Vacancy remains stable. Rental growth slows as backfill uncertainty emerges.

▲ 775 AUD/sqm
Net Face Rent (+0.4% q-o-q)

▼ 49.2%
Prime Incentives (-13bps q-o-q)

▼ 18.91%
CBD Office H1 2026 Vacancy (-5bps h-o-h)

▲ 7.09%
Prime Yield (+1bps q-o-q)

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

Key Points

- Melbourne's CBD has recorded the strongest level of 12-month net absorption nationally as of H1 2026, with 54,808sqm recorded.
- The practical completion of 7 Spencer Street was recorded in Q2 2026. Approximately 100,000sqm of backfill space is set to enter the market over 2027-2028. The next new supply wave is now expected to emerge from 2032 at the earliest, with very few developments likely to commence construction in the short term.
- Vacancy in Melbourne has decreased to 18.9%, representing a 5bps decrease from H2 2025.
- Prime net face rents increased by 0.4% over Q2 2026. Prime effective rents experienced similar growth, supported by stabilising incentives across all precincts.
- One major CBD transaction was recorded in Q2 2026, representing $54m. Yields held stable over the quarter. Slight yield expansion is expected over H2 2026.

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

Melbourne CBD	2Q26	1Q26	2Q25	Q-o-Q Change	Y-o-Y Change
GFR	**AUD 1,007**	AUD 1,000	AUD 974	+0.7%	+3.4%
NFR	**AUD 775**	AUD 772	AUD 749	+0.4%	+3.5%
Incentives	**49.1%**	49.2%	48.9%	-13 bps	+18 bps
NER	**AUD 396**	AUD 394	AUD 384	+0.6%	+3.1%
Yield	**7.09%**	7.08%	7.07%	+1 bps	+1 bps

Source: CBRE Research

Office Demand

Strongest Grade A net absorption since 2016.

Melbourne CBD has recorded its second consecutive period of strong positive 6-month net absorption. As of H1 2026, six-month net absorption totalled +26,779 sqm, a slight decline from the H2 2025 absorption of +28,029 sqm. .

By grade, Premium and Grade A assets recorded net absorption of -14,983 sqm and +53,460 sqm, respectively. Both results represent levels not seen in more than a decade, with this being the worst period for premium absorption since 2009, and best period for Grade A absorption since 2016. Secondary stock continued to underperform over the last 6-months.

Melbourne's Eastern Core, Flagstaff and Civic outperformed on net absorption over the last 6-months. The Flagstaff result is likely aided by the elevated leasing activity in recently refurbished assets, such as 'Brights & Park'. This strong result reinforces our view of the bifurcation and nuance in the Melbourne market that extends beyond headline vacancy rates.

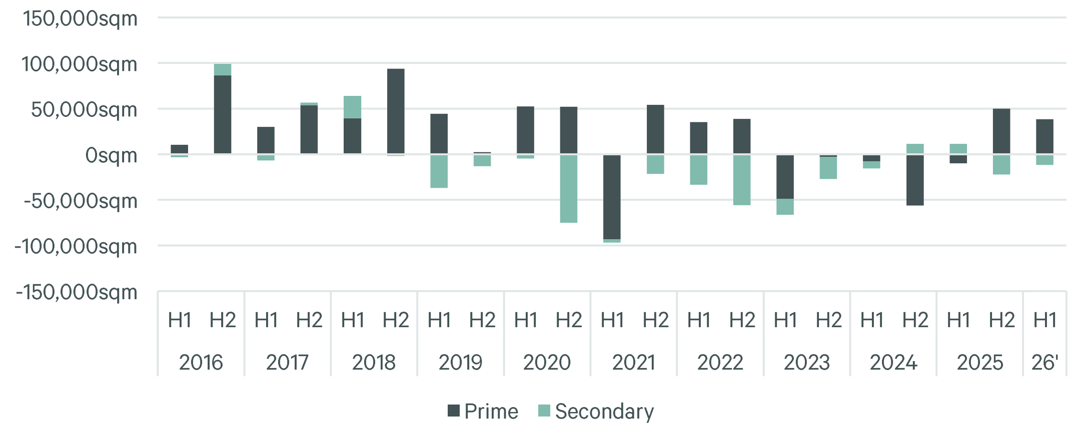
Centralisation flows likely driver of net absorption now, and over short term.

