# Australian office indicators

Key leasing and capital markets metrics across the Australian office market

Q1 2026

## Large capital cities are experiencing stronger rent growth

### CBDS ARE DRIVING RENT GROWTH

Annual net effective rent growth remains robust across the largest Australian capital city office markets. Over the year to Q1 2026, Brisbane (11.7%) has seen the largest growth in net effective rents, followed by Sydney (10.2%), and Melbourne (6.8%). For Sydney and Melbourne, this represents the fastest rent growth since Q1 2019 and Q1 2020 respectively. This growth continues to be driven by the best-located and highest quality buildings.

Rental growth in suburban markets remains subdued with tenant demand largely skewed to the CBDs. Southbank has performed relatively well among the suburban markets, with annual net effective rent growth of 2.7%.

### STRONG DEMAND IN TOP PRECINCTS

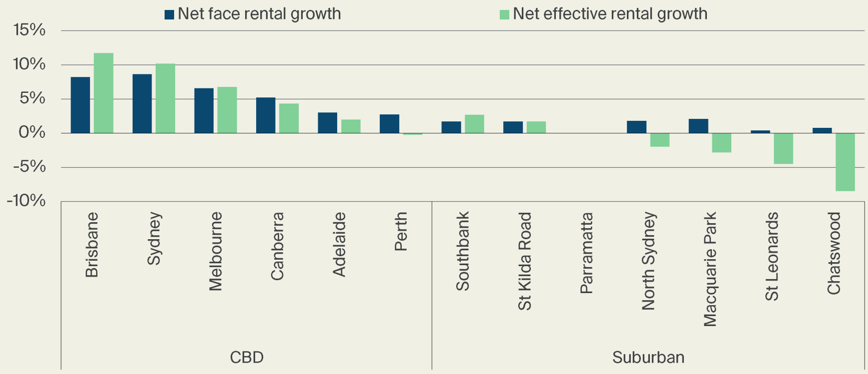
Occupier demand remains heavily weighted towards the best CBD precincts, including the Core in Sydney CBD and the East in Melbourne CBD. These precincts have significantly outperformed the rest-of-CBD precincts with 14.3% and 16.1% net effective rent growth over the past year, respectively. This has created a significant gap between rents in core and non-core locations, with core rents 54% higher in Sydney and 93% higher in Melbourne.

### SOLID ACTIVITY TO START 2026

CBD office investment activity started the year relatively well, with $1.1 billion of closed transactions in Q1 2026 — seasonally a soft quarter. The conflict in the Middle East increased uncertainty for investors and presents immediate headwinds given the outlook for higher interest rates throughout 2026. Over the medium-term, the fundamentals of a supply constrained environment persist, and the longer-term trajectory for interest rates point lower around late-2027–2028.

**Strong rent growth in several CBDs**

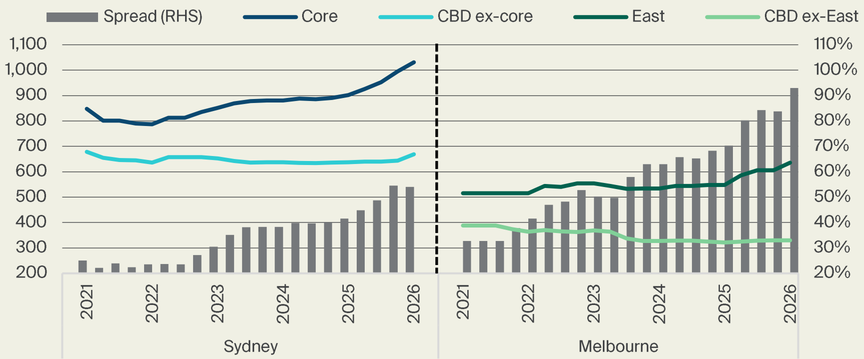
Annual prime net face rental growth & net effective rental growth (%)




