Leasing demand begins to spread outside the Core precinct in Q3 2025

▲ 13.7%
CBD Vacancy Rate (+90 bps h-o-h)

▲ 1,560 AUD/sqm
Prime Net Face Rent (+1.5% q-o-q)

▼ 30.8%
Prime Incentives (-130 bps q-o-q)

▼ AUD 1.36B
CBD Office Investment Volumes YTD 2025 (-64% y-o-y)

▼ 5.8%
Prime Yield (-13 bps q-o-q)

Note: Arrows indicate change from previous quarter / half / year.

Key Points

- CBRE received 96 leasing enquiries totalling 122,920 sqm in Q3 2025. This was a 10.8% improvement over Q2 2025 and the largest quarterly enquiry total since 2023.
- The Sydney CBD saw the delivery of 72,599 sqm of office space in H1 2025. Office development is set to slow going forward.
- The overall CBD vacancy rate ended H1 2025 at 13.7%, an increase of 90 bps from the start of 2025. Increases were due largely to the delivery of new supply and old stock withdrawals being re-added to market inventory.
- Increased demand for office space across the CBD has started to drive rental rate growth and incentive tightening across the market. Q3 2025 marked the first quarter in several years that incentive tightening and effective rent growth was recorded in the Core, Walsh Bat, Midtown, and Western Corridor precincts.
- Investment activity remained muted over Q3 2025 due to a lack of available product. Given strong demand for high quality assets, cap rates have started to tighten in certain precincts.

FIGURE 1a: Sydney CBD Office | Vacancy Rate Summary

Indicator	Jul 2025	Jan 2025	Jul 2024	H-o-H Change	Y-o-Y Change
Vacancy Rate	**13.7%**	12.8%	11.6%	+90 bps	+208 bps

FIGURE 1b: Sydney CBD Core Office | Summary of Prime Market Indicators

Indicator	3Q25	2Q25	3Q24	Q-o-Q Change	Y-o-Y Change
NFR	**AUD 1,560**	AUD 1,538	1,496 AUD	+1.5%	+4.3%
Incentives	**30.8%**	32.1%	32.0%	-130 bps	-120 bps
NER	**AUD 994**	AUD 955	934 AUD	+4.1%	+6.5%
Yield	**5.8%**	5.9%	6.0%	-13 bps	-25 bps

Source: CBRE Research

Office Demand

Leasing demand continues to build across Sydney CBD

Leasing demand has showed consistent improvement since the end of 2024. This trend continued in Q3 2025 when CBRE received leasing enquiries totaling 122,920 sqm. This was a 10.8% improvement over Q2 2025 and the largest quarterly enquiry total since 2023.

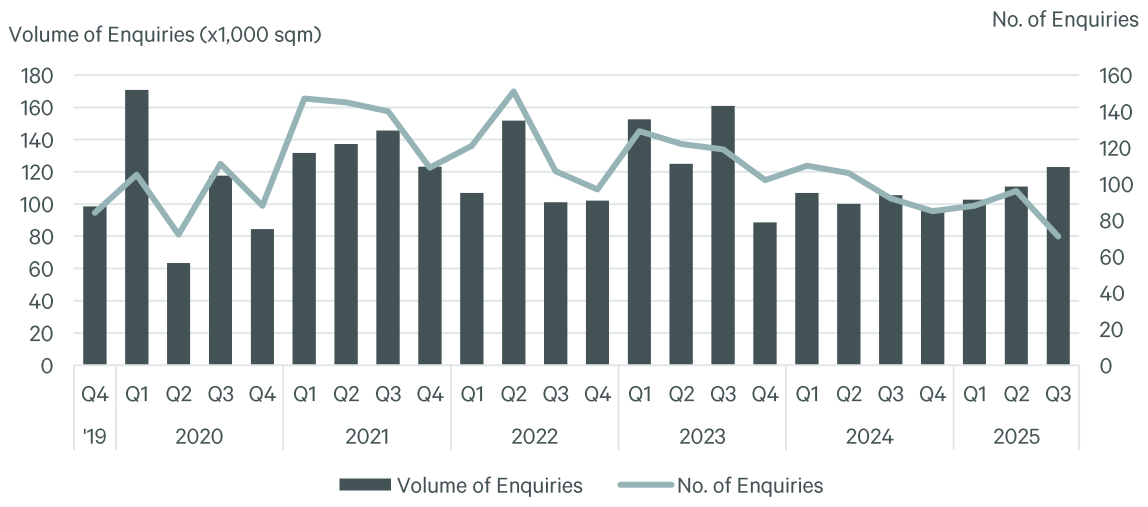
While the flight-to-quality trend has persisted, signs of leasing appetite in non-Core precincts has started to materialize over 2025. The Western Corridor recorded Prime net absorption of 22,276 sqm over the first half; the first time the precinct has recorded a positive absorption figure since 2022. It's expected that demand for non-Core precincts will continue to build momentum over coming periods due to enticing rent differentials between Core and non-Core properties and tightening vacancy rates in Core stock due to the upcoming slowdown in new supply.

