Bifurcation widens as select assets experience significant outperformance

▲ 4.6%
Victorian Unemployment Rate (June 2025)

▲ 18.26%
Prime Southbank Vacancy (+30bps h-o-h)

▲ 9.0%
Prime City Fringe NER Growth q-o-q

▼ 75 bps
Prime City Fringe Yield Change y-o-y

Note: Arrows indicate change from previous quarter / year.

Key Points

- Leasing demand was mixed over H1 2025 with Southbank & St Kilda Road recording 6-month absorption of +249sqm and -18,313sqm respectively.
- The office development pipeline remains empty for Southbank and St Kilda Road, with both precincts experiencing net withdrawals over the last 6-months. Most metro supply isn't under construction, with forecasted supply over 2025 and 2026 c.70% below historical levels.
- Vacancy declined for all fringe and suburban precincts over the last 12-months, except for the City Fringe and St Kilda Road. Both markets have faced significant centralisation pressures, however we anticipate these pressures to be easing.
- Face rents across the fringe saw strong growth in Q2 2025, with the City Fringe being a clear outperformer. Despite a significant uptick in vacancy, demand for select prime stock remains elevated as tenant preferences concentrate on a few select factors.
- Investment activity in Melbourne's Fringe and Metro markets experienced another quarter of subdued performance in Q2 2025, with $50m in fringe and suburban assets transacting over the quarter. Yields have stabilised for the first time in three years, with expectations that Melbourne's metro office market has reached peak pricing.

FIGURE 1: Summary of Prime Market Fundamentals

St Kilda Road	Q2 2025	Q1 2025	Q2 2024
Vacancy	27.34%	-	26.86%
NFR	$472/sqm	$467/sqm	$462/sqm
Incentives	50.2%	49.8%	49.8%
NER	$235/sqm	$234/sqm	$232/sqm
Yield	8.70%	8.70%	8.10%

Southbank	Q2 2025	Q1 2025	Q2 2024
Vacancy	17.34%	-	17.96%
NFR	$661/sqm	$662/sqm	$630/sqm
Incentives	47.1%	47.1%	45.2%
NER	$350/sqm	$350/sqm	$345/sqm
Yield	7.94%	7.94%	7.%

Source: PCA, ABS, CBRE Research

Office Demand

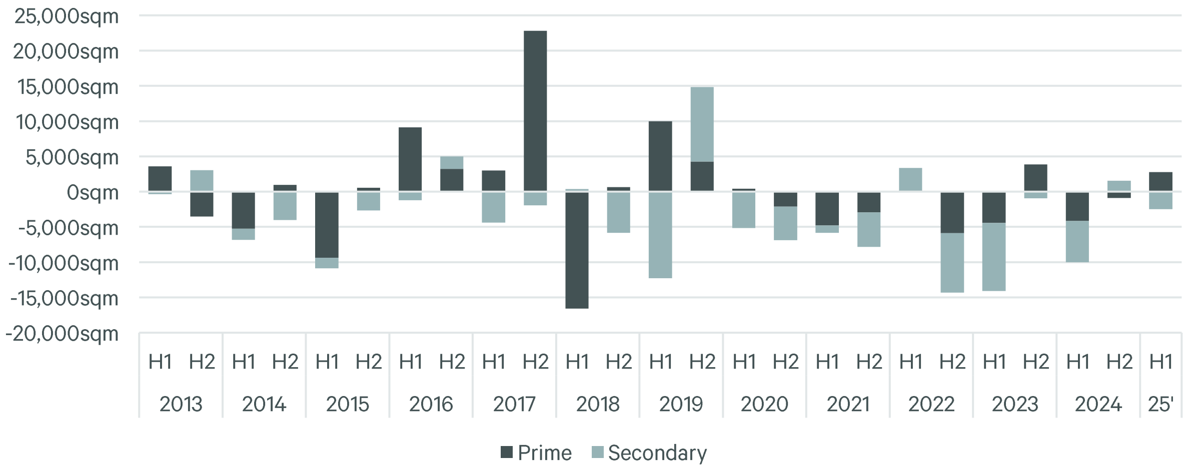
Demand accelerates in select fringe precincts as centralisation pressures ease.

