8 Sept 2026

Real Estate investment returns up markedly in Q2, despite economic headwinds

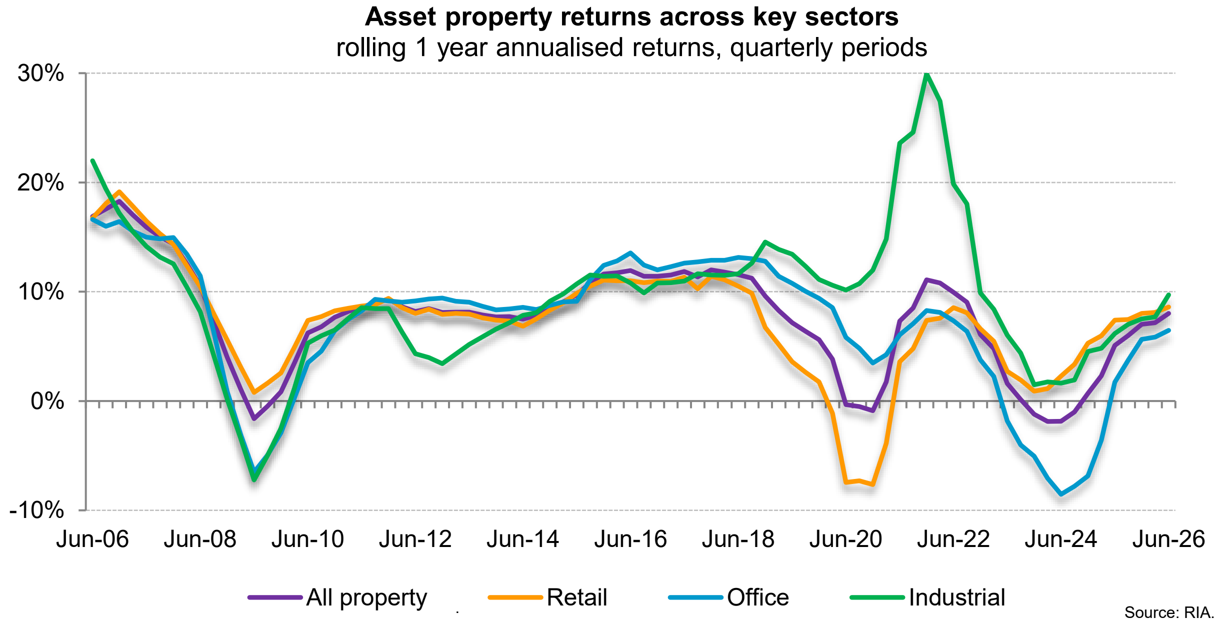
Real Investment Analytics (RIA) released the Q2 2026 Commercial Property Market Indicator report

Australian commercial property recovery broadens across all sectors

Commercial property in Australia has delivered an annualised total return of 8.0%, up nearly 3 percentage points year-on-year. The index tracks the performance of over 2,100 assets with a total value of $337bn.

Industrial property led the performance across the major commercial property sectors with an annualised total return of 9.7% in the year to June 2026, followed by retail property (8.6%) and office property (6.5%). All three core sectors improved on their June 2025 results, with office recording the largest turnaround (from 1.7% to 6.5%). This recovery is particularly notable given that annualised office returns had fallen as low as –8.5% in mid-2024, with the subsequent stabilisation in capital values driving the sharp rebound. Industrial accelerated further (from 6.2%), while retail continued its steady recovery.

Within the detailed sector markets, the strongest sub-sector annualised return performances were reported in Brisbane office (11.0%), Sydney industrial (11.5%), and Regional as well as Sub-Regional retail centres (both ~10.4%). Capital growth has been the primary driver of the broader recovery across all three sectors, underpinned by resilient income returns and, in most markets, high or rising occupancy.



