

# Savills Full Floors



- Availability of Premium space declines
- Contiguous Premium floor options narrowing



# Returning to normal?

The demand shift turning the screws on Premium availability

## **CBD Core and Premium floor options tighten**

The availability of Premium floor space has declined as an increasing number of tenants look to upgrade.

According to the Savills Prime Full Floor Availability report, which monitors over 3.9 million square metres of prime grade office space in Sydney CBD, the number of Premium floors available (now or within the next 12 months) in Sydney CBD declined to 84 in August 2024, down from 99 a year earlier. The number of A grade floors remained roughly unchanged over the same period at 260.

The number of available Prime floors in the CBD Core declined by 16% over the year to August to 106. Available floors in Midtown rose by 13% over the same period to 120, while the number of floors in the Western Corridor rose slightly to 92.

## **Limited large mandate options**

For large tenants requiring larger mandates, availability tightens even further. The maximum number of Premium contiguous floors (available now or within the next 12 months) in the CBD Core was just five (as of August), comprising 9,500sqm of office space. For contiguous space of 2,500sqm and above, there are slightly more Premium building options, with five available in the Core.

## **Savills Full Floor Availability Report**

To assist with the analysis of tenant demand in Sydney CBD, this short report explores the findings from the Savills Prime Full Floor Availability Report, produced by the Savills Office Leasing team. The Full Floor Availability Report assesses the state of the leasing market in a different manner to standard vacancy surveys. It shows each Premium and A grade building in the city on a floor-by-floor basis highlighting which floors are available for lease, now and in the near future, including those under construction and refurbishment. Further information, including contacts can be found on the back page of this report.



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### Sydney CBD availability heat map

Demand for Premium grade buildings in the Core heats up



Source Savills Full Floor Availability Report

# Premium availability declining

Premium market tightly held as availability of A grade space rises

## Premium appeal

According to the Savills Prime Full Floor Availability report, the amount of Premium office space available now or within the next 12 months declined by 17.8% to c.131,800sqm over the year to August 2024. By contrast, available A grade space increased by 9.4% over the same period to c.336,800sqm. The Premium market remains tightly held, with availability at 3.4% of total prime NLA in August, down from 4.2% a year ago, and considerably lower than the 8.7% for A grade.

## Location remains key

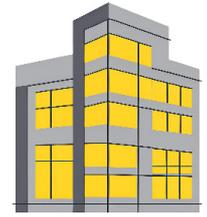
Availability in the CBD Core has declined by 9.3% over the past year. The precinct is tightly held, with space available now or within the next 12 months equivalent to 7.4% of total prime NLA, down from 8.5% a year ago.

By contrast, availability in Midtown and the Western Corridor increased by 13.0% and 10.2% respectively, and availability is materially higher than in the Core.

Walsh Bay and the Southern CBD have recorded significant percentage declines in the amount of available space over the past 12 months.

## Higher quality space a key driver of tenant decision making

Savills leasing data reveals that of the top 15 recent leasing transactions, the three most reported reasons for taking space was upgrading fit-out, accounting for 26% of occupiers. This was followed by taking advantage of favourable market conditions (22%) and upgrading to a higher grade (20%). Location factors, with tenants preferring more centrally located premises, comprised 12%. Notably, there are more tenants taking space for upsizing (12%), than downsizing (6%).