In our prior reporting we've described Melbourne's centralisation cycle as nearing it's completion. Whilst this was consistent with feedback at the time, recent analysis undertaken in our thought leadership piece 'Melbourne's Office Market Future', coupled with the emergence of backfill, has resulted in a reversal in our thesis.

Notably, we now believe that the recent strong net absorption has been aided primarily by centralisation flows, and that those flows are likely to remain elevated over the short term.

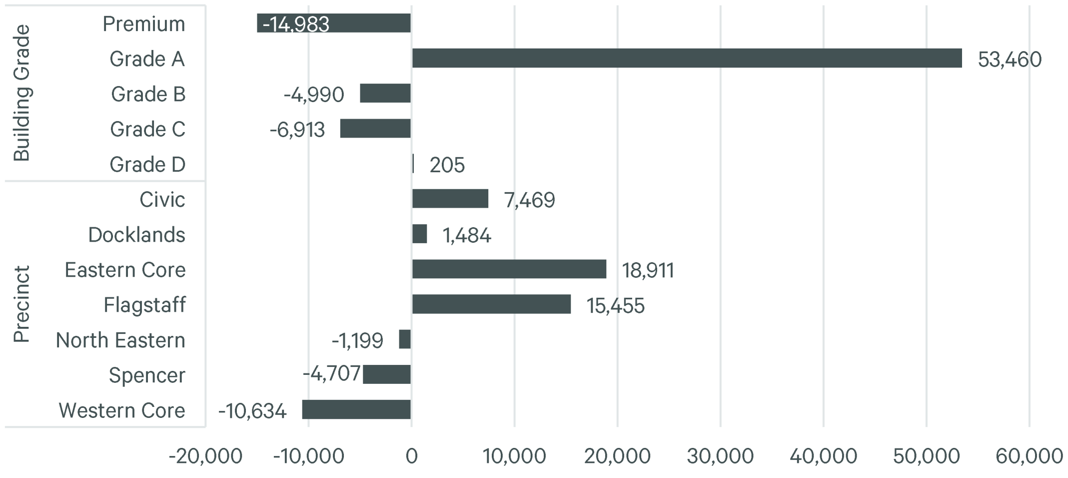
This view is supported, in part, by AI and Backfill pressures. We also retain a view that tenant preferences are sticky, and subsequently, that the ability for a centralising tenant to leave the city once exposed to the transport accessibility and amenity on offer within the CBD will be difficult.

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, H2 2025



Source: PCA, CBRE Research

Supply

Backfill to delay next supply wave. Only one mooted development with high conviction.

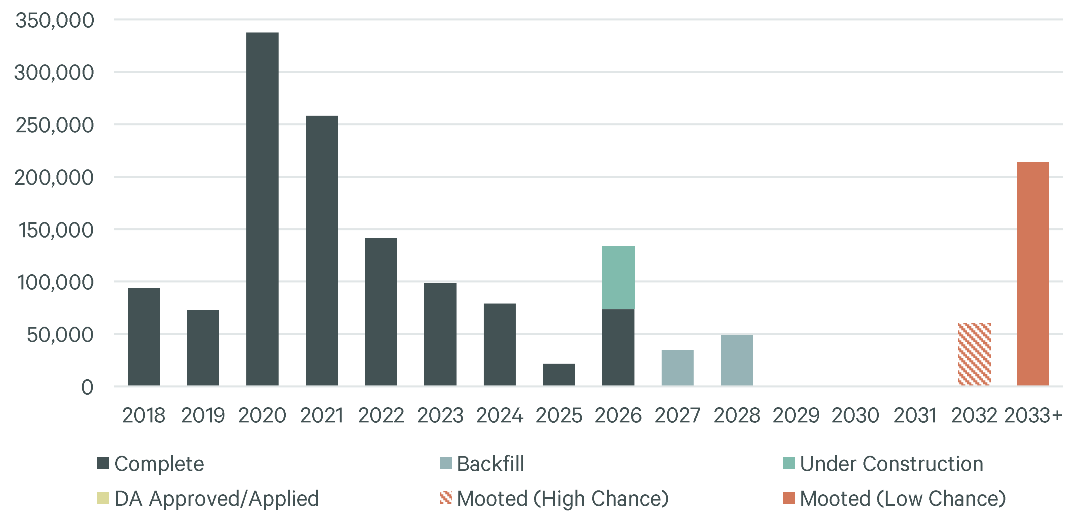
Melbourne recorded the major completion of 7 Spencer Street in Q2 2026, the second of three major completions expected this year. Recent major backfill announcements also occurred over the last quarter, with close to 100,000sqm of previously unexpected vacancy set to emerge over 2027 and 2028.