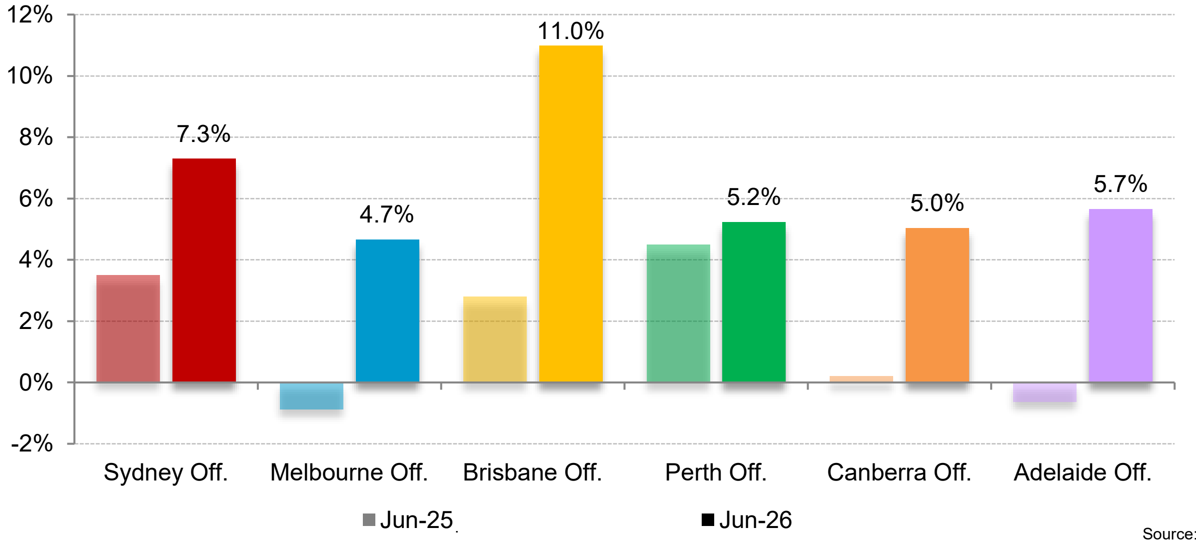
Office market stabilisation takes hold as capital declines ease and income holds firm

Brisbane remains the strongest-performing office market, delivering an annualised total return of 11.0% in the year to June 2026, well ahead of the other capitals. Sydney follows at 7.3%, with Adelaide (5.7%), Perth (5.2%) and Canberra (5.0%) clustered in a narrower band. Melbourne continues to lag at 4.7%, though it has improved markedly from negative territory a year earlier.

All the major office markets have improved substantially relative to the June 2025 results, when Melbourne (-0.9%), Adelaide (-0.6%) and Canberra (+0.2%) were still in or near negative territory.

Across all markets, the recovery in total returns is being driven by a combination of resilient income returns and a clear turnaround in capital growth. Capital returns have moved from deep negative territory in mid-2025 into positive or near-zero territory in most cities, with Brisbane recording the strongest capital recovery (+4.7%).

Office property returns by city
based on 1 year annualised returns



Source: RIA.

