Real Investment Analytics

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MARCH 2026

The Australian Property Economy Quarterly Update

RIA Real Investment Analytics

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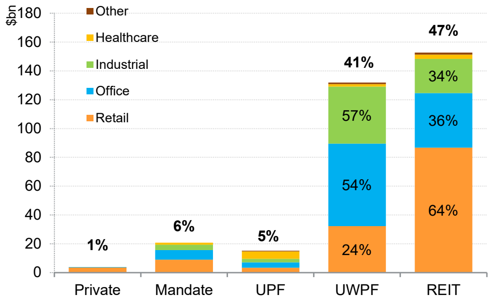
Property Information Source(s)

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 contains approximately 2,100 investments with a current value of $325 billion.

Property exposure by structure and sector
as at December 2025



Source: RIA.

Contents

01 Executive Summary

Short-Term Economic Outlook

Australian economy is poised for positive but softer growth below trend, weighed by tightening monetary policy and importing of global inflationary pressures.

Economic growth

Economic activity above trend growth but set to soften.

Economic activity has been strengthening with Dec 2025 quarterly growth rate of 0.8% and annualised growth of 2.6%.

Per capita growth has also been rising over the last 3 quarters.

The economy to experience softer conditions over the next 12 months with annual growth falling between 2.0-2.5%

Labour market

Labour market conditions remain relatively resilient but set to weaken.

Currently, annual employment growth is weak at 1.0% pa and remains below the long-run average of 1.9%. The unemployment rate remains steady at 4.1%.

We expect labour market conditions to soften over the next 12 months, lifting the unemployment rate towards 4.5% and annual employment growth towards 1.0%.

Inflation and interest rates

The annual headline CPI currently sits at 3.8% for Dec 2025. Well above the RBA's target zone of 2-3%.

The RBA has raised the cash rate twice this year by 50bps.

Overall inflationary pressures are rising due to both domestic and overseas factors, including supply-side shocks from the Iran war.

We expect a further rise in the cash rate of 25bps to occur in Q3 2026.

Retail consumer sector

Retail demand continues to improve with annual growth strengthening in in moving annual turnover **(MAT)**.

This was due to lower interest rates in 2025, easing some of the pressure on household disposable incomes.

However, the recent surge in petrol prices and higher interest rates will place upward pressure on household budgets.

Consumer sector growth likely to dampen in H2 2026.

Short-Term Property Market Outlook

Property sector markets in upswing phase of the property cycle: they converge on asset pricing dynamics but diverge on space market conditions.

Retail property sector

The Retail sector is positioned in an upward phase of the property cycle.

The consumer economy continues to report stronger sales growth, although growth in retail spending is expected to soften over 2026.

Favourable space markets has seen occupancy rise across most sub-sectors; reflected in moderate rise in nominal rentals.

Cap rates have stabilised across retail sub-sector markets.

Office property sector

The Office sector is positioned in an early upward phase of the property cycle.

Occupancy rates have recovered across many CBD markets.

However, incentives remain elevated and rental growth is improving.

Cap rates have stabilised across CBD markets.

Investment opportunity with focus on quality buildings with proximity to amenities.

Industrial property sector

The Industrial sector is positioned in an upward phase of the property cycle.

Space market conditions are moderating although remain relatively tight.

Occupancy rates are still high but are edging downwards in some markets.

Rental growth across all product types and major city markets remains positive.

Cap rates have stabilised across sub-sector markets.

Residential property sector

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

The housing market remains resilient in terms of space market conditions with vacancy rates relatively low and positive rental growth, although slowing.

House price growth remains resilient due to excess demand conditions.

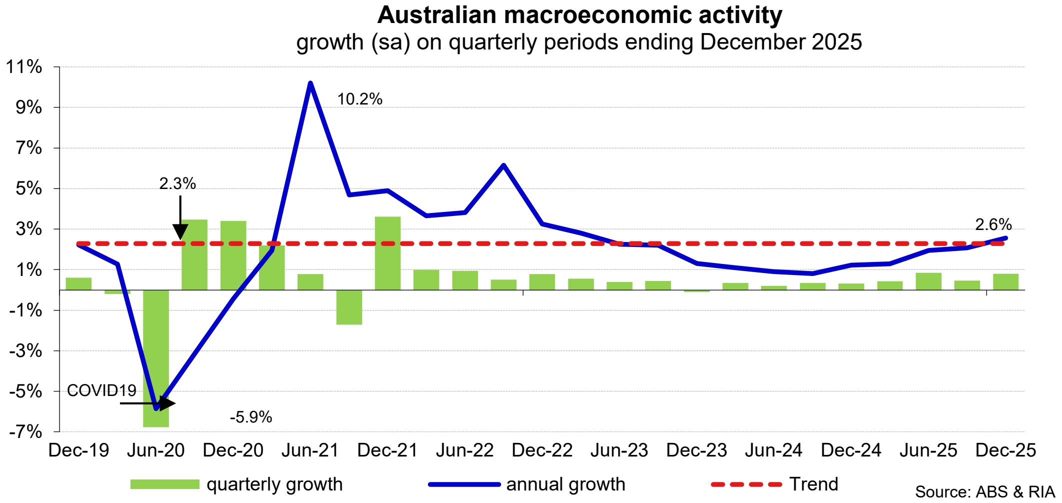
The sector is likely to see a moderation in price growth over 2026 and a decline in selected cities.

