

Melbourne Insights: Is now the time to lease?

Q2 2026

Melbourne's CBD office market is about to shift toward less tenant-friendly conditions, with rental growth gaining momentum, increased tenant expansion and sustained net absorption. Limited suitable contiguous options for larger occupiers and a dwindling supply pipeline are expected to make securing appropriate office space increasingly difficult.

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Key insights

- ▶ Net absorption has turned positive.
- ▶ Demand is on an upward trend.
- ▶ New supply is moving to nearly nothing.
- ▶ Prime rents are expected to rise.
- ▶ Suitable choices are becoming limited especially for contiguous space.



62%

Occupiers expanding or maintaining their footprint

Most occupiers in the market are no longer seeking to contract their office footprint.

+28k

H2-2025 CBD office net absorption (sqm)

An additional +28,000 sqm of office space was occupied in the CBD office market over H2-2025.

4.0%

Prime net effective rental growth

Net effective rents grew at their strongest rate since 2019 with forecasts pointing towards further growth.

34k

Average annual office completions 2026-30 (sqm)

Melbourne's CBD is set to endure its largest slow down in new supply on record.

8.5%

Premium vacancy rate forecast by 2030

Premium vacancy in Melbourne's CBD is expected to fall by nearly half over the next 5-years.

8 Premium Options

For office space >4,000 sqm

There are limited contiguous premium options with a particular strain on options in certain locations and rises in the building.



Accelerating demand

Improving office demand in the CBD will place upward pressure on pricing for occupiers

Dynamics have shifted quickly in Melbourne's CBD office market, with demand trending upward since 2023 and turning positive in 2025.

This has been underpinned by two key trends. The first is a marked slowdown in tenants contracting their office footprint. Knight Frank Research has found that since the beginning of 2025, 62% of occupiers with office space greater than 1,000 sqm have either expanded or maintained their footprint, with only 38% having contracted. This suggests that the high level of downsizing that characterised the post-pandemic period has largely ended. With Melbourne's CBD recording its strongest annual rate of net absorption since 2018 across 2025 (+29,000 sqm), this view is reinforced. The drive has been led by a combination of tenant expansions and, more significantly, continued inward migration from non-CBD occupiers seeking to consolidate and recentralise their operations.

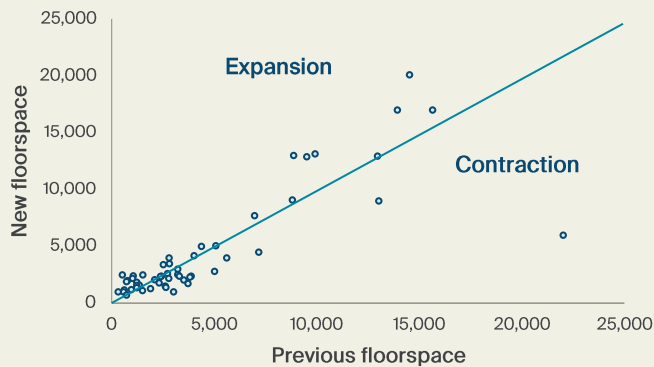
Tenants have been motivated by a desire to encourage office attendance and capitalise on more competitive effective rents in the CBD. These trends are expected to continue, further accelerating demand for office space.

The recent uptick in demand has placed upward pressure on rental prices, with Melbourne's CBD recording its largest net effective rental increase since 2019 (up 4.0% in 2025). Our forecasts indicate that incentives are expected to remain elevated but fall from their peaks to average 45.0% or less by 2030. Consequently, net effective rents are expected to grow at 5.3% per annum on average till 2030 whilst face rents will rise 4.2% over the same period.

This suggests that net effective rents have likely bottomed out and will turn to growth, particularly across quality and prime stock where demand is strongest. The implication is clear: the longer occupiers delay deals, the more they are likely to pay.

