

FIGURES | MELBOURNE FRINGE & SUBURBAN OFFICE | Q1 2026

Supply pipeline to experience further delays as rising energy prices impact economic rents

▶ 4.6%

Victorian Unemployment Rate (December 2025)

▼ 18.2%

City Fringe Vacancy Rate (-10bps y-o-y)

▲ 14.9%

Prime City Fringe NER Growth y-o-y

▲ +25 bps

Prime St Kilda Road Yield Change q-o-q

Note: Arrows indicate change from previous quarter / year.

Key Points

- Leasing demand was mixed over H2 2025 with Southbank & St Kilda Road recording 6-month absorption of + 7,185sqm and -30,398sqm respectively.
- The office development pipeline remains empty for Southbank and St Kilda Road. Across metro precincts, we expect rising energy prices will flow on to raw material costs and by extension, office economic rents. We expect very few major completions in 2028.
- CBRE Research metro vacancy recorded mixed movement over the last 12-months. Our view is that vacancy across the metro is recalibrating in response to the recent levy changes and current supply outlook.
- Face rents across the metro market continued to normalise in Q1 2026, with modest growth observed across the majority of precincts. Incentives faced renewed upward pressure this quarter, as global uncertainty increases pressure to secure tenants.
- Investment activity in Melbourne’s Fringe and suburban precincts experienced another strong quarter over Q1 2026 with just over \$434m in fringe and suburban assets transacting. Yields have held stable for the fourth consecutive quarter across all precincts except for St Kilda Road. We expect yields to increase over 2026 in response to recent interest rate increases

FIGURE 1: Summary of Prime Market Fundamentals

St Kilda Road	Q1 2026	Q4 2025	Q1 2025	Southbank	Q1 2026	Q4 2025	Q1 2025
Vacancy	-	14.8%	-	Vacancy	-	32.9%	-
NFR	\$481/sqm	\$481/sqm	\$467/sqm	NFR	\$668/sqm	\$664/sqm	\$662/sqm
Incentives	53.5%	50.0%	49.8%	Incentives	46.7%	46.7%	47.1%
NER	\$224/sqm	\$241/sqm	\$234/sqm	NER	\$356/sqm	\$354/sqm	\$350/sqm
Yield	9.25%	9.00%	8.70%	Yield	7.94%	7.94%	7.94%

Source: CBRE Research, ABS

Office Demand

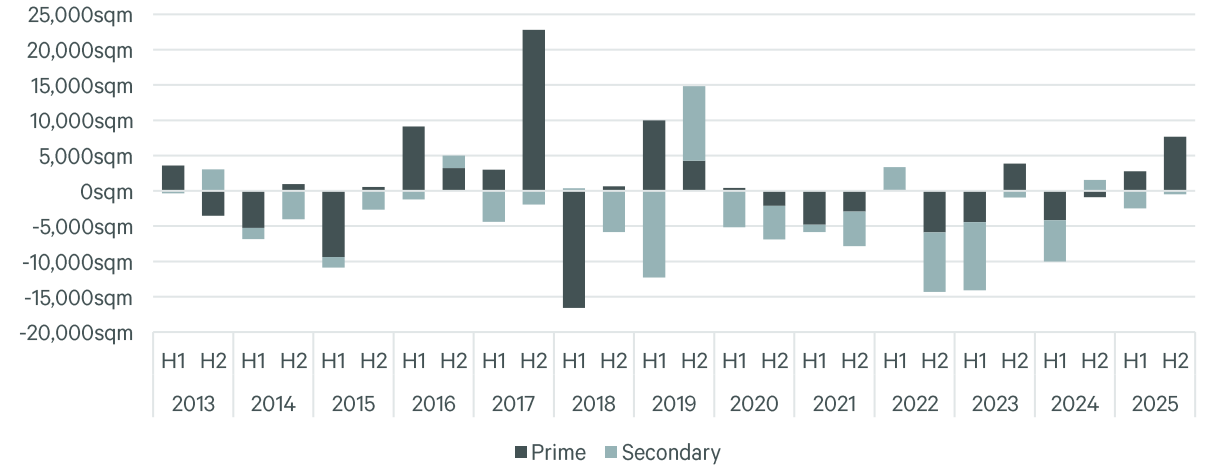
Mixed signals remain across Melbourne’s metro market.

