

# Australian Capital View



September 2026

Capital has remained active despite elevated geopolitical uncertainty and an elevated interest rate environment, with investors particularly focused on the retail and industrial sectors.

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Source: Goodman Group

# Key insights

Investor activity rose in Q2 despite elevated uncertainty stemming from the Middle East conflict and higher interest rates, with strong investment demand from domestic capital for retail and industrial assets.



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 **\$14.3b**

Investment volume in  
Q2 2026

Total closed Australian transaction volumes rose to \$14.3 billion in Q2 2026.

 **4.35%**

Current cash rate

The cash rate has risen by 75 bps in 2026 to 4.35%, markets are pricing in one to two more hikes in 2026.

 **29%**

REIT/listed capital most  
active

REIT/listed capital led buying activity in Q2 2026, accounting for \$3.7 billion in transactions (29% of total activity)

 **6.8%**

National prime office yield

The weighted Australian prime office yield rose by 8 bps to 6.8% in Q2 2026.

 **5.8%**

Eastern Seaboard prime  
industrial yield

The average prime industrial yield across the Eastern Seaboard rose 7 bps to 5.8% in Q1 2026.

 **5.6%**

National retail yield

The weighted Australian average retail yield remained resilient at 5.6% in Q2 2026.

## Confidence on the mend after another shock

Six months on from the outbreak of conflict in the Middle East, the shock is dissipating but questions remain about the strength of the economy and the outlook for the year ahead.

## Growing preference for core plus and value-add

The rise in interest rates in the first half of the year has reaffirmed that the stated preference for many groups is to target core plus and value-add strategies rather than core investments with the likelihood of a lower return.

## Economy more resilient this time around

The pace of economic growth is still expected to ease in the second half of the year, but the economy is likely to be more resilient this time, with less likelihood of a protracted slowdown.

## Rising long-term yields place focus on rent growth

The higher interest rate environment confirms that rent growth will be needed to drive out-performance in the near term. This is driving investors to market segments experiencing strong growth and without the prospect of a significant new supply.

# Investment activity rebounds

## INVESTMENT VOLUMES REBOUND IN Q2

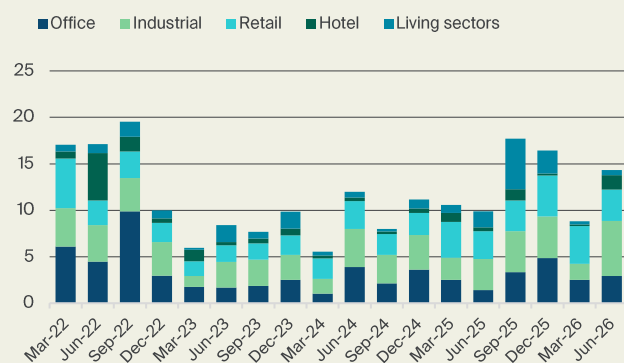
Total closed Australian transaction volumes rose to \$14.3 billion in Q2 2026. This brings total volumes in H1 2026 to \$23.2 billion which is the highest since 2022. The industrial sector rose sharply in Q2 (\$5.9 billion) due to large portfolio deals to have the highest transaction volume. This was followed by retail (\$3.4 billion), offices (\$2.9 billion), hotels (\$1.6 billion) and living sectors (\$0.5 billion).

It is estimated that around \$1.9 billion in deals remain under contract and are yet to close from Q2, including UEM Sunrise selling its maiden BTR project on Hoddle Street to Kio Investment Management for \$315 million, and Lederer Group purchasing 275 Grey Street and Market Square for \$255 million and \$200 million respectively.

Investors continued to purchase assets in Q2 despite risks around further interest rate hikes and geopolitical uncertainty. However, investors remain highly selective about capital deployment, focusing mostly on high-quality assets with clear near-term structural tailwinds.

