M3 PROPERTY

SPECIALIST
INDEPENDENT
VALUATION

# COMMERCIAL OFFICE INSIGHT

FEBRUARY 2023

“TENANTS ARE OPERATING WITH MORE CERTAINTY; SALES ACTIVITY IS MODERATING AND ASSET RE-PRICING IS UNDERWAY; OCCUPIER REQUESTS ARE RAMPING UP.”

ANDREW DUGUID
MANAGING DIRECTOR NSW

## INCREASED CERTAINTY ACROSS AUSTRALIA’S OFFICE MARKETS DESPITE ECONOMIC HEADWINDS

Australia’s office markets are seeing more certainty than the previous two years despite the broader economic environment, with tenants operating with more clarity in respect of their occupation requirements and employees’ expectations.

## OFFICE OCCUPIER NUMBERS CONTINUE TO INCREASE

Tenants are operating with more certainty in the market, with many businesses having resolved a hybrid working approach with work time shared between home and office. Physical office occupancy gradually improved over 2022 as the improved amenity, activity and function of CBDs drew employees back to the office in larger numbers.

This is reflected in the most recent data from the Property Council of Australia’s latest occupancy survey.

- The November survey recorded Perth offices at 80 per cent occupancy in November, the highest level since November 2020.
- Melbourne’s occupancy rates jumped 12 per cent to 57 per cent in November, the highest level since the pandemic began.
- Sydney recorded its highest occupancy figure since June 2021, with occupancy rising to 59 per cent.
- Brisbane increased from 64 to 67 percent and Adelaide remained strong at 74 per cent.
- Canberra recorded the lowest occupancy level in the country, dipping from 57 to 52 per cent.

A redistribution of talent is a strong possibility in the market this year. A shake up in the labour market through potential layoffs in industries including technology, finance and investment banking in 2023 may assist in enabling expansion for businesses whose growth has been impeded due to labour shortages. BIS Oxford Economics is forecasting national employment in the financial services sector to decline by 3.03% in 2023.

While it has been an employees' market for the past three years and demand for workplace flexibility has increased, as this balance shifts employers are more likely to encourage staff to engage in in-office activities in greater numbers.

Prime assets are likely to outperform with superior accommodation and amenity forming part of the value proposition for talent.

## OCCUPIER REQUESTS INCREASE

Office leasing markets continue to recover, with more activity and confidence returning to the occupier market – albeit in a more challenging environment. The newer developed premium-grade assets are performing well, with a flight to quality by tenants negotiating more flexible leases.

Relatively high vacancy and attractive incentives, together with reduced COVID-related uncertainty, has driven an increase in the number of occupier requests in tenant briefs and tenant movement.

# NATIONAL OFFICE SALES FOR $20M + INCREASED IN 2022

Investment activity was steady through 2022 although evidently slower in the final quarter of the year. The latest Real Capital Analytics data shows sales volumes of national office assets ($20 million plus) across Australia rose by 4.8 per cent in 2022 in comparison with the previous calendar year.

In the $20 million plus market, total sales volume for 2022 was higher than 2021 up until Q4; at the end of Q3 the rolling total sales volume was up over 20% from 2021.

The long-running yield compression cycle concluded in 2022 with a potential softening phase now underway in most markets. The pace and extent of next phase of the cycle will be influenced by the interest and bond rate trends which rose sharply in 2022 but are now moderating.

Transactions are demonstrating a widening cap rate spread between prime and secondary assets and markets.

Across the office sector, pockets of the market have been performing well. Canberra saw a record volume of office sales in 2022, while South Australia, Victoria and Queensland all saw elevated sales volumes in 2022 compared to 2021.

In 2023 we are likely to see further softening in pricing in some parts of the market and a slower, more balanced market reflecting broader economic conditions. We have not yet seen the full impact of interest and bond rate rises which have some way to come and will unwind over the course of this year.

# CONTACT US

### ANDREW DUGUID

Managing Director - NSW

+61 417 343 772

andrew.duguid@m3property.com.au

### GARY LONGDEN

Director - VIC

+61 418 587 835

gary.longden@m3property.com.au

### MICHAEL COVERDALE

Managing Director - QLD

+61 7 3620 7907

michael.coverdale@m3property.com.au

### SIMON HICKIN

Director - SA

+61 401 773 814

simon.hickin@m3property.com.au

### JOEL DUCEY

Director - NSW

+61 423 289 026

joel.ducey@m3property.com.au

### JOSH MARKS

Director - NSW

+61 415 241 753

josh.marks@m3property.com.au

m3property.com.au


DISCLAIMER © M3 Property Australia Pty Ltd. Liability limited by a scheme approved under Professional Standards Legislation. This report is for information purposes only and has been derived, in part, from sources other than M3 Property and does not constitute advice. In passing on this information, M3 Property makes no representation that any information or assumption contained in this material is accurate or complete. To the extent that this material contains any statement as to the future, it is simply an estimate or opinion based on information available to M3 Property at that time and contains assumptions, which may be incorrect. M3 Property makes no representation that any such statements are, or will be, accurate. Any unauthorised use or redistribution of part, or all, of this report is prohibited.