AUSTRALIAN
HORIZON

Knight Frank



Your guide to the future of the Australian property market

3rd edition | 2026

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FROM GRIDLOCK TO *greenlight*



The *Horizon Report* sets out our views on Australian real estate, taking you on a journey through the macro context underpinning investment performance, with specific insights across the office, industrial, retail and alternative sectors that shed light on the path to performance in 2026 and beyond.



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Editor's note

What a difference a year makes.

After an extended period of sub-par growth, the Australian economy carries significant momentum into 2026. The global outlook also looks much brighter than it did in April, with the US Federal Reserve seemingly ready to offer additional support to mitigate ongoing risks stemming from trade disruptions.

Meanwhile, real estate markets have returned to growth and demand has steadily broadened, with domestic REITs and institutions now returning to the buyer's circle, joining an active pool of offshore capital and private investors.

As ever, challenges remain and a constrained outlook for development is a particular focus of this year's report. We explain how high economic rents are curtailing the supply pipeline across multiple sectors.

Equally, however, they are laying the foundation for rental growth across multiple asset classes. This will drive the recovery at different speeds, and investors will need to align their strategy with the right assets, but opportunities abound and the growth prospects are compelling as we enter 2026.

BEN BURSTON

How we chose our cover



Looking ahead to 2026, our challenge was to capture the tightness of supply while still suggesting possibility. We turned once again to our creative partner Studio Riz, who drew inspiration from the simple, strategic rhythm of a childhood game. Tetris.

At first it was about the grid. The puzzle. The pressure to make every piece fit. Then came a breakthrough. Ben, our editor, framed the year's theme with one simple line: From Gridlock to Greenlight. That sparked the idea to leave a single space open. A glowing green square. It gave the entire image a new energy. It hinted that movement is still possible, and that perhaps now is the time to act.

This year's artwork also reflects a step-change in AI image-making. Studio Riz has continued to push forward and their refined visual language is carried throughout the document, adding depth and cohesion to the narrative.

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Key highlights

Based on our research here are the Horizon top 7 insights for 2026...

Time for a new narrative: ‘Beds & sheds’ giving way to a broader upturn

The ‘beds & sheds’ narrative has become a familiar refrain, but after nearly a decade, out-performance has run its course and the outlook for the key sectors is on a much more equal footing. Office and retail assets now offer stronger income returns, and rental growth prospects are increasingly positive. They are also readily investable and new entrants can acquire large holdings of stabilised assets relatively quickly, to take advantage of the nascent recovery.

Darkest before dawn: Melbourne a compelling proposition for patient investors

Melbourne has been slower to turn the corner and investors risk missing the bigger picture amidst the noise. The negatives of taxation are widely appreciated but not the prospect for strong growth over the long term. Off the back of a larger downturn, downside risk is now limited and those prepared to look through the current headwinds can take advantage of very attractive pricing.



Hunting season in full swing: but investors may need to look beyond the core

The early-cycle window remains open in most markets, but pricing has moved off the bottom in favoured markets like the Sydney CBD Core office market, and many owners are now less willing to trade given the anticipation of cyclical recovery. In 2026 we expect investors to start to broaden their focus to other markets where the recovery is yet to gain as firm a footing.

From gridlock to green light: high economic rents will limit new supply and drive rent growth

Economic rents – the level of rent at which the construction of a new development becomes feasible – have surged since 2021 due to a perfect storm of rising construction costs, rising interest rates, high incentives and falling capital values. For developers, the hurdle to start new projects has never been higher, which will constrain the supply pipeline across all property sectors and support the performance of existing assets over the coming years.



Prime office rental growth will defy above average vacancy rates

Logic has it that rent growth should correlate closely with the level of vacancy. Historically this largely bears this out, but there are signs that things are changing, with strong prime performance in Brisbane, Adelaide, Sydney's Core and Melbourne's Eastern Core, notwithstanding that overall vacancy remains elevated. Prime assets with a full ecosystem of amenities are achieving increasingly strong leasing outcomes, and we expect rental growth to accelerate from mid-2026.

Industrial vacancy to stabilise before the next wave of growth

The level of construction is quickly adjusting to higher vacancy and higher economic rents. From a high of 2.6 million sqm in 2024 across the East Coast, our forecast for 2026 is a significantly lower 1.8 million sqm, with demand to be diverted back to pre-commitments for tenants seeking to upgrade. Vacancy and effective rents will stabilise on average in 2026, but continue to diverge at precinct level, before the next phase of broad-based growth commences in 2027.

Think big: dominant shopping centres the pick of the bunch

The retail sector will continue to see strong performance on average, but the rising tide will not lift all boats. Dominant shopping centres are best placed to take advantage due to their lack of immediate competition, a flight to quality from retailers who realise they don't need to be everywhere all at once and greater mixed-use optionality arising from their superior location and wider range of complementary growth opportunities.



Economy

Domestic momentum trumps global risks

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Renewed momentum

Household spending driving the recovery



Having weathered the pain of declining disposable incomes in 2022-24, 2025 has brought welcome relief to households. Real incomes have returned to growth off the back of declining inflation, continued wage growth, mortgage interest rate relief and tax cuts, which have all contributed to a substantial turnaround in purchasing power.

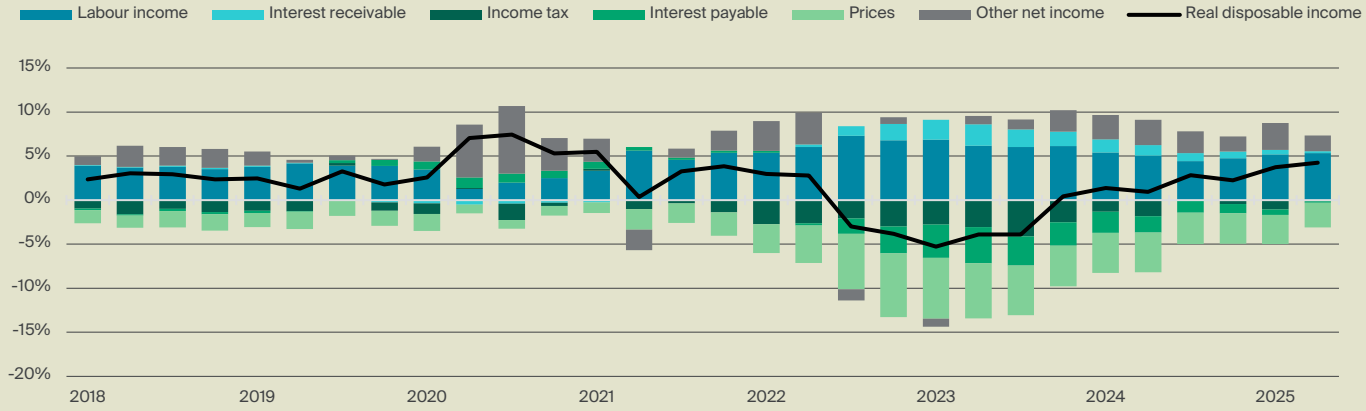
As a result, consumer confidence has risen steadily from the lows of 2023 and household spending has accelerated, driving a wider improvement in GDP growth, which is currently expected to reach 1.7% for 2025, before rising further to 2.1% in 2026 and 2.4% in 2027.

This improvement in the fundamentals underpinning growth applies broadly across the states, but the pace will vary in line with the rate of population growth. Western Australia and Queensland have been ahead of the pack in recent years and this is expected to continue as they benefit from substantial interstate and overseas migration flows, while NSW is held back by a net outflow to these and other states.

Renewed growth momentum nationally will support the nascent real estate recovery and provide a key ingredient for income growth as we move into the next cycle.

Rising real disposable income growth

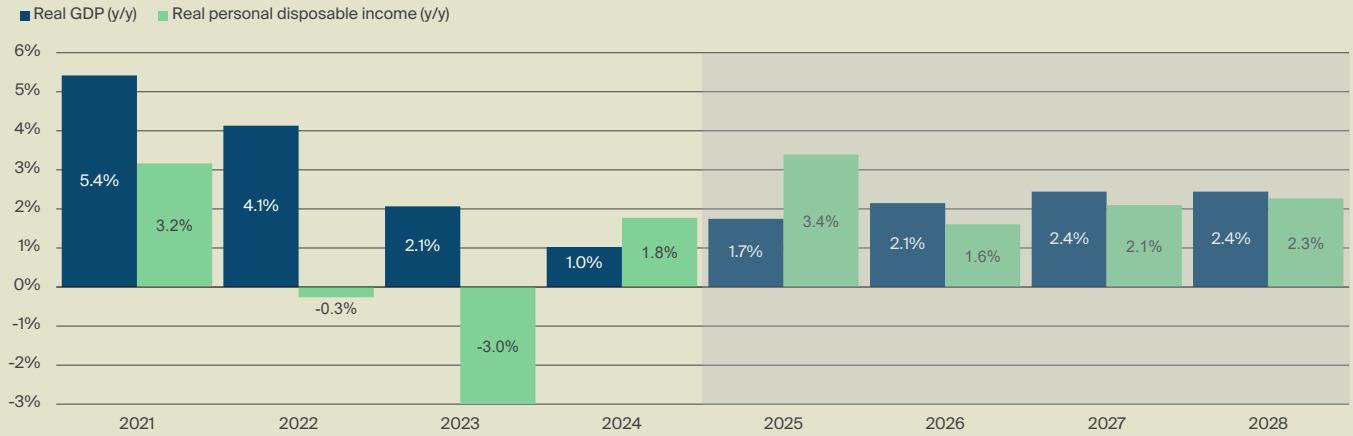
Year-ended, % change with contributions



Source: Knight Frank Research, ABS

Solid growth outlook for Australia

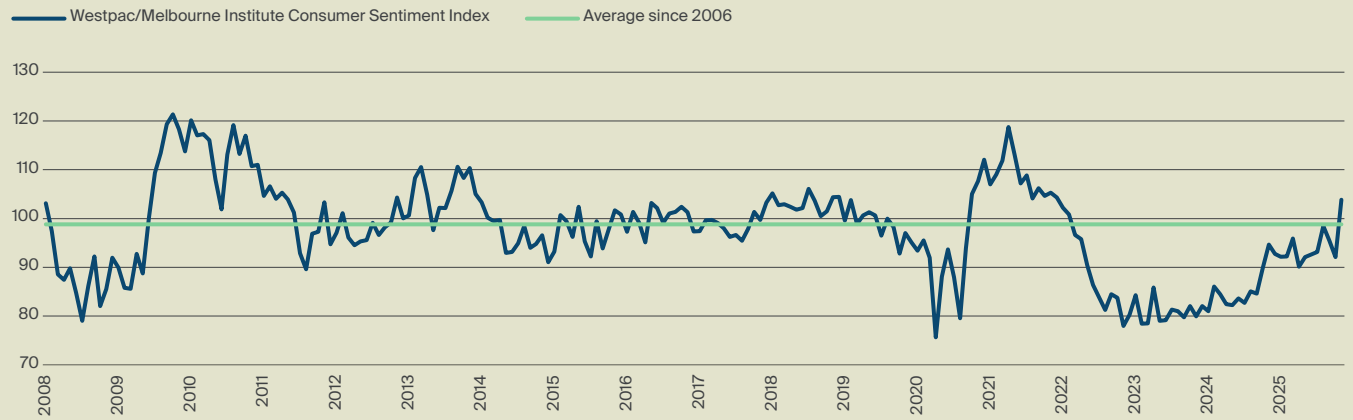
Annual growth in GDP and real disposable income (%)



Source: Knight Frank Research, Oxford Economics

Consumer sentiment trending up

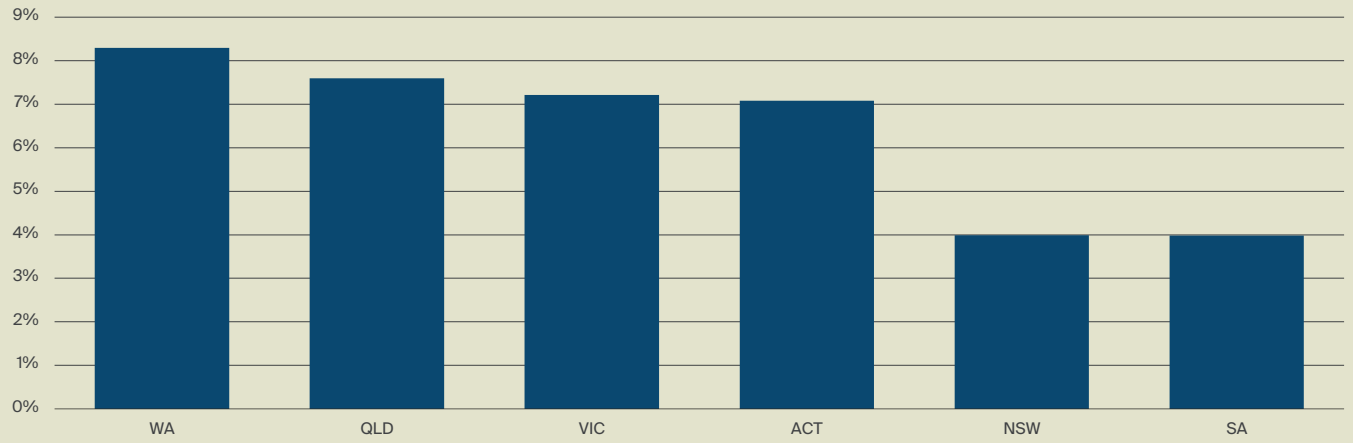
Confidence index, value above 100 signal optimism



Source: Knight Frank Research, Macrobond

WA and QLD to see fastest growth

Forecast 5 year population growth by state 2025 - 2030



Source: Knight Frank Research, Oxford Economics



Holding pattern

Global outlook upgraded but still fragile

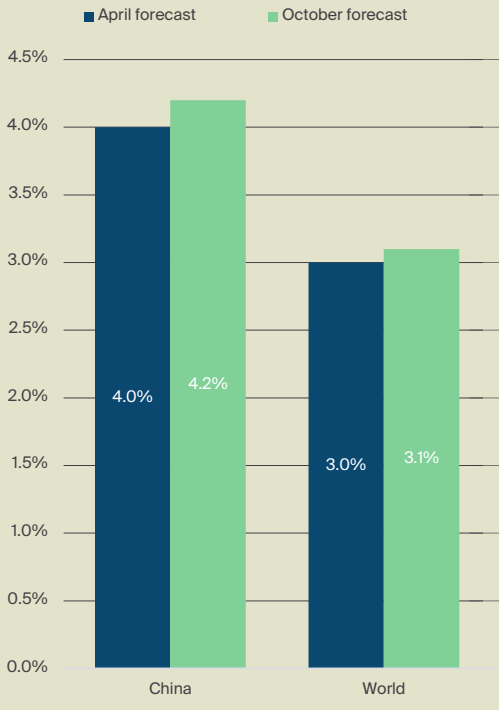
Whilst the domestic outlook has improved, as ever there are risks to the global outlook which threaten to challenge the status quo. Ongoing uncertainty over the impact of tariffs, geopolitical tensions and financial market volatility all have the potential to dampen the outlook, just as they did a year ago.

However, since April the degree of concern over the outlook has attenuated, with the US administration oscillating between strident statements of intent and a more pragmatic approach to the actual implementation of tariff barriers. In addition, the implementation of the 'Big, Beautiful Bill' promises substantial near-term stimulus in the form of tax cuts which will provide an offset to the dampening impact of the tariffs on US growth, while the resumption of rate cuts in the US will provide further support.

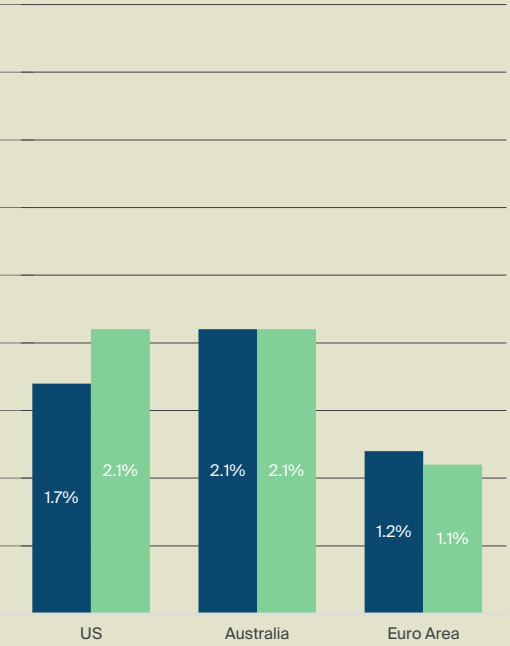
Reflecting this, the global outlook has been revised up compared to early in the year when the risk of regime change in the global trading framework was more immediately threatening. The same risks still apply, but the US carries significant momentum into 2026 which raises the prospects that the global economy can remain on course.

Global growth forecasts upgraded

IMF 2026 GDP growth forecasts - April & October



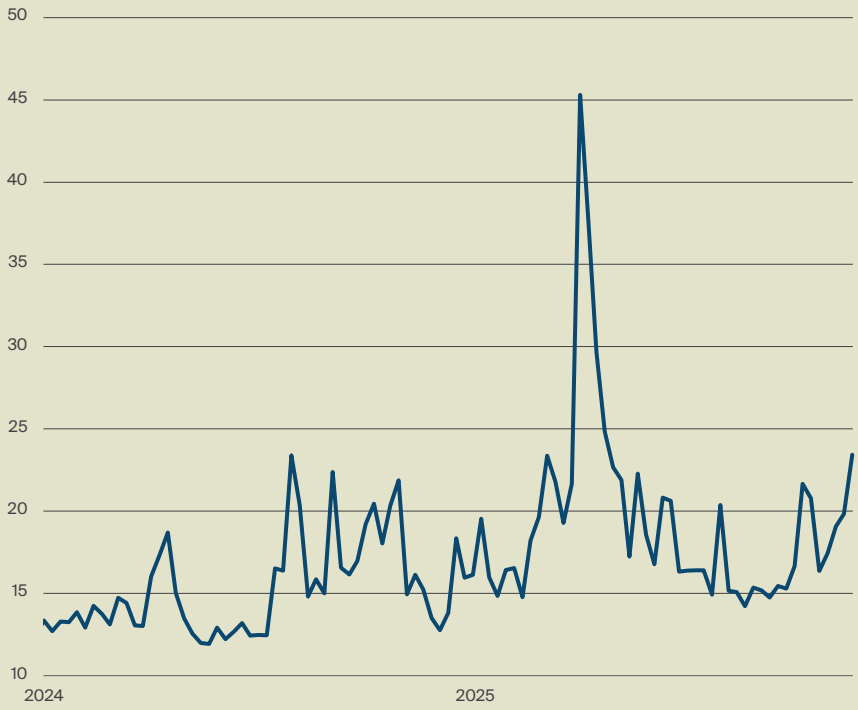




Source: Knight Frank Research, IMF

Market volatility indicates that risks remain

US VIX index - a measure of market volatility (index)



Source: Knight Frank Research, Macrobond



Mixed messages on rates

Lingering services inflation and global debt levels may keep long-term yields elevated

Since February 2025, market expectations on the rates outlook have oscillated as conflicting data releases on inflation, employment and GDP growth have sequentially re-shaped the outlook.

The RBA has been similarly captive to the unfolding data. After a hawkish cut in February, the Bank adopted a different tone in April in response to 'Liberation Day', before surprising markets with an unexpected hold in July.

Expectations have shifted again in the light of the upside surprise to inflation in Q3, which has again cast doubt as to whether the inflationary pulse has truly been tamed and hence whether the RBA will be able to offer further relief in 2026.

