Australian office indicators

knightfrank.com.au/research

Key leasing and capital markets metrics across the Australian office market

Q1 2025

Improving sentiment driving greater liquidity

RECENT DEALS INDICATE THAT PRIME YIELDS HAVE STABILISED

Markets have shown improving sentiment resulting with momentum in office investment continuing in Q1 2025. Several large deals occurred in Q1, with almost all activity located in Sydney. We consider that prime yields have stabilised for core assets, led by Sydney which has seen higher deal volumes and hence more evidence of pricing. We expect the recovery to continue to be led by Sydney and Brisbane before extending to other cities.

RISING DEMAND FOR OFFICES

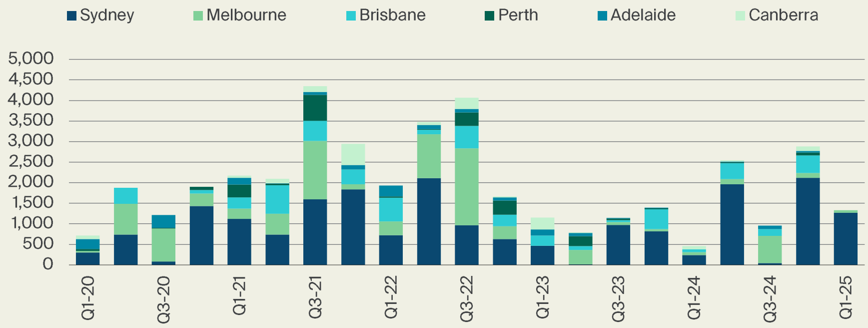
Net absorption across all CBD markets returned to positive territory in 2024, with 81,000 sqm recorded nationally. The strength of tenant demand continues to differ by grade and location. High quality assets with strong ESG credentials remain in high demand, while the major CBDs are generally outperforming non-CBD markets. Tenants are likely to remain cautious in the near term as renewed economic uncertainty and high fit-out costs associated with moving result in many opting to stay-put.

IMPROVING RENTAL PERFORMANCE

Rental performance continues to differ by location but is steadily improving overall. Net effective rents in Brisbane continued to grow in Q1 2025, to be up by 18.3% over the year. Adelaide has also seen a strong increase in rents, with net effective rents rising again in Q1 be 10.5% higher over the year. Incentives remain elevated by Sydney turned a corner in Q1 with average incentives reducing for the first time since 2019. Looking ahead, a dwindling supply pipeline is expected to support strong prime rental growth over the coming years.

Momentum in office investment continues into Q1 2025

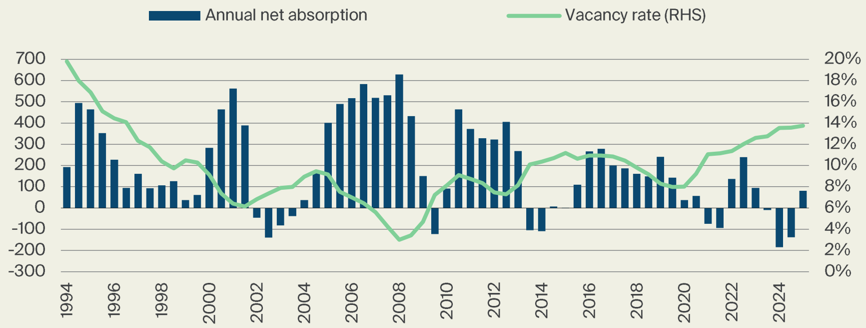
By city, A$ millions



Source: Knight Frank Research, RCA

Net absorption returns to growth

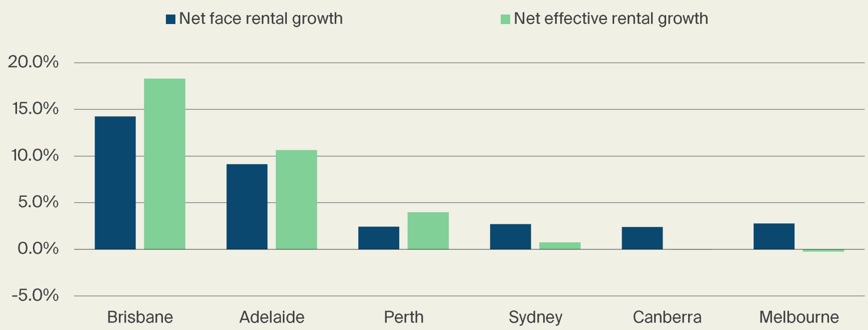
12 months net absorption ('000sqm), vacancy (%,RHS)



