Sydney industrial market continues to rebalance

▲ c. 280,000 sqm
New supply delivered (Q2 2026)

▼ c. 130,000 sqm
Gross take-up (Q2 2026)

▶ 5.17%
Super prime midpoint yield

Note: Arrows indicate change from previous quarter.

Key Points

- Gross take-up moderated to around 130,000 sqm in Q2 2026, with occupier demand remaining broad-based across wholesale, manufacturing and construction-related sectors.
- Vacancy continued to rise over the first half of 2026, creating a more balanced leasing market while remaining below long-term equilibrium levels.
- Around 280,000 sqm of new supply was delivered during the quarter, with completions concentrated in the Outer North West.
- Just over one-third of the 2026–2027 development pipeline is pre-committed, supporting confidence in well-located future projects.
- Net face rents remained broadly stable, while higher incentives continued to place downward pressure on effective rental growth.
- Industrial land values remained stable across Sydney, supported by constrained development feasibility and resilient owner-occupier demand.
- Super prime investment yields remained stable across all precincts, with investment activity expected to strengthen through the second half of 2026.

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Demand

Take-up moderates in Q2 2026 as leasing market continues to rebalance

Gross take-up totalled c.130,000 sqm in Q2 2026, easing from c.272,000 sqm in the previous quarter and remaining below the five-year quarterly average of c.207,000 sqm. While leasing volumes moderated, occupier activity remained steady, with active requirements spread across a broader range of industries despite softer market conditions.

Sydney's industrial vacancy rate continued to increase during the quarter, reflecting a more balanced leasing market following several years of exceptionally tight conditions. Although occupier demand has become more selective, construction-related businesses remained active, while decision-making continued to be driven by operational efficiency and long-term occupancy costs.

While pre-commitment activity moderated, occupiers increasingly have favoured super prime facilities, with stronger demand for assets offering higher clearances, greater pallet density, improved loading capability and stronger ESG credentials. In contrast, second-generation assets continued to experience longer leasing campaigns as rising outgoings and lower operational efficiency weighed on occupier preferences.

Notable lease transactions in 2Q26:

- Existing lease by BYD (South Sydney)
- Existing lease by Tate Asia Pacific (Outer North West)
- Pre-lease by B&E Foods (Outer North West)

The Outer North West remained Sydney's most active leasing precinct by floorspace in Q2 2026, supported by ongoing development activity and the concentration of future supply.

Wholesale, Manufacturing and Construction-related occupiers were among the most active sources of demand during the quarter, alongside transport and logistics businesses, highlighting continued diversification in leasing activity despite softer overall take-up.

FIGURE 1: Sydney Gross Take-Up 2016-2026YTD by Precinct

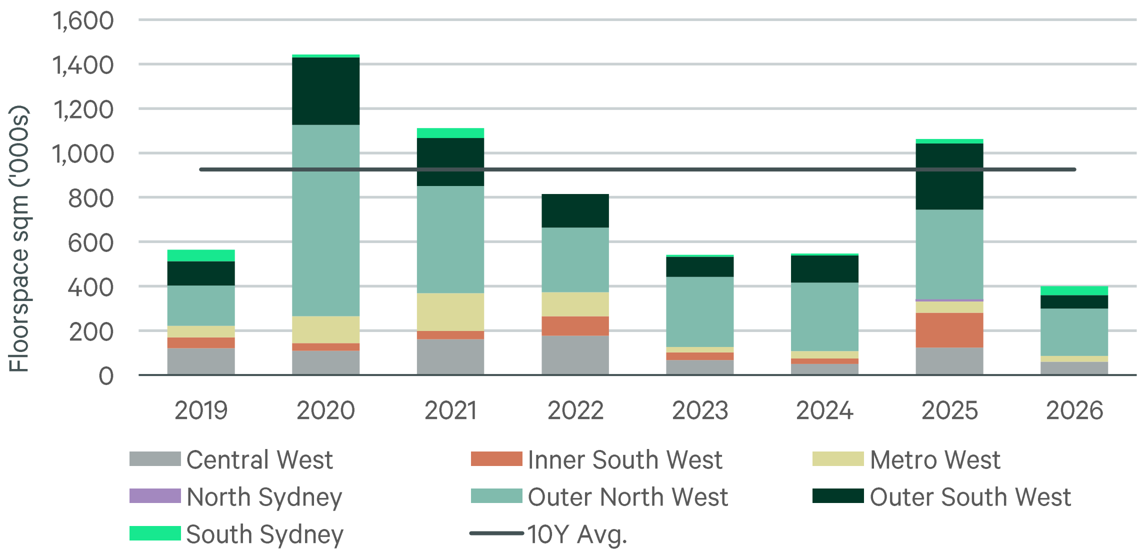
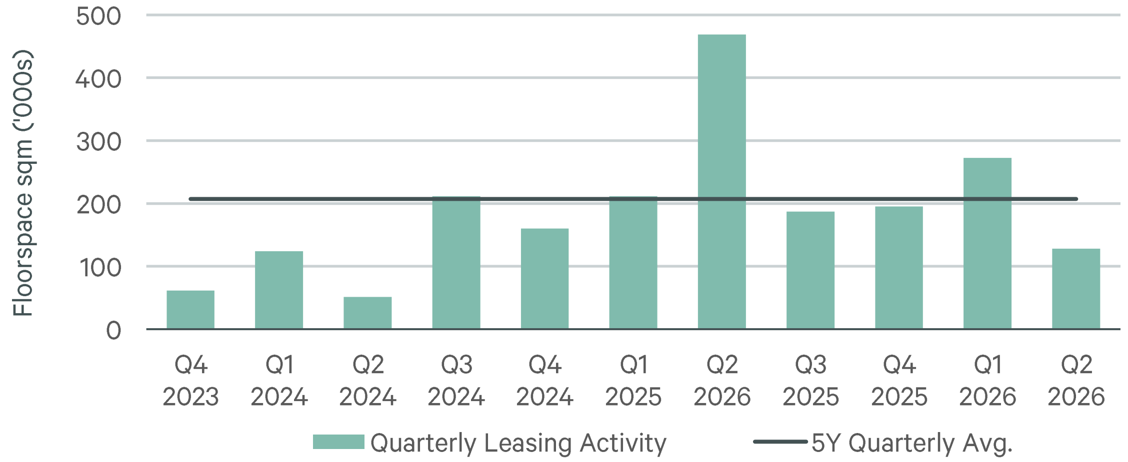