Bifurcation continues to widen across Melbourne’s fringe office precincts. Over the past six months, Southbank recorded its strongest half-year since 2019, with +7,185 sqm of net absorption. Prime grade net absorption totalled +7,664 sqm, partially offset by -479 sqm in the secondary grade. By contrast, St Kilda Road posted another weak half, with -30,398 sqm of net absorption; both prime and secondary grades recorded declines of a similar magnitude.

Overall, H2 2025 outcomes represent a shift from prior expectations. St Kilda Road had been expected to regain momentum following the completion of Anzac Station, one of the precinct’s most significant transport investments in recent years. In our view, Anzac Station remains a compelling catalyst for the broader precinct; however, its benefits are most likely to accrue to existing assets that have recently invested in ground-floor activation, amenity and contemporary fit-outs. For tenants considering the broader St Kilda Road market, other precincts, most notably Docklands, remain a compelling alternative, particularly given that average prime effective rents in St Kilda Road are approximately 30% higher than in Docklands. With Docklands recording +33,723 sqm of net absorption in H2 2025, we believe this preference is already playing out.

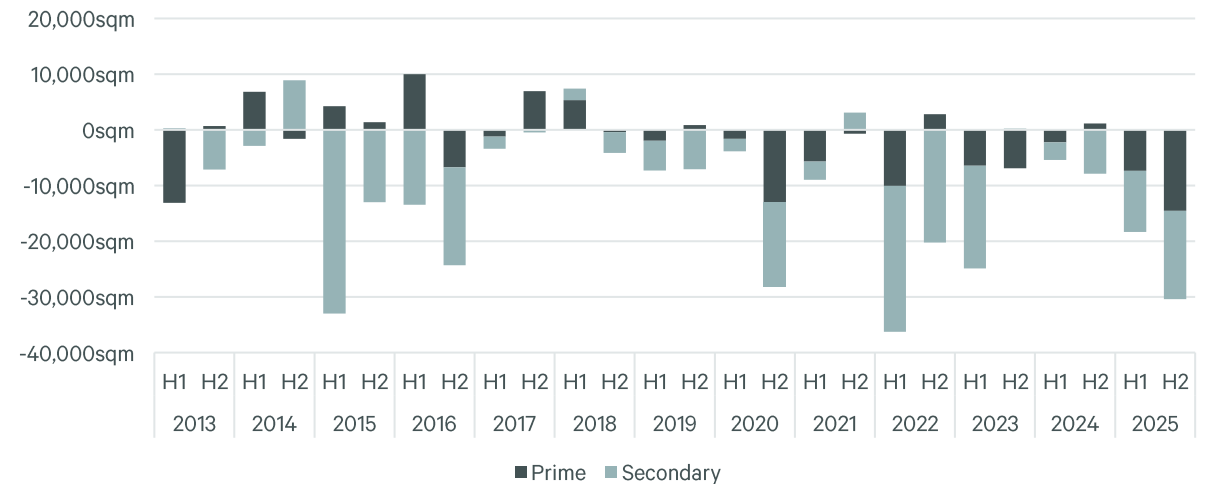
In Southbank, despite no major changes to supply or infrastructure, the H2 2025 result materially exceeded expectations. Over recent years, many landlords in the precinct have invested in upgrades to compete for a robust CBD tenant pool. We believe the effects of these investments are now materialising, with +10,417 sqm of net absorption over the past 12 months indicative of this trend.

