

Australian Capital View

Key metrics on Australian capital markets

Q3 2025

Transaction activity is gathering momentum

TRANSACTION ACTIVITY RISES

Total investment volumes rose strongly in Q3 to \$13.5 billion – the strongest volume since Q3 2022. This brings total 2025 YTD investment to \$31.9 billion, a substantial improvement on activity in 2023 and 2024. The living sector led the way reflecting Scape's purchase of Aveo – a retirement living operator – for \$3.85 billion, setting the record for the largest direct real estate deal in Australia.

Investors are becoming increasingly confident that asset valuations have reached their cyclical lows. Transaction activity is expected to rise as investors look to reposition their portfolios in preparation for the next growth cycle.

SYDNEY CBD YIELDS TIGHTEN

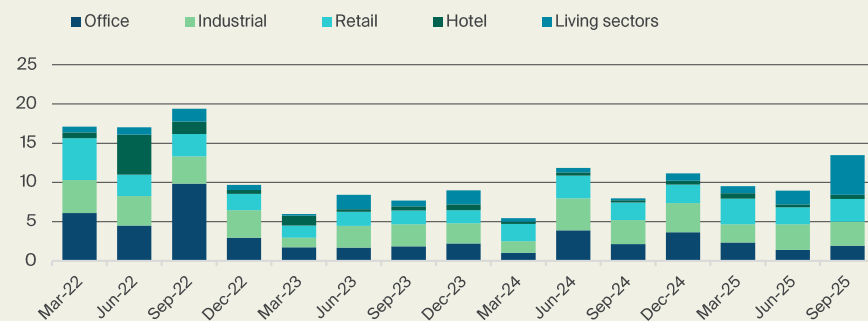
Average prime yields tightened in the Sydney CBD for the first time since 2021, highlighting the underlying strength for best-in-class assets in the CBD. This was driven by a 25bps tightening of yields in the core to an average of 5.75%. Tightening yields for core assets signal the market is beginning to recover. The recovery is expected to start with core assets, before progressively expanding out into surrounding precincts.

RATE CUT EXPECTIONS PARED BACK

Rate cut expectations partially unwound in both the US and Australia at the end of October. In Australia, this was driven by Q3 inflation data which was much higher than expected by both the market and RBA. The RBA is now likely to wait for more data to regain confidence that inflation will settle within the target band. In the US, the pullback reflected forward guidance from Fed Chair Jerome Powell following the October rate decision that was more hawkish about a December rate cut than markets expected.

Investment volumes rise in Q3

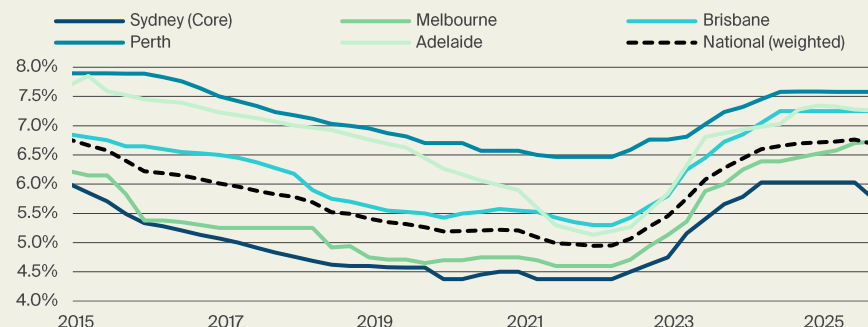
Quarterly investment volumes by sector (AUD billions)



Source: Knight Frank Research, RCA

Prime office yields tighten in Sydney CBD

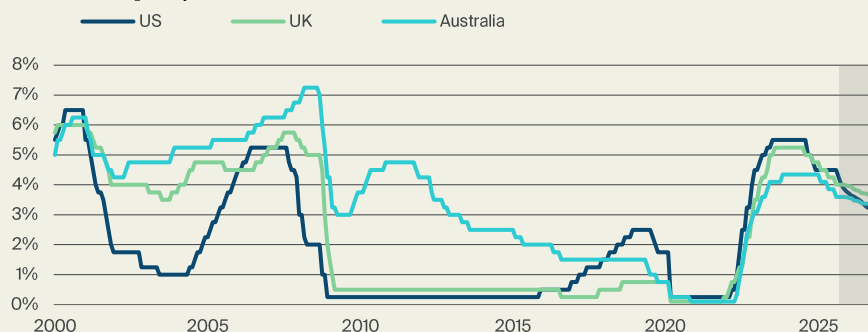
Prime office yields by CBD (%)



Source: Knight Frank Research

Markets have pared back rate cut expectations

Central Bank policy rate and futures (%)