The base case outlook suggests we will still get at least one more cut, and as we discussed in last year's report, most estimates of the neutral cash rate still sit at around 3.0%, but the breadth of cost pressures looks set to push any further relief into the middle of next year.

While the domestic debate will warrant close attention, arguably more important are the global issues impacting long-term bond yields and hence the equity cost of capital as it relates to real estate investment.

Despite substantial rate cuts from the RBA, ten-year yields remains in the 4.0-4.5% range, effectively unmoved

through the year. This is similar to the level prevailing in the US and UK, and also in line with the long-term yield in New Zealand, where the cash rate has been cut to a much lower level of 2.5%.

The yield is expected to eventually settle at around 4.0%, around 100 basis points higher than the neutral cash rate. This implies a higher term premium than markets became accustomed to over the past decade when long term yields plumbed new depths.

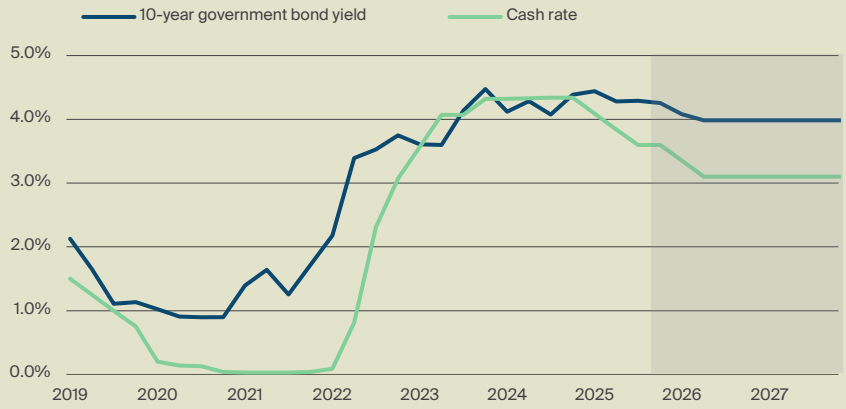
High government debt and associated large funding requirements – particularly in the US – along with a surge in investment in artificial intelligence and the energy transition have changed the balance between global savings and global investment. In addition, the recent experience of high inflation has acted as a cautionary tale for fixed income investors and boosted the term premium to account for a higher risk of volatility in inflation and interest rate settings.

Given that Australian ten-year yields are closely correlated with ten-year yields in the US, they will be impacted by these trends even if domestic conditions are quite different. Property markets cannot rely on substantially lower long-term rates to drive yield compression, and the next growth cycle will be defined by income growth, as we explore later in this report.

> "Higher real rates may also reflect the possibility that inflation could be more volatile going forward than in the inter-crisis period of the 2010s.... We may be entering a period of more frequent, and potentially more persistent, supply shocks — a difficult challenge for the economy and for central banks."
>
> **JEROME POWELL**
> Chair of the Federal Reserve of the United States

Nearing the end of the cutting cycle

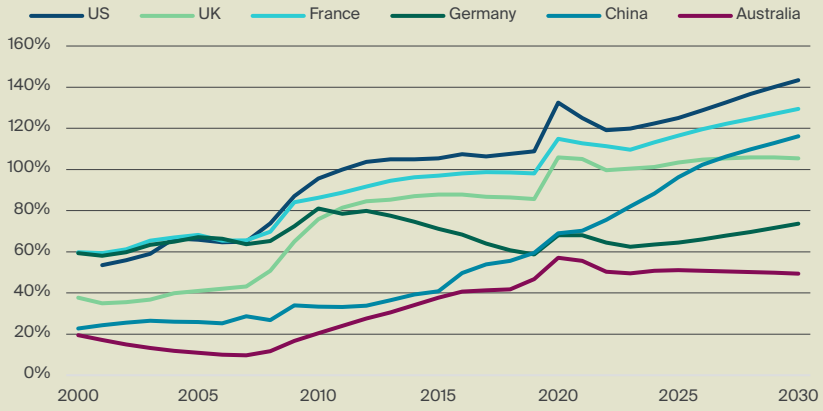
Quarterly 10-year government bond yield, RBA cash rate at end-of-quarter (%)



Source: Knight Frank Research, Oxford Economics

Rising government debt

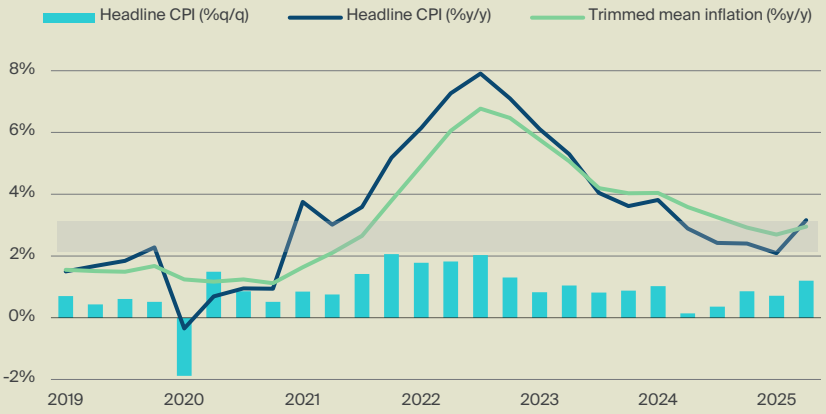
Gross debt as a share of GDP (%)



Source: Knight Frank Research, IMF

Inflation ticks up to top of RBA target band

Annual and quarterly growth in inflation (%, seasonally adjusted)



Source: Knight Frank Research, ABS



Digging for gold

Price spike illustrates the unrelenting search for secure assets

Whilst long-term bond yields remain elevated, other real assets have seen sustained growth. The past few months have seen a huge surge in the price of gold, which has risen by 66% since January 2025 to peak at US$4,356 per ounce. Other precious metals have also shot to record highs, with the price of silver climbing to US$54 per ounce, reflecting growth of 88%.

At the same time, corporate bond yields have edged downward, in defiance of the concerns over sovereign risk impacting global bond markets. This implies a tightening of credit spreads, and in Australia we have seen the average yield on grade A bonds tighten to 4.7%, only 44 bps higher than the government yield.

> "Gold's climb towards US$4,000/oz in the third quarter underscores the strength and persistence of the factors that have been driving demand throughout the year. Heightened geopolitical tensions, stubborn inflationary pressures and uncertainty around global trade policy have all fuelled appetite for safe-haven assets as investors look to build resilience in their portfolios."
>
> **LOUISE STREET**
> World Gold Council

At one level, these movements are at odds with a climate of higher long-term interest rates, but viewed through a different lens, they reflect an unrelenting search for safe haven assets in an uncertain economic climate. Global demand for gold and other precious metals has surged in response to concern over sovereign risk in the form of higher government debt levels and the perception of upside risks to inflation arising from tariffs and efforts by the US administration to pressure the Federal Reserve into putting interest rates.

Similarly, the trend to lower corporate bond spreads arises from a similar trend in the US, with investors shifting their relative perception of the risk inherent in lending to major corporates as opposed to the Federal Government.

For property, these trends reinforce the message that well located assets benefitting from consistent tenant demand and a scarcity of supply also offer safe haven characteristics and will out-perform in spite of the higher rate environment. Private investors seeking long term holdings for the purpose of wealth preservation will remain a key driving force in the Australian market and this demand will be heightened in 2026.

Gold price at record highs

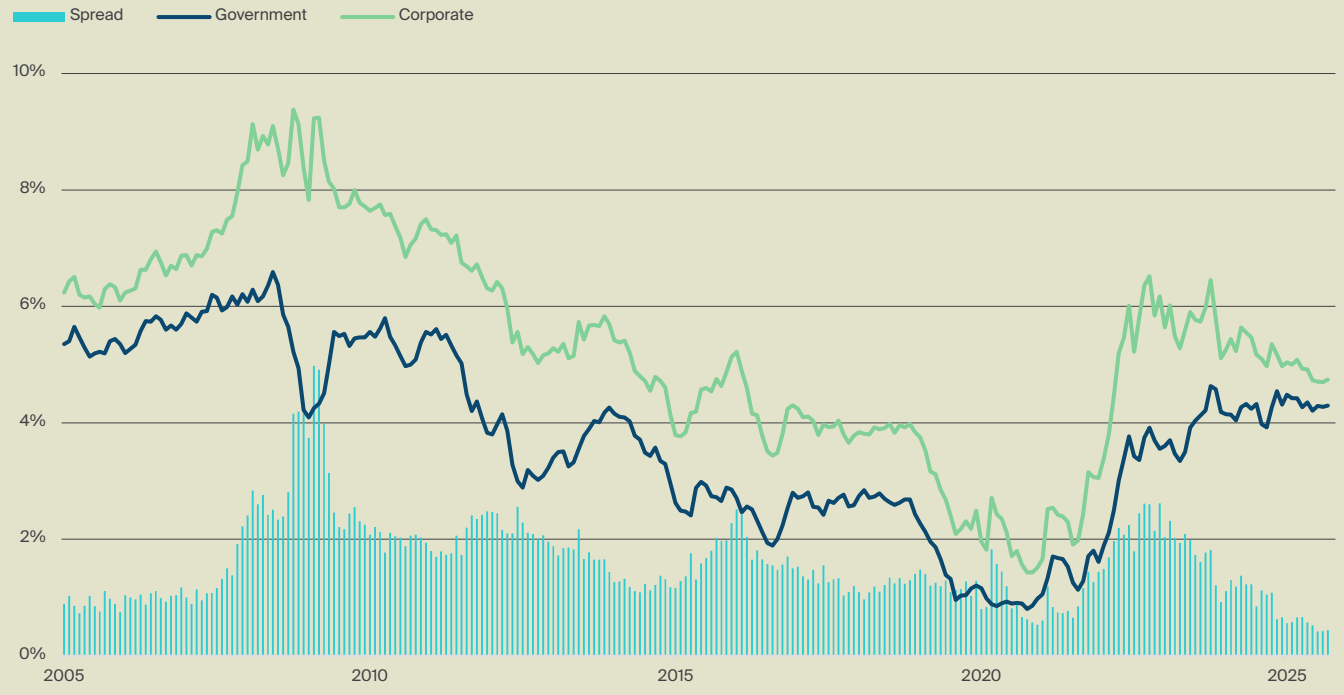
Gold price, New York Close Price (US$)



Source: Knight Frank Research, Macrobond

Corporate bond spreads at record lows

Interest rates on 10-year Australian government bond and Australian A-rated corporate bond (%)



Source: Knight Frank Research, Macrobond



Capital Markets

Early cycle window still open, but investors will need to venture beyond the core

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Selectively at first but the recovery will broaden

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Investors may need to step outside the comfort of the core

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Stock selection is key

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Growth is back

Selectively at first but the recovery will broaden

The recovery has begun, with 2025 seeing a return to capital growth, albeit selectively, across multiple asset types and locations.

As we predicted in last year's report, industrial asset values have been quickest to start the recovery, spurred by yield compression in Sydney and Brisbane. Capital values are up by 3.1% on average over the past year, with the strongest growth in Brisbane where asset values are up by 5.5% y/y.

Retail markets have staged a similar bounce back, with average capital values up by 2.0% y/y, led by super and major regional centres and neighbourhood centres.

Office markets have been slower to respond, and also demonstrated a greater degree of divergence, but growth is now returning across all major CBDs, led by Sydney, Brisbane and Adelaide.

Sydney has been a bellwether for the health of the wider office market, and to date the recovery has been strongest in the core CBD precinct, linked to the improving performance of the leasing market. Over the past three years, the outperformance of the core market has been well documented, with stronger absorption and faster rental growth compared to other precincts.

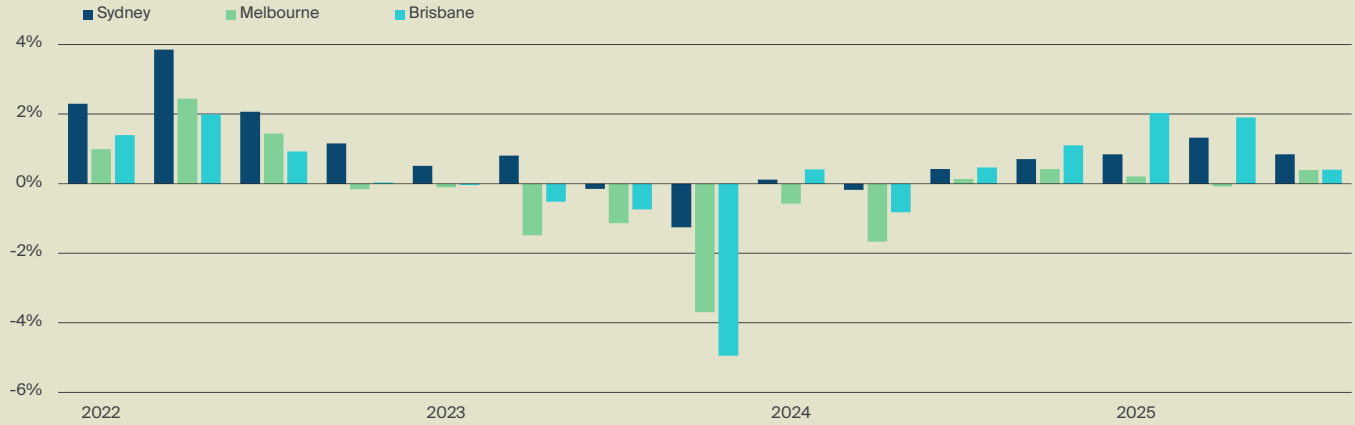
Melbourne has witnessed a similar trend, with sustained demand and strong rental growth in the Eastern Core. The divergent pattern of growth is clearly illustrated by a map of prevailing incentives, revealing stronger conditions in these core precincts.

Looking ahead, we expect the recovery to broaden beyond a narrow band of core assets and locations in each sector. In industrial markets, we expect the recovery to extend to Melbourne (discussed in more detail later in this section), while in retail markets, growth will pick up in sub-regional centres, as positive sentiment spills over from the larger centres.

In office markets, we expect growth to continue in Adelaide and Perth, while in Sydney, Brisbane, and Melbourne, we expect it to enter a second phase as growth extends beyond the core precincts previously identified. Adjacent markets, particularly Midtown in Sydney and the Western Core in Melbourne, should see a return to growth as they join the core in starting to benefit from a thinning supply pipeline, which we discuss in more detail in our analysis of economic rents.

Industrial has staged a solid recovery

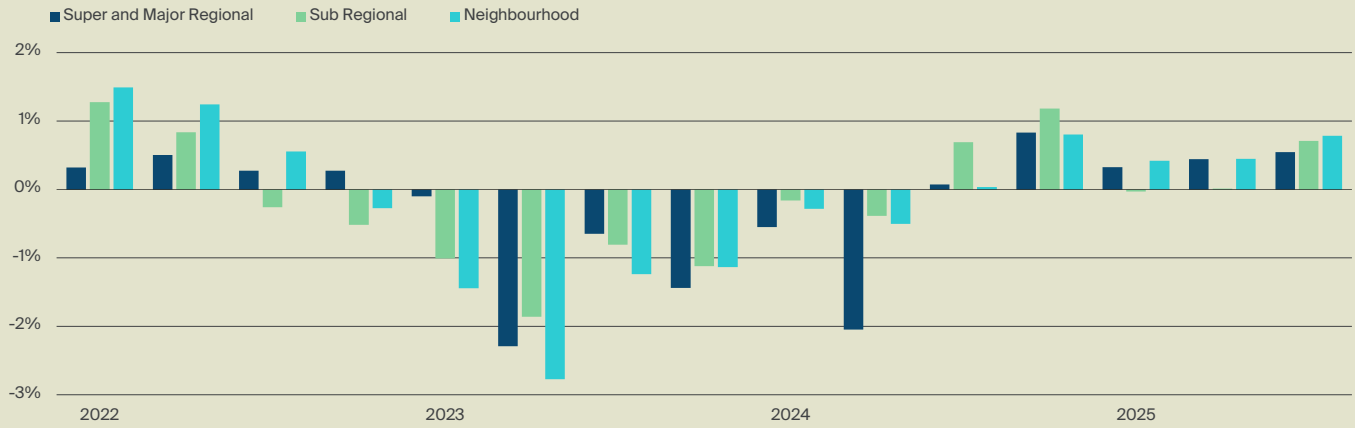
Quarterly capital value growth, average for major sectors



Source: Knight Frank Research, MSCI

Retail growth across all asset types

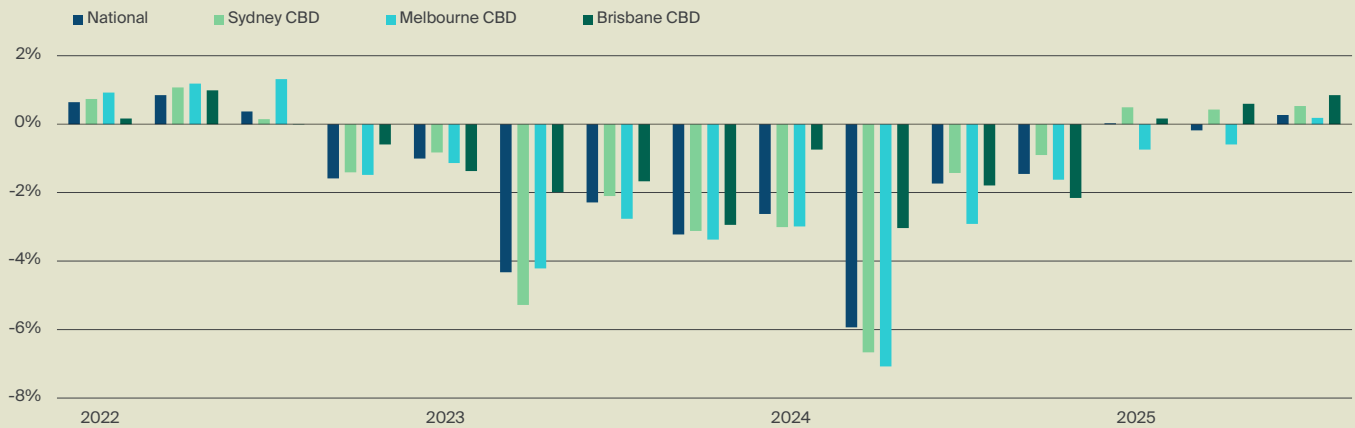
Quarterly capital value growth, average for major sectors



Source: Knight Frank Research, MSCI

Offices begin turning the corner

Quarterly capital value growth, average for major sectors



Source: Knight Frank Research, MSCI

Still time to buy

Investors may need to step outside the comfort of the core

In each of the past two years, we have highlighted the investor opportunity arising from the cyclical downswing. This has opened up a window to secure quality assets at attractive pricing with significantly reduced downside risk and a high probability of strong returns over the next growth cycle.

That window remains open in most markets, but with a return to growth now evident, many owners are less willing to trade in key markets like the Sydney CBD Core office market. After an extended period where investors have had limited competition and ample opportunity to secure assets in the core, sentiment has shifted in recent months with broadening awareness of the potential for a return to growth. Owners are naturally eager to take advantage, and so we expect that deal flow in the core will be limited over the next 12 months, with assets that do trade demonstrating tighter yields, in keeping with lower vacancy risk and greater certainty over the rental growth outlook.

Instead, those seeking to enter the office market in the near term may need to shift their focus to other markets where the recovery is yet to gain a firm footing. This includes other cities such as Perth, Brisbane, Adelaide, and Melbourne where the deal flow has been limited over the past three years, and in Sydney the adjacent Midtown and North Sydney markets where it is likely to be easier to unlock opportunities and where pricing reflects a substantial discount to the core precinct.

