Experience First

Melbourne Central Tower

Office-ially back

Value realignment and green shoots emerging

July 2025

Key themes

We believe office market conditions will be very different over the next five years.

The sector has navigated fluctuating white-collar jobs, re-defined workplace strategies, and the accelerating impact of technology coupled with macroeconomic uncertainty.

Leasing markets have begun to recover, with clear signs of green shoots and strong signals in certain pockets of the market which will likely broaden out as undersupply eventuates.

2025 is the fifth anniversary since the onset of COVID-19, with many organisations now expanding leases signed under pandemic conditions, due to office utilisation, headcount growth and the downsizing that has occurred since 2020.

1 Recovery in global office markets is underway

2 Broadening of demand from core precincts

3 High economic rents to constrain supply

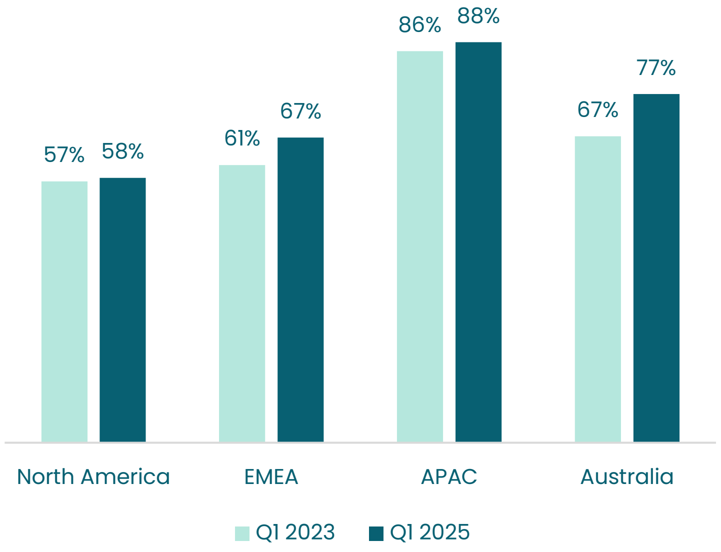
4 Capital returning but will be highly selective

5 Asset selection will drive outperformance

Global leading indicators show office has passed a trough

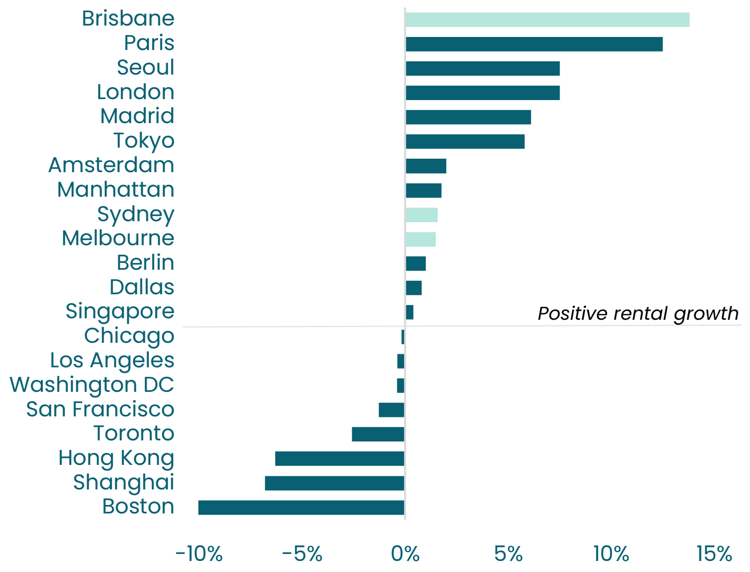
Consistent trend of office recovery evident across the world, with Australian markets recovering at a faster pace on a relative basis.

Office utilisation rates (weekly avg) (1)



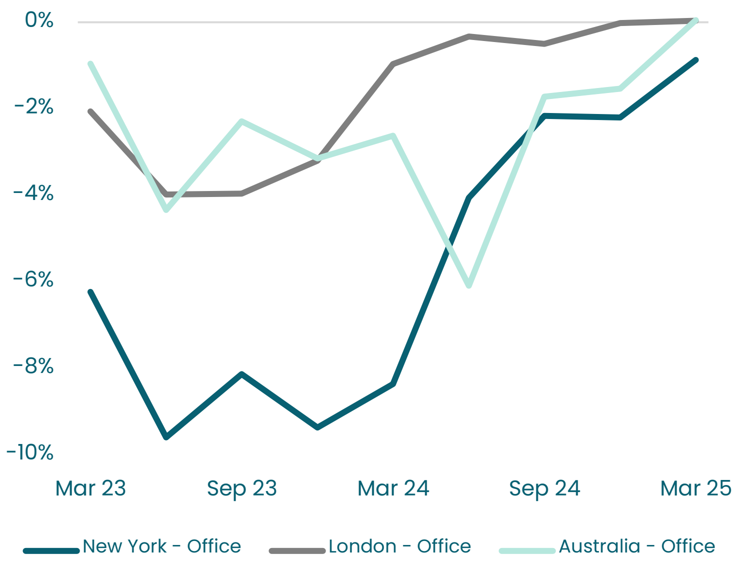
Continual improvement in office utilisation across all regions, with APAC leading on a global level

Prime net effective rental growth CY 2024 (2)



A range of major markets are at the **turning point** in the cycle for net absorption and rental growth

Capital value quarterly change % (3)



Capital values stabilising across major markets – led by the highest quality assets

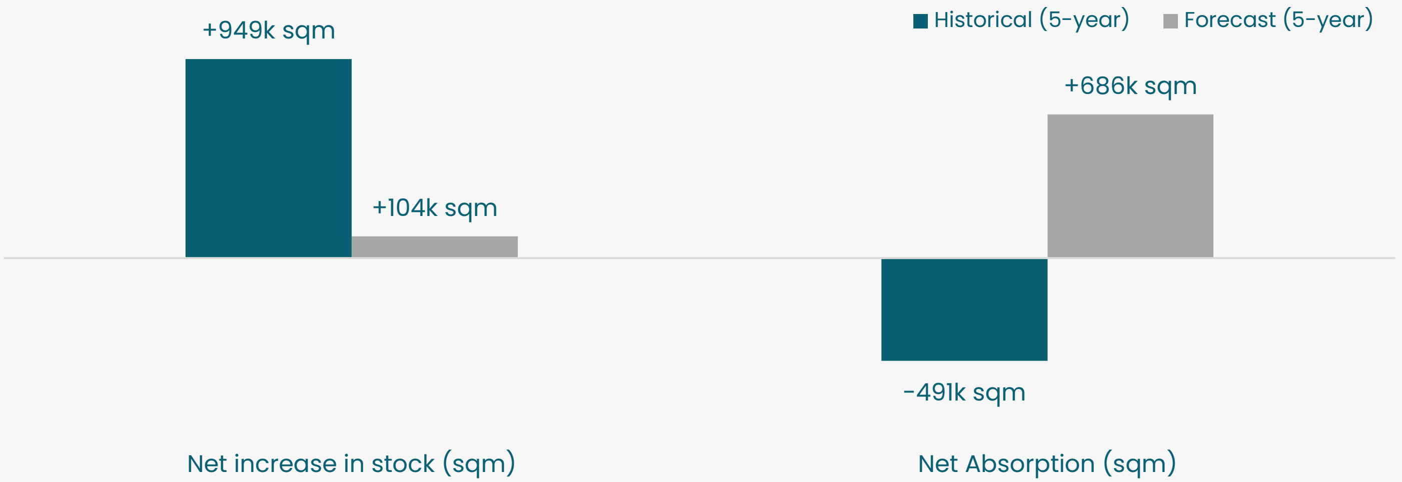
Source: (1) Savills, CBRE (2) CBRE (as at Q4 2024) (3) MSCI

Turning point moment for Australian office?

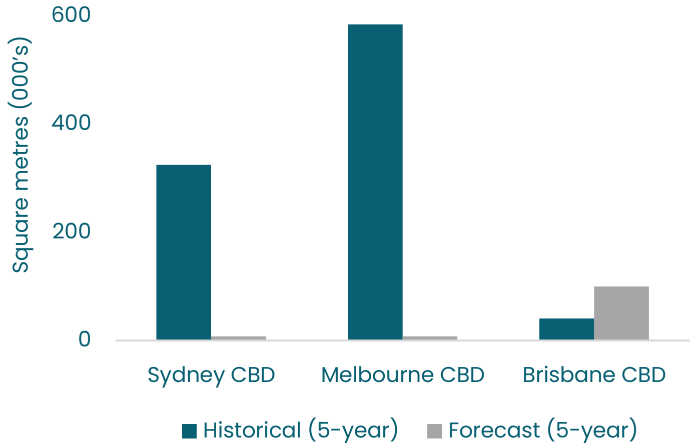
The next five years will look very different to the last five years across Eastern Seaboard office markets.

The outlook is underpinned by a significant reduction in supply and a recovery in the demand profile.

