High economic rents drive Perth supply drought

Q1 2026

Estimates of the economic rent for a premium office tower in Perth CBD are significantly above current and forecast rent levels. This indicates the severe constraints on development feasibility, which will lead to a drought of new office supply over the coming years.

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Source: Cbus Property

Key insights

Economic rents have surged since 2021 as a mix of rising costs and market pressures put the brakes on new office development. With no new supply under construction, Perth CBD office rents are poised for a period of strong rent growth over the coming years.

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$1,280	$880	46%
Current economic rent	**Current forecast rent**	**Gap between economic and forecast rent**
Economic rents are estimated to be at $1,280/sqm. This is the rent required on construction completion in Q4 2028 to make a new premium office tower feasible in Perth CBD.	Forecast rents are estimated at $880/sqm. This is the forecast premium Perth CBD rent expected on construction completion in Q4 2028 if rents grow at 3% per annum.	Current economic rents are 46% above forecast rents if construction commenced in Q4 2025.

Economic rents have risen sharply

Current Perth CBD economic rents for a new premium office tower are estimated at $1,280/sqm (net face rent), an 100% increase since Q1 2021. This is the rent required in Q4 2028 for viable development.

Economic rents are above forecast rents

Economic rents are estimated to be 46% above the forecast level of rent upon development completion – assuming construction starts in Q4 2025.

Several factors driving higher development costs

Elevated economic rents are being driven by a combination of higher construction costs, elevated interest rates, a softening in yields (and the resulting fall in asset valuations) and increased incentives.

Development pipeline has thinned out

The development pipeline has thinned out as developers find it difficult to meet feasibility criteria. There is no new supply under construction that is expected to be complete beyond 2025.

Economic rents are forecast to remain stable

Yields are forecast to compress throughout 2026 and 2027, but this will be offset by rising construction costs. Economic rents are expected to remain relatively stable at $1,280 until 2030.

Development forecast to be viable around 2030

As prime rents rise, they will gradually close the gap with economic rents, with the gap to close by around 2030. This implies that there will be few, if any, major new developments delivered until after 2030.

Economic rents have risen

A STEEP RISE SINCE 2021

Economic rents – the level of rent at which the construction of a new development becomes feasible – have risen sharply since 2021 due to a significant rise in construction costs, interest rates, yields, and incentives.

In Q4 2025, for a new premium office tower in Perth CBD – starting construction this quarter with a three-year construction period – we estimate that the economic rent required upon completion is $1,280/sqm (net face rent). That is, the developer needs to receive an average rent of $1,280/sqm across the building in the first year of leases (starting in Q4 2028) for the development to be deemed feasible – defined as the owner receiving a 10% project IRR.

In modelling economic rents, we assume that premium Perth CBD office yields remain steady throughout the construction period at their current level. The completed building is assumed to sell at 25bps below the current average yield for premium assets in the CBD (6.9%) to reflect a new building premium (see page 5 for more detail on the methodology).

ECONOMIC RENTS NOW WELL ABOVE FORECAST RENTS

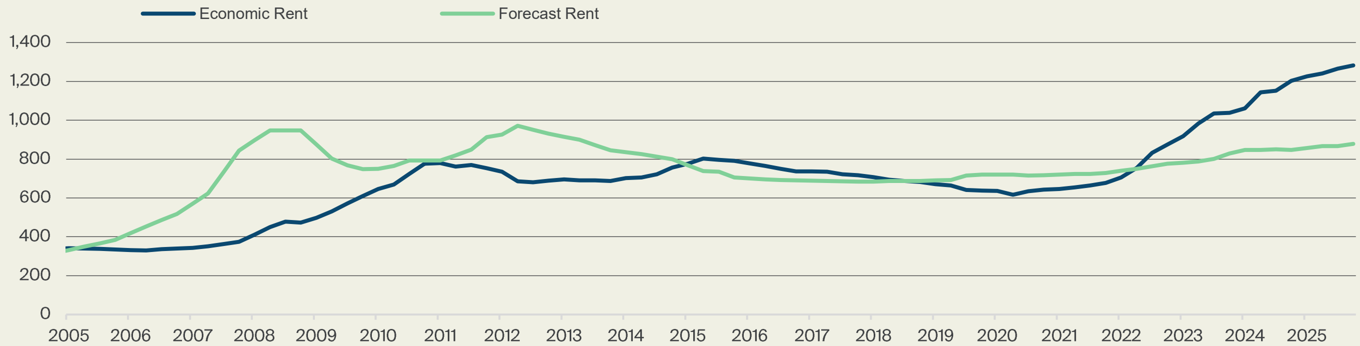
Economic rent growth in Perth's CBD has far outpaced premium office rent growth in recent years. Since Q1 2021, economic rents have surged by 100% (doubled), compared to just 22% for premium rents. As of Q4 2025, the average premium office rent stood at $803/sqm. Looking ahead, a forecast that assumes 3% annual growth has premium rents reaching $880/sqm by development completion in Q4 2028, well below the economic rent required for viability.

