

# Market Pulse

Sydney CBD Office Market

— Cadigal Research  
December 2023

Cadigal







# Contents

04.	Key Data at a Glance
05.	In Summary
07.	Supply
08.	Tenant Demand
12.	Tenant Enquiry
14.	Vacancy
15.	Sublease Availability
16.	Rents
17.	Outlook

# Key Data at a Glance

		Change last 12 months	Expected change next 12 months
<b>SUPPLY</b>			
<b>Total Stock*</b> <i>sqm, as at Jul-23</i>	5,249,961	↑	↑
<b>Completions*</b> <i>sqm, 6 months to Jul-23</i>	19,000	↓	↑
<b>Net Supply*</b> <i>sqm, 6 months to Jul-23</i>	-33,235	↓	↑
<b>DEMAND</b>			
<b>Net Absorption*</b> <i>sqm, 6 months to Jul-23</i>	-40,173	↓	↑
<b>Tenant Enquiry</b> <i>sqm, as at Sep-23</i>	327,835	↑	↔
<b>VACANCY</b>			
<b>Vacancy Rate*</b> <i>%, as at Jul-23</i>	11.5	↑	↑
<b>Sublease Availability</b> <i>sqm (% of total stock) as at Sep-23</i>	123,209 (2.3%)	↑	↔
<b>RENTS</b>			
<b>Net (Gross) Face Rents</b> <i>\$/sqm average, as at Sep-23</i>			
Premium	1,447N (1,687G)	↑	↑
A Grade	1,132N (1,332G)	↑	↑
B Grade	914N (1,105G)	↑	↑
<b>Incentives</b> <i>(typical % range for whole-floor tenant, as at Sep-23)</i>	33 - 38	↑	↑

\*Source: Property Council of Australia (PCA Jul-23)





## In Summary

2023 saw no completions of major office projects, after 329,420sqm of net supply was added over 2020-2022 and **total stock** increased by 6.6%.

The lack of completions combined with 52,235sqm of stock withdrawals resulted in total CBD stock shrinking for the first time since Jan-20.

There is 261,324sqm of space under construction across eight major developments, equal to 5% of total stock with the majority (63%) set to be delivered in 2024.

The CBD recorded -40,173sqm of **net absorption** over the first half of 2023, completely cancelling out the 36,183sqm taken up over the previous two years. The long-term average annual net absorption (41,703sqm) has not been exceeded since 2015, reflecting the prolonged weakness in tenant demand.

Net absorption across the precincts was a tale of the Core versus the rest of the market, it being the only precinct to record positive net absorption over the 12-month period.

The volume of **tenant enquiry** rose for a second consecutive quarter, to 327,835sqm. This represents a 12% increase over the previous quarter, returning enquiry levels to the long-term average for the first time since Dec-21.

The overall CBD **vacancy rate** continues its upward trajectory, rising 0.2% to 11.5% over the six months to Jul-23, but at a slower rate than the previous two periods. The current vacancy rate is the highest since Jan-96 and the Core, at 9.6%, has the lowest vacancy rate of all precincts.

There was 123,209sqm of available **sublease space**, a slight (1.3%) reduction on the previous quarter yet still the fourth highest total on record.

**Face rents** grew c.4% over the last 12 months, with slightly higher growth in Premium and slightly lower for B grade.

**Incentives** increased across all building grades over the last 12 months in the order of 1%, on average. Across the precincts, incentives rose by about 0.5% in the Core but between 1.0%-2.0% in Midtown, Western Corridor and Southern precinct.

**Effective rental growth** was generally weak with Premium recording about 2.8% annual growth, B grade slightly less (c.2.4%) and A grade just 0.9%-1.7%.





Major office developments proposed for the CBD, but not yet under construction, include Mirvac's **55 Pitt Street** (above) and Charter Hall's **Chifley South** (below).





# Supply

2023 saw no completions of major office projects in the Sydney CBD, after 329,420sqm of net supply was added over 2020-2022, increasing total stock by 6.6%. The lack of completions combined with 52,235sqm of withdrawals (1% of total stock) led to the market shrinking over H1 2023, for the first time since Jan-20.

There is 261,324sqm of office space currently under construction across eight developments in the CBD, equal to 5% of total stock. Six of the eight projects, totalling 63% of the space, are set to be delivered in 2024, plus one each in 2025 and 2027. The 2024 completions are led by three over-station developments on the Sydney Metro City & Southwest line, namely **1 Elizabeth Street**, **39 Martin Place** and **Parkline Place**.

A number of major new office developments are currently proposed for the CBD including **55 Pitt Street**, **Chifley South**, **Lighthouse at Darling Park** and **Central Place Sydney**. As none of these are expected to complete before 2027, the market will see very little new supply over 2025-2026.

