Sydney CBD Office Market

Knight Frank

H2 - 2026

Strengthening occupier market in the core CBD has driven significant rental growth.

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Key Insights

Investors and occupiers continue to prioritise quality assets in amenity rich locations.



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7.7%

Premium vacancy

Premium vacancy has declined from 10.8% to 7.7% over the last two years.

264K

Five year premium grade net absorption

Premium grade stock has outperformed over the last five years, specifically in the core precinct, driving overall absorption levels across the CBD.

176k

Sqm of premium supply under construction

Total premium office space under construction between 2026-29 in Sydney CBD, with 70% of this space already pre-committed.

480k

Sqm occupier briefs

Occupier enquiry has been healthy with over 480,000sqm of active tenant briefs tracked over the last 12 months, underpinning strengthening demand.

11.2%

Rental growth in the core

Prime net face rents have grown by 11.2% in the core over the year, the strongest level of growth across all precincts.

5.7%

Average prime yield

Prime yields have held firm over the first half of the year at 5.7%.

Sydney CBD Office Market Indicators – July 2026

Grade	Total Stock sqm	Vacancy Rate %	Annual Net Absorption sqm	Annual Net Additions sqm	Average Gross Face Rent $/sqm	Average Incentive %	Net Effective Rent Gth % y/y	Core Market Yield %*
Prime	3,577,029	12.6%	76,500	28,374	1,726	34.9%	12.2%	5.70%
Secondary	1,802,362	14.7%	-46,426	-16,497	1,224	35.4%	5.0%	6.25%
Total	**5,379,391**	**13.3%**	**30,074**	**11,877**				

Source: Knight Frank Research / PCA

* Assuming WALE 5 years

Core premium drives demand

STRENGTHENING DEMAND IN THE OCCUPIER MARKET

Sydney CBD occupier demand continues to strengthen, with recent leasing trends increasingly pointing to a sustained and structural uplift in demand. Net absorption totalled 30,074 sqm over the past 12 months, marking a second consecutive year of positive absorption and reinforcing the view that the positive demand trend will continue.

Importantly, this momentum continues to be led by the prime market, where 76,500 sqm of positive net absorption was recorded over the year. In contrast, secondary stock recorded negative absorption of 46,426 sqm, highlighting the increasingly pronounced divergence between best-in-class assets and the broader market. This reflects the structural shift in occupier preferences towards higher-quality, well-located and highly amenitised workplaces.

The forward demand pipeline also remains encouraging, with more than 480,000 sqm of active tenant requirements tracked over the past 12 months. The sustained depth of enquiry provides a strong foundation for further leasing activity and points to growing occupier confidence in longer-term accommodation decisions.

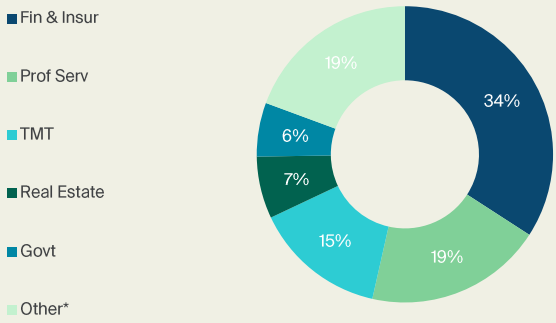
Financial and professional services continue to underpin demand, accounting for 34% and 19% of total leasing volumes respectively since 2025, while the CBD Core has captured 42% of activity. With occupiers increasingly prioritising workplace quality, transport connectivity and amenity, demand remains firmly concentrated within premium and core locations, positioning these assets to capture a disproportionate share of leasing activity as the current demand cycle strengthens.

PRIME DEMAND DRIVES VACANCY COMPRESSION

Strengthening occupier demand has driven overall vacancy down to 13.3% as at July 2026. Importantly, this tightening has occurred despite the delivery of 270,016 sqm of new development over the past two years, which has tempered the pace of vacancy compression. Occupied stock increased by 0.6% over the past year, well above the 10-year average.

