A Tenant's Guide:

How to gain control in the 2025 property market

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White Paper

Contents

Introduction

Historically, businesses have approached industrial property needs through a linear lens: envisage the optimal supply chain strategy, then secure suitable properties to execute. The current landscape of Australian industrial property markets, particularly in major capital cities like Sydney and Melbourne, is fundamentally challenging this conventional wisdom.

After years of extremely low vacancy rates and soaring rents across the country, market dynamics have transformed, creating a rare window of opportunity for businesses seeking new facilities or considering relocation.

The traditional strategic framework, which remains intact, considers multiple cost components in relation to industrial property selection. Supply chain design and customer promise is weighed up against labour availability, import and manufacturing, and freight and distribution costs.

The dramatic cost differential between Sydney and Melbourne property markets has become large enough to outweigh conventional supply chain planning factors, making businesses reconsider locations they would have previously ruled out on cost grounds.

This shifting landscape requires a more integrated approach to industrial property decisions, where real estate availability and costs can become primary drivers of supply chain strategy rather than secondary considerations. The following whitepaper explores these factors in detail, providing practical guidance for navigating this new reality in industrial property decision-making.

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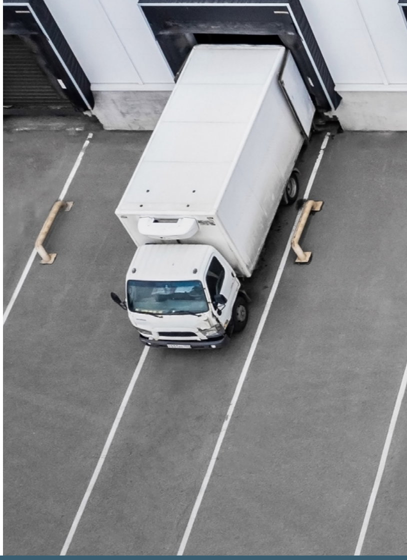


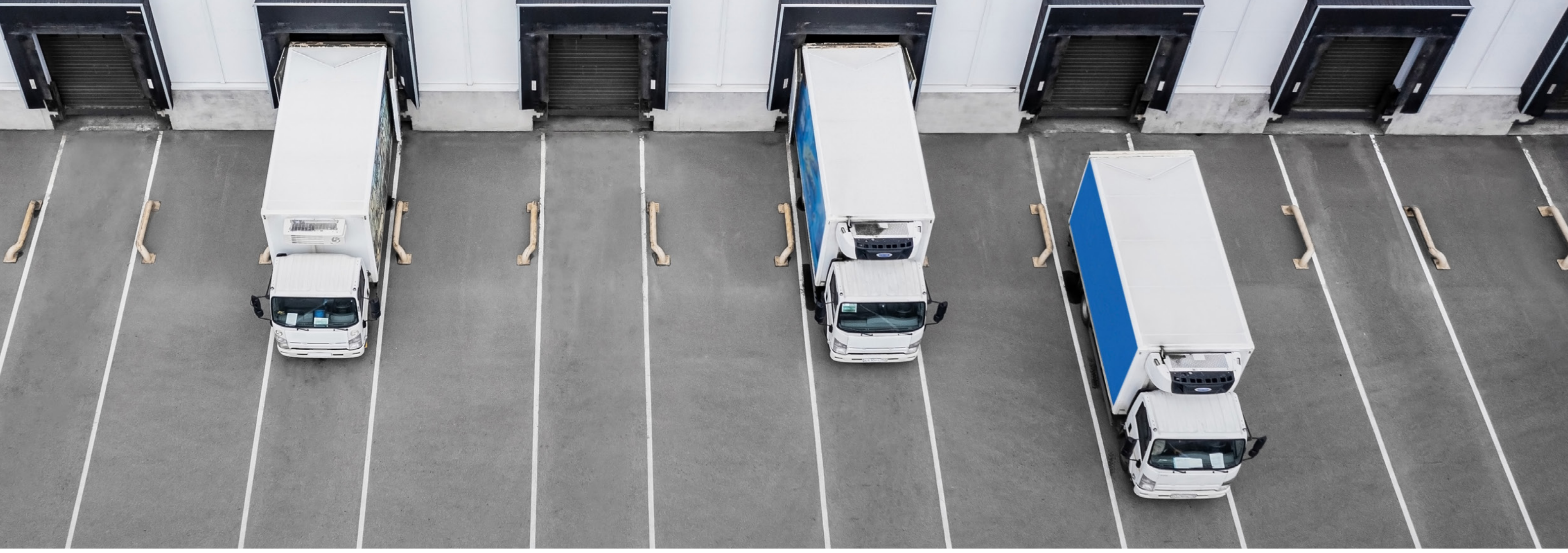
> WHERE TENANTS ONCE FACED LIMITED OPTIONS AND PRESSURE TO MAKE RAPID DECISIONS, THEY NOW FIND THEMSELVES IN A POSITION OF STRENGTH AND LEVERAGE

A changing market

The industrial property landscape of 2025 bears little resemblance to the constrained market of recent years. Where tenants once faced limited options and pressure to make rapid decisions, they now find themselves in a position of strength and leverage. This shift has been driven by a fundamental rebalancing of supply and demand dynamics, creating opportunities that haven't existed for a decade.

