MARKETBEAT
SYDNEY
LOGISTICS & INDUSTRIAL Q2 2025

MARKET FUNDAMENTALS

	YOY Chg	Outlook
3.0% Vacancy Rate	▲	▲
5.28% Average Prime Yield	–	▼
1.1% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.3% National GDP Growth	▼	▼
1.0% State Final Demand Growth	▼	▲
4.1% National Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW

The Reserve Bank of Australia responded to continued disinflation and the ongoing tariff negotiations by cutting rates in May for the second time this year as the central bank's focus has shifted from fighting inflation to supporting growth and maintaining full employment. Against this backdrop growth is expected to improve throughout 2025 and 2026 on the back of improved consumer and business sentiment. GDP growth slowed in Q1 2025 reaching 0.5% (1.3% year-on-year but is forecast to recover to 1.8% by the end of the year and 2.1% for 2026).

New South Wales' economic growth is forecast to improve by 1.0% in 2025, before momentum picks up slightly to increase by 1.9% in 2026.

DEMAND

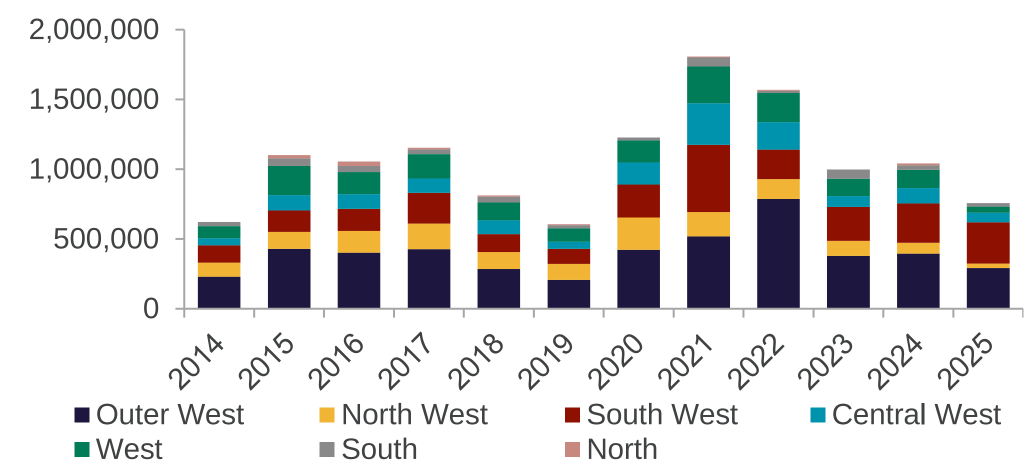
Despite the current geopolitical environment, the Sydney market continues to absorb a healthy level of warehouse space, led more recently by several large leasing transactions. Notwithstanding this, leasing conditions are patchy, with some occupiers delaying decisions. This is particularly the case for businesses headquartered in the US, despite Australia seeing minimal impacts to date from higher tariffs.

Gross take-up in Q2 2025 jumped to its highest level since 2022 with almost 425,000 sqm recorded, almost two thirds of which stemmed from six transactions. This includes Kmart pre-leasing 100,000 sqm at the ESR's Moorebank Intermodal Terminal and Kimberly Clark leasing 42,121 sqm at Goodman's Oakdale East estate.

