Intelligent Investment

Melbourne's Office Market Future

REPORT

CBRE RESEARCH
July 2026

Musical Chairs for the Best. Big Decisions for the Rest.

AI, Backfill & Centralisation are accelerating the obsolescence of select office assets

In June 2024 we published 'Why Melbourne Office', a flagship piece detailing our thesis on Melbourne's recovery.

As of July 2026, many of the fundamentals described two years ago remain, but our latest analysis suggests a delayed, multistage recovery across Melbourne's CBD office market.

On a headline vacancy basis, we expect this recovery to emerge primarily in Melbourne's CBD, with negative absorption to be observed across non-CBD precincts. Our analysis suggests a sustained volume of net centralisation flows has occurred over the last two years, a trend we expect will accelerate amidst a combination of AI and backfill pressures.

This creates a mounting challenge for Melbourne's metro precincts. Whilst upcoming supply in these markets is slowing, we believe an irreversible structural change has occurred, and many assets will slowly become obsolete. Owners across Melbourne will face an increasingly important question – **"Does my asset have a future as an office building or is it the time to consider an alternate use?"**

Many St Kilda Road assets are currently experiencing this, and in our view, the precinct will experience sustained net withdrawals over the next 10 years, equating to 20% of current office supply.

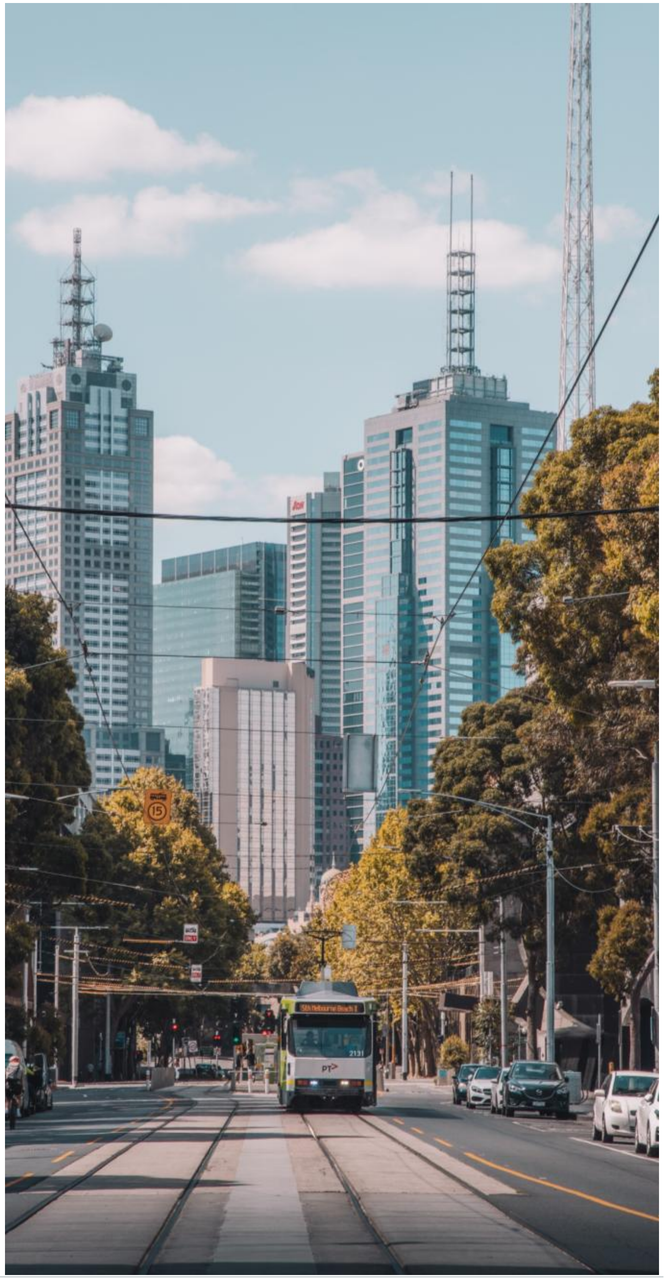
We see a similar trend of net withdrawals beginning to emerge across other non-CBD precincts across Melbourne, although at a smaller scale.

The minimum standard for an office asset in Melbourne is rising, and as such, the pool of assets being actively considered by tenants is shrinking. In turn, tenants will begin to rotate between an increasingly smaller subset of the market, whilst assets gradually get removed from consideration, akin to a game of musical chairs.

As AI adoption accelerates, so does the importance of hiring and retaining skilled workers. Prime, central office space in core locations is key to this talent imperative – secondary office is not. **This will only accelerate the obsolescence of select office stock.**

Separately, our investigation into Downtown Toronto's office market has revealed several comparisons between markets. Occupier activity, development activity and rental growth bifurcation all follow similar trajectories to Melbourne, with our market lagging by 18-24 months. Downtown Toronto has seen several green-shoots over the last 2-years, and we expect select key metrics to follow a similar recovery in Melbourne.

There is a unique set of opportunities and challenges created by this revised thesis for landlords, investors and occupiers alike, as Melbourne's office market undergoes another major structural shift due to the combination of AI, Backfill & Centralisation.



Melbourne's office market recovery has been lagging other states since 2023.

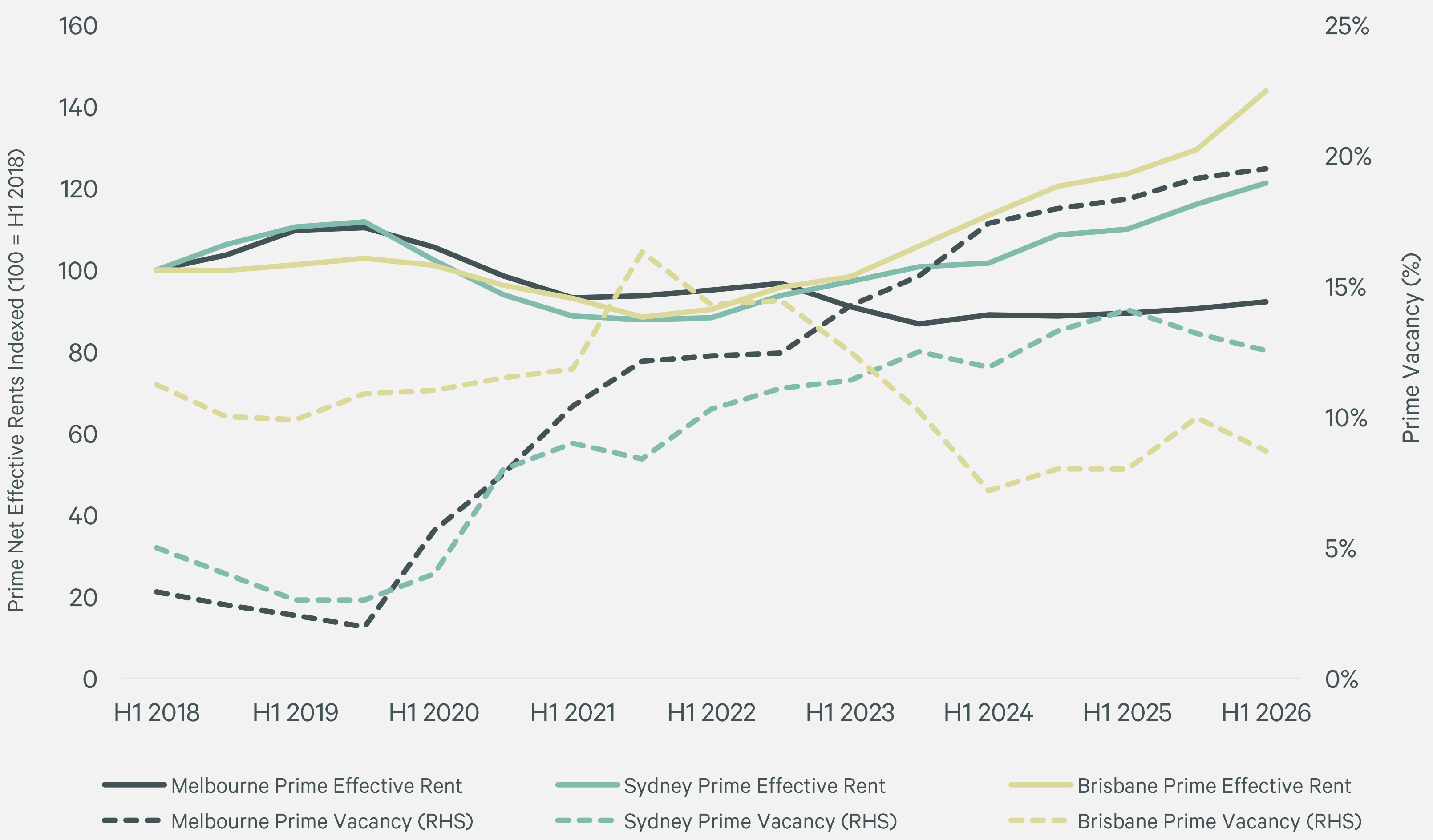
To understand Melbourne's office market future, it's important to first remember where we are today. Up until 2023, all three major eastern seaboard markets moved on a similar trajectory, facing the same structural issues across the same period. Since then, they have split. Sydney and Brisbane have started to recover, while Melbourne's recovery has stalled.

There are several structural reasons for this divergence. Return-to-work rates continued to lag other major markets. Occupiers aggressively right-sized their office footprints, partly a correction to heavy expansion before the pandemic. And supply in Melbourne stayed elevated relative to other markets, with limited pre-commitment across most developments.

