Prological Outlook

Industrial Property Market Intelligence

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prological
Supply Chain Intelligence

Foreword

Before making property decisions, manufacturers, distributors, and supply chain operators need market intelligence that actually matters to their operations. Industrial real estate reports focus on investment metrics and property performance, but they can miss what supply chain leaders truly need to know: how market conditions affect facility costs, operational flexibility, and long-term distribution strategy.

Prological Outlook bridges this gap. Developed from the perspective of supply chain professionals, this quarterly report translates vacancy rates, land availability, and supply dynamics into actionable insights for facility planning. Rather than simply reporting market statistics, we analyse what these numbers mean for businesses evaluating lease renewals, relocations, or network redesign.

This inaugural edition examines Q2 2025 market conditions across Australia's major industrial markets, with particular focus on how current dynamics create strategic opportunities for informed operators.

The facility decisions outlined in this report involve complex considerations beyond quarterly market conditions. Prological has developed comprehensive guidance on these strategic topics:

The Future of Warehouses:
Why your building needs to integrate with what's coming
www.prologicalconsulting.com/knowledge_hub/the-future-of-warehouses

A Tenant's Guide:
How to gain control in the 2025 property market
www.prologicalconsulting.com/knowledge_hub/a-tenants-guide/

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Citations for this report

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2. *CBRE Industrial & Logistics Q2 2025*
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5. *JLL Brisbane Industrial Market Dynamics Q2 2025*

Executive Summary

Australia's industrial property landscape has undergone a notable transformation in the past six months. Perhaps the most significant is falling demand for industrial property, affecting both existing brownfield facilities and new developments across all quality grades.

More ‘For Lease’ signs are posted up on industrial estates around Australia and vacancy rates don’t show any signs of dipping. One client in Sydney struggled to secure a facility for its automation requirements just 15 months ago. Today, that same client has over 20 sites to choose from – mostly spec-built facilities without tenants that will hit the market in the next six to nine months.

For decades, developers have speculatively built warehouses and successfully found occupiers through the industrial real estate industry. However, finding tenants at the same pace and density has become increasingly difficult. More businesses are recognising that custom-designed facilities deliver long-term operational savings that justify the higher upfront costs of a new building rather than leasing existing stock.

This creates an unusual situation where high-quality stock sits vacant, while businesses continue to explore greenfield facilities. The market response has been significant rent compression. In some cases, Sydney prime rents have dropped to $220-230 per square metre with 20-30% incentives available, a rate which hasn’t been seen for eight to 10 years.

A Snapshot of the key numbers

Vacancy Rates

Vacancy across the East Coast remained stable in Q2 2025 at 2.35 million sqm, equating to a blended rate of 3.2%. Sydney remains the tightest market at 2.2%, followed by Melbourne at 3.1% and Brisbane at 5.1%. Speculative completions totalled 905,000 sqm, or 38% of all available space, shifting the balance toward newly completed stock. Secondary vacancy continues to rise while prime space has eased to long-term average levels. The result is a more balanced market where tenants have genuine choice, and landlords are competing to attract quality occupiers.

Construction Pipeline Reduction

Developers have slowed new project rollouts as vacancy stabilises, with East Coast completions forecast to fall 20% in 2025 compared to 2024. Melbourne shows the steepest decline, down 40%. Speculative projects still represent 52% of 2025 completions, driven by late-2024 starts, but fewer new speculative projects are breaking ground this year due to tighter feasibility and capital conditions. This moderation in supply will likely extend current tenant-favourable conditions as demand gradually recovers.

Tenant Demand Patterns

Leasing take-up reached 1.5 million sqm across the East Coast in H1 2025, keeping pace with 2024 levels. Demand remains uneven, with small to medium tenants showing stronger activity while large retailers and 3PLs remain cautious. Secondary leasing was limited at 85,591 sqm in Q2, while prime take-up held steady at just over 400,000 sqm. Greater speculative availability has improved tenant mobility, and pre-commitments rose to 28% of leasing activity as occupiers invest in facility and materials handling upgrades.

Geographic Market Breakdown

SYDNEY:
PREMIUM MARKET, PREMIUM PRESSURE

Market Position
Landlord-friendly but softening

Vacancy Rate
2.4%[1]

New Industrial Supply
201,000 sqm

New Industrial Supply
$214 sqm[1]

Key Insight
Rents compressed from $269sqm to $220-230sqm with significant incentives

Sydney's industrial market showed improved leasing activity in Q2 2025. Gross take-up over the quarter increased compared to Q1, totalling approximately 305,000 sqm for 2Q25. The average vacancy rate rose marginally but remains relatively low at 2.5% as of H1 2025.

