10.9. 1st Quarterly Commercial Property Portfolio Report FY2025/26

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ATTACHMENTS	1. Colliers Market Snapshot Q3 2025 - North Sydney & St Leonards [**10.9.1** - 7 pages] 2. CONFIDENTIAL - 1st Quarterly Property Portfolio Report 2025/26 [**10.9.2** - 16 pages]
CSP LINK	**Outcome 8 – An effective, accountable and sustainable Council that serves the community** G8. Manage Council's finances through robust long-term planning and ongoing financial management

PURPOSE:

The purpose of this report is to provide an overview of the performance of Council's property portfolio and activities for the 1st quarter of financial year 2025/2026, covering the period from 1 July 2025 to 30 September 2025.

EXECUTIVE SUMMARY:

- The budgeted income for Quarter 1 in the 2025/26 financial year, as adjusted in the September Quarterly Budget review process, is $1,650,000. The income on accrual basis for Q1 in 2025/26 financial year is $1,645,832, which is in line with the budget.

- Council's Property Portfolio vacancy rate at the end of Q1 FY 2025/26 30 September 2025 was 6.90%, an increase from 5.64% at the end Q4 FY 2024/25 30 June 2025. This rise in the vacancy rate is due to new retail vacancies at: 11 Ernest Place, Crows Nest; 248 Miller Street, North Sydney; the Coal Loader Cafe, Waverton; and an office vacancy at 56 Alfred Street, Milsons Point.

- Despite these premises becoming vacant in the quarter, new lease terms have been agreed in Q2 at the Council meeting of 13 October 2025 for 11 Ernest Place, Crows Nest and 56 Alfred Street, Milsons Point, and at the Council meeting of 17 November 2025 for The Coal Loader cafe, Waverton. Once these new leases complete, it is anticipated that the vacancy rate will decrease to 5.56% at the end of Q2 FY2025/26 31 December 2025.

- The premises used as a restaurant at 41 Alfred Street South, Milsons Point are now vacant, and Council proposes to call a tender for a five-year lease with two five-year extension options. As the site is classified as community land, and any lease of community land exceeding five years must comply with section 47 of the Local Government Act, a tender is required, and a public notice must be issued for a minimum of 28 days to notify the community of the upcoming tender.

- The confidential attachment to this report includes monetary information relating to property income including Outdoor Dining, leasing transactions, arrears data, and carpark income. Should Council wish to discuss this report, it is noted that the attached confidential document includes information that would, if disclosed, confer a commercial advantage on a competitor of the Council. Further, release of the information would, on balance, be contrary to the public interest as it would affect Council's ability to obtain value for money services.

- If Council wishes to discuss the report, the meeting should be closed to the public to do in accordance with Section 10A(2)(a) of the Local Government Act (LGA).

RECOMMENDATION:

1. THAT the report be received.

2. THAT Council resolve that the identified attachment to this report is to be treated as confidential in accordance with section 11(3) of the Local Government Act for the following reason under Section 10A (2) of the Local Government Act:

(d) commercial information of a confidential nature that would, if disclosed (ii) confer a commercial advantage on a competitor of the Council. It is further noted that the release of this information would, on balance, be contrary to the public interest as it would affect Council's ability to obtain value for money services.

3. THAT Council endorse the 28-day public notice, issued under section 47 of the Local Government Act, regarding the proposed tender for the restaurant at 41 Alfred Street South, Milsons Point, for a five-year lease term with two five-year extension options.

Background

Council has a significant portfolio of commercial properties, with a value in the order of $58.1m. The portfolio comprises office space, retail, food premises, residential units, and outdoor dining licences.

Report

Vacancy Position of North Sydney Council's Property Portfolio

Council's Property Portfolio incorporates a diversified portfolio, consisting of office, retail, community centres, outdoor dining licences, and other assets. There is currently an overall vacancy rate of 6.90% across the Portfolio as at end 1st Quarter FY2025/26 (this is an increase in the vacancy rate from 5.64% for the 4th Quarter FY24/25, however terms for three new leases of these vacancies have been approved in Q2 which will result in a decreased vacancy rate of 5.56% by 31 December 2025) – details are in Table 1(a) below.

The larger vacancies are primarily in office space, reflecting current demand levels in that sector. Occasionally there are vacancies of retail space, but there is more demand for this type of space.

The following properties are currently vacant. Council's Property Managing Agents, Colliers, are responsible for the lease negotiations and management of Council's properties under lease.

