MARKETBEAT
SYDNEY
LOGISTICS & INDUSTRIAL Q3 2025

MARKET FUNDAMENTALS

	YOY Chg	Outlook
3.5% Vacancy Rate	▲	▲
5.26% Average Prime Yield	▼	▼
0.6% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.8% National GDP Growth	▲	▲
1.8% State Final Demand Growth	▲	▲
4.3% National Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW

The demand side of the economy remains robust, though likely only in the short term. A rebound in demand drove inflation higher in July, with CPI rising to 2.8% year-on-year from 1.9% in June, largely due to the expiration of electricity subsidies. This rebound in inflation has tempered expectations for an imminent rate cut at the Reserve Bank of Australia's (RBA) meeting on 30 September. Meanwhile, GDP grew by 0.6% quarter-on-quarter in Q2, up from 0.3% in Q1, driven primarily by stronger private consumption, with forecasts expecting GDP to continue to improve through 2025 and 2026.

New South Wales' gross state product is projected to grow 1.3% through 2025, before picking up to 1.5% in 2026, then improving significantly to 2.3% growth in 2027

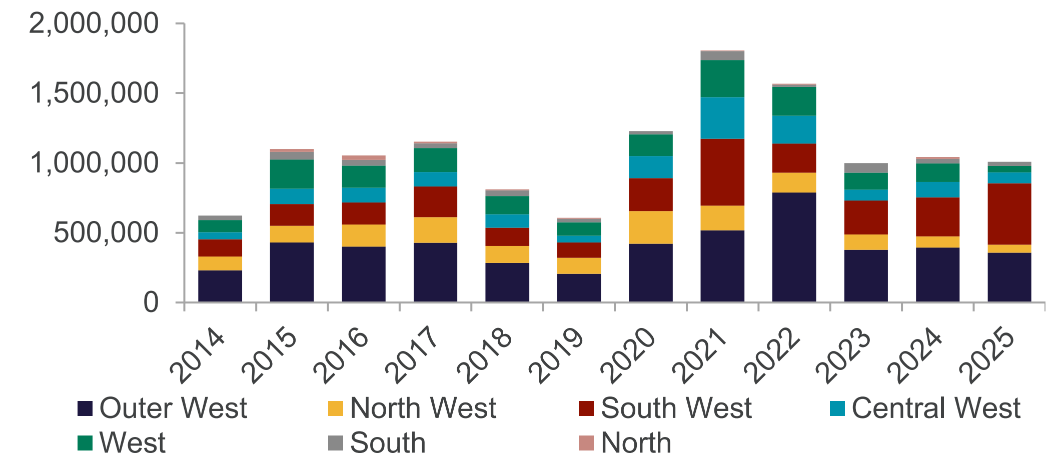
DEMAND

The trading environment for most occupiers in Sydney remains challenging due to cost pressures amid patchy revenue growth. Consequently, this has prompted occupiers to adopt a more cautious approach, with renewals remaining above pre-pandemic levels across each submarket.

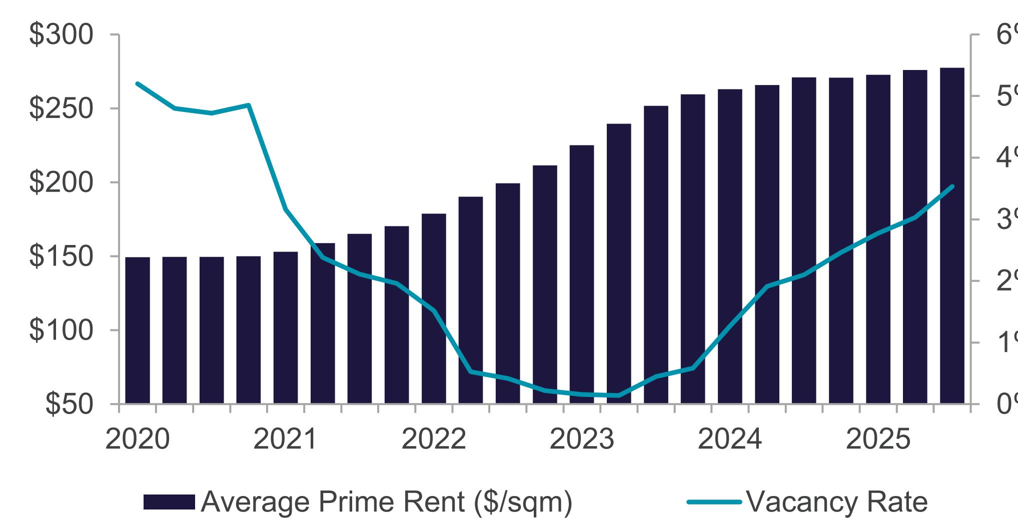
Gross take-up in Q3 2025 reached just over 275,000 sqm, taking the year-to-date 2025 take-up figure to approximately 1.0 million sqm. While this appears to show solid take-up activity at face value, there has been limited expansionary activity compared to prior years, with net absorption for 2025 so far standing at just 135,000 sqm.

