Take-up activity lifts for the Sydney market despite vacancy remaining relatively low

▲ 2.5%
1H25 Sydney Industrial Vacancy

▲ c. 201,000 sqm
New industrial supply 2Q25

▲ c. 305,000 sqm
Gross take-up 2Q25

▼ 5.25%
Super prime midpoint yield

Note: Arrows indicate change from previous quarter.

Key Points

- Gross take-up over the quarter has increased compared to 1Q25, totalling c. 305,000 sqm over 2Q25.
- Average vacancy rate rises marginally and remains relatively low at 2.5% (as at 1H25).
- Development supply increased this quarter with just over 200,000 sqm of new floorspace added.
- Rental growth edged higher this quarter with super prime grade net face rents up 6% y-o-y, however on a net effective basis has decreased.
- Average land values remained unchanged over the quarter across all lots sizes tracked.
- A total of AUD 950 million in investment sales has been recorded in 2Q25, across 24 transactions (for sales ≥ AUD 5 million).
- Super prime midpoint yields tightened by 8 bps q-o-q and stand at 5.25%, whereas prime and secondary midpoint yields remained unchanged q-o-q sitting at 5.5% and 5.8%, respectively.

Demand

Take-up volumes for 2025YTD reach CY2024 level

Gross take-up increased in 2Q25 compared to the previous quarter (c. 226,000 sqm in 1Q25), totalling c. 305,000 sqm. This is above the quarterly average of c. 220,000 sqm and was driven by a major lease by Kmart at Moorebank Intermodal (Outer South West). The facility features advanced robotics and automation, including automated guided vehicles and goods-to-person fulfilment, making it the largest single leasing transaction in Sydney in five years. This highlights growing demand for next-generation logistics infrastructure and renewed confidence among key occupiers.

Enquiry levels have risen, and take-up is forecast to be at least 15% higher than the total recorded in CY2024. While activity remains subdued, the outlook for 2025 is positive, with most transactions typically occurring in the second half.

Notable lease transactions in 2Q25:

- A D&C leased by Kmart (Outer South West)
- A sub-lease by EWE Global Express (Outer North West)
- A pre-lease by Opal (Outer South West)

Design and Construct deals accounted for 42% of total floorspace leased this quarter, largely driven by the Kmart lease, and pre-lease deals made up 24%. With a relatively high volume of new supply expected over 2025 and 2026, and favourable lease terms including elevated incentives, pre-lease activity is forecast to rise.

The Outer South West precinct accounted for just over 50% of total take-up by floorspace, followed by the Outer North West at 42%. Consistent with historic trends, leasing activity is expected to remain concentrated in the Outer North West, where over 70% of Sydney's projected new supply (by floorspace) will be delivered through to the end of 2027.

Floorspace leased in 2Q25 was dominated by Retail Trade occupiers (46%), followed by Transport, Postal and Warehousing (34%).

FIGURE 1: Sydney Gross Take-Up 2015-2025YTD by Precinct

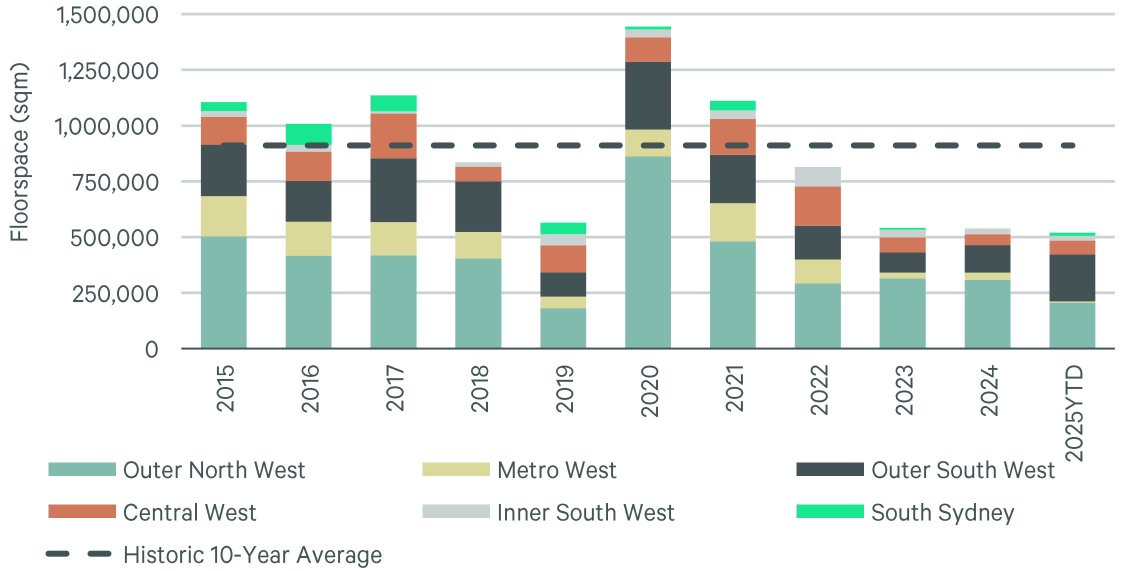
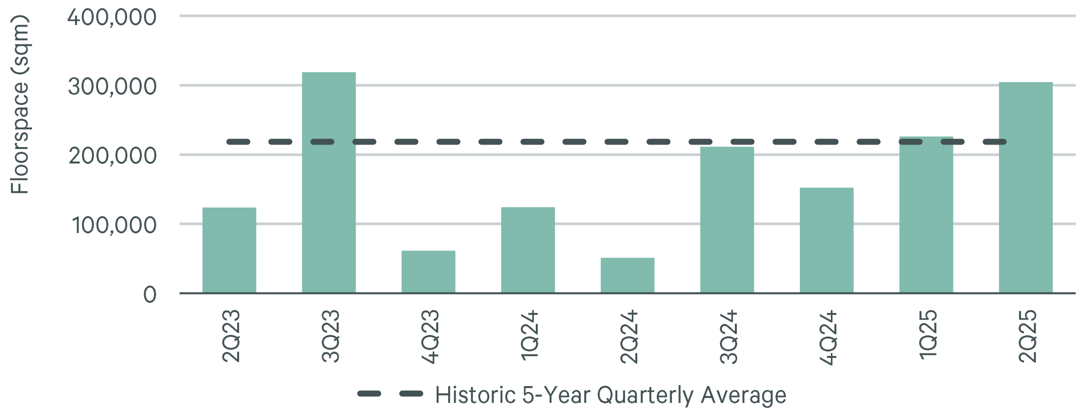


