



MARKET FUNDAMENTALS

	YOY Chg	Outlook
4.0% Vacancy Rate	▲	▼
5.61% Average Prime Yield	▬	▼
0.1% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
2.6% National GDP Growth	▲	▲
2.7% State Final Demand Growth	▲	▲
4.1% National Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW

Economic conditions remained steady through Q1 2026, supported by domestic demand and a tight labour market. Headline CPI was 3.8% year-on-year in January 2026, and the RBA lifted the cash rate to 3.85% in February and 4.10% in March. The higher-rate environment and rising geopolitical risks are near-term headwinds for occupier demand and investment, so any recovery is likely to be more measured than was forecast earlier this year. Looking ahead, growth is expected to be positive through 2026. Victoria's Gross State Product is forecast to expand by 2.0% in 2026, accelerating further to 3.0% in 2027.

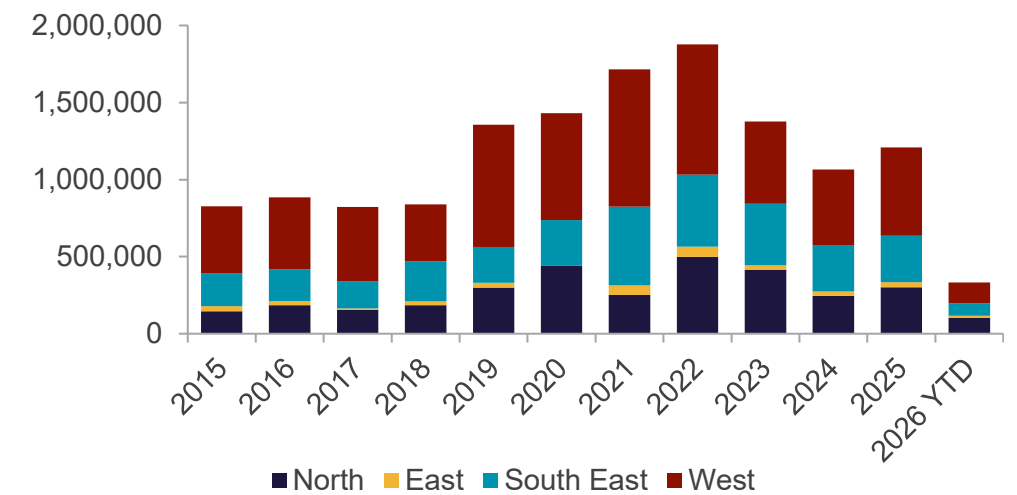
DEMAND

Despite ongoing delays in decision-making, Melbourne's leasing market maintained strong momentum in Q1 2026, with transaction volumes reaching approximately 340,000 sqm. Net absorption, however, returned to negative territory, contracting by almost 20,000 sqm, driven by the South East and East submarkets. In contrast, the West recorded its strongest quarterly net absorption since late 2024.

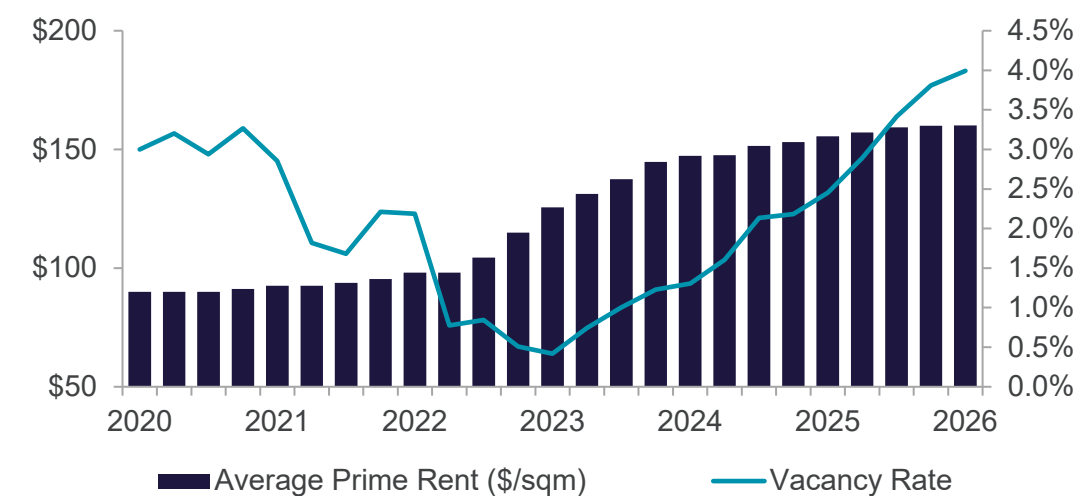
Leasing demand was strongest in the West and North, including deals to Ideal Logistics at 32 Titan Drive, Mickleham (85,788 sqm) and AustraCold leasing 22,163 sqm at Aliro's estate in Tottenham. Despite these larger transactions, almost 70% of deals by number in Q1 2026 were for tenancies below 10,000 sqm. More broadly, demand remains concentrated in prime and super prime assets, as occupiers favour facilities offering greater efficiency, automation capability and improved amenity.

