Melbourne CBD Office Market Report

February 2025

The Melbourne CBD office market finds its footing, with stabilising vacancy & prime yields, signalling stronger times ahead.

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Key Insights

The vacancy rate remained stable at 18.0%, whilst AUS Post's departure from the CBD contributed virtually all of the H2-24 negative net absorption number.

Dr Tony McGough
Partner, Research & Consulting

18.0%

Latest vacancy - CBD

The vacancy rate in Melbourne's CBD remained flat in H2 2024 at 18.0%. The prime vacancy rate rose 0.6% to 18.0% over this period, and the secondary vacancy rate fell 1.7% to 17.9%.

-45K

6-month net absorption

Net absorption came in at -44,962 sqm over H2 2024 across the entire market. Prime net absorption was -56,294 sqm whilst secondary was 11,332 sqm.

74k

Sqm of net supply in 2024

Melbourne's recorded its lowest level of supply additions in the CBD since 2017. Melbourne Quarter Tower was the only major development to reach completion adding 69,000 sqm to the market.

6.5%

Yield Q4'24 – prime basket

Prime yields rose only 6 bps but the headline remained flat at 6.5% over Q4-24. Expectations are that they have finally stabilised after rising every quarter bar one for the last 3-years.

3.3%

Eastern Core Prime Rental Growth

The Eastern Core has seen the strongest prime rental growth of any precinct in Melbourne's CBD at 3.3% y/y.

47.0%

Prime Incentives

Prime incentives are up 2.1% y/y but have remained flat q/q. Melbourne's Eastern Core has the lowest average incentive of any precinct at 40.2%.

Melbourne CBD Office Market Indicators – January 2025

Grade	Total Stock sqm	Vacancy Rate %	Annual 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	3,751,313	18.0	-64,031	-42,330	718	47.0	0.2	6.4-6.6
Secondary	1,427,791	17.9	3,634	-16,412	538	47.9	0.1	7.2-7.7
Total	5,179,014	18.0	-60,397	-58,742				

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

Melbourne economy

RECOVERY IN THE OFFING AS FIRST RATE CUT LANDS

At its February meeting, the Reserve Bank of Australia (RBA) reduced the target cash rate by 25 basis points to 4.1%, marking the first rate cut since November 2020. The central bank adopted a cautious stance regarding the trajectory of future rate cuts throughout 2025 and evolving global trade and political dynamics are expected to play a significant role in shaping forthcoming decisions. Despite this, markets are pricing a 70% chance of an April cut. Regardless, a 25bps cut is in itself a minor improvement, the importance is in the signal it sends regarding the direction of travel and the confidence it will raise in the economy. The monetary policy stance is expected to facilitate economic recovery across Melbourne and wider Victoria. GSP growth in Victoria is projected to accelerate in 2025, reaching 1.64% for the year—a notable increase from the 0.98% recorded in 2024. Growth is forecast to rise further to 2.50% in 2026 and 3.06% in 2027. Consequently, employment levels and business activity within the CBD are expected to strengthen following a period of slower growth but it will take time.

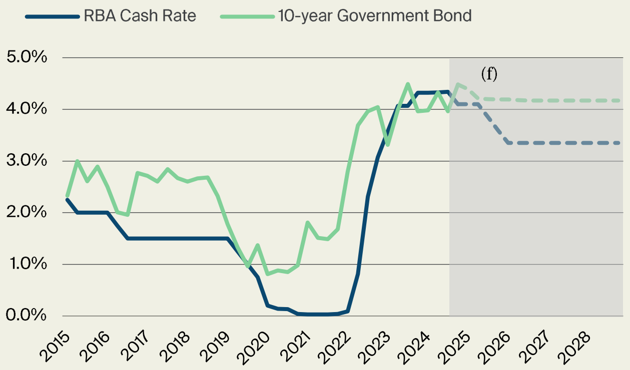
HEALTHCARE TO LEAD CBD EMPLOYMENT GROWTH

The industries forecasted to pave the way to recovery in Melbourne's CBD are Healthcare, Hospitality, Real Estate, and Professional Services. All four sectors are expected to see increases in CBD employment well above the average of 6.8% over the next 5-years. CBD employment in Healthcare is forecast to increase the most of any sector with the driving forces of being advances in medical technology and Australia's ageing population.

