

Scarcity creates opportunity

Dexus Australian Office House View FY2027

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"Recovery is emerging across parts of the market, but outcomes remain highly selective. The strongest opportunities continue to be where occupier demand, constrained supply and active asset relevance align."

Andy Collins
Executive General Manager, Office

Introduction

The office debate has shifted

80 Collins Street, Melbourne, Vic

The key question for office is no longer whether hybrid work has permanently changed the office. It is whether the market can deliver enough relevant space as demand stabilises and begins to recover.

For five years, investors had to underwrite an unusually wide range of office-demand outcomes. While some uncertainty has reduced, recovery remains uneven across markets, precincts and assets. Hybrid work is embedded, but occupier requirements are more predictable. In Sydney, broad rightsizing has receded, sublease pressure has eased from pandemic-era peaks and leasing is again being supported by new entrants, expansion, centralisation and smaller occupiers. Three of the four major CBDs recorded positive net absorption in the latest FY27 update.

The forward pipeline is around one-third of its long-run average. Elevated construction costs and long CBD planning and delivery periods give existing assets more time to capture recovering demand before new stock can respond.

The signal is positive but selective. Vacancy is concentrated in buildings and precincts that compete poorly for demand, while Sydney premium core net effective rents are 20% above pre-pandemic levels and A-grade take-up has improved since FY26. Opportunity lies where demand depth, replacement economics and asset relevance reinforce one another.

While leasing fundamentals continue to improve, the outlook for cap rates remains less certain and will continue to be influenced by capital market conditions, transaction evidence and the path of interest rates.

Key takeaways

01

Demand is improving, but remains selective

Three of four major CBDs recorded positive net absorption in the FY27 update, led by Sydney and Brisbane. Favour these demand-led markets. Melbourne and non-CBD exposure needs a sharper asset-level case.

02

The supply runway is unusually long

The forward development pipeline is around one-third of its long-run average. High construction costs and long planning pathways are delaying the normal supply response. This protects existing assets from new competition and supports rents until the next supply wave.

03

Scarcity is becoming asset and level-specific

Premium assets led the early recovery. Now, premium scarcity is pushing demand into quality A-grade space, broadening the opportunity beyond the top tier. Fitted space is leasing ahead of shell premises, rewarding owners who invest in fit-outs.

04

Smaller occupiers are rebuilding demand

In Sydney, leases under 1,000 sqm, new entrants and centralisation now outweigh rightsizing. Assets with flexible floorplates and suite offerings are best placed to capture this demand.

05

Selection and active management will drive outcomes

Low supply supports the market but does not lift every asset. Returns will come from markets with demand depth and assets that can be actively repositioned to meet occupier needs.

A clearer recovery

Demand is improving, but the market remains highly selective.

Demand is improving but the market remains highly selective. Sydney and Brisbane are leading the CBD recovery, while Melbourne remains the clearest demand laggard.

Demand improved across most CBDs through FY26. The latest FY27 data recorded positive net absorption in Sydney, Brisbane and Perth; Melbourne remained negative. The recovery does not require a return to pre-pandemic work patterns. It reflects a more stable occupier market within an embedded hybrid model. Rolling annual net absorption troughed at around negative 530,000 square metres across the four major CBDs, as large occupiers contracted and new supply completed.

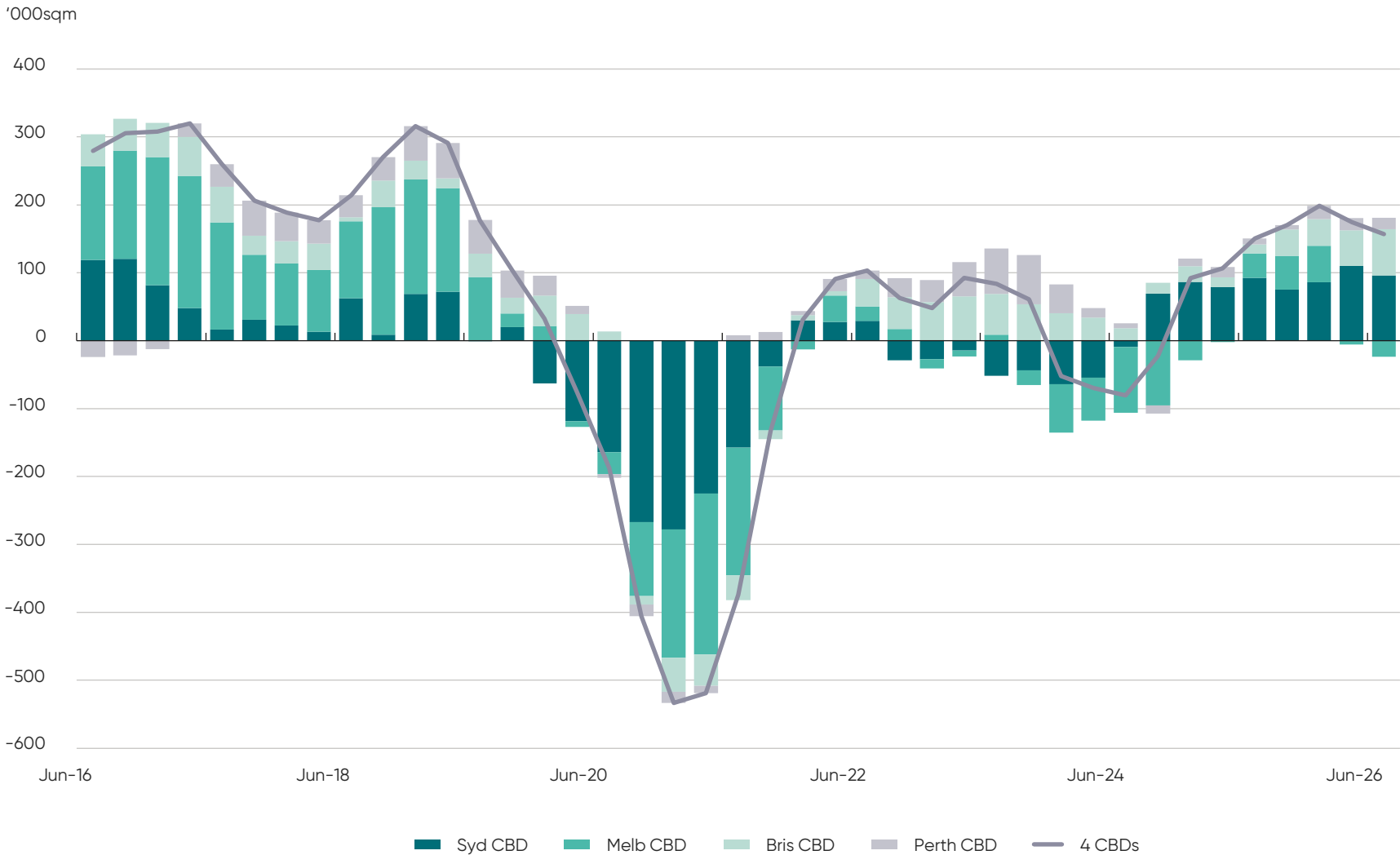
Sydney has since turned. In FY26, contraction and consolidation became materially smaller, while new leases, centralisation, selective expansion and sub-1,000 square metre requirements added demand. Melbourne remains earlier in the adjustment, with around 300,000 square metres of cumulative demand loss and continued large-tenant contraction.



Key insights

- ✓ Positive net absorption was recorded in three of the four major CBDs in the latest FY27 update.
- ✓ Sydney rightsizing is no longer overwhelming positive leasing activity.
- ✓ Melbourne remains the exception, with larger occupier contraction continuing to weigh on demand.

