Sydney CBD - Q3 2019

Market Report

The overall vacancy rate has continued to decline, down from 4.1% as of January 2019 to 3.7% as of July 2019, which is now at its lowest level since July 2008. The decline in vacancy is driven largely by withdrawal of stock and limited new supply. Vacancy rates for direct options are expected to decline until 2022 when new stock comes to the market. The industries responsible for replacing finance as the biggest driver for space include technology and co-working industries. Circa 60% of Australia's fintech and 48% of start-ups in Australia are now located in Sydney. In contrast, due to softening business conditions and global economic uncertainty, subleasing options are starting to increasingly emerge.

The declining vacancy rates have seen Sydney CBD's prime and secondary net face rents increase by 8.7% and 12.2% respectively over the past 12 months for direct space. The forecast for face rent is expected to remain stable. Due to anticipated increase in sub leasing stock, incentive levels are also expected to increase which should put downward pressure on effective rents.

Vacancy	Average Rent	Net Absorption
0.4%	$1,250/sqm	-3,500 sqm YoY

Rental and Vacancy Rates

Direct Asking Rent ($/sqm)	Total Vacancy Rate		YoY Change
$1,400	Sydney CBD | Premium	2.7%	▼ 1.1%
$1,150	Sydney CBD | Grade A	3.2%	▼ 0.4%
$1,000	Sydney CBD | Grade B	4.1%	▼ 0.4%

Typical Gross Rental Comparison – Premium, A & B Grade

Grade	Typical Gross Face Rental ($/sqm)		Gross Incentive (%)	Gross Effective Rent ($/sqm)	
	Low	High	Average	Low	High
Premium	$1,425	$1,825	17.0%	$1,183	$1,515
A	$1,220	$1,520	15.0%	$1037	$1,292
B	$1,080	$1,230	12.0%	$950	$1,126

Recent Transactions

	Tenant	Submarket	Type	Size	Sector
1	QBE	Core	Pre-Com	11,950 sqm	Finance & Insurance
2	Shaw & Partners	Core	New Lease	2,089 sqm	Finance & Insurance
3	WeWork	Midtown	New Lease	11,127 sqm	Co-Working
4	Spaces (IWG)	Core	Pre-Com	4,500 sqm	Co-Working
5	NRMA	Western	New Lease	1,161 sqm	Finance & Insurance
6	SalesForce	Core	Pre-Com	23,500 sqm	Tech

Occupier's Perspective

Co-working continues to increase in Sydney, with flexible office operators accounting for 18% of the leasing volumes. This is a significant increase from the 10% annual average for co-working.

Prime vacancy rates continued to decline over the 6 months from Jan 2019. The vacancy rates for prime are now at a near record low at 3.0%, which is down from 3.7% in Jan 2019.

Supply is likely to increase over the long term, especially around the Southern precinct of CBD. The Innovation and Technology Precinct in Southern Sydney is to boost the office supply by over 250,000 sqm.

Market Trends

Long term confidence lends to continued growth, with government led infrastructure projects at record levels leading to significant uplift in the NSW employment growth rate. White collar employment growth and government infrastructure spending will remain key to continuing the growth in the CBD market.

Flexible office continues to rise, with the WeWork taking a record leading c. 11,000 sqm across 10 floors, JustCo leasing 3,200 sqm and Hub Australia taking 4 floors in Customs House, the rise of serviced office is well and truly being experienced in Sydney CBD.

2024 supply cycle is emerging, , with the Sydney CBD expected to experience its largest net supply boost of the past 20 years. However, with Secondary stock still accounting for 40% of the market, there is still a significant opportunity for major withdrawals of stock to counter the supply.