## Major Office Developments Under Construction

Project	Owner / Developer	Type	Office NLA	Precinct	Expected Completion	Comment
York & Co., 32-36 York Street	Milligan Group	New	7,973	Midtown	Q1 2024	Mixed-use redevelopment of 1886-built warehouse comprising 12 floors of office. Over 75% pre-committed.
Martin Place Metro, 1 Elizabeth Street	Macquarie Group	New	62,871	Core	Q1 2024	37-storey over-station development owned, and primarily occupied, by Macquarie.
Martin Place Metro, 39 Martin Place	Investa / Manulife / Macquarie Group	New	29,886	Core	Q2 2024	29-storey tower over-station development. Ashurst has committed up to 10,000sqm (33%) in the lowrise.
121 Castlereagh Street	Scentre/Cbus	New	11,503	Midtown	Q3 2024	Mixed-use redevelopment of former David Jones store, 48% pre-committed to The Commons and APA Group.
333 Kent Street	Addenbrooke	Full Refurb + New	13,832	Western	Q3 2024	Full refurbishment of existing 9-storey building plus addition of 7 new floors.
Parkline Place, 252 Pitt Street	Oxford / Mitsubishi Estate	New	47,500	Midtown	Q4 2024	36-level over-station development above the Pitt Street Metro Station with c.50% pre-committed, including to NSW ODPP and BDO.
33 Alfred Street	MWOF / Dexus	Full Refurb	31,759	Core	Q2 2025	Full refurbishment of Sydney's first skyscraper. Allen & Overy has pre-committed to 2,505sqm (8%) with leases issued over another 28%.
Atlassian Central, 8-10 Lee Street	Dexus / Atlassian	New	c.56,000	Southern	2027	40-level tower with youth hostel at the base. Office space is 100% committed to Atlassian.

# Tenant Demand

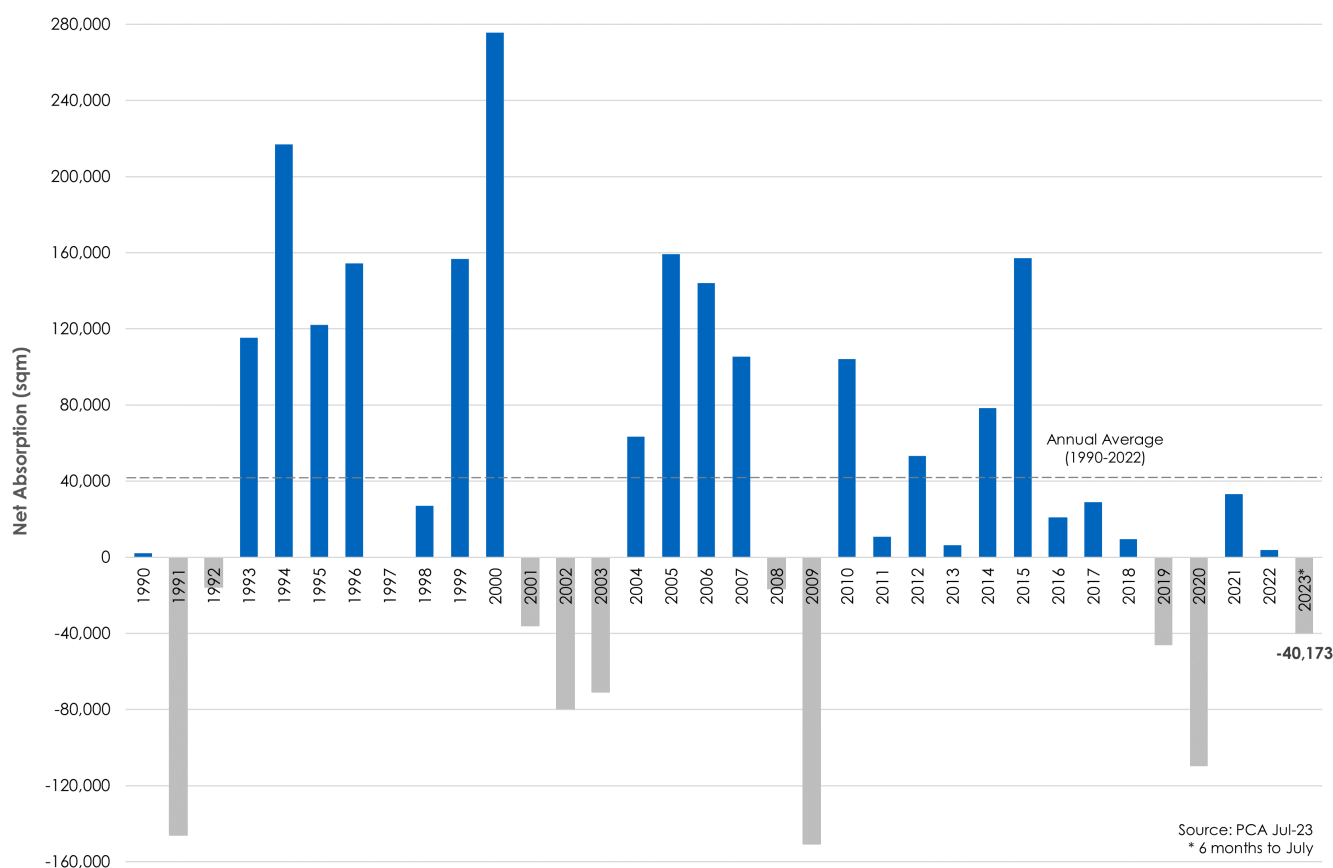
## Net Absorption

The Sydney CBD recorded -40,173sqm of net absorption over the first half of 2023, completely cancelling out the 36,183sqm taken up over the previous two years (2021-2022). Reflecting the prolonged weakness in tenant demand, the cumulative net absorption across the market since January 2016 is -100,236sqm. Or in other words,

there was 100,236sqm less occupied space in Jul-23 than there was in Jan-16.

