

ANZ Commercial Property Update Q2 2026

Economic outlook

The conflict in the Middle East has a range of implications for the global economy. While a repeat of the Global Financial Crisis seems unlikely, it has proven to be disruptive for global markets and economies. Oil prices have risen sharply and are currently hovering around 100 USD/bbl.

For Australia, petrol prices have jumped nearly 50% since the escalation of the conflict (even after reducing the petrol excise tax) and there are concerns around potential supply disruptions. Australia imports the vast majority of its diesel (89%) and gasoline (66%). While very little of this comes directly from the Middle East, it is highly dependent on Middle East crude and refined products via Asia-Pacific trading hubs which are supplied by Persian Gulf countries.

So far, the RBA has been more focused on how the conflict will affect inflation, rather than on its impact on economic activity. ANZ Research expect headline inflation to peak around 5% in Q2, largely due to the impact of higher fuel prices. Inflation expectations (which have a strong relationship with petrol prices) are currently around a record high in the ANZ-Roy Morgan Consumer Confidence survey.

Before the escalation of the conflict, inflation was already above the RBA's 2-3% target band,

having accelerated in the second half of 2025.

This saw the RBA increase the cash rate 25bp in February. And given the impact of higher fuel prices on headline inflation and the risks around inflation expectations, the RBA increased the cash rate by 25bp again in March. ANZ Research expect the RBA to hike 25bp in May, taking the cash rate to 4.35%.

This should mark the peak in the cash rate. After May, the RBA is likely to pause hiking as the impacts of higher rates and inflation start to show up in the activity data. ANZ Research expect the economy to grow just 1.3% y/y in 2026, well down from the 2.6% seen in 2025. Household spending is likely to grow just 1.1% this year vs 2.4% in 2025. The unemployment rate is likely to peak at 4.6% in early 2027.

Higher rates and global uncertainty should also slow the housing market. There have already been signs of softening, with auction clearance rates easing and housing prices in Sydney and Melbourne below their October 2025 levels. ANZ Research expect capital city housing prices to rise 2.8% this year, with small falls likely in Sydney and Melbourne. The 'smaller' capitals of Brisbane, Adelaide and Perth have been more resilient in early 2026, but ANZ Research expect them to slow later in the year.

Residential Property

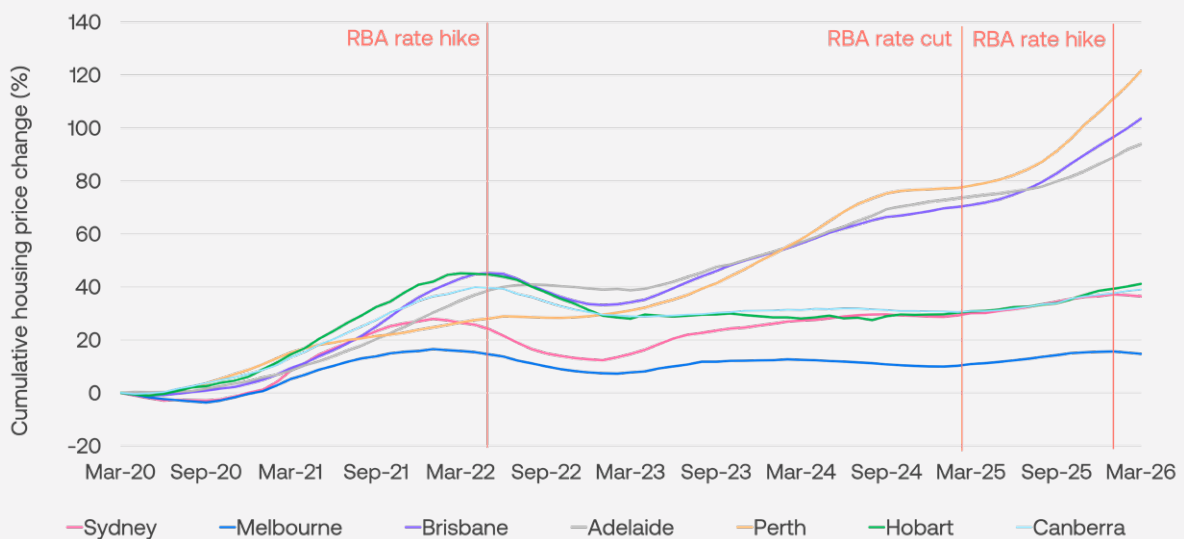
Australia’s housing market initially responded well to the three RBA interest rate cuts implemented in 2025, but the quick transition to rate hikes in 2026 has seen a resumption of a two-speed market. Perth, Brisbane and Adelaide prices remain unfazed by the two rate hikes to date, while Sydney and Melbourne have proven much more sensitive to higher rates. The rest of the country is likely to follow suit (to varying degrees) as upward pressure remains on interest rates, but the scale of any price correction will be insulated by the persistent housing shortage across most locations.

