MELBOURNE
LOGISTICS & INDUSTRIAL Q2 2026

MARKET FUNDAMENTALS

	YOY Chg	Outlook
4.2% Vacancy Rate	▲	▼
5.7% Average Prime Yield	▲	▼
0.2% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
2.5% National GDP Growth	▲	▲
3.5% Gross State Product Growth	▲	▲
4.3% National Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW

Economic conditions remain mixed, with growth moderating while inflationary pressures continue to build. GDP rose by 0.3% in the March quarter and 2.5% over the year, reflecting softer household and government consumption. Meanwhile, headline CPI rose 4.2% year-on-year in April, while trimmed mean inflation ticked higher to 3.4%.

The RBA held the cash rate at 4.35% in June following three increases earlier in 2026; however, the full impact of tighter monetary policy will continue to flow through the economy over coming months. Victoria is set to record economic growth of 1.3% for 2026, before a jump to 2.7% in 2027.

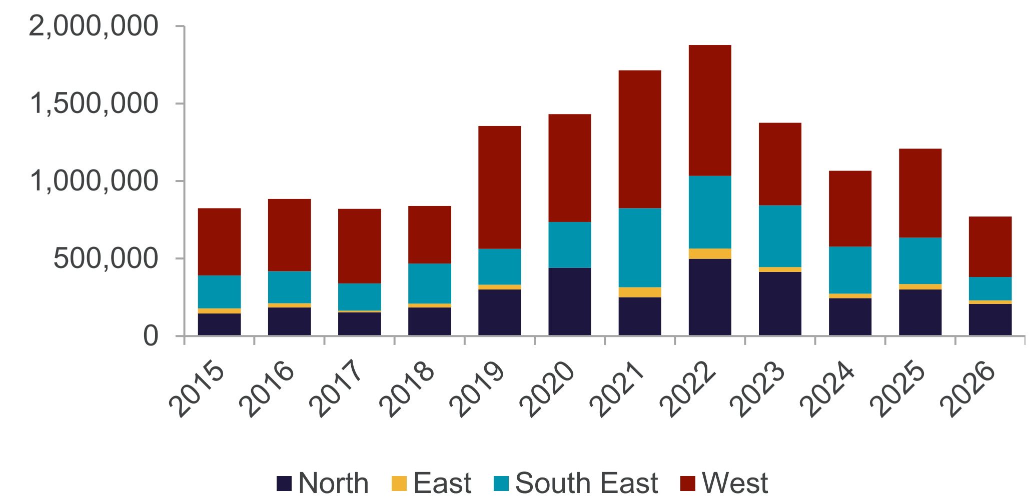
DEMAND

Melbourne's occupier market delivered a solid quarter of leasing activity, with gross take-up approaching almost 430,000 sqm and H1 2026 volumes reaching approximately 770,000 sqm. Melbourne's West remains the most active, with volumes already reaching 390,000 sqm for the year and stems from larger deals including The Collagen Co committing to 21,000 sqm with Aliro in Tottenham, while several larger speculative options that have sat vacant for an extended period have since been leased.

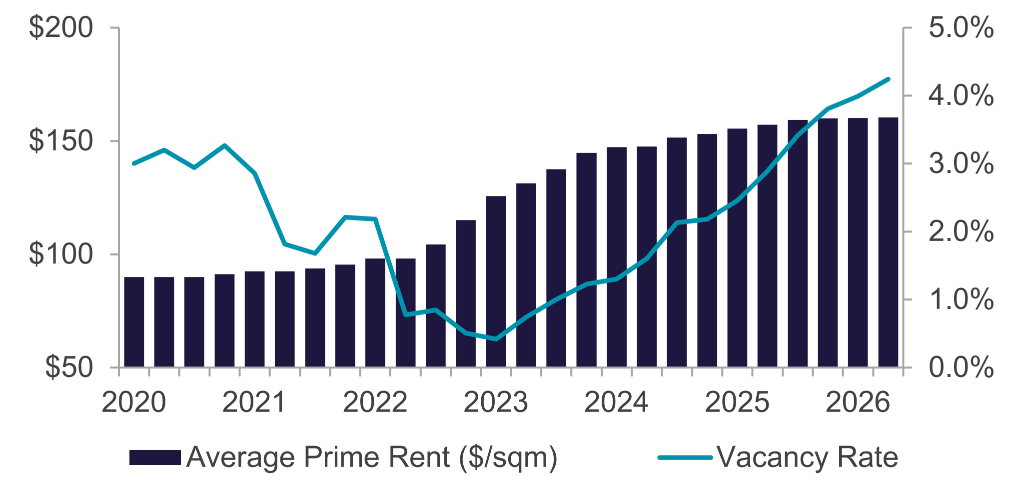
While transaction volumes remain healthy, net absorption declined by 38,090 sqm in Q2 2026, highlighting the differing pace of occupier expansion and the influence of new supply across individual submarkets. Many occupiers are using lease events to upgrade facilities, consolidate operations and improve supply chain efficiency rather than materially expand their footprint.