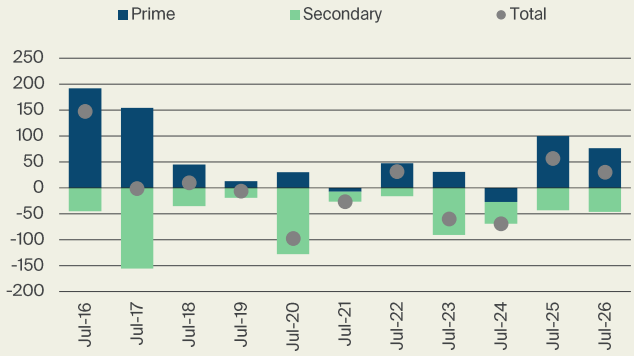
The improvement has been most pronounced in the premium market, where vacancy has tightened from 10.8% to 7.7% over the past two years, while secondary vacancy remains elevated at 14.7%. Sublease vacancy has also fallen to just 0.7%, one of its lowest levels since 2019.The structural shift towards quality remains evident, with premium stock recording 263,830 sqm of positive absorption over the past five years, compared with negative absorption of 238,656 sqm across secondary stock. This divergence extends to location, with the CBD Core the only precinct to record positive absorption over this period, reinforcing the concentration of demand towards higher-quality assets in core locations.

Sydney CBD lease deals by industry sector
2025 - 2026 YTD, % share of total market (sqm)



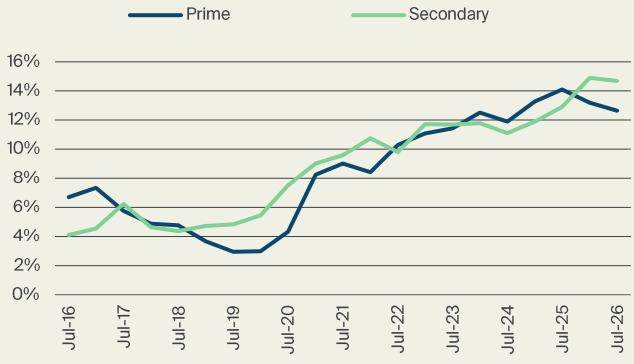
Source: Knight Frank Research
**Other includes Health Care, Admin Services, Education, Accommodation, Mining, Transport, Construction.*

Sydney CBD office annual net absorption
By grade, '000 sqm



Source: Knight Frank Research, PCA

Sydney CBD office vacancy
Prime v secondary, %



Source: Knight Frank Research, PCA

Constrained pipeline

NO NEW SUPPLY IN 2026

Development activity has moderated significantly following the substantial wave of new supply delivered across the Sydney CBD in recent years. No new developments have completed so far in 2026, providing the market with a period to absorb the significant volume of space delivered through 2024 and 2025. During 2025, new development completions were limited to 121 Castlereagh Street, which added 11,500 sqm, while refurbishments returned a further 93,964 sqm to the market. This was led by the comprehensive redevelopment of 33 Alfred Street (31,657 sqm), which was more than 90% committed at completion, alongside Charter Hall's refurbishment of One Shelley Street (29,772 sqm), which also achieved strong leasing outcomes.
The absence of new completions so far in 2026, combined with strengthening occupier demand, provides a supportive backdrop for further absorption of existing availability and continued vacancy tightening.

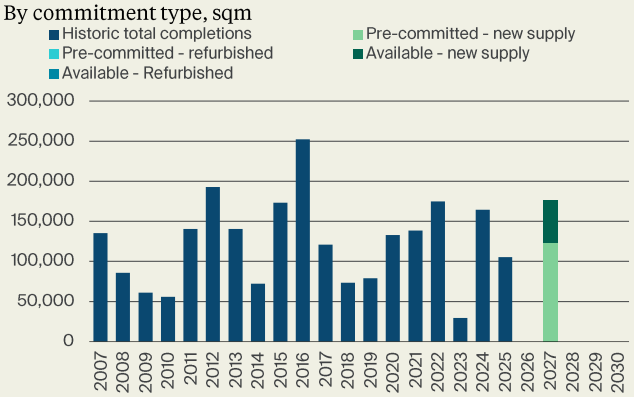
LIMITED PIPELINE WILL SUPPORT RENTAL GROWTH

Looking ahead, the development pipeline remains constrained, with just three major projects currently under construction, all scheduled for completion in 2027. Charter Hall's Chifley South (c55,000 sqm) is well advanced with commitments at c60%, while Mirvac and Mitsui Fudosan's 55 Pitt Street (63,000 sqm) is more than 50% committed. In the Southern precinct, Dexus's Atlassian Central (58,000 sqm) will provide Atlassian's new global headquarters.

