

# ANZ Commercial Property Update Q4 2025

## Economic outlook

### Australia's private sector recovering?

Despite global uncertainty, Australia's economy has been broadly resilient. Economic growth accelerated in Q2 as GDP lifted 0.6% q/q to be 1.8% higher over the year. The rise was driven by the private sector, particularly a 0.9% q/q increase in household consumption. Public demand recorded no contribution to GDP growth over H1 2025 but is still up 3.0% y/y. ANZ Research does not expect this softness in public demand to continue.

Over Q3, some of the activity data has moderated a little. The upward trend in consumer confidence has stalