

FIGURES | AUSTRALIAN OFFICE | Q1 2024

# Rents stable or growing in all CBD markets

▲ 5.9% y/y  
AUS Average Prime NFR

▲ 2.7% y/y  
AUS Average Prime NER

▶ 40.2%  
AUS Average Prime Incentives

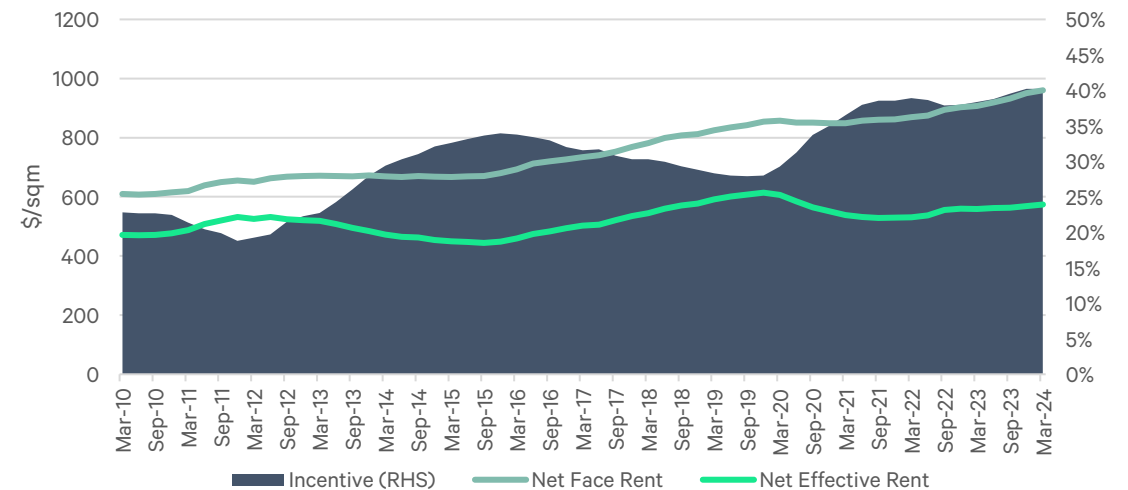
▶ \$1.2b  
AUS Sales Volumes Q1 24

Note: Arrows indicate change from previous quarter.

## Key Points

- Labour market has started to cool with job ads down 14.9% y-o-y in March 2024.
- National rental growth sitting at 2.7% y-o-y (effective rent), driven by markets like Brisbane, Perth and Sydney.
- Incentives are showing signs of falling in stronger markets and have stabilised in other cities.
- CBD vacancy trended higher over the past 12 months to 13.7%. National vacancy is expected to peak in 2024.
- Investment market remains subdued with \$1.2b worth of transactions in Q1.
- The degree of yield softening is starting to slow off the back of more certainty on interest rates and recent deal evidence in some markets. Yields are expected to stabilise in 2024.

