

# Market Report

The office market vacancy rate for Melbourne CBD has climbed because of the Covid-19 pandemic to a new level of 5.8% as of July 2020. This is an increase of 2.6% from Jan 2020 and highlights the effect that Covid-19 has had on the market.

The vacancy rate is set to continue to increase as there has been a significant increase in sub-lease space that is starting to become available in the market. As of July 2020, an estimate of over 60,000 sqm of sublease space entered the market due to businesses seeking to offload space due to restricted occupancy and new working habits.

The exact number of new buildings being developed and supplied to the market looks uncertain over the long-term period as the changing market conditions have increased the risks and costs associated with developing.

## Typical Gross Rental Comparison – Premium, A & B Grade



Grade	Typical Net Face Rental (\$/sqm)		Net Incentive (%)	Net Effective Rental (\$/sqm)	
	Low	High	Average	Low	High
Premium	\$700	\$950	28%	\$504	\$684
A	\$550	\$725	25%	\$412	\$544
B	\$440	\$560	25%	\$330	\$420

## Recent Transactions – Pre Covid

Tenant	Submarket	Type	Size	Term
1 Herbert Smith Freehills	CBD	New Lease	10,300	12
2 Qantas	CBD	New Lease	1,980	5
3 ME Bank	CBD	Renewal	13,689	10
4 QBE	CBD	Pre-com	5,700	10
5 Aus Fed Police	CBD	New Lease	22,750	30
6 Ombudsman (VIC)	CBD	New Lease	1,453	8

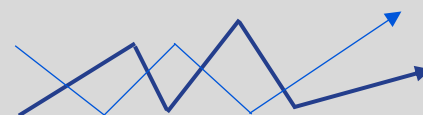
## Occupier's Perspective



Large amount of back fill space set to come to market as there is over 433,700 sqm of new supply (Premium/A and B grade) coming to the market within the next 18 months, with high levels of pre-commitment.



Melbourne CBD net face rents set to remain constant over the short term as Landlords provide higher incentives to keep their face rents stable. This comes after net face rents increased by 6.3% over the 12-month period to June 2020.



## Market Trends

Deal activity remains muted in the Melbourne CBD as the continual restrictions emplaced on Melbourne Metro as a result of Covid-19 has caused businesses to place their accommodation requirements on hold until the reality of post-Covid is understood.

Working From Home looks to be incorporated in several businesses as the norm, with the pandemic period showing that business can perform with the workforce working from home.

Large occupiers lead the way with subleasing with 5,000 sqm plus tenants looking to sublease space as a result of flexible working arrangements implemented by these businesses and staff choosing to work from home.