

MARKET FUNDAMENTALS

	YOY Chg	Outlook
4.4% Vacancy Rate	▲	▼
5.8% Average Prime Yield	▲	▬
0.8% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
2.1% National GDP Growth	▲	▲
2.9% Gross State Product Growth	▲	▲
4.4% National Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW

Economic conditions remain mixed, with growth improving modestly while inflationary pressures remain elevated. GDP rose by 0.4% in the June quarter and 2.1% over the year, marking a slight improvement in quarterly growth despite a moderation in the annual rate. Meanwhile, headline CPI reached 3.5% year-on-year in July, while trimmed mean inflation rose to 3.6%, indicating that underlying inflation remains persistent.

The RBA raised the cash rate by 25 bps to 4.60% in September, while signaling that further tightening may be required if inflation remains above target. Victoria’s State Final Demand is forecast to grow by 1.8% in 2026, before strengthening to 2.6% in 2027.

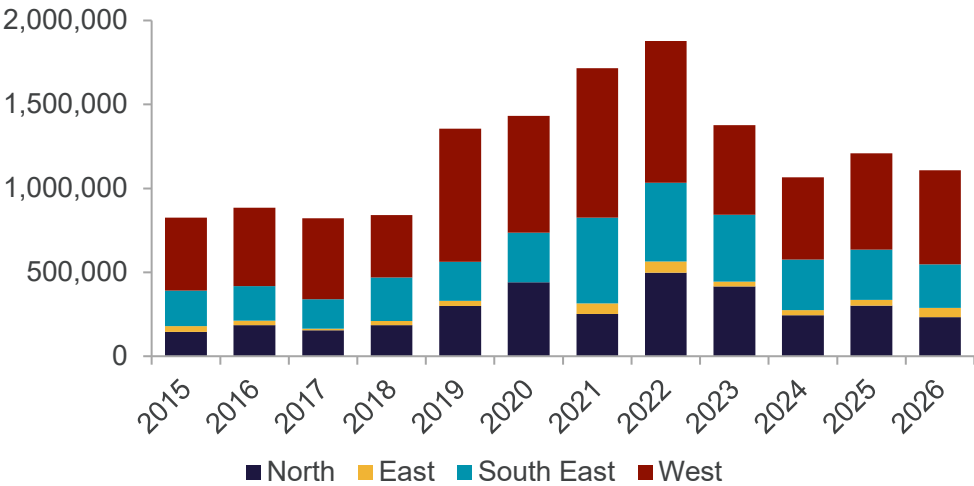
DEMAND

Melbourne continued to record healthy leasing activity through Q3 2026, supported by elevated availability and incentives which is supporting occupier relocations. Gross take-up reached just over 375,000 sqm for the quarter, taking 2026 volumes to 1.1 million sqm, aided by increased deal activity above 20,000 sqm and included commitments to JB Hi-Fi and DHL in Melbourne’s West. Notwithstanding the increase in larger transactions, tenant demand remains strongest in the 3,000–10,000 sqm size bracket, which accounted for 60% of deal activity in Q3 2026.

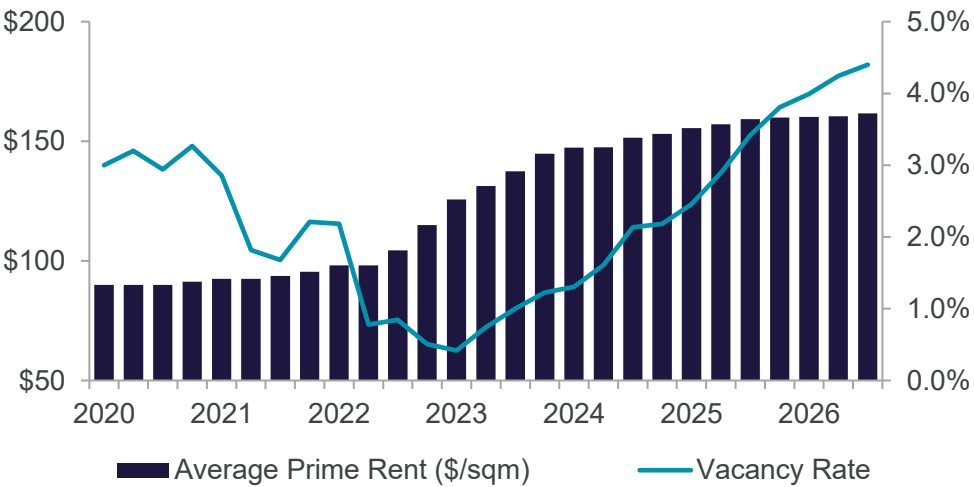
Leasing decisions remain increasingly focused on operational efficiency and network optimisation. Occupiers continue to prioritise modern facilities offering greater warehouse efficiency, automation capability and improved labour accessibility, while expansionary requirements remain selective. Reflecting the flight to quality theme, almost 85% of space leased in the past quarter was for prime grade space.

