

FIGURES | MELBOURNE | Q3 2026

Rents continue to normalise. Yields set to increase over 2027.

▲ 5.2%

Victoria Unemployment Rate

▲ 49.2%

Prime Office Incentives (+6bps q-o-q)

▼ \$155.4

Super Prime Industrial Net Effective Rent

▼ 5.83%

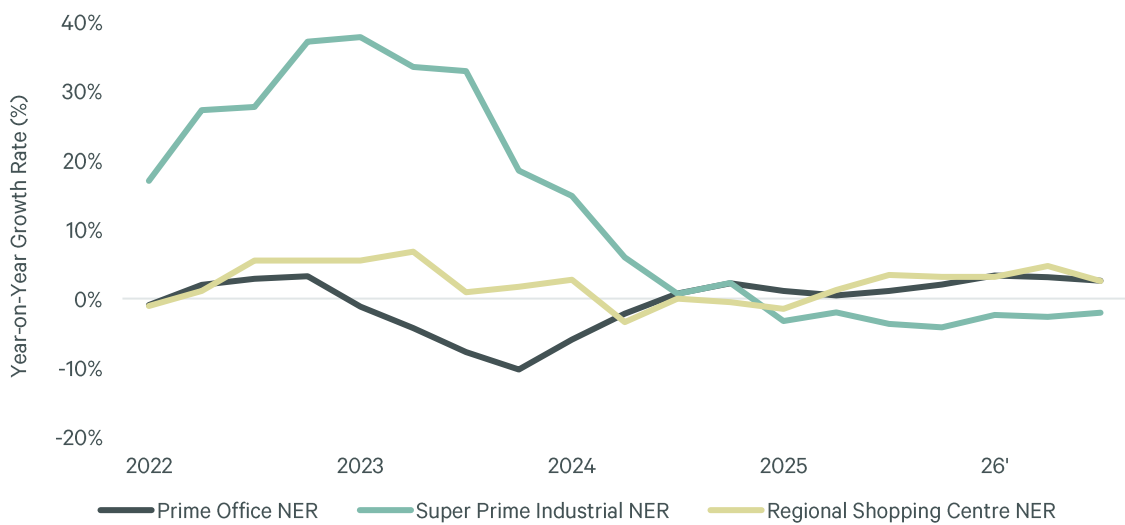
Regional Shopping Centre Yield (-5bps q-o-q)

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

Key Points

- **OFFICE:** Enquiry volumes slowed in Q3 as no major (10k+ sqm) occupiers entered the market. However, there are several major occupiers actively seeking space for the next several years.
- **OFFICE:** Transaction activity remained subdued in Q3 2026. There is over \$2bn actively on the market, with several assets expected to transact over Q4. Prime yields expanded by 11bps over the quarter, with at least 15bps of further expansion forecast over the next 12-months.
- **INDUSTRIAL:** Take-up continued at normalised rate with c.300,000 sqm in activity recorded in Q3. The North precinct led in activity. Super Prime effective rents declined slightly.
- **INDUSTRIAL:** Investment volumes reached \$700m in Q3 across 31 sales. Yields across all grades held flat this quarter although we're forecasting slight softening in 2027.
- **RETAIL:** Supply of c.325,200 sqm over 2026-2027 is weighted to neighbourhood and large format centres, with \$931m transacting in Q3 at stable yields.

FIGURE 1: Melbourne | Year-on-Year Net Effective Rent Growth Rates by Sector



Source: CBRE Research

Office Leasing

Enquiry volumes drop as no large occupiers come to market.

Enquiry activity in Q3 2026 has slowed to a more normalised level of 53,000 sqm across 59 briefs, representing an average brief size of 900 sqm. This follows several consecutive quarters where large tenants have come to the market, including Deloitte in Q2 2026 for 25,000 sqm.

We believe this is largely a cyclical trend, not evidence of a slowdown in current or future activity. As largely commented on over the last several quarters, there is a rising urgency that many larger tenants are feeling with a limited future supply pipeline that has likely ‘front-loaded’ activity. In our view, the uncertain economic environment and upcoming VIC election are likely having minimal impact on occupier activity currently.

Instead, this uncertainty is likely weighing on landlord confidence with respect to rental rates. Specifically, the pace of rental growth has slowed significantly over the last several quarters, with a prime q-o-q growth rate of 0.3% recorded. We now expect rental growth to remain subdued across most of the market over the next 6-12 months.

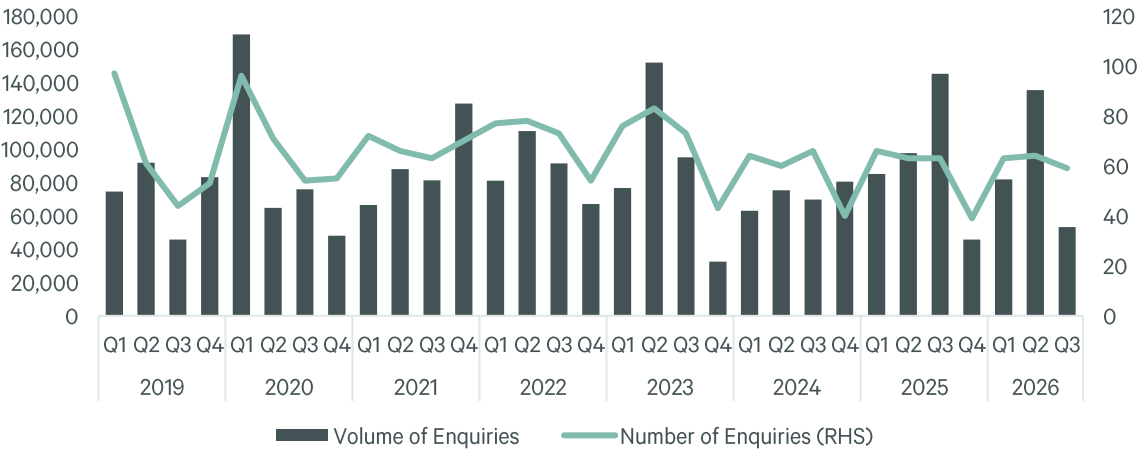
Backfill to delay next supply wave.

Melbourne recorded no major completions in Q3 2026, with 435 Bourke Street scheduled for completion later this year. We continue to note that major backfill is expected to enter the market over the next few years, with close to 100,000sqm of previously unexpected vacancy set to emerge over 2027 and 2028.

This creates a complicated picture for existing projects in Melbourne’s supply pipeline. Broadly, we now expect the next supply wave will emerge in 2030 at the earliest, with 600 Collins Street the only major development that we expect to commence construction in the next few years.

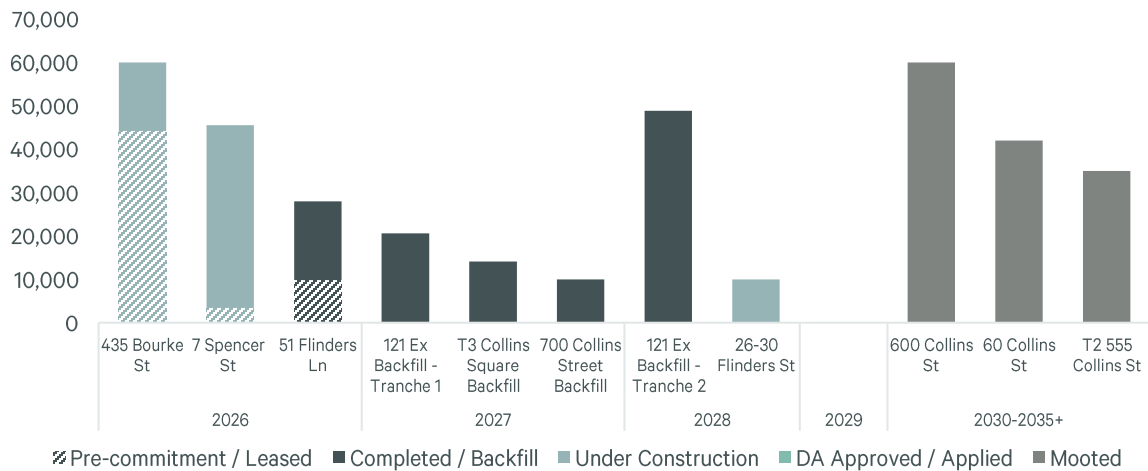
A recent public announcement of the upcoming sales campaign for the 60 Collins Street site puts that development at risk. Given the Collins Street, Eastern Core address, this development was largely expected to see strong tenant demand, however, persistent feasibility challenges outweigh the upside.

