MARKETBEAT
MELBOURNE FRINGE
OFFICE Q1 2025

CUSHMAN & WAKEFIELD

MARKET FUNDAMENTALS

	YOY Chg	Outlook
22.6% Vacancy Rate (Total Market)	▲	▲
-6,066 6-month Net Absorption, sqm (St Kilda/Southbank)	▼	▼
$326 Prime Net Effective, sqm pa (Total Market)	▲	▲

**Total Market refers to St Kilda, Southbank, Richmond/Cremorne, Collingwood/Fitzroy*

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% over 2025, before recovering to grow 3.1% in 2026.

DEMAND:

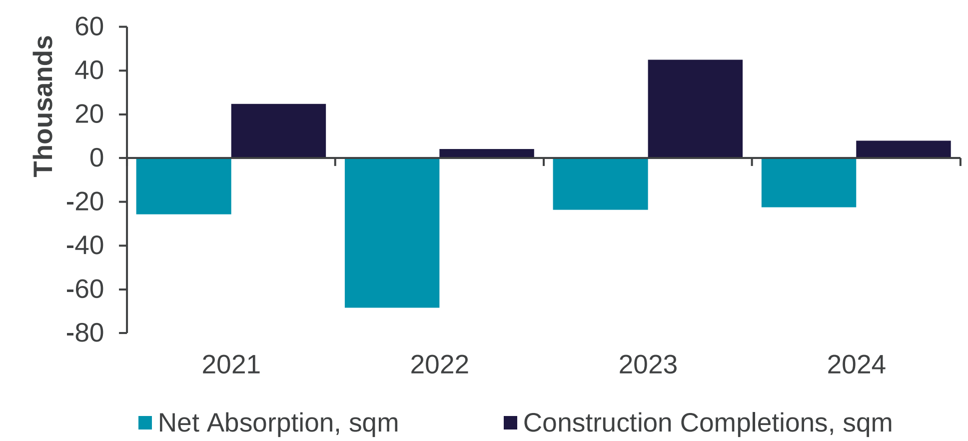
In Q1 2025, Melbourne's fringe markets are experiencing steady recovery, with growing demand from businesses seeking affordable office space outside the CBD. The fringe market continues to attract creative industries, tech firms, and small businesses due to lower rents. Net absorption for the six months to January 2025 across St Kilda Rd and Southbank stands at -6,088 sqm, a significant improvement from -15,448 sqm in July 2024. This highlights that less space is being vacated, suggesting a potential uptick in leasing activity. The outlook for 2025 remains positive, with modest growth expected across the fringe markets.

RENTS & INCENTIVES:

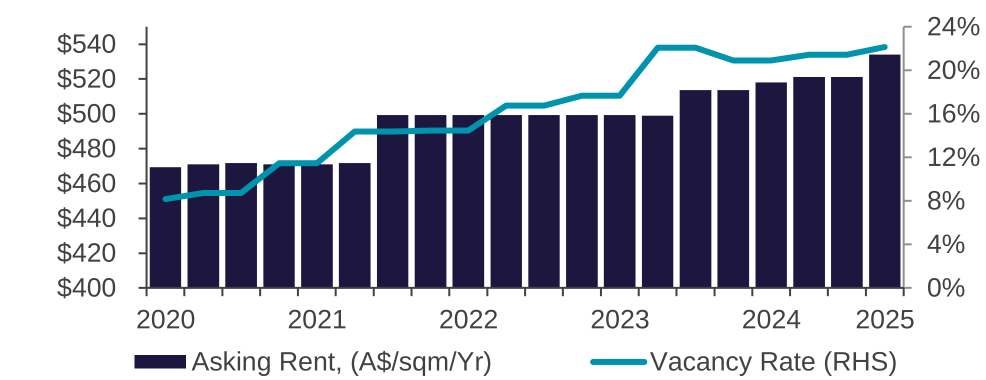
In the Melbourne fringe markets rents have increased whilst incentives have remained the same. Rents and incentives within St Kilda Road have moved slightly to the upside whilst in Southbank they have remained stable. Similarly, Richmond and Cremorne rents have remained stable although incentives have risen slightly.

Southbank A-grade net effective rents have experienced growth over Q1 2025, with net effective rents increasing 2.9% Y-o-Y to reach $360 per sqm per annum for Q1 2025. St Kilda Road net effective rents have decreased slightly Y-o-Y sitting at $265 per sqm per annum decreasing by 1.8%. Net incentives are averaging 46% for Southbank and 49% for St Kilda Road, while outgoings are averaging $210 and $169 per sqm per annum at Q1 2025.

