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By Nichola Saminather

Nov. 13 (Bloomberg) -- Sydney's office vacancies are set to surge as Lend Lease Group's A$6 billion ($6.2 billion) financial center opens and older buildings are renovated while big tenants including Macquarie Group Ltd. cut jobs.

About 400,000 square meters (4.3 million square feet) of space will hit the market in the next five years, including Lend Lease's Barangaroo redevelopment in the former docklands district, according to UBS AG. That compares with 870,000 square meters added over the past 20 years.

The expansion will push vacancies above 12 percent by late 2016, which would be the highest since at least 1999, from about
9 percent now, Zurich-based UBS estimates. Sydney, which accounts for about 65 percent of the nation's financial activity, is bearing the brunt of job cuts at banks amid a global economic slowdown and ebbing mining deals at home.
Macquarie cut about 1,625 jobs, or 11 percent of its staff, in the year to September, and Westpac Banking Corp. reduced its workforce by 2,035 positions, or 5 percent, in the same period.

"The financial-services sector is slowing and they're a key occupant of offices," said Daniel Ekins, who oversees $1.75 billion as managing director for Asia-Pacific region securities at Deutsche Bank AG's RREEF real estate unit. "Rental rates are unlikely to grow significantly and vacancy rates are likely to increase."

Acquisitions involving Australian natural-resources companies fell by more than half this year to A$23.1 billion from the same period in 2011, putting them on pace for the slowest year since 2009. Initial public offerings in the country have halved, according to data compiled by Bloomberg. Australia's central bank cut its cash-rate target by a quarter percentage point to 3.25 percent last month to revive demand outside the resources industry, where growth may crest at a lower level than previously expected.

Job Cuts

Sydney is home to the national headquarters of global banks including JPMorgan Chase & Co., Goldman Sachs Group Inc. and UBS. The nation's two biggest lenders, Commonwealth Bank of Australia and Westpac, are based in the harbor city, as is the Australian Stock Exchange. Sydney is among the top 10 cities globally for finance companies to locate to, according to Los Angeles-based property broker CBRE Group Inc.

Employment at finance and insurance companies in Australia fell by 9,800 jobs, or 2.3 percent, in the year to Aug. 30, according to statistics bureau data. Australian commercial banks may shed 7,000 jobs in the next two years, UBS said in a January report.

While constrained building kept the city's office vacancy rate below 9 percent even following the collapse of Lehman Brothers Holdings Inc. in September 2008, that is set to change.

New Supply

Lend Lease, the nation's biggest property developer, will complete the first two commercial towers at Barangaroo in 2015, adding about 166,000 square meters of lettable space. The third building, to be finished in 2016, will have an additional

100,000 square meters.

About 140,000 square meters of refurbishments are planned for Martin Place -- a pedestrian thoroughfare lined with colonial buildings and the city's original financial hub -- by 2016, according to estimates by Chicago-based property broker Jones Lang LaSalle Inc.

"We have reservations about existing landlords' ability to fill the space tenants leave behind as they move to the new buildings, so we expect vacancies to pick up," said Grant McCasker, Sydney-based real estate analyst at UBS. "Fiscal year 2015 is the more difficult year, when the increase in supply really begins."

Vacancies will climb because white-collar employee growth needs to be 2.3 percent in 2015, 6.6 percent in 2016 and 9.8 percent in 2017 to maintain occupancy at current levels, a Morgan Stanley report said.

Declining Rents

Gross effective rents -- including the costs of maintaining the properties and incentives -- will fall to A$568 per square meter by December 2016 in current dollar terms from A$624 per square meter now, Morgan Stanley analyst John Meredith said in an e-mail.

Moves to new premises by three of the nation's four-biggest banks -- Commonwealth Bank, Australia & New Zealand Banking Group Ltd. and Westpac -- are spurring the upgrades at Martin Place, according to Tim O'Connor, head of office leasing for New South Wales state at Jones Lang LaSalle. Almost two-thirds of the refurbishments, being undertaken by landlords to lure new tenants, will be completed in 2015 and 2016, he said.

Bank Moves

Commonwealth Bank completed its move from Martin Place into a building owned by Lend Lease on the city center's western fringe in February. ANZ Bank, which sold its New South Wales head office at 20 Martin Place to Boston-based property manager Pembroke Real Estate Inc. last year, will relocate to a new building in the city center in 2013.

Westpac will vacate 60 Martin Place in December 2015 and move to the first tower at Barangaroo. The bank agreed to lease 60,000 square meters, or 70 percent, of the first tower to consolidate its nine sites in Sydney's center into two, it said.

Investa Property Group, which owns half the building at 60 Martin Place, is considering its options for the property and expects to refurbish and lease it in 2019, Michael Cook, group executive of the Morgan Stanley-owned company, one of Australia's biggest office landlords, said in an e-mailed response to questions.

At Barangaroo, KPMG LLP and Lend Lease will move into the second tower, taking the total space leased in the first two commercial buildings to 71 percent, according to Lend Lease. The third office building has not yet been leased.

Space Withdrawn

"We're quite confident of having a substantial level of pre-commitment across the three towers well before any of the other new space is delivered," Mark Lacey, Sydney-based national director of office leasing at Colliers International, one of the brokers marketing the towers, said. "And a lot of the space vacated as tenants move into Barangaroo could be withdrawn from the market."

As banks move away, other industries are set to replace them at Martin Place, Jones Lang LaSalle's O'Connor said.

Sydney-based office landlord GPT Group has seen “strong demand” from legal, professional and communications firms for its Martin Place property, the MLC Center, which it is upgrading, said Mark Fookes, the company’s chief financial officer.

Macquarie, Australia’s biggest investment bank, will be the only major domestic bank to have its headquarters in Martin Place, also home to the Reserve Bank of Australia, the central bank, which occupies a 1960s building at the eastern end.

Macquarie spokeswoman Navleen Prasad declined to comment.

Macquarie Headquarters

Macquarie will move its global head office in 2014 to 48 Martin Place and the adjacent 9-19 Elizabeth Street, both bought from Commonwealth Bank in March.

The bank will occupy about 20,000 square meters at the two buildings, according to O’Connor. That’s less than two-thirds the space it takes up now at the 121-year-old GPO building, also in Martin Place, based on filings from manager Charter Hall Group.

“The new buildings that are coming online are more efficient, so the tenants are likely to need less space,” UBS’s McCasker said. “Martin Place is considered a high-quality location, but over time it will need to reinvent itself to attract tenants.”

Companies are also likely to need less space as firms shift to open-space environments where employees share keyboards, telephones and desks, said Stephen McNabb, Sydney-based head of research at CBRE. For every 100 square meters of space taken historically, tenants will lease 80 square meters in the future, he said.

“Demand will have to pick up from where it’s currently at to absorb the supply, but won’t be sufficient to compensate for the lumps of supply that will come on,” McNabb said. “There’s going to be a bit of a lid on rental growth.”

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