FIGURE 1: Australia CBD Prime Office Rents and Incentives



Source: CBRE Research

## Rents and Incentives

### All markets reflecting stable or positive face rental growth in Q1

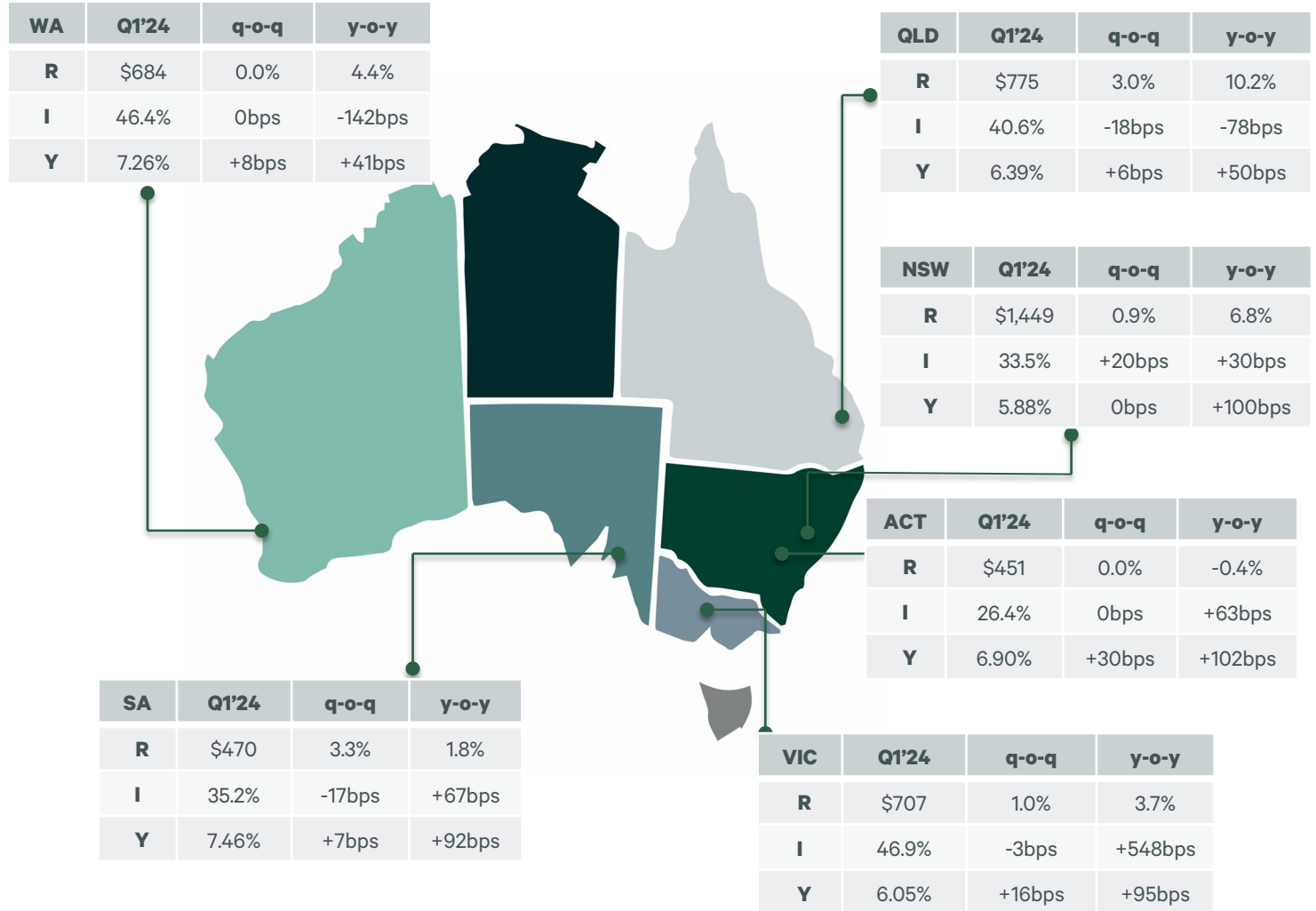
Net face rental growth across Australian CBD's averaged 1.1% q-o-q in Q1 2024, with no market recording negative growth. Brisbane remains the outperformer in Australia with 3.0% NFR growth in Q1 and 10.2% over the past 12 months. Markets that have been weaker over the past few years like Melbourne and Adelaide are starting to observe a stabilisation with some solid face rental growth in Q1. The Sydney CBD is also performing well, particularly in the Core precinct where vacancy has tightened.

### Downward pressure on incentives

Given the higher cost of capital, landlords are scrutinising incentive levels more than in previous years. There is some evidence of incentive levels dropping in markets like Brisbane, where landlords have more leverage given the tighter vacancy environment. However, markets like Melbourne and Adelaide are observing a degree of stabilisation, while incentives are dropping in some of the best assets in each of the respective markets.

Net effective rental growth was strongest in Brisbane in Q1 at 4.0% q-o-q, resulting in 14.0% growth y-o-y. Perth has also performed well over the past 12 months, with effective rental growth of 7.3% y-o-y, although vacancy in that market is expected to rise this year, which might limit further growth.