Encouragingly, net absorption turned positive for the first time in 2026, reaching almost 55,000 sqm and was led by the South East and West submarkets. While year-to-date absorption remains subdued, select occupiers continue to expand materially. This includes Dollarama, whose ~25,000 sqm commitment at Derrimut represents an entirely expansionary requirement.

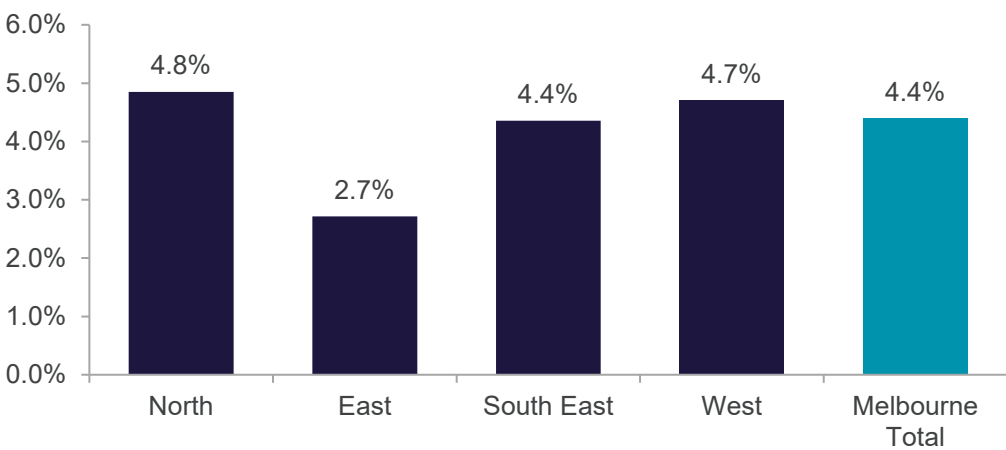
GROSS TAKE-UP (SQM)



