Rental rate and incentive trends continues to bifurcate across CBD precincts

▼ 11.6%
CBD Vacancy Rate (-60 bps h-o-h)

▲ 1,496 AUD/sqm
Prime Net Face Rent (+2.5% q-o-q)

▼ 32.0%
Prime Incentives (-150 bps q-o-q)

▲ AUD 924.2 M
CBD Office Investment Volumes (+28% y-o-y)

◀▶ 6.0%
Prime Yield (Stable q-o-q)

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

Key Points

- Leasing demand has remained steady across the Sydney CBD in 2024, although at lower levels than 2023.
- While no new office supply was delivered to the Sydney CBD over H1 2024, the second half will see the completion of over 187,000 sqm of new stock.
- The overall CBD vacancy rate ended the first half at 11.6%. This marked a decline of -60 bps from year-end 2023. Sydney CBD Prime and Secondary vacancy rates both declined in H1 2024, ending the period at 11.9% and 11.1%, respectively.
- Despite continued growth in face rental rates, increases to incentives in vacancy challenged precincts resulted in the CBD average net effective rental rate figures declining in Q3 2024.
- The Sydney CBD saw investment volumes reach AUD 924.2 million over the third quarter. This marked the second largest quarter of investment activity in the last two years. Cap rates increased marginally in Q3 2024, although yields now appear to be nearing their peak.

FIGURE 1a: Sydney CBD Office | Vacancy Rate Summary

Indicator	Jul 2024	Jan 2024	Jul 2023	H-o-H Change	Y-o-Y Change
Vacancy Rate	**11.6%**	12.2%	11.5%	-60 bps	+10 bps

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

Indicator	3Q24	2Q24	3Q23	Q-o-Q Change	Y-o-Y Change
NFR	**AUD 1,496**	AUD 1,460	AUD 1,405	+2.5%	+6.5%
Incentives	**32.0%**	33.5%	33.3%	-150 bps	-130 bps
NER	**AUD 934**	AUD 883	AUD 855	+5.7%	+9.3%
Yield	**6.0%**	6.0%	5.5%	Stable	+50 bps

Source: CBRE Research

Office Demand

Flight-to-Quality continues to drive leasing activity

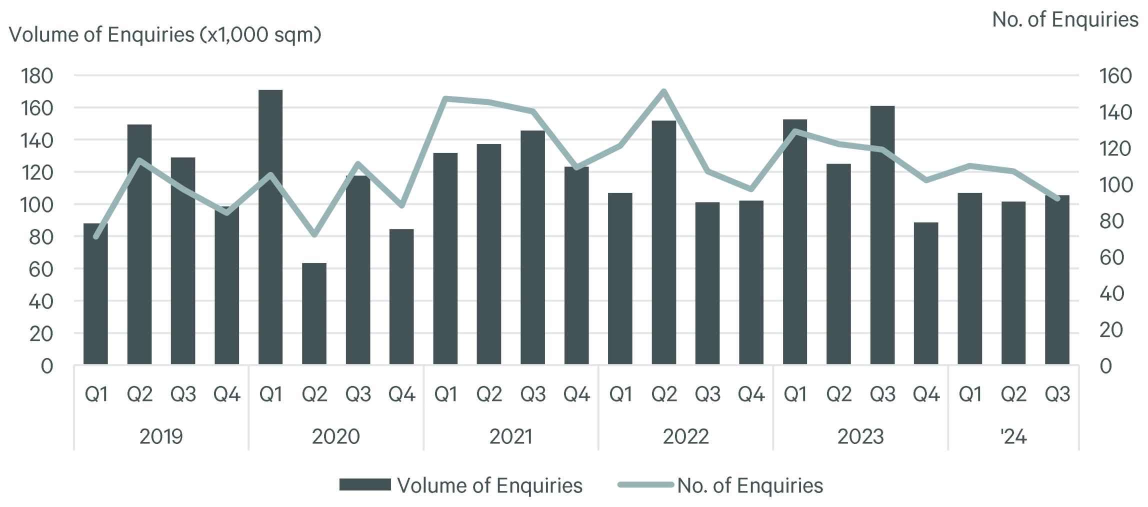
Leasing demand has remained steady across the Sydney CBD over the first 3 quarters of 2024, although at lower levels than 2023. CBRE received 92 leasing enquiries totaling 105,605 sqm over the third quarter. This brought year-to-date enquiry volumes to 314,210 sqm, a decrease of 28.4% compared to the same period in 2023.

While demand has remained resilient, the ongoing flight-to-quality by occupiers is driving continued bifurcation across building grade and geography. Occupiers continued to show a preference for Prime grade space in the Core and Walsh Bay precincts over the first six months of the year. Prime net absorption in these precincts totaled 12,953 sqm and 7,694 sqm, respectively, in H1 2024. Of the other four CBD precincts, only Midtown recorded positive net absorption of 4,192 sqm in H1 2024. The other CBD precincts all recorded moderate negative net absorption figures between -357 sqm and -5,875 sqm.

