

FIGURES | AUSTRALIAN OFFICE | Q1 2025

Rental growth remains healthy given supply challenges

▼ 4.9% y/y
AUS Average Prime NER

▲ 40.2%
AUS Average Prime Incentives

▼ \$1.7b
AUS Sales Volumes Q1 25

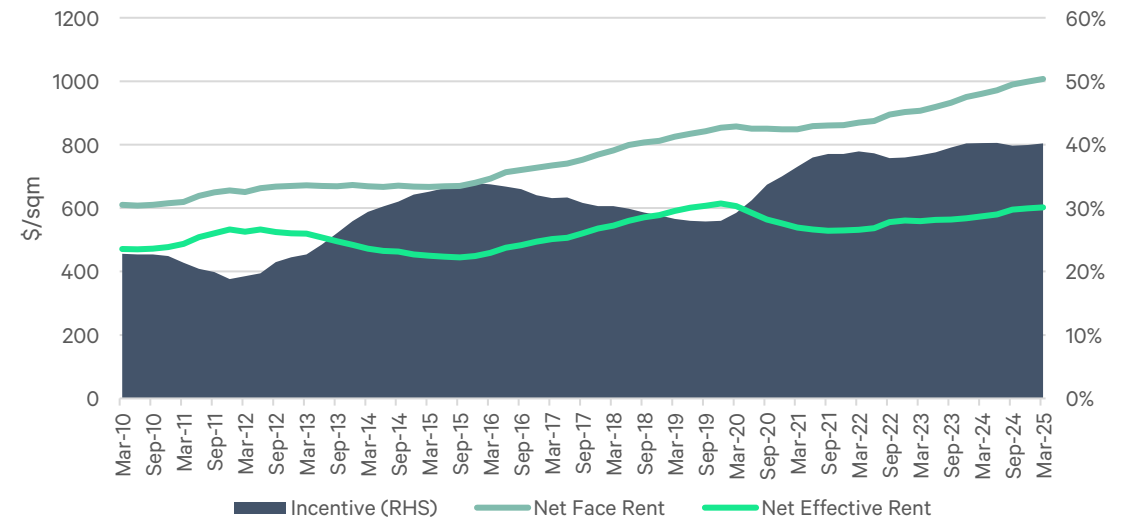
▲ 6.68%
AUS CBD Prime Yield

Note: Arrows indicate change from previous quarter.

Key Points

- The labour market has remained resilient with unemployment at just 4.1% in February 2025, and jobs growing by 1.9% over the past 12 months.
- Average effective rent for prime Australian CBD office rose by 0.4% q-o-q and 4.9% y-o-y.
- It is unclear how the global trade tensions will impact on the Australian leasing market. Periods of volatility generally lead to indecision from tenants, meaning that more occupiers might default to renewals.
- Future growth in office stock across Australia has dropped from 8.3% to 4.6% over the past 3 years, highlighting the challenges for new office development in Australia at the moment.
- Transaction activity in Q1 2024 reached \$1.7 billion, up 28% compared from the same period last year. The RBA’s Cash Rate was cut by 25 bps in February, which has improved buyer sentiment in the market. However, market volatility may impact on sentiment moving forward.
- Australian CBD average prime yields softened by 8 bps in Q1 2024 to average 6.68%. The Australian average cap rate has now softened by 176 bps from the peak of mid-2022.