New CBD developments have historically achieved strong leasing outcomes, a trend continuing across the current pipeline. High levels of pre-commitment will limit the amount of new space reaching the market and combined with strengthening occupier demand, should support the continued absorption of existing vacancy and further market tightening.

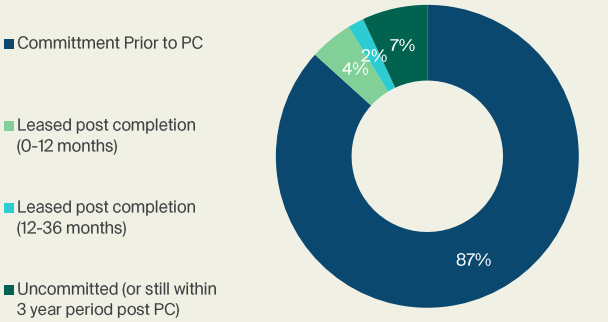
Beyond the current pipeline, new premium development is expected to remain limited over the medium term, with elevated economic rents continuing to challenge project feasibility. While several schemes have development approval, many remain on hold. Halo Tower (42,400 sqm) is among the more advanced future projects, with site works now underway, positioning the scheme as one of the more likely developments to progress over the next five years. With limited competitive supply beyond 2027, strengthening demand is expected to place further downward pressure on vacancy, supporting stronger rental growth and providing landlords with greater scope to reduce incentives.

Sydney CBD development completions
By commitment type, sqm



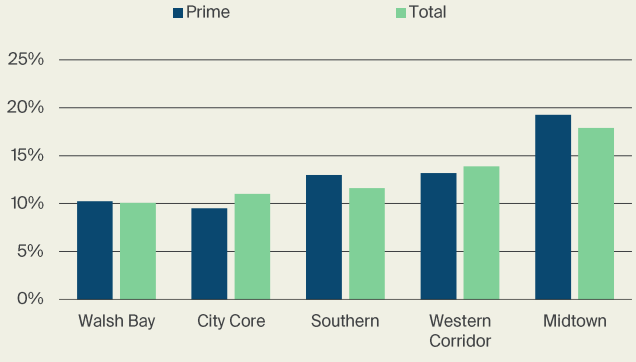
Source: Knight Frank Research

Letting up times new developments
Sydney CBD, since 2018



Source: Knight Frank Research

Sydney CBD office vacancy rates by precinct
Prime vacancy v total vacancy, as at Jul-26



