



MELBOURNE CBD OFFICE INSIGHT

APRIL 2024

The Melbourne CBD is in the process of being reinvigorated with premium office supply coming to the market.

In this Insight, we share the latest research and data on the Melbourne CBD office market.

GREEN STAR AND NABERS ENERGY-RATED BUILDINGS SET TO REINVIGORATE MELBOURNE'S OFFICE MARKET

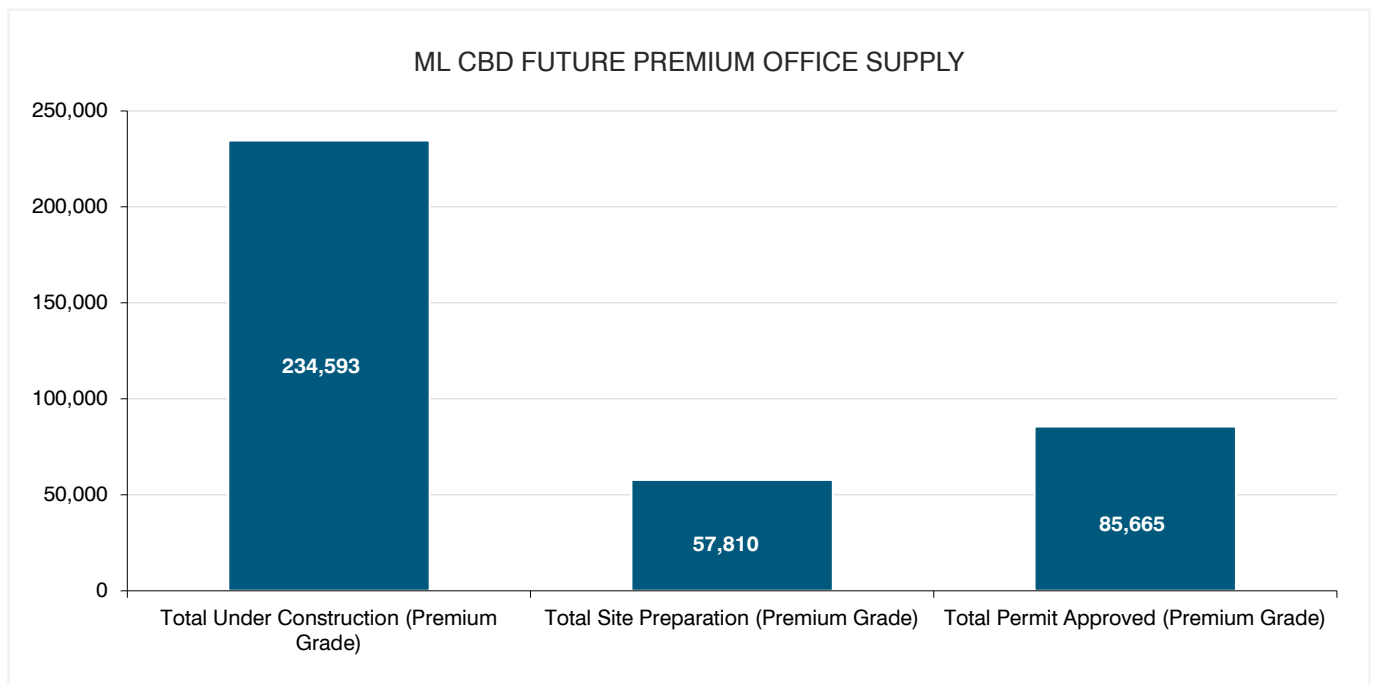
Premium Melbourne CBD Office Supply Pipeline exceeds 230,000 sqm

Premium-grade office buildings in Melbourne's CBD with Green Star and NABERS Energy ratings are set to reinvigorate the city's office market, according to the latest M3 Property research.

There is 234,593 square metres of premium-grade buildings currently under construction in the Melbourne CBD. An additional 57,810 square metres of premium-grade buildings are at site preparation stage, with construction not yet started, and there is 85,665 square metres of premium-grade buildings in the pipeline for future construction with permits approved. All premium-grade buildings under construction are targeting at least a 5 Star NABERS Energy rating and most are targeting 6 Star Green Star ratings.