FIGURE 1: Australia CBD Prime Office Rents and Incentives



Source: CBRE Research

Rents and Incentives

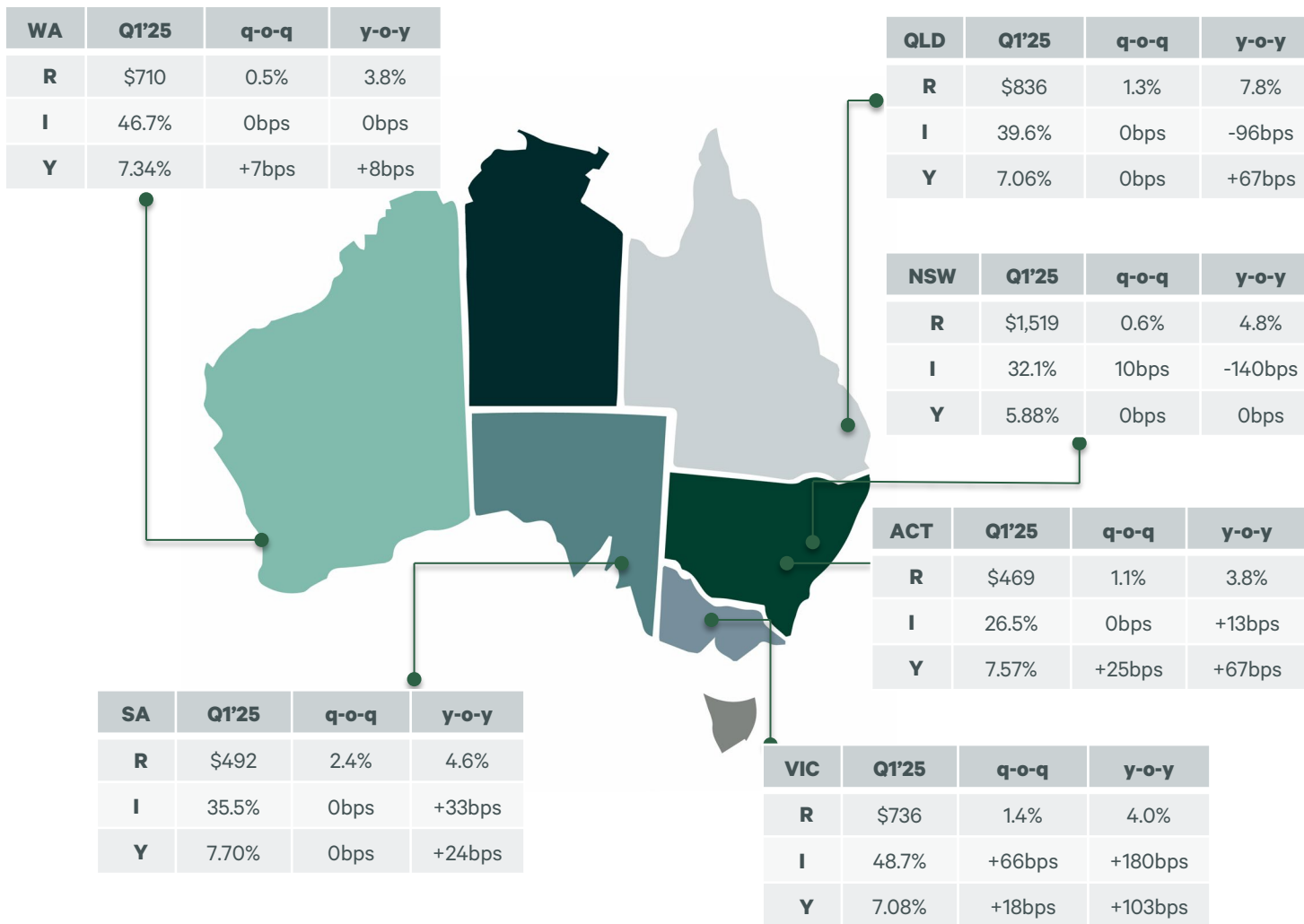
National rental growth is maintained

In Q1 2025, the average effective rent for prime Australian CBD office rose by 0.4% q-o-q and 4.9% y-o-y. Most of this increase is attributed to face rents, which climbed 0.9% q-o-q and 4.8% y-o-y. The sharp rise in economic rents for new developments, driven by high construction costs, is contributing to this face rental growth. Existing buildings appear relatively affordable compared to new ones, encouraging landlords to boost face rents. Nevertheless, incentives increased this quarter to an average of 40.2%, up from 39.9% previously. High fit-out costs are part of the reason for incentives to remaining stubbornly high across most markets.