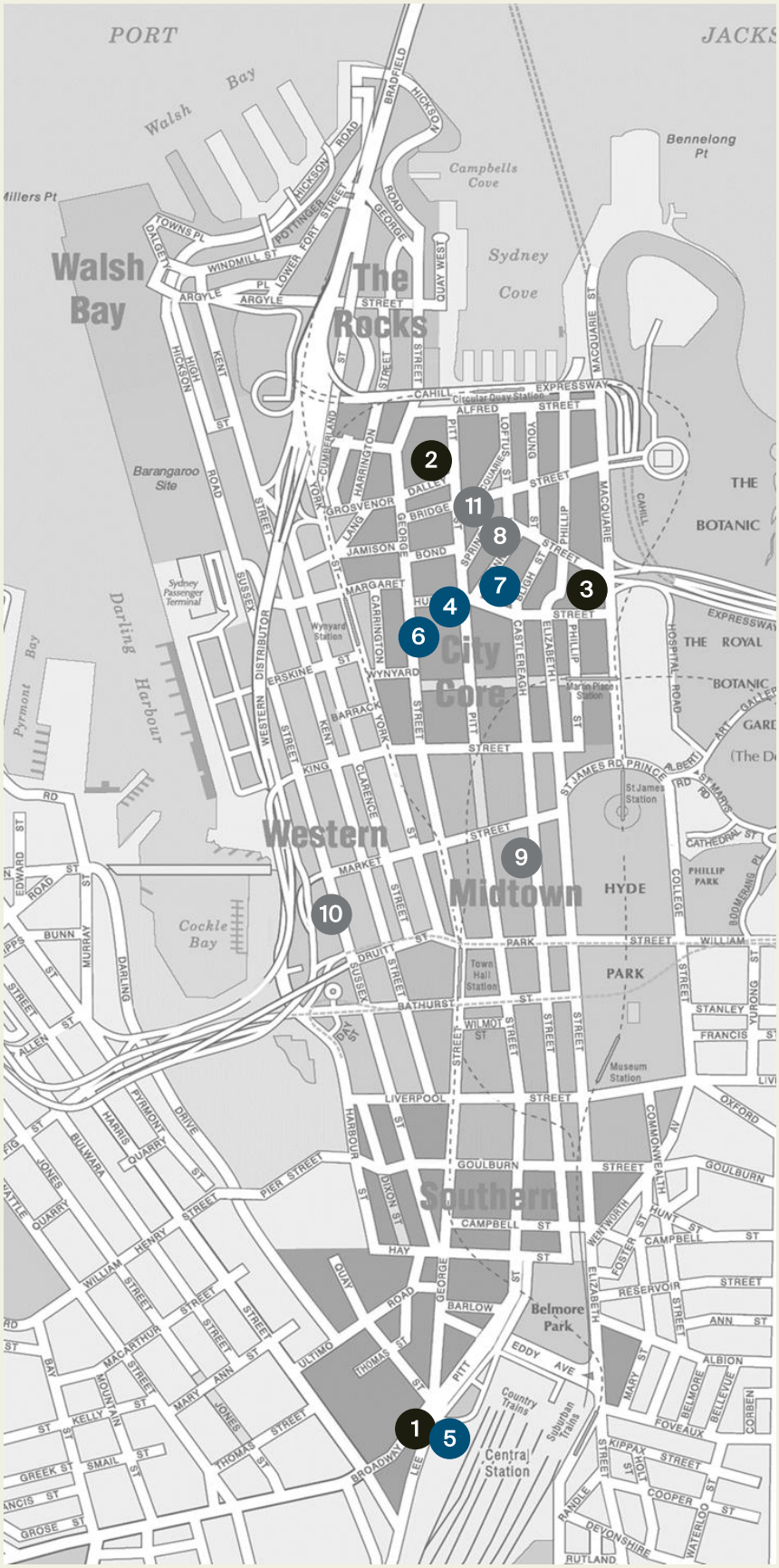
Source: Knight Frank Research

Major office supply

Under Construction / Major Pre-commitment			
#	ADDRESS	SQM	COMPLETION
1	Atlassian Central	58,000	H1 2027
2	55 Pitt Street	63,000	H1 2027
3	Chifley South	55,000	H2 2027

Development Approved			
#	ADDRESS	SQM	COMPLETION
4	Halo Tower	42,400	2031
5	Toga Central	22,000	2031
6	Hunter Connection West Tower	58,000	2033
7	Hunter Connection East Tower	72,000	2034

Mooted			
#	ADDRESS	SQM	COMPLETION
8	O Block	112,000	/
9	133 Castlereagh St	85,000	/
10	Darling Park Tower 4	75,000	/
11	56 Pitt Street	90,000	/



Effective rental growth accelerates

NET FACE RENTS RECORD STRONGEST GROWTH IN SEVEN YEARS

On an annual basis (to July 2026), average prime net face rents increased by 9.5% to $1,470/sqm ($1,726/sqm gross face, up 9.0% y/y). Similarly, secondary net face rents rose by 5.2% to $1,020/sqm ($1,224 gross face, up 5.1% y/y) over the 12 months to July 2026. As a result, the spread between prime and secondary net face rents widened to 31%, reaching its highest level in a decade.

Positive face rental growth was recorded across all precincts except in the Southern precinct. Core, Western and Barangaroo achieved the strongest annual face rental growth since 2019, reflecting continued occupier preference for core locations.