FIGURE 2: Sydney Quarterly Gross Take-Up, 4Q23-2Q26



To note: Reflects leasing transactions >5,000 sqm.
Source: CBRE Research Q2 2026

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Supply

Strong delivery momentum in 2026, with the 2027 pipeline becoming less certain

New floorspace added to the market totalled around 280,000 sqm in Q2 2026, above the previous quarter's delivery of around 260,000 sqm. Project completions remained concentrated in the Outer North West, which continues to account for the majority of Sydney's new industrial supply.

Major projects currently under construction and due for completion in 2026 include:

- Kemps Creek Industrial Estate – speculative development with a pre-commitment
- Charter Hall's Distribution Facility at Yennora
- Access Logistics Park (Barings Group) at Kemps Creek

More than 60% of Sydney's 2026 development pipeline has already been delivered, with approximately one-third of the remaining supply currently under construction. Pre-commitments across the 2026–2027 pipeline remain at just over one-third, providing developers with confidence to continue progressing well-located projects.

Construction activity becomes more limited beyond 2026, with only a relatively small proportion of the 2027 pipeline currently under construction. A meaningful share of forecast 2027 supply remains in the development approval stage, suggesting some projects are likely to be deferred beyond their currently anticipated completion dates.

While delivery activity remains elevated in the near term, development feasibility continues to be challenged by higher construction costs, funding conditions and land values, contributing to a more measured supply outlook beyond 2026.

FIGURE 3: Sydney Development Supply Pipeline 2019-2029F

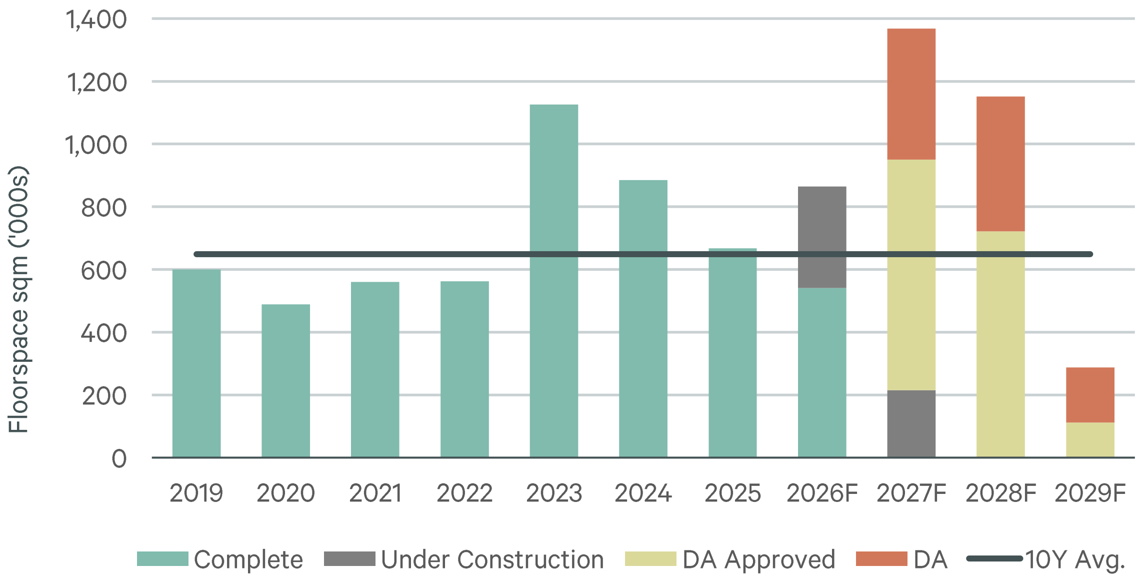
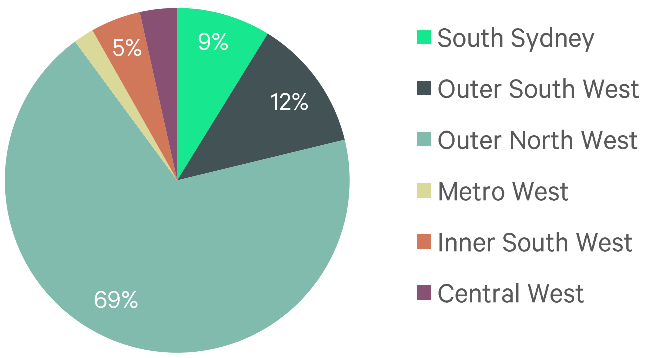