Source: Knight Frank Research, PCA

Fastest CBD rental growth in Brisbane

Annual net face rental & net effective rental growth, y/y%



Source: Knight Frank Research

Key data points

Prime market averages – Q1 2025

	Net face rent ($/sqm)	Growth (q/q, %)	Growth (y/y, %)	Incentives (%)	Net effective rent ($/sqm)	Growth (q/q, %)	Growth (y/y, %)	Yield (%)	Overall vacancy (Q4, PCA, %)
CBDs									
Sydney	1,325	0.1	2.7	36.1 (g)	760	0.6	0.8	6.03	12.8
Melbourne	719	0.1	2.8	47.8 (n)	381	-1.0	-0.2	6.58	18.0
Brisbane	810	0.5	14.3	38.5 (g)	420	1.0	18.1	7.25	10.2
Perth	744	1.0	2.4	45.2 (n)	408	0.2	4.0	7.38	15.1
Adelaide	556	6.5	9.1	34.0 (g)	317	8.7	10.5	7.34	16.4
Canberra	457	1.0	2.8	27.6 (g)	304	-1.3	0.5	7.13	9.2
Suburban									
North Sydney	930	0.2	4.0	39.5 (g)	498	-1.4	-1.4	6.85	23.7
St Leonards	669	0.0	1.5	41.0 (g)	333	-2.4	-8.0	7.75	30.5
Chatswood	647	0.8	2.5	40.0 (g)	329	-3.8	-6.8	7.65	17.7
Macquarie Park	470	0.0	2.2	40.0 (g)	282	-3.2	-4.2	7.25	18.9
Parramatta	575	-1.7	-2.3	38.4 (n)	355	-1.7	-6.7	7.41	20.0
Southbank	680	0.0	2.3	44.0 (n)	381	0.0	0.5	6.75	17.6
St Kilda Road	525	0.0	-2.8	50.0 (n)	263	0.0	-2.8	8.25	29.3

Recent transactions

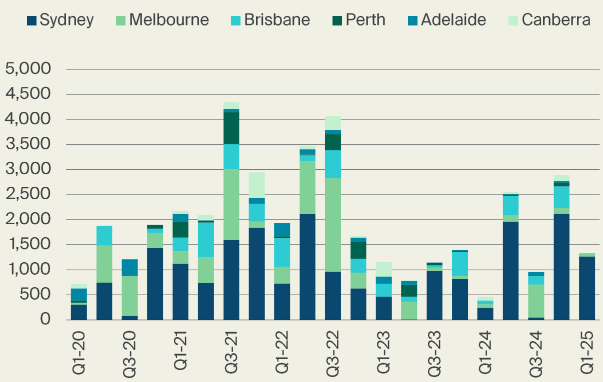
	Property	Price (A$m)	Size (sqm)	Purchaser	Vendor	Core market Yield (%)	WALE
CBD							
Sydney	20 Bridge St	270.0	19,573	Anton Capital JV PGIM Real Estate	Early Light International	6.7	2.4
Sydney	135 King St	630.0	32,695	Daibiru Corporation	Investa	6.3	4.0
Melbourne	655 Collins St	117.5	16,600	Naji Imam	GPT Group	7.5	5.0
Melbourne	200 Queen St	170.0	19,746	Barristers Chambers	Charter Hall	7.5	2.7
Brisbane	145 Ann St	215.5	27,550	Aware Super	Dexus REIT	7.8	3.1
Brisbane	60 Edward St	72.0	10,637	Sentinel Property Group	RACQ	8.4	2.3
Perth	66 St Georges Ter	75.0	11,254	Oceania Capital	RF CorVal	8.2	3.3
Perth	181 St Georges Ter	26.5	7,382	Yamamoto	Charter Hall	6.1	2.5
Adelaide	19 Grenfell St	25.5	10,788	Exceed Capital	Shakespeare Property	9.0	1.1
Adelaide	121-129 King William St	84.2	12,378	Local Private	Charter Hall	7.6	4.3
Canberra	64 Northbourne Ave	22.0	6,375	TP Dynamics	Australian Unity Office Fund	8.5	1.4
Canberra	2 Constitution Ave	90.1	19,465	Growthpoint	ISPT	7.9	3.2

