

Dwindling new supply to drive rents

Q3 2025

Newly developed premium space is scarce and demand is rising amongst occupiers as the Sydney CBD is entering a period of limited new developments.

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- *Top end of the market is tightening rapidly*
- *Occupiers need to act swiftly to secure best space*
- *Newly developed stock achieving high pre-commitments*
- *Only 3 major new CBD completions (>25,000 sqm) by 2029*
- *Lack of premium supply to drive rental growth*

163k sqm

Total premium office space under construction between 2025-29 in Sydney CBD.

65% pre-comm

Amount of the forecast 5-year premium supply already pre-committed.

NEW PREMIUM STOCK NEARLY EXHAUSTED

Despite a high overall vacancy rate, the premium end of the Sydney CBD office market is tightening rapidly. After a final burst of new supply in 2024, the supply tap is now running dry with relatively few developments under construction. Meanwhile, tenants continue to prioritise centrally located assets with market-leading amenity, and in time this will expose a supply shortfall at the top end of market which will drive rapid rental growth.

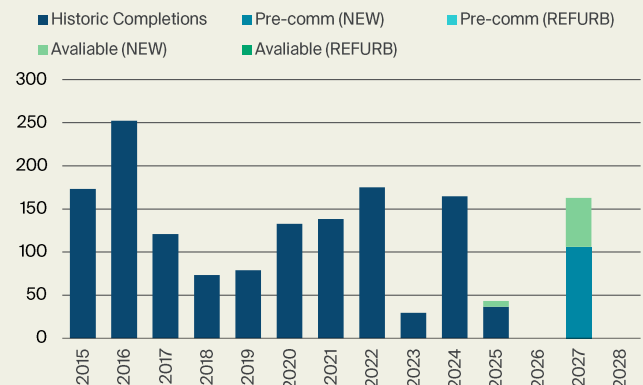
Over the last 18 months, 170,000sqm of newly developed premium grade office space has been delivered across the three metro over station developments, and the recently completed comprehensive refurbishment of 33 Alfred Street. All have been successfully leased, achieving an average commitment rate of 90% across the four assets.

Looking ahead, however, the pipeline of available space is dwindling rapidly as there are only three buildings currently under construction, all scheduled to complete in 2027, and myriad challenges are holding back new starts. Charter Hall is well underway with its Chifley South (42,000sqm) premium development, which has approximately 50% commitments, and with strong tenant enquiry it will likely achieve a high commitment rate prior to completion. Meanwhile, Mirvac and Mitsui Fudosan are developing 55 Pitt Street (63,000sqm) and have already achieved over a 40% commitment rate. In the Southern precinct, the Dexu developed Atlassian Central (58,000sqm) is on track for completion by 2027 and will be the new Headquarters for Atlassian.

With these strong commitment levels, only 57,000 sqm—or 1% of total market stock—of new premium space is available for lease until 2027. With no other developments slated for delivery in 2028–29 at this stage, the supply pipeline is approaching historically low levels and a significant supply–demand imbalance for new premium-grade stock is on the horizon.

Sydney CBD new supply pipeline

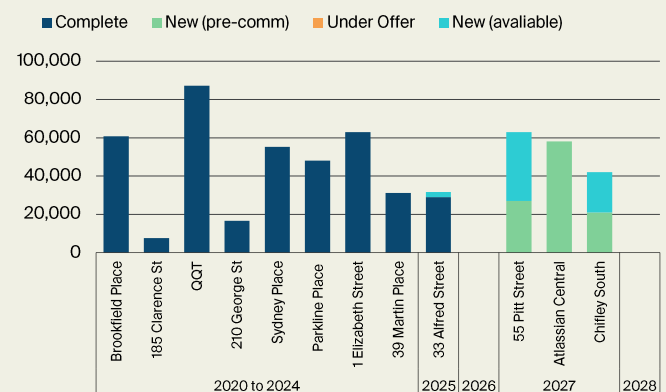
by commitment type and completion status, 000's sqm



Source: Knight Frank Research/PCA

Sydney CBD premium office development pipeline

by completion status and precommitment level, sqm



Source: Knight Frank Research

NEW DEVELOPMENT STOCK HAS ALWAYS PERFORMED WELL REGARDLESS OF HIGH OVERALL VACANCY

Strong demand for new premium stock and successful leasing of these assets is nothing new to the market. Since 2018 there has been an average pre-practical completion commitment rate of 87% across all new developments, which have totalled 481,000 sqm across 13 schemes. If we look further at occupancy rates 12 months post completion this rises to over 91%.

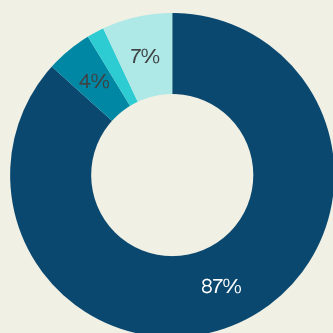
Looking at specific schemes, the largest development Quay Quarter Tower (87,201sqm) opened in 2022 with a commitment rate of over 95%. In the same year Sydney Place (55,000sqm) opened with a commitment rate of 87%. More recently, the three over station developments which completed all over the last 12 months had an average commitment rate of over 90% prior to completion.

