



Year starts on a bright note for office demand

DEXUS Office Demand Barometer
February 2017

Office demand is expected to rebound from a negative Q4 2016, with the DEXUS Office Demand Barometer pointing to an improvement in conditions in the Sydney CBD for the first half of 2017.

Demand for office space contracted by around 14,000sqm in the Sydney CBD in Q4 2016 according to JLL Research. This was an anomaly caused by a few large tenants downsizing and relocating to the newly completed tower at Barangaroo. However, the positive reading of the Barometer signals that there could be a strong rebound in the first half of 2017.

The DEXUS Office Demand Barometer registered +1.8% in the December 2016 quarter, up from last quarter's reading of +1.4%. This moves the level of the Barometer from 'Fair' to 'Good'.

Factors pushing the barometer higher were an uplift in business confidence, an improvement in the US economy, a positive result for ANZ job advertisements in December and a firmer share market.

The lift in job advertisements is a sign that companies are preparing to hire more in 2017 after a period of subdued full-time employment growth. And a firmer share market typically encourages corporate transaction activity which helps the investment banking, legal and accounting sectors.

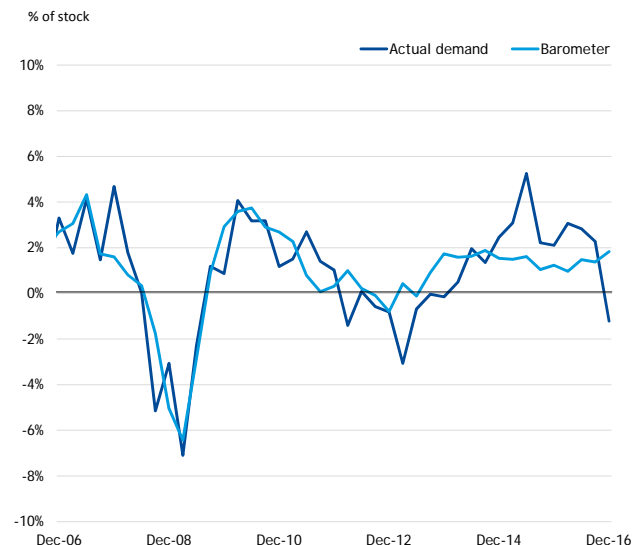
Demand for premium office space in the Sydney CBD was strong in the quarter (+49,580sqm), highlighting the flight to quality as tenants seek higher quality office accommodation in the Sydney CBD. This came at the expense of migration from the lower grades resulting in a net contraction across the market. The flight to quality will be accelerated over the next three years by the withdrawal of an estimated 283,000sqm of older buildings either for the Sydney Metro rail project or for non-office uses.

The DEXUS Office Demand Barometer



| Components | Contribution to change (ppts) |
|--|-------------------------------|
| ANZ job advertisement series | 0.12% ↑ |
| S&P/ASX 200 Index | 0.01% ↑ |
| Short term business travel departures | -0.08% ↓ |
| NAB Business Confidence Index (FinPropBus) | 0.19% ↑ |
| US ISM Manufacturing Index | 0.23% ↑ |

Barometer versus actual demand



Source: DEXUS Research

DEXUS Office Demand Barometer

While a number of companies are using their lease expiry as a catalyst to implement workplace efficiencies resulting in the downsizing of office space requirements, the above average demand recorded in the Sydney CBD over the past two years is a clear sign that organic growth in the market is far outweighing the impact of workplace efficiencies.

The finance and insurance, business and property services and IT sectors have experienced solid leasing enquiry, with continued strengthening demand from smaller sized tenants (two thirds of enquiries were from tenants seeking spaces <500sqm). In January 2017, DEXUS Research tracked leasing enquiries of around 47,500sqm, of which the majority was for small spaces.

The Sydney office market is poised for buoyant conditions. The vacancy rate is forecast to fall towards 4.3% over the next two years, the lowest level in fifteen years. With the Barometer pointing to positive demand, a lack of available space may become an issue for the CBD with fringe markets like North Sydney benefitting from the overflow.

About the Barometer

DEXUS's Office Demand Barometer is a specialised model that provides a leading indicator for conditions which determine the level of leasing demand for Sydney CBD office space as a percentage of occupied stock over the next six months.

The Barometer includes five variables which have been carefully selected based on their high correlation with Sydney CBD office demand.

- ANZ job advertisement series
- US ISM Manufacturing Index
- Short term business travel departures
- NAB Business Confidence Index - finance/business/property sectors
- S&P/ASX 200 Index

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