Sydney City Fringe Office Market

Knight Frank

H2 2026

- Solid economic fundamentals
- Limited prime office supply
- Diverse occupier demand

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Key Insights

A shortage of prime space and a constrained development pipeline continue to support fringe market fundamentals



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Solid economic foundations

Population growth, a highly skilled workforce and the concentration of service-based industries continue to support demand across the city fringe.

Limited prime office supply

Prime-grade assets account for less than 40% of total stock, while a constrained development pipeline continues to limit future supply.

Diverse occupier demand

Technology and creative industries remain key driver of demand, with increasing interest from professional and financial services occupiers.

Strong long-term rental growth

Tight market conditions and limited supply have supported stronger long-term rental growth than the Sydney CBD.

City Fringe office market indicators – Q2 2026

Market	Total Stock sqm	Overall Vacancy Rate %	Average Prime Net Face Rent Range $/sqm	Incentive %^	Core Market Yield %*
Surry Hills	472,419	2.8	900 - 1,200	27.5 – 32.5	6.00-6.75
Pyrmont	304,345	5.3	800 – 1,000	37.5 - 42.5	6.75-7.25
South Eveleigh	203,118	0.0	800 – 950	32.5 - 37.5	6.25-6.75
Ultimo	126,527	1.9	650 – 800	37.5 – 42.5	7.25-7.75
Redfern	111,474	2.1	750 – 850	32.5 – 37.5	7.00-7.50
Darlinghurst	62,330	1.0	850 - 1,050	30 – 35	6.00-6.75
Chippendale	51,423	3.2	850 - 1,000	30 – 35	6.00-6.75
Total	**1,331,636**	**2.7**			

Source: Knight Frank Research/Arealytics *assuming WALE 5.0 years ^Incentives are on a Gross basis

Sustained occupier demand

TALENT AND AMENITY CONTINUE TO ATTRACT A DIVERSE OCCUPIER BASE

Sydney's city fringe remains a highly attractive office destination, supported by its favourable demographic profile, extensive amenity offering and proximity to major health, education and innovation precincts. These attributes provides occupiers with strong access to talent while offering workplace environments that increasingly align with employee expectations and business culture.

Historically, technology and creative industries have played a significant role in the expansion of the fringe office market. These sectors have accounted for an average of 39% of annual leasing activity, well above the Sydney CBD average of 18%. More recently, occupier demand has become increasingly diverse, with professional services, financial services and other traditional CBD based occupiers showing growing interest in the fringe locations.

As the market has evolved, distinct business clusters have emerged across city fringe. Chippendale and Ultimo continue to attract education and technology occupiers, Pyrmont has developed a strong presence in digital and real estate sectors, Surry Hills offers a diverse occupier profile, while Eveleigh has established itself as a growing hub for technology and research-led businesses.

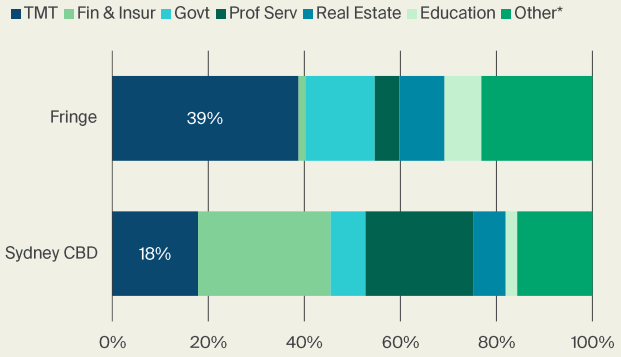
VACANCY WELL BELOW BROADER SYDNEY MARKETS

Strong occupier demand and constrained office supply have supported consistently lower vacancy rates across Sydney's city fringe relative to the CBD and broader metropolitan markets.