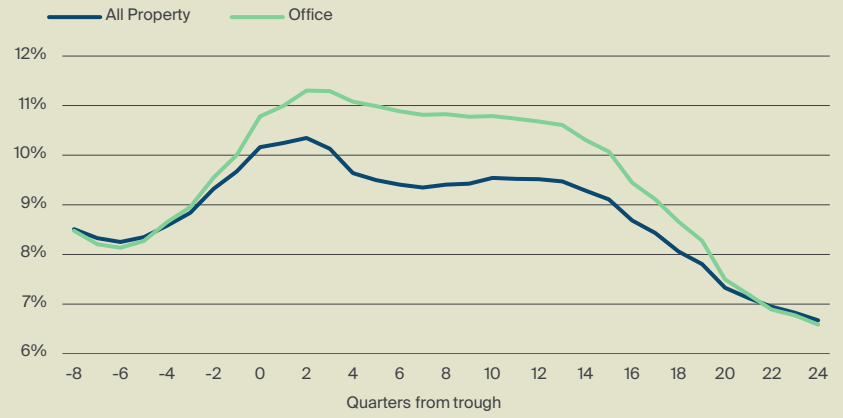
Similarly, in the industrial market, a gap is opening between Sydney and Melbourne yields owing to the impact of the Absentee Owner Surcharge (AOS). The gap is likely to widen in the near term, but this presents an opportunity for domestic capital prepared to take a longer-term view on the outlook for recovery in Melbourne.

Finally, in retail markets, clear evidence of recovery and growing turnover in major retail centres is likely to lead to limited liquidity in the major cities. Investors may be able to boost exposures more quickly and with less competition by broadening their remit to strong performing centres in regional areas.

Tightening liquidity in core markets is to be expected as we shift back to growth. This serves as a reminder that tactical considerations need to be factored in alongside the evolving growth narrative to take advantage of the early cycle window of opportunity.

Best long term returns achieved early in the cycle

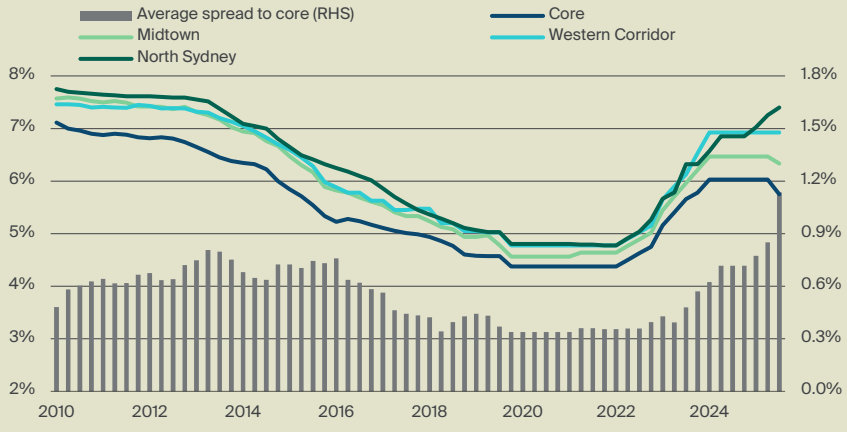
10 year average total returns based on when an asset was bought relative to the trough last cycle (0 = June 2009)



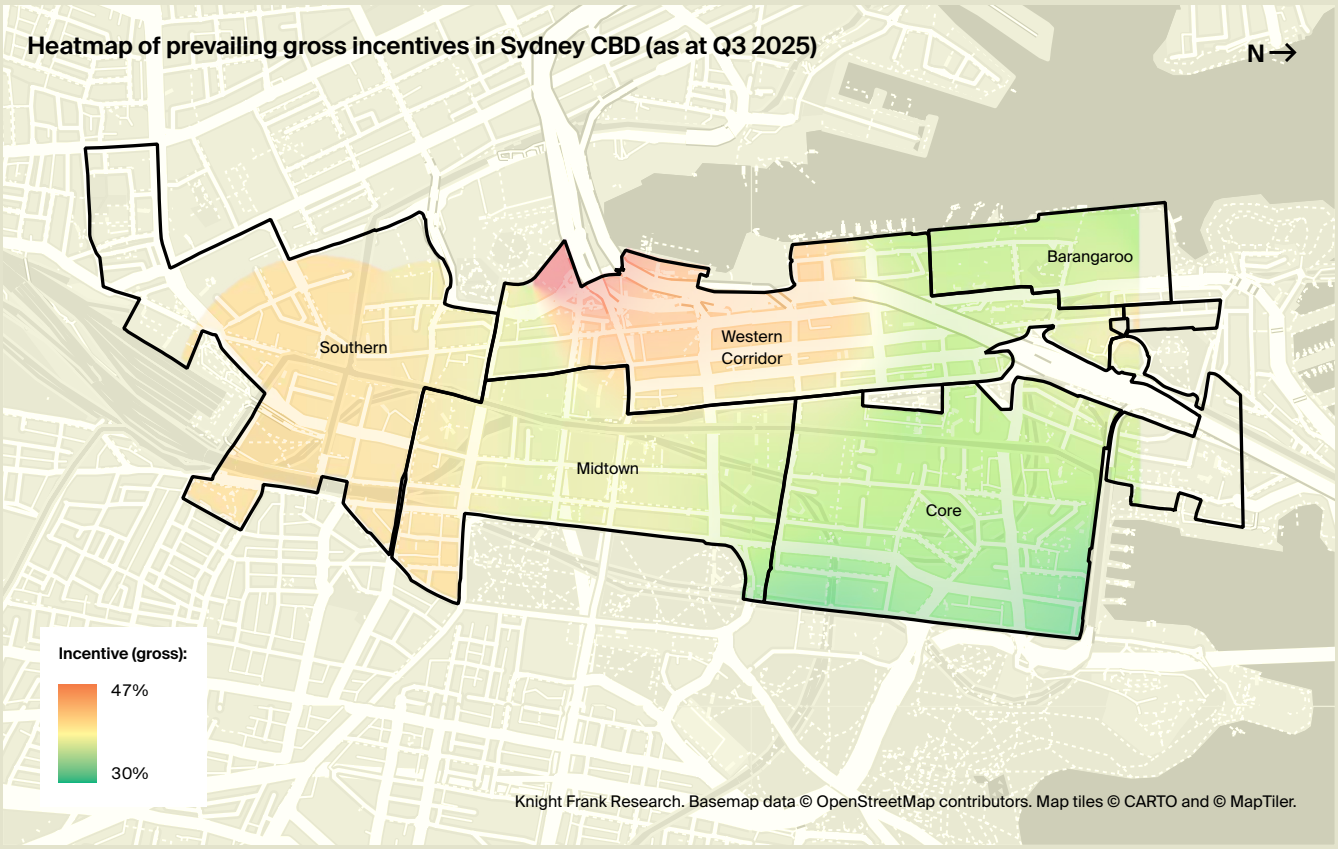
Source: Knight Frank Research, MSCI

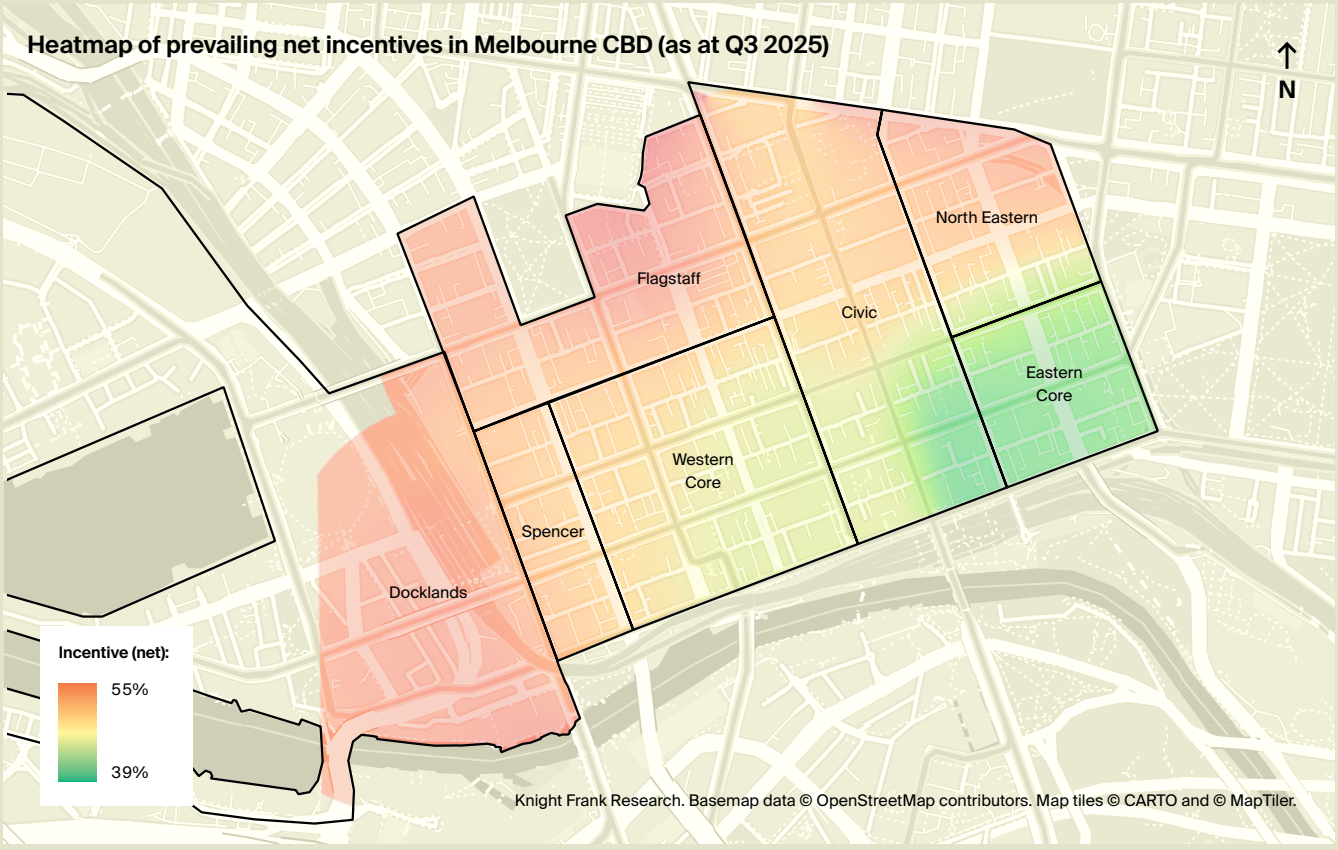
Widening yield spread within Sydney offices

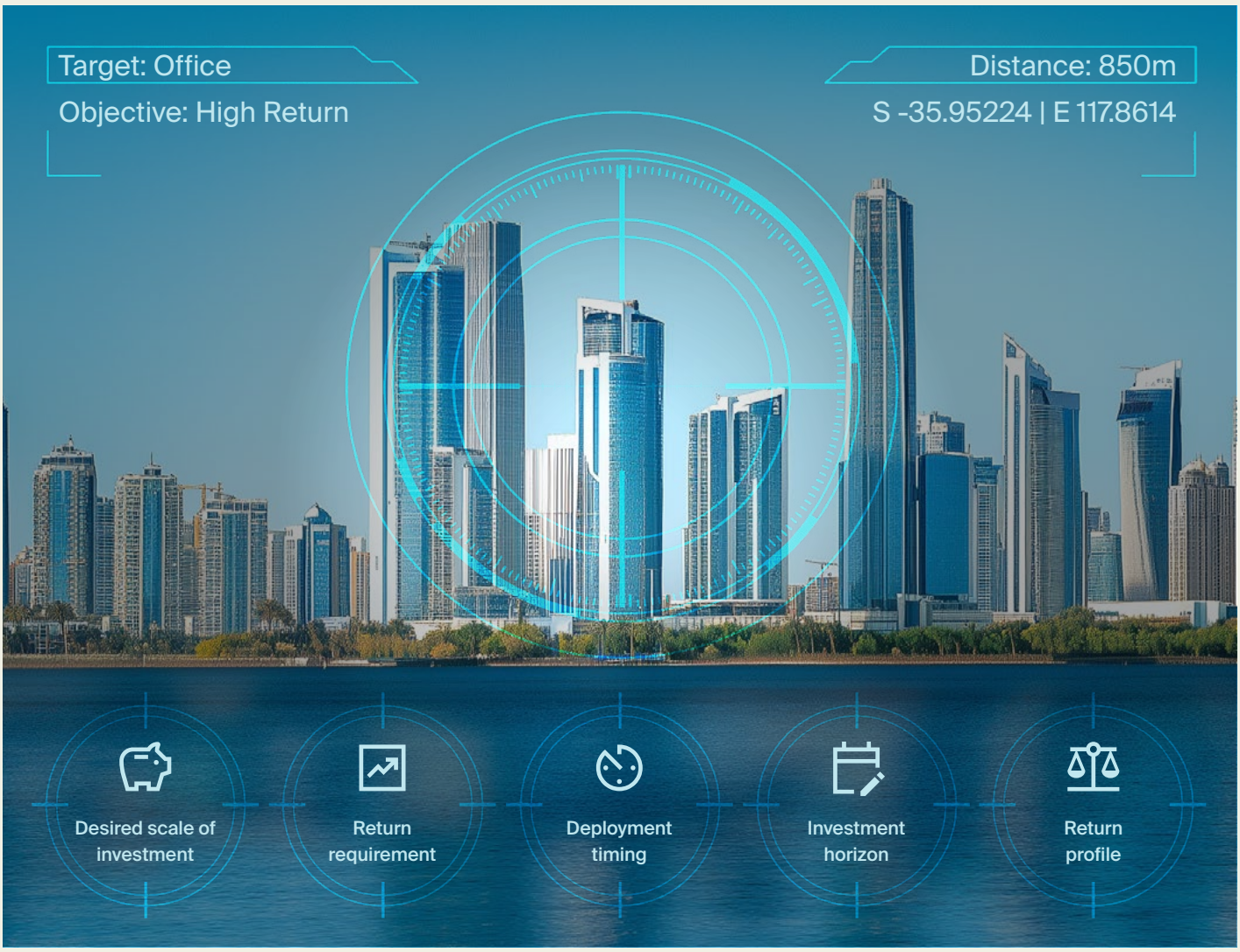
Prime yields by Sydney CBD precinct and average spread to CBD core yield (%)



Source: Knight Frank Research


Heatmap of prevailing gross incentives in Sydney CBD (as at Q3 2025)
N
Barangaroo
Western Corridor
Southern
Midtown
Core
Incentive (gross):
47%
30%
Knight Frank Research. Basemap data © OpenStreetMap contributors. Map tiles © CARTO and © MapTiler.


Heatmap of prevailing net incentives in Melbourne CBD (as at Q3 2025)
N
North Eastern
Flagstaff
Civic
Eastern Core
Western Core
Spencer
Docklands
Incentive (net):
55%
39%
Knight Frank Research. Basemap data © OpenStreetMap contributors. Map tiles © CARTO and © MapTiler.



Target practice

Stock selection is key

Alongside the locational dimension, asset selection will be a vital ingredient to success over the next cycle. This has always been important, but we expect that the dispersion of performance outcomes will be heightened in a climate of above average vacancy, which feeds through to a higher degree of leasing risk.

For the right assets with sustained appeal for tenants, higher vacancy in the wider market will not impede performance. They will lease available space ahead of their competitor set and are more likely to benefit from rental growth – indeed, we are seeing this already.

This is most apparent in office markets, with investors moving away from broad sector strategies to home in on the specific assets that they perceive to offer the right ingredients for future growth.

With a constrained development pipeline providing a clear path to rent growth, the question becomes which specific locations and which assets within those locations will benefit from tightening supply, and which will continue to find it more challenging to lease space?

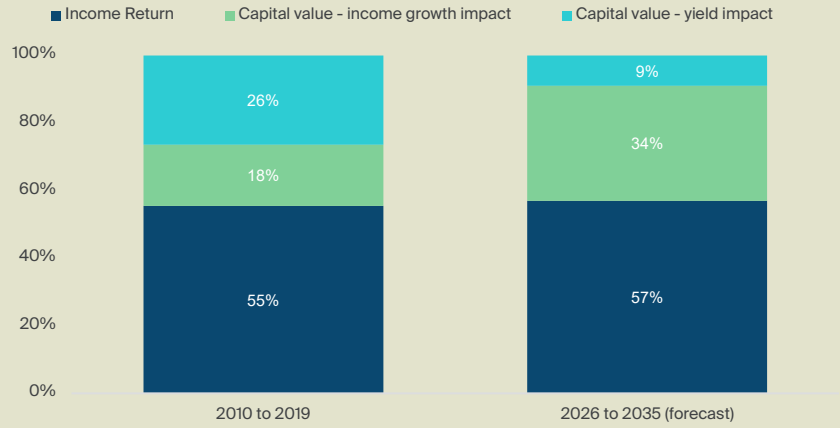
The question relates to timing and the likely return profile, which links to the type of capital that will target different strategies. Best-in-class premium and A-grade assets will benefit from limited new supply more quickly, but will trade on tighter yields.

Other A-grade assets and well-regarded B-grade assets will eventually benefit, but over a longer timeframe and with more risk in the interim. In return, they will trade at more attractive yields.

Either strategy can pay dividends, but the key will be to align investment goals with the return and risk profile of each asset, with a more targeted approach to asset selection to become the new norm. The same questions around alignment will impact asset selection within all sectors: the optimal assets will be those that best align with the goals of the investor, factoring in scale, timing and return profile.

Income to drive total returns

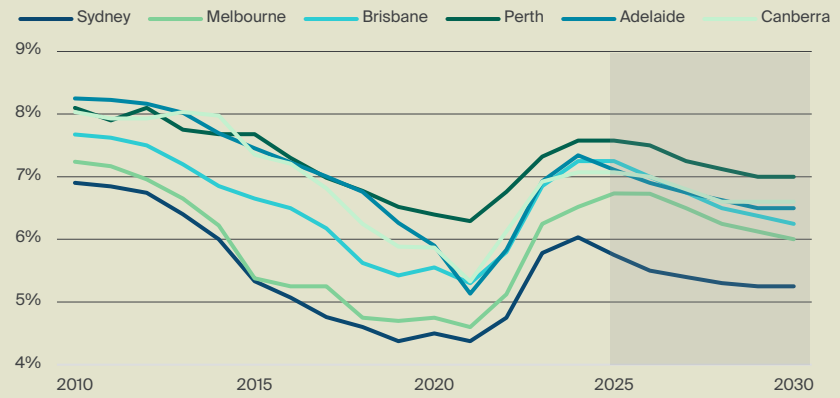
Breakdown of drivers of MSCI all property total returns by type (%)



Source: Knight Frank Research, MSCI

Office yields forecast to compress 50-100 bps

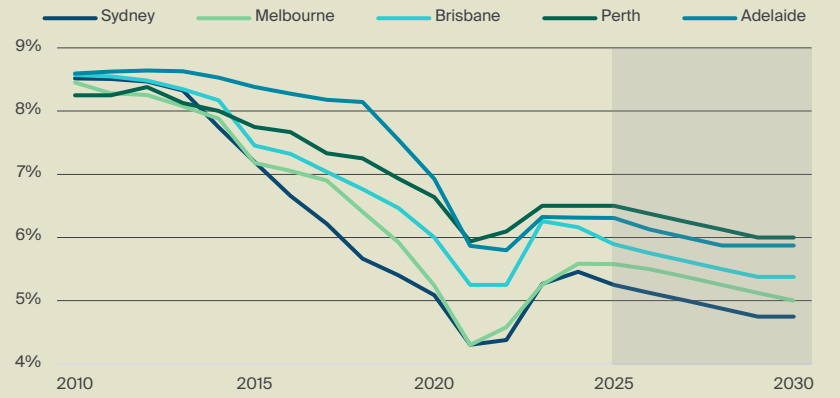
Prime CBD office yields (%)



Source: Knight Frank Research

Industrial forecast to compress by around 50 bps

Prime industrial office yields (%)



Source: Knight Frank Research

Changing shape

The pattern of growth will be different this time

The renewed spike in inflation has again demonstrated the extent of the 'last mile' challenge, with the RBA and other central banks still unable to shift their focus away from lingering cost pressures. As we head into 2026, it remains unclear whether the RBA will be able to offer further rate relief, and if they do, it is likely to be limited.