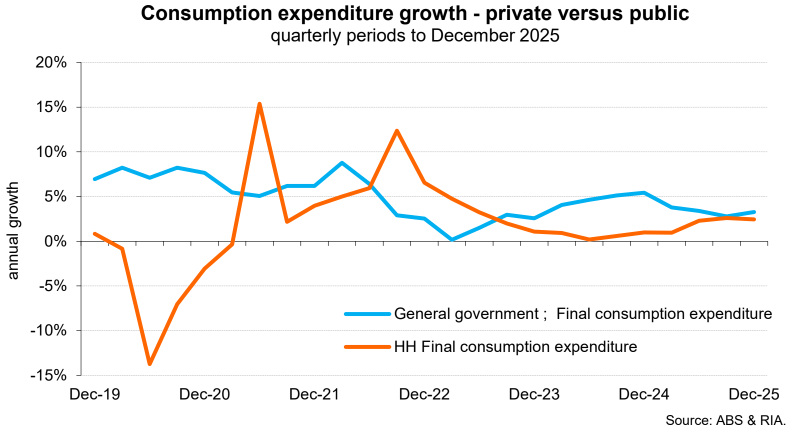
02

The Macroeconomy & Property Investment Markets

The Macroeconomy & Property Investment Markets

Economic growth strengthening: currently above trend growth, underpinned by both private and public spending.





Gross domestic product (GDP) rose 0.8% in the December 2025 quarter and 2.6% over the year.

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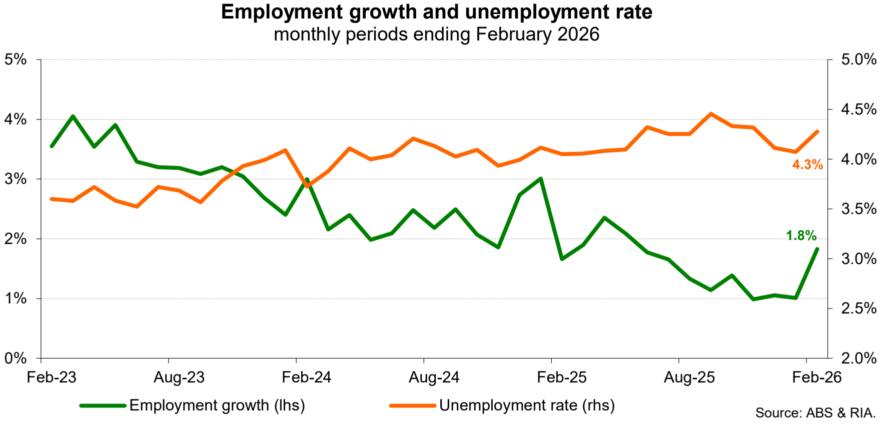
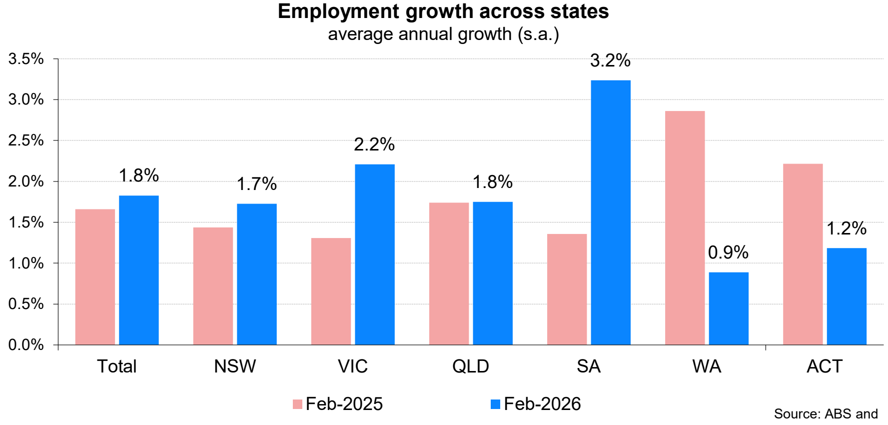
Labour market remains resilient but slightly weaker: unemployment rate rising over recent period but employment growth showing an uptick in growth.



As at February 2026, unemployment rate stood at 4.3% and annualised total employment growth was 1.8%.



Total employment growth was weakest for WA at 0.9% pa; strongest for SA at 3,2% pa.

