Australian Office – September 2025

SPOTLIGHT
Savills Research

Office Briefing

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Rate cuts boosting outlook ● Investors focus on Sydney ● Demand for office space strengthens

Turning a corner

Expectations of stronger growth and lower interest rates fuel optimism around the office market outlook

Rate cuts pile up

The RBA has delivered its third rate cut of the cycle, reducing the cash rate by 25 basis points (bps) to 3.60% at its August meeting.

Further easing is expected this year and next. Financial markets are pricing in a cash rate just below 3% by the end of 2026, implying scope for multiple additional rate cuts over this period. If realised, these reductions would take cumulative easing in the cycle to around 125bps.

Lower bond yields point to easier financial conditions

Reflecting a slower growth outlook in the US and expectations of further rate cuts from the US Federal Reserve, bond yields have declined in recent months. US 10-year government bond yields have declined by c.45bps since their January 2025 peak, while the Australian equivalent is c.40bps lower over the same period.

Shorter maturities have recorded larger falls, with Australian and US 3-year bond yields both declining by around 75bps. These moves point to looser funding conditions for leveraged investors.

Sweet spot: Stronger growth and moderating inflation

Despite the outlook for slower global growth, the Australian economy is expected to accelerate in this year and in 2026.

The stronger growth outlook for Australia reflects a recovery in consumer spending as household disposable incomes rise amid tight labour market conditions supporting wage growth, tax cuts, and moderating inflation.

Demand for office space comes up against limited supply pipeline

Improving economic conditions are supporting demand for office space. Net absorption rose over the first half of 2025 reflecting solid employment growth and greater momentum in return to the office.

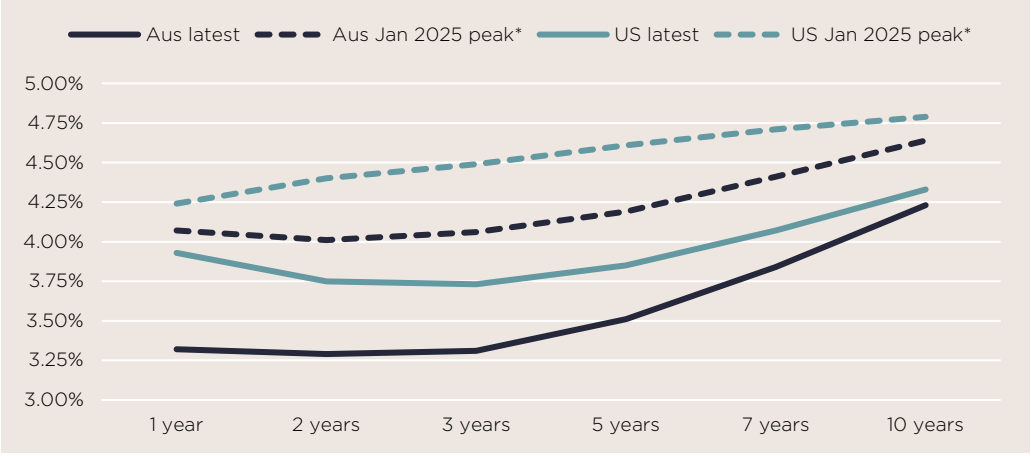
Although demand is still heavily weighted toward Premium Grade space, limited Premium space options are beginning to drive a broadening in tenant demand.

Landlords are increasing face rents to cover rising fit out costs while lower Premium Grade vacancy is putting downward pressure on incentives for high quality assets.

The office market outlook is positive, with tenant demand supported by solid employment growth and rising occupancy, while a thin supply pipeline will limit further increases in vacancy.

