

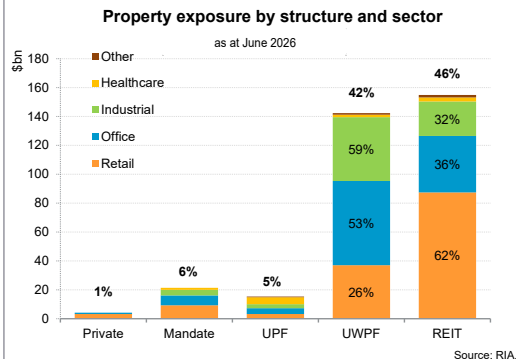
SEP 2026

The Australian Property Economy Quarterly Update

Property Information Source(s)

Aggregated 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 \$340 billion.



Contents

01	Executive Summary	4
02	Risks & Outlook	5-9
03	The Macroeconomy & Property Investment Markets	10-20
04	Property Sector Markets	21
	- Office	22-23
	- Retail	24
	- Industrial	25
	- Residential	26-29

01

Executive Summary

Overview

Commercial property returns edging upwards despite economic headwinds

Over recent quarters, the commercial property market has seen investment returns strengthening. This has been due to a combination of rising occupancy rates and a general stabilisation in cap rates. Notably, the return performance varies across the key property sectors, characterised by different space market conditions and capital market conditions. Industrial property sector led return performance with an annualised total return of 9.7% in the year to June 2026, supported by both relatively tight occupancy rates and a mild compression in cap rates for the Sydney market. The retail property sector delivered a solid annualised return of 8.6%, largely supported by favourable trading conditions whilst cap rates held steady. The office property sector delivered an annualised return of 6.5%, supported by improving occupancy rates and face rental growth despite incentives being elevated and cap rates remaining steady.

Overall, these property sectors are positioned near the peak of the upswing phase of the property cycle but with significant downside risks. These risks reflect a combination of domestic and overseas factors.

Domestically, key risks are focused around: i) sustained period of slower economic growth with current growth dipping below trend growth coupled with low productivity; ii) tightening in monetary policy which is expected to ration lending, constrain consumer spending budgets and curb housing demand; and iii) the adverse flow-on effects of changes to tax policy on housing which has contributed to a downturn in the housing property sector.

Overseas, key risks are focused around: i) recalibration in bond prices which have seen yield curves and longer-term bond maturities shift upwards; and ii) the ongoing regional conflict in the Middle-East is fuelling greater uncertainty surrounding the nature of supply-side shock on the global economy.

It's worth mentioning that the RBA increased the cash rate in September by a further 25 bps, taking the cash rate to 4.6%. This was underscored by the persistence in inflationary pressures and the aim to neutralise the secondary pass-through effects from the global supply shock. We anticipate another rate hike of 25 bps in November this year.

The current downturn in the housing property sector appears to be gaining momentum as price falls are accelerating in the major cities of Sydney and Melbourne and broadening to other major state capital cities. A key feature of the fallout is the rapid rise of insolvencies in the construction sector. A notable case is the recent collapse of the Bathla Group with about \$3.4bn in debts and work halted on 13 sites. This, further highlights the contingent risk for the private credit sector.

02

Risks & Outlook

Short-Term Economic Outlook

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



Economic growth

Economic activity slowing slightly below trend growth.

Economic activity continues to soften with June 2026 quarterly growth rate slowing to 0.4% and annualised growth of 2.1% whilst trend growth sits at 2.2%.

Furthermore, quarterly growth in GDP per capita and labour productivity have both reported nil growth.

We expect the economy to experience slower growth over the next 12 months, averaging 1.2% in 2027.



Labour market

Labour market conditions remain resilient but slightly softer.

Currently, annual employment growth is weak at 1.6% pa and remains below the long-run average of 1.9%. The unemployment rate has edged upwards towards 4.6%.

Employment growth is variable across major cities with an uptick in Sydney and Perth.

We expect labour market conditions to soften further over the next 12 months, lifting the unemployment rate to over 5.0% and annual employment growth towards 0.5%.



Inflation and interest rates

The annual headline CPI currently sits at 4.0% for August 2026, up from 3.5% in July. Trimmed mean inflation was unchanged at 3.6%.

With headline and core inflation above the RBA's 2-3% target band, RBA has raised the cash rate four times in 2026 by 100bps with the latest rise in September taking the cash rate to 4.6%.

At its next meeting in November, the RBA will be considering balancing the risks of persistent inflationary expectations against softer GDP growth and slowing labour market.

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



Retail consumer sector

Retail spending shows moderate growth with annual growth rising towards long-run trend growth.

Growth reflects nominal rise in prices across both discretionary and non-discretionary items. However, the MAT trend growth is showing signs of decelerating.

The ongoing cost-of-living pressures, underpinned by rises in petrol prices and interest rates are set to weaken retail demand.

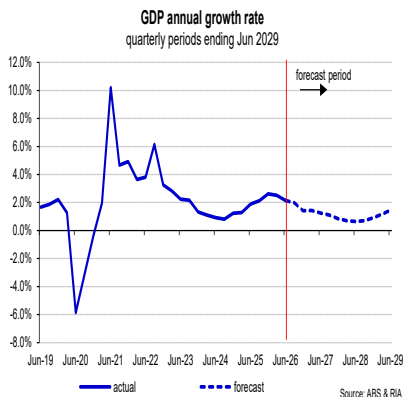
Consumer sector growth likely to experience softer growth in 2027.

Short-Term Economic Outlook

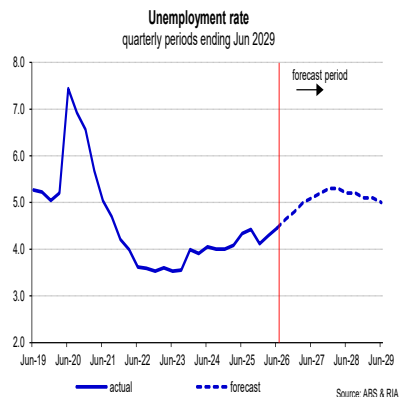
Three-year forecasts for key economic indicators for the Australian economy



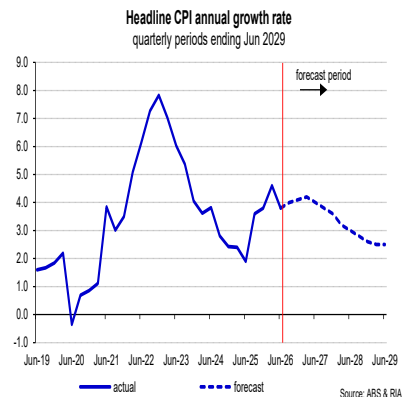
Economic growth



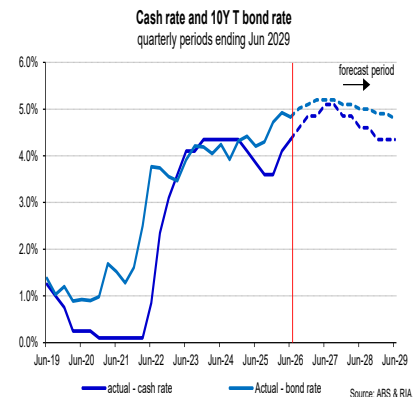
Labour market



Consumer inflation



Interest rates



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 near peak in upswing phase of the property cycle.

Consumer demand continues to drive solid sales growth. However, growth in retail spending is set to ease with rising interest rates and rising cost-of-living.