**9,500sqm**

Max premium core contiguous floor space available, August 2024

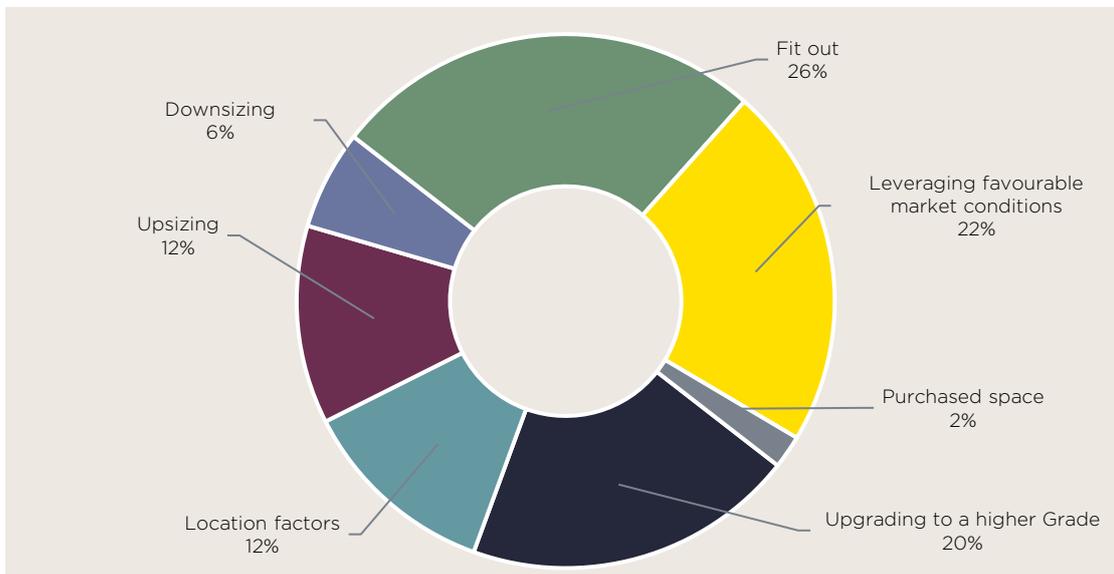


**3.4%**

Premium availability, August 2024

## Upgrading space and fit-out driving tenant moves

Tenant reasoning for taking up office space\*



Source Savills Office Leasing

\*Based on recent top 15 leasing transactions by sqm, weighted by tenant reasoning