Financial markets pricing in lower interest rates across the yield curve

Australian and US government bond yields by maturity, %



* Peak in US 10-year government bond yield

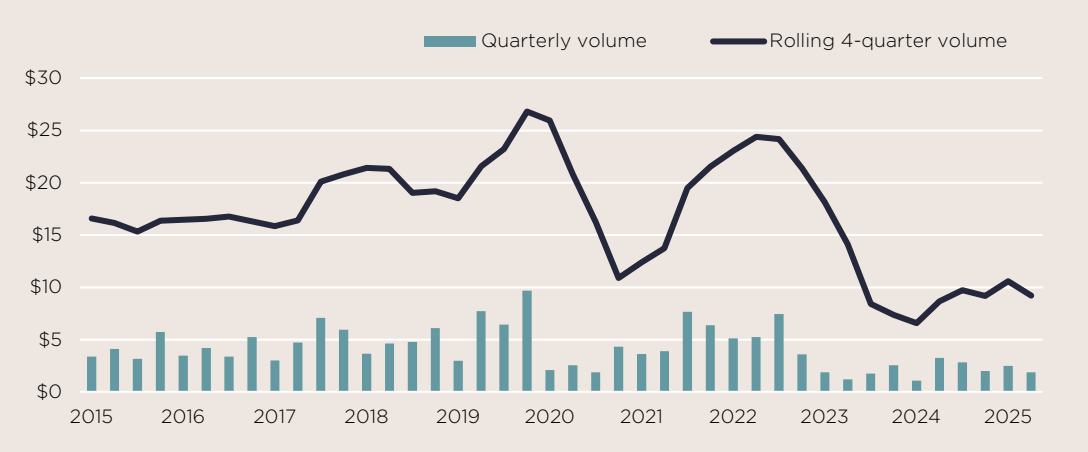
Source Savills Research using Macrobond (pricing as at 18 August 2025)

Chris Naughtin
National Director
Capital Markets Research
chris.naughtin@savills.com.au

Slow start to 2025

Outlook for investment activity remains upbeat as interest rate cuts and stabilising asset values boost investor sentiment

Office investment down 20% in Q2 compared to Q1
Quarterly investment volume ($10m+), $bn



Source Savills Research using MSCI

Sydney CBD office attracting investor interest

Investors target gateway cities amid focus on scale and liquidity

Deal activity slows but still well above early 2024 lows

Total office investment volume (for completed deals $10m+) reached c.$2.0 billion in Q2 2025, down 20% on Q1 and 39% lower than Q2 2024 when several large deals transacted at the end of the financial year.

Deal activity continues to be subdued by historical standards, with H1 2025 volumes 38% lower than the 10-year first half-year average.

However, deal activity is picking up from 2024 lows. In four quarter rolling terms, transaction volumes improved, reaching $9.3 billion in over the 12 months to June 2025, up 8% compared to the same period the year prior.

Sydney centric

Sydney remains the focal point for investors, with the city accounting for 70% of office acquisitions nationally YTD, up from a 10-year average of 49%, while Sydney CBD made up 85% of total CBD transaction volume over the same period.

While slowing in Q2, investment activity in Sydney rose by 27% in H1 2025 compared with the previous half-year and was 11% higher than H1 2024.

Cross-border investors step up activity

Offshore investors are deploying more capital, with cross-border investment volumes in H1 2025 increasing by 18% compared to H1 2024, and nearly double H2 2024 levels.

APAC investors, and in particular Japanese capital, have been active recently, with several large Sydney CBD deals including Daibiru's acquisition of 135 King Street from Investa for c.$600 million and Odakyu's purchase of a 10% stake in 180 George Street for an estimated $200 million.

Capital values stabilising amid shift to lower interest rates

Office asset values are reaching a cyclical bottom. According to the PCA/MSCI Annual Property Index, average office capital values fell by just 0.1% in Q2 to be 3.3% lower over the year.

This is the smallest annual decline in capital values since Q1 2023, up from a low point of -13.4% over the year to Q2 2024.

Nationally, office capital values are down 24% from their Q4 2022 peak. Sydney, Melbourne, and Canberra recorded the largest falls in capital values over this period, ranging from 24% to 30%, while Brisbane and Perth recorded declines of 16% and 18%, respectively.

