

MELBOURNE CBD

Office Q1 2021

\$393 Prime Net Effective Rents (per sqm p.a)

-13.5% YoY Prime Net Effective Rent growth

\$335 B-Grade Net Effective Rents (per sqm p.a)

ECONOMIC INDICATORS Q4 2020

Q3 20 Q4 20 12-Mo. Forecast

GDP Growth (National)* **-1.6%** **-2.4%** ▲

State Final Demand Growth (VIC)* **-4.1%** **-5.2%** ▲

Unemployment (VIC)† **7.6%** **7.5%** ▼

*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 December 2020 indicates the Australian economy returned to growth in Q3, rising 3.3% over that quarter with a 3.1% increase in Q4. 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 9.7% in Q3, which was three 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 6.2% over calendar 2021 and 3.8% in 2022 and 4.7% in 2023. Over the past 10 years, Victoria GSP annual growth has averaged 2.3%.

SUPPLY AND DEMAND

2020 saw one of the largest supply pipelines ever delivered into the Melbourne CBD. Eight projects completed during 2020, adding over 351,900 square metres of new space. Close to 95% of the new stock was pre-committed. Despite the delivery of a large 2020 supply pipeline, no new supply was added in Q4.

In terms of current and future demand, enquiry is expected to improve, assuming the pandemic remains contained, as offices reopen in 2021. Workers returning to the office has been slow and at the end of the first quarter only 30% of office workers have returned. The rollout of the vaccine over coming quarters can be expected to see this rate improve.

RENTS

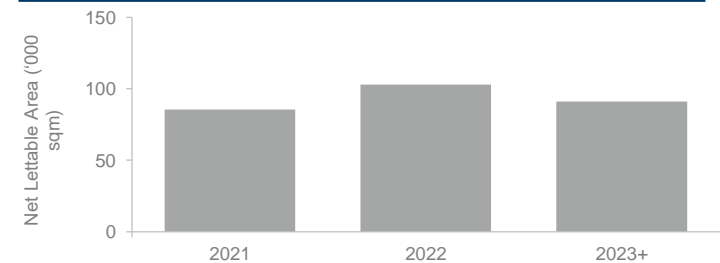
Net incentives continued to move upward in Q1 2021, the rise has maintained its pace with increases over 2020. Premium grade rose to 37.5% from 34.8%. The average A-grade net incentives increased to 40% from 37% and are up from 25% two years ago. In Q4 2019 B-grade net incentives were 28% but rose to 36% over 2020 where they currently remain. Premium grade net face rents were stable over the quarter to average \$690 per square metre (p/sqm), A-grade were also stable and average \$625 p/sqm. There was a fall in B-grade net face rents, mainly among the private landlords, with rents decreasing 2.8% over the quarter to average \$518 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 [^] (SQM)	VACANCY RATE*	UNDER CONSTRUCTION (SQM)	NET EFFECTIVE RENT		
				A\$/SQM/YR	US\$/SQM/YR	EUR/SQM/YR
Premium	1,063,745	7.4%	200,500	430	327	276
A-Grade	2,365,245	8.1%	79,000	375	285	241
Prime*	3,429,187	7.9%	279,500	395	300	254
B-Grade	1,032,769	10.3%	N/A	335	255	215
MELBOURNE CBD TOTAL[^]	4,881,286	8.2%				

*Prime is a weighted combination of Premium and A Grade

[^]All-Grades - As at 1/01/2021AUD/USD = 0.7600; AUD/EUR = 0.6429 as at 25th March 2021

KEY LEASING TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	SQM	LEASE TYPE
114 William Street	CBD	Law Squared	941	Direct
737 Bourke Street	CBD	Kapitol Group	565	Direct

Source: Cushman & Wakefield Research

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANTS	SQM	COMPLETION DATE
405 Bourke Street	Western Core	NAB	61,500	Q2 2021
370 Little Lonsdale Street	Flagstaff	Victoria University	24,000	Q4 2021
1000 Latrobe Street	Docklands	Myer	33,000	Q3 2022
555 Collins Street	Western Core	Amazon	48,000	Q2 2022
140 Lonsdale Street	North Eastern		22,800	Q4 2022
435 Bourke Street	Western Core		59,000	Q2 2023

Source: Cushman & Wakefield Research

TONY CRABB

National Director, Research,
+61 (0)422 221 604
tony.crabb@cushwake.com

cushmanwakefield.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of \$8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2021 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.