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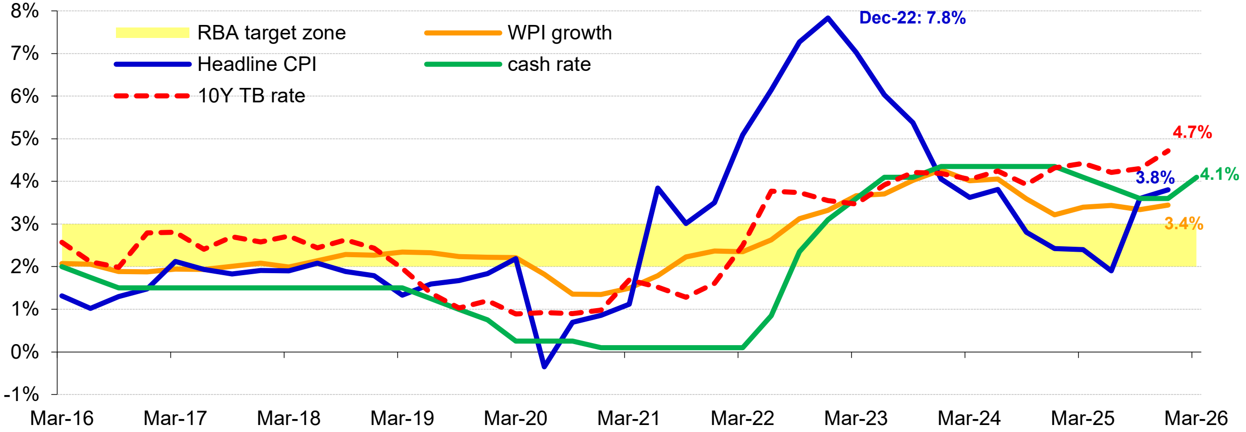
Rising in inflationary pressures has translated into two increases in the cash rate by 50bps so far this year.

CPI inflation versus market interest rates
quarterly periods ending Mar 2026



Source: ABS, RBA & RIA.

Annual CPI inflation stood at 3.8% in December 2025, unchanged over the previous quarter.

- Annual growth in headline CPI for Dec 2025 was 3.8%; above the RBA's target zone
- Annualised CPI reported for January 2026 and February 2026 were 3.8% & 3.7% respectively.
- RBA raised cash rate by 25 bps to 3.85% in February 2026 and a further 25 bps to 4.10% in March 2026.
- Economic aggregate demand remains elevated.
- Low productivity adds to supply-side constraints on economic growth.
- Uncertainty surrounding supply-side shocks due to war in the Middle-East

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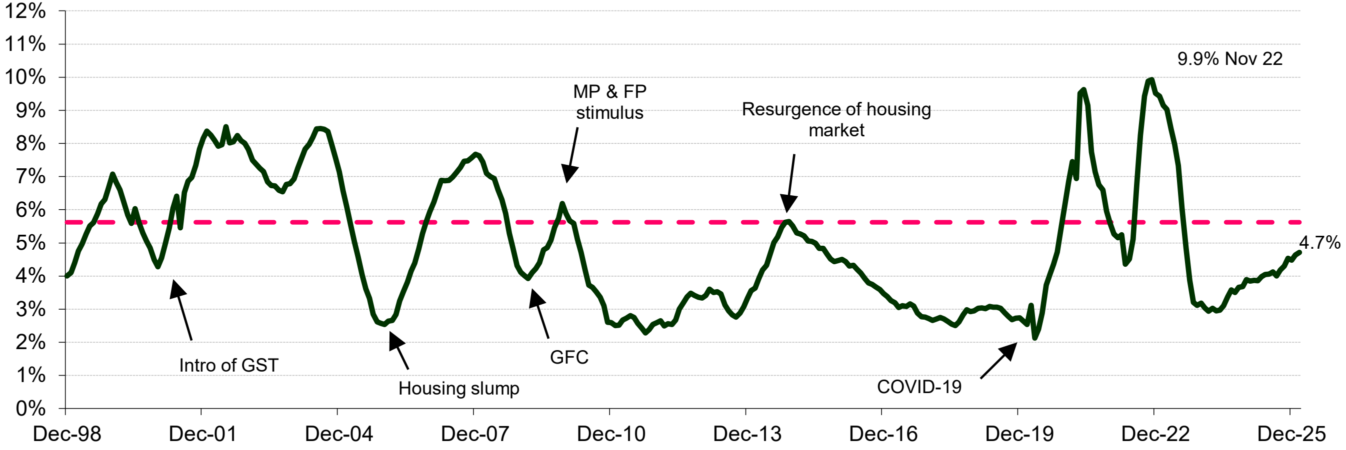
Improving retail demand improving reflected in recovery in retail MAT growth.

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



Note: seasonally adjusted series.

Source: ABS & RIA.

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The Macroeconomy & Property Investment Markets

Iran war – disruptions to energy supply likely to have adverse impacts on economic growth and consumer inflation.

Brent crude (oil) price
closing price, weekly periods ending 9 April 2026

Source: BusinessInsider & RIA.

- Significant supply disruptions to global energy market with reductions in oil and LNG.

Scenario 1 - temporary shock to oil price

- Rising oil prices feed into cost of production and eventually pass through into consumer prices
- Push global economy into cost-squeeze (higher prices cause consumers to pull back on spending)

