

Melbourne CBD Office Market Report

August 2025

Has the worm turned? The first fall in vacancy rates in five years, positive net absorption for the first time in three years and even a slight drop in incentives.

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Key Insights

Melbourne's CBD was the only East Coast capital to record a decline in vacancy; combined with positive net absorption in H1 2025 it's a promising sign for the market.




Dr Tony McGough
Partner, Research & Consulting

 **17.9%**


Latest vacancy - CBD

The vacancy rate in Melbourne's CBD fell for the first time since H2 2019 down marginally to 17.9% from 18.0% in H1 2025.

 **1.4k**


6-month net absorption

Net absorption was positive for the first time since H1 2022. A strong 15,031 sqm of demand in grade B space made the difference, with Premium grade also showing positive demand of 4,520 sqm.

 **116k**

Sqm of net supply in 2026

Net supply in 2026 is forecast to come in at 116,000 sqm below the 10-year average of 137,681 sqm. It is mostly the two premium developments under construction in the CBD, 435 Bourke Street and 51 Flinders Lane.

 **6.7%**


Yield Q4'24 – prime basket

Prime yields have softened 12 bps q/q and 31 y/y to sit at 6.70% whilst secondary yields have softened 21 bps q/q and 36 bps y/y to sit at 7.67%.

 **6.9%**

Eastern Core Prime Rental Growth

Prime net face rents in the Eastern Core have increased 6.9% over the last year, the next strongest growing precinct was North Eastern at 1.3%.

 **47.7%**

Prime Incentives

Prime incentives fell 0.1%, the first fall in over two years. Following a common theme, the improvement in incentives was based around a few select buildings in the Eastern Core.

Melbourne CBD Office Market Indicators – July 2025

Grade	Total Stock sqm	Vacancy Rate %	6-monthly Net Absorption sqm	6-monthly Net Additions sqm	Average Net Face Rent \$/sqm	Average Incentive %	Net Effective Rent Growth % q/q	Core Market Yield %*
Prime	3,755,613	18.3	-9,933	4,300	734.5	47.7	2.6	6.70
Secondary	1,422,991	16.8	11,379	-4,800	556.7	47.8	1.4	7.67
Total	5,178,604	17.9	1,446	-500				

Source: Knight Frank Research/PCA * assuming WALE 5 years

Demand

POSITIVE NET ABSORPTION TO BEGIN THE YEAR

Melbourne's CBD recorded net absorption of +1,446 sqm in H1 2025, the first positive figure in three years. While the result is only marginally positive, it marks a notable shift in leasing activity, particularly when viewed against the 5-year average of -42,190 sqm per annum. In contrast to the national trend of flight to quality, secondary office space in Melbourne significantly outperformed prime, recording net absorption of +11,379 sqm compared to -9,933 sqm for prime. Despite this trend, demand for prime assets remains robust, evidenced by major transactions over the past year—including Coles, CBA, Parks Victoria, and Clayton Utz—that are yet to flow through to absorption figures.

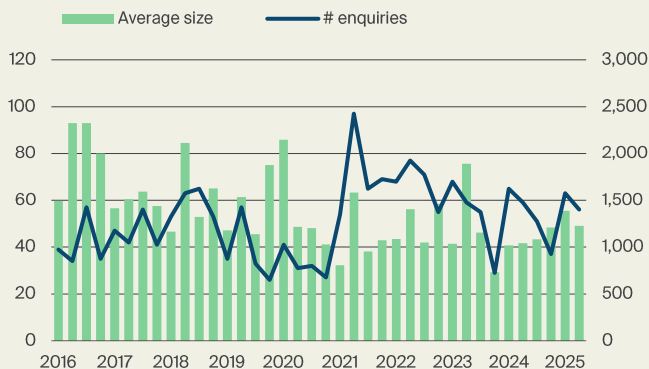
Consistent with the ongoing flight-to-quality trend, there is a clear divergence in net absorption across the precincts. The Eastern Core led the market in H1 2025 with the highest absorption at +9,865 sqm. In contrast, precincts facing locational challenges and characterised by a higher proportion of non-Collins Street stock recorded the weakest results, including Docklands (-12,333 sqm), and Civic (-6,816 sqm). In fact, excluding Docklands Melbourne's CBD achieved a positive net absorption of +13,779 sqm.

LEASE BRIEFS STEADY OVER Q2-25

Leasing briefs remain steady in the CBD with 56 recorded over Q2 25 at an average size of 1,227 sqm, five less than Q1 25. Requirements of 500sqm or less represent 49% of briefs. Some of the largest briefs currently active in the market are Myer, Pitcher Partners, AFL, Telstra, and Maddocks. The State Government is also in the process of consolidating its real estate portfolio and has demand for up to 90,000 sqm of office accommodation in the CBD.

Melbourne CBD lease briefs

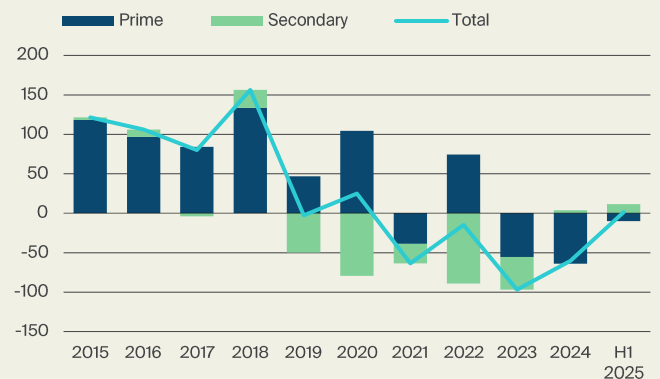
by no. of briefs (LHS), and average size in sqm (RHS)



Source: Knight Frank Research

Melbourne CBD annual net absorption

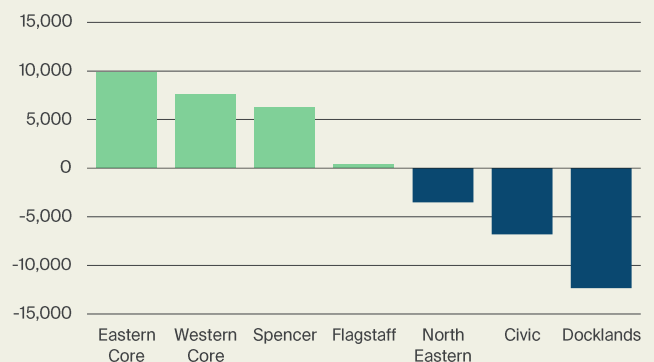
by grade, 000's sqm



Source: Knight Frank Research, PCA

Melbourne CBD net absorption

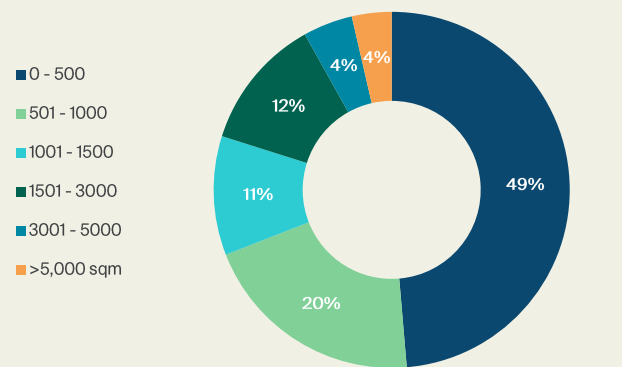
by precinct, 000's sqm; H1 2025



Source: Knight Frank Research, PCA

Melbourne CBD lease briefs

Share of enquiry by size, 2024 to H1 2025 (%)