The flight-to-quality trend was also evident when looking at net absorption totals for the overall CBD broken down by building grade. The highest levels of leasing activity continue to be seen in Premium grade assets. Net absorption of Premium office space totaled 30,854 sqm over the first half. Each of the other building grades saw negative net absorption over this period.

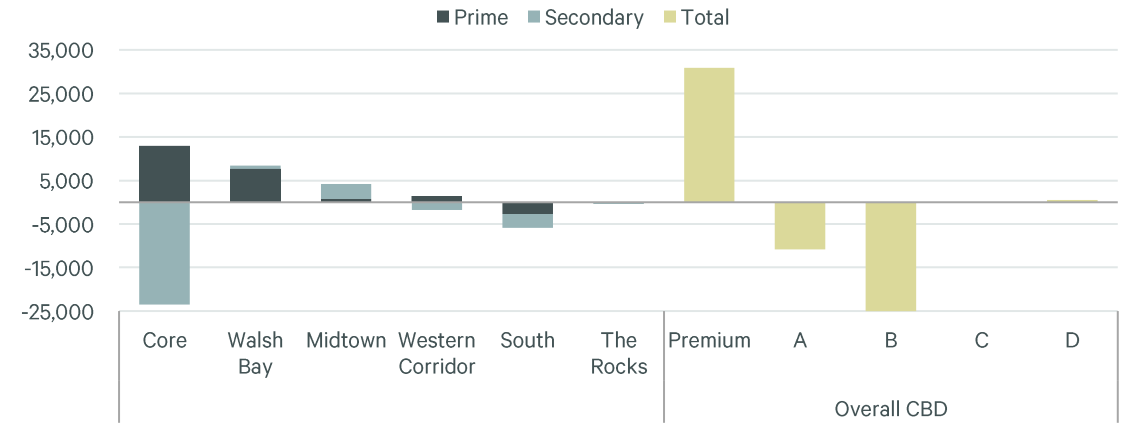
The flight-to-quality trend is expected to continue into the final quarter of the year as new supply gets delivered and occupiers begin to migrate out of older stock, into their new accommodations.

FIGURE 2: Sydney CBD Office | Leasing Enquiry Data



Source: CBRE Research

FIGURE 3: Sydney CBD Office | 6-Month Net Absorption (sqm) by Precinct and by Building Grade



Source: CBRE Research, PCA

Supply

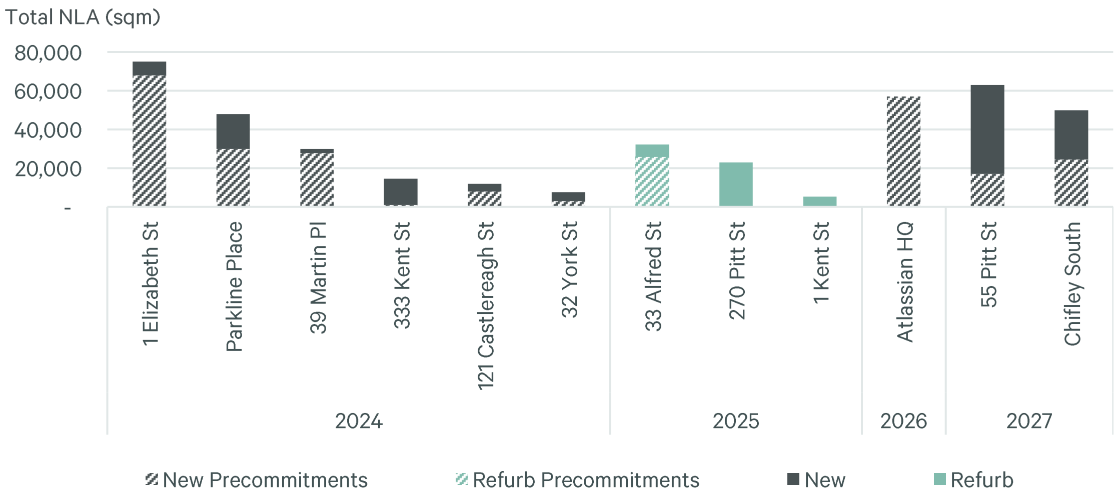
Significant levels of new supply expected for the final quarter of 2024

While no new office developments were completed in the Sydney CBD over the first half of 2024, several large-scale developments are slated for completion for the second half of the year. The reprieve from new supply through the mid-point 2024 allowed vacancy rates to stabilize following the leasing slowdown over COVID and the completion of Quay Quarter Tower (88,200 sqm) and Salesforce Tower (55,200 sqm) in 2022. The market will be increasingly tested over the second half, however, as tenants begin to move into the newly delivered product. Developments to be completed over the second half of 2024 include; 1 Elizabeth Street (75,000 sqm), Parkline Place (48,000 sqm), 39 Martin Place (30,000 sqm), 333 Kent Street (14,500 sqm), 121 Castlereagh Street (12,000 sqm), and 32 York Street (7,700 sqm). While projects to be delivered over the second half will total over 187,000 sqm, pre-commitment levels have been strong, and 73% of this space had already been pre-committed as of Q3 2024.

