CBRE

Surge in investment activity as confidence returns in Melbourne's office market recovery

▲ 756 AUD/sqm
Net Face Rent (+1.0% q-o-q)

▲ 49.0%
Prime Incentives (+10 bps q-o-q)

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

▲ 7.08%
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.
- The major office completion of 85 Spring Street was recorded in Q3 2025. Forecasted annual supply has been further deferred, with only 25,000 sqm of new stock expected between 2027 and 2030, 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 1.0% over Q3 2025. Prime effective rents experienced similar growth, supported by stabilising incentives across most precincts.
- Investment activity totalled c.$670m, with year-to-date activity totalling over $1 billion AUD.

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

Melbourne CBD	3Q25	2Q25	3Q24	Q-o-Q Change	Y-o-Y Change
GFR	**AUD 982**	AUD 974	AUD 945	+0.9%	+3.9%
NFR	**AUD 756**	AUD 749	AUD 728	+1.0%	+3.9%
Incentives	**49.0%**	48.9%	47.6%	+10 bps	+137 bps
NER	**AUD 387**	AUD 384	AUD 383	+0.8%	+1.1%
Yield	**7.08%**	7.07%	6.53%	+1 bps	+28 bps

Source: CBRE Research

The Big Picture

Melbourne on pace to record highest volume of enquiry in 10-years whilst availability conditions worsen for most tenants

Over the first three quarters of 2025, Melbourne's CBD has recorded just over 320,000sqm of enquiry, with Q3 representing the third strongest quarter of enquiry volume since 2019. Based on historical Q4 enquiry levels, Melbourne is likely to reach approximately 400,000sqm of total enquiry for CY2025, representing the highest volume of enquiry in over 10-years.

Whilst this is significant, the importance is only exaggerated once overlaying it with current availability dynamics. Specifically, prime availability across the CBD continues to decline, especially for medium-to-large sized tenants where the Q3 availability rate is less than 4% (excluding Docklands). Availability for high-rise prime office space is significantly more scarce, with an availability rate of approximately 2% for 1,000sqm tenants looking outside of Docklands.

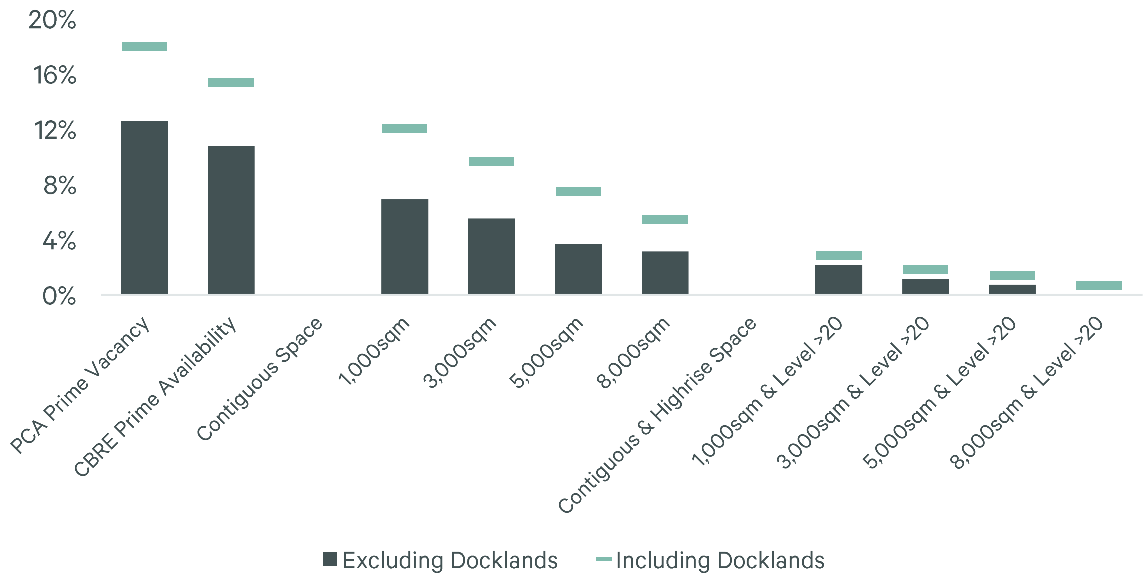
Rental growth set to accelerate in core precincts and high-rise availabilities

The combination of elevated tenant enquiry coupled with availability dynamics, is likely to create a 'perfect storm' for rental growth to accelerate in core precincts and buildings that can leverage existing or upcoming high-rise availabilities.