The current geopolitical environment is expected to create a near-term headwind for occupiers, particularly transport and logistics businesses, as volatility in global energy markets increases freight costs. However, most occupiers continue to take a medium to long-term view of their space requirements, and leasing activity is expected to remain healthy. Melbourne's value proposition for occupiers remains strong, with gross rents around half those of Sydney, providing resilience.

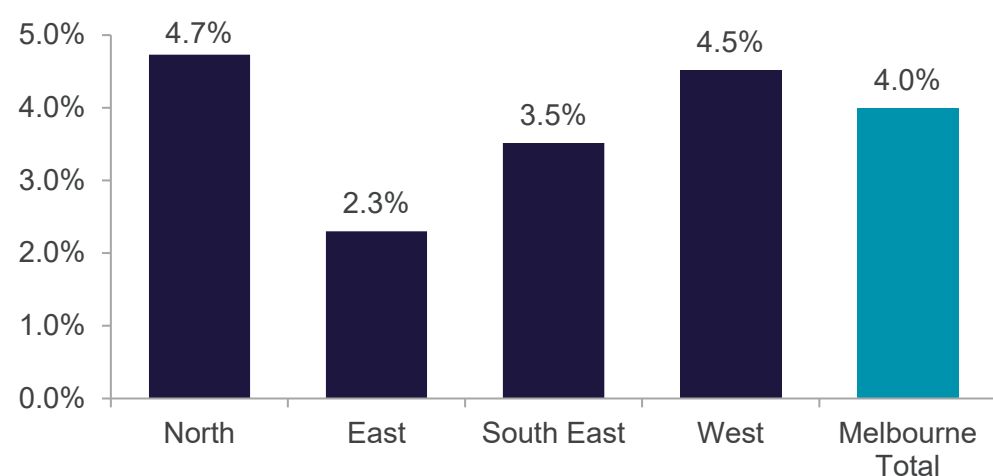
GROSS TAKE-UP (SQM)