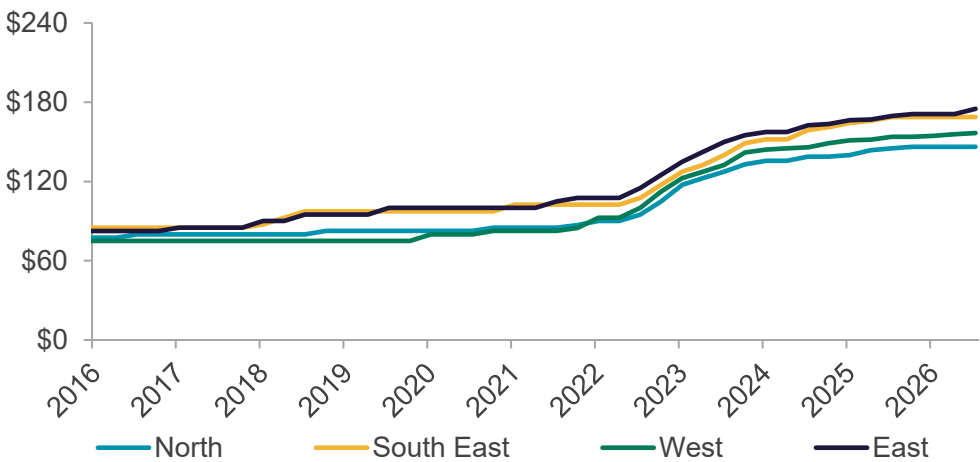
VACANCY & AVERAGE PRIME RENTS



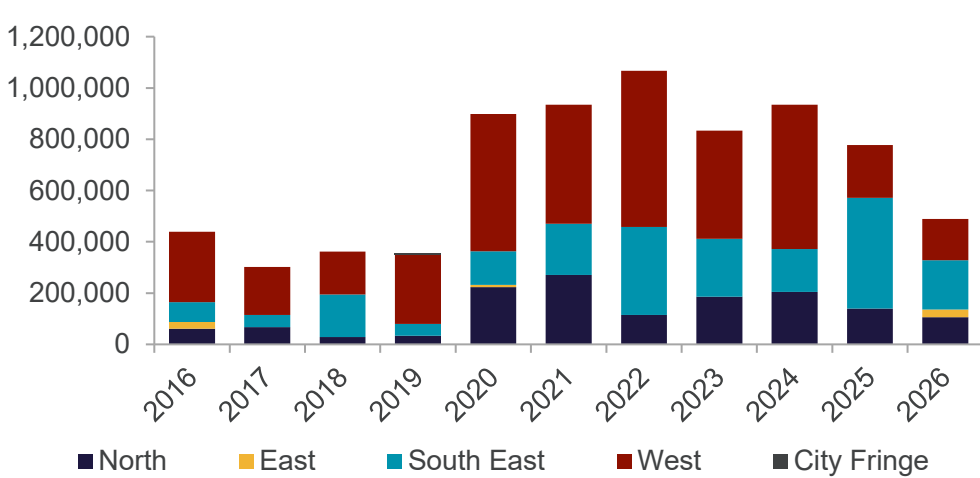
Q3 2026 VACANCY RATES BY SUBMARKET



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



SUPPLY BY SUBMARKET (SQM)



VACANCY

Melbourne’s vacancy rate increased to 4.4% in Q3 2026 as new speculative facilities reached completion and occupier relocations released secondary backfill space. The increase remains uneven across the city, with the North recording the highest vacancy rate at 4.8%, followed by the West at 4.7%. Importantly, much of the recent increase in vacancy across these two markets has stemmed from older and less functional facilities.

Availability in the South East continues to be influenced by recently completed projects and larger options in fringe precincts. Pakenham and Cranbourne West currently account for over a third of available space across the submarket highlighting the concentration of vacancy within Melbourne’s growth corridors rather than established infill precincts.

RENTS & INCENTIVES

As the market continues to digest current supply, prime net face rents recorded only modest growth of 0.8% through Q3 2026, with the city-wide average reaching approximately \$162/sqm. Rental levels remain materially lower in the North and West than in Melbourne’s established eastern precincts, preserving Melbourne’s relative affordability for large occupiers.

Incentives remain elevated and vary materially by location, generally ranging from 15.0% to 30.0% for prime stock. Outer precincts remain at the upper end of the range, although landlords are using incentives selectively to maintain face rents and secure longer lease commitments.

SUPPLY

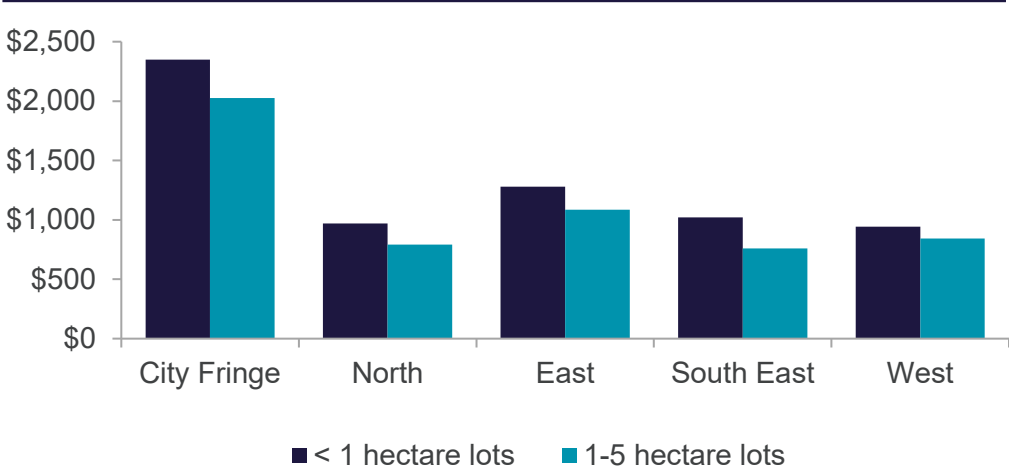
Melbourne’s near-term development pipeline is constrained by project deferrals and more conservative development strategies. Just 217,000 sqm has been delivered so far in 2026, with a further 270,000 sqm expected in Q4, led by the South East. This includes approximately 40,000 sqm at Frasers/ESR’s Rise Industrial Estate in Cranbourne West and new space from Aliro at 48 Assembly Drive, Dandenong South. Speculative supply across the West and North remains limited, with upcoming completions including space within Aware Super’s Somerton estate.