FIGURE 4: Development Supply 2026F-2029F Floorspace Share, by Precinct



To note: Reflects new projects >5,000 sqm.
Source: CBRE Research Q2 2026

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Leasing Market

Effective rents remain under pressure as occupiers favour flexibility

Sydney's average super prime, prime and secondary net face rents remained broadly stable during Q2 2026, with landlords increasingly using incentives rather than face rent adjustments to remain competitive. Incentive levels increased across most precincts over the quarter, while Metro West remained unchanged.

On an annual basis, super prime effective rents continued to soften as higher incentives more than offset stable face rents. Prime effective rental growth remained broadly unchanged amid elevated vacancy and increased competition from existing stock.

Average incentive levels for super prime assets now sit at around 20% across Sydney, with the highest incentives recorded in the Inner South West. Incentives across the Central West, Outer North West and Outer South West remain similarly elevated, while South Sydney continues to record comparatively lower average incentive levels.

The increase in vacancy over the first half of 2026 has contributed to a more balanced leasing environment, although the market remains below long-term equilibrium. As a result, incentives are expected to remain elevated through the near term before gradually stabilising as new supply moderates.

Global economic uncertainty also prompted some occupiers to pause relocation decisions during the quarter. Several active requirements instead opted to renew existing leases, prioritising cost certainty and minimising operational disruption. While this has weighed on leasing volumes in the short-term, much of this deferred demand is expected to re-engage over the next 12 to 18 months, supporting a more positive medium term outlook.

FIGURE 5: Average Sydney Net Effective Rent Growth y-o-y, by Asset Grade (2020-2026)

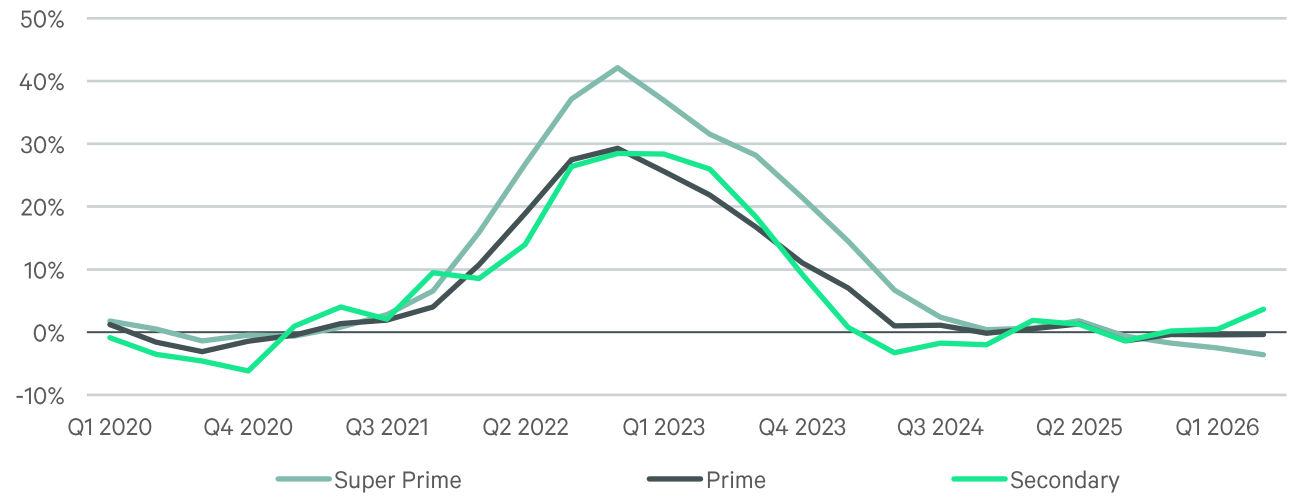
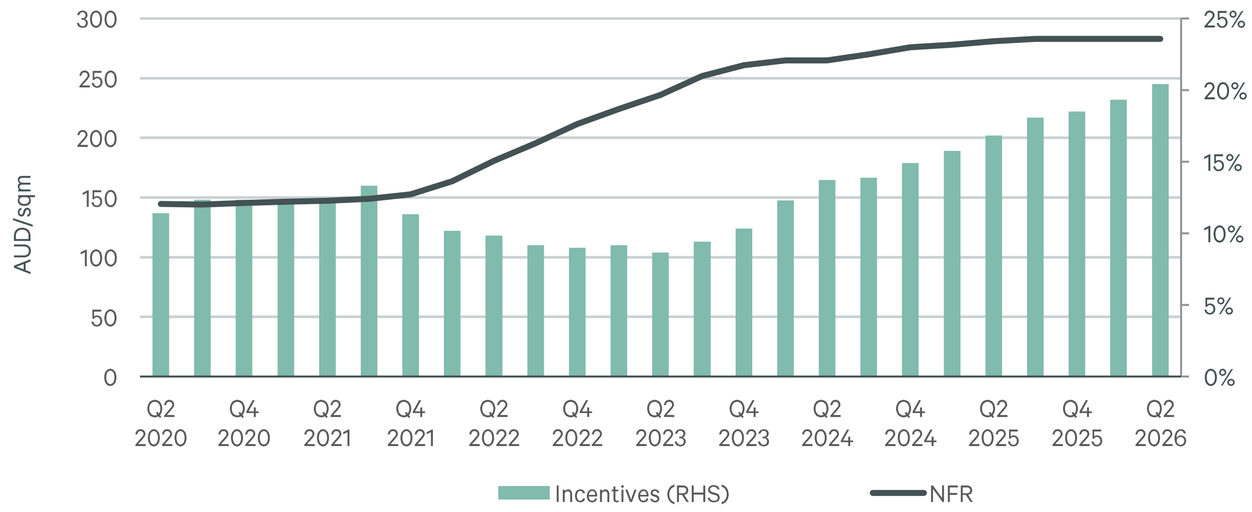


