

FIGURES | AUSTRALIAN OFFICE | Q2 2024

Overall demand eases, but prime net absorption and rental growth robust

▲ 3.1% y/y
AUS Average Prime NER

▲ 40.3%
AUS Average Prime Incentives

▲ \$2.8b
AUS Sales Volumes Q2 24

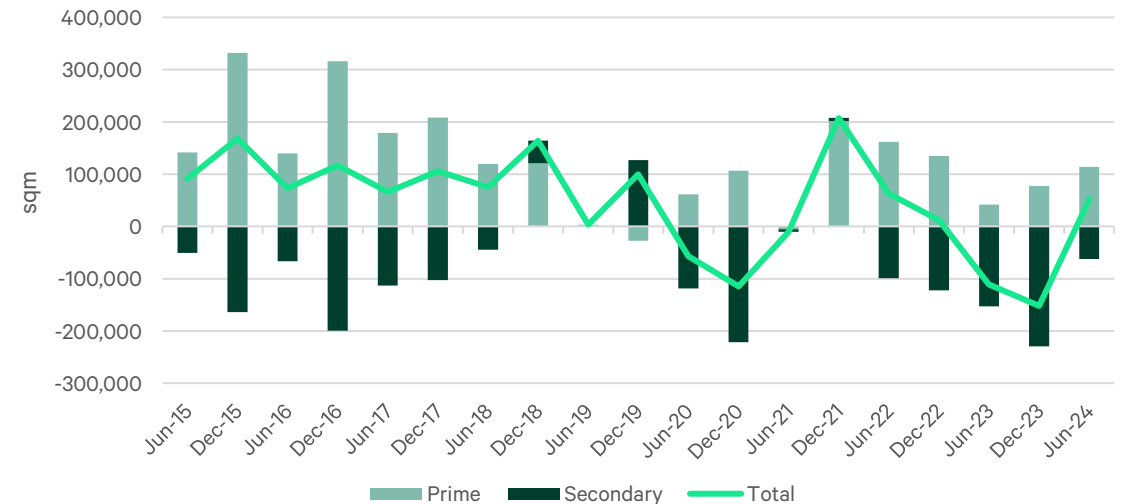
▲ 6.44%
AUS CBD Prime Yield

Note: Arrows indicate change from previous quarter.

Key Points

- The labour market has remained more resilient than expected, with about 50,200 jobs created in June 2024 and the unemployment rate at 4.1%.
- Office demand returned to positive territory with total net absorption of 51,900 sqm in H1 2024. This was the best result since H1 2022.
- National vacancy trended slightly down to 14.6% in June 2024, from 14.8% at the start of the year. Australian CBD's edged up to 13.6%, with supply outstripping net absorption.
- All CBD markets recorded positive prime net effective rental growth in Q2, as sentiment improved in some of the weaker performing markets. Brisbane remains the outperformer in Australia.
- Sales volumes improved in Q2 2024 as buyer sentiment improved off the back of a stabilisation in interest rates.
- Yields continue to soften with more sales evidence providing new pricing benchmarks.

FIGURE 1: Australia Office Market Net Absorption by Grade (6 Monthly)



