



Australian Office

# The Next Cycle

dexus

Dexus House View H2 2025

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# Key themes



## Demand

- › Tenant demand is cautiously positive; growth led by SMEs and centralisation.
- › Hybrid work patterns are stabilising, making demand more closely tied to employment trends.
- › Employment growth remains robust, driven by population gains.
- › Sub-lease vacancy is easing; direct leasing is again the norm.



## Supply

- › Supply pipelines are extremely constrained, especially in Sydney and Melbourne.
- › Major bottlenecks include financing, build costs, and lengthy approvals.
- › Most new completions are already pre-committed, leaving tenants with few options for premium space.
- › Prime scarcity is driving urgency; tenants seeking premium space must act quickly.



## Market idiosyncrasies

- › Unprecedented divergence in performance across precincts.
- › CBD core continues to outperform fringe; transit-rich locations outpace peripheral.
- › Vacancy rates remain elevated but are falling in select markets.
- › Flight to quality is accelerating, with vacancy lowest among higher-grade core buildings and premium/A-grade assets continuing to outperform.



# Introduction

**We believe this year will be seen as the turning point in the office cycle.**

As 2025 draws to a close, the Australian office market is at a turning point. The sector is transitioning from a period of uncertainty to one of cautious optimism, with clear signals that a new phase of growth is emerging.

Looking ahead to 2026, investors and occupiers are recalibrating strategies to capture opportunities in a market shaped by supply scarcity, evolving tenant preferences, and the accelerating impact of technology and policy change.

This report distils the latest data, market intelligence, and Dexus's proprietary insights to deliver a forward-looking view on the Australian office sector. Our analysis reflects the current position and anticipates the trends and risks that will shape performance.



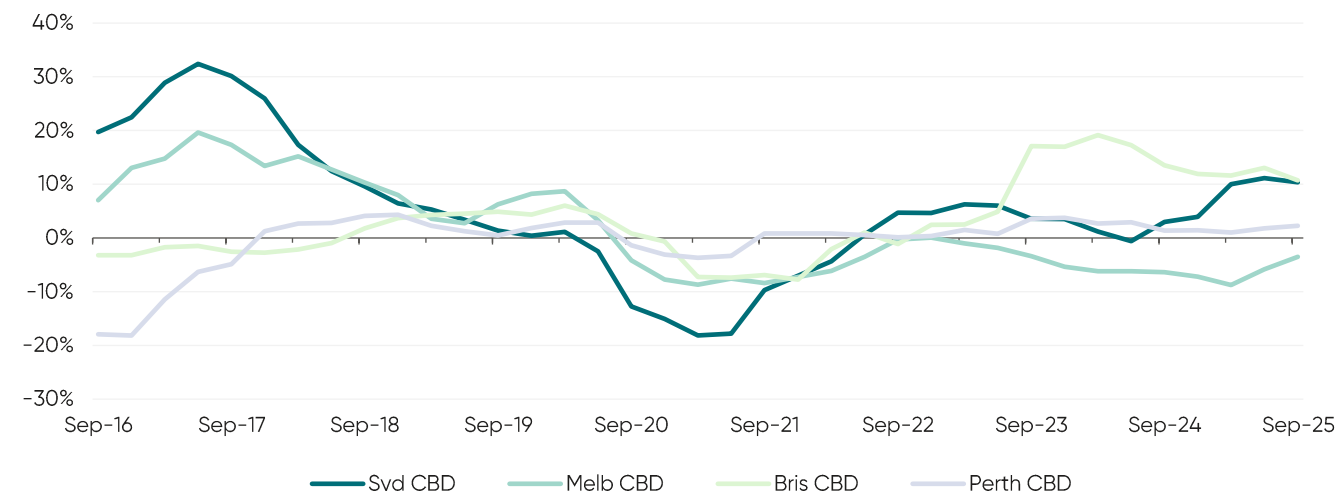
# Demand



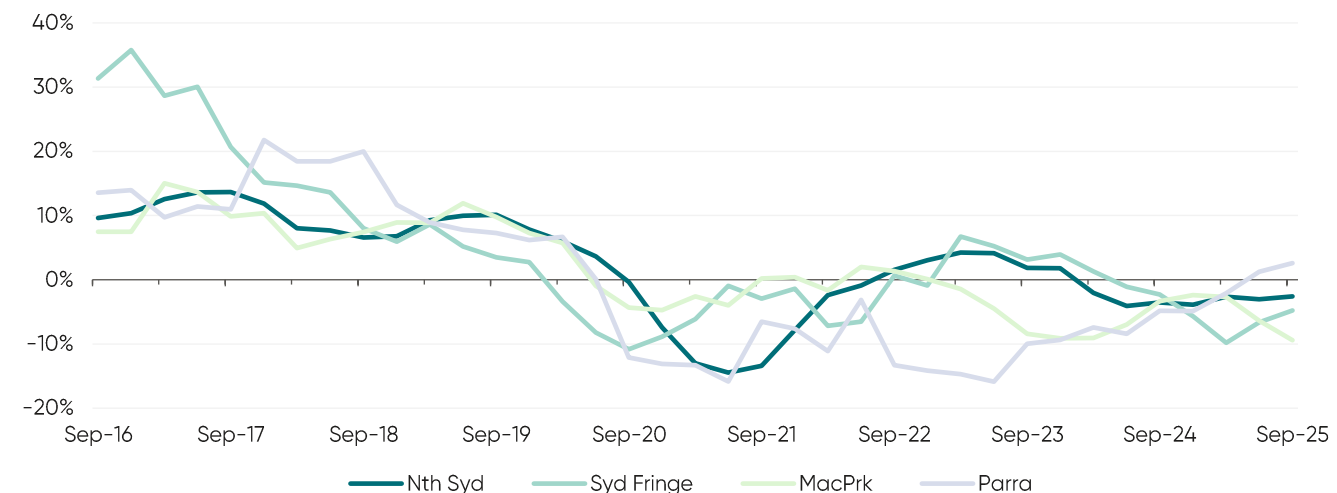
# Premium assets lead the way for office rents