FIGURE 6: Average Super Prime Net Face Rents and Incentives (2020-2026)



Source: CBRE Research Q2 2026

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Land Values

Land values remain resilient as supply constraints underpin pricing

Demand for industrial-zoned land across 0.25 ha, 1.6 ha and 3–5 ha lot sizes remained relatively steady over the quarter. Transaction activity continued to be driven by owner-occupiers and a selective pool of investors, with land values broadly unchanged across Sydney's industrial precincts.

Capital market conditions remain measured, with purchasers continuing to adopt a disciplined approach to acquisitions amid elevated funding costs. While transaction volumes remain below long-term averages, improving confidence around the interest rate outlook is supporting renewed enquiry from investors seeking well-located industrial opportunities.

Development feasibility continues to be challenged by elevated construction costs, financing costs and land values. At the same time, occupier expectations for higher-specification warehouse - including greater automation capability, higher clearances and stronger ESG performance - continue to increase development costs. Although rental growth over recent years has improved project economics, feasibility remains constrained across many locations, limiting new supply and supporting underlying land values.

Owner-occupiers continue to underpin market activity, typically adopting a longer-term investment horizon and showing less sensitivity to short-term market volatility. This has helped maintain pricing stability despite softer development activity. Inner-city precincts, particularly South Sydney and North Sydney, continue to command a significant pricing premium, supported by severe land scarcity, proximity to infrastructure and enduring occupier demand. These markets are expected to remain among Sydney's most resilient over the medium term given the ongoing shortage of developable industrial land.

FIGURE 7: Average Land Values, 1.6 ha lots,, by Precinct (2Q25 vs. 2Q26)