Favourable space markets have seen occupancy rates remain high across sub-sectors and occupancy costs remain steady. Rents are posting moderate nominal rental growth. Cap rates continue to hold steady across sub-sector markets.

The sector is likely to enter softening phase in Q1 2027.



Office property sector

The Office sector is near peak in upswing phase of the property cycle.

Occupancy rates continue to recover across many CBD markets but vary across CBD precincts.

Despite elevated incentives, growth in face rentals is improving but varies across grade and markets.

Cap rates have stabilised but vary across CBD markets. 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 over the next 12 months with softer demand.



Industrial property sector

The Industrial sector is near peak in upswing phase of the property cycle.

Space market conditions remain relatively tight.

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

While cap rates are generally stable, they have shown some firming in the Sydney market.

Investment returns remain favourable to competing sectors.

The sector is likely to remain near cycle peak throughout 2026 and H1 2027.



Residential property sector

The Residential sector is positioned in the downturn 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.

However, since the recent Federal budget announcement on tax changes to housing, coupled with successive interest rate rises, house prices are now falling across major city markets.

The sector is likely to experience falling prices and rising rents over 2027.

Risk factors

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

Domestic risk

- **Sluggish economic activity:** persistent global energy supply-side shocks coupled with below trend growth raises the prospect of the economy experiencing stagflation conditions in 2027. Also, the political rhetoric on reducing immigration is likely to have a significant adverse effect on growth if translated into policy.
- **Excessive monetary policy tightening:** rising cash rate will ration lending, constrain consumer spending budgets and curb housing demand; likely to translate to a softer labour market.
- **Fallout of changes to tax policy on housing:** changes have contributed to a downturn in the housing sector; house prices are falling; rents are rising and growth in housing stock stalls.

Global risk

- **Bond markets:** upward movement in long-term bond rates has seen a significant shift in the yield curve as markets factor in persistent inflationary pressures. This is likely to adversely affect equity markets and property markets.
- **Geopolitical issues remain elevated:** The Russia–Ukraine war and the US–Iran conflict continue to disrupt food and energy supply chains. The Iran-US conflict seems unlikely to reach any kind of resolution until after the mid-term US election.

Commercial property market risk

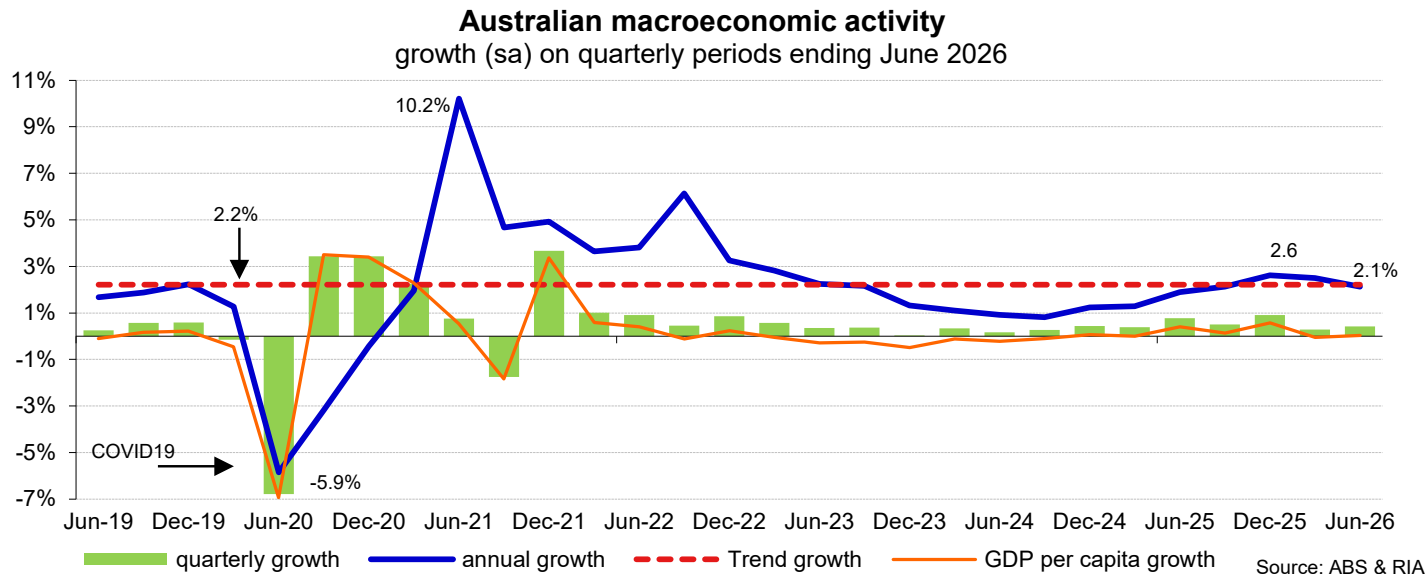
- **Investment performance:** commercial property market recovery is moderating with its nature (extent and duration) based on the slowdown in economic activity and the stance of monetary policy.
- **Occupancy market conditions:** slightly softer occupancy rates as demand weakens with softer labour market. 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

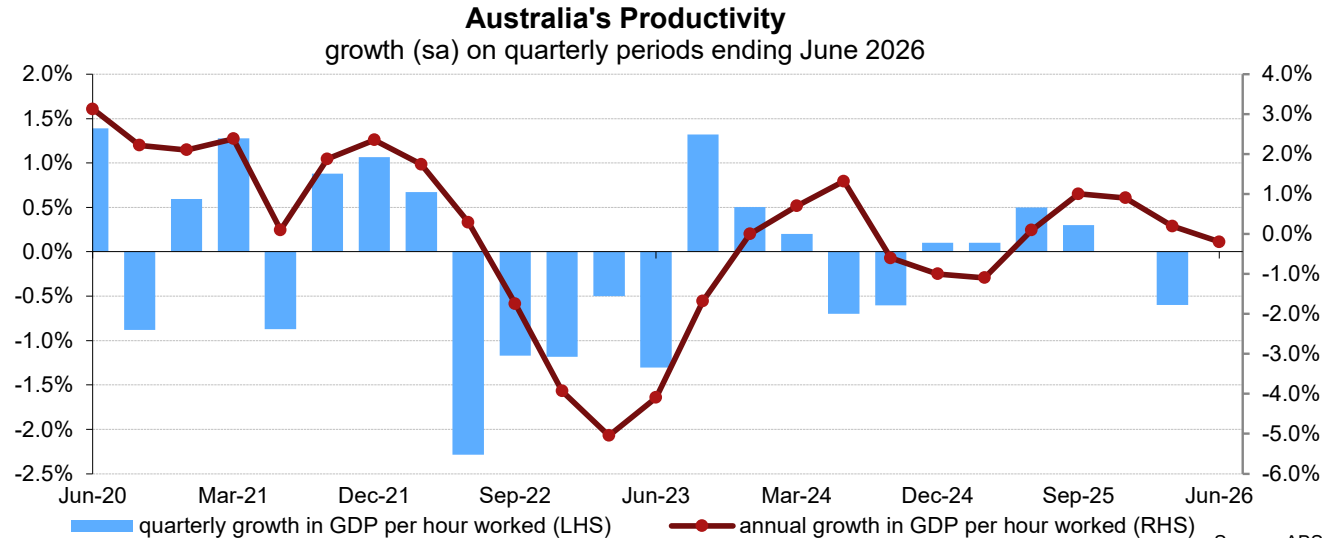
Economic activity has been sluggish in post-COVID period; the recent modest growth places the economy slightly below trend growth.



