Australian Industrial Review

Q2 2025

Positive market sentiment and strong appetite for prime assets now resulting in yield compression

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The Quick Take

3.2%

Vacancy rate stabilised in Q2

Vacancy rate for the East Coast was stable in Q2, following recent increases. Speculative space accounts for 38% of total vacancy covering some 905,000sqm, the highest on record.

1.5m sqm

East Coast take up

Leasing take-up of 1.5 million sqm across the East Coast during H1 2025, if momentum continues this will likely equal or surpass 2024 levels.

2.0m

Sqm of new supply in 2025

Forecast total completions for the East Coast during 2025 is just over 2 million square metres. This is a reduction of 22% from the 2024 figure as additional speculative development projects are deferred.

$4b

Investment volumes 2025 YTD

Positive investor activity in late 2024 has continued into the first half of 2025 with over $4 billion in transactions, highlighting investors long term confidence in industrial assets.

7bps

Prime yields down in Sydney & Brisbane

Yield compression experienceed across Sydney and Brisbane, with prime yields tightening 7bps. Other capital cities have remained steady.

+10.1%

Y/Y prime rental growth in Adelaide

Adelaide has the highest annual prime face rental growth but similar to the East Coast market the increased prevalence of incentives has seen effective rents increase by a more modest 6.7% y/y.

Key indicators Q2-2025

Market	Prime Net Face Rent, $/sqm	Secondary Net Face Rent, $/sqm	Prime Incentives, %	Prime Market Yield Range, %*	Land 1-5 ha, $/sqm	Vacancy Rate, %
Western Sydney**	214	166	20.4	5.00 - 5.50	1,295	2.4
Brisbane	174	153	11.8	5.75 – 6.25	699	5.1
Melbourne***	147	122	18.5	5.50 – 6.00	920	3.1
Adelaide	145	108	8.9	6.00 – 6.50	479	N/A
Perth	153	133	5.6	6.25 – 6.75	469	N/A

Source: Knight Frank Research *Yield range assumes a near new 10,000sqm+, non-specialised, institutional high-grade industrial asset with a of WALE 7.0 years+ Indicators are based on a blended average of the city precincts. **Western Sydney includes Outer West, South West and Inner West. ***Melbourne (excluding the Fringe) prime net face rents average $138/sqm, secondary: $117/sqm; small lots: $925/sqm, 1-5ha lots: $700/sqm.

Leasing market

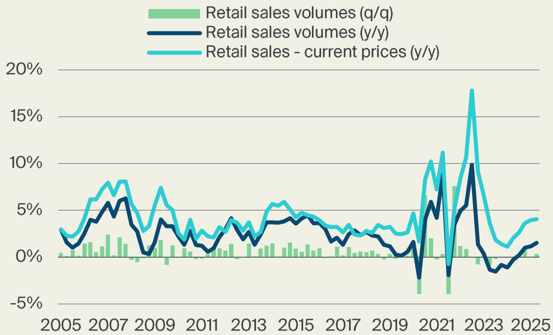
Tenant demand has stabilised, but large tenants remain cautious

RETAIL SALES STEADILY IMPROVING WHILE WIDER ECONOMY REMAINS SLUGGISH

Industrial demand is strongly aligned to the ongoing retail and e-commerce transformation, so will be supported by steadily improving retail sales growth. Despite the economy experiencing a slower than anticipated start to 2025, retail sales increased by 4.2% in the year to June. The latest quarterly data showed a pick-up in both value and volume measures, underpinning demand for industrial space and upgraded facilities. Examples include Officeworks pre-commitment to a 77,100sqm distribution facility in Redbank while Strand will take 28,740sqm in Epping.

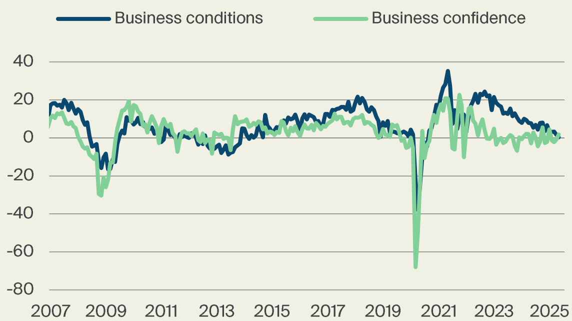
In addition, ongoing infrastructure works, rising demand for ready to eat meals, and onshoring of critical manufacturing and pharmaceutical capacity are driving demand for specialised facilities and cold storage. One example is Jennmar Australia's pre-committed of a 31,058 sqm facility in Smeaton Grange.