Together these forces created a "perfect storm", lifting Melbourne's prime vacancy rate from ~2% in 2019 to more than 19% in 2026. Most of these factors, we believe, will have little bearing on the market from here. What remains is the legacy they left behind; ~840,000sqm of vacant space that did not exist seven years ago, an overhang that cannot be ignored.

That overhang is central to our thesis on the future of Melbourne's office market, which we set out through the rest of this report.

FIGURE 1: Office Prime Effective Rent and Vacancy Comparison by Market



Source: CBRE Research, PCA

Note: H1 2026 vacancy numbers are preliminary based on CBRE Research forecasts and are not meant to be indicative of PCA vacancy rates for the same period.

Tenant requirements to rise at an accelerated rate, outpacing availability of assets.

We believe the following two statements are true:

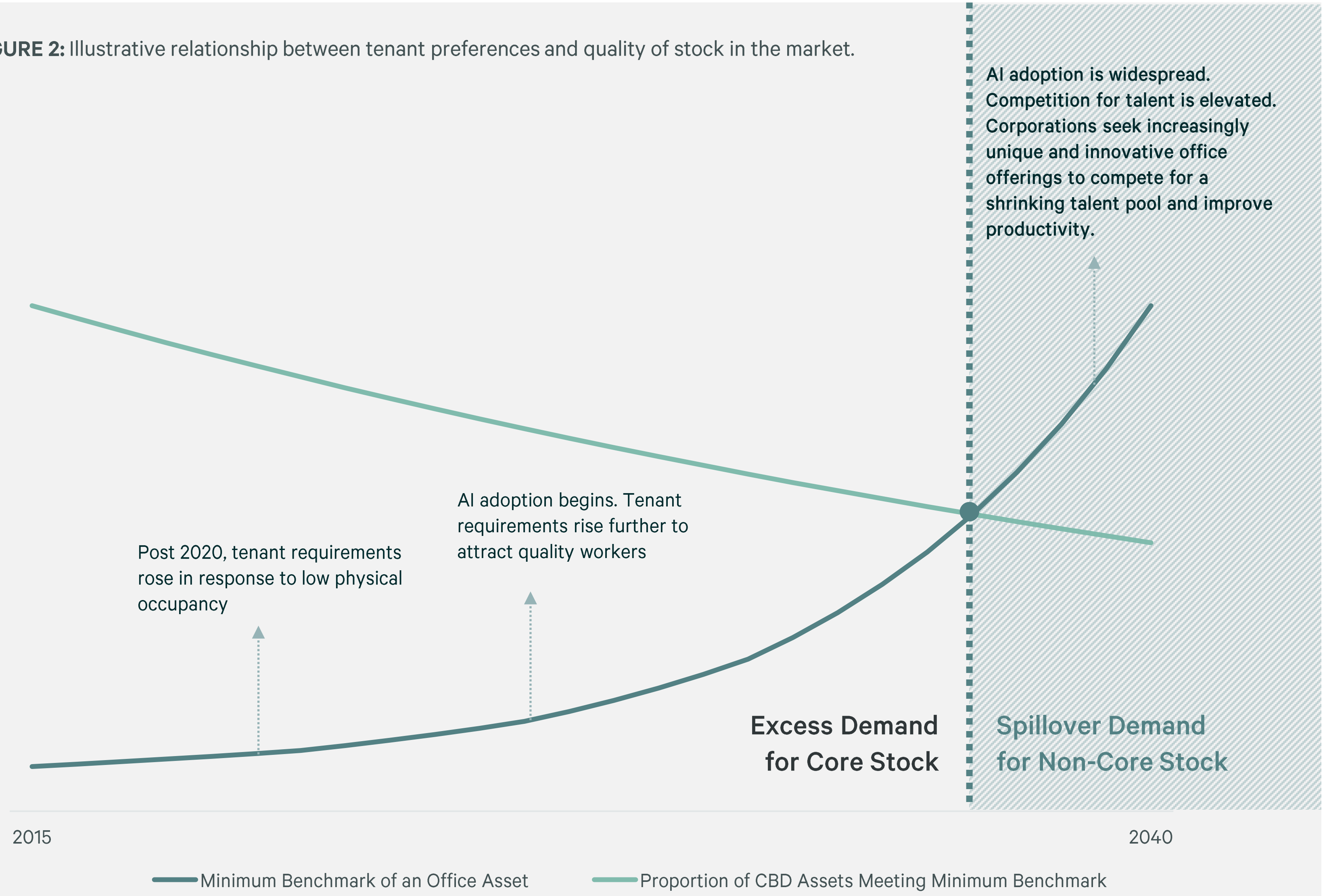
1. **AI adoption will accelerate the need to attract and retain quality talent.**
2. **Firms will seek to leverage unique and innovative workspace offerings to attract and retain the best talent in each market.**

These two factors combined are likely to lead to a ‘minimum benchmark’ for an office asset that will rise at an increasingly accelerated rate.

Whilst most assets in the CBD currently meet these requirements, we believe that capex in existing assets and new supply will not be able to match this rapid shift in tenant preferences.

This creates opportunities for two sides of the market. For those willing to invest in their assets or build new stock, we see tenant demand accelerating over the next 5-10 years. Landlords who are willing to wait may experience some spillover demand into their assets, albeit with heightened competition among other non-core stock.

FIGURE 2: Illustrative relationship between tenant preferences and quality of stock in the market.



Source: CBRE Research.
Note: Relationship is intended to be illustrative by nature. ‘Minimum Benchmark’ is a conceptual description for a range of building factors that once combined determine whether a tenant will choose to relocate or renew in any given asset.

As talent becomes a C-suite priority, the benchmark for office quality is rising.

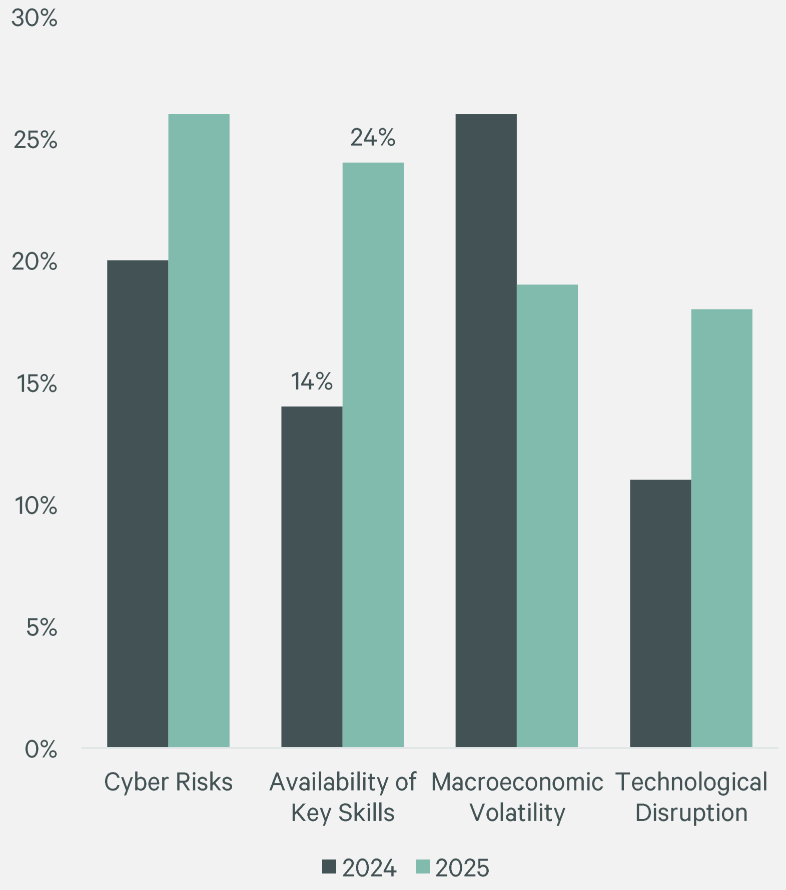
The primary driver is talent. As AI reshapes our thinking on what an office is for, occupiers are placing increased scrutiny over each leasing decision, specifically, whether it will help them attract and retain talent.

Results from PwC's CEO survey and CBRE's occupier survey reinforce this view. Australian CEOs expressed a 10-percentage point increase in the concern for the availability of key skills (which includes attracting and retaining talent). Our 2025 occupier survey results highlight a similar trend, enhancing the employee experience is now the top workplace priority nationally.

Consistent with the relationship described on slide 4, we see this as only the beginning of another major structural shift in tenant preferences.

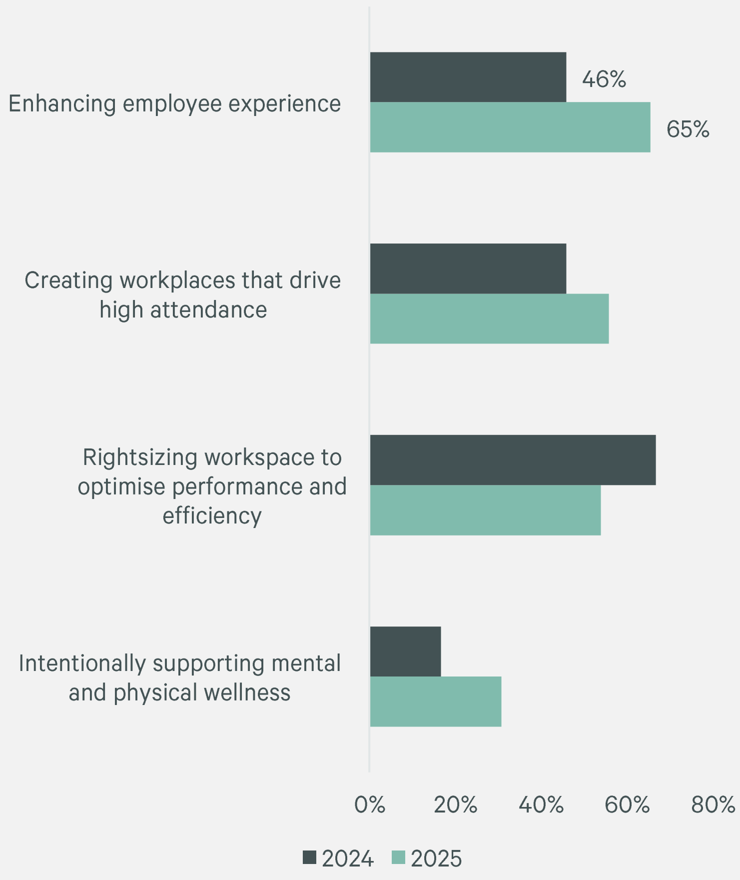
In turn, we expect occupiers will be willing to pay rental premiums to relocate to offices that support key talent. We note however that occupiers may opt to reduce their footprint upon relocation to afford a more premium offering, consistent with activity observed post-pandemic. Our data shows that centralisation inflows have become a tailwind for CBD absorption, offsetting tenant rightsizing.

