

FIGURES | INDUSTRIAL & LOGISTICS | Q1 2024

Rental bifurcation across Melbourne precincts widens

2.4%

VIC Annual Population Growth FY23-27¹

▼ c.151,000 sqm

1Q24 Gross Take-Up

▼ c.185,000 sqm

1Q24 Supply Completions

▶ 5.6%

Average Super Prime Midpoint Yield

Note: Arrows indicate change from previous quarter.

Key Points

- Gross take-up in 1Q24 totalled c.151,000 sqm, a 47% reduction from the level recorded in 4Q23. This decline is attributed to increases in lead times for deals across the state.
- New floorspace added to the market over the quarter totalled c.185,000 sqm across 11 projects, with most of the supply delivered within the West precinct (61%).
- Average super prime, prime and secondary rents increased in 1Q24, with q-o-q growth rates of 5.6%, 3.2% and 2.2% respectively.
- Land values continue to see downward pressures, driven by economic feasibility concerns, combined with construction and holding cost increases.
- A total of around AUD 143million of investment sales (for transactions greater than and equal to AUD 5 million) was recorded in 1Q24 across 9 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 subdued to begin 2024, amidst deal lead time extension.

Gross take-up over 1Q24 decreased by 47% compared to the levels recorded in 4Q23. Approximately 150,000 sqm of leasing activity was recorded this quarter, across 12 transactions. Take-up volumes continue to decline across the Melbourne market; however, the subdued levels are consistent with historical trends in Q1 activity. Tight vacancy conditions (averaging 1.6%, as at 2H23) and slowing occupier demand are key factors driving current take-up conditions. In addition to this, we note increases in deal lead times have been a factor driving the current subdued volumes over 1Q24. As a result, we expect greater levels of activity over the next 3-6 months as pending deals are finalised.

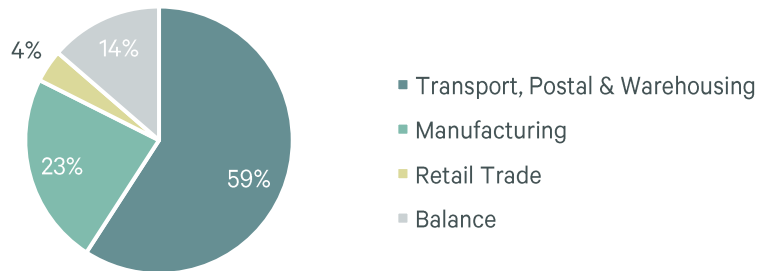
Notable transactions in 1Q24 included:

- XL Express in the North precinct for c. 24,300 sqm.
- A pre-lease in Melbourne’s North precinct by COPE Sensitive freight.
- Visy in the North precinct for c. 19,700 sqm.

The concentration of take-up activity was within the North and West precincts

Gross take-up volumes in Melbourne’s North and West precincts accounted for around 90% of volumes recorded in 1Q24. Volumes in these precincts have benefited from increasing levels of vacancy and strong supply pipelines. In contrast, Melbourne’s East and South-East continue to experience subdued levels of vacancy coupled with limited new developments which has limited take-up levels.