Improving retail sales momentum
Retail sales growth - total volumes and in current prices



Source: Knight Frank Research, Macrobond

Business conditions remain sluggish
NAB survey, balance of positive and negative responses



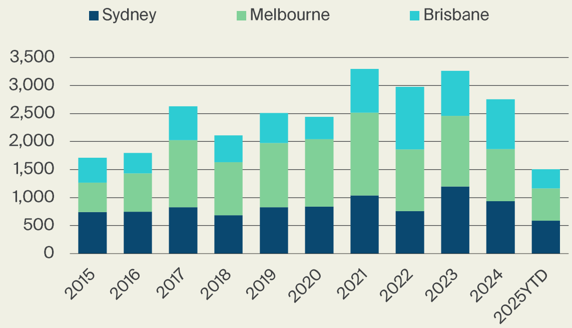
Source: Knight Frank Research, NAB, Macrobond

TENANT DEMAND IS MORE MEASURED IN 2025

Leasing take-up of 1.5 million square metres across the East Coast during H1 2025 would indicate that the market is on track to equal or exceed the 2024 total. On the ground, however, demand remains patchy with tenants remaining cautious in their approach to taking additional space or making major relocations. Tenant activity is solid overall, but uneven with sluggish demand from large retailers and 3PLs offset by stronger demand from small to medium sized tenants.

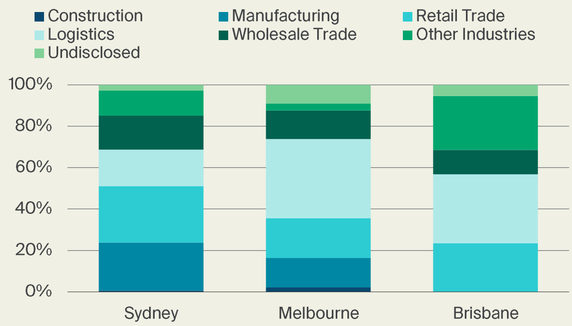
Secondary leasing across the East Coast was a low 85,591sqm in Q2 while prime take-up remained steady at just over 400,000sqm. Greater speculative availability has increased mobility across markets, while pre-commitment activity has also lifted, accounting for 28% of leasing activity in the quarter, (19% RTM) as stock and materials handling transformation projects remain ongoing.

Eastern Seaboard leasing take-up
By city, '000sqm



Source: Knight Frank Research

Eastern Seaboard leasing take-up by sector
% Share by business sector, 2025YTD



Source: Knight Frank Research

Vacancy and new supply

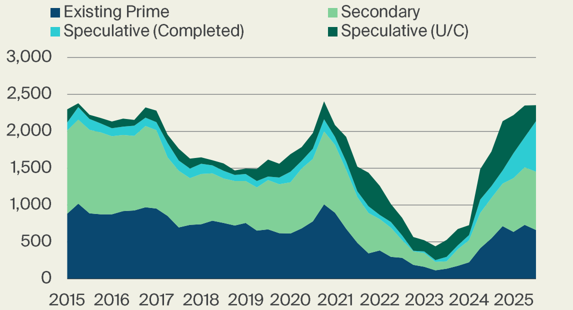
Vacancy stable while construction starts are slowing

VACANCY ELEVATED BUT STABILISING

East Coast industrial vacancy grew strongly during 2024 but has shows signs of stabilisation during 2025. Vacancy was 2.35 million square metres in Q2, effectively unchanged from Q1. This reflects a blended vacancy rate of 3.2% with Sydney still low at 2.2%, followed by Melbourne (3.1%) and Brisbane higher at 5.1%. Within each city there is also high divergence between precincts with those exposed to substantial recent new construction seeing the highest vacancy.

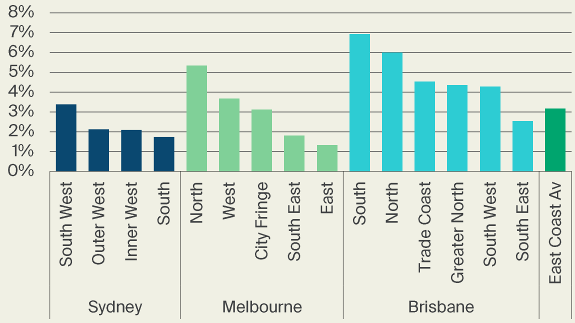
Recently completed speculative developments are the biggest contributor to East Coast vacancy at 905,000sqm – accounting for 38% of available space. As developments have been completed and not leased up as quickly as in the past, the balance between space available while under construction and newly completed space has changed. Secondary vacancy continues to rise, while existing prime space edged down and is in line with long term average levels.