FIGURE 2: Melbourne CBD Office | Office Tenant Enquiry Volumes by Quarter



Source: PCA, CBRE Research

FIGURE 3: Melbourne CBD Office | Upcoming Major Development Projects



Source: CBRE Research

Office Capital Markets

Limited CBD activity continues. Over \$2bn of assets actively on the market for Q4.

Over the first three quarters of 2026 only \$74m of major CBD office transactions took place, representing the lowest level of CBD activity on record.

As we enter Q4 2026, there are several on and off market assets that are set to be marketed. Approximately \$2bn of Melbourne office stock is set to enter the market, representing one of the largest concentrations of potential sales volume in recent years.

Notable assets on the market include 11 Exhibition Street, 477 Collins Street (Olderfleet) and a 50% stake in CBW.

Yields rose slightly in Q3. Further softening anticipated in the coming months.

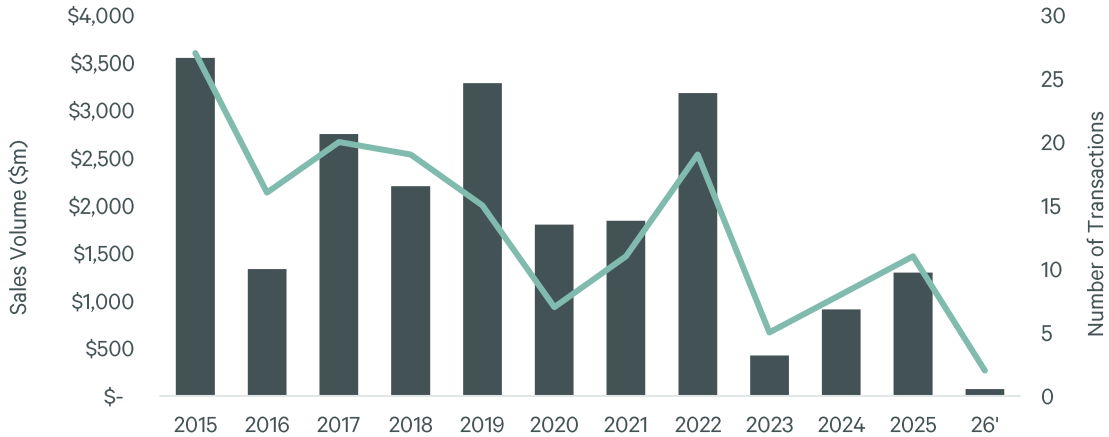
The Prime CBD yield stability that has been observed since H1 2025 has concluded in Q3 2026, with 11bps and 16bps of yield expansion recorded across prime and secondary yields, respectively.

Several significant factors have emerged in recent months supporting this change. Notably, the sudden rise in 10-year bond yields both domestically and globally has caused pricing, particularly for secondary and non-core stock which are set to face heightened pressure.

This has coincided with a rate hiking cycle beginning to emerge across several developed economies, including Australia where recent market pricing suggests there will be at least one more rate hike this cycle (to 4.85%), with the cash rate set to peak just below 5%.

