MARKETBEAT
MELBOURNE
LOGISTICS & INDUSTRIAL Q2 2025

MARKET FUNDAMENTALS

	YOY Chg	Outlook
2.9% Vacancy Rate	▲	▲
5.61% Average Prime Yield	—	▼
1.0% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.3% National GDP Growth	▼	▼
1.6% State Final Demand Growth	▼	▲
4.1% National Unemployment Rate	▲	▲

Source:BLS

ECONOMIC OVERVIEW

The Reserve Bank of Australia responded to continued disinflation and the ongoing tariff negotiations by cutting rates in May for the second time this year as the central bank's focus has shifted from fighting inflation to supporting growth and maintaining full employment. Against this backdrop growth is expected to improve throughout 2025 and 2026 on the back of improved consumer and business sentiment. GDP growth slowed in Q1 2025 reaching 0.5% (1.3% year-on-year) but is forecast to recover to 1.8% by the end of the year and 2.1% for 2026.

Victoria's economic growth is expected to grow at a moderate pace, with Gross State Product forecast to increase by 2.1% in 2025 and 2.3% in 2026.

DEMAND

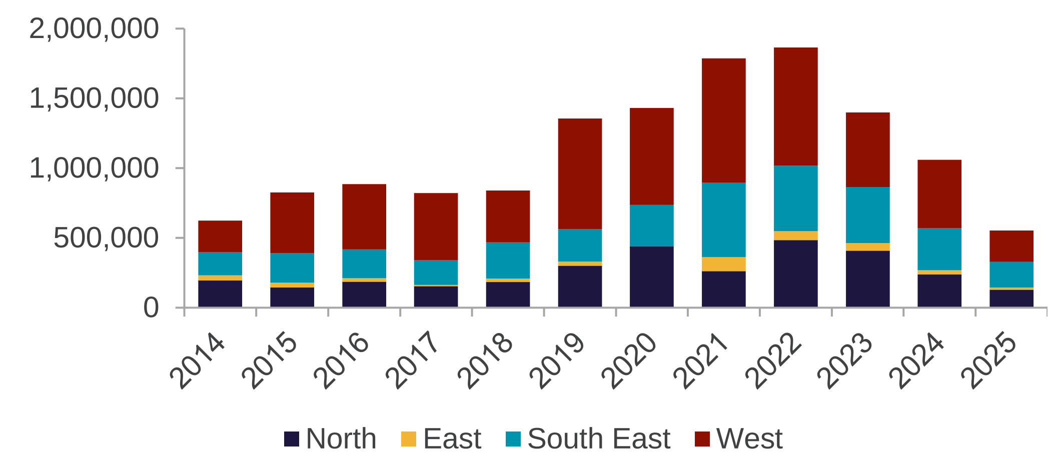
The current economic and geopolitical environment is providing an overlay of cautiousness from occupiers, driving a delay in the decision-making process in some cases. However, on the ground, there has been an improvement in enquiry over the past quarter as businesses begin to have greater comfort around their inventory needs, supporting further momentum in leasing activity in the second half of 2025.

Gross take-up reached just over 270,000 sqm in Q2 2025, taking the year-to-date leasing volume to approximately 550,000 sqm. Notably, this represents a 17% improvement on the same point in 2024.

