Month in Review

Commercial - March 2025

The Month in Review identifies the latest movements and trends for property markets across Australia.

National Office Overview

Across the nation, the office market continues to go through a period of recovery. Evidence of high vacancy rates and high incentives remain across most of the country. Most CBDs are experiencing an increase in demand, but it would appear to be slow and gradually building.

Of the capital cities, Brisbane is the standout in overall market performance for 2024, experiencing strong demand and growth. Sydney too has performed slightly better than expected with some activity returning to the market and some early signs of improvement. Melbourne and the remaining capitals however have not had the same bounce back and continue to be subdued.

Angeline Mann
Commercial Director

Most CBDs are experiencing an increase in demand, but it would appear to be slow and gradually building.

Recently released data from the Property Council of Australia reveals that vacancy rates across the major CBDs continued the upward trend albeit at a slower pace than the past few years.

The total national CBD office vacancy rate in January 2025 was reported at 13.7 per cent, up slightly from 13.6 per cent in July 2024. This is a significant increase on the pre-pandemic vacancy rate which was reported by the Property Council of Australia in January 2020 at eight per cent.

Around the country, in the six months to January 2025, Sydney saw an increase in vacancy from 11.6 to 12.8 per cent, Melbourne remained steady at 18 per cent and Brisbane reported an increase from 9.5 to 10.2 per cent. Hobart also reported an increase while Darwin, Adelaide and Perth all reported decreases.

The preference for premium and A-grade office continues with most agents reporting stronger demand for this space. This is also evidenced by the lower prime vacancy rates compared to the secondary market.

Looking ahead, we expect to see rental rates remain flat. Incentives remain high across the country with some locations reporting incentives of over 40 per cent. Conditions are showing signs of easing, and we anticipate a reduction in incentives over the next year. This is especially likely in markets such as Brisbane where demand is stronger and supply is constrained.

Given the overall leasing market conditions, general market conditions and the high incentives being reported, we do not expect any substantial growth in rents this year.

In 2024 we again predicted the office market to remain generally volatile and uncertain. The major office markets continue to face downward pressure on values. Interest rates and waning investor demand on the back of high vacancy rates and negative market sentiment have led to a further softening in yields.

Based on this and the overall market conditions, we expect higher yields in 2025, particularly in Melbourne with the other capitals also softening or at best remaining steady. Investors remain cautious, with a low appetite for risk and a requirement for higher returns.

The challenges in the office market are likely to continue for some time, particularly as we navigate the generally weaker economic conditions and supply and demand factors of this segment. The recent interest rate cut is not likely to have an immediate impact on this market and will take time to have any positive effect.

National Property Clock: *Office*

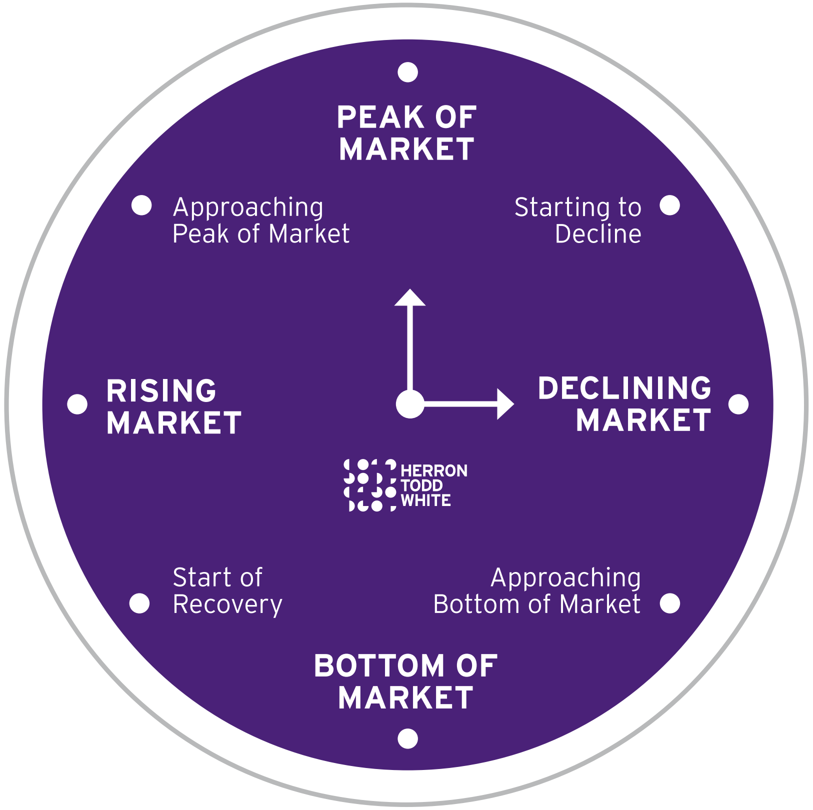
Entries coloured purple indicate positional change from last month.