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



Source: CBRE Research

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

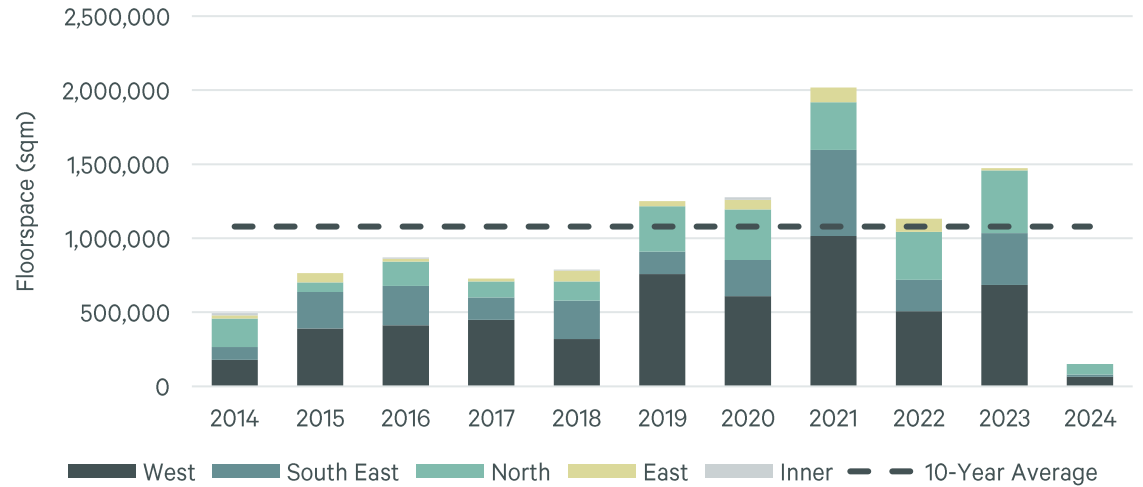
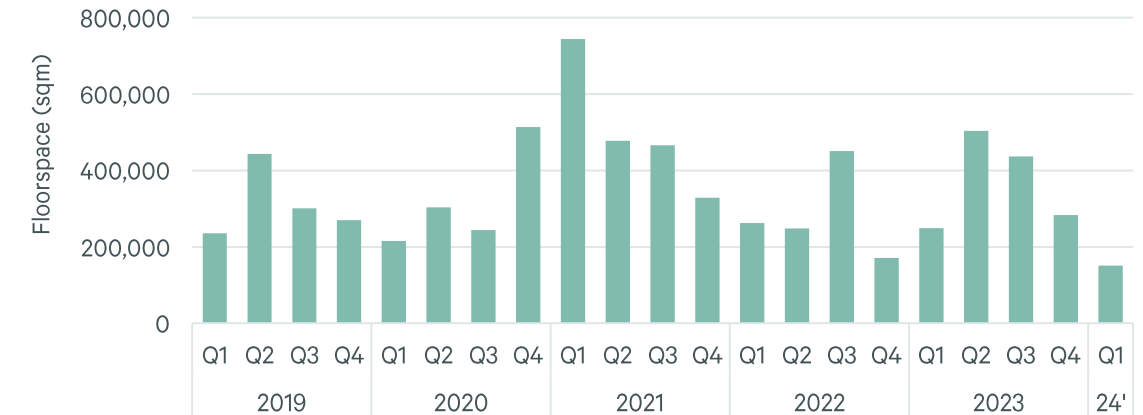


FIGURE 3: Melbourne Quarterly Gross Take-up, 2019-2024



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

Supply

Supply completions moderate over 1Q24

Supply completions in 1Q24 totalled c.185,000 sqm across 11 projects, a moderate reduction from the c.270,000 sqm completed in 4Q23. Completions in 1Q24 were concentrated in the West accounting for 61% of total completions in Melbourne. The forward pipeline (2024-26) is expected to be concentrated within Melbourne's West precinct, accounting for 63% of new floorspace over this period. Notable completions in 1Q24 Included:

- Cloudline Court, Lot 1, Ravenhall (39,500 sqm).
- 441-459 Kororoit Creek Road, Building C & D, Altona (32,000 sqm).
- Greenlink Estate, Lot 3, Cranbourne West (31,500 sqm).

Expected supply over the remainder of 2024 remains concentrated in Melbourne's West (49%), with c.365,000 sqm* expected to reach practical completion in the precinct. Supply levels remain healthy across Melbourne's South-East (c.240,000 sqm*) and North (c.125,000 sqm*). These levels and proportions remain broadly consistent with the supply composition in 2023.

Reduced pre-commitment levels as occupiers delay decision-making

The pre-commitment rate for under construction 2024 developments is currently at approximately 20% (as at 1Q24). This is compared to an approximately 86% leased rate for 1Q24 completions.

Pre-commitment deals for several new developments are increasingly occurring just prior to P.C. 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.

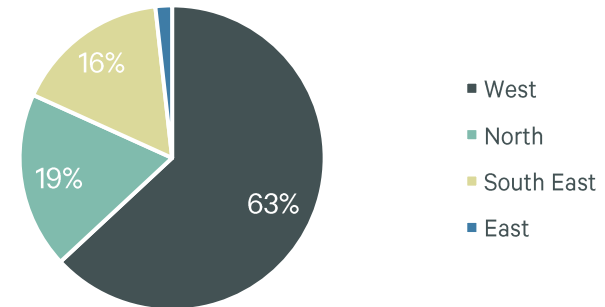
To note: Supply reflects new projects >5,000 sqm.