Following the wave of deliveries in 2024, there will be another reprieve from new supply over 2025 and 2026 when the only major new developments to be completed will be 33 Alfred Street (32,300 sqm) and Atlassian HQ (57,000 sqm). This will then be followed by another wave of supply in 2027, with the expected delivery of 55 Pitt Street (63,000 sqm), and Chifley Tower South (53,000 sqm).

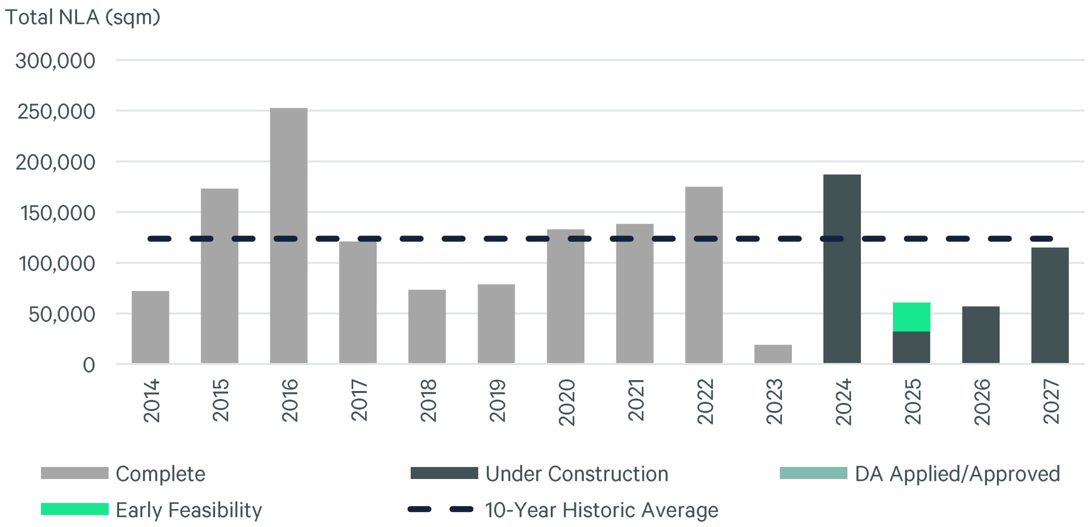
Beyond 2027, the supply outlook remains speculative due to challenging development conditions including elevated construction and financing costs. Cost pressures coupled with the uncertainty around long-term leasing pre-commitments have forced developers to reconsider the timing of new construction projects. 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: CBRE Research, PCA

Vacancy

CBD vacancy rates fall due to steady leasing activity and stock withdrawals

Vacancy rates in the Sydney CBD decreased over the first half of 2024. The overall CBD vacancy rate ended the first half at 11.6%, a decrease of -62 bps from year-end 2023. While leasing activity has remained somewhat subdued, the lack of new supply over the first half combined with stock withdrawals allowed vacancy rates to fall in H1 2024. Sydney CBD Prime and Secondary vacancy rates both fell in H1 2024, ending the period at 11.9% and 11.1%, respectively.

Sublease levels have also decreased steadily over 2024. Based on CBRE data, sublease availability decreased to 1.3% as of September 2024. The number of sublease listings above 1,000 sqm has decreased substantially over the last six months, and CBD sublease volumes ended the quarter at under 70,000 sqm.

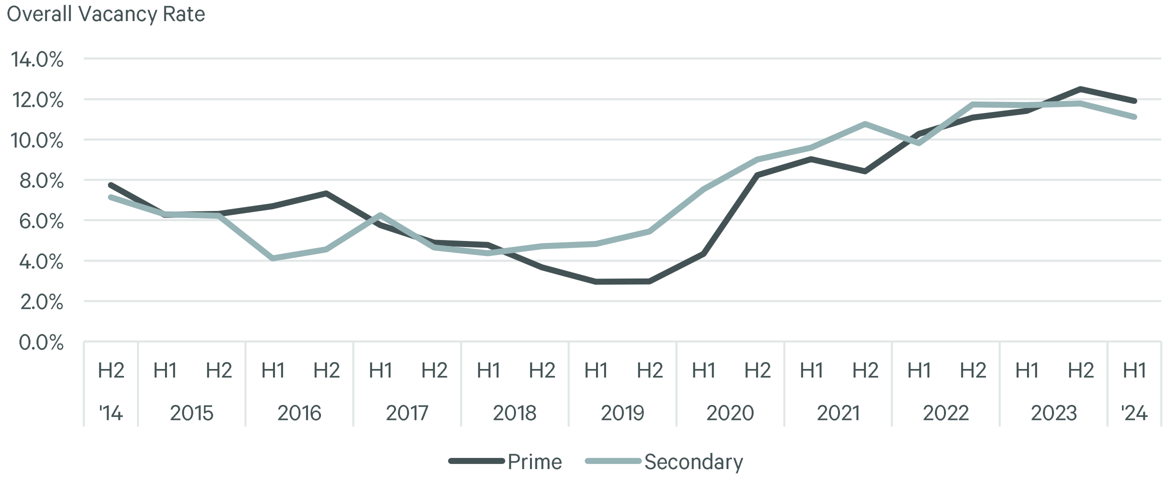
The ongoing flight-to-quality by occupiers has led to tighter conditions in the CBD precincts with the highest quality stock. Prime vacancy rates in the Core and Walsh Bay precincts ended the first half at 8.8% and 8.3%. These figures represented six month declines of -88 bps and -237 bps. Prime vacancy rates in the Midtown, South, and Western Corridor precincts ended the half at 14.9%, 15.6%, and 16.3%, respectively.