Sydney's South West was the most active in Q3 2025, with several deals being recorded in infill precincts such as Milperra and Padstow, while the Outer West benefited from commitments within the Frasers/Aware The Yards estate at Kemps Creek, including deals to The Consortium Clemenger and Toshiba. Given that these deals are new additions to the precinct, net absorption was solid in the Outer West in Q3 2025 at almost 80,000 sqm. For South Sydney, the largest deal to occur during the quarter was the leasing of 22 O'Riordan Street, Alexandria (5,290 sqm), while there continues to be deal activity recorded below 3,000 sqm.

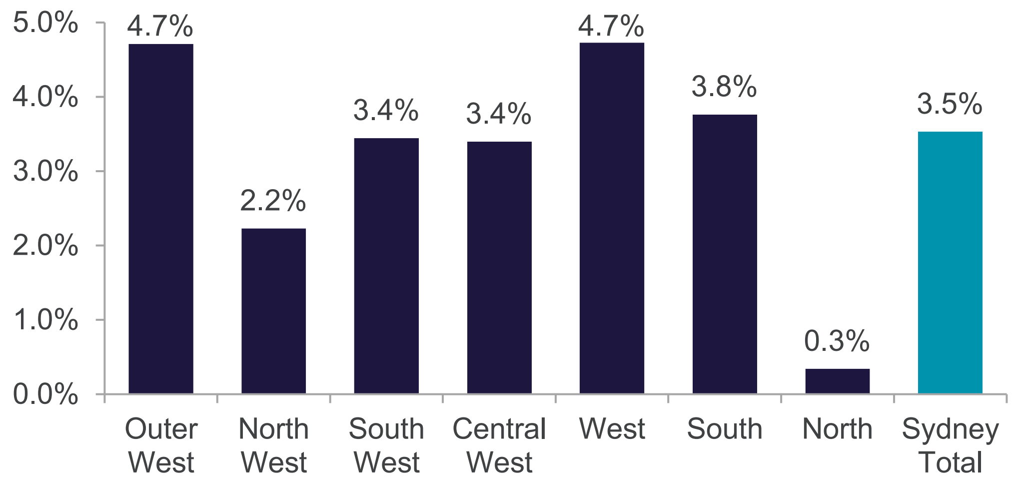
GROSS TAKE-UP (SQM)



