



Charter
Keck Cramer

CBD Office Market Commentary

**Sydney, Melbourne and Brisbane
H2-2025**

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At Charter Keck Cramer, our Valuations, Advisory and Research teams provide independent, evidence-based advice across all segments of the property market.

Our deep market understanding and analytical approach support clients in making confident, strategic decisions.

Executive Summary H2-2025

Sydney Summary

The Sydney office market has recently shown signs of improvement, particularly in premium grade spaces, while overall vacancy rates remain high due to ongoing tenant consolidation, flexible work arrangements, and a supply lag from previous cycles. Elevated tenant incentives continue, especially in sub-markets with greater vacancy, though face rents appear stable or slightly rising. The market is also experiencing a "flight to quality", with premium buildings recording positive absorption and secondary grades facing negative absorption, a trend driven by businesses seeking higher quality spaces and incentives.

Investment activity has been subdued, with the bifurcation between prime and secondary yields becoming more pronounced as secondary yields soften more than those of prime assets. The higher interest rate environment has increased debt costs and softened yields, making loan serviceability more challenging and stifling transaction volumes. However, the ongoing reshaping of the CBD—supported by major infrastructure projects like the new Metro lines—along with government efforts to encourage a return to the office and narrowing price gaps between buyers and sellers, is expected to boost sales activity and gradually improve occupancy rates as the market continues to adjust.

Melbourne Summary

The Melbourne office market is demonstrating early signs of recovery, with some improvement in occupancy, especially within Premium and A-Grade spaces. However, vacancy rates remain high and overall occupancy is subdued, driven by ongoing tenant consolidation, flexible working patterns, and a lag in supply from previous cycles. Tenant incentives are still elevated, particularly in sub-markets with higher vacancies, though face rents have stabilised and are beginning to edge upwards for higher quality assets.

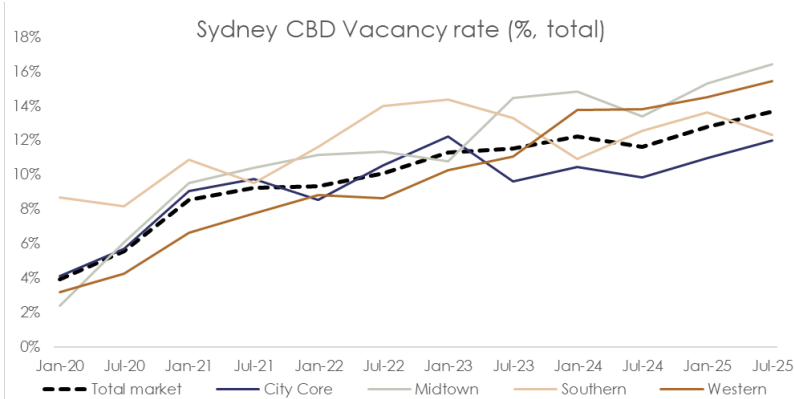
Charter Keck Cramer notes a widening gap between prime and secondary yields, with secondary yields likely having softened more noticeably, a trend expected to become clearer as transaction volumes pick up. The elevated interest rate environment continues to challenge net cashflows and interest cover, stifling investment activity. Ongoing major infrastructure projects, including the nearing completion of the Metro Tunnel, are expected to enhance CBD connectivity and may positively influence office occupancy in certain precincts. As price expectations between buyers and sellers converge, increased sales activity is anticipated in the latter part of 2025 and into 2026, particularly as some owners are compelled to recycle capital due to rising costs and weaker cashflows.

Brisbane Summary

In Brisbane, leasing demand strengthened post-lockdowns, with face rents increasing due to both higher demand and inflationary pressures, although recent evidence suggests a slight tapering in activity. Tenant incentives remain elevated, especially in premium and A-grade buildings, reflecting increased construction and fitout costs. The market continues to see a "flight to quality," with premium and A-grade buildings outperforming secondary assets in terms of vacancy and rental growth. As of July 2025, Brisbane CBD vacancy rates stood at 10.7%, with ongoing and future developments largely pre-committed, indicating sustained demand for high-quality office space and limited relief from new supply.

