MARKETBEAT

MELBOURNE

LOGISTICS & INDUSTRIAL Q3 2025

MARKET FUNDAMENTALS

	YOY Chg	Outlook
3.4% Vacancy Rate	▲	▼
5.61% Average Prime Yield	—	▼
1.4% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.8% National GDP Growth	▼	▼
1.6% State Final Demand Growth	▼	▲
4.2% National Unemployment Rate	▲	▲

Source:BLS

ECONOMIC OVERVIEW

The demand side of the economy remains robust, though likely only in the short term. A rebound in demand drove inflation higher in July, with CPI rising to 2.8% year-on-year from 1.9% in June, largely due to the expiration of electricity subsidies. This rebound in inflation has tempered expectations for an imminent rate cut at the Reserve Bank of Australia's (RBA) meeting on 30 September. Meanwhile, GDP grew by 0.6% quarter-on-quarter in Q2, up from 0.3% in Q1, driven primarily by stronger private consumption, with forecasts expecting GDP to continue to improve through 2025 and 2026.

Victoria is positioned for positive economic growth of 1.8% through 2025, before improving to 2.0% in 2026, then a further 2.8% in 2027.

DEMAND

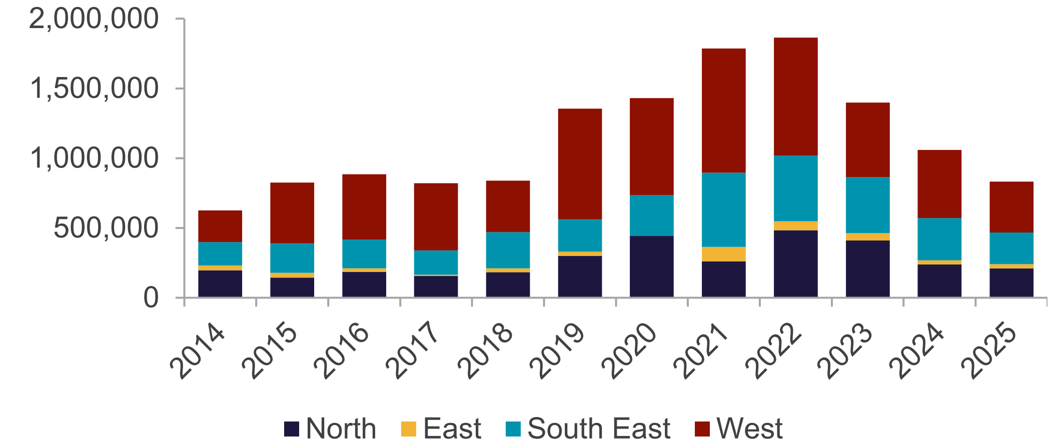
Caution remains a key theme within the Melbourne market, with broader economic and geopolitical conditions still influencing decision-making timelines. However, while it has yet to be reflected in take-up figures, stronger enquiry is beginning to flow through the market, which should crystallise into greater deal activity in Q4 2025.

Gross take-up in Q3 2025 reached almost 280,000 sqm, taking the year-to-date 2025 figure to approximately 830,000 sqm. However, net absorption for 2025 remains in negative territory at almost -110,000 sqm, with a large variance at a submarket level.

