



MARKET FUNDAMENTALS

	YOY Chg	Outlook
3.8% Vacancy Rate	▲	▼
5.61% Average Prime Yield	▬	▼
0.4% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
2.1% National GDP Growth	▲	▲
2.9% State Final Demand Growth	▲	▲
4.4% National Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW

Economic conditions remain steady, supported by resilient domestic demand and labour market conditions, though inflationary pressure has been more persistent than expected. Headline CPI increased 3.4% year-on-year (yoY) in November, the fourth consecutive month it landed outside the Reserve Bank of Australia's (RBA) 2% to 3% target band, while the RBA's preferred measure of trimmed mean inflation also came in above 3%. Recent RBA commentary indicates the current easing cycle is likely complete, with policymakers taking a longer-term view on inflation before considering further adjustment. Australian economic growth softened slightly in the second half of 2025, with GDP rising 0.4% quarter-on-quarter (qoq) in Q3, down from 0.6% in Q2. Looking ahead, growth is expected to accelerate throughout 2026. Victoria's Gross State Product is projected to grow by 2.9% in 2025, before strengthening to 2.0% by the end of 2026 and rising further to 3.0% in 2027.

DEMAND

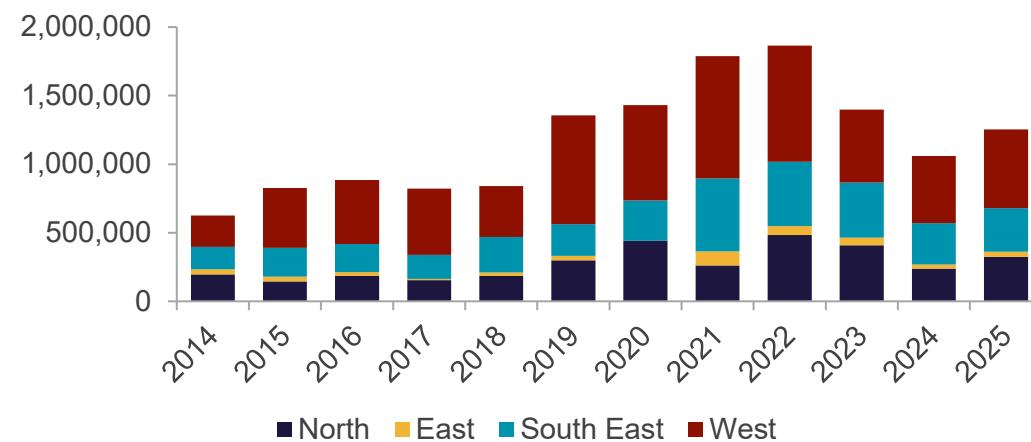
While decision-making timelines remained extended, leasing activity recorded a sharp uptick in Q4 2025 across Melbourne, with almost 420,000 sqm being leased, taking the 2025 total to just under 1.3 million sqm. Similarly, positive net absorption was recorded over the past quarter, with 2025 finishing with absorption of approximately 105,000 sqm, led more recently by the North submarket.

Take-up continued to favour prime and super prime assets, collectively accounting for over 80% of demand in 2025, with tenants prioritising modern buildings that offer higher clearances and automation capabilities, while also providing superior amenities for staff.

