Australian office indicators

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Key leasing and capital markets metrics across the Australian office market

Q3 2025

Tightening yield in Sydney signals an improving market

SYDNEY CBD YIELDS TIGHTEN

Average prime yields tightened in the Sydney CBD for the first time since 2021, highlighting the underlying strength for best-in-class assets in the CBD. This was driven by a 25bps tightening of yields in the core to an average of 5.75%. Tightening yields reflect both improved buyer demand as the market outlook improves, and broader awareness of tightening of supply at the top-end of the leasing market. Owners are beginning to see early signs of capital growth and are likely holding off sales until valuations recover from their cyclical lows.

IMPROVING RENTAL PERFORMANCE

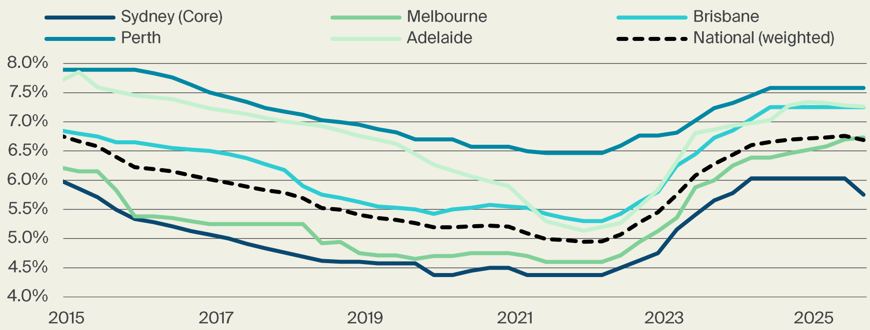
Rental performance continues to differ by location but is steadily improving overall with rising leasing demand. Net effective rents in Brisbane continued to grow in Q3 2025, to be up by 14.9% over the year. Adelaide has also seen a strong increase in rents, with net effective rents rising again in Q3 be 13.7% higher over the year. Rent growth has also accelerated in Sydney and Melbourne in Q3, driven by high-quality core assets.

LOCATION DRIVING RENT GROWTH

Rental performance in Sydney and Melbourne is being driven by the best-located precincts. This reflects the shifting pattern of tenant demand towards higher quality assets to encourage workers back into offices. In Sydney, rent growth is being driven by the core and this has started to ripple out towards surrounding precincts such as the midtown. Similarly, strong rental performance in Melbourne CBD's east is starting to spread to adjacent precincts.

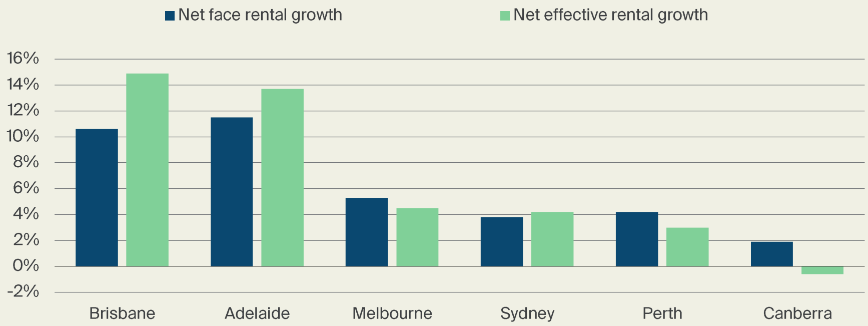
Looking ahead, robust demand and a dwindling supply pipeline is expected to support strong prime rental growth over the coming years.

Prime office yields tighten in Sydney CBD
Prime office yields by CBD (%)



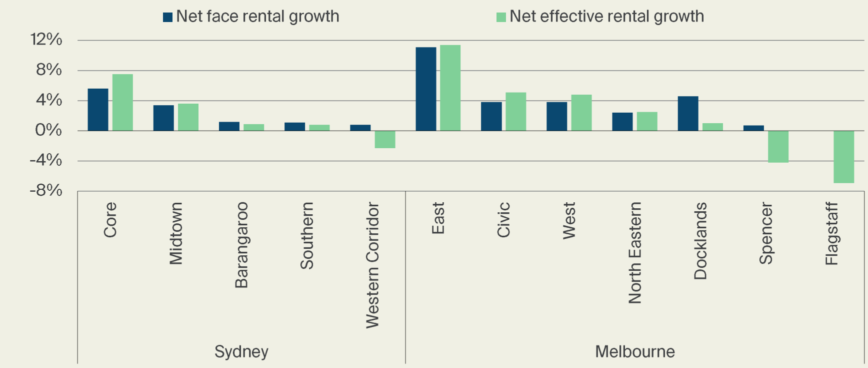
Source: Knight Frank Research

Fastest CBD rental growth in Brisbane
Annual net face rental growth & net effective rental growth (%)



