



MARKET FUNDAMENTALS

	YOY Chg	Outlook
3.3% Vacancy Rate	▲	▲
5.20% Average Prime Yield	▼	▼
0.2% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
2.6% National GDP Growth	▲	▲
2.6% State Final Demand Growth	▲	▲
4.1% National Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW

Economic conditions remained steady through Q1 2026, supported by resilient domestic demand and labour market conditions. Inflation, however, remained above target over the quarter. Headline CPI rose 3.8% year-on-year in January 2026, while trimmed mean inflation increased to 3.4%. Reflecting this, the RBA lifted the cash rate target twice during the quarter, increasing it to 3.85% in February and 4.10% in March. While Australian economic growth strengthened in late 2025, conditions are expected to improve through 2026. Despite broader economic headwinds, the New South Wales economy remains resilient, with state GDP projected to grow by 2.4% through 2026.

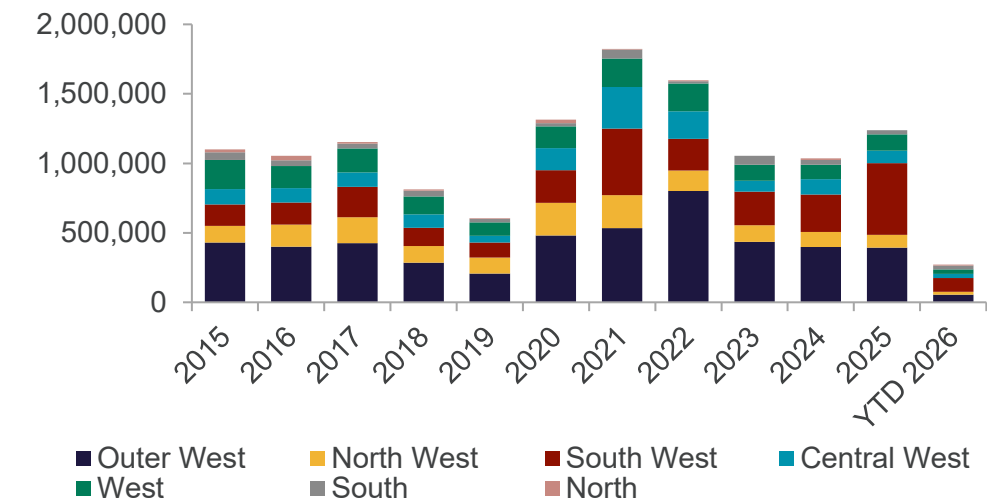
DEMAND

Despite ongoing global geopolitical headwinds, conditions in the Sydney market remained stable in Q1 2026, with a steady flow of leasing activity. However, tenant decision-making has remained cautious, particularly within the transport and logistics sector, where volatility in global energy markets has introduced additional uncertainty around freight costs and broader operating conditions. Encouragingly, most occupiers are adopting a medium to long-term perspective on their space requirements, and leasing activity is expected to remain healthy.

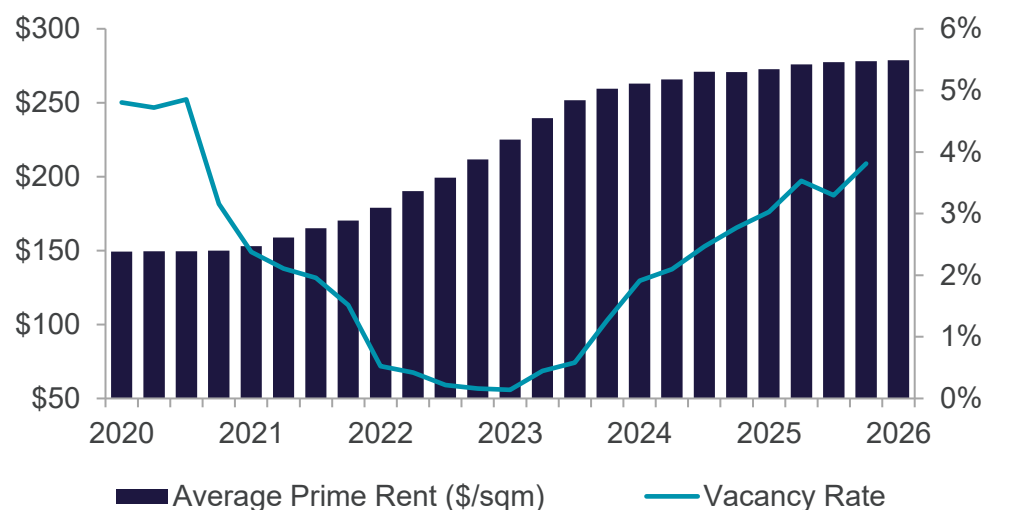
Gross take-up in Q1 2026 reached just over 280,000 sqm, underpinned by the Outer West and South West submarkets. Beyond this, there is a large volume of facilities under HoA and should crystallise into take-up volumes from Q2 2026. Net absorption remains constrained, falling by almost 20,000 sqm for the quarter, albeit with significant variability at the submarket level.

