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SPOTLIGHT

OFFICE BRIEFING

OFFICE – AUSTRALIA – NOVEMBER 2026

RESEARCH

Investment activity rebounds

Institutional capital drove a sharp rebound in investment activity in Q3, with capital following the strongest occupier fundamentals.





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Volume almost doubles in Q3
National office investment volume (deals $10m+) reached about $4.0 billion in Q3 2026, almost double Q2 levels, while rolling 12-month volume increased to $14.0 billion, 63% higher Y/Y.

Unlisted institutional investors drove the rebound, accounting for 61% of Q3 volume, while domestic buyers represented 65%.

Capital gravitates towards stronger fundamentals
Four Brisbane CBD transactions totalled $1.68 billion in Q3, accounting for 42% of national volume, with Brisbane CBD and fringe combined accounting for nearly half of total activity. Brisbane has the tightest Prime vacancy and the strongest rental growth of the major CBD markets.

The largest deal of the quarter was Barings' $700 million acquisition of 480 Queen Street from Dexus, followed by the $445 million sale of 123 Albert Street to Investa, Cliffbrook and BGO, and GPT's $380 million purchase of 66 Eagle Street.

Sydney remains a focus for global capital
Sydney CBD recorded $946 million of sales, led by GIC's $450 million acquisition of 1 Market Street from Investa. Other notable Sydney CBD deals included Dexus' sale of 30–34 Hickson Road (30 The Bond) and the adjacent 36 Hickson Road, and Aware Real Estate's $226 million acquisition of a 50% interest in 100 Market Street from Link REIT.

Offshore capital targets core assets
Offshore buyers accounted for 35% of investment activity in Q3, with investment concentrated in the largest deals: Barings at 480 Queen Street, GIC at 1 Market Street and PAG's $159 million acquisition of a 95% interest in 100 Creek Street in Brisbane.

Listed groups recycle capital
Listed groups were net sellers in Q3, accounting for 53% of volume as vendors but less than 10% as buyers. Dexus-related sales totalled about $1.56 billion, nearly 40% of Q3 deal activity.

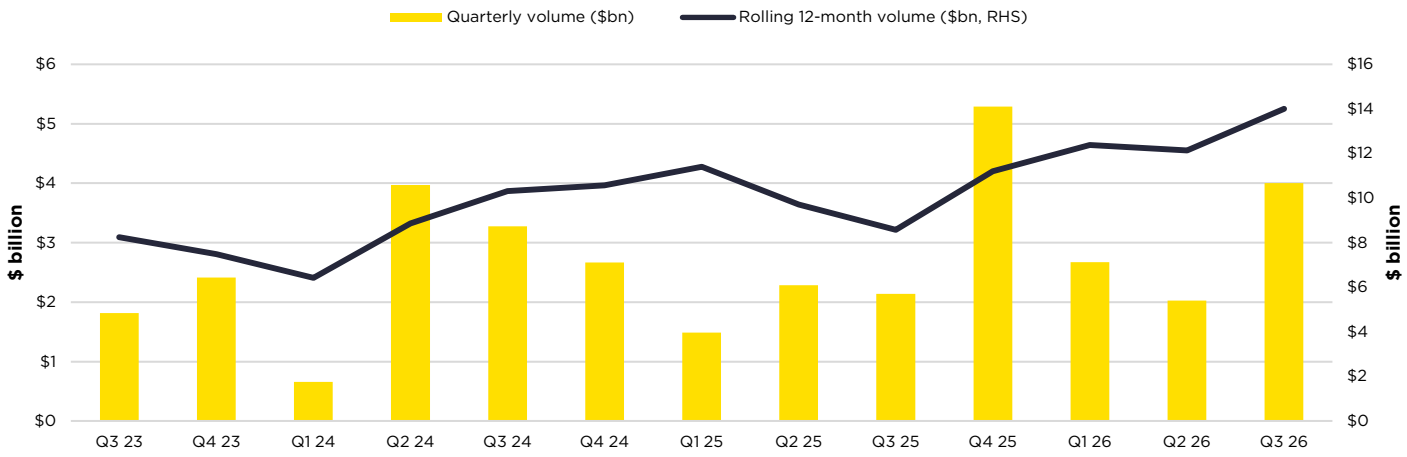
KEY TAKEAWAYS

01
Q3 investment volume almost doubled to $4.0 billion, led by institutional capital and a surge in Brisbane transactions.

