Sydney CBD – Q4, 2022 Market Report

The overall office market vacancy rate for Sydney CBD increased again at 11.3% 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.

Those transacting do however continue a trend of a flight to quality, as well as many occupiers demanding higher levels of ESG in their buildings. This has seen the Premium and A Grade face rents increase towards the end of 2022.

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.

Typical Gross Rental Comparison

Vacancy
11.3%

Average Gross Rent
$1,600/sqm

Net Absorption
-19,738 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

Occupier's Perspective

Vacancy rates remain high at 11.3% 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.

With workplace experiences demanded by tenants continuing to change, both landlords are upgrading their offerings to attract tenants and provide workplace experiences that enhance the tenants' experience. Landlords are delivering more vibrant lobbies with third spaces, rooftop terraces, tenant lounge and conference settings all being implemented. Occupiers are taking advantage of these offerings to entice their workforces back to the office.

Melbourne CBD – Q4 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 13.8% as of Jan 2023.

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

Vacancy	Average Rent	Net Absorption
13.8%	$700/sqm	-13,663 sqm

Grade	Typical Net Face Rental ($/sqm)		Net Incentive (%)	Net Effective Rental ($/sqm)	
	Low	High	Average	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.

Brisbane CBD – Q4 2022 Market Report

Brisbane CBD's vacancy, along with Perth, Darwin and Hobart decreased over the 6 months to January 2023, from 14.0% to 12.9% for a change of 1.1%. This has been a result of the increase in demand for office space and strong net absorption, being the strongest since 2016.

Brisbane office market is one of the strongest performers in comparison to other capital cities across Australia. The demand was largely from public sector and the growth of smaller tenants.

As per the trend throughout the National CBD markets, the sub 500 sqm market continues to be the most transacted size range with landlords providing speculative fitout to entice tenants. With inflationary pressures, the Brisbane office market did also experience rental growth throughout the year.

Given the lack of new supply entering the market and coupled with several larger users in the search for office space, the pre-commitment market is expected to tighten over the next 12 months.

Typical Gross Rental Comparison

Vacancy	Average Gross Rent	Net Absorption
12.9%	$712/sqm	44,690 sqm

Grade	Typical Gross Face Rental ($/sqm)		Gross Incentive (%)	Gross Effective Rental ($/sqm)	
	Low	High	Average	Low	High
Premium	$850	$1000	38%	$527	$620
A	$550	$850	38%	$341	$527
B	$425	$575	37%	$267	$362

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

Occupier's Perspective

Government and smaller users dominate the take-up in office space at the back end of 2022. This is likely to continue into 2023, as typically larger tenants continue to downsize.

Pre-commitments in 2022 have increased and this is expected to tighten over the next 12 months. Active tenants in the marketplace include Allens, ANZ, Clayton Utz, Hatch, BCC and BHP.

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.

Vacancy to remain in the double digits although it is expected to drop in the first half of 2023. Increase in tenant inquiry and confidence likely to see more transactions take place. Landlords will still need to provide competitive deals to entice tenants.

Demand for quality space continues, as employees demand funky, fresh and upgraded space in order to entice them back to the office.

Perth CBD – Q4 2022 Market Report

The Western Australian resilient with the opportunities for growth in employment remaining positive although residential accommodation remains tight in an increasingly expensive rental market. The unemployment rate is low at 3.5% and the current CPI is running at 8.3% although wages growth to September 2022 was more subdued at 2.5%.

Exports remain strong with over 55% of the nation's exports being sent from WA in the year to September 2022. As of 19 January 2023, WA is contributing 17.5% to the national economy which is an increase from 16% in October 2022. PCA vacancy figures for the end of 2022 have reported a slight drop in the CBD to 15.6% although some major agencies are suggesting it is higher. There are still generous incentives being offered for new deals and the growth in rents has been modest if at all over the past year.

Chevron will move into 1 The Esplanade during March /April which will leave behind substantial vacant areas particularly in QV1 and new supply in the Perth CBD is expected to increase by 97,804 sqm (New and Refurbished) in 2023 (PCA). The impact of Chevron vacating space in various buildings will be significant. According to the PCA Perth has the highest office occupancy rate of 80% compared to pre-pandemic levels which is a positive sign for the market and welcome news for retailers and those depending upon a strong CBD occupancy.

The mining and professional services sector is expected to provide most of the activity/demand over the foreseeable future. Consistent with LPC's previous reports for 2022 the overall Perth CBD office vacancy rate will probably remain around 16 - 20% for a few years.

Typical Gross Rental Comparison

Vacancy	Average Net Rent	Net Absorption
15.6%	$675/sqm	6,086 sqm

Grade	Typical Net Face Rental ($/sqm)		Net Incentive (%)	Net Effective Rental ($/sqm)	
	Low	High	Average	Low	High
Premium	$675	$800	42%	$360	$440
A	$550	$650	45%	$275	$330
B	$400	$550	45%	$200	$270

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

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Occupier's Perspective

- With Covid less prevalent and with many businesses having adopted flexible working arrangements the activity in the CBD is continuing to improve.
- Landlords will continue to retain and attract tenants by offering flexible terms and incentives and due to the relatively high vacancy rates this will be the market for the foreseeable future.
- Providing a stimulating and attractive work environment remains of paramount importance as the competition to retain and attract staff is strong.