FIGURE 2: Australia CBD Prime Office Key Market Indicators



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

## Demand and Vacancy

### Negative absorption across most markets, although a few anomalies in the numbers

Australian CBD's recorded -201,300 sqm of net absorption in H2 2023, bringing the full year to -216,500 sqm. Despite the negative result, this was partly an anomaly given the boundaries of the Perth CBD were redrawn which meant a decline in occupied stock (negative absorption) of 79,000 sqm. However, the continuation of contractionary activity did occur in the Sydney CBD and Melbourne CBD. Brisbane also recorded -12,700 sqm of net absorption, although this was partly due to an owner occupier withdrawal of stock for refurbishment.

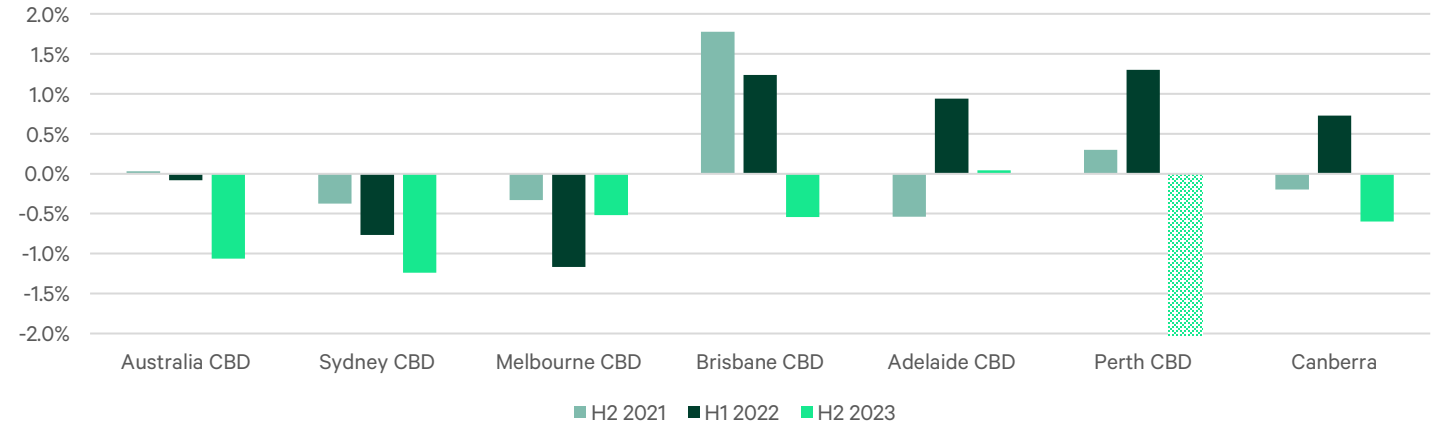
Non-CBD markets actually bucked the trend with +17,300 sqm of net absorption in H2 2023. The Brisbane Near City was the biggest contributor with +38,900 sqm of net tenant demand.

### Vacancy rises across most markets

Overall CBD vacancy edged higher to 13.5% in December 2023, up from 12.6% a year earlier. The Sydney CBD observed a similar increase in vacancy over the past 12 months, rising from 11.3% to 12.2%. Melbourne's vacancy has also continued to trend up reaching 16.4%, while Adelaide's vacancy rose to 19.3% off the back of elevated supply.

On a positive note, Brisbane, Perth and Canberra have all recorded a decline in vacancy over the past 12 months, off the back of solid tenant demand and relatively limited supply.

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



Source: PCA, CBRE Research

Note: The negative absorption in Perth was largely a function of changing boundaries in that market, therefore withdrawing buildings from the basket leading to negative absorption.