Source: Knight Frank Research, Macrobond

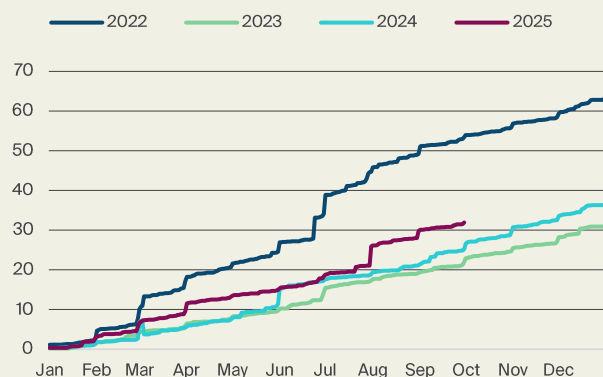
Investment activity rises

Transaction activity gains momentum, rising to a 3-year high in Q3

- Total investment volumes rose strongly in Q3 to \$13.5 billion – the strongest volume since Q3 2022. This brings total 2025 YTD investment to \$31.9 billion, a substantial improvement on transaction activity in 2023 and 2024. Transaction volumes are expected to remain elevated in Q4 with several significant deals in due diligence or in the process of marketing campaigns across all sectors.
- Transaction activity in Q3 was led by the living sector. The Living Company (Scape Australia's parent company) purchased Aveo – a retirement living operator owned by Brookfield – for \$3.85 billion in partnership with the South Korea's National Pension Service. This transaction set the record for the largest direct real estate deal in Australia.
- Transaction volumes in Q3 were also supported by continued strong activity in retail (\$2.9 billion) and industrial (\$3.0 billion) sectors. Significant transactions included the sale of Westfield Chermide to Dexis for \$683 million, and GPT's sale of \$460 million of industrial assets into the new GPT QuadReal Logistics Trust 2 (GQLT2) Partnership Portfolio. Office investment improved \$2.0 billion in Q3, but significant activity is expected in Q4.
- Investors are becoming increasingly confident that asset valuations have reached their cyclical lows. They are now looking to reposition their portfolios in preparation for the next growth cycle and drive increased transactions.

Transaction activity picks up

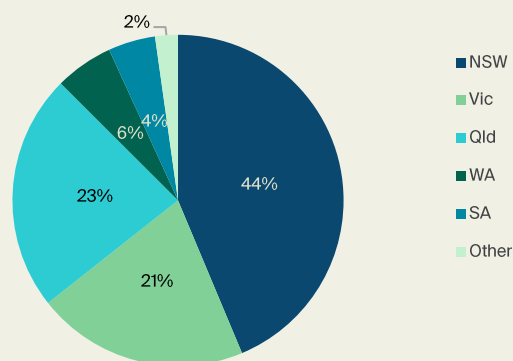
Daily cumulative transaction volume by year (AUD billions)



Source: Knight Frank Research, RCA

NSW leading the recovery

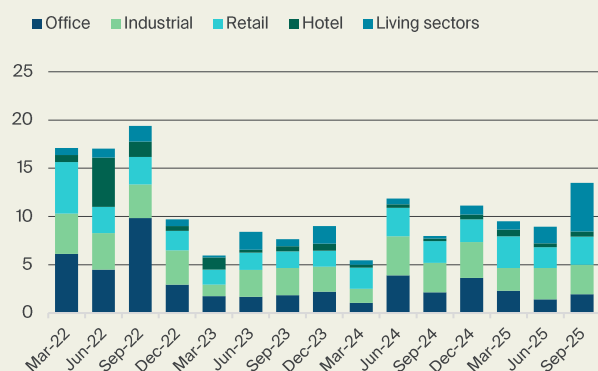
Share of investment volumes by state, Q1-Q3 2025 (%)



Source: Knight Frank Research, RCA

Investment volumes rise in Q3

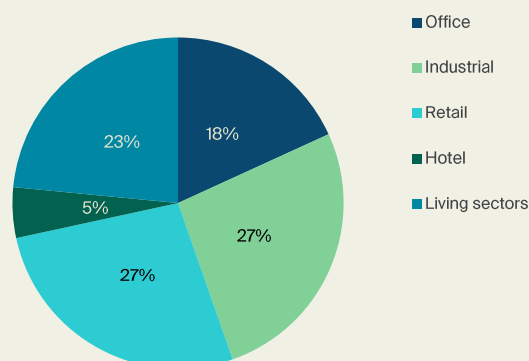
Quarterly investment volumes by sector (AUD billions)



Source: Knight Frank Research, RCA

Retail and industrial drive investment

Share of investment volumes in Q1-Q3 2025 (%)