Source: Knight Frank Research

**Core precinct rents continue to pull away**

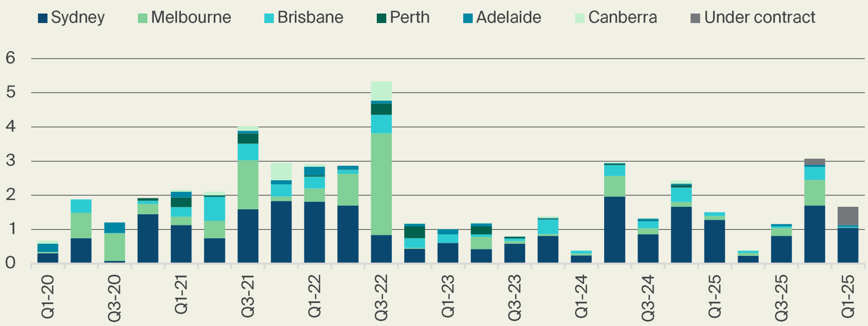
Average CBD net effective rents by precinct ($/sqm) and spread (%)




Source: Knight Frank Research

**Investors focused on Sydney CBD**

CBD office investment volumes by city (AUD billions)




Source: Knight Frank Research, RCA

knightfrank.com.au/research

# Key data points

## Prime market averages – Q1 2026

| | Net face rent ($/sqm) | Growth (q/q, %) | Growth (y/y, %) | Incentives (%) | Net effective rent ($/sqm) | Growth (q/q, %) | Growth (y/y, %) | Yield (%) | Overall vacancy (H2, PCA, %) |
|---|---|---|---|---|---|---|---|---|---|
| **CBDs** | | | | | | | | | |
| Sydney | 1,443 | 3.3 | 8.6 | 35.5 (g) | 840 | 3.8 | 10.2 | 5.70 | 13.8 |
| Melbourne | 767 | 1.4 | 6.6 | 47.7 (n) | 401 | 1.3 | 6.8 | 6.89 | 19.0 |
| Brisbane | 883 | 1.7 | 8.2 | 37.5 (g) | 473 | 2.3 | 11.7 | 7.25 | 11.8 |
| Perth | 737 | 0.3 | 2.8 | 47.0 (n) | 390 | 0.3 | -0.3 | 7.58 | 16.9 |
| Adelaide | 572 | 0.1 | 3.0 | 34.4 (g) | 323 | -0.7 | 2.0 | 7.26 | 15.5 |
| Canberra | 481 | 0.0 | 5.2 | 28.6 (g) | 308 | 0.0 | 4.3 | 6.97 | 10.2 |
| **Suburban** | | | | | | | | | |
| North Sydney | 945 | 0 | 1.8 | 40.2 (g) | 495 | -1.6 | -2.0 | 7.49 | 25.9 |
| St Leonards | 671 | 0 | 0.4 | 42.0 (g) | 326 | -2.5 | -4.5 | 8.13 | 29.1 |
| Chatswood | 647 | 0 | 0.8 | 42.0 (g) | 312 | -4.9 | -8.5 | 8.15 | 18.5 |
| Macquarie Park | 480 | 0 | 2.1 | 41.0 (g) | 283 | -1.7 | -2.8 | 8.00 | 24.0 |
| Parramatta | 575 | 0 | 0.0 | 38.4 (n) | 355 | 0 | 0 | 8.13 | 22.1 |
| Southbank | 692 | 0 | 1.7 | 47.5 (n) | 363 | 0 | 2.7 | 7.50 | 15.0 |
| St Kilda Road | 534 | 0 | 1.7 | 50.0 (n) | 267 | 0 | 1.7 | 7.94 | 31.6 |

## Recent transactions

| | Property | Price (A$m) | Size (NLA sqm) | Purchaser | Vendor | Core market Yield (%) | WALE |
|---|---|---|---|---|---|---|---|
| **CBD** | | | | | | | |
| Sydney | 180 George St (19.9%) | 357.2 | 61,914 | OUE REIT | Mitsubishi Estate | 5.5 | 4.6 |
| Sydney | 32-36 York St | 166.4 | 8,202 | DWS Group | Milligan Group JV Phoenix Property Investors | 6.3 | 5.6 |
| Sydney | O'Connell Precinct* (50%) | c530.0 | | Charter Hall | ADIA | U/D | U/D |
| North Sydney | 100 Mount St | 558.0 | 41,162 | BGO JV Investa | Dexus | c6.9 | 3.2 |
| Brisbane | 60 Albert St** | 208.0 | 21,263 | Ashe Morgan | Dexus Wholesale Property Fund | 7.6 | 5.9 |
| Brisbane | 26 Wharf St | 21.0 | 2,956 | Precept Property Partners | Private | 6.8 | 2.0 |
| Perth | 178 St Georges Terrace ^ | 9.5 | 3,207 | SKS Group | Private | - | - |
| Adelaide | 77 Grenfall St | 45.7 | 16,484 | Private | IP Generation | VP | VP |
| Adelaide | 75 Hindmarsh Sq | 42.4 | 4,620 | Private | Harmony | 6.3 | 6.2 |