Despite the strong performance of the Western Corridor, occupiers continued to show a preference for Prime grade space in the Core precinct over H1 2025. Prime net absorption in the Core precinct totalled 13,492 sqm over the trailing six-month period. This marked the third consecutive period that the Core precinct has recorded positive Prime net absorption.

Net absorption totals across the remaining CBD precincts were fairly neutral in H1 2025. The Walsh Bay and Southern precincts each recorded positive absorption totals of 4,542 sqm and 475 sqm, while The Rocks and Midtown precincts recorded negative net absorption of -4,988 sqm and -3,951 sqm.

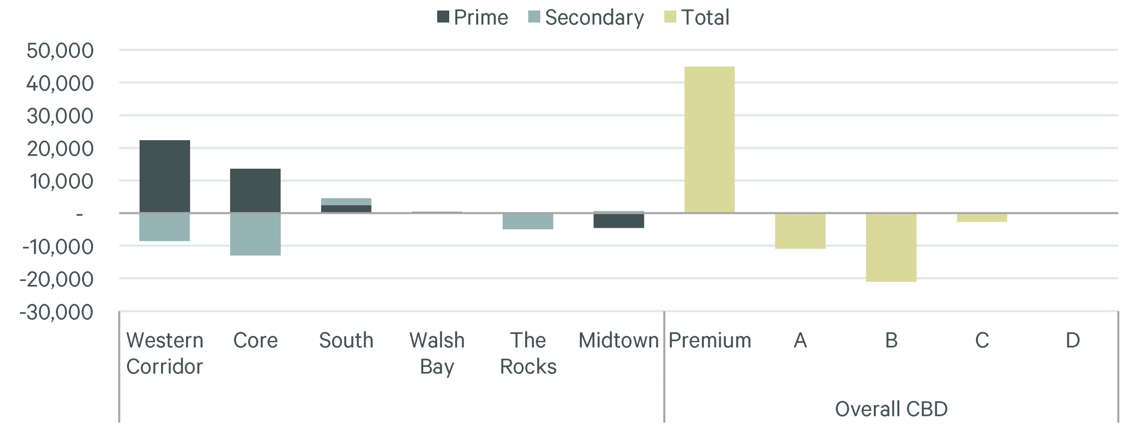
The flight-to-quality trend remained evident when looking at net absorption totals for the overall CBD broken down by building grade. The highest levels of leasing activity continued to be seen in Premium grade assets. Net absorption of Premium office space totalled 44,841 sqm over the first half. Each of the other building grades saw negative or neutral net absorption over this period. This trend continues to be driven by the migration of occupiers into newly delivered Premium grade stock.

FIGURE 2: Sydney CBD Office | Leasing Enquiry Data



Source: CBRE Research

FIGURE 3: Sydney CBD Office | 6-Month Net Absorption (sqm) by Precinct and by Building Grade



*Bar cut off for presentation.
Source: CBRE Research, PCA

Supply

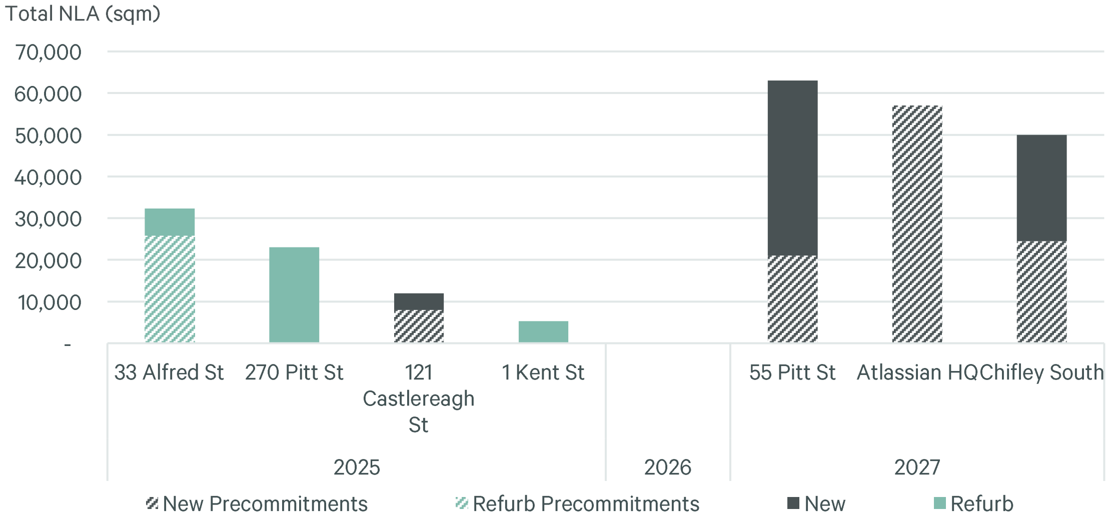
Final ripples of supply wave hit the Sydney CBD in 2025

The Sydney CBD saw the delivery of 72,599 sqm of office space in H1 2025. This figure included the delivery of 33 Alfred Street (c.32,000 sqm) and 121 Castlereagh Street (11,500 sqm). Each of these new developments were delivered with strong pre-leasing levels secured. The first half supply total also included the reintroduction of 1 Shelley Street (c.29,500 sqm) to the CBD office inventory figure after it was removed due to refurbishments brought on by Macquarie's departure to their new headquarters above the Martin Place metro.