Improving sales volumes

Sydney CBD driving the rebound in transactional activity

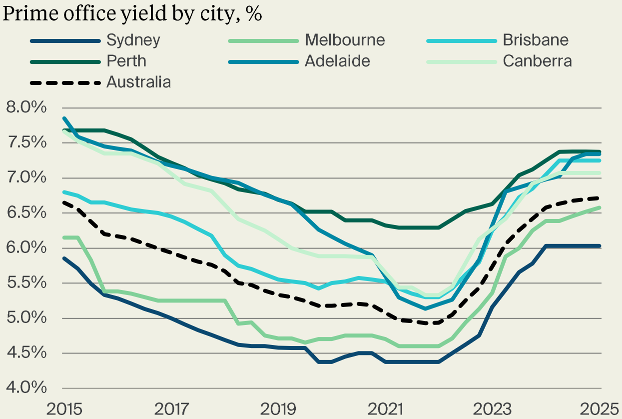
- Investment activity remained relatively resilient at $1.3 billion in Q1 2025, with almost all transactions occurring in Sydney. Significant transactions in Q1 included Investa's sale of 135 King Street to Japanese investor Daibiru for $630 million, and Anton Capital & PGIM acquiring 20 Bridge Street for $270 million from Early Light International.
- Led by these transactions, cross-border investors drove activity in Q1 we are now seeing a normalisation of capital flows with broadening interest in the Australian office market from US, Singaporean and Japanese investors.
- Average prime yields were once again unchanged in Sydney and Brisbane in Q1 2025 confirming that core asset values have stabilised in these markets. Yields in Melbourne edged out slightly further driven by the less favoured precincts, while the Eastern and Western Core held firm.
- While secondary assets have generally experienced larger write-downs than prime assets, location is also a critical influence on pricing, and secondary assets in favoured locations – notably Sydney 's Core CBD precinct – continue to trade well.
- Alongside improving liquidity and stabilising core asset values, the prospect of further interest rate cuts from the RBA and other central banks will foster greater confidence and this is expected to drive a further pick-up in deal momentum across all cities over the remainder of 2025.