Adelaide outperforms all markets in Q1, partly due to recent refurbishments

The Adelaide CBD observed effective rental growth of 2.4% q-o-q and 4.1% y-o-y. While vacancy has been elevated in the market, leasing activity has been healthy and a number of buildings have undergone refurbishments which is driving rents higher. Brisbane CBD effective rents grew by 1.6% q-o-q and 11.1% y-o-y, which represents a slight slowing in growth with vacancy likely to increase off the back of supply by the end of 2025. The Sydney Core rental growth also slowed to 0.4% q-o-q given higher vacancy with the delivery of major projects in H2 2024. The Melbourne CBD is showing healthy levels of face rental growth, up 4.5% y-o-y, although incentives have continued to trend up, which has meant effective rents have grown by just 0.5% over the past 12 months.

FIGURE 2: Australia CBD Prime Office Key Market Indicators & Forecast Direction – Q1 2025



Abbreviation: R - Net Face Rent, I - Incentives, Y- Yield. Source: CBRE Research

Demand and Vacancy

Leasing activity relatively slow in Q1. Too early to quantify impacts of global trade tensions.

Q1 is typically slow for leasing activity in Australia, which was the case in 2025. It is unclear how the global trade tensions will impact on the Australian leasing market. Australia appeared to have avoided any major impact until the most recent announcement of a base level 10% tariff on all goods exported to the US. Periods of volatility generally lead to indecision from tenants, meaning that more occupiers might default to renewals.

National net absorption continues to improve

Australian CBD's recorded 49,311 sqm of net absorption in H2 2024, a further improvement from H1. Sublease availability has declined slightly across the country, indicating that tenant contractionary activity is slowing. In addition, some markets experienced solid tenant expansion in H2, led by Sydney (partly due to supply), Adelaide, Perth and Canberra. Melbourne recorded -44,962 sqm of net absorption, largely due to Australia Post moving out of the CBD to their new headquarters in Richmond.

Vacancy ticks up slightly due to elevated supply

Overall CBD vacancy increased slightly from 13.6% to 13.7% in H2 2024. The Sydney CBD observed the largest increase in vacancy, largely due to the over-station developments delivered during the period. Canberra remains the tightest major market at 9.2% total vacancy, followed by the Brisbane CBD at 10.2%. The Melbourne CBD saw vacancy stabilise in H2, with the negative net absorption offset by withdrawals of stock for refurbishment.

Figure 3: Net Absorption by Market (as % of total stock)