Melbourne's fringe precincts continue to experience mixed performance. Over the last 6-months, positive total absorption was recorded in Southbank of +249qm. St Kilda Road experienced negative absorption totaling -18,313. Both precincts experienced prime outperformance, with Southbank's +2,753sqm of prime absorption the second strongest result for the precinct since the pandemic.

The demand profile across Melbourne's City Fringe and Inner East has followed a similar dynamic. Over the last 12-months, we estimate approximately 12,000sqm of positive absorption occurred in the Inner East, offset by approximately 100,000sqm of negative absorption in the City Fringe.

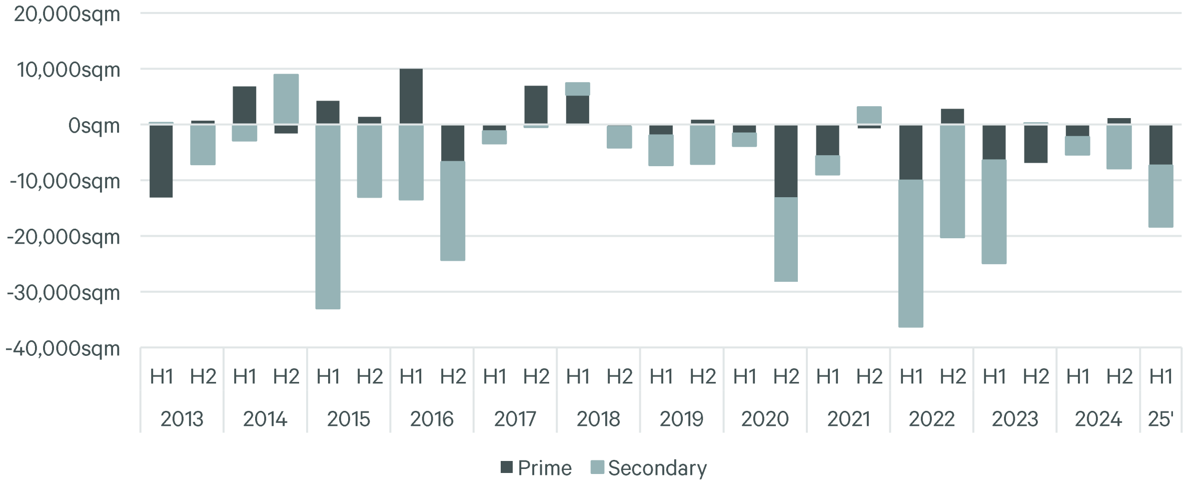
As previously reported, the cannibilisation effect in Melbourne's office market has had a significant impact on the City Fringe, as a plethora of local occupiers have made moves into select CBD assets with elevated incentives, often at a lower effective rent than their current premises. CBRE Research believes the impact of this centralisation to be easing, as the trade-offs associated with a centralisation move become more pronounced for those who haven't made a move. Over the short term, we expect absorption levels in the City Fringe to normalise.