FIGURE 3: Company exposure to key threats over the next 12 months



Source: PwC 29th Global CEO Survey, Australia Insights. Top four responses were included. Includes only 'Highly / Extremely exposed' responses. Availability of key skills includes attracting and retaining talent.

FIGURE 4: Top Three Workplace Priorities



Source: CBRE Research Occupier Survey, Australia Insights

Government backfill delays supply shortage. No new developments until 2032+

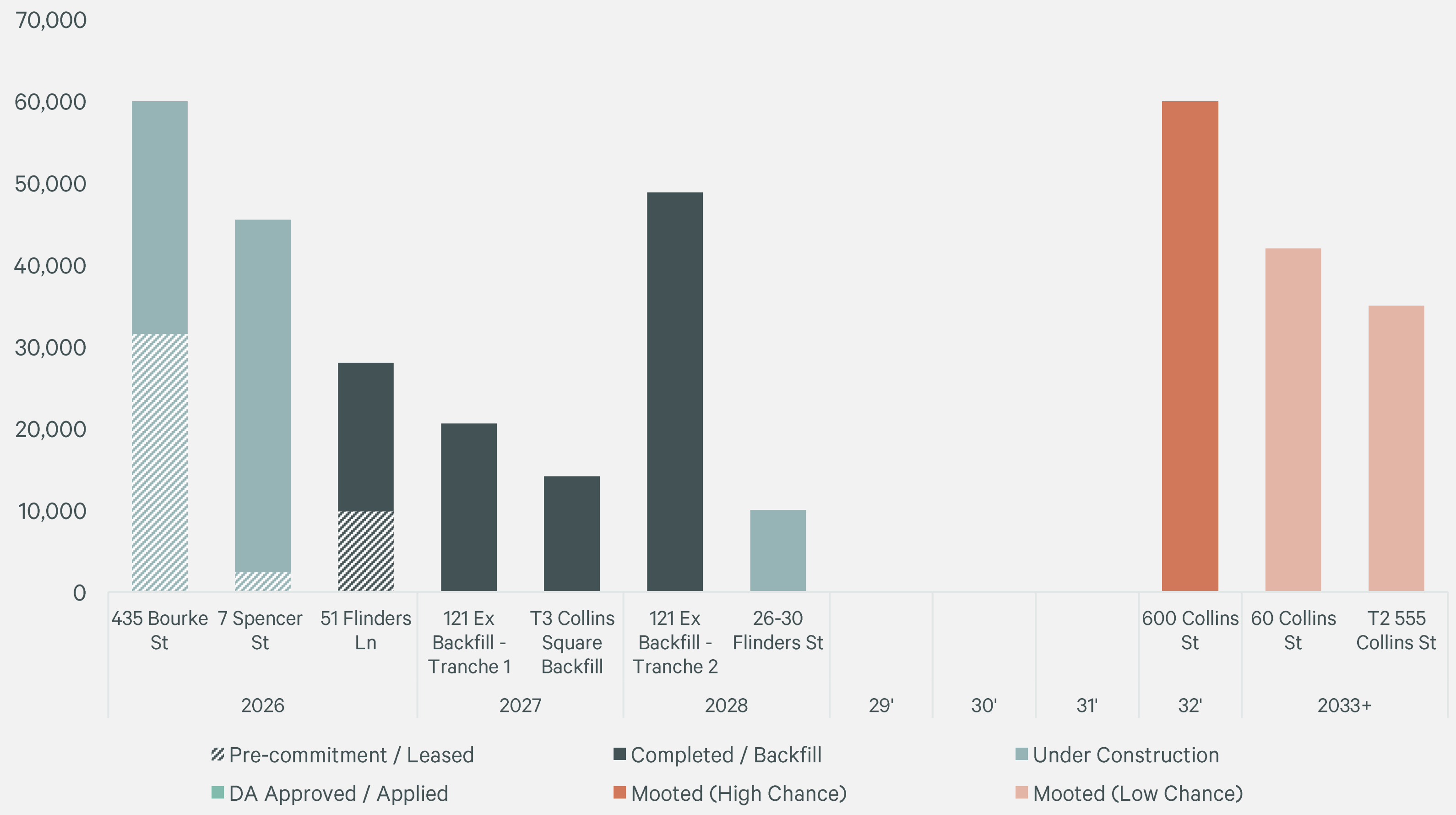
Approximately 100,000sqm of backfill space is due to be vacated over 2027-2028. Unlike traditional backfill space, this is not due to a relocation, but a pure contraction in footprint. This represents a rightsizing of the Victorian government's footprint in Melbourne, akin to what was observed across other major occupiers over the early 2020s.

Upcoming backfill is doubling the amount of vacant supply over the short term. In response, we have revised our supply forecast to reflect no new developments until 2032+, up from the 2031+ we reported on in Q1 2026.

Of the three major mooted projects in the market, we currently view only 600 Collins Street as having a high chance of commencing construction over the next 24 months. The other developments in the pipeline have elevated risk profiles due to the 121 Exhibition Street backfill. Until a substantial amount of backfill has been leased, activity on these sites is likely to be non-existent.

This view has already been proven by the recently announced sales campaign of the 60 Collins Street site. Whilst the future of this site is currently unclear, the combination of existing feasibility pressures and backfill is already putting undue pressure on one of the best development sites in the CBD.

FIGURE 5: Melbourne CBD Office Supply Pipeline



Source: CBRE Research.
Note: Views on mooted projects are subjective and are subject to change at any time. Only select major mooted projects were included on the chart.

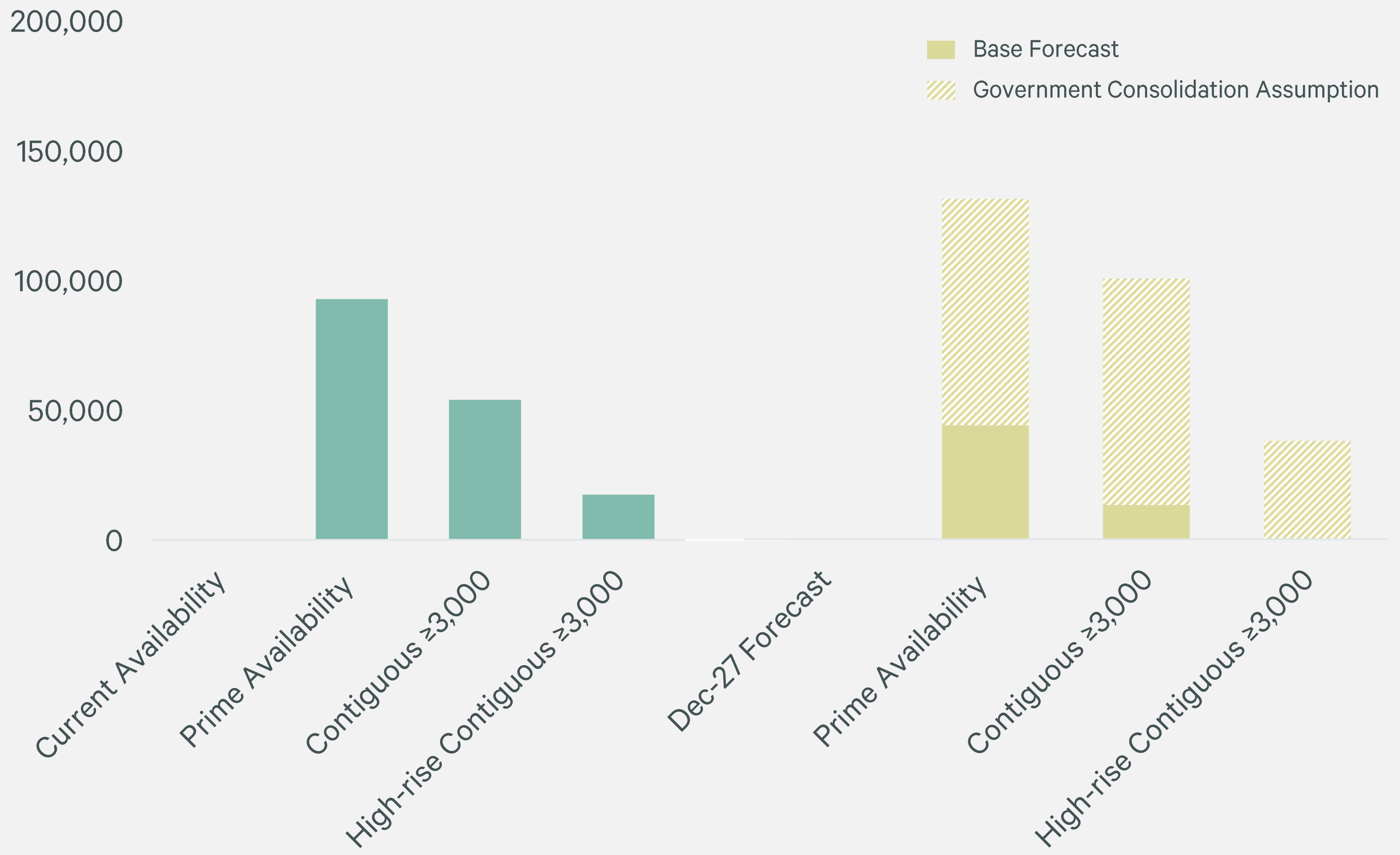
Consolidation to almost triple forecast East-End availability. Impact to be felt elsewhere.