Source: Knight Frank Research

Supply

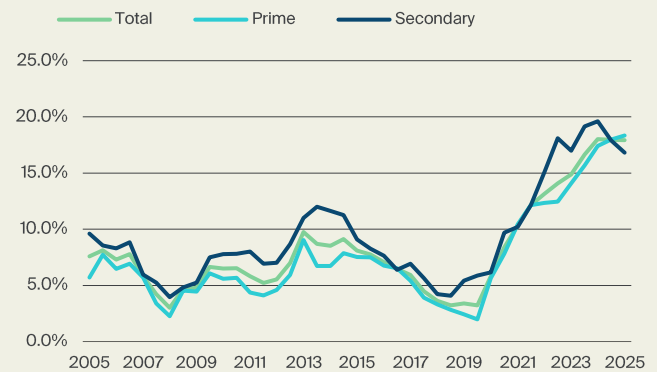
VACANCY FALLS FOR THE FIRST TIME SINCE H2 2019

Melbourne CBD's total market vacancy rate fell 0.1% to 17.9% over H1 2025. Although marginal, this marks the first decline in the vacancy rate since H2 2019. Melbourne was also the only major city outside Adelaide to record a vacancy decrease over this period. Secondary vacancy dropped from 17.9% to 16.8%, while prime vacancy rose from 18.0% to 18.3%. Vacancy is lowest in the Eastern Core at 12.3%, well below the CBD average of 17.9%. In contrast, Flagstaff sits significantly higher at 26.7%, while the Western Core, the CBD's largest precinct, sits in line with the CBD average at 17.9%.

NEW SUPPLY TO SLOW MARKEDLY AFTER 2027

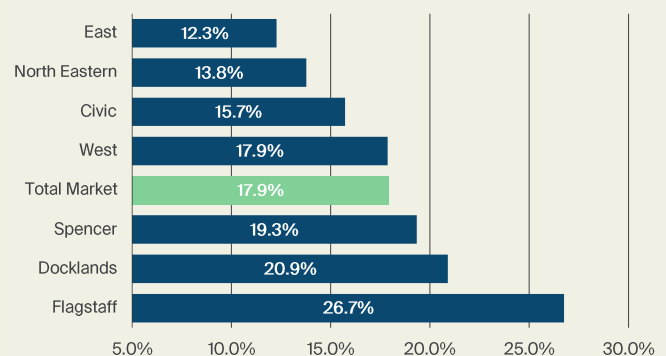
Over H1 2025 no new supply reached completion in Melbourne's CBD, but several developments and refurbishments are expected by year-end. Key completions include 7 Spencer Street, adding 43,500 sqm with high prospective vacancy, having only secured two pre-commitments from AECOM and Work Club (7,500 sqm). 51 Flinders Lane and 435 Bourke Street remain on track for a 2026 completion, with 435 Bourke Street securing major pre-commitments from CBA, UniSuper and Baker McKenzie. In 2027, Lendlease's OSD Town Hall will deliver 17,000 sqm—already pre-committed by CBRE—while Scape's mixed-use State Library Exchange will contribute a further 10,000 sqm of office space to the market. New supply will slow sharply after 2027, with no new supply forecast for 2028–29 and 600 Collins Street by Hines tentatively set for 2029. Despite leasing conditions improving, high incentives and vacancies, combined with rising construction costs, continue to challenge project feasibility.

