

FIGURES | MELBOURNE CBD OFFICE | Q1 2026

# Investment activity slows to a halt. Occupier activity remains healthy amidst uncertainty.

▲ **772 AUD/sqm**  
Net Face Rent (+1.1% q-o-q)

▼ **49.2%**  
Prime Incentives (-6 bps q-o-q)

▲ **18.95%**  
CBD Office H2 2025 Vacancy (+103bps h-o-h)

▶ **7.08%**  
Prime Yield (Stable q-o-q)

Note: Arrows indicate change from previous quarter / half / year.

## Key Points

- Melbourne's CBD has experienced its strongest period of absorption since H2 2021, with a recorded +28,029sqm. This also equates to the strongest 12-month net absorption recorded since before the pandemic, specifically 2018, when absorption exceeded 150,000sqm.
- The major office completion of 51 Flinders Lane was recorded in Q1 2026. Forward annual supply remains subdued, with only 25,000sqm of new stock expected between 2027 and 2030. The supply drought could extend beyond 2030 as feasibility pressures rise.
- Vacancy in Melbourne has risen to 19.0%, representing a 103bps increase from H1 2025. The increase in vacancy is attributed to the c.100,000sqm of net supply recorded in H2 2025.
- Prime net face rents increased by 1.1% over Q1 2026. Prime effective rents experienced similar growth, supported by stabilising incentives across most precincts.
- No major CBD transactions were recorded in Q1 2026. Yields held stable over the quarter, although we currently expect to record yield softening later this year.

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

Melbourne CBD	1Q26	4Q25	1Q25	Q-o-Q Change	Y-o-Y Change
GFR	<b>AUD 1,000</b>	AUD 989	AUD 957	+1.0%	+4.4%
NFR	<b>AUD 772</b>	AUD 764	AUD 738	+1.1%	+4.6%
Incentives	<b>49.2%</b>	49.3%	48.6%	-6 bps	+66 bps
NER	<b>AUD 394</b>	AUD 389	AUD 381	+1.2%	+3.3%
Yield	<b>7.08%</b>	7.08%	7.08%	Stable	Stable

Source: CBRE Research

## The Big Picture – The Impact of Uncertainty

### Melbourne occupancy and enquiry volumes holding steady despite uncertainty

Over Q1 2026, Melbourne’s office occupancy rose to 65%, its highest level since the pandemic, and third consecutive quarterly increase, despite rising fuel costs and elevated uncertainty. Our week-by-week analysis of occupancy over the month of March<sup>1</sup> shows little impact from the conflict in the Middle East.

At the same time, enquiry volumes have started strong in 2026, with c.78,000sqm of enquiry across the CBD recorded. Of this, c.29,000sqm took place in the month of March, representing a result that is broadly consistent with the historical average.

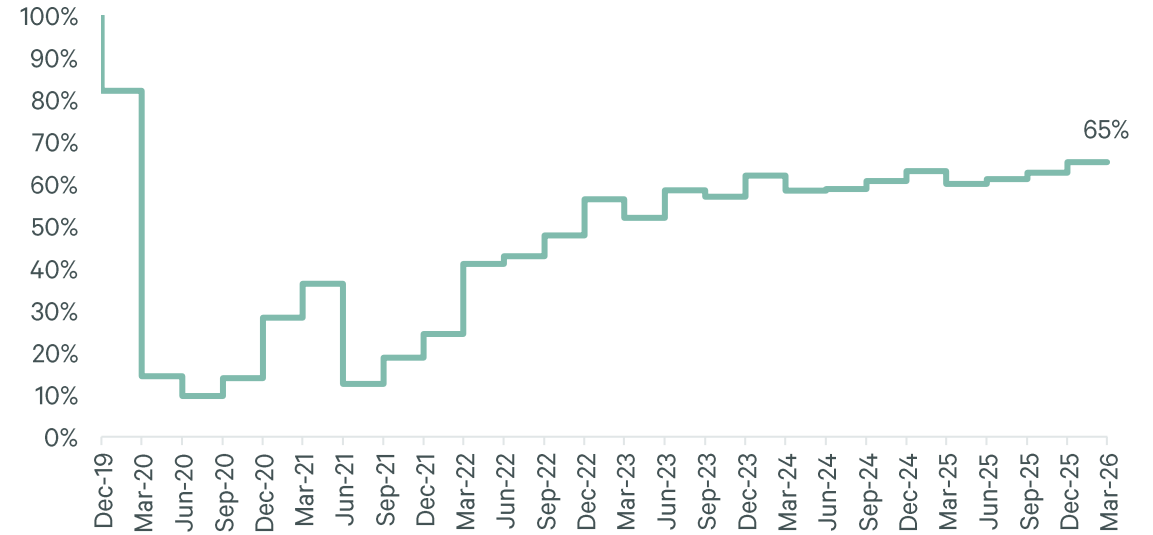
As of publication, we expect these two variables – occupancy and occupier activity – to be unimpeded by ongoing uncertainty. Whilst there is considerable downside risk to this view, we believe that Melbourne’s office market fundamentals are broadly unchanged, with the impact of a prolonged, subdued supply pipeline likely to retain the elevated sense of tenant urgency.