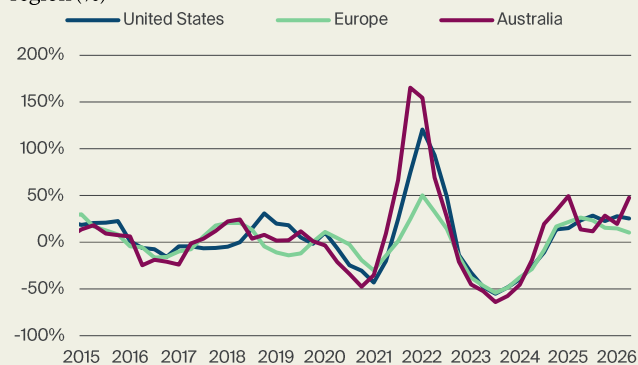
### Investment volumes rise in Q2

Quarterly closed investment volumes by sector (AUD billions)



### Global investment volumes remain robust

Annual growth in commercial property investment volumes by region (%)



## RETAIL AND INDUSTRIAL DRIVE ACTIVITY IN Q2

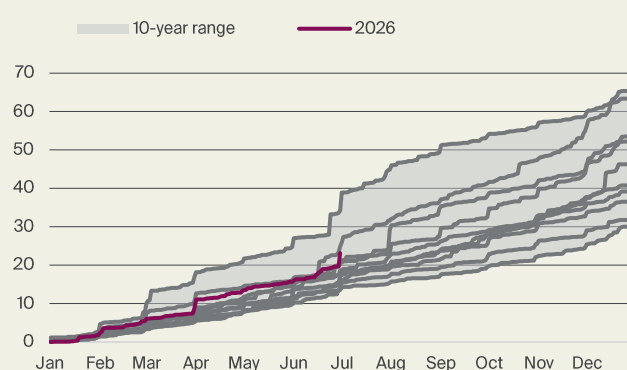
Significant transactions in Q2 were concentrated in the industrial and retail sectors in Sydney and Brisbane. In the industrial sector, the standout portfolio transaction was Goodman Group purchasing a 50% stake in some industrial partnerships for \$1.9 billion from Washington H. Soul Pattinson and Company (Soul Patts). Other sales included Sonic Healthcare's sale and leaseback of 24 Markwell Street to Charter Hall for \$445 million.

In retail, transactions included GPT buying Sunshine Plaza and Macarthur Square for \$1.2 billion from Lendlease, the JY Group buying a 50% stake in Westfield Marion from Temasek for \$670 million, and Vicinity Centre purchasing the three-building portfolio of the Eastern Creek Quarter for \$400 million from Frasers Property.

In offices, Charter Hall purchased the remaining 50% share of five offices forming the O'Connell Block from Lendlease for c\$540 million, and Centuria purchased a 50% stake in 680 George St for \$454 million from Brookfield Properties.

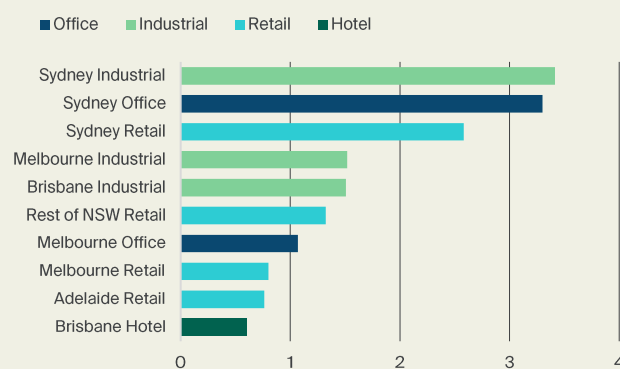
### Highest H1 transaction volumes since 2022

Daily cumulative transaction volume by year, total (AUD billions)



### Capital is focused on Sydney

Transaction volumes by city and sector, H1 2026 (AUD billions)



