cent to an average of \$606 per square metre. At the same time, average incentives of prime office space reduced to 22.5 per cent from 25 per cent.

North Sydney's strong performance has prompted some tenants to reconsider relocating to the CBD, such as top-tier insurance company TAL, formerly Tower Ltd, which plans to relocate to 363 George Street.

Knight Frank also found that as rents improved and vacancy rates fell, transaction activity on the north shore also increased.

B-grade buildings were the most popular purchase over the year to October, Knight Frank found, with a number of fund managers and syndicate investors purchasing with the view that property values would grow in the near-term.

Property syndicator Property Bank Australia has been a particularly active player in the market this year, sealing three north shore acquisitions, including its two joint purchases with Security Capital Corp of 51 Berry Street in North Sydney for \$15.6 million and 154 Pacific Highway St Leonards for \$25.5m.

It also teamed up with IFCI Group to purchase AMP Capital's 116 Miller Street in North Sydney for \$59.55m.

In Chatswood, a private investor paid \$23m for an office tower at 10 Help Street.