FIGURE 6: Sydney CBD Office | Leasing Market Summary

Market/ Grade	Inventory *Jul 24*	Vacant Space *Jul 24*	Vacancy Rate *Jul 234 (6month Diff)*	Net Absorption *6 months*
Prime	3,346,904 sqm	398,335 sqm	11.9% (-60 bps)	+20,023 sqm
Secondary	1,830,533 sqm	203,301 sqm	11.1% (-67 bps)	-24,653 sqm
Total	5,177,437 sqm	601,636 sqm	11.6% (-62 bps)	-4,630 sqm

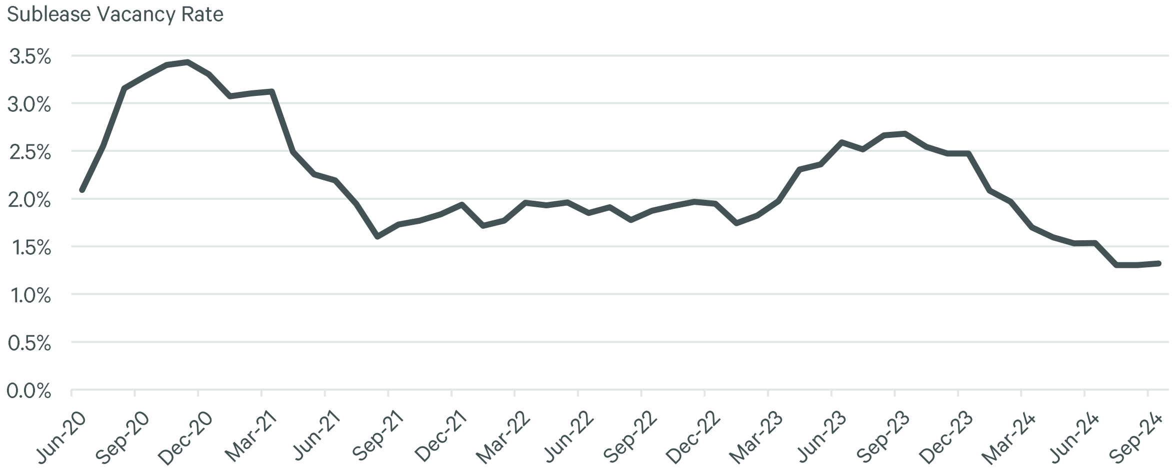
Source: PCA, CBRE Research

FIGURE 7: Sydney CBD Office | Vacancy Rates by Grade



Source: PCA, CBRE Research

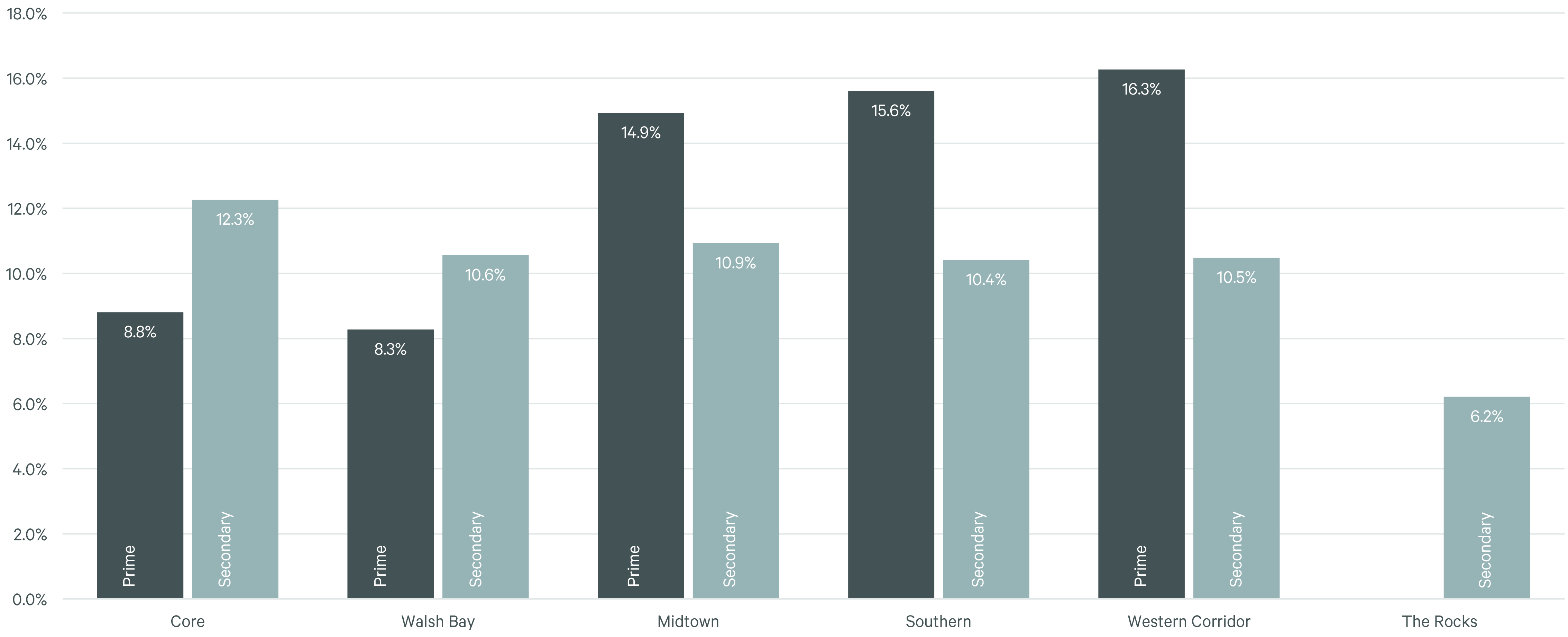
FIGURE 8: Sydney CBD Office | Sublease Vacancy Rate



Source: CBRE Research

Vacancy

Figure 9: Sydney CBD Office | Vacancy Rates by Precinct



Source: CBRE Research

Rental Rate & Incentives Trends

Rents in the Core and Walsh Bay precincts continue to outperform

The divergence in vacancy rates across the various CBD precincts has resulted in continued bifurcation in rental rates and incentives. Broadly speaking, face rental rates continued to increase across the Sydney CBD over Q3 2024. The CBD