Dubbo
Port Macquarie

Bundaberg
Cairns
Fraser Coast
Gold Coast
Whitsundays

Launceston
Mid North Coast
Newcastle
Sunshine Coast
Townsville

Ballarat
Emerald
Gladstone
Mackay
Rockhampton



Adelaide
Ballina/Byron Bay
Coffs Harbour
Echuca
Hobart
Illawarra

C'berra/ Q'beyan
Central Coast
Mildura

Brisbane
Geelong
Ipswich
Lismore
South West WA
Sydney

Alice Springs
Darwin
Melbourne
Perth
Toowoomba

New South Wales - Office 2025

Sydney

Once again, this year is likely to be dominated by uncertainty for the office sector throughout Sydney. Confidence in the sector continues to be flat with vacancy remaining quite high and caution being exercised by tenants and buyers alike. There are some very slight signs of recovery, but it remains to be seen what this will look like for the rest of 2025.

Vacancy rates in the CBD have again increased with the Property Council of Australia reporting a vacancy rate of 12.8 per cent in January 2025, up from 11.6 per cent in July 2024, a significant increase from the record low of 3.7 per cent seen in mid-2019.

As we have previously anticipated, there continues to be new supply added and a broad lack of demand. Last year we expected a continuation of slow market conditions which is evidently what did occur. 2025 is looking to be much the same, although it is pleasing to see some green shoots emerging.

Asking face rentals remain stable, but incentives remain high with reports that incentives are close to 40 per cent. Given the high vacancy and continuing uncertainty, high incentives are likely to continue well into 2025 to attract tenants.

The owner-occupier dominated CBD strata market performed well in 2021 and 2022 on the back of stock reductions. Higher interest rates and a general slowing of the economy have resulted in a softening in this sector of the market. This market sector is now well past its peak and continues to slow.

There are some potential opportunities in the market, particularly for owner-occupiers looking to secure space.

The metro CBDs have also struggled with high vacancy, with Parramatta and North Sydney reporting vacancy rates of 20 per cent and 23.7 per cent respectively for January 2025. No significant improvement in these markets is likely to occur this year.

Yields are set to be higher in 2025. Despite the recent interest rate cut, supply increase, interest rates and lack of business confidence are likely to put downward pressure on values. Investors are very cautious, with a low appetite for risk and a requirement for higher returns.

There are some potential opportunities in the market, particularly for owner-occupiers looking to secure space. With a slowing in demand, there is likely to be opportunities to secure office space at a lower price level than we have seen in the past few years.

We consider there to be some major challenges ahead for this market. Sydney continues to have supply added both in the CBD and in suburban office centres. Whilst we are optimistic and can see some improvement, there is still a long road of recovery ahead.

Angeline Mann
Commercial Director

Hunter Region

The commercial office market has experienced a period of subdued activity in recent years, influenced by several factors. The prevalence of remote work coupled with reduced floor space requirements from government and corporate entities have contributed to market uncertainty. Additionally, high inflation and elevated interest rates have played a role.

However, recent data suggests a promising shift towards recovery. The Property Council of Australia's January 2025 Office Market Report indicates a decline in Newcastle's office vacancy rate from 16.4 per cent to 14.9 per cent over the past year. Local agents have observed a renewed interest from employers in bringing staff back to the office, driving demand for higher-quality office spaces. This trend is particularly evident in the A-grade space sector, where vacancy rates have decreased from 17.9 per cent to 16 per cent, accompanied by a net absorption of 7,509 square metres.

The demand for premium office space is fuelled by a desire to attract and retain talent through enhanced workplace amenities. Green building credentials are also seen as an advantage by potential tenants. This demand is generated by a diverse range of companies, from larger corporations to small and medium-sized businesses.

In contrast, the D-grade office space segment has seen a 491 square metre increase in vacancy and there is potential for this space to be repurposed for residential development or refurbishment.

While there are positive signs, Newcastle's overall office vacancy rate remains above pre-pandemic levels. The anticipated completion of 3,100 square metres of new office space in 2025 may add further to the vacancy rate.

