Australian Capital View

June 2025

Asset prices return to growth across all sectors as cross border capital flows accelerate.

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Key insights

Capital markets are growing more confident that valuations have reached a cyclical low. Transaction volumes have continued to rise, establishing baseline prices that will help unlock further investment activity in 2025.

ALISTAIR READ
SENIOR ECONOMIST, RESEARCH & CONSULTING

$9.3b

Investment volumes in Q1

Total investment volumes reached $9.3 billion in Q1 2025 with improved investor sentiment.

26%

Growth in Q1 volumes y/y

Total investment volumes rose by 26% in Q1 2025 compared to Q1 2024.

32%

Private capital most active

Private investors have been the most active, accounting for 32% of total acquisitions in 2024 and 2025.

6.7%

National prime office yield

The weighted Australian prime office yield stabilised in Q1 2025 at 6.7%. This marks the first time yields have not risen since Q1 2022.

2.4%

Forecast GDP growth

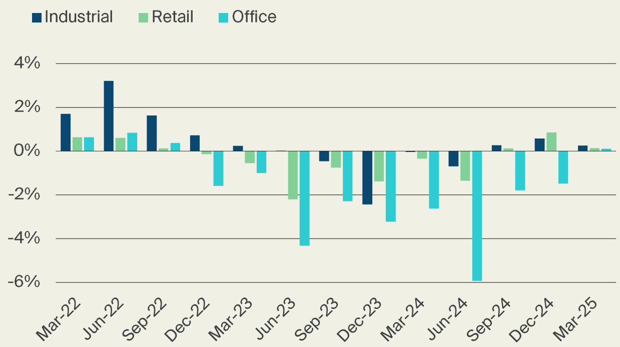
GDP growth is forecast to gradually accelerate to an average rate of 2.4% from 2025 to 2030, just below the 20-year average of 2.6%.

-0.7%

Further reduction in cash rate by end 2025

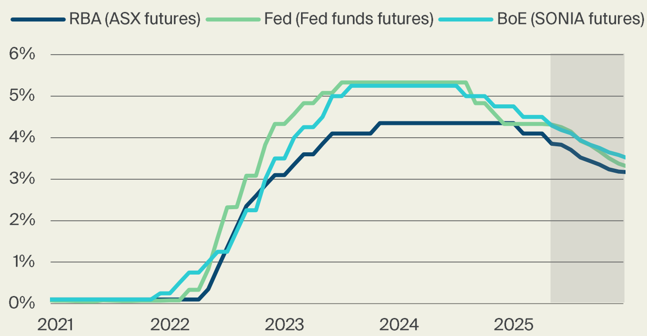
The market is currently pricing in a further 0.7% fall in the RBA cash rate by the end of 2025.

All property assets return to capital growth
Quarterly capital value growth, average for major sectors (%)



Source: Knight Frank Research, MSCI

Policy rates expected to fall in 2025
Implied forecasts of central bank policy rates based on market



Source: Knight Frank Research, Macrobond

Deal flow on the rise

OUTLOOK FOR FALLING INTEREST RATES SUPPORTS HIGHER INVESTMENT ACTIVITY

Investment volumes rose by 16% to $43.9 billion in 2024 with improved investor sentiment. Investment activity was strongest for industrial ($13.3 billion) assets as inflation and interest rates led investors to prioritise assets with the strongest near-term outlook for rental growth.

This strength continued into Q1 2025 as investment volumes reached $9.3 billion, but activity has broadened to include greater activity in office and retail markets. Although Q1 is typically the weakest quarter for transactions during the year, several large office sales in Sydney underscored the improvement in investor sentiment. These sales included 135 King Street for $670 million to Daibiru and 20 Bridge Street for $270 million to Anton Capital JV PGIM Real Estate.

Meanwhile, strong retail volumes reflect the settlement of both Westpoint Shopping Centre for $900 million to Haben/Hines and the GPT's $300 million acquisition of a 50% stake in Cockburn Gateway.