Australia CBD office investment rises
Investment volumes by city, A$ millions



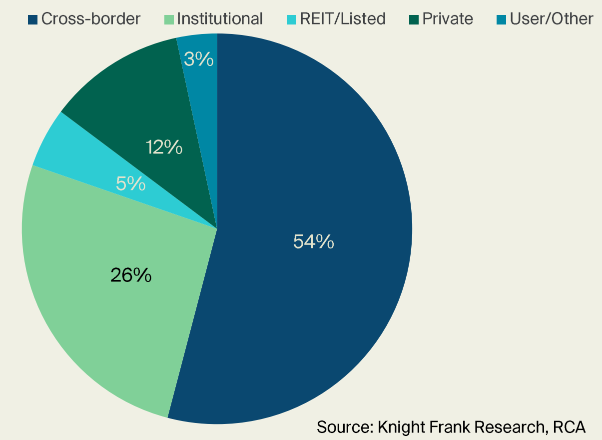
Source: Knight Frank Research, RCA

CBD yields have stabilised
Prime office yield by city, %



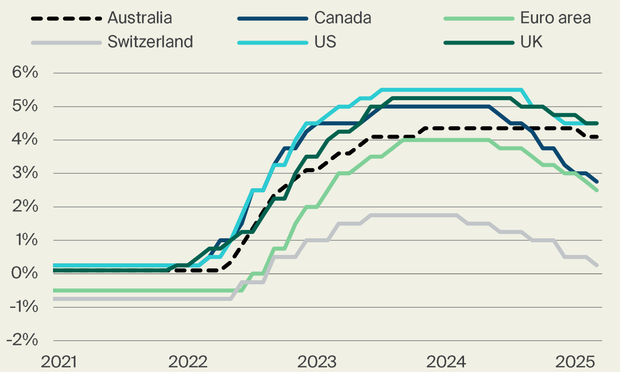
Source: Knight Frank Research

Cross-border capital driving transactions
Share of transactions by buyer type in 2024 and Q1 2025, %



Source: Knight Frank Research, RCA

Falling interest rates boost sentiment
Central Bank policy rate - selected economies



Source: Knight Frank Research, Macrobond

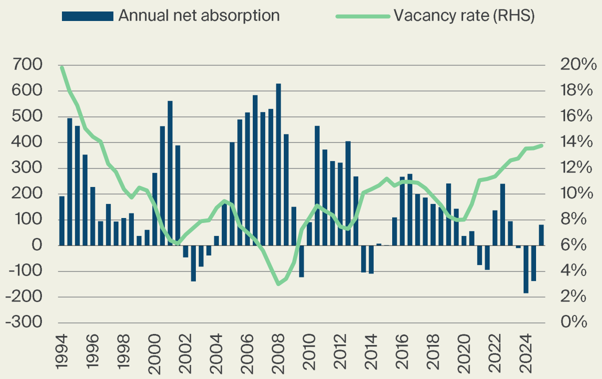
Positive absorption

Demand strongest for CBD assets with attractive internal & external amenity

- The second half of 2024 recorded positive net absorption of 49,311 sqm across the Australian CBD markets, which took yearly absorption for 2024 to 81,137sqm. The return to positive territory, following negative absorption in 2023, highlights the improved sentiment throughout the market.
- This reflects a gradual improvement in tenant demand nationally, with all capital cities recording positive absorption over the year except for the Melbourne CBD, and the fact that most major tenants have now been through a process of portfolio optimisation, so downsizing is becoming less of an influence on the market.
- The 'best and the rest' thematic continues to prevail, with a focus on high quality, well-located premises that have the best amenity for employees, if not on the doorstep, then immediately adjacent in the precinct.
- Demand for newly built product remains high nationally as occupiers are still focused on delivering new workplaces which will encourage high productivity, collaboration, employee wellbeing and are well-credentialled with high ESG ratings.
- There is also a clear divergence in performance by location, particularly in Sydney and Melbourne where the core CBD precincts have been outperforming for some time. This stronger demand has now spread to neighbouring markets including Sydney's Midtown and Melbourne's North Eastern and Civic precincts.

Australian net absorption returns to growth

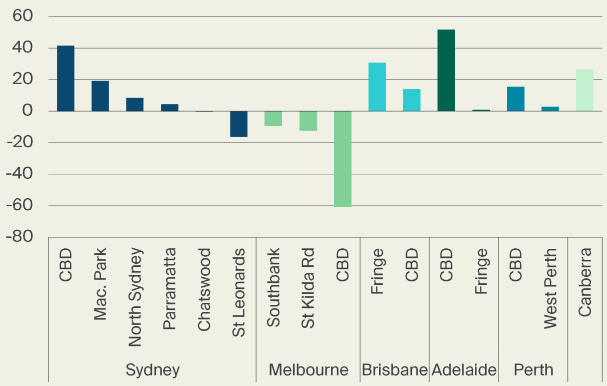
12 months net absorption ('000sqm), vacancy (%,RHS)