Prospective buyers are currently demonstrating a preference for investment properties with strong tenants and longer lease terms. Onsite car parking, particularly in the Newcastle CBD and Charlestown commercial centre, is also highly valued and enhances a property's attractiveness to both buyers and tenants.

The downward trend for inflation rates and the recent cash rate cut by the Reserve Bank of Australia will contribute to a more optimistic office market sentiment going forward in 2025.

Karen Wise
Valuer

Victoria - Office 2025

Melbourne

The Melbourne CBD office market remains in a state of uncertainty as we progress through 2025. Vacancy rates (all grades) have held steady at 18 per cent from July 2024 to January 2025, but demand has softened, with a 40,000 square metre decline recorded over this period (Property Council of Australia, 2025). Adding further pressure, over 74,000 square metres of new supply is set to enter the market, including 800 Collins Street (28,650 square metres) in Quarter 2, 2025 and 7 Spencer Street (45,500 square metres) in Quarter 4, 2025 (Property Council of Australia, 2025). With supply continuing to outpace demand, landlords are offering high incentives, including extended rent-free periods, spec fit-outs and fit-out contributions to attract tenants.

Rather than a major reset, 2025 is shaping up to be a year of stabilization and recalibration. While the lower B- and C-grade assets will continue to struggle, prime office space will remain in demand, driven by the flight to quality. Tenants are prioritizing well-located, high-quality office spaces with modern amenities and strong ESG credentials. Additionally, there is a clear preference for fully fitted-out offices, as businesses seek turnkey solutions that allow for immediate occupancy without the costs and delays of custom fit-outs.

Incentives are expected to remain elevated, particularly for secondary office stock, as landlords compete for tenants. While gross face rents may hold steady, net effective rents will continue to decline due to these higher incentives. However, the recent reduction in interest rates may provide a glimmer of optimism. Easing financing conditions for investors and businesses could help stabilize leasing demand and improve overall market sentiment. If we see more interest rate reductions throughout 2025, this could pave the way for a more positive trajectory moving forward into 2026.

> *Incentives are expected to remain elevated, particularly for secondary office stock, as landlords compete for tenants.*

Despite near-term challenges, opportunities exist for landlords and investors who align their assets with evolving tenant expectations. Buildings that offer flexible leasing options, premium amenities and move-in-ready office solutions will outperform in an increasingly competitive landscape. However, risks remain, particularly for underperforming secondary stock where securing tenants without significant capital investment may prove difficult.

Overall, we consider that 2025 will not be a year of rapid recovery but one of transition. While high incentives and elevated vacancy rates will persist in the short term, declining interest rates could provide much-needed stability. Landlords who adapt by offering quality spaces, strong incentives and flexible leasing terms will be best positioned to navigate the evolving market.

Jason Stevens
Director

HERRON TODD WHITE

Queensland - Office 2025

Brisbane

The Brisbane office market started the year positively as leasing markets continued their strong run from 2024. Brisbane again is outperforming the other major capital cities as the latest figures from the Property Council of Australia's Office Market Report has Brisbane's vacancy rates at 10.2 per cent (CBD) and 10.7 per cent (fringe CBD) respectively.

The fringe CBD leasing market has seen the biggest movement as circa 30,000 square metres of positive net absorption was recorded over a 12-month period and we are now seeing prime gross face rents surpass $800 per square metre. The CBD leasing market has also remained robust despite the vacancy rate increasing from 9.5 per cent to 10.2 per cent in a six-month period.

Office attendance has substantially increased since the introduction and acceptance of 50-cent public transport fares. Occupancy has increased from 78 per cent to 88 per cent over the past 12 months.

Construction costs remain an issue which is limiting new office developments. The limited future supply will likely force rents to increase and if demand continues at the same rate, we will start seeing developers charging economic rents in order to feasibly develop any new office projects.

The RBA decision to cut the cash rate by 25 basis points will come as welcome relief for many homeowners and will improve confidence for investors and overall market sentiment. It is expected that yields will stabilise this year as investors re-enter the market and sale volumes increase. Further rate cuts may see some yield movement but it would probably require more rate cuts for this to occur.

The office owner-occupier segment of the market has been the strongest market in recent years and is expected to continue its strong run in 2025 as stock levels remain critically low, the rental market is firming (in most instances) and construction and fitout costs remain high.