Melbourne CBD vacancy rate by grade, %



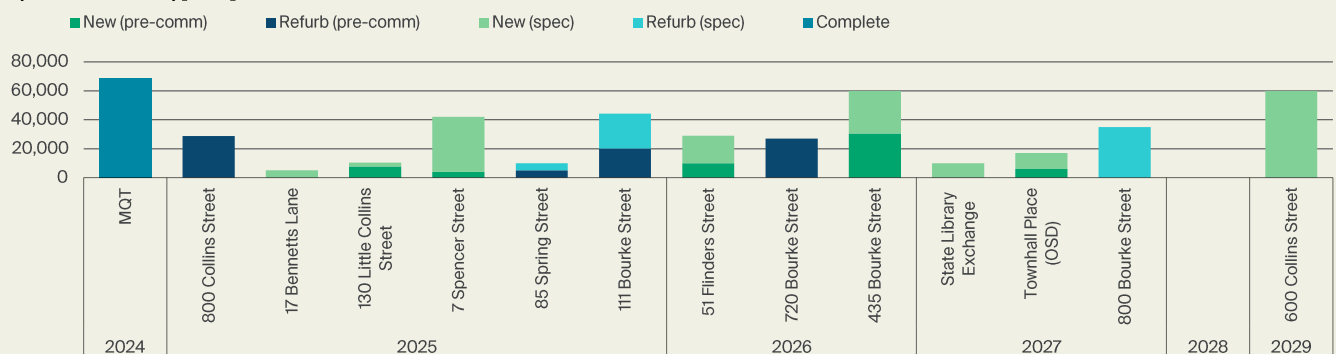
Source: Knight Frank Research, PCA

Melbourne CBD vacancy rate by precinct compared to total market, %

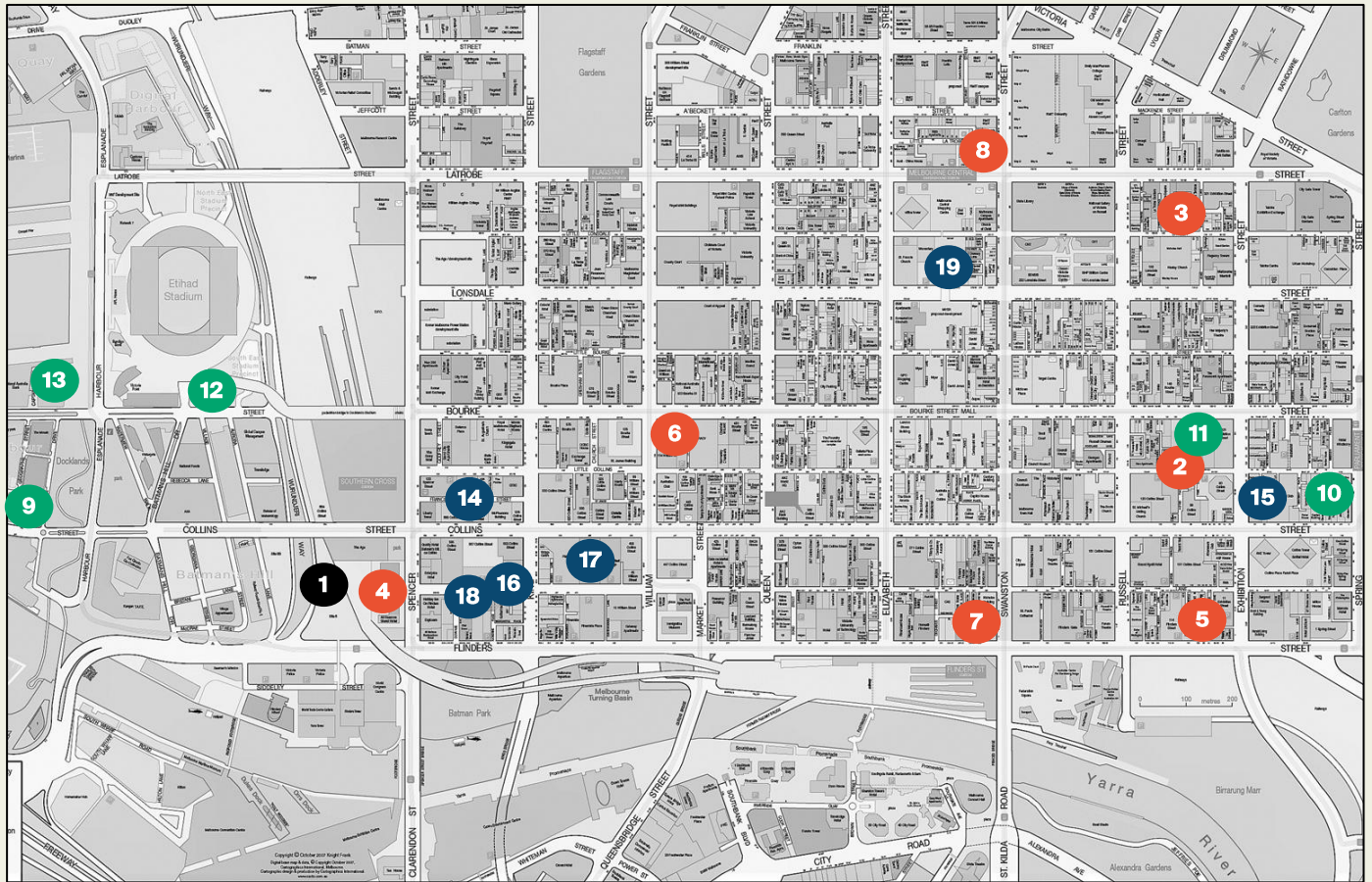


Source: Knight Frank Research, PCA

Melbourne CBD office supply pipeline by commitment type, sqm



Major office supply



New developments (complete)

#	Address	SQM	Completion	Developer
1	693 Collins Street (MQT)	69,000	Complete	Lendlease

New developments (under construction)

#	Address	SQM	Completion	Developer
2	130 Little Collins Street (Strata)	10,377	H2 2025	Golden Age
3	17 Bennetts Lane	5,000	H2 2025	Pellicano
4	7 Spencer Street	42,000	H2 2025	Mirvac
5	51 Flinders Lane	29,000	H2 2026	GPT Group
6	435 Bourke Street	60,000	H2 2026	CBUS Property
7	Melbourne Townhall (OSD)	17,000	H1 2027	Lendlease
8	State Library Exchange (OSD)	10,000	H1 2027	Scape

Full Refurbishments

#	Address	SQM	Completion	Developer
9	800 Collins Street	28,650	Complete	Manulife
10	85 Spring Street	10,000	H2 2025	Pelligra
11	111 Bourke Street	44,000	H2 2025	Charter Hall & Brookfield
12	720 Bourke Stret	29,000	H2 2026	Cbus Property
