Australian office indicators

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Key leasing and capital markets metrics across the Australian office market

Q2 2026

Rent growth and tenant demand strengthen in CBDs

CBDS DRIVING RENT PRIME GROWTH

Annual net effective rent growth has continued to accelerate and broaden in Q2. Over the year to Q2 2026, Sydney (12.2%) has seen the largest growth in net effective rents, followed by Brisbane (9.2%), Adelaide (4.6%), and Melbourne (4.3%). Annual net effective rent growth is now above the 10-year average in all CBD markets except Perth. This growth continues to be driven by the best-located and highest quality buildings but has begun to broaden in Sydney CBD. Rental growth in suburban markets remains subdued with tenant demand largely skewed to the CBDs.

OFFICE DEMAND IS RISING

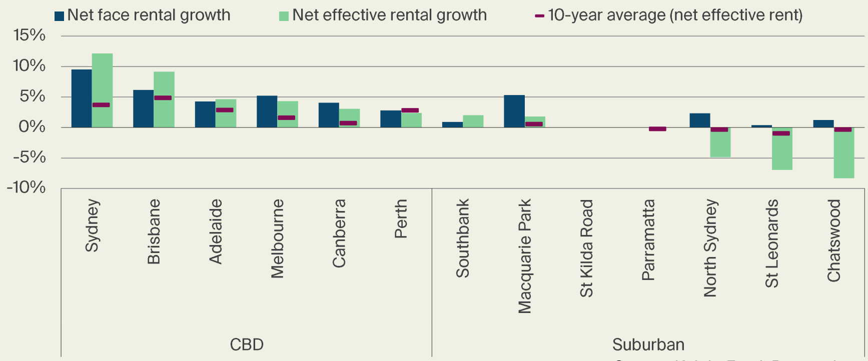
In H1 2026 there was positive net absorption of 29,981 sqm across the Australian CBD markets, which saw net absorption for the past 12 months fall to 101,522 sqm. The fall in CBD net absorption reflects a fall in demand in Canberra. In all other CBD markets net absorption rose over the past year reflecting growing demand for office space, particularly strong in Brisbane CBD and Perth CBD. Rising net absorption has almost entirely been driven by demand for prime space with continued subdued demand for secondary space.

VACANCY RATES FALL IN MANY CBDS

Vacancy rates have stabilised over the past year in several CBD markets, indicating that they have likely peaked in Sydney, Brisbane and Perth CBD. However, in the 6 months of H1 2026 vacancy rates fell in Brisbane, Perth, Sydney and Melbourne CBD as a result of rising tenant demand and limited new supply. Vacancy rates in non-CBD markets rose in H1, with particularly large increases in Sydney and Melbourne.

Strong prime rent growth in several CBDs

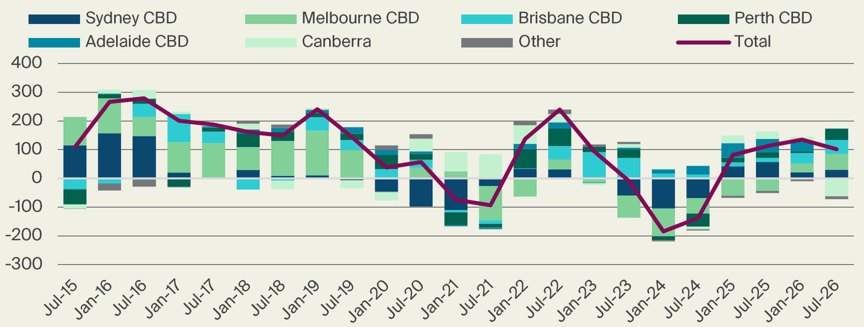
Annual net face rental growth & net effective rental growth, Q2 2026 (%)



