

Intelligent Investment

Resilience in Melbourne's Metro Office Market

REPORT

Vacancy and
demand
fundamentals across
Melbourne's Metro
office market

CBRE Research
April 2024





Key Takeaways

1

Competitive Vacancy

Vacancy in the City Fringe and Inner East is estimated at **16.2%** and **13.9%**, respectively.

2

Limited supply, strong leasing activity

Supply levels are subdued across the metro market, with **strong leasing** levels in recently completed backfill stock.

3

Demand high for small, fitted spaces

Occupier demand levels in the metro market are highest for **<1000sqm and fitted spaces**.

4

High overlap between CBD and fringe enquiries

Occupiers seeking CBD space are increasingly considering Fringe Options, with **45% of CBD enquiries also willing to occupy Fringe space**.

5

Rent increases and vacancy declines expected

Strong demand from Macroeconomic factors and limited Premium supply is expected to **improve fundamentals across premium metro office assets**.

Resilience in Melbourne's metro as vacancy levels are lower than CBD markets

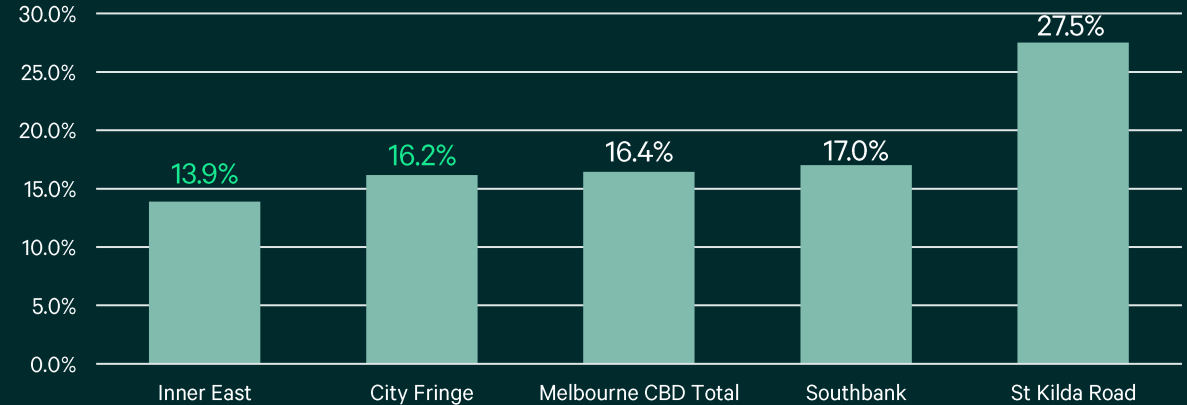
CBRE Research conducted a detailed analysis of over 330 office buildings across Melbourne's City Fringe and Inner East precincts.

Our findings indicate the overall vacancy in the City Fringe and Inner East remain subdued at **16.2%** and **13.9%** respectively.

Melbourne's metro market has shown **signs of resilience** despite the headwinds experienced across Melbourne's office market. CBRE Research Vacancy levels are currently below that of the CBD and other major fringe locations of Southbank and St Kilda Road.

Our findings highlight that leasing demand remains healthy in these precincts, driven by **affordability and strong amenity offerings**.

Figure 1: Vacancy by precinct



Source: CBRE Research, PCA

Figure 2: Office stock (NLA) by precinct



City Fringe: **c1.2m sqm**



Inner East: **c.600k sqm**

Source: CBRE Research

Vacancy differentials driven by bifurcated fundamentals between metro suburbs

Across Melbourne's metro market, vacancy rates differ largely based on localised fundamentals within precincts. CBRE Research believes vacancy differentials are based primarily on supply differentials between suburbs.

