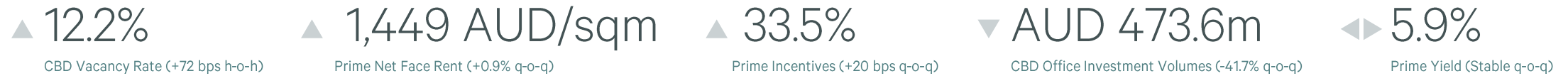


FIGURES | SYDNEY CBD OFFICE | 1Q24

Flight-to-Core continues to drive rental rate growth in Prime stock



Note: Arrows indicate change from previous quarter / half / year.

Key Points

- CBRE received 126 leasing enquiries totaling 120,595 sqm in Q1 2024. This marked a quarter-over-quarter increase of 113.8% by volume. Enquiry volumes over the first quarter were nearly level with the total recorded in Q1 2023, falling short by only 5.3%.
- While no new office supply was delivered over Q1 2024, three new office developments totalling 153,000 sqm will be completed over the remainder of the year.
- Despite continued growth in face rental rates, increases to incentives in several precincts resulted in average net effective rental rates remaining relatively flat in Q1 2024.
- Investment activity remained muted in Q1 2024. Transaction volumes totalled AUD 473.6 million over the period. The bulk of this transaction activity was comprised of the sale of a 50% stake in 255 George Street for AUD 363.8 million
- Cap rates held stable in Q1 2024, the first time since Q3 2022 that yields did not increase.

FIGURE 1a: Sydney CBD Office | Vacancy Rate Summary

Indicator	Jan 2024	Jul 2023	Jan 2023	H-o-H Change	Y-o-Y Change
Vacancy Rate	12.2%	11.5%	11.3%	+72 bps	+92 bps

FIGURE 1b: Sydney CBD Core Office | Summary of Prime Market Indicators

Indicator	1Q24	4Q23	1Q23	Q-o-Q Change	Y-o-Y Change
NFR	AUD 1,449	AUD 1,436	AUD 1,356	+0.9%	+6.8%
Incentives	33.5%	33.3%	33.2%	+20 bps	+30 bps
NER	AUD 880	AUD 875	AUD 825	+0.6%	+6.8%
Yield	5.9%	5.9%	4.9%	Stable	+100 bps

Source: CBRE Research

Office Demand

Enquiry volumes bounce back over first quarter

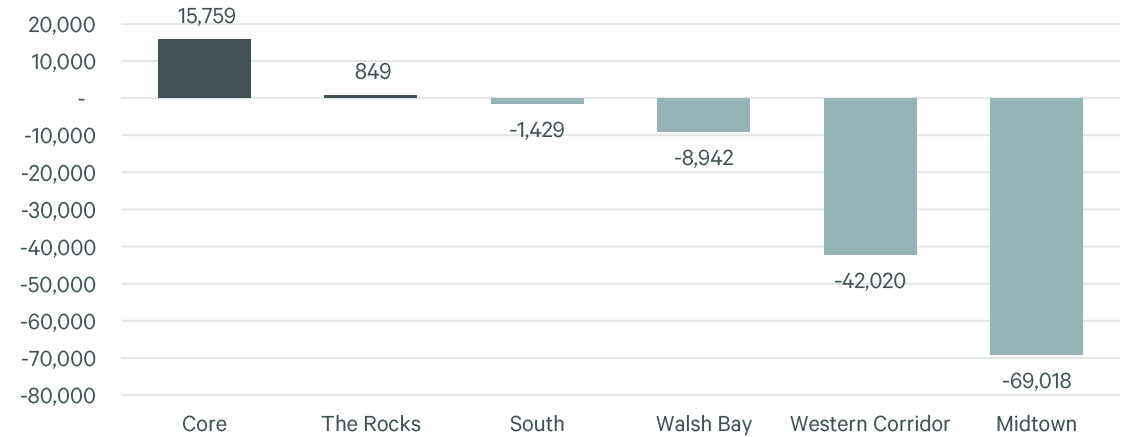
After falling in Q4 2023, Sydney CBD enquiry volumes bounced back over the first quarter of 2024. CBRE received 126 leasing enquiries totaling 120,595 sqm in Q1 2024. This marked a quarter-over-quarter increase of 113.8% by volume. Enquiry volumes over the first quarter were nearly level with the total recorded in Q1 2023, falling short by only 5.3%.

Absorption trends in the Sydney CBD have continued to differ greatly based on geography and building grade. The flight-to-quality trend which had been seen in H1 2023 has narrowed to flight-to-core as occupiers continue to show a preference for higher-grade space in the Core precinct specifically. The Core and The Rocks were the only CBD precincts to record positive net absorption over 2023, posting annual figures of 15,759 sqm and 849 sqm.

The largest drivers of the negative absorption seen in 2023 were a leasing slowdown in the Western Corridor and Midtown precincts and mild increases to sublease levels over the middle portion of the year. Net absorption in the Midtown and Western Core precincts totaled -69,018 sqm and -42,020 sqm over 2023. Vacancy rates in these precincts have increased in recent years as several large occupiers relocated to newer properties in other areas of the CBD. The elevated demand for the Core has meant that properties in these precincts have struggled to attract tenants to backfill vacated space.

