

Melbourne Office

Market Research Update – Q3 2023

October 2023



Australian office market overview

Q3 2023



National CBD Markets

Vacancy: 14.2% (-0.2 pps QoQ)

Prime Net Face Rent: \$822/sqm pa (+0.7% QoQ)

Incentive: 38.1% (46 months free rent over a 10-year lease)

Under Construction: 1,088,500 sqm

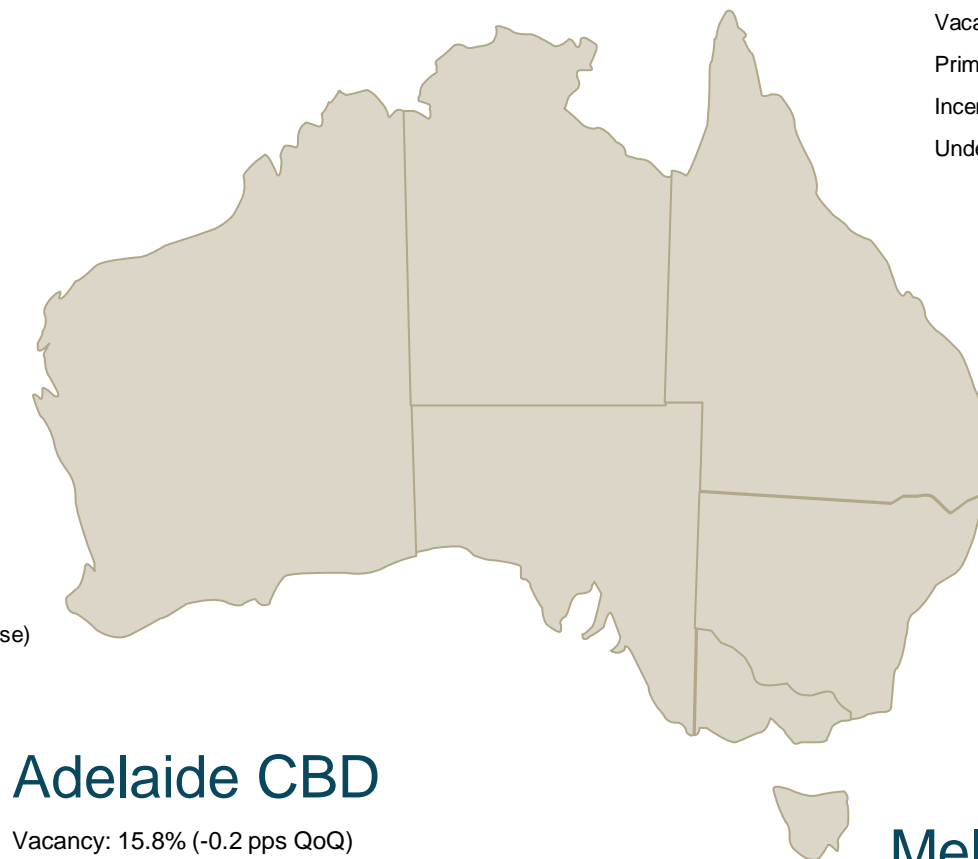
Perth CBD

Vacancy: 17.3% (-1.2 pps QoQ)

Prime Net Face Rent: \$649 /sqm pa (+1.8% QoQ)

Incentive: 47.9% (58 months free rent over a 10-year lease)

Under Construction: 141,200 sqm



Adelaide CBD

Vacancy: 15.8% (-0.2 pps QoQ)

Prime Net Face Rent: \$460 /sqm pa (+1.7% QoQ)

Incentive: 39.3% (47 months free rent over a 10-year lease)

Under Construction: 97,200sqm

Brisbane CBD

Vacancy: 11.5% (-1.1 pps QoQ)

Prime Net Face Rent: \$732 /sqm pa (+3.0% QoQ)

Incentive: 41.3% (50 months free rent over a 10-year lease)

Under Construction: 158,3100 sqm

Sydney CBD

Vacancy: 14.5% (+0.2 pps QoQ)

Prime Net Face Rent: \$1,369 /sqm pa (+0.4% QoQ)

Incentive: 34.9% (42 months free rent over a 10-year lease)

Under Construction: 270,800 sqm

Canberra

Vacancy: 8.0% (+0.9 pps QoQ)

Prime Net Face Rent: \$408 /sqm pa (-0.5% QoQ)

Incentive: 25.3% (30 months free rent over a 10-year lease)

Under Construction: 123,900 sqm

Melbourne CBD

Vacancy: 16.2% (0.0 pps QoQ)

Prime Net Face Rent: \$658 /sqm pa (+0.3% QoQ)

Incentive: 41.2% (49 months free rent over a 10-year lease)