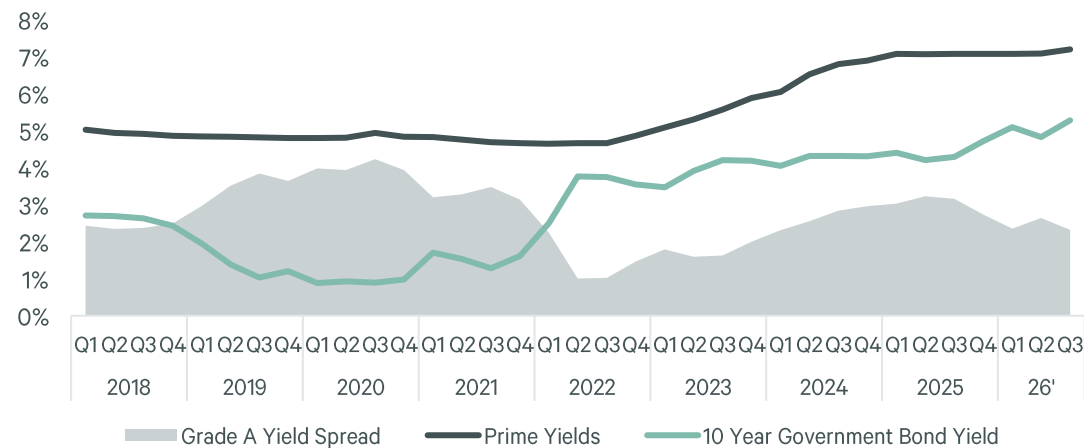
CBRE Research holds a house view that 10-year Australian bond yields will remain above 5% for at least the next 12 months. This environment will, in our view, push office yields higher, with at least another 15bps of expansion forecast as of Q3 2026.

FIGURE 4: Melbourne CBD Office | Sales Activity¹



Source: CBRE Research

FIGURE 5: Melbourne CBD Office | Prime Indicative Yields vs Commonwealth Government 10-yr Bond Yields



Source: CBRE Research

Industrial Leasing

Take-up normalises following a strong start to the year

Gross take-up in Q3 2026 totalled c.300,000 sqm, a slight decline from the prior quarter, reflecting a continuation of conservative leasing activity as occupiers adjust to a more uncertain environment. While activity eased from recent highs, occupier demand remains fundamentally resilient, with a healthy pipeline of active requirements continuing across Melbourne’s major industrial precincts.

Leasing activity has become more balanced than earlier in the year, with no single transaction dominating quarterly volumes. The West remained the largest contributor to demand, while the North and South East also recorded healthy leasing activity, highlighting the breadth of occupier demand across the market.

Looking ahead, leasing activity to remain relatively subdued over Q4 2026, as many occupiers who aren’t already negotiating on a lease opting to wait for the Victorian November election result before making long-term occupancy decisions.

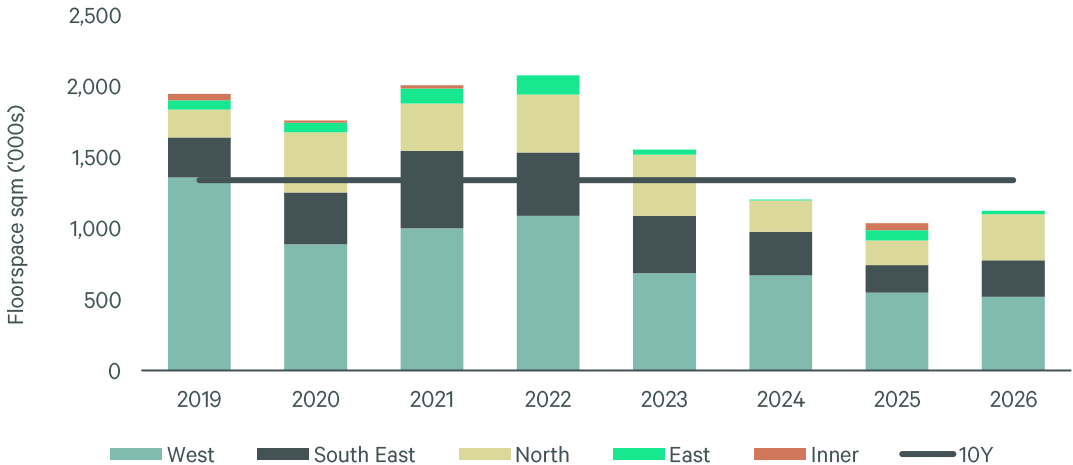
Supply remains back-ended as speculative development slows

New completions remained subdued during the quarter, with the majority of Melbourne’s development pipeline weighted towards later delivery. While near-term supply is relatively modest, completion volumes are expected to accelerate progressively over the remainder of the year.

