

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
18.0% Vacancy Rate	▲	▲
-15,435 6-month Net Absorption, sqm	▼	▼
\$329 Prime Net Effective, sqm pa	▲	▲

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
1.0% (National) GDP Growth	▼	▼
1.4% (Victoria) State Final Demand Growth	▼	▲
4.2% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW:

The second-quarter GDP release was a key highlight among recent economic updates. It showed real growth slowing, with GDP increasing by 1% in the year to June 2024. Adjusted for population growth, however, per capita GDP declined by 1.5%, indicating weaker economic output per person. This highlights the economy's growing reliance on population growth, as net overseas migration surged by over 70,000 in Q2, contributing significantly to overall economic activity and helping offset productivity challenges. Oxford Economics forecasts Victoria's gross state product to increase 1.7% over 2024, before recovering to grow 4.1% in 2025 and 4.3% in 2026.

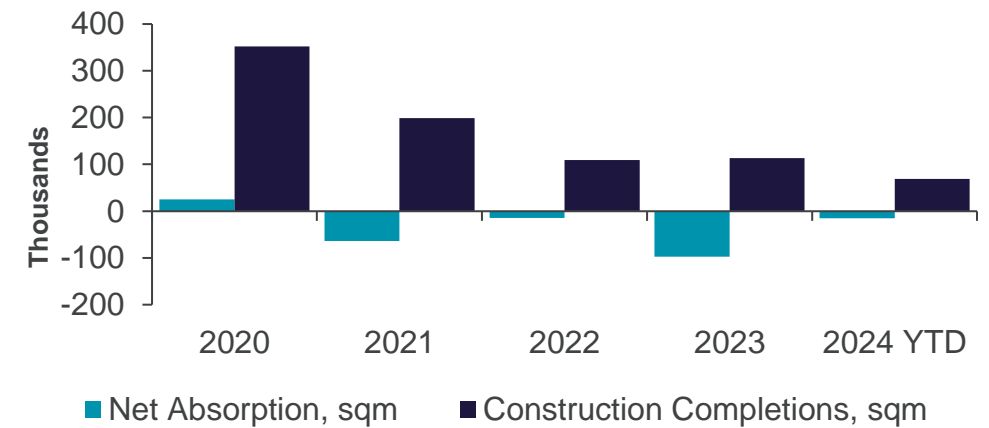
DEMAND:

Tenant demand remains strong for quality prime grade assets, while demand for secondary assets has remained subdued. Net absorption across the total market for H1 2024 was -15,435 sqm a significant improvement from the absorption at the end of 2023 being -37,294 sqm highlighting improved leasing activity and tenant confidence. Prime grade net absorption was -13,325 sqm in H2 2023 and has moved down to -7,737 sqm in H1 2024 whilst secondary moved from -23,969 sqm in H2 2023 down to -7,698 sqm in H1 2024. This indicates that secondary tenant demand while still poor is improving in the midterm. Notable lease transactions include the move by EY to 111 Bourke Street filling 20,000 sqm.

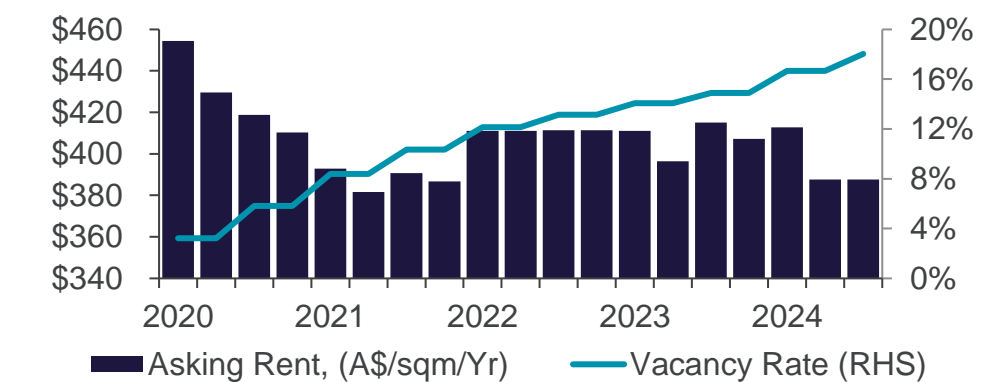
RENTS & INCENTIVES:

Rents and incentives remained stable in the Melbourne CBD across all grades. With a variety of tenant options available across quality office accommodation, both Premium grade and A-grade net incentives have remained at 46.2% since Q2 2024. Average Premium grade net effective rents have decreased -1.5% year-on-year (Y-o-Y), to \$439 per sqm per annum. Average A-grade net effective rents have also decreased by -8.8% Y-o-Y now at \$366 per sqm per annum. High outgoings are placing downward pressure on effective rents. Premium outgoings are now \$230 sqm per annum, up 6.5% Y-o-Y, while A-grade outgoings average \$198 sqm per annum, up 0.5% Y-o-Y.