c.AU$2.0 billion
transacted in Q2

-20%
Change in investment volume Q2 vs Q1

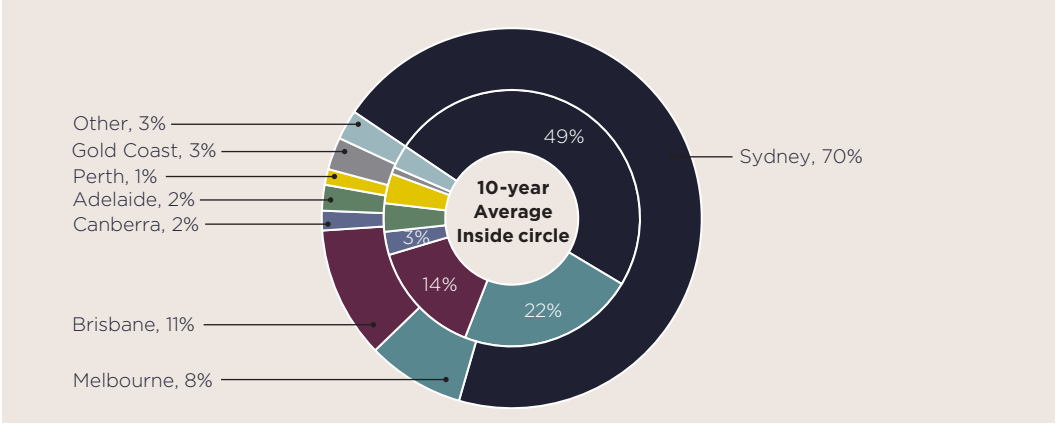
70%
Sydney's share of investment volume YTD

-3.3%
Office capital value growth, year to Q2 2025

Source Savills Research using MSCI

Sydney driving investment activity

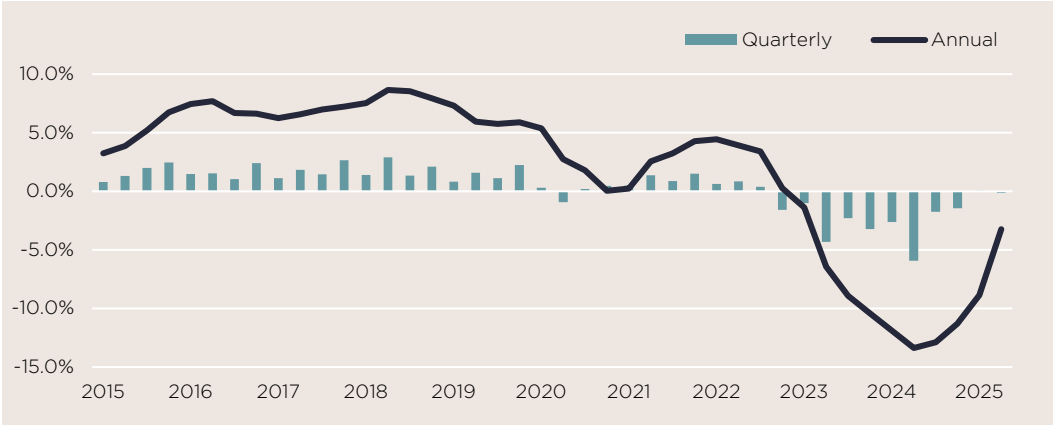
Share of office acquisitions by major market (deals $10m+), %



Source Savills Research using MSCI

Office asset values have stabilised

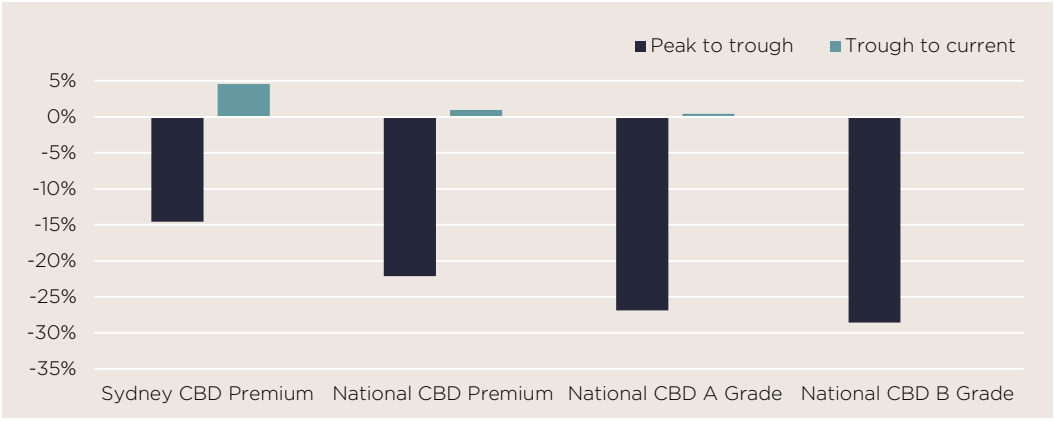
National office capital value growth, % change Q/Q and Y/Y



Source Savills Research using The Property Council of Australia/MSCI Australia Annual Property Index

Premium CBD office capital values rebounding led by Sydney

Per cent change in capital values, peak to trough and trough to current



Source Savills Research using The Property Council of Australia/MSCI Australia Annual Property Index

HIGHLIGHTS

Total returns for office assets turns positive

Office asset performance is turning a corner. With capital values stabilising, office assets are posting positive average total returns.