PATRONAGE PICKING UP IN THE CBD

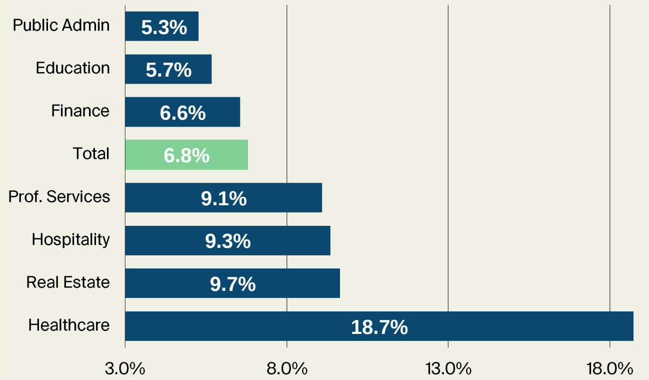
The return to office trend in Melbourne continues to build momentum with recent data from DTS indicating a clear upward trajectory in public transport usage, suggesting a concurrent improvement in office occupancy. Monthly average PT commutes in Melbourne have risen by 8.2% from 2023 to 2024, a growth rate that, while slower than the 24.8% increase observed between 2022 and 2023, still reflects a substantial recovery as patronage moves closer to pre-pandemic levels. Whilst most of this increase cannot be directly attributed to office occupancy, it is a promising sign of a broader recovery. Furthermore, several significant infrastructure projects in Melbourne, including the Westgate Tunnel and Metro Tunnel, are scheduled for completion in 2025, which are expected to positively influence CBD patronage and office occupancy in the coming years.

Interest rates fall
Cash rate and 10-year government bond forecast, %



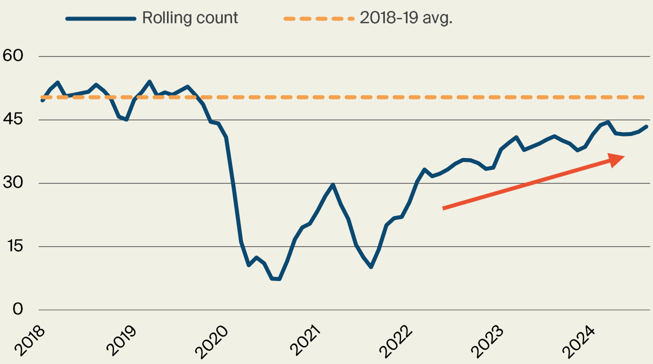
Source: Knight Frank Research, Oxford Economics

Melb CBD white-collar employment growth
by industry, 5-years forecast : 2025 to 2029



Source: Knight Frank Research, Oxford Economics

Victoria public transport patronage
no. of commutes per month in millions; seasonally adjusted



Source: Knight Frank Research, Department of Transport (VIC)

CBD office demand improves

NET ABSORPTION TO BOUNCE BACK IN 2025

Net absorption in Melbourne's CBD for H2-2024 was recorded at -44,962 sqm, marking a further decline from H1-2024, which saw a net absorption of -15,435 sqm. As a result, total net absorption across the entire market for 2024 stood at -60,397 sqm. Most of the negative absorption occurred in A-Grade office space, which accounted for -57,149 sqm, while Premium also experienced negative absorption, though to a much lesser extent, with -6,882 sqm. Secondary net absorption was in fact positive over 2024 (+3,634 sqm) despite the "flight-to-quality" theme dominating headlines and previous data points.

The significant decline in prime net absorption during the second half of 2024 was mostly attributed to AUS Post vacating 111 Bourke Street where it previously occupied 44,000 sqm for Burnley in the City Fringe,. This change follows on from their lease agreement with Charter Hall, signed in 2021. Without this shift in occupancy, net absorption for 2024 would have been a -16,397 sqm, a significant improvement on 2023 which saw -96,946 sqm.

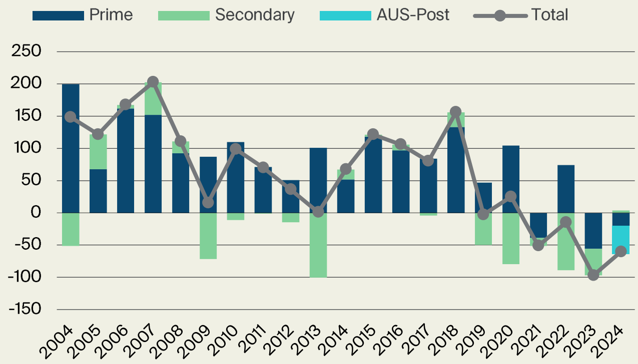
STRONG ENQUIRY TO START THE YEAR

Speculation that leasing conditions will improve throughout 2025 is supported by increased enquiries coming to market at the start of the year. Halfway through Q1-25 there has been 39 briefs released, already exceeding the total number of briefs last quarter, 37. The average size of the briefs has also increased from 1,089 sqm in 2024 to 1,295 sqm in 2024 TD. The largest disclosed requirement to hit the market so far this year is Maddock's, a major commercial law-firm, who are currently based at 727 Collins Street and are seeking 8,000-9,000 sqm. Other major requirements to hit the market include Iress, Jones Day, QinetiQ, Siemens and Framestore.

FINANCE & PROFESSIONAL SERVICES DOMINATE TAKE-UP IN THE CBD

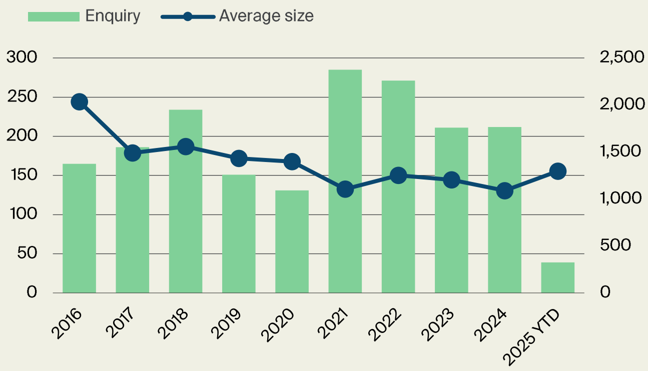
Over the last two years Professional Services has accounted for the most leasing activity in the CBD of any other industry at 30%. The most common sub-industries under this bracket include law, accounting and consulting whilst lease agreements in recruitment and software are becoming increasingly common. Government related leasing accounts for the second most take-up along with Finance & Insurance at 15.0%. However, with the Victorian Government announcing plans to reduce the public-sector workforce by up to 3,000 employees their share of tenant activity is expected to fall going forward.

Melbourne CBD annual net absorption
by grade, 000's sqm



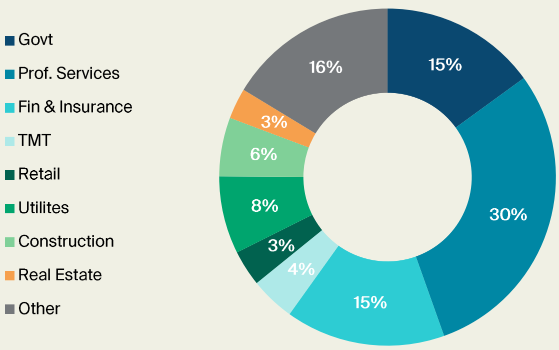
Source: Knight Frank Research

Melbourne CBD tenant representation briefs
briefs (LHS), and avg. size in sqm (RHS)



Source: Knight Frank Research

Melbourne CBD Tenant Activtiy
2023 to 2024, % of total market (sqm)



Source: Knight Frank Research

Supply holds firm

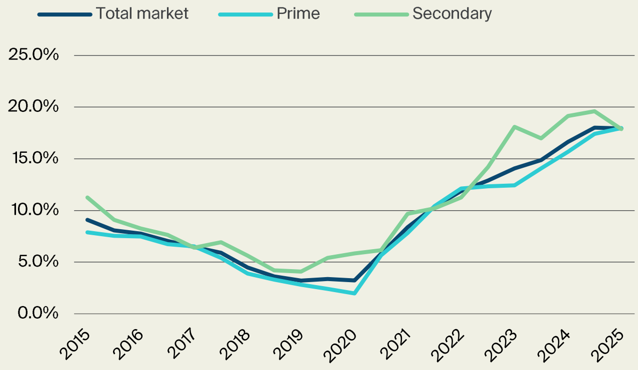
VACANCY RATE HOLDS STEADY

The overall vacancy rate remained unchanged at 18.0% in H2-24. However, shifts amongst grades were observed, with prime vacancy rising by 60 bps to 18.0%, while secondary vacancy experienced an unexpected decline of 170 bps to 17.9%. This may have been helped by the rise in incentive & fall in secondary face rents since 2023. Flagstaff continues to record the highest vacancy rate at 26.7%, followed by Spencer at 21.4% and Docklands at 19.9%. Conversely, the Eastern Core remains the tightest submarket despite an increase of 3.0% to 13.8% over the period. This rise was primarily driven by the aforementioned withdrawal of 44,000 sqm of occupied office space at 111 Bourke Street. Looking ahead, vacancy rates are expected to remain elevated with several new developments entering the market, many of which have limited pre-commitments.

