RIA Real Investment Analytics

DISTILLERY CAPITAL

JUNE 2026

The Australian Property Economy Quarterly Update

Real Investment Analytics

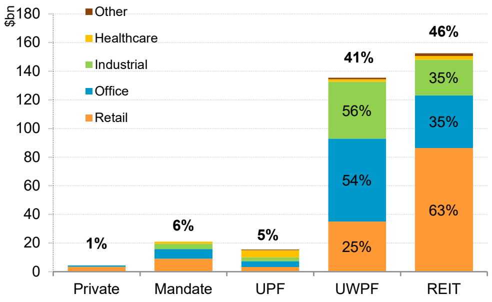
DISTILLERY CAPITAL

Property Information Source(s)

Aggerated commercial property data is provided by RIA.

RIA maintains a property asset level database where data is sourced from institutional property fund managers. The database for key sectors contains approximately 2,100 investments with a current value of $329 billion.

Property exposure by structure and sector
as at March 2026



Source: RIA.

Contents

01 Executive Summary

Overview

In search of favourable economic conditions to support a prosperous commercial property market.

Over the last 12 months, the commercial property market has delivered stronger investment returns underpinned by improving occupancy demand, especially for the office sector, and a halt to declining asset values, generally reflected in a stabilisation in capitalisation rates. More broadly, the performance of the commercial property market is supported by two main factors: space market conditions and capital market conditions. Both of these factors are underpinned by robust economic performance, generally reflected in solid economic growth, a healthy labour market, consumer inflation “in-check”, a neutral market interest rate setting and responsible fiscal policy.

The current economic scenario can be referred to ‘Stall-flation’, that resides between normal economic conditions and those of stagflation. While the past year saw economic activity slowly strengthen towards trend growth, the recent GDP growth showed a marked softening in economic activity, alongside a decline in GDP per capita. Furthermore, the recent decline in productivity growth, coupled with uncertainty surrounding supply-side shocks due to war in the Middle-East, only adds to supply-side constraints on economic growth.

Moreover, the persistence in inflationary pressures due to both internal factors and external shocks (such as the recent Iran war), has seen an aggressive tightening in monetary policy. The RBA has this year raised the official cash rate by 75 bps. Moreover, the market expects a further rate rise later this year but will largely depend on assessing the balance of risks due to persistent inflationary expectations against anaemic GDP growth.

The consumer sector has performed well over the last 12 months with growth in retail spending rising as it rides the wave of declining interest rates last year. However, the sharp rate rises this year are likely to see a curb in retail spending activity.

The recent announcement in the Federal budget (12 May 2026) of tax changes to negative gearing and capital gains tax (CGT) for housing is likely to adversely impact the residential market. Indeed, the immediate market response has seen auction clearing rates falling below 50% and sharp declines in house prices in Sydney and Melbourne. As experienced with a similar policy setting in 1985, the market is likely to experience adverse income effects (i.e., rents rising sharply) and wealth effects (i.e., falling house prices) and a contraction in supply. Given that the residential sector has a high multiplier effect, the dislocation of resources and price adjustments, is likely to hinder any strong recovery in economic activity and indirectly impact demand drivers for key sectors of the commercial property market. A positive aspect relates to the commercial-residential (or living) sector which is likely to see an increased flow of capital due to the announcements of favourable tax breaks.

Short-Term Economic Outlook

Australian economy is poised for sluggish growth below trend, weighed by tightening monetary policy, a weakening labour market and downturn in housing sector.

Economic growth

Economic activity generally inline with trend growth but set to soften.

Economic activity has started to soften with March 2026 quarterly growth rate slowing to 0.3% and annualised growth of 2.5%.

Furthermore, quarterly growth in GDP per capita and labour productivity have declined by 0.1% and 0.6% respectively.

We expect the economy to experience softer conditions over the next 12 months with annual growth between 0.5-1.0%

Labour market

Labour market conditions are starting to show strain with unemployment rising and employment slowing.

Currently, annual employment growth is weak at 1.0% pa and remains below the long-run average of 1.9%. The unemployment rate has edged upwards towards 4.4%. Employment growth is significantly weaker in all major states with the exception of ACT.

We expect labour market conditions to soften further over the next 12 months, lifting the unemployment rate towards 4.8% and annual employment growth towards 0.5%.

Inflation and interest rates

The annual headline CPI currently sits at 4.0% for May 2026, easing slightly from 4.2% in April mainly due to reduction in petrol prices.

With inflation above the RBA's target zone of 2-3%, RBA has raised the cash rate three times in 2026 by 75bps but held the cash rate steady at 4.35% for June.

At its next meeting in August, the RBA will be considering balancing the risks of persistent inflationary expectations against softer GDP growth. We advocate no rate rise.

We expect a further rise in the cash rate of 25bps to occur in Q4 2026.

Retail consumer sector

Retail demand generally continues to improve with annual growth strengthening towards long-run trend growth.

This reflects easing pressure on household budgets due to interest rates easing in 2025.

However, the recent softer spending growth in April 2026 reflects cost-of-living pressures, underpinned by a rise in petrol prices and rising interest rates.
This weakness is also reflected in recent consumer sentiment surveys.

Consumer sector growth likely to experience ongoing soften in H2 2026.

RIA Real Investment Analytics

DISTILLERY CAPITAL

Short-Term Property Market Outlook

Commercial property sector markets showing signs of moderating: they converge on asset pricing dynamics but diverge on space market conditions.

Retail property sector

The Retail sector is positioned at the peak of the property cycle.

The consumer economy continues to experience strong sales growth, although growth in retail spending is showing early signs of easing.

Favourable space markets has seen occupancy rates remain high across sub-sectors; reflected in moderate nominal rental growth.

Cap rates continue to hold steady across sub-sector markets.

The sector is likely to enter softening phase in H2 2026 as rising interest rates and rising cost of living restrains spending.

Office property sector

The Office sector is approaching peak phase of the property cycle.

Occupancy rates have recovered across many CBD markets.

Incentives remain elevated while rental growth is improving, although varies across grade and markets.

Cap rates have stabilised across CBD markets, averaging 6.2%. Cap rates likely to remain steady over the year.

Investment returns have improved with a stabilisation in asset values.

The sector recovery is likely to moderate throughout the year as office demand softens.

Industrial property sector

The Industrial sector is positioned at the peak of the property cycle.

Space market conditions are moderating although remain relatively tight.

Occupancy rates are relatively tight and steady. Rental growth across all product types and major city markets remains positive.

Cap rates have stabilised across sub-sector markets and show some slight firming in the Sydney market.

Investment returns remain favourable to competing sectors.

The sector is likely to remain in peak phase throughout 2026.

Residential property sector

The Residential sector is positioned in the cooling phase of the property cycle.

Space market conditions remain out of balance with relatively low vacancy rates and positive rental growth. This is due to strong demand against limited supply.