### Development feasibility pressures to escalate further amidst rising energy prices

The biggest tailwind to our Melbourne office thesis remains the subdued supply pipeline. In our updated April 2026 market outlook, we detailed our view that construction costs are likely to escalate at a rate of 6.5% p.a., materially higher than our estimates from January. This is owing to rising energy prices that are likely to flow through various parts of the economy, including our domestic construction market.

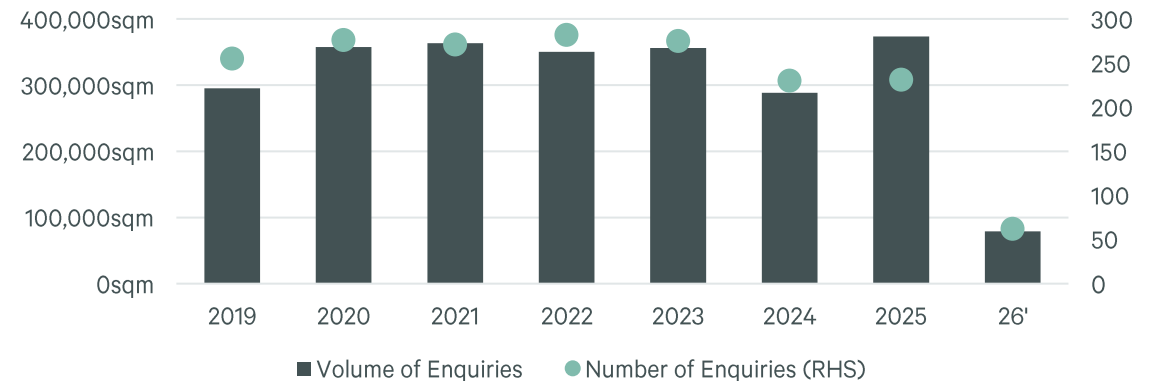
We note this comes at a time where Australia was already set to face elevated construction cost pressures, with development on AUKUS and the 2032 Brisbane Olympics already impacting domestic labour and raw material prices. As these developments progress, we expect the economic rent requirements for an office development to rise above our current ‘bear case’ of \$1,750 per sqm for a Melbourne CBD development in 2030. This is 60% above current premium market rents. With little reprieve in economic rents expected, face rents will need to rise aggressively to close this gap.

FIGURE 2: Melbourne CBD Office Occupancy by Quarter



Source: CBRE Research

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



Source: CBRE Research

<sup>1</sup> <https://www.cbre.com.au/insights/reports/melbourne-cbd-office-occupancy-q1-2026-update>

## Office Demand

### Net absorption surges to highest level since 2021

Melbourne CBD has recorded its strongest period of positive net absorption since H2 2021. As of H2 2025, six-month net absorption totalled +28,029 sqm, a material improvement from levels seen in prior years.

By grade, Premium and Grade A assets recorded positive net absorption of +7,471 sqm and +42,532 sqm, respectively. This is the first time since H2 2022 that both prime grades recorded positive absorption in the same period, reinforcing tenant flight-to-quality as a defining market theme.

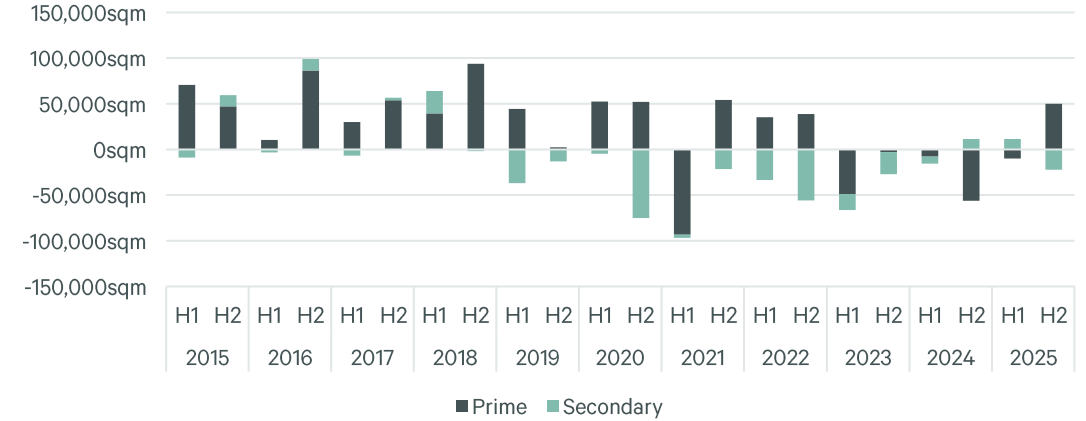
In contrast, Secondary stock underperformed, with Grade B and Grade C stock experiencing negative absorption of -11,955 sqm and -10,251 sqm, respectively. In our view, Grade B stock has benefitted over the last 18-months from tenant centralisation, albeit this trend is now fading.

### Rising occupier urgency and the ‘final wave’ of centralisation lift CBD demand

We attribute the sudden rise in net absorption to two key factors: rising tenant urgency (see page 2) and what we believe is the final remnant of Melbourne’s office centralisation. Notably, St Kilda Road has recorded significant negative absorption of -30,398sqm. This coincides with the +32,485sqm of positive absorption recorded in Docklands, which we believe is where majority of new Docklands tenants have moved from.

