MARKETBEAT
SYDNEY CBD
OFFICE Q2 2025

CUSHMAN & WAKEFIELD

MARKET FUNDAMENTALS

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

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.3% (National) GDP Growth	▲	▲
1.0% (New South Wales) State Final Demand Growth	▲	▲
4.1% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW:

The Reserve Bank of Australia responded to continued disinflation and the ongoing tariff negotiations by cutting rates in May for the second time this year as the central bank's focus has shifted from fighting inflation to supporting growth and maintaining full employment. Against this backdrop growth is expected to improve throughout 2025 and 2026 on the back of improved consumer and business sentiment. GDP growth slowed in Q1 2025 reaching 0.5% (1.3% year-on-year but is forecast to recover to 1.8% by the end of the year and 2.1% for 2026. New South Wales' economic growth is forecast to improve by 1.0% in 2025, before momentum picks up slightly to increase by 1.9% in 2026.

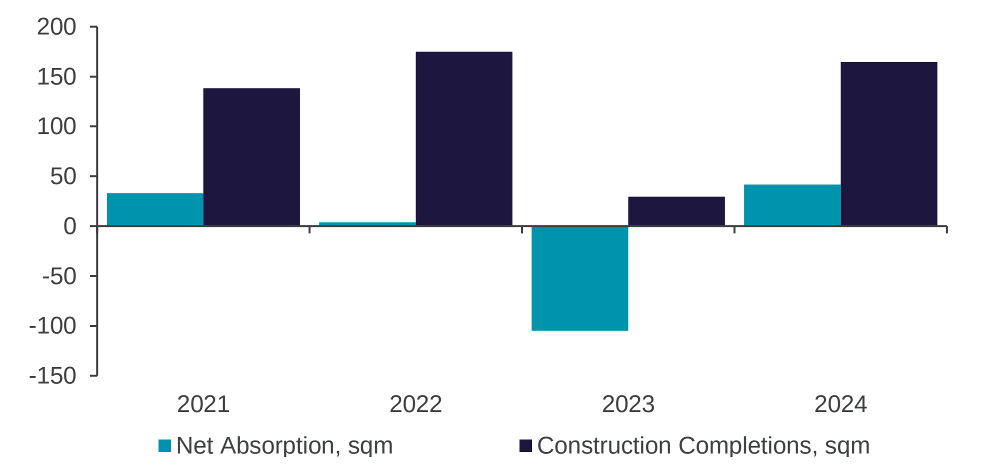
DEMAND:

The second half of the 2024 saw a significant uptick in activity, with approximately 46,000 square metres of stock being absorbed. This positive momentum has carried into the first half of 2025, despite a brief slowdown in April, which is attributable to Easter, Anzac Day and the school holidays, before ramping back up through May and June. While the number of briefs issues post-holiday was comparable to the same time last year 2024, the average brief size increased from 730 sqm to 1,200 sqm this year. This increase underscores a clear market shift, with more organisations mandating a greater return to office and as a result seeking larger footprints.

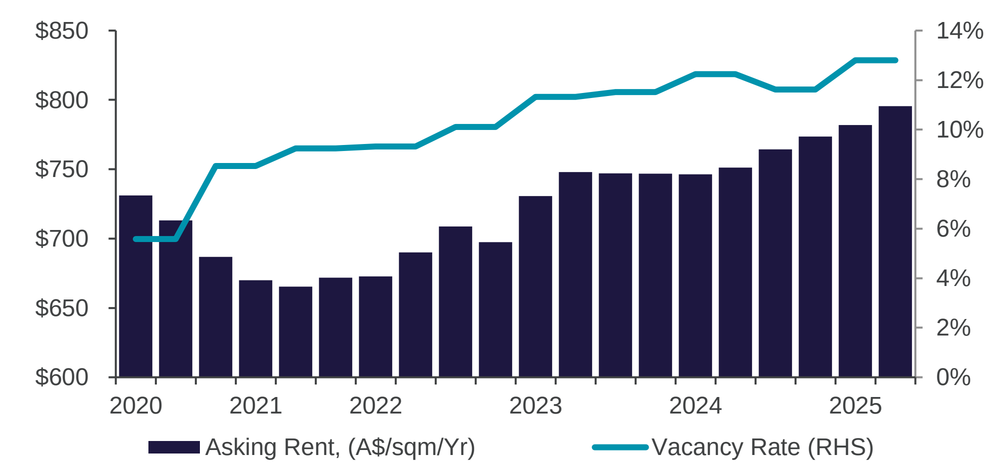
RENTS:

Net effective rents in the Sydney CBD saw steady growth over Q2 2025, with premium 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 8.8% and averaging $890 per square metre per annum (sqm pa). Incentives tightened slightly to 35.7%, continuing to compress since the 37.0% recorded in Q2 2024. A-grade rents increased modestly, increasing by 3.8% Y-o-Y and averaging $720 sqm pa. Incentives remained stable, however are up 1.3% Y-o-Y. Things in the secondary market are a little tougher, while face rents increased an uptick in incentives has put downward pressure on net effective rents. Gross incentives are averaging 40.1%, up from 39.1% last quarter and net effective rents are now averaging $510 sqm pa, a Y-o-Y decline of -5.4%.

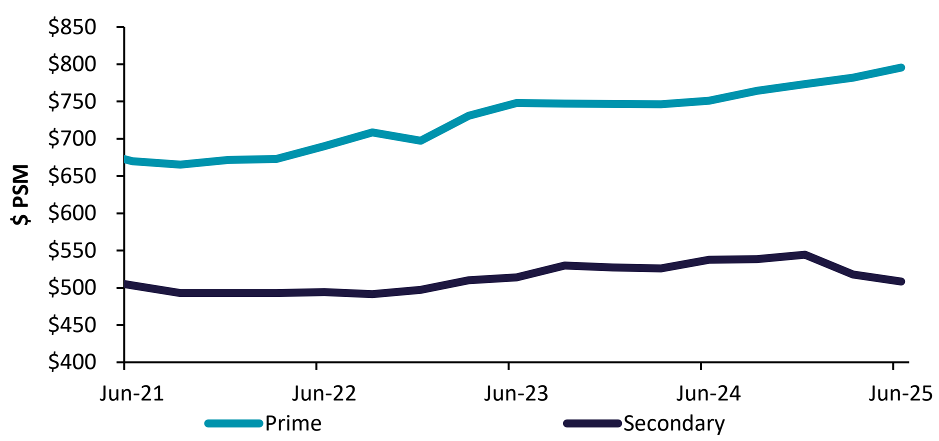
SPACE DEMAND / DELIVERIES



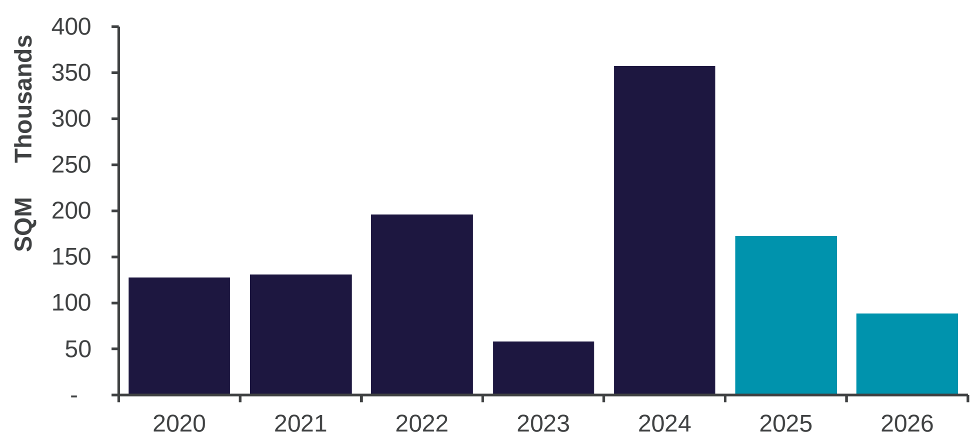
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



