CBRE

Net absorption surges to highest level nationally amidst rising tenant urgency

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

▲ 49.3%
Prime Incentives (+27 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 2022, 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 17 Bennetts Lane was recorded in Q4 2025. Forward annual supply remains subdued, with only 25,000sqm of new stock expected between 2027 and 2030, representing a historic low for the Melbourne market.
- 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 1.0% over Q4 2025. Prime effective rents experienced similar growth, supported by stabilising incentives across most precincts.
- Investment activity in Q4 totalled approximately $270m, with year-to-date activity totalling over $1.2 billion AUD, with renewed confidence among offshore buyers.

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

Melbourne CBD	4Q25	3Q25	4Q24	Q-o-Q Change	Y-o-Y Change
GFR	**AUD 989**	AUD 982	AUD 946	+0.7%	+4.6%
NFR	**AUD 764**	AUD 756	AUD 728	+1.0%	+4.8%
Incentives	**49.3%**	49.0%	47.9%	+27 bps	+138 bps
NER	**AUD 389**	AUD 387	AUD 381	+0.5%	+2.0%
Yield	**7.08%**	7.08%	6.90%	Stable	+18 bps

Source: CBRE Research

The Big Picture – There Is No Alternative (TINA)

Melbourne records strongest year of enquiry since 2016 as high-rise options tighten for blue-chip tenants

Over 2025 Melbourne's CBD recorded just over 370,000sqm of enquiry, representing the strongest year of enquiry volume since 2016. Notably, whilst recorded enquiry volumes are 6% lower than 2016, the number of discrete enquiries is 40% lower than 2016. This represents a 60% increase in the average enquiry size over the last 10-years. This shift towards larger briefs coincides with a rapid contraction in the pool of large, contiguous spaces in prime locations.

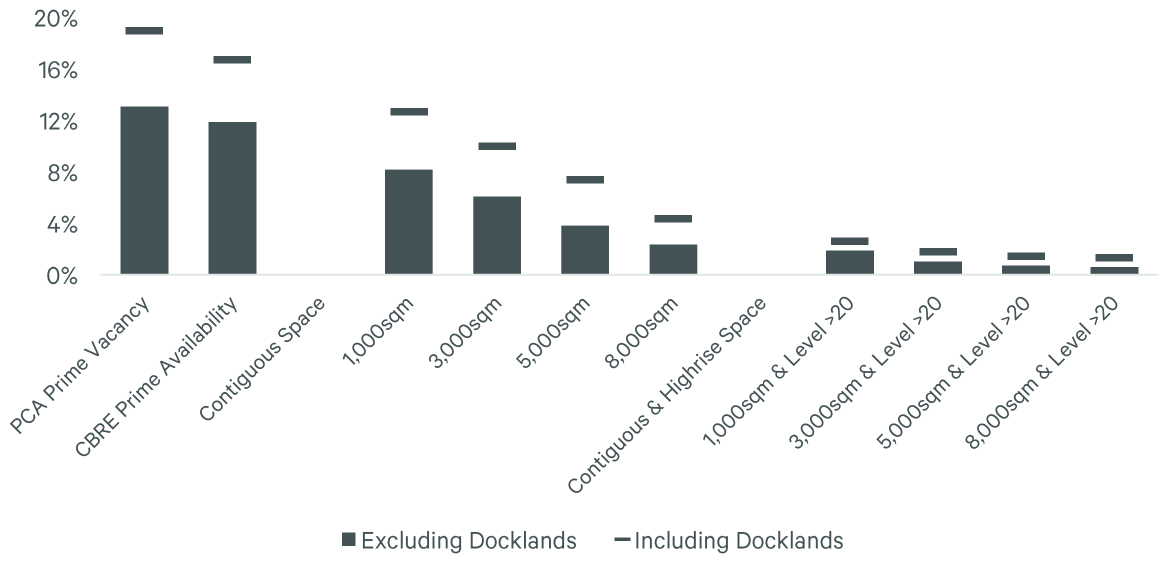
Feedback is consistently received that high-rise requirements are becoming increasingly common for tenants across Melbourne. With an availability rate of <2% for a 1,000sqm tenant seeking space in level 20 or above in a building, we continue to forecast elevated effective rent growth to emerge in select assets who can leverage upcoming high-rise availabilities within prime assets in core locations.

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

The combination of elevated tenant enquiry and constrained high-rise availability is likely to create a near-term catalyst for rental growth in core precincts and buildings that can leverage existing or upcoming high-rise availabilities. Whilst overall vacancy is expected to remain elevated over the next 12-months before trending downwards, tightening availability suggests tenants will increasingly consider the 'next-best alternative' over the coming years.