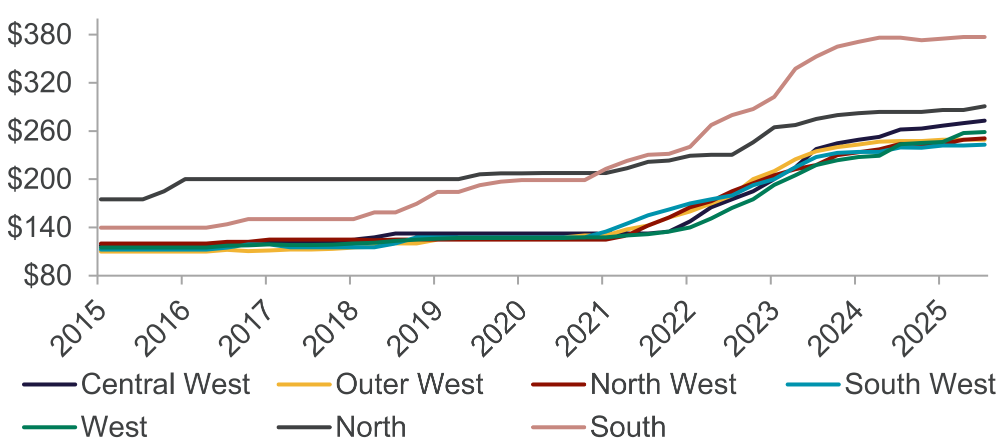
VACANCY & AVERAGE PRIME RENTS



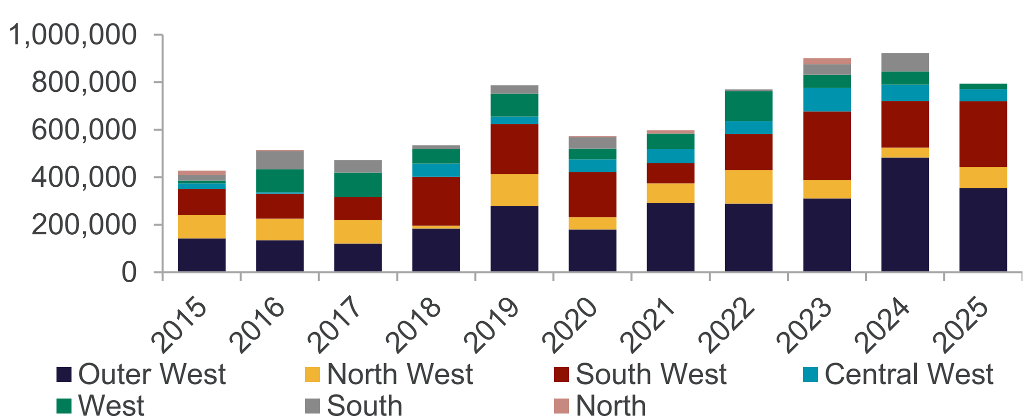
Q3 2025 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET ($/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

Sydney's vacancy rate edged higher to 3.5% in Q3 2025, up from 3.0% in the quarter prior. Unlike recent quarters, where the increase in vacancy was speculative supply-driven, it has more recently stemmed from backfill additions following tenant departures. This was particularly the case within the West submarket, where the vacancy rate is now at 4.7%.

More broadly, shifting supply dynamics and a pull-back in big box speculative supply are driving an increase in leasing availability within the 3,000 – 10,000 sqm segment, which now accounts for 45% of vacant floorspace (up from 35% in Q2 2025. Sublease vacancy also saw a modest rise and now stands at 1.0% of stock, albeit it remains skewed by the Outer West submarket.

RENTS & INCENTIVES

As vacancy levels shift higher, the pace of rental growth has reverted to long-term averages across the Sydney market, particularly on an effective basis. However, there remain pockets where solid rental growth is still being recorded, led by select precincts in Sydney's Central West. In Q3 2025, prime rents increased by 0.6%, representing the lowest level of growth since 2020 (2.4% year-on-year). The blended prime average for Western Sydney now stands at $255/sqm.

Incentives saw a further rise and now broadly range between 12.5% and 20.0% for existing assets, while recent pre-commitment evidence suggests the range is higher at between 17.5% and 25.0%, noting that there remains a large variance across developers/landlords.

SUPPLY

Supply additions for Q3 2025 measured approximately 170,000 sqm, most of which was speculative and concentrated in the Outer West submarket and included facilities within Mirvac's Aspect Industrial Estate at Kemps Creek. Other additions included Link's 24,050 sqm facility at Chester Hill within the Central West submarket.

For 2025, almost 800,000 sqm is forecast to be delivered; however, unlike other cities, a pick-up in supply is forecast for 2026, with approximately 850,000 sqm in the pipeline. Just over half of the additions for 2026 stem from speculative supply, 60% of which will occur within the Outer West. The Central West will also see an upswing in supply for 2026, largely the result of Hale's multi-level facilities. Commitment rates for 2026 currently sit at approximately 30%.

OUTLOOK

- Stronger consumer spending is beginning to filter through to leasing markets, as occupiers show increased confidence in managing inventory positions. Demand for higher-quality facilities remains evident, ensuring that new completions are being steadily absorbed.
- Supply over the next 12 months will remain elevated, pushing the vacancy rate to above 4.0% by early 2026. However, it will not be uniform across the market as supply is concentrated in a select few precincts.
- Beyond the projects already underway, development feasibility challenges remain, which will impact the timing of supply. Further, the continued pivot by developers to a pre-lease strategy will remain an ongoing theme.
- Rental growth in the order of 4.0% is expected in 2025 for Sydney; however, select markets are forecast to record growth in excess of 5.0%.

