

MARKET FUNDAMENTALS

	YOY Chg	Outlook
19.0% Vacancy Rate	▼	▲
28,029 6-month Net Absorption, sqm	▲	▼
\$434 Prime Net Effective, sqm pa	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
2.6% (National) GDP Growth	▲	▲
2.7% (Victoria) State Final Demand Growth	▲	▲
4.1% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW:

Economic conditions remained steady through Q1 2026, supported by domestic demand and a tight labour market. Headline CPI was 3.8% year-on-year in January 2026, and the RBA lifted the cash rate to 3.85% in February and 4.10% in March. The higher-rate environment and rising geopolitical risks are near-term headwinds for occupier demand and investment, so any recovery is likely to be more measured than was forecast earlier this year. Despite broader economic headwinds, Victoria's economy remains resilient, with Gross State Product forecast to grow by 2.0% in 2026, before accelerating to 3.0% in 2027.

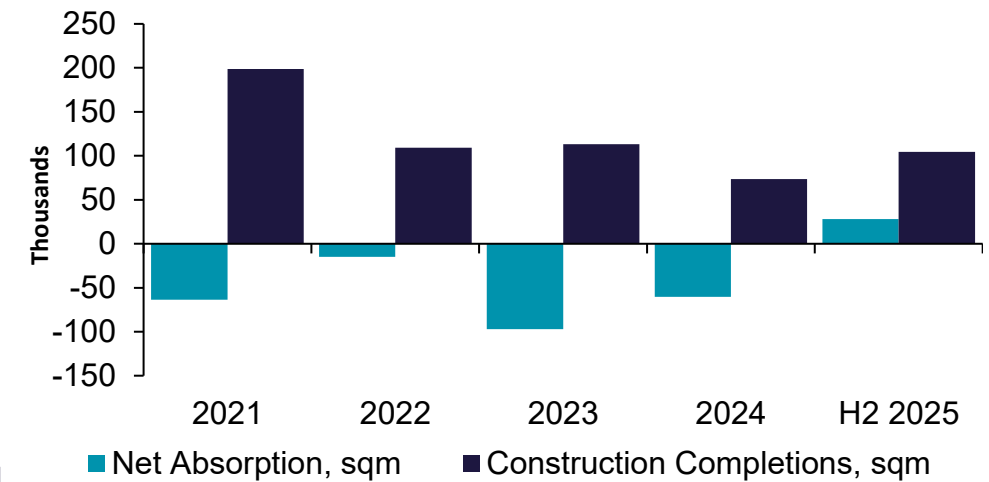
DEMAND:

Melbourne's CBD office market experienced subdued demand in Q1 2026, with leasing activity largely concentrated in prime-grade buildings and flexible workspace. While tenants still remain cost-conscious, they continue to favour higher-quality assets that better support hybrid working. In contrast, demand for secondary-grade offices, especially older stock continues to lag, contributing to increasing vacancy levels. Encouragingly, improving sentiment across the CBD has led to a rise in enquiry levels, which is expected to support market in future.

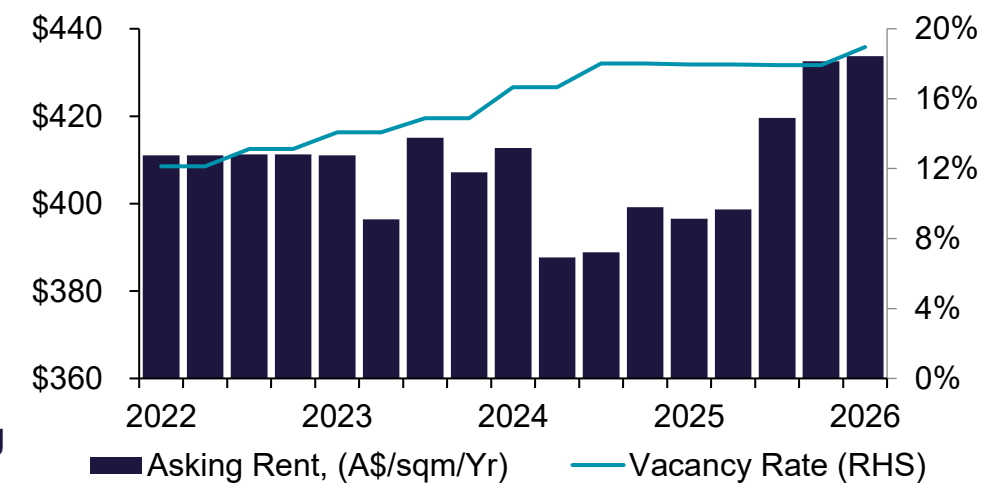
RENTS & INCENTIVES:

The Melbourne CBD office market recorded steady growth in Q1 2026, with improvements in net effective rents across prime assets. Premium-grade net effective rents increased by 10.1% year-on-year to \$500 per sqm p.a., while incentives remained stable at 47%. A-grade rents also strengthened, rising to \$404 per sqm p.a., reflecting a 9.2% annual increase, with incentives holding steady at 48%. Outgoings continue to place pressure on effective rental performance, with Premium-grade outgoings increasing by 4.8% year-on-year to \$241 per sqm p.a. and A-grade outgoings rising by 3.7% to \$225 per sqm p.a., although both remained unchanged this quarter. In contrast, secondary-grade assets remain weaker, with softer demand driving average net effective rents down to \$307 per sqm p.a., while incentives hold at around 50%. Outgoings remain lower than the prime grades at \$183 per sqm p.a., but have still increased modestly by 4.6% over the past year.

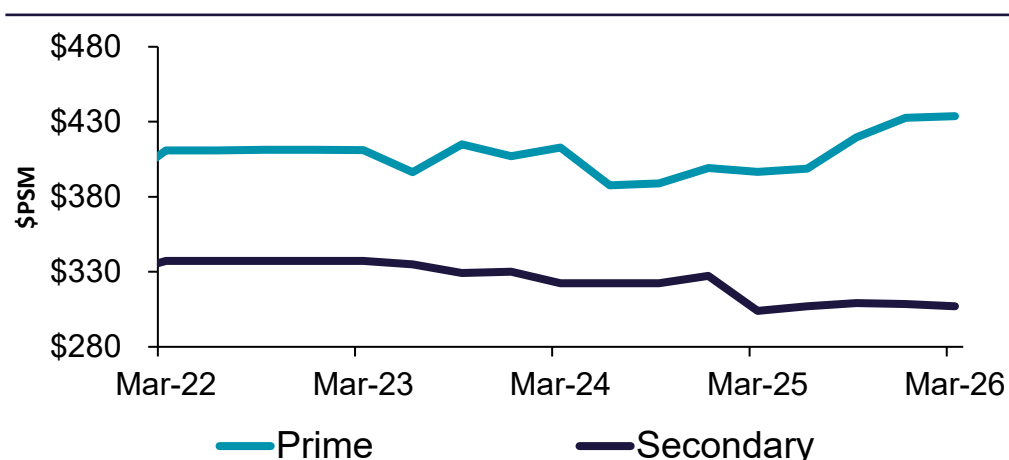
SPACE DEMAND / DELIVERIES



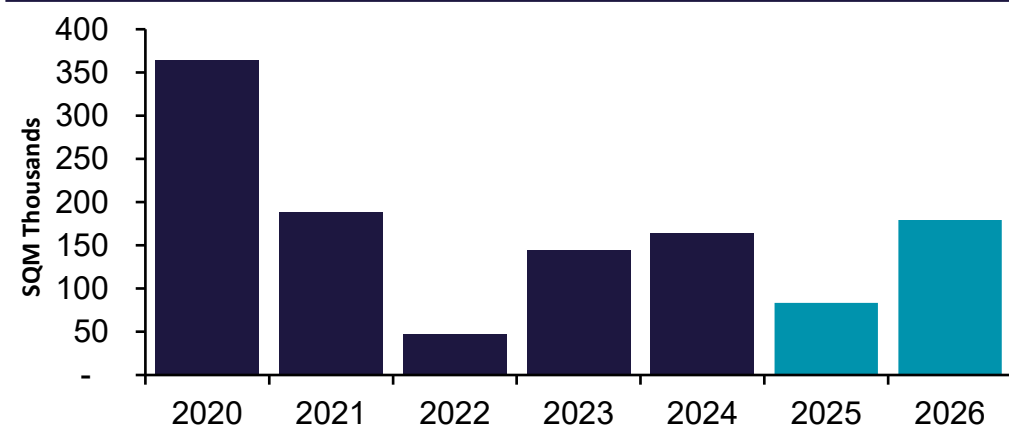
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



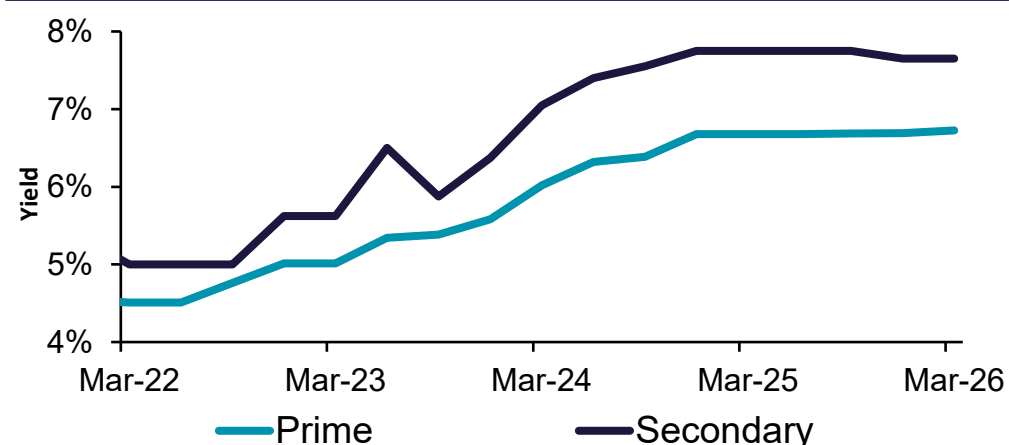
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