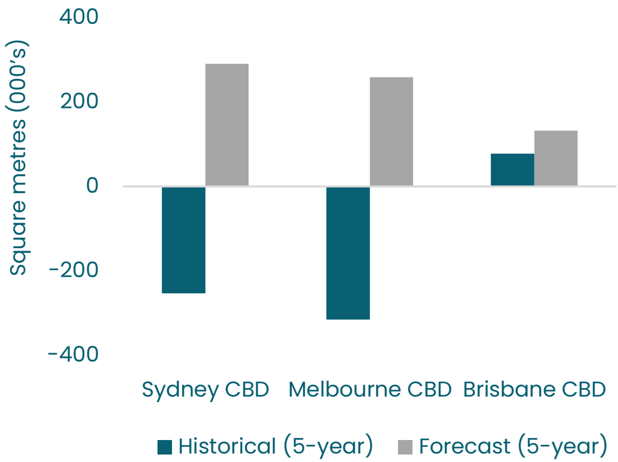
Eastern Seaboard net increase in stock vs net absorption (1)



Net increase in stock (1)



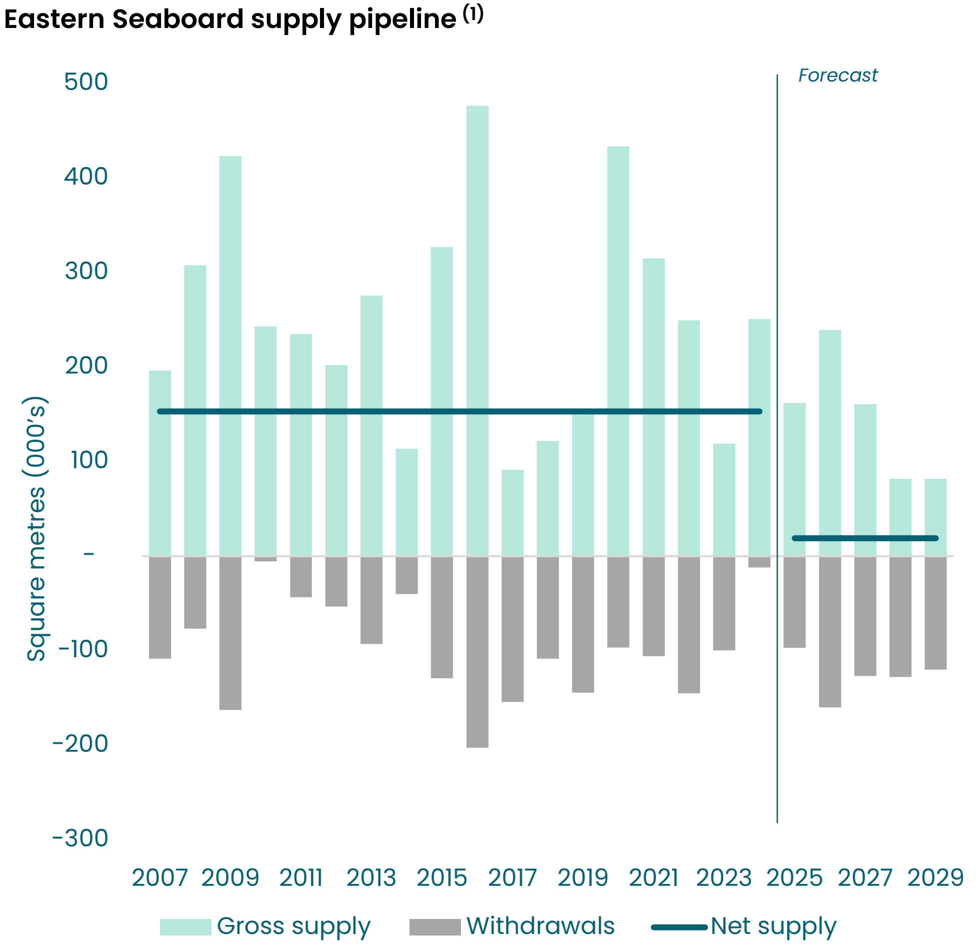
Net absorption (1)



Source: (1) Historical: JLL, Forecast: GPT Research. Notes: Net absorption forecast refers to our base case scenario on page 8

High economic rent gap to restabilise the market

Even without land and acquisition costs, elevated economic rents will drive rent growth for existing assets.

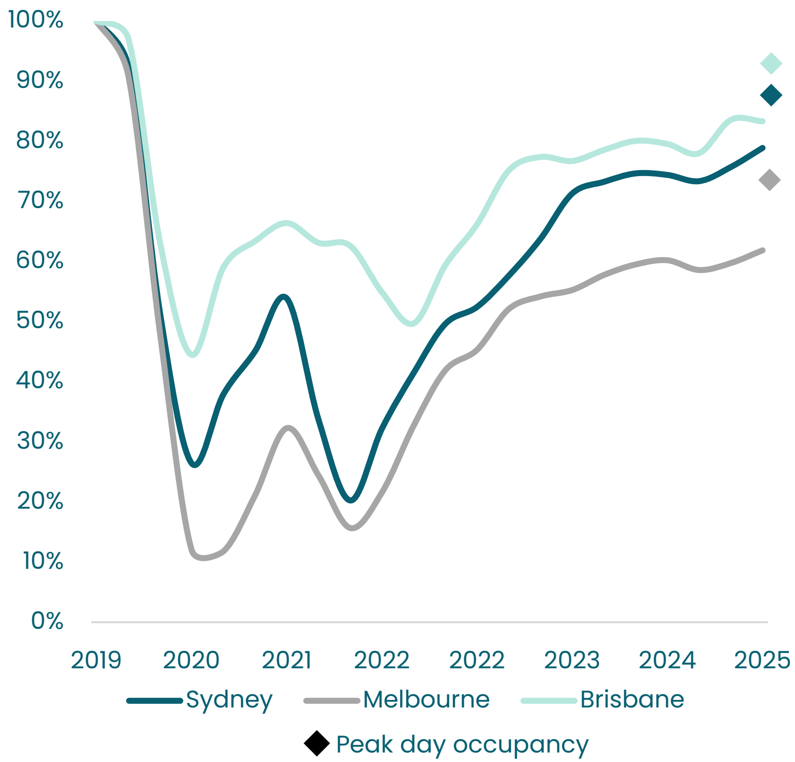


Note: Economic rents are estimated using a range of assumptions for land & acquisition cost, construction & other development costs, incentives and interest expense to determine replacement cost. The economic rent premium reflects the differential to average face rents in existing premium grade buildings.

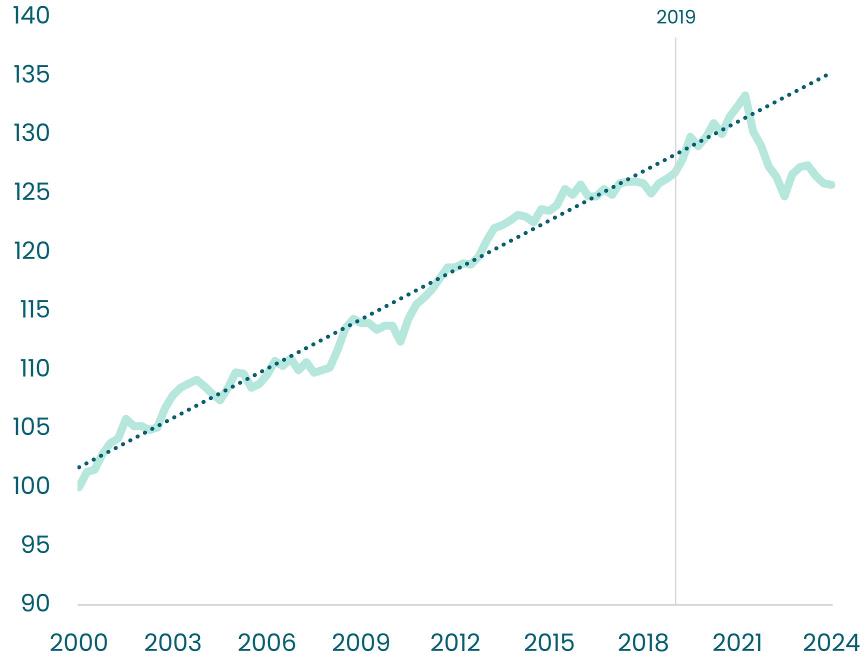
Source: (1) JLL Q2 2025 (2) GPT Research

Peak day occupancy almost back to pre-COVID levels

Office attendance continues to rise [1]
Return-to-office rates (weekly average)



Labour productivity index [2]



Occupiers have a better view of their space requirements as RTO improves.

- **Return to office (RTO) rates are improving**, albeit more incrementally, as we approach a stabilisation point. Peak day occupancy is around 5-10ppts higher.
- Corporate **occupiers are mandating and encouraging office utilisation** given the impact it has on employee engagement, corporate culture, team collaboration, staff training and the associated productivity benefit, while balancing flexibility.
- Our view is that **public sector RTO rates lag** the private sector. Despite this, the public sector has expanded by 3,600 sqm p.a. since 2020. CBD markets with the highest public sector exposure include Canberra (~68%) and Brisbane (~26%), followed by Adelaide (~21%), Melbourne (~13%), Perth (~11%) and Sydney (~7%)[3].
- **Labour productivity has been lagging** the historical trend reflecting factors such as growth in non-market sector* employment, migration and RTO. Companies are likely setting office attendance mandates in-part to combat the productivity decline.

**non-market sectors include public administration and safety, education and training, and healthcare and social assistance*

Source: (1) CBRE Q1 2025 (6 month rolling avg), (2) ABS (3) Deloitte

Headcount growth has taken up the underutilisation capacity

Growing into the office footprint

As economic growth is expected to recover in 2026, the rate of job growth will accelerate and broaden from non-market sectors*, supporting demand for office space

