

FIGURES | INDUSTRIAL & LOGISTICS | Q2 2025

Minimal rental growth as vacancy lifts above ‘equilibrium’ threshold



Note: Arrows indicate change from previous quarter.

Key Points

- Gross take-up for 2Q25 totalled c.145,000 sqm, representing a decline from the previous quarter.
- New floorspace added to the market totalled c.215,000 sqm across 17 major projects, with half of completions taking place in Melbourne’s North. Majority of Melbourne’s supply pipeline is not yet under construction, with greater uncertainty on project timing and completion.
- The average vacancy rate lifts to 4.1% (as at 1H25). Average net effective rents continue to decline and decreased by 1.0% over the quarter.
- Land values recorded a marginal decline over the quarter, reflecting ongoing development feasibility challenges. However, strong demand from owner-occupiers and data centre operators continues to provide support for land values.
- Investment sales totalled approximately AUD 235 million in 2Q25, across 16 transactions valued at or above AUD 5 million.
- Yields across all grades and precincts held stable over 2Q25.

Source: CBRE Research

Demand

Leasing volumes decline as occupiers take more cautious stance

Gross take-up for 2Q25 totalled approximately c.145,000 sqm, marking the second consecutive quarter of declining activity. Leasing momentum continues to decelerate, with occupiers increasingly favouring consolidation strategies and lease renewals over new commitments. A notable volume of floorspace remains in the final stages of negotiation, which is expected to support future quarterly take-up figures.

Across all Melbourne precincts, active tenant enquiry remains subdued, with only a limited number of large occupier (> 10,000 sqm) briefs currently in the market. This cautious approach is largely attributed to heightened economic and political uncertainty.

Notable transactions in 2Q25 included:

- A pre-lease by Effective Logistics in the West (c.30,000 sqm).
- A pre-lease by Accent Group in the West (c.17,000 sqm).
- A lease by JD in the West (c.12,000 sqm).

Melbourne’s Take-up activity concentrated in the West

Melbourne’s West precinct accounted for more than 60% of total gross take-up over the quarter, followed by the South East precinct at 17%. Most of the leasing activity in the West was concentrated in speculatively developed stock. Nonetheless, pre-commitment activity remains limited across Melbourne.

FIGURE 1: Melbourne Take-Up 2Q25 by Industry Sector (Top 3 Sectors by floorspace)