Office development is set to slow going forward and new supply is forecast to total only 28,300 sqm over the second half of the year. This total includes the delivery of 270 Pitt Street (23,000 sqm) and 1 Kent Street (5,300 sqm). The market will then get a one-year reprieve from new supply before the delivery of 55 Pitt Street (63,000 sqm), Atlassian HQ (57,000 sqm), and Chifley Tower South (53,000 sqm) in 2027. Leasing interest for these 2027 projects has been very strong and pre-leasing for these three developments is now over 60% collectively.

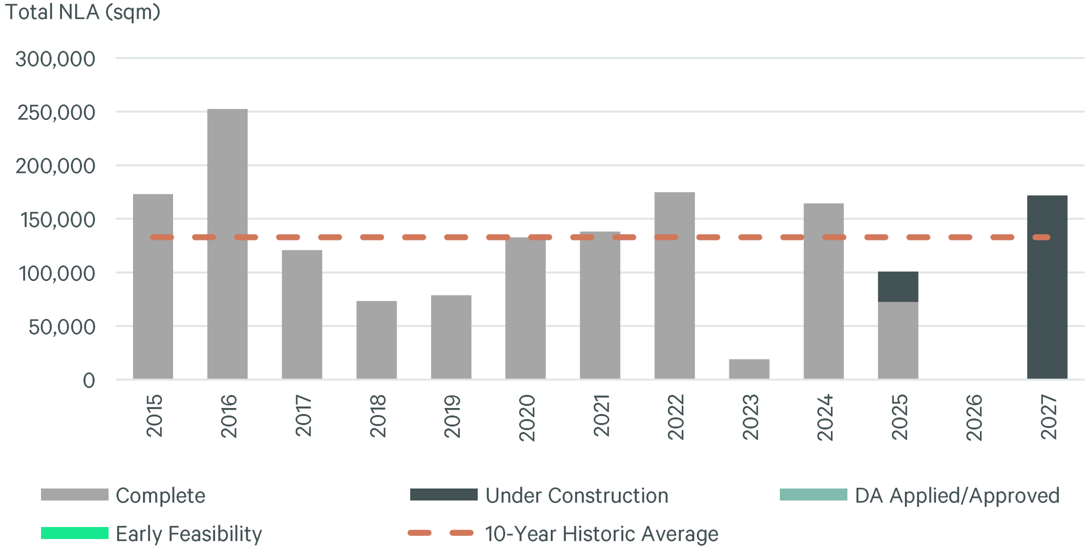
Beyond 2027, the supply outlook remains speculative due to challenging development conditions including elevated construction and financing costs. Cost pressures coupled with the uncertainty around long-term leasing pre-commitments have forced developers to reconsider the timing of new construction projects. It's now likely that, following 2027, the next wave of office development won't occur until 2032 or later.

FIGURE 4: Sydney CBD Office | Upcoming Major Development Projects



Note: Early Feasibility and mooted projects not shown.
Source: CBRE Research

FIGURE 5: Sydney CBD Office | Historical & Forecast New Supply



Source: CBRE Research, PCA

Vacancy

CBD vacancy rates nearing top of cycle

Vacancy rates in the Sydney CBD increased marginally over H1 2025 due largely to the delivery of new supply and old stock withdrawals being re-added to inventories. The overall CBD vacancy rate ended H1 2025 at 13.7%, an increase of 90 bps from the start of 2025. While vacancy rates increased, the amount of occupied stock in the Sydney CBD increased by 10,298 sqm over the first half of 2025. This marked the second consecutive period that occupied stock has risen, despite vacancy rates rising due to new supply. Sydney CBD Prime and Secondary vacancy rates both increased over H1 2025, ending the period at 14.1% and 12.9%, respectively.

The Core and Walsh Bay precincts have continued to outperform from a vacancy perspective. Prime vacancy rates in these precincts ended the first half at 11.5% and 9.0%, respectively, the lowest of any CBD precincts.