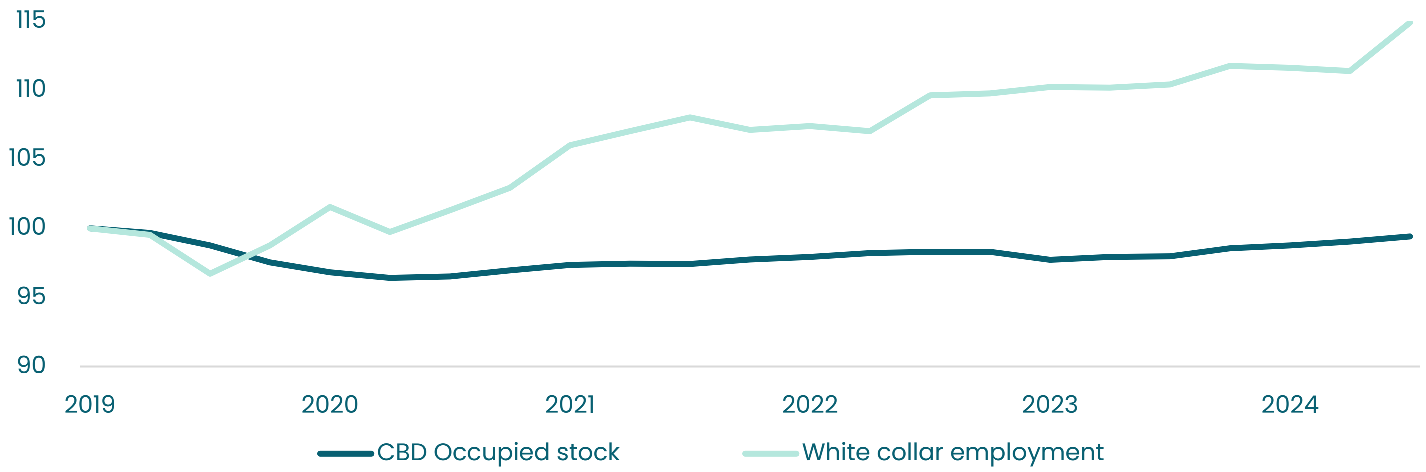
+15%

White collar employment growth since 2019

-1%

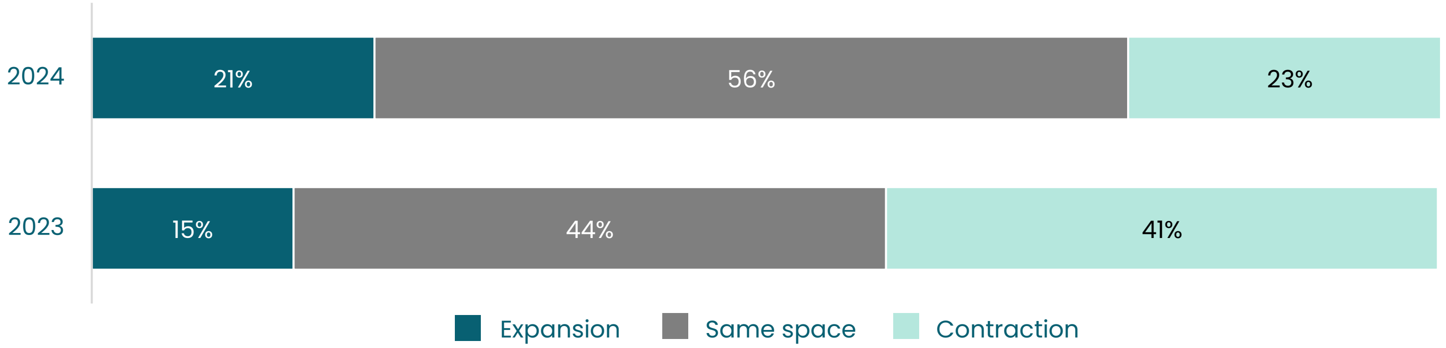
Change in CBD occupied stock since 2019

Occupied stock vs employment (1)



Tenants are taking more space (2)

Lease renewal outcomes (GPT Portfolio)



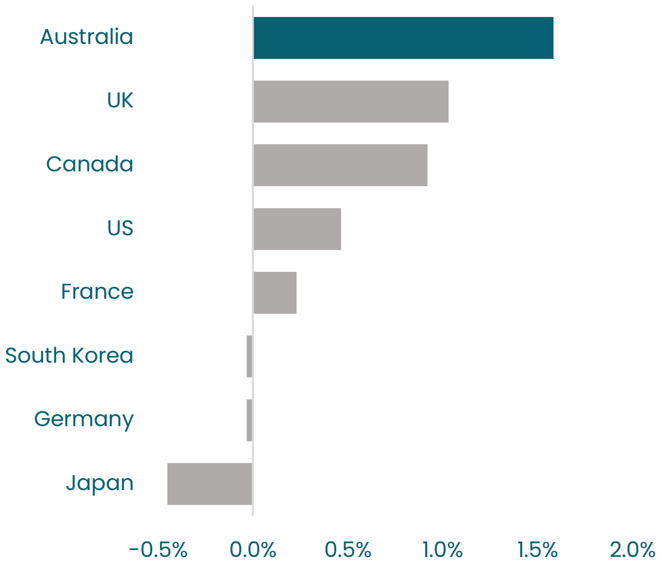
*non-market sectors include public administration and safety, education and training, and healthcare and social assistance

Source: (1) JLL Q2 2025, ABS (2) GPT Research

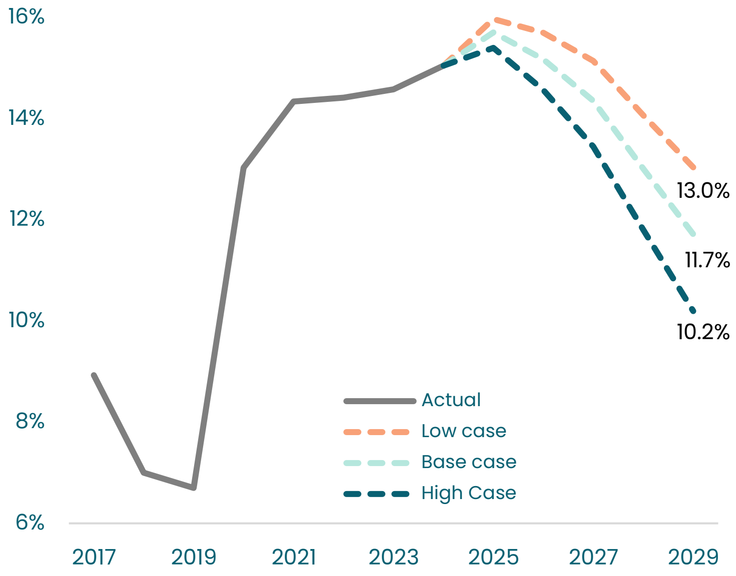
Vacancy to trend lower on demand recovery and muted supply

Using a population growth multiplier (0.6 sqm per capita for Eastern Seaboard CBD office markets)[1], and overlaying an office utilisation rate, we estimate base case net absorption of approximately 137,215 sqm p.a.

Australia benefits from a growing labour market
Employment growth (2025-2029)[2]



Eastern Seaboard total market vacancy rate
Net absorption scenarios[3]

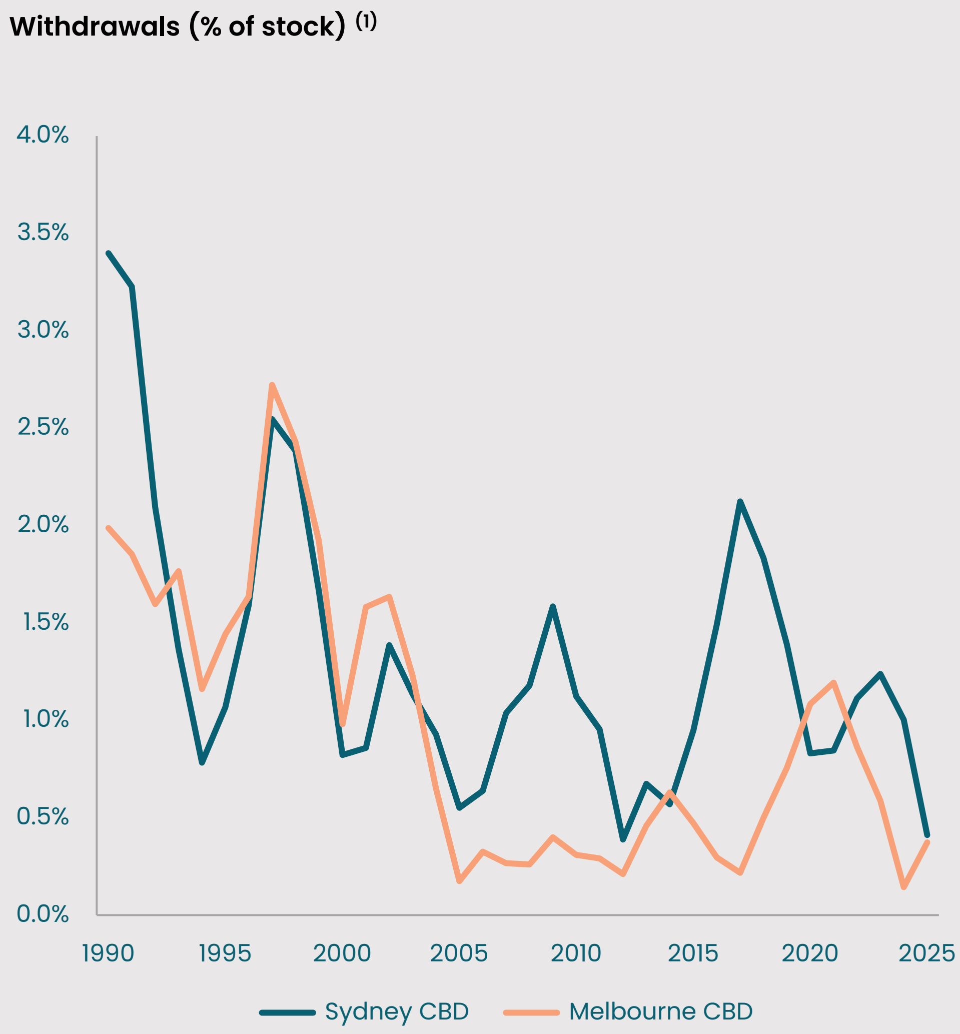


Population multiplier: implied CBD net absorption (sqm p.a.) next five years [4]

Office utilisation →	Population growth (p.a.) → 1.2%	1.4%	1.6%
90%	131,786	154,367	177,126
80%	117,143	137,215	157,445
70%	102,500	120,063	137,765

