

Melbourne CBD – Q4 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 continues to increase to 16.4% as of January 2024.

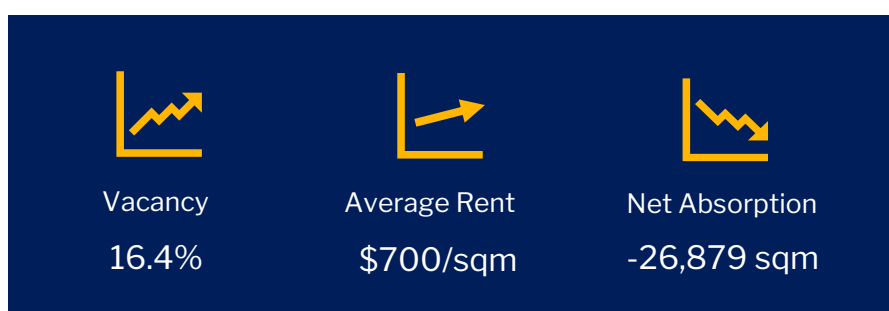
Premium-grade buildings remain relatively sought after by tenants seeking improved building amenities and office accommodation for their staff. A-Grade and B-grade stock have seen vacancy rates increase as space requirements and levels of enquiries fall.

The high vacancy rates are having a positive impact on incentives for tenants, particularly on A-Grade and B-Grade stock. Face rents are increasing slightly or remaining flat, but higher incentives are reducing effective rents. Significant increases in outgoings are also a constant pressure on a landlord's ability to increase face rental levels.

Sub-lease vacancy continues to remain higher than historical levels, with sub-lessors needing to offer significantly higher incentives when compared to direct leases to compete for tenant enquiry.

Recent briefs in the Melbourne CBD market varying from around 300 – 500 and 2,000+ sqm have each garnered responses from agents and landlords presenting more than 80 options, highlighting the level of opportunity available to tenants prepared to consider a relocation.

Typical Gross Rental Comparison



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

Occupier's Perspective



The vacancy rate will remain high in 2024, and for the foreseeable future, even with a modest development pipeline for.



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.