

# Charter Update

## Office Market Subleasing

From the Accommodation Solutions Group

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[charterkc.com.au](http://charterkc.com.au)



ADVISORY

**Subleasing initiatives and disposal of tenant lease tails are incredibly topical discussions amongst occupiers across the Australian real estate markets, although specific attention is currently on the Melbourne CBD and Sydney CBD markets, which have been most significantly impacted by COVID-19.**

Victoria's continued 'work from home' mandate has forced almost all businesses to adapt to remote working arrangements almost overnight. In New South Wales, where restrictions have eased in recent months, many organisations are still operating under a hybrid model, with employees splitting their time between the office and home.

**As a result of these circumstances, many occupiers have begun to look more critically at their accommodation overhead costs and overall footprint post the COVID-19 pandemic, with most commentary appearing to suggest that the workplace 'shake up' is here to stay.**

More specifically, this uncertainty from occupiers has had an immediate impact on vacancy across all major office markets. In Melbourne, the most recent Property Council of Australia statistics indicate an increase in the total vacancy from 3.2% to 5.8% over the six month period, or a total vacancy across the CBD market of 279,932 sq.m. Interestingly, subleasing vacancy across this period from January 2020 to July 2020, rose only 0.2% across the Melbourne CBD market, indicating an increase of less than 10,000 sq.m. of subleasing stock coming to the market across this period.

In Sydney, the PCA reported a vacancy rate of 5.6% as of July 2020, an increase from the 3.9% reported in January 2020. While we are still yet to understand the sweeping impacts of COVID-19 on the global economy, including the office leasing market, we know that tenant demand remains low and that vacancy in all CBD markets is expected to further increase over the next 12 months and beyond.

Throughout the Pandemic, Charter has maintained an evolving database both of subleasing stock currently available, and of stock which we understand is soon to be hitting Melbourne's CBD, Fringe and Metro markets. As of today, Charter's database

indicates that these markets are set to be impacted with over 130,000 sq.m. of new subleasing stock, with over 100,000 sq.m. of this stock entering the Melbourne CBD market specifically. This will equate to over 2% of additional vacancy across the Melbourne CBD market through sub leasing vacancy alone. Whilst the decisions around some of this sub lease space were known pre COVID, the vast majority of this space entering the market will occur as a result of COVID and the changing work patterns.

In Sydney, industry reports have indicated a record high rate of sublease stock of roughly 160,000 sq.m. currently available, representing a 90 per cent increase over a five-month period. Many of these sublease vacancies are fully fitted and ready for occupation, presenting cost effective opportunities for tenants seeking to relocate and driving competition among Landlords seeking to fill direct vacancy.

Charter's Accommodation Solutions Team is expert in all matters leasing and recently acted for JB Hi Fi & The Good Guys in the transaction management of a subleasing campaign to dispose of The Good Guys 6,296 sq.m. office 'lease tail' at 15 Vaughan Street, Essendon Fields. This has resulted in nearly full rent and costs recovery for our client over the remaining 2 & ¼ years of the occupancy.

Since the success of this engagement, Charter has been appointed to act on behalf of and achieve the best possible cost recovery outcomes for a number of clients with subleasing requirements.

Should you wish to discuss our subleasing data or require assistance with the subleasing or disposal of your own accommodation lease tail as a result of the changing needs of your business, please feel free to contact any of our team members below.

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