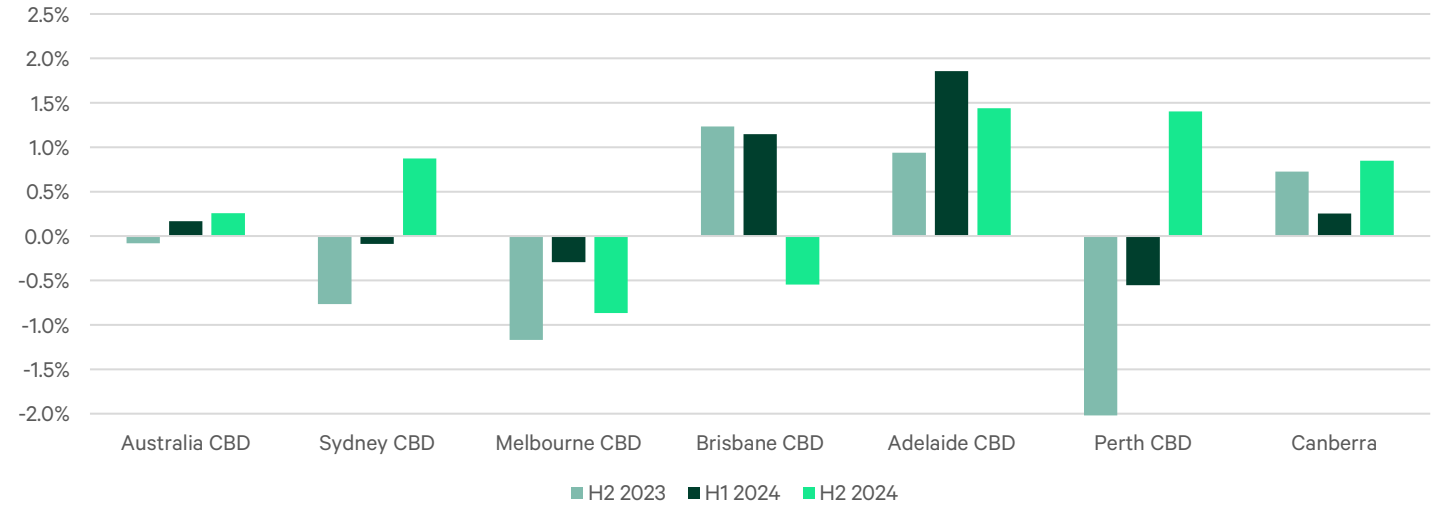
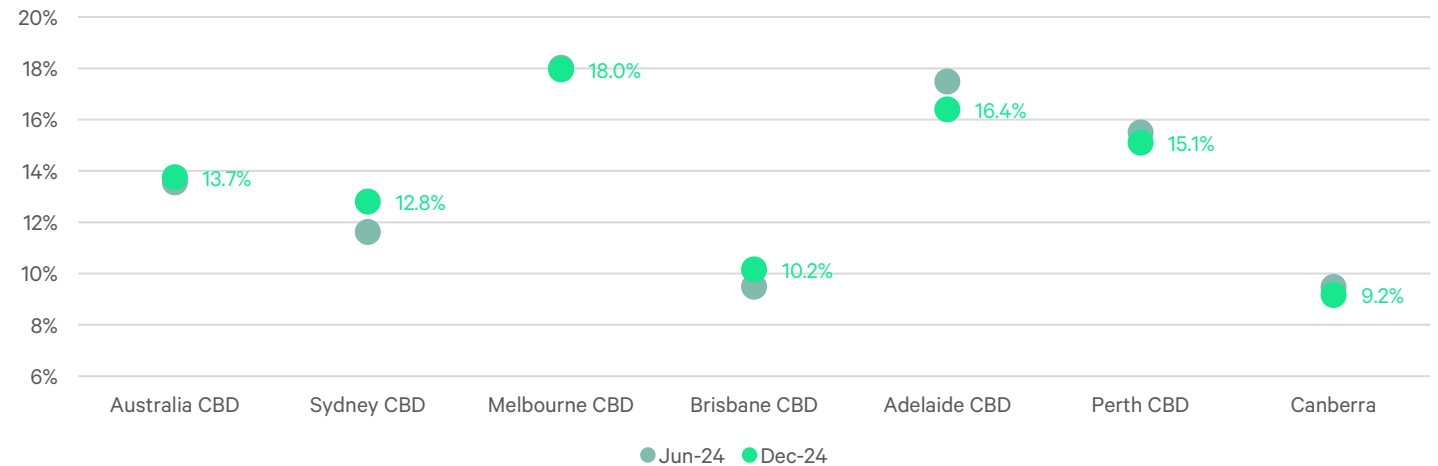


