

FIGURES | INDUSTRIAL & LOGISTICS | Q2 2024

# Rents across Melbourne stabilise as demand levels moderate

2.4%

VIC Annual Population Growth FY23-27<sup>1</sup>

▲ c.220,000 sqm ▼ c.86,000 sqm

2Q24 Gross Take-Up

1Q24 Supply Completions

▶ 5.6%

Average Super Prime Midpoint Yield

Note: Arrows indicate change from previous quarter.

## Key Points

- Gross take-up over the quarter increased compared to the previous quarter and totalled c.220,000 sqm. Total take-up levels across the state remains healthy, albeit concerns about high lead times remain prevalent.
- New floorspace added to the market in 2Q24 totalled c.86,000 sqm across 8 projects, with most of the supply delivered within the West precinct (45%).
- Average super prime, prime and secondary rents normalised in 2Q24, with q-o-q growth rates of 0.8%, 0.3% and 0.8%, respectively. Rents across Melbourne have stabilised following weakening enquiry volumes.
- Land values continue to see downward pressures, driven by economic feasibility concerns, combined with construction and holding cost increases.
- A total of around AUD 770 million of investment sales (for transactions greater than and equal to AUD 5 million) was recorded in 2Q24 across 23 transactions.
- Midpoint yields remained unchanged over the quarter across all asset grades.

1. Australian Government Centre for Population Projections  
Source: CBRE Research

## Demand

### Take-up volumes increase in 2Q24 but remain subdued

Gross take-up over 2Q24 increased by 18% compared to the levels recorded in 1Q24. Approximately 220,000 sqm of leasing activity was recorded this quarter, across 19 transactions. Take-up volumes remain subdued across the Melbourne market, with Q2 take-up levels the lowest observed over the last five years. Tight vacancy conditions (averaging 2.0%, as at 1H24) and a continued slowdown in occupier demand are key factors driving current take-up conditions. In addition to this, deal lead times remain longer than levels seen in prior years.

Despite take-up volumes remaining relatively low, a significant amount of floorspace remains in the final stages of negotiation, which will continue to positively impact future quarter take-up volume.

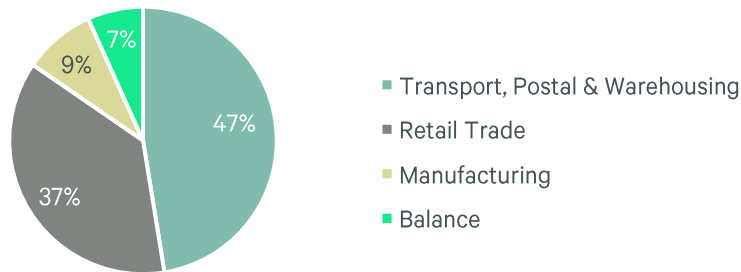
Notable transactions in 2Q24 included:

- Regent RV in the North (c.31,000 sqm).
- CEVA Logistics in the West (c.24,000 sqm).
- A pre-lease by National Tiles in the West (c.21,000 sqm).

### Melbourne’s Take-up activity remains concentrated in Melbourne’s West

Gross take-up volumes in Melbourne’s West precinct accounted for close to 70% of total volumes recorded in 2Q24. Greater lease transactions in the West has been mainly owing to increased availability of space and new supply being added to the market. In contrast, limited new developments and tight vacancy conditions within Melbourne’s East and South East has been reflected in the lower take-up activity.

FIGURE 1: Melbourne Take-Up 2Q24 by Industry Sector (Top 3 Sectors)