Source: Knight Frank Research

Rising net absorption across most CBDs

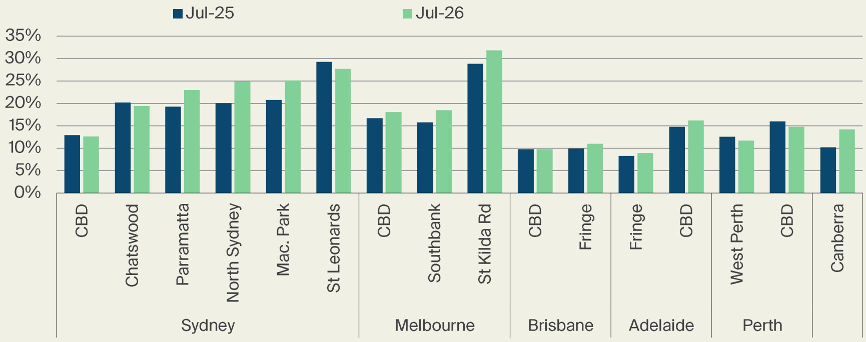
Rolling 12-month CBD net absorption by city ('000 sqm)



Source: Knight Frank Research, PCA

Vacancy rates mixed across markets

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



Source: Knight Frank Research, PCA

Key data points

Prime market averages – Q2 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 (H1, PCA, %)
CBDs									
Sydney	1,470	1.8	9.5	34.9 (g)	868	3.3	12.2	5.70	13.3
Melbourne	773	0.8	5.2	48.1 (n)	401	0.0	4.3	7.02	18.9
Brisbane	894	1.2	6.1	37.5 (g)	479	1.3	9.2	7.25	10.2
Perth	749	1.7	2.8	47 (n)	397	1.7	2.4	7.90	15.4
Adelaide	590	3.1	4.3	33.8 (g)	337	4.6	4.6	7.43	16.3
Canberra	481	0.0	4.1	28.6 (g)	308	0.0	3.1	6.97	14.7
Suburban									
North Sydney	952	0.0	2.3	42.4 (g)	472	-4.6	-4.8	7.49	24.9
St Leonards	671	0.0	0.4	44 (g)	310	-5.0	-7.0	8.13	27.7
Chatswood	655	0.0	1.2	44 (g)	301	-5.1	-8.3	8.15	19.4
Macquarie Park	495	0.0	5.3	42 (g)	287	-1.7	1.8	8.00	25.1
Parramatta	575	0.0	0.0	38.4 (n)	355	0.0	0.0	8.13	23.0
Southbank	692	0.0	0.9	47.5 (n)	363	0.0	2.0	7.50	18.5
St Kilda Road	534	0.0	0.0	50.0 (n)	267	0.0	0.0	8.31	31.8

Recent transactions

Market	Property	Price (A$m)	Size (NLA sqm)	Purchaser	Vendor	Core market Yield (%)	WALE
Sydney CBD	180 George St (19.9%)	357.2	61,914	OUE REIT	Mitsubishi Estate	5.5	4.6
Sydney CBD	O'Connell Precinct* (50%)	529.5	59,167	Charter Hall	ADIA	5.8	2.3
North Sydney	100 Mount St	558.0	41,162	BGO JV Investa	Dexus	c6.9	3.2
Melbourne CBD	31 Queen St	167.1	19,132	Bayley Stuart	AEW	7.2	2.5
East Melbourne	54 Wellington St	108.0	15,311	ASA Real Estate Partners	Impact Investment Group	8.0	-
Brisbane	100 Creek St	169.3	20,000	PAG JV Cromwell	Cromwell DPF	8.0	2.8
Brisbane	150 Charlotte St	40.0	21,252	Dexus REP 4	Australian Unity Office Fund	VP	VP
Perth	1 Nash St	79.4	12,362	Castlerock	CorVal	8.3	5.5
Perth	KS3, 10 Telethon Avenue	72.3	9,185	EC University	Dexus	^	^

^Sold to be converted.
VP = Vacant Possession

Source: Knight Frank Research, RCA

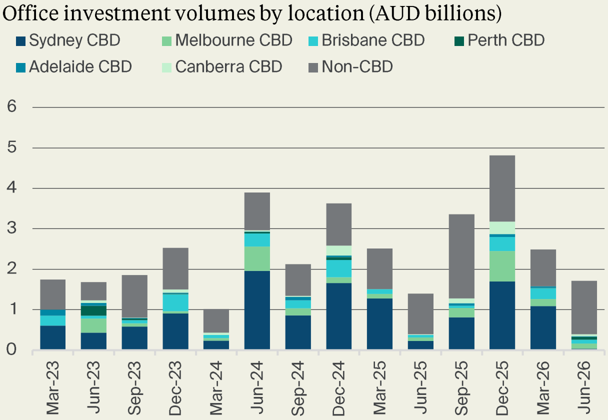
Sales volumes subdued

Elevated uncertainty weighs on office transaction activity

- Office investment activity was subdued in Q2 2026 with $1.7 billion of closed transactions. Activity was driven predominantly by non-CBD markets: In North Sydney, BGO JV Investa acquired 100 Mount St for $558 million from Dexus; ASA Real Estate Partners bought 54 Wellington St in East Melbourne for $108 million from Impact Investment Group; and a private bought 9 Help St in Chatswood for $90 million. A further c$1.6 billion in Q2 transactions remain under contract, Charter Hall's c$540 million purchase of the remaining 50% share of 5 office assets in the O'Connell Block, and Centuria's 50% share in 680 George St for $480m.
- Average prime CBD yields rose in Q2 2026 reflecting a softer investment demand. Yields remained steady in Sydney CBD and Brisbane CBD as robust rent growth supports increased investor confidence. However, yields softened further in Melbourne (+13bps), Adelaide (+16bps) and Perth (+32bps) with upward pressure coming from a combination of higher borrowing rates, lower rent growth, and increased uncertainty leading to a more cautious approach among investors within these markets.
- The Middle East conflict continued to drive elevated geopolitical uncertainty in investment markets during Q2 2026, and higher inflation has led to a sharp rise in borrowing rates and kept office investment demand subdued.
- Over the medium-term, the fundamentals of a significantly supply constrained environment persist, net effective rents are rising at an above average pace, and the longer-term trajectory for interest rates point lower around late-2027–2028. Together, this all points to a supportive environment for offices investment over the medium-term.

Office investment remains subdued

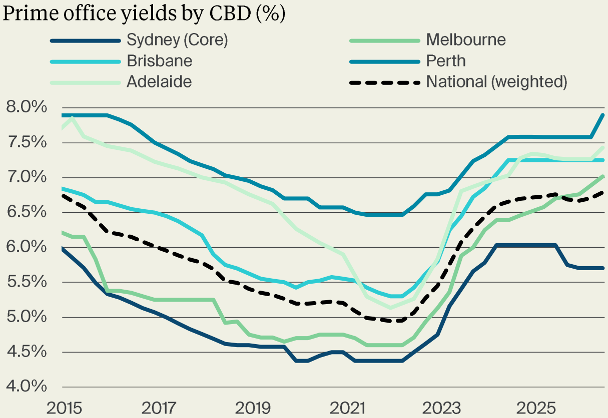
Office investment volumes by location (AUD billions)



Source: Knight Frank Research, RCA

Prime office yields rise

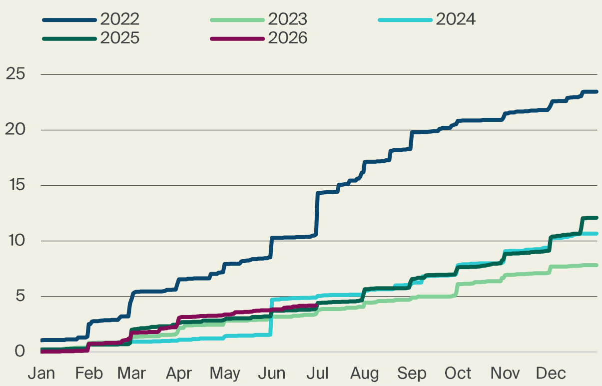
Prime office yields by CBD (%)



