

\$960 Prime Gross Effective Rents (per sqm p.a)

2.9% QoQ Prime Gross Effective Rent growth

\$705 B-grade Gross Effective Rents (per sqm p.a)

ECONOMIC INDICATORS To Q3 2022



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

ECONOMIC OVERVIEW

Global inflationary pressures that persisted throughout 2022 have pushed forward interest rate rises and tempered expectations for a rapid recovery for the Australian economy. Although a more hawkish monetary policy stance is expected to reduce the pace of expansion in the Australian economy for 2023 and 2024, growth is forecast to remain positive in both years. Deloitte Access Economics (DAE) is predicting that Australia's real GDP increased at an above-trend 3.6% in 2022 before slowing to 1.7% in 2023 and 1.6% in 2024. DAE forecast that New South Wales (NSW) gross state product (GSP) increased 4.6% in 2022, well above the annual average growth rate in the decade prior to the pandemic (2010-2019) of 2.5%. However, GSP growth is expected to slow to 1.7% in 2023 and 1.6% in 2024.

SUPPLY AND DEMAND

After more than 205,000 square metres (sqm) of new and refurbished space came online in the Sydney CBD over the course of 2022, supply is expected to be more subdued in 2023. Circa 70,000 sqm of refurbished office space is expected to be completed in 2023, the majority of this in the second half of the year. Although there are no new major developments scheduled to be completed in 2023, several are expected in the first quarter of 2024 including 1 Elizabeth Street (NLA 72,500 sqm, 83% pre-committed) and Parkline Metro North (NLA 48,000 sqm).

Concerns surrounding inflation and the subsequent rapid escalation of interest rates have pushed consumer confidence to the lowest levels since 2020, though business confidence has held steady. Anecdotally, Cushman & Wakefield's office leasing team reports that tenants are seeking high quality fit-outs in core locations as hiring and staff retention remain in focus in a historically tight labour market.

RENTS

Leasing enquiries were stable in Q1 of 2023, though tenants are generally continuing to delay decisions amid heightened economic uncertainty. Prime face rents were 2.9% higher than during Q4 to average of \$1,480 sqm per annum (pa). Part of this was due to quality uplift as a result of new buildings being completed as well as the larger share of premium grade buildings in the prime basket. This dynamic also drove a 7.7% increase in face rents over the past year. Premium, A-grade and B-grade gross face rents average \$1,645, \$1,360 and \$1,085 respectively.

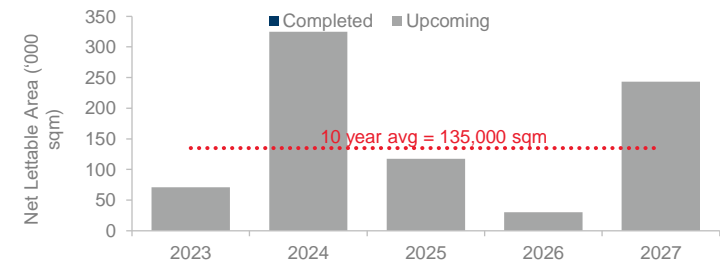
Incentives continue to creep higher on some properties, ranging from 30% to 39% across the grades and are generally higher in the lower grades or where lease terms were longer. However, the modest increase in incentives has been more than offset by an increase in face rents, and prime gross effective rents are 2.9% higher than in Q4.

PRIME GROSS EFFECTIVE RENT, OVERALL VACANCY (6 MONTHLY)



Source: PCA; Cushman & Wakefield Research

SUPPLY PIPELINE: NEW DEVELOPMENTS & MAJOR REFRURBS



Source: PCA; Cushman & Wakefield Research

MARKET STATISTICS

SUBMARKET	INVENTORY [^] (SQM)	VACANCY RATE*	UNDER CONSTRUCTION (SQM)	GROSS EFFECTIVE RENT		
				A\$/SQM/YR	US\$/SQM/YR	EUR/SQM/YR
Premium	1,357,404	10.1%	305,000	1070	710	660
A-grade	1,924,958	11.8%	291,000	875	585	540
Prime*	3,340,491	11.1%	596,000	960	635	590
B-grade	1,349,578	12.6%	0	705	470	435
SYDNEY CBD TOTAL[^]	5,283,196	11.3%	596,000			

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

[^]All-Grades - As at January 2022. Source: Property Council of Australia and Cushman & Wakefield.

AUD/USD = 0.665; AUD/EUR = 0.6176 as at 28 March 2023 Source: RBA

KEY LEASING TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	SQM	LEASE TYPE
Barangaroo Tower 2	Western	TPG	9,200	Sublease
1 Shelley Street	Western	WPP	9,386	Direct
39 Martin Place	Core	Ashurst	10,100	Direct

Source: Cushman & Wakefield Research

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANTS	SQM	COMPLETION DATE
39 Martin Place	Core		30,000	2024 Q1
1 Elizabeth Street	Core		72,500	2024 Q1
Parkline Metro North	Midtown		47,839	2024 Q1
201 Elizabeth Street	Midtown		15,975	2024 Q1

Source: Cushman & Wakefield Research

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