Australian Industrial Review

Knight Frank

Q2 2026

Resilient tenant demand despite economic headwinds.

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The Quick Take

4.0%

Vacancy rate lifted slightly this year

Vacancy rate for the East Coast has lifted slightly with Q2 stable on Q1 but up from 3.9% at the start of 2026. Speculative space accounts for only 30% of vacancy, down from 39% a year ago as new starts are deferred.

820k sqm

East Coast take up Q2-26

Leasing take-up of 820,000 sqm across the East Coast in Q2-26, 31% higher than the Q1 level. H1 total of 1.45 million sqm is in line to match recent years. Melbourne has dominated leasing in 2026 YTD with 50% of total activity.

1.64m

Sqm of new supply forecast for 2026

New supply across the East Coast was 2.1 million sqm in 2025. This was an 18% fall from 2024 with 2026 expected to be a further 21% lower, as speculative projects are deferred and feasibilities stretched.

$7.1b

Investment volumes H1 2026

Investment volumes were strong in H1 with $7.1 billion transacted, up 23% from H1 2025 and the strongest H1 volume since 2022.

15 bps

Prime yields soften in Melbourne

Prime yields softened further in Q2 in both Melbourne (+15 bps) and Brisbane (+4.8 bps). Yields were unchanged in Sydney.

+10.2%

Y/Y prime effective face in Brisbane

Brisbane net face growth at 10.4% was the strongest followed by Perth with 6.7%, Melbourne 5.6% and Adelaide at 3.1%. In Sydney, prime face rents have remained unchanged across all precincts for the seventh straight quarter.

Key indicators Q2 - 2026

Market	Prime Net Face Rent, $/sqm	Secondary Net Face Rent, $/sqm	Prime Incentives, %	Prime Market Yield Range, %*	Land 1-5 ha, $/sqm	Vacancy Rate, %
Western Sydney**	228	190	22.0	4.75 - 5.75	1,295	2.9
Brisbane	192	166	12.6	5.75 - 6.15	800	3.7
Melbourne***	155	127	21.2	5.60 - 6.25	911	5.0
Adelaide	149	113	10.2	5.80 - 6.90	546	N/A
Perth	164	138	9.6	6.30 - 7.00	549	N/A

Source: Knight Frank Research *Yield range assumes a near new 10,000sqm+, non-specialised, institutional high-grade industrial asset with a of WALE 7.0 years+ Indicators are based on a blended average of the city precincts. **Western Sydney includes Outer West, South West and Inner West. ***Melbourne (excluding the Fringe) prime net face rents average $146/sqm, secondary: $122/sqm; small lots: $918/sqm, 1-5ha lots: $689/sqm.

Leasing market

Solid Q2 leasing lifts take-up to be on target to match 2025 volumes

RETAIL SPENDING HOLDING UP DESPITE PRESSURE ON HOUSEHOLD INCOMES

While household budgets have been stretched by rising interest rates, retail spending has so far held up with the ABS household spending indicator continuing to show growth in recent months, resulting in solid increases over full year across all states. Importantly, growth remains above the rate of inflation, so spending continues to increase in real terms which augurs well for sustained tenant demand.

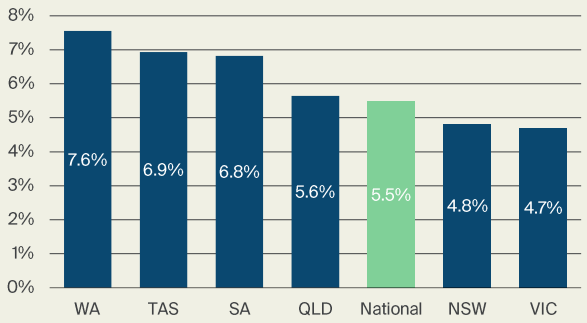
Consumer and business sentiment took a hit in March, but as fears over fuel security have eased, confidence has started to recover, and indicators of forward orders have improved. That said, the impact of higher interest rates and weak housing market conditions will still keep parts of the economy subdued in the second half of the year, and the impact on retailers and manufacturers will vary by sector. The growth outlook is expected to improve in 2027 if inflationary pressures ease as anticipated.

TENANT ACTIVITY LIFTED IN Q2

After a modest start to 2026 with 627,000sqm in Q1 the level of industrial take-up across the East Coast lifted by 31% in Q2 to record 820,500sqm. This brought the total for the first half of 2026 to 1.45 million sqm, slightly down on the pace set last year but broadly in line with post-pandemic average of 760,000sqm per quarter.