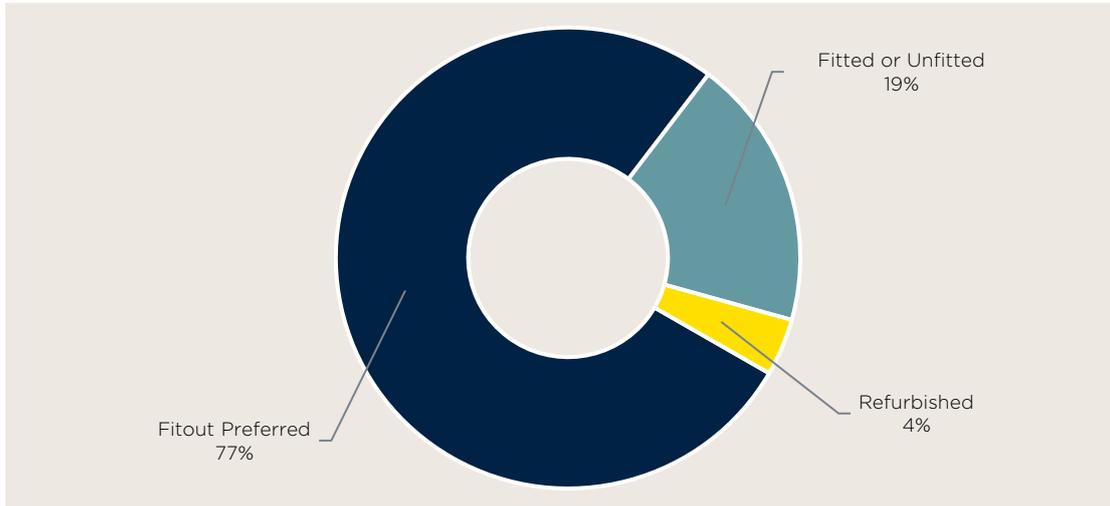


**26%**

Tenants nominating upgrading fit-out as the reason for taking up office space

**Tenants prefer pre-fitted office space**

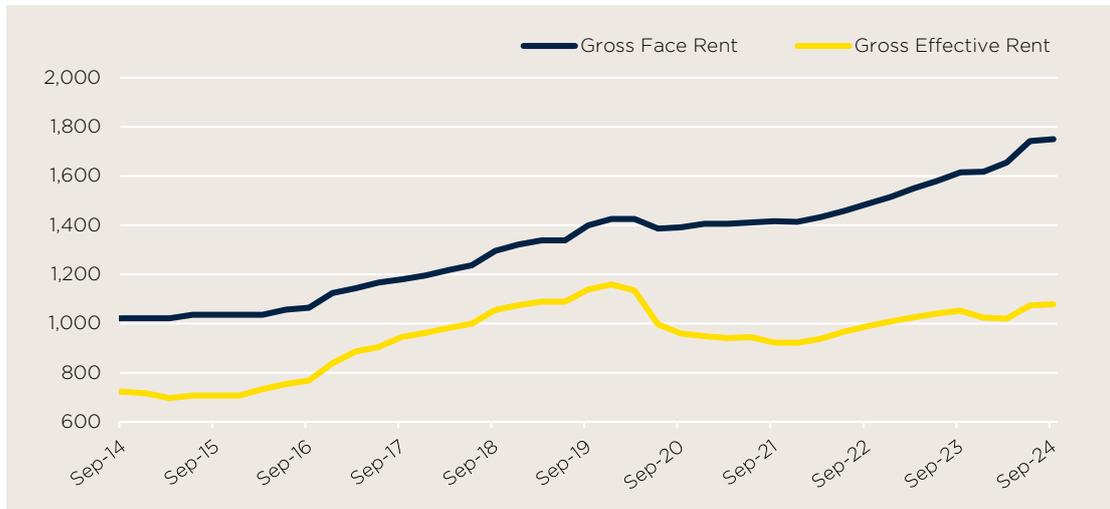
Enquiry requirements, January - August 2024



Source Savills Office Leasing

**Prime rents rising along with incentives**

Prime gross face and gross effective rent, \$/sqm



Source Savills Research

**RECENT TRENDS**

**Pre-fitted out space in demand**

Savills data shows that there is a clear preference for pre-fitted out office space for 77% of tenant enquiries in 2024 YTD, up from 45% in 2022.

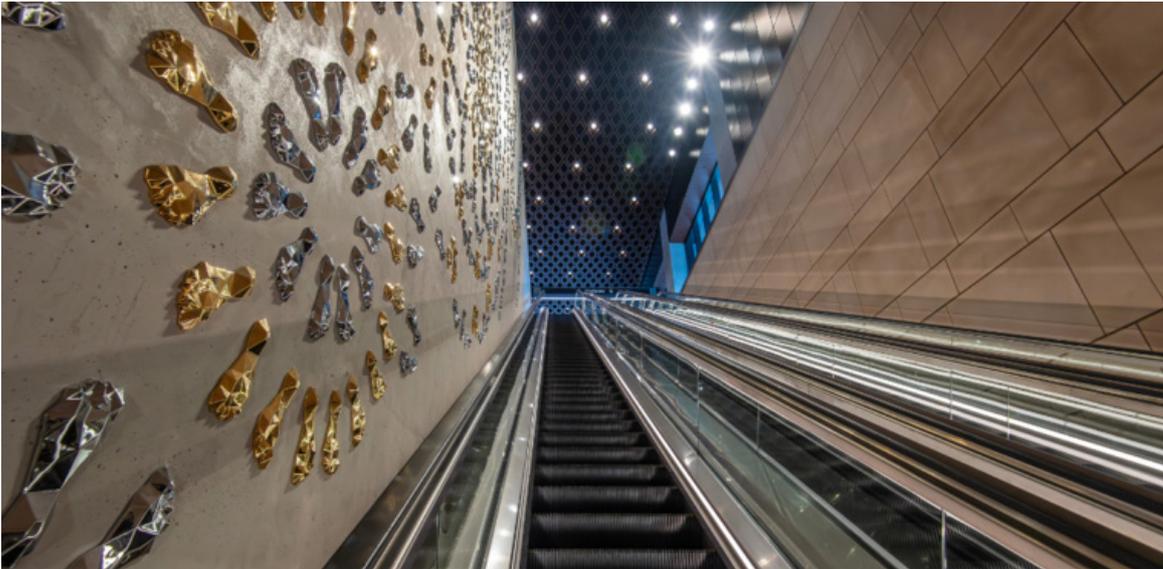
**Declining availability driving rental growth**

Falling availability within the CBD, particularly for Premium space has driven strong face rental growth, particularly at the upper end of the market. Tenants are willing to pay a premium to attract and retain talent and enhance their ESG credentials.

Tenant preferences for pre-fitted out space is another factor driving face rental growth. Landlords have increased face rents partly to cover higher incentives to secure leasing deals. While face rental growth has been strong, higher incentives mean growth in effective rents is more modest.