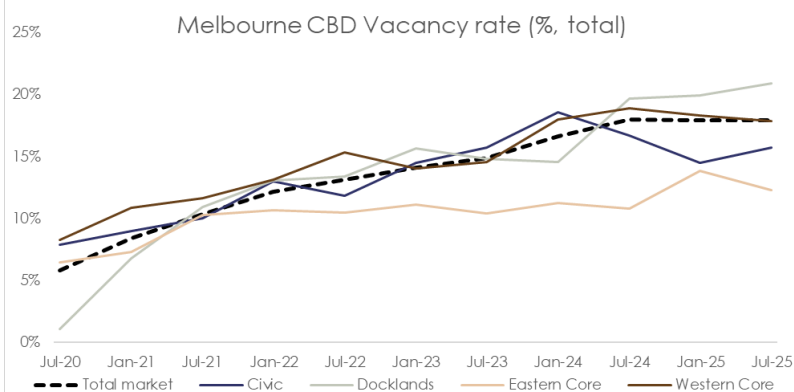
The Queensland office property market experienced strong demand for securely leased, high-quality assets throughout 2021 and early 2022, driven by low interest rates and a limited supply of investment options. However, following the Reserve Bank of Australia's rate hikes starting in May 2022, demand softened, with fewer purchasers and properties available. As the market adjusts, yields have softened—particularly for larger and secondary assets with higher cashflow risk—leading to a decline in capital values, despite rising rents. By early 2025, yields for premium grade office buildings averaged 6.75% to 7.00%, with secondary assets at around 8.25% to 8.50%. Owner-occupiers have remained active, less affected by traditional investment returns.

Vacancy Rates – Sydney, Melbourne, Brisbane



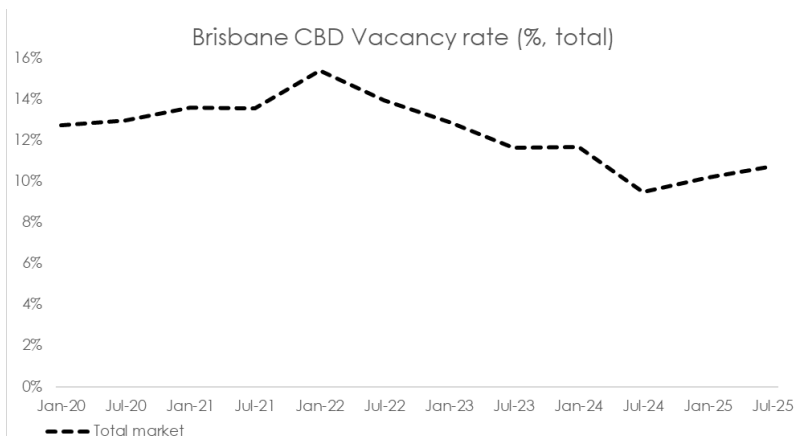
Source: PCA OMR July 2025, Charter Keck Cramer

- ✦ The vacancy rate in the Sydney CBD in July 2025 was 13.7%. This is higher than the vacancy rate before the pandemic (3.9% in January 2020) as well as the 10-year average (8%).
- ✦ Vacancy rates were highest in Midtown (16.4%) and lowest in the City Core (12%).
- ✦ Charter notes that vacancy rates are impacting the types of incentives being offered with more speculative fitouts being explored by landlords to entice tenants into the buildings.



Source: PCA OMR July 2025, Charter Keck Cramer

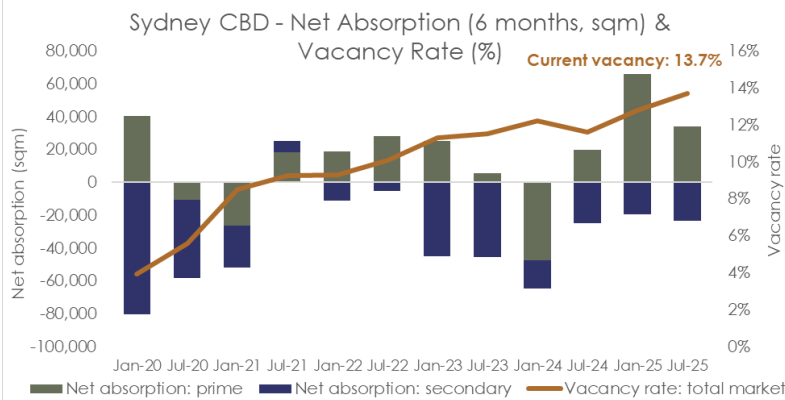
- ✦ The vacancy rate in the Melbourne CBD in July 2025 was 17.9%. This is higher than the vacancy rate before the pandemic (3.2% in January 2020) as well as the 10-year average (9.6%).
- ✦ Vacancy rates were highest in the Docklands (20.9%) and lowest in the Eastern Core (12.3%).
- ✦ The lockdowns and working from home changes have placed upwards pressure on vacancy rates across various precincts in the CBD.



