

FIGURES | MELBOURNE FRINGE & SUBURBAN OFFICE | Q3 2025

Supply shortage likely to emerge as project commencements remain limited

▼ 4.4%

Victorian Unemployment Rate (August 2025)

▲ 18.26%

Prime Southbank Vacancy (+30bps h-o-h)

◀ 10.5%

Prime City Fringe NER Growth y-o-y

▼ 38 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. We currently forecast elevated withdrawals across St Kilda Road over the short term. Majority of suburban supply remains in a DA Approved status with project delays likely.
- 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 normalised face rent growth in Q3 2025. Incentives declined across most metro precincts, as landlords for select high quality assets become more aggressive given current supply dynamics set to emerge.
- Investment activity in Melbourne’s Fringe and Metro markets experienced a moderate uptick in Q3 2025 with just over \$100m in fringe and suburban assets transacting. Yields have held stable for the second consecutive quarter, with expectations that Melbourne’s metro office market has reached peak pricing.

FIGURE 1: Summary of Prime Market Fundamentals

St Kilda Road	Q3 2025	Q2 2025	Q3 2024	Southbank	Q3 2025	Q2 2025	Q3 2024
Vacancy	-	27.34%	-	Vacancy	-	17.34%	-
NFR	\$485/sqm	\$472/sqm	\$462/sqm	NFR	\$664/sqm	\$661/sqm	\$630/sqm
Incentives	50.0%	50.2%	49.8%	Incentives	46.7%	47.1%	45.2%
NER	\$243/sqm	\$235/sqm	\$232/sqm	NER	\$354/sqm	\$350/sqm	\$345/sqm
Yield	8.70%	8.70%	8.50%	Yield	7.94%	7.94%	7.94%

Source: PCA, ABS, CBRE Research

Office Demand

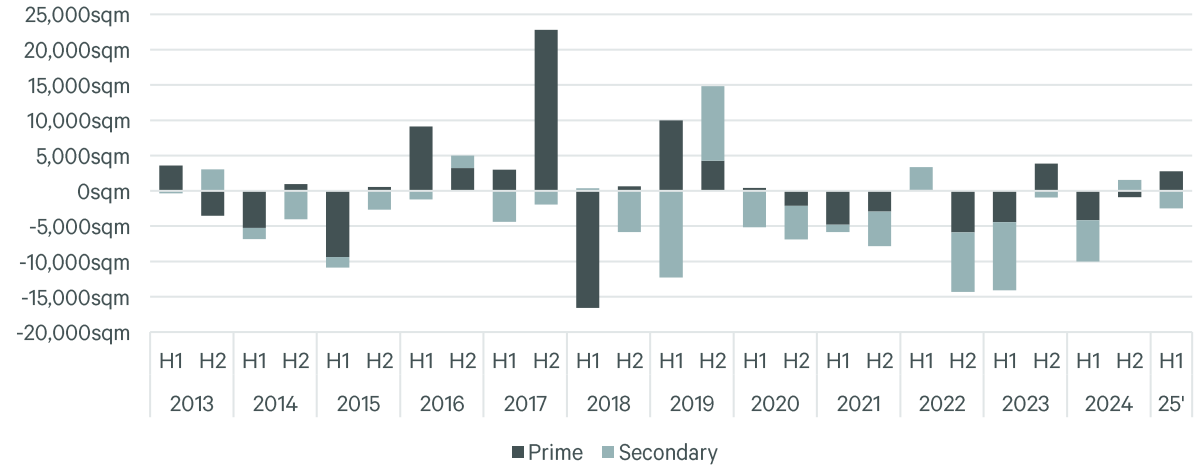
Demand accelerates in select fringe precincts as centralisation pressures ease.

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.

