Australian office market update

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MAXCAP LOCATIONS

Melbourne
Sydney
Brisbane
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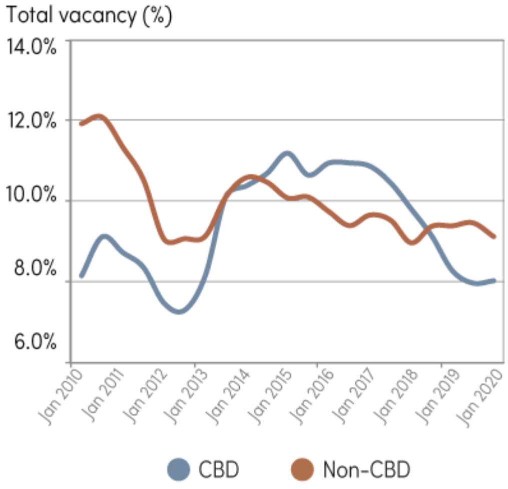
Key Insights

- Vacancy continues to trend down with markets converging.
- Falling vacancy rates underpins rental growth across all markets.
- Vast majority of new supply already pre-committed.

Australia's office market continues to show resilience in the face of weak momentum in the global economy, as well as domestic challenges including the effects of the drought and bushfires. Over the year to January 2020, 247,300 new jobs were created across Australia, 21% above the 10-year average. Full-time employment has underpinned the growth of total employment in Australia over the past two years, which has driven demand for office accommodation as tenants have required more space.

Australian office vacancy rate 2010-2020



Source: PCA, MaxCap Research

While the vacancy rates of the Melbourne and Sydney CBD office markets have both been lower than 5% for the past two years; pleasingly, every major CBD office market recorded a decline in vacancy over 2019.

Across Australia's office markets, the national vacancy rate decreased to 8.3% as at January 2020. The national office vacancy rate has now declined for five consecutive years.

Australian office vacancy rates by market

	Jan 2019	Jan 2018
Adelaide CBD	14.0%	14.2%
Brisbane CBD	12.7%	12.9%
Brisbane fringe	13.7%	15.7%
Canberra	10.3%	11.0%
Hobart CBD	4.1%	6.0%
Melbourne CBD	3.2%	3.2%
Melbourne fringe	6.3%	5.5%
Perth CBD	17.6%	18.5%
Sydney CBD	3.9%	4.1%
Sydney fringe	5.5%	4.6%
Aust. Non-CBDs	**9.1%**	**9.4%**
Aust. CBDs	**8.0%**	**8.3%**
Australia	**8.3%**	**8.6%**

Source: PCA, JLL, MaxCap Research

Sustained business confidence has resulted in a general growth trend across most industry sectors. Professional services, Finance and Government expansion drove much of the take up of space across Australian office markets over 2019.

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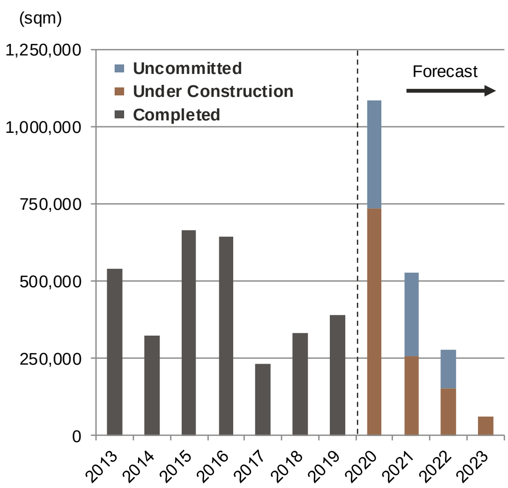
Despite the failure of the WeWork IPO, coworking continues to be a significant occupier of office accommodation. The coworking sector accounted for 11% of office space take-up nationally last year. The coworking sector is growing its share of total office stock but remains at low levels by international standards.

With the unemployment rate below the 10-year average, tenants are increasingly focused on the attraction and retention of staff; occupiers continue to upgrade their office space. Across Australia's office markets, prime (Premium Grade and A-Grade) office net absorption totalled 257,411sqm whereas 141,368sqm of secondary (B-Grade, C-Grade and D-Grade) office space was vacated by tenants over 2019. As a result of demand for prime office space, the prime office vacancy rate has fallen to 6.1% - its lowest level since July 2012.

New office supply 2013-2023



Source: JLL, MaxCap Research

While new supply across Australia's office markets is projected to surpass 1,000,000 in 2020 for the first time since 2007, the bulk of the new developments will be close of full on completion. Of the space that is scheduled for completion this year in the Melbourne CBD, around 90% is pre-committed. New supply in the Sydney CBD is also constrained, impacted by the withdrawal of stock.

As a result of vacancy falling across every major CBD office market, positive rental growth was recorded in not only all national CBD markets but across all office markets according to JLL research over 2019. Interestingly, non-CBD office markets in Sydney achieved the strongest rental growth of all office markets over the year, boosted by the low Sydney CBD office vacancy rate of 3.9%.

The limited availability and increasing cost of CBD office space has already resulted in commercial space spreading beyond the traditional CBD precincts. With millennials now accounting for half of the workforce, many next generation businesses are considering city fringe locations to attract the best staff.

While the CBD office vacancy rates of Melbourne and Sydney are down to decade lows, office vacancy rates of their respective Fringe office markets are also below their 10-year averages at 5.5% in Sydney and 6.3% in Melbourne.

Looking ahead, over the five years to 2024, Australian employment is forecast to increase by 1.075 million or 8.3%, boosting the need for further office accommodation given the declining vacancy rates.