Source: PCA, CBRE Research

Demand and Vacancy

Net absorption improves as the tenant “right-sizing” phase ends

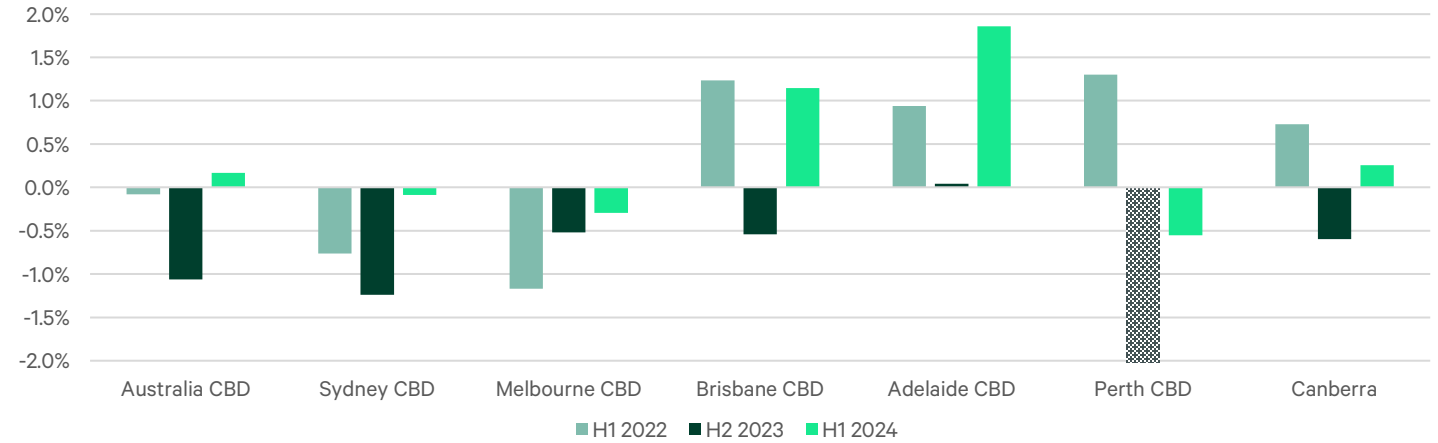
Australian CBD’s recorded 31,825 sqm of net absorption in H1 2024, the best result in 2 years. The occupier market in Australia has been dragged down by tenants contracting, particularly in the larger markets of Sydney and Melbourne. However, much of this activity appears to have completed with more examples of tenant expansion due to headcount growth. Adelaide and Brisbane were the key outperformers from a net absorption perspective, due to healthy physical occupancy figures and solid white-collar employment growth.

Non-CBD markets also recorded positive net absorption of 20,083 sqm, with the Brisbane Near City, Macquarie Park and North Sydney the best performers in H1 2024.

Vacancy stabilises in H1 2024

Overall CBD vacancy showed signs of stabilisation at 13.6% in June 2024, from 13.5% at the start of the year. The Brisbane CBD continued to tighten, with total vacancy dropping to 9.5% in June 2024, the lowest vacancy rate since December 2012. Adelaide also showed improvement in vacancy to 17.5% off the back of strong net absorption. An increase in withdrawals of secondary stock improved the vacancy rate in the Sydney CBD from 12.2% to 11.6% over the past 6 months. The major trend is Sydney continues to see tenants upgrade into the best stock, with solid premium net absorption and premium vacancy dropping from 13.0% to 10.8% over the past 6 months.

Figure 3: Net Absorption by Market (as % of total stock)



Source: PCA, CBRE Research

Note: The negative absorption in Perth in H2 23 was largely a function of changing boundaries in that market

Figure 4: Total Vacancy



Source: PCA, CBRE Research

Rents and Incentives

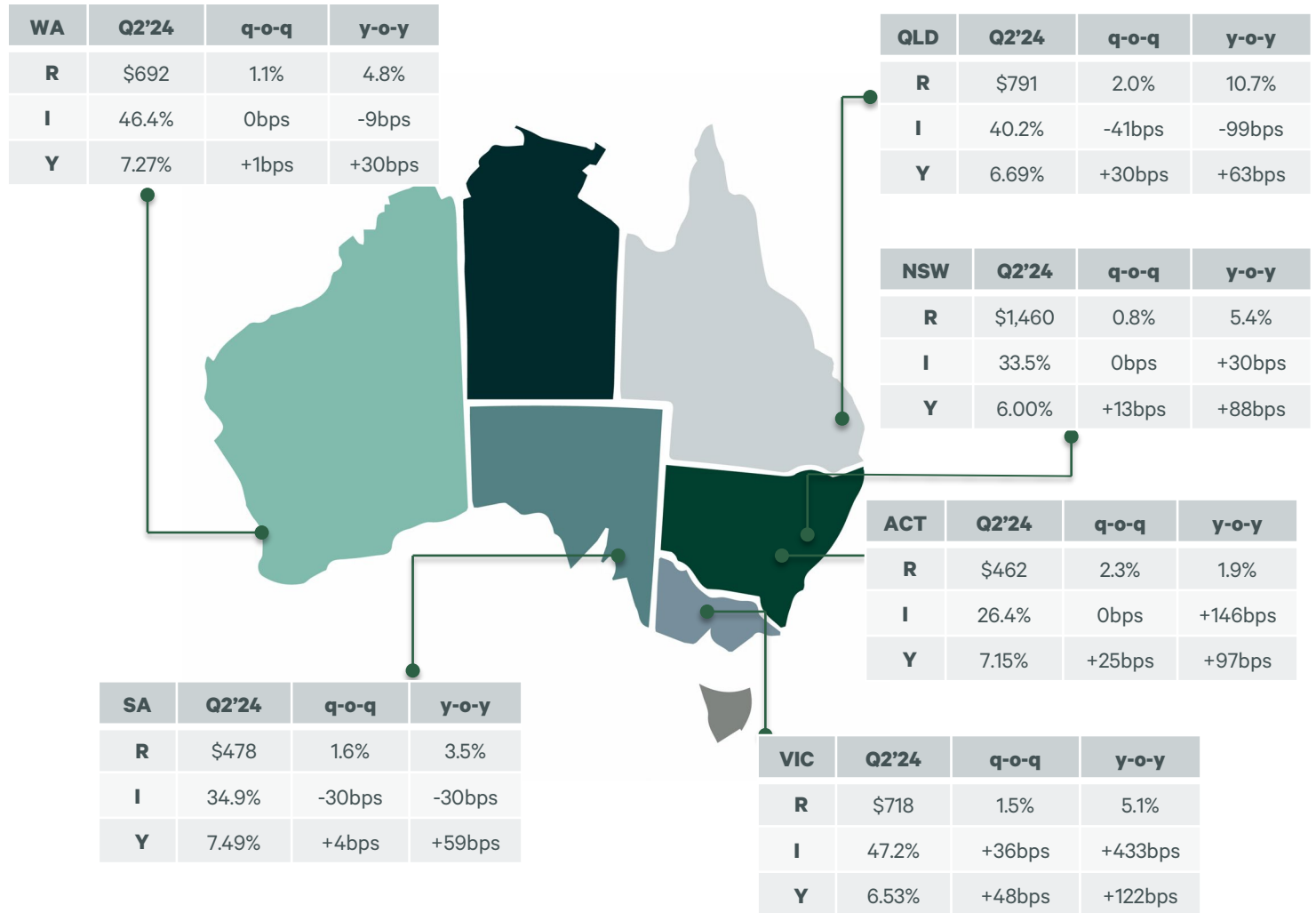
All CBD markets record positive effective rental growth in Q2 2024

The Australian CBD prime average effective rent increased by 1.0% q-o-q and 3.1% y-o-y in Q2 2024. All markets returned to positive territory in Q2 2024 as further evidence that rents are bottoming out. The Brisbane CBD remains the standout market as vacancy continues to tighten. The Sydney Core and Perth CBD continue to record solid effective rental growth around 5.0% y-o-y. The Melbourne CBD recorded 0.8% effective rental growth in Q2 2024, although remains ~20% below pre-covid levels.

Face rental growth strong, while incentives stabilising

Prime net face rents have increased by 5.7% y-o-y across Australia's CBDs in Q2 2024. The growth has been driven by significantly higher construction costs driving up economic rents of new development. This has made existing buildings significantly cheaper than new developments, which has allowed landlords to increase headline rents. However, incentives have trended up across a range of markets over the past 12 months. There is evidence that incentives are stabilising, with only the Melbourne CBD recording higher incentives q-o-q. The Brisbane CBD is the only market to have recorded a steady decline in incentives over the past 12 months.

FIGURE 2: Australia CBD Prime Office Key Market Indicators & Forecast Direction – Q2 2024



Abbreviation: R - Net Face Rent, I - Incentives, Y- Yield. Source: CBRE Research

Cities

Sydney

Leasing demand was steady across the Sydney CBD in H1 2024. First half enquiry volumes totalled 208,515 sqm, only a slight decrease of 10.8% compared to H1 2023. While no new office supply was delivered to the Sydney CBD over H1 2024, the second half will see the completion of over 187,000 sqm of new stock. The overall CBD vacancy rate ended the first half at 11.6%. This marked a decline of -60 bps from year-end 2023. Sydney CBD Prime and Secondary vacancy rates both declined in H1 2024, ending the period at 11.9% and 11.1%, respectively. Despite continued growth in face rental rates, increases to incentives in several precincts resulted in the CBD average net effective rental rate figures declining in Q2 2024.

Melbourne

Leasing demand in Melbourne's CBD improved moderately, however net absorption remains negative, with 6-month net absorption of -15,435sqm recorded. Negative net absorption was partially offset by strong positive demand for Premium grade office space (+2,116sqm). Supply completions over Q2 2024 included Melbourne Quarter Tower (69,000sqm), a Docklands asset which achieved a c.40% pre-commitment rate prior to practical completion. Melbourne CBD's overall vacancy rate ended H1 2024 at 18.0%. This figure represented an increase of 157bps from H2 2023. Vacancy continues to bifurcate across precincts as tenant preference becomes more pronounced.

Brisbane

Total net absorption was solid in H1 2024 at 26,552 sqm across all grades. This was led by the A-Grade market which recorded 42,417 sqm of net absorption in the first 6 months of 2024. Total vacancy tightened further to 9.5% in H1 2024, the lowest level since 2012. The contraction in vacancy has largely been led by the A-grade market given the lack of new supply and solid net absorption by both Government and the private sector. Prime vacancy improved to 7.2% in June 2024, from 12.5% a year earlier. Prime gross face rents grew by 2.1% q-o-q and 9.1% y-o-y in Q2 2024.

Perth

Gross new leasing volumes above 500 sqm was c.18,200 sqm in 2Q24 which improved significantly from the low level of c.6,200 sqm recorded in 1Q24. Lease volumes were up 23% y-o-y in 2Q23. Net absorption for 1H24 was -9,811 sqm (20-year annual average c.21,000 sqm). Prime grade net absorption for 1H24 was -3,300 and secondary grade net absorption was -6,511 sqm. The vacancy rate increased 80 bps h-o-h to 15.5% in 1H24 primarily due to the softer net absorption. Prime CBD net face rents increased 1.1% q-o-q to \$692 (+4.8% y-o-y). Secondary grade net face rents were stable q-o-q (+1.2% y-o-y).

Adelaide

Prime CBD net face rents increased 1.1% q-o-q to \$692 (+4.8% y-o-y). Secondary grade net face rents were stable q-o-q (+1.2% y-o-y). 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.

Canberra

Leasing demand remained steady across Canberra in H1 2024. Leasing enquiry volumes totalled 108,683 sqm over the period, an increase of 72.5% compared to H1 2023. Overall net absorption totalled 6,109 sqm in H1 2024, with the bulk of activity in higher end properties. Canberra saw the first deliveries of its upcoming supply wave in H1 2024. New supply totalled 37,037 sqm over the period. Canberra's overall office vacancy rate ended H1 2024 at 9.5%. This figure represented an increase of 116 bps from year-end 2023. This increase was due largely to new supply delivered over the period. Despite increases to vacancy rates, gross rental rates increased in Q2 2024 while incentives remained table. This allowed net effective rents to increase marginally over the quarter.

