

Economic rents moderate in Adelaide

Q1 2026

Estimates of the economic rent for a A-grade office tower in Adelaide CBD are above current and forecast rent levels. This indicates the current constraints on development feasibility, which are leading to a thin office supply pipeline over the coming years.

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Key insights

Economic rents have surged since 2021 as a mix of rising costs and market pressures put the brakes on new office development. The supply pipeline in Adelaide CBD remains relatively thin which is expected to underpin strong rent growth over the coming years.



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\$1,150

Current economic rent

Economic rents are estimated to be at \$1,150/sqm (gross). This is the rent required on construction completion in Q4 2028 to make a new high A-grade office tower feasible in Adelaide CBD.

\$900

Current forecast rent

Forecast rents are estimated at \$900/sqm. This is the forecast high A-grade Adelaide CBD rent expected on construction completion in Q4 2028 if rents grow at 4% per annum.

27%

Gap between economic and forecast rent

Current economic rents are 27% above forecast rents if construction commenced in Q4 2025.



Economic rents have risen sharply

Current Adelaide CBD economic rents for a new high A-grade office tower is estimated at \$1,150/sqm (gross face rent), an 93% 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 27% 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 elevated incentives.



Development pipeline has thinned out

The development pipeline has thinned out as developers find it difficult to meet feasibility criteria. New supply is expected to fall below the long-term average with no new supply expected in 2027.



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 \$1,150 until 2030.



Development forecast to be viable in 2030

Economic rents are projected to be near forecast rents in 2030 – meaning that new developments will be feasible. This projection implies there may not be any new developments delivered until 2033.

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 elevated incentives.

In Q4 2025, for a new high A-grade office tower in Adelaide CBD – starting construction this quarter with a three-year construction period – we estimate that the economic rent required upon completion is \$1,150/sqm (gross face rent). That is, the developer requires an average rent of \$1,150/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 14% project IRR.

In modelling economic rents, we assume that high A-grade Adelaide 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 the three best A-grade assets in the CBD (6.5%) 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 Adelaide’s CBD has far outpaced A-grade office rent growth in recent years. Since Q1 2021, economic rents have risen by 93% (14.1% p.a.), compared to 23% (4.2% p.a.) for high A-grade* market rents. In Q4 2025, the average high A-grade office rent stood at \$811/sqm (gross face rent), well below the national average of \$1,108/sqm. Looking ahead, a forecast that assumes 4% annual growth has high A-grade rents reaching \$900/sqm by development completion in Q4 2028.

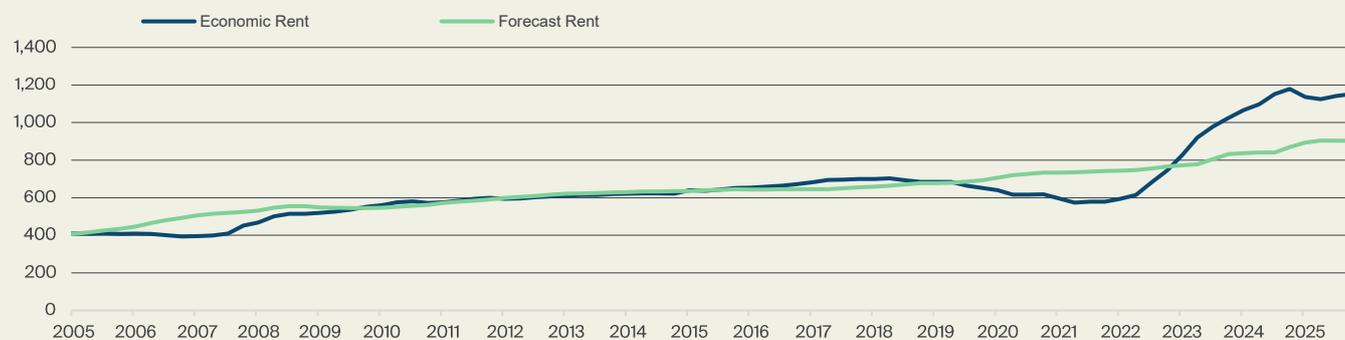
This implies that both current and forecast high A-grade market rents are well below our estimated economic rent required for viability. In Q4 2025, economic rents were 27% higher than the estimated rent at development completion and 42% above current high A-grade rents.

