

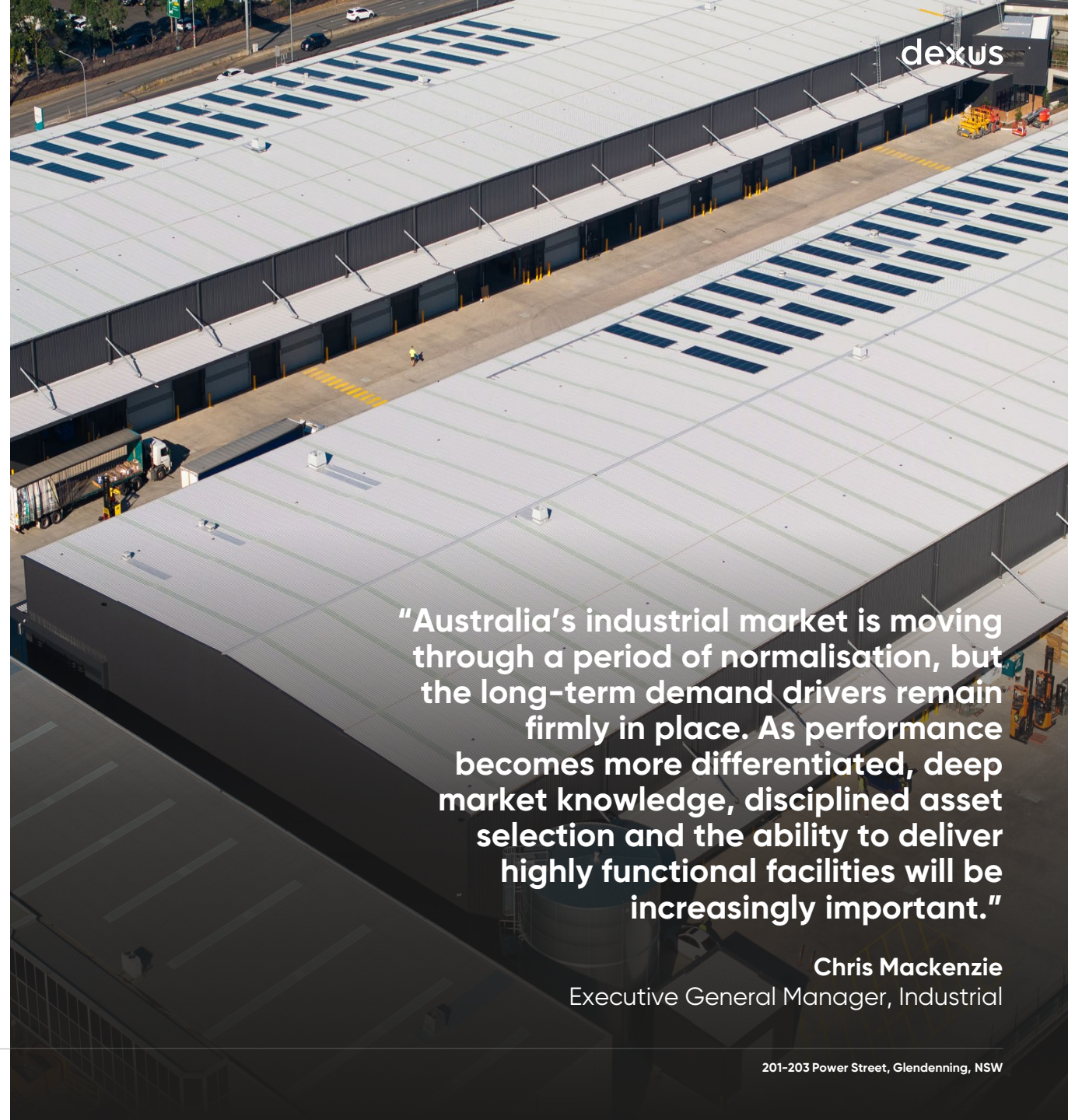
Working through the supply pulse

Dexus Australian Industrial House View FY2027

Dexus Research
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"Australia's industrial market is moving through a period of normalisation, but the long-term demand drivers remain firmly in place. As performance becomes more differentiated, deep market knowledge, disciplined asset selection and the ability to deliver highly functional facilities will be increasingly important."

Chris Mackenzie
Executive General Manager, Industrial

Introduction

A more selective phase

Australia's industrial property market is entering a more selective phase. Several years of strong occupier demand and rapid rental growth prompted a substantial development response. That supply is now being delivered, lifting vacancy and incentives from exceptional lows, even as leasing demand remains healthy.

The adjustment is concentrated rather than uniform. Sydney and Melbourne are absorbing the largest volume of new space, while Brisbane and Perth have more balanced near-term supply conditions. Within each city, outcomes are separating further by precinct, building quality and functionality. Industrial property continues to benefit from long-term demand drivers; the key question is where those drivers will translate into resilient income and returns through the next phase of the cycle.

This report examines the interaction between demand, supply, development feasibility and leasing conditions. It also considers what rising occupier choice means for asset selection. The focus throughout is on occupier fundamentals rather than pricing or return outcomes. Our view is that the current supply pulse will take time to work through, but higher replacement costs, weaker feasibility and greater reliance on pre-commitments are already limiting the next wave of construction. In that environment, market depth, location and asset relevance will matter more.

Key takeaways

01

A supply pulse is lifting vacancy from exceptional lows

Projects initiated during the post-pandemic take-up upswing are now completing faster than current demand can absorb them. Vacancy and incentives are increasing most clearly in Sydney and Melbourne, but Australian industrial markets remain tight compared to major global markets.

02

Demand remains broad and resilient

Gross take-up in 2026 to date is approaching recent annual levels and is spread across cities, warehouse sizes and industries. Population growth, household spending, e-commerce, manufacturing and the movement of essential goods continue to support space requirements.

03

The pipeline is beginning to self-correct

Projects already under construction are likely to complete, but approved projects increasingly rely on pre-commitments. High construction and land costs, softer effective rents and competition from data centres are reducing feasibility. Completions are expected to slow materially from FY28.

04

Performance is separating by market and asset

The period in which scarcity lifted most assets together is ending. Location, power, floor loading, clearance, access, configuration and adaptability now matter more. Prime, well-located facilities should be more resilient, while secondary assets face greater vacancy and incentive risk.

From expansion to normalisation

Australia's industrial real estate market is working through a supply pulse.

Strong occupier demand and rapid rental growth through and immediately after the pandemic encouraged a substantial development response. The resulting projects are now being delivered into a market where leasing remains healthy but has normalised.

Completions are temporarily running ahead of absorption, lifting vacancy and incentives from exceptional lows and weakening net effective rental growth in several markets.

For investors, the distinction matters. The issue is the timing and distribution of new supply, not a collapse in demand. The adjustment is concentrated in the markets that attracted the largest development response, particularly parts of Sydney and Melbourne.

Brisbane and Perth have more balanced near-term supply conditions and a firmer rental outlook. The national headline therefore conceals meaningful differences by city, precinct, grade and individual asset.

Our latest House View reflects a more differentiated outlook across industrial markets. Melbourne South East remains one of the more challenging leasing environments, with elevated incentives, a substantial pipeline and a less supportive occupier mix weighing on the near-term outlook.

The adjustment is likely to be relatively short by property-cycle standards, but it will not be immediate. Projects already under construction will continue to affect vacancy. However, development activity is slowing, and approved projects are increasingly contingent on tenant pre-commitments.

We expect rental conditions in Sydney and Melbourne to begin stabilising from FY28 as completions moderate and demand absorbs available space.

Sydney's Inner West and Outer South West are also expected to experience a slower recovery in effective rents as incentive levels remain elevated and new supply is absorbed. By contrast, Brisbane Southern and Trade Coast benefit from relatively resilient demand and a more balanced supply outlook. Perth East remains the strongest market nationally, supported by low vacancy, limited near-term supply and an improved rental growth outlook.

Industrial summary and growth outlook

NER 5-year CAGR outlook

Market	Growth outlook				
	Weaker		Middle		Stronger
Sydney Outer West			●		
Sydney Inner West			●		
Sydney South		●			
Sydney Inner South West			●		
Sydney Outer South West		●			
Melbourne West				●	
Melbourne Inner South East		●			
Melbourne South East	●				
Melbourne North		●			
Brisbane Southern				●	
Brisbane Trade Coast				●	
Perth East					●
Perth South					●
Adelaide Inner			●		

Source: Dexus Research

Demand remains intact, but is more selective

The economic backdrop is relatively constructive for industrial real assets.

201-203 Power Street, Glendenning, NSW

Real GDP growth is forecast to reach 2.3% in FY27, supported by population and employment growth¹. Inflation, weak productivity and global uncertainty remain risks, but the economy has proved relatively resilient.

Industrial demand is influenced by the volume of goods produced, imported, stored and distributed rather than confidence indicators alone. Demand in the sector is cyclical, but parts of the occupier base are comparatively defensive.

Essential goods continue to move through food, healthcare and household supply chains even when economic growth slows. Household spending has also remained more resilient than consumer confidence would suggest. In May 2026, annual retail turnover growth was above its 10-year average across most categories, supporting the flow of goods through distribution networks.

Leading indicators are mixed but have improved. Forward orders have returned to positive territory, suggesting a recovery in business demand, while import growth across a range of consumer-related sectors supports freight and warehouse requirements. A prolonged period of uncertainty or a sharper economic slowdown could still delay leasing decisions. For now, the indicators point to moderating growth rather than a broad contraction in demand.

¹Source: Dexus Research, Oxford Economics

Leasing is absorbing space, but not yet matching completions

Gross take-up in 2026 is running at a healthy level and is spread across the major cities and industries. Two-thirds of take-up has been in facilities below 20,000 sqm, while conventional leases remain the largest source of activity¹. This breadth reduces reliance on a small number of very large transactions and indicates that requirements continue across a range of business models.