This strong take-up of new stock has come during a period when some corporates have chosen to contract their overall occupational footprint, and their experience bears testament to a persistent flight to quality. Occupiers have gravitated to their modern design, cutting-edge technology, strong ESG credentials, connectivity to multiple transport nodes and close alignment with evolving workplace expectations. These trends will continue to drive robust demand for best-in-class office stock into the future.

Letting up times new developments

Since 2018, Sydney CBD

- Commitment Prior to PC
- Leased post completion (0-12 months)
- Leased post completion (12-36 months)
- Uncommitted (or still within 3 year period post PC)



Source: Knight Frank Research

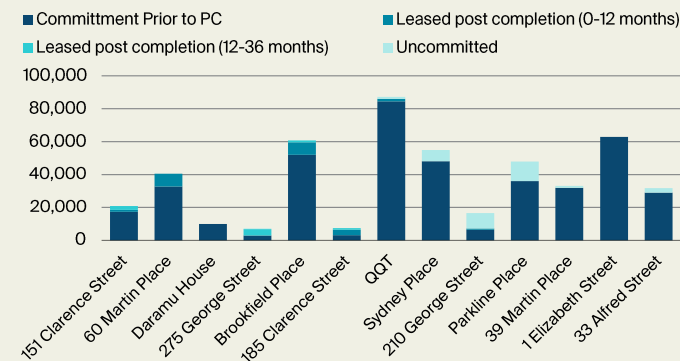
HIGH ECONOMIC RENTS MEAN THAT MOST POTENTIAL DEVELOPMENTS CANNOT PROCEED

The performance of Sydney's newest premium towers highlights the strength of demand for well-located, high-quality stock and offers a lower risk profile for developers. But despite strong leasing fundamentals, multiple feasibility challenges and resulting high economic rents required to develop these towers have made it difficult for developers to progress the next wave of schemes.

Construction cost inflation peaked at an all-time high of 17% in 2022, with specific materials increasing by over 50%. Coupled with a higher interest rate environment driving up cap rates and rising incentives, this has had a profound impact on economic rents (which we will address and quantify in a forthcoming report) and directly led to the forthcoming period of limited new supply. We are now seeing this clearly with the level of supply additions over the next three years as a percentage of total stock at its lowest level on record and forecast to trend towards zero if no schemes progress in 2028 and 2029.

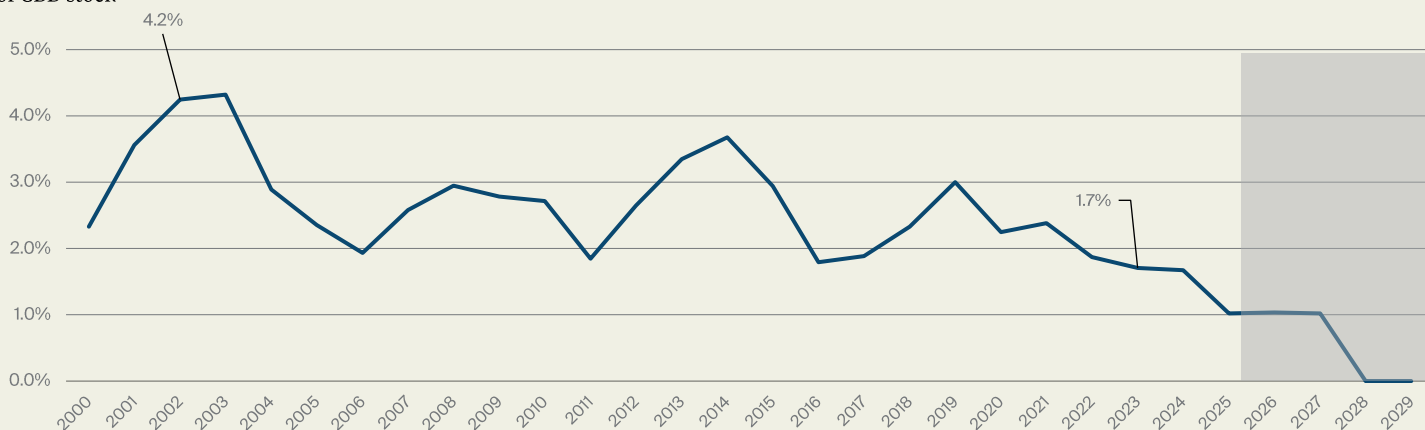
New developments since 2018

Letting up timing relative to completion



Source: Knight Frank Research

3-year average annual gross supply additions as a % of stock % of CBD stock



Source: Knight Frank Research/PCA

TIGHTENING OF THE TOP END OF THE MARKET WITH A PREFERENCE TO THE CORE

Aggregate absorption levels by grade reflect the clear disparity between premium stock and the rest of the market. Since 2020 premium grade net absorption has totalled 279,858sqm, whilst all other grades have experienced negative absorption levels.