Since the recent Federal budget announcement on tax changes to housing, auction clearance rates nationally have fallen significantly and house prices retreated sharply in Sydney and Melbourne.

The sector is likely to see a general downturn in prices and rises in rents.

02

Risks

Risks factors

Key risk factors to short-term outlook for the economy and property markets.

Domestic risk

- **Economic activity slowing:** global energy supply-side shocks are translating into higher production costs and dampen economic growth below trend.
- **Weakening labour market:** a deteriorating labour market is likely to dampen consumer demand.
- **Tightening monetary policy:** likely to soften consumer demand and slow down investment activity
- **Proposed changes to taxes on housing:** changes likely to see a retreat in house prices and higher rents

Global risk

- **Asset pricing dynamics**: on-going changes in US Fed rates likely to see rotation of capital across asset classes (including real estate) as investors reassess risk-return opportunities.
- **Geopolitical issues remain elevated:** the following conflicts are likely to adversely affect supply-side channels for food, and energy: Russian-Ukraine war and Iran war with US & Israel. The recent US-Iran deal to open Strait of Hormuz will alleviate supply-side constrains on energy and fertilizers but uncertainty to how long it will last.

Commercial property market risk

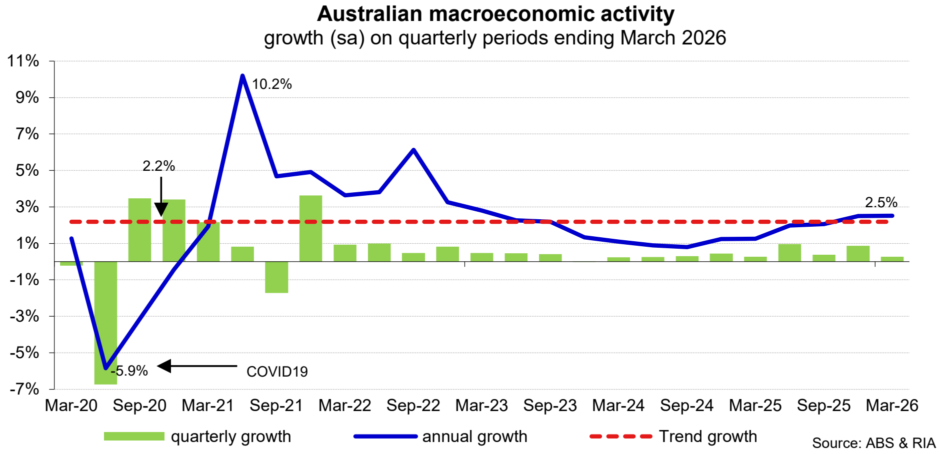
- **Investment performance:** commercial property market recovery is moderating with its nature (extent and duration) based on the slowdown in economic activity and the stance of monetary policy.
- **Occupancy market conditions:** slightly softer occupancy rates as demand weakens with softer labour market. Incentives to remain elevated. Leasing activity to remain active as tenants continue to renegotiate space requirements on competitive rental terms.
- **Asset pricing:** capitalisation rates have now stabilised but risk of rising due to rising interest rates and cost of debt.

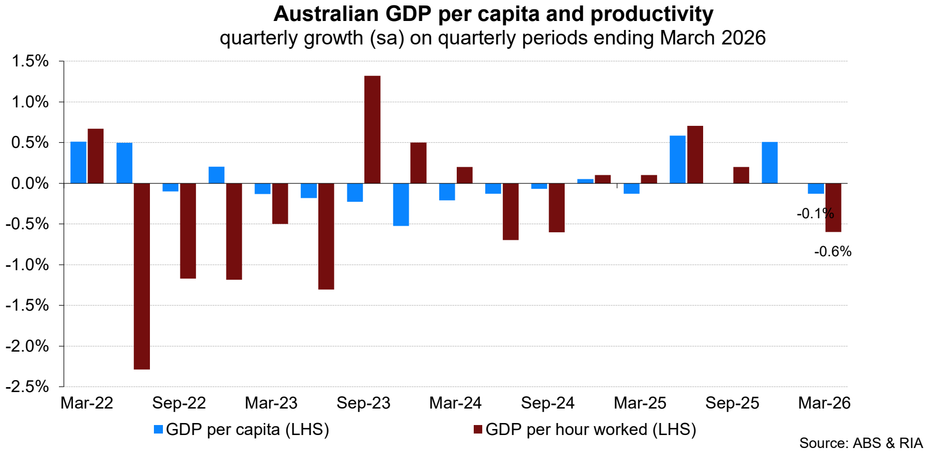
03

The Macroeconomy & Property Investment Markets

The Macroeconomy & Property Investment Markets

Australia's economy charactersied by 'Stall-flation'; economic growth likely to slow below trend growth with elevated inflationary pressures … and declining GDP per capita growth.





- **Gross domestic product (GDP) rose 0.3% in the March 2026 quarter and 2.5% over the year.**

- **Both GDP per capita growth and productivity growth reverse over the March quarter 2026**

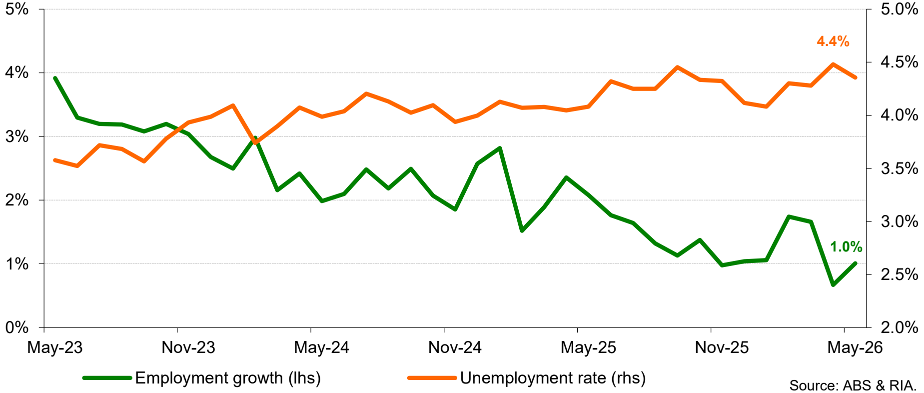
RIA Real Investment Analytics

DISTILLERY CAPITAL

The Macroeconomy & Property Investment Markets

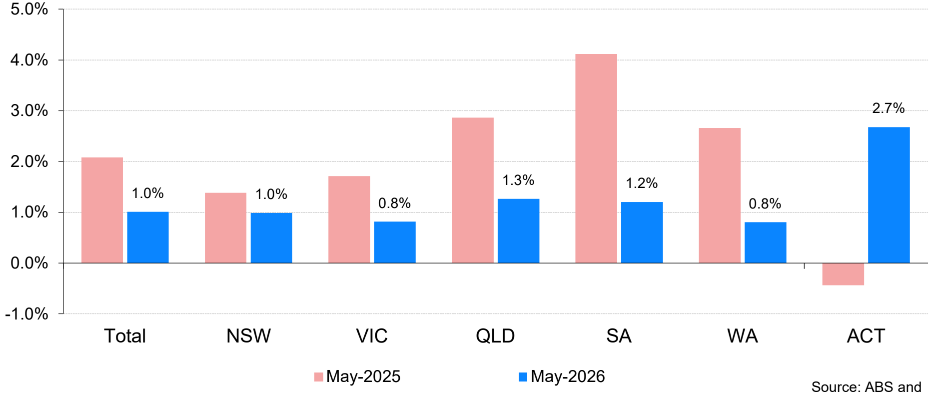
Labour market starting to show signs of strain: unemployment rate now trending upwards as employment growth trends softer.

