MARKETBEAT
MELBOURNE
LOGISTICS & INDUSTRIAL Q4 2024

MARKET FUNDAMENTALS

	YOY Chg	Outlook
2.2% Vacancy Rate	▲	▲
5.61% Average Prime Yield	—	▼
0.7% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
0.8% National GDP Growth	▼	▼
1.4% State Final Demand Growth	▼	▲
3.9% National Unemployment Rate	▲	▲

Source:BLS

ECONOMIC OVERVIEW

Real GDP growth released for Q3 2024 is at 0.3%, taking the year-on-year growth rate to 0.8% as cost-of-living pressures continue to impact consumer consumption levels. As a result, the RBA has held the cash rate at 4.35% throughout 2024 to ease heightened underlying inflation. Net overseas migration has reached historic highs through mid-year, helping offset productivity challenges by stimulating economic activity.

Oxford Economics forecasts Victoria's gross state product to increase 1.7% over 2024, while economic growth is forecast to remain subdued in 2025 at 1.3%, before recovering to grow 3.2% in 2026.

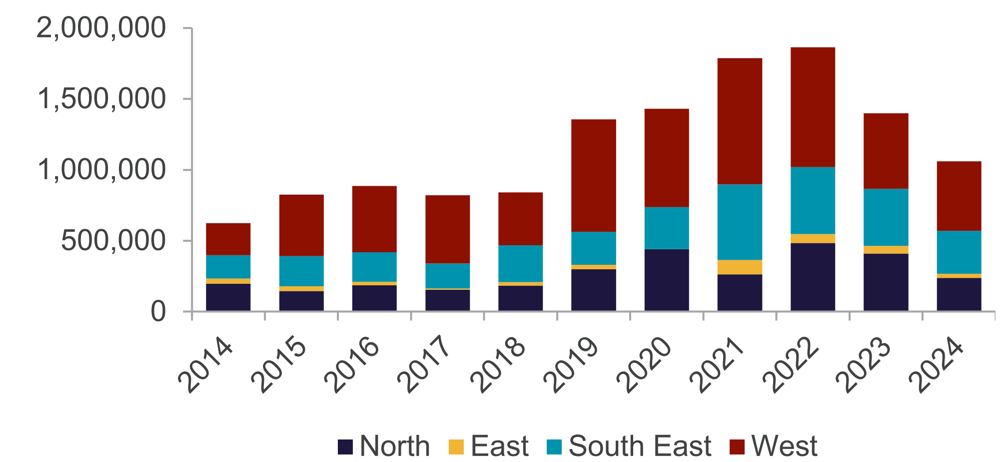
DEMAND

Following a subdued first half of the year, deal activity within the leasing market has continued to improve, particularly in Q4 2024, where approximately 320,000 sqm was leased. This represented the highest quarterly total since Q3 2023 and takes the 2024 annual total to almost 1.1 million sqm. Despite the recent improvement, annual take-up volumes in Melbourne for 2024 were the weakest since 2018 and reflects economic headwinds as weak consumer consumption impacted occupier expansion plans.

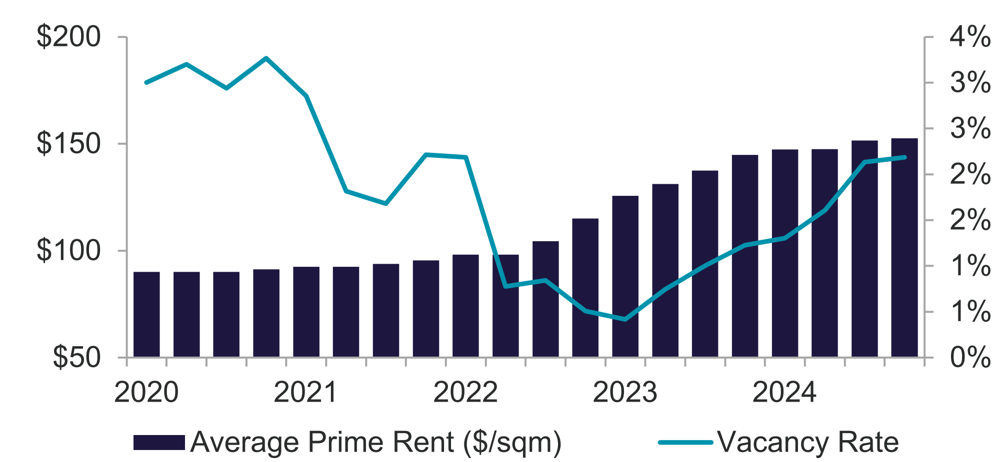
Deal activity in the West submarket underpinned take-up levels in Q4 2024, while the South East submarket saw an improvement in take-up where almost 100,000 sqm was leased in the quarter. Pre-lease activity remains subdued, with the bulk of take-up in Q4 2024 stemming from existing facilities. However, rising incentives in select markets are expected to support pre-lease activity in 2025 as tenants take advantage of more favourable leasing metrics.

