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News Release

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Sydney and Melbourne office markets set for further growth

Headline summary:

- **Overall vacancy in both cities is at the lowest levels for 10 years, with Melbourne now the tightest office market in Australia**
- **Prime net face rents have increased by 12% in Sydney CBD over the past year and by 14% in Melbourne CBD**
- **The markets are expected to see further growth, with Sydney rents forecast to grow by a further 7% in 2019 and Melbourne by 9%**

Strong employment growth and tight supply have led to Sydney and Melbourne's office markets continuing to experience rapid rental growth, according to the latest Knight Frank office market overviews.

According to **Ben Burston, Knight Frank's Partner, Head of Research & Consulting Australia** sustained tenant demand coupled with relatively low levels of stock coming to the market in recent years has led to record low vacancy and strong rental growth.

"Over the past year prime net face rents have increased by 12% in the Sydney CBD and are now up by 44% on their level five years ago.

"Melbourne CBD has experienced its fastest rate of rental growth since 2001, rising 14% in 12 months, to be up by 32% over the past five years. This rapid increase has had a flow-on effect on emerging markets in the urban fringes in both Sydney and Melbourne, where office rents have also escalated rapidly.

"Markets such as Pyrmont and Surry Hills in Sydney, and Cremorne and Richmond in Melbourne are seeing strong tenant demand in their own right, but the spill-over effect from a constrained CBD is adding to the upward pressure on rents."

The reports found Sydney and Melbourne experienced a contraction in overall CBD vacancy rates, leading to the lowest levels in 10 years for both cities and Melbourne becoming the tightest office market in Australia.

Overall vacancy in Sydney fell to 4.1% as at January 2019, well below the 10-year average of 7.3%, according to **Aaron Weir, Partner, Head of Office Leasing NSW.**

"While the market is partly being driven by pent-up demand stemming from limited supply, the historically high levels of withdrawal activity in recent times has been a major contributor to declining vacancy in Sydney.

"In the last two years 390,000 sqm has been withdrawn from the market for Government-led infrastructure projects and alternative uses. The significant level of withdrawals has coincided with subdued development completions adding to the downward pressure on vacancy," said **Mr Weir.**

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According to **Hamish Sutherland, Partner, Head of Office Leasing VIC** Melbourne experienced a drop in vacancy to 3.2% in the year to January 2019, making it the tightest office market in the country.

"Strong economic and employment growth in Melbourne is creating a war for talent. On top of this, a profound cultural shift to new ways of working, such as agile practices, mobile workforces and flexible hours is also resulting in new requirements and together these forces are resulting in unprecedent demand for office space in Melbourne's CBD.

"In the last 12 months the major coworking providers have been racing to take up space in an already tight market, while landlords have also been undertaking sophisticated speculative 'suite' strategies to ensure they don't get left behind in a rapidly changing office landscape."

Both Sydney and Melbourne will continue to experience tight supply in the immediate future, however for different reasons. The pressure on Sydney's vacancy will largely be supply led, compared to Melbourne's where the pressure is coming from the demand side.

Mr Weir said, "There are a number of major projects set to come to market in Sydney over the next three years, which will contribute to the Sydney CBD office stock level increasing by approximately 3.8%, stemming from 440,000 sqm of new and refurbished stock coming to market over this timeframe. However, the pipeline over the next 12 months is relatively thin, until this more substantial stock comes to market in 2021 vacancy will remain low with tenants continuing to face limited options in the CBD.

While Melbourne will remain supply constrained this year, it has a larger upcoming supply pipeline that will act to rebalance the market over time, according to **Mr Sutherland.**

"The majority of supply coming to the market in 2019/2020 has been pre-committed and with continued employment growth ensuring demand remains strong, most of the CBD's upcoming development completions should be readily absorbed.

"Vacancy may drop even further in the next six months, after which it should start to rise to around 6% by the end of 2020," added **Mr Sutherland.**

"Sydney and Melbourne's strong economic foundations and limited supply mean that over the next 12 months they are expected to be among the best performing markets globally, driving continued investor demand from both domestic and cross border capital, concluded **Mr Burston.**

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