- ✓ Office rent growth is closely tracking vacancy trends, with premium and A-grade assets consistently outperforming lower grades.
- ✓ There is a clear divergence across asset grades: premium assets are leading, followed by A-grade, with lower grades lagging.
- ✓ CBDs are outperforming non-CBDs, reflecting stronger demand and resilience in core locations.
- ✓ Suburban and peripheral markets have absorbed the brunt of changing work patterns and shifting tenant preferences, resulting in weaker rent growth.
- ✓ Effective rent growth remains a key metric for investors, underscoring the importance of asset selection and location in driving returns.

## Effective rent growth across CBDs



## Effective rent growth in non-CBD Sydney





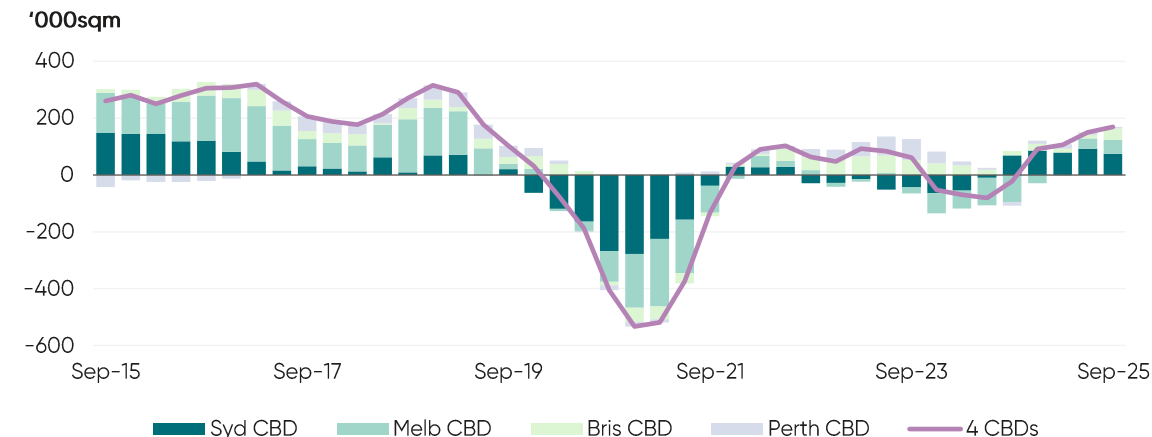
# Right-sizing and sub-leasing have eased

- ✓ The office sector experienced mixed demand between 2021-2024, particularly in Sydney and Melbourne, where prolonged lockdowns led to significant right-sizing among large occupiers.
- ✓ That right-sizing phase now appears to be over; sub-lease vacancy has normalised and is in line with long-term trends.
- ✓ Sydney's sub-lease availability peaked at 220,000 sqm in 2021 and has now fallen to 60,000 sqm, with only four notable sub-lease deals in the past year.
- ✓ Office demand is gaining traction. Net absorption across the four major CBDs has been positive, with annual trends showing clear improvement despite some quarterly volatility.
- ✓ The market has shifted decisively back to direct leasing, with less than 10% of sub-lease space offering terms of five years or more.
- ✓ Easing of sub-lease pressure, which previously drove incentives up, is supporting a healthier leasing environment.