Building	Unit	Area (m2)	Comments
James Place, 1 North Sydney	Level 1	480.8	B-Grade Office space - low demand for this size of suite
James Place, 1 North Sydney	5.01	273.2	B-Grade Office space - low demand.
Miller St 283A, North Sydney	Levels 1 & 2	320.7	C-Grade office space under the McCartney Stand of the North Sydney Oval. Low demand for this type of space.
Miller St 283A, North Sydney	Shops 3-6	181.4	Four shop units under the O'Reilly Stand of the North Sydney Oval. Council's Oval team are investigating the use of these shops as a training and gym facility with sports teams.
Hume St, 36 Crows Nest	Shop 1	83.8	Shop unit in secondary location under the Hume Street carpark.
Alfred St, 56 Milsons Point	Whole building	168.0	Premises became vacant end of August 2025. Terms for a lease to a new tenant agreed to by Council at meeting of 13 October 2025. Council's solicitors have issued the draft lease to the tenant.

Ernest Place, 11 Crows Nest	Retail	70.5	Premises became vacant end of August 2025. Terms for a lease to a new tenant agreed by council at meeting on 13 October 2025. Council's solicitors have issued the draft lease to the tenant.
Miller Street, 248 North Sydney	Retail	164.0	Interest in a new lease from a veterinary practice. The condition of the property requires council to carry out capital works before it is in a condition to lease. Council's Capital Works team managing this process.
Coal Loader Cafe, Waverton	Retail	79.3	Premises became vacant end of August 2025. Terms for a lease to a new tenant agreed by council at meeting on 17 November 2025. Council's solicitors issuing the draft lease to the tenant.

Table 1(a): Current Vacancies at end 1st quarter 2025/26 within Council's property portfolio

North Sydney Council Portfolio Vacancy Rate			
Quarter	**Q4 FY2024/25**	**Q1 FY2025/26**	**Projected Q2 FY25/26**
Total Vacant Areas	1,340 m^2	1,640 m^2	1,322.5 m^2
Portfolio NLA	23,778 m^2	23,778 m^2	23,778 m^2
Vacancy % of Portfolio NLA	5.64%	6.90%	5.56%

Table 1(b): Vacancies at end 1st quarter 2025/26 - as an overall area (m^2) and % of the total property portfolio

Leasing Transactions for the 1st Quarter 2025/26

Proposed Transaction	Subject Property & Lessee/ Tenant	Term	Permitted Use	Lettable Area
Lease renewal	**Address:** - Primrose Park Tennis Centre, Cremorne **Lessee:** Dalbech Pty Ltd	**Period:** 01/10/2024 – 30/09/2029 **Term:** 5 years **Option:** 5 years	Tennis coaching, court hire and ancillary uses	3,325 sqm
Licence renewal	**Address:** - Flower Stand, front of 58 Kurraba Road, Neutral Bay **Licensee:**	**Period:** 01/05/2025 – 30/04/2030 **Term:** 5 years	Sale of flowers from the flower stand	32.2 sqm

Proposed Transaction	Subject Property & Lessee/ Tenant	Term	Permitted Use	Lettable Area
	Janine Pearson trading as Run Florist Run	**Option:** Not applicable		
Renewal of Partnership Agreement	**Address:** - NSW SES North Sydney Unit, 10 Balls Head Drive, Waverton **Party:** NSW State Emergency Service (NSW SES)	**Period:** 22/07/2025 – 21/07/2033 **Term:** 8 years **Option:** Not applicable	NSW SES facility	N/A

Table 2: Leasing transactions for Council's owned and leased properties for the period ending 30 September 2025

	Address	Reason	Date	Remarks
Acquisitions	Nil			
Disposals	Nil			

Table 3: Acquisitions and Disposals within the North Sydney Council Property Portfolio for FY 2025/26