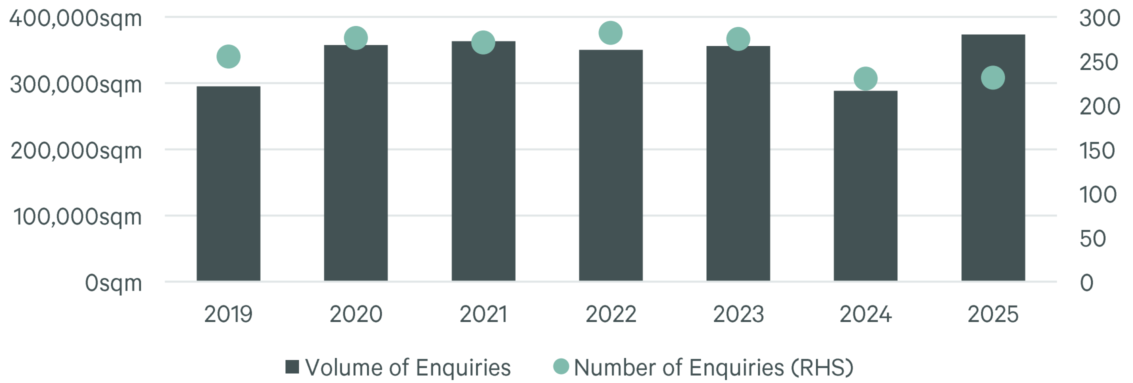
This dynamic is reinforced by a shrinking CBD development pipeline, which will place additional pressure on occupiers to secure accommodation ahead of expiries as choice diminishes. We expect spillover demand to emerge beyond the tightest locations. While the Eastern Core is still expected to outperform on fundamentals over the medium term, we foresee tenants migrating westwards—particularly into Civic and the Western Core—as they trade location for comparably high-quality accommodation where high-rise options are available.

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 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 marks the first time since H2 2022 where both prime grades experienced positive absorption in the same period, reinforcing the belief that tenant flight-to-quality remains a key theme across the market.

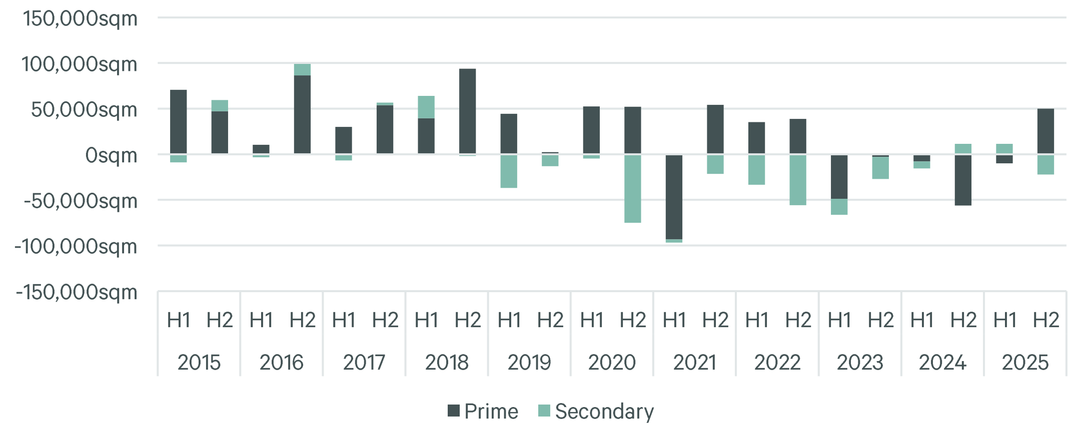
In contrast, Secondary stock underperformed, with Grade B and Grade C stock experiencing negative absorption of -11,955 sqm and -10,251 sqm, respectively. In our view, Grade B stock has benefitted over the last 18-months from tenant centralisation, albeit this trend is now fading.

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.