02
Premium office continues to outperform, with CBD vacancy falling to 10.2%, even as A Grade and Secondary vacancy increased.

03
Higher bond yields limit the scope for yield compression, increasing the importance of income growth to investment returns.

OFFICE INVESTMENT VOLUME ALMOST DOUBLED IN Q3 (DEALS $10M+, $BN)



Source: Savills Research, MSCI Real Capital Analytics



Prime demand holds as new supply dwindles

Take-up remains concentrated in Prime office and new supply is drying up, with falling Premium vacancy pointing to tighter conditions for high-quality space.

Demand skewed towards Prime

Take-up of office space remained positive but heavily skewed towards Prime. National CBD net absorption totalled 30,000sqm over the six months to July 2026 (101,500sqm Y/Y), the fifth consecutive positive six-month result.

The Prime segment drove the result, with A Grade net absorption of 63,900sqm (177,000sqm Y/Y) and Premium absorption of 16,500sqm (61,200sqm Y/Y). Demand for Secondary space weakened further, with net absorption falling by 50,400sqm (-136,700sqm Y/Y).

Canberra weighed on the national result, with net absorption of -72,600sqm. Excluding Canberra, CBD net take-up was 102,600sqm, led by Brisbane (38,800sqm), Perth (27,500sqm), Melbourne (26,800sqm) and Sydney (18,700sqm).

In Sydney, take-up was concentrated in Premium space (19,400sqm). In Melbourne, A Grade absorption of 53,500sqm was partly offset by a 15,000sqm decline in Premium, reflecting stock withdrawals rather than weaker demand.

Premium continues to diverge from the broader market

The gap between the highest-quality office space and the broader market continues to widen. Total CBD vacancy edged up to 14.9% in July, its highest since the mid-1990s, while Premium vacancy fell by 1.1 ppts to 10.2%, its lowest since July 2023.

> Falling Premium vacancy and a thinning supply pipeline point to tightening conditions for high-quality office.
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By contrast, A Grade vacancy increased by 0.4 ppts to 15.9%, while Secondary vacancy rose by 0.5 ppts to 16.2%. Premium vacancy fell in Brisbane (6.5%), Sydney (7.7%), Melbourne (15.0%) and Perth (10.2%), highlighting tightening availability at the top end.

Brisbane remains the tightest major CBD market overall, with total vacancy down 1.6 ppts to 10.2% and Prime vacancy 2.2 ppts lower at 7.7%. Total vacancy also fell in Perth to 15.4% and Sydney to 13.3%, while Melbourne was broadly steady at 18.9%. Canberra moved in the opposite direction, with total vacancy rising 4.4 ppts to 14.7%.

New supply slows as pipeline remains thin

Net additions to CBD office stock fell to 70,200sqm over the six months to July (264,600sqm Y/Y), the lowest since mid-2024. Sydney, Brisbane and Perth recorded no new completions. Canberra added 52,900sqm of A Grade space, which, together with weaker demand, lifted vacancy to its highest level since 2015. Melbourne added 76,400sqm of A Grade space, partly offset by 46,600sqm of withdrawals. Demand remains concentrated in Prime office, but tightening Premium vacancy shows the recovery is becoming increasingly differentiated even within the Prime market.