This serves as a reminder that investors cannot rely on a prolonged rate cutting cycle to drive ever-lower funding costs and that yield compression will be more limited in the coming growth cycle.

In the decade from 2010-19, we estimate that yield compression accounted for 26% of total returns and was a more important driver of capital appreciation than income growth. Looking ahead, we expect a smaller contribution, with income to represent a higher proportion of overall returns and capital appreciation to be driven by income growth to a greater degree.

We still expect yield compression for prime assets over the next three years, reflecting improving sentiment, increased competition, and a more assured outlook for rental growth, but this will bolster returns rather than underpin long-term performance.

The second wave of growth will come from income growth and play out over a longer period, but the right ingredients are in place. Effective rents for office and retail assets are at relatively low levels compared to historic norms, and limited new supply will have a sequential impact in pushing up income returns, as we discuss in more detail in the next section of this report.

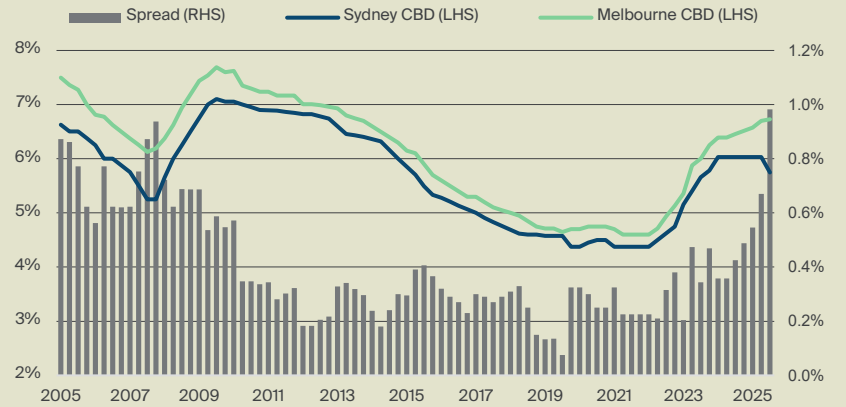
Relative value in Melbourne

Value-add investors will head south



Spread between Sydney and Melbourne at 20 yr high

Average CBD prime yield and spread (%)

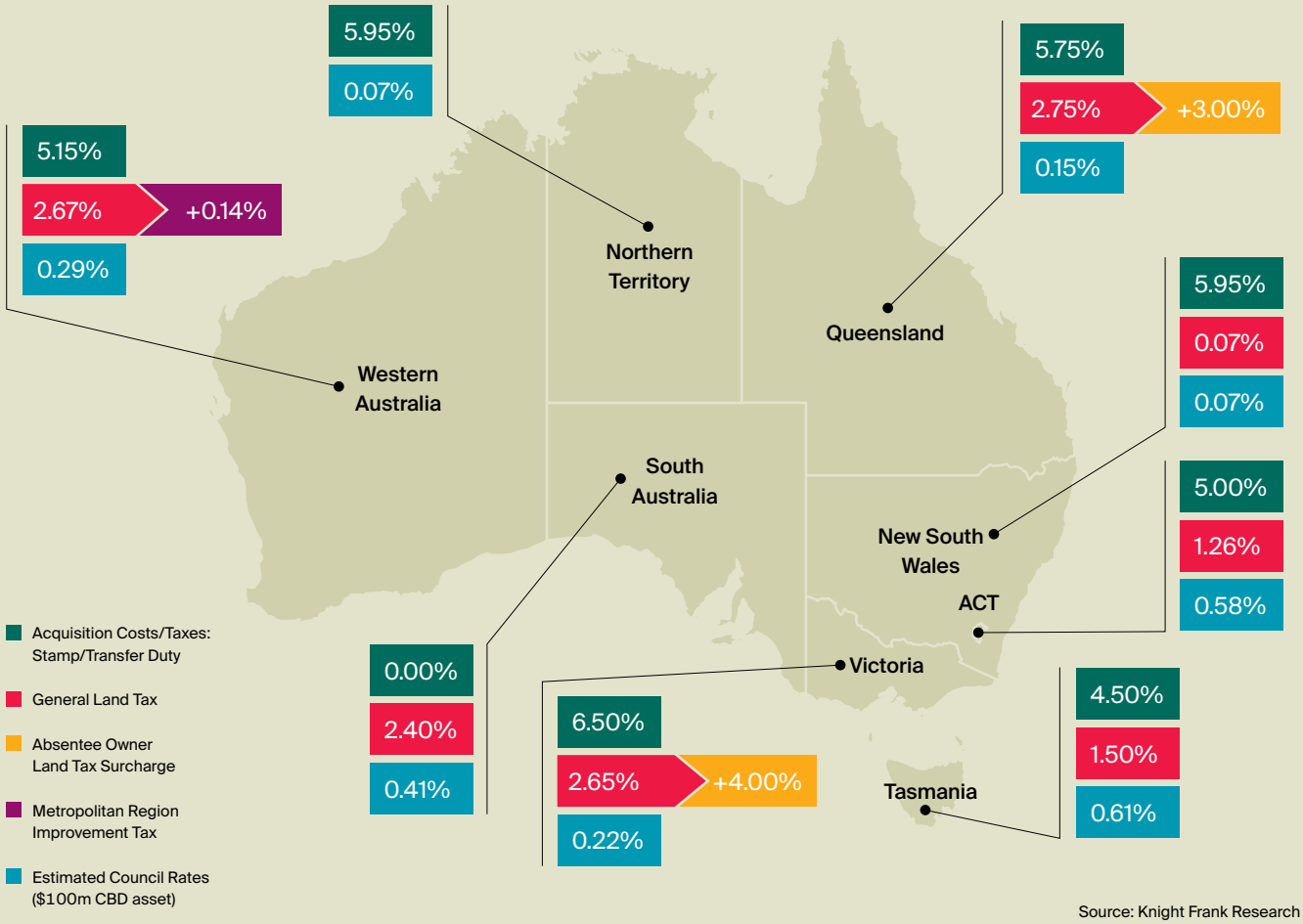


Source: Knight Frank Research

Melbourne has been slower to turn the corner, with liquidity impacted by the introduction of the absentee owner surchage (AOS) and the commercial and industrial property tax (CIPT), reducing international interest and thus pricing. At the same time it introduced uncertainty over the future outlook for policy.

Consequently investors, particularly international investors, have remained cautious of investing in Melbourne. This has led to yields drifting out further than occurred in Sydney, and with Sydney now in recovery mode, the spread between Melbourne and Sydney has risen to its greatest in more than 20

2025 Australian Commercial Property Tax Comparison



Source: Knight Frank Research

years for CBD assets.

This provides several opportunities. Firstly, for domestic investors, who do not get hit by the AOS, and private investors with a long-term view; they can take advantage of a diminished interest from international investors and domestic institutions to arbitrage the different taxation regimes and consider investing whilst facing limited competition. The fundamentals in the Melbourne market remain solid, with fast growing population and employment in the CBD combined with a vastly reduced pipeline of new buildings post 2026. This means rental growth is to be expected over the medium-term, and the current growth momentum in the Eastern Core will spread down Collins Street to the West.

Second, for international investors the yield spread is now so great that it compensates for the different tax regime relative to NSW. There is also the possibility that the State Government, under pressure from industry groups, may reconsider the level of the AOS going forward.

Finally, all the downside seems to be priced in but no upside: the negatives of taxation are widely appreciated but not the prospect for strong growth over the long term, the high vacancy rate but not the limited pipeline, the worry of continued work from home but not both the obvious issue that three days in the office will require just as much space as five days for many businesses, and that investments have been and will continue to be made in improving the office environment to continue attracting workers into the office. Downside risk in Melbourne is therefore limited and investors prepared to look through the current negative sentiment can take advantage of very attractive pricing.

That does not mean the Melbourne is out of the woods or a total buy. Many generic buildings will struggle to lease all of their vacant space in a high vacancy environment with selective tenants. But selective investment in quality assets in desired locations will yield dividends, and the market also offers ample value-add opportunities at the right price to upgrade or repurpose.

Time for a new narrative

Beds & sheds has run its course

The ‘beds & sheds’ narrative has become a familiar refrain in investment markets, with many global investors calling out the industrial and living sectors as offering the most compelling tailwinds for growth over the past decade, unencumbered by the disruptive forces that have impacted office and retail.

In the case of Australia, this played out most clearly through the industrial sector which was clearly the strongest performing asset class over the past decade. Living sectors have also made a strong impact, with substantial pent-up demand to build exposure over time.

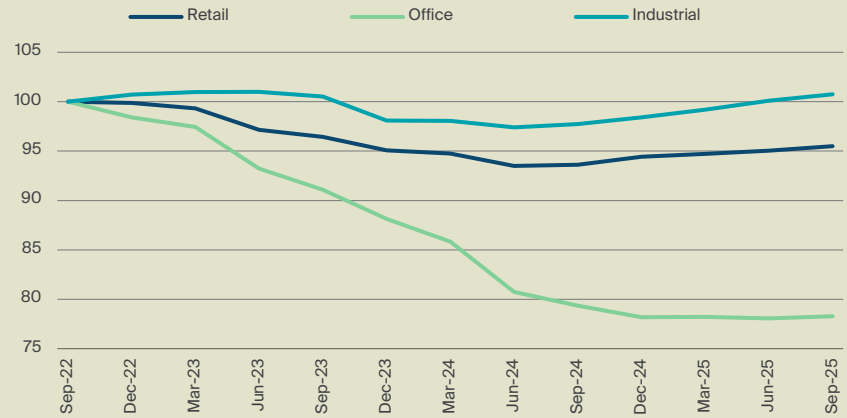
However, after nearly a decade, we believe that the narrative has now run its course, and that the outlook for the key sectors is on a much more equal footing. With retail markets having endured a longer period of subdued returns extending back to 2017, and offices experiencing a deeper downturn, pricing is now much more attractive in these markets. These traditional sectors are now offering stronger income returns, and with leasing markets having stabilised, rental growth prospects are increasingly positive. Downside risks also appear far less threatening, with the vast majority of assets trading at values below replacement cost.

Industrial returns remain solid, but rising incentives are putting a brake on the near term outlook, so retail looks set to emerge as the strongest performer in 2026. The office sector is more divergent, and capital appreciation for the entire market on average will take longer to kick in, but selective investment in quality assets soon to benefit from rental growth will buoy returns, with substantial upside potential over the next decade.

Besides an improving outlook for returns, the traditional sectors also compare favourably when it comes to capital deployment and market timing. Office and retail are readily investable and new entrants can acquire large holdings of stabilised assets relatively quickly, allowing investors to take advantage of the cyclical recovery. On the other hand, the emerging living sectors tend to require development and hence capital deployment can only take place over a much longer period, which limits the ability take advantage of a near-term market rebound.

Large relative repricing between the sectors

Capital value index by sector, September 2022 = 100



Source: Knight Frank Research, MSCI





← Click to view the 2025 report

Forecast review

Evaluating the accuracy of our 2025 Capital Market predictions

1 DIVERGENT DOWNTURN CLOSE TO THE TROUGH

We were right on this, given that asset values have now turned the corner in all sectors.

2 TIME TO BUY IN 2025

It will take several years to judge the relative merits of the 2025 vintage, but recent yield compression in Sydney indicates that we will look back on 2025 as an ideal time to have deployed capital.

3 SYDNEY TO LEAD THE CYCLICAL RECOVERY, STARTING WITH INDUSTRIAL

We were mostly right here, in that Sydney has led the recovery in sentiment and deal flow, and the industrial sector was the quickest to record yield compression. However, among the industrial markets, Brisbane grew more quickly during 2025.

4 PRIME SYDNEY OFFICE YIELDS TO DROP TO 5.8% AND PRIME INDUSTRIAL TO 5.1% IN 2025

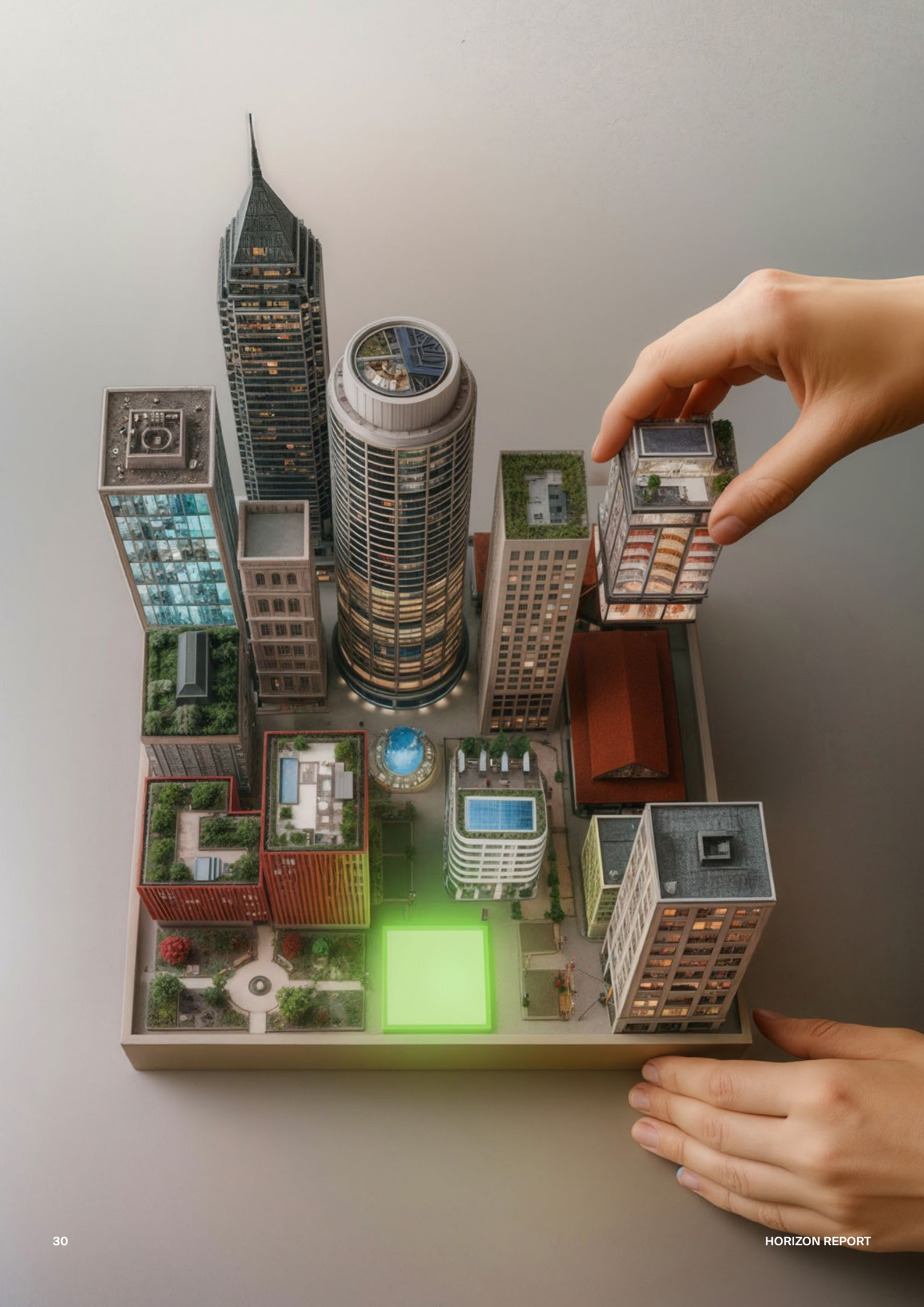
Office yields have edged down by 25 bps just as we predicted, led by the Core precinct. Industrial yields have also compressed by 15 bps, not quite as much as we forecast last year. Office yields have edged down by 25 bps just as we predicted, led by the Core precinct. Industrial yields have also compressed by 15 bps, not quite as much as we forecast last year.

5 MELBOURNE PRIME YIELDS TO START FALLING IN 2025

We jumped the gun on this one, yields have stabilised but not yet started to tighten in Melbourne, sitting at 6.7%.

6 INVESTORS READY TO STRIKE AFTER LENGTHY HIATUS

This has proven correct, with a broad based uplift in deal volumes in 2025. Deal volumes are likely to reach around $45 billion across the major sectors, well up on the levels recorded in 2023 and 2024.



Economic Rents

From gridlock to green light

32 Winds of change
Economic rents have increased substantially

34 Crunching the numbers
A bridge too far in office markets and a smaller gap in industrial

36 Arrested development
The feasibility squeeze is already having a number of immediate impacts on the market.

40 Closing the gap
Yield compression will ease the development squeeze



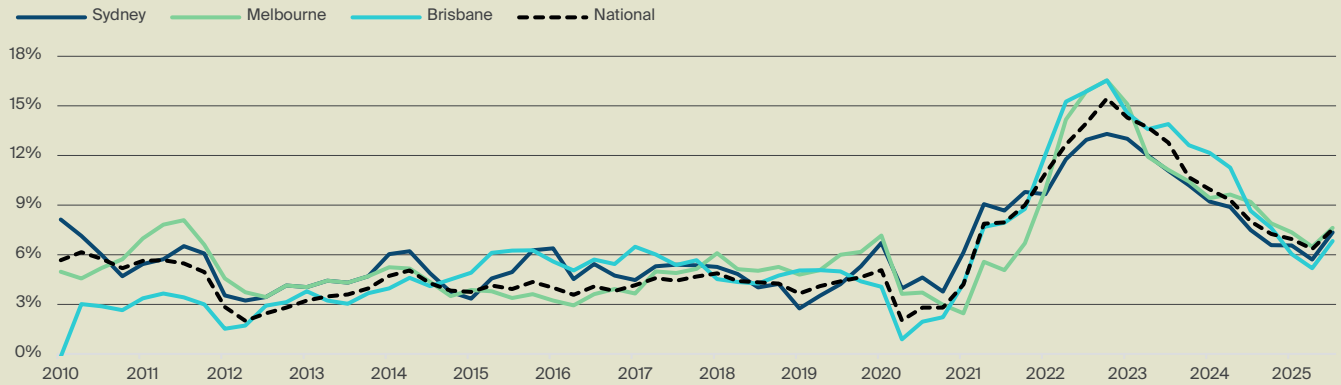
Winds of change

Economic rents have increased substantially

Economic rents – the level of rent at which the construction of a new development becomes feasible – have surged since 2021. This surge is not the result of a single force, but rather a perfect storm of rising construction costs, climbing interest rates, swelling incentives, and falling capital values. For developers, the hurdle to start new projects has never been higher, which will constrain the supply pipeline across all property sectors and support the performance of existing assets over the coming years.

Sharp rise in construction costs

Annual growth in building cost index (%)



Source: Knight Frank Research, Rawlinsons

Three key drivers of change:

CONSTRUCTION COSTS

Since 2021, construction costs have spiralled upwards. Global and domestic supply-chain pressures have pushed up material costs by 55% on average since Q1 2021 – the sharpest increase in decades. Always the heavyweight in any development budget, construction costs have become the main gatekeeper for new projects and the increase has redrawn the boundaries of what's feasible.