FIGURE 2: Southbank 6-month Net Absorption



Source: PCA, CBRE Research

FIGURE 3: St Kilda Road 6-month Net Absorption



Source: PCA, CBRE Research

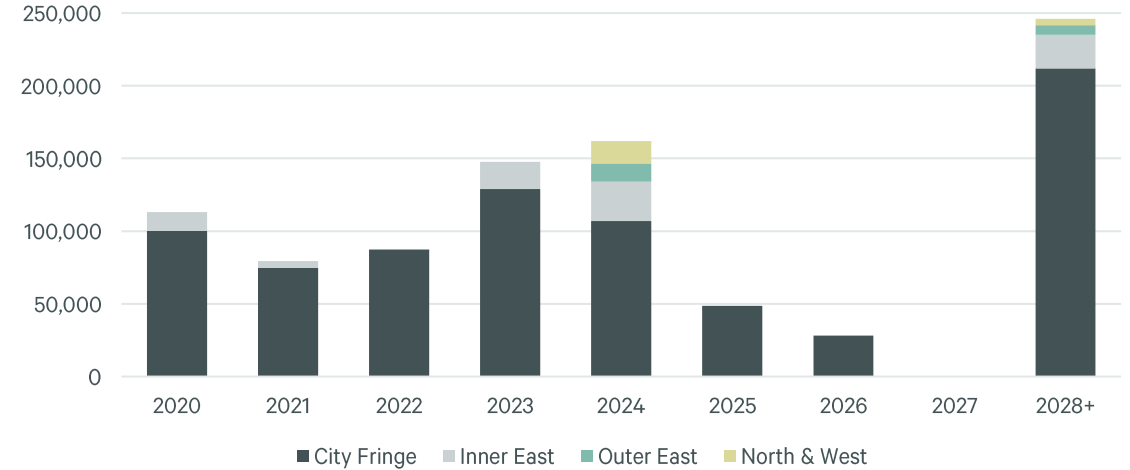
Supply

Rising energy prices likely to further delay projects not already under construction.

Over Q1 2026 we have made no material changes to our supply forecasts, with c.30,000sqm of completions expected over the remainder of the year, followed by at least 12 months of no activity. In our view, the impact of rising energy prices will flow through to construction costs and increase feasibility pressures across the country. Whilst we currently expect select projects to complete from 2028 and beyond, we note that the commencement window for a 2028 completion is closing and is likely to be further impeded by rising interest rates and debt funding pressures.

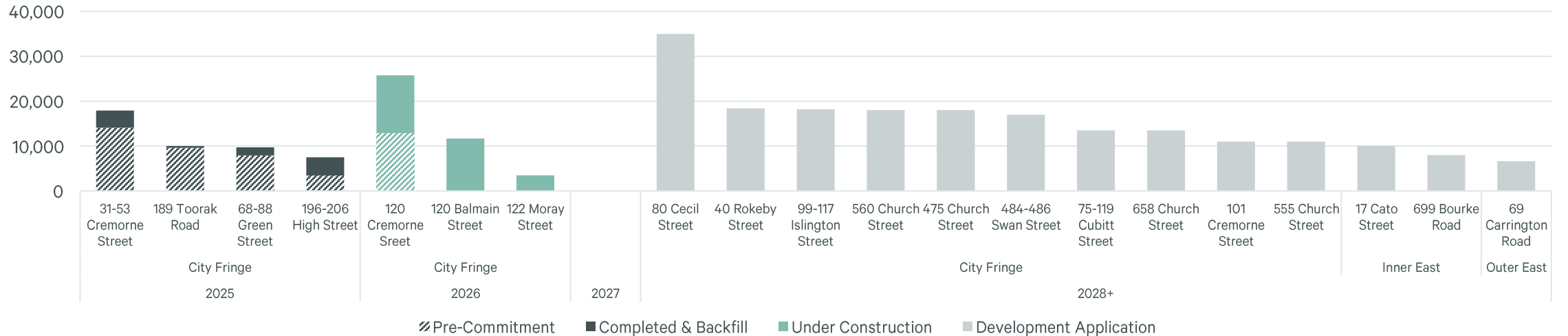
We currently estimate City Fringe economic rents are at c.\$1,000 per sqm, representing 70% difference to current market rents. This gap is unlikely to close soon and will put sustained downward pressure on Melbourne’s metro supply pipeline. At this stage, it’s likely we expect to defer our supply forecasts to 2029+ for majority of projects currently in the Development Application stage.

FIGURE 4: Historical and Future Supply by Year and Precinct



Source: CBRE Research

FIGURE 5: Upcoming Melbourne Metro Developments by Development Stage



Source: CBRE Research

Note: Select minor projects were excluded from extended pipeline.