The shortage of prime-grade space remains particularly evident as occupiers continue to prioritise high-quality office space. Prime vacancy across key markets including Eveleigh, Darlinghurst, Surry Hills and Chippendale remain below 3%, providing limited options for tenants seeking prime space. Notably, Eveleigh and Darlinghurst have reported limited prime vacancy since Q4 2025, highlighting the acute shortage of quality space in some of the fringe's most tightly held markets.

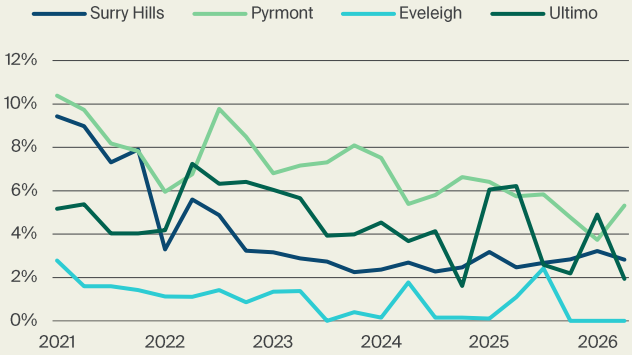
The scarcity of quality space continues to support leasing demand for newly completed, refurbished and repositioned assets, reinforcing the competitive advantage of well-located buildings offering modern workplace environments and strong amenity access.

Lease deals by industry sector
5 year average by market



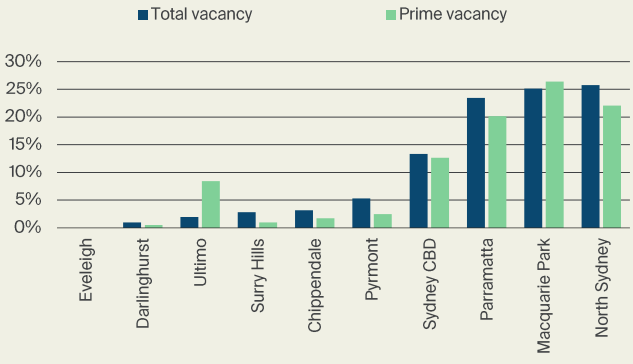
Source: Knight Frank Research

Overall vacancy
By market, 2021-2026



Source: Knight Frank Research

Vacancy by market
Total v prime, %, as at July 2026



Source: Knight Frank Research

Prime office stock remains constrained

A CLEAR UNDERSUPPLY OF PRIME OFFICE SPACE

Prime office space remains limited across the City fringe, despite continued occupier preference for high-quality workspace. Prime-grade stock accounts for less than 40% of total fringe stock, well below the CBD's 66%, highlighting the opportunity for future development and asset repositioning. Surry Hills, the largest fringe market, has just 12% of prime stock, while Darlinghurst and Chippendale have a 30% share of prime stock each.

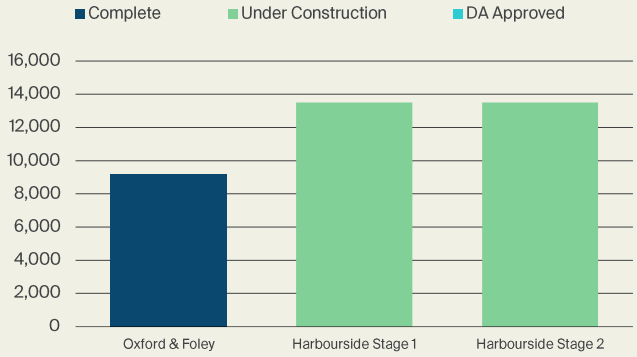
LIMITED PIPELINE PRESENTS OPPORTUNITY

City Fringe developments have historically performed well, reflecting strong occupier demand for high-quality accommodation. The most recent completion, Oxford & Foley, delivered over 9,000 sqm of office space and 2,300 sqm of retail space in H1 2026. The project secured major commitments from Sony Music, highlighting occupier preference for high-quality office space in amenity-rich fringe locations.