The market continues to exhibit a two-speed dynamic. Well-located, modern assets are attracting sustained demand, while older and less functional stock faces a more challenging leasing environment. This divergence is reinforcing the flight-to-quality trend, with almost 85% of space leased over the past quarter being for prime grade space. Higher incentives are helping offset relocation costs, with early access proving to be a factor in a stay vs go assessment for occupiers.

GROSS TAKE-UP (SQM)



VACANCY & AVERAGE PRIME RENTS



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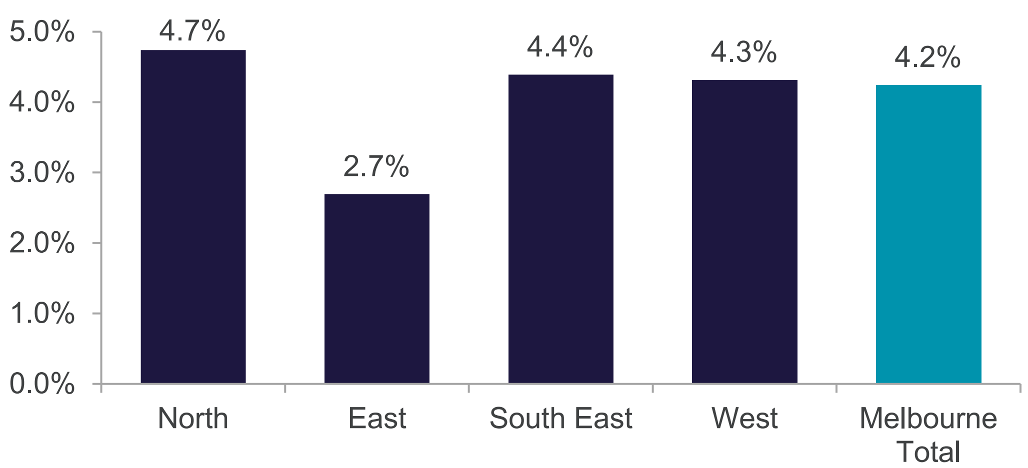
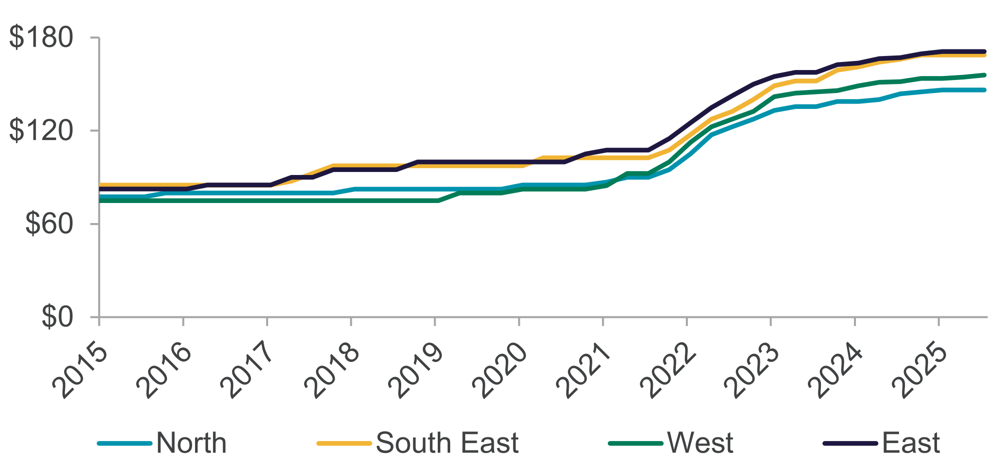
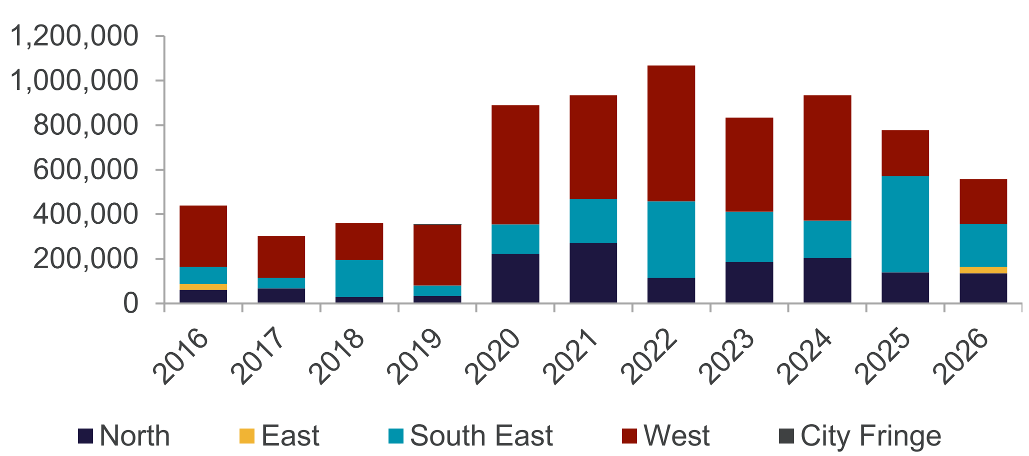
Q2 2026 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET ($/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