Meanwhile, total CBD office stock *increased* by 187,452sqm over the same period, exacerbating the problem. The 27-year (1990-2022) average annual net absorption of 41,703sqm has not been exceeded since 2015.

Annual Net Absorption - Sydney CBD 1990-2023







Net absorption performance by building grade has been mixed with **Premium** and **A grade** recording positive net absorption but negative for B, C and D grades, **B grade** being by far the worst performer.

After tallying strong positive net absorption over 2021-2022, Premium grade returned -13,462sqm across the whole CBD during the first half of 2023. Whilst Premium net absorption continued to be positive in the **Core** precinct, this was more than offset by negative net absorption in both the **Walsh Bay** and **Western Corridor** precincts.

Net absorption performance across the CBD precincts was a tale of the **Core** versus the rest of the market with the largest precinct, by NLA, being the only one to tally positive net absorption. All other precincts recorded negative net absorption over *both* 6- and 12-month periods.

#### Net Absorption by Building Grade

Buiding Grade	6 Months to Jul-23	12 Months to Jul-23
Premium	-13,462	15,644
A Grade	18,859	15,229
B Grade	-31,580	-67,681
C Grade	-11,275	-18,588
D Grade	-2,715	-4,515
<b>Sydney CBD</b>	<b>-40,173</b>	<b>-59,911</b>

Source: PCA Jul-23

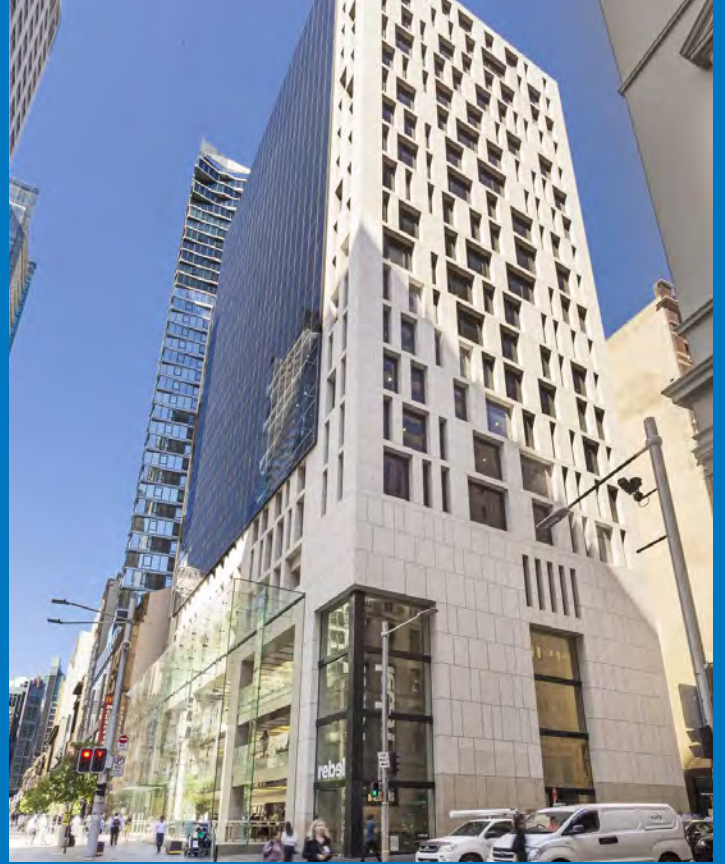
#### Net Absorption by CBD Precinct

Precinct	6 Months to Jul-23	12 Months to Jul-23
City Core	33,584	61,833
Midtown	-44,150	-37,825
Western Corridor	-9,243	-37,064
Walsh Bay / The Rocks	-16,402	-29,783
Southern	-3,962	-17,072
<b>Sydney CBD</b>	<b>-40,173</b>	<b>-59,911</b>

Source: PCA Jul-23



# Tenant Demand



Significant leasing transactions were recently recorded at (clockwise from above left) **8 Chifley Square**, **77 King Street**, **121 Castlereagh Street** and **300 Barangaroo Avenue**.





There has been a lack of large lease transactions recorded recently in the Sydney CBD, with just two deals greater than 2,000sqm noted below. However, the paucity of sizeable leases is not expected to be prolonged as there are several deals at the heads-of-agreement stage.

The sample of recent transactions features two tenants, **APA Group** and **Capgemini**, relocating within the same CBD precinct (Midtown) as their current location. And, whilst both **Akuna Capital** and **Calvary Healthcare** are moving to neighbouring precincts, both new addresses are in close proximity to their current addresses.

In addition to tenants relocating within the CBD, the list also features three new leased premises for flexible space operators **The Commons**, **Work Club Global** and **The Great Room**.