Consultation requirements

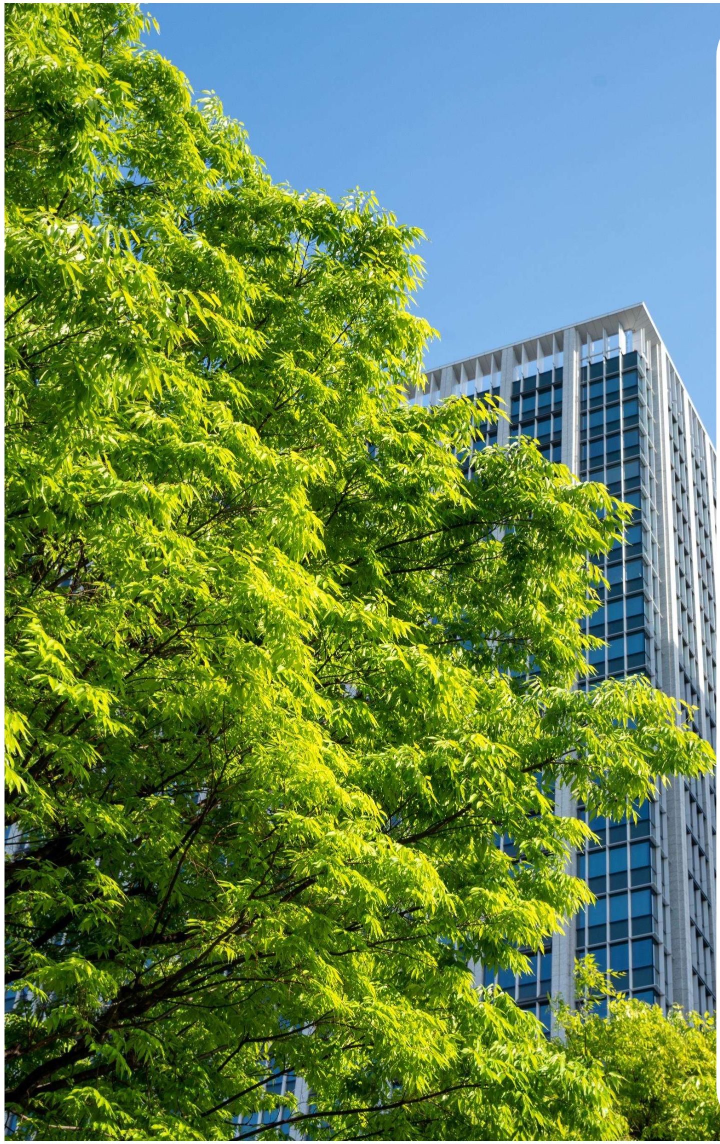
Community engagement is not required.

Financial/Resource Implications

Property is a significant revenue stream for Council, with a total budget of $6,239,985 as reported in the September 2025 Quarterly Budget Review. This will continue to be monitored, and any emerging trends or variances will be flagged.

Legislation

The management of leases within Council's Property Portfolio is governed by the provisions of the Retail Leases Act 1994 and the Local Government Act 1993. These legislations set out the legal framework and requirements for handling retail leases and property management in Local Government, NSW.



Australian Metro Office Snapshot

Q3 2025 Key Findings

Vacancy stabilised across the nation's metro markets. Over the first half of 2025, national vacancy in the metropolitan office markets decreased by 0.2 percentage points from H2 2024 to reach 17.2%. Although the market recorded negative 3,868 sqm net absorption, stock withdrawals and limited new supply additions allowed vacancy to stabilise, continuing its slight downward trend for the third consecutive quarter. Office stock withdrawals were a key theme that continued to play out over the period, moderating the impacts of soft tenant demand on vacancy. Over 84,000 sqm was withdrawn across the metro markets with North Sydney and St Kilda Road leading in terms of the quantum of space removed.

Gross leasing activity reached its highest point in 2025, increasing 16% QoQ from Q2 2025. Activity in Q3 reached over 63,000 sqm, marking the highest volumes since Q4 2024. Leasing activity this quarter was only 5% below the five-year average of 66,900 sqm, showing a normalisation of market conditions.

Although volumes are normalising, the time it is taking deals to be struck is increasing, with deals taking significantly longer from when an RFP is issued to when a lease is signed, as tenants take their time to evaluate all options in the market. Q3 saw a strong presence of large occupiers in the 3,000sqm+ size range, all of which were focused in Melbourne.

Sticky incentives continue to weigh on effective rents despite healthy face rent growth. Elevated vacancy across the metro markets is causing prime incentives to remain sticky, edging up slightly to 35% from 34.4% over the quarter. The incentive uptick was offset by face rents growing by 0.9% to $496 psm p.a., as landlords continue to pull the incentive lever to attract and retain tenants. Markets with tightening vacancy profiles like Adelaide and Brisbane Fringe were the main beneficiaries of stabilising incentives and healthy face rent growth, allowing them to capture the full effective rent benefit, increasing by 3.6% and 0.8% respectively.

Investment activity across the metro markets remains healthy as volumes stabilise after a strong Q2. Capital deployment across the metropolitan markets reached over $437 million, with 21 assets swapping hands over the quarter. Investors remain active but cautious, with campaigns often receiving multiple EOIs; however, some investors still hold reservations around timing and f the bottom of the market has been reached yet. Activity in the metro is led by private investors and syndicates, who have a window of opportunity as institutional investors remain mostly CBD focused.

National prime weighted average yields remained stable over Q3 at 7.76% as the cycle continues through its stabilisation period. Further expansion, if any, is expected to be minimal. It is believed that most markets have reached their cyclical peak, providing investors with strong value propositions for metro assets.