Beyond 2027, the forward development pipeline remains above long-term averages, however, more than 90% of projects remain in a DA Approved or Applied stage, with majority of these projects currently pre-commitment only and unlikely to commence construction for the next 24-months.

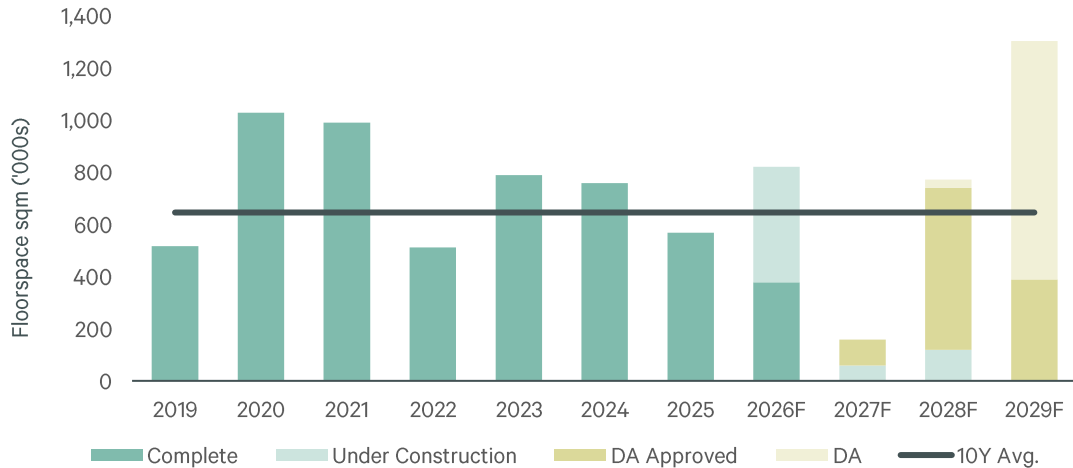
Although construction cost escalation has moderated from peak levels, development feasibility remains challenging. Combined with labour constraints and major infrastructure activity, these factors are expected to keep new supply relatively disciplined over the medium term.

FIGURE 6: Melbourne Industrial | Gross Take-Up 2019-2026YTD, by Precinct



Source: CBRE Research

FIGURE 7: Melbourne Industrial | Development Supply Pipeline 2019-2029F



Source: CBRE Research

Industrial Capital Markets

Transaction volumes record a second quarter of strong consecutive growth

Investment activity strengthened considerably during the quarter (totaled approximately AUD 1.2 billion, for transactions ≥AUD 5 million), underpinned by one major transaction in the \$350m sale of 45 Donnybrook Road. Excluding this larger asset, transaction activity remained relatively modest , particularly across mid-sized investment opportunities.

Investor sentiment continues to improve gradually, although capital deployment remains selective amid elevated borrowing costs, economic uncertainty and Victoria's broader taxation environment. Buyers continue to favour high-quality assets with strong income security, while pricing remains more cautious for secondary stock.

Investment volumes are expected to remain modest through the last quarter of 2026, increasing over 2027 as confidence improves and additional high-quality assets are brought to market.

