

Perth office rents seen falling 50% as mining projects stall



Office prices and rental rates in Perth's business district will fall as much as 50 percent by 2013 from last year's highs as mining projects stall and new blocks are completed, real-estate forecasters and agents said.

Vacancies in the center have risen from a record low of 0.3 percent last June, among the tightest in the world, to about 6 percent and will jump to 16 percent by mid-2010, said Lee Walker, at Sydney-based forecaster BIS Shrapnel. The rate will peak in 2013, with average prime rents dropping to A\$360 (\$286) per square meter from A\$720 now, he said.

"Perth has been geared up to service an absolute booming level of investment," said Walker in a phone interview from Sydney. "A downturn of this magnitude spells disaster for employment growth, hitting demand for office space."

Perth is the capital of Western Australia, which generated A\$71.8 billion in revenues for resources-related companies in 2008. A decade-long boom in demand for the state's minerals came to a halt this year as demand from China slumped, forcing companies such as Rio Tinto Group and Woodside Petroleum Ltd. to fire workers, mothball mines or delay new projects.

By the time BHP Billiton Ltd.'s 46-floor iron ore headquarters opens in 2012, office space in the CBD will have risen 23 percent, while mining and heavy industry investment will have halved, BIS Shrapnel forecast.

"We're going through a significant correction," said Graham Postma, the director of commercial leasing in Western Australia for Savills Plc, Britain's largest publicly traded property broker. "Tenants are taking a lot longer to make decisions because they have more options."

Gold and Gas

Western Australia state, four times bigger than France, rode a mining boom that drove 17 years of economic growth in the southern continent as Asian nations queued up to buy iron ore, gold, gas, diamonds and bauxite.

From posting quarterly economic expansion of as much as 14 percent in the three years to 2008, rivaling that of its biggest export market China, Western Australia's economy is forecast by the state government to shrink by 1.25 percent in the coming 12 months and by 0.5 percent in 2010-11.

"The downturn is happening a heck of a lot faster than we anticipated," said Joe Lenzo, state executive director of the Property Council of Australia, which represents owners, investors and managers of commercial property. "The revaluation of property assets hasn't been completed."

The Reuters/Jefferies CRB Index of 19 raw materials fell 51 percent last year from a record high on Feb. 7, 2008. Western Australia's unemployment rate is forecast by the government to reach 6.75 percent in 2010-11 from a record low of 2.3 percent in October 2008.

Vacancies Rising

Lenzo expects the council to release figures in August that will show office vacancy rates of 6.5 percent. That may rise to 9 percent by end of the year and climb further in 2010, he said.

Savills' Postma said prices have already fallen 30 percent from last year's highs.

"You'll see a flight to quality and the lower-grade buildings will be under pressure," he said.

During 2010, prices for premium office space are likely to fall by between 25 percent and 30 percent from last year, Perth-based analyst

Andrew Bouhlas of Jones Lang LaSalle said.

During the good times, property developers rushed to build new offices, with 430,000 square meters planned in Perth from January 2009 to December 2012, on top of the 2.47 million square meters capacity at December 2008, according to Walker.

“There are a lot of new projects coming on stream and not many tenants in line to fill up all the backfill space,” he said.

Tallest Building

BHP, the world’s biggest mining company, in July 2007 agreed to lease 60 percent of the 72,000 square meter BHP Square, being built by Brookfield Asset Management Inc.’s Sydney-based unit Multiplex. When completed, the 270-meter high tower will be Australia’s tallest office building.

Other projects under construction include Saracen Properties Ltd.’s Raine Square, which will add 44,000 square meters of office space, and the state government-backed 140 William Street site, due for completion this year.

The city’s skyline is still spiked with cranes as workers rush to complete nine buildings 100 meters or taller, according to data provider Emporis.

Planned projects that hadn’t started when the slump came have been canceled or shelved, which could lead to a shortfall should the resources industry recover, Property Council’s Lenzo said.

“There’s a lot of new product coming on to the market in the next 12 to 18 months, but there’s nothing behind it -- the pipeline is empty,” Lenzo said.

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