

To assess the impact of COVID-19 on the office leasing market, Knight Frank Research has reviewed 80 active tenant/occupier mandates for the main Eastern Seaboard markets.



# Covid-19 puts requirements on hold

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## Office Market Insight, April 2020

### AUSTRALIAN EASTERN SEABOARD HIGHLIGHTS

**42%**

OFFICE LEASING MANDATES HAVE NOW BEEN PUT ON HOLD

**93%**

TENANTS HAVE NOT YET THEIR CHANGED SIZE REQUIREMENTS

**11%**

TENANTS HAVE NOW OPTED TO STAY PUT OR CANCELLED THEIR REQUIREMENT

**TECH RISES**

TECH ARE PROGRESSING WITH MANDATES, WHILE PROFESSIONAL SERVICES HOLDS

**COVID-19 has resulted in a significant slowing in leasing market momentum, with enquiry down. Although more than 90% of the active mandates being tracked in the Eastern Seaboard markets are reporting unchanged terms, evidence of rising incentives has emerged in most markets. While businesses with an immediate requirement for space will proceed with their plans, others are preferring to wait until the virus is contained before agreeing to new lease commitments.**

### Eastern Seaboard occupiers opt to defer leasing decisions

The extent and impact of the COVID-19 crisis is ongoing and businesses are being forced to respond in the short-term with strategies to support their longer-term viability and business continuity.

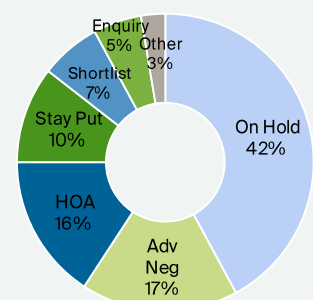
In early March, prior to greater restrictions being put in place, tenants remained engaged in negotiations to fulfil any active requirements and were still proceeding with enquiries, shortlisting options, had terms issued and in some cases, had signed heads of agreement (HOA). There were no signs that deals had been put on hold at this point in the cycle. Although it is noted that many businesses had begun to roll-out remote working policies and were beginning to identify strategies to adopt to support and sustain their business.

In April that focus quickly shifted as the government's containment measures began to restrict the ability of some sectors to trade and curtail or completely derail plans to lease office space, with 42% of the office leasing mandates on the Eastern Seaboard being tracked now put on hold

compared to March. The analysis also found that 11% of occupiers have now opted to stay put or cancelled their office leasing requirement. However, there are still signs of activity, with 17% of occupiers in advanced negotiations and 16% signing HOA.

### April deal status of those under negotiation in March

Eastern Seaboard



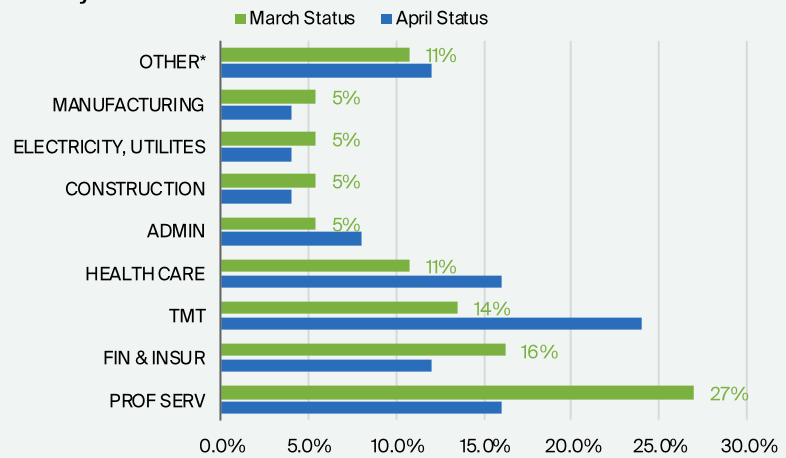
Source: Knight Frank Research

## Tech Strength

Tech sector more resilient. The impact by industry to date has been interesting and for the most part reflects the ongoing growth of the tech sector.

In light of this, the market has started to see an industry sectoral shift in regards to deal progression with a greater number of technology and telecommunication tenants, as well as those in healthcare, or social services progressing with mandates, while those occupiers from the professional service sectors are tending to put their decisions on hold.

