

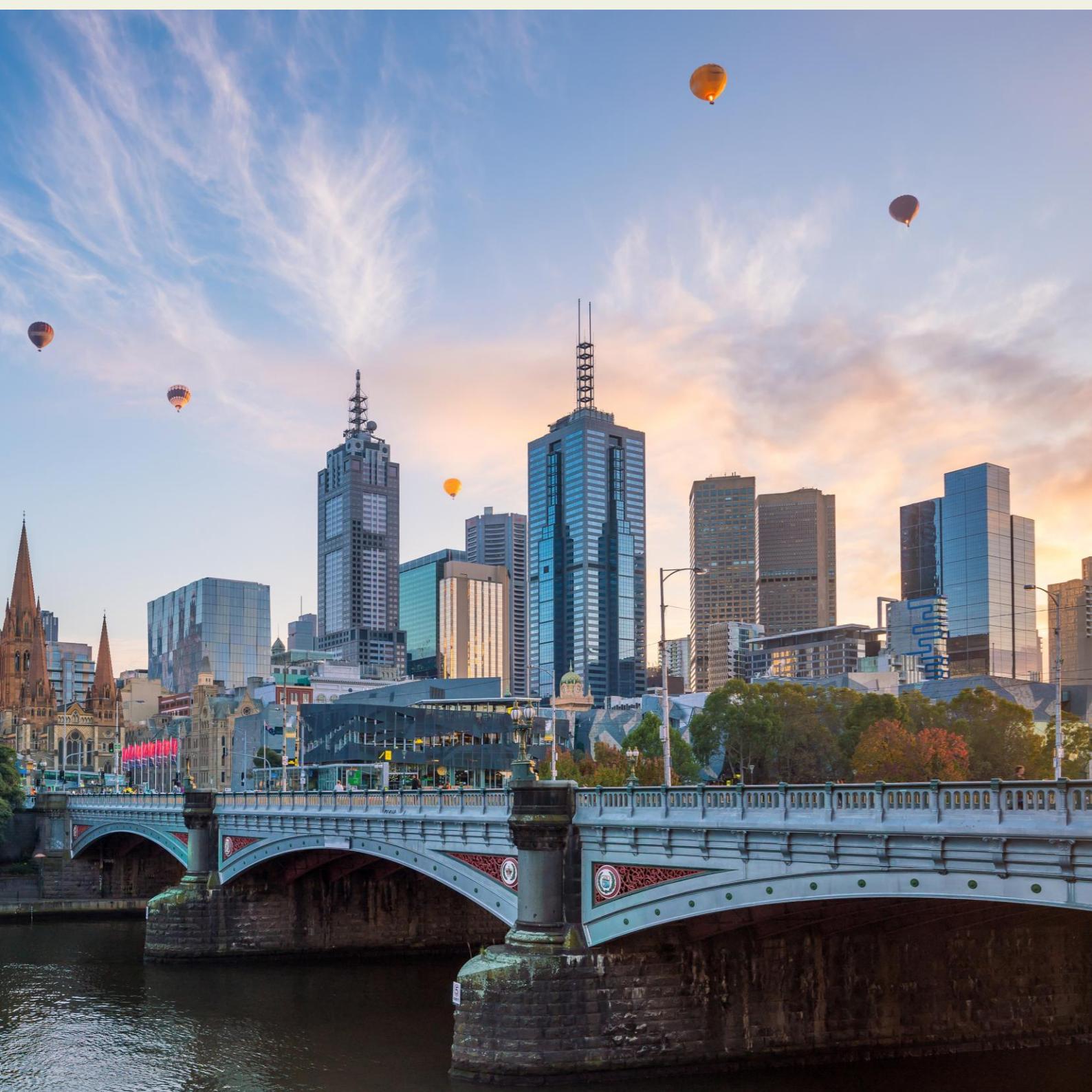
# Melbourne CBD Office Market Report

## with Southbank update

February 2026

Demand across Melbourne's CBD office market remains resilient, supported by strong net absorption. Vacancy is likely to rise further in the short-term as new supply completes, but fundamentals remain favourable. A significant contraction in development is expected to underpin future rental growth.

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# Key Insights

Melbourne recorded its highest annual net absorption since 2018. However, vacancy rose over the same period due to the completion of several largely vacant refurbished assets.



Laurence Panozzo  
Research & Consulting

**19.0%**

Latest vacancy - CBD

Melbourne's CBD vacancy rate rose 1.1% over H2-2025 to 19.0%. The rise in vacancy was mainly due to the addition of several mostly vacant refurbishments such as 111 Bourke St and 800 Collins St.

**29k**

12-month net absorption

Net absorption in Melbourne reached its highest annual total since 2018. Net absorption for prime stock totalled 40,070 sqm over 2025, while secondary totalled -10,595 sqm; supporting the bifurcation theme in the market.

**100k**

Sqm net additions in 2025

Net additions reached a 4-year high in 2025 with 4 new refurbishments and 2 developments reaching completion. Supply is forecast to be equally strong in 2026 with several developments reaching completion.

**6.8%**

Yield Q4'25 - prime basket

Prime yields in Melbourne's CBD softened 3 bps q/q to 6.76% whilst secondary yields softened 15 bps to 7.82%. The spread between prime and secondary yields, 107 bps, is at a 10-year high.

**5.2%**

Prime rental growth

Prime net face rents were up 5.2% in 2025, their highest increase in 3-years. Most of the growth was concentrated in the Eastern Core where net face rents rose 10.4%.

**47.6%**

Prime incentives

Prime incentives continue their gradual fall, down 0.2% q/q to average 47.6%. Incentives range between 47.0-53.5% across all the precincts except the Eastern Core where they average 40.0%.

## Melbourne CBD Office Market Indicators – February 2026

Grade	Total Stock sqm	Vacancy Rate %	Annual Net Absorption sqm	Annual Net Additions sqm	Average Net Face Rent \$/sqm	Average Incentive %	Net Effective Rent Growth % q/q	Core Market Yield %*
Prime	3,854,040	19.1	40,070	102,727	756	47.6	0.1	6.8
Secondary	1,425,182	18.5	-10,595	-2,609	565	48.3	0.6	7.8
Total	5,279,222	19.0	29,475	100,118				

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

# Melbourne economy

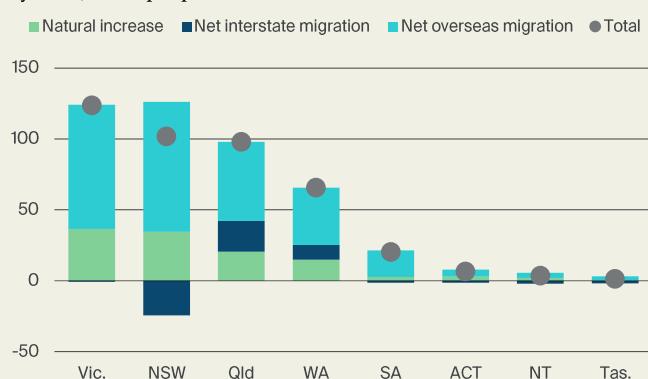
## TRANSPORT AND EVENTS STRENGTHEN CBD APPEAL

In late 2025, Melbourne completed the Metro Tunnel, a transformative infrastructure project that is reshaping how commuters travel to the CBD. More than 70,000 passengers used the network on its first official day, highlighting its immediate impact. Over the longer term, the project is expected to reduce congestion across the City Loop and accelerate access into the CBD. The newly delivered Town Hall Station provides direct access to the east end of Collins St. for the first time, significantly enhancing connectivity to the rail network. These improvements are expected to increase workforce accessibility and support a recovery in footfall. Beyond major transport upgrades, large-scale events continue to enhance the vitality and appeal of the CBD. The 2026 Australian Open attracted 1.3 million attendees over three weeks and supported approximately 16,000 jobs. Global events of this scale, alongside the F1 Grand Prix, reinforce Melbourne's international profile and enhance its international appeal, generating substantial economic benefits which are expected to flow through to office market performance.

## FUNDAMENTALS IN VICTORIA ARE STILL STRONG

Despite stronger percentage population growth in Queensland and Western Australia, Victoria continues to attract the largest number of new residents nationally. Year to June 2025, Victoria recorded net population growth of 123,507 people, with net interstate migration remaining broadly flat. GDP growth is forecast to strengthen in 2026 to 2.0%, up from 1.8% in 2025, and is expected to accelerate further to 3.0% in 2027.

