

Specialisation, speed and sophistication

# Entering the new Industrial & Logistics era

# Key takeaways



01

## Industrial sector is normalising

After a period of rapid growth, the industrial sector has entered a normalisation phase. Leasing activity and rental growth are moderating after a strong run. Vacancy rates, while rising, remain below 5%. The sector will continue to see growth, but at more normal levels compared to the covid spike.



02

## Although normalising, demand remains strong

Population growth and the rise in e-commerce are expected to drive demand for industrial space. Over the next five years, it is estimated that 2.4 - 2.6 million sqm of industrial space will be needed. The expansion of e-commerce alone is anticipated to generate around 70,000 sqm of industrial space per year, boosting sector activity.



03

## Cost pressures will limit risk of oversupply

Rising development costs are constraining the supply pipeline, forcing developers to reshape projects - delaying some and challenging the viability of others. Developers are favouring prelease commitments over speculative builds to mitigate risks. Development costs continue to push on economic rents, providing support for market face rents.



04

## Strategic locations will outperform

Infill markets are expected to outperform outer markets due to their proximity to growing population centres, access to larger pools of households within a 30-minute drive, and ease of staff access. These advantages are driving stronger fundamentals, with infill markets recording prime net face rent growth of approximately 4.5% per annum, well above the 3% seen in non-infill markets, alongside lower vacancy rates.

# Introduction

**The industrial and logistics sector is entering a new era defined by speed to consumer, specialisation, scale and sophistication.**

Occupiers are demanding larger, more efficient facilities with higher specifications. They need increased ceiling heights, stronger slabs, and enhanced power capacity help to support advanced inventory systems and faster turnover. Strategic locations near major arterial interchanges and intermodal hubs are commanding a premium, while urban sites close to population centres and retail precincts are being repurposed for last-mile fulfilment.

In 2025, Australia's industrial sector has demonstrated resilience, showing lower sensitivity to global shocks and trade volatility. Domestic demand drivers have helped insulate performance, while sectors such as utilities, healthcare, and telecommunications have provided defensive exposure.

# Industrial fundamentals

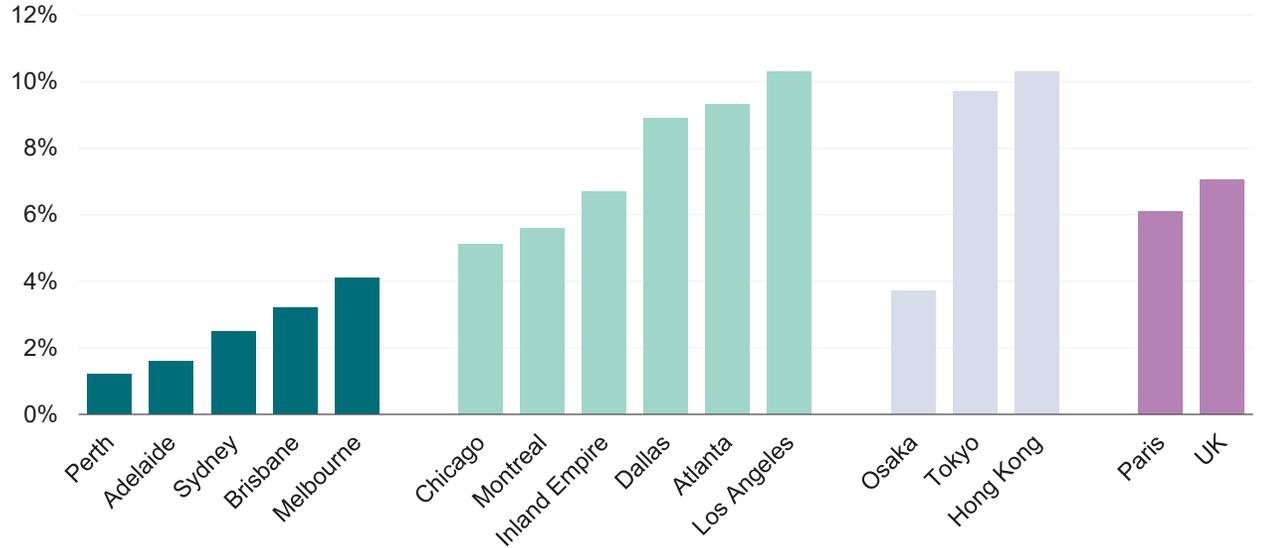


# Australia's global edge

On a global stage, Australia's industrial market continues to outperform. Vacancy rates remain below those of key international peers, including Los Angeles, Tokyo, and the UK, reinforcing Australia's competitive positioning. Rent indices show strong growth in infill logistics hubs, with macroeconomic buffers, such as fiscal flexibility and population growth, expected to support long-term stability and demand.