# All aboard...

Sydney CBD Metro stations open, ushering in a new era of convenience and transforming the CBD



**Source** Sydney Metro, Footprints on Gadigal Nura by Nicole Monks Sculptural map of local sites of significance 'drawn' in 994 footprint sculptures lining the escalator wall.

## Activating the CBD

The extension of the Sydney Metro has recently been completed, with new underground stations at key locations, including Martin Place in the CBD and, in the North West, Victoria Cross and Chatswood. Additionally, a new stop has been introduced at Barangaroo, providing convenient access for commuters to the north-western part of the CBD. The new metro services allow travel between Barangaroo and Martin Place (now 2 mins), to Victoria Cross (in under 3 mins), while Chatswood to Barangaroo can be done in 9 mins.

## Unlocking precincts

Rising public transport activity highlights the further progress in activating the CBD. Transport NSW reported improvements in transport trips to the CBD, with train trips up 15% in YTD (August) to be around 80% of 2019 levels.

## Connectivity advantages to buoy demand

The central hub of the business district, the CBD Core has already been enhanced by the extension of the Sydney Metro, attracting quality tenants with larger mandates, as exemplified by the ASX's recent move to the recently completed 39 Martin Place. Occupancy of prime space within the Core has risen to 92.6%, up from 91.5% a year ago.

By contrast, Midtown and the Western Corridor paint a different picture. Available prime space (available currently or in the next 12 months) has increased over the past year, and these precincts have the lowest occupancy rates at 81.9% and 83.3% respectively.

This suggests that Midtown and the Western Corridor have struggled to attract and retain tenants, partly due to an oversupply of space, less available fitted-out space, and a less favourable location for some tenants compared to other parts of the CBD where transport connectivity has previously been more appealing.

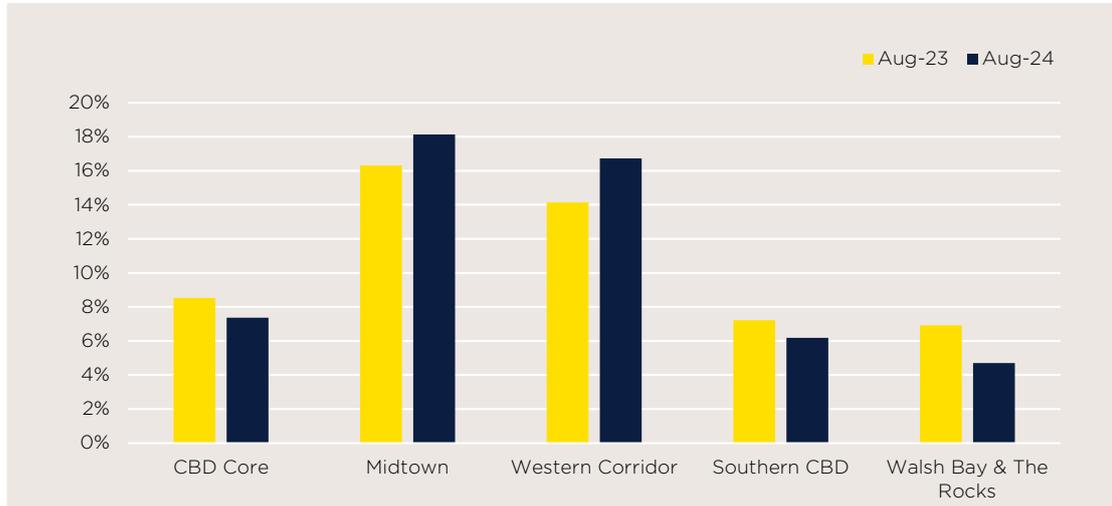
## New links to bolster office demand

The new stations will boost foot traffic, benefiting businesses seeking to enhance their visibility and improve access for customers and staff. This increased accessibility will also make commuting easier for employees, attracting businesses eager to tap into a larger labour pool.

Such advantages should bolster office space demand in precincts that directly benefit from these improvements—Core, Western, Midtown—particularly as the benefits become evident in the months following the opening of the new stations.

