

FIGURES | MELBOURNE FRINGE & SUBURBAN OFFICE | Q4 2025

Absorption in Southbank reaches highest level in 5-years as metro supply shortage begins to form

▼ 4.6%

Victorian Unemployment Rate (December 2025)

▼ 14.78%

Prime Southbank Vacancy (-256bps h-o-h)

▲ 14.5%

Prime City Fringe NER Growth y-o-y

▼ 13 bps

Prime City Fringe Yield Change y-o-y

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 +7,664sqm and -30,398sqm 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 by 173bps in Southbank, dropping to 14.96%. St Kilda Road vacancy rose by 246bps to 31.60%. Prime vacancy outperformed across Southbank and underperformed within St Kilda Road as mixed signals persist across both precincts.
- Face rents across the metro market normalised in Q4 2025, with no growth observed across majority of precincts. Incentives also held flat across most precincts, with year-on-year incentive compression remaining elevated across select parts of the market.
- Investment activity in Melbourne’s Fringe and Metro markets experienced a surge in activity over Q4 2025 with just over \$333m in fringe and suburban assets transacting. Yields have held stable for the third consecutive quarter across all precincts except for St Kilda Road, with expectations that Melbourne’s metro office market has reached peak pricing.

FIGURE 1: Summary of Prime Market Fundamentals

St Kilda Road	Q4 2025	Q3 2025	Q4 2024	Southbank	Q4 2025	Q3 2025	Q4 2024
Vacancy	14.8%	-	18.3%	Vacancy	32.9%	-	26.4%
NFR	\$481/sqm	\$485/sqm	\$462/sqm	NFR	\$664/sqm	\$664/sqm	\$653/sqm
Incentives	50.0%	50.0%	49.8%	Incentives	46.7%	46.7%	45.8%
NER	\$240/sqm	\$243/sqm	\$232/sqm	NER	\$354/sqm	\$354/sqm	\$354/sqm
Yield	9.00%	8.70%	8.50%	Yield	7.94%	7.94%	7.94%

Source: PCA, ABS, CBRE Research

Office Demand

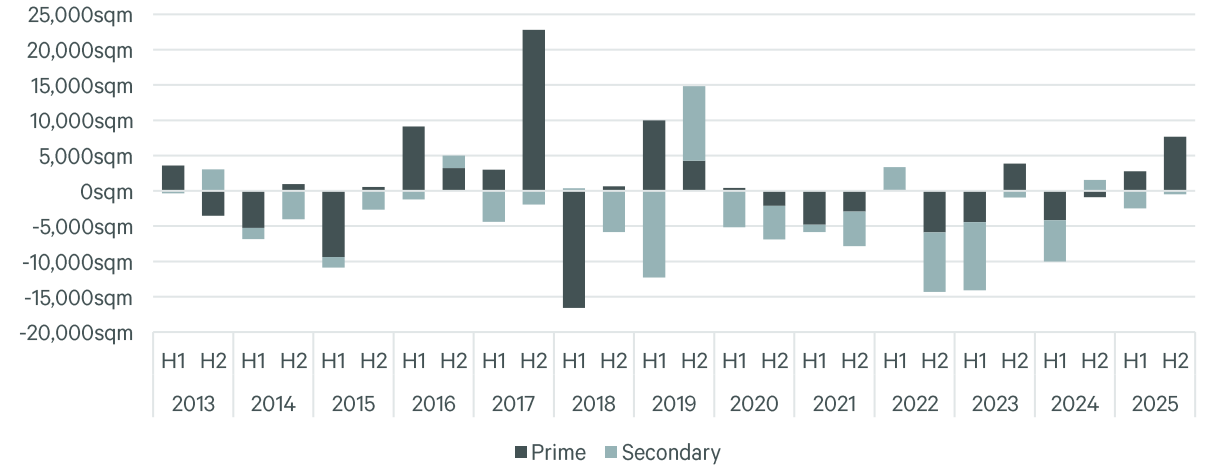
Mixed signals remain across Melbourne’s metro market.