13	800 Bourke Street	35,000	H2 2027	GPT Group

DA Approved / Mooted

#	Address	SQM	Completion	Developer
14	600 Collins Street	60,000	2029+	Hines
15	60 & 52 Collins Street	42,000	2030+	Dexus
16	555 Collins Steet (2)	35,000	2030+	Charter Hall & GIC
17	Rialto Intercontinental	20,000	2030+	Salta Brothers
18	522-552 Flinders Lane	41,000	2030+	Investa
19	300 Lonsdale	20,000	2030+	GPT Group

Deals & rents

RENTAL GROWTH ALL CONCENTRATED IN THE EAST...

Prime net face rents across Melbourne's CBD now average \$735/sqm following a 2.1% increase q/q, the strongest quarterly growth recorded in the last year. This uplift was driven by the Eastern Core where prime rents surged from \$915/sqm to \$972/sqm, reflecting a 6.2% rise across the precinct. Secondary net face rents rose marginally, up 1.3% q/q and 3.7% y/y, to sit at \$557/sqm. Prime incentives recorded a marginal decline of 0.1% over Q2 2025, moving from 47.8% to 47.7%, they remain elevated and are up 0.7% y/y. Secondary incentives remain broadly in line with prime levels at 47.8%, holding flat on a quarterly basis and easing by 0.1% y/y.