Since H1 2024, CBRE Research has had a core thesis that a lack of contiguous and high-rise space in core precincts will drive elevated rental growth despite elevated headline vacancy[1]. The Eastern Core was central to this thesis – the precinct where we have projected the most upside for landlords, and risks to occupiers.

Consistent with this view, prior to the backfill announcement, a forecast of east-end availability by December 2027 suggested contiguous availability would shrink by 75%, with no high-rise opportunities for a 3,000sqm tenant. When adding the forecast backfill space, Eastern Core prime availability is expected to triple from 7.5% to 20.7%[2].

With availability rising, we see little reason why demand for Eastern Core space will contract. Instead, we expect the opposite. Select larger tenants for the first time are likely to reconsider relocating to the Eastern Core. In turn, our preliminary view is that rental growth in the Eastern Core is likely to remain the highest in Melbourne, with growth rates to feel pressure in other parts of the city at an accelerated rate.

FIGURE 6: Melbourne Eastern Core Office Availability – Current & Forecast



Source: CBRE Research.

[1] Why Melbourne Office – June 2024.
[2] This assumes no leasing activity occurs in the backfill space.

Absorption concentrated in select few sub-precincts. Centralisation remains.

Our analysis of 189 tenant relocations has confirmed a long-standing theory about the Melbourne office market – tenant demand is concentrated to a select few sub-precincts, such as Collins Street Eastern Core and the Docklands' 'Southern Cross' precinct.

As we look ahead, our current availability estimates suggest 46,913sqm of available space across Collins Street assets in the Eastern Core. This represents two years of availability remaining. As availability in this sub-precinct tightens, we foresee tenants looking elsewhere along Collins Street and elsewhere within the Eastern Core, serving as a tailwind for the Western Core and Civic precincts.

Beyond CBD precincts, we've observed material negative net absorption across all fringe and suburban precincts. This negative absorption is primarily due to a sustained flow of centralising tenants, drawn to the CBD for a combination of affordability, accessibility and quality workspaces essential for attracting and retaining talent.

FIGURE 7: Melbourne office net absorption matrix – July 2024 – June 2026

Street	Eastern Core	Docklands	North Eastern	Flagstaff	Spencer	Civic	Western Core	Suburban	Southbank	Fringe	St Kilda Road	Street net
Collins	40,615	36,726			(3,565)	(10,585)	(25,038)					38,153
Lonsdale			14,283	(645)		(1,800)	(440)					11,398
Flinders Lane	7,885				(759)	(814)	543					6,855
La Trobe		1,700		4,873								6,573
Bourke	20,133	(5,253)	(200)		(3,693)		(4,787)					6,200
Spencer		3,400			976							4,376
Elizabeth						3,785						3,785
Flinders St		3,600				(452)	600					3,749
Exhibition	(15,062)		16,762									1,700
Little Lonsdale				(1,074)								(1,074)
Little Collins	1,770						(3,102)					(1,332)
Queen				1,224			(3,017)					(1,793)
William				(399)			(4,134)					(4,533)
Total Excl. Backfill	55,341	33,173	30,845	3,978	(7,868)	(10,147)	(39,375)	(1,429)	(10,801)	(22,538)	(22,655)	8,525
Total Incl. Backfill	(22,659)	16,940										(5,720)

Source: CBRE Research.

N = 189 relocations. 324 total deals were analysed over the 24-month period from July 2024 to June 2026. 'Fringe' includes the City Fringe and Inner East precincts. Totals may not sum to all values provided in the table as only major streets were included. Values within the matrix reflect values excluding backfill space.

Backfill will prevent spillover demand. Price and quality to determine tenant relocations.

Consistent with net absorption levels recorded in Figure 7, we currently forecast Melbourne's CBD to retain its status as a two-tiered market for the foreseeable future.

We previously forecast substantial tightening in the Eastern Core which would drive prospective tenants to take up space in western precincts. The emergence of eastern core backfill space, in our view, will delay the emergence of this trend until 2029-2030.

As a result, we forecast prime availability in the Eastern Core will drop to 8.0%, from a peak of 20.7%. The Western Core and Civic precincts are expected to see declines of 170bps and 110bps, respectively, lower than prior forecasts for the same period.

Incentives in Docklands are likely to remain elevated, and in turn support continued centralisation flows, driving our view of net absorption outperformance relative to most of the market. Other precincts face mixed risk profiles such as major sublease expiries and concentrated tenant industry profiles at risk of AI disruption.

FIGURE 8: Melbourne Office Current and Forecast Prime Availability

Source: CBRE Research.

Bifurcation to persist with pressure rising on non-core locations.

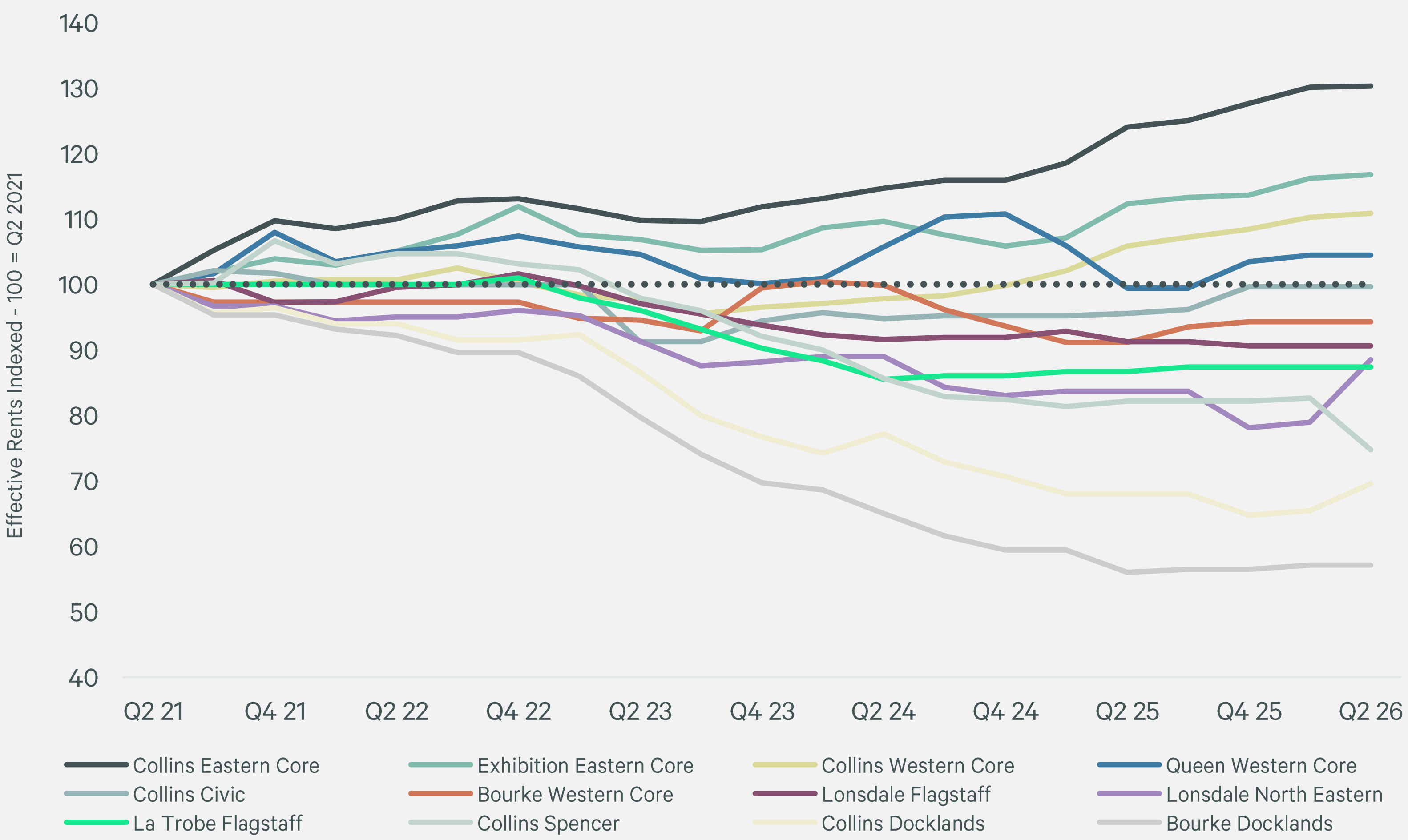
Over the last five years, effective rents have grown across only four of the major precinct and street combinations. The remainder of the market has exhibited flat to negative growth, driven largely by the substantial rise in incentives.

Consistent with our view expressed on pages 7 & 9, despite the backfill pressures set to emerge in the Eastern Core, we expect effective rents in the precinct to continue to rise at an elevated rate.

