Sydney CBD – Q3, 2023

Market Report

The overall office market vacancy rate for Sydney CBD remains at 11.5% being the highest vacancy rate for over the past decade. The end of 2022 saw an increase in leasing deals transacted, however, in the past quarter leasing activity has remained tempered continuing the trend of 2023 of less transactions.

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 been a driving force behind new developments in the Sydney CBD and has seen the Premium and A Grade face rents 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 2024.

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	-59,911 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

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 lounges and conference settings all being implemented. Occupiers are taking advantage of these offerings to entice their workforces back to the office.

Melbourne CBD – Q3 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 15% as of September 2023.

Whilst premium grade buildings remain sought after by tenants looking to secure improved office amenities and accommodation for staff, A-Grade and B-grade stock have seen vacancy rates increase as size requirements and levels of enquiries fall.

The high vacancy rates are having a direct impact on incentives, especially on A-Grade and B-Rade stock. Whilst face rents are increasing slightly or remaining flat, higher incentives are forcing effective rents to fall. Increases in outgoings are also a constant pressure on landlords increasing face rental levels.

Sub-lease vacancy continues to remain higher than historical levels, with sub-lessors needing to offer significant incentives over and above direct space to compete for tenant enquiry.

Recent briefs in the Melbourne CBD market varying from around 300 – 500 and 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
15%	$700/sqm	-66,152 sqm

Grade	Typical Net Face Rental ($/sqm)		Net Incentive (%)	Net Effective Rental ($/sqm)	
	Low	High	Average	Low	High
Premium	$700	$950	37%	$441	$599
A	$600	$750	40%	$360	$450
B	$450	$550	30%	$315	$385

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

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Occupier's Perspective

The vacancy rate will remain high over the rest of 2023 and into 2024 even with a modest development pipeline over the next 1-2 years.

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, as well as commencing lease negotiations early.

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 – Q3 2023 Market Report

Brisbane CBD's vacancy continues remain low at 11.6% in comparison to other CBD markets across Australia. This has been a result of the increase in demand for prime grade office space and the withdrawal of secondary grade stock.

Brisbane office market has continued to be one of the strongest markets as demand is largely from larger occupiers and including the take up of space from the government tenants.

As per the trend throughout the National CBD markets, the sub 500 sqm market continues to play a role in tenant demand with landlords providing speculative fitout to entice tenants. With inflationary pressures, the Brisbane office market did also experience rental growth in the first 6 months of the year.

Given the lack of new developments entering the market and the flight to quality trend continuing, the market is expected to tighten over the next quarter and into the new year, with vacancy rates expected to reach single digits.

Typical Gross Rental Comparison

Vacancy
11.6%

Average Gross Rent
$712/sqm

Net Absorption
71,000 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 and other third-party sources.

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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 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 for the remainder of 2023, although it is expected to drop in 2024.

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 – Q3 2023 Market Report

Adelaide tenants are enjoying the fruits of an active supply pipeline to help accommodate expansions, consolidations, and a general flight to quality. Despite recording positive absorption of new development sites, overall vacancy increased across the Adelaide CBD from 16.1% to 17% in the six months to July 2023 as tenants relocated from lower grade stock generally.

Experiencing 90,000sqm of new supply over the last two years, the latest CBD developments completed year-to-date were 60 King William Street (40,000sqm) and 57-61 Wyatt Street (4,700sqm). Both leased to near capacity, reports suggest that vacancy in new buildings is as low as 7.1% in contrast to the growing 17% vacancy across the market. The future supply line remains healthy with 6 further developments currently under construction, providing 120,300sqm of supply to Adelaide's CBD over the next three years.

Landlord incentives are stable but remain at high levels, inspired by new supply incentives and a need for older stock to be competitive in a high vacancy market. Incentives sit at an average of 35% to 38% for A-Grade buildings in the CBD, with secondary incentives increasing to 41.5%.

We expect demand for new and prime office accommodation to continue to grow as 'the post covid business' looks to market incentives and new stock options to relocate and rationalise their space, improve layout functionality, and offer improved accommodation quality and services to encourage staff back to the workplace.

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

Inflation and rising statutory charges increased outgoings across all markets. This will result in an increase in effective rent costs for Tenant's with Net or Semi Gross leases.

Rising outgoings and incentives are likely to cause upward pressure for A grade gross rents, with secondary rents likely to decrease to remain competitive.

Landlords are acting more competitively to retain existing tenants, with incentives to renew increasing and offering fitout contributions, rental rebates, and early lease restructures.

Market Trends

Attracting workers back to the office with a new office or improved quality, amenity and functionality of fitout is seen as a key driver for future productivity of many companies.

Older 'A Grade' buildings are being overhauled by pro-active landlords. Upgrading facades, foyers, amenities and building services to compete with new builds. Many of these buildings hold prime CBD locations and offer attractive incentives.

Investment sales transactions are down significantly with a slow-down in activity attributed to a global shift of investment capital to other asset classes, rising cost of debt and uncertainty about

Perth CBD – Q3 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 has fallen to 3.3% (September). CPI has increased slightly to 5.8% (September) with pressure on wages growth being experienced in the year to the end of August 2023 year with the Average Weekly Earnings – full time sitting at $2,039.30 which is almost 11% above the National Average.

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 with the quality space attracting those tenants who are looking to move The vacancy rate for secondary stock is above 20% so the competition to attract and retain tenants remains 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.