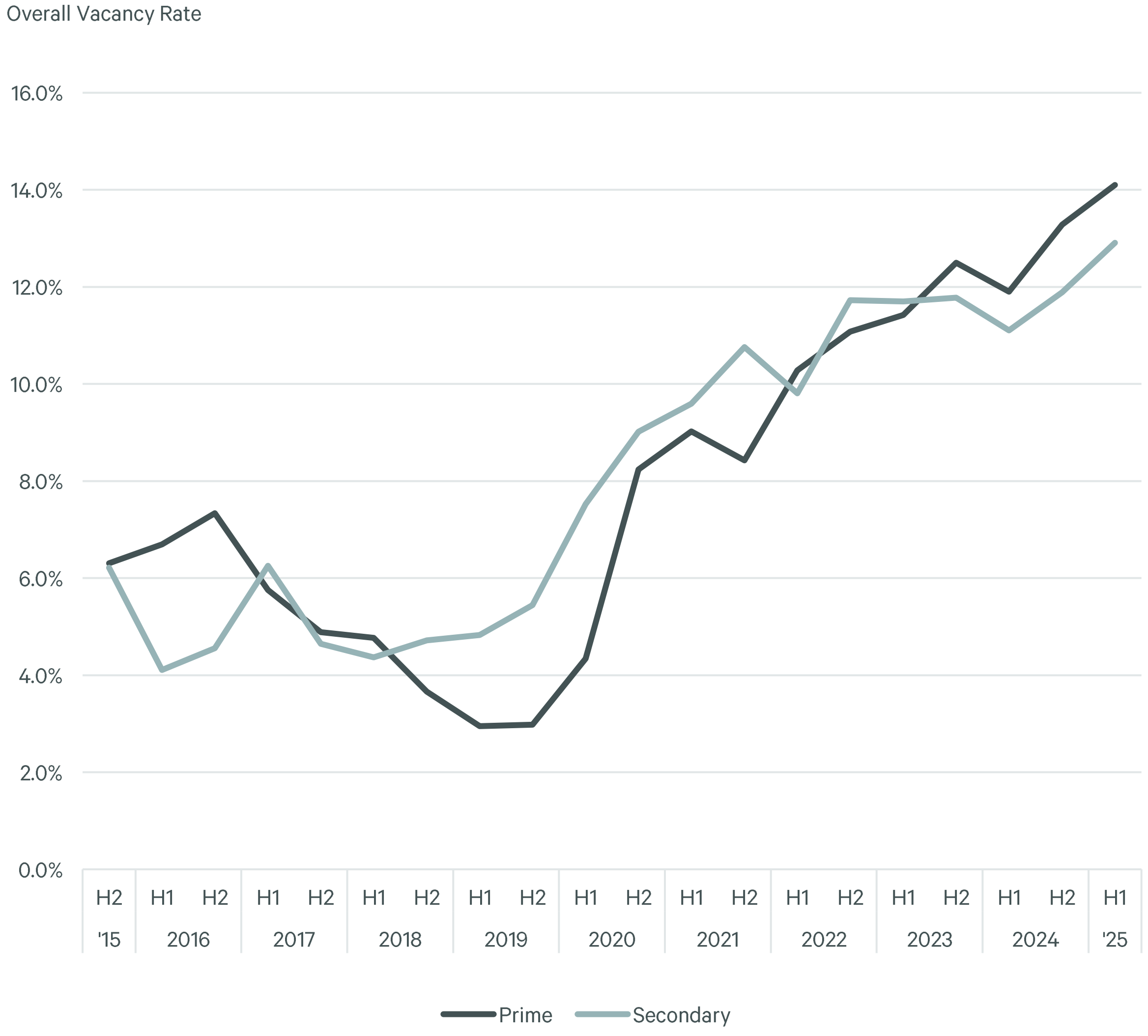
Given rising leasing enquiry levels, a lack of forecasted new supply, a slowdown in sublease listings, and the ongoing flight-to-quality by occupiers, it's expected that CBD vacancy rates are now at their peak for this cycle. Vacancy rates are expected to tighten as new supply slows in coming years.

FIGURE 6: Sydney CBD Office | Leasing Market Summary

Market/ Grade	Inventory *Jul 25*	Vacant Space *Jul 25*	Vacancy Rate *Jul 25 (6month Diff)*	Net Absorption *6 months*
Prime	3,548,655 sqm	500,382 sqm	14.1% (+82 bps)	33,877 sqm
Secondary	1,818,859 sqm	234,799 sqm	12.9% (+108 bps)	-23,579 sqm
Total	5,367,514 sqm	735,181 sqm	13.7% (+90 bps)	10,298 sqm