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

Key data points

Prime market averages – Q3 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 (H1, PCA, %)
CBDs									
Sydney	1,371	2.1	3.8	36.1 (g)	785	1.5	4.2	5.75	13.7
Melbourne	755	2.8	5.3	47.7 (n)	402	2.7	4.5	6.73	17.9
Brisbane	859	2.0	10.6	37.9 (g)	455	3.7	14.9	7.25	10.7
Perth	731	0.3	4.2	47.0 (n)	387	-0.1	3.0	7.58	17.0
Adelaide	568	0.4	11.5	33.9 (g)	324	0.4	13.7	7.26	15.0
Canberra	462	0.0	1.9	28.1 (g)	298	0.0	-0.6	7.07	10.7
Suburban									
North Sydney	945	1.6	4.0	39.5 (g)	503	1.4	-0.1	7.42	21.7
St Leonards	671	0.4	1.9	41.0 (g)	335	0.4	-5.4	8.13	29.7
Chatswood	647	0	2.5	40.0 (g)	328	0	-6.7	8.15	20.2
Macquarie Park	480	2.1	3.2	40.0 (g)	288	2.1	-0.1	7.88	22.2
Parramatta	575	0	-1.7	38.4 (n)	355	0	-1.7	8.13	20.0
Southbank	692	0	3.2	48.0 (n)	360	0.2	-4.1	692	16.7
St Kilda Road	525	0	0	50.0 (n)	263	0	1.0	525	29.1

Recent transactions

	Property	Price (A$m)	Size (NLA sqm)	Purchaser	Vendor	Core market Yield (%)	WALE
CBD							
Sydney	75 Elizabeth St	101.8	6,104	Sydney Catholic Archdiocese	Kingold	5.4	2.3
Melbourne	180 Flinders St	c254.5*	21,000	PAG	Dexus	6.5	5.0
Melbourne	357 Collins St	c195.3	32,000	Harry Stamoulis	Frasers	c7.3	c2.5
Melbourne	50 Queen St	40.1	8,650	Up Property	Fidinam	c7.0	1.7
Brisbane	63 George St (50%)	52.0	10,586	Marquette Property	QIC	8.72	3.8
Adelaide	63 Pirie St	50.5	11,500	Centennial	Raptis	8.65	3.7
Canberra	4 Mort St	18.0	5,422	AEGIS	Gladiator MEIF	8.53	1.0

*Includes the sale of an annexed carpark

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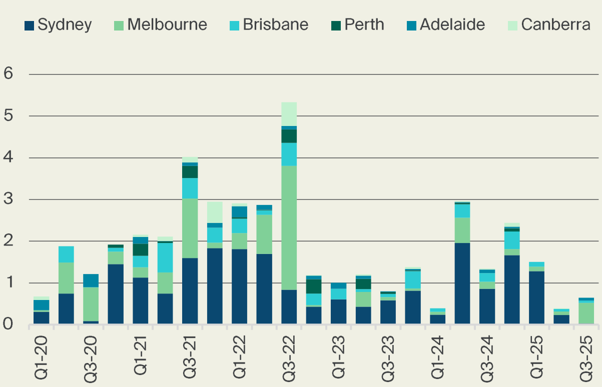
Sales volumes fall