For mandates in advanced negotiations, at HOA or had signed AFL in March compared to April, what was the industry sector



Source: Knight Frank Research  
 TMT=Technology, Media, Telecoms  
 \*Other includes Arts & Recreation, Real Estate, Retail, Education, Govt

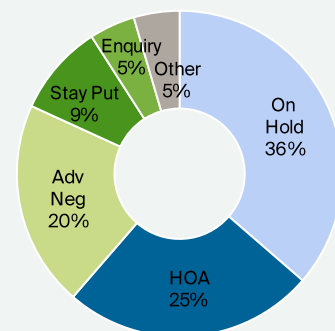
## SYDNEY

### City Impacts

- As businesses respond to fluctuating economic conditions globally, incentives have begun to rise as an increasing number of occupiers are putting leasing requirements on hold, with the analysis finding that **36% of mandates have now been postponed**, with another 9% now opting to stay put or cancel their requirement completely.
- While many tenants have postponed decision making, tech demand is still there. This is feeding into activity with the analysis finding that **45% of leasing mandates are still in advanced negotiation or have signed HOA**.
- Agents and landlords are actively engaged in negotiations, with **some tenants requesting rent relief**, and it will take time to substantiate evidence of loss of income and assess these claims.

- There are also signs that incentives are rising and that some developments may be delayed.
- **Co-working operators are reporting a decline in occupancy** and utilisation rates, which is being partially offset by an increase in virtual product offerings.
- Some tenants are considering temporary co-working options direct with owners.
- **COVID-19 clauses are coming into leases granting some flexibility over lease commencement** dates given the uncertainty over lifting of movement restrictions.
- In another example, **no make good at end of lease is becoming common**, whereas this had been typical pre-COVID.

April deal status of those under negotiation in March Sydney



Source: Knight Frank Research

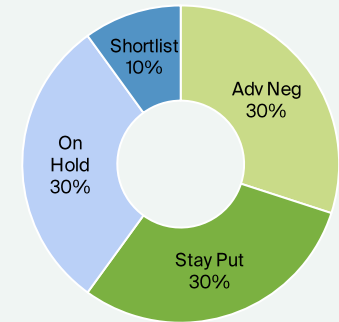
## BRISBANE

### City Impacts

- Tenants in Brisbane appear to be in holding pattern while they monitor the current climate, with the analysis of existing mandates finding **30% are now on hold due to COVID-19**. In some cases, tenants are delaying decision making by four to six weeks.
- A further **30% of occupiers have now opted to stay put** or completely shelved their requirement, with examples of tenants taking a short-term renewal option.
- In a recent example an administration service provider sighted that they did not expect any change to pricing metrics but would likely take a short-term renewal option.

- While there are isolated examples of rents taking a hit, **generally headline rents are holding firm**.
- Reflecting the industry sectoral shift seen in other markets, **government enquiry for office space has picked up**, with Centrelink, Services Australia and Medicare being recent examples of new office demand.
- In addition to demand from government, **there is some residual office leasing demand from professional services occupiers** that is reflected in the analysis in April, with 30% of mandates still advanced negotiation.

April deal status of those under negotiation in March  
Brisbane



Source: Knight Frank Research

## MELBOURNE

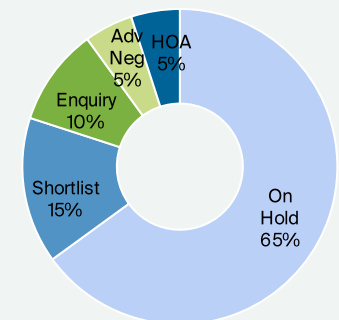
### City Impacts

- The impact of the pandemic has seen a larger percentage of businesses in Melbourne delay decisions on new requirements, with the analysis finding that **65% of mandates have now been put on hold due to COVID-19**.
- Prior to increasing restrictions, 40% of tenants had shortlisted or had terms issued and 25% were in advanced negotiations or at HOA stage.
- The short-term uncertainty that many of these businesses are now facing has meant that **demand has slowed with just 10% now in advanced negotiation or HOA stage**, and a further 15% shortlisting

options to lease.

- Of the active mandates being tracked over March and April, **10% are still making active enquiries**. Tenants and owners are aware of the large amount of backfill space coming to market, and this will result in more options for tenants and boost their negotiating power.
- Discussions are still progressing over pre-commitment leasing.
- While **rents are currently holding firm, there are signs that this is increasingly becoming a discussion point** in negotiations along with incentives and in some cases, a reduction in space requirements.

April deal status of those under negotiation in March  
Melbourne



Source: Knight Frank Research

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**We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.**

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