

# MELBOURNE CBD

Office Q4 2020

**\$410** Prime Net Effective Rents (per sqm pa)

**-12.2%** YoY Prime Net Effective Rent growth

**\$345** B-Grade Net Effective Rents (per sqm p.a)

## ECONOMIC INDICATORS Q3 2020

Q2 20 Q3 20 12-Mo. Forecast

GDP Growth (National)\* **-0.2%** **-1.7%** ▲

State Final Demand Growth (VIC)\* **-1.2%** **-4.1%** ▲

Unemployment (VIC)† **7.5%** **6.7%** ▲

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

## ECONOMIC OVERVIEW

The COVID-19 pandemic caused a short sharp recession in Australia during Q1 and Q2 2020. Data to September 2020 indicates the Australian economy returned to growth in Q3, rising 3.3% over the quarter after a 7.3% decline in Q2. Real state final demand in Victoria did not follow the same trend, due to the lockdown restrictions in place, declining 8.5% in Q2 and declining 1.1% in Q3, which is now four quarters of decline for Victoria. Assuming the pandemic is contained globally, both Victoria's and Australia's economic growth rates are expected to remain positive over the forecast horizon with relatively strong growth expected over the next few years. Deloitte Access Economics forecast real gross state product (GSP) to increase by 1.8% over calendar 2021 and 4.4% in 2022 and 4.3% in 2023. Over the past 10 years, Victoria GSP annual growth has averaged 2.8%.

## SUPPLY AND DEMAND

2020 saw one of the largest supply pipelines ever delivered into the Melbourne CBD. Seven projects completed during the first three quarters of 2020, adding over 333,000 square meters of new space. Close to 95% of the new stock was pre-committed. No new supply was added in Q4.

In terms of current and future demand, the COVID-19 induced Stage 4 lockdown resulted in subdued enquiry numbers, which remained relatively low until social distancing and travel restrictions eased late in the quarter. Enquiry is expected to improve, assuming the pandemic remains contained, as offices reopen in 2021.

## RENTS

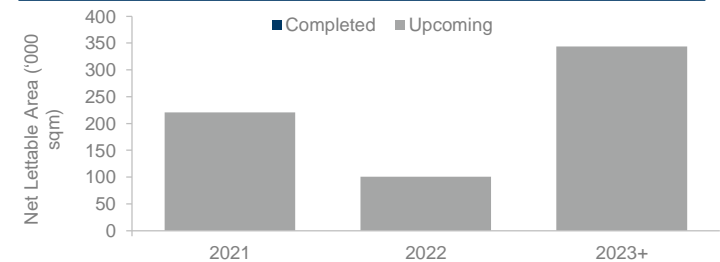
Net incentives continued to track upward in Q4 2020, however, the rise was significantly less than in the previous three quarters. Premium grade rose to 35% from 34%. The average A-grade net incentives increased to 37% from 35% but are up 36% over the past year. In Q4 2019 B-grade net incentives were 28% but rose to 36% over 2020. Premium grade net face rental growth declined 1.4% over the quarter to average \$690 per square meter (p/sqm), A-grade increased 1.6% in Q4 to average \$635 p/sqm. There was a downshift in B-grade net face rents, mainly among the private landlords, with rents decreasing 1.9% over the quarter to average \$533 p/sqm.

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



Source: PCA; Cushman & Wakefield Research

## SUPPLY PIPELINE: NEW DEVELOPMENTS & MAJOR REFURBS



Source: Cushman & Wakefield Research; PCA

## MARKET STATISTICS

| SUBMARKET                   | INVENTORY^<br>(SQM) | VACANCY<br>RATE* | UNDER<br>CONSTRUCTION<br>(SQM) | NET EFFECTIVE RENT |             |            |
|-----------------------------|---------------------|------------------|--------------------------------|--------------------|-------------|------------|
|                             |                     |                  |                                | A\$/SQM/YR         | US\$/SQM/YR | EUR/SQM/YR |
| Premium                     | 1,014,745           | 6.0%             | 104,500                        | 450                | 350         | 285        |
| A-Grade                     | 2,280,426           | 5.6%             | 93,000                         | 395                | 307         | 250        |
| <b>Prime*</b>               | <b>3,295,171</b>    | <b>5.7%</b>      | <b>197,500</b>                 | <b>410</b>         | <b>319</b>  | <b>260</b> |
| B-Grade                     | 1,069,848           | 6.6%             | N/A                            | 345                | 268         | 219        |
| <b>MELBOURNE CBD TOTAL^</b> | <b>4,786,149</b>    | <b>5.8%</b>      |                                |                    |             |            |

\*Prime is a weighted combination of Premium and A Grade

^All-Grades - As at 1/07/2020

AUD/USD = 0.7769; AUD/EUR = 0.6336 as at 11<sup>th</sup> January 2021

## KEY LEASING TRANSACTIONS Q4 2020

| PROPERTY           | SUBMARKET | TENANT    | SQM    | LEASE TYPE |
|--------------------|-----------|-----------|--------|------------|
| 100 Queen Street   | CBD       | Elmo      | 1,100  | Direct     |
| 80 Collins Street  | CBD       | Google    | 2,500  | Direct     |
| 555 Collins Street | CBD       | Amazon    | 14,000 | Direct     |
| 161 Collins Street | CBD       | Deliveroo | 1,100  | Direct     |

Source: Cushman &amp; Wakefield Research

## SIGNIFICANT PROJECTS UNDER CONSTRUCTION

| PROPERTY                   | SUBMARKET     | MAJOR TENANTS       | SQM    | COMPLETION DATE |
|----------------------------|---------------|---------------------|--------|-----------------|
| 150 Lonsdale Street        | North Eastern | Federal Police      | 6,762  | Q3 2021         |
| 405 Bourke Street          | Western Core  | NAB                 | 61,500 | Q4 2021         |
| 370 Little Lonsdale Street | Flagstaff     | Victoria University | 24,000 | Q4 2021         |
| 1000 Latrobe Street        | Docklands     | Myer                | 38,900 | Q3 2022         |
| 555 Collins Street         | Western Core  |                     | 45,000 | Q2 2022         |
| 435 Bourke Street          | Western Core  |                     | 59,000 | Q2 2023         |

Source: Cushman &amp; Wakefield Research

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