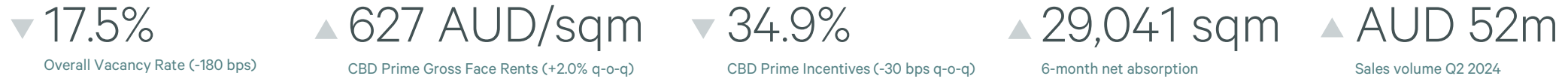


FIGURES | ADELAIDE CBD OFFICE | 2Q24

# Vacancy Declines as Strongest Six-Month Net Absorption in Fifteen Years is Recorded.



Note: Arrows indicate change from previous quarter / year.

## Key Points

- The Adelaide CBD continued to see steady demand for office space over Q2 2024, with leasing enquiries higher than those seen in 2020.
- The Adelaide CBD overall vacancy rate as of H1 2024 reached 17.5% as per the most recent PCA data. The vacancy rate within newer prime Gen3 assets sat at 9.8% this quarter, owing to the recent completion of 150 Grenfell Street.
- Prime gross rental rates ended Q2 2024 at 627 AUD/sqm. This represented a quarter-on-quarter increase of 2.0%. Prime incentives decreased slightly by 30 bps to 34.9% as of this quarter.
- Office sales volume totalled AUD 52 million in Q2 2024. Investment activity remains subdued due to the significant gap between buyer and vendor pricing expectations.
- Average prime office yields softened slightly to 7.49%, with secondary yields softening to 9.45%. These values represented quarter-on-quarter increases of +4 bps and +2 bps respectively.

FIGURE 1a: Adelaide CBD Office | Vacancy Rate Summary

Adelaide CBD	July 2024	January 2024	July 2023	H-o-H Change	Y-o-Y Change
Vacancy Rate	<b>17.5%</b>	19.3%	17.0%	-180 bps	+50 bps

FIGURE 1b: Adelaide CBD Office | Summary of Prime Market Indicators

Adelaide CBD	Q2 2024	Q1 2024	Q2 2023	Q-o-Q Change	Y-o-Y Change
GFR	<b>\$627/sqm</b>	\$615/sqm	\$583/sqm	+2.0%	+7.5%
NFR	<b>\$478/sqm</b>	\$470/sqm	\$462/sqm	+1.6%	+3.5%
Incentives	<b>34.9%</b>	35.2%	35.2%	-30 bps	-30 bps
Yield	<b>7.5%</b>	7.5%	6.9%	+4 bps	+59 bps

\$ = Australian Dollar AUD  
 CBD = Core & Frame markets  
 Source: CBRE Research

## Office Demand

### Leasing demand remains strong albeit at subdued levels

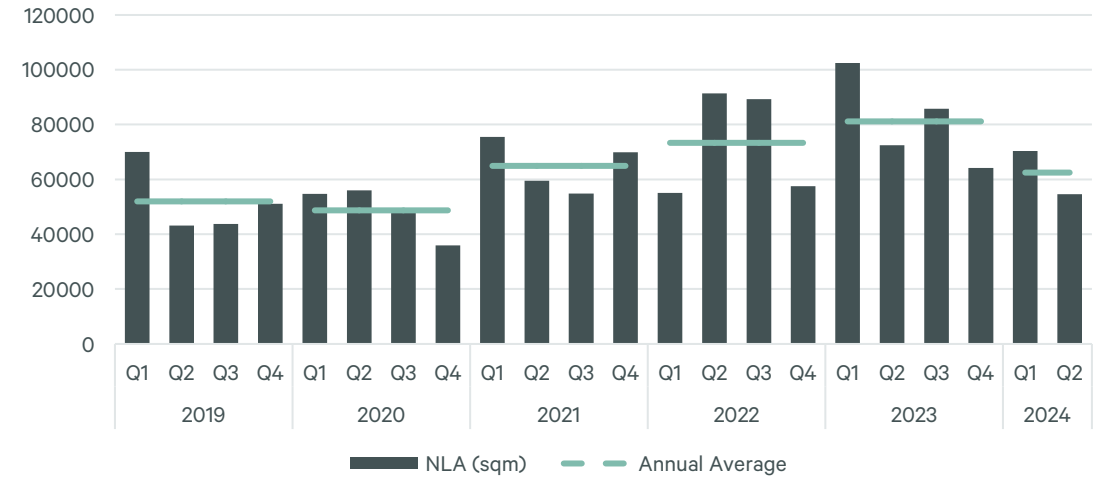
Demand for office space within the Adelaide CBD remains strong over 2024, following record high enquiry levels seen in 2023. Enquiry volumes dropped slightly in Q2 2024 from the prior quarter, with enquiries totalling c.54,600 sqm of net lettable area. However, these levels remain higher than average enquiry levels seen over 2019 and 2020.