- Gross domestic product (GDP) rose 0.4% in the June 2026 quarter and 2.1% over the year.
- GDP per capita growth was nil over the June quarter 2026.

The Macroeconomy & Property Investment Markets

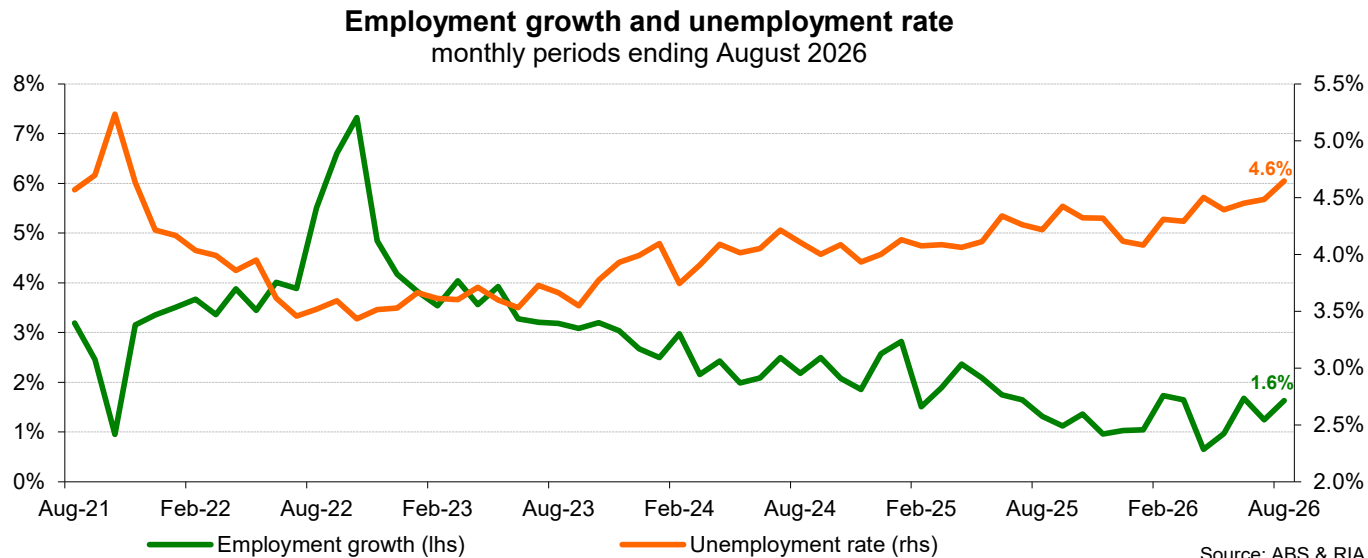
Low labour productivity ... places a cap on growth due to capacity constraints.



Source: ABS & RIA

The Macroeconomy & Property Investment Markets

Labour market remains resilient but slightly softer: unemployment rate rising over recent period but employment growth positive but generally soft.

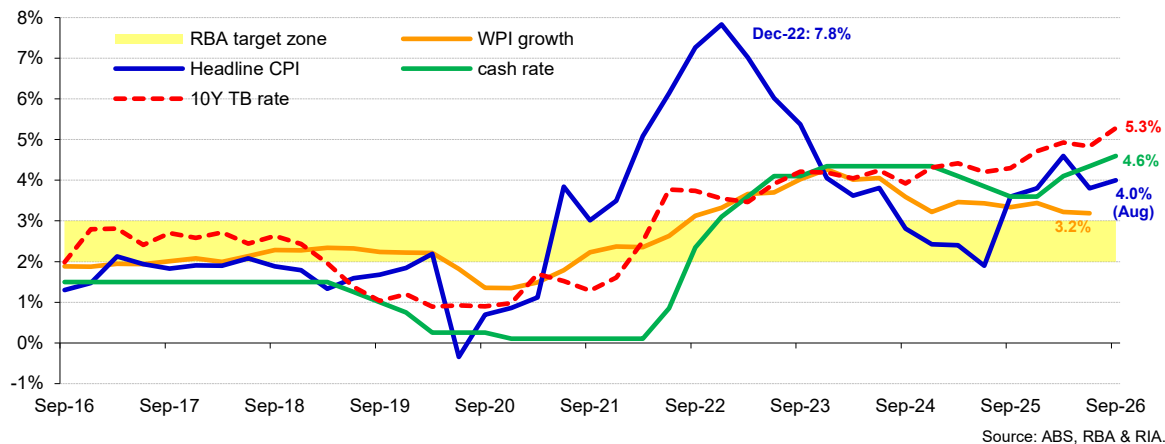


- As at August 2026, unemployment rate stood at 4.6% and annualised total employment growth was 1.6%.

The Macroeconomy & Property Investment Markets

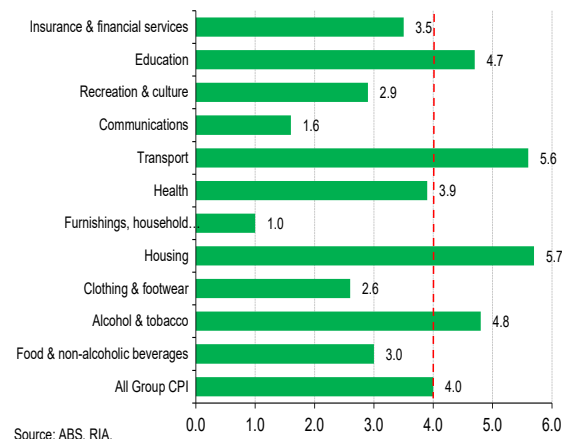
Rising inflationary pressures is translating into higher interest rates ... inflation underpinned by both domestic and overseas factors.

CPI inflation versus market interest rates
quarterly periods ending September 2026



- Annual CPI inflation stood at 4.0% in August 2026, up from 3.5% in July 2026.
- In contrast, core inflation remained steady at 3.6% pa.

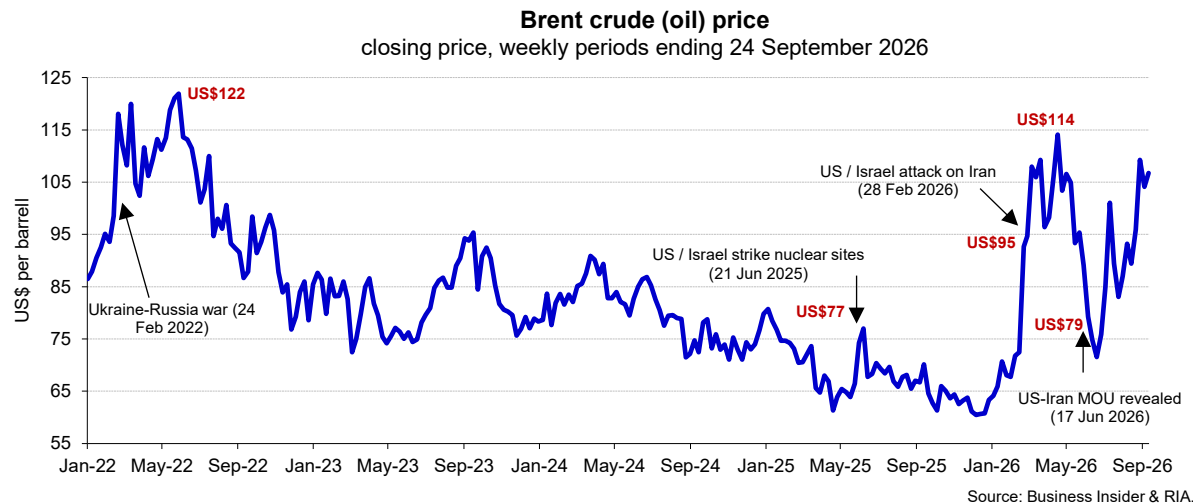
CPI inflation across consumption groups
annual growth to August 2026



- Annual inflation was strongest in Transport (+5.6%), Housing (+5.7%), amid rising costs of electricity, new homes and rents, Alcoholic beverages & tobacco (+4.8%) and Education (+4.7%).