Source: JLL Research

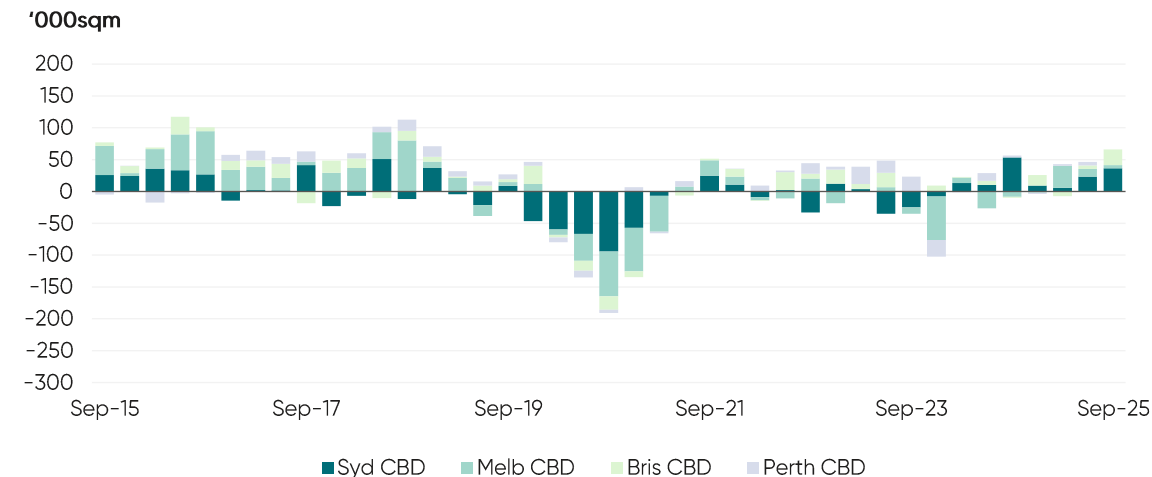
## Office absorption of the four CBDs

Rolling annual



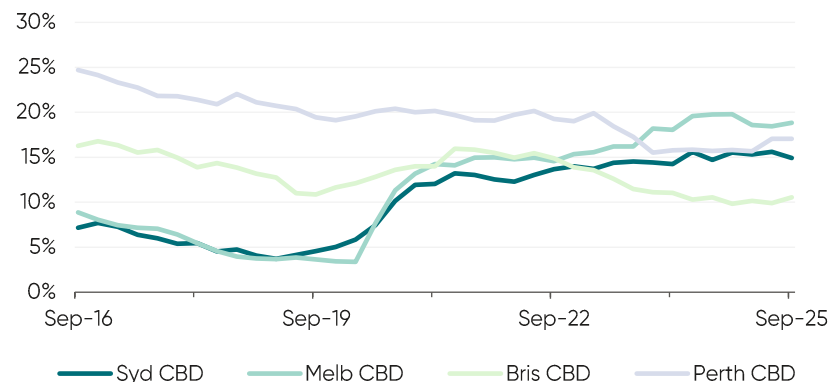
## Office net absorption for the four major CBDs

Quarterly

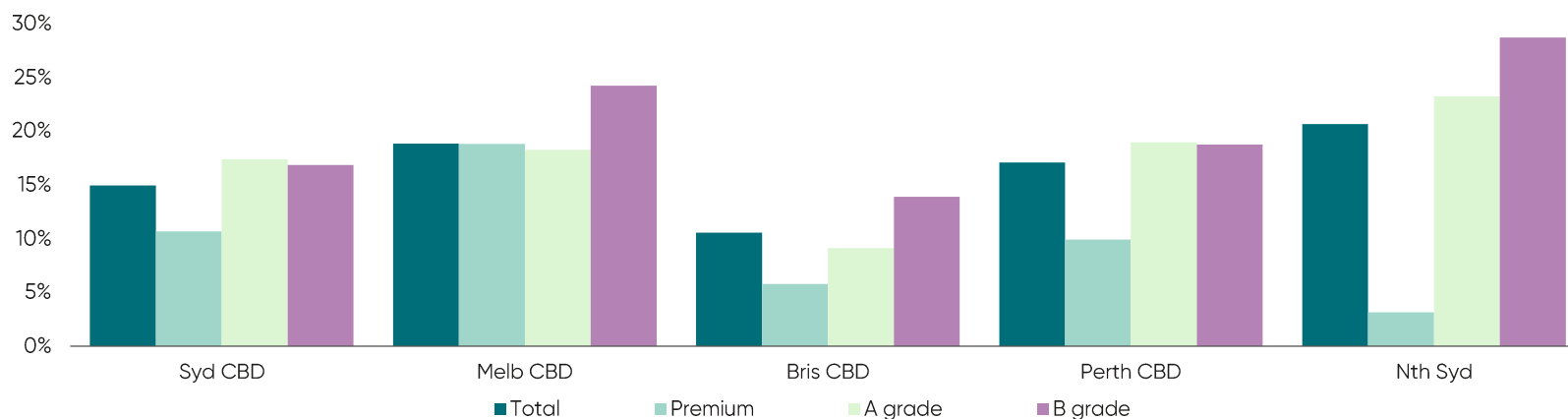
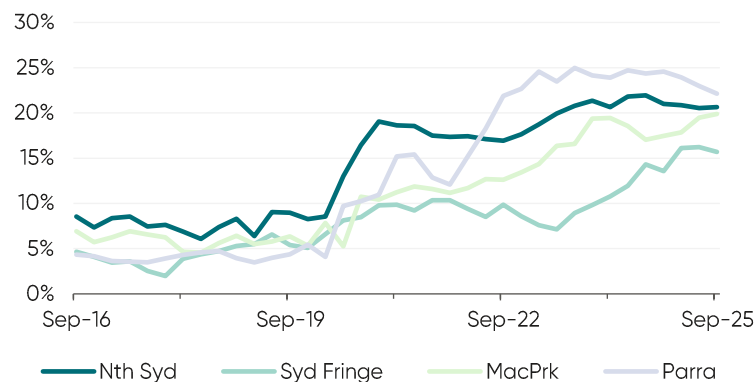