According to Savills' November 2024 Shed Briefing report, vacancy rates across Australia's east coast have stabilised at 3.4%, marking a dramatic shift from the record lows of recent years. Sydney's super prime space vacancy rate, which bottomed at 0.2% in late 2022, has risen to 3.75%, while Melbourne and Brisbane sit at 3.1% and 3.4% respectively. This increase in availability has been accompanied by a normalisation of leasing activity, with JLL Research reporting annual volumes returning to pre-pandemic levels of between 2 and 3 million sqm across Australia.

Key industrial precincts, including Melbourne's south-east, Sydney's outer south-west and inner west, and Brisbane's Southern are in a supply surplus. More industrial property precincts are set to come online, creating even more supply into the market in 2025.



Melbourne vs Sydney Analysis

The traditional competition between Melbourne and Sydney for national distribution centre locations has taken on new dimensions. While both cities offer distinct advantages, the economic equation has shifted in Melbourne's favour for many businesses.

Historically speaking, there has been a high proportion of industrial occupiers that are 'Sydney-centric' or their Sydney facility is the hub of their national operation. Traditionally, the occupancy cost differential between Sydney and Melbourne has been a factor of consideration, but not sufficient to sway tenants from remaining committed to Sydney. Over the last two years this has changed and the rent differential has driven Sydney tenants to their limit, with occupiers now considering the Melbourne option in the lead up to their Sydney contract expiry dates. The major evaluation considerations are in the table below.

Pros of being Melbourne centric:	Cons of being Melbourne centric:
• Melbourne's Super Prime premises are approximately $100 per square meter lower than the equivalent Sydney facility. (On 10,000m2 equals $1Mil pa rent variation) • Melbourne can service Tasmania, Adelaide, WA and regional Victoria 1 day faster than from Sydney • Melbourne will soon be Australia's largest city with the highest consumption • Melbourne has long been the national supply chain centre as well as home of Australia's busiest port. These characteristics will be amplified with the city's growth, augmented by the commencement of Inland Rail in 2028	• Melbourne lease cost savings historically offset by increased freight expenses • Two-day service to southeastern Queensland (versus overnight from Sydney) • Depending on a business's sector, Melbourne may require more attention and diligence in managing Industrial Relations matters

Important Considerations
Customer focus in selecting a national DC or hub location ought to be paramount, however, it must be balanced with the supplier base and their cost delivering into the DC or Hub. For example, if the majority of suppliers are in Sydney, this may affect the Melbourne centric business case, and vice versa if the majority of suppliers are in Melbourne.

Location Strategy

The interplay between port access, transport infrastructure, and sustainability requirements has created new strategic considerations that weren't important even five years ago. This evolving landscape requires a more nuanced approach to location selection, one that balances traditional factors with emerging priorities, and therefore, requires a far more complex multi-criteria assessment process than has tradition been employed.

Shipping Considerations

Major shipping lines are signalling potential changes to their port calling patterns in Australia, which could significantly impact network design decisions. For importer-distributors, this could mean reconsidering the location of distribution centres that have traditionally been positioned near smaller ports. If large shipping lines reduce their calls to certain Australian ports, focusing primarily on Melbourne and Sydney, organisations need to factor in additional land freight costs when evaluating locations outside these major hubs.

Road Infrastructure

The trend of knock-down rebuilds in areas with superior transport connectivity is set to continue. In Sydney, this is particularly evident in Mascot, while Melbourne is seeing significant greenfield development around Essendon and Campbellfield. These locations capitalise on proximity to major arterial roads - in Melbourne's case, the Western Ring Road and Hume Highway - providing multiple transport options and future-proofing accessibility.

Brand Presence

A major facility in key commercial hubs can enhance corporate visibility and market perception. The location's profile and surrounding business environment can significantly impact brand value.

Workforce Accessibility

Employee commute patterns and transport accessibility are always important. Understanding workforce demographics and their travel requirements brings your team along with you.

Relationship and Importance of Head Office to DC Functions

Considering moving the geo-centricity of warehouse operations from one city to another is significant and not without risk. Further to this consideration is the relationship between the operational environment and Head Office connectivity. Some businesses (and people) like to have easy access to their operational environment. Placing the centre of operations in a different city to Head Office, while common and indeed normal in may parts of the world, does not diminish the cultural challenge such a change presents.

