Sydney CBD – Q2 2020

lpc cresa

Market Report

The office market vacancy rate for Sydney CBD has increased from 3.9% to 5.6% in the six months to July 2020 as a result of limited demand. It is expected that the vacancy will continue to increase over the balance of 2020 as many organisations adopt a work from home policy due to the Covid-19 pandemic. Many organisations are now seeking to reduce their footprints via subleasing, re-cut leasing deals and/or look to implement alternative workplace practices (i.e. work from home or satellite sites).

The impacts of Covid-19 in the Sydney CBD office market still currently being assessed, and a number of organisations are opting for shorter term lease arrangement. The anticipated increase in sublease space is expected to put downward pressure on face rental growth as it is predicted that rentals will decrease by 5% to 10% over the next 12 months and incentive levels are expected to increase.

Typical Gross Rental Comparison – Premium, A & B Grade

Vacancy	Average Gross Rent	Net Absorption
5.6%	$1,250/sqm	- 58,675 sqm

Grade	Typical Gross Face Rental ($/sqm)		Gross Incentive (%)	Gross Effective Rental ($/sqm)	
	Low	High	Average	Low	High
Premium	$1,400	$1,650	27%	$1,022	$1,204
A	$1,200	$1,500	27%	$876	$1,095
B	$1,050	$1,150	25%	$787	$862

Sublease Opportunities

	Tenant	Grade	Industry	Size m2	Term
1	Norton Rose	Premium	Legal	2,400	Flexible
2	KPMG	Premium	Financial	2,985	Until 2026
3	Mundipharma	Premium	Medical	1,320	Until 2024
4	Deutsche Bank	Premium	Financial	2,888	Until 2028
5	Ashurst	Premium	Legal	1,100	Until 2025
6	Trade Desk	A	IT	565	Until 2022

Occupier's Perspective

Market sentiment in the office market is predicted to normalise from 2022 onwards, as many organisations will have certainty surrounding the impacts of Covid-19. Tenant demand fell by 58,675 sqm over the last 6 months

Incentives are on the rise as the number of sublease opportunities are likely to flood the market and landlords are forced to compete. Tenants are opting for short term arrangements whilst the impacts of Covid-19 are being assessed. This is likely to continue throughout 2020.

Market Trends

COVID-19 has had a significant impact in the office market over the past quarter. Many organisations have placed major leasing transactions on hold and adopted a “wait” and “see” approach.

The government policies such as JobKeeper and the Mandatory Code for Tenant Rent Relief, has assisted many organisations get through this period of uncertainty.

117,161 sqm of stock will enter the market over the next 6 months with majority of stock to enter the market from 2021/22 onwards.