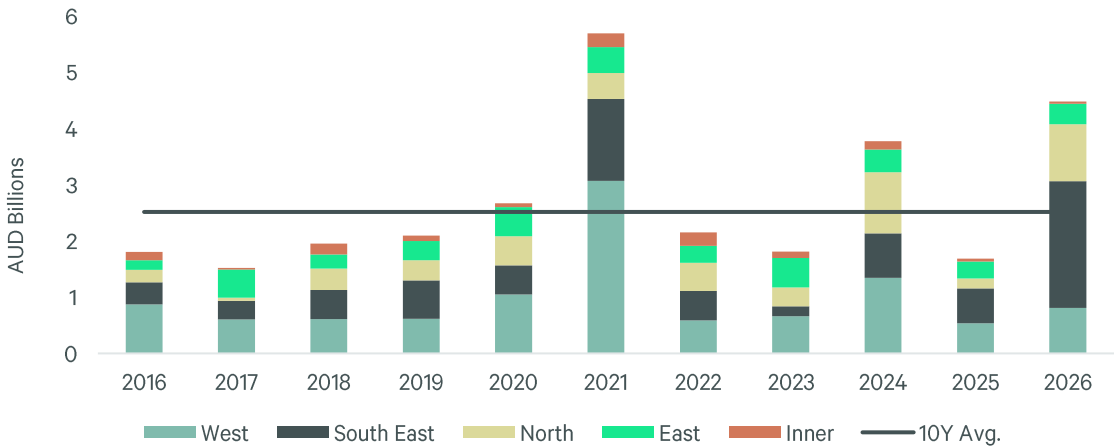
Yields hold stable, with expansion forecast over 2027.

Super Prime yields softened modestly over the quarter, reflecting a gradual repricing following the recent interest rate cycle. While further outward movement remains possible over the balance of the year, any adjustment is expected to be measured, particularly as financing conditions continue to improve.

Consistent with our office capital markets comments, several significant factors have emerged in recent months supporting this change. Notably, the sudden rise in 10-year bond yields both domestically and globally has caused pricing, particularly for secondary and non-infill stock to face heightened pressure.

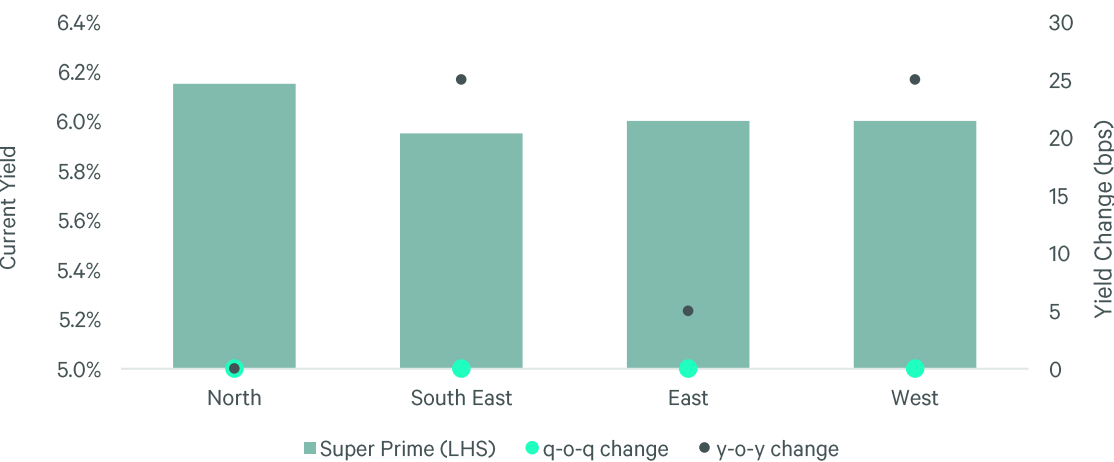
CBRE Research holds the view that industrial yields will see mild expansion over 2027, albeit, the impact of a subdued supply pipeline improving fundamentals across most of the market may have an offsetting impact on this.

FIGURE 8: Melbourne Industrial | Investment Sales (≥ AUD 5 million)



Source: CBRE Research

FIGURE 9: Melbourne Industrial | Average Current Yields and Yield Movements by Precinct.



Source: CBRE Research

Retail

Melbourne’s retail expansion shifts to growth corridors as convenience and large format retail drive future supply

Melbourne is expected to record c.325,200 sqm of new retail supply (incl. non-metro projects) over 2026-2027. The development pipeline remains concentrated in neighbourhood and large format retail (LFR) centres, which are forecast to account for c.43% and 40% of total supply, respectively, over the two-year period. This development focus reflects Melbourne's ongoing population growth, underpinned by strong migration, employment opportunities and favourable lifestyle attributes. Therefore, demand for retail facilities is intensifying, placing upward pressure on both existing infrastructure and future development needs.