Eastern Seaboard industrial vacancy
By grade, floorspace in sqm, 5,000sqm+, '000sqm



Source: Knight Frank Research

Eastern seaboard vacancy rates
by capital city and precinct, %



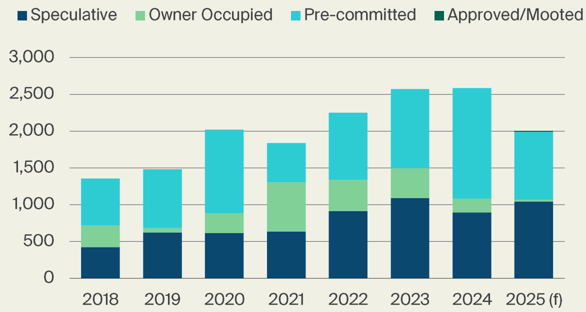
Source: Knight Frank Research

CONSTRUCTION HAS ADJUSTED QUICKLY

With relatively fast build timeframes, the industrial market can adjust the supply delivery quickly in the case of higher vacancy. Reflecting this, developers are slowing the pace of rolling out new schemes, with completions for 2025 expected to be 20% lower across the East Coast than the 2024 total. The Melbourne market is forecast to have the steepest decline with a 40% drop in deliveries in 2025.

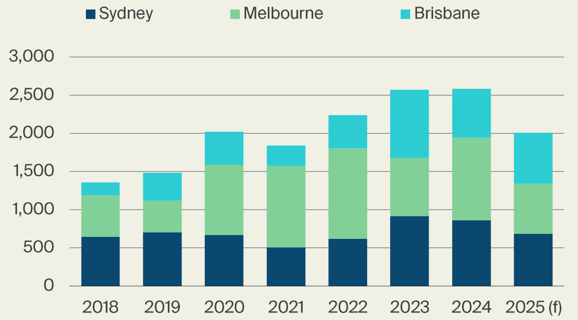
Within this overall total, speculative product completions are still expected to be higher in 2025, largely due to several late 2024 construction starts, and account for 52% of completions in 2025. However, there have been fewer speculative development starts during 2025 with feasibility and capital constraints lessening the appetite for new speculative construction in the near term.

Eastern Seaboard industrial supply
By type, '000sqm, completed 2018-2025(f)



Source: Knight Frank Research

Eastern Seaboard industrial supply
'000sqm, completed 2018-2025(f)



Source: Knight Frank Research

Rents and incentives

Face rents are being defended but incentives are playing a central role in major markets

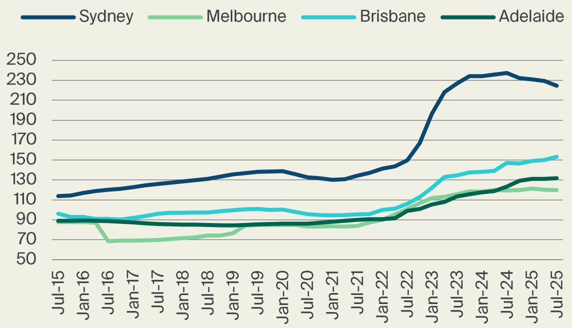
ADELAIDE LEADS PRIME FACE RENTAL GROWTH

Quarterly prime rental growth in Q2 ranged from stable in Sydney through to 2.2% in Brisbane as the pace of rental growth continued to ease. On an annual basis, Adelaide annual net face growth at 10.1% was the only market to maintain double-digit growth.

Perth experienced a 6.7% increase in prime net face rents over the year, followed by Brisbane at 5.2%, Melbourne at 4.3% and Sydney with 2.6%. In Sydney, annual face rental growth was limited to the South Sydney market, however this market too has plateaued in recent quarters.

The variation in the pace of face rental growth across Australia and within cities is reflective of the varying vacancy levels and extent of speculative development. Land-poor areas where development has been limited are seeing ongoing rent growth, whereas precincts with higher supply levels have seen minimal growth.