Employment growth and unemployment rate
monthly periods ending May 2026



Source: ABS & RIA.

Employment growth across states
average annual growth (s.a.)



Source: ABS and

- **As at May 2026, unemployment rate stood at 4.4% and annualised total employment growth was 1.0%.**

- **Total employment growth was weakest for VIC at 0.8% pa; strongest for ACT at 2.7% pa.**

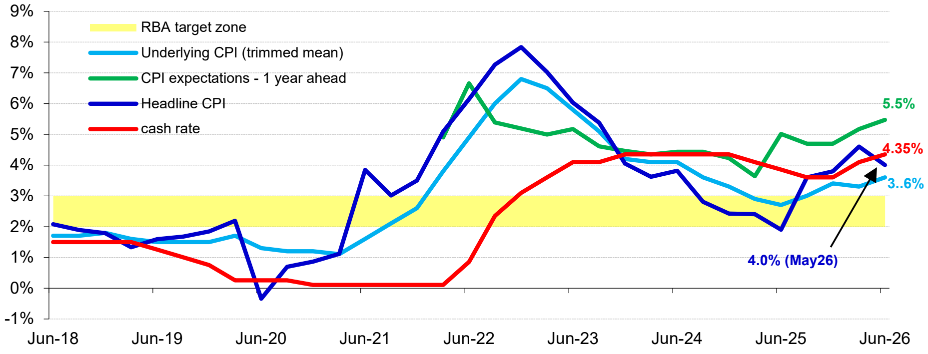
RIA Real Investment Analytics

DISTILLERY CAPITAL

The Macroeconomy & Property Investment Markets

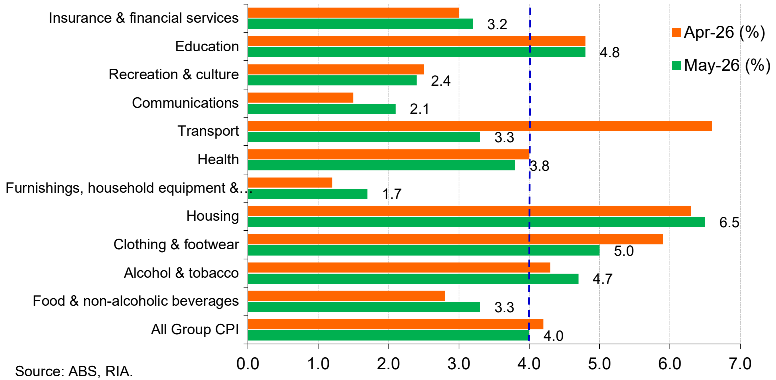
Inflation remains elevated with annual CPI growth well above RBA's target zone …this is likely to push the RBAs towards a tightening bias on rates to reign in inflation pressures.

Trends in CPI inflation and cash rate
annual growth on quarterly periods ending June 2026



Source: RBA and RIA.

CPI inflation across consumption groups
annual growth



Source: ABS, RIA.

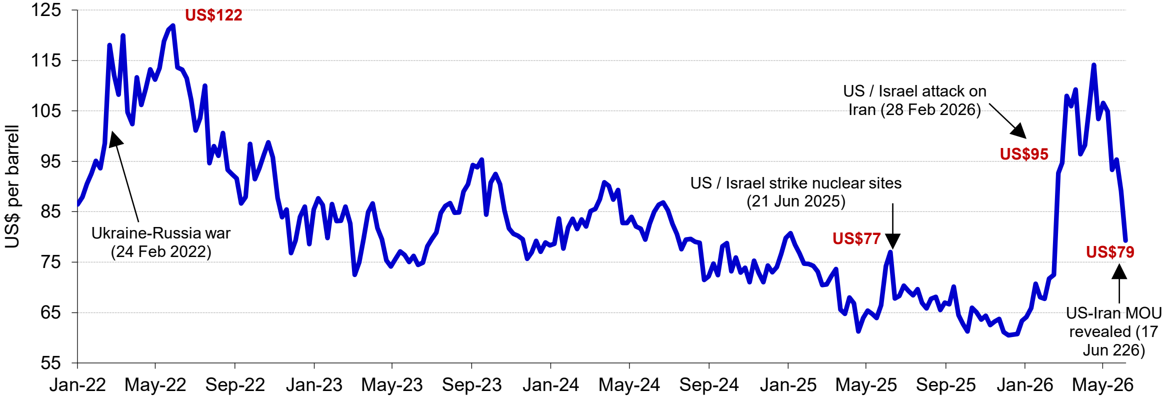
- **Annual CPI inflation stood at 4.0% in May 2026, down from 4.2% in April 2026.**
- **In contrast, core inflation has increased from 3.4% to 3.6%.**
- **Inflation rate was lower than previous month mainly due to reduction in petrol prices (driven by lower world oil prices and halving of fuel excise from 1 April 2026)**

- **The largest contributors to annual inflation were Housing (+6.5%), amid rising costs of electricity, new homes and rents, Food and non-alcoholic beverages (+3.3%) and Transport (+3.3%).**

The Macroeconomy & Property Investment Markets

External supply shock – disruptions to energy supply has seen world oil prices rise … recent easing in prices reflects hopes the US-Iran deal will see Strait of Hormuz open.

Brent crude (oil) price
closing price, weekly periods ending 18 June 2026



Source: BusinessInsider & RIA.

- US/Israel attack on Iran occurred on 28 Feb 2026.
- This translated into significant supply disruptions to global energy market with reductions in oil and LNG.
- Rising oil prices feed into cost of production and eventually pass through into consumer prices
- Push global economy into cost-squeeze (higher prices) causing consumers to pull back on spending.
- Recent US-Iran deal (17 Jun 2026) will see the Strait of Hormuz open to shipping, easing supply restrictions.
- Locally, the Australian government has halved the fuel excise to 16 cents for the month of July.