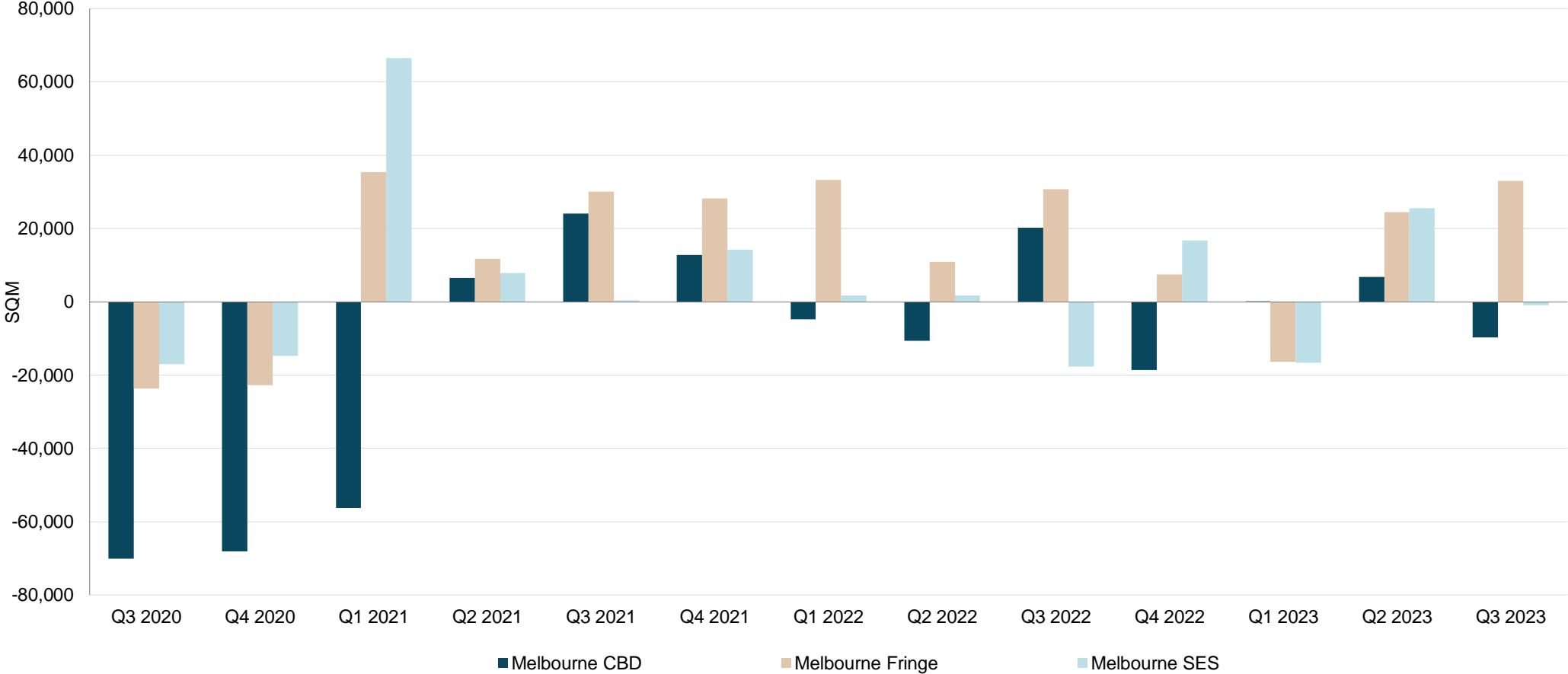
Under Construction: 297,000 sqm

Demand rebounds across the office sector



Occupier demand was mixed across Melbourne’s office markets. The CBD lagged recovery with a net absorption result of -9,800 sqm, as the Fringe recorded positive take-up of 32,900 sqm. The S.E.S market recorded a relatively neutral result of -900 sqm for the quarter.

Melbourne Office Net Absorption

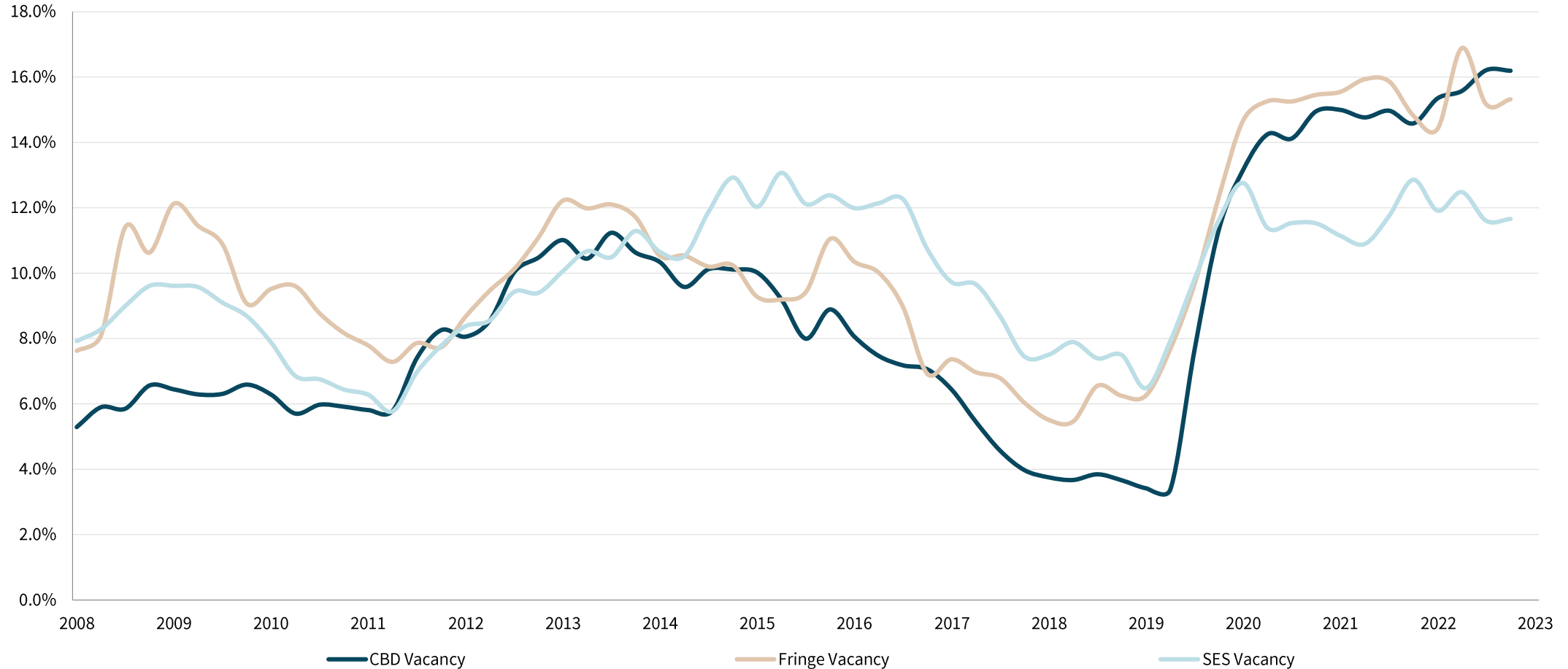


Source: JLL Research

Vacancy remains elevated in all markets



Headline vacancy remained elevated throughout all of Melbourne's office markets. JLL expects vacancy to peak over the next 2-3 years, largely due to the next wave of supply which remains largely uncommitted from large occupiers (>1,000 sqm).

