

MELBOURNE CBD

Office Q2 2022

\$410 Prime Net Effective Rents (sqm pa)

7.7% YoY Prime Net Effective Rent growth

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

ECONOMIC INDICATORS Q1 2022

	Q4 21	Q1 22	12-Mo. Forecast
GDP Growth (National)*	4.8%	5.3%	▼
State Final Demand Growth (VIC)*	6.4%	7.9%	▼
Unemployment (VIC)†	4.2%	4.0%	▼

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

ECONOMIC OVERVIEW

As Australia's economic growth rates improve, so too are the proportions of that growth contributed by our two largest States, NSW and Victoria, which were hardest hit during periods of lockdowns. International border closures reversed Victoria's enviable position as the Country's fastest growing, fueled by migrant and student numbers. Despite the robust rebound in gross state product (GSP) for Victoria in the 2021 calendar year of 6.8%, Deloitte Access Economics expects a return to a more modest, but still strong, forecast of GSP in the calendar years of 2022 and 2023 of 3.3% and 3.1%, respectively. The expansion at both state and national levels had largely been driven by household spending, which is likely to be less robust moving forward as inflation increases cost of living pressures and interest rates move upward. COVID-19's Omicron variant stymied some of the momentum early in 2022, and still poses some threat to that continued growth, however positive international passenger movements bode well for Victoria's international education and tourism industries.

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. Most of the 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 cautious but remains above longer-term averages. Larger tenants are slower to commit, with many opting for short term extensions. Fitted out speculative suites are providing the most activity according to Cushman & Wakefield's office leasing team. Higher quality accommodation is becoming integral to business' strategies for staff retention and attraction.

RENTS

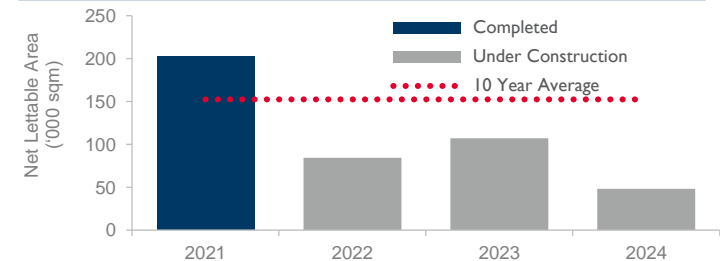
The consolidation of incentives is reflective of a market that has seen a welcomed increase in the number of enquiries on the previous year, however, there remains a variety of tenant options available across quality office accommodation. As the recovery gathers pace in Australia's two biggest States, 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 remain unchanged at 40%. Although stable, these levels are almost two percentage points lower than their peak twelve months ago. Currently, B-grade net incentives have stabilised at 40%, three percentage points higher than twelve months ago. Premium and A-grade net face rents are steady, reflective of the new better-quality stock, averaging \$725 and \$660q/m pa, respectively. B-grade net face rents are also steady for the quarter, to average \$560sqm pa, or 8.5% YoY. B-grade rental levels continue to contend with the market's desire for a *flight to quality* by tenants.

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 Q2 2022

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	7.2%	70,500	450	310	295
A-grade	2,494,933	14.2%	186,262	395	275	260
Prime*	3,553,178	12.1%	256,762	410	285	270
B-grade	1,062,483	13.7%	-	335	230	220
MELBOURNE CBD TOTAL[^]	5,031,783	11.9%				

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

[^]All-grades - As at 1/01/2022. Source: Property Council of Australia and Cushman & Wakefield.

AUD/USD = 0.6928; AUD/EUR = 0.6554 as at 28 June 2022 Source: RBA

KEY LEASING TRANSACTIONS

PROPERTY	SUBMARKET	TENANT	LEASE SQM	LEASE TYPE
T2 727 Collins Street	Docklands	Programmed	3,638	Direct
385 Bourke Street	Western Core	Whispir	1,332	Direct
555 Collins Street	Spencer	Aware Super	8,000	Pre-commitment
525 Collins Street	Western Core	BlueRock	3,949	Sublease
385 Bourke Street	Western Core	Worley	1,343	Direct
Melbourne Quarter Tower	Docklands	Medibank	17,500	Pre-commitment

Source: Cushman & Wakefield Research

SIGNIFICANT PROJECTS & REFURBISHMENTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANTS	BUILDING NLA	COMPLETION DATE
Wesley 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 & Wakefield Research

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