FIGURE 2: Sydney Quarterly Gross Take-Up, 2Q23-2Q25



To note: Reflects leasing transactions >5,000 sqm.
Source: CBRE Research Q2 2025

Supply

Over 60% of the 2025 pipeline is already pre-committed

New floorspace added to the market increased over the quarter totalling c. 201,000 sqm, up from c. 110,000 sqm last quarter, though still sitting just under the 2024 quarterly average of c. 220,000 sqm.

Project completions over the quarter were concentrated in the Inner South West, accounting for close to 38% of total new floorspace.

Major projects that reached practical completion in 2Q25 included:

- Platform Multi-Level Estate, Milperra (c. 38,000 sqm)
- Lot 11 & 12, M7 Business hub, Eastern Creek (c. 31,000 sqm)

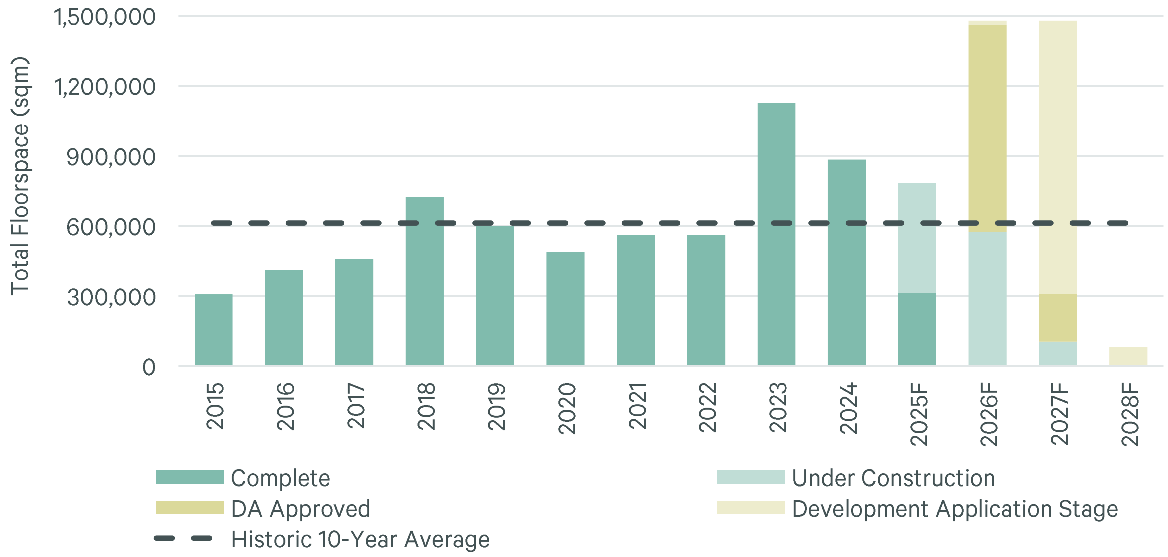
The CY2025 supply pipeline is projected to total c. 783,000 sqm. While this is slightly below the volume completed in CY2024, it remains marginally above the 10-year average. The pre-commitment rate for this pipeline remains strong, currently exceeding 60%.

We forecast the bulk of new supply for the 2025 pipeline to be delivered next quarter (c. 303,000 sqm). Major projects expected to reach practical completion in 3Q25 are:

- A Purpose-Built fulfillment centre at Oakdale East Estate, Horsley Park
- Warehouse S5, 400 Moorebank Avenue, Moorebank
- Warehouse 3, Eastern Creek Logistics Estate, Eastern Creek

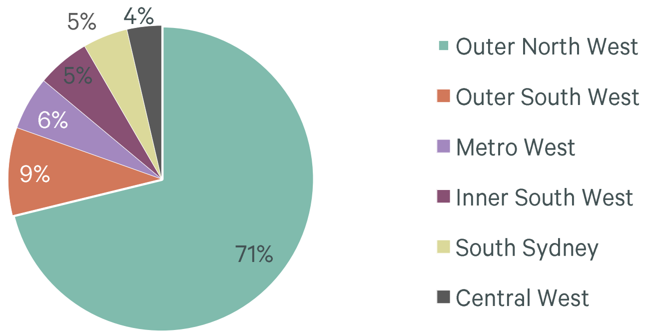
Elevated construction costs and high land values have led to portions of the previously anticipated 2025 pipeline being pushed into 2026 or later. Despite a higher development pipeline of new supply earmarked to be delivered in 2026 and 2027, a large share of this is in 'planning' stage (i.e. DA/DA Approved) and are unlikely to all be complete in this time frame.