This implies that both current and forecast premium rents are well below our estimated economic rents. In Q4 2025, economic rents were 46% higher than the estimated rent at development completion and 60% above current premium rents.

This historically wide gap between economic and forecast rents underscores the challenge of achieving financial feasibility for new office developments in the current market environment. As a result, the pipeline for new office supply in the CBD has diminished substantially, with very few developments expected to proceed until the gap narrows around 2030.

Perth CBD economic rents are nearing the peak

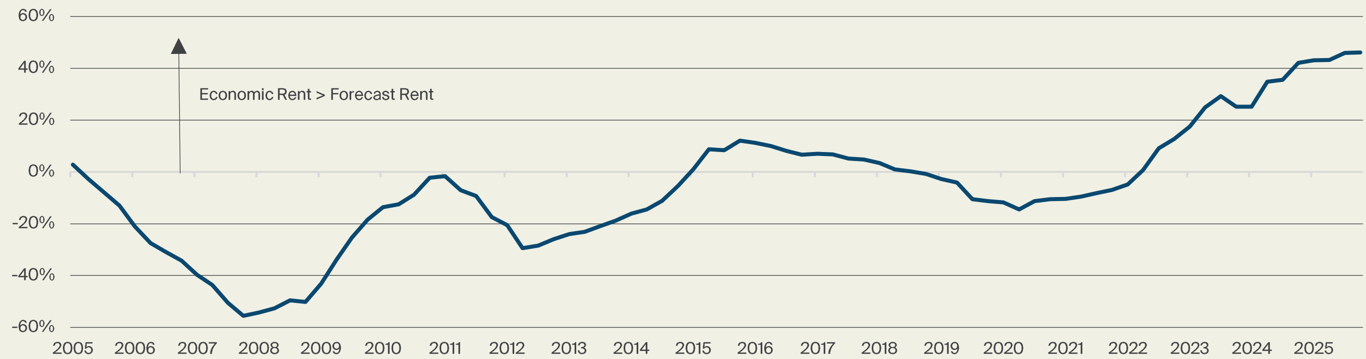
Estimate of economic rent required at project completion for a Perth CBD premium development versus forecast rent [current market rent plus 3% p.a. growth over 3 years] ($/sqm, net face rent)



Source: Knight Frank Research

Economic rent is well above forecast rents

Difference between economic and forecast rent (%, economic rent divided by forecast rent)



Source: Knight Frank Research

Drivers of high economic rents

HIGHER CONSTRUCTION PRICES INCREASE COSTS

Since 2021, Australia has seen a sharp increase in construction costs, driven by a combination of global and domestic supply-side pressures. Construction costs for a new premium tower in Perth have risen 64% from $4,541/sqm (gross floor area) in Q1 2021 to $7,455/sqm Q4 2025. The rise in costs has occurred across both materials and labour costs. Some material prices rising by over 70% since Q1 2021, and the wages of construction workers have risen by 17% over the same period. Since construction is one of the largest costs of development, this has been a significant factor limiting new development feasibility.

HIGHER YIELDS REDUCE CAPITAL VALUES

Yields – through their impact on capital values – are a crucial factor in determining the feasibility of new development, with lower yields driving up completed project values and higher yields reducing values.

Yields rose substantially during 2022-24 as higher interest rates and funding costs reduced investor appetite, with average Perth CBD prime office yields rising from 6.5% in 2021 to 7.6% in 2025. Yields have started to edge downward as the market recovers but remain around 110 bps above their levels in Q1 2021.