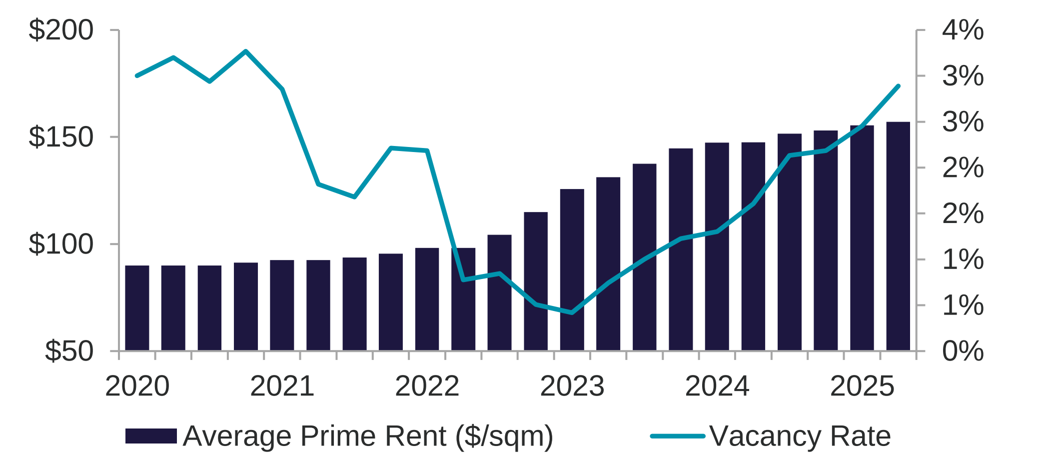
Demand over the past quarter was driven by the South East and West submarkets, headlined by several larger leasing transactions. This included Accent group leasing 17,232 sqm at Truganina and General Motors ANZ leasing 26,900 sqm at Dandenong South.

More broadly, while the sub 10,000 sqm size bracket accounted for most transactions (52% by number), there was greater momentum in leasing activity for deals above this range compared to the past 24 months. Tenant demand at the larger end of the market is being led by the transport and logistics sector.

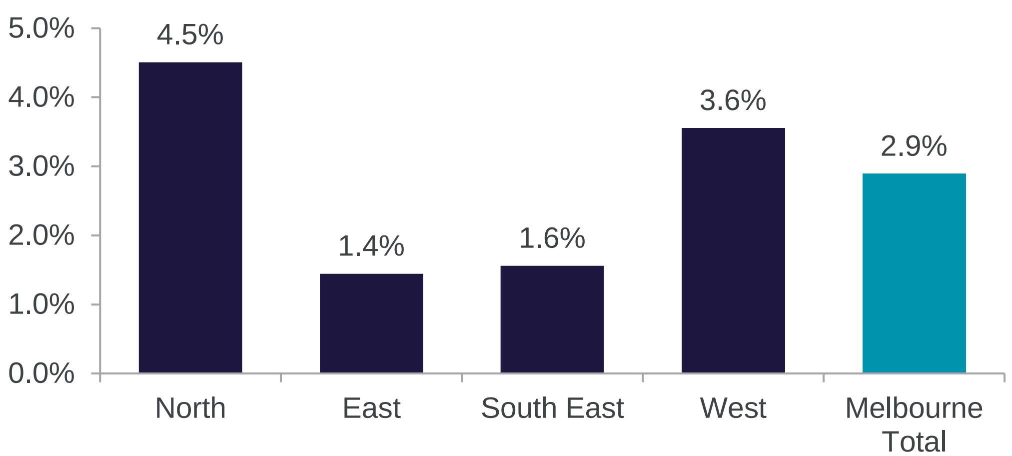
GROSS TAKE-UP (SQM)