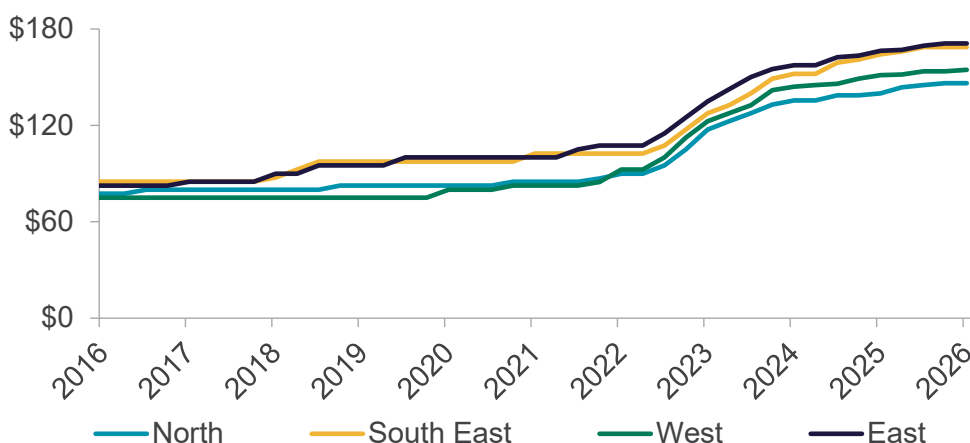
VACANCY & AVERAGE PRIME RENTS



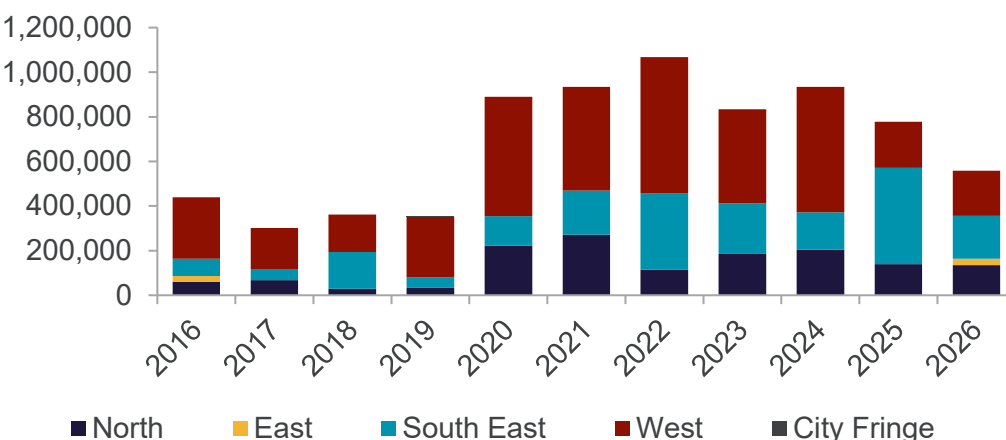
Q1 2026 VACANCY RATES BY SUBMARKET



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



SUPPLY BY SUBMARKET (SQM)



VACANCY

Despite the tapering off of new supply, Melbourne’s vacancy rate recorded a modest increase in Q1 2026, rising to 4.0% from 3.8% in Q4 2025. This result was largely the result of backfill leasing options becoming available across the city, particularly in the South East submarket. Alternatively, vacancy in the West submarket tightened to 4.5%, which is a trend set to continue given low levels of supply in the pipeline.

Sublease availability remains limited at just 0.4% of total stock, with the West accounting for approximately 75% of sublease space, driven by third-party logistics providers and retail occupiers.

RENTS & INCENTIVES

The pace of rental growth eased in Q1 2026, with prime rents increasing by just 0.1% over the period (year-on-year growth of 3.0%). The smaller end of the market continues to record healthier growth, reflecting the sweet spot for tenant demand (sub-10,000 sqm tenancies). Prime rents currently average \$160/sqm across the city, while pre-lease rents range from \$145/sqm in the West and North to \$165/sqm in the South East.

Incentives have broadly stabilised, with only modest increases recorded in select South East submarkets. Prime incentives currently range between 17.0% and 30.0%, with outer ring precincts in the West and North at the upper end of this range.

SUPPLY

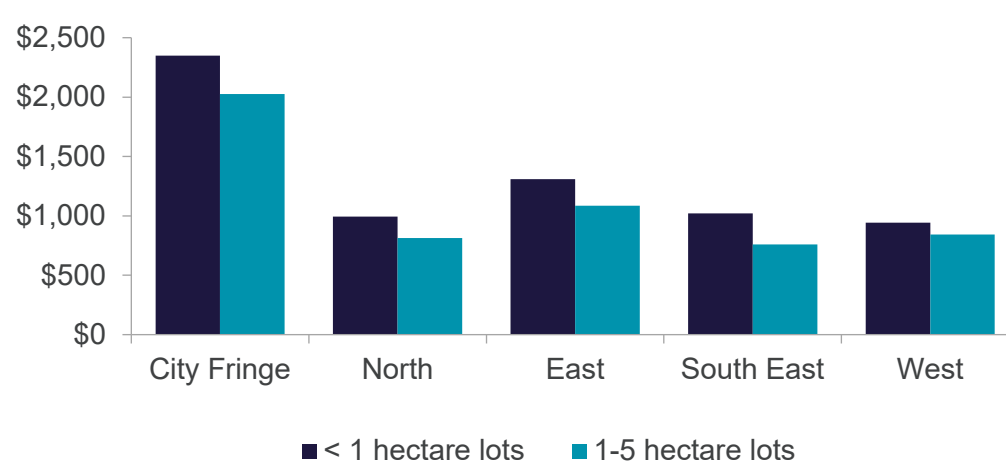
Melbourne’s supply pipeline has been revised much lower for 2026, with just over 550,000 sqm in the pipeline for the year. Notably, this represents the lowest level of supply since 2019, with the revised figure headlined by the delay of Amazon’s 209,000 sqm fulfilment centre at Craigieburn to mid 2027.