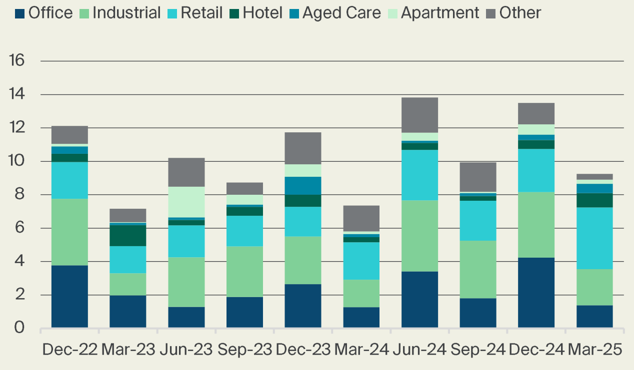
INVESTORS POSITIONING PORTFOLIOS FOR CAPITAL GROWTH

The interest rate cutting cycle has continued globally, providing investors with increased confidence that valuations are at a cyclical low. As a result, a wide range of groups are now looking to deploy capital in the near-term to take advantage of an attractive entry point and maximise the prospect of long-term capital growth. This has led to a pick-up in demand for prime product in the core office, industrial and retail sectors, where investors are able to deploy capital more quickly. In this regard, the recovery in deal flow in Australia has been highly synchronised with the recent recovery Europe and the United States.

At the same time, many are still seeking to deploy into less liquid alternative sectors, particularly build-to-rent, student accommodation and data centres, but these strategies will take longer to execute. As the year goes on, improving liquidity and prospects for further cuts in interest rates will continue to unlock capital markets and we expect the current momentum to be sustained.

Investment volumes continue rebound

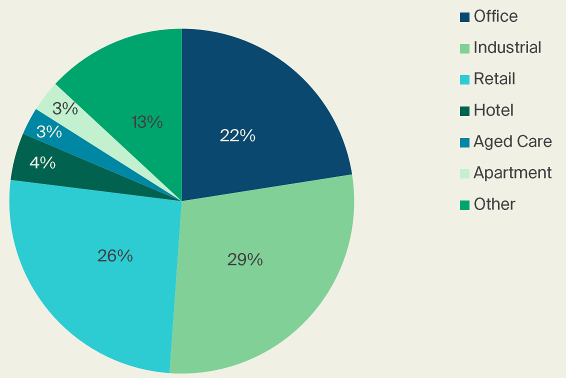
Quarterly investment volumes by sector (AUD billions)



Source: Knight Frank Research, RCA

Investment volumes by market

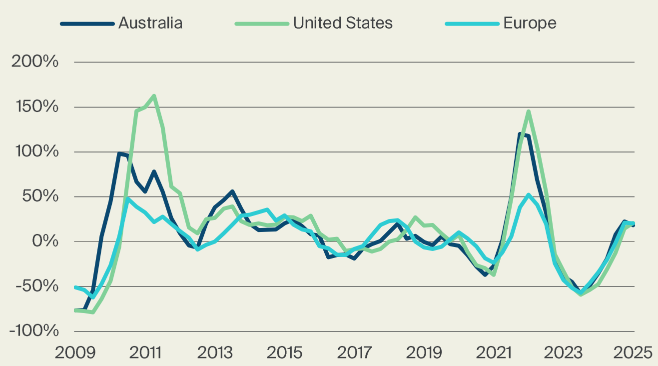
Share of investment volumes in 2024 and Q1 2025 (%)



Source: Knight Frank Research, RCA

Synchronised recovery in deal flow

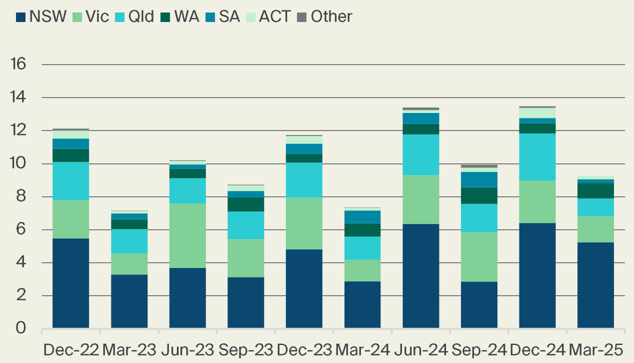
Annual growth in CRE transaction volumes (%)



Source: Knight Frank Research, RCA

Sydney leading the recovery

Quarterly investment volumes by state (AUD billions)



Source: Knight Frank Research, RCA

Offshore demand broadens

PRIVATE AND CROSS BORDER DRIVE ACQUISITIONS WHILE AUSTRALIAN REITS SELL

Private and cross-border capital led purchasing activity in 2024 with $17.2 and $13.6 billion in acquisitions respectively. However, offshore investors demand was narrower than normal, with substantial demand from Japanese investors but relatively subdued demand from Singapore, the United States and Canada.