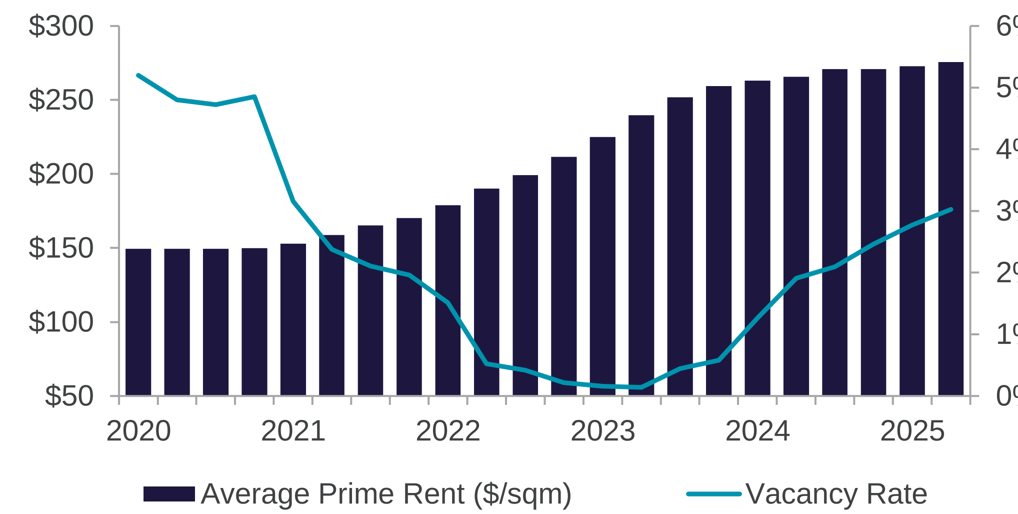
Despite these larger deals skewing take-up volumes, deal activity over the past quarter remained concentrated in the 3,000 – 10,000 sqm size bracket, accounting for 71% of deals by number.

The Outer West and South West submarkets represented over 90% of floorspace leased in Q2 2025, while take-up was driven by transport and logistics, retail trade and manufacturing sectors.

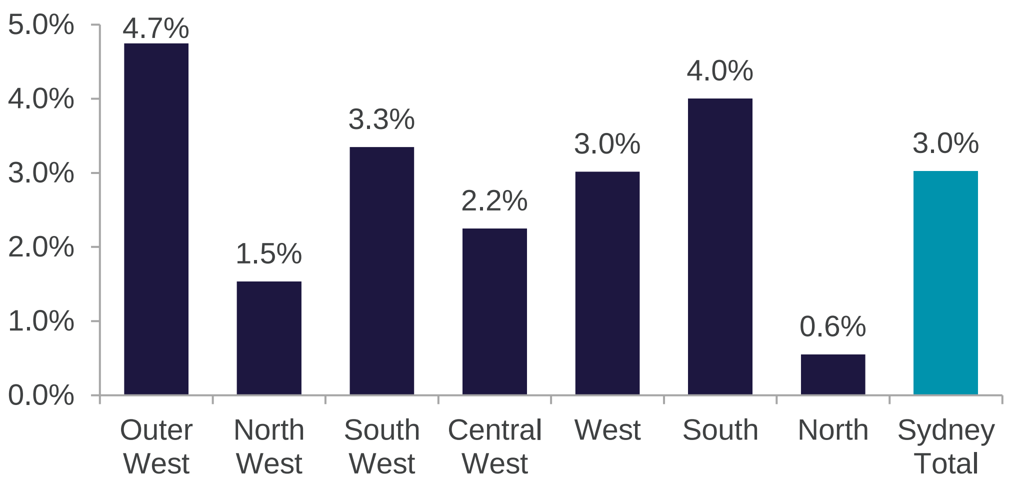
GROSS TAKE-UP (SQM)