FIGURE 2: Southbank 6-month Net Absorption



Source: PCA, CBRE Research

FIGURE 3: St Kilda Road 6-month Net Absorption



Source: PCA, CBRE Research

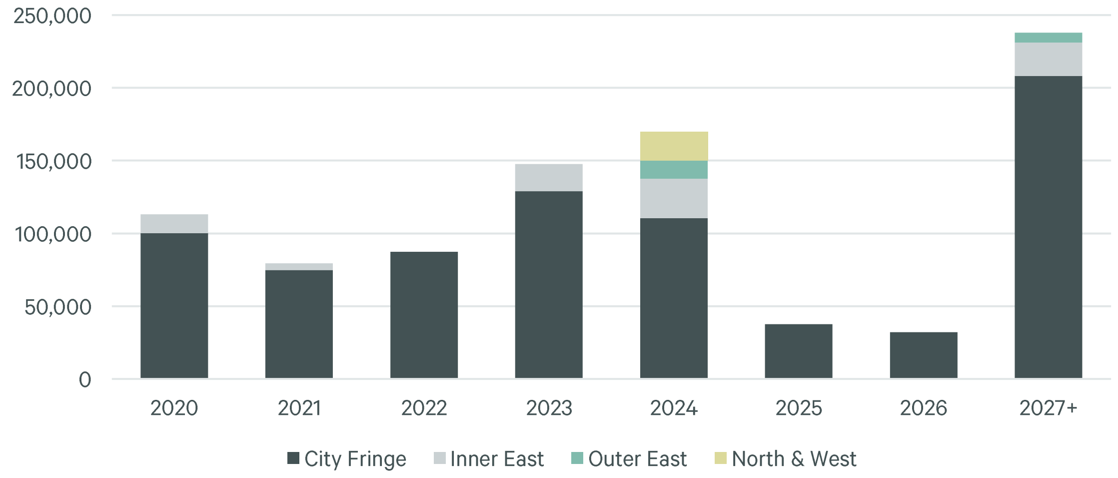
Supply

Feasibility Pressures Persist Across the Majority of the Supply Pipeline

Melbourne's fringe and suburban office precincts recorded no major completions in Q2 2025. The only significant delivery expected for the year remains 31–53 Cremorne Street, which has secured a pre-commitment rate of approximately 55% ahead of completion. Strong leasing activity across metro developments continues to reinforce the view that distinctive assets with highly desirable features will outperform through the remainder of 2025.

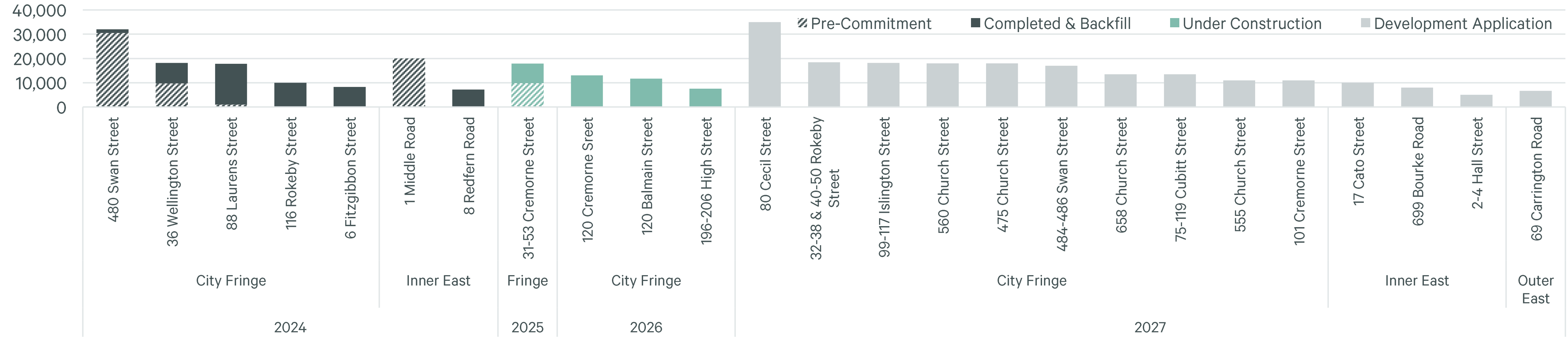
Following the c.93,000 sqm of completions delivered in 2024, the current pipeline indicates approximately 278,000 sqm of proposed office developments across the City Fringe and Inner East. Despite the scale of this pipeline, less than 25% is expected to reach completion in 2025 or 2026. The majority of metro supply remains at the Development Application stage, reflecting the impact of rising feasibility pressures across the broader market.

FIGURE 4: Historical and Future Supply by Year and Precinct



Source: CBRE Research

FIGURE 5: Upcoming City Fringe and Inner East Developments by Development Stage



Source: CBRE Research
Note: Select minor projects were excluded from extended pipeline.

