CUSHMAN & WAKEFIELD

INSTANT INSIGHT

HEADLINE VACANCY NUMBERS DON'T TELL THE FULL STORY

AUSTRALIA LOGISTICS & INDUSTRIAL

Globally, vacancy rates for logistics and industrial (L&I) have increased over the past two years, underpinned by elevated supply additions which have coincided with more normalised demand levels. Australia has been no exception to this trend; however, higher commitment levels on new supply and more resilient tenant demand have meant the upward shift in vacancy rates has been capped, resulting in Australia's vacancy rate remaining well below other comparable markets.

This insight analyses the nuances occurring in the market, the make-up of vacancy and areas where the structural undersupply of logistics space could persist.

Headline Numbers Don't Tell The Full Story

As of Q1 2025, the national vacancy rate increased to 2.7%, representing its highest level since mid-2021. However, drilling down to a submarket level shows that five submarkets account for approximately 60% of the country's vacant floorspace and include Melbourne's West and North submarkets and Sydney's Outer West.

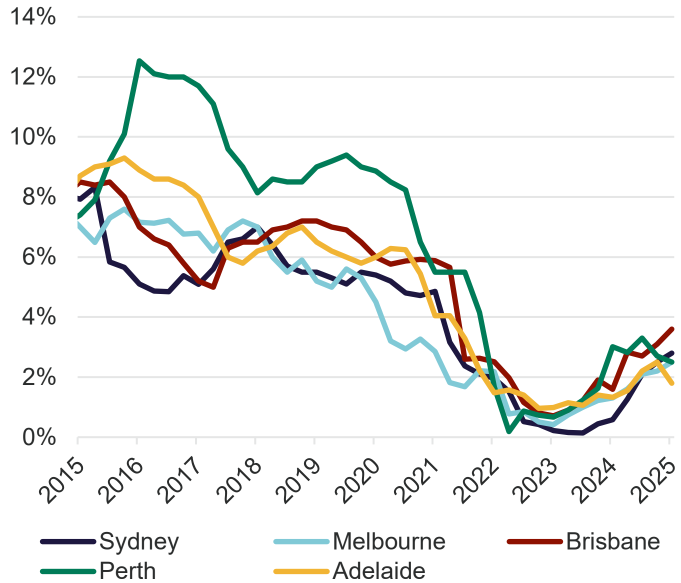
Across these five submarkets (identified in the chart below), the vacancy rate totals 4.5%, while the balance is substantially lower at 1.8%, highlighting the large divide occurring across the national market.

Historical Context Is Important

While the headline figures may present the narrative of a balanced or oversupplied market in some cases, particularly when coming off record lows of sub-1.0% vacancy, all of the 24 submarkets that Cushman & Wakefield tracks remain at levels lower than where they sat in 2019.

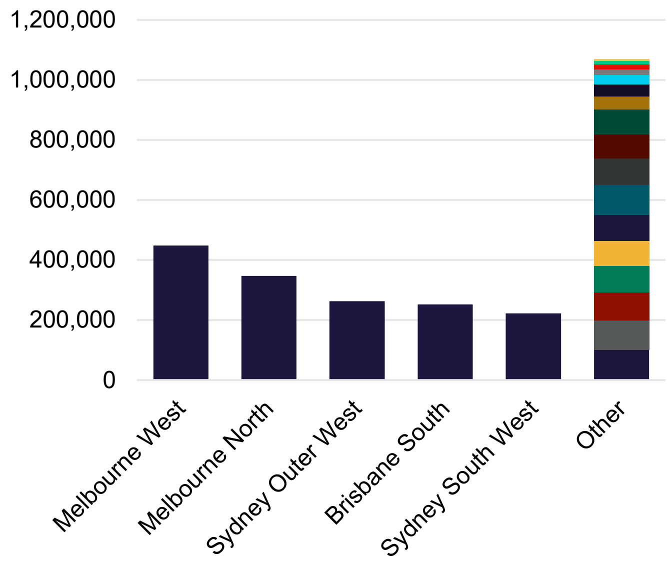
Looking further back, the national vacancy rate averaged 6.9% between 2013 and 2019. In order for the vacancy rate to revert back to this level, an additional 4.4 million sqm of vacancy would need to come online (assuming stock levels remain unchanged), which is well above the speculative supply pipeline over the next three years.