Market Trends

In Perth there are still very good opportunities for tenants looking to upgrade their accommodation as the general office market remains in favor of the Tenant. With continuing interest rate rises and the subsequent decompression of yields for assets the pressure on Landlords to retain cashflows will be of paramount importance. Therefore, for sitting and new Tenants this provides an opportunity to negotiate terms and conditions of Lease which are more in keeping with the requirements of the occupier rather than the owner.

Top end of buildings becoming more difficult for 200-400m2 tenants to find space in premium accommodation during 2023 which probably accounts for more take of similar sized areas in A Grade and High B Grade buildings major office buildings.

Adelaide CBD – Q4 2022 Market Report

Adelaide vacancy across the Adelaide CBD increased from 14.3% in July 2022 to 16.1% in January 2023, off the back of approximately 23,600sqm of additional office supply in the CBD market. This supply cycle will continue its' momentum over the next 6-12 months, with 150 Grenfell Street (9,200sqm) and 185 Pirie Street (6,500sqm) recently commencing construction. Elsewhere in the CBD, 60 King William Street (40,000sqm) is on target for a June 2023 completion, while Festival Plaza (40,000sqm) continues to progress rapidly for a Q1 2024 completion.

Landlord incentives have also stabilized and sit at an average of 37% to 42% for old generation (pre-1990) A Grade building, and 35% to 38% for new generation (post 2004) A Grade building.

The flight of tenants to good quality office buildings has been a feature across the market over the last 5-10 years but has accelerated as businesses have considered both the size of the space, they need due to work from home, and the quality of the space for the days employees are in the office.

Typical Gross Rental Comparison

Vacancy	Average Rent	Net Absorption
16.1%	$550 psm	-7,986 sqm

Grade	Typical Gross Face Rental ($/sqm)		Gross Incentive (%)	Gross Effective Rental ($/sqm)	
	Low	High	Average	Low	High
A New Gen	$575	$670	36%	$368	$429
A Old Gen	$500	$575	39%	$305	$350
B	$400	$500	36%	$256	$320

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

Occupier's Perspective

Adelaide's occupancy rate, measuring employee office usage throughout the week, edged up slightly to 80%, significantly above Melbourne and Sydney, which sit at 47% and 61% respectively.

Decreased attractiveness of older A and B grade buildings has caused the jump in overall CBD vacancy rates, as occupiers' eye off better quality buildings.

Market Trends

The average market rental for New Generation buildings increased by 5% over the last 6 months, fuelled by limited vacancy.

A higher quality office and reduced footprint due to WFH has been at the forefront of tenant decision making, accelerating the flight to quality trend.

The quality, size and necessity of office space is at the forefront of tenant's minds, accelerating the flight to quality trend.

The next stage of the office supply cycle has begun, with the commencement of many smaller development projects.

Auckland CBD – Q4 2022 Market Report

Overall vacancy rate for Auckland CBD Office dropped from 11.6% to 10.8% in the second half of 2022. As per the trend in other regional markets, prime grade options continued to be snapped up with primary grade vacancy dropping from 6.6% to 5.4% and secondary grade vacancy rate sits at 16.3%.

As the above statistics show, the gap between prime and secondary grade uptake is increasing, as tenants look for better quality assets to entice their workforce back to the office full time. Many of these prime options are also providing speculative fitouts for the ability of tenants to walk in without having to undertake a fitout.

Sustainability has also continued to be a key item in attracting tenants to buildings and is a factor that many businesses are considering as a key item when searching for a new premises.

Whilst there was an increase in transactions and activity in the first half of 2022, 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 300 sqm market to suit organisations who have delayed decisions and require turn-key space.

Increasing interest rate and forecasts of a slowing economy presents risk to businesses which requires more vigilant cost control and flexible accommodation.

Typical Gross Rental Comparison

10.8%
Vacancy

$750/sqm
Average Rent

Grade	Typical Net Face Rental ($/sqm)		Incentive
	Low	High	
Prime	$580	$700	↗
Secondary	$350	$500	↓

Note - Vacancy and absorption statistics sourced from LPC research, and various research houses

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Occupier's Perspective

On the back of the planned increase of the workforce returning to the office, 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 expectation of increasing interest rate and possible slowing economy.

The flight to quality has seen Prime grade options vacancy decrease and face rents increase.

Market Trends

Development activity has increased with approx. 120,000 sqm of office space to come online in the next 5 years. Landlords / developers have been bolstered by the demand for high quality assets and will likely see more mooted developments as a result.

With an increase in flight to quality landlords are further incentivising tenants by providing turn-key-fitouts. Many small to medium sized businesses are able and willing to pay the higher Premium rents, especially if a fitout is provided as part of the deal.

Occupiers are wary about the supply chain disruptions and sensitive to delays that affect business.