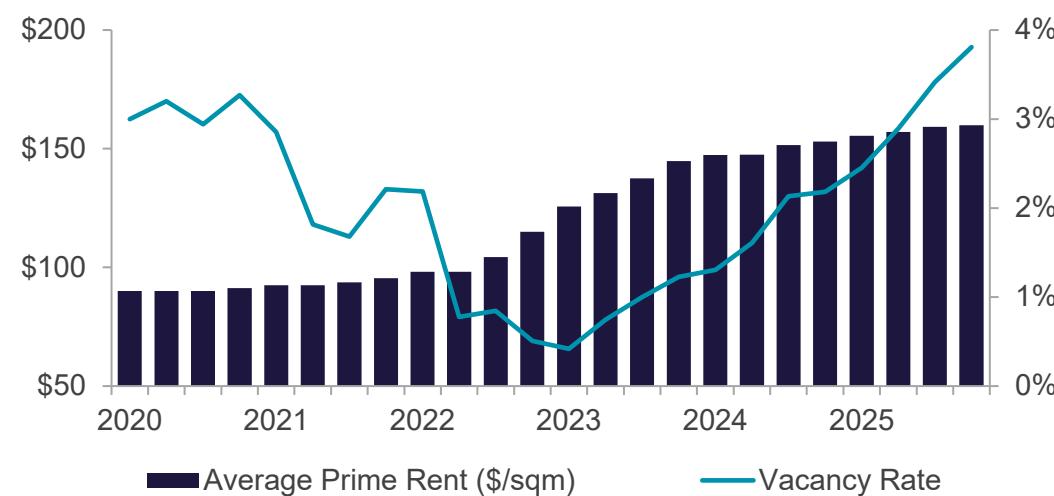
The West and North precincts accounted for the majority of larger transactions, while take-up remains capped in the South East due to low levels of availability, particularly within core, well-established precincts.

Transport and logistics and retail trade sectors were the most active in 2025 across the West and North submarkets, while the mix in the South East was more varied, with manufacturing being the dominant sector for the year.

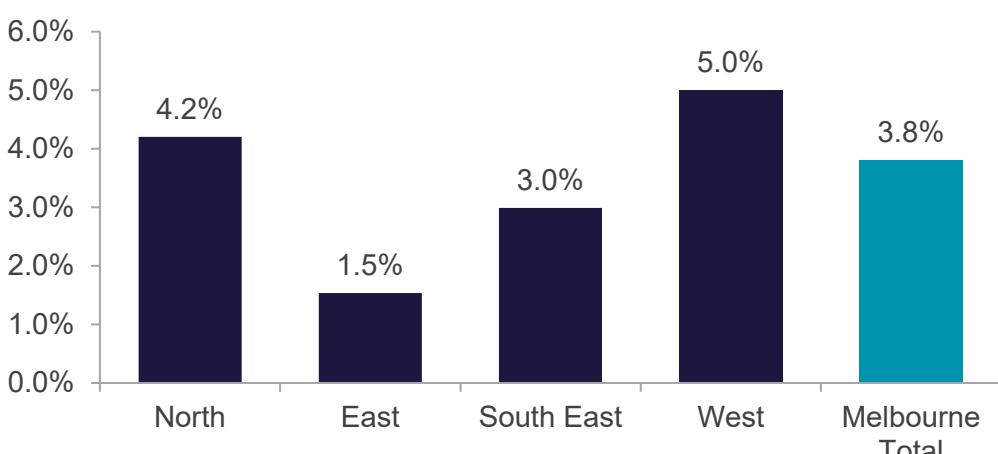
GROSS TAKE-UP (SQM)