# Institutions lead new activity

## NEW CAPITAL COMING FROM PRIVATES AND INSTITUTIONS

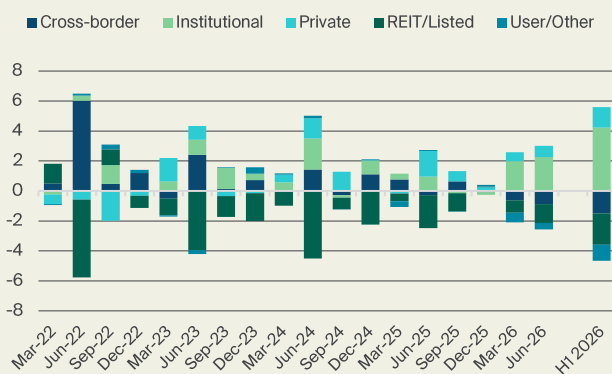
REIT/listed capital led purchasing activity in Q2 2026, accounting for \$3.7 billion in transactions (29% of total activity), followed by institutional capital at \$3.4 billion (26%), private capital at \$2.9 billion each (22%), cross-border capital at \$2.5 billion (20%), and user/other capital at \$0.3 billion (2%).

In Q2, REIT/listed capital was the largest buyer type for the first time since Q3 2022, driven by sales such as the 50% stake bought by Goodman Group in an industrial partnership and Charter Hall in O'Connell Block. However, this masks that REIT/listed capital also remains a significant seller of assets, and a net seller overall.

In net terms, domestic institutions and private buyers remain the key drivers of new capital entering the property sector. This likely reflects several factors including growing institutional confidence in medium-term market fundamentals, faster access to capital, and an increased understanding of the divergence among cities and sectors within the domestic market.

### Institutions and privates drive activity

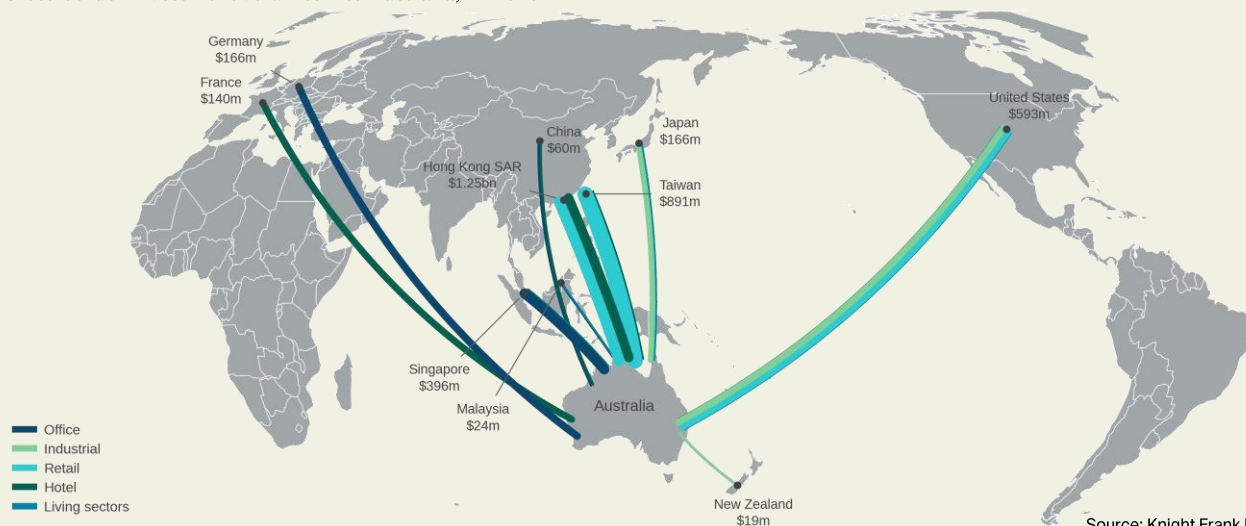
Net investment volumes by investor (AUD billions)



Source: Knight Frank Research, RCA

### Asia remains a key source of cross-border capital

Cross-border investment volumes into Australia, H1 2026



Source: Knight Frank Research, RCA

Note: Investment volume is attributed to the country of the lead buyers country.

