MARKETBEAT
# MELBOURNE CBD
## OFFICE Q3 2025

CUSHMAN & WAKEFIELD

### MARKET FUNDAMENTALS

| | YOY Chg | Outlook |
|---|---|---|
| **17.9%** Vacancy Rate | ▼ | ▲ |
| **1,446** 6-month Net Absorption, sqm | ▲ | ▼ |
| **$420** Prime Net Effective, sqm pa | ▲ | ▲ |

### ECONOMIC INDICATORS

| | YOY Chg | Outlook |
|---|---|---|
| **1.8%** (National) GDP Growth | ▲ | ▲ |
| **1.7%** (Victoria) State Final Demand Growth | ▲ | ▲ |
| **4.3%** (National) Unemployment Rate | ▲ | ▲ |

*Source: ABS*

### ECONOMIC OVERVIEW:

The demand side of the economy remains robust, though likely only in the short term. A rebound in demand drove inflation higher in July, with CPI rising to 2.8% year-on-year from 1.9% in June, largely due to the expiration of electricity subsidies. This rebound in inflation has tempered expectations for an imminent rate cut at the Reserve Bank of Australia's (RBA) meeting on 30 September. Meanwhile, GDP grew by 0.6% quarter-on-quarter in Q2, up from 0.3% in Q1, driven primarily by stronger private consumption, with forecasts expecting GDP to continue to improve through 2025 and 2026. Victoria is positioned for positive economic growth of 1.8% through 2025, before improving to 2.0% in 2026, then a further 2.8% in 2027.

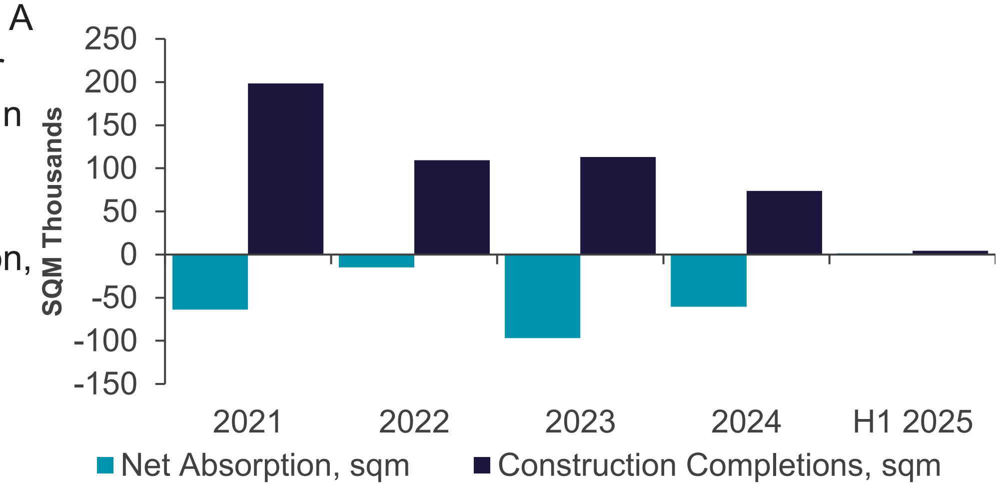
### DEMAND:

Melbourne's CBD office market continued to strengthen in Q3 2025, with demand concentrated in prime-grade assets and flexible workspace solutions, Tenants are prioritising cost efficiency while seeking higher quality buildings that accommodate hybrid working models. Demand for secondary-grade assets, particularly older stock, remains subdued, contributing to persistently elevated vacancy levels. Net absorption over the six months to June 2025 totalled 1,446 sqm, marking the first positive absorption since 2022 and signalling a possible transition into market recovery. Encouragingly, with growing positivity in the CBD market, there has been an uptick in enquiries, which is expected to help the office sector take further steps in the recovery cycle.

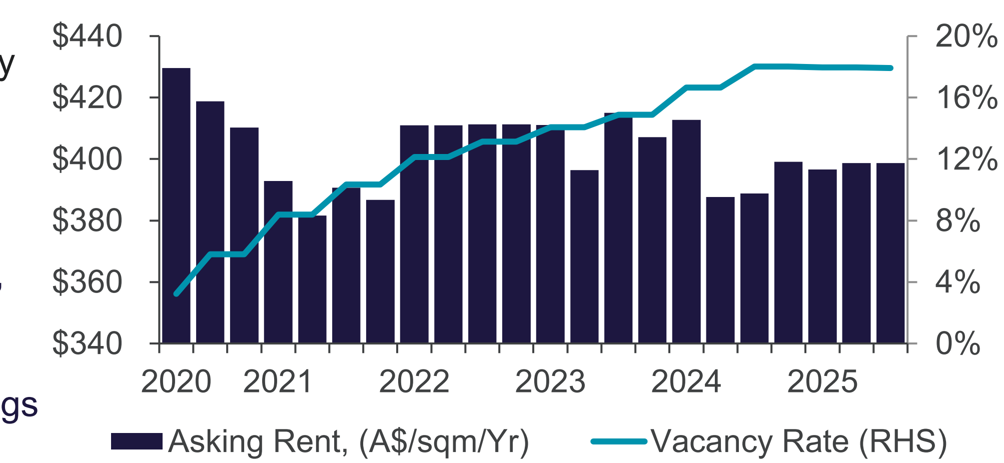
### RENTS & INCENTIVES:

The Melbourne CBD office market recorded steady growth in Q3 2025. Net effective rents for Premium-grade assets increased by 5.8% over the quarter to $488 per sqm, with incentives remaining stable at 46.8%. A-grade rents rose to $389 per sqm, reflecting a 5.2% quarterly uplift, while incentives held firm at 49%. Rising outgoings continue to place downward pressure on effective rents, with Premium-grade outgoings up 4.8% annually to $241 per sqm, and A-grade outgoings rising 11.9% to $222 per sqm, though they have stabilised this quarter with little change or decline. The secondary grade remains subdued, with average net effective rents stable at $309 per sqm and incentives steady at 49%. Outgoings for secondary assets are lower, at $183 per sqm, representing just 4% annual increase.

### SPACE DEMAND / DELIVERIES




### OVERALL VACANCY & PRIME NET EFFECTIVE RENT



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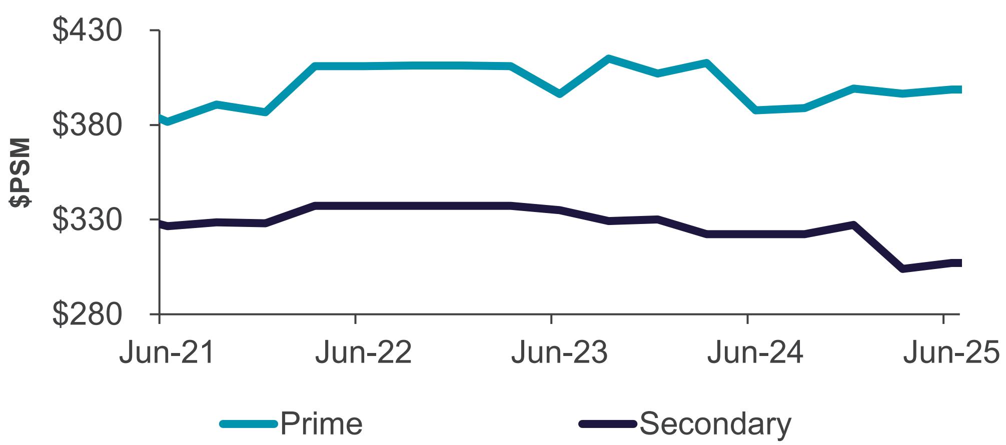
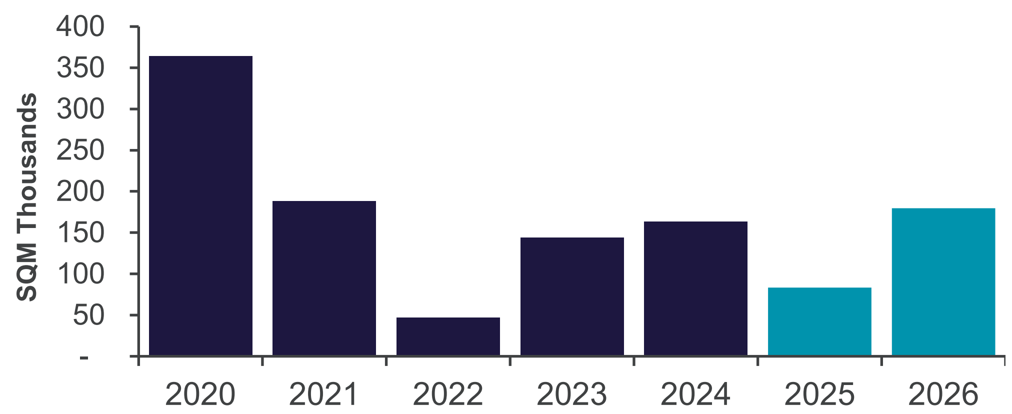
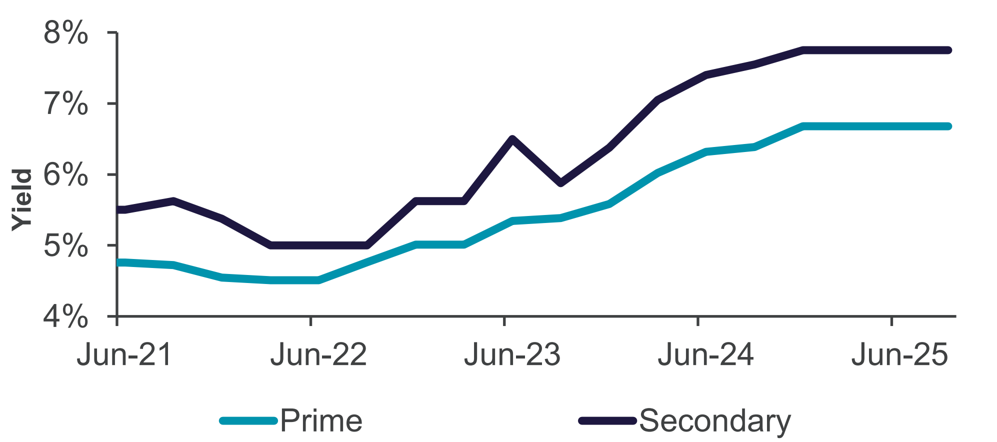
## AVERAGE NET EFFECTIVE RENTS