precinct average Prime net face rental rate figure ended the period at 1,224 AUD/sqm, an increase of 2.3% quarter-over-quarter. Secondary face rental rates also increased over the third quarter, ending the period at 864 AUD/sqm, an increase of 0.4%.

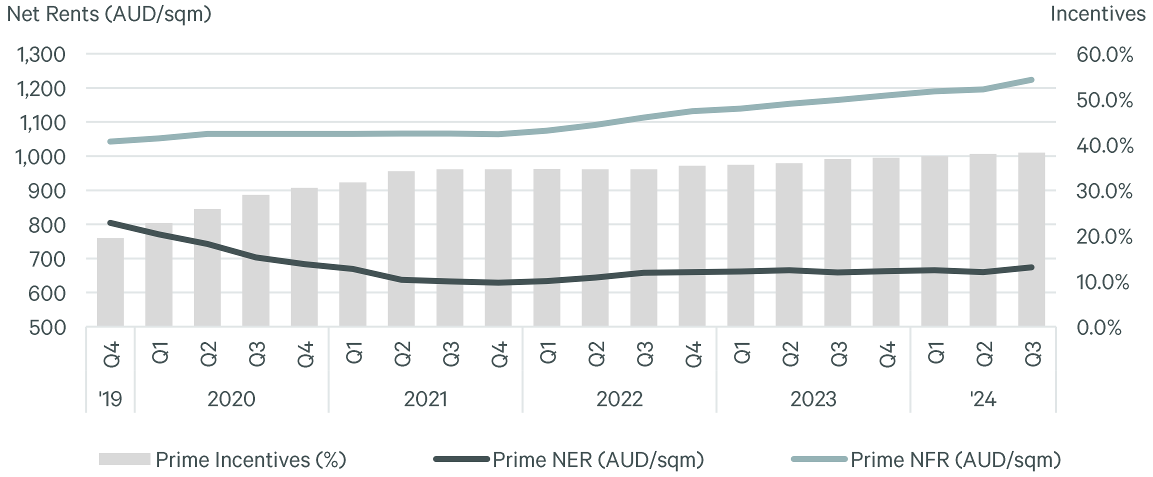
While no CBD precinct recorded declines in face rents this period, the ongoing flight-to-quality being seen across Sydney resulted in Prime rental rates in the Core and Walsh Bay continuing to outperform. Prime net face rental rates in these precincts reached 1,496 AUD/sqm and 1,290 AUD/sqm, respectively, in Q3 2024. These figures represented quarter-over-quarter growth of 2.5% and 4.9%. Net face rental rates growth was more subdued across the other CBD precincts over the third quarter.

While net face rental rates have continued to increase, incentives also continued to climb in every precinct outside of the Core. The CBD average Prime and Secondary incentive figures ended the third quarter at 38.3% and 38.0%, increasing by 24 bps and 48 bps over the period.