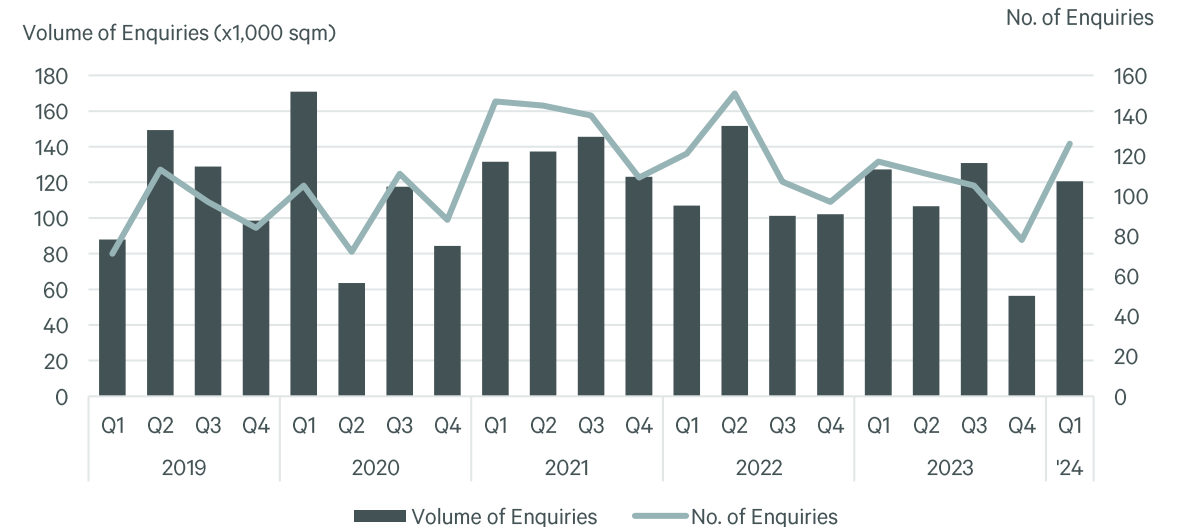
While flight-to-quality is expected to be the primary driver of leasing activity in the CBD over the near term, the expectation is that leasing volumes across all building grades and geographies will accelerate as vacancy rates begin to tighten in the Core.

FIGURE 2: Sydney CBD Office | 12-Month Net Absorption (sqm) by Precinct



Source: CBRE Research, PCA

FIGURE 3: Sydney CBD Office | Tenant Enquiry Levels



Source: CBRE Research

Supply

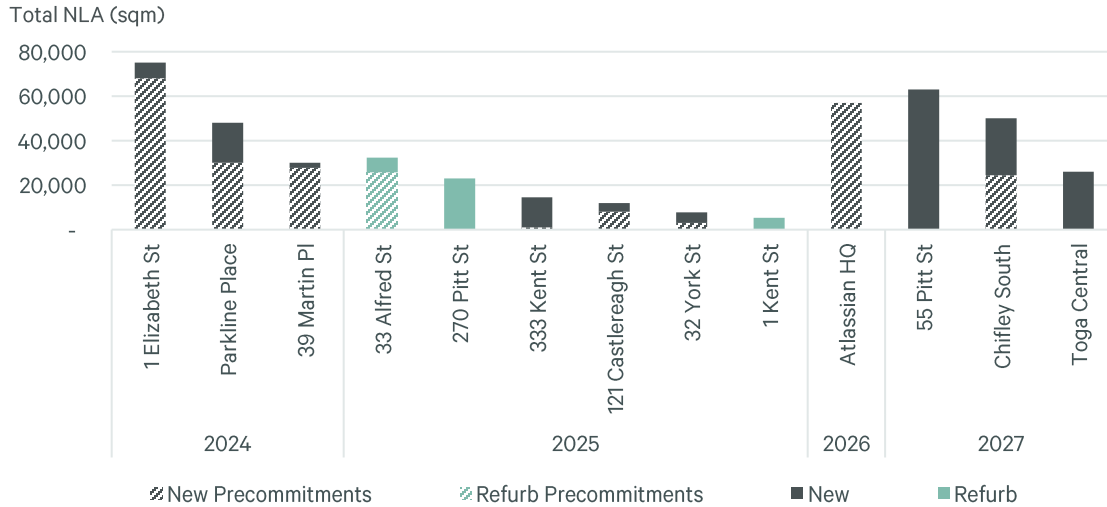
Sydney CBD sees minimal new supply delivered over 2023 and Q1 2024

No office developments were completed in the Sydney CBD over the first quarter of 2024. The reprieve from new supply has limited increases to vacancy rates following the leasing slowdown over COVID and the completion of Quay Quarter Tower (88,200 sqm) and Salesforce Tower (55,200 sqm) in 2022.

