

MARKET FUNDAMENTALS

	YOY Chg	Outlook
18.0% Vacancy Rate	▲	▲
-44,962 6-month Net Absorption, sqm	▼	▼
\$399 Prime Net Effective, sqm pa	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.3% (National) GDP Growth	▲	▲
1.6% (Victoria) State Final Demand Growth	▲	▲
4.1% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW:

The Reserve Bank of Australia responded to continued disinflation and the ongoing tariff negotiations by cutting rates in May for the second time this year as the central bank’s focus has shifted from fighting inflation to supporting growth and maintaining full employment. Against this backdrop growth is expected to improve throughout 2025 and 2026 on the back of improved consumer and business sentiment. GDP growth slowed in Q1 2025 reaching 0.5% (1.3% year-on-year) but is forecast to recover to 1.8% by the end of the year and 2.1% for 2026. Victoria’s economic growth is expected to grow at a moderate pace, with Gross State Product forecast to increase by 2.1% in 2025 and 2.3% in 2026.

DEMAND:

Office demand in Melbourne’s CBD has shown steady improvement in Q2 2025, with leasing activity concentrated in prime-grade and flexible spaces. Occupiers remain focused on cost efficiency, favouring quality buildings that support hybrid work strategies. Secondary-grade assets, particularly older stock, continue to experience softer demand, contributing to elevated vacancy levels. Net absorption over the six months to January 2025 was recorded at -44,962 sqm, largely driven by withdrawals from A-grade stock. Premium-grade assets remained comparatively stable – a trend reflected in recent leasing, which continues to favour well-located, good-quality buildings. Most recent deals have involved mid-sized occupiers, with typical lease sizes ranging between 1,500 and 2,000 sqm, suggesting ongoing demand for efficient and adaptable space.

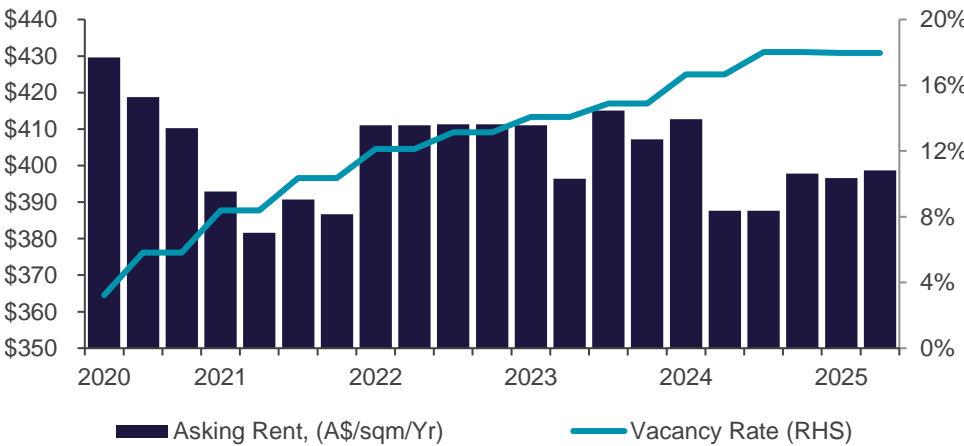
Rents & INCENTIVES:

The Melbourne CBD office market recorded steady growth in Q2 2025. Net effective rents for Premium grade rose 5.1% year-on-year to \$461 per sqm, with incentives holding steady at 46.8%. A-grade rents remained flat at \$370 per sqm, recording just 1.1% annual growth, while incentives edged up to 49%. Rising outgoings continue to weigh on effective rents, with Premium grade outgoings up 6.5% to \$245 per sqm and A-grade up 12.4% to \$223 per sqm. The secondary sector remains subdued, with average net effective rents at \$307 per sqm – the lowest since 2017 – and incentives at a record 49%, up 9% year-on-year. Outgoings for secondary assets sit lower, at \$181 per sqm, marking a 2.8% increase year-on-year.

