

MARKET FUNDAMENTALS

	YOY Chg	Outlook
18.9% Vacancy Rate	▼	▼
26,779 6-month Net Absorption, sqm	▲	▲
\$434 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

ECONOMIC OVERVIEW:

Economic conditions remain mixed, with growth improving modestly while inflationary pressures remain elevated. GDP rose by 0.4% in the June quarter and 2.1% over the year, marking a slight improvement in quarterly growth despite a moderation in the annual rate. Meanwhile, headline CPI reached 3.5% year-on-year in July, while trimmed mean inflation rose to 3.6%, indicating that underlying inflation remains persistent. The RBA raised the cash rate by 25 bps to 4.60% in September, reflecting ongoing concerns around inflationary pressures and its commitment to returning inflation to the target range, while signaling that further tightening may be required if inflation remains elevated. Victoria’s State Final Demand is forecast to grow by 1.8% in 2026, before strengthening to 2.6% in 2027.

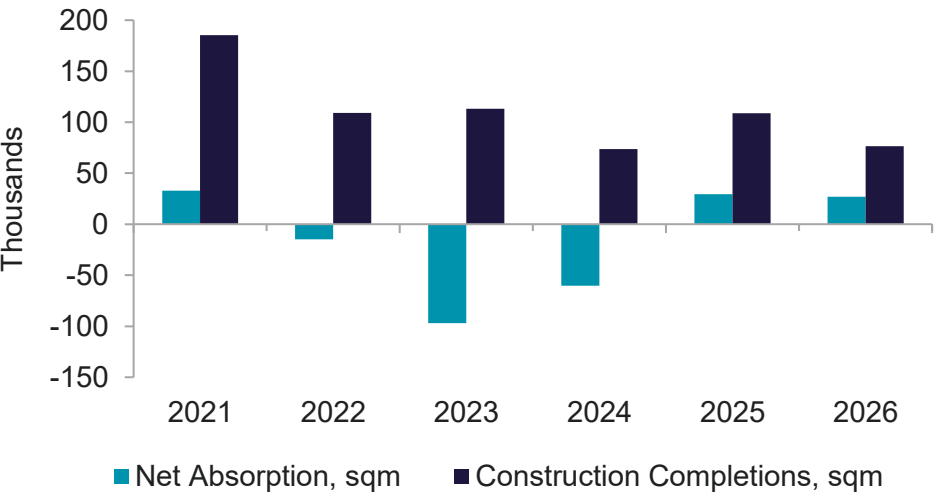
DEMAND:

Occupier demand in the Melbourne CBD continued to improve through Q3 2026, with positive net absorption extending the recovery seen in the first half of the year. A Grade was the clear standout, recording around 53,000 sqm of net absorption as tenants continued to prioritise quality while remaining conscious of occupancy costs. Premium demand softened, suggesting some occupiers are favouring A Grade as a more cost-effective quality option. Secondary demand remained subdued, although the pace of contraction moderated. Overall, sustained positive absorption marks an encouraging shift following several years of significant tenant contraction across the CBD.

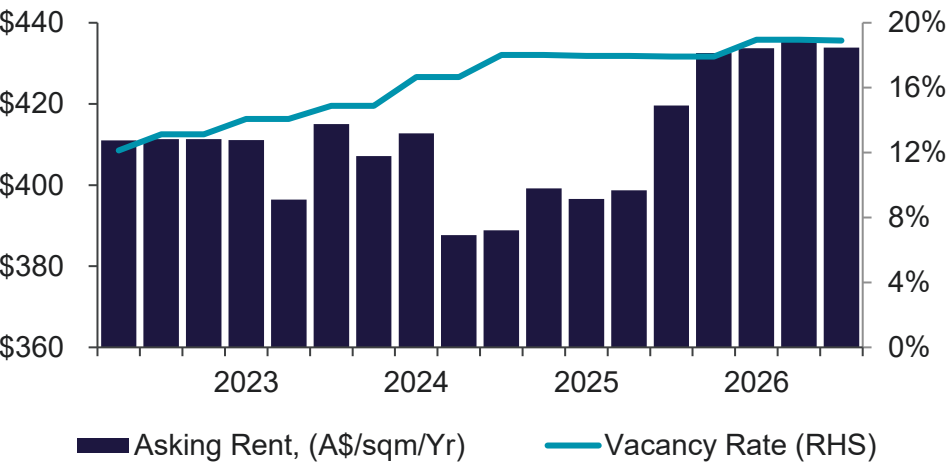
RENTS & INCENTIVES:

Melbourne CBD rental growth moderated through Q3 2026 following stronger gains earlier in the year. Across the Prime market, net face rents increased 2.2% YoY to \$830 sqm pa., with Premium and A Grade rents reaching \$954 and \$776 sqm pa., respectively, up 4.1% and 1.6% YoY respectively. B Grade growth is recorded at 2.7%, with rents averaging \$623 sqm pa. Incentives remained unchanged across all grades, while rents edged slightly lower quarter-on-quarter, indicating a stabilisation in leasing conditions. Average outgoings increased by around 1% for all grades, while a widening range between buildings highlights greater variation in operating costs, reinforcing the importance of building efficiency and cost management for occupiers.