The development pipeline remains limited. Recent activity has largely been confined to boutique-scale projects, while several previously proposed office developments, have since revised their development applications towards alternative uses. Beyond this, future supply is largely concentrated in Mirvac and Mitsubishi Estate's two-stage Harbourside development in Pyrmont, which is expected to deliver approximately 27,000 sqm of office and 7,000 sqm of retail space in 2027.

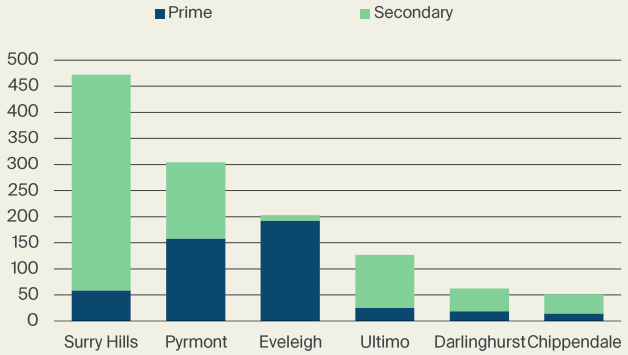
With fewer large-scale development opportunities available and several proposed office schemes shifted towards residential outcomes, future additions to the city fringe office market are expected to remain limited. As a result, refurbishment and repositioning of existing assets are likely to remain an important source of new prime office accommodation, particularly in established precincts such as Surry Hills, Pyrmont and Darlinghurst.

Development pipeline
By status, sqm



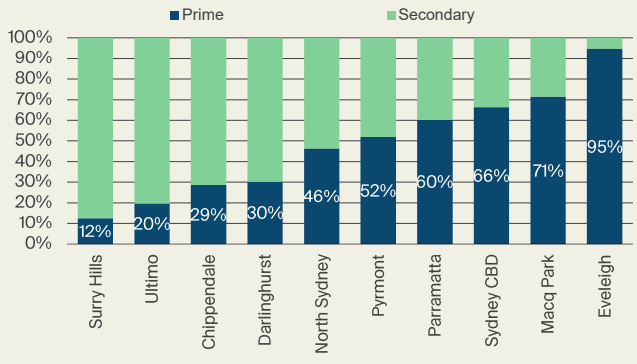
Source: Knight Frank Research

Office stock size
By market, '000 sqm



Source: Knight Frank Research

Composition of office stock
By market, %



Source: Knight Frank Research

Rental growth supported by tight market conditions

FACE RENTS RISE AND INCENTIVES TIGHTEN

Prime net face rents across Sydney's fringe office markets ranged between $800/sqm and $1,200/sqm, reflecting the broad range between specific suburbs and assets. Surry Hills recorded the strongest annual growth, with prime face rents increasing by 5.7% over the year to July 2026, followed by Chippendale (3.6%) and Pyrmont (3.4%).

Over the past decade, rental growth across several fringe markets has outperformed the Sydney CBD. While CBD prime net face rents have increased by 65% since 2015, prime rents in both Surry Hills and Pyrmont have doubled over the same period. As a result, the rental discount to the CBD has narrowed significantly, with Surry Hills' discount reducing from 50% in July 2015 to 38% in July 2026, while Pyrmont's discount has compressed from 51% to 41%.

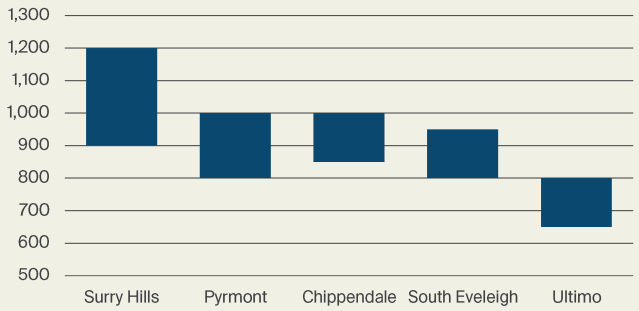
Incentives vary more widely across markets and individual assets, generally ranging between 27.5% and 37.5%, although select assets are offering incentives above 40%. All fringe precincts recorded positive effective rental growth, led by Surry Hills (8.2%), followed by Pyrmont and Chippendale at 6.0%.

