

To assess the impact of COVID-19 on the office leasing market, Knight Frank Research has reviewed the progression of 97 tenant/occupier mandates across the Eastern Seaboard markets.



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Drop in share of leasing deals on hold

Office Market Insight, June 2020

AUSTRALIAN EASTERN SEABOARD HIGHLIGHTS

32% OF OFFICE LEASING MANDATES HAVE NOW BEEN PUT ON HOLD

19% OF ACTIVE MANDATES HAVE REDUCED THEIR SIZE REQUIREMENT

12% OF TENANTS HAVE OPTED TO STAY PUT OR CANCELLED REQUIREMENT

PROF SERVICES TENANTS ARE NOW PROGRESSING WITH MANDATES AFTER HOLDING IN APRIL

The COVID-19 crisis continues to disrupt leasing momentum as businesses assess the viability of remote working and respond with strategies to support business continuity.

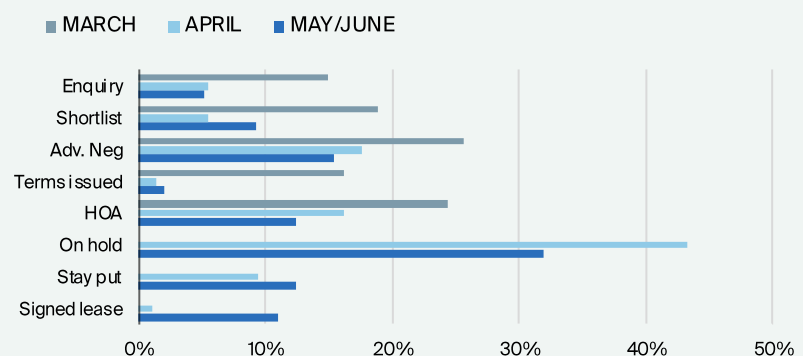
In March, tenants remained engaged and were still proceeding with negotiations. There were no signs that deals had been put on hold at that time. However, by April with restrictions well advanced there was a significant increase, with 43% of mandates tracked being put on hold. With some restrictions easing since May 2020, this has tapered off slightly to 32%, however we expect this to rise given restrictions have been reinstated in Melbourne.

Compared to March, 12% of active mandates tracked in June have been withdrawn completely. While many of these occupiers have opted to stay put

and renew terms with their existing landlord, there were several examples of occupiers making redundancies or closing their business thus suppressing the need for new or additional space. Half of the occupiers on the Eastern Seaboard that did cancel their mandate for space were seeking office space greater than 2000sqm.

Positively, there are still good discussions with tenants actively seeking space, with those deals in advanced negotiation, shortlisted or at enquiry stage accounting for c.30% of the deals tracked. However, there are indications that some tenants are now reducing their space requirement and that incentives are rising in all markets.

Status of deals under negotiation Eastern Seaboard



Source: Knight Frank Research

Prof services rebound

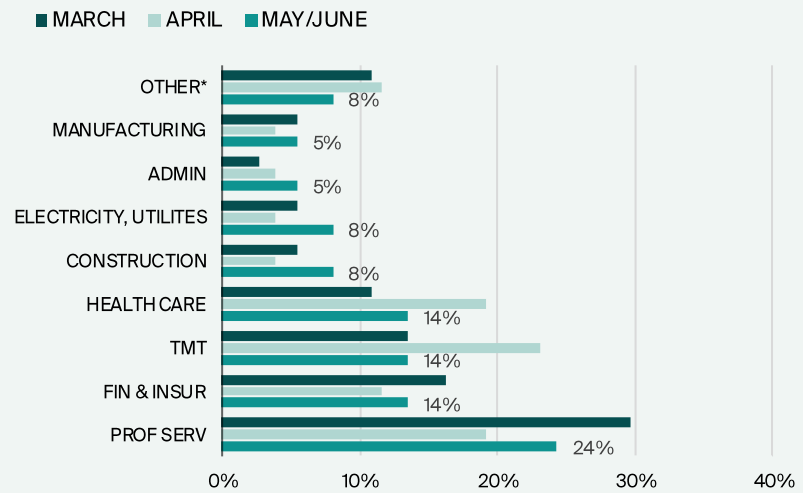
The professional services sector, which had tended to put decisions on hold in April, appears to be selectively progressing with mandates, with its share of deals tracked rising from 19% in April to 24% in June.

The tech sector remains active in deal progression accounting for 14% of active mandates in advanced negotiation, with a signed lease or HOA, but is down from its 23% share in April.

Tech is dominating new enquiry and is shortlisting options, accounting for a large percentage of deals with that status tracked in June.

Mandates in Adv Neg, HOA or AFL by sector

Eastern Seaboard Office



Source: Knight Frank Research
 TMT=Technology, Media, Telecoms
 *Other includes Arts & Recreation, Real Estate, Retail Trade, Education, Public Administration
 #Includes data from a survey of Eastern Seaboard office leasing mandates

SYDNEY

- **Share of tenants at enquiry stage on mandates being tracked has risen from 5% in April to 9% in June**, while those that have shortlisted have risen to 5%. This shows more enquiry is coming through.
- Amongst some positive signs of improved enquiry, more tenants are tending to put leasing decisions on hold, with the analysis finding that **39% of mandates were postponed in June, up from 36% in April.**
- **9% of mandates tracked in June are tenants opting to stay put or have cancelled their requirement completely.**
- **The availability of sublease has increased as tenants assess their short-term space requirements** due to social distancing guidelines and the adoption of remote working

policies. This is weighing on business operating models.