Income and Capital Returns

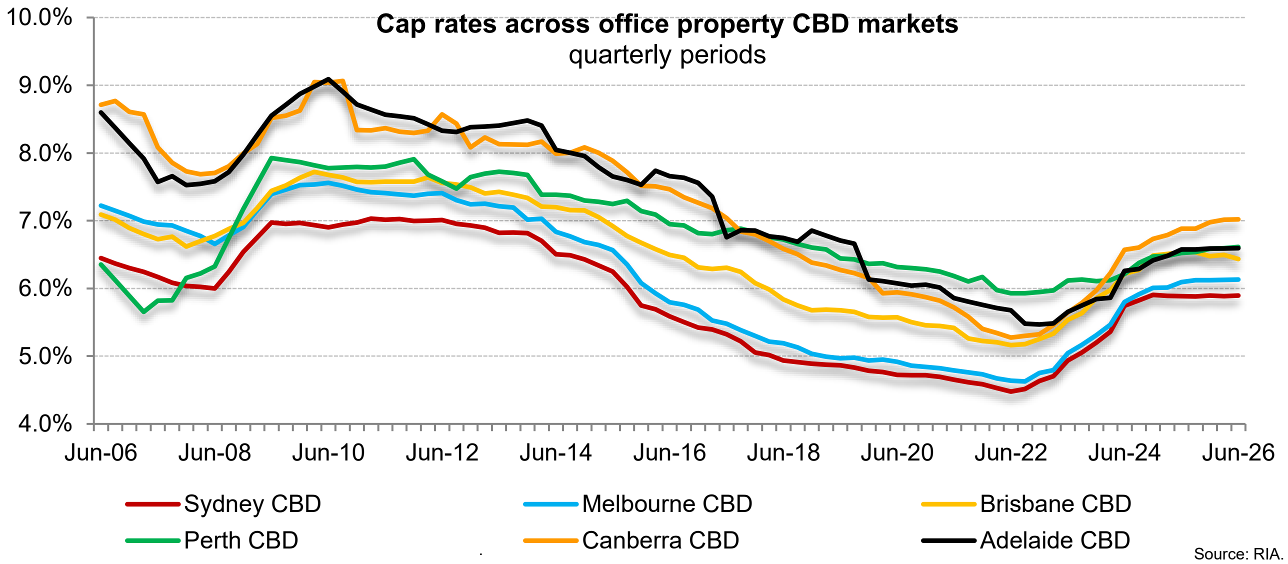
Canberra continues to lead on income (7.3%), followed by Brisbane (6.0%), Perth (5.9%), Adelaide (5.9%), Melbourne (5.7%) and Sydney (5.3%). Income returns have edged higher or held steady in most markets over the past year.

Capital returns tell the more dynamic story. Brisbane has recorded the strongest capital growth on an annual basis (+4.7%), followed by Sydney (+1.9%). Melbourne (-1.0%), Adelaide (-0.2%), Perth (-0.7%) and Canberra (-2.1%) remain in mild negative territory on a capital basis, but the scale of the decline has narrowed sharply compared with the deep write-downs of 2024–25. This stabilisation in capital values is the primary driver of the improvement in total returns.

Capitalisation Rates

Capitalisation rates expanded between mid-2024 and mid-2025 as values adjusted but have been essentially stable over the past 12 months. Sydney remains the tightest market at 6.0% (virtually unchanged from a year earlier), followed by Melbourne (6.2%, +3 bps), Brisbane (6.5%, -8 bps), Adelaide (6.7%, flat), Perth (6.7%, +7 bps) and Canberra (7.0%, + 9 bps).

With capitalisation rates largely unchanged over the past year, the recovery in capital values has been driven mainly by improving income prospects and a reduction in perceived risk, rather than by further yield compression.