Transaction activity remains subdued in Q3, but is expected to rise in Q4

- CBD office investment activity rose to $0.4 billion of closed transactions in Q3 2025. Activity was driven by Melbourne, with the sale of Flingers Gate for $253 million and 357 Collins St for $195 million. However, over $2 billion of CBD offices remain in contract/due diligence and several other assets are in the process of marketing campaigns which points to a strong activity in Q4. These include Grosvenor Place, 175 Liverpool St, and 75 Elizabeth St (which closed in Q4 for $102 million) in Sydney, and 750 Collins St in Melbourne.
- Average prime yields tightened in the Sydney CBD for the first time since 2021, highlighting the underlying strength for best-in-class CBD assets. This was driven by a 25bps tightening of yields in the core to an average of 5.75%. Average prime yields were once again unchanged across all other CBD locations in Q3 2025, confirming that core asset values have stabilised in these markets.
- 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.
- Reduced borrowing costs, and increasing investor confidence that asset valuations have stabilised, will foster greater confidence drive a progressive pick-up in deal momentum across all cities over the remainder of 2025. In precincts leading the rebound, including the Sydney CBD Core, rising confidence in the market outlook has reduced the number of high-quality assets being listed. Owners are beginning to see early signs of capital growth and are therefore holding off sales until valuations recover from their cyclical lows.

Australian CBD office investment pauses

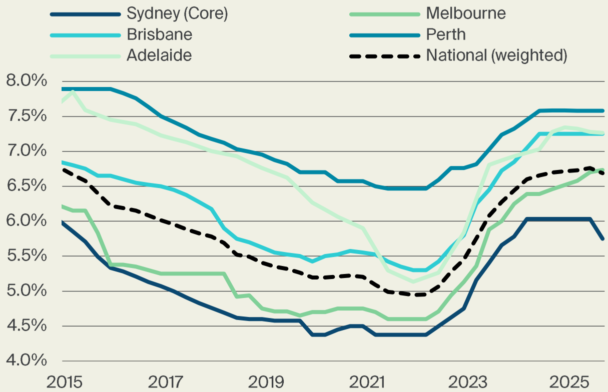
Investment volumes by city (AUD billions)



Source: Knight Frank Research, RCA

Prime office yields tighten in Sydney CBD

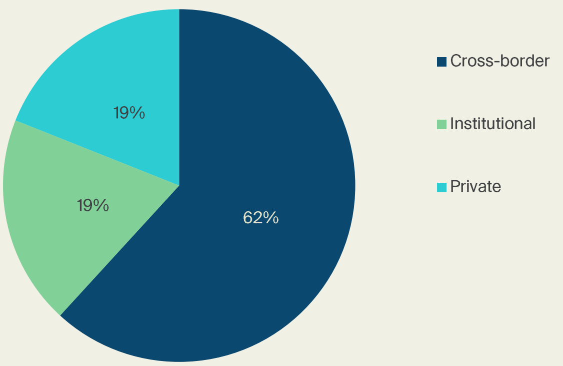
Prime office yields by CBD (%)



Source: Knight Frank Research

Cross-border capital driving transactions

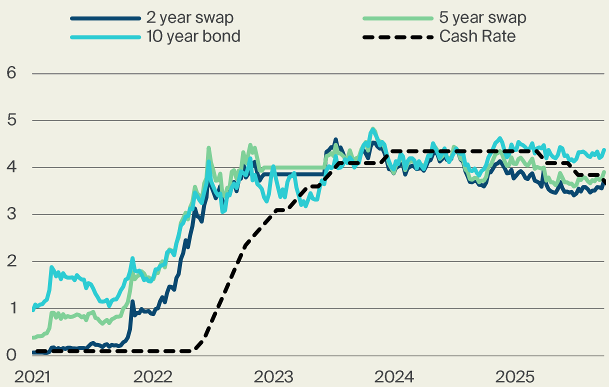
Share of investment volumes by buyer type, Q1-Q3 2025 (%)



