Sydney CBD – Q4, 2023

Market Report

The overall office market vacancy rate for Sydney CBD increased again to 12.2% being the highest vacancy rate for over the past decade. Whilst vacancy rates in the Prime grade was lower than secondary grade across the country, Sydney and Adeliade were the only outliner to this trend.

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 second half of 2023.

Midtown and Western Corridor landlords continue to provide speculative fitouts and plans for refurbishment to amenity to ensure they remain attractive. However, it is the CBD Core which 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. Tenants will continue to look in these precincts as the search of quality stock continues into 2024.

Sublease vacancy remains, espcailly in Sydney where there was a more sublease vacany than the historical average. Sublease space is likely to remain prevelant for larger requirements into 2024.

Typical Gross Rental Comparison

Vacancy	Average Gross Rent	Net Absorption
12.2%	$1,600/sqm	-87,800 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. 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 in the Western Corridor as landlords try to maintain and even increase their face rent values whilst attracting new tenants. Incentives for Core CBD assets are decreasing somewhat due to the increase in tenants wanting quality 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.