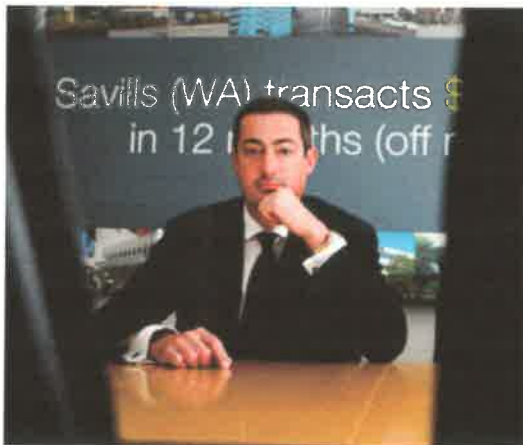


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Gorgon lifts Perth's office prospects

CATHY SAUNDERS, The West Australian
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Australia's biggest ever trade deal, the Gorgon LNG project, has major resources groups and related companies scrambling to claw back office space that they had put up for sub-lease, turning gloomy predictions of years of pain made only two weeks ago on their head.

Now the forecast is one of unleashed confidence and demand, driving vacancies to tight levels again by 2012 and pushing rents back up.

Savills WA managing director Paul Craig said there was no doubt the record \$50 billion deal, based on the supply of liquefied natural gas from WA to China, would have a positive effect on the Perth office market.

"We are seeing sublease space being withdrawn from the market by the major resource groups in anticipation of a rebound," he said. "There have already been some deals done for office space off the back of the Gorgon announcement. It is not just the big guys, it is all the add-on companies that provide services to them."

They include consultants and sub-contractors, small engineering, legal and general professional services.

The effect would also flow on to retail spending and general business confidence, Mr Craig said.

Office capital values and rents had declined about 20 per cent but now that tenant demand was back, rents would stabilise.

Only a fortnight ago, an Australian Property Institute State conference was told to expect longer rent holidays, plummeting capital values and declining rents.

Knight Frank director Ian Edwards said 60,000 to 70,000sqm of sub-leased space hit the market in the first quarter of this year when people feared a recession and panicked.

But now companies were hauling back their extra space and others were seeking offices. "We are doing three to four inspections daily," he said.

"For instance, Offshore Marine Services Alliance went into some Telstra sublease space at 251 St Georges Terrace. That is a project that has spun off from Chevron.

"I would have thought, the way it is going, by the first or second quarter of 2010 there won't be any subleased space on the market. Most of it will be withdrawn and what is not withdrawn will be leased."

Rents had declined from the "silly" high of \$970/sqm for premium space and were now stabilising at about \$750-\$800/sqm, Mr Edwards said. A-grade office rents were \$600-\$650/sqm and B-grade about \$450-\$500.

But rents would increase again because proposed new buildings were not being financed. "There is a credit-induced building lag," he said.

"There is all this demand fuelled by the LNG energy sector and China, and infrastructure development, but we are not building any new product because no one is lending any money for it. So it means we are going to end up with a shortage of office space."

New office projects under way were 93 per cent pre-committed and although space would be freed up when tenants relocated into

them, it would be taken up quickly.

"We will have enough for 2010 and 2011 but after that it is going to be tough," Mr Edwards said.

Knight Frank WA managing director Gary Ryan said the announcements of the past week and a half had turned confidence levels around.

"That applies to investors and tenants and all participants in the market," he said.

The North West Shelf Gorgon development - a partnership between global energy giants Chevron, Shell and ExxonMobil - will supply \$50 billion worth of gas to PetroChina under a 20-year agreement.


Construction will start next year with 10,000 new jobs during construction, 6000 new jobs during the peak and 3500 permanent jobs.

About \$300 billion worth of gas is expected to be sold from the project, with an increase to gross domestic product (GDP) of \$64 billion over 30 years, a 4 per cent boost to WA's gross product and a government revenue increase of \$40 billion, which is expected to result in many new infrastructure projects.

Mr Craig said more multi-million-dollar natural gas contracts were expected to be announced in WA in coming months, including Woodside's Pluto venture near Karratha which had the potential to be 40 per cent bigger and generate more sales than Gorgon.

Last financial year, during the peak of the crisis, WA had a 25 per cent rise in the value of its exports, which accounted for nearly 40 per cent of all Australia's exports, he said. Base metal prices rose 37 per cent in US dollar terms.

'We are going to end up with a shortage of space.'

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