Scenario 2 – persistence in oil price shock

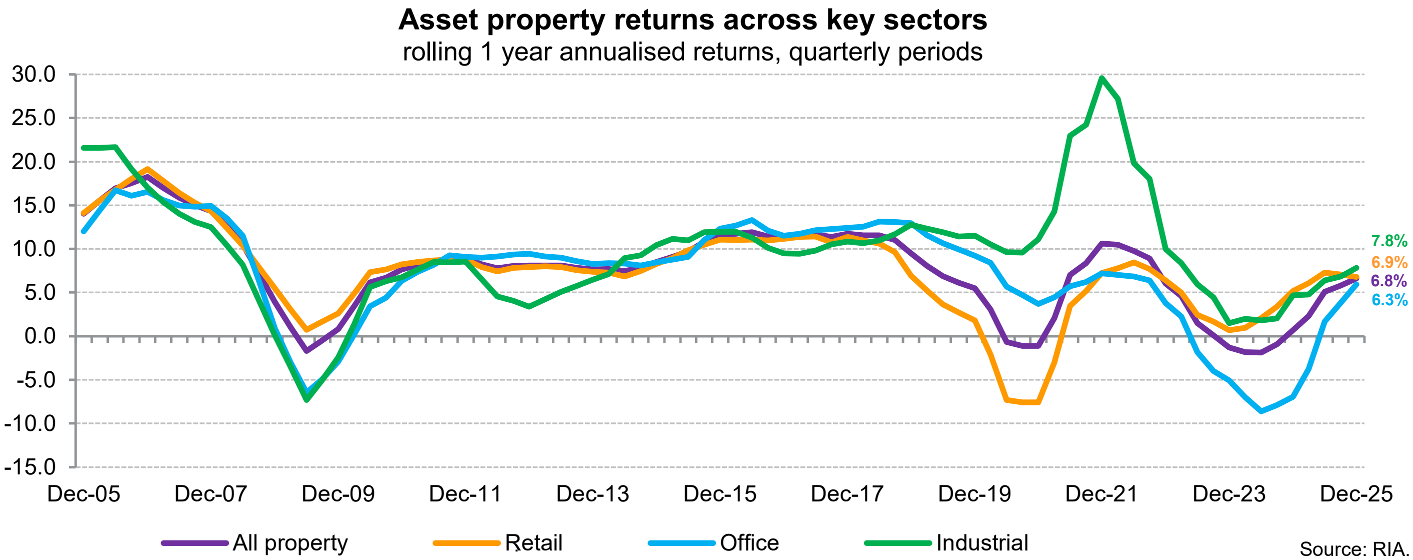
- Likely to lead to ***Stagflation***

  Characterised by rising prices, stagnate economic growth and rising unemployment.

- Similar situation unfolded with the oil crisis of 1970s (Yom Kippur War in Oct 1973 and Iranian Revolution in 1979)

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.



Source: RIA.

As at December 2025, the commercial property market reported annual total return of 6.8%, comprised of 5.4% income return and 1.3% capital return.

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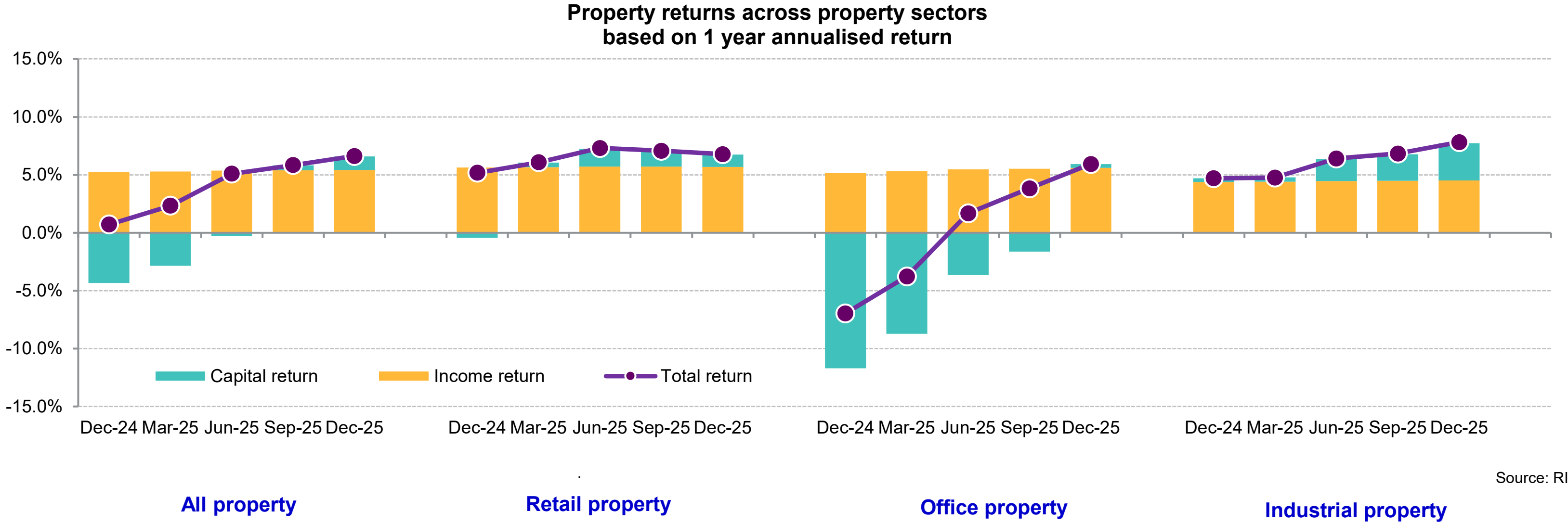
The Macroeconomy & Property Investment Markets

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.