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 only a few developments expected to proceed until the gap narrows around 2030.

*High A-grade rent = Average of 83 Pirie Street, Festival Tower 1 and 10 Franklin Street

Adelaide CBD economic rents are nearing the peak

Estimate of economic rent required at project completion for an Adelaide CBD high A-grade development versus forecast rent [current market rent plus 4% p.a. growth over 3 years] (\$/sqm, gross 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 A-grade tower in Adelaide are estimated to have risen from \$3,346./sqm (GFA) in Q1 2021 to \$5,358/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 Adelaide CBD prime office yields rising from 5.1% in 2021 to 7.3% in 2025. Yields have started to edge downward as the market recovers but remain around 210 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 feasibilities. Despite falling throughout 2025, interest rates remain elevated compared to the cash rate over the last decade.

RENTAL GROWTH HAS NOT BEEN ENOUGH TO COMPLETELY OFFSET THESE FACTORS

The Adelaide CBD has experienced strong rental growth over recent years with prime gross effective rents rising by 22% (4.0% p.a.) since Q1 2021 to a record high. However, this has not been enough to offset the upward pressure of the aforementioned factors on economic rents.

Sharp rise in construction costs

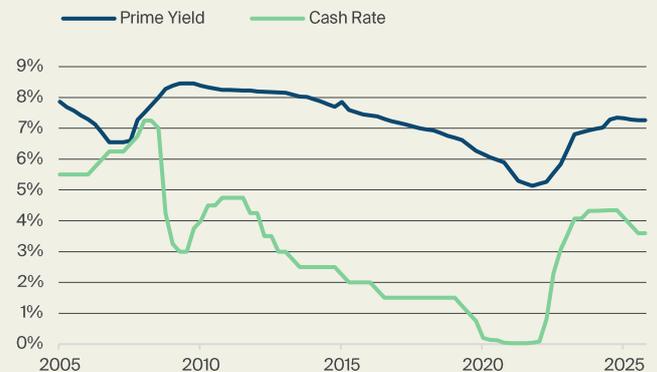
Annual growth in the building cost index (%)



Source: Knight Frank Research, Rawlinsons

Yields and interest rates rise

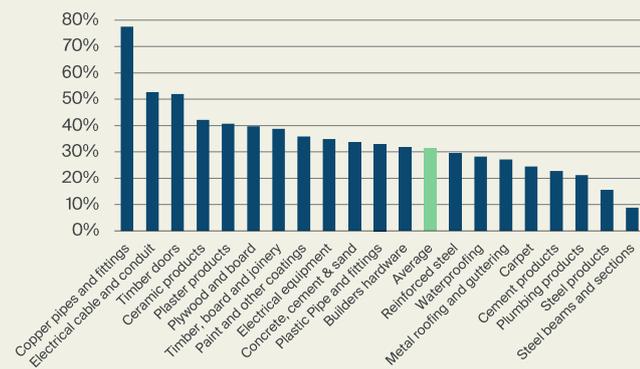
Adelaide CBD prime yield and RBA cash rate (%)



Source: Knight Frank Research, RBA

Construction material costs rapidly escalate

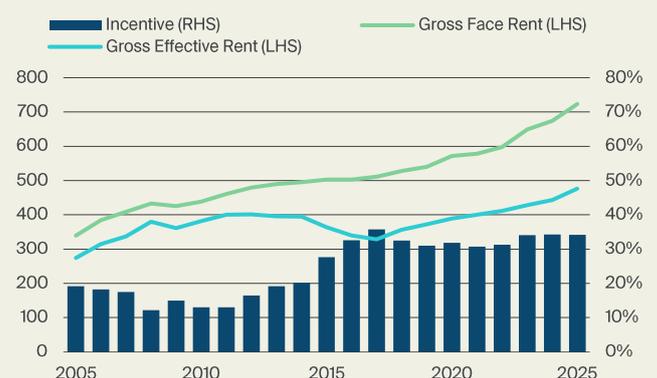
Inflation in construction costs, Q1 2021 - Q4 2025 (% y/y)



Source: Knight Frank Research, ABS

Adelaide CBD rents continue to grow

Adelaide CBD prime office rents (\$/sqm) and incentives (% gross)



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 14% 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 high A-grade 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:

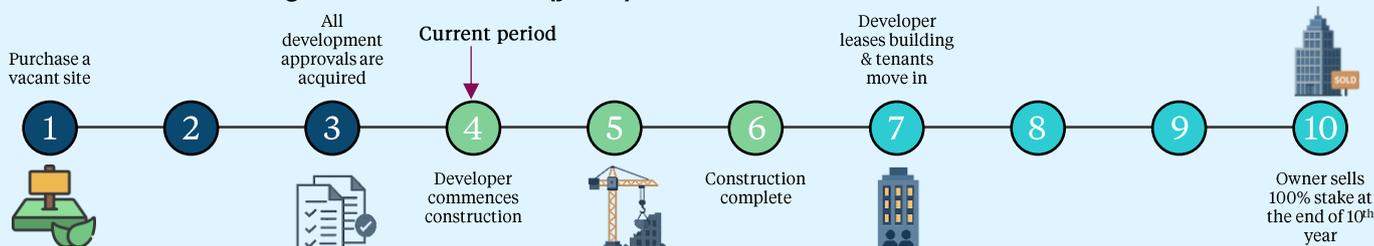
- Purchased site three years prior (≈2,000 sqm vacant site).
- Has received all approvals required to commence the construction of their proposed building.
- Decides that they will pull the trigger and commence construction in the current period.
- Takes three years to construct the new high A-grade office tower (20,000 sqm NLA).
- Has the building 85% leased upon completion.
- Holds the building for four years, then sells the whole building.

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 yield of high A-grade buildings reflecting its status as a new asset. Gross face rents are forecast to grow at 3.9% 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. High A-grade rents and yields refer to the average of 83 Pirie Street, Festival Tower 1 and 10 Franklin Street.

Model Assumptions

Variable	Assumption
High A-grade GFR rent growth (during both construction and during the hold period)	3.9% p.a.
Site cost (total land area, Q4 2025)	\$8,000/sqm \$15.7 million
Construction cost (Q1 2025)	\$5,000/sqm GFA
Construction cost growth	4.0% p.a.
Project cost funded by debt	60%
IRR target (project/unlevered)	14%
Lease term (for calculating incentive payment)	10 years
Difference between new office tower yield and average premium office yield	-0.25%
Occupancy rate on completion	85%
Occupancy rate when asset is sold	90%

Assumed timeline of significant milestones (years)



INTERPRETATION OF ECONOMIC AND FORECAST RENTS

The **economic rent** (\$/sqm, gross 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 14% 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, gross 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 3.9% 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 gross face rent growth of 3.9% 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 3.9% p.a. rent growth during construction. The result is a consistent estimate of future economic rent and forecast market rents.

Assumptions to forecast economic rent outlook

Variable	Assumption
High A-grade GFR rent growth* (average over forecast period)	3.9% p.a.
Outgoings	2.5% p.a.
Construction cost growth	3.0% p.a.
CPI growth	2.5% p.a.
Change in high A-grade incentive*	-4.1%
Change in interest rate on construction loan*	0%
Change in A-grade and secondary yield*	-0.8%

*(Q4-25 to Q4-30)

Supply pipeline has thinned out

OFFICE SUPPLY TO REMAIN SUBDUED UNTIL TO 2028

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 Adelaide's supply pipeline being relatively thin between 2025 and 2027. The level of new supply additions over the next 3 years as a percentage of total stock will likely fall to a 30-year low in 2025 (0.9%), before rising with the new supply expected in 2028.

There are several developments in the Adelaide supply pipeline with much of the space available for lease. The most recent completion was 50 Franklin St (21,000 sqm of A-grade office space). Despite being a fully electric building located near major tenants, it is expected to hit the market with vacancy of around 80%.

The next development to complete is Market Square (22,000 sqm of A-grade space) which is expected to complete in 2026. Around 55% of this building (12,000sqm) is currently pre-committed with almost 10,000 sqm still available.

No new office developments are expected to be completed in 2027 or 2029.