The trend of private and cross-border investors buying and REIT/listed capital selling has continued in Q1 2025, but demand has broadened with a wider set of investors returning to Australian shores.

Meanwhile, A-REITs continued to be net sellers of assets in Q1. For some time, REITs have been less active than other buyer types, selectively divesting assets to recalibrate their investment strategies and fund new development. As market conditions improve, we expect renewed participation on the buy-side, but recent volatility in equity prices may delay their return.

US INVESTORS RETURN

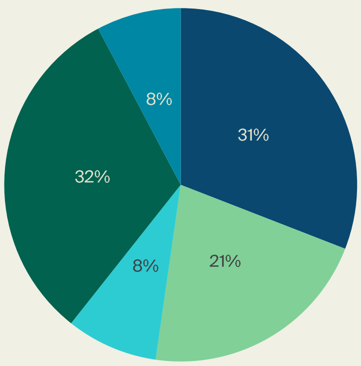
After an extended period of inactivity, US investors returned strongly in 2024, accounting for $5.0 billion of acquisitions. Japanese investors remained a key influence on the Australian market, acquiring $2.8 billion of assets.

Cross-border investment has risen further in Q1, with US investors again driving much of the activity. Major Q1 transactions included Bentall Green Oak acquiring the 10-20 Bond Street for $590 million, Hines 50% share in the $900 million acquisition of Westpoint Blackdown shopping centre, and PGIM's joint venture in the $270 million acquisition 20 Bridge Street. Japanese investment also remained robust, demonstrated by Daibiru's purchase of 135 King Street for $630 million.

US investment has been spurred by the extent of the correction in core asset values, in addition to a strong US dollar and falling interest rates throughout 2024 which improved the attractiveness of the Australian market. Similarly, relatively low interest rates and a stronger Yen have supported sustained Japanese demand.

Private and cross-border capital most active

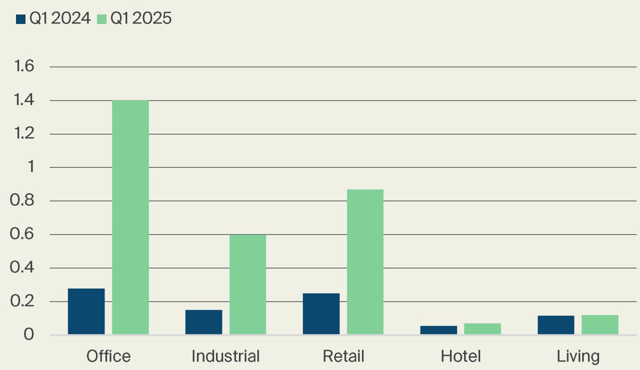
Share of investment volumes in 2024 and 2025 YTD (%)



Source: Knight Frank Research, RCA

Cross-border investment rises in all sectors

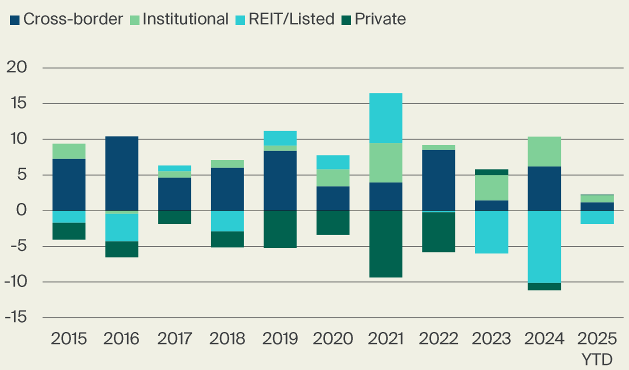
Investment volumes (AUD billions)



Source: Knight Frank Research, RCA

REIT/listed groups reduce property exposure

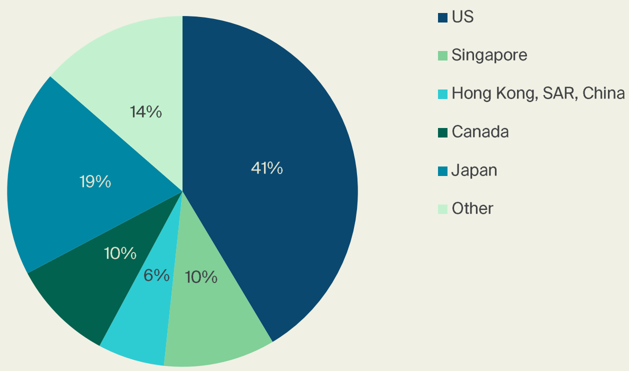
Net investment volumes (AUD billions)