Brisbane leads rental growth as Melbourne Premium rents reset higher

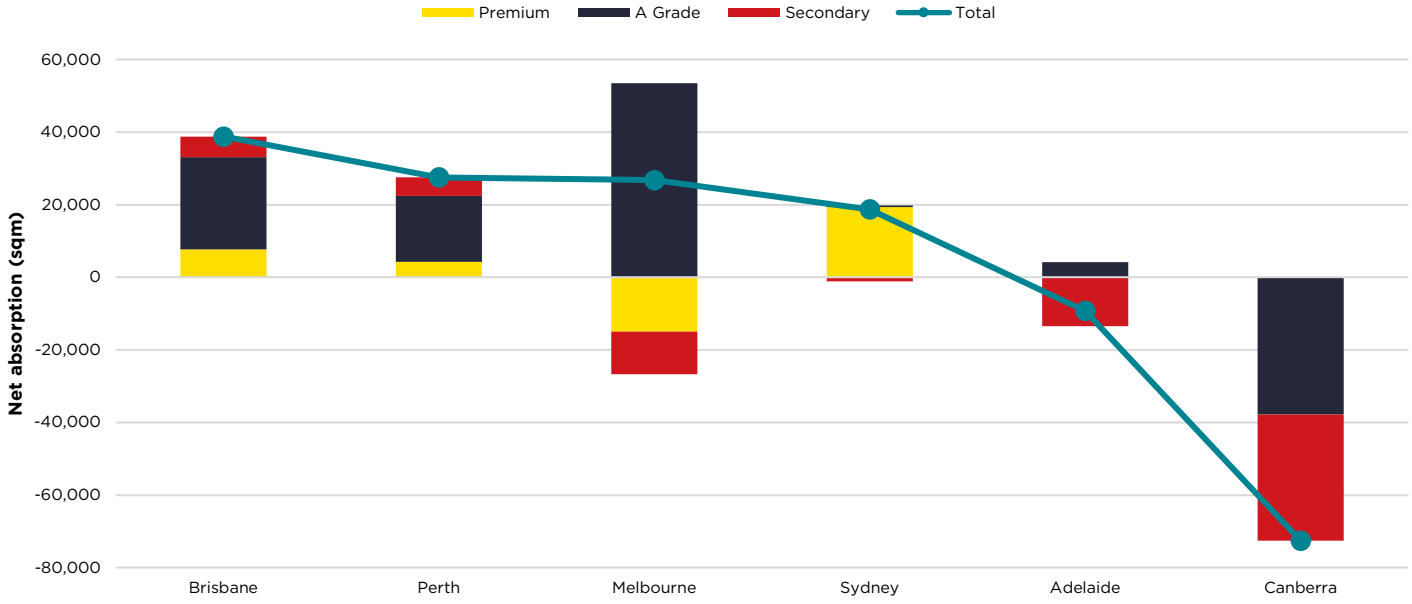
Sustained demand for, and tightening availability of, high-quality office space continue to drive Prime rental growth. In Brisbane, Prime CBD net effective rental growth slowed to 0.5% in Q3, but annual growth remains elevated at 22.4%. Growth was driven by face rents, with average Prime incentives unchanged at 37.5%.

Melbourne CBD Prime net effective rents rose 3.7% in Q3 to be 8.5% higher Y/Y and 16.5% above the Q1 2025 trough, reflecting a clear re-rating of rents for best-in-class assets. Growth was led by Premium (+6.8% Q/Q, +13.3% Y/Y), while A Grade effective rents fell 1.7% Q/Q but remained 0.5% higher Y/Y. Face rents drove the increase in Premium effective rents, while average Prime incentives rose 1.25 ppts to 46.25%, driven by A Grade.

In Sydney CBD, Prime net effective rents were flat in Q3 but 3.5% higher Y/Y and 25% above the Q3 2021 trough, with incentives easing to 34.5% over the year. Rents in Perth (+2.5% Y/Y), Canberra Civic (+2.3% Y/Y), and Adelaide (+1.1% Y/Y) were unchanged over the quarter.