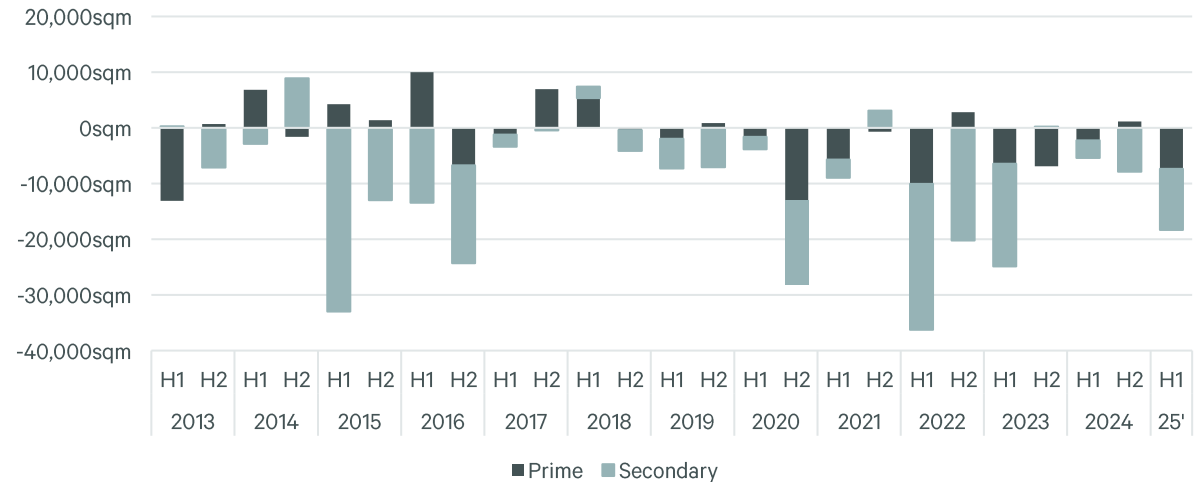
As previously reported, the cannibalisation effect in Melbourne’s office market has had a significant impact on the City Fringe, as a plethora of local occupiers have made moves into select CBD assets with elevated incentives, often at a lower effective rent than their current premises. CBRE Research 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

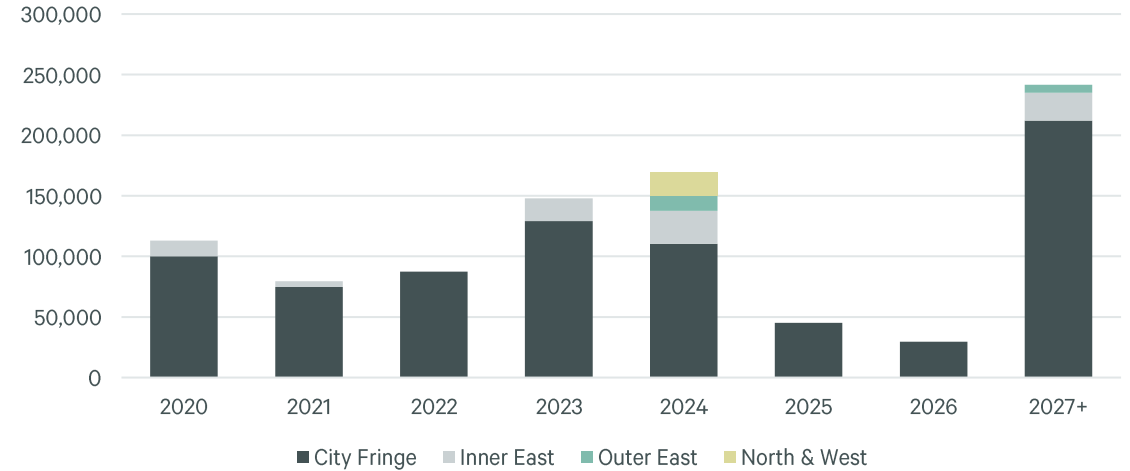
Supply

Multiple supply completions. Projects likely to be further pushed out to 2028+

Melbourne’s fringe and suburban office precincts recorded two major completions in Q3 2025, including 189 Toorak Road and 68-88 Green Street, totaling 19,700sqm. We expect two major completions to occur in Q4 2024, bring the CY2025 for completions at 45,000sqm. Current forecasts indicate approximately 30,000sqm of supply completions in CY2026.

