

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
10.0% Vacancy Rate (Total market)	▲	▲
-15,448 6-month Net Absorption, sqm	▼	▼
\$325 Prime Net Effective, sqm pa (Total Market)	▲	▲

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:

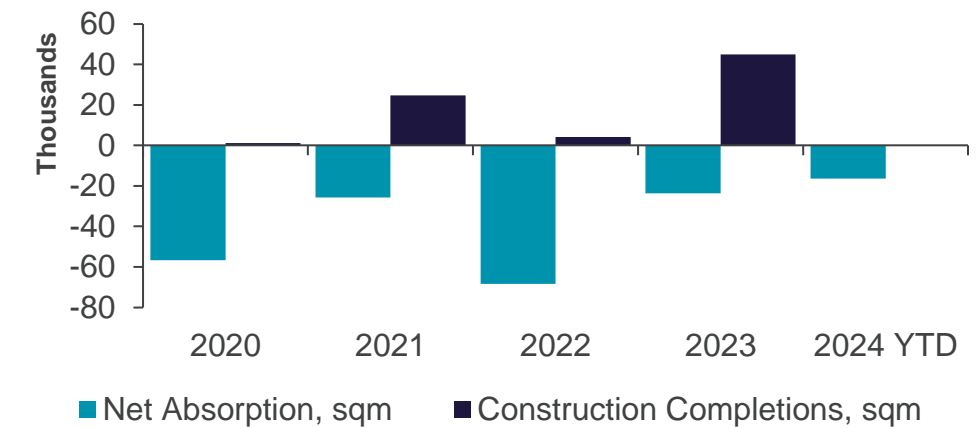
In Melbourne's fringe market, tenant demand is strongly skewed towards high-quality assets, resulting in negative net absorption and higher vacancy rates for secondary-grade properties. Nevertheless, vacancy rates appear to have reached their peak. With minimal new supply expected to enter the market in the near term, vacancy rates are anticipated to decrease throughout the latter half of 2024 and continue improving into 2025.

RENTS & INCENTIVES

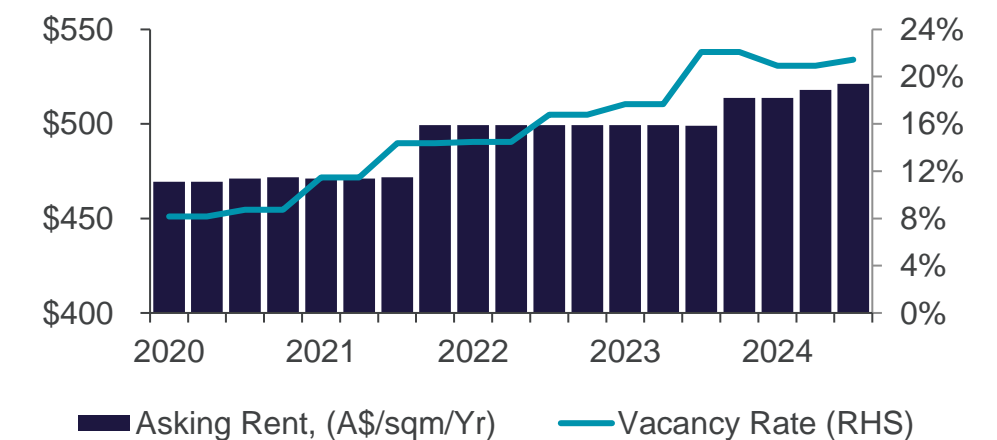
In the Melbourne fringe markets rents and incentives have experienced mixed movement. Within St Kilda Road they have moved slightly to the upside and in Southbank they have remained stable. Similarly, Richmond and Cremorne rents have remained stable although incentives have risen slightly.

Southbank A-grade net face rents have experienced a slow growth over Q3 2024, with net effective rents increasing 8.0% year-on-year (Y-o-Y) to reach \$355 per sqm per annum for Q3 2024. St Kilda Road net face rents have remained stable sitting at \$510 per sqm per annum increasing by 2.0% Y-o-Y. Net effective rents have remained steady in Southbank however in St Kilda Road they have moved down by \$15 per sqm to \$260. Net incentives are averaging 46% for Southbank and for St Kilda Road they have risen to 49%, while outgoings are averaging \$205 and \$164 per sqm per annum at Q3 2024.

