MARKETBEAT
SYDNEY
LOGISTICS & INDUSTRIAL Q1 2025

MARKET FUNDAMENTALS

	YOY Chg	Outlook
2.8% Vacancy Rate	▲	▲
5.48% Average Prime Yield	—	▼
0.7% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.3% National GDP Growth	▼	▼
1.5% State Final Demand Growth	▼	▲
4.1% National Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW

The Australian economy has reached an inflection point as the RBA has pivoted and started the rate cutting cycle. Against this backdrop growth is expected to accelerate throughout 2025 and 2026 on the back of improved consumer and business confidence. GDP growth for Q4 2024 reached 0.6% (1.3% year-on-year), while growth in the order of 2.1% is expected for 2025 and 2.5% for 2026.

An improvement in New South Wales' gross state product is expected for 2025, with a 2.1% projected increase for the year before easing to 2.0% in 2026.

DEMAND

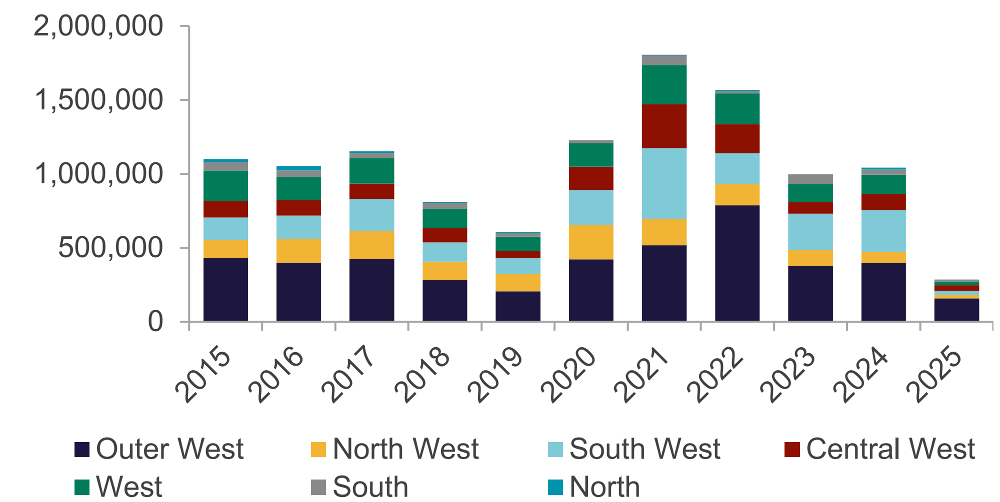
Gross take-up activity improved in Q1 2025, with approximately 290,000 sqm leased across Sydney, up from almost 240,000 sqm in Q4 2024. Notwithstanding the improvement, leasing demand remains patchy as occupiers continue to grapple with softer economic conditions, resulting in cautiousness from tenants to commit to new space.

With greater leasing options available, occupiers have continued to gravitate towards prime space, accounting for over 80% of floorspace leased over the past quarter. While this result was skewed higher by ALDI's 87,000 sqm pre-lease within Bradfield, the leasing of several speculative additions supported this theme.

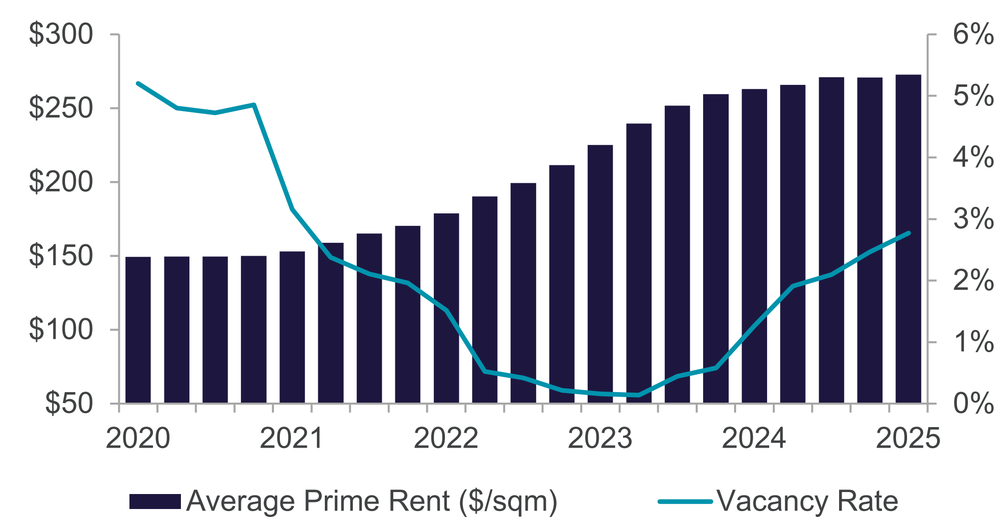
The 3,000 – 10,000 sqm size bracket remained the most active over the past quarter, representing 72% of lease deals by number, while excluding the ALDI deal, the average lease deal measured approximately 7,800 sqm. Reflecting supply additions and land availability, the Outer West submarket saw the bulk of leasing activity in Q1 2025, while demand was underpinned by transport and logistics and retail trade sectors.