Industrial Vacancy by City



Source: Cushman & Wakefield
Buildings above 3,000 sqm

Q1 2025 Industrial Vacancy by Submarket (sqm)



Source: Cushman & Wakefield
Colours in the 'other' column represent an individual submarket

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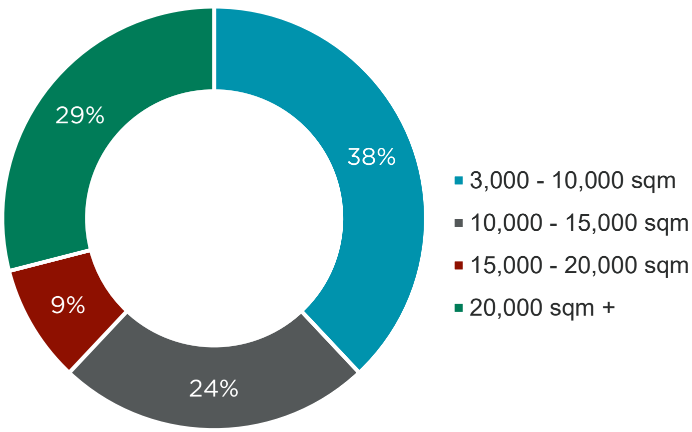
Several Big Boxes Are Skewing The Numbers

Nationally, there are 25 vacant facilities above 20,000 sqm, which collectively account for almost 30% of vacant floorspace. In some submarkets, the impacts of these larger big box vacancies are skewing the headline numbers.

As an example, Brisbane's South vacancy rate measures 4.7%; however, the two ex Coles facilities at Heathwood (collectively totalling 93,438 sqm) add around 180 basis points to the submarket's vacancy rate (falls to 2.9% once removed). Likewise, the Coles 74,735 sqm sublease in Sydney's Outer West adds 140 basis points to the submarket's vacancy rate.

The challenge for larger vacancies in the current environment has been the shift in demand towards sub-10,000 sqm tenancies. In 2024, over 75% of lease deals by number were in the 3,000 – 10,000 sqm size bracket, which is at odds with the supply pipeline in recent years, where additions have been dominated by 10,000 sqm+ tenancies. This has prompted a shift in the composition of supply going forward, with a higher share of smaller to mid-sized tenancies in the pipeline, which caters to the sweet spot of demand.

Share of Current Vacancy by Size Bracket



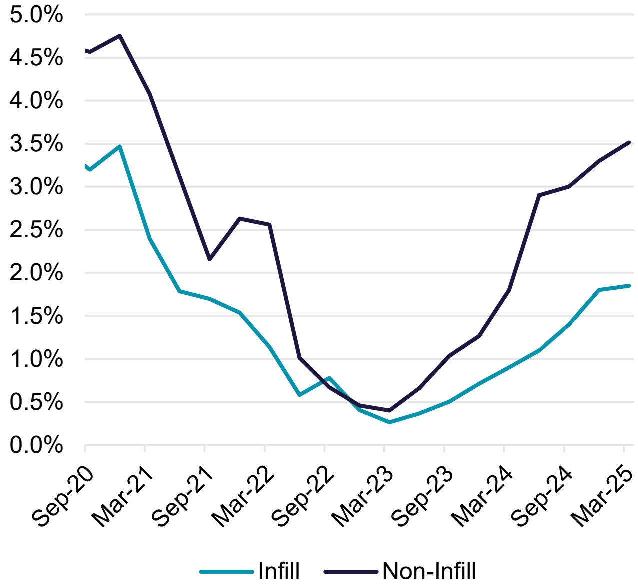
Source: Cushman & Wakefield

Infill Market Outperformance

Reflecting higher barriers for supply and sustained demand for central warehouse space, vacancy rates across the east coast infill markets measures just 1.9%, versus 3.5% for non-infill markets.

