Melbourne CBD records first period of positive net absorption in three years

▲749 AUD/sqm
Net Face Rent (+1.5% q-o-q)

▲48.9%
Prime Incentives (+33 bps q-o-q)

▼17.92%
CBD Office H1 2025 Vacancy (-4bps h-o-h)

▼7.07%
Prime Yield (-1 bps q-o-q)

Note: Arrows indicate change from previous quarter / half / year.

Key Points

- Net absorption in Melbourne's CBD turned positive for the first time since 2022, with 1,446sqm of demand recorded over the past six months. Activity was strongest in core precincts, aligning with prevailing local sentiment observed in recent years.
- No major office completions were recorded in Q2 2025. The forecasted annual supply has been further deferred, with only 25,000 sqm of new stock expected between 2027 and 2029, representing a historic low for the Melbourne market.
- The overall vacancy rate in the Melbourne CBD ended H1 2025 at 17.94%, reflecting a modest decline of 4 basis points over the period. While vacancy pressures have stabilised, a substantial volume of incoming supply over the next 12 months suggests this stabilisation may be temporary.
- Prime net face rents increased by 1.5% over Q2 2025. Prime effective rents experienced moderate growth, supported by stabilising incentives across most precincts.
- Prime CBD Office Yields have declined for the first since H2 2022.

FIGURE 1: Melbourne CBD Office | Summary of Prime Market Indicators

Melbourne CBD	2Q25	1Q25	2Q24	Q-o-Q Change	Y-o-Y Change
GFR	**AUD 974**	AUD 957	AUD 931	+1.7%	+4.5%
NFR	**AUD 749**	AUD 738	AUD 721	+1.5%	+4.0%
Incentives	**48.9%**	48.6%	47.1%	+34 bps	+179 bps
NER	**AUD 384**	AUD 381	AUD 382	+0.8%	+0.5%
Yield	**7.07%**	7.08%	6.53%	-1 bps	+54 bps

Source: CBRE Research

Office Demand

Net absorption turns positive for the first time in three years

Melbourne CBD has recorded its first period of overall positive net absorption since H1 2022. As of H1 2025, trailing six-month net absorption totalled +1,446sqm, a notable improvement from the -44,962sqm recorded in H2 2024. As previously reported, the significant negative absorption in H2 2024 was primarily driven by Australia Post's relocation out of the CBD.

Premium and Grade B assets recorded positive net absorption of +4,520sqm and +15,031sqm, respectively. The strong performance of premium stock reinforces the ongoing flight-to-quality trend, particularly amid tightening vacancy in premium high-rise assets located in core precincts.

Grade B outperformance is attributed to the centralisation of fringe and suburban tenants into the CBD, capitalising on tenant-favourable leasing conditions. While this trend has been evident over the past six months, we anticipate a short-term tapering of centralisation activity.

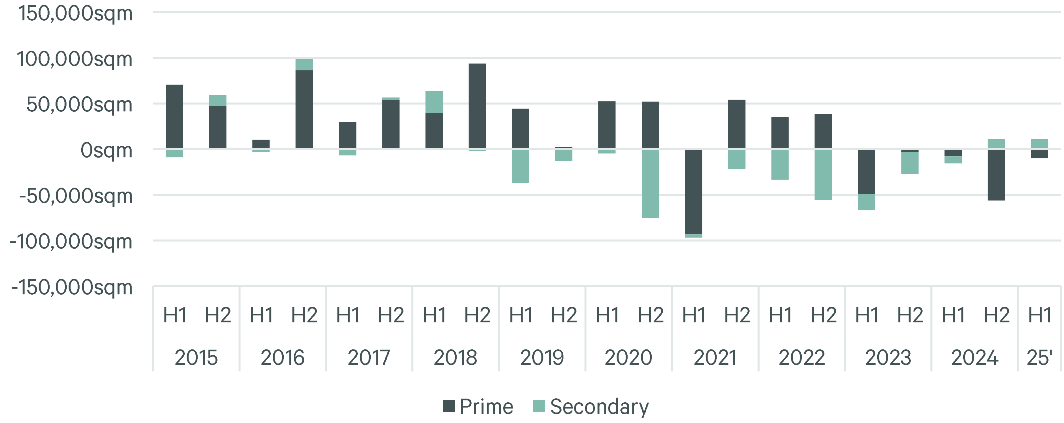
Core precincts outperform as tenants move to secure space

On a precinct level, H1 2025 experienced mixed results consistent with local sentiment in recent months; core outperformance offset by a weak non-core market.