Looking ahead, the Brisbane office market is likely to continue to outperform the other major cities in 2025 and will be underpinned by the strong leasing momentum we have seen over the past 12 months. There will also be a number of major government infrastructure requirements in the coming years as Brisbane prepares for the 2032 Olympic Games. This infrastructure pipeline has and will continue to attract significant interest from institutional investors, REITs, superannuation funds and private equity. Yields should also start to stabilise as investors are encouraged by the RBA's recent decision to cut the cash rate.

Edward Cox
Associate Director

It is expected that yields will stabilise this year as investors re-enter the market and sale volumes increase.

Gold Coast

The Gold Coast office market in 2025 presents diverging trends across its various precincts. While pockets of strength and opportunity exist, particularly in prime locations, the broader market faces a range of challenges stemming from global economic shifts, local sector-specific issues, and evolving tenant preferences.

Core Precincts Remain Competitive

Broadbeach, Robina, Varsity Lakes, and Bundall continue to demonstrate resilience, maintaining fiercely competitive conditions with sub-five per cent vacancy rates for higher-grade accommodation. This scarcity of premium office space is a key driver of rental growth, underscoring the sustained demand for quality offices in strategic locations. This aligns with global trends of tenants prioritizing modern, well-equipped spaces in prime areas – the so-called flight to quality. Businesses are increasingly recognizing the value of a physical presence that fosters collaboration, innovation and brand identity, even in a hybrid work environment.

Challenges Emerge in Southport and Surfers Paradise

In contrast to the strong performance of core precincts, Southport and Surfers Paradise are experiencing increasing vacancy rates. Southport's rise in vacancy rate to 9.1 per cent is directly attributable to the influx of new supply, notably the refurbished CBD333 building. While upgraded stock can attract tenants, the market requires time to absorb the additional space.

The ability to adapt to changing tenant preferences, particularly the increasing demand for flexible and high-quality workspaces, will be critical.

This highlights the importance of carefully assessing market dynamics before introducing new supply. Surfers Paradise, with a 10.4 per cent vacancy rate, faces a different set of challenges. The increase is primarily concentrated in secondary-grade office spaces, signalling a clear preference among tenants for higher-quality, modern alternatives. This suggests that older, less adaptable office buildings are struggling to compete in the current environment.

The Education Sector's Impact and the Rise of Refurbishments

The once-booming international education sector, a significant driver of office demand in Surfers Paradise and Southport, has been significantly impacted by recent student visa restrictions. This has led to closures of education providers and a subsequent increase in office vacancies, particularly in lower-grade buildings. This underscores the interconnectedness of the office market with other economic sectors and its vulnerability to policy changes. Simultaneously, elevated construction costs are hindering new office developments across the Gold Coast. This scarcity of new stock, while contributing to tight conditions in some precincts, also creates a compelling opportunity for building refurbishments. Repositioning existing assets to meet the demand for higher-quality, modern accommodation becomes a key strategy for landlords seeking to attract and retain tenants.

Yields, Rents, and Investment Considerations

Rising interest rates have placed downward pressure on yields for leased office buildings. While increasing rents have helped to maintain property values, the potential for interest rate stabilization or even further reductions in 2025 could provide further support. However, the performance gap between prime and secondary assets is expected to persist, particularly in Southport and Surfers Paradise. This reinforces the need for investors to prioritize prime assets and value-add opportunities in established precincts while exercising caution in the secondary market. Due diligence and a deep understanding of local market dynamics are crucial for successful investment strategies.

Looking Ahead: A Strategic and Data-Driven Approach:

The Gold Coast office market in 2025 and beyond will be defined by its diverse trends and evolving tenant needs. While core precincts are expected to remain relatively strong, Southport and Surfers Paradise face ongoing challenges. Successful strategies for both investors and landlords will require a nuanced understanding of these dynamics. Prioritizing prime assets, exploring value-add opportunities through strategic refurbishments, and carefully assessing the risks associated with secondary properties will be essential. The ability to adapt to changing tenant preferences, particularly the increasing demand for flexible and high-quality workspaces, will be critical.

Ryan Kohler
Director

Sunshine Coast

In 2024, the office market displayed mixed dynamics. Demand from entry- to mid-level owner-occupiers remained robust, underpinned by limited supply, while the investment market softened due to rising borrowing costs and growing uncertainty surrounding the asset class. With vacancy rates holding steady at approximately five per cent and a scarce supply of A-grade spaces, rental rates for high-quality tenancies showed positive growth. Conversely, demand for secondary office locations and B- and C-grade spaces remained stagnant. Overall, the market in 2024 would be characterised as cautious.