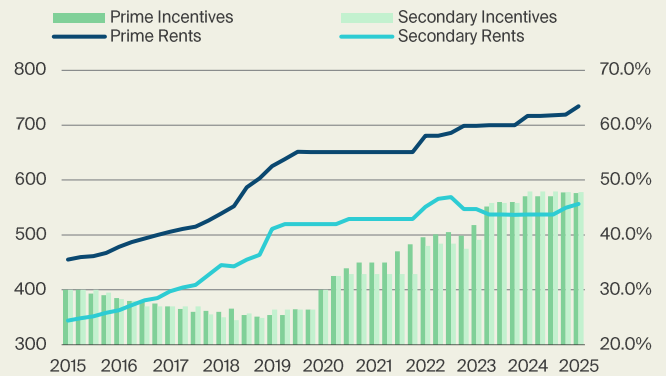
Significant pricing disparities persist across precincts, with a wide gap between the most affordable precinct, Flagstaff \$503/sqm, and the Eastern Core \$972/sqm. The spread between rents across grades is comparatively narrower due to a spread in the quality of stock across locations. Premium rents average \$828/sqm, compared to \$676/sqm for A-Grade, and \$557/sqm for Secondary stock.

... A REFLECTION OF WHERE THE LEASING WAS CONCENTRATED

Over the last financial year, most leasing activity has been concentrated in the Eastern Core and amongst premium grade buildings. The largest transactions to take place were Coles which relocated from Tooronga to Docklands (29,000 sqm), EY which shifted locations within the Eastern Core to 111 Bourke Street (22,000 sqm), and Corrs Chambers (9,000 sqm) & Clayton Utz moving to 120 Collins Street in the Eastern Core from 333 Collins Street and 567 Collins Street, respectively.

Melbourne CBD rents and incentives

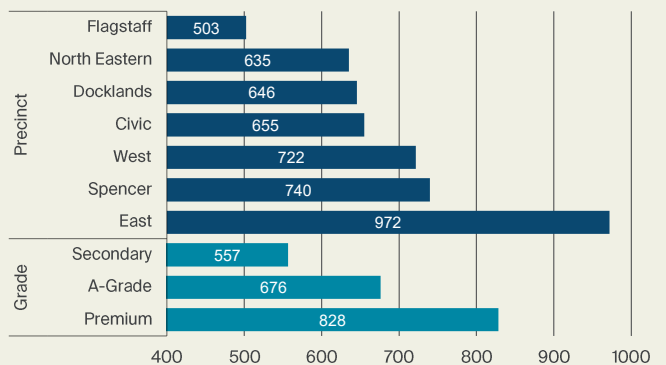
by grade, net face rents \$/sqm (LHS), and % (RHS)



Source: Knight Frank Research

Melbourne CBD net face rents

prime for each precinct, and average for each grade \$/sqm



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Type	Size (sqm)	Term (years)	Start Date
Atlassian	Queen & Collins Street	Western Core	New lease	1,900	5.0	H2 2025
FM Global	51 Flinders Lane	Eastern Core	Pre-comm	1,900	10.0	H2 2026
Clayton Utz	120 Collins Street	Eastern Core	New lease	7,800	10.0	H2 2026
Baker McKenzie	435 Bourke Street	Western Core	Pre-comm	3,600	10.0	H1 2027
Uni Super	435 Bourke Street	Western Core	Pre-comm	13,000	10.0	H1 2027
State Government	50 Lonsdale Street	North Eastern	Renewal	40,000	10.0	H2 2026

Source: Knight Frank Research

Docklands & Southbank

SOUTHBANK A STRONG PERFORMER

Docklands and Southbank, both situated on the perimeter of Melbourne's CBD, are suffering from locational challenges at the turn of the market. However, Southbank is generally outperforming the Docklands with the precinct offering better access to public transport, amenity and the wider CBD.

Prime net face rents in Southbank have grown 3.2% y/y to sit at \$692/sqm on average whilst the Docklands has grown 1.2% y/y to \$646/sqm. Prime incentives are considerably lower in Southbank at 40.0% compared to the 51.8% offered on average in the Docklands meaning there is an even greater disparity in effective rents across the two locations, \$415/sqm to \$312/sqm.