This creates a complicated picture for existing projects in Melbourne's supply pipeline. Broadly, we now expect the next supply wave will emerge in 2032 at the earliest, with 600 Collins Street the only major development that we expect will commence construction over the short term with high conviction.

A recent public announcement of the upcoming sales campaign for the 60 Collins Street site puts that development at risk. Given the Collins Street, Eastern Core address, this development was largely expected to see strong tenant demand, however, persistent feasibility challenges outweigh the upside.

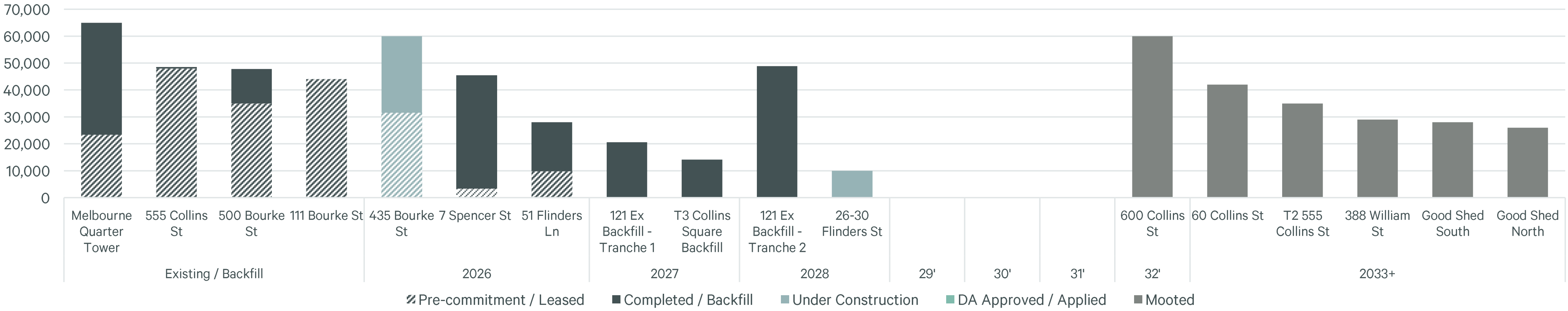
Our view is this backfill represents the most significant event in Melbourne's office market history, with the implications detailed in our latest thought leadership piece titled 'Melbourne's Office Market Future'.

FIGURE 4: Melbourne CBD Office | Upcoming Major Development Projects



Source: CBRE Research

FIGURE 5: Melbourne CBD Office | Historical & Forecast Supply



Source: CBRE Research

Note: CBRE Research's assessment of mooted projects is subjective and shouldn't be taken as fact.

Vacancy

Vacancy holds stable despite two major office completions.

Melbourne CBD's overall vacancy rate decreased slightly by 5bps to 18.95% in H1 2026. Despite 76,400 sqm of office completions occurring over the last 6-months, the combination of elevated net absorption and 46,575 sqm of withdrawals has supported a stable vacancy environment.

Premium and Grade B Vacancy declined by 81bps and 51bps, respectively. This was offset by increases in Grade A and Grade C vacancy. Prime narrowly outperformed secondary stock over the last 6-months, with a 19bps spread in performance observed.

We note that this vacancy result exceeded our expectations, in large part due to elevated withdrawals over the last 6-months. Despite this, our forecasts still highlight that Melbourne's CBD headline vacancy increase and likely peak over the next 24-months. Select precincts and assets will continue to outperform and will be immune to any short-term headwinds.