Approximately 60% of the 2026 stems from speculative developments; albeit speculative completions for the year are 41% below the level recorded over the past two years. The pullback has been most apparent in the West and North submarkets, with the next 12 months providing a window of opportunity for developers with development-ready land to deliver speculative floorspace into a market with minimal competing options.

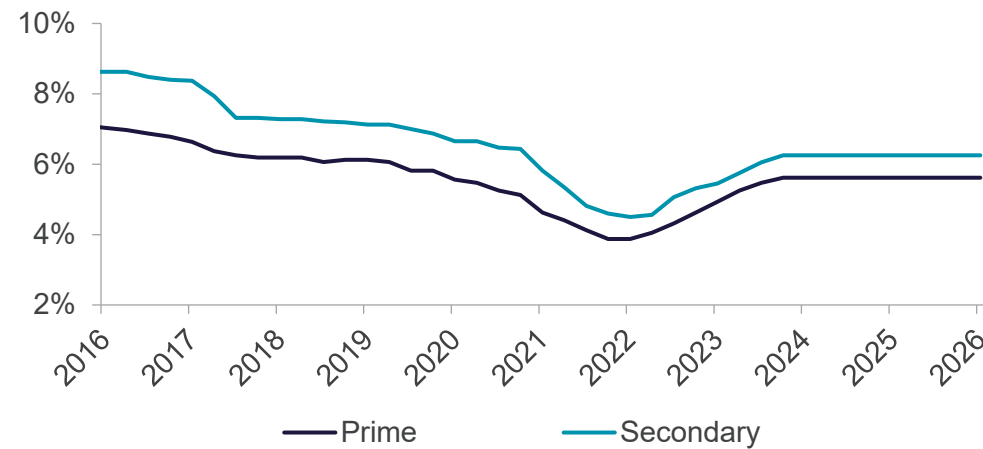
OUTLOOK

- While gross leasing volumes are expected to remain healthy in 2026, supported by attractive net effective rents, net absorption is likely to be more measured than forecast at the end of 2025. This reflects the ongoing flight to quality, with occupiers achieving greater efficiencies and, in some cases, requiring a similar or smaller footprint in new facilities.
- Current geopolitical developments are likely to weigh on occupier sentiment in the near term, particularly among 3PL operators, given the sharp escalation in fuel costs and the associated pressure on operating margins.
- A key near-term watchpoint is consumer confidence and household spending, both of which are critical to logistics demand. Consumer confidence indicators have fallen sharply in recent weeks and are likely to result in a pullback in discretionary retail spending. However, savings rates remain healthy and should provide a short-term buffer.
- Even under more moderate net absorption, vacancy rates are expected to face downward pressure, given the sharp pullback in speculative supply.