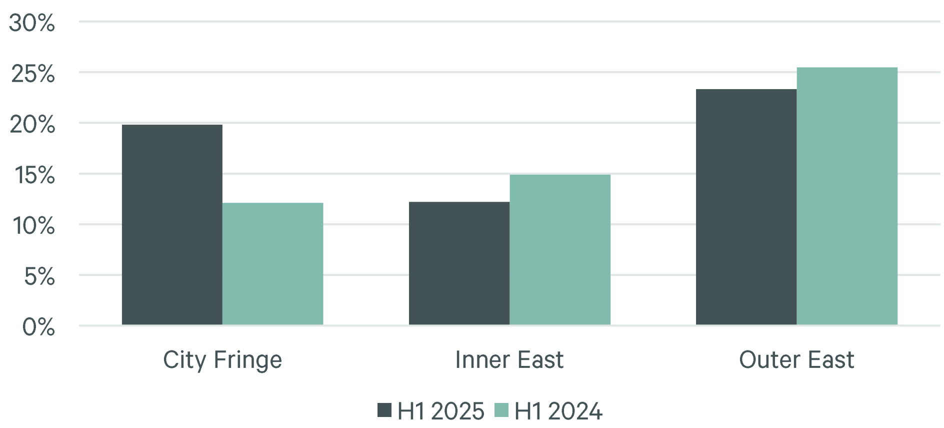
Vacancy

Bifurcation in vacancy continues as tenant preferences remain complex.

Vacancy rates in both Southbank and St Kilda Road declined over the last 6-months, with declines of -93bps and -20bps to 16.68% and 29.14%, respectively. For both precincts, the declines in vacancy were primarily supported by negative levels of net supply. Negative net supply totalled -27,660sqm in St Kilda Road over the last 6-months, the most the precinct has recorded in over 20-years. As withdrawals continue to take place within St Kilda Road, we expect the demand and vacancy profile to become more concentrated in a select few high-quality assets.

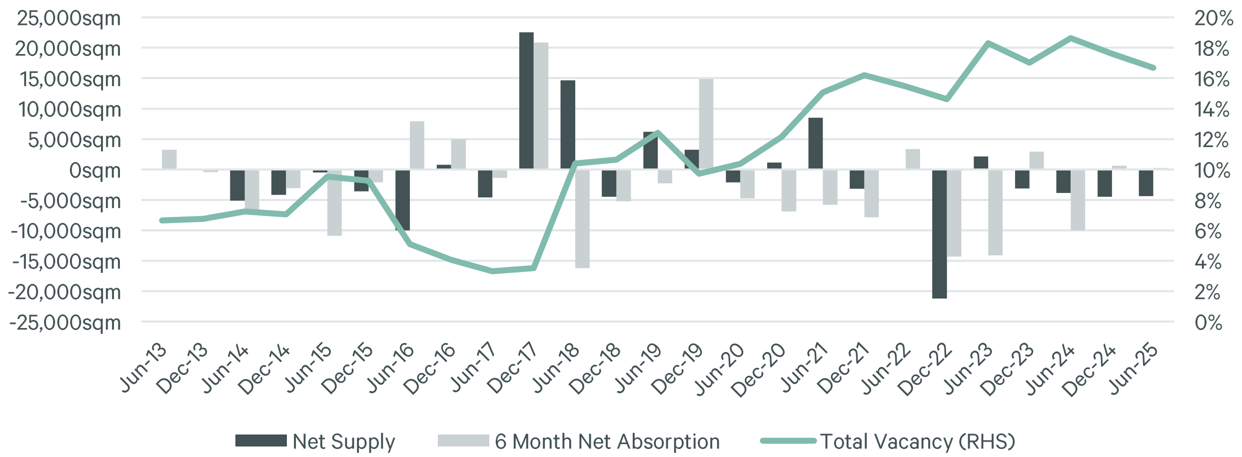
Within Melbourne's Metro market, vacancy declines were observed in Melbourne's Inner East & Outer East, offset by a significant rise in vacancy across Melbourne's City Fringe. A significant amount of office supply has entered the market in the last 12-months across the City Fringe, approximately 40,000sqm of this remaining vacant, which has contributed to this underperformance. With supply pressures easing significantly, vacancy is likely to normalise over the short-to-medium term.