Widening bifurcation persists 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.

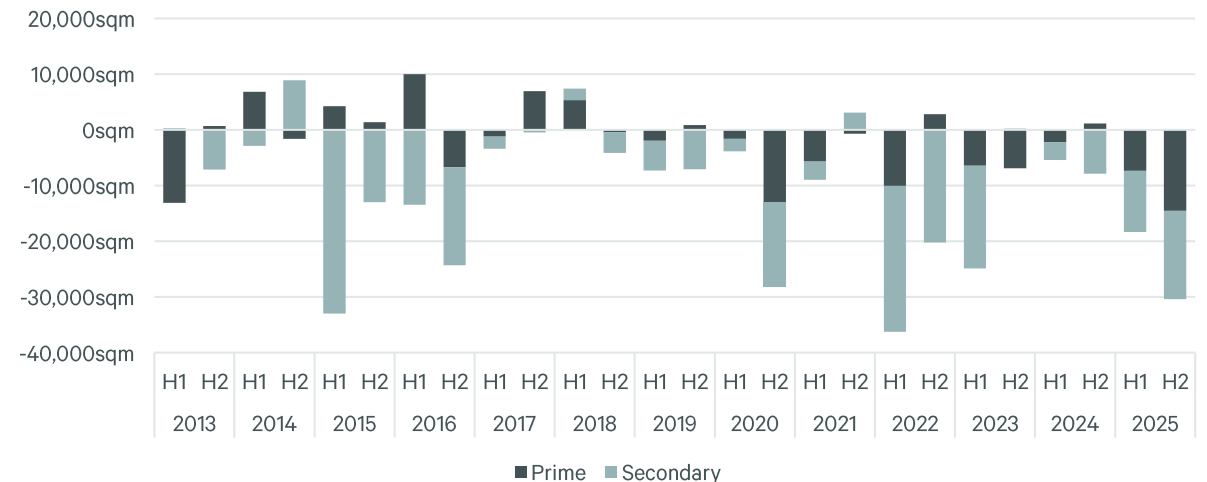
In Southbank, despite no major changes to supply or infrastructure, the H2 2025 result materially exceeded expectations. Over recent years, many landlords in the precinct have invested in upgrades to compete for a robust CBD tenant pool. We believe the effects of these investments are now emerging, with +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

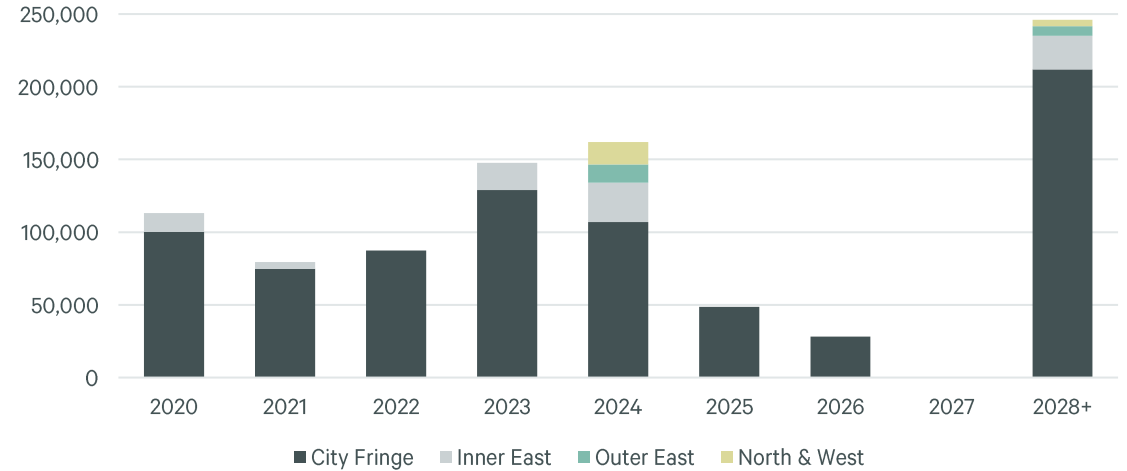
Supply

Last wave of supply due to hit the market in 2026 followed by timing uncertainty.

