Sydney CBD Office Market

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Investor confidence is returning with a rebound in transactional activity

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Key Insights

Occupier and investor demand weighted towards best in class assets in core locations

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10.9%

Drop in premium vacancy

Premium vacancy declined from 13% to 10.9% in the 12 months to January 2025.

177K

Three year premium grade net absorption

Premium grade stock has outperformed over the last three years, specifically in the core precinct, driving overall absorption levels across the CBD

164k

Sqm of new supply in 2024

The market will then enter a period of limited supply in 2025-26 which will aid market recovery.

32%

Industry sector demand

Deal volumes so far this year have been driven by financial services and professional services occupiers accounting for 32% and 25% respectively.

2.6%

Rental growth

Prime net face rents average $1,324/sqm, an increase of 2.6% over the year. Incentives remain elevated at 36% and forecast to remain at this level over the medium term.

$4.3bn

2024 transaction volumes

Transactional activity rebounded in 2024 recording over $4.3 billion in deal volumes, primarily driven by offshore investors.

Sydney CBD Office Market Indicators – January 2025

Grade	Total Stock sqm	Vacancy Rate %	Annual Net Absorption sqm	Annual Net Additions sqm	Average Gross Face Rent $/sqm	Average Incentive %	Effective Rent Gth % y/y	Core Market Yield %*
Prime	3,476,056	13.3%	85,850	129,152	1,564	36.4%	0.2%	6.03%
Secondary	1,824,506	11.9%	-44,246	-47,883	1,151	35.3%	1.8	6.75%
Total	5,300,562	12.8%	41,604	81,269				

Source: Knight Frank Research/PCA * assuming WALE 5 years

Premium assets in demand

PROFESSIONAL AND FINANCIAL SERVICES AT THE FOREFRONT OF OCCUPIER DEMAND

Overall absorption levels for 2024 were positive, with 41,604sqm recorded. This was the strongest level recorded since 2016. The absorption levels have primarily been driven by strong absorption levels in the prime market with 65,827 sqm recorded in the 12 months to January 2025, whilst the secondary market recorded negative absorption of 19,593 sqm. Lease deal volumes and tenant enquiry have been healthy, underpinning the improved market conditions and sentiment. Direct leasing transactions accounted for over 80% of deal volumes in 2024, whilst pre-commit activity has been strong across future developments at Chifley South, 55 Pitt Street and 33 Alfred Street.

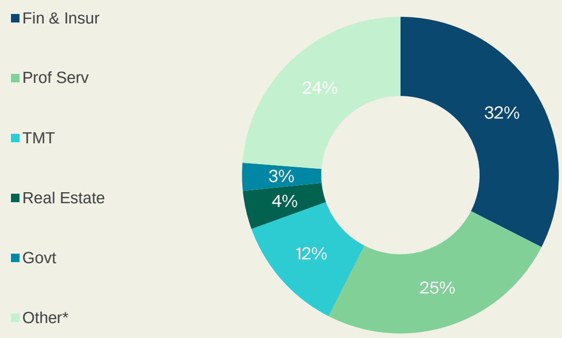
Occupier demand trends for 2024 were driven by financial services and professional services accounting for 32% and 25% respectively of total deal volumes. Tech sector demand has slowed to 12% of deal volumes. Demand was concentrated within the CBD core precinct, accounting for 58% of deal volumes, this was followed by midtown with 19%.

The structural shift of flight to quality and amenity continues to drive the demand for quality workspaces located close to multiple public transport options, food and retail operators, independent grocers, green spaces and wellness activities. Occupier enquiry in Q1 has been strong with multiple briefs in the market as occupiers continue to revisit their workplace strategies and look to capitalise on an occupier favoured market.

