

MELBOURNE CBD

Office Q3 2021

\$390 Prime Net Effective Rents (per sqm pa)

-6.7% YoY Prime Net Effective Rent growth

\$330 B-Grade Net Effective Rents (per sqm p.a)

ECONOMIC INDICATORS Q2 2021

	Q1 21	Q2 21	12-Mo. Forecast
GDP Growth (National)*	-2.4%	1.6%	▲
State Final Demand Growth (VIC)*	-5.3%	-0.6%	▲
Unemployment (VIC)†	6.1%	4.4%	▼

*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. More recent data indicates the Australian economy returned to growth in the second half of 2020 and into the first half of 2021. Real state final demand in Victoria did not follow the same trend, due to the lockdown restrictions in place. Recent lockdowns in both Victoria and NSW are expected to result in negative economic growth in each State and nationally for the third quarter of 2021. According to the national roadmap out of lockdown, 80% of the eligible population are expected to be vaccinated in November leading to a substantial easing of restrictions. Thereafter, both Victoria's and Australia's economic growth rates are expected to rise significantly with relatively strong growth expected over the next few years. Deloitte Access Economics forecast real gross state product (GSP) to increase by 3.3% over calendar 2022 and 2.9% in 2023 and 2.6% in 2024. Over the past 10 years, Victoria GSP annual growth has averaged 2.0%.

SUPPLY AND DEMAND

After 351,900 sqm of stock was added in 2020 and 65,500 sqm was withdrawn, the first six months of 2021 saw a mere 13,200 sqm added and 13,500 sqm withdrawn. A further 157,400 sqm of new and refurbished space is due for completion in 2021, of which over 66% is precommitted. A further 185,900 sqm is due for delivery in 2022 though some of this supply may be delayed. In terms of current and future demand, business confidence is strong and smaller, local businesses are making decisions on three- and five-year terms. Larger tenants are slower to commit with many opting for short term extensions. Workers return to the office has been kept to a maximum of 25% by Government decree. The rollout of the vaccine over the final quarter of 2021 can be expected to see the lockdown end and a return to higher levels of occupancy in 2022.

RENTS

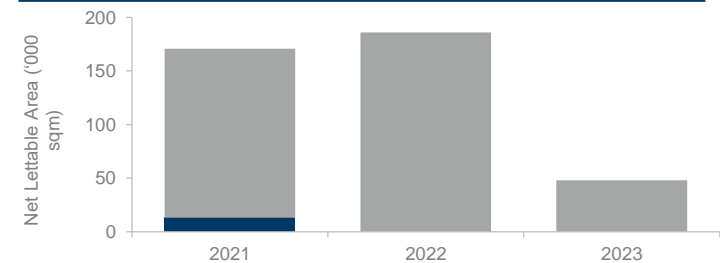
Net incentives stabilised in Q3 2021 and are expected to remain at these levels for the remainder of the year before falling as the recovery gathers pace in 2022 and workers return to the CBD. Premium grade net incentives are 39%. The average A grade net incentives were stable at 41%. Currently, B grade net incentives are 38%. Premium grade net face rents were up slightly over the quarter to average \$695 per square metre (p/sqm), A grade were also up slightly and average \$635 p/sqm. There was also a slight rise in B grade net face rents with rents averaging \$530 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	1,058,245	7.5%	189,877	425	310	265
A-Grade	2,366,226	11.7%	358,008	375	275	235
Prime*	3,424,472	10.4%	547,885	390	285	245
B-Grade	1,051,983	12.0%	N/A	330	240	205
MELBOURNE CBD TOTAL[^]	4,881,286	8.2%				

*Prime is a weighted combination of Premium and A Grade

[^]All-Grades - As at 1/07/2021. Source: Property Council of Australia and Cushman & Wakefield.AUD/USD = 0.7310; AUD/EUR = 0.6248 as at 29th September 2021

KEY LEASING TRANSACTIONS 2021

PROPERTY	SUBMARKET	TENANT	LEASE SQM	LEASE TYPE
Melbourne Quarter	Docklands	Medibank	17,500	Precommit
161 Collins Street	CBD	Charter Keck Cramer	1,400	Sublease
380 Docklands Drive	Docklands	West Gate Tunnel Project	3,000	Direct
385 Bourke Street	CBD	Worley Parsons	1,343	Direct

Source: Cushman & Wakefield Research

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANTS	BUILDING NLA	COMPLETION DATE
405 Bourke Street	Western Core	NAB	61,500	Q3 2021
99 Franklin Street	Flagstaff	None	10,500	Q4 2021
370 Little Lonsdale Street	Flagstaff	Victoria University	24,000	Q1 2022
1000 Latrobe Street	Docklands	Myer	33,000	Q3 2022
555 Collins Street	Western Core	Amazon	48,000	Q1 2023
140 Lonsdale Street	North Eastern	Federal Police	22,800	Q4 2022

Source: Cushman & Wakefield Research *proposed

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