FIGURE 3: Sydney Development Supply Pipeline 2015-2028F



To note: Reflects new projects >5,000 sqm.
Source: CBRE Research Q2 2025

FIGURE 4: Development Supply 2025F-2027F Floorspace Share, by Precinct



To note: Reflects new projects >5,000 sqm.
Source: CBRE Research Q2 2025

Leasing Market

Rental growth increases marginally over the quarter

Sydney's average super prime, prime and secondary net face rents increased by 1.0%, 0.5% and 0.4% (q-o-q), respectively. On a y-o-y basis, super prime rents increased by 6.0%, while prime and secondary rents grew by 5.6% and 5.8%, respectively.

Super prime rents in the Metro West precinct recorded the strongest quarterly growth, rising 4%, supported by continued demand for infill locations. Despite the uplift in face rents, incentives in the precinct increased by 250 bps over the quarter. Notably, Metro West was also the only precinct to record a decline in secondary rents, which fell 1.2%, due to elevated vacancy and a high concentration of secondary stock that faces weaker tenant demand.

Net effective rents declined across all asset grades in 2Q25, as rising incentives offset face rental growth. Super prime, prime, and secondary grades fell by 0.4%, 0.8%, and 1.0% respectively. Incentive levels rose by 110 bps over the quarter and now average 17% for super prime, and 18% for both prime and secondary assets.

Sydney's vacancy rate edged up to 2.5% as of 1H25, although remains relatively low. The Inner South West experienced the most significant increase, up 260 bps over six months, largely due to unabsorbed multi-level warehousing. Pre-committed developments are helping to cushion downward pressure on rents, though incentives are expected to become a key lever for landlords as existing leases roll over.

Average outgoings across all asset grades rose 1.5% over the quarter in 2Q25 and were up 16% y-o-y, driven primarily by a sharp 9.1% q-o-q increase in 3Q24. A modest increase is expected in 2H25, supported by the rise in surcharge land tax for foreign owners (from 4% to 5% effective January 2025) and higher council rates. These statutory outgoings, which represent around 75–85% of total outgoings, are expected to flow through in the second half of the year. As tenants face rising operational costs, their ability to absorb further rent increases may be limited, potentially moderating rent growth.

FIGURE 5: Average Sydney Net Face Rent Growth y-o-y, by Asset Grade (2015-2025)

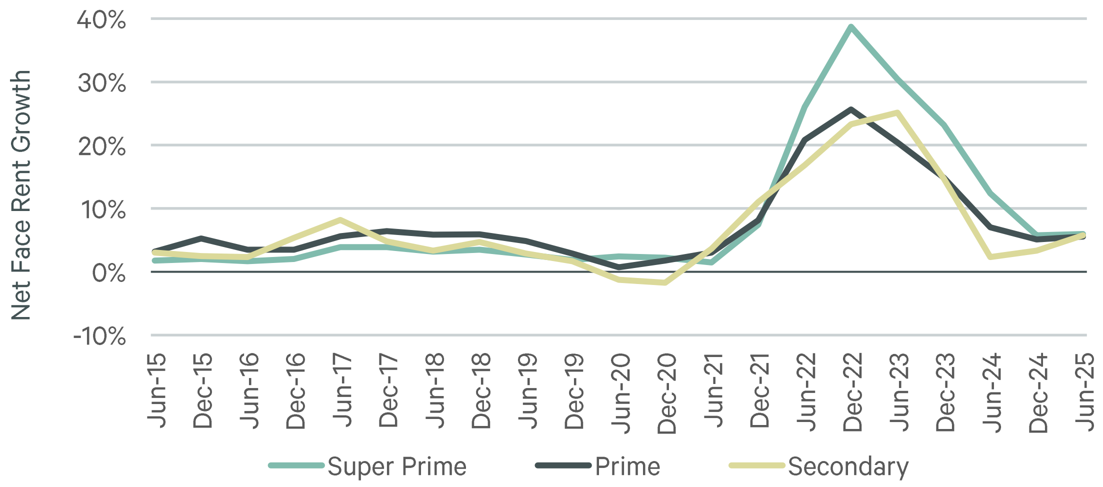
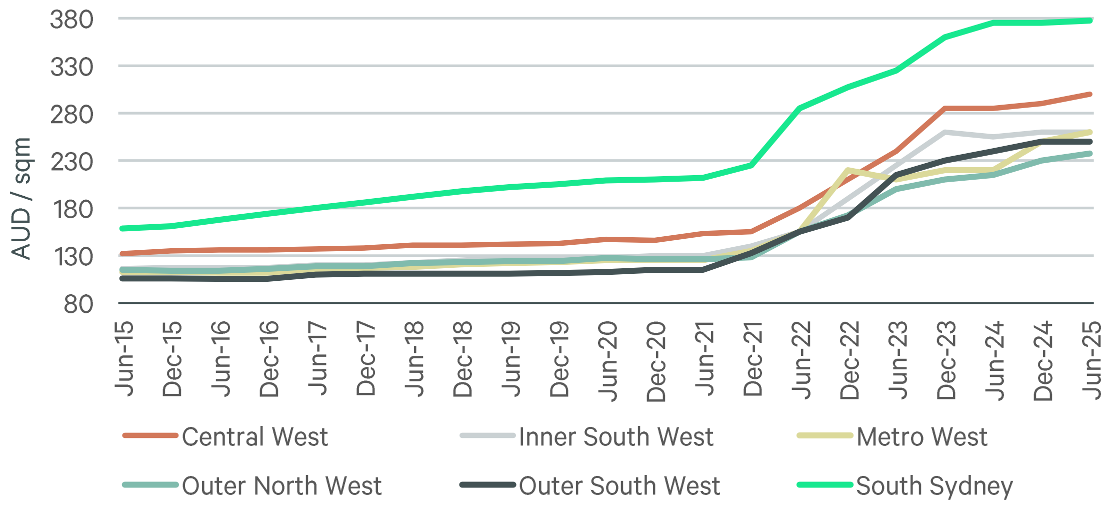