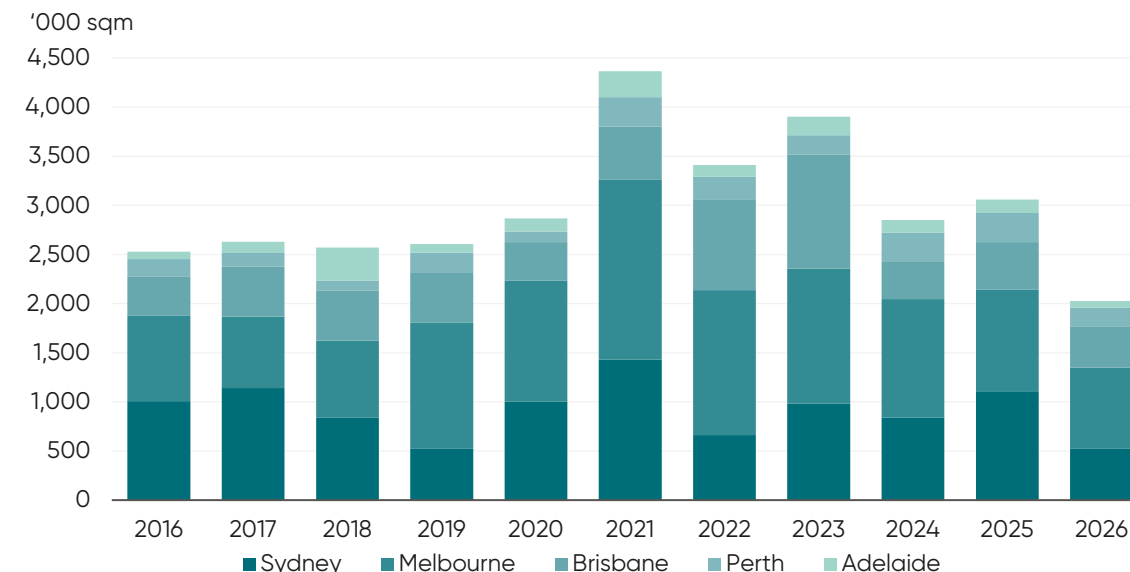
Demand is deepest in the large western markets of Sydney and Melbourne, where population growth, infrastructure and established logistics networks support substantial occupier pools. These markets consequently attract more construction, but absolute pipeline volumes can overstate risk if they are not considered against market size and historical absorption. A large pipeline in a deep market may be more manageable than a smaller pipeline in a thin one.

The composition of demand is also changing. Manufacturing's share of industrial take-up increased by 31% year on year, while e-commerce-intensive occupiers, including online retailers and the transport and logistics networks that support them, accounted for around 42% of FY26 take-up¹. The pandemic-era surge in space requirements has moderated, but e-commerce penetration continues to expand from a relatively low base. At the same time, data centre contractors, building suppliers and other businesses serving fast-growing precincts are creating adjacent requirements for industrial space.

Demand should therefore remain comparatively resilient but becomes more selective. Occupiers have more choice than they did when vacancy was below 1% and can assess the whole operating cost of a facility. Rent is only one component. Transport efficiency, labour access, cubic capacity, automation, power availability and the cost of capital invested in fit-out can outweigh a modest difference in face rent.

¹Source: Dexis Research, JLL

Take-up remains strong: Industrial gross take-up by city



Source: Dexis Research, JLL

Demand is diversified by industry



Source: Dexis Research, JLL

The supply pulse is concentrated and self-correcting

New supply is concentrated, while the future pipeline is slowing.

Truganina industrial precinct, Melbourne, Vic

Before the pandemic, national completions generally ranged from 1.3 million sqm to 2.0 million sqm a year¹. Strong demand and rental growth then encouraged developers to expand pipelines significantly.

Projects commenced when vacancy was at record lows are completing after leasing conditions have moderated. That development lag, rather than a structural demand failure, is the main reason vacancy is rising.

Sydney and Melbourne are most exposed because they account for the largest share of current construction. Even so, vacancy remains relatively low by global standards. As at June 2026, vacancy was 3.5% in Sydney, 4.7% in Melbourne, 3.0% in Brisbane, 1.0% in Perth and 1.9% in Adelaide¹. At an Australian average of 2.8%, vacancy remains below the comparable North American, Asian and European averages.

Risk must be assessed relative to market capacity. Outer West Sydney and Melbourne West screen as supply-exposed, but they also contain deep occupier pools and large stock bases. They can absorb a greater absolute volume of development than smaller markets. By contrast, a modest pipeline can have a larger effect where the tenant base is narrow. Pipeline-to-market size, long-run absorption and project timing are therefore more informative than total square metres alone.