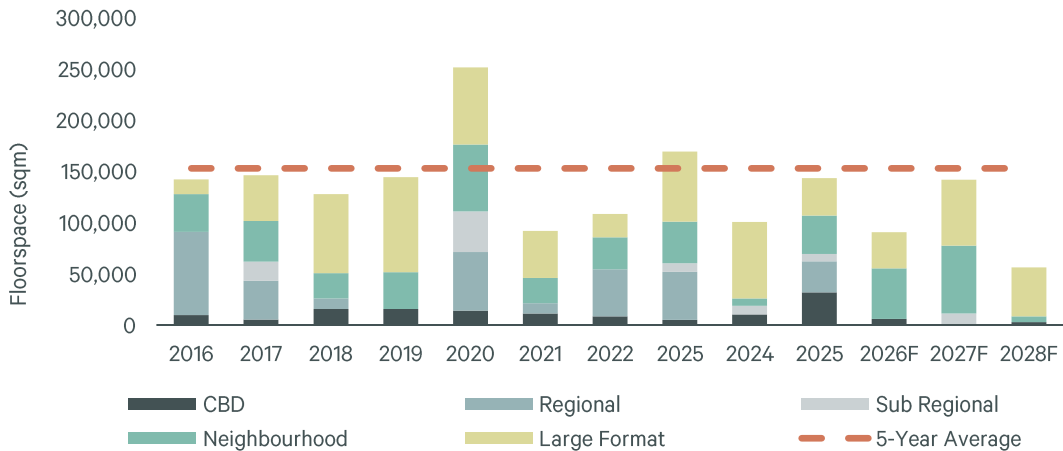
Supply across the regional centre segment remains limited. In Melbourne's mature and highly competitive retail landscape, opportunities to develop new regional centres are scarce due to land constraints, high capital costs and planning complexities. Consequently, asset owners are focusing on enhancing the performance of existing properties through refurbishments and extensions.

Investors prioritise defensive retail assets as market fundamentals remain supportive

Victoria’s retail investment market recorded \$919 million in transactions (incl. non-metro assets) during Q3 2026, demonstrating sustained investor appetite for retail assets despite ongoing economic uncertainty. Activity was highlighted by the \$328 million sale of The Glen (235 Springvale Road), reinforcing confidence in well located regional centres across Melbourne.

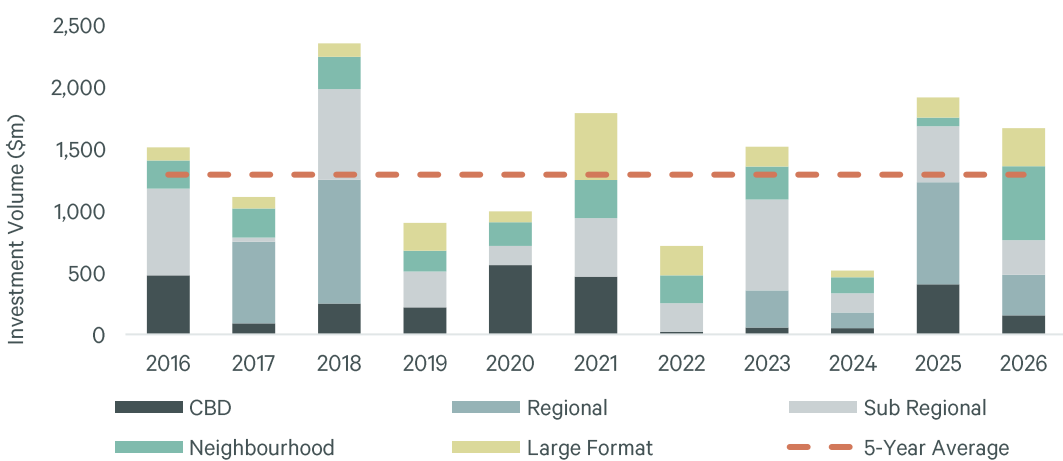
In Q3 2026, Melbourne retail yields were largely stable, with modest compression recorded in regional centres (-5 bps) and LFR (-5 bps), while prime strip yields expanded by 12 bp. Modest compression was underpinned by resilient household spending and limited new supply, although pricing remained highly selective.