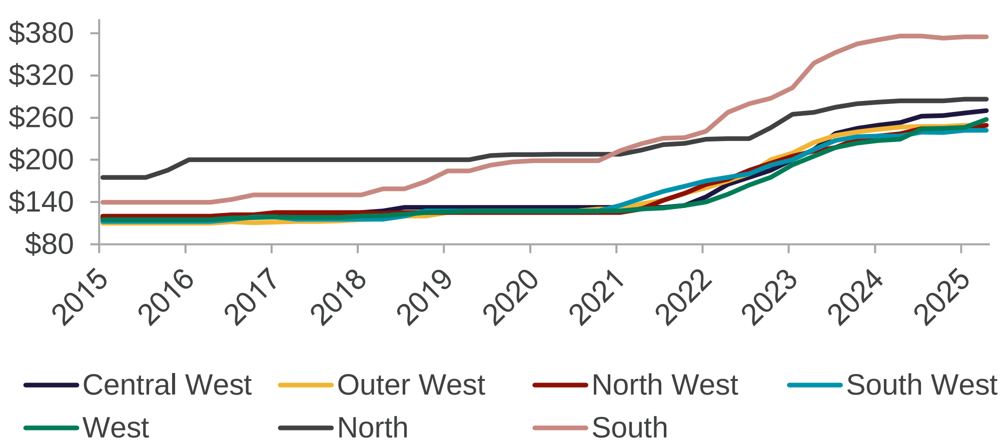
VACANCY & AVERAGE PRIME RENTS



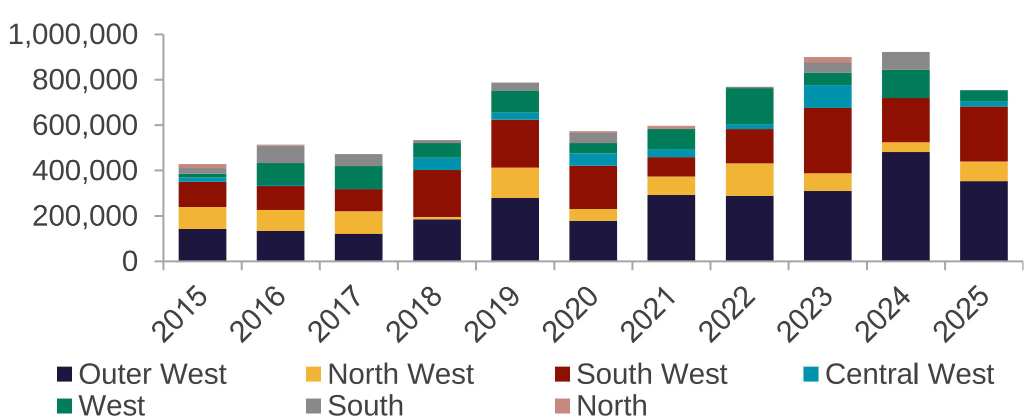
Q2 2025 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET ($/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

Sydney's vacancy rate edged higher to 3.0% in Q2 2025, up from 2.8% in Q1 2025. Speculative additions and several large backfill options in the Outer West underpinned the rise and included developments in the Inner South West, with Hale and Pittwater Industrial bringing facilities online. Speculative stock now represents 24% of vacant floorspace, while sublease availability recorded a modest uptick and stemmed from QUBE offering half of their Moorebank facility to the market.

Across most submarkets, vacancy rates are being skewed higher by a handful of 20,000 sqm + facilities. This includes Coles' sublease at Eastern Creek (74,735 sqm) and TTI's backfill space at Eastern Creek (41,401 sqm), which collectively account for 200 basis points in the Outer West submarket.

RENTS & INCENTIVES

Prime net face rental growth of 1.1% was recorded in Q2 2025 (3.8% year-on-year), supported by growth in select infill precincts, including the Central West and West submarkets. Alternatively, the delivery of supply and existing backfill availability in the non-infill submarkets has resulted in net face rents remaining unchanged over the quarter. A further uptick in vacancy in the Outer West submarket has driven a modest decline in effective rents.

Pre-commitment incentives currently average between 15.0% to 22.0%, while existing incentives broadly range between 10.0% to 20.0%. In select markets, such as the South West where there is a large private ownership market, incentives are at the lower end of this range.