# Vacancy rates signal divergence and opportunity

## CBD



## Non-CBD



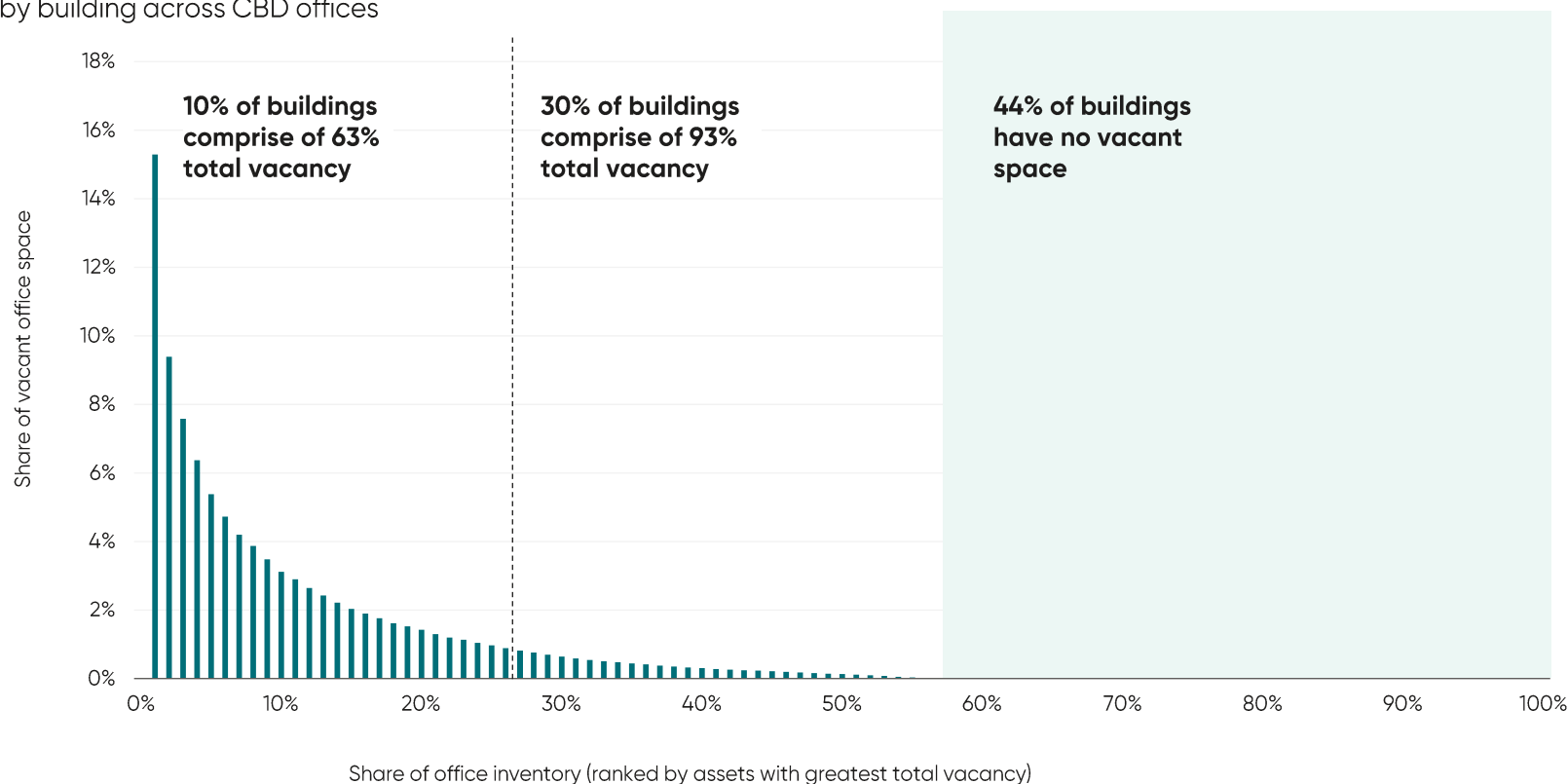
Source: JLL Research

- ✓ Vacancy rates remain elevated, but the picture is nuanced and evolving across markets.
- ✓ Melbourne's vacancy has started to fall, driven by 40,000 sqm of withdrawals.
- ✓ Brisbane's vacancy is steady at around 10%, supported by limited new supply.
- ✓ Perth's vacancy has been stable for two years; demand is expected to improve, though timing is uncertain.
- ✓ Non-CBD markets are more challenging, with North Sydney and Parramatta both experiencing high vacancy rates, above 20%, and new supply, such as Victoria Cross, set to test absorption.