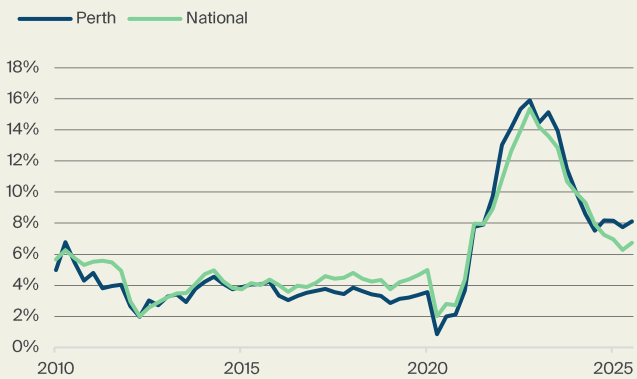
INTEREST RATES RISE TO CONTROL INFLATION, RAISING BORROWING COSTS

Starting in 2022, the Reserve Bank of Australia (RBA) implemented the largest and fastest interest rate increases in decades to rein in inflation as the economy emerged from the pandemic. From Q1 2021 to Q4 2023, the cash rate rose by 425 bps and 2-year swap rates rose by 380 bps, significantly lifting funding costs for owners/developers. For new office tower projects, higher borrowing costs have raised hurdle rates and tightened feasibility. Interest rates have since fallen, but they remain elevated compared to the cash rate over the last decade.

RENTAL GROWTH HAS NOT OFFSET THESE FACTORS

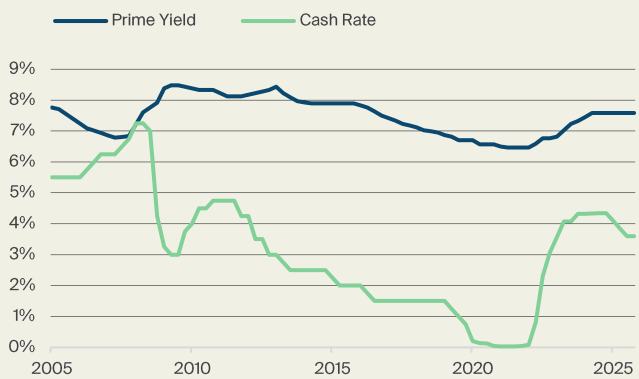
The Perth CBD has experienced strong rental growth over recent years with prime net effective rents rising by 30% (5.4% p.a.) since Q1 2021 to be at a near 10-year high. However, this has not been enough to offset the upward pressure of the aforementioned factors on economic rents.

Sharp rise in construction costs
Annual growth in the building cost index (%)



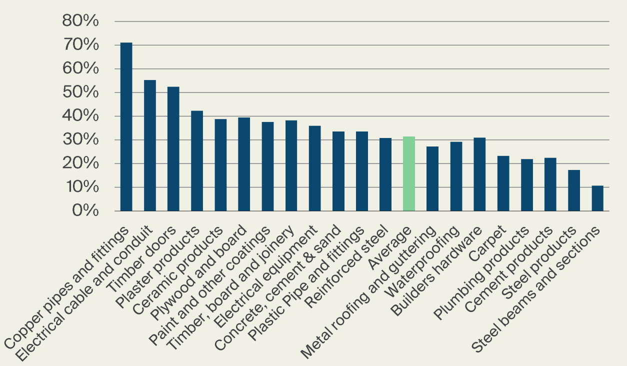
Source: Knight Frank Research, Rawlinsons

Yields and interest rates rise
Perth CBD prime yield and RBA cash rate (%)



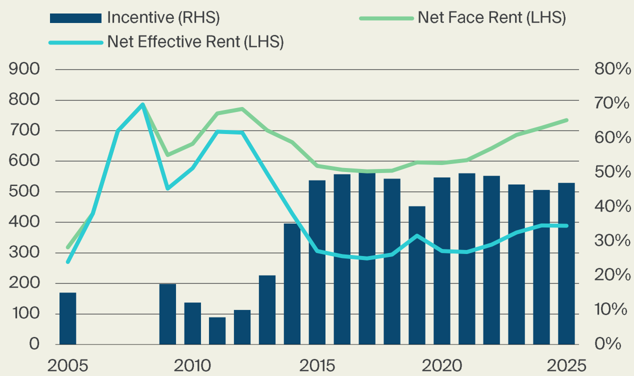
Source: Knight Frank Research, RBA

Construction material costs rapidly escalate
Inflation in construction costs, Q1 2021 - Q3 2025 (% y/y)