Source: PCA, CBRE Research

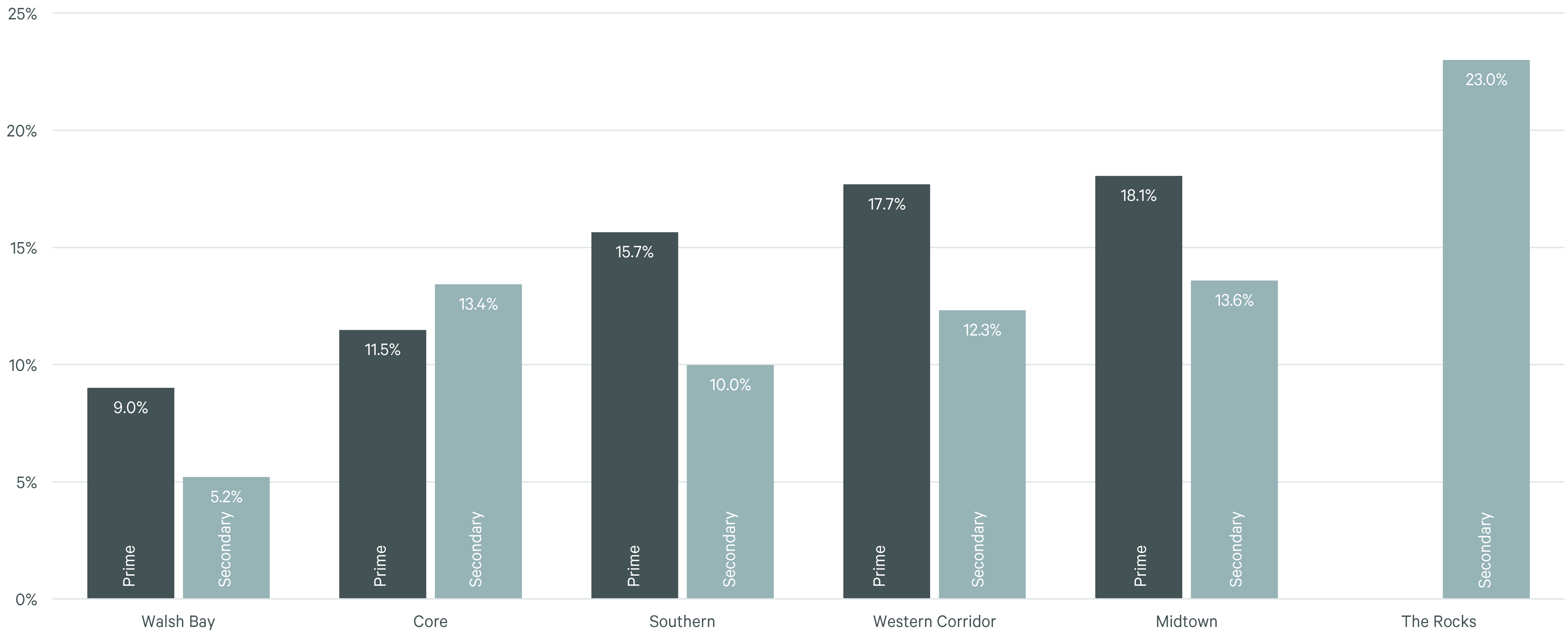
FIGURE 7: Sydney CBD Office | Vacancy Rates by Grade



Source: PCA, CBRE Research

Vacancy

Figure 8: Sydney CBD Office | Vacancy Rates by Precinct



Source: CBRE Research

Rental Rate & Incentives Trends

Incentives begin to tighten as rent growth continues in Q3 2025

The increased demand for office space across the CBD has started to drive rental rate growth and incentive tightening across precincts outside of the Core. In light of accelerating leasing activity across the market, the CBD precinct average Prime net face rental rate figure ended Q3 2025 at 1,263 AUD/sqm, an increase of 1.2% quarter-over-quarter. Secondary face rental rates also increased over Q3 2025, ending the period at 876 AUD/sqm, representing growth of 0.1%.

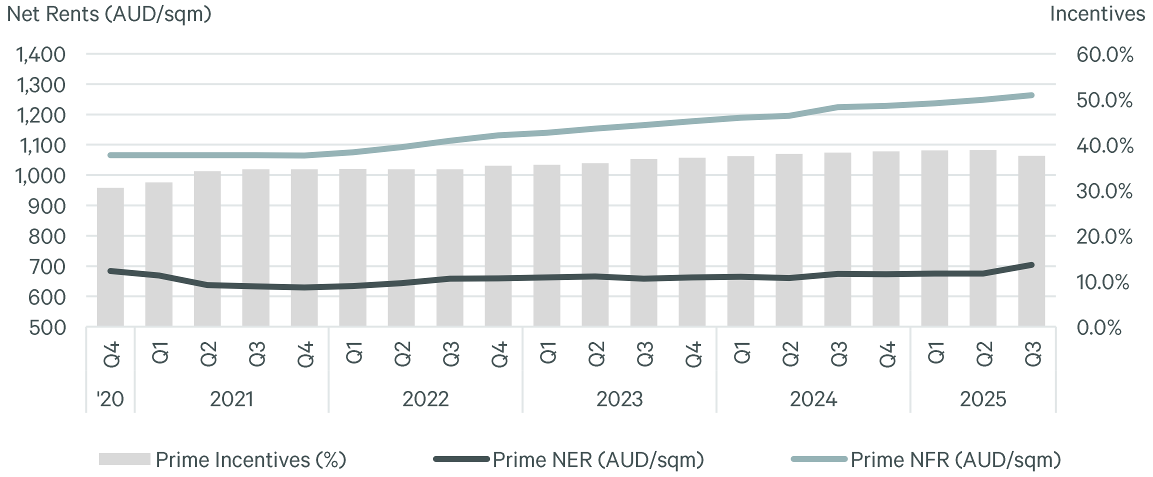
The flight-to-quality seen over recent periods has resulted in Prime rental rates in the Core and Walsh Bay outperforming the rest of the market. Prime net face rental rates in these precincts improved once again in Q3 2025, reaching 1,560 AUD/sqm and 1,344 AUD/sqm, respectively. These figures represented quarter-over-quarter growth of 1.5% and 2.1%. While net face rental rates growth was more subdued across the other CBD precincts, the Midtown and Western Corridor precincts continued to see improved face rent growth this period. Net face rents in these submarkets reached 1,205 AUD/sqm and 1,143 AUD/sqm, respectively, growing by 0.9% and 0.2% quarter-over-quarter.