### Components of annual population growth by state, 000's people



Source: Knight Frank Research, ABS

### Townhall Station – Opened December 2025



Source: Knight Frank Research, ABC

### Australian Open – January 2026



Source: Knight Frank Research, Channel 9

### Victoria GSP growth forecast % change/y



Source: Knight Frank Research, Oxford Economics

# Demand

## TENANT DEMAND ACCELERATES IN 2025

Net absorption across Melbourne's CBD reached its highest level since 2018, with +29,475 sqm recorded in 2025. This also marked the first positive annual result since 2020, signalling a clear improvement in market conditions. The flight-to-quality trend persists with prime net absorption totalling +40,070 sqm, while secondary space recorded a net loss of -10,595 sqm.

Most CBD precincts recorded increased absorption in H2 2025. Docklands led the market, with occupied space rising by 32,485 sqm, driven by several tenants expanding and others relocating from Metro and City Fringe locations. More than half of the Eastern Core's +16,389 sqm gain was attributable to Corrs Chambers' relocation from the Spencer precinct to approximately 9,000 sqm of high-rise space at 120 Collins St.

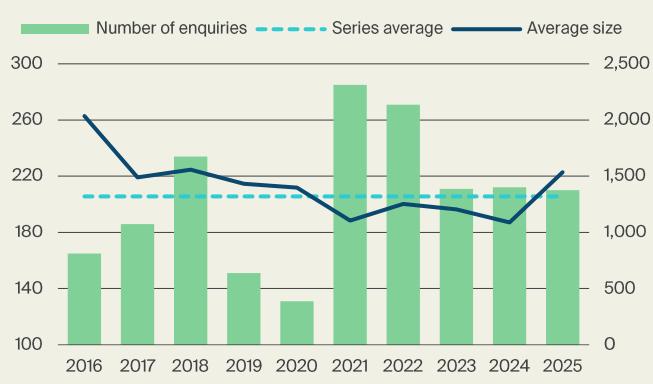
## ROBUST LEASE REQUIREMENT VOLUMES

In 2025, 210 CBD lease briefs were released to the market at an average size of 1,535 sqm, totalling more than 300,000 sqm of active requirements. With most occupiers yet to finalise their accommodation decisions, leasing volumes are expected to strengthen in 2026 compared to 2025.

Professional Services was the most active industry in Melbourne's CBD leasing market in 2025, accounting for 31% of total deal volume, followed by Finance and Insurance at 25%. Together, these sectors represented half of all space leased. Other prominent sectors included Retail, Logistics, Education, and Construction.

## Melbourne CBD lease briefs

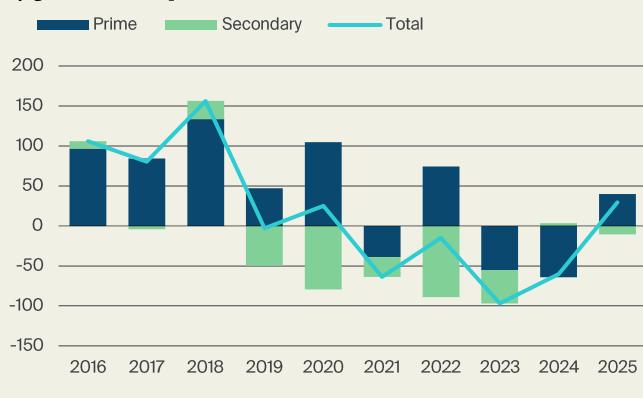
by no. of briefs (LHS), and average size in sqm (RHS)