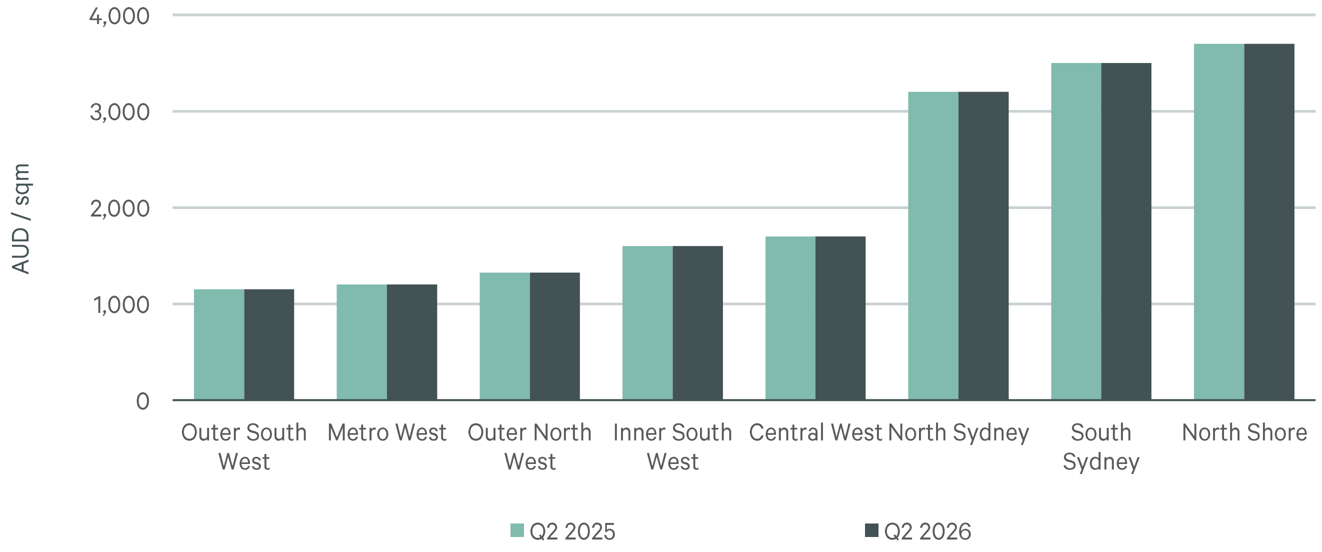
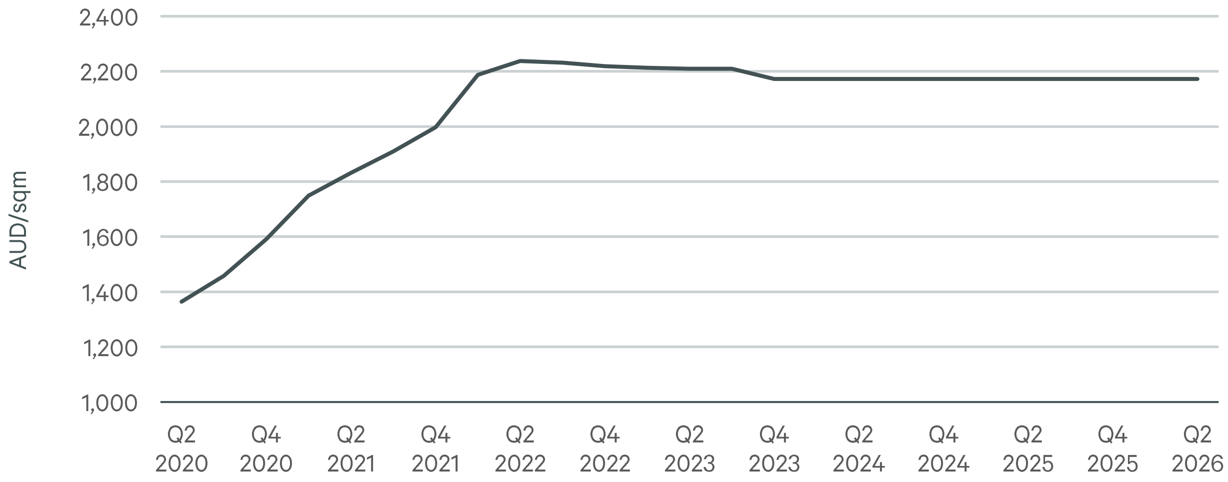


FIGURE 8: Average Land Values, 1.6 ha lots (2020-2026)



Source: CBRE Research Q2 2026

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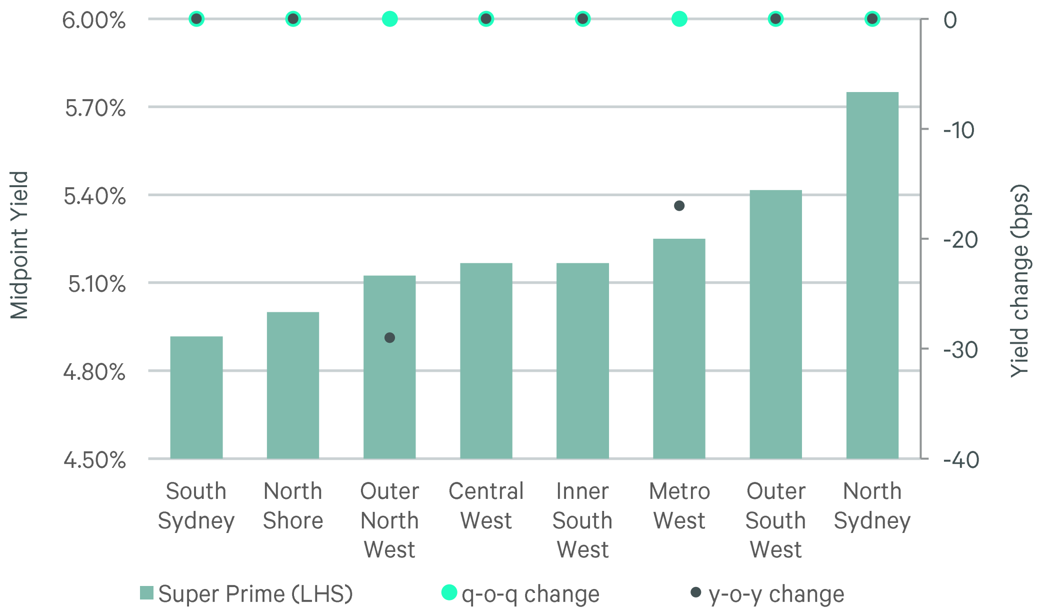
Investment Market

Investment market poised for a stronger second half

Investment sales totalled close to AUD 1.5 billion during the first half of 2026. While volumes remain below the long-term annual average of AUD 3.2 billion, transaction activity is expected to accelerate through the second half of the year, with full-year sales anticipated to broadly match 2025 levels as market confidence improves.