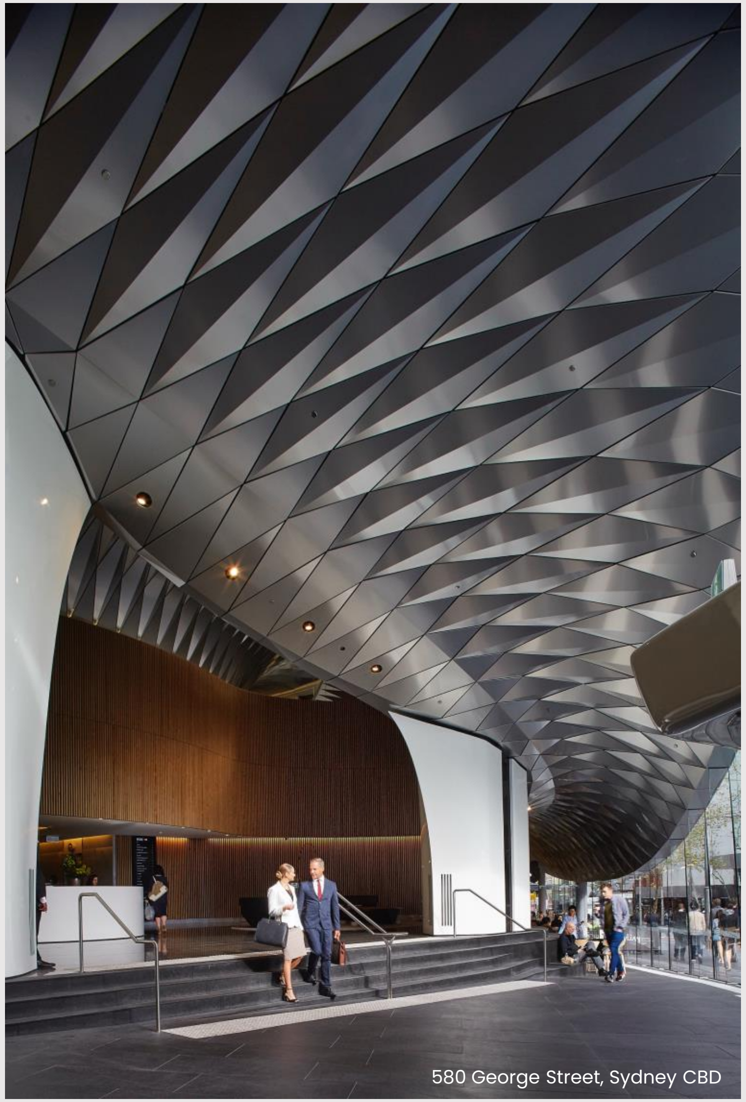
Source: (1) JLL (2) Haver, Oxford Economics (3) Historical: JLL, Forecasts: GPT Research (4) GPT Research

Vacancy trends would be amplified by obsolescence-led withdrawals



Source: (1) JLL Q2 2025

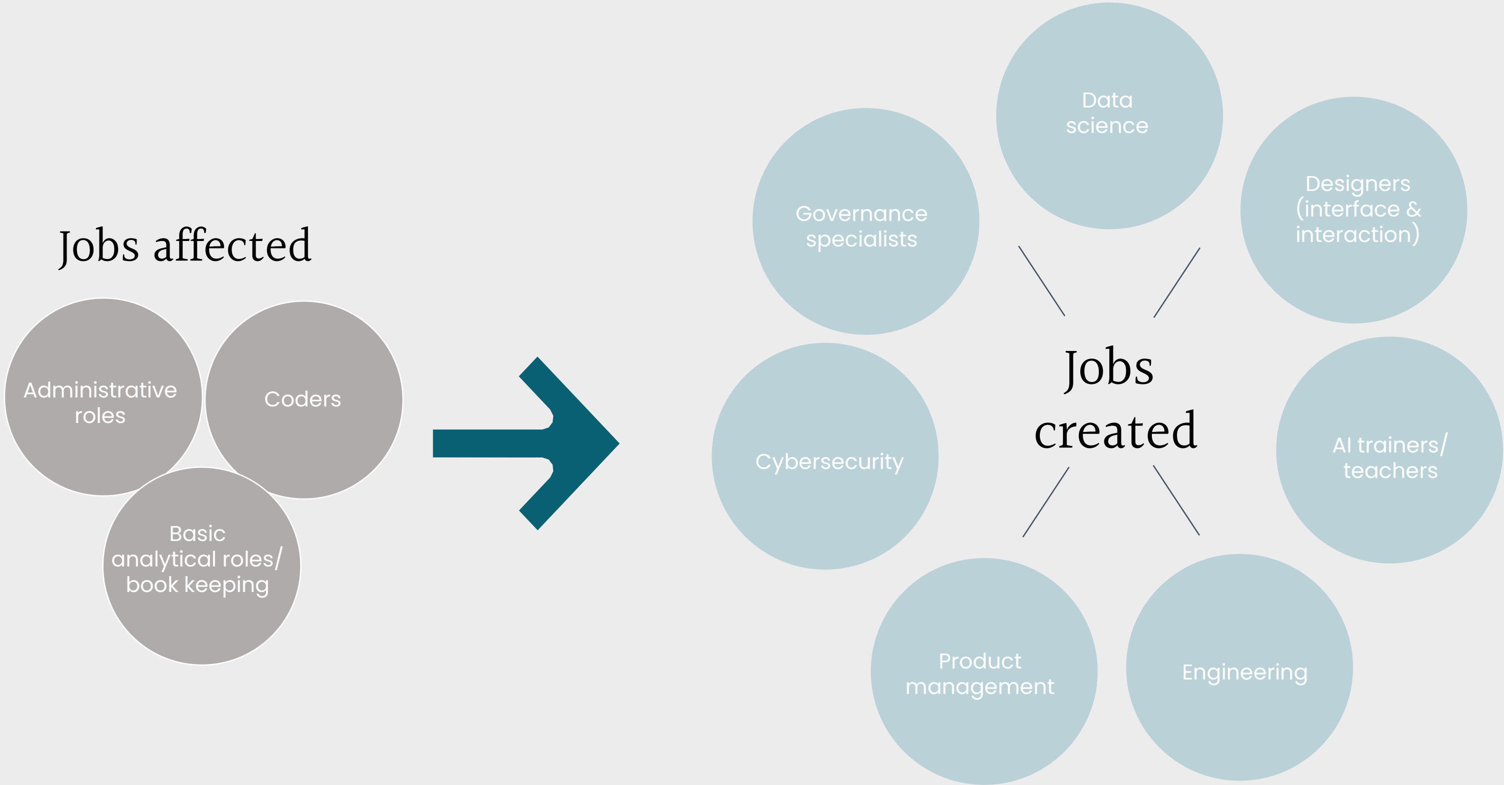
Previous cycles show withdrawal rates have reached peaks of 2.5–3.0% of stock but are currently low at <0.5% in both Sydney and Melbourne. An increase in withdrawals would accelerate a decline in vacancy.



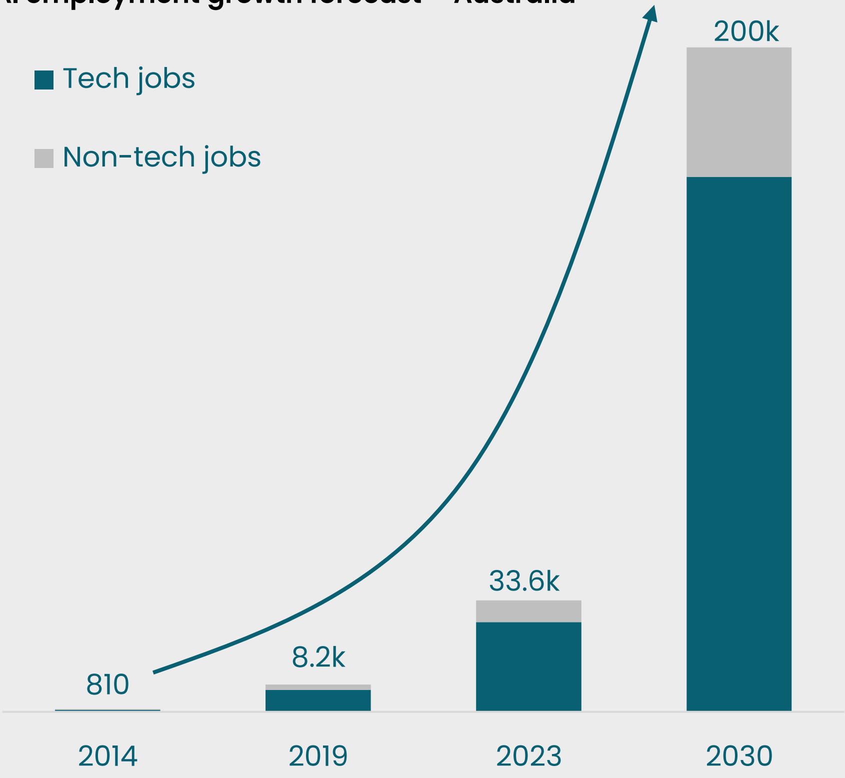
580 George Street, Sydney CBD

AI: positive, negative, or neutral?

Estimating the impact of AI on employment is challenging due to the complexity and rapid pace of technological change. However, emerging evidence suggests AI may initially have a net positive impact to overall employment growth, though it will involve workforce reshaping and role reallocation.



