MARKETBEAT

MELBOURNE

LOGISTICS & INDUSTRIAL Q1 2025

MARKET FUNDAMENTALS

	YOY Chg	Outlook
2.4% Vacancy Rate	▲	▲
5.61% Average Prime Yield	—	▼
1.6% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.3% National GDP Growth	▼	▼
2.4% State Final Demand Growth	▼	▲
4.1% National Unemployment Rate	▲	▲

Source:BLS

ECONOMIC OVERVIEW

The Australian economy has reached an inflection point as the RBA has pivoted and started the rate cutting cycle. Against this backdrop growth is expected to accelerate throughout 2025 and 2026 on the back of improved consumer and business confidence. GDP growth for Q4 2024 reached 0.6% (1.3% year-on-year), while growth in the order of 2.1% is expected for 2025 and 2.5% for 2026.

An improvement in Victoria's gross state product is expected for 2025, with a 1.6% projected increase for the year, before improving further to 2.5% in 2026.

DEMAND

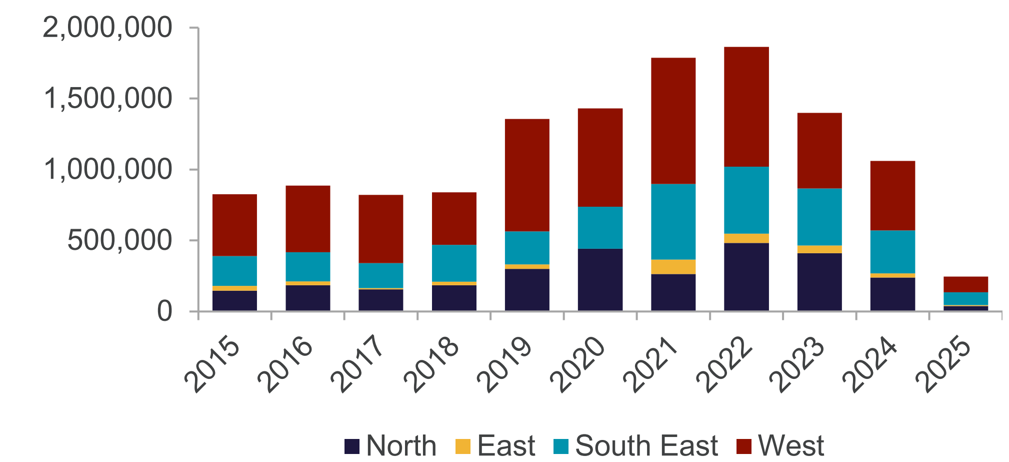
Gross warehouse take-up reached just over 240,000 sqm in Q1 2025, largely on par with the long-term quarterly average. Beyond this, there is a large volume of floorspace in the final stages of negotiation, which will support take-up levels in the coming quarters.

Notwithstanding this, the current economic climate is impacting relocation and expansion plans as occupiers weigh up their medium to long-term growth projections. This uncertainty is driving a delay in the decision-making process.

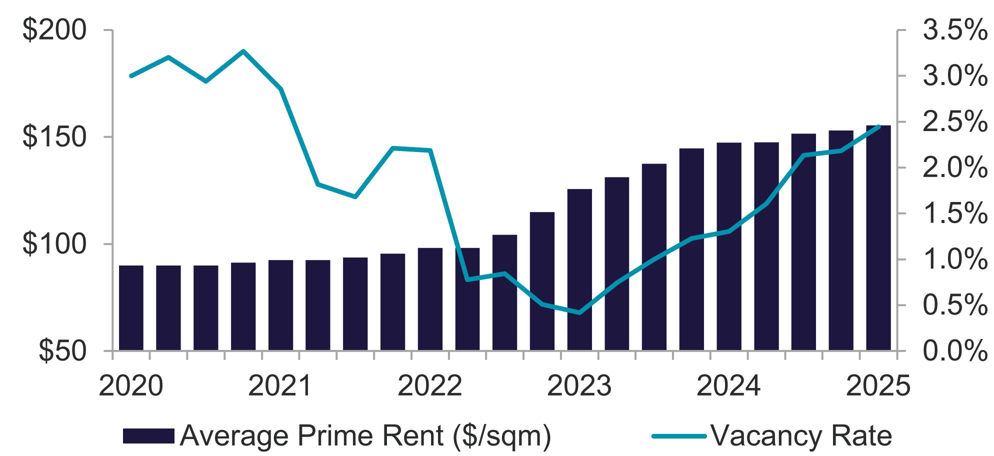
The sub 10,000 sqm size bracket remains the most active, representing approximately 75% of lease deals by number in Q1 2025 (average tenancy size of 7,650 sqm). Conditions within the larger end of the market continue to be impacted by more selective demand from transport and logistics groups as the rationalisation of space remains a theme.