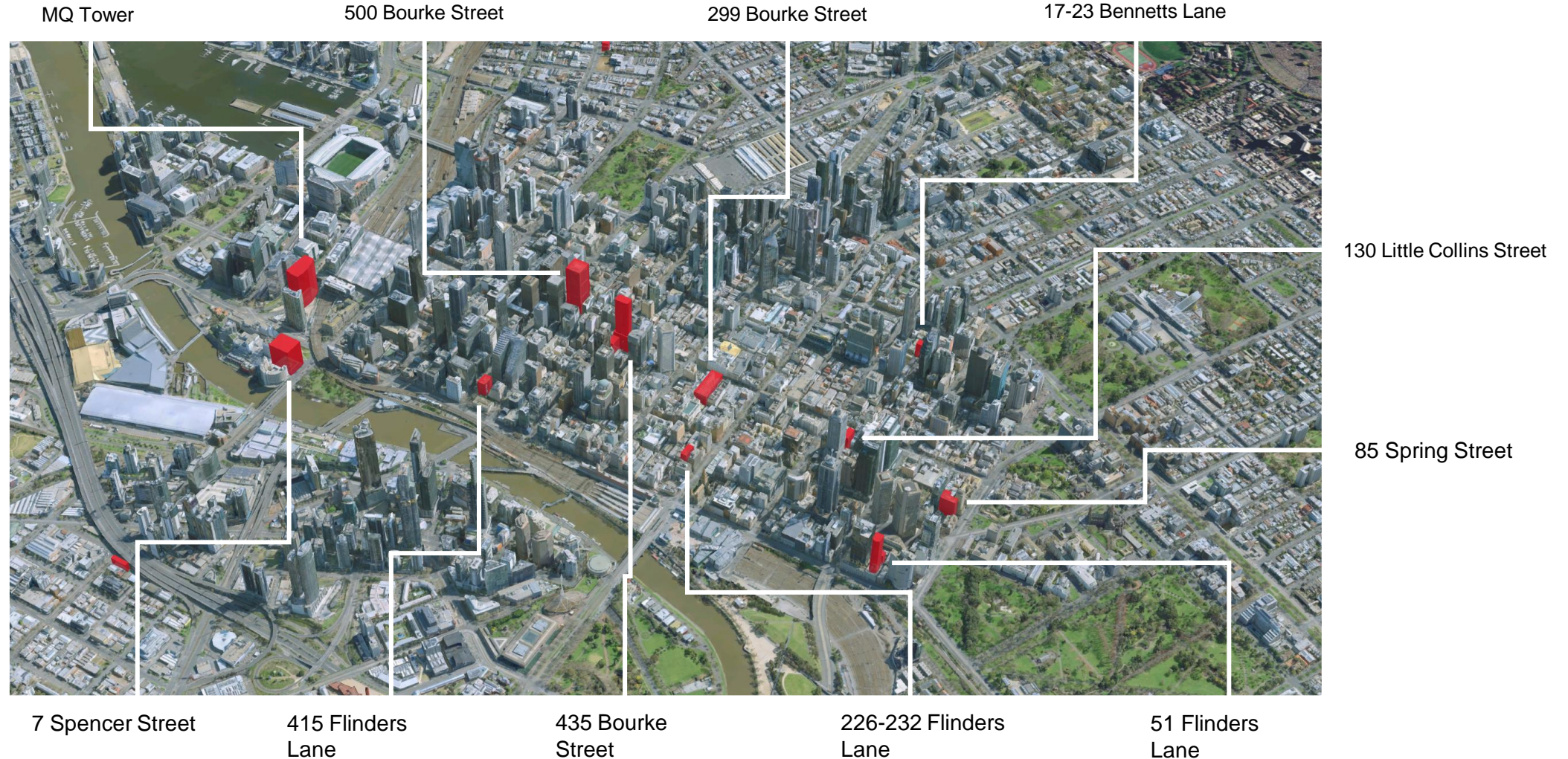


Source: JLL Research

What's under construction in the CBD?




No CBD projects completed in 3Q 2023. There is currently 297,000 sqm under construction in the CBD across 11 projects.




Source: JLL Research

CBD Summary Metrics

Q3 2023



Sublease vacancy
2.6%
136,400 sqm
(Q2 - 2.4%)




Total vacancy
16.2%
851,400 sqm
(Q2 - 16.2%)

Total stock
5.26
million sqm



Net absorption (Q3 2023)
-9,800 sqm

Annual NA in the CBD is now
-21,400 sqm




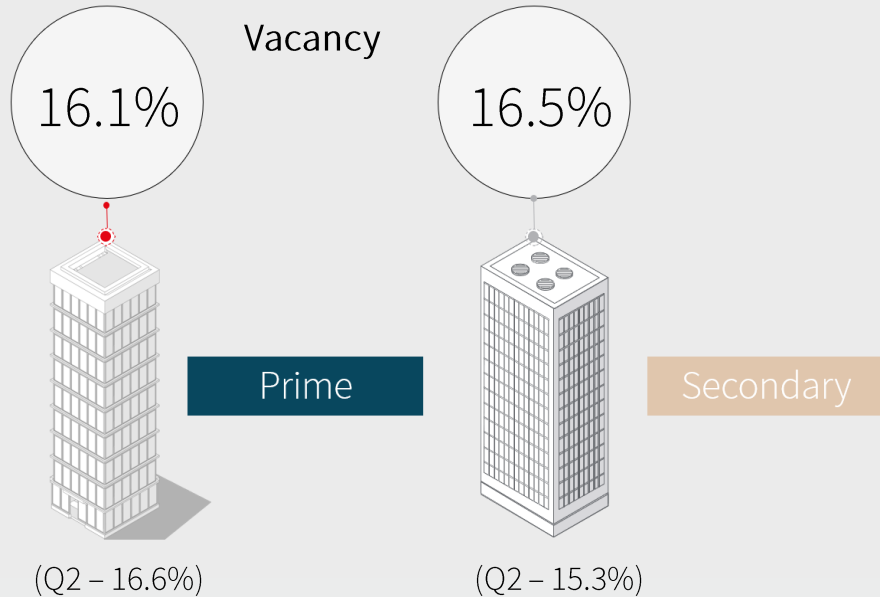
Occupier moves (>1,000 sqm)
73,000 sqm

leased and 75,200 sqm vacated
(including pre-commitments,
backfill and sublease space)