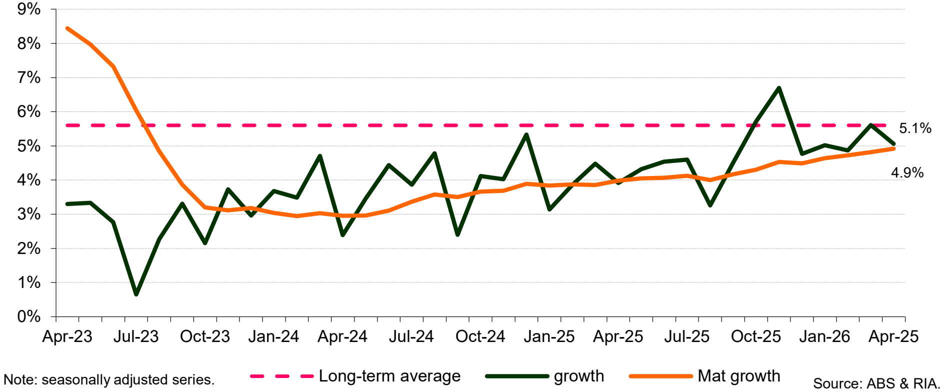
RIA Real Investment Analytics

DISTILLERY CAPITAL

The Macroeconomy & Property Investment Markets

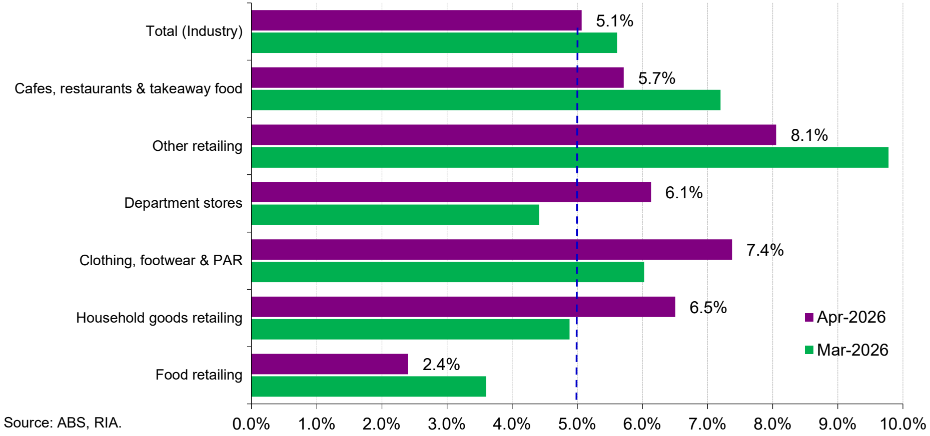
Now that retail demand has strengthened back to long-run trend it now appears to show early signs of easing.

Movement in national retail turnover
rolling annual nominal growth on monthly periods ending April 2026



Note: seasonally adjusted series. Source: ABS & RIA.

Retail turnover across consumer catergories
nominal (sa) annual growth



Source: ABS, RIA.

- **Annual growth in retail spending stood at 5.1 as at April 2026. MAT growth stood at 4.9% for the same corresponding period.**
- **Westpac Consumer Sentiment Survey reports weakest recording in 50 years**

- **Annual growth in household spending increased over the month for the following categories: department stores, clothes & footwear, and household goods.**

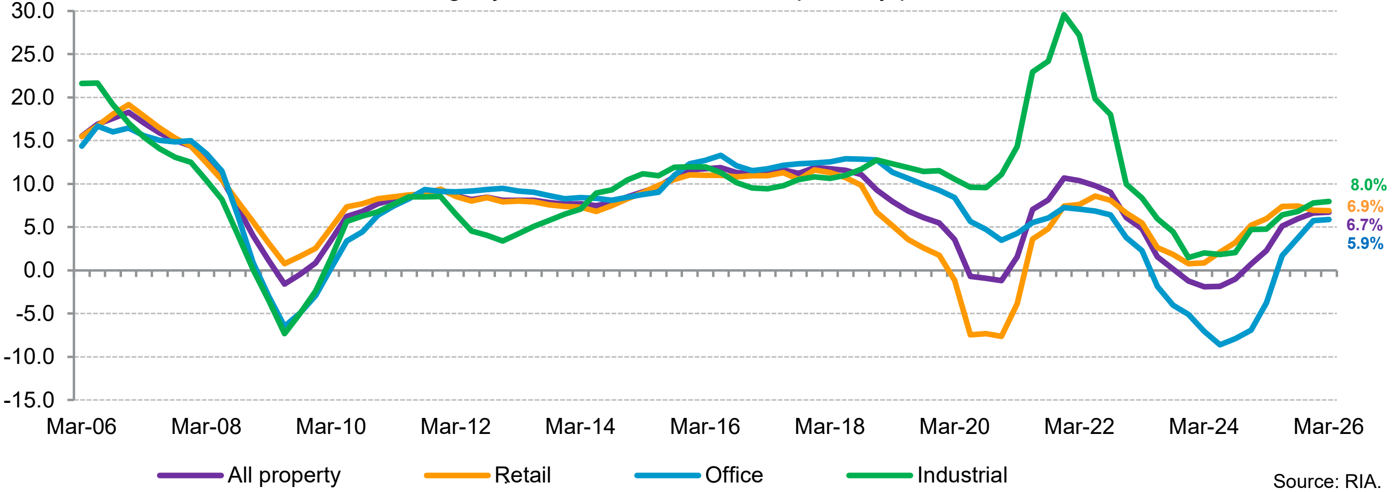
RIA **Real Investment Analytics**

DISTILLERY CAPITAL

The Macroeconomy & Property Investment Markets

Commercial property investment market in upswing phase of the cycle: returns for all key property sectors improving with industrial sector showing the strongest return.

Asset property returns across key sectors
rolling 1 year annualised returns, quarterly periods



Source: RIA.

