

METRO MELBOURNE

Office Q4 2019

\$440 A-grade net face rent – St Kilda Road

25% Net Incentives - Southbank

10% A-Grade Vacancy - Southbank

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 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.

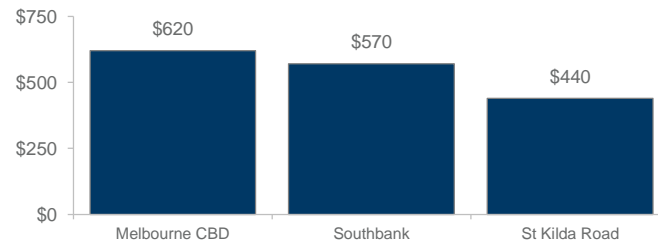
ST KILDA ROAD VACANCY COMPRESSES

St Kilda Road remains one of Melbourne’s tightest markets with trending down since 2011. The lack of available space has constrained net absorption, leading to higher rental growth and lower incentives. It has also pushed tenants to other nearby office markets such as the CBD and Southbank. This vacancy compression is furthered by no supply additions over the past 12 months and positive net absorption over the last two years.

RENTS

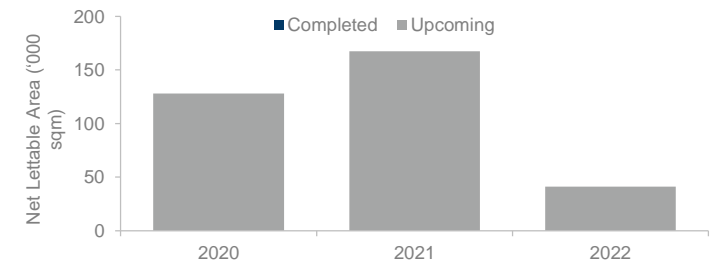
A-Grade gross face rents have shown solid growth over 2019, with Southbank rents increasing 2.8% and St Kilda Rd increased 5.5%, compared to 3.5% in the Melbourne CBD. St Kilda Road has seen two years of growth above 5.0%, highlighting its attraction as an office location. Demand and supply conditions suggest the upward rental growth trends will continue through 2020, with the State Final Demand Growth (while slightly down) expected to drive demand for space across the Melbourne Office Markets

A-GRADE NET FACE RENTS



Source: Cushman & Wakefield Research

METRO MELBOURNE SUPPLY PIPELINE



Source: Cushman & Wakefield Research; PCA

ECONOMIC INDICATORS Q4 2019

Q2 19 Q3 19 12-Mo. Forecast

GDP Growth (National)* **2.0%** **1.8%** ▲

State Final Demand Growth (VIC)* **3.5%** **2.8%** ▼

Unemployment (VIC)† **4.8%** **4.7%** ■

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

MARKET STATISTICS

MARKET	A-GRADE			GROSS EFFECTIVE RENT (A-GRADE)		
	NET FACE RENT (A\$)	OUTGOINGS (A\$)	GROSS INCENTIVES	A\$/SQM/YR	US\$/SQM/YR	EUR/SQM/YR
Melbourne CBD	620	165	21%	615	539	320
Southbank A-Grade	570	165	20%	590	299	266
St Kilda Road A-Grade	440	140	17%	480	238	212
St Kilda Road Secondary Grade	390	163	19%	450	202	180

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

KEY LEASING TRANSACTIONS Q3 & Q4 2019

PROPERTY	SUBMARKET	TENANT	SQM	LEASE TYPE
71 Gipps Street	Collingwood	International Workplace Group - Spaces	3,495	Direct (Pre-Commitment)
102-106 Rupert Street	Collingwood	Victorian State Government	2,200	
600 Church Street	Richmond	Domain	1,500	

Source: Cushman & Wakefield Research

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANTS	SQM	COMPLETION DATE
572-576 Swan St	Richmond	Growthpoint	19,300	2020
51 Langridge	Collingwood		3,082	Q1 2020
64 Balmain St	Cremorne	Alchant Investments	10,814	2020
6 Gwynne Street	Cremorne		3,113	Q1 2020
10-12 Gwynne Street	Cremorne	The Commons	3,700	Q1 2020
17-21 Harcourt Pde	Cremorne	Newmark Capital	10,000	2020
12-18 Albert St	Richmond	Cremorne Properties	2,804	2020
175 Burnley St	Richmond	Peregrine Projects	9,340	2020

Source: Cushman & Wakefield Research

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