Adelaide’s CBD market recorded it’s strongest 6-month net absorption performance over the last 15-years, with 29,041 sqm seen in H1 2024. Absorption was positive across both Prime Grade and Secondary assets, experiencing totals of 14,755 sqm and 14,286 sqm, respectively.

With prime absorption outperforming secondary absorption over the last 6-months, this can be seen as further evidence of Adelaide’s flight-to-quality, albeit, in a different capacity. Given the limited availability estimated in Gen 2 and Gen 3 assets, tenants are actively seeking out higher quality Gen 1 assets when applicable.

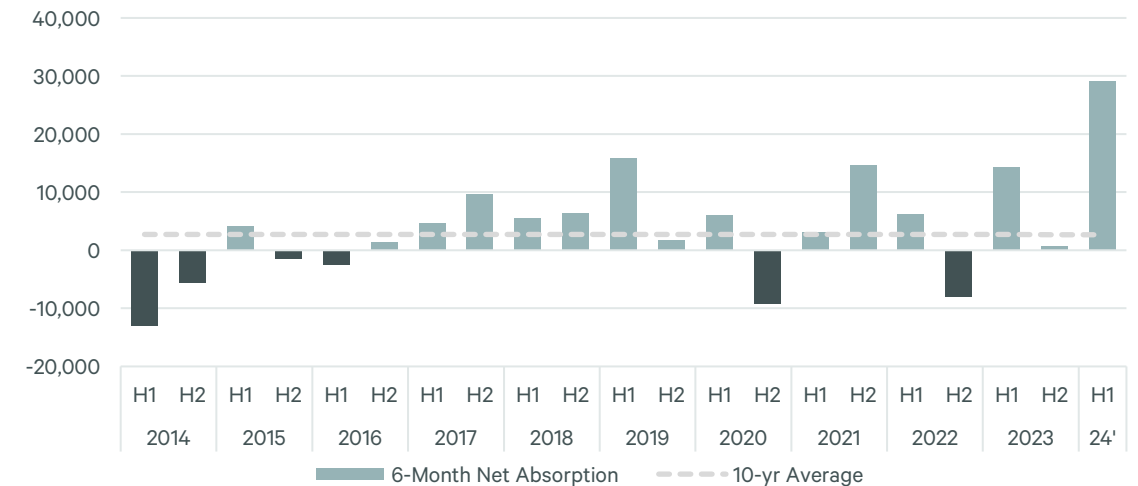
Longer deal lead times could also be a factor driving elevated demand over H1 2024. With the mild performance experienced in H2 2023, tenants who were previously cautious in the market have seemingly become more decisive with respect to relocation and expansionary decisions across Adelaide’s CBD.

FIGURE 2: Adelaide Office | Enquiry Volumes (sqm)



Source: CBRE Research

FIGURE 3: Adelaide CBD Office | 6-Month Net Absorption (sqm)



