Sydney CBD office market tightens as demand mounts and supply grinds to a halt

▼ 13.3%
CBD Vacancy Rate (-44 bps h-o-h)

▲ 1,623 AUD/sqm
Prime Net Face Rent (+1.3% q-o-q)

▼ 29.8%
Prime Incentives (-80 bps q-o-q)

▲ AUD 1.9B
CBD Office Investment Volumes H1 2026 (+37% y-o-y)

◀▶ 5.75%
Prime Yield (Stable q-o-q)

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

Key Points

- CBRE received 124 leasing enquiries totaling 134,365 sqm in the Sydney CBD in Q2 2026. This volume of enquiries represented growth of 7.3% compared to Q1 2026.
- Leasing activity has remained strong to start the year. Overall net absorption in the Sydney CBD totalled 18,715 sqm in H1 2026. This included Prime net absorption of 19,388 sqm.
- No new office space will be delivered to the Sydney CBD in 2026.
- The overall CBD vacancy rate ended H1 2026 at 13.3%, a decline of -44 bps over the half. The Prime vacancy rate ended the period at 12.6% after declining by -55 bps over H1 2026.
- Rising face rental rates and tightening incentives have driven strong net effective rental rate growth over the last year. Prime net effective rents in the Western Corridor, Midtown, Walsh Bay, and Core precincts increased by 16.7%, 13.2%, 11.0%, and 10.3% over the last 12 months.
- Investment volumes reached AUD 1.9 billion in the Sydney CBD over H1 2026. Cap rates were held stable this quarter and demand for assets in the CBD remains strong.

FIGURE 1a: Sydney CBD Office | Vacancy Rate Summary

Indicator	Jul 2026	Jan 2026	Jul 2025	H-o-H Change	Y-o-Y Change
Vacancy Rate	**13.3%**	13.8%	13.7%	-44 bps	-37 bps

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

Indicator	2Q26	1Q26	2Q25	Q-o-Q Change	Y-o-Y Change
NFR	**AUD 1,623**	AUD 1,601	AUD 1,538	+1.3%	+5.5%
Incentives	**29.8%**	30. 6%	32.1%	-80 bps	-230 bps
NER	**AUD 1,054**	AUD 1,025	AUD 955	+2.8%	+10.3%
Yield	**5.8%**	5.8%	5.9%	Stable	-13 bps

Source: CBRE Research

Office Demand

Office leasing demand continues to mount in H1 2026

CBRE received 124 leasing enquiries totaling 134,365 sqm in the Sydney CBD in Q2 2026. This volume of enquiries represented growth of 7.3% compared to Q1 2026 and 21.1% compared to Q2 2025. The second quarter result continued the clear trend of mounting leasing demand observed since late 2024.

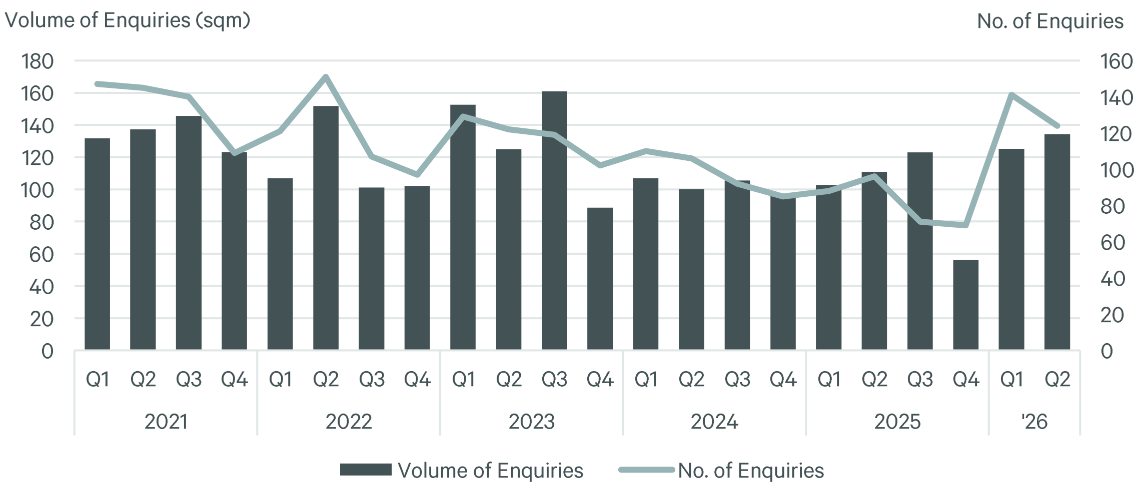
Leasing activity has also remained strong to start the year. Overall net absorption in the Sydney CBD totalled 18,715 sqm in H1 2026. This included Prime net absorption of 19,388 sqm and Secondary net absorption of -1,107 sqm.