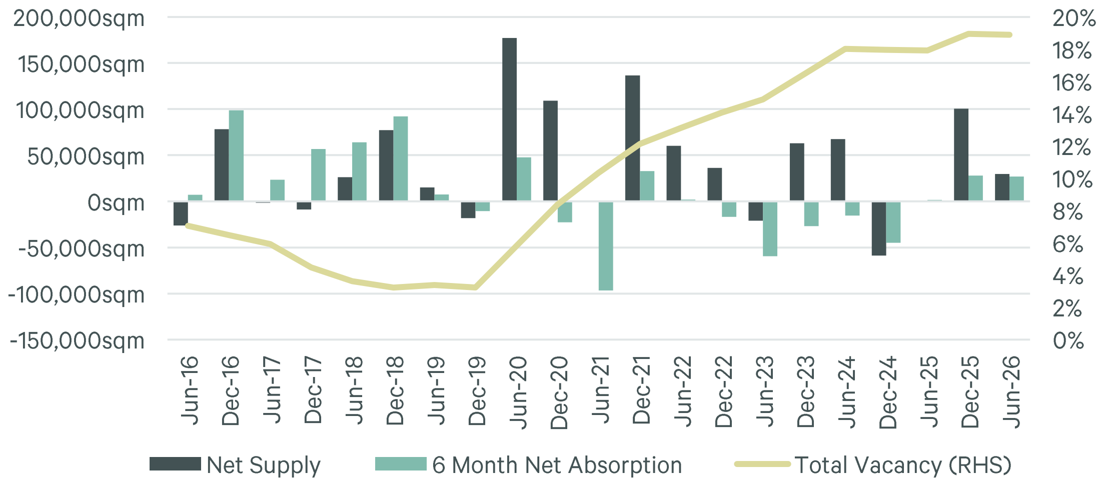
Vacancy outlook is mixed, with diverse risk profiles across precincts.

At the beginning of the year our prevailing thesis was that Melbourne was on track for a sustained recovery that would impact all precincts. Just six months later, we now expect a mixed, multi-stage recovery across precincts.

Notably, we still expect the Eastern Core will be the main beneficiary of net absorption over the remainder of the decade. Centralisation flows will support outperformance in select precincts, including Docklands, with the combination of major sublease expiries and concentrated industry profiles putting other precincts at risk.

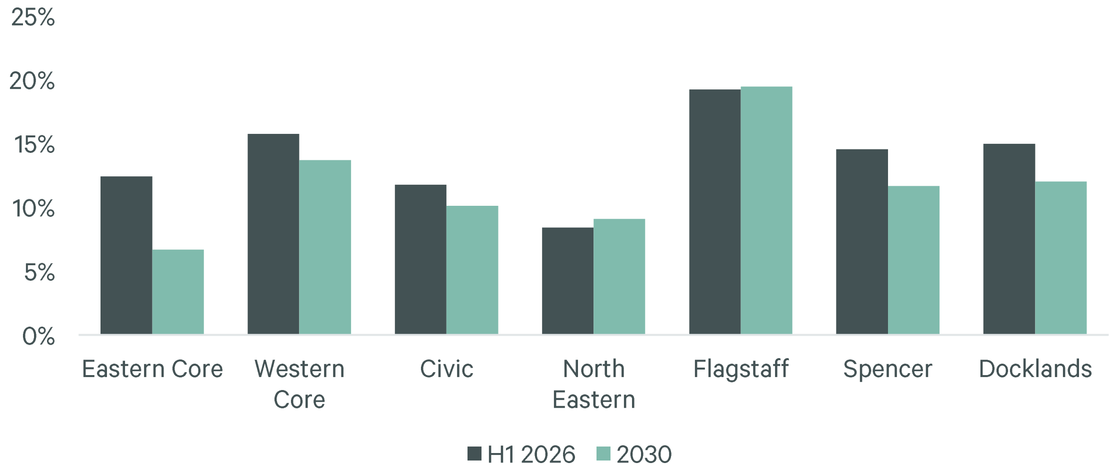
The net impact that we wish to reinforce is that the incoming backfill will create a chain reaction of consequential decisions and events that will mark this point in time as a defining moment for Melbourne's office market.

FIGURE 6: Melbourne CBD Office | Market Balance



Source: PCA, CBRE Research

FIGURE 7: Melbourne CBD Office Current and Forecast Prime Availability by Precinct



Source: CBRE Research

Rental Performance

Rental growth slows as backfill uncertainty emerges.

Face rents across Melbourne have seen subdued growth over Q2 2026. Of Melbourne CBD's seven office precincts only four recorded growth over the last 3-months, with average prime CBD growth of 0.4% quarter-on-quarter.

Year-on-year growth rates continue to paint a more nuanced, accurate view of relative performance. Notably, the eastern precincts of Eastern Core and Civic continue to outperform, offset by Docklands recording subdued face rental growth. This deceleration of growth across the CBD is expected to remain for the remainder of 2026 as landlords and tenants alike adjust to the revised outlook brought forward from the news of significant backfill availability.