FIGURE 6: Average Super Prime Net Face Rents, by Precinct (2015-2025)



Source: CBRE Research Q2 2025

Land Values

Land values remain unchanged over the quarter

Demand for 0.25 ha, 1.6 ha, and 3-5 ha industrial zoned land in Sydney remained steady over the quarter. On a y-o-y basis, 0.25 ha lots rose by 1.7%, 1.6 ha lots were unchanged, and 3 to 5 ha lots increased by 1.9%.

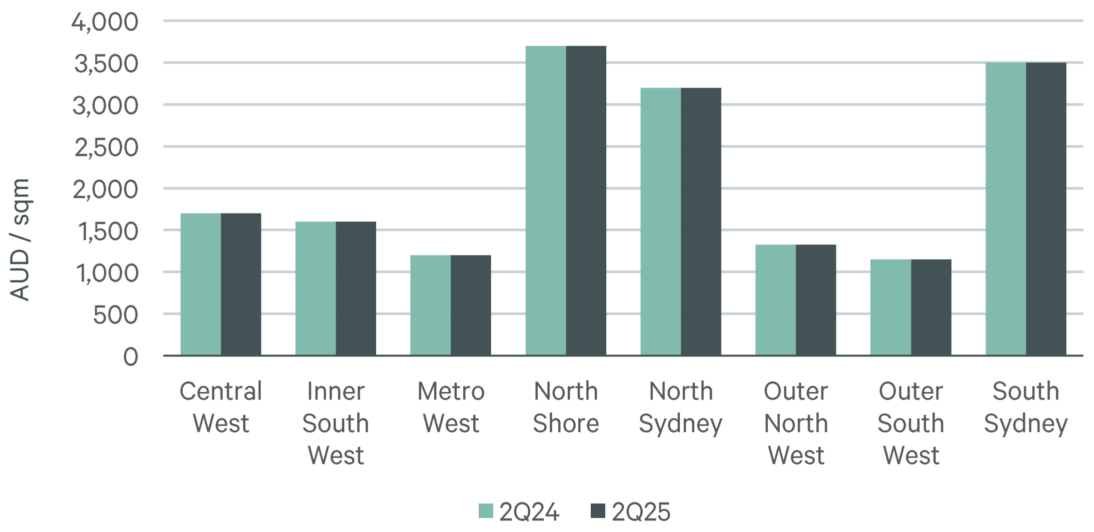
Ongoing uncertainty around the interest rate outlook and elevated capital costs has prompted institutional investors to adopt a more cautious approach to land acquisitions. Higher borrowing costs have lifted development funding requirements and compressed margins, reducing the viability of new projects. While some investors remain in a holding pattern, sentiment has improved slightly following the RBA's 25 bps rate cut in May, which brought the official cash rate to 3.85%. However, with the RBA holding rates steady in June, the outlook for further easing remains uncertain.

Rising construction costs and broader economic headwinds continue to challenge project feasibility. Prices for key building materials remain elevated due to high building costs. Holding costs, particularly for international groups, are compressing returns and limiting speculative activity. CBRE Research estimates economic rents in Sydney are currently around 20% above market rents, further dampening developer and investor appetite. In contrast, owner-occupiers remain active, typically assessing land through a longer-term operational lens.

Infill precincts such as South Sydney and North Sydney continue to outperform the broader market, driven by limited land availability and proximity to the CBD. Land values in these areas are now more than double those in the Outer Western precincts, supporting a positive medium-term outlook for strategically located industrial stock.