Tenant preferences are skewed towards prime grade facilities, accounting for 81% of floorspace leased over the past quarter. Take-up has been concentrated in the West and South East markets, while demand remains patchier in the North which has coincided with a large delivery of supply. The higher incentive environment is, however, prompting greater enquiry, helping to offset relocation costs.

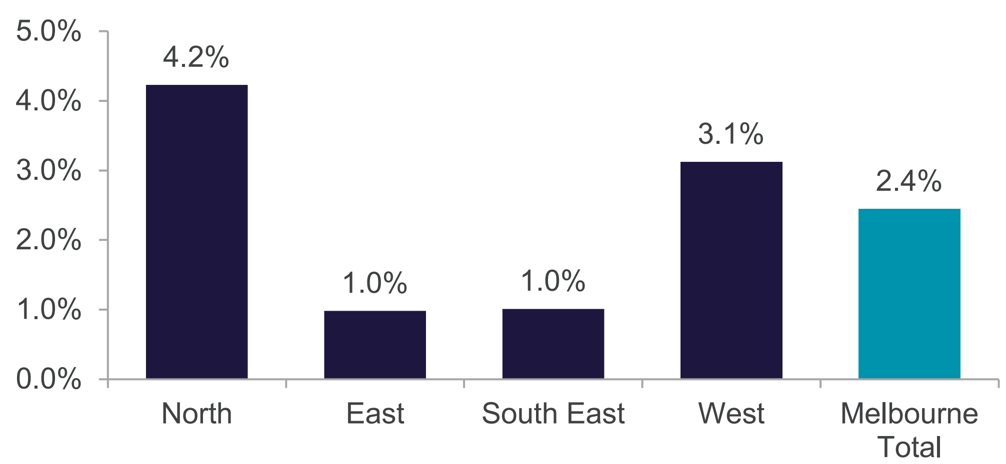
GROSS TAKE-UP (SQM)



