Sydney CBD – Q1, 2023

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.

Further proof of the flight to quality has been seen by the number of transactions per sqm in each CBD precinct. Over 50% of all transactions in 2022 were conducted in the Core precinct. This is where majority of the higher-grade Prime buildings are located, and reflects the tenants push to higher quality assets. Midtown and Western Corridor were nearly even in taking up a share of just under 20% each. Tenants will continue to look in these precincts as the search of quality stock continues in 2023.

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	Average Gross Rent	Net Absorption
11.3%	$1,600/sqm	-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 and even increase their face rent values whilst attracting new tenants. Landlords are being placed into competition as they continue to compete with the increase of sub-lease space.

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 – Q1 2023 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 sits at 13.8% as of Jan 2023.

This high vacancy rate continues the recent trend of increasing vacancy with a significant supply of new Premium and A-Grade space coming to market over the last two years and new supply coming in 2023 contributing to expectations that vacancy rates will continue to rise. This is mainly seen in the secondary market where vacancy is more pronounced at 17.2%.

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 slightly increased across all grades.

Recent briefs in the Melbourne CBD market varying from around 300 – 500 and 1,000 – 2,000 sqm have garnered more than 80 options each submitted by agents and landlords, highlighting whilst demand for higher grade buildings is the trend, there is still a signicant level of vacancy that is impacting landlords.

Typical Gross Rental Comparison

Vacancy	Average Rent	Net Absorption
13.8%	$700/sqm	-15,654 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

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Occupier's Perspective

Secondary grade has continued to lag in the Melbourne, as per all major Australian cities, with Premium and A-Grade seeing an uptick in net absorption. Secondary grade net absorption was down -55,708 sqm compared to the total net absorption rate of -15,644 sqm.

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 – Q1 2023 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

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Occupier's Perspective

Premium grade continues to have the lowest vacancy at 5.9%, however there are new tenants moving into the city from their suburban offices that is taking up the backfill space.

An increase in the flight to quality is also the impact of a greater emphasis on being located at green assets. Buildings with green credentials are considered more favourable and are generally the higher-grade buildings.

Market Trends

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.

Secondary office stock to be retrofitted or purposed to meet higher environmental standards, as tenants look at green credentials as a main component in their accommodation decision matrix.

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.

Adelaide CBD – Q1 2023 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, this will see a 6.9% growth in Adelaide CBD's office market.

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.

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.

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

High NABERS rated buildings are seeing strong demand as ESG credentials become more popular for tenants. In buildings that have a NABERS of 5.5 Stars, the vacancy rate is 9%.

Linked with the above, there is 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.

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

Government sector continues to dominate, with the bulk of demand coming from this sector, with the Health and Community sector recording the second highest demand for office space.

Perth CBD – Q1 2023 Market Report

The Western Australian economy remains 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 3.6% (April) and the current CPI is running at 5.8% with pressure on wages growth of 4.1% being experienced in the year to the end March 2023 year. Exports remain strong with over 47 % of the nation's exports being sent from WA in the year to March 2023. 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 possibly at slightly lower levels and therefore the growth in net effective rents has been evident at the upper end of the market.

Chevron moved into 1 The Esplanade during March /April (joined by Freehills in April and Minter Ellison in 2024) which leaves behind substantial vacant areas particularly in QV1 and new supply in the Perth CBD is expected to increase by 97,804m2 (New and Refurbished) in 2023 (PCA). 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

Occupier's Perspective

With the effects of Covid waning and with many businesses having adopted flexible working arrangements the activity in the CBD is continuing to improve although with some major companies only requiring a presence in the office for 3 out of 5 days some retailers are feeling the effects.

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 state of the market for the foreseeable future.

Market Trends

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.

Incentives remain a significant part of lease negotiations and the presentation marketing and promotion of lesser grade space needs to be resourceful to attract tenants.

It's still a tenant's market so do homework and research the market thoroughly to ensure that the terms negotiated provide the most competitive deal in terms of Cost, Risk, Flexibility, Obligations and Guarantees.