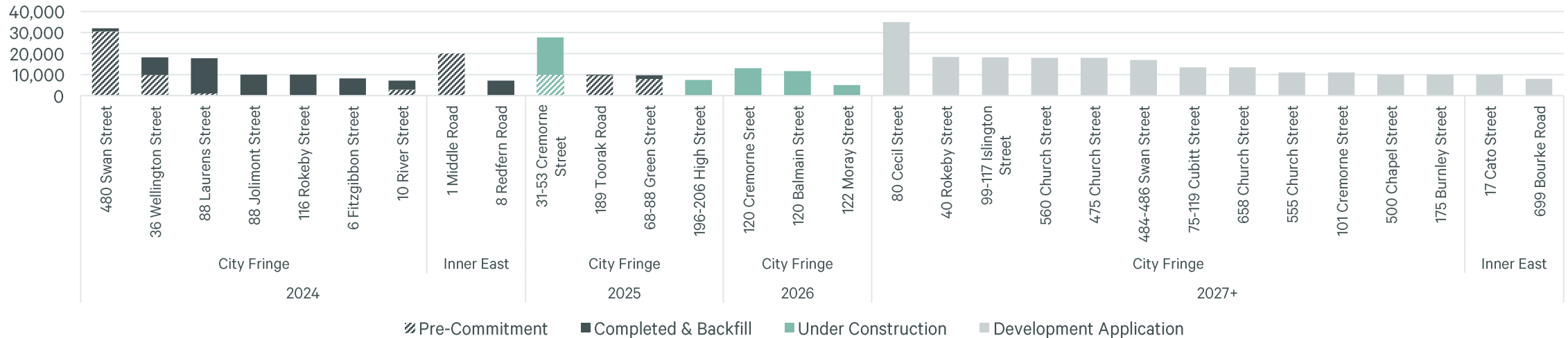
Majority of future supply in Melbourne’s metro remains in the development application (DA) stage, forecasted for 2027 or beyond. Progression from DA to construction continues at a slow pace, and this trend is expected to persist over the medium term, largely due to ongoing feasibility challenges constraining development activity. CBRE Research anticipates 2027 will also be a subdued year for completions, with most DA-stage projects unlikely to commence until 2028 or beyond.

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.

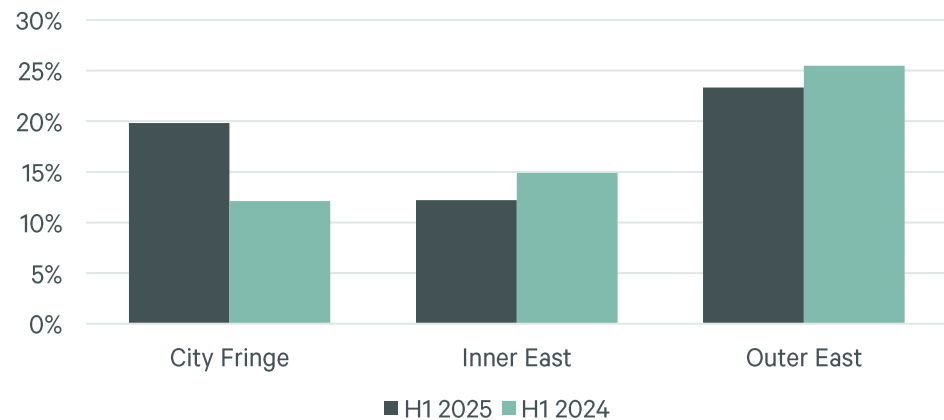
Vacancy

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.

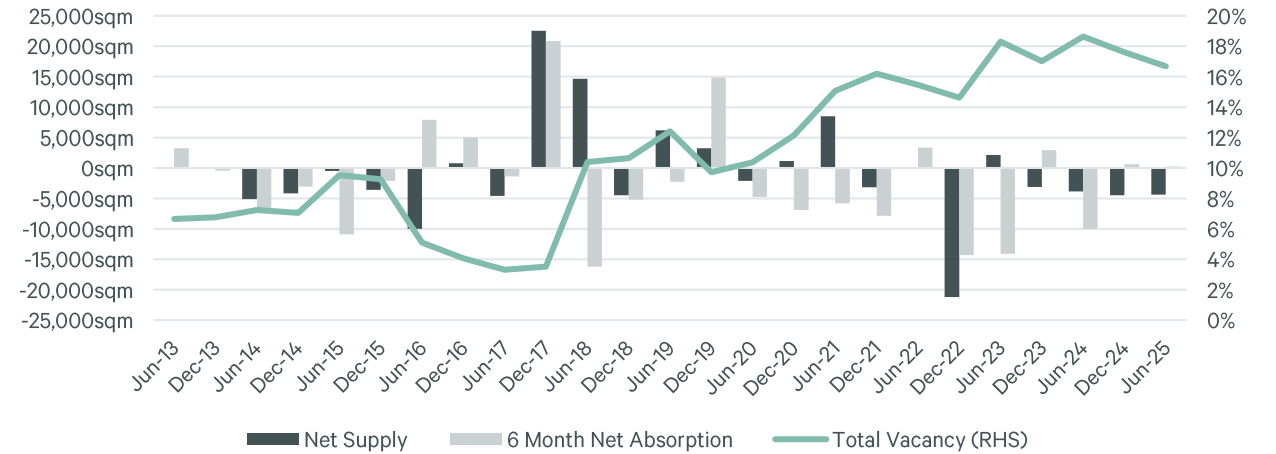
Within Melbourne’s Metro market, vacancy declines were observed in Melbourne’s Inner East & Outer East, offset by a significant rise in vacancy across Melbourne’s City Fringe. A significant amount of office supply has entered the market in the last 12-months across the City Fringe, approximately 40,000sqm 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