Melbourne Metro Vacancy

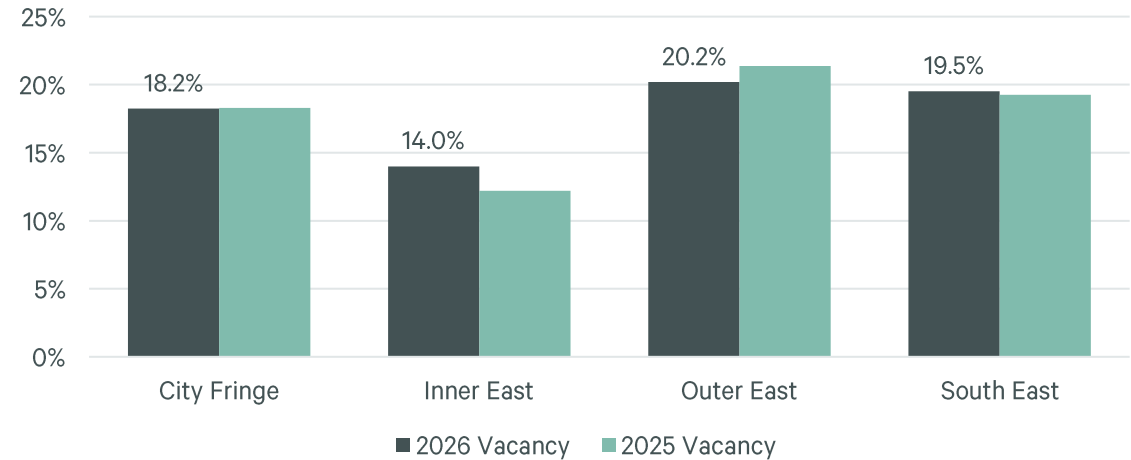
Metro vacancy continues to recalibrate across precincts

Across the last 12-months vacancy movements were mixed across precincts. The City Fringe and Outer East recorded modest declines of 10bps and 120bps, respectively. This is offset by 180bps and 20bps increases across the Inner East and South East, respectively. Whilst this represents a mixed result over the last year, we note that vacancy remains below our 2024 estimates for all precincts except the City Fringe.

We attribute this recalibration to two distinct factors: the expansion of the car park levy across select parts of the fringe, as well as the final wave of major supply reaching completion over the last 18-months. Both factors have shifted tenant sentiment both between and within precincts. As the market has adjusted to these two factors, vacancy has shifted materially in both directions. Our estimates on gross absorption (Figure 8) provide some evidence as to this, particularly in the City Fringe, where the impact of both factors is most directly felt.

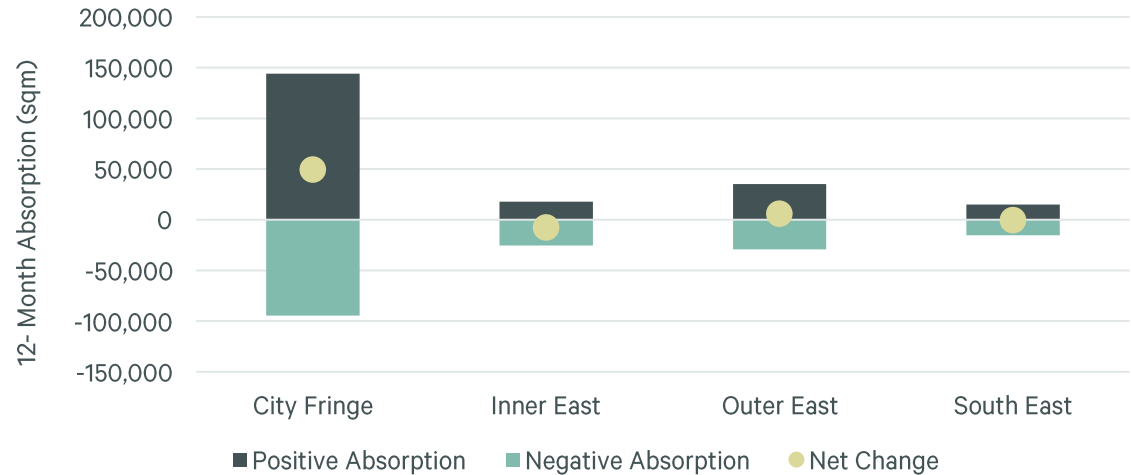
Looking ahead, two conflicting variables are set to influence metro vacancy rates across Melbourne. The ongoing economic and geopolitical uncertainty could support a rise in more tenant favourable deals, however, the lack of supply expected beyond 2026 may serve as a counterbalance. With this in mind, we anticipate vacancy rates across the metro will remain broadly stable in the short term, consistent with results over the last 12-months.