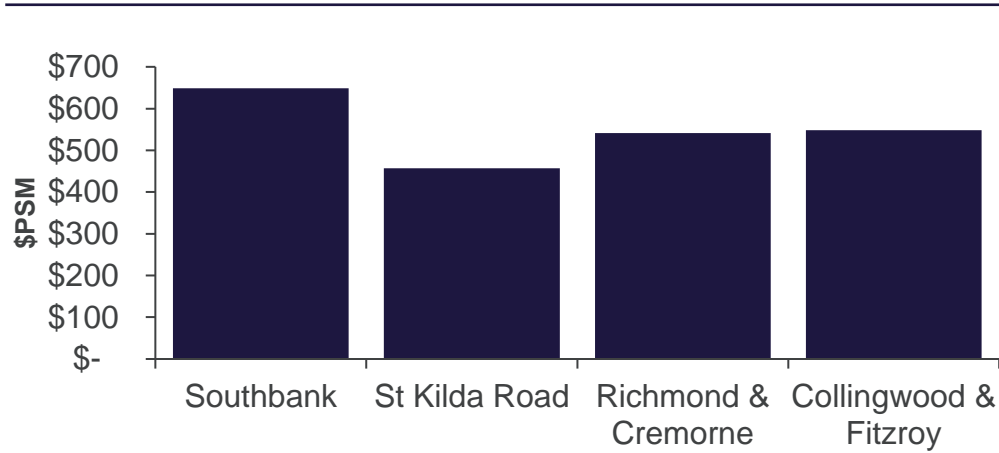
SPACE DEMAND / DELIVERIES



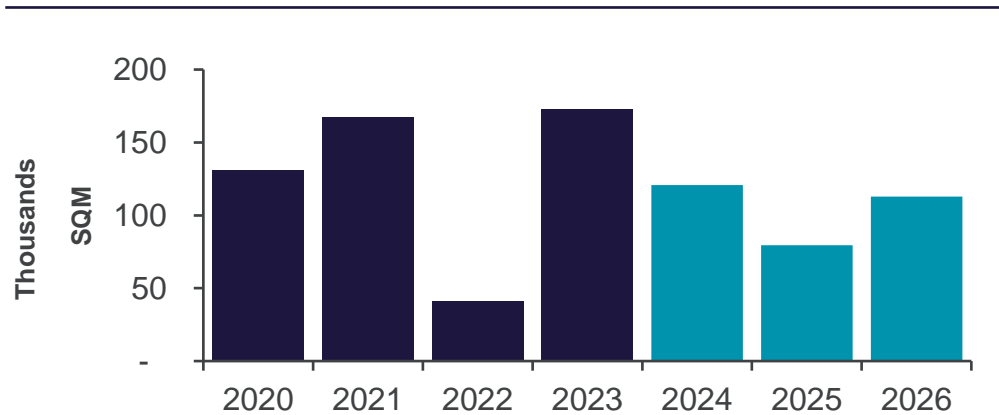
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