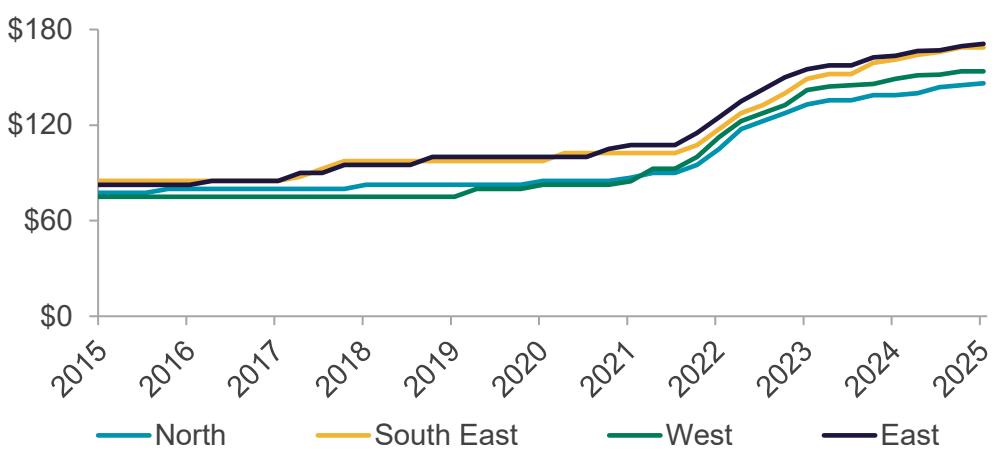
VACANCY & AVERAGE PRIME RENTS



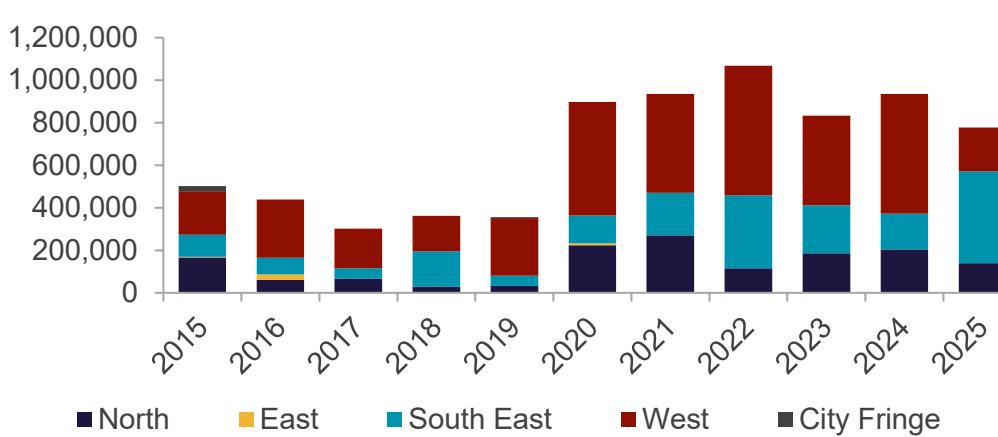
Q4 2025 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET (\$/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

A further uptick in the Melbourne vacancy rate was recorded in Q4 2025, now sitting at 3.8%, up from 3.4% in Q3 2025. The increase in the vacancy rate was primarily driven by the South East submarket and is the result of speculative supply additions in periphery precincts, including Pakenham. Alternatively, the North submarket saw the vacancy rate decline to 4.2% and follows the leasing of several tenancies within ESR's Broadmeadows Logistics Estate. Sublease vacancy remains low at just 0.7% of stock, with the West submarket accounting for almost 80% of sublease availability, underpinned by 3PL and retailers.

RENTS & INCENTIVES

Prime net face rents increased by 0.4% in Q4 2025 (year-on-year growth of 4.5%), led by the sub 10,000 sqm segment, which remains the sweet spot for demand. Alternatively, rents for big box facilities remained stable over the quarter. Prime rents currently average \$160/sqm across the city, while pre-lease rents are closer to \$140/sqm in the West and North and \$165/sqm in the South East.

Incentives have stabilised following their sharp increase over the past 12 months, currently averaging 21.0%, albeit there is evidence in select precincts where incentives are closer to 30.0%.

SUPPLY

The delivery of new supply in Q4 2025 totalled approximately 270,000 sqm, underpinned by Walkinshaw Group's ~51,000 sqm facility at Dandenong South. For the year, supply totalled 780,000 sqm, representing the lowest level of additions since 2019. Speculative supply was strong at over 550,000 sqm, albeit this was skewed to H1 2025, with a large pullback evident more recently, particularly in the West and North submarkets.

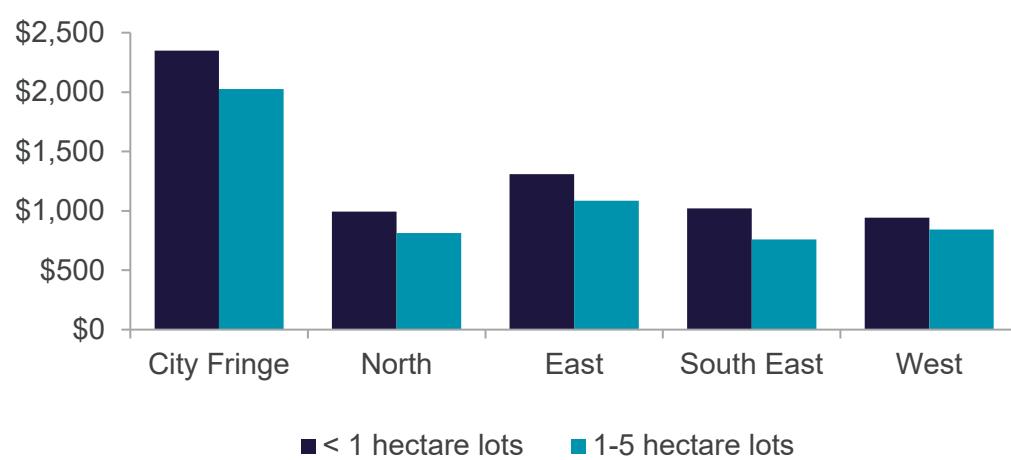
For 2026, there is potential for around 930,000 sqm of supply to enter the market. This is led by Amazon's fulfilment centre at Craigieburn (209,000 sqm), with the timing for this project being delayed. Excluding this development, two-thirds of the supply is yet to commence construction, with a large share being contingent on pre-commitments being secured. As a result, supply is likely to come in lower in reality.