Source: Knight Frank Research

Transaction activity similar to recent years

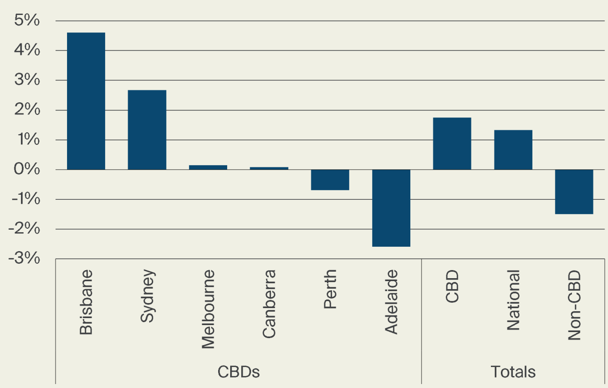
Daily cumulative transaction volume, offices (AUD billions)



Source: Knight Frank Research, RCA

Divergent capital growth across cities

Annual change in office capital values , Q2-25 to Q2-26



Source: Knight Frank Research, MSCI

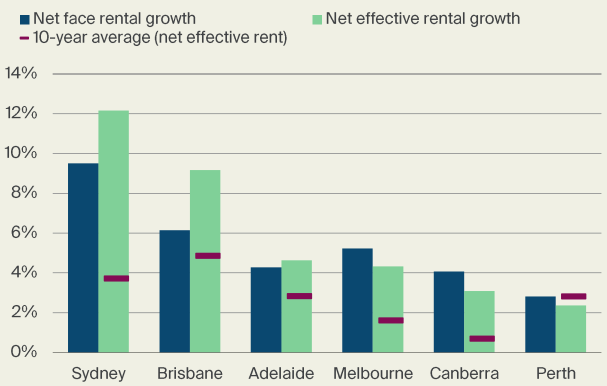
Strong effective rent growth

Rent growth is expanding beyond core precincts within CBDs

- Average prime net face rents continued to rise in most CBDs in Q2, with strong growth in Adelaide (3.1%), followed by Sydney (1.8%) and Perth (1.7%). Rents remained stable in Q2 in Perth (0.3%), and Adelaide (0.1%) and Canberra (0%).
- Incentives were mixed across the CBDs in Q2. Prime incentives fell by 0.6% in Sydney (34.9%, gross) and 0.6% in Adelaide (33.8%, gross). Melbourne saw prime incentives rise by 0.4% to 48.1% (net) while incentives remained steady in all other CBDs.
- Falling incentives in many capital cities over recent quarters are contributing to strong effective rent growth across most CBDs. Net effective rent growth remains historically strong, with annual growth rates above the 10-year average in all cities except Perth.
- Rent growth across most capital cities continues to be driven by the highest quality and best located buildings. However, notably in the Sydney CBD we are seeing rental growth now expand beyond the core with all precincts except Southern experiencing annual net effective rent growth above 6%. It is expected that over the coming quarters, other CBDs will similarly see rental growth begin to broaden beyond the core precincts.
- Looking forward, rising tenant demand and declining levels of new development – particularly of 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