Whilst much of the current enquiry in the market having a preferred commencement date multiple years in the future, it is important to note that current conditions coincide with a supply shock set to emerge from 2027 onwards. With no major developments currently forecasted from 2027 until the end of the decade, there is no 'release valve' that will alleviate availability pressures in the short term.

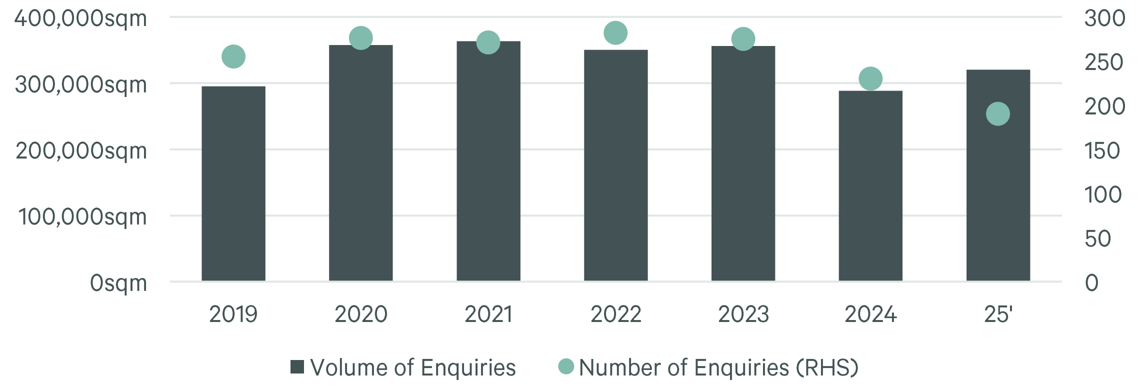
It is possible that development activity picks up over the next 24-months, particularly if vacancy pressures start to materialise across the broader market. However, given the scope and scale of Melbourne's current mooted developments it's unlikely any major developments materialise by 2030, with current CBRE Research projections forecasting the earliest available mooted developments reaching completion by 2031 and beyond.

FIGURE 2: Melbourne CBD Prime Office Availability by Tenant Requirement



Source: CBRE Research

FIGURE 3: Melbourne CBD Office Enquiry Volume and Count by Year



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.

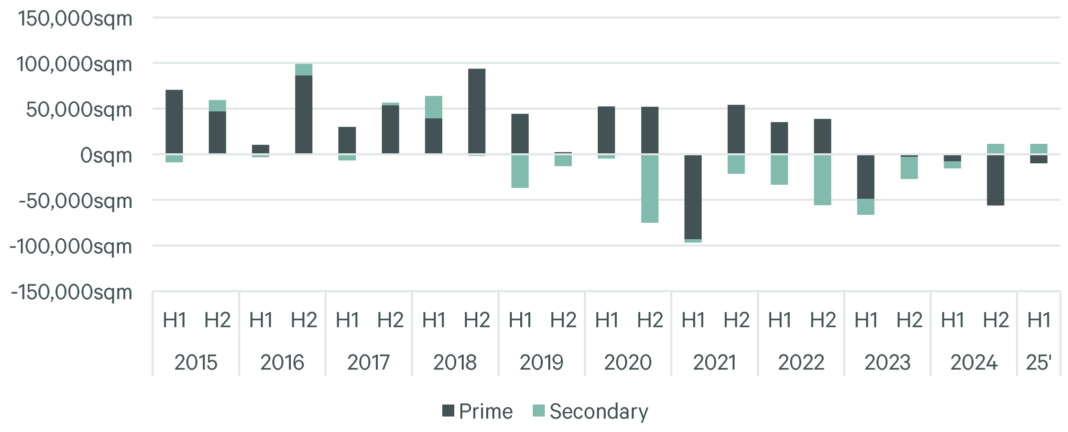
Core precincts outperform as tenants move to secure space

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.