Investment Market

Transaction activity has improved across the Australian office market in Q2 2024. Overall, \$2.87 billion worth of assets were sold in Q2 2024, the highest quarterly result in 18 months. The gap between buyer and vendor expectations appears to have closed as more transactional evidence occurs in some markets. In addition, interest rates in Australia have remained stable since November, which has provided comfort to investors.

The most significant deal to complete in Q2 was Mitsui Fudosan’s 66% stake in the 55 Pitt Street development in Sydney from Mirvac. The stake was worth approximately \$1.3 billion. This has continued the trend of Japanese investors buying into the Australian office market. In addition, Cbus Property bought the remaining 50% at 5 Martin Place in Sydney from Dexus/CPPIB for approximately \$296 million.

Brisbane was the other active market in Q2 with two major transactions in the CBD. Quintessential Equity bought 240 Queen Street for \$250m from Brookfield. Also, Clarence Property bought 120 Edward Street from DWS for \$119m.

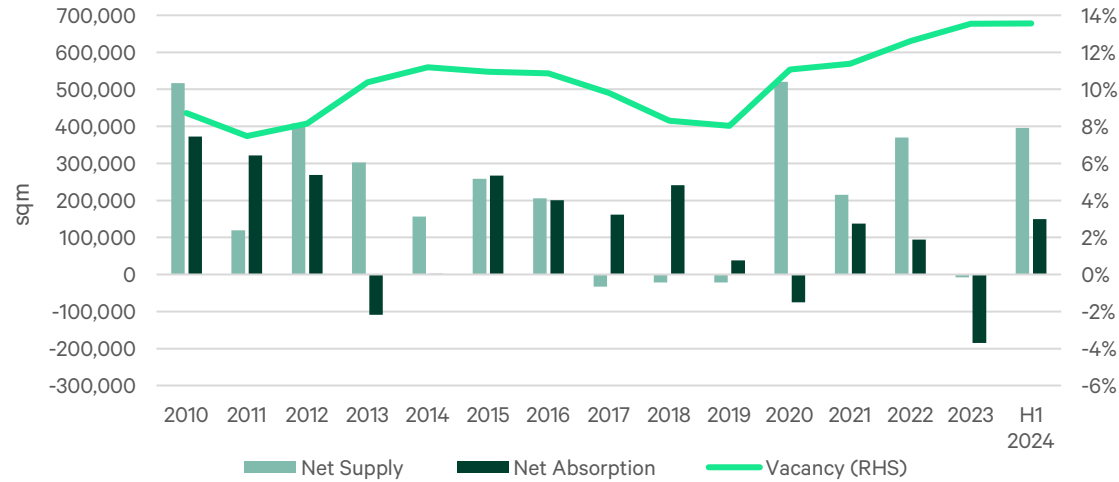
Given recent evidence, prime yields continued to soften in Q2 2024, up by 24 bps on average across Australian CBDs. Prime yields are now 153 bps higher than they were in early 2022, prior to interest rates rising. Given the momentum in Q2, volumes are likely to outperform this year compared to 2023, although will remain well below 2021/22 levels.