Precincts with elevated vacancy rates continued to see incentives increase as owners competed to attract tenants. The submarkets which recorded the greatest increases to incentives over the trailing 12 months have been the South and Western Corridor precincts. These submarkets recorded Prime incentive increases of 467 bps and 325 bps, respectively, over this time. Conversely, the Core precinct started to see incentives fall over Q3 2024 as vacancy rates continued to tighten. The Core precinct saw incentives reach 32.0% in Q3 2024, after falling by 150 bps over the quarter.

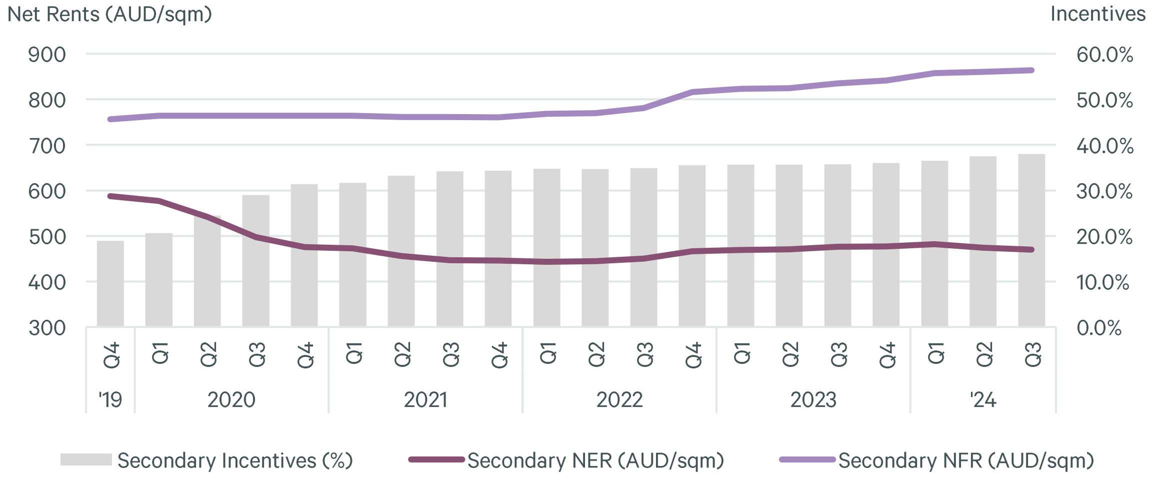
Given these dynamics, the Core and Walsh Bay precincts each saw net effective rents increase in Q3 2024. The Rocks and Midtown precincts saw effective rents hold relatively stable. Finally, the South and Western Corridor precincts saw effective rents decline this period.

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)	**$1,758**	**$1,371**	**$1,051**	**$1,298**	**$1,529**	**$1,025**
% QoQ	2.1%	2.7%	0.8%	0.3%	3.3%	0.8%
% YoY	6.3%	5.5%	2.3%	1.2%	6.2%	2.6%
Net Face Rental Rate (AUD/sqm)	**$1,496**	**$1,177**	**$892**	**$1,116**	**$1,290**	**$853**
% QoQ	2.5%	2.8%	0.9%	0.4%	4.9%	1.0%
% YoY	6.5%	5.6%	1.4%	1.7%	8.5%	2.5%
Incentives	**32.0%**	**39.5%**	**40.7%**	**44.4%**	**37.7%**	**35.7%**
QoQ Change (bps)	-150	62	67	183	29	0
YoY Change (bps)	-130	226	467	325	167	0
Net Effective Rental Rate (AUD/sqm)	**$934**	**$636**	**$464**	**$539**	**$714**	**$488**
% QoQ	5.7%	1.5%	-0.4%	-3.8%	5.5%	1.1%
% YoY	9.3%	0.8%	-8.8%	-5.2%	6.4%	2.4%

SECONDARY	CORE	MIDTOWN	SOUTH	WESTERN CORRIDOR	WALSH BAY	THE ROCKS
Gross Rental Rate (AUD/sqm)	**$1,227**	**$1,005**	**$999**	**$1,028**	**$1,156**	**$975**
% QoQ	1.7%	2.0%	0.2%	0.0%	2.0%	0.6%
% YoY	3.5%	3.0%	3.3%	0.6%	9.4%	3.3%
Net Face Rental Rate (AUD/sqm)	**$1,044**	**$855**	**$842**	**$839**	**$971**	**$820**
% QoQ	2.6%	2.5%	0.2%	0.0%	-1.6%	0.8%
% YoY	4.5%	3.8%	4.1%	0.5%	6.9%	4.0%
Incentives	**36.1%**	**38.3%**	**38.5%**	**38.7%**	**39.5%**	**35.5%**
QoQ Change (bps)	2	29	50	117	17	0
YoY Change (bps)	102	295	250	275	450	0
Net Effective Rental Rate (AUD/sqm)	**$600**	**$470**	**$458**	**$442**	**$515**	**$474**
% QoQ	3.1%	2.4%	-0.9%	-2.6%	-4.9%	0.9%
% YoY	3.2%	-1.8%	-0.8%	-5.6%	-4.5%	4.4%