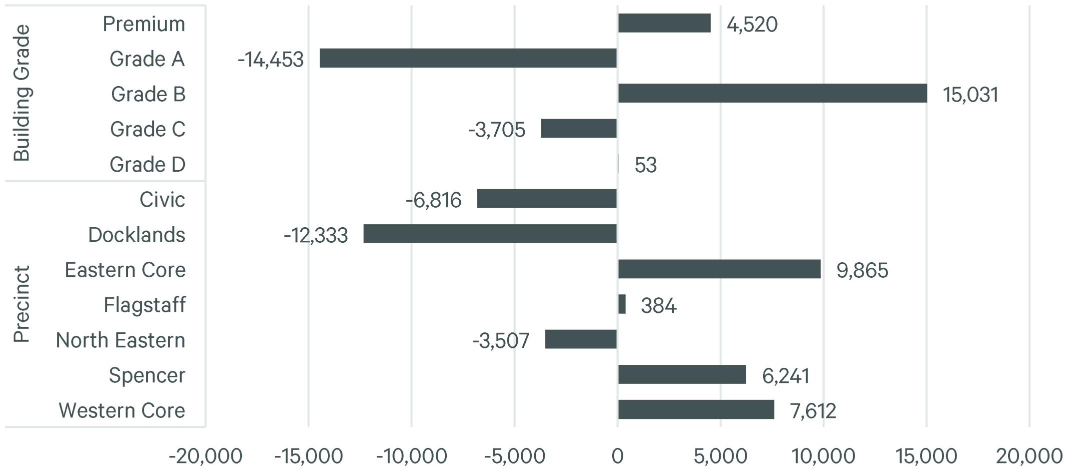
Conversely, Docklands and the North Eastern precinct recorded moderate negative absorption. Although these areas have previously benefited from elevated incentives and tenant centralisation, the impact of these drivers appears to be waning. We expect this trend to persist over the coming years.

FIGURE 4: Melbourne CBD Office | 6-Month Net Absorption, by Building Grade



Source: PCA, CBRE Research

FIGURE 5: Melbourne CBD Office | 6-Month Net Absorption (sqm), by Building Grade & Precinct, H1 2025



Source: PCA, CBRE Research

Supply

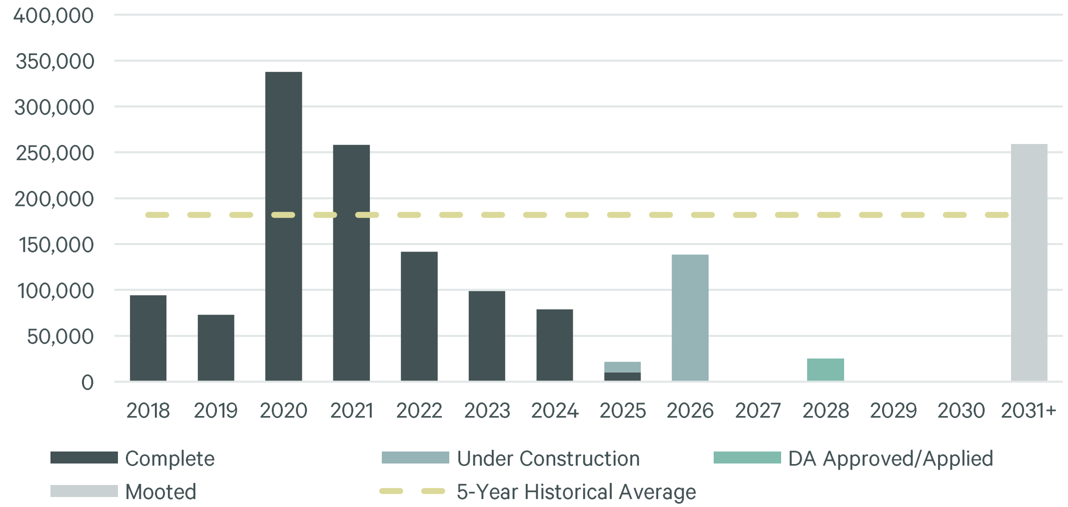
Four years of no major developments likely as certainty rises on future supply pipeline

Melbourne has seen the major completion of 85 Spring Street's refurbishment during Q3 2025, marking the first major completion of 2025. Over the quarter, we have pushed back our expected delivery timing for 7 Spencer Street and Town Hall Place. In turn, we forecast a concentrated number of deliveries to occur in 2026, marking the last major wave of forecasted supply in Melbourne's office market until the next decade.

With the constrained supply outlook likely to emerge from 2027 onwards, we continue to forsee significant tailwinds for existing assets in core assets across Melbourne, supporting reductions in vacancy, rising rental growth and falling incentives.