Office absorption, 4 CBDs – rolling annual



Source: Dexus Research; JLL

Vacancy will clear unevenly

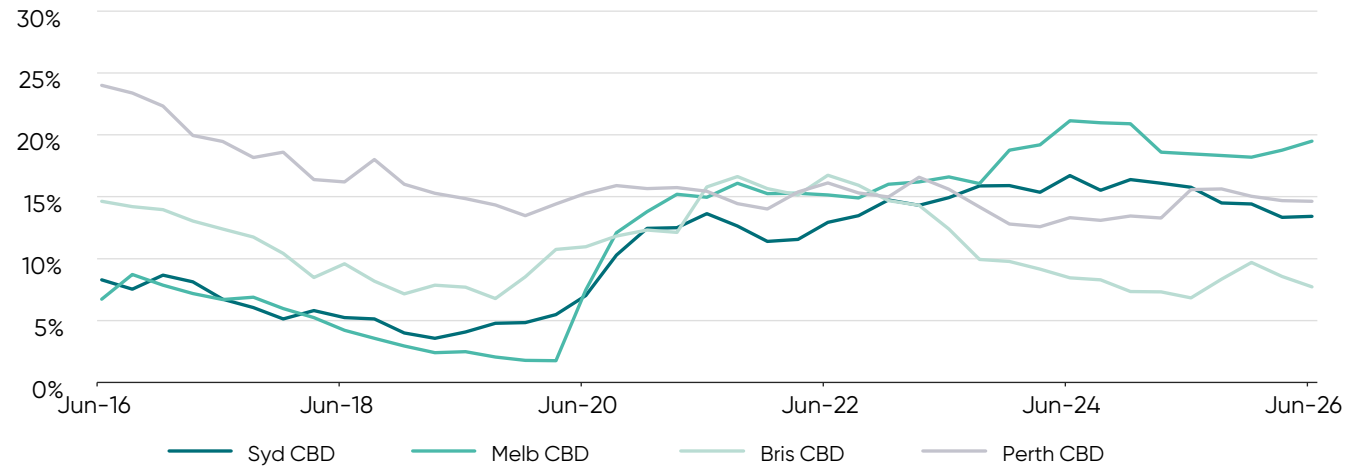
High vacancy can be reabsorbed where demand is deep and future supply is limited. Low supply alone is not enough where occupier depth is uncertain.

Some prime CBD markets are moving beyond the bottom of the cycle, supported by improving take-up and rents. Non-CBD markets are weaker: North Sydney vacancy reached 27.9% in the latest FY27 update and Parramatta also faces elevated availability and shallow demand. These markets need tenant movement, stock withdrawal or a credible asset-level repositioning pathway, not simply an absence of development.

Vacancy is also concentrated by building. Last year's analysis found 44% of CBD buildings had no vacant space, while 10% accounted for 63% of total vacancy. Headline vacancy overstates the space genuinely competing for current briefs. Investors need to test where available space sits, whether it meets current requirements and the capital needed to restore relevance.

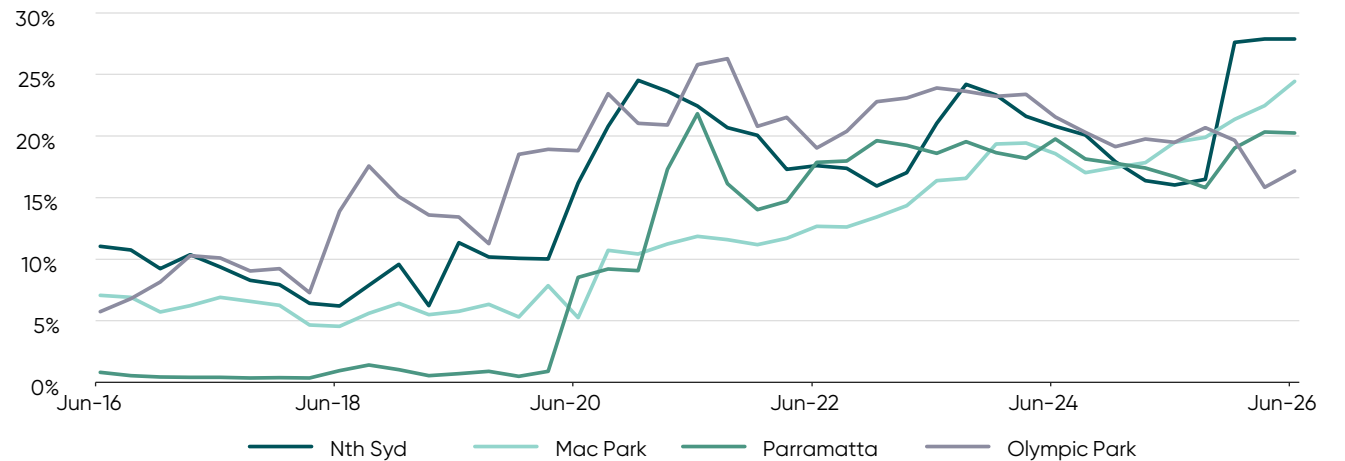
This separates cyclical vacancy, which can be absorbed as leasing broadens, from structural vacancy tied to weak connectivity, unsuitable specification, poor amenity or insufficient occupier depth. The latter requires building-level underwriting rather than a market-average recovery assumption.

Prime office vacancy – CBD markets



Source: Dexus Research; JLL

Prime office vacancy – non-CBD markets



Source: Dexus Research; JLL

The scarcity advantage

The normal supply response is delayed, extending the runway for assets that can meet occupier demand today.

There is currently a longer runway before supply returns and improving rents will take time to turn into new towers.

In a normal recovery, rising rents improve feasibility and eventually add supply. This cycle has a slower response: construction costs continue to outpace inflation, financing and return requirements remain demanding, and CBD projects can require years of planning before construction begins.

The pipeline is being restocked, but planning activity should not be confused with near-term completion. Owners are progressing sites so they can respond when economic rents and pre-commitment conditions align. Planning alone can take three to four years before construction and leasing risk are added, leaving the next supply wave highly sensitive to feasibility.

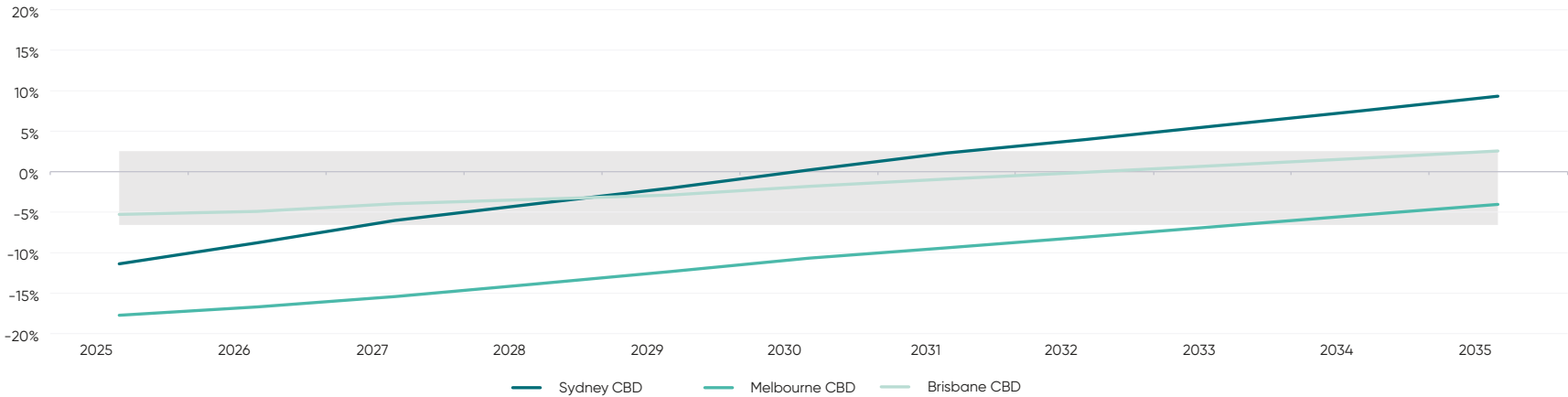
This creates a window for assets already able to compete for demand. Low direct competition can support occupancy and rental growth, while targeted capital works may help otherwise well-located assets close a specific occupier gap. Scarcity does not make an irrelevant asset investable, nor does it require every owner to pursue a broad capital program.



Key insights

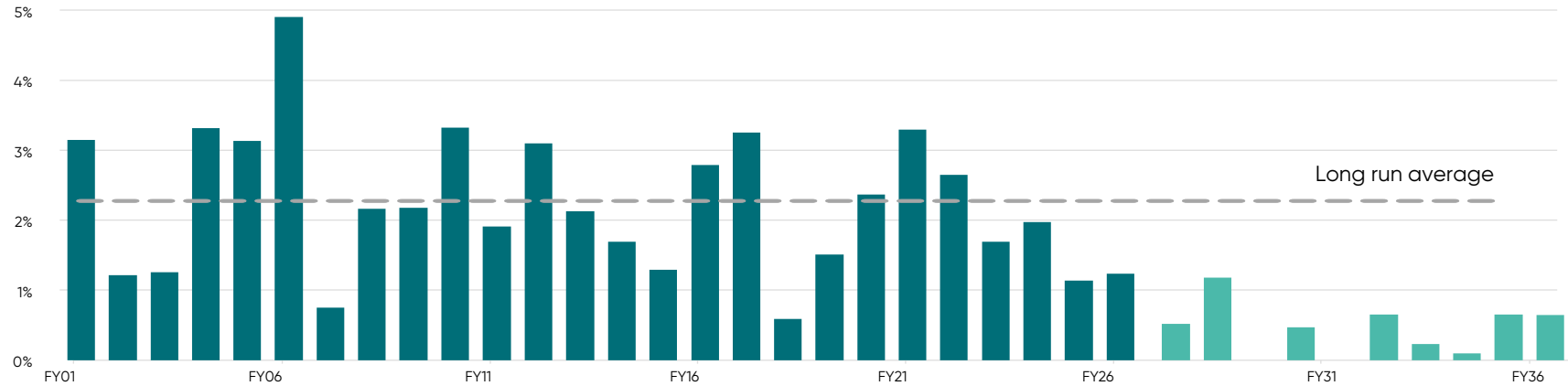
- ✓ The forward office pipeline is around one-third of the long-run average.
- ✓ Brisbane’s next supply wave is more concrete and around two years earlier than previously assumed.
- ✓ The debate has shifted from whether projects exist to when credible projects can reach feasibility and delivery.
- ✓ Three-year supply pipelines are at or near historic lows across the markets covered.

CBD office feasibility margin from breakeven
by city



Source: Oxford Economics; Dexus Research

Sydney and Melbourne office completions
as % of total stock



Source: Dexus Research; JLL

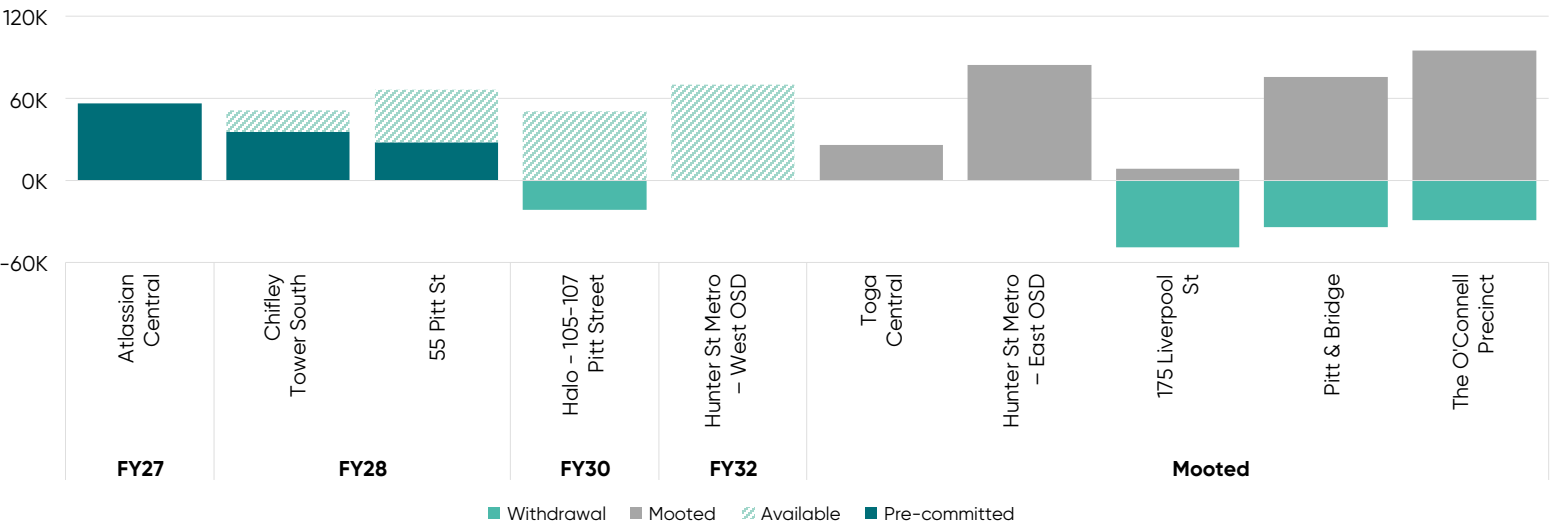
The city pipelines are diverging

Sydney and Melbourne remain highly constrained; Brisbane is the first market where the next supply wave is moving closer.

Sydney CBD has few projects that could credibly deliver before the early 2030s beyond those already committed. Sites are being progressed but planning complexity, high economic rents and long delivery periods limit the speed of response, supporting existing prime and relevant A-grade stock and creating option value for owners that can advance sites ahead of feasibility.

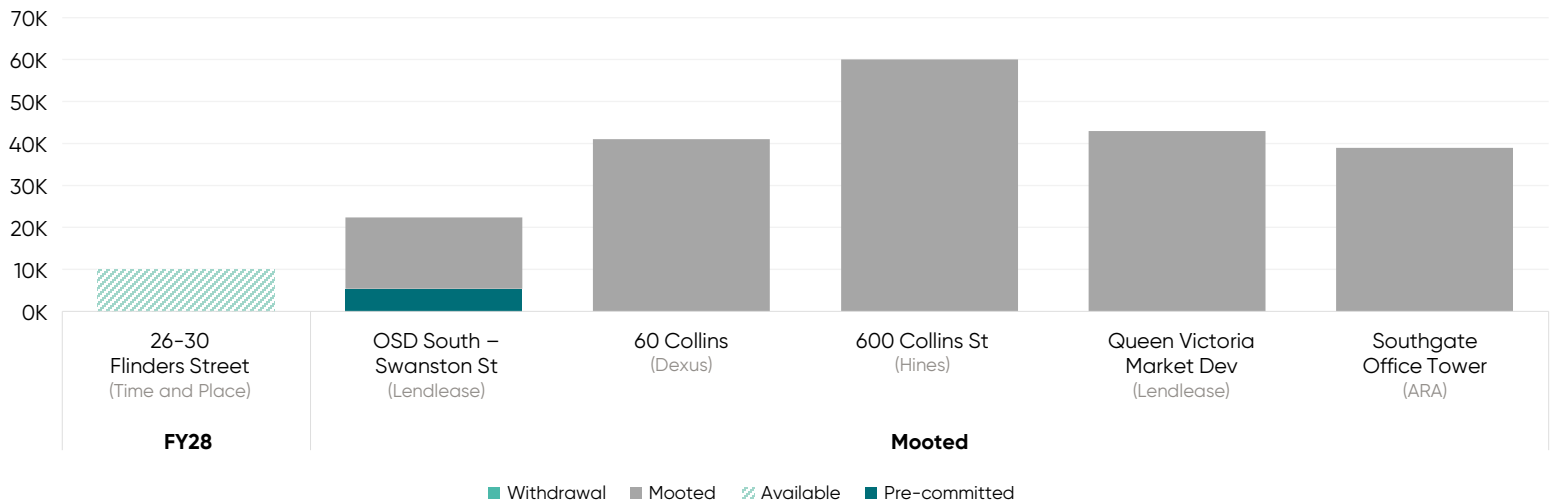
Melbourne CBD has minimal near-term construction, providing a floor beneath a market where demand remains shallow. Perth also has no near-term development, but its demand is harder to predict. In both cities, scarcity is supportive rather than sufficient.

Sydney supply pipeline



Source: Dexus Research; JLL; CBRE

Melbourne supply pipeline

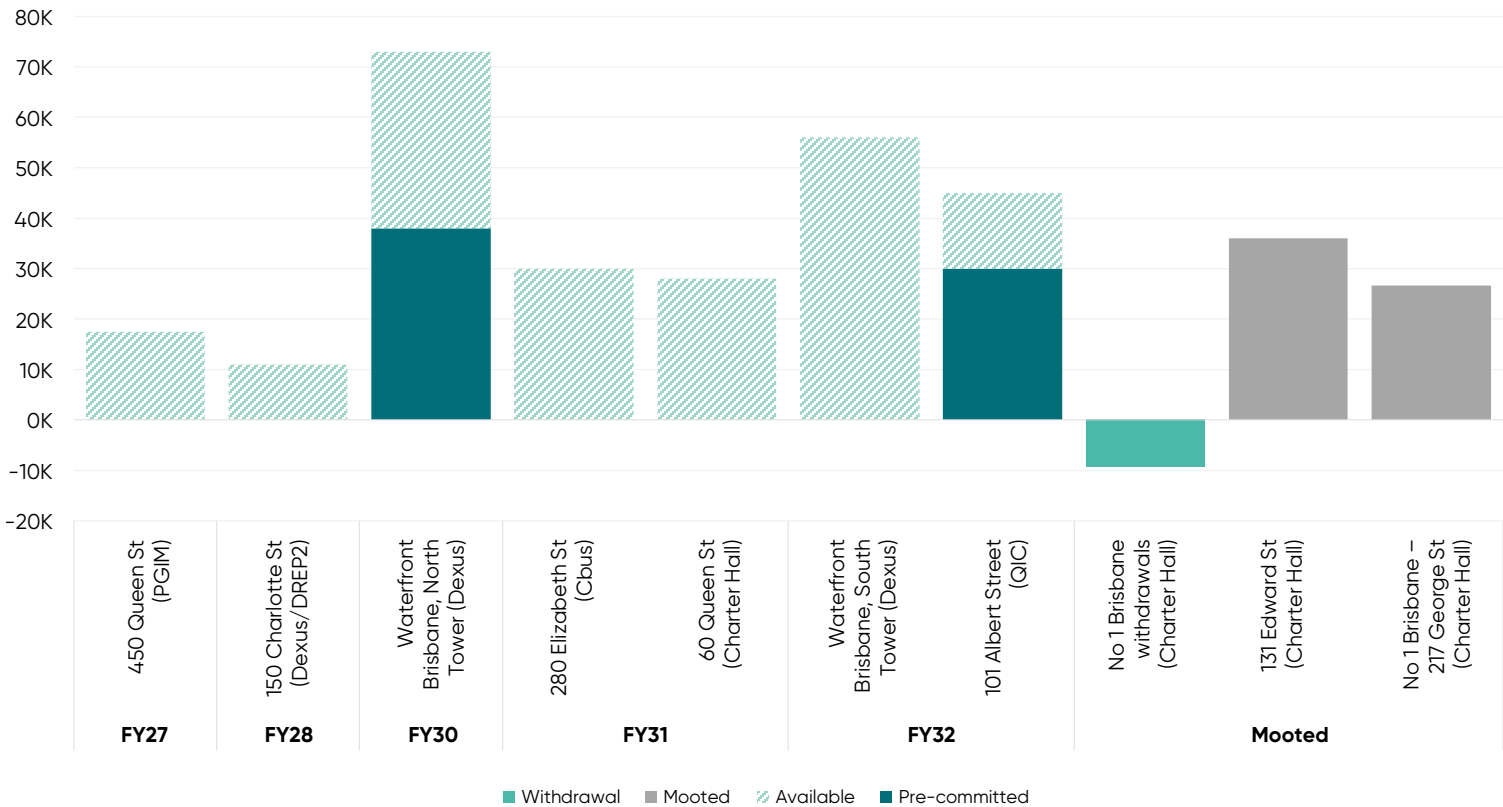


Source: Dexus Research; JLL; CBRE

Brisbane CBD is the exception

Following strong rental growth, four major projects are expected between FY31 and FY32, around two years earlier than previously assumed. The near-term scarcity case remains intact, but the medium-term window is more defined. Underwriting should test how much growth an asset can capture before new competition arrives.

Brisbane supply pipeline



Source: Dexus Research; JLL; CBRE

Reposition, repurpose or restock

Scarcity is creating three distinct capital pathways. Across the seven office markets we cover, just 212,000 square metres will complete over the next three years. This is the lowest pipeline on record and roughly one-third of the long run average.

Repositioning can provide direct exposure to recovery where the location has demand depth and the capital program can move an asset into the relevant A-grade set.

Repurposing is narrower. Candidates need workable floorplates and cores, natural light, a viable alternative-use market, and a value that can absorb structural intervention.

Floorplates below about 900 square metres and facade-to-core distances below about 12 metres are screens, not guarantees.

Asset divergence is accelerating

The flight to quality is broadening with A-grade joining the recovery, but it remains building-specific.

Premium assets lead the recovery, but suitable A-grade space is beginning to capture more demand as the best premium options have filled.

Across the major CBDs, 2023 and 2024 net absorption was concentrated in premium space while other grades lost occupancy. Over the past year, A-grade take-up improved as suitable premium options tightened and high-quality A-grade space offered better relative value.

This is not a uniform recovery for all A-grade assets. Demand remains selective, favouring buildings with strong transport connections, quality amenities, flexible space, modern building systems and well-maintained accommodation. The key question for investors is whether an asset meets current occupier requirements and whether any shortcomings can be addressed at an acceptable cost.

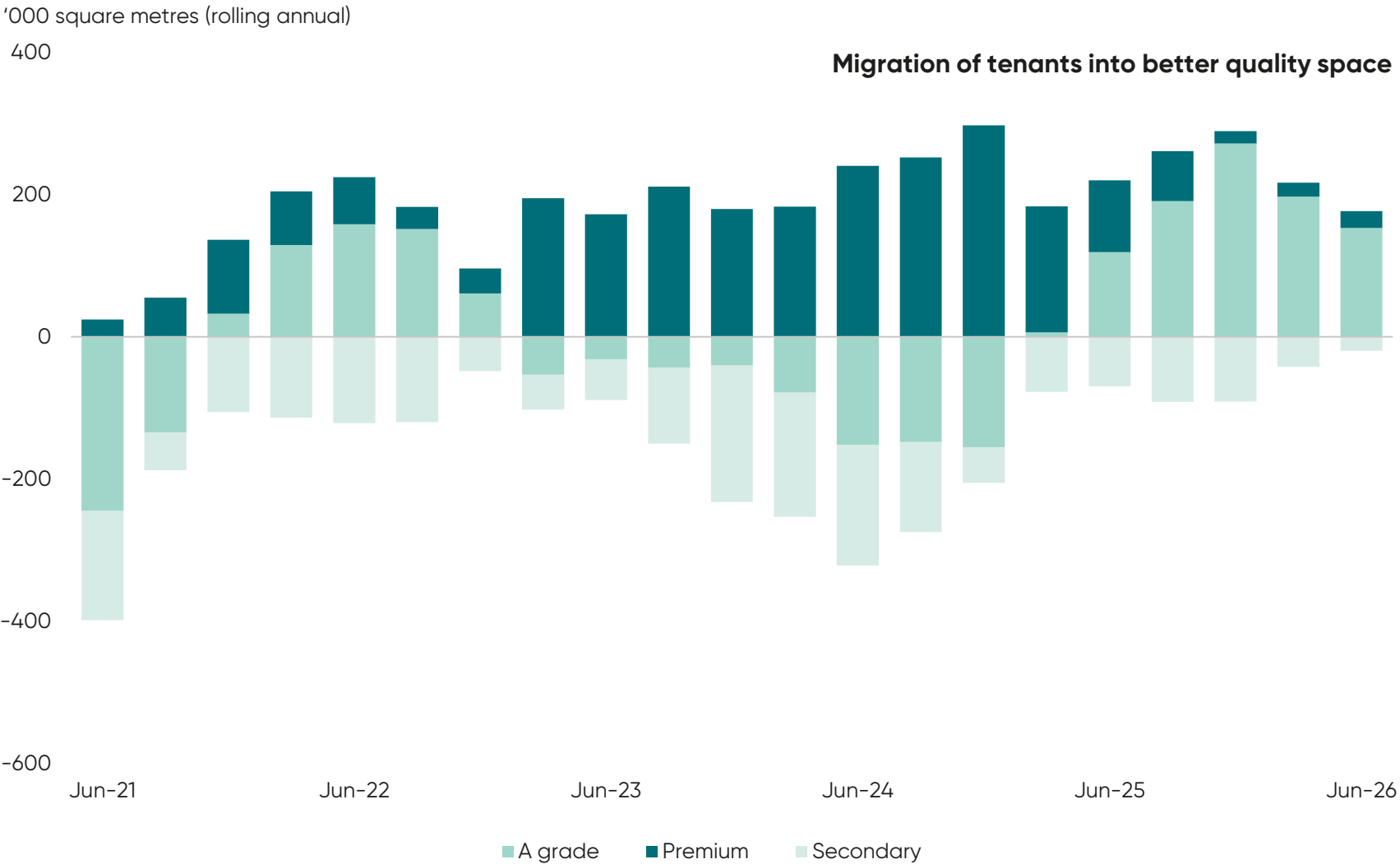
The opportunity set is therefore wider than premium core, but execution risk remains. A premium asset may begin from a higher rent, while a well-located A-grade asset may offer stronger marginal growth as demand broadens. Assets with high capital needs, weak amenity or limited tenant depth remain exposed even in a low-supply market.



Key insights

- ✓ Premium scarcity is redirecting demand to A-grade, broadening where investors can capture rental growth.
- ✓ Sydney premium core net effective rents are 20% above pre-pandemic levels.
- ✓ Vacancy remains concentrated, making the competitive set more important than the headline market rate.