Source: Knight Frank Research, RCA

Australian borrowing costs have stabilised

Yield by swap duration



Source: Knight Frank Research, Macrobond

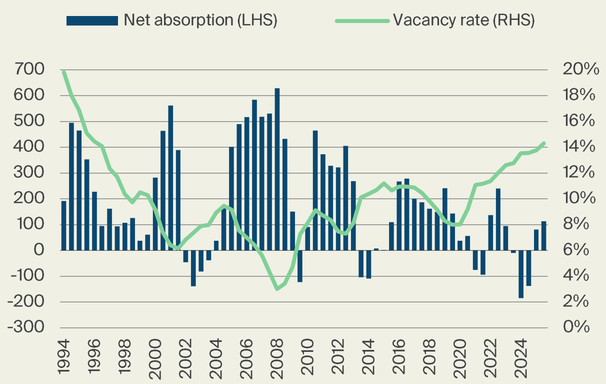
Positive absorption continues

Demand strongest for CBD assets with attractive internal & external amenity

- In H1 2025 there was positive net absorption of 63,738 sqm across the Australian CBD markets, which took yearly absorption for the past 12 months to 113,049sqm – the strongest net absorption since 1H 2022. The continued growth in net absorption highlights the improved sentiment throughout most CBD markets.
- Rising sentiment reflects a gradual improvement in tenant demand nationally, with all capital cities recording positive absorption over the last 12 months except for the Melbourne CBD. However, Melbourne CBD is also showing signs of improvement, recording positive net absorption in H1 for the first time since H1 2022. Most major tenants are now considered to have completed their 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.
- 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. This stronger demand has now spread to neighbouring markets including Sydney's Midtown and Melbourne's North Eastern and Civic precincts.

CBD net absorption returns to growth

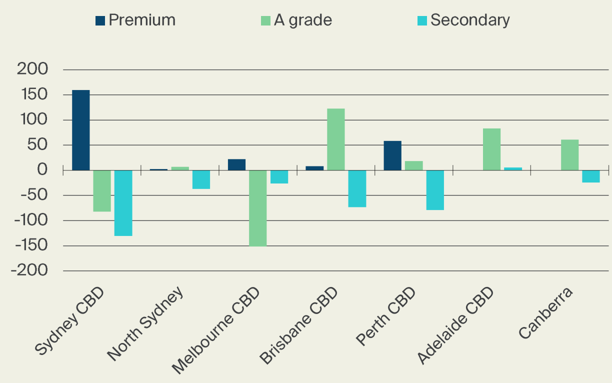
12 months net absorption ('000sqm), vacancy rate (%)



Source: Knight Frank Research, PCA

Demand favours higher grade office space

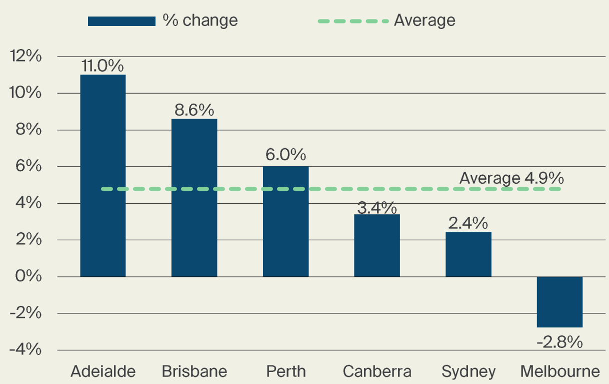
Total absorption since 2021 by grade and market ('000 sqm)



Source: Knight Frank Research, PCA

Prime occupied stock change

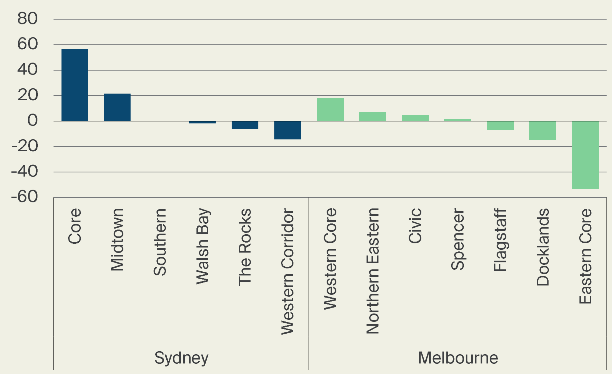
Change in prime occupied stock, Jul-23 to Jul-25 (%)



Source: Knight Frank Research, PCA

Sydney CBD core leads the rebound

Net absorption in 12-months to Jul-25 ('000sqm)



Source: Knight Frank Research, PCA

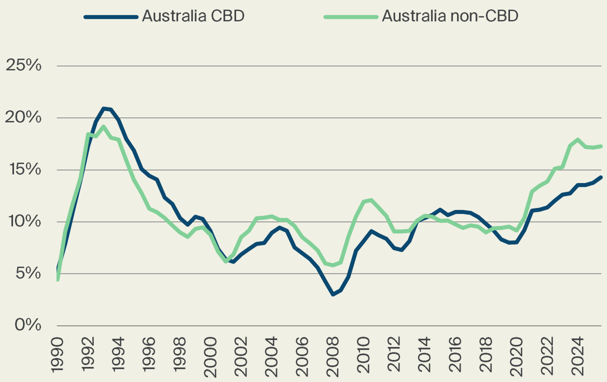
Vacancy stabilising

CBD office markets are yet to turn the corner, but the pipeline is thinning beyond 2025