The final wave of new supply is expected to land in 2026, after which delivery timing becomes increasingly uncertain. Over CY2025, approximately 50,000 sqm of new stock was delivered entirely within the City Fringe, marking the lowest annual completions since 2020. We currently project around 30,000 sqm of completions in CY2026 and retain the view that no major completions will occur in 2027. For projects scheduled from 2028 onwards, our expectation is that the majority will not be delivered within the medium term, primarily due to persistent feasibility constraints.

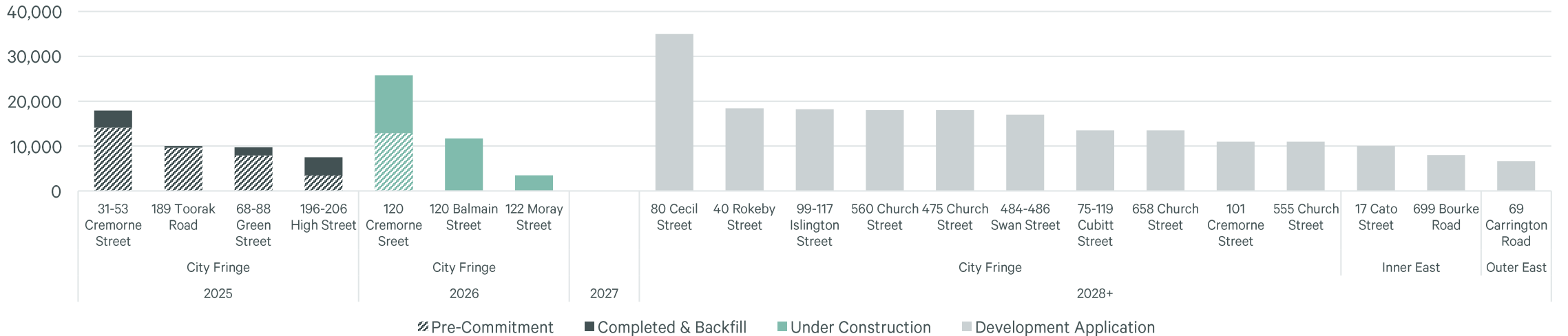
CBRE Research estimates the City Fringe economic rent at approximately A\$940 per sqm per annum, implying an ~80% feasibility gap relative to prevailing market rents. Over the medium term, we forecast moderate rental growth to narrow this gap and, in turn, support the next phase of viable development activity.

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.

Vacancy

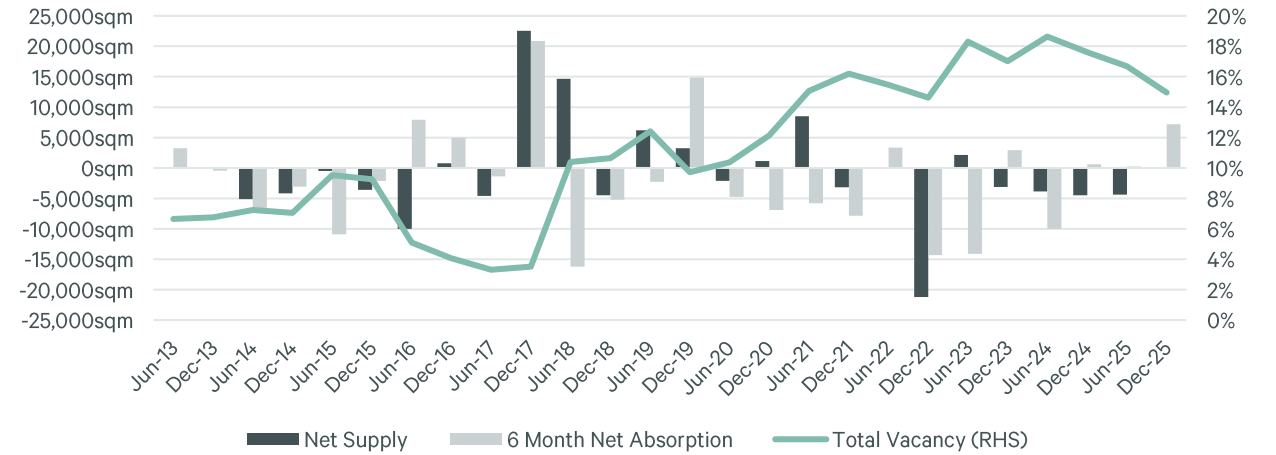
Vacancy Divergence Deepens Across Southbank and St Kilda Road