Source: Knight Frank Research

## Melbourne CBD annual net absorption

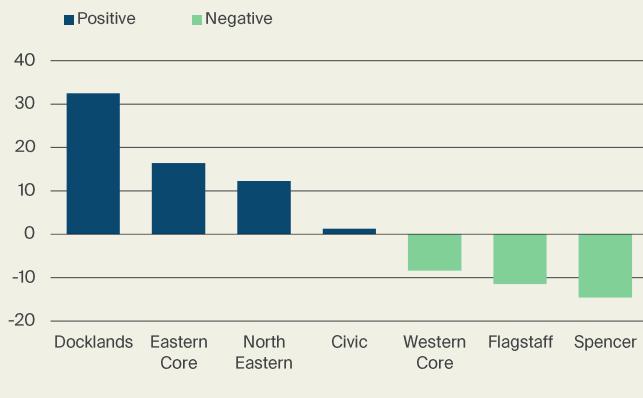
by grade, 000's sqm



Source: Knight Frank Research, PCA

## Melbourne CBD office net absorption

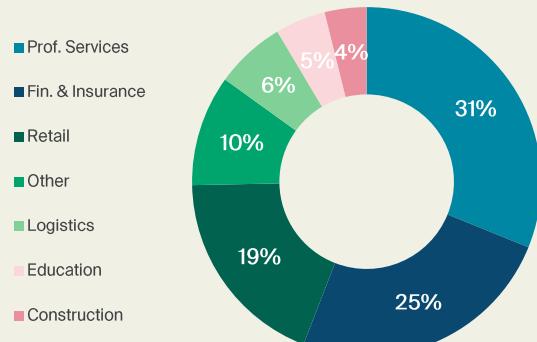
by precinct and direction, 000's sqm; 6-months to H2-2025



Source: Knight Frank Research, PCA

## Share of take-up by industry

total sqm leased by industry in Melbourne CBD, %



Source: Knight Frank Research

# Supply

## LATE-YEAR SUPPLY PUSHES VACANCY HIGHER

Melbourne's CBD vacancy rate increased across most precincts and grades in H2-2025, driven by the reintroduction of major refurbished assets with elevated vacancy, such as 111 Bourke St and 800 Collins St. Flagstaff remains the most challenged precinct in terms of vacancy followed by Spencer and the Docklands. Precincts east of Swanston St continue to record the lowest vacancy rates in the CBD. However, the Eastern Core vacancy rose 5.7% to 18.0% following the re-inclusion of 111 Bourke St, which is expected to remain completely vacant until EY relocates in late 2026.

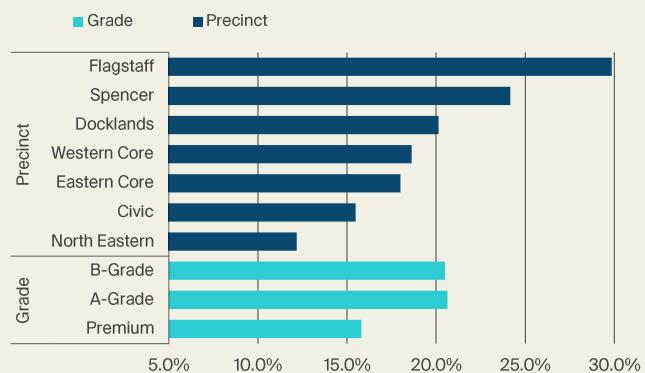
Premium vacancy declined 0.8% over H2-2025 to 15.8%, remaining well below A-Grade and B-Grade vacancy, highlighting the continued bifurcation within the market.

## DEVELOPMENT TO SLOW MARKEDLY IN 2027

Three new developments are forecast to complete in 2026, led by 7 Spencer St in Q1-2026, followed by 435 Bourke St and 51 Flinders Ln later in the year. Approximately half of this new space is pre-committed, indicating that a substantial volume of speculative stock will enter the market, which is likely to place further upward pressure on vacancy in the near term. Beyond 2026, only two major developments are forecast to proceed, headlined by 600 Collins St, where early works will commence imminently. Consequently, supply is projected to fall sharply as elevated interest rates, incentives, and construction costs constrain development. This medium-term slowdown in new supply is expected to place downward pressure on vacancy from 2027 onwards, supporting market fundamentals.

