MARKETBEAT
SYDNEY CBD
OFFICE Q1 2025

MARKET FUNDAMENTALS

	YOY Chg	Outlook
12.8% Vacancy Rate	—	▼
46,234 6-month Net Absorption, sqm	▲	▲
$778 Prime Net Effective, sqm pa	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.3% (National) GDP Growth	▲	▲
1.5% (New South Wales) State Final Demand Growth	▲	▲
4.1% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW:

The Australian economy has reached an inflection point as the RBA has pivoted and started the rate cutting cycle. Against this backdrop growth is expected to accelerate throughout 2025 and 2026 on the back of improved consumer and business confidence. GDP growth for Q4 2024 reached 0.6% (1.3% year-on-year), while growth in the order of 2.1% is expected for 2025 and 2.5% for 2026.

An improvement in New South Wales' Gross State Product is expected for 2025, with a 2.1% projected increase for the year before easing to 2.0% in 2026.

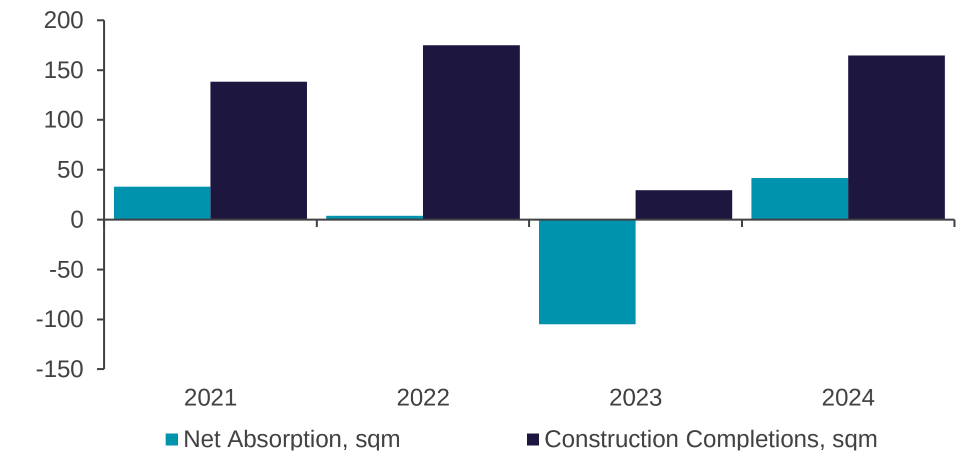
DEMAND:

In the first half of 2024, demand was relatively subdued, reflecting the cautious market environment. However, the second half of the year saw a significant uptick, with approximately 46,000 square metres of stock being absorbed. This positive momentum has carried into the first quarter of 2025, which has seen strong levels of enquiry. As the flight to quality and flight to centrality continues, there is a high demand for quality space in the core, where very little space is available on high floors in premium buildings. Meanwhile**,** more cost-conscious tenants are exploring options in peripheral areas.

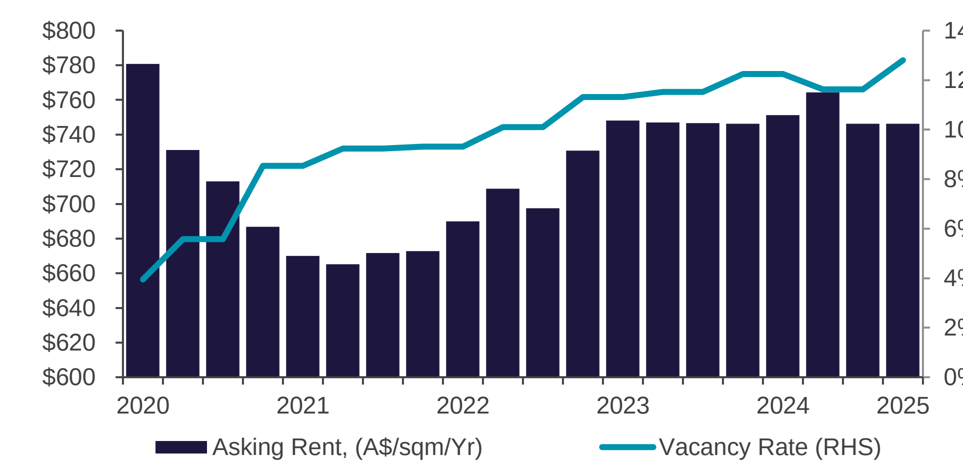
RENTS:

Net effective rents in the Sydney CBD saw steady growth over Q1 2025, with the CBD Core outperforming other precincts driven by the 'flight to centrality'. Premium grade assets saw the highest uplift in rents, experiencing year on year (Y-o-Y) growth of 6.0% and averaging $873 per square metre per annum (sqm pa). Incentives tightened slightly to 35.9%, continuing to compress since the 37.0% recorded in Q2 2024. A-grade rents remained stable, experiencing slower growth this quarter but still increasing by 3.0% Y-o-Y and averaging $710 sqm pa. Incentives increased slightly, showing a 0.4% Y-o-Y uplift to 36.4% in Q1 2025. Things in the secondary market are a little tougher, while face rents remain stable an uptick in incentives has put downward pressure on net effective rents. Gross incentives are averaging 39.1%, up from 37.4% last quarter and net effective rents are now averaging $518 sqm pa, a Y-o-Y decline of -1.6%.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & PRIME NET EFFECTIVE RENT



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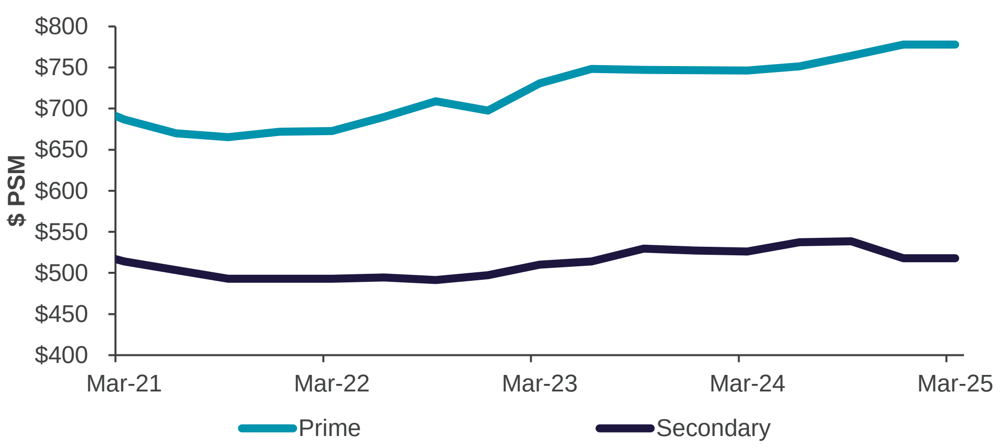
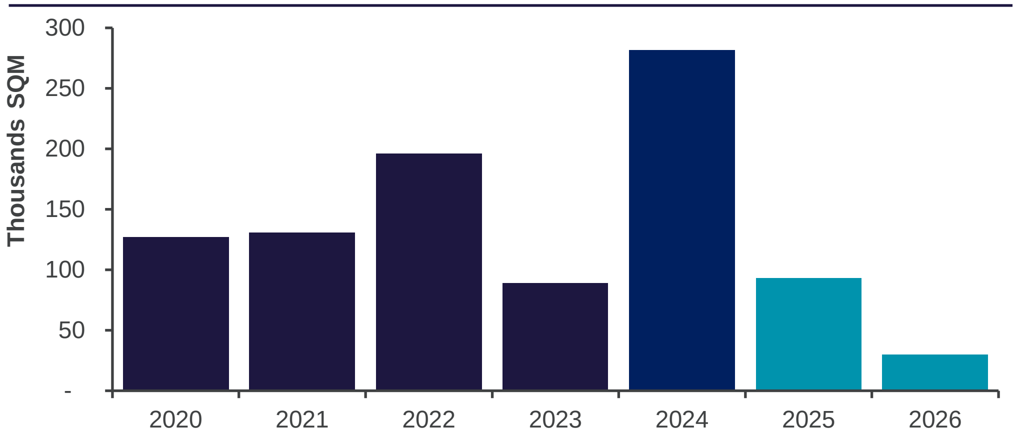
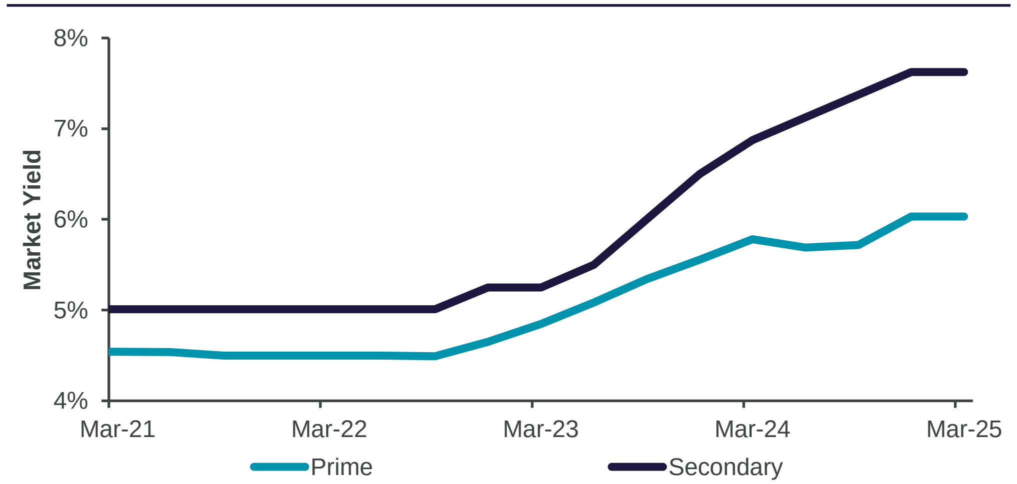
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