Encouragingly for the market, Q3 2025 marked the first period in several years where incentives tightened in each of the Core, Walsh Bay, Midtown, and Western Corridor precincts. Prime incentives in these submarkets declined by -130 bps, -83 bps, -100 bps, and -225 bps, respectively, this quarter. Against this backdrop, the CBD average Prime and Secondary incentive figures ended the period at 37.5% and 38.2%, respectively, each either tightening or holding stable over Q3 2025..

Given still rising face rental rates, and tightening incentives, net effective rents in each of the four largest CBD precincts all showed growth over Q3 2025. Core, Walsh Bay, Midtown, and Western Corridor net effective rents increased by 4.1%, 4.2%, 3.2%, and 6.0% quarter-over-quarter this period.

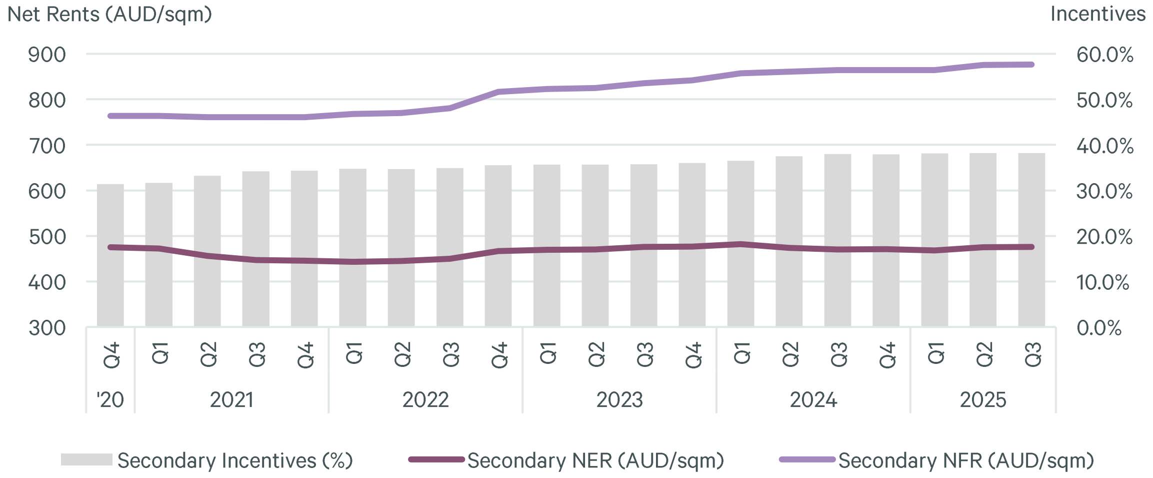
We expect this trend will continue as leasing activity in non-Core geographies climbs over the coming years.

FIGURE 9: Sydney CBD Office | Precinct Average Prime Net Face Rents, Net Effective Rents, and Incentives



Source: CBRE Research

FIGURE 10: Sydney CBD Office | Precinct Average Secondary Net Face Rents, Net Effective Rents, and Incentives



Source: CBRE Research

Rental Rate & Incentives Snapshot

Figure 11: Sydney CBD Office | Rental Rates and Incentives by Precinct

PRIME	CORE	MIDTOWN	SOUTH	WESTERN CORRIDOR	WALSH BAY	THE ROCKS
Gross Rental Rate (AUD/sqm)	**$1,836**	**$1,408**	**$1,068**	**$1,345**	**$1,605**	**$1,025**
% QoQ	1.2%	0.7%	Stable	0.2%	1.7%	Stable
% YoY	4.5%	2.7%	1.6%	3.6%	5.0%	Stable
Net Face Rental Rate (AUD/sqm)	**$1,560**	**$1,205**	**$904**	**$1,143**	**$1,344**	**$849**
% QoQ	1.5%	0.9%	Stable	0.2%	2.1%	-0.5%
% YoY	4.3%	2.4%	1.4%	2.4%	4.2%	-0.5%
Incentives	**30.8%**	**38.3%**	**41.7%**	**44.0%**	**37.3%**	**35.7%**
QoQ Change (bps)	-130	-100	Stable	-225	-83	Stable
YoY Change (bps)	-120	-117	100	-42	-33	Stable
Net Effective Rental Rate (AUD/sqm)	**$994**	**$666**	**$459**	**$551**	**$745**	**$483**
% QoQ	4.1%	3.2%	Stable	6.0%	4.2%	-0.9%
% YoY	6.5%	4.7%	-1.1%	2.2%	4.3%	-0.9%

