

MARKET FUNDAMENTALS

	YOY Chg	Outlook
13.8% Vacancy Rate	▲	▼
11,359 6-month Net Absorption, sqm	▲	▲
\$820 Prime Net Effective, sqm pa	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
2.6% (National) GDP Growth	▲	▲
2.6% (New South Wales) State Final Demand Growth	▲	▲
4.1% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW:

Economic conditions remained steady through Q1 2026, supported by domestic demand and a tight labour market. Headline CPI was 3.8% year-on-year in January 2026, and the RBA lifted the cash rate to 3.85% in February and 4.10% in March. The higher-rate environment and rising geopolitical risks are near-term headwinds for occupier demand and investment, so any recovery is likely to be more measured than was forecast earlier this year. Despite broader economic headwinds, the New South Wales economy remains resilient, with state GDP projected to grow by 2.4% through 2026.

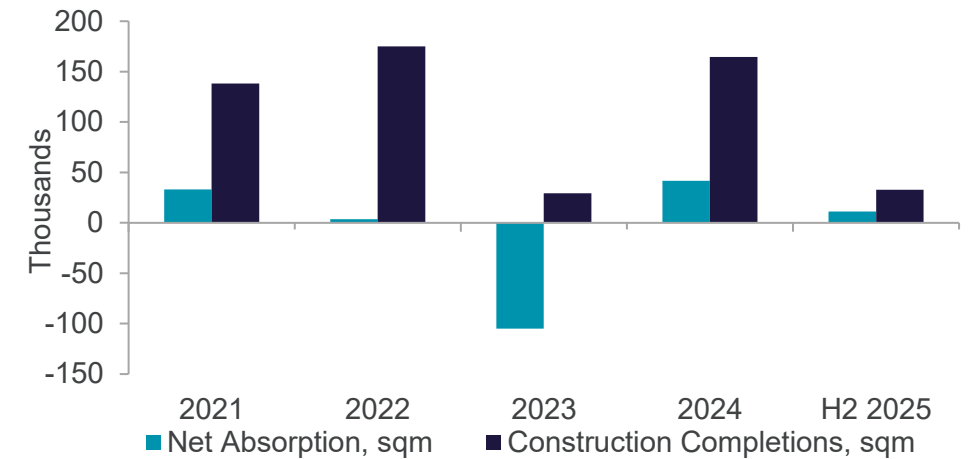
DEMAND:

Leasing demand in the Sydney CBD remained steady through Q1 2026, with enquiry levels holding at a measured pace and elevated vacancy offering tenants a broad range of available options. Tenant decision-making remains cautious, though interest continues to centre on high-quality, well-located assets that offer strong amenity and workplace appeal. Net absorption over the past six months totalled 11,359 sqm, indicating a gradual improvement in underlying demand. Despite broader market softness, competition for prime space remains consistent, supported by demand for high quality space.

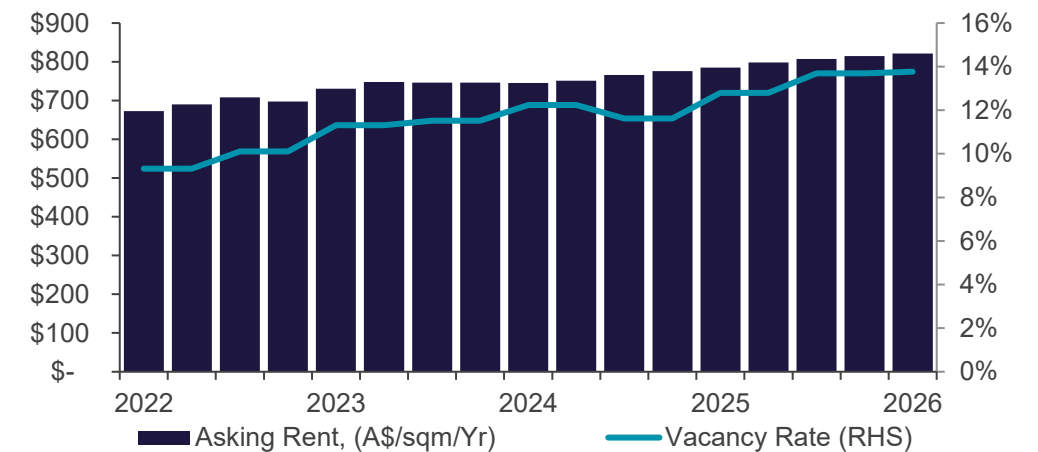
RENTS:

Net effective rents in the Sydney CBD continued to edge higher across prime grades in Q1 2026, supported by stable incentive levels and ongoing tenant preference for high-quality space. Premium-grade rents rose 3.7% year-on-year (YoY) to \$912 per square metre per annum (sqm pa), while A-grade recorded the strongest annual growth at 5.2% YoY to \$747 sqm pa. This uplift reflects the continued “flight to quality”, with businesses consolidating into better-located, higher-amenity assets. Secondary grade performance remained softer. Despite a marginal quarterly uplift, secondary rents declined 2.8% YoY to an average of \$503 sqm pa, reflecting more subdued occupier demand. Outgoings increased slightly for A-grade and secondary assets, reaching \$239 sqm and \$229 sqm pa, respectively, while premium outgoings were unchanged. Incentives remained stable across all grades. Overall, prime assets continue to post steady rental growth, while secondary assets remain under pressure from higher costs and weaker demand.