Figure 3: Vacancy breakdown by key suburbs and precinct

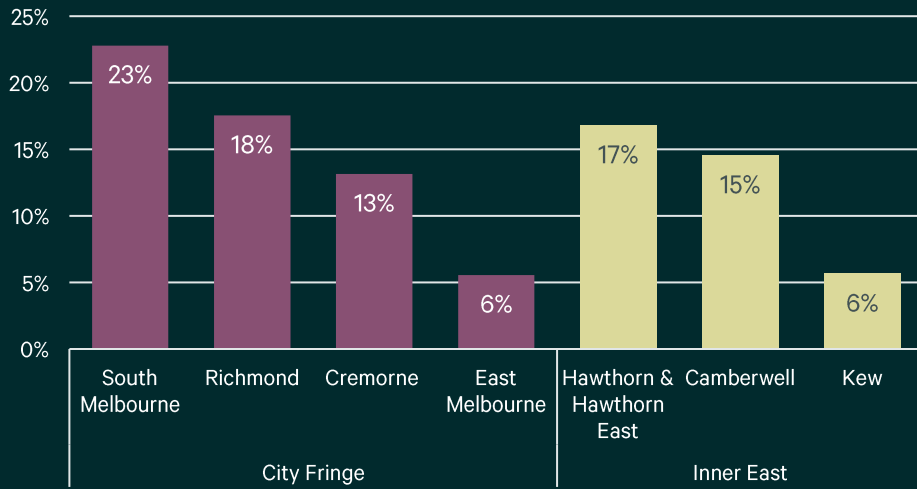
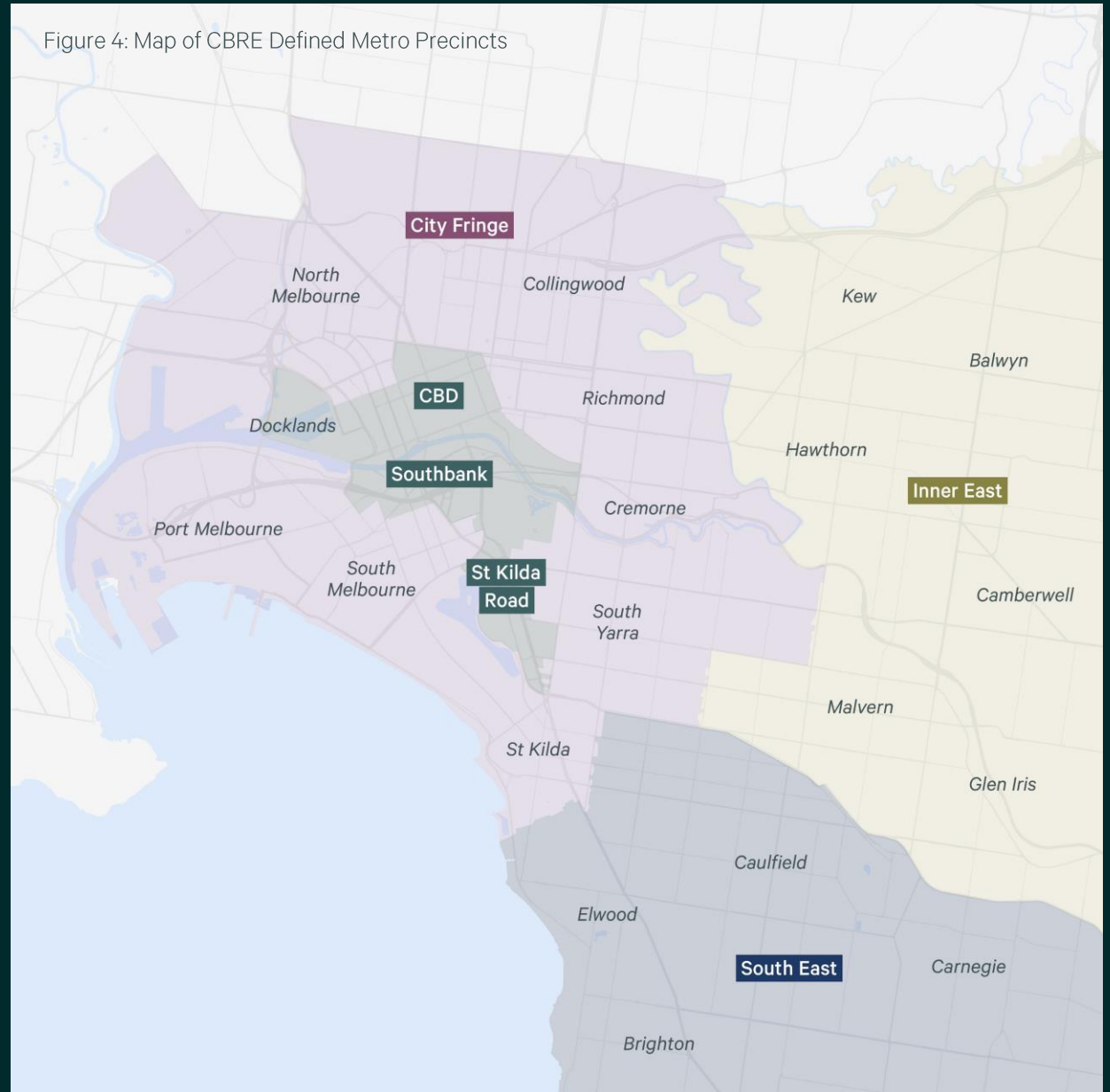