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 reduced 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.

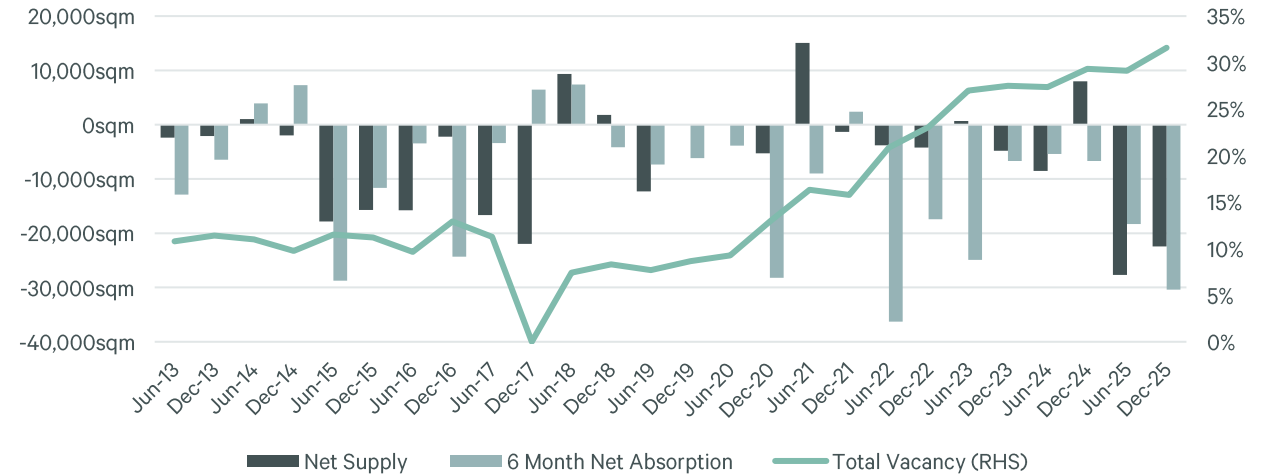
By grade, performance remains bifurcated. Prime continued to outperform in Southbank, with prime vacancy falling by 256 bps, whereas prime materially underperformed on St Kilda Road, where prime vacancy increased by 552 bps. We maintain the view that prime stock will lead performance across the broader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

FIGURE 7: Southbank Office Market Balance



Source: PCA, CBRE Research

FIGURE 8: St Kilda Road Office Market Balance



Source: PCA, CBRE Research

Source: CBRE Research

Rental Performance

Face Rents Steady in Q4 2025 Following Strong First-Half Gains

Prime face rents across Melbourne’s fringe and suburban office markets were broadly unchanged in Q4 2025. The exception was St Kilda Road, which recorded a modest decline of 0.8% in face rents. All other metro precincts were flat quarter-on-quarter; however, year-on-year growth remains elevated in select locations, led by the City Fringe at 10.5% year-on-year.