The Macroeconomy & Property Investment Markets

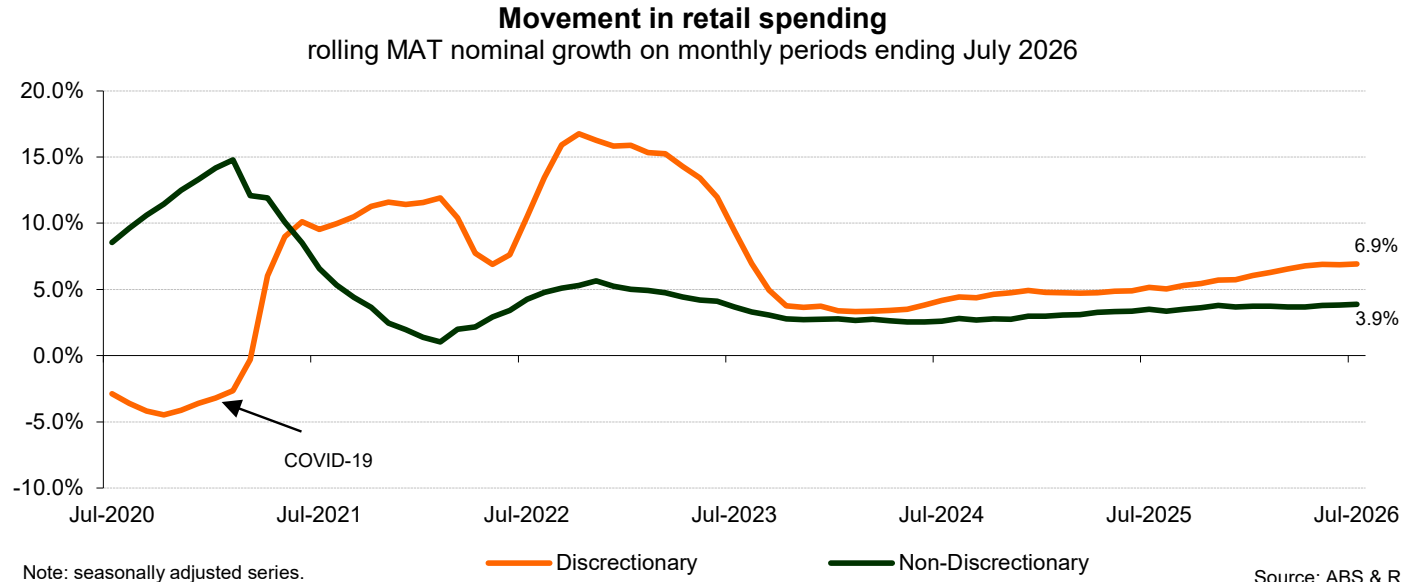
External supply shock – disruptions to energy supply has seen world oil prices rise ... concern that ongoing issue will lead to persistent inflation.



- 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
- Pushes the global economy into a cost squeeze (higher prices) causing consumers to pull back on spending.
- Fighting resumed in July and Brent crude price was back above US\$105 by mid-September.
- Resolution is “unlikely until after the US mid-terms.

The Macroeconomy & Property Investment Markets

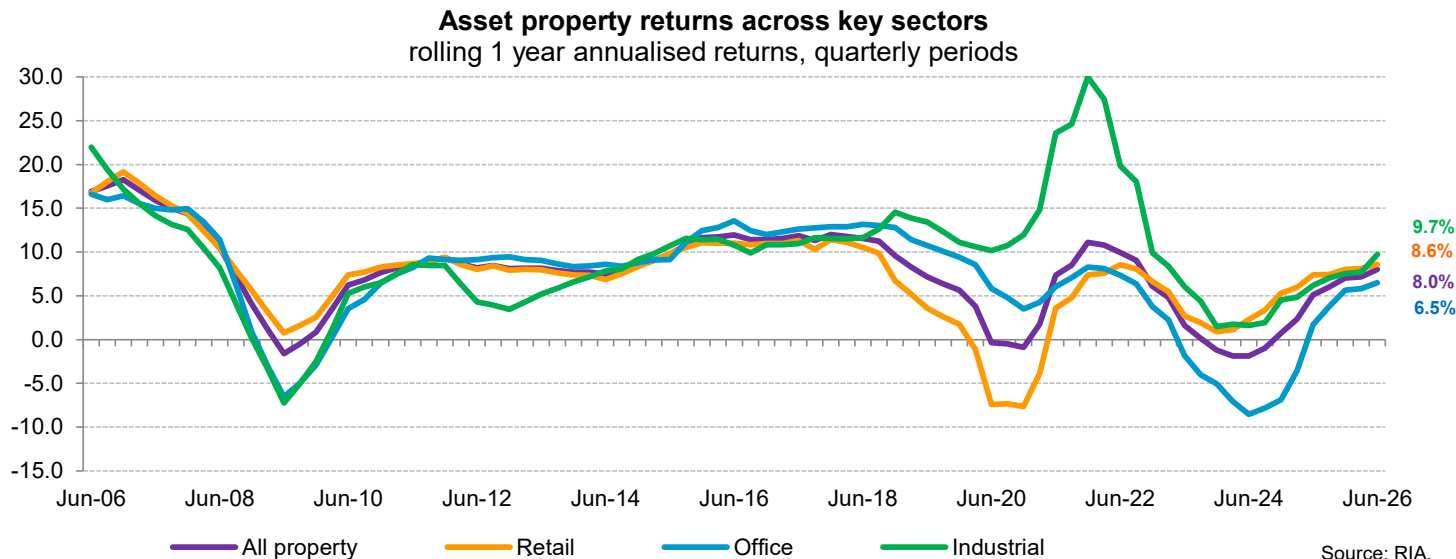
Consumer retail spending posts moderate growth ...discretionary outpaces non-discretionary spending.



- Annual growth in retail spending stood at 6.1% as at July 2026. MAT growth stood at 5.2% for the same corresponding period.