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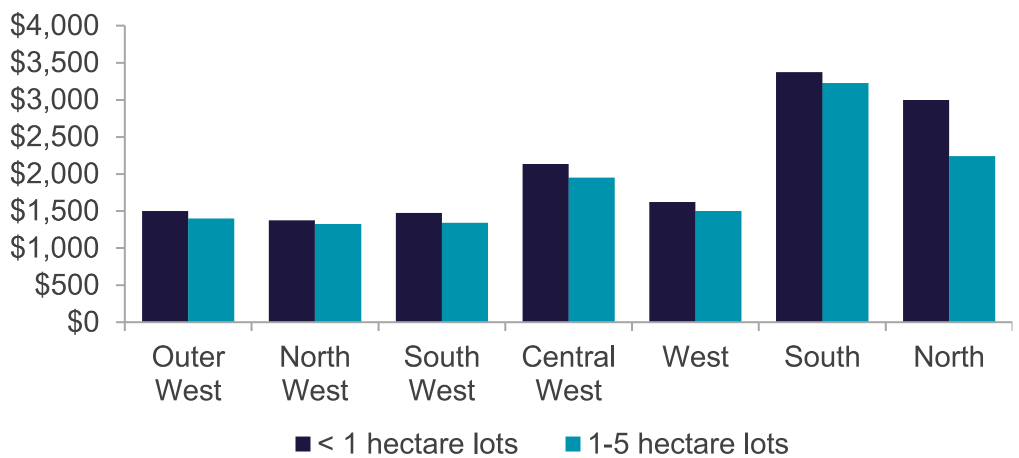
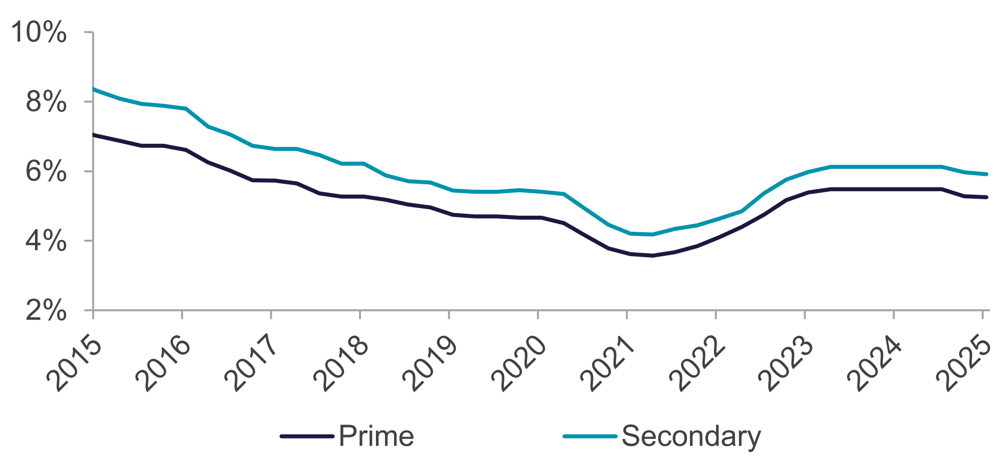
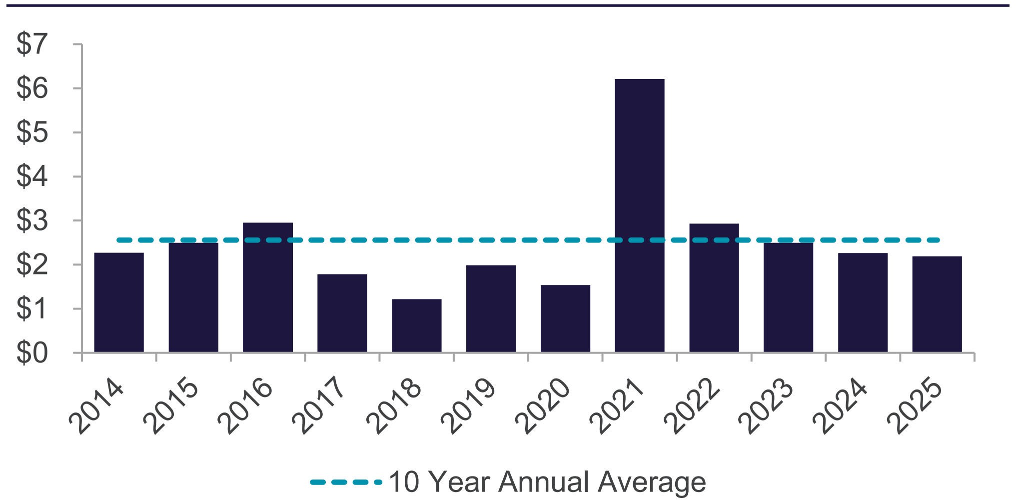
Q3 2025 LAND VALUES BY SIZE ($/SQM)



