

MELBOURNE CBD

Office Q4 2022

\$410 Prime Net Effective Rents (sqm pa)

6.3% YoY Prime Net Effective Rent growth

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

ECONOMIC INDICATORS Q3 2022

	Q2 22	Q3 22	12-Mo. Forecast
GDP Growth (National)*	3.7%	4.1%	▼
State Final Demand Growth (VIC)*	7.1%	6.6%	▼
Unemployment (VIC)†	3.5%	3.3%	▲

*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 for 2022. Deloitte Access Economics (DAE) is predicting that Australia's real GDP will have increased 3.4% in 2022, a further 2.5% in 2023, in line with the 2010-2019 average annual growth of 2.6%.

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, the first and second half of 2022 only delivered an additional 60,000sqm and 50,000sqm respectively, taking our vacancy rate to 13%. Comparatively, the outlook for new supply in the CBD is quite subdued. Most notably under construction at present, are the new developments of 555 Collins St and Melbourne Quarter Tower, in addition to the 500 Bourke Street full refurbishment. 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

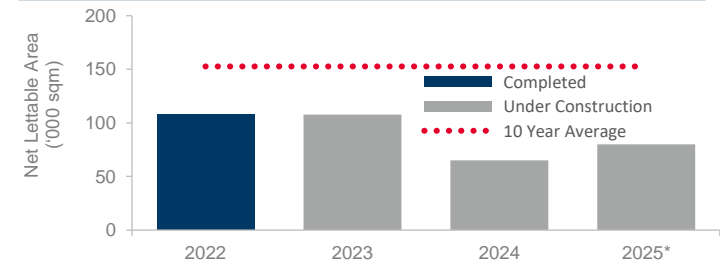
The consolidation of incentives is reflective of a market that has seen a welcomed increase in the number of enquiries on the previous year, however, there remains a variety of tenant options available across quality office accommodation. As the recovery gathers pace in Australia's two biggest States, 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 4.0% 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 REFURBS



Source: Cushman & Wakefield Research; Property Council of Australia *approximate

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	315	290
A-grade	2,509,683	13.0%	179,362	395	275	255
Prime*	3,553,178	12.3%	229,362	410	285	265
B-grade	1,073,968	17.4%	-	335	235	215
MELBOURNE CBD TOTAL[^]	5,092,056	12.9%				

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

[^]All-grades - As at 17/01/2023. Source: Property Council of Australia and Cushman & Wakefield.

AUD/USD = 0.6973; AUD/EUR = 0.6441 as at 18 January 2023 Source: RBA

KEY LEASING TRANSACTIONS

PROPERTY	SUBMARKET	TENANT	LEASE SQM	LEASE TYPE
171 Collins Street	Civic	Aust Energy Market Operator	6,642	Direct
500 Bourke Street	Western Core	TAL	6,300	Direct
525 Collins Street	Western Core	Bluerock	3,949	Sublease
222 Lonsdale Street	Civic	Gamuda/John Holland	3,900	Direct
130 Lonsdale Street	Civic	Latitude Financial	3,800	Sublease
181 William Street	Western Core	BlueScope Steel	1,975	Direct

Source: Cushman & Wakefield Research

SIGNIFICANT PROJECTS & REFURBISHMENTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANTS	BUILDING NLA	COMPLETION DATE
130 Little Collins Street	Eastern Core	n.a.	9,600	Q2 2023
555 Collins Street	Spencer	Amazon, Aware Super	48,000	Q2 2023
500 Bourke Street	Western Core	TAL, Holding Redlich	37,000	Q3 2023
299 Bourke Street	Civic	n.a.	7,500	Q3 2023
Melbourne Quarter Tower	Docklands	Medibank	65,000	Q1 2024

Source: Cushman & Wakefield Research

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