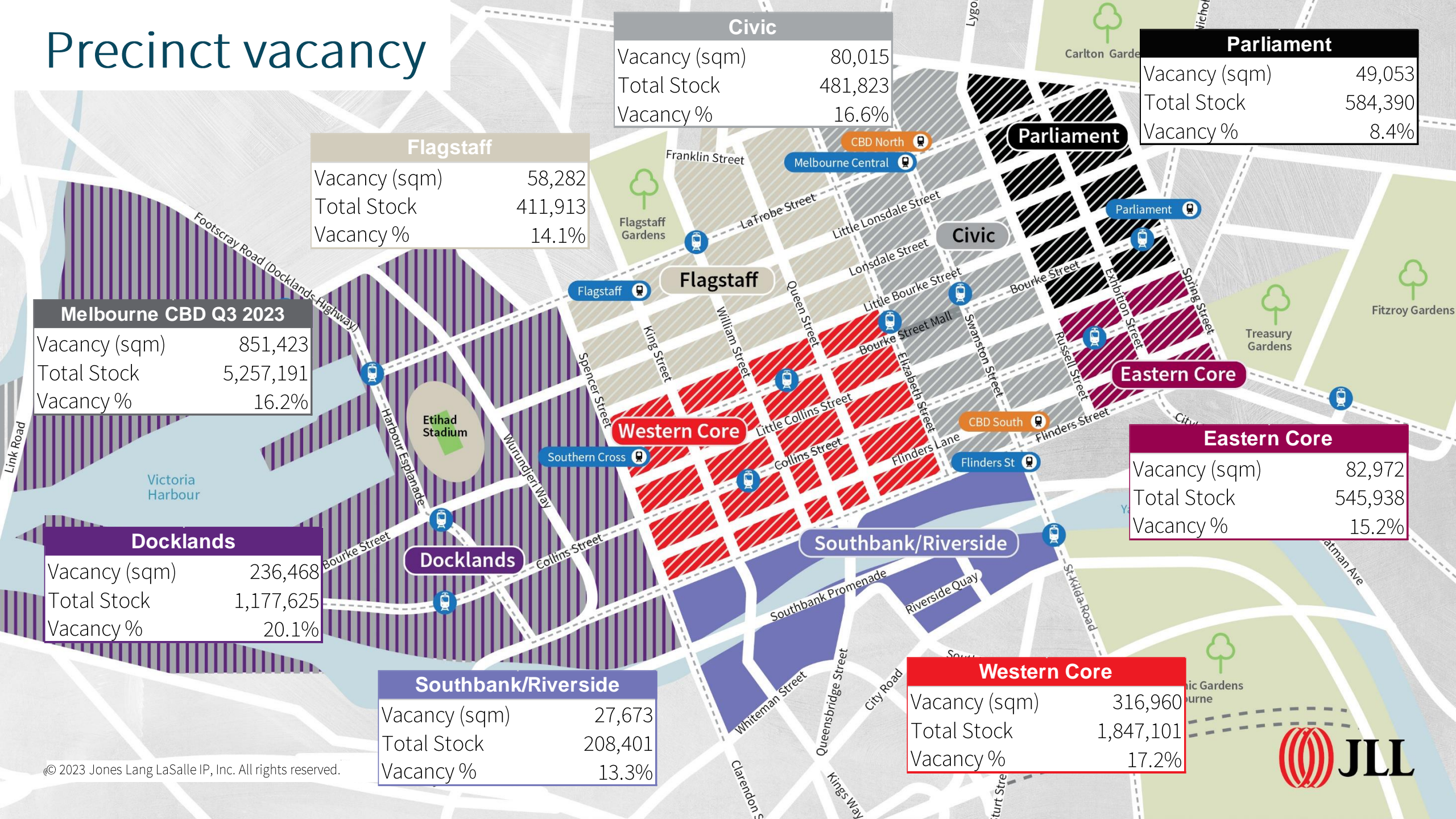
Total stock under construction
297,000 sqm

11 projects expected to
complete by mid-2026

Source: JLL Research

Precinct vacancy



Civic	
Vacancy (sqm)	80,015
Total Stock	481,823
Vacancy %	16.6%

Parliament	
Vacancy (sqm)	49,053
Total Stock	584,390
Vacancy %	8.4%

Flagstaff	
Vacancy (sqm)	58,282
Total Stock	411,913
Vacancy %	14.1%

Melbourne CBD Q3 2023	
Vacancy (sqm)	851,423
Total Stock	5,257,191
Vacancy %	16.2%

Eastern Core	
Vacancy (sqm)	82,972
Total Stock	545,938
Vacancy %	15.2%

Docklands	
Vacancy (sqm)	236,468
Total Stock	1,177,625
Vacancy %	20.1%

Southbank/Riverside	
Vacancy (sqm)	27,673
Total Stock	208,401
Vacancy %	13.3%


Western Core	
Vacancy (sqm)	316,960
Total Stock	1,847,101
Vacancy %	17.2%

Fringe Summary Metrics

Q3 2023



Sublease vacancy
1.6%
30,400 sqm
(Q2 - 0.5%)




Total vacancy
15.3%
297,100 sqm
(Q2 - 15.2%)

Total stock
1.94
million sqm



Net absorption (Q3 2023)
32,900 sqm

Annual NA in the Fringe is now 48,600 sqm




Occupier moves (>1,000 sqm)
58,200 sqm

leased and 29,400 sqm vacated (including pre-commitments, backfill and sublease space)



Total stock under construction
185,900 sqm

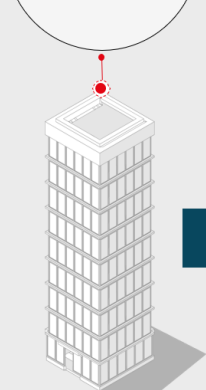
(23 new projects expected to complete by early - 2025)



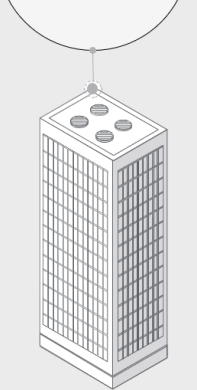
14.8%

Vacancy

15.8%



Prime



Secondary

(Q2 - 14.3%)

(Q2 - 15.9%)

Prime net face rents
\$515 per sqm
(-0.4% QoQ, +0.1% YoY)
32.4% incentive

Secondary net face rents
\$393 per sqm
(0.0% QoQ, -0.1% YoY)
32.7% incentive

Net Face Rents



Source: JLL Research

Melbourne Fringe Precinct Definition

Melbourne Fringe consists of five precincts: Eastern Fringe, Northern Fringe, Southern Fringe, St Kilda Road and Yarra.

FRINGE: St Kilda Road and Yarra.

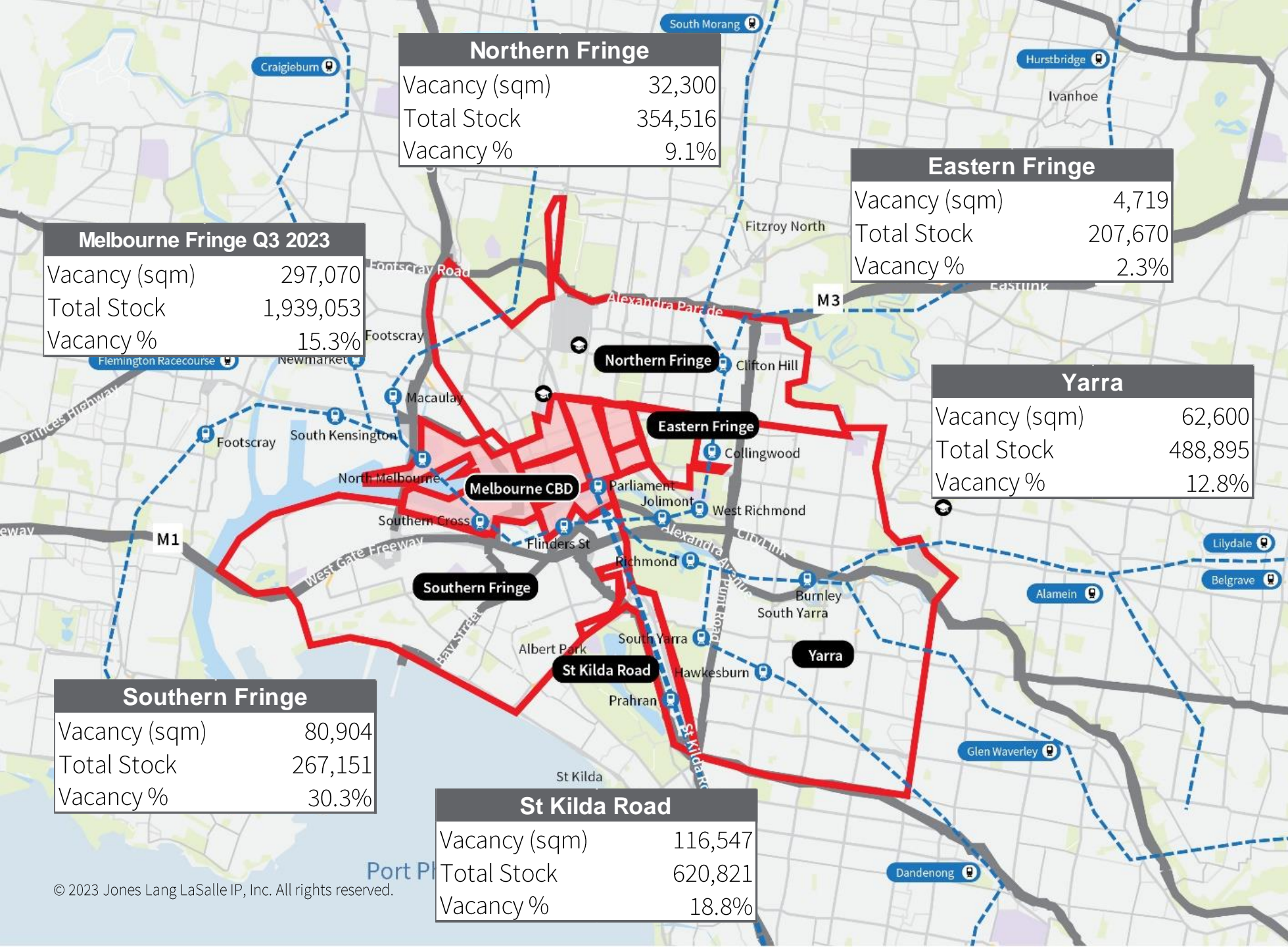
EASTERN FRINGE: Encompasses East Melbourne.