DIVERGENCE ACROSS GRADES AND PRECINCTS WITH CORE PREMIUM STOCK OUTPERFORMING

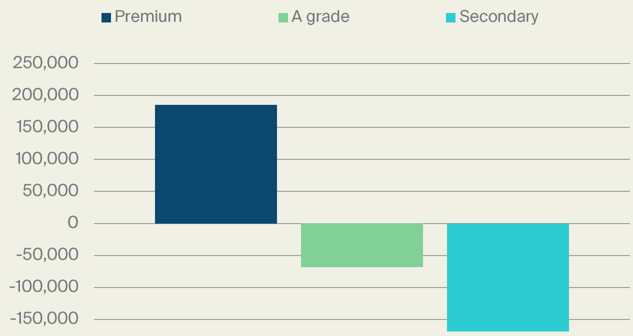
Despite the positive absorption levels overall vacancy measured 12.8% at the end of 2024, up from 12.2% over the 12 months, this was a supply led increase in vacancy, given that supply additions of 164,552 sqm were added and the highest level of additions since 2026. By grade, premium vacancy dropped from 13% to 10.9% in the 12 months to January 2025. In the secondary market, vacancy sits at 11.9%. Notably, sublease vacancy across the market has dropped from 1.4% to 0.8% over the year. Over the last five years the flight to quality trend has become clear with absorption levels totalling negative 187,398 sqm in the secondary market, whilst the premium market has experienced positive demand of 233,716 sqm over the same period. This is further highlighted by demand levels across the precincts, with prime assets in the CBD core clearly outperforming the wider market as the only precinct to record positive absorption over the last five years.

Sydney CBD lease deals by industry sector
2024, % share of total market (sqm)



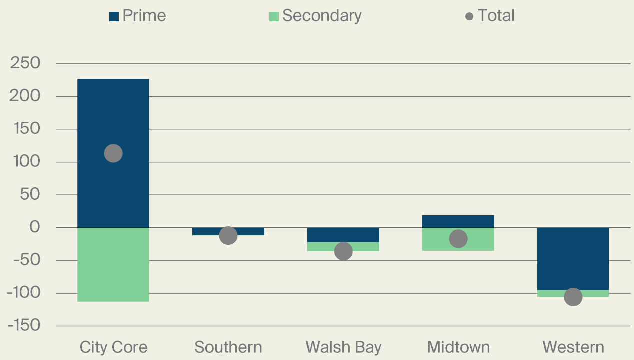
Source: Knight Frank Research

Sydney CBD office demand by grade
Total absorption since 2021 (sqm)



Source: Knight Frank Research, PCA

Sydney CBD office demand by precinct
Net absorption since 2021, '000sqm



Source: Knight Frank Research, PCA

New development stock sought after

OVER STATION DEVELOPMENTS DRIVE NEW SUPPLY IN 2024

The clear divergence for demand between prime and secondary assets has been a driving force behind new developments and refurbishments as owners look to align building quality, design, environmental sustainability and wellbeing to occupier preferences in the CBD office market.

Following a year of limited completions in 2023, there was a large influx of new supply in 2024 with a total of 164,552sqm added to the market, increasing the office stock base by 1.5% to now measure 5,300,652 sqm.

The new developments in 2024 include the three-premium grade over station developments; 39 Martin Place (31,115 sqm), 1 Elizabeth Street (62,871 sqm) and Parkline Place (48,000 sqm), across these three developments over 90% has been leased. Additionally, boutique developments at 333 Kent which encompasses 14,200sqm of prime office space, along with 36-36 York Street (8,366 sqm) were completed at the end of 2024.

The market is now entering a period of limited new supply until 2027 with the only new developments to enter the market before 2027 being 33 Alfred Street (33,000 sqm) and 121 Castlereagh Street (11,500 sqm), which are due this year. Additionally, there are refurbishment projects that will be completed this year, including 1 Shelley Street (32,000 sqm) and 270 Pitt Street (23,000 sqm).

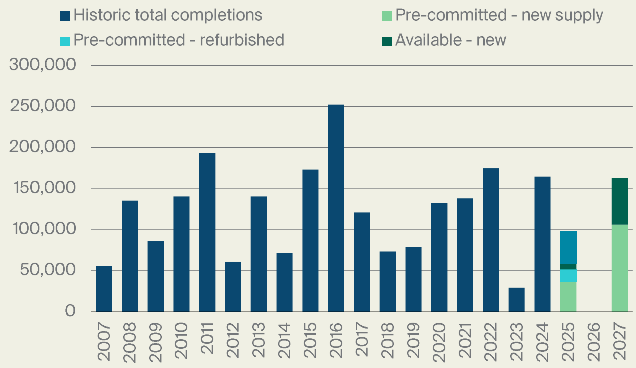
MARKET ENTERING 2025-26 WITH LIMITED NEW DEVELOPMENT STOCK WHICH WILL AID ABSORPTION FOR CURRENT STOCK LEVELS

The next wave of new developments due from 2027 include Atlassian Central at the future technology central precinct, which will be anchored by Atlassian and is envisaged to drive the organic expansion of the CBD to its Southern boundaries. Two developments are slated for delivery in 2027, namely Charter Hall's 2 Chifley South (50,000 sqm) and Mirvac's 55 Pitt Street (63,000 sqm), both having achieved healthy precommitments already.

This underpins the success of new developments in the CBD, which have historically seen high demand, with an average pre-commitment rate of 86% across all new developments since 2018. Environmental design and ESG have been at the forefront of new developments and a contributing factor to strong commitment levels.

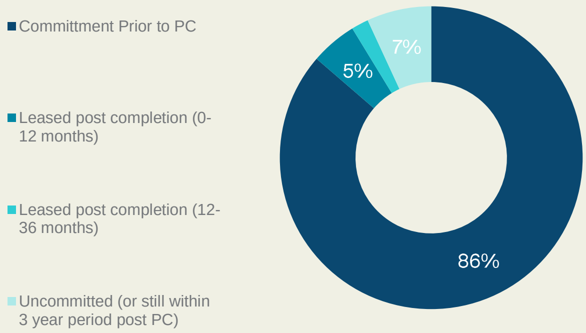
With the impending supply drought of new development stock over the next two years; coupled with the next wave of supply in 2027 already achieving strong commitment's this will bode well for other vacancies to be absorbed in addition to giving developers confidence for future developments.

Sydney CBD development completions
By Commitment type, sqm



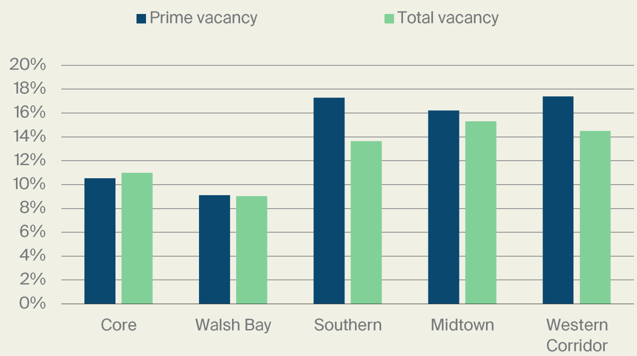
Source: Knight Frank Research

Letting up times new developments
Since 2018



Source: Knight Frank Research

Sydney CBD office vacany rates by precinct
Prime vacancy vs total vacancy, as at Jan-25



Source: Knight Frank Research, PCA

Major office supply

Major Refurbishments			
#	ADDRESS	SQM	COMPLETION
1	1 Shelley Street	32,000	H1 2025
2	270 Pitt Street	23,000	H2 2025

Under Construction / Major Pre-commitment			
#	ADDRESS	SQM	COMPLETION
3	33 Alfred Street	31,657	H1 2025
4	Atlassian Central	58,000	H1 2027
5	55 Pitt Street	62,800	H1 2027
6	Chifley South	42,000	H2 2027

Development Approved			
#	ADDRESS	SQM	COMPLETION
7	Central Place 1	47,209	2029
8	Milligan Development	50,000	2029
9	Darling Park Tower 4	75,000	2030
10	Hunter Connection East Tower	72,237	2032
11	Hunter Connection West Tower	60,451	2032

Mooted			
#	ADDRESS	SQM	COMPLETION
12	Toga Central	22,000	2030
13	O Block	112,000	2031
14	Central Place 2	69,000	2032
15	56 Pitt Street	90,000	2032

Elevated incentives offset face rental growth

CORE LOCATIONS DRIVE RENTAL GROWTH

Average prime net face rents increased by 2.6% to $1,324/sqm ($1,564/sqm gross face, up 3.0%) over the 12 months to January 2025. A similar trend was observed in the secondary market, where the net face rent grew by 2.8% to $960/sqm ($1,151/sqm gross face, up 2.6%) over the same period. The current rental discount between prime and secondary net face rents is at a seven-year high of 28%.

While positive movements were reported across all CBD precincts in 2024, demand weighted towards core locations resulted in stronger growth in certain precincts. Midtown and Core experienced 3.6% and 3.1% net face rental increases over 2024 to average $1,214/sqm and $1,486/sqm respectively.