Looking to 2027, more than 750,000 sqm could enter the market, although a significant share stems from Amazon’s 209,000 sqm fulfilment centre at Craigieburn. Speculative supply stands at almost 260,000 sqm, the lowest level since 2019.

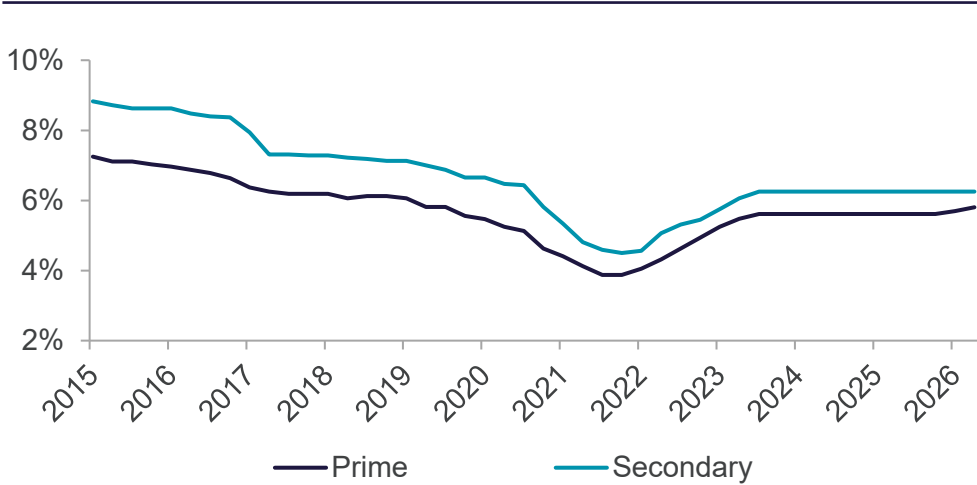
OUTLOOK

- Melbourne’s relative affordability and greater availability are expected to support leasing activity from national and global occupiers. However, gross take-up is likely to continue outpacing net absorption as relocations release backfill space.
- Vacancy is anticipated to remain elevated relative to recent cyclical lows but is anticipated to stabilise as new supply eases. Conditions are expected to vary materially by precinct, with vacancy likely to remain higher within parts of the South East due to planned supply.
- The comparatively low speculative development pipeline will prevent a material oversupply scenario from emerging. Future supply growth is increasingly dependent on stronger pre-commitment activity and improved development feasibility.
- Rental growth is expected to remain positive but moderate, with landlords continuing to prioritise face rent preservation through incentives. As available space is absorbed and new supply moderates, incentive levels may begin to compress across select prime precincts through 2027.

