MARKETBEAT

MELBOURNE CBD

OFFICE Q4 2024

CUSHMAN & WAKEFIELD

MARKET FUNDAMENTALS

	YOY Chg	Outlook
18.0% Vacancy Rate	▲	▲
-15,435 6-month Net Absorption, sqm	▼	▼
$398 Prime Net Effective, sqm pa	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
0.8% (National) GDP Growth	▲	▲
1.4% (Victoria) State Final Demand Growth	▲	▲
4.1% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW:

Real GDP growth released for Q3 2024 is at 0.3%, with a 0.1% increase from the previous 3 quarters. Productivity growth has slightly weakened, as the trend of GDP per hour worked declining and unit labour costs rising continues through Q4 and contributes to inflationary pressure. As a result, the RBA has held the cash rate at 4.3% to ease heightened underlying inflation. Net overseas migration has reached historic highs through mid-year, helping offset these productivity challenges through stimulating economic activity.

Oxford Economics forecasts Victoria's gross state product to increase 1.7% over 2024, 1.27% through 2025, before recovering to grow 3.23% in 2026.

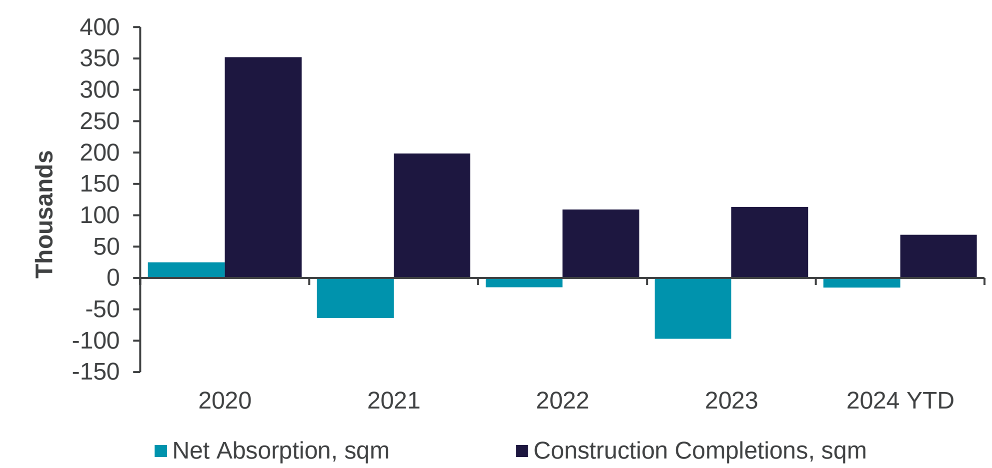
DEMAND:

Demand in the Melbourne CBD office market during Q4 2024 remained subdued, reflecting ongoing economic uncertainty and structural impacts of hybrid work. Leasing activity was primarily concentrated on smaller, flexible office spaces, as tenants sought cost-effective solutions and greater agility. Demand for larger floorplates was tailored towards premium grade spaces offering modern amenities and energy efficiency, while older, secondary grade assets struggled to attract interest amidst elevated vacancy rates. Net absorption across the total market for H2 2024 was -9,845 sqm, reflecting ongoing challenges but an improvement from the -15,435 sqm recorded in H1 2024.

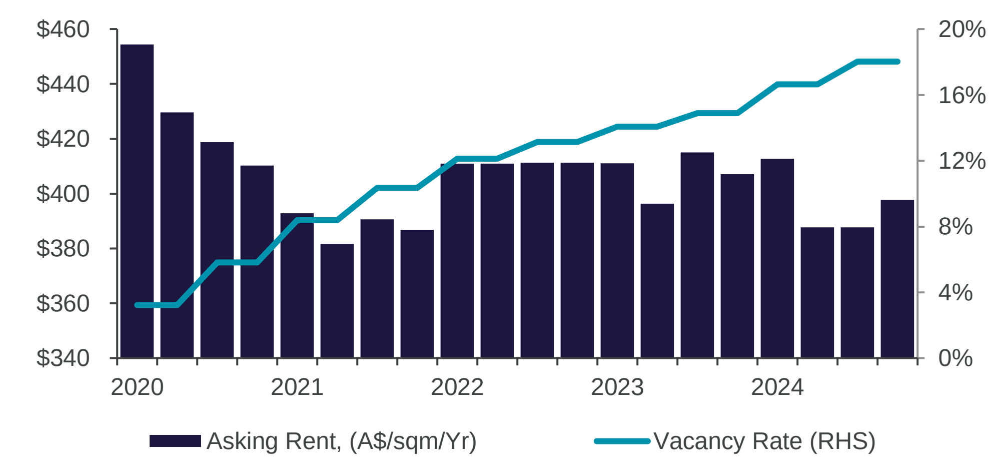
RENTS & INCENTIVES:

The Melbourne CBD office market showed mixed movement in rents and incentives in Q4 2024. Premium grade markets experienced growth, with average Premium net effective rents increasing 5.2% year-on-year (Y-o-Y), to $458 per sqm per annum, with incentives remaining stable at 46.2%. In comparison, average A-grade net effective rents decreased by -5.7% Y-o-Y to $372 per sqm per annum, despite a slight reduction in net incentives from 49.0% to 48.0%. High outgoings continue to weigh on effective rents with Premium outgoings now at $235 sqm per annum, up 5.9% Y-o-Y, while A-grade outgoings average $206 sqm per annum, up 5.1% Y-o-Y.