Figure 4: Total Vacancy



Source: PCA, CBRE Research

Hot Topic

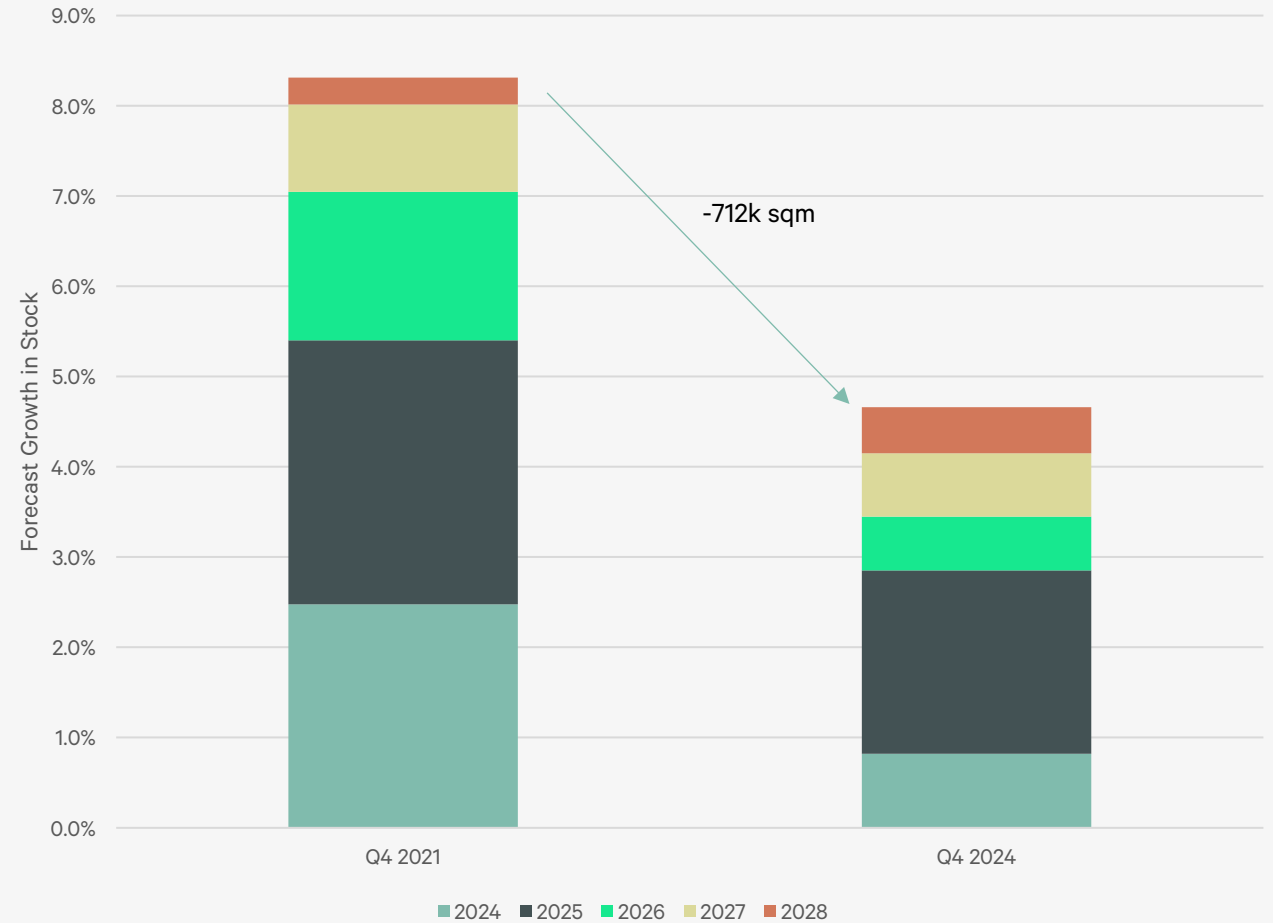
Supply outlook continues to moderate

The Australian office supply outlook has experienced a significant decline in recent years. High construction costs and softening cap rates have driven economic rents higher, putting project feasibilities under pressure. The shift in investor sentiment has also contributed to the decline. Wholesale investors have been reweighting their portfolios away from the office sector and into other sectors such as residential and industrial, making it harder for office projects to secure capital.

