Australian office indicators

knightfrank.com.au/research

Key leasing and capital markets metrics across the Australian office market

Q4 2025

Strengthening demand is driving a lift in rent growth

NET ABSORPTION GROWS AGAIN

Australian CBD office net absorption rose again in H2 2025 by 71,541 sqm, taking annual absorption to 135,279 sqm – the highest total since 2022. This growth was broad based with all main CBD locations experiencing positive net absorption in 2025. However, average CBD vacancy still rose by 0.5% to 14.8% in H2. This rise reflected the delivery of new supply particularly in Melbourne, Brisbane and Adelaide .

STRONG RENTAL PERFORMANCE

There has been a marked uplift in prime office rental growth in many capital cities. Adelaide and Brisbane continue to stand out with exceptionally strong annual effective rent growth. Sydney and Melbourne CBD rents also gained significant momentum in H2 2025, mostly driven by an acceleration of rents in core precincts. The dispersion between the performance of premium and/or core buildings and the rest of the market continued to grow in Q4.

LESS NEW SUPPLY IN 2026

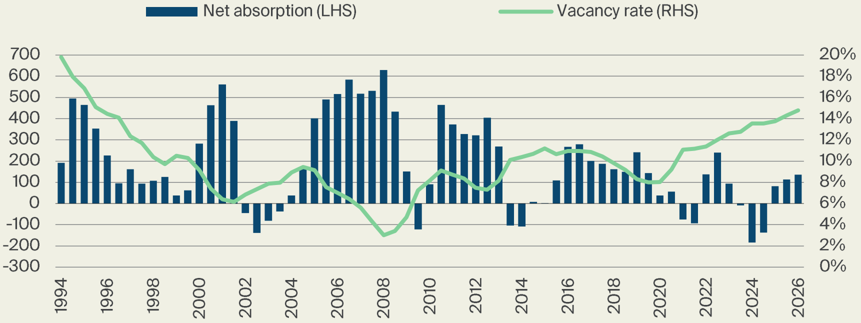
The national office supply pipeline is dwindling over the next five years. Over the next three years, the development pipeline in major CBDs is forecast to deliver c680,000 sqm of new supply – close to half the 10-year average.

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.

Combined with the expected continuation of positive absorption, this should see the national average vacancy rate fall, and rent growth strengthen further, throughout 2026.

CBD net absorption continues to grow

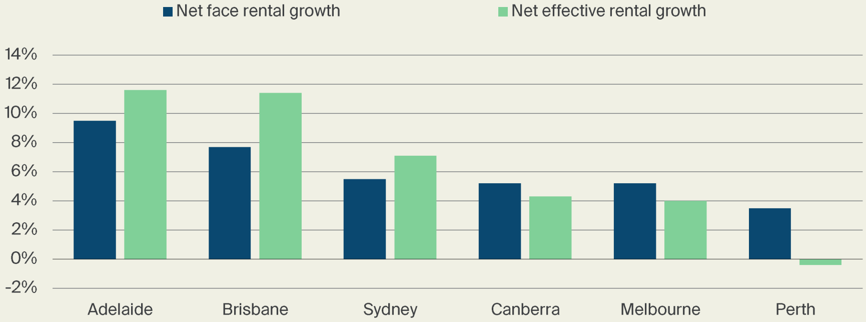
12 months net absorption ('000sqm), vacancy rate (%)



Source: Knight Frank Research, PCA

Strong rent growth in several CBDs

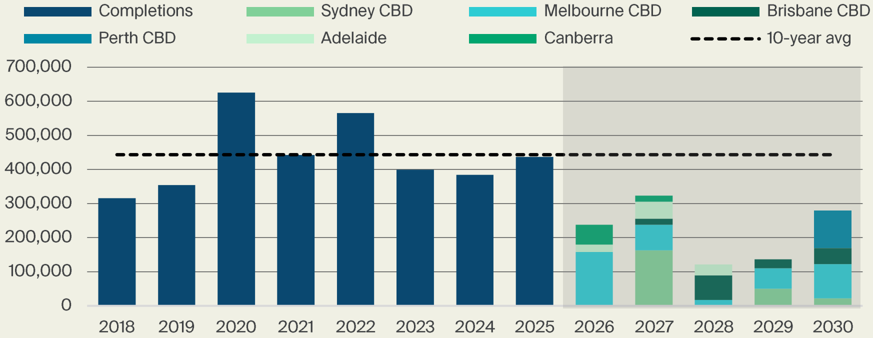
Annual net face rental growth & net effective rental growth (%)