Average total return increased by more than 1% in both Q1 and Q2 2025, the first positive readings since Q1 2023. Over the year to Q2, average total return increased by 2.0%, up from -9.4% a year ago.

Sydney Premium assets leading capital value rebound

Reflecting the concentration of tenant and investor demand in high quality office assets, Premium office capital values are recovering more quickly.

Nationally, capital values for Premium Grade CBD office assets have risen 1.0% from their recent trough according to MSCI, compared to a 0.4% gain for A Grade assets. Meanwhile, average capital values for Secondary Grade assets are at their lowest level in the cycle.

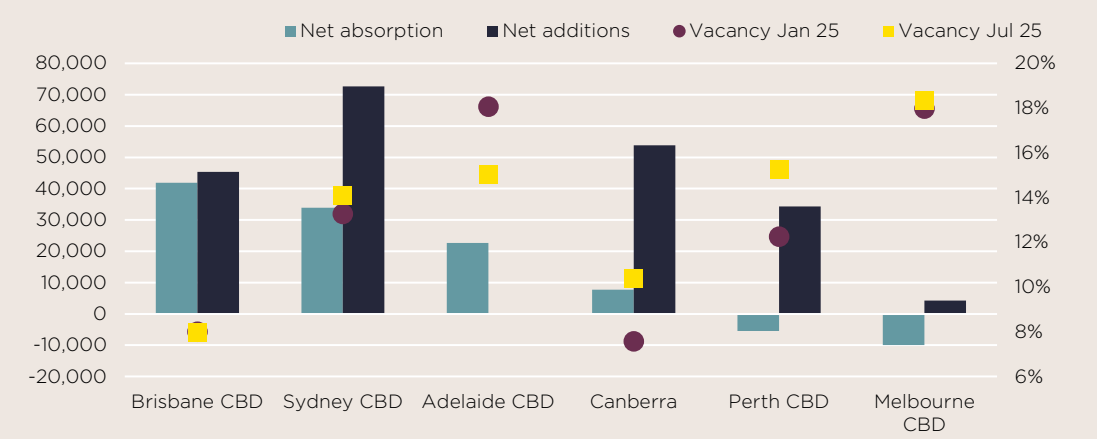
Sydney CBD Premium assets stand out, with capital values 4.6% higher than their trough in Q2 2024. The stronger rebound comes despite the lower peak to trough fall in average capital values for Sydney CBD Premium Grade assets at -15%, compared with the national CBD equivalent of -22%.

Road to recovery

Take up of Prime space rises but increase in supply leads to higher vacancy

Stronger Prime office take up

Prime net demand and net supply, six months to July 2025 (sqm), vacancy rate (%, RHS)



Source Savills Research using The Property Council of Australia Office Market Report

Positive net take-up in Brisbane, Sydney, Adelaide, and Canberra

Increase in supply leads to higher vacancy as Adelaide bucks the trend

Demand for office space strengthens

Total net absorption across the Australian CBD markets rose by c.63,700sqm over the six months to July 2025, the strongest result since July 2022.

Demand for space remains heavily weighted towards high quality stock, with take-up of Premium Grade space rising by c.86,300sqm, compared with a c.4,500sqm increase for A Grade, and a further decline in Secondary market net absorption.

Adelaide and Brisbane stand out

Most major CBD markets recorded positive net absorption over the six months to July. In the Prime market, Brisbane and Adelaide recorded net absorption of c.41,900sqm and 22,700sqm respectively, around 3% of Prime office stock in both cities.

In Sydney, demand for Premium space remains strong, with net absorption rising by c.44,800sqm, while net take-up of A Grade space fell by c.11,000sqm.

Both Melbourne and Perth recorded negative net absorption in the Prime market, with stronger demand for Premium space offset by declines in A Grade take-up.

Supply outpaces demand

Around 210,300sqm of Prime office space was added across the Australian CBD markets over the six months to July.

Sydney accounted for 35% of the total, with the completion of 121 Castlereagh Street, and redevelopments at 33 Alfred Street and 1 Shelley Street.

In Brisbane, 205 North Quay reached completion, adding c.45,400sqm of space. In Perth, 9 The Esplanade came online, adding c.33,600sqm of space.

Vacancy rises but Adelaide and Brisbane buck the trend

The Prime office vacancy rate across Australia's CBD office markets rose slightly from 13.4% to 14.1%.

Prime office vacancy rose in Sydney, Melbourne, Perth, and Canberra, while vacancy in Brisbane remained unchanged at 8.0%, the lowest of the major CBD markets.

Higher A Grade vacancy drove the increase, with the A Grade vacancy rate rising from 13.9% to 15.2%, while Premium vacancy declined by 0.8 percentage points to 11.5%.

Adelaide was the only CBD market to record a material fall in Prime vacancy, with stronger net absorption and no net supply additions leading a 3-percentage point decline in the Prime vacancy rate to 15.1%.

+86,300sqm
Increase in Premium Grade net absorption across CBD markets, six months to July 2025

+4,500sqm
Increase in A Grade net absorption across CBD markets, six months to July 2025

-27,100sqm
Decrease in Secondary market net absorption across CBD markets, six months to July 2025

+210,300sqm
Increase in Prime net supply across CBD markets, six months to July 2025

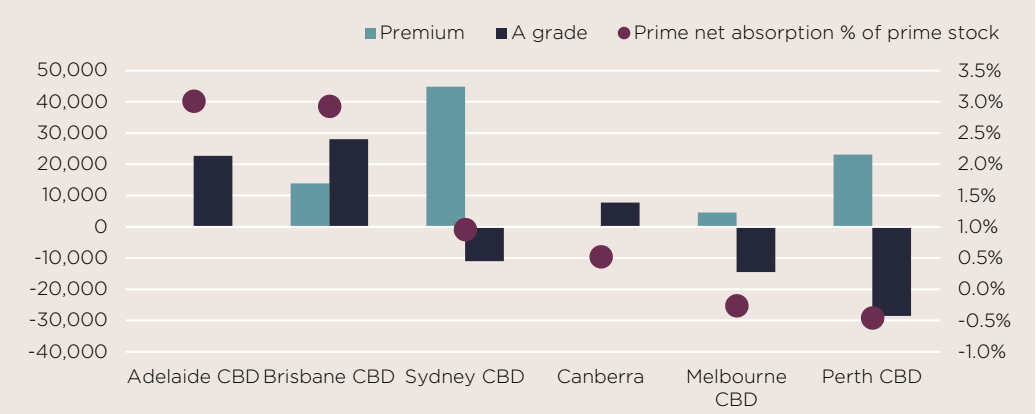
14.1%
National CBD Prime vacancy rate, July 2025

20.7%
Growth in Brisbane CBD Prime net effective rents, year to June 2025

Source Savills Research using The Property Council of Australia

Stronger Prime take up led by demand for Premium space

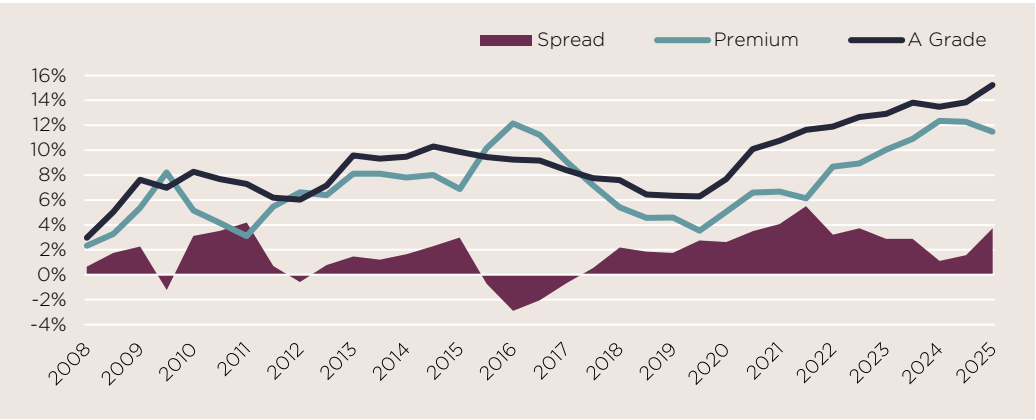
Net absorption, six-months to July 2025 (sqm), (% of Prime office stock, RHS)