Source: CBRE Research

FIGURE 2: Melbourne Gross Take-Up 2014-2025, by Precinct

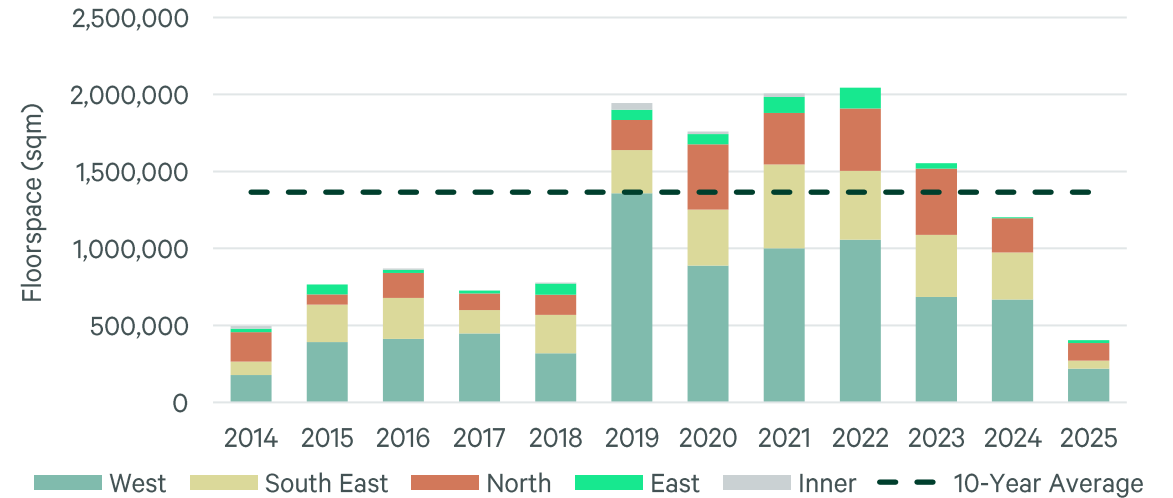
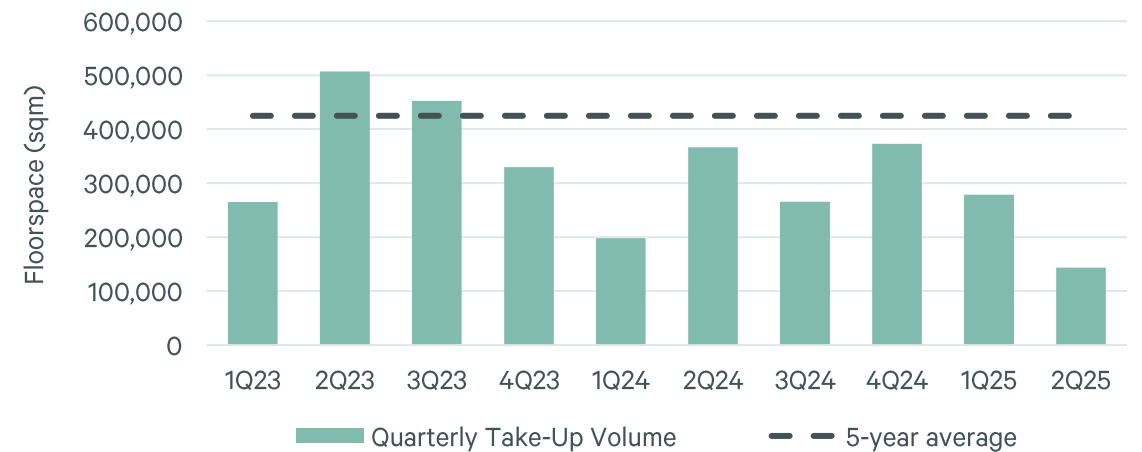


FIGURE 3: Melbourne Quarterly Gross Take-up, 1Q23-2Q25



*To note: Reflects transactions >5,000 sqm.
Source: CBRE Research

Supply

Feasibility challenges likely to delay non-commenced projects

Supply completions in 2Q25 totalled approximately 215,000 sqm. Total completions for CY2025 are projected to reach around 640,000 sqm, slightly below the 10-year historical average.

Melbourne’s forward supply pipeline is forecast to remain moderately below the historical average over the next four years. A significant portion of development approved and applied stock is expected to face delays or potential cancellations in the coming quarters. This is primarily due to feasibility constraints. Economic rents currently exceed average face rents by 42% in Melbourne’s West and 22% in the North, highlighting the financial challenges facing new developments. As a result, a subdued supply environment is anticipated over the next 18–24 months, until vacancy levels and face rents adjust to support more viable development conditions.

Notable completions in 2Q25 Included:

- Buildings 1A-1D, 120 Northcorp Boulevard, Broadmeadows (c.60,000 sqm).
- Warehouse 1.1-1.3 & 2.1-2.2, 131-149 Somerton Road, Campbellfield (c.56,000 sqm)
- Warehouse B, 24 Distribution Drive, Truganina (c.12,500 sqm).

