

Melbourne CBD – Q4 2021

Market Report

As Melbourne's office workers re-emerge from remote working arrangements due to the extensive lockdowns in 2021, the vacancy rate of the CBD continued to increase slightly to 11.9% as of January 2022. Even with the easing of lockdown restrictions, the high case numbers have remained a deterrent to workers returning to the office for the start of the year.

This high vacancy rate continues the recent trend, with a significant supply of new space in the last two years, contributing to expectations that vacancy rates will remain relatively high for the foreseeable future. Lasting impacts of the pandemic and ongoing lockdowns are likely impacting more on the sub-lease market, which is at an historical high, but not reflected in the headline vacancy rates.

Whilst there was an increase in transactions and activity in the last quarter of 2021, sub-lease vacancy has increased on the back of downsizing due to the increase in remote working. Landlords have been offering higher incentives, and spec fit outs are continuing to be offered in the sub 500 sqm market to suit organisations who have delayed decisions and require turn-key space.

Finally, it is difficult to point to a single, consistent trend emerging from the decision-making of businesses as they contemplate new ways of working and assess the flow-on impacts to their office space requirements. Rather, businesses are taking their time to understand their own individual business context and needs as the return to office approaches.

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



On the back of the planned increase of workforces returning to the office in March, Occupiers will need to assess how they will utilise their space moving forward, and what that will mean for their future requirements. Utilisation data will become increasingly important in assisting Occupiers making these informed decisions.



With the increase in incentives, tenants have the opportunity to upgrade their space and move up to a higher grade of building with more amenities and services.

Market Trends

Development pipeline looking uncertain – whilst the 2021 development pipeline has been completed/nearing completion, beyond these developments the outlook remains 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.

Many businesses are looking to return to office after March 2022, after the Victorian government advised workers to remain working from home until the end of February. Mask mandates beyond this date may discourage workers from returning to the office beyond this date.