Source Savills Research using The Property Council of Australia Office Market Report

Mind the gap: Premium and A Grade vacancy continue to diverge

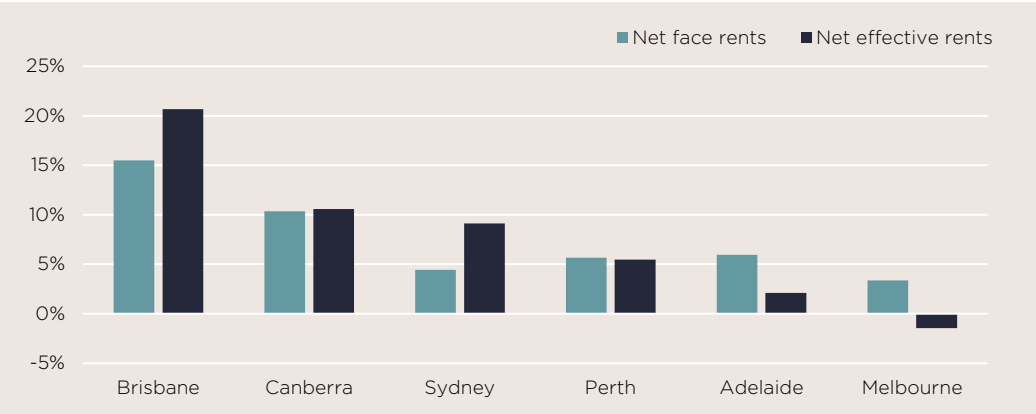
National CBD Premium Grade vacancy rate spread to A Grade, %



Source Savills Research using The Property Council of Australia Office Market Report

Increasing fit out costs and lower incentives drive rents higher

Prime CBD net face and effective rents, % change Y/Y



Source Savills Research

HIGHLIGHTS

Spread between Premium and A Grade vacancy continues to widen

Demand for Premium space and fewer supply additions compared to the A Grade segment is leading to a growing divergence between Premium and A Grade vacancy.

Nationally, the A Grade CBD office vacancy rate currently sits at 15.2%, 3.7 percentage points above the Premium Grade equivalent of 11.5%, the highest spread since January 2022.

Sydney and Perth have particularly large spreads between Premium and A Grade vacancy at 7.7 and 7.6 percentage points, respectively. In Brisbane, Premium vacancy fell to 3.8%, while A grade vacancy increased to 9.6%

Rental growth accelerating

All the major CBD markets recorded face rental growth over the past year. This partly reflects landlords increasing face rents to cover rising fit out costs. Prime net face rents grew by between 3.5% to 15.5% over the year to June across the major CBD markets.

Reflecting its relatively tight office market, Brisbane was the standout performer in terms of rental growth. On the other end of the spectrum, Melbourne is seeing growth in average face rents at the Premium end of the market, although incentives remain high.

Lower incentives, particularly in Brisbane and Sydney, have fuelled further rental growth on an effective basis, with Prime CBD net effective rents rising by around 20% and 10% respectively over the year to June.

Savills Research
For more information about this report, please contact us

Research & Consultancy

Chris Naughtin
National Director
+61 2 8215 8832
chris.naughtin@savills.com.au

Barbara Cocca
Research Analyst
+61 2 8215 6078
barbara.cocca@savills.com.au

Katy Dean
National Head of Research
+61 2 8215 6079
kadean@savills.com.au

Capital Transactions & Advisory

Ben Schubert
National Head
+61 403 195 424
ben.schubert@savills.com.au

Ben Azar
National Director
+61 416 282 292
bazar@savills.com.au

Global Cross Border Investment

Adrian Bokolis
Director, Cross Border
+61 413 528 090
abokolis@savills.com.au

Office Leasing

Tom Mott
National Head
+61 400 259 922
tmott@savills.com.au

Valuation & Advisory

Joe Phegan
National Head
+61 416 250 279
jphegan@savills.com.au

Mark Cassidy
National Director
+61 466 576 180
mark.cassidy@savills.com.au

Occupier Services

Mark Smith
National Head
+61 412 181 005
mesmith@savills.com.au