The larger end of the leasing market has seen a decline this quarter with 29% of deals by number being for leases above 10,000 sqm, compared to 55% in the first half of 2024.

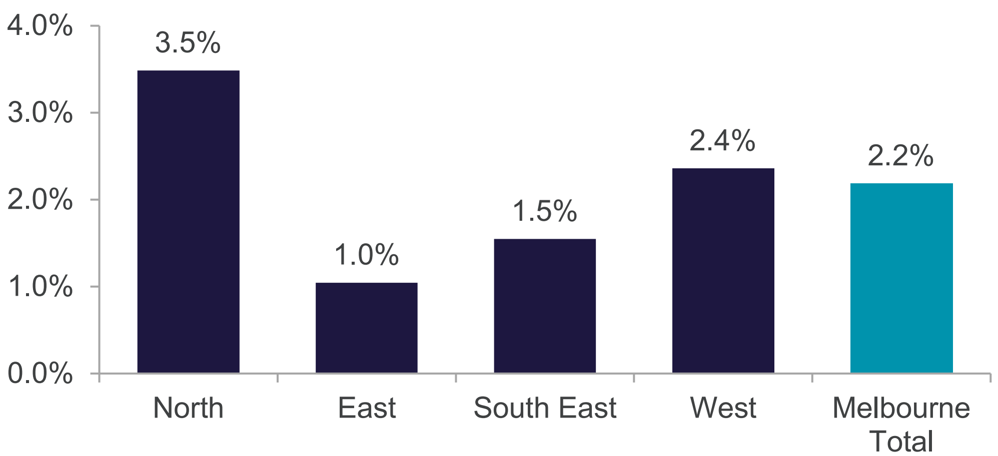
GROSS TAKE-UP (SQM)



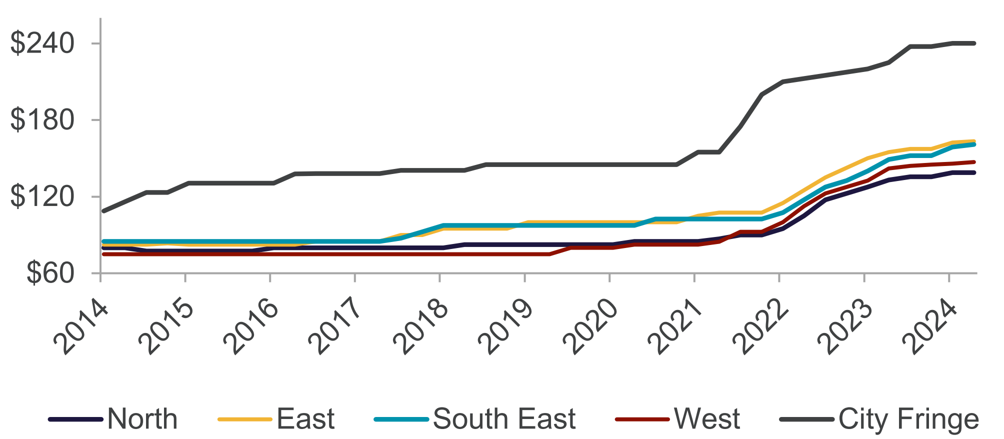
VACANCY & AVERAGE PRIME RENTS



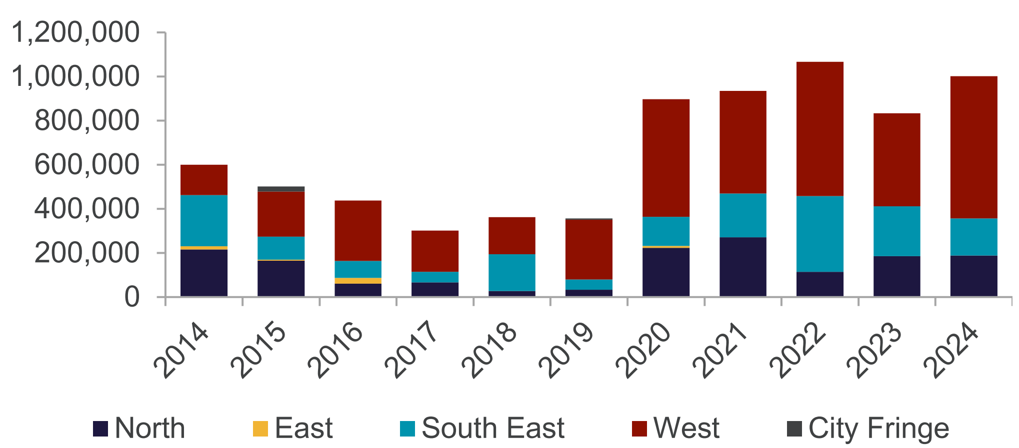
Q4 2024 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET ($/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

Melbourne's vacancy rate has remained moderately unchanged this quarter, currently sitting at 2.2%, compared to 2.1% in the quarter prior. We were forecasting the vacancy rate to move higher; however, the delivery of a handful of speculative projects have been pushed into 2025.