## SUPPLY




## AVERAGE YIELDS




## VACANCY & SUPPLY:

Vacancy across Melbourne's CBD remains elevated, reflecting a prolonged period of subdued demand. However, the rate has stabilised over the past two periods, sitting at 17.9% in Q3 2025, down marginally from 18.0% previously, as early signs of recovery emerge with leasing activity gaining momentum. Despite this, market sentiment remains cautious due to upcoming supply additions. The current vacancy decrease is largely driven by the withdrawal of older stock, as tenant preferences continue to shift toward well-located, high-quality buildings.

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 Q3 2025, yields have continued to stabilise, indicating a market that is progressively moving through the cycle. Leasing activity is gaining momentum for prime office assets, while secondary-grade stock remains underperforming due to subdued demand. Yields for premium-grade offices range between 6.00% and 6.25%, with an average of 6.13%. A-grade assets yield between 6.80% and 7.30%, averaging 7.00%. Secondary-grade assets command higher yields, ranging from 7.50% to 8.00%, with an average of 7.75%. This ongoing stabilisation trend suggests that values for prime-grade assets are likely to remain firm, whereas secondary assets may continue to face valuation pressure amid weaker leasing.

## INVESTMENT MARKET:

Q3 2025 has recorded a total investment volume exceeding $880 million, signalling a significant 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 majority deals priced below $100 million. Notable transactions include the sale of 357 Collins St to SPG Group, and Flinders Gate Complex which sold for $265 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 strengthen through 2025, supported by rising business confidence and the beginning of the RBA's interest rate easing cycle. Victoria's GSP is projected to grow by 2.6% this year, paving the way for a recovery in market conditions.
- Melbourne's CBD office market is showing early signs of stabilisation, although vacancy rates remain high. Prime-grade assets continue to draw interest, particularly from mid-sized tenants seeking flexible, high-quality space. In contrast, older secondary stock remains under pressure, with incentives edging higher and outgoings continuing to rise.
- With new supply set to enter the market over the next 18 months, vacancy is expected to stay elevated in the near term and may peak in 2027 as the market absorbs upcoming completions.
- Investor sentiment is improving, with activity focused on mid-market deals involving well-located assets with redevelopment or repositioning potential. While secondary stock faces ongoing challenges, prime-grade assets remain more resilient, supported by stable cashflows and improving leasing conditions.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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) |
|---|---|---|---|---|---|---|---|---|
| Premium | 1,209,783 | 190,914 | 16.4% | 4,520 | 62,000 | $917 | 37% | $241 |
| A | 2,545,830 | 436,775 | 19.3% | -14,453 | 143,500 | $764 | 38% | $222 |
| **Prime** | **3,751,313** | **627,689** | **18.3%** | **-9,993** | **205,500** | **$813** | **37.7%** | **$228** |
| Secondary | 1,422,991 | 237,867 | 16.8% | 11,379 | 0 | $606 | 37.7% | $183 |
| **TOTALS** | **5,174,304** | **865,556** | **17.9%** | **1,446** | **205,500** | **$709.5** | **37.7%** | **$205** |

*Rental rates reflect full service asking*

*^ Total reflects all grades*

## KEY LEASE TRANSACTIONS Q3 2025

| PROPERTY | SUBMARKET | TENANT | SQM | TYPE |
|---|---|---|---|---|
| 1010 La Trobe Street | Docklands | DP World | 1,227 | Direct |
| 570 Bourke Street | Melbourne | Brennan IT | 1,100 | Direct |
| 628 Bourke Street | Melbourne | AC3 | 818.9 | Direct |
| 342 Flinders Street | Melbourne | WRKR | 461 | Direct |

*Renewals not included in leasing statistics*

## KEY SALES TRANSACTIONS Q3 2025

| PROPERTY | SUBMARKET | SELLER/BUYER | SQM | PRICE (AUD M) |
|---|---|---|---|---|
| Flinders Gate Complex | Melbourne | Dexus / PAG | 20,354 | $265.5 |
| 357 Collins Street | Melbourne | Frasers Commercial Trust/ SPG | 31,763 | $195.3 |

## 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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