Sydney CBD – Q2, 2023 Market Report

The overall office market vacancy rate for Sydney CBD increased again at 11.5% 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.

Flight to quality remains the main trend for those transacting, as well as many occupiers demanding higher levels of ESG in their buildings. This has seen the Premium and A Grade face rent increase during the first half of 2023.

The CBD Core remains the precinct with the most transactions as 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 landlords continue to provide speculative fitouts and plans for refurbishment to amenity to ensure they remain attractive. Tenants will continue to look in these precincts as the search of quality stock continues into the second half of 2023.

New supply in the Premium market over the next 18 months is mainly pre-committed. Significant backfill space has come on market as a result, which will keep the vacnacy rate at current levels.

Typical Gross Rental Comparison

Vacancy	Average Gross Rent	Net Absorption
11.5%	$1,600/sqm	-50,911 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

lpc

Occupier's Perspective

The difference between Prime and Secondary face rents remains at the largest gap in 5 years at 28%. This is a result of the flight to quality, leaving landlords of secondary assets to provide lower rents to entice tenants to their assets. Landlords will need to upgrade their assets to command higher rents.

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

Increase in funding costs has seen landlords become more cautious with providing upfront capital to incoming tenants. As a result, speculative fitouts for larger suites – 1,000 sqm + has become more prevalent.

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 – Q2 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 16.2% as of July 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.

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
16.2%	$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

Occupier's Perspective

The vacancy rate will remain high over the rest of 2023 and into 2024, as a lot of new stock that commenced construction before COVID hit comes to market. Whilst 555 Collins Street and 699 Collins Street both have pre commitments there are still space available.

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 continues to decrease over the 6 months to July 2023, from 12.9% to 11.6% for a change of 1.3%. 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 is largely from the 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
11.6%	$712/sqm	41,000 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

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 has also seen rental rates grow in A-Grade premises over the past 12 months. Tenants are wanting offices that have good amenity and for the Brisbane CBD this is the River Precinct.

Market Trends

Vacancy to remain in the double digits although it is expected to drop in the first up until the mid-2024. 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 – Q2 2023 Market Report

Adelaide vacancy across the Adelaide CBD decreased by a nominal 0.1% 16.0% from 16.1% in the 6 months to July 2023, off the back of strong take up in secondary grade vacancy rate. The CBD's prime grade office vacancy, 18.4%, reached the highest rate in decades as the secondary grade vacancy dropped to its lowest in tens years at 14.2%. The prime vacancy rate is as a result of an increase in supply rather than not enough demand.

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) recently reached 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
16.0%	$550 psm	3,000 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 circa 9%.

Flight to quality has seen B grade and lower become less appealing. Even with rents dropping in the last two quarters, these buildings are finding it hard to attract tenants.

Old Gen grade buildings have outperformed expectations, with landlords providing speculative fitouts for tenants to plug and play making these buildings more attractive.

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.

lpc

Perth CBD – Q2 2023 Market Report

The Western Australian economy has remained strong due to the resource sector and the resultant influx of people into the State from Interstate and Overseas.

The unemployment rate remains low at 3.6% (July) with the [participation rate at 68.2%. CPI has moderated to be 4.9% (June) with pressure on wages growth of 4.1% being experienced in the year to the end March 2023 year with the Average Weekly Earnings – full time - just below $2,000.

PCA vacancy figures for the end of June 2023 have reported a slight increase in the CBD rate to 15.9% with some major agencies suggesting it is higher. Generous incentives are being offered for new deals although at the better end of the market this has reduced slightly. The vacancy rate for secondary stock is above 20% so the competition to attract and retain tenants will remain robust.

Office space available for sublease in the Perth CBD is at a historically low level and in stark contrast with Sydney and Melbourne which are well above their historical averages.

Not surprisingly the mining and professional services sector is expected to provide most of the activity/demand in the next few years. Prudent Tenants are taking advantage of the relatively high vacancy rates to renegotiate improved conditions associated with their lease commitments.

Typical Gross Rental Comparison

Vacancy	Average Net Rent	Net Absorption
15.9%	$675/sqm	66,660 sqm

Grade	Typical Net Face Rental ($/sqm)		Net Incentive (%)	Net Effective Rental ($/sqm)	
	Low	High	Average	Low	High
Premium	$675	$800	42-45%	$370	$440
A	$550	$650	45-50%	$275	$330
B	$400	$550	45-50%	$200	$270

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

Occupier's Perspective

- The competition for labour is tight so securing and creating healthy and stimulating works environments is of paramount importance for employers.
- 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 feature of the market for the foreseeable future.
- Mandates to return to the office has seen a noticeable increase in numbers returning to work albeit on a rostered basis.

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 your 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.