MARKETBEAT
MELBOURNE
LOGISTICS & INDUSTRIAL Q3 2024

MARKET FUNDAMENTALS

	Q3 2024	12-Month Forecast
2.1% Vacancy Rate	▲	▲
5.61% Average Prime Yield	▬	▼
2.7% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YoY Chg	12-Month Forecast
1.0% (National) GDP Growth	▼	▼
1.4% (Victoria) State Final Demand Growth	▼	▲
4.2% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW

The second-quarter GDP release was a key highlight among recent economic updates. It showed real growth slowing, with GDP increasing by 1% in the year to June 2024. Adjusted for population growth, however, per capita GDP declined by 1.5%, indicating weaker economic output per person. This highlights the economy's growing reliance on population growth, as net overseas migration surged to over 70,000 in Q2, contributing significantly to overall economic activity and helping offset productivity challenges.

Oxford Economics forecasts Victoria's gross state product to increase 1.7% over 2024 before recovering to grow 4.1% in 2025 and 4.3% in 2026.

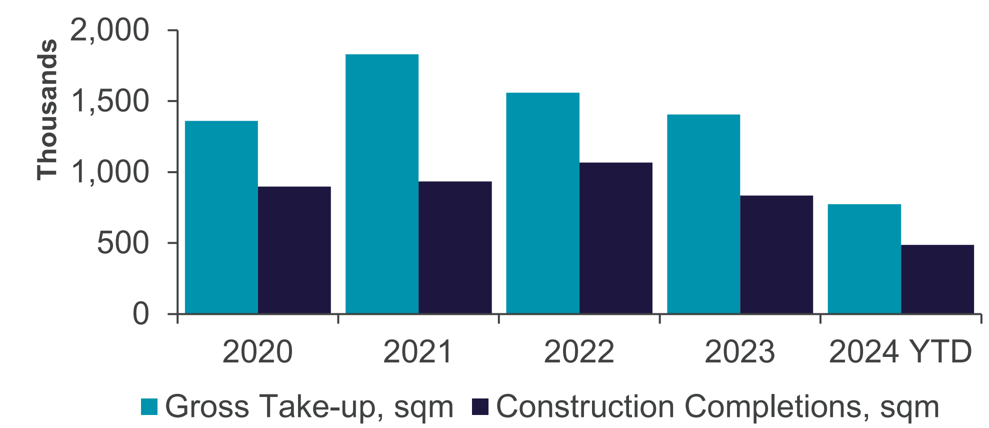
DEMAND

Following an inactive first half of 2024 compared to the levels recorded over the past three years, take-up increased substantially in Q3 2024 with just over 288,000 sqm leased (new lease deals above 3,000 sqm). This was the highest quarterly total in a year and brings the year-to-date total for 2024 to approximately 750,000 sqm, with the market on track to see more than 1.0 million sqm of take-up in 2024, representing the sixth consecutive year of such activity.

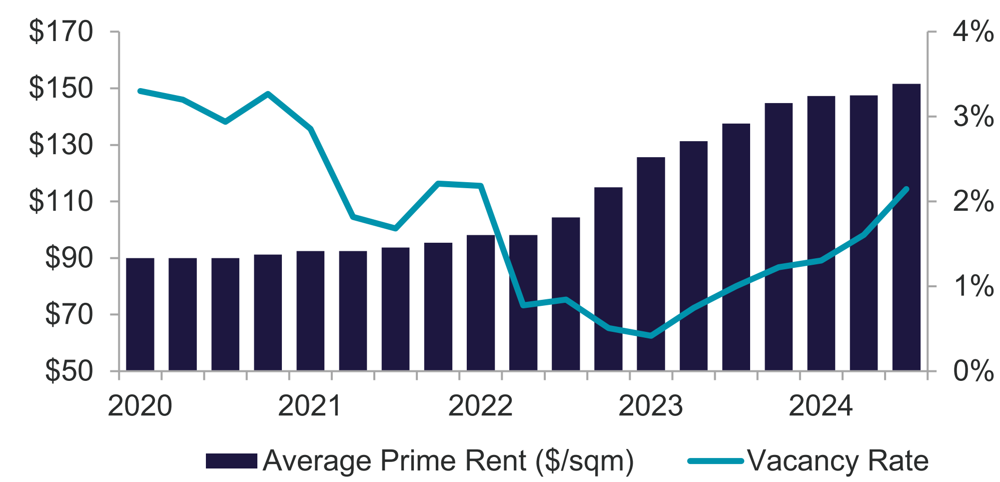
The majority of leasing transactions in the quarter were for existing facilities (60% of deals), while pre-lease activity remains subdued, accounting for 24% of floorspace leased in Q3 2024, down from the 2020-2023 average of 38%. However, rising incentives in select markets is expected to underpin further pre-lease activity as tenants take advantage of more favourable leasing metrics.