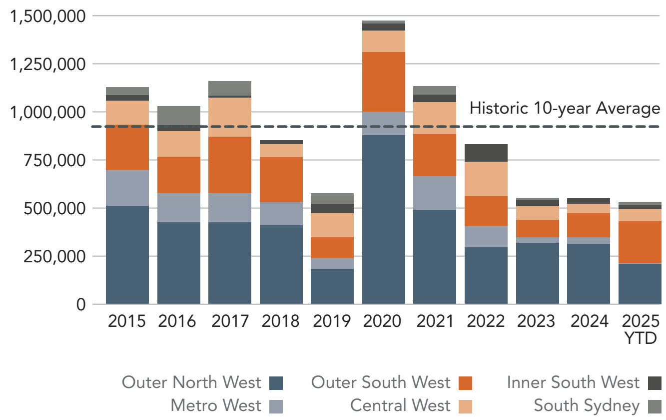
Development supply increased this quarter with just over 200,000 sqm of new floorspace added to the market. Despite this supply injection, vacancy remains tight compared to other major markets, indicating underlying demand strength even as businesses take more measured approaches to expansion.

Rental growth dynamics show interesting patterns. Super prime grade net face rents increased 6% year-on-year, though on a net effective basis (accounting for incentives), rents have decreased. This reflects landlords maintaining headline rents while offering more generous incentive packages to secure tenants.

Sublease Opportunity: Significant sublease space exists across Sydney, offering immediate availability for businesses requiring quick occupancy. This sublease inventory represents a substantial portion of available space for facilities over 5,000 sqm, providing tenants with additional negotiation leverage beyond traditional leasing options.

Strategic Advantage: Sydney-centric distribution networks still access more overnight markets (South East Queensland, Melbourne, most of NSW) compared to Melbourne-based operations. However, this traditional advantage must now be weighed against significantly higher occupancy costs.

Sydney Gross Take-up 2015-2025YTD by Precinct
By floorspace sqm



Geographic Market Breakdown

MELBOURNE:
A TENANT'S MARKET

Market Position
Strongly tenant-favourable

Vacancy Rate
3.1%[1] – 4.1%[2]

Prime Rents
$147 sqm[1] – $162 sqm[2]

Key Insight
Rents declining 1.0% quarterly with supply surge creating options

Melbourne's leasing activity shows a marked shift. Gross take-up for 2025 totalled approximately 145,000 sqm, marking the second consecutive quarter of declining activity. Leasing momentum continues to decelerate, with occupiers increasingly favouring consolidation strategies and lease renewals over new commitments.

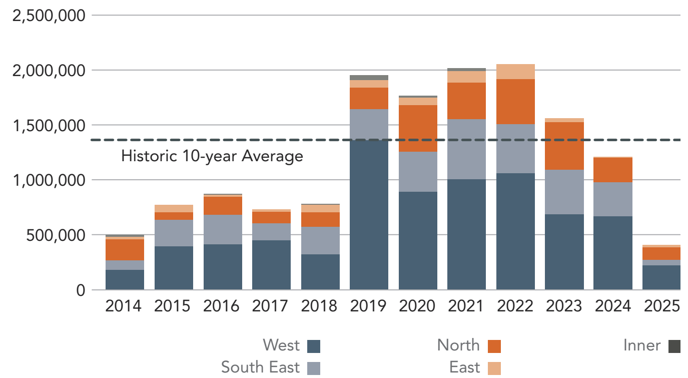
Active tenant enquiry remains subdued across Melbourne precincts, with only a limited number of large occupier briefs (over 10,000 sqm) currently in the market. This cautious approach reflects heightened economic and political uncertainty affecting business expansion decisions.

Melbourne's West precinct accounted for more than 60% of total gross take-up over the quarter, followed by the South East precinct at 17%. Most leasing activity in the West concentrated in speculatively developed stock, though pre-commitment activity remains limited across Melbourne overall. Notable 2025 transactions included pre-leases by Effective Logistics in the West (30,000 sqm), Accent Group in the West (17,000 sqm), and a lease by JD in the West (12,000 sqm).

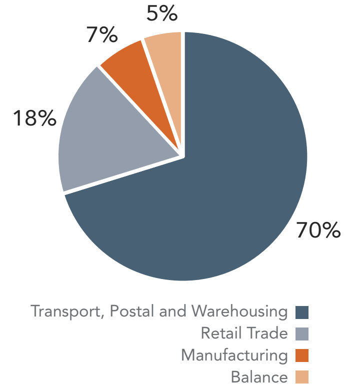
New floorspace added to the market totalled 215,000 sqm across 17 major projects, with half of completions occurring in Melbourne's North. However, the majority of Melbourne's supply pipeline remains uncommitted, creating greater uncertainty on project timing and completion. This elevated supply pushed the average vacancy rate to 4.1% as of H1 2025, while average net effective rents continued declining, decreasing by 1.0% over the quarter.

Operational Reality: Transport, Postal & Warehousing sectors account for 70% of leasing activity, reflecting the market's e-commerce and logistics focus. Pre-commitment rates remain low at 13%, meaning abundant speculative space for immediate occupation.