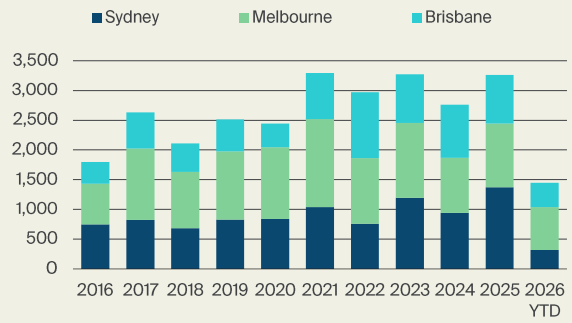
Prime space dominated with 54% of activity in Q2 as the market continues to work through the overhang of speculative space and prime existing backfill. Secondary leasing across the East Coast was also strong with 263,400sqm sqm in the quarter – now 32% of total take-up. Pre-commitment activity has been below average in recent quarters but still accounted for 14% of Q2 take-up led by Asahi (48,500sqm in Brisbane) and O'Brien's new national distribution centre (17,000sqm in Sydney).

Household spending by state
Annual growth in value of spending by state (%)



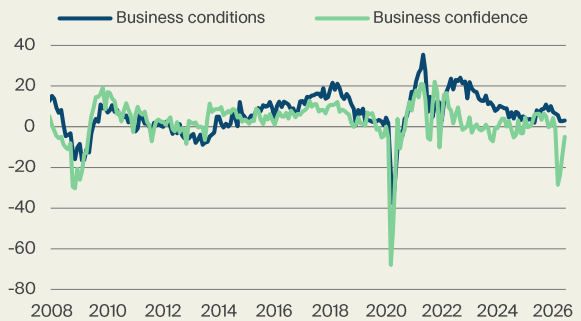
Source: Knight Frank Research, Macrobond

Eastern Seaboard leasing take-up
By city, '000sqm



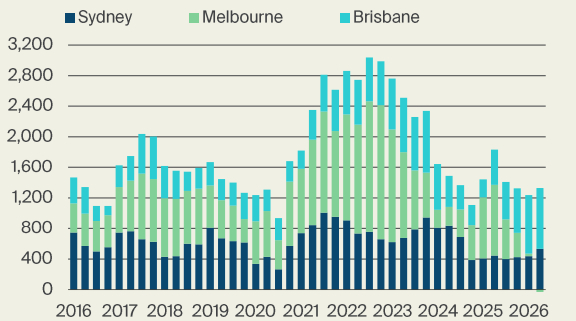
Source: Knight Frank Research

Business conditions remain resilient
NAB survey, balance of positive and negative responses



Source: Knight Frank Research, NAB, Macrobond

Sustained positive absorption
Net absorption by city, rolling annual total (thousands sqm)



Source: Knight Frank Research

Vacancy and new supply

Vacancy has topped out in Sydney and Brisbane as prime vacancy falls

VACANCY ELEVATED BUT STABILISED

East Coast industrial vacancy has stabilised at 3.05 million sqm in Q2 2026, effectively stable over the quarter. This is a blended vacancy rate of 4.0%. However, this is blurring ongoing falls in Sydney and Brisbane while Melbourne vacancy increased.

Sydney remains the tightest at 2.8%, followed by Brisbane at 3.7% (down from 4.4% q/q) and Melbourne at 5.0% (up from 4.5% q/q). Melbourne North has the highest vacancy at 7.6%, with recent tenant demand focussed more on the West of Melbourne.

Speculative vacancy has stabilised, and accounts for 30% of vacancy, down from 39% a year ago due to fewer new starts. Vacancy in existing prime stock has fallen over the past three quarters, now below 1 million sqm. Total prime vacancy has fallen by 12% since the peak in Q3-25. In contrast, secondary vacancy space sits at an eleven-year high of 1.19 million sqm.

EAST COAST 2026 AND 2027 SUPPLY TO BE LOWER

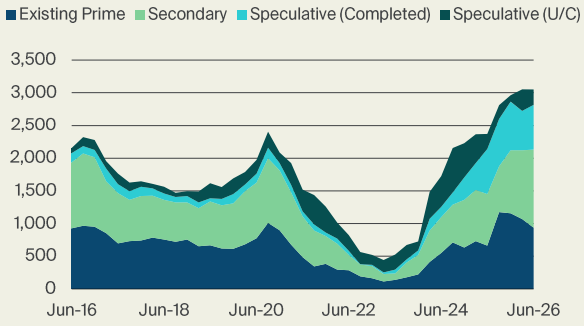
Industrial supply adjusts quickly and following peaks in excess of 2.5 million square metres in both 2023 & 2024, supply fell by 18% in 2025 and is expected to fall a further 21% in 2026. This is about 1 million square metres below the recent peaks.

Speculative development will account for just over half of the total delivery in 2026 with 850,000sqm. This is a moderation from potential levels as developers have deferred project starts and are marketing these sites for pre-commitment while monitoring the feasibility of speculative development.

East Coast pre-commitment supply is 710,000sqm (42% of supply) in 2026 with an already strong pipeline of 550,000sqm for 2027, particularly in Melbourne.

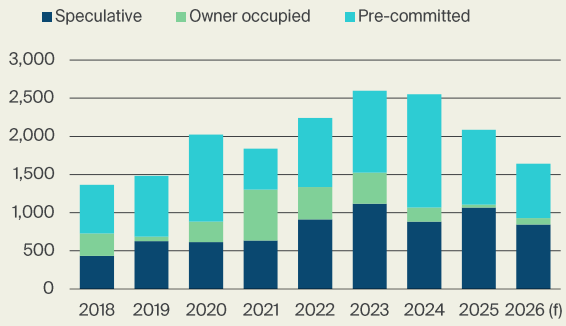
Sydney supply for 2026 will be roughly on par with 2025 while Melbourne (-27%) and Brisbane (-34%) will record more significant contraction.

Eastern Seaboard industrial vacancy
By grade, floorspace in sqm, 5,000sqm+, '000sqm



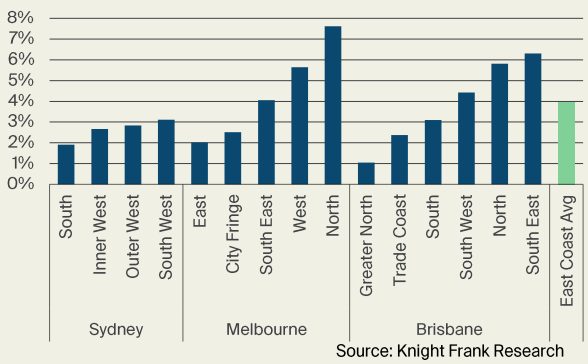
Source: Knight Frank Research

Eastern Seaboard industrial supply
By type, '000sqm, completed 2018 - 2026(f)



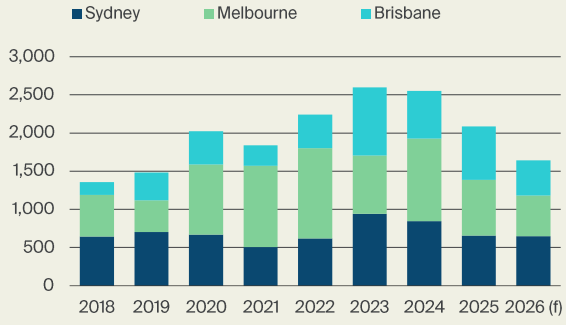
Source: Knight Frank Research

Eastern Seaboard vacancy rates
By capital city and precinct, % July 2026



Source: Knight Frank Research

Eastern Seaboard industrial supply
By type, '000sqm, completed 2018 - 2026(f)



Source: Knight Frank Research

Rents and incentives

Face rents lifting across all markets bar Sydney; incentives lifting in major markets

BRISBANE MAINTAINED STRONGEST GROWTH

Quarterly prime rental growth in Q2 ranged from stable in Sydney and Perth, through to 0.9% in Adelaide, 1.0% in Melbourne and 2.5% in Brisbane. On an annual basis, Brisbane net face growth at 10.4% was the strongest followed by Perth with 6.7%, Melbourne 5.6% and Adelaide at 3.1%. In Sydney, prime face rents have remained unchanged across all precincts for the seventh straight quarter.

Annual rental growth remains quite varied across precincts within the major city markets. This reflects the carrying vacancy and level of construction across different locations.

Secondary rents have also shown resilience in all markets bar Sydney and in some sub-markets are outpacing the growth of prime rents. On average Brisbane has the highest secondary face rental growth at 8.7% followed by Melbourne at 4.5%, Adelaide at 3.9% and Perth 3.8% with Sydney flat.

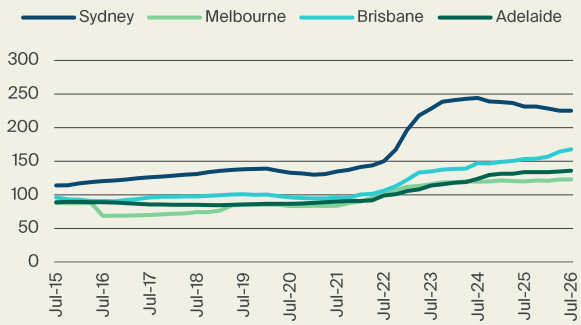
INCENTIVES STILL LIFTING IN SYDNEY & MELBOURNE

Incentives have continued to grow, particularly in Sydney and Melbourne over the last year. Melbourne incentives range from 21% - 26% (outside the City Fringe) with precincts like the North, East and West stabilising over the past quarter, lifting only in the South East. Sydney incentives range from 17.5% in the South through to 23% in the South West and Outer West, stable over the past quarter.

Brisbane incentives (9% - 14.5%) were stable or falling in the South and South East with modest uplift in the other precincts. The market averages remain modest while some outlying deals are still being recorded, particularly in completed speculative stock.

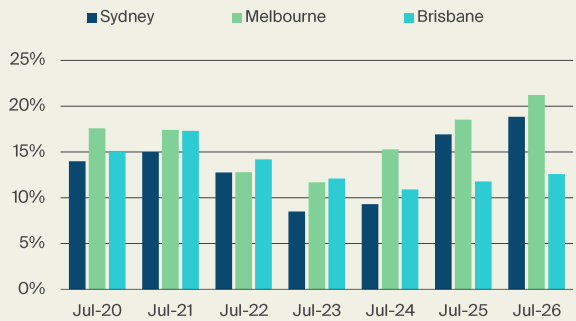
In Perth incentives have been stable over the past six months, sitting at 8.75% - 10%. For the Adelaide market incentives lifted in the Inner North, Outer North and Inner West and steady in the Southern markets ranging from 7.5% - 12.5% across the precincts

Prime industrial net effective rents
By major capital city, blended average rate $/sqm p.a.



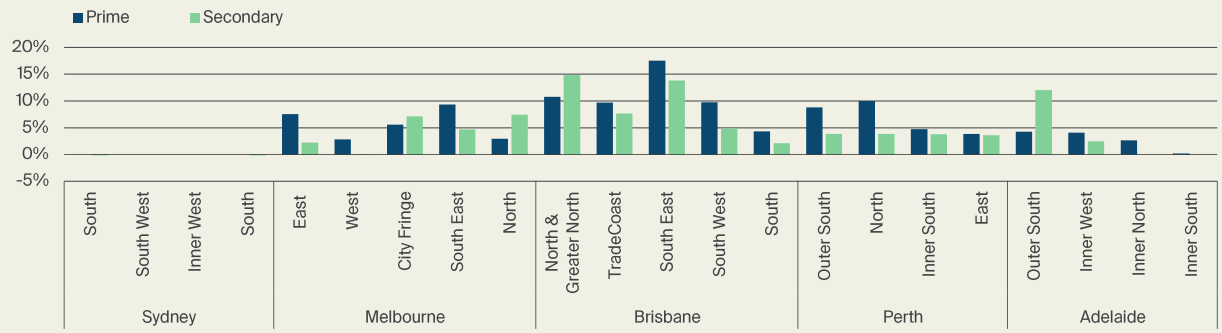
Source: Knight Frank Research

Eastern Seaboard industrial incentives
By capital city, %



Source: Knight Frank Research

Industrial rent growth by precinct
Annual growth to Q2 2026, net face rent



Source: Knight Frank Research

Investment market

Investment activity in H1 is the strongest since 2022

STRONG TRANSACTION ACTIVITY IN H1 2026

Investment volumes were strong in H1 with $7.1 billion transacted, up 23% from H1 2025 and the strongest H1 volume since 2022. Investment activity spiked at the end of Q2 with several large deals being closed.

Private capital have been the largest net buyers over the past 12 months. Private investors likely believe in continued strong returns from industrial assets and are taking advantage of subdued competition from other investors. Public companies remain net sellers of assets however the extent of sales has been slowing.

The standout portfolio transaction of H1 was Goodman Group purchasing 50% stake for $1.9 billion from Washington H. Soul Pattinson and Company Limited (Soul Patts). Other significant transactions included Aliro JV PSP Investments buying Greystanes Park for $336 million and Roberts Distribution Centre for $102 million from Goodman Group.