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. In the quarter, Goodman acquired the CSR land adjacent to the Western Sydney Airport in Badgerys Creek for approximately $575 million. The 196 hectare site provides a net developable area of approximately 136 hectares.

Given pre-lease and speculative take-up activity in recent years, several major developers have almost exhausted their Sydney land banks, with many currently active in the market for opportunities.

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.

More broadly, sustained high construction costs continue to challenge development feasibilities; however, further yield compression and rental growth will provide support going forward.

YIELDS

A pick-up in capital deployment into Sydney has supported further yield compression in Q3 2025, resulting in almost 25 basis points of tightening being recorded so far in the cycle. Recent deal evidence continues to highlight the large spread between initial and core market yields

Prime core market yields currently average approximately 5.25% (range of 5.00% to 5.50% - South Sydney is tighter by 25 basis points). Secondary yields recorded a modest level of compression in Q3 2025, taking average midpoint yields to approximately 5.90%.

INVESTMENT

Investment activity in Sydney remains strong, with almost $2.9 billion trading so far in 2025 (investment and owner-occupier transactions above $10 million). This level of activity well eclipses 2024 volumes, where $2.1 billion was traded.

Major transactions include Link Asset Management acquiring 149 Orchard Road, Chester Hill from Dexus for $121.5 million and Wentworth purchasing the Metro Estate at Rydalmere from Dexus for almost $150.0 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 for the balance of 2025, supported by new capital sources from offshore markets. Notably, this includes groups out of Japan who have recently undertaken thorough market and sector due diligence.
- 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, which, in the absence of high stock levels, will result in heightened competition for limited assets.
- By the end of 2026, our base case is for a further 40 basis points of compression to occur, which is in addition to the 25 basis points that have already occurred in 2025. However, the movement of yields will not be uniform across all markets.

Q3 2025 SYDNEY MARKET STATISTICS

SUBMARKET	VACANCY RATE (TOTAL MARKET)	YTD 2025 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%	375,766	$249	$54	18.8%	5.33%	$4,679	$1,400
North West	2.2%	57,092	$251	$57	17.5%	5.38%	$4,667	$1,325
South West	3.4%	441,097	$243	$59	13.8%	5.33%	$4,563	$1,408
Central West	3.4%	77,690	$273	$75	17.5%	5.25%	$5,198	$1,950
West	4.7%	53,292	$259	$60	15.0%	5.26%	$4,917	$1,521
North	0.3%	0	$291	$66	7.5%	5.25%	$5,540	$2,240
South	3.8%	30,749	$377	$87	14.5%	5.00%	$7,540	$3,225
PRIME AVERAGE	**3.5%**	**1,035,686**	**$278**	**$65**	**14.9%**	**5.26%**	**$5,301**	**$1,867**
SECONDARY								
Outer West	-	-	$223	$58	17.5%	6.00%	$3,708	-
North West	-	-	$223	$50	17.5%	5.95%	$3,754	-
South West	-	-	$222	$59	13.8%	5.96%	$3,723	-
Central West	-	-	$245	$75	17.5%	5.95%	$4,118	-
West	-	-	$228	$60	15.0%	6.08%	$3,740	-
North	-	-	$225	$62	7.5%	5.95%	$3,782	-
South	-	-	$337	$92	14.5%	5.50%	$6,118	-
SECONDARY AVERAGE			**$259**	**$72**	**13.6%**	**5.87%**	**$4,439**	**-**

RESEARCH

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