

MELBOURNE CBD

Office Q3 2022

\$410 Prime Net Effective Rents (sqm pa)

5.3% YoY Prime Net Effective Rent growth

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

ECONOMIC INDICATORS Q2 2022

	Q1 22	Q2 22	12-Mo. Forecast
GDP Growth (National)*	5.4%	3.9%	▼
State Final Demand Growth (VIC)*	8.4%	7.4%	▼
Unemployment (VIC)†	4.1%	3.2%	▲

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

ECONOMIC OVERVIEW

After weathering the COVID-19 induced recession of 2020 as well as the subsequent waves of the virus and inclement weather in 2021 and early 2022, the Australian economy was poised for recovery. This has been tempered to a degree as inflationary pressures have pushed forward interest rate rises and lowered the outlook for growth. Despite this, the economy is still expected to expand at an above-average rate in 2022. Deloitte Access Economics (DAE) is predicting that Australia's real GDP will increase 3.4% in 2022 and 2.5% in 2023, in line with the 2010-2019 average annual growth of 2.6%. This also follows a 4.8% expansion in 2021.

Despite the robust rebound in GSP for Victoria in the 2021 calendar year of 6.9%, DAE expects a return to a more modest, but still strong, forecast of GSP in the calendar years of 2022 and 2023 of 4.5% and 2.2%, respectively.

SUPPLY AND DEMAND

After 550,000 square metres (sqm) of new and refurbished stock was added over 2020 and 2021 combined, and the first half of 2021 delivering an additional 60,000sqm taking our vacancy rate to almost 13%, 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

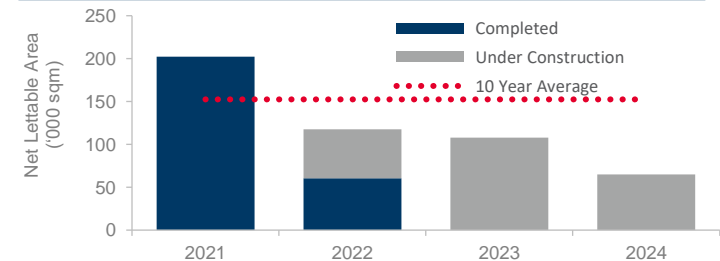
The consolidation of incentives is reflective of a market that has seen a welcomed increase in the number of enquiries on the previous year, however, there remains a variety of tenant options available across quality office accommodation. As the recovery gathers pace in Australia's two biggest States, and corporates adopt a hybrid workplace that redistributes space providing for greater activity, workers are likely to return 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 \$660qpm pa, respectively. B-grade net face rents are also steady for the quarter, to average \$560sqm pa, or 6.4% YoY. B-grade rental levels continue to contend with the market's desire for a *flight to quality* (or *flight to new*) 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 Q3 2022

MARKET STATISTICS

SUBMARKET	INVENTORY [^] (SQM)	VACANCY RATE	UNDER CONSTRUCTION (SQM)	NET EFFECTIVE RENT		
				A\$/SQM/YR	US\$/SQM/YR	EUR/SQM/YR
Premium	1,092,283	10.9%	50,000	455	300	305
A-grade	2,509,683	13.0%	179,362	395	260	265
Prime*	3,553,178	12.3%	229,362	410	270	275
B-grade	1,073,968	17.4%	-	335	225	225
MELBOURNE CBD TOTAL[^]	5,092,056	12.9%				

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

[^]All-grades - As at 1/07/2022. Source: Property Council of Australia and Cushman & Wakefield.

AUD/USD = 0.6624; AUD/EUR = 0.6739 as at 23 September 2022 Source: RBA

KEY LEASING TRANSACTIONS

PROPERTY	SUBMARKET	TENANT	LEASE SQM	LEASE TYPE
T2 727 Collins Street	Docklands	Programmed	3,638	Sublease
180 Lonsdale Street	Civic	Services Australia	9,049	Direct
555 Collins Street	Spencer	Aware Super	8,000	Pre-commitment
525 Collins Street	Western Core	BlueRock	3,949	Sublease
100 Queen Street	Western Core	Judo Bank	2,726	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	Q3 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

GLENN LAMPARD

VIC Research Manager

+61 419 008 742

glenn.lampard@cushwake.com

JOHN SEARS

Head of Research, Australia & New Zealand

+61 466 387 016

john.sears@cushwake.comcushmanwakefield.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in 400 offices and 60 countries. In 2021, the firm had revenue of \$9.4 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2022 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.