From 2027, we expect rental growth to begin accelerating once more, albeit a multi-staged recovery will remain the dominant theme as differences between precincts and individual assets becomes more pronounced.

Incentives remain stable, with slight compression observed in Docklands.

CBD average prime effective rents increased on both a quarterly and annual basis in Q2 2026, rising by 0.6% quarter-on-quarter and 3.1% year-on-year. This marks the third consecutive quarter in which the majority of precincts recorded positive or neutral quarterly growth.

Incentives remain the key lever in Melbourne's rental recovery. While a few outlier precincts persist, most of the market has now logged consecutive quarters of incentive stability. We previously noted Melbourne's incentive trajectory was under pressure due to economic and geopolitical uncertainty. Whilst this still poses a significant risk, the emergence of significant projected backfill availability into the market, in our view, will put heightened pressure on incentives to remain higher for longer.

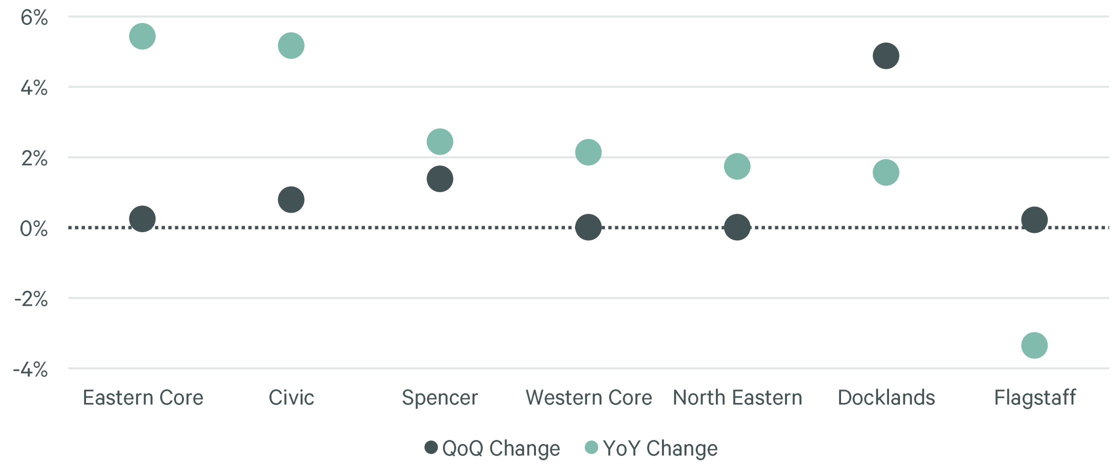
Consistent with our prior view, the impacts of this and the subsequent trajectory of incentives will diverge between and within precincts.

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

Melbourne CBD Precinct	Prime NFR (AUD/sqm)			Prime NER (AUD/sqm)			Prime Incentives (%)		
	2Q26	Q-o-Q Change	Y-o-Y Change	2Q26	Q-o-Q Change	Y-o-Y Change	2Q26	Q-o-Q Change	Y-o-Y Change
Civic	**775**	0.8%	4.4%	**413**	0.8%	5.2%	**46.9%**	Stable	-33 bps
Docklands	**543**	Stable	1.1%	**194**	4.9%	1.6%	**64.2%**	-167 bps	-17 bps
Eastern Core	**996**	0.3%	5.9%	**610**	0.2%	5.4%	**39.3%**	Stable	-25 bps
Flagstaff	**589**	0.2%	1.7%	**280**	0.2%	-3.4%	**52.5%**	Stable	250 bps
North Eastern	**637**	Stable	1.7%	**292**	Stable	1.7%	**54.2%**	Stable	Stable
Spencer	**738**	1.4%	2.4%	**332**	Stable	2.4%	**55.0%**	Stable	Stable
Western Core	**770**	Stable	1.7%	**398**	1.4%	2.1%	**48.3%**	Stable	125 bps

Source: CBRE Research

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



Source: CBRE Research

Investment Market

Minor uptick in transaction activity observed. Slight rebound anticipated in H2 2026.