NORTHERN FRINGE: Encompasses the suburbs to the north and north-west of the CBD including West Melbourne, North Melbourne, Abbotsford, Carlton and Collingwood.

SOUTHERN FRINGE: Covers Southbank, South Melbourne and Port Melbourne.

ST KILDA ROAD: The northern boundary of the St Kilda Road precinct starts at Coventry Street and Eastern Road in South Melbourne and runs down Queens Road and St Kilda Road. The Precinct ends at the junction of St Kilda, Queens and Punt Road.

YARRA: Encompasses the suburbs of Richmond, Cremorne, Burnley, South Yarra and Toorak.




S.E.S Summary Metrics

Q3 2023



Sublease vacancy
0.5%
7,400 sqm
(Q2 - 0.3%)




Total vacancy
11.7%
185,500 sqm
(Q2 - 11.6%)

Total stock
1.59
million sqm



Net absorption (Q3 2023)
-900 sqm

Annual NA in the S.E.S is now
24,700 sqm


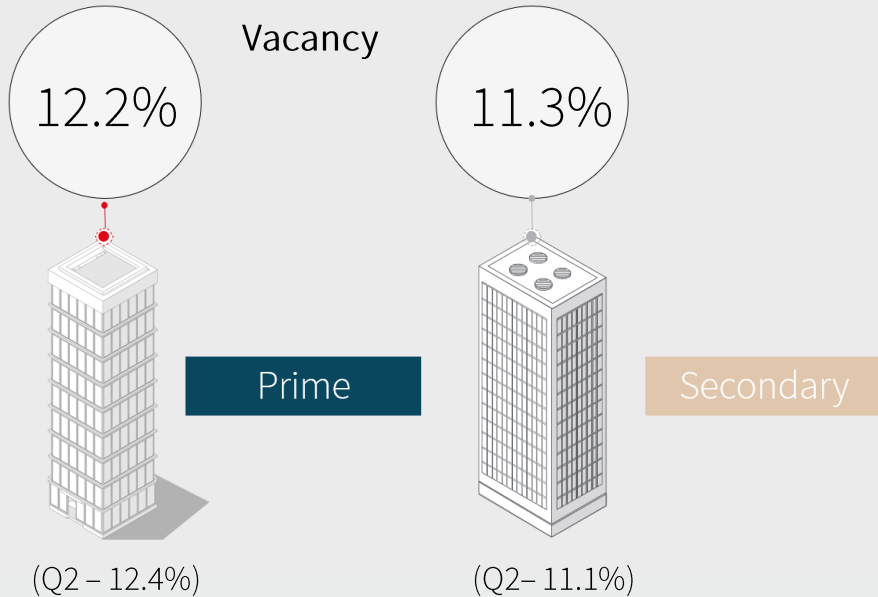


Occupier moves (>1,000 sqm)
4,700 sqm

leased and 2,350 sqm vacated
(including pre-commitments,
backfill and sublease space)



Total stock under construction
66,600 sqm
(4 projects expected to
complete by late - 2024)

Source: JLL Research

Melbourne South East Suburbs Precinct Definition

Melbourne South East Suburbs consists of six precincts: Burwood, Caulfield/Malvern, Dandenong, Monash, Whitehorse and Boroondara.

BURWOOD: Burwood and Burwood East.