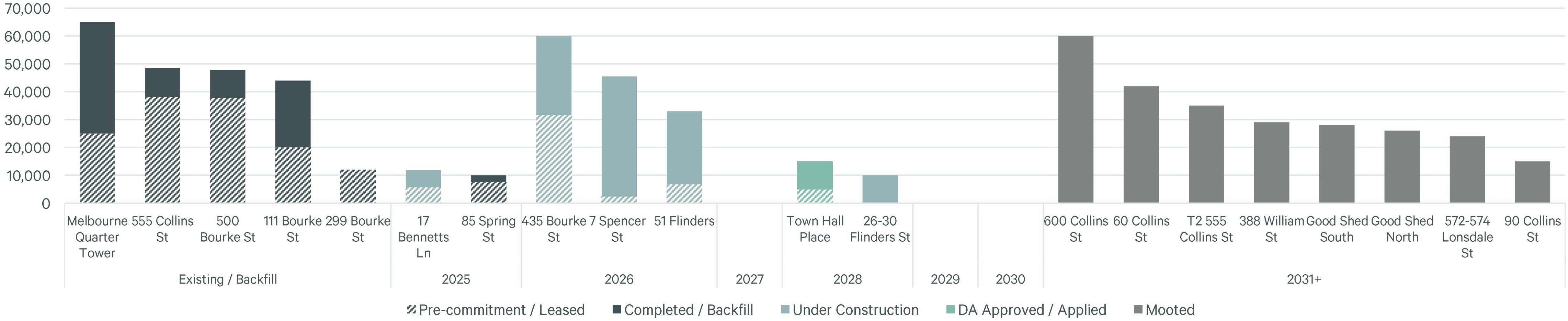
While some projects currently scheduled for post-2030 delivery could be brought forward, this is considered unlikely under current market conditions, as ongoing feasibility challenges continue to weigh on development activity.

FIGURE 6: Melbourne CBD Office | Upcoming Major Development Projects



Source: CBRE Research

FIGURE 7: 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 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%.

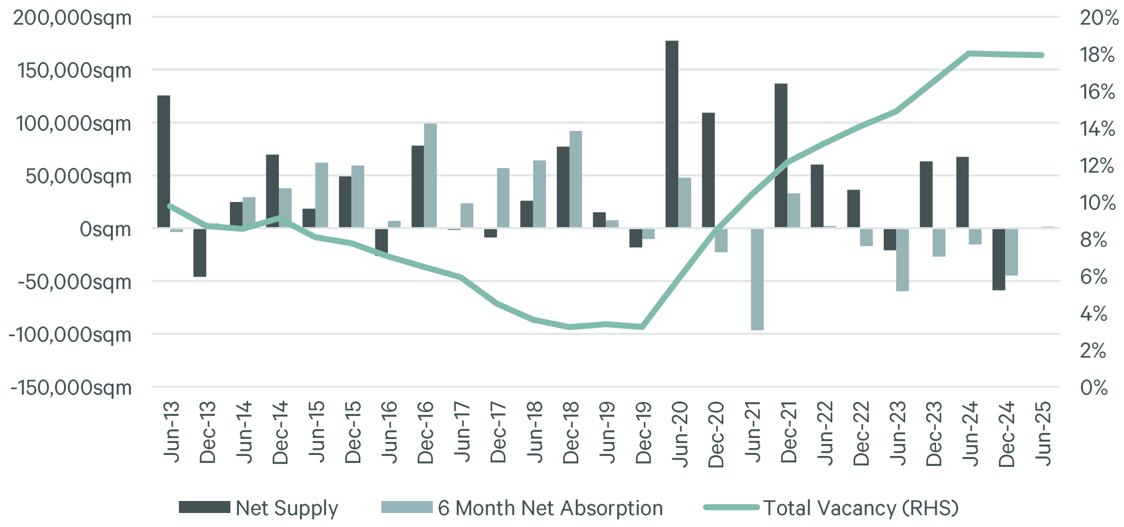
Prime-grade vacancy rose by 36bps over the past six months, largely driven by underperformance in select non-core precincts. Despite this, the broader market continues to reflect a flight-to-quality trend. Recent CBRE Research data highlights a tightening vacancy environment for contiguous high-rise 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.