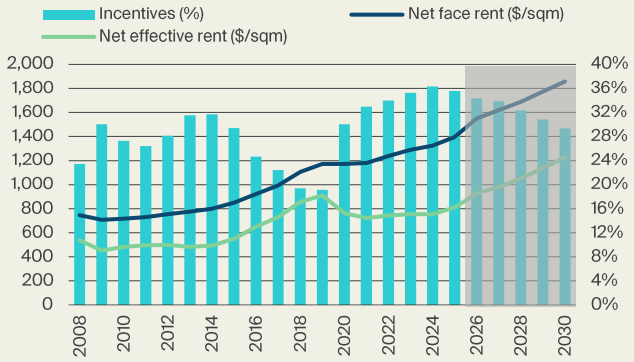
NET EFFECTIVE RENT'S IN THE CORE SOAR

Incentives edged down slightly to 34.9% in H1 2026, marking the lowest average prime incentive level in three years. This was primarily driven by best-in-class buildings, with incentives in the Core declining from 32.4% to 31.6% and Barangaroo from 33.0% to 32.0% over H1 2026. In contrast, incentives in Southern remained unchanged at 42%

As a result of rising face rents and easing incentives, prime net effective rents recorded double-digit annual growth of 12.2%. The growth was led by the Core, where net effective rents increased by 14.8%, followed closely by Barangaroo at 14.2% and Western at 9.1%.

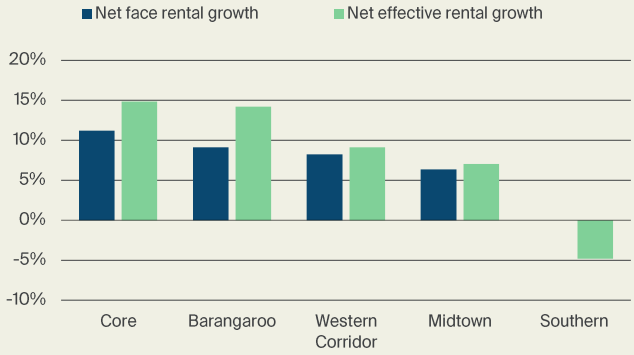
Notably, this growth has lifted net effective rents in the Core to its highest level on record, now 4% higher than pre-pandemic levels. Barangaroo is now only 4% below its 2019 level, while other precincts remain further behind, with Midtown 11% below, Western 23% below and Southern 25% below.

Sydney CBD office rents and incentive
$/sqm, %



Source: Knight Frank Research

Sydney CBD prime office rental growth
Annual rental growth rate



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Net face rent $/sqm	Incentive %	Term yrs	Start Date
QUBE Research ~	88 Phillip St	Core	1,356	1,830	27.0	7	Q2-27
Scentre *	100 Market St	Midtown	9,169	1,187	42.0 (g)	10	Q1-27
Australian Registry Investments ~	680 George St	Midtown	1,816	1,200	43.5	10	Q1-27
Optiver ~	275 Kent St	Western	9,225	1,465	38.0	10	Q1-26
Southern Cross Austereo ~	50 Goulburn St	Southern	3,558	969	31.0	5	Q1-26

~ Direct * Renewal (g) Gross
Source: Knight Frank Research

Investment activity gaining momentum

CAPITAL VALUES TRENDING UP

Following the modest yield tightening recorded in H2 2025, Sydney CBD office yields remained stable throughout H1 2026, with the average prime yield holding at 5.70% and secondary yield at 6.25%. Yield differentials continue to reflect investor preference for core locations, with spreads of 30bps between Core and Barangaroo, 63bps between Core and Midtown, 123 bps between Core and Western, and 171bps between Core and Southern. Supported by strong rental growth and stable yields, prime capital values have continued to increase for multiple quarters.

UNDERLYING FUNDAMENTALS ATTRACTING MORE CAPITAL INTO THE MARKET

The Sydney CBD investment market is gaining momentum, with institutional investors seeking exposure to improving office market fundamentals while existing owners are increasingly taking advantage of improved market liquidity to recycle capital and optimise portfolios. Recent transactions highlight growing pricing confidence and renewed investor conviction in prime office assets.

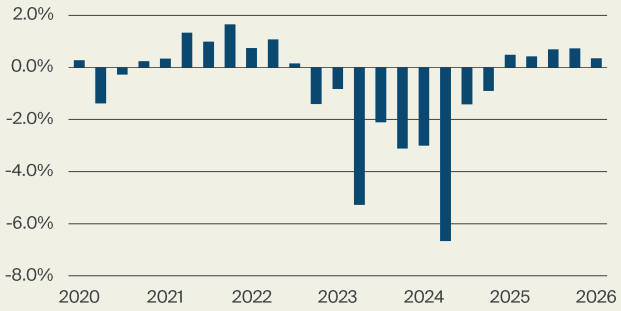
Aware Super acquired a 50% interest in 100 Market St from Link REIT for $226 million. Charter Hall took over Abu Dhabi Investment Authority's and Lendlease's stake in the O'Connell precinct giving it full control. This marks a strategic CBD landholding centred on 1 O'Connell St and comprising a collection of surrounding assets with significant long-term redevelopment potential.

