

# Colleges soak up space in city and fringe areas

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Commercial Property Editor

THE character of the CBD is changing – a variety of new industries are entering the district once dominated by accounting, banking and finance firms.

Colleges are one such sector that is becoming a big force in the city fringe commercial property market, having leased a total of more than 15,000 square metres of office space over the past year.

Paying about \$350 to \$400 a square metre, the colleges are pushing up rents for other big space users, such as call centres.

Many of the colleges are English-language schools catering to up to 1000 overseas students in each. They prefer locations around Surry Hills and Ultimo, suburbs close to public transport routes and cheaper accommodation.

Knight Frank's NSW research manager, Selina Poyner, says that in Sydney lack of space is proving to be an issue for education users. That is on top of the reluctance of some owners to take on educational tenants because of the disruption they may cause other tenants.

"Therefore colleges are looking for full building options on long leases in the city or city fringe locations with good transport and access to the city," Ms Poyner said.

The higher rents are also being fuelled by the lack of supply of general office space in the CBD.

According to Colliers International's latest CBD report, Sydney CBD's overall vacancy

rate hit a 17-year low of 3.7 per cent in January. This is the lowest vacancy in Sydney since the 3.6 per cent recorded in 1990.

The state director of research for Colliers, Felice Spark, said the near-record low was helped by a total stock reduction of 77,755 sqm to 4,634,463 sqm, largely driven by 111,958 sqm of stock withdrawals in the last half of last year.

Ms Spark said the big fall in vacancy levels – vacancies have fallen 1.9 per cent in the past six months – has had a predictable impact on rents, which have risen 16 per cent.

DB Property recently leased 414 Elizabeth Street, Surry Hills (3200 sqm) to The Carrick Institute of Education for \$350 a square metre.

The principal of DB Property, David Brown, said there was no doubt colleges were playing a big part in increasing prices and rental rates in the city fringe, with the average areas taken by them at 2000 square metres.

"Many of the buildings they are buying or leasing have not been refurbished for several years and are providing a very solid base of returns for owners, as well as the areas' local cafes and other businesses as they are servicing hundreds of students," Mr Brown said.

"This demand is having a flow-on effect to the residential sector as more students are seeking accommodation close to the colleges, and we have seen strong demand in Surry Hills, Redfern and Ultimo for student accommodation."

Another obstacle for college owners was that not all commercial buildings could ac-



School's in ... the new Elizabeth Street home for the Carrick Institute of Education.

commodate them because of stringent council requirements relating to health, ventilation, zoning and access.

Other recent deals included Group Colleges Australia, which leased one of the former TNT towers in Redfern.

The group, the private parent of such education operations as the Australian Institute for Workplace Learning and St James College (for senior high school students), is one of a number of rapidly expanding education operators that have become key tenants in the city and its surrounds.

Group Colleges will open a new, 4500 sqm campus in Redfern, in Tower 2 at Lawson

Street, and will spend more than \$1 million on the fit-out.

Cameron Algie, of Tim Green Commercial, who advised in the Group Colleges deal, said colleges and universities were finding space increasingly difficult to source because of the tightening office market.

"Rents of colleges are moving faster than office rents," Mr Algie said.

In Melbourne the story is similar. La Trobe University is due to open its city campus in the former Argus building in Elizabeth Street in 2009; Victoria University has a large city campus; and Monash University has a city office and conference centre.



SALES

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# Offshore investors seek safe haven

Carolyn Cummins

International real estate has been in hot demand in the past few months as global volatility has led to an investor push to secure property in "safe havens".

Buyers are targeting a range of property from small suburban sites to investment-grade office and retail offerings, with Sydney the preferred location.

Of the more than \$9 billion of assets that have changed hands across the Asia-Pacific region in the past three months, close to \$6.6 billion has been within the real estate investment trust sector.

CBRE's latest Asia Pacific Capital Markets report shows Australia was the most active investment market in the second quarter of this year, with 24 per cent of all deals, ahead of Hong Kong with a 17 per cent share, China (14 per cent), Japan (13 per cent) and Singapore (11 per cent).

CBRE's regional director for institutional investment proper-

ties, Rob Sewell, said the Sydney office market had been the subject of much investor interest.

"Buyers are keen to enter this sector now in order to capitalise on rising occupier demand for premium office space and the anticipated rental growth predicted to take place over the next few years," he said.

"Looking ahead, we expect foreign investors will be looking to further increase their presence in the Pacific region, especially at the quality end of the market.

"Capital is seeking high quality assets in prime locations with superior tenants and a lease length which offers security of income."

Simon Garing of Merrill Lynch said: "Cashed up sovereign wealth funds and global pension groups with a low cost of capital in particular have been attracted to the high yields and strong Australian economy."

At the small end, DB Property is selling a six-storey commercial building at 414 Elizabeth Street



Hot in the city ... 414 Elizabeth Street should fetch over \$17 million.

and a car parking station at 55 Holt Street on behalf of W Property.

Eric Lundberg of DB Property said ACON Health had a 10-year lease with a 10-year option on the

Elizabeth Street property, which is expected to sell for more than \$17 million. The three-storey car parking station is on the market for around \$4.5 million.