MARKETBEAT
MELBOURNE CBD
OFFICE Q1 2025

MARKET FUNDAMENTALS

	YOY Chg	Outlook
18.0% Vacancy Rate	▲	▲
-44,962 6-month Net Absorption, sqm	▼	▼
$397 Prime Net Effective, sqm pa	▼	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.3% (National) GDP Growth	▲	▲
2.4% (Victoria) State Final Demand Growth	▲	▲
4.1% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW:

The Australian economy has reached an inflection point as the RBA has pivoted and started the rate cutting cycle. Against this backdrop growth is expected to accelerate throughout 2025 and 2026 on the back of improved consumer and business confidence. GDP growth for Q4 2024 reached 0.6% (1.3% year-on-year), while growth in the order of 2.1% is expected for 2025 and 2.5% for 2026. Oxford Economics forecasts Victoria's gross state product to increase 2.6% through 2025, before recovering to grow 3.1% in 2026.

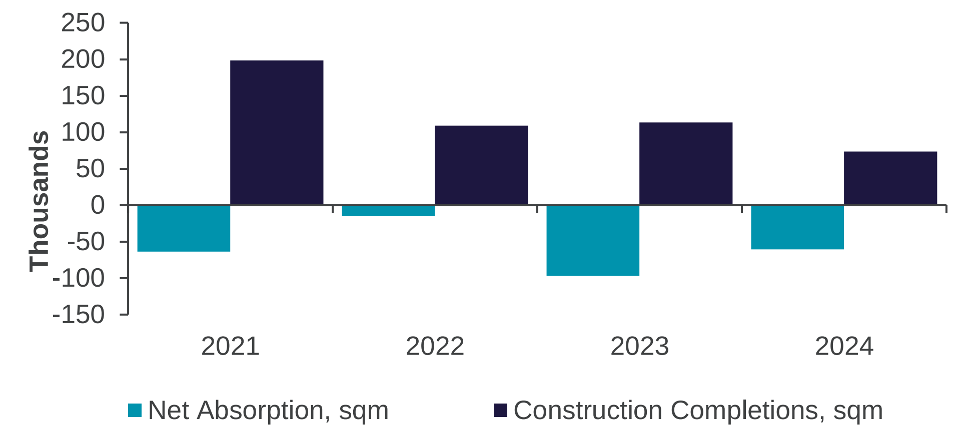
DEMAND:

In Q1 2025 demand for office in the Melbourne CBD showed signs of gradual recovery. Leasing activity concentrated on prime grade, flexible office spaces, with tenants continuing to prioritise cost effective solutions. Secondary grade spaces, particularly older stock continued to face lower demand amidst elevated vacancy rates. Net absorption over the six months to January 2025 declined to -44,962 sqm from -15,462 sqm in July 2024, primarily due to 63,412 sqm of space being withdrawn from the CBD market. Premium grade six month net absorption sits at -8,998 sqm, whilst A-grade is at -47,296. This indicates that most of the withdrawals come from A-grade offices with 44,000 sqm of withdrawals, whereas premium grade had none.

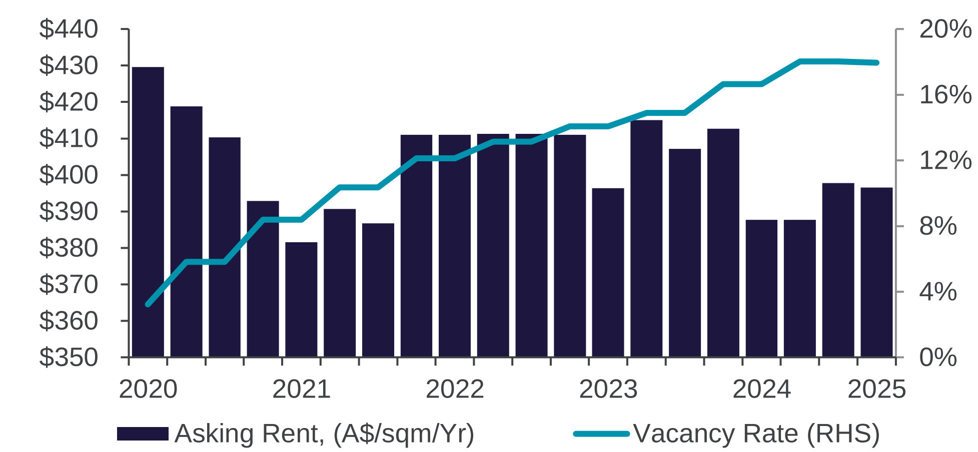
RENTS & INCENTIVES:

The Melbourne CBD office market remained stable in Q1 2025. Premium grade markets experienced growth, with average Premium net effective rents increasing 2.0% year-on-year (Y-o-Y), to $454 per sqm per annum and incentives remaining stable at 46.8%. In comparison, average A-grade net effective rents decreased by -7.1% Y-o-Y to $370 per sqm per annum, despite a slight increase in net incentives from 48% to 48.6%. High outgoings continue to weigh on effective rents with Premium outgoings now at $230 sqm per annum, up 3.6% Y-o-Y, while A-grade outgoings average $217 sqm per annum, up 10.5% Y-o-Y.