Melbourne's Eastern Core and Western Core precincts led the market, recording +9,865 sqm and +7,612 sqm of net absorption, respectively. While these precincts have experienced variable performance over the past 12 months, the majority of leasing activity continues to be concentrated within them, reinforcing their relative resilience.

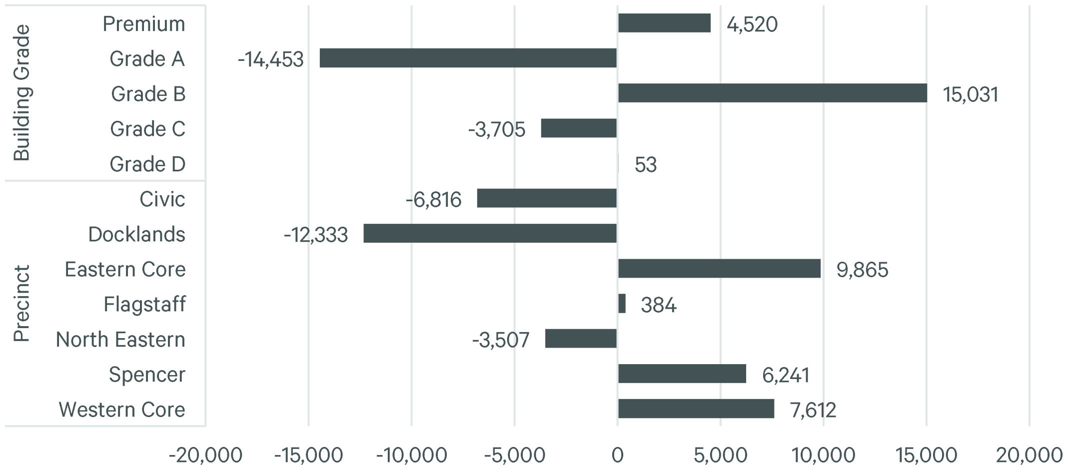
Conversely, Docklands and the North Eastern precinct recorded moderate negative absorption. Although these areas have previously benefited from elevated incentives and tenant centralisation, the impact of these drivers appears to be waning. We expect this trend to persist over the coming years.

FIGURE 2: Melbourne CBD Office | 6-Month Net Absorption, by Building Grade



Source: PCA, CBRE Research

FIGURE 3: Melbourne CBD Office | 6-Month Net Absorption (sqm), by Building Grade & Precinct, H1 2025



Source: PCA, CBRE Research

Supply

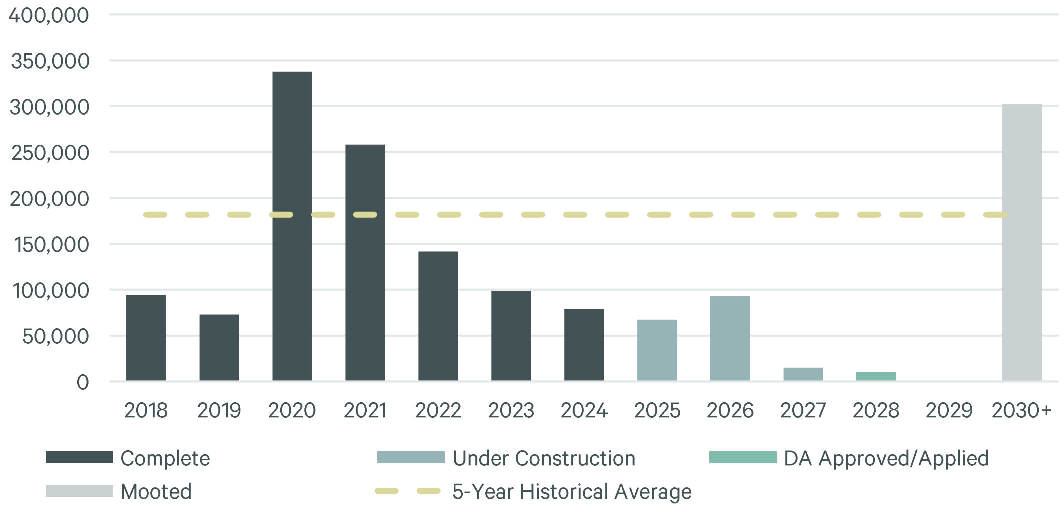
Melbourne poised to experience record-low office supply in coming years

Melbourne recorded no major office completions during Q2 2025. The next significant delivery is expected in Q3 2025, with 85 Spring Street in the Eastern Core nearing completion. Additionally, 7 Spencer Street and 17 Bennetts Lane remain on track for delivery towards the end of the year.