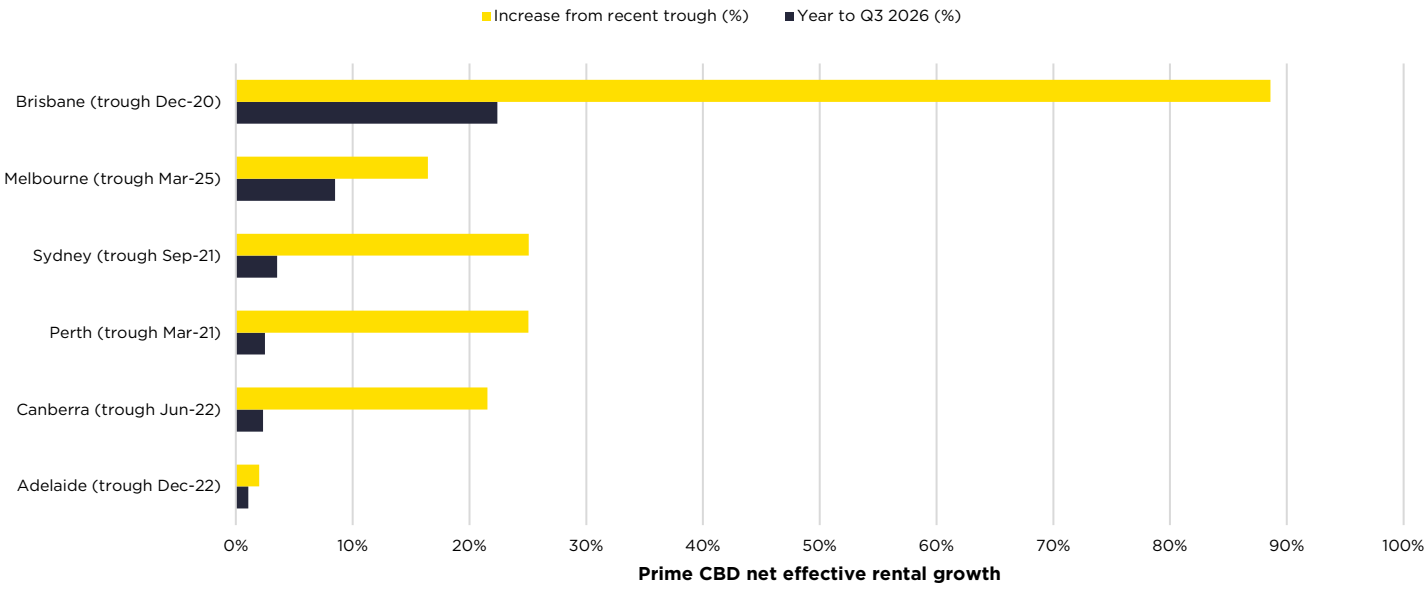
> “Rental growth is becoming increasingly quality-led, with Melbourne's widening Premium–A Grade performance gap reinforcing the value of scarce, best-in-class space.
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NET ABSORPTION BY GRADE, MAJOR CBD MARKETS, SIX MONTHS TO JULY 2026 (SQM)



Source: Savills Research using PCA

AVERAGE PRIME CBD NET EFFECTIVE RENTAL GROWTH, YEAR TO Q3 2026 AND SINCE RECENT TROUGH (%)



Source: Savills Research



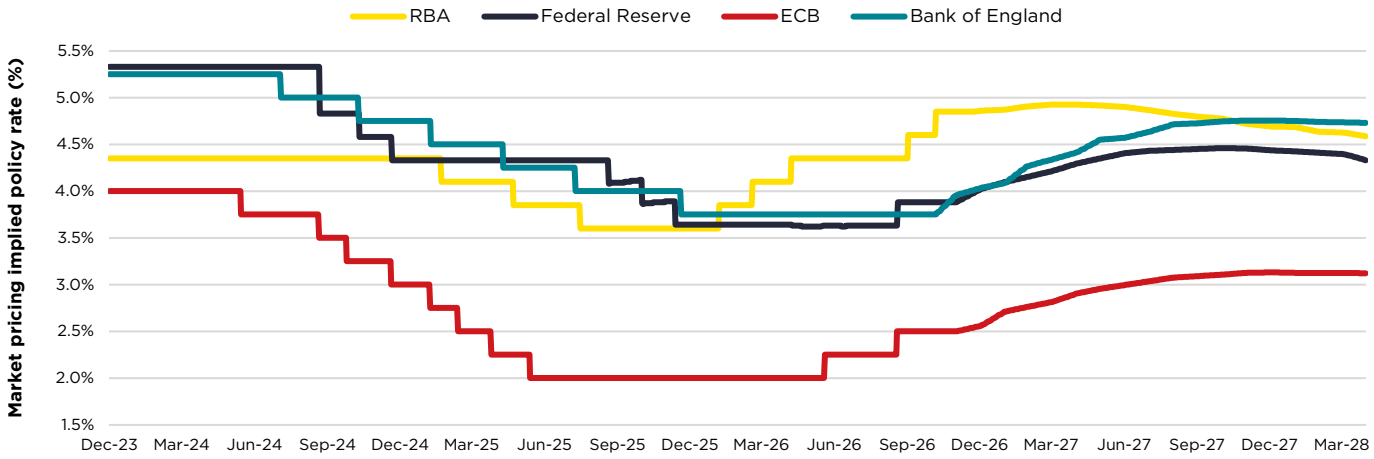
Tightening cycle approaches its peak but a higher-for-longer interest rate environment limits yield compression.

RBA tightens for a fifth time in 2026
The RBA increased the cash rate by 25 basis points to 4.85% in November, its fifth increase this year, taking cumulative tightening since February to 125 basis points.