Source: CBRE Research

FIGURE 2: Melbourne Gross Take-Up 2014-2024 YTD, by Precinct

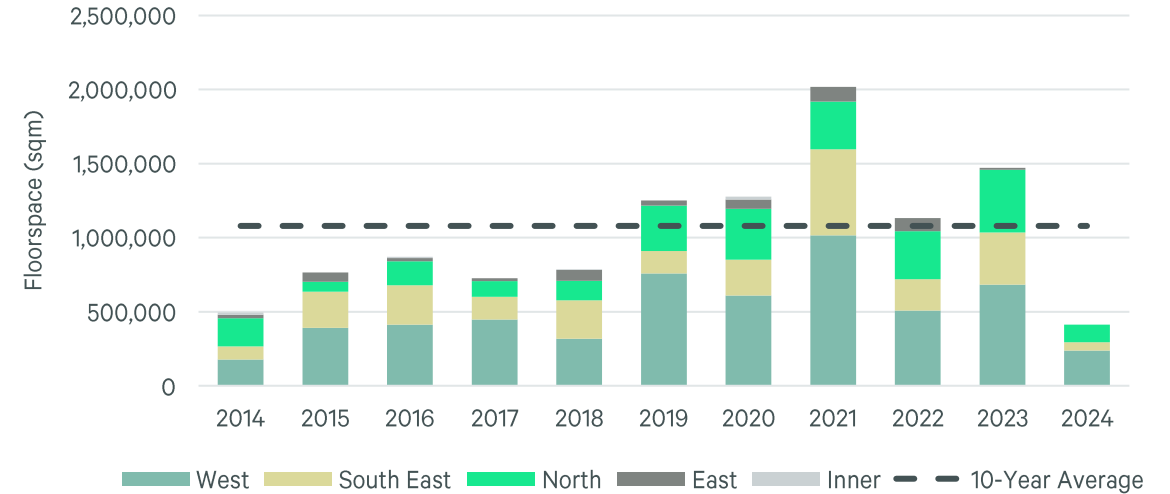
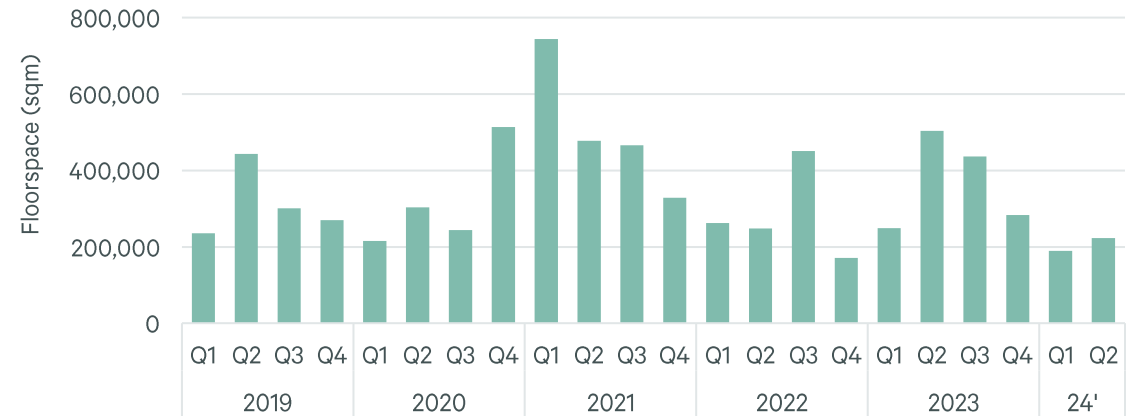


FIGURE 3: Melbourne Quarterly Gross Take-up, 2019-2024



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

# Supply

## Supply completions moderate over 2Q24

Supply completions in 2Q24 totalled c.86,000 sqm across 8 projects, a moderate reduction from the c.214,000 sqm completed in 1Q24.

Completions in 2Q24 were concentrated in the West, accounting for 45% of total floorspace complete in Melbourne. The forward pipeline (2024-26) is expected to remain concentrated within Melbourne's West precinct, accounting for 61% of new floorspace over this period.

Notable completions in 2Q24 Included:

- 20 Distribution Drive, Warehouse A & B, Truganina (21,000 sqm).
- 13 Evolution Road, Truganina (17,000 sqm).
- 2-50 Glenelg Street, Warehouse 1, Coolaroo (10,000 sqm).

Forecast supply over the remainder of 2024 remains concentrated in Melbourne's West (49%), with c.325,000 sqm expected to reach practical completion. Supply levels remain healthy across Melbourne's South East (c.193,000 sqm) and North (c.108,000 sqm). These levels and proportions remain broadly consistent with the supply composition in CY2023.