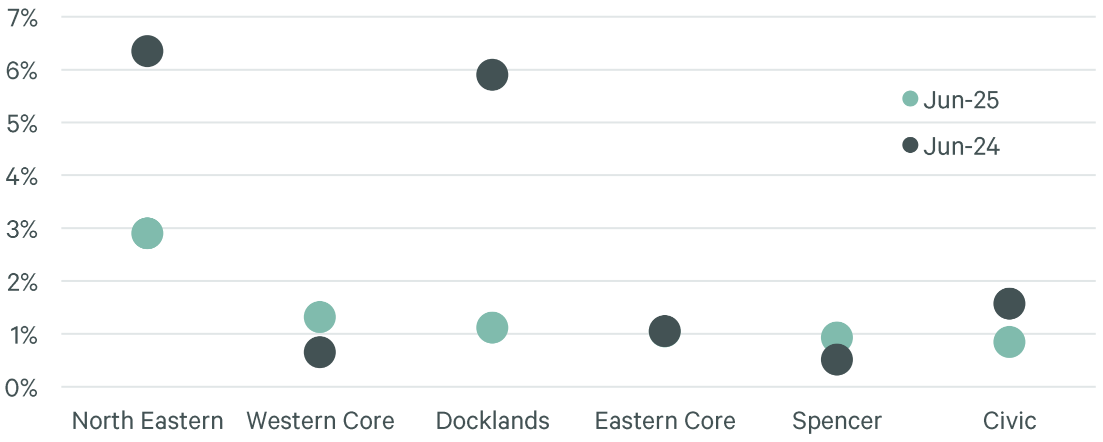
Over the last 12-months, the combination of strong leasing activity in sublease space, combined with withdrawals of sublease space have contributed to declining volumes. We expect sublease vacancy to remain at healthy levels, with no major upcoming sublease vacancies likely to enter the market in the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

FIGURE 8: Melbourne CBD Office | Market Balance



Source: PCA, CBRE Research

FIGURE 9: Melbourne CBD Office | Sublease Vacancy Rate by Precinct



Source: CBRE Research

Rental Performance

Face rental growth returns to normalised levels, positive in majority of precincts

Following elevated face rental growth experienced in select office precincts in Q2 2025, Q3 has represented a more measured quarter for growth across Melbourne. Two of Melbourne's core precincts (Eastern Core and Civic) recorded elevated quarter-on-quarter growth of 1.8% and 1.6%. In comparison, three of Melbourne's seven precincts recorded stability in face rents over the quarter.

We believe year-on-year growth rates are more indicative of the true state of Melbourne's office market. Despite average prime CBD face rents growing by 4.0% year-on-year, three of Melbourne's precincts have recorded elevated growth in the high-single digits, offset by low to negative growth in select precincts. This bifurcation is expected to continue over the medium term, with current forecasts highlighting select precinct outperformance driven by leasing demand differentials.

Effective rental growth stable or growing across all CBD precincts for first quarter since 2022

Prime effective rents increased on both a quarterly and annual basis in Q3 2025, rising by 0.7% quarter-on-quarter and 1.1% year-on-year. Notably, all of Melbourne's seven precincts contributed to the quarterly performance, with Q3 2025 representing the first quarter since 2022 in which all precincts recorded stable or growing effective rents.

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.

We continue to forecast bifurcated incentive compression over 2026. With the current prime availability rate dynamics, coupled with enquiry volumes (see page 2 – 'The Big Picture'), we foresee an office market in which incentive compression could begin at an aggressive rate depending on landlord confidence in negotiations.

FIGURE 10: Melbourne CBD Office | Prime Rental Indicators, by Precinct

Melbourne CBD Precinct	Prime NFR (AUD/sqm)			Prime NER (AUD/sqm)			Prime Incentives (%)		
	3Q25	Q-o-Q Change	Y-o-Y Change	**3Q25**	Q-o-Q Change	Y-o-Y Change	**3Q25**	Q-o-Q Change	Y-o-Y Change
Civic	**754**	1.6%	6.7%	**398**	1.6%	6.2%	**47.2%**	Stable	29 bps
Docklands	**539**	0.5%	-3.0%	**192**	0.5%	-13.5%	**64.3%**	Stable	433 bps
Eastern Core	**957**	1.8%	8.8%	**585**	1.1%	8.4%	**39.0%**	38 bps	25 bps
Flagstaff	**579**	Stable	1.1%	**289**	Stable	1.1%	**50.0%**	Stable	Stable
North Eastern	**633**	1.2%	2.2%	**290**	1.2%	2.2%	**54.2%**	Stable	Stable
Spencer	**720**	Stable	5.9%	**324**	Stable	0.3%	**55.0%**	Stable	250 bps
Western Core	**756**	Stable	-1.0%	**390**	Stable	-5.7%	**48.5%**	Stable	263 bps

Source: CBRE Research

FIGURE 11: Melbourne CBD Office | Prime Net Effective Rent Growth Rates by Precinct

Source: CBRE Research

Investment Market

Investment activity surges in Q3 as foreign investor confidence continues to rise