Figure 4: Map of CBRE Defined Metro Precincts

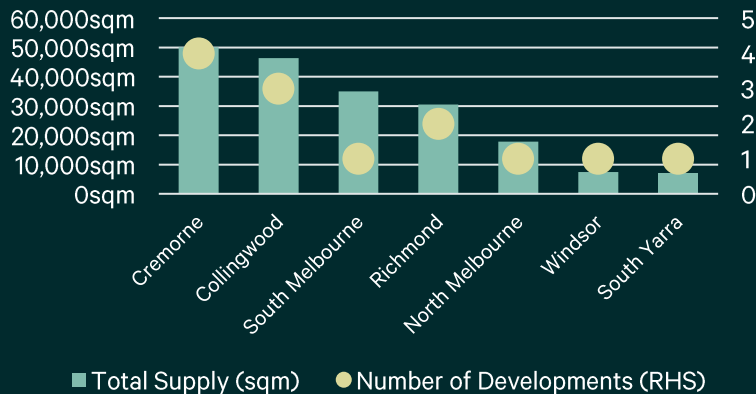


Premium fringe completions see significant leasing activity

CBRE Research estimates there is 195,000 sqm of major office developments currently anticipated across the City Fringe. This represents a 15.5% increase in supply based on current stock levels.

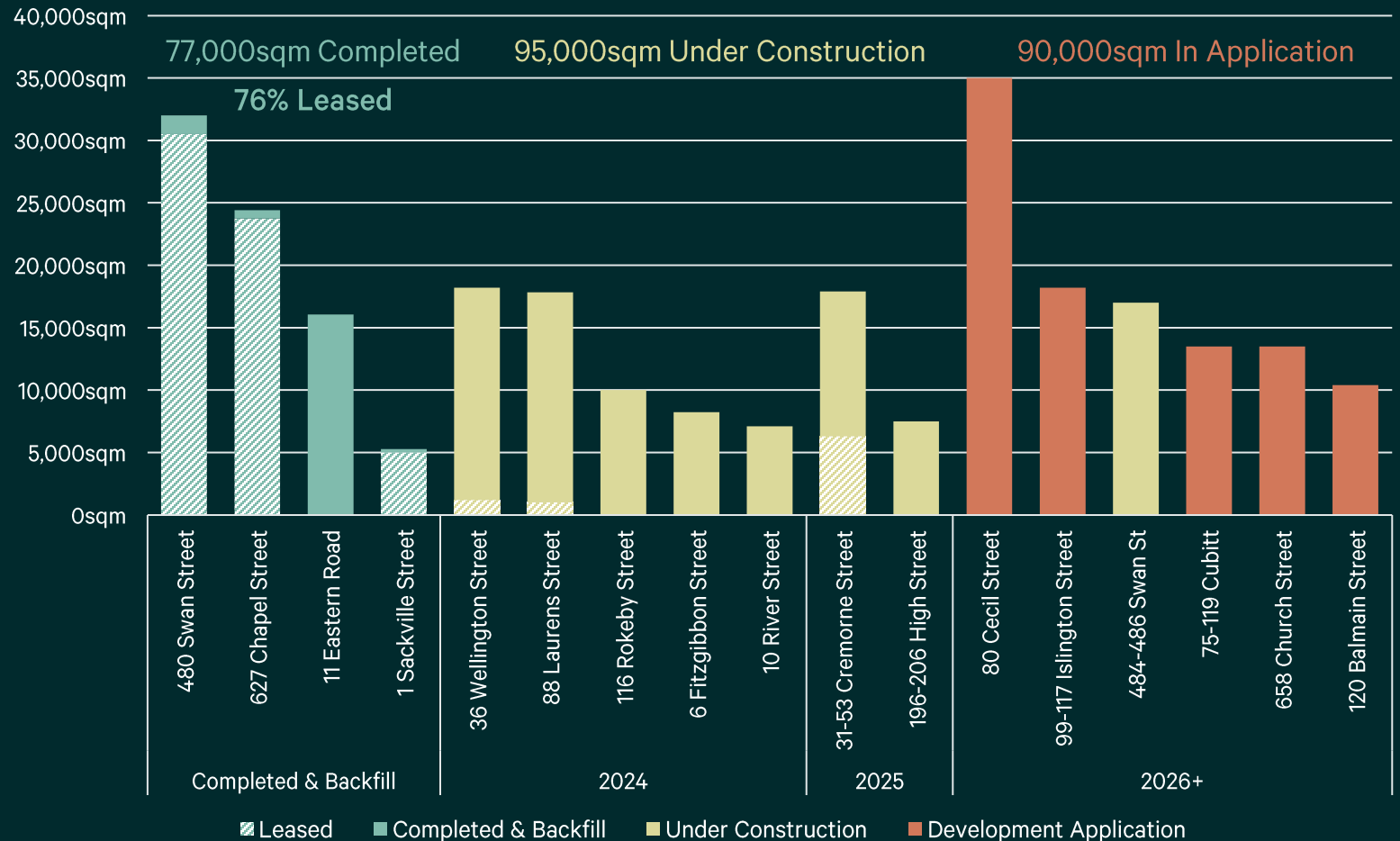
Despite significant supply coming online, existing developments have seen significant leasing activity, averaging 76% leased across recently completed office developments. Occupier Interest remains high for premium space offerings available in the City Fringe.