However, we see little reprieve for the remainder of the market for the next 12-24 months, with incentives likely to remain elevated as assets are forced to continue competing with 200,000sqm (including backfill) of upcoming supply, beyond the 1,000,000sqm of vacant space already reported by the PCA.

Select assets will continue to be largely insulated to these growth-dampening effects, as their status within their respective sub-precincts outweighs any negative impact.

FIGURE 9: Melbourne Office Effective Rents by Precinct & Street Combination



Source: CBRE Research. Includes prime and secondary effective rents. Sample includes 34 assets tracked over the 60-month period.

Centralisation flows to increase as the importance of talent rises.

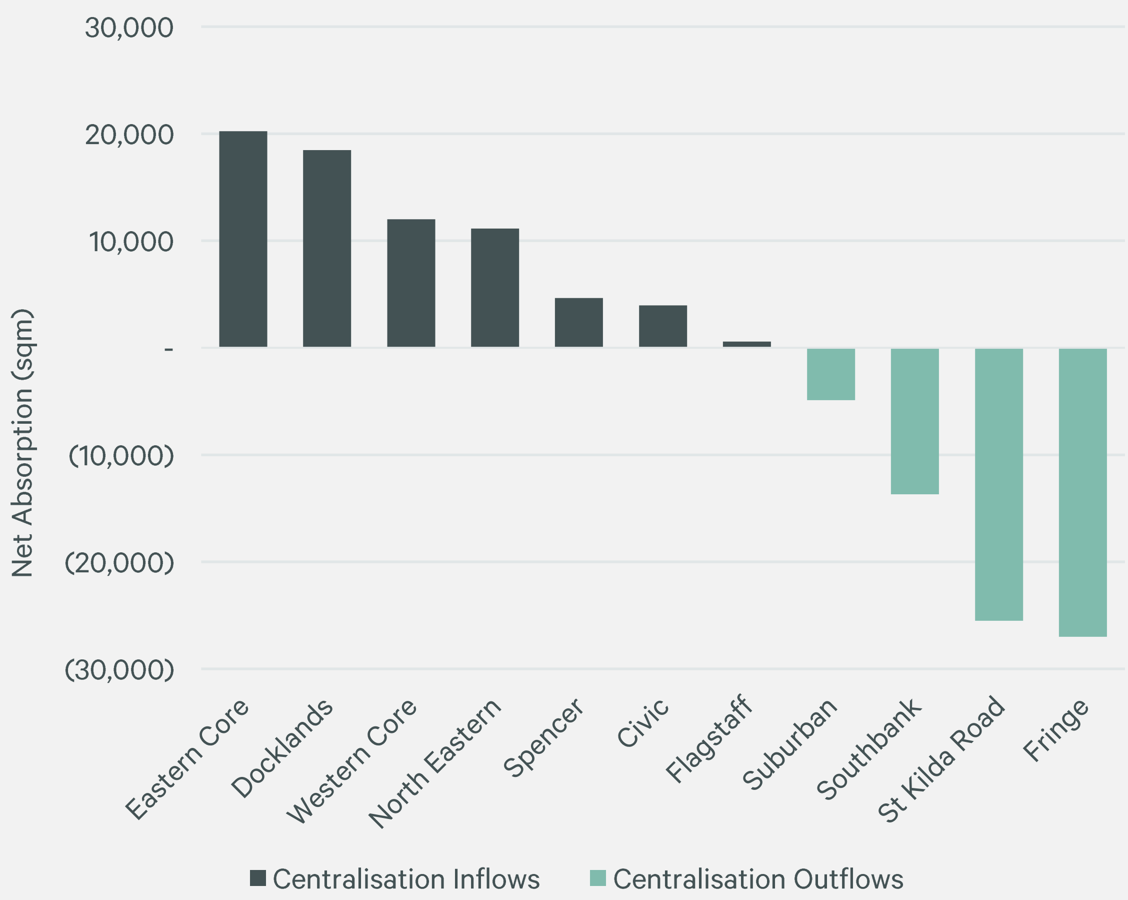
Our analysis of 100 deals reflects 71,094sqm of centralisation occurring among fringe and suburban tenants moving into the CBD, at an 11:1 ratio of CBD entrants versus exits.

Contrary to our expectations, 51% of inflows have been to 'core' precincts[1], instead of those precincts which are viewed as more affordable. This suggests a two-tiered market of tenant decision-making, those who are moving into the CBD and are seeking a better-quality location to drive increased attendance, and those who are seeking a combination of affordability and accessibility.

There is little reason to expect that centralisation flows will slow in the short term given our view on the impacts of AI adoption. Firms that commit to retaining a footprint in secondary assets across non-CBD locations are likely to fall behind in the race to secure the best talent – a risk that not many firms will take.

[1] Core precincts refers to the Eastern Core, Western Core and Civic.

FIGURE 10: Melbourne Office Centralisation Net Absorption by Precinct



Source: CBRE Research. Includes only relocations from or to the CBD. Intra-CBD and Intra-metro relocations are excluded.
Note: Fringe includes Melbourne's 'City Fringe' and 'Inner East'. Suburban includes Melbourne's 'Outer East' and 'South East'.

FIGURE 11: Key Melbourne Office Centralisation Metrics

71,094sqm
of gross centralisation into the CBD

33 In, 3 Out
There is an 11:1 ratio of CBD entrants vs exits

93%
of inflows came from fringe precincts

-5,065sqm
in space occupied upon centralisation

Eastern Core and 'Southern Cross' precincts receive the bulk of tenant inflows.

Consistent with our thesis, quality and affordability are driving centralising tenants to two key locations – the Eastern Core and Southern Cross precincts. We expect these two precincts will see elevated net absorption rates over the next few years, consistent with our analysis in Figure 8.

In contrast, the only submarket to see material tenant decentralisation flows over the last two years is Cremorne, supported by the Easygo relocation to 120 Cremorne Street. This follows Australia Post's relocation to 480 Swan Street, Richmond, from it's prior Eastern Core address.

Given decentralisation flows have been concentrated in large, anchor-tenant movements, we expect this trend will slow over the remainder of the decade as new office development activity in fringe and suburban locations is set to reach historical lows.

For those tenants who are committed to retaining a non-CBD footprint, we expect heightened relocations and demand for a select pool of new supply and prime stock, further limiting the potential for CBD tenants to relocate out of the CBD.

FIGURE 12: Melbourne office net centralisation flows (July 2024 – June 2026)

Source: CBRE Research
Note: Data reflects a sample of 68 tenant relocations over July 2024 – June 2026. Only relocations where the tenant moved from or to a fringe or suburban location were included in the sample. Intra-CBD relocations were excluded from the sample.

Fitted premises is not just a 'strategy' it's a requirement.

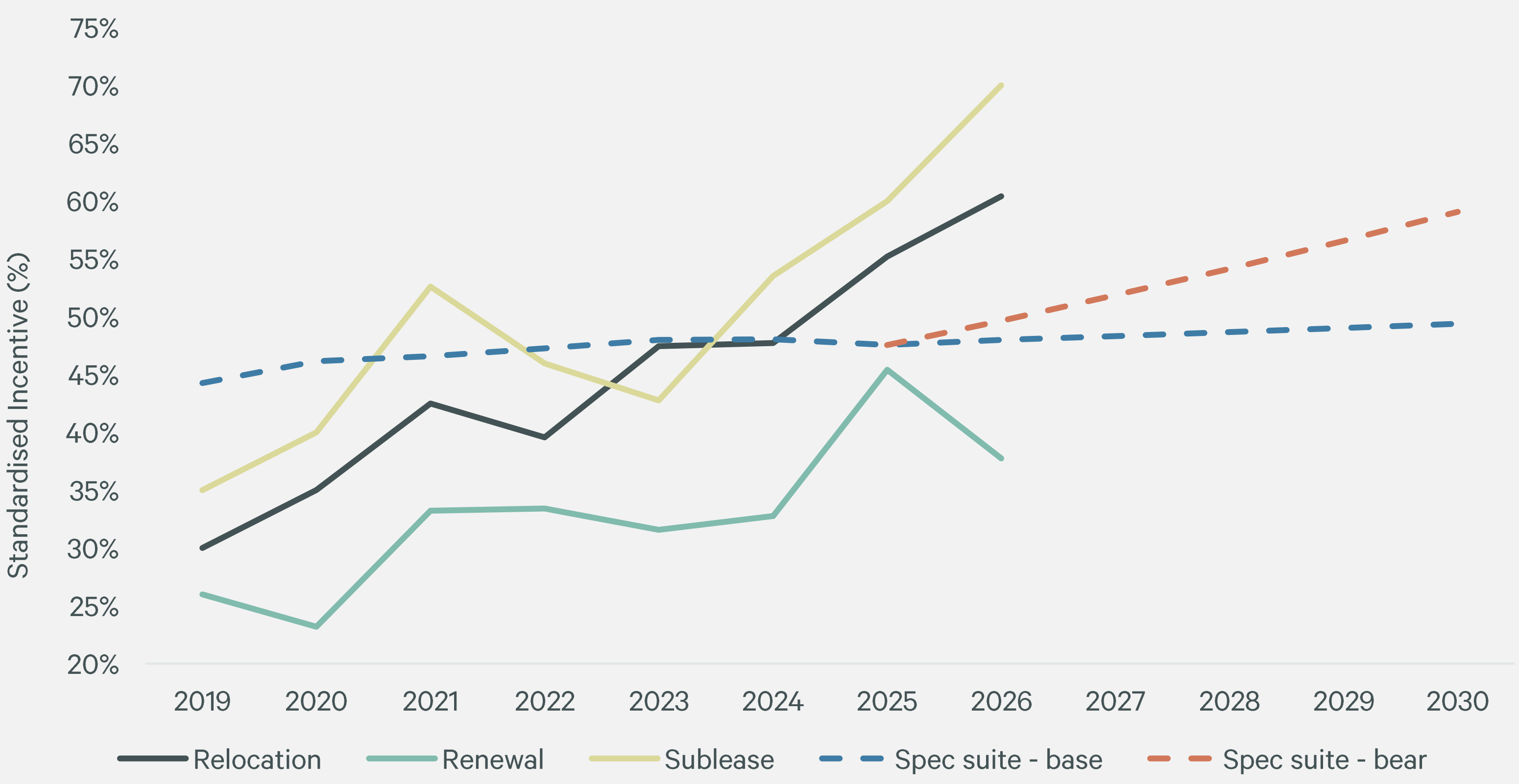
85% of deals recorded in 2025 took place in fitted stock, up from 71% in 2022. This reflects the structural change in tenant preferences across the Melbourne market – spec suites are no longer an option; they are a requirement.

