

Australian Capital View



February 2026

Transaction activity remained strong in Q4 with improved investor sentiment. This confidence has helped spur capital growth across all major property sectors, with stronger demand beginning to drive a reduction in yields in select markets.

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Key insights

Rising investor confidence that asset pricing has reached cyclical lows has seen liquidity return to capital markets. This momentum is expected to persist despite higher interest rates as improving fundamentals support expectations of stronger income returns.



ALISTAIR READ
SENIOR ECONOMIST, RESEARCH & CONSULTING

\$51.4b

Investment volume in 2025

Total investment volumes in 2025 rose to \$51.4 billion with increased investor confidence.

41%

Change in annual volumes

Total investment volumes in 2025 were 41% higher than in 2024.

32%

Cross-border capital most active

Cross-border investors have been the most active, accounting for 32% of total acquisitions in 2025.

6.7%

National prime office yield

The weighted Australian prime office yield remained stable – for the second consecutive quarter – at 6.7% in Q4 2025.

5.6%

National prime industrial yield

The average Australian prime industrial yield across the eastern seaboard remained steady at 5.6% in Q4 2025.

5.6%

National retail yield

The weighted Australian average prime retail yield fell to 5.6% in Q4 2025.

Returns rise across all sectors

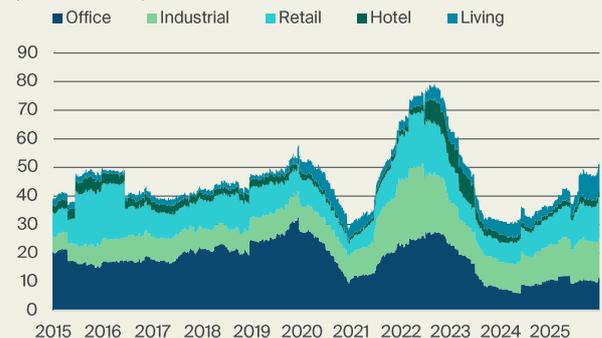
National annual return by year, asset class, and components (%)



Source: Knight Frank Research, MSCI

Growing momentum as confidence improves

12-month rolling sum of daily transaction volumes by sector (AUD billions)



Source: Knight Frank Research, RCA

Investment activity is rising

OFFICES SUPPORT TRANSACTION ACTIVITY IN Q4

Total Australian transaction volumes rose in 2025 to \$51.4 billion, up 41% from 2024. The continued growth of investment into retail assets was a key story of 2025 with investment volumes rising to \$14.3 billion, up \$4.6 billion (49%) from 2024 volumes.

Investment volumes fell to \$14.1 billion in Q4 2025 following an exceptionally strong Q3. Increased investor confidence has continued to drive improved transaction activity across most sectors.

Transaction activity in Q4 was driven by the continued strength in the retail market with \$4.3 billion transacted in Q4. The office recovery continued with \$4.2 billion of assets transacted, followed by industrial which remained relatively resilient with \$3.7 billion.

Significant transactions in Q4 included a 75% stake in Grosvenor Place which sold for \$1.3 billion, a 25% stake in Westfield Chermside for \$683 million, Hyperdome Shopping Centre for \$678.7 million and Port Adelaide Distribution Centre for \$216 million.

Investment volumes remain strong in Q4

Quarterly investment volumes by sector (AUD billions)



INVESTMENT ACTIVITY REMAINS SELECTIVE

The improvement in investment activity is largely being driven by NSW, and the retail and industrial sectors.

NSW rolling annual investment volumes have steadily risen from around \$16 billion at the start of 2025 to around the pre-pandemic average of \$22 billion. This signals the increased investor appetite for assets in Sydney which has seen a strong improvement in economic conditions throughout 2025. Elsewhere, investment volumes in QLD have also risen to be above their long-term average, while VIC investment volumes are slowly improving.

Increased transaction activity has also largely been driven by increased demand for retail and industrial assets where annual transaction volumes have risen throughout 2025 to at or above their long-term average. Office investment volumes remain relatively subdued, with the pick-up in office investment yet to extend beyond Sydney and Brisbane. Living sector transaction volumes were exceptionally strong in 2025 following the significant sale of the Aveo portfolio in Q3.