Looking forward, the market will see rolling waves of development with peak completions in 2024 and 2027 and more modest construction totals in 2025 and 2026. The largest office developments to be completed over this time include; 1 Elizabeth Street (75,000 sqm), Parkline Place (48,000 sqm), 39 Martin Place (30,000 sqm), 33 Alfred Street (32,300 sqm), 55 Pitt Street (63,000 sqm), and Chifley Tower South (53,000 sqm). While there are still several large-scale office developments in the pipeline, pre-leasing activity within these development has been robust. Pre-leasing levels within the 2024 to 2027 development pipeline are now above 55%.

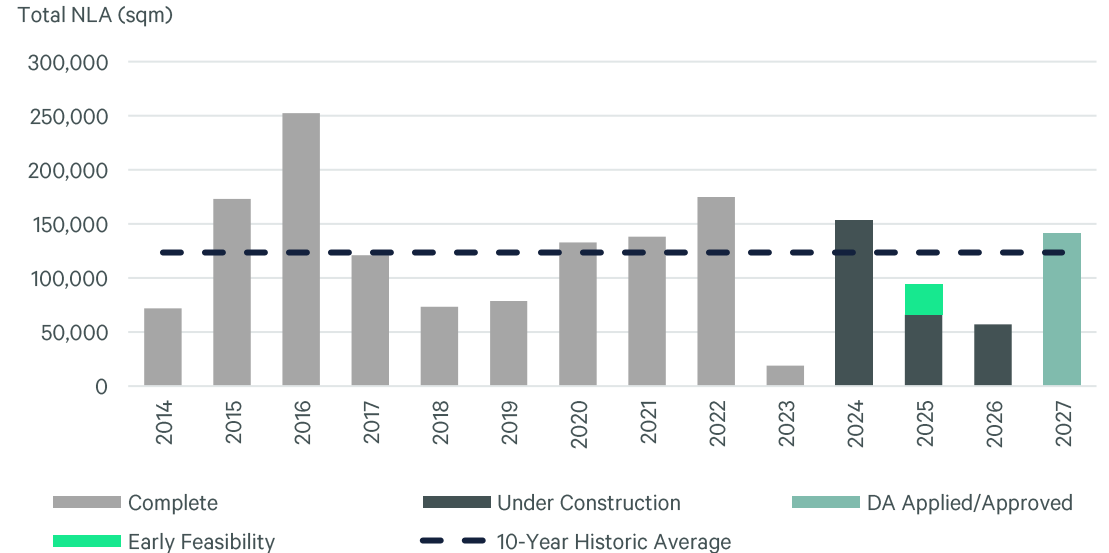
Beyond 2027, the supply outlook remains speculative due to challenging development conditions including elevated construction and financing costs. Cost pressures coupled with the uncertainty around long-term leasing pre-commitments have forced developers to reconsider the timing of new construction projects. It's now likely that, following 2027, the next wave of office development won't occur until after 2030.

FIGURE 4: Sydney CBD Office | Upcoming Major Development Projects



Note: Early Feasibility and mooted projects not shown.
Source: CBRE Research

FIGURE 5: Sydney CBD Office | Historical & Forecast New Supply



Source: PCA, CBRE Research

Vacancy

CBD vacancy rates showing signs of stabilizing

Sydney CBD vacancy rates increased marginally over 2023. The CBD overall vacancy rate ended the year at 12.2%, an increase of +72 bps from year-end 2022. While leasing activity has remained somewhat subdued, the lack of new supply minimized increases to vacancy rates in 2023.

After sublease levels increased over the middle portion of 2023, sublease availability rates have declined steadily since September 2023. Based on CBRE data, sublease availability decreased to 1.7% as of March 2024. Right-sizing campaigns by larger occupiers have slowed significantly in the new year and sublease volumes ended the first quarter at only 88,900 sqm.

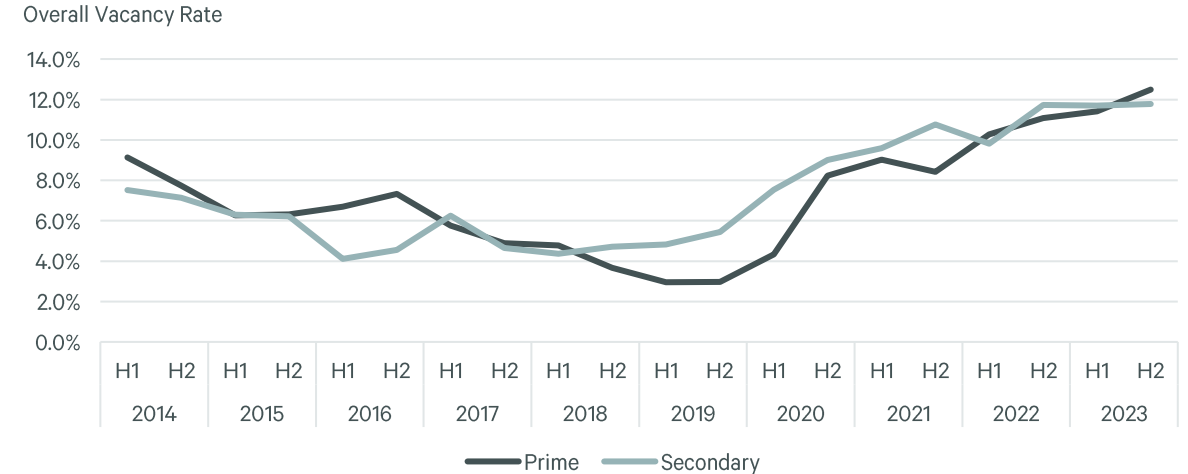
The flight-to-core by occupiers has led to tighter conditions in the Core precinct than elsewhere throughout the CBD. Prime vacancy rates in the core ended 2023 at 9.7%, while Secondary vacancy rates reached 12.3%. The lack of leasing in other CBD precincts resulted in the CBD's Secondary vacancy rate falling below the Prime vacancy rate as of year-end 2023. Prime CBD vacancy rate ended the year at 12.5%, after increasing by 108 bps over the second half, while Secondary vacancy rates reached 11.8%, after increasing by 8 bps over H2 2023.