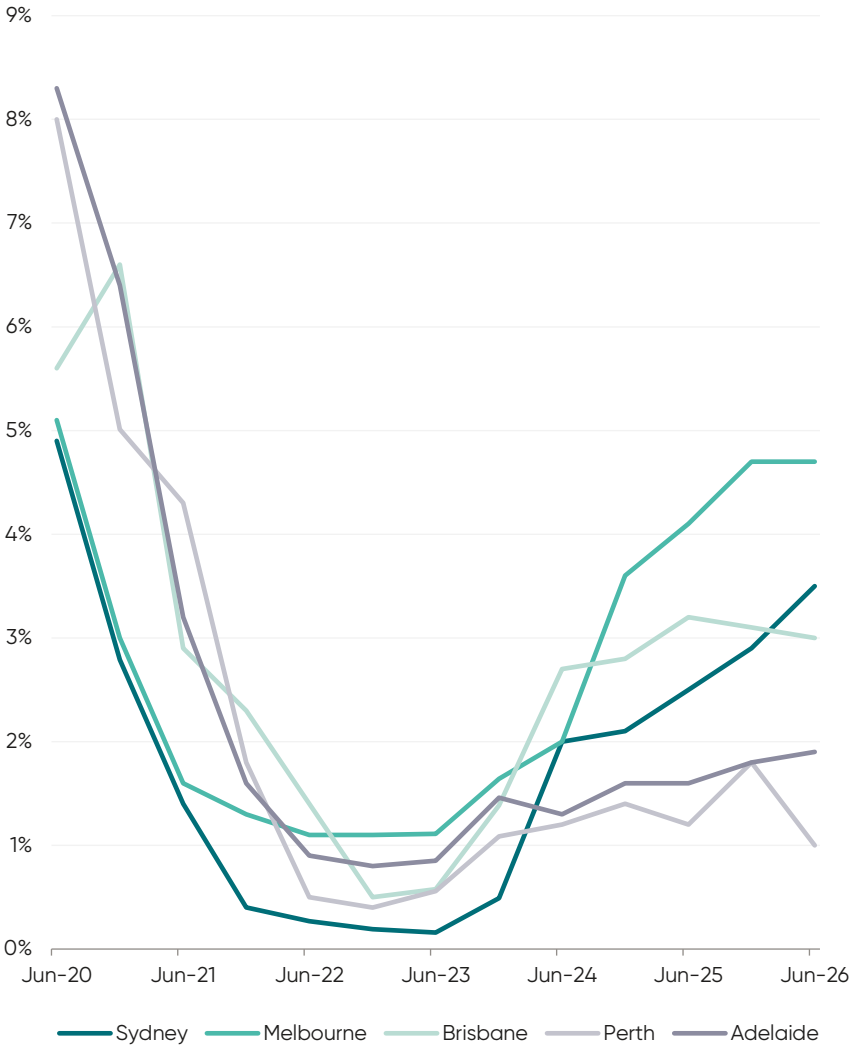
¹Source: Dexus Research, CBRE

Supply risk is highest in markets where the pipeline is elevated compared to history

Market	Current market size ('000 sqm)	Under construction ('000 sqm)	Plans approved ('000 sqm)	Pipeline vs long-term average	Supply risk				
					Low	Medium	High		
Sydney Outer West	10,050	377	1,013	↑					
Sydney Inner West	2,922	49	31	↑					
Sydney South	1,474	0	16	↓					
Sydney Inner South West	2,929	25	165	↑					
Sydney Outer South West	6,267	118	117	↓					
Melbourne West	12,420	291	752	↓					
Melbourne South East	11,303	219	601	↑					
Melbourne North	5,850	321	851	↑					
Brisbane Southern	8,595	205	460	↓					
Brisbane Trade Coast	3,615	86	132	↓					
Perth East	3,633	110	72	↑					
Perth South	3,296	76	17	↑					
Adelaide Inner	776	55	51	↑					

Source: Dexus Research; JLL, CBRE (as at Jun-26)

Vacancy is rising from historic lows



Source: Dexus Research, CBRE

Weak feasibility limits new supply and rewards site selection

The forward pipeline is already being revised lower. JLL's national cumulative supply forecast to 2030 fell from approximately 8.1 million sqm in the FY26 forecast to approximately 6.9 million sqm in the FY27 forecast, a reduction of about 15%. The revision is consistent with elevated construction and land costs, softer effective rents and more demanding financing conditions.

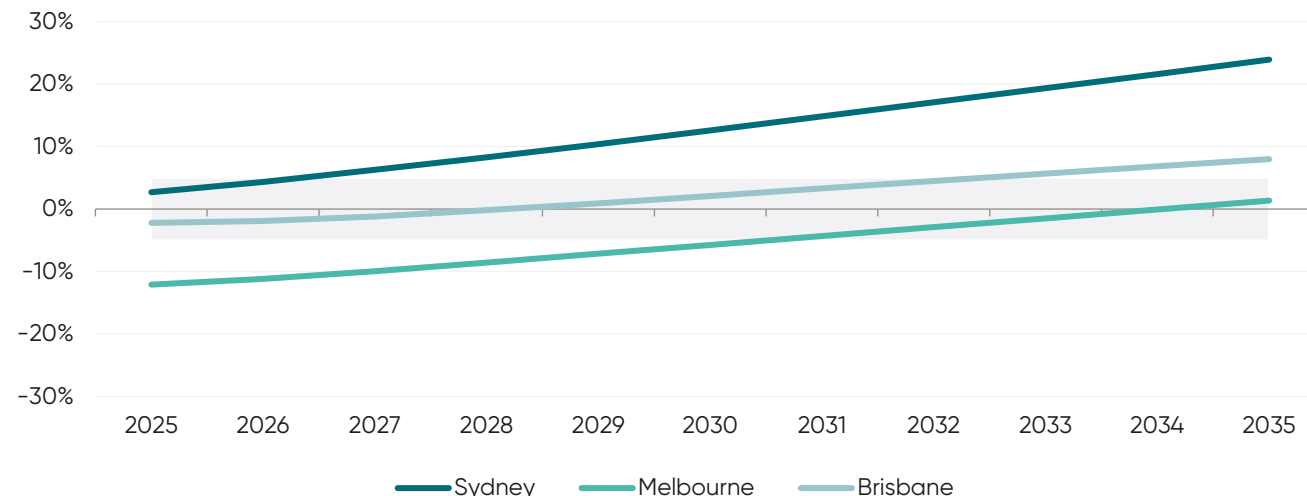
The stage of each project is increasingly important. Schemes already under construction are likely to complete, but a substantial share of 2027 and 2028 pipeline is only in the plans-approved stage. As vacancy rises, those projects are likely to require tenant pre-commitment to proceed. The visible pipeline should therefore be treated as an upper bound rather than a firm delivery schedule.