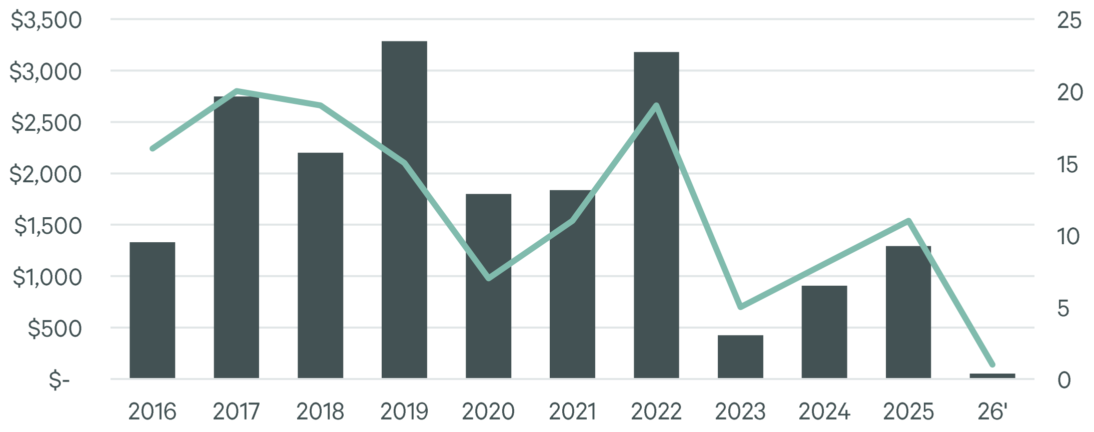
Over the first half of 2026 only one major CBD office transaction took place in the sale of 246 Bourke Street (Midtown Melbourne). This mixed-use asset transacted for $154m, with only $54m attributed to the office component of the asset.

We expect a flurry of major office transactions to occur over the next 12-months. At this stage, we expect CY2026 CBD volumes to be between 2023 and 2024 levels ($400m - $900m).

Yields hold stable in Q2, likely to rise over H2 2026.

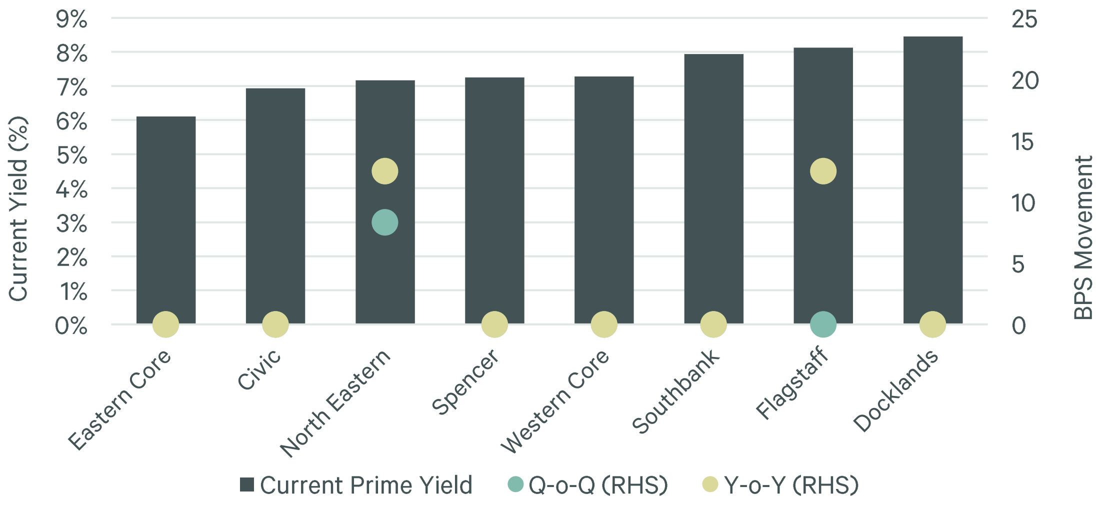
Prime CBD yields held stable at 7.09% in Q2 2026, marking the fifth consecutive quarter of average yield stabilisation. It is currently unclear what impact the recent cash rate increases and backfill announcements will have on pricing. However, we currently forecast mild yield expansion across several CBD precincts over H2 2026, particularly as more transaction evidence emerges.

