

# Tables have turned: tenants rule

**Carolyn Cummins**  
Commercial Property Editor

**LANDLORDS** no longer rule the CBD. Tenants are now demanding, and receiving, hefty incentives to lure them into lease deals.

While the levels are not moving towards the same high rates as they were eight to 10 years ago, as white collar employment shifts, leaving offices empty, many landlords are bracing for higher incentive requests.

These incentives cover a myriad of offers such as a free rent period, free car parking and office fit-outs. Generally they are about 10-20 per cent of the total rental package; they were 30 to 40 per cent when CBD office vacancies were in the double digits.

But as CBD vacancy levels move closer to 10 per cent in the medium term, incentives will become a significant portion of the lease deal. As more companies retrench staff and groups such as Allco, among others, close down, more individual floors of space will become available.

The trend is spreading to the suburbs, Colliers International saying that there will soon be pressure in North Ryde and Parramatta.

Colliers's state director of commercial research, Felice Spark, said that in Sydney's metropolitan markets, on average, leasing demand had begun to soften in the third quarter, rents generally remaining static and with evidence that incentives were rising.

In Parramatta average incentives for the market last month ranged between 15 per cent and 25 per cent as landlords sought to attract the limited number of new tenants entering the market, Ms Spark said.

In the Sydney CBD fringe area the picture was similar. Incentives in the CBD Fringe market rose by about 2 to 4 per cent during the first half of the year because of a softening in tenant demand, forcing landlords to offer more to attract tenants.

Ms Spark said that in the North Sydney CBD average Prime Grade incentives had remained steady over the past six months, ranging from 15 to 20 per cent, and B grade



**Make a deal ... landlords are giving incentives to keep tenants in tough economic times.** Photo: Glenn Hunt

incentives had remained steady as the vacancy rate for these building remained low. Incentives ranged from 18 to 22 per cent.

Incentives in the CBD fringe A grade market now range between 12 and 16 per cent. Colleen Coyne, director of Colleen Coyne Property Research, said the credit crunch had delivered a needed correction to Australia's more buoyant commercial office and industrial markets.

It was not limited to Sydney, spreading to the former powerhouse markets of Brisbane and Perth, she said.

Strong tenant demand and record low vacancies last year led to unsustainable rental growth, which had not continued in the face of recent uncertainty and the introduction of new supply, she said.

"Sydney and Melbourne, where demand for office space is more dependent on the financial sector, will be much harder hit, so that over the

coming year incentives in some buildings may rise to 25 per cent to 30 per cent."

She said the dire conditions of the commercial markets, where asset sales are needed to raise cash to pay off large debts, [but there are no buyers] will place pressure on the rental market, as owners and landlords will do anything to keep tenants to keep generating income in lieu of asset sales.

"Many commercial properties on the market are unlikely to sell."