As we move through the early months of 2025, the 0.25 per cent rate cut in February – the first since 2020 – has brought a measure of certainty for tenants, owner-occupiers and investors. However, it is unlikely to significantly impact overall demand. We expect 2025 to closely mirror 2024, albeit with a more stabilised sentiment and market environment as inflation continues to level off.

Early indications from agents this year suggest that demand for A-grade office space, particularly within the CBD, remains strong, with rental rates showing signs of upward movement. In contrast, secondary spaces in less desirable locations continue to face sluggish demand. Limited stock availability for purchase remains a challenge, with the majority of future supply coming from tenant-led buildings in the CBD. If centrally-located, modern, high-quality stock were to enter the market, it would likely attract strong interest. However, sourcing suitable development sites remains a significant challenge. Yields for investment assets are likely set to stabilise following a slight reduction in interest rates and potential improvements in overall sentiment for the office market.

Jaydon McDowell
Associate Director

Mackay

Recent sales evidence indicates that office properties in Mackay carry a higher level of risk but provide a higher return compared to industrial properties. The market yield for office buildings in Mackay is around 8.00% to 8.50%, compared to around 7.00% for industrial properties. This indicates a higher level of uncertainty and volatility in the office sector, which can be attributed to a combination of economic factors and changing workplace dynamics.

The rise of remote work arrangements has had an impact on the demand for traditional office spaces. The higher average market yields reflect the potential for vacancies, fluctuating rental rates, and the ongoing uncertainty surrounding future working practices.

Notwithstanding the above comments, we believe that there are prospects of reasonable rental growth throughout 2025 because high building replacement costs are restricting the amount of new office space entering the market. The rising replacement cost of office properties is also contributing to increased outgoings by way of higher building insurance premiums.

Gregory Williams
Director

Landlords are under increasing pressure to upgrade vacant spaces to meet the evolving demands of tenants and keep pace with the changing office environment.

Townsville

The Townsville office market remains stable in terms of annual sales, with recent reports highlighting a positive trend in the region's performance.

The Townsville A-grade office market is largely driven by tenancies in government, healthcare, private enterprises, and the resource sector, a trend expected to continue in 2025. The market typically experiences tight vacancy rates, likely due to the limited availability of office space. Notably, construction of Castlerock's A-grade office building, slated for completion in mid-2026, will introduce 6,500 square metres of carbon-neutral A-grade office space, featuring rainwater harvesting capabilities. Targeted at the Queensland government, the new addition could potentially create a shift in the current market dynamics.

Rental rates for A-grade offices remain robust and have been steadily increasing, in line with rising holding and fit-out costs.

Over the past few years, the market has seen a limited supply of high-quality office properties, resulting in subdued sales activity. Many larger office complexes are owned by multinational corporations or large equity firms and are rarely made available for sale. Car parking remains a key consideration for many tenants and buyers.

The most active segment of the commercial market is in the sub-$3.5 million price range. A recent example is the sale of 380 Flinders Street for $2.7 million, which, with a lease expiry profile of 4.46 years, yielded a net return of 6.77%. Transactions in this price range are typically driven by standard market fundamentals: lower price points tend to reflect higher-risk yields, while higher price points are associated with superior-quality assets that offer longer-term cash flow stability and lower risk. Net yields in the range of 6.25% to 7.5% are considered typical for the greater Townsville region.

Landlords are under increasing pressure to upgrade vacant spaces to meet the evolving demands of tenants and keep pace with the changing office environment. The Townsville office market remains relatively shallow, with limited volume and frequency of sales, particularly at higher price points.

However, entry-level properties in the C- and D-grade segments are still attracting interest from local developers or entry level owner-occupiers. Local developers typically focus on purchasing, renovating, securing tenants, and then reselling to the investor market under newly signed leases.

While the Townsville office market offers a range of refurbishment opportunities, it's important to note that rising construction costs continue to place pressure on the overall feasibility of development projects.

Jamison Sayce
Associate Director

HERRON TODD WHITE

Cairns

Quality green star and NABERS/BEEC rated premises, of which there are only a handful in Cairns, achieve high levels of occupancy and higher rental levels. These primarily appeal to state and federal government entities. Rentals for A-grade offices are reasonably strong and have been increasing in line with holding and fit out costs as lessors try to maintain a base yield. This rental market is considered somewhat reactive to asking rentals with government tenants more often deal takers rather than negotiating asking levels.