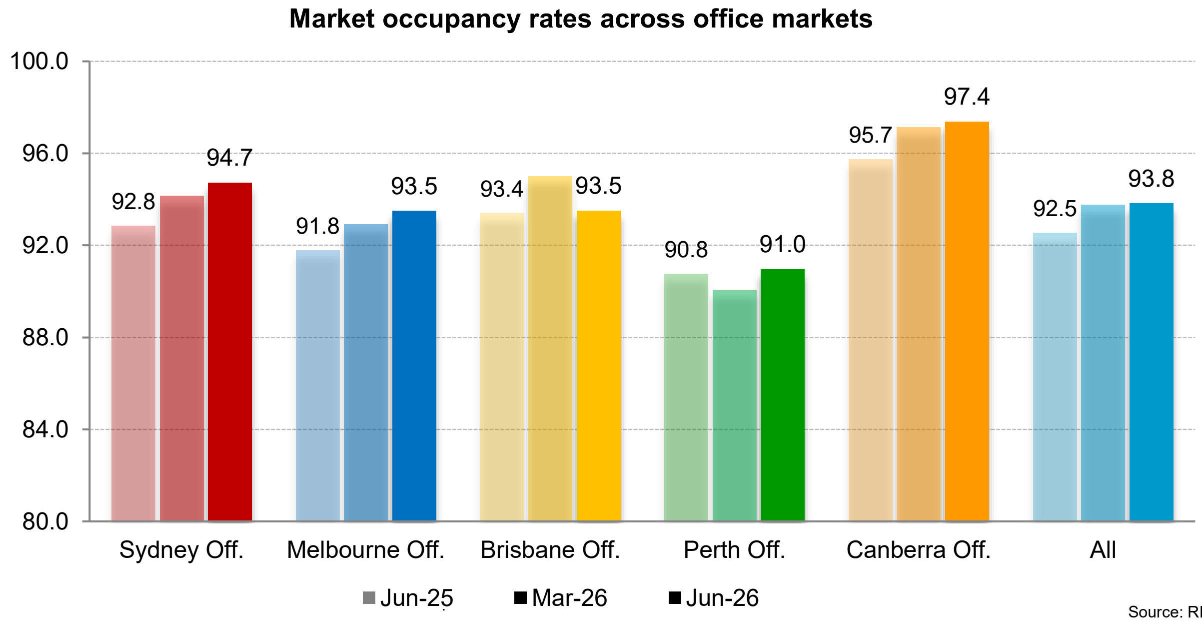


Source: RIA.

Occupancy Rates

Canberra remains the tightest market at 97.4%, followed by Sydney (94.7%), Melbourne (93.5%), Brisbane (93.5%), and Perth (91.0%). Most markets have recorded a modest improvement in occupancy over the past 12 months, consistent with a broader stabilisation in office market conditions.

Brisbane's occupancy eased slightly in the most recent quarter, while Sydney, Melbourne, Canberra and Perth all showed sequential gains. The combination of improving occupancy and stabilising capital values supports the view that the office sector has moved past the trough of the recent adjustment cycle, albeit with clear divergence in the strength of recovery across cities.

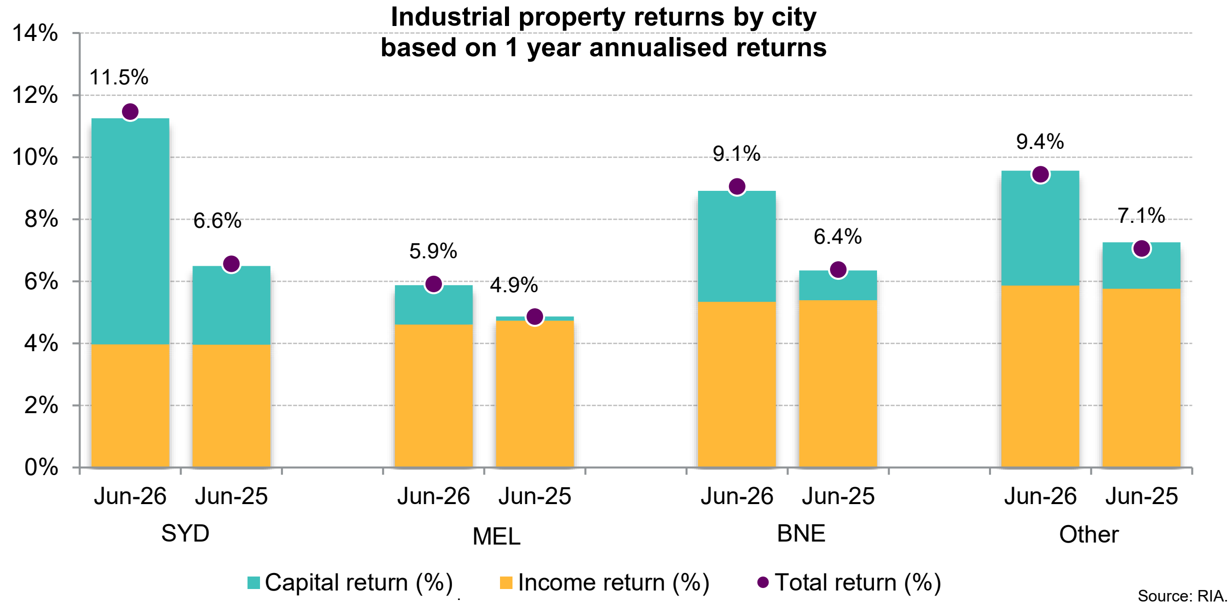


Source: RIA.