Source: Knight Frank Research, ABS

Perth CBD rents weighed down by incentives
Perth CBD prime office rents ($/sqm) and incentives (%, net)



Source: Knight Frank Research

Estimating economic rents

METHODOLOGY

Economic rent is defined as the level of rent at which the construction of a new development allows the developer to receive a 10% IRR at each point in time, accounting for the variation in a multitude of factors including construction costs. This estimate uses a discounted cash flow (DCF) model for building a new premium office tower to solve for the economic rent required. The model uses a 10-year cashflow, augmented so that the current period is the start of year four. The model assumes that the developer:

- Purchased a site three years ago (≈5,900 sqm vacant site).
- Has received all approvals required to commence the construction of their proposed building.
- Decides that they will pull the trigger and commence construction in the current period.
- Takes three years to construct the new premium office tower (40,000 sqm NLA).
- Has the building 80% leased upon completion (based on average leasing rates for new premium assets completed in recent years).
- Holds the building for four years, then sells the whole building at 85% occupancy (also based on recent leasing data for new premium buildings).

The model assumes that future market conditions will be the same as current conditions, meaning that we hold market yields, incentives and interest rates constant from commencement to completion. The building sells at a 25bps premium to the current premium yield reflecting its status as a new asset. Net face rents are forecast to grow at 3% p.a. Historical site costs are estimated using the value of secondary offices. The model allows for other costs including stamp duty, land tax, leasing agent fees, sale agent fees, and professional fees.

INTERPRETATION OF ECONOMIC AND FORECAST RENTS

The **economic rent** ($/sqm, net face rent) at each period is an estimate of the rent that the building owner needs to receive when the building is completed for the project to be viable – defined as the owner receiving a 10% IRR . This rent level refers to the average rent needed across the whole building in the first-year leases which start in three years time.

The **forecast rent** ($/sqm, net face rent) at each period is the rent level that an owner can expect to receive upon completion if they assume that the current market rent grows at 3% p.a. over the construction period.

The economic rent estimates are intended to reflect an average across the market and will not accurately reflect the circumstances of each office development. Individual project viability will ultimately depend on many different factors. For example, projects where the land was acquired at low rates many years ago (compared to three years ago as assumed in the model) are likely to be closer to meeting the feasibility criteria than these estimates suggest.

FORECASTING ECONOMIC RENTS

To generate forecast economic rents, we append Knight Frank's forecasts to the historical office rent series – for example, projected average net face rent growth of 7.3% p.a. to 2030. This expanded dataset is then run through the same 10-year DCF model used for the back-history, with unchanged inputs assumptions such as 3% p.a. rent growth during the construction period. The result is a consistent estimate of future economic rent and forecast market rents.

Model Assumptions

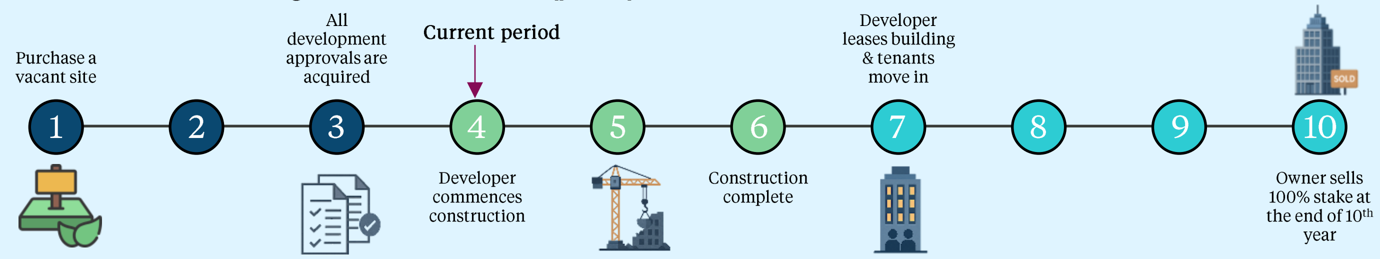
Variable	Assumption
Premium NFR rent growth (during both construction and during the hold period)	3.0% p.a.
Site cost (total land area, Q4 2025)	$8,000/sqm
Construction cost (Q1 2025)	$7,000/sqm GFA
Construction cost growth	4.0% p.a.
Project cost funded by debt	60%
IRR target (project/unlevered)	10%
Lease term (for calculating incentive payment)	5 years
Difference between new office tower yield and average premium office yield	-0.25%
Occupancy rate on completion	80%
Occupancy rate when asset is sold	85%