Investment volumes rise in 2025

Quarterly investment volumes by sector (AUD billions)



Strong interest in retail and industrial

12-month rolling sum of daily transaction volume by sector (AUD billions)



NSW driving increased liquidity

12-month rolling sum of daily transaction volume by state (AUD billions)



REITs return as buyers

REITS SHIFT TO NET BUYERS IN Q4

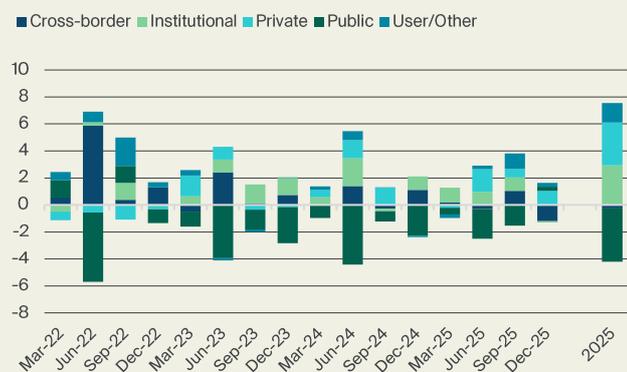
Institutional capital led purchasing activity with \$3.4 billion of transactions (29% of total activity) in Q4 2025, followed by \$2.9 billion from private capital (24%), \$2.8 billion from public capital (24%), \$2 billion from cross-border capital (17%) and \$0.7 billion from User/other.

For the first time since Q3 2022, A-REITs were net buyers of assets in Q4 2025. This was primarily driven by REITs investing in retail assets, such as Dexu in Westfield Chermside and Charter Hall in Burwood One. GPT's office purchase of Grosvenor Place also was a significant indicator of the return of the REITs, particularly given it was purchased using balance sheet capital. The return of REITs is important as it signals an improvement in investor sentiment and the return of domestic institutions as we move into 2026. As market conditions continue to improve, we expect REIT participation on the buy-side to continue rising.

In 2025, cross-border buyers were most active buying \$14.4 billion of assets (32% of total activity), followed by institutions (26%), privates (24%) and public capital (14%).

REITs return as buyers in Q4

Net investment volumes by investor type (AUD billions)



Source: Knight Frank Research, RCA

Growing demand from public investors

12-month rolling net transaction volume by investor type (AUD billions)



Source: Knight Frank Research, RCA

CROSS-BORDER INVESTMENT REMAINS STRONG

Cross-border investors remained net buyers in 2025, buying \$14.4 billion of assets (32% of total activity). Cross-border investment was relatively diversified among the sectors with 28% of investment in Seniors Housing and Care, followed by industrial (22%) and office (22%).

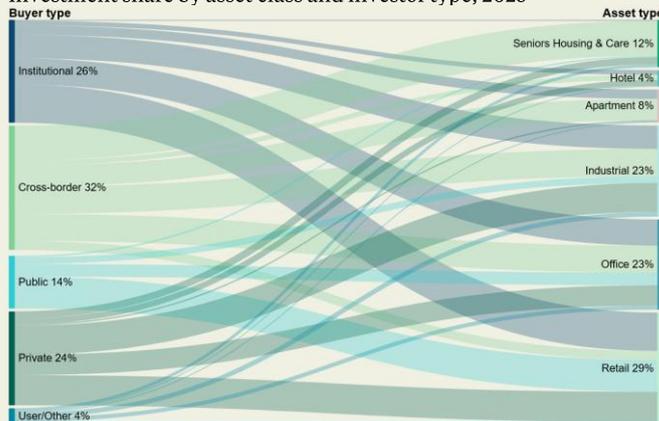
The most significant cross-border transaction of the year was Brookfield's sale of Aveo – a retirement-living operator – for \$3.85 billion to South Korea's National Pension Service (NPS) and Scape Australia in Q3.

Other major transactions included US-based Greystar's stake in the \$1.4 billion acquisition of GIC's Australian PBSA portfolio, and Japan's Mitsubishi Estate buying a 50% stake in the Harbourside mixed-use project from Mirvac for \$1.15 billion.