Since 2025, relocation incentives have trended above the standardised cost of a spec suite, now at an estimated 12% premium based on H1 2026 deal evidence.

Relocation incentives are likely to trend towards 49% by 2030 under our base case scenario for speculative suite cost escalation, reflecting 1,000bps of possible incentive compression whilst still meeting entrenched tenant expectations in the market.

Under a bear case scenario of elevated construction costs, coupled with subdued rental growth, the standardised incentive for a spec suite is likely to reach approximately 59%, limiting incentive compression for most of the market.

FIGURE 13: Melbourne CBD Office Incentives by Deal Type



Source: CBRE Research. N = 1,153 deals recorded since 2019, of which, 84% were direct deals. 7 of the 24 historical data points were estimated based on historical trends due to a limited sample size. Historical data reflects mean values. Incentives including a spec fit-out were estimated using a base fit-out cost of $4,000 per sqm, in line with Turner & Townsend 2026 fit-out guide estimates. Estimated fit-out costs were then de-escalated based on year the deal took place, as well as lease term.

Withdrawals in St Kilda Road to remain elevated, offsetting centralisation outflows.

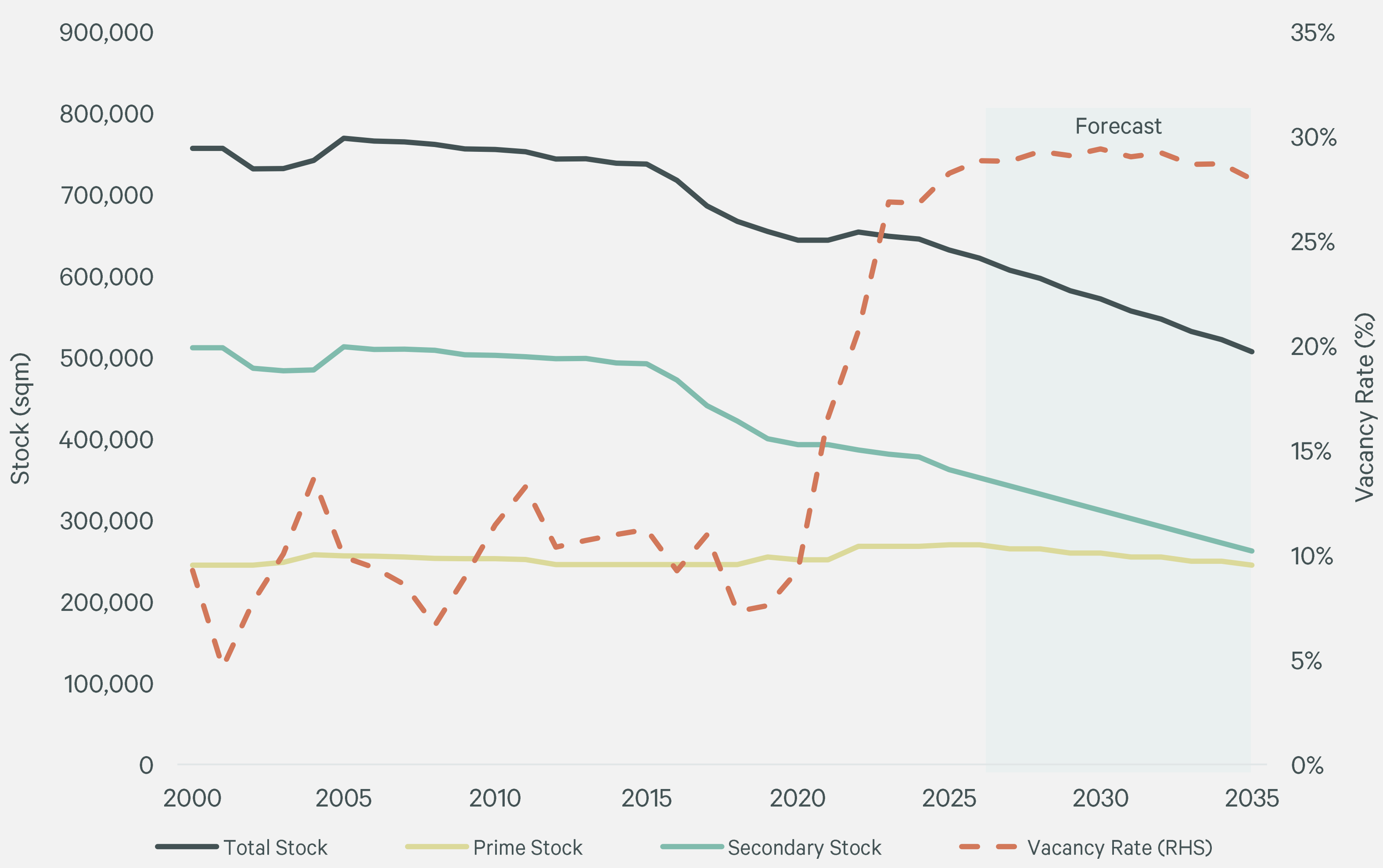
Over the last 10-years, St Kilda Road has recorded ~128,000sqm of net withdrawals, with a sustained decline in office stock observed since 2006. We currently forecast approximately 12,500sqm of net withdrawals each year within the precinct, predominantly in secondary stock, consistent with historical trends.

Despite this, we expect net centralisation outflows from the precinct to continue, largely due to the importance of talent attraction and retention mentioned on pages 4 & 5. The net result of both factors is that the vacancy rate within the precinct holds broadly stable at approximately 29%.

We expect a similar, albeit subdued trend to also occur across other fringe and suburban precincts, with an increasing number of assets becoming obsolete due to little to no investment.

Therefore, we take a view that even with a pessimistic forecast for white-collar employment growth across Melbourne, sustained centralisation flows will be the key factor supporting positive CBD net absorption over the medium term.

FIGURE 14: Historical and Forecast St Kilda Road office stock and vacancy



Source: CBRE Research, PCA

Minimal downside expected from work from home legislation.

Over the last few years, occupancy rates in Melbourne have followed a consistent trend of subdued activity on Monday and Friday. This is likely a result of fundamental changes in office worker behaviour that have emerged post-pandemic.

The net impact of this has been average occupancy hovering around 60% for most of the last 24 months, implying on average, office workers have already been averaging 2 WFH days per week.

With the new legislation introduced, we expect minimal downside in average occupancy rates across Melbourne, given this is already the baseline we're emerging from.

Instead, we propose there is an unexpected upside to peak occupancy from this legislation. We see two potential trends emerging; a shift in occupancy patterns with a greater concentration on mid-week days, and the potential for employers struggling to encourage office attendance using this as a springboard to establish required in-office days.

It is important to remember that peak occupancy is the key determinant for space planning considerations. If our thesis is true and peak occupancy increases over this time, we could see an uptick in office net absorption as Melbourne businesses adjust to this change.