The rental market for B-grade office accommodation has been reasonably strong in recent years appearing to be fuelled largely by a substantial pool of NDIS funding and a surge in NDIS providers establishing in the region over this period. Demand for lesser quality space in the CBD remains limited however this is typically a result of buildings being very dated and offering poor quality accommodation or having very limited or no onsite parking. Non-inner CBD and well exposed secondary space appears to be moderately strong, however demand begins to fall away above circa 500 square metres.

There has been very limited leasing activity in the professional medical office market in recent years with tenants of this nature typically occupying the same tenancy long term as a result of limited alternative tenancy areas and extensive fit out costs.

There have been limited quality office properties presented to the market in recent years which has resulted in very limited sales activity. Many of the larger office complexes are held by long term established families and are very seldom released to the open market.

Local and southern investor demand remains relatively strong, but agents have advised a softening of yields over the past nine months for anything that does not represent a blue-chip investment property. Agents advise that prospective purchasers are typically looking to achieve a yield of 7% and above depending on the scale and quality of both the asset and leases in place. Unfortunately, this is yet to be reflected on the evidence with activity once again limited by a severe shortage of investment stock.

Overall the market has remained reasonably steady in recent years.

There have been limited quality office properties presented to the Cairns market in recent years which has resulted in very limited sales activity.

Shane Quinn
Director

Toowoomba

The past two to three years have seen very limited demand for new office space in the Toowoomba area. The exception has been smaller tenancies between 100 and 200 square metres which continue to experience moderate levels of activity, particularly in the inner-city areas which consist of a high proportion of former dwellings converted to office space suited to professional users both as owner-occupiers and tenants.

There were very few new office projects commenced or completed in 2024 which is attributed to high constructions costs, labour and material shortages and increased finance costs combined with tighter credit assessment guidelines. Projects completed during 2024 by existing inner-city tenants include construction of a new NAB Branch and Business Banking Centre and the purchase and major refurbishment of two existing office buildings by a local accounting group and national building firm. In the government sector the former Suncorp Call Centre was purchased and refurbished for the Main Roads department as their main office and a former bank building in the CBD has been refurbished for their customer service centre. Both of these projects will have resulted in additional vacant floorspace following relocation of developers into the new premises.

A major project in 2025 is the redevelopment of an inner-city site as the new seven-storey People First Bank Head Office with a new administration building for the Toowoomba Regional Council in the planning stage. The Council currently leases office space in and around the Toowoomba City centre which has affected vacancy rates and will likely increase when the new Civic Centre Civic Administration building is completed. A development application has also been lodged for the former Gasworks site which sits within a Toowoomba Railway Priority Development Area on the CBD fringe. The project will comprise 56 apartments over nine levels with ground floor retail tenancies.

Growth continues to be experienced in the NDIS sector with strong lease terms obtained by property owners, although these generally relate to fringe CBD areas.

HERRON TODD WHITE

Investor demand continues to be very strong with interest from non-local buyers and properties generally marketed directly to potential purchasers.

Investor demand continues to be very strong with interest from non-local buyers and properties generally marketed directly to potential purchasers.

Activity in this sector is expected to remain stable during 2025 with minimal variation in yields, rental rates and vacancy rates. Factors that may affect these metrics include the number of properties vacated as current tenants or owners relocate to newly developed or refurbished premises. The vacated premises are generally larger office buildings that will require refurbishment and potentially reconfiguration to provide smaller tenancies and incentives to attract tenants are likely to be required. Given refurbishment costs may not be viable there is likely to be an increase in secondary quality space which has limited demand unless the rental rate is competitively low.