In the previous update (October 2025), we noted that Perth, Brisbane and Adelaide were leading the growth in nationwide housing prices. This continues to be the case, to an incredible degree. Perth prices are now 24% higher than a year ago, followed by 19% in Brisbane and 11% in Adelaide. Across those three cities,

prices are currently a whopping 121%, 104% and 94% higher in the six years since COVID arrived in March 2020. As an aside, the expansion of the 5% deposit scheme has had the expected impact on the lower end of the market. Prices in the lower quartile of values have increased 50% faster than the overall market nationwide in the six months since the expansion in October 2025. The lower end of the market in Perth has increased 19% in these six months.

This rapid price growth reflects the combination of solid labour markets and fundamental housing shortages across each city. Recent data show that new housing completions actually declined further in 2025, to just 172,000. This is the weakest calendar year since 2013, more than 20% lower than what we achieved back in 2018, and miles away from the Government’s target of an average of 240,000 homes per year.

Figure 1. Change in housing prices since 2020



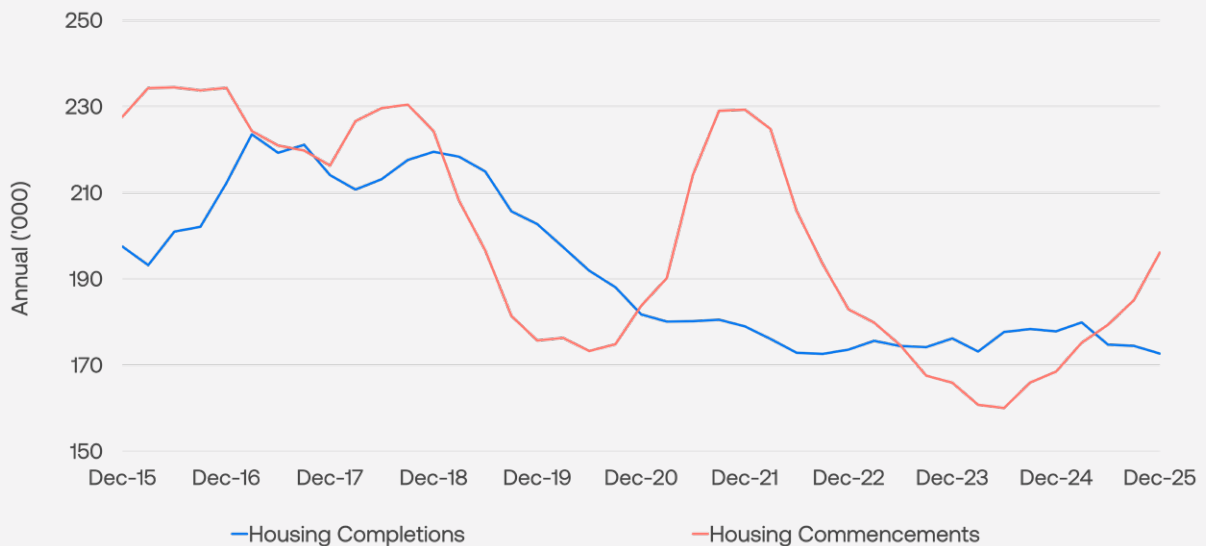
Source: Cotality, ANZ Property

However, we flagged six months ago that there were green shoots in the housing construction space in terms of improving building approvals. This remains absolutely true, with nationwide housing approvals over the year to March 2026 10% higher than a year earlier, and each of Queensland, South Australia and Western Australia has seen growth in approvals between 8-12%. Importantly, these approvals are now set to convert into tangible housing. New commencements have jumped 17% over the six months to December 2025, and the backlog of work under construction has jumped to another new record level of just over \$70bn.