FIGURE 4: Melbourne Development Supply Pipeline 2010-2026F



To note: Reflects new projects >5,000 sqm.
Source: CBRE Research Q4 2023

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



To note: Reflects new projects >5,000 sqm.
Source: CBRE Research Q4 2023

Leasing Market

Slight uptick in rental growth continues across all grades with precinct bifurcation emerging

Average net face rental growth over 1Q23 in the Melbourne market recorded a moderate increase compared to the previous quarter. Average rents for super prime grade assets recorded the greatest growth in 1Q24, at 5.6% q-o-q. Relative to super prime grade assets, lower growth was recorded over the quarter for prime and secondary grade rents at 3.2% and 2.2%, respectively.

Super prime net face rental growth rates remain elevated across Melbourne, with a recorded 24% as of 1Q24. Melbourne’s Prime and Secondary grade stock continues to experience greater than 10% year-on-year growth. However, levels in these grades have begun to normalise from the post-covid highs, with a recorded 20% and 11% growth for Prime and Secondary stock respectively.

Rental growth across Melbourne is becoming increasingly bifurcated. Notably, vacancy levels across the South-East/East precincts have consistently been tight, given the limited development opportunities on zoned land. As such, rental growth for the South-East and East was the strongest over the quarter at 8.8% and 10.3%, respectively. In contrast, there is relatively greater new supply within the North and West precincts - coupled with greater sub-lease activity- as occupiers have greater choice. Limited rental growth over the quarter was recorded across the North precinct (+1.9%), with rents in the West remaining unchanged.

Upward pressure on Incentives driven by strong supply pipeline.

Incentives across Melbourne continue to see upward pressures, associated with rising supply and vacancy levels. Over 1Q24, super prime incentives remained stable in all precincts except for Melbourne’s North (+250 bps). Year-on-year increases in incentives were recorded across all precincts, with the largest expansion recorded in the North (+750 bps). The rise in incentives in the North is attributed primarily to market movements in Melbourne’s West. As the tenant pools between precincts largely overlap, increased competitiveness in the West has driven elevated incentives in Melbourne’s North.

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

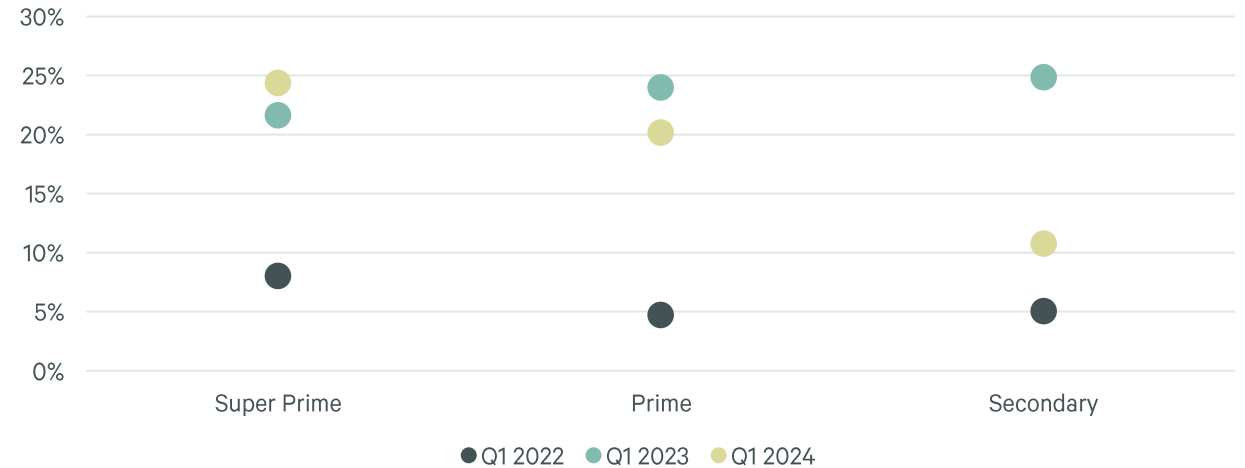


FIGURE 7: Melbourne Super Prime Net Face Rents by Precinct and Year



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

Land Values

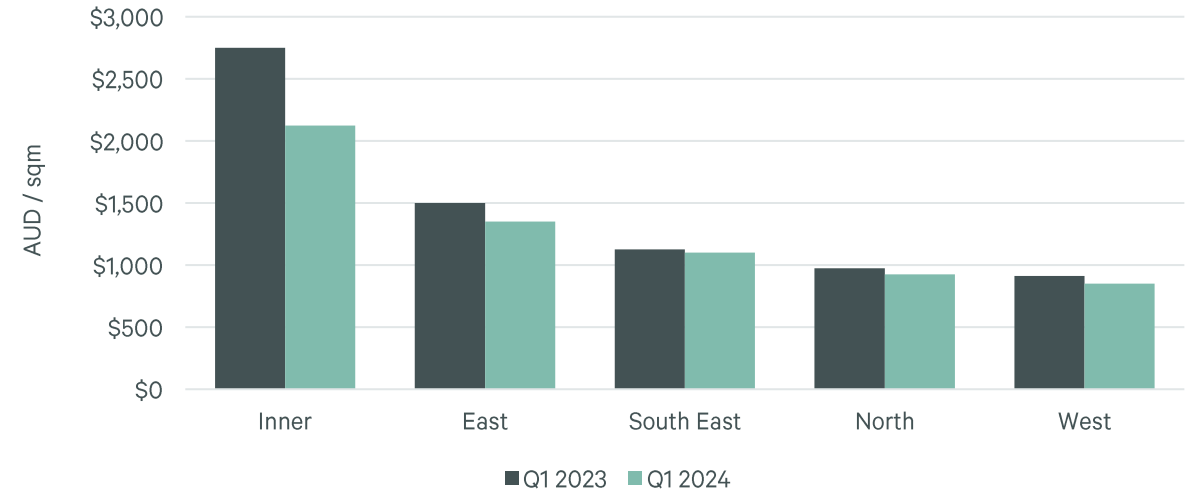
Land values see continued downward pressures across Melbourne.

Land values are continuing to see downward pressure across most precincts and sizes across Melbourne. Notably, small (0.25ha) lots saw moderate movement in 1Q24. Average land values in small lots across all precincts declined 2% quarter-on-quarter. This is compared to a 0.5% decline in large (1.6ha) lots, on average across the state. Land values are remaining subdued in the current landscape.

Three key themes are presently affecting Melbourne’s Land values:

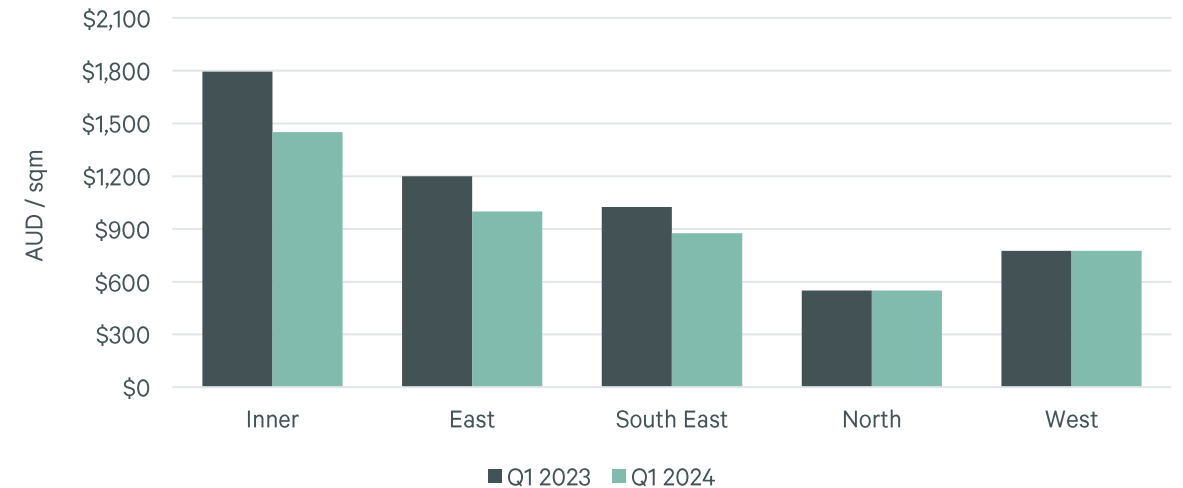
- The most notable one is that of the economic headwinds faced by development groups. With the cost of debt remaining elevated, feasibility concerns have begun to be raised creating hesitation amongst groups. Whilst this may have contributed to a decline in activity in development and investor groups, it is noted that owner-occupiers remain active.
- Rising pressure on construction costs is another key factor in downward pressure on land value in 1Q24. 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.

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

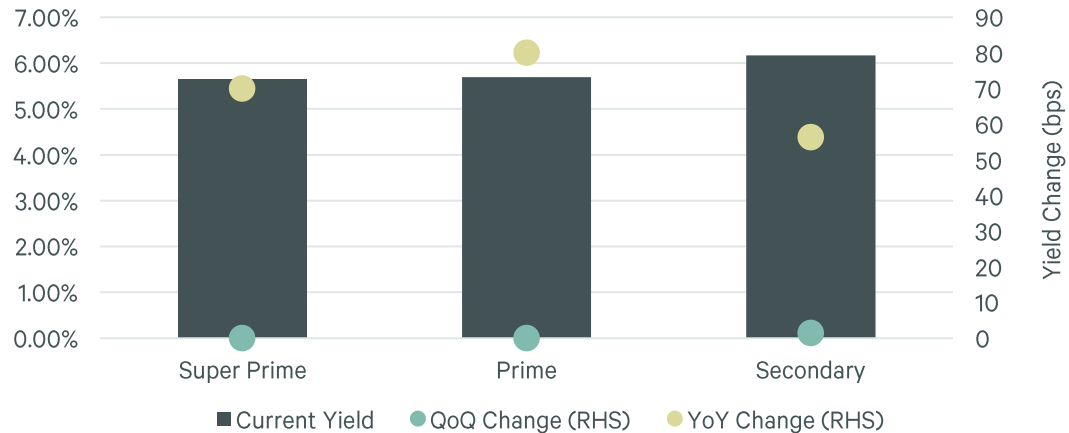
Limited transaction volumes to begin 2024 as lead times increase.

Investment activity has been subdued to begin 2024, with around AUD 140 million transacting across 9 deals. Investors, particularly institutions have begun to be more cautious with respect to investment activity. Concerns and uncertainty around the impact of Victoria’s foreign tax changes is also a key factor driving the subdued volumes recorded.

Yield stability amidst limited evidence.

Following the yield expansion seen in 4Q23, recorded yields have remained stable in 1Q24. This follows a period of subdued investment activity causing limited evidence in the market. Industrial assets continue to see pressures associated with weakening demand and rising cost of debt. Further developments in the market is expected to cause marginal yield movement over 2024. However, it is unlikely yield expansion will reach the levels seen over 2023, driven by expectations of interest rate stability.

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



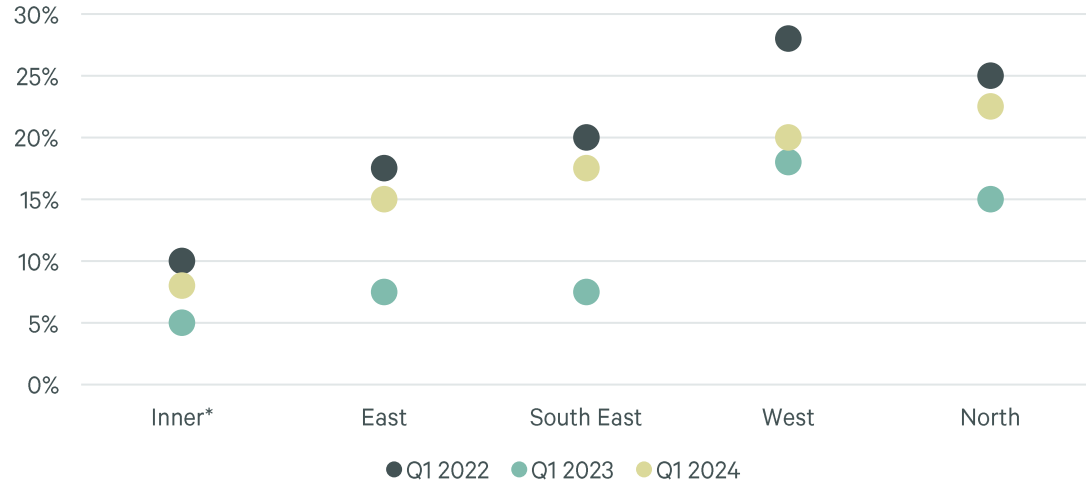
Source: CBRE Research

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



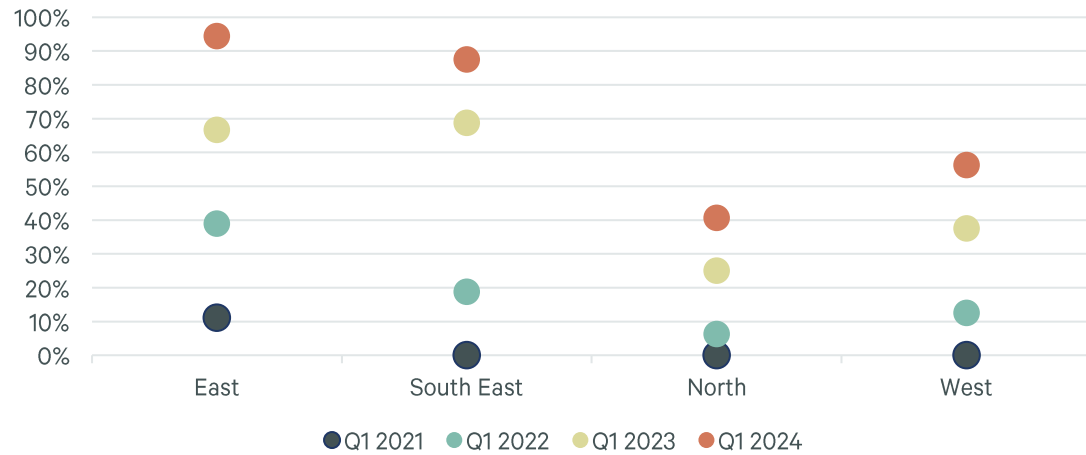
To note: does not include land/development sales.
Source: CBRE Research

FIGURE 12: Super Prime Incentives, by Precinct and Year



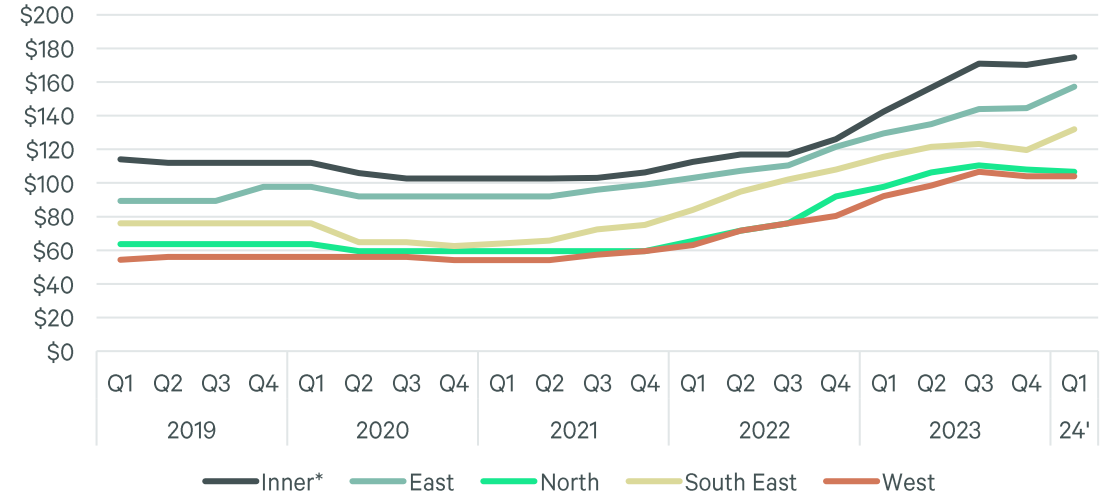
Note: Incentives in the Inner market correspond to Prime values.
Source: CBRE Research

FIGURE 13: Melbourne Super Prime Outgoing Percentage Increase from Base Period (Q1 2020) by Precinct



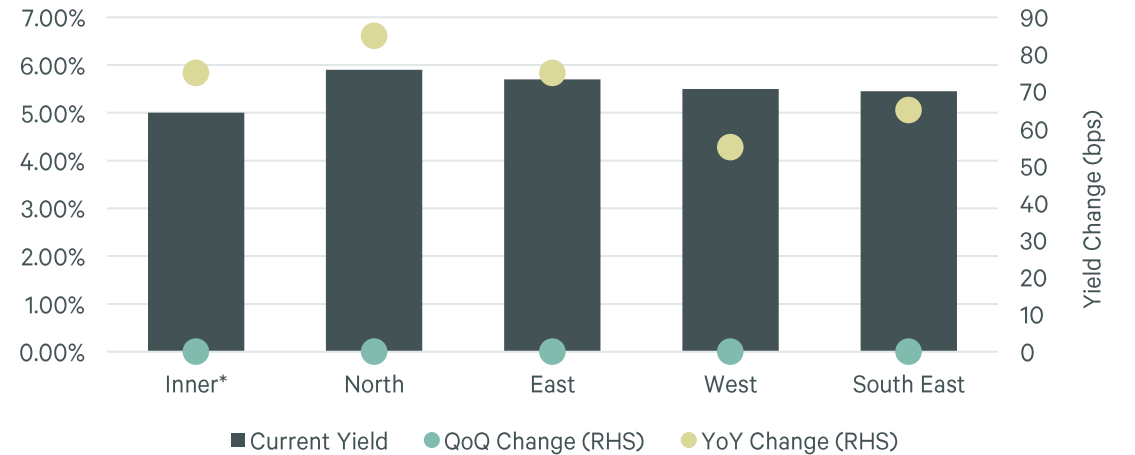
Source: CBRE Research

FIGURE 14: Melbourne Super Prime Net Effective Rents by Precinct



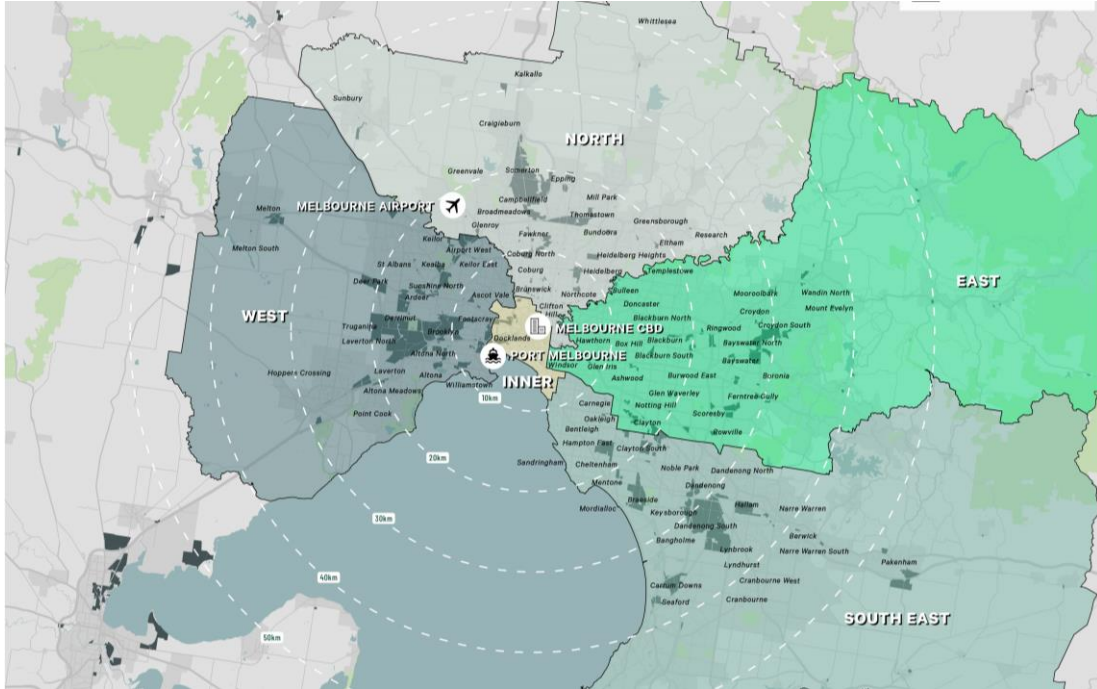
Note: Net effective rents in the Inner market correspond to Prime values.
Source: CBRE Research

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.

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