FIGURE 6: Melbourne Office Vacancy by Metro Precinct



Source: CBRE Research

FIGURE 7: Melbourne Office 12-month Absorption by Metro Precinct



Source: CBRE Research

Southbank & St Kilda Road Vacancy

Vacancy Divergence Deepens Across Southbank and St Kilda Road

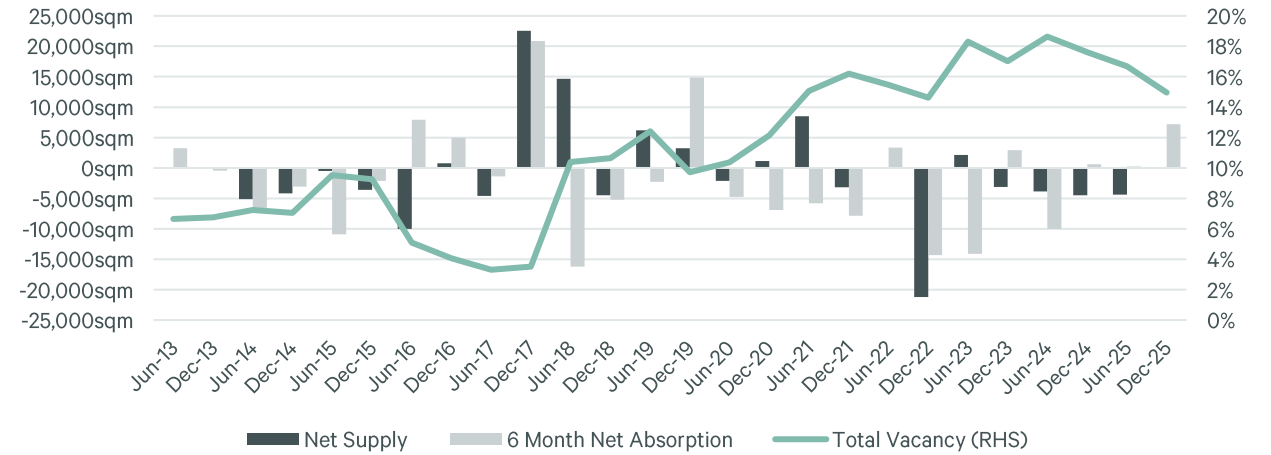
Vacancy in Southbank and St Kilda Road continues to diverge, extending a trend evident over the past two years. Over the last six months, Southbank’s vacancy rate declined by 173 bps, while St Kilda Road’s vacancy increased by 246 bps. For Southbank, this is the largest half-year movement since 2019 and was driven purely by demand, underscoring a renewed strengthening in tenant take-up within the precinct.

On St Kilda Road, the rise in vacancy was partially tempered by moderate withdrawals, with net supply contracting by 22,446 sqm over the period. Over the past 12 months, total stock in the precinct has declined by approximately 8%. We expect ongoing, targeted stock withdrawals to remain a key tailwind for the precinct, placing downward pressure on vacancy alongside continued tenant consolidation over the coming years.

By grade, performance remains bifurcated. Prime continued to outperform in Southbank, with prime vacancy falling by 256 bps, whereas prime materially underperformed on St Kilda Road, where prime vacancy increased by 552 bps. We maintain the view that prime stock will lead performance across the broader metropolitan market; however, the underlying picture remains nuanced, with meaningful variability at the micro-location and asset level.