AI employment growth forecast – Australia [1]



**Non-tech jobs refers to those roles which support the tech industry without technology expertise, for example sales, policy and governance.*

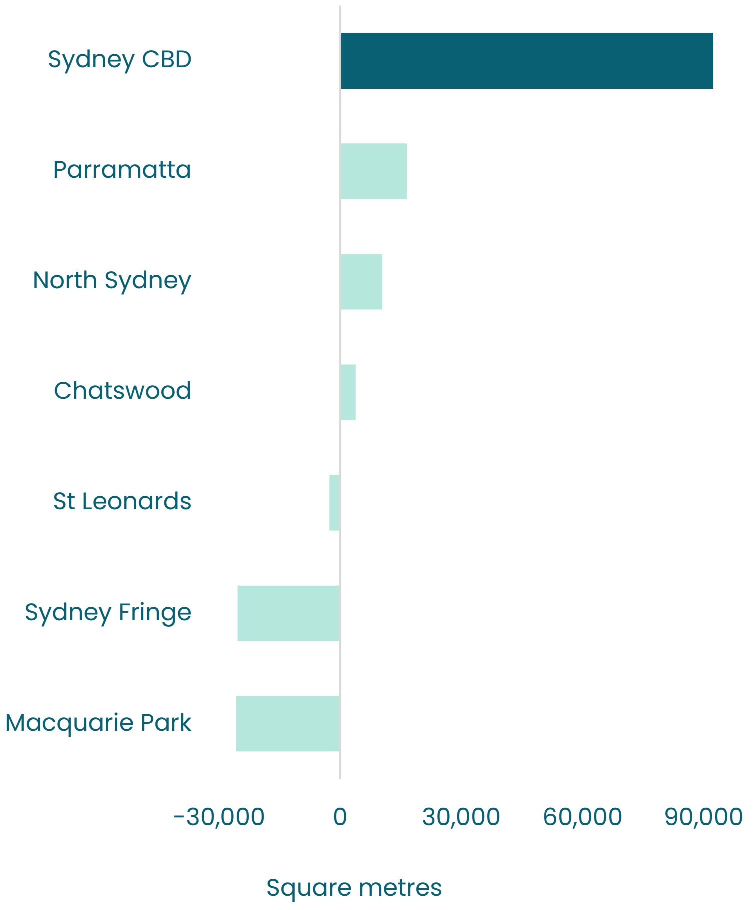
Source: (1) Tech Council of Australia

Centralisation ("the train line effect"), a key leasing trend

We expect a continuation of tenant inflow, from non-CBD markets into the CBD, seeking relative value and amenity.

Impact of centralisation on net absorption: 3 years to Q2 2025 (1)

Centralisation by market
Net absorption by last 12 months (Q2 2025)(1)



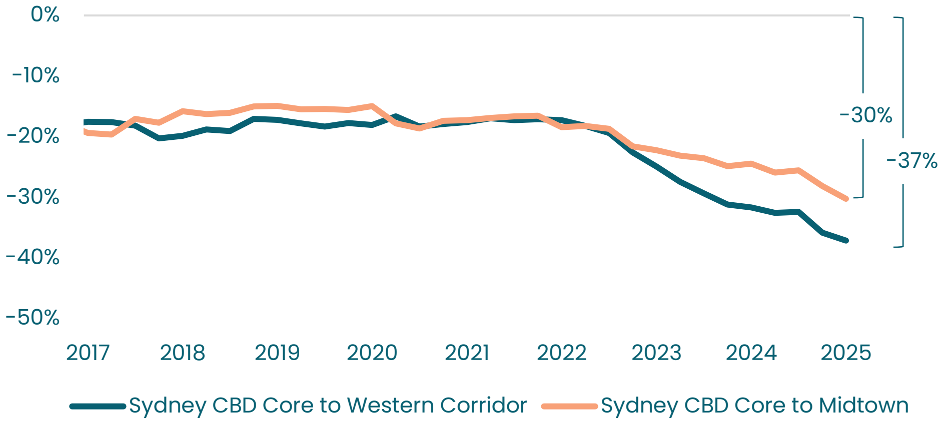
Source: (1) JLL

Sub-market performance deviation

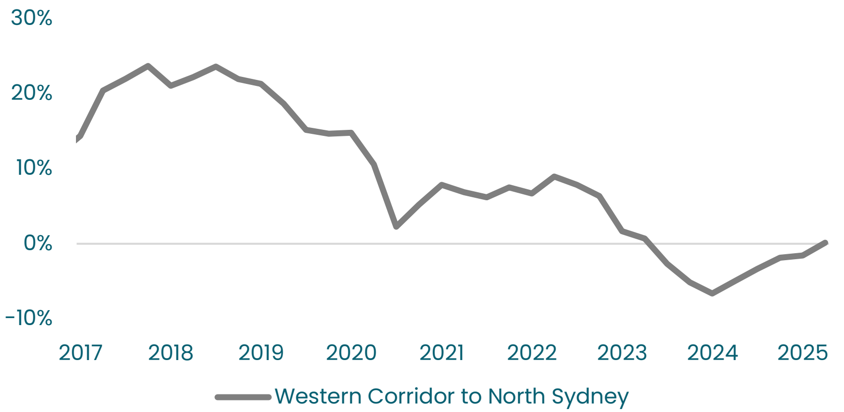
Face and effective rent growth is being recorded in the Sydney CBD Core, Melbourne Eastern Core and Brisbane's Golden Triangle. While those precincts are expected to remain favoured by tenants, demand is likely to broaden to other precincts as the affordability gap widens.

Rent growth by precinct: 3 years to Q2 2025 (1)

Rental spreads widening between CBD precincts…
(prime net effective rents)(1)



… and narrowing to other markets
Western Corridor on par with North Sydney (1)



Source: (1) JLL Q2 2025

Fit-out costs may impede lower incentives…

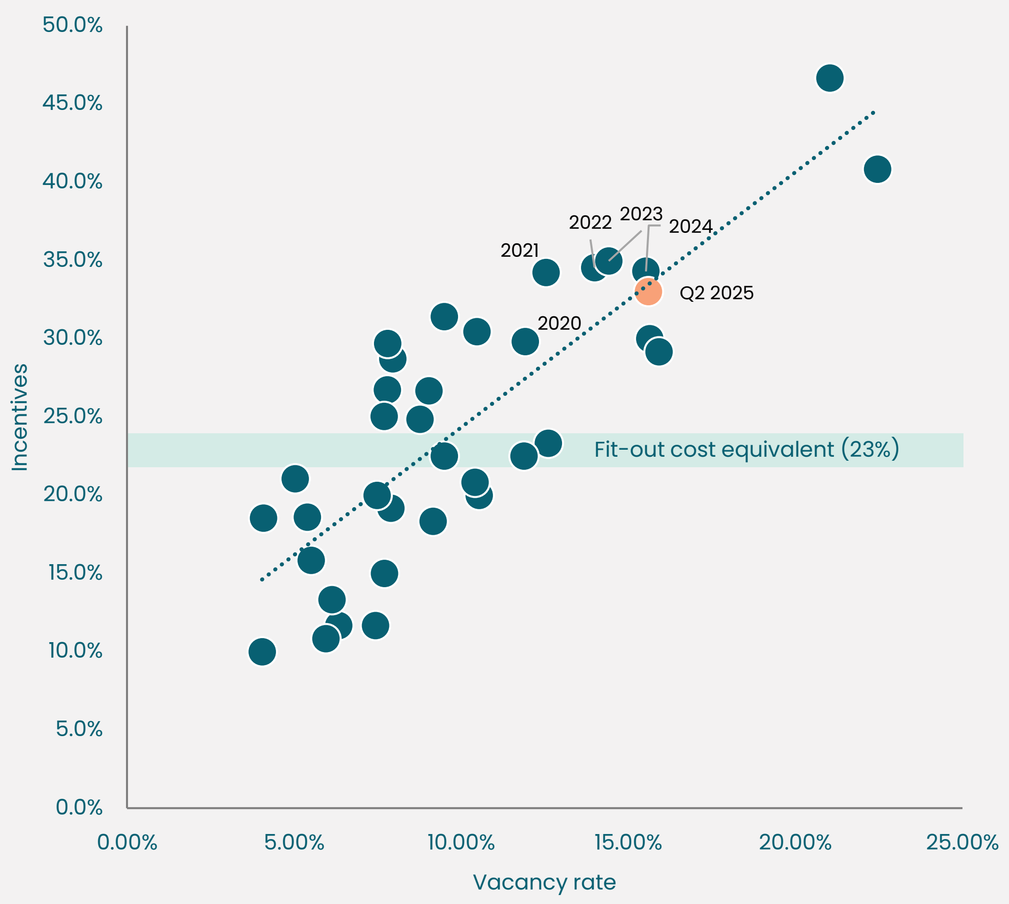
Incentives are expected to reduce by varying degrees in different markets as vacancy rates decline. However, does the cost of a fit-out provide a structural floor?

Fit-out costs have risen in recent years as construction and labour costs increased, and as the quality of fit-outs rose. Leasing decisions continue to be led by fit-outs.

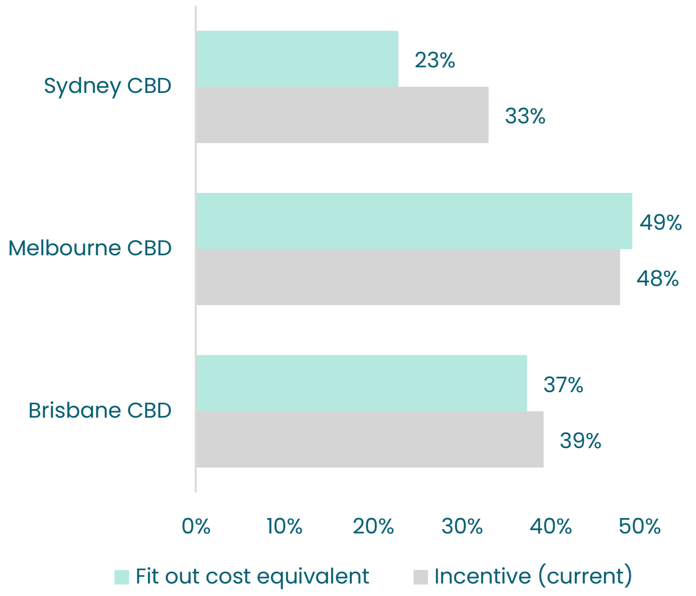
The correlation between vacancy rates and incentives will have implications for:

- Whether there is a natural floor to incentives at the cost of a fit-out for each market
- The mix between capital contributions and abatement
- The mix between face and effective rent growth – the resulting valuation vs free-cash-flow yield, and debt serviceability

Sydney CBD incentive-vacancy rate by year (1990-2025) [1]