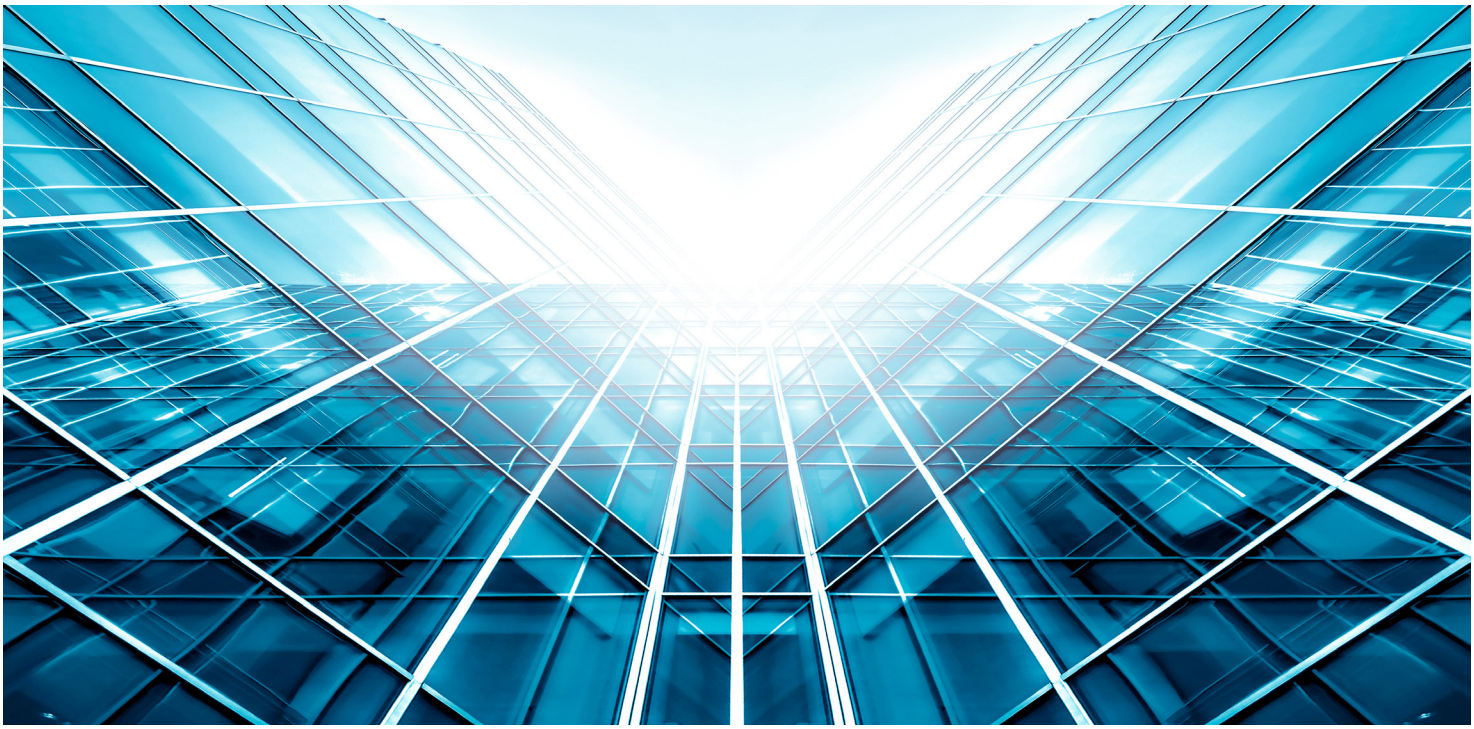
The rate hiking cycle looks close to ending. RBA Governor Bullock signalled a wait-and-see approach to further tightening in the post-November meeting press conference. Financial markets are partially pricing one more 25 basis point increase in early 2027 before expectations shift towards lower interest rates in late 2027 and early 2028.

Bond yields reset higher
Shifting central bank policy expectations and concerns about government debt sustainability have triggered a global bond market sell-off. The Australian 10-year government bond yield has risen by around 35 basis points since the end of June to 5.1%, around 75 basis points higher than a year earlier. Bond yields have nevertheless declined by around 25 basis points since the end of Q3, easing some of the potential upward pressure on property yields.