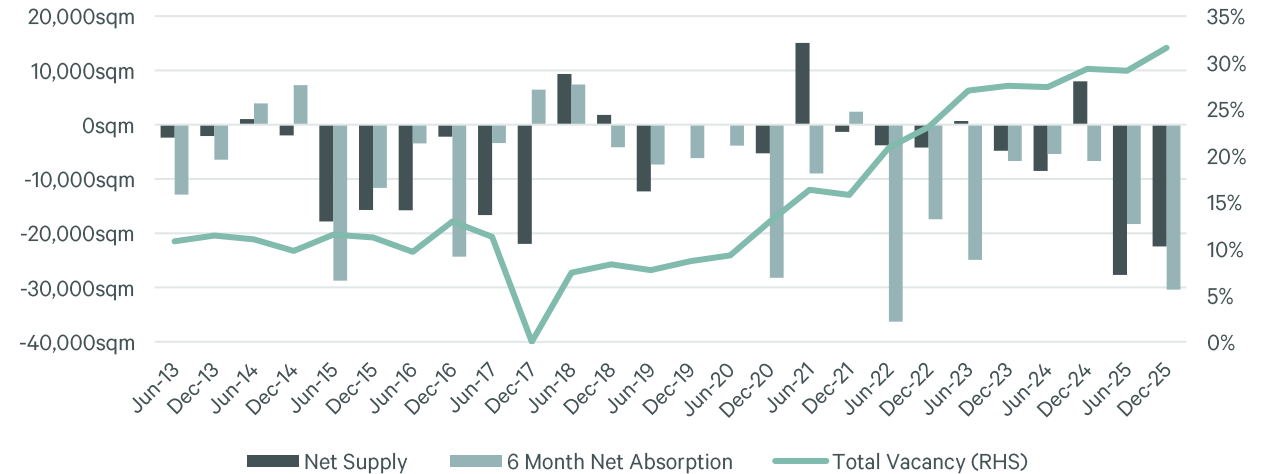
Source: CBRE Research

FIGURE 8: Southbank Office Market Balance



Source: PCA, CBRE Research

FIGURE 9: St Kilda Road Office Market Balance



Source: PCA, CBRE Research

Rental Performance

Modest face rent growth recorded across select precincts

Prime face rents across Melbourne’s fringe and suburban office markets were mostly stable in Q1 2026. Material quarterly growth was recorded in the Inner East and North & West of 2.3% and 1.1%, respectively. All other precincts recorded flat or limited (<1.0%) quarterly growth.

We previously highlighted a sense of constructive optimism in Q4 2025, supported by a slowing pace of tenant centralisation into the CBD. Whilst this trend remains true, global uncertainty has complicated the outlook. The thesis that an emerging supply shortfall will serve as a tailwind for metro growth still holds and is likely to serve as a floor that limits downside risk over this period.

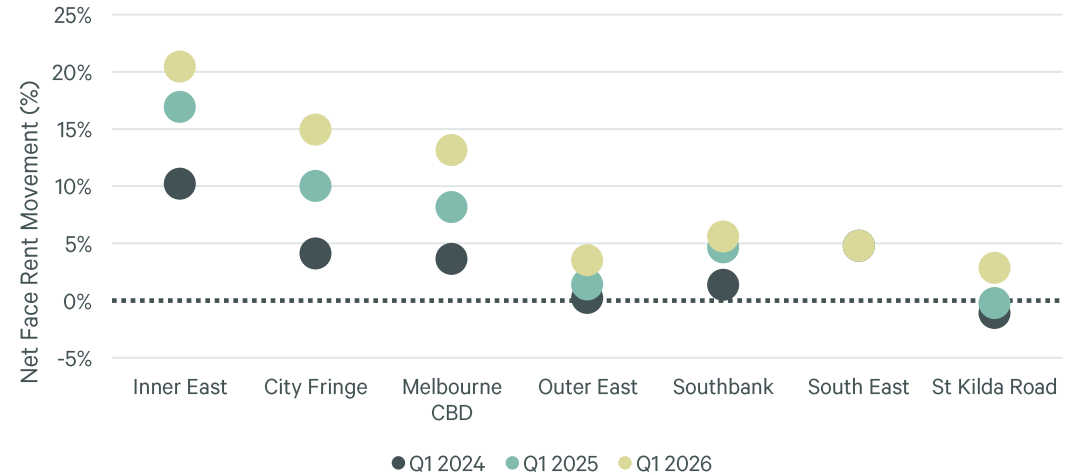
Like the CBD, we estimate fringe economic rents are c.70% higher than current market rents. This gap is likely to widen with accelerating construction cost escalations anticipated over the short term. The primary lever to close this gap will be face rents, and high-single digit growth will be required over multiple consecutive years to achieve feasibility. We expect this will be the primary factor supporting growth over the short term, despite uncertainty.