**Diverging availability across precincts**

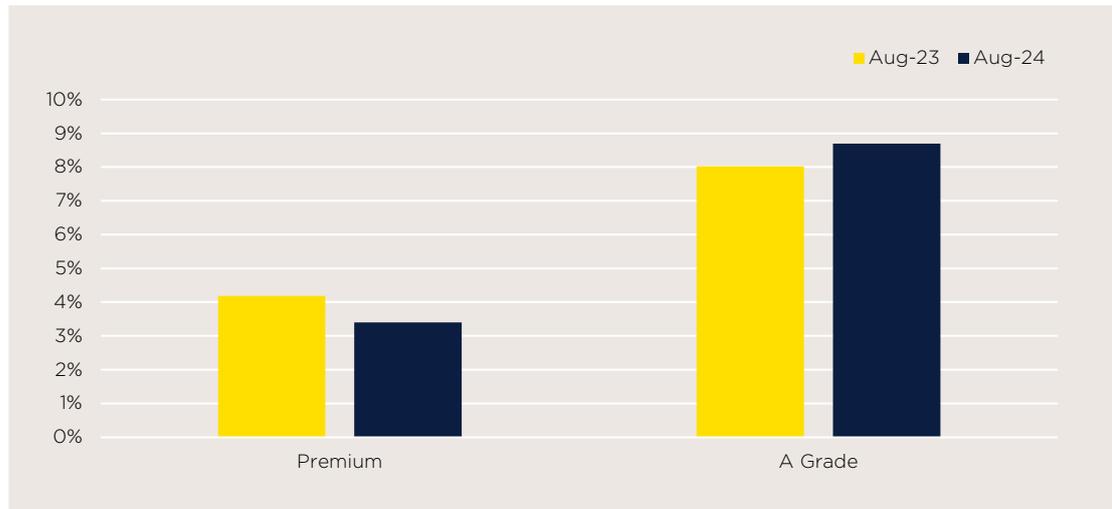
Available space now or in the next 12 months, share of total prime NLA (%)



Source Savills Full Floor Availability Report

**Premium availability declining while available A grade space increases**

Available space now or in the next 12 months, share of total prime NLA (%)



Source Savills Full Floor Availability Report

**Migration to the Core**

Underscoring the ongoing flight to quality, the availability of prime space continues to decline in the Core. The amount of available prime space decreased by 9.3% over the year to August 2024 to c.131,200sqm. The Core has a relatively low availability rate among the major CBD precincts at 7.4%.

By contrast, Midtown and the Western Corridor recorded an increase in prime availability over the same period. Available prime space in Midtown rose by 13% to 18.1% of total NLA (up from 16.3% one year ago), while availability in the Western Corridor increased by 10% to 16.7% (up from 14.1% in August 2023).

**Availability gap between Premium and A grade widens**

A grade availability continues to increase. A grade space (available now or in the next 12 months) as a share of total prime NLA has increased from 8.0% to 8.7% over the past year. Conversely, the Premium market continues to tighten, with the availability rate declining from 4.2% to 3.4% over the same period.

## Methodology

The Savills Prime Full Floor Availability Report assesses the state of the leasing market in a different manner to standard vacancy surveys. The report shows each Premium and A grade building in the city on a floor-by-floor basis highlighting which floors are available for lease, now or in the near future, including those under construction and refurbishment.

While this Spotlight report focuses on space available now or in the next 12 months, the Savills Prime Full Floor Availability Report captures availability over a longer time frame.

Availability is inclusive of office stock under development and takes into account pre-commitments.

## Availability Definitions

The Savills availability report has been created to provide a graphical and statistical view of the leasing market that encompasses all prime grade full floors available for lease. Savills believes this report provides a more accurate representation of high quality leasing options available to large tenants than standard vacancy surveys; which provide a snapshot of physically vacant space in the market at a given point in time.

This is due to the Savills Full Floor Availability Report taking into account developments under construction actively seeking tenants and floors that are currently occupied but are, or are soon to be, actively being marketed due to pending tenant relocation. As such, Savills deems available areas as being:

- Space that is presently unoccupied and actively seeking tenants;
- Uncommitted space within developments under construction actively seeking tenants;
- Occupied space where the sitting tenant has a pending relocation or intentions to sublease;
- Prime: Premium and A grade buildings as defined by the Property Council of Australia;
- CBD precincts as defined by the Property Council of Australia;
- Contiguous: Multiple floors in a building that are adjacent to each other and available for lease to a single tenant. These floors are connected and can provide uninterrupted vertical space within the building.

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