Sydney CBD – Q3, 2022 Market Report

The overall office market vacancy rate for Sydney CBD remains at 10.1% being the highest vacancy rate for over the past decade. Leasing activity has slowed during this quarter because of inflation, rising interest rates and the uncertainty in the overall global economy as these factors have damped business confidence.

Tenant activity remains in sub 500 sqm as tenants are electing to lease office space that contain a high quality fit out. We expect this trend to continue as landlords are continuing to speculative build fit outs to attract tenants. Incentive levels remain stable over this quarter, however due to the increase in borrowing cost, some landlords are opting to provide incentives by way of a rental discount instead of a cash contribution towards a tenants fit out.

Whilst activity in the market remains stagnant, if inflation continues to rise along with interest rates, we expect that most business will take a cautious view on their commitment to office space. This will also likely result in an increase in sub lease office space entering the market.

A shift to the flight to quality remains prevalent in the marketplace as well as demand for ESG buildings.

Typical Gross Rental Comparison

Vacancy	Average Gross Rent	Net Absorption
10.1%	$1,600/sqm	21,692 sqm

Grade	Typical Gross Face Rental ($/sqm)		Gross Incentive (%)	Gross Effective Rental ($/sqm)	
	Low	High	Average	Low	High
Premium	$1,400	$2,200	30%	$980	$1,540
A	$1,100	$1,500	30%	$770	$1,050
B	$1,000	$1,150	30%	$700	$805

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

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Occupier's Perspective

Vacancy rates remain high at 10.1% and these figures do not show the full picture of the sub-lease space available in the market. We expect this vacancy to increase over the next quarter. Office occupancy remains low with tenants reporting occupancy of 50% to 60% during peak period on Tuesday to Thursday.

Incentives remain high 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 the increase of sub-lease space (above).

Market Trends

Co-working and flex space providers are already experiencing an uptake in demand as changing workplace practises, such as the inclusion of working from home has seen a flexible lease term as more attractive. Offering flexible terms for businesses will benefit those companies still determining their office footprint in 2022 and beyond.

Demand for quality space continues, as employees prime grade options and upgraded space in order to entice them back to the office.