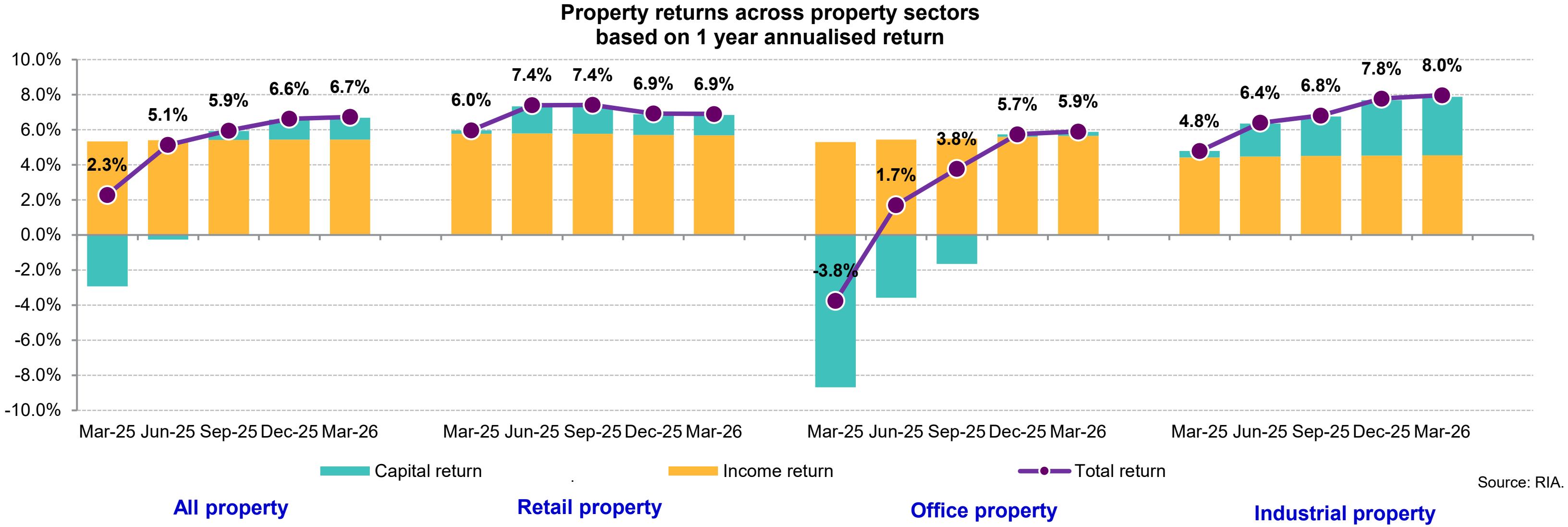
As at March 2026, the commercial property market reported annual total return of 6.7%, comprised of 5.4% income return and 1.2% capital return.

RIA Real Investment Analytics

DISTILLERY CAPITAL

The Macroeconomy & Property Investment Markets

Investment return profile for core property sectors: upswing in returns across all key property sectors; office sector also now posting positive capital return.



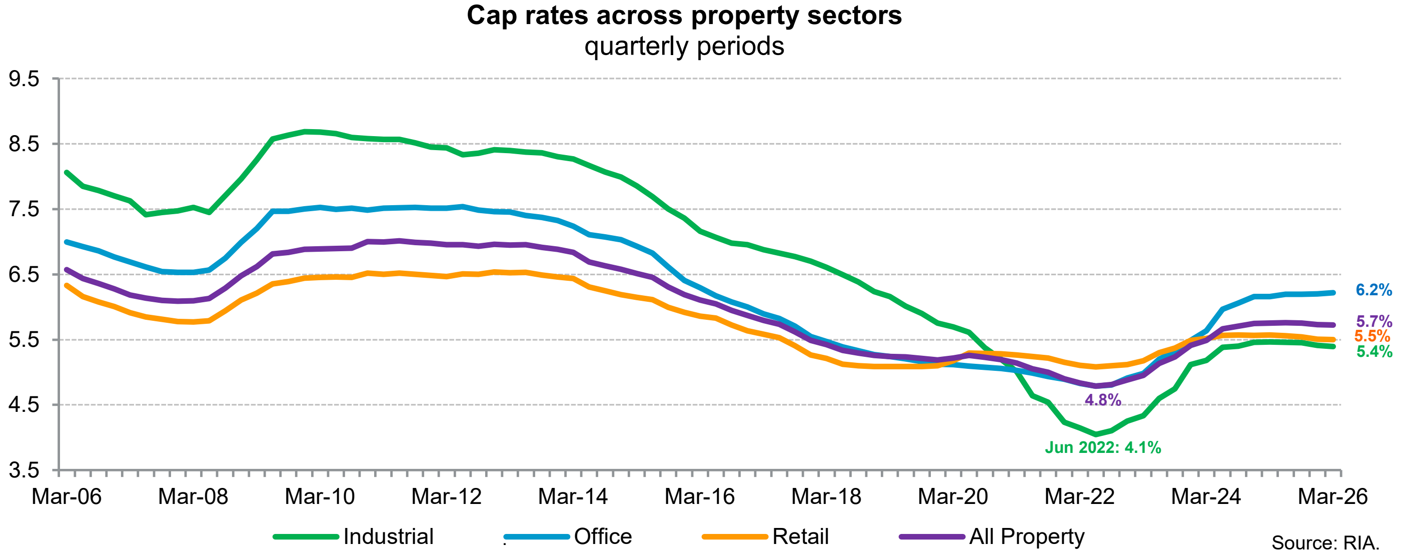
Source: RIA.

Real Investment Analytics

DISTILLERY CAPITAL

The Macroeconomy & Property Investment Markets

Capital market conditions stabilise: end to decompression cycle with all key property sectors seeing cap rates generally steady.



Source: RIA.

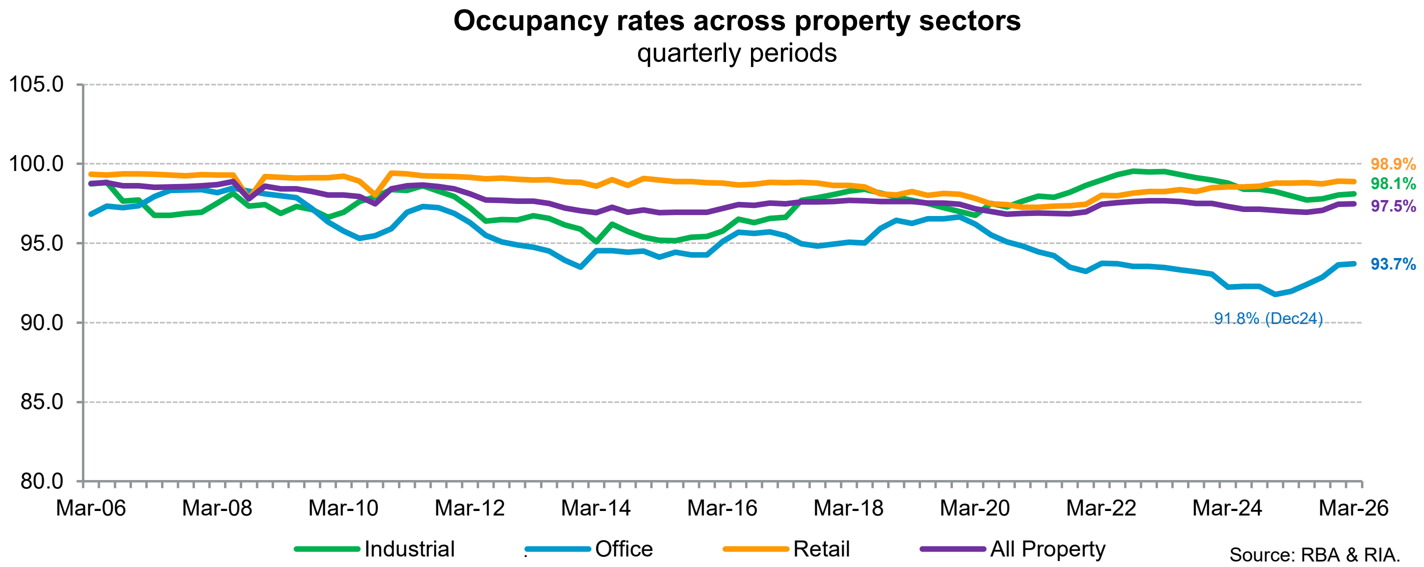
The capitalisation rate for the overall commercial property market was steady over the quarter, at 5.7% in the March 2026.