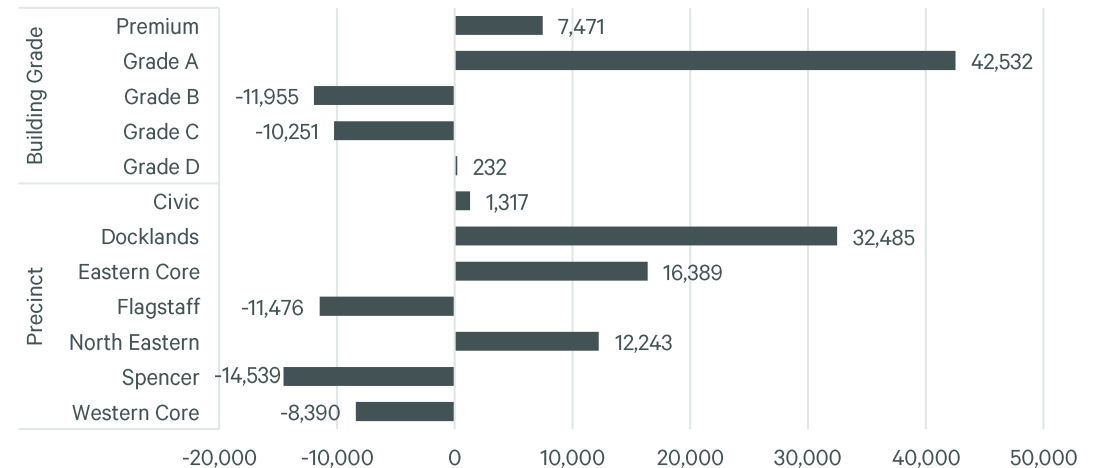
Our view is that Melbourne’s centralisation cycle has largely run its course. Recent feedback indicates a pivot from primarily cost-led decisions to culture-led and workplace-experience considerations. Occupiers that have not already moved for cost reasons are increasingly inclined to remain in fringe and suburban precincts where they are proximate to peer clusters. For tenants that still prioritise cost efficiency, Docklands remains compelling and is likely to stay attractive through the medium term, particularly for those seeking large contiguous availabilities.

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, H2 2025



Source: PCA, CBRE Research

## Supply

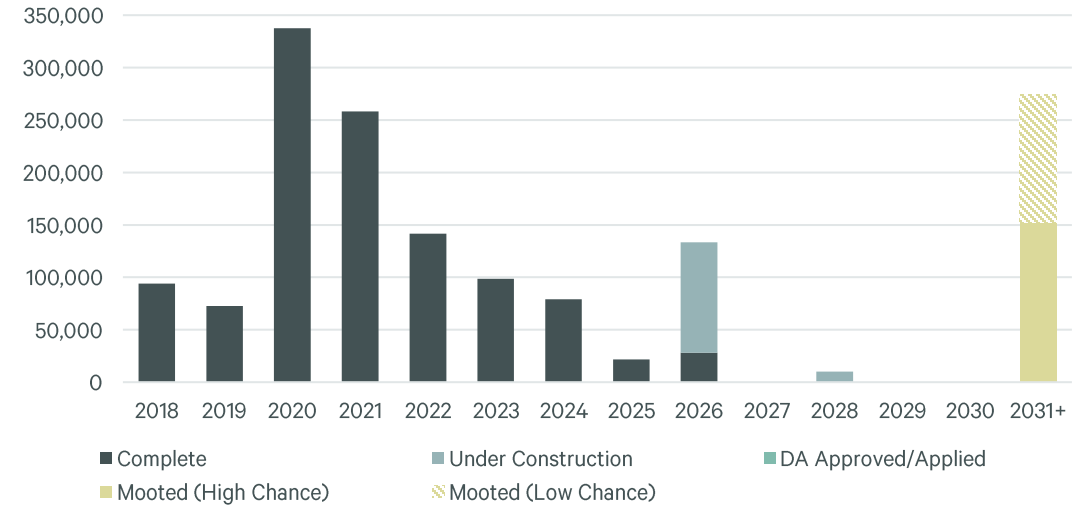
### Upward pressure on construction costs likely to weigh on future activity.

Melbourne recorded the major completion of 51 Flinders Lane in Q1 2026, the first of three major completions expected this year. We have made no material changes to the timing of projects in the forward pipeline. We continue to expect 2026 will be the last year of major activity until 2030.

As of Q1 2026, we note three major trends shaping the supply outlook; elevated vacancy, ongoing feasibility challenges and accelerating construction cost escalation. These three factors paint a bleak view for development activity across the CBD. Our current view of no major completions until 2031 (beyond projects already under construction) is becoming increasingly likely as the quarters progress.

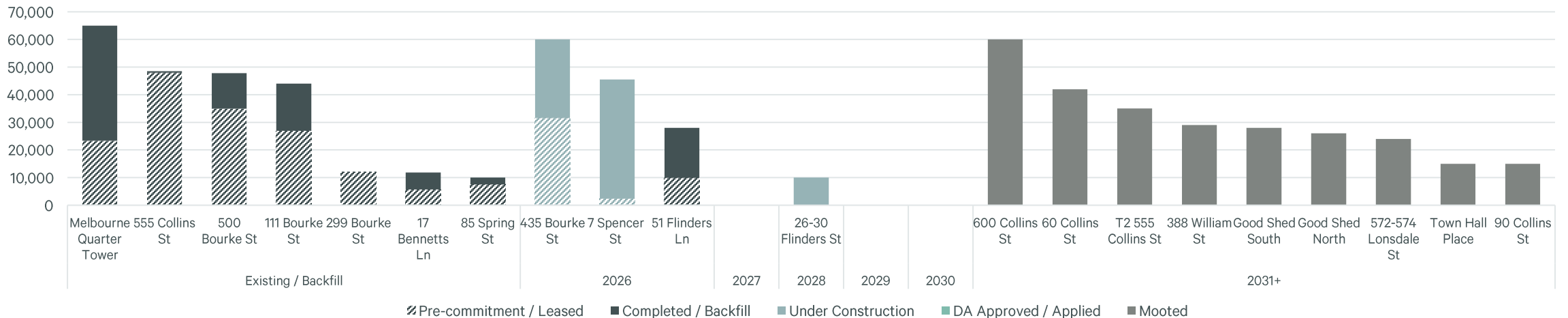
All three factors mentioned above are unlikely to improve over the next 12-months. If this holds true, it is likely we reach 2027 with no new construction starts, and a view that any mooted stock being delivered will likely emerge in 2032 and beyond, further aiding the short-term rental and vacancy outlook.

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 rises owing to uptick in net supply

Melbourne CBD’s overall vacancy rate increased moderately by 103bps to 18.95% in H2 2025. As expected, the significant amount of supply brought back onto the market in H2 2025 has driven this increase in vacancy, offset partly by the strong net absorption recorded.

Vacancy increased across all major asset grades in H2 2025, except for Premium stock, which recorded a modest decline of 62bps to 15.81%. The majority of net supply was recorded in Grade A stock, and as such, vacancy has exceeded 20% for the first time since the mid 1990s.

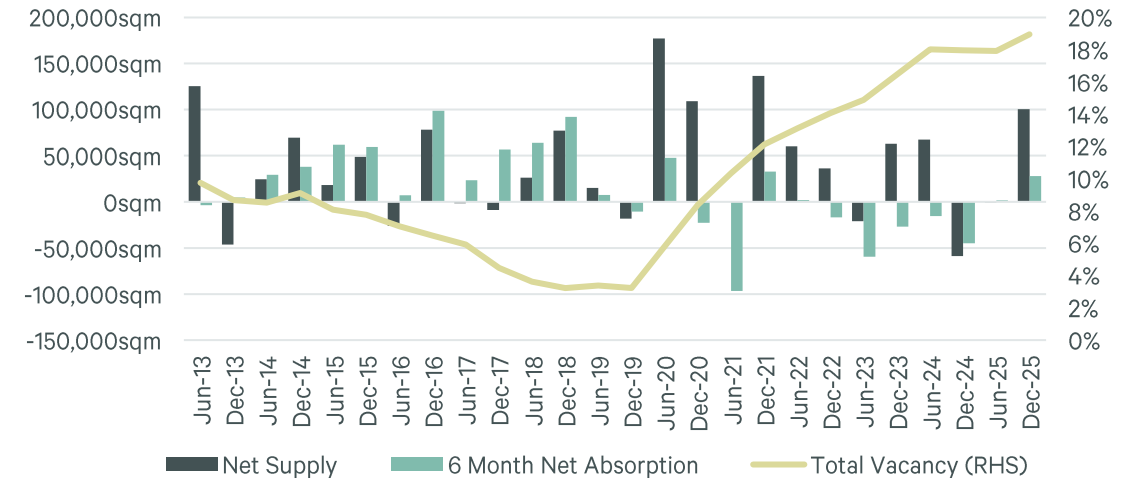
Prime-grade vacancy rose by 79bps over the past six months, outperforming secondary stock which rose by 167bps. We do not expect vacancy to remain at current levels and are forecasting vacancy will peak in H2 2026, reflecting the delivery of approximately 100,000 sqm of currently uncommitted stock. Despite this, we have observed shrinking availability in high-rise vacancies across the CBD. In turn, our view remains that current headline vacancy is not a true reflection of market activity, with select pockets of the market ripe for outperformance as the combination of availability dynamics and subdued supply impact Melbourne over the coming years.

### Prime availability rises, largely owing to 2026 supply completions.

CBRE Research’s prime availability data as of Q1 2026 shows significant increases across all tenant size categories. We attribute this largely to the 2026 supply completions, with approximately 80,000sqm of un-precommitted stock entering our Q1 2026 availability estimates.