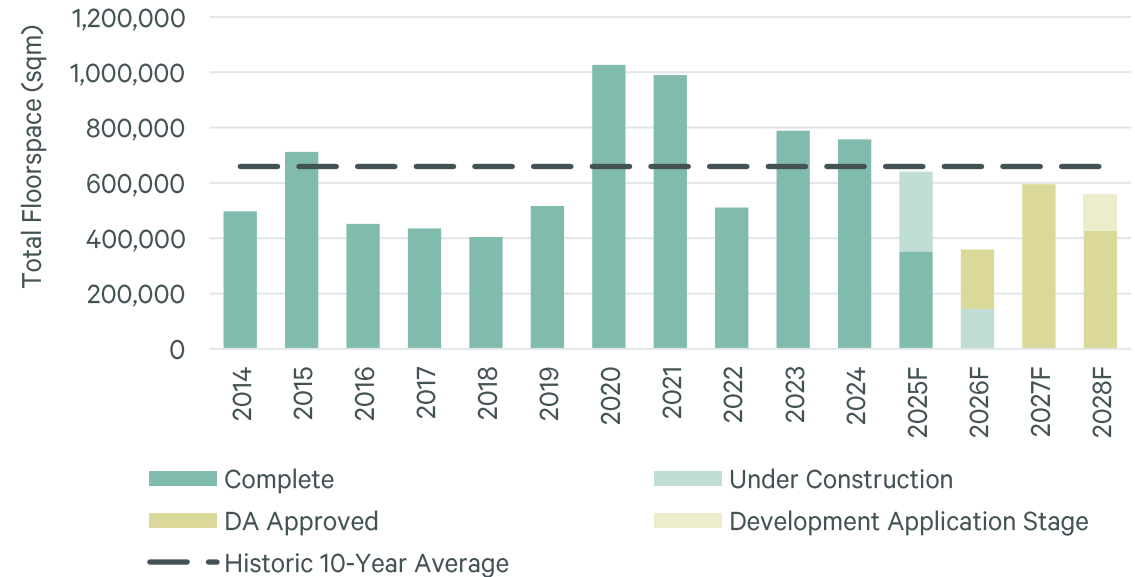
Approximately 100,000sqm of supply completions are expected across Melbourne in 3Q25. Key projects anticipated to reach practical completion include:

- Building 1B, Lot 3, 535-601 Troups Road, Truganina (c.32,000 sqm)
- Building 1A, Lot 3, 535-601 Troups Road, Truganina (c.25,000 sqm)
- Warehouse B, 441-459 Kororoit Creek Road, Altona (c.11,000 sqm)

Pre-commitment activity remains low amidst rising vacancy

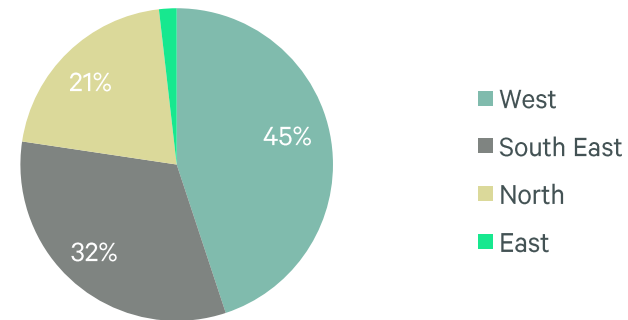
The pre-commitment rate for projects currently under construction and scheduled for delivery in CY2025–2026 stands at approximately 13%. Occupier decision-making continues to be delayed, with leasing activity for speculative developments often occurring shortly before or just after practical completion. This trend is expected to persist over the next 12–18 months.

FIGURE 4: Melbourne Development Supply Pipeline 2010-2029F



To note: Reflects new projects >5,000 sqm.
Source: CBRE Research

FIGURE 5: Development Supply 2025F-2028F Floorspace Share, by Precinct



To note: Reflects new projects >5,000 sqm.
Source: CBRE Research

Leasing Market

Selective rent growth observed across Melbourne precincts

Average net face rents for super prime assets remained stable over 2Q25, while prime-grade assets recorded modest growth of 0.7%. In contrast, secondary grade rents experienced more pronounced growth, rising by 2.0% over the quarter. Notably, positive rental growth was confined to the South East, East, and Inner Melbourne precincts, with continued low vacancy in the South East and East underpinning this performance.

Underperformance across Melbourne’s North & West is largely attributed to vacancy in these precincts rising moderately above the ‘equilibrium’ vacancy threshold of 4%. Vacancy pressures in these precincts have been increasing over the last 12-months due to a significant amount of speculative stock entering the market.