Source: PCA, CBRE Research

# Supply

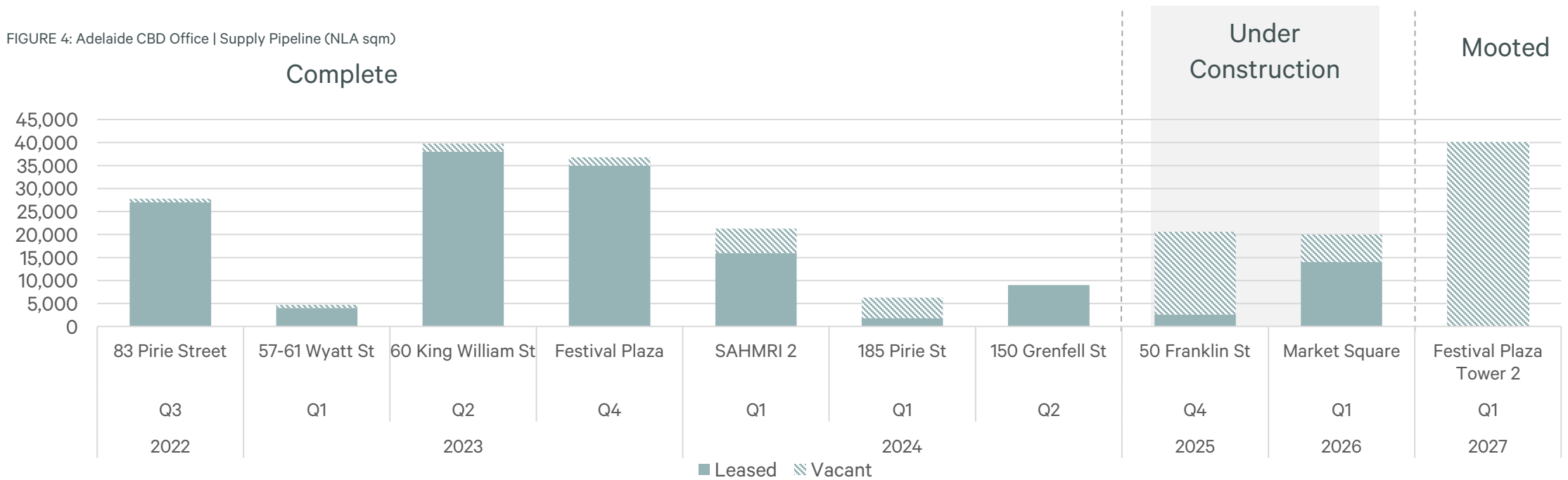
## Adelaide’s office supply pipeline remains robust

The completion of 150 Grenfell Street (9,000 sqm) was the only office development delivered in Q2 2024. This brought the total supply for the first half of 2024 to approximately 37,000 sqm. This development was delivered at 100% occupancy. Two new office developments are currently under construction in Adelaide, totalling c.41,000 sqm. This includes Market Square (20,000 sqm) and 50 Franklin Street (20,589 sqm). 50 Franklin Street is to be delivered in Q4 2025 and has 2,600sqm of leased space, while Market Square has 14,000 sqm of leased space (70% pre-leased) and is due for completion in Q1 2026.

Leasing activity in new developments has been comprised primarily of existing Adelaide occupiers consolidating or expanding into higher quality space within the market. There have not been many new large scale corporate occupiers relocating to Adelaide over recent years. As a result of this trend, the Adelaide market will need to backfill a significant amount of space as new developments are delivered and existing occupiers move into their new tenancies.

Outside of the developments currently under construction, the outlook for future supply becomes more speculative due to challenging development conditions including elevated construction and financing costs. Mooted projects will likely only begin construction once leasing pre-commitments are obtained.

FIGURE 4: Adelaide CBD Office | Supply Pipeline (NLA sqm)



Source: CBRE Research

## Vacancy

### Vacancy sees moderate decline as Adelaide experiences it's strongest net absorption in 15-years.

Adelaide's CBD vacancy, as per the most recent PCA Office Market Report, tightened 180bps to 17.5% (direct and sublease), from 19.3% (January 2024).

Direct vacancy was reported at 16.8% and sublease at 0.7%, representing -160 bps decrease in direct vacancy and a -20 bps decrease in sublease vacancy over the half. With limited supply expected over the next 18-months, representing c.24,000sqm of vacant NLA, we continue to expect vacancy to trend downwards in the near term.

While headline vacancy rates remain relatively high, occupancy conditions varied greatly by building age. As of Q2 2024, vacancy in prime Gen3 assets (built since 2022) decreased slightly from 10.5% to 9.8%. This was due to 9,000 sqm being leased at 150 Grenfell Street. Gen2 assets (built from 2006 to 2021) saw the strongest occupancy over the quarter, with a vacancy rate of 8.6%. Tenant demand continues to be strong for newer stock (Gen 2 and 3 assets), evidenced by lower vacancy rates recorded in these compared to Gen 1 assets. Despite this there continues to be limited stock for these newer assets which may drive demand to the next level down.

The Adelaide sublease market has remained a minor component of the vacancy market with only 7,057 sqm available as per the PCA data. Resilient business performance, high occupancy in the public sector, fitted accommodation options being sought after, and continual increases of employees commuting to the CBD after the relaxation of COVID-19 restrictions are key drivers behind low sublease options.