TIGHT MARKET CONDITIONS SUPPORT FUTURE RENTAL GROWTH

The outlook for rental growth remains supported by strong occupier demand, limited availability of prime space and a constrained development pipeline.

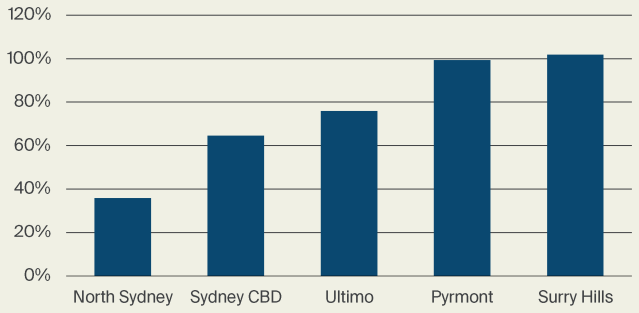
While future projects, including the broader Tech Central and Harbourside redevelopment, will introduce additional office supply, new stock remains limited relative to the strong occupier demand across the city fringe. Rental growth is expected to remain strong, particularly in locations offering high-quality space, strong amenity and access to major transport infrastructure.

City Fringe prime net face rents
$/sqm, Q2 2026



Source: Knight Frank Research

10 year net face rental growth
By market, % change between Jul-16 to Jul-26



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Size sqm	Gross Face Rent $/sqm	Term yrs	Start Date
Morse Micro *	10-14 Waterloo St, Surry Hills	2,135	1,300	3	Q1-27
Lendi ~	2 Locomotive, South Eveleigh	3,054	1,012	7	Q2-26
Canva*	10-14 Waterloo St, Surry Hills	1,415	1,244	1	Q4-26
Monday Haircare ~	60-66 Sophia St, Surry Hills	780	1,262	5	Q2-26
Apparent Communications ~	8 Central Avenue, Eveleigh	2,031	967	7	Q2-26

Pre-commitment ^Sublease ~ Direct * Renewal
Source: Knight Frank Research

Fringe assets remain attractive to investors

INVESTMENT DEMAND FOCUSED ON TIGHTLY HELD FRINGE ASSETS

Following a strong rebound in 2025, investment activity has moderated in 2026 as investors remain selective amidst an evolving economic environment. Transaction volumes totalled $507 million in 2025, the highest annual result since 2019. By comparison, $45 million of office transactions have been reported year-to-date in 2026.

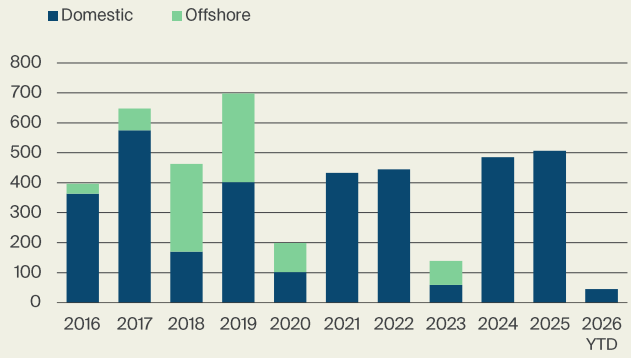
Transactions over the last year include 19-21 Buckland St, Chippendale, which sold for $17 million with the plan to redevelop into a co-living project. In Ultimo, the former Reader's Digest Headquarters (80 Bay St) was acquired by a private investor for $20 million from Mirvac and Perron, while 85-93 Commonwealth St, Surry Hills transacted for $25 million. These transactions highlight continued investor interest in well-located city fringe assets, particularly those offering redevelopment, repositioning and alternative-use potential.