SUPPLY

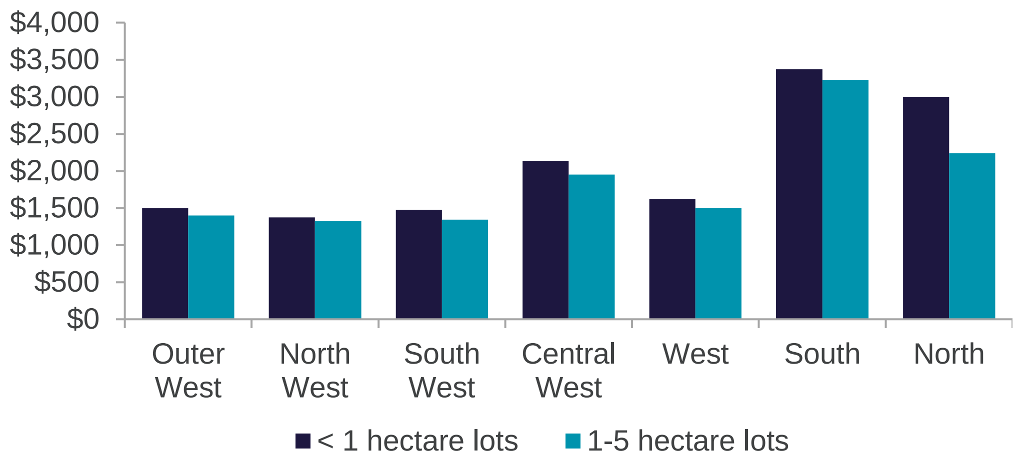
The Sydney supply pipeline continues to shift as projects are delayed or put on hold. The catalyst behind this is a pivot in strategy from some developers to focus on pre-leasing, while the feasibility of a number of others remains challenging given that the economic rents needed are above current market rents.

New supply in Q2 2025 totalled almost 95,000 sqm, led by additions within the Inner South West where Hale (37,526 sqm) and Pittwater Industrial (18,402 sqm) have delivered speculative facilities. For the balance of 2025, there is a further 475,000 sqm due for completion (~755,000 sqm for the year) and includes Dexus' Vertex estate at Marsden Park (43,800 sqm) and ESR's Wetherill Industry Park estate (23,173 sqm). At this stage, a similar level of supply is forecast for 2026 (~770,000 sqm).

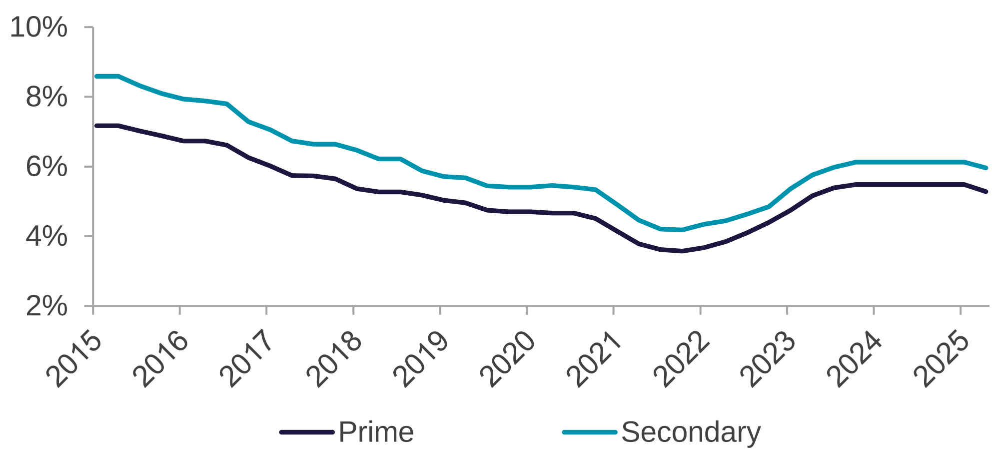
OUTLOOK

- An improvement in consumer spending in the second half of 2025 is expected to support greater leasing activity as occupiers become more comfortable with their inventory needs. Similarly, the flight to quality trend is expected to continue, which will help absorb new space that is coming online.
- Based on enquiry, the 3PL market is expected to drive an uptick in demand, while also being supported by retail and manufacturing-related demand.
- Vacancy rates are expected to edge higher over the next six months, albeit remaining under 3.5% by the end of 2025.
- 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 early 2026, and could be accelerated if demand recovers more quickly than anticipated.
- 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%.