Feasibility varies by city. Sydney benefits from higher rents and a deep occupier base. Melbourne remains below the estimated feasibility threshold, while Brisbane is not expected to clear breakeven until later in the decade. These conditions do not preclude development, but they increase the importance of site selection, tenant commitment and asset-specific economics.

Data centres add another constraint in selected precincts. A conventional warehouse may remove the option to pursue a future data centre use, while assessing power, planning and site suitability can take time. This can defer warehouse development while alternative uses are considered. It may also support land values and lift the hurdle for conventional industrial projects. The result is an additional brake on future warehouse supply, although the effect will be concentrated in sites with relevant power and location attributes.

Industrial indicative feasibility index, by city

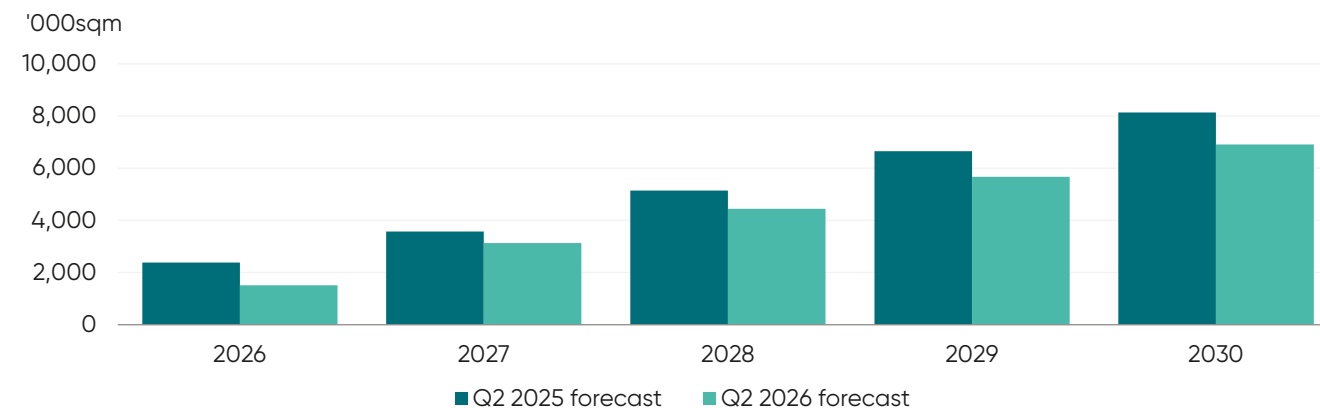
Feasibility constraints influence development decisions



Source: Dexus Research, Oxford Economics

Cumulative supply pipeline

Future supply expectations have moderated



Source: Dexus Research, JLL

Pricing is adjusting through incentives

Effective rents provide the clearest measure of changing leasing conditions.

6

Leasing conditions are moving into a more normal phase of the cycle, with incentives doing most of the adjusting. Sydney and Melbourne have experienced the largest increases, weakening net effective rental growth even where face rents have remained relatively resilient.

Brisbane has experienced a more measured adjustment, consistent with its more balanced supply pipeline. Headline face rents can therefore give an incomplete picture of pricing power. Effective rent, which captures the cost of incentives, is more useful during this phase of the cycle. Published incentive data may not capture all elements of a transaction, including early access, fit-out contributions or other leasing support. Investors should place greater weight on comparable, transaction-level effective rents and lease economics than on headline market quotations.

Vacancy and incentives tend to move together. In the office market, incentives stopped rising before vacancy started falling because landlords adjust lease terms first. Office is not a direct guide to industrial, but it suggests incentives are the first sign that a market is coming back into balance.