The larger end of the leasing market is showing a recovery, with 55% of deals by number being for leases above 10,000 sqm, compared to 29% in the first half of 2024. This will come as welcome news to developers as most of the supply under construction is for tenancies above 10,000 sqm. A pick-up in activity from the transport and logistics sector drove this result as they represented 49% of total GLA take-up in Q3 2024.

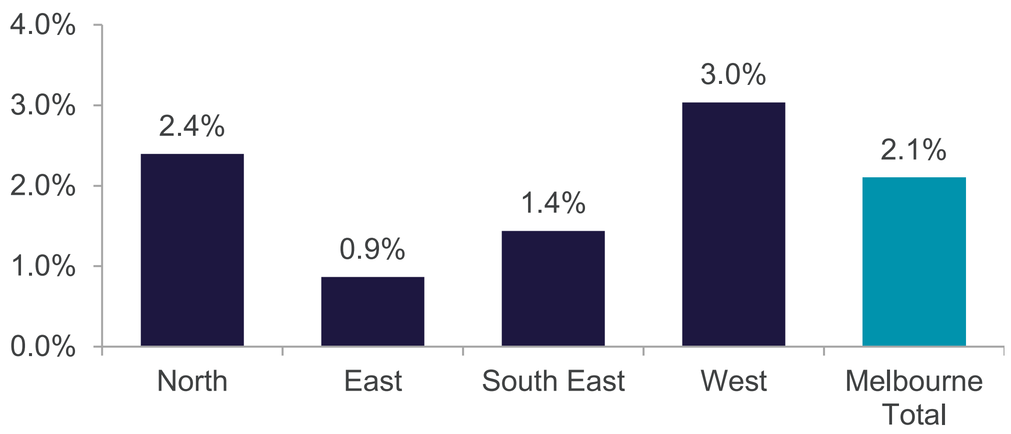
SPACE DEMAND / DELIVIERIES



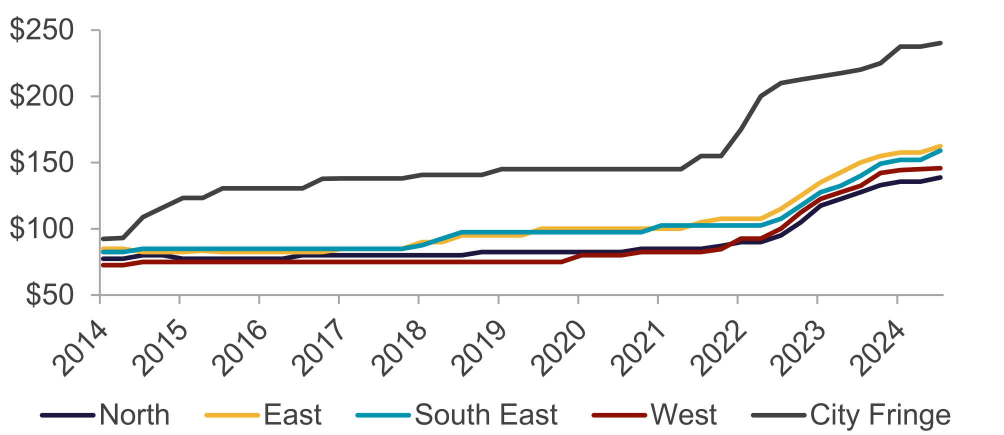
VACANCY & AVERAGE PRIME RENTS



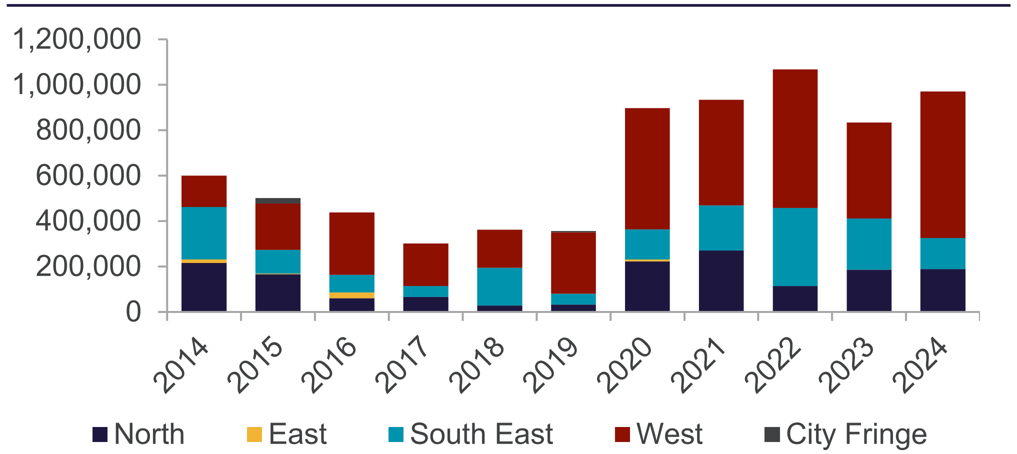
Q3 2024 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET ($/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

Melbourne's Logistics & Industrial (L&I) vacancy rate increased moderately to 2.1% in Q3 2024, up from 1.6% last quarter. The additions to vacancy primarily stemmed from the West and North submarkets, which account for 74% of vacant floorspace in Melbourne, driven higher by an influx of new supply. Alternatively, the South East and East submarkets remain tight and recorded minimal change over the quarter. Sublease vacancy represents 20.4% of current vacancy and is skewed towards the West submarket.

RENTS & INCENTIVES

Similar to vacancy, rental growth varies greatly from submarket to submarket and reflects local supply and demand dynamics. In Q3 2024, prime rents averaged $152/sqm, representing a quarterly increase of 2.7%, while year-to-date 2024 growth has totalled 4.7%. Rental growth in the secondary market averaged 2.3% over the quarter.

The South East remains the standout performer with prime rents increasing 4.6% in Q3 2024, while rental growth has been subdued in the West submarket at 0.6%.

Incentives are playing a greater role in rental negotiations as owners compete aggressively to fill vacant space. This trend is most pronounced in the West submarket where deals have been done with incentives in the mid to high 20.0% range. More broadly, incentives average 18.0% across both prime and secondary grades.

