MARKETBEAT

SYDNEY CBD

OFFICE Q4 2024

MARKET FUNDAMENTALS

	YOY Chg	Outlook
11.6% Vacancy Rate	▬	▼
-4,630 6-month Net Absorption, sqm	▲	▲
$779 Prime Net Effective, sqm pa	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
0.8% (National) GDP Growth	▲	▲
0.4% (New South Wales) State Final Demand Growth	▲	▲
4.1% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW:

Real GDP growth released for Q3 2024 was 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 4.35% to ease heightened underlying inflation. Net overseas migration has reached historic highs through mid-year, helping offset these productivity challenges through stimulating economic activity.

Forecasts for New South Wales's gross state product remained modest through 2024, increasing by 0.42% since 2023, yet forecasted to increase by 2.13% in 2025 and 1.98% in 2026.

DEMAND:

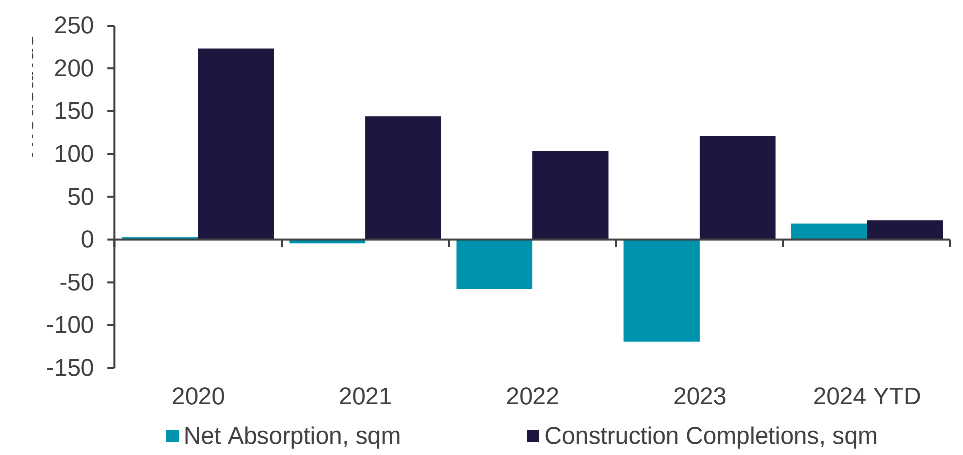
Leasing enquiry was slow at the start of Q4, however a substantial uptick in enquiry through the back end of the quarter pushed demand well above that seen in the previous quarter. Like the previous quarters the flight to quality continues, which is still heavily weighted to Premium grade stock in the City Core.

While the trend of seeking high-quality spaces continues to bolster the City Core, Cushman & Wakefield agents have noted a sustained interest in more cost-effective options, especially for larger floorplates across the wider CBD.

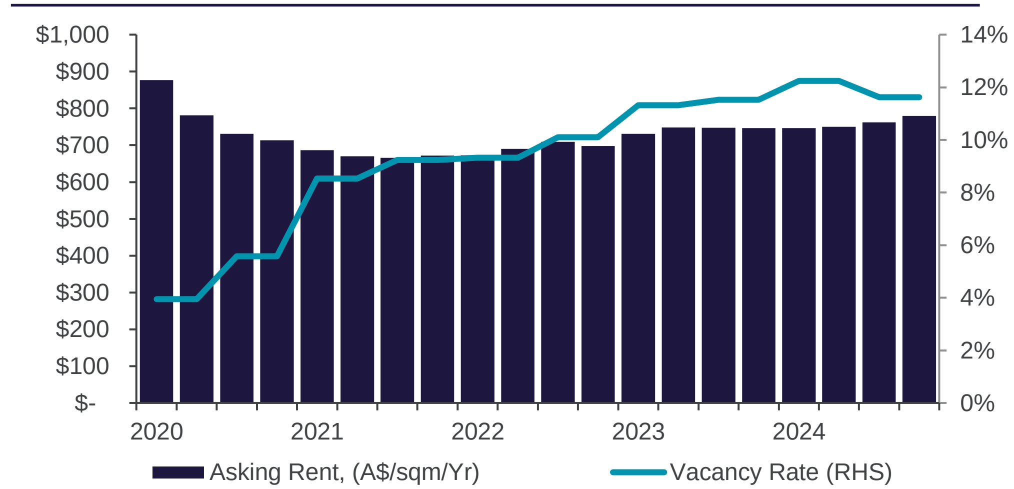
RENTS:

Net effective rents in the Sydney CBD experienced some of the strongest quarterly growth seen over the past two years. Premium-grade rents led the charge with a 3.4% quarter-on-quarter (Q-o-Q) increase, reaching an average of $850 per square meter per annum (sqm pa). A-grade rents grew at a more moderate rate of 1.4% Q-o-Q, averaging $730 sqm pa, reflecting a tightening of incentives in Premium grade compared to stable incentives in A-grade. Similarly, B-grade rents registered a 1.1% Q-o-Q rise, bringing the average to $545 sqm pa, with incentives also remaining stable over the quarter.