Despite solid leasing activity, Melbourne's vacancy rate recorded a modest increase in Q2 2026, rising to 4.2% from 4.0% in the quarter prior. The increase was primarily driven by speculative completions in fringe South East precincts, including ESR and Brookfield at Pakenham. Alternatively, vacancy in the West submarket tightened to 4.3%, which is the lowest it's been in 12 months and 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 and remains skewed by a handful of larger options including TTI's space at Melbourne Airport.

RENTS & INCENTIVES

Prime rents were broadly stable in Q2 2026, averaging $166/sqm across the city for existing stock (North and West submarkets closer to $150/sqm), while pre-lease rents range from $145/sqm in the West and North to $165/sqm in the South East. Despite the lack of growth, enquiry remains strongest for stock sized below 10,000 sqm which is expected to support upward pressure in the second half of 2026.

Incentives have stabilized and 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 lower again for 2026, with approximately 520,000 sqm in the pipeline for the year. Notably, around 75% of this supply is due to come online in the second half of 2026 and as a result, this pipeline is likely to be lower again as the timing of projects is pushed to 2027. Notwithstanding, 2026 will see the lowest volume of supply since 2019.

For 2027, there is the potential for 650,000 sqm to enter the market. However, the bulk of this stems from Amazon's 209,000 sqm fulfilment centre at Craigieburn, meaning uncommitted supply will remain anchored at low levels. Melbourne's West, which is the country's largest submarket has minimal speculative projects in the pipeline to the end of 2027, providing a window of opportunity for developers with development-ready land to deliver floorspace into a market with minimal competing options.

OUTLOOK

- Leasing activity is expected to remain resilient through the second half of 2026, supported by Melbourne's relative affordability, healthy enquiry levels and ongoing occupier relocations and consolidations.
- Gross leasing volumes are expected to continue outpacing net absorption as occupiers rationalise their footprints and transition into more efficient, higher-quality facilities.
- The pullback in speculative completions and ongoing project deferrals are expected to place further downward pressure on vacancy over the medium term, particularly in Melbourne's West where the future supply pipeline remains limited.
- Rental growth should remain modest but positive, while scope for a reduction in incentives in select locations is likely towards the end of 2026.

