

# MELBOURNE CBD

Office Q2 2021

**\$382** Prime Net Effective Rents (per sqm pa)

**-11.6%** YoY Prime Net Effective Rent growth

**\$327** B-Grade Net Effective Rents (per sqm p.a)

## ECONOMIC INDICATORS Q1 2021

Q4 20 Q1 21 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

## 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 one of the largest supply pipelines ever delivered into the Melbourne CBD. Eight projects completed during 2020, adding over 351,929 square metres 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, business confidence is strong and smaller, local businesses are making decisions on 3 and 5 year terms. Larger tenants are slower to commit with many opting for short term extensions. Workers return to the office has been slow and at the end of the first half only 35% of office workers have returned. The rollout of the vaccine over coming quarters can be expected to see this rate improve.

## RENTS

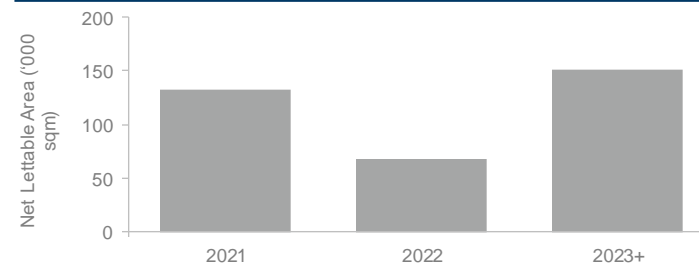
Net incentives continued to move upward in Q2 2021, the rise has slowed and is expected to stabilize at these levels. Premium grade net incentives are 39%. The average A-grade net incentives increased to 42% and are up from 25% two years ago. In Q4 2019 B-grade net incentives were 28% but rose to 36% over 2020 and are currently 38%. 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 stabilisation in B-grade net face rents with rents averaging \$520 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 <sup>^</sup> (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	425	320	265
A-Grade	2,365,245	8.1%	46,000	365	275	230
<b>Prime*</b>	<b>3,429,187</b>	<b>7.9%</b>	<b>246,500</b>	<b>380</b>	<b>290</b>	<b>240</b>
B-Grade	1,032,769	10.3%	N/A	325	245	205
<b>MELBOURNE CBD TOTAL<sup>^</sup></b>	<b>4,881,286</b>	<b>8.2%</b>				

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

<sup>^</sup>All-Grades - As at January 2021. Source: Property Council of Australia and Cushman & Wakefield.

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

## KEY LEASING TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	LEASE SQM	LEASE TYPE
121 Exhibition Street	CBD	State Government	78,000	Renewal
100 Queen Street	CBD	Afterpay	Circa 5,000	Direct
451 Little Bourke Street	CBD	State Government	2,800	Direct
360 Elizabeth Street	CBD	Loan Markets	1,468	Sublease

Source: Cushman & Wakefield Research

## SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANTS	BUILDING NLA	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	Federal Police	22,800	Q4 2022
435 Bourke Street (demolition)	Western Core		59,000*	Q2 2023

Source: Cushman & Wakefield Research \*proposed

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