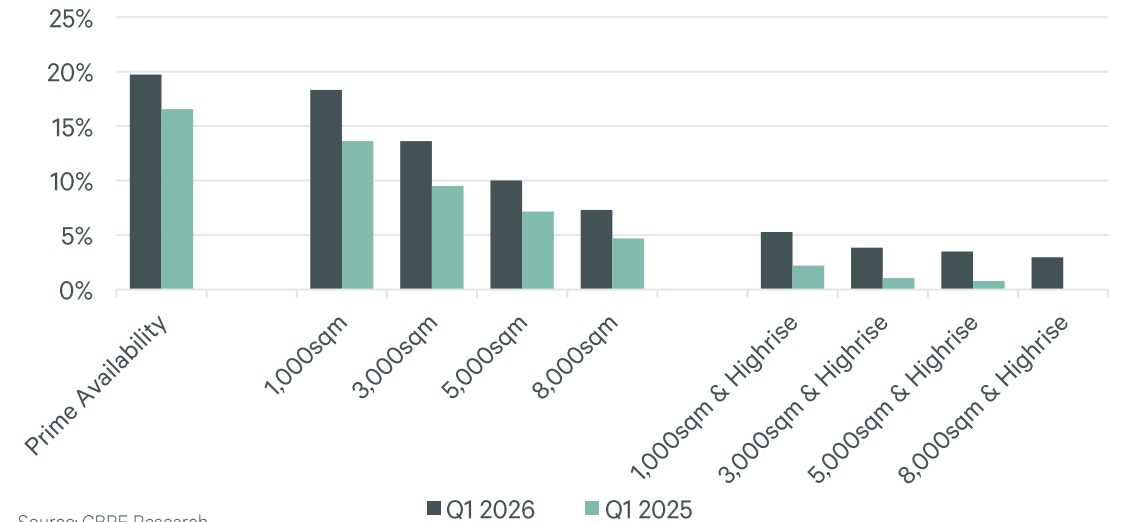
This result is expected. By all accounts vacancy has been likely to rise over the short term due to the significant supply completions forecast. However, there is increasing nuance between precincts as tenant decision making becomes highly customised to the dynamic playing out within and between precincts.

FIGURE 8: Melbourne CBD Office | Market Balance



Source: PCA, CBRE Research

FIGURE 9: Melbourne CBD Office | 12-Month Prime Availability by Tenant Requirement and Quarter



Source: CBRE Research

## Rental Performance

### Face rents continue to grow at a modest pace.

Face rents across Melbourne have seen moderate growth over Q1 2026. Of Melbourne CBD’s seven office precincts, six recorded growth over the last 3-months, with average CBD growth of 1.1%. The eastern core continues to outperform the CBD average as occupier demand continues to concentrate on this sub-set of the market.

We reaffirm our belief that 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 4.6% year-on-year, two of Melbourne’s precincts have recorded elevated growth in the high-single digits, offset by low-single digit growth elsewhere. Given the constrained supply outlook set to persist, we project this bifurcation will continue over the medium term, with current forecasts highlighting select precinct outperformance driven by leasing demand differentials.

### Incentives hold stable across the CBD.

CBD average prime effective rents increased on both a quarterly and annual basis in Q1 2026, rising by 1.2% quarter-on-quarter and 3.3% year-on-year. This marks the second consecutive quarter in which the majority of precincts recorded positive or neutral quarterly growth.

Incentives remain the key lever in Melbourne’s rental recovery. While a few outlier precincts persist, most of the market has now logged consecutive quarters of incentive stability. Our prior view that incentives have largely peaked across Melbourne is under pressure. With economic uncertainty rising, we note that select landlords may be inclined to aggressively raise incentives to mitigate downside risk during this period. This is coupled with our view on accelerating construction costs price escalations, driven by rising energy prices, which will flow onto fit-out costs. Given tenant demand is heavily dependent on speculative fit-out activity, this may also have an impact on headline incentives going forward.

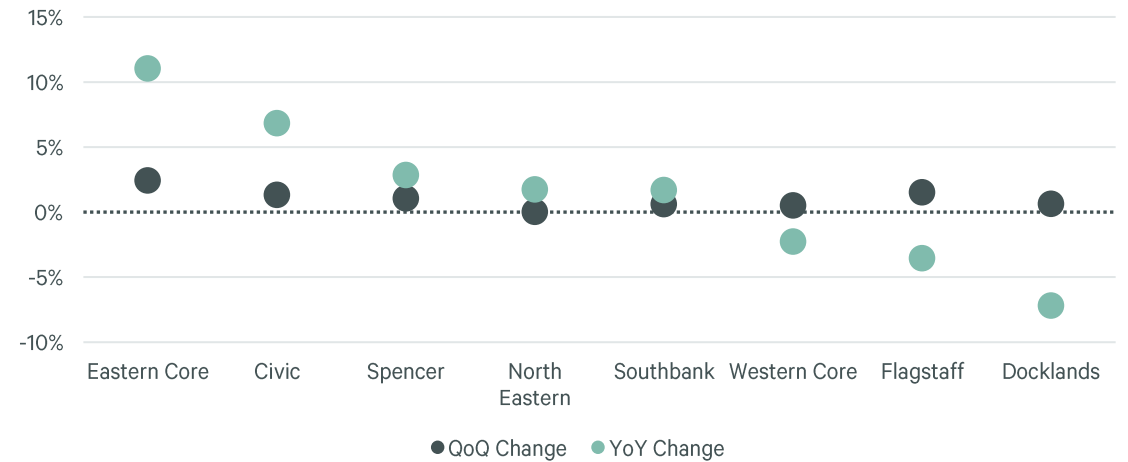
This is offset by continued pressure on the supply pipeline, as well as shrinking availability in core, high-rise locations. The net impact of this is unlikely to be uniform across precincts and assets. We will continue to monitor the situation as it evolves.