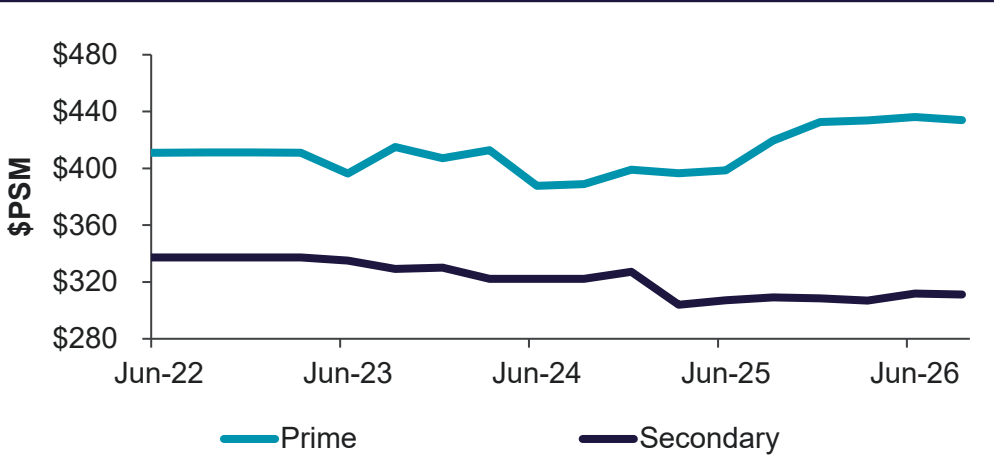
SPACE DEMAND / DELIVERIES



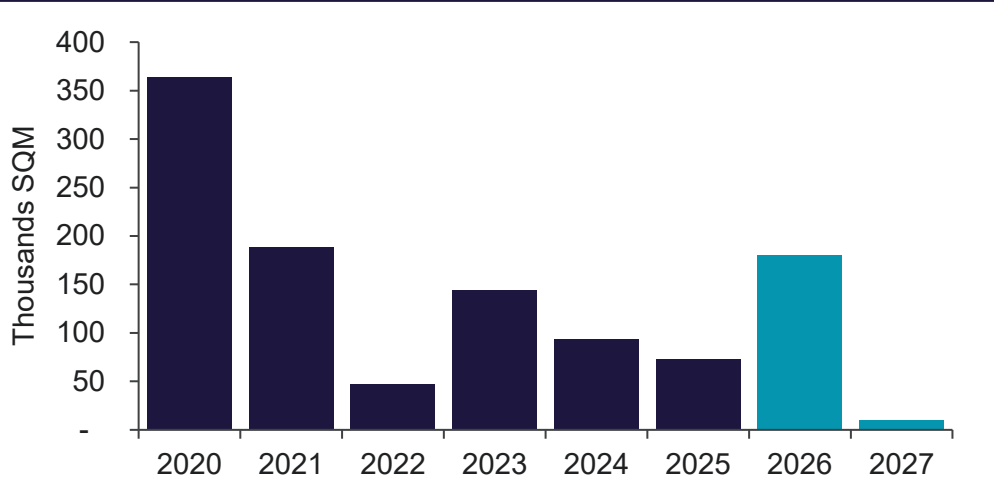
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



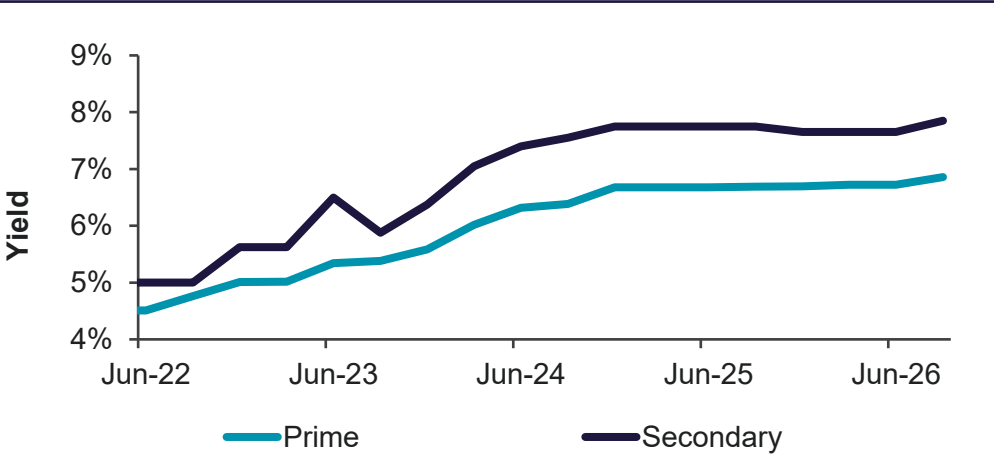
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

Melbourne CBD vacancy improved marginally to 18.9% in Q3 2026, although supply movements continue to shape vacancy outcomes. Premium vacancy declined from 15.8% to 15.0%, largely reflecting the withdrawal of around 29,000 sqm of stock, while A Grade vacancy edged higher to 20.8% despite strong demand, following the addition of around 76,000 sqm. Secondary grade recorded a similar dynamic, with stock withdrawals offsetting negative absorption.