The Macroeconomy & Property Investment Markets

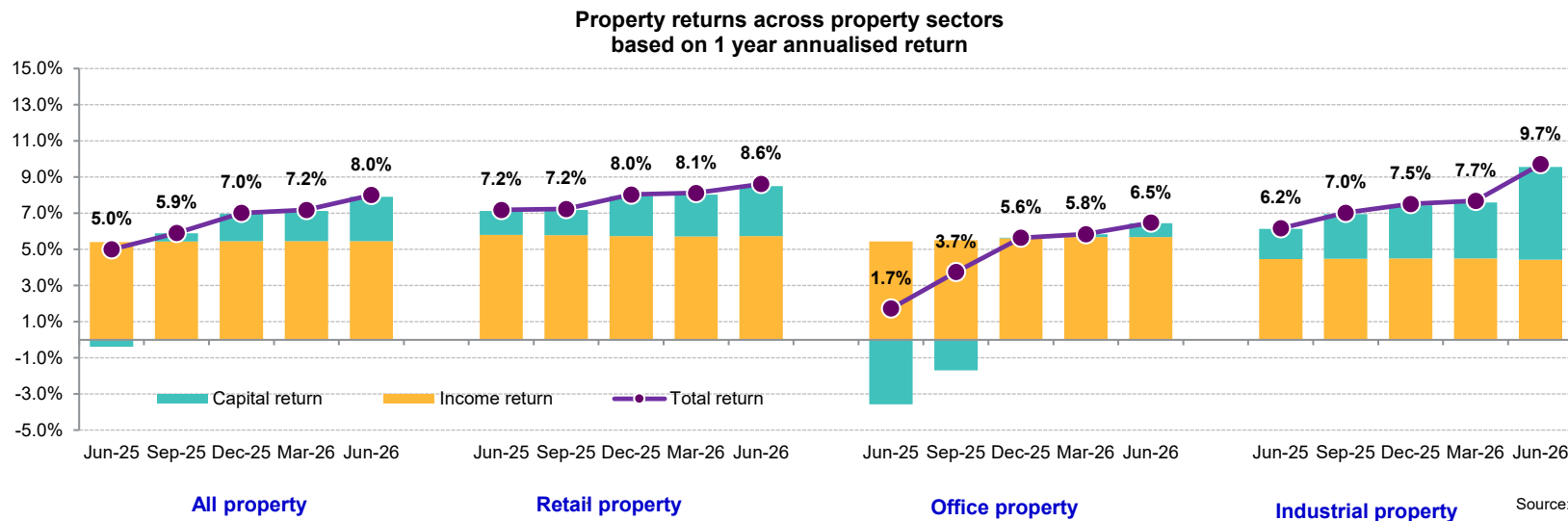
Commercial property investment market in upswing phase of the cycle: returns for all key property sectors improving with industrial sector showing the strongest return.



As at June 2026, the commercial property market reported annual total return of 8.0%, comprised of 5.4% income return and 2.5% capital return.

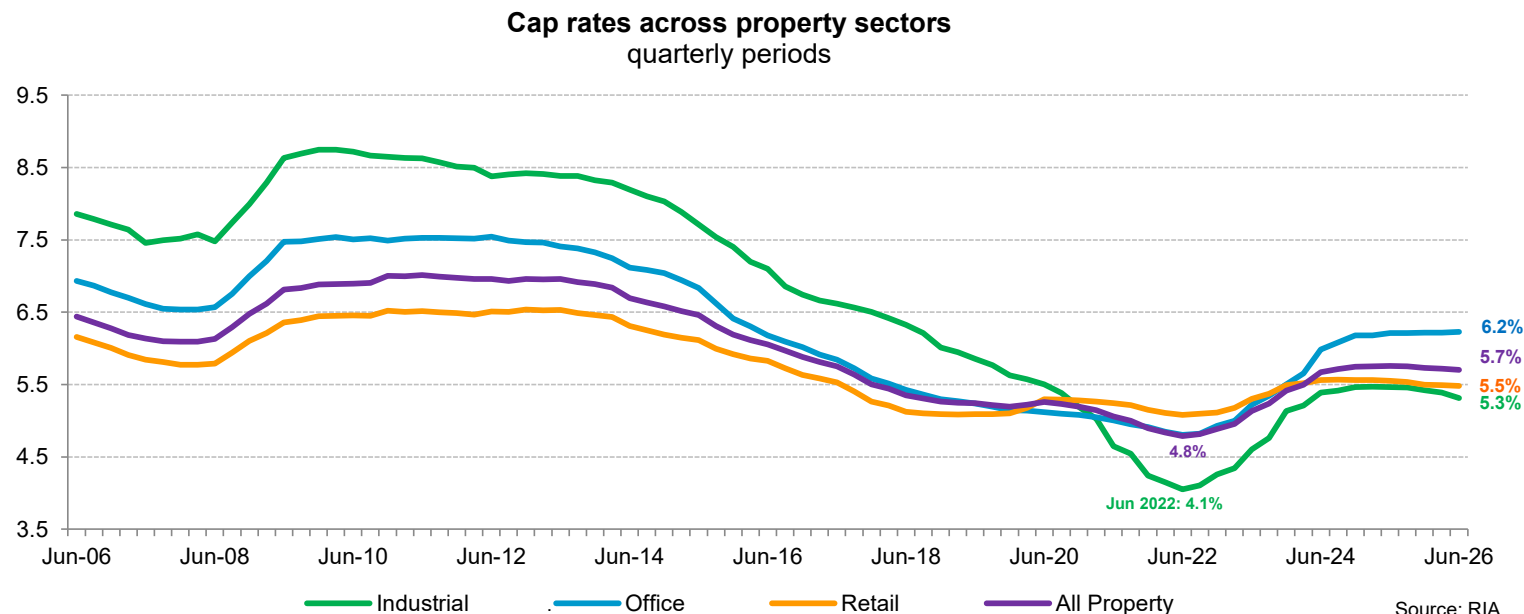
The Macroeconomy & Property Investment Markets

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



The Macroeconomy & Property Investment Markets

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

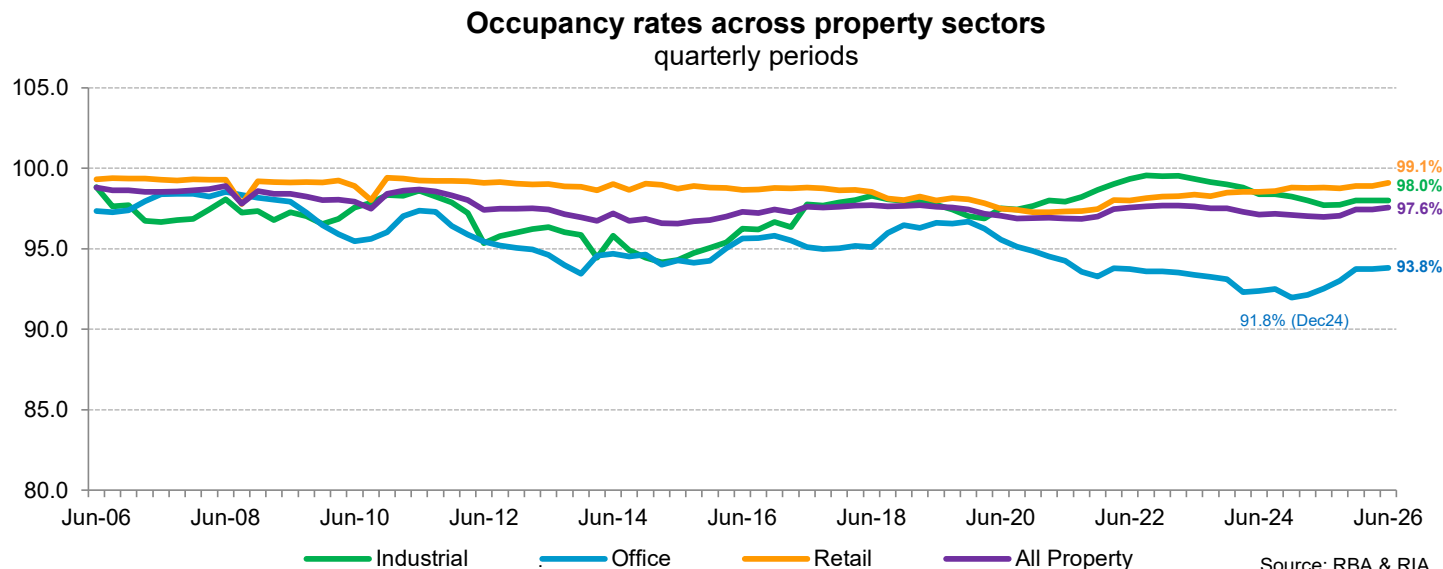


Source: RIA.