Source: Knight Frank Research, RCA

Strong investment from US and Japan

Share of cross-border investment in 2024 and 2025 YTD (%)



Source: Knight Frank Research, RCA

Asset values return to growth

OFFICE VALUES RETURN TO GROWTH IN Q1

Yields have stabilised for both prime office and industrial assets across most of Australia after a period of softening. This has been supported by the RBA's recent interest rate cuts – and an outlook for further rate cuts throughout 2025 – which have improved borrowing conditions and boosted investor sentiment. Office yields have also been supported by recent transaction activity in Sydney which has instilled greater confidence in other markets nationally, along with increasing perception that vacancy rates have peaked.

Reflecting this, Q1 saw office capital values return to growth, following the return to growth of retail and industrial markets in late 2024. Office and retail capital values rose by 0.1% while industrial values grew by a slightly higher 0.2%. Many investors retain a strong preference for industrial assets, and there is increasing competition for prime assets in Sydney and Brisbane in particular.

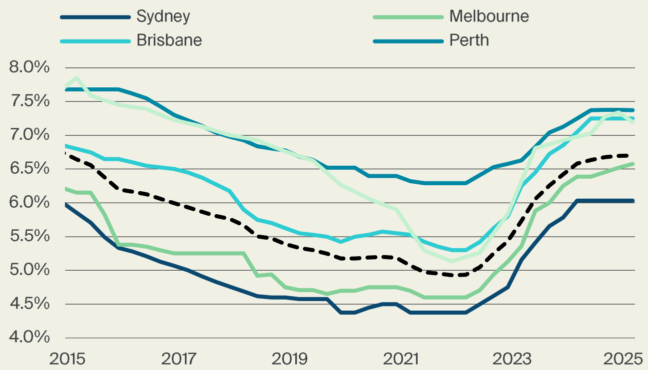
PRIME YIELDS EXPECTED TO COMPRESS IN H2 2025

Capital growth for office, industrial and retail assets is expected to continue in 2025 as lower interest rates result in improving investor sentiment and gradual reductions in funding costs and hurdle rates. Capital values for high quality assets have been less impacted by the repricing cycle, but they will be the first assets to experience growth in asset values. Early indications of this can be seen in the national office market, where average premium office values rose in Q1 while A and B grade values fell or remained flat.

We continue to expect that prime office and industrial yields will start to fall in the second half of the year as investor confidence returns in a lower interest rate environment. Average Sydney CBD prime office yields are forecast to fall from 6.0% in 2024 to 5.8% by year end, before reaching a terminal rate of 5.4% in 2027. The decline in office yields is expected to start in Sydney and Brisbane, before extending to other cities.

Prime office yields have stabilised

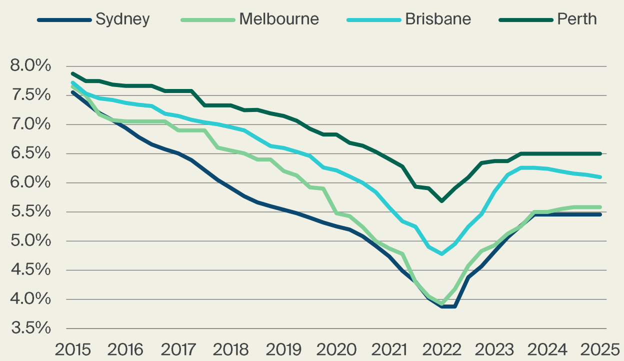
By city (%)



Source: Knight Frank Research

Prime industrial yields have stabilised

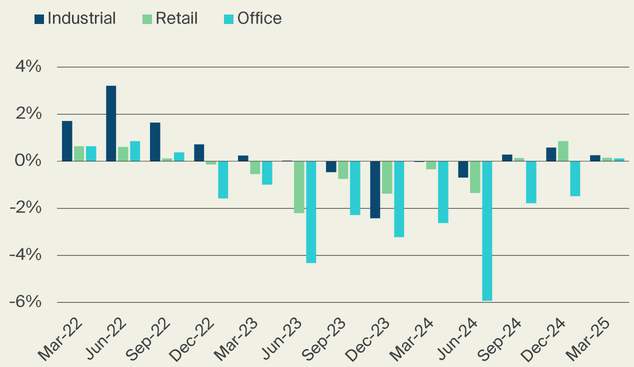
Average (blended) prime yield (%)