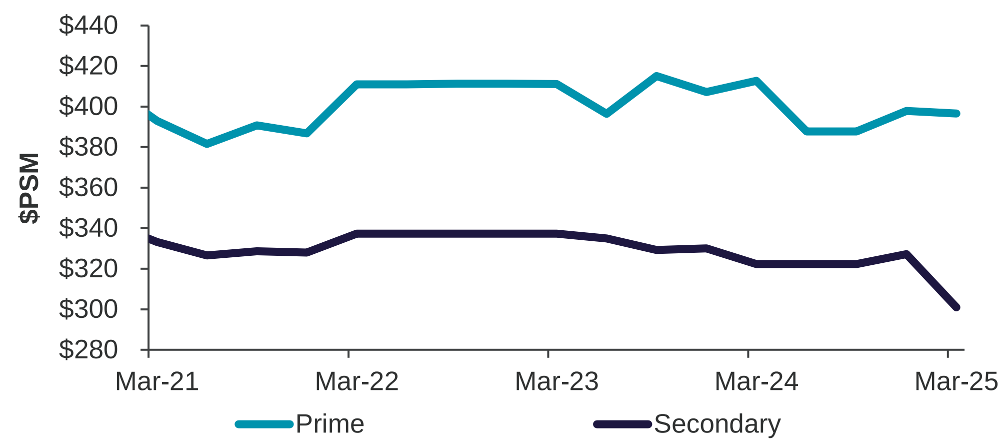
SPACE DEMAND / DELIVERIES



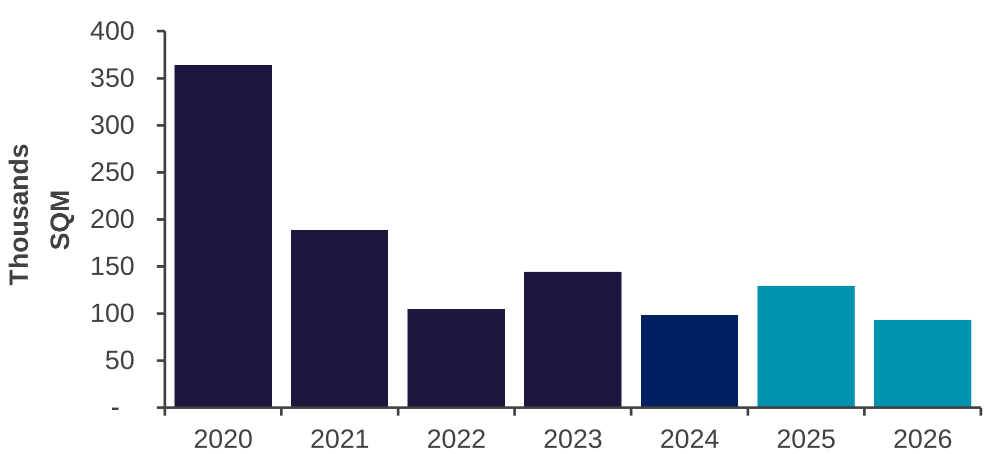
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



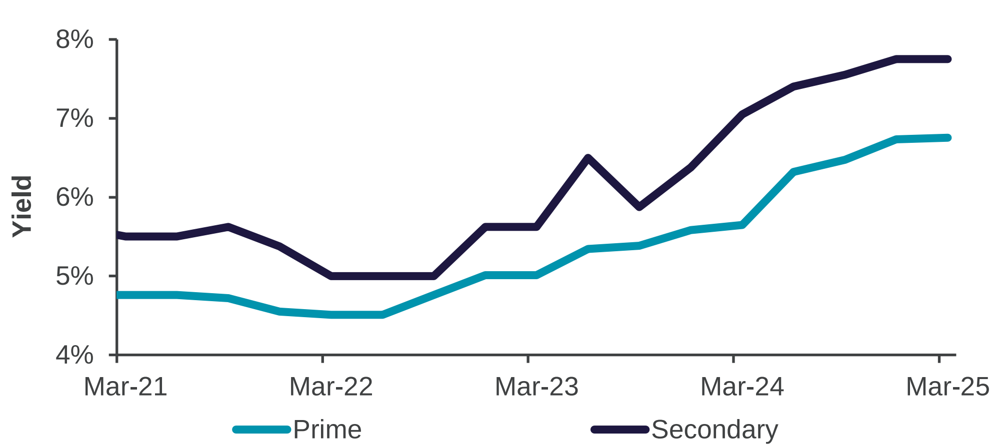
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

The vacancy rate in the Melbourne CBD has seen no change since July 2024 remaining at 18.0% as of January 2025 although this is mostly due to 60,000 sqm of withdrawals inflating the vacancy rate. While this rate reflects ongoing challenges due to subdued tenant demand and an influx of sublease space, there are signs of a recovery coming throughout 2025 as the economy begins to stabilise. The market has shown some stability, but the elevated vacancy rates indicate businesses being cautious with their office space requirements. Upcoming supply is mostly concentrated into the first half of 2026 being 46,000 sqm at 7-23 Spencer Street by Mirvac and 29,000 sqm at 51 Flinders Lane by GPT.