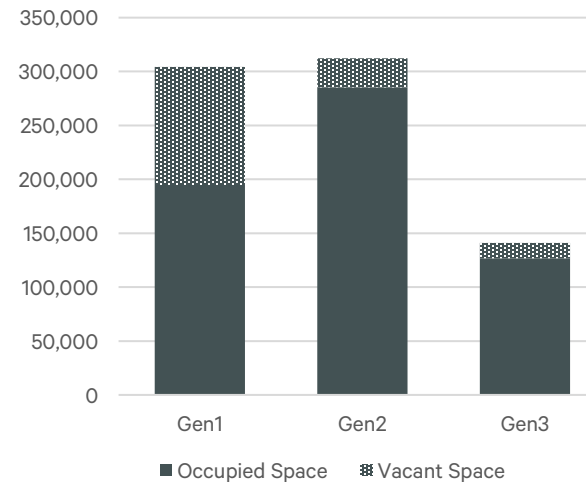
- Gen1: First generation assets built pre-2006 (formerly referred to as 'Old Gen')
- Gen2: Second generation assets built 2006-2021 (formerly referred to as 'New Gen')
- Gen3: Third generation assets completed within or after 2022 (formerly referred to as 'Next Gen')

FIGURE 5: Adelaide CBD Office | Leasing Market Summary

Market/Grade	Inventory July 24	Vacant Space July 24	Vacancy Rate July 24 (6month Diff)	Net Absorption 6 months
Prime	743,853 sqm	148,707 sqm	20.0% (-200 bps)	14,755 sqm
Secondary	819,864 sqm	124,684 sqm	15.2% (-170 bps)	14,286 sqm
<b>Total</b>	<b>1,563,717 sqm</b>	<b>273,391 sqm</b>	<b>17.5% (-180 bps)</b>	<b>29,041 sqm</b>

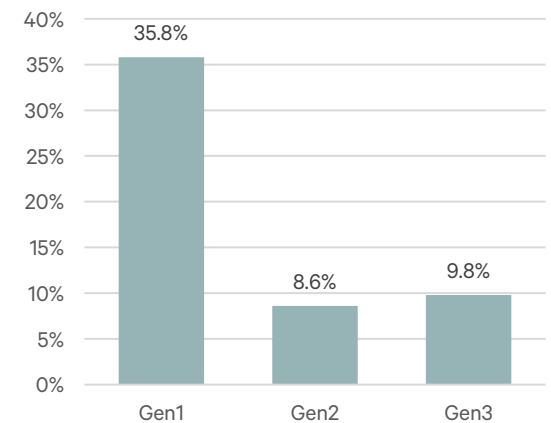
Source: PCA (OMR Jan 2024)

FIGURE 6: Adelaide CBD Office | CBRE Vacancy Tracking



Sources: CBRE Research

FIGURE 7: Adelaide CBD Office | CBRE Vacancy Rate



## Rental Performance

### Rents continue to grow moderately as vacancy starts to decline

While rental conditions across the Adelaide CBD remained stable throughout the pandemic, this trend shifted in Q1 2024. As seen in the start of 2024, the market continued to record mild increases to rents to in Q2 2024, particularly in Prime stock.

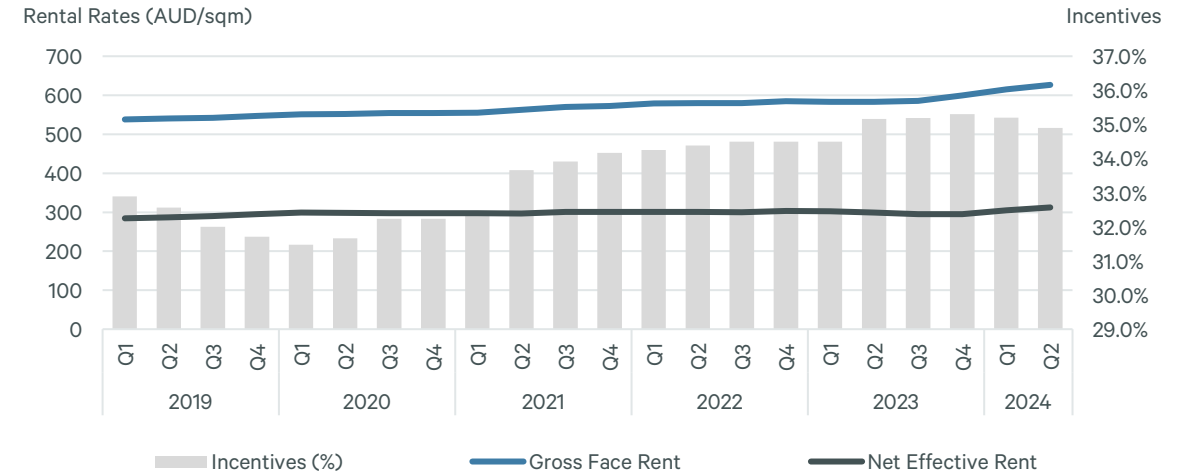
Prime gross rental rates ended the period at 627 AUD/sqm, increasing by 2.0% quarter-on-quarter. Prime incentives recorded a decrease by 30 bps to 34.9% over the second quarter. A 2.1% rise in prime net effective rents was seen in Q2 2024, driven by a combination of rising gross rents and declining incentives.