SUPPLY TO SLOW AFTER 2026

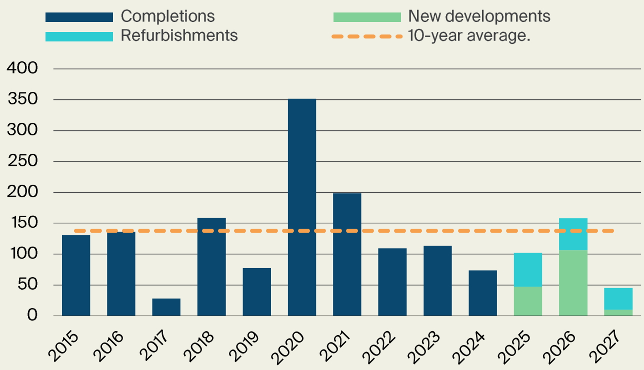
Since 2020 there has been a gradual decline in new supply across Melbourne's CBD. Post-pandemic tougher leasing conditions, high interest rates and steep construction costs have discouraged development. Melbourne-Quarter-Tower was the only major office building to come online in 2024 adding 69,000 sqm of stock to the market. New supply is expected to bounce back over the next 2-years with 5 new developments and 5 major refurbishments forecast to complete. Roughly 132,000 sqm of new supply will come on in 2025, and another 131,000 sqm in 2026. After this period there is a clear drop-off in new supply paving the way for vacancy to recover. Currently the State Library Exchange is the only new development to land in 2027 adding 10,000 sqm.