*Bought as a portfolio amalgamation with 5 properties. **Unconditional late 2025, but settlement not effected until March 2026. ^Not sold as an investment.
VP = Vacant Possession

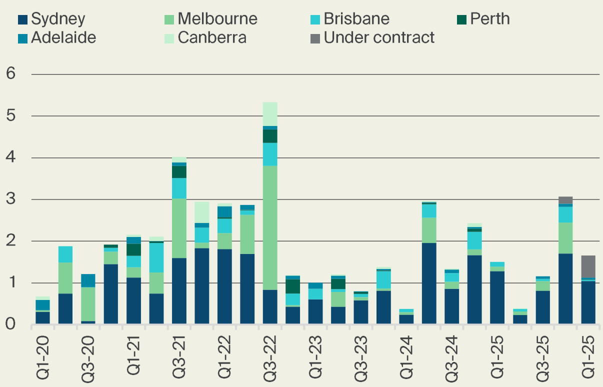
# Sales volumes slow

## Transaction activity remained robust in Q1, but uncertainty has risen

- CBD office investment activity started the year relatively well, with $1.1 billion of closed transactions in Q1 2026 — seasonally a soft quarter. Activity was driven predominantly by Sydney: Charter Hall acquired a 50% stake in the O'Connell Precinct for c$500 million which was bought as a portfolio amalgamation with 5 properties; OUE REIT acquired a 19.9% interest in Salesforce Tower for $357.2 million from Mitsubishi Estate; and DWS Group purchased 32 York St for $166.4 million. A further c$0.5 billion in Q1 transactions remain under contract, including Centuria's acquisition of a 50% share in 680 George St.
- The conflict in the Middle East has introduced uncertainty into global markets, pushing interest rates sharply higher since early March in response to an elevated inflation outlook and expectations of RBA rate hikes. This presents an immediate headwind for investors. Should conditions stabilise over the coming months, the investment momentum that built through late 2025 could re-emerge in H2 2026. Over the medium-term, the fundamentals of a significantly supply constrained environment persist, and the longer-term trajectory for interest rates point lower around late-2027–2028.
- Average prime CBD yields were largely unchanged across all markets in Q1 2026, however Melbourne was the outlier with yields rising to 6.9%. Yields for best-in-class assets in core CBD locations are expected to hold steady through this period of uncertainty. However, yields in less favourable precincts and in suburban areas may face some upward pressure as higher rates encourage a more cautious approach among investors.

### Investors focused on Sydney CBD

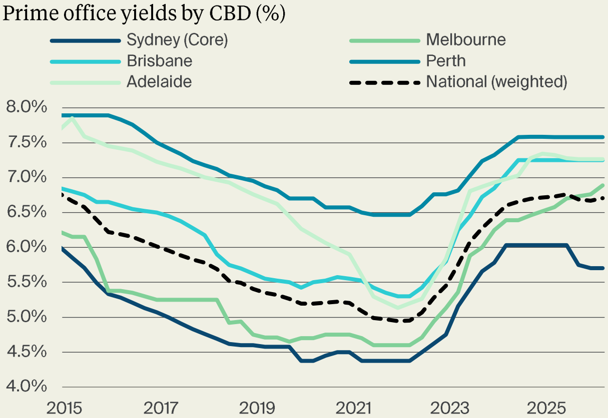
CBD office investment volumes by city (AUD billions)




Source: Knight Frank Research, RCA

### Prime office yields remain broadly steady

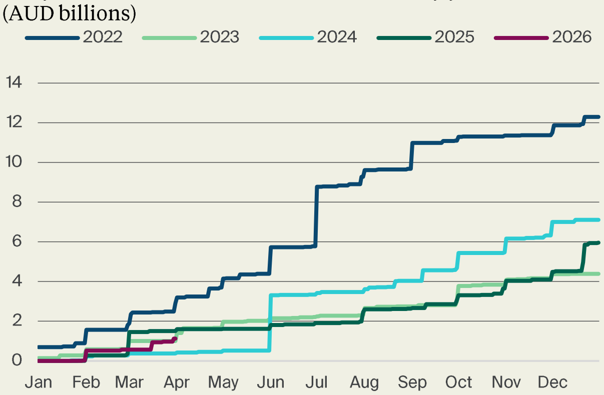
Prime office yields by CBD (%)




Source: Knight Frank Research

### Transaction activity in line with 2025

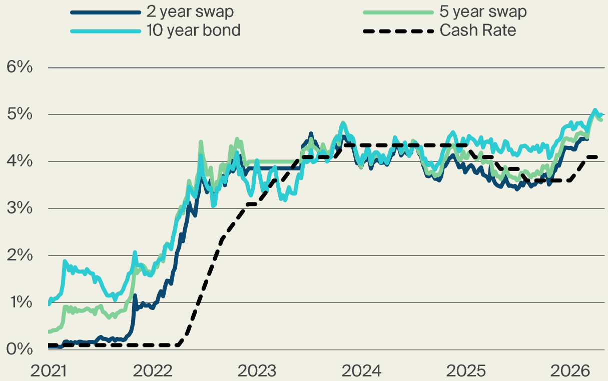
Daily cumulative closed transaction volume by year (AUD billions)




Source: Knight Frank Research, RCA

### Australian borrowing costs rise sharply

Yield by swap duration (%)




Source: Knight Frank Research, Macrobond

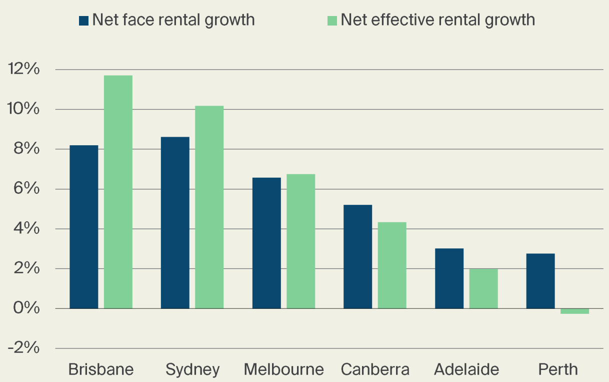
# Face rents drive growth

## Favoured precincts in Australia's largest capital cities are driving rent growth

- Average prime net face rents continued to rise in Q1, with strong growth in Sydney (3.3%), followed by Brisbane (1.7%) and Melbourne (1.4%). Rents remained relatively flat in Q1 in Perth (0.3%), and Adelaide (0.1%) and Canberra (0%).
- Over the past year, prime net face rent growth has been highest in Sydney (8.6%) and Brisbane (8.2%). Growth has accelerated in Melbourne (6.6%) and Canberra (5.2%), but growth in Adelaide (3.0%) and Perth (2.8%) have slowed from recent highs.
- Incentives were broadly stable across most capital cities in Q1. Notable moves included a slight tightening in Brisbane from 37.8% to 37.5% (gross) in Q1, and Adelaide incentives rising by 0.3% to 34.4% (gross).
- With occupier demand weighted towards core CBD locations, the Core precincts in Sydney CBD and the East in Melbourne CBD have continued to out-perform with 14.3% and 16.1% net effective rent growth over the past year, respectively. This has created a significant gap between rents in Core/East locations and the rest of the CBD, with rents 54% higher in Sydney's Core and 93% higher in Melbourne's East.
- Looking forward, sustained demand and declining levels of new development – particularly new premium buildings – will aid prime rental growth and lower vacancy rates over the medium term. Economic rents remain well-above expected market rents, making the construction of new office towers largely unviable, concentrating tenant demand into existing buildings.