### Melbourne CBD office vacancy rate

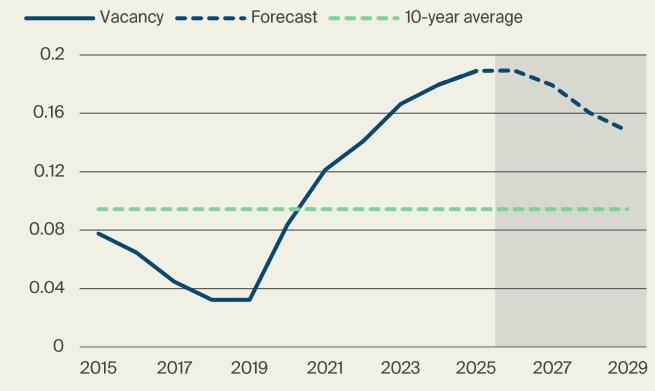
by grade and precinct, %



Source: Knight Frank Research, PCA

### Melbourne CBD vacancy rate forecast

compared to 10-year average, %



Source: Knight Frank Research, PCA

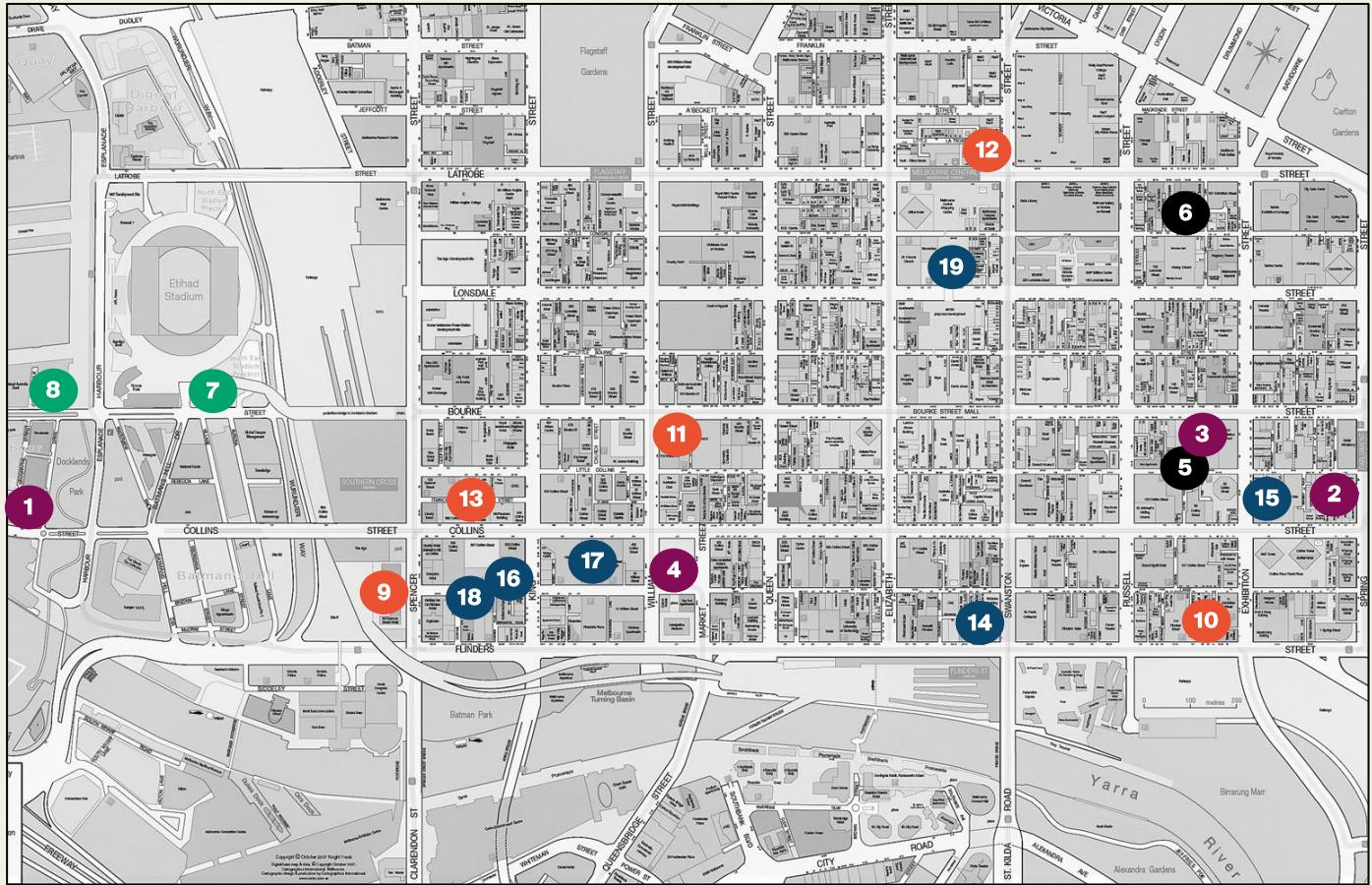
### Melbourne CBD office new supply pipeline

by commitment type, sqm



Source: Knight Frank Research, PCA

# Major office supply



## Refurbishments (complete)

#	Address	SQM	Completion	Developer
1	800 Collins St	28,650	Complete	Manulife
2	85 Spring St	10,000	Complete	Pelligras
3	111 Bourke St	44,000	Complete	Charter Hall & Brookfield
4	Swann House	5,000	Complete	Fidinam Group