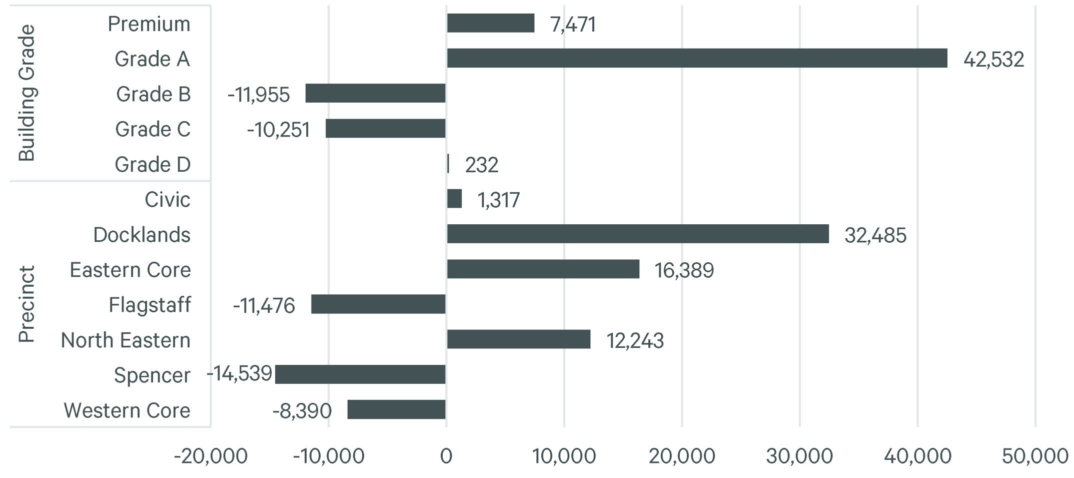
Our view is that Melbourne’s centralisation cycle has largely run its course. Recent feedback indicates a pivot from primarily cost-led decisions to culture-led and workplace-experience considerations. Occupiers that have not already moved for cost reasons are increasingly inclined to remain in fringe 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

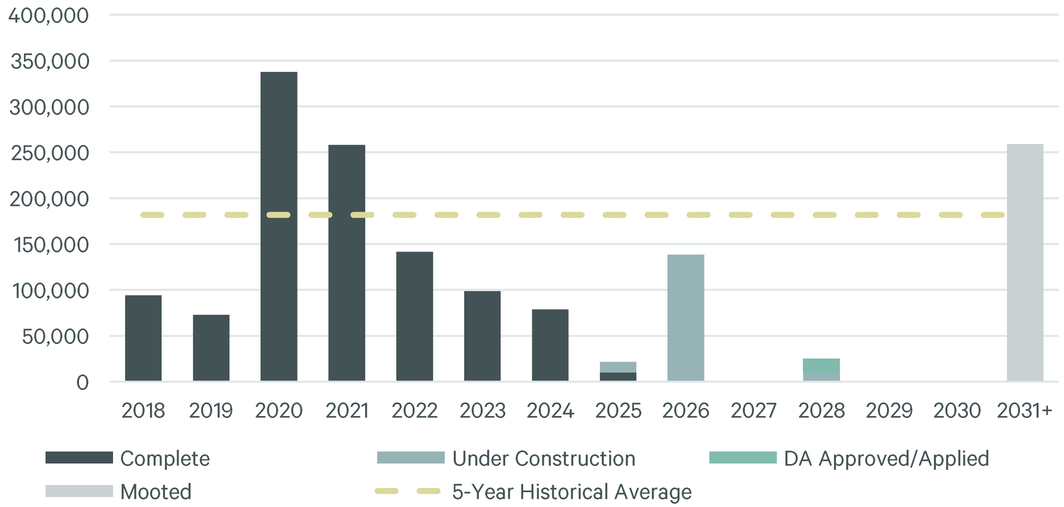
Pipeline certainty rises; No major CBD completions expected from 2027

Melbourne recorded the major completion of 17 Bennetts Lane in Q4 2025, the second major delivery of the year. We have made no material changes to the timing of projects in the forward pipeline. As a result, we continue to expect a concentrated wave of completions in 2026, representing the final material tranche of supply in Melbourne's office market before a likely four-year hiatus (2027–2030).

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 effective rental growth and falling incentives. Namely, occupier options are likely to become increasingly limited, with the pool of available prime stock in core locations set to shrink rapidly.