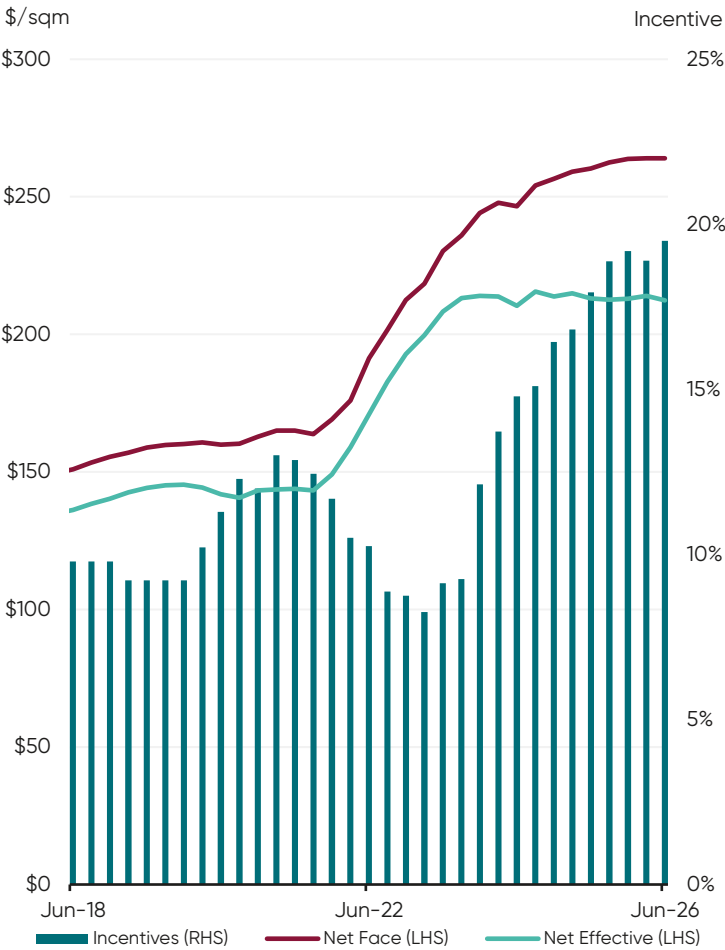
The impact will not be uniform. Prime assets should retain stronger pricing power, while secondary assets may need materially higher incentives to compete. In markets where current rental growth remains firm, particularly parts of Brisbane and Perth, landlords may be able to optimise lease terms and capture near-term pricing upside. In supply-exposed markets, underwriting should allow for higher incentives and a slower recovery in effective rents.

12 Church Road, Velociti Industrial Estate, Moorebank, NSW

Rent and incentive movements

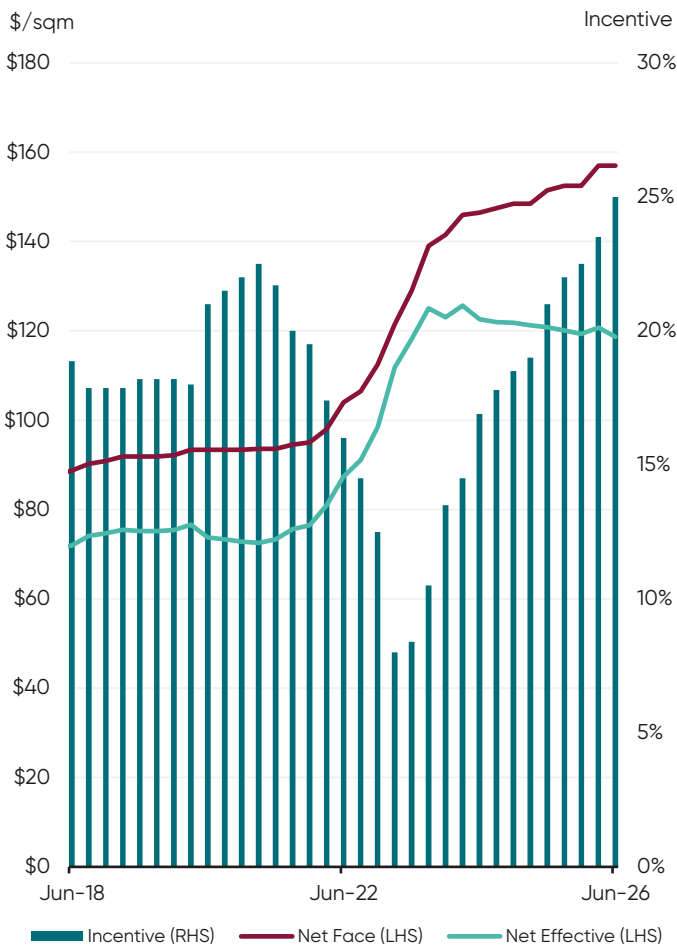
Higher incentives are moderating effective rental growth