Figure 7: Major Future City Fringe Office Supply by Suburb



Source: CBRE Research

Figure 6: Major City Fringe developments, historical and future



Source: CBRE Research

Limited major developments anticipated in Melbourne's Inner East

Supply in Melbourne's Inner East remains subdued. With only four major developments currently in the supply pipeline totalling 35,000sqm.

Occupiers seeking new and premium offerings in Melbourne's Inner East will have limited options in the next few years.

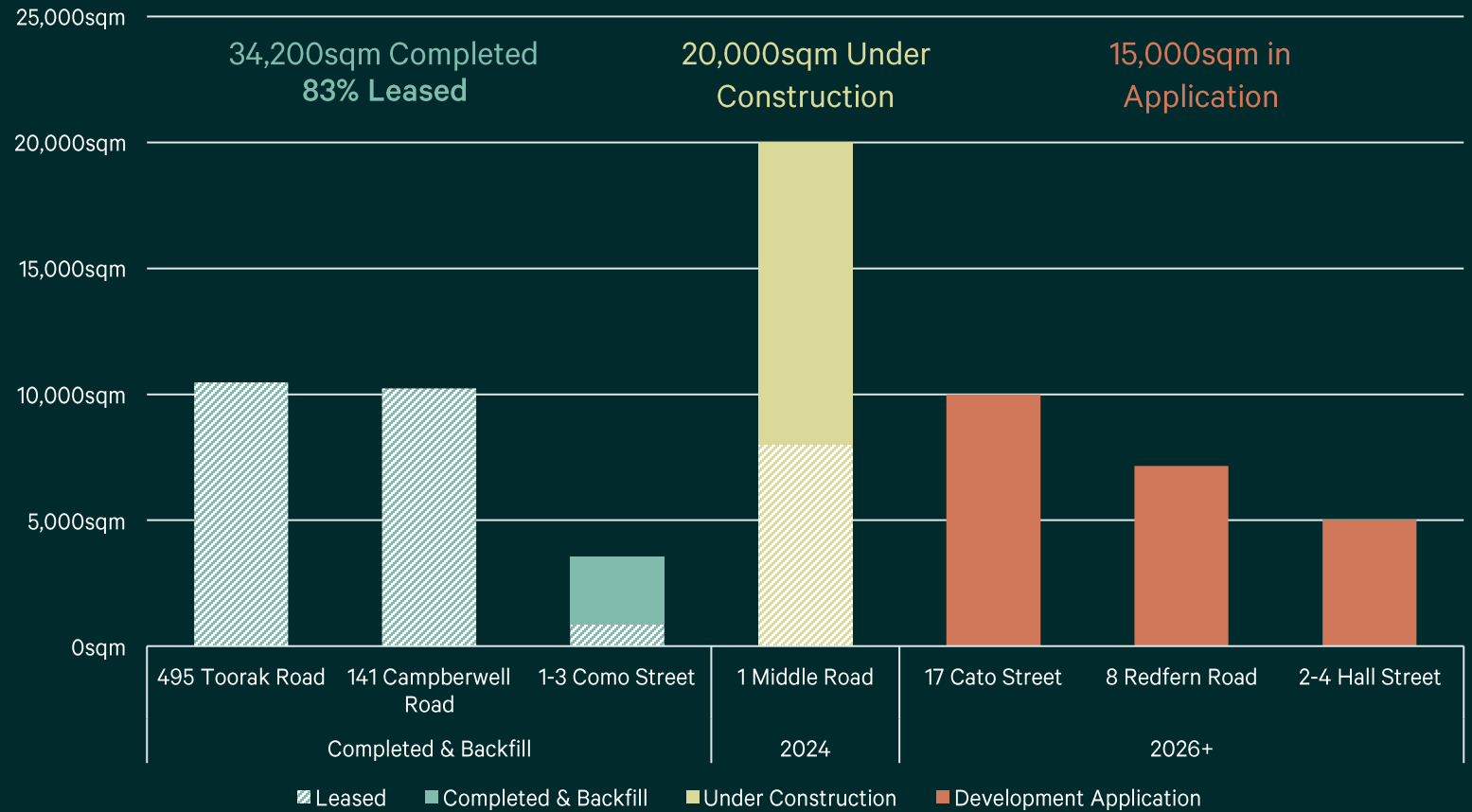
This has already been evidenced by leasing activity in major backfill stock, with 83% of space recently completed already leased.