SUPPLY

In Q3 2024, Melbourne recorded just over 200,000 sqm of new floorspace additions, taking the year-to-date total to almost 500,000 sqm. The largest completion over the quarter was Metcash's new facility within the RBR Hub at Truganina (~115,000 sqm).

A large upswing in supply is expected in Q4 2024, with approximately 485,000 sqm in the pipeline, underpinned by the West submarket. Notable additions include approximately 82,000 sqm at ESR's Troups Road Logistics Estate, while 21,865 sqm will come online at Dexus' Horizon 3023 estate at Ravenhall. Commitment levels of this supply average approximately 45%, which will create upward pressure on the vacancy rate.

As it stands, there is the potential for approximately 1.3 million sqm to be delivered in 2025; however, only 490,000 sqm is under construction, and this is underpinned by Amazon's new facility within the Craigieburn Logistics Estate (209,000 sqm).

OUTLOOK

- A further improvement in take-up is expected over the next six months, supported by the elevated speculative pipeline that will come online in Q4 2024. Given higher competition for tenants, higher incentives are likely, which will encourage activity from tenants. More broadly, Melbourne continues to record enquiry from Sydney based occupiers given the large rental disparity; however, this will remain a case-by-case theme.
- Over the next six months, the vacancy rate is forecast to move higher as a result of the wave of speculative supply in the pipeline. At this stage, our base case is for the vacancy rate to reach 2.8% - 3.2% by the end of Q1 2025.
- Rental growth is expected to diverge further by precinct. Historically, rents in South East Melbourne were at a 15% premium to Melbourne's West; however, this has since narrowed to 9.0%. We expect this gap to widen over the next 12 months as rental growth outperforms in the South East.