Cross-border capital, particularly Asian capital, continues to display strong demand for Australian assets and this is expected to persist throughout 2026 as investors look to capitalise on the recovery in property markets.

Cross-border capital deployment is diversified

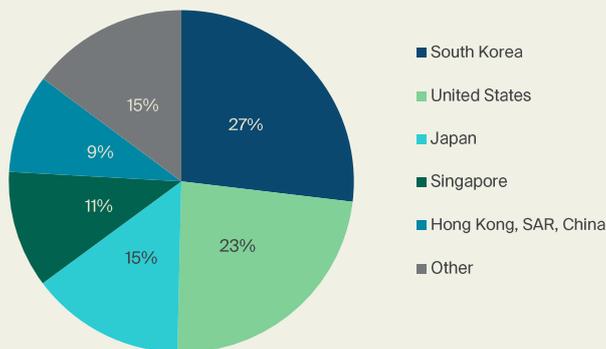
Investment share by asset class and investor type, 2025



Source: Knight Frank Research, RCA

Strong investment from Asia and the US

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



Source: Knight Frank Research, RCA

Capital growth returns

RETAIL THE BEST PERFORMER IN 2025

The retail sector was the best performing sector in 2025 recording a 9.2% total return over the year, followed by industrial (8.6%) and office (5.9%). The retail sector performed exceptionally well in Q4 capital values rising by 1.3%. This was led by exceptionally strong growth for regional (1.9% growth in Q4) and sub-regional (2.0%) assets where yields fell by 14 bps and 17 bps, respectively.

Industrial yields remained flat across most capital cities in Q4 2025. Strong capital growth for industrial assets has persisted, with industrial capital values rising by a solid 1.1% in Q4. Strong demand remains for industrial assets, which is resulting in increased competition for prime assets, particularly in Sydney, Brisbane and Perth.

Looking ahead, the shift to interest rate rises will slow yield compression and see income growth become the driver of total returns. As such, investors should be selective and focus on assets that can deliver strong rental growth over the coming cycle.

OFFICE MARKET REMAINS DIVERGENT

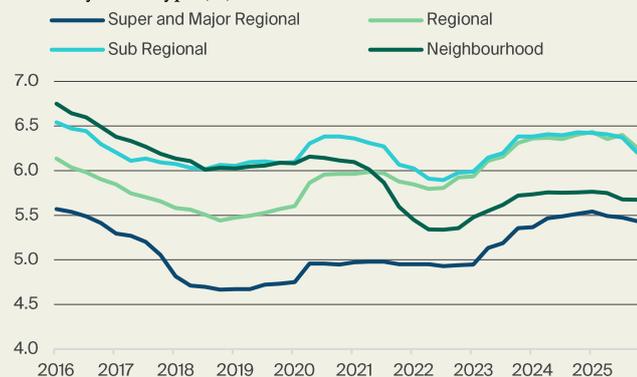
In the office sector, sentiment is also improving although it continues to vary by location. CBD office capital values continued to grow in Q4 by 0.5%, but suburban asset values dipped by another 1.2%. Prime office yields in the Sydney CBD core tightened for a second consecutive quarter to 5.7%. This shift to yield compression is expected to broaden to most other CBDs throughout 2026.

Overall vacancy rates continued to edge higher in most markets in H2, but this masks tightening supply in high quality and well-located space which is supporting a strengthening in effective rent growth and feeding through to increased buyer confidence. This is evident in the Sydney and Brisbane to a greater extent than other cities with average office asset values in both cities increasing by 2.4% and 4.4% respectively in 2025, while Melbourne, Perth and Canberra and metro markets saw further decline.

This divergence is mirrored in performance by grade, with premium and A grade asset values rising, and clearly out-performing B grade assets whose value continues to fall.