Figure 5: Australia Office Investment Volumes by Quarter



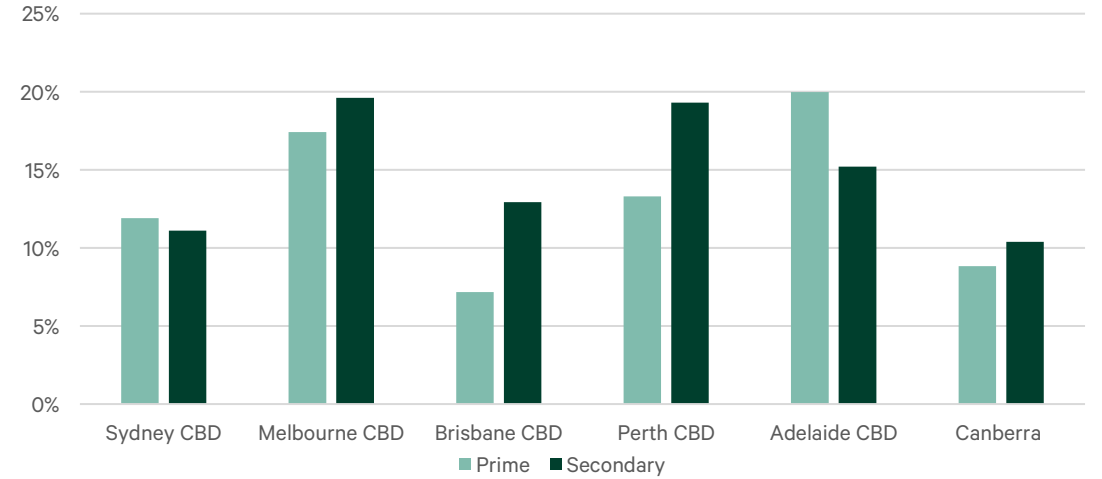
Source: CBRE Research

FIGURE 8: Australian CBD Market Balance



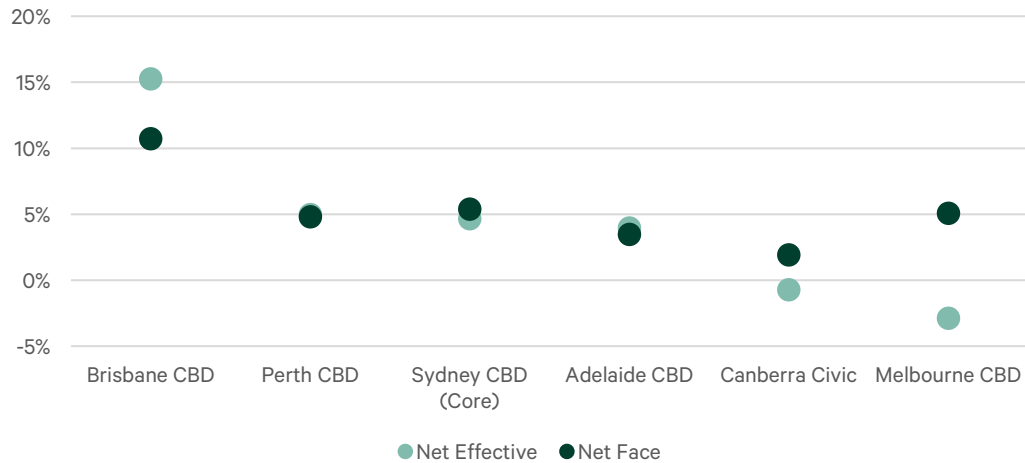
Source: PCA, CBRE Research

FIGURE 9: Vacancy by Grade across CBD Markets – Q2 2024



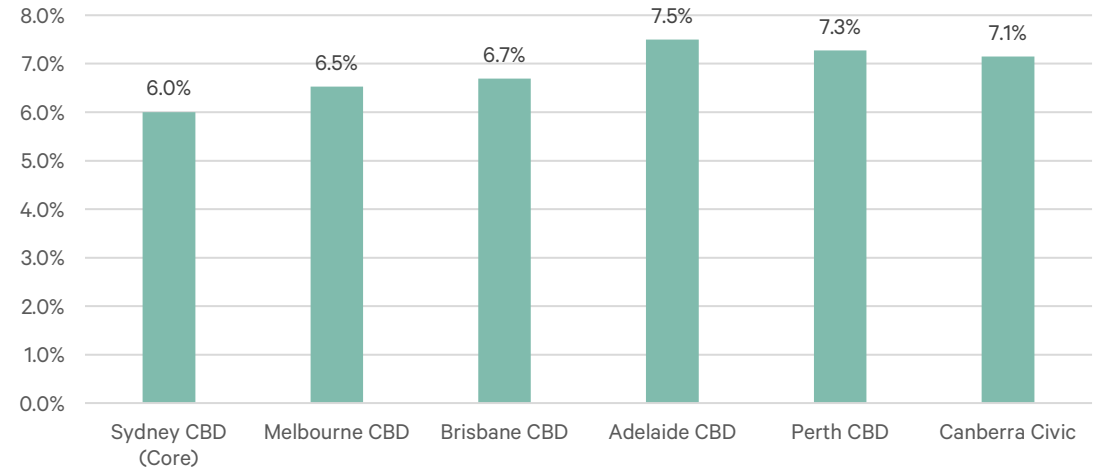
Source: PCA, CBRE Research

FIGURE 10: Q2 2024 Rental Growth by Market (Y-O-Y)



Source: CBRE Research

FIGURE 11: Prime Yields – Q2 2024



Source: CBRE Research

TABLE 1: Australia Non-CBD Prime Office Key Indicators, Q2 2024

Market	Demand	Net Face Rent (q-o-q change)	Incentives (q-o-q change)	Net Effective Rent (q-o-q change)	Yield (q-o-q change)
North Sydney	▲	\$1006 ▲	36.4% ▲	\$586 ▼	7.15% ▲
Parramatta	▶	\$583 ▶	46.8% ▲	\$310 ▼	7.54% ▲
Macquarie Park	▲	\$447 ▲	35.4% ▲	\$288 ▼	8.29% ▲
Chatswood	▼	\$668 ▲	39.8% ▲	\$363 ▲	8.42% ▲
Crows Nest/St Leonards	▼	\$698 ▲	38.8% ▲	\$371 ▼	8.02% ▲
Southbank	▼	\$630 ▼	45.2% ▲	\$345 ▼	7.73% ▲
St Kilda Road	▼	\$462 ▼	49.8% ▲	\$232 ▼	8.10% ▲
Brisbane Near City	▲	\$608 ▲	40.1% ▼	\$314 ▲	7.51% ▲
West Perth	▲	\$408 ▲	36.0% ▶	\$261 ▲	7.78% ▶
Canberra Non-CIVIC	▶	\$417 ▲	25.4% ▶	\$289 ▲	7.28% ▲

Note: Arrow indicates change from previous quarter.

Source: CBRE Research

TABLE 2: Australia Major Office Sales, Q2 2024