Sentiment across the fringe and suburban markets remains constructive, supported by a slowing pace of tenant centralisation into the CBD. While quarterly growth was absent in most precincts, we expect moderate face-rent growth over the medium term, underpinned by an emerging supply shortfall from 2027 onwards.

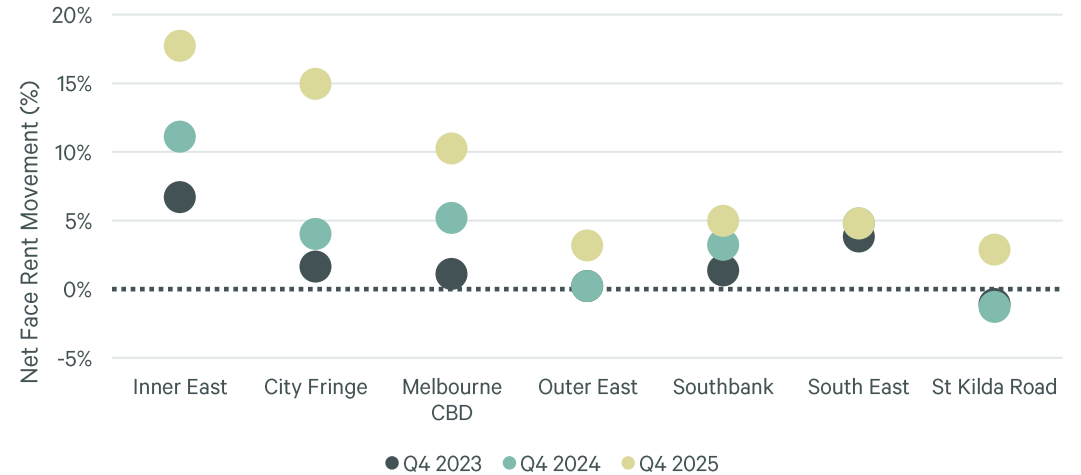
Incentive compression stable on a quarterly basis, remains robust year-on-year.

Incentive compression stabilised on a quarterly basis following the sharp tightening seen in recent periods. Across all metropolitan precincts, incentives were unchanged in Q4 2025. On a year-on-year basis, incentives continue to show robust compression in most locations, most notably in the City Fringe and Inner East, which recorded contractions of 217 basis points (bps) and 250 bps, respectively.

Incentives remain a major driver of the bifurcation observed within precincts. We expect this theme to persist through 2026, with select assets able to hold firm on incentives given superior quality, amenity and recent capital investment, thereby reinforcing performance dispersion at the asset level.

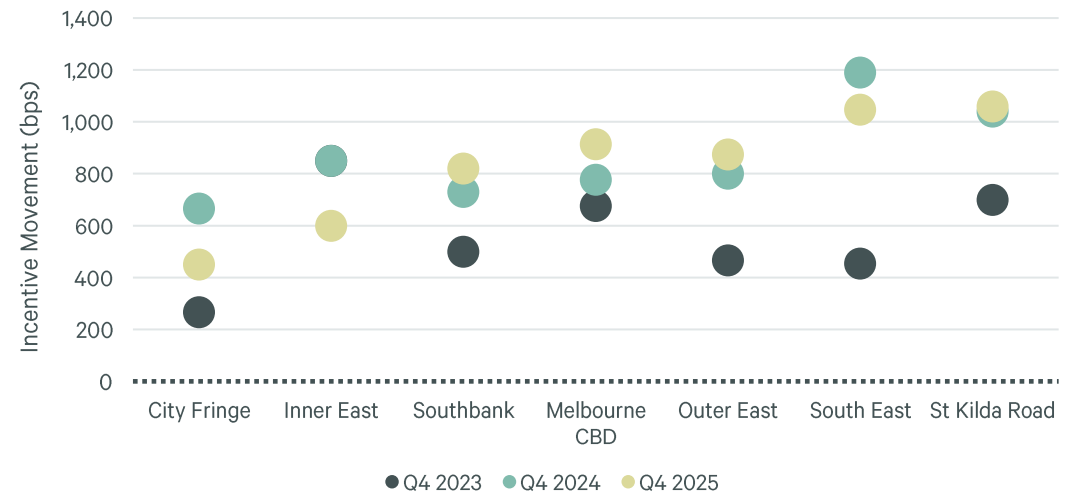
Note: CBRE Research adjusted its basket of St Kilda Road assets which has positively contributed to rental performance on a year-on-year basis.