### Recent Major Lease Transactions

Tenant	Address	Precinct	Level	Area (sqm)	LCD	Type
The Commons	121 Castlereagh Street	Midtown	11-12	3,639	Jun-24	Pre-commit
Akuna Capital	300 Barangaroo Avenue	Walsh Bay	19	2,304	Jul-24	Sublease
APA Group	121 Castlereagh Street	Midtown	10	1,918	Jun-24	Pre-commit
Work Club Global*	8 Chifley Square	Core	21-22	1,872	Mar-24	New
Acciona*	77 King Street	Midtown	Pt 3, 8-9	1,661	Jul-23	New
NCS*	10 Shelley Street	Western	Pt 4	1,587	Nov-23	New
Capgemini	420 George Street	Midtown	10	1,421	Jan-24	New
Calvary Healthcare*	345 George Street	Core	15	1,300	Jun-24	New
The Great Room	85 Castlereagh Street	Midtown	29	1,089	Feb-24	New
Alvarez & Marsal*	20 Bond Street	Core	25	1,036	Nov-23	New

\* Cadigal was involved in these transactions.





Large enquiries currently in the market in the Sydney CBD include **NBN Co**, **Uber**, **Rabobank** and **K&L Gates**

# Tenant Enquiry

The volume of active tenant enquiry rose for a second consecutive quarter, to 327,835sqm as at Sep-23.

This represents a 12% increase over the previous quarter and has returned CBD enquiry levels back up to the long-term average, for the first time since Dec-21.

Anecdotally, tenants are currently taking longer to make decisions and obtain approvals in the cautious economic climate, contributing to the increase in active enquiry volumes.

The current 327,835sqm of enquiry is comprised of 133 requirements translating to an average enquiry size of 2,465sqm, the highest average in three years. Examples of larger enquiries that have recently come to market include **NBN Co** (seeking 10,000-14,000sqm for Q2 2026), **Uber** (5,000-6,000sqm, Q1 2025), **Rabobank** (4,000-6,000sqm, Q3 2026) and **K&L Gates** (4,500-5,200sqm, Q1 2026).

The four industry sectors of **Financial Services** (20.4% of total enquiry), **Info Media and Telecomms** (14.6%), **Public Administration & Safety** (12.9%) and **Legal Services** (11.2%) contribute a combined 59% of the current total enquiry.

## Current Tenant Enquiry by Size (enquiries over 500sqm)

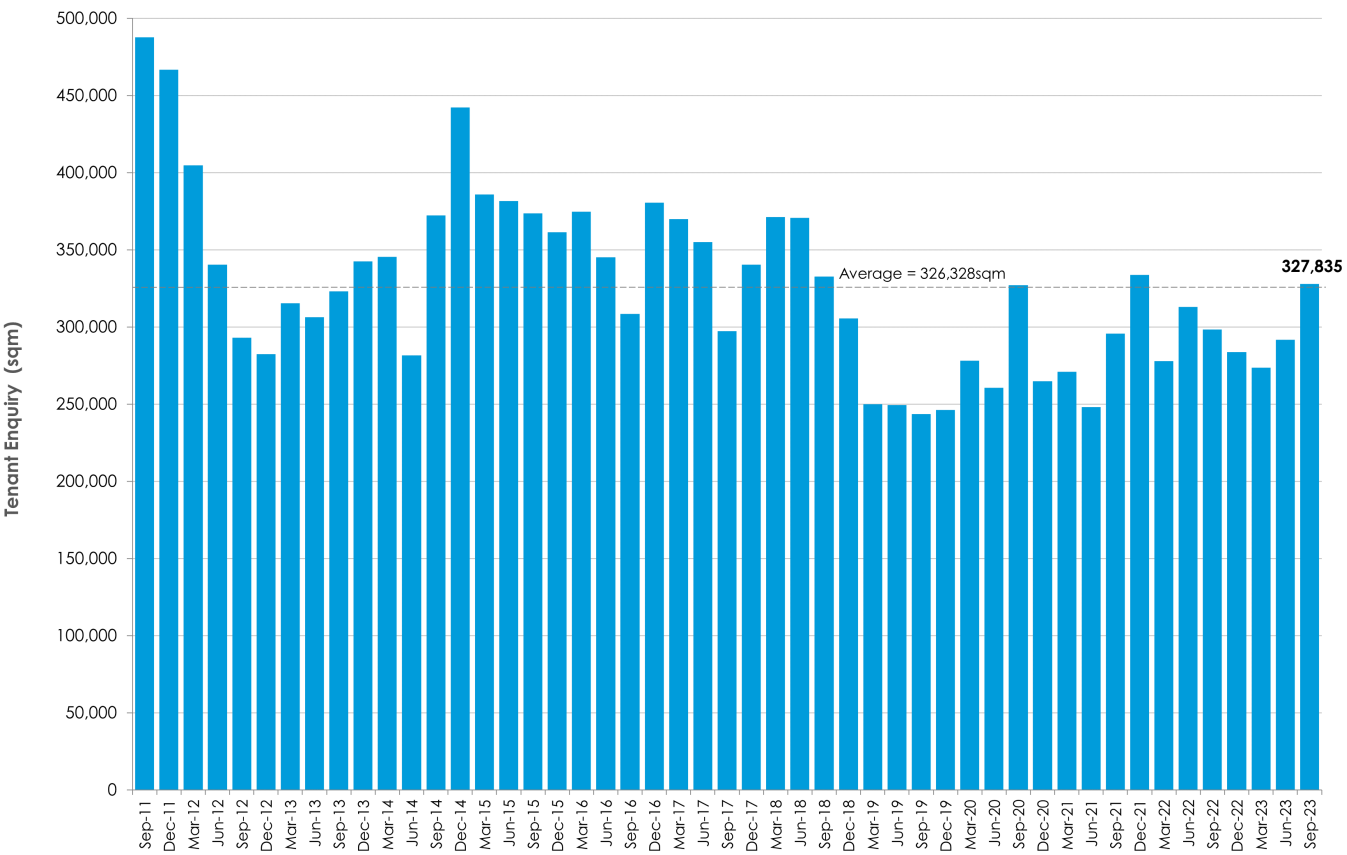
Enquiry Size	Area (sqm)	Number
3,000sqm+	197,600	30
1,000-2,999sqm	95,575	52
500-999sqm	34,660	51
<b>Total</b>	<b>327,835</b>	<b>133</b>