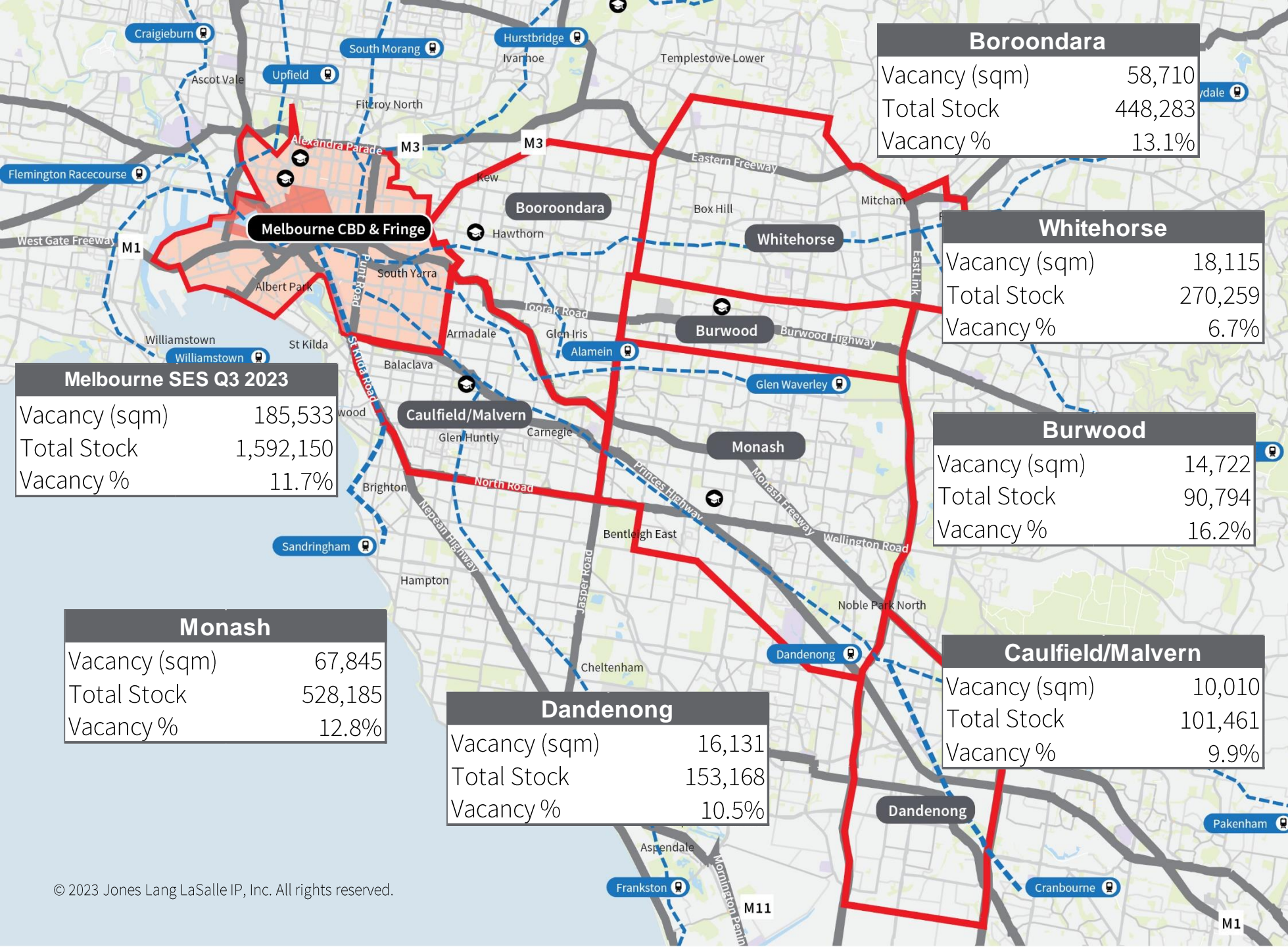
CAULFIELD/MALVERN: Carnegie, Caulfield, Caulfield North, Caulfield South, Elsterwick, Malvern and Malvern East.

DANDENONG: Encompasses Dandenong and Dandenong South.

MONASH: Clayton, Glen Waverley, Hughesdale, Mount Waverley, Mulgrave, Noble Park, Noble Park North, Notting Hill, Oakleigh, Wheelers Hill.

WHITEHORSE: Blackburn, Box Hill, Box Hill South, Doncaster, Doncaster East, Forest Hill, Mitcham, Mount Albert, Narawading, Ringwood, Templestowe Lower, Vermont South.

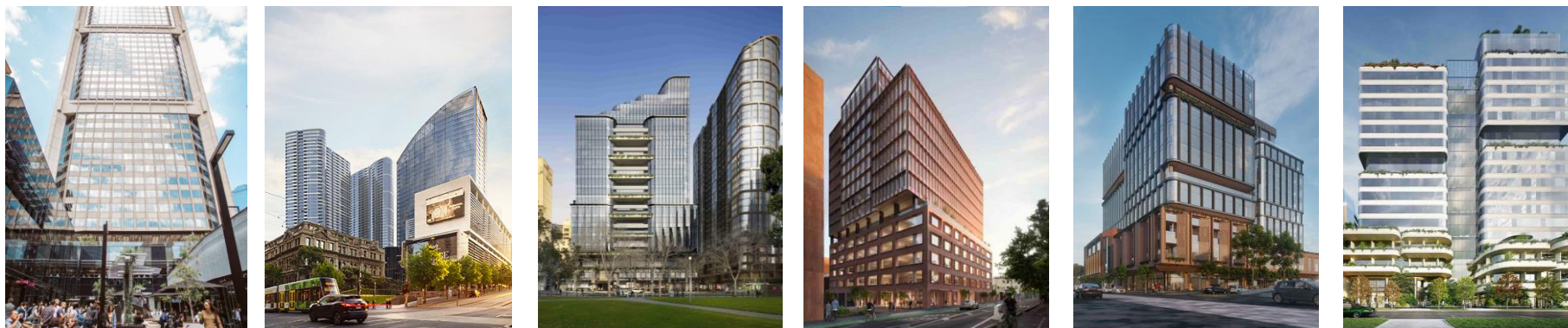
BOROONDARA: Ashburton, Balwyn, Camberwell, Canterbury, Glen Iris, Hawthorn, Hawthorn East, Kew, Surrey Hills.



Office | Supply



Selected office developments across Melbourne's office markets (>15,000 sqm)