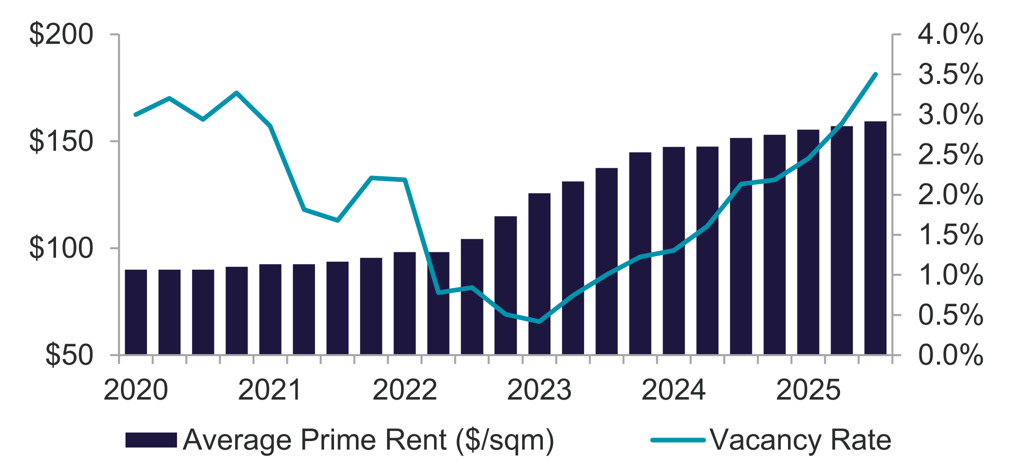
Speculative developments delivered earlier in 2025 are showing solid leasing success, while pre-lease volumes remain subdued across all markets. However, a moderation in speculative supply in 2026 and 2027 is expected to direct occupiers towards the pre-lease market.

Demand over the past quarter was broadly spread across the market, while deal activity above 10,000 sqm remains low. Construction and manufacturing-based occupiers were the most active in Q3 2025, with Holman's lease in the North submarket being a notable example.

GROSS TAKE-UP (SQM)



VACANCY & AVERAGE PRIME RENTS



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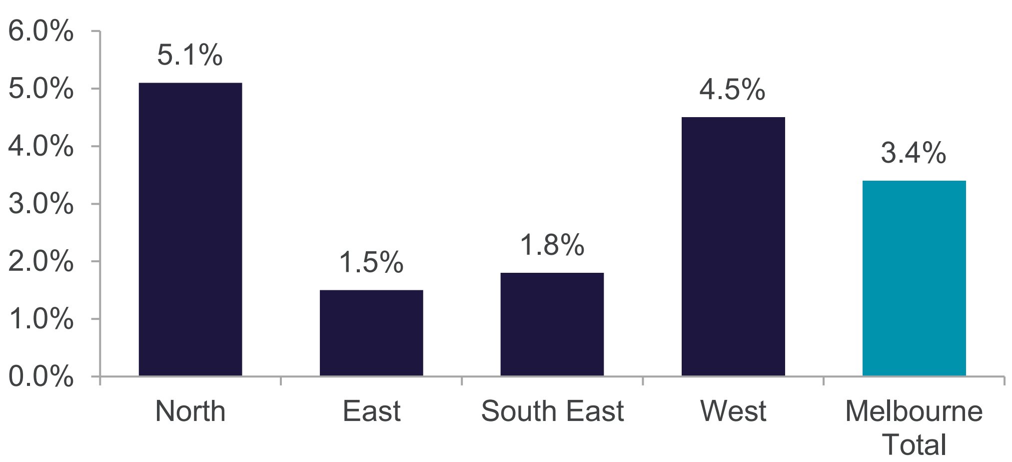
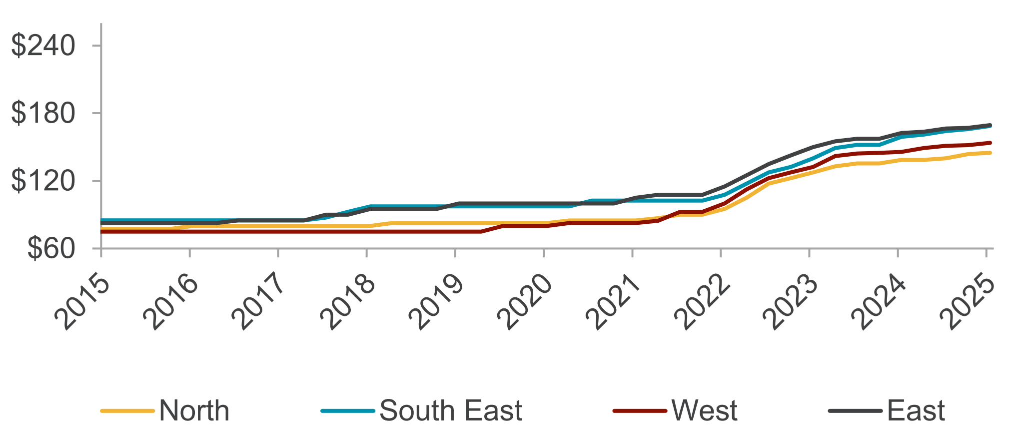
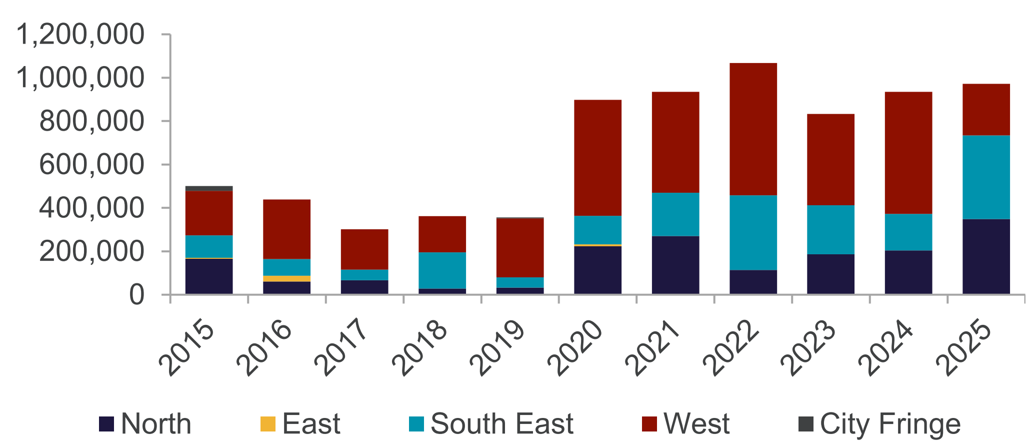
Q3 2025 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET ($/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