Both the flight-to-quality and flight-to-value thematics were observed in net absorption data for H1 2026. Prime assets in the Core precinct continued to see elevated levels of leasing demand over the first half (flight-to-quality), while properties in the Western Corridor were also able to generate significant leasing interest over this time (flight-to-value). Overall net absorption in the Core and Western Corridor precincts totalled 13,491 sqm and 12,329 sqm in H1 2026. Leasing activity has continued to be centralized in these two precincts and in select properties in the Midtown precinct.

Activity outside of these areas has been more subdued. The Midtown, Southern, The Rocks, and Walsh Bay precincts recorded overall net absorption totals of -2,801 sqm, 961 sqm, -1,055 sqm, and -4,210 sqm over the first half.

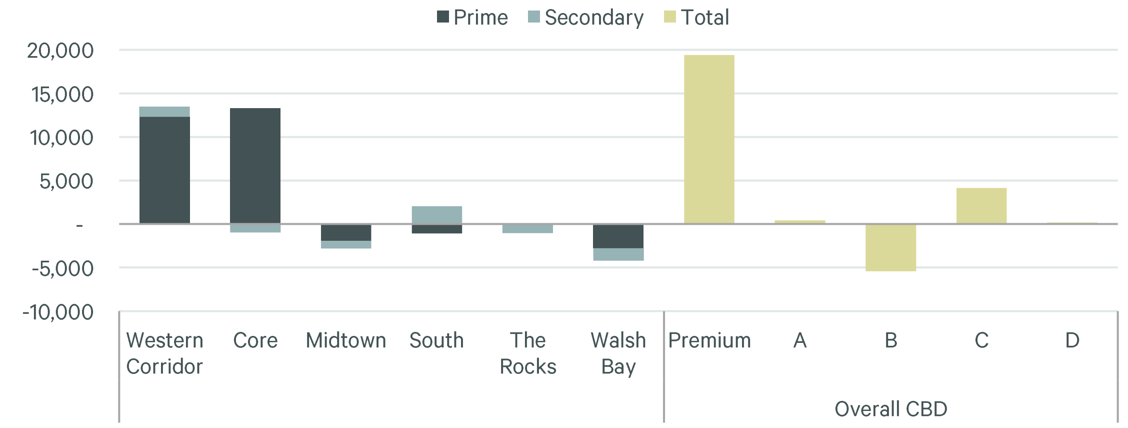
Given the improving economic landscape, the lack of new supply, and continued migration into the CBD from suburban office markets, it's expected that demand should continue to mount across the CBD over the next few years.

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



Source: CBRE Research, PCA

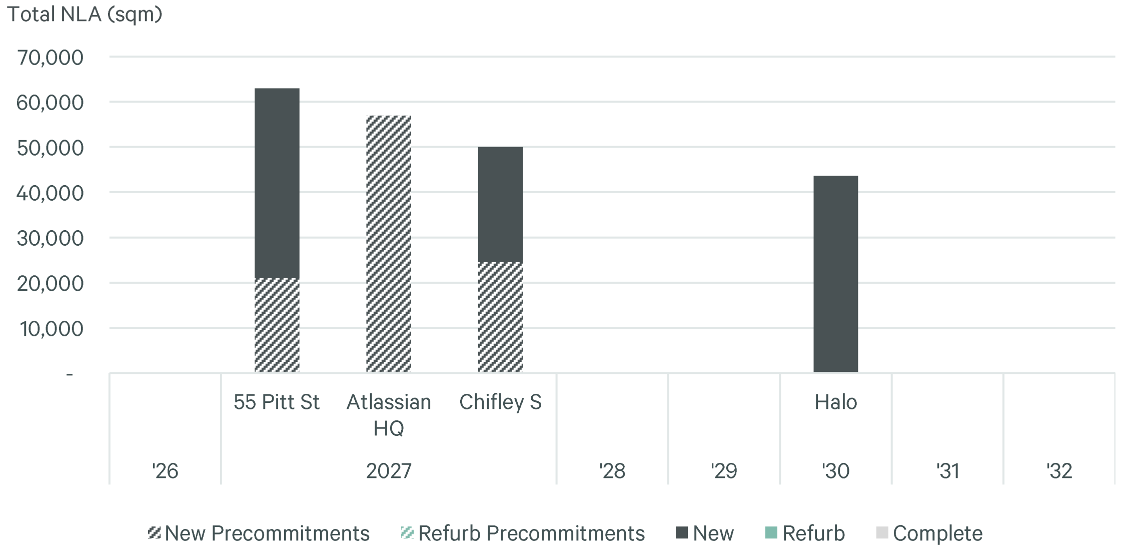
Supply

The Sydney CBD is now in a period of limited new supply

No new office space was delivered to the Sydney CBD in H1 2026 and office development is set to remain limited over much of the next seven years. The market will only see an average of 43,000 sqm of office space delivered per year from 2026 to 2030, with nearly all of this new supply coming in 2027. This is a significant decrease from the 126,000 sqm delivered per year from 2016 to 2025. Projects to be completed over the next five years include; 55 Pitt Street (63,000 sqm), Chifley Tower South (53,000 sqm), Halo (c.44,000 sqm) in the Core precinct and the new Atlassian HQ (57,000 sqm) in the Southern precinct adjacent to Central Station. Demand for space in the properties to be delivered in 2027 has been very strong and pre-leasing for these three developments is now over 60% collectively.