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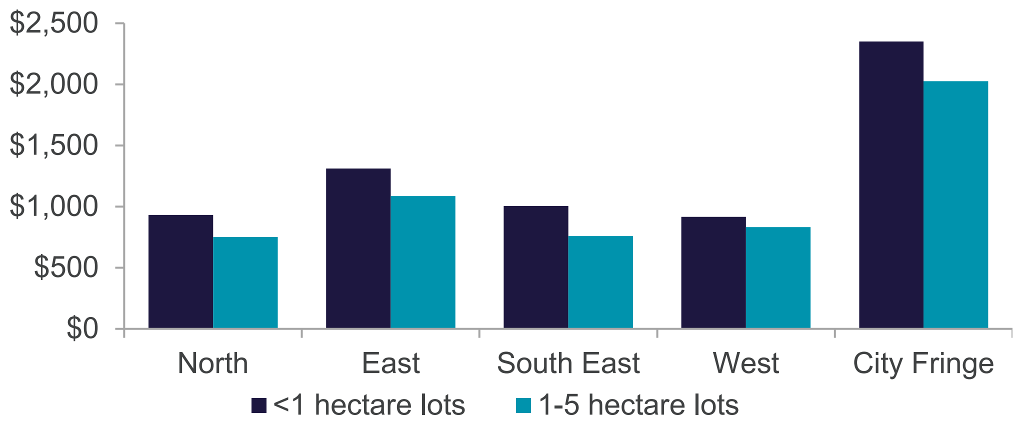
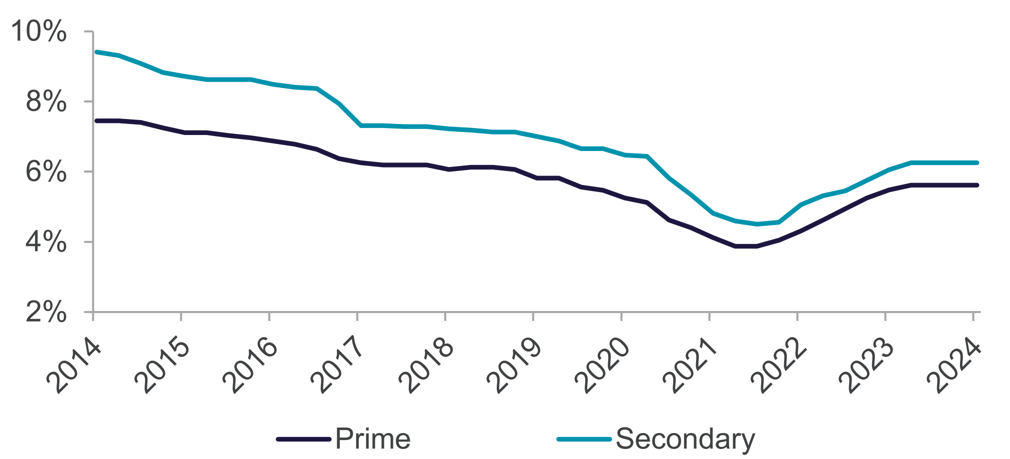
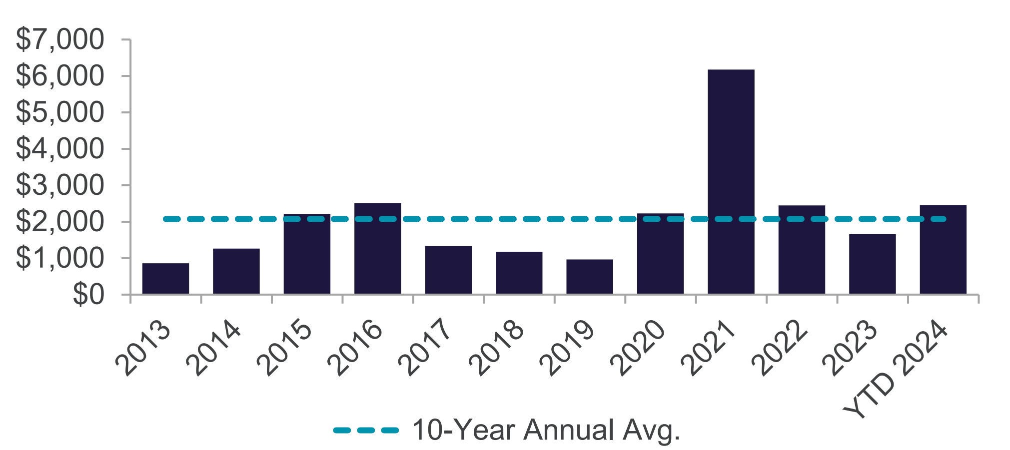
Q3 2024 LAND VALUES BY SIZE BRACKET ($/SQM)