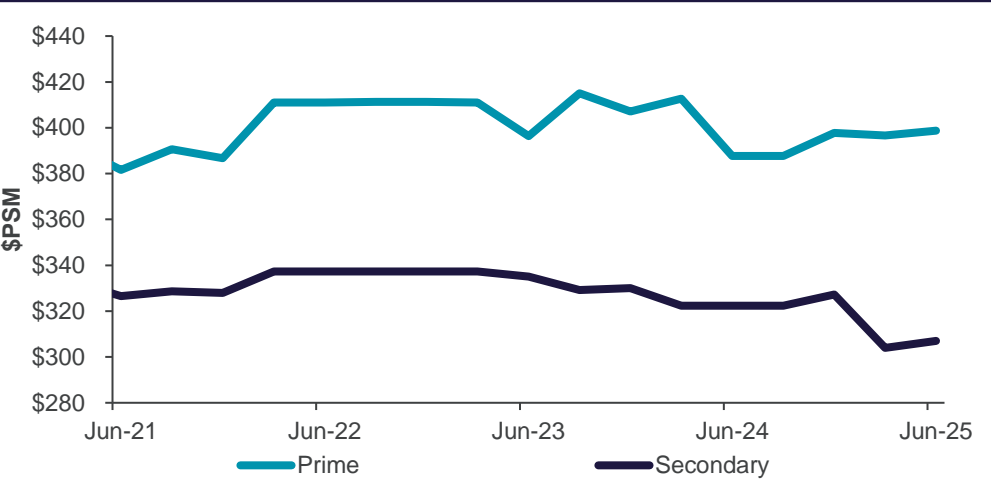
SPACE DEMAND / DELIVERIES



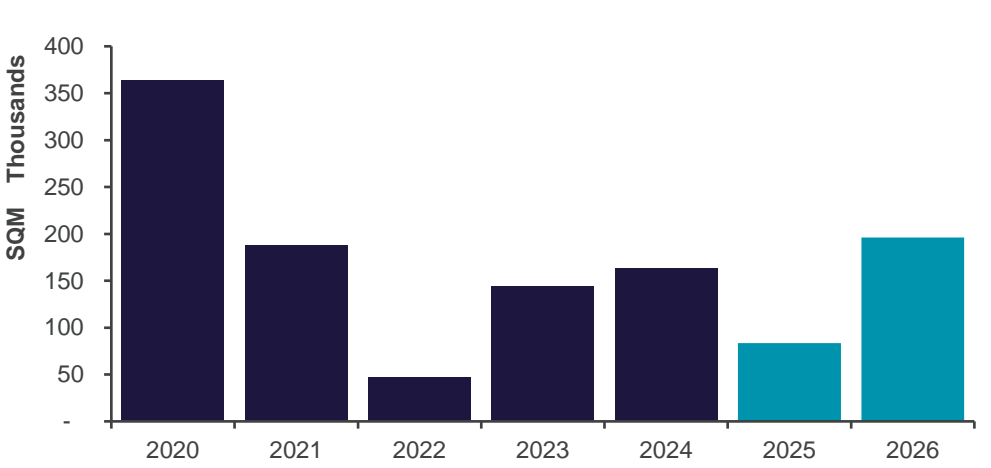
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



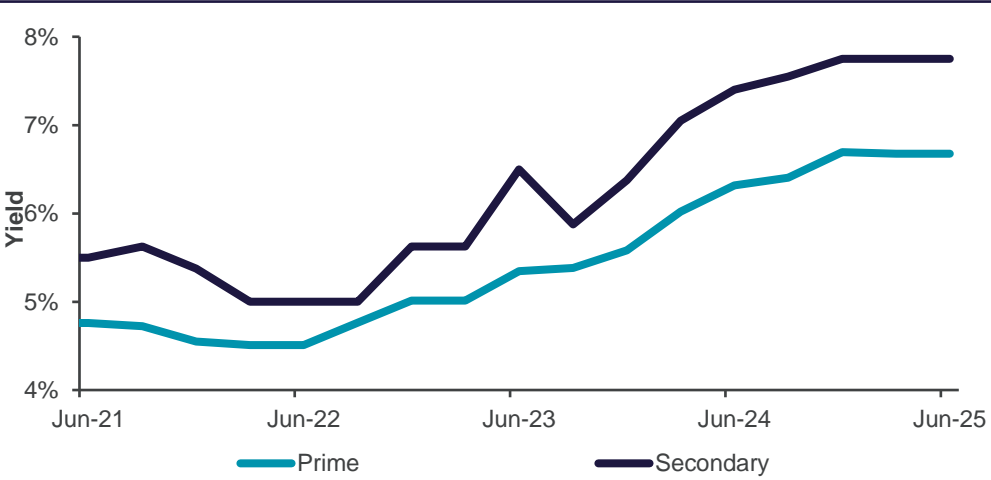
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