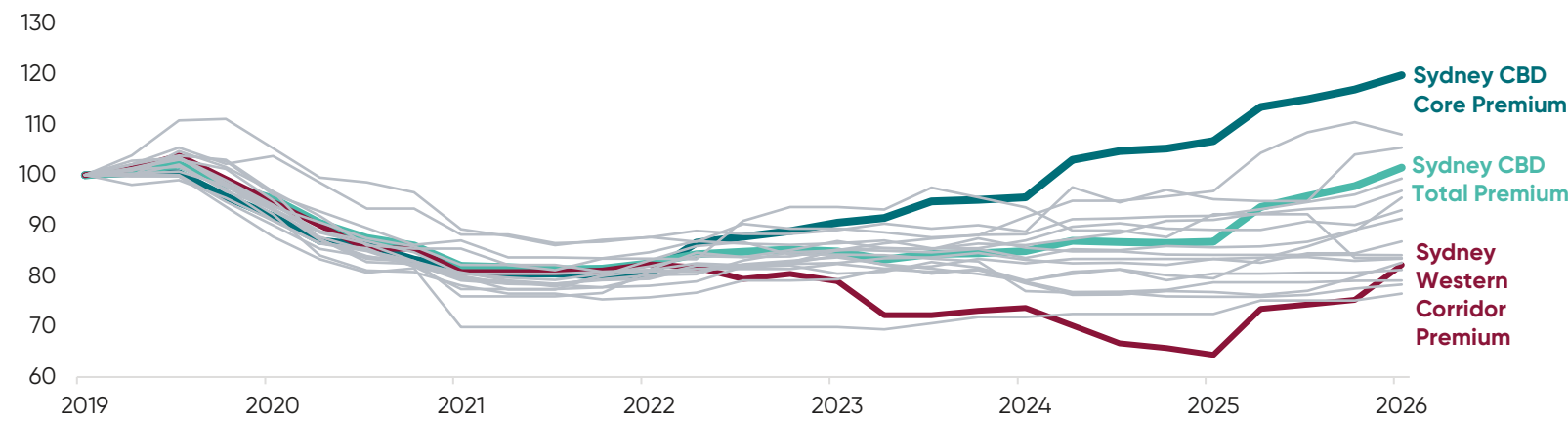
Higher-grade buildings continue to gain share



Source: Dexus Research; JLL

Sydney CBD office net effective rent index

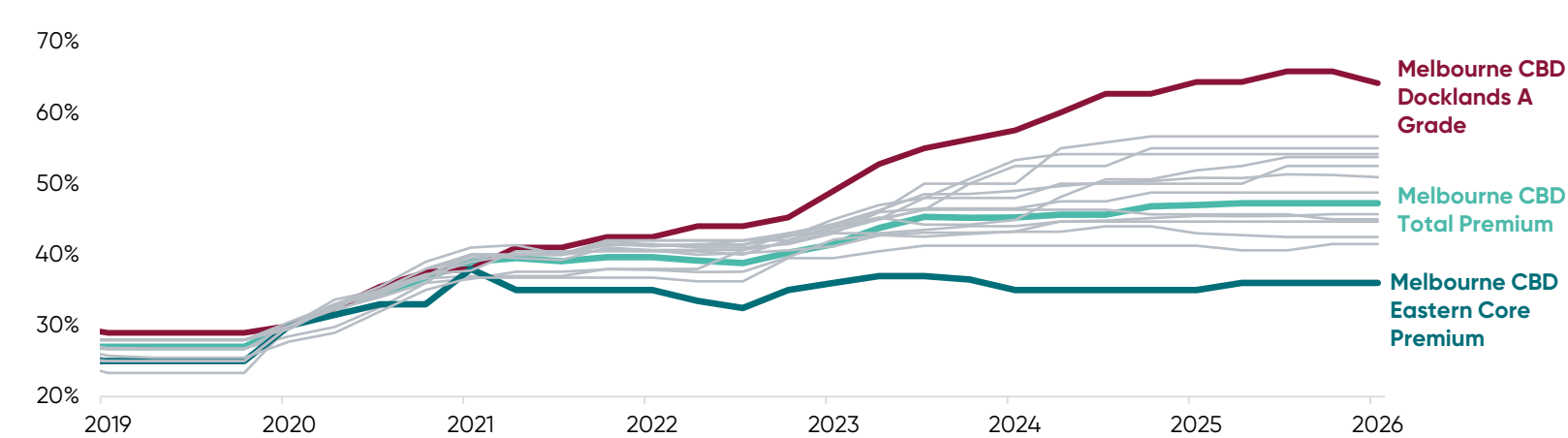
2019-2026, Sydney CBD, all grades and markets



Source: Dexus Research; CBRE

Melbourne CBD incentives

2019-2026, Melbourne CBD, all grades and markets



Source: Dexus Research; CBRE

Rent growth is becoming increasingly location-specific

Sydney's premium core rents are now around 20% above pre-pandemic levels, supported by limited new supply, strong occupier demand and a shrinking pool of premium vacancy. By contrast, non-core precincts continue to face elevated availability and weaker pricing power.

A similar pattern is emerging in Melbourne. The eastern core has begun to outperform Docklands, highlighting that recovery is emerging in precincts with stronger amenity, connectivity and occupier demand. Investors cannot rely on broad market recovery alone. Precinct selection is becoming an increasingly important driver of rental performance.

The implication is that scarcity is no longer simply a market-level story. As occupiers become more selective, rental growth is accruing fastest to locations and assets that remain most relevant to tenant requirements.

Demand is rebuilding

Smaller leases, centralisation and the knowledge economy are shaping the next phase.

The recovery is not being driven by a wave of large corporate expansion. It is emerging from a broad base of smaller occupier decisions.

Sydney shows the change. In FY26, contraction, consolidation and sublease drags became smaller, while new leases, expansion, centralisation and sub-1,000 square metre requirements supported absorption.

The market does not require every major occupier to expand. A dispersed base of new entrants, selective expansions and centralising businesses can support occupancy as rightsizing recedes. This favours flexible floorplates, fitted options and leasing models able to serve smaller requirements efficiently.

Melbourne remains the counterpoint. Large-occupier contraction persists and smaller leases have not offset it. Its unusual underperformance relative to Sydney may create selective value for investors prepared to accept higher leasing risk, but a recovery call requires evidence that demand is stabilising rather than an assumption of catch-up.

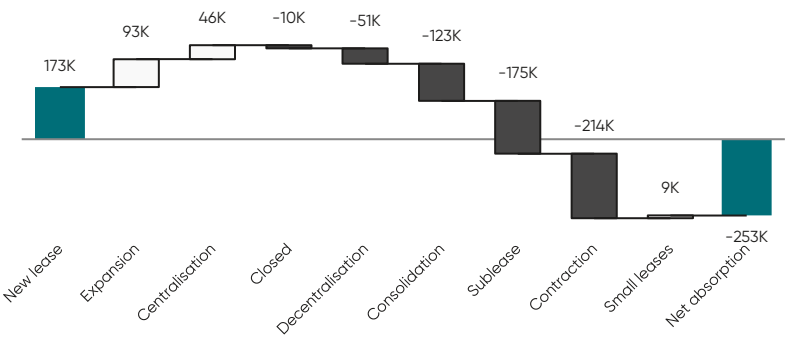


Key insights

- ✓ Smaller requirements, centralisation and new entrants are replacing rightsizing as the main sources of Sydney demand.
- ✓ White-collar employment is still forecast to outpace total employment, but lower space intensity tempers the office-demand conversion.
- ✓ AI-exposed occupations have continued to grow; the near-term issue is task and space adaptation rather than broad job displacement.