Figure 4: Total Vacancy



Source: PCA, CBRE Research

## Supply

### Supply to pick up in 2024

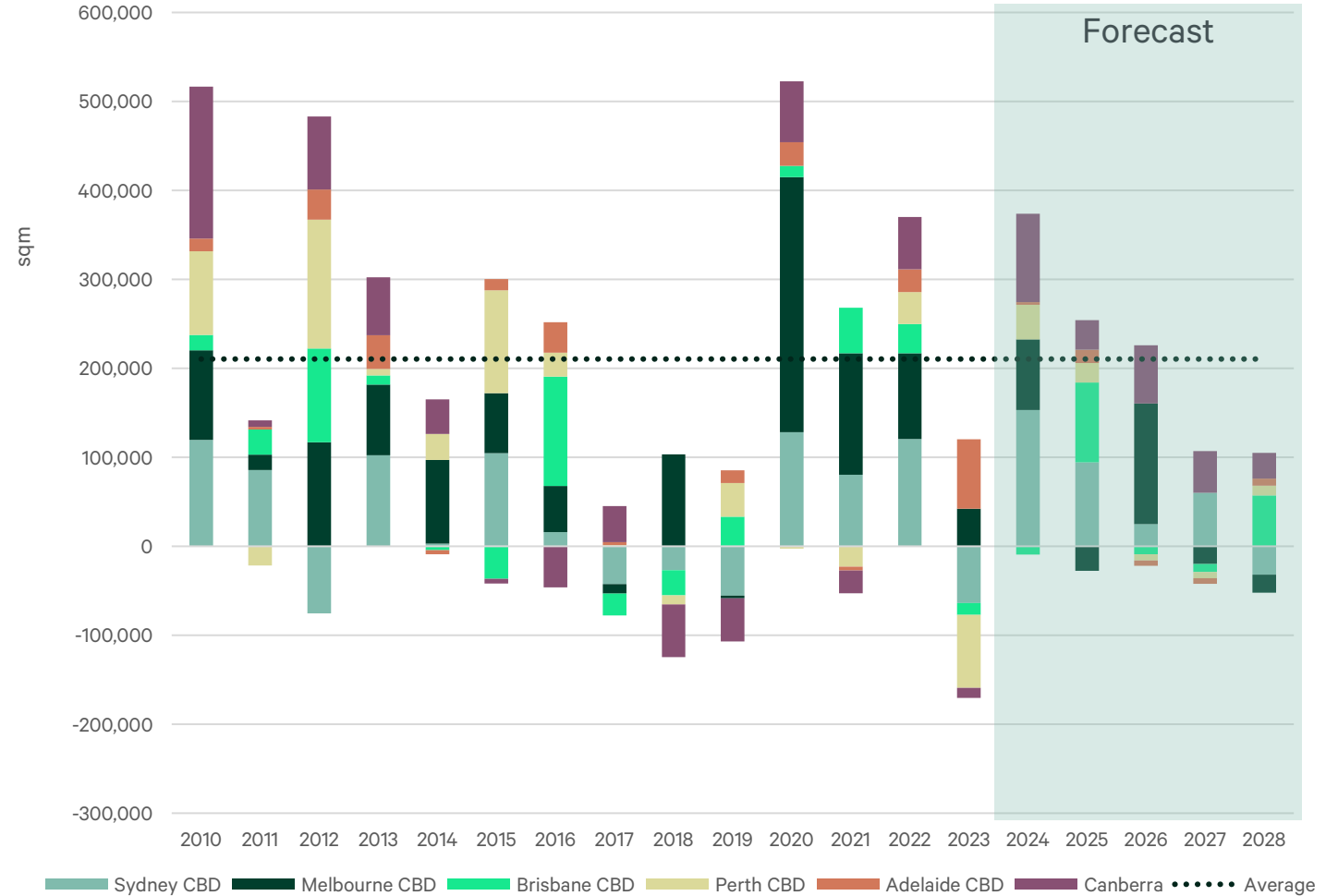
Office supply in 2023 was relatively in check with an uptick in withdrawals across the market and only Melbourne and Adelaide recording positive net supply for the year.

However, 2024 is expected to see an uptick in supply, particularly Sydney, Melbourne and Canberra. The major over-station developments in the Sydney CBD including 1 Elizabeth Street (75,000 sqm), Parkline Place (48,000 sqm) and 39 Martin Place (30,000 sqm) are all set to be delivered this year with healthy pre-commitment levels. In Melbourne, the major project to be delivered this year will be Lendlease’s Melbourne Quarter Tower.

### Construction costs and cap rates impacting on supply from 2027 onwards

Despite the uptick in supply this year, there has been a general trend across Australia for mooted supply to be abandoned or postponed given the current construction cost environment and uncertainty on valuations of office assets. Therefore, supply is expected to trend down from 2025 onwards, with 2027 and 2028 likely to be around half the long-term average supply for Australia.