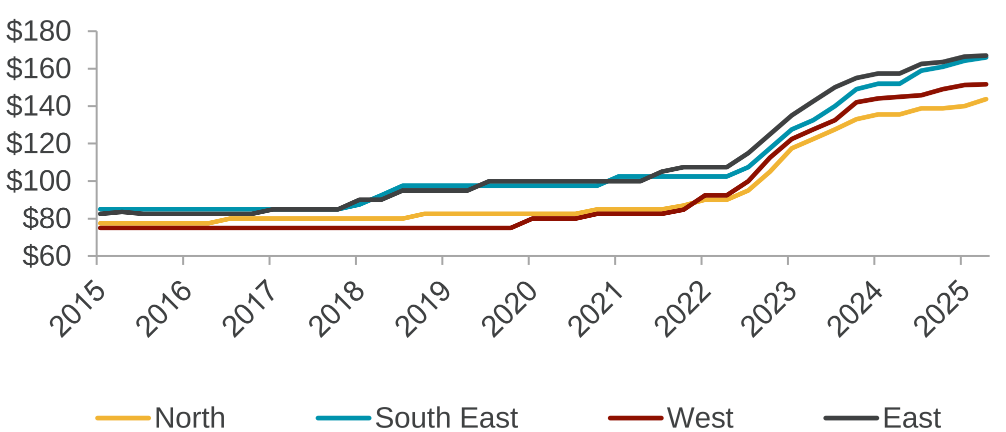
VACANCY & AVERAGE PRIME RENTS



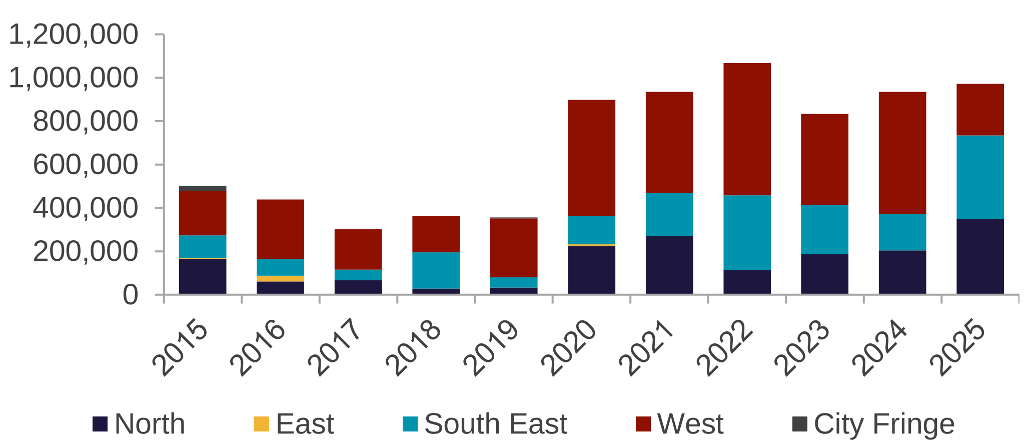
Q2 2025 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET ($/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

Melbourne's vacancy rate saw an uptick to 2.9% over the past quarter, up from 2.4% in Q1 2025. The higher vacancy can be attributed to speculative supply additions, including the balance of ESR's Troups Road Logistics Estate at Truganina. Sublease availability remains a small feature of the market, with a vacancy rate of just 0.1%.

Vacancy levels are higher in the North submarket at 4.5%, more than half of which is speculative and includes space at ESR' Broadmeadows Logistics Estate and Cabot's North Melbourne Logistics Hub. Alternatively, vacancy rates in the South East and East remain among the lowest in the country.

RENTS & INCENTIVES

Prime net face rents grew by 1.0% in Q2 2025 (year-on-year growth of 6.5%); however, there remains a large divergence by size bracket and precinct. The sub 10,000 sqm segment continues to record an outperformance in growth, particularly on an effective basis. Reflecting vacancy trends, precincts in the South East have recorded higher levels of growth.

Incentives currently vary greatly across the market, currently averaging almost 20%; however, it's higher in markets such as the West, which has led to a modest reduction in effective rents.

SUPPLY

A pivot from some developers to a pre-lease strategy and feasibility constraints due to economic rents being above current market rents has underpinned the delay in supply, particularly in 2026. Further, a large share of the pipeline over the next two years is contingent on pre-commitments being secured.