This suggests that the outlook for new housing construction is more positive than it has been for some time. However, this improvement is coming off a very low base, and much more growth is needed.

To that end, the recent spike in oil prices and the likelihood of significant spillover into rising construction costs are most unwelcome. Construction costs had largely stabilised through 2025, albeit at very high levels, but the greater stability was beginning to provide greater certainty and confidence to the construction sector and property developers. Any acceleration in construction costs from here will undoubtedly impact the feasibility of new housing developments and hinder recent improvements in the delivery of new housing stock. We are already seeing early signs of the impact to come, including Reece increasing the cost of plastic pipes by up to 36%, and potential shortages of asphalt/bitumen products which will delay new land subdivisions. It is too early for these impacts to appear in actual data, but it is an important watch point over the coming months.

Figure 2. Housing commencements and completions



Source: ABS, ANZ Property

While the supply side story has tentatively improved, the demand side continues to expand rapidly. Australia's population grew by 424,000 people over the past year, three-quarters of which was due to overseas migration. The pace of annual overseas migration has slowed from a post-COVID peak of 550,000 to the current level of 310,000, but this is still nearly 30% faster than the net inflows before COVID.

The regional population data show even more detail around the concentration of this population growth. Perth remains the fastest-growing capital city and has seen the population expand by 13.5% over the past five years. Brisbane is a close second with 11.1% growth, and the remaining cities are generally clustered around 6-8%. The rapid growth in Perth and Brisbane in particular is clearly adding pressure to housing markets that are struggling to deliver a sufficient level of new dwellings.

Although these fundamental supply and demand dynamics remain important in assessing the housing sector, another factor will become increasingly significant through 2026: rising interest rates. This has already cooled the Sydney and Melbourne housing markets and is likely to weigh on the rest of the country as we move through 2026.

Both Sydney and Melbourne prices were rising slowly through the second half of 2025, but came to an abrupt halt in November/December as concern started to rise around the potential for rate hikes in 2026, rather than additional cuts. This drop in sentiment has continued in recent months, and auction clearance rates have fallen sharply. As a result, prices in the first quarter of 2026 are now down (albeit only marginally so far) in both of these cities.

It seems likely that this interest rate-related slowdown will broaden as rates nudge higher. A helpful rule of thumb is that for every 1% increase in interest rates, the average person's borrowing capacity is reduced by ~10%. Thus, under ANZ Research's view (a total of three rate hikes), capacity will be around 7.5% lower, or 12.5% lower if market expectations of five hikes play out. Naturally, this doesn't mechanically lower prices by this amount, but it is a genuine headwind alongside general uncertainty as rates do rise.

As a result, price growth is expected to slow through 2026. However, there will continue to be material differences across the states and territories. The likes of Brisbane and Perth are likely to be somewhat insulated by the most significant supply shortages, and while this is also true in Adelaide, affordability in the latter has worsened materially which will likely limit future growth potential.



Commercial Property

The fundamentals of Australia's Commercial Property market are generally solid, or at least improving. But there is little doubt that global uncertainty and higher interest rates will weigh on the domestic property sector, leaving the market delicately positioned heading into 2026.

Higher interest rates will put pressure on property yields across the board, providing a headwind for valuations. But this may take much of 2026 to be fully evidenced, as there is potential for a small gap in buyer and seller expectations to open up, given the rapid adjustment in interest rates. While yields don't typically move in perfect lock step with interest rates, the Australian Government 10 year bond is usually a helpful guide as to where yields may head. From a trough of 4.23% as recently as October 2025, the 10 year bond has spent the last month bumping around 5.0 to 5.1%, reflecting a ~80bp rise. While the RBA cash rate has only increased 50bp over this time, the expectation of further hikes has driven a greater adjustment in the 10 year bond. If funding costs continue to rise in line

with these expectations, commercial property yields are likely to soften through 2026. However, this may take time to play out as sellers adjust to the new environment, which has indeed evolved quickly.

However, in line with the earlier economic overview, the starting point for Australia's commercial property sector is solid. While new supply continues to cool rents in the Industrial space, underlying demand remains extremely strong. Absorption of Offices has improved across almost all capital cities. And the Retail segment remains resilient, with non-discretionary spending supporting the fundamentals of neighbourhood and regional centres, while the CBD segment continues to recover from the COVID-impacted lows.