Source: Knight Frank Research

A rapidly diminishing pipeline of new supply

Historic and forecast completions by city ('000 sqm)



Source: Knight Frank Research, PCA

Key data points

Prime market averages – Q4 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 (H2, PCA, %)
CBDs									
Sydney	1,397	1.9	5.5	35.6 (g)	809	4.6	7.1	5.70	13.8
Melbourne	756	0.1	5.2	47.6 (n)	396	0.2	4.0	6.76	19.0
Brisbane	868	1.1	7.7	37.8 (g)	462	1.6	11.4	7.25	11.8
Perth	734	0.5	3.5	47.0 (n)	389	0.5	-0.4	7.58	16.9
Adelaide	572	0.7	9.5	34.1 (g)	325	0.3	11.6	7.26	15.5
Canberra	481	4.1	5.2	28.6 (g)	308	3.1	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	38.4 (n)	355	0	0	8.13	22.1
Southbank	692	0.0	2.5	47.50 (n)	363	0.0	2.5	7.33	15.0
St Kilda Road	534	0.8	1.7	50.0 (n)	267	0.8	1.7	7.94	31.6

Recent transactions

	Property	Price (A$m)	Size (NLA sqm)	Purchaser	Vendor	Core market Yield (%)	WALE
CBD							
Sydney	Grosvenor Place (50%)	860.0	85,509	GPT	CSC	6.0	3.4
Sydney	Grosvenor Place (25%)	430.0	85,509	CSC	Blackstone	6.0	3.4
Sydney	Darling Square	360.0	27,749	Barings	Lendlease JV Aware Super	U/D	U/D
Melbourne	470 Collins St	60.3	11,000	Fortis	Suleman Property	6.2	1.2
Melbourne	750 Collins St	383.0	41,399	Trust-Capital	GPT Group	6.5	10.0
Brisbane	Central Plaza One	222.5	40,446	Aravest	ISPT	6.8	4.7
Brisbane	60 Albert St	208.0	21,263	Ashe Morgan	Dexus Wholesale Property Fund	7.5	7.5
Canberra	23 Furzer Street	305.0	46,029	LDR Capital	Mirvac	7.83	9.1