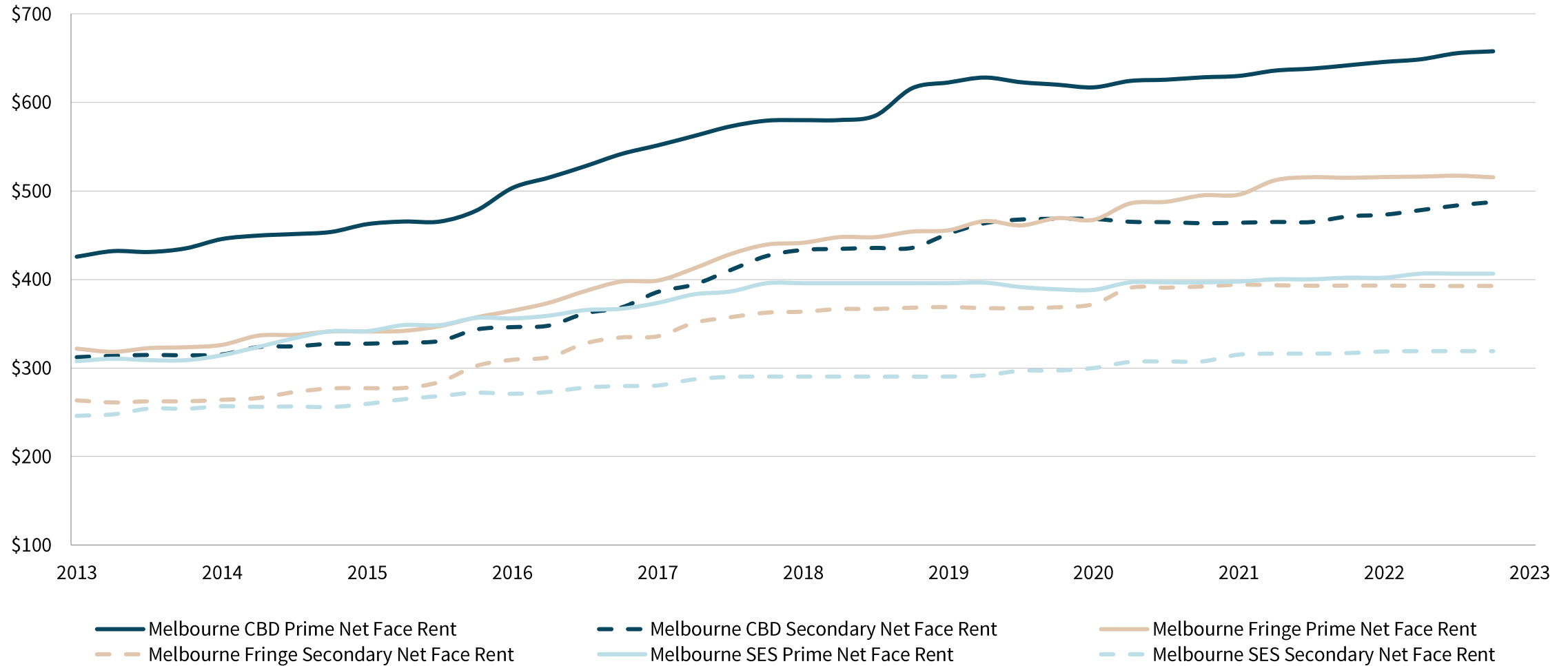
	500 Bourke Street	Melbourne Quarter Tower	7 Spencer Street	36-52 Wellington Street	480 Swan Street	14-22 Wellington Road
Market	Melbourne CBD	Melbourne CBD	Melbourne CBD	Melbourne Fringe	Melbourne Fringe	Melbourne S.E.S
Status	Under construction	Under construction	Under construction	Under construction	Under construction	Under construction
Delivery	2023	2024	2025	2023	2023	2024
Owner	ISPT	Lendlease	Mirvac	Hines	Charter Hall	APH
NLA sqm	44,890 sqm	69,500 sqm	45,000 sqm	18,600 sqm	32,000 sqm	35,000 sqm
Pre-committments	TAL Insurance (6,000 sqm) Holding Redlich (3,900 sqm) Flex by ISPT (3,900 sqm) ISPT (2,600 sqm) PKF Melbourne (2,600 sqm) Russell Kennedy (5,260 sqm)	Medibank (17,500 sqm)	N/A	N/A	Australia Post (28,500 sqm) McConnell Dowell (3,500 sqm)	Eastern Health (15,000 sqm)

Source: JLL Research

The rental market stalls



Face rents soften as incentives continue to increase



Source: JLL Research

Office | Sales



Selected office sales across Melbourne's office markets



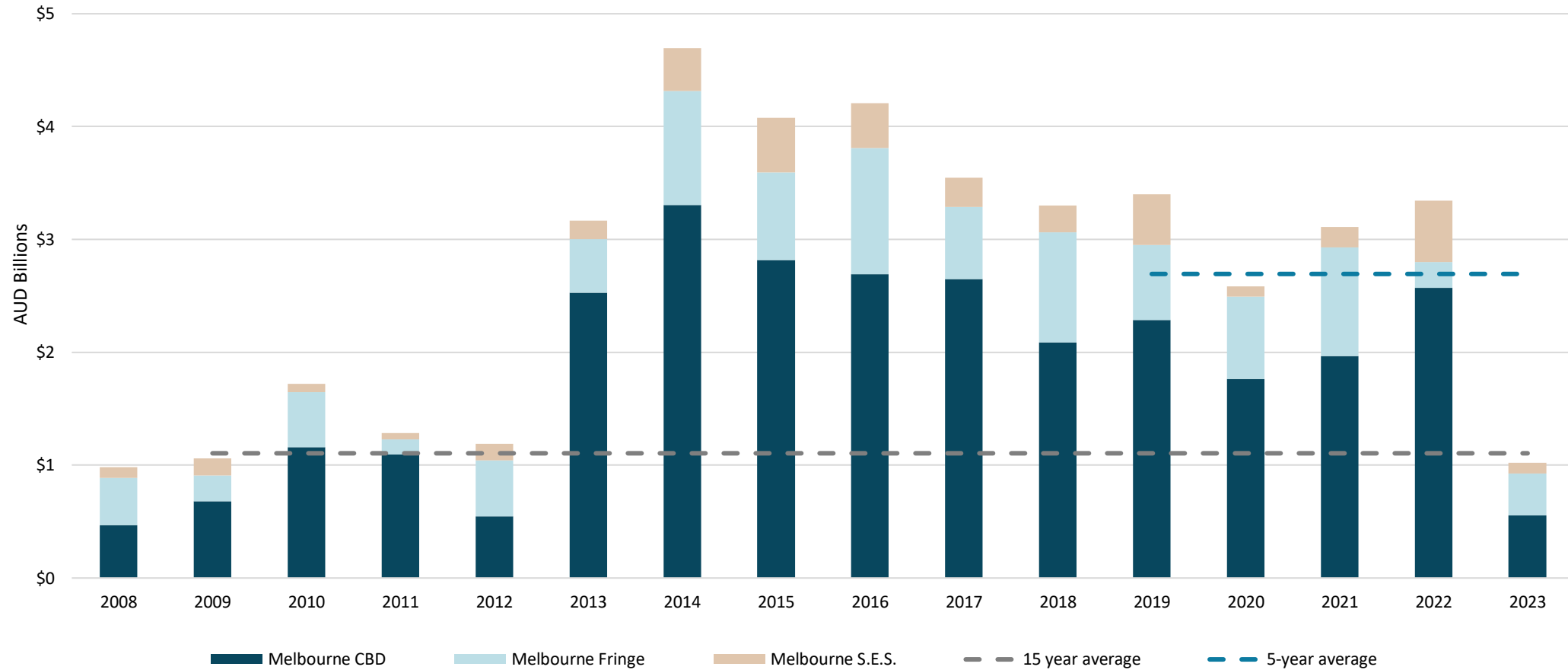
	8 Nicholson Street	333 Queen Street	88 Langridge Lanes	112 Trenerry Crescent	465 Auburn Road	85 High Street
Market	Melbourne Fringe	Melbourne CBD	Melbourne Fringe	Melbourne Fringe	Melbourne SES	Melbourne SES
Sales Price	\$213.7 million	\$34.0 million	\$77.5 million	\$29.8 million	\$17.0 million	\$17.0 million
Vendor	Dexus Property Group	Michael Coppel	Peregrine Projects	Undisclosed	Motta Holdings	Qanstruct
Buyer	Shakespeare Property Group	Undisclosed	DWS Group	Undisclosed	Eddie Hirsch / Avi Silver	Undisclosed
NLA	23,443 sqm	5,829 sqm	6,910 sqm	4,250 sqm	3,000 sqm	2,685 sqm
Date of Sale	Q1 2023	Q3 2023	Q1 2023	Q2 2023	Q3 2023	Q3 2023

