

Australian Capital View



August 2025

Transaction activity takes a pause in Q2 due to heightened global uncertainty.

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Key insights

Capital markets are gaining confidence that valuations have reached a cyclical low but a sharp rise in global uncertainty in Q2 weighed on large-scale transactions.




ALISTAIR READ
SENIOR ECONOMIST, RESEARCH & CONSULTING

 **\$8.2b**

Investment volume in Q2

Total investment volumes in Q2 2025 slowed to \$8.2 billion as uncertainty weighed on investor confidence.

 **-1%**


Change in H1 volumes y/y

Total investment volumes in H1 2025 were 1% lower than H1 2024.

 **42%**

Cross-border capital most active

Cross-border investors have been the most active, accounting for 42% of total acquisitions Q2 2025.

 **6.7%**


National prime office yield

The weighted Australian prime office yield remained stable – for the second consecutive quarter – at 6.7% in Q2 2025.

 **5.7%**

National prime industrial yield

The eastern seaboard Australian prime industrial yield fell to 5.7% in Q2 2025 driven by a tightening in Sydney and Brisbane yields.

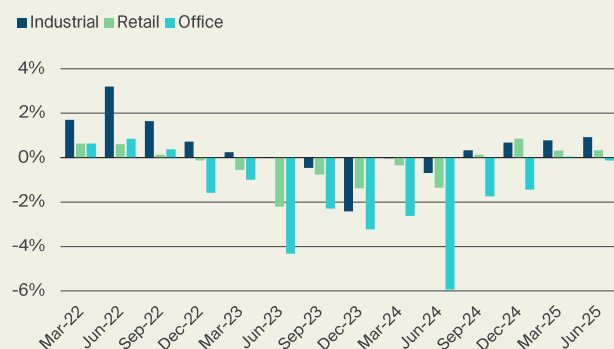
 **3.0%**

Expected cash rate by mid 2026

Money markets are currently pricing in a further 0.6% fall in the RBA cash rate from 3.60% to 3.0% by June 2026.

Asset values have returned to growth

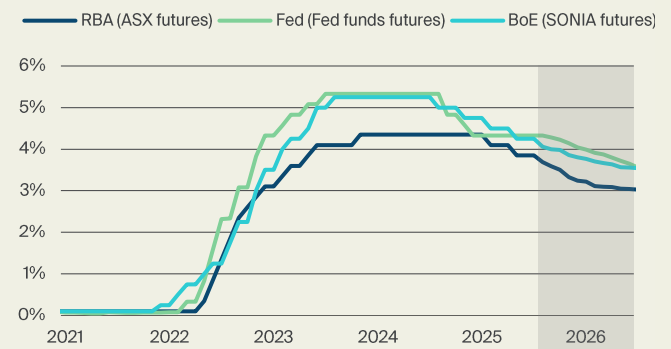
Quarterly capital value growth, average for major sectors (%)



Source: Knight Frank Research, MSCI

Policy rates expected to fall further

Implied forecasts of central bank policy rates based on market



Source: Knight Frank Research, Macrobond

Investors take a pause

UNCERTAINTY SLOWS ACTIVITY IN Q2

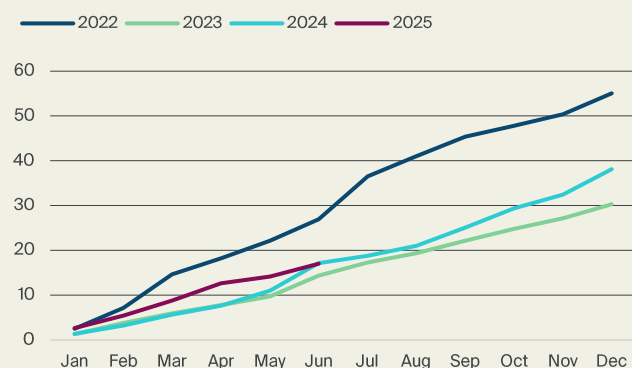
Investment volumes fell to \$8.2 billion in Q2 2025 as a sharp rise in global policy uncertainty weighed on sentiment and buyer's willingness to commit to large transactions. This took H1 2025 transaction volumes to \$17.0 billion, down slightly from \$17.2 billion in H1 2024.