Figure 5: Australian CBD Net Supply



Source: CBRE Research

## Hot Topic

### Is it time to buy Office?

The valuation declines in the office sector have been well reported across the globe. Australia has not been immune from these impacts as rising interest rates and structural questions on the sector have impacted on values over the past 18 months.

However, the yield softening cycle appears to be starting to stabilise given interest rates are likely to have peaked and the market is pricing in rate cuts by the end of 2024 in Australia. Also, rental growth is very healthy in the best performing markets and precincts, while the weaker markets are seeing some stabilisation. This combination of factors is causing capital values to stabilise, as shown in figure 6. The chart highlights that average capital values are sitting well below the long-term trendline, which hasn't occurred since mid-2017.

As shown in figure 7, capitalisation rates are starting to show genuine value compared to historic averages. All CBD markets in Australia have seen prime yields soften over 100 bps from peak pricing. All markets also sit between 40-90 bps above 10-year average yields.

Figure 6: Australian CBD – Prime Capital Value Index

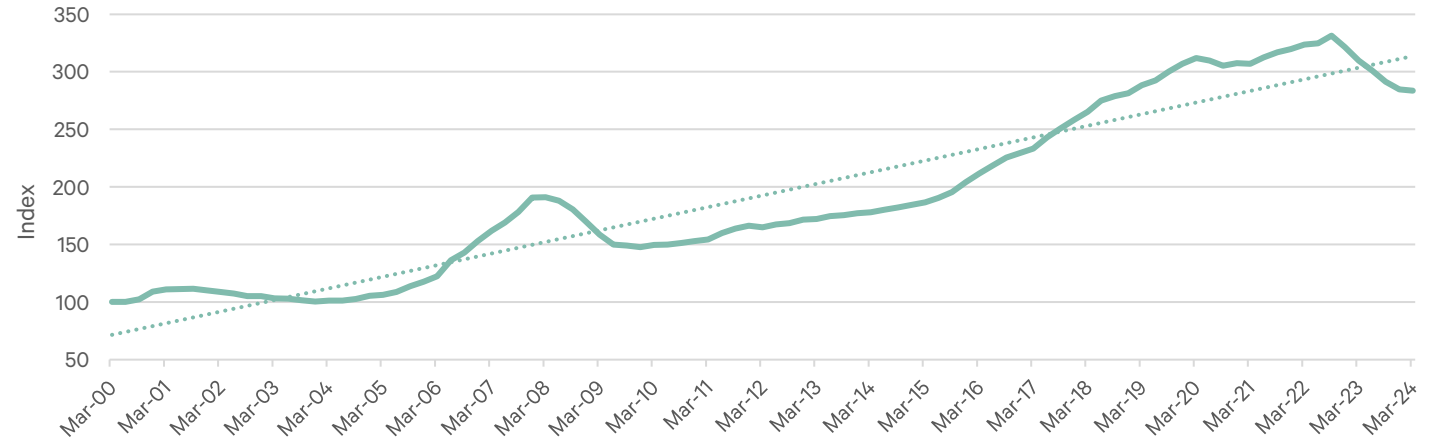
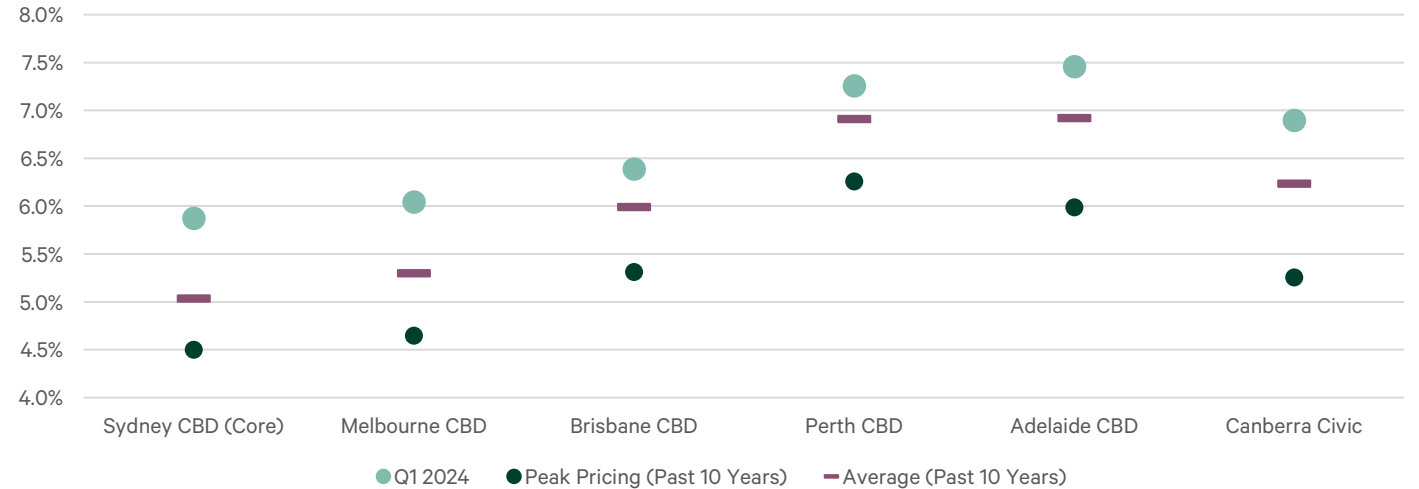