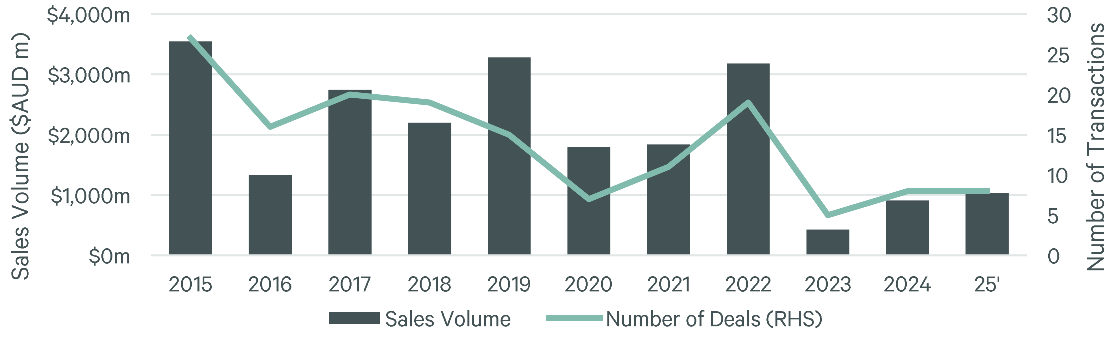
Melbourne's CBD in Q3 2025 recorded it's strongest quarter of investment activity in over three years, with approximately $670 million transacted across four assets. Three major transactions took place over the quarter, including 357 Collins Street (c.$195m), Flinders Gate (c.$254m) and 750 Collins Street (c.$390m). Notably, the two largest transactions involved foreign buyers, signaling confidence around the outlook for Melbourne's office market.

We continue to note multiple major office assets are currently on the market heading into Q4 2025, including 31 Queen Street and 470 Collins Street, which are likely to further boost investment activity once settled.

Yields continue to hold mostly stable with recent evidence supporting current values

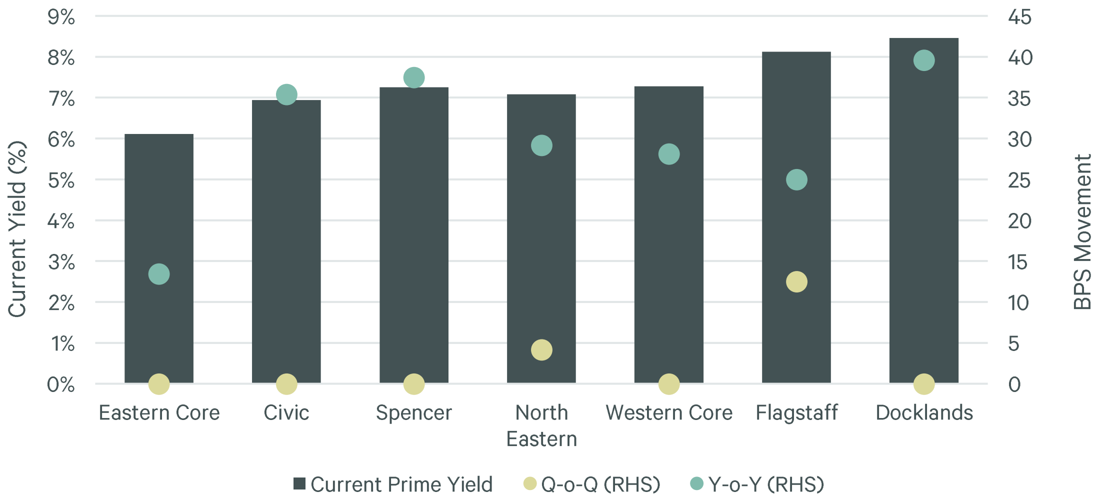
Prime CBD yields increased marginally by 1 basis point to 7.08% in Q3 2025, marking the second consecutive quarter of yield stabilisation. Recent major transaction evidence has supported our current yield benchmarks in most precincts, and we continue to expect mostly stable yields in Q4 2025. Yield compression benchmarks have yet to be achieved, however with renewed activity, particularly among foreign investors, this is likely to occur over CY2026.