The North submarket recorded the largest uptick in vacancy, increasing from 2.4% in Q3 2024 to its current 3.5% and was underpinned by speculative completions, which now represent almost 40% of available floorspace in the submarket. Alternatively, the West vacancy rate reduced given the leasing of several existing facilities. The South East and East markets remain the tightest, aided by subdued levels of supply.

RENTS & INCENTIVES

Modest rental growth was recorded in Melbourne during Q4 2024; however, it was largely concentrated in select precincts. Prime rents grew by 0.7% for the quarter, taking the 2024 growth rate to 5.4%. Rental growth for the year was substantially higher in the South East at 8.1% and reflects more limited leasing options.

Incentives continue to play 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

Supply additions amounted to just over 430,000 sqm across Melbourne in Q4 2024, taking the annual supply total to 920,000 sqm. The West submarket saw the bulk of this delivery with around 220,000 sqm added and includes Super Retail Group's 65,000 sqm facility within Goodman's RBR Hub and ESR's Cherry Lane estate (26,289 sqm).

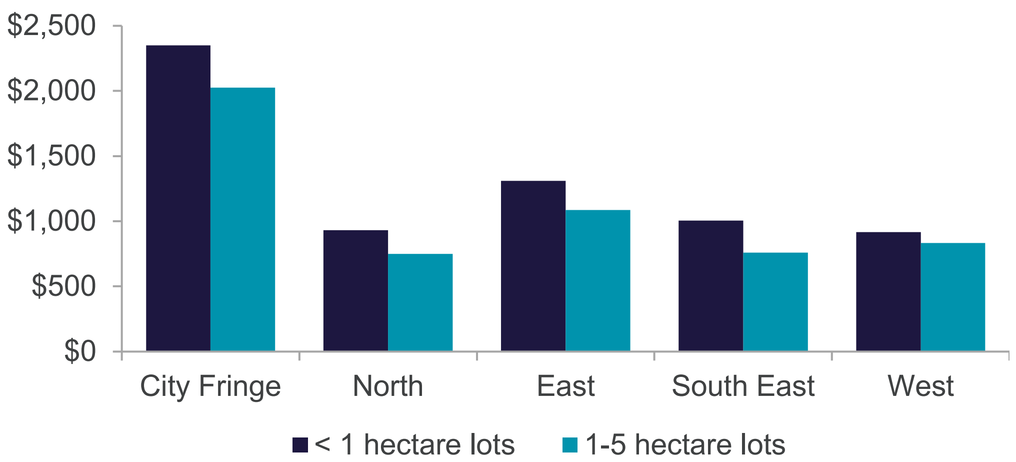
Looking ahead to 2025, supply is forecast to drop substantially with approximately 800,000 sqm to be delivered, noting that 209,000 sqm of this stems from Amazon's fulfillment centre at Craigieburn. This level of supply is the lowest annual total since 2019.

Melbourne's West will see the largest fall from recent averages and will be underpinned by ESR's Troups Road Logistics Estate (82,445 sqm) and Aliro's 427-451 Sommerville Road, Tottenham facilities (Stage 2 and 3 – 71,490 sqm). Supply in the South East includes facilities within ESR's Greenlink and Enterprise Industry Park estates, while the North submarket will be driven by Cabot's North Melbourne Logistics Hub at Campbellfield (55,913 sqm).

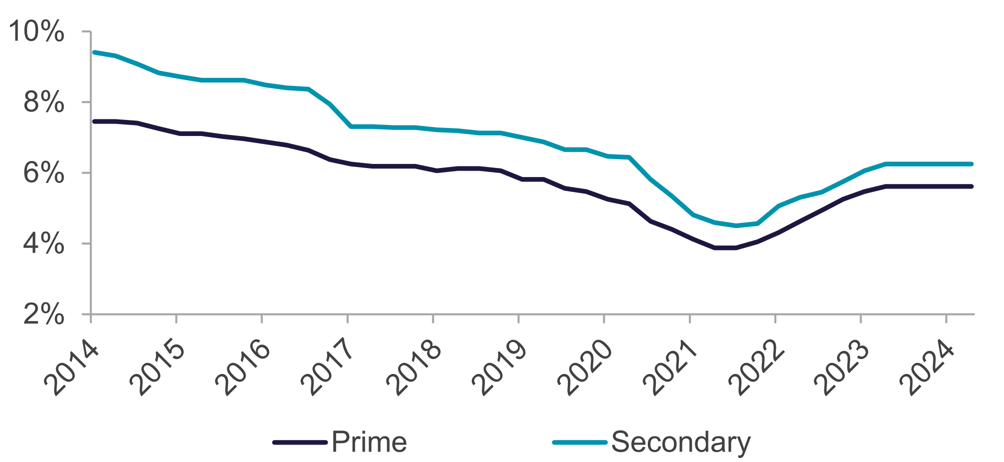
OUTLOOK

- A further improvement in take-up is expected over the next six months, supported by further speculative developments that will come online in H1 2025. 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 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 Q2 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.