Institutional capital continues to selectively target industrial assets nationally, with a focus on quality logistics and infill assets that offer strong fundamentals. While prime industrial yields have compressed, spreads over bond yields remain compelling. The sector is also benefiting from a broader reallocation of capital away from office and retail into industrial and alternative real assets.

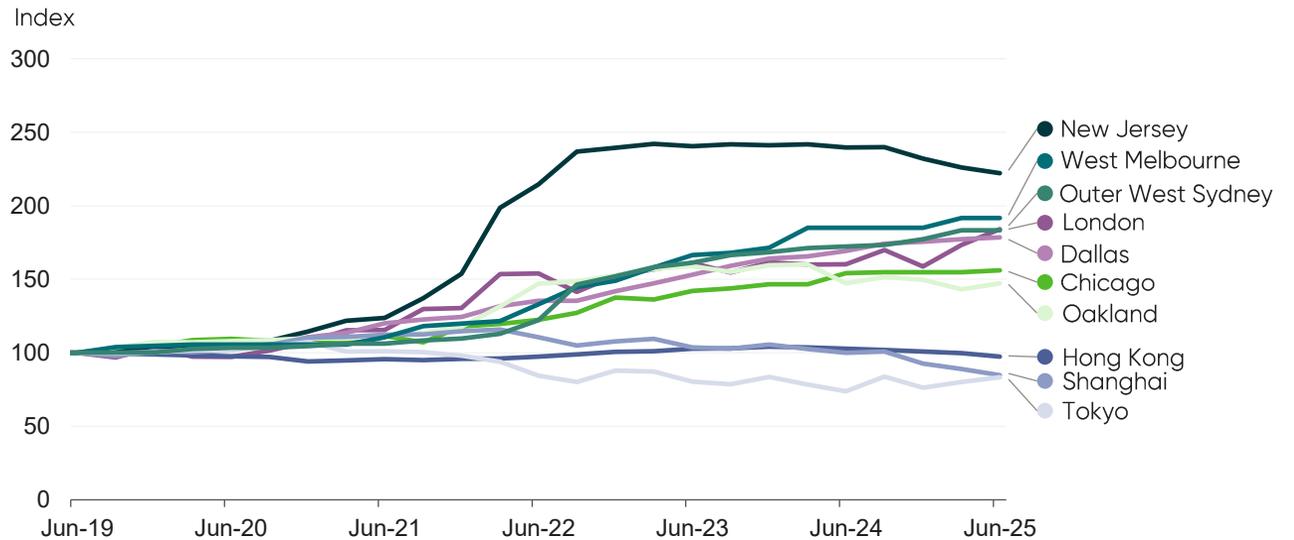
## Global industrial market vacancy rates



Source: CBRE Research, Dexus Research

## Global industrial rent movements past five years

Index = Jun-19



Source: JLL Research, Dexus Research

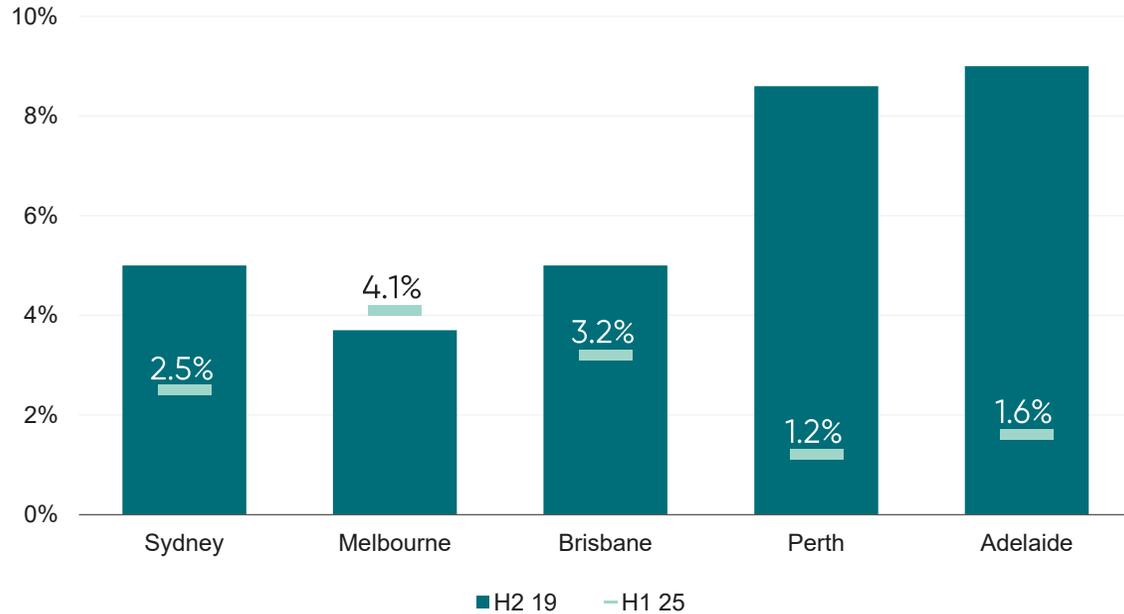
Vacancy rates have edged higher but remain low relative to pre-pandemic levels, and we anticipate the lack of supply and high demand should help keep vacancy levels moderate (sub 5%).