Overall, there will undoubtedly be some challenges for Australia's commercial property sector through 2026. But some comfort should be taken that we are in a better position to face this environment than at any other point since COVID arrived six years ago.



Offices

While Office sector commentary has typically focused on the struggles of Melbourne, the asset class has actually been experiencing slow but steady improvement. Importantly, for the year ended March 2026, net absorption of space was positive for the second year in a row at the national level. This demonstrates that businesses are increasingly comfortable signing new leases and asking workers to return to the office, which is a positive development for the sector.

However, there remain significant differences between office types and locations. Over the past 12 months, 119,000m² of Office space has been taken up nationwide. But this has been entirely driven by Prime (Premium/A Grade) stock (+176,000m²), while 57,000m² of Secondary stock has been vacated. This represents the fifth year in a row in which Prime space has been absorbed, and Secondary space has been relinquished. This well-documented ‘flight to quality’ remains

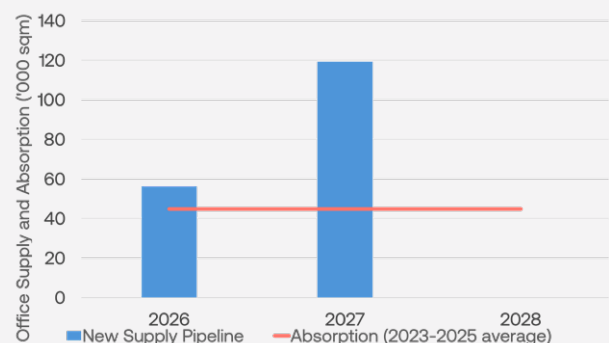


a structural feature of the Office segment, and all indications are that this will continue through 2026 and beyond.

The outlook for 2026 is also quite different across the capital cities, largely dictated by varying supply pipelines.

- Sydney’s Office segment has improved nicely, with annual absorption of space reaching a decade-long high. In turn, the overall vacancy rate continues to slowly tighten, and now sits at 14.1% from a recent peak of 15.6%. The flight to quality is evident here as well, with Premium assets boasting a much lower vacancy rate of 9.4%. However, these figures remain well above pre-COVID levels, indicating there is ample room for further improvement. With a relatively small pipeline of new Office space (58,000m²) arriving this year, Sydney’s vacancy rate should continue to decline, although it may come under pressure as a greater volume of new buildings arrives in 2027.

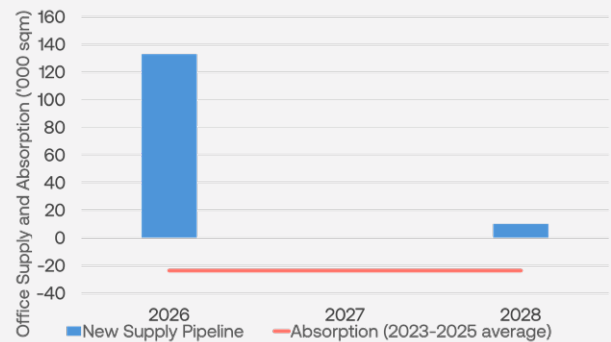
Figure 3. Sydney Office Absorption and Supply



Source: JLL, ANZ Property

- On the other hand, **Melbourne's** Office market remains challenged. While absorption did increase through 2025 (to the highest level since 2019), this was largely unwound in the first quarter of 2026. Several sizeable tenants across both the private and public sectors vacated office space, turning annual absorption back into negative territory (-5,000m²). At the same time, the completion of 7 Spencer Street in the first quarter provided an additional 45,000m² of new supply. While this is largely leased, it creates gaps as tenants move into the new building. Melbourne's overall vacancy rate therefore nudged higher to 19.7%, which is essentially the highest since the early 1990s recession. With a further 88,000m² of new supply expected to arrive over the remainder of 2026, Melbourne's vacancy rate is likely to worsen further over the near term. However, a gap in new project completions through 2027 and 2028 should provide the opportunity for some much-needed tightening in the market, as the private sector continues to slowly take up additional space.