With just 20% of supply over the next two years being in infill markets, vacancy levels in these precincts are expected to remain capped, albeit with varying thematics at a precinct level. For example, Sydney's Inner South West will see vacancy rates rise throughout 2025, given supply additions in markets such as Milperra; however, supply beyond 2025 in the area is muted, which will likely see vacancy rates tighten up in 2026.

Industrial Vacancy, Infill Vs Non-infill



Source: Cushman & Wakefield
East coast Cities Only

The Makeup Of Vacancy Is Led By Existing Stock

Despite the sharp increase in speculative supply in recent times, it only represents 25% of total vacancy. Further, letting up periods for speculative space in most cases remain less than four months post completion, while in contrast, letting up periods for secondary vacancies are six or more months in some cases.

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What Are The Impacts On Rents?

The pace of rental growth has continued to ease over the past 12 months; however, it remains above long-term benchmarks as vacancy levels remain under the market equilibrium. Prime rents increased by 5.7% in the year to March 2025, and compares to the 20-year annual average of 3.8%.

Between now and the end of 2027, there is approximately 2.8 million sqm of speculative supply that could enter the market nationally, most of which is yet to commence construction. With economic rents in most markets being well above current market rents, our view is that up to 25% of this speculative pipeline could be paused, providing scope for a higher rental growth outlook than the market may be assuming.

Our base case is for a five-year prime effective rent CAGR in the order of 4.4% nationally. However, a more subdued pipeline heading into 2026 could push this closer to 5.0-6.0% as incentives pull back.

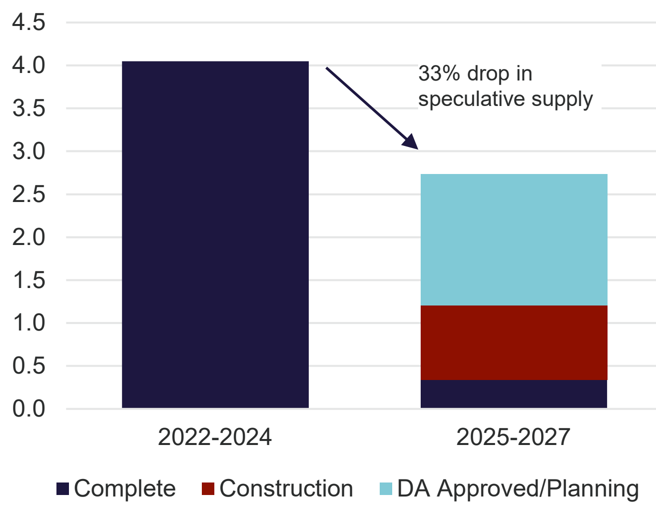
What's Next?

The national vacancy rate is forecast to rise further over the next six months, reaching between 3.0% and 3.3% by the end of Q3 2025. However, easing supply in the second half of the year in several major submarkets, including Melbourne's West, is expected to see the vacancy rate stabilise thereafter.

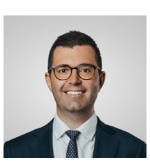
The big question for vacancy rates is around demand and how this tracks in light of current geopolitical events, including trade tariffs. Ultimately, economic uncertainty has the potential for occupiers to delay their leasing decisions, with a preference for renewals rather than relocations or expansions.

However, many occupiers have sat on their hands over the past two years due to uncertainty in stock levels amid slowing consumer consumption. With green shoots emerging as cost-of-living pressures ease, occupiers now have a greater line of sight on their inventory needs, and as a result, occupiers are anticipated to become more proactive as they progress ahead with their long-term strategic real estate plans.

National Industrial Speculative Supply Pipeline
Sqm millions



Source: Cushman & Wakefield



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