Investors are likely to have slowed transaction activity until the dust settles and uncertainty around trade policy dissipates. This was particularly noticeable in the office sector where Q2 transaction volumes totalled a relatively low \$1.2 billion. However, over \$1 billion of CBD offices are in due diligence and likely to transact in H2 2025.

Industrial assets saw the highest level of investment activity in Q2 (\$2.9 billion) followed by retail assets (\$2.0 billion). Industrial sales were driven by Morgan Stanley acquiring a 50% interest Frasers Prime Logistics Portfolio (c\$300 million) and JD.com's c\$250 million purchase of the Wacol Logistics hub. Other significant sales in Q2 included Greystar's \$1.4 billion acquisition of GIC's Australian PBSA portfolio and Odakyu buying a 10% stake in Salesforce tower for circa \$200 million.

Transaction activity slows in Q2

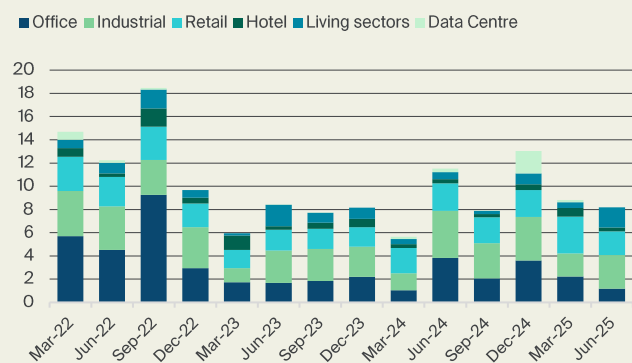
Cumulative transaction volume by year (AUD billions)



Source: Knight Frank Research, RCA

Reduced office investment in Q2

Quarterly investment volumes by sector (AUD billions)



Source: Knight Frank Research, RCA

INVESTORS POSITIONING PORTFOLIOS FOR CAPITAL GROWTH

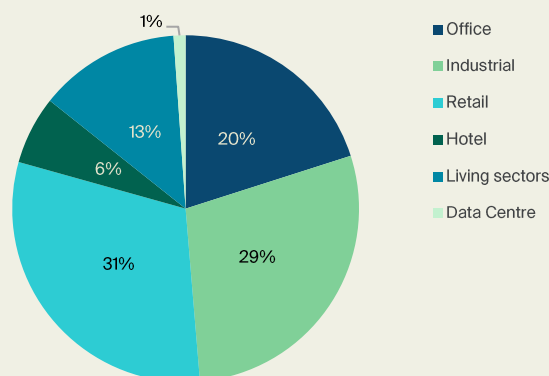
Despite reduced liquidity in Q2, a wide range of groups remain eager to deploy capital in the near-term to take advantage of attractive pricing off the back of the recent downturn, thereby maximising the prospects of long-term capital growth.

Australia is viewed as less susceptible to the immediate impact of the trade war and as financial market concerns over the economic impact are allayed, we expect higher levels of activity to resume in the second half of the year.

This will be supported by improving local market fundamentals across multiple sectors, as high construction costs weigh on new construction and drive rental growth. In addition, the likelihood of further interest rate cuts will see flow through to a moderation in funding costs and help to enable a gradual market recovery.