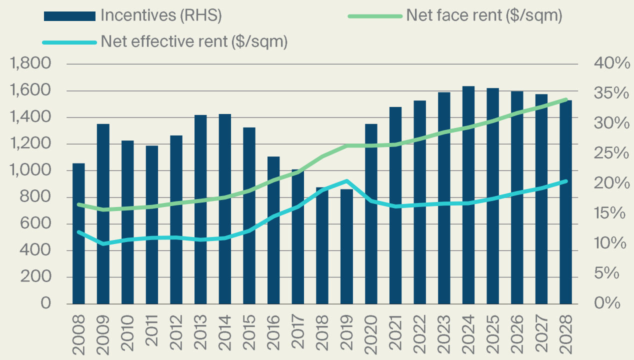
INCENTIVES REMAIN ELEVATED

Incentives edged slightly higher over the year, with an average of 36.4% for prime space and 35.3% for the secondary market. Whilst building and location specific there are still many assets offering incentives over 40%. The uptick in incentives has offset the positive movements in face rents. On an annual basis (to December 2024), prime net effective rents reported modest growth of 0.2% to average $756/sqm.

A clear divergence has been noticed among precincts regarding the net effective rental growth. Barangaroo showed the highest net effective rental growth of 1.6% in 2024 while Southern and Western with higher incentives being reported showed negative net effective rental growth in the last 12 months.

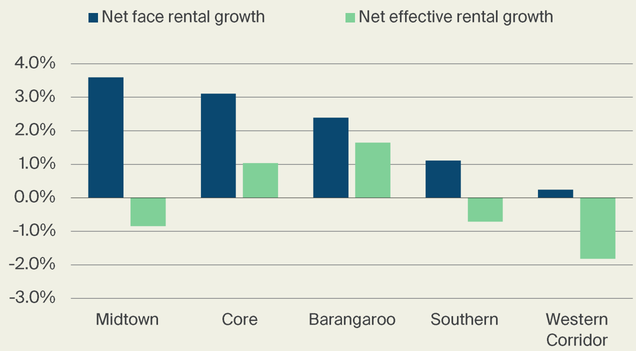
Looking forward, incentives are likely to hold at current levels over the near term, whilst positive face rental growth is expected on the back of sustained demand in core locations and the market entering a period of limited new development stock over the next two years.

Rent and incentives
$/sqm, %



Source: Knight Frank Research

Sydney CBD prime office rental growth
Annual rental growth rate



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Face Rent $/sqm	Incentive %	Term yrs	Start Date
CMC *	300 Barangaroo Ave	Walsh Bay	2,296	1,400	33.0	7.0	Q3-25
Intuit *	1 O'Connell St	Core	2,118	1,620	36.0	5.0	Q2-25
Shark Ninja ~	45 Clarence St	Western	1,216	1,060	42.0	4.8	Q4-24
Northern Trust ~	126 Phillip St	Core	1,444	1,525	32.0	10.0	Q1-25
Northrop Engineers ~	400 George St	Midtown	1,851	1,200	37.0	6.0	Q2-25

Pre-commitment ^ Sublease ~ Direct * Renewal (g) gross face
Source: Knight Frank Research

Rebound in transactional activity

YIELDS HAVE HIT THE PEAK

Sydney CBD yields have held stable since Q2 2024, with the average prime office yield ending the year at 6.03% and secondary office yield at 6.75%. From peak to trough, prime and secondary yields have softened by 166bps and 183 bps, respectively. Yield spreads among precincts have further highlighted the demand weighting towards core locations as the current prime yield spreads between Core and Midtown at 72bps, Core and Western at 99bps, Core and Southern at 139bps.

The expansion of yields have led to a decline in capital values, as the positive rental growth has had little impact to offset the declining capital values. Since mid 2022, both prime and secondary values have declined by 19%, averaging $21,954/sqm and $14,220/sqm.

CROSS-BORDER INVESTORS BOLSTER INVESTMENT ACTIVITY IN 2024

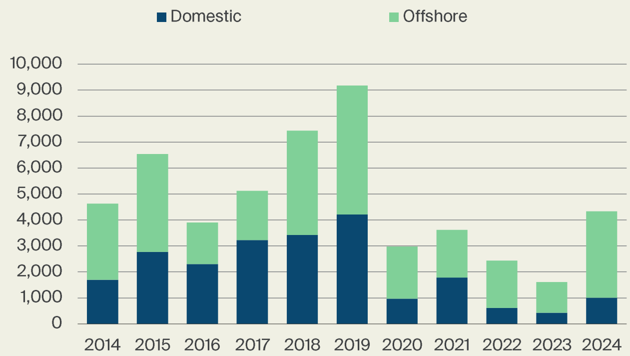
The softer yield and capital value environment encouraged investors to return to acquisition mode, with investment activity rebounding in 2024. Transaction volumes in the Sydney CBD totalled $4.3 billion in 2024, the highest annual volume since 2020.