Sydney



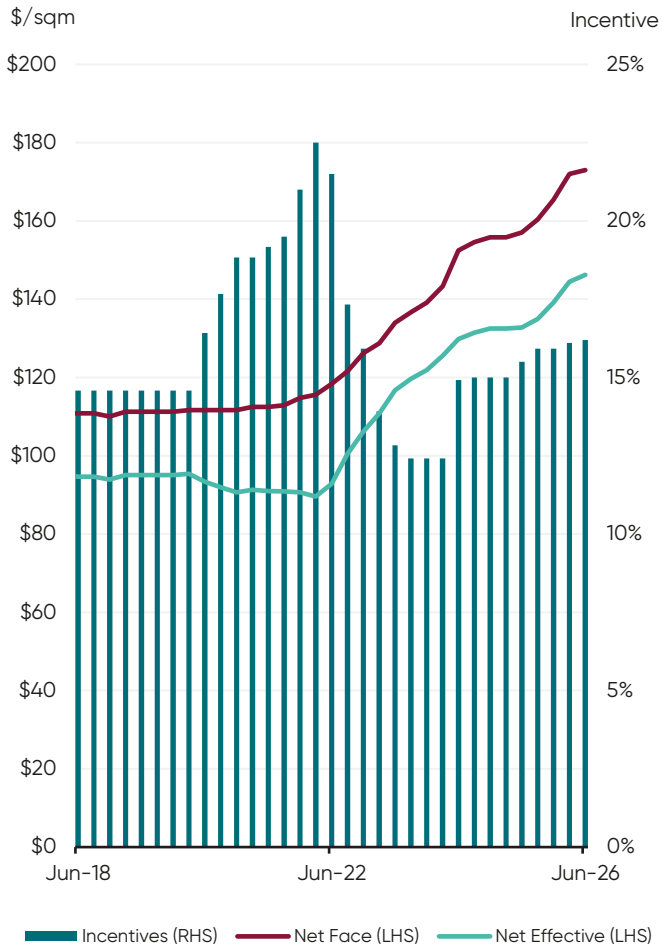
Source: CBRE, Dexus Research

Melbourne



Source: CBRE, Dexus Research

Brisbane



Source: CBRE, Dexus Research

The era of dispersion

The period of exceptionally low vacancy compressed differences between grades.

When occupiers had few alternatives, secondary assets benefited from the same scarcity as prime stock. As new supply expands choice, those differences are re-emerging. Asset quality, specification and location are likely to explain more of the return than city-level figures alone.

Over the five years to June 2026, super prime net effective rents in Sydney's Outer South West grew at a compound annual rate of 14.3%, compared with 10.6% for secondary assets. In Melbourne West, the equivalent rates were 12.6% and 6.1%¹. The persistence of this gap through a period of strong overall demand suggests that the market is rewarding functionality, not simply scarcity.

Modern occupier requirements are becoming more specialised. Power capacity, floor loading, clearance height, sprinkler capability, hardstand, access, configuration and the ability to support automation and high truck movements all affect leasing outcomes. A warehouse that was prime at completion can lose competitiveness as customer requirements evolve. Older assets may still perform if they are well located, adaptable and appropriately priced, but buildings without a credible path to improvement face greater obsolescence risk.

Location cannot be separated from specification. Infill markets benefit from scarce land and proximity to customers, labour and transport infrastructure. Sydney's Inner West is the clearest example, where competing land uses constrain new supply.

12 Church Road, Velociti Industrial Estate, Moorebank, NSW

¹Source: Dexus Research, CBRE

Outer markets can support larger modern facilities at scale, but their performance depends more heavily on infrastructure, population growth and the amount of competing development. The relevant question is what the asset enables an occupier to do, and how easily that advantage can be replicated.

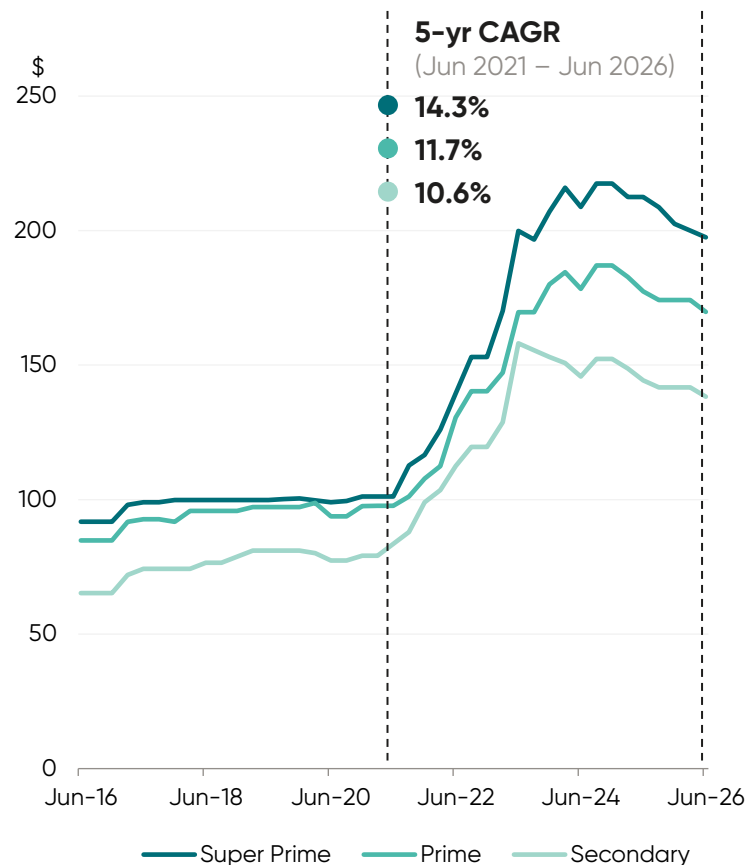
For investors, this places greater weight on asset-level analysis. Portfolio strategy should distinguish between assets that can be repositioned and those where functional or locational constraints are difficult to overcome. It also requires discipline on capital expenditure: upgrades should be linked to identifiable customer requirements and a realistic rental or retention outcome, rather than assuming that all secondary assets can be converted to prime.

Rents by grade

Super prime and prime assets outperform secondary on an effective rent basis.