### Strong rent growth in several CBDs

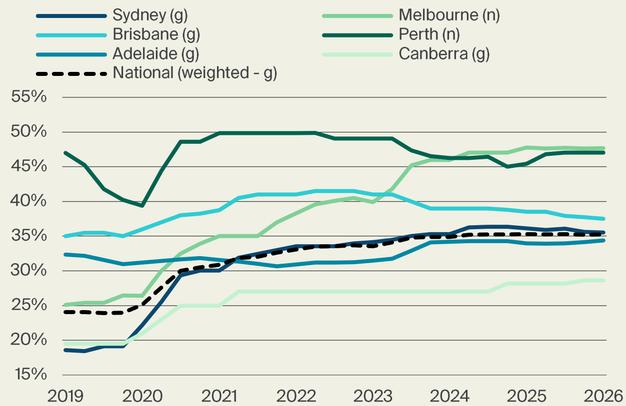
Annual net face rental growth & net effective rental growth (%)




Source: Knight Frank Research

### Prime incentives stabilise

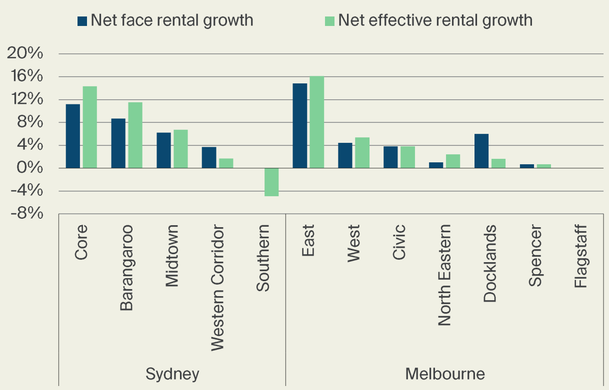
Prime incentives, %




Source: Knight Frank Research

### Rent growth strongest in favoured precincts

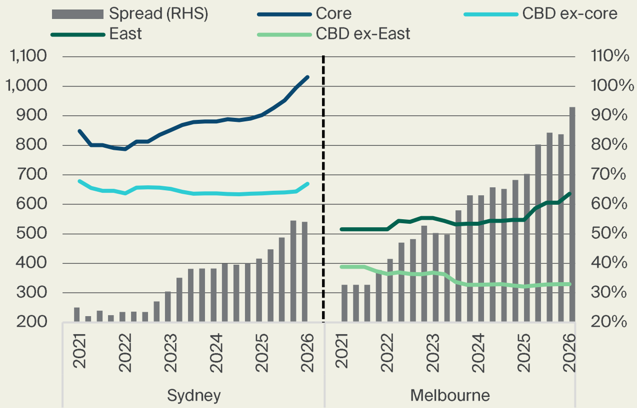
Net face renal growth vs net effective rental growth (% y/y)