INTEREST RATES & YIELDS

Rising rates have generated a powerful headwind for developers just as the economy was finding its stride after the pandemic. The cost of money has become a steeper hill to climb, further narrowing the path for new projects. Prime yields have risen substantially, driving down completed project values, with higher funding costs changing the equation for developers and investors globally and locally.

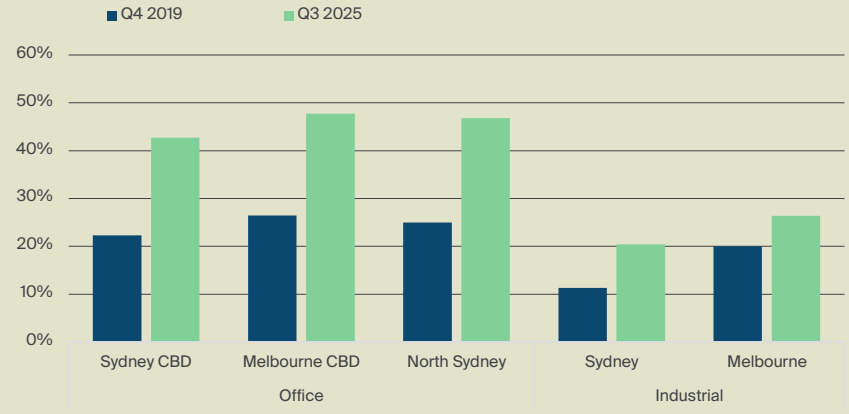
INCENTIVES

Growing incentive levels have also risen across office and industrial sectors reflecting the softening in office demand and rising vacancy rates, weighing on net effective rents.

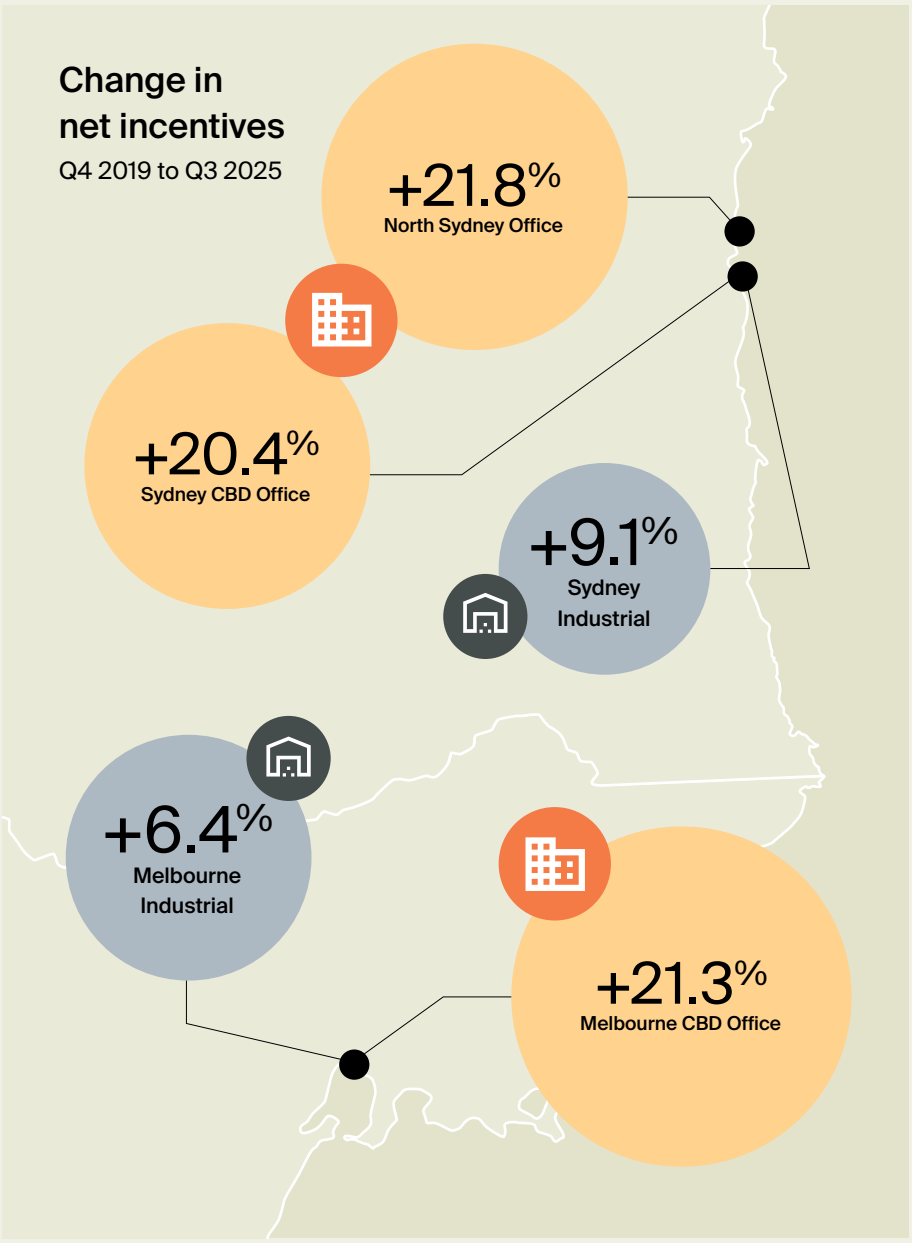
Together, these factors culminated into economic rents for new office and industrial developments spiking to their highest level on record across Australia during 2025.

Office and industrial incentives have risen

Net incentives by property type and city (%)



Source: Knight Frank Research



Crunching the numbers

A bridge too far in office markets and a smaller gap in industrial

For many developers looking at starting construction on a new office development today, these three forces mean it is difficult to make the numbers stack up. Our estimates – using a discounted cash flow model – show that the economic rents required to make new office schemes viable are currently well above even the most optimistic forecasts for future rents which will be received upon project completion.

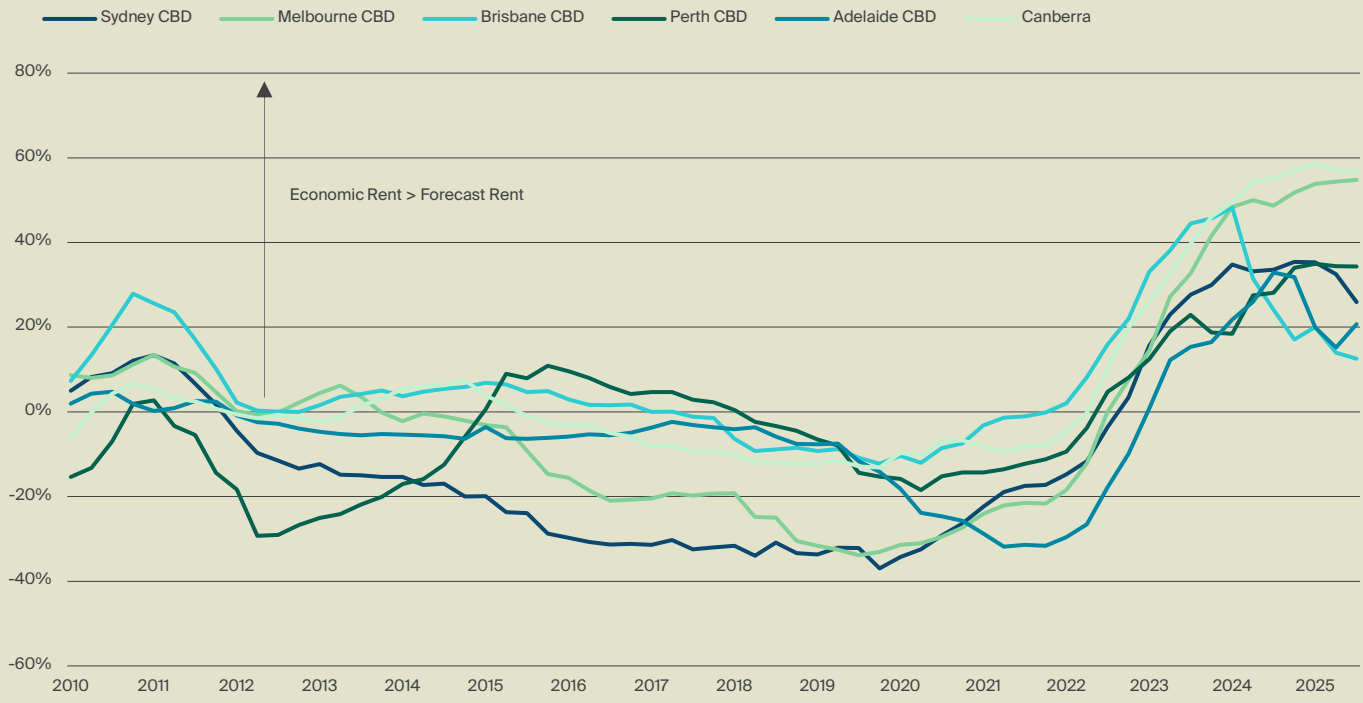
Our estimates show that the gap is largest in Melbourne at 56%, where yields have seen a greater shift upward, while in Brisbane (12%) and Adelaide CBDs (20%), the gap between economic and forecast rents has narrowed over the past year, thanks to a burst of rental growth and stabilising costs. In these cities, the market is inching closer to a green light for new development. The gap in Sydney (26%) is also starting to close as yields edge inward, although it will still take some time to be closed.

Industrial economic rents are also above forecast rents however the gap is much smaller than in offices, reflecting strong rental growth and tighter yields for industrial assets, which has offset the growth in input costs to a greater extent. Sydney and Brisbane are the closest to feasibility with economic rents stabilising at around 10–15% above forecast rents. Melbourne industrial economic rents rose by more than this, but have fallen over recent quarters as falling land values lower the cost of site acquisition.

Of course, every site and every scheme is different, and the estimates will not accurately reflect the circumstances of each developer. For instance, developments can more easily proceed when land was obtained some time ago at lower rates. They are intended as a guide to the situation faced by developers today, reflecting current land and construction costs after allowing for the phasing of costs throughout the development process.

Office economic rents are above forecast rents

Difference between economic and forecast rent (%, economic rent divided by forecast rent)

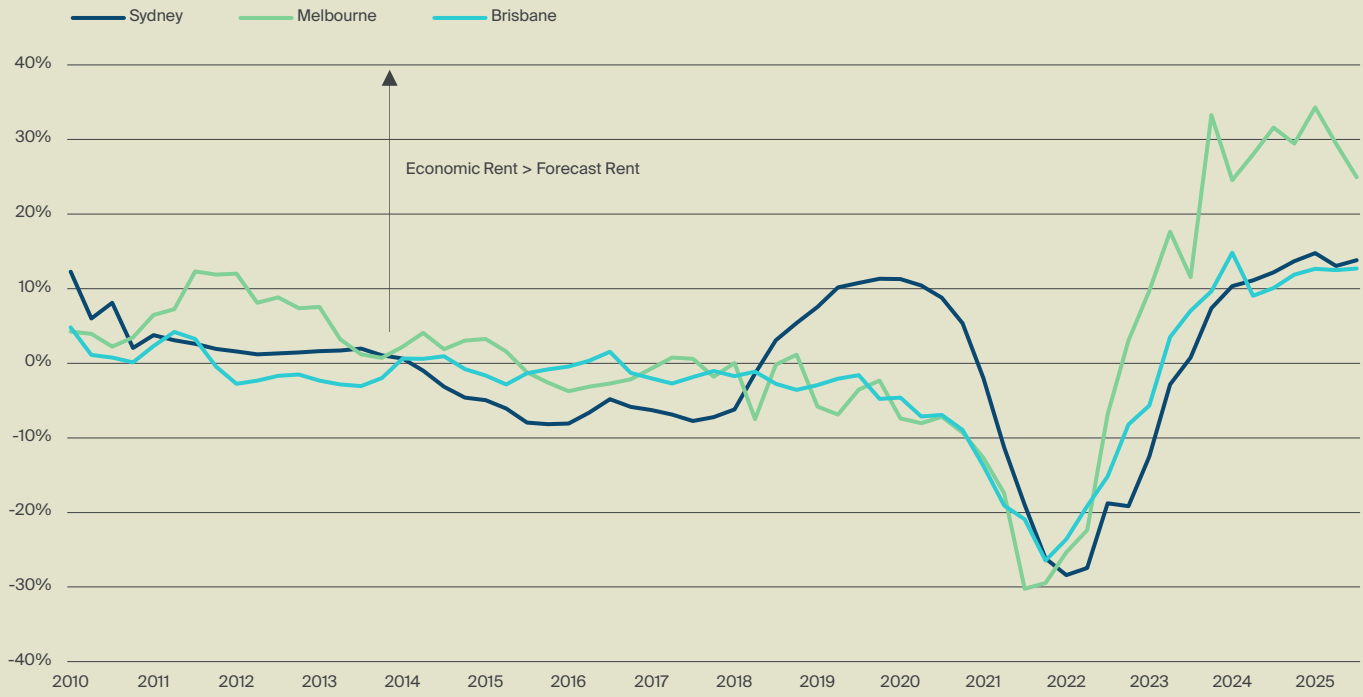


Source: Knight Frank Research



Industrial economic rent is above forecast rent

Difference between economic and forecast rent (%, economic rent divided by forecast rent)



Source: Knight Frank Research

Arrested development

The feasibility squeeze is already having a number of immediate impacts on the market.



Offices

DIMINISHED PIPELINE

With economic rents well above forecast levels, the development pipeline has thinned, as many wait on the sidelines for conditions to improve. National office supply is forecast to average around 220,000 sqm per year over the next five years – almost half the average seen over the past decade. An extended new supply drought could reshape the market for years to come. The pipeline is thinning across all cities, but it is particularly sparce in Sydney, Brisbane and Perth.

STRONGER RENT PERFORMANCE

Dwindling new supply will drive an acceleration in rent growth, although this will proceed at different speeds. In the first instance, rent agreed on a pre-commitment basis for the new towers coming through will start to rise. The growing scarcity of new product will then drive improvements in occupancy and rental performance for existing premium and A-grade assets, starting in core locations and then extending to adjacent precincts.

FOCUS ON CORE CBDs

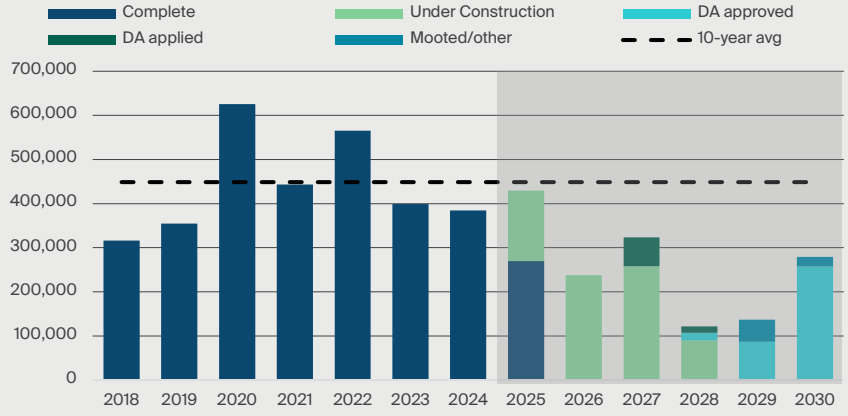
To stand the best chance of proceeding, prospective developments will need to be in core CBD locations where rents are higher and yields are tighter. Suburban markets are facing a longer hiatus given lower prevailing rents and higher yields.

SHIFT IN FOCUS TO STABILISED ASSETS

Investors that have traditionally sought to deploy capital via development will find this challenging in the current environment. As a result, we expect many to shift their focus to acquiring stabilised assets and core-plus investment requiring less costly CAPEX.

National office supply pipeline is tightening

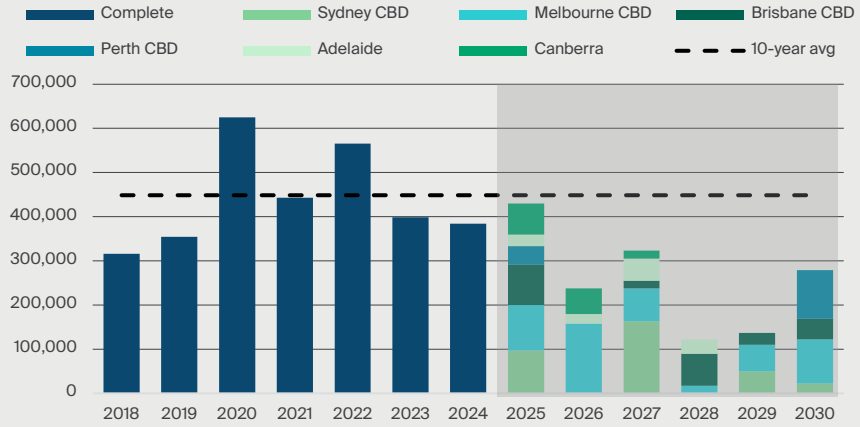
National office supply by development status (sqm)



Source: Knight Frank Research, PCA

Office supply falling across all CBDs

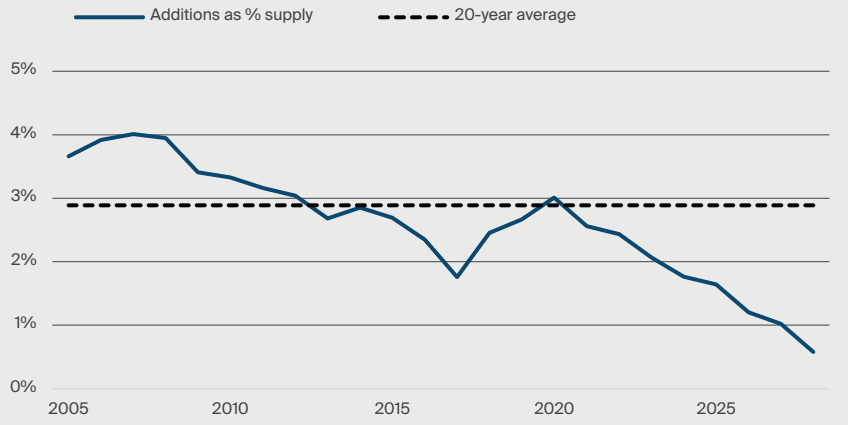
National office supply by CBD (sqm)



Source: Knight Frank Research, PCA

National supply continues to trend down

National supply as % of office stock, 3-yr forward rolling average (%)



Source: Knight Frank Research, PCA

Industrial

PIPELINE TO SLOW FROM RECORD HIGHS

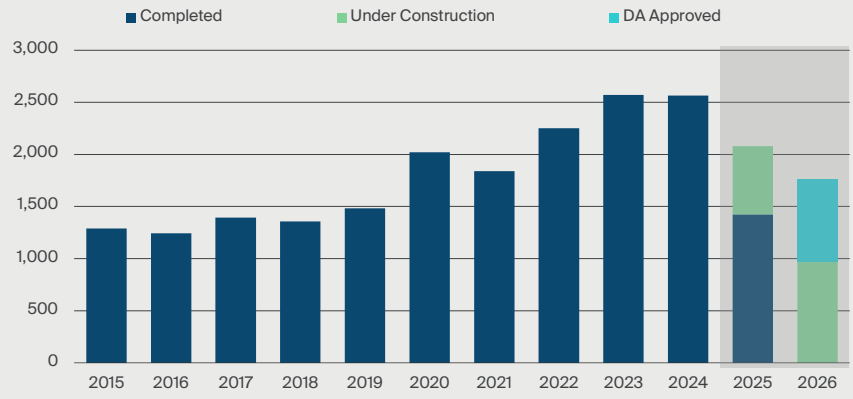
Reflecting strong rental growth in recent years, the industrial pipeline has been maintained at high levels, with record levels of new supply in 2023 and 2024 at around 2.6 million sqm across the major East Coast cities. However, we are now seeing a drop in completions, with 2025 expected to see around a 20% drop to 2.1 million sqm and a further reduction forecast for 2026 to 1.8 million sqm.