FIGURE 12: Melbourne CBD Office | Sales Activity[1]



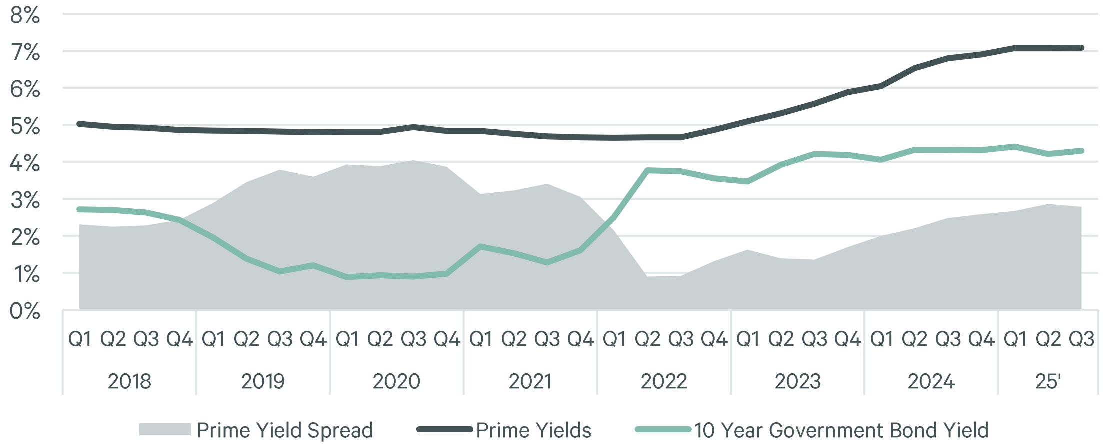
Source: CBRE Research
[1]Includes sales above >$20m AUD.

FIGURE 13: Melbourne CBD Office | Current Prime Yield and Prime Yield Change by Precinct



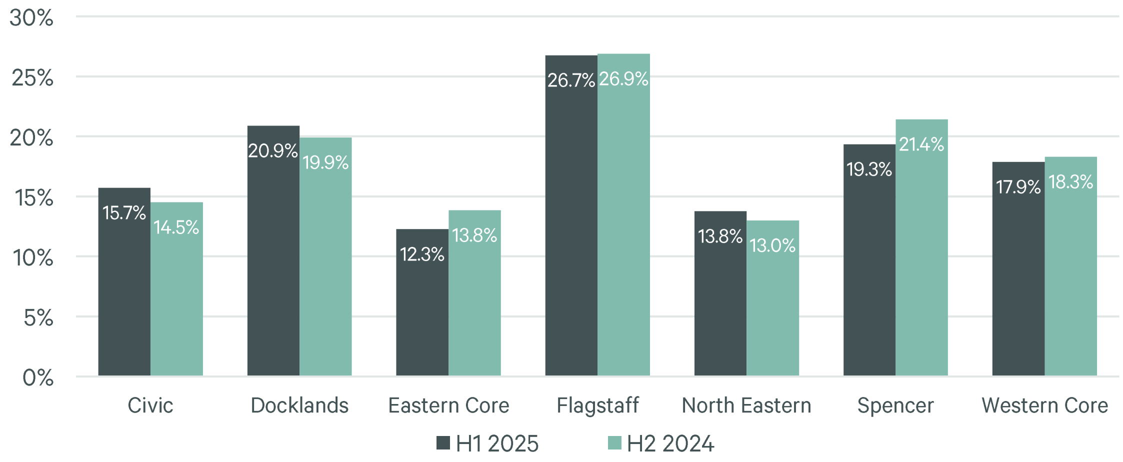
Source: CBRE Research

FIGURE 14: Melbourne CBD Prime Office Indicative Yields vs Commonwealth Government 10-yr Bond Yields