As at mid-2025, vacancy rate sat at:

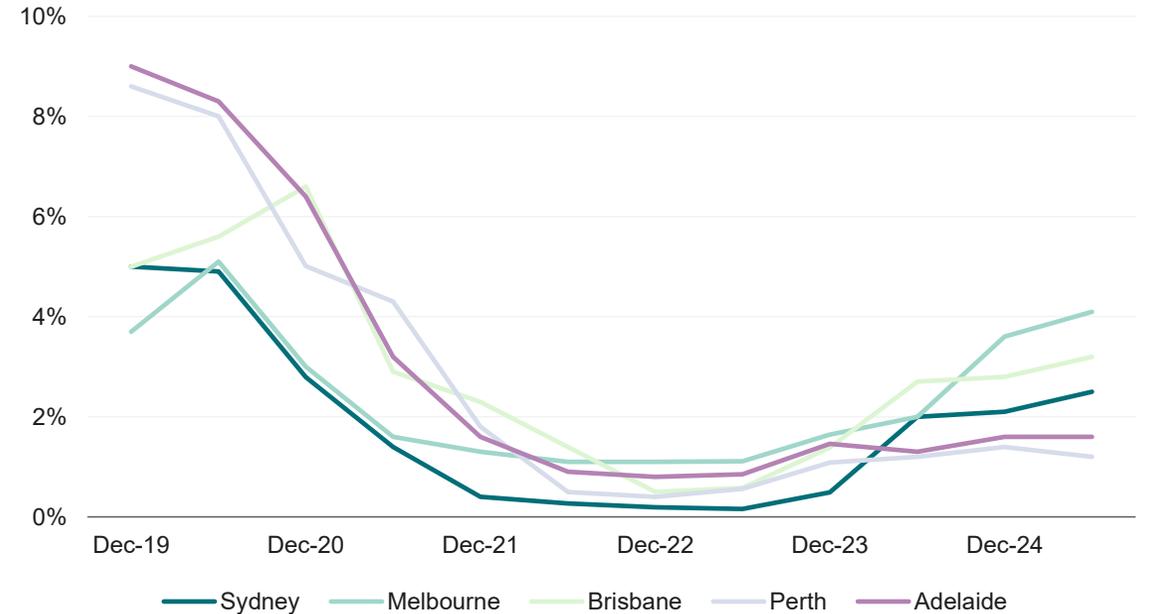
Sydney	2.5%
Melbourne	4.1%
Brisbane	3.2%

While implied vacancy risks are concentrated in high-supply regions such as West and North Melbourne and South Brisbane, these are still relatively subdued. Subleasing trends are more prominent, namely among third-party logistics tenants.

### Current vacancy compared to pre-pandemic levels



### Vacancy by major city



# The supply pipeline is quickly adjusting to changing conditions

Rising construction costs are challenging the viability of developments, leading to projects being delayed or postponed.

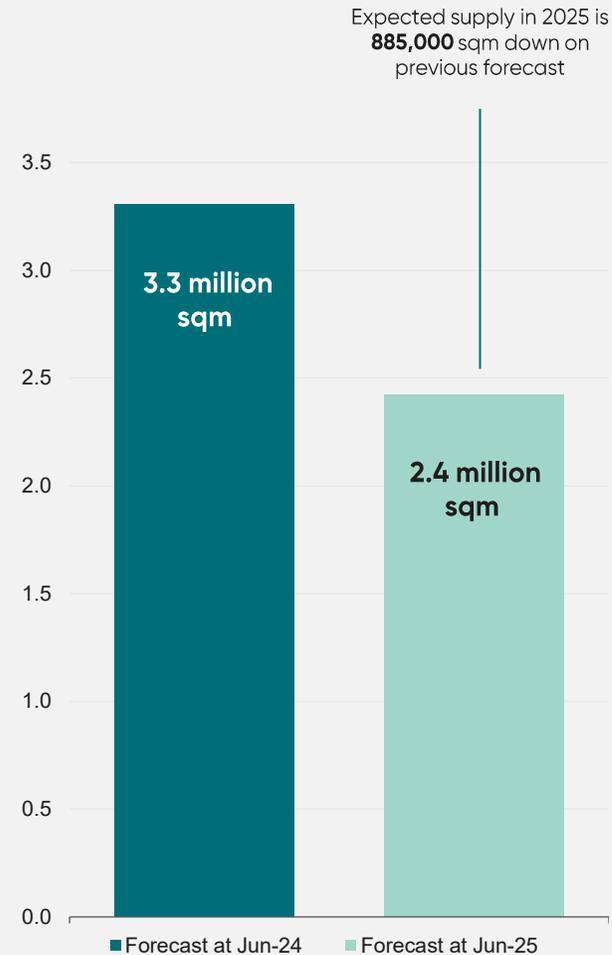
Due to a relatively short development time in the industrial sector, developers can quickly align their pipelines to the demand environment, limiting risks of oversupply.