SPACE DEMAND / DELIVERIES

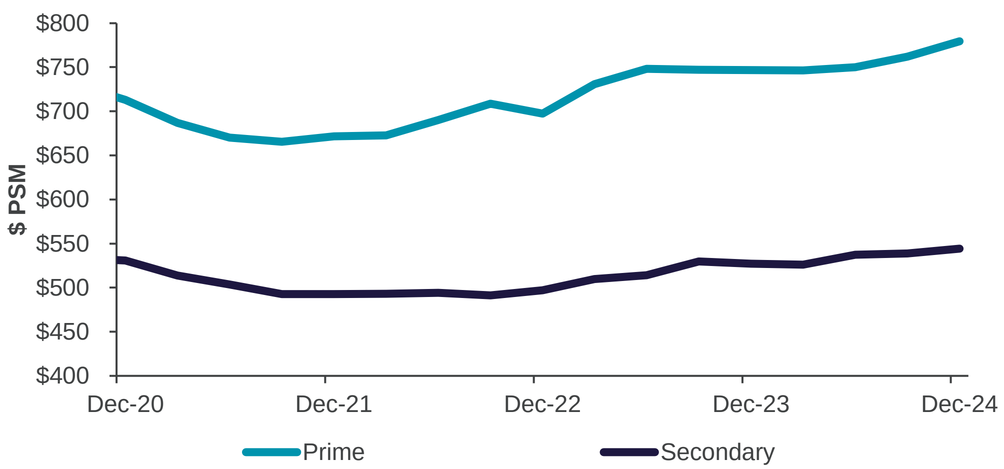


OVERALL VACANCY & PRIME NET EFFECTIVE RENT

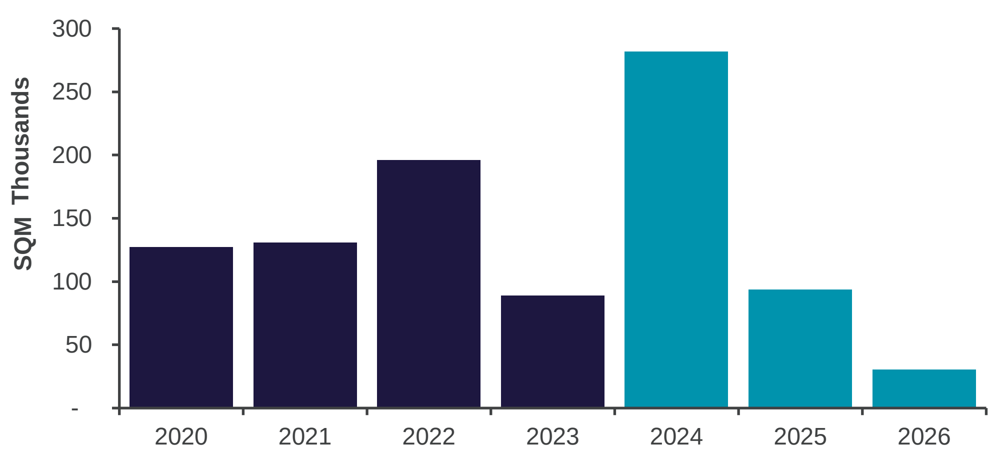


SYDNEY CBD
OFFICE Q4 2024

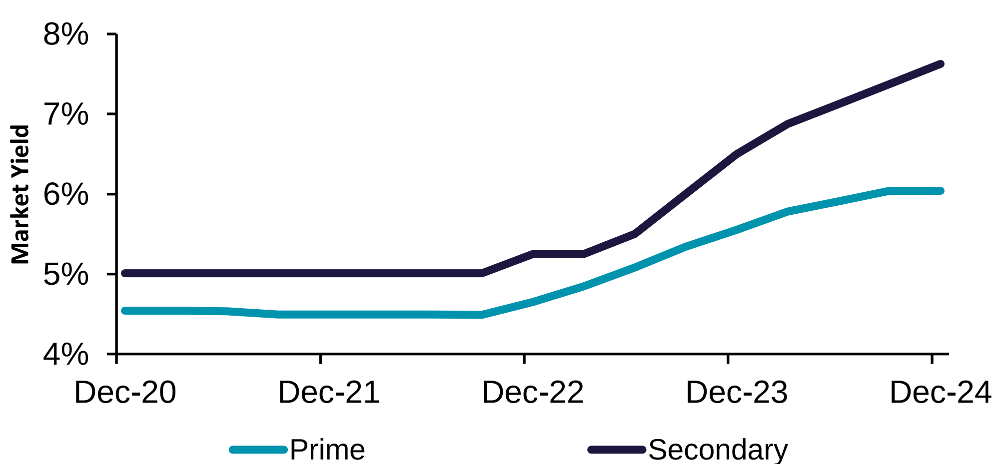
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

In 2024, the Sydney CBD saw the introduction of over 280,000 square meters of new developments, with more than half of these projects completing in the fourth quarter. These developments predominantly consist of prime-grade assets. Leading this wave is 1 Elizabeth Street, where Macquarie Bank has fully committed to 72,000 square meters of premium office space, consolidating its operations from four different CBD locations. Additionally, the recently completed 39 Martin Place has brought 39,000 square meters of space to market, while Parkline Place, delivered 47,850 square meters, in the fourth quarter. Ashurst has secured approximately 10,000 square meters as the anchor tenant at 39 Martin Place, and Parkline Place has achieved circa 60% pre-commitments from various tenants.

YIELDS:

Sydney CBD prime and secondary yields displayed signs of stabilization during Q4, with yields remaining unchanged from Q3. Prime yields are now averaging 6.13% 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.

The deceleration in yield softening signals renewed stability, suggesting that Sydney's CBD commercial market is likely past the peak of its downturn. While yield compression may still be some ways off, the stabilisation suggests that the market has absorbed much of the recent economic pressures and is now finding a new equilibrium.

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. This momentum has continued through the back half of 2024 with a number of significant transactions occurring and clearing H1 volumes, signifying a turn in market conditions and investor confidence.

In Q4, Singapore's Singland purchased a 50% stake in 388 George Street for $460 million from Brookfield. Additionally, Mirvac and Morgan Stanley sold 10-20 Bond Street to United States-based BGO for $580 million. In another Q4 transaction involving Singaporean investors, Early Light International disposed of 1 Castlereagh Street to a joint venture between Metro Holdings and Sim Lian Group for $196 million. These high-profile transactions highlight the strong interest and confidence in the Sydney CBD real estate market.