The Sydney CBD office market has seen a slight increase in vacancy, increasing from 11.6% in H1 2024 to 12.8% at the end of 2024. This was driven largely by new supply entering the market, with 164,552 sqm of supply additions delivered in the six months to the end of 2024, while 41,247 sqm was withdrawn. Major new developments consists of prime-grade assets, including 1 Elizabeth Street adding 75,000 sqm of premium space and Parkline Place adding 48,000 sqm, both in Q3 2024. Q1 2025 has seen the completion of major refurbishments including 7,600 sqm at Darling Park 1 and 2,000 sqm at 5 Martin Place. However, secondary stock has started to face pressure, prompting landlords to explore alternative uses such as build to rent (BTR) or build to sell conversions.

YIELDS:

In Q1 2025, Sydney CBD prime and secondary yields have remained stable. Prime assets, in particular, indicate that the market has reached the bottom of the cycle. After a slight expansion from 5.78% in Q1 2024 to 6.04% by Q4, prime yields marginally sharpened to 6.03% in Q1 2025. This 1 basis point improvement, though minor, is indicative that market sentiment is beginning to recover.

In contrast, secondary yields have shown considerably more movement, significantly softening through 2024 and peaking at 7.63% in Q4. Over Q1, yields have remained stable as interest in secondary stock remains subdued, with little transactional evidence to suggest any movement within the secondary market.

INVESTMENT MARKET:

The stabilisation of yields has started to create more favourable investment market conditions for investors, with transaction volumes already picking up in Q1 2025. The first half of 2024 marked the most active period for Sydney's transactions since 2020 and this momentum built over 2024 is expected to continue through 2025.

Major transactions this year include PGIM purchasing 20 Bridge Street for $270 million in February 2025 from Early Light International. Sydney's CBD's Western precinct also saw sharp uptick in activity this quarter, with the sale of a 50% interest in 309-321 Kent Street from Dexus to AsheMorgan for $290 million, as well as the sale at 400 Kent Street for $112 million from SC Capital Partners to Cambridge JMD Investment Management. With strong momentum already building this year and a number of significant campaigns underway and planned for the year, 2025 is shaping up to be a good year for the Sydney CBD office investment market.