FIGURE 6: Sydney CBD Office | Leasing Market Summary

Market/Grade	Inventory Jan 24	Vacant Space Jan 24	Vacancy Rate Jan 234 (6month Diff)	Net Absorption 6 months
Prime	3,346,904 sqm	418,358 sqm	12.5% (+108 bps)	-47,203 sqm
Secondary	1,872,389 sqm	220,504 sqm	11.8% (+8 bps)	-17,425 sqm
Total	5,219,293 sqm	638,862 sqm	12.2% (+72 bps)	-64,628 sqm

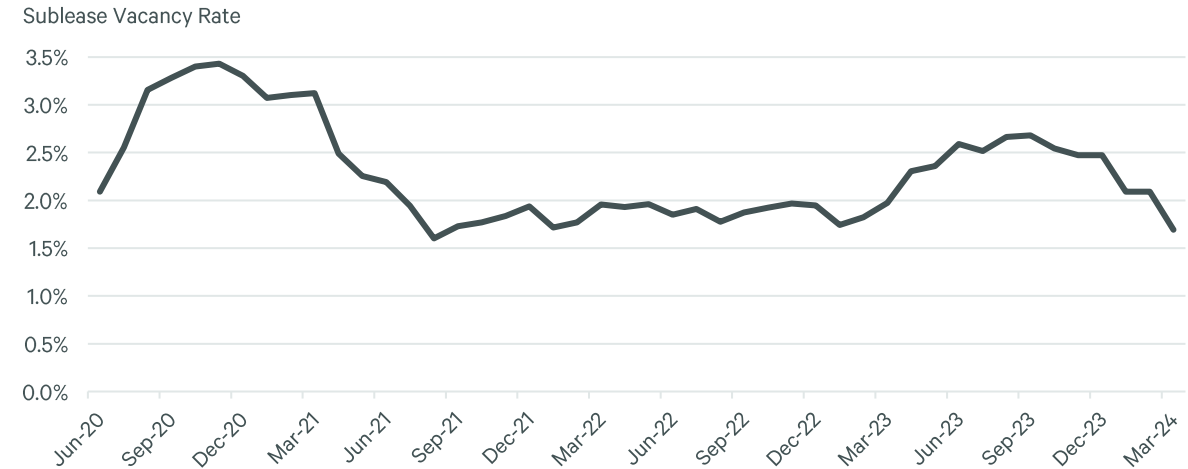
Source: PCA, CBRE Research

FIGURE 7: Sydney CBD Office | Vacancy Rates by Grade



Source: PCA, CBRE Research

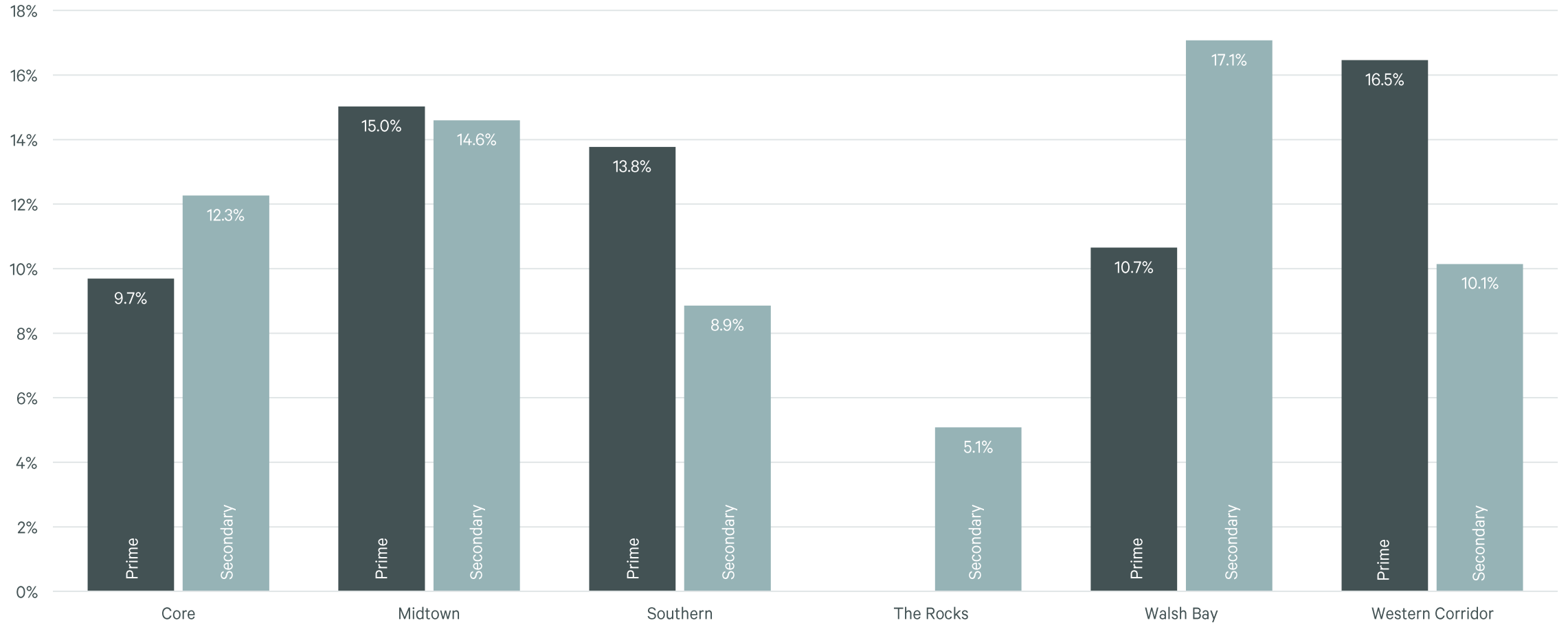
FIGURE 8: Sydney CBD Office | Sublease Vacancy Rate



Source: CBRE Research

Vacancy

Figure 9: Sydney CBD Office | Vacancy Rates by Precinct



Source: CBRE Research

Rental Rate & Incentives Trends

Net face rents and incentives both continue to rise

Net face rental rates continued to increase across the Sydney CBD over Q1 2024. The CBD precinct average Prime net face rental rate figure ended the period at 1,108 