More broadly, leasing activity continues to be supported by consolidation strategies and occupiers prioritising higher-quality assets. Many tenants are using upcoming lease events to rationalise their networks and secure more efficient facilities.

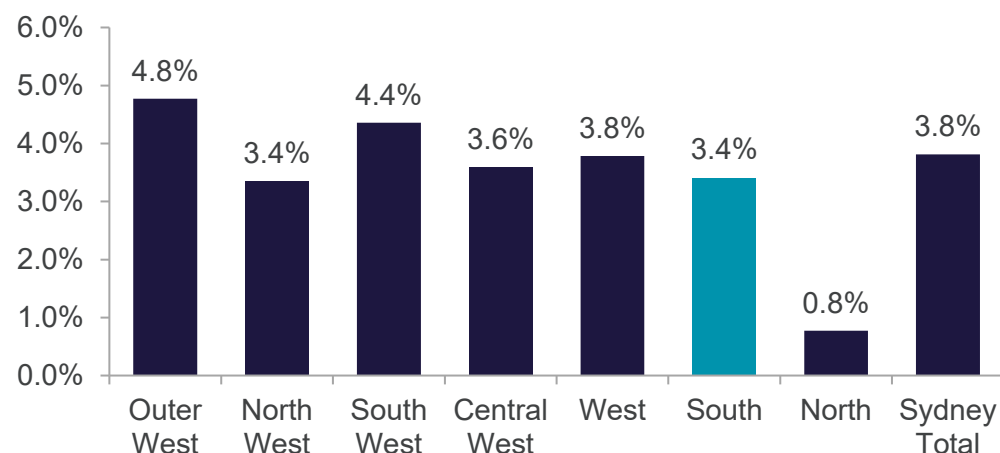
GROSS TAKE-UP (SQM)