## 885,000 sqm

of supply which was forecast to complete in calendar 2025 has been delayed and will no longer be supplied.

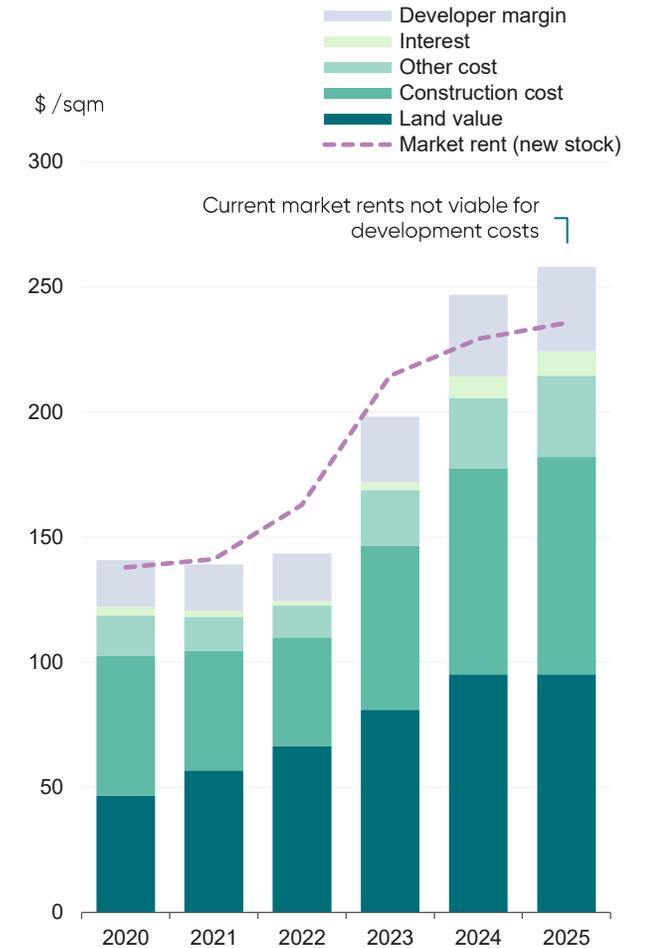
Development costs continue to push on economic rents, providing support for market face rents.