Size of Melbourne office deals

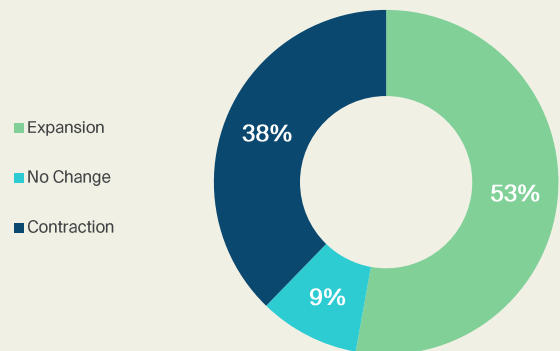
By occupier and change in size; 2025-26 leases >1,000 sqm



Source: Knight Frank Research

Share of tenant expansion/contraction

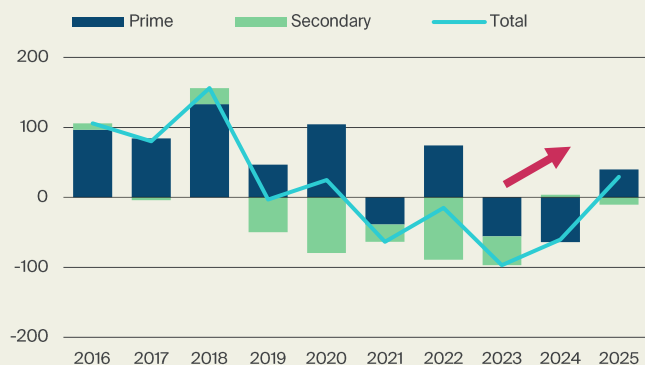
Melbourne office lease deals; 2025-26 leases >1,000 sqm



Source: Knight Frank Research

Melbourne CBD annual net absorption

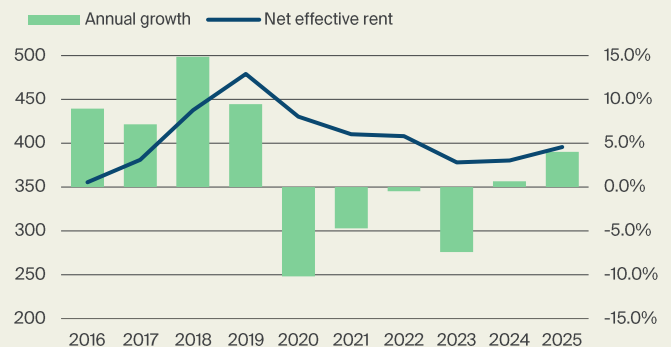
By grade, 000's sqm



Source: Knight Frank Research, PCA

Melbourne CBD prime rents

Net effective rent \$/sqm (LHS), and annual growth % (RHS)



Source: Knight Frank Research

Imminent pause in supply

After 2026 there will be no office developments under construction in Melbourne's CBD

New supply in Melbourne's CBD is expected to come off markedly after 2026, with no new developments under construction thereafter. This supply halt is a consequence of the large spread between economic and market rents as reported on by Knight Frank Research earlier this year.[^] This slowdown in supply will mean that over the next 5-year period, tenants will have less choice for premium and high-quality office space, creating a compelling case for occupiers to capitalise on current availabilities before they are gone.

Pre-commitment levels across the three new developments expected to reach completion this year have been moderate. 7 Spencer St sits at ~25% and 51 Flinders Ln at ~34%, whilst 435 Bourke St has been stronger at approximately ~62%, having secured pre-commitments from CBA, UniSuper, Baker McKenzie and Hostplus. 51 Flinders Ln is expected to lease slowly given its smaller floorplates of 630 sqm and the type of tenants this will attract. The implication is that this year's wave of new supply is forecast to push vacancy up to ~20%.

