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Sydney CBD rents to climb sharply

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Sydney office rental growth is tipped to surge in the next two years as CBD vacancy rates slide.

CB Richard Ellis is forecasting net rental growth of 5.8 per cent this year and 7.9 per cent in 2012. The effective growth is expected to be even stronger, as leasing incentives come down.

At the listed property trusts' August results announcements, GPT Group managing director Michael Cameron said he expected Sydney rents to rise 5 per cent this year and 10 per cent in 2012.

DEXUS managing director Victor Hoog Antink downgraded his expectations for rental growth for the next two years to 8 per cent.

CBRE expects CBD vacancies to fall from the current rate of 9.3 per cent to 7.3 per cent in 2013 as supply levels remain muted, until the office towers at Lend Lease's Barangaroo development start opening at 2014.

CLSA global markets analyst Bryan Howitt recently said Sydney and Melboure office markets were poised to reach a "sweet spot", with vacancy rates likely to fall to 5 per cent in the coming two years.

CBRE tipped a two-tier market to emerge as large vacancies became scarce. There were 113 whole floors of more than 1000 square metres available in the 12 months to June 2012, CBRE said.

However, there were only about five vacancies for contiguous space of more than 5000 sq m and two of more than 10,000 sq m.