

METRO MELBOURNE

Office Q2 2020

\$445 A-grade net face rent –
St Kilda Road

27% Net Incentives - Southbank

10% A-Grade Vacancy - Southbank

ECONOMIC OVERVIEW

While COVID-19 continues to spread and new infections are still occurring at a high rate across the world, to date, Australia has succeeded in flattening the curve. In the IMF's June World Economic Outlook, Australia was the only advanced economy to have its 2020 outlook revised up, though growth this year is still expected to decline by 4.5%. The softer economy has resulted in rising unemployment. Data to May indicate the Victorian unemployment rate rose to 6.9%, the highest level since 1999.

SUPPLY AND DEMAND

The first 6 months of 2020 have seen 5 of the 8 metro office projects reach completion, delivering 92,500 square metres (sqm) of floorspace to market. The remaining 3 projects are due for practical completion this year and will deliver another 35,500 sqm to market.

Demand across Metro Melbourne is down, COVID-19 has seen a drop in enquiry numbers as tenants and businesses wait to assess the impacts and plan for the post COVID-19 office environment. We expect that more decisions will be made in the new financial year once there is some normality back as the white collar workforce returns to the office, though demand should remain relatively subdued until reopening of the Victorian economy gains pace and an effective vaccine is widely available.

RENTS

Southbank A-grade net face rents have been stable over the past three quarters, averaging \$570 per sqm. St Kilda Road is a similar story with A-grade and B-grade net face rents unchanged for the past six months at an average of \$445 per sqm for A-grade and \$395 for B-grade space. Whilst net face rents haven't moved, net effective rents have decreased as incentives rose across all markets. Southbank A-grade net incentives now average 27%, up from 25% last quarter. St Kilda Road has seen net incentives increase in both A and B-grade stock with the A-grade average increasing by 2% to reach 25.5% and B-grade increasing from 27% to 32%.

ECONOMIC INDICATORS Q1 2020

Q419 Q1 20 12-Mo.
Forecast

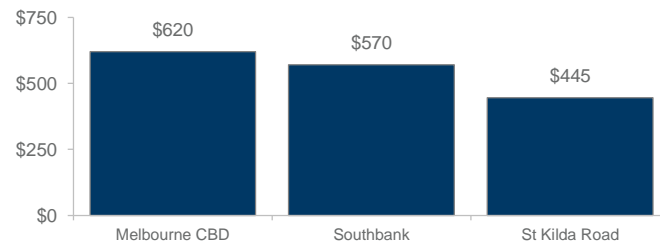
GDP Growth (National)*
1.8% **1.8%** ▼

State Final Demand Growth (VIC)*
2.0% **1.7%** ▼

Unemployment (VIC)†
4.9% **5.3%** ▲

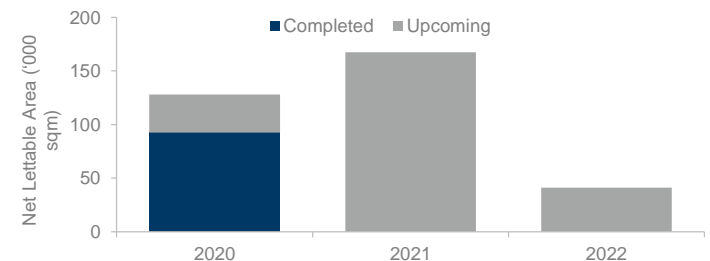
*Average annual growth rate, †Seasonally adjusted
Source: ABS; Deloitte Access Economics; Cushman & Wakefield Research

A-GRADE NET FACE RENTS



Source: Cushman & Wakefield Research

METRO MELBOURNE SUPPLY PIPELINE



Source: Cushman & Wakefield Research; PCA

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	26%	575	396	351
Southbank A-Grade	570	165	21%	580	399	355
St Kilda Road A-Grade	445	140	19%	470	323	287
St Kilda Road Secondary Grade	395	165	22%	430	296	263

^All-Grades - As at 19/06/2020

AUD/USD = 0.6875; AUD/EUR = 0.6113 as at 25th June 2020

KEY LEASING TRANSACTIONS Q1 & Q2 2020

PROPERTY	SUBMARKET	TENANT	SQM	LEASE TYPE
436 Johnston Street	Abbotsford	GSK Pte Ltd	3,500	Direct
71 Gipps Street	Collingwood	IWG	3,495	Direct
101 Moray Street	South Melbourne	The Commons	1,000	Direct
436 St Kilda Road	St Kilda Road	Flight Centre	5,600	Direct
20-30 Mollison Street	Abbotsford	Fred IT	2,421	Direct

Source: Cushman & Wakefield Research

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANTS	SQM	COMPLETION DATE
572-576 Swan Street	Richmond	N/A	19,300	Q1 2020 (completed)
51 Langridge Street	Collingwood	Campaign Agent	3,082	Q1 2020 (completed)
54 Wellington Street	Collingwood	AESOP	15,000	Q4 2020
68 Clarke Street	South Melbourne	Luxury Escapes	10,000	Q2 2020 (completed)
101 Moray Street	South Melbourne	Ooh Media	15,000	Q3 2020
17-21 Harcourt Parade	Cremorne	MYOB	10,000	Q1 2020 (completed)
12-18 Albert Street	Richmond	REA Group	2,804	Q2 2020 (completed)
11 Wilson Street	South Yarra	N/A	5,500	Q3 2020

Source: Cushman & Wakefield Research

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