Retail and industrial drive investment volumes

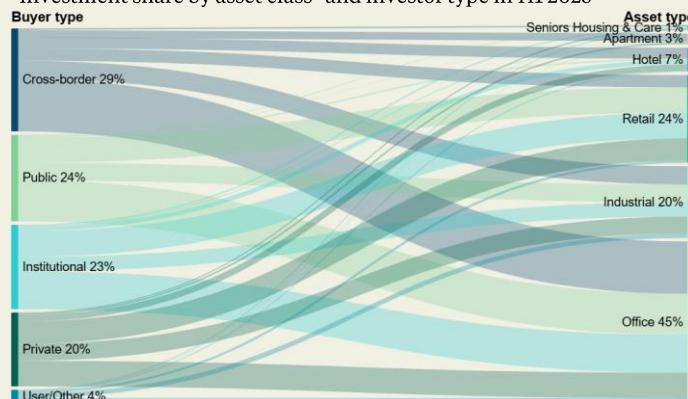
Share of investment volumes in H1 2025 (%)



Source: Knight Frank Research, RCA

Institutional capital focuses on retail assets

Investment share by asset class* and investor type in H1 2025



Source: Knight Frank Research, RCA

*Excl. data centres

US drives offshore activity

CROSS BORDER CAPITAL DRIVES ACQUISITIONS WHILE AUSTRALIAN REITS SELL

Cross-border capital led purchasing activity with \$2.6 billion of transactions (42% of total activity) in Q2 2025, bringing the total H1 volume to \$4.1 billion (30%). However, offshore investor demand was narrower than normal in Q2, with substantial demand from US investors (54% of cross-border investment) but relatively subdued demand from Singapore, Japan and Canada.

Meanwhile, A-REITs continued to be net sellers of assets in Q2, although to a lesser extent than in recent years. To illustrate, REITs sold \$3.4 billion of assets in H1 2025, significantly lower than the \$6.7 billion of assets sold in H1 2024. For some time, REITs have been selectively divesting assets. As market conditions improve, we expect renewed participation on the buy-side, and the strong recovery in equity prices including for REITs will help to facilitate this.

US INVESTORS RETURN

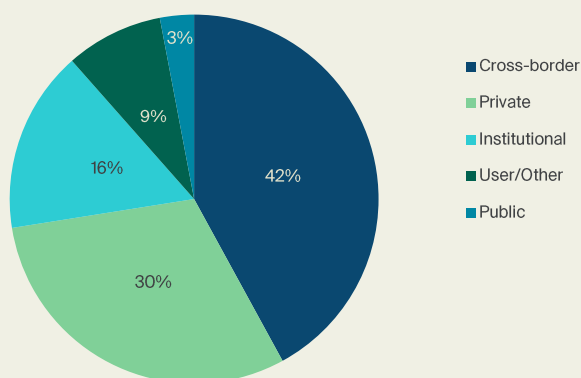
After an extended period of inactivity, US investors returned strongly in 2024. This momentum has continued into H1 2025, with US investors continuing to drive investment activity.

Major Q2 transactions involving US capital included Greystar's stake in the \$1.4 billion acquisition of GIC's Australian PBSA portfolio – Greystar's largest deal in Australia – and Morgan Stanley's purchase of a 50% share in the Frasers Prime Logistics Venture portfolio for \$300 million.

Other significant cross-border transactions included Chinese JD.com's purchase of the Walcol Logistics hub, and Japan-based Odakyu's c\$200 million acquisition of a 10% share of the Salesforce tower.

Cross-border capital most active

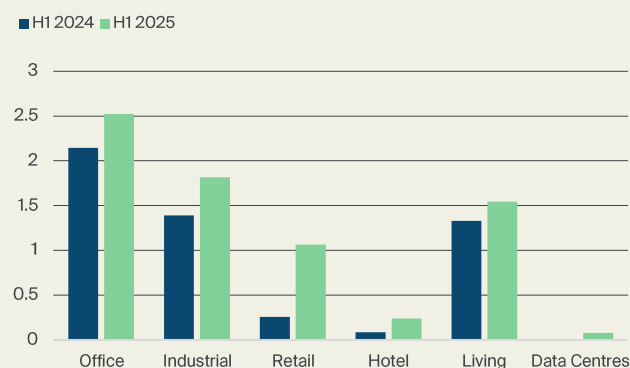
Share of investment volumes, Q2 2025 (%)