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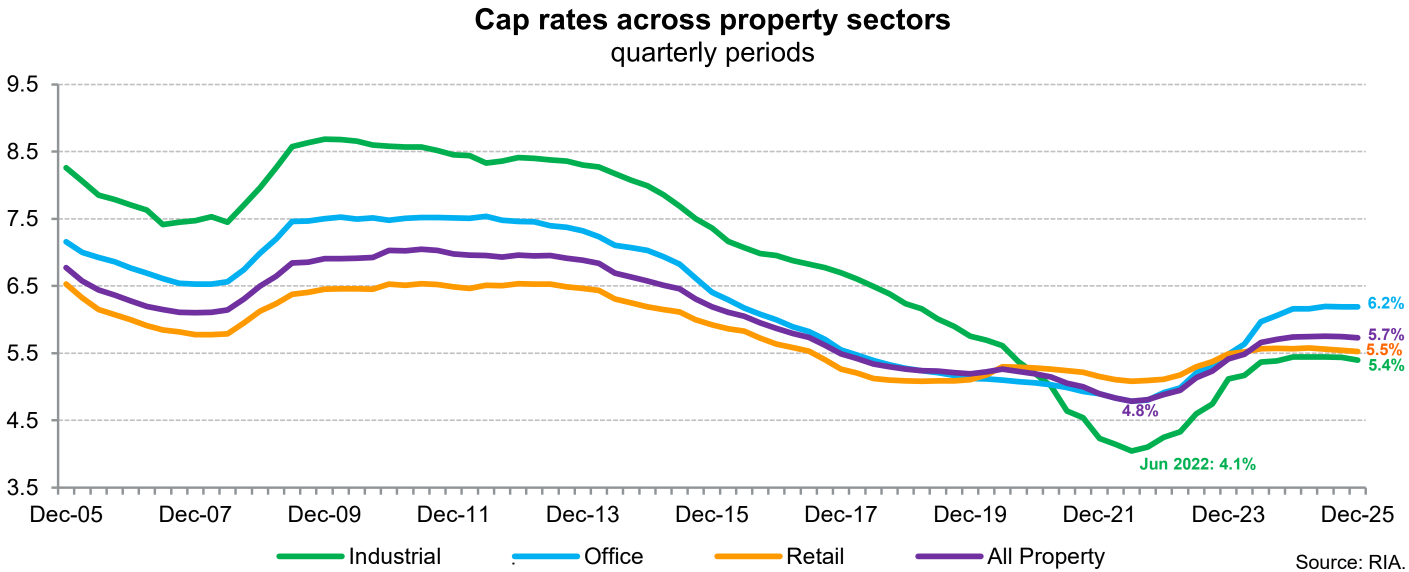
Capital market conditions stabilise: end to decompression cycle with all key property sectors seeing cap rates generally steady.



Source: RIA.

The capitalisation rate for the overall commercial property market was steady over the quarter, at 5.7% in the December 2025.

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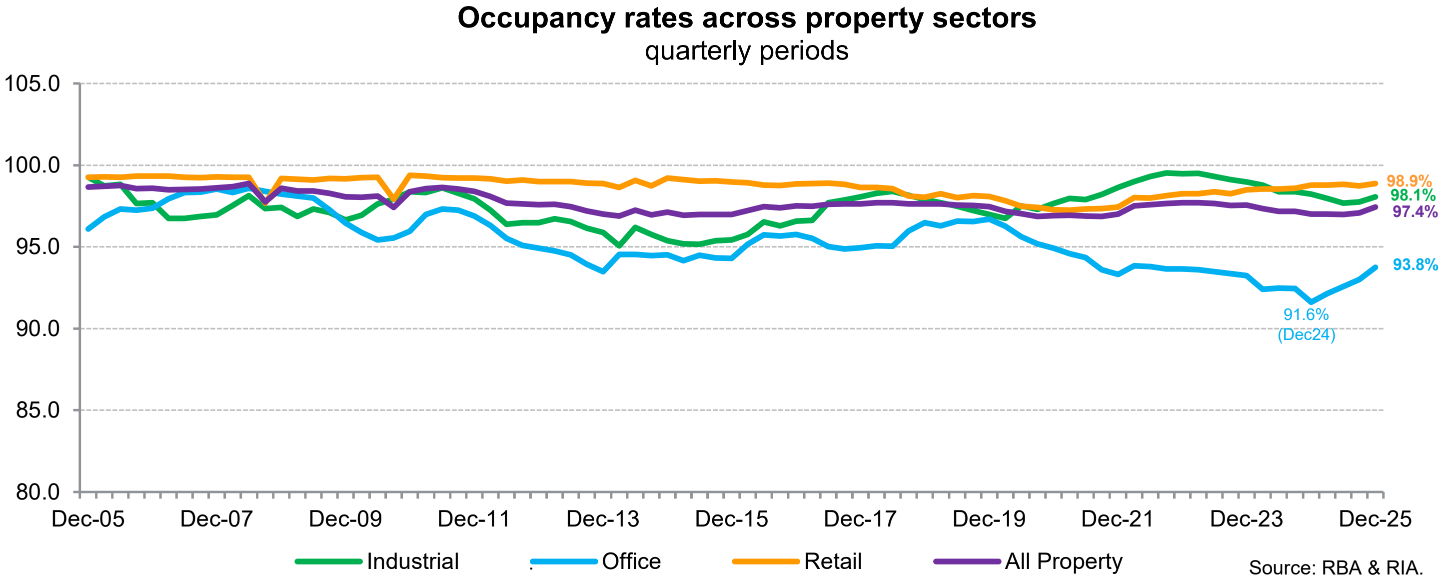
Overall space market conditions starting to improve but vary markedly across key sectors: tight for retail & industrial sectors & improving for office sector.