## CROSS-BORDER INVESTMENT REMAINS SUBDUED

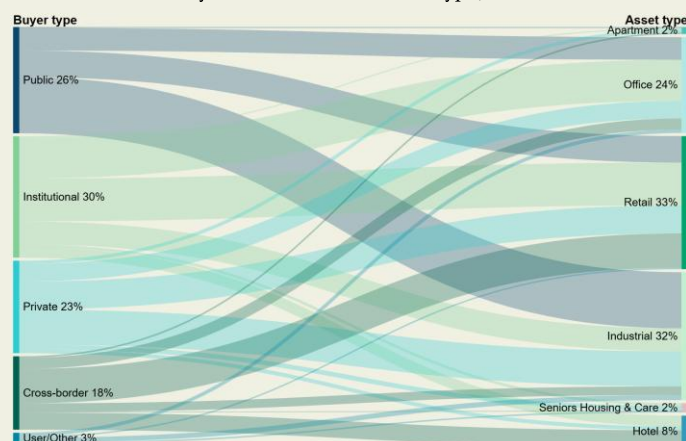
Cross-border investment rose to \$2.5 billion in Q2 2026. The most significant cross-border transaction in Q2 was The JY Group (Hong Kong) purchasing a 50% stake in Westfield Marion for \$670 million. Elsewhere, Chow Tai Fook (Hong Kong) and Far East Group (Singapore) also bought the remaining 50% stake in three hotel assets from Star Entertainment for \$583 million.

Another significant transaction was US investor Barings leading a consortium of institutional investors including Aware Super and Rest Super to buy Moorabbin Airport in Melbourne for \$1.5 billion. This deal also included 19 industrial, four retail assets, and one office asset.

Asian capital continues to demonstrate strong and broadening appetite for Australian assets, a trend expected to persist in H2 2026. Australia's relative appeal is underpinned by several structural factors including a stable, transparent investment environment, and an increasingly compelling entry point as domestic property values recover from their cyclical trough.

### Cross-border capital deployment is diversified

Investment share by asset class and investor type, H1 2026



Source: Knight Frank Research, RCA

# Yields mixed by sector

## OFFICE AND INDUSTRIAL YIELDS SOFTEN IN Q2

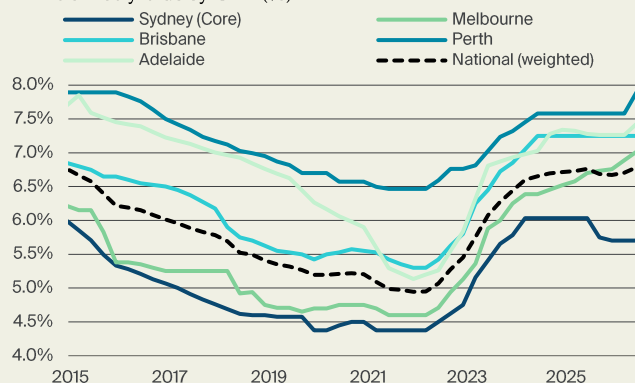
Average prime office CBD yields remained steady in Sydney and Brisbane CBD in Q2 2026, but softened in Melbourne, Adelaide and Perth CBD. The resilience in Sydney and Brisbane yields reflects strong rent growth which has helped prices hold firm in the face of higher interest rates.

Yields for best-in-class assets in core CBD locations are expected to remain well supported through this period of uncertainty. However, yields in less favourable precincts and in suburban areas may face some upward pressure as higher rates encourage a more cautious approach among investors.

Industrial yields rose in Q2 in all cities except Sydney. Softening yields are likely a result of higher interest rates, and an increasingly likelihood that interest rates will remain higher for longer.