Assumptions to forecast economic rent outlook

Variable	Assumption
Premium NFR rent growth* (average over forecast period)	7.3% p.a.
Outgoings	2.5% p.a.
Construction cost growth	3.0% p.a.
CPI growth	2.5% p.a.
Premium Incentive*	-4.0%
Interest rate on construction loan*	-0.25%
Premium yield*	-0.6%

*(Q4-25 to Q4-30)

Assumed timeline of significant milestones (years)



Supply pipeline has thinned out

OFFICE SUPPLY PIPELINE WILL REMAIN CONSTRAINED

With economic rents well above forecast levels, the development pipeline has thinned, as many wait on the sidelines for conditions to improve. We are now seeing this clearly with no new premium developments currently under construction that will complete over the next five years. The current level of supply additions over the next 3 years as a percentage of total stock is 0.8% and this will likely fall to a record low (0%).

The latest development, completed in H1 2025 was 9 The Esplanade (33,500 sqm), developed by Brookfield Properties and Cbus Property. This development is almost completely leased (99%) with only 400–500 sqm of space still available.

Premium vacancy rates in the Perth CBD currently stand at 10.8% (54,380 sqm). This vacancy rate is expected to tighten relatively quickly as tenants bring forward their movements, becoming increasingly aware of the limited availability at the top end of the market. This is particularly the case for large tenants searching for new, best-in-class, contiguous space that is often only available through new developments. With no new premium supply on the horizon, competition for high-quality space is likely to intensify, placing further upward pressure on rents.

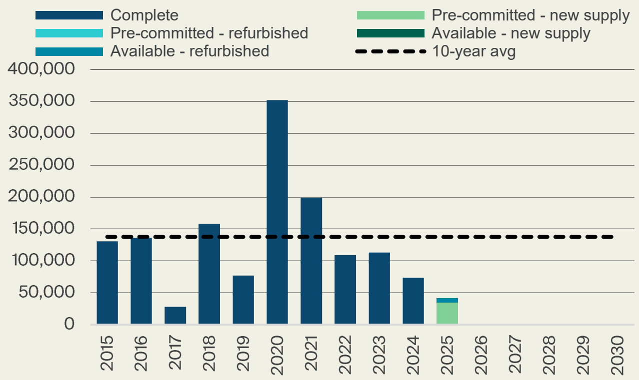
15 THE ESPLANADE IS NEXT DEVELOPMENT IS EXPECTED TO BE COMPLETE

The next new premium office tower expected to break ground in the Perth CBD is expected to be 15 The Esplanade (Brookfield). However, it remains unlikely to progress until a major pre-commit is secured. If the strong forecast for rent growth materialises, it should narrow the gap between tenant expectations and economic rents, improving the chances of the developer landing an anchor tenant at the rent level needed to make the project viable.

This delayed outlook for new premium construction in Perth is similar to what is occurring in other cities. However, Perth stands out as a city with a particularly scarce supply pipeline.

Perth CBD development completions

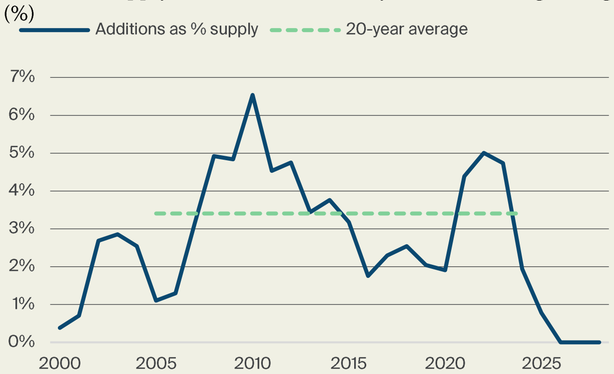
Perth CBD committed development pipeline by type (sqm)



