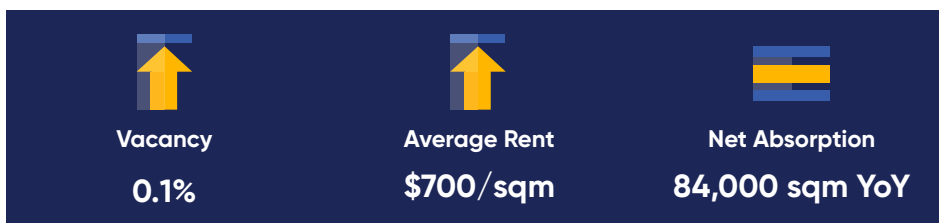


Market Report

The vacancy rate in Melbourne CBD had reached a 10-year low as of Jan 2019 and during the second half of the year the vacancy is expected to remain tight. However, there is a large amount of new supply coming available in 2021 and this is set to see tenants move into new towers and as a result the backfill space is expected to increase vacancy. The surge in new development in Melbourne, strong economy, population growth and liveability has driven strong demand for the Melbourne CBD office market.

The low vacancy has led to competition for remaining spaces driving up net face rents in the last 12 months. A Grade face rents have grown by 5.9% over the past year whilst Premium Grade has grown a modest 1.4%.



Rental and Vacancy Rates



Typical Gross Rental Comparison – Premium, A & B Grade

Grade	Typical Gross Face Rental (\$/sqm)		Gross Incentive (%)	Gross Effective Rent (\$/sqm)	
	Low	High		Low	High
Premium	\$800	\$1120	20%	\$690	\$930
A	\$650	\$800	20%	\$550	\$670
B	\$570	\$670	20%	\$480	\$560

Recent Transactions

Tenant	Size	Submarket	Type	Sector
1 Public Transport Victoria	Western	New Lease	10,000 sqm	Govt.
2 JustCo	Western	New Lease	8,251 sqm	Co-working
3 Momentum Energy	Western	New Lease	3,500 sqm	Utilities
4 Oracle Corp	Western	New Lease	1,830 sqm	Tech
5 Workspace 365	Spencer	New Lease	1,700 sqm	Co-working

Occupier's Perspective



Rental growth rates have reached levels not seen in 20 years. Prime and secondary net face rents grew by 16.2% YoY and 12.6% YoY to July 2019. This is due to record low vacancy and high net absorption caused by strong tenant demand and limited supply.



Only 8,244 sqm of net absorption took place in the 6 months to July 2019. This saw the end of a strong streak which must be viewed within the context of the market, with a high level of pre-commitment activity for future developments skewering the data.



By the end of 2025, almost 800,000 sqm of additional supply will reach the CBD market. 71% of the supply will be completed over the next 3 and a half years, with new rules coming into effect to reduce the any new supply after 2025.

Market Trends

CBD sees strong activity from Legal and Finance tenants, with a flight to quality being the main driver of activity. Recent moves have seen DLA Piper, Ashurst, King & Wood Mallesons, HWL Ebsworth, Minter Ellison, Gadens and Norton Rose Fulbright all pre-committing to new developments along the west end of Collins Street.

Co-working continues to grow, taking up c. 35,000 sqm of NLA in the first half of 2019. This is more than double what the entire sector absorbed in 2018. Over 90% of all coworking leases signed since January 2019 have been, WeWork and JustCo.

C270 planning rule to affect long term supply, the new planning restrictions make it hard for developers to find parcels of land that can accommodate 1,800 sqm, which is the minimum floorplate size that larger occupiers prefer.