AUD/sqm, an increase of 1.0% quarter-over-quarter. Secondary face rental rates also increased over the fourth quarter, ending the period at 882 AUD/sqm, an increase of 1.1% quarter-over-quarter.

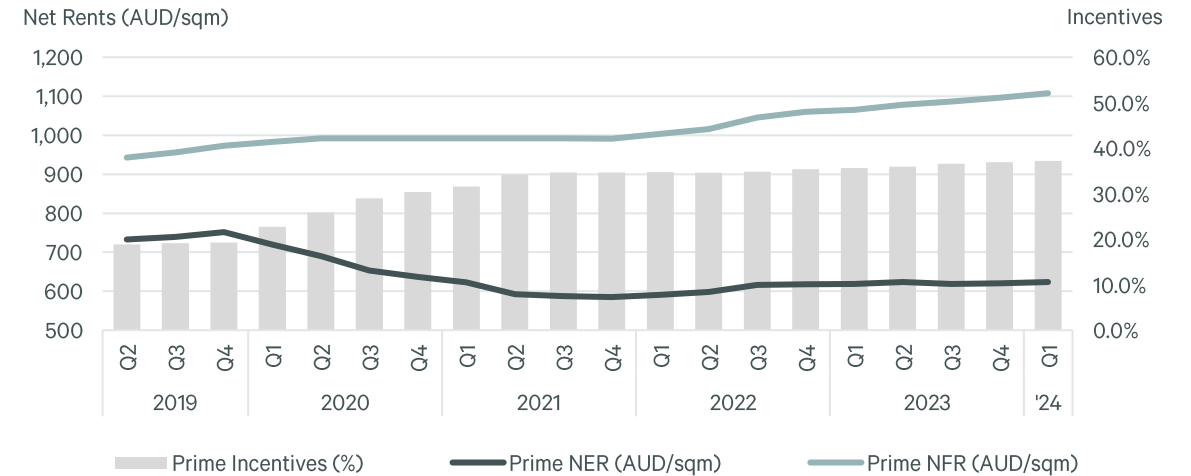
While leasing demand remains strongest in the Core precinct, five of the six CBD precincts saw face rental rate growth in the first quarter of 2024. Prime net face rental rates in the Core reached 1,449 AUD/sqm as of quarter-end, increasing by 0.9% quarter-over-quarter.

Incentives continued to grow across the CBD in Q1 2024. The CBD precinct average Prime and Secondary incentive figures ended the period at 37.2% and 36.5%, after increasing by 30 bps and 50 bps, respectively. The precincts to see the largest increases to incentives over the first quarter were the Midtown and Walsh Bay precincts. Prime incentives in these precincts ended the period at 38.1% and 37.3% after rising by 62 bps and 50 bps quarter-over-quarter.