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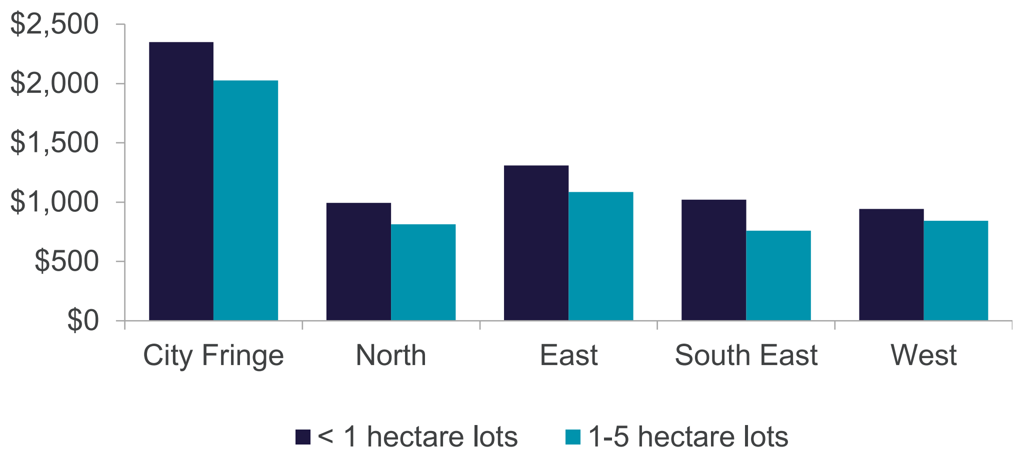
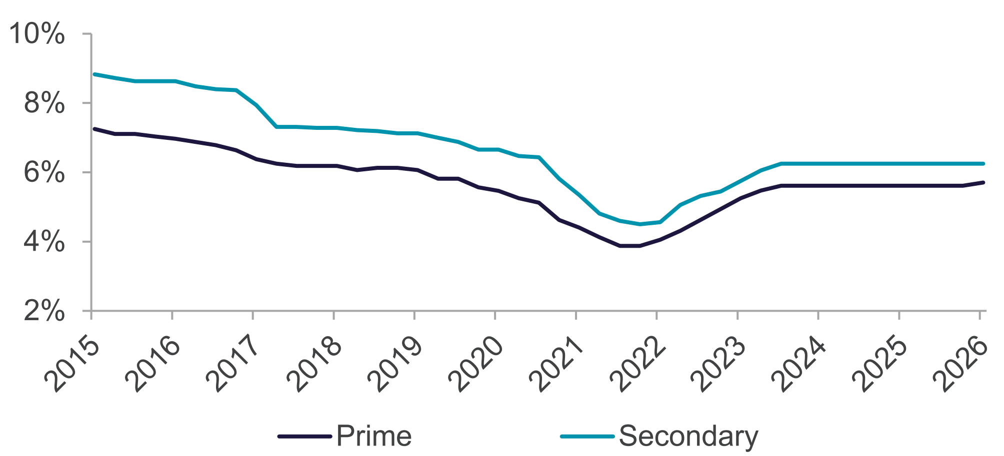
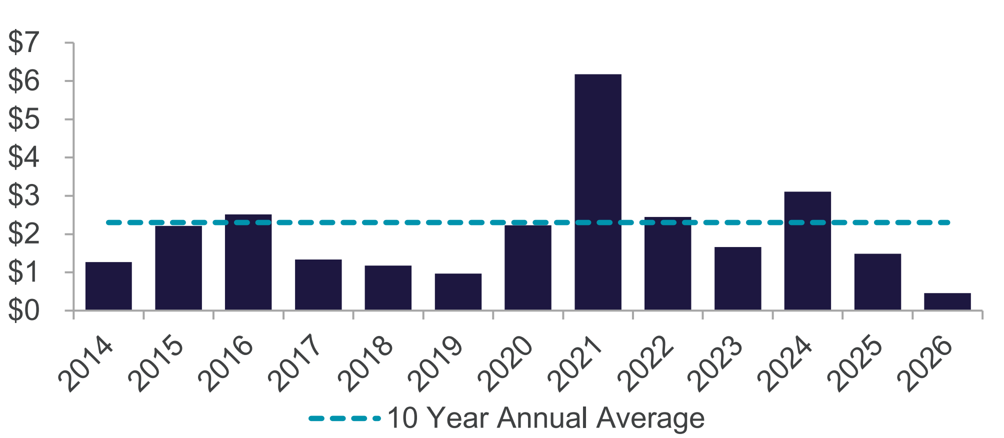
Q2 2026 LAND VALUES BY SIZE ($/SQM)