Demand is strong in the top end of the Melbourne CBD office market, with high rental growth in this sector. Achieving and maintaining a high NABERS Energy rating and high Green Star rating is being viewed favourably by tenants from a sustainability point of view.

Although there have been limited transactions in 2023 and early 2024, premium-grade office buildings continue to be in demand for occupiers with a strong pipeline of quality stock coming to the market. We expect the Melbourne CBD office market to stabilise later in 2024 to 2025, and for international investors to start returning to the market as capitalisation rates stabilise. Australia's assets are relatively stable in the global market, and currently we're seeing Japanese investors active in a counter-cyclical move.

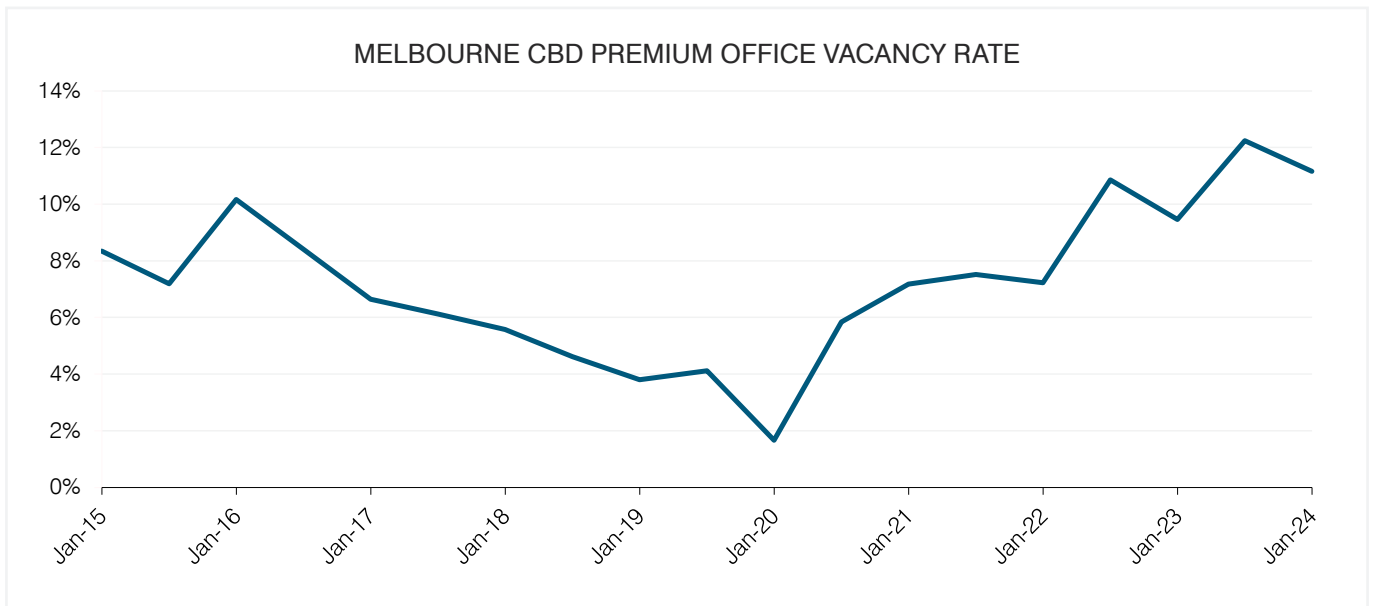


Source: M3 Property

PREMIUM-GRADE VACANCY LEVELS RELATIVELY LOW

The total vacancy rate for Melbourne’s CBD office market increased from 14.1% in Jan 2023 to 16.4% in Jan 2024, according to the latest Property Council of Australia (PCA) statistics. Over the year, prime vacancy increased from 14.14% to 16.4% and secondary vacancy decreased from 19.2% to 17.0%. Vacancy has increased due to both new supply added to the market, as well as negative / subdued net absorption, over the past four years.

However, the premium building vacancy rate is currently 11.2% and is forecast to remain at a similar level for the foreseeable future. The premium end of the market shows a relatively low vacancy rate compared with Melbourne CBD’s total vacancy rate. B-grade office buildings are likely to be repurposed, including to A-grade buildings, which may reduce vacancy further over the coming years.



Source: M3 Property



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