Despite continued growth in face rental rates, increases to incentives in several precincts resulted in average net effective rental rates remaining relatively flat in Q1 2024. The CBD precinct average Prime net effective rental rate figure ended the quarter at 624 AUD/sqm, an increase of 0.5% quarter-over-quarter, while the precinct average Secondary net face rental rate figure reached 500 AUD/sqm, rising by 0.2% quarter-over-quarter.

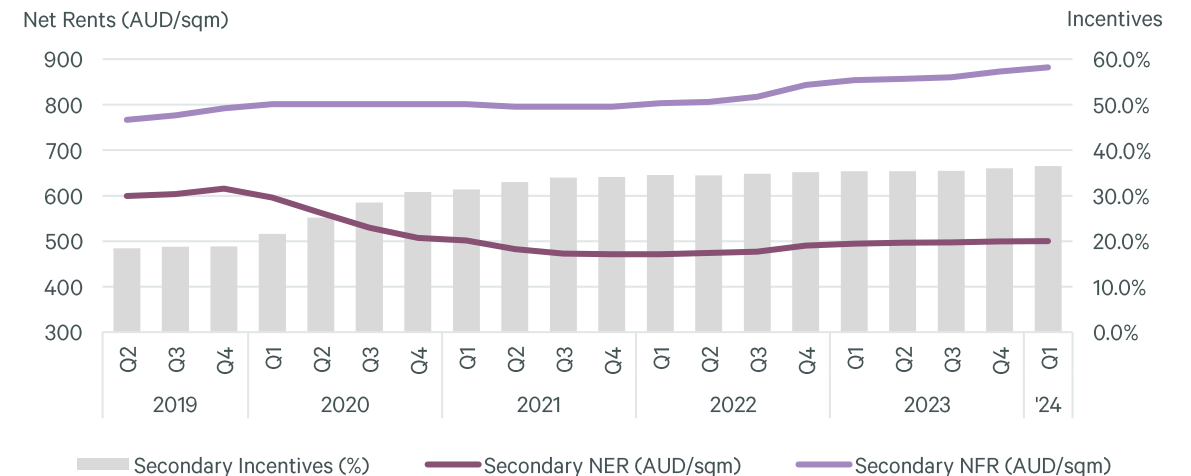
As with other leasing metrics, rental rates in the Core precinct continued to perform well over the first quarter. The Core precinct saw Prime net effective rental rates reach 880 AUD/sqm in Q1 2024. This marked an increase of 0.6% over the quarter.

FIGURE 10: Sydney CBD Office | Precinct Average Prime Net Face Rents, Net Effective Rents, and Incentives



Source: CBRE Research

FIGURE 11: Sydney CBD Office | Precinct Average Secondary Net Face Rents, Net Effective Rents, and Incentives



Source: CBRE Research

Rental Rate & Incentives Snapshot

Figure 12: Sydney CBD Office | Rental Rates and Incentives by Precinct

PRIME	CORE	MIDTOWN	SOUTH	WESTERN CORRIDOR	WALSH BAY	THE ROCKS
Gross Rental Rate (AUD/sqm)	\$1,697	\$1,327	\$1,032	\$1,298	\$1,462	\$1,017
% QoQ	0.7%	0.9%	0.0%	1.1%	1.1%	1.3%
% YoY	5.9%	5.3%	0.6%	3.9%	2.6%	3.6%
Net Face Rental Rate (AUD/sqm)	\$1,449	\$1,142	\$883	\$1,111	\$1,211	\$850
% QoQ	0.9%	1.0%	0.0%	1.3%	1.3%	1.6%
% YoY	6.8%	5.0%	0.5%	4.6%	2.5%	2.9%
Incentives	33.5%	38.1%	37.0%	41.8%	37.3%	35.7%
QoQ Change (bps)	20	62	33	17	50	0
YoY Change (bps)	30	207	100	475	125	0
Net Effective Rental Rate (AUD/sqm)	\$880	\$637	\$502	\$569	\$666	\$487
% QoQ	0.6%	-0.1%	-0.7%	1.1%	0.4%	1.8%
% YoY	6.8%	0.4%	-1.6%	-5.2%	-0.3%	2.4%

SECONDARY	CORE	MIDTOWN	SOUTH	WESTERN CORRIDOR	WALSH BAY	THE ROCKS
Gross Rental Rate (AUD/sqm)	\$1,187	\$986	\$997	\$1,028	\$1,113	\$969
% QoQ	0.0%	0.9%	2.9%	0.4%	0.0%	1.3%
% YoY	0.9%	1.9%	4.3%	2.9%	6.1%	2.6%
Net Face Rental Rate (AUD/sqm)	\$999	\$834	\$841	\$841	\$964	\$814
% QoQ	0.0%	1.0%	3.7%	0.5%	0.0%	1.6%
% YoY	1.0%	1.1%	5.3%	3.5%	6.1%	2.8%
Incentives	36.0%	37.2%	37.0%	36.4%	37.0%	35.5%
QoQ Change (bps)	0	117	75	8	100	0
YoY Change (bps)	87	183	125	58	200	0
Net Effective Rental Rate (AUD/sqm)	\$572	\$467	\$472	\$467	\$553	\$470
% QoQ	0.0%	-1.3%	2.6%	0.4%	-2.0%	1.7%
% YoY	-0.8%	-3.1%	3.3%	2.6%	2.1%	2.9%

