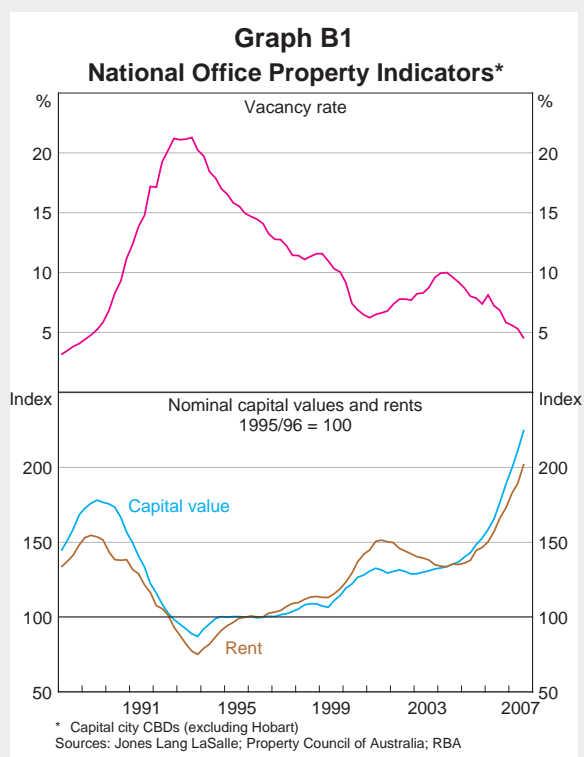


Box B: Recent Developments in the Office Property Market

Conditions in the national office property market have tightened significantly over the past couple of years, with the national vacancy rate falling to nearly 20-year lows, and rents and property prices increasing sharply. However, additions to national office supply have picked up much more moderately than in the late 1980s cycle. With no sign so far of the significant overbuilding that resulted in the collapse of the late 1980s office boom, the current upswing in office construction seems likely to continue for some time yet.

Reflecting strong demand and relatively modest additions to the stock of office space, the national office vacancy rate has fallen significantly over recent years, from 10 per cent in 2004 to 4.5 per cent in the second half of 2007, which is its lowest level since the late 1980s (Graph B1). The decline has been relatively broad-based across the major cities, with vacancy rates now below

7 per cent in all cities compared with peaks of around 20–30 per cent in most capitals in the early 1990s. However, the tightening in the Perth and Brisbane markets has been particularly pronounced, reflecting the general economic strength of these regions and the boom in the resources sector. The vacancy rates for offices in Brisbane and Perth are extraordinarily low at just 0.2 per cent and 0.5 per cent.



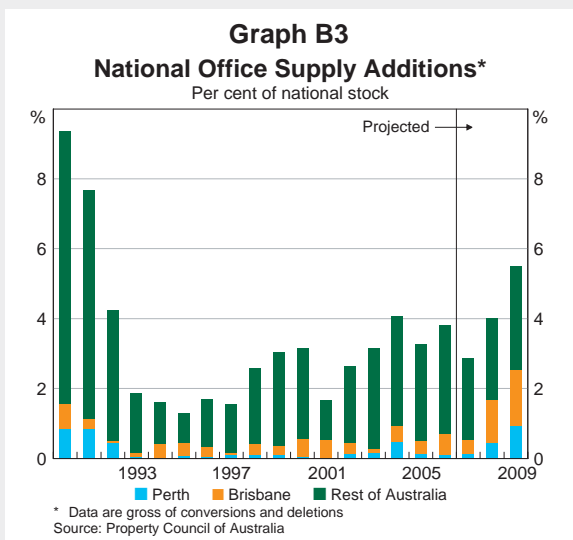
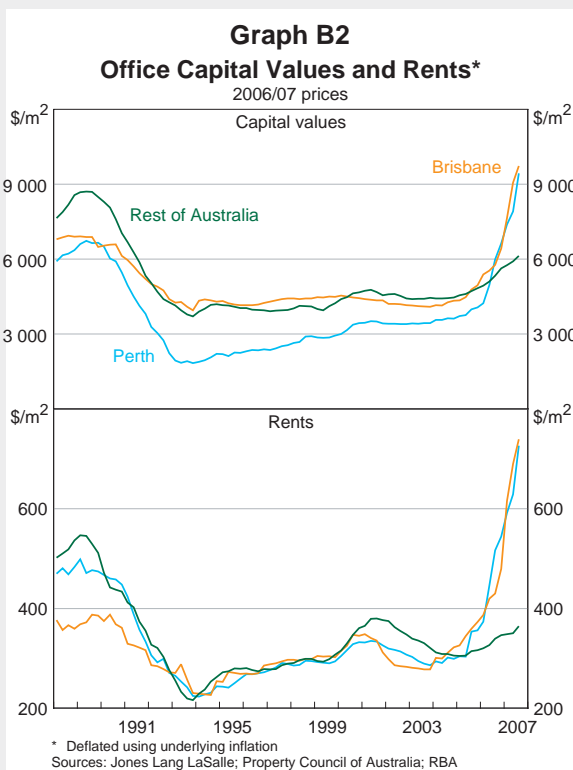
been in the past year that average nationwide office property prices have surpassed their previous nominal peak seen during the boom of the late 1980s, and in real terms they remain around 20 per cent below the heights seen during that period. Similarly, while nationwide nominal rents

are around 30 per cent higher than in 1989, they are also still around 20 per cent lower in real terms.

The recent strong growth in prices and rents has occurred across all of the mainland capitals. In Sydney and Melbourne office prices are estimated to have risen by more than 30 per cent over the past two years, while rents have increased by around 25 per cent and 15 per cent respectively. However, the strongest price and rent gains have been seen in Brisbane and Perth, with growth in estimated capital values in excess of 60 per cent over the past year alone (Graph B2). After more than doubling over the past two years, office prices per square metre in Brisbane and Perth now exceed the national average, and are second only to prices in Sydney, while rents in Brisbane and Perth are now higher than in all other cities. Office prices and rents in these two markets now far exceed their levels in the late 1980s, in both real and nominal terms, reflecting the extremely low vacancy rates in these markets.

The tightening in office property conditions has prompted a noticeable pick-up in planned office supply. Office building approvals, commencements and the value of office projects in planning stages have all increased strongly over the past couple of years. Reflecting this, data from the Property Council of Australia indicate that gross additions

to the national office stock should accelerate in 2008 and 2009 (Graph B3). Nevertheless, as a per cent of the total stock annual additions are expected to remain well below those seen



in the early 1990s, when new construction was causing the national office stock to grow by nearly 10 per cent per annum. The largest planned expansions in office supply are in Perth and Brisbane, where the stock of office space looks set to rise by around 20–25 per cent cumulatively over the next three years. However, with practically no vacant office space in these markets, likely pent-up demand (as suggested by recent declines in space per worker) and expectations of continuing economic growth, many market observers suggest that the expansions underway are unlikely to result in significant oversupply, although there could be some easing in pressure on prices and rents. This is consistent with reports from the Bank’s liaison program which also suggest that conditions in the office property market are expected to remain tight over at least the next year. ↗