

ECONOMIC OVERVIEW:

Economic conditions remain steady, supported by resilient domestic demand and labour market conditions, though inflationary pressure has been more persistent than expected. Headline CPI increased 3.4% year-on-year (yoY) in November, the fourth consecutive month it landed outside the Reserve Bank of Australia's (RBA) 2% to 3% target band, while the RBA's preferred measure of trimmed mean inflation also came in above 3%. Recent RBA commentary indicates the current easing cycle is likely complete, with policymakers taking a longer-term view on inflation before considering further adjustment. Australian economic growth softened slightly in the second half of 2025, with GDP rising 0.4% quarter-on-quarter (qoq) in Q3, down from 0.6% in Q2. Looking ahead, growth is expected to accelerate throughout 2026. Victoria's Gross State Product is projected to grow by 2.9% in 2025, before strengthening to 2.0% by the end of 2026 and rising further to 3.0% in 2027.

MARKET FUNDAMENTALS

	YOY Chg	Outlook
17.9% Vacancy Rate	▼	▲
1,446 6-month Net Absorption, sqm	▲	▼
\$433 Prime Net Effective, sqm pa	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
2.1% (National) GDP Growth	▲	▲
2.9% (Victoria) State Final Demand Growth	▲	▲
4.4% (National) Unemployment Rate	▲	▲

Source: ABS

SPACE DEMAND / DELIVERIES



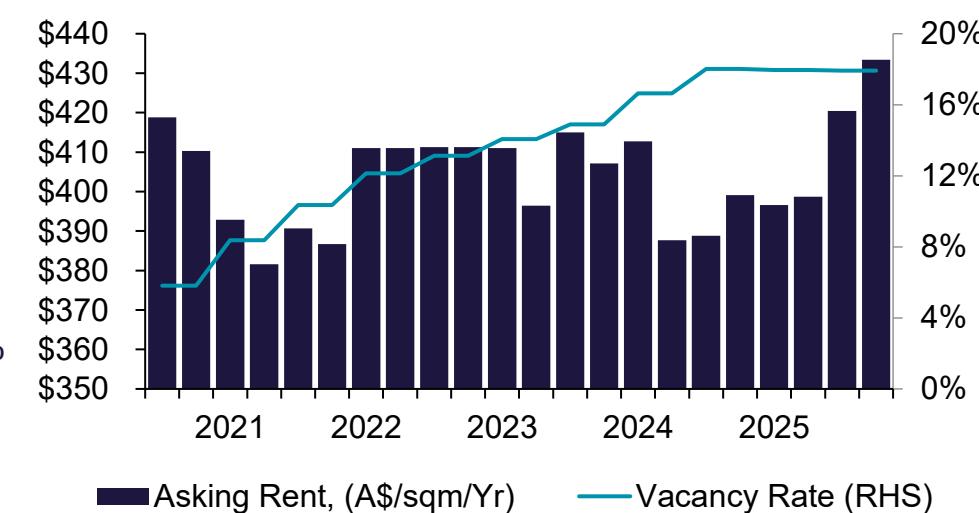
DEMAND:

Melbourne's CBD office market showed continued improvement in Q4 2025, with tenant demand focused on prime-grade buildings and flexible workspace offerings. Tenants remain cost-conscious but are increasingly seeking higher-quality assets that support hybrid working arrangements. In contrast, demand for secondary-grade offices, particularly older stock remains weak, sustaining elevated vacancy levels. Encouragingly, improving sentiment across the CBD has driven an increase in enquiries, which is expected to support further progress through the recovery cycle.