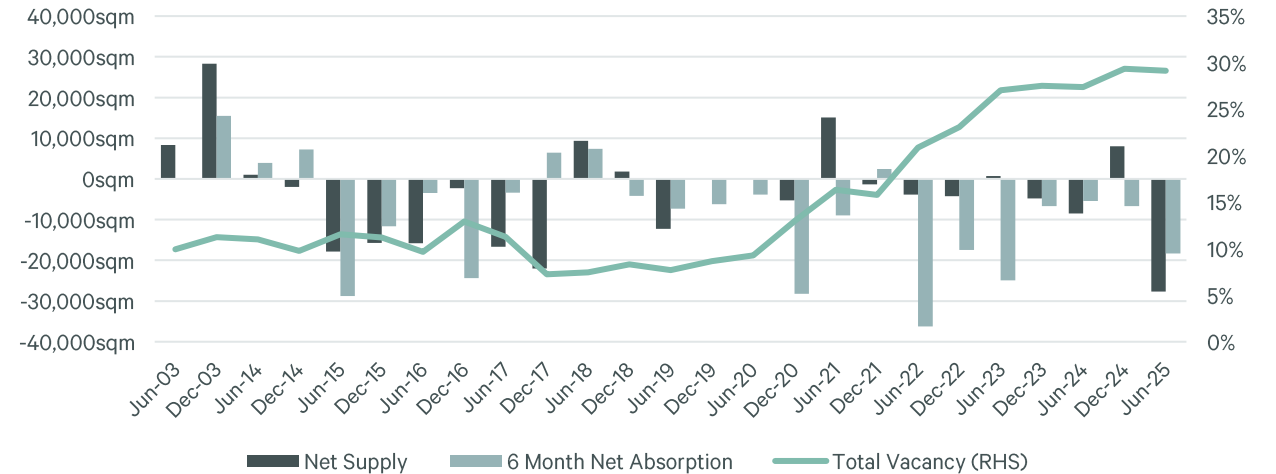
Source: CBRE Research

FIGURE 7: Southbank Office Market Balance



Source: PCA, CBRE Research

FIGURE 8: St Kilda Road Office Market Balance



Source: PCA, CBRE Research

Rental Performance

Face rental growth slows following surge in H1 2025.

Prime face rents across Melbourne’s fringe and suburban office markets recorded mixed growth in Q3 2025. In Melbourne’s suburban precincts, no face rental growth was recorded over the quarter, with year-on-year growth rates still elevated in most precincts. In contrast, prime face rental growth was moderate in Southbank and St Kilda Road, recording 0.5% and 2.9% respectively*.

Sentiment remains strong for Melbourne’s fringe and suburban tenants, aided by the slowing of tenant centralisation movements. Despite no rental growth observed across most of the market, we expect face rental growth to remain moderate over the medium term supported by a supply shortage set to materialize from 2027.