# Office vacancy is concentrated in relatively few buildings

## Office vacancy

by building across CBD offices



Source: Dexus Research, JLL Research

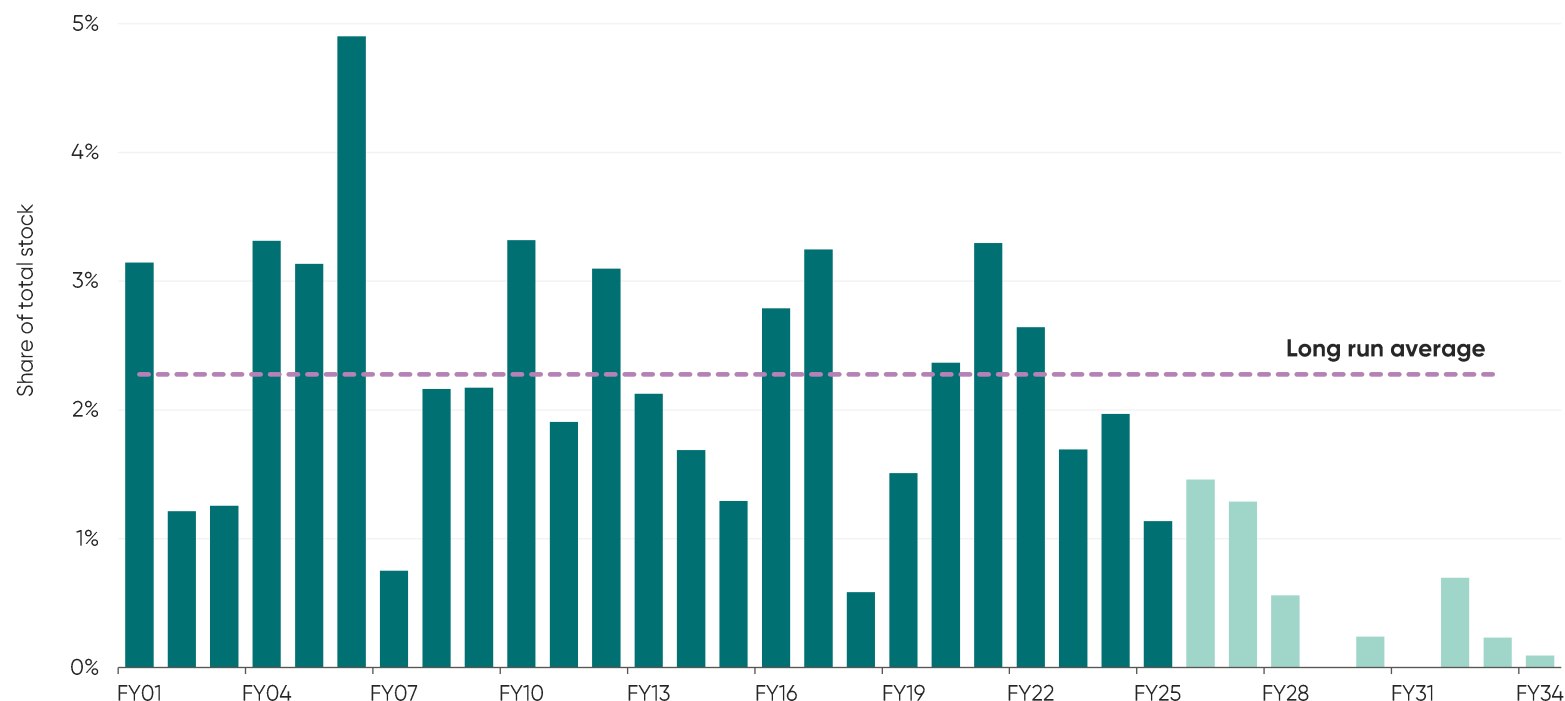
- ✓ Nearly half of CBD office buildings are fully occupied with two thirds of the vacancy concentrated in just 10% of the buildings.
- ✓ **The flight to quality is clear:** vacancy rates are lowest among higher-grade core buildings, as tenants continue to prioritise premium and A-grade assets.
- ✓ This trend is expected to persist as businesses seek to attract and retain talent in a competitive environment.



