Sydney CBD – Q1 2021 Market Report

The office market vacancy rate for Sydney CBD has increased for the second consecutive 6-month period from 5.6% to 8.6% in the six months to January 2021 due to limited demand. The forecast in the CBD office market is that vacancy will continue to increase throughout 2021 as businesses adapt and change their workplace strategies, looking at minimising their office requirements as a result. More sublease space has become available as a result.

Short term or flexible leases have become more prevalent, with businesses looking to hold over or negotiate short term leases as the impact of COVID-19 on the Sydney CBD office market has not yet been fully understood. 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. Already lower quality A grade and B grade office rents have seen a deduction in value.

Moving forward businesses are looking to evolve their workplace offerings. A shift of focus towards collaboration, health, and wellbeing along with improved amenity are all ways businesses are developing their office to entice their employees to come back into the office. Assigning days to different teams within the business is another method that is being used to ensure the office is utilised and collaboration can take place.

Typical Gross Rental Comparison

Vacancy	Average Gross Rent	Net Absorption
8.6%	$1,250/sqm	- 54,671 sqm

Grade	Typical Gross Face Rental ($/sqm)		Gross Incentive (%)	Gross Effective Rental ($/sqm)	
	Low	High	Average	Low	High
Premium	$1,400	$1,650	28%	$1,008	$1,188
A	$1,100	$1,450	28%	$792	$1,044
B	$1,000	$1,150	25%	$750	$862

Note - Vacancy and absorption statistics sourced from Property Council of Australia

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Occupier's Perspective

As the vaccine rollout commences in Australia and NSW continues to record zero cases, businesses are asking their employees to come back to the office a couple of days a week. This will likely remain the new norm with a work week split between working from home and in the office.

Incentives will continue to rise as landlords hold onto their face rent values. Landlords are also being placed into competition with increase in sublease space and the tenant favourable terms being offered.

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.

Government policies such as JobKeeper and the Mandatory Code for Tenant Rent Relief, has assisted many organisations get through this period of uncertainty, however now with these schemes ending, the fallout will likely to be more evident.

Tech tenants continue to allow employees to work from home, with global mandates from head offices overseas resulting in theses tenants looking to sublease unused space.