RIA Real Investment Analytics

DISTILLERY CAPITAL

The Macroeconomy & Property Investment Markets

Overall space market conditions starting to improve but vary markedly across key sectors: tight for retail & industrial sectors & improving for office sector.



Source: RBA & RIA.

As at March 2026, the overall commercial property market posted an occupancy rate of 97.5%, this was slightly stronger against 97% reported for March 2025.

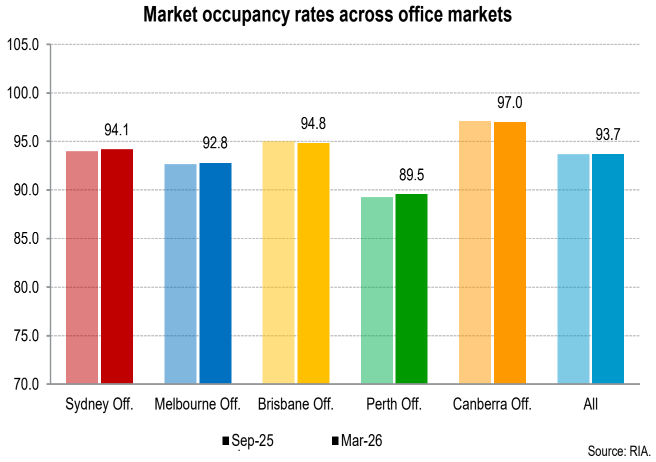
RIA Real Investment Analytics

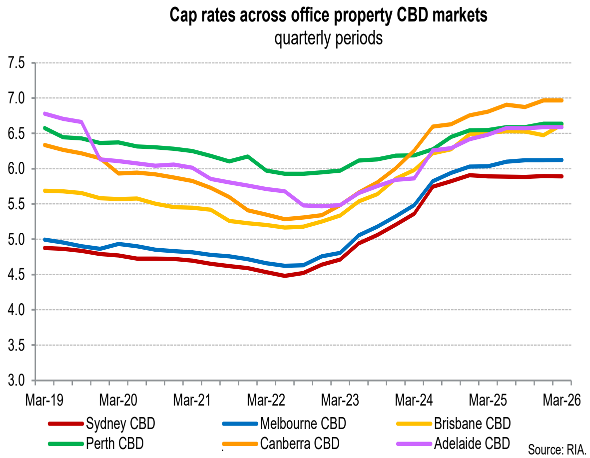
DISTILLERY CAPITAL

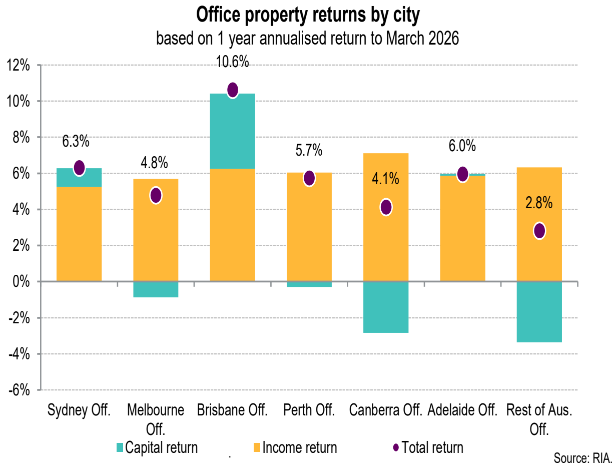
04
Property Sector Markets

Office Property Sector

Sector seeing improving space market conditions: vacancy rates retreating, rentals moving upwards but incentives remain elevated; cap rates steady and returns turn positive





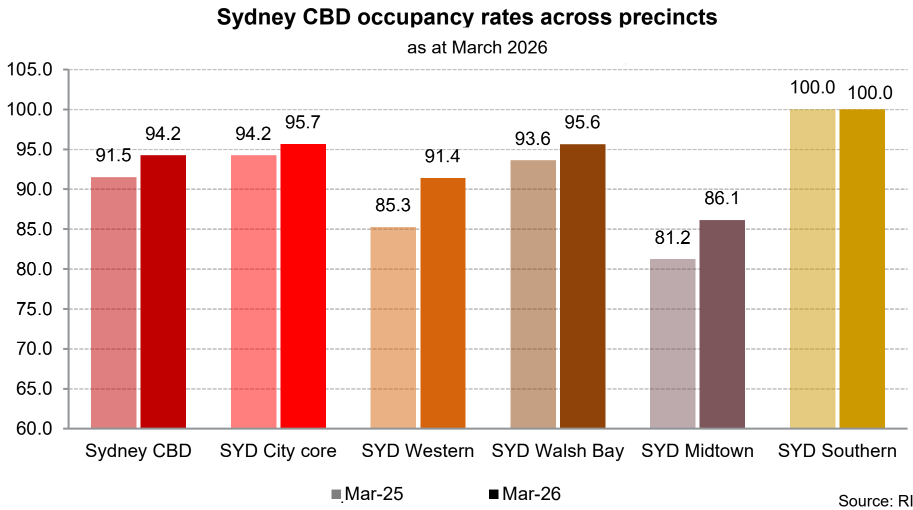


Real Investment Analytics

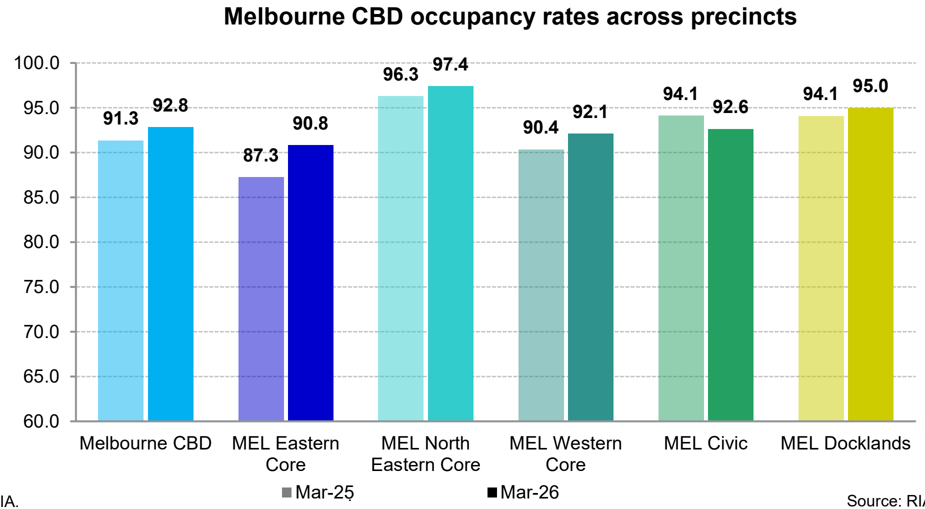
DISTILLERY CAPITAL

Office Property Sector

Office space markets conditions improving reflected in rising occupancy rates across precincts for both Sydney and Melbourne CBD markets.