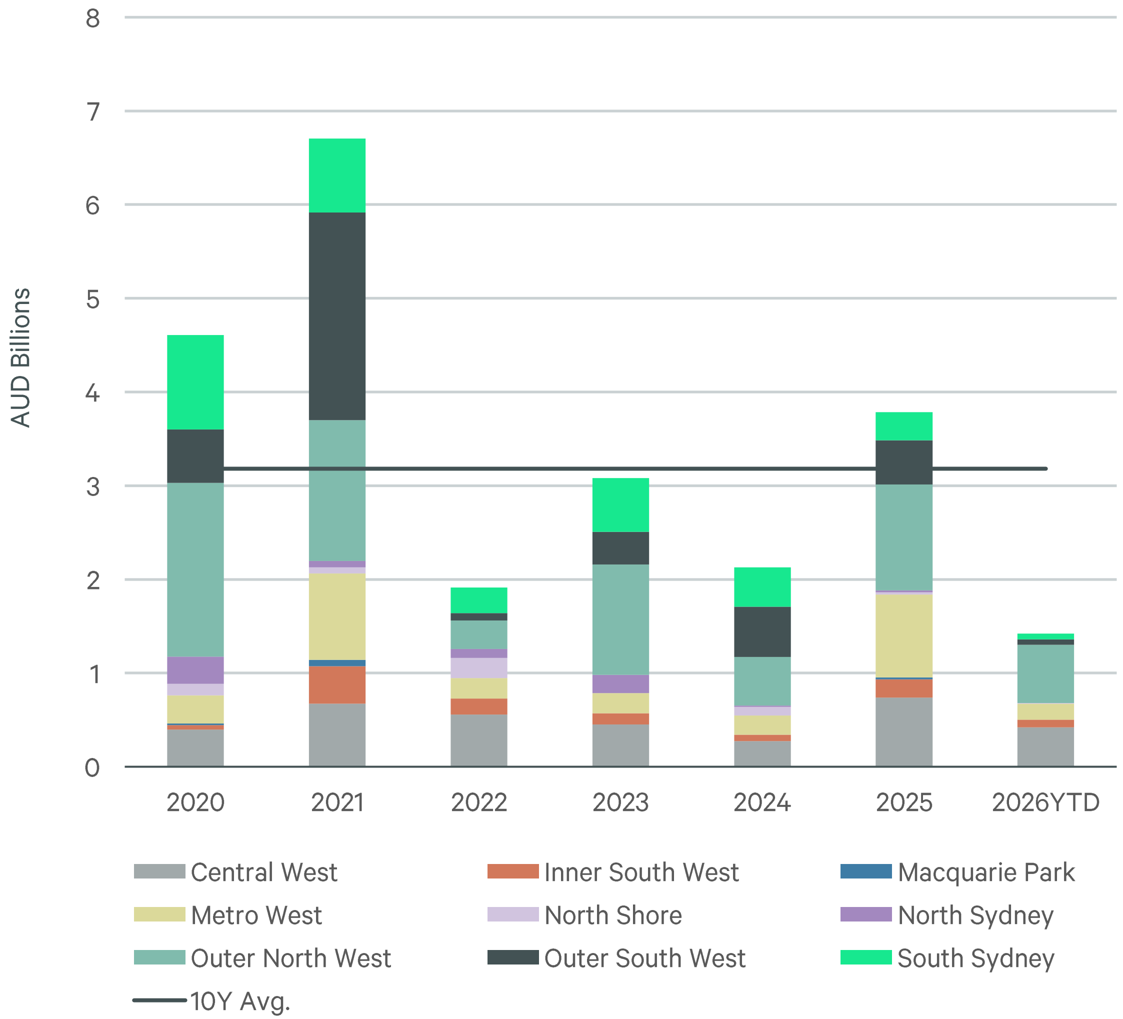
Super prime yields remained stable across all Sydney precincts during the quarter, reflecting greater pricing certainty between buyers and vendors. Improving confidence in the interest rate outlook, combined with resilient industrial market fundamentals, is expected to support stronger investment activity over the remainder of 2026.

FIGURE 9: Super Prime Midpoint Yield, by Precinct



To note: North Sydney and North Shore reflect prime grade assets.
Source: CBRE Research Q2 2026

FIGURE 10: Sydney Industrial Investment Sales (≥ AUD 5 million)