Ian Douglas
Director

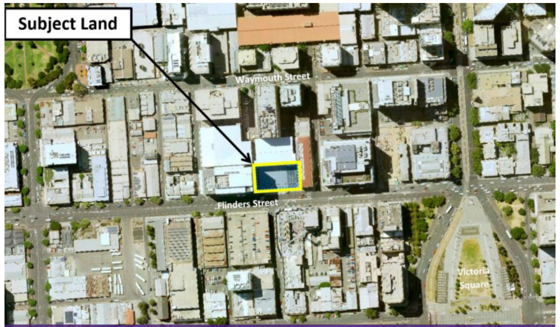
South Australia - Office 2025

Adelaide

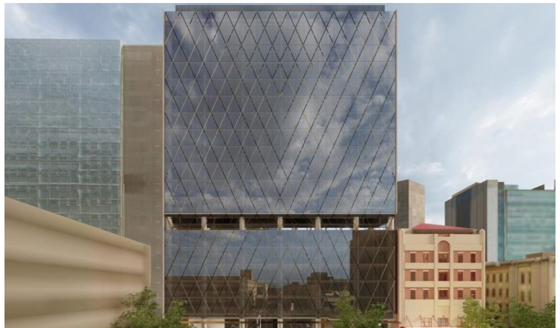
The Adelaide CBD office market continued to recover throughout the latter half of 2024 and early 2025. Vacancy rates have declined in the Adelaide CBD and fringe sectors over the six months from July 2024 to January 2025. Current CBD total vacancy is 16.4 per cent, compared to 17.5 per cent in mid-2024. Prime yields in the Adelaide CBD office market currently sit at 7% - approximately 0.3% above the ten-year average.

	July 2024 PCA Report	January 2025 PCA Report
CBD - Direct Vacancy	16.8%	15.9%
CBD - Sub-lease Vacancy	0.7%	0.5%
CBD - Total Vacancy	17.5%	16.4%
Fringe - Total Vacancy	11.7%	10.8%

Three significant developments are touted for completion in 2025. 42-56 Franklin Street under construction through Kyren Group and architect Brown Falconer is expected to be completed in the first quarter, adding 21,000 square metres of net lettable area to the office market. A complete refurbishment of Carrington House at 61 Carrington Street is expected to be completed in the second quarter and will add 565 square metres of net lettable area. Finally, 139 Frome Street, a partial refurbishment by Wongs Development Corporation, is expected to be completed in the second quarter and add 2170 square metres of net lettable area.



42-56 Franklin Street, Adelaide (Subject Land)
Source: SA Planning Commission and KYREN Group)



42-56 Franklin Street, Adelaide (Artist Impression)
Source: SA Planning Commission and KYREN Group)

Most of the commentary about the Adelaide office market has been trending more positively, with a rebound in the market expected to occur. The stimulus for this might just be the recent RBA cash rate cut, as investor borrowing costs start to get cheaper. Further to this, many of the major banks and economists are predicting multiple interest rate cuts within the next cycle as inflation has returned to levels within the RBA's target range. Within the commentary on the Adelaide office market, more emphasis is being placed on the flight to quality, as employers and business owners seek to entice employees back to the office with upgraded facilities and closer proximity to post-work amenities. As the demand for well-located and high-quality office space increases, older generation offices face greater vacancy risks. JLL's recent insights into the office market indicate that the Adelaide CBD comprises the highest percentage of secondary grade office space of all Australian CBD markets, offering developers the opportunity to repurpose and refit these to a higher standard. As the recovery in this market segment is first touted to occur in Sydney, Melbourne and Brisbane, it may take more time before that level of confidence spreads to the wider Adelaide market.

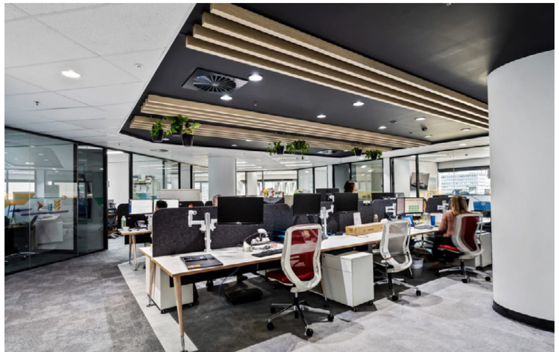
A significant opportunity hitting the market is that of 63 Pirie Street, Adelaide. Listed through Colliers in the middle of February, the 11-storey building offers 11,329 square metres of net lettable area, a five-star NABERS rating, and is 86 per cent leased with an approximate four-year WALE - home to Macquarie, Bentleys and Cowell Clarke. The building

Most of the commentary about the Adelaide office market has been trending more positively, with a rebound in the market expected to occur.

HERRON TODD WHITE

underwent significant refurbishment in 2017, with a new entry lobby completed in 2018, and is situated in the heart of the Adelaide CBD.


63 Pirie Street, Adelaide Source: realcommercial.com.au


63 Pirie Street, Adelaide Source: realcommercial.com.au

The outlook for growth in the Adelaide CBD is positive; the A-grade vacancy rate is expected to decrease as more tenants make the shift from lower-grade office stock. Commercial leasing and sales agents have further reported the positive sentiment in Adelaide's market, as leasing activity increased through the second half of 2024 and into the new year.