Source: Knight Frank Research, RCA

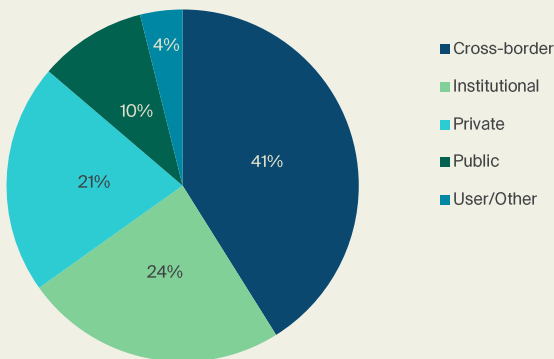
Offshore capital is active

Cross-border capital is the most active buyer, followed by institutions

- Cross-border investment continued to be an important source of liquidity in 2025 with cross-border investors buying \$11.3 billion of assets (41% of total activity) over the year to end-Q3. Institutions are the next most active buyer group acquiring \$6.7 billion of assets (24% of total activity). Japan, South Korea and the US account for most of the cross-border capital flowing into the Australian property sector.
- Significant transactions involving cross-border capital in Q3 included The Living Company who purchased Aveo for \$3.85 billion in partnership with South Korea's National Pension Service (NPS), Japanese Mitsubishi Estate's purchase of a 50% stake in both Harbourside Residences (\$650 million) and Harbourside Project (\$500 million), The JY Group from Hong Kong acquiring a 50% stake in Bankstown Central for \$319 million, and US-based BlackRock buying 50% in 475 Victoria Ave in Chatswood for \$174 million.
- A-REITs continued to be net sellers of assets in Q3. For some time, REITs have been selectively divesting assets to cover elevated and persistent structural outflows, with the largest redemptions coming from passive managers. 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.

Private and institutional capital most active

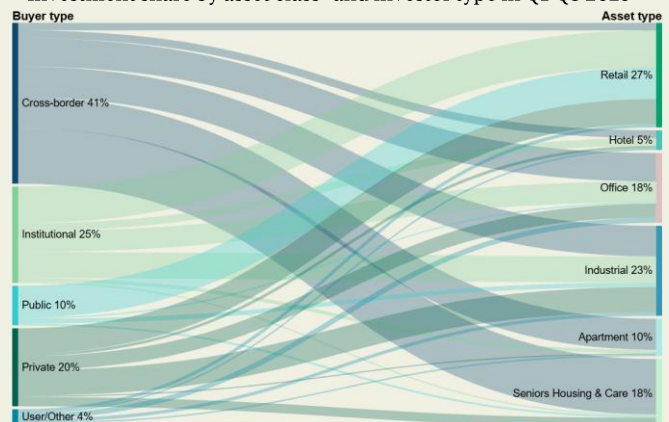
Share of investment volumes by buyer type, Q1-Q3 2025 (%)



Source: Knight Frank Research, RCA

Cross-border capital deployment is diversified

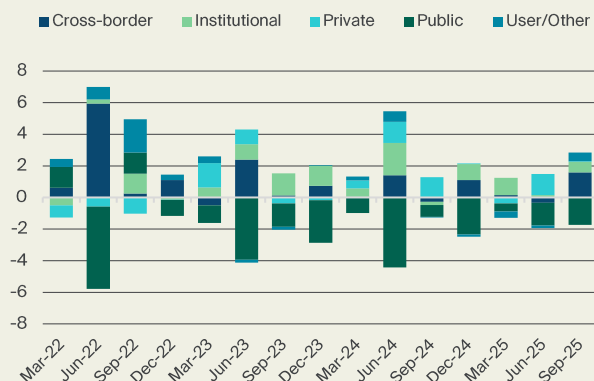
Investment share by asset class* and investor type in Q1-Q3 2025



Source: Knight Frank Research, RCA

REITs/listed capital lower exposure

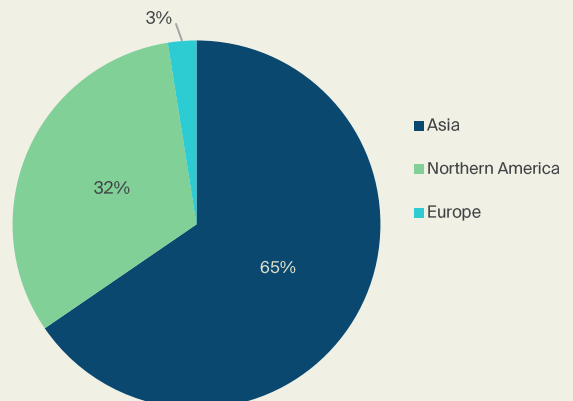
Net investment volumes by investor (AUD billions)