## National supply pipeline comparisons



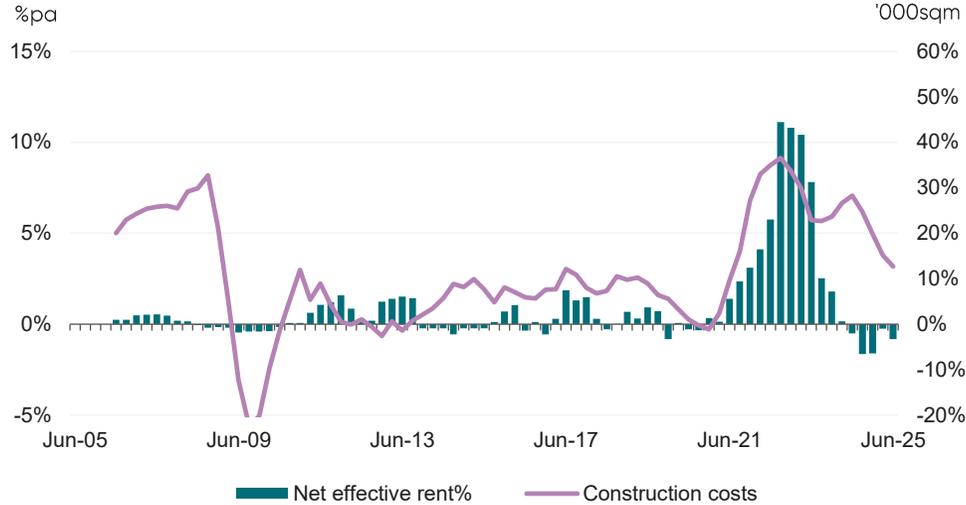
Source: CBRE

## Economic rent components

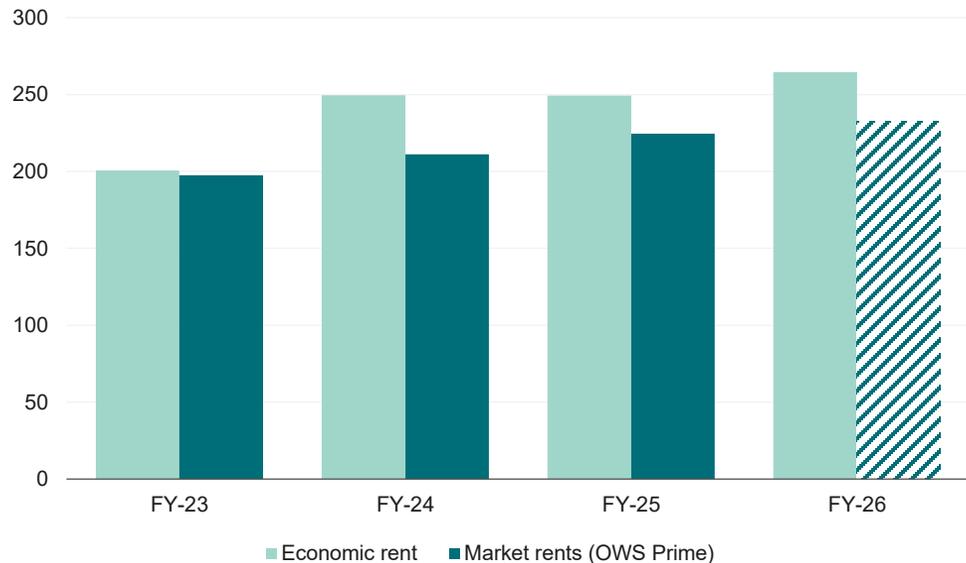


Source: Dexus Research

## Construction costs v effective rents (OWS)



## Market rents compared to economic rents



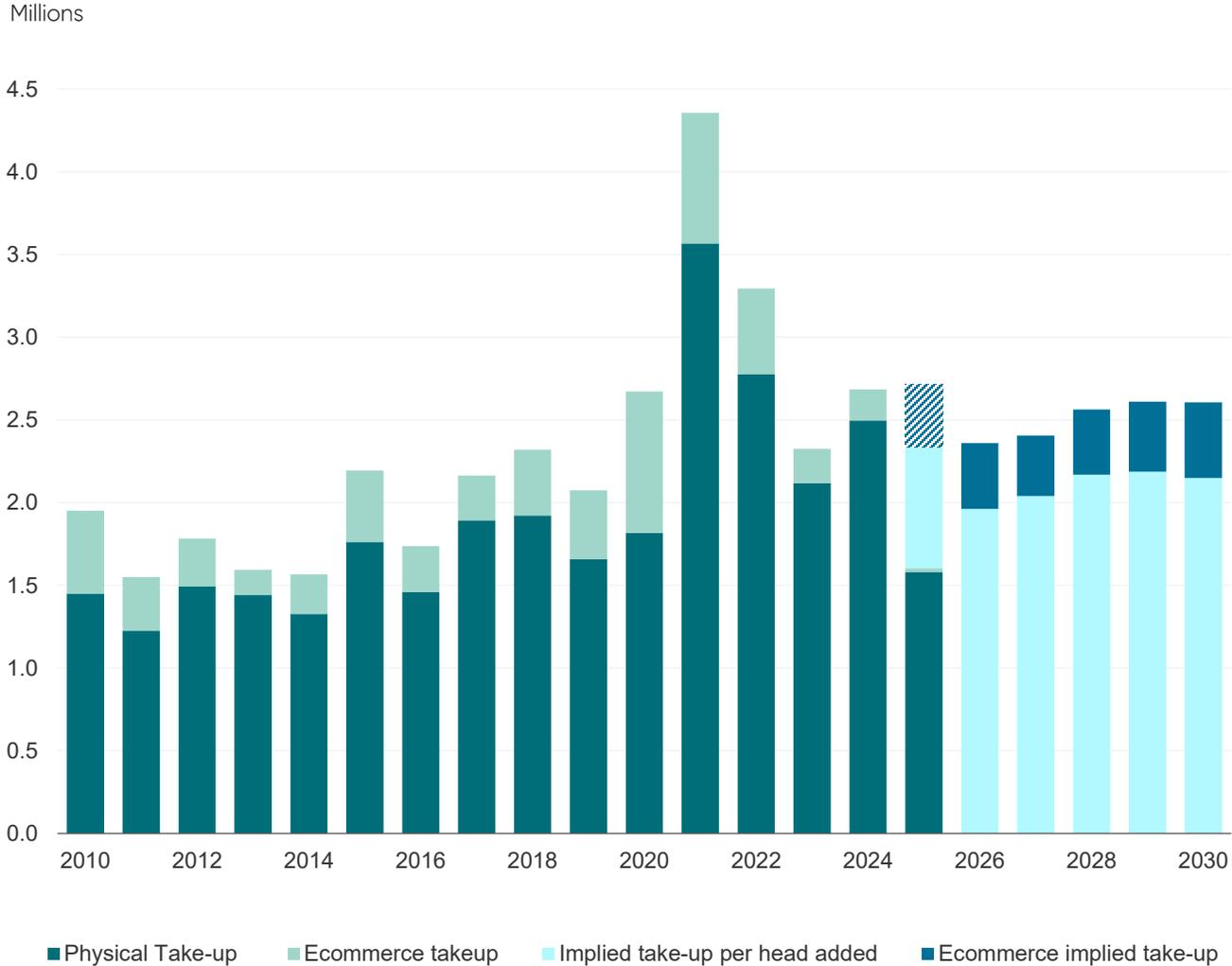
Source: JLL Research, Dexus Research, NAB, ABS