Data as at Sep-23

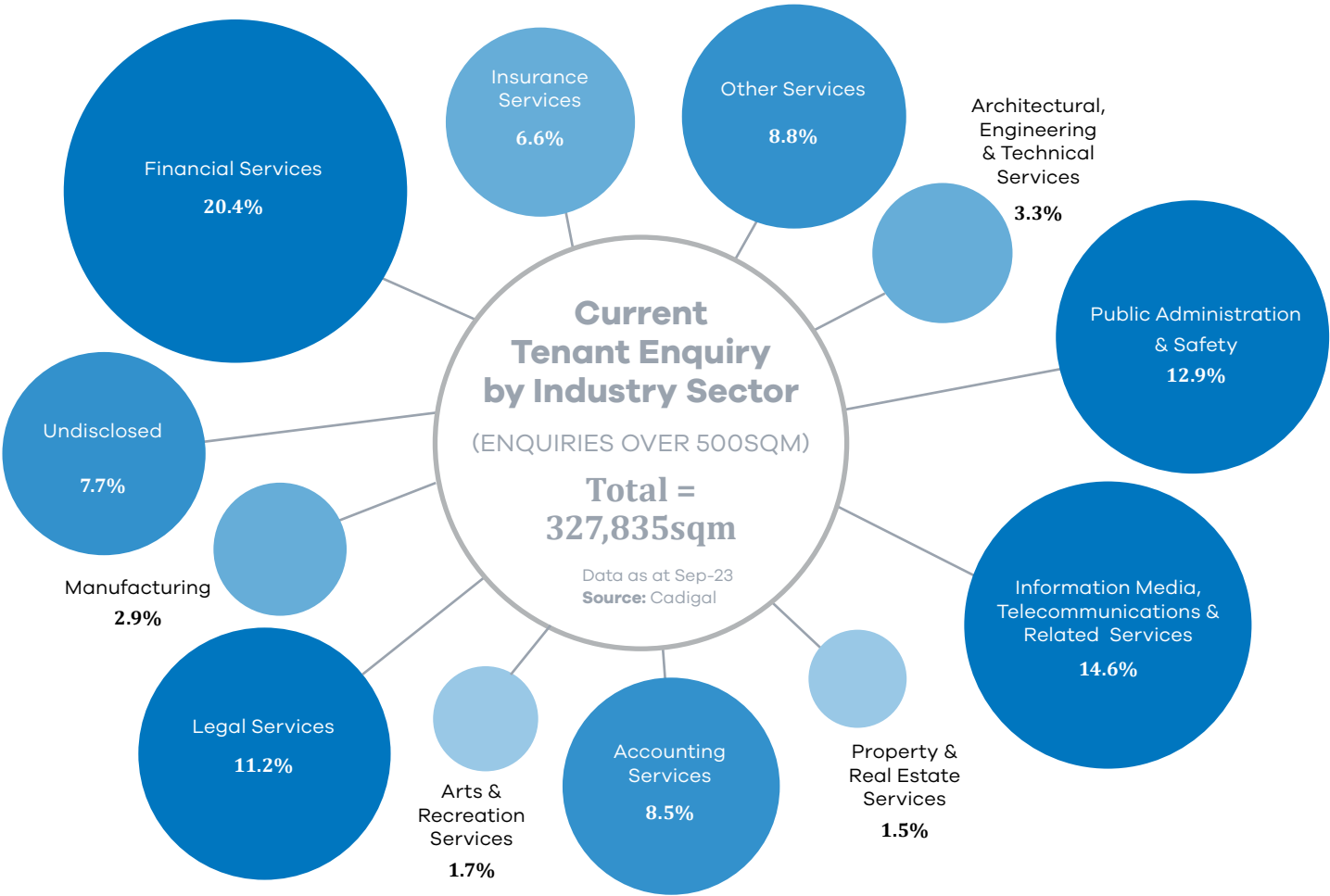
Source: Cadigal



Known Tenant Enquiry (over 500sqm)



