Melbourne CBD – Q3 Market Report

As Victoria comes out of another lockdown the already increasing vacancy rate of 10.4% as of July 2021 is likely to continue into 2022. Even with the easing of restrictions, the high case numbers are likely to remain a deterrent to workers returning to the office for the remainder of the year.

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.

The recent lockdown in Melbourne will likely cause a further delay of major transactions and see an increase in incentives as a result. Landlords have been offering increasingly high incentives, especially in the 1,000 sqm + range, as backfill space hits the market following the completion of several new developments, as well as sublease space comes to market. As of July 2021, there was the highest recorded sublease space availability in the CBD since the mid-1990s.

Typical Gross Rental Comparison

Vacancy	Average Rent	Net Absorption
10.4%	$700/sqm	-96,635 sqm

Grade	Typical Net Face Rental ($/sqm)		Net Incentive (%)	Net Effective Rental ($/sqm)	
	Low	High	Average	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

Whilst the Delta outbreaks have continued to create uncertainty around returning to the office, the high rate of vaccination has allowed the government to commit to reopening the State over the coming quarter. This will likely see an increase in the number of workforces returning to the office and adopting the new workplace strategies that were being developed throughout the lockdowns.

Sublease vacancy has doubled, with over 119,000 sqm of sublease space becoming available as of July 2021. This is an increase from the 64,000 sqm available in January 2021.

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. New developments will need to be futureproofed, with an aim to allow improved hygiene. Items such as touchless technology and filtered air con are all types of items to be included.

Incentives continue to rise off the back of landlords aiming to hold the net face rents. Incentives are likely to remain high for the remainder of the year, but with the high rate of vaccination and a return the office will likely impact incentives moving forward into 2022.