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

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 June 2026, the overall commercial property market posted an occupancy rate of 97.6%.

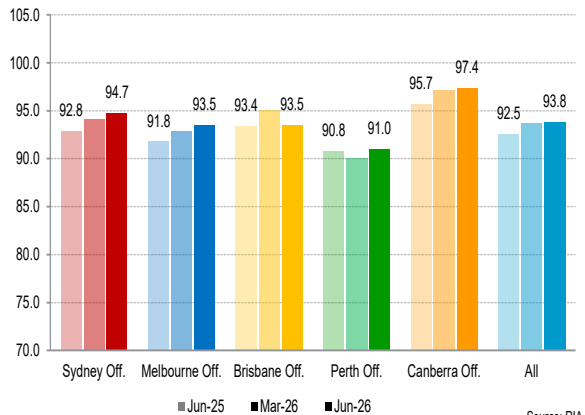
04

Property Sector Markets

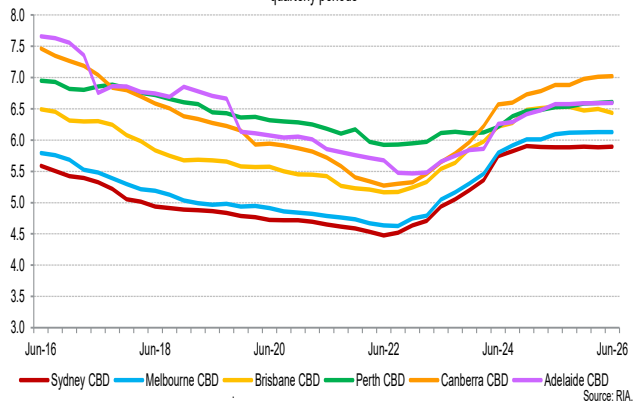
Office Property Sector

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

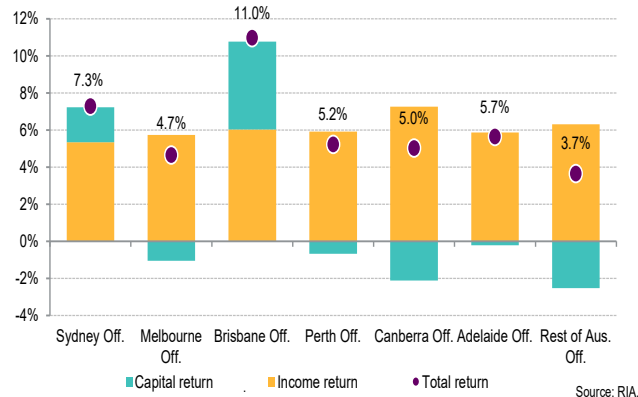
Market occupancy rates across office markets



Cap rates across office property CBD markets
quarterly periods



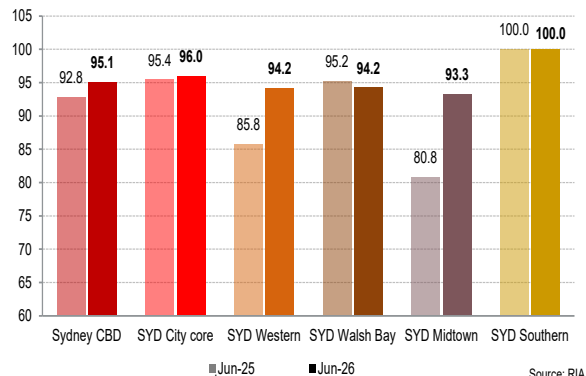
Office property returns by city
based on 1 year annualised return to June 2026



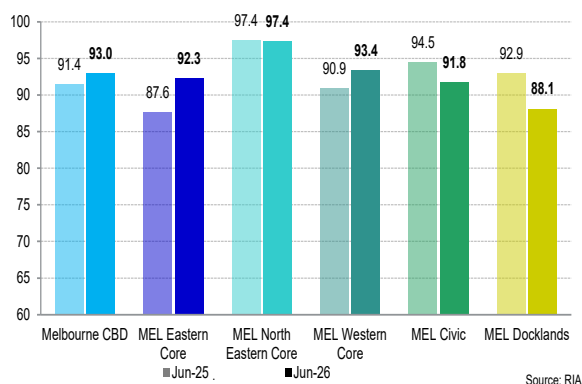
Office Property Sector

Office space market conditions generally improving reflected in rising occupancy rates across precincts for Sydney, Melbourne and Brisbane CBD markets.

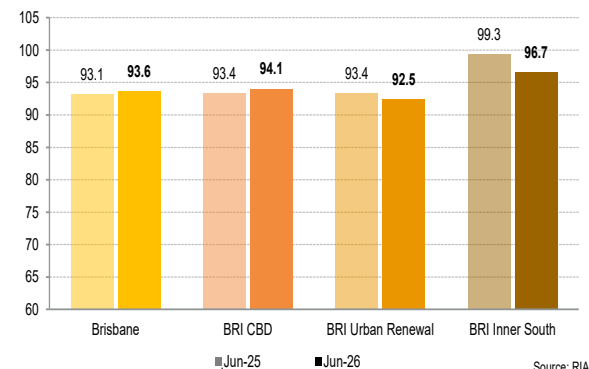
Sydney CBD occupancy rates across precincts



Melbourne CBD occupancy rates across precincts



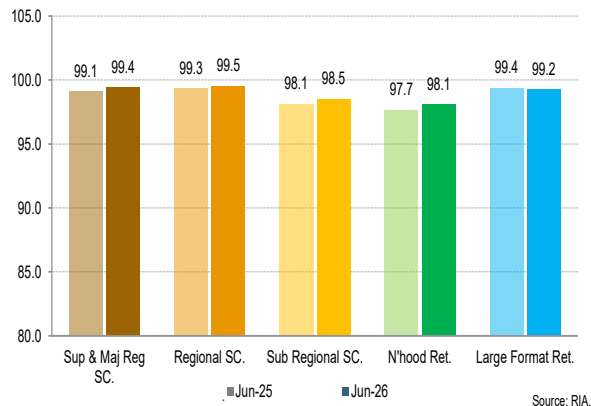
Brisbane occupancy rates across precincts



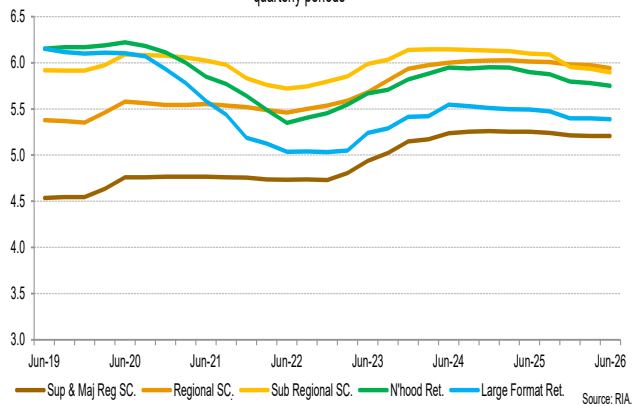
Retail Property Sector

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

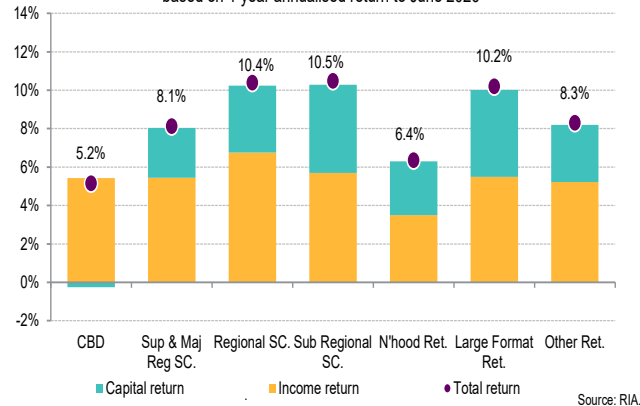
Occupancy rates across retail property sub sectors