Source: Knight Frank Research, RCA

Asia driving cross-border investment

Proportion of cross-border transaction volume, Q1-Q3 2025 (%)



Source: Knight Frank Research, RCA

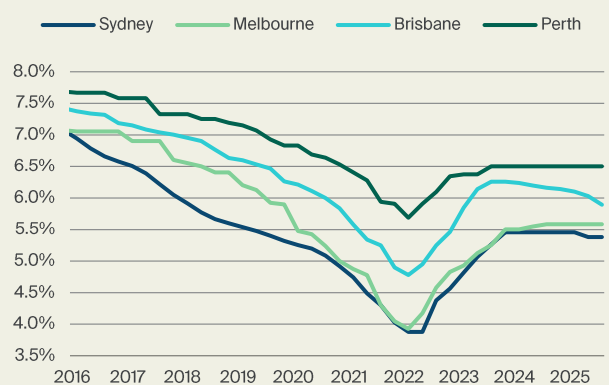
Yields firm

Yields start to tighten with improved investor demand

- Industrial yields remained broadly flat in Q3 except for Brisbane which saw yields fall by 14 bps to 5.89%. The spread between Brisbane and Sydney industrial yields is now at the smallest level since Q1 2016 at 0.51%, while the spread between Brisbane and Melbourne is at its lowest level since Q4 2018 at 0.31%.
- In the office sector, sentiment is improving although it continues to vary by location. Yields in the Sydney CBD core tightened by 25 bps to 5.75% in Q3 – the first fall since Q1 2021. Across the other CBDs yields remained largely stable. This divergence is mirrored in performance by grade, with premium and A grade assets clearly out-performing B grade.
- Retail yields remain relatively stable across the four main shopping centre categories.
- Capital growth is currently confined to certain cities and asset types and largely driven by income growth. Looking ahead, capital growth is expected to continue and gradually broaden as lower interest rates feed through reductions in funding costs and hurdle rates and tighter yields.

Industrial yields starting to tighten

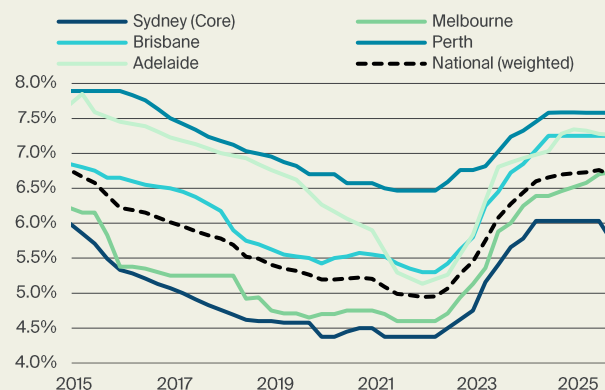
Average (blended) prime industrial yield by city (%)



Source: Knight Frank Research

Prime office yields tighten in Sydney CBD

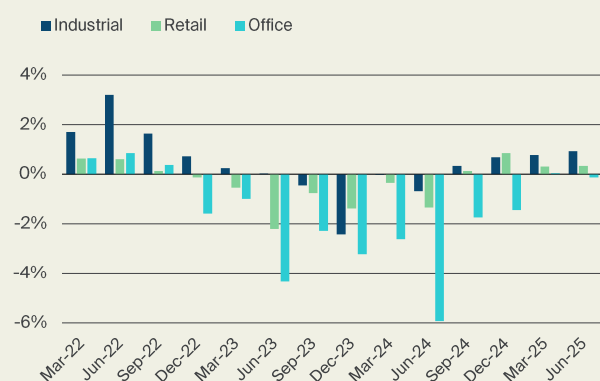
Prime office yields by CBD (%)



Source: Knight Frank Research

Asset values have returned to growth

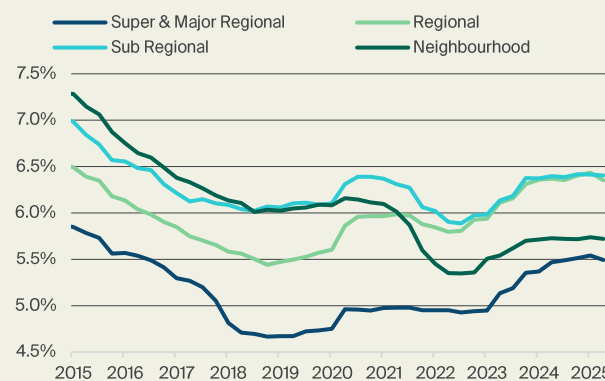
Quarterly capital value growth, average for major sectors (%)



Source: Knight Frank Research, MSCI

Retail cap rates stabilise

Retail yields by retail type (%)



Source: Knight Frank Research, MSCI

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