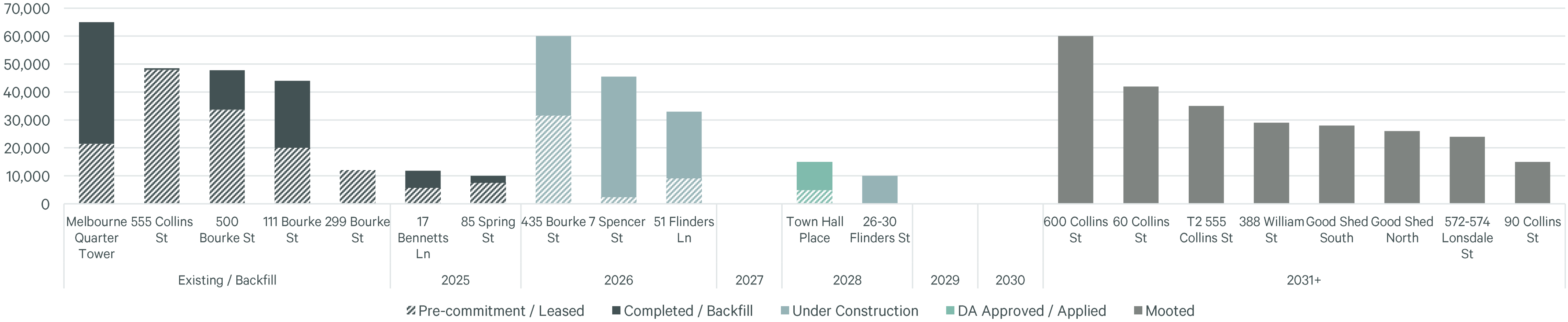
While some projects currently scheduled for post-2030 delivery could be brought forward, we retain a view that this is unlikely under current market conditions, as ongoing feasibility challenges continue to weigh on development activity.

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 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%. Majority of net supply was recorded in Grade A stock, and as such, vacancy has exceeded 20% for the first time since the mid 1990's.

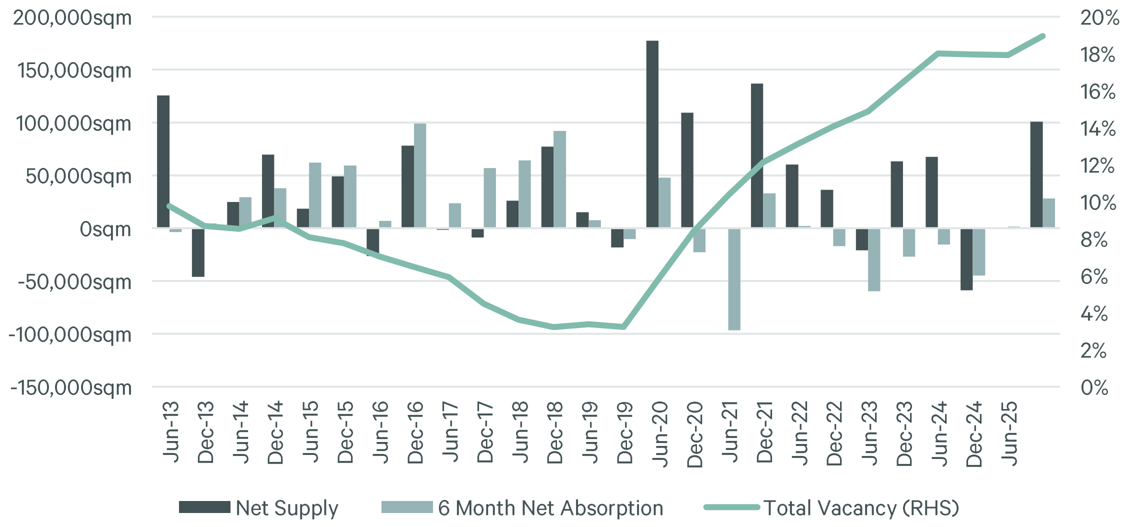
Prime-grade vacancy rose by 79bps over the past six months, outperforming secondary stock which rose by 167bps. We do not expect vacancy to remain at current levels and are currently forecasting vacancy will peak in H2 2026, reflecting the delivery of approximately 100,000 sqm of currently un-pre-committed stock to hit the market. 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.

Sublease vacancy firmly at healthy levels across most precincts

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 the peaks observed in 2023.

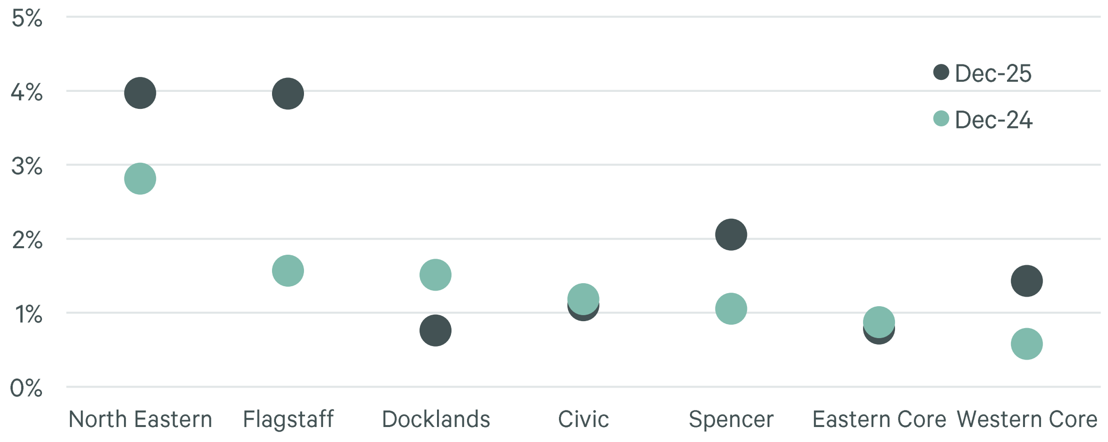
Over the last 12-months, the combination of strong leasing activity in sublease space, combined with withdrawals of some sublease availabilities have contributed to declining volumes. We expect sublease vacancy to remain at healthy levels, with no major upcoming sublease vacancies likely to enter the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