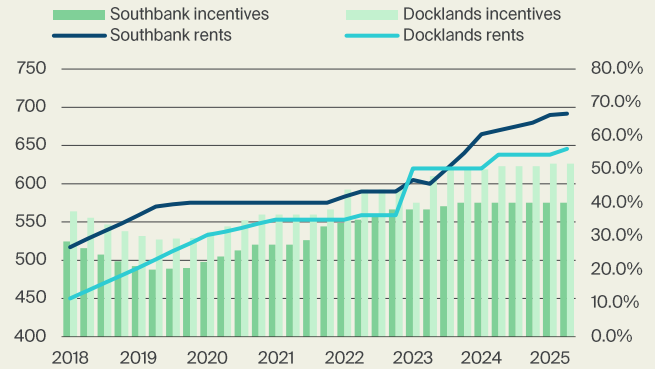
Over H1-2025, Asahi has elected to stay in Southbank, upgrading from 58 Queens Bridge Street to 2 Southbank Boulevard taking up 8,117 sqm in the high rise. Two large deals were done at Collins Square in the Docklands over H1 2025, Pepperstone renewed 2,300 sqm at Tower 1 and TIO has taken up 1,800 sqm at Tower 5.

VACANCY DIVERGING IN THE FRINGE MARKETS

The vacancy rate in Southbank fell 0.9% over H1 2025 to 16.7%, this is likely to fall further once Asahi moves into 2 Southbank Boulevard at the beginning of 2026. The vacancy rate in the Docklands has risen 1.0% over the same period and now sits at 20.9%. This figure rose markedly in H1 2024, when Melbourne Quarter Tower reached completion, and is expected to rise further with several tenant requirements based in the Docklands seeking to move out of the precinct.

Southbank & Docklands prime rents

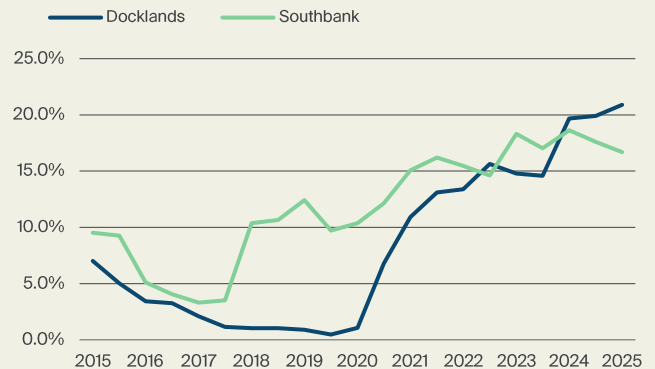
net face rents, \$/sqm (LHS), and incentives, % (RHS)



Source: Knight Frank Research

Docklands & Southbank vacancy rate

by precinct, %



Source: Knight Frank Research, PCA

Recent significant tenant commitments

Occupier	Property	Precinct	Type	Size (sqm)	Term (years)	Start Date
Asahi	2 Southbank Boulevard	Southbank	New Lease	8,100	10.0	H1 2026
Pet Stock	28 Freshwater Place	Southbank	New Lease	1,800	5.0	H1 2026
Pepperstone	Tower 1 Collins Square	Docklands	Renewal	2,300	6.0	H1 2026
TIO	Tower 5 Collins Square	Docklands	New Lease	1,800	7.0	H1 2026