Source: Cadigal





# Vacancy

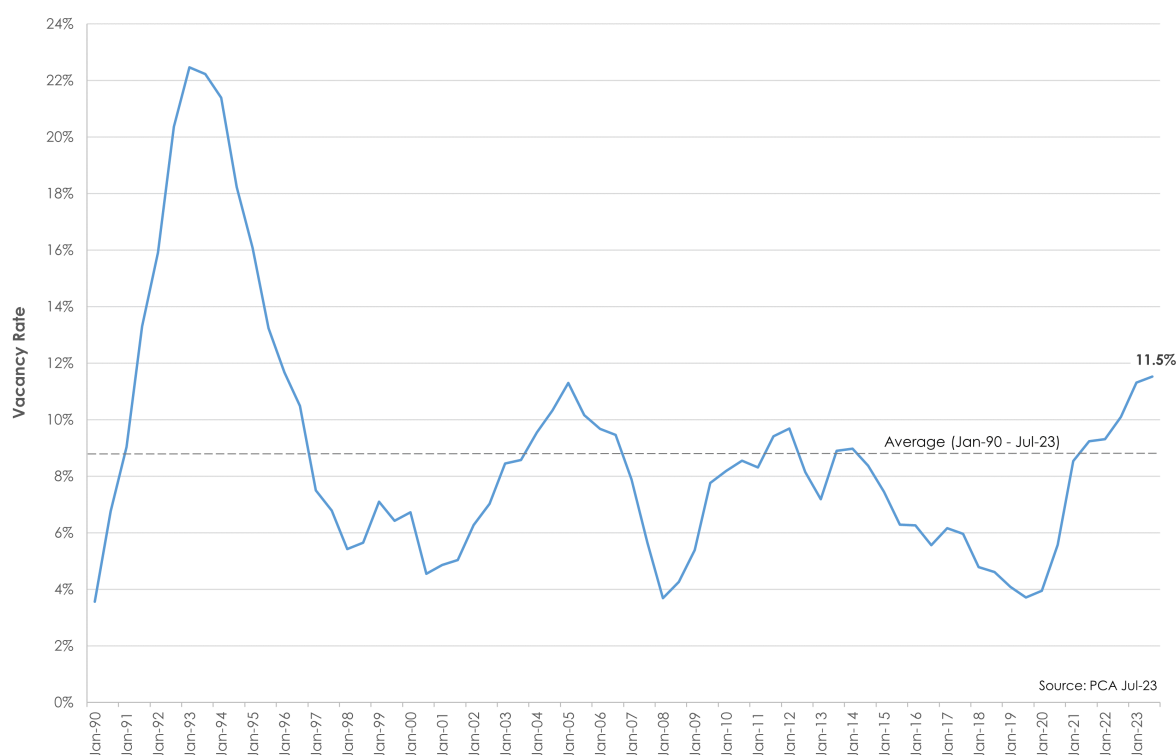
The overall CBD vacancy rate continues its upward trajectory, rising 0.2% over H1 2023 to 11.5%. Whilst higher than the vacancy rate as at Jan-23, the *rate of increase* has slowed versus the previous two 6-month periods. With the latest rise,

the current vacancy rate in the CBD is the highest since Jan-96 (over 27 years).

Vacancy rates across building grades currently span a relatively narrow band (9.5%-12.4%) with **B grade** continuing to have the highest vacancy rate.

The spread of vacancy rates across the CBD precincts is broader than across building grades, ranging from 9.6% in the **Core** to 14.5% in **Midtown**. The CBD **Core** was the only precinct to see vacancy rates fall over H1 2023, aside from the relatively minor **Southern** precinct (7% of total stock).

Total Vacancy Rate (Jan 1990 - Jul 2023)



Building Grade	As at Jul-23	As at Jan-23
Premium	11.0%	10.1%
A Grade	11.7%	11.8%
B Grade	12.4%	12.6%
C Grade	10.4%	10.3%
D Grade	9.5%	8.2%
<b>Sydney CBD</b>	<b>11.5%</b>	<b>11.3%</b>

Precinct	As at Jul-23	As at Jan-23
City Core	9.6%	12.2%
Midtown	14.5%	10.8%
Western Corridor	11.1%	10.3%
Walsh Bay / The Rocks	12.5%	8.1%
Southern	13.3%	14.4%
<b>Sydney CBD</b>	<b>11.5%</b>	<b>11.3%</b>