SECONDARY	CORE	MIDTOWN	SOUTH	WESTERN CORRIDOR	WALSH BAY	THE ROCKS
Gross Rental Rate (AUD/sqm)	**$1,249**	**$1,038**	**$1,002**	**$1,051**	**$1,144**	**$975**
% QoQ	Stable	-0.7%	Stable	Stable	Stable	Stable
% YoY	1.8%	3.2%	0.3%	2.2%	-1.1%	Stable
Net Face Rental Rate (AUD/sqm)	**$1,055**	**$875**	**$842**	**$858**	**$985**	**$837**
% QoQ	Stable	-0.8%	Stable	Stable	Stable	2.1%
% YoY	1.0%	2.4%	Stable	2.2%	1.4%	2.1%
Incentives	**36.7%**	**39.7%**	**38.8%**	**38.6%**	**39.5%**	**35.5%**
QoQ Change (bps)	Stable	Stable	Stable	Stable	Stable	Stable
YoY Change (bps)	57	143	25	-8	Stable	Stable
Net Effective Rental Rate (AUD/sqm)	**$596**	**$463**	**$454**	**$453**	**$533**	**$491**
% QoQ	Stable	-1.0%	Stable	Stable	Stable	3.6%
% YoY	-0.7%	-1.4%	-0.8%	2.5%	3.6%	3.6%

Source: CBRE Research

Investment Market

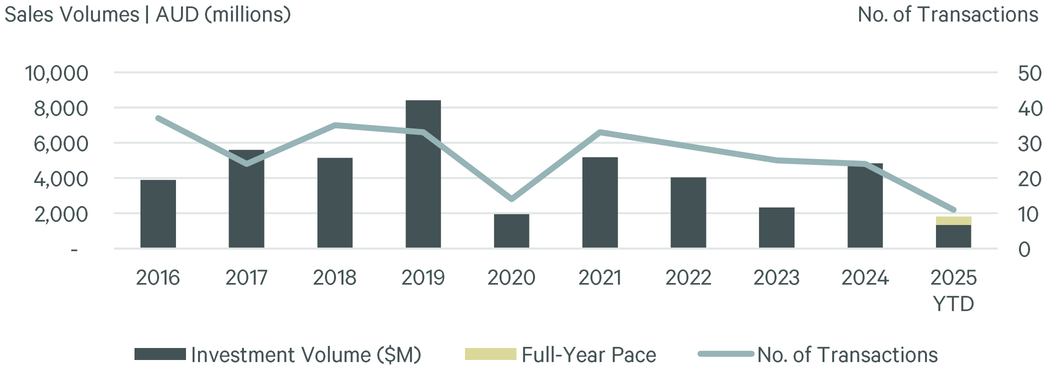
CBD investment activity remains muted, but yields begin tightening in Q3 2025

After making a significant recovery over 2024, Office investment volumes in the Sydney CBD have slowed slightly over 2025. Investment volumes reached AUD 1,363 million over the first three quarters of 2025. This puts the market on pace to reach AUD c.2.0 billion over the full year, which would be a decline of 62% compared to 2024. The large jump in Investment volumes in 2024 was driven by larger sales, and the more muted activity over 2025 speaks to the difficulty of completing such transactions in the current market.

Whie new transaction activity remained somewhat limited, this was due to a lack of available assets as opposed to a lack of demand from buyers. The market is slowly shifting back to a sellers market and this caused cap rates for the best product in the best locations to begin tightening over the quarter. Indicative yields across the Sydney CBD now range from between 5.8% for Prime assets in the Core precinct to 8.2% for Secondary assets in The Rocks.

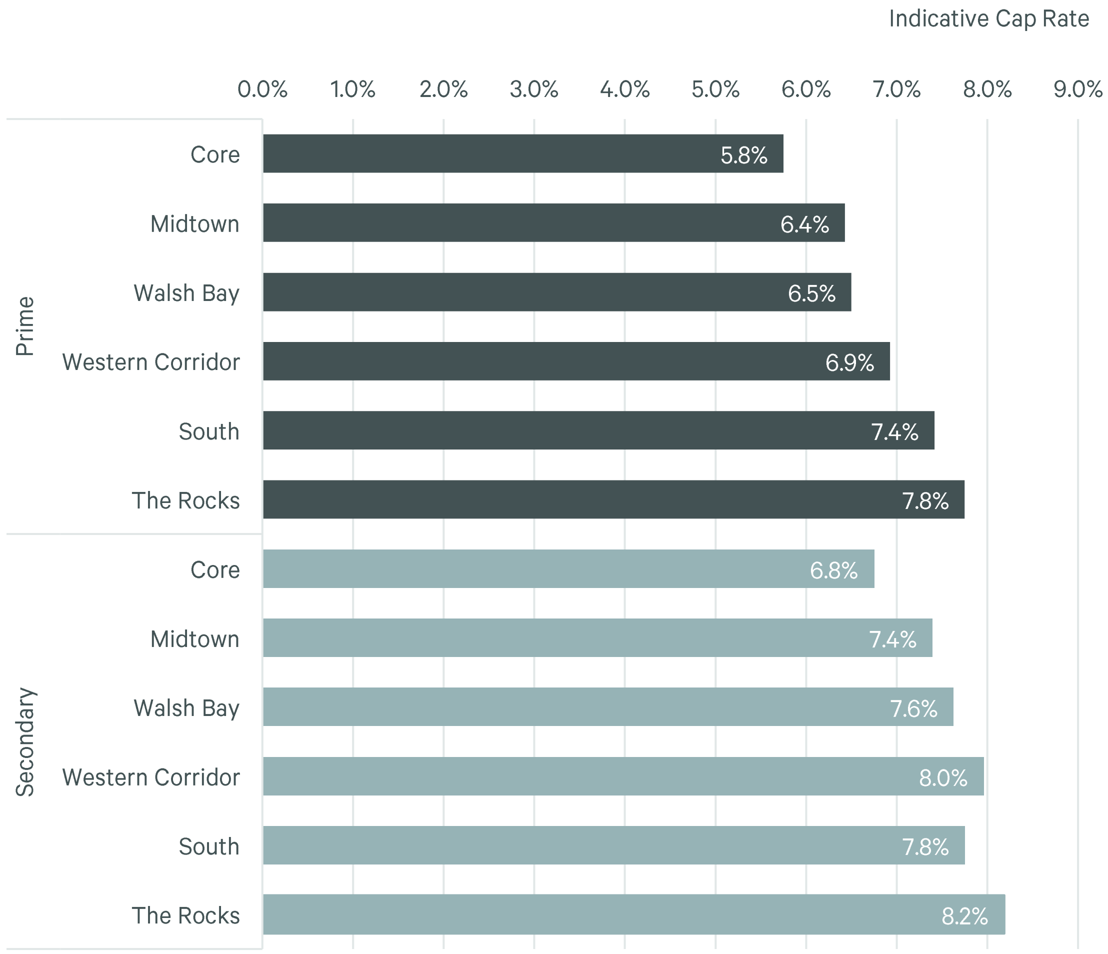
The lack of product available in the CBD should ensure that CBD investment volumes remain somewhat muted over the remainder of 2025, with the bulk of outstanding investment activity to take place in Metro submarkets.