Understanding sublease opportunities

In Sydney alone, approximately 300,000 sqm of sublease facilities are available off-market – equivalent to roughly one year's typical take-up in the city. According to CBRE's 2024 Australian Industrial and Logistics Vacancy Report, Sublease space now represents around 50% of the total vacant area in the Sydney market (for space >5,000 sqm). For tenants willing to consider sublease options, this presents both opportunities and considerations that warrant careful evaluation.

Sublease space typically offers several advantages:

- Lower lease rates than market rates
- Immediate availability
- Flexibility in terms

However, tenants should consider:

- Limited lease periods (restricted to remaining primary lease term)
- Commercial benefit will only last as long as the sub-lease agreement
- Need for investigation of the property owner's plans beyond the sublease period

Despite some potential drawbacks, the surplus of available sublease space presents an opportunity for Australian businesses needing a short-term solution or buying time before making major decisions. More sublease space is likely to create competitive tension with spec-built available properties and delay developers' ability to realise and liquidate existing approved developments.

The recent trend of available sublease space is not unique to Sydney and has the potential to shift market dynamics, easing the pressure to build more industrial space in the short term.

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Strategic Planning

Where traditional industrial property assessments once focused primarily on location and base building costs, today's facility decisions require a more comprehensive analysis incorporating technology, sustainability, and future scalability. This complexity, while challenging, also presents opportunities for organisations to create competitive advantages through thoughtful facility planning.

In Prological's 2024/25 Pulse Check Survey, the majority of supply chain leaders heavily prioritised warehouse efficiency over leasing cost considerations when making industrial property decisions. With 35% of respondents planning to expand or relocate warehousing operations within five years, more organisations are paying more attention to the long-term gains of a facility over 10+ years than the initial cost.

Modern facility assessment must consider multiple layers of infrastructure and capability, each contributing to the overall value proposition of a property. The integration of automation technology, energy systems, and sustainable design features has become increasingly accessible to businesses of all sizes, transforming what was once considered premium infrastructure into standard considerations for many operations

Building Specifications and Technology

- Facility height and product density optimisation
- Automation integration possibilities
- Energy production and storage capabilities

Commercial Assessment Framework

- Property costs and building specifications
- Automation potential and associated ROI
- Energy infrastructure opportunities
- Operational efficiency gains

Many of the building specification elements and commercial framework considerations are only available in Greenfield situations. Future considerations, particularly in relation to energy generation and storage, electric vehicle readiness and modern human amenity, cannot be retrofitted unless designed into the new building.

As with automation, over time the have's and the have-nots will develop within market sectors, as it relates to efficient and attractive work environments. For most warehouses, what gets built on day one is as good as that facility will be for the 40-50 years of its life cycle.

Not long ago, a warehouse was just an operations shed. Today it can be the differentiator for the quality and retention of staff or the power plant for the operation. In the near future warehouses will be the 'fuel' generator for local distribution fleets off-setting diesel costs while eliminating Scope 1 and 2 carbon emissions for local distribution.

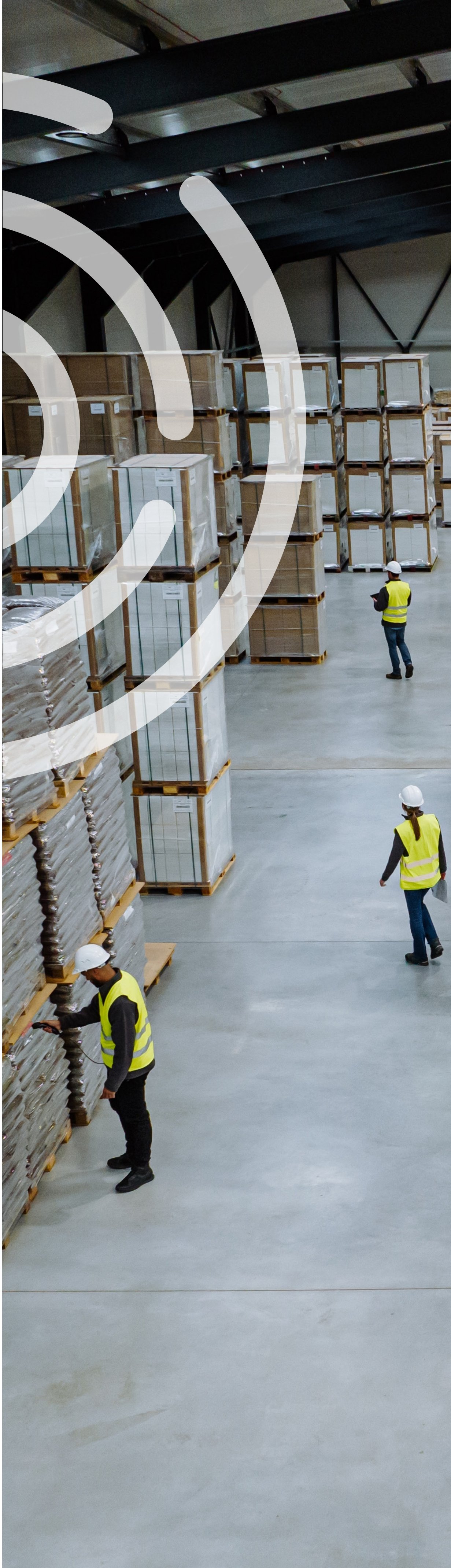
The sustainable network design conundrum