FIGURE 7: Average Land Values (0.25 ha lots), by Precinct (2Q24 vs. 2Q25)

FIGURE 8: Average Land Values (1.6 ha lots), by Precinct (2Q24 vs. 2Q25)



Source: CBRE Research Q2 2025

Investment Market

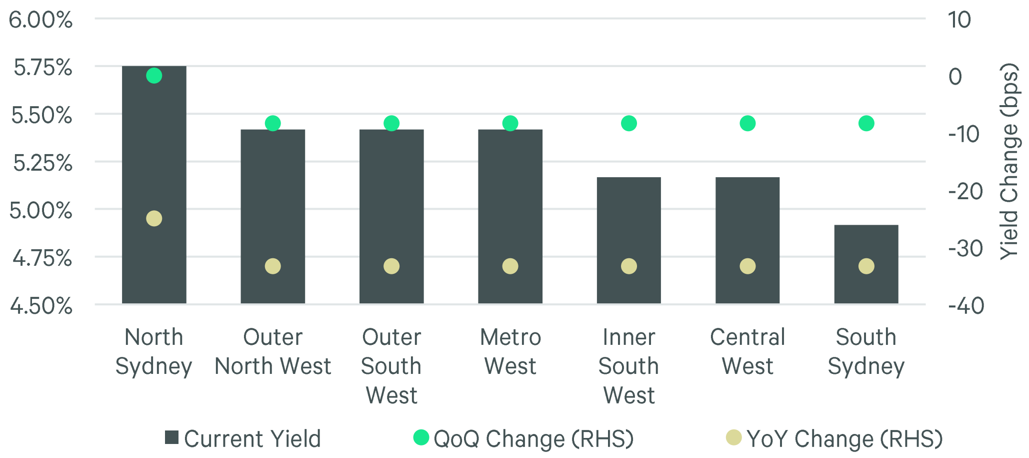
Super Prime yields tighten

A total of AUD 950 million in investment sales was recorded in 2Q25 across 24 transactions (≥ AUD 5 million). The largest transactions over the quarter included 6 Burilda Close, Wetherill Park and 15 Muir Road, which formed part of Frasers Prime Logistics Venture AUS's portfolio sale comprising six NSW and two QLD assets. Another notable transaction was Goodman's sale of 17 Stanton Road, Seven Hills, for AUD 75 million.

Total investment sale activity in 2Q25 was moderately higher than the previous quarter, which recorded AUD 552 million. We anticipate increased investment activity over the next 12–18 months amid interest rates decline as well as relatively more favourable tax policy for offshore investors.

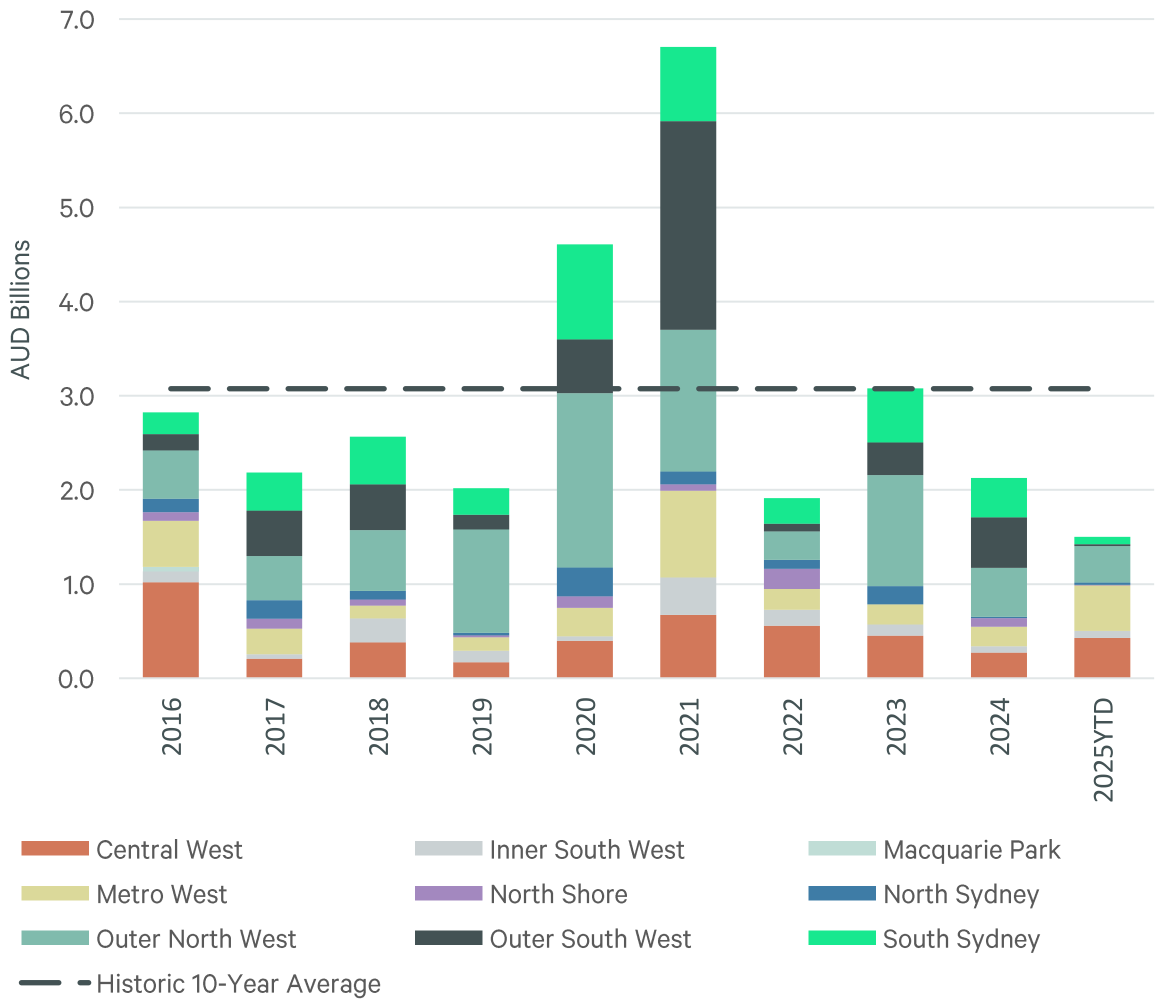
This quarter, super prime yields compressed further from 5.33% to 5.25% amid strong demand for top-tier stock. Prime and secondary yields remained stable at 5.5% and 5.8%, respectively.