Prime industrial net effective rents
By major capital city, blended average rate $/sqm pa



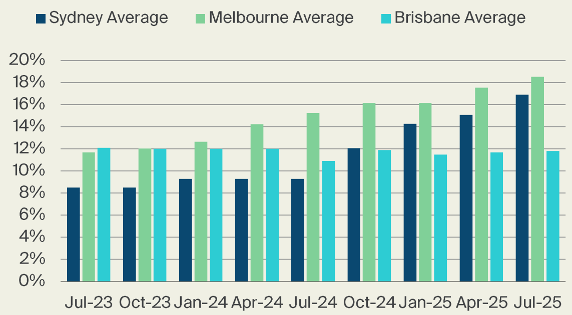
Source: Knight Frank Research

INCENTIVES BECOMING MORE MAINSTREAM

Incentives have lifted over the past 18 months as landlords faced greater competition for tenants. Initially emerging in new Sydney developments, largely to protect face rents, incentives have now lifted across all major markets. In line with rental growth, incentives vary across location and product and are highest in Sydney ranging from 11%-22% and Melbourne with a range of 17%-25% (outside the City Fringe). Brisbane incentives (10%-14%) are increasing while Adelaide incentives average 9% across a range of 8%-10%. Across all markets there are anecdotal reports of incentives higher than the above range, particularly for completed speculative space.

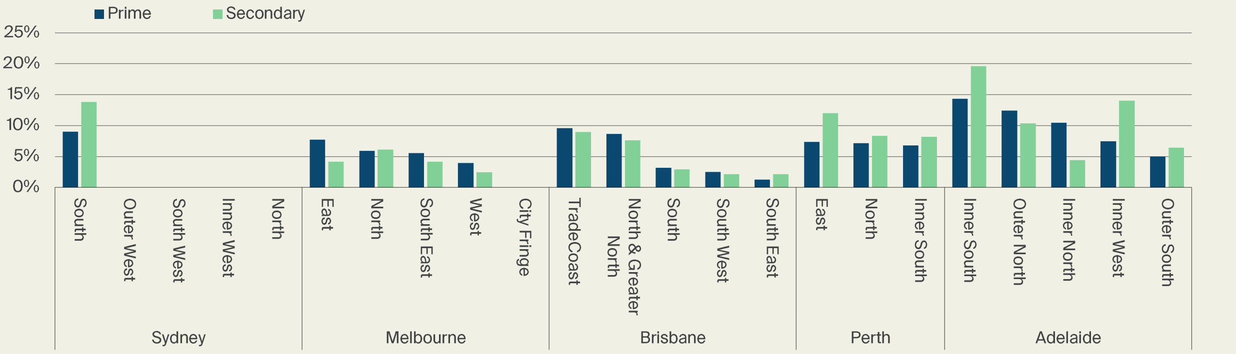
Incentives have stalled average annual effective rental growth in Adelaide and Melbourne (with falls in the West). Sydney is the only market where there have been substantial reductions in effective rents to date, down 5.4% on average (-11.3% for Western markets).

Eastern Seaboard industrial incentives
By capital city, %



Source: Knight Frank Research

Industrial rent growth by precinct
Annual growth to Q2 2025, net face rent



Source: Knight Frank Research

Investment market

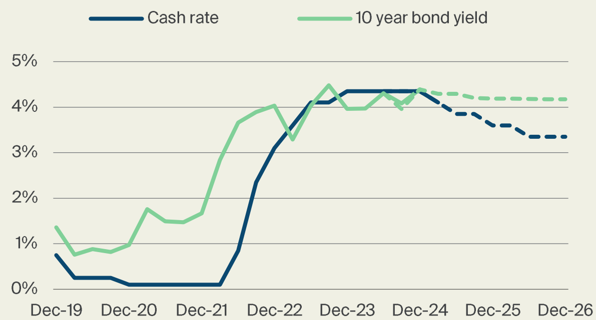
Positive market sentiment as prime yields start to compress

INVESTOR CONFIDENCE TO ACCELERATE ACTIVITY

Following a strong finish to the year in 2024 with total investment volumes eclipsing $11 billion, investor momentum and confidence has continued into 2025. Sales volumes in Q1 and Q2 totalled $1.8 and $2.2 billion respectively, taking investment volumes for H1 2025 to over $4 billion. Recent activity of note includes Centuria and investment manager BGO completing their joint acquisition of three Western Sydney warehouses worth $201million, providing c.45,000sqm of prime industrial space.

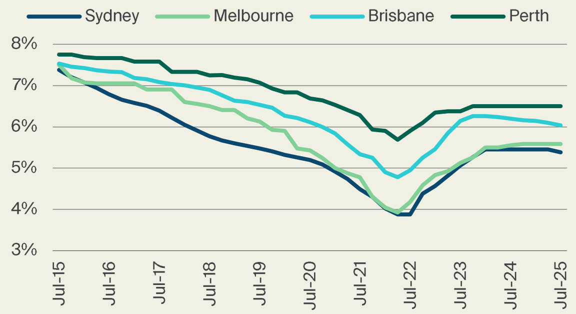
In Brisbane, China's JD Property acquired Wacol Logistics Hub, comprising four warehouses for $240 million on a sub 6% yield. Looking ahead, there are positive signs for investment activity to accelerate supported by further rate cuts and a more stable economic outlook. With the yield cycle shifting, investors are on the front foot to capitalise at this point of the cycle.