Source: CBRE Research

Investment Market

Investment markets continue to thaw as yields expansion slows

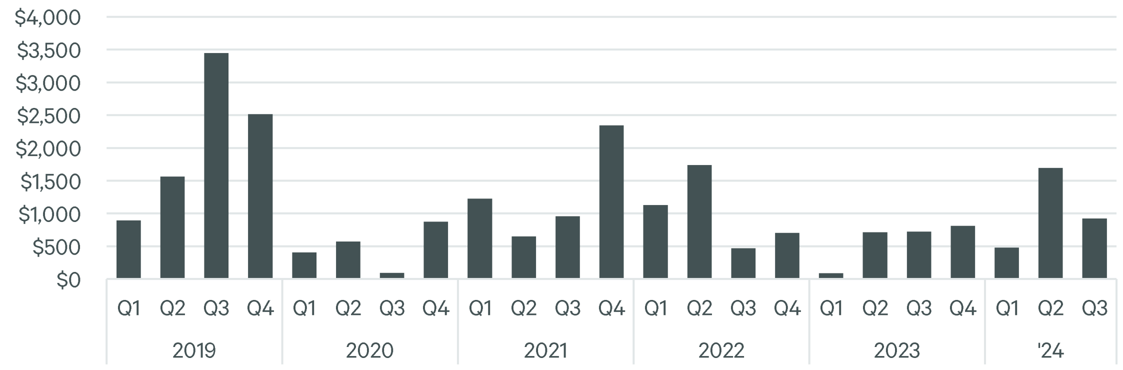
Sydney CBD office investment markets continue to thaw over Q3 2024 and investment volumes reached AUD 924.2 million over the period. This marked the second largest quarter of investment activity over the last two years, trailing only the prior quarter, Q2 2024. The largest contributor to investment activity in Q3 2024 was the sale of 333 George Street for AUD 395.0 million.

Cap rates increased marginally once again in Q3 2024, however, the rate at which they are rising has now slowed drastically. This would suggest that indicative yields are now nearing their peak. Indicative yields across the Sydney CBD now range between 6.0% for Prime assets in the Core precinct to 8.2% for Secondary assets in The Rocks.

There is now hope that transaction activity will continue to accelerate over the final quarter of 2024 and early 2025.

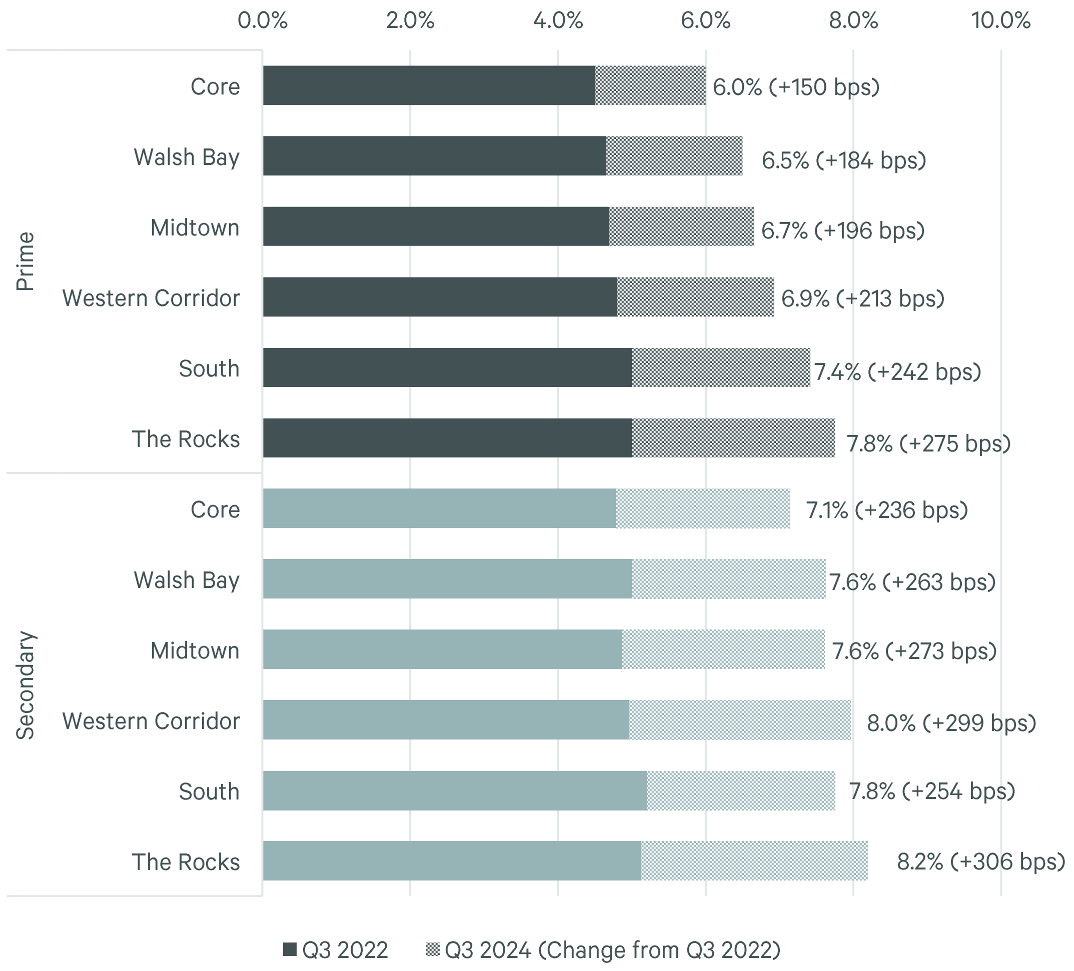
FIGURE 13: Sydney CBD Office | Sales Activity