Industrial strengthens its position as capital growth accelerates

The national industrial sector delivered an annualised total return of 9.7% in the year to June 2026, continuing a clear recovery from the softer outcomes of 2024–25. Among the major cities, Sydney recorded the strongest total return at 11.5%, ahead of Brisbane (9.1%) and Melbourne (5.9%). Capital growth has been the primary driver of the improvement, particularly in Sydney, while income returns have remained steady across markets.

By segment, business parks and industrial estates have delivered the strongest annualised total returns (12.9% and 11.9% respectively), reflecting investor preference for larger, well-located estates and business-park formats. Distribution assets returned 8.6%, while warehouses lagged at 6.3%.



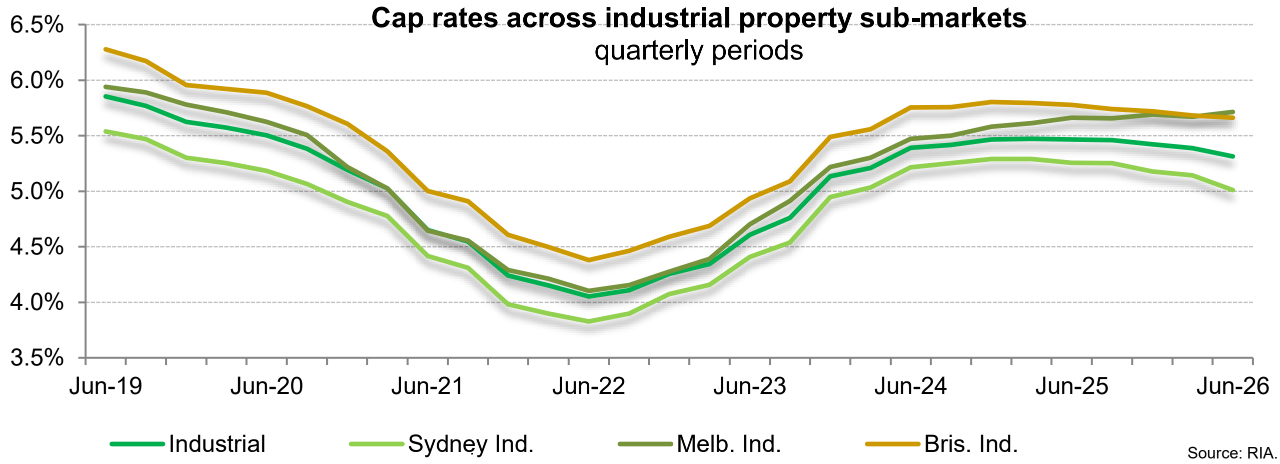
Income and Capital Returns

Income returns have been resilient and relatively stable. Brisbane leads on income at 5.3%, followed by Melbourne (4.6%) and Sydney (4.0%). These levels are broadly consistent with the previous year.

Capital returns have improved markedly. Sydney recorded the strongest capital growth at +7.3% annualised (up from +2.5% a year earlier), followed by Brisbane (+3.6%) and Melbourne (+1.3%). The return of positive capital growth, after a period of modest or negative contributions, is the key feature of the current recovery phase and aligns with broader industry observations of renewed investor demand for industrial assets, particularly in Sydney and Brisbane.