Melbourne CBD vacancy rate
by grade, %



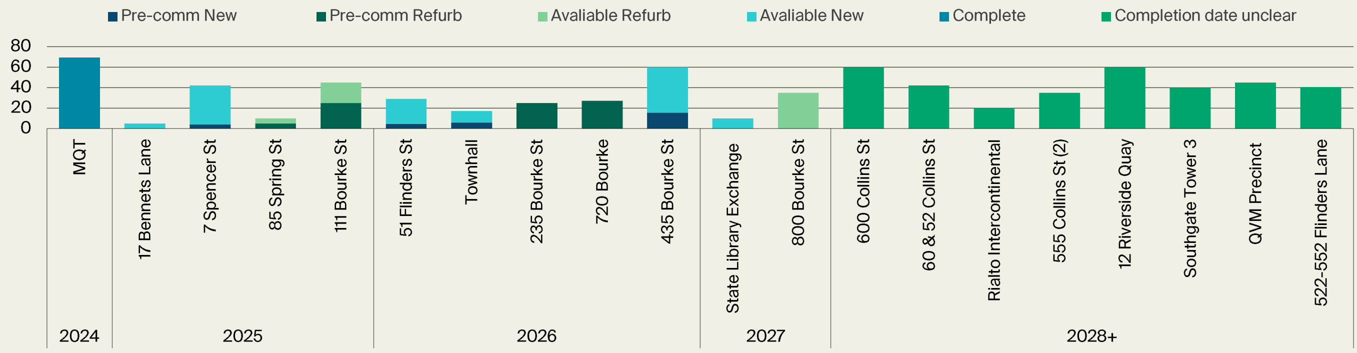
Source: Knight Frank Research, PCA

Melbourne CBD new supply pipeline
by development type, 000's sqm



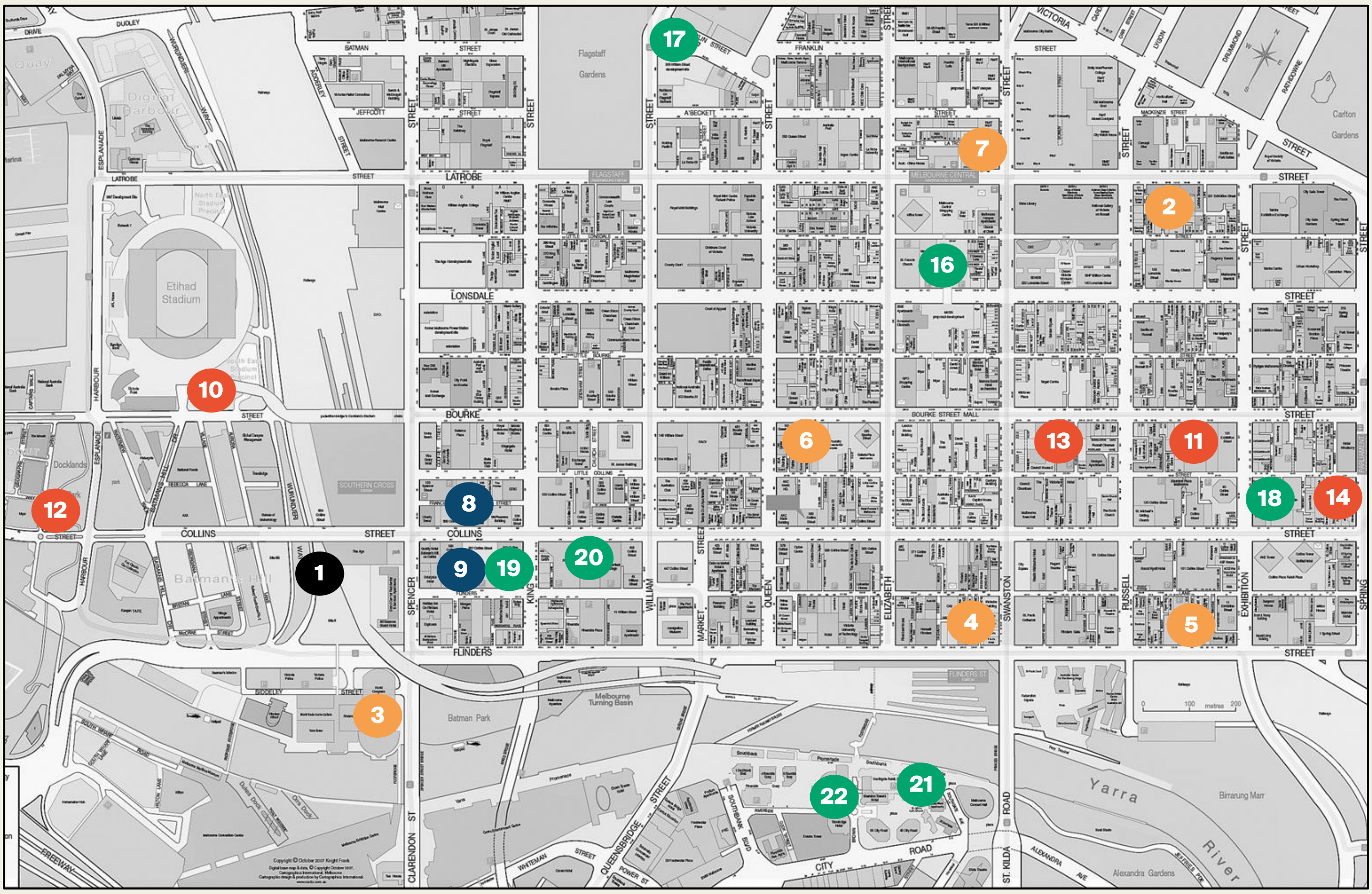
Source: Knight Frank Research, PCA

Melbourne CBD office new supply pipeline
by commitment type, 000's sqm; incl. Southbank



Source: Knight Frank Research

Major office supply



Recently completed

#	Address	SQM	Completion	Developer
1	Melbourne Quarter Tower	69,000	Complete	Lendlease

New developments (under construction)

#	Address	SQM	Completion	Developer
2	17 Bennetts Lane	10,500	H1 2025	Pellicano
3	7 Spencer Street	42,000	H2 2025	Mirvac
4	Melbourne Townhall	17,000	H1 2026	Lendlease
5	51 Flinders Lane	29,000	H1 2026	GPT
6	435 Bourke Street	60,000	H2 2026	CBUS
7	State Library Exchange	10,000	2027	Scape

Development Approved

#	Address	SQM	Completion	Developer
8	600 Collins Street	60,000	2028+	Hines
9	522-552 Flinders Lane	40,695	2028+	Investa

Refurbishments

#	Address	SQM	Completion	Developer
10	720 Bourke Street	30,000	H2 2025	CBUS
11	111 Bourke Street	44,000	H2 2025	Charter Hall / Brookfield
12	800 Collins Street	28,650	H2 2025	Manulife
13	235 Bourke Street	25,000	H1 2026	Futuro
14	85 Spring Street	10,000	H2 2025	Pelligra

Mooted

#	Address	SQM	Completion	Developer
16	300 Lonsdale Street	22,500	2028+	GPT
17	388 William Street	25,000	2028+	MIT Group Holdings
18	60 & 52 Collins Street	42,000	2028+	Dexus
19	555 Collins Street (Stage 2)	35,000	2028+	Charter Hall
20	Rialto Intercontinental	20,000	2028+	Salter Brothers
21	Southgate Tower 3	40,000	2028+	ESR
22	12 Riverside Quay	60,000	2028	Nice Future

