

Melbourne CBD – Q2 2022

Market Report

As Melbourne's office workers continue to lag the rest of the country in returning to the CBD office environment, the vacancy rate of the CBD continued to increase to **14.8% as of July 2022**.

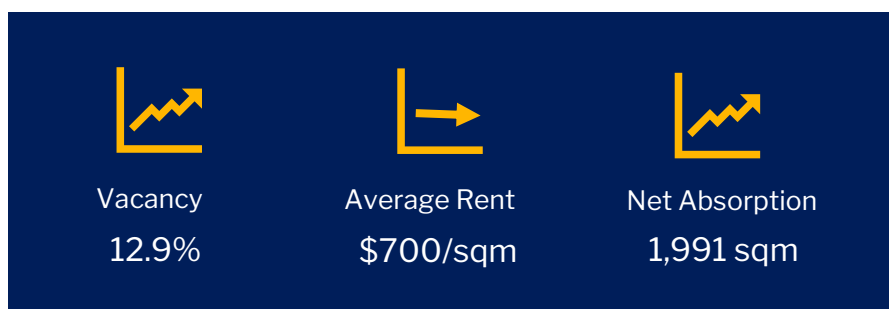
This high vacancy rate continues the recent trend, with a significant supply of new Premium and A-Grade space in the last two years and new supply coming in 2022 and 2023 contributing to expectations that vacancy rates will continue to rise before gradually declining.

Sub-lease vacancy has benefited from demand for quality, fitted out space and 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 flexible 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 significant 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 high vacancy levels and significant incentives available, businesses have an opportunity to relocate to a higher grade of building with superior amenities and services and / or upgrade their premises.

Market Trends

Flexibility is key – as businesses adapt to providing their workforce with greater flexibility through remote and hybrid ways of working, it is critical that lease commitments equally provide for flexibility in relation to future space requirements. An ability for a business to expand or contract its premises or terminate a lease early and without penalty as business requirements change are all key.

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.