The relationship between network design and environmental impact has become a critical consideration in location strategy. Without question, the network configuration that produces the lowest carbon footprint is one with multiple distribution centres strategically positioned closer to customers. This decentralised approach, while potentially more complex to manage, significantly reduces freight miles by positioning inventory closer to end delivery points, while enabling larger, more cost effective and environmentally sensitive freight to move in bulk over the long distances.

This environmental advantage creates an interesting tension with traditional centralised network models. While a centralised network offers operational simplifications and potential cost benefits, the increased transportation requirements – moving goods longer distances to reach customers – results in a larger carbon footprint.

The decision becomes even more nuanced when considering the mix of locally manufactured versus imported products. Organisations must carefully evaluate their supply chain composition, considering not just the current mix but potential future changes in sourcing strategies. This evaluation needs to account for possible changes to Australia's manufacturing footprint as well as the location of suppliers who import, or use to manufacture and will become importers. Shipping lines are also giving consideration to their routes and Australian ports of call, with some major carriers suggesting they may reduce their calls to certain Australian ports in the future.

Looking ahead to the 2030s, Australia's significant rail infrastructure upgrade program adds yet another dimension to this complex network equation. The development of enhanced rail connectivity between capital cities will create new opportunities for environmentally conscious network design. Properties within these emerging rail infrastructure precincts – which could accommodate more than two million square meters of warehousing space – may offer the best of both worlds, increasing operational efficiency and lowering environmental impact. Decisions made today need to consider not just current transportation options but also future rail connectivity opportunities, particularly between Sydney, Brisbane and Melbourne.



Negotiation: knowledge is power

The current market dynamics have created new negotiating power for tenants. Australia's industrial property landscape right now represents a marked change from the landlord-favourable conditions that dominated recent years. Such an opportunity will only go to waste if tenants don't understand how to leverage these conditions in their own favour.

> SUCCESSFUL NEGOTIATION RELIES ON UNDERSTANDING THAT TIME IS NOW ON THE TENANT'S SIDE.

The pressure to make rapid decisions should be left behind for careful evaluation of multiple options for business plans 10 plus years ahead.

Market Leverage

- Multiple options available in most submarkets
- No pressure to rush decisions
- Competition between developers for tenants

Developer Positions

- Developers holding substantial stock
- Financial positions structured around high market valuations
- Increasing willingness to offer incentives

Risk Management

Traditional focus on lease terms and building condition, while still important, must now be supplemented with consideration of broader strategic risks. This includes everything from energy security to future infrastructure developments.

A comprehensive risk management approach requires careful consideration of both immediate operational needs and long-term strategic flexibility. Organisations must balance the attractive terms currently available with the need to maintain adaptability in their operations.

Not long ago property decisions were thought to be relatively simple. Today, there are iterative property considerations before decisions about automation, customer and supplier locations, or inventory related issues should be made. These are:

Property

Location, availability, access, cost and amenity

Future freight

Risks and opportunities relating to property location

Warehouse design

Integration of sustainability and wellness

Energy

Carbon reduction opportunities from property and transport


CSR
SEAMAX GREENWICH
MAJURO
SVITZER EUREKA

Conclusion

The current market presents a unique opportunity for tenants to secure favourable terms and facilities which can help grow their business. This window of opportunity does require careful navigation to capitalise on, however, with a patient, strategic approach that balances immediate opportunities with long-term operational needs.

Organisations looking to make the most of the changes in Australia's industrial property landscape should consider engaging expert guidance to understand the complexities and details behind major buying or leasing. The choices made during this period of market shift will have implications for years to come, making it crucial to approach them with thorough analysis and strategic clarity.

About Prological

Established in 2010, Prological Consulting specialises in supply chain strategy, warehouse design and sourcing, as well as international and domestic freight strategy. Prological designs and implements supply chain innovation with the intent of supporting and enhancing already existing business strategy. With expertise across all key industry sectors, Prological delivers individualised, innovative, commercially viable and operationally sustainable outcomes to create competitive advantage for its clients. Prological and its extended team have a broad range of backgrounds, training and experiences and have completed assignments in Europe, Asia and North America as well at home in Australia and New Zealand. Visit: https://www.prologicalconsulting.com/

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