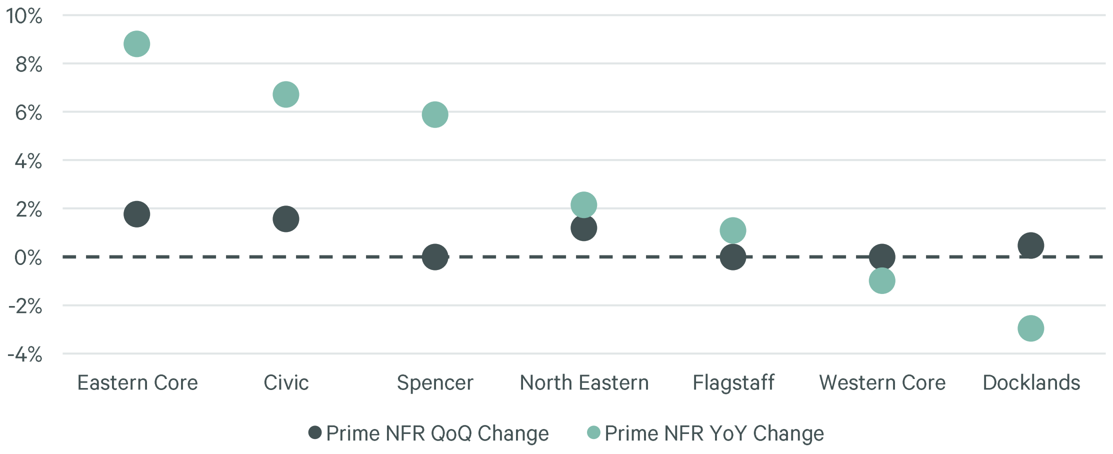
Source: RBA, CBRE Research

FIGURE 15: Melbourne CBD Office | Total Vacancy Rate by Precinct



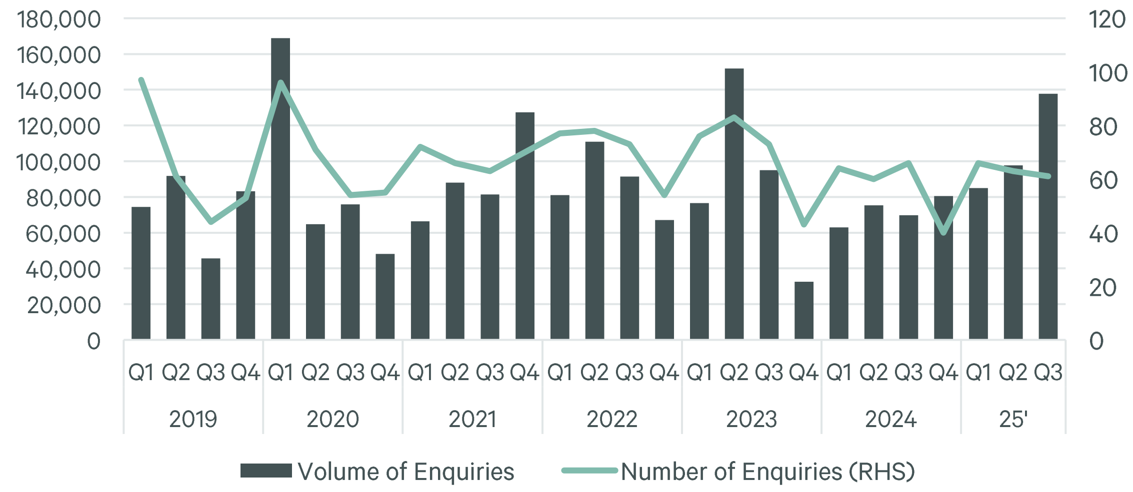
Source: PCA, CBRE Research

FIGURE 17: Melbourne CBD Office | Net Face Rental Rates Growth Rates by Grade



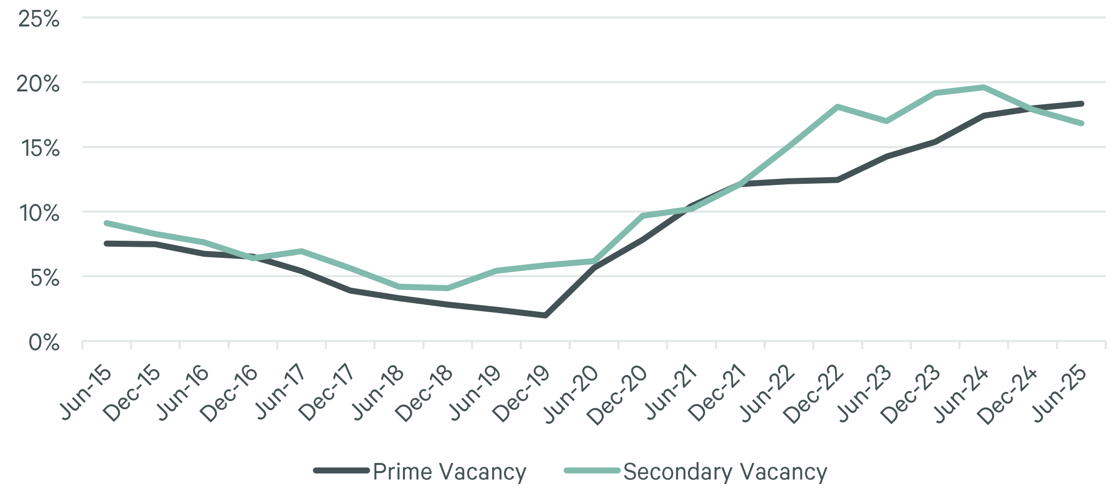
Source: CBRE Research

FIGURE 16: Melbourne CBD Office | Tenant Enquiry Levels



Source: CBRE Research

FIGURE 18: Melbourne CBD Office | Vacancy Rates, by Grade



Source: PCA, CBRE Research

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Office Submarket & Precinct Maps

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