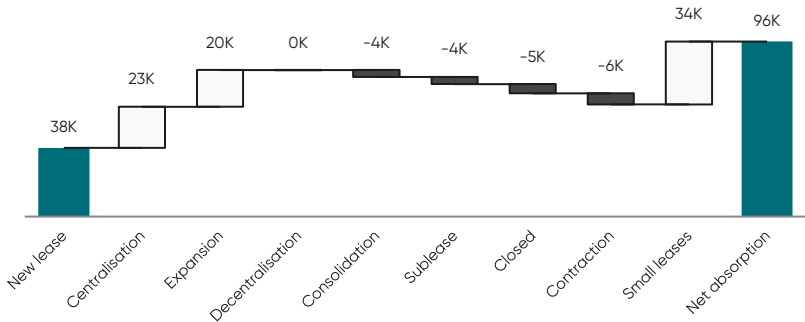
Where demand is coming from

Tenant moves 2020-2024
Sydney CBD

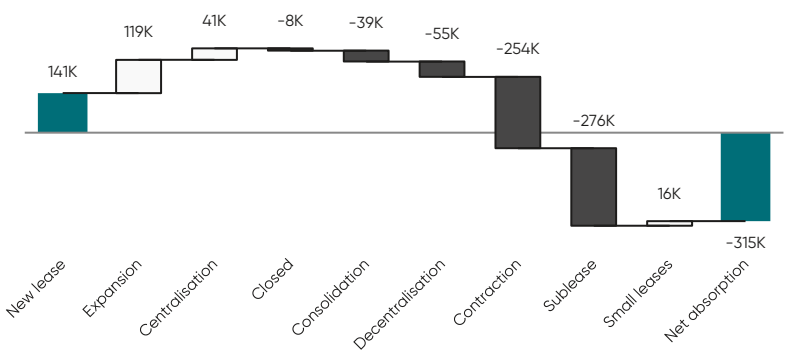


Source: JLL, Dexus Research

Tenant moves FY26
Sydney CBD

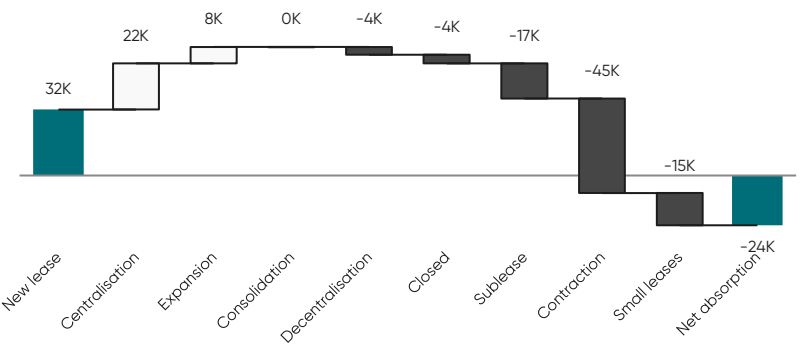


Tenant moves 2020-2024
Melbourne CBD



Source: JLL, Dexus Research

Tenant moves FY26
Melbourne CBD



Employment growth supports, but does not determine, office demand

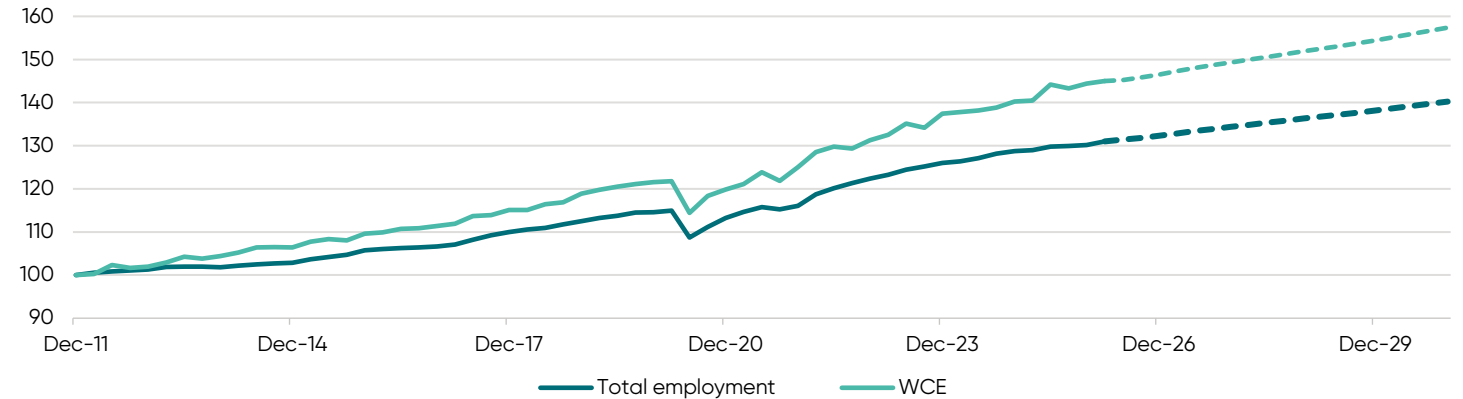
The structural support comes from growth in knowledge-intensive employment, but recent space-use data cautions against equating more white-collar jobs with the same rate of office demand.

White-collar employment is forecast to grow at a 2.6% compound annual rate, compared with 1.9% compound annual rate for total employment. Knowledge-based industries and public services are also near their highest share of Australian employment on record. This supports the demand base, even as hybrid work and lower space ratios weaken the one-for-one relationship between employment and occupied space.

The relevant exposure is to occupiers and locations where employment growth still creates a need for specialised labour, client access and collaboration. That supports connected CBDs and adaptable assets more than locations built around routine, high-density workforces.

White-collar employment continues to outpace

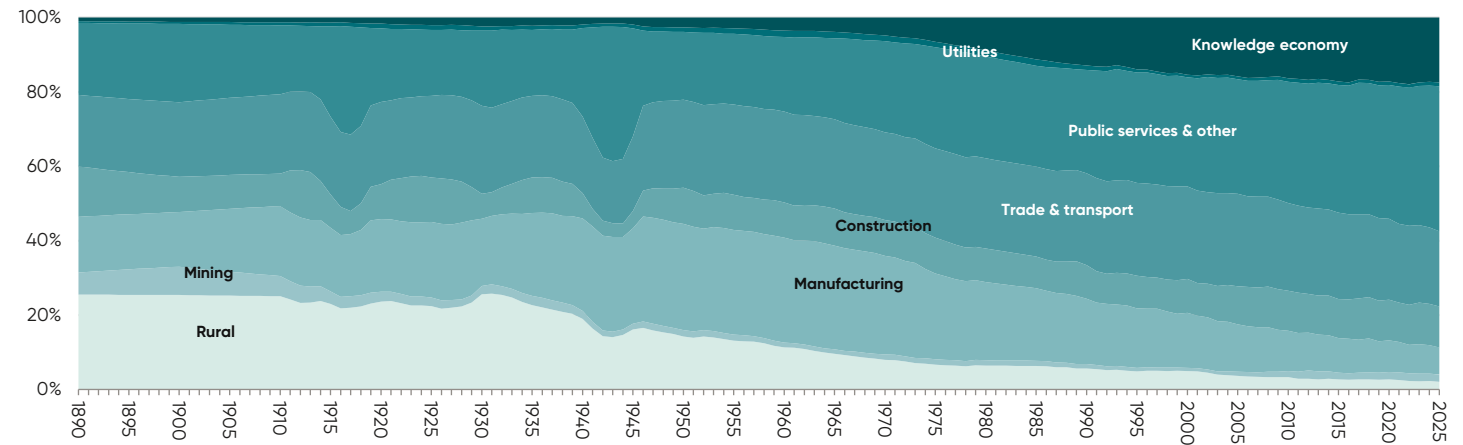
Index 2011 = 100



Source: Oxford Economics; Dexus Research

Knowledge work is near a record share

Composition of employment in Australia, 1890-2025



Source: Withers, Endres & Perry; Dexus Research

AI will redistribute office demand

The evidence does not yet support broad AI-driven displacement of office jobs. Instead, AI is reshaping tasks, skills and workforce requirements in ways that are likely to support office demand over time. We expect productivity gains and new business creation to outweigh employment losses from automation, sustaining overall demand for office-based work.

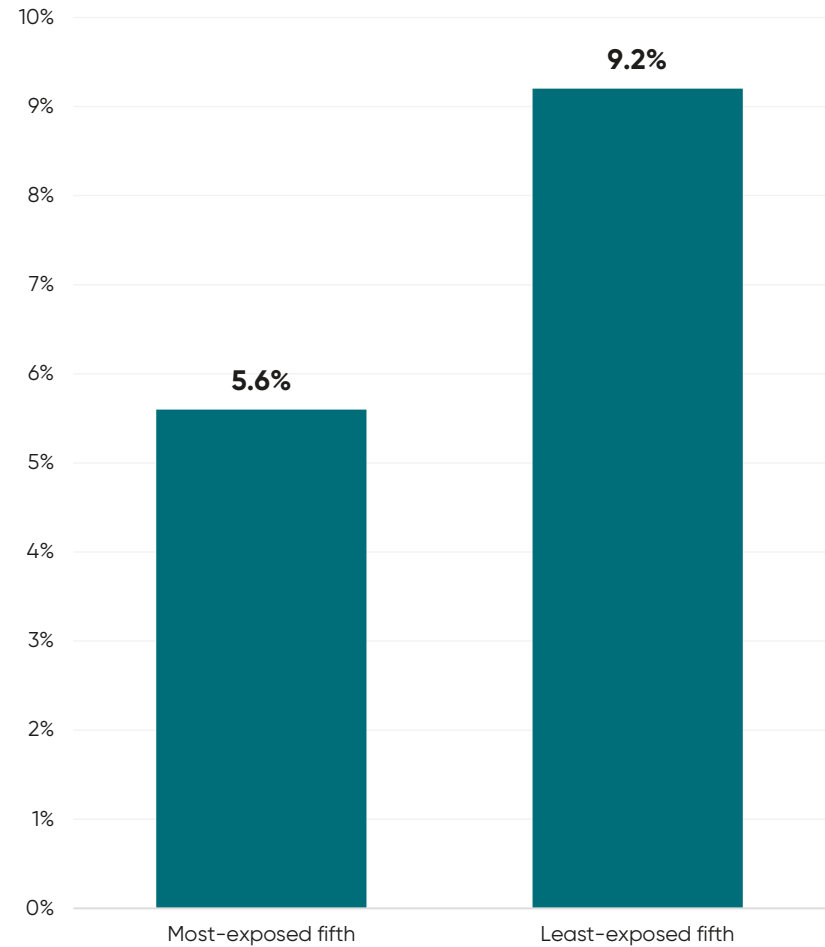
Evidence to date supports this view. Between November 2022 and February 2026, employment in the fifth of Australian occupations most exposed to automation increased by 5.6%, compared with 9.2% growth in the least-exposed fifth. While growth has been slower in more exposed occupations, employment has continued to expand. Business surveys similarly suggest AI-related opportunities are expected to outweigh job losses, while AI skills are already attracting wage premiums in professional and financial services.