Source: RBA & RIA.

As at December 2025, the overall commercial property market reported a softer occupancy rate of 97.0%, slightly lower than 97.1% for December 2024.

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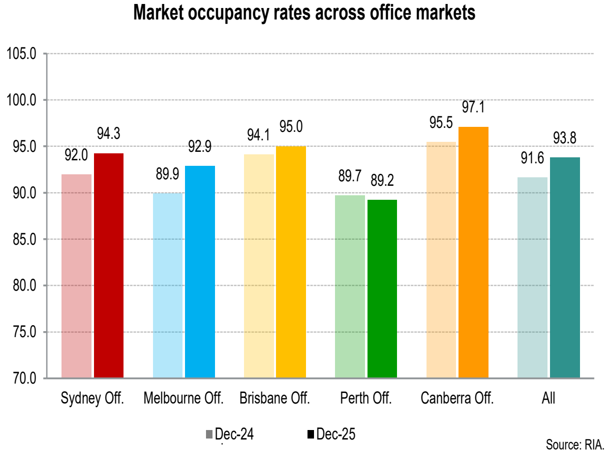
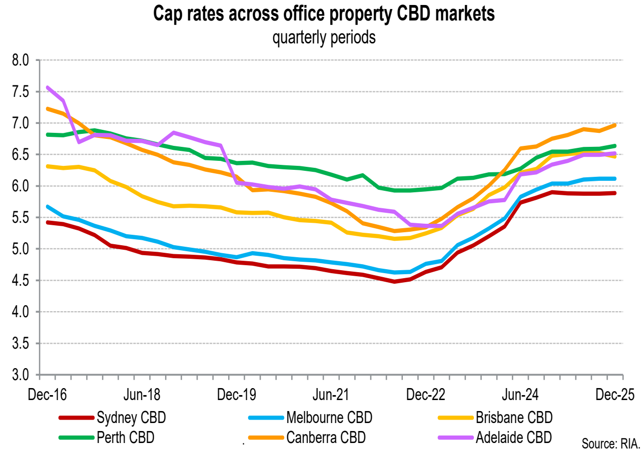
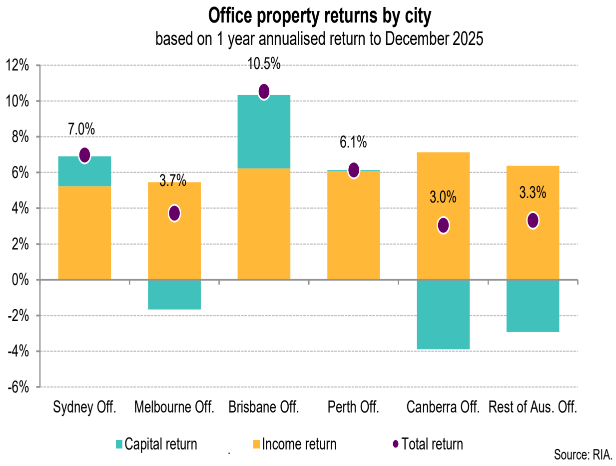
03
Property Sector Markets

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.







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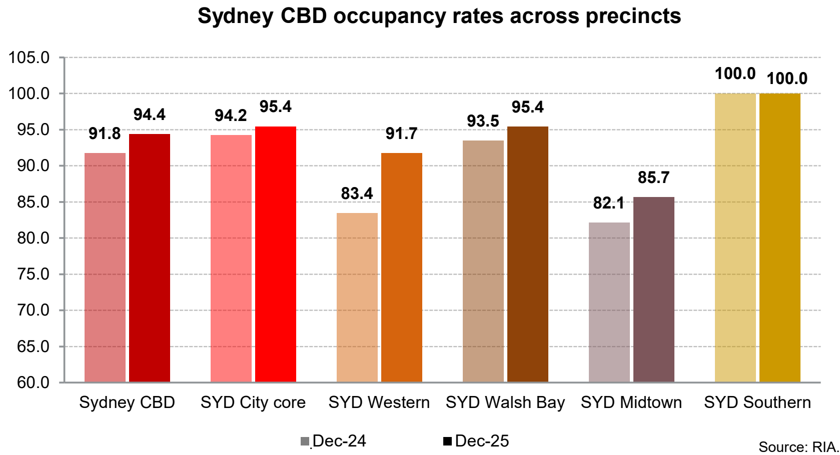
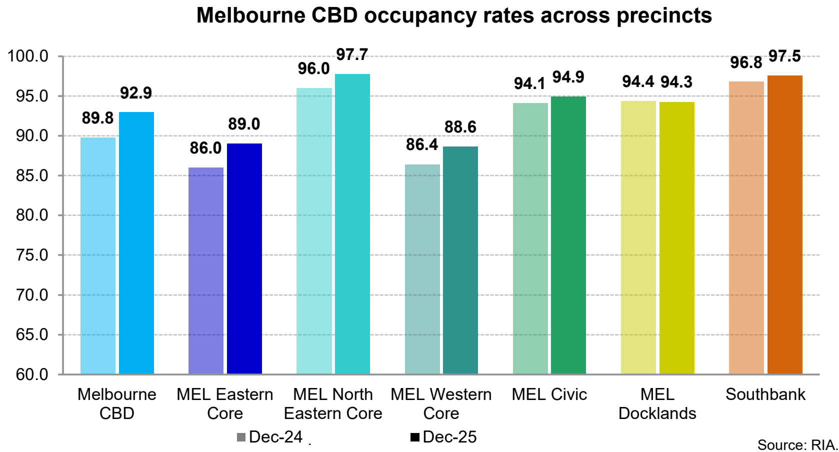
Office Property Sector