Furthermore, the increased government infrastructure investment has led to a shortage of available builders, making it even more difficult for commercial projects to get off the ground. CBRE Research’s forecast growth in office stock for Australia over the period of 2024-28, has dropped from 8.3% to just 4.6% over the past three years. This translates to 712,000 sqm less office stock being delivered to the market over that period.

This is a positive for the vacancy and rental growth outlook, as the occupier market is likely to get tighter over the coming years. At some point the gap between existing building rents and economic rents will need to close for further supply to come to the market. This means that some markets will experience above average rental growth over the medium term.

Change in National Supply Forecast



Source: CBRE Research

Investment Market

Transaction activity in Q1 2024 reached \$1.7 billion, up 28% compared from the same period last year. The RBA’s Cash Rate was cut by 25 bps in February, which has improved buyer sentiment in the market. The expectation is that transaction activity should continue to improve for the office sector in 2025, particularly in markets outside of Sydney, where trading has been low for a few years.

The trend of Japanese capital entering the Australian office market has continued in Q1. The largest deal during the quarter was 135 King Street, Sydney, which was bought for \$600 million by Daiburu from Investa. Another notable transaction was the 50% stake of 53 Albert Street, Brisbane, which was bought by NTT Corporation and Realmont for \$110 million.

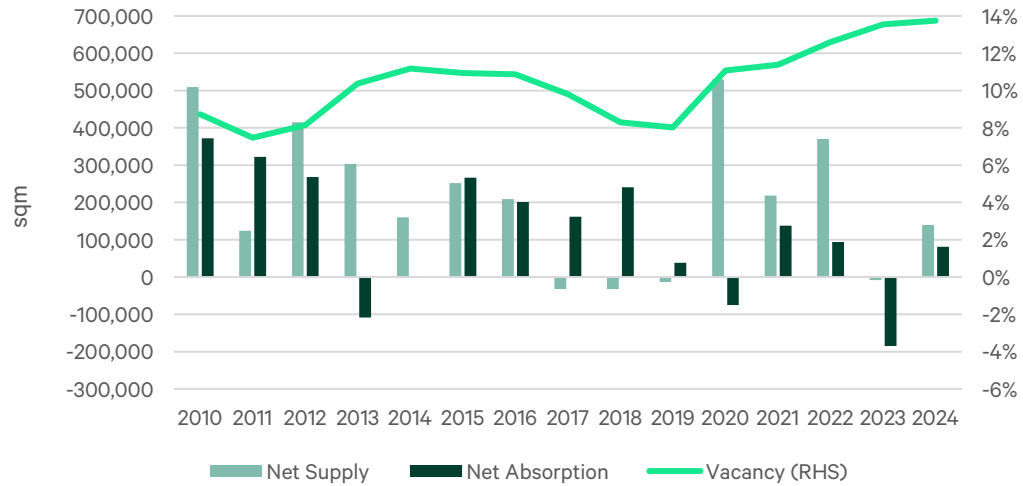
Australian CBD average prime yields softened by 8 bps in Q1 2024 to average 6.68%. The Australian average cap rate has now softened by 176 bps from the peak of mid-2022, prior to interest rate movements. The Melbourne CBD, Perth CBD and Canberra recorded some moderate softening during the quarter, while other markets were stable. Given recent volatility, particularly around tariffs, the Australian bond market is now pricing up to 5 more interest rate cuts by the end of 2025. On the surface, this should improve buyer sentiment, however, recession risk around the world might make offshore investors more cautious.

