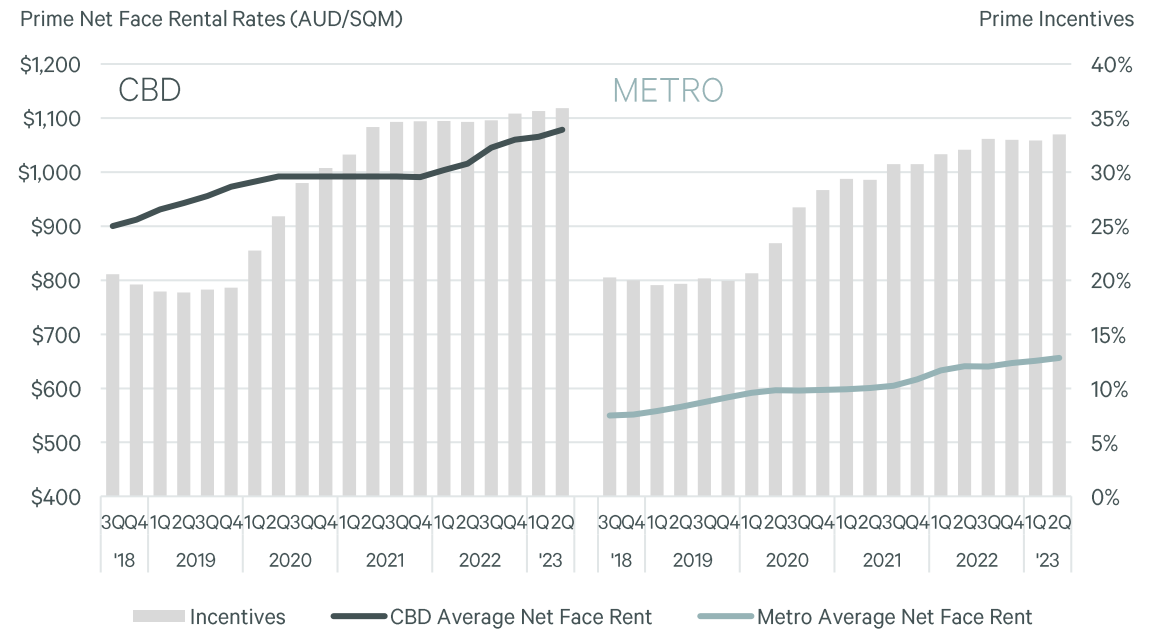


# Rental rate growth accelerates on the back of strong tenant demand and high inflation

## Market Commentary

- Office rental rate growth accelerated across the Sydney CBD over the first half of 2023. The CBD average Prime net face rental rate ended the quarter at \$1,078 AUD/sqm, an increase of 6.2% year-over-year. Conversely, incentives have remained elevated and continued to rise in the second quarter. CBD average Prime incentives ended the period at 35.9%, an increase of +128 bps year-over-year.
- The CBD continues to benefit from a flight-to-quality by occupiers and increasing office re-occupancy rates. While overall vacancy rates are still somewhat elevated, tenant demand remains strong, especially for Prime space, and this is driving rents at this time.
- Rental rate results in Metro Sydney were more mixed than the CBD. Centrally located Metro submarkets such as North Sydney and City Fringe have continued to post strong rental rate growth, while other submarkets have seen only mild increases or contraction.
- The Metro average Prime net face rental rate and incentive figures ended the quarter at \$657 AUD/sqm and 33.5%, respectively. These figures represented year-over-year increases of +2.4% and +142 bps.
- In addition to typical supply-demand dynamics, the Sydney real estate market is also being impacted heavily by rising inflation. Outgoings and gross rental rates, in particular, are expected to face significant upward pressure over the remainder of the year due to elevated operational and construction costs.

Figure #1: Prime Rental Rates and Incentives by Sydney Region



Source: CBRE Research, Q2 2023.

## SYDNEY CBD Rental Rate & Incentives Snapshot

Figure #2: Sydney CBD Office Rental Rates and Incentives by Precinct

PRIME	CORE	MIDTOWN	SOUTH	WESTERN CORRIDOR	WALSH BAY	THE ROCKS
<b>Gross Rental Rate (AUD/sqm)</b>	<b>\$1,630</b>	<b>\$1,273</b>	<b>\$1,026</b>	<b>\$1,270</b>	<b>\$1,428</b>	<b>\$999</b>
% QoQ	1.8%	1.0%	0.0%	1.7%	0.2%	1.9%
% YoY	6.8%	5.8%	3.2%	4.9%	3.4%	2.3%
<b>Net Face Rental Rate (AUD/sqm)</b>	<b>\$1,385</b>	<b>\$1,101</b>	<b>\$879</b>	<b>\$1,083</b>	<b>\$1,184</b>	<b>\$838</b>
% QoQ	2.1%	1.1%	0.0%	2.0%	0.3%	1.5%
% YoY	8.1%	6.6%	3.7%	5.8%	4.1%	2.0%
<b>Incentives</b>	<b>33.2%</b>	<b>36.6%</b>	<b>36.0%</b>	<b>38.1%</b>	<b>36.0%</b>	<b>35.7%</b>
QoQ Change (bps)	0	64	0	100	0	0
YoY Change (bps)	-50	164	133	317	138	0
<b>Net Effective Rental Rate (AUD/sqm)</b>	<b>\$844</b>	<b>\$634</b>	<b>\$510</b>	<b>\$600</b>	<b>\$670</b>	<b>\$482</b>
% QoQ	2.3%	0.0%	0.0%	0.1%	0.3%	1.3%
% YoY	10.0%	3.7%	1.4%	-0.3%	1.6%	1.8%