Melbourne Gross Take-up 2014-2025, by Precinct
By floorspace sqm



Melbourne Take-up 2025[2] by Industry Sector
Top 3 sectors by floorspace



Geographic Market Breakdown

BRISBANE: *HIGH VACANCY, STABLE RENTS*

Market Position
Tenant-favourable with options

Vacancy Rate
5.1%[1]

Prime Rents
$174 sqm[1]

Key Insight
Highest vacancy among major markets but rents stabilising

ADELAIDE: *GROWTH LEADER BUT SMALL SCALE*

Market Position
Landlord-favourable, rising fast

Prime Rents
$145 sqm[1] (up 10.1% annually)

Key Insight
Highest rental growth nationally but limited large-scale options

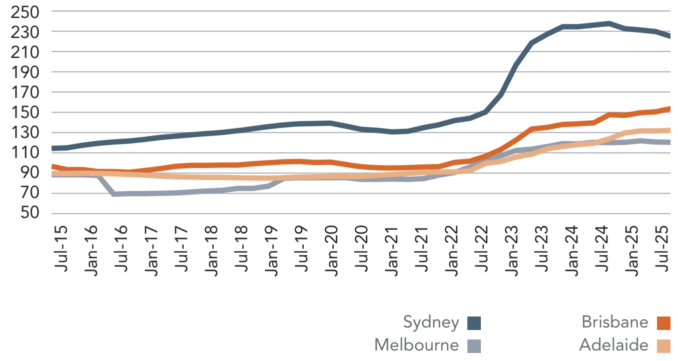
Brisbane offers the highest vacancy rates among major markets, creating significant tenant choice. Despite elevated vacancy, rents have stabilised rather than fallen, suggesting underlying demand strength from population growth and trade gateway advantages.

Market Dynamic: Industrial gross take-up moderated for two consecutive quarters, with pre-leasing activity slowing significantly compared to 2023. This creates immediate availability for tenants requiring quick occupancy.

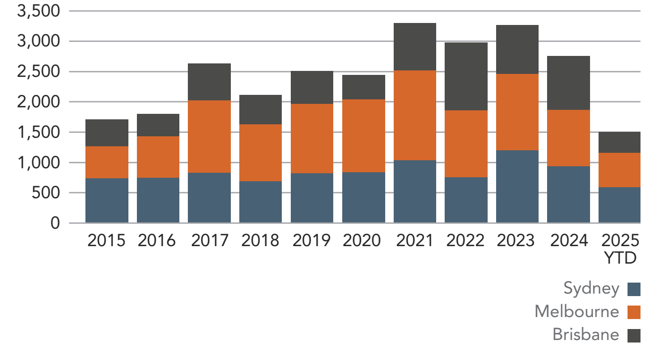
Adelaide shows the strongest rental growth nationally at 10.1% annually, though off a lower base. Limited large-scale speculative supply from developers due to elevated construction and labour costs means future supply pipeline relies heavily on pre-commitment to reach construction phase.

Market Reality: Lower leveraged, high net worth private investors may pursue counter-cyclical opportunities, but scale limitations restrict suitability for major national operations.

Prime Industrial Net Effective Rents
By major capital city, blended average rate $ sqm pa

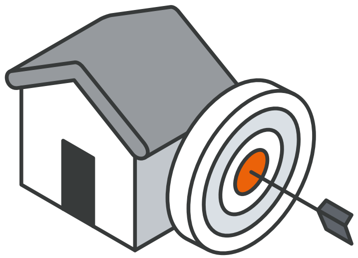


Eastern Seaboard leasing take-up
By city sqm



Tenant Advantage Analysis: Where Leverage Exists

Current market conditions create new negotiation opportunities, but success requires a strategic approach and market knowledge.



Incentive Strategy

The New Reality: 20-30% incentives available across major markets, with percentage increasing based on lease length. For a business considering 20,000 sqm over 10 years, incentive value can significantly cover automation investments or fit-out requirements.

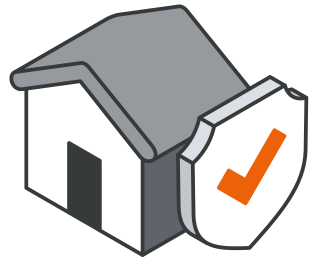
Strategic Application

- **Rental Abatement:** Direct discount on rent for initial periods
- **Capital Contribution:** Landlord investment in tenant improvements
- **Automation Funding:** Incentives specifically allocated to warehouse automation systems

Lease Length Leverage

Market Insight: Longer lease terms deliver multiple advantages in current conditions:

- Higher incentive percentages due to increased gross lease value
- Lower base rents locked in before market recovery
- CPI escalation starting from reduced baseline



Timing Consideration

Current advantageous conditions unlikely to persist beyond 3-5 years as market cycles return to historical patterns. Develop precise facility requirements before engaging the market. Clear specifications provide negotiation authority and prevent suboptimal compromises.

About Prological

Established in 2010, Prological Consulting specialises in supply chain strategy, warehouse design, and automation consulting. With expertise across automation and warehouse design, Prological delivers individualised, innovative, commercially viable and operationally sustainable outcomes for clients across Australia and internationally.

Prological's team combines deep technical knowledge with practical business experience, having completed projects across multiple industry sectors and automation technologies. The company's approach addresses organisational, operational, and business process improvements to ensure successful transitions to optimised warehouse and automation solutions.

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