Cap rates across retail property sub-sectors quarterly periods



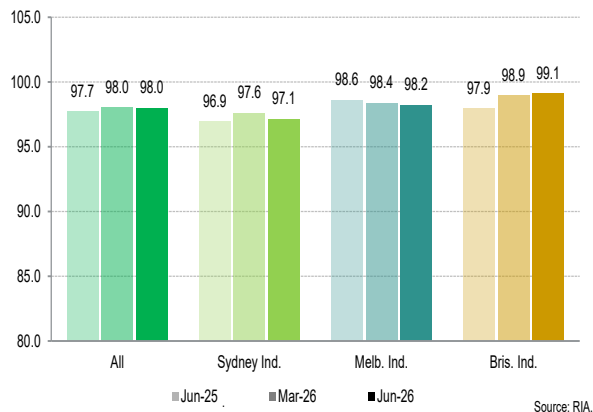
Retail property returns by sub-sector based on 1 year annualised return to June 2026



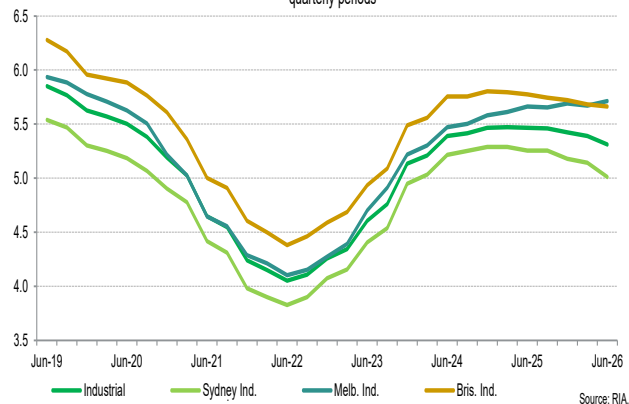
Industrial Property Sector

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

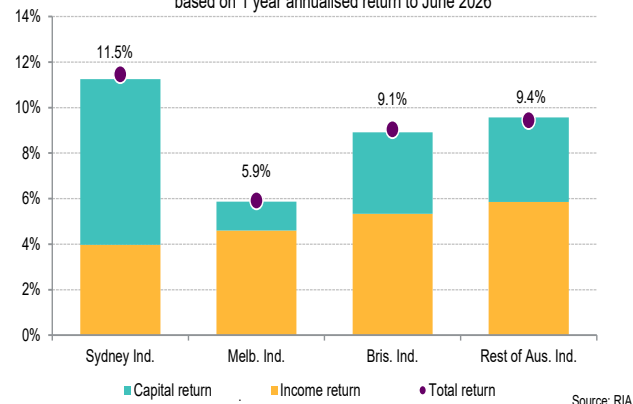
Occupancy rates across industrial property markets



Cap rates across industrial property sub-markets
quarterly periods

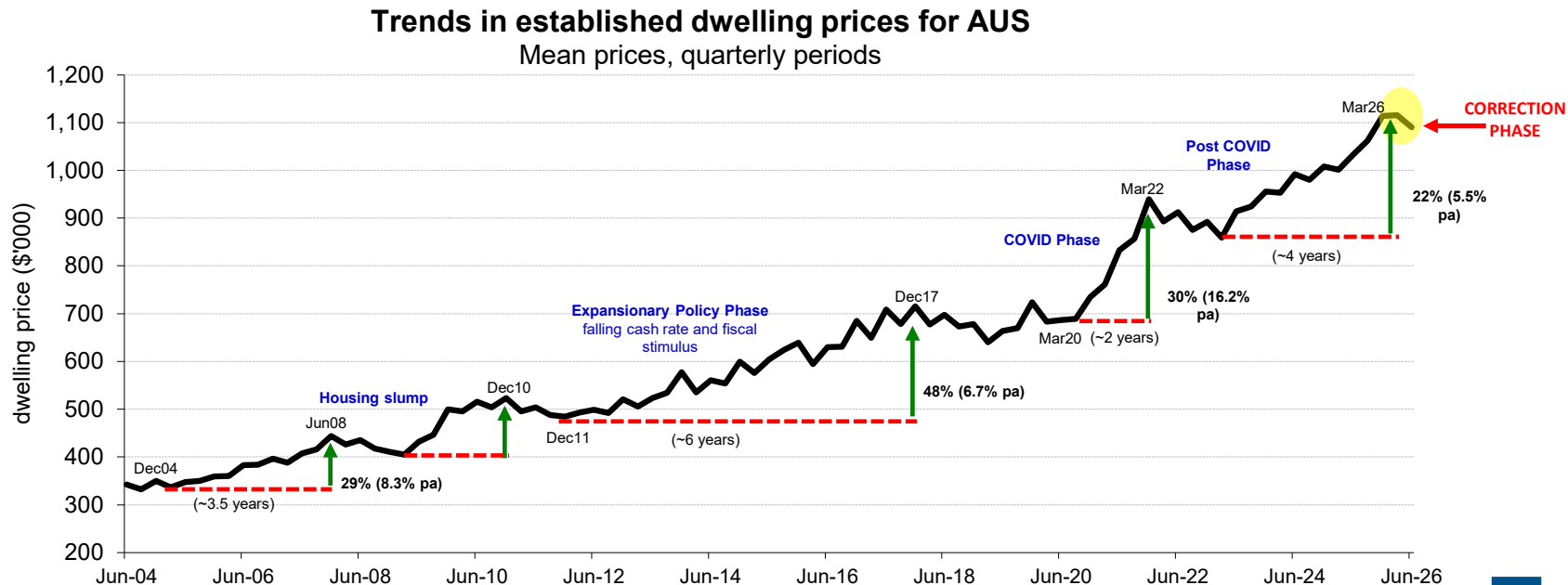


Industrial property returns by city
based on 1 year annualised return to June 2026



