

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 due to limited demand. The forecast in the CBD office market is that vacancy will continue to increase over the rest of 2020 and into 2021 as businesses change their work patterns and look at minimising their office requirements as a result. Subleasing has become more prevalent in the market as a result with some tenants re-cutting leasing deals to take up a small footprint.

As the impact of COVID-19 on the Sydney CBD office market has not yet been fully understood, many businesses are choosing to negotiate shorter term leasing arrangements or hold-over on their existing lease. This, as well as the expected increase in sublease space along with rising incentives, will put downward pressure on face rentals, which could decrease by as much as 5% to 10% over the next 12 months.

Typical Gross Rental Comparison – Premium, A & B Grade



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	\$1,000	\$1,150	25%	\$787	\$862

Significant Recent Transactions

	Tenant	Grade	Industry	Size m2
1	Blackstone	Premium	Financial	745
2	IFM	Premium	Financial	1,200
3	AECOM	A	Engineering	7,000
4	CoreLogic	A	IT	2,200
5	Resolution Life	A	Financial	3,278

Occupier's Perspective

The Sydney CBD's low vacancy rate at the beginning of the pandemic has helped the market remain relatively stable. Even with the uncertainty of changing workplace practises and underutilisation of offices there is expected to be recovery in the mid-long term.



Incentives will continue to rise for the remainder of 2020 and into 2021 as landlords are being put into competition to attract/retain tenants as an influx of subleases are set to flood the market.



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.

Government tenants keeping leasing activity ticking over with majority of transactions taking place over 2020 being from government tenants either renewing or securing new leases.