On an annual basis, rental growth across Melbourne averaged 2.8% for super prime, 3.4% for prime, and 4.6% for secondary grade assets. The short-term outperformance in secondary stock follows relative underperformance over 2024. Looking ahead, super prime rental growth is expected to outperform through 2025, consistent with trends observed in 2024. This outlook is supported by the ongoing flight-to-quality among occupiers, with increasing emphasis on core locations and premium building features typically associated with super prime developments.

Incentives expand across most precincts and grades

Following a period of stabilisation in 1Q25, incentives across Melbourne experienced renewed upward pressure in 2Q25. Super prime incentives rose by 250 basis points in the South East, East, and North precincts, while remaining unchanged elsewhere. As of 2Q25, average incentives stand at approximately 25% for super prime and 21% for prime grade assets.

Further increases in incentive levels are anticipated throughout 2025, although the pace of growth is expected to be more moderate compared to the levels recorded in 2024. Anticipated expansion is expected to not be uniform across precincts, largely due to the increasing bifurcation in vacancy rates observed across the Melbourne market.

FIGURE 6: Melbourne Average Net Face Rent Growth Year-on-Year by Grade

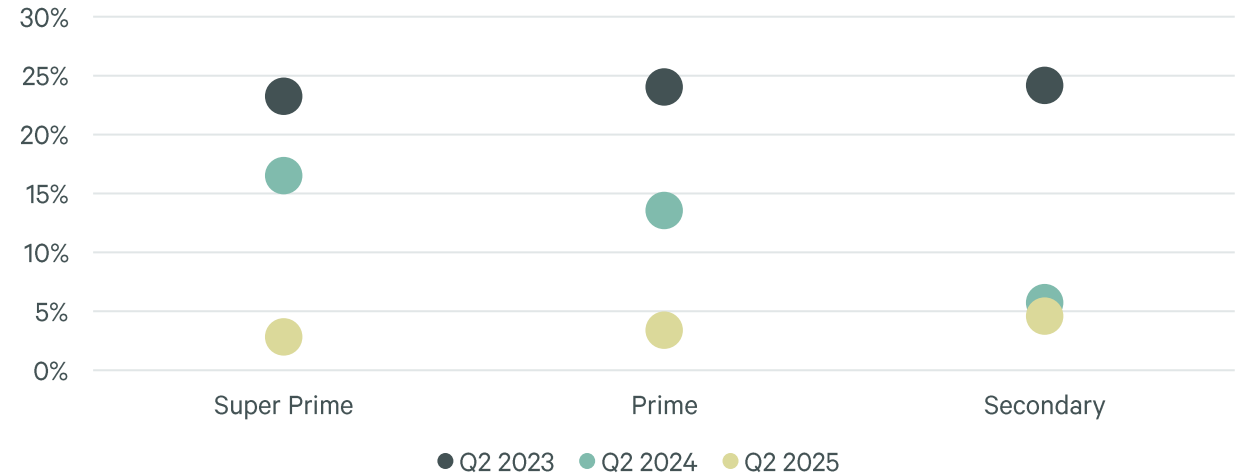


FIGURE 7: Melbourne Super Prime Net Face Rents by Precinct and Year



Note: Rents in the Inner market correspond to Prime grade assets.
Source: CBRE Research

Land Values

Marginal land value declines in select Melbourne precincts

The average value for small industrial lots (0.25 ha) across Melbourne remained stable quarter-on-quarter. In contrast, land values for 1.6 ha lots declined by 1.1% over the quarter, bringing the annual decline to 2.5%. The most pronounced declines were observed in the South East, offset moderately by increases in the Inner precinct. Both precincts have observed recent deal evidence which has justified the respective movements.

Three key themes continue to influence land values across Melbourne:

- The most significant factor is the ongoing economic headwinds facing development groups. Elevated debt costs have raised feasibility concerns, leading to increased caution among developers and investors. CBRE Research estimates that economic rents exceed current market rents by 42% in Melbourne’s West and 22% in the North. While this has dampened activity among developers and investors, owner-occupiers remain active in the market.
- Elevated construction costs continue to exert downward pressure on land values. Although some cost components have eased from the peaks of 2021–2022, high prices for cement and steel, driven by elevated energy costs, remain a challenge for industrial developers.
- Increasing lead times, particularly among international groups, are contributing to higher holding costs. These rising costs are further compressing profit margins, discouraging speculative investment. However, these pressures are less pronounced for owner-occupiers, who typically assess industrial land through a longer-term operational lens.