Source: Knight Frank Research

### Core precinct rents continue to pull away

Average CBD net effective rents by precinct ($/sqm) and spread



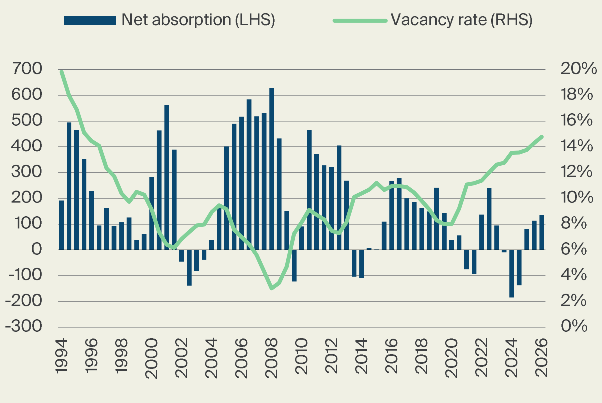

Source: Knight Frank Research

# Positive absorption continues

## Demand strongest for high quality CBD assets and core locations

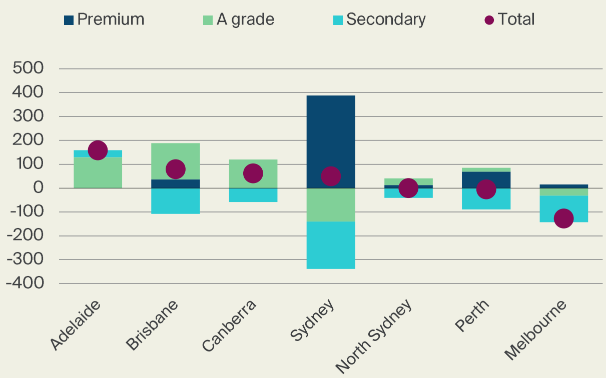
- In H2 2025 there was positive net absorption of 71,541 sqm across the Australian CBD markets, which took yearly absorption for the past 12 months to 135,279 sqm – the strongest since H1 2022. The sustained recovery in net absorption signifies growing demand for office space and the improved sentiment throughout most CBD markets.
- All capital cities recorded positive absorption over the last 12 months, driven by a slowing supply pipeline and increased tenant demand. Tenants seeking high-end contiguous space are increasingly aware of the looming shortage of new stock. This is bringing forward tenant demand as they look to secure new space well-ahead of their current lease expiry.
- 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.
- The clear divergence in performance by location also persists, particularly in Sydney and Melbourne where the core CBD precincts have been outperforming for some time. However, positive absorption has now spread to neighbouring markets including Sydney’s Western Corridor and Melbourne’s Docklands precinct.