# Supply

# The supply gap will shape the recovery

## Sydney and Melbourne office completions



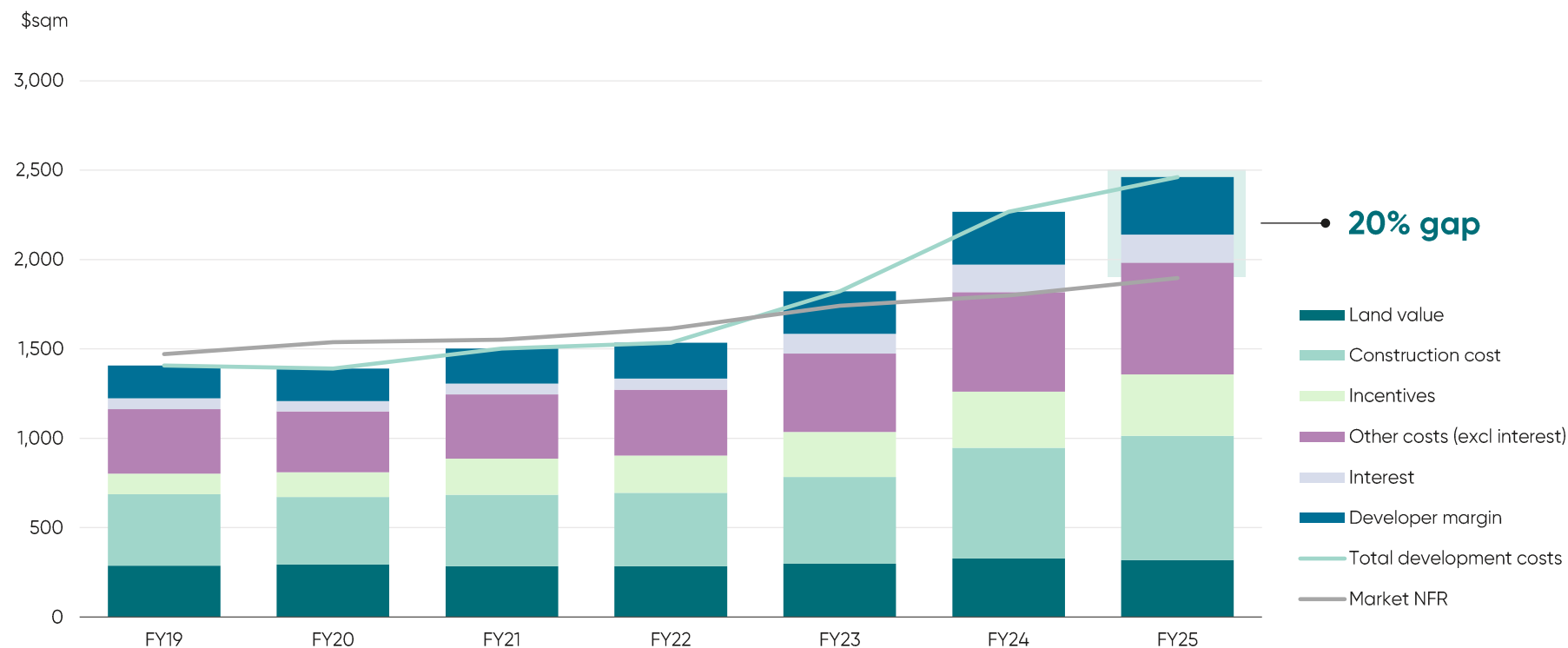
Source: JLL Research, Dexus Research. Total completions, does not include withdrawals.

- ✓ Forecast annual supply growth is just 0.3% and 0.7% for Sydney and Melbourne CBDs (respectively), over the next 3 years, well below the long run average.
- ✓ Multiple mooted developments are well-positioned to benefit from tight supply in Sydney and Melbourne CBDs.
- ✓ Melbourne CBD completions in the next five years are estimated to be 34% of average. Of the four mooted projects, only 60 Collins is in the prime eastern "Paris end".
- ✓ Sydney CBD has the nation's longest planning process, with major towers taking ~10 years to gain approval.
- ✓ Premium assets in strong locations with flexible fit-outs are expected to outperform, particularly in the near-term.
- ✓ Developers who deliver ahead of the 2032 supply wave are likely to capture outsized tenant demand.



# Economic rents gap to constrain supply and drive rent growth

## Sydney CBD office economic vs. market rent



Source: JLL Research, Dexus Research.

There is a significant gap between economic and market rents, contributing to one of the weakest supply pipelines in 40 years. In real terms, rent per worker per sqm is 14% lower than in the 2000s.

However, in a low supply environment, market rents will experience upwards pressure to meet economic rents, supporting total growth and investment returns.