Source: Knight Frank Research, RCA

Cross-border investment rises in all sectors

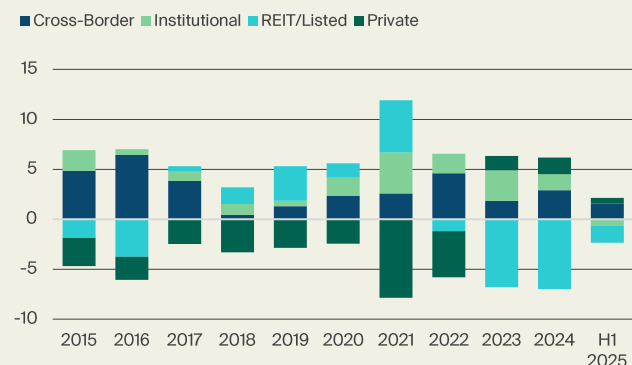
Cross-border investment volumes (AUD billions)



Source: Knight Frank Research, RCA

REIT/listed groups reduce property exposure

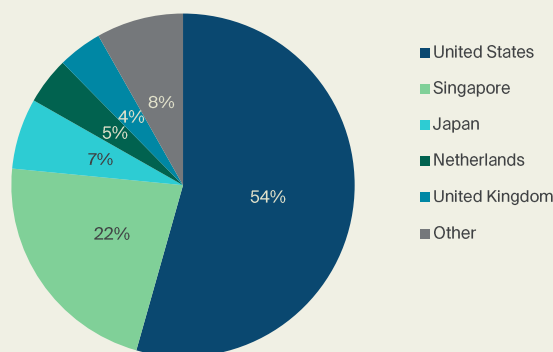
Net investment volumes (AUD billions)



Source: Knight Frank Research, RCA

Strong investment from the US

Proportion of cross-border transaction volume, H1 2025 (%)



Source: Knight Frank Research, RCA

Prime industrial yields firming

SYDNEY INDUSTRIAL YIELDS FALL IN Q2

In our Horizons 2025 report last November, we foreshadowed that prime industrial yields would be the first to return to a cycle of yield compression. This is now playing out, with Sydney prime industrial yields falling by 8 bps on average to 5.4% in Q2, the first decline since Q1 2022. This fall was driven by lower yields throughout Western Sydney. Meanwhile, Brisbane industrial yields also continued to sharpen to 6.0% in Q2.

This has contributed to a return to capital growth, with industrial values rising by a solid 0.9% on average in Q2, marking a fourth consecutive quarter of capital growth. The sector has been quick to benefit from recent interest rate cuts, with many investors retaining a strong preference for industrial assets, which is resulting in increasing competition for prime assets in Sydney and Brisbane in particular.

The retail sector is also recording capital growth, with values up by 0.3% in Q2, led by a strong comeback from neighbourhood centres which grew by 0.5%.

OFFICE MARKET REMAINS DIVERGENT

In the office sector, sentiment is also improving although it continues to vary by location. Having returned to growth in Q1, CBD office values were stable in Q2, but suburban asset values dipped by another 0.9%.

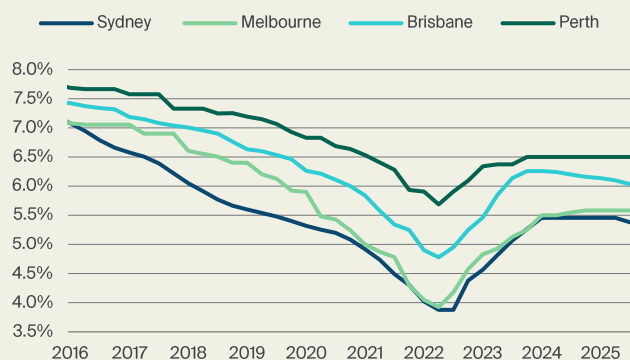
Overall vacancy rates continued to edge higher in most markets in H1, but this masks tightening supply at the top end of the market which is supporting effective rent growth and feeding through to increased buyer confidence. This benefitting the Sydney and Brisbane markets to a greater extent than other cities with average asset values in both cities increasing by 0.9% in the first half of the year, while Melbourne, Perth and Canberra saw further decline.