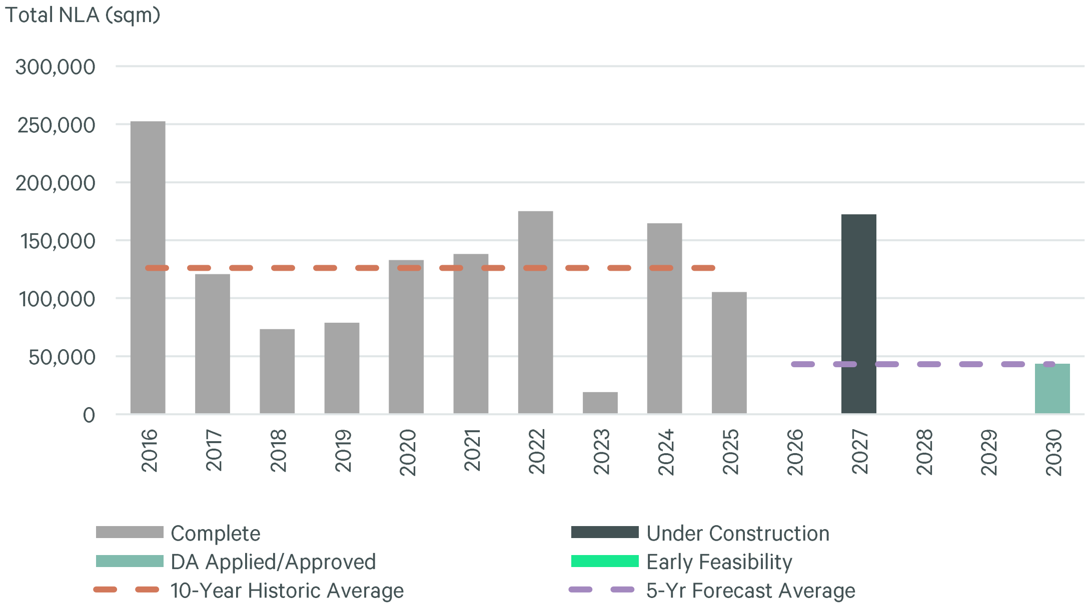
Beyond 2027, the supply outlook remains speculative due to challenging development conditions including elevated construction and financing costs. Cost pressures coupled with the uncertainty around long-term leasing pre-commitments have forced developers to reconsider the timing of new construction projects. Halo, the new development at Pitt Street and Hunter Street in the CBD Core, is now expected to be the only development delivered between 2027 and the next wave of supply which will potentially begin in 2033.

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

Sydney CBD vacancy rates are now on a downward trajectory

Vacancy rates in the Sydney CBD appear to have peaked and are now on a downward trajectory. Overall vacancy rates for the market ended the period at 13.3%. This marked a decline of -44 bps over the trailing six months.

Prime properties in the CBD once again had a strong half, recording positive net absorption of 19,822 sqm in H1 2026. This marked the fifth consecutive period of positive Prime net absorption for the Sydney CBD. The continued robust leasing activity tightened Prime vacancy rates to 12.6%, a decline of -55 bps over the six-month period. Secondary vacancy rates also declined this period despite posting negative net absorption. This was due to withdrawals across the Secondary basket. Secondary vacancy rates ended the half at 14.7%, declining by -21 bps over the first six months of the year.

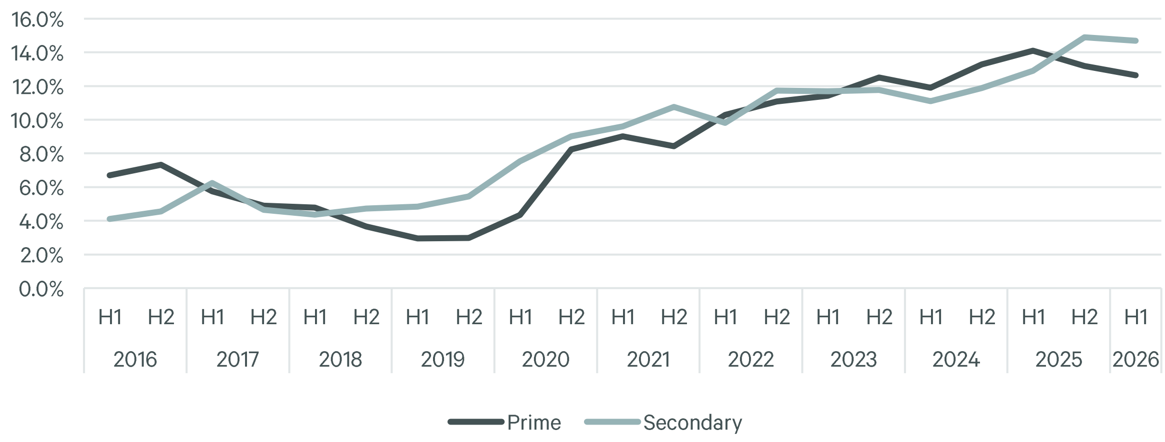
The strong leasing activity across both Core and non-Core areas resulted in vacancy rate tightening in many CBD precincts. Prime vacancy rates in the Core (9.5%), Walsh Bay (10.2%), Southern (13.0%), and Western Corridor (13.2%) precincts now all sit below 14.0%. Given the lack of new supply forecasted for completion over coming years, it's expected that vacancy rates in the Sydney CBD will continue to decline.