Q3 2025 National Key Indicators

Metro Office

-3,868

Sqm of total **net absorption** over H1 2025

-0.5% QoQ 0.6% YoY

National weighted average prime net effective rental growth in Q3 2025

7.76%

National weighted average prime yield in Q3 2025

Supply

Development strategies continue to be reevaluated across the metro as office feasibilities are pressured by elevated vacancy and mostly subdued rental growth.
Supply over Q3 was concentrated in the NSW metro markets with the partial completion of 2-12 Macquarie Street in Parramatta, delivering 7,300 sqm of refurbished stock to the market, with the remaining 36,000 sqm due in Q4.

The short-term pipeline is strong across the country as projects under construction are due to reach completion over Q4, delivering over 188,000 sqm of office stock. Beyond 2025, only 59,000 sqm of stock is currently under construction and due to be delivered, all of which is in Melbourne. It is expected that the market will continue to see strong withdrawal activity across the metro as owners look to reposition assets to alternate uses. This trend has mostly been observed in Sydney's & Melbourne's metro markets.

Demand & Vacancy

Vacancy decreased across eight of the tracked markets, allowing the headline vacancy rate to remain stable, falling slightly to 17.2%. Withdrawals played an important role in moderating the overall vacancy rate with over 84,000 sqm removed from the market while only 12,800 sqm was supplied. Occupier demand was soft over the first half of 2025, recording -3,868 sqm of net absorption nationally, mainly driven by continued tenant centralisation and contractions.

Adelaide Fringe recorded the sharpest decline in vacancy, with the headline rate falling by 2.2 percentage points to 8.6%, driven by 2,583 sqm of net absorption and 2,206 sqm of withdrawals. This was closely followed by North Sydney, which saw a two percentage point reduction in vacancy driven by 28,000 sqm of withdrawals. The Melbourne metro markets seemed to be a standout market recording over 50,000 sqm of positive net absorption as healthy levels of leasing in H2 2024 flow through to movements in vacancy over the H1 period.

Rents & Incentives

National prime net effective rents remained mostly stable over Q3 2025, as elevated vacancy weighs on rental growth and allows landlords to continue pulling the incentive lever to attract and retain tenants. Nationally, prime net face rents recorded a healthy 0.9% increase to $496/sqm p.a. whilst incentives saw a slight uptick from 34.4% to 35%.

Segmented rental growth is being observed across the country as certain pockets of the market see tightening vacancy putting upward pressure on rents. Both Brisbane and Adelaide Fringe recorded reductions in vacancy driven by positive net absorption, allowing face rent expectations to be set and incentives held stable. Effective rental growth was focused in these pockets of the market, recording 0.8% and 3.6% quarterly growth respectively.

Investment Activity/Yields

After a strong Q2, investment volumes across the metro market normalised, recording over $437 million in transactions over Q3, bringing the 2025 YTD volumes to $1.46 bn. Although deal flow remains steady, capital is still exercising caution around the current state of the market, with some investors still holding reservations if the bottom of the market has been reached. There are multiple campaigns in the metro markets, which if transacted, should position Q4 for another steady quarter.

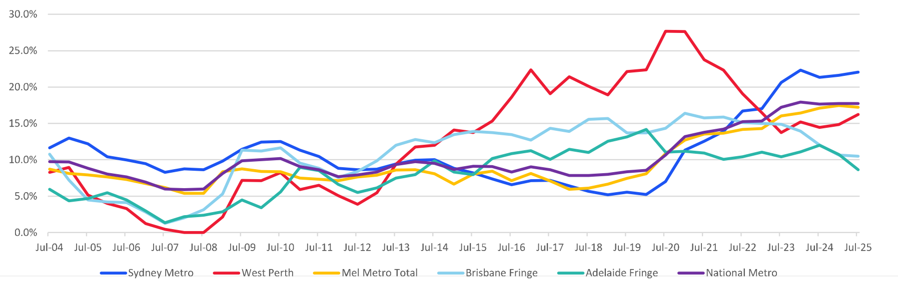
National weighted average prime yields remained stable at 7.76% as markets continue through the stabilisation period of the cycle, no further expansion was recorded across the metro markets.