Source: Knight Frank Research

Supply pipeline to fall sharply

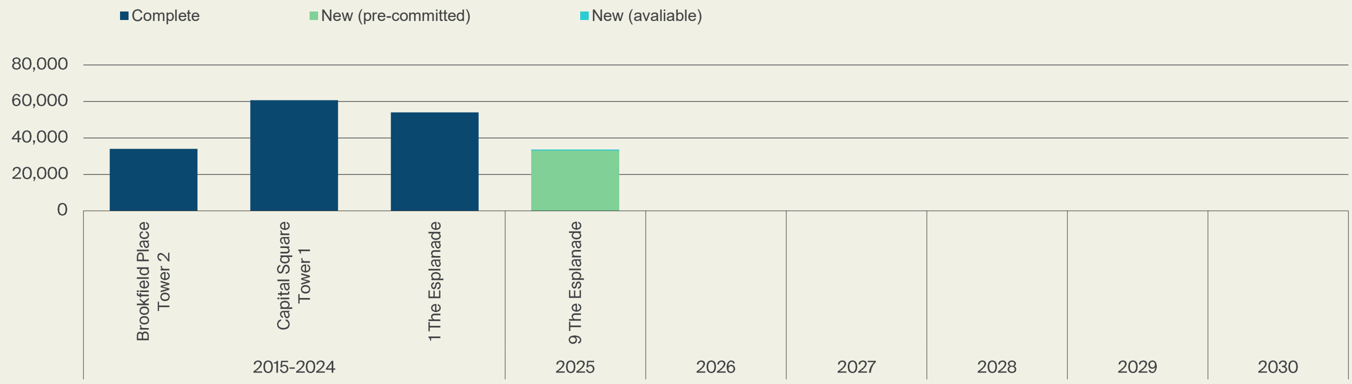
Perth CBD supply as % of office stock, 3-yr forward rolling average (%)



Source: Knight Frank Research, PCA

Perth CBD premium office development pipeline

New premium office space by completion status and precommitment level (sqm)



Source: Knight Frank Research

Low supply will drive the market

LIMITED SUPPLY WILL UNDERPIN STRONGER RENT PERFORMANCE

Dwindling new supply will drive an acceleration in rental growth, although this will proceed at different speeds. In the first instance, we are already seeing rents required on a pre-commitment basis for the new towers coming rising significantly to make development feasible. This, and the growing scarcity of new product, will then drive improvements in occupancy and rental growth for existing premium & A-grade assets. This has begun in CBD locations and will gradually extend to non-CBD areas.

This significant supply–demand imbalance likely to drive the leasing market for new premium-grade stock over the coming years. With no other developments committed to delivery for several years, the supply pipeline will reach historically low levels.

Tenant mobility will likely slow as occupiers opt to renew existing leases rather than absorb the cost and disruption of moving. This stickiness will anchor demand in existing premium stock, and as the supply shortage begins to bite, bargaining power will shift decisively towards landlords. In this environment, leasing incentives are also likely to compress as tenants lose leverage and owners become more confident in holding firm on terms.

Net effective rents for Perth CBD premium offices are forecast to grow at an average rate of 9.1% p.a. from Q4 2025 to Q4 2030. This is well-above the 10-year average to Q4 2025 of 1.9% p.a. However, there is further upside potential to these forecasts given the highly cyclical nature of the Perth office market. Should demand accelerate further than expected, the limited supply pipeline could create strong momentum, driving rental growth even higher.

DEVELOPERS WILL FOCUS ON PERTH CBD

To stand the best chance of proceeding, prospective developments will need to be in CBD locations where rents are higher, and yields are tighter. Non-CBD markets such as Burswood and West Perth are facing a longer hiatus of new supply given lower prevailing rents and higher yields.

OWNERS MAY LOOK TOWARDS REFURBISHING EXISTING SPACE

Developers may look at alternative paths to provide new-look options for tenants at the top end of the market, including comprehensive refurbishments which economise on overall project cost compared to entirely new developments.

MORE TENANT DEMAND FOR SHARED SPACES

With strong rent growth forecast for Perth CBD offices, tenants may look to optimise their leased space to minimise costs. This could lead to tenants reducing their leased area/footprint as well as sustained or increased working from home to offset the rise in rents. It could also see increased demand for developers to create shared spaces as tenants look to reduce their leasing costs.