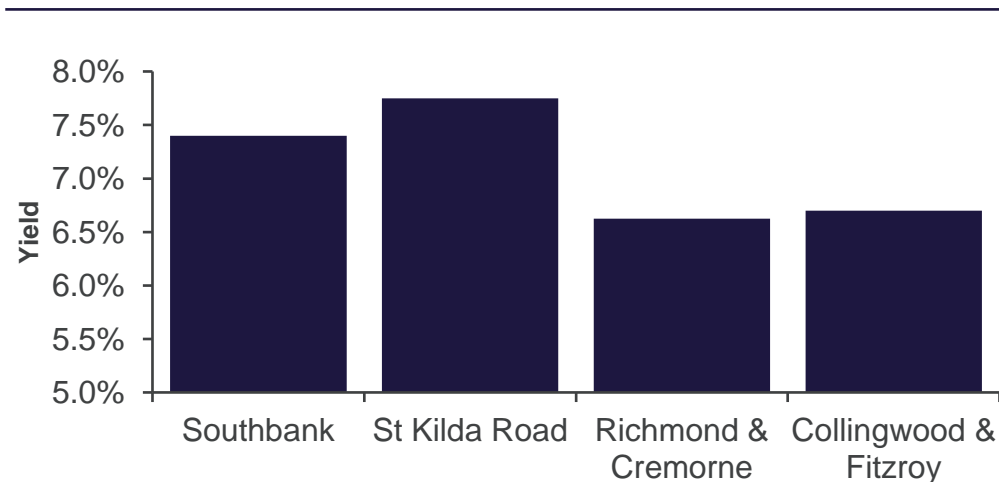
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

Vacancy across St Kilda Road has remained stable since H2 2023 and as of July 2024 sticking at 24.5% whilst Southbank has seen an increase from 17% to 18.6%. Primarily due to an increase in direct vacancy with an increase of 8,467 sqm in office space available for lease. Recent completions within the fringe markets include 8,386 sqm at 2-6 Fitzgibbon Street in Cremorne by Little Projects and 3,620 sqm at 33-35 Stewart Street in Richmond by Slimford. Upcoming supply remains limited to two developments over 10,000 sqm and a range of sub 3,000 sqm buildings across Richmond and Cremorne. No significant developments are expected in Southbank and St Kilda Rd in 2024. Future developments include 17,900 sqm at 31-53 Cremorne Street in Cremorne expected for completion by Q3 2025 and 11,500 sqm at 120 Balmain Street in Cremorne to be completed by Q2 2026.

YIELDS:

Yields softened across the board in the Melbourne Fringe within all submarkets. A-grade yields in Southbank moved up from 7.10% to 7.40% while St Kilda Road saw yields move from 7.45% to 7.75%. B-grade yields for St Kilda Road moved from 8.10% to 8.15%. Richmond and Cremorne A-grade moved from 6.31% to 6.63%. This indicates that property values are dropping across the markets.

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 Fringe office market remains mixed, with strong demand for prime assets although subdued demand for secondary. Vacancy has increased across the total market along with rising yields.
- 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.
- New supply for the fringe is moderate in the short to mid-term with new projects anticipated over 2025 and 2026.
- 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)
Southbank	425,132	79,226	18.6%	-10,024	0	\$649	34%	\$205
St Kilda Road	631,974	173,066	27.4%	-5,424	0	\$510	37%	\$164
Richmond/Cremorne	513,490	104,845	20.4%	n/a	29,400	\$590	31%	\$139
Collingwood/Fitzroy	157,525	34,456	21.7%	n/a	0	\$548	33%	\$125
TOTALS	1,673,332	391,593	22.6%	-15,448	29,400	\$574	34%	\$158

*Rental rates reflect full service asking for A-grade properties

^ Reflects precinct totals for all grades

~ Reflects all grades and all fringe precincts

KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
2-6 Fitzgibbon Street	Cremorne	ADP	3,148	Direct
36 Wellington Street	Collingwood	Melbourne IVF	4,000	Direct
574 St Kilda Road	St Kilda Rd	More Telecom	1,179	Direct
380 St Kilda Road	St Kilda Rd	Digicert	1,261	Direct

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE
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No notable transactions in Q3 2024

KEY PROJECTS UNDER CONSTRUCTION & COMPLETIONS

PROPERTY	SUBMARKET	MAJOR TENANT	SQM	OWNER/DEVELOPER
16 Stephenson Street	Cremorne	n/a	4,289	Pace Development Group
86-94 Jolimont Street	East Melbourne	n/a	5,500	H.Co.
21 William Street	Balaclava	n/a	6,200	Deloitte Hub Australia
2-6 Fitzgibbon Street	Cremorne	n/a	8,356	Little Projects
120 Balmain Street	Cremorne	n/a	11,500	Skylife

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