For office markets, the more immediate impact is likely to be greater workforce and space churn. Businesses may reassess team structures, headcounts and workplace requirements more frequently, creating more movement between tenants and increasing uncertainty around future space needs. This is likely to favour assets that offer flexibility and can adapt to changing occupier requirements.

Demand should increasingly concentrate in central locations and higher-quality buildings. Knowledge-intensive businesses competing for skilled workers will continue to value access to labour, clients, collaborators and amenity. Well-connected CBD locations and premium assets are best placed to support these needs. AI should therefore support office demand overall, while concentrating that demand in the buildings and precincts most relevant to a more productive and evolving workforce.

Employment growth by AI automation exposure

Nov-22 to Feb-26



Source: DEWR; Dexus Research
Note: Automation exposure measures the potential for technology to substitute for tasks. It does not capture the separate potential for AI to augment workers or create additional demand.

The opportunity set

The recovery favours different strategies across markets and assets.

Office is moving beyond broad market calls. Improving demand and limited supply are creating more favourable conditions, but performance will vary materially across markets, locations and assets.

Sydney: The clearest expression of scarcity

Sydney is the strongest office market, but one where location and asset quality increasingly matter. The city is seeing improving demand, constrained future supply, premium core net effective rents 20% above pre-pandemic levels and a recovery broadening into relevant A-grade space.

The opportunity is not uniform. Core assets benefit from talent, transport and customer networks; western and non-core locations carry higher vacancy and weaker demand. Investors should underwrite the building and precinct, not simply Sydney exposure.

Low supply to support rent growth

The forward supply pipeline is small in most CBD markets. Completions over the next five years are well below the long run average.

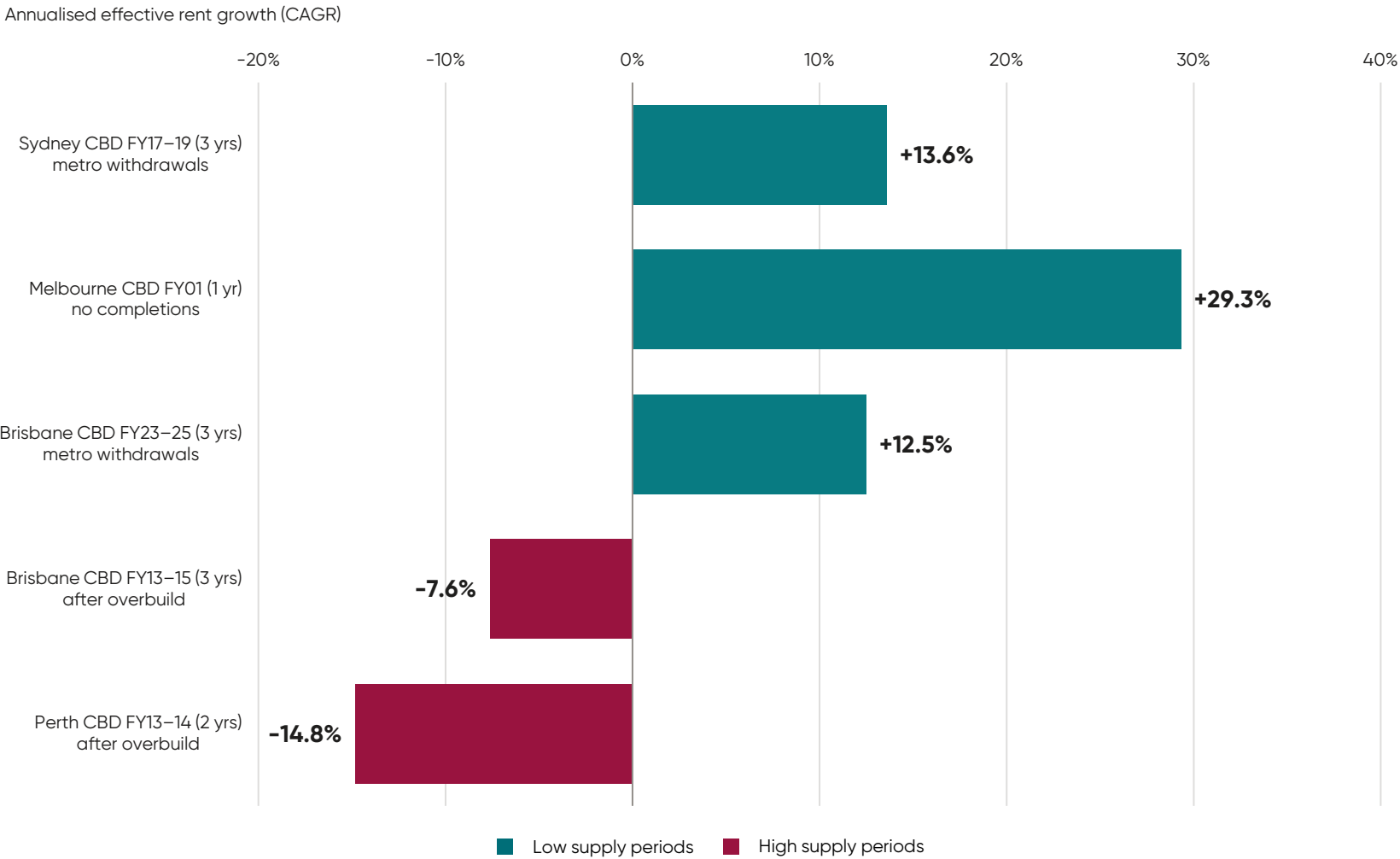
Completions over the next five years in each major CBD market remain well below historical averages. History suggests scarcity provides support translating into higher occupancy and rental growth.

The most compelling office opportunity today lies in these supply constrained markets. Sydney is particularly well placed. Melbourne benefits from the same supply constraint but requires a stronger demand recovery to turn that to rental growth. Brisbane has the most material supply pipeline but continues to be underpinned by strong fundamentals.

As availability tightens in these markets, landlords should gain greater pricing power, supporting rental growth and asset performance in strong assets.

Historically, after periods of low supply high rent growth follows

Effective rent growth during different supply periods



Source: Dexus Research; JLL

Non-core markets
Value only with a credible pathway

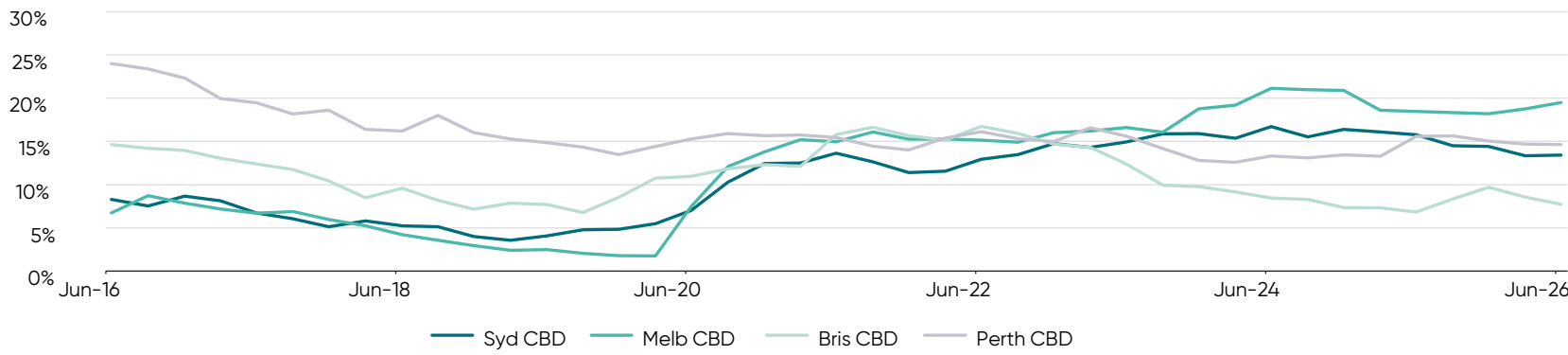
High vacancy can create entry opportunity, but it can also signal that low supply is irrelevant to occupiers.