Melbourne's vacancy rate saw a further uptick to 3.4% in Q3 2025, up from 2.9% in Q2 2025. The increase in the vacancy rate was primarily driven by the North submarket, which now stands at 5.1%. However, there are several large facilities close to being finalised, which will place downward pressure on the vacancy rate from Q4 2025. Unlike previous quarters, the largest jump in vacancy stemmed from facilities below 10,000 sqm and was a consistent trend across all submarkets. Sublease availability increased to 0.6%, with most of this increase stemming from the West submarket, while speculative supply accounts for just 23% of vacant floorspace across the broader market.

RENTS & INCENTIVES

Prime net face rents increased by 1.4% in Q3 2025 (year-on-year growth of 5.1%), led by the sub 10,000 sqm segment, which remains the sweet spot for demand. Alternatively, rents for big box facilities remained largely stable over the quarter and stems from higher vacancy levels. Rental growth remains strongest in Melbourne's South East (+1.7% in Q3 2025), while higher volumes of leasing availability in the West and North submarkets continued to temper growth.

Incentives are continuing to play a greater role in rental negotiations; however, they appear to be stabilising in select markets, including the West. Currently, they average 21.6%, with pre-lease incentives averaging closer to 25.0%.

SUPPLY

The delivery of new supply in Q3 2025 totalled approximately 120,000 sqm. Aliro's 427-451 Somerville Road, Tottenham development was the largest addition for the quarter, while IVE's 32,700 sqm facility was completed in the South East.