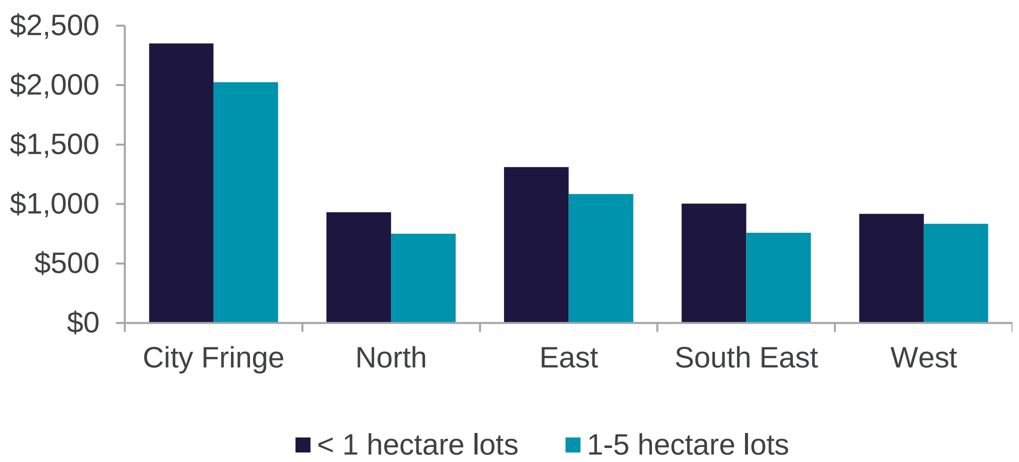
Supply for 2025 is expected to reach almost 975,000 sqm; however, this is underpinned by large pre-lease additions, including Amazon's fulfilment centre at Craigieburn (209,000 sqm). Commitment rates on the 2025 supply pipeline stand at 55%; however, there are multiple facilities/tenancies currently at Heads of Agreement stage. Speculative additions for the year total approximately 500,000 sqm and includes Brookfield at Pakenham and Aliro at Tottenham.

For 2026, there is potential for 865,000 sqm to be delivered; however, just over 40% of this is speculative, meaning the balance will need pre-commitments to be activated.

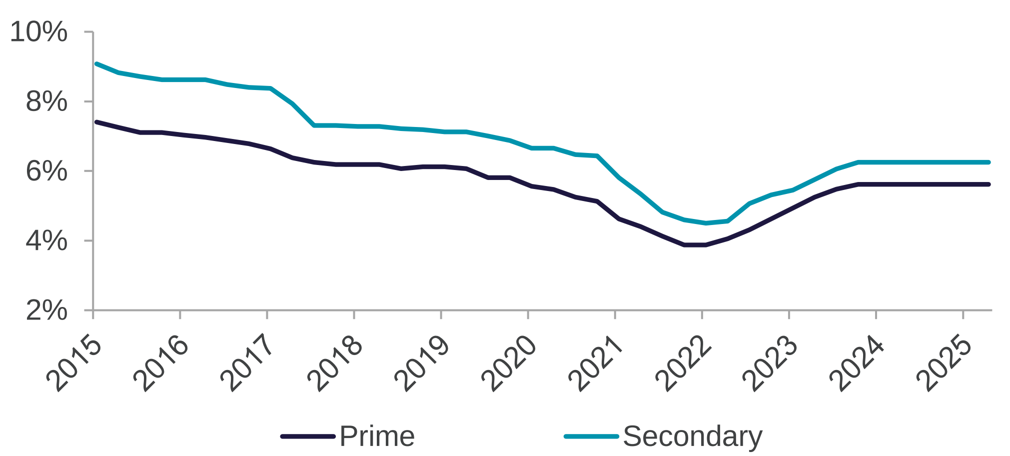
OUTLOOK

- Demand is expected to improve in the second half of 2025, supported by a recent pick-up in enquiry and inspections and stems from the continued recovery in the consumer environment.
- Take-up is expected to be supported by greater activity in 3PL leasing demand, who in recent times have been less active given existing vacancies within their current assets.
- Speculative supply will have less of an impact on vacancy levels over the next six months as completions moderate. Melbourne's vacancy rate is expected to remain below 4.0%, and subject to tenant demand, there could be a reduction in availability in select markets.
- Rental growth is expected to diverge further by precinct. Growth in the order of 4.5% is expected for 2025, noting that the South East will likely record growth of closer in excess of 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.