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	3,577,029 sqm	452,256 sqm	12.6% (-55 bps)	19,822 sqm
Secondary	1,802,362 sqm	264,728 sqm	14.7% (-21 bps)	-1,107 sqm
Total	5,379,391 sqm	716,984 sqm	13.3% (-44 bps)	18,715 sqm

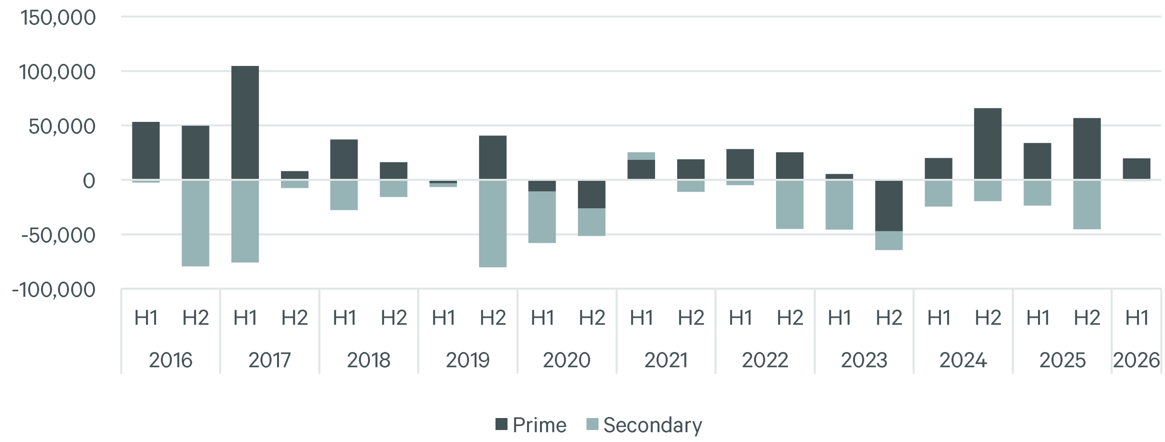
Source: PCA, CBRE Research

FIGURE 7: Sydney CBD Office | Vacancy Rates by Grade



Source: PCA, CBRE Research

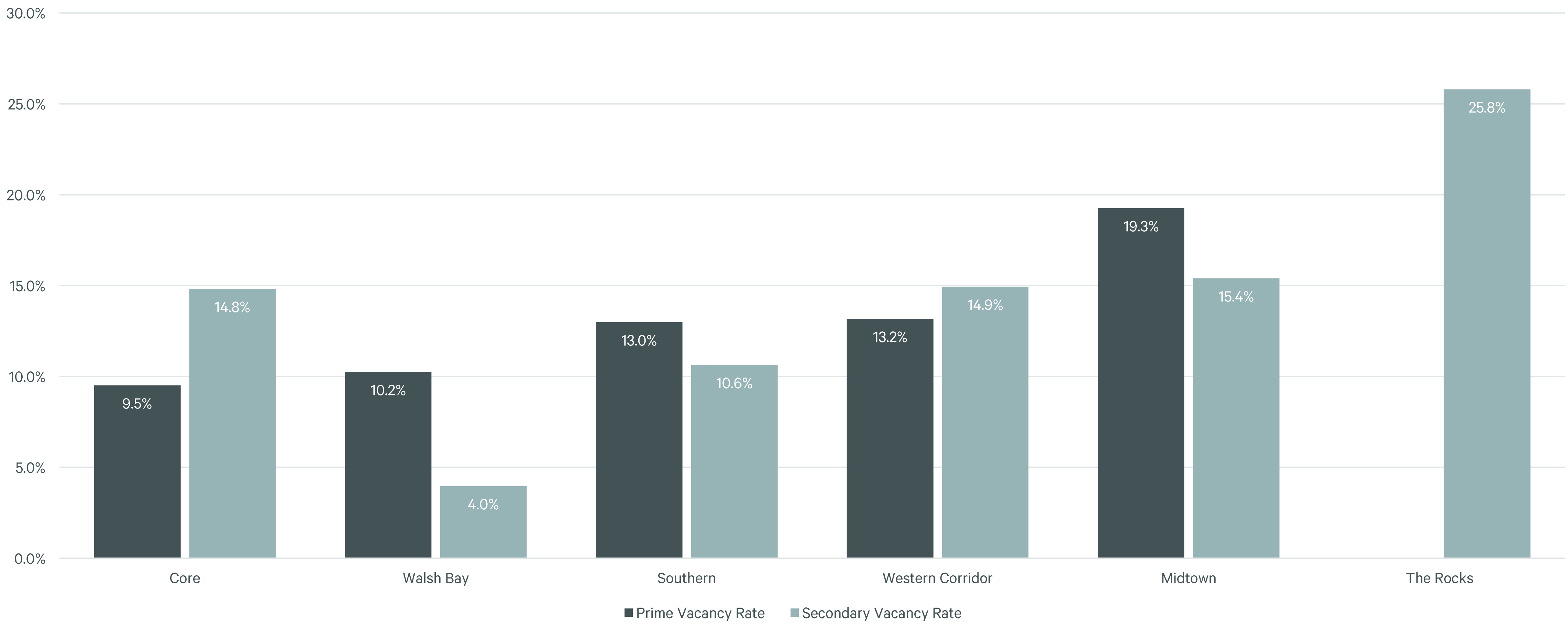
FIGURE 8: Sydney CBD Office | Net Absorption by Grade