Throughout Q2 2025, several revisions were made to the Melbourne CBD office development pipeline. These adjustments have resulted in projected supply for 2027, 2028, and 2029 falling to historic lows, with only 20,000 sqm of net leasable area anticipated across the three-year period. This constrained supply outlook is expected to act as a strong tailwind for Melbourne's office market fundamentals, supporting a notable reduction in vacancy rates and driving sustained growth in effective rents.

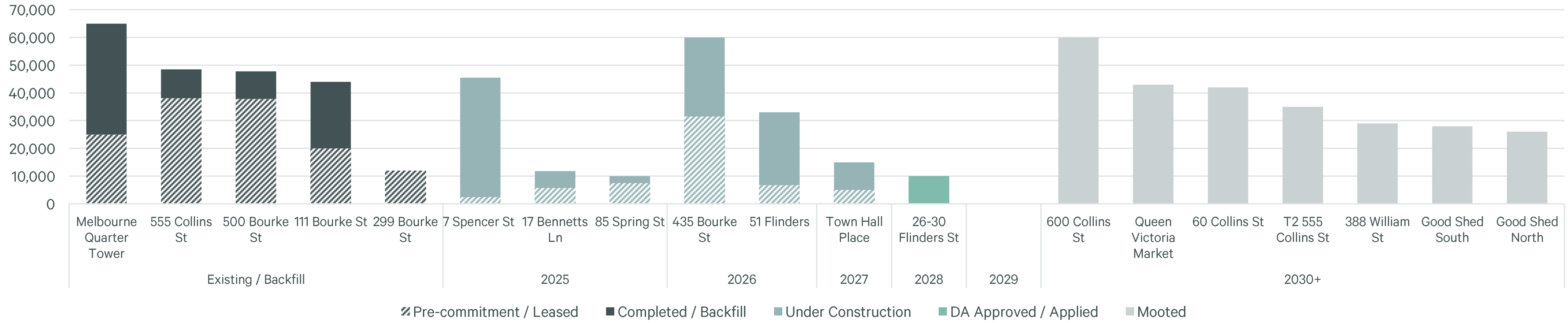
While some projects currently scheduled for post-2030 delivery could potentially be brought forward, this is considered unlikely under current market conditions, as ongoing feasibility challenges continue to weigh on development activity.

FIGURE 4: Melbourne CBD Office | Upcoming Major Development Projects



Source: CBRE Research

FIGURE 5: Melbourne CBD Office | Historical & Forecast Supply



Source: CBRE Research
Note: Melbourne's 'Queen Victoria Market' development is formally known as 'Gurrowa Place'.

Vacancy

Vacancy stabilisation continues amid looming supply pressures

Melbourne CBD's overall vacancy rate declined marginally by 4bps to 17.92% in H1 2025, marking the second consecutive quarter of stabilisation. However, this trend is expected to be short-lived, with a significant volume of uncommitted stock anticipated to enter the market over the next 12 months.

Vacancy declined across all asset grades in H1 2025, with the exception of Grade A office space, which recorded a modest increase of 71bps to 19.3%. Premium and Grade B assets experienced moderate declines of 37bps and 146bps, respectively, bringing vacancy rates to 16.4% and 18.9%.