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

Melbourne CBD Precinct	Prime NFR (AUD/sqm)			Prime NER (AUD/sqm)			Prime Incentives (%)		
	1Q26	Q-o-Q Change	Y-o-Y Change	1Q26	Q-o-Q Change	Y-o-Y Change	1Q26	Q-o-Q Change	Y-o-Y Change
Civic	770	0.7%	6.0%	409	1.3%	6.8%	46.9%	-33 bps	-33 bps
Docklands	543	0.6%	1.4%	185	0.6%	-7.2%	65.8%	Stable	317 bps
Eastern Core	993	2.4%	10.6%	608	2.4%	11.0%	39.3%	Stable	-25 bps
Flagstaff	588	1.5%	1.5%	279	1.5%	-3.6%	52.5%	Stable	250 bps
North Eastern	637	Stable	1.7%	292	Stable	1.7%	54.2%	Stable	Stable
Spencer	728	1.0%	2.8%	327	1.0%	2.8%	55.0%	Stable	Stable
Western Core	770	0.5%	Stable	398	0.5%	-2.3%	48.3%	Stable	125 bps

Source: CBRE Research

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



Source: CBRE Research

## Investment Market

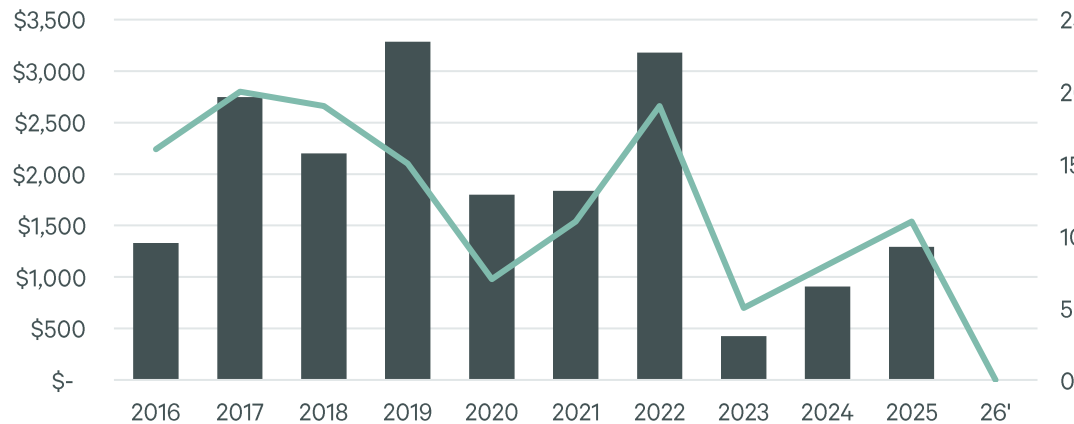
### Investment activity halts in Q1 2026 amidst uncertainty, akin to 2020.

Over the first three months of 2026 no major CBD office transactions took place. This is the first time since 2020 that the first quarter of the year has ended with zero deals. There are two commonalities between both periods; elevated uncertainty and a rising interest rate environment. As of publication, the RBA has lifted Australia’s cash rate twice, with market expectations anticipating two additional hikes this cycle. At the same time, geopolitical uncertainty is at its highest level in recent years, which we expect is heavily weighing on investor sentiment. Currently we anticipate 2026 will mark a slow year for transaction activity, likely below 2025’s level of c.1.3 billion.

### Yields hold stable in Q1, likely to rise over remainder of 2026.

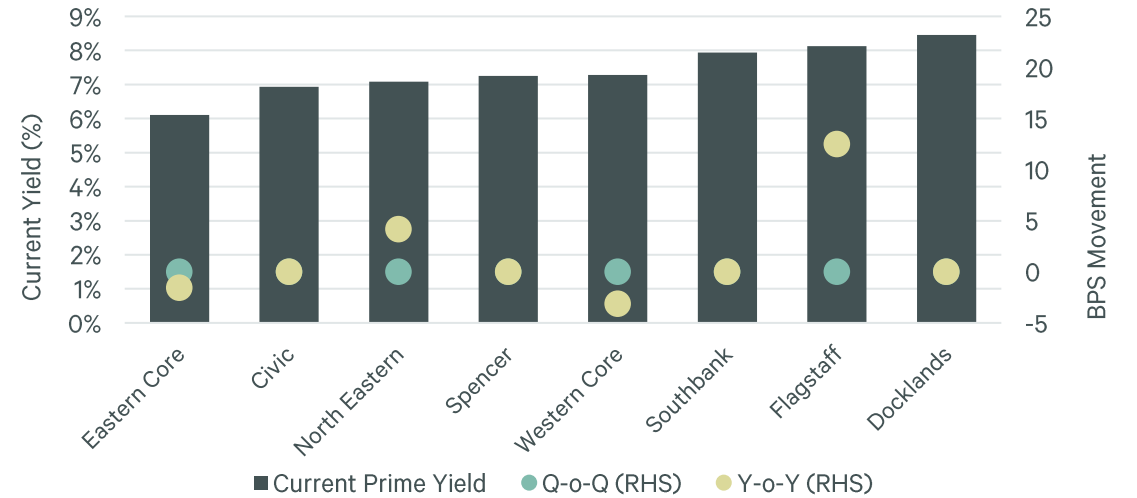
Prime CBD yields held stable at 7.08% in Q1 2026, marking the fourth consecutive quarter of average yield stabilisation. Our prior view that we have reached the peak yields for this cycle is unlikely to materialise, largely due to rising interest rates and by extension, upward pressure on 10-year bond yields. We expect yield expansion over this phase of the cycle to not be uniform across precincts.

FIGURE 12: Melbourne CBD Office | Sales Activity<sup>1</sup>



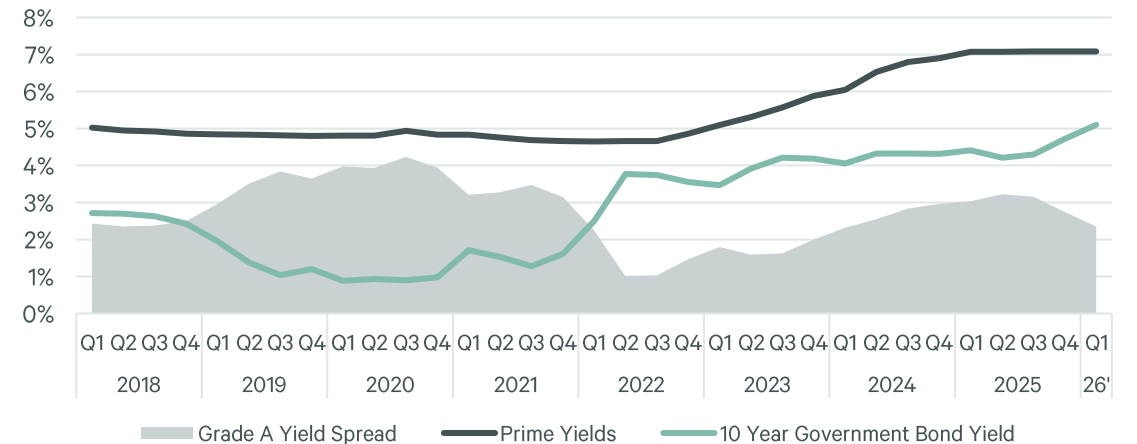
Source: CBRE Research  
<sup>1</sup>Includes sales above >\$20m AUD.

