

Market Report

The office market vacancy rate for Melbourne CBD has reached a 10-year low and remains the lowest of any Australian CBD. The overall vacancy rate is now at 3.2% as at Jan 2020.

This can be attributed to Melbourne's strong population and employment growth. Melbourne CBD is forecast to grow from 317,500 to 480,400 workers, resulting in a projected need for an additional 4.4 million sqm of commercial floor space, by 2036. The low vacancy is expected to continue until the direct supply pipeline brings more stock to the market in 2021. Of the 400,000 sqm of new stock under construction, 300,000 sqm is already pre committed.

Over the last 12 months prime net effective rents grew by 15.0% (highest seen since 2008). This growth was underpinned by a net face rental increase of 13.9%, with incentive levels ranging between 22-28% of Net.

Typical Gross Rental Comparison – Premium, A & B Grade



Grade	Typical Net Face Rental (\$/sqm)		Gross Incentive (%)	Net Effective Rental (\$/sqm)	
	Low	High	Average	Low	High
Premium	\$700	\$950	20-28%	\$504	\$760
A	\$550	\$725	22-28%	\$396	\$565
B	\$440	\$560	23-27%	\$321	\$431

Recent Transactions

Tenant	Submarket	Type	Size	Term
1 Herbert Smith Freehills	CBD	New Lease	10,300	12
2 Qantas	CBD	New Lease	1,980	5
3 ME Bank	CBD	Renewal	13,689	10
4 QBE	CBD	Pre-com	5,700	10
5 Aus Fed Police	CBD	New Lease	22,750	30
6 Ombudsman (VIC)	CBD	New Lease	1,453	8

Occupier's Perspective



Net absorption of 76,432 sqm over the last 12 months. There is over 433,700 sqm of new supply (Premium/A and B grade) coming to the market within the next 18 months, however there is a high level of pre-commitment.



Melbourne CBD rental rates continue to rise over the 12-month period to December 2019, total sales volumes in Melbourne CBD were recorded at historic highs of nearly \$4 billion, contributing 20% to Australia's total office volumes.



Market Trends

New Stock in the CBD Market

Approximately 480,000 square metres of new office stock will be delivered to the market over the next five years which will impact the vacancy rate, however 69% (411,000 sqm) has already been pre-committed, meaning the vacancy will arrive in the form of backfill supply, potentially slowing or spreading its delivery over an extended period.

High Rentals continue to increase

due to the current low vacancy climate in Melbourne CBD. However, future increases are likely to be put on hold as tenants and landlords come to terms with the effects of COVID-19.