# Customer trends and thematics

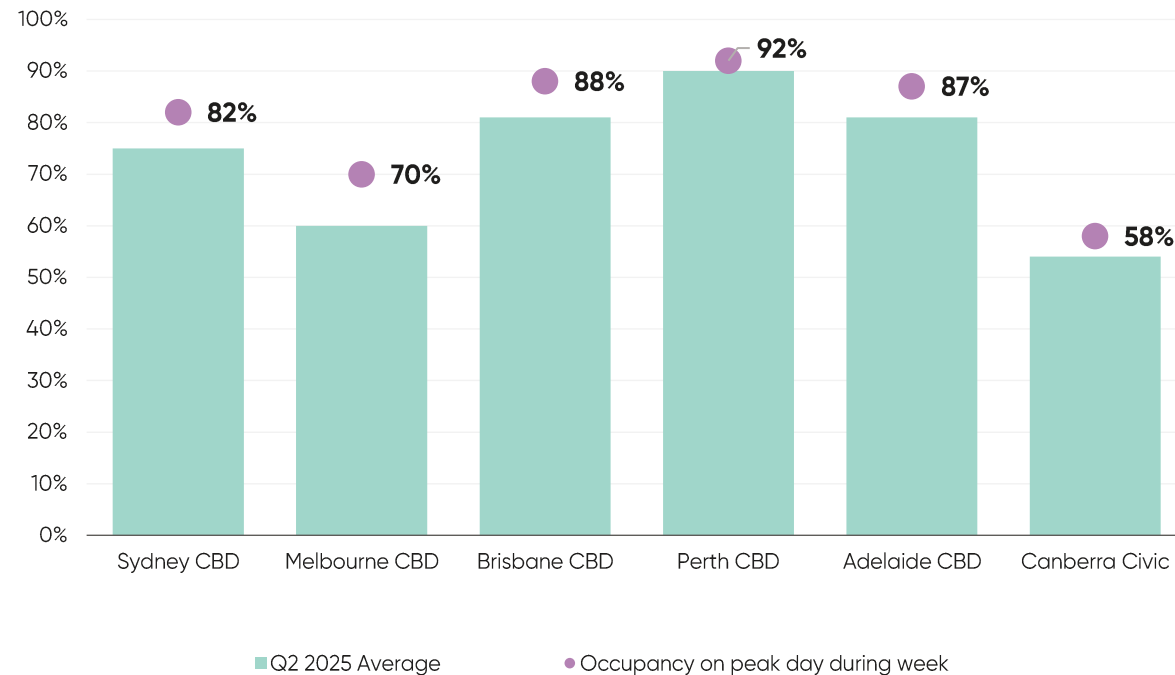




# Tenant preferences have significantly evolved post-pandemic

## Office attendance levels

Compared to pre-Covid levels



Sources: Dexus Research, CBRE Return to Office Indicator



### **CBDs and vibrant hubs favoured over suburban**

There is a preference for central locations with proximity to service providers and clients. Locations with quick access to public transport are favoured.



### **Preference for high quality properties**

Occupiers seek high quality offices with retail amenity that appeals to staff. ESG credentials, natural light and wellness facilities are important.



### **Impacts vary by roles and industry**

Collaborative and creative work types benefit the most from being in office while administrative and focused work may benefit from quieter spaces. Industries such as IT are greater adopters. Younger workers also see the greatest career and feedback benefits from being in the office.



### **Small occupiers more likely to expand**

Smaller occupiers typically have a lower density and a higher ratio of collaborative space to desk space. Larger companies have a wider variety of roles and greater capacity to consolidate space.



### **Hybrid working here to stay**

The rise of hybrid working has shifted office space utilisation and requirements and are unlikely to revert to pre-pandemic norms, driving occupier decision making for the remainder of the decade.

# Customer trends impacting office real estate

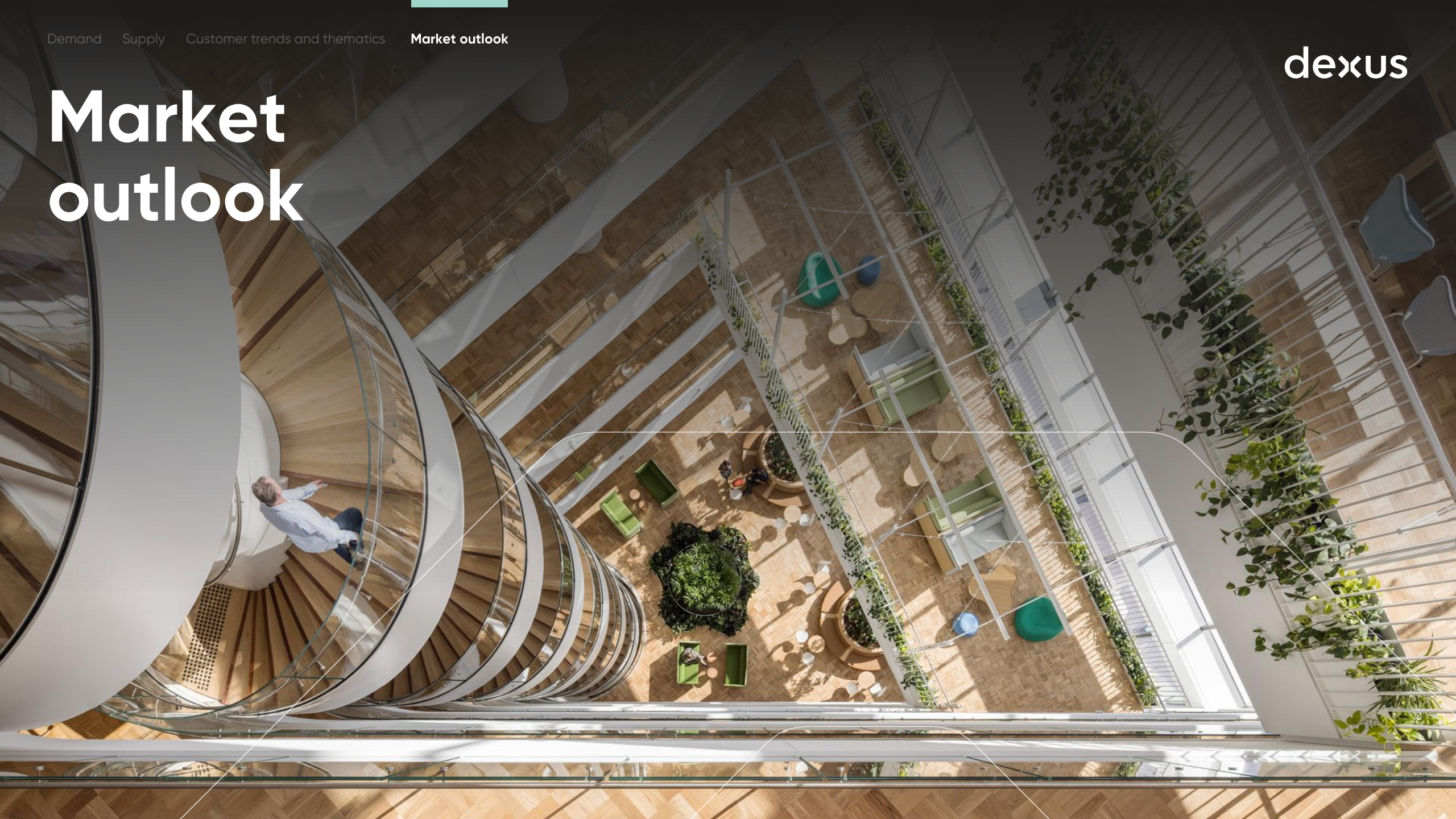
Tenant choices are being driven by the desire for vibrant live-work-play precincts, urban density, connectivity, wellbeing, and sustainability