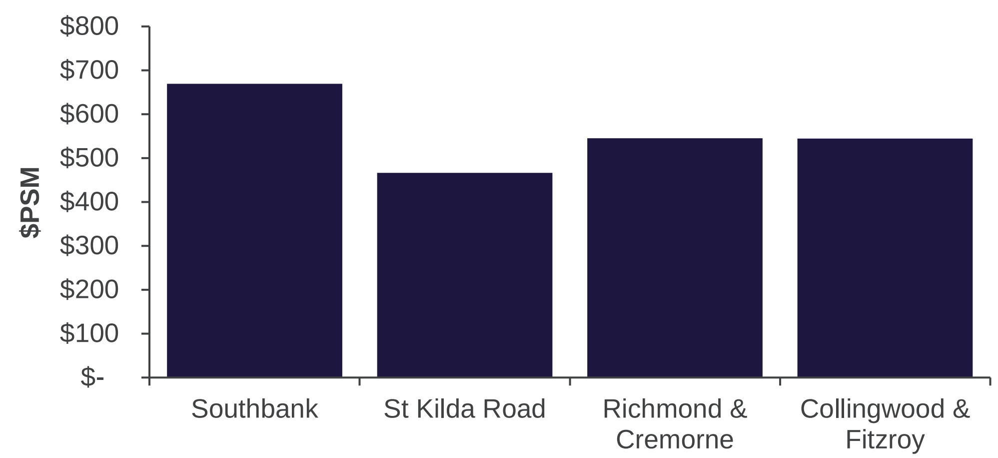
SPACE DEMAND / DELIVERIES



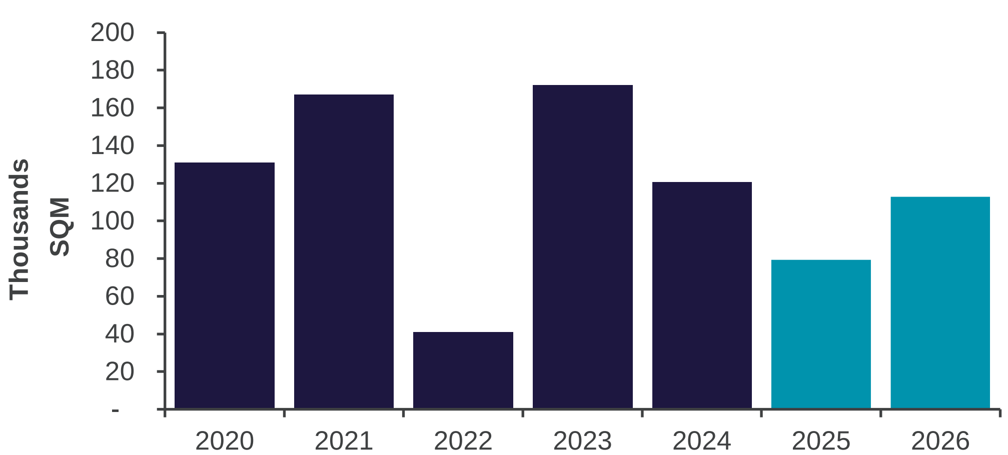
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



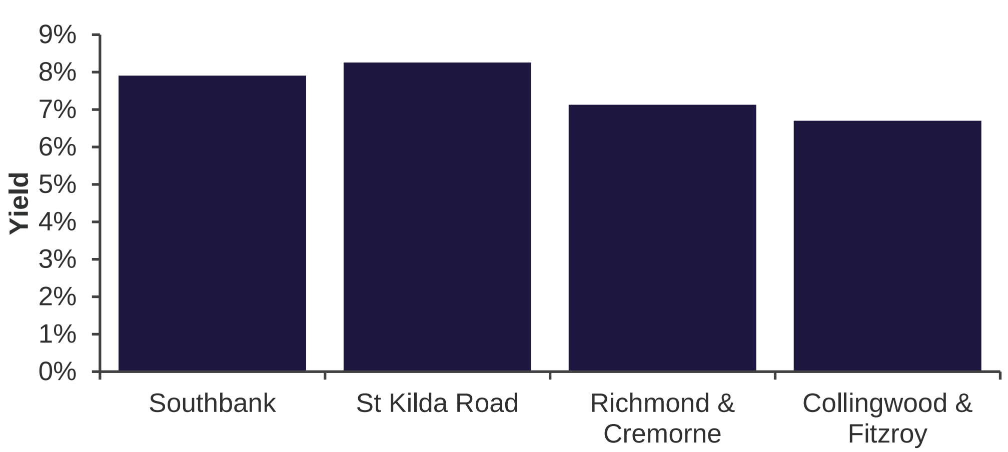
AVERAGE NET FACE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