Vacancy across Melbourne’s CBD has risen following an extended period of subdued demand, although recent PCA data indicates improving demand for prime-grade assets. Over the second half of 2025, the vacancy rate increased to 19.0%, up from 17.8% in the first half of the year. While improving market confidence is expected to support a gradual pickup in leasing activity, sentiment remains cautious given the significant pipeline of upcoming supply. The recent increase in vacancy has largely been driven by the completion of new developments, while the withdrawal of older office stock has partially offset this rise, reflecting a continued shift in tenant preference toward well-located, higher-quality buildings.

At the same time, new supply continues to enter the market. 7 Spencer Street has been completed, delivering 45,000 sqm of prime-grade office space and is currently awaiting an occupancy permit. A further wave of supply is expected in 2026, including approximately 29,000 sqm at 51 Flinders Lane, while 435 Bourke Street will introduce a further 60,000 sqm of prime-grade office space. As these projects are delivered, vacancy is forecast to peak in 2027 before gradually easing as the market absorbs the new supply.

YIELDS:

As at Q1 2026, office yields across Melbourne’s CBD remained largely stable, with only a marginal softening observed in secondary-grade assets, signaling a market gradually progressing through the cycle. Leasing activity continues to strengthen for prime-grade office assets, while secondary-grade stock remains under pressure amid softer tenant demand. Premium-grade office yields range between 6.00% and 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 remain higher yielding, ranging from 7.50% to 7.80%, with an average of 7.65%. While stability in prime yields points to relatively firmer conditions at the top end of the market, ongoing risks and uncertainty are likely to weigh on assets, where weaker leasing fundamentals continue to place downward pressure on secondary asset values.

INVESTMENT MARKET:

Investment volumes in Q1 2026 point to an uplift in investor activity. While market sentiment has improved, investors remain measured and selective in their approach. Most transactions during Q1 2026 were concentrated in well-located assets offering repositioning or redevelopment potential, underpinned by strong tenant covenants and stable cash flows. Key transaction included the sale of 31 Queen Street by AEW for \$170 million. While global uncertainty persists, Melbourne is increasingly being viewed as a relatively defensive investment market, positioning the city well for long-term growth as the easing cycle progresses.

OUTLOOK

- Economic conditions are expected to remain uncertain in the near term, with persistent inflation and the potential for further rate tightening weighing on sentiment. However, resilient growth is expected to support a gradual improvement in occupier demand through 2026.
- Leasing activity in Melbourne’s CBD is likely to recover, supported by rising enquiry levels and continued demand for high-quality, flexible space. Prime-grade assets will remain the focus, while secondary stock is expected to face ongoing leasing challenges and elevated vacancy.
- With a strong pipeline of upcoming supply, vacancy rates are expected to remain elevated and peak in 2027 before gradually easing as new stock is absorbed and older buildings are withdrawn. Rental growth should continue across prime assets, though rising outgoings may limit effective gains.
- Investor activity is set to improve, with capital targeting prime assets and repositioning opportunities. Prime yields are likely to remain stable, while secondary assets may face further softening. Overall, Melbourne remains well positioned for long-term recovery.

MARKET STATISTICS

SUBMARKET	INVENTORY (SQM)	TOTAL 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	191,268	15.8%	7,471	62,000	\$943	37.4%	\$241
A	2,644,257	545,969	20.6%	42,532	50,500	\$777	37.2%	\$217
Prime	3,854,040	737,237	19.1%	50,003	112,500	\$829	37.3%	\$230
Secondary	1,034,287	211,976	20.5%	-11,955	0	\$614	38.5%	\$183
TOTALS	5,279,222	1,000,638	19.0%	28,029	112,500	\$721.5	37.9%	\$206.5

*Rental rates reflect full service asking

^ Total reflects all grades

KEY LEASE TRANSACTIONS Q1 2026

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
90 Collins Street	Melbourne	GB Energy	1,139	Direct
737 Bourke Street	Melbourne	Cube Wire	457	Direct

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q1 2026

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE (AUD M)
31 Queen Street	Melbourne	AEW	19,121	\$170

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	45,000	Mirvac
51 Flinders Lane	Melbourne	WPP	29,000	GPT

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