Face rents across Melbourne have continued to normalise in Q4 2025. Of Melbourne CBD's seven office precincts, four recorded growth over the last 3-months, with average CBD growth of 1.0%. Core eastern precincts (Civic, Eastern Core, Western Core) have outperformed 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 4.8% 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.

Effective rental growth shows further signs of bifurcation

CBD average prime effective rents increased on both a quarterly and annual basis in Q4 2025, rising by 0.5% quarter-on-quarter and 2.0% year-on-year. Following Q3 2025 in which all precincts recorded positive or neutral year-on-year quarterly growth, Q4 2025 has marked the return to a highly bifurcated state. Over Q4, five of Melbourne's seven precincts recorded flat or positive quarterly growth, offset by notable declines in Docklands and Flagstaff.

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. We expect this stability to largely persist through 2026, albeit with localised risks of temporary increases around the timing of the next completion wave.

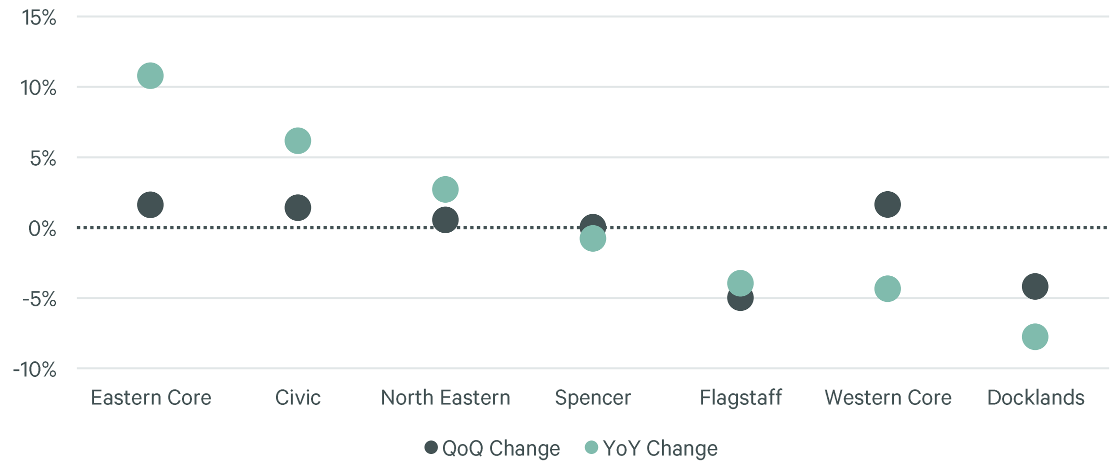
We continue to forecast bifurcated incentive compression over 2026. With the current prime availability rate dynamics, coupled with enquiry volumes (see page 2 – 'The Big Picture'), we foresee an office market in which incentive compression could begin at an aggressive rate depending on landlord confidence 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 (%)		
	4Q25	Q-o-Q Change	Y-o-Y Change	**4Q25**	Q-o-Q Change	Y-o-Y Change	**4Q25**	Q-o-Q Change	Y-o-Y Change
Civic	**764**	1.4%	6.7%	**404**	1.4%	6.2%	**47.2%**	Stable	29 bps
Docklands	**539**	Stable	0.8%	**184**	-4.2%	-7.8%	**65.8%**	150 bps	317 bps
Eastern Core	**957**	1.4%	10.3%	**594**	1.6%	10.8%	**39.3%**	-13 bps	-25 bps
Flagstaff	**579**	Stable	1.1%	**275**	-5.0%	-4.0%	**52.5%**	250 bps	250 bps
North Eastern	**633**	0.5%	2.7%	**292**	0.5%	2.7%	**54.2%**	Stable	Stable
Spencer	**720**	Stable	4.7%	**324**	Stable	-0.8%	**55.0%**	Stable	250 bps
Western Core	**756**	1.2%	0.2%	**396**	1.6%	-4.4%	**48.3%**	Stable	250 bps