FIGURE 10: Melbourne Retail | Supply by Asset Category



Source: CBRE Research

FIGURE 11: Melbourne Retail | Sales by Asset Category



Source: CBRE Research

Residential

Melbourne prices continue to decline

Melbourne’s extended period of residential price correction is showing no sign of ending. Cotality data to September was showing:

- a median house value of \$915,100, down 3.9% q-o-q and 7.3% lower than a year ago; and
- a median unit value of \$624,700, down 2.2% q-o-q and 3.8% lower than a year ago.

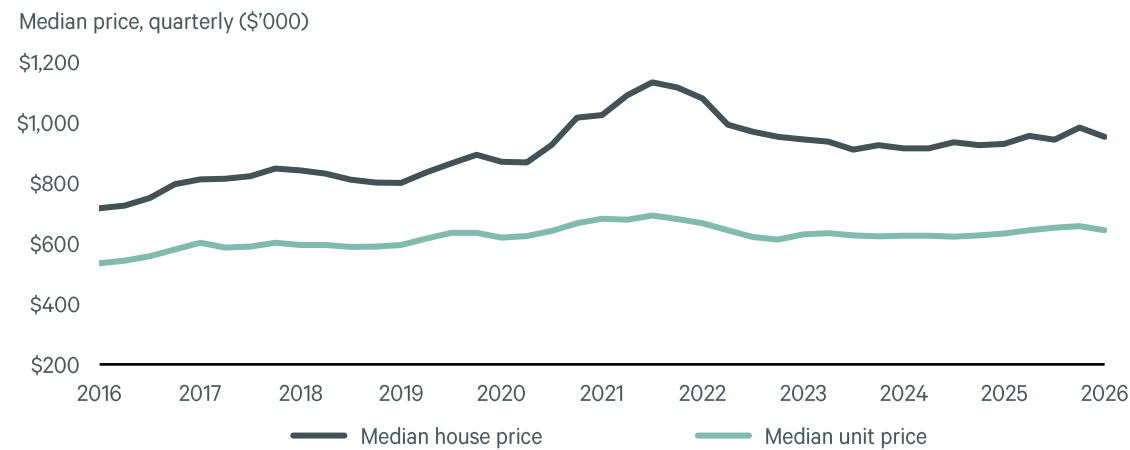
Dwelling values are now almost 8% below their most recent (late-2025) peak. Even before the broader impacts of higher interest rates, federal taxation changes ,and cost of living pressures emerged, market performance had been subdued for some time. Earlier state taxation and regulatory changes have weighed on investor activity, further dampening market conditions. Melbourne may, in fact, be ahead of the curve in terms of market correction. Prices are the lowest of the major capital cities, which provides a stronger foundation for longer-term recovery. Supporting this view, CBRE's latest Q3 Residential Valuers Survey found that one-third of valuers described local market conditions as balanced, double the proportion reported in Sydney. However, short-term price expectations over the next 12 months remain predominantly negative.

Modest rental uplift despite tight vacancy

Residential vacancy has risen a little in recent months reaching 1.8% in September, although still well below the ~3.0% balanced market threshold. Vacancy has trended below 2.0% for most of the period since mid-2022. Despite this, rental growth has moderated over the past year. REIA June data showed median house rents at \$560/week (up 1.8% over the year) with unit rents flat at \$600/week.

Despite this moderation, CBRE expects tight conditions to persist with the supply outlook constrained. CBRE forecasts Melbourne’s medium/high density pipeline to 2031 at just over 7,500 units per annum, 45% lower than the previous decade average. As a result, CBRE forecasts rents to grow at 4.9% annually over the forecast period, equating to a 27% cumulative increase.

FIGURE 12: Melbourne Residential | Median House and Unit Price (quarterly).



Source: Real Estate Institute of Australia

FIGURE 13: Melbourne Residential | High Density /Medium Density Completions, Metropolitan Melbourne.



Source: CBRE Research.

Contacts

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