### Prime office yields mostly steady in Q2

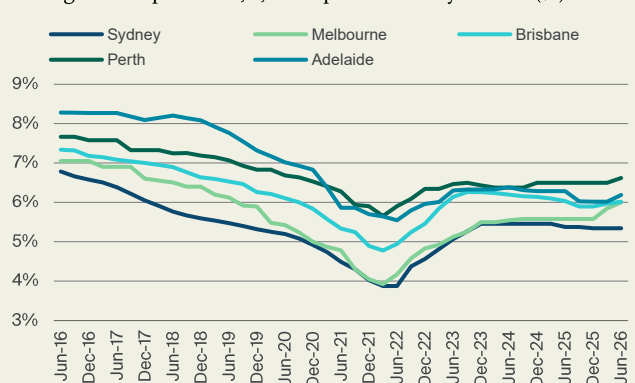
Prime office yields by CBD (%)



Source: Knight Frank Research

### Industrial prime yields rise

Average across precincts, 5,000 sqm assets & 5 yr WALE (%)



Source: Knight Frank Research

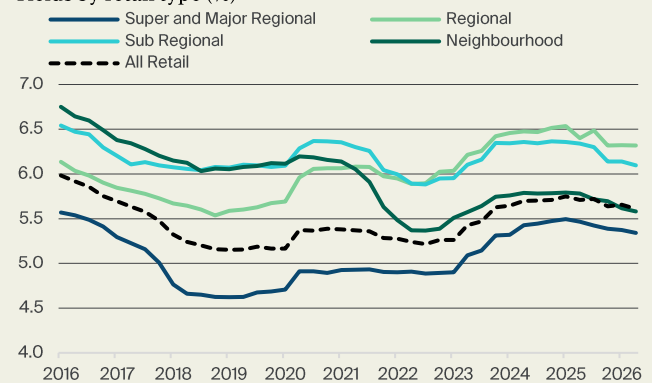
## RETAIL YIELDS FALL AND TOTAL RETURNS RISE

Retail yields remain resilient at 5.6% in Q2 2026. The outlook for elevated interest rates and continued resilience in consumer spending have increased investor interest in retail assets for the strong income returns. Neighbourhood retail yields are just 24 bps above Super and Major Regional yields — the tightest spread on record. This reflects investor demand for defensive assets with more non-discretionary tenants as uncertainty remains elevated and cost-of-living pressures persist.

Total returns have strengthened considerably across the traditional sectors due to rising capital values over recent quarters. Over the year to Q2 2026, industrial recorded the highest annual total return (10.5%), followed by retail (9.8%) and office (7.0%). However, the softening in yields over recent quarters is seeing capital growth stall in many sectors. Capital growth has slowed rapidly in recent quarters in retail and has flatlined in offices. Industrial is the exception, with MSCI capital value growth remain strong. However, the MSCI series is often a lagged indicator, our yields show a recent softening in office and industrial which weighs on capital growth.

### Retail yields fall in Q2

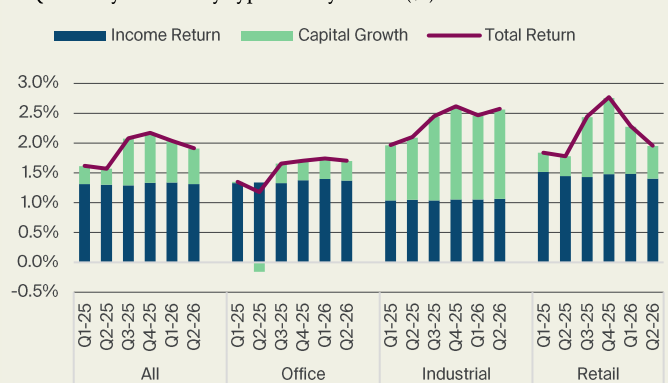
Yields by retail type (%)



Source: Knight Frank Research, MSCI

### Total returns are slowing

Quarterly returns by type and by sector (%)