Further supply pressure is expected from the completion of 435 Bourke Street, adding around 62,500 sqm of Premium space by the end of 2026. While much of the building is committed, tenant relocations will create backfill vacancies elsewhere in the Melbourne CBD. However, the supply pipeline is expected to drop significantly thereafter, with only around 10,200 sqm expected in 2027 and 12,000 sqm in 2028. Combined with improving demand, the limited pipeline should provide a stronger foundation for vacancy to gradually tighten beyond 2026.

YIELDS:

Melbourne CBD office yields softened across all grades in Q3 2026, indicating continued pricing adjustment following a period of relative stability. Prime yields averaged 6.86%, up from 6.73% in Q2, with Premium averaging 6.23% and A Grade 7.13%. Secondary yields recorded a larger movement, increasing from 7.65% to 7.85%. Notably, the lower end of the yield range also shifted higher across all grades, suggesting repricing is extending to better-quality assets rather than being confined to more challenged stock.

Despite further yield softening, underlying leasing fundamentals are becoming more supportive. Positive net absorption has continued through 2026, led by strong demand for A Grade space, while the development pipeline reduces significantly beyond 2026. As these improvements flow through to vacancy and rental performance, stronger occupier fundamentals should provide greater support to investor confidence and help establish a firmer base for pricing over the medium term.

INVESTMENT MARKET:

Investment activity remained measured through Q3 2026, with two transactions recorded during the quarter despite a lower aggregate value than Q2. Both sales are in the Flagstaff precinct, including 436 Lonsdale Street, the former Supreme Court asset, and 448-454 La Trobe Street, adjacent to Flagstaff Gardens and a short walk from Flagstaff Station.

The concentration of activity outside the traditional core highlights investor interest in assets offering repositioning and value-add potential, particularly where location and connectivity provide strong fundamentals. The transactions also suggest that, despite continued pricing adjustment, opportunities are emerging beyond the core for investors willing to take a more active approach to asset strategy.

OUTLOOK

- Melbourne CBD occupier demand should continue its gradual recovery, supported by sustained positive net absorption following several years of tenant contraction.
- A Grade assets remain well positioned to benefit as occupiers balance demand for quality space with greater focus on occupancy costs, while secondary stock continues to face leasing challenges.
- Vacancy will remain elevated in the near term, with 435 Bourke Street and associated backfill adding further supply pressure. The limited development pipeline from 2027 should support gradual vacancy tightening thereafter.
- Rental growth is to remain moderate following stronger gains earlier in 2026, while stable incentives and greater variation in outgoings reinforce the focus on building efficiency and total occupancy costs.
- Investment activity is expected to remain selective as yields continue to adjust, with opportunities emerging in well-located assets offering repositioning and value-add potential.

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	1,180,703	177,171	15.0%	-14,983	62,500	\$954	37.4%	\$244
A	2,715,946	564,198	20.8%	53,460	22,200	\$776	37.2%	\$225
Prime	3,896,649	741,369	19.0%	38,477	84,700	\$830	37.3%	\$230
Secondary	1,021,501	204,180	20.0%	-4,990	-	\$623	38.3%	\$190
TOTALS	5,309,045	1,003,682	18.9%	26,779	84,700	-	-	-

*Rental rates reflect full service asking

^ Total reflects all grades

KEY LEASE TRANSACTIONS Q3 2026

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
321 Exhibition Street	North Eastern	MACS	4,461	Direct
469 La Trobe Street	Flagstaff	Sage Family Law	731	Direct
555 Lonsdale Street	Western Core	Williams Winter	640	Direct
Rialto	Western Core	Procurement Australia	540	Direct
226 Flinders Lane	Civic	Rodd & Gunn (Strata)	544	Direct

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2026

PROPERTY	SUBMARKET	SELLER/BUYER	SQM	PRICE (AUD M)
436 Lonsdale Street	Flagstaff	Victoria State Government/Undisclosed	8,305	Approx 20 - 25
448-454 La Trobe Street	Flagstaff	Unifor Australia/G3 Equities	750	5

KEY PROJECTS UNDER CONSTRUCTION & COMPLETIONS

PROPERTY	SUBMARKET	MAJOR TENANT	SQM	OWNER/DEVELOPER
435 Bourke Street	Western Core	CBA, Unisuper	62,500	CBUS
26 Flinders Street	Eastern Core	-	10,200	Time & Place
393 Swanston Street	Civic	RMIT	12,000	Scape Student Living

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