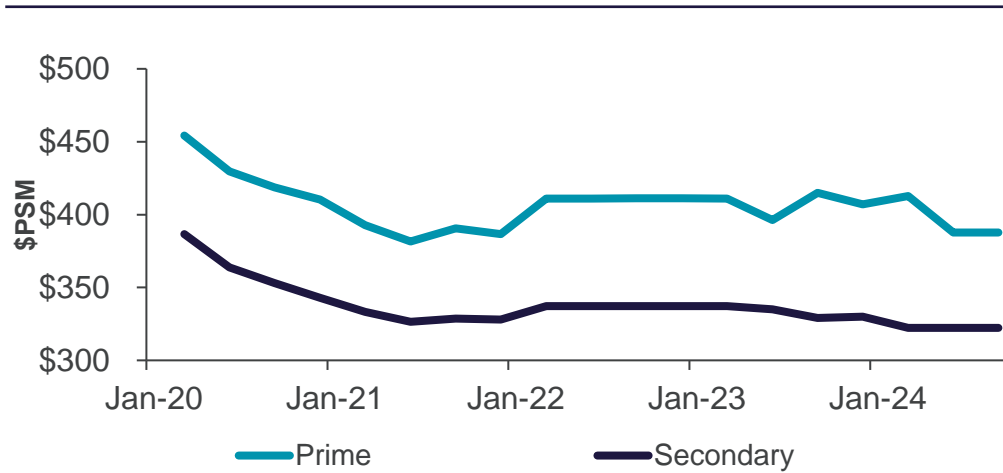
SPACE DEMAND / DELIVERIES



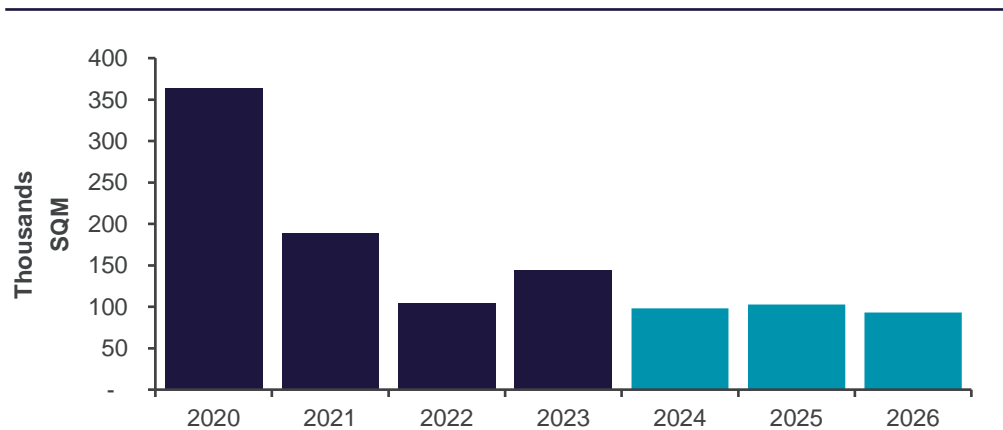
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



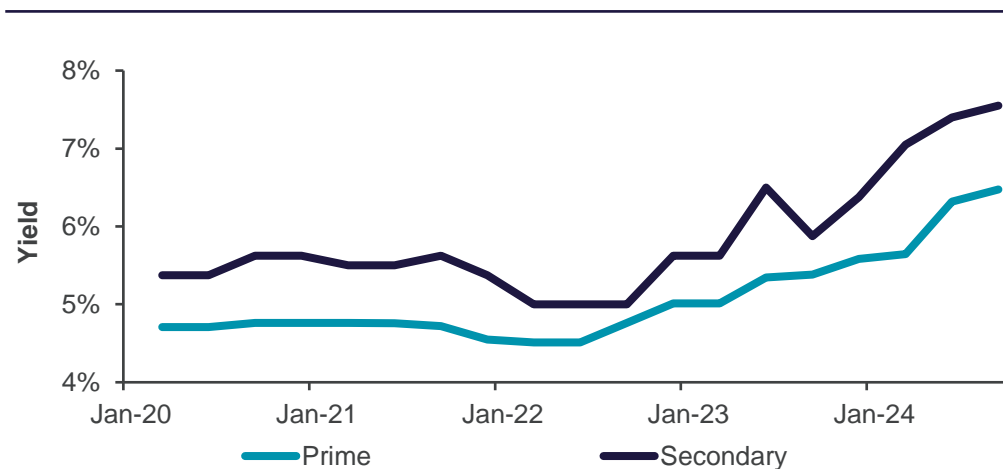
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

The first half of 2024 recorded 80,500sqm of new and refurbished office space entering the market, resulting in the vacancy rate to rise from 16.6% at January 2024 to 18% as at July 2024. Looking ahead, the outlook for new supply in the CBD appears subdued in the mid to longer term with no new developments expected for the rest of 2024, although 2025 is anticipated to witness the addition of approximately 102,650 sqm of office spaces. As the office market experiences a slowdown, further supply additions are likely to stall until significant precommitment is secured.