OUTLOOK

- Economic growth is expected to strengthen through 2025, as Gross State Product reverts to align with longer term averages.
- The outlook for the Sydney CBD office market is becoming increasingly optimistic, with some signs of recovery in the core despite ongoing challenges in some submarkets.
- Occupier demand is expected to widen, flight to quality and centrality will continue for prime assets, but with additional demand driven from the flight to value throughout the outer precincts.
- New supply is expected to place some upward pressure on vacancy in the near time, however the quality uplift from new supply is also expected to aid rental growth.
- Recent transaction activity suggest that yields are at the bottom of the cycle, with stabilisation underway and potential recovery on the horizon.
- Strong market fundamentals are expected to increasingly attract offshore capital as well as added attention from domestic investors as we are now in a rate cutting cycle.

SYDNEY CBD
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MARKET STATISTICS

GRADE	INVENTORY (SQM)	VACANT (SQM)	OVERALL VACANCY RATE	6-MONTH NET ABSORPTION (SQM)	UNDER CONSTRUCTION (SQM)	NET FACE RENT ($ SQM PA)	AVERAGE GROSS INCENTIVES	AVERAGE OUTGOINGS ($ SQM PA)
Premium	1,554,597	169,082	10.9%	125,182		$1,483	37%	$262
A-grade	1,921,459	292,578	15.2%	-59,355		$1,258	39%	$233
Prime	**3,476,056**	**461,660**	**13.3%**	**65,827**	**405,510**	**$1,353**	**38%**	**$245**
Secondary	1,241,462	159,820	12.9%	-17,671		$1,087	39%	$219
SYDNEY CBD TOTALS^	**5,300,562**	**678,527**	**12.8%**	**46,234**	**405,510**			

**Rental rates reflect full service asking*

^ Total reflects all grades

KEY LEASE TRANSACTIONS Q1 2025

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
580 George Street	Midtown	Uber Australia	5,188	Direct
2 Chifley Square	Midtown	Gilbert & Tobin	9,000	Direct
1 Martin Place	City Core	Charter Hall	5,500	Direct
33 Alfred Street	City Core	Maddocks Solicitors	5,000	Direct
55 Pitt Street	City Core	Aon	5,000	Direct
121 Castlereagh Street	Midtown	APA Group	3,800	Direct

**Renewals not included in leasing statistics*

KEY SALES TRANSACTIONS Q1 2025

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE (AUD M)
20 Bridge Street	City Core	Early Light International / Anton Capital / PGIM	20,000	$270
309-321 Kent Street	Western	Dexus / AsheMorgan	47,702	$290
400 Kent Street	Western	SC Capital Partners / Cambridge JMD Investment Management	10,461	$112

KEY PROJECTS UNDER CONSTRUCTION & COMPLETIONS

PROPERTY	SUBMARKET	MAJOR TENANT	SQM	OWNER/DEVELOPER
121 Castlereagh Street	Midtown	-	11,500	CBUS Property
201 Sussex Street	Western	-	17,000	GPT/MIRVAC
33 Alfred Street	City Core	-	31,657	Dexus/Mirvac

LOCAL LEADS

JAKE MCKINNON
Associate Director,
National Research
Tel: +61 (0) 410 611 548
jake.mckinnon@cushwake.com

TIM STANWAY
Head of Office Leasing,
New South Wales
Tel: +61 (0) 421 080 297
tim.stanway@cushwake.com

CHRISTINA OWEN
Director Tenant Advisory Group,
Australia and New Zealand
Tel: +61 (0) 294 744 349
christina.owen@cushwake.com

NATIONAL LEADS

JOSH CULLEN
Head of Capital Markets,
Australia and New Zealand
Tel: +61 (0) 438 351 113
josh.cullen@cushwake.com

TIM MOLCHANOFF
Head of Office Leasing,
Australia and New Zealand
Tel: +61 (0) 411 726 663
tim.molchanoff@cushwake.com

MICHAEL KEARINS
Managing Director,
Tenant Advisory Group ANZ
Tel: +61 (2) 9474 4346
michael.kearins@cushwake.com