

Adaptive Spaces

# What are Australian office tenants doing in 2024?

REPORT

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CBRE RESEARCH  
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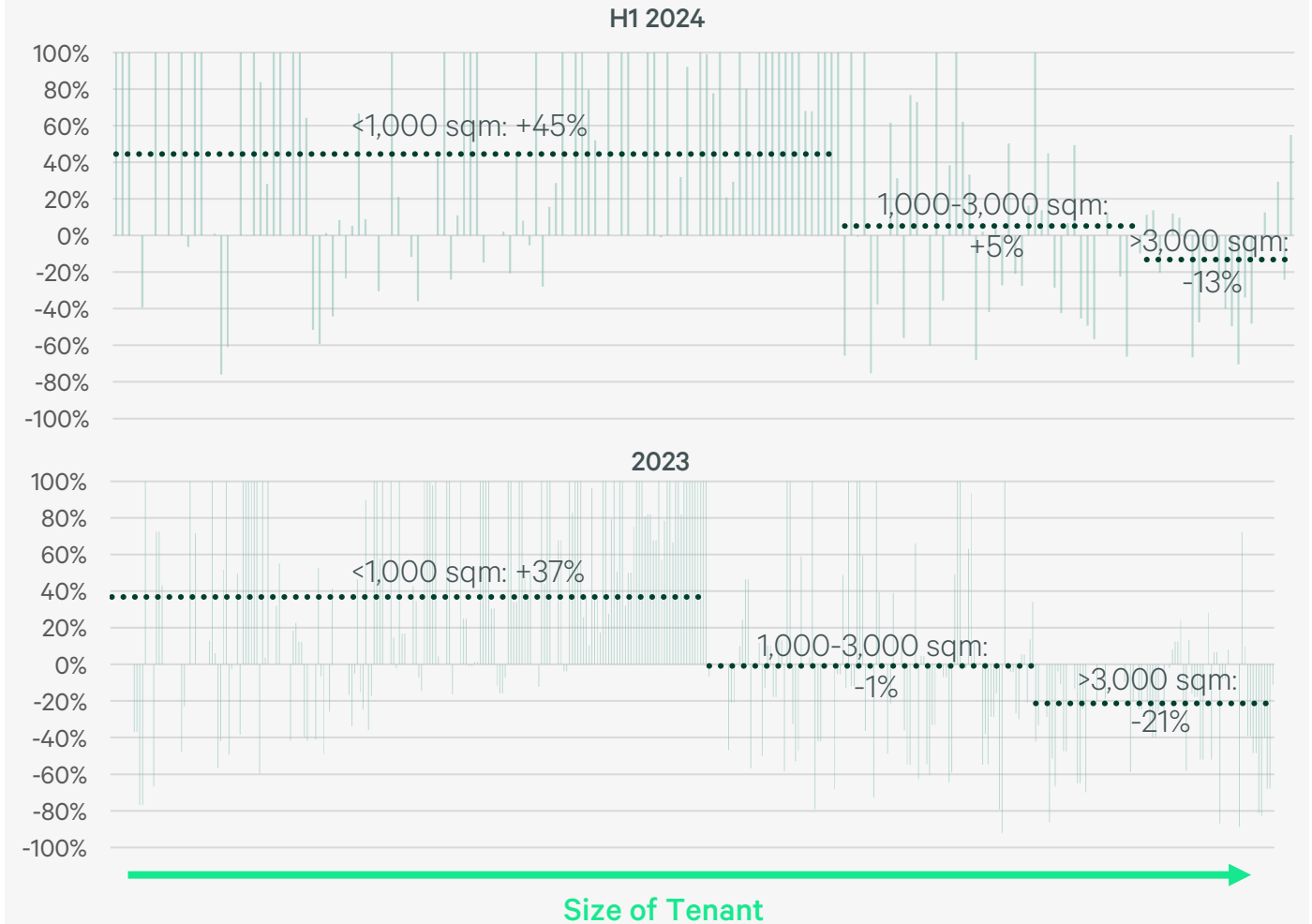
## The tenant “right-sizing” phase might be coming to an end

CBRE Research has analysed approximately 880 leasing decisions across Australia since the start of 2021 to understand what office tenants are doing with their footprints. In 2024, occupiers continue to exhibit differing approaches towards their footprint, largely dependent on their size. Smaller tenants have consistently had a bias towards expansion, which has been a trend for the past few years. This expansion is primarily driven by the increasing headcount and the necessity for more spaces that enhance collaboration.

On the contrary, larger tenants have demonstrated a trend of contraction when looking to relocate or renew. This contraction is predominantly attributed to the adoption of hybrid working models, which has led to lower attendance rates on specific days. However, it's significant to note that as of early 2024, this contractionary activity has been decreasing in frequency. For tenants with spaces larger than 3,000sqm, the average contraction rate has reduced to 13%, a notable decrease from the 21% observed in 2023. The 1-3k sqm tenants have also switched to growth of 5% in 2024 compared the -1% average of 2023.