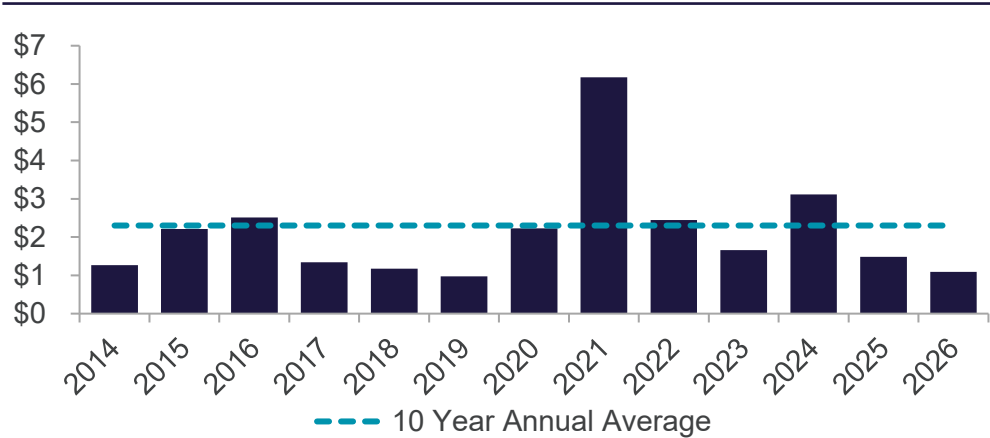
Q3 2026 LAND VALUES BY SIZE (\$/SQM)



YIELDS BY GRADE



INVESTMENT VOLUMES (\$B)



LAND VALUES

Industrial land values in Melbourne remained stable through Q3 2026, averaging around \$870/sqm for 1-5 hectare lots. Despite limited recent growth, values are approximately double early-2020 levels, with elevated construction and funding costs continuing to constrain the price developers can pay for traditional industrial sites.

Demand for well-located, development-ready land remains solid, although pricing is increasingly differentiated by end use. Data centre operators continue to support higher land values across select western precincts, maintaining a pricing premium to traditional industrial developers.

YIELDS

Despite higher borrowing costs and bond yields, prime industrial yields have held relatively resilient through Q3 2026, recording only modest outward movement. Recent sales evidence has supported some softening in pricing, reflecting greater investor selectivity and continued softness in offshore buyer participation given Victoria’s foreign owner land tax surcharge. Prime core market yields broadly range between 5.50% and 6.00%, although recent transactions have occurred outside this range depending on asset location and building characteristics.

Elevated debt costs continue to weigh on return hurdles and have increased investor sensitivity to asset quality, income growth and capital expenditure requirements. While competition for high-quality assets continues to support pricing, further outward yield movement remains possible should additional RBA rate increases occur or bond yields are sustained at current levels.

INVESTMENT

Investment volumes exceeded \$250 million in Q3 2026, taking year-to-date activity to almost \$1.1 billion. In contrast to 2025, activity has increased across the \$50 million-plus price segment, although individual transactions of significant scale remain limited.

Buyer depth remains weighted towards domestic capital, with Victoria’s current tax settings continuing to constrain offshore participation.

Recent transactions include ESR-REIT’s acquisition of 18 Foxley Court, Derrimut for \$52.5 million from Centuria, while Cadence acquired 80-86 Canterbury Road, Kilsyth for \$56.0 million from Fife Capital.

OUTLOOK

- Development-ready land is expected to continue to attract interest, particularly where sites offer logistics or data centre optionality. However, elevated funding and development costs are expected to limit broader land value growth, reinforcing pricing differences between traditional industrial and higher-value uses.
- Further outward yield movement remains possible should the RBA tighten monetary policy further or bond yields remain elevated. Prime assets are anticipated to remain comparatively resilient, while secondary and less functional assets are likely to face greater pricing pressure as investors reassess return hurdles.
- Buyer depth is expected to remain weighted towards domestic capital, although offshore capital may reengage soon given the current yield spread to the Sydney market.

Q3 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	20.0%	5.50%	\$4,455	\$2,025
North	4.8%	232,359	\$146	\$26	20.9%	5.93%	\$2,468	\$750
East	2.7%	55,430	\$175	\$33	22.5%	5.75%	\$3,043	\$1,085
South East	4.4%	259,604	\$169	\$33	25.0%	5.75%	\$2,935	\$760
West	4.7%	559,810	\$157	\$38	24.2%	5.80%	\$2,701	\$833
PRIME AVERAGE	4.4%	1,132,203	\$162	\$32	23.2%	5.81%	\$2,787	\$857
SECONDARY								
City Fringe	-	-	\$195	\$70	22.0%	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			\$132	\$39	22.5%	6.25%	\$2,112	
SECONDARY AVERAGE			\$133	\$33	19.3%	6.25%	\$2,128	-

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.

