

SYDNEY CBD

Office Q2 2024



\$990 Prime Gross Effective Rents (per sqm p.a)

4.1% YoY Prime Gross Face Rent growth

\$740 B-grade Gross Effective Rents (per sqm p.a)

ECONOMIC INDICATORS Q1 2024

	Q3 23	Q4 23	12-Mo. Forecast
GDP Growth (National)	2.0%	1.7%	▼
State Final Demand Growth (NSW)*	2.4%	2.2%	▼
Unemployment (NSW)†	3.5%	3.8%	▲

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

ECONOMIC OVERVIEW

The Australian economy has slowed through 2024 amid continued inflationary pressures. Real GDP increased at a modest 0.1% over the first quarter of 2024, a clear indication that the Australian economy is in the midst of a cyclical slowdown. Oxford Economics (OE) forecasts that real GDP will continue to slow through Q2, before recovering in H2 2024, with their first forecast rate cut now pushed back to Q1 2025. OE forecasts New South Wales real gross state product to increase just 0.6% over 2024, before recovering to grow 3.3% in 2025 and 3.3% in 2026.

SUPPLY AND DEMAND

The Sydney CBD will see slightly over 280,000 sqm of new developments come online in 2024 with over half currently nearing completion, most of which will be prime assets. 1 Elizabeth Street headlines this, receiving a full commitment to its 72,000 sqm of Premium space by Macquarie Bank, who will be vacating 4 separate offices across the CBD. Outside of this, 39 Martin Place is finishing in mid-year and Parkline Place in Q4, bringing online 39,000 sqm and 47,850 sqm respectively. 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.

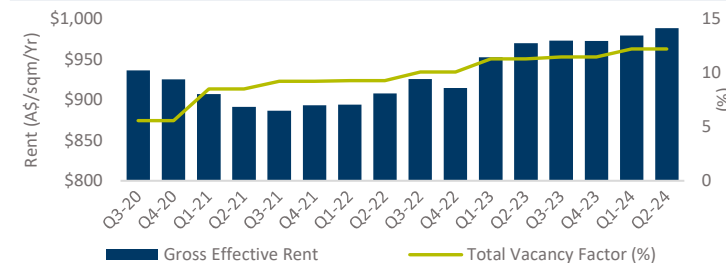
Tenants remain focused on location amid a flight to quality, and as a result remain focused on the city core. Robust Prime absorption in the city core is evidence of this; Prime net absorption in the city core was 29,500 sqm over 2023 while outside of the core Prime absorption was -71,250 sqm in the same period. Absorption in the core has been supported by its outsized portion of Premium CBD towers as tenant demand persists for well-located, quality assets.

RENTS

Gross face rents in the Sydney CBD have risen slightly in Q2 2024, specifically in the A-grade with 1.9% quarter on quarter (QoQ) growth. This is largely a product of outgoings rising and increasing demand for fitted-out space, which is seeing landlords push face rents at the cost of slightly higher incentives. This leaves effective rents largely unchanged from Q1 levels. In the Premium grade, Gross face rents were largely up 0.7% over the quarter, averaging \$1,700 per sqm per annum (sqm pa) while A-grade gross face rents averaged \$1,470 sqm pa and B-grade saw an uplift of 1.8% QoQ to average \$1,165 sqm pa.

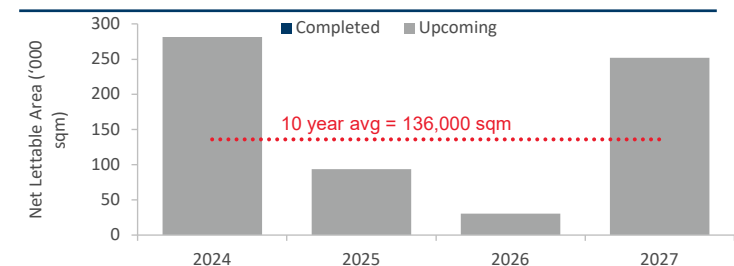
Outgoings have risen over the quarter by 2.0% on average across the grades. This is mostly attributable to inflationary pressures, which have lifted face rents. This face rental uplift is also linked to the increasing number of tenants seeking fit outs. Across the CBD overall incentives remain elevated at 37%; though against a backdrop of limited prime space available in the city core some landlords have begun to wind back incentives. In the near term, limited availability of large tranches of prime space in the city core will underpin this precinct. Ultimately, these factors have largely mitigated face rental growth to leave gross effective rents up only 1.2% QoQ on average.

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* (SQM)	VACANCY RATE*	UNDER CONSTRUCTION (SQM)	GROSS EFFECTIVE RENT		
				A\$/SQM/YR	US\$/SQM/YR	EUR/SQM/YR
Premium	1,412,611	13.0%	111,500	1,070	615	665
A-Grade	1,934,293	12.2%	105,098	930	655	575
Prime *	3,346,904	12.5%	216,598	990	655	615
B-Grade	1,283,318	12.4%		735	490	460
Sydney CBD Total^	5,219,293	12.2%	216,598			

*Prime Grade is a combination of Premium and A Grade

^All-Grades - As at February 2024

AUD/USD = 0.6641; AUD/EUR = 0.6207 as at 24 June 2024

KEY LEASING TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	TENANT	SQM	LEASE TYPE
39 Martin Place		ASX	10,750	Direct
1 Farrer Place		KWM	10,447	Direct
33 Alfred Street		Allens	9,498	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 Q2/Q3
121 Castlereagh Street	Midtown		11,500	2024 Q2/Q3
39 Martin Place	Core	Ashurst	39,000	2024 Q2
Parkline Place	Midtown		47,839	2024 Q4

Source: Cushman & Wakefield Research

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