FOCUS ON INFILL LOCATIONS

With higher vacancy and lower prevailing rents in the largest precincts including West Melbourne and Southwestern Sydney, developers are likely to target infill opportunities in high-demand areas with stronger rents, although these will typically be smaller-scale due to the scarcity of large industrial sites. High economic rents may also encourage greater land banking and site holding, as developers position themselves for when market conditions eventually rebalance.

Industrial pipeline now slowing

Eastern Seaboard industrial supply by development stage ('000 sqm, excl. <5,000sqm)



Source: Knight Frank Research

SHIFT AWAY FROM SPEC TO A PRE-COMMIT DEVELOPMENT TRIGGER

Elevated economic rents are expected to sustain the shift away from speculative construction and back towards a market where new projects typically require a tenant pre-commitment.

SHIFT IN FOCUS TO STABILISED ASSETS

As in the office market, some developers will shift their focus to acquiring stabilised assets, adding to pricing tension as the market recovers.

RENTAL GROWTH TO RETURN

After a strong run up in rents during 2021-23, the past two years have seen greater variation and a more subdued overall pace of growth, with rising incentives weighing on performance in the largest markets. Looking ahead, we expect incentives to stabilise and a sequential return to growth in Sydney and Melbourne.





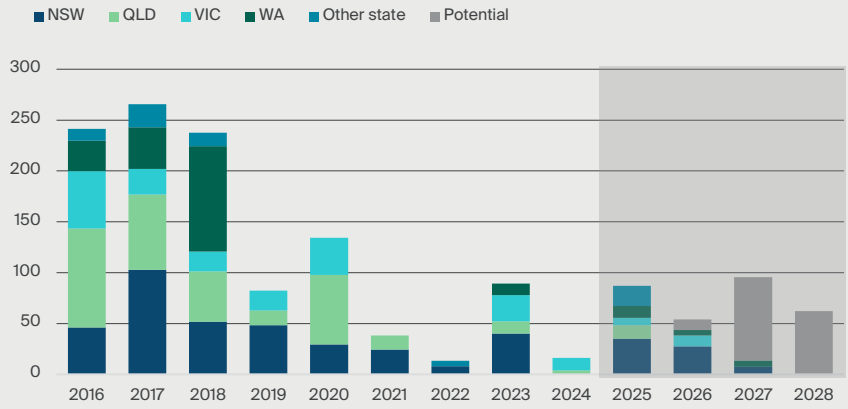


Retail

The retail sector has seen these issues playing out for several years, given that new supply has been very limited since 2018. This was initially due to concern over the outlook for the major centres given the growth in e-commerce, but even now as those issues are settling and the outlook for MAT (moving annual turnover) growth looks much more assured, it is still very unlikely that we will see a swift acceleration in development. Major centre owners are more likely to focus on extensions and reconfiguring existing space – a cost-effective alternative to building new centres.

Shopping centre supply has been limited since 2018

Shopping centre gross lettable area ('000 sqm)



Source: Knight Frank Research, Cordell

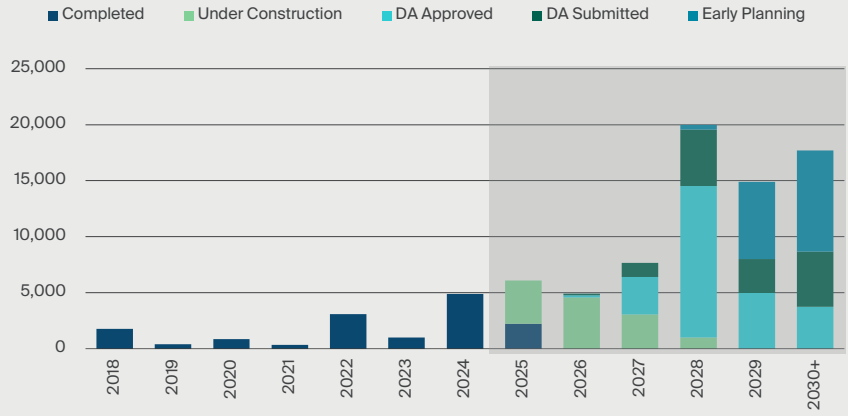
Living sectors

Living sectors are a key focus for growth, and multiple global and local groups are eager to build out a BTR platform to take advantage of Australia's structural undersupply of rental accommodation and demographic tailwinds. Last year marked a record for the BTR sector, with 4,660 units delivered across 18 schemes nationally, and we expect around 6,000 units to be delivered in 2025.

However, despite substantial pent up demand, analysis of the construction pipeline suggests this momentum is likely to taper off in 2026, reflecting the feasibility challenges being experienced by developers across the residential sector. Early projections indicate a notable decline in new supply, with around 4,000 units currently forecast for completion next year. After an unsettled period for the development market, a slowdown was inevitable and this will keep supply levels muted in the short term.

Timing of BTR delivery has been delayed

BTR units completed by development status (no. of units)



Source: Knight Frank Research

Closing the gap

Yield compression will ease the development squeeze

With interest rates having fallen and prime yields starting to edge inward, economic rents have likely peaked in most markets. While new projects remain largely unfeasible for now, the market appears to be approaching a turning point and we expect the gap between economic rents and forecast rents to start to close, albeit at different speeds.

Yield compression stands out as the key catalyst for change in the development landscape, shaping the future path of economic rents. When yields fall, asset values rise, and the economic rent required to make a project viable comes down – unlocking the door to new development. Without this compression, only exceptionally strong rent growth would be enough to tip projects into feasibility, making the journey to new supply far more challenging and potentially prolonging the current slowdown.

Looking specifically at Sydney's CBD office market, economic rents for new premium grade developments are projected to remain above forecast rents until 2028. This means that, aside from projects already underway, the city is unlikely to see new premium office towers completed before 2031. However, there are signs of progress: economic rents in Sydney have started to fall, with declines recorded in both Q2 and Q3 2025—the first drops since late 2019.

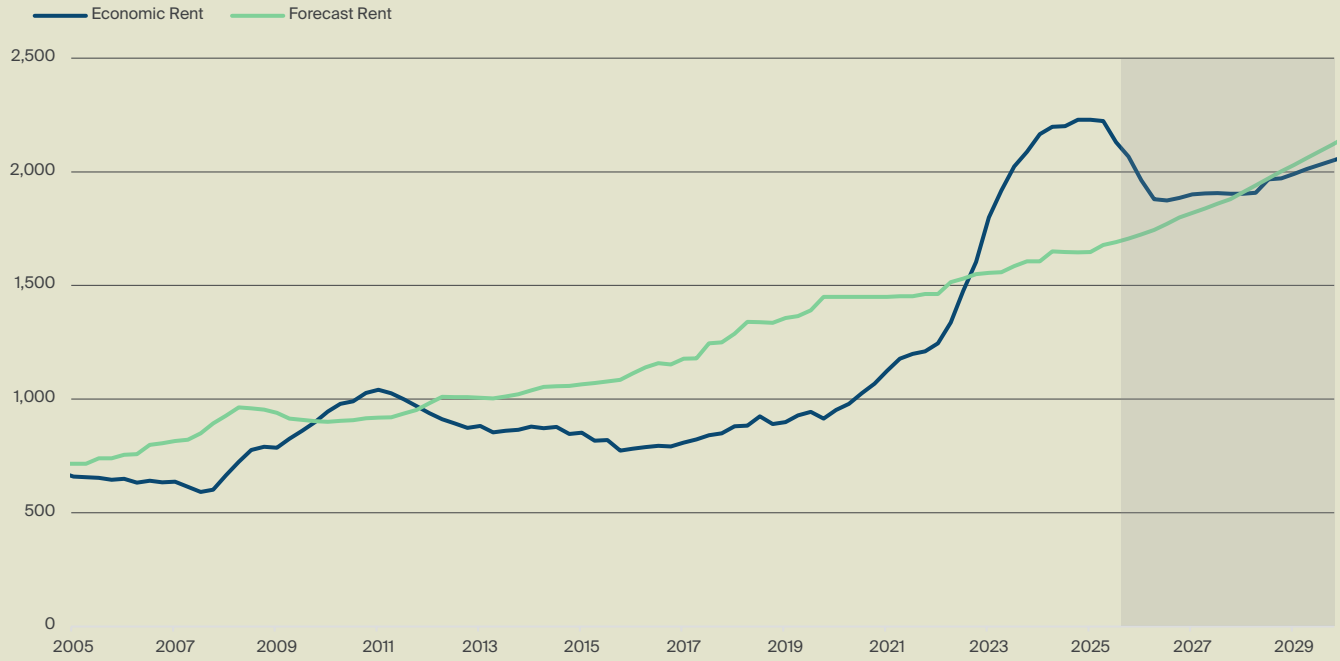
An anticipated 78 basis points of yield compression for premium offices is expected to be the lever that finally brings new development back within reach, and the process is already underway, with premium yields dropping by 25 basis points in Q3.

A similar story is unfolding in Melbourne's prime industrial sector. Here, economic rents are expected to stay above forecast rents until around 2029, suggesting that a meaningful expansion of the development pipeline may not occur until 2030. This outlook is shaped by a forecast 58 basis point decline in industrial yields and a projected pickup in rental growth in 2027, as the slowdown in new supply gradually reduces vacancy rates and tightens the market. For now, developers are likely to remain cautious, focusing on select opportunities rather than broad-based expansion.



Gap in Sydney CBD forecast to close by 2028

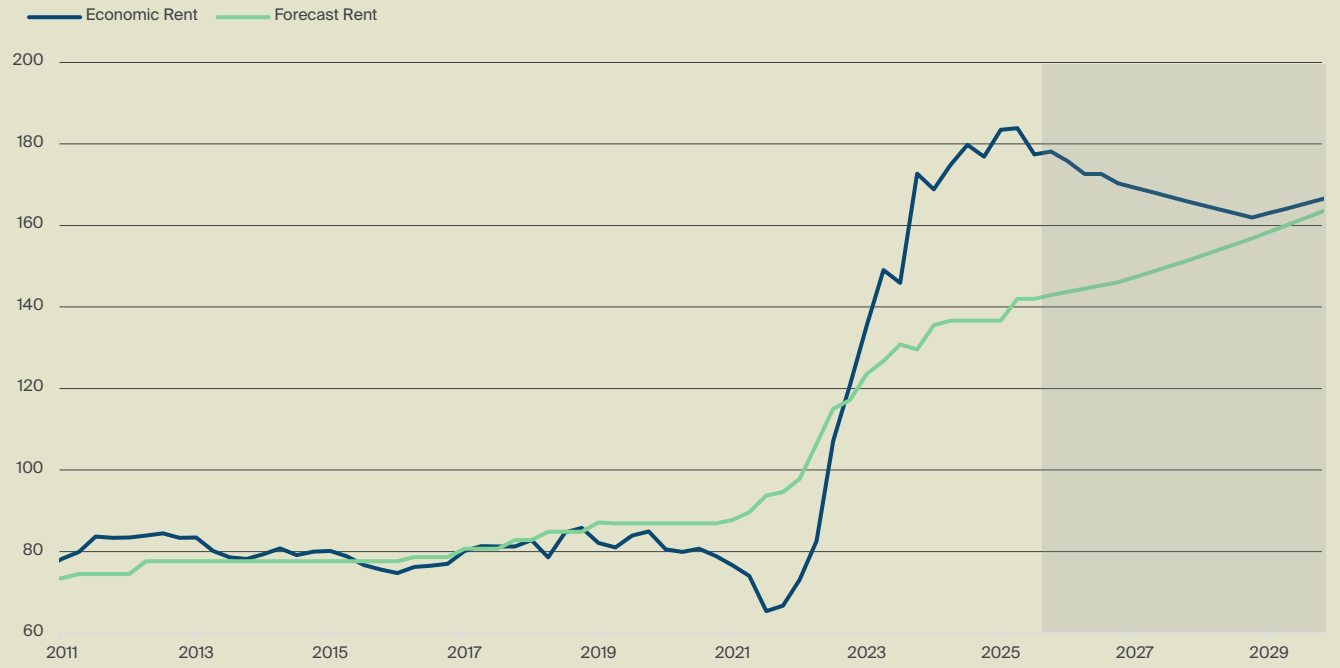
Estimate of economic rent required at project completion for a Sydney CBD premium development versus forecast rent [current market rent plus 3% p.a. growth over 3 years] ($/sqm, net face rent)



Source: Knight Frank Research

Gap in Melbourne industrial forecast to close around 2029

Estimate of economic rent required at project completion for a prime West Melbourne industrial development versus forecast rent [current market rent plus 3.5% p.a. growth over 1 year] ($/sqm, net face rent)



Source: Knight Frank Research



Office

Waiting for the ripple effect

44 No holding back
Prime growth will defy above average vacancy rates

46 The ripple effect
Growth extending beyond the core

48 Asset performance will differ
A granular approach can help identify opportunity



No holding back

Prime growth will defy above average vacancy rates

Logic has it that rental growth should correlate closely with the level of vacancy and the change in that level from one year to the next. Historically this largely bears this out, most recently during the pandemic when a steep rise in availability spurred a large rise in incentives, weighing on effective rent performance.

The charts opposite depict the relationship for the major cities, and indeed the trendline points to a reasonable relationship between effective prime rental growth and vacancy. However, there are also signs that things are changing. In 2023, 2024 and 2025, we have seen strong growth on average in Brisbane, Adelaide and Sydney, notwithstanding that overall vacancy remains elevated.

Indeed, Brisbane and Adelaide have seen strong performance over a sustained period, without seeing vacancy dip below 10% since 2013, so the trend reflects more than a post-pandemic rebound.

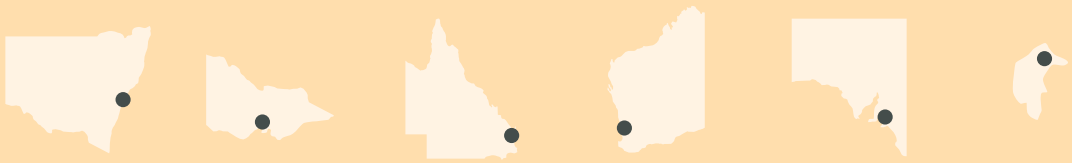
So what is happening?

Firstly, office space is no longer homogeneous, not that it ever was, but the difference between the best and the rest in the eyes of occupiers has never been greater. The fact that there is a surplus of lower quality or generic A or B grade product on the market is not holding back the performance of better-quality assets.

Secondly, the data shows that we are now well past the shock of the pandemic, and growth is returning, spurred on by dwindling new supply.

The experience of Brisbane and Adelaide offers insight into the outlook for Sydney and Melbourne, and we expect an acceleration in growth, notwithstanding that overall vacancy will remain above historic average levels for some time to come.

Rental growth forecasts 2026-30 (CAGR)*

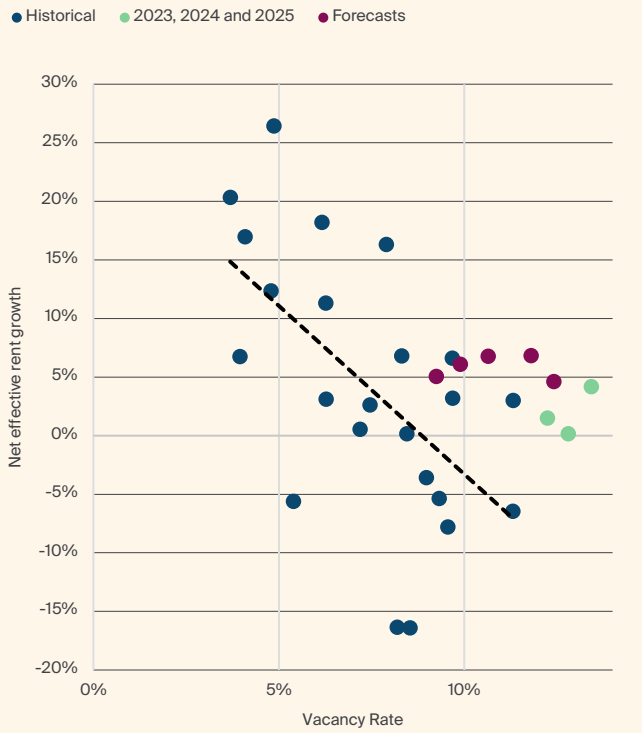


	Sydney CBD	Melbourne CBD	Brisbane CBD	Perth CBD	Adelaide CBD	Canberra
Net face	4.5%	3.4%	5.3%	5.2%	4.3%	2.9%
Net effective	5.7%	4.4%	7.1%	5.7%	5.5%	3.0%

* Compound annual growth rate

Sydney CBD

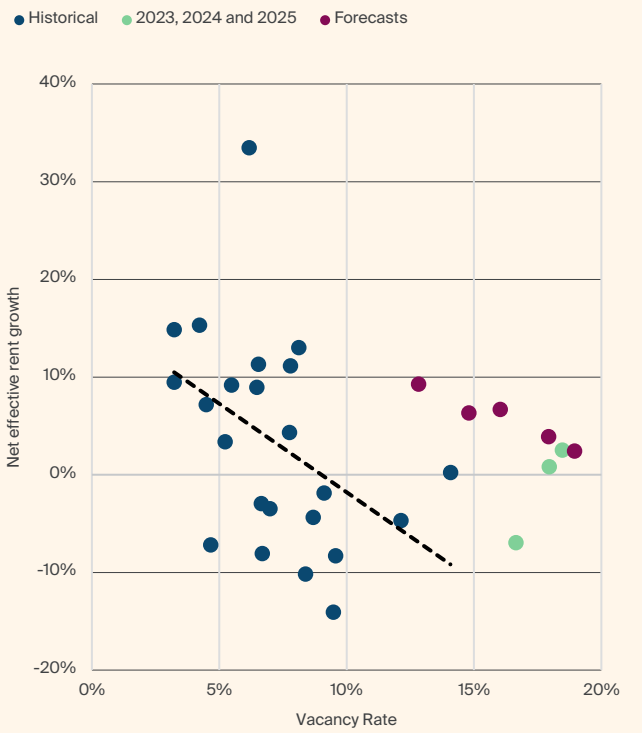
Net effective rent growth and vacancy rate (%)



Source: Knight Frank Research

Melbourne CBD

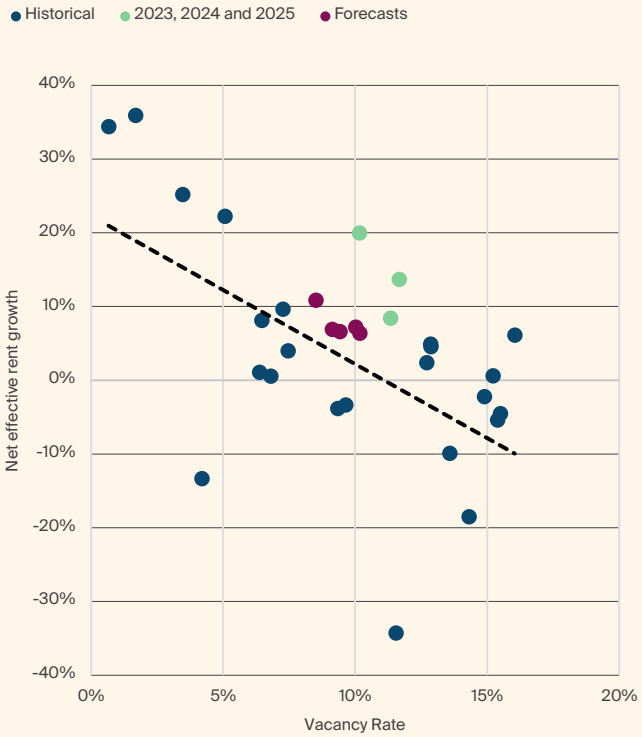
Net effective rent growth and vacancy rate (%)



Source: Knight Frank Research

Brisbane CBD

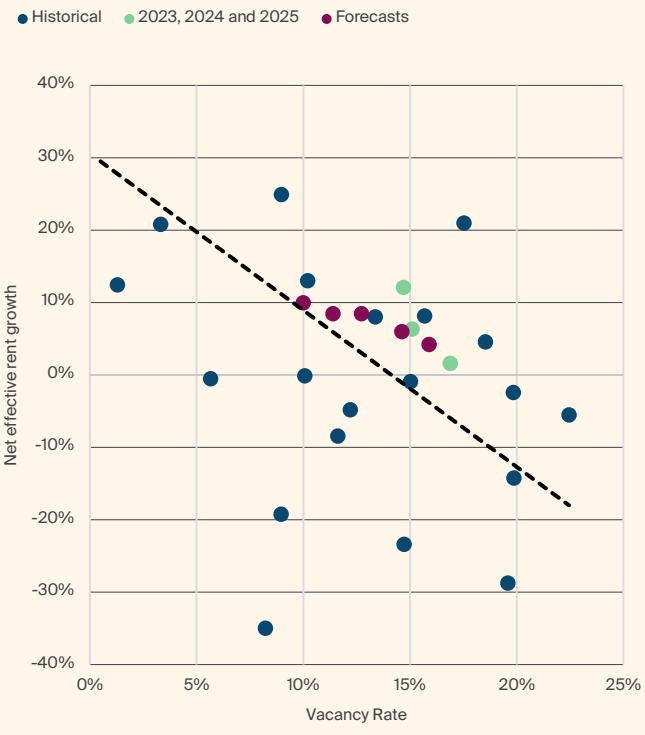
Net effective rent growth and vacancy rate (%)



Source: Knight Frank Research

Perth CBD

Net effective rent growth and vacancy rate (%)



Source: Knight Frank Research

The ripple effect

Growth extending beyond the core



While rental growth in Brisbane and Perth has occurred across a broad base of assets, growth in Sydney and Melbourne has been largely confined to the most favoured Core and Easten Core locations respectively.