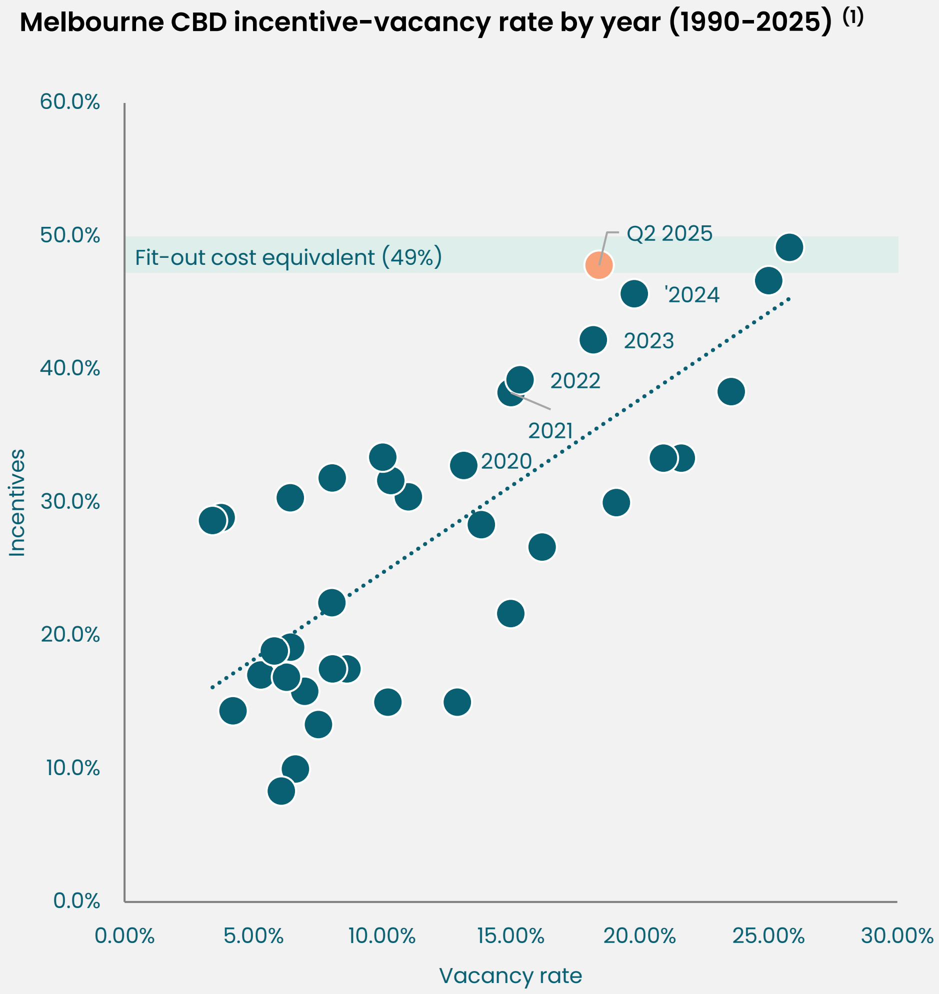


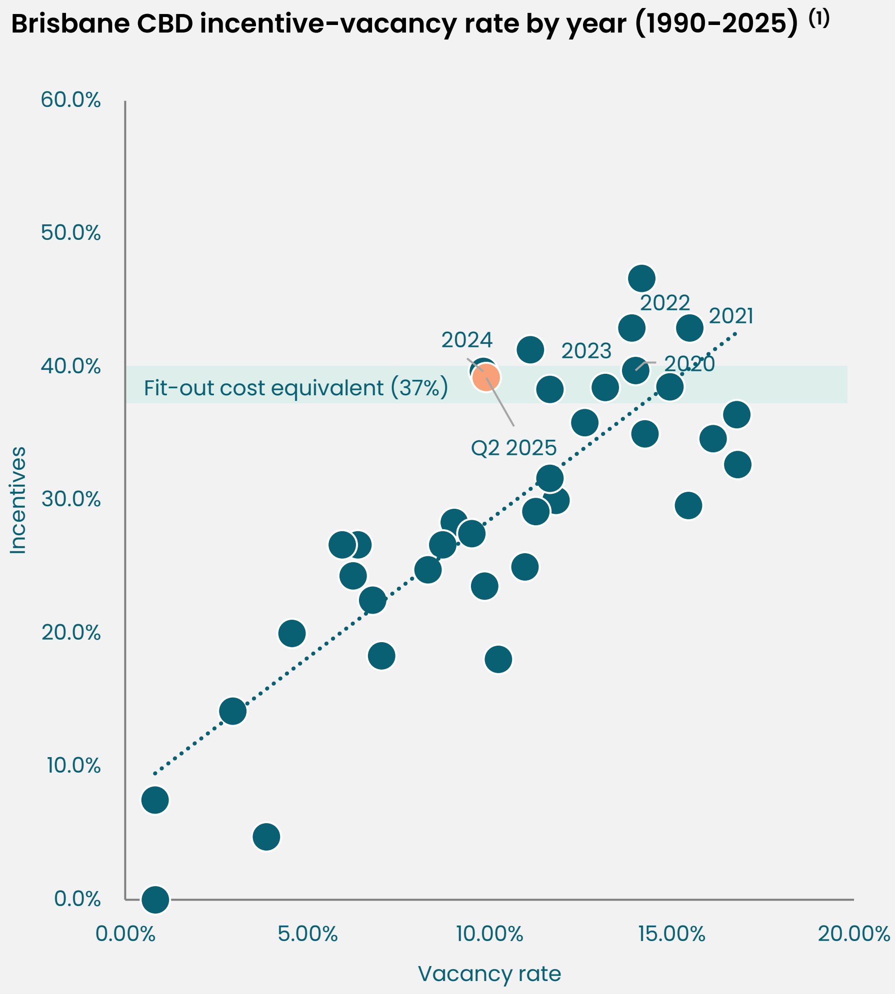
Market incentives [1] vs fit-out cost equivalent (%) [2]



Source: (1) JLL Q2 2025, GPT Research (2) GPT Research. Notes: Assumes fit-out costs per sqm per market of $4,000 (Sydney), $3,500 (Melbourne) and $3,750 (Brisbane) and a 10-year lease.

...with a different threshold for each market





Source: (1) JLL Q2 2025, GPT Research

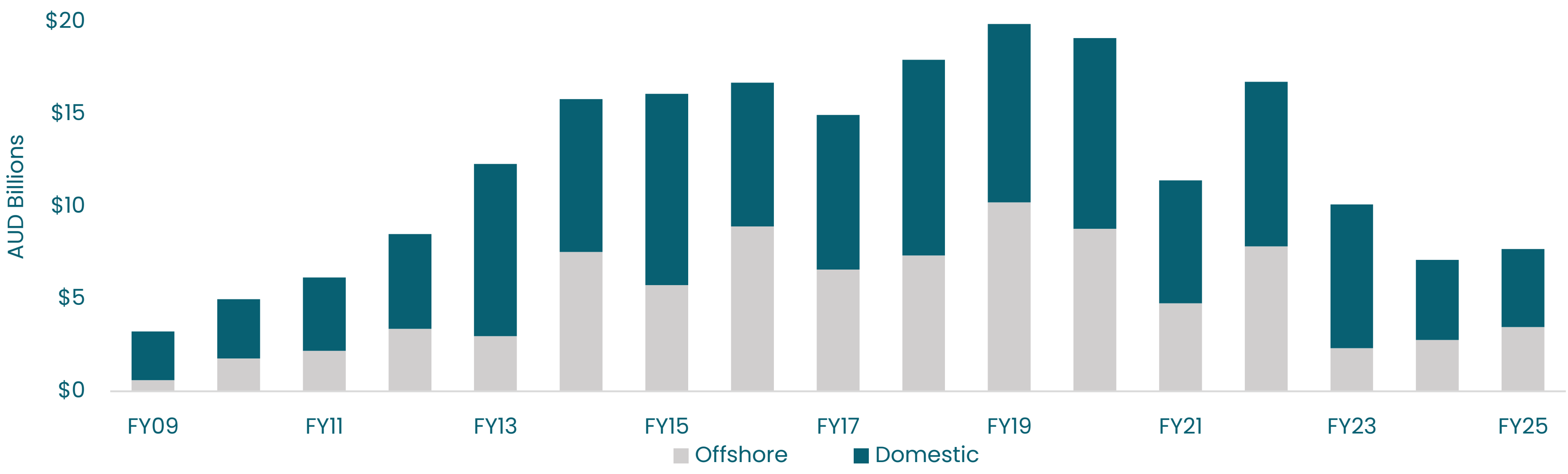
Foreign capital re-engaging in the early upturn phase, with a focus on Sydney

The recovery in liquidity for office assets is being primarily driven by foreign capital.

Core-plus and value-add investors have been the most active, while core capital is likely to be cautious, selective and highly strategic in re-building office exposure, with a focus on portfolio repositioning.

Office transactions increased in 2024, as confidence began to return to the sector, green shoots emerged in the leasing market and as valuations stabilised. Stock has been constrained in 2025 leading to low transaction volumes, but we anticipate sentiment towards the sector to continue to improve.