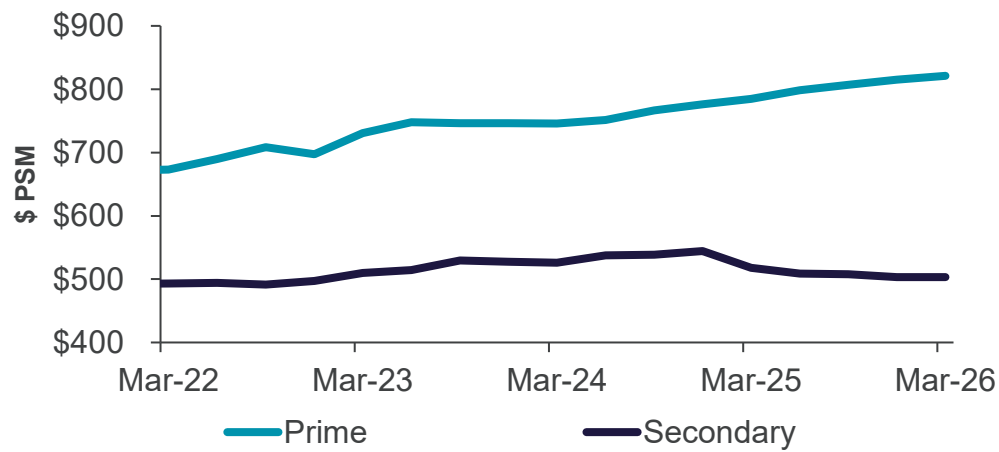
SPACE DEMAND / DELIVERIES



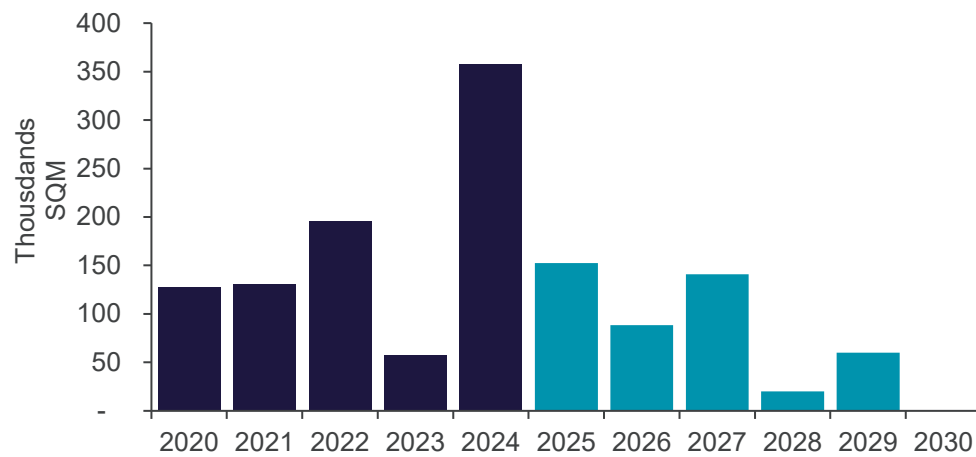
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



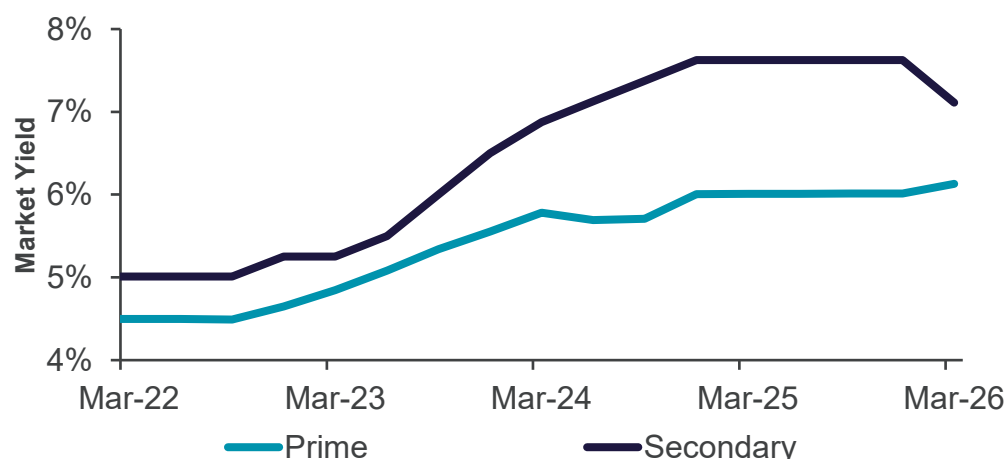
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