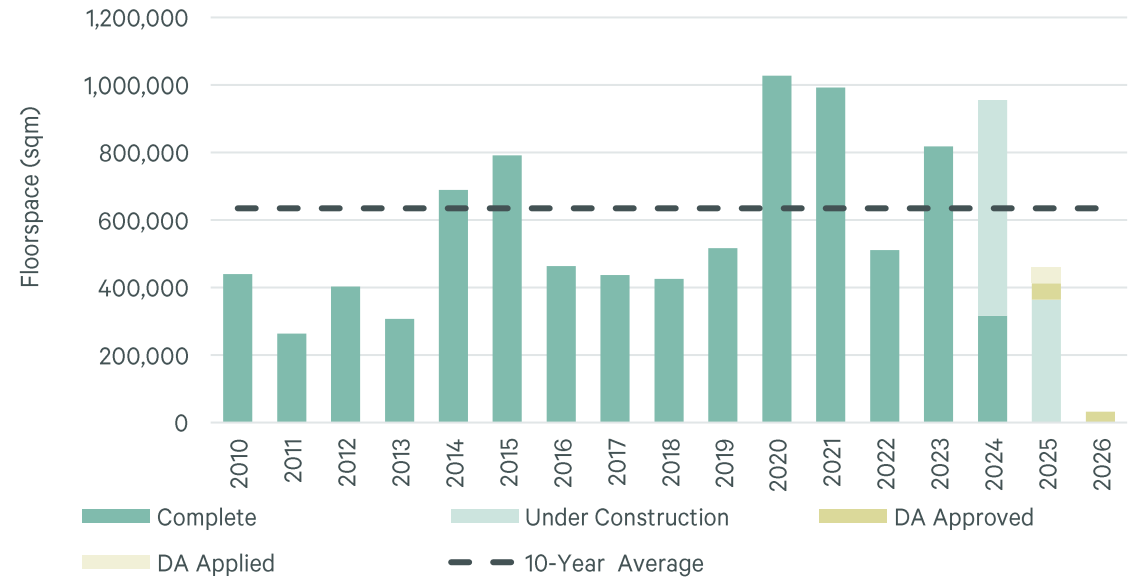
## Reduced pre-commitment levels as occupiers delay decision-making

The pre-commitment rate for projects currently under construction and due to deliver in 2024 is currently at approximately 20%.

Pre-commitment deals for several new developments are increasingly occurring just prior to practical completion. Over the last few years, as rental growth was at record highs, occupiers were incentivised to pre-commit to a project early to avoid a rapid increase in rent. In the current landscape, with rental growth becoming relatively subdued, occupiers are generally delaying their decision-making in an attempt in achieving the best deal with the optimal space required.

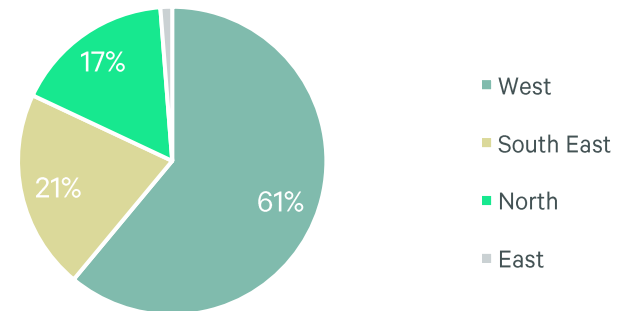
The pre-commitment rate for the 2025 pipeline is currently at c.10%.

FIGURE 4: Melbourne Development Supply Pipeline 2010-2026F



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

FIGURE 5: Development Supply 2024F-2026F Floorspace Share, by Precinct



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

## Leasing Market

### Rental growth normalises across all precincts

Average net face rents over 2Q24 in the Melbourne market recorded a notable decrease compared to the previous quarter. Rental growth across all asset grades have continued to normalise over the quarter - driven by subdued leasing activity and lower enquiry volumes across the market.

Average rents for super prime grade and secondary assets recorded marginal growth in 2Q24, at 0.8% q-o-q. Lower growth was recorded over the quarter for prime grade assets, at 0.3% q-o-q.

Rental growth across Melbourne continues to be bifurcated. Following the record high rental growth observed in most precincts over the last 18-months, super prime rents in all precincts (except the South East) held steady in 2Q24. Rental growth of 3.1% (q-o-q) was recorded for the South East precinct.

The year-on-year growth rate remains strong, with average super prime, prime and secondary grade net face rents recording growth of 17%, 10% and 6%, respectively.