Capitalisation Rates

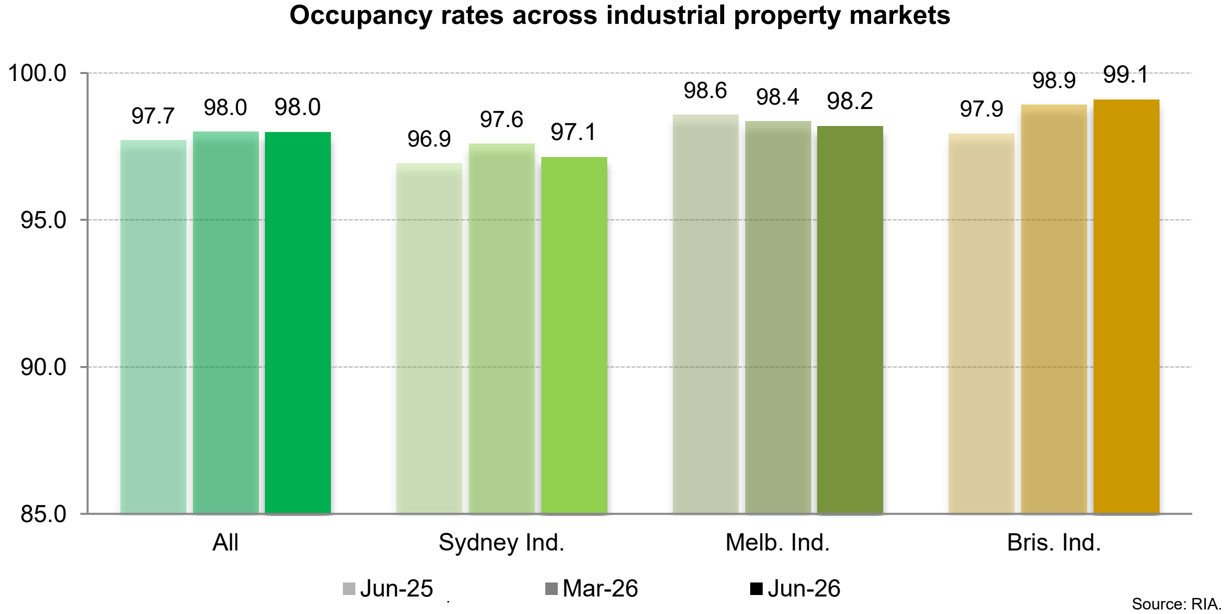
Capitalisation rates have continued to tighten in Sydney (now 5.0%, down from 5.3% a year earlier), on the back of stronger transactional activity, while remaining broadly stable in Brisbane (5.7%) and Melbourne (5.7%). The compression in Sydney is consistent with the stronger capital growth recorded in that market and reflects sustained investor competition for prime industrial assets. Yields remain well above the ultra-tight levels seen at the 2022 peak, indicating that pricing has normalised but continues to attract capital.



Occupancy Rates

Occupancy remains elevated across the major markets, underscoring the ongoing strength of industrial space demand. Brisbane leads at 99.1%, followed by Melbourne (98.2%) and Sydney (97.1%). All three markets are operating at high occupancy levels, with Brisbane and Sydney showing further sequential improvement over the past year while Melbourne is reporting a softening in occupancy rates.

The combination of high occupancy, stable-to-improving income returns and a clear recovery in capital values positions the industrial sector as one of the more resilient segments of the Australian commercial property market, with Sydney currently delivering the strongest overall performance.