North Sydney, Parramatta and other non-core locations face elevated vacancy, lower tenant depth and obsolete stock that may not be economic to reposition or convert. Limited development reduces competition but does not restore pricing power.

A value-add case requires tenant movement, expansion, falling sublease space, genuine stock withdrawal and rents that support reinvestment, plus an asset with transport access, adaptable specification and a viable capital program. Until those signals broaden, underwrite cash flow and execution rather than market catch-up.

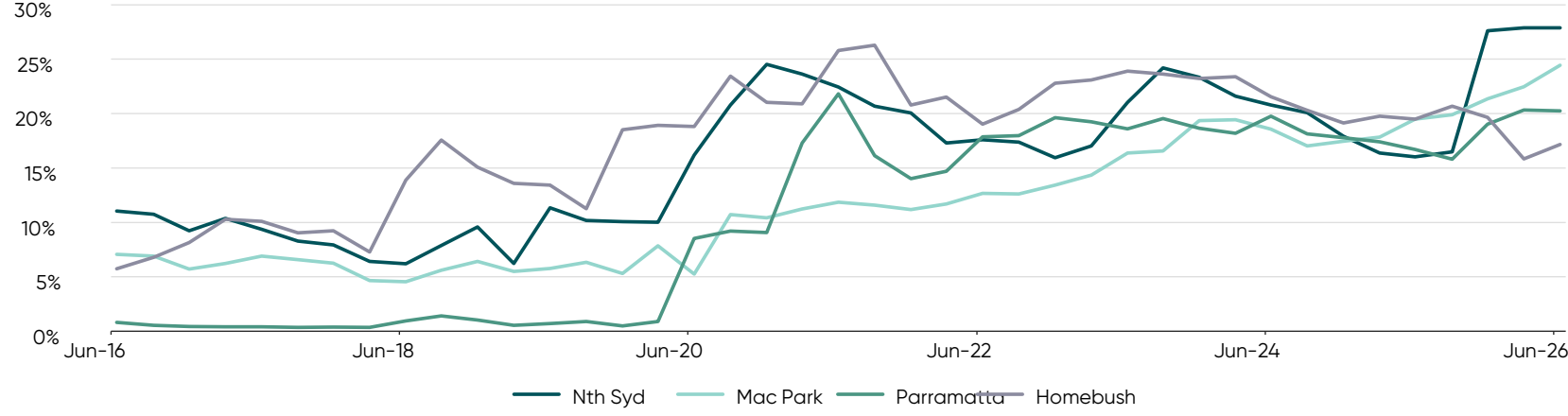
Core and non-core continue diverging

Prime office vacancy – CBD markets



Source: Dexus Research; JLL

Prime office vacancy – non-CBD markets



Source: Dexus Research; JLL

Growth outlook

Quality and scarcity drive returns

Rental growth over the next five years is concentrated in markets where supply is constrained and tenants are competing for the best space.

Sydney Premium and Brisbane lead. Flight to quality persists, the pipeline is near-empty and prime space is scarce, benefitting premium Sydney CBD assets. That strength is extending into A-grade. Brisbane’s fundamentals continue to be very attractive despite the largest supply pipeline.

Melbourne and Perth sit mid-range on supply-led recovery rather than demand. North Sydney, Parramatta and Olympic Park stay weaker, with demand risk and few catalysts. Favour quality in supply-constrained core markets; underwrite non-core on cash flow, not recovery.

Office summary and growth outlook

NER 5-year CAGR outlook

Market	Growth outlook					Key themes
	Weaker		Middle		Stronger	
Sydney Premium					●	Flight to quality persists. Supply constraints. Scarcity in space. Constructive demand.
Sydney Grade A				●		Flight to quality extending to A-grade. Supply constraints.
Melbourne Premium			●			Lack of demand. No supply, allowing for absorption.
Melbourne Grade A			●			Growth now positive. Low depth of demand. No supply.
Brisbane					●	Structurally attractive market. Greatest supply pipeline.
Perth				●		No supply until 2030. Tenant preference for amenity rich assets.
North Sydney		●				Ongoing demand risk. Now competing with Sydney CBD Western Corridor.
Parramatta	●					Limited supply/demand story, few near term catalysts.
Olympic Park		●				Limited supply and demand story.

Source: Dexus Research

Investor implications and signals to watch

Scarcity creates the conditions for performance. Demand credibility, asset relevance and active execution determine who captures it.



Prioritise scarcity with proven demand

Prioritise markets where occupier depth overlaps with long delivery lead times and limited competition. Low supply without leasing depth may limit downside but does not create growth.



Underwrite relevance, not labels

Test whether the building can capture widening premium and A-grade demand, and whether required capital is proportionate. Amenity, flexibility, sustainability and tenant experience are part of the investment case.



Use divergence selectively

Core CBD leadership supports existing assets, targeted repositioning and development options. Non-core weakness creates opportunity only with evidence of demand or a viable alternative-use pathway.



Track the signals that can change the view

Track demand breadth, small-tenant activity, A-grade absorption, sublease availability, transaction evidence, cap-rate movements, development feasibility and credible project timing.

Artist impression: Atlassian Central, Sydney, NSW

Our view

Scarcity is creating opportunity. With new supply constrained across most CBD office markets, conditions are in place for stronger rental growth and improved asset performance.

Low supply is expected to be a key driver of office market performance over the coming cycle. Development pipelines across most Australian CBDs remain well below long-run averages, limiting future competitive pressure and creating conditions that have historically supported periods of strong rental growth. Previous low-supply periods in Sydney, Melbourne and Brisbane were followed by materially higher effective rents as occupiers competed for increasingly scarce high-quality space.

Sydney is particularly well positioned, with minimal uncommitted supply before FY30. As demand gradually recovers and available options tighten, landlords should gain greater pricing power, supporting occupancy, rental growth and asset performance. At the same time, AI is likely to accelerate market divergence as occupiers prioritise quality, amenity, flexibility and building performance. While scarcity supports the market as a whole, the greatest benefits are expected to accrue to premium and relevant A-grade assets best positioned to meet evolving tenant requirements.

What would change our view



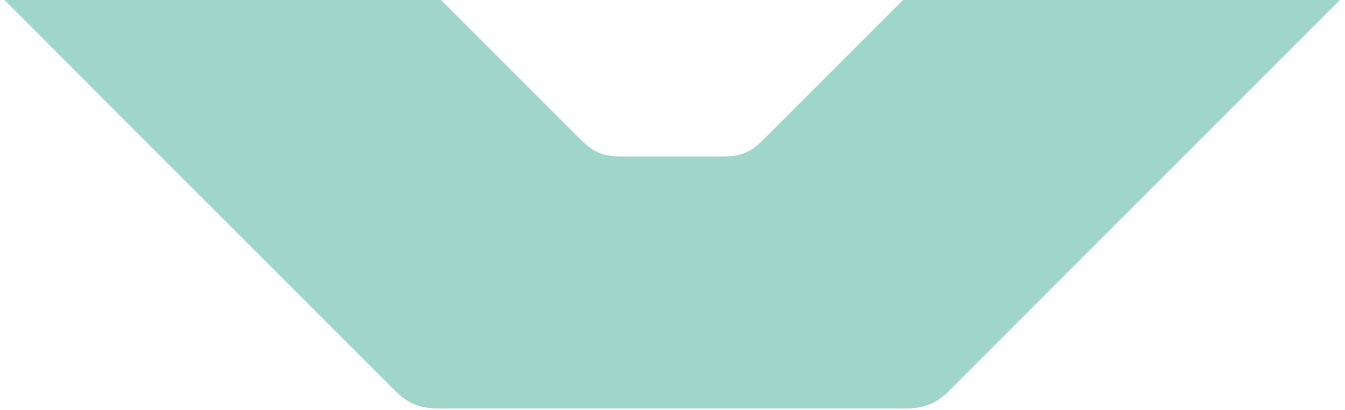
Upside indicators

- ✓ Deepening demand beyond the core, evidenced by tenants relocating into non-CBD, suburban markets
- ✓ Rent growth outperforms and extends beyond the CBD core markets



Downside indicators

- ✓ An increase in development in markets with higher vacancy
- ✓ Increasing sublease availability suggesting tenants are revising down their space requirements
- ✓ AI productivity gains fail to materialise, weighing on business profits and wage growth and narrowing the CBD's advantage over non-CBD markets



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