YIELDS:

As of Q1 2025, yields are experiencing minimal movement, with leasing conditions improving for prime office spaces, although secondary grade offices continue to struggle. Premium yields, as of March 2025, range from 6.00% to 6.25%, averaging 6.13%. A-grade office yields range from 6.80% to 7.30%, averaging 7.00%. Secondary grade yields range from 7.5% to 8.0%, averaging 7.75%. With the general trend being that yields are beginning to consolidate, indicating the market is now adjusting to a more stable environment. As a result, values in prime properties are likely to maintain their stability, while secondary assets continue to face challenges due to lower demand.

INVESTMENT MARKET:

Despite a rebound in office transaction volumes throughout 2024, Melbourne's investment volumes have remained relatively low overall. In Q1 2025 recorded investment volume reached $106.7 million. Investor activity in Melbourne's market reflects a strategic and selective approach. While alignment on pricing between buyers and sellers continues to be a key consideration, demand remains focused on prime grade assets with strong tenant covenants and stable cash flows. Secondary assets are undergoing more rigorous assessments, with tenant retention and required capital expenditure increasingly influencing investment decisions. Despite prevailing cautious market conditions, opportunities for well-positioned assets continue to drive activity. The only notable transaction this quarter was the sale of ASF house by Salta Properties for $40 million to CSC. Overall, Melbourne's economic growth and the most recent rate cut has improved investor sentiment. Indicating that Melbourne is entering the recovery cycle, with investor confidence likely to continue strengthening as the cutting cycle continues.

OUTLOOK

- Economic growth is expected to strengthen in 2025, with GSP projected to align with long-term trends, supporting broader market recovery.
- Melbourne's CBD office market has likely bottomed out but still faces challenges in the face of slowing development activity and moderating supply. Prime grade assets continue to see steady demand, whilst secondary demand remains weak. Vacancy has remained at 18% across the total market while yields softened due to subdued tenant demand and increase in the amount of sublease space available.
- Vacancy is expected to peak in 2027 as the Melbourne CBD begins to absorb supply in later years.
- Recent transaction volumes in Melbourne CBD highlight selective investments driven by market shifts. Focus remains on prime assets, while secondary properties face challenges with vacancies and tenant trends. Despite these conditions, opportunities persist for well-located, high-quality assets.

MELBOURNE CBD

OFFICE Q1 2025

MARKET STATISTICS

SUBMARKET	INVENTORY (SQM)	DIRECT VACANT (SQM)	OVERALL VACANCY RATE	6 MONTH NET ABSORPTION (SQM)	UNDER CONSTRUCTION (SQM)	NET FACE RENT ($ SQM PA)	AVERAGE GROSS INCENTIVES	AVERAGE OUTGOINGS ($ SQM PA)
Premium	1,209,783	185,294	16.8%	-8,998	62,000	$853	36.8%	$230
A	2,541,530	415,291	18.5%	-47,296	143,500	$720	37.4%	$217
Prime	**3,751,313**	**600,585**	**18.0%**	**-56,294**	**205,500**	**$763**	**37.2%**	**$221**
Secondary	1,427,791	248,834	17.9%	11,332	0	$596	38.3%	$175
TOTALS	**5,179,104**	**849,419**	**18.0%**	**-44,962**	**205,500**	**$680**	**37.8%**	**$198**

**Rental rates reflect full service asking*

^ Total reflects all grades

KEY LEASE TRANSACTIONS Q1 2025

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
720 Bourke Street	Docklands	Coles	25,000	Direct
530 Collins Street	Melbourne	Toll	3,485	Direct
2 Lonsdale Street	Melbourne	VECC	2,238	Direct
181 William Street	Melbourne	Engineers Australia	1,975	Direct

**Renewals not included in leasing statistics*

KEY SALES TRANSACTIONS Q1 2025

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE (AUD M)
63 Exhibition Street	Melbourne	Salta Properties / CSC	6,048	$40.0
411 Collins Street	Melbourne	Peachtree Capital / Private	3,015	$27.6

KEY PROJECTS UNDER CONSTRUCTION & COMPLETIONS

PROPERTY	SUBMARKET	MAJOR TENANT	SQM	OWNER/DEVELOPER
435 Bourke Street	Melbourne	CBA	64,500	CBUS
7-23 Spencer Street	Melbourne	n/a	46,000	Mirvac
51 Flinders Lane	Melbourne	WPP	29,000	GPT
Melbourne Townhall	Melbourne	n/a	17,000	Lendlease

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