Source: Knight Frank Research

Asset values have returned to growth

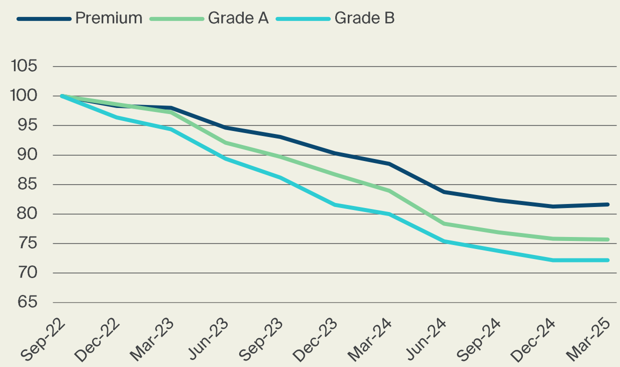
Quarterly capital value growth, average for major sectors (%)



Source: Knight Frank Research, MSCI

Office values have adjusted since the peak

National office capital values by grade, Sep-22 = 100



Source: Knight Frank Research, MSCI

Rate cycle has turned

LOWER INTEREST RATES AT SHORT MATURITIES BUT TEN-YEAR YIELD STILL ELEVATED

Australian and global policy rates look set to fall further throughout 2025. Headline and core inflation has returned to the target range, so the RBA is expected to pivot towards less restrictive policy settings to support economic growth. The RBA cut rates for a second time on 20 May by 0.25%, bringing the total reduction in interest rates this cycle to 0.5%. Further cuts are expected, with markets pricing in another 2-3 in 2025, and a terminal rate close to 3.0% in 2026. Clearly, recent trade tensions present significant downside risks to the global outlook and any further escalation would likely prompt more aggressive action from the RBA.

In response, yields on 2- and 5-year swaps touched their lowest levels since August 2022 during April, and the latest rate cut confirms that funding costs are gradually trending down. However, long-term yields (10-year swap rates and bond yields) have remained elevated at around 4.5%, which suggests that investors remain concerned over the long-term outlook for inflation and are building in a higher term premium to account for these risks.

ECONOMIC GROWTH EXPECTED TO RISE

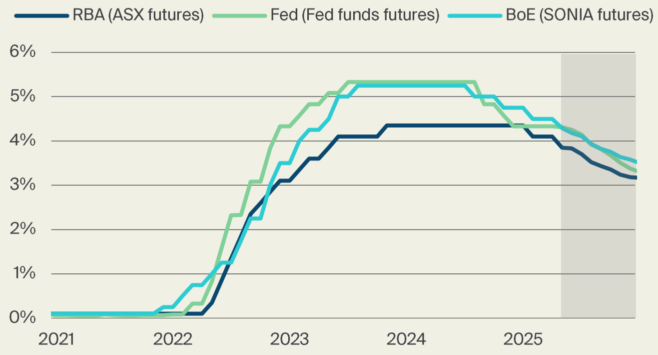
Australian economic growth is gradually recovering and is expected to reach 1.8% y/y by Q4, before returning to the 2-3% range from 2026 to 2030. Recent data suggests that consumer spending has been slower to recover than expected, but sustained government spending and improving business investment are expected to support an improvement in growth going forward.

Real personal disposable incomes have been depressed for some time but are now rebounding off the back of a return to real wage growth and substantial government support measures. Higher disposable incomes are expected to drive a rebound in consumer spending, supporting the industrial and retail sectors.

Real company profits are also expected to return to growth in 2025, supported by lower borrowing costs, easing input cost pressures and higher revenue from rising consumer spending and business activity. Stronger company profits are expected to support growth in leasing demand for industrial and office space in 2025.