Source: PCA OMR July 2025, Charter Keck Cramer

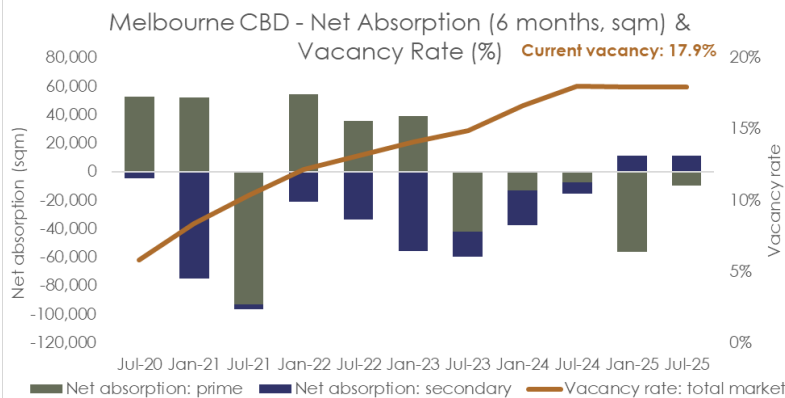
- ✦ The vacancy rate in the Brisbane CBD in July 2025 was 10.7%. This is lower than the vacancy rate before the pandemic (12.7% in January 2020) as well as the 10-year average (13.4%).
- ✦ The Brisbane CBD office market has been one of the best performing markets in Australia and continues to be the beneficiary of significant investment by the State Government in city-shaping infrastructure in the lead up to the Olympics in 2032.

Net Absorption – Sydney, Melbourne, Brisbane



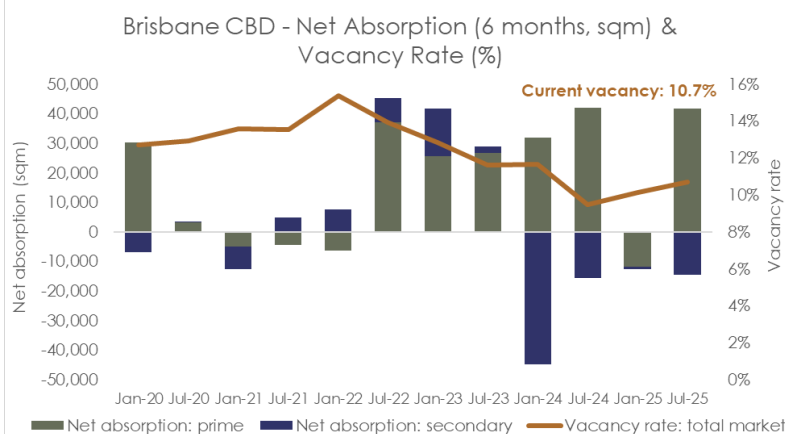
Source: PCA OMR July 2025, Charter Keck Cramer

- ✦ In the 6 months to July 2025 there was positive net absorption of 33,877 sqm across the prime office market and negative net absorption of -23,579 sqm across the secondary office markets in the Sydney CBD.
- ✦ The primary drivers of negative net absorption over recent times has been a consolidation of space by large occupiers such as Westpac, CBA and AMP, with 25 of Sydney's largest occupiers reducing their footprint since Q1 2020.



Source: PCA OMR July 2025, Charter Keck Cramer

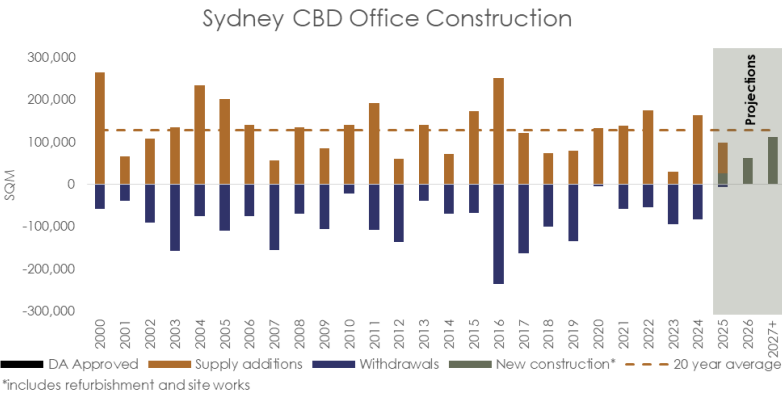
- ✦ In the 6 months to July 2025 there was negative net absorption of -9,933 sqm across the prime office market and positive net absorption of 11,379 sqm across the secondary office markets in the Melbourne CBD.
- ✦ The completion of the Metro Tunnel is anticipated to have a positive impact on various precincts of the CBD over the next 12 months (particularly the Civic and Eastern Core precincts).