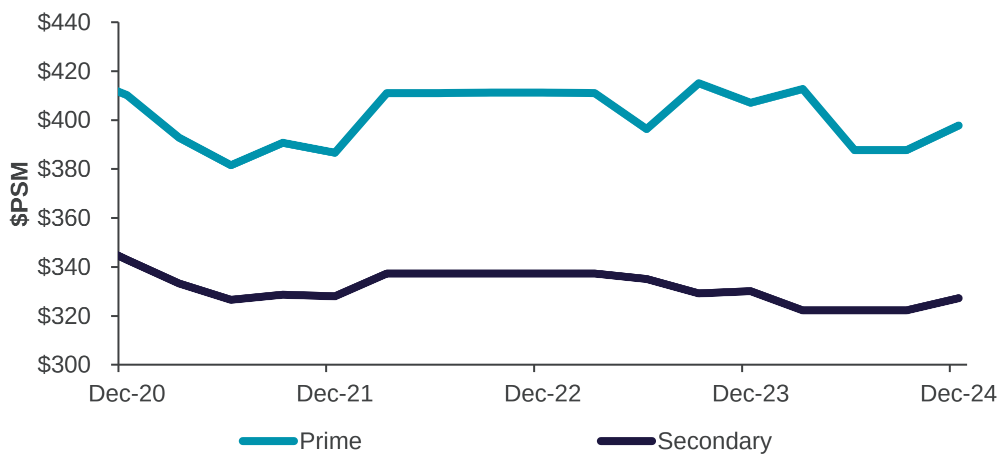
SPACE DEMAND / DELIVERIES



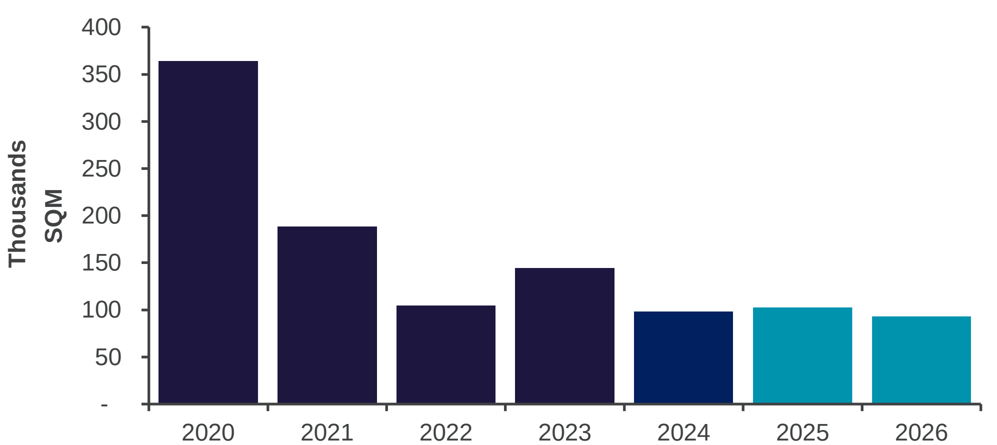
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



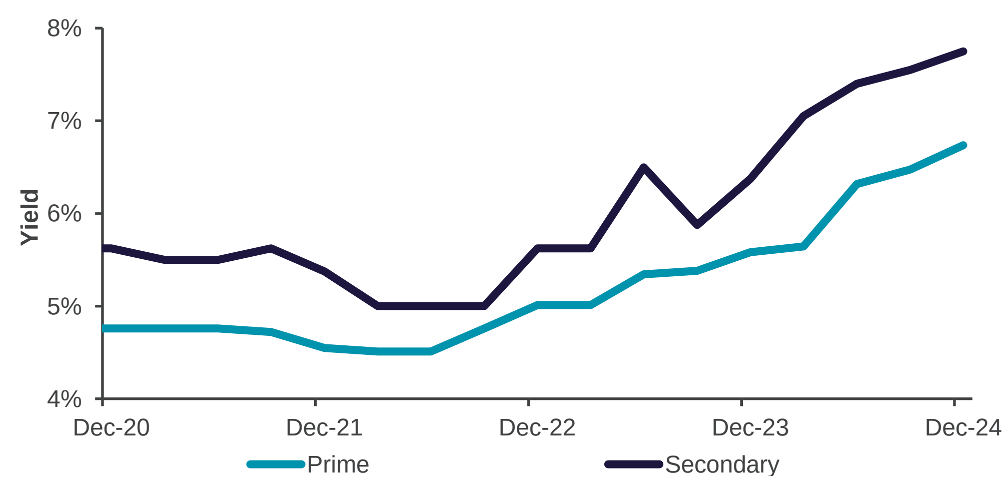
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

