

# Melbourne CBD – Q1 2022

## Market Report

As Melbourne's office workers continue to re-adjust to a return to the office environment post pandemic, the vacancy rate of the CBD continued to increase slightly to 11.9% as of January 2022, with supply of space contributing to the rise from 10.4 percent in July 2021.

This high vacancy rate continues the recent trend, with a significant supply of new space in the last two years and new supply coming in 2022 and 2023 contributing to expectations that vacancy rates will continue to rise before gradually declining.

Sub-lease vacancy has reduced on the back of an increase in speculative fit outs, which provide a cost effective, faster and more convenient solution for occupiers. In addition, there has also been some withdrawal of sub-lease space from the market as more workers return to the office.

Asking rents for Premium-grade buildings have shown a slight increase due to lower vacancy in premium buildings, whilst incentives have remained steady across all grades.

It is still difficult to point to a 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. Businesses are still taking their time to understand their future business needs as well as the requirement for office space given there will still be a working from home contingent within their workforce.

### Typical Gross Rental Comparison



Grade	Typical Net Face Rental (\$/sqm)		Net Incentive (%)	Net Effective Rental (\$/sqm)	
	Low	High		Low	High
Premium	\$700	\$950	37%	\$469	\$637
A	\$550	\$725	32%	\$374	\$493
B	\$450	\$550	30%	\$324	\$396

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

## Occupier's

## Perspective



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.

**Opportunities still exist in the co-working environment**, with many operators still providing attractive incentives for both new and sitting tenants to reduce occupancy created during the pandemic.