Sydney CBD – Q3 2021 Market Report

For third consecutive 6-month period, the office market vacancy rate for Sydney CBD has increased. For the six months to July 2021 the vacancy rate increased from 8.6% to 9.2%. This is now the highest vacancy rate since January 2012. With the end of lockdown, it is expected that the vacancy rate will begin to drop over the coming periods into 2022.

As seen at the beginning of the year, the economic recovery after the first lockdown was strong. This translated into an increase in office leasing activity at the beginning of the year that was then halted by the second lockdown. The pent-up leasing demand is likely to transpire again, with inspections already increasing due to the increase in vaccinations and loosening of restrictions.

Whilst short term renewals and lease flexibility was the trend throughout 2020 and 2021, this is likely to change with businesses now looking to lock in long term plans for their office requirements. A shift towards collaboration, hybrid working, health, and wellbeing are ways businesses are addressing the post-COVID workplace.

The statistics below represent the pre-lockdown figures and with limited transactions throughout the lockdown will likely change further throughout the end of the year.

Typical Gross Rental Comparison

Vacancy	Average Gross Rent	Net Absorption
9.2%	$1,250/sqm	27,269 sqm

Grade	Typical Gross Face Rental ($/sqm)		Gross Incentive (%)	Gross Effective Rental ($/sqm)	
	Low	High	Average	Low	High
Premium	$1,400	$1,650	30%	$980	$1,155
A	$1,100	$1,450	29%	$781	$1,029
B	$1,000	$1,150	25%	$750	$862

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

Occupier's Perspective

Looking forward, although the most recent lockdown may have slowed the previous progress of leases transacting, the rollout of the vaccine and subsequent easing of restrictions has allowed a return to the workplace to take place.

Incentives remain above average as landlords try to maintain their face rent values and attract new tenants. Landlords are being placed into competition as they continue to compete with sublease space, historically restricted tenant demand and additional supply coming to market with circa 35,000 sqm coming online by the end of 2021.

Market Trends

New supply receives high level of pre-commitments. With over 180,000 sqm of development under construction, there is a commitment rate of circa 60%. Majority of this commitment came pre-COVID, however a number of tenants have looked to capitalise on the COVID uncertainty and locked in favourable lease terms in these new buildings due for completion in 2022.

Tech tenants were the biggest contributor to Net Absorption in the Sydney CBD leading up to COVID-19. Since the pandemic commenced many in this sector have mandated employees to work from home indefinitely. If this becomes the longer-term trend, then the market is likely to see a significant uplift in vacancy over the next 5+ years.