Prime outgoings increased by 3.1% quarter-on-quarter and by 22.9% year-on-year. Increases in outgoings due to a combination of inflationary pressures on building operating costs as well as increases in statutory charges.

The Secondary market experienced minimal movement with gross rents increasing by 1.0% quarter-on-quarter, while net effective rents declined by 0.1% quarter-on-quarter. Secondary incentives ended the quarter at 41.5% after increasing by 12 bps.

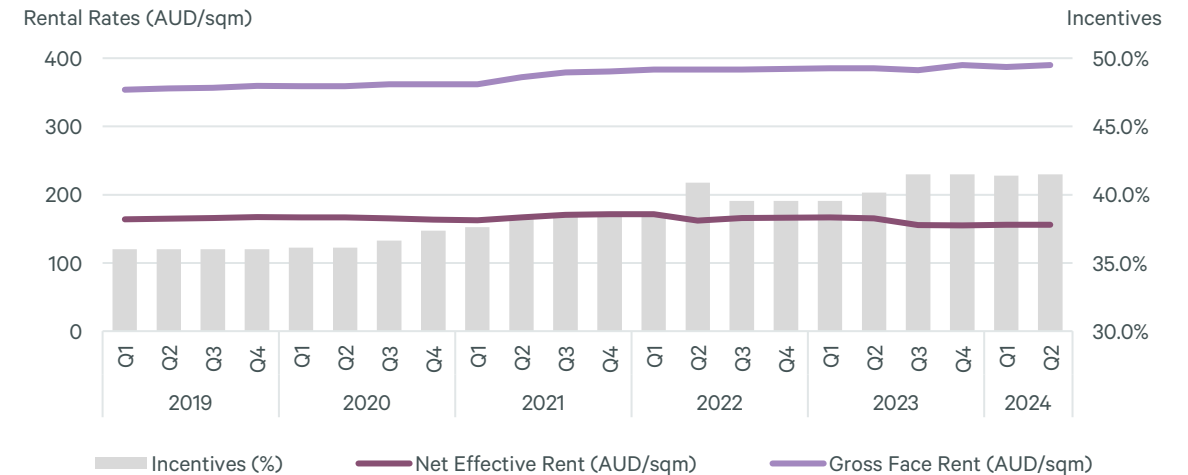
Looking forward, rental rates are expected to continue growing at a moderate pace for remainder of the year. Recent completions of new office buildings will be a key driver of rental growth and the repositioning of Gen1 stock is also expected to attract rental premiums.

FIGURE 8: Adelaide CBD Office | Prime Gross Face Rents, Net Effective Rents, and Incentives



Source: CBRE Research

FIGURE 9: Adelaide CBD Office | Secondary Gross Face Rents, Net Effective Rents, and Incentives