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



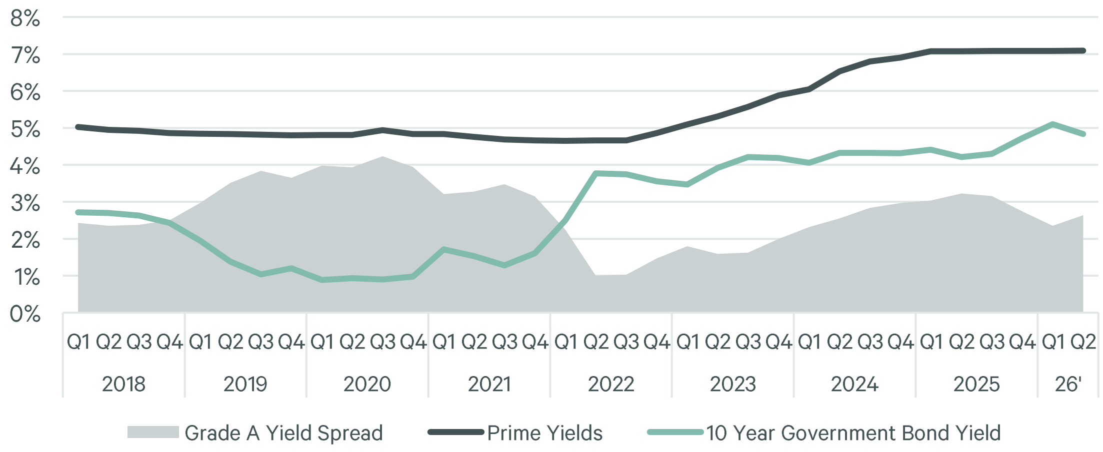
Source: CBRE Research
[1]Includes sales above >$20m AUD.