Q3 2025 National Snapshot

Australian Metro Office Market

Total Vacancy by Market

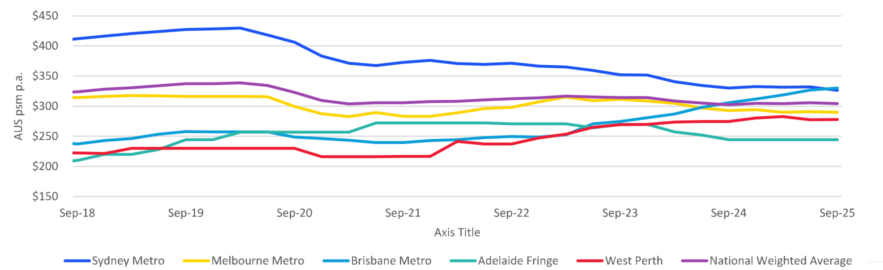
Source: Colliers Research



National metro average remained stable over H1 2025 as moderate increases in West Perth and Sydney Metro are offset by vacancy declines in Adelaide and Brisbane Fringe.

Average Prime Net Effective Rents ($psm p.a.) by Market

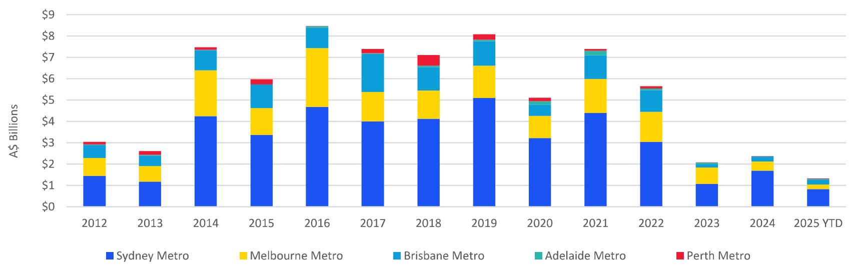
Source: Colliers Research



National weighted average prime net effective rents remained mostly stable over Q3, recording a slight 0.5% downtick. The decline was mainly driven by increasing incentives in Sydney Metro which underpinned rents falling by 1.6% QoQ.

Sales Volumes

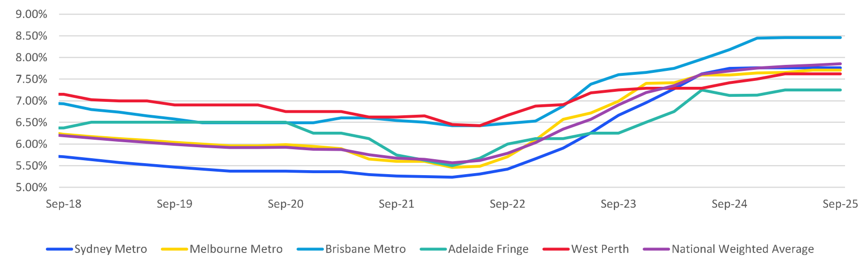
Source: Colliers Research



Investment volumes across the metro remained healthy, reaching $1.3 billion YTD in 2025. Sydney metro continues to be a focus for investors, receiving the largest proportion of capital to date.

Average Prime Yields ($psm p.a.) by Market

Source: Colliers Research



National prime yields continued to stabilise over the quarter, all markets recorded no change to reported yields.

Economic Snapshot

Australian Metro Office Market

Gross Domestic Product (GDP) rose +0.6% over the June 2025 quarter and +1.8% YoY, indicating a steady pace of economic expansion. Growth was primarily driven by domestic final demand, led by resilient household and government consumption. While public investment detracted from overall growth, net trade made a modest positive contribution, supported by strong exports of mining commodities. The data reflects a stabilising economic environment, with consumption trends reinforcing confidence and trade performance offering upside potential. These indicators suggest a cautiously optimistic outlook heading into Q4-25

The **unemployment rate** held steady at 4.2%, supported by a cyclical dip in participation, which eased to 66.8%. Despite a headline decline of 5,400 jobs, full-time employment remained stable. Encouragingly, the market sector is showing signs of recovery, with earlier weakness in hospitality fading. Structural factors continue to support long-term participation, and the labour market remains resilient despite short-term volatility. The RBA is expected to maintain its current stance, with a potential rate cut still on the horizon for November.

Australia's population reached 27.5 million as at March 2025, growing by +1.6% (+423,400 people) over the year. Net overseas migration contributed 315,900, accounting for nearly 75% of the increase, while natural growth added 107,400. Western Australia led national growth at +2.3% (+67,500), surpassing 3 million residents. Population growth continues to support demand for housing, infrastructure, and services, with migration levels stabilising from post-pandemic peaks.

Inflation continued to moderate in the June quarter, with headline CPI rising 0.7% and 2.1% year-on-year, down from 2.4% in March. The Trimmed Mean CPI, which provides a clearer view of underlying inflation by excluding volatile price movements, eased to 2.7% year-on-year, down from 2.9% in the previous quarter. Key contributors to quarterly price growth included Housing (+1.2%), Food and non-alcoholic beverages (+1.0%), and Health (+1.5%), while Transport (-0.7%) partially offset the overall rise. These results reinforce the view that inflation is tracking within the RBA's target band, supporting the case for a measured approach to further monetary easing. Australia's monthly CPI rose to 3.0% year-on-year in August, up from 2.8% in July, slightly above expectations and largely driven by base effects.