**Construction costs have surged over recent years and are expected to remain elevated, driven by persistent pressure on both materials and labour.**

While steel prices have eased, prices for timber and concrete continue to grow. This is materially impacting development feasibility, with a significant portion of anticipated supply now delayed—around 885,000 sqm originally forecast for completion in 2025 will no longer be delivered this calendar year. There’s a clear link between construction costs and industrial rents. The economic rent required to justify new development has now edged above prevailing market rents. Supply is less likely to be concentrated in areas where the economic rents are significantly higher than market rents.

## Take-up by warehouse size



Source: JLL Research, NAB, Oxford Economics, Dexus Research

# Structural demand drivers

**Population growth and the rapid expansion of e-commerce are two major drivers of demand for industrial assets.**

Ecommerce growth has transformed retail logistics, shifting demand needs to distribution centres, last-mile delivery hubs, and large-scale warehouses.

**Online sales growth**

**13%**  
year-on-year

**Market share forecast**

**14% > 18%**  
by 2030

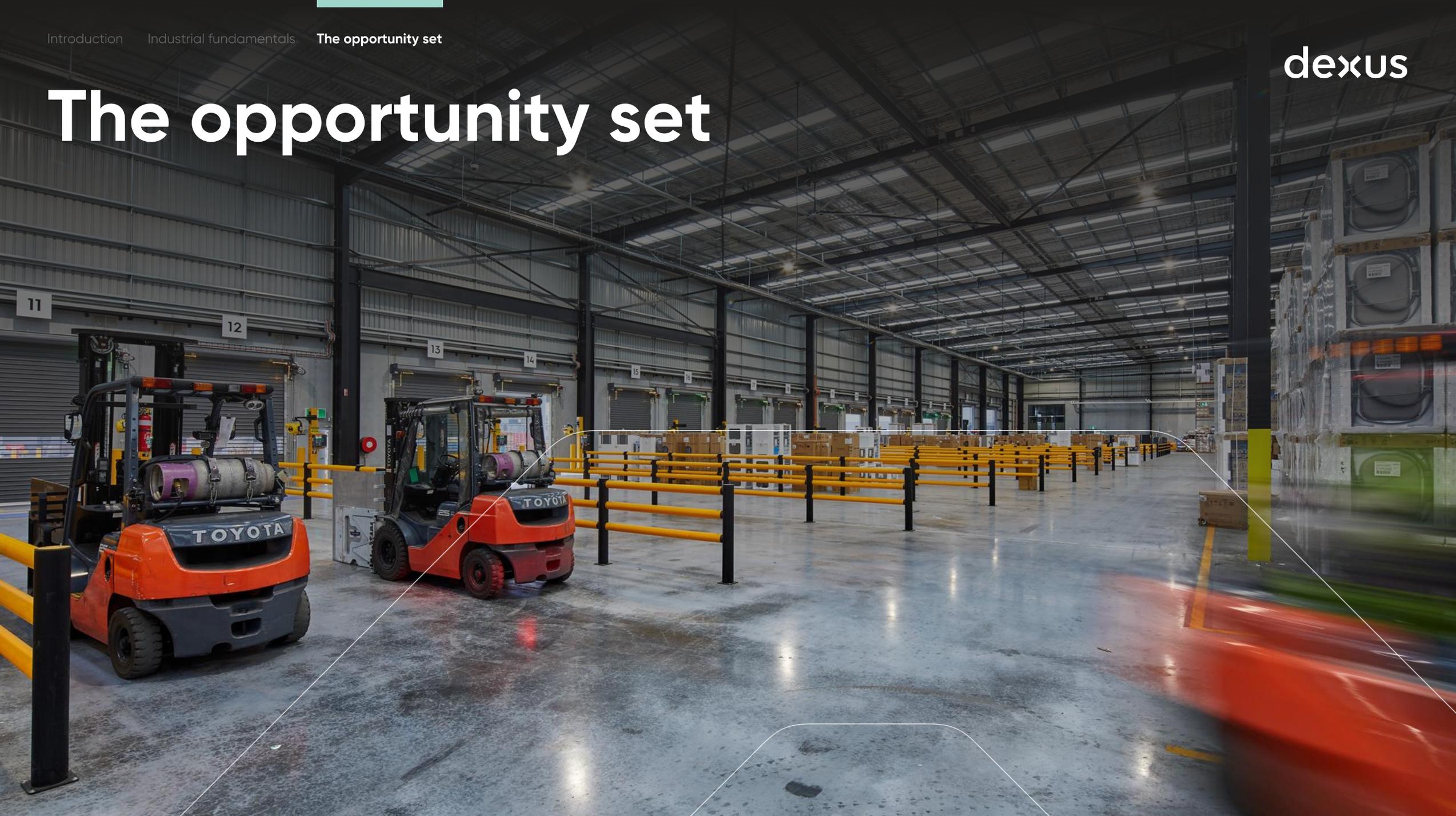
**New industrial space needed over the next five years**