Source: PCA, CBRE Research

Vacancy

Figure 9: Sydney CBD Office | Vacancy Rates by Precinct



Source: CBRE Research, PCA

Rental Rate & Incentives Trends

Rapidly declining incentives drive substantial net effective rental rate growth

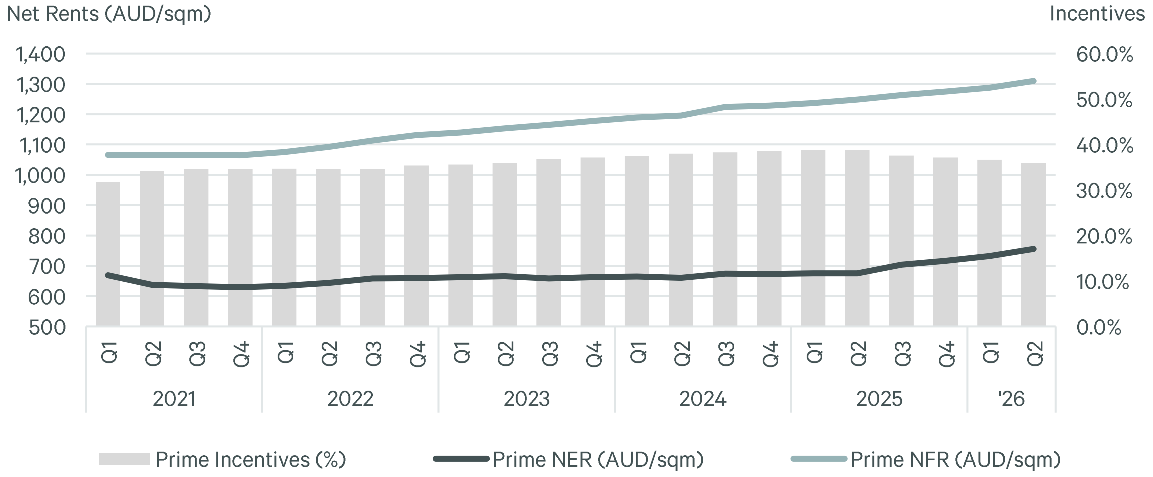
Strong leasing momentum across the Sydney CBD has continued to drive rent growth and incentive tightening across the market. The CBD all precinct average Prime net face rental rate figure ended Q2 2026 at 1,310 AUD/sqm, an increase of 1.7% quarter-over-quarter and 4.9% year-over-year. While the Core precinct has continued to perform well, improved leasing activity in non-Core precincts drove robust Prime rent growth in Q2 2026. The Midtown precinct recorded the largest face rental rate growth of any precinct in Q2 2026 at 3.3% quarter-over-quarter. Each of the other CBD precincts also recorded positive net face rental rate growth over the quarter.

Secondary rental rates were more stable over the period, with very minor changes being recorded across the market. The CBD all precinct average Secondary face rental rate figure increased by 0.5% quarter-over-quarter. While rent growth in Secondary assets has not been as strong as those recorded in Prime assets, the Secondary market is beginning to follow a similar trajectory which was seen in Prime markets over the last two years. Demand for Secondary space in the Core precinct has increased over recent periods, and these assets recorded strong net face rental rate growth in Q2 2026.