Premium grade vacancy has partially been impacted by the addition of 69,000 sqm from Melbourne Quarter’s completion in Q2 2024. Secondary grade vacancy rose slightly from 19.2% in December 2023 to 19.6% in July 2024.

YIELDS:

As a result of the wider commercial real estate downturn, Melbourne CBD office yields have softened over the course of 2023 and the first half of 2024. Into Q3 2024 yields have continued to soften due to high interest rates and lack of demand for office space due to remote work options. Premium yields, as of September 2024 ranged from 5.25% to 6.0%. A-grade office yields ranged from 6.6% to 7.0% and averaged 6.8%. Secondary grade yields range from 7.3% to 7.8% and averaged 7.5%.

INVESTMENT MARKET:

Melbourne’s Office transaction volumes have seen a rebound over Q3 2024 with circa \$418 million dollars in investment with year-to-date volume reaching approximately \$3 billion. Investors are displaying a cautious outlook on Melbourne’s market. The resilience of prime assets amidst a backdrop of rising vacancy and inflationary pressures reflects the long-term value of high-quality assets. However, secondary properties are seeing limited demand unless priced competitively or with substantial value improvements. Investment could potentially be boosted with the introduction of the commercial and industrial property tax scheme which replaces the upfront costs of stamp duty with a 1% tax payable on the unimproved land value every year. Overall, due to broader economic uncertainties and rising operational costs there has been an air of caution around Melbourne’s investment market however long term it is primed for growth.

OUTLOOK

- The outlook for the Melbourne CBD office market remains mixed, with strong demand for prime assets although subdued demand for secondary. Vacancy has increased across the total market along with yields. Despite these challenges Melbourne’s office market is expected to gradually stabilise as the development pipeline slows down.
- Economic growth is expected to strengthen in Q4 2024 and 2025, as the Gross State Product reverts to align with longer term averages.
- We expect the flight to quality trend to continue strong for occupiers with a focus on quality product and location.
- No new supply over 2024 will push vacancy down although with new supply coming over 2025 and 2026 vacancy could begin to trick up.
- Recent transaction activity suggest that yields are nearing the bottom of the cycle, with some moderate softening to continue before rebounding. While this softening occurs, we expect private buyers to continue to dominate the transaction landscape.

MARKET STATISTICS

SUBMARKET	INVENTORY (SQM)	DIRECT VACANT (SQM)	OVERALL VACANCY RATE	6 MONTH NET ABSORPTION (SQM)	UNDER CONSTRUCTION (SQM)	NET FACE RENT (\$ SQM PA)	AVERAGE GROSS INCENTIVES	AVERAGE OUTGOINGS (\$ SQM PA)
Premium	1,209,783	184,321	16.1%	2,116	169,500	\$815	36%	\$230
A	2,583,860	396,579	18.0%	-9,853	134,650	\$718	38%	\$198
Prime	3,793,643	580,900	17.4%	-7,737	304,150	\$747	38%	\$208
Secondary	1,444,203	277,666	19.6%	-7698	7,500	\$586	35%	\$176
TOTALS	5,237,846	858,566	18.0%	-15,435	311,650			

*Rental rates reflect full service asking

^ Total reflects all grades

KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
655 Collins Street	Melbourne	Service Stream	4,200	Sub-Lease
222 Lonsdale Street	Melbourne	Lite n Easy	1,775	Direct
1010 La Trobe Street	Docklands	Australian Medical Council	1,604	Direct
300 La Trobe Street	Melbourne	Insurance House Pty Ltd	1,094	Direct

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE
628 Bourke Street	Melbourne	AFIAA / Bayley Stuart	3,301	\$115.48M
367 Collins Street	Melbourne	Mirvac / PAG	3,500	Undisclosed
200 Queen Street	Melbourne	Charter Hall / Barristers Chambers Ltd	2,810	Undisclosed

UNDER CONSTRUCTION & COMPLETIONS YTD 2024

PROPERTY	SUBMARKET	MAJOR TENANT	SQM	OWNER/DEVELOPER
Melbourne Quarter	Melbourne	Medibank	69,000	Lendlease
435 Bourke Street	Melbourne	n/a	64,500	CBUS
7-23 Spencer Street	Melbourne	n/a	46,000	Mirvac
51 Flinders Lane	Melbourne	n/a	29,000	GPT

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