

Melbourne CBD – Q1 2026

Office Market Report

Melbourne's CBD office vacancy rate has risen to 19%, the highest of any Australian capital city. The increase is supply-led, however, driven by the final wave of new completions reaching the market rather than by any weakening in tenant demand.

Beneath the headline number the picture is more complex. Demand has in fact strengthened, with the CBD recording +28,029 sqm of net absorption over the quarter. The flight to quality continues: prime-grade assets in desirable locations, such as the Eastern Core, where landlords have invested in modern amenities and services, are recording materially lower vacancy rates, while older buildings and secondary stock in the Western Core and Docklands carry significantly higher vacancies.

The supply story is now the defining feature of this market. 51 Flinders Lane, 7 Spencer Street and 435 Bourke St are due for completion during 2026. Beyond them, forward supply is severely constrained, and on current pipelines no meaningful new supply is likely before 2030 or 2031. Rising feasibility pressures may extend that drought further still.

Face rents have held relatively flat through the period of oversupply, with elevated incentives remaining, particularly for lower-grade assets and less sought-after locations. Sublease vacancy, while still above its historical average in Melbourne, continues to trend down.

For occupiers the implication is clear. Conditions remain firmly tenant-favourable today, with vacancy at a historical high and incentives still elevated. This window will not stay open, however. As the current oversupply is absorbed against a near-empty development pipeline, the market is expected to tighten from around 2029, with face rents rising and incentives reducing. **The next two years are the time to renegotiate your office lease** – to restructure, relocate or lock in longer terms before the balance of power shifts back toward landlords. Tighter access to capital is a further consideration, with some investors capping the proportion of incentive that can be directed to fitout contributions.

Typical Gross Rental Comparison



Grade	Typical Net Face Rental (\$/sqm)		Net Incentive (%) Typical Range	Net Effective Rental (\$/sqm)	
	Low	High		Low	High
Premium	\$700	\$1,000	38-45%	\$400	\$700
A	\$600	\$850	45-50%	\$360	\$475
B	\$450	\$600	35-55%	\$300	\$385

Note - Vacancy and absorption statistics sourced from Property Council of Australia

Occupier's Perspective



Vacancy sits at a historical high today. With the development pipeline now all but empty, however, this is likely the last oversupply the market will see this cycle



With high vacancy levels and significant incentives available, businesses have an opportunity to leverage a relocation to a higher grade of building with superior amenities and services by commencing lease negotiations early. Good quality existing fit outs also offer savings opportunities.

Market Trends

Flexibility remains vital as businesses adapt to providing their workforce with greater flexibility through remote and hybrid ways of working, an ability for a business to expand or contract its premises or terminate a lease early and without penalty as business requirements change are all key.

Access to capital remains a challenge with several developments being delayed or shelved altogether, and fitout contributions capped as a percentage of total incentive. With virtually no new supply before 2030, the current high vacancy should decline steadily, reversing today's tenant-favourable terms from around 2029.