Tenants still migrating East

MINIMAL RENTAL GROWTH IN 2024

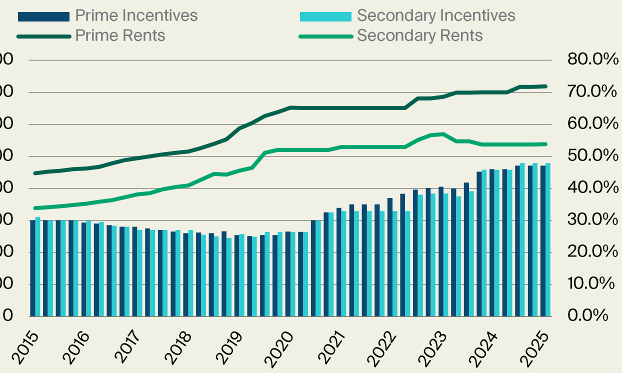
Prime net face rents remained virtually flat up 0.2% q/q and 2.6% y/y, they now sit at $717/sqm. The only prime building to see net face rental growth over Q4-24 was 35 Collins Street in the Eastern Core, up 4.4% to $835/sqm. Secondary net face rents have hardly moved, up 0.1% y/y sitting at $538/sqm. Prime and secondary incentives have remained flat since Q1-2024 at 47.0% and 47.9% respectively, and they appear to have stabilised. Significant variation in prime rents persists across different locations within the CBD. The Eastern Core, which includes the prestigious Paris End of Collins Street, commands the highest rents of any precinct, exceeding the CBD average by 27%. In contrast, the Western Core aligns with the CBD average, while Docklands, the North Eastern precinct, and Flagstaff offer notably lower rent rates.

EAST STILL KING OF THE HILL

The higher rents in the Eastern Core reflect the current strongest demand for office space. The trend of tenants migrating to the Eastern Core from other precincts continues, with Scyne Advisory, HPX Group, and Corrs Chambers Westgarth all securing large leases in H2 2024. Deal activity in the latter half of 2024 further indicates that tenants continue to move into the CBD from the City Fringe and Metro areas, with recent examples including Simonds Homes and McCormacks. Telstra has also successfully sub-let multiple levels at 242 Exhibition Street, with Australian Venue Co, Healthcare Australia, Sodexco, and Blue Apache now among the building's new tenants.

Melbourne CBD rents and incentives

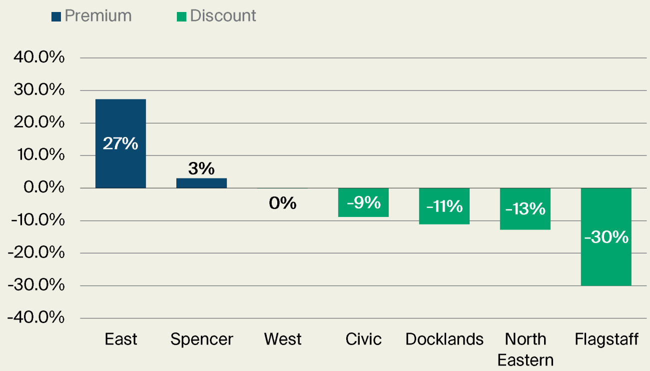
by grade, net face rents $/sqm (LHS), and % (RHS)



Source: Knight Frank Research

Rental level relative to prime CBD avg.

by precinct, %



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Term yrs	Start Date
BDO ~	35 Collins Street	Eastern Core	5,200	10.0	2026
IBAC~	2 Lonsdale Street	North Eastern	5,200	10.0	2026
Scyne Advisory	11 Exhibition Street	Eastern Core	1,700	5.0	2025
Simonds Homes ~	727 Collins Street	Docklands	2,400	5.0	2026
McCormacks ~	80 Collins Street (North)	Eastern Core	1,110	10.0	2025
Australian Venue Co. ^	242 Exhibition Street	North Eastern	2,596	5.0	2025