Source: CBRE Research

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



Source: CBRE Research

Investment Market

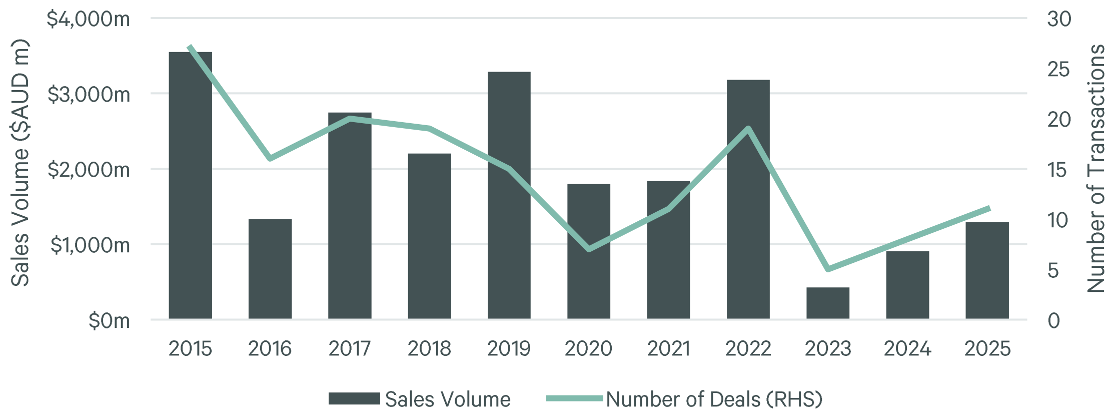
Investment ends 2025 on solid footing amid resurgent foreign demand

Melbourne's CBD in Q4 2025 recorded a modest quarter of investment activity with c.$264m transacting across three major assets. Two major transactions took place over the quarter, including 31 Queen Street (c.$171m) and 470 Collins Street (c.$60m). Notably, two of the largest transactions in 2025 involved foreign buyers, signaling confidence around the outlook for Melbourne's office market. Heading into 2026, there are limited assets projected to transact in the coming months; however, we project CY2026 will see total volumes exceed CY2025, consistent with the national outlook.

Yields continue to hold stable with recent evidence supporting current values

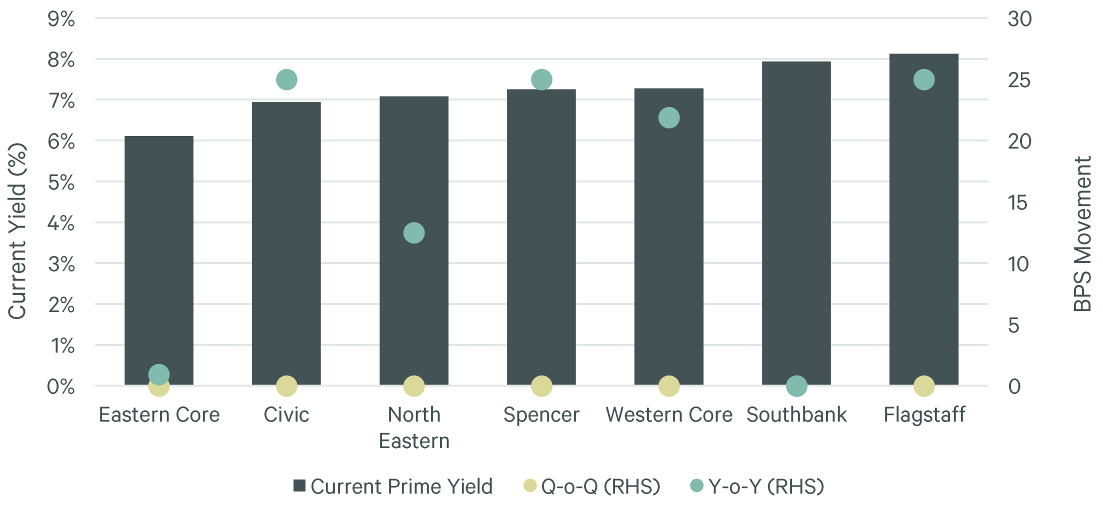
Prime CBD yields held stable at 7.08% in Q4 2025, marking the third consecutive quarter of yield stabilisation. Recent major transaction evidence has supported our current yield benchmarks in most precincts, and we continue to forecast stable yields over H1 2026. There are risks to this forecast, primarily driven by the impact of further cash rate hikes in the coming months. Whilst the current cash rate outlook is mostly uncertain, we project we'll have more clarity by Q1 2026.