Source: CBRE Research

Investment Market

Investment remains muted while yields may have hit their peak

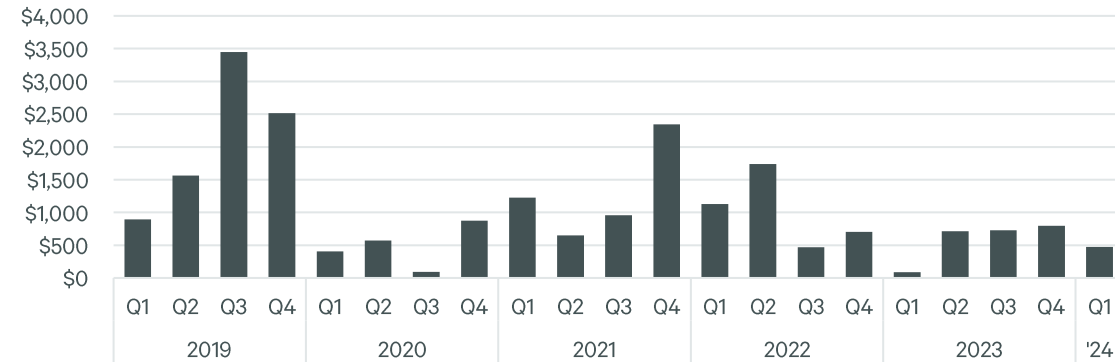
Sydney CBD office sales remained muted in Q1 2024 and continue to sit well below historical levels. The Sydney CBD saw four office transactions totalling AUD 473.6 million close over the period. The bulk of this transaction activity was comprised of the sale of a 50% stake in 255 George Street to Keppel REIT for AUD 363.8 million. Investor sentiment towards office assets has remained mixed as investors continue to build conviction around the recovery of the sector.

Encouragingly for the market, cap rates held stable in Q1 2024. This marked the first period that cap rates held stable since the cost of debt began rising significantly in Q3 2022. Indicative yields across the Sydney CBD now range between 5.9% for Prime assets in the Core precinct to 8.0% for Secondary assets in The Rocks.

While some disconnect between buyer-seller pricing expectations remains, this gap has narrowed, and it appears as though yields may be nearing their ceiling. There is now hope that transaction activity will accelerate over the second half of 2024 and early 2025.

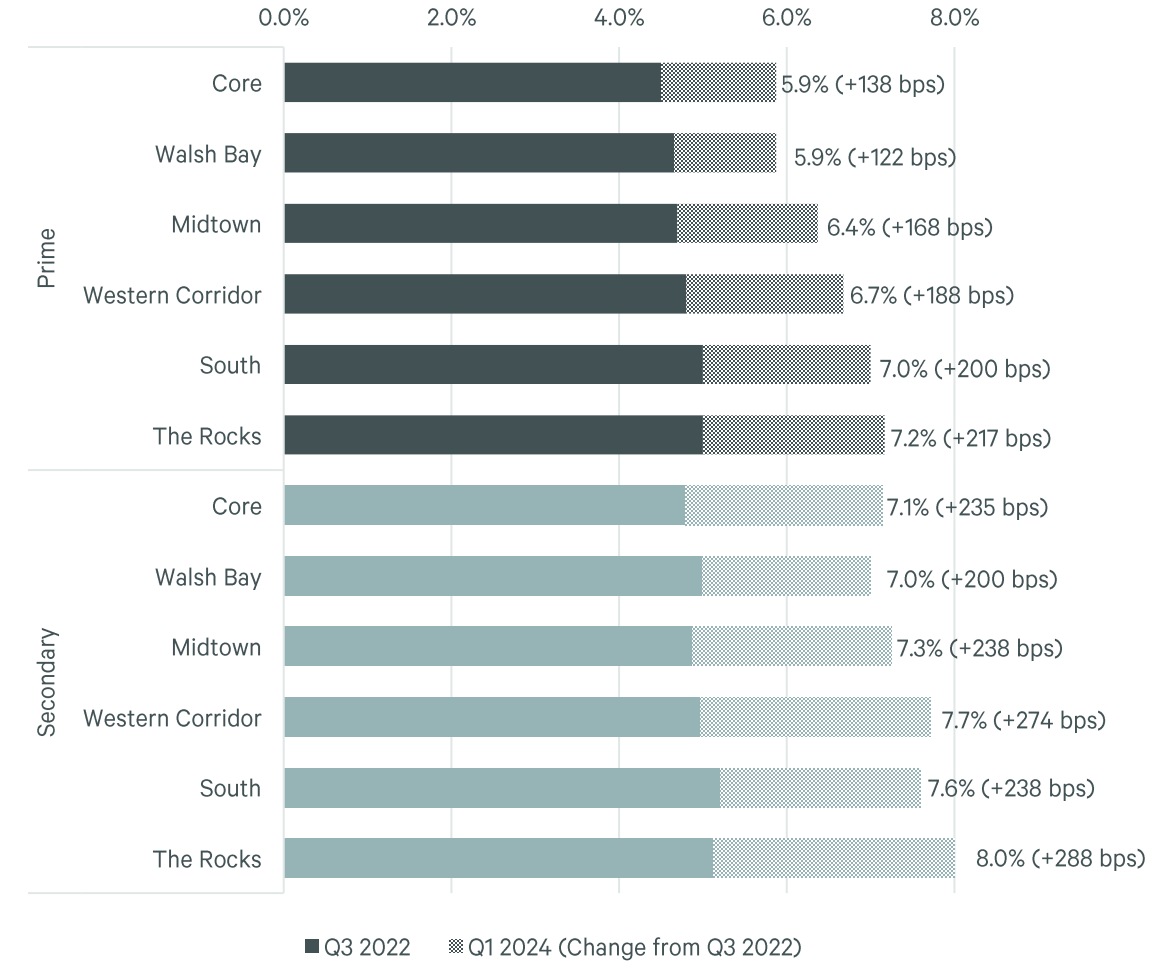
FIGURE 13: Sydney CBD Office | Sales Activity