Source: Knight Frank Research

Investment market

INVESTMENT VOLUMES STILL DOWN IN THE CBD

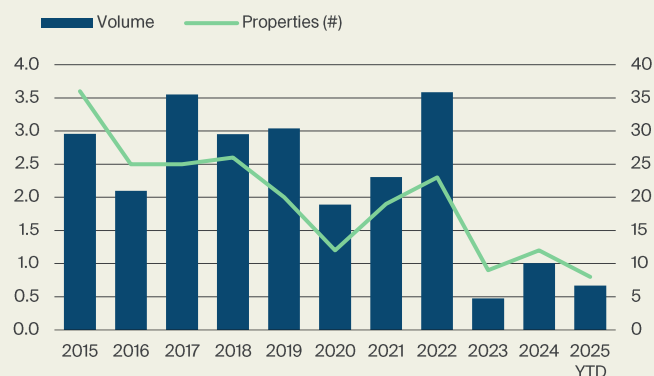
Transactions in Melbourne's CBD remain scarce, with investors continuing to face challenges. Relatively high property taxes and subdued leasing conditions in Melbourne are weighing on sentiment. Recent commentary from the Labor Government regarding potential legislation for the right to work from home in Victoria has further amplified concerns. Despite these headwinds, Melbourne's CBD recorded two institutional office transactions in June 2025, bringing the YTD total to \$670m. These deals involved the two most active buyer groups nationwide, private investors and offshore capital. Harry Stamoulis acquired 357 Collins Street for approximately \$195.3m at a 7.3% yield from Frasers, while PAG purchased 180 Flinders Street for \$260m at a 6.5% yield from Dexus. The latter asset is fully leased and anchored by John Holland.

Investment appetite in Melbourne is expected to improve as the leasing market continues to show signs of recovery and more attractive debt terms emerge amid Australia's slowly loosening monetary policy. The limited investment opportunities now available in Sydney's CBD will hold Melbourne in a strong position for counter-cyclical buying in H2 2025 and beyond.

PRIME YIELDS SOFTEN

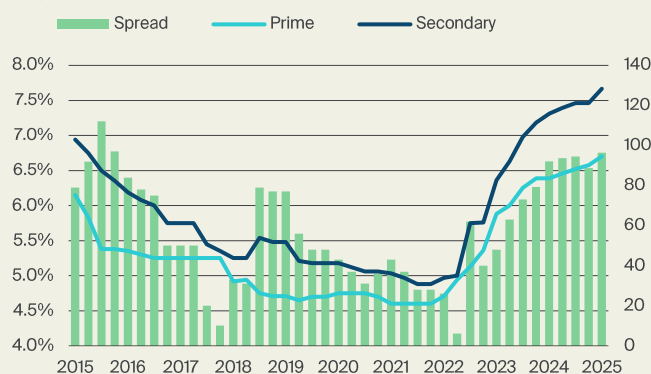
Prime yields softened by 12 bps to 6.70%, while secondary yields softened 21 bps to 7.67%. The spread between prime and secondary yields now sits at 97 bps, the widest level since Q1 2016. Within the prime segment, divergence remains notable across precincts and asset quality. The average prime yield in the East is 6.3%, significantly lower than the West and Docklands at 6.7%, and far below Flagstaff at 7.6%.

Melbourne CBD investment volumes
in millions A\$ (LHS), and number of transactions (RHS)



Source: Knight Frank Research, MSCI

Melbourne CBD office yields
by grade, % (LHS), and spread, bps (RHS)



Source: Knight Frank Research

Recent significant sales

Property	Interest	Price (\$M)*	CMY (%)	NLA (sqm)	\$/sqm NLA	WALE (years)	Purchaser	Vendor	Sale Date
180 Flinders Street	100%	254.5	6.5	21,000	n/a	5.0	PAG	Dexus	Jul-25
357 Collins Street	100%	c195.3	c7.3	32,000	6,103	c2.5	Harry Stamoulis	Frasers	Jul-25
50 Queen Street	100%	40.1	c7.0	8,650	4,646	undisclosed	Up Property	Fidinam	Jun-25

*Net sale price

*Includes the sale of an annexed car-park.

Source: Knight Frank Research, MSCI

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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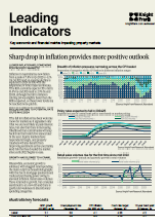


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Melbourne Office State of the Market Q4 2024



Melbourne Industrial State of the Market Q4 2024



The Wealth Report 2024