## New developments (complete)

#	Address	SQM	Completion	Developer
5	130 Little Collins St	10,377	Complete	Golden Age
6	17 Bennetts Ln	5,000	Complete	Pellicano

## Full Refurbishments (under construction)

#	Address	SQM	Completion	Developer
7	720 Bourke St	29,000	H2 2026	Cbus Property
8	800 Bourke St	35,000	H2 2027	GPT Group

## New developments (under construction)

#	Address	SQM	Completion	Developer
9	7 Spencer St	42,000	H2 2025	Mirvac
10	51 Flinders Ln	29,000	H2 2026	GPT Group
11	435 Bourke St	60,000	H2 2026	CBUS Property
12	State Library Exchange	10,000	H1 2027	Scape
13	600 Collins St	60,000	H2 2029	Hines

## DA Approved / Mooted

#	Address	SQM	Completion	Developer
14	Melbourne Townhall	17,000	2028+	Lendlease
15	60 & 52 Collins St	42,000	2030+	Dexus
16	555 Collins St (2)	35,000	2030+	Charter Hall & GIC
17	Rialto Intercontinental	20,000	2030+	Salta Brothers
18	522-552 Flinders Ln	41,000	2030+	Investa
19	300 Lonsdale St	20,000	2030+	GPT Group

# Deals and rents

## RENTAL GROWTH ACCELERATES IN 2025

Melbourne's CBD recorded its strongest annual rental growth in three years in 2025, with prime net face rents up 5.2%. Growth was heavily concentrated in the Eastern Core, where rents increased 10.2%. This uplift reflects the unwavering demand for premium-grade office space in the Paris End which is becoming increasingly scarce. Rental growth was present in other precincts but concentrated amongst higher-quality and repositioned assets. Despite uplifts outside the Eastern Core, a substantial gap in pricing remains between that precinct and the broader market. Rents average \$1,010/sqm in the East compared to \$503-\$747/sqm across the remaining six precincts.

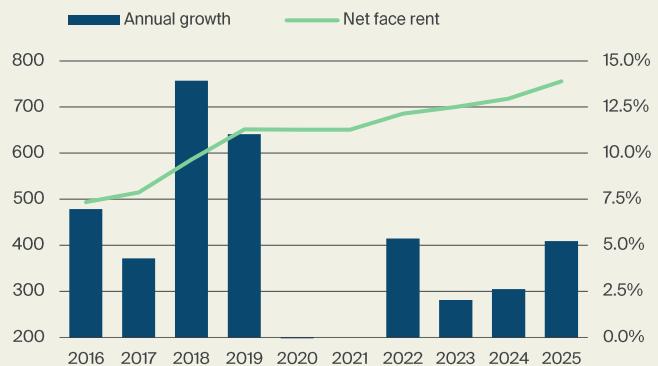
## TENANTS CONTINUE TO MOVE INTO THE CBD

Recent leasing activity continues to highlight increased occupier migration into the CBD from suburban Melbourne, as tenants take advantage of elevated incentives and more favourable market conditions for tenants. Jetstar's relocation from Collingwood to Melbourne Quarter Tower 2, where it will occupy approximately 6,000 sqm from mid 2026, is a notable example. Within the CBD, tenant movement from suburban Melbourne has been concentrated in the Docklands, Spencer, and Western Core precincts, where effective rents remain broadly comparable to firms' previous occupancy costs.

Other significant transactions include NAB's 63,000 sqm renewal at 700 Bourke St, AirTrunk's and FM Global's pre-commitments at 51 Flinders Ln, and APA Group's 4,000 sqm lease at Pembroke's 161 Collins St.

### Melbourne CBD prime rents

net face rent \$/sqm (LHS), and annual growth % (RHS)



Source: Knight Frank Research

### Melbourne CBD prime rents

by precinct, net face rent \$/sqm (LHS), and annual growth (%)



Source: Knight Frank Research

## Recent significant tenant commitments

Occupier	Property	Precinct	Type	Size (sqm)	Term (years)	Start Date
Jetstar	699 Collins St	Docklands	New Lease	7,000	10.0	H2 2026
FM Global	51 Flinders Ln	Eastern Core	New Lease	1,900	10.0	H1 2027
AirTrunk	51 Flinders Ln	Eastern Core	New Lease	1,900	tbc	H1 2027
APA Group	161 Collins St	Civic	New Lease	4,000	7.0	H1 2027
Insignia	8 Exhibition St	Eastern Core	New Lease	8,400	10.0	H2 2027
NAB	700 Bourke St	Docklands	Renewal	63,000	tbc	H2 2028