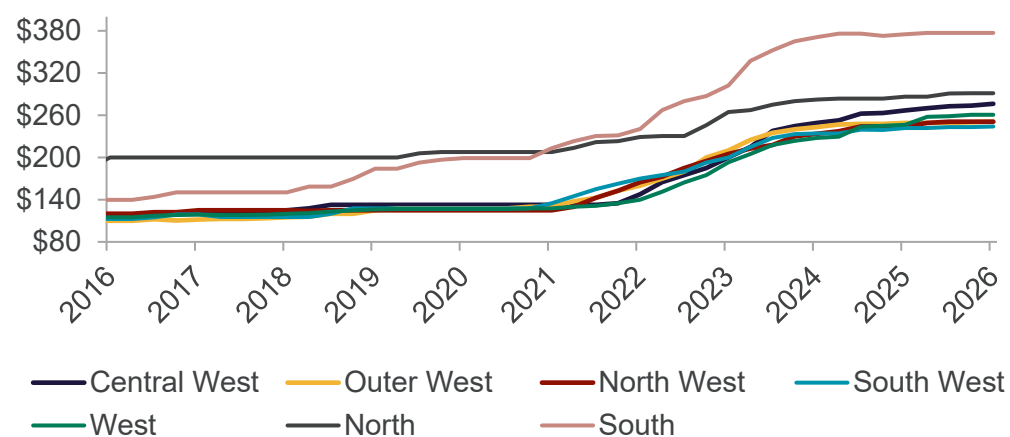
VACANCY & AVERAGE PRIME RENTS



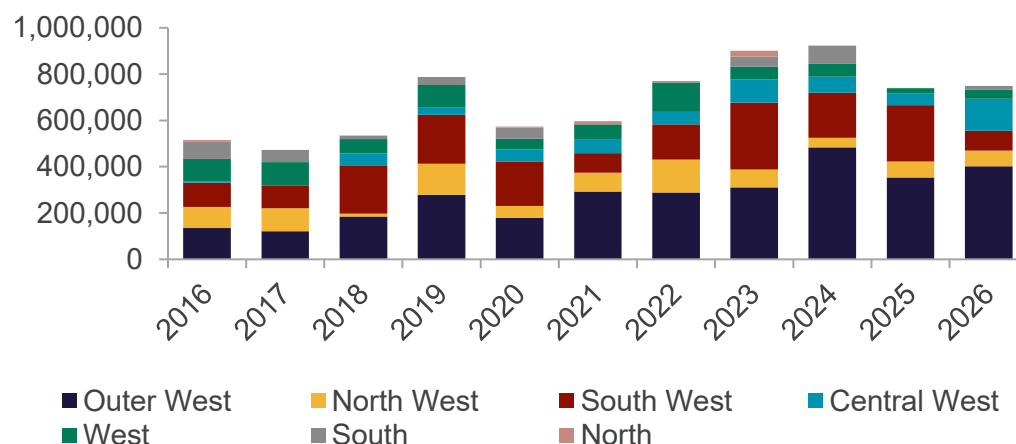
Q1 2026 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET (\$/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

Sydney’s vacancy rate increased to 3.8% in Q1 2026, up from 3.3% in the quarter prior, underpinned by the Outer West and South West submarkets. Most of the increase in availability stemmed from existing backfill options following tenant departures, while the sublease vacancy rate held steady at 1.0%.

Speculative stock availability saw a 11% jump over the quarter and included Dexus at 28 Yarrunga Road, Prestons, as well as Madad Property’s 137-147 McCredie Road, Smithfield development.

Across most submarkets, there remains a handful of larger leasing options that are skewing the headline vacancy figure. This is most apparent in the Outer West submarket, where facilities sized above 20,000 sqm account for 61% of vacant floorspace.

RENTS & INCENTIVES

The pace of rental growth continues to revert towards long-term averages, with prime rents increasing by 0.2% in Q1 2026 and reflects the current balance in supply and demand dynamics. Pockets of outperformance continue, led by select precincts in the Central West, while rental growth in the sub-10,000 sqm segment remains more pronounced.

Incentives have largely stabilised across each submarket, while select landlords continue to offer higher incentives in order to achieve above-market net rents. Incentives for existing stock range from 12.5% to 20.0%, while pre-lease incentives average 20.0% to 25.0%.

SUPPLY

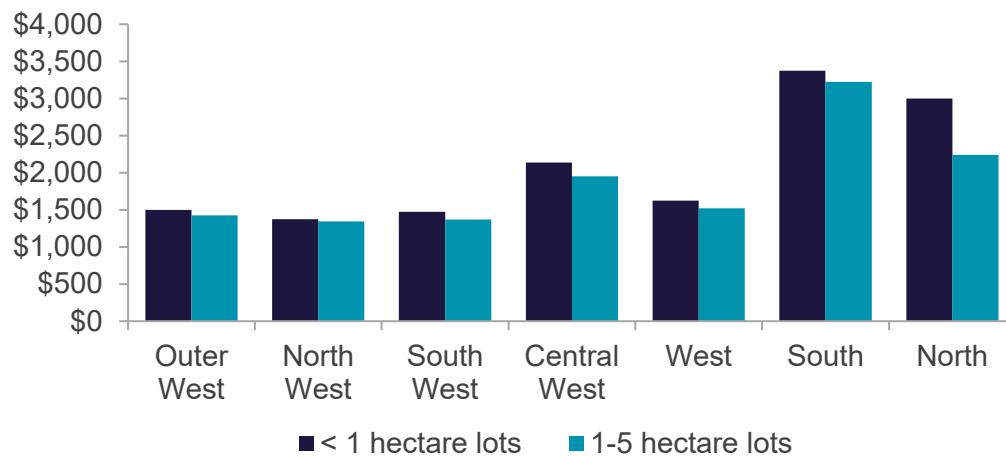
Sydney’s near-term supply pipeline has reverted lower, with the timing for several projects being pushed out or pivoted towards a pre-lease strategy. For 2026, the pipeline now stands at almost 750,000 sqm, down from an earlier forecast of 875,000 sqm. As a result, commitment levels for 2026 have increased to 56%.