**2.4–2.6**  
million sqm

**Annual demand from online retail**

**~70,000**  
sqm

# The opportunity set



# The new opportunity set for Industrial & Logistics

**Industrial & Logistics tenants are increasingly focused on operational efficiency, automation, and sustainability.**

Rising outgoings and energy costs are influencing location decisions and lease structures. Early renewals and longer decision-making cycles reflect cautious optimism and cost sensitivity.

Assets best aligned to tenants' needs will perform well at this stage of the cycle. High-quality and well-located facilities are favoured to attract and retain staff. Urban infill locations are preferred due to their proximity to transport infrastructure and consumer markets. Tenants are willing to pay a premium for these attributes. This trend is closely tied to infill locations, which often offer better connectivity, ESG-aligned features, and access to skilled labour and population centres.



**Automation, robotics and AI are reshaping warehouse operations and tenant requirements. Cold storage and temperature-controlled logistics are expanding due to pharmaceutical and food demand.**

Infrastructure upgrades, such as roads, ports and intermodals, are enhancing connectivity in key industrial precincts. ESG-aligned developments are gaining traction, with green certifications influencing investor and tenant preferences. As tenant needs evolve, a proactive engagement and partnership approach is valued, enabling tailored property solutions that support long-term operational success.



# Specialisation as a strategy

**The sector is undergoing a strategic evolution, marked by the growing prevalence of specialised warehouses designed to meet increasingly complex tenant requirements.**

As e-commerce, automation, and supply chain optimisation reshape operational demands, developers and investors are responding with tailored facilities. Sites featuring temperature-controlled zones, robotics integration, and high-clearance racking are favoured to meet complex tenant requirements.

Tenants who have committed to more specialised facilities that are adapted to suit their fit outs will commit to longer tenure. This trend reflects a broader shift toward value-add asset management, where proactive enhancements are essential to maintaining performance.



**The rising demand for temperature-sensitive pharmaceuticals, and the surge in fresh produce consumption, is accelerating the need for cold storage and tech-enabled logistics facilities.**

Tenants require specialised warehouses that ensure product integrity, support rapid distribution, and integrate advanced temperature monitoring and automation, making cold chain logistics a critical growth area.



The infill advantage:

# Why proximity pays



**Structural shifts are driving heightened demand for infill locations, positioning these assets for outperformance.**

The rapid expansion of e-commerce, rising consumer expectations for faster delivery (same and next day), and the growth of cold storage and automation are intensifying pressure on logistics networks. And today, **transport costs account for more than half of a customer's compared to rent, which accounts for circa 5%**. These trends, combined with strong population growth and urban densification, are making proximity to population centres increasingly critical. Approximately 23% more households on average can be accessed in infill precincts on the East Coast.<sup>1</sup>