^ Sublease ~ Direct
Source: Knight Frank Research

Docklands & Southbank

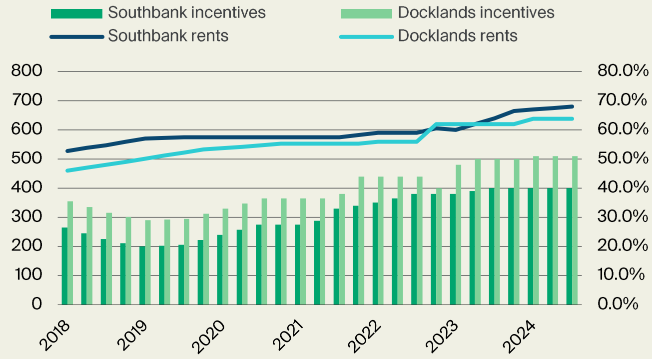
OPPORTUNITY STILL THERE

Net face rents in Southbank have been strong currently averaging $680/sqm having risen 6.3% y/y and 0.7% q/q. In contrast, rental growth in the Docklands has been more subdued, with the increase primarily driven by the completion of MQT, which was incorporated into the calculations Q2-24. This premium offering demands a net face rent of $708/sqm, thereby elevating the average. As a result, net face rents across the Docklands precinct are now $638/sqm, reflecting a 2.9% y/y rise and no change q/q. Southbank's rental growth has been fuelled by several significant tenant arrivals in 2024, indicating a higher demand in the precinct. Notably, Lang O'Rouke committed to (c) 4,900 sqm at 60 City Road, while SAP and McCain Foods secured a combined (c) 4,200 sqm at 28 Freshwater Place. While leasing conditions in the Docklands have softened, opportunity remains. In early February, Coles announced its relocation from its Glen Iris HQ to 720 Bourke Street in Docklands, signing a 20-year lease for 27,000 sqm. Additionally, Google has recently committed to leasing the top three levels at MQT, totalling 3,280 sqm.

VACANCY IN LINE WITH THE REST OF MELBOURNE

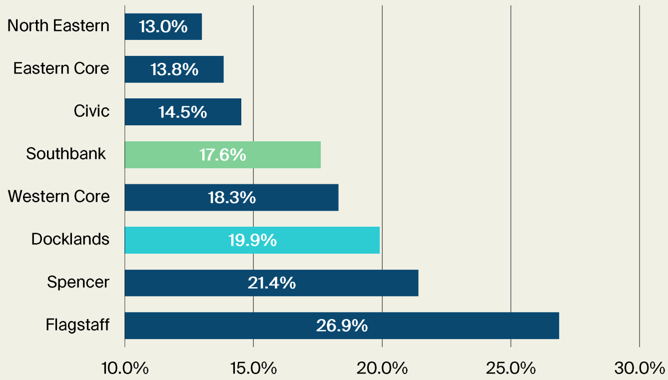
The vacancy rate in Southbank fell 1% over H2-24 on the back of several large leases transacting, it now sits at 17.6% marginally below the CBD average, 18.0%. The vacancy rate is markedly higher in the Docklands at 19.9% rising 0.2% in H2-24. B-Grade vacancy in the Docklands is particularly weak sitting at 30.1%, Premium (18.3%) and A-Grade (18.4%) are performing much better. Premium vacancy in the Docklands is expected to fall further as MQT starts to lease-up, it is currently still 65% vacant after completing Q2-24.

Southbank & Docklands rents and incentives
net face rent $/sqm (LHS), and incentives % (RHS)



Source: Knight Frank Research

CBD & adjacent market office vacancy rate
by precinct, %



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Term yrs	Start Date
Laing O'Rouke ~	60 City Road	Southbank	4,900	5.0	2025
McCain ~	28 Freshwater Place	Southbank	1,780	5.0	2025
SAP ~	28 Freshwater Place	Southbank	2,437	5.0	2025
Google ~	693 Collins Street (MQT)	Docklands	3,280	6.0	2025
Coles ~	727 Colins Street	Docklands	27,000	20.0	2027

~ Direct
Source: Knight Frank Research

Investment rose in 2024

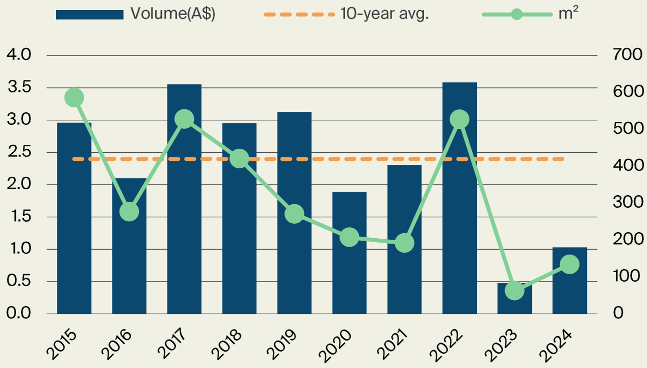
VOLUMES REBOUND IN 2024, THOUGH BELOW HISTORIC AVERAGE

Investment activity in Melbourne's CBD experienced a recovery in 2024, with total transaction volumes reaching $1.0b – an increase of 155.8% y/y, these figures are still well below historic levels. The number of transactions exceeding $10.0m rose from 9 to 12 y/y, driven by a few significant sales. The market saw more interest in higher-value office assets, with 4 office buildings transacting above $50m compared to just 1 in 2023. The most notable transaction was the sale of 367 Collins Street, situated in the CBD's Western Core. Anchor-tenanted by Sportsbet, the property changed hands for $301.0m in June at a 7.1% yield. The final major transaction of the year occurred in December with the sale of 655 Collins Street in the Docklands, directly opposite Southern Cross station, for $117.0m at a 7.5% yield., With capital values stabilising, interest rates easing, and broader economic conditions improving, investment activity is expected to gain further momentum in 2025.