Speculative supply for the year totals approximately 450,000 sqm, led by the Central West and Outer West submarkets. Supply in the Central West includes Hale’s multi-level logistics estates at Lidcombe and Homebush, while they will deliver further multi-level floorspace at Punchbowl within the South West submarket. Speculative supply in the Outer West is underpinned by ESR at their Eastern Creek Logistics Estate, while GPT will deliver just over 21,000 sqm at their Yiribana West Logistics Estate.

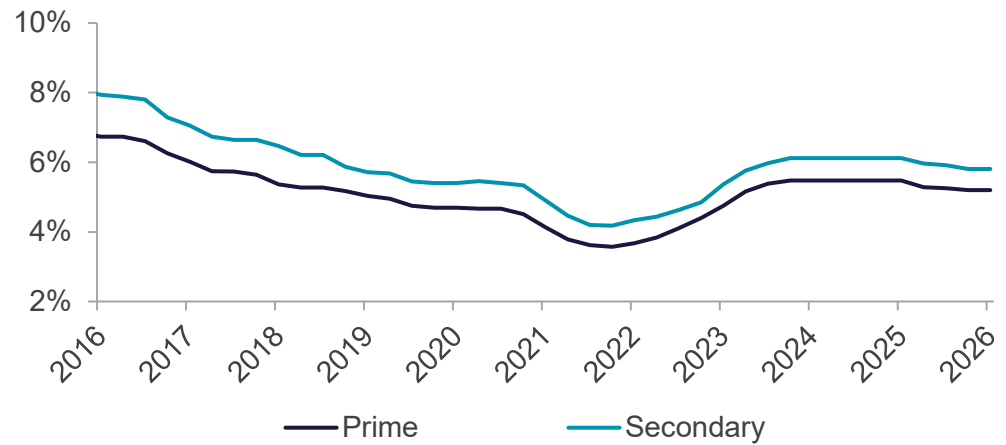
OUTLOOK

- Current geopolitical developments are likely to weigh on occupier sentiment in the near term, particularly among 3PL operators, given the sharp escalation in fuel costs and the potential impact on operating margins.
- This environment, coupled with softer consumer sentiment, is expected to delay the recovery in net absorption as occupiers remain cautious around their near-term space requirements. Despite this, net absorption is still forecast to increase by approximately 20% in 2026, revised from an earlier forecast of around 35%, supported by a solid lease expiry profile and occupiers optimising their footprint for the medium to long term.
- Supply remains challenged by feasibility and capital constraints, particularly given the recent uptick in funding costs. Vacancy is forecast to edge higher through 2026 as speculative completions and secondary backfill space are introduced to the market.
- Rental growth in the order of 4.1% is expected in 2026 for Sydney; while upward pressure on incentives is expected in the near term, before stabilising towards the end of the year.

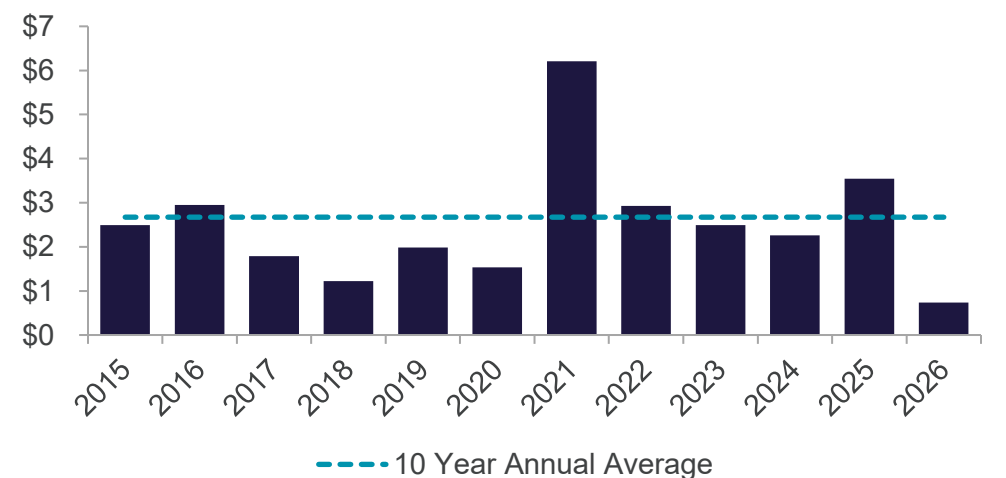
Q1 2026 LAND VALUES BY SIZE (\$/SQM)



YIELDS BY GRADE



INVESTMENT VOLUMES (\$B)



LAND VALUES

Land values held steady in Q1 2026, with 1-5 hectare lots averaging \$1,522/sqm as a blended average across Western Sydney (South Sydney is closer to \$3,225/sqm). There are, however, several parcels in due diligence that will show rates in well excess of this for Western Sydney.