Source: RIA.



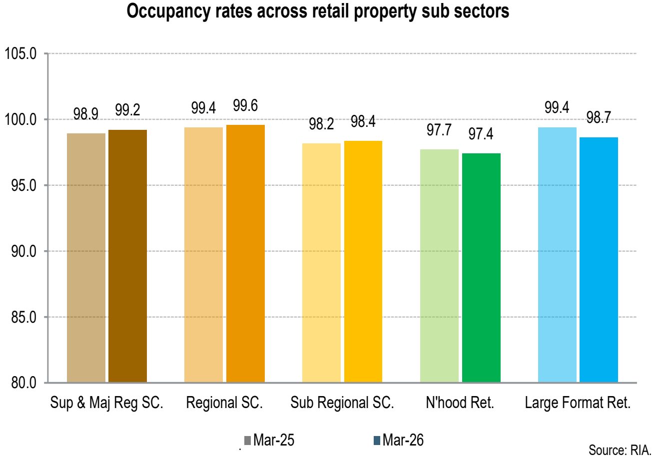
Source: RIA.

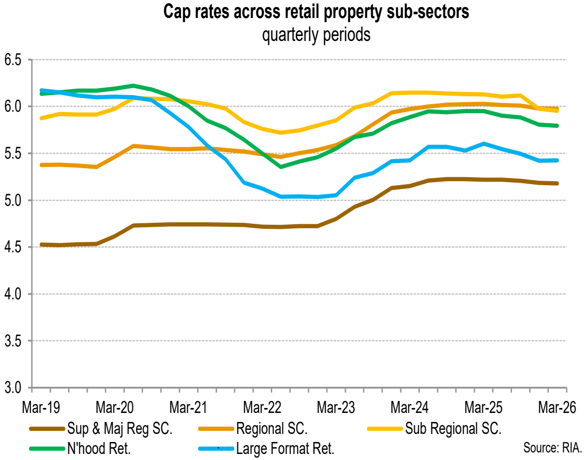
Real Investment Analytics

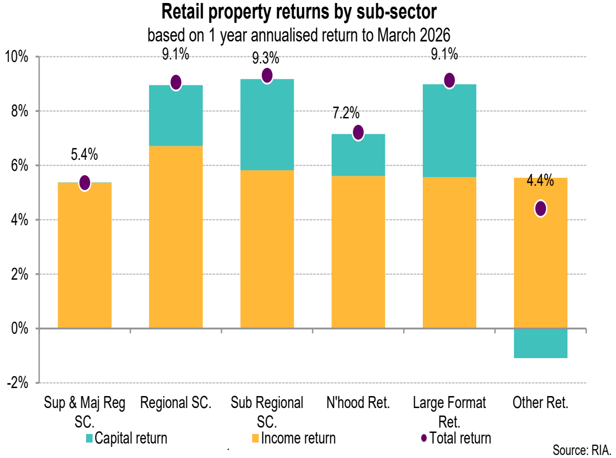
DISTILLERY CAPITAL

Retail Property Sector

Occupancy market conditions generally favourable with cap rates stabilising across all sub-sector markets; returns remain solid across most sub-markets.





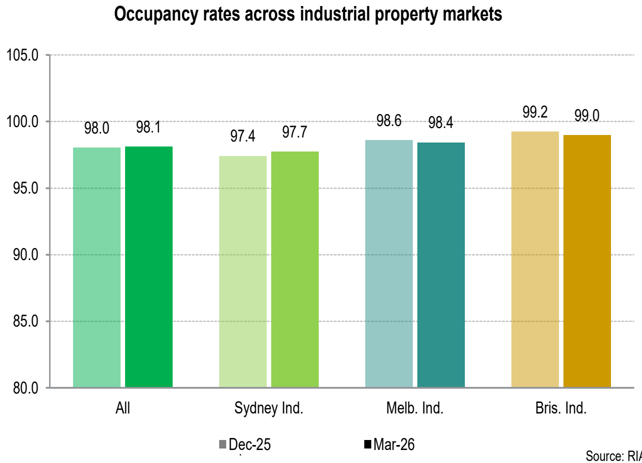


RIA Real Investment Analytics

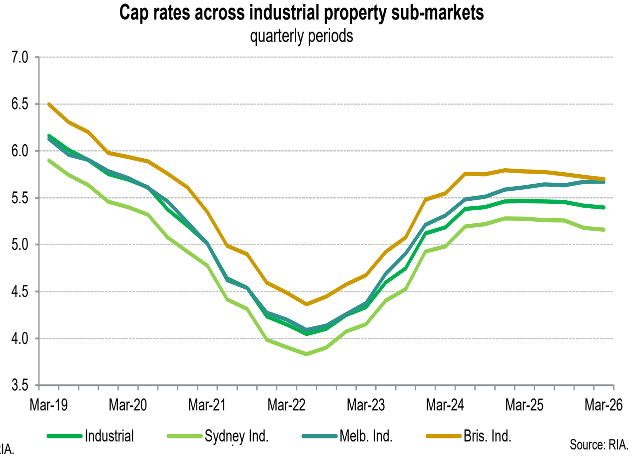
DISTILLERY CAPITAL

Industrial Property Sector

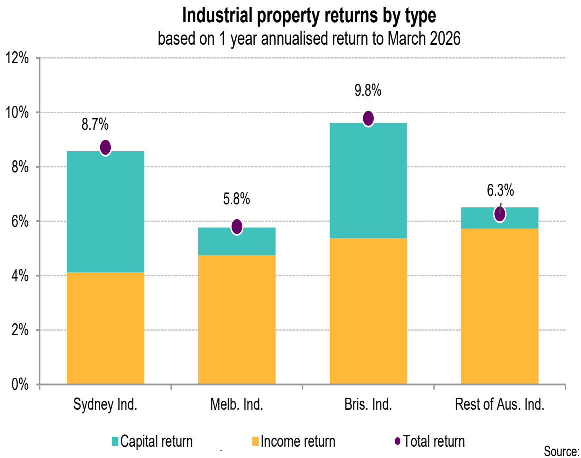
Occupancy market conditions remain favourable while capitalisation rates now stabilised across various product type markets and regional markets; returns post solid performance.