Figure 7: Indicative Prime Cap Rates – Q1 24 vs 10 Year Average and Peak



Source: CBRE Research

## Investment Market

Transaction volumes in Q1 2024 reached \$1.16 billion across Australia, a 21% increase on the same period in 2023. However, this remains well below historic averages, highlighting that capital markets remains subdued. While pricing has come off with relative value compared to historic averages, there remains a lack of conviction amongst buyers and vendors which is causing the current stagnation in the market.

Sydney remains a key target for investors with another major transaction occurring in the CBD in Q1. Keppel REIT acquired a 50% stake in 255 George Street for \$364m. The asset was purchased from Mirvac’s Wholesale Office Fund at a reported 17% discount to peak valuation. This was the only sale to occur around the country over \$100m during the quarter.

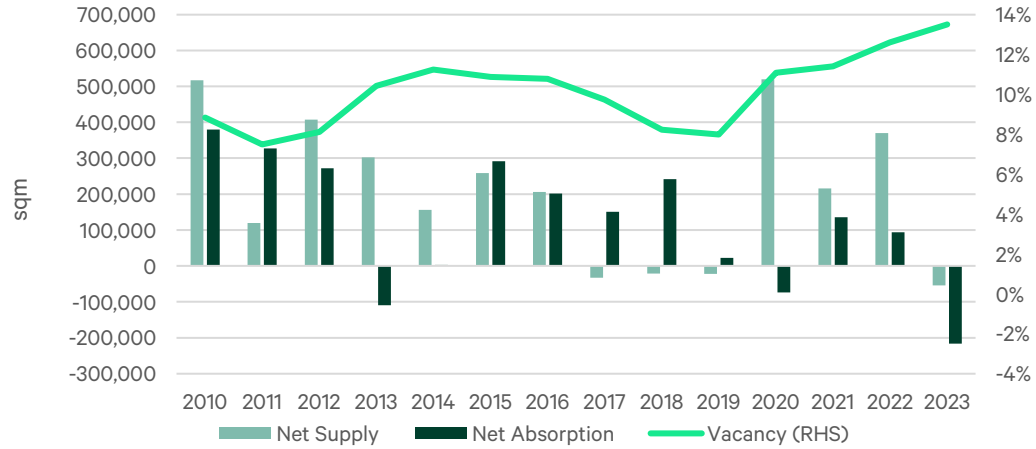
Australian CBD yields softened by 10 bps in Q1 2024 to average 6.20%. The degree of softening is starting to slow, with CBRE Research recording +27 bps in Q3 2023 and +25 bps in Q4 2023. We expect that yields in most markets will stabilise in H2 2024 as more transactional evidence occurs and investors are more willing to enter the market.

Figure 8: Australia Office Investment Volumes



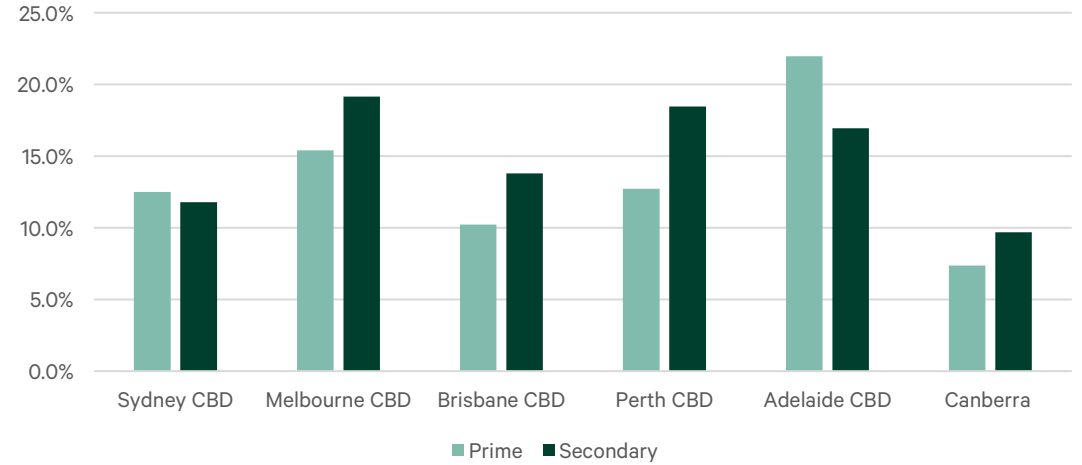
Source: CBRE Research

FIGURE 9: Australian CBD Market Balance



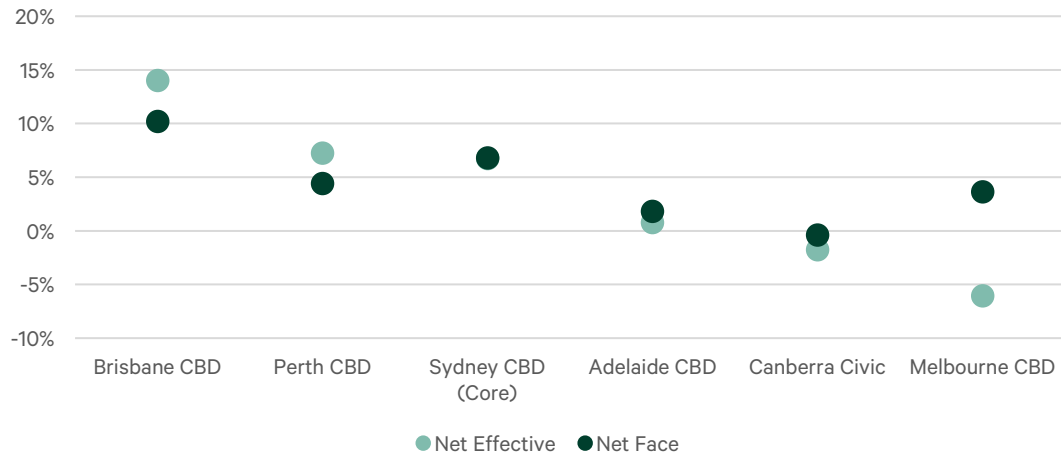
Source: PCA, CBRE Research

FIGURE 10: Vacancy by Grade across CBD Markets



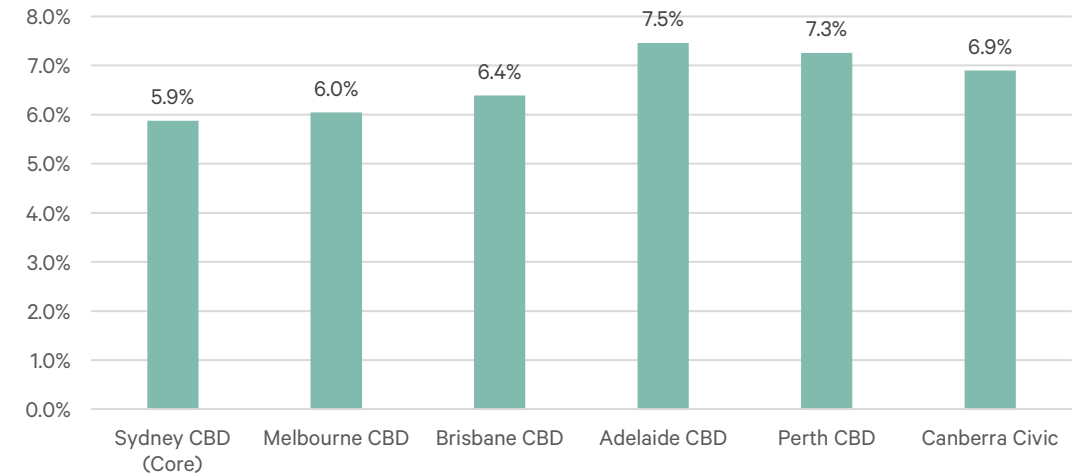
Source: PCA, CBRE Research

FIGURE 11: Q1 2024 Rental Growth by Market (Y-O-Y)



Source: CBRE Research

FIGURE 12: Prime Yields – Q1 2024



Source: CBRE Research

TABLE 1: Australia Non-CBD Prime Office Key Indicators, Q1 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           | ▼      | \$993 ►                      | 35.4% ▲                   | \$589 ▼                           | 6.50% ►              |
| Parramatta             | ►      | \$583 ▲                      | 46.3% ▲                   | \$313 ▼                           | 7.29% ►              |
| Macquarie Park         | ▼      | \$442 ▲                      | 34.2% ►                   | \$291 ►                           | 7.54% ►              |
| Chatswood              | ▼      | \$653 ►                      | 38.8% ►                   | \$354 ►                           | 7.67% ►              |
| Crows Nest/St Leonards | ▼      | \$690 ►                      | 39.2% ▲                   | \$372 ▼                           | 7.27% ►              |
| Southbank              | ▲      | \$641 ►                      | 43.8% ▲                   | \$361 ▼                           | 7.06% ►              |
| St Kilda Road          | ▼      | \$463 ►                      | 48.8% ▲                   | \$237 ▼                           | 7.78% ▲              |
| Brisbane Near City     | ▲      | \$599 ▲                      | 41.1% ▼                   | \$302 ▲                           | 7.26% ►              |