To note: Does not include land/development sales.
Source: CBRE Research Q2 2026

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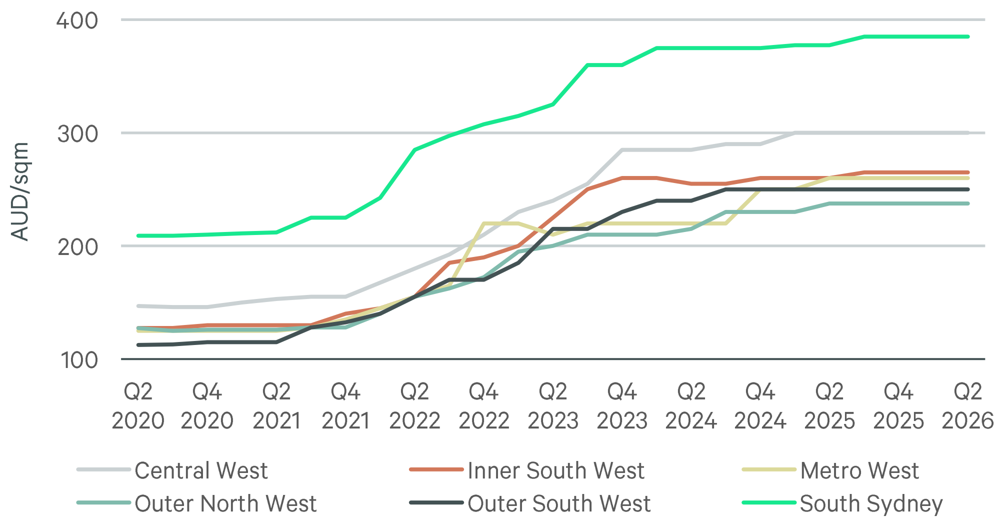
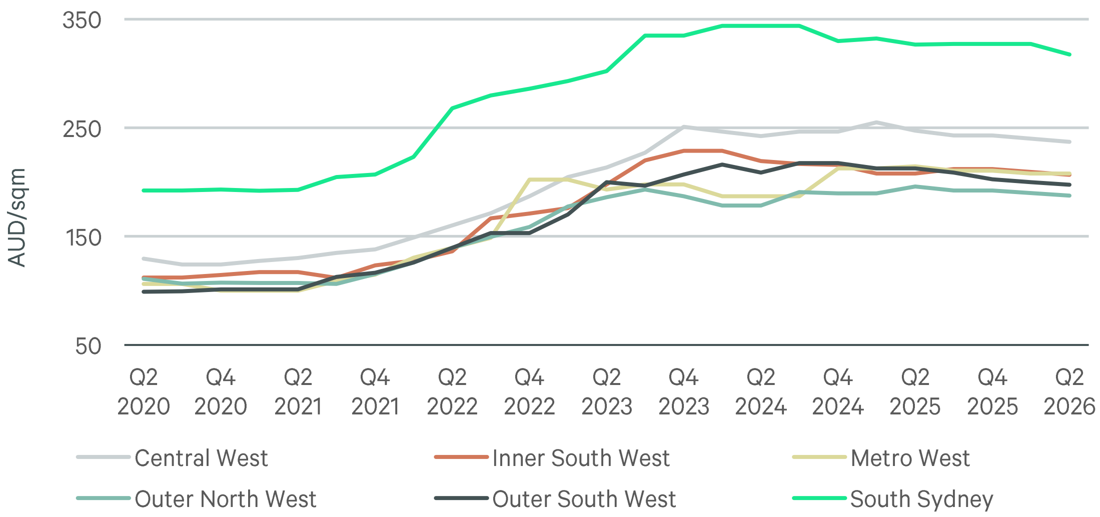
FIGURE 11: Average Super Prime Net Face Rents, by Precinct (2020-2026)



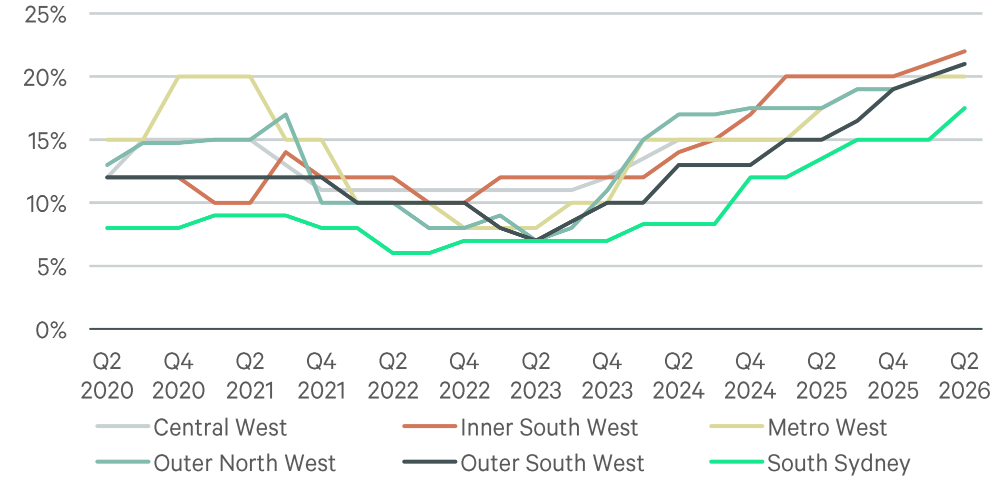
Source: CBRE Research Q2 2026

FIGURE 13: Average Sydney Super Prime Net Effective Rents, by Precinct (2020-2026)



