

# METRO SYDNEY

Office Q2 2024



## 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

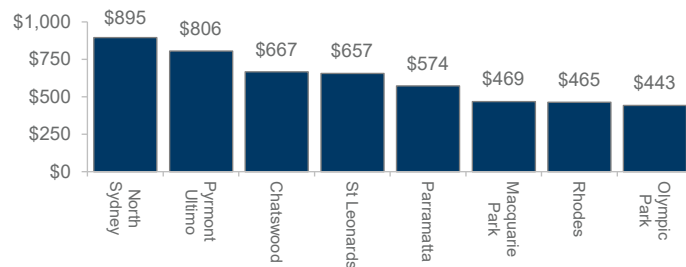
Over 2023, circa 145,000 sqm of office space came online, with a further 67,000 sqm scheduled to come online in this year. New supply in H2 2023 was headlined by 88 Walker Street in North Sydney (12,500 sqm, 18% pre-committed) 16,500 sqm at 558 Pacific Highway in St Leonards and over 30,000 sqm in Macquarie Park with with completion of M\_Park and MQX4. New supply in 2024 is set to be more limited before picking up again in 2025 when circa 145,000 sqm of new and refurbished office space is slated for completion. Further afield, an additional 565,000 sqm of office space is scheduled to be completed between 2026-2030, however, a substantial portion of this new supply will need to hit precommitment targets before construction can begin.

## RENTS

Face rents have been fairly stable across Sydney metro markets over the past 12 months. Tenant demand has softened somewhat against the background of heightened economic uncertainty and a tight labour market limiting hiring. However, this is further driving a flight to quality as tenants increasingly focus on employee retention. A-grade gross face rents rose 2.0% from a year ago in North Sydney, 3.9% in Chatswood, 5.7% in St Leonards, 4.4% in Macquarie Park and 3.6% in Sydney Olympic Park albeit incentives remaining stubbornly high. Face rents in other precincts were little changed over the past twelve months.

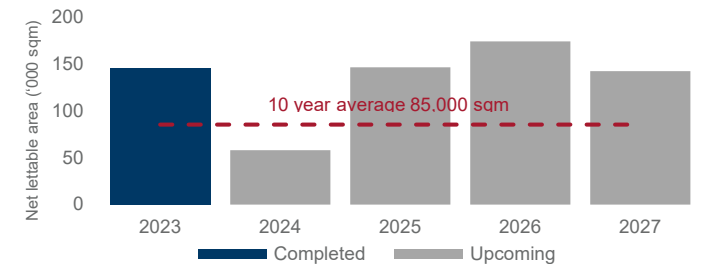
Outgoings have risen quite significantly across most markets as a product of major rises in land tax, insurance and energy prices. Incentives are also creeping up in some markets, with Cushman and Wakefield agents noting this upward movement has more to run in areas like Parramatta. These conditions could subdue rental growth on a net and/or effective basis. Over 2024, we expect this relative stability to continue until more of the development pipeline comes to fruition.

## A-GRADE METRO NET FACE RENTS (AVERAGE)



Source: Cushman & Wakefield Research

## METRO SYDNEY SUPPLY PIPELINE



Source: Cushman & Wakefield Research; PCA

**2.6%** Average YoY increase in A-grade gross face metro rents

**36%** Average metro A-grade gross incentives

**665k sqm** In potential projects over the next five years

## ECONOMIC INDICATORS To Q1 2024

Q4 23 Q1 24 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; Deloitte Access Economics; Cushman & Wakefield Research

## MARKET STATISTICS

| MARKET              | A-GRADE (AVERAGE)   |                 |                  | GROSS EFFECTIVE RENT (A-GRADE) |             |            |
|---------------------|---------------------|-----------------|------------------|--------------------------------|-------------|------------|
|                     | NET FACE RENT (A\$) | OUTGOINGS (A\$) | GROSS INCENTIVES | A\$/SQM/YR                     | US\$/SQM/YR | EUR/SQM/YR |
| Sydney CBD          | 1,469               | 229             | 37%              | 930                            | 615         | 575        |
| North Sydney        | 1,044               | 149             | 37%              | 660                            | 440         | 410        |
| Pymont Ultimo       | 961                 | 155             | 38%              | 595                            | 395         | 370        |
| St Leonards         | 803                 | 146             | 39%              | 490                            | 325         | 305        |
| Chatswood           | 792                 | 125             | 37%              | 495                            | 330         | 310        |
| Parramatta          | 705                 | 131             | 36%              | 455                            | 300         | 280        |
| Rhodes              | 566                 | 101             | 35%              | 365                            | 245         | 230        |
| Macquarie Park      | 578                 | 109             | 30%              | 410                            | 270         | 255        |
| Sydney Olympic Park | 553                 | 110             | 40%              | 320                            | 215         | 200        |

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

## KEY LEASING TRANSACTIONS Q2 2024

| PROPERTY                          | MARKET         | TENANT           | SQM    | LEASE TYPE |
|-----------------------------------|----------------|------------------|--------|------------|
| 40 Mount Street                   | North Sydney   | Lenovo           | 1,187  | Direct     |
| 40 Mount Street                   | North Sydney   | Pandora          | 1,263  | Direct     |
| Victoria Cross                    | North Sydney   | Ventia           | ~3,200 | Direct     |
| 2-4 Blue Street                   | North Sydney   | Pacific National | ~3,000 | Direct     |
| 465 Victoria Avenue               | Chatswood      | Capital Centric  | 1,950  | Direct     |
| 1 Homebush Bay Drive (Building G) | Rhodes         | Assetlink        | 594    | Direct     |
| 1 Eden Street (Array)             | Macquarie Park | Toshiba          | ~3,200 | Direct     |

Source: Cushman & Wakefield Research

## SIGNIFICANT PROJECTS UNDER CONSTRUCTION

| PROPERTY               | MARKET         | MAJOR TENANTS     | SQM    | COMPLETION DATE |
|------------------------|----------------|-------------------|--------|-----------------|
| 85 Macquarie Street    | Parramatta     | CBA, AFFORD       | 10,000 | Q2 2024         |
| M Park Building B      | Macquarie Park | Johnson & Johnson | 15,000 | Q4 2025         |
| Victoria Cross Station | North Sydney   | Ventia            | 58,000 | Q3 2025         |

Source: Cushman & Wakefield Research

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