FIGURE 12: Sydney CBD Office | Sales Activity



Source: CBRE Research

FIGURE 13: Sydney CBD Office | Cap Rates, by Precinct and Grade



Source: CBRE Research

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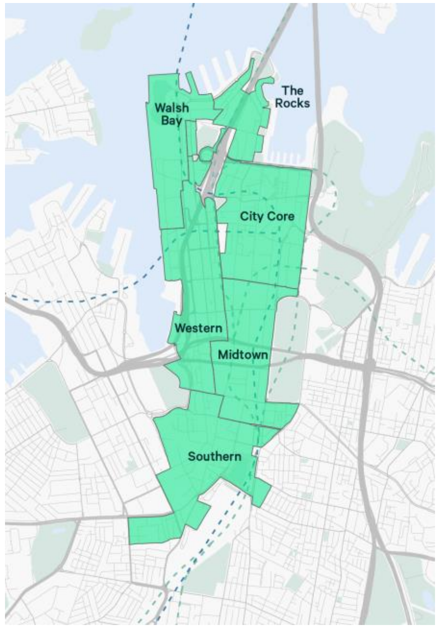
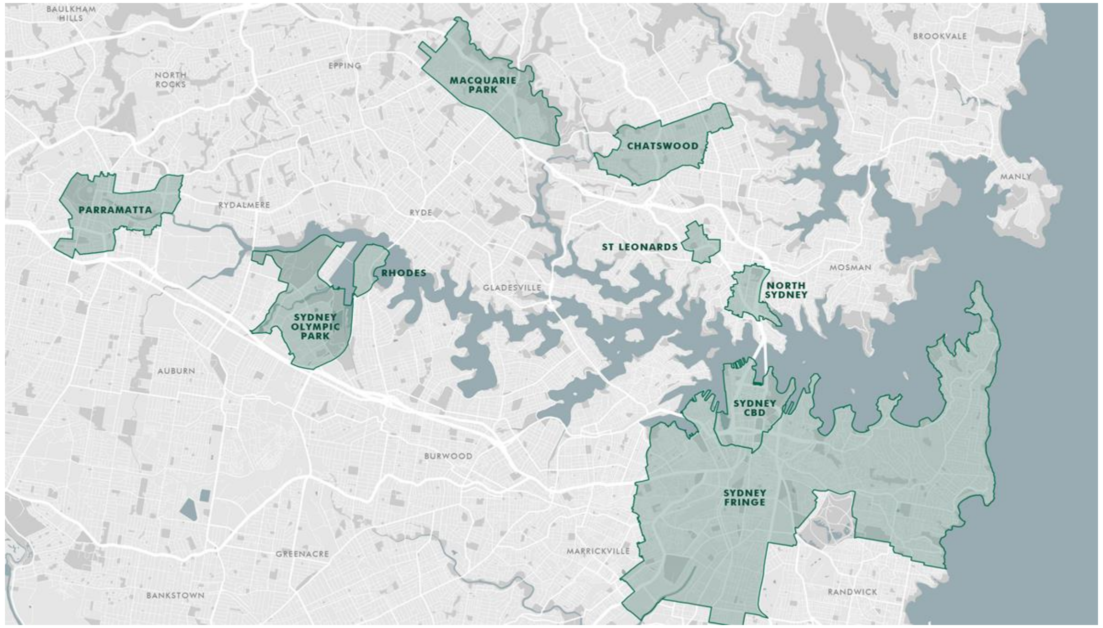
Office Submarket & Precinct Maps

Sydney CBD



Sydney Metro



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