SECONDARY	CORE	MIDTOWN	SOUTH	WESTERN CORRIDOR	WALSH BAY	THE ROCKS
<b>Gross Rental Rate (AUD/sqm)</b>	<b>\$1,179</b>	<b>\$974</b>	<b>\$959</b>	<b>\$1,001</b>	<b>\$1,048</b>	<b>\$944</b>
% QoQ	0.3%	0.6%	0.3%	0.2%	0.0%	0.0%
% YoY	4.7%	3.5%	6.5%	5.4%	12.3%	0.0%
<b>Net Face Rental Rate (AUD/sqm)</b>	<b>\$993</b>	<b>\$831</b>	<b>\$802</b>	<b>\$815</b>	<b>\$908</b>	<b>\$792</b>
% QoQ	0.3%	0.8%	0.4%	0.3%	0.0%	0.0%
% YoY	4.8%	3.9%	7.7%	6.8%	14.5%	0.0%
<b>Incentives</b>	<b>35.1%</b>	<b>35.3%</b>	<b>35.8%</b>	<b>35.8%</b>	<b>35.0%</b>	<b>35.5%</b>
QoQ Change (bps)	0	0	0	0	0	0
YoY Change (bps)	129	33	113	133	167	0
<b>Net Effective Rental Rate (AUD/sqm)</b>	<b>\$578</b>	<b>\$486</b>	<b>\$459</b>	<b>\$457</b>	<b>\$541</b>	<b>\$457</b>
% QoQ	0.4%	0.8%	0.4%	0.3%	0.0%	0.0%
% YoY	2.1%	3.5%	6.2%	4.7%	12.3%	0.0%

Source: CBRE Research, Q2 2023.

## SYDNEY METRO Rental Rate & Incentives Snapshot

Figure #3: Sydney Metro Office Rental Rates and Incentives by Submarket

PRIME	NORTH SYDNEY	CROWS NEST/ ST LEONARDS	CHATSWOOD	MACQUARIE PARK	PARRAMATTA	CITY FRINGE	SOUTH SYDNEY
<b>Gross Rental Rate (AUD/sqm)</b>	<b>\$1,123</b>	<b>\$806</b>	<b>\$728</b>	<b>\$541</b>	<b>\$701</b>	<b>\$922</b>	<b>\$640</b>
% QoQ	2.6%	1.3%	0.0%	0.3%	-0.4%	1.4%	0.0%
% YoY	6.3%	1.7%	0.2%	0.5%	-0.3%	1.4%	2.9%
<b>Net Face Rental Rate (AUD/sqm)</b>	<b>\$978</b>	<b>\$684</b>	<b>\$613</b>	<b>\$441</b>	<b>\$580</b>	<b>\$770</b>	<b>\$530</b>
% QoQ	3.0%	0.3%	0.0%	0.3%	-0.5%	1.5%	0.0%
% YoY	7.4%	1.7%	0.2%	0.7%	-0.5%	1.5%	3.7%
<b>Incentives</b>	<b>34.9%</b>	<b>37.5%</b>	<b>38.3%</b>	<b>33.0%</b>	<b>43.1%</b>	<b>27.2%</b>	<b>20.5%</b>
QoQ Change (bps)	37	0	250	0	73	31	0
YoY Change (bps)	12	-50	250	262	558	119	-155
<b>Net Effective Rental Rate (AUD/sqm)</b>	<b>\$587</b>	<b>\$381</b>	<b>\$334</b>	<b>\$295</b>	<b>\$330</b>	<b>\$520</b>	<b>\$399</b>
% QoQ	2.5%	-0.5%	-5.2%	0.3%	-1.7%	0.9%	0.0%
% YoY	7.8%	2.7%	-5.0%	-3.1%	-9.4%	-0.6%	6.6%
SECONDARY	NORTH SYDNEY	CROWS NEST/ ST LEONARDS	CHATSWOOD	MACQUARIE PARK	PARRAMATTA	CITY FRINGE	SOUTH SYDNEY
<b>Gross Rental Rate (AUD/sqm)</b>	<b>\$868</b>	<b>\$669</b>	<b>\$558</b>	<b>\$508</b>	<b>\$623</b>	<b>\$768</b>	<b>\$476</b>
% QoQ	0.4%	0.0%	0.0%	1.8%	-0.3%	0.0%	0.0%
% YoY	1.8%	0.6%	0.0%	3.0%	0.7%	0.0%	4.0%
<b>Net Face Rental Rate (AUD/sqm)</b>	<b>\$726</b>	<b>\$528</b>	<b>\$439</b>	<b>\$402</b>	<b>\$492</b>	<b>\$650</b>	<b>\$381</b>
% QoQ	0.5%	0.0%	0.0%	2.2%	-0.4%	0.0%	0.0%
% YoY	2.1%	0.7%	0.0%	3.9%	0.2%	0.0%	5.2%
<b>Incentives</b>	<b>36.0%</b>	<b>36.6%</b>	<b>38.0%</b>	<b>35.0%</b>	<b>41.6%</b>	<b>31.7%</b>	<b>18.0%</b>
QoQ Change (bps)	83	0	300	42	157	500	0
YoY Change (bps)	100	0	300	200	157	467	-500
<b>Net Effective Rental Rate (AUD/sqm)</b>	<b>\$414</b>	<b>\$283</b>	<b>\$227</b>	<b>\$261</b>	<b>\$288</b>	<b>\$407</b>	<b>\$296</b>
% QoQ	-1.2%	0.0%	-6.9%	1.6%	-3.0%	-8.6%	0.0%
% YoY	0.3%	0.8%	-6.9%	0.8%	-2.4%	-8.1%	14.9%