FIGURE 9: Super Prime Midpoint Yield, by Precinct



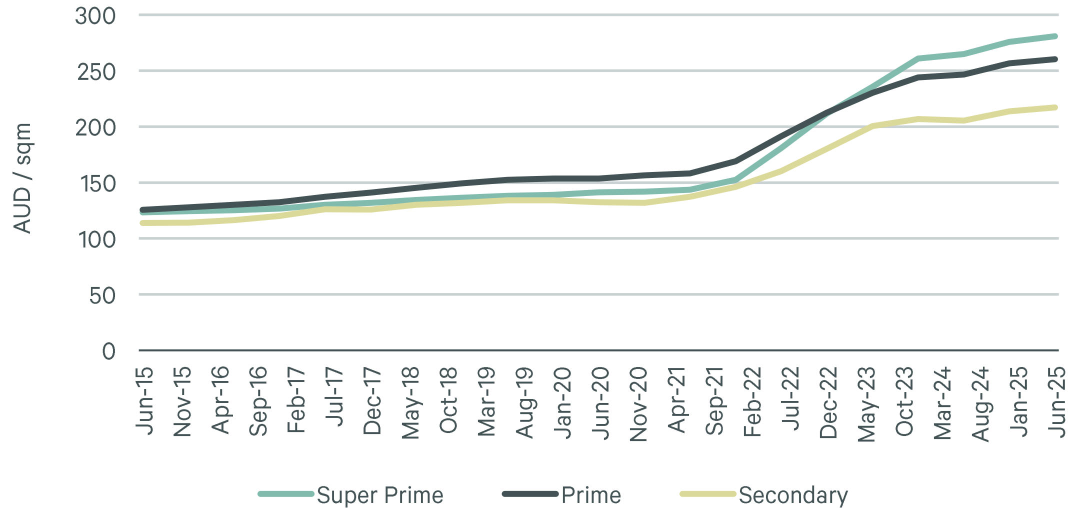
To note: North Sydney reflects prime grade assets.
Source: CBRE Research Q2 2025

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



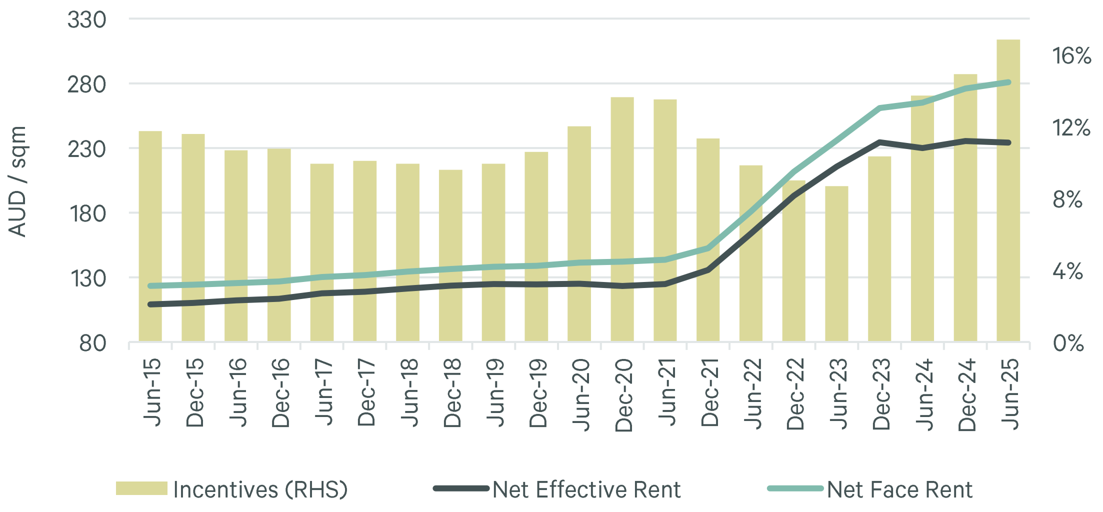
To note: Does not include land/development sales.
Source: CBRE Research Q2 2025

FIGURE 11: Average Sydney Net Face Rents, by Asset Grade (2015-2025)



