

# METRO MELBOURNE

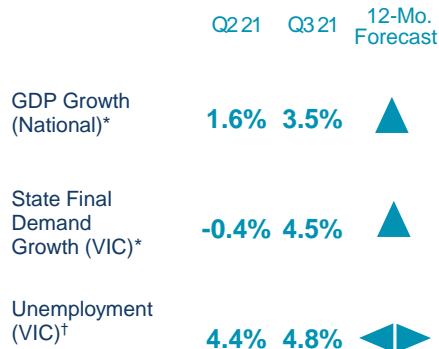
Office Q4 2021

**\$445** A-grade net face rent (sqm pa)  
St Kilda Rd

**36%** Net Incentives – St Kilda Rd

**17.5%** A-grade Vacancy – St Kilda Rd

## ECONOMIC INDICATORS Q4 2021



\*Average annual growth rate, †Seasonally adjusted

Source: ABS; Deloitte Access Economics; Cushman &amp; 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.

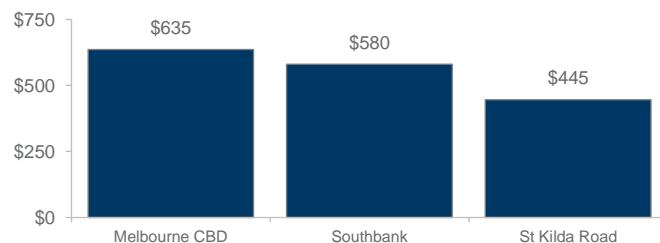
## SUPPLY AND DEMAND

On the back of strong demand for inner suburban office accommodation, particularly that incorporating flexible coworking space, 2020 and 2021 saw comparatively high metropolitan office project completions, delivering 126,000 square metres (sqm) and 171,000sqm to the market, respectively. As uncertainty grew around the impacts of COVID-19 on the absorption of office accommodation however, the short to longer term pipeline has been disrupted, with many of the bigger projects that require precommitment in particular, being shelved. Nevertheless, there are several projects completing in 2022 delivering almost 90,000sqm of new space to the fringe office market with a further 50,000sqm under construction to be delivered next year. As development sites in Cremorne and Richmond become scarce, the fringe markets of Collingwood and Abbotsford are continuing to deliver opportunities. There remains over 150,000sqm of office projects on drawing boards, awaiting confidence to return to the market.

## RENTS

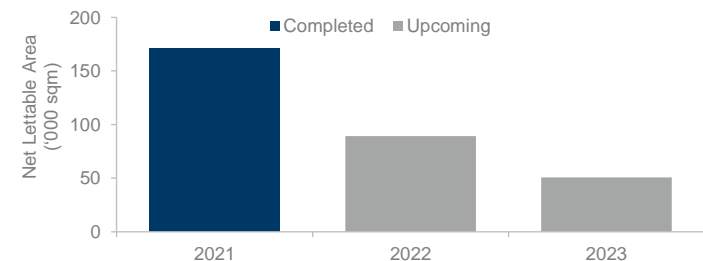
Despite the uncertainty in recent years across the CBD market, metro market net face rents have remained relatively stable. Upward movement in net incentives, however, has placed downward pressure on net effective rents, with Southbank recording an 9.6% year-on-year (YoY) fall to reach \$350sqm pa. For St Kilda Road it is a similar story with net effective rents dropping 8% YoY to reach \$284sqm pa. 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 &amp; Wakefield Research

## METRO MELBOURNE SUPPLY PIPELINE



Source: Cushman &amp; Wakefield Research; Property Council of Australia

## 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	635	164	41%	373	269	236
Southbank A-grade	580	175	40%	350	252	221
St Kilda Road A-grade	445	155	36%	284	204	179
St Kilda Road Secondary Grade	398	170	39%	243	175	153

AUD/USD = 0.7195; AUD/EUR = 0.631 as at 18<sup>th</sup> January 2022. Source: RBA

## KEY LEASING TRANSACTIONS

PROPERTY	SUBMARKET	TENANT	LEASE SQM	LEASE TYPE
88 Langridge Lane	Collingwood	Aesop	1,797	Precommitment
541 St Kilda Road	Melbourne	Alfred Health	8,247	Direct
54 Wellington Street	Collingwood	The Commons	3,338	Direct
412 St Kilda Road	St Kilda Rd	16 tenants	6,500	Direct
510 Church Street	Cremorne	Densu Aegis	4,665	Direct

Source: Cushman & Wakefield Research

## SIGNIFICANT PROJECTS JUST COMPLETED/UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANTS	BUILDING NLA	COMPLETION DATE
459 Church Street	Richmond	WPP & Hub Australia	23,000	2021
510 Church Street	Richmond	Monash IVF & Kane Constructions	20,700	2021
1-11 Gordon Street	Cremorne	HERE Technologies, Link	5,000	2021
57 Balmain Street	Cremorne	Reece Plumbing	7,400	2021
88 Langridge Street	Collingwood	Aesop	7,800	2022
20 Mollison Street	Abbotsford	Fred I.T.	8,900	2022
627 Chapel Street	South Yarra	Oreana	24,000	2022
71 Langridge Street	Collingwood	n/a	5,400	2023

Source: Cushman & Wakefield Research

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