Policy rates expected to fall in 2025

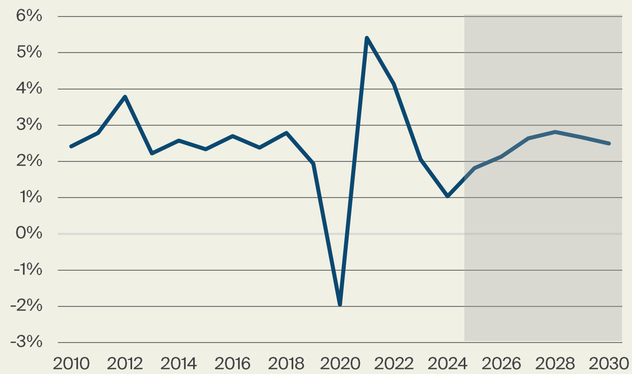
Implied forecasts of central bank policy rates based on market pricing (%)



Source: Knight Frank Research, Macrobond

Real GDP forecast to rise

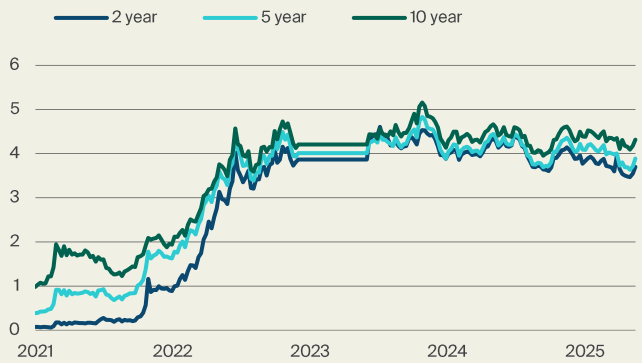
Annual growth (%)



Source: Knight Frank Research, Oxford Economics

Australian swap rates have started falling

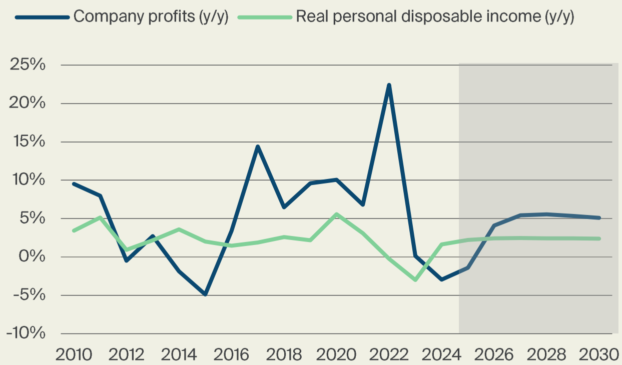
Yield by swap duration



Source: Knight Frank Research, Macrobond

Rising company profits and personal incomes

Annual growth (%)



Source: Knight Frank Research, Oxford Economics

Market outlook

Key themes in 2025

SYDNEY AND BRISBANE LEADING THE RECOVERY

As the market returns to growth, we expect core assets in Sydney and Brisbane to lead the way. As Australia's deepest and most liquid capital market and its most international city, cross-border investors consistently highlight Sydney as a key target within the APAC region. Brisbane is also in favour given the strong economic growth story of South East Queensland, substantial infrastructure investment and continued rental growth across multiple sectors.

REAL ESTATE PORTFOLIO WEIGHTINGS TO RISE

Over the past three years, some institutional investors have sought to reweight to lower the proportion of real estate within their overall asset allocation strategy given the cyclical downturn and strong rally in equity markets. However, with the market returning to growth and equity valuations still elevated, investors will once again be turning to property. This will support capital raising as real estate resumes its role as a critical component of institutional capital allocation, with the renewed promise of low volatility alongside significant long-term growth potential.

SHIFT IN MARKET CONDITIONS FAVOURS TILT BACK TO EQUITY OVER DEBT STRATEGIES

During the downturn, falling asset values and high and rising interest rates provided sound reasons to allocate into debt strategies and the market saw an increase in the number and scale of funds providing credit. However, as the market shifts back to growth off the back of falling interest rates, this will moderate some of the drivers behind the expansion of debt strategies and will tilt the balance back to equity investment. We expect this to result in an improved environment for capital raising focussed on both core assets in traditional sectors and development in living sectors. However, some wholesale funds will not be able to immediately shift back to acquisitions in the face of upcoming redemption windows.