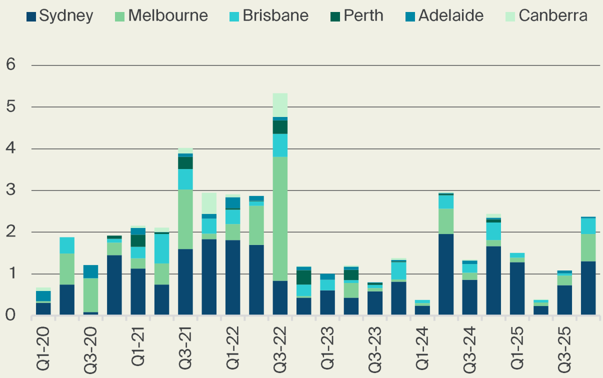
Sales volumes rise

Transaction activity lifts in Q4 and Sydney CBD core yields tighten further

- CBD office investment activity rose to $2.4 billion of closed transactions in Q4 2025. Activity was driven by Sydney, with the sale of both a 25% stake in Grosvenor Place to CSC for $430 million and a 50% stake to GPT for $860 million – a combined sale value of $1.3 billion. Several significant sales also occurred in Melbourne including TrustCapital selling 750 Collins St to GPT for $383 million, and PAG selling Flinders Gate for $254.5 million to Dexus. In Brisbane, Aravest bought a 50% stake in Central Plaza One for $222.5 million from ISPT. It is estimated that around $0.5 billion of Q4 transactions remain under contract.
- CBD office transaction volumes totalled $5.4 billion in 2025, below the $7.1 billion recorded in 2024. However, increasing investor confidence that asset valuations have stabilised will likely foster greater confidence and drive a continued pick-up in deal momentum across all cities in 2026.
- 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. Investors seeking to deploy capital may need to look beyond the core.
- Average prime yields tightened slightly further in the Sydney CBD core in Q4 by 5 bps while other precincts remained steady, highlighting the underlying strength for best-in-class CBD assets. Average prime yields were largely unchanged across all other CBD locations in Q4 2025, confirming that core asset values have stabilised in these markets with the next move likely to be up.

Australian CBD office investment rebounds

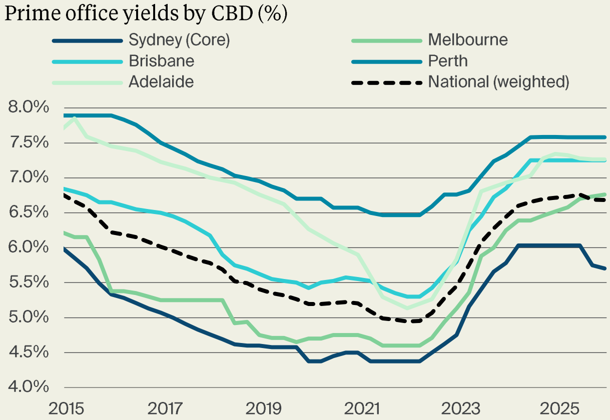
CBD office investment volumes by city (AUD billions)



Source: Knight Frank Research, RCA

Prime office yields tighten in Sydney CBD

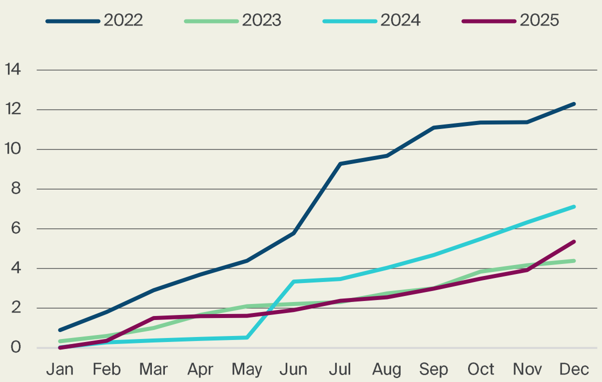
Prime office yields by CBD (%)



Source: Knight Frank Research

Strong finish to 2025

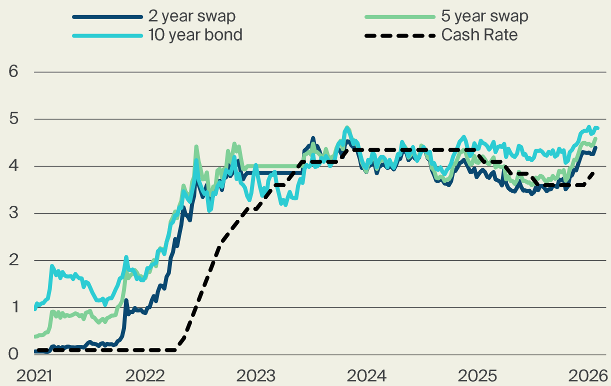
Cumulative CBD office transaction volume by year (AUD



