MARKETBEAT
SYDNEY CBD
OFFICE Q3 2024

CUSHMAN & WAKEFIELD

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
11.6% Vacancy Rate	—	▼
-4,630 6-month Net Absorption, sqm	▲	▲
$750 Prime Net Effective, sqm pa	▲	▲

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
1.0% (National) GDP Growth	▼	▼
0.2% (New South Wales) 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 to over 70,000 in Q2, contributing significantly to overall economic activity and helping offset productivity challenges.

Forecasts for New South Wales's gross state product remain modest for 2024, forecast to increase 0.6% over 2024, before recovering to grow 3.5% in 2025 and 2026.

DEMAND:

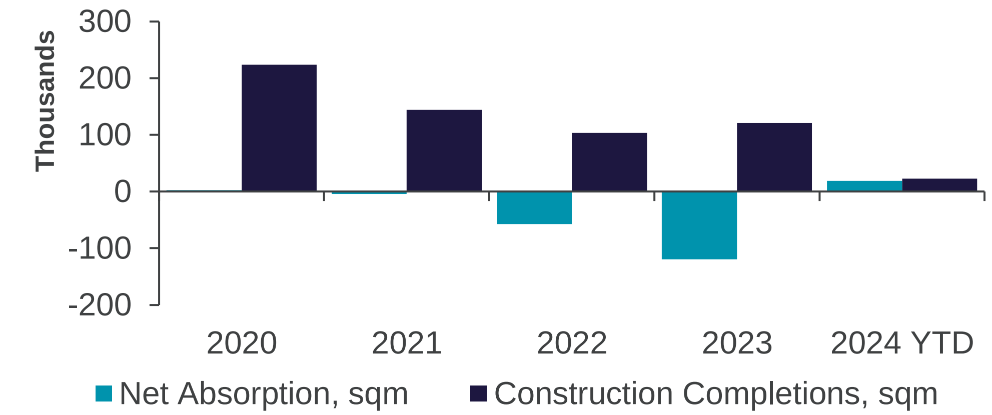
Tenants continue prioritising location in their pursuit of quality, leading to a strong focus on the City Core. Premium-grade spaces saw strong net absorption of 31,000 sqm in the first half of 2024, with more than 55% concentrated in the City Core.

While the ongoing "flight to quality" continues to strengthen the City Core, Cushman & Wakefield agents have recently observed a rise in the 'flight to value', particularly for larger floorplates in the Midtown and Western precincts. This trend has contributed to an overall increase in demand throughout the CBD, signaling an increasingly positive outlook for the office market after a period of cyclical and structural change.

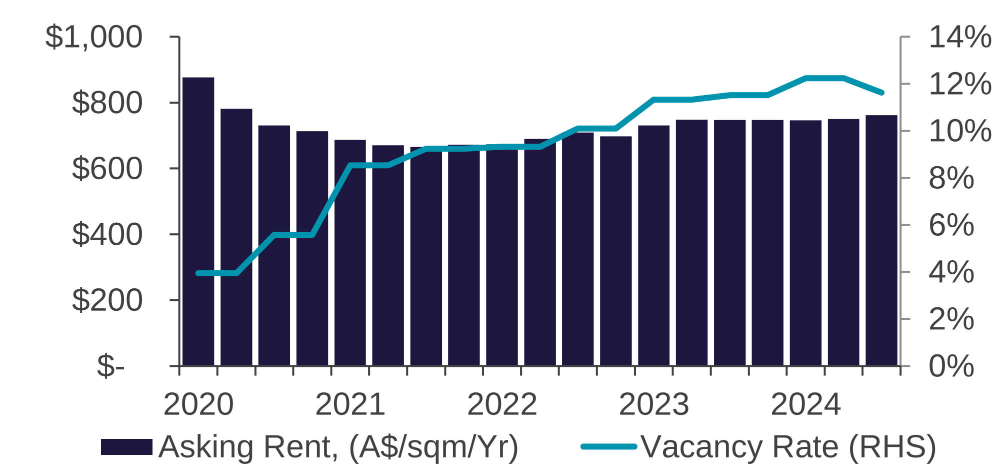
RENTS:

Net effective rents in the Sydney CBD saw a slight increase in Q3 2024, led by the A-grade sector, which recorded 2.5% quarter-on-quarter (Q-o-Q) growth, bringing the average to $720 per sqm per annum (sqm pa). Premium grade rent growth was more modest at 0.5% Q-o-Q, reflecting a two-speed market where central precincts are performing strongly, while outer precincts lag behind. This leaves premium-grade rents averaging $820 sqm pa. B-grade growth was also modest, registering 0.2% Q-o-Q growth, with average rents reaching $540 per sqm per annum. Gross incentives remained stable for Prime grade stock at 36.8%, while B-grade saw a slight uptick, increasing to 37.4%.