Tightening vacancy rates across the CBD led to a continuation of incentive compression over the first half of 2026. The CBD average Prime and Secondary incentive figures ended the period at 35.9% and 38.2%, respectively, with the former tightening by -295 bps year-over-year. The tightening of Prime incentives has been widespread with the Core, Midtown, Western Corridor, and Walsh Bay precincts recording declines of -230 bps, -308 bps, -542 bps, and -204 bps, respectively, over the last year.

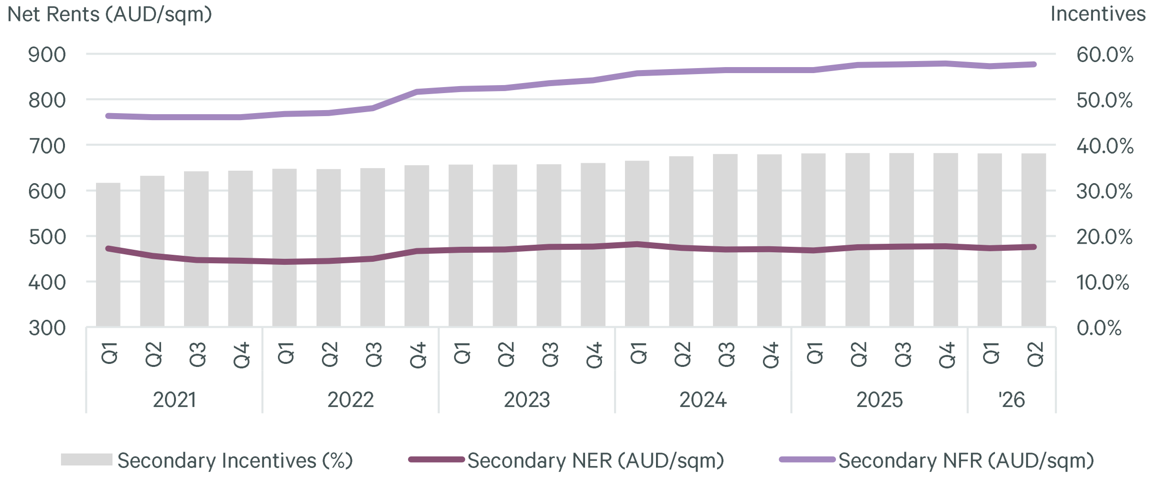
Rising face rental rates and large declines in incentives have driven substantial net effective rental rate growth over the last year. Prime net effective rents in the Western Corridor, Midtown, Walsh Bay, and Core precincts increased by 16.7%, 13.2%, 11.0%, and 10.3% over the last 12 months.

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



Source: CBRE Research

FIGURE 11: Sydney CBD Office | All Precinct Average Secondary Net Face Rents, Net Effective Rents, and Incentives



Source: CBRE Research

Rental Rate & Incentives Snapshot

Figure 12: Sydney CBD Office | Rental Rates and Incentives by Precinct

PRIME	CORE	MIDTOWN	SOUTH	WESTERN CORRIDOR	WALSH BAY	THE ROCKS
Gross Rental Rate (AUD/sqm)	**$1,908**	**$1,482**	**$1,093**	**$1,378**	**$1,647**	**$1,067**
% QoQ	1.4%	3.7%	0.8%	1.0%	1.8%	2.4%
% YoY	5.2%	6.1%	2.3%	2.6%	4.4%	4.1%
Net Face Rental Rate (AUD/sqm)	**$1,623**	**$1,268**	**$929**	**$1,169**	**$1,388**	**$888**
% QoQ	1.3%	3.3%	0.9%	0.6%	1.6%	2.6%
% YoY	5.5%	6.1%	2.8%	2.5%	5.4%	4.1%
Incentives	**29.8%**	**36.3%**	**41.7%**	**40.8%**	**36.1%**	**35.7%**
QoQ Change (bps)	-80	-117	Stable	-250	100	Stable
YoY Change (bps)	-230	-308	Stable	-542	-204	Stable
Net Effective Rental Rate (AUD/sqm)	**$1,054**	**$730**	**$474**	**$606**	**$793**	**$508**
% QoQ	2.8%	5.5%	1.0%	6.3%	-0.6%	2.8%
% YoY	10.3%	13.2%	3.2%	16.7%	11.0%	4.1%

SECONDARY	CORE	MIDTOWN	SOUTH	WESTERN CORRIDOR	WALSH BAY	THE ROCKS
Gross Rental Rate (AUD/sqm)	**$1,322**	**$1,052**	**$1,003**	**$1,052**	**$1,058**	**$994**
% QoQ	2.7%	0.5%	0.2%	-0.1%	Stable	1.9%
% YoY	5.8%	0.7%	0.2%	0.2%	-7.5%	1.9%
Net Face Rental Rate (AUD/sqm)	**$1,108**	**$890**	**$842**	**$861**	**$899**	**$853**
% QoQ	3.0%	0.6%	Stable	Stable	Stable	1.9%
% YoY	5.0%	0.8%	Stable	0.3%	-8.7%	4.0%
Incentives	**36.7%**	**39.7%**	**38.8%**	**38.6%**	**39.3%**	**35.5%**
QoQ Change (bps)	Stable	Stable	Stable	Stable	Stable	Stable
YoY Change (bps)	Stable	Stable	Stable	Stable	-17	Stable
Net Effective Rental Rate (AUD/sqm)	**$622**	**$472**	**$453**	**$455**	**$483**	**$500**
% QoQ	3.2%	0.7%	-0.1%	0.1%	Stable	1.8%
% YoY	4.4%	0.9%	-0.1%	0.5%	-9.4%	5.5%