**CBD net absorption continues to grow**
12 months net absorption ('000sqm), vacancy rate (%)



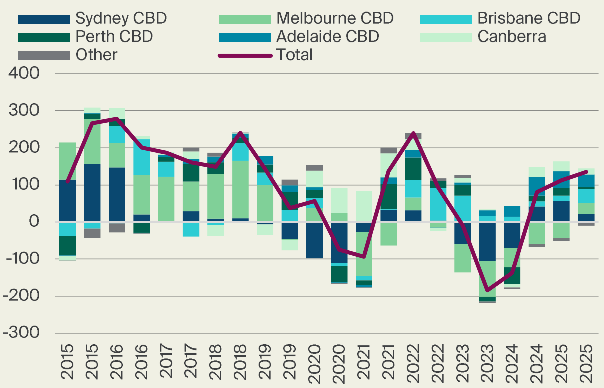

Source: Knight Frank Research, PCA

**Strong demand for prime office space**
Net absorption by grade over past 2 years ('000sqm)



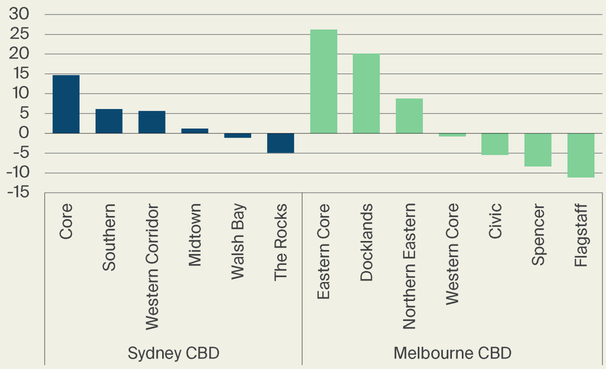

Source: Knight Frank Research, PCA

**Rising net absorption in main CBD locations**
Rolling 12-month CBD net absorption by city ('000 sqm)




Source: Knight Frank Research, PCA

**Tenant demand rises for core precincts**
Net absorption in 12-months to Jan-25 (‘000 sqm)




Source: Knight Frank Research, PCA

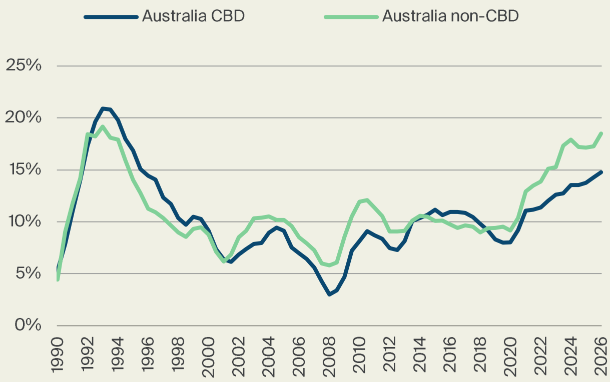
# Vacancy stabilising

## CBD vacancy stabilising in some markets, but the pipeline is thinning out

- Across the Australian CBDs, the vacancy rate rose by 0.5% to 14.8% in H2 2025. Vacancy rates in non-CBD markets continue to lag CBD markets with the average vacancy rate rising 1.2% to 18.5%. Given positive net absorption, the rise in the CBD vacancy rate largely reflects increased supply from the delivery of new/refurb buildings in Melbourne and Brisbane rather than a weakening in demand. A significantly thinner supply pipeline in 2026 is expected to see the CBD vacancy rate fall in 2026.
- Canberra and Brisbane have the lowest vacancy rates amongst the capital cities at 10.2% and 11.8% respectively, whilst Melbourne and Perth are significantly higher at 19.0% and 16.9%, respectively. Adelaide has seen the strongest improvement over the past year with vacancy falling 0.9% to 15.5%. Sydney CBD's vacancy rate was broadly stable in H2 and stands at 13.8%.
- Over the next five years, the development pipeline in major CBDs is forecast to average around 160,000 sqm of new supply per year – over 60% below the 10-year average. This compares over an average of 400,000 sqm per year being delivered since 2023.
- The pipeline looks particularly thin in Sydney, Brisbane and Perth. The conflict in the Middle East has brought renewed inflationary pressures in the construction industry as well as greater uncertainty over the outlook for interest rates and yields. This may contribute to delaying new developments and add to the constraints on future supply. This tightening in supply is expected to support a tighter leasing market and consequently faster rental growth over the coming years.

### Vacancy continues to rise

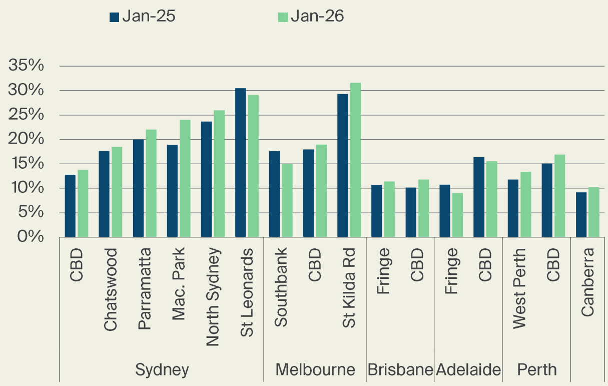
Total vacancy rate (%)




Source: Knight Frank Research, PCA

### Vacancy rates mixed across markets

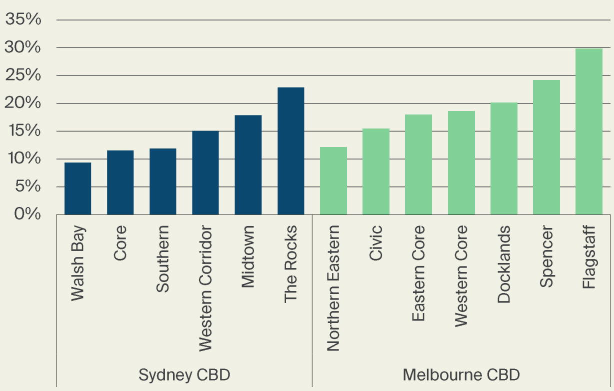
Total vacancy by market, Jan-25 vs Jan-26 (%)




Source: Knight Frank Research, PCA

### Vacancy rates lower in preferred precincts

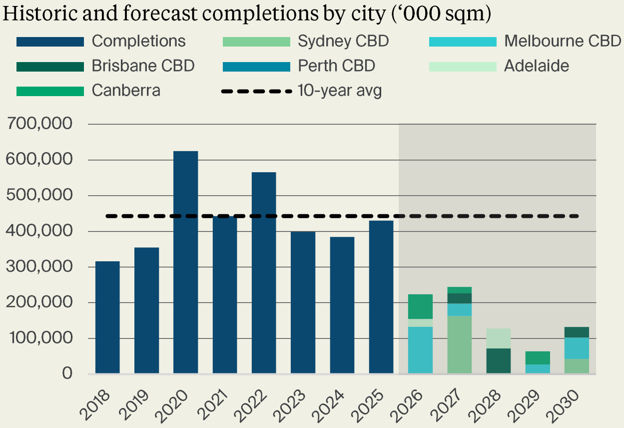
Total vacancy at Jan-25, %




Source: Knight Frank Research, PCA

### Prime CBD office supply is tightening

Historic and forecast completions by city ('000 sqm)




Source: Knight Frank Research, PCA

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