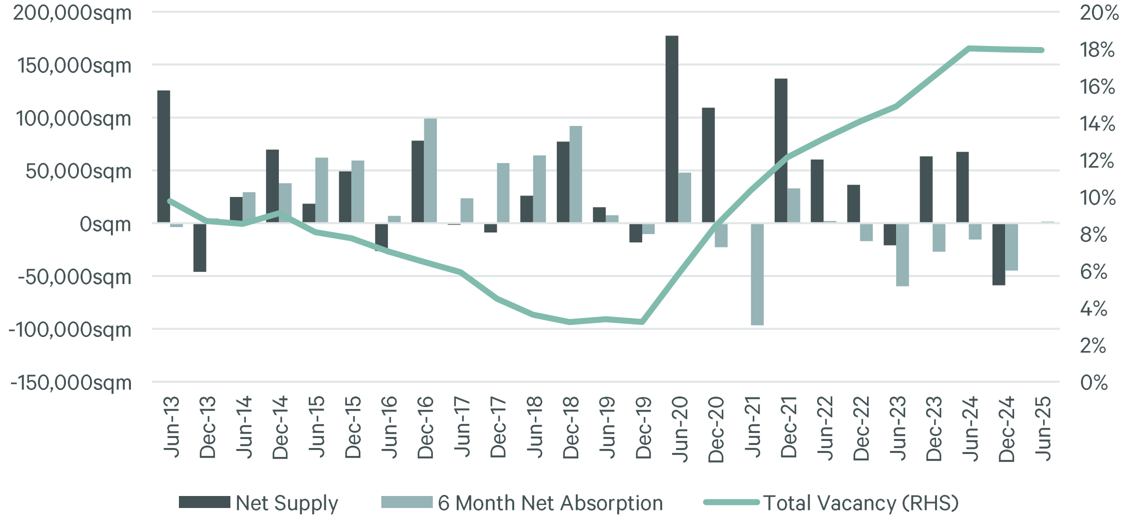
Prime-grade vacancy rose by 36bps over the past six months, largely driven by underperformance in select non-core precincts. Despite this, the broader market continues to reflect a flight-to-quality trend. Recent CBRE Research data highlights a tightening vacancy environment for contiguous high-rise spaces in core locations. As availability in these segments becomes increasingly constrained, leasing activity is expected to accelerate in the near term as tenants move to secure limited prime options.

Sublease vacancy firmly at healthy levels.

CBRE Research's sublease vacancy data suggests sublease vacancy rates across most Melbourne precincts are now below 2%. The North Eastern precinct continues remains the highest in Melbourne, however sublease levels are halved compared to twelve months prior.

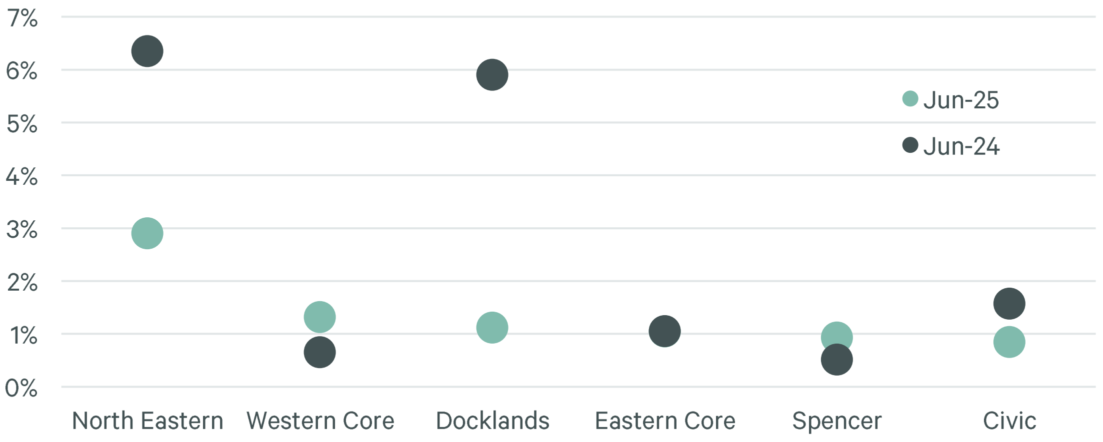
Over the last 12-months, the combination of strong leasing activity in sublease space, combined with withdrawals of sublease space have contributed to declining volumes. We expect sublease vacancy to remain at healthy levels, with no major upcoming sublease vacancies likely to enter the market in the short term.

FIGURE 6: Melbourne CBD Office | Market Balance



Source: PCA, CBRE Research

FIGURE 7: Melbourne CBD Office | Sublease Vacancy Rate by Precinct



Source: CBRE Research

Rental Performance

Bifurcation persists as Eastern Core leads in rental growth

Rental growth across Melbourne continues to bifurcate. Over the second quarter of 2025, most precincts recorded positive face rental growth, with two clear outliers; the Eastern Core and Western Core, with recorded quarterly growth rates of 4.7% and -1.6% respectively.