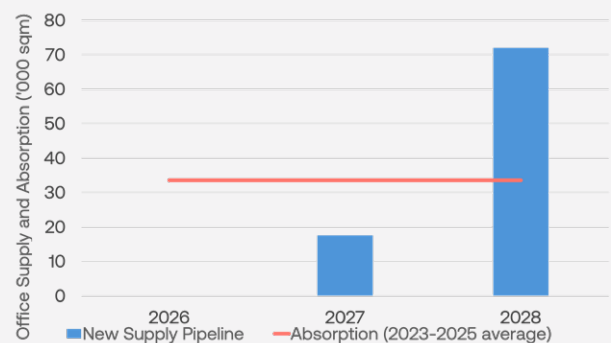
Figure 4. Melbourne Office Absorption and Supply



Source: JLL, ANZ Property

- The Office sector in **Brisbane** is perhaps the strongest in the country. Net absorption has been consistently positive over the past five years as businesses are optimistic on taking up space in the CBD, and this has seen the overall vacancy rate ease to 11.5%, down from a COVID peak of nearly 16% in 2021. This is actually lower than Brisbane's vacancy rate pre-COVID, reflecting the structural improvement that has taken place. Rents for Prime assets are now rising at 10% y/y, and continued growth is likely with no new supply set to hit the market in 2026. Little supply is expected in 2027, but 2028 is likely to deliver some much-needed new product into a market that could by then be particularly tight.

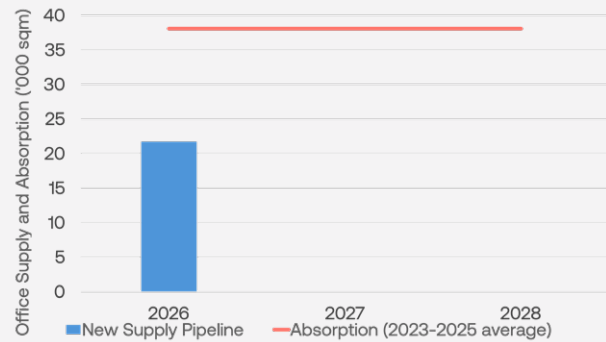
Figure 5. Brisbane Office Absorption and Supply



Source: JLL, ANZ Property

- **Adelaide** has recorded three years of particularly strong Office absorption, averaging 38,500m² which is more than double the long-term average of 15,000m² per annum. The vacancy rate has correspondingly declined from a peak of 18.0% in 2023 to 14.6% today, which is in line with pre-COVID figures. While the completion of Market Square Office Tower in 2026 will limit further declines in the vacancy rate, a significant gap in new builds is expected through 2027 and 2028. This will support a tighter market and should finally see Adelaide's Office incentives ease back from their particularly high rate of just over 60%.

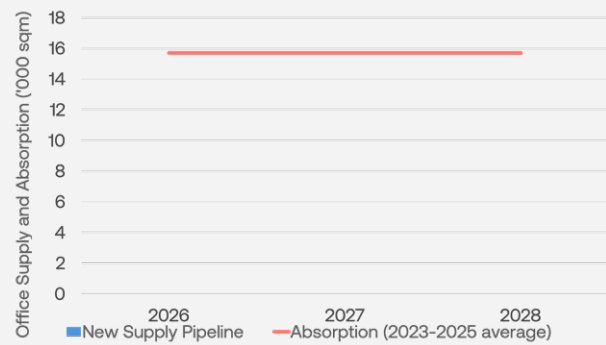
Figure 6. Adelaide Office Absorption and Supply



Source: JLL, ANZ Property

- **Perth's** Office market is set for a particularly strong period, underpinned by the absence of new supply over the next three years. Absorption of new space has recently been steady rather than spectacular, but even a continuation of this will be sufficient to drive a material tightening in the segment by 2028. With a vacancy rate of 16.3%, there is still plenty of space ready to be absorbed. But given the Perth market was by far the weakest in the country when COVID arrived in 2020 (vacancy rates north of 20%), this already reflects a solid improvement. The vacancy rate today is therefore the lowest in 11 years and looks likely to extend that run.