83%

Pre-commitment level of major backfill Inner East stock.

Figure 8: Major Inner East developments, historical and future



Source: CBRE Research


Figure 9: Key metro supply statistics



101,200sqm
In recent major office completions
at a
80%
average leased rate



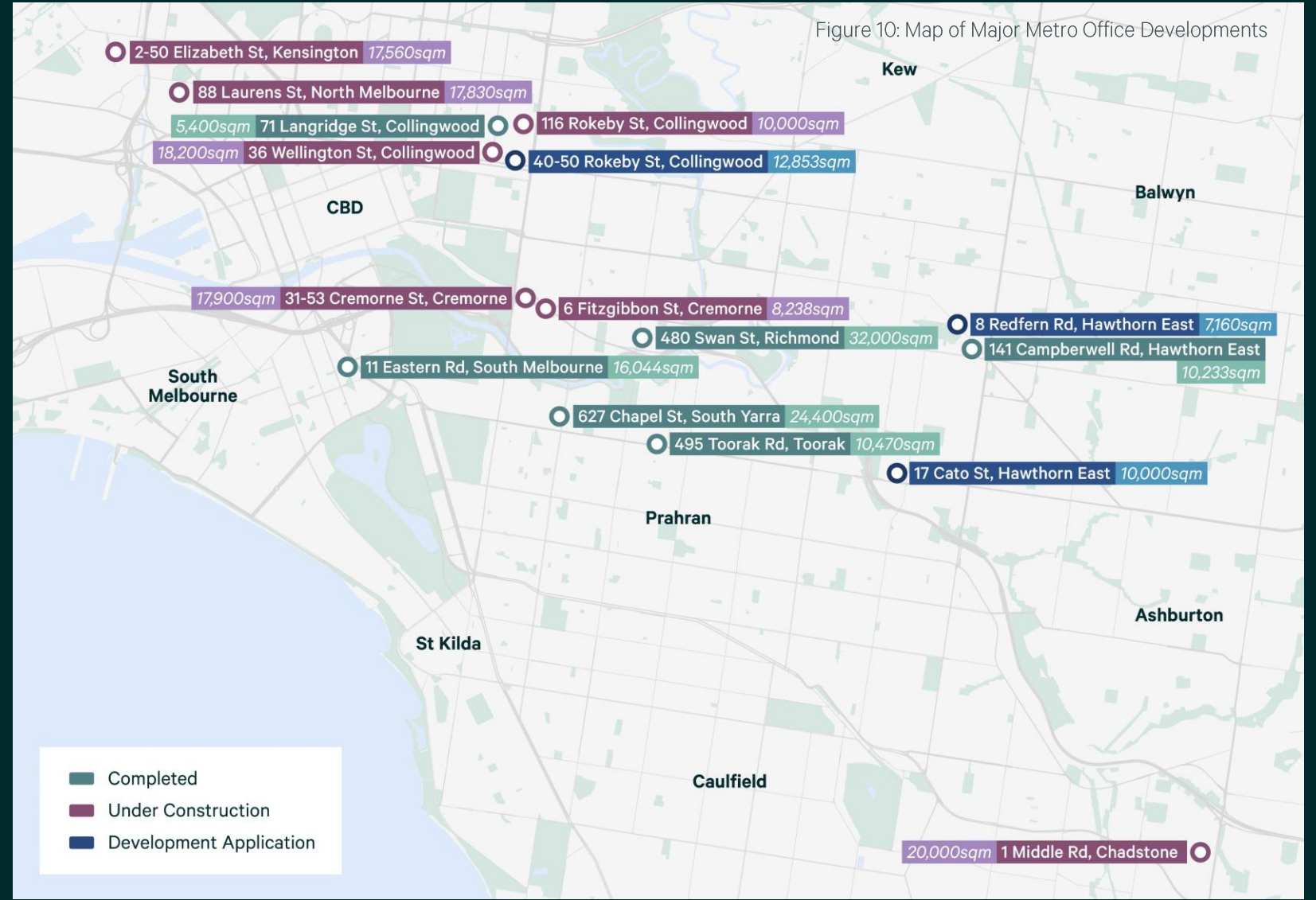
115,000sqm
In major office developments
under construction