Figure 5: Australia Office Investment Volumes by Quarter



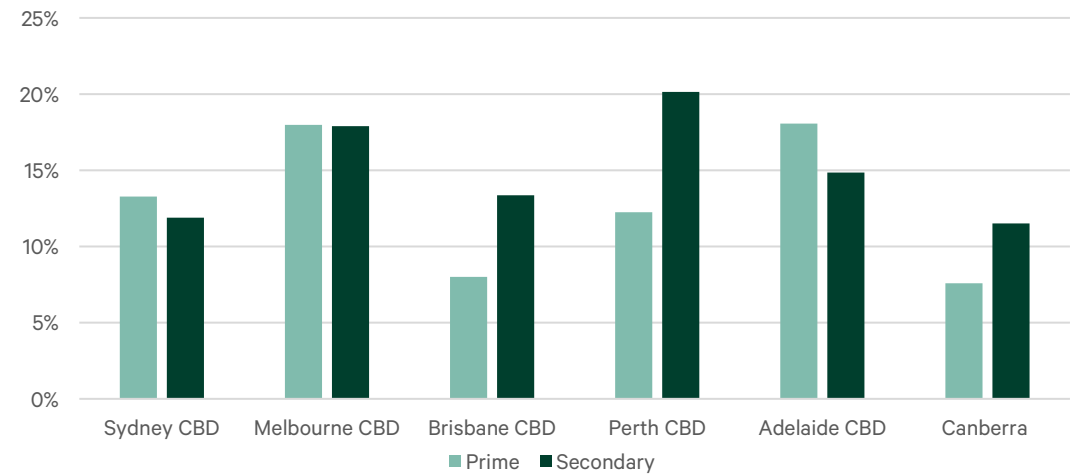
Source: CBRE Research

FIGURE 8: Australian CBD Market Balance



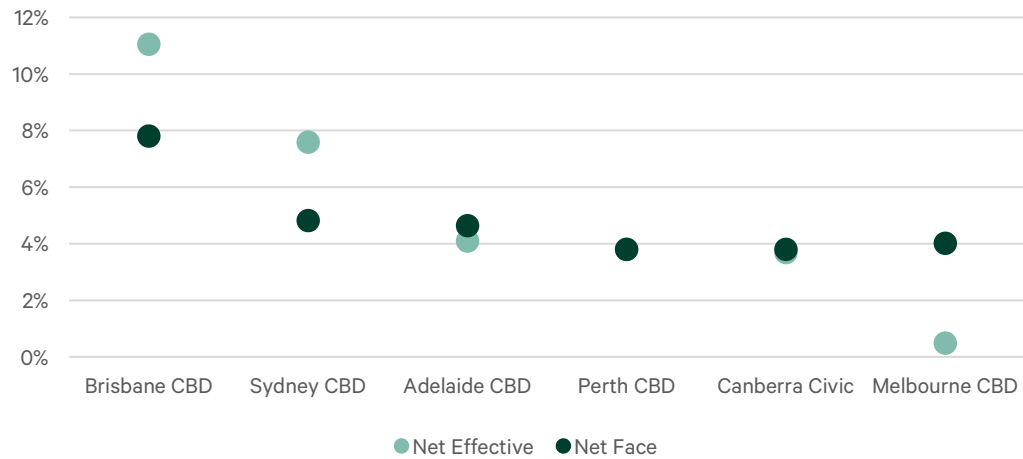
Source: PCA, CBRE Research

FIGURE 9: Vacancy by Grade across CBD Markets



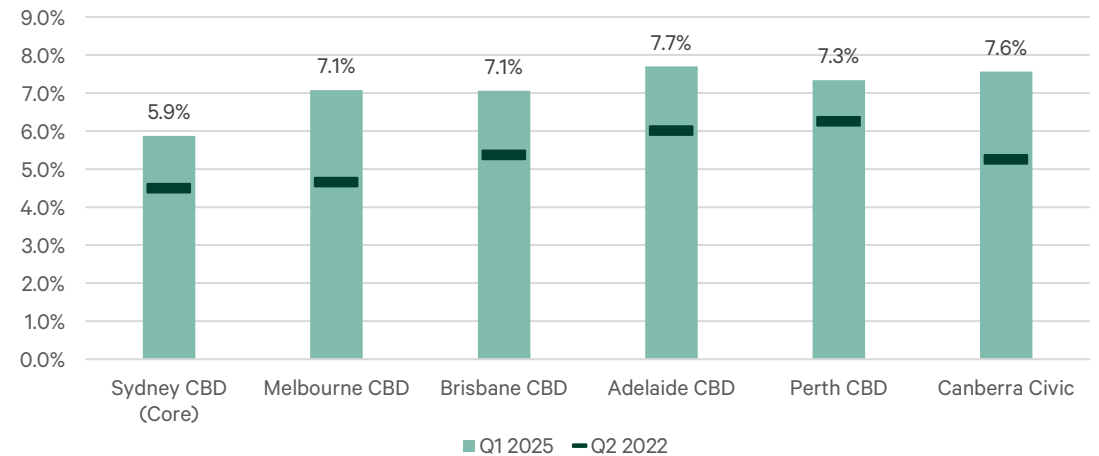
Source: PCA, CBRE Research

FIGURE 10: Rental Growth by Market (Y-O-Y)



Source: CBRE Research

FIGURE 11: Prime Yields



Source: CBRE Research

TABLE 1: Australia Non-CBD Prime Office Key Indicators, Q1 2025

| Market | Demand | Net Face Rent (q-o-q change) | Incentives (q-o-q change) | Net Effective Rent (q-o-q change) | Yield (q-o-q change) |
|------------------------|--------|------------------------------|---------------------------|-----------------------------------|----------------------|
| North Sydney | ▼ | \$1,034▲ | 40.5%▲ | \$556▼ | 7.11%▶ |
| Parramatta | ▲ | \$592▶ | 44.9%▼ | \$326▲ | 7.92%▶ |
| Macquarie Park | ▲ | \$470▲ | 36.8%▲ | \$297▲ | 8.29%▶ |
| Chatswood | ▲ | \$668▶ | 43.7%▲ | \$326▼ | 8.42%▶ |
| Crows Nest/St Leonards | ▼ | \$697▶ | 43.4%▲ | \$343▼ | 8.15%▶ |
| Southbank | ▶ | \$662▲ | 47.1%▲ | \$350▼ | 7.94%▶ |