This shift is indicative of the fact that many larger tenants have already adapted to "right-sizing" their spaces in response to the new hybrid world. Right-sizing involves adjusting the office footprint to accurately match the number of in-office employees, ensuring that space is utilised efficiently without large pockets of underutilised space.

FIGURE 1: Tenant Leasing Decisions – Growth/Contraction in Footprint



Source: CBRE Research

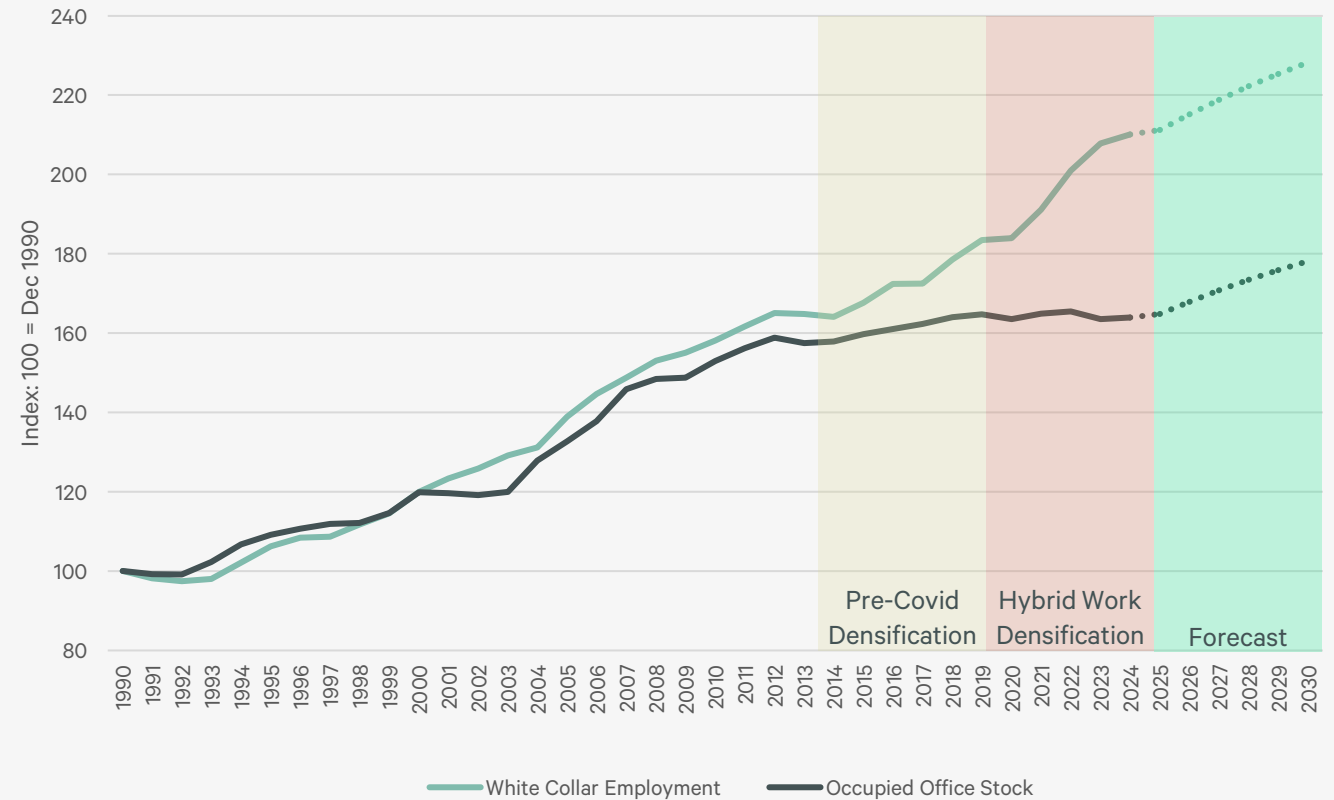
## Footprint densification cannot continue forever

Prior to the pandemic, there was a noticeable correlation between occupied office space and white-collar employment growth from 1990 to 2014. As more people were hired, office space was expanded to accommodate the growing workforce.

However, a disconnect started to occur when tenants began requiring less office space per employee. This trend was further accelerated by the pandemic, as more people shifted to hybrid working. With employees working from home, the need for tenants to grow footprint with headcount was diminished.

Nevertheless, there is a limit to how dense a workplace can get. Employers do not want a scenario where an employee makes the effort to come into the office, only to find that there are no desks available. Since 2014, white collar employment in Australia has grown by 28.0%, while occupied office stock has only increased by 3.8%. We estimate that typical floor space ratio for a private sector tenant was about 12 sqm per employee in 2014, This has reduced to about 9 sqm per employee in 2024. Assuming this benchmark is the new normal, we would expect occupied stock to grow (positive net absorption) with white collar employment from now. A sign of this trend is that Australia achieved its highest net absorption in two years during H1 2024, reaching 51,900 sqm.