- Across the Australian CBD, the vacancy rate rose by 0.6% to 14.3% in H1 2025.
- Canberra and Brisbane have the lowest vacancy rates amongst the capital cities at 10.7% respectively, whilst Melbourne and Perth are currently the highest rate at 17.9% and 17.0%, respectively. Adelaide has seen the strongest improvement in CBD vacancy over the past year with vacancy falling 2.5% to 15.0%
- 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 17.3%.
- 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. Developers face multiple pressures including high construction costs, elevated funding costs and higher cap rates which have increased economic rents and made it significantly harder for new developments to be feasible. This will lead to tighter leasing markets and consequently faster rental growth.

CBD vacancy rises while non-CBD stabilises

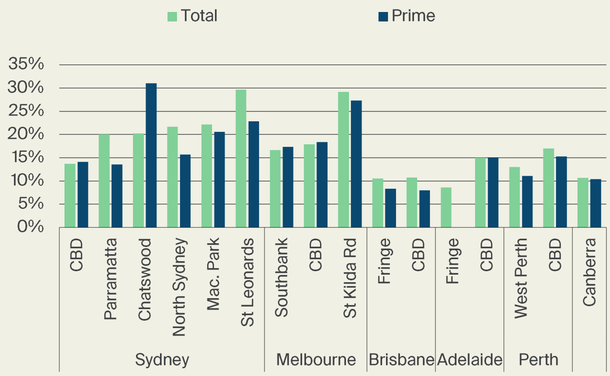
Total vacancy rate (%)



Source: Knight Frank Research, PCA

Vacancy rates mixed across markets

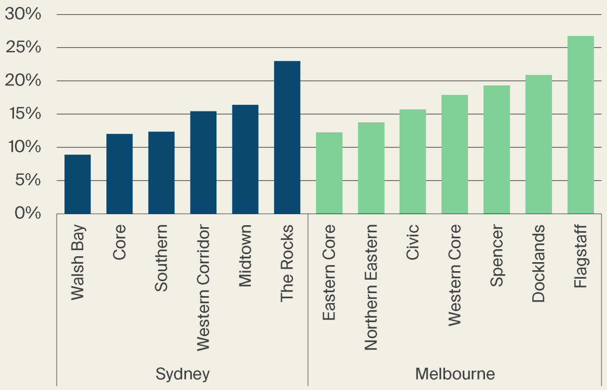
Total vacancy by grade, Jul-25 (%)



Source: Knight Frank Research, PCA

Sydney and Melbourne CBD vacancy rates

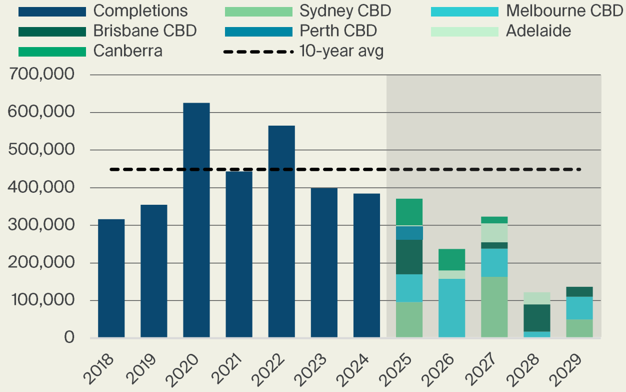
Total vacancy at Jul-25 (%)



Source: Knight Frank Research, PCA

Prime CBD office supply tightening

Historic and forecast completions by city ('000sqm)