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. Similarly, data centre demand for large tracts of land in Western Sydney remains strong. Highlighting this was ISPT reaching a conditional deal with AirTrunk for 52 hectares of land within the Mamre Road Precinct at Kemps Creek in 2025. The deal reflects ~\$1,500/sqm, with the acquisition conditional on site approval.

YIELDS

The recent increase in the cash rate and funding costs has tempered the rate of yield compression in the Sydney market. Prime core market yields remain unchanged at an average of 5.20%, while secondary midpoint yields also held steady at 5.81%.

Despite the lower spread to long-term Government bonds yields, pricing continues to be supported by the weight of capital seeking to be deployed. Our analysis shows over \$38.0 billion is seeking to be deployed in the sector, with Sydney being the most sought after market from investors, reflecting growth prospects and tax implications in other states.

INVESTMENT

Deployment appetite in Sydney remains strong, with almost \$750 million transacted during the quarter. More broadly, Sydney remains the preferred city for investment across APAC, with significant inbound enquiry from offshore capital.

Investment volumes in Q1 2026 were headlined by Aliro’s acquisition of a portfolio from Goodman for \$484.0 million, while Fife Capital purchased 78 Templar Road, Erskine Park, from Blackstone for \$85.0 million.

Looking ahead, a large pipeline of assets is expected to be brought to market over the remainder of 2026. Transaction activity will largely depend on whether pricing meets investor return hurdles.

OUTLOOK

- Increased institutional demand for development-ready land is expected to support further growth in land values in 2026. Similarly, in select precincts, demand from data centre operators is forecast to remain strong, resulting in continued two-tiered market pricing.
- Inflationary pressure and the flow on impact to interest rates and debt costs are expected to curtail yield compression. However, pricing outcomes will continue to be driven by capital composition, asset quality and income durability rather than by incremental rate movements alone.
- Non-core and secondary grade assets are expected to face pricing pressure as capital continues to favour assets offering stronger covenant quality, longer lease profiles and superior locations.
- Given the 50 basis point increase in the cash rate recorded to date, upward pressure on yields is likely, particularly for less functional assets as risk becomes more appropriately priced in.

Q1 2026 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)
PRIME								
Outer West	4.8%	50,157	\$251	\$54	20.5%	5.25%	\$4,778	\$1,400
North West	3.4%	21,010	\$251	\$57	17.5%	5.24%	\$4,789	\$1,325
South West	4.4%	98,239	\$244	\$60	18.0%	5.24%	\$4,659	\$1,408
Central West	3.6%	31,327	\$276	\$75	16.3%	5.20%	\$5,315	\$1,950
West	3.8%	30,449	\$261	\$60	16.0%	5.23%	\$4,979	\$1,521
North	0.8%	5,010	\$291	\$66	7.5%	5.25%	\$5,548	\$2,240
South	3.4%	40,058	\$377	\$89	14.5%	5.00%	\$7,540	\$3,225
PRIME AVERAGE	3.8%	276,250	\$279	\$66	15.8%	5.20%	\$5,372	\$1,867
SECONDARY								
Outer West	-	-	\$223	\$58	17.5%	5.81%	\$3,828	-
North West	-	-	\$223	\$50	17.5%	5.88%	\$3,801	-
South West	-	-	\$222	\$59	16.0%	5.88%	\$3,779	-
Central West	-	-	\$245	\$75	17.5%	5.88%	\$4,170	-
West	-	-	\$228	\$60	16.0%	5.96%	\$3,818	-
North	-	-	\$225	\$62	7.5%	5.88%	\$3,830	-
South	-	-	\$336	\$93	14.5%	5.38%	\$6,242	-
SECONDARY AVERAGE			\$258	\$72	13.9%	5.77%	\$4,515	

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