Retail yields fall in Q4

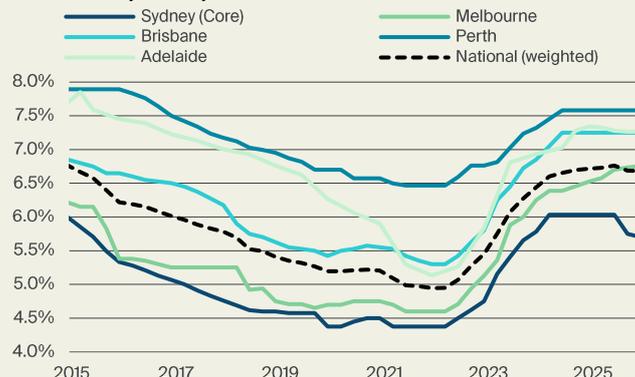
Yields by retail type (%)



Source: Knight Frank Research, MSCI

Prime office yields tighten in Sydney CBD

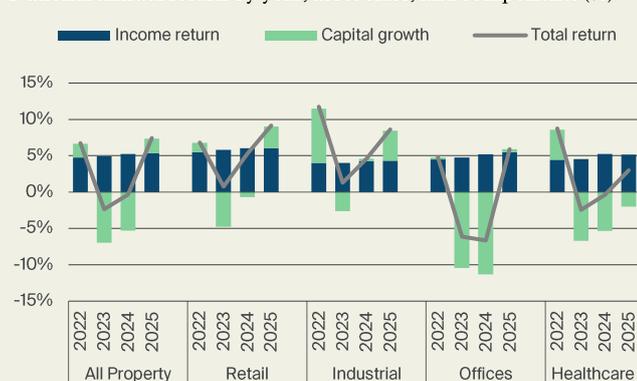
Prime office yields by CBD (%)



Source: Knight Frank Research

Returns rise across all sectors

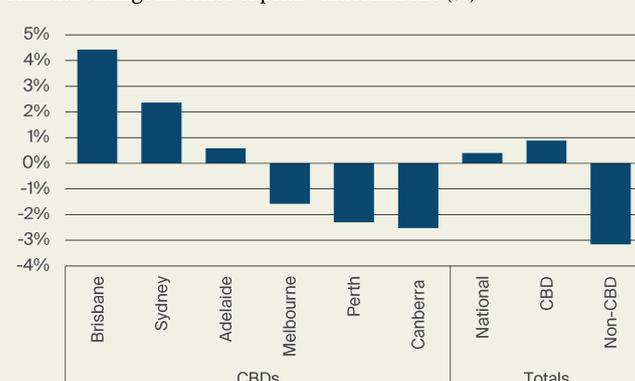
National annual return by year, asset class, and components (%)



Source: Knight Frank Research, MSCI

Divergent capital growth across cities

Annual change in office capital values in 2025 (%)



Source: Knight Frank Research, MSCI

Interest rates rise

HOUSEHOLD CONSUMPTION DRIVES GROWTH

Australian economic growth accelerated through the end of 2025, with real GDP growth rising to 2.1% in Q3 2025. Importantly, this growth has been driven by an uplift in private demand. The expansion in private demand largely reflects improved household consumption, and to a lesser extent improved private investment.

Household real disposable incomes rose by around 4% in Q3 2025, supported by nominal wage growth, lower inflation, interest rate cuts and the Government's Stage 3 tax cuts. In H2 2025, households shifted from saving this extra income towards increasing consumption, driving a sharp uptick in private demand.

However, this growth in aggregate demand is pushing into capacity constraints, leading to increased inflationary pressure. The constrained growth in supply is a result of the decline in Australian productivity over recent years, effectively placing a limit on how fast Australia can grow before inflation emerges.

RBA HIKES INTEREST RATES IN FEBRUARY

Inflation accelerated towards the end of 2025, reflecting both the temporary impacts of government policies and a more persistent lift in prices across services and new dwellings. The gathering momentum in the latter is the key concern for the RBA given these items display significant momentum and therefore threaten to keep inflation above target for an extended period.

In response to rising inflation, the RBA hiked interest rates in February by 25 bps to 3.85%, a move that was widely expected. With inflation moving away from target, and the labour market remaining relatively tight, the RBA provided a relatively hawkish statement in explaining their decision. Market pricing indicates another 25-50 bps of rate hikes this year, with the next hike expected in May.