Other notable deals in the quarter included Nippon Express leasing almost 17,000 sqm within The Yards estate at Kemps Creek, while Amazon leased 6,105 sqm at Goodman's Chullora Business Park.

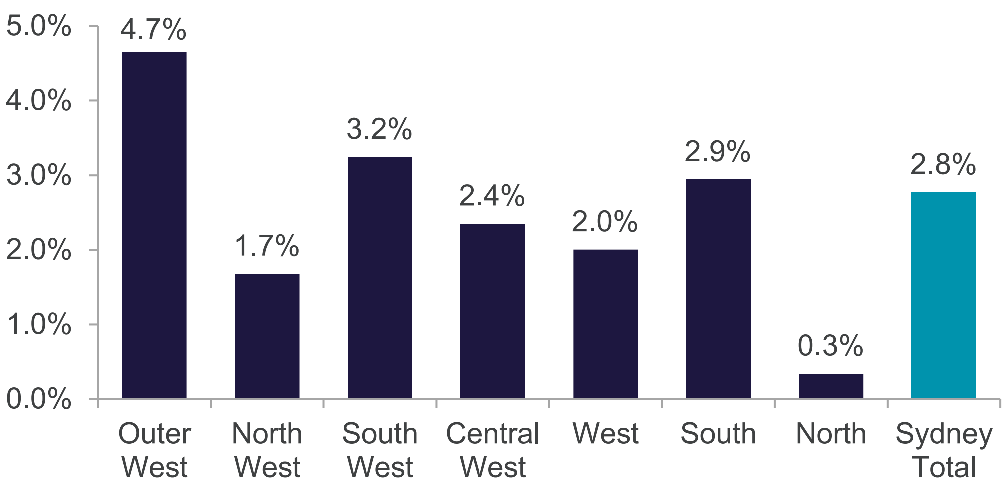
GROSS TAKE-UP (SQM)