Source: Knight Frank Research, PCA

Strong absorption in Adelaide and Sydney

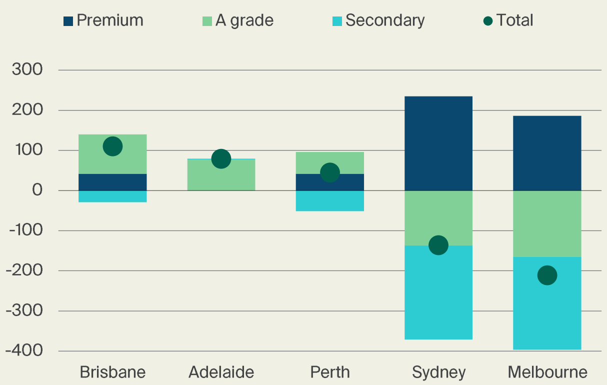
Annual net absorption to Jan-25 by market, '000sqm



Source: Knight Frank Research, PCA

Continued divergence by grade

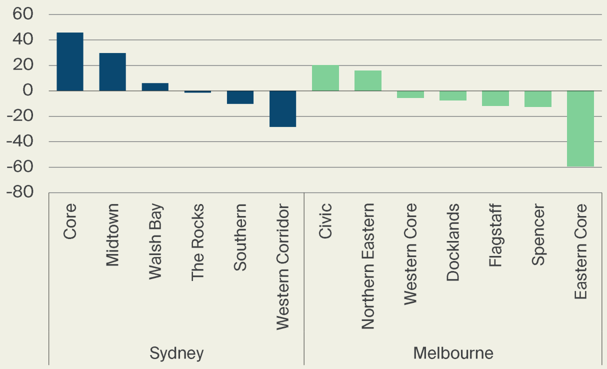
Australia net absorption by grade since 2020, '000sqm



Source: Knight Frank Research, PCA

Core strength spreads to adjacent precincts

Net absorption in 2024, '000sqm



Source: Knight Frank Research, PCA

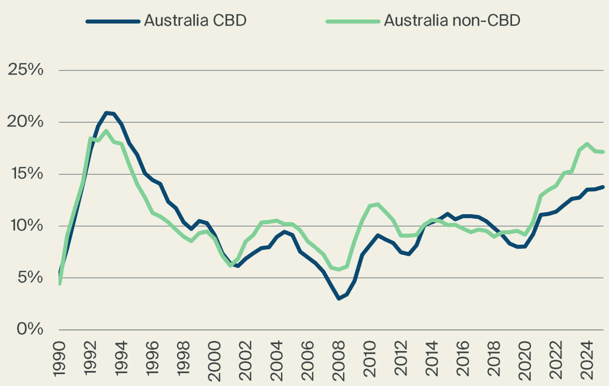
Vacancy stabilises

CBD office markets improving with pipeline thinning beyond 2025

- Across the Australian capital cities vacancy had a slight uptick to measure 13.7% at the end of 2024.
- Canberra and Brisbane have the lowest vacancy rates amongst the capital cities at 9.2% and 10.2% respectively, whilst Melbourne currently has the highest rate at 18.0%.
- Reflecting the trend of tenant demand in recent years, vacancy rates are lower in the most favoured CBD precincts, most notably Sydney's Core and Melbourne's Eastern Core.
- Major metro markets nationally have lagged the CBD markets with the average vacancy rates across metro markets at 17.2%.
- Over the next three years, the development pipeline in major CBDs is forecast to deliver c970,000 sqm of new supply, in contrast to the last three years where new supply has totalled over 1.17 million sqm.
- The pipeline looks particularly thin in Sydney, Brisbane and Perth, with developers facing multiple pressures including high construction costs, elevated funding costs and higher cap rates impacting completed asset values. This will eventually lead to tighter leasing markets and consequently faster rental growth.