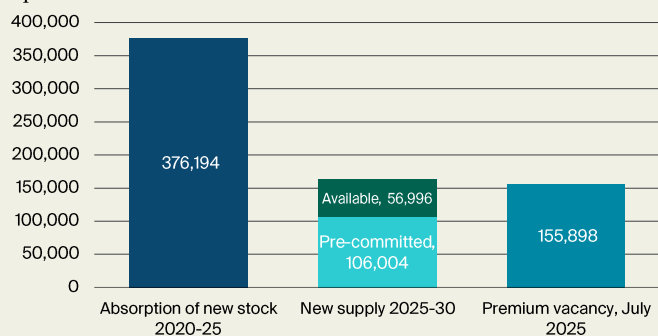
Diving deeper into take-up levels for new developments in particular, there has been over 376,000sqm absorbed over the last five years, highlighting the strength of demand at the top end of the market. Comparing this figure with the total level of new supply on offer, both existing and under construction, clearly illustrates the shortfall.

From now until 2029 there is currently 163,000 of premium new space to be added to the market. However, of this only 57,000sqm remains available, given that 106,000sqm has already been leased, implying a 65% commitment rate across these projects.

In terms of existing premium stock, there is currently 155,898 sqm available to lease as at July 2025, implying a total availability of 213,000sqm, significantly lower than the quantum of demand over the past five years.

Data on lease expiries suggests that strong demand will persist, with above trend expiries of over 300,000sqm in 2028 and similarly high levels in 2029 and 2030. The resulting demand will be the highest in the Core and Barangaroo and competition for space will intensify as a result.

Take up and available space in the premium market sqm



Source: Knight Frank Research/PCA

OCCUPIERS NEED TO ACT SWIFTLY AS SPACE IS RUNNING OUT AND RENTS WILL RISE

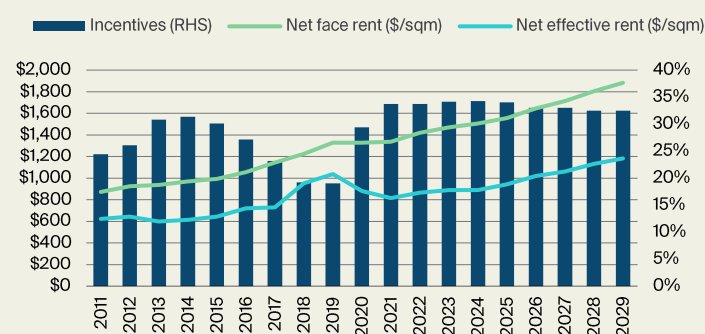
As a result of the looming supply shortfall, occupiers seeing premium space within the 2026-28 window need to act swiftly to secure their preferred option. Delaying a decision could easily mean missing out on optimal floorplates, top amenities, and the most desirable locations.

This bodes well for owners of top-tier assets, as the balance of power in lease negotiations is likely to shift to landlords. Rents will continue to be pushed for these premium assets with strong growth above 5% per annum likely to be achieved in coming years and incentive levels also likely to shift down to be significantly lower than the wider market.

The impact of tight new supply will quickly filter through to higher rents for existing premium assets and then improve the outlook for A grade assets as the CBD market transitions to a multi-speed recovery.

Sydney CBD premium rents and incentives

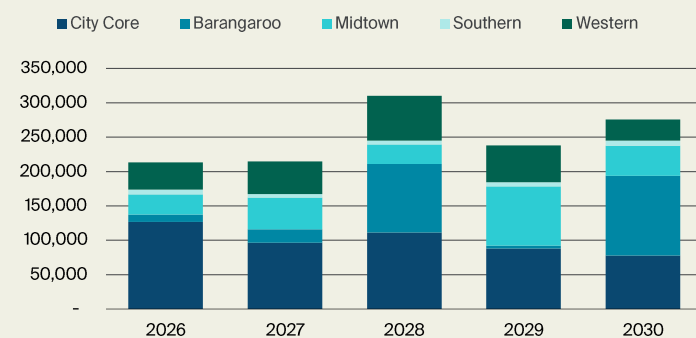
\$/sqm (LHS), per cent (RHS)



Source: Knight Frank Research

Lease expiries

sqm, by precinct



Source: Knight Frank Research/Arealytis

Significant tenant commitments

Tenant	Property	Precinct	Lease type	Size (sqm)	Net face rent (\$/sqm)	Incentive (%)	Term (yrs)	Start date
Gilbert Tobin	Chifley South	Core	Pre-comm	9,023	2,250-2,400	32	12	Q2-27
Allens	33 Alfred Street	Core	Pre-comm	10,940	1,850	35	U/D	Q2-26
Maddocks	33 Alfred Street	Core	Pre-comm	5,200	1,530	36	10	Q2-26
HWL Ebsworth	5 Martin Place	Core	Existing	11,023	1,360	36	11	Q2-26
ASX	39 Martin Place	Core	Existing	12,049	1,700	30	12	Q3-25

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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