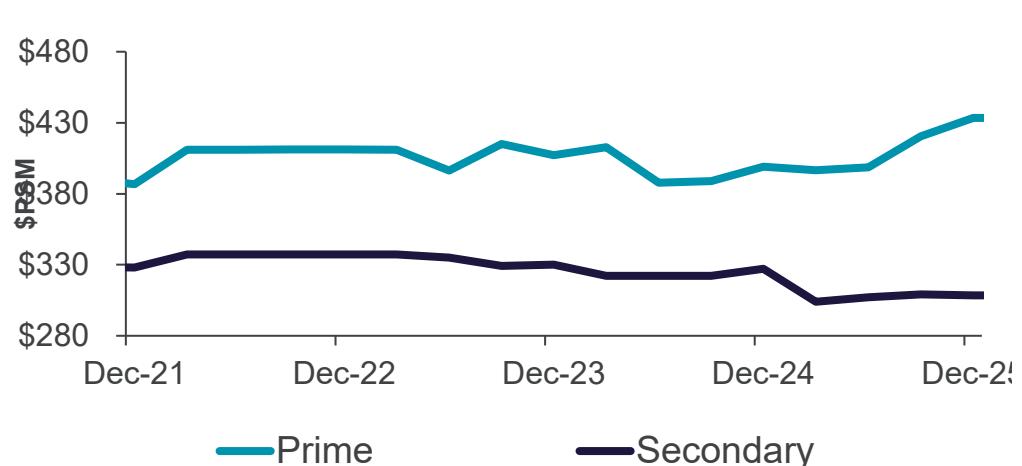
RENTS & INCENTIVES:

The Melbourne CBD office market experienced steady momentum in Q4 2025. Net effective rents for Premium-grade assets rose by 3.2% over the quarter to \$504 per sqm, with incentives increasing slightly to 47%. A-grade rents increased to \$401 per sqm, representing a 2.9% quarterly gain, while incentives eased to 48%. Rising outgoings continue to weigh on effective rents, with Premium-grade outgoings up 2.6% to \$241 per sqm and A-grade outgoings increasing by 9% to \$225 per sqm, although costs have stabilised this quarter with minimal movement. Secondary-grade assets remain weaker, with average net effective rents holding steady at \$309 per sqm and incentives edging up to 50%. Outgoings for secondary stock remain lower at \$183 per sqm, reflecting a modest 4% annual increase.

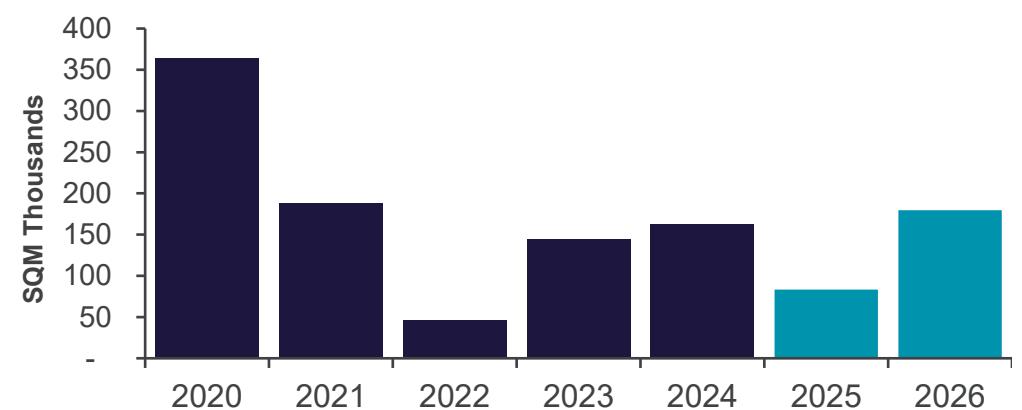
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



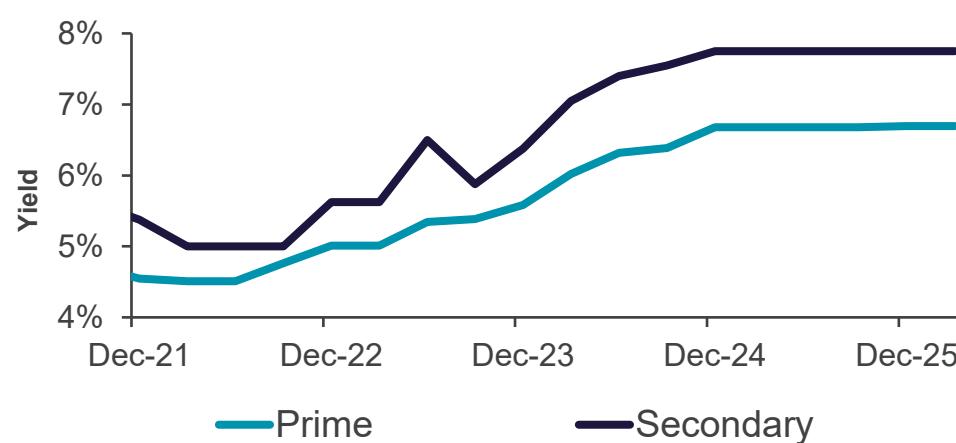
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

Vacancy across Melbourne's CBD remains elevated following an extended period of subdued demand. However, vacancy has stabilised over the later half of 2025, sitting at 17.9%, marginally lower than the previous 18.0% at start of the year, as early signs of recovery emerge and leasing activity begins to gain traction. Despite this improvement, sentiment remains cautious in light of significant upcoming supply. The recent decline in vacancy has been largely driven by the withdrawal of older stock, reflecting a continued shift in tenant preference toward well-located, higher-quality buildings.