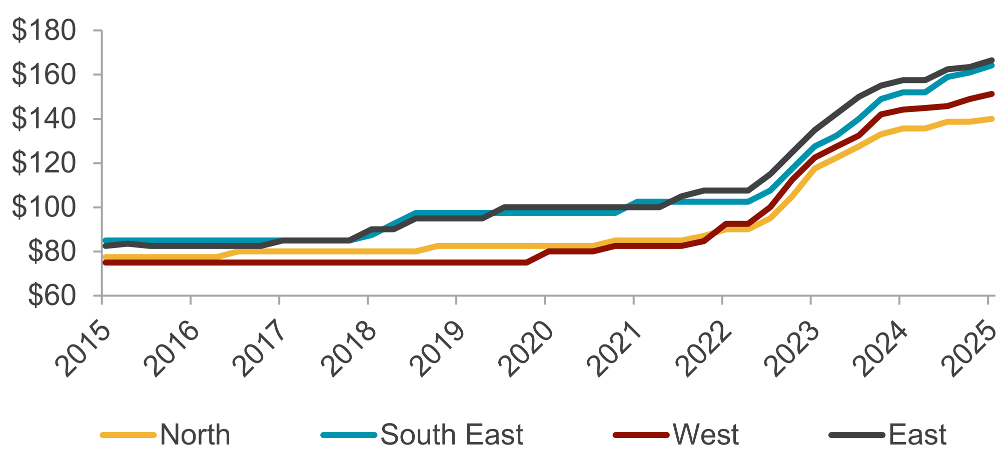
VACANCY & AVERAGE PRIME RENTS



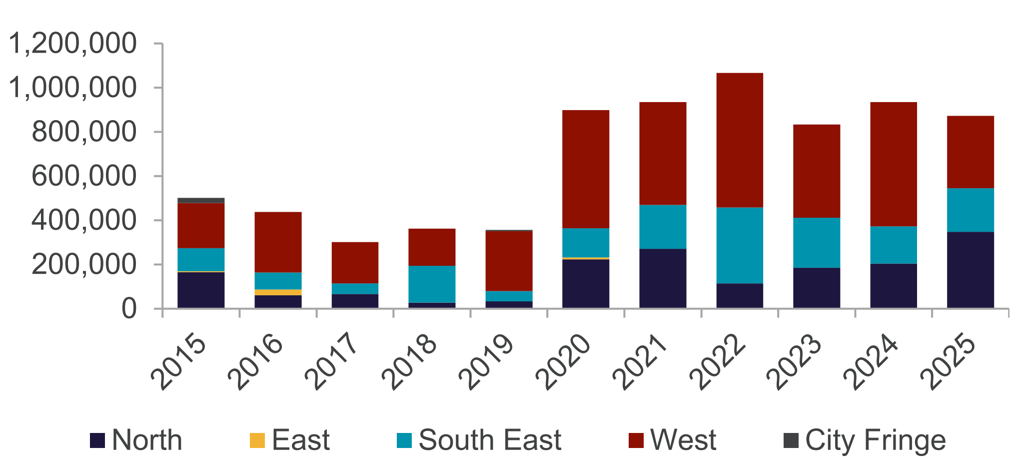
Q1 2025 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET ($/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

Speculative additions have underpinned a rise in the Melbourne vacancy rate, particularly in the West and North submarkets. As of Q1 2025, Melbourne's vacancy has increased to 2.4%, up from 2.2% at the end of 2024. While still low, this is the highest vacancy rate recorded since March 2021.

The North submarket recorded the largest uptick, increasing from 3.5% in Q4 2024 to its current 4.2% and was driven by speculative completions, which represent almost 55% of available floorspace in the submarket. Alternatively, the West vacancy rate increased to 3.1% and is expected to rise further in Q2 2025 as additional developments come online. However, supply starts to thin thereafter, and the vacancy rate could reduce in H2 2025 as demand improves.

RENTS & INCENTIVES

Prime rents grew by 1.6% in Q1 2025, supported by precincts in the South East where there are more limited leasing options. The 3,000 – 8,000 sqm segment recorded growth of 1.9% for the quarter and compares to 1.1% for facilities above 10,000 sqm.

After an uptick in 2024, incentives have stabilised, and in markets such as the Outer West, they are close to historical highs, suggesting they are close to or at their peak. Incentives currently average 19.4% across the broader market; however, there is leasing evidence at higher levels in select markets.

SUPPLY

Just over 230,000 sqm was added to the market in Q1 2025, close to 60% of which stemmed from the North submarket. Developments to come online in the North included ESR's Broadmeadows Logistics Estate (59,700 sqm) and Cabot's North Melbourne Logistics Hub (55,900 sqm).

Supply in the West was underpinned by Warehouse 2 at ESR's Troups Road Logistics Estate (24,800 sqm), with the remaining two facilities as part of the estate due for delivery in Q2 2025.

For the balance of 2025, there is a further 640,000 sqm in the pipeline, a third of which will stem from Amazon's fulfilment centre at Craigieburn (209,000 sqm). Other projects include facilities within ESR's Enterprise Industry Park at Pakenham and over 30,000 sqm at Dexus' Horizon 3023 estate at Ravenhall. Commitment levels for 2025 currently average ~45% - the lowest of any city.

OUTLOOK

- Demand is expected to remain patchy in the first half of 2025 before a more meaningful improvement in the second half of the year. The upcoming Federal election will likely result in consumer cautiousness as they have in previous election years.
- Demand is expected to be supported by an improvement in 3PL leasing demand, who in recent times have been less active given existing vacancies within their current assets.
- Over the next three months, the vacancy rate is forecast to move higher as a result of new supply. At this stage, our base case is for the vacancy rate to head towards 3.0% by the end of Q2 2025.
- Rental growth is expected to diverge further by precinct. Growth in the order of 4.2% is expected for 2025, noting that the South East will likely record growth of closer to 5.0%.
- Historically, rents in South East Melbourne were at a 15% premium to Melbourne's West; however, this has since narrowed to 9.0%. We expect this gap to widen over the next 12 months.

