Opinion Piece

New CBD Metro stations provide unexpected boost for Sydney office market

> The announcement by NSW State Government to acquire 11 office buildings, coupled with increasing occupancy shall provide welcome support to the Sydney CBD office market, battered by the pandemic in 2020

On Thursday the Government announced 11 buildings in the CBD on the northern and southern sides of Hunter Street (and two in Pyrmont) will be acquired to make way for new Metro stations.

With these buildings collectively accommodating about 48,650 square metres of existing secondary grade office space, analysts will be reforecasting growth assumptions as the increase in vacancy rates, brought about by COVID induced softening demand and new supply, will now peak lower than expected.

The buildings to be acquired represent circa 1.0% of the total CBD office stock and 2.5% of secondary grade stock. m3property forecast CBD vacancy, which now sits at circa 8.8%, will rise to 9.2% in 2022 and peak at just over 10.0% in 2023.

Activity has returned to the leasing market. Attractive incentives and good availability of prime space is stimulating the market, enabling tenants to upgrade without significantly impacting costs of occupation. The "flight to quality" is on.

Adding further to market support, dispossessed owners of Metro designated sites will be compensated and may look to re-invest, adding to future capital demand, which has remained surprisingly resilient in the face of weak occupancy during most of the pandemic, reduced growth expectations and higher incentives.

In the latest PCA Office occupancy survey, occupancy grew to its highest level since the pandemic began, with 59% of CBD employees working regularly from the CBD, rising from 45% at the start of 2021.

Since the pandemic began, weak demand and rising incentives have led to effective rents falling by 17%, although with renewed activity in early 2021, incentives and effective rents appear to have stabilised.