IMPROVING CONDITIONS TO AID CAPITAL MARKET RECOVERY

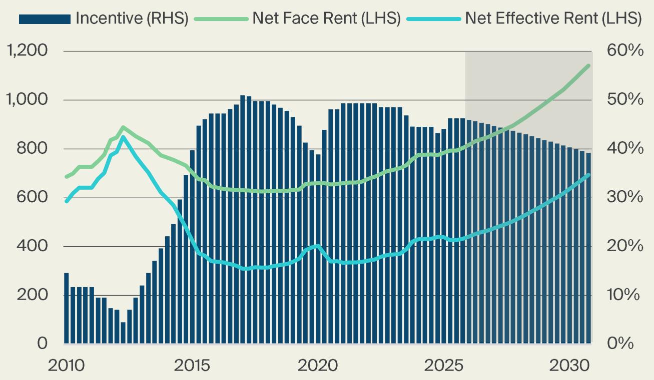
A tighter leasing market sets the stage for a rebound in Perth's capital markets. Stronger rent growth and rising returns should draw capital back into the city, with improving liquidity helping investors transact more easily and re-enter the market with greater confidence.

SHIFT IN INVESTOR FOCUS TOWARDS STABILISED ASSETS

Investors that have traditionally sought to deploy capital via development will find this challenging in the current environment. As a result, we expect many to shift their focus to acquiring stabilised assets and core-plus investment requiring less costly CAPEX.

Rents forecast to rise while incentives fall

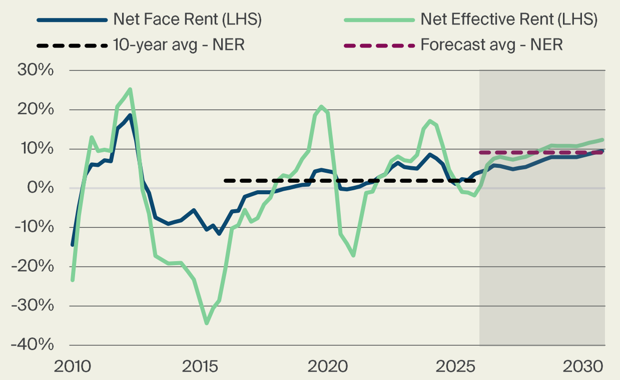
Premium office rents and incentive (net) in Perth CBD (%)



Source: Knight Frank Research

Rent growth forecast to be above average

Annual growth in premium office rents in Perth CBD (%)



Source: Knight Frank Research

Outlook for economic rents

ECONOMIC RENTS HAVE LIKELY PEAKED

After years of upward pressure, Perth CBD economic rents remained stable at $1,280/sqm in Q4 2025 which is forecast to be near the peak. It's an encouraging shift that points to improving feasibility, but the gap remains wide.

THE GAP WILL NARROW AS YIELDS EDGE INWARD AND FORECAST RENTS RISE

Looking ahead, economic rents are expected to remain relatively stable at around $1,280/sqm until 2030. It is projected that yield compression will be offset by rising construction costs, keeping economic rents stable until 2031. Premium office yields in the Perth CBD have only softened by 141 bps since the peak, less than in Sydney CBD (156 bps) and Melbourne CBD (199 bps). As a result, it is also forecast to have less yield compression over the coming years which reduces the downward pressure on economic rents. At the same time, construction costs are forecast to continue rising (at 4% p.a.), offsetting the decline in yields.

At the same time, market rents are forecast to rise as the supply of premium office space tightens, driving increased rent growth. Premium net face rents are forecast to rise by 5.8% in 2026 and continue to accelerate until 2030 with no new supply, closing the gap to economic rents.

NEW DEVELOPMENT MAY BE ON HOLD UNTIL 2030

Economic rents are projected to remain above forecast rents – indicating it is not feasible to commence construction on a new development – until around 2030. If realised, this implies that there may be not be new premium developments completed until 2033. The difference closes to 7% in 2030, which is likely close enough for certain schemes, such as those where the site has been held for a long time (e.g. 15 The Esplanade) to commence.