Speculative supply for 2026 is forecast to drop almost 40% from 2025 levels. Melbourne's West is expected to see just 90,000 sqm of speculative supply for the year, which is its lowest level since 2018.

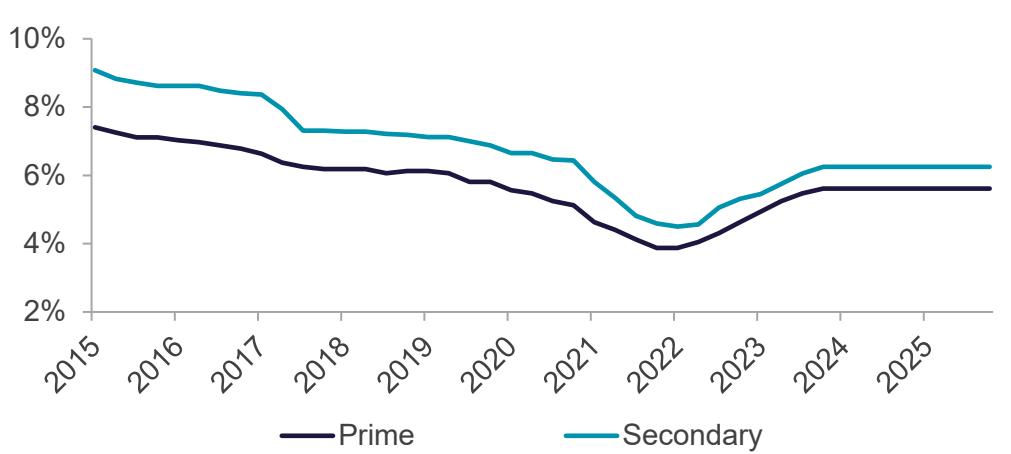
OUTLOOK

- Occupier demand in Melbourne is expected to improve through 2026, supported by a gradual recovery in consumer spending and continued population growth. Leasing activity is likely to remain weighted toward logistics and essential service occupiers, with ongoing consolidation and flight to quality underpinning demand for modern, higher-specification facilities, especially across the West and North submarkets.
- New supply is forecast to moderate as developers respond to softer net absorption conditions and development feasibility challenges. A greater reliance on pre-commitments is expected, which will limit the volume of speculative completions and reduce the risk of oversupply across the market.
- Melbourne's vacancy rate is anticipated to trend lower in 2026 as supply tapers, supporting higher levels of rental growth in select precincts.
- Rental growth in the order of 4.4% is expected for 2026, noting that effective growth is likely to be stronger as incentives begin to fall in line with lower supply.