Source: PCA Jul-23



# Sublease Availability

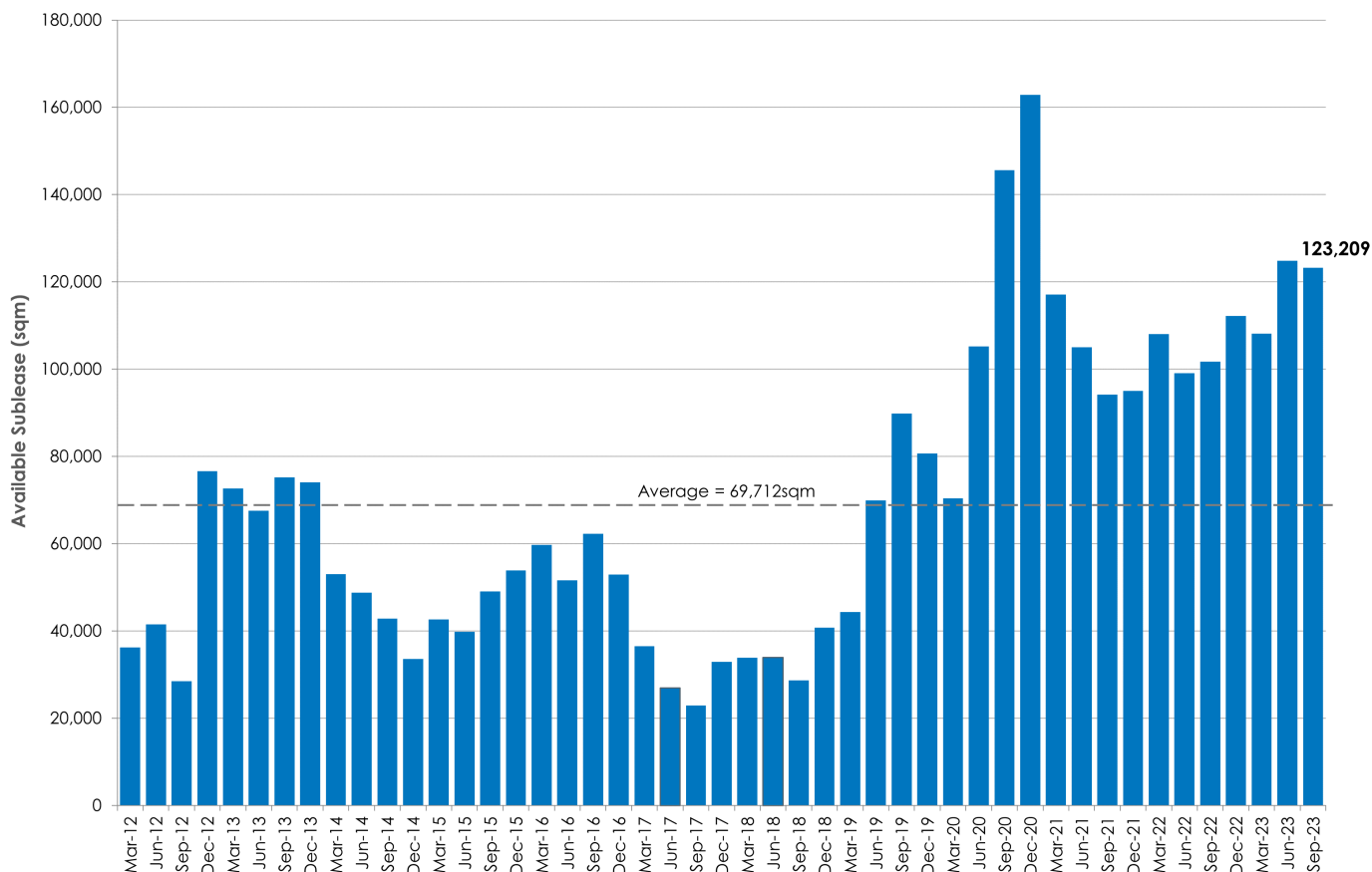
Available sublease space in the Sydney CBD spiked up (and then back down) sharply at the start of the pandemic but has remained at elevated levels ever since.

There was 123,209sqm of sublease space available to lease, as at Sep-23. Whilst this represents a slight (1.3%) reduction from the previous quarter,

it was still the fourth highest total in almost 12 years of quarterly data.

**CBA** continues to have the largest parcel of available sublease in the CBD (20,742sqm, in **Darling Square**) and has done so since the space hit the market in Q4 2022, followed by **Salesforce** (9,914sqm) at **Salesforce Tower**. Additionally, **Westpac** (7,497sqm) and **Lendlease** (6,765sqm) in **International Towers Sydney** plus **NTT Group** (7,449sqm) and **IAG** (5,648sqm) at **Darling Park** all have substantial tranches of sublease availability.

## Sublease Availability



Source: Cadigal

# Rents

**Face rents** in the CBD grew 3.4%-4.3% over the 12 months to Sep-23, reflecting similar growth to the previous quarter. Across the building grades, face rents rose slightly more in **Premium** vs **B grade** which, in turn, grew slightly faster than **A grade** rents.

Currently, **incentives** for whole floors typically range between 32%-38% (on gross) across the CBD. Incentives rose across all building grades over the 12 months to Sep-23, each grade softening in the order of 1.0%, on average. The movement in incentives was more varied across the precincts, rising by about 0.5% in the **Core**, around 1.5%-2.0% in **Midtown** and c.2% in the **Western Corridor** and **Southern**.

The combination of changes in incentives and face rents has resulted in mixed performance for **effective rents** with **Premium** achieving about 2.8% annual growth, slightly less growth in **B grade** (c.2.4%) and **A grade** effective rental growth relatively weak at 0.9%-1.7%. After bottoming out over H2 2021,