Net effective rent by grade

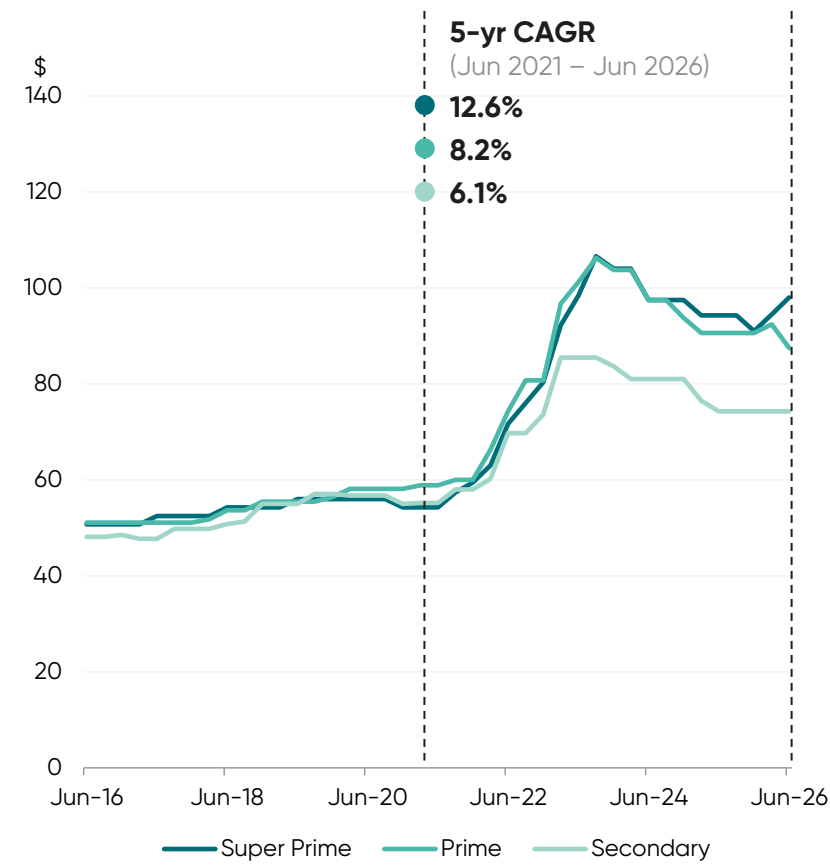
Sydney Outer South West



Source: Dexus Research, CBRE

Net effective rent by grade

Melbourne West



Source: Dexus Research, CBRE

Implications for investors

A more selective market places greater weight on asset quality.

Returns are likely to depend less on broad exposure to the sector and more on selecting the right market, location and building, and on underwriting the path of incentives and effective rents accurately.

The long-term investment case for Australian industrial property remains supported by population growth, consumption, e-commerce, logistics network investment and the need for more efficient facilities. The near-term opportunity set, however, is more differentiated.

- › **Assess supply relative to market depth.**
Pipeline-to-stock, historical absorption, project stage and the breadth of the occupier pool matter more than absolute construction volumes.
- › **Underwrite net effective rents.**
Face-rent resilience can obscure a meaningful adjustment through incentives and leasing support.
- › **Prioritise functionality and adaptability.**
Power, access, clearance, floor loading, configuration and automation capability are increasingly important as occupiers compare whole-of-operation costs.
- › **Differentiate infill scarcity from outer-market scale.**
Both can be attractive, but their source of resilience differ and should be reflected in valuation and return hurdles.
- › **Apply higher hurdles to supply-exposed and functionally challenged assets.**
Where a repositioning pathway is uncertain, allow for longer downtime, higher incentives or asset recycling.
- › **Monitor leading rebalancing signals.**
Slower commencements, a rising share of pre-committed development and stabilising incentives would indicate that the current supply pulse is being absorbed.

Our view

Australia's industrial market is working through a supply-led normalisation. Demand remains healthy, but the volume of recent completions is lifting vacancy and incentives, particularly in Sydney and Melbourne.

The pipeline is self-correcting. Higher replacement costs, weaker development feasibility, tighter financing, increasing reliance on pre-commitments and competition from data centres are reducing the probability that all approved projects proceed. We expect completions to slow materially from FY28, allowing demand to absorb available space and rental conditions to begin stabilising.

The main investment implication is greater dispersion in performance. Prime, well-located and highly functional assets should be more resilient, while secondary buildings with limited adaptability face greater leasing and pricing pressure. Disciplined market selection, asset quality and underwriting will be more important than relying on the sector's strong historical performance alone.

What would change our view



Upside indicators

- ✓ Incentives stabilise sooner than expected
- ✓ Commencements slow more quickly
- ✓ Vacancy begins to fall despite elevated completions



Downside indicators

- ✓ Speculative construction accelerates
- ✓ Net effective rent growth falls further through FY27
- ✓ A sharper economic slowdown materially delays leasing decisions

Dexus Research



Jonathan Hedger
Chief Investment Officer

Jonathan.Hedger@dexus.com



Kimberley Slow
Head of Investment Management & Research

Kimberley.Slow@dexus.com



James Melville
Senior Manager, Research

James.Melville@dexus.com



Mia Kasalo
Research Analyst

Mia.Kasalo@dexus.com



Ellen Ives
Research Analyst

Ellen.Ives@dexus.com

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