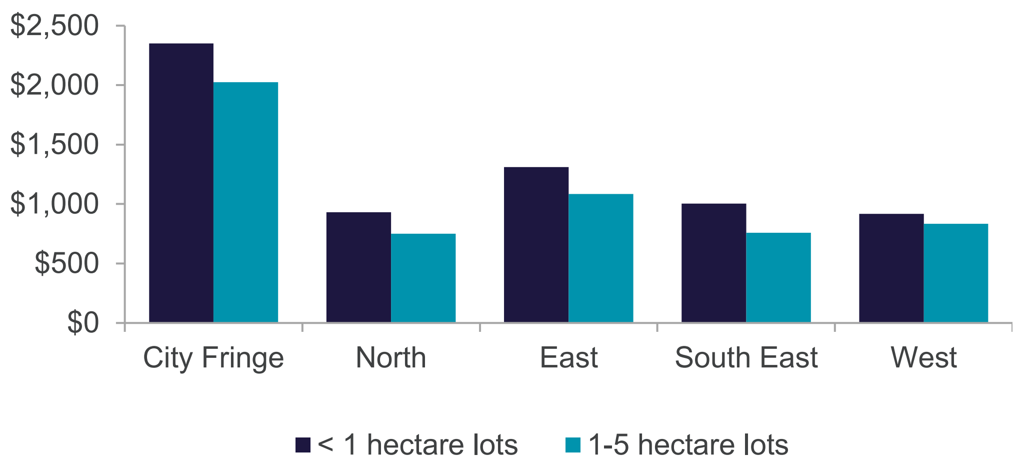
Total supply for 2025 remains elevated at approximately 1.0 million sqm; however, pre-leased supply, including Amazon's fulfilment centre at Craigieburn (209,000 sqm), is a large contributor. Speculative supply for the year amounts to 560,000 sqm, while the impacts of this on vacancy levels going forward will be minor, given the bulk has already been delivered to the market.

A 30% drop in supply is forecast for 2026 (a decline of 41% for speculative) as developers take a more cautious approach, given development feasibility constraints. For the year, there is approximately 740,000 in the pipeline, while around 350,000 sqm is contingent on pre-commitments being secured.

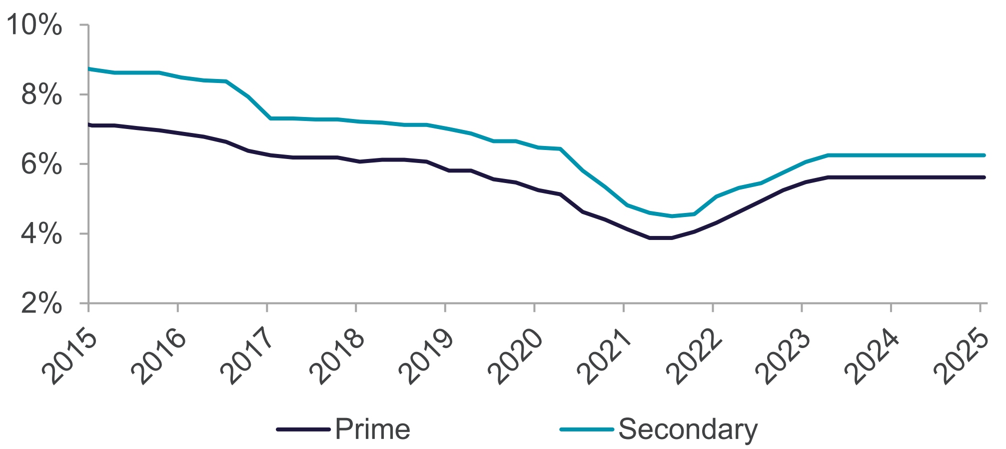
OUTLOOK

- Demand is expected to remain uneven over the next six months; however, net absorption is forecast to return to positive territory in 2026, supported by the ongoing recovery in the consumer environment.
- Speculative supply will have less of an impact on vacancy levels over the next 12 months as completions moderate. Melbourne's vacancy rate is anticipated to remain below 4.0%, with the potential to trend lower in 2026, subject to tenant demand.
- Rental growth is expected to diverge further by precinct. Growth in the order of 4.5% is expected for 2025 (net face - 4.0% growth has already been recorded so far in 2025), noting that the South East will likely record growth in excess of 5.0%.
- Looking ahead to 2026, net face rental growth of approximately 4.25% is forecast. In select precincts, however, effective growth is likely to be stronger as incentives begin to ease in response to a thinning supply pipeline.