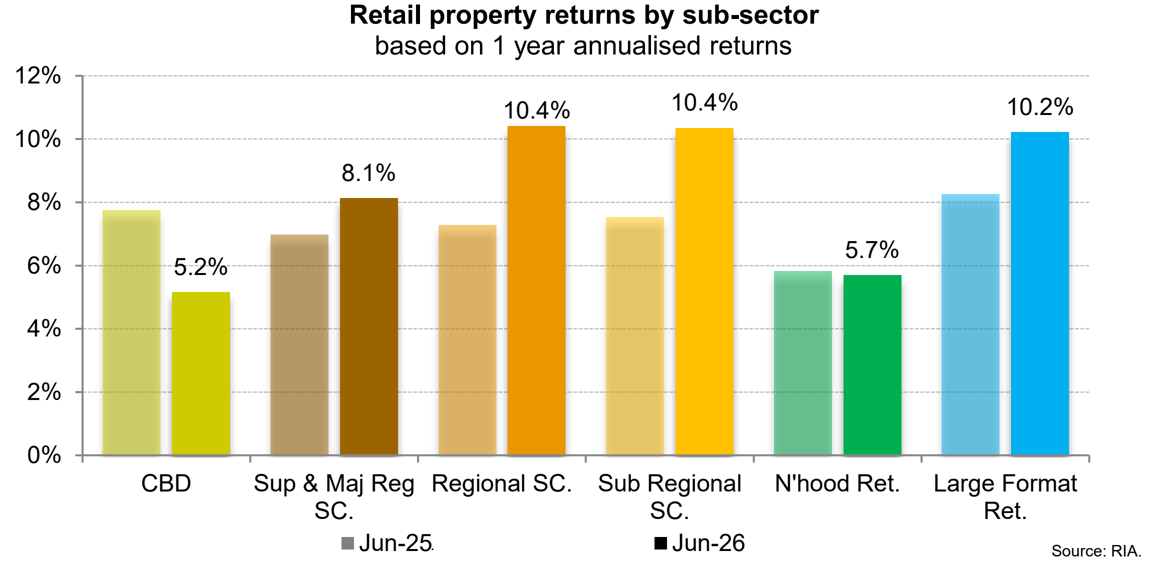


Retail - High occupancy and returning capital growth underpin retail's rebound

The national retail sector delivered an annualised total return of 8.6% in the year to June 2026, continuing the recovery that began in 2025.

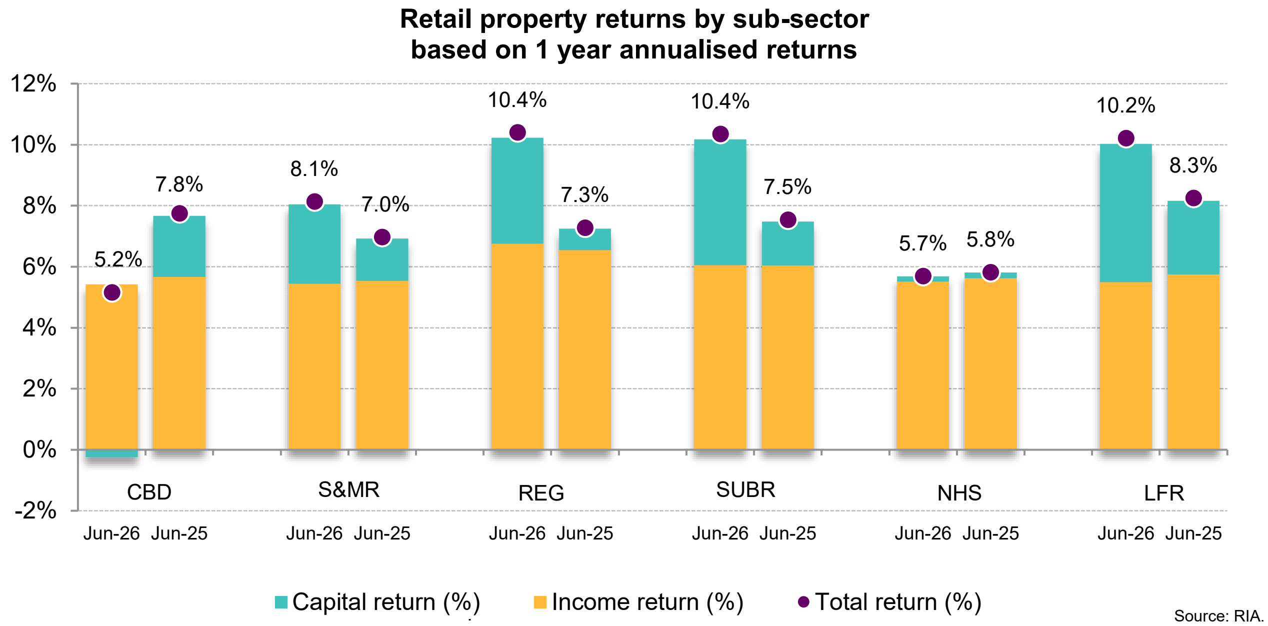
By sub-sector, Regional and Sub-Regional shopping centres both delivered annualised total returns of 10.4%, up strongly from a year earlier. Large Format Retail also performed well at 10.2% (up from 8.3%). Super & Major Regional centres improved to 8.1% from 7.0%. Neighbourhood centre performance remained stable at 5.7%, while CBD retail softened to 5.2% from 7.8% in the prior year.