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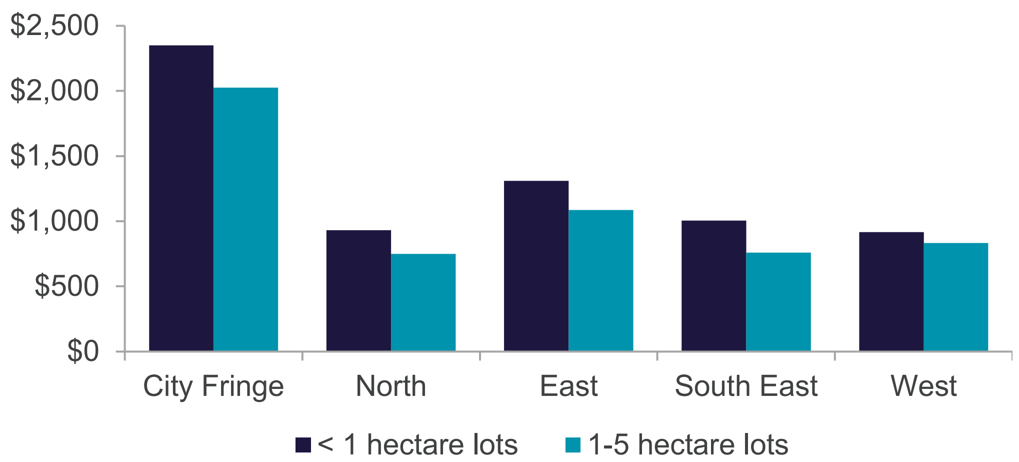
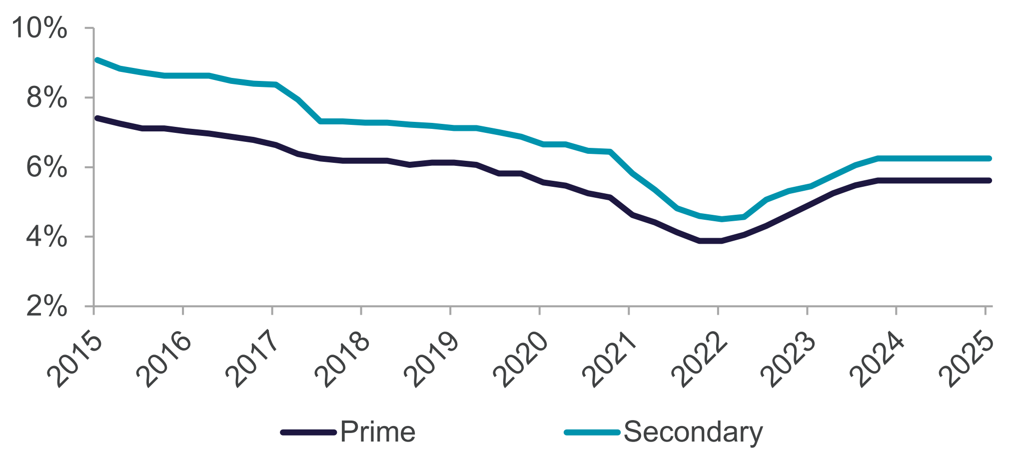
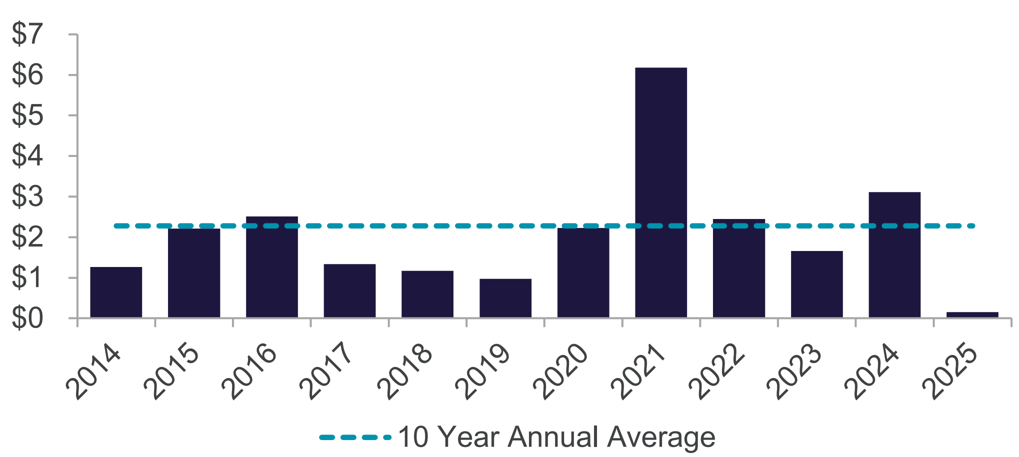
Q1 2025 LAND VALUES BY SIZE ($/SQM)