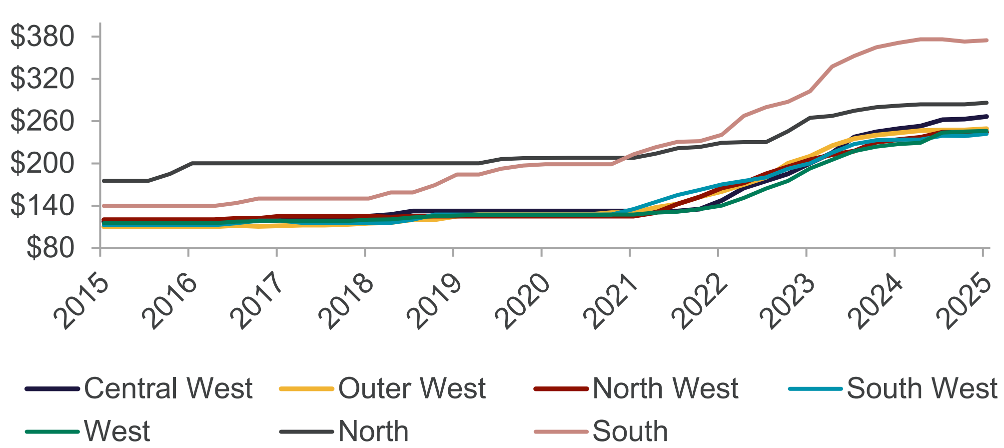
VACANCY & AVERAGE PRIME RENTS



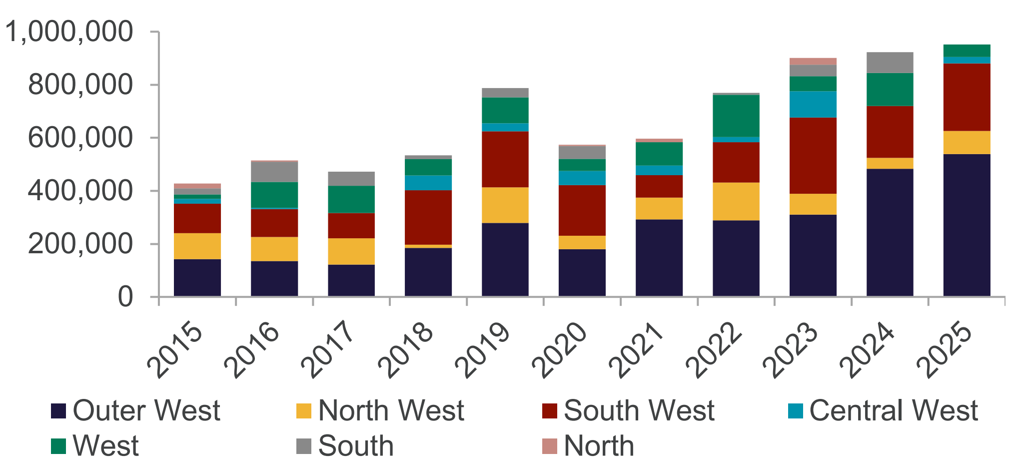
Q1 2025 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET ($/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

Speculative additions and several large backfill options underpinned a rise in the vacancy rate to 2.8% in Q1 2025, up from 2.5% at the end of 2024. Additions to vacancy included EQT's 500 South Street, Marsden Park (25,993 sqm) and S1 at the Moorebank Intermodal Terminal (25,263 sqm), while the subleasing of the ex Coles facility at Eastern Creek (74,735 sqm) was a large needle mover in the Outer West.

By floorspace, prime space accounts for 62% of vacancy; however, letting up periods for secondary grade space remains higher, where several facilities have sat vacant for six or more months. Sublease availability accounts for just under 25% of vacant space.

RENTS & INCENTIVES

A modest uptick in rents was recorded in Q1 2025, averaging 0.7% across the market; however, rental growth remains divergent by submarket. The delivery of supply in the Outer submarkets is leading to more subdued levels of growth, while incentives have stabilised in most markets following the upward movement recorded in 2024. Pre-commitment incentives currently average between 15.0% to 20.0%, while existing incentives broadly range between 10.0% to 17.5%. There have been several deals outside of these ranges; however, it remains landlord dependent.

Rental growth remains most pronounced within the Central West market, up 1.4% over the past quarter, reflecting subdued supply additions. Recent deal activity in South Sydney has resulted in a 0.5% quarter-on-quarter rise in prime rents.

SUPPLY

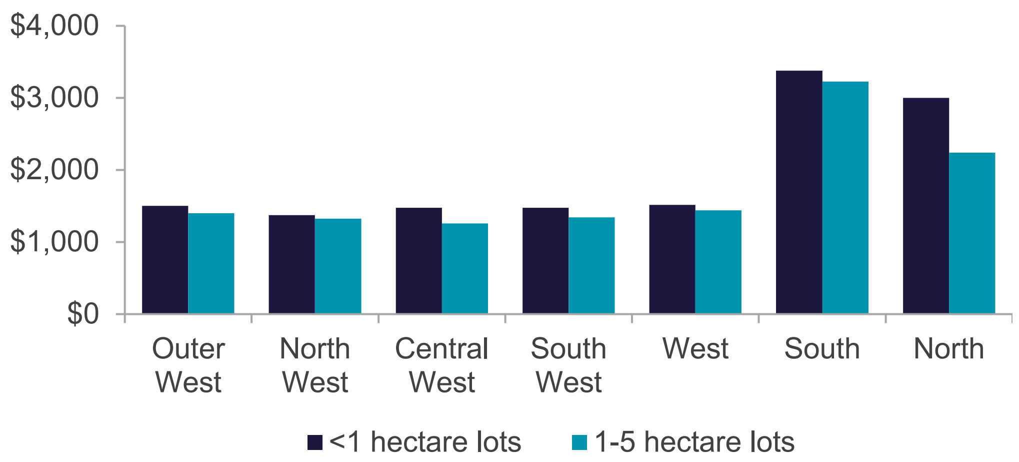
Floorspace additions totalled approximately 185,000 sqm in Q1 2025 and included Toll's 65,000 sqm distribution centre within ESR's Westlink Industry Park at Kemps Creek. Several speculative additions came online, including Aliro's development at Chipping Norton (~28,100 sqm) and S1 at the Moorebank Intermodal terminal (~25,300 sqm).

For the balance of 2025, there is a further 760,000 sqm due for completion (~950,000 sqm for the year), just over half of which is speculative and includes Hale's Portal estate at Milperra (~37,500 sqm). Pre-lease supply is led by Amazon's new facility within Goodman's Oakdale East estate and Woolworths at Charter Hall's Light Horse Business Hub at Eastern Creek. Pre-commitment levels for the 2025 currently stand at approximately 55%, while it's lower in the South West, driven by additions within the Inner South West at Milperra and Moorebank.

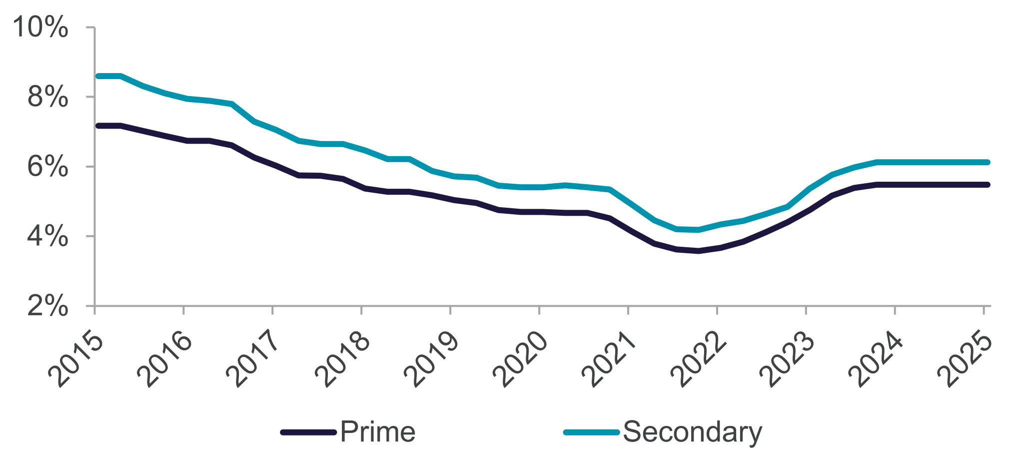
OUTLOOK

- Leasing demand is expected to remain patchy in Q2 2025 given the Federal Election and continued cautiousness from occupiers in the current economic climate. However, the second half of the year is expected to see an improvement, particularly from 3PLs who have been inactive by historical standards.
- Vacancy rates are expected to edge higher over the next six months, albeit it is expected to remain under 3.5% by the end of 2025.
- A higher vacancy rate, development feasibility challenges and land constraints are likely to delay the delivery of new projects that are yet to start construction. This environment will mean the vacancy rate could potentially decline from late 2025 and into 2026.
- Rental growth in the order of 4.3% is expected in 2025 for Sydney; however, select markets are forecast to record growth in excess of 5.0%. Net effective rents in precincts where supply is coming online are expected to moderate

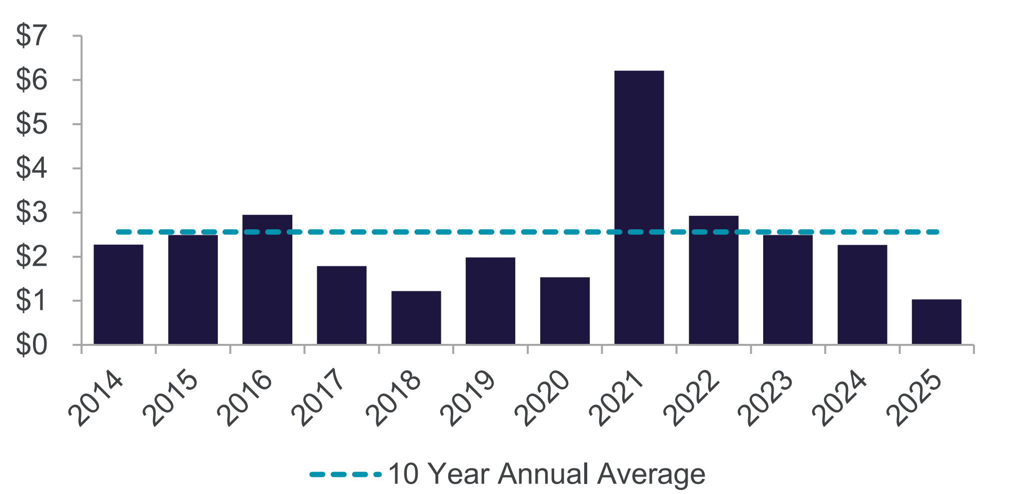
Q1 2025 LAND VALUES BY SIZE ($/SQM)



YIELDS BY GRADE



INVESTMENT VOLUMES ($B)



LAND VALUES

The appetite for industrial land remains strong, led by a mix of owner-occupier (including data centres) and developer demand. For 2024, over $2.1 billion in land transactions was recorded, including Next DC's recent purchase of 25.8 hectares of land in Eastern Creek for $353.0 million. There are several large parcels currently in the market, and if traded, would result in almost $1.0 billion in land transactions.