| West Perth             | ►      | \$406 ▲                      | 36.3% ▼                   | \$259 ▲                           | 7.78% ▲              |
| Canberra Non-CIVIC     | ►      | \$410 ►                      | 25.4% ►                   | \$285 ►                           | 6.98% ▲              |

Note: Arrow indicates change from previous quarter. Source: CBRE Research

TABLE 2: Australia Major Office Sales, Q1 2024

| Address         | Market       | Sale Date | Sale Price (\$m) | Purchaser             | Vendor                                 | Proportion Sales |
|-----------------|--------------|-----------|------------------|-----------------------|--|------------------|
| 255 George St   | Sydney       | Mar-24    | 363.8            | Keppel REIT           | Mirvac                                 | 50%              |
| 124 Walker St   | North Sydney | Jan-24    | 95.5             | Ho Group              | Dexus Wholesale Property Fund          | 100%             |
| 965 Bourke St   | Waterloo     | Jan-24    | 87.0             | Cambridge RE Partners | Growthpoint (AUS), SC Capital Partners | 100%             |
| 40 Tank Street  | Brisbane     | Jan-24    | 73.0             | Alceon                | Charter Hall                           | 100%             |
| 499-501 Kent St | Sydney       | Feb-24    | 66.3             | ICON Oceania          | Element Property Sydney Pty Ltd        | 100%             |
| 358 Lonsdale St | Melbourne    | Feb-24    | 56.0             | Undisclosed           | Krongold Family                        | 100%             |
| 309 North Quay  | Brisbane     | Mar-24    | 46.0             | Shayher Group         | QuadReal, Charter Hall                 | 100%             |

Source: CBRE Research

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