YIELDS VIRTUALLY STABILISE

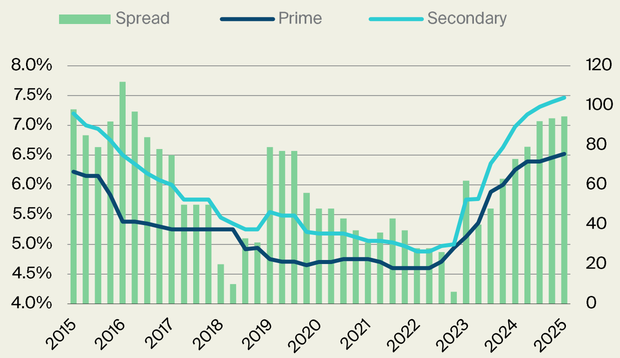
Prime yields in Melbourne's CBD have largely stabilized following an extended period of expansion, they are currently sitting at 6.52%, reflecting an increase of 6 bps q/q and 27 bps y/y. Secondary yields, meanwhile, have continued to rise at a faster pace, now at 7.46%, up 7 bps q/q and 48 bps y/y, highlighting a clear bifurcation in the market. This divergence is also evident amongst prime buildings, where the highest-quality assets continue to differentiate from other Premium or A-Grade office buildings. In the current market environment, factors such as location, proximity to public transport, retail amenity, and overall building quality are becoming increasingly critical in pricing dynamics. With vacancy rates expected to remain elevated this trend will continue.

Melbourne CBD office investment volumes
in A$b (LHS), and total NLA in 000's sqm (RHS)



Source: Knight Frank Research, MSCI

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



Source: Knight Frank Research

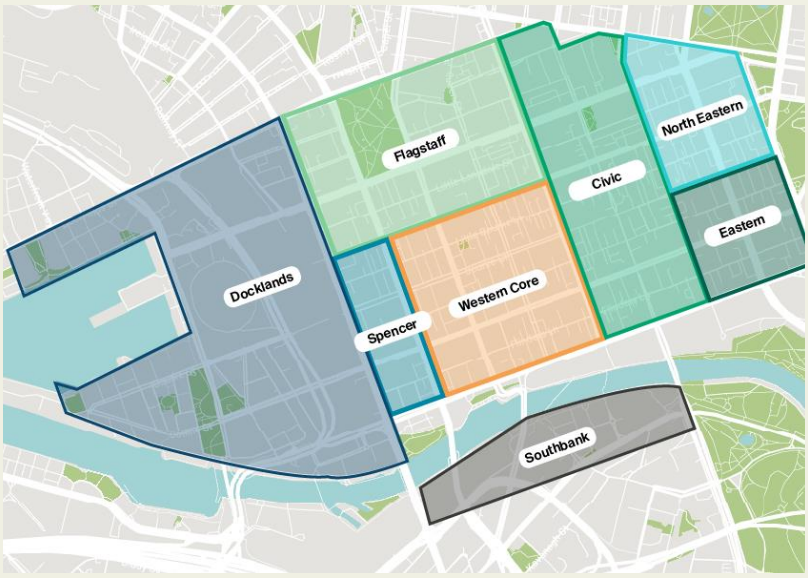
Recent significant sales

Property	Interest	Price ($M)	Core Market Yield %	NLA sqm	$/sqm NLA	WALE	Purchaser	Vendor	Sale Date
655 Collins Street	100%	117.0*	7.5	16,600	7,229	5.0	Najee Imam	GPT Group	Dec-24
200 Queen Street	100%	170.0*	7.0	19,736	9,120	2.5	Barristers Chambers	Charter Hall	Jun-24
628 Bourke Street	100%	115.2*	8.2	24,127	4,775	2.3	Bayley Stuart	AFIAA	Jun-24
367 Collins Street	100%	301.0*	7.1	37,878	8,448	2.9	PAG	Mirvac	Jun-24

*Net sale price

Source: Knight Frank Research, MSCI

Map of Melbourne CBD



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

Australia Industrial Report

Melbourne Office State of the Market Q4 2024

Melbourne Industrial State of the Market Q4 2024


The Wealth Report 2024

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