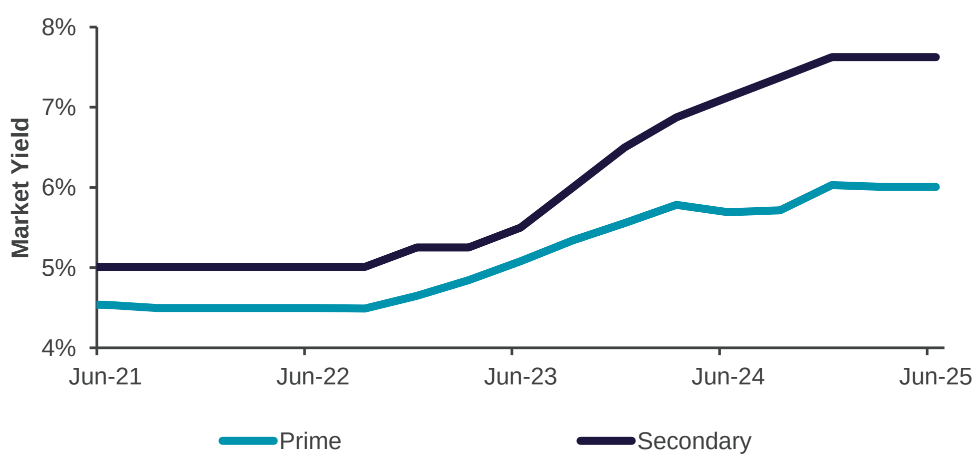
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

The Sydney CBD office market has seen a continued pressures on vacancy, following the vacancy rate increasing from 12.8% to 13.1%. This was again driven by new supply entering the market, with 33,730 sqm of supply additions under construction during the quarter, including 14,000 sqm at 1 Martin Place and 19,730 sqm at 30 The Bond. While on the other side of the coin, an uptick in leasing activity and absorption tempers the supply side pressures. No major withdrawals were recorded in Q2, further contributing to the supply side pressure on vacancy.

The new supply pipeline remains dominated by prime-grade assets, reinforcing the ongoing flight to quality. This follows the Q1 2025 completions of 11,500 sqm at 121 Castlereagh Street, 17,000 sqm at Darling Park Tower 1 (Stage 2), and 15,900 sqm at 5 Martin Place.

YIELDS:

In Q2 2025, Sydney CBD prime and secondary yields have remained stable since H2 of last year. 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 6.01% in Q1 2025 and remained there in Q2. The story is the same for the secondary market, with yields averaging between 7.25% and 8.00%, having remined at this level since Q4 2024.

This ongoing consolidation trend suggests that values for prime-grade assets are likely to hold firm, while secondary assets continue to face headwinds due to weaker demand and higher levels of vacancy.

INVESTMENT MARKET:

The continued 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 has continued through 2025, although the momentum has tempered over Q2.

No major transactions this quarter, however the 4 level 16-18 Bulletin Place was picked up by Wentworth Capital from Roger William Allen for $9 million.

OUTLOOK

- Economic growth is expected to strengthen through 2025 and 2026, 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 drive 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
OFFICE Q2 2025

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**	**316,500**	**$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**	**316,500`**			

**Rental rates reflect full service asking*

^ Total reflects all grades

` Includes refurbishments

KEY LEASE TRANSACTIONS 2025

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
10 Shelley Street	Millers Point	Teachers Mutual Bank	4,957	Direct
Darling Park - Tower 1	Western	Mott MacDonald	3,726	Direct
1 Martin Place	City Core	AICD	3,500	Direct
321 Kent Street	Western	Norwegian Cruise Line	1,513	Direct
1 Market Street (BT Tower)	Western	Nuix	1,835	Direct

**Renewals not included in leasing statistics*

KEY SALES TRANSACTIONS 2025

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE (AUD M)
16-18 Bulletin Place	City Core	Roger Allen / Wentworth Capital	15,790	9.0

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

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