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



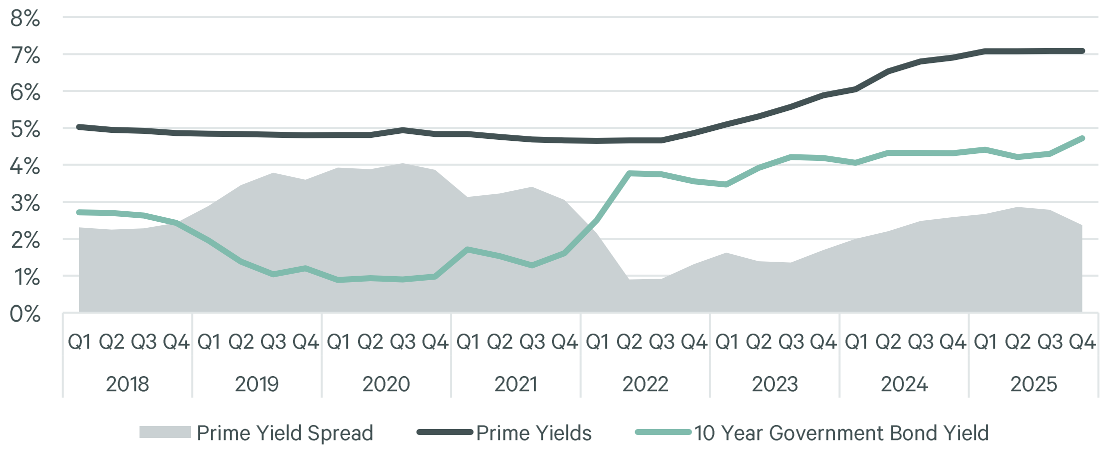
Source: CBRE Research
[1]Includes sales above >$20m AUD.