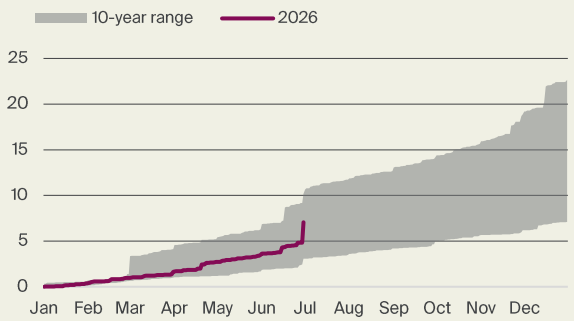
YIELDS SOFTEN IN MELBOURNE AND BRISBANE

Yields in all capital cities other than Sydney softened in Q2. A cumulative 75 bps of cash rate hikes by the RBA and geopolitical uncertainty have continued to weigh on yields across the board.

Yields in Western Sydney remained steady in Q2 to range 4.75% - 5.75%, notably there are transactions that have recently traded at the lower end of this range. Yields have softened in Melbourne, shifting out 15 bps over Q2 to average 6.00% and 4.8 bps in Brisbane to average 6.02%. In Perth and Adelaide prime yields also softened in Q2 to at 6.63% (+12.5 bps) and 6.19% (+17.2 bps) respectively.

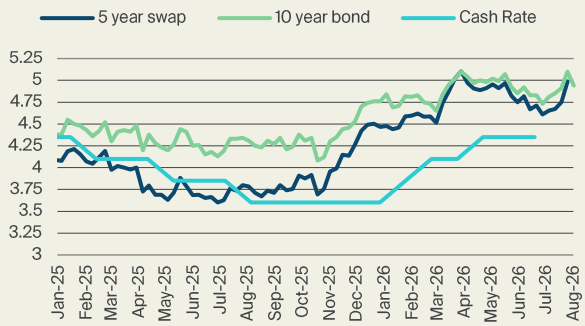
Investment demand is expected to remain relatively robust despite headwinds from elevated borrowing rates weighing on investor sentiment. Investor demand remains largely focused on Sydney, followed by Brisbane and Melbourne.

National cumulative transactions
Daily cumulative transaction volume by year, total (AUD



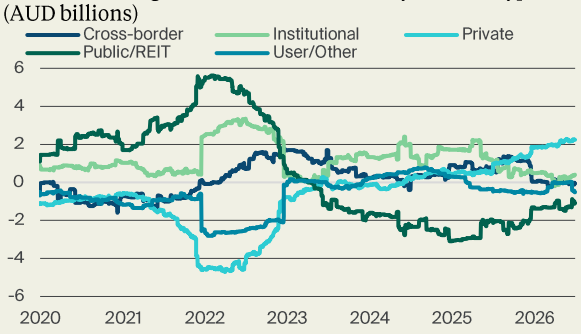
Source: Knight Frank Research, RCA

Australian interest rates
Yield by swap/bond duration (%)



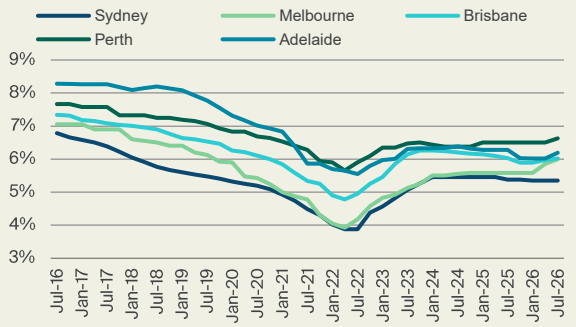
Source: Knight Frank Research, Macrobond

Net transaction volume by buyer type
12-month rolling net transaction volume by investor type (AUD billions)



Source: Knight Frank Research, RCA

Industrial prime yields
Average across precincts (5,000 sqm assests, 5 yr WALE)



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%.

Core Market Yield: The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).

WALE: Weighted Average Lease Expiry

Vacancy Methodology: This analysis collects and tabulates data detailing vacancies (5,000m 2+) 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.

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Research:
Ben Burston
+61 2 9036 6756
ben.burston@au.knightfrank.com



Research:
Jennelle Wilson
+61 7 3246 8830
jennelle.wilson@au.knightfrank.com



Industrial Logistics, National:
Michael Kwok
+61 2 9036 6620
michael.kwok@au.knightfrank.com



Valuations National:
Al Carpenter
+61 9036 6662
al.carpenter@au.knightfrank.com



Industrial Logistics, NSW:
Orlando Maciel
+61 2 9036 6728
orlando.maciel@au.knightfrank.com



Industrial Logistics, VIC:
Joel Davy
+61 3 9604 4674
joel.davy@au.knightfrank.com



Industrial Logistics, QLD:
Mark Clifford
+61 7 3246 8802
mark.clifford@au.knightfrank.com



Industrial Logistics, WA:
Geoff Thomson
+61 8 9225 2436
geoff.thomson@au.knightfrank.com

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