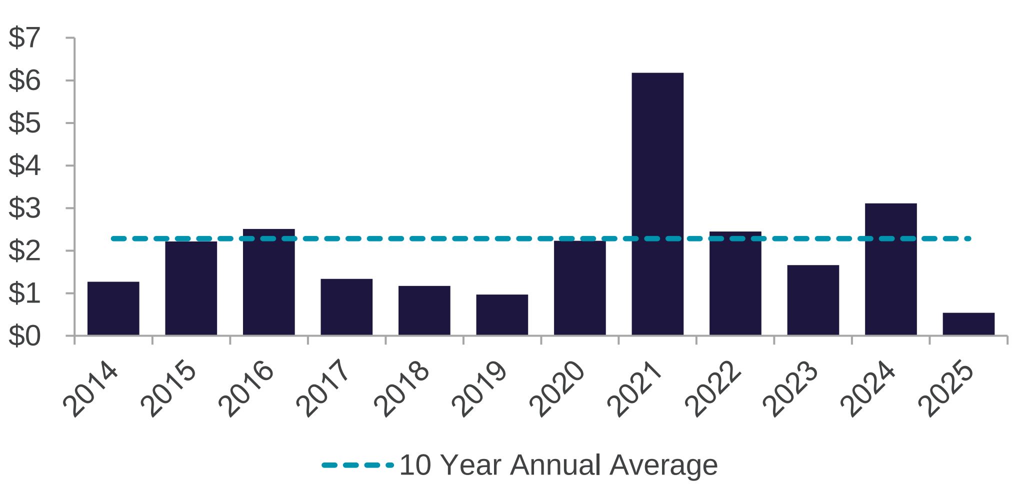
Q2 2025 LAND VALUES BY SIZE ($/SQM)



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.

The largest land transaction to occur in the quarter was Goodman acquiring the O'Herns Logistics Park at Epping for approximately $240.0 million.

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

Unlike the other major capital cities, which recorded a modest tightening of yields in Q2 2025, Melbourne prime yields have remained steady at 5.61% (6.25% for secondary) and reflects the foreign owners' land tax surcharge in Victoria which has limited offshore capital participation.

At this stage, pricing is being maintained by demand from domestic-based capital, including privates/family offices and syndicators; however, pricing from offshore capital is unable to meet current market pricing in most instances.

INVESTMENT

Due to reduced market participation from offshore capital, investment volumes in Melbourne remain subdued by recent standards, with just under $550 million trading in the first half of 2025. Over the past quarter, activity was concentrated in the sub $50.0 million price point, with just a handful of trades above this. This included MAB selling Lot 103, 5 Titan Drive, Mickleham for $60.0 million.

Other transactions inlcuded a private acquring 97-103 Boundary Road, Laverton North from Gateway Capital for $26.1 million and an owner occupier buying 34-40 Garden Boulevard, Dingley Village for $13.8 million.

Given the overall fundamentals of the Melbourne market, including the city being the largest industrial market in the country, having the strongest population growth in the country (by persons) and more affordable market metrics, it provides a window of opportunity for active groups. The market will reach an inflection point as Sydney yields compress further, triggering greater offshore capital deployment.

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 further investment momentum expected in the second half of 2025, 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 strong competition for limited assets.
- Yields in Melbourne are expected to remain stable for the balance of 2025, lagging the compression cycle to Sydney. Yield compression is expected in 2026 as the pricing gap to the other capital cities reaches an inflection point.

Q2 2025 MELBOURNE MARKET STATISTICS

SUBMARKET	VACANCY RATE (TOTAL MARKET)	YTD 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	4.4%	128,235	$144	$25	17.5%	5.68%	$2,533	$750
East	1.4%	16,073	$167	$30	17.5%	5.58%	$2,996	$1,085
South East	1.6%	184,685	$166	$30	19.5%	5.53%	$3,005	$760
West	3.6%	224,401	$152	$28	24.2%	5.68%	$2,673	$833
PRIME AVERAGE	**2.9%**	**553,394**	**$157**	**$28**	**19.7%**	**5.61%**	**$2,801**	**$857**
SECONDARY								
City Fringe	-	-	$195	$70	17.5%	5.63%	$3,467	-
North	-	-	$125	$28	12.5%	6.25%	$2,000	-
East	-	-	$135	$30	19.5%	6.25%	$2,160	-
South East	-	-	$138	$30	19.5%	6.25%	$2,200	-
West	-	-	$129	$28	20.0%	6.25%	$2,056	-
SECONDARY AVERAGE			**$132**	**$29**	**17.9%**	**6.25%**	**$2,104**	**-**

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