The hierarchy in performance reflects investor preference for larger, dominant centres with strong trade-area fundamentals and limited new supply, alongside continued demand for well-located large-format assets.



Income and Capital Returns

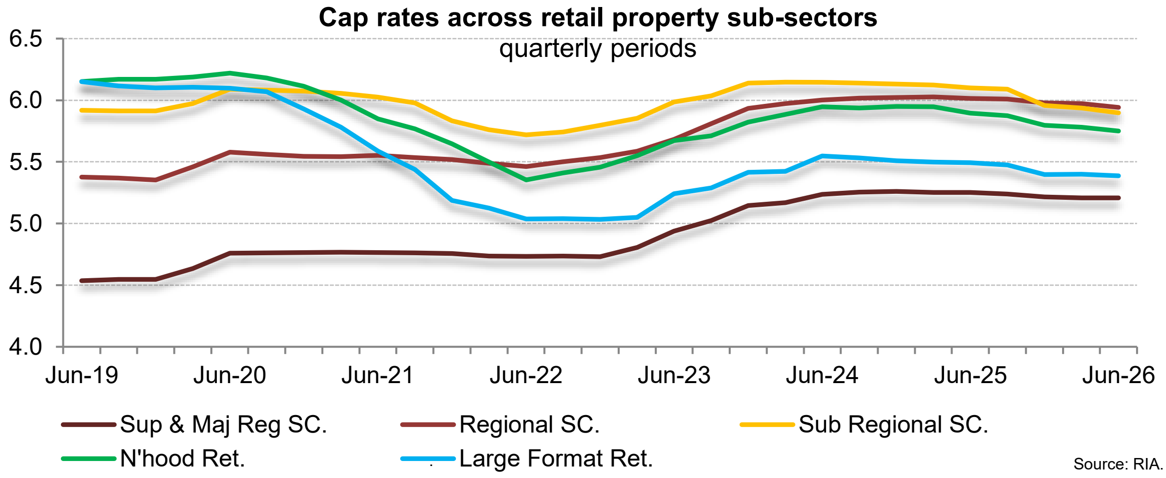
Income returns remain the foundation of performance for the Retail sector and have remained relatively stable. Regional centres lead on income at 6.8%, followed by Sub-Regional (6.1%), Super & Major Regional (5.4%), Neighbourhood and Large Format (both ~5.5%) and CBD retail (5.4%). These levels are broadly in line with or slightly below the prior year, confirming that the uplift in total returns is driven primarily by capital growth rather than higher income yields.



Capital returns have improved across most formats. Sub-Regional (+4.1%) and Large Format (+4.5%) recorded the strongest capital growth, followed by Regional (+3.5%) and Super & Major Regional (+2.6%). Neighbourhood capital growth was modest (+0.2%), while CBD remained slightly negative (-0.2%). The return of positive capital growth after earlier write-downs aligns with improving sales productivity, high occupancy and renewed institutional interest.

Capitalisation Rates

Capitalisation rates have tightened modestly across most sub-sectors over the past year. The all-retail average moved from 5.55% to 5.48%. Super & Major Regional centres tightened to 5.2%, Regional to 5.9% and Sub-Regional to 5.9%. Neighbourhood and Large Format yields also compressed slightly. CBD yields were essentially unchanged at around 5.1%. The modest compression is consistent with the capital growth recorded and reflects improved investor confidence rather than aggressive re-pricing.



Occupancy

Occupancy remains exceptionally high across the retail spectrum, supporting income resilience. Regional centres lead at 99.5%, followed by Super & Major Regional (99.4%), Large Format (99.2%), Sub-Regional (98.5%), CBD (98.0%) and Neighbourhood (98.0%). Most formats have recorded further improvement over the past 12 months.

High occupancy, combined with positive leasing spreads and improving capital values, underpins the sector's recovery and positions larger regional and sub-regional centres as the strongest performers within Australian retail property.

About RIA

Real Investment Analytics provides analytics, portfolio construction, asset-sector allocation, portfolio performance evaluation, risk modelling, forecasting and strategic analysis, conducted at asset, portfolio and investment fund levels for all real asset sectors.

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