

# MELBOURNE CBD

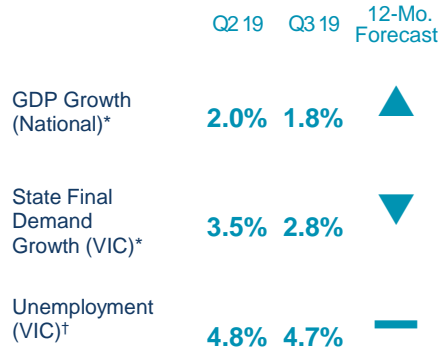
Office Q4 2019

**\$465** Prime Net Effective Rents (per sqm p.a)

**4.9%** YoY Prime Net Effective Rent growth

**\$390** B-Grade Net Effective Rents (per sqm p.a)

## ECONOMIC INDICATORS Q4 2019



\*Average annual growth rate, †Seasonally adjusted  
Source: ABS; Deloitte Access Economics; Cushman & Wakefield Research

## ECONOMIC OVERVIEW

Economic growth has slowed recently, and September GDP results were the weakest in over a decade. However, growth is forecast to increase to average 2.4% over the following five years. Headwinds facing the Australian economy include global economic uncertainty, the ongoing drought, bushfires, and relatively weak wages growth. On a positive note, the residential housing market is improving (particularly in Melbourne and Sydney), and the broader economy is being supported by record low interest rates, tax cuts, infrastructure development and solid employment growth. Victorian State Final Demand growth softened considerably, down from 5.2% in September 2018 to 2.8% in September 2019 (average annual). Strong employment growth has been recorded in recent years, which has driven demand for office space in both the Melbourne CBD and Melbourne's metropolitan markets. While Deloitte Access Economics are forecasting employment growth in 2020 to be softer than previous years, it is expected to remain quite strong at 2.1%, before falling to 1.5% in 2021 and 2022.

## SUPPLY AND DEMAND

Two major new developments reached completion in 2019. 839 Collins Street and 271 Spring Street added a combined 53,600sqm, however, these supply additions will pale in comparison to what's due in 2020. Seven major new developments are anticipated to reach completion, totaling over 335,000sqm, with the vast majority precommitted. More than 265,000sqm of this new supply is forecast to reach completion in H1 2020 which will provide the market some much needed flexibility. Looking back on 2019, demand was softer than in years prior, due largely to the growth limitations caused by very tight vacancy. In 2020, Government and Information Media and Telecommunications are anticipated to lead demand. Although slower economic conditions may soften demand, Victoria's strong population growth and the CBD's pent-up demand and will likely negate some of the effects.

## RENTS

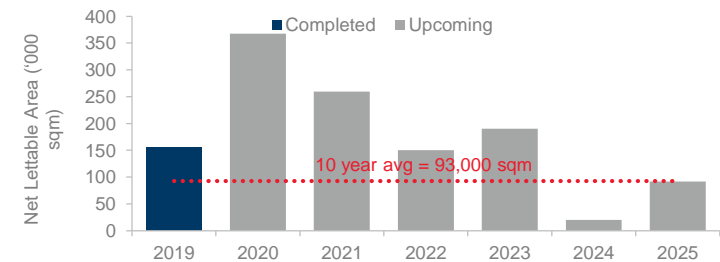
In the lead up to major supply additions Melbourne's effective rent growth slowed. Incentives tracked upward slightly in H2 2019 as landlords sought to lock in tenants and secure cash flow. Additional supply means effective rents are anticipated to stay stable in 2020 and then soften slightly in 2021, however, landlords will try to keep face rents growing with vacancy not expected to exceed the long term average. As at December 2019 average Prime net effective rents typically ranged from \$395 to \$540 per square metre per annum with the average of \$465 per square metre per annum up 4.9% year-on-year and 40% over the last five years. In B-Grade, net effective rents typically ranged between \$355 and \$430 per square metre per annum with the average net effective rent of \$390 per square metre per annum representing a 6.8% increase year-on-year and a 62% increase over the last five years.

## PRIME NET EFFECTIVE RENT, OVERALL VACANCY (6 MONTHLY)



Source: PCA; Cushman & Wakefield Research

## SUPPLY PIPELINE: NEW DEVELOPMENTS & MAJOR REURBS



Source: Cushman & Wakefield Research; PCA

## MARKET STATISTICS

SUBMARKET	INVENTORY* (SQM)	VACANCY RATE*	UNDER CONSTRUCTION (SQM)	NET EFFECTIVE RENT		
				A\$/SQM/YR	US\$/SQM/YR	EUR/SQM/YR
Premium	798,107	4.1%	203,000	510	359	320
A-Grade	2,293,236	1.5%	292,700	450	318	283
B-Grade	898,688	7.2%	0	390	275	245
<b>MELBOURNE CBD TOTAL^</b>	<b>4,614,349</b>	<b>3.3%</b>	<b>495,700</b>			

\*All-Grades \*As at 01/07/2019

AUD/USD = 0.7030; AUD/EUR = 0.6261 as at 31st December 2019

## KEY LEASING TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	SQM	LEASE TYPE
140 Lonsdale Street	North Eastern	Australian Federal Police	22,750	Pre-Commitment
80 Collins Street (South Tower)	Eastern Core	Herbert Smith Freehills	10,300	Pre-Commitment
452 Flinders Street	Western Core	Jacobs	9,369	Renewal

Source: Cushman &amp; Wakefield Research

## SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANTS	SQM	COMPLETION DATE
311 Spencer Street	Docklands	Vic Police	65,500	Q1 2020
447 Collins Street	Western Core	Minter Ellison	49,000	Q1 2020
80 Collins Street (South Tower)	Eastern Core	Macquarie Group	43,000	Q1 2020
477 Collins Street	Western Core	Deloitte	56,000	Q1 2020
Wesley Place, 130 Lonsdale Street	North Eastern	Cbus Super	55,000	Q2 2020
180 Flinders Street	Civic	John Holland	18,800	Q3 2020
Two Melbourne Quarter, 697 Collins Street	Docklands	Energy Australia	50,000	Q3 2020

Source: Cushman &amp; Wakefield Research

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