

History shows why office markets potentially have a lot of upside

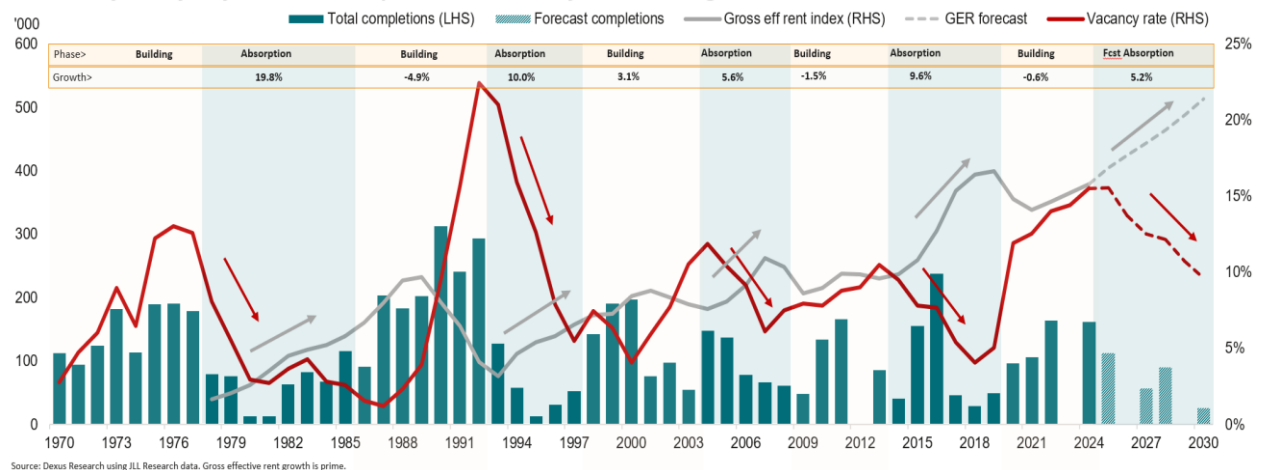
A peaking of the vacancy rate in the Sydney CBD signals a major turning point for the market. With planned supply a fraction of previous levels, there is a compelling recovery story.

History has shown that office markets follow a well-defined cycle. Supply always slows after a period of high vacancy. Then, over the next four to five years, space is absorbed and vacancy falls. In these periods of falling vacancy, markets experience above average rent growth.

There have been four such cycles since the 1970s and we are about to enter the fifth one. Effective rent growth during past absorption cycles has ranged from 6% to 20% per annum, well above average.

While global uncertainty and a US slowdown are potential speed-bumps in the short-term, they are more likely to influence timing and pace of the cycle than knock it off course.

The office cycle - Sydney CBD office completions with vacancy rate and rent growth



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