YIELDS BY GRADE



MELBOURNE INVESTMENT VOLUMES ($M)



LAND VALUES

Industrial land values in Melbourne have continued to remain steady across all precincts and size ranges. A divergence in pricing remains between owner-occupiers and institutional groups, with the latter unable to meet the pricing paid by owner-occupiers in most cases, given higher yields and construction costs, which continues to test the feasibility of new projects.

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

Given recent sales evidence, yields across both prime and secondary grades held steady for the third consecutive quarter. Across the transactions in Q3 2024, the average core market yield sat at 5.50%. As per our baskets, prime yields on a core market yield basis range between 5.25% and 6.00%, while secondary yields range between 6.00% and 6.50%.

INVESTMENT

Despite the impacts of the doubling of the foreign owners' land tax surcharge in Victoria, it remained the most active state in Q3 2024 with over $1.0 billion in trading. In combination with trades that occurred in the first half of 2024, almost $2.4 billion has traded this year, already eclipsing the $1.7 billion that sold in 2023 and is above the 10-year annual average of $2.1 billion.

This strong result was underpinned by the Austrak Business Park, which Aware Super acquired for $600.0 million and included stabilised assets, development land and the intermodal terminal. Other acquisitions included 522-550 Wellington Road, Mulgrave which Elanor Investors purchased for $155.0 million, while Hale acquired 92 Carroll Road, Oakleigh South for $50.3 million.

OUTLOOK

- Over the short term, potential rate cuts and moderating bond yields highlight the value upside for capital markets. In our view, the L&I yield decompression cycle has ended and follows approximately 170 basis points of yield expansion in Melbourne since early 2022.
- Our base case is for the RBA to begin the rate easing cycle in H1 2025, which, in tandem with falling government bond yields (~3.50% 10-year yield by Q4 2025) and greater market participation, is forecast to drive yield compression from mid to late 2025.
- Improved investor sentiment is expected to result in a pick-up in investment activity in 2025, underpinned by favourable sector fundamentals and the ability to drive asset performance through continued income growth.

Q3 2024 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	-	-	$240	$70	17.5%	5.50%	$4,364	$2,025
North	2.4%	73,877	$139	$28	17.5%	5.68%	$2,445	$750
South East	1.4%	66,966	$159	$30	17.5%	5.53%	$2,878	$760
East	0.9%	18,951	$163	$30	17.5%	5.58%	$2,915	$1,085
West	3.0%	128,779	$146	$25	19.6%	5.68%	$2,570	$833
PRIME AVERAGE	**2.1%**	**288,573**	**$152**	**$29**	**18.0%**	**5.61%**	**$2,702**	**$857**
SECONDARY								
City Fringe	-	-	$195	$70	17.5%	5.63%	$3,467	-
North	-	-	$120	$28	12.5%	6.25%	$1,920	-
South East	-	-	$130	$30	19.5%	6.25%	$2,080	-
East	-	-	$130	$30	19.5%	6.25%	$2,080	-
West	-	-	$114	$23	20.0%	6.25%	$1,816	-
SECONDARY AVERAGE			**$123**	**$28**	**17.9%**	**6.25%**	**$1,974**	**-**

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