FIGURE 15: Melbourne office occupancy by day of the week

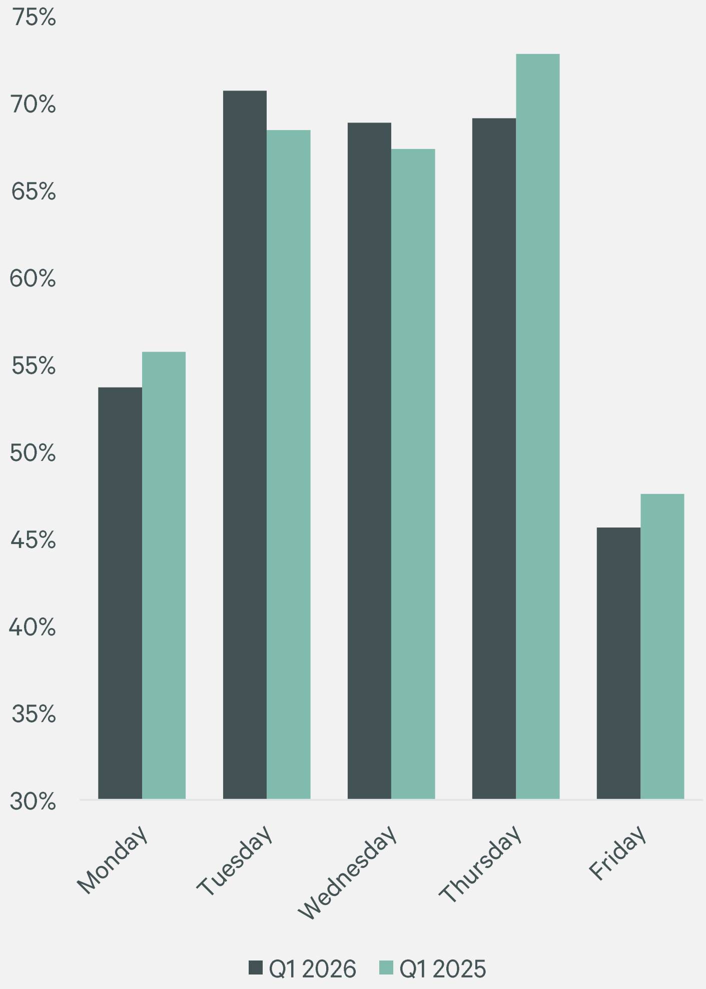


FIGURE 16: Victorian Work from Home Legislation Timeline

Source: CBRE Research, City of Melbourne, Victorian Government

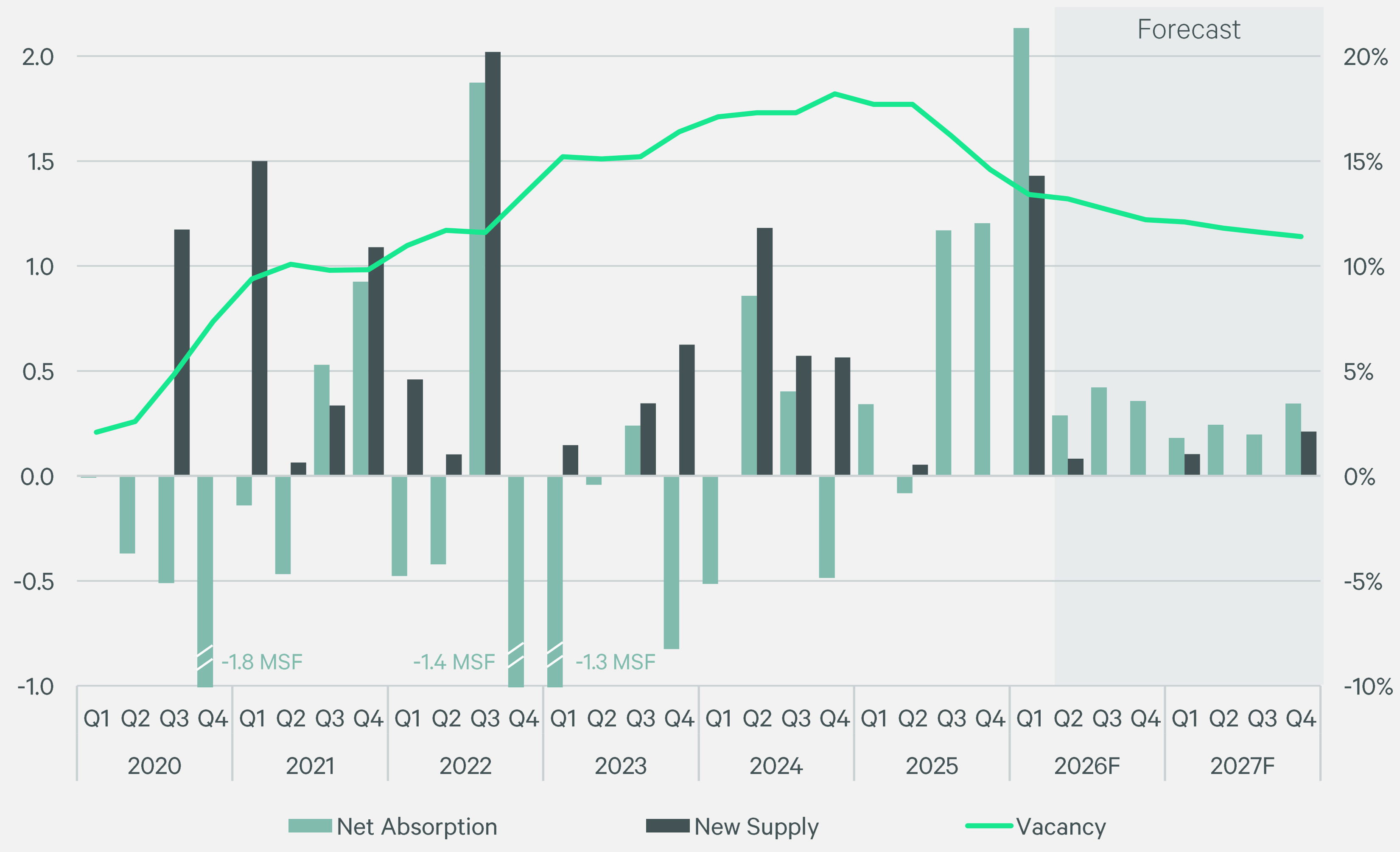
Two-year head start. Toronto previews Melbourne's office market recovery.

At the end of 2019, Melbourne CBD was one of the tightest office markets in Australia. Today, it's the softest. As Downtown Toronto entered the 2020's, it too was in a similar position; vacancy hovering at ~2.5% with a robust supply pipeline expected to emerge from 2021 onwards.

Toronto, like Melbourne, was hit with significant negative net absorption over the post-pandemic period, just when the supply cycle was beginning. Notably, large banking occupiers across both markets were the main contributors to the negative net absorption seen over this period.

These same banking tenants were the same ones driving the recovery in Toronto, with nearly 2 million sq ft in new absorption being leased since 2025, recouping and expanding based on their pre-covid footprint. This is consistent with our views locally in Melbourne and across Australia – occupiers who have right-sized have reached a limit, and expansionary activity is the logical next step.

FIGURE 17: Historical and Forecast Downtown Toronto Supply & Demand Forecast



Source: CBRE Research, PCA

Supply drought in Toronto, roughly two years ahead of Melbourne.

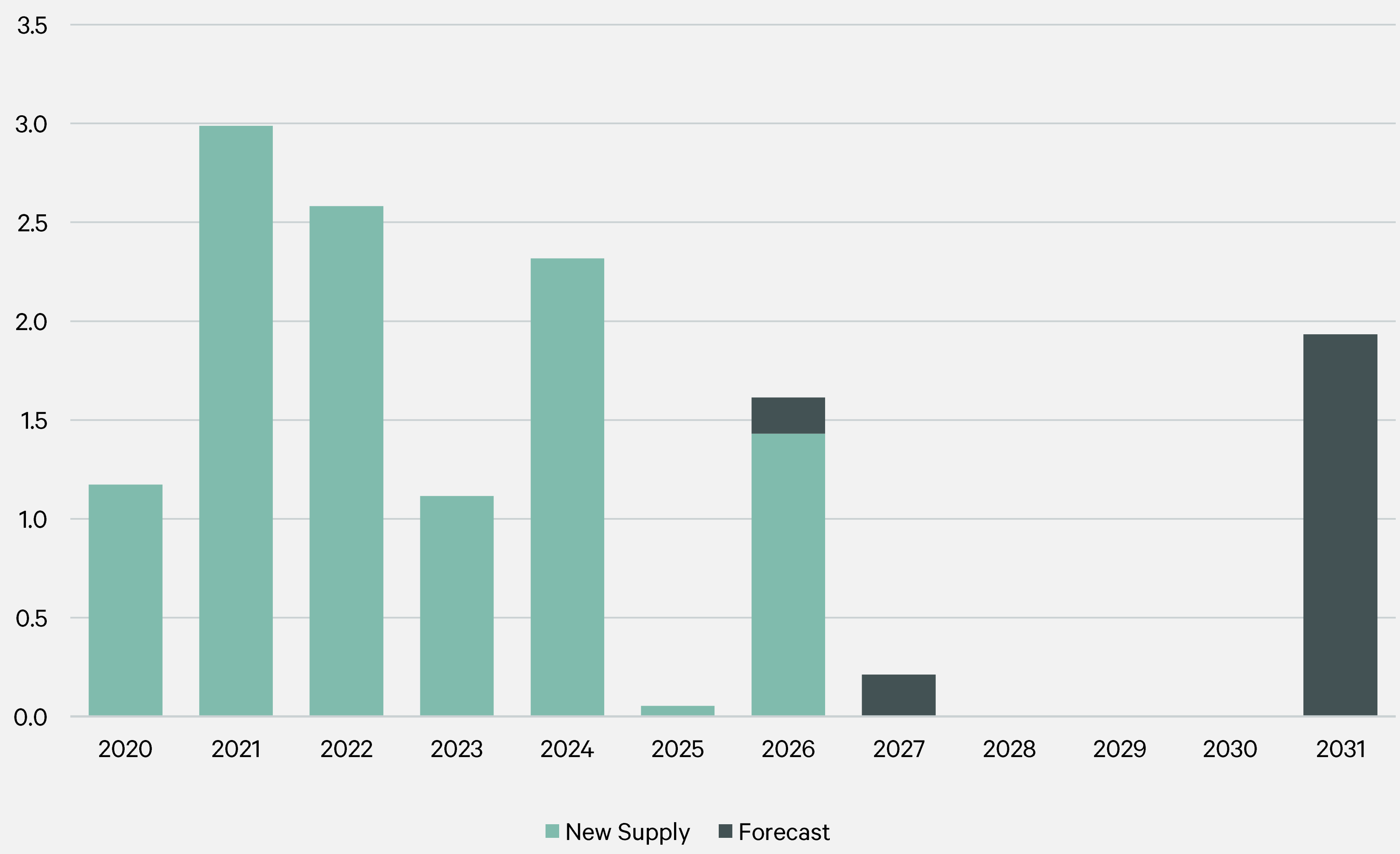
Post 2026, our Toronto team is forecasting four years of negligible new supply hitting the market, with the next supply wave to emerge from 2031. This almost exactly mirrors our view of Melbourne supply in Q1 2026, prior to the news of backfill space in the market.