Sydney CBD vacancy edged up slightly to 13.8% through the second half of 2025 as new and refurbished space continued to enter the market. Premium-grade vacancy tightened further to 8.9%, reflecting sustained demand for high-quality assets. Recent additions include the expansion of 270 Pitt Street, bringing 23,000 sqm of refurbished space to market, contributing to broader availability. The upcoming supply pipeline remains prime-focused and is expected to keep overall vacancy elevated despite strong enquiry levels. The next major delivery is the 8-10 Lee Street development, adding 58,000 sqm of premium space in Q4 2026, with approximately 20,000 sqm to be subleased by Atlassian. Further ahead, the 2027 pipeline includes several significant prime additions including 2 Chifley Square at 60,000 sqm, and 37-55 Pitt Street delivering 62,000sqm with 22,000sqm pre-committed. These projects will expand prime-grade availability and are expected to maintain upward pressure on vacancy until absorption strengthens.

YIELDS:

Sydney CBD office yields softened slightly in Q1 2026, reflecting continued caution among buyers and ongoing leasing risk across parts of the market. Premium yields moved out by 27 bps, increasing to 5.77% from late 2025, marking the first shift after several stable quarters. Prime yields also edged outward, rising 12 bps to 6.13%. A Grade yields held steady at 6.42%, maintaining the flat profile see throughout last year. In contrast, B Grade yields firmed to 7.11%, narrowing by 52 bps, as pricing adjusted in line with selective investor demand for well-located secondary assets offering income upside. Overall, yield movements remain asset-specific, with investors continuing to prioritise buildings with strong tenant covenants and resilient income profiles.

INVESTMENT MARKET:

Sydney's CBD office market recorded a lift in activity in Q1 2026, supported by renewed interest from both domestic and offshore capital. The quarter was anchored by two major transactions, Salesforce Tower, acquired by OE REIT from Mitsubishi Estate for \$257.2 million, as well as the O'Connell Precinct portfolio, purchased by Charter Hall Group from ADIA for \$500 million. These large-scale deals illustrate a growing willingness among investors to engage in premium asset opportunities despite broader market caution. Activity in the smaller strata segment also remained steady, reflecting ongoing demand for bite-sized CBD holdings. Overall, with yields drifting modestly wider, investors remain focused on assets with strong tenant covenants and resilient income profiles, prioritising quality, lease term, and fundamentals.

OUTLOOK

- Economic growth is expected to strengthen through 2026, supported by improving domestic demand and an uplift in New South Wales' Gross State Product.
- The outlook for the Sydney CBD office market remains in a transitional phase, with prime-grade assets continuing to outperform as secondary stock faces ongoing leasing and incentive pressure.
- Vacancy is expected to remain elevated as new supply continues to outpace absorption, although strong pre-commitment levels in premium developments should support rental stability in core assets.
- Yields are expected to face renewed upward pressure in the near term, with inflation remaining above target and rate increases pushing funding costs higher. Any further softening is likely to remain selective, concentrated in assets with weaker leasing profiles.
- Investment sentiment is expected to improve gradually rather than accelerate, with greater pricing clarity emerging but higher interest rates continuing to moderate buyer risk appetite.

MARKET STATISTICS

GRADE	INVENTORY (SQM)	TOTAL 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	1,586,254	141,409	8.9%	14,489		\$1,560	35.5%	\$251
A-grade	1,990,775	330,669	16.6%	42,189		\$1,320	36.8%	\$239
Prime	3,577,029	472,078	13.2%	56,678	316,500	\$1,427	36.2%	\$244
Secondary	1,243,232	198,468	16.0%	-15,810		\$1,021	41.4%	\$229
SYDNEY CBD TOTALS^	5,385,115	741,423	13.8%	11,359	177,675			

*Rental rates reflect full service asking

^ Total reflects all grades

` Includes refurbishments

KEY LEASE TRANSACTIONS Q1 2026

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
1 Shelley Street	Western	Australian Payments Plus	3,467	Direct
Parkline Place	Midtown	Co-Star	6,000	Direct
Darling Park	Western	John Holland	5,000	Direct

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q1 2026

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE (AUD M)
Salesforce Tower	City Core	Mitsubishi Estate/OUE REIT	62,976	357.2
The O'Connell Precinct	City Core	ADIA/Charter Hall Group	60,694	500.0

KEY PROJECTS UNDER CONSTRUCTION & COMPLETIONS

PROPERTY	SUBMARKET	MAJOR TENANT	SQM	OWNER/DEVELOPER
121 Castlereagh Street	Midtown	-	11,500	CBUS Property
Darling Park 1 – Stage 3	Western	-	17,000	GPT/MIRVAC
33 Alfred Street	City Core	-	31,657	Dexus/Mirvac

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