FIGURE 6: Melbourne metro office vacancy



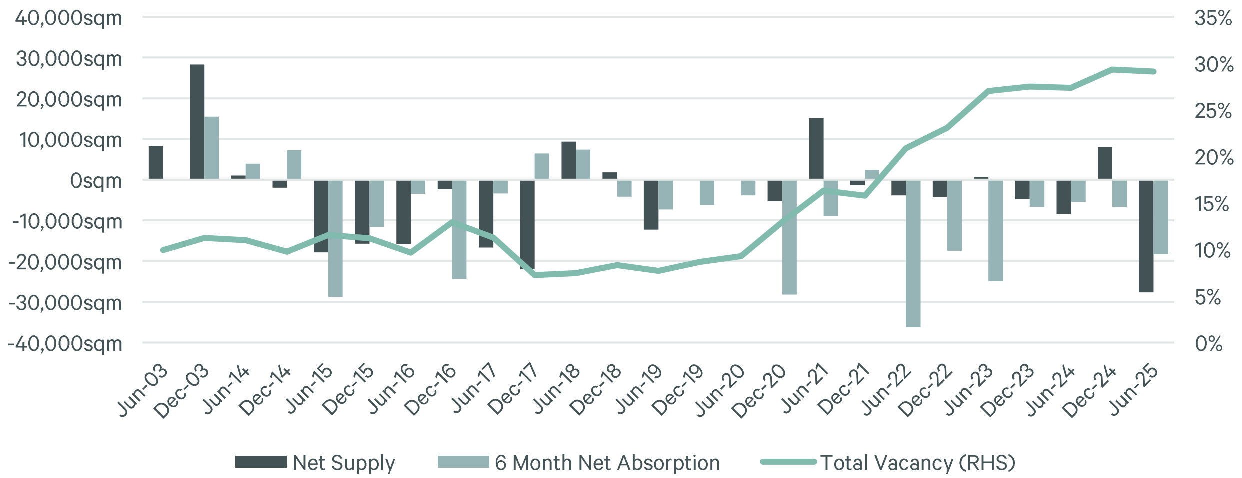
Source: CBRE Research

FIGURE 7: Southbank Office Market Balance



Source: PCA, CBRE Research

FIGURE 8: St Kilda Road Office Market Balance



Source: PCA, CBRE Research

Rental Performance

Rental growth accelerates in the fringe. Remains modest in other precincts.

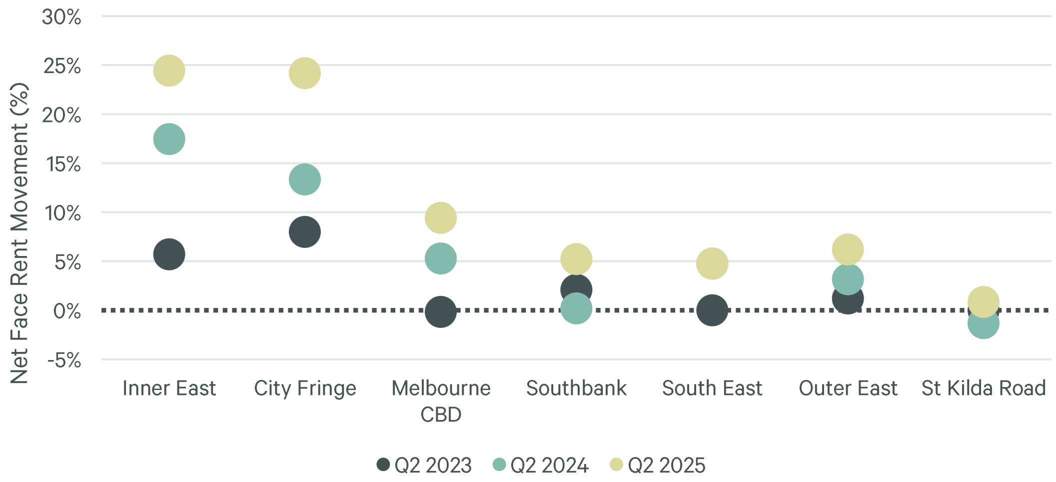
Prime face rents across Melbourne's fringe office markets recorded moderate growth in Q2 2025, supported by strong leasing activity and transactional evidence, particularly for new and recently refurbished assets. In the City Fringe, prime face rents increased by 4.5% quarter-on-quarter, bringing annual growth to 9.6%, following a largely stagnant 2024. The Inner East recorded more modest growth of 0.7% in Q2, following a stronger 5.3% increase in Q1 2025.

A material shift in market sentiment was observed over the quarter, underpinning the rental uplift. The previously noted trend of fringe and suburban tenants relocating to the CBD appears to have reached its conclusion. While elevated incentives in the CBD continue to offer compelling value for select occupiers, the trade-offs associated with relocation are now viewed as more complex and less universally attractive.