### Upward pressure on Incentives driven by higher levels of new supply

Incentives across Melbourne continue to move upwards – owing to greater supply being added to the market (both existing and new floorspace), coupled with normalising demand levels. Over 2Q24, super prime incentives increased across most precincts. The North was the only precinct where incentives did not rise over the quarter, however incentive levels in this precinct have been increasing over the past 12 months (+7.5%) to now an average of 23%.

The largest quarterly increase in incentives was recorded in Melbourne’s West by 5 percentage points, and now averaging 25%. Melbourne’s South East and East precincts both increased by 2.5 percentage points to an average of 22% and 18%, respectively.

We expect further rises to incentive levels across all precincts and grades, as landlords continues to attract occupiers.

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

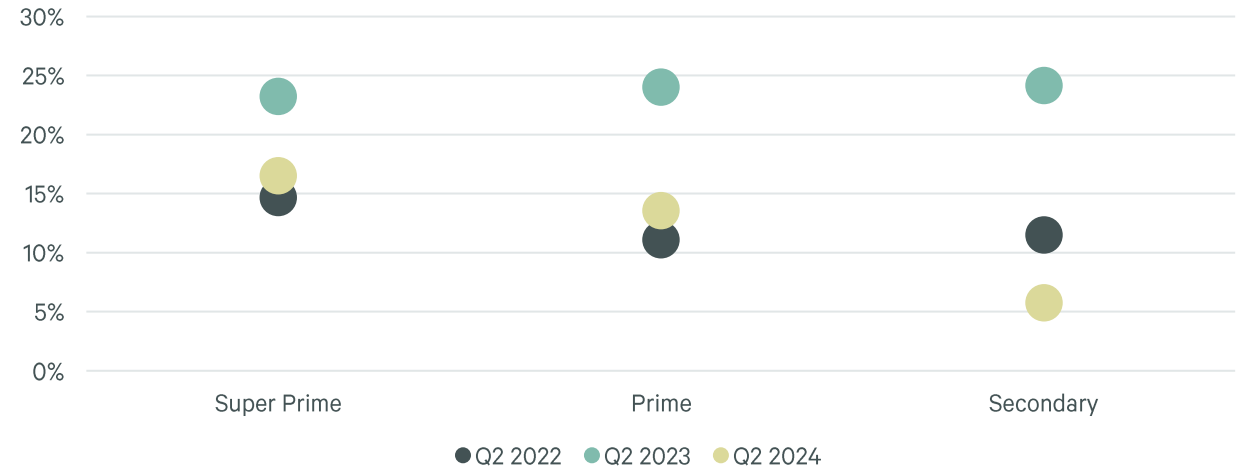


FIGURE 7: Melbourne Super Prime Net Face Rents by Precinct and Year



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

## Land Values

### Continued reduction in land values across most precincts

Land values are continuing to see downward pressure across most precincts and sizes across Melbourne. The average value for small lots (0.25ha) across Melbourne declined marginally by 1.2% q-o-q. A slightly greater decline was recorded for larger lots (1.6 ha) over the quarter by -1.6%.

Three key themes are continuing to affect Melbourne’s Land values:

- The most notable one is that of the economic headwinds faced by development groups. With the cost of debt remaining elevated, feasibility concerns have begun to be raised creating hesitation amongst groups. Whilst this may have contributed to a decline in activity in development and investor groups, it is noted that owner-occupiers remain active.
- Rising pressure on construction costs is another key factor for the downward pressure on land values in 2Q24. Whilst construction costs have eased in some areas from the highs observed during 2021-2022, the elevated cement and steel prices are likely to persist given high energy costs, placing continued pressure on Industrial developers.
- Increasing lead times around decision-making, particularly amongst international groups are also a major reason contributing to the rise in holding costs. With holding costs rising, groups are faced with another variable decreasing profit margins from a potential investment in the space. Notably, these pressures are less relevant for owner-occupier groups who view industrial land investments from a different lens.

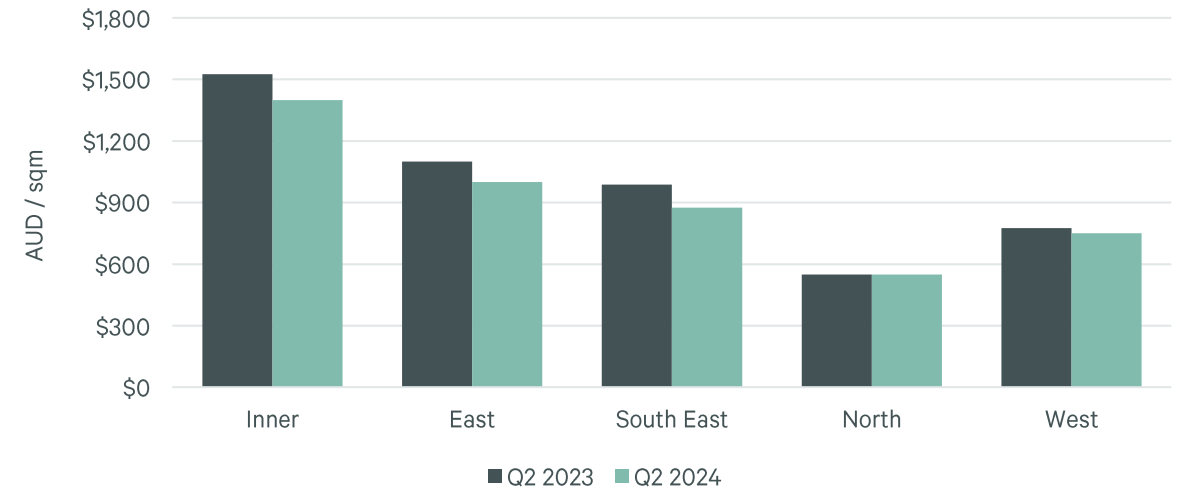
Despite the above, land values continue to be held up by consistent buying pressures from owner-occupier groups and non-traditional industrial groups. These two sub-sets of the market are less impacted by the themes above, allowing them to maintain buying pressures at current land value rates.

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

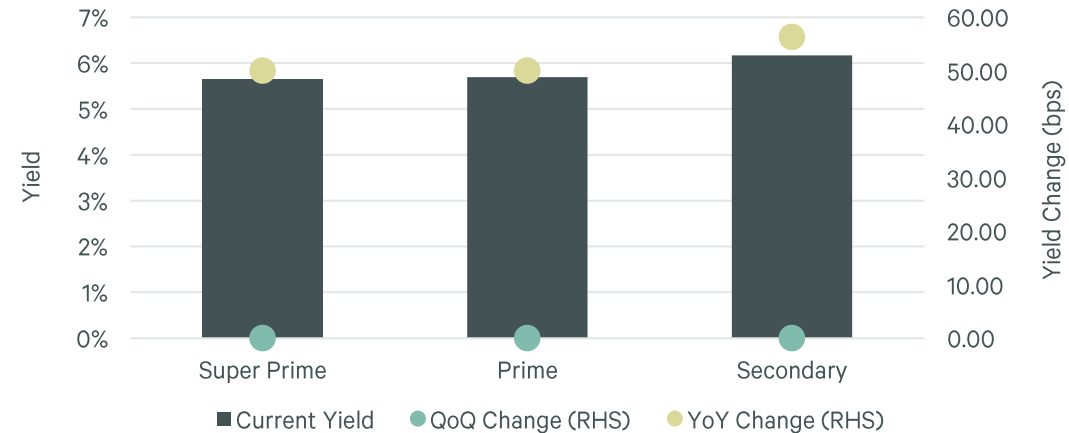
### Strong investment activity in 2Q24 driven by major portfolio sale

Investment activity has seen a strong rebound in 2Q24, with around AUD 770 million transacting across 23 transactions. Approximately three-quarter of deals (by sale volume) this quarter were portfolio transactions, with the most notable being the sale of three Melbourne assets within Goodman Group’s portfolio for circa AUD 370 million. Beyond this, the sale of 13-19 William Angliss drive represents the largest individual sale of the quarter, for AUD 92 million.

### Yields remain stable driven by high lead times and price stability

Melbourne yields have remained stable in 2Q24, the second consecutive quarter of stability. Despite concerns around increased land tax rates and absentee surcharges, strong investment interest remains from domestic owner-occupier groups who are less impacted. Whilst 2Q24 has seen strong investment volumes, repricing considerations have already been factored into current yields due to the high lead times (greater than six months) deals are currently experiencing.

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



Source: CBRE Research

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



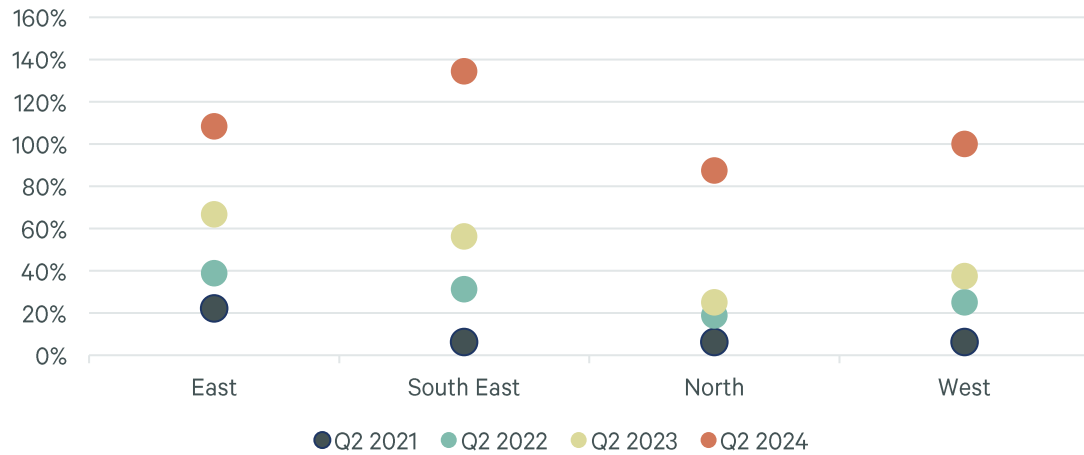
To note: does not include land/development sales.  
Source: CBRE Research

FIGURE 12: Super Prime Incentives, by Precinct and Year



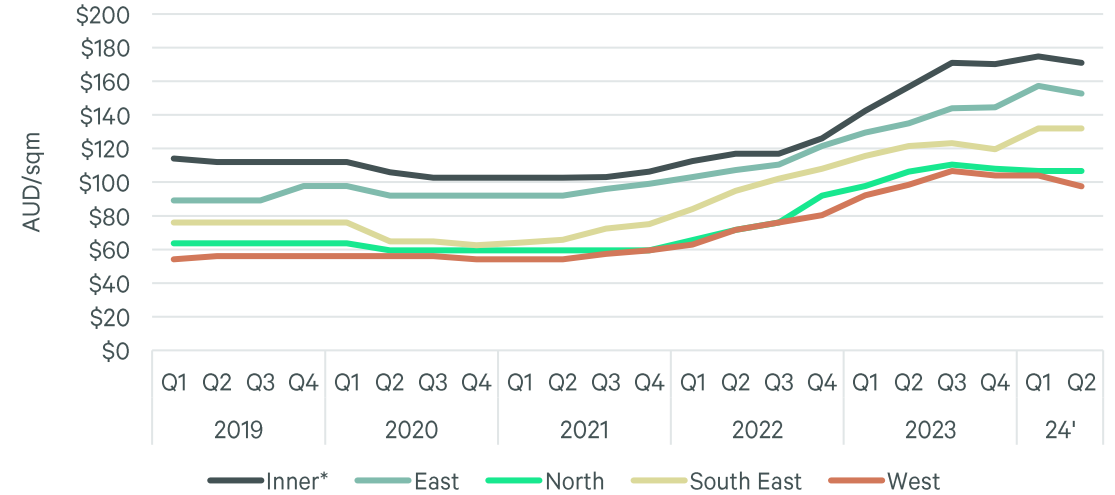
Note: Incentives in the Inner market correspond to Prime values.  
Source: CBRE Research

FIGURE 13: Melbourne Super Prime Outgoing Percentage Increase from Base Period (Q2 2020) by Precinct



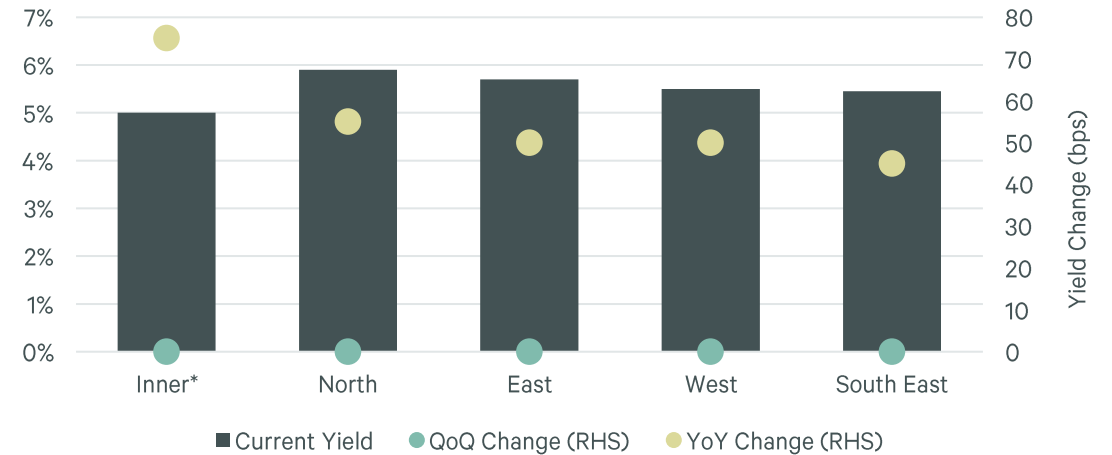
Source: CBRE Research

FIGURE 14: Melbourne Super Prime Net Effective Rents by Precinct



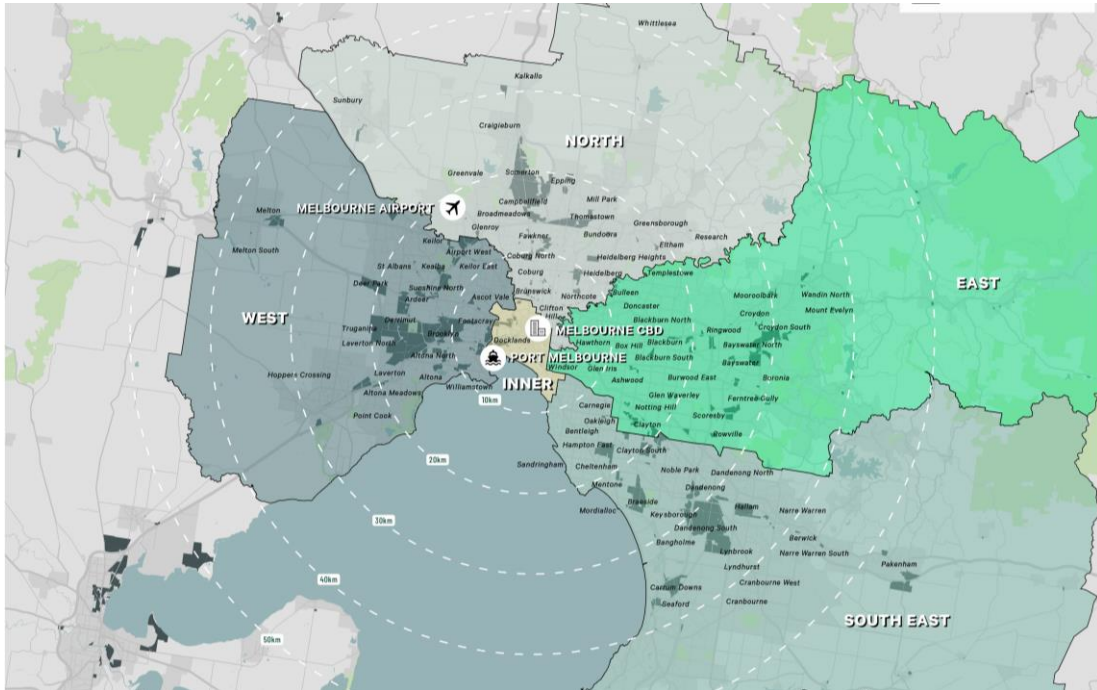
Note: Net effective rents in the Inner market correspond to Prime values.  
Source: CBRE Research

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



Note: Current yields in the Inner market correspond to Prime values.  
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.

## Contact

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