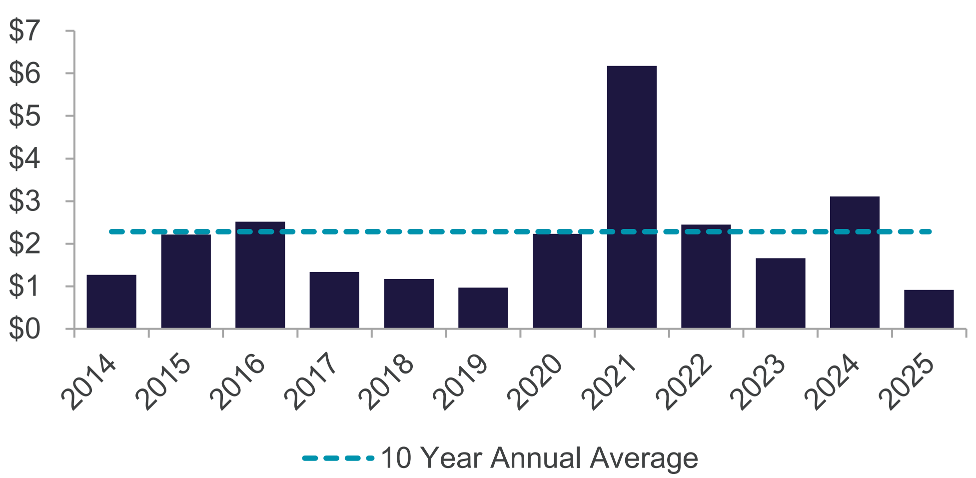
Q3 2025 LAND VALUES BY SIZE ($/SQM)



YIELDS BY GRADE



INVESTMENT VOLUMES ($B)



LAND VALUES

Industrial land values in Melbourne have held steady across precincts and lot sizes. A clear pricing gap persists between owner-occupiers, particularly data centre operator, and institutional buyers. In most cases, institutions are unable to match the levels achieved by owner-occupiers, with higher yields and elevated construction costs continuing to challenge the feasibility of new development.

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 the Melbourne market remain unchanged at 5.61% (6.25% for secondary), with the foreign owners' land tax surcharge in Victoria continuing to have a major impact. This comes at a time when other cities around the country have recorded yield compression.

While market participation from offshore capital has been weak, there are early signs of a shift in sentiment, where the current market dislocation presents counter-cyclical opportunities for active investors. The forecast for rental growth outperformance over the next three years, particularly on an effective basis, underpins this renewed conviction in the Melbourne market.

INVESTMENT

Investment volumes continue to track well below historical levels, with just over $900 million trading so far in 2025 (investment and owner-occupier transactions above $10 million). Volumes have been weakest at the larger end of the market, with just four transactions recorded above $50 million, one of which was the Woolworths distribution centre at Wagonga (28 Bilston Drive, Barnawartha North).

Other notable sales to be recorded in Q3 2025 include 344 Lorimer Street, Port Melbourne, which Cadence acquired for $38.25 million, while Charter Hall sold 6-8 & 11 Siddons Way, Hallam for $33.2 million.

OUTLOOK

- Market participation is likely to remain constrained by offshore capital, reflecting the impact of the foreign owner surcharge. This will be partly offset by increased activity from domestic investors, particularly superannuation funds and private capital.
- Yields in Melbourne are expected to remain stable through the remainder of 2025, trailing the compression cycle observed in Sydney. Compression is anticipated in 2026 as the pricing gap with other capital cities reaches an inflection point; however, capital will remain selective.
- Over the next two years, yield movements will be shaped primarily by the interest rate environment, including both policy and risk-free rates, alongside the weight of capital seeking deployment. In the context of limited available stock, this is expected to drive heightened competition for assets.

Q3 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	5.1%	210,053	$145	$25	20.3%	5.68%	$2,555	$750
East	1.5%	31,333	$170	$30	19.5%	5.58%	$3,040	$1,085
South East	1.8%	225,286	$169	$30	22.5%	5.53%	$3,054	$760
West	4.5%	365,773	$154	$28	24.2%	5.68%	$2,709	$833
PRIME AVERAGE	**3.4%**	**832,445**	**$159**	**$28**	**21.6%**	**5.61%**	**$2,840**	**$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	-	-	$140	$30	19.5%	6.25%	$2,240	-
West	-	-	$129	$28	22.5%	6.25%	$2,056	-
SECONDARY AVERAGE			**$132**	**$29**	**18.5%**	**6.25%**	**$2,114**	**-**

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