Sales Volumes | AUD (millions)



Source: CBRE Research

FIGURE 14: Sydney CBD Office | Cap Rates, by Precinct and Grade



Source: CBRE Research

Contacts

Research



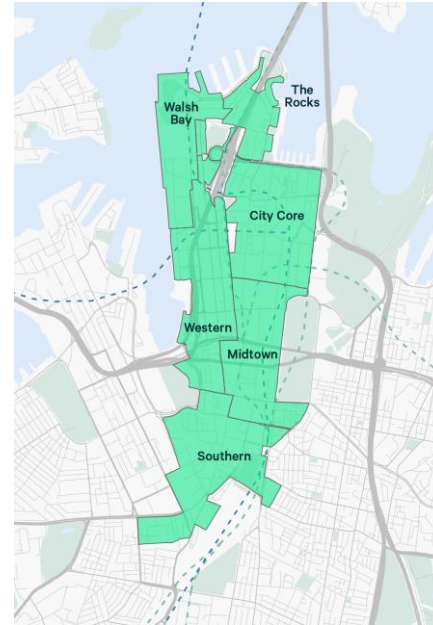
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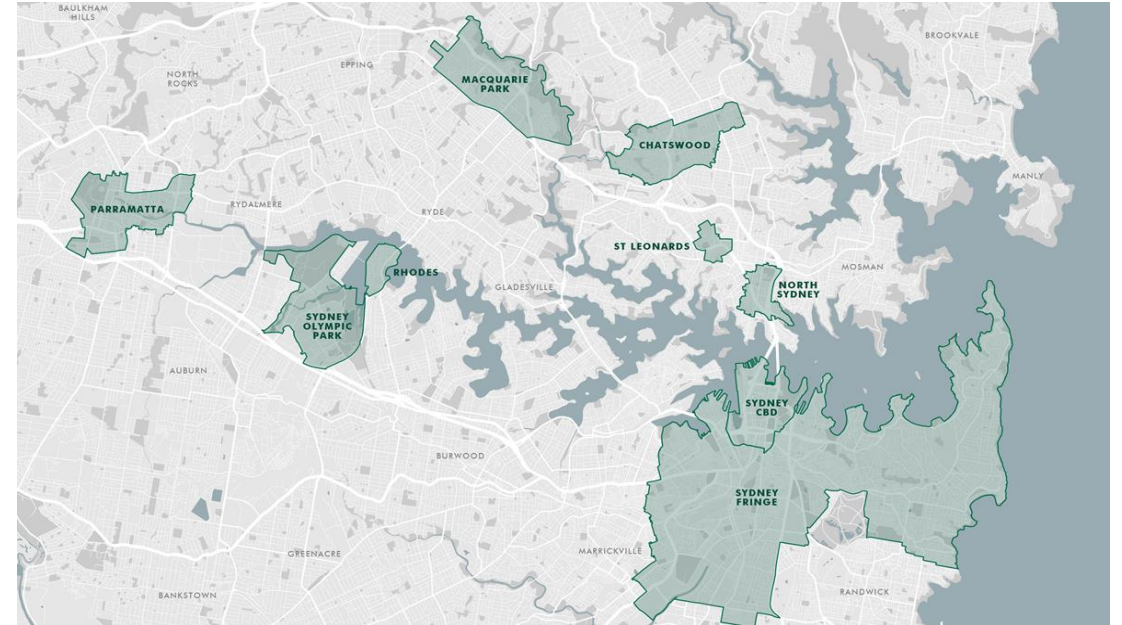
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Office Submarket & Precinct Maps

Sydney CBD



Sydney Metro



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