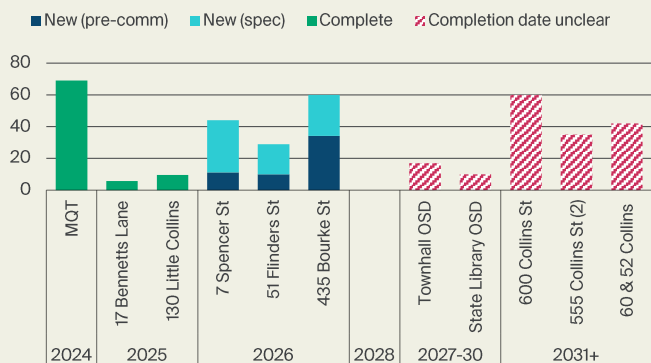
[^]Report: Melbourne CBD – economic rent to moderate supply (Q1 2026)

Whilst a vacancy rate of 20% is well above the long-run average, this is expected to represent the peak, with vacancy forecast to fall swiftly thereafter. This is more likely following confirmation that the next two expected CBD office developments, 52–60 Collins St and 600 Collins St, have been delayed. Accordingly, by 2030 the vacancy rate is forecast to sit at 13%, with premium vacancy closer to 8.5%. Premium is expected to fall quicker with no premium developments or refurbishments expected in the 5-years whilst simultaneously the tenant trend in the market is to demand higher quality.

The last genuine supply slowdown occurred over a 10-year period from 1993 to 2002, during which annual development completions averaged 44,000 sqm. Over this period, the total market vacancy rate fell 18.1%, from 24.8% to 6.7%. A similar dynamic is anticipated in the current cycle, with an average of approximately 34,000 sqm of new supply per annum forecast over the next 5-years (front loaded in 2026), placing sustained downward pressure on vacancy.

CBD office new development pipeline

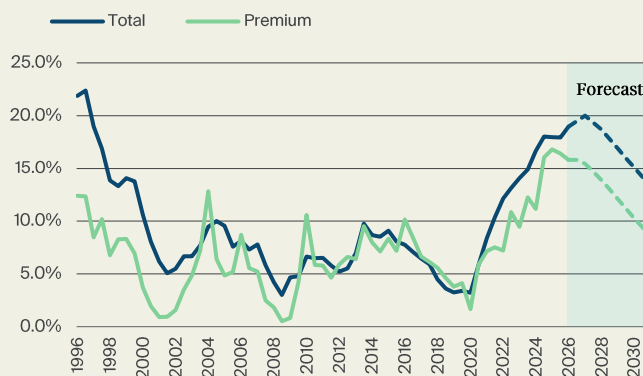
By commitment type, 000's sqm



Source: Knight Frank Research

Melbourne CBD vacancy rate forecast

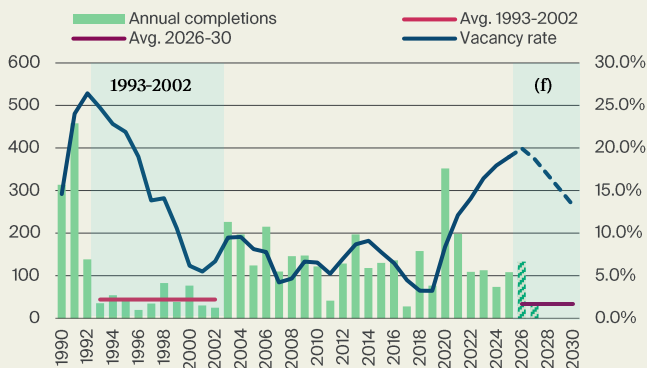
By total market and premium, %



Source: Knight Frank Research

Melbourne CBD new supply and vacancy rate

Supply completions 000's sqm (LHS), and total vacancy rate % (RHS)



Source: Knight Frank Research

“With the development pipeline about to slow markedly, options will diminish for more selective tenants, particularly those needing multiple floors.”



Simon Hale
Office Leasing, Melbourne

Fewer suitable choices

Larger tenants that are selective about location, rise and quality will soon have less choice

Despite elevated vacancy across Melbourne's CBD, the pool of quality options for occupiers, particularly those seeking more than 4,000 sqm of contiguous space, is quickly contracting. With CBD demand expected to strengthen and over a dozen substantial lease expiries hitting the market from 2027-28, conditions are set to tighten rapidly.

Of the 33 current prime options above 4,000 sqm, 26 are located within Docklands or the Western Core, leaving just 7 opportunities for tenants targeting any other precinct in Melbourne's CBD. The Eastern Core* is particularly constrained, with only 2 contiguous options remaining >4,000 sqm, with all other possible opportunities currently under offer. Premium-grade availability is even more limited, with just 8 options across the whole of the CBD compared to 25 for A-Grade.

