
Perth Property set for a Swan Dive?

Recently the Australian Financial Review reported that [office vacancy was rising and rents were under pressure](#) in most markets Australia. The broad issue is that both public and private tenants are scaling back their office space requirements. In fact in the first quarter of this year 'net absorption', a measure of the change in total square metres being leased, was actually negative, meaning tenants now occupy less overall space than at the start of the year.

We've been bearish on the property market in Australia for some time, and don't have any exposure to the office sector, so we're not really impacted. But the spread of average rents being charged in our capital cities really interests me.

Prime Gross Effective Rents (\$ / sqm)

Sydney	\$621
Melbourne	\$399
Brisbane	\$486
Perth	\$795
Adelaide	\$372
Canberra	\$333

Prime office space in Perth now rents for \$795 per square metre per annum, 28% more expensive than nearest rival Sydney and unbelievably twice as expensive as renting in Melbourne.

So why the discrepancy? Well, land is generally a small portion of the total cost of prime office property (a large building on a relatively small footprint) and restrictive development regulations are an issue Australia wide. Granted the labour market is tight in Western Australia, but I'd be surprised if construction costs over west are that much higher than the rest of the country.

The more likely explanation is that high rents are a result of temporary shortages due to the resource boom occurring in Western Australia. Commercial property is a very competitive business, and if the boom continues you can be sure supply will follow and rents will moderate. Indeed according to CBRE 135,000 square metres of new supply came online in 2012, nearly 10% of the existing stock.

If the boom falters (see our article [China Wobbles Worth Worrying About](#)) the result will be much worse, you'll probably get a fair chunk of the new supply anyway, and demand will plummet. Either way, office property in Perth is due for a swan dive.