Source: PCA OMR July 2025, Charter Keck Cramer

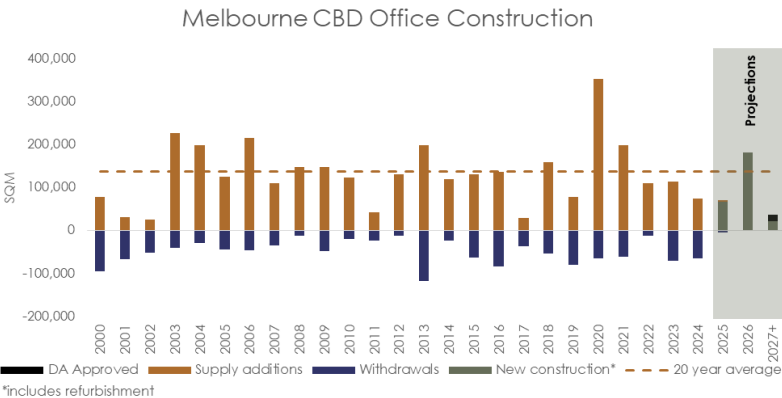
- ✦ In the 6 months to July 2025 there was positive net absorption of 41,905 sqm across the prime office market and negative net absorption of -14,432 sqm across the secondary office markets in the Brisbane CBD.
- ✦ Much like in Sydney and Melbourne, there is a flight to quality which is occurring across the Brisbane CBD which is anticipated to continue for the next 12 months.

Supply / Withdrawals – Sydney, Melbourne, Brisbane



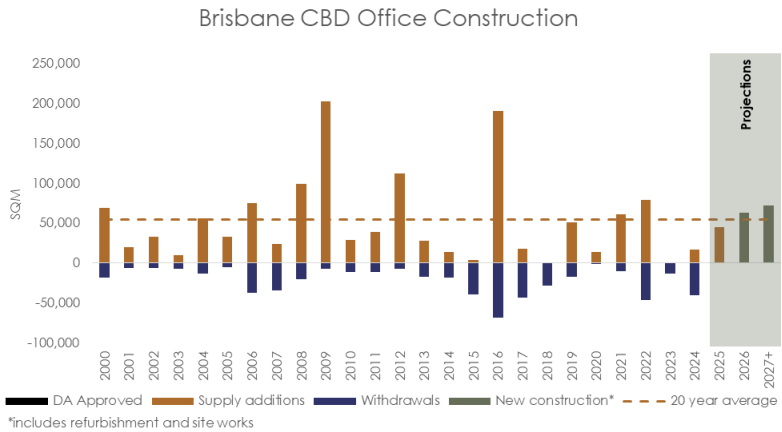
Source: PCA OMR July 2025, Charter Keck Cramer

- Over calendar year 2024 there was 164,552 sqm of stock added and -83,283 sqm withdrawn from the Sydney CBD office market.
- Late 2024 saw the completion of 3 major developments in Martin Place North (3 Elizabeth Street) and Martin Place South (39 Martin Place) over station developments as well as Parkline Place (252-256 Pitt Street).



Source: PCA OMR July 2025, Charter Keck Cramer

- Over calendar year 2024 there was 73,670 sqm of stock added and -64,915 sqm withdrawn from the Melbourne CBD office market.
- Further new supply in the short to medium term will be challenged by high vacancy rates, which will provide tenants with plenty of options for new space, and the significant reduction in rents, which will impact the feasibility of new supply. Developers are unlikely to speculatively start a new building without a substantial pre-commitment.



Source: PCA OMR July 2025, Charter Keck Cramer

- Over calendar year 2024 there was 16,528 sqm of stock added and -40,338 sqm withdrawn from the Brisbane CBD office market.
- Currently, 89,130 sq.m. of new office space is under development, scheduled for completion in 2025, with approximately 81.05% pre-committed. Given the high level of pre-commitment, the availability of backfill options is expected to provide only limited relief to the market.

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Our Advisory experts offer guidance and advice on various aspects of real estate and project lifecycle with a goal to provide clients with strategic insights and recommendations that align with their specific real estate goals and objectives. Offering end-to-end solutions, we provide specialist advice across transaction management, tenant representation, lease negotiation, strategic portfolio reviews, development advisory and more.

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Our Valuation experts specialise in delivering independent valuation assessments, catering to a diverse range of real estate sectors including prestige residential and greenfield development markets, together with all commercial asset classes and specialised segments.

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With 130 staff across our Melbourne, Sydney, Brisbane and Gold Coast offices, we operate nationally and internationally through our collaboration with Andersen Global, where we connect with over 44,000 professionals and 3,000 global partners in 600 locations across 170 countries around the world.

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