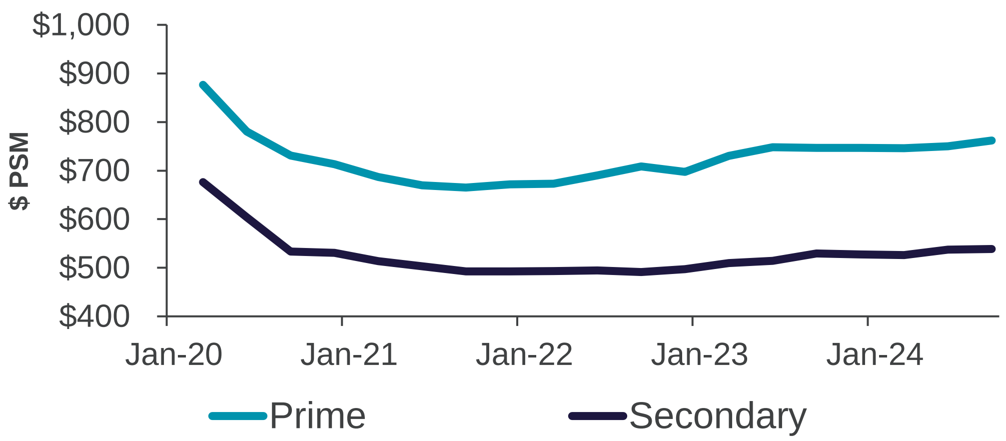
SPACE DEMAND / DELIVERIES



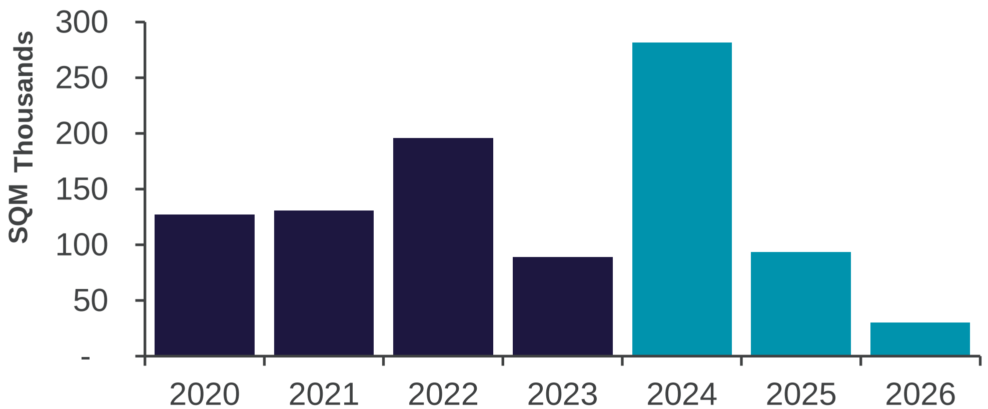
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



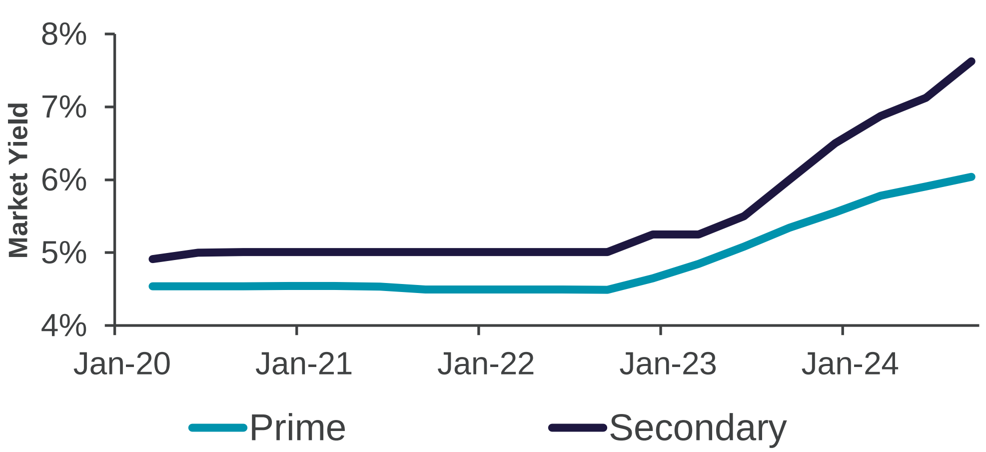
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