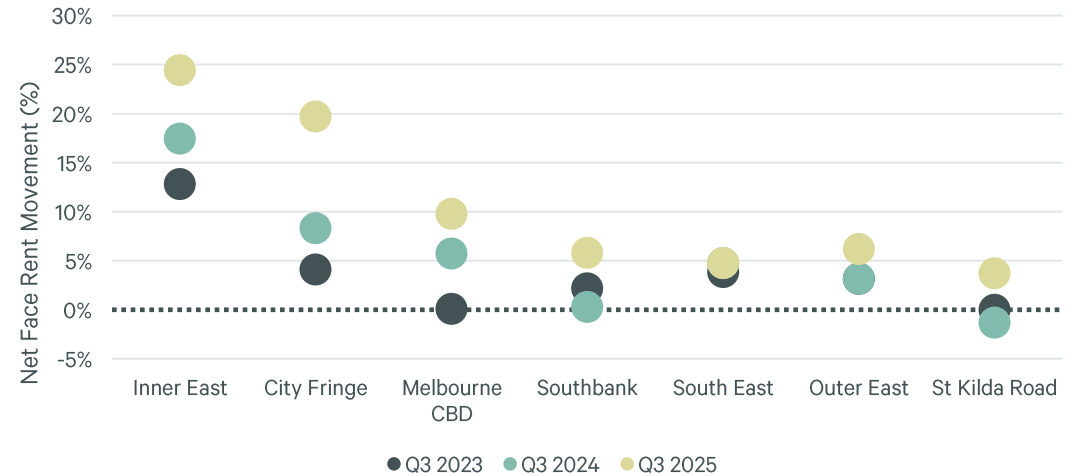
Incentive compression in most precincts as quality office stock outperforms.

Despite little face rental growth recorded, Melbourne’s fringe and suburban precincts recorded an average of -66bps in incentive compression in Q3 2025. The City Fringe recorded the most aggressive compression at -200bps, compared to -40bps and -20bps in Southbank and St Kilda Road respectively. Despite quarterly incentive compression, on a year-on-year basis incentives have still expanded in three of Melbourne’s seven metro precincts.

Notably, we attribute incentive compression to outperformance of a select few assets. Whilst vacancy rates are elevated in select precincts and suburbs, metro office market performance remains bifurcated heading into Q4 2025. Assets that have been able to deliver quality, speculatively fit-outs in core locations continue to outperform with strong leasing activity. We expect this trend to continue throughout 2026, driving bifurcated leasing and rental performance across the metro market.

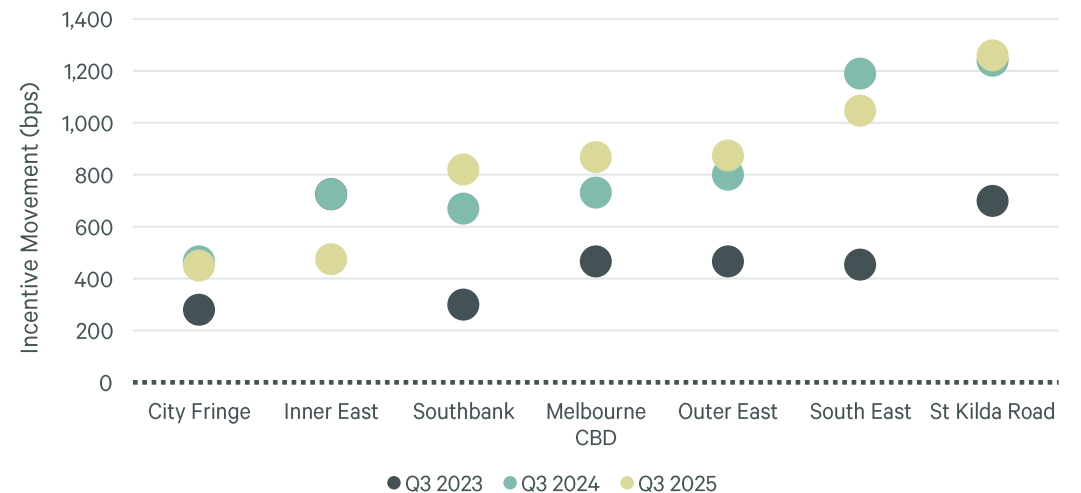
Note: CBRE Research adjusted its basket of St Kilda Road assets which has positively contributed to rental performance over the quarter.

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

Moderate amount of investment activity with levels on track to surpass CY2024

Sales activity across Melbourne’s fringe and suburban office markets saw a moderate uptick in Q3 2025, with total volumes reaching approximately \$100 million for transactions above \$10 million. These levels are moderately lower than Q3 activity levels seen in prior years.