CBD and non-CBD vacancy rates stabilising

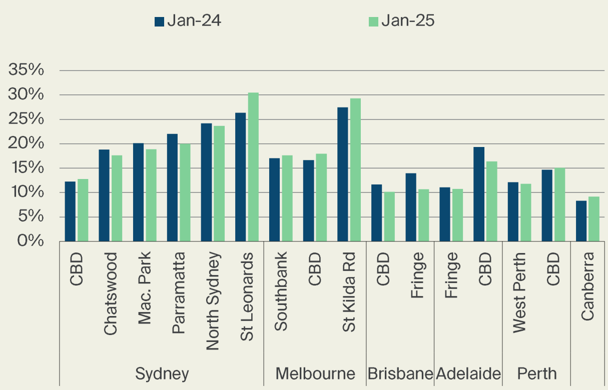
Total vacancy rate, %



Source: Knight Frank Research, PCA

Vacancy falling in Brisbane & Adelaide

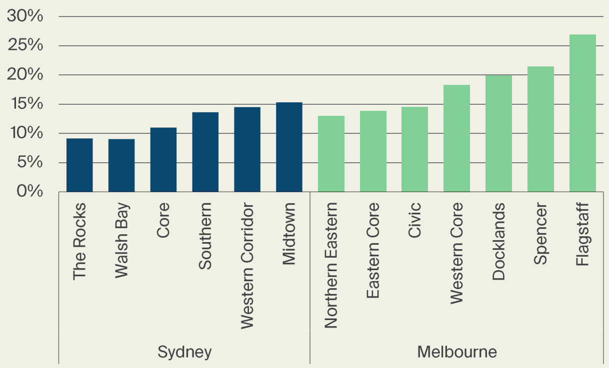
Jan-24 vs Jan-25, total vacancy, %



Source: Knight Frank Research, PCA

Sydney and Melbourne CBD vacancy rates

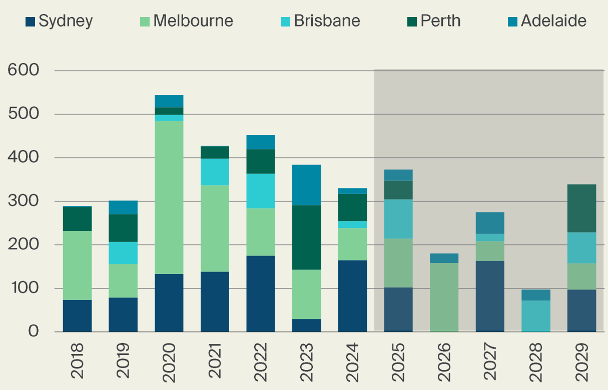
Total vacancy at Jan-25, %



Source: Knight Frank Research, PCA

Australian CBD supply pipeline is dwindling

Historic and forecast completions by city, '000sqm



Source: Knight Frank Research, PCA

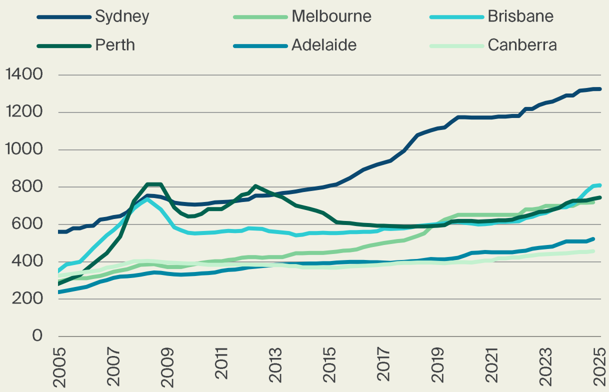
Improving rent performance

Positive net face rental growth across Australia, with Brisbane and Adelaide outperforming

- Average prime net face rents continued to rise in Q1, led by Brisbane, Perth and Adelaide, while rents were unchanged in Sydney and Melbourne.
- Over the past year, Brisbane has led the way with an exceptionally strong 14.2% increase, while Adelaide has experienced 9.1% growth. Growth has been more subdued in Melbourne (2.8%), Sydney (2.7%) and Perth (2.4%).
- While Sydney rents were stable in Q1, incentives fell for the first time since Q2 2019, falling from 36.4% to 36.1%. Incentives also declined in Brisbane (38.5%) and Adelaide (34.0%) in Q1 2025 but rose slightly in Melbourne (47.8%) and Perth (45.2%).
- With occupier demand weighted towards core CBD locations, the Core and Barangaroo precincts in Sydney CBD, and the Eastern Core in Melbourne CBD, have out-performed.
- Looking forward, sustained demand and declining levels of new development will aid prime rental growth and lower vacancy rates over the medium term.