YIELDS HAVE HELD FLAT SINCE H2 2024

Prime office yields across Sydney's city fringe have remained broadly stable since H2 2024, following the softening trend that played out from 2022. Across fringe markets, prime yields have softened by 150 to 225 bps from their tightest levels in 2022 and now range between 6.0% and 7.75%, with Surry Hills at the tighter end of this range.

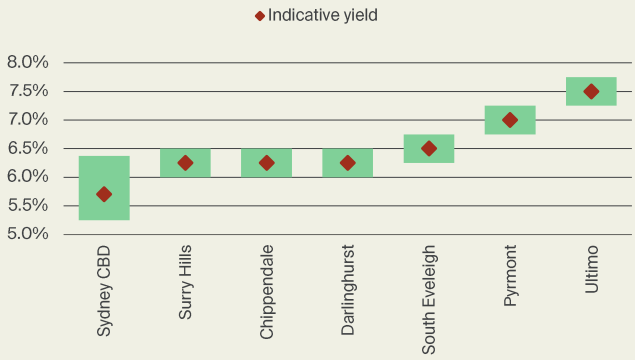
As investor demand remains strongest for assets located in tightly held precincts with low vacancy and strong leasing fundamentals, Surry Hills, Darlinghurst and Chippendale record some of the lowest prime yields across fringe markets. In contrast, Ultimo and Pyrmont show greater variability in yield expectations, reflecting a broader mix of asset quality, tenancy profiles and market positioning. Consequently, yields in these precincts typically trade at a wider spread relative to other city fringe locations.

Sydney fringe office sales $10m+
By purchaser ($m), domestic v offshore



Source: Knight Frank Research

Sydney fringe prime office yields
%



Source: Knight Frank Research

Recent significant sales

Property	Price $ m	Core Market Yield %	NLA sqm	$/sqm NLA	WALE	Purchaser	Vendor	Sale Date
80 Bay St, Ultimo	20.0	U/D	3,881	5,153	U/D	Private Investor	Mirvac JV Perron Group	Jul-26
85-93 Commonwealth St, Surry Hills	25.1	5.47	1,737	14,450	1.7	VL Surry Hills 85 Pty Ltd	Private Investor	Feb-26
19-21 Buckland St, Chippendale	17.0	U/D	1,035	16,425	U/D	Victoria Property Investment Property	HB&B Property	Dec-25
79 Commonwealth Street, Surry Hills	32.65	6.56	2,221	14,700	1.72	Denwol	Titanium Property	Nov-25

Economic and demographic strengths underpin fringe

ECONOMIC EXPANSION SUPPORTED BY POPULATION AND EMPLOYMENT GROWTH

Sydney's CBD and inner fringe have experienced strong economic growth over the past two decades, underpinned by sustained population growth and employment expansion. Gross Regional Product (GRP) within the City of Sydney local government area, including the CBD and surrounding precincts such as Darlinghurst, Surry Hills, Pyrmont, Ultimo, Chippendale and Redfern, totalled $171 billion in 2025, increasing by 2.5% over the year. Economic output has more than doubled since 2005, growing at an average rate of 3.3% per annum, significantly outpacing Greater Sydney, which expanded by 57% (2.2% per annum) over the same period.

Strong population growth has been a key contributor to this expansion. Over the past two decades, the population of Sydney's CBD and inner fringe increased by 67%, compared to 34% across Greater Sydney. Together, these trends have reinforced the area's position as a major employment and business hub within metropolitan Sydney.

DEMAND DRIVEN BY SERVICE-ORIENTED ECONOMY

Sydney's economy continues to be characterised by a strong concentration of highly skilled service industries. In 2025, Financial and Professional Services accounted for 24.4% of Gross Value Added (GVA), increasing from 20.0% in 2005, while relative contribution of manufacturing has declined. The structural shift towards knowledge-intensive industries has supported the concentration of white-collar employment across inner-city precincts. The trend continues to underpin office demand, particularly in fringe markets that benefit from proximity to major employment clusters and access to highly skilled workforce.