Incentives face upward pressure for the first time in several quarters

Over Q1 2026, incentives increased across four of Melbourne’s seven metro precincts, with the most significant increases recorded in St Kilda Road and Inner East at 350 bps and 217 bps respectively. This follows a period of incentive compression recorded across most precincts, in what represents a dramatic shift in just one quarter, and directly contradicts our prior view that incentives had peaked.

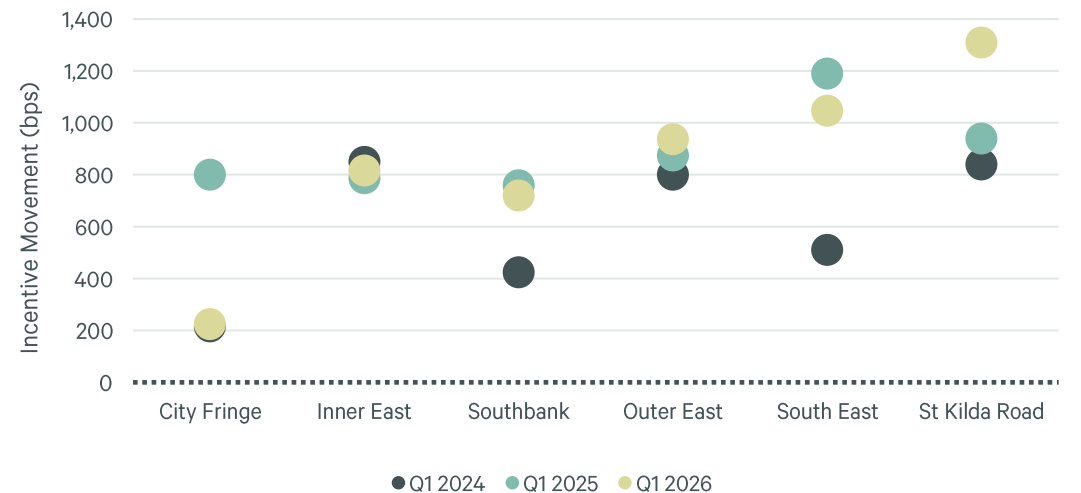
Global uncertainty is the primary driver, as landlords push to secure tenants now before conditions potentially deteriorate further. We expect further incentive expansion to occur later in the year, albeit at a reduced level relative to prior cycles.

FIGURE 10: Prime Net Face Rent Growth from Base Period (Q1 2023) by Precinct.



Source: CBRE Research

FIGURE 11: Prime Incentive Movement (bps) from Base Period (Q1 2023) by Precinct



Source: CBRE Research

Investment Market

Melbourne’s Metro Records Strongest Q1 for Investment Activity Since 2020

Sales activity in Q1 2026 across Melbourne’s fringe and suburban office markets recorded its strongest result in over four years. With approximately \$434m transacting over the quarter, this represents a 30% increase over the \$333m recorded in Q4 2025. Two major assets transacted over the quarter, notably St Germain and 54 Wellington Street, which combined totalled \$292m.

This activity is in stark contrast to what occurred across the CBD, wherein no major transactions took place in Q1 2026. Whilst this divergence is undoubtedly a result of numerous factors, we expect activity in Melbourne’s metro to follow a similar subdued trajectory over the next few months. The combination of rising interest rates and geopolitical uncertainty are key reasons driving this view; however, we note that the smaller asset size relative to the CBD will support activity.