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



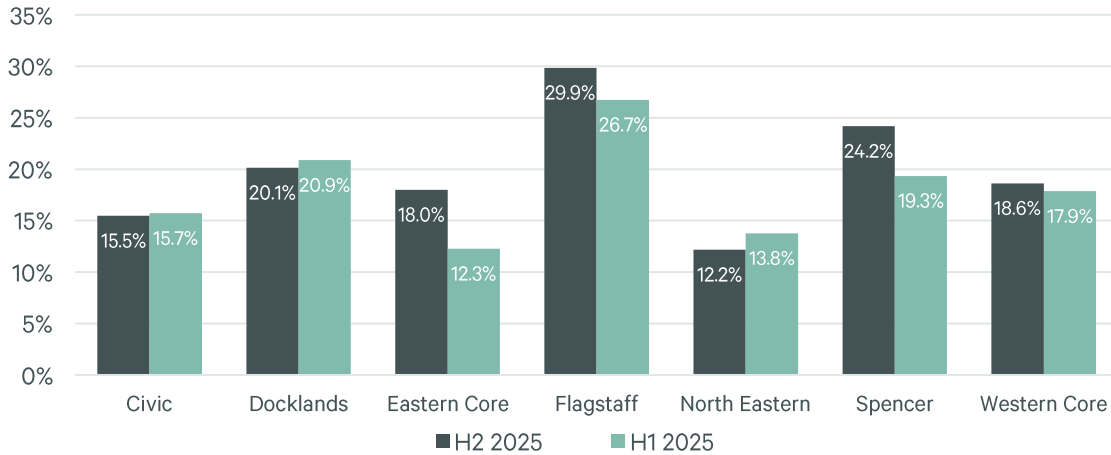
Source: CBRE Research

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



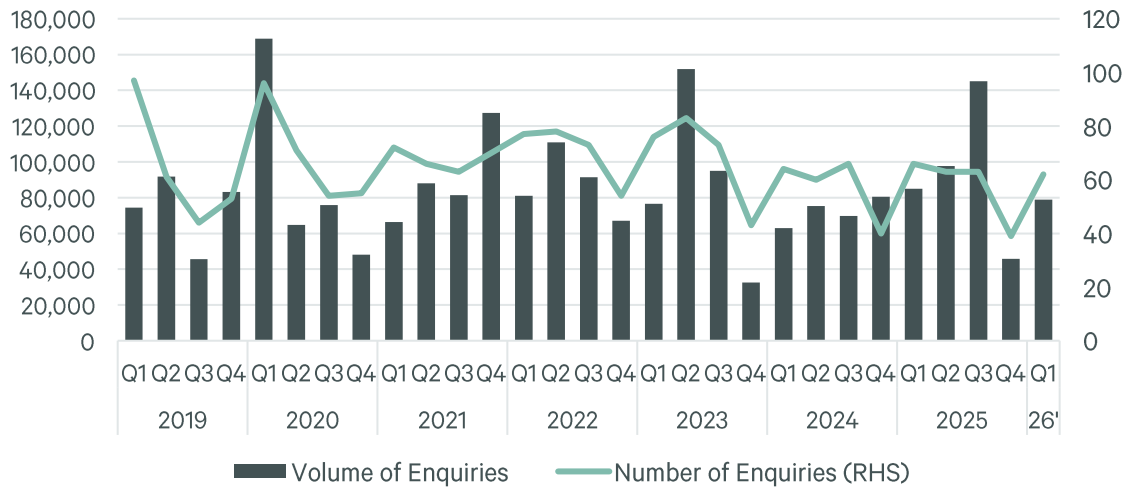
Source: RBA, CBRE Research

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



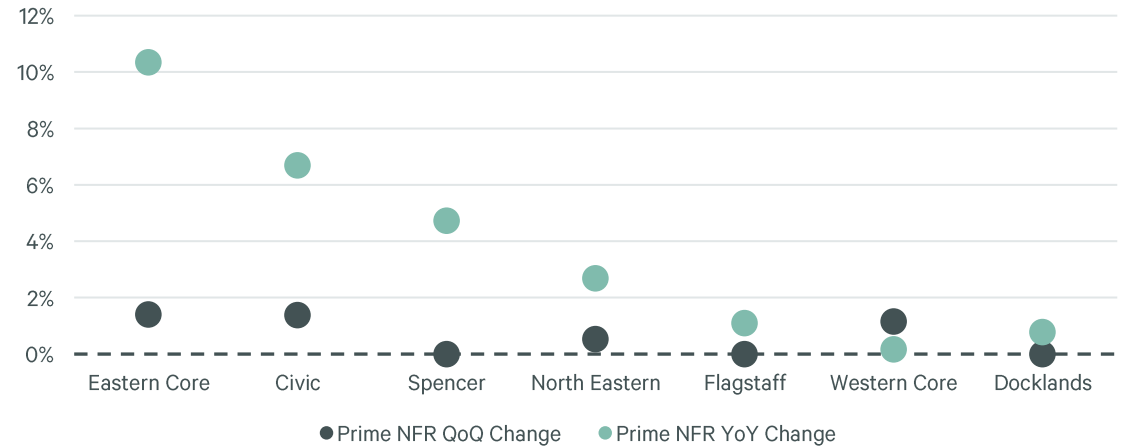
Source: PCA, CBRE Research

FIGURE 16: Melbourne CBD Office | Tenant Enquiry Levels



Source: CBRE Research

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



Source: CBRE Research

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



Source: PCA, CBRE Research

## Contacts

### Research

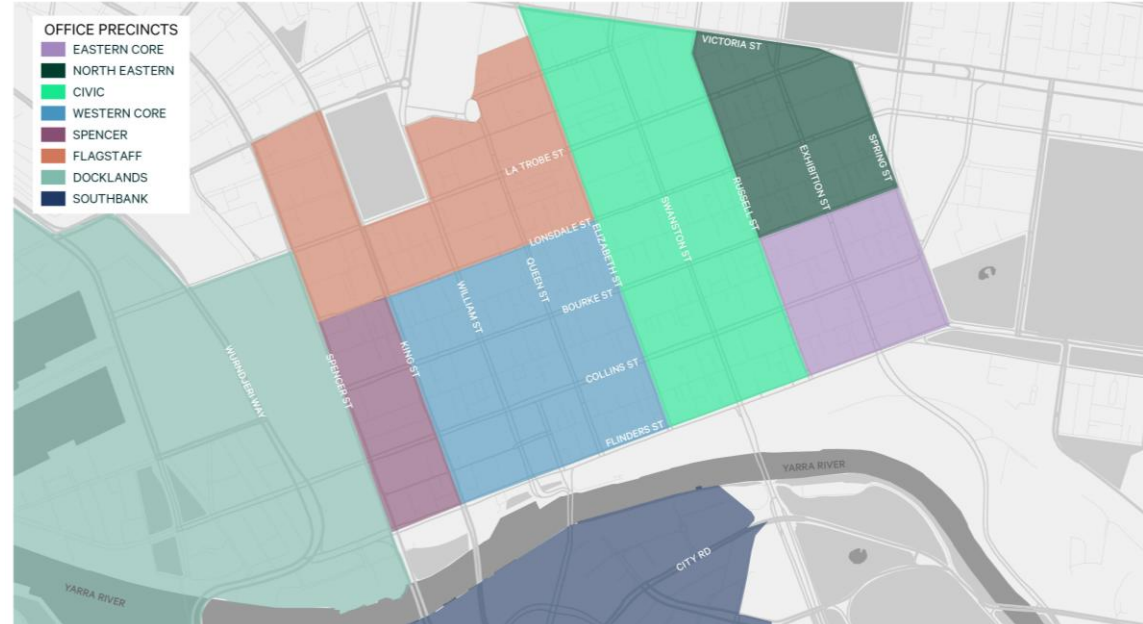


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## Office Submarket & Precinct Maps

### Melbourne CBD



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