The Eastern Core's status as one of the most highly sought-after office precincts nationally has underpinned its accelerated rental growth this quarter. This outperformance is expected to persist over the short to medium term. In contrast, the Western Core recorded negative face rental growth despite strong performance over the preceding 12 months. CBRE Research attributes this decline primarily to a one-off adjustment involving an outlier asset, rather than a broader market trend. Positive rental growth in the Western Core is anticipated to return in H2 2025.

Prime incentives stable or negative in majority of precincts

Prime effective rents increased on both a quarterly and annual basis in Q2 2025, rising by 0.84% quarter-on-quarter and 0.46% year-on-year. Four of Melbourne's seven precincts recorded annual growth in effective rents, reflecting the ongoing recovery across much of the market.

The stabilisation of incentives remains the key driver of this recovery. While some outlier precincts persist, the majority of Melbourne has now experienced consecutive quarters of incentive stability. This trend is expected to continue through the remainder of 2025 and into 2026, with limited further expansion in incentives anticipated during this cycle.

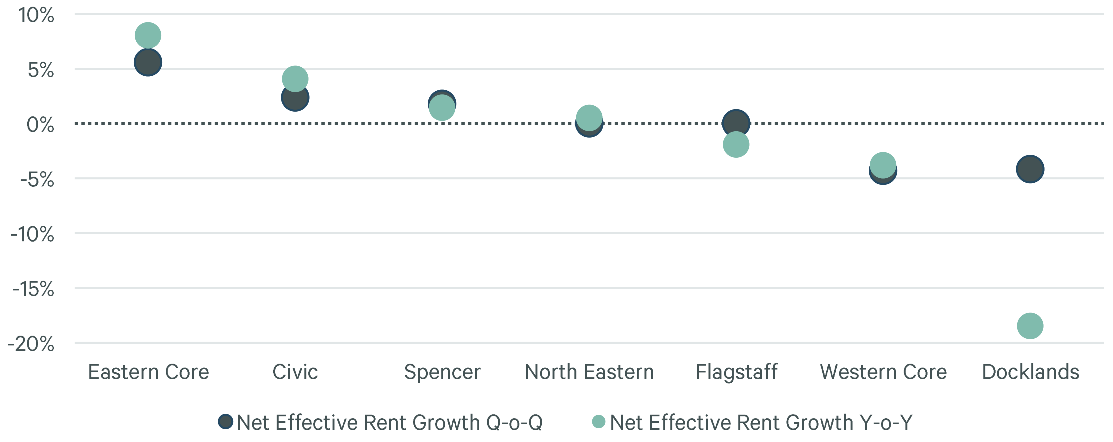
However, the pace of incentive compression is unlikely to be uniform. Core precincts are expected to experience earlier and more pronounced declines in incentives over the next 18 months. From 2027 onwards, this trend is projected to extend to the broader market, as historically low supply levels and rising vacancy pressures begin to take hold.

FIGURE 8: Melbourne CBD Office | Prime Rental Indicators, by Precinct

Melbourne CBD Precinct	Prime NFR (AUD/sqm)			Prime NER (AUD/sqm)			Prime Incentives (%)		
	2Q25	Q-o-Q Change	Y-o-Y Change	**2Q25**	Q-o-Q Change	Y-o-Y Change	**2Q25**	Q-o-Q Change	Y-o-Y Change
Civic	**743**	2.3%	5.6%	**392**	2.4%	4.1%	**47.2%**	Stable	79 bps
Docklands	**537**	0.3%	-2.9%	**191**	-4.2%	-18.5%	**64.3%**	167 bps	683 bps
Eastern Core*	**940**	4.7%	7.7%	**578**	5.6%	8.0%	**39.0%**	-50 bps	-13 bps
Flagstaff	**579**	Stable	2.0%	**289**	Stable	-1.9%	**50.0%**	Stable	200 bps
North Eastern	**626**	Stable	2.3%	**287**	Stable	0.5%	**54.2%**	Stable	83 bps
Spencer	**720**	1.8%	7.1%	**324**	-4.3%	-3.8%	**55.0%**	Stable	250 bps
Western Core	**758**	-1.6%	0.3%	**390**	1.8%	1.4%	**48.5%**	150 bps	225 bps

Source: CBRE Research
Note: CBRE Research has amended the Eastern Core basket of properties to more strongly align with market conditions. Reported Q2 2025 numbers have been backdated on both a quarter-on-quarter and year-on-year basis.