FIGURE 2: Australian White Collar Employment vs Occupied Office Stock



Source: PCA, Deloitte Access Economics, CBRE Research

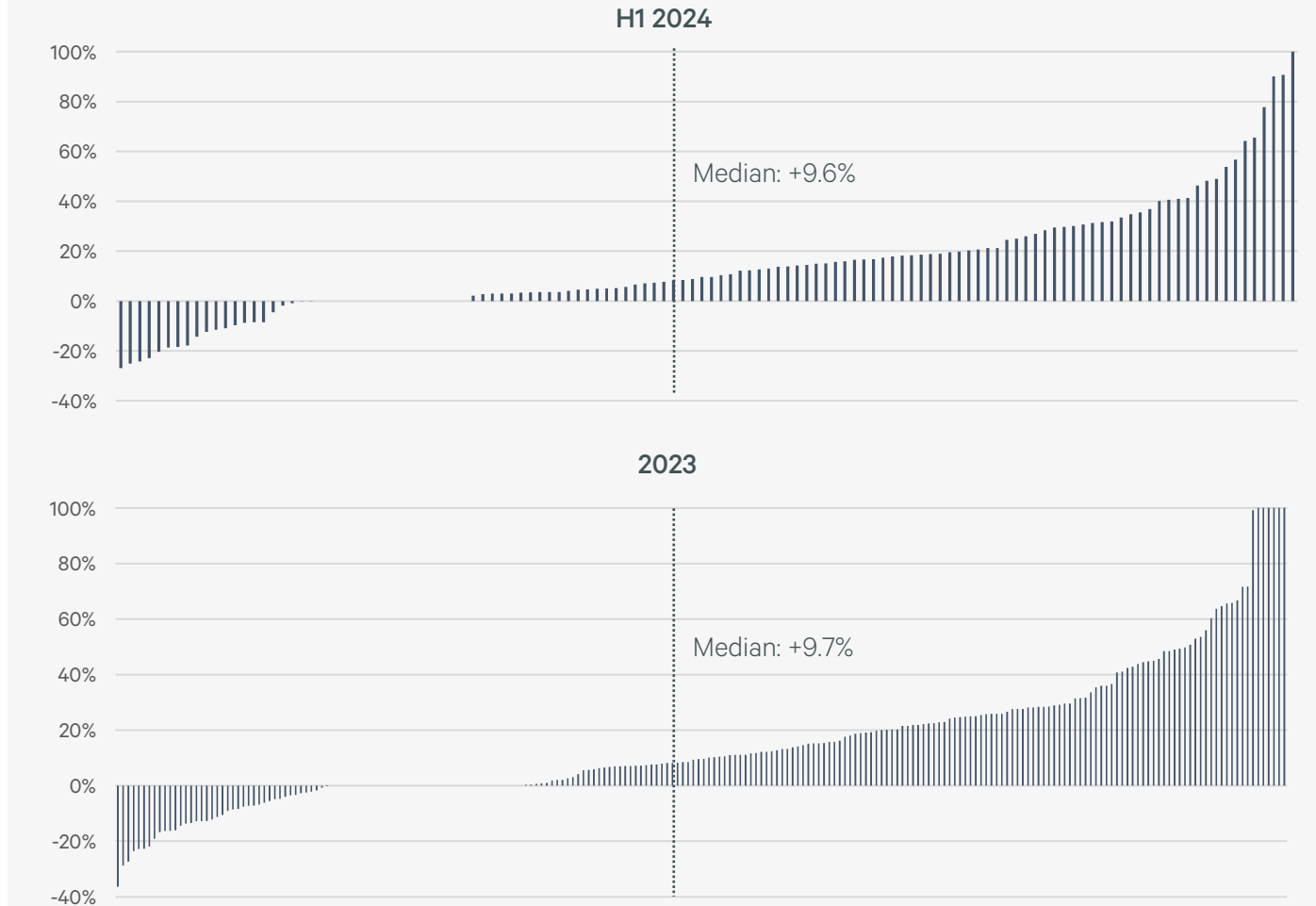
## No change to flight to quality trend in 2024

Using the same data, we have analysed the change in face rent (per sqm) of all tenants that have made a relocation decision in H1 2024 compared to 2023. This analysis estimates the current market rent of the tenant's previous building vs the rent in the building they have chosen to move to.

In general, the trend is unchanged from last year, with the typical tenant willing to pay 9.6% higher rent in H1 2024, compared to 9.7% in 2023. Of the decisions made this year, 70% were an upgrade to a better building, 15% were to an equivalent building and the remaining 15% were a downgrade move.

Clearly occupiers continue to have a bias to upgrading their premises. This has been a trend for a number of years. The main reasons are to continue to improve office attendance by offering better amenity, attract top talent, improve ESG credentials and enhance their corporate image.

FIGURE 3: Relocation analysis – Face Rental Change New vs Old Building (\$/sqm)



Source: CBRE Research

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