Beyond just new deliveries, Toronto is facing a similar scarcity for contiguous blocks of space. Our team has described a ~40% reduction in options for tenants seeking 100,000 sq. ft, over the last 12-months, dropping from 26 to 16. Locally in Melbourne, large contiguous blocks exist, particularly for those open to Docklands, but high-rise availability in core precincts continues to be scarce.

In our Q1 2026 report, our Toronto team described it as follows – 'Activity is intensifying due to the lack of significant new construction, increasing demand for what will remain the newest office product for the next 5-years'.

We believe this to be a perfect encapsulation of current conditions in Melbourne. Whilst the upcoming backfill represents 'a bump in the road' we foresee demand in Melbourne accelerating over the coming 12-24 months, as the realities of the looming supply crunch begin to hit, and tenants make aggressive moves to secure quality space in the market.

FIGURE 18: Downtown Toronto New Supply Deliveries (MSF)



Source: CBRE Research, Q1 2026.
Note: Excludes Midtown

Rental growth accelerating in the best parts of the market. Melbourne to follow closely.

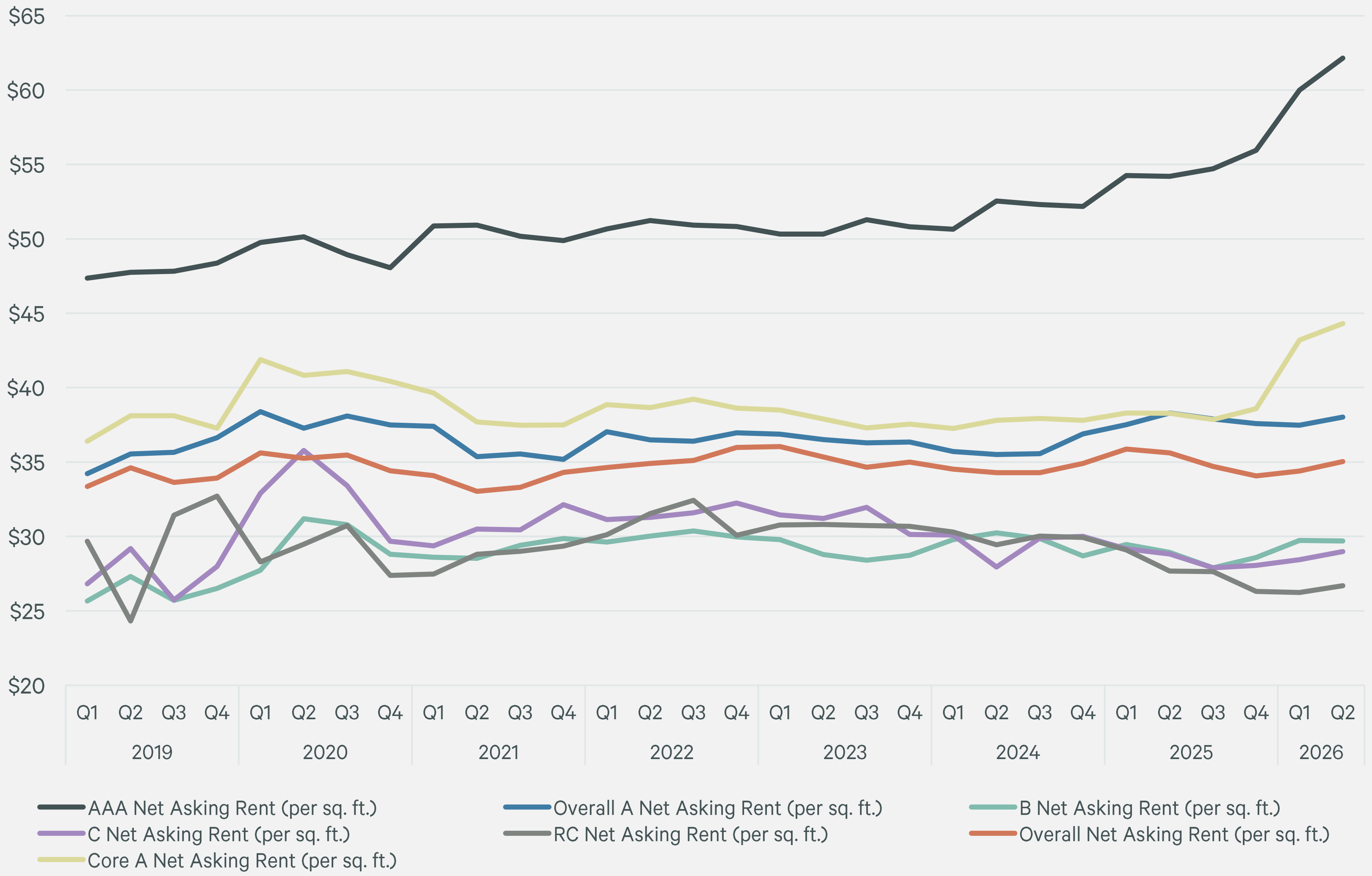
Over the last 9-months, Toronto experienced c.4m sq. ft. in positive net absorption, with Q1 2026 representing an all-time record for the downtown Toronto market. Put into context, this level of absorption would equate to ~250,000sqm in Melbourne, or ~25% of current vacancy.

Notably, our Toronto team noted that the 'technology sector is the largest industry in terms of tenant demand'. Despite broader global uncertainty around the future of office demand with AI emerging, tenants in the Toronto market are acting aggressively, particularly for the best buildings, driven in part by the lack of upcoming supply, and limited amount of large contiguous options.

This has created significant rental bifurcation in the Toronto market. Asking rents in premium spaces (AAA) have increased by approximately 11% over the 6-months to Q2 2026, representing some of the strongest growth in recent history. Core A grade asking rents have experienced a even stronger increase of over 15% over the same period.

With Melbourne experiencing similar levels of supply and contiguous space scarcity, we expect similar levels of rental growth and tenant demand will emerge over the next 12-24 months for select assets in the market.

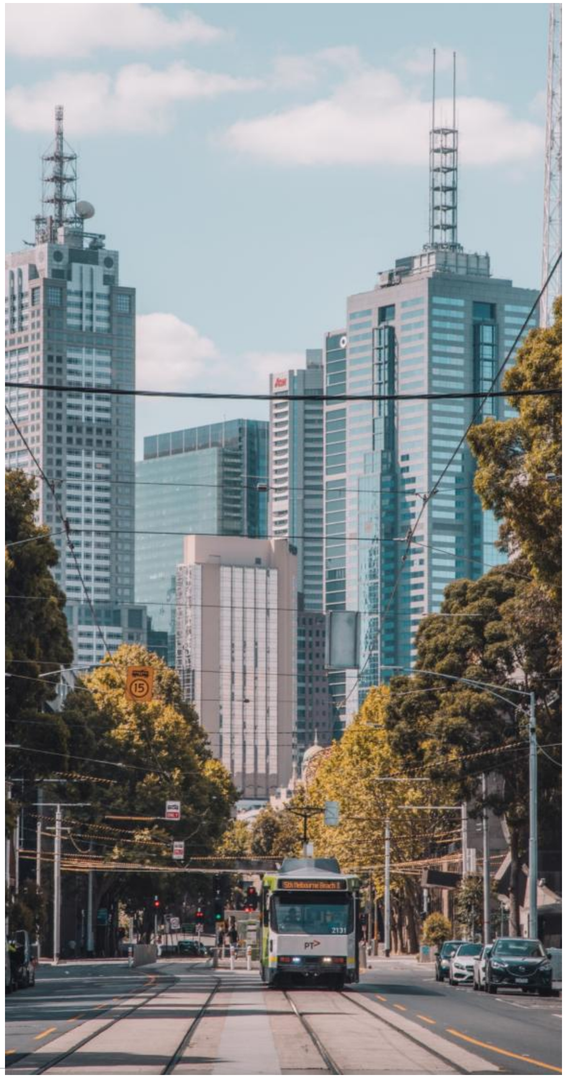
FIGURE 19: Historical Downtown Toronto Net Asking Rent by Grade



Source: CBRE Research

Strategies & Recommendations

	Landlords	Investors	Occupiers
CBD	We see tenant preferences in the CBD as a structural part of the market going forward. The necessity for a quality speculative fit-out will remain for all buildings except a select few. Continued investment in your assets is essential to attracting and retaining tenants throughout the next few years.	Capital recycling strategies should be heavily considered. The bifurcation between assets is growing, and we expect a select few will see strong outperformance over the short term, despite subdued conditions forecast across the broader market. Short term cap-rate expansion is likely, giving scope for opportunistic investment.	Tenant-favourable conditions are expected to remain for the next 18-months in select core precincts, and longer in non-core precincts. Whilst this is true on a macro level, occupiers must remain cautious as select pockets of the CBD will continue to see elevated demand, and as such, the risk of 'missing out' remains material.
METRO	Landlords in non-CBD locations need to heavily prioritise local amenity and fit-out quality, to retain and attract tenants that would otherwise seek a more affordable CBD location. Expect a prolonged recovery for select metro assets, as tenants with upcoming expiries begin to relocate towards assets meeting new tenant expectations.	Valuations of office assets in select metro locations are nearing land values, opening the door to conversion potential for underutilised office space. Buyers looking to enter the market need to be ready and willing to maintain a steady flow of capex to ensure their asset continues to appeal to tenant demand long term.	The upcoming supply shortage in metro precincts will accelerate landlord-favourable conditions. Tenants seeking premium space should act decisively to avoid missing out. For those considering a CBD relocation, the window of opportunity will remain open for longer than previously anticipated for non-core stock.



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