Business conditions improved in September, rising to +7 index points, up 2 points from August and returning to around their long-run average. This uplift was driven by gains in profitability (+4) and employment (+6), while trading conditions remained steady at +12. A key turning point was the rise in forward orders, which moved into positive territory for the first time in two years, indicating renewed business optimism about future demand. Cost pressures also eased, with purchase cost growth slowing to 1.1%, its lowest rate since 2021. These improvements suggest a more resilient and confident business environment, supported by stabilising economic conditions and easing input costs..

1.8%
GDP Growth
YoY to Jun-25

2.1%
Inflation Rate
YoY to Jun-25

3.6%
Cash Rate
As at Oct-25

1.6%
Population Growth
YoY to Mar-25

4.2%
Unemployment Rate
As at Aug-25

+7.4 pts
Business Conditions
YoY to Sep-25

Q3 2025 Data Snapshot

Australian Metro Office Market

Submarket	Net Face ($/sqm p.a.)		Incentive (%)		Net Effective Rent ($/sqm p.a.)		Average Yield (%)		Net Absorption (sqm)		Net Supply (sqm)		Vacancy (%)	
Prime Grade	Current (QoQ)	Previous (QoQ)	Current	Previous	Current (QoQ)	Previous (QoQ)	Current	Previous	Current (H1 2025)	Previous (H2 2024)	Current (H1 2025)	Previous (H2 2024)	Current (H1 2025)	Previous (H2 2024)
Sydney Metro	$648 (0.2%)	$647 (0.2%)	41%	40%	$334 (-1.8%)	$340 (-0.4%)	7.63%	7.63%	-9,690	-1,585	-3,175	8,013	18.4%	18.0%
Melbourne Metro	$496 (0.4%)	$494 (1.3%)	41%	40%	$293 (-0.3%)	$294 (0.0%)	7.67%	7.67%	50,742*	36,842*	26,840*	15,213*	14.1%*	14.8%*
Brisbane Metro	$589 (0.9%)	$583 (1.8%)	36%	36%	$330 (0.8%)	$327 (2.7%)	8.46%	8.46%	9,462	11,569	-8,700	30,630	11.3%	14.1%
Adelaide Fringe	$343 (0.0%)	$343 (0.0%)	21%	21%	$244 (0.0%)	$244 (0.0%)	7.25%	7.25%	-1,167	-833	0	0	4.1%	1.7%
West Perth	$415 (0.2%)	$414 (-1.8%)	33%	33%	$278 (0.2%)	$277 (-1.8%)	7.63%	7.63%	-7,092	-1,946	-6,864	0	11.1%	10.0%
Secondary Grade***	Current (QoQ)	Previous (QoQ)	Current (QoQ)	Previous (QoQ)	Current (QoQ)	Previous (QoQ)	Current	Previous	Current (H2 2024)	Previous (H1 2024)	Current (H1 2025)	Previous (H2 2024)	Current (H1 2025)	Previous (H2 2024)
Sydney Metro	$555 (0.3%)	$553 (0.3%)	38%	37%	$281 (-2.3%)	$288 (-0.4%)	8.32%	8.32%	-33,885	-1,641	-32,155	-119	26.6%	25.9%
Melbourne Metro	$358 (0.4%)	$357 (0.4%)	37%	37%	$223 (0.0%)	$222 (0.0%)	9.13%	9.15%	NA	NA	NA	NA	NA	NA
Brisbane Metro	$507 (0.7%)	$504 (1.8%)	36%	36%	$275 (0.3%)	$274 (2.7%)	8.90%	8.90%	-7,531	2,763	0	0	8.3%	9.7%
Adelaide Fringe	$255 (0.0%)	$255 (0.0%)	28%	28%	$159 (0.0%)	$159 (0.0%)	8.00%	8.00%	3,879	-1,121	0	0	12.7%	15.0%
West Perth	$313 (1.5%)	$309 (0.5%)	34%	34%	$209 (1.9%)	$205 (0.9%)	8.00%	8.00%	146	4,044	4,937	0	13.7%	11.8%

Source: Colliers Research, PCA
*Reflecting Melbourne metro across all grades.
All Melbourne Metro numbers do not include St Kilda Road and Southbank.
**Incentives - Sydney, Brisbane and Adelaide are gross incentives and Melbourne and Perth are net incentives.
*** For rents, incentives and yields the data represents B-grade.