| St Kilda Road | ▼ | \$467▲ | 49.8%▶ | \$234▲ | 8.70%▲ |
| Brisbane Near City | ▲ | \$633▲ | 39.5%▼ | \$333▲ | 7.84%▶ |
| West Perth | ▶ | \$409▲ | 36.0%▶ | \$262▲ | 7.78%▶ |
| Canberra Non-CIVIC | ▶ | \$429▲ | 24.9%▼ | \$301▲ | 7.85%▲ |

Note: Arrow indicates change from previous quarter.

Source: CBRE Research

TABLE 2: Australia Major Office Sales, Q1 2025

| Address | Market | Sale Date | Sale Price (\$m) | Purchaser | Vendor | Proportion Sales |
|-------------------|----------|-----------|------------------|----------------------------|---------------------------|------------------|
| 135 King Street | Sydney | Mar-25 | 600 | Daiburu | Investa | 100% |
| 20 Bridge Street | Sydney | Feb-25 | 250 | Anton Real Estate Partners | Early Light International | 100% |
| 400 Kent Street | Sydney | Mar-25 | 112 | Cambridge RE Partners | Terraform Capital | 100% |
| 53 Albert Street | Brisbane | Mar-25 | 110 | NTT Corporation, Realmont | JP Morgan | 50% |
| 61 Dunning Avenue | Rosebery | Mar-25 | 70 | White Fox Boutique | Goodman Group | 100% |
| 85 George Street | Brisbane | Mar-25 | 48 | Stadia Capital | Charter Hall | 50% |

Source: CBRE Research

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