

MELBOURNE CBD

Office Q4 2021

\$387 Prime Net Effective Rents (sqm pa)

- 5.8% YoY Prime Net Effective Rent growth

\$328 B-grade Net Effective Rents (sqm pa)

ECONOMIC INDICATORS Q4 2021

	Q2 21	Q3 21	12-Mo. Forecast
GDP Growth (National)*	1.6%	3.5%	▲
State Final Demand Growth (VIC)*	-0.4%	4.5%	▲
Unemployment (VIC)†	4.4%	4.8%	◀▶

*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 early in 2020, however the Australian economy returned to growth in the second half of that year and into the first half of 2021. Lockdowns in both Victoria and NSW resulted in negative economic growth in each of the two States for much of that period, however. As target vaccination rates of the population were progressively achieved in 2H 2021, substantial easing of restrictions begun, and the engine room State economies began to recover. NSW returned a positive State demand result first in Q2, and Victoria in Q3 at an impressive 4.5%. As Australia's economic growth rates improve, so too are the proportions of that growth contributed by our two largest States. Deloitte Access Economics expects a positive forecast of real gross state product (GSP) for Victoria in the calendar years of 2022 and 2023 at least, in excess of the 10-year average of 2.0% pa. COVID-19's new Omicron variant poses some threat to that continued growth given the significantly increased contagion aspect over Delta.

SUPPLY AND DEMAND

After 351,900 square metres (sqm) of stock was added in 2020 and 65,500sqm was withdrawn, the first six months of 2021 saw a mere 13,200sqm added and 13,500sqm withdrawn. Almost another 190,000sqm of new and refurbished space, however, was completed prior to the end of the year, two thirds of which, is precommitted. A further 139,000sqm is due for delivery in 2022. In terms of current and future demand, business confidence is stronger, but cautious. Local businesses are making decisions on three- and five-year terms. Larger tenants are slower to commit with many opting for short term extensions. Stronger levels of demand are expected in 2022 as the economy and jobs growth continue to recover, however, this may be limited by new COVID-19 variants.

RENTS

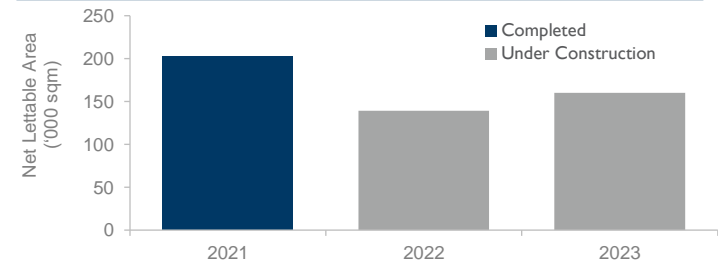
Net incentives stabilised in Q4 2021. The consolidation of incentives is reflective of a market that has seen a welcomed increase in the number of enquiries, but still has a variety of tenant options available across quality office accommodation. As the recovery gathers pace in Australia's two biggest States hit hardest by COVID-19, their return to greater proportions of our economy should also be reflected in workers returning to the CBDs. Premium grade net incentives are 39% for the third consecutive quarter. Average A-grade net incentives have also remained stable this year, at 41%. Although stable, these levels remain 11%-12% higher year-on-year (YoY). Currently, B-grade net incentives are 40%, stabilising too after 11% YoY growth. Premium and A-grade net face rents are stable, averaging \$695 and \$635sqm pa, respectively. There was a slight rise in B-grade net face rents for the quarter, to average \$540sqm pa, or 2% YoY. B-grade rental levels are returning to pre-COVID levels following significant downward pressures following the *flight to quality* by tenants in recent years as new accommodation stock came online.

PRIME NET EFFECTIVE RENT, OVERALL VACANCY (6 MONTHLY)



Source: Property Council of Australia; Cushman & Wakefield Research

SUPPLY PIPELINE: NEW DEVELOPMENTS & MAJOR REFRURBS



Source: Cushman & Wakefield Research; Property Council of Australia

Office Q4 2021

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%	138,000	419	302	264
A-grade	2,366,226	11.7%	354,002	373	269	236
Prime*	3,424,472	10.4%	492,002	387	278	244
B-grade	1,051,983	12.0%	10,500	328	236	207
MELBOURNE CBD TOTAL[^]	4,895,084	10.4%				

*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 = 0.7195; AUD/EUR = 0.631 as at 18th January 2022. Source: RBA

KEY LEASING TRANSACTIONS

PROPERTY	SUBMARKET	TENANT	LEASE SQM	LEASE TYPE
567 Collins Street	CBD	WSP	6,096	Sublease
628 Bourke Street	CBD	CPB Contractors	3,730	Direct
555 Collins Street	CBD	Aware Super	8,000	Pre-commitment
505 Little Collins Street	CBD	ARQ	1,504	Direct

Source: Cushman & Wakefield Research

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANTS	BUILDING NLA	COMPLETION DATE
405 Bourke Street	Western Core	nab	66,000	Q4 2021
99 Franklin Street	Flagstaff	n/a	10,500	Q4 2021
1000 La Trobe Street	Docklands	Myer	39,546	Q4 2021
100 Queen Street	Western Core	Robert Walters, Afterpay, Arcadis	30,503	Q4 2021
750 Collins Street	Docklands	Monash University	38,933	Q4 2021
370 Little Lonsdale Street	Flagstaff	Victoria University	24,000	Q1 2022
555 Collins Street	Western Core	Amazon	48,000	Q1 2023

Source: Cushman & Wakefield Research

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