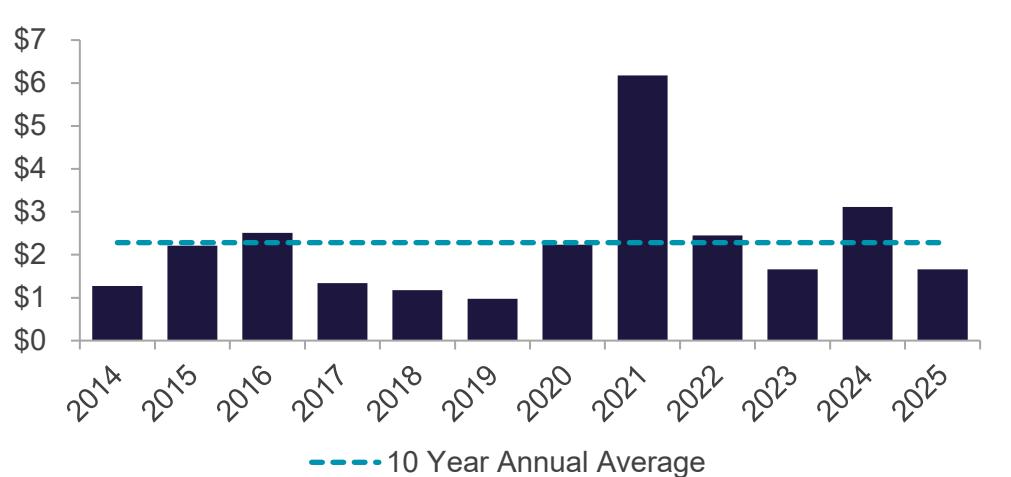
Q4 2025 LAND VALUES BY SIZE (\$/SQM)



YIELDS BY GRADE



INVESTMENT VOLUMES (\$B)



LAND VALUES

Industrial land values in Melbourne recorded a modest uptick in Q4 2025, albeit largely concentrated in the North. A clear pricing gap persists between owner-occupiers, including data centre operators, 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. Encouragingly, construction costs have recorded a modest decline, which in the absence of yield compression in 2026 should support development feasibility.

Industrial land values currently average \$879/sqm across the market for 1-5 hectare lots (\$1,066/sqm for <1 hectare lots and \$737/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 an impact on liquidity and pricing. This comes at a time when other cities around the country have continued to record 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 under \$1.3 billion trading 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 Wodonga (28 Bilton Drive, Barnawartha North). The buyer pool for assets priced below \$50 million is supported by private investors and family offices, with select campaigns recording eight or more bids.

Other notable sales to be recorded in Q4 2025 include the Melbourne-based assets as part of the Frasers and Morgan Stanley partnership, while Dexus sold The Dandenong Duo at Dandenong South to Dulux, who occupies the site for \$40.0 million.

OUTLOOK

- Industrial land values are expected to remain resilient, underpinned by planning constraints and limited serviced lot availability. While growth is likely to be more measured than the previous cycle, well-located infill sites and smaller lot sizes are forecast to outperform due to their scarcity.
- The recent uptick in inflation is expected to result in no further rate cuts in 2026; however, the weight of capital seeking to be deployed into the logistics sector is forecast to maintain pressure on pricing.
- Prime yields are expected to remain broadly stable in the near term as the foreign owner surcharge continues to impact liquidity. There may be scope for selective compression as demand intensifies for high-quality, well-leased assets, supported by the pricing gap to the Sydney market. Secondary yields are likely to remain more dispersed, reflecting asset quality, leasing risk and capex requirements, reinforcing a two-speed investment market.

Q4 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)
PRIME								
City Fringe	-	-	\$245	\$70	17.5%	5.50%	\$4,455	\$2,025
North	4.2%	324,469	\$146	\$25	20.3%	5.68%	\$2,577	\$750
East	1.5%	38,001	\$171	\$33	19.5%	5.58%	\$3,067	\$1,085
South East	3.0%	317,880	\$169	\$33	20.0%	5.53%	\$3,054	\$760
West	5.0%	574,173	\$154	\$30	24.2%	5.68%	\$2,709	\$833
PRIME AVERAGE	3.8%	1,254,523	\$160	\$30	21.0%	5.61%	\$2,852	\$857
SECONDARY								
City Fringe	-	-	\$195	\$70	17.5%	5.63%	\$3,467	-
North	-	-	\$125	\$28	12.5%	6.25%	\$2,000	-
East	-	-	\$140	\$33	19.5%	6.25%	\$2,160	-
South East	-	-	\$140	\$33	20.0%	6.25%	\$2,240	-
West	-	-	\$129	\$31	22.5%	6.25%	\$2,056	-
SECONDARY AVERAGE			\$132	\$31	18.6%	6.25%	\$2,114	-

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