Source: CBRE Research

Investment Market

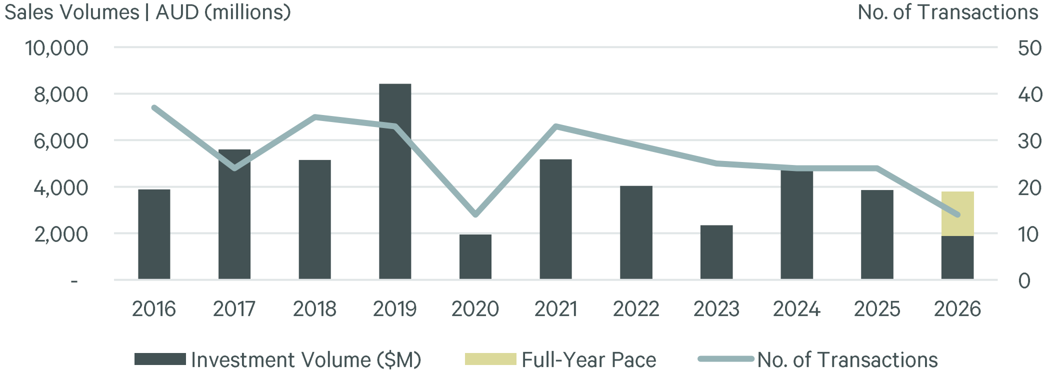
Investment activity over the first half outpaces H1 2025

Office investment volumes in the Sydney CBD started 2026 at a steady pace. First half investment volumes totalled AUD 1.9 billion. This total was 37.4% higher than the same period in 2025. Should this pace continue over the second half of the year, investment totals would match those recorded last year.

While optimism had been mounting that investment activity would continue to accelerate in 2026, the ongoing global conflicts, persistently elevated cash rates, and unpredictable bond yields have quelled transactions flows slightly. Despite these headwinds, cap rates held stable across the CBD once again in Q2 2026. Indicative yields across the Sydney CBD now range from between 5.75% for Prime assets in the Core precinct to 8.18% for Secondary assets in The Rocks.

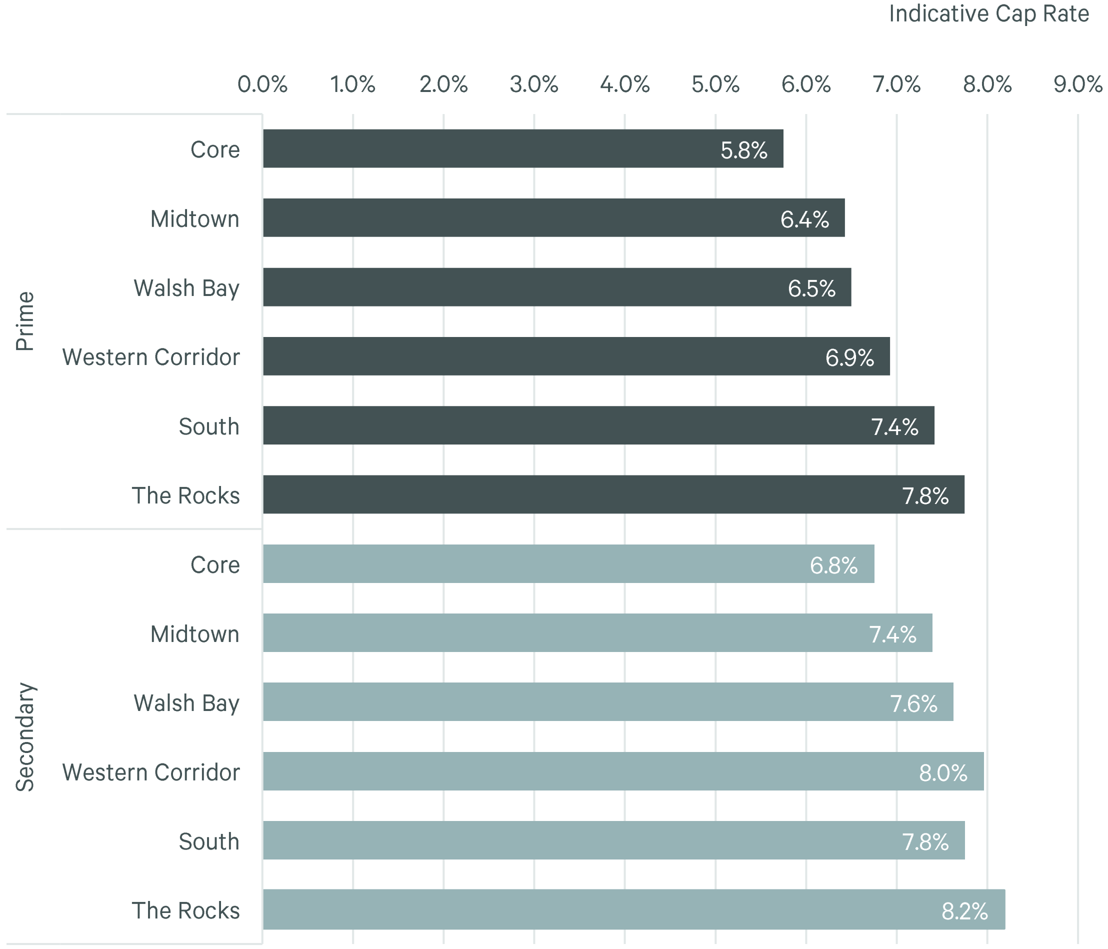
While the recent increases to 10-year government bond yields had been causing volatility in cap rate forecasts, it looks as though CBD yields will be able to traverse this most recent cycle unchanged. We now predict Sydney CBD office yields should remain near current levels over the near term, dependent on additional bond yield movements.