This divergence is mirrored in performance by grade, with premium and A grade assets clearly out-performing B grade.

Looking ahead, capital growth is expected to continue and gradually broaden as lower interest rates feed through to reductions in funding costs and hurdle rates.

Prime industrial yields have fallen

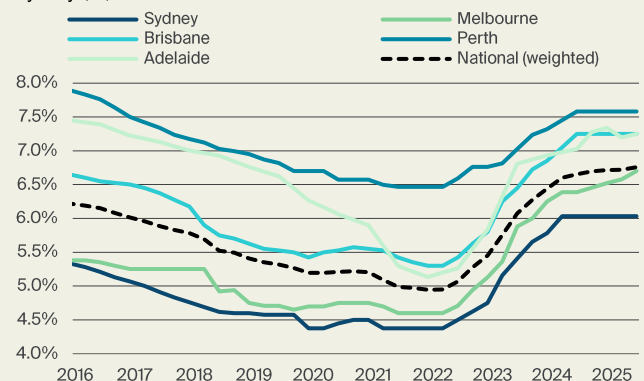
Average (blended) prime yield (%)



Source: Knight Frank Research

Prime office yields have stabilised

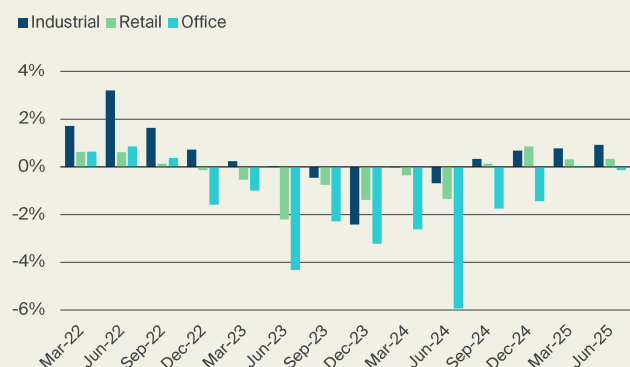
By city (%)



Source: Knight Frank Research

Asset values have returned to growth

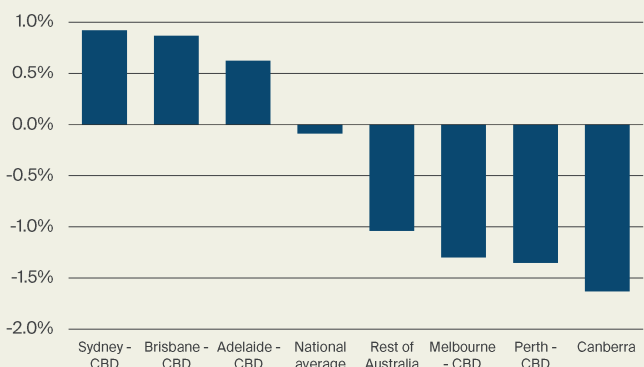
Quarterly capital value growth, average for major sectors (%)



Source: Knight Frank Research, MSCI

Divergent capital growth across cities

Change in average asset value in H1 2025



Source: Knight Frank Research, MSCI

Economy yet to accelerate

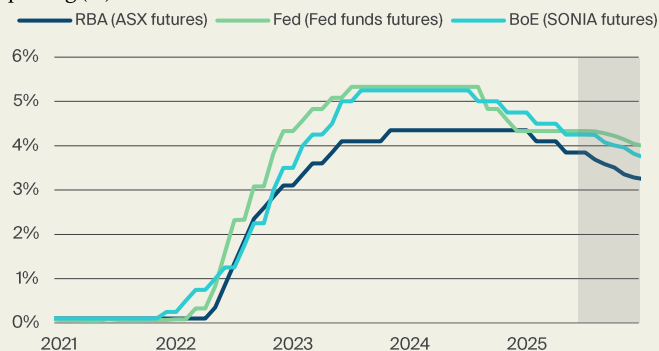
RATE CUTS DRIVING DOWN 2-5 YEAR RATES BUT TEN-YEAR YIELD STILL ELEVATED

After unexpectedly holding interest rates steady in July, the RBA has again cut the cash rate in August to 3.6%, citing a further decline in inflation back to 2.1% (headline) and 2.7% (trimmed mean), alongside some evidence of a cooling labour market. The RBA is expected to continue easing policy settings to support economic growth. Markets are pricing in another 2-3 cuts in 2025 and a terminal rate around 3.0% by mid 2026. Tariff driven trade tensions remain a significant downside risk to growth and a further escalation would likely prompt more forceful action from the RBA.

