

# MELBOURNE CBD

Office Q1 2022

**\$410** Prime Net Effective Rents (sqm pa)

**4.6%** YoY Prime Net Effective Rent growth

**\$335** B-grade Net Effective Rents (sqm pa)

## ECONOMIC INDICATORS Q4 2021



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

## ECONOMIC OVERVIEW

After two years of dealing with the COVID-19 pandemic that caused a short sharp recession in Australia early in 2020, the Australian economy has returned to growth. As target vaccination rates of the population were progressively achieved in 2H 2021, substantial easing of restrictions began, and the engine room State economies began to recover from numerous lockdowns. NSW returned a positive State demand result first in 2021 Q2, and Victoria in Q3 at an impressive 4.4%. Building on that, Victoria's State demand was a robust 6.6% to Q4. 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 Omicron variant stymied some of the momentum early in 2022, and still poses some threat to that continued growth, however almost all restrictions for returning office workers have been abandoned.

## SUPPLY AND DEMAND

After 351,900 square metres (sqm) of stock was added in 2020 and almost another 200,000sqm of new and refurbished space in 2021, taking our vacancy rate to almost 12%, the outlook for new supply in the CBD is comparatively subdued. The majority of stock expected to enter the market this year is refurbishment, with only Wesley Place in Lonsdale Street to provide a new development, which is fully precommitted. Business confidence is stronger, but cautious. 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 is also likely to reflect a change in the new hybrid workplace in a post pandemic market.

## RENTS

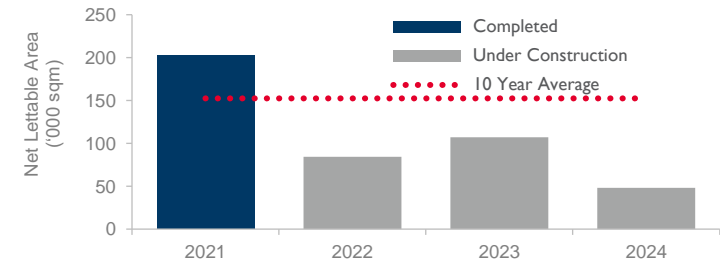
Net incentives stabilised towards the end of 2021 and have begun to come in slightly, at least at the lower end of the range for quality space in Q1. The consolidation of incentives is reflective of a market that has seen a welcomed increase in the number of enquiries, but still has a variety of tenant options available across quality office accommodation. As the recovery gathers pace in Australia's two biggest States, their return to greater proportions of our economy should also be reflected in workers returning to the CBDs. Premium grade net incentives are 38%. Average A-grade net incentives have also come in a little this year, to be at 40%. Although stable, these levels remain marginally higher year-on-year (YoY). Currently, B-grade net incentives are 40%, stabilising too after 12% YoY growth. Premium and A-grade net face rents have increased, reflecting the new better-quality stock, averaging \$725 and \$660sqm pa, respectively. B-grade net face rents also recorded an increase for the quarter, to average \$560sqm pa, or 3.9% 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 REURBS



Source: Cushman & Wakefield Research; Property Council of Australia

Office Q1 2022

## 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	1,058,245	7.2%	70,500	450	335	305
A-grade	2,494,933	14.2%	186,262	395	295	270
<b>Prime*</b>	<b>3,553,178</b>	<b>12.1%</b>	<b>256,762</b>	<b>410</b>	<b>310</b>	<b>280</b>
B-grade	1,062,483	13.7%	-	335	250	230
<b>MELBOURNE CBD TOTAL<sup>^</sup></b>	<b>5,031,783</b>	<b>11.9%</b>				

\*Prime is a weighted combination of Premium and A-grade

<sup>^</sup>All-grades - As at 1/01/2022. Source: Property Council of Australia and Cushman & Wakefield.AUD/USD = 0.7482; AUD/EUR = 0.6810 as at 29<sup>th</sup> March 2022. Source: RBA

## KEY LEASING TRANSACTIONS

PROPERTY	SUBMARKET	TENANT	LEASE SQM	LEASE TYPE
555 Collins Street	Spencer	Aware Super	8,000	Pre-commitment
385 Bourke Street	Western Core	Worley	1,343	Direct
Melbourne Quarter Tower	Docklands	Medibank	17,500	Pre-commitment
181 William Street	Western Core	Court Services Aust.	12,243	Direct
80 Collins Street	Eastern Core	Moelis	1,300	Direct

Source: Cushman &amp; Wakefield Research

## SIGNIFICANT PROJECTS &amp; REFURBISHMENTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANTS	BUILDING NLA	COMPLETION DATE
Westley Place 140 Lonsdale	North Eastern	Australian Federal Police	22,000	Q2 2022
637 Flinders Street	Docklands	n.a.	25,000	Q3 2022
Melbourne Quarter Tower	Docklands	Medibank	65,000	Q1 2023
555 Collins Street	Spencer	Amazon, Aware Super	48,000	Q2 2023
120 Little Collins Street	Eastern Core	n.a.	9,600	Q2 2023

Source: Cushman &amp; Wakefield Research

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