

Melbourne CBD – Q2 2021

Market Report

The Melbourne CBD has been greatly impacted by the pandemic, especially with the frequency and length of lockdowns disrupting normal business practises. As a result, in the first half of 2021, we saw another increase in the vacancy rate, increasing by 2.0% to 10.4% in the 6 months to July 2021.

The high vacancy rate continues the recent trend of vacancy rates increases experienced in 2020 and shows the significant impact of the pandemic with the vacancy rate pre-COVID being constantly sub 4.0% from July 2018 to January 2020. Looking forward we can expect the vacancy rate to remain relatively high for the next few years as new workplace practises and the pandemic are fully realised.

Considering the above, it was surprising that the Melbourne CBD did see an increase in transaction activity over the first 6 months of 2021. Businesses that had put their office requirements on hold were able to transact due to employees returning to the office and no lockdowns. The recent lockdown in Melbourne will likely cause a further delay of major transactions and see an increase in incentives as a result. Landlords will be incentivising tenants, especially in the 1,000 sqm + range, as backfill space hits the market following the completion of several new developments.

Typical Gross Rental Comparison



Grade	Typical Net Face Rental (\$/sqm)		Net Incentive (%)	Net Effective Rental (\$/sqm)	
	Low	High		Low	High
Premium	\$700	\$950	33%	\$469	\$637
A	\$550	\$725	32%	\$374	\$493
B	\$450	\$550	28%	\$324	\$396

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

Occupier's Perspective



Despite Victoria facing one of the longest lockdowns in Australia throughout 2020, the unemployment rate in Victoria (4.5%) is only 0.1% lower than the Australian unemployment rate of 4.6%

Melbourne's employment growth is predicted to continue throughout 2021, even with the latest lockdown, and this should have a positive flow on effect for office leasing demand.



Sublease space continues to saturate the market with Businesses looking to reduce their footprints due to restricted occupancy and new working habits.

Market Trends

Development pipeline looking uncertain – whilst the 2020/2021 development pipeline has been completed/nearing completion, beyond this developments remain uncertain as the changing market conditions have increased the risks and costs associated with developing.

Premium and A Grade office space continues to take up the majority of sublease space in the market, with the "Prime" grade options contributing to over 90% of availabilities. This comes as sublease availability is currently above the 15-year average.

Finance and Insurance Services are the largest contributors of sublease space in the first half of 2021.