

From Surge to Stabilisation

August 2025

Knight Frank analyses the recent surge in industrial tenant demand and related supply and rental uplift. What will rents do now that vacancy rates have returned to more normal levels?

- The last five years have seen substantial upheaval in the industrial market with records breaking across rents, demand and supply. As the market normalises we can learn from the trigger points to better understand rental growth

+30%-60%

Prime rents grew 30%-60% on the East Coast over the past three years as the market navigated a surge in tenant demand.

3.2%

Current blended East Coast vacancy is 3.2%, still considered tight but has lifted substantially since a low of 0.6% in Q1-23

NAVIGATING THE POST-SURGE INDUSTRIAL LANDSCAPE

Following a dramatic surge in East Coast industrial leasing take-up post-COVID, peaking in 2021 at over 30% above pre-pandemic levels, tenant demand has since pulled back. This surge, initially driven by evolving consumer delivery timeframe expectations but compounded by supply chain issues post 2020, significantly tightened the market. This drove East Coast vacancy below 2%, slashing tenant options and pushing net prime rents up by 30-60% over three years.

Over the course of 2024 and into 2025, this frenzy has eased, and activity returned to more normal levels as tenants take stock of their holdings, impacting the pace of rental growth and the development pipeline. What does this mean for tenants and developers going forward?

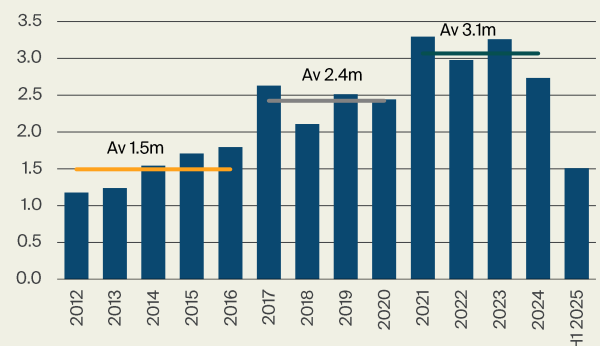
VACANCY PLUNGED EVEN AS SUPPLY SURGED

Despite the industrial market having one of the fastest construction timelines across major property sectors, the supply response was not fast enough to fulfil demand, halving East Coast vacancy within two years.

With large tranches of land across Western Sydney missing expected delivery dates, Sydney was the most impacted, already below 2% vacancy in 2019 and approaching zero during 2023.

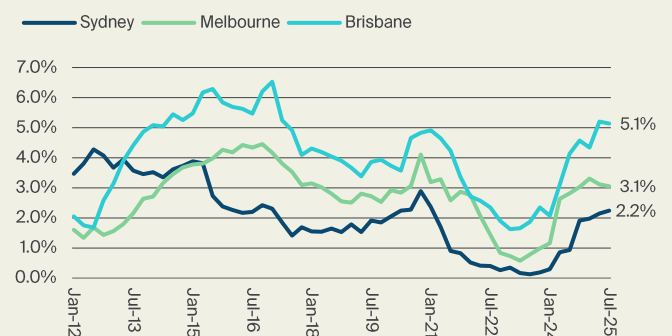
The combination of the supply surge which eventually arrived, hitting a record high of 2.6 million sqm in 2024, and moderating demand saw vacancy rates for all markets return to more normalised levels from the start of 2025.

Eastern Seaboard leasing take-up million square metres



Source: Knight Frank Research

East Coast industrial vacancy % vacancy rate (5,000sqm+)



Source: Knight Frank Research

3% Vacancy: The magic number

ECONOMIC RENT IS THE ENGINE BEHIND RENTAL GROWTH: BUT THE TIMING AND OUTPERFORMANCE IS TRIGGERED BY VACANCY

Industrial prime market rents have always had a strong relationship with the economic rent required to deliver new supply, particularly during a supply surge. Theoretically, economic rent is expected to steadily increase over time with higher land and construction costs continuing to lift the feasibility threshold. However, this has not always been the case, particularly in Brisbane and Melbourne, where new land releases and falling yields allowed new developments to undercut the established market. This aligned with periods of rental growth weakness, even when demand was relatively strong, such as 2015-2020, but remains the exception to the rule.

The trigger point for ongoing new development is when tenants continue to accept new, groundbreaking rental levels for pre-commitments and for speculative development. As tenants accept these new rental levels this provides upwards momentum for the broader market, especially in a climate of scarcity.

The tipping point occurs when the level of choice in existing assets is insufficient to meet tenant needs, on a broad basis, diverting demand towards newly built accommodation and the associated higher rental price.

During 2022 – 2024 however, escalating construction costs and delivery timeframes, higher yields and surging land values all combined to lift economic rental levels substantially. This created the engine room for unprecedented rental growth - far stronger and more long-lived than expected.

3% VACANCY: THE TRIGGER FOR ACCELERATED RENTAL GROWTH

Knight Frank research has determined that the trigger for super-charged rental growth is vacancy in the order of 3%, or a clear path to vacancy below that benchmark within the next 6 months. This is relatively low compared to the office sector which is c5-7%. Industrial rents can be seen to be highly sensitive to vacancy with a clear threshold point, particularly demonstrated in Brisbane and Melbourne. During 2024, the Brisbane and Melbourne markets lifted above 3% vacancy and an associated softening in prime effective rental growth is emerging in those markets.

Sydney, despite being below 2% vacancy for a significant time, still showed rental growth sensitivity to changes in vacancy. The Sydney market is now demonstrating there was an element of overshooting, due to a scarcity mindset from tenants during 2022/3, now unwinding. Effective rents have eased due to higher incentives, with face rents largely being defended.

PRE-COMMITMENT LEASING ACTIVITY LOWER IN 2024

Reaching half of all leasing activity during 2020, the pre-commitment market has slowed as feasibility and delivery timing issues emerged, diverting new build tenant demand into speculative developments. Building generic speculative product was seen as a fast and low risk option for developers to build FUM and tenants appreciated certainty of delivery.

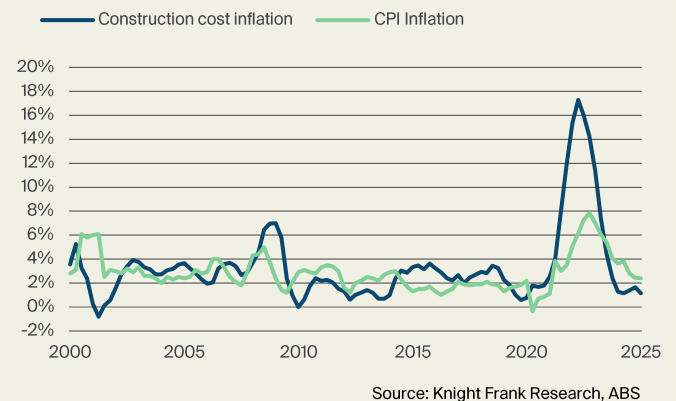
The sharp decline in pre-commitment activity, dropping to just 14% of all leases signed early 2025, highlights the challenge to secure agreement for new developments. This reflected a conservative shift in tenant behaviour, as occupiers increasingly favoured existing stock or speculative builds ahead of purpose-built space, keen to avoid higher costs, uncertain lead times and delivery risk, opting for more immediate, lower-risk leasing solutions.

CONSTRUCTION RESPONDS QUICKLY TO VACANCY

The level of construction has already shown signs of quickly adjusting to higher vacancy and less certainty of obtaining a further step-up in rents to maintain feasibility. From a high of 2.6million sqm in 2024 across the East Coast, supply is expected to fall by 20% in 2025 to just over 2 million square metres.

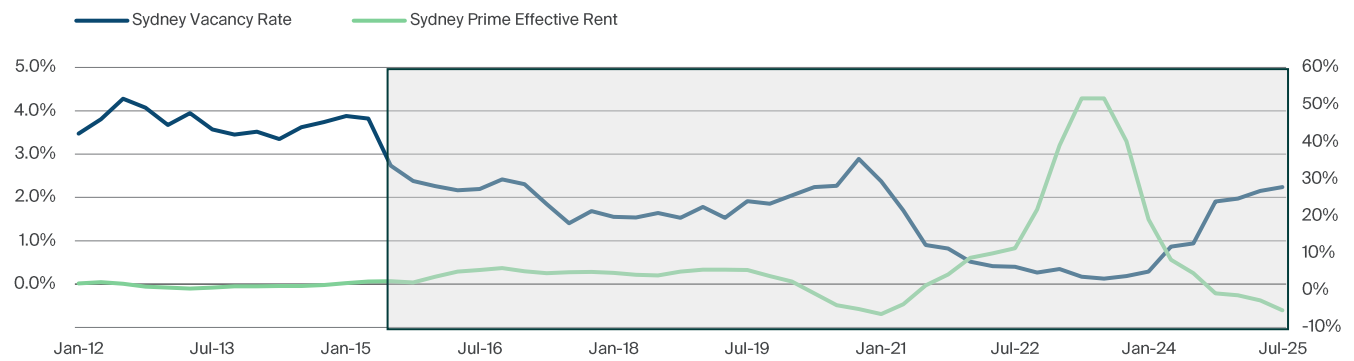
The short lead time for industrial construction means that a significant overhang of completed industrial supply is unlikely to happen. While speculative development made up 40% of total completions over the past three years this will lift to 60% in 2025 due to projects already under construction and lower pre-commitment delivery. Further speculative starts are being deferred where the expected leasing take-up timeframe or rental level falls outside of feasibility parameters and/or investors remain subject to capital constraints.

CPI vs construction cost inflation



Sydney

% vacancy (LHS), Annual Net Effective Rental Growth Rate % (RHS)

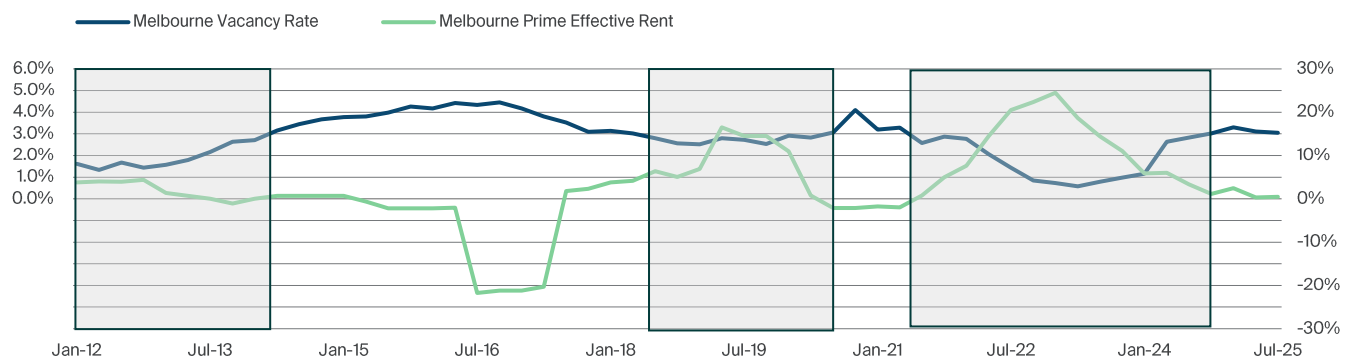


Source: Knight Frank Research

- Sydney market has been below 3% vacancy since mid-2015. While market effective rental growth was initially slow to respond there was sustained 5%+ annual growth through 2017 – 2019. The squeeze post 2020 saw the rental growth ascend into uncharted territory with cumulative 80% growth Jan 21 – Jan 24. This was influenced by a scarcity mindset which has since partially unwound as new supply delivered in the West and Outer West has begun to ease the market, plus tenants have taken a far more measured approach in the past year.

Melbourne

% vacancy (LHS), Annual Net Effective Rental Growth Rate % (RHS)

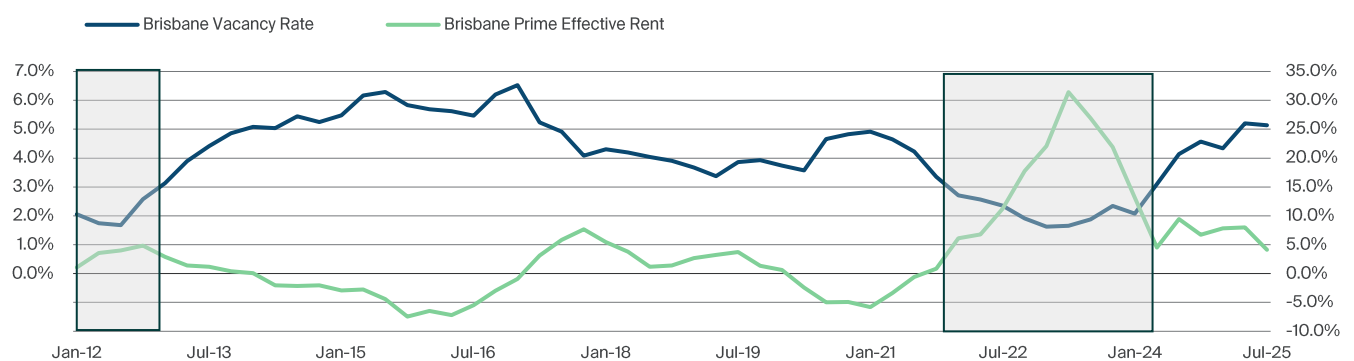


Source: Knight Frank Research

- Melbourne has seen three periods where the vacancy has fallen below 3% and this has aligned with positive net effective rental growth and peaks of 15%/y and 25% y/y growth in the two most recent periods. Outside of these sub-3% vacancy timeframes, and particularly through 2015 – 2017 there have been periods where effective rents were plateauing or negative.

Brisbane

% vacancy (LHS), Annual Net Effective Rental Growth Rate % (RHS)



Source: Knight Frank Research

- Brisbane net effective rental growth largely remained below 5% y/y growth since 2012 with one exception during 2017 when vacancy was reducing quickly. This was until the start of 2022 when the low vacancy, combined with accelerating economic rents, took net effective rents to a peak of 31% y/y uplift in 2023. Since the vacancy increased beyond 3% in Q2-24 the rental growth rate has been lower, easing to 4.1% in Q2-25.