Address	Market	Sale Date	Sale Price (\$m)	Purchaser	Vendor	Proportion Sales
55 Pitt Street (Development)	Sydney	Jun-24	~1,300	Mitsui Fudosan	Mirvac	66%
5 Martin Place	Sydney	Jun-24	296	Cbus Property	Dexus/CPPIB	50%
240 Queen Street	Brisbane	Jun-24	250	Quintessential Equity	Brookfield	100%
40 Miller Street	North Sydney	Jun-24	141	Barings	Mirvac	100%
120 Edward Street	Brisbane	Jun-24	119	Clarence Property	DWS	100%
1 Central Avenue	Eveleigh	May-24	103	Kurraba Group	Centuria	100%

Source: CBRE Research

Contact - Research

Tom Broderick

Head of Office & Capital Markets
Research, Australia
+61 430 405 910
tom.broderick@cbre.com.au

Thomas Biglands

Associate Director, NSW & ACT
+61 426 841 019
thomas.biglands@cbre.com

Cameron Douglas-Perrine

Senior Research Analyst, VIC
+61 450 801 459
cameron.douglas-perrine@cbre.com

Eza Ranjbar

Research Manager, WA
+61 425 225 915
eza.ranjbar@cbre.com

CBRE Offices

Sydney

Level 21
363 George Street
Sydney, NSW 2000

Melbourne

Level 34
8 Exhibition Street
Melbourne, VIC 3000

Brisbane

Level 3
1 Eagle Street
Brisbane, QLD 4000

Perth

Level 25
250 St George's Terrace
Perth, WA 6000

Adelaide

Level 5
151 Pirie Street
Adelaide, SA 5000

Canberra

Level 4
2 Constitution Avenue
Canberra City, ACT 2601