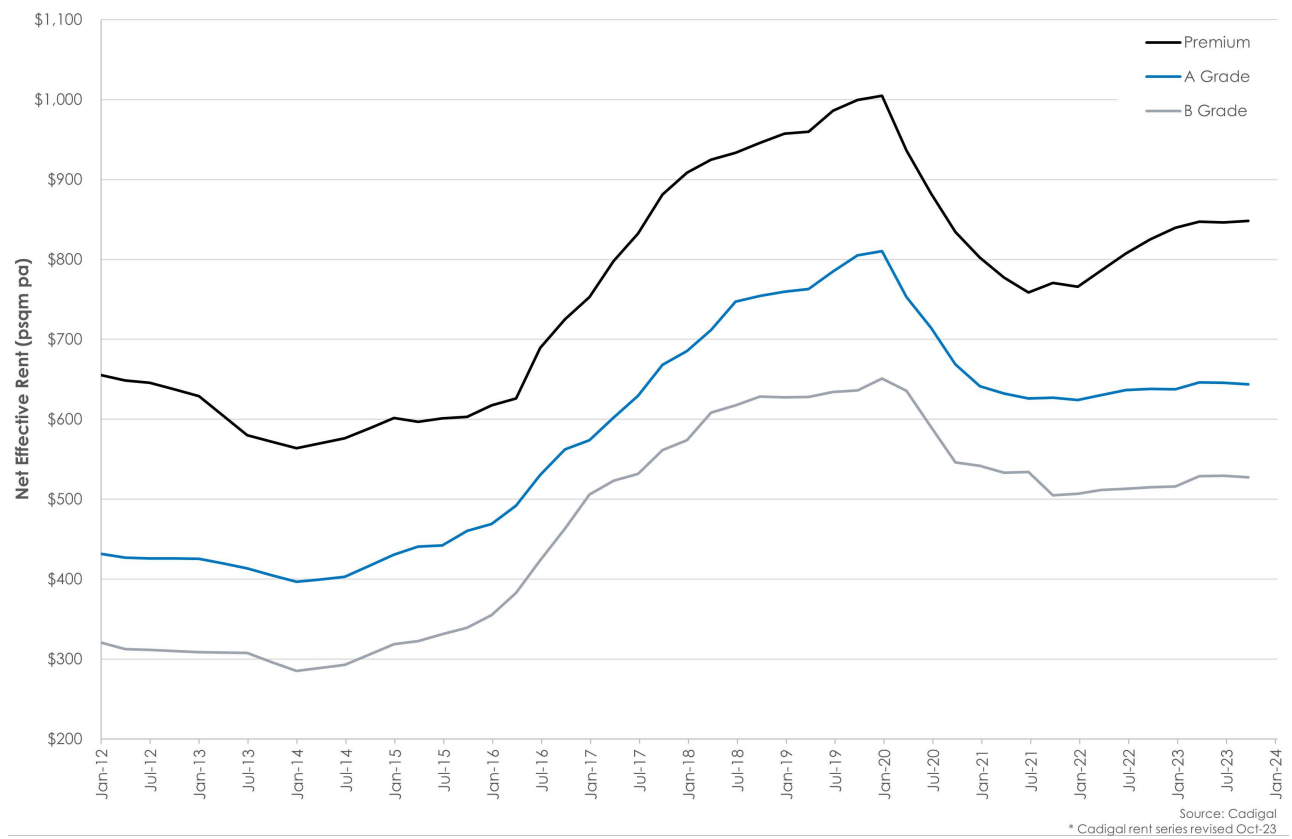
**effective rents are recovering but yet to return to pre-pandemic peaks,**

with Premium currently at 84% of its peak, A grade at 79% and B grade space at 81%.

Rent	PREMIUM			A GRADE			B GRADE		
	Average Rate (psqm)	12 month change	6 month change	Average Rate (psqm)	12 month change	6 month change	Average Rate (psqm)	12 month change	6 month change
Net Face	\$1,447	4.3%	1.3%	\$1,132	3.4%	1.0%	\$914	4.0%	1.4%
Gross Face	\$1,687	4.0%	1.3%	\$1,332	3.6%	1.2%	\$1,105	3.9%	1.4%
Net Effective	\$848	2.8%	0.1%	\$644	0.9%	-0.4%	\$527	2.4%	-0.3%
Gross Effective	\$1,089	2.7%	0.3%	\$843	1.7%	0.2%	\$719	2.5%	0.1%

Data as at Sep-23  
\* Cadigal rent series revised Oct-23

## Net Effective Rent





# — Outlook



The **supply** of new office space in the Sydney CBD paused over 2023, with 63% of the 261,324sqm currently under construction due in 2024. Whilst there are new developments proposed for the market, the prolonged weakness in tenant demand will help keep the quantum of new supply in check. Presently, no new supply is due for 2025-2026 with a relatively modest amount expected in 2027.

Two consecutive rises have seen tenant enquiry back to long-term average levels, providing hope that **tenant demand** will improve from mid-2024 onwards. By that point, market uncertainty should ease and tenant activity will be spurred on by the combination of new supply arriving plus attractive lease terms being offered.

Whilst **vacancy rates** continue to rise, the pace has slowed of late and will do so until the new supply

arrives. Barring an unexpectedly large withdrawal of stock, the CBD will need to see more than 170,000sqm of net absorption over 2024 in order to avoid vacancy rates rising higher. Annual net absorption has not reached 170,000sqm in the last 22 years (although 157,150sqm was tallied in 2015).

**Face rents** have shown low-to-moderate growth but the rate of increase has also slowed and this deceleration is expected to continue over the near term. However, negative growth in face rents is not expected.

**Incentives** have moved higher in all building grades, but with a broader range across the precincts. With vacancy rates at their highest in over 27 years and new supply due in 2024, sustained pressure on incentives will continue.

## Lok So

Research Director

+61 421 283 865

lok.so@cadigal.com.au