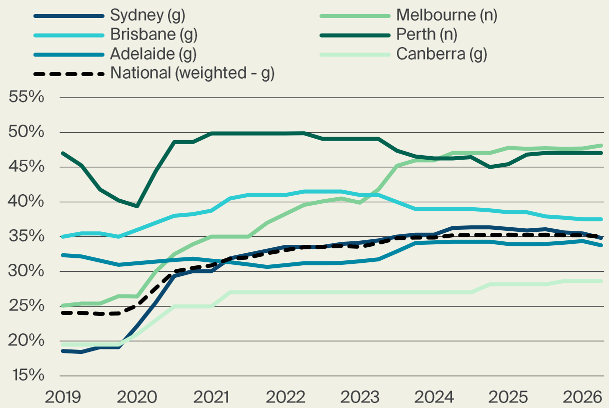
Annual net face rental growth & net effective rental growth (%)



Source: Knight Frank Research

Prime incentives fall in Q2

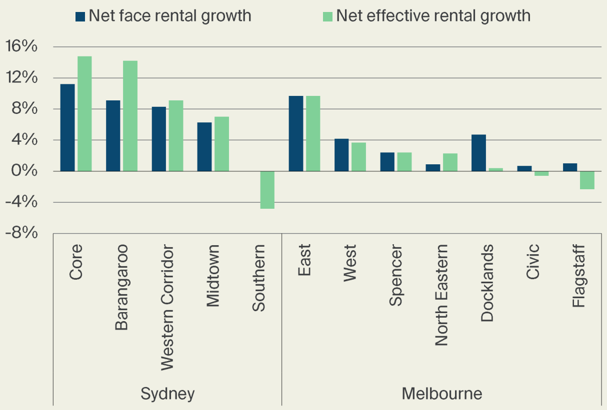
Prime incentives, %



Source: Knight Frank Research

Rent growth is improving outside the core

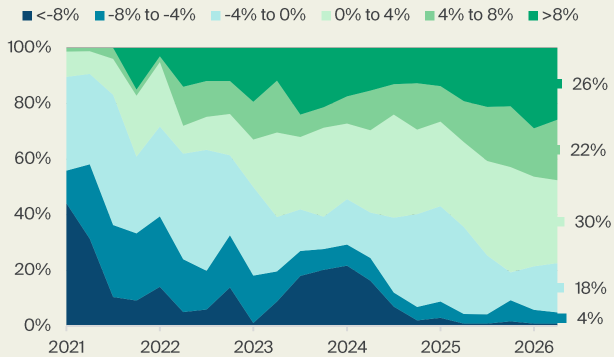
Net face renal growth vs net effective rental growth (% y/y)



Source: Knight Frank Research

Net effective rent growth is accelerating

Share of assets growing with annual net effective rent growth in each band, Australian CBDs (% y/y)