Source: Knight Frank Research, MSCI

# Households remain resilient

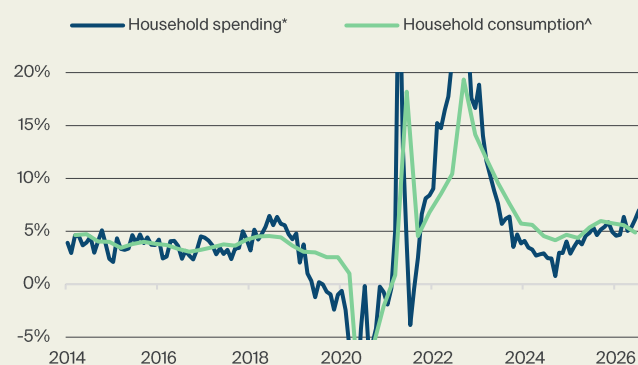
## CONSUMER SPENDING REMAINS ROBUST

Australian household spending and consumption has been much more resilient than expected — rising in recent months despite elevated inflation, falling real wages and house prices, and 75bps of interest rate hikes. Commonwealth Bank data shows that this growth has largely been driven by the older (65+) cohort where spending has grown by 10.1% over the past year, likely reflecting less sensitivity to rate rises as a higher proportion do not have a mortgage and benefit from increased bank interest from higher rates. Spending growth has been closer to 4.2–4.5% for those aged 25–54 who are likely more exposed to higher interest rates.

The impacts of the recent housing downturn are likely still in the early stages of flowing through the economy. Weaker dwelling values and lower transaction volumes are typically expected to lower household spending on goods and property-related services, reinforcing the disinflationary pull already coming from a cumulative 75 bps of tightening. While this appears to have had minimal impact on spending to date, the RBA be monitoring signs of potential flow through in the future.

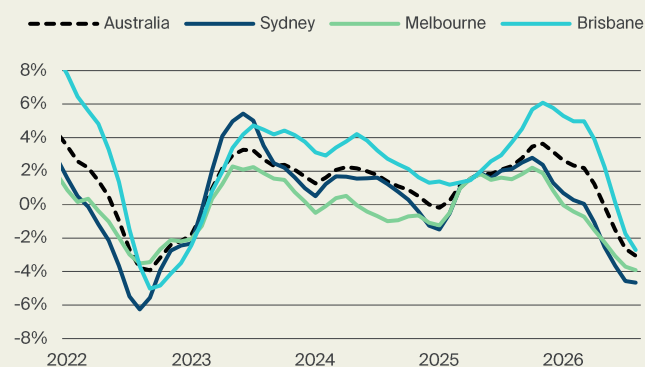
### Household spending and consumption rise

Annual growth in household spending and consumption (y/y%)



### Dwelling values in decline

3-month rolling dwelling price growth, major cities (%)



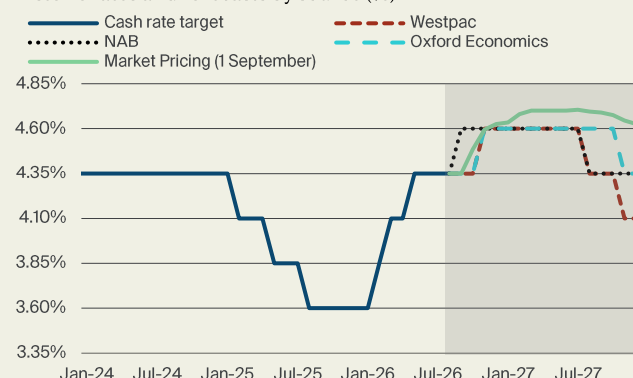
## ANOTHER INTEREST RATE HIKE EXPECTED IN 2026

The RBA's communication following the August meeting clearly expressed that inflation risks are tilted to the upside, and if those risks are realised the Board would respond with a rate hike. The July monthly CPI was a substantial upside surprise, with inflation much more broad-based than expected. As a result, the likelihood of an extra rate hike this year has increased, with markets now pricing in 1–2 more rate hikes by the end of 2026.

Geopolitical uncertainty has introduced near-term headwinds for the property sector, with inflation concerns and the prospect of further rate increases feeding through to higher borrowing costs. Key measures of long-term rates, including the 5-year swap rate and 10-year bond yield are over 5% — the highest level since 2011 — and remain elevated because of heightened uncertainty over the outlook for inflation and short-term rates. Higher borrowing costs may weigh on transaction activity over the coming months as buyers reassess return hurdles and debt serviceability assumptions.