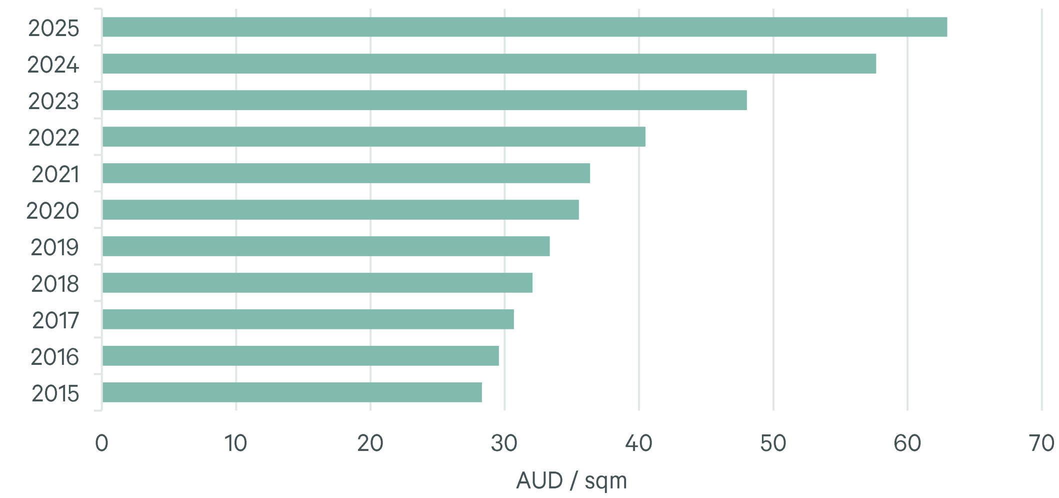
Source: CBRE Research Q2 2025

FIGURE 13: Average Sydney Super Prime Rents and Incentives (2015-2025)



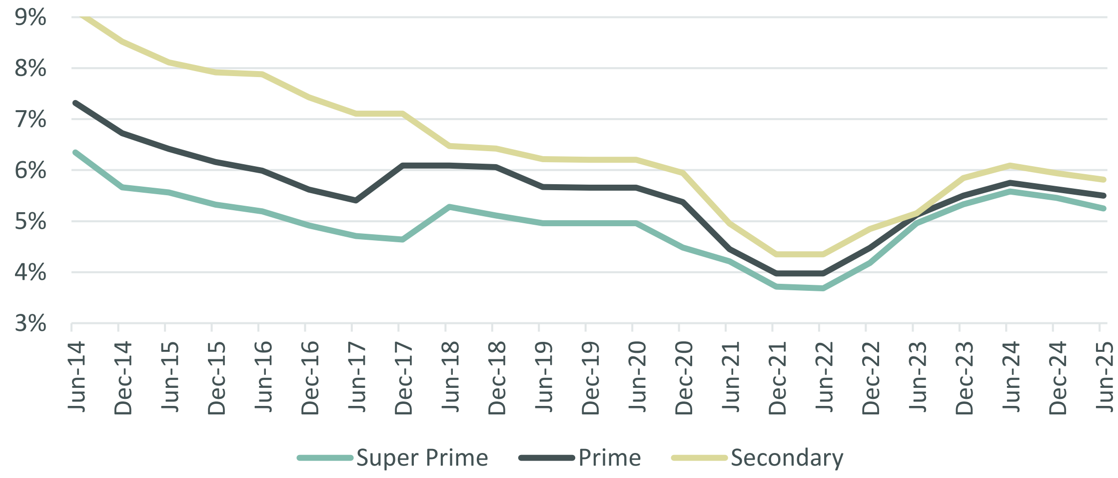
Source: CBRE Research Q2 2025

FIGURE 12: Average Sydney Historical Outgoings, 2015-2025 (excludes Strata and Hi-Tech)



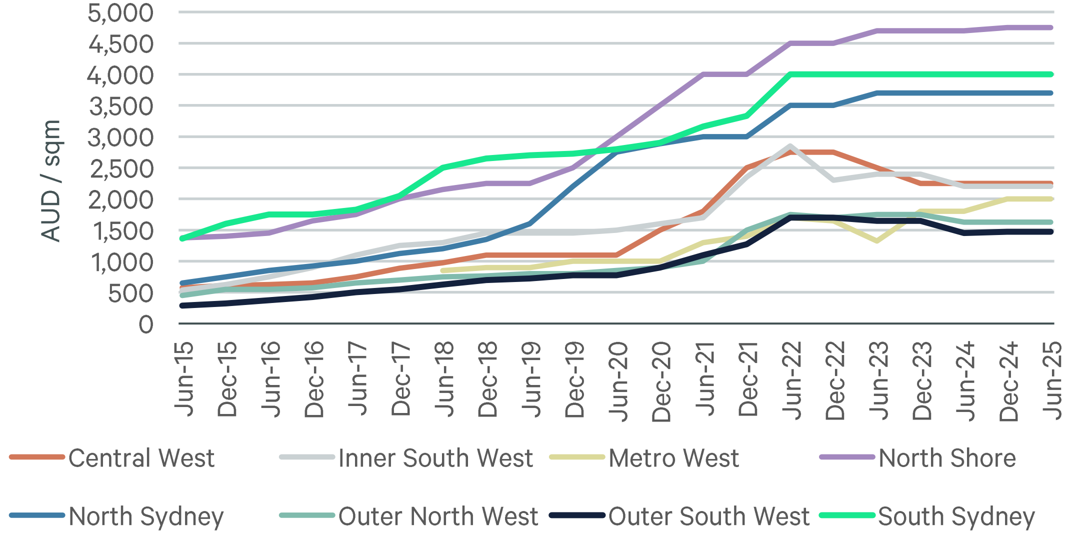
Source: CBRE Research Q2 2025

FIGURE 14: Midpoint Sydney Yields, by Asset Grade (2015-2025)