Source: Knight Frank Research, RCA

Australian borrowing costs rise sharply

Yield by swap duration



Source: Knight Frank Research, Macrobond

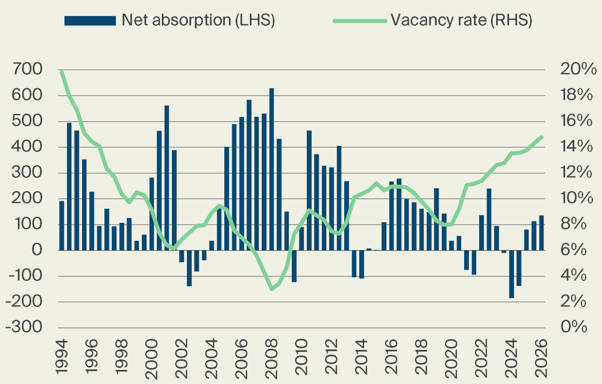
Positive absorption continues

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

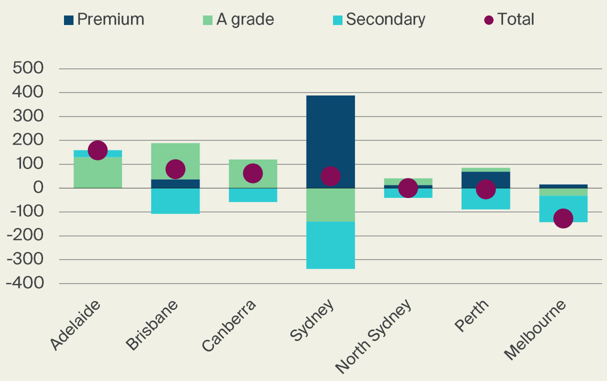
12 months net absorption ('000sqm), vacancy rate (%)



Source: Knight Frank Research, PCA

Strong demand for prime office space

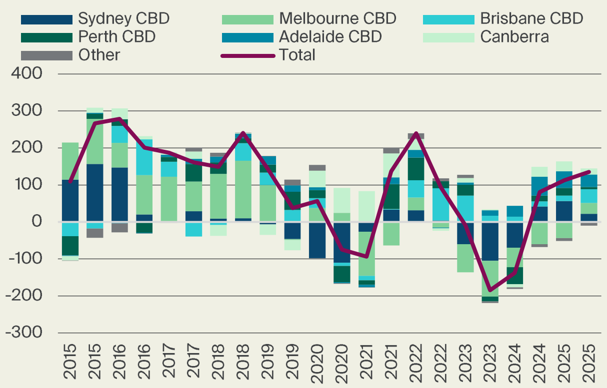
Net absorption by grade over past 2 years ('000sqm)



Source: Knight Frank Research, PCA

Rising net absorption in main CBD locations

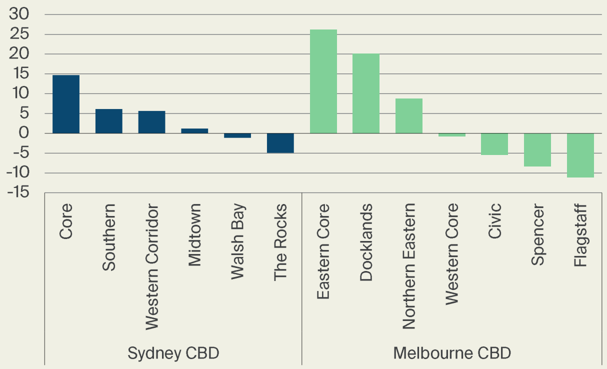
Rolling 12-month CBD net absorption by city ('000 sqm)



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

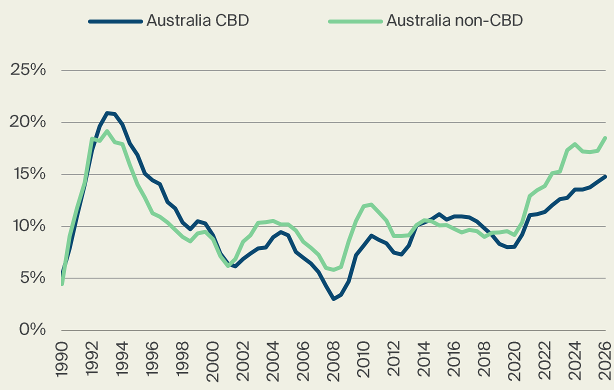
Vacancy stabilising

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%.
- 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 and Civic precincts.
- Over the next three years, the development pipeline in major CBDs is forecast to deliver around 680,000 sqm of new supply – close to half the 10-year average. This compares to the last three years where new supply has totalled over 1.2 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.