Chris Winter
Commercial Director

HERRON TODD WHITE

Western Australia - Office 2025

Perth

The office property market in Perth is poised for a recovery in 2025. The city's strong economic fundamentals underpinned by a robust mining sector, limited supply pipeline and a renewed focus on sustainability are likely to boost demand for high quality office space.

The most recent PCA Office Market Report indicates Perth's CBD total vacancy rate was 15.1 per cent for the six months to January 2025, a marginal decrease from that recorded in July 2024 (15.5 per cent).

The West Perth vacancy rate rose marginally from 11.5 per cent to 11.8 per cent over the same period.

From a leasing perspective, a two-tier market is clear as companies take advantage of incentives on offer to relocate to premium and A-grade accommodation whilst lesser grades languish, particularly in the fringe CBD markets.

Tenant demand for large-scale floor plates greater than say 500 square metres is anticipated to remain soft as prospective occupants demonstrate a preference to secure smaller premises, citing the resilience of the work from home movement despite a renewed push from some corporate leaders for employees to return to the office.

Positively there was an uptick in activity in the smaller sub 500 square metre market segment during 2024 and we expect demand for tenancies between 250 and 350 square metres to remain buoyant. Availability of this stock in certain fringe CBD locations (e.g. Leederville, Subiaco, etc.) is however constrained and likely to exert further upward pressure on achievable rental rates whilst incentives gradually subside.

A key trend to watch during 2025 will be the increased focus on environmental sustainability and energy efficiency measures from tenants and landlords alike. A growing number of tenants are targeting premises that meet their ESG principles. Landlords, keen to attract such tenants, are likely to retrofit buildings to incorporate sustainable design features such as solar panels and HVAC systems, while also providing a heightened level of amenity.

Capitalisation rates for leased office investment acquisitions are difficult to ascertain with any degree of confidence given the lack of transactions. There was very limited stock put to market during 2024 and we anticipate owners will continue to hold tight in the short term. Discussions with a number of industry participants suggest yields north of 8% are required in order to secure a sale, however the absence of market transactions in the current economic environment determines that such feedback is very much anecdotal.

Of those assets available for purchase, we expect that high-net-worth investors or local syndicates will seek opportunistic acquisitions of older stock and embark on refurbishment programs or alternatively, the buildings will be entirely withdrawn from the market and re-purposed.

As Perth adapts to the changing landscape of work, the office property market will likely remain a dynamic and evolving sector. Together with the city's strong economic fundamentals, the outlook for Perth's office property sector in 2025 is positive.

Greg Lamborn
Director

Of those assets available for purchase, we expect that high-net-worth investors or local syndicates will seek opportunistic acquisitions of older stock and embark on refurbishment programs or alternatively, the buildings will be entirely withdrawn from the market and re-purposed.

Northern Territory - Office 2025

> *The Darwin commercial office market is at a tipping point.*

Darwin

The Darwin commercial office market is at a tipping point. There is a genuine lack of supply of A-grade space in the CBD and the laws of supply and demand dictate that this should result in an increase in rental rates as well as a limiting of rental incentives. Already we are seeing this with some lease negotiations around town and we expect this trend to continue throughout the year.

Darwin has not experienced the same level of working from home issues as some other capitals, so demand for this type of space is not weakening. Also, there is no new supply on the horizon to provide any relief.

A large amount of lower grade stock still overhangs the market and unless significant capital expenditure is made on these buildings, they will remain vacant or poorly tenanted. There are certainly some opportunities around for anyone who has the skills and capacity to carry out refurbishment or repurposing of some of this older CBD office stock. This would not be an exercise for the faint-hearted and would require a strong local presence and knowledge of the intricacies of development in Darwin, as well as careful cost control.

A case in point is Health House, an office building in the CBD which has been vacant since the NT Government's Health Department relocated to new premises at Manunda Plaza. Conversion of that building by a local developer to residential use has just commenced. This will remove this building from the stock of lower grade space available in town and hopefully will also generate more pedestrian activity in this section of Mitchell Street.

Sales in 2024 of the old Minerals House at 66 Esplanade and the Westpac Bank building at the corner of The Mall and Bennett Street confirm that there is still an appetite for property within Darwin CBD. An NT premium is still evident for CBD property compared to other capitals, but some investors are happy to see that higher yield, especially if a property has a solid, reliable cash flow.

Terry Roth
Director

HERRON TODD WHITE