Sydney's CBD Core has experienced prime rental growth of 17% over the past three years, significantly out-stripping the CBD average of 6.7%, while other precincts have lagged behind. Melbourne's Eastern Core has out-performed by a similar margin.

These precincts are characterised by market-leading amenities and have been the clear beneficiaries of shifting occupier preferences and the resulting flight to quality in recent years. In particular, they have been less impacted by the overall contraction in occupied stock that occurred from 2020-24 so rental performance has been more closely linked to the quality of stock on offer rather than the quantum of market wide absorption.

This contraction exerted significant pressure on the less favoured precincts and exacerbated the difference in rent performance. However, 2025 has seen absorption returning to growth and over time this will remove the drag on performance outside the core. Indeed, our recent (Y)our Space global survey highlighted that far fewer occupiers are intending to downsize compared to 2021, with many expecting to return to an expanding footprint.

As growth accelerates, the narrow focus on these core markets can be expected to gradually give way to a wider recovery. Core locations will still lead the way, but in 2026 we expect a clear improvement in immediately adjacent precincts, particularly Midtown in Sydney and the Civic and Western Core precincts in Melbourne.

Rent growth strongest in favoured precincts

Net face rental growth vs net effective rental growth over past 3 years (%)

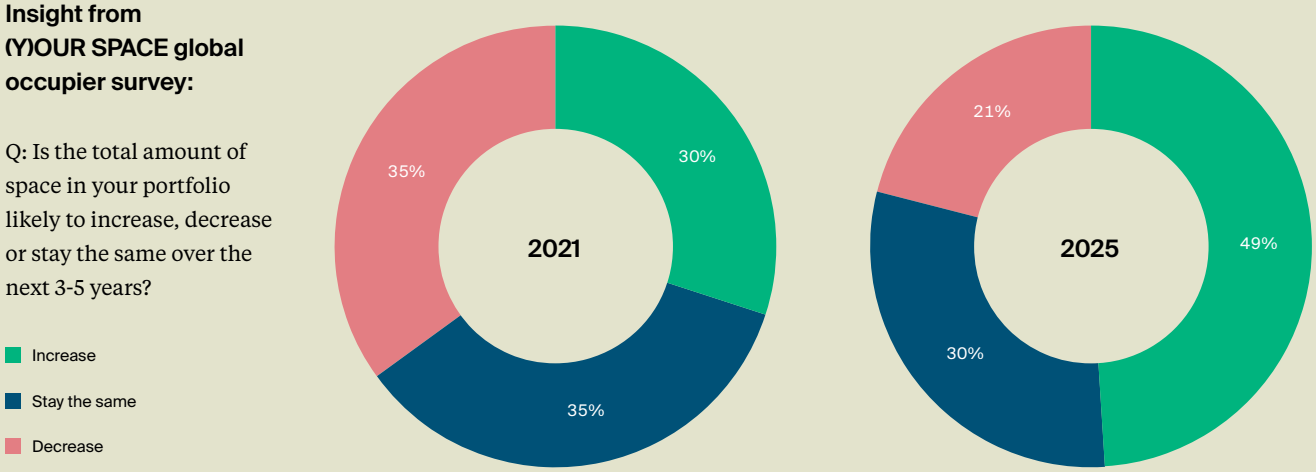


Source: Knight Frank Research



Insight from (Y)OUR SPACE global occupier survey:

Q: Is the total amount of space in your portfolio likely to increase, decrease or stay the same over the next 3-5 years?



Source: Knight Frank Research

Asset performance will differ

A granular approach can help identify opportunity

With growth expected to broaden beyond the core, the opportunity set will widen as a higher proportion of locations see improved performance. However, there will still be substantial divergence in performance, and not all assets will benefit from improving conditions in the near term.

The question then is how to identify the right assets. One path to addressing this question is via a granular analysis of vacancy to distinguish between the degree of leasing risk in different locations and for different asset types.

For example, in Sydney CBD, vacancy is not evenly spread. Firstly, it varies by location and as discussed earlier, it is slightly lower in the Core. This is widely understood, but variances by size band and floor height are less obvious and worthy of closer examination.

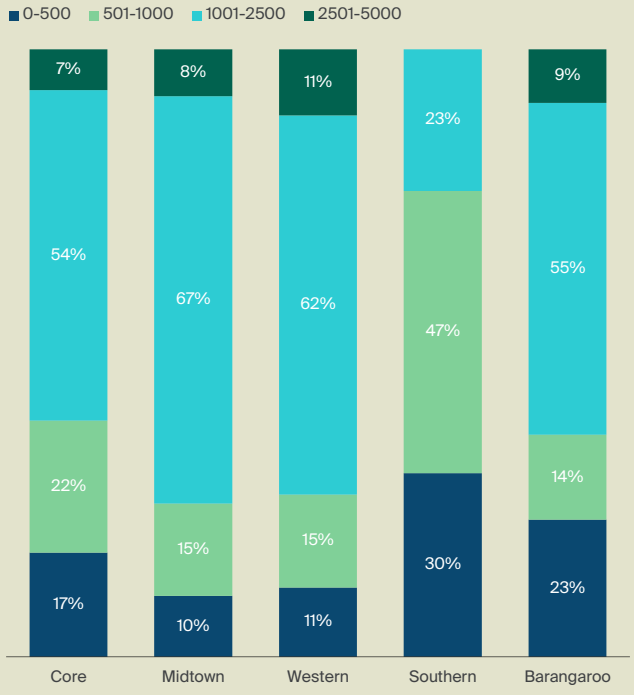
Premium and A grade vacancy is generally concentrated in assets with mid-sized floorplates of 1,000-2,500 sqm, although this is not as much of an issue in the Southern CBD precinct where vacant units are generally smaller. In contrast, B grade vacancy is more evenly split between smaller floors in the 0-500 sqm range and mid-sized floors.

Vacancy is also concentrated in lower floors for both premium and A grade, with 41% of prime grade vacancy in the lower rise (floors 1-10) and 30% in the lower mid-rise (floors 11-20). B grade vacancy is even more concentrated, with 64% in the low rise (floors 0-8).

There is no silver bullet, but understanding the locational and asset dynamics are key to reducing risk and identifying assets with the best prospects of growth.

Prime vacancy tends to be mid-sized

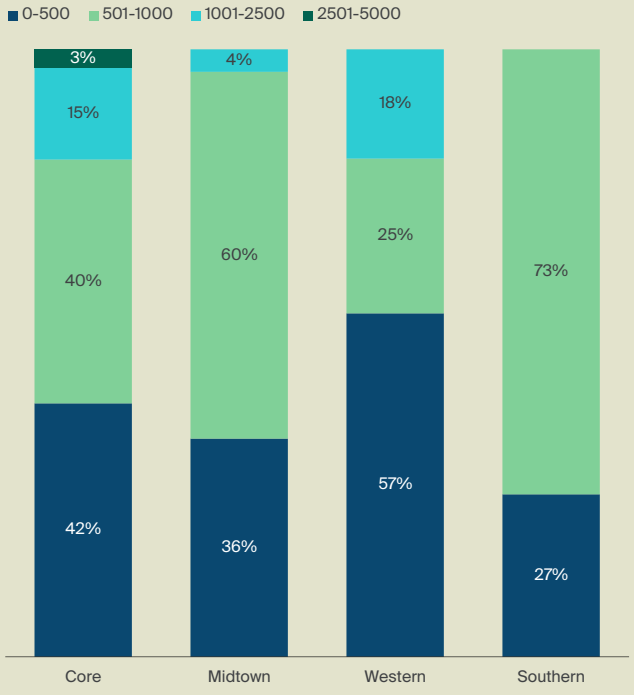
Share of total availability in Sydney CBD, Q3 2025
(% of vacant space per floor by floor height)



Source: Knight Frank Research

B grade vacancy largely smaller units

Share of total availability in Sydney CBD, Q3 2025
(% of vacant space per floor by floor height)

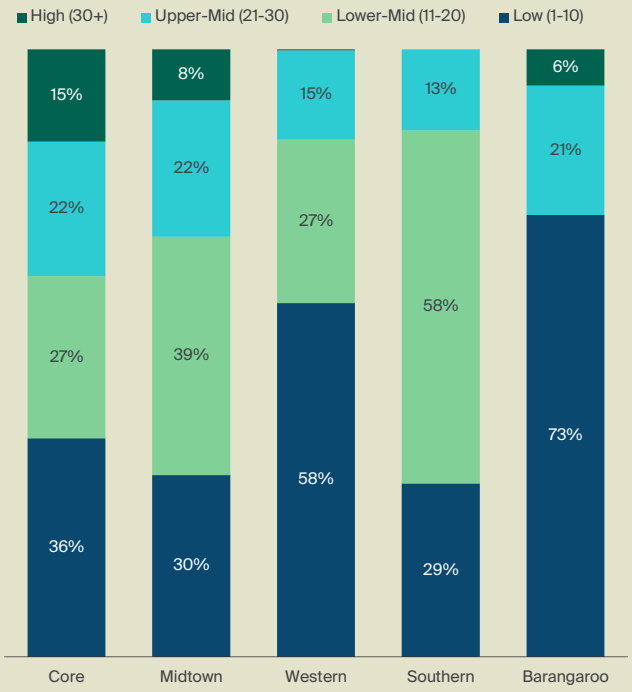


Source: Knight Frank Research



Prime vacancy largely on lower floors

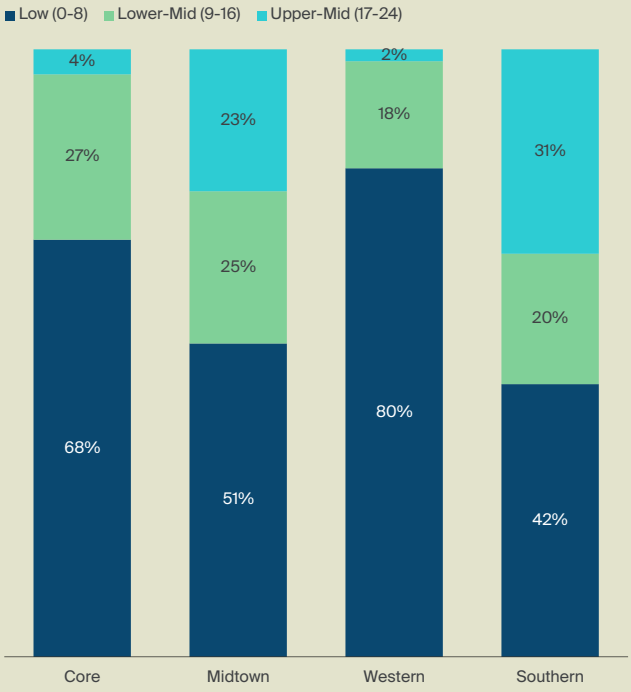
Sydney CBD prime vacancy by floor height,Q3 2025
(% of vacant space per floor by floor height)



Source: Knight Frank Research

B grade vacancy more evenly spread

Sydney CBD B-grade vacancy by floor height, Q3 2025
(% of vacant space per floor by floor height)



Source: Knight Frank Research

Office Hotspots

North Sydney

Sentiment has been weighed down by high overall vacancy, but this disguises a very different picture at the top end of the market, where newly completed assets are out-performing the wider market by a substantial margin. The addition of the Sydney Metro has reinforced the primacy of North Sydney within the suburban office landscape, while the current yield spread makes a compelling argument for North Sydney as a relative value play.

Cremorne

Cremorne continues to outperform other Melbourne metropolitan office locations due to its proximity to premium amenities, high-quality hospitality venues, the MCG, the Rod Laver arena, and key transport links. Rent performance continues to outstrip the CBD, and the recent correction in asset values offers an opportunity for investors to get in ahead of the next wave of growth.

Brisbane CBD Top Tier

Premium vacancy sat at a super-tight 3.8% in mid-2025, and with two new major additions effectively fully committed prior to completion, top-tier CBD buildings will continue to outperform in 2026. While backfill space has been created by the new supply, availability in premium and high-A buildings has seen quick take-up. The difference between the top 10-15 buildings and generic A grade space will widen over 2026.

Adelaide & Perth CBDs

Often overlooked by investors focussed on the major East Coast centres, Adelaide and Perth have quietly shifted back to growth. Perth is about to enter a prolonged supply drought, with no major schemes expected to be delivered for at least three years which will drive up rents. Adelaide, meanwhile, offers a relative value play with low transaction costs, and prime yields are already trending down as private investors compete to enter the market ahead of the anticipated recovery.



← Click to view the 2025 report

Forecast review

Evaluating the accuracy of our 2025 Office predictions

1

FORTHCOMING DEVELOPMENT DROUGHT

We anticipated this with our analysis of Sydney and Brisbane, and the drought has now extended to other cities.

2

METRO CORRIDORS TO REINFORCE THE PRIMACY OF CBDs

CBDs have continued to out-perform suburban locations, although it will take a while longer to assess the impact on Melbourne and Brisbane.

Industrial

Responding to the evolving development cycle

INDUSTRIAL

52 **Prime vacancy to stabilise**
Falling construction is already easing pressure

52 **Tenant demand to strengthen**
Retail spending and infrastructure are driving renewed interest

53 **Rental performance to diverge further**
A clear split between precincts and asset sub-classes

54 **Specialised tenants, specialised rents**

Prime vacancy to stabilise

Falling construction is already easing pressure

The level of industrial construction has already shown signs of quickly adjusting to higher vacancy and difficulty in obtaining a further step-up in rents to maintain development feasibility. From a high of 2.6 million sqm in 2024 across the East Coast, supply fell 20% in 2025 to just over 2 million sqm. The forecast for 2026 is currently another step downward at 1.8 million sqm, however only two thirds of this has commenced construction and/or secured a pre-commitment. The certainty of 2026 supply varies across the cities with Melbourne (64% commenced) and Brisbane (59%) having a more certain supply pipeline than Sydney where 50% of potential 2026 supply remains in flux.

The short lead time for industrial construction means that any overhang of completed industrial supply quickly unwinds. While speculative development made up 40% of total completions over the prior three years this lifted to 60% in 2025 due to surging starts and lower pre-commitment delivery. Over time there will be a lift in pre-commitment activity as upgrading and unlocking operational efficiency remains key for large occupiers. A more conservative development environment will limit speculative supply in 2026, diverting demand back to pre-commitments for tenants seeking a technological and building fabric upgrade.



Tenant demand to strengthen

Retail spending and infrastructure are driving renewed interest

Baseline tenant demand is anticipated to strengthen, driven by increased in retail activity and a strong infrastructure pipeline, plus some anticipated uplift in the construction sector. While the 3PL (third-party logistics) sector had been quieter during 2025, 2026 is expected to see a renewed focus on automation and delivery infrastructure. This renewed demand will help underpin absorption rates for new and existing space, mitigating the impact of elevated vacancy in some precincts.

Rental performance to diverge further

A clear split between precincts and asset sub-classes

While the industrial market has experienced substantial rental uplift over the past five years, the past 12 months have seen higher supply, higher vacancy and a more conservative tenant market which has impacted effective rents. While face rents have been defended, the uplift in incentives has resulted in falling effective rents, particularly in Sydney and Melbourne.

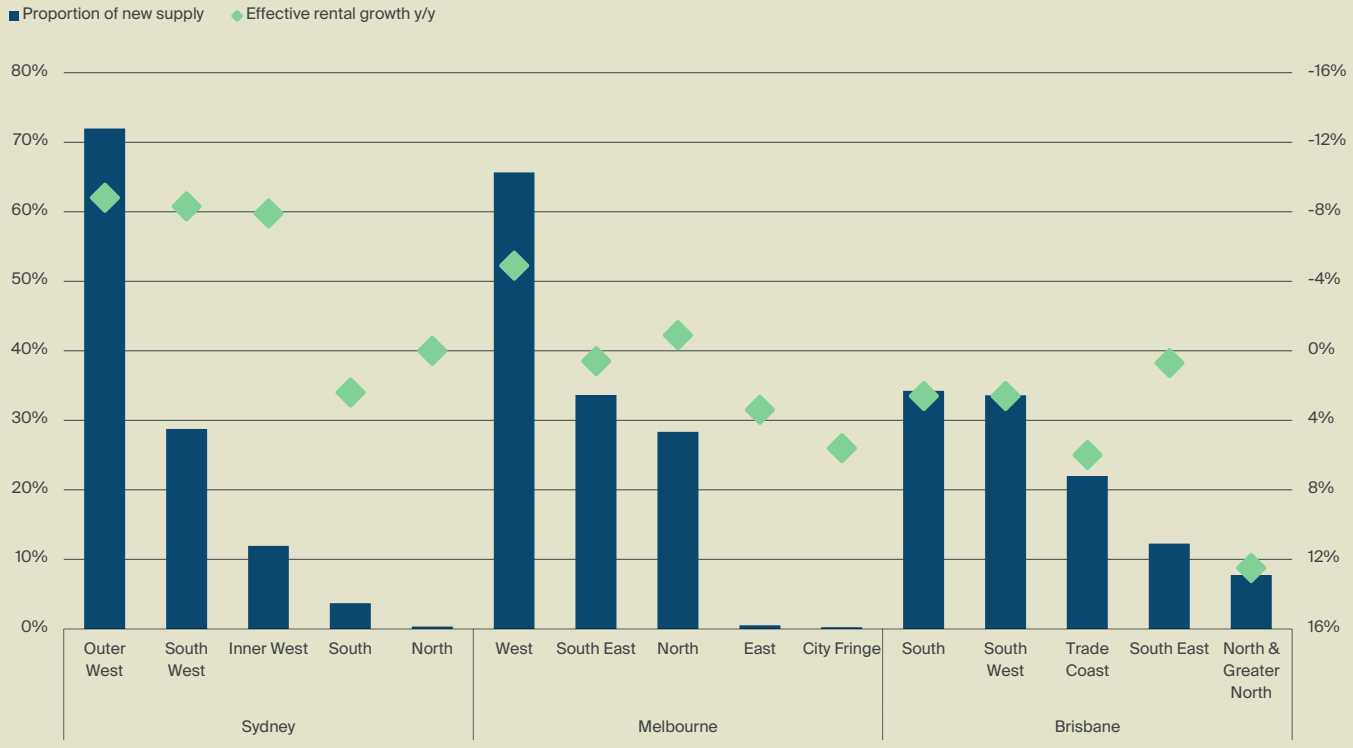
There has been, and will continue to be, significant divergence between cities and precincts as vacancy becomes more concentrated in emerging areas with high development. The trend shows best in Sydney with Sydney Outer West, which accounted for 72% of all new Sydney stock in the past five years having the largest fall in effective rent followed by the South West and Inner West. In Melbourne, the West has added 66% of new stock over the five years and this contributed to it being worst performing market in 2025. Construction delivery and rental easing was more dispersed in the Brisbane market, with both infill locations and new estates adding to stock.