Investor sentiment across Melbourne has remained cautious throughout the first three quarters of 2025, with no major transactions completed. However, we continue to note the existence of several high-profile assets being brought to market across the metro market. 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.

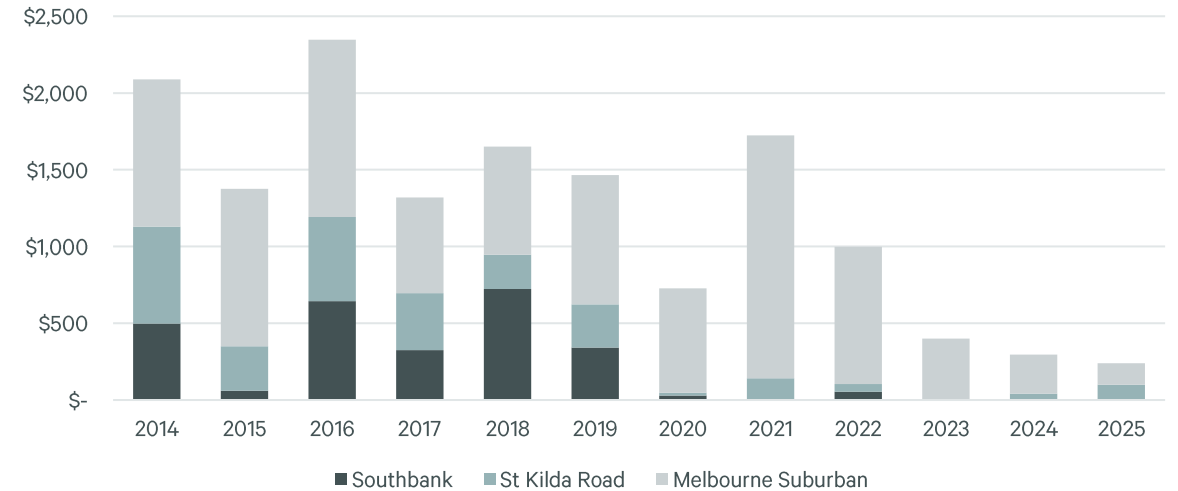
Yields stabilise across all precincts for the second consecutive quarter.

Yields across Melbourne’s fringe and suburban office markets have stabilised for the second consecutive quarter, 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 Q3 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.

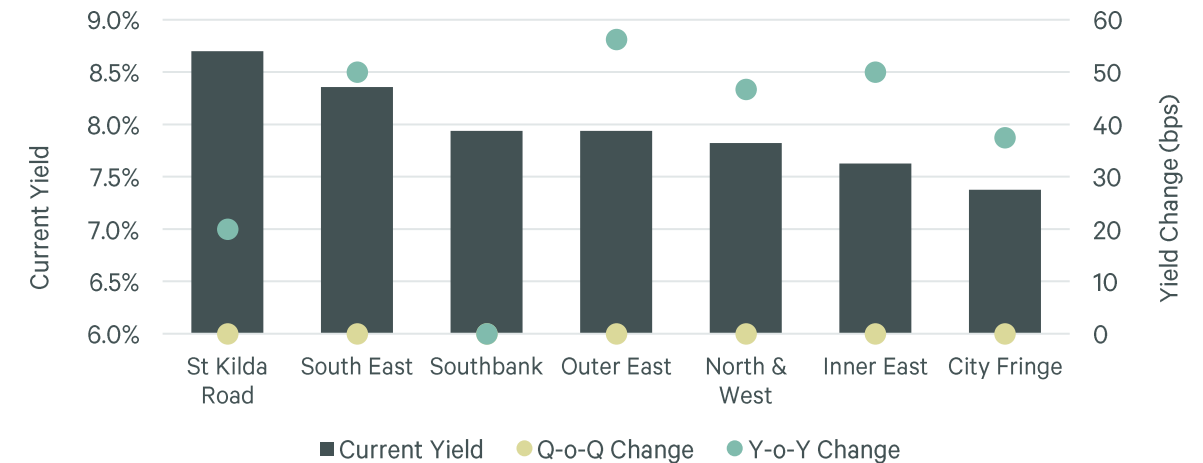
Investor preference remains firmly focused on high-quality properties in strategic fringe and suburban locations. This demand continues to shape yield movements and support local investment activity. The bifurcation between high-performing and underperforming precincts is expected to persist throughout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

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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