YIELDS BY GRADE



INVESTMENT VOLUMES ($B)



LAND VALUES

Industrial land values in Melbourne have continued to remain steady across all precincts and size ranges. A divergence in pricing remains between owner-occupiers (including data centre operators) and institutional groups, with the latter unable to meet the pricing paid by owner-occupiers in most cases, given higher yields and construction costs, which continues to test the feasibility of new projects.

Industrial land values currently average $857/sqm across the market for 1-5 hectare lots ($1,041/sqm for <1 hectare lots and $728/sqm for 5+ hectare lots).

YIELDS

Yields across both prime and secondary grades held steady over the past quarter and currently range between 5.25% and 6.00%, while secondary yields range between 6.00% and 6.50%.

INVESTMENT

Despite being the most active market in 2024, Melbourne has seen limited transactions so far in 2025. The first quarter of 2025 saw just over $150 million be acquired, 75% of which by number stemmed from trades below $20 million. More broadly, the doubling of the foreign owners' land tax surcharge in Victoria continues to impact capital deployment.

As highlighted within our 2025 Capital Markets Outlook Survey, Melbourne has fallen to become the third preferred city for investment in 2025 (behind Sydney and Brisbane), given current tax implications. However, the current market dislocation will create opportunities for local domiciled capital, including private offices and superannuation funds.

OUTLOOK

- Market participation will likely remain challenged by offshore capital, given the impacts of the foreign owner surcharge. However, this is expected to be somewhat offset by domestic capital sources, including superannuation funds and private investors.
- Further rate cuts in 2025 will provide the backdrop to improved liquidity, with a material jump in investment volumes forecast, supported by new capital sources from offshore markets.
- The movement of yields over the next two years will be heavily influenced by the outlook for rates – both interest rates and the risk-free rate, as well as the weight of capital seeking to be deployed, where in the absence of high stock levels will result in heightened competition for limited assets.
- Our modelling highlights the potential for 10 to 25 basis points of compression in late 2025 before a further 25 to 30 basis point reduction in 2026. Unlike the last cycle, the movement in yields will not be consistent across markets and grades.

Q1 2025 MELBOURNE MARKET STATISTICS

SUBMARKET	VACANCY RATE (TOTAL MARKET)	TAKE-UP (TOTAL MARKET SQM)	AVERAGE NET FACE RENT ($/SQM P.A.)	AVERAGE OUTGOINGS ($/SQM P.A.)	AVERAGE INCENTIVES	AVERAGE YIELDS	AVERAGE CAPITAL VALUES ($/SQM P.A.)	AVERAGE LAND VALUES (1-5ha, $/SQM P.A.)
PRIME								
City Fringe	-	-	$245	$70	17.5%	5.50%	$4,455	$2,025
North	4.2%	46,295	$140	$28	17.5%	5.68%	$2,467	$750
East	1.1%	6,424	$167	$30	17.5%	5.58%	$2,987	$1,085
South East	1.4%	89,457	$164	$30	19.5%	5.53%	$2,972	$760
West	3.1%	100,745	$151	$28	23.3%	5.68%	$2,665	$833
PRIME AVERAGE	**2.6%**	**242,921**	**$155**	**$29**	**19.4%**	**5.61%**	**$2,773**	**$857**
SECONDARY								
City Fringe	-	-	$195	$70	17.5%	5.63%	$3,467	-
North	-	-	$120	$28	12.5%	6.25%	$1,920	-
East	-	-	$135	$30	19.5%	6.25%	$2,160	-
South East	-	-	$135	$30	19.5%	6.25%	$2,160	-
West	-	-	$129	$28	20.0%	6.25%	$2,056	-
SECONDARY AVERAGE			**$130**	**$29**	**17.9%**	**6.25%**	**$2,074**	**-**

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