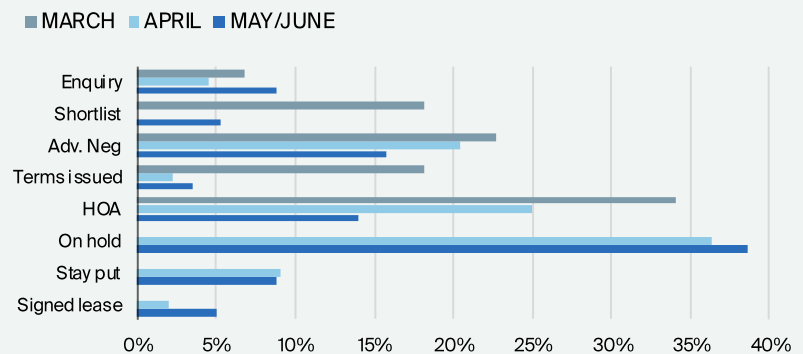
- Of the deals that are still progressing, analysis in June indicates that **almost 17% of those tenants are reducing their size requirement.**
- Some tenants are requesting rent relief and incentives are rising. This

appears to be occurring broadly across all subsectors and markets.

- While there has been a reduction in the share of mandates with signed HOA at 14% in June, down from 25%, there has been an increase in **signed leases in June, rising to 5% from 2% in April.**

Status of deals under negotiation

Sydney



Source: Knight Frank Research

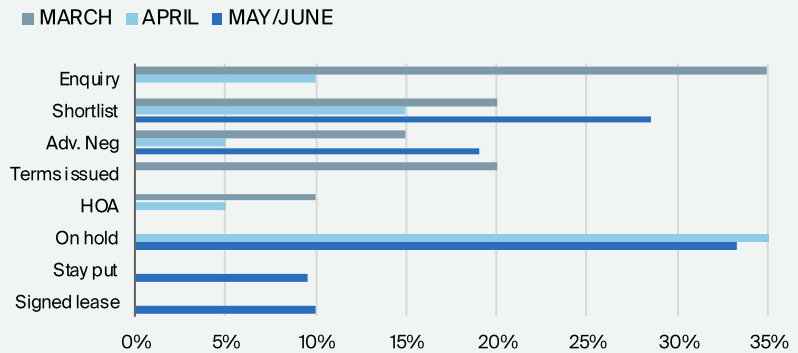
MELBOURNE

- In April the impact of the pandemic saw a larger percentage of businesses delay decisions, with the analysis finding that 65% of mandates have now been put on hold due to COVID-19. **This declined to 33% in June, however is anticipated to rise again following the return of restrictions.**
- The short-term uncertainty that many of these businesses face and requirement to work from home where possible is still reflected in lower demand levels, **with 19% of mandates in advanced negotiation**, and 29% now in shortlisting phase.
- There are **signs that sublease availability has begun to increase**

led mostly by 5000sqm+ tenants. Some of this sublease space is a result of backfill due to pre-commitments and the remaining lease tail on their existing space.

- Discussions on rental relief exists and some **tenants with active mandates since March have reduced their size requirements.**

Status of deals under negotiation
Melbourne



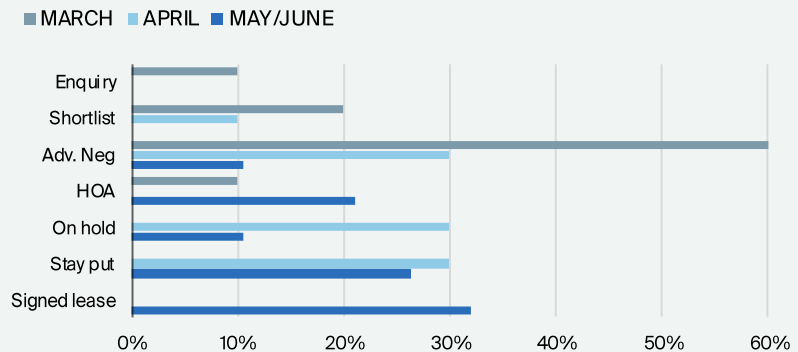
Source: Knight Frank Research

BRISBANE

- Although new demand remains subdued due to Covid restrictions, there are signs that tenants are starting to act on options with the **share of those deals on hold declining from 30% in April to 11% in June.**
- **As select businesses return to the workplace**, some landlords have commented that occupancy rates have increased by up to 40%.
- **There has been an increase in signed HOA to 21% in June**, led mostly by smaller occupiers, indicating that many tenants are finalising new terms post-Covid.
- In most cases this includes an increase in incentives being offered.

- **Most deals tracked with signed HOA in April now have a signed lease.** The legal and consulting subsectors have been the most active on that front.

Status of deals under negotiation
Brisbane



Source: Knight Frank Research

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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