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



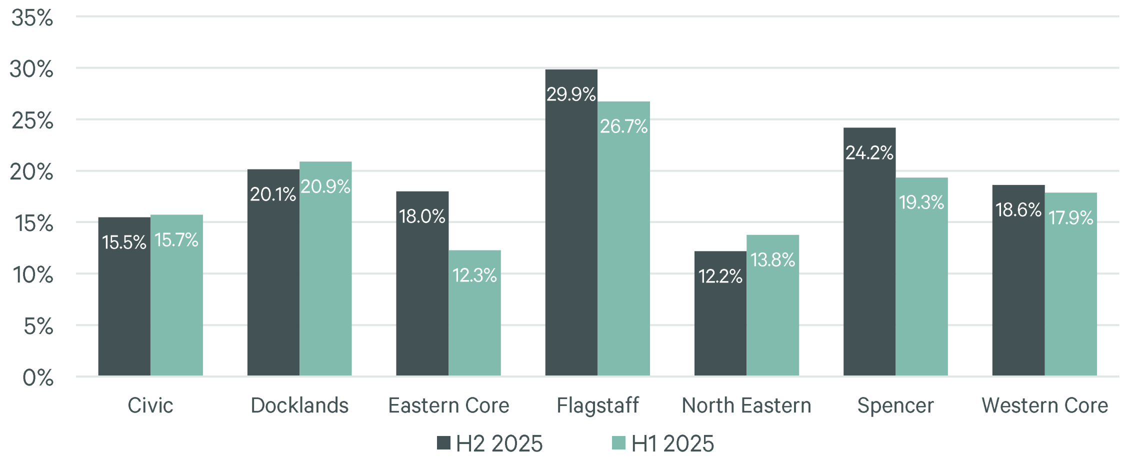
Source: CBRE Research

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



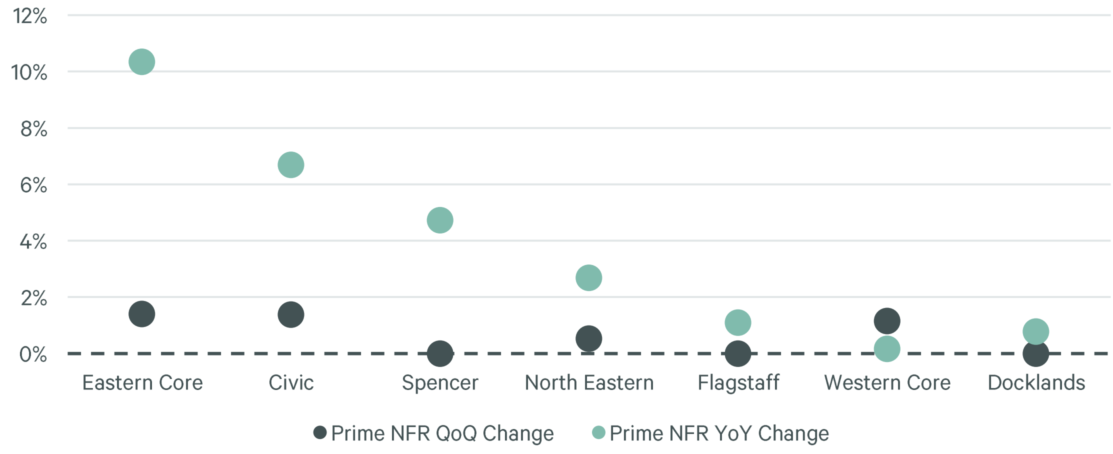
Source: RBA, CBRE Research

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



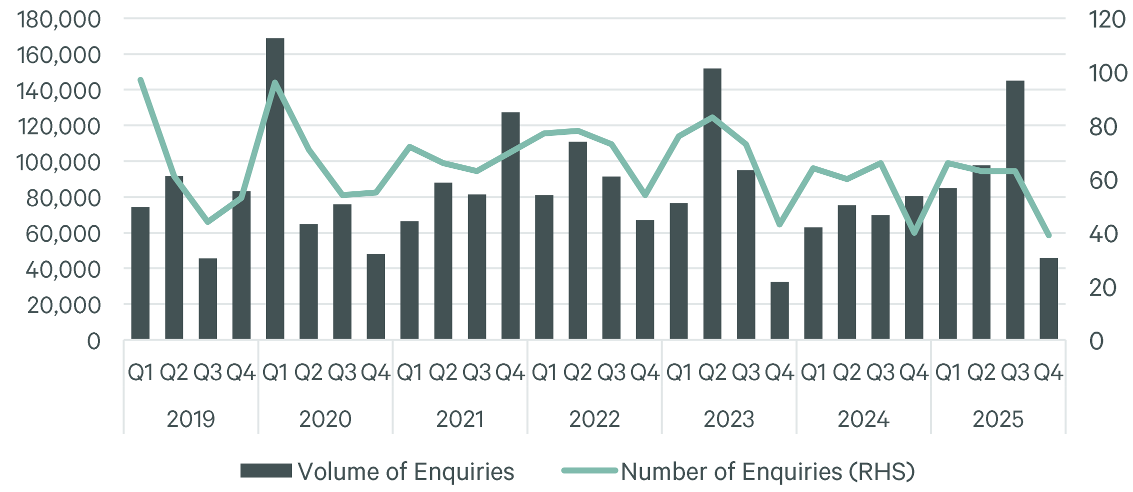
Source: PCA, CBRE Research

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



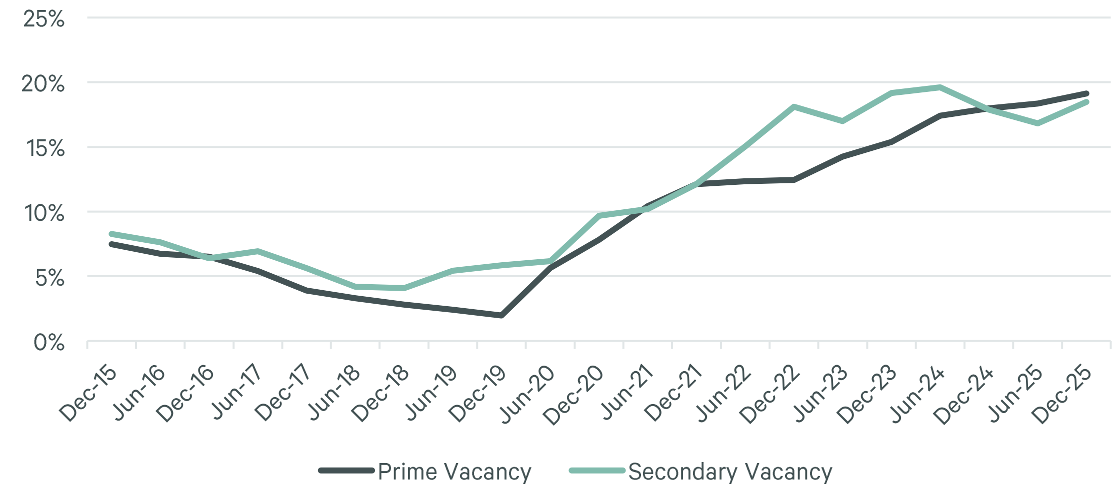
Source: CBRE Research

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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