105,000sqm
In major office developments in
planning

Source: CBRE Research

Figure 10: Map of Major Metro Office Developments



Melbourne's future of work has shifted leasing demand preferences

Sluggish Return-to-Work

Australia has not been immune to the prolonged impacts of post-lockdown return-to-work.

Melbourne is no exception, with both CBD and metro markets feeling the impact.

Despite lagging other major markets, Melbourne is in a unique position with **additional upside potential** associated with an increase in demand from a return to **equilibrium occupancy**.

CBRE Research expects we'll **achieve equilibrium occupancy by H1 2025**.

Flight-to-Quality

With occupancy levels low, and landlords struggling to convince workers to return to the office, **tenant demand has increased significantly in prime grade and new stock** across the City Fringe and Inner East.

These assets have a stronger focus on **amenity, location and environment** with higher asking rents to compensate.

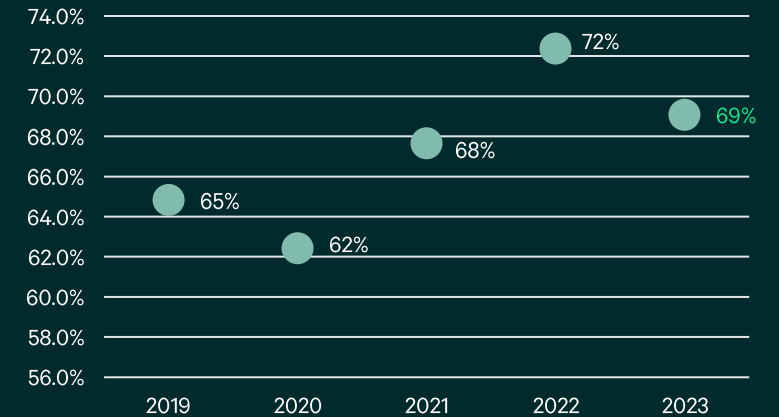
Smaller, Fitted Leases

Given the higher rents paid for new and higher quality existing stock, most **larger tenants have consolidated space requirements** to remain cost efficient.

Tenants across all size brackets have shifted preference towards **fitted spaces**.