FIGURE 13: Sydney CBD Office | Sales Activity



Source: CBRE Research

FIGURE 14: Sydney CBD Office | Cap Rates, by Precinct and Grade



Source: CBRE Research

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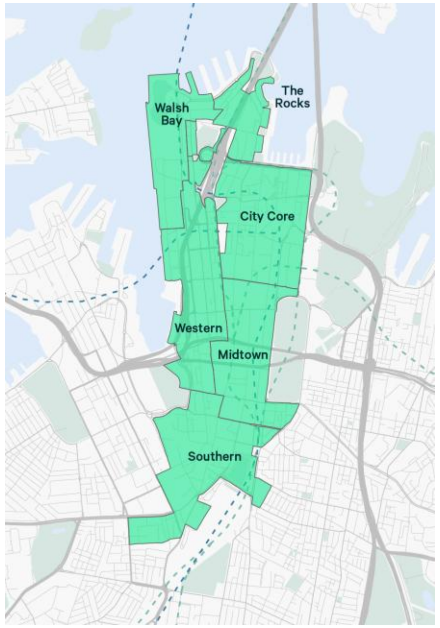
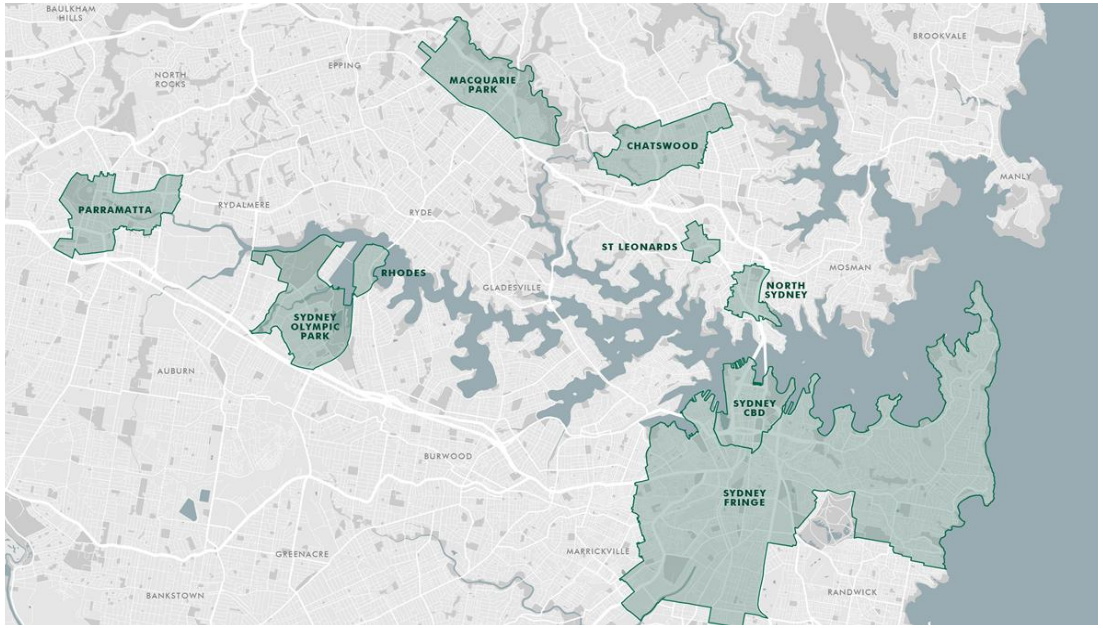
Office Submarket & Precinct Maps

Sydney CBD



Sydney Metro



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