Australian office transaction volumes (1)



Key statistics Q1 2024-Q2 2025 (>AUD 100million) (1)

60%

of office transactions were led by **offshore capital**

71%

of office transaction volumes were in **Sydney CBD**

73%

of **Sydney CBD** office transactions were led by **offshore capital**

Source: (1) JLL Q2 2025

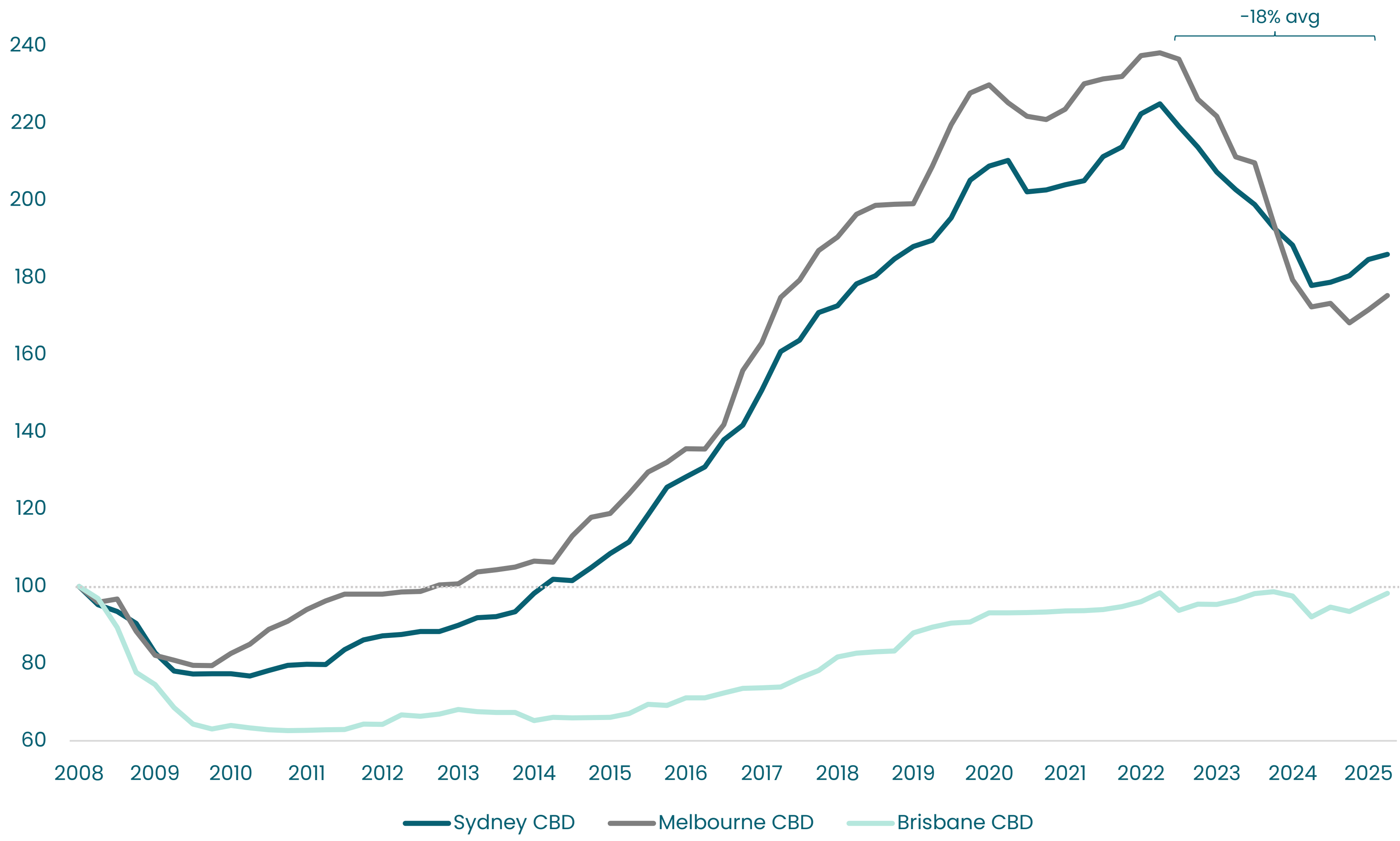
Prime assets to deliver outperformance in the recovery

Office values have recalibrated by approximately 18% since peak in Q2 2022 (22% peak to trough) and are at the beginning of an upturn in our view. Prime capitalisation rates have stabilised (after softening 205bps) and market conditions are supportive of continued face rental growth.

A focus on prime assets from tenants and investors will widen the rental and capital value price gap, placing greater emphasis on acquisition selection criteria.

Some parts of the office market have passed their inflection point, while others will take longer to work through their structural adjustment.

Eastern Seaboard capital value reset: poised for the next phase of the recovery [(1)]



Source: (1) JLL Q2 2025

What does it mean for pricing?

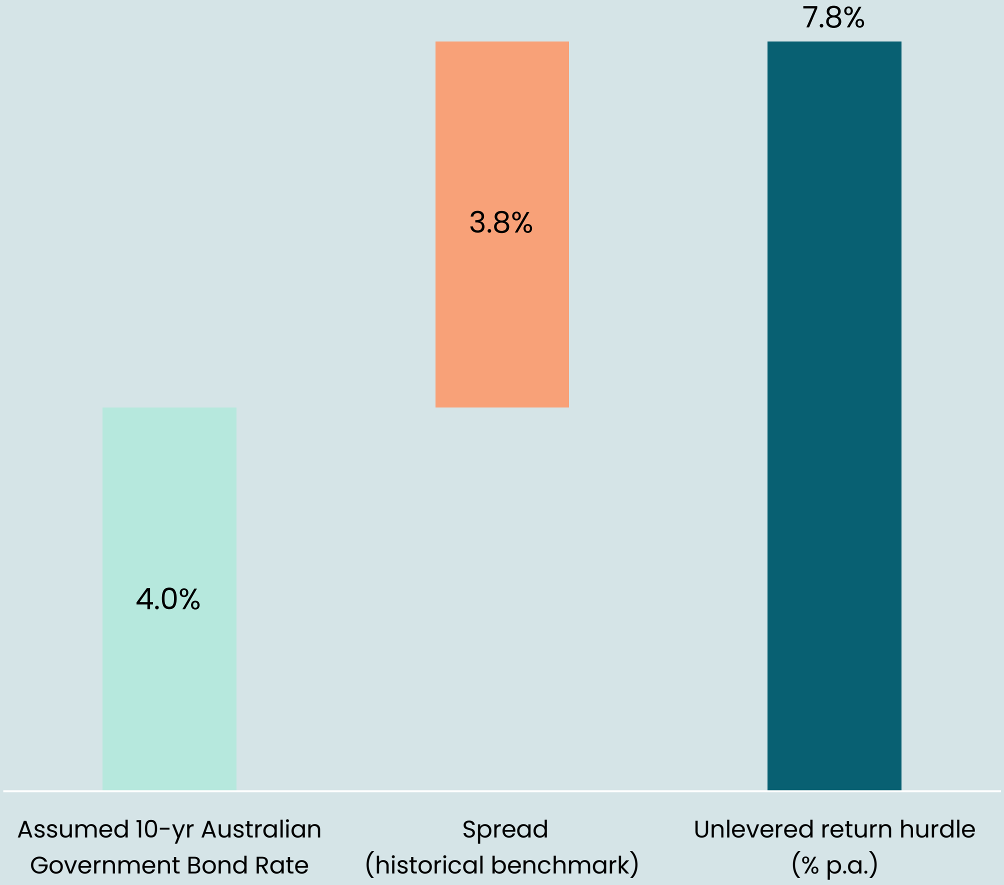
Return requirements have shifted to approximately 7.8% with a wide range around the average.

Given the wide range in performance between assets and locations, we believe high-quality assets in preferred precincts will outperform the hurdle.

Note: This return hurdle is theoretical and provided for illustrative purposes only. It is not a forecast, target or estimate of returns for any GPT product

Source: (1) RBA, GPT Research

Determining current required returns for national prime CBD office (1)



Through-the-cycle return requirements for prime CBD office assets are approximately 7.8%, reflecting a 10-year Australian Government bond rate of 4.0% and a 380 basis point historical benchmark spread.

- **Why 4% bond rate?** The 10-year Australian Government bond yield trended down over more than three decades to 2021, before moving higher in 2021-2023 and stabilising between 4.0-4.5% since the start of 2024 to Q2 2025. We have adopted the lower end of the recent range.
- **Why 380bp spread?** The spread between discount rates and the 10-year Australian Government bond yield fluctuates over time. We selected the decade average from 2001-2012 which best reflects a through-the-cycle benchmark and pre-dates the low treasury yield environment and wide spread to property returns.

Key risks

The outlook for the Australian office sector is warming following a period of recalibration. However, risks will need to be monitored and mitigated to navigate the recovery.

Labour market conditions remain relatively tight, but there has been a slowdown in the rate of employment growth and a slight uptick in the unemployment rate. While not our base case, **deterioration in white collar employment** would be a risk to office demand.

While **AI** is leading to job creation, the skill transition may not be smooth as companies start to generate productivity benefits.

The **risks for supply are more to the downside** than the upside given high economic rents and the potential for more withdrawals. However, capitalization rate compression and rental growth could stimulate development activity.

While prime values have begun to recover, we anticipate further **downside risk to** non-CBD markets and secondary/tertiary grade CBD **office values**.

Australia's economy is being driven by domestic demand drivers (housing construction, consumption and population growth). The local economy would not be immune if there was a meaningful slowdown in global economic momentum from **geopolitical or trade policy risks,** or a re-acceleration of inflation.