Rate cuts have driven yields on 2- and 5-year swaps to their lowest levels since mid-2022. Long-term yields (10-year swap rates and bond yields) have also fallen, but by significantly less than short-term yields, with the ten-year bond yield still standing at around 4.2%. This suggests that investors are concerned over the longer-term risks including the outlook for inflation and fiscal spending, particularly in the US, and are building in a higher term premium to account for this.

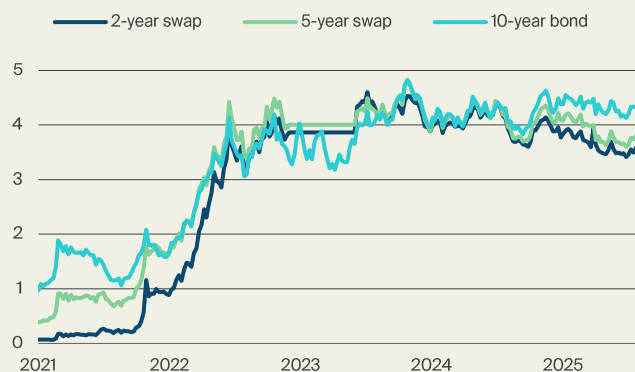
Policy rates expected to fall further in 2025

Implied forecasts of central bank policy rates based on market pricing (%)



Borrowing rates continue edging down

Yield by swap/bond duration (%)



HOUSEHOLD CONSUMPTION A KEY WATCHPOINT

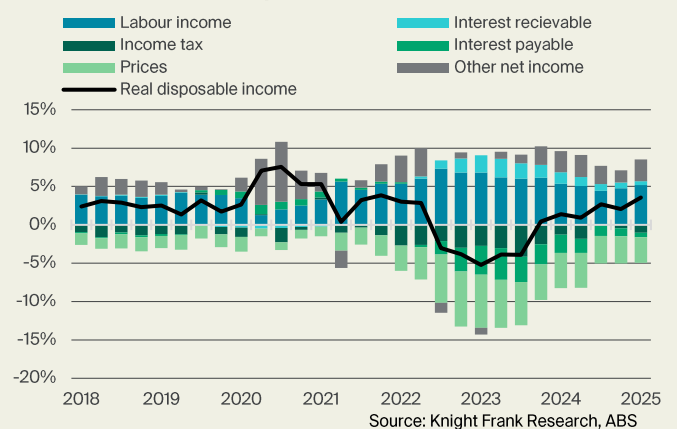
A slower than expected recovery in household consumption – a large and important driver of economic growth – remains an important watchpoint and has held back the pace of economic growth. Despite strong growth in real disposable incomes in H1 2025, consumers largely opted to save rather than spend their additional income. However, household savings rates have now returned to their pre-pandemic average so looking ahead, income growth should feed through to consumer spending more directly which should improve the pace of growth.

MARKETS LOOKING THROUGH TRADE AND GEOPOLITICAL RISKS

Despite the step-up in the Middle East conflict and ongoing tariff announcements, equity markets have been sanguine, staging a strong rally globally in recent months. Volatility has declined and investors are increasingly looking through changes in US policy – choosing to react not to policy news, but rather the actual implementation of policies and the realisation of their impacts.