YOUNG AND HIGHLY SKILLED WORKFORCE ACROSS THE CBD AND FRINGE

The City fringe and CBD continues to attract a younger and more highly educated population than Greater Sydney. According to the 2021 Census, 42% of residents across the CBD and city fringe were aged between 20 and 34 years, nearly double the 22% recorded across Greater Sydney. Precincts such as Pyrmont-Ultimo, Redfern-Chippendale and the CBD recorded particularly high concentration of this age cohort, ranging from 38% to 50% of residents.

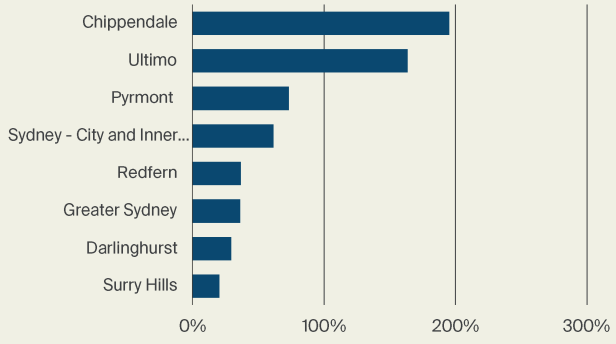
In addition to its younger demographic profile, Sydney's inner city also benefits from a highly educated workforce. Around 50% of residents across the CBD and fringe held a bachelor's degree or higher, compared with 44% across Greater Sydney. Precincts such as Pyrmont-Ultimo, Redfern-Chippendale and Surry Hills recorded some of the highest tertiary attainment rates, ranging between 47% and 51%.

HIGH INCOME EARNING POPULATION HIGHLIGHT THE FRINGE'S APPEAL AS AN AREA TO LIVE AND WORK

Sydney's city fringe continues to attract a highly skilled and educated resident population, reflected in its above-average income profile. The concentration of high-income households reinforces the area's appeal as both a desirable residential location and a key employment hub.

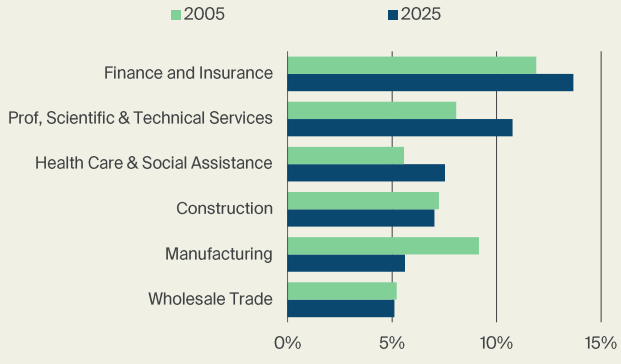
Darlinghurst and Surry Hills recorded the highest share of residents earning of $3,000 or more per week, at 20.0% and 17.6% respectively, more than double the Greater Sydney average of 7.5%. Pyrmont-Ultimo and Redfern-Chippendale also recorded elevated concentrations of high-income earners, with 12.7% and 10.6% of residents respectively falling within this income bracket.

Population growth, 2002 - 2025
Per cent



Source: Knight Frank Research, ABS

Sydney industry structure
Share of GVA



Source: Knight Frank Research

DATA DIGEST

City Fringe Stock Definition: Includes suburbs in Surry Hills, Pyrmont, Darlinghurst, Ultimo, Chippendale, Redfern, Eveleigh. Office stock generally above 1,500sqm

Prime Grade: asset with modern design and/or recent development, good condition & amenity. Rents achieved in these assets are generally upper end range of the average band

WALE: Weighted Average Lease Expiry

Charts and data reflected in report are as at July 2026

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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