The immediate aftereffects of the construction overshoot in selected precincts will see these likely to lag the wider market again in 2026. In contrast, established precincts with lower construction and vacancy such as Sydney South, Melbourne South East & East and Brisbane Trade Coast and Inner North have far more robust rental growth expectations.

Tenants on leases negotiated prior to 2021 will still face significant reversion on renegotiation or relocation, despite having greater choice in the market. Post 2026, the warehouse market will bifurcate depending on building fabric needs with tenants seeking cutting edge facilities needing to meet the market to trigger supply while others may seek to take advantage of larger secondary backfill space at cheaper rents.

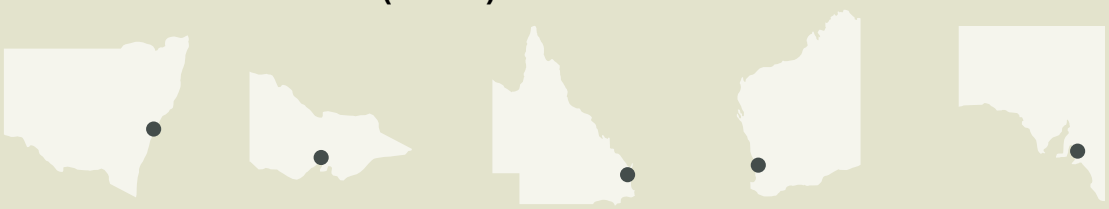
Precincts with the greatest proportion of new supply have seen weaker rent performance

Percentage of total new supply over past 5 years by precinct, per city (LHS) and annual effective rental growth (RHS, inverted)



Source: Knight Frank Research

Rental growth forecasts 2026-30 (CAGR)*



	Sydney	Melbourne	Brisbane	Perth	Adelaide
Net face	4.3%	4.4%	5.4%	3.9%	3.7%
Net effective	6.4%	6.2%	5.6%	3.9%	3.7%

* Compound annual growth rate

Specialised tenants, specialised rents

Asset type and economic rents are driving pricing for niche users

The Cold Storage and ready-to-eat food industry has been going through a rejuvenation of facilities over the past 18 months to two years. Aging facilities lack the energy efficiency, green ratings and upgraded panels that major corporate tenants seek to align with wider corporate objectives. The associated uplift in newly built, speculative and retro-fitted cold storage facilities has struggled to keep up with demand, in contrast with the wider market. Rental uplift has been uniform across the markets, with the underlying cost to construct the facility the greater influence on rental price, in contrast to location. Rents of $350/sqm+ net are no longer considered unusual.

Greater focus on on-shoring of essential materials or manufacturing will begin to impact the market in 2026. Moving from post-COVID ambition into action during 2026, spurred by Trump-induced trade uncertainty the Federal Government incentives such as the $15 billion National Reconstruction Fund. The major targets, and likely success, will be limited to industries such as advanced manufacturing, green energy, and critical technology where Australia's high-cost and highly-skilled workforce is a benefit and not a hindrance such as defence, meditech, envirotech and other life sciences.

Hardstand (or Industrial Outdoor Storage) will continue to mature in product offering and as a structured and focussed investment class. Sites earmarked for now deferred development proposals are increasingly repurposed for a five- or ten-year horizon for secure and fenced high load rated container storage or bitumen and hail netted facilities for vehicle storage. Due to a lack of options tenants seeking power, internet and other improvements to the site will pay the economic rent to deliver these services.

Industrial Hotspots

Brisbane Trade Coast

The Trade Coast is a strategic logistics hub, anchored by direct links to the Port of Brisbane, the Brisbane International Airport and major motorway networks. It continues to set the pace for Brisbane's industrial market, benefitting from a substantial rental premium to the wider Brisbane market, while land values are also substantially higher due to a lack of available vacant freehold land. With limited new land and brownfield redevelopment/building repurposing still in its infancy, the Trade Coast is well placed for further rental growth which will widen the gap over other Brisbane locations.

Northwest Melbourne

Whilst historically the East was the centre of the Melbourne industrial market, the North and West are now becoming the dominant centres. With the East largely built out, modern stock elsewhere now obtains similar or higher face rents to the traditional industrial estates. The latest 10-year plan for industrial land released recently by the Victorian Government allocates nearly 80% of future unzoned supply to these two areas, with nothing for the East or Inner Southeast precincts, which confirms these areas as the future long-term hubs for industrial development going forward.

North Adelaide

The Adelaide industrial market is in demand with yields having come in 30bps for prime assets over the past six months. The Inner North market is mostly built out, but rezoning in the Outer North has opened up opportunities. For instance, Mawson Park is proving popular on the back of its technology park. Though this is a small site, there have been several new leases linked to tenants involved in the AUKUS partnership.



← Click to view the 2025 report

Forecast review

Evaluating the accuracy of our 2025 Industrial predictions

1

VACANCY TO RISE FURTHER IN 2025

We were right on this and have witnessed a significant increase across all major cities.

2

LAND VALUES WILL DEFY GRAVITY

Despite headwinds to development, land values have been largely stable and actually risen further in favoured locations such as East Melbourne and Brisbane's Trade Coast.

3

INCENTIVES UNDER PRESSURE IN WEST MELBOURNE

We were right here too, with incentives rising by the most of all markets nationally.



Retail

Broad based momentum

58 Turning of the tide
Renewed fund-raising signals a shift in sentiment toward retail

58 Large centres will outperform
Several trends are tipping the balance in favour of major retail assets

Turning of the tide

Renewed fund-raising signals a shift in sentiment toward retail

After years in the shadows, retail has found its footing again, emerging as the strongest performing sector nationally over the past year for the first time since 2010. The fears that once surrounded physical retail, from the rise of e-commerce to the disruptions of the pandemic, have given way to a period of reinvention. Owners are moving to reshape assets around experience and community, weaving in non-traditional tenants such as gyms, medical operators, and entertainment offerings to create places people choose to visit, not just shop.

This shift, supported by the structural tailwinds of strong population growth, rising real disposable incomes, and constrained supply, has reignited both income and capital growth. Investor sentiment has followed the momentum. Recent fund-raisings – such as Charter Hall's $1.75 billion Convenience Retail Fund and GPT's Wholesale Shopping Centre Fund – mark a turning of the tide in capital flows. Liquidity is returning, competition is intensifying, and retail will remain firmly in favour among investors in 2026.

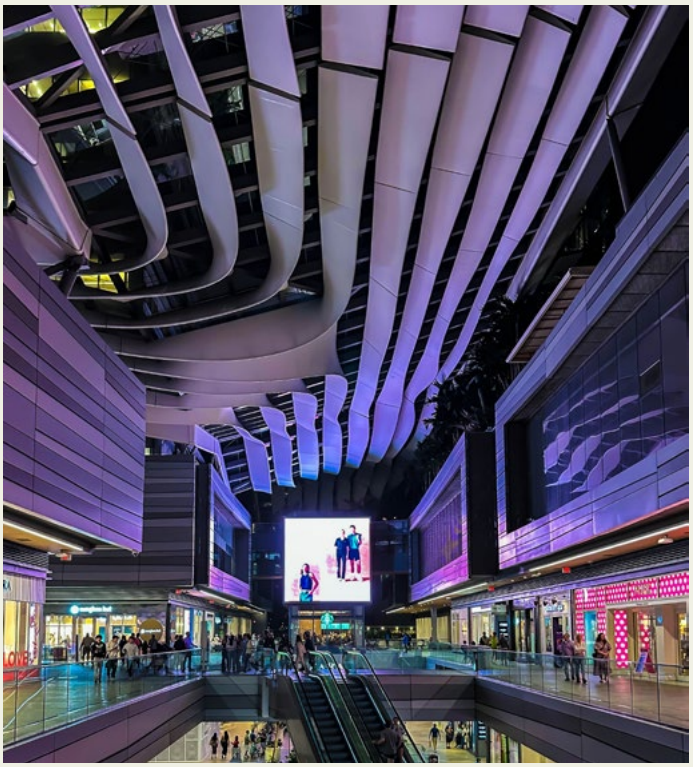


Image: Shutterstock / Bada1



Large centres will outperform

Several trends are tipping the balance in favour of major retail assets

The sector is benefitting from multiple tailwinds that will continue to drive strong performance on average, but not all centres will benefit to the same degree. Here are three reasons why we think super and major regional centres will fare particularly well:

STRENGTHENING POPULATION CATCHMENTS

The development of new super and major regional centres has been on hold for some time, with high capital costs and long lead times forcing developers to step back. Owners are no longer chasing greenfield opportunities but instead looking inward – breathing new life into existing space through extensions, reconfigurations, and reinventions. Meanwhile, population growth in inner and middle ring locations is fuelling stronger sales density and



foot traffic, and large centres that dominate their area are poised to benefit disproportionately as customers vote with their feet.

RETAILER'S FLIGHT TO QUALITY

Major retailers are becoming more selective about where they operate – moving away from a broad, network-driven approach towards a leaner strategy focused on fewer, high-performing stores. Rising input, labour, and operating costs have squeezed margins, forcing retailers to prioritise profitability and efficiency over sheer footprint. This recalibration is expected to deepen the divide within the sector: weaker centres may continue to lose relevance and foot traffic, while high-quality, well-located assets attract a growing share of tenant and consumer demand.

LOCATION AND MIXED-USE OPTIONALITY

A persistent housing supply shortage, alongside an outlook for strong growth in apartment prices, is encouraging some retail centre owners to look beyond traditional formats and explore adding residential components through build-to-rent or build-to-sell projects. Rather than signalling a shift away from retail, this reflects a search for complementary growth opportunities that can unlock additional value from well-located sites. As competition for well-located land intensifies, integrating residential uses offers a strategic way to enhance asset resilience and tap into broader demographic and urban growth trends.



← Click to view the 2025 report

Forecast review

Evaluating the accuracy of our 2025 Retail predictions

1

2025 TO SEE THE STRONGEST DEMAND SINCE 2015

The sector has performed strongly in terms of total returns, although this has not fed through to a marked increase in deal flow compared to recent years.


THE URBAN CAFE
BOUTIQUE BOOKS
SUSHI BAR
MODERN GOODS

Living Sectors

Searching for scalable solutions

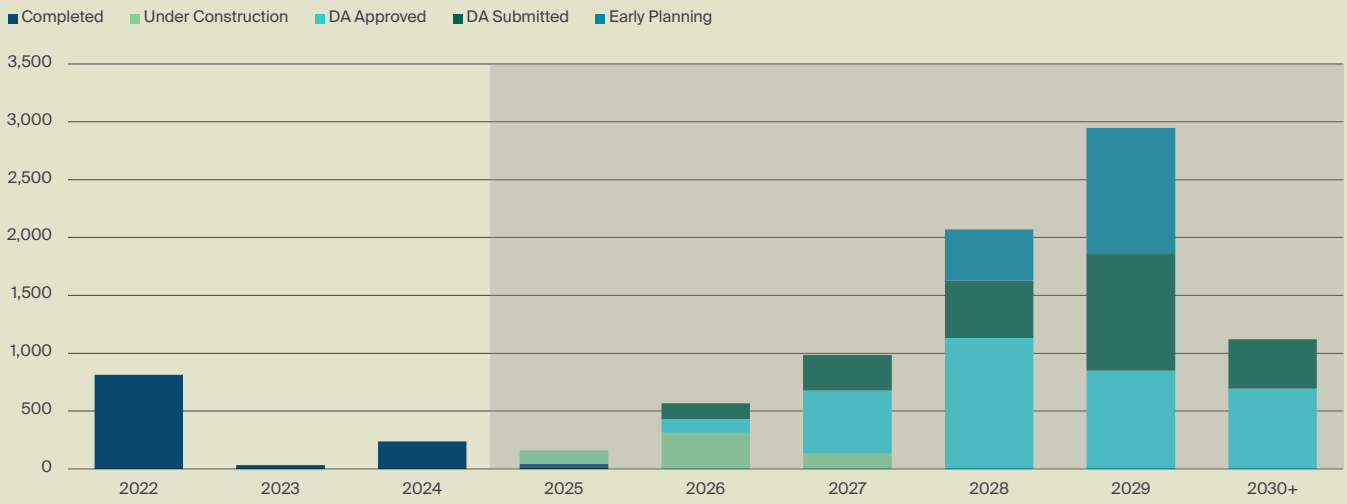
62 **Co-living best placed to bridge the feasibility gap**
A nimble model gaining traction as others stall

Co-living best placed to bridge the feasibility gap

A nimble model gaining traction as others stall

Co-living on the rise

Australian co-living development pipeline by planning status (number of units)



Source: Knight Frank Research

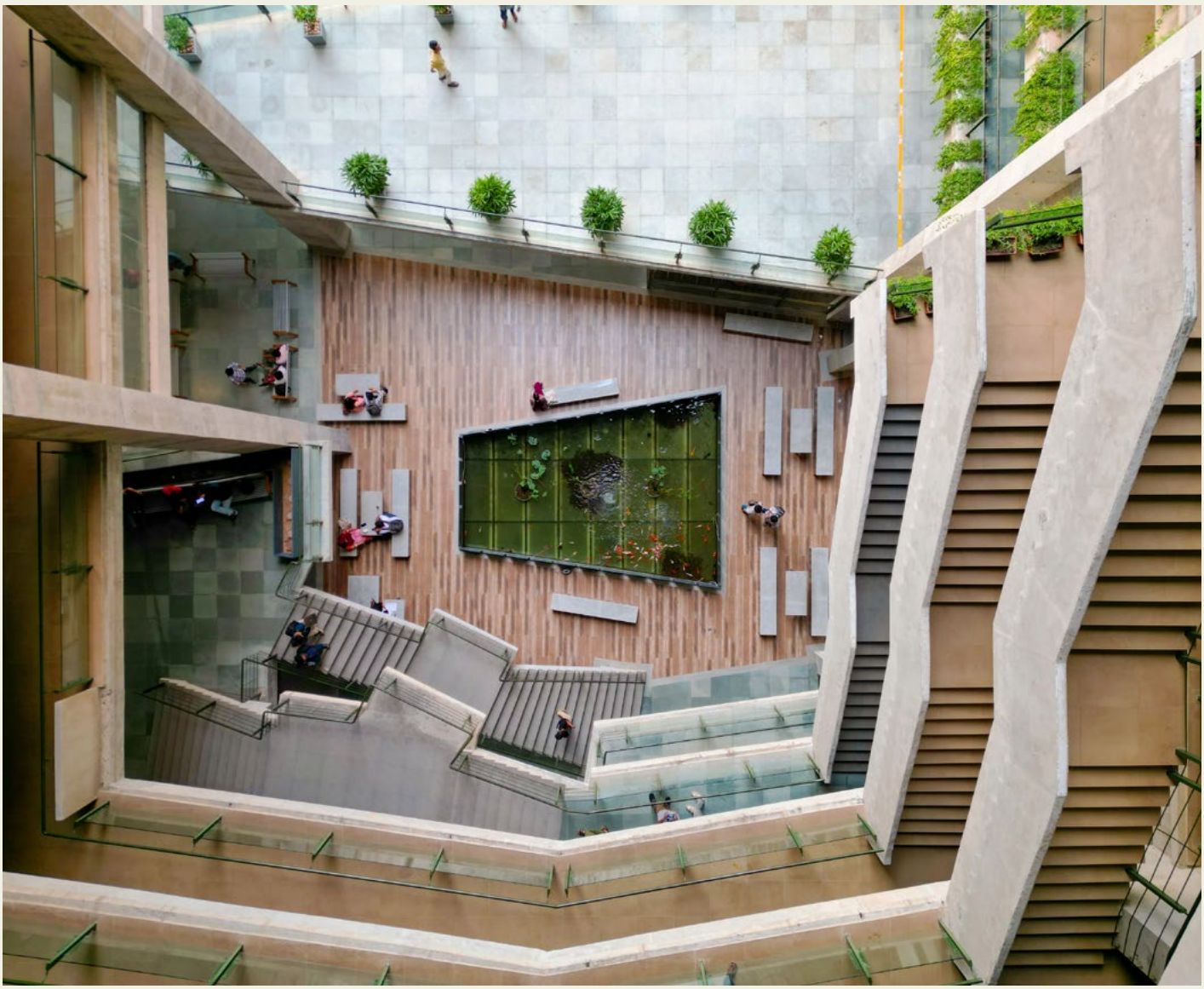
> "The people of Sydney are telling us how to do it: on average, they want more townhouses and apartments, and they want them as close as possible to the city. Other global cities have done it, and we can too."
>
> **PETER ACHTERSTRAAT**
> NSW Productivity Commissioner

Co-living describes a form of shared accommodation whereby tenants occupy private, self-contained units, but also benefit from shared communal spaces for dining, leisure and socialising. It has emerged as a distinct asset class within the living sectors ecosystem and is seeing a steady expansion in Australia, led by Sydney.

Over the past two years, meeting feasibility thresholds have been challenging across the living sectors, but co-living has weathered the storm and in many cases developers have found it easier to proceed with co-living schemes rather than larger format and larger scale BTR developments. This is due to a combination of factors, including smaller scheme sizes, less land required and higher rental rates per sqm.

In addition, co-living now has its own NSW State Environmental Planning Policy (SEPP) and is recognised by policymakers as having the potential to diversify the housing mix and widen the options available for young professionals.

In 2026 we expect the sector to continue to grow as investors seek pathways to execute build-to-core strategies in the living sectors. Build-to-rent will ultimately become a much larger asset class, but co-living provides a quicker pathway to deployment in the near term.



Living Sector Hotspot

Perth Student Housing

Investors continue to seek to deploy into Australia's living sectors, but with many favouring a build-to-core approach, opportunities to acquire stabilised assets in the tightly held East Coast markets continue to be limited. Smaller cities potentially offer a quicker window to deploy capital and Perth offers several advantages, with several universities in close proximity to the CBD, a fast-growing student population and limited off-campus supply aiding the outlook for rental growth.

Your *partners* in property