Offshore capital dominated the investment activity by contributing 75% of activity. Significantly, the Japanese developer - Mitsui Fudosan acquired ~66% interest in Mirvac's development of 55 Pitt Street in June, with an estimated total end value of ~$2 billion. The joint-venture development will deliver c.63,000sqm of premium space in 2027. Further major transactions in the second half of 2024 include German group DEKA purchasing Charter Hall's 333 George Street on a core market yield of 5.6%; Singland and UOL Group acquiring a 50% stake in 388 George St for $460 million on a core market yield of 6.2%.

Domestic capital also showed confidence in the market as CBUS bought out the remaining 50% interest of 5 Martin Place for $296 million, taking 100% ownership of the building. Furthermore, Forza Capital acquired Investa's 117 Clarence St for $130 million.

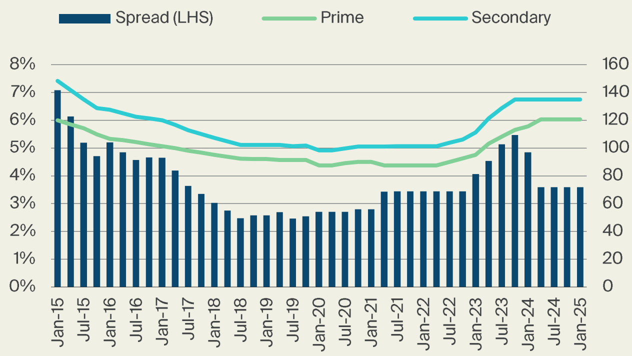
With multiple assets either in market campaigns or in due diligence, transactional activity is expected to pick up further in 2025. Additionally, the disconnect between vendor and purchaser expectations is more aligned and declining book values readjusting, this would further enhance the confidence of investors acquiring at this point in the cycle.

Sydney CBD office transactions
By purchaser location, $ millions, $10m +



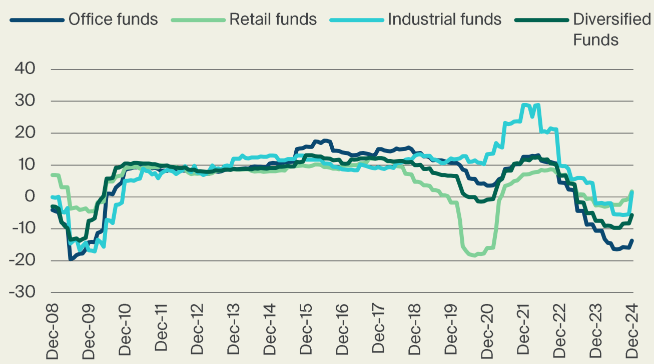
Source: Knight Frank Research

Sydney CBD core precinct office yield spread
Prime vs secondary



Source: Knight Frank Research

Values trending up
Average capital return post-fees reported by wholesale property



Source: Knight Frank Research, MSCI

Recent significant sales

Property	Price $ m	Core Market Yield %	NLA sqm	$/sqm NLA	WALE	Purchaser	Vendor	Sale Date
388 George Street	460.0	6.2	41,098	22,386	6.3	Singapore Land JV UOL Group	Brookfield	Dec-24
1 Castlereagh Street	183.8	6.3	12,418	14,802	2.6	SLMC Property Australia	Early Light International	Oct-24
333 George Street	392.0	5.6	14,508	27,020	3.3	Deka Immobilien	Charter Hall	Aug-24
55 Pitt Street (66%)	1,300.0	U/D	63,000	30,952	U/D	Mitsui Fudosan Aust	Mirvac	Jun-24
5 Martin Place (50%)	296.2*	6.1	33,466	17,702	2.8	CBUS Super	Dexus & CPPIB	Jun-24

*Net sale price
Source: Knight Frank Research

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

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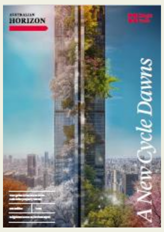
Sydney Industrial State of Market

Sydney CBD Office State of the Market

Economic Indicators Report



Australian Horizon Report

Knight Frank