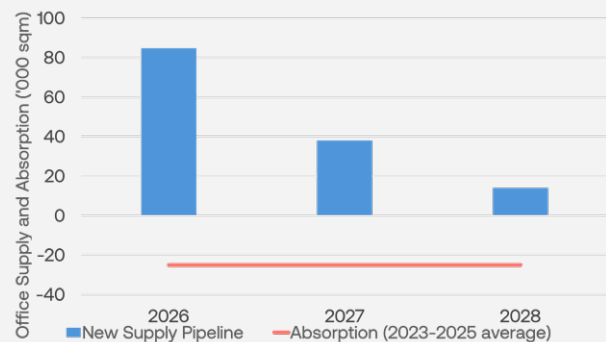
Figure 7. Perth Office Absorption and Supply



Source: JLL, ANZ Property

- **Canberra's** Office sector was the best performer during COVID, but has recently turned in the wrong direction. From a vacancy rate of 8.0% in late 2024, the vacancy rate has climbed to 10.5% today, driven by new supply and some material lease consolidations. The relocation of the ATO into their new premises (15 Sydney Avenue) resulted in a consolidation of space in Q1, and coupled with the completion of the Anzac Park East building at the same time, means that additional vacancy has opened up. The problem for Canberra is that there are a number of other Offices currently under construction that are going to deliver a large pipeline of new space through 2026 and 2027. While these new builds are typically pre-leased and should trade well,

Figure 8. Canberra Office Absorption and Supply



Source: JLL, ANZ Property

the subsequent gaps that open up as tenants relocate can be challenging. Demand should improve from here, but the large volume of supply is likely to weigh on the market for some time.

Industrial

As we have been noting for some time now, demand for Industrial assets remains strong, but supply has been catching up. In fact, the supply vs demand dynamic has now largely rebalanced from a couple of years ago. We continue to believe that the fundamentals of the Industrial asset class are positive, but the outlook for rental growth is very different to recent years.

The continued expansion of online retailing is driving a significant share of Australia's storage and warehousing requirements. The annual Australia Post eCommerce Report 2026 found that online retailing grew by 14% in 2025, compared to overall household spending growth of just 4.6% according to the ABS. The fundamentals are in place for this outperformance to continue, with online spending broadening across locations and demographics:

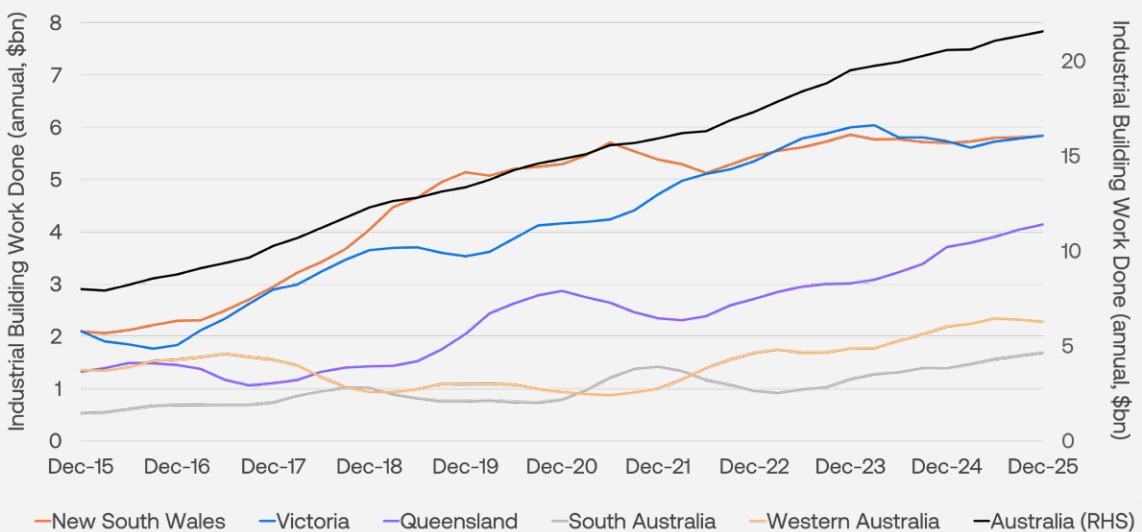
- While millennials are the largest spending cohort in terms of dollars, the fastest growth in 2025 came from baby boomers.

- Growth was strong across all states and territories, from +10% y/y in the Australian Capital Territory to +18% in Western Australia.
- There was consistent growth across metro locations (+13.8% y/y), inner regional (+13.6%) and outer regional/remote areas (+14.4%).

All of this suggests that online spending is likely to continue to deepen its penetration over coming years, and in turn drive ongoing demand for Industrial storage and warehousing assets.