Vacancy across St Kilda Road has increased as of January 2025 with it currently at 29.3% whilst Southbank has seen a decrease from 18.6% to 17.6%. Primarily, due to a decrease in direct vacancy of 4,830 sqm in office space available for lease and 4,511 sqm of withdrawals. Recent completions within the fringe markets include 5,500 sqm at 86-94 Jolimont Street in East Melbourne by Harris Capital. Most major new supply is expected in the second half of 2025 including 17,900 sqm at 31-53 Cremorne Street in Cremorne by Vicland and 12,000 sqm at 31-35 Victoria Parade in Fitzroy by ISPT both expected for completion by Q3 2025.

YIELDS:

Yields in the Melbourne Fringe have softened across all precincts. A-grade yields in Southbank rose from 7.40% in Q3 2024 to 7.90% in Q1 2025, while St Kilda Road saw yields climb from 7.75% to 8.25% over the same period. B-grade yields for St Kilda Road moved from 8.15% to 8.30% since Q3 2024. Richmond and Cremorne A-grade yields increased from 6.63% to 7.13% during this timeframe. This suggests that the market is facing weaker investor sentiment, with a possible shift in demand toward more affordable or lower-risk assets. However, despite the softening yields, opportunities remain for well-located, high-quality assets.

INVESTMENT MARKET:

Melbourne's Fringe office investment volumes have continued to remain low in early 2025. With the only notable transaction within the Melbourne Fringe being the sale of 468 St Kilda Road for $41.7 million by Australian Unity Office Fund to Bayley Stuart. This reflects the ongoing cautious sentiment in the market, where investor activity has slowed, and there is limited trading of office assets, particularly in secondary locations. Although, the sale highlights that despite the general market softness, high-quality assets in well-established areas like St Kilda Road continue to attract investment. Overall, Melbourne's economic growth and the most recent rate cut has improved investor sentiment. Indicating that Melbourne is positioned for long-term growth, with investor confidence likely to continue strengthening as the cutting cycle continues.

OUTLOOK

- Economic growth strengthens in Q1 2025 as GDP increases by 1.3%. Rate cutting cycle has begun placing the cash rate at 4.1%.
- The outlook for the Melbourne Fringe office market remains mixed, with strong demand for prime assets although subdued demand for secondary. Demand for secondary is focused on well-priced and recently refurbished offices whilst for older secondary buildings it remains the same.
- New supply for the fringe is moderate in the short to mid-term with most new projects anticipated in H2 2025.
- Transaction volumes remain low for the fringe markets suggesting that investors are still cautious about entering the market. However, in 2025 investment volumes are expected to pick up as economic conditions improve.

MELBOURNE FRINGE
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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)
Southbank	420,621	60,649	17.6%	636	0	$670	35%	$207
St Kilda Road	639,974	185,799	29.3%	-6,702	0	$520	37%	$169
Richmond/Cremorne	515,848	88,147	17.1%	0	38,400	$595	32%	$140
Collingwood/Fitzroy	158,497	39,362	25.0%	0	0	$545	33%	$128
TOTALS	**1,734,940**	**391,593**	**22.6%**	**-6,066**	**38,400**	**$582**	**34%**	**$161**

**Rental rates reflect full service asking for A-grade properties*

^Reflects precinct totals for all grades

~ Reflects all grades and all fringe precincts

KEY LEASE TRANSACTIONS Q1 2025

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
420 St Kilda Road	St Kilda Road	PB Lawyers	800	Direct
449 Punt Road	Richmond	Edgewise Insurance	1,210	Direct
380 City Road	South Melbourne	Mushroom Group	2,837	Direct
580 Swan Street	Richmond	Veris	1,062	Direct

**Renewals not included in leasing statistics*

KEY SALES TRANSACTIONS Q1 2025

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE (AUD M)
468 St Kilda Road	St Kilda Road	Unity Office Fund / Bayley Stuart	11,300	$41.7

KEY PROJECTS UNDER CONSTRUCTION & COMPLETIONS

PROPERTY	SUBMARKET	MAJOR TENANT	SQM	OWNER/DEVELOPER
2-10 River Street	South Yarra	n/a	6,991	Alfasi Group
31-53 Cremorne Street	Cremorne	n/a	17,900	Vicland
88 Green Street	Cremorne	n/a	9,000	LK Group

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