The Sydney CBD is set to introduce over 280,000 sqm of new developments in 2024, with more than half of these projects nearing completion, predominantly consisting of prime-grade assets. Leading this tranche is 1 Elizabeth Street, where Macquarie Bank has fully committed to the 72,000 sqm of Premium office space, consolidating operations from four different CBD locations. Additionally, 39 Martin Place is slated for Q3 completion, offering 39,000 sqm, while Parkline Place, delivering 47,850 sqm, will come online in Q4. Ashurst has secured approximately 10,000 sqm as the anchor tenant at 39 Martin Place, and Parkline Place has secured 58.5% pre-commitments from various tenants.

YIELDS:

Sydney CBD prime and secondary yields continued to soften over Q3, continuing the trend since mid 2022. However, the softening is slowing, indicating that we may nearing the bottom of the cycle. Prime yields are now averaging 6.04% and secondary 7.63%, which is a 150 basis point and 260 basis point softening respectively, since the mid-2022 point of peak book values.

Much like rents and incentives there is very much a two-speed market within the CBD with the central CBD precincts performing better and holding values tighter than the Western and Southern precincts.

These differences in yield across asset grades and locations emphasize the critical role that both prime locations and top-tier properties play for occupiers and investors alike.

INVESTMENT MARKET:

The reduced yield and capital value conditions have created a favorable market for investors. In the first half of 2024, transaction volume in the Sydney CBD surpassed $2 billion, marking the most active first half since 2020. Singapore's Keppel REIT purchased a 50% stake of 255 George Street for $363.8 million in Q2. Also, from offshore was the sale of ~66% interest in Mirvac's development of 55 Pitt Street in June, with an estimated total end value of ~$2 billion by Japan based Mitsui Fudosan. Q3 offshore capital activity has remained buoyant with 333 George Street purchased by German based Deka Immobilien from Charter Hall for $392 million.

With several properties entering formal market campaigns and others being offered off-market, transaction activity is set to accelerate in the coming months.

OUTLOOK

- The outlook for the Sydney CBD office market remains cautiously optimistic, with some signs of recovery despite ongoing challenges.
- Economic growth is expected to strengthen in Q4 and through 2025, as Gross State Produce reverts to align with longer term averages.
- Occupier demand is expected widen, flight to quality will continue for prime assets, but with additional demand driven from the flight to value throughout the outer precincts.
- New supply is expected to place some upward pressure on vacancy in the near time, however the quality uplift from new supply is also expected to aid rental growth.
- Recent transaction activity suggest that yields are nearing the bottom of the cycle, with some moderate softening to continue before rebounding.
- Strong market fundamentals are expected to continue to attract offshore capital as well as added attention from domestic investors as we look to enter a rate cutting cycle in the new year.

MARKET STATISTICS

GRADE	INVENTORY (SQM)	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	1,412,611	152,278	10.8%	30,854	105,056	$1,452	37%	$250
A-grade	1,934,293	246,057	12.7%	-10,831	1,764,266	$1,266	37%	$227
Prime	**3,346,904**	**398,335**	11.9%	20,023	**-201,540**	**$1,345**	**37%**	**$236**
Secondary	1,241,462	142,149	11.5%	-20,014	-123,066	$979	37%	$200
SYDNEY CBD TOTALS^	**5,177,437**	**601,636**	**11.6%**	**-4,630**	**6,006,482**			

**Rental rates reflect full service asking*

^ Total reflects all grades

KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
201 Elizabeth Street	Midtown	Makinsons D'Apice	2,302	Direct
201 Elizabeth Street	Midtown	Mongo DB	1,800	Direct
200 Barangaroo Avenue	Walsh Bay	Info Track	2,200	Sub-lease
1 Martin Place	Core	RSM	2,800	Direct

**Renewals not included in leasing statistics*

KEY SALES TRANSACTIONS 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE (AUD M)
333 George Street	City Core	Charter Hall / Deka	14,508	$392
5 Martin Place	City Core	Dexus & CPPIB / CBUS	33,466	$296.2
255 George Street	City Core	Mirvac / Keppel	38,997	$363.8

KEY PROJECTS UNDER CONSTRUCTION & COMPLETIONS

PROPERTY	SUBMARKET	MAJOR TENANT	SQM	OWNER/DEVELOPER
1 Elizabeth Street	City Core	N/A	72,500	Macquarie Group
39 Martin Place	City Core	N/A	39,000	Investa & Manulife

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