FIGURE 9: Melbourne CBD Office | Prime Net Effective Rent Growth Rates by Precinct



Source: CBRE Research

Investment Market

Investment activity remains subdued, with increased transactional momentum expected in H2 2025

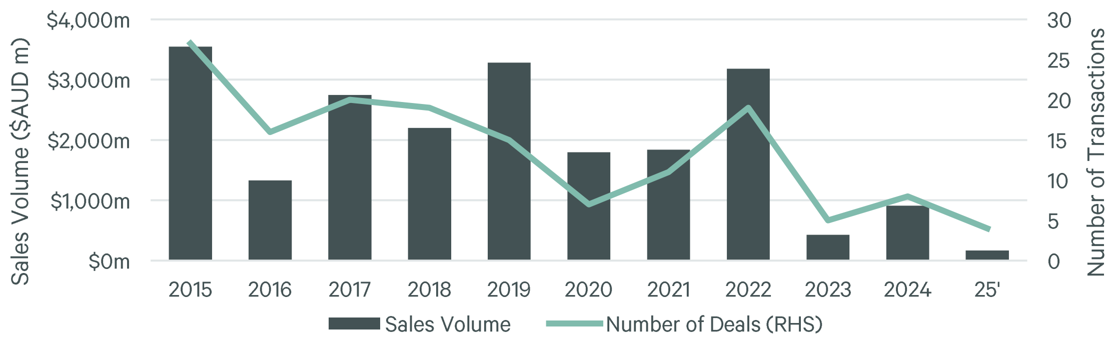
Melbourne's CBD recorded limited investment activity in Q2 2025, with approximately $63 million transacted across two assets. This follows a similarly subdued Q1, during which around $107 million changed hands.

Despite a notable increase in buyer interest throughout H1 2025, transaction volumes have remained low, largely due to the delayed introduction of office assets to the market. Several assets have only recently been listed, most notably 31 Queen Street. With these transactions expected to conclude in H2 2025, a rebound in investment volumes is anticipated by year-end.

Yields stabilise across Melbourne, signaling end of downward cycle

Prime CBD yields declined marginally by 1 basis point to 7.07% in Q2 2025, marking the first quarter of yield stabilisation since H2 2022.. Whilst Melbourne is yet to see a major office asset transact this year, we expect market yields to be at our reported values. While material yield compression is not forecast for 2025, upcoming transactions are expected to establish new benchmarks and may provide early indicators of a shift in pricing dynamics.

FIGURE 10: Melbourne CBD Office | Sales Activity[1]



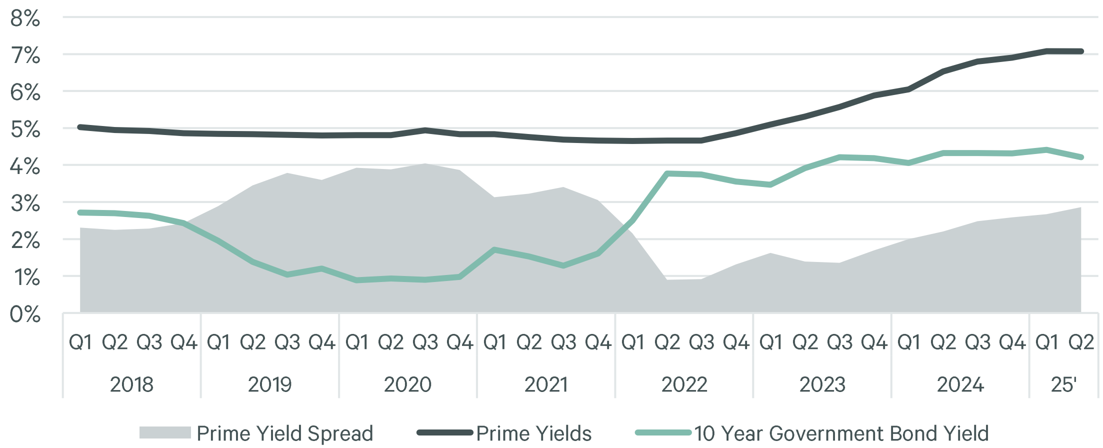
Source: CBRE Research

[1]Includes sales above >$20m AUD.