We have been highlighting that a wave of new Industrial supply was expected, and this has well and truly arrived. Building approvals more than doubled between 2020 and 2024, and this was true across all states and territories. It is now clear that these initial approvals are successfully converting into actual construction of new Industrial product. Work done on Industrial properties has now been rising uninterrupted for a decade, with further growth of 5% in 2025.

Figure 9. Industrial Building Work Done



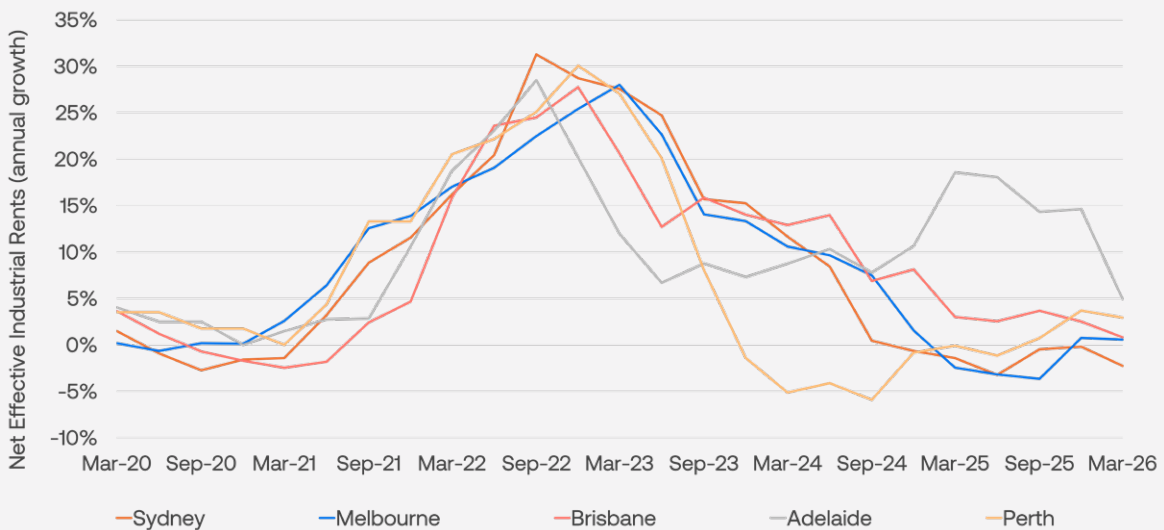
Source: ABS, ANZ Property

This is now having an impact on the Industrial asset class, primarily through an easing rental market. Rental growth has slowed significantly from the peak back in 2023, when rents were increasing at annual paces of between 15 and 25% y/y across the country. JLL data show that Industrial rents as of March 2026 are now 3% higher than a year earlier. While this is still positive, it is the slowest pace of growth in six years.

However, we are also seeing incentives becoming more prevalent in the Industrial space, and when we net these out, we find that effective rents are

only up by 0.9% over the past year. Adelaide is materially bucking the trend with effective rents up 5% y/y, due to the enormous North South Corridor project which has involved a number of compulsory acquisitions and reduced the availability of Industrial stock. But outside of Adelaide, the softening rental story is clearer. From the rapid growth experienced earlier, effective rents have actually declined slightly over the past two years in Sydney and Melbourne (-3.6% and -1.9% respectively), and are only marginally higher in Brisbane (3.9%) and Perth (2.8%).

Figure 10. Industrial Effective Rents



Source: JLL, ANZ Property

Looking forward, the volume of construction still in the pipeline suggests that this broad theme of new supply suppressing rental growth will continue through 2026 and likely beyond. Nationwide, there remains \$7.4bn of Industrial work yet to be done, which is more than double the level of five years ago. While this backlog has not increased over the past year, nor has it contracted, suggesting that the construction sector is essentially operating at capacity. This means that actual construction

activity is likely to remain elevated at least through 2026, and new additions to supply will continue to arrive.

Effective rents are therefore likely to continue to ease. But with underlying demand still solid, rents will remain well above their pre-COVID levels, and the Industrial asset class is still expected to remain particularly attractive compared to other segments of Australia's commercial property market.