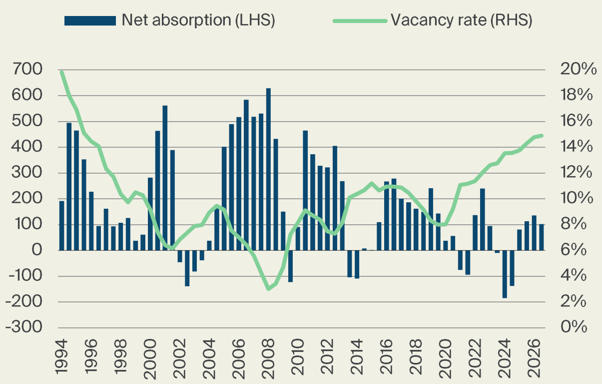
Source: Knight Frank Research

Positive absorption continues

Demand strongest for high quality CBD assets in Sydney, Brisbane, and Perth

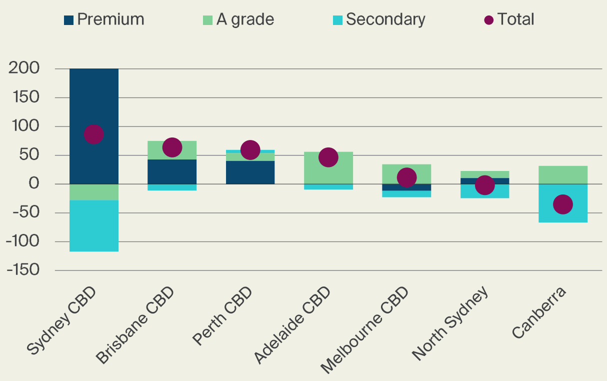
- In H1 2026 there was positive net absorption of 29,981 sqm across the Australian CBD markets, which saw net absorption for the past 12 months fall to 101,522 sqm. Net absorption rose across all other CBD markets reflecting growing demand for office space — this rise was particularly strong in Brisbane CBD and Perth CBD and was driven by demand for high quality space.
- All CBDs except Canberra 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 tenant demand strongest for premium and A-grade buildings. Tenants are focused on high quality, well-located premises that have the best amenity for employees, if not on the doorstep, then immediately adjacent in the precinct.
- The clear divergence in performance by location also persists, particularly in Sydney and Melbourne where the core CBD and Eastern Core precincts have been outperforming for some time. However, positive absorption has now spread to neighbouring markets including Sydney's Western Corridor and Melbourne's Civic and North Eastern precincts.

CBD net absorption remains robust
12-month CBD net absorption ('000sqm), vacancy rate (%)



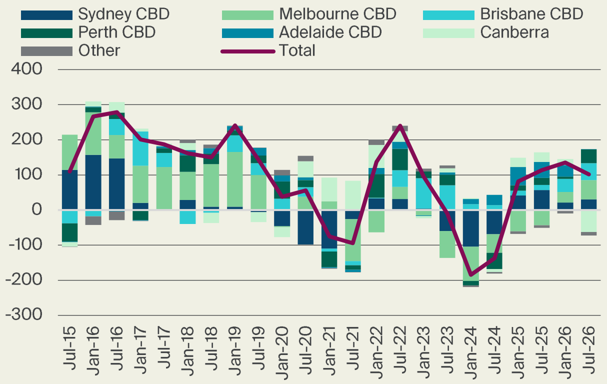
Source: Knight Frank Research, PCA

Strong demand for high-quality space
Net absorption by grade over past 2 years to Jul-26 ('000sqm)



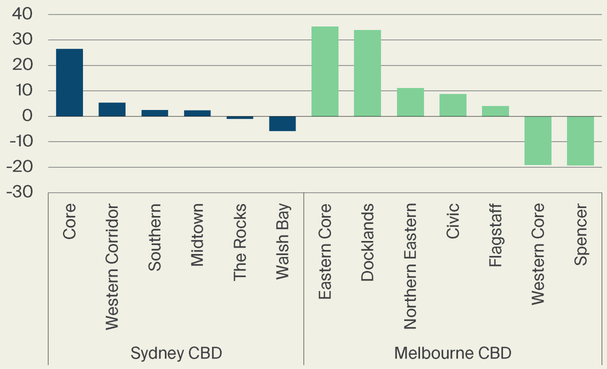
Source: Knight Frank Research, PCA

Rising net absorption across most CBDs
Rolling 12-month CBD net absorption by city ('000 sqm)



Source: Knight Frank Research, PCA

Positive demand in most precincts
Net absorption in 12-months to Jul-26, ('000 sqm)