FIGURE 11: Melbourne CBD Office | Current Prime Yield and Prime Yield Change by Precinct

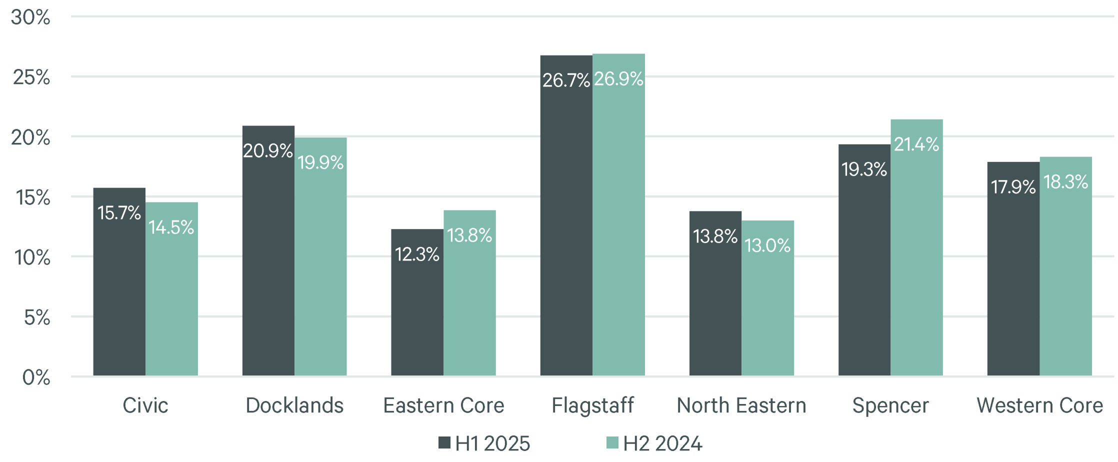
Source: CBRE Research

FIGURE 12: Melbourne CBD Prime Office Indicative Yields vs Commonwealth Government 10-yr Bond Yields