Source: CBRE Research

## Investment Market

### Sales activity expected to recover in late 2024

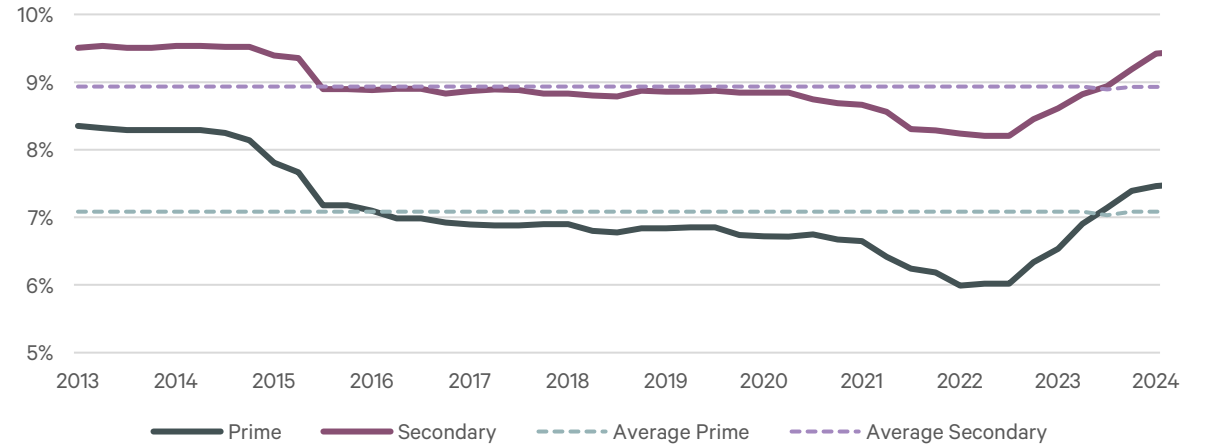
Average prime and secondary asset yields softened quarter-on-quarter to 7.5% (+4 bps) and 9.5% (+2 bps) respectively. Transaction activity has dropped significantly over the past 12 months given uncertainty of pricing benchmarks and investors more focused on core markets such as Sydney.

Office investment sales in Adelaide totalled \$52 million over Q2 2024, bringing total sales for 2024 to \$70m. This total represented a decline of 73% compared to the same time in 2023. The assets sold this quarter comprised of 1 Richmond Road (a suburban asset) and 104 Frome Street (a CBD asset), which transacted for \$38.3 million and \$14.2 million, respectively.

Despite muted sales activity, it is apparent that investors, namely privates, are willing to purchase office assets in Adelaide if the pricing is right. However, there appears to be some cautiousness in the market with assets taking longer to transact, and the mismatch between buyer and vendor expectations continues to prevent sales from closing.

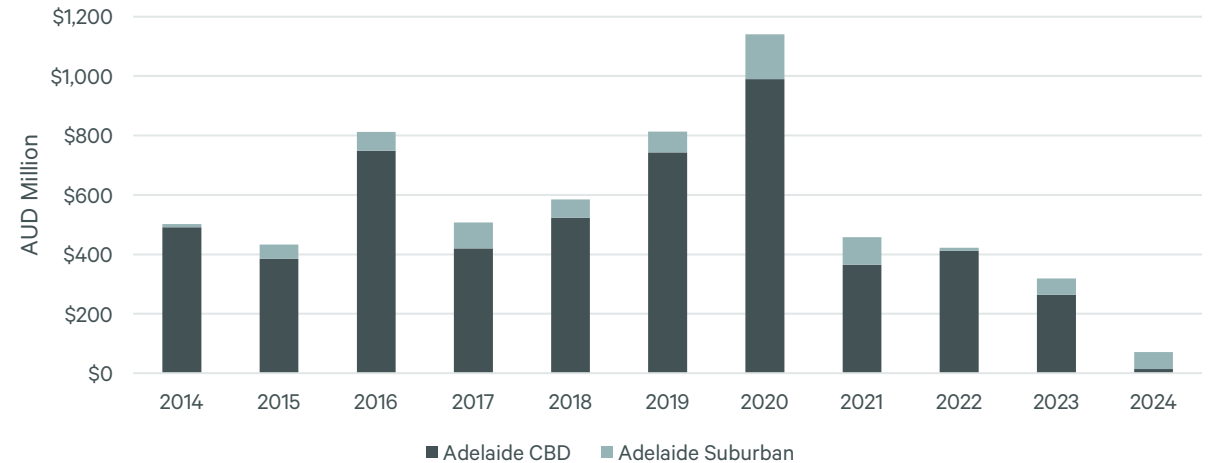
Given that current cash rate has been stable over the first half of the year and is forecasted to fall over the next 12 months, current expectations are that sales activity will increase towards the end of 2024 as investors regain confidence in the market.

FIGURE 10: Adelaide CBD Office | 10-year average Prime and Secondary Yields



Source: CBRE Research

FIGURE 11: Adelaide Office | Investment Sales by Submarket (AUD millions)



Source: CBRE Research, MSCI-RCA

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