*Excluding 51 Flinders Lane where floorplates are 630 sqm.

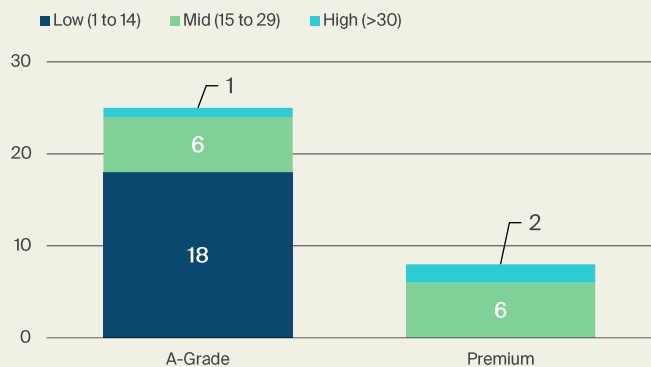
Options on streets are likewise becoming increasingly restrictive. Collins St, the preferred address for most occupiers, carries 14 prime availabilities but 8 sit within Docklands, leaving only 6 in the central CBD. Meanwhile Bourke St offers just 5 options in total.

Rise preferences are also being tested. Most prime contiguous options (18) are low-rise whilst there are only 3 opportunities above 4,000 sqm in the CBD. Two of those are within 435 Bourke Street. This is the sole building offering premium contiguous high-rise space.

Across precinct, street address, rise and grade, large occupiers are confronting a rapidly shrinking set of options that meet their ideal criteria. For those with near-term requirements, the case to transact now — before preferred options are absorbed — has rarely been stronger.

Rise and grade of contiguous options

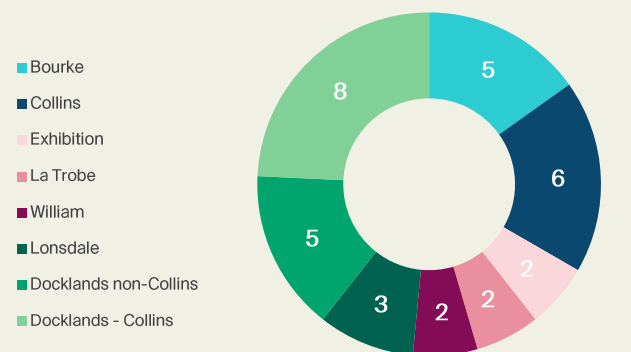
By grade and rise in the building, number of options; >4k sqm



Source: Knight Frank Research

Share of contiguous options by street address

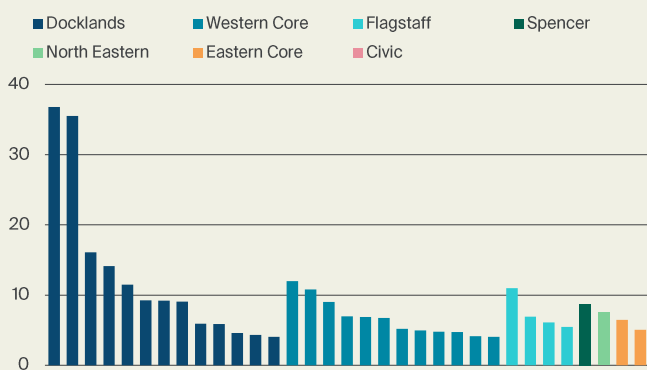
By street address, number of options; >4k sqm



Source: Knight Frank Research

Quantum of prime contiguous options

By precinct and specific building, 000's sqm; >4k sqm



Source: Knight Frank Research

“Tenants should move quickly to take advantage of the options available at present before the window closes.”



Craig Carr
Occupier Services, Melbourne



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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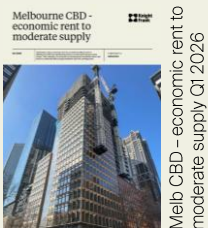


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