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



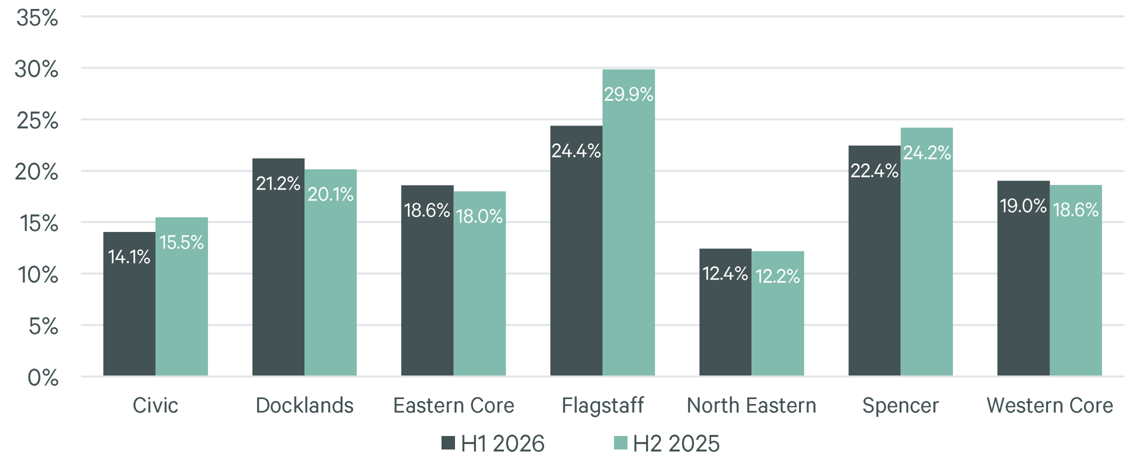
Source: CBRE Research

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



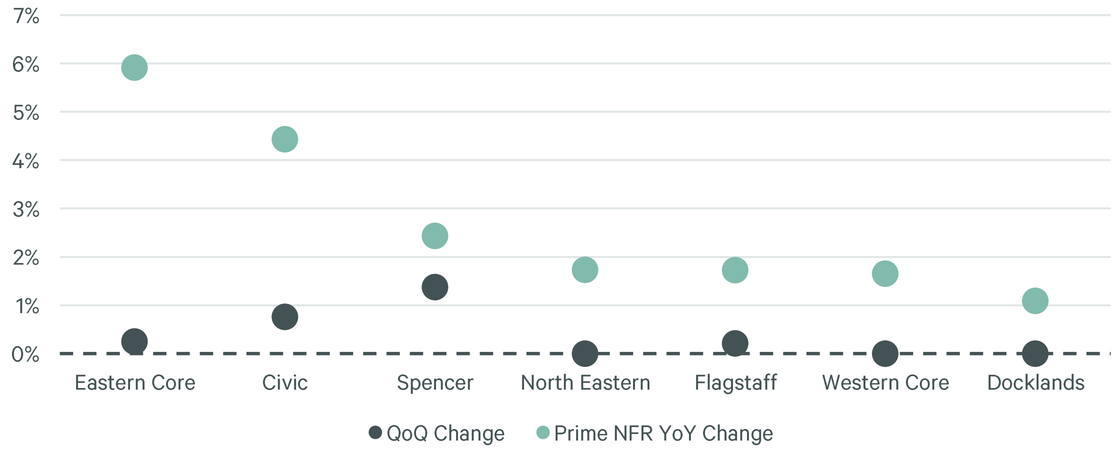
Source: RBA, CBRE Research

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



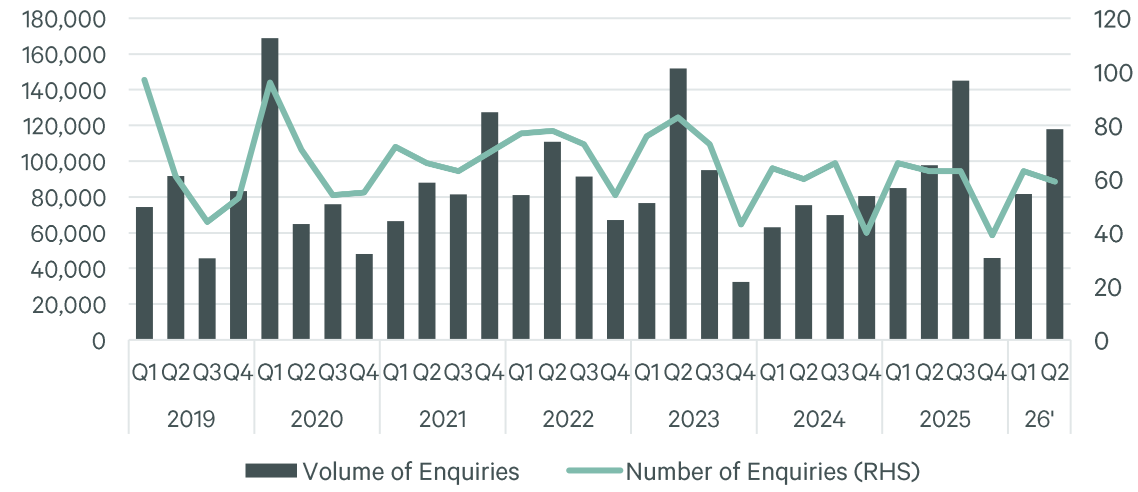
Source: PCA, CBRE Research

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



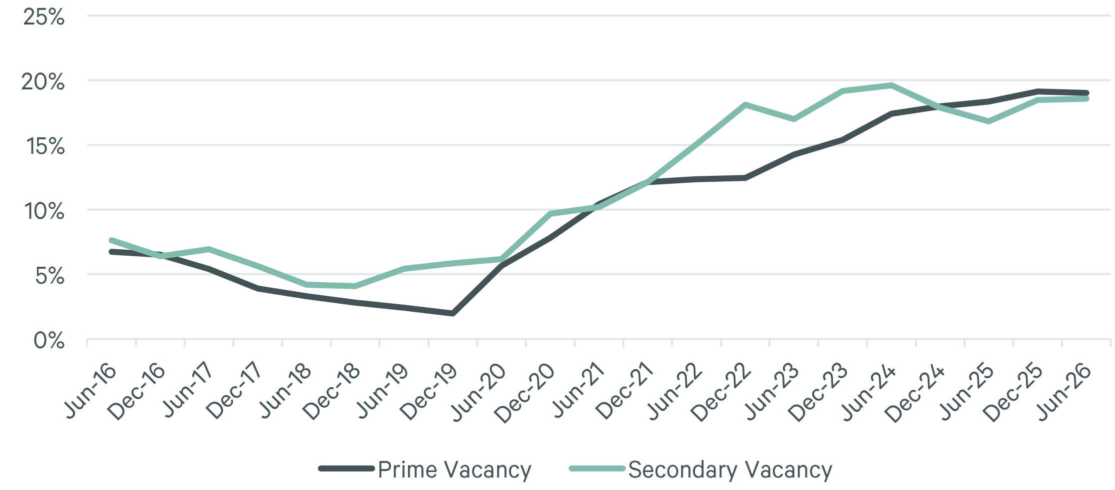
Source: CBRE Research

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