Sydney – North Sydney

Q3 2025 Market Snapshot

Demand & Vacancy

Vacancy eased across North Sydney over the first half of 2025 as withdrawals and strong take-up in prime stock lowered the headline vacancy by two percentage points to 21.7% (latest data). Net absorption was heavily concentrated in the prime market as tenants continued their flight to quality, absorbing over 8,000 sqm over the reporting period. The North Sydney prime market is seeing strong absorption relative to the market size, recording a net absorption rate of 2.1%, more than double the CBD prime absorption rate of 1.0%. Secondary stock saw vacancy decline by 1.7 percentage points to 26.1%, driven by the withdrawal of 105–153 Miller Street, a fully vacant 28,500 sqm asset that is earmarked for conversion to alternate use. Net absorption in the secondary market was recorded at -11,580 sqm as deal activity in the wider B-grade market remains challenged. Healthy deal activity is being observed in secondary assets with recent CAPEX on lobby upgrades and spec fit-outs as landlords act proactively to make their assets stand out in a market with significant availability.

Supply

As Victoria Cross nears completion, it is gaining traction in the market with the pre-commitment rate now above 30% and continuing to target larger tenant briefs in the North Shore. A shift in occupier preferences across the metro markets is weighing on the development pipeline, with many tenants preferring to sign leases once the project is complete or nearing completion, as opposed to pre-committing to a new development. This shift in occupier preferences, paired with the recent challenging conditions, is encouraging developers to re-evaluate their strategies, with many future developments requiring significant pre-commitment rates to start construction. As a result, it is anticipated that Victoria Cross will be the last new supply addition to the North Sydney market until at least 2035.

Rent & Incentives

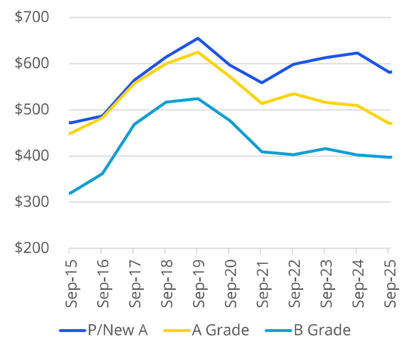
Elevated vacancy and a range of options in the market continue to weigh on face rent growth across North Sydney, with no change reported in face rents across all grades of stock. Landlords are continuing to pull the incentive lever to attract and retain tenants to safeguard cashflows. This has driven an overall increase in incentives across all grades of stock. The delivery of Victoria Cross is anticipated to rebase new A-grade face rents next quarter as the asset's quality leads the market with rent expectations. This is expected to be met with sticky incentives over the near term as the market absorbs the vacancy from completion. Once the additional vacancy and associated backfill space is absorbed, combined with the impact of tenant displacement from withdrawn assets, the market is expected to see healthy effective rental growth over a three-to-five-year horizon.

Investment & Yields

Q3 saw the first transaction of 2025, with 100 Pacific Highway exchanging for an estimated $220 million between ISPT and Forza Capital. The transaction is the largest single-asset sale in the market since 2022 and is a welcome sign of regaining investor momentum. Capital mandates, which often rule out the metropolitan office markets as investment options for managers, paired with the misalignment of vendor book values and purchaser pricing, are continuing to weigh on transaction volumes in North Sydney. Although acquisitions at this stage in the yield cycle present a promising counter-cyclical investment strategy, many investors are opting for core investment strategies in the current economic state. Multiple active on- and off-market campaigns should see transaction volumes continue to regain momentum throughout the remainder of 2025.

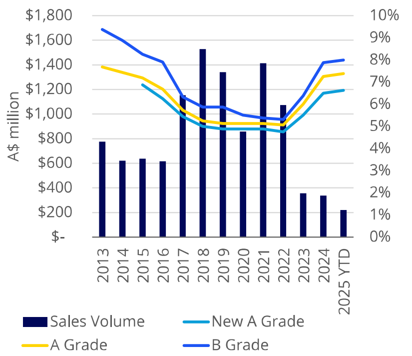
Average Net Effective Rents ($/p.a.)

