

METRO MELBOURNE

Office Q2 2021

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

36% Net Incentives – St Kilda Rd

9.9% A-Grade Vacancy – St Kilda Rd

ECONOMIC OVERVIEW

The COVID-19 pandemic caused a short sharp recession in Australia during Q1 and Q2 2020. Data to March 2021 indicates the Australian economy returned to growth in Q3, rising 3.4% over that quarter with a 3.2% increase in Q4 and a 1.8% increase in Q1 2021. Real state final demand in Victoria did not follow the same trend, due to the lockdown restrictions in place. 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 6.3% over calendar 2021 and 3.5% in 2022 and 3.2% in 2023. Over the past 10 years, Victoria GSP annual growth has averaged 2.0%.

SUPPLY AND DEMAND

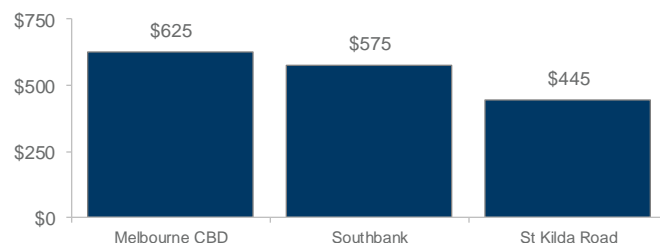
2020 saw eight metro office projects reach completion, delivering 128,000 square metres (sqm) of floorspace to market. Looking forward there is some uncertainty around the medium and longer term pipeline with COVID creating disruption and uncertainty around the delivery of projects. Nevertheless, there are ten projects completing in 2021 delivering over 140,000 square metres of new space to the fringe office market and well over half is precommitted.

In terms of current and future demand, business confidence is strong and smaller, local businesses are making decisions on 3 and 5 year terms. The rollout of the vaccine over coming quarters can be expected to see an acceleration of business commitment.

RENTS

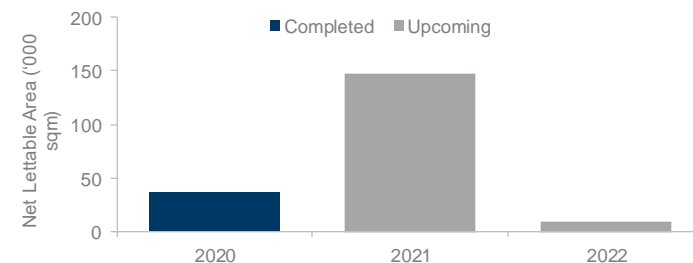
Despite the turbulent year across the city, the metro markets net face rents have remained relatively stable over 2020 and 2021. Upward movement in net incentives has placed downward pressure on net effective rents, with Southbank recording an 9.3% year on year (YoY) fall to reach \$362 per square metre (p/sqm). For St Kilda Road it is a similar story with net effective rents dropping 14% YoY to reach \$284 p/sqm. It is expected that incentive increases have now run their course, helping to stabilise net effective rents across Metro Melbourne.

A-GRADE NET FACE RENTS



Source: Cushman & Wakefield Research

METRO MELBOURNE SUPPLY PIPELINE



Source: Cushman & Wakefield Research; PCA

ECONOMIC INDICATORS Q2 2020

Q420 Q121 12-Mo. Forecast

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

State Final Demand Growth (VIC)* **-5.2%** **-5.4%** ▲

Unemployment (VIC)† **6.4%** **6.1%** ▼

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

MARKET STATISTICS

MARKET	A-GRADE			NET EFFECTIVE RENT (A-GRADE)		
	NET FACE RENT (A\$)	OUTGOINGS (A\$)	NET INCENTIVES	A\$/SQM/YR	US\$/SQM/YR	EUR/SQM/YR
Melbourne CBD	625	165	42%	365	275	230
Southbank A-Grade	575	170	37%	360	275	230
St Kilda Road A-Grade	445	155	36%	285	215	180
St Kilda Road Secondary Grade	395	170	36%	250	190	160

AUD/USD = 0.7545; AUD/EUR = 0.66326 as at 24th June 2021

KEY LEASING TRANSACTIONS H1

PROPERTY	SUBMARKET	TENANT	LEASE SQM	LEASE TYPE
101 Moray Street	South Melbourne	Southern Cross/Austereo	2,839	Direct
412 St Kilda Road	St Kilda Rd	16 tenants	6,500	Direct
200 Victoria St	Carlton	EPA	5,240	Renewal

Source: Cushman & Wakefield Research

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANTS	BUILDING NLA	COMPLETION DATE
60-88 Cremorne St	Cremorne	Seek	27,650	2021
459 Church Street	Richmond	WPP & Hub Australia	23,000	2021
627 Chapel Street	South Yarra	Oreana	24,000	2021
510 Church Street	Richmond	Monash IVF & Kane Constructions	20,700	2021
1-11 Gordon Street	Cremorne		5,000	2021
57 Balmain Street	Cremorne	Reece Plumbing	7,400	2021

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.