Source: Knight Frank Research, PCA

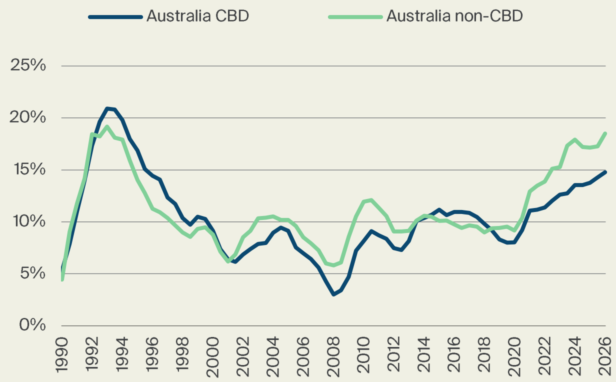
Vacancy stabilising

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

- Across the Australian CBDs, the vacancy rate rose by 0.1% to 14.9% in H1 2026. Vacancy rates in non-CBD markets continue to lag CBD markets with the average vacancy rate rising 0.4% to 18.9%. A significantly thinner supply pipeline in 2026 and 2027 is expected to see the CBD vacancy rate fall over the next 12 months.
- Brisbane and Sydney have the lowest vacancy rates amongst the CBDs at 10.2% and 13.3% respectively, whilst Melbourne and Adelaide are significantly higher at 18.9% and 16.3%, respectively. Perth has seen the vacancy rate fall to 15.4%, while the vacancy rate in Canberra rose from 10.2% to 14.7% in H1 because of the completion of 15 Sydney Avenue and 60 Constitution Avenue.
- 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 to 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 continued strong prime rental growth over the coming years.

Vacancy continues to rise

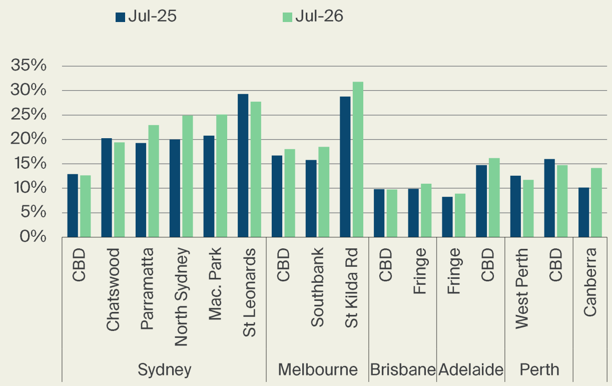
Total vacancy rate (%)



Source: Knight Frank Research, PCA

Vacancy rates mixed across markets

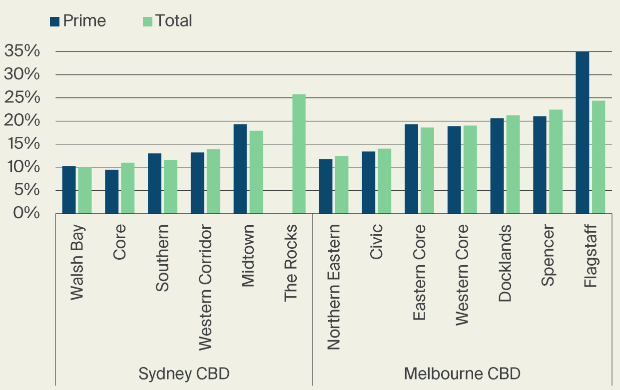
Total vacancy by market, Jul-25 vs Jul-26 (%)



Source: Knight Frank Research, PCA

Vacancy rates lower in preferred precincts

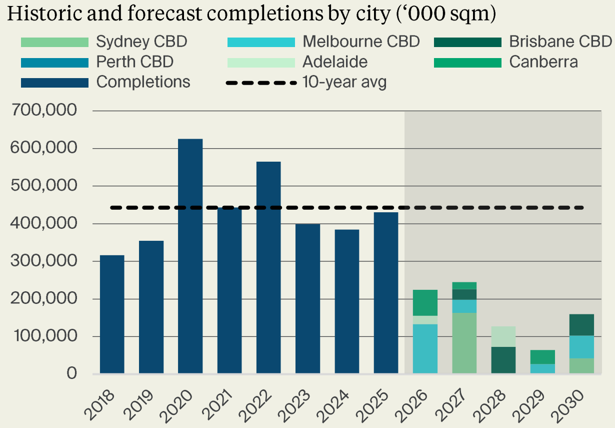
Vacancy at Jul-26 (%)



Source: Knight Frank Research, PCA

CBD office supply to tighten

Historic and forecast completions by city ('000 sqm)



Source: Knight Frank Research, PCA

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