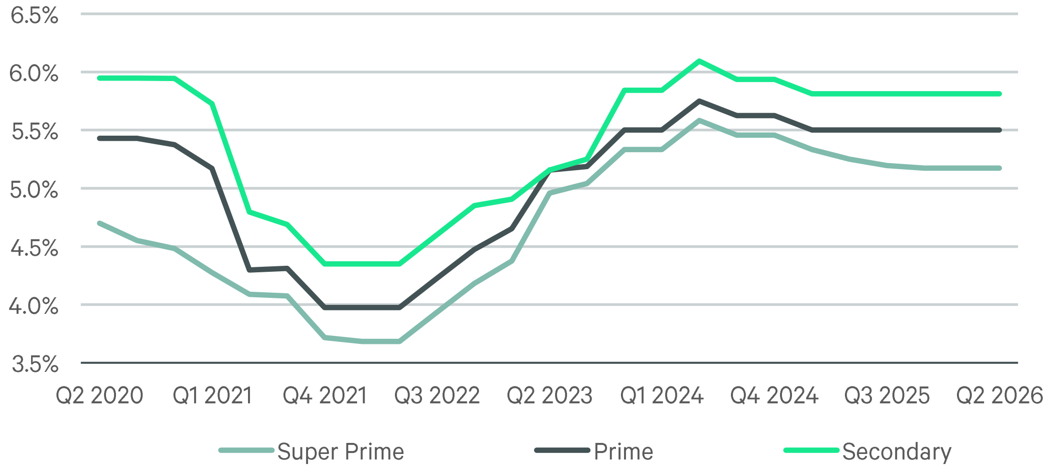
Source: CBRE Research Q2 2026

FIGURE 12: Average Super Prime Incentives, by Precinct (2020-2026)



Source: CBRE Research Q2 2026

FIGURE 14: Midpoint Sydney Yields, by Asset Grade (2020-2026)



Source: CBRE Research Q2 2026

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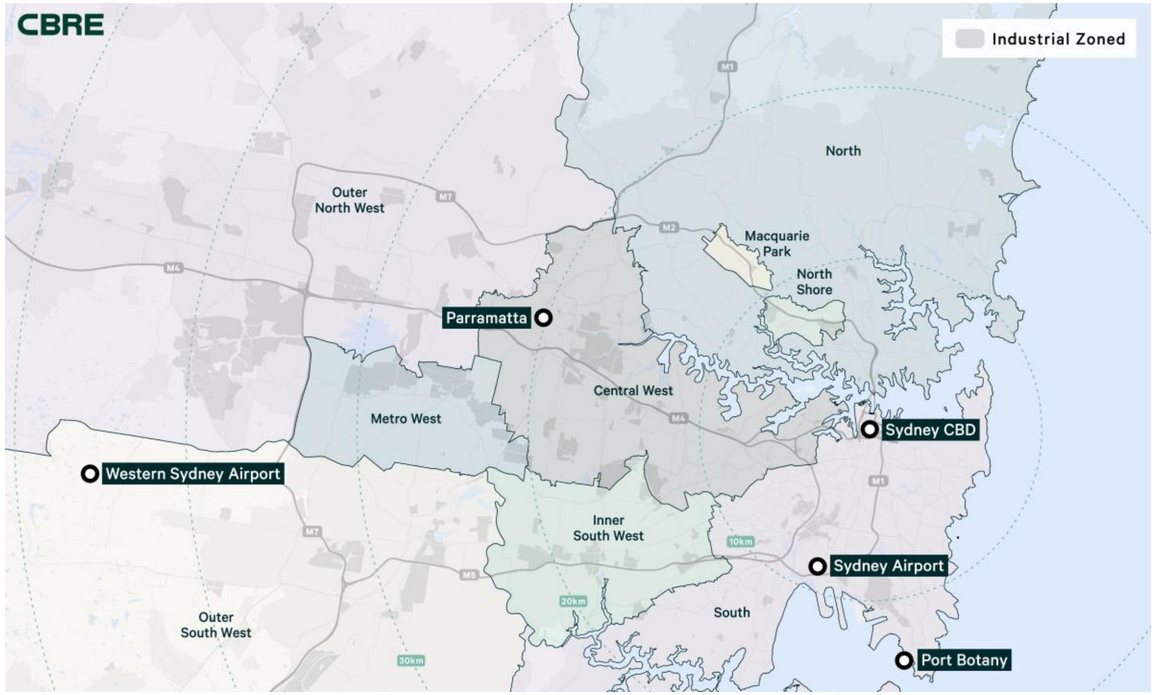
Market Area Overview



Definitions

Super Prime:
Less than 6 years old, height clearance between 13.7m and 14.6m. Buildings showcasing design excellence with combination of ESFR sprinklers and docks / on-grade doors, as well as strong truck articulation for loading/unloading.

Prime:
Generally, between 6 and 15 years old, height clearance over 10m and up to 13.7m.

Secondary:
Buildings that are older style but still very functional, height clearance in the ranges of 8-11m, Over 15 years old.

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Contact

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