

**\$980** Prime Gross Effective Rents (per sqm p.a)

**6.6%** YoY Prime Gross Effective Rent growth

**\$725** B-grade Gross Effective Rents (per sqm p.a)

## ECONOMIC INDICATORS To Q3 2023



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

## ECONOMIC OVERVIEW

The Australian economy remained resilient throughout 2023 despite multiple interest rate rises and persistent inflationary pressures. Oxford Economics forecasts Australian real GDP to have increased 1.4% over calendar 2023. Although growth continues to slow, Oxford Economics predicts that it will remain positive throughout 2024 before rebounding through 2025. New South Wales gross state product is expected to have increased 2% over the course of 2023, slowing from 3% in 2022. Oxford Economics forecasts gross state product to increase just 0.2% over the course of calendar 2024 before rebounding to 3.2% in 2025 and 3.4% in 2026.

## SUPPLY AND DEMAND

Limited new supply came online in 2023 with circa 27,000 sqm of refurbished space being completed in the first half of the year and 62,000sqm completing in the remainder of the year. 2024 will see several major developments reach completion including 1 Elizabeth street (72,500 sqm), 39 Martin Place (39,000 sqm) and Parkline Place at 252 Pitt Street (47,850 sqm). 1 Elizabeth street has been fully committed to by Macquarie Bank and will reach practical completion in Q1 2024 with 39 Martin Place finishing in Q2 and Parkline Place in Q4. Ashurst will be taking circa 10,000 sqm as the anchor tenant of 39 Martin Place while Parkline Place has secured 58.5% pre-commitments from various tenants. This short-term limited supply is allowing the office market to absorb some of the ~142,000 sqm of new premium NLA that was completed in 2022.

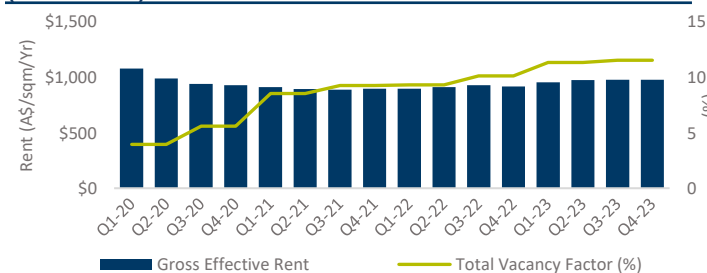
Demand in Sydney CBD is becoming even more focused around the City Core, with 6-month net absorption to July 2023 of 33,500 sqm in the precinct. Meanwhile, outside of the City Core net absorption in the same period was -73,500sqm. This trend arises from an ongoing flight to quality with the City Core having the most centralized location and the bulk of premium assets in the CBD (over half of Premium grade NLA is in this precinct). This trend is continuing to support tenant demand for prime, especially premium space, in the best locations.

## RENTS

Prime gross face rents held steady from Q3 to Q4 with 0.4% QoQ growth, averaging \$1,530 per sqm per annum (sqm pa). Premium, A-grade and B-grade gross face rents average \$1,705, \$1,405 and \$1,135 sqm pa respectively. B-grade rental growth has stabilised from last quarter to be in line with the prime grades, with QoQ B-grade gross face rental growth landing at 0.4% in Q4.

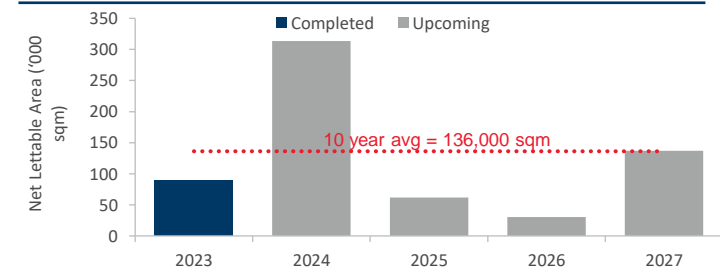
Incentives remained elevated averaging 36% in Prime and B-grade properties. There has been upward pressure on incentives outside of the City Core on lower grade properties as a result of softer tenant demand for these kind of assets. Inflationary pressures have also pushed prime outgoings 2% higher QoQ. Ultimately, these factors have cancelled out face rental growth, which has held prime effective rents steady.

## PRIME GROSS EFFECTIVE RENT, OVERALL VACANCY (6 MONTHLY)



Source: PCA; Cushman & Wakefield Research

## SUPPLY PIPELINE: NEW DEVELOPMENTS & MAJOR REFURBS



Source: PCA; Cushman & Wakefield Research

## MARKET STATISTICS

| SUBMARKET                           | INVENTORY <sup>^</sup><br>(SQM) | VACANCY<br>RATE* | UNDER<br>CONSTRUCTION<br>(SQM) | GROSS EFFECTIVE RENT |             |            |
|-------------------------------------|---------------------------------|------------------|--------------------------------|----------------------|-------------|------------|
|                                     |                                 |                  |                                | A\$/SQM/YR           | US\$/SQM/YR | EUR/SQM/YR |
| Premium                             | 1,412,611                       | 11.0%            | 248,000                        | 1090                 | 715         | 660        |
| A-grade                             | 1,946,880                       | 11.7%            | 206,000                        | 900                  | 590         | 540        |
| <b>Prime*</b>                       | <b>3,359,491</b>                | <b>11.4%</b>     | <b>454,000</b>                 | <b>980</b>           | <b>645</b>  | <b>590</b> |
| B-grade                             | 1,316,782                       | 12.4%            | 10,000                         | 725                  | 475         | 440        |
| <b>SYDNEY CBD TOTAL<sup>^</sup></b> | <b>5,249,961</b>                | <b>11.5%</b>     | <b>464,000</b>                 |                      |             |            |

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

<sup>^</sup>All-Grades - As at 22 January 2024. Source: Property Council of Australia and Cushman & Wakefield.

AUD/USD = 0.6579; AUD/EUR = 0.6043 as at 22 January 2024 Source: RBA

## KEY LEASING TRANSACTIONS Q4 2023

| PROPERTY              | SUBMARKET        | TENANT                   | SQM   | LEASE TYPE |
|-----------------------|------------------|--------------------------|-------|------------|
| Grosvenor Place       | City Core        | Wotton + Kearney Pty Ltd | 2,736 | Direct     |
| 201 Sussex Street DP2 | Western Corridor | Metro Finance            | 1,863 | Direct     |
| 85 Castlereagh Street | Midtown          | Banki Haddock            | 1,503 | Direct     |

Source: Cushman & Wakefield Research

## SIGNIFICANT PROJECTS UNDER CONSTRUCTION

| PROPERTY               | SUBMARKET | MAJOR TENANTS  | SQM    | COMPLETION DATE |
|------------------------|-----------|----------------|--------|-----------------|
| 1 Elizabeth Street     | Core      | Macquarie Bank | 72,500 | 2024 Q1         |
| 121 Castlereagh Street | Midtown   |                | 11,500 | 2024 Q1         |
| 39 Martin Place        | Core      | Ashurst        | 30,000 | 2024 Q2         |
| Parkline Place         | Midtown   |                | 47,839 | 2024 Q4         |

Source: Cushman & Wakefield Research

## SEAN ELLISON

Research Manager, New South Wales

+61 (0) 481 093 806 / [sean.ellison@cushwake.com](mailto:sean.ellison@cushwake.com)

## DR. DOMINIC BROWN

Head of Research, Australia & New Zealand

+61 (0) 431 947 161 / [dominic.brown@cushwake.com](mailto:dominic.brown@cushwake.com)

[cushmanwakefield.com](http://cushmanwakefield.com)

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