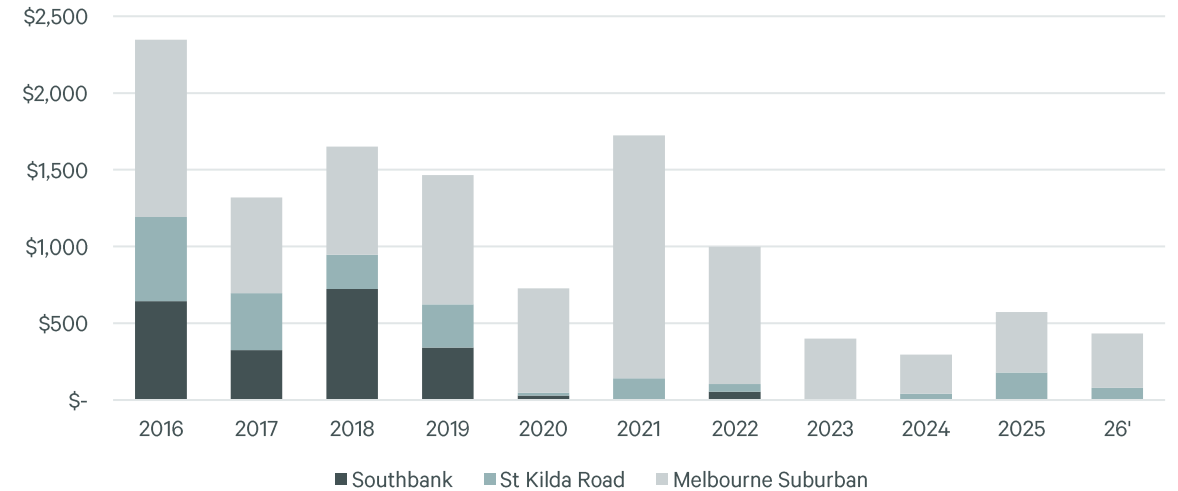
Yields stable across all precincts except St Kilda Road

Yields across majority of Melbourne’s fringe and suburban office markets have stabilised for the fourth consecutive quarter, following a period of sustained expansion throughout the current cycle. The exception is St Kilda Road, which has experienced a further 25bps increase in average prime yields.

Our prior view that yields have now peaked across the market has been superseded, largely due to rising interest rates and bond yields. With four rate hikes over this cycle currently expected by the market, we expect at least 25bps of yield expansion over 2026 as valuations adjust.

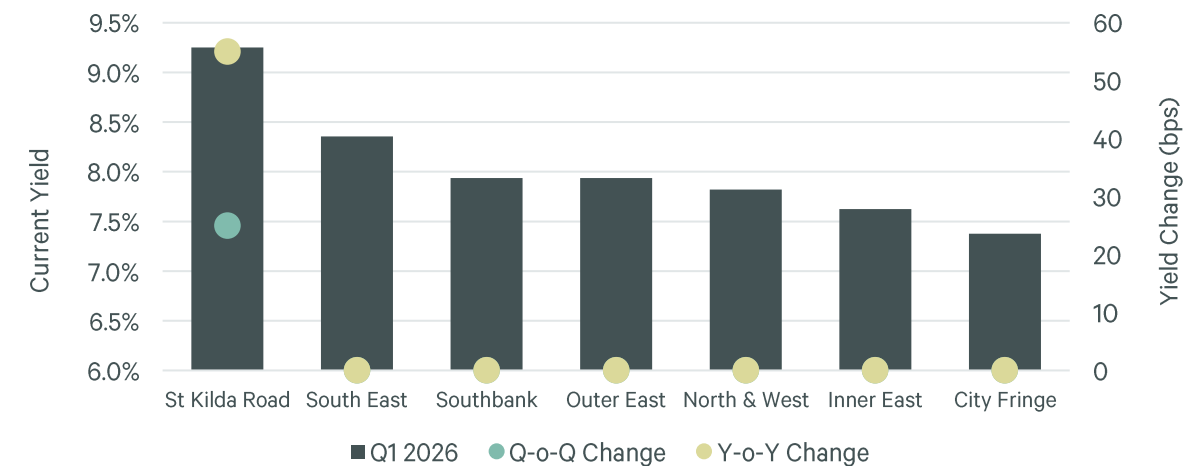
Despite this, we still believe that Investor preference remains firmly focused on high-quality properties in strategic fringe and suburban locations. This view has been reinforced by the two major transactions that defined this quarter, both of which were new buildings in core locations.

FIGURE 12: Melbourne Fringe & Suburban Office Sales (greater than AUD 10 million)



Source: CBRE Research, RCA

FIGURE 13: Melbourne Metro Current Yields and Yield Movements by Precinct



Source: CBRE Research

Contacts

Research



Cameron Douglas-Perrine, CFA

Research Manager
Melbourne Office Research
+61 450 801 459

Cameron.DouglasPerrine@cbre.com

Contact

Melbourne

Level 34
8 Exhibition Street
Melbourne, VIC 3000