Source: RIA.



Source: RIA.



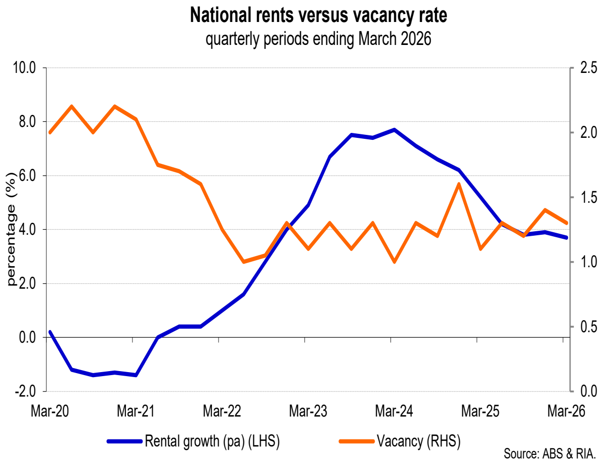
Source: RIA.

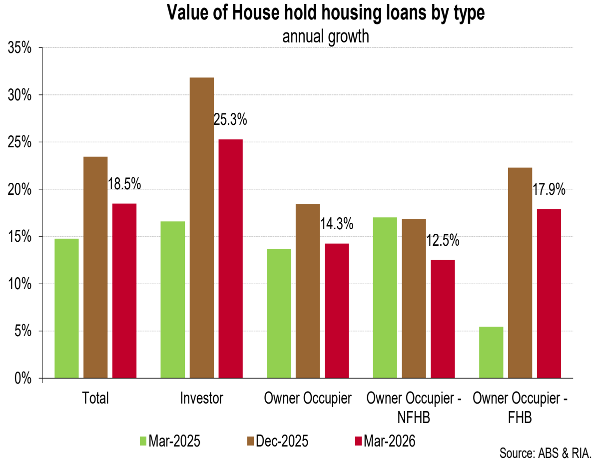
RIA Real Investment Analytics

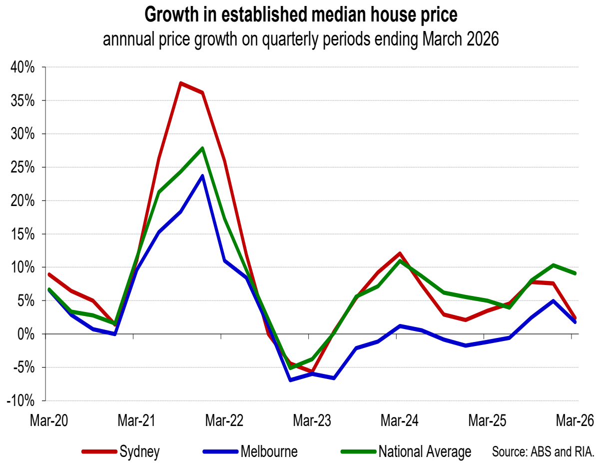
DISTILLERY CAPITAL

Residential Property Sector

Dislocation occurring in housing sector: rental growth solid as vacancies remain low but price growth now moderating with recent sharp falls reported for Sydney and Melbourne.







- **National vacancies sits at 1.2% while annual rental growth hovers around 4%.**

- **Annual growth in total household housing loans has decreased to 18.5%.**
- **However, growth in loans for first home buyers (FHB) has increased while growth decreased in loans for non first home buyers (NFHB).**

- **House price cycle in cooling phase.**
- **Recent auction clearance rates in capital cities falling to 47% - the lowest since the early stages of the Covid pandemic in 2020**

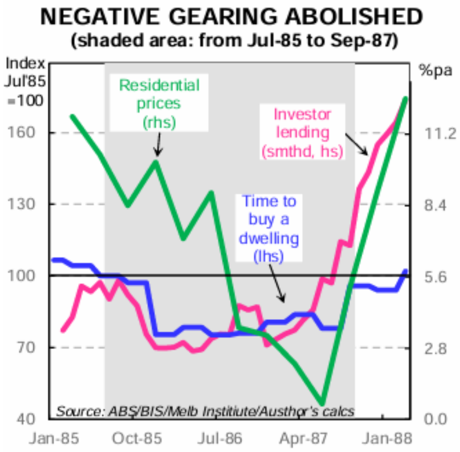
RIA Real Investment Analytics

DISTILLERY CAPITAL

Residential Property Sector

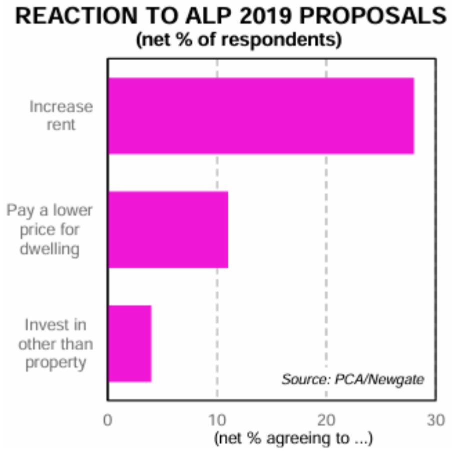
Proposed changes to taxation on housing likely to have an adverse impact on house prices, rents and supply.

Impact of removing negative gearing



- National experience over 1985-1987 suggests that removing negative gearing would reduce supply, lift rents and slow house price growth

Impact of reducing CGT discount from 50% to 25%



- Surveys undertaken by the PCA show that investors would have increased rents, cut prospective purchase prices and shift their focus away from housing.

Summary of proposed tax changes

Negative gearing

- Limited to new construction from 1 July 2027.
- Rental losses on existing properties bought post Budget night (12 May) will be quarantined and offset against other residential property income.
- Apply assets held by individuals, partnerships, companies and trusts (includes SMSFs), excludes MITs and superfunds.

Capital Gains Tax (CGT)

- Replace 50% CGT discount with new cost base indexation.
- Introduce a 30% minimum tax rate on capital gains from 1 July 2027.
- Apply to assets held by individuals, trusts (excludes family trusts), partnerships and companies (with more small businesses eligible for a carve out and tax exemptions being considered for start-ups.

RIA Real Investment Analytics

DISTILLERY CAPITAL

CONTACTS

Real Investment Analytics
Anthony De Francesco
Managing Director
M: +61 438 506 284
E: anthony.defrancesco@rianalytics.com.au

Distillery Capital
Phillip Ransom
Managing Director
M: +61 412 373 439
E: phil.ransom@distcap.com.au

Anthony De Francesco

Phillip Ransom