Vacancy continues to rise

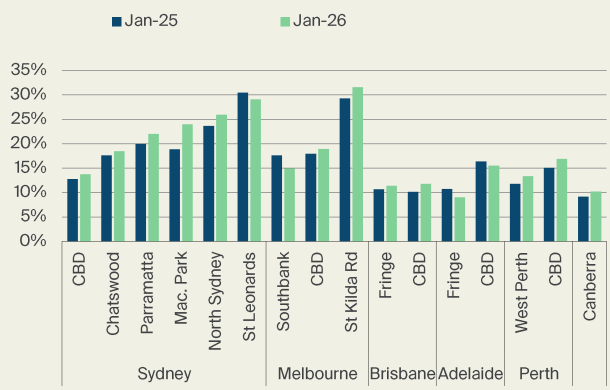
Total vacancy rate (%)



Source: Knight Frank Research, PCA

Vacancy rates mixed across markets

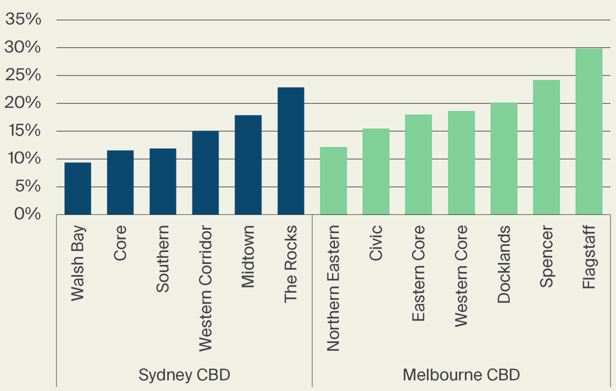
Total vacancy by market, Jan-25 vs Jan-26 (%)



Source: Knight Frank Research, PCA

Vacancy rates lower in preferred precincts

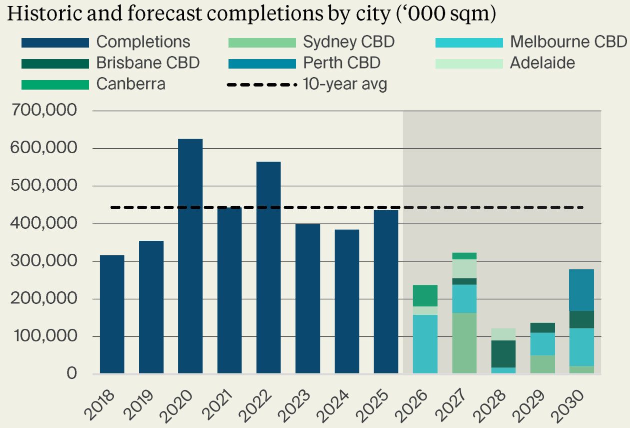
Total vacancy at Jan-25, %



Source: Knight Frank Research, PCA

Prime CBD office supply tightening

Historic and forecast completions by city ('000 sqm)



Source: Knight Frank Research, PCA

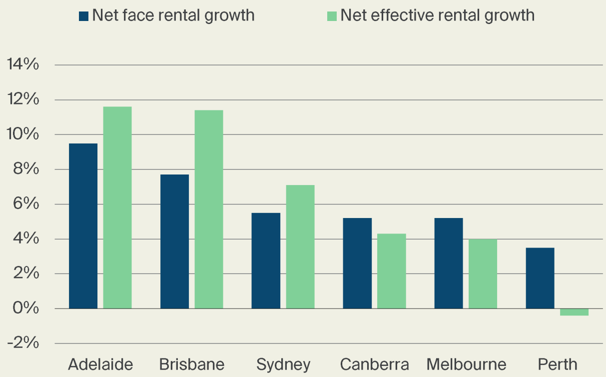
Face rents drive growth

Positive rental growth across Australia, with Adelaide and Brisbane outperforming