YIELDS BY GRADE



INVESTMENT VOLUMES ($B)



LAND VALUES

Industrial land values in Melbourne were maintained in Q2 2026, averaging $879/sqm for 1-5 hectare lots ($1,066/sqm for <1 hectare lots and $737/sqm for 5+ hectare lots). However, land values remain double the rate they were at the start of 2020.

Demand for industrial land remains solid, underpinned by Dexus' partnership with Boral which will see them develop 630 hectares of land at Ravenhall in Melbourne's West. Similarly, data centre demand continues unabated and includes CDC being in due diligence to acquire 34 hectares in Melbourne's West. Pricing for the site is in the order of $1,300/sqm, with the pricing gap persisting between data centre operators and institutional developers.

YIELDS

A further 25 basis point interest rate rise in the quarter has resulted in a modest 9 basis point expansion in yields, with prime core market yields broadly averaging between 5.50% and 6.00%. However, recent evidence continues to show initial yields well below this range. Buyer depth remains dominated by domestic capital, with the foreign owners' land tax surcharge in Victoria continuing to affect liquidity and pricing.

The 90-day BBSW has increased to approximately 4.4% over the quarter, which, when combined with prevailing lending margins, has pushed all-in debt costs above 5.6%. 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

Despite ongoing tax headwinds in Victoria, investment volumes in Melbourne have improved from 2025 levels, with approximately $450 million transacted year-to-date. While activity remains concentrated in the sub-$50 million segment, a number of larger transactions are close to completion and should provide greater clarity on pricing for institutional-grade assets.

Recent transactions include Kinkora Investments' acquisition of 202-228 Greens Road, Dandenong South from Dexus for $50 million. Industrial outdoor storage (IOS) assets also continue to attract strong investor interest, with Kinkora Investments also purchasing 642-658 Footscray Road, West Melbourne for $35.2 million.

OUTLOOK

- Investor sentiment is expected to gradually improve as capital gains greater confidence in the interest rate outlook, although transaction activity is likely to remain muted as investors continue to be highly selective.
- While financing costs remain elevated, many investors are increasingly underwriting acquisitions on the basis that interest rates are nearing their peak.
- Development-ready industrial land will continue to attract strong interest from both logistics developers and data centre operators, reinforcing pricing for well-located sites despite broader development challenges.
- Capital values and yields are expected to remain differentiated by asset quality. Prime assets with secure income streams are likely to continue attracting competitive bidding, while secondary and non-core properties may face greater pricing scrutiny as investors remain disciplined on return hurdles.

Q2 2026 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)	AVERAGE LAND VALUES (1-5ha, $/SQM)
PRIME								
City Fringe	-	-	$245	$70	17.5%	5.50%	$4,455	$2,025
North	4.7%	206,870	$146	$25	20.3%	5.68%	$2,577	$750
East	2.7%	24,527	$171	$33	19.5%	5.58%	$3,067	$1,085
South East	4.4%	149,124	$169	$33	22.5%	5.53%	$3,054	$760
West	4.3%	390,500	$155	$37	24.2%	5.68%	$2,724	$833
PRIME AVERAGE	**4.2%**	**771,021**	**$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**	**-**

DEFINITIONS:

Prime: *Built since 2010, with warehouse clearances above 10 metres (super prime above 13.5 metres), ESFR sprinkler systems, B-double approved access and strong ESG credentials, including Green Star and/or NABERS ratings.*