Despite these headwinds, land values are being supported by consistent demand from owner-occupiers and non-traditional industrial buyers. These groups are less affected by the above constraints, helping to maintain stable pricing in several precincts.

FIGURE 8: Average Land Values (0.25 ha lots), by Precinct and Year.



Source: CBRE Research

FIGURE 9: Average Land Values (1.6 ha lots), by Precinct and Year.



Source: CBRE Research

Investment Market

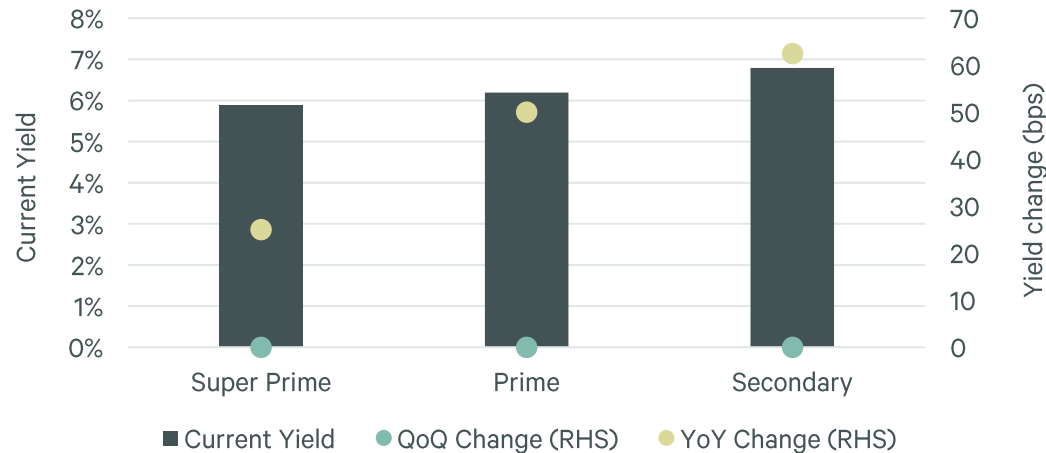
Investment activity continues to remain at subdued levels

Investment sale volumes in 2Q25 totalled approximately AUD 235 million, representing a modest increase from 1Q25. However, activity remains subdued across Victoria, with the average transaction size just under AUD 15 million.

Investment volumes are expected to remain well below historical levels. This is mainly due to the recent implementation of the absentee owner surcharge and elevated land tax rates across Melbourne. While industrial fundamentals are anticipated to improve as supply moderates post-2026, uncertainty surrounding the future of Melbourne's tax regime presents a key headwind.

Melbourne yields are also being impacted by taxation policy, with the yield spread between Melbourne and other Eastern Seaboard cities widening. Yields across all asset grades remained stable in 2Q25. Current midpoint yields are recorded at 5.89% for super prime, 6.19% for prime, and 6.79% for secondary grade assets. Yields are expected to remain stable for the remainder of the year.

FIGURE 10: Average Current Yields and Yield Movements by Grade.