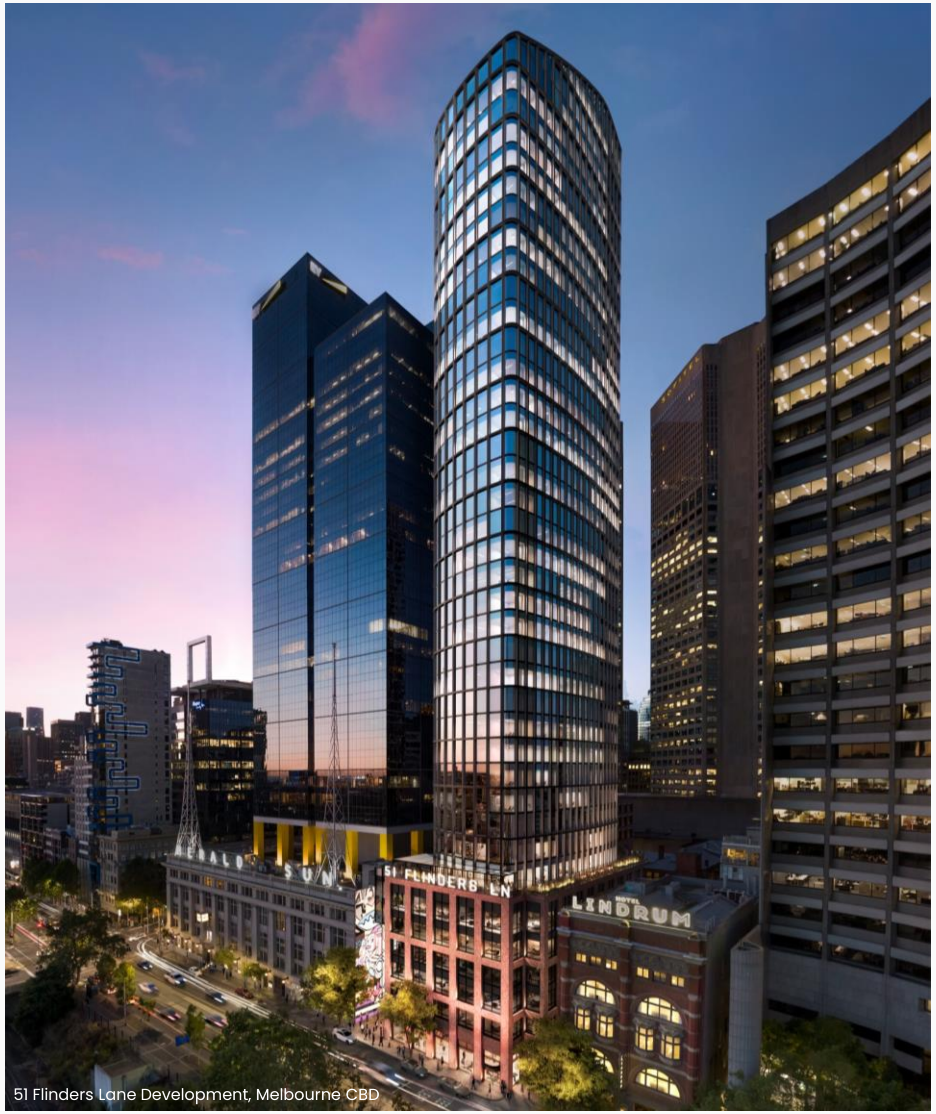
Queen & Collins, Melbourne CBD

Outlook

Green shoots have emerged in the leasing market. Corporate occupiers have right-sized their footprint, and there is evidence of tight vacancy and solid effective rental growth in specific sub-markets.

We expect this trend to strengthen, given the general low supply outlook and recovery in leasing demand, albeit performance will vary by city and by sub-market.

We believe this is an interesting vintage to selectively and strategically invest into office assets given the re-basing of values and attractive forward IRRs.



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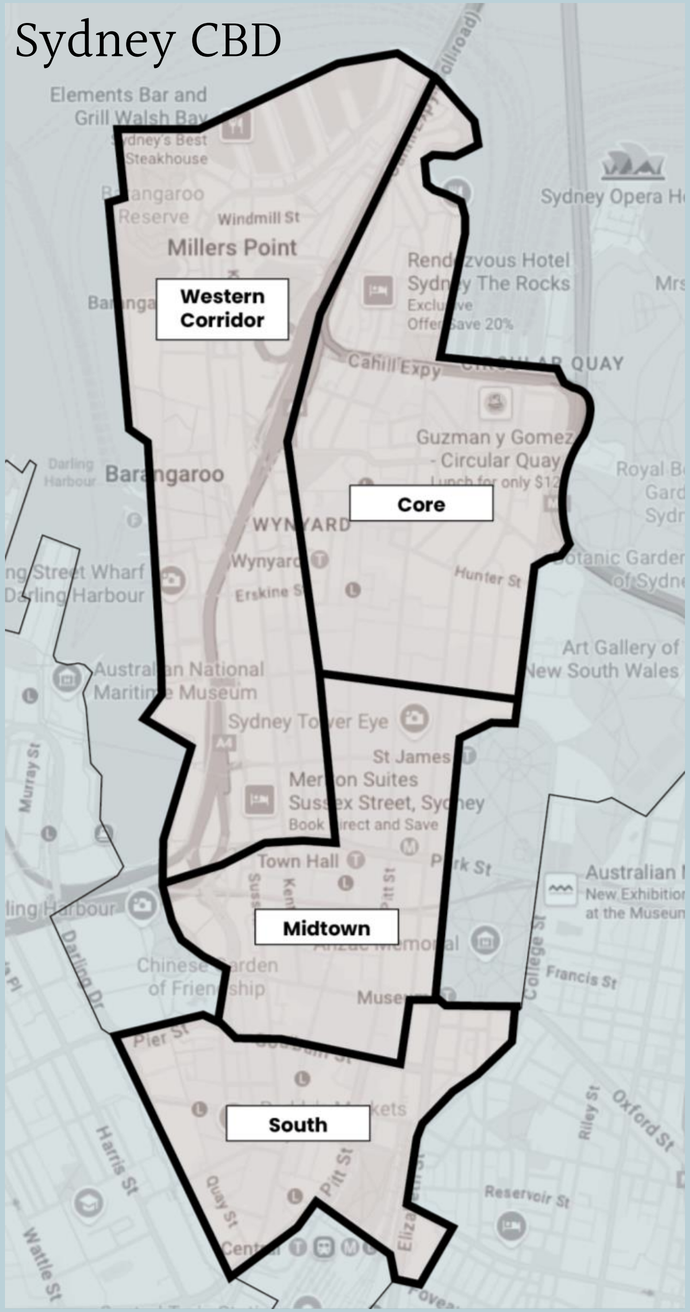
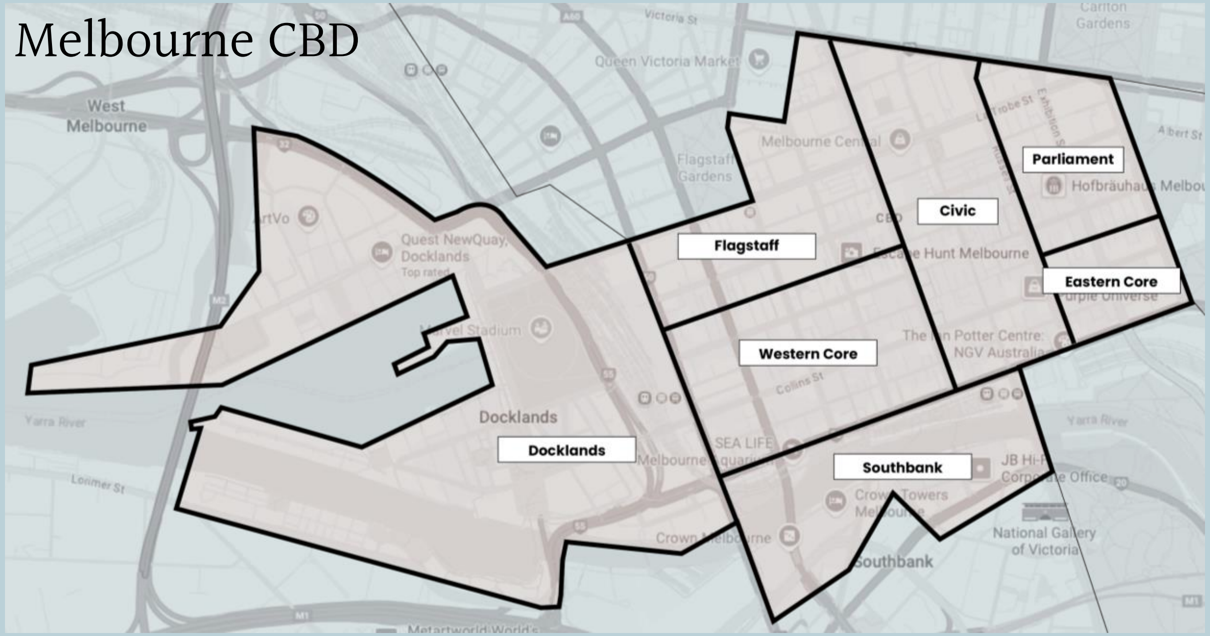
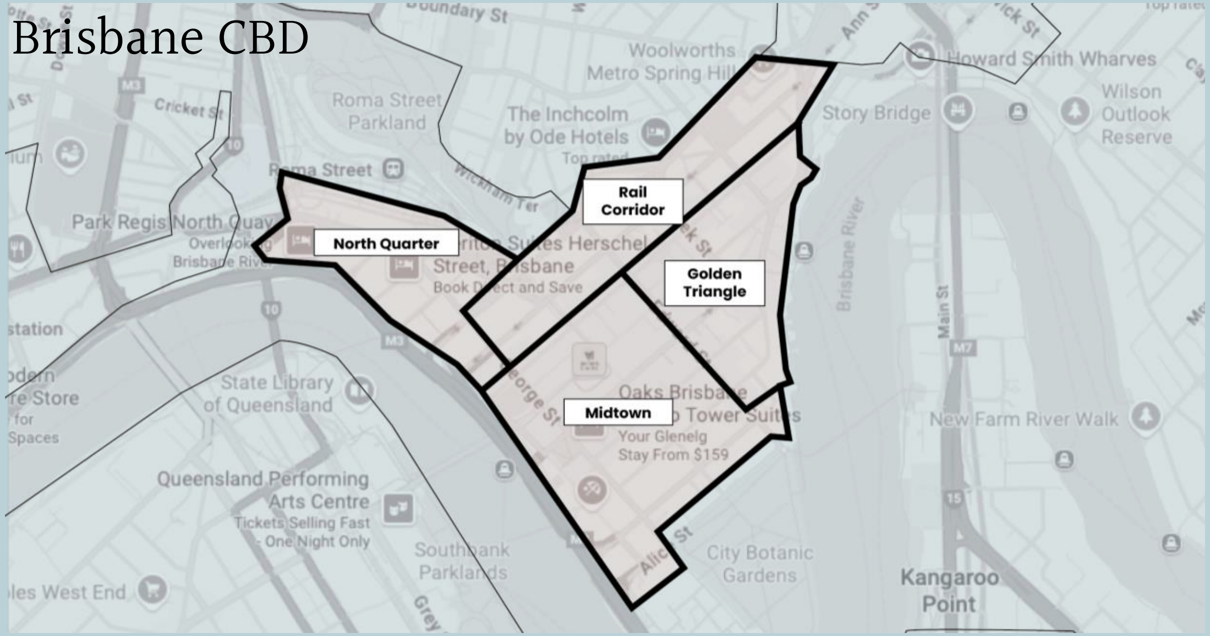
Appendix

Precinct boundary maps







Source: (1) JLL

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