Vacancy in Melbourne’s CBD remains elevated, reflecting a period of subdued demand, though signs of recovery are emerging as leasing activity gains momentum. However, with new supply on the way, the market remains cautious. The Bennetts Lane project is expected to complete in Q4 2025, adding 12,000 sqm of A-grade office space. A larger wave of supply is concentrated in 2026, including 46,000 sqm at 7–23 Spencer Street and 29,000 sqm at 51 Flinders Lane. Further ahead, the Town Hall Place development – an over-station project above the newly completed Town Hall Station – is set to deliver around 17,000 sqm of office space, though much of the space is already pre-committed. 435 Bourke Street will also bring 60,000 sqm of prime grade office space to the market, further adding to the upcoming supply pipeline. With these completions in the pipeline, vacancy is expected to peak in 2027 before gradually easing as the market absorbs new supply.

YIELDS:

As of Q2 2025, yields continue to consolidate, reflecting a market that is gradually adjusting to more stable conditions. Leasing demand is improving for prime office assets, while secondary grade stock remains under pressure. Premium office yields range from 6.00% to 6.25%, averaging 6.13%. A-grade yields sit between 6.80% and 7.30%, with an average of 7.00%. Secondary grade yields are higher, ranging from 7.50% to 8.00%, averaging 7.75%. This ongoing consolidation trend suggests that values for prime-grade assets are likely to hold firm, while secondary assets continue to face headwinds due to weaker demand.

INVESTMENT MARKET:

Q2 2025 has recorded a total investment volume exceeding \$100 million, signalling a modest pickup in investor activity. While sentiment is improving, the approach remains cautious and selective. Most transactions in this quarter involved well-located assets with repositioning or redevelopment potential, supported by strong tenant covenants and steady cash flow. Activity was concentrated in the mid-market, with the majority of deals priced below \$100 million. Notable transactions include the sale of 50 Queen Street to Up Property, with plans to redevelop the asset, and 301 Flinders Lane – the former Victoria University campus – which sold for \$24 million. Melbourne’s economic growth, combined with the recent interest rate cut, has improved investor sentiment. The city appears to be entering the early stages of a recovery cycle, with confidence expected to build as monetary policy continues to ease.

OUTLOOK

- Economic momentum is expected to build through 2025, supported by improving business confidence and the start of the RBA’s rate cutting cycle. Victoria’s GSP is forecast to expand by 2.6% this year, setting the stage for a gradual market recovery.
- Melbourne’s CBD office market is showing early signs of stabilisation, though vacancy remains elevated. Prime-grade assets continue to attract demand, particularly from mid-sized occupiers seeking flexible, high-quality space. In contrast, older secondary stock remains under pressure, with incentives creeping upward and outgoings continuing to climb.
- With new supply set to enter the market over the next 18 months, vacancy is expected to remain elevated in the near term and may peak in 2027 as the market absorbs upcoming completions.
- Investor sentiment is improving, with activity concentrated in mid-market transactions for well-located assets with redevelopment or repositioning potential. While challenges persist for secondary stock, the outlook for prime-grade assets remains more resilient, underpinned by stable cashflows and improving leasing conditions.

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	\$866	36.4%	\$245
A	2,541,530	415,291	18.5%	-47,296	143,500	\$726	37.5%	\$223
Prime	3,751,313	600,585	18.0%	-56,294	205,500	\$771	37.2%	\$230
Secondary	1,427,791	248,834	17.9%	11,332	0	\$602	37.7%	\$181
TOTALS	5,179,104	849,419	18.0%	-44,962	205,500	\$687	37.5%	\$206

*Rental rates reflect full service asking

^ Total reflects all grades

KEY LEASE TRANSACTIONS Q2 2025

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
One Melbourne Quarter	Docklands	Hays	1,982	Direct
2 Lonsdale Street	Melbourne	SEC	1,481	Direct
360 Elizabeth street	Melbourne	Headspace	1,528	Direct
28 Freshwater Place	Southbank	Petstock	1,780	Direct

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q2 2025

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE (AUD M)
50 Queen Street	Melbourne	STRE / Up Property	9,156	\$41.6
301 Flinders Lane	Melbourne	Mill Place Investment / Laurus Education	4,747	\$24.5

KEY PROJECTS UNDER CONSTRUCTION & COMPLETIONS

PROPERTY	SUBMARKET	MAJOR TENANT	SQM	OWNER/DEVELOPER
12-23 Bennetts Lane	Melbourne	N/A	12,000	Perri Projects, Pellicano
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
Town Hall Place	Melbourne	CBRE, Turner & Townsend	17,000	Lendlease

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