- ✓ **Greater flexibility**  
Flexible lease structures and adaptable work environment/services
- ✓ **Everything quick and easy**  
Digitally-connected generations expect pain-free service
- ✓ **Urban density**  
Focus on public transport (particularly rail <750m), mobility as a service and walkability
- ✓ **Experiences**  
Importance of vibrant live-work-play precincts (mixed use hubs) and community engagement
- ✓ **Connectivity & artificial intelligence**  
Smart building systems, Wi-Fi, 5G, automation and networking
- ✓ **Embracing wellbeing**  
Work life balance, natural light, fitness and health, third spaces
- ✓ **Sustainability**  
Efficient and clean, NABERS and WELL building scores.



# Market outlook





# Offices broadly in recovery mode, Sydney CBD core and Brisbane CBD leading in this cycle

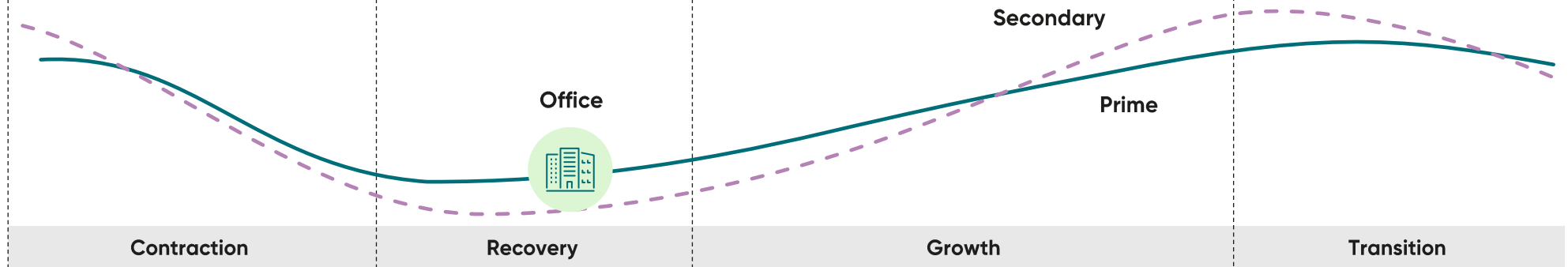
## Stage of cycle

High or increasing vacancy – supply exceeding demand – falling rents/values

High but declining vacancy – demand exceeding supply – stable to rising rents/values

Low and declining vacancy – demand exceeding supply – rising rents and values

Low but increasing vacancy – supply exceeding demand – flattening rents/values



## Activity

Land banking

Development – pre commitment

Develop – spec

Investment – core

Divestment – core

Investment – trading

Divestment – trading

Source: Dexus Research  
Note: Line depicts the value cycle, amplitude varies.



# Strategic implications



## Prioritise

### Prime, well-located, ESG-credible assets

Investors and occupiers should focus on premium and A-grade assets in core CBD locations, especially those with strong ESG credentials and proximity to transport. These assets are best positioned to capture demand and deliver resilient returns as the market enters its next growth phase.



## Avoid

### High-capex, poor-amenity, stranded B/C stock

Lower-grade assets with high capital expenditure requirements and poor amenity are increasingly at risk of obsolescence unless targeted for value-add or repurposing. Vacancy is concentrated in a small subset of buildings, and the rent spread between prime and secondary stock is widening.



## Monitor

### Emerging trends and policy shifts

Stay alert to the impact of AI on space needs, evolving government policies (such as office-to-residential conversions), SME health, and lagging precincts for potential catch-up. Early movers in development and asset repositioning will be best placed to capture outsized tenant demand as the cycle progresses.



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