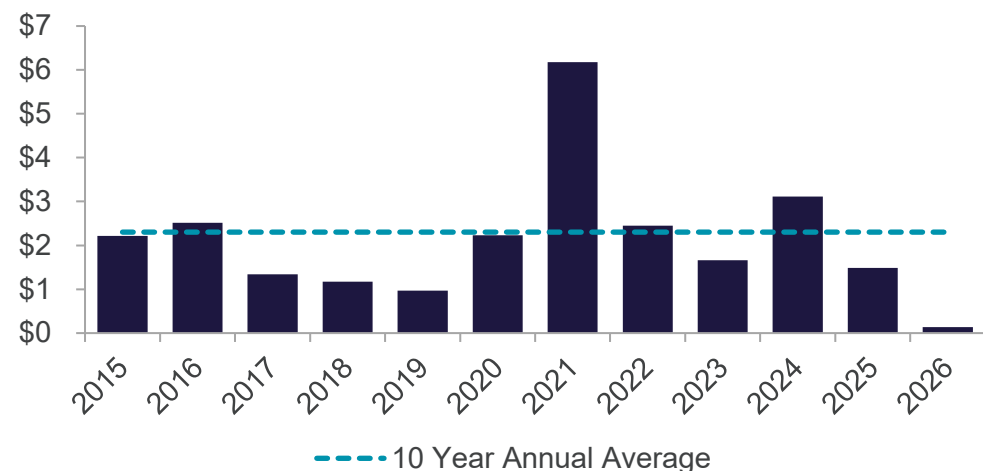
Q1 2026 LAND VALUES BY SIZE (\$/SQM)



YIELDS BY GRADE



INVESTMENT VOLUMES (\$B)



LAND VALUES

Industrial land values in Melbourne were largely maintained in Q1 2026, averaging \$879/sqm for 1-5 hectare lots (\$1,066/sqm for <1 hectare lots and \$737/sqm for 5+ hectare lots).

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 sustained construction costs continuing to challenge the feasibility of new development. Higher funding costs given the 50-basis point increase in the cash rate will only add to feasibility challenges.

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 affect liquidity and pricing. In addition, two interest rate rises and the subsequent increase in funding costs so far in 2026 have tempered any possibility of yield compression towards the end of 2026.

The 90-day BBSW has increased to approximately 4.2% over the quarter, which, when combined with prevailing lending margins, has pushed all-in debt costs above 5.4%. While this will create a near term headwind to return hurdles, investors are increasingly adopting a medium-term view on monetary policy, with expectations that easing will occur in late 2027 as inflation moderates, providing a more supportive backdrop for pricing.

INVESTMENT

Investment volumes continue to track well below historical levels, with just under \$140 million trading in Q1 2026 (investment and owner-occupier transactions above \$10 million). Volumes remain weak at the larger end of the market, with no transactions above \$50 million. Looking ahead, larger asset campaigns will launch imminently, providing a test case for assets of scale in the Melbourne market.

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.

Notable sales to be recorded in Q1 2026 include Centennial selling 17-39 Freight Drive, Somerton to Terraplex for \$42.5 million, while Keneco Property acquired 96-104 Fairbank Road, Clayton South for \$21.2 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.
- Inflationary pressure and the flow on impact to interest rates and debt costs are expected to create a disconnect in pricing for assets without a clear pathway to meet return hurdles. However, pricing outcomes will continue to be driven by capital composition, asset quality and income durability rather than by incremental rate movements alone.
- Given the 50 basis point increase in the cash rate recorded to date, upward pressure on yields is likely, particularly for less functional assets as risk becomes more appropriately priced in.

Q1 2026 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	4.7%	102,176	\$146	\$25	20.3%	5.68%	\$2,577	\$750
East	2.3%	13,640	\$171	\$33	19.5%	5.58%	\$3,067	\$1,085
South East	3.5%	81,194	\$169	\$33	22.5%	5.53%	\$3,054	\$760
West	4.5%	134,939	\$155	\$37	24.2%	5.68%	\$2,724	\$833
PRIME AVERAGE	4.0%	331,949	\$160	\$32	21.6%	5.61%	\$2,856	\$857
SECONDARY								
City Fringe	-	-	\$195	\$70	17.5%	5.63%	\$3,467	-
North	-	-	\$125	\$28	12.5%	6.25%	\$2,000	-
East	-	-	\$135	\$33	19.5%	6.25%	\$2,160	-
South East	-	-	\$140	\$33	22.5%	6.25%	\$2,240	-
West	-	-	\$129	\$31	22.5%	6.25%	\$2,056	-
SECONDARY AVERAGE			\$132	\$31	19.3%	6.25%	\$2,114	-

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