Source: Knight Frank Research

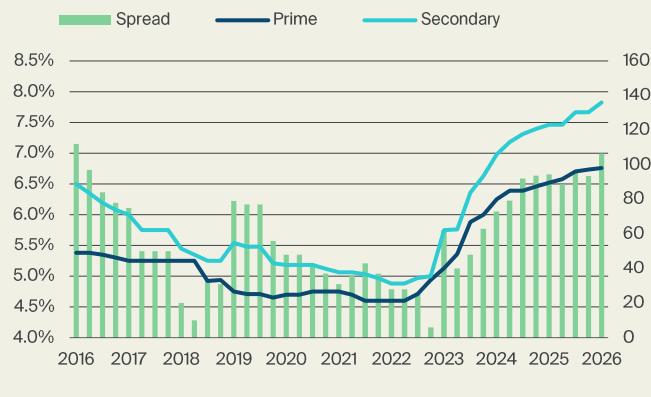
# Investment market

## INVESTMENT VOLUMES TREND UPWARDS

Investment volumes increased 33% in 2025, largely supported by several major CBD transactions, including 750 Collins St. (\$383m), Flinders Gate (\$225m), and 357 Collins St. (\$195m). Most capital in these deals was sourced from cross-border institutions and syndicates. Private investors were the next most active buyer group, accounting for 28% of transaction volumes. REITs and institutions continue to face constraints in Victoria, primarily linked to taxes, which have damped sentiment. Prime yields average 6.8%, having softened 24 bps y/y, while secondary yields have softened by 36 bps over the same period. Ongoing yield adjustments in Melbourne's CBD has weighed on investment activity. However, as yields approach their peak and stabilise, transaction volumes are expected to continue to pick up.

### Melbourne CBD office yields

by grade % (LHS), and spread in bps (RHS)



Source: Knight Frank Research

### Melbourne CBD office investment volumes

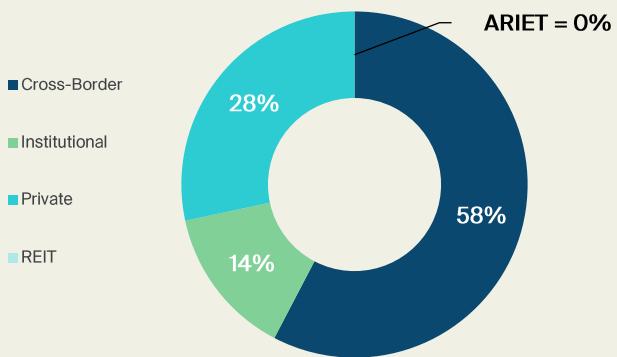
investment volumes in A\$m (LHS), and # transactions (RHS)



Source: Knight Frank Research, MSCI

### Share of capital flows by buyer type

Melbourne CBD investment volumes \$AUD, %



Source: Knight Frank Research, MSCI

## Recent significant sales

Property	Interest	Price (\$M)*	CMY (%)	NLA (sqm)	\$/sqm NLA	WALE (years)	Purchaser	Vendor	Sale Date
750 Collins St	100%	383.0	6.5	41,399	9,251	10.0	Trust Capital	GPT Group	Aug-25
357 Collins St	100%	195.3	c7.3	31,919	6,119	c2.5	Harry Stamoulis	Frasers	Sep-25
Flinders Gate	100%	254.5 <sup>^</sup>	6.5	20,400	12,476	5.0	PAG	Dexus	Oct-25
470 Collins St	100%	60.4	6.2	11,009	5,482	1.2	Fortis	Suleiman Group	Oct-25

\*Net sale price

<sup>^</sup>Includes the sale of an annexed car-park.