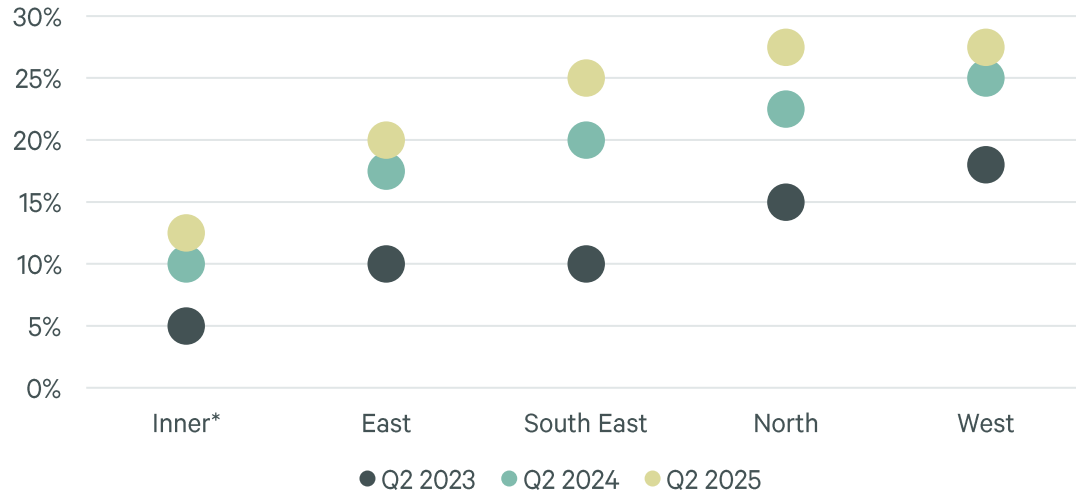
Source: CBRE Research

FIGURE 11: Melbourne Industrial Investment Sales (greater than AUD 5 million)



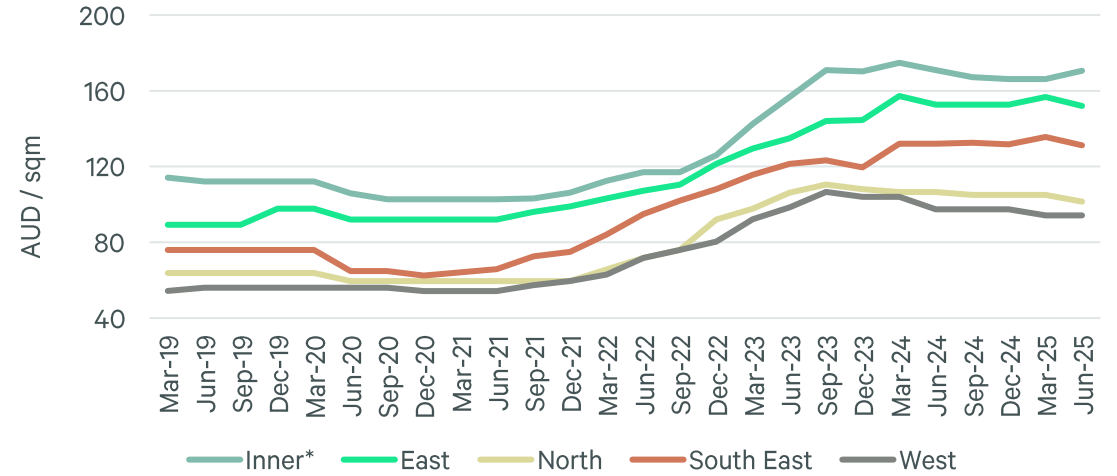
To note: does not include land/development sales.
Source: RCA, CBRE Research

FIGURE 12: Super Prime Incentives, by Precinct and Year



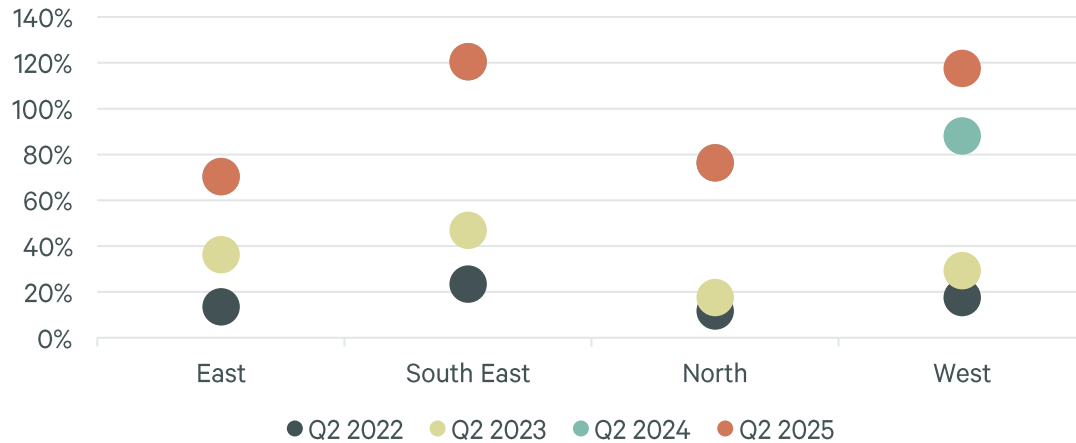
Note: Incentives in the Inner market correspond to Prime values.
Source: CBRE Research