From a growth perspective, land values have held steady, averaging $1,855/sqm across Sydney ($1,500/sqm in Western Sydney) for 1-5 hectare lots. South Sydney remains the highest at $3,225/sqm.

In March 2025, the NSW Government released its Aerotropolis Sector Plan, which provides timing guidelines for water-related and transport projects within the Aerotropolis Precinct. Select precincts such as Aerotropolis Core Precinct have benefited from the plan as their timing has been brought forward from previous Priority Plans. Alternatively, several precincts that were previously first-priority areas have been assessed as 2040 timing given unfunded transport upgrades.

YIELDS

Core market yields have continued to stabilise across the Sydney market, supported by recent deal evidence. Prime yields currently range between 5.15% and 5.90%, while secondary core market yields range between 5.75% and 6.50%. The sale of Connect Central Estate at Villawood to Gateway Capital reflected a core market yield of 5.45%.

INVESTMENT

Investment activity in 2025 has started strongly across Sydney with just over $1.0 billion trading in Q1 2025 and follows approximately $2.3 billion that traded in 2024. By comparison, investment volumes totalled just $152.5 million at the same point in 2024.

The pick-up in transaction activity in Q1 2025 was underpinned by the M&G and KKR partnerships with Stockland, while Gateway Capital acquired Connect Central Estate at Villawood (2 Christina Road) for almost $315.0 million (from Brookfield). The estate provides almost 70,000 sqm of floorspace, reflecting a capital value rate of $4,550/sqm. The 5.45% core market yield provided further clarity on where prime yields sit in Sydney. Other sales include Centennial selling 17 Jumal Place, Smithfield for $48.1 million.

OUTLOOK

- Continued data centre demand is expected to maintain land values in 2025; however, market pricing will remain two tiered as most developers are unable to meet the rates being paid by data centres.
- Further rate cuts in 2025 will provide the backdrop to improved liquidity, with a material jump in investment volumes forecast, supported by new capital sources from offshore markets.
- The movement of yields over the next two years will be heavily influenced by the outlook for rates – both interest rates and the risk-free rate, as well as the weight of capital seeking to be deployed, where in the absence of high stock levels will result in heightened competition for limited assets.
- Our modelling highlights the potential for 10 to 25 basis points of compression in late 2025 before a further 25 to 30 basis point reduction in 2026. Unlike the last cycle, the movement in yields will not be consistent across markets and grades.

Q1 2025 SYDNEY MARKET STATISTICS

SUBMARKET	VACANCY RATE (TOTAL MARKET)	Q4 2024 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								
Outer West	4.7%	157,511	$249	$51	15.0%	5.53%	$4,510	$1,400
North West	1.7%	23,194	$244	$54	12.5%	5.63%	$4,341	$1,325
South West	3.2%	29,344	$242	$59	12.5%	5.53%	$4,380	$1,408
Central West	2.4%	37,077	$267	$65	13.5%	5.45%	$4,893	$1,950
West	2.0%	26,078	$246	$54	12.5%	5.53%	$4,457	$1,521
North	0.3%	0	$286	$66	7.5%	5.45%	$5,252	$2,240
South	2.9%	12,942	$375	$87	12.5%	5.25%	$7,105	$3,225
PRIME AVERAGE	**2.8%**	**286,146**	**$273**	**$62**	**12.3%**	**5.48%**	**$4,997**	**$1,867**
SECONDARY								
Outer West	-	-	$223	$53	13.5%	6.25%	$3,560	-
North West	-	-	$218	$50	12.5%	6.25%	$3,493	-
South West	-	-	$222	$59	12.5%	6.18%	$3,595	-
Central West	-	-	$234	$65	13.5%	6.18%	$3,792	-
West	-	-	$208	$48	12.5%	6.25%	$3,320	-
North	-	-	$225	$62	7.5%	6.13%	$3,673	-
South	-	-	$337	$92	12.5%	5.63%	$5,982	-
SECONDARY AVERAGE			**$251**	**$66**	**11.5%**	**6.04%**	**$4,192**	**-**

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