OUTLOOK

- The outlook for the Sydney CBD office market is becoming increasingly optimistic, with some signs of recovery despite ongoing challenges.
- Economic growth is expected to strengthen 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 at the bottom of the cycle, with stabilisation underway.
- 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		$1,483	37%	$250
A-grade	1,934,293	246,057	12.7%	-10,831		$1,274	36%	$227
Prime	**3,346,904**	**398,335**	11.9%	20,023	**405,510**	**$1,362**	**37%**	**$236**
Secondary	1,241,462	142,149	11.5%	-20,014		$990	37%	$200
SYDNEY CBD TOTALS^	**5,177,437**	**601,636**	**11.6%**	**-4,630**	**405,510**			

**Rental rates reflect full service asking*

^ Total reflects all grades

KEY LEASE TRANSACTIONS Q4 2024

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
1 O'Connell Street	Core	The Great Room	2,400	Direct
201 Elizabeth Street	Midtown	Mongo DB	1,800	Direct
20 Martin Place	Core	Fisher Investments	1,200	Direct

**Renewals not included in leasing statistics*

KEY SALES TRANSACTIONS 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE (AUD M)
388 George Street	City Core	Brookfield/Singland	41,098	$460
1 Castlereagh Street	City Core	Early Light International/Sim Lian Metro Capital	12,569	$196
10-20 Bond Street	City Core	Mirvac & Morgan Stanley/BGO & Investa	38,318	$580

KEY PROJECTS UNDER CONSTRUCTION & COMPLETIONS

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

DR. DOMINIC BROWN
Head of Research, Australia & New Zealand
Tel: +61 (0) 431 947 161
dominic.brown@cushwake.com

JAKE MCKINNON
Associate Director, National Research
Tel: +61 (0) 410 611 548
jake.mckinnon@cushwake.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In 2023, the firm reported revenue of $9.5 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), sustainability and more. For additional information, visit www.cushmanwakefield.com.