The first half of 2024 saw 80,500 sqm of new and refurbished office space enter the Melbourne market, pushing the vacancy rate from 16.6% in January to 18% by July, driven by subdued tenant demand and an influx of sublease stock. The mid-term pipeline includes approximately 102,650 sqm of office space expected in 2025 and 93,000 sqm in 2026, though further developments are likely to stall without significant precommitments. Leasing activity remained sluggish across the board, with notable demand seen in smaller, flexible office spaces as tenants prioritised agility in uncertain conditions. Secondary-grade vacancies rose slightly, from 19.2% in December 2023 to 19.6% in July 2024, reflecting continued pressure on older assets to attract tenants amid heightened competition.

YIELDS:

As a result of subdued leasing demand, structural shifts in office usage and pressure put on foreign landlords with the absentee owner surcharge Melbourne CBD office yields have continued to soften into Q4 2024. Premium yields, as of December 2024 ranged from 5.75% to 6.25% and averaged 6.00%. A-grade office yields ranged from 6.80% to 7.30% and averaged 7.00%. Secondary grade yields range from 7.6% to 7.9% and averaged 7.75%. Softening yields indicate a repricing in the market, with values adjusting to reflect these heightened risks and higher financing costs.

INVESTMENT MARKET:

Despite seeing a rebound in Office transaction volumes over the last quarter throughout 2024 Melbourne investment volumes have remained relatively low. Year to date 2024 has recorded circa $1.3 billion. Investor activity in Melbourne's market reflects a strategic and discerning approach, as transaction volumes in Q4 2024 reached approximately $102.0 million. While pricing alignment between buyers and sellers remains a focus, demand continues to centre on prime grade assets with strong tenant covenants and stable cash flows. Secondary assets are undergoing more rigorous assessment, with factors such as tenant retention and capital expenditure influencing investment decisions. Despite cautious market conditions, opportunities for well-positioned assets remain a key driver of activity. This quarter saw notable transactions, including the sale of 368 Elizabeth Street by Landream Development for $60.0 million, and 411 Collins Street by Peachtree Capital for $27.6 million both sold to private buyers. Overall, while economic uncertainties and rising operational costs have tempered investor confidence in Melbourne's market, the city remains well-positioned for long-term growth as interest rates begin to come down.

OUTLOOK

- Melbourne's CBD office market continues to face recovery challenges in the face of above average supply and ongoing prevalence of hybrid work. Prime grade assets experience strong demand whilst secondary demand remains subdued. Vacancy has increased across the total market along with yields due to subdued tenant demand and increase in the amount of sublease space available.
- Economic growth is expected to strengthen in 2025, with GSP projected to align with long-term trends, supporting broader market recovery.
- With an influx of new supply coming over 2025 and 2026 vacancy could begin to trick up.
- Recent transaction volumes in Melbourne CBD highlight selective investments driven by high interest rates and market shifts. Focus remains on prime assets, while secondary properties face challenges with vacancies and tenant trends. Despite these conditions, opportunities persist for well-located, high-quality assets.

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	174,000	$850	36%	$235
A	2,583,860	396,579	18.0%	-9,853	109,150	$716	37%	$206
Prime	**3,793,643**	**580,900**	**17.4%**	**-7,737**	**283,150**	**$757**	**37%**	**$215**
Secondary	1,444,203	277,666	19.6%	-7698	0	$595	35%	$176
TOTALS	**5,237,846**	**858,566**	**18.0%**	**-15,435**	**283,150**			

*Rental rates reflect full service asking

^ Total reflects all grades

KEY LEASE TRANSACTIONS Q4 2024

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
637 Flinders Street	Melbourne	Red Cross	2,800	Direct
Collins Square	Melbourne	Simmonds Homes	2,400	Direct
181 William Street	Melbourne	William Buck	1,965	Direct
161 Collins Street	Melbourne	HPX	1,500	Direct

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE (AUD M)
368 Elizabeth Street	Melbourne	Landream Development / Private	5,700	$60
411 Collins Street	Melbourne	Peachtree Capital / Private	3,015	$27.6

KEY PROJECTS UNDER CONSTRUCTION & COMPLETIONS

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

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