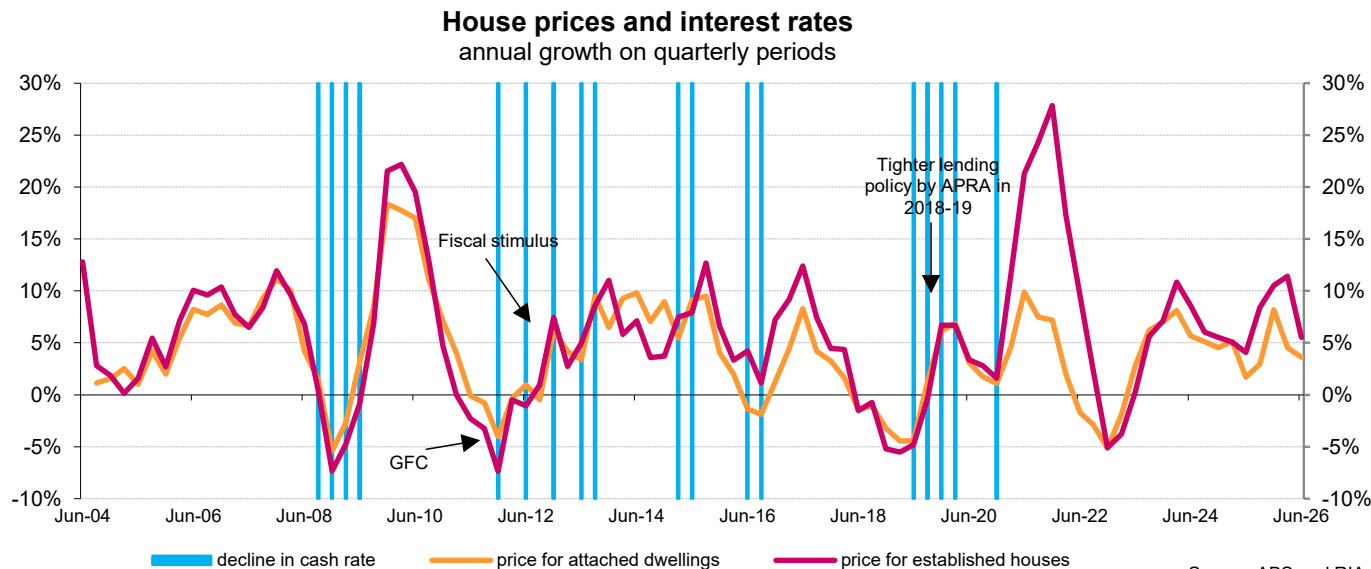
Residential Property Sector

Residential housing asset market price profile since 2004.



Residential Property Sector

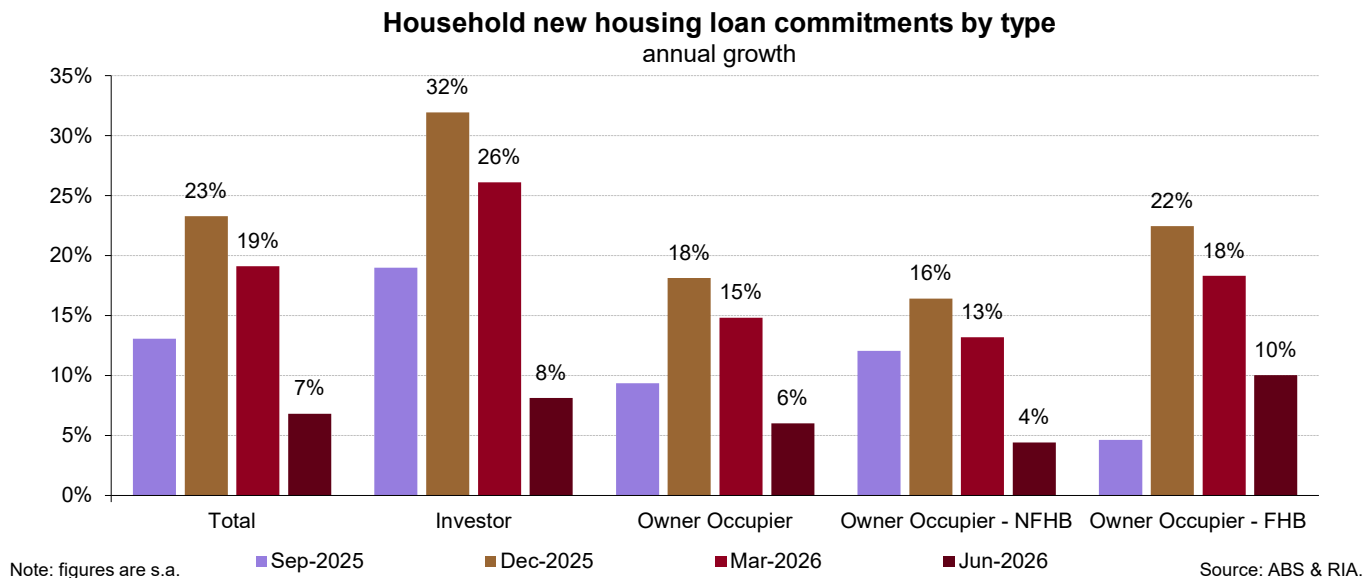
Residential property cycle: key cyclical driver being movements in market interest rates.



Source: ABS and RIA.

Residential Property Sector

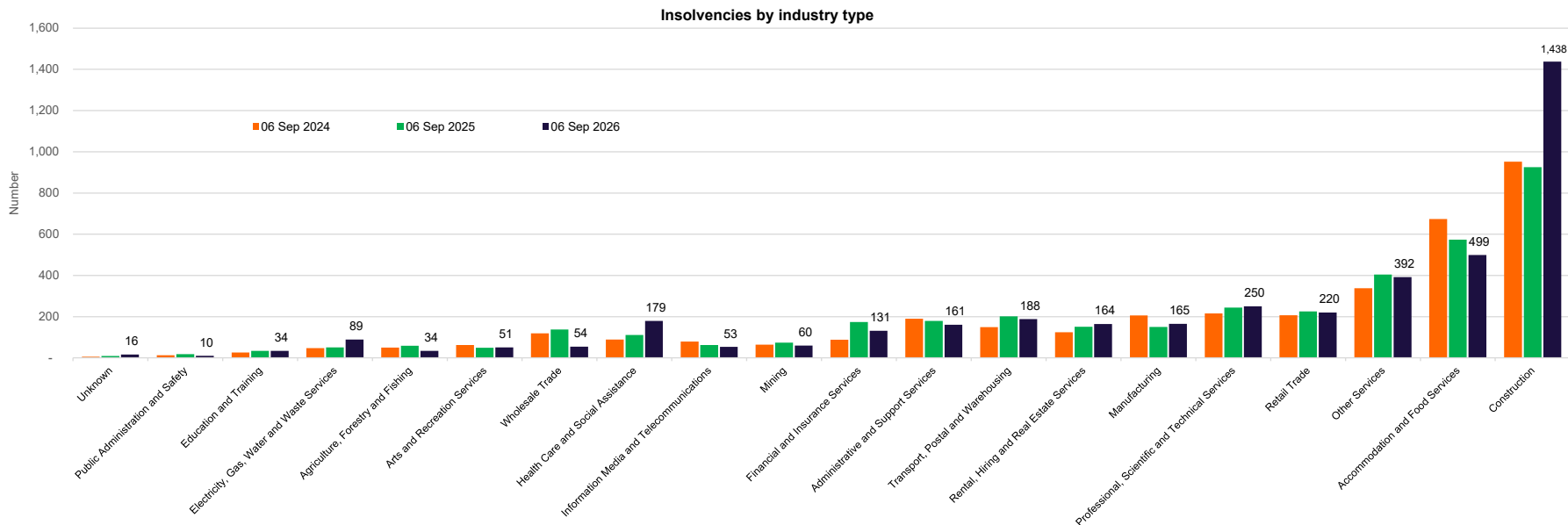
Annual growth in housing loans has been slowing across all borrower types.



- Annual growth in new housing loan commitments has decreased over the quarter to 7%.
- Housing growth has decreased for all loan types: investors, first home buyers (FHB) and non first home buyers (NFHB).

Residential Property Sector

In recent years insolvencies highest in construction sector ... and rising sharply over the last year.



Source: ASIC & RIA

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