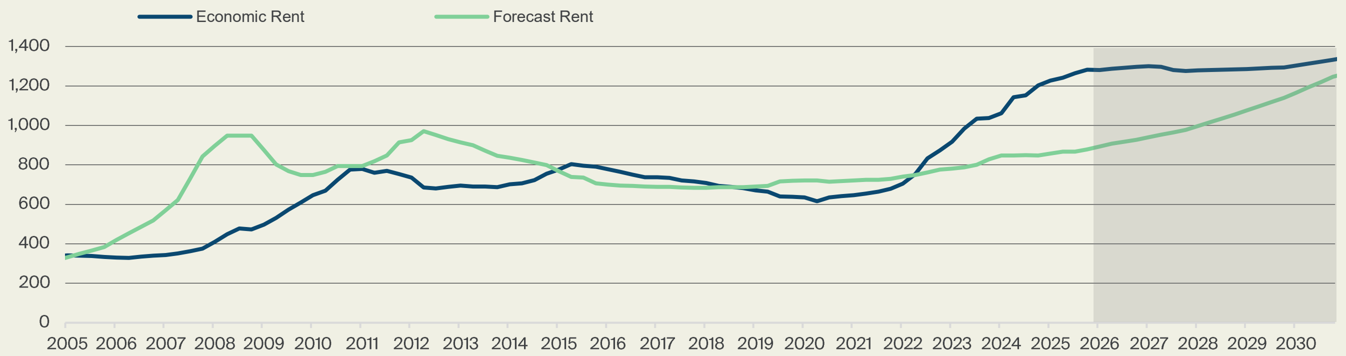
STABILISATION OF ECONOMIC RENTS IS DEPENDENT ON YIELD COMPRESSION

The stabilisation in economic rents, however, hinges on yield compression materialising. It is the single most important driver of economic rents; lower yields increase the exit value of a project and reduce the level of rent growth required for viability. The forecast assumes yields for premium assets fall by a cumulative 58 bps by Q4 2029.

If yields compress more slowly, or by a smaller amount, the gap between economic rents and achievable market rents will persist for longer, delaying the point at which new development becomes feasible. And without meaningful yield compression, that gap remains elevated for years, continuing to constrain the supply pipeline.

Rent growth projected to drive the return to feasibility

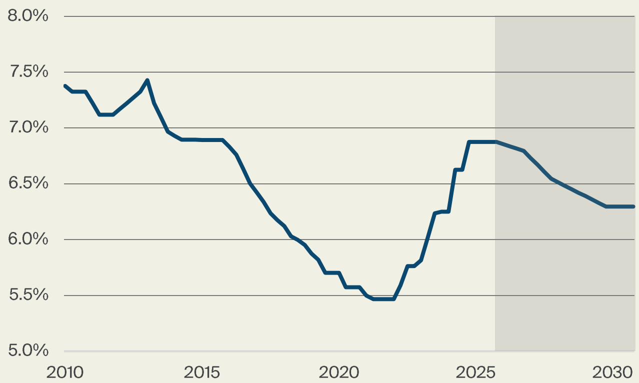
Estimate of economic rent required at project completion for a Perth CBD premium development versus forecast rent [current market rent plus 3% p.a. growth over 3 years] ($/sqm, net face rent)



Source: Knight Frank Research

Yields are forecast to fall

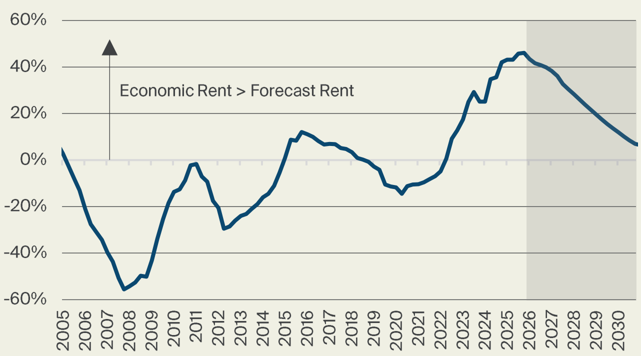
Premium office yield in Perth CBD (%)



Source: Knight Frank Research

New development projected to be feasible around 2030

Difference between economic and forecast rent (%, economic rent divided by forecast rent)



Source: Knight Frank Research

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