FIGURE 14: Melbourne Super Prime Net Effective Rents by Precinct



Note: Net effective rents in the Inner market correspond to Prime values.
Source: CBRE Research

FIGURE 13: Melbourne Super Prime Outgoing Percentage Increase from Base Period (Q4 2020) by Precinct



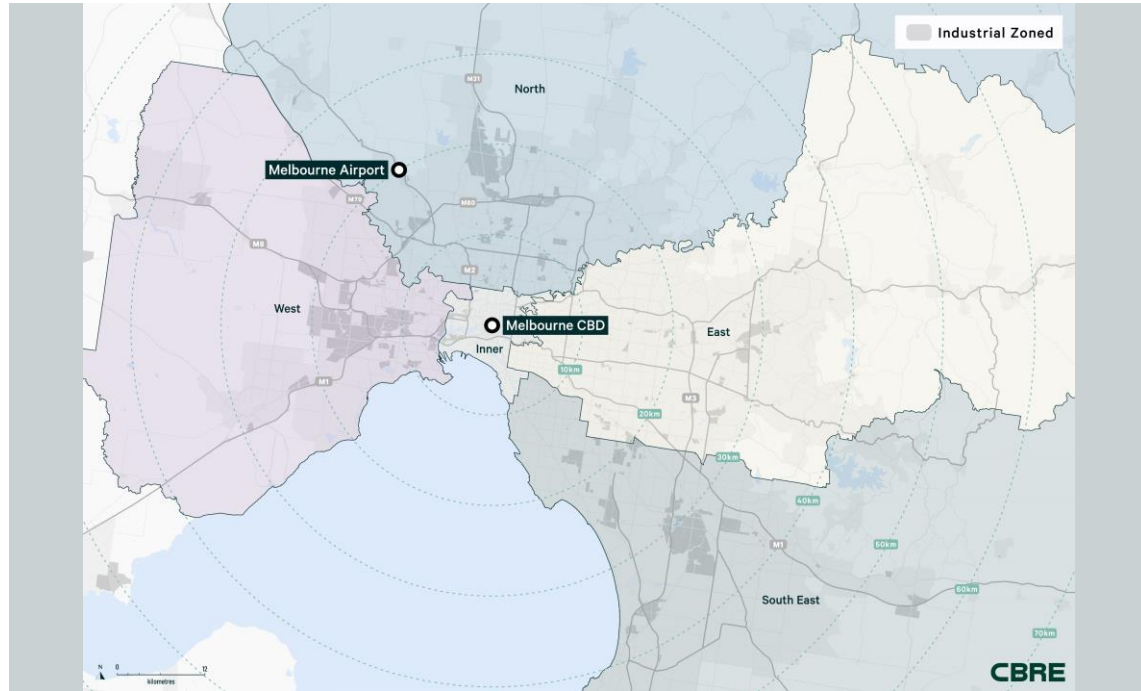
Source: CBRE Research

FIGURE 15: Melbourne Super Prime Current Yields and Basis Point Change by Precinct



Note: Inner precinct reflects prime grade assets.
Source: CBRE Research

Market Area Overview



Definitions

Super Prime:

Less than 6 years old, height clearance between 13.7m and 14.6m. Buildings showcasing design excellence with combination of ESFR sprinklers and docks / on-grade doors, as well as strong truck articulation for loading/unloading.

Prime:

Generally, between 6 and 15 years old, height clearance over 10m and up to 13.7m.

Secondary:

Buildings that are older style but still very functional, height clearance in the ranges of 8-11m, Over 15 years old.

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