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



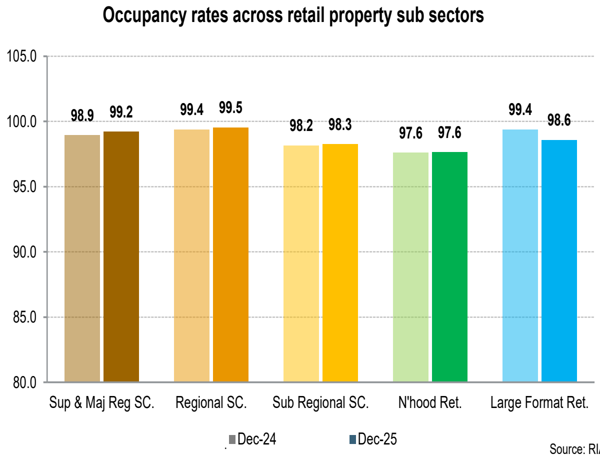
Source: RIA.



Source: RIA.

Retail Property Sector

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



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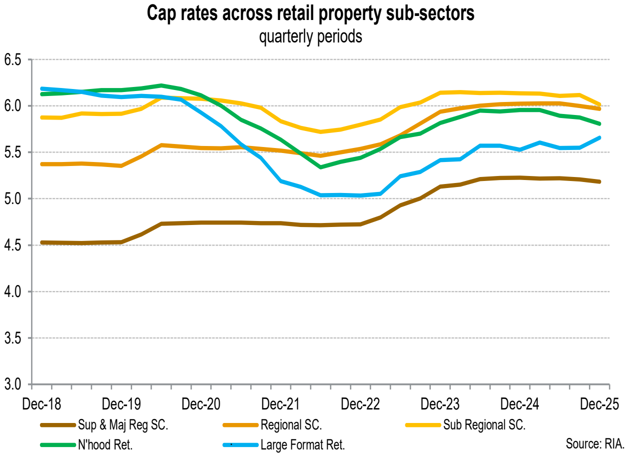

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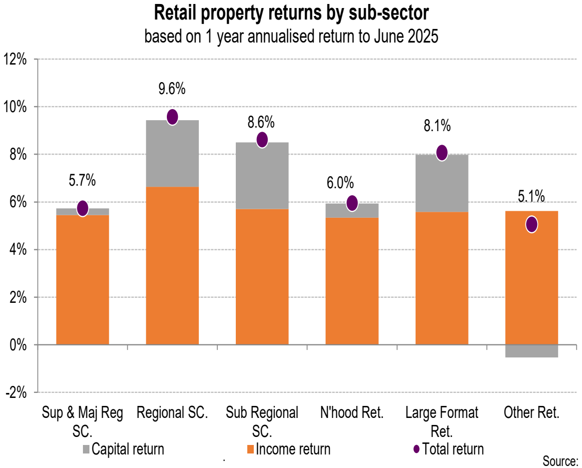

Source: RIA.

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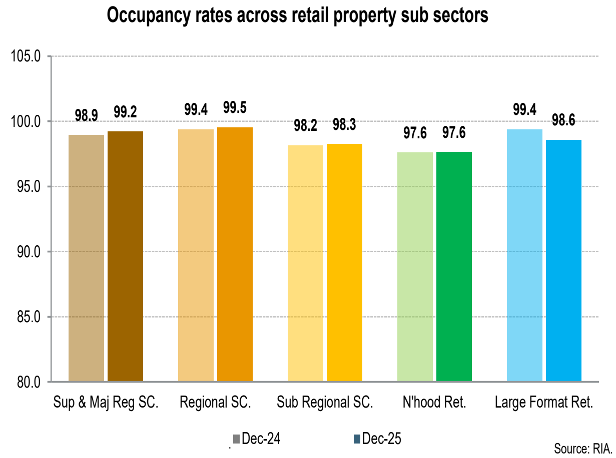
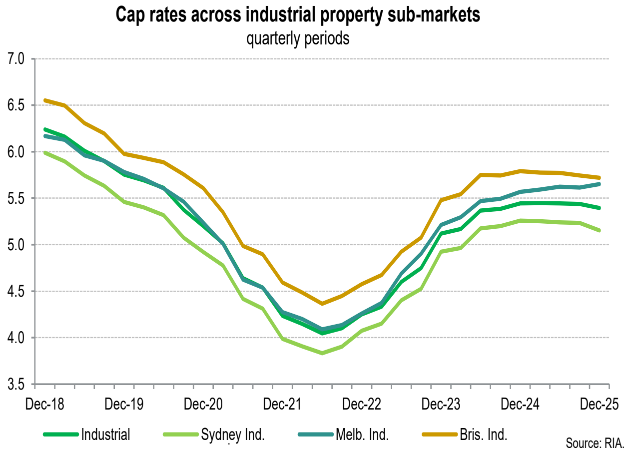
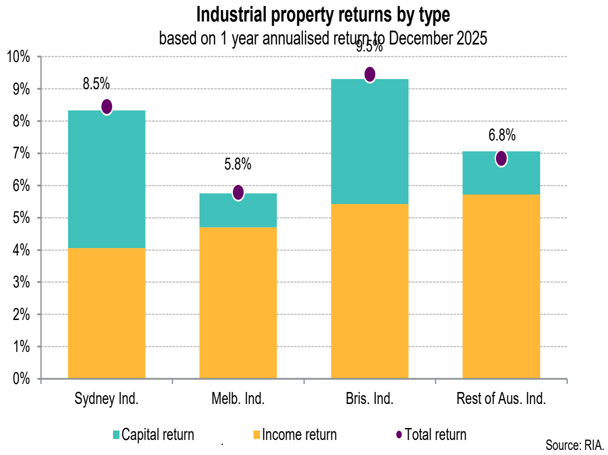
Industrial Property Sector