Source: Knight Frank Research

Face rents drive growth

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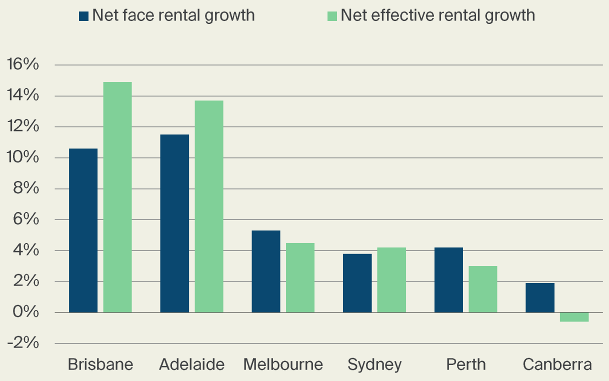
Positive rental growth across Australia, with Brisbane and Adelaide outperforming

- Average prime net face rents continued to rise in Q3, with quarterly growth led by Melbourne (2.8%), followed by Sydney (2.1%), Brisbane (2.0%), and Adelaide (0.4%).
- Over the past year, Brisbane has led the way with an exceptionally strong 14.9% increase in prime effective rents, while Adelaide has experienced 13.7% growth. Growth has been more subdued in Melbourne (4.5%), Sydney (4.2%) and Perth (3.0%).
- Incentives remained stable across most capital cities in Q3. Brisbane was the exception, where incentives continued to slowly fall, reaching 38% (gross) in Q3.
- With occupier demand weighted towards core CBD locations, the Core precincts in Sydney CBD and the Eastern in Melbourne CBD have out-performed with 7.4% and 11.4% net effective rent growth over the past year.
- 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.

Fastest CBD rental growth in Brisbane

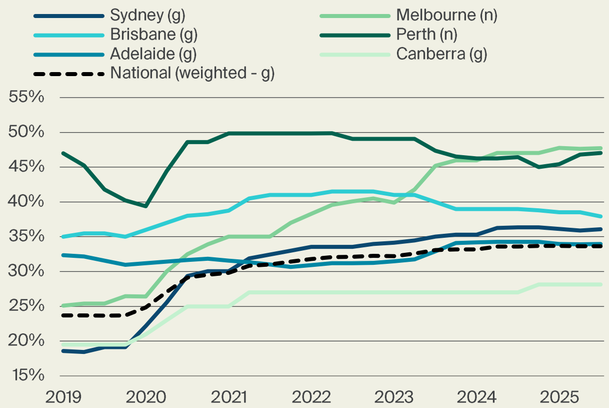
Annual net face rental growth & net effective rental growth (%)



Source: Knight Frank Research

Prime incentives stabilise

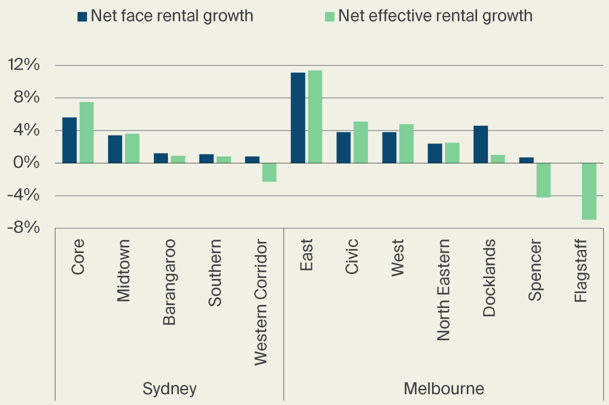
Prime incentives, %



Source: Knight Frank Research

Rent growth strongest in favoured precincts

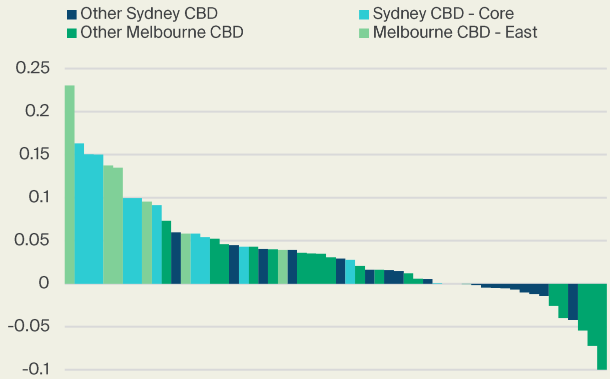
Net face renal growth vs net effective rental growth (% y/y)



Source: Knight Frank Research

Rent growth driven by the core

Annual net effective rent growth by prime building (%)



Source: Knight Frank Research

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