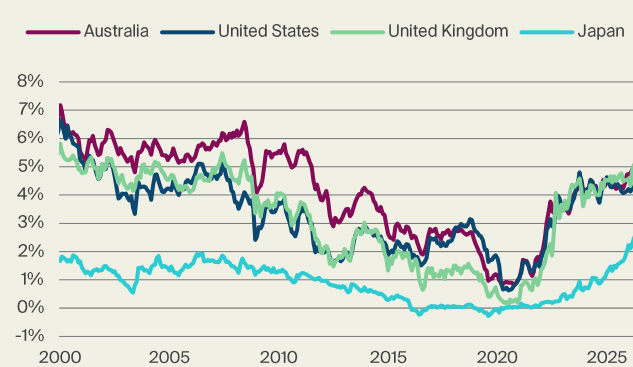
### Further rate hikes expected

Historic rates and forecasts by source (%)



### Bond yields have risen globally

10-year bond yield (%)



# Market outlook

## Key economic and investment themes

### **CONFIDENCE ON THE MEND AFTER ANOTHER SUPPLY SHOCK**

Six months on from the outbreak of conflict in the Middle East, the shock is dissipating but questions remain about the strength of the economy and the outlook for the year ahead.

The high oil price and consequent supply chain uncertainty has spilled over to generate another wave of cost inflation, including for construction materials. This has compounded the RBA's challenge to bring inflation back to target and was part of the equation motivating three rate hikes in the first half of the year.

Higher inflation and rising interest rates are providing a renewed hit to household real incomes, just as they did in 2023. However, consumer and business confidence has mounted a recovery in recent weeks as global risks have eased and we expect this to flow through to investor confidence in coming months.

### **ECONOMY MORE RESILIENT THIS TIME AROUND**

The pace of economic growth is still expected to ease in the second half of the year, but the economy is likely to be more resilient this time, with less likelihood of a protracted slowdown.

The rise in inflation and interest rates has been less dramatic than in 2022-23, and households continue to use savings buffers such as mortgage offset accounts to smooth out the impact. In addition, business investment and revenue growth have more momentum across a broad spectrum of industries, with surging capital expenditure on data centres driving growth in aggregate investment and providing an offset to slower growth in other parts of the economy.

### **DATES IN THE DIARY: UPCOMING RBA MEETINGS A KEY MARKER FOR 2027 OUTLOOK**

The extent of the slowdown will feed into the RBA's deliberations on the appropriate path of interest rates, and the meetings in September and November shape as important markers for the outlook heading into 2027.

Recent inflation readings have prompted most forecasters to assess that additional hikes are required, while others retain the view that the RBA has already done enough to cool cost pressures.

With most markets in recovery mode, the prospect of further rate rises may see the pace of growth ease in coming quarters. It also highlights the importance of asset selection and ensuring investment strategies are match fit for a higher-for-longer environment.

### **GROWING PREFERENCE FOR CORE PLUS AND VALUE-ADD STRATEGIES**

The rise in interest rates in the first half of the year has reaffirmed that the stated preference for many groups is to target core plus and value-add strategies rather than core investments with the likelihood of a lower return. Higher rates have pushed up hurdle rates and borrowing costs and resulted in many seeking 10-15% returns rather than the typical 8-10% benchmark for core strategies.

### **RISE IN LONG-TERM YIELDS A REMINDER THAT RENTAL GROWTH IS KEY**

Linked to the topic of strategy, the higher interest rate environment confirms that rental growth will be needed to drive out-performance in the near term.

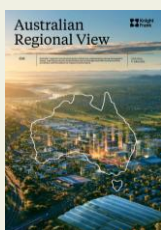
This is resulting in investors seeking out market segments experiencing strong growth and without the prospect of a significant quantum of new supply dampening this growth momentum.

In office markets, this is resulting in strong demand for prime Sydney and Brisbane CBD assets, while in industrial markets, investors are focussing on infill locations with less exposure to recently added new supply in markets further from the inner ring.

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