- Average prime net face rents continued to rise in Q4, with strong growth in Canberra (4.1%), followed by Sydney (1.9%), Brisbane (1.1%), Adelaide (0.7%), and Perth (0.5%). Net face rents in Melbourne (0.1%) remained relatively steady in Q4.
- Over the past year, Adelaide (11.6%) and Brisbane (11.4%) have led the way, while growth has accelerated in Sydney (7.1%), Canberra (4.3%) and Melbourne (4.0%). Perth (-0.4%) has been more subdued but growth is expected to return in 2026.
- Incentives were broadly stable across most capital cities in Q4. Sydney was the exception, tightening from 36.1% to 35.6% (gross) in Q4. This move was largely driven by the Core (-0.7%) and Barangaroo (-1.0%).
- 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 11.8% and 10.7% 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 55% higher in Sydney and 75% higher in Melbourne.
- 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

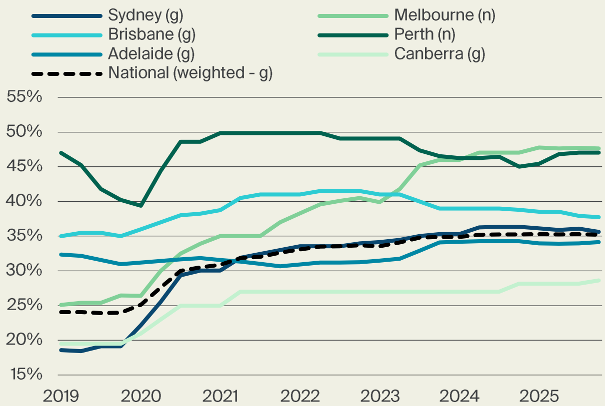
Annual net face rent growth & net effective rent growth (%)



Source: Knight Frank Research

Prime incentives stabilise

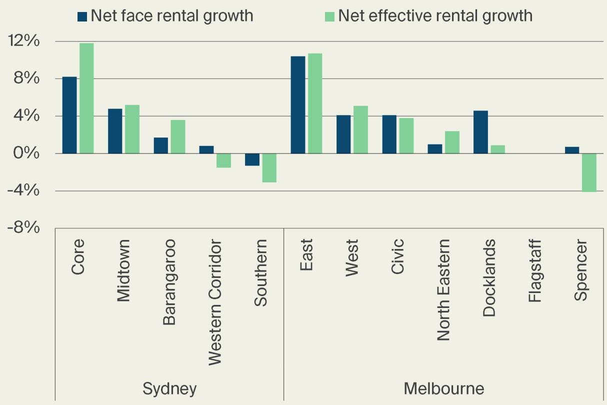
Prime incentives, %



Source: Knight Frank Research

Rent growth strongest in favoured precincts

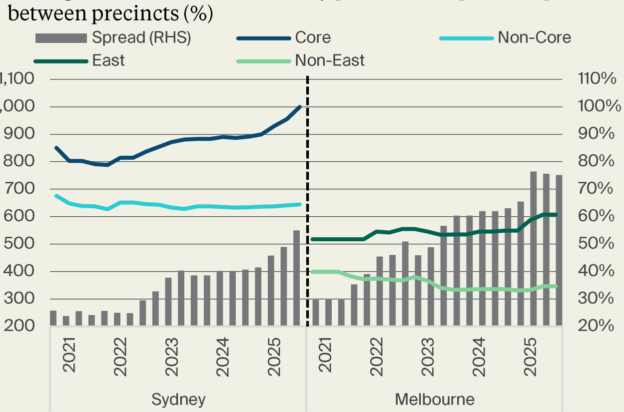
Net face rent growth vs net effective rent growth (% y/y)



Source: Knight Frank Research

Core precinct rents continue to pull away

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



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. You can also click here to subscribe to our research.

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

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

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

Rob Sewell
Capital Markets
+61 2 9036 6847
Rob.Sewell@au.knightfrank.com

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

Lisa Atkins
Asset Management Services
+61 3 9604 4710
Lisa.Atkins@au.knightfrank.com