Retail

While the Industrial commentary above paints a particularly rosy picture of online retailing, the reality is that household spending has been growing at a solid pace across the board, including at traditional brick-and-mortar retailers. This means that the past 12 months have seen solid outcomes across the Retail Property segment. The starting point is therefore positive, but naturally, global volatility and uncertainty pose a significant risk. Anything that weighs on consumer confidence and spending is unwelcome and will be closely watched as we move through 2026.

As noted earlier, household spending is up 4.7% y/y. But there are some differences across the states and territories, largely tied to their overall economic performance. Spending has grown the fastest in Western Australia (7.4%), Queensland (5.8%) and South Australia (5.1%), but lagged behind in New South Wales (3.3%) and Victoria (3.8%). While these differences don't necessarily directly translate to changed Retail Property experiences, they do leave some states in more resilient positions to absorb any potential slowdown in the economy and retail spending.

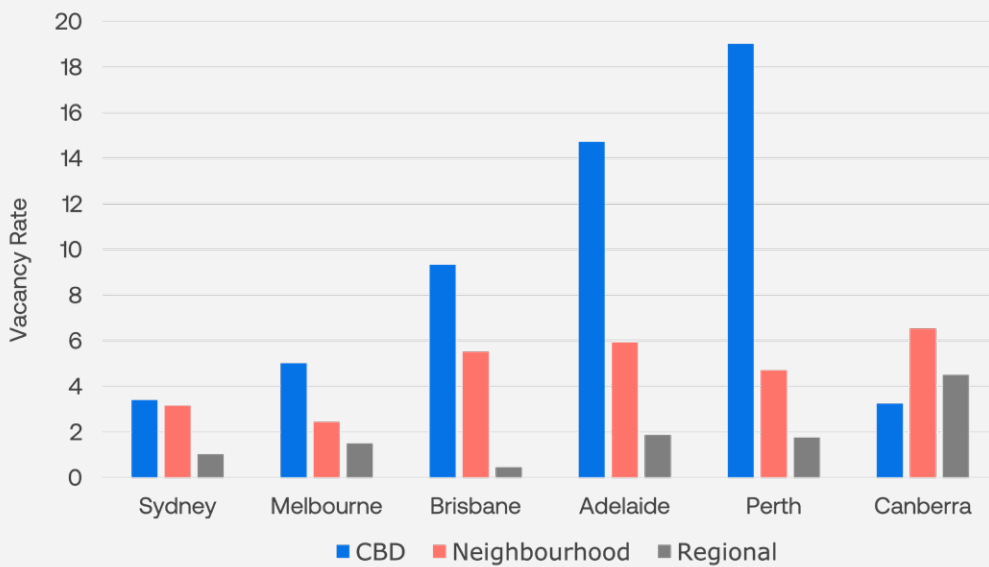
Within the Retail Property sector, the ongoing improvement in the CBD segment is encouraging. The nationwide vacancy rate has nearly halved from over 13% four years ago to 7.1% today, almost in line with pre-COVID levels. However, there are still significant differences across the capital cities. The Sydney and Melbourne CBDs continue to have the lowest vacancy rates at 3.4% and 5.0% respectively, but this has required a significant adjustment in rents. Super Prime CBD rents are still ~40% and ~25% lower than pre-COVID levels in Sydney and Melbourne, respectively. These rents have finally started to improve (+1% y/y) but remain very affordable compared to earlier years, which is supporting the feasibility of Retail businesses returning to or expanding within the CBD. On the other hand, the CBD vacancy rate remains elevated in Perth (19%) and Adelaide (14%). In each of these cities, rents have not adjusted to anywhere near the degree seen in Sydney or Melbourne, meaning that vacancies are likely to remain relatively high even as overall spending continues.



The Neighbourhood Retail segment has remained robust over the past year. Vacancy rates are generally tighter for these assets, ranging only between 3-6% across the capital cities. Regional Retail is stronger again, with vacancy rates typically between 1-2%. The solid demand for both asset types ties into the relative outperformance of 'non-discretionary' (essential) household spending. For example, over the past three years, non-discretionary spending has increased 50% faster

than the discretionary basket. This explains why the Property market has demonstrated a clear preference for assets with blue-chip anchor tenants such as supermarkets, which are traditionally resilient even in times of turmoil. Provided overall household spending remains solid, these assets are likely to remain an important source of stability compared with other assets currently undergoing stronger periods of structural change.

Figure 11. Retail Vacancy Rates



Source: JLL, ANZ Property

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