Source: CBRE Research, Q2 2023.

## Contacts

### Research



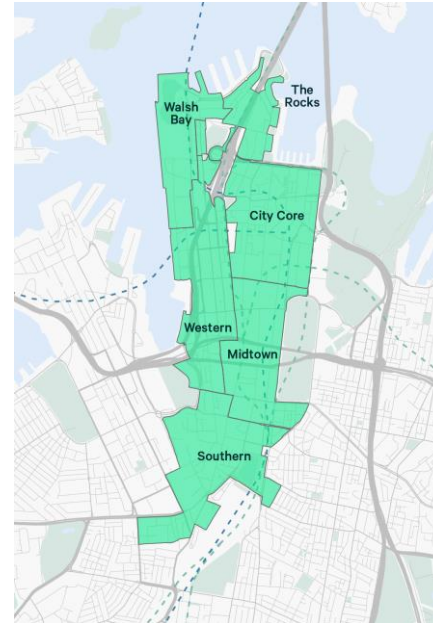
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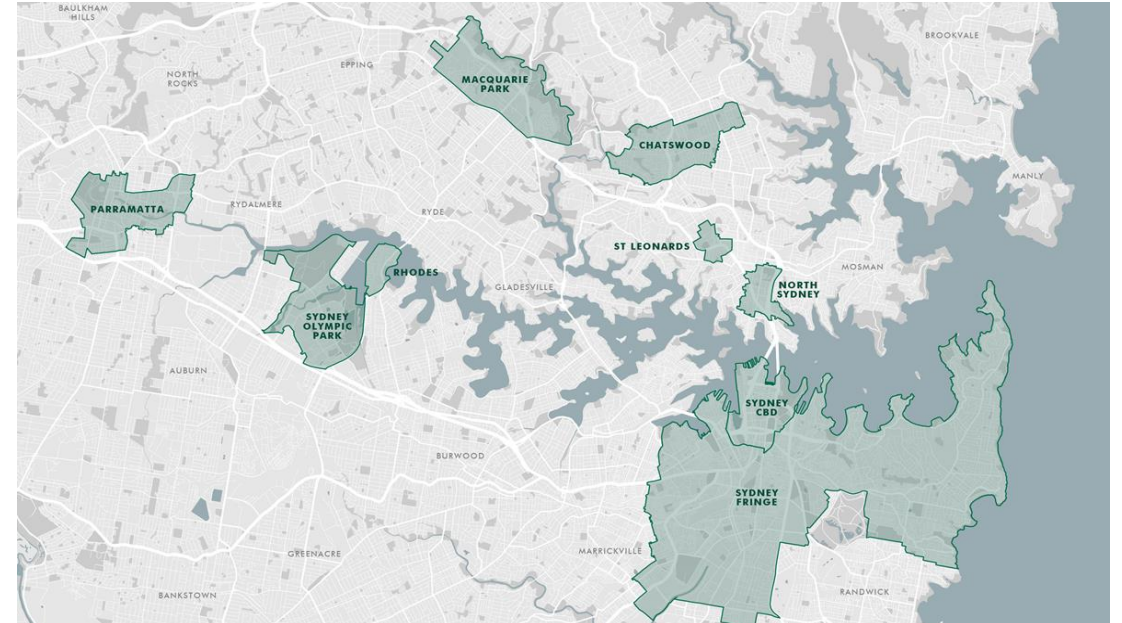
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## Office Submarket & Precinct Maps

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### Sydney Metro



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