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







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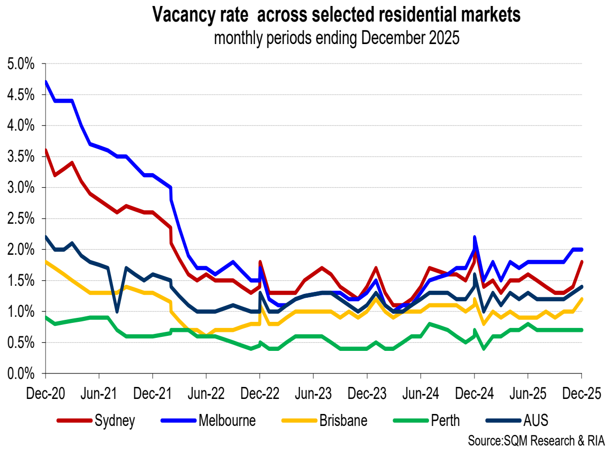
Residential Property Sector

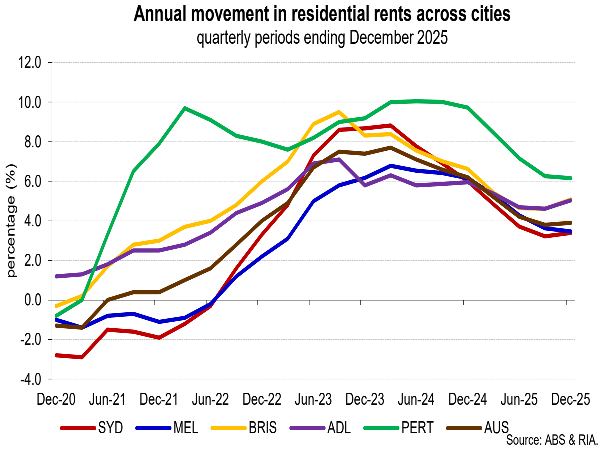
Housing sector remains buoyant; vacancies are low, rental growth solid and price growth strengthening but softer price growth for Sydney and Melbourne markets.

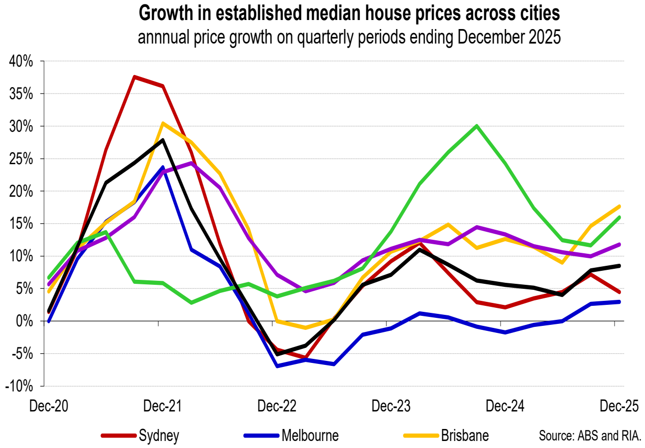
Recent vacancies generally higher across major cities

Rental growth is moderating across most major city markets but early signs of a pick-up

House price growth generally rising but softer for Sydney and Melbourne markets







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04

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 likely to translate 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
- **Inflationary pressures:** from offshore due to rising oil prices. Risk of a stagflation with higher price growth and low growth.

Global risk

- **Imposition of trade barriers**: higher US tariffs on imports disrupting international trade activity.
- **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:** i.e., tension in South-China Sea, Russian-Ukraine war, Gaza-Israel conflict and escalation in Iran war with US & Israel.

Commercial property market risk

- **Investment performance:** commercial property market in early upswing of the cycle; recovery over the year likely to be moderate across key property sectors. Industrial to lead recovery with office property lagging. Australia currently seen as an attractive destination for offshore capital, stimulating competition for institutional asset.
- **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 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.

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