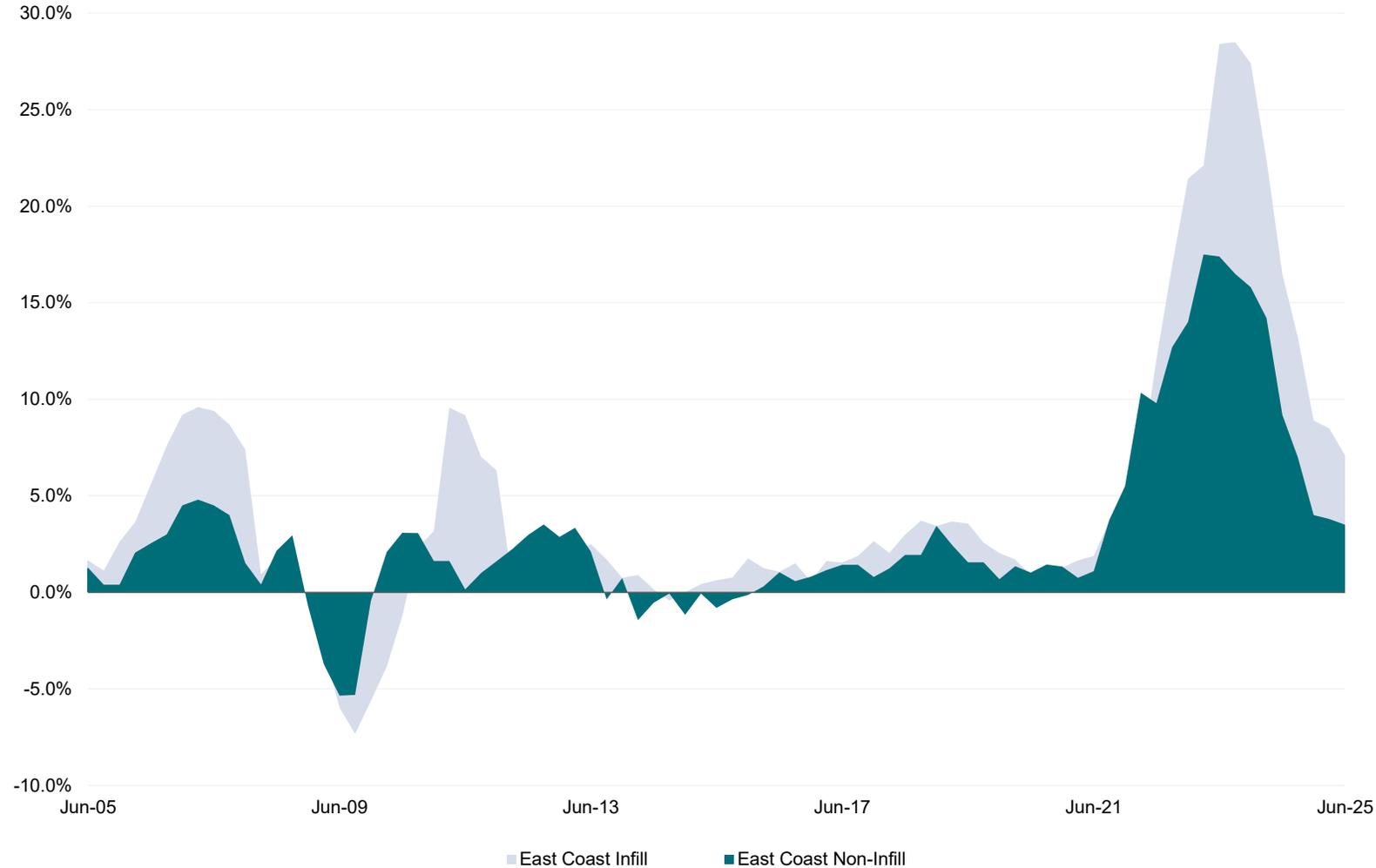
Constrained supply and limited developable land are underpinning rental growth and asset values for these assets. With lower vacancy rates and stronger rental growth prospects than outer markets, infill assets are emerging as a strategic opportunity in the evolving industrial landscape.

1. Savills Research

## Vacancy rates



## Prime net face rent growth



**Infill locations offer tangible operational advantages, including shorter drive times, reduced transport costs, and convenient staff access, while also enhancing resilience by keeping inventory closer to end consumers.**

Prime net face rent growth in infill markets has significantly outperformed non-infill markets along the East Coast, approximately **4.5% per annum** compared to **3% per annum** in non-infill markets.

Source: Cushman and Wakefield Research

# Embracing green solutions to drive value

**The adoption of battery storage and other sustainable features is increasingly prominent in new industrial developments.**

A focus on integrating solar and battery solutions, alongside automated systems, is driving significant improvements in energy efficiency and overall sustainability. Renewable energy and passive design strategies are central to enhancing the environmental performance of industrial properties.

According to the Prologis Australia & New Zealand Survey, around 50% of logistics-related companies plan to reduce emissions over the course of 2023. This aligns with the broader trend among blue-chip companies, many of which have established ESG targets and obligations.

While higher incentives may be required to support investment in sustainable facilities, tenants are generally more committed and likely to sign longer-term leases - making sustainability not only an environmental imperative but also a sound commercial strategy.

Sustainable solutions are being implemented across both warehouses and their office facilities. Future-proofing buildings is a key priority, with an emphasis on resilience to climate change and alignment with evolving regulatory and market expectations.

Looking  
ahead



## Trends influencing property decision making

01

Population growth and e-commerce expansion to help drive demand.

02

Occupiers prioritise infill locations near population hubs.

03

Demand for specialised properties is rising.

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