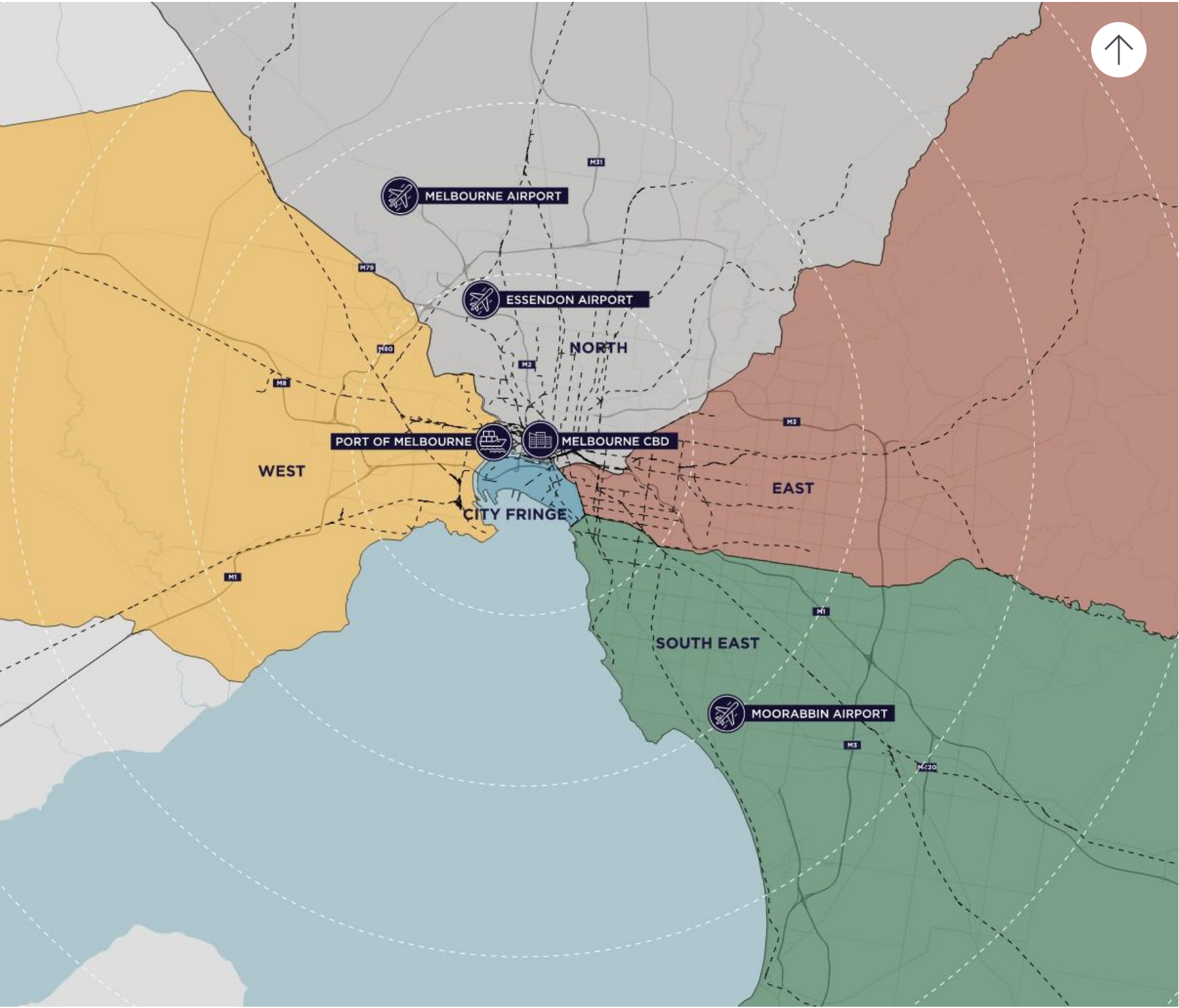
Secondary: Built prior to 2010 with clearances between 8m and 11m, lower specifications than prime assets which provide lower warehouse efficiency.

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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