Sales Volumes | AUD (millions)



Source: CBRE Research

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



Source: CBRE Research

Contacts

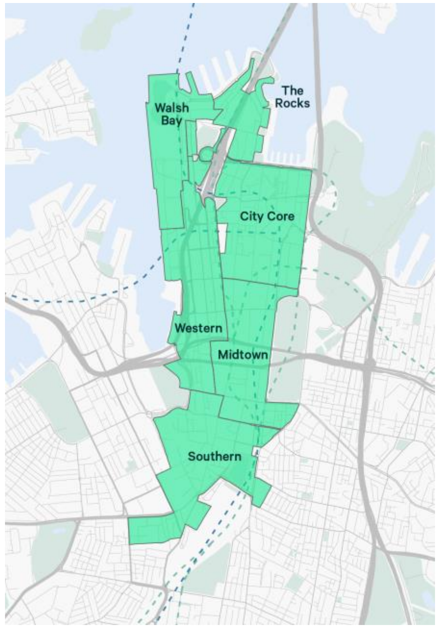
Office Submarket & Precinct Maps

Research

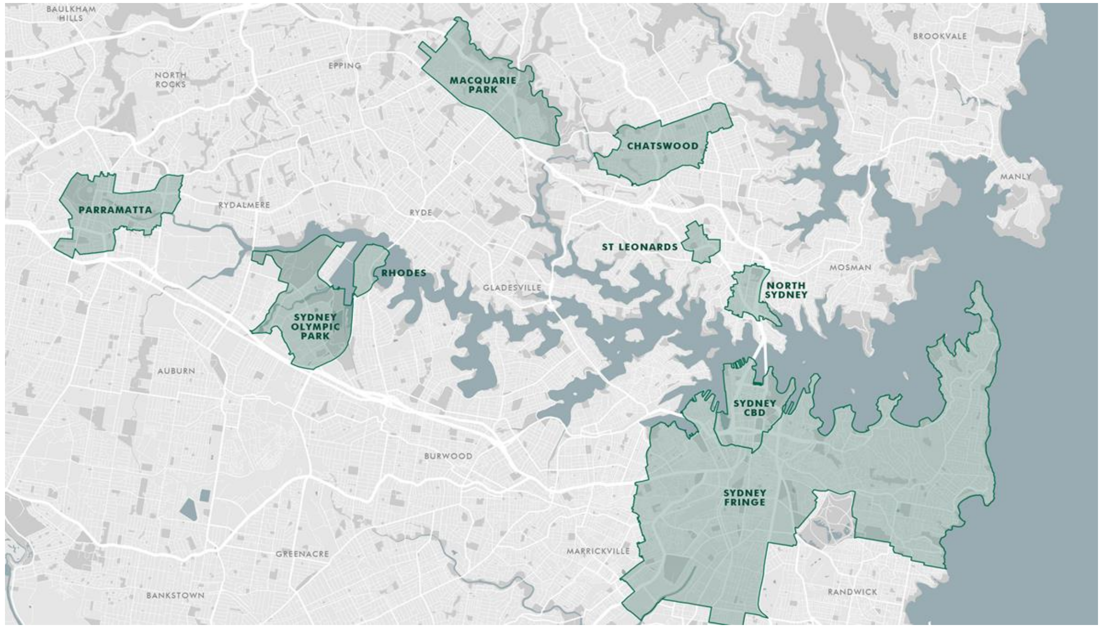
Thomas Biglands

Associate Director
NSW Office Research
+61 426 841 019
Thomas.Biglands@cbre.com

Sydney CBD



Sydney Metro



Contact

Sydney

Level 21
363 George Street
Sydney, NSW 2000

North Sydney

Level 29
177 Pacific Highway
North Sydney, NSW 2060

Western Sydney

Level G
10-14 Smith Street
Parramatta, NSW 2150

South Sydney

2B
2-12 Lord Street
Botany, NSW 2019