Investa and BGO agreed to acquire a portfolio of assets in Brisbane and Sydney, including 30 Hickson Road and 36 Hickson Road from Dexus. The transaction was completed at a slight discount to the June 2026 book valuation and marked the completion of Dexus $2 billion divestment program ahead of its FY 27 schedule. Additionally, GIC has recently agreed to acquire 1 Market Street from Investa for $450 million.

Transaction activity has become increasingly broad-based, with both domestic and offshore investors actively pursuing acquisition opportunities across CBD.

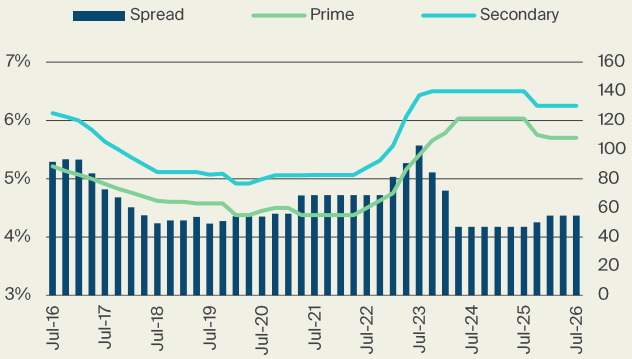
Solid investment activity is expected to continue, supported by its long-term fundamentals. Limited new supply, positive rental growth expectations and improving tenant demand are likely to support targeted acquisition opportunities, with a clear preference for prime and well-located assets.

Growth has returned
Sydney CBD office, quarterly capital value growth %



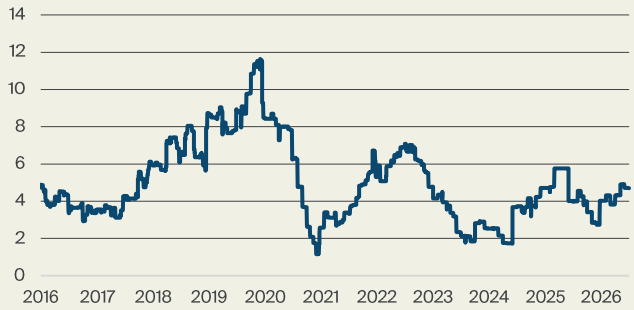
Source: Knight Frank Research, MSCI

Sydney CBD core precinct office yield spread
Prime v secondary



Source: Knight Frank Research

Sydney CBD annual rolling transaction volume
12-month rolling Sydney office transaction volume, closed and pending (AUD) billions)



Source: Knight Frank Research, RCA

Recent significant sales

Property	Price $ m	Core Market Yield %	NLA sqm	$/sqm NLA	WALE	Purchaser	Vendor	Sale Date
100 Market St (50%)	225.9*	6.6	28,339	15,941	5.5	Aware Super	Link REIT	Q3-26
World Square, 680 George St & 50 Goulburn St (50%)	454.0	7.5	67,705	13,411	3.2	Centuria Capital Group	Brookfield Properties	Q3-26
O-Connell Precinct (50%)	529.5	5.8	59,167	17,890	2.3	Charter Hall	ADIA	Q1-26
180 George St (19.9%)	357.2	5.5	61,917	28,992	4.6	OUE REIT	Mitsubishi Estate	Q1-26
32-36 York St	166.4*	6.2	8,202	20,286	5.5	DWS Group	Milligan Group / Merricks Capital	Q1-26

*Net sale price
Source: Knight Frank Research

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Recent Research



Australian Office Indicators



Leading Indicators



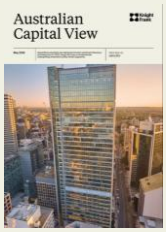
Sydney Industrial State of the Market



Sydney CBD Office State of the Market



The Budget Report



Australian Capital View

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