What's next for rents, land values and development?

RENTS: GROWTH WILL REMAIN DIVERGENT

Effective rental growth is expected to remain subdued on an aggregated basis in the short term, as vacancy stabilises. However, there will be significant divergence between cities and precincts as vacancy becomes concentrated in emerging areas with high development such as Sydney South West and Outer South, Melbourne North and Brisbane South and South West which are exposed in the short term. In contrast, established precincts with lower construction and vacancy such as Sydney Inner South, Melbourne South East & East and Brisbane Trade Coast and Inner North have far more robust rental growth expectations. Even for precincts where vacancy has lifted significantly it is expected that face rents will be defended with a corresponding increase in incentives to impact effective rents.

Tenants on leases negotiated prior to 2021 will still face significant reversion on renegotiation or relocation, despite having greater choice in the market.

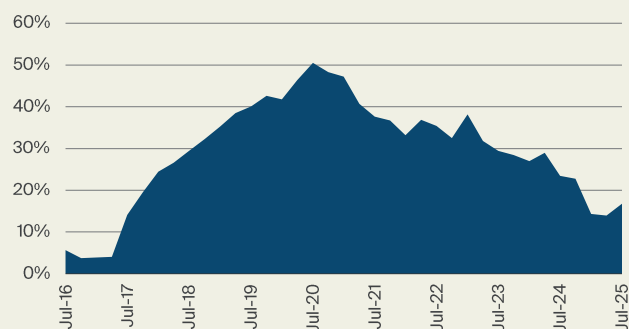
SUPPLY: OVERHANG WILL RE-BALANCE QUICKLY

Lower speculative development and pre-commitment delivery will reduce industrial new supply through H2 2025 and into 2026, returning balance to the market relatively quickly. The ongoing search for optimisation and efficiency across the supply chain will maintain baseline demand for new space where feasible, however some tenants may continue to defer relocation decisions. Development at more sustainable levels will emerge from 2026.

Economic rents will remain high, with boosts to feasibility from expected yield contraction to be outweighed by the ongoing high land values and construction costs.

East Coast industrial leasing take-up

Proportion of pre-commitment activity in leasing take-up (5,000sqm+)



Source: Knight Frank Research

LAND: SERVICED LAND VALUES TO REMAIN STRONG

Land values, particularly for serviced land, will continue to remain robust. Over the past five years East Coast land values have increased by 46% - 118% for small blocks and 46% - 131% for 1-5ha lots. Recently values have plateaued in Sydney and Melbourne but have held firm overall.

In contrast to building construction timeframes, recent years have proven that the timeline for industrial land servicing and development is the most critical step in the development process. Lessons learnt across Western Sydney and to a lesser extent Brisbane and Melbourne, particularly around water and power delivery, will insulate serviced land values even as immediate demand eases.

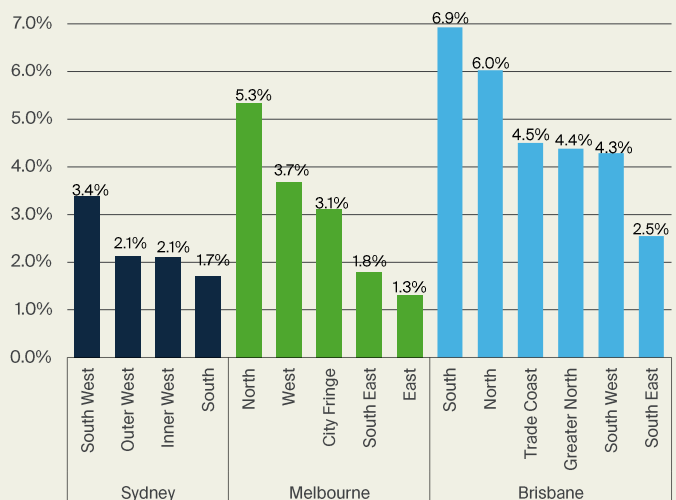
LEASING: PRE-COMMITMENTS TO BE THE KEY DRIVER OF NEW SUPPLY

Over time there will be a lift in pre-commitment activity as upgrading and unlocking operational efficiency remains key for large occupiers. A more conservative development environment will limit speculative supply in 2026, diverting demand back to pre-commitments for tenants seeking a technological and building fabric upgrade.

The market will increasingly bifurcate into those seeking highly efficient premises and those who seek to mitigate rental cost at the expense of optimisation and technology adaptation.

Eastern Seaboard vacancy by precinct - conditions for divergent performance

by capital city and precinct July 25, %



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%.

Vacancy Methodology: This analysis collects and tabulates data detailing vacancies (5,000m²+) 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.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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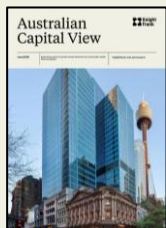


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