Source: Colliers Research



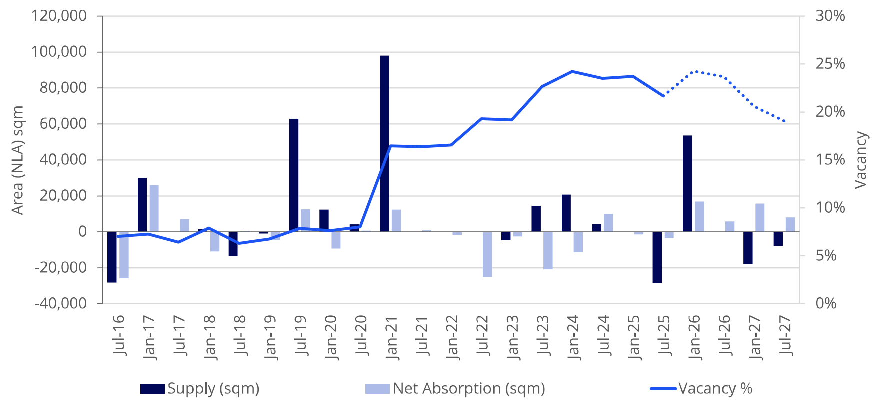
Sales Volumes (AUD) & Yields (%)

Source: Colliers Research



Net Supply, Net Absorption & Vacancy

Source: PCA, Colliers Research



Sydney – St Leonards

Q3 2025 Market Snapshot

Demand & Vacancy

Positive absorption across prime stock assisted in moderating the St Leonards headline vacancy number, which reduced by 0.8 percentage points to reach 29.7% in the first half of 2025. The continued flight to quality by tenants was observed over the first half of 2025, with prime stock recording over 4,400 sqm of net absorption, driving the A-grade vacancy rate down by 3.3 percentage points to 22.9%. The positive absorption was driven by medium-sized tenants (+500 sqm) expanding their footprint within the market, accounting for over 2,000 sqm of the recorded net absorption, a welcome sign as occupiers take more space to account for future business growth after aggressive reductions in floor space over the last three years. The secondary market remains challenged, recording total net absorption of -3,392 sqm and a slight vacancy increase to 33.9%. It is anticipated that as the impact of stock withdrawals flows through the market, structural secondary vacancy should be alleviated.

Supply

Development activity in St Leonards has shifted to residential or alternate-use projects as favourable government planning and initiatives have fast-tracked the reshaping of the St Leonards skyline into a mixed-use hub. With no office projects expected to be delivered in the foreseeable future, withdrawals of office stock to make way for alternate-use developments are expected to assist in rebalancing the market. The influx of new residents as a result of the shift in development strategy should see a strong uplift in immediate amenity for the existing assets, which will also capture the displaced tenants from withdrawn assets.

Rent & Incentives

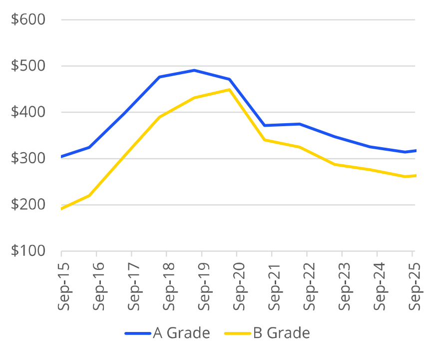
A notable trend over Q3 was the widening range of market incentives in both grades of stock, as the divergence between different quality assets within the same grade profile is more pronounced. The average low-range incentive for A-grade stock decreased by three percentage points to 40%, in contrast to the average upper range increasing by three percentage points to 49%. Although these movements amount to no change in the average reported number, it is important to note the divergence between different quality assets and management within the same grade profile. Higher-quality assets with spec fit-outs, recent CAPEX and active management are generally able to achieve significantly lower incentives. The incentive spread is at its widest point since June 2020. The same trend was observed in B-grade incentives, however to a lesser extent on the lower range.

Investment & Yields

Although no sales were recorded over Q3, multiple active campaigns in the market are positioning the remainder of 2025 to see strong investment volumes. Recent campaigns in the market included 154 Pacific Highway and 40 Oxley street, both of which received significant interest from developers or investors with plans to reposition the assets. Reported yields in the market remained stable for their fifth consecutive quarter across both grades of stock, as more transactions flow through the market it will give investors further clarity on pricing expectations and assist to facilitate more deal volume.

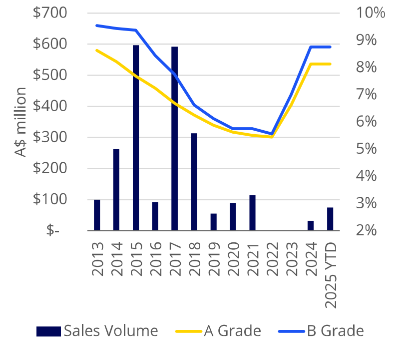
Average Net Effective Rents ($/p.a.)

Source: Colliers Research



Sales Volumes (AUD) & Yields (%)

Source: Colliers Research



Net Supply, Net Absorption & Vacancy

Source: PCA, Colliers Research