FIGURE 9: Prime Net Face Rent Growth from Base Period (Q4 2022) by Precinct.



Source: CBRE Research

FIGURE 10: Prime Incentive Movement (bps) from Base Period (Q4 2022) by Precinct



Source: CBRE Research

Investment Market

Investment Activity Surges; 2025 Volumes Nearly Double 2024

Sales activity across Melbourne’s fringe and suburban office markets surged in Q4 2025, with total volumes of approximately A\$333 million for transactions above A\$10 million, the highest quarterly outcome since 2022. While investor sentiment remained cautious through the first three quarters of 2025, Q4 saw several high-profile assets transact across the metro precincts.

Although sentiment appears to have stabilised, the recent decision by the Reserve Bank of Australia (RBA) to increase the cash rate is likely to temper near-term activity as investors recalibrate required returns, longer-term yield expectations and underwriting assumptions.

Yields stable across all precincts except St Kilda Road

Yields across majority of Melbourne’s fringe and suburban office markets have stabilised for the third consecutive quarter, following a period of sustained expansion throughout the current cycle. The exception is St Kilda Road, which has experienced a 30bps increase in average prime yields. We believe market pricing has reached peak levels, reflecting the culmination of upward yield movement observed in recent years.

As of Q4 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.

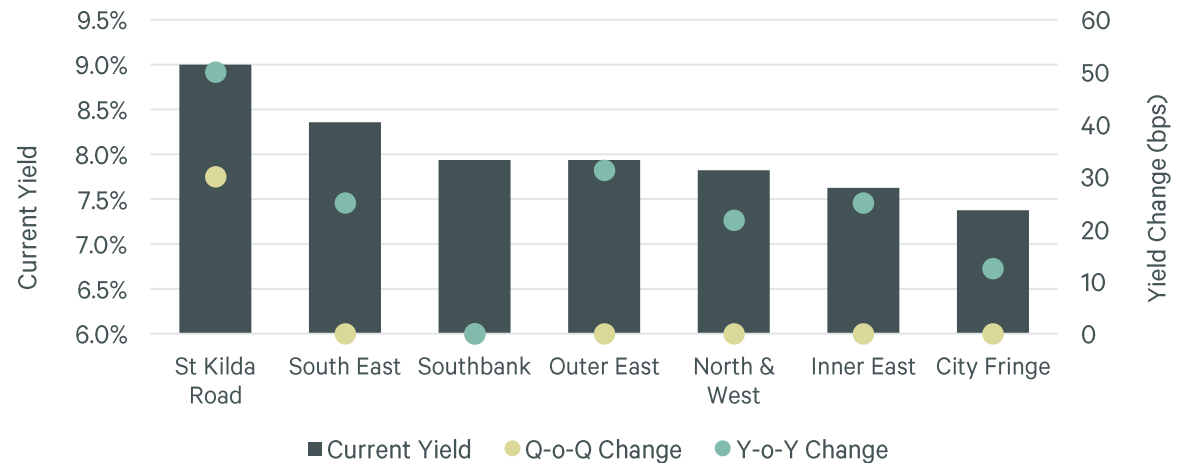
Investor preference remains firmly focused on high-quality properties in strategic fringe and suburban locations. This demand continues to shape yield movements and support local investment activity. The bifurcation between high-performing and underperforming precincts is expected to persist throughout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