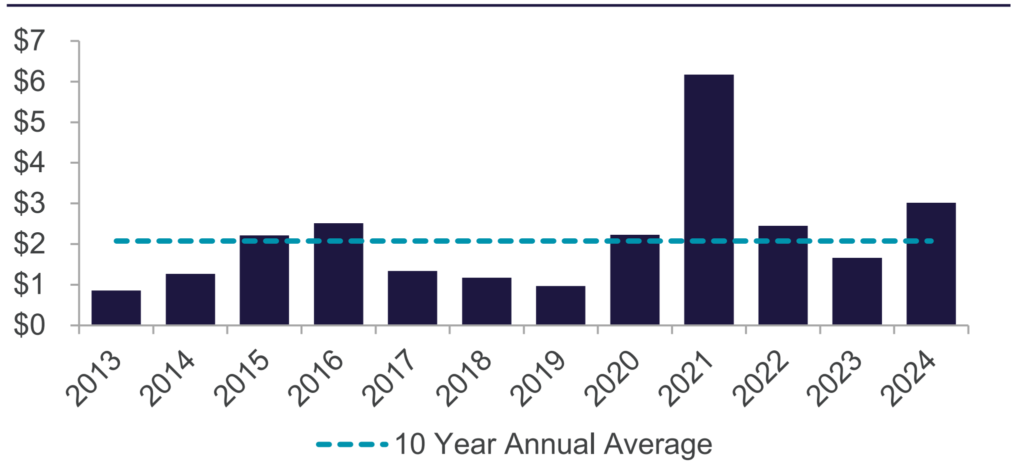
Q4 2024 LAND VALUES BY SIZE ($/SQM)



YIELDS BY GRADE



INVESTMENT VOLUMES ($B)



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 fourth consecutive quarter. Across the transactions in Q4 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, Victoria was the most active state for investment in 2024 with just over $3.0 billion trading and is above the 10-year annual average of $2.1 billion.

For Q4 2024, approximately $385.0 million was sold; however, the majority of these assets were at the smaller end of the scale, with the average price point being $22.6 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.
- Market participation will likely remain challenged from offshore capital given the impacts of the foreign owner surcharge. However, this is expected to be somewhat offset by domestic capital sources including superannuation funds and private investors.
- 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.

Q4 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	3.5%	42,138	$139	$28	17.5%	5.68%	$2,445	$750
East	1.0%	5,390	$164	$30	17.5%	5.53%	$2,933	$1,085
South East	1.5%	99,187	$161	$30	17.5%	5.58%	$2,914	$760
West	2.4%	174,001	$147	$28	20.4%	5.68%	$2,592	$833
PRIME AVERAGE	**2.2%**	**320,716**	**$153**	**$29**	**18.2%**	**5.61%**	**$2,721**	**$857**
SECONDARY								
City Fringe	-	-	$195	$70	17.5%	5.63%	$3,467	-
North	-	-	$120	$28	12.5%	6.25%	$1,920	-
East	-	-	$130	$30	19.5%	6.25%	$2,080	-
South 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**	**-**

NATIONAL RESEARCH LEADS

LUKE CRAWFORD
Head of
Logistics & Industrial Research –
Australia
+61 421 985 784
luke.crawford@cushwake.com

CAITLYNE HALABI
Research Analyst
Logistics & Industrial –
Australia
+61 450 126 006
caitlyne.halabi@cushwake.com

LOCAL MARKET AGENCY LEADS

DAVID NORMAN
National Director
Head of Brokerage, Logistics & Industrial –
Victoria
+61 418 545 511
david.norman@cushwake.com

KOSTA FILINIS
Director
Head of Brokerage, Logistics & Industrial –
Victoria
+61 448 500 999
kosta.filinis@cushwake.com

NATIONAL LEADS

TONY IULIANO
International Director
Head of Logistics & Industrial –
Australia and New Zealand
+61 412 992 830
tony.iuliano@cushwake.com

DAVID HALL
National Director
Head of Brokerage Logistics & Industrial –
Australia and New Zealand
+61 428 242 410
david.j.hall@cushwake.com