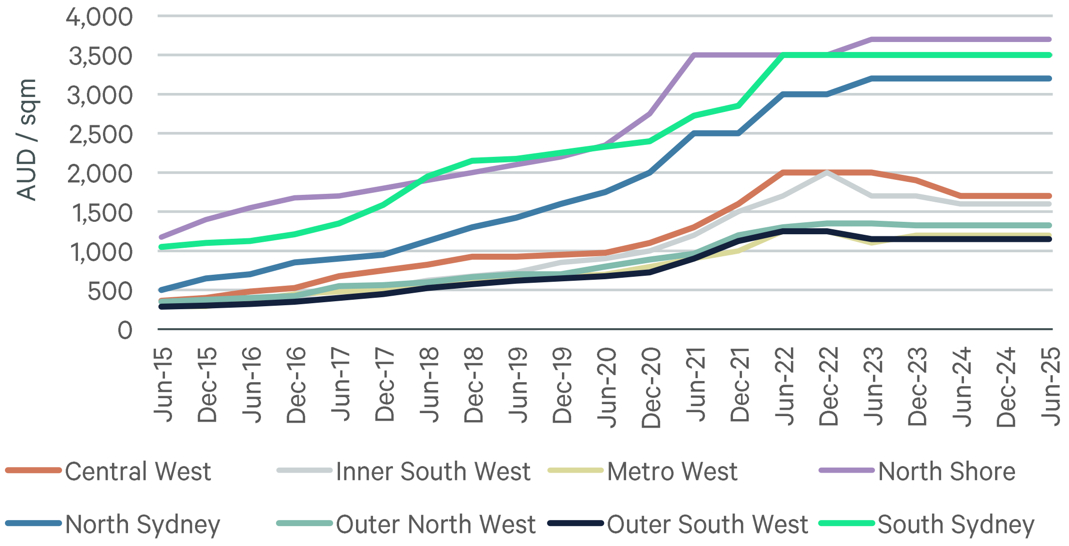
Source: CBRE Research Q2 2025

FIGURE 15: Average Land Values (0.25 ha lots), by Precinct (2015-2025)



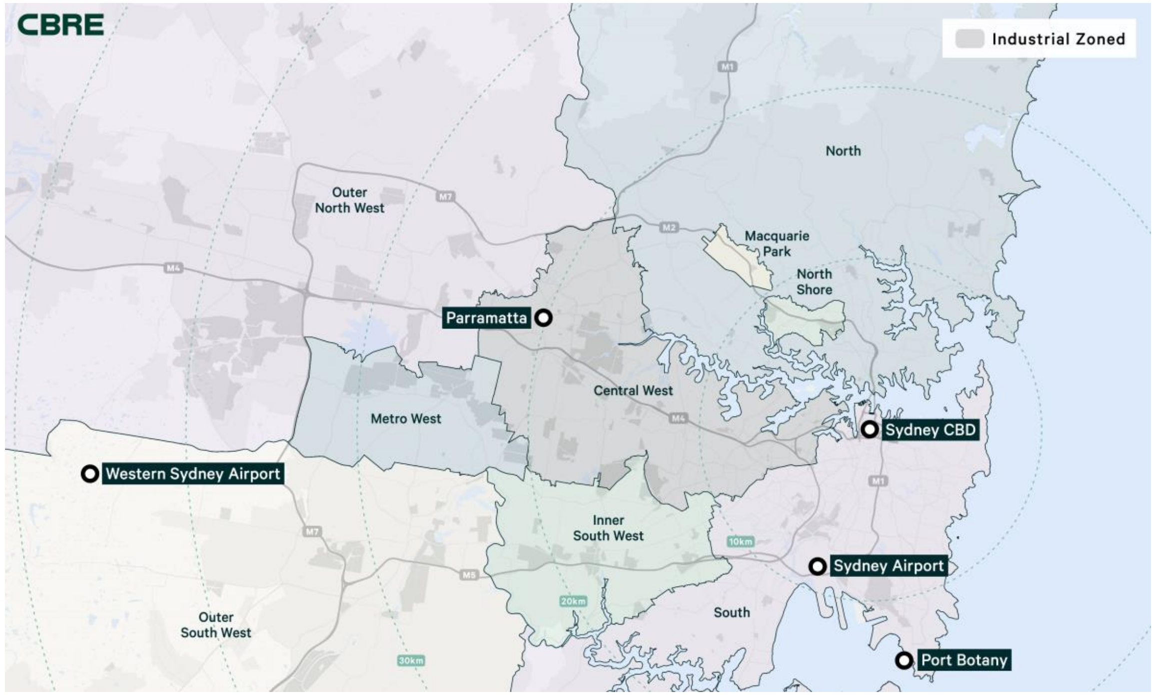
Source: CBRE Research Q2 2025

FIGURE 16: Average Land Values (1.6 ha lots), by Precinct (2015-2025)



Source: CBRE Research Q2 2025

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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