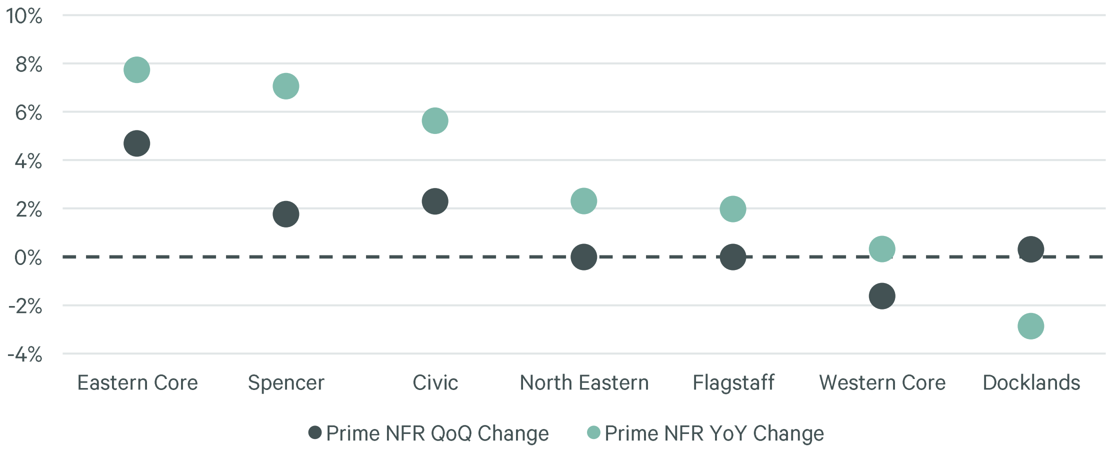
Source: RBA, CBRE Research

FIGURE 13: Melbourne CBD Office | Total Vacancy Rate by Precinct



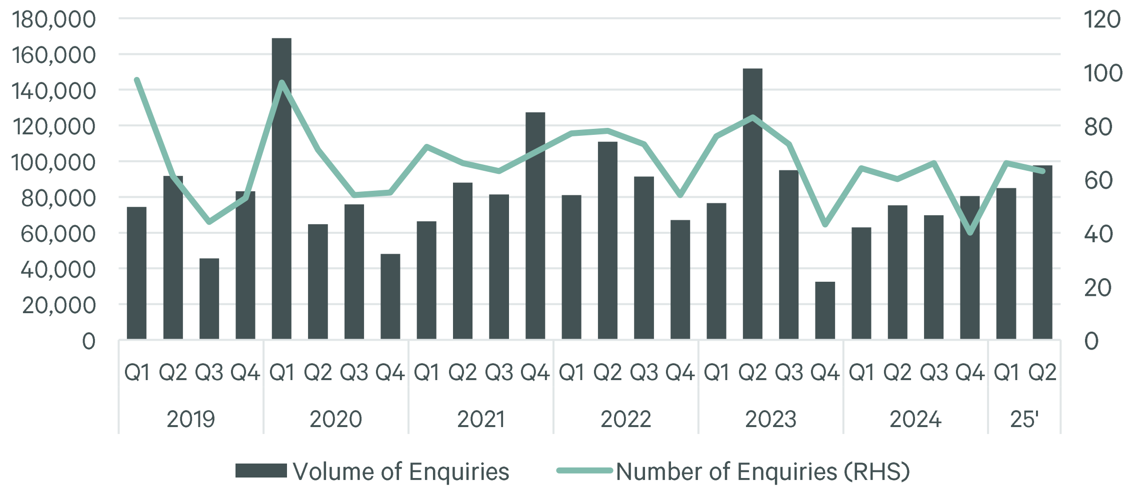
Source: PCA, CBRE Research

FIGURE 15: Melbourne CBD Office | Net Face Rental Rates Growth Rates by Grade



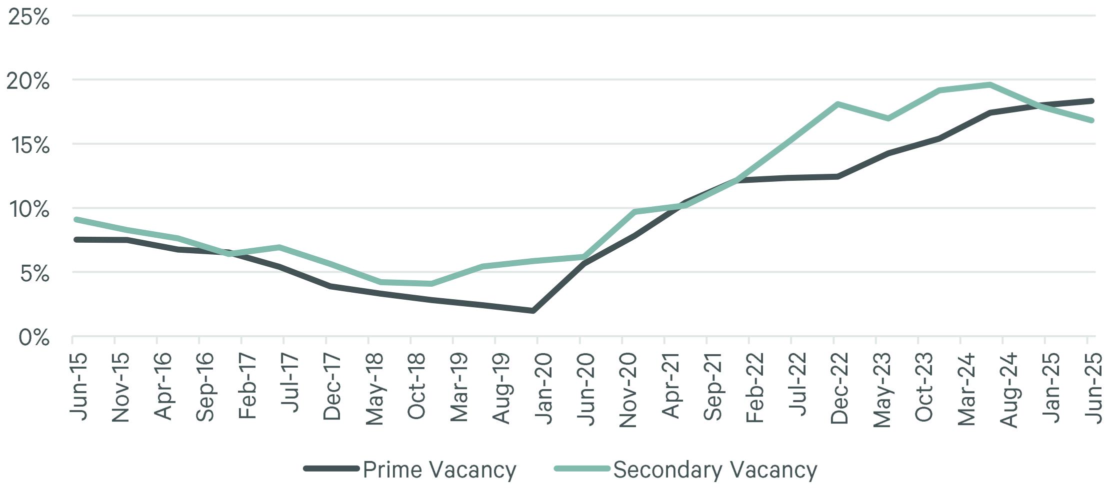
Source: CBRE Research

FIGURE 14: Melbourne CBD Office | Tenant Enquiry Levels



Source: CBRE Research

FIGURE 16: Melbourne CBD Office | Vacancy Rates, by Grade



Source: PCA, CBRE Research

Contacts

Research

Cameron Douglas-Perrine, CFA

Research Manager
Melbourne Office Research
+61 450 801 459
Cameron.DouglasPerrine@cbre.com

Office Submarket & Precinct Maps

Melbourne CBD

Contact

Melbourne

Level 34
8 Exhibition Street
Melbourne, VIC 3000