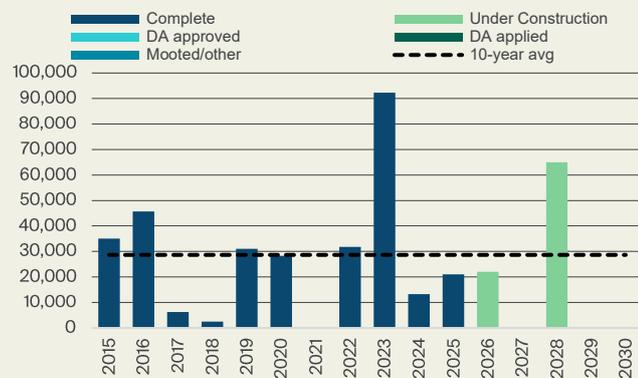
FESTIVAL TOWER II COMMENCES CONSTRUCTION

Construction has recently commenced on Adelaide's first skyscraper. Festival Tower II (50,000 sqm) is expected to complete in 2028 and be the first premium office space available in Adelaide CBD. Although no pre-commitments are currently confirmed, this unique space is expected to be in high demand over the coming years, particularly among large tenants who are willing to pay for contiguous best-in-class space.

Several developments are currently mooted, including Lot Fourteen and Central Market. If the strong forecast for rent growth materialises, it should narrow the gap between tenant expectations and economic rents, improving the chances of these developers landing an anchor tenant at the rent level needed to make the project viable.

Adelaide CBD development completions

Adelaide CBD development pipeline by development status (sqm)



Source: Knight Frank Research, PCA

Supply pipeline to fall sharply

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



Source: Knight Frank Research, PCA

Adelaide CBD office development pipeline

New 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 rising significantly to make development feasible. This, and the growing scarcity of new product, is driving improvements in occupancy and rental growth for existing A-grade assets. This has begun in CBD locations and will likely extend to non-CBD areas.

This significant supply–demand imbalance is likely to drive the leasing market for new high A-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 high A-grade 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.

Gross effective rents for Adelaide CBD high A-grade offices are forecast to grow at an average rate of 4.9% p.a. from Q4 2025 to Q4 2030. This is well-above the 10-year average to Q4 2025 of 2.4% p.a. However, there is further upside potential to these forecasts given the relatively volatile nature of effective rents in the Adelaide office market. Should demand accelerate further than expected, the limited supply pipeline could create strong momentum, driving rental growth even higher.

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 new developments.

MORE TENANT DEMAND FOR SHARED SPACES

With strong rent growth forecast for Adelaide 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 Adelaide’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.

DEVELOPERS WILL FOCUS ON ADELAIDE CBD

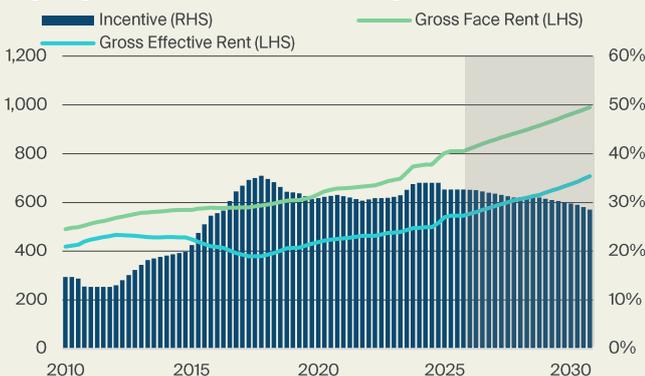
To stand the best chance of proceeding, prospective developments will need to be in CBD locations where rents are higher, and yields are tighter. Non-CBD markets such as Burswood and West Adelaide are facing a longer hiatus of new supply given lower prevailing rents and higher yields.

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

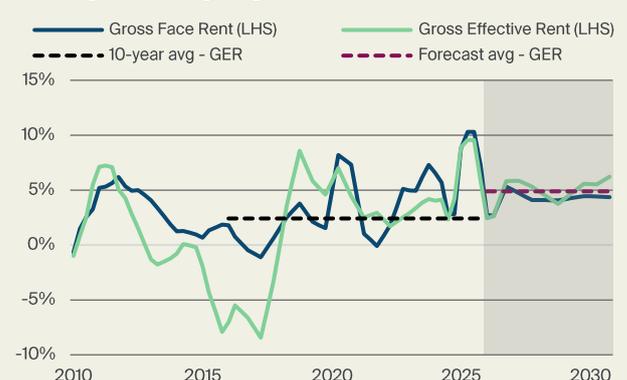
High A-grade office rents and incentive (gross) in Adelaide CBD (%)