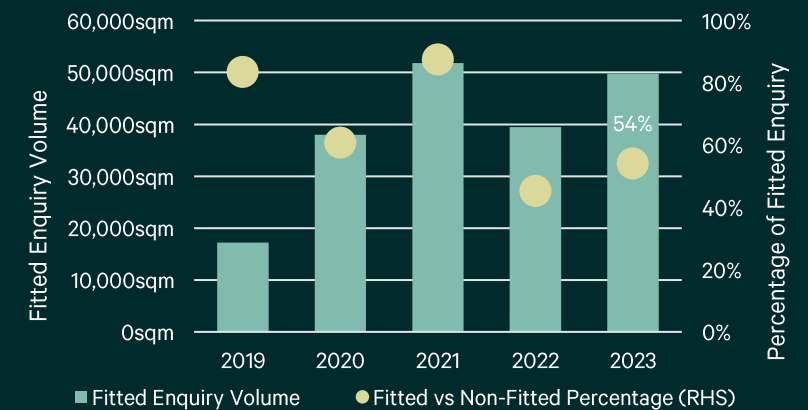
As a result, both the **City Fringe and Inner East** are seeing the most leasing activity in the **<1,000sqm fitted space market**. Most new and existing developments have begun to cater to this emerging sub-market.

Figure 11: Percentage of <1000sqm enquiries in City Fringe & Inner East



Source: CBRE Research

Figure 12: Fitted enquiry volume and percentage in Fringe & Inner East



Source: CBRE Research

City Fringe desirability increases among CBD focused tenants

CBRE Research data suggests a **significant overlap in demand exists between CBD and Fringe tenants**. Over 2023, 45% of CBD enquiries also included a preference for Fringe locations. This overlap has been trending upwards since 2019 amidst an improvement in the office offerings available in the precinct.

In Melbourne's Inner East, **enquiry volumes have rapidly increased** over the last four years, with a +27% year-on-year improvement over 2023.

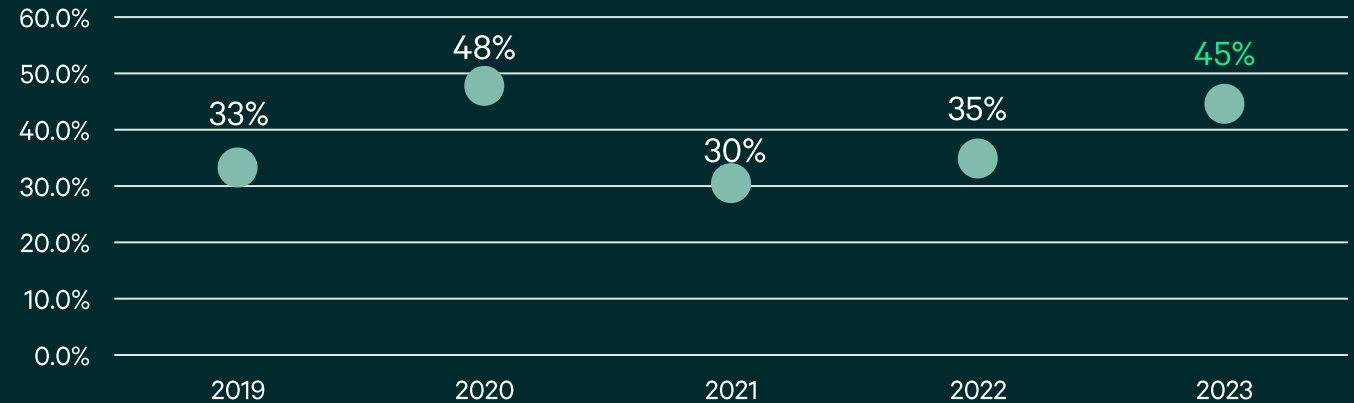
Occupiers interested in the Inner East precinct traditionally were focused solely on Hawthorn. However, occupier interest has grown to encompass both Camberwell and Kew as new developments emerged in these suburbs.