Source: JLL Research

Office investment remains limited

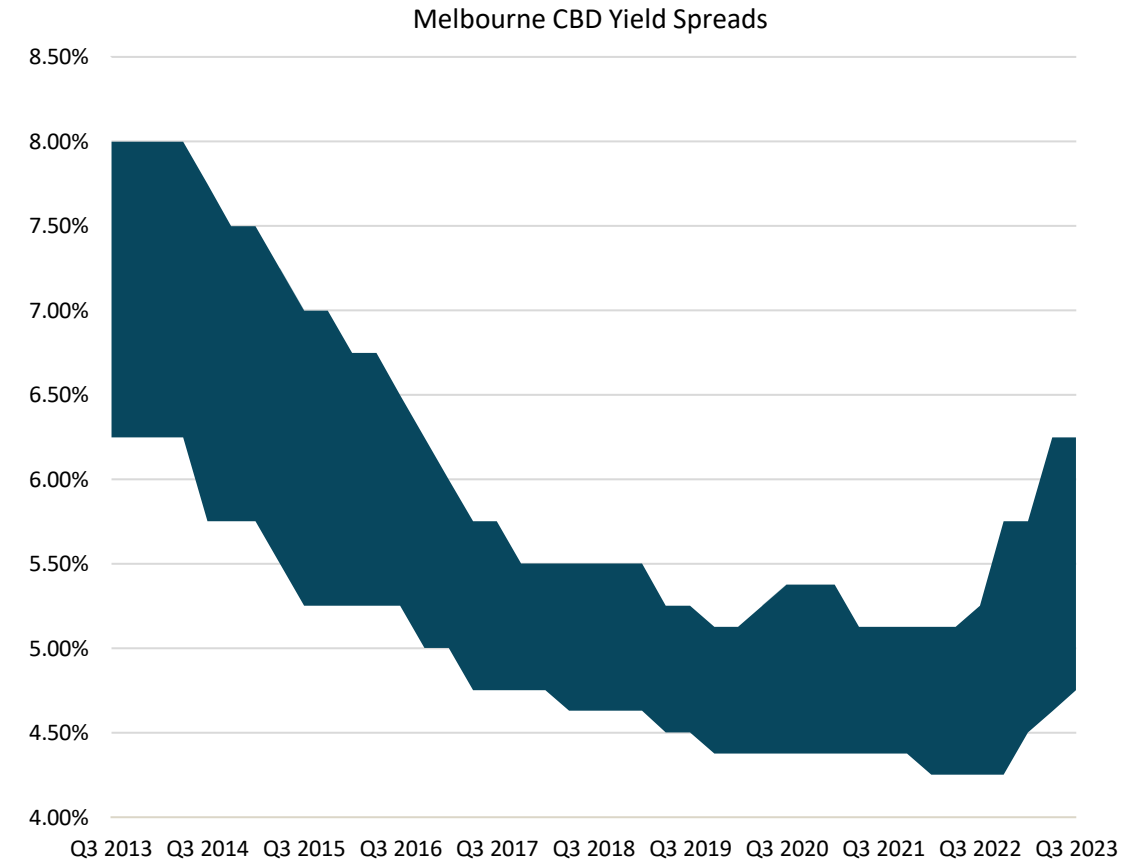
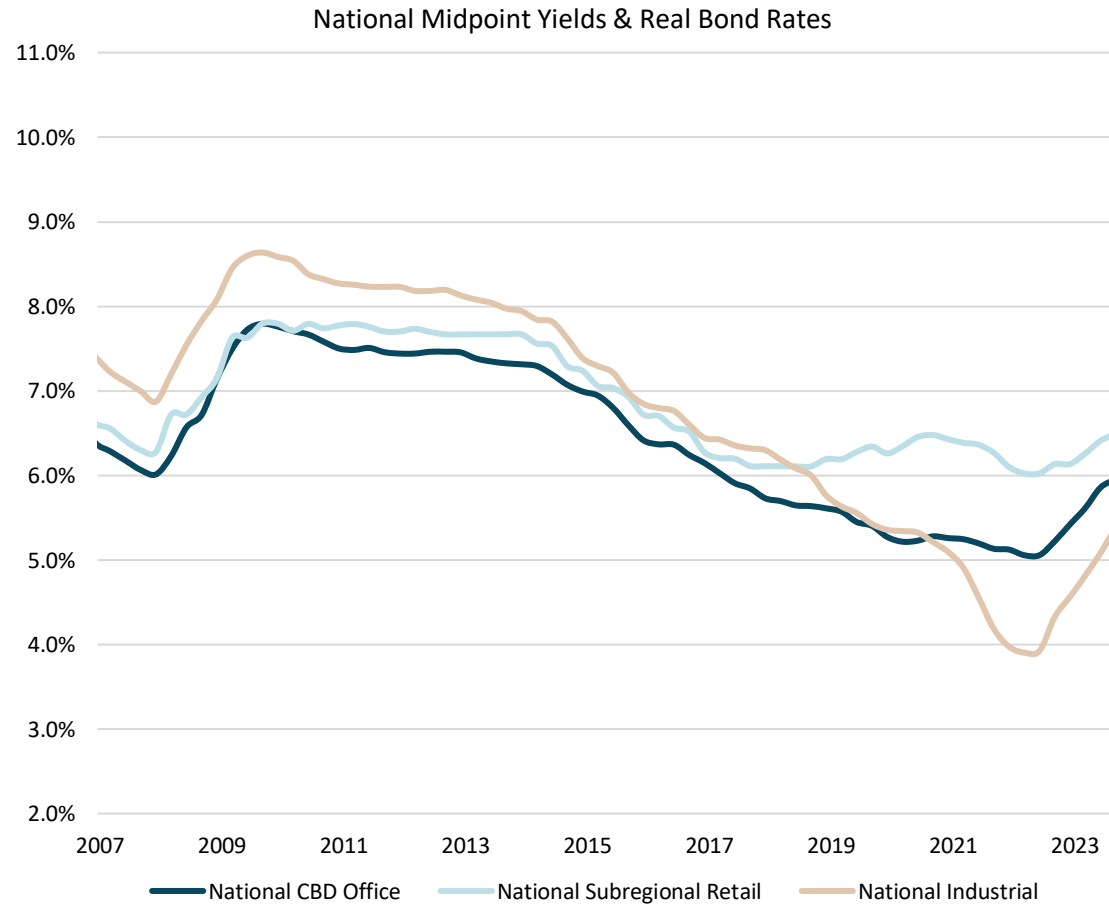


Victorian Transaction Volumes 2008-2023*



Source: JLL Research

Yield softening impacting all asset sectors



Source: JLL Research

Thank you

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