Bond yields rose in late 2025 with the 10-year bond yield lifting from the 4-4.5% range it had been trading in to 4.8% as rising inflation saw expectations shift from rate cuts to rate hikes. Bond yields are expected to remain stable around 4.8% throughout 2026.

Private sector driving economic growth

Year-ended, annual change with contributions (%)



Source: Knight Frank Research, ABS
*Other includes changes in inventories and statistical discrepancies

Inflation remains above the RBA target

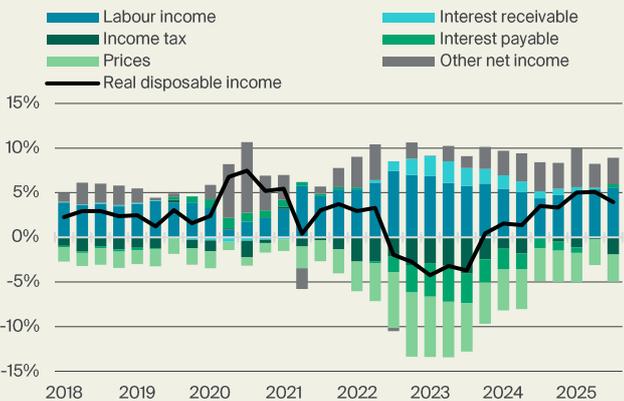
Annual growth headline and trimmed mean inflation (y/y %)



Source: Knight Frank Research, ABS
Note: Data transitions from quarterly to monthly in April 2025.

Rising household incomes drive consumption

Year-ended, annual change with contributions (%)



Source: Knight Frank Research, ABS

Higher interest rates expected in 2026

Historical and forecast cash rate and 10-year bond yields (%)



Source: Knight Frank Research, ASX, Westpac

Market outlook

Key themes in 2026

IT IS STILL THE TIME TO BUY IN MOST MARKETS, BUT INVESTORS MAY NEED TO LOOK BEYOND THE CORE

The early-cycle acquisition 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 anticipated 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.

We expect that the recovery will broaden beyond a narrow band of core assets and locations in each sector. In industrial markets, we expect the recovery to extend to Melbourne, 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 Sydney, Brisbane, and Melbourne, we expect it to enter a second phase as growth extends beyond the core precincts. Adjacent markets such as Midtown in Sydney and the Western Core in Melbourne are likely the next to benefit from a thinning supply pipeline.

VALUE-ADD INVESTORS WILL HEAD TO MELBOURNE

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. 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.

ASSET SELECTION IS INCREASINGLY IMPORTANT

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 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. The key will be to align investment goals with the return and risk profile of each asset. This more targeted approach to asset selection is expected to become the new normal.

CASH RATE HIKE TO TEMPER YIELD COMPRESSION

The RBA's 25 bps cash rate increase in February is unlikely to derail yield compression in commercial property markets, but it will act to moderate both the pace and the depth of tightening. Rate cuts delivered through 2025 are still working their way through capital markets, with effective borrowing costs only recently resetting lower and investment volumes now beginning to lift. At the same time, improving fundamentals – particularly stronger recent rental growth in office and retail – are supporting expectations of higher income returns, helping sustain buyer appetite even as the risk-free rate edges higher. As a result, while property-bond spreads are likely to stabilise at wider levels than previously anticipated, the direction of travel for yields remains downward, albeit in a slower and more selective phase.

OFFICE SECTOR IS BECOMING MORE ATTRACTIVE

The office sector is becoming increasingly attractive to investors as a significant slowdown in new office supply appears set to drive strong rental growth over the coming years.

Economic rents – the rent level required to make a new development feasible – remain well above the levels required to make the construction of a new office tower feasible. This reflects several factors including a sharp rise in construction costs, the decline in asset values and higher interest rates. High economic rents have driven a significant slowdown in new supply across Australia. National new office supply is forecast to average c170,000 per year from 2026 to 2030 – around 60% below the 10-year average. The pipeline is particularly scarce in Perth and Sydney CBD.

As a result of falling office supply, we expect that CBD office markets across Australia will become increasingly tight over the next five years, particularly at the top-end of the market. This is expected to support strong rent growth over the coming years as tenants will have to compete for a limited amount of new, high-quality contiguous space.

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