Similarly, the trend of suburban tenants moving closer to the CBD has moderated. Leasing activity in these markets has shown signs of recovery following several years of subdued conditions. This resurgence is attributed to renewed confidence among suburban occupiers regarding long-term leasing commitments, supported by a decline in vacancy rates across the Inner East and Outer East over the past 12 months.

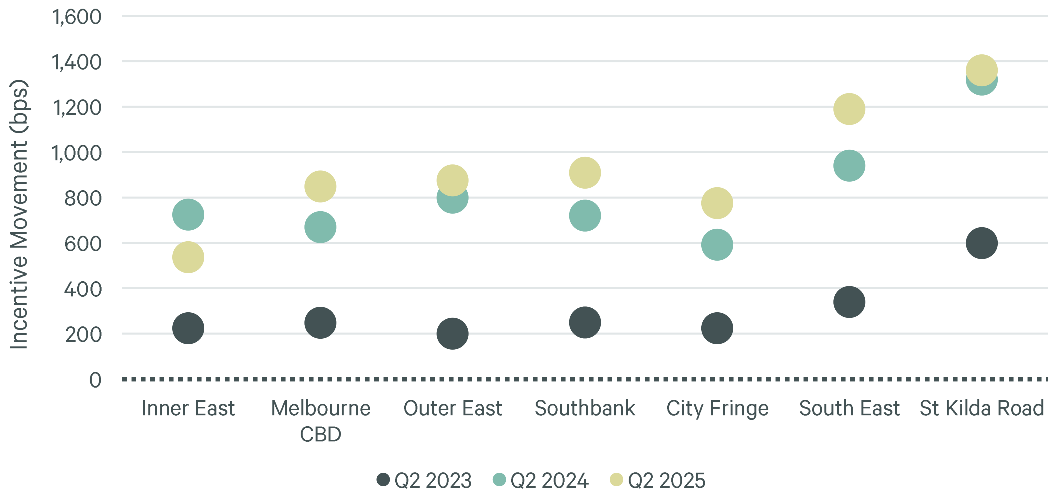
Looking ahead, we forecast continued moderate rental growth in select City Fringe precincts, consistent with trends observed in Q2 2025. In Melbourne's suburban markets, rental growth is expected to remain within single-digit ranges, reflecting modest demand. However, select high-quality suburban assets are likely to outperform in the short term, as existing tenants seek upgraded alternatives to their current accommodation.

FIGURE 9: Prime Net Face Rent Growth from Base Period (Q2 2022) by Precinct.



Source: CBRE Research

FIGURE 10: Prime Incentive Movement (bps) from Base Period (Q2 2022) by Precinct



Source: CBRE Research

Investment Market

Investment Activity Remains Subdued, with Uptick Expected Amidst Active Campaigns

Sales activity across Melbourne's fringe and suburban office markets remained subdued in Q2 2025, with total volumes reaching approximately $50 million for transactions above $10 million. These levels are broadly consistent with Q2 activity recorded over the past two years.

Investor sentiment across Melbourne has remained cautious throughout H1 2025, with no major transactions completed. However, Q2 saw several high-profile assets brought to market across both fringe and suburban precincts. While no significant deals have yet closed, a surge in investment volumes is anticipated in the coming months, potentially bringing activity closer to historical norms.

Yields Stabilise Across All Precincts for the First Time Since 2022

Yields across Melbourne's fringe and suburban office markets have stabilised for the first time in three years, following a period of sustained expansion throughout the current cycle. Market pricing has reached peak levels, reflecting the culmination of upward yield movement observed in recent years.

As of Q2 2025, prime yields across all precincts remain above 7%, with underperforming markets reaching between 8.0% and 9.0%. Notably, key assets in both outperforming and underperforming precincts continue to demonstrate resilient yield behaviour, underscoring the strength of investor confidence in quality assets.

Investor preference remains firmly focused on high-quality properties in strategic fringe and suburban locations. This demand continues to shape yield movements and support local investment activity. The bifurcation between high-performing and underperforming precincts is expected to persist throughout H2 2025.

FIGURE 11: Melbourne Fringe & Suburban Office Sales (greater than AUD 10 million)

Source: CBRE Research

FIGURE 12: Melbourne Metro Current Yields and Yield Movements by Precinct

Source: CBRE Research

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