AUSTRALIA LESS EXPOSED TO TARIFF RISKS, BUT OVERSEAS INVESTORS MAY TAKE A PAUSE

Australia is relatively well placed to withstand the tariffs, with little direct exposure to US trade, however, a slowdown in global growth does pose some risks to the outlook. The recent uncertainty may see a temporary slowing in deal momentum over the next few months as some offshore investors opt to wait-and-see how events unfold. However, looking further ahead the comparative stability of Australia may see more international investors focussing on Australia if they divert attention away from the larger US market.

STRONG DEMAND FOR RETAIL BUT SECTOR SPECIALISTS WILL DOMINATE TRANSACTIONS

After a challenging period, the outlook for the retail sector is increasingly positive with real incomes returning to growth, turnover and leasing spreads in the major centres on an upward trajectory and investor sentiment has improved as macro headwinds ease. Despite rising interest from a broad range of investors, we expect that retail specialists will remain the dominant buyers of retail assets. Non-specialist face several hurdles compared to local specialists including reduced leverage in rental negotiations and higher facility management costs.

ELECTION RESULT WILL PROMPT FURTHER DEVELOPMENT ACTIVITY IN LIVING SECTORS

After a challenging period for developers, we are new seeing a pick-up in activity, with around 6,900 student beds under construction and an estimated 8,900 build-to-rent (BTR) apartments under construction nationally, plus a further 20,000 BTR apartments approved for development over the next five years. The recent election result will reinforce this momentum and means recent policy measures to support development will remain in place, most notably the reform of the managed investment trust framework to reduce the withholding tax rate for BTR investment to 15% in line with other sectors.

Recent transactions

Location	Property	Date	Price (m$)	Type	Purchaser	Vendor	Initial yield %
Sydney	6-7 John Morphett Place, Erskine Park (95%)	Q4-24	84	Industrial	TPG Angelo Gordon	Growthpoint	6
Brisbane	99 Harcourt Road, Darra	Q4-24	80.6	Industrial	Charter Hall	CSR	/
Sydney	118-124 Bourke Road, Alexandria	Q4-24	76	Industrial	Goodman	118 Bourke Road Pty Ltd	4.99
Brisbane	481 & 509 Boundary Road, Darra	Q4-24	65	Industrial	Hale Capital	Fife Capital	6.33
Sydney	135 King Street	Q1-25	630 (gross)	Office	Daibiru Corporation	Investa	6.25
Sydney	10-20 Bond Street	Q4-25	~590.0	Office	Bentall Green Oak	Mirvac JV Morgan Stanley	6.4
Sydney	20 Bridge Street	Q1-25	270	Office	Anton Capital JV PGIM Real Estate	Early Light International	6.7
Brisbane	145 Ann Street	Q4-24	215.5	Office	Aware Super	Dexus REIT	7.8
Melbourne	655 Collins Street	Q4-24	117.5	Office	Naji Imam	GPT Group	7.5
Perth	66 St Georges Terrace	Q4-24	75	Office	Oceania Capital	RF CorVal	8.2
Blacktown, NSW	Westpoint Blacktown	Q4-24	900	Retail	Haben/Hines	QIC	6-6.25
Success, WA	Cockburn Gateway (50%)	Q4-24	300	Retail	GPT	Perron Group	/
Melbourne, VIC	David Jones Burke Street	Q4-24	223.5	Retail	IP Generation	Woolworths	6.66
Wollongong, NSW	Figtree Shopping Centre	Q4-24	192	Retail	Fawkner Property	Paragon REIT	6.25
Cloverdale, WA	Belmont Forum (50%)	Q4-24	182	Retail	GPT	Perron Group	/

Source: Knight Frank Research, RCA

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

Recent Research

Australian Industrial Review Q4 2025

Australian Office Indicators Q1 2025

Australian Retail Review April 2025

The Wealth Report 2025

Research and Consulting
Ben Burston
+61 2 9036 6756
Ben.Burston@au.knightfrank.com

Research and Consulting
Alistair Read
+61 450 831 899
Alistair.Read@au.knightfrank.com

Capital Markets
Justin Bond
+61 7 3246 8872
Justin.Bond@au.knightfrank.com

Industrial Logistics
James Templeton
+61 3 9604 4724
James.Templeton@au.knightfrank.com

Capital and Strategic Advisory
Michael Kwok
+61 2 9036 6620
Michael.Kwok@au.knightfrank.com

Valuation & Advisory
Al Carpenter
+61 2 9036 6662
Al.Carpenter@au.knightfrank.com

Knight Frank