

Market Report

Vacancy in Melbourne's CBD has climbed by almost half to 5.8% as of July 2020. This increase in vacancy has come as a result of Covid-19 and the government mandated lockdowns that have impacted the utilisation of office buildings and forced a change in working patterns.

Sublease space continues to saturate the market, with circa 70,000 sqm of sublease options becoming available as of July 2020. This change in the Melbourne CBD market is as a result of businesses looking to reduce their footprints due to restricted occupancy and new working habits.

The supply of new buildings in the medium-to-long term remains uncertain 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		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

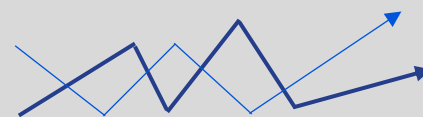
Occupier's Perspective



Large amount of back fill space set to come to market with over 433,700 sqm of new supply (Premium/A and B grade) entering the market over 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 face rents stable. This comes after net face rents increased by 6.3% over the 12-month period to June 2020.



Market Trends

Stage 4 lockdown effects deal activity in the Melbourne CBD as the restrictions placed on Melbourne Metro because caused businesses to place their accommodation requirements on hold until the ramifications of the lockdown could be better understood. This is an ongoing process

Working from Home will remain a key component of businesses workplace strategy as they look to return to the office in the coming months after the stage 4 lockdown.

Vacancy likely to rise further as the real impact of Covid-19 impacts the market. Despite the current rise in vacancy over the first half of 2020, the vacancy rate is still below the 10-year average of 6.3%. This will likely change moving into 2021.