Sydney CBD – Q1 2020

lpc cresa

Market Report

The office market vacancy rate for Sydney CBD has increased slightly from 3.7% to 3.9% in the six months to January 2020 as a result of an increase of sublease supply. This remains below the 10-year average of 6.8%, with development continued to be considered to meet demand.

Premium and A Grade Net Face rents continued to increase year on year by 9.8% and 4.4% respectively, with a 2% increase over the quarter. With a only minor increase in the most recent quarter, incentives are expected to increased over the next 12 months.

Sydney CBD has a strong supply cycle over the 2022 to 2025 period with Quay Quarter Tower, Circular Quay Tower, and several Over Station Developments to reach practical completion.

Typical Gross Rental Comparison – Premium, A & B Grade

Vacancy	Average Rent	Net Absorption
0.2%	$1,250/sqm	- 47,747 sqm

Grade	Typical Gross Face Rental ($/sqm)		Gross Incentive (%)	Gross Effective Rental ($/sqm)	
	Low	High	Average	Low	High
Premium	$1,430	$1,830	17%	$1,187	$1,519
A	$1,250	$1,550	15%	$1,063	$1,318
B	$1,050	$1,215	12%	$924	$1,069

Recent Transactions

	Tenant	Submarket	Type	Size	Term
1	First State Super	CBD	Pre-Com	9,500	10
2	Salesforce	CBD	Pre-Com	25,000	U/D
3	Thomas Geer	CBD	Pre-Com	13,689	U/D
4	Victory Offices	CBD	Pre-Com	2,600	U/D
5	Hall & Wilcox Law	CBD	New Lease	4,106	10
6	Elmo Software	CBD	New Lease	1,233	6

Occupier's Perspective

Strong employment and tenant demand along with a tight vacancy has allowed for the rents to continue to grow through this cycle. However, with the impacts of COVID-19 on the economy, is the market in line for a correction?

Incentives are on the rise as the rates of renewals increase, whilst tenants moving into both existing buildings and new developments receiving incentive rates above average. This is likely to continue throughout 2020.

Market Trends

COVID-19 set to impact the office market with a weaker growth outlook for the global economy. With government policies such as JobKeeper and the Mandatory Code for Tenant Rent Relief, the office market will continue to transform over the rest of 2020. Businesses now are looking to reduce their footprints, re-cut leasing deals and/or look to implement alternative workplace practises such as working from home.

Media, Technology, and Information Tenants continue to dominate the leasing activity in Sydney CBD, accounting for 20% of leasing volumes. This is a recent trend highlighted by the same industries only accounting for 8.5% of leasing volumes in 2018.