Source: Knight Frank Research

Rent growth forecast to be above average

Annual growth in high A-grade office rents in Adelaide CBD (%)



Source: Knight Frank Research

Outlook for economic rents

ECONOMIC RENTS HAVE LIKELY PEAKED

After years of upward pressure, Adelaide CBD economic rents remained stable at \$1,150/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 \$1,100–\$1,150/sqm until 2031. It is projected that yield compression will be offset by rising construction costs, keeping economic rents stable until 2031. High A-grade office yields in the Adelaide CBD have softened by 192 bps since the peak, roughly in line with the average easing in Sydney CBD (166 bps) and Melbourne CBD (216 bps). Adelaide CBD yield compression is forecast to steadily occur over the next four years. At the same time, construction costs are forecast to continue rising (at 4% p.a.), offsetting the forecast 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. High A-grade gross effective rents are forecast to rise by 5.8% in 2026, closing the gap to economic rents, but slow to 5.3% in 2027 as tenants prepare for high supply in 2028.

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 not be new premium or high A-grade developments completed until 2033. The difference closes to 3% in 2030, which is close enough for certain schemes, such as those where the site has been held a long time, to commence.

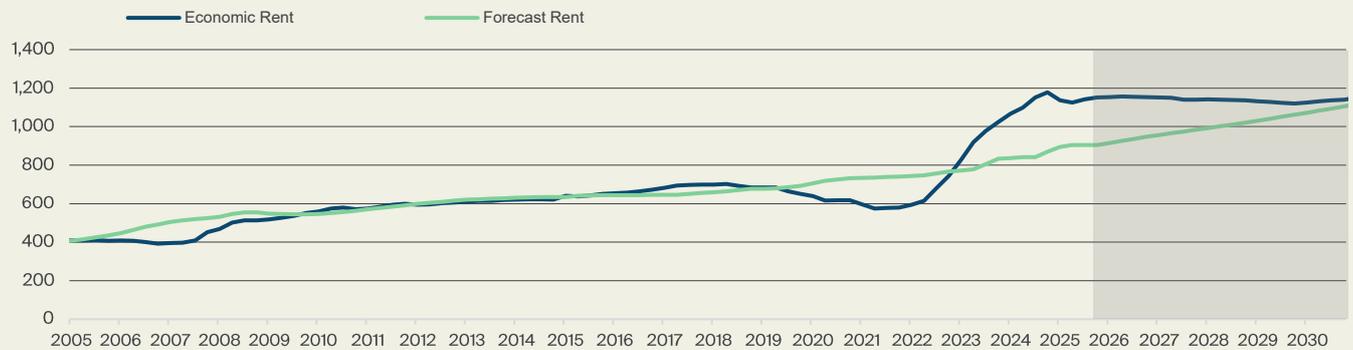
STABILISATION OF ECONOMIC RENTS IS DEPENDENT ON YIELD COMPRESSION

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 both A-grade and secondary assets fall by a cumulative 80 bps by Q4 2030.

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

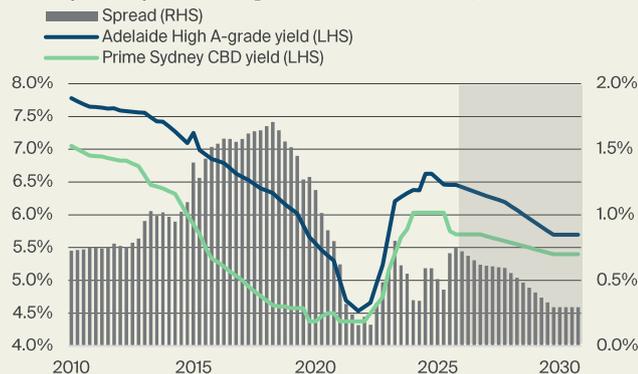
Estimate of economic rent required at project completion for an Adelaide CBD high A-grade development versus forecast rent [current market rent plus 4% p.a. growth over 3 years] (\$/sqm, gross face rent)



Source: Knight Frank Research

Yields are forecast to fall

Office yields by CBD and spread between CBDs (%)



Source: Knight Frank Research

New development projected to be feasible near 2030

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



Source: Knight Frank Research

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Dwindling new supply to drive
rents



Is now the time to develop?



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