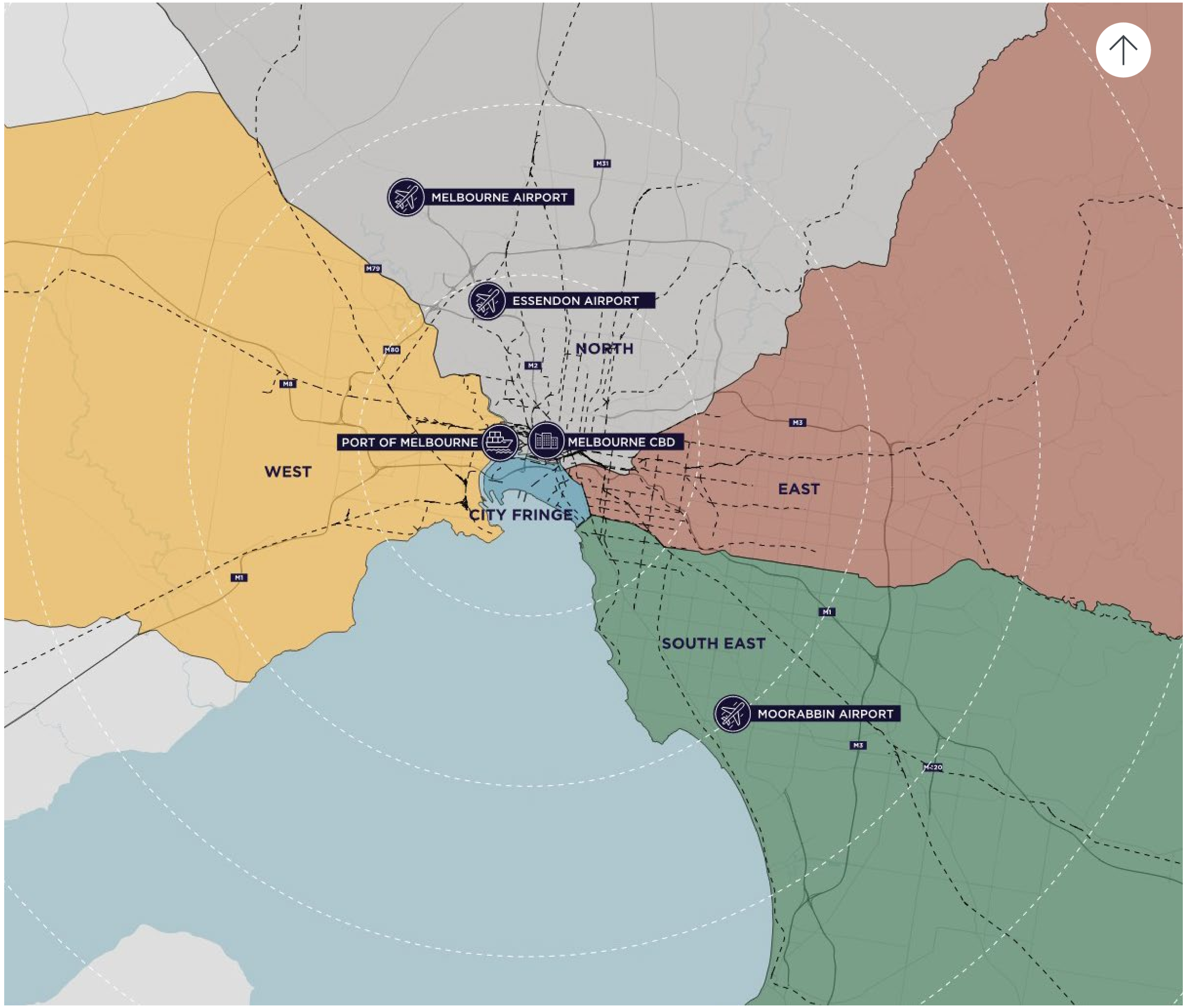
Secondary: *Built prior to 2010 with clearances between 8m and 11m, lower specifications than prime assets which provide lower warehouse efficiency.*

Gross Take-up: *The total floor space leased during a specified period above 3,000 sqm, excluding lease renewals.*

Net Absorption: *The net change in occupied floor space over a specified period, reflecting changes in tenant occupancy.*

Vacancy Rate: *Buildings above 3,000 sqm that are available now. This includes existing buildings, completed speculative buildings and sublease space.*

MELBOURNE SUBMARKET OVERVIEW



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