Source: Knight Frank Research, MSCI

# Southbank update

## RENTS STABILISE IN SOUTHBANK

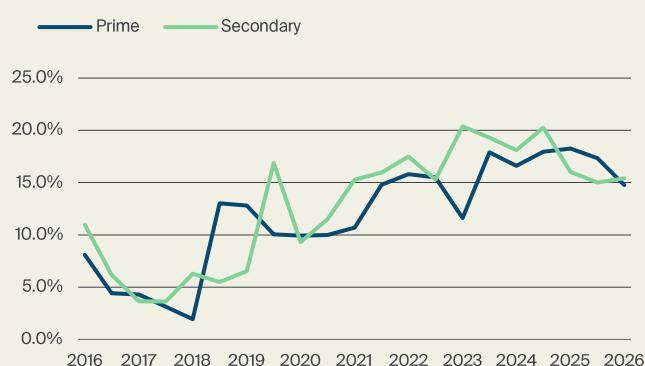
Prime net face rents in Southbank average \$692/sqm, remaining flat q/q and increasing 2.5% y/y. Growth was notably stronger throughout 2024, with prime rents rising 8.9%, supported by several leasing transactions and a recalibration in rents closer to the CBD. Despite this uplift, prime rents in Southbank remain approximately 8.5% below the Melbourne CBD average. Incentive levels are aligned with the CBD, averaging 47.5% for prime assets compared with 47.6% for the CBD.

## RELATIVELY LOWER VACANCY IN SOUTHBANK

In terms of vacancy, Southbank is currently outperforming most Melbourne CBD precincts and City Fringe markets, recording the third-lowest total vacancy rate at 15.0%. Southbank also has the lowest sub-lease vacancy of any market within Melbourne's CBD or City Fringe at 0.3%. Prime vacancy has fallen 3.2% since its high 18 months ago to 14.8%, secondary vacancy has fallen 4.8% to 15.4% over the same period. This improvement has been underpinned by limited new supply with only 1 new development delivered over the past 4-years (11 Eastern Rd adding 16,044 sqm). Recent tenant relocations into Southbank from occupiers such as McCain Foods, Energy-Safe and BASF have translated into positive net absorption after five continuous years of declining occupied space. Post-pandemic net absorption in Southbank has now reached its highest level with +7,434 sqm in 2025, reinforcing the precinct's improving fundamentals. With no new supply this has also supported the recent fall in vacancy rates.

## Southbank office vacancy rate

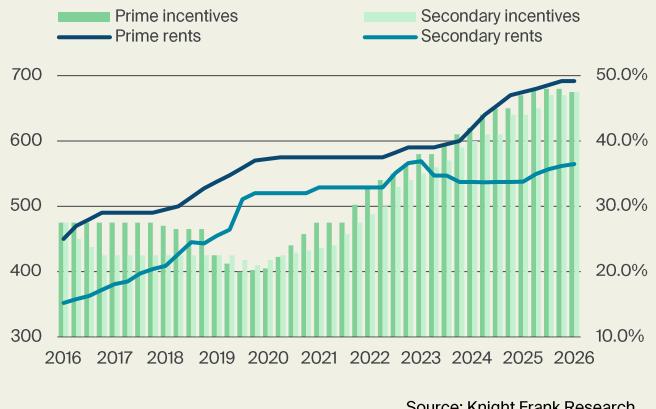
by grade, %



Source: Knight Frank Research, PCA

## Southbank rents and incentives

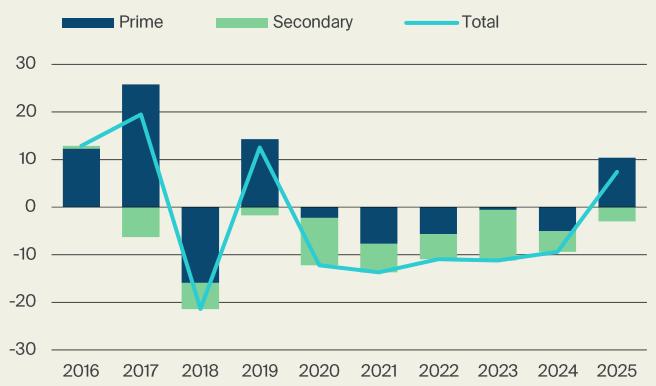
by grade, net face rent \$/sqm (LHS) and incentives % (RHS)



Source: Knight Frank Research

## Southbank office net absorption

by grade, 000's sqm



Source: Knight Frank Research, PCA

## Melbourne office vacancy rate

by precinct / locale and type of vacancy, %



Source: Knight Frank Research, PCA



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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## Recent Research



Economic Indicators Report



Build to Rent Report



Australian Industrial Review



Melbourne Office State of the Market Q4 2024



Melbourne Industrial State of the Market Q4 2024



The Wealth Report 2024



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