45%

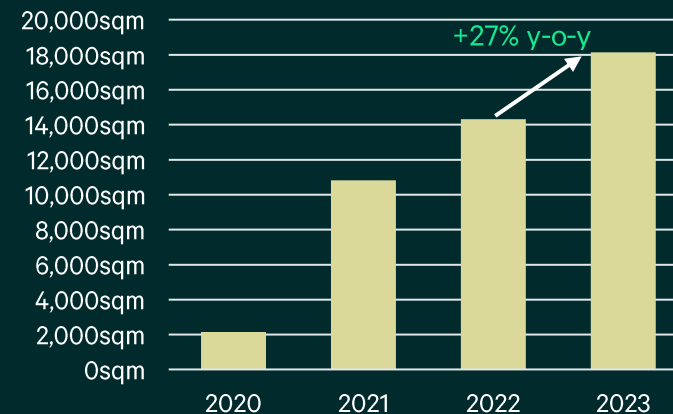
of CBD enquiries in 2023 also included the City Fringe as a preferred location.

Figure 13: Percentage of CBD enquiries that also included City Fringe as a preferred location by year



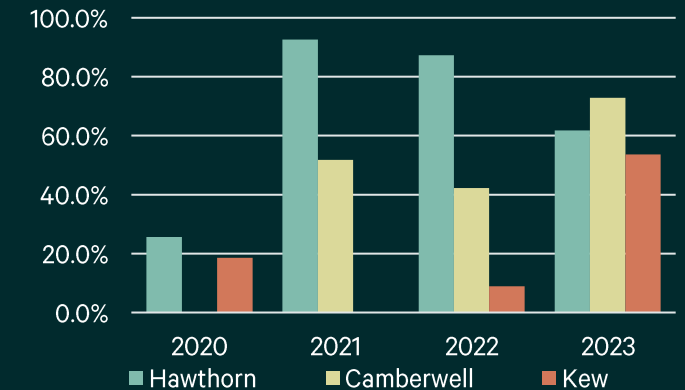
Source: CBRE Research

Figure 14: Inner East leasing enquiry volume by year



Source: CBRE Research

Figure 15: Percentage of total enquiry volume by nominated preferred suburb (Multiple Choices Possible)



Source: CBRE Research

Strong macroeconomic factors elevating demand...



Elevated migration levels

CBRE Research expects significant office demand driven by **1.135m in net overseas migration** over FY23-25.

For Melbourne, we estimate c.275,000 in net migrants will add approximately **500,000sqm in migration-related in office demand** across the state.



\$93B infrastructure pipeline

With approximately **\$93 billion** in road & rail infrastructure currently under construction across the state, accessibility to Metro Locations will increase over the decade.

CBRE Research expects accessibility increases to **improve office demand** through **encouraging relocation decisions for non-metro tenants**.

...With a limited supply pipeline & high local amenity in key suburbs...



Limited supply anticipated

Future Supply across Metro Melbourne is currently limited. With just over **100,000sqm currently under construction** across the City Fringe and Inner East.

Strong pre-commitment levels in back-fill assets underpin the confidence developers currently have in these precincts.



Unique amenity offerings

Developments across both the City Fringe and Inner East are taking advantage of the **abundance of amenity** on offer in these metro suburbs.

Occupiers are **seeking strong amenity assets and locations to encourage office attendance** in the current future of work environment.

...is expected to decline vacancy & increase rents across the metro.



Declining vacancy

CBRE Research expects **strong leasing activity to continue throughout 2024**, primarily in new and prime assets and locations.

With strong amenity local offerings across all buildings, occupiers are expected to continue to demand space in both precincts as a way to encourage office attendance.

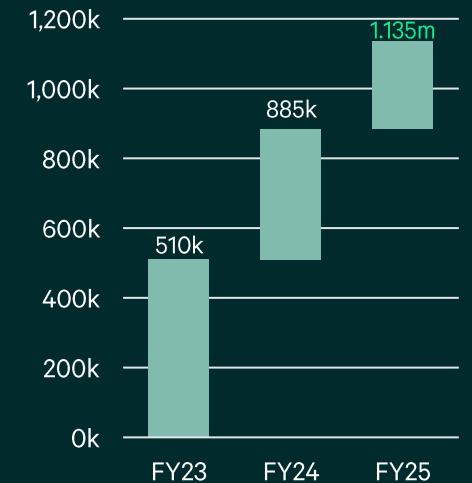


Rising rents

New and premium developments across both precincts are expected to apply **upward pressure on rents** to achieve economic feasibility.

CBRE Research expects existing developments will also benefit, seeing moderate rental growth over the coming years.

Figure 16: Net overseas migration by year



Source: CBRE Research



500,000sqm

In estimated office migration-related demand across Victoria.

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