The Bennetts Lane development has been completed, adding 12,000 sqm of A-grade office space and is currently awaiting an occupancy permit. A more substantial wave of new supply is expected in 2026, including 46,000 sqm at 7–23 Spencer Street and 29,000 sqm at 51 Flinders Lane. In addition, 435 Bourke Street is set to introduce 60,000 sqm of prime-grade office space. With these projects progressing, vacancy is forecast to peak in 2027 before gradually easing as the market absorbs the new supply.

YIELDS:

As at Q4 2025, yields have remained stable, signalling a market that is gradually progressing through the cycle. Leasing activity is strengthening for prime office assets, while secondary-grade stock continues to underperform amid softer demand. Premium-grade office yields range from 6.00% to 6.25%, with an average of 6.13%. A-grade assets are yielding between 6.80% and 7.30%, averaging 7.00%. Secondary-grade assets attract higher yields of 7.50% to 8.00%, with an average of 7.75%. This sustained stabilisation suggests values for prime-grade assets are likely to remain resilient, while secondary assets may continue to experience valuation pressure due to weaker leasing conditions.

INVESTMENT MARKET:

Total investment volumes in Q4 2025 exceeded \$870 million, indicating a notable uplift in investor activity. While market sentiment has improved, investors remain measured and selective in their approach. Most transactions during Q4 2025 were concentrated in well-located assets offering repositioning or redevelopment potential, underpinned by strong tenant covenants and stable cash flows. Key transactions included the sale of 750 Collins Street to Trust Capital for \$383 million and 470 Collins Street for \$60.3 million. Improving economic conditions in Melbourne, together with the most recent interest rate cut, have supported investor sentiment. The market appears to be entering the early stages of a recovery phase.

OUTLOOK

- Economic growth is expected to strengthen through 2026 as domestic demand improves, with Victoria's Gross State Product forecast to grow by 2.9% this year, supporting a gradual recovery in market conditions..
- Melbourne's CBD office market is beginning to show signs of stabilisation, despite vacancy levels remaining elevated. Prime-grade assets continue to attract demand, particularly from mid-sized tenants seeking flexible, high-quality accommodation. Conversely, older secondary stock remains under pressure, with incentives trending higher and outgoings continuing to increase.
- With additional supply scheduled to come over the next 18 months, vacancy is expected to remain elevated in the near term and is likely to peak in 2027 as the market works through upcoming completions.
- Investor sentiment is strengthening, with activity concentrated on well-located assets offering redevelopment or repositioning potential. While secondary assets continue to face headwinds, prime grade properties remain comparatively resilient, supported by stable cash flows 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	190,914	16.4%	4,520	62,000	\$950	37.5%	\$241
A	2,545,830	436,775	19.3%	-14,453	143,500	\$771	37.2%	\$217
Prime	3,751,313	627,689	18.3%	-9,993	205,500	\$828	37.3%	\$230
Secondary	1,422,991	237,867	16.8%	11,379	0	\$617	38.6%	\$183
TOTALS	5,174,304	865,556	17.9%	1,446	205,500	\$722.5	37.95%	\$206.5

*Rental rates reflect full service asking

^ Total reflects all grades

KEY LEASE TRANSACTIONS Q4 2025

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
530 Collins Street	Melbourne	Equity Trustees	2,517	Direct
One Melbourne Quarter	Docklands	Jetstar	7,000	Direct
664 Collins Street	Docklands	SG Fleet	2,235	Direct
567 Collins Street	Melbourne	Oracle	2,059	Direct

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2025

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE (AUD M)
750 Collins Street	Docklands	GPT/TrustCapital	41,110	\$383
470 Collins Street	Melbourne	Suleiman Group/Fortis Development	10,118	\$60.3

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

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