HIGHER INTEREST RATES BUT MARKET PRICING POINTS TO THE CYCLE TURNING



Source: Savills Research using Macrobond



Yield-to-bond spreads compress

The rise in bond yields has compressed the yield premium offered by property over government bonds. In Q3, the Sydney CBD Prime spread to the 10-year bond yield narrowed to just under 70 basis points, compared to a long-term average of around 175 basis points. Spreads in Sydney and Melbourne are at their narrowest since 2022 and 2023 respectively, while spreads in Brisbane, Perth and Adelaide are the narrowest since 2007–08.

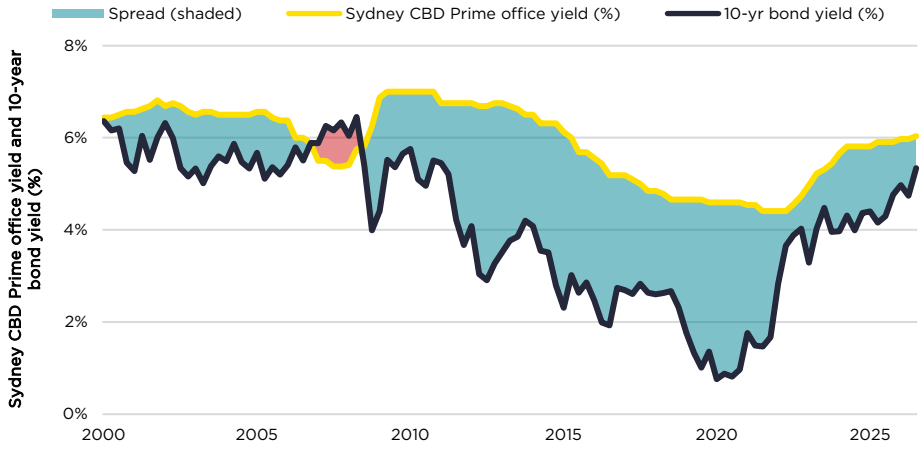
Higher bond yields do not automatically mean higher office yields

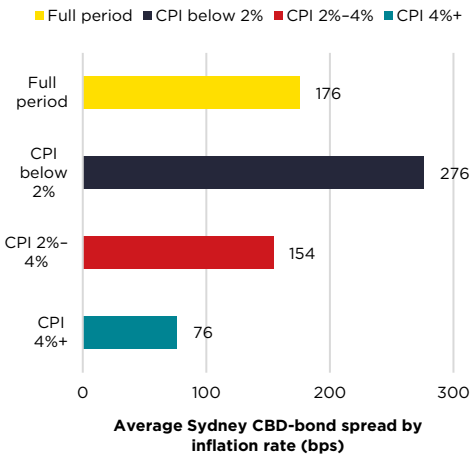
A narrow spread does not by itself signal mispricing. Since 2000, the Sydney CBD spread has averaged 276 basis points in a low inflation environment when CPI inflation was below 2%, 154 basis points between 2% and 4%, and just 76 basis points above 4%. With inflation above 4%, the current spread is broadly in line with that history and adding that spread to the bond yield roughly equates the prevailing Sydney CBD Prime office yield of c.6%. Historically, higher-inflation periods have coincided with narrower office yield-to-bond spreads, partly reflecting the capacity for property income to grow in nominal terms.

Income growth to drive returns

Returns will therefore depend more on income growth. A thinning supply pipeline and continued demand for high-quality space should underpin rental growth and income returns for Prime assets. Premium assets are best placed, while capital-intensive Secondary assets face the most pricing pressure.

PRIME OFFICE SPREAD TO BOND IS NARROW BUT IN LINE WITH HIGH-INFLATION ENVIRONMENT





Shaded gap = Sydney CBD prime yield less 10-year bond yield. Red indicates negative spreads. Spread is in percentage points (pps).
Source: Savills Research using Macrobond



Takeaway

The office recovery is becoming more selective, not less convincing. Higher bond yields have reduced the scope for valuation gains through yield compression, increasing the importance of asset-level fundamentals. At the same time, falling Premium vacancy, positive Prime market absorption and a constrained supply pipeline are supporting rental growth for the highest-quality assets.

The next phase of the recovery will therefore be driven increasingly by income growth rather than yield compression. Assets able to capture rental growth and maintain high occupancy should outperform, widening the gap between scarce, high-quality office and buildings facing weaker demand, higher vacancy and greater capital expenditure requirements.

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