Net face rents rising in all markets

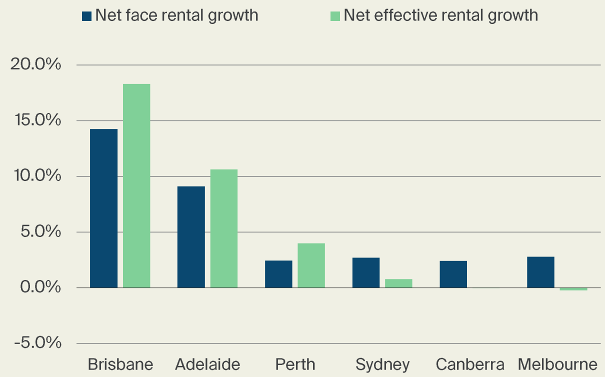
Prime net face rents, $/sqm



Source: Knight Frank Research

Fastest rental growth in Brisbane & Adelaide

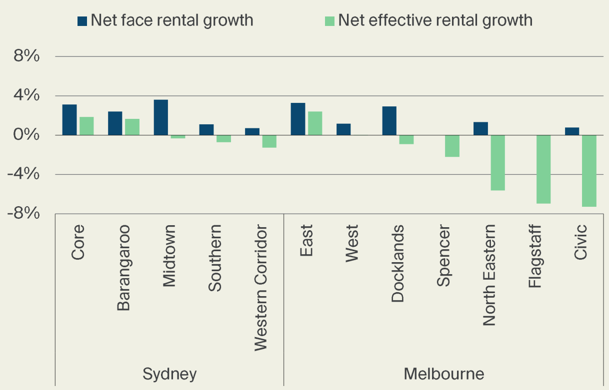
Annual net face rental & net effective rental growth, y/y%



Source: Knight Frank Research

Rent growth strongest in favoured precincts

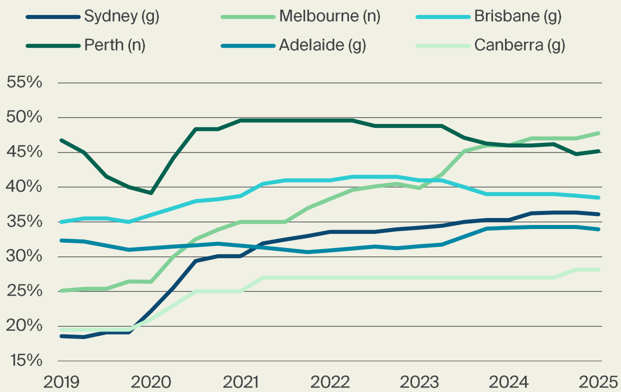
Net face renal growth vs net effective rental growth, % y/y



Source: Knight Frank Research

Sydney incentives drop for the first time since 2019

Prime incentives, %



Source: Knight Frank Research

We like questions, if you've got one about our research, or would like some property advice, we would like to hear from you

Ben Burston
Chief Economist
+61 2 9036 6756
Ben.Burston@au.knightfrank.com

Andrea Roberts
Office Leasing
+61 2 9036 6703
Andrea.Roberts@au.knightfrank.com

Alistair Read
Senior Economist
+61 450 831 899
Alistair.Read@au.knightfrank.com

Justin Bond
Capital Markets
+61 7 3246 8872
Justin.Bond@au.knightfrank.com

Naki Dai
Senior Analyst
+61 2 9036 6673
Naki.Dai@au.knightfrank.com

Al Carpenter
Valuations
+61 2 9036 6662
Al.Carpenter@au.knightfrank.com