Interest rate outlook
Cash rate and 10 year bond outlook



Source: Knight Frank Research, Oxford Economics

Industrial prime yields
Average across cities (5,000 sqm assets, 5 yr WALE)



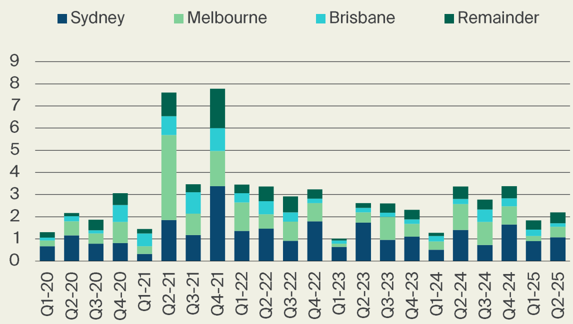
Source: Knight Frank Research

YIELD COMPRESSION IN SYDNEY AND BRISBANE

Positive market sentiment and sustained appetite for prime industrial stock has led to yield compression in Sydney for the first time since early 2022, with prime yields compressing by 7.5bps in Q2 to average 5.38%. In Brisbane, prime yields compressed for the second consecutive quarter and now average 6.03% following a 7bps compression over Q2. Across the other capital cities yields remained unchanged, with Melbourne stable at 5.58%, Adelaide (6.28%) and Perth (6.50%).

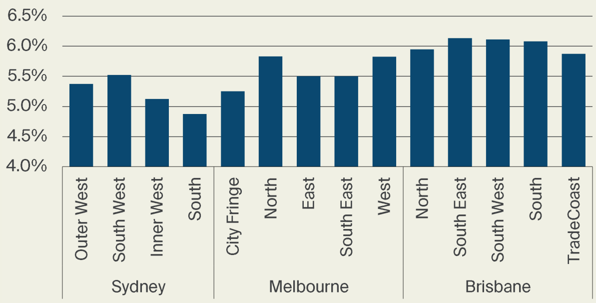
Similarly, secondary yields were steady except in Sydney and Brisbane with yields tightening 7.5bps and 12bps respectably, to average 6.3% and 6.5%. Looking ahead, the market is likely to respond positively to the lower interest rate environment with average prime yields likely to compress further in Sydney and Brisbane and gradually broaden out to other cities.

Ausralian industrial investment volumes
A$ billion, transactions $10m+



Source: Knight Frank Research

Industrial prime yields
Average across precincts (5,000 sqm assets, 5 yr WALE)



Source: Knight Frank Research

Data Digest

Prime Grade: Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.

Secondary Grade: Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10-20%.

Core Market Yield: The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).

WALE: Weighted Average Lease Expiry

Vacancy Methodology: This analysis collects and tabulates data detailing vacancies (5,000m 2+) within industrial properties across all of the Industrial Property Market. The buildings are categorised into:

1) Existing Buildings - existing buildings for lease.

2) Speculative Buildings - buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant.

3) Speculative Under Construction - buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

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Research:
Ben Burston
+61 2 9036 6756
ben.burston@au.knightfrank.com

Research:
Jennelle Wilson
+61 7 3246 8830
jennelle.wilson@au.knightfrank.com

Industrial Logistics, National:
James Templeton
+61 3 9604 4724
james.templeton@au.knightfrank.com

Valuations National:
Al Carpenter
+61 9036 6662
Al.carpenter@au.knightfrank.com

Industrial Logistics, NSW:
Orlando Maciel
+61 2 9036 6728
orlando.maciel@au.knightfrank.com

Industrial Logistics, Investments:
Angus Klem
+61 2 9028 1110
angus.klem@au.knightfrank.com

Industrial Logistics, QLD:
Mark Clifford
+61 7 3246 8802
mark.clifford@au.knightfrank.com

Industrial Logistics, VIC:
Joel Davy
+61 3 9604 4674
joel.davy@au.knightfrank.com

Industrial Logistics, WA:
Geoff Thomson
+61 8 9225 2436
geoff.thomson@au.knightfrank.com

Asset Management Services:
Lisa Atkins
+61 3 9604 4710
lisa.atkins@au.knightfrank.com