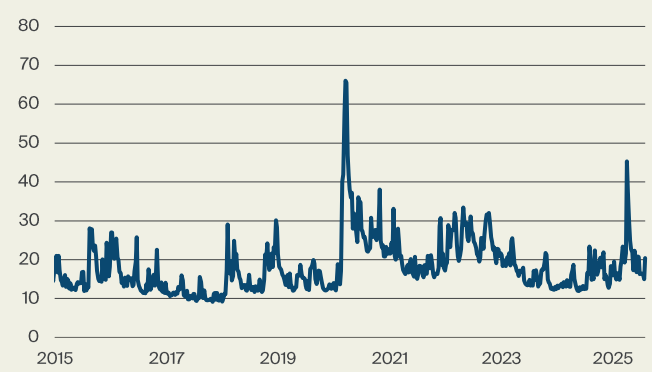
A return to real disposable income growth

Year-ended, annual change with contributions (%)



Market volatility has dissipated

US VIX index - measure of market volatility (index)



Market outlook

Key themes in 2025

INDUSTRIAL THE STRONGEST PERFORMER IN EARLY STAGES OF THE NEW CYCLE

Appetite for Australian industrial assets has quickly returned, driving a resurgence in capital growth as the cyclical recovery commences. While parts of the leasing market have been subdued, with significant new development and sub-leasing resulting in higher incentives which have weighed on effective rents, investors are looking through this and remain focussed on positive long-term fundamentals and the likelihood of further land value growth. Industrial is viewed as offering strong prospects for income growth, and looks set to trade on tighter yields than other sectors for the foreseeable future.

2025 TO BE ANOTHER RECORD YEAR FOR BTR SUPPLY

Despite the constant stream of negative headlines surrounding new housing supply, the Australian BTR sector is quietly growing and 2025 is set to see another record year of new supply, with 6,000 units to be delivered by year end, following up on 4,660 in 2024. So far this year, four schemes have opened, including Claremont Tower and Madison Grand in Melbourne – further reinforcing the city's position as the national leader in BTR delivery. In addition, Arklife Cordelia and Liv Anura have opened in Brisbane, where interest in the asset class continues to grow.

Importantly, operational schemes are demonstrating strong performance, with high occupancy rates and rental growth providing added confidence to the market and to developers considering the timing of the next wave of schemes.

CORE CBD OFFICE MARKETS LEADING THE RECOVERY AIDED BY DIMINISHING PIPELINE OF NEW SUPPLY

Core office precincts appear to be turning the corner, with the Sydney CBD core leading the recovery before the strength radiates out toward other precincts. Capital values for core buildings appear poised for value uplift driven by strengthening rental growth and an expected sharpening of yields.

Besides lower interest rates, the recovery is also being prompted by a growing realisation that the top end of the market is quickly becoming supply constrained. In Sydney's CBD there is only c57,000 sqm of new premium space available to 2027 and no major developments slated for delivery in 2028 or 2029. Despite higher overall vacancy in Melbourne CBD, there is only 40,500 sqm of new premium office space available for leasing through to 2029.

JAPANESE INVESTORS CONTINUE TO TARGET AUSTRALIAN ASSETS

After sitting on the sideline in recent quarters, the appetite of Japanese capital for Australian assets appears to be re-emerging. Japan's rapidly shrinking population is limiting the prospects for income and land value growth in the domestic market, so investors are focussed on diversifying the portfolios globally and view Australia as particularly attractive. There is a sense of urgency to take steps to deploy capital in faster growing economies, partly due to 2023 Tokyo Stock Exchange (TSE) reforms that have placed more pressure on corporates to generate better returns.

TARIFF IMPACTS TO REMAIN A KEY WATCHPOINT

Tariff news flow was relatively quiet towards the end of Q2 as the US paused most tariffs until 7 July and the conflict in the Middle East shifted the global focus. The implementation was delayed again to 1 August, but the US has now announced a series of country specific tariff rates that are high, but below the levels initially proposed in April.

It is clear that ongoing changes and negotiations are to be expected, which will continue to generate uncertainty over the economic outlook. However, there has been minimal market reaction to the tariffs announced in both July and on 1 August as markets wait to see if the US will actually follow through, and if so, whether the impact of the changes generate significant economic impacts besides an initial spike in US inflation.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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