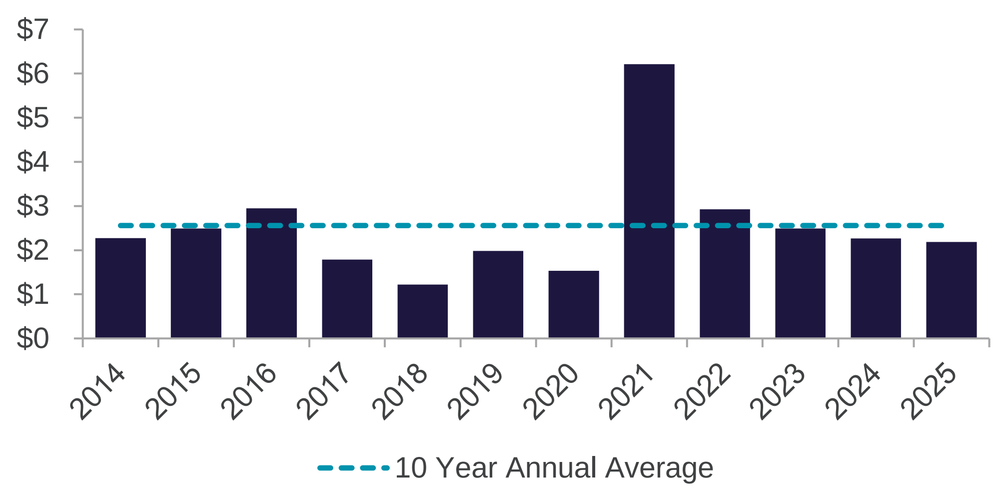
Q2 2025 LAND VALUES BY SIZE ($/SQM)



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. Given that there are several large parcels close to transacting in Sydney, volumes are expected to jump in Q3 2025 and follows over $2.1 billion in land transactions in 2024.

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.

YIELDS

Sydney is one of the top destinations for capital deployment in the APAC region, particularly given the current tax implications in Victoria. As a result, the returning weight of capital and lower debt costs have resulted in yield compression within the Sydney market in Q2 2025.

Prime core market yields compressed 20 basis points in the quarter to now average 5.28% (range of 5.00% to 5.50% - South Sydney tighter by 25 basis points). Secondary yields tightened 16 basis points to 5.96%.

INVESTMENT

Investment activity for Sydney jumped in Q2 2025, taking the year-to-date total to approximately $2.2 billion (deals above $10 million including owner occupier sales). This level of activity already eclipses 2024 volumes for Sydney, which reached $2.1 billion.

Major transactions include the Sydney assets from Frasers Property Industrial entering into its first Australian capital partnership with an investment vehicle sponsored by Morgan Stanley Real Estate Investing (MSREI). Other trades include Centuria and BGO acquiring a $201.0 million portfolio from Goodman, PGIM and Cadence acquiring the St Mary's Intermodal Terminal for $145.0 million and Gateway Capital purchasing 12 Kangaroo Avenue, Eastern Creek for $75.0 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 further investment momentum expected in the second half of 2025, 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.
- For the second half of 2025, there is the potential for a further 25 basis points of compression 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.

Q2 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%	291,835	$249	$53	18.3%	5.33%	$4,679	$1,400
North West	1.5%	32,752	$249	$56	17.5%	5.53%	$4,510	$1,325
South West	3.3%	295,582	$242	$59	13.8%	5.33%	$4,545	$1,408
Central West	2.2%	67,782	$270	$75	17.5%	5.25%	$5,143	$1,950
West	3.0%	44,720	$258	$60	17.5%	5.30%	$4,858	$1,521
North	0.6%	0	$286	$66	7.5%	5.25%	$5,452	$2,240
South	4.0%	25,459	$377	$87	12.5%	5.00%	$7,500	$3,225
PRIME AVERAGE	**3.0%**	**758,130**	**$276**	**$65**	**14.9%**	**5.28%**	**$5,241**	**$1,867**
SECONDARY								
Outer West	-	-	$223	$53	17.5%	6.05%	$3,678	-
North West	-	-	$223	$50	17.5%	6.05%	$3,691	-
South West	-	-	$222	$59	13.8%	6.00%	$3,700	-
Central West	-	-	$245	$75	17.5%	5.95%	$4,118	-
West	-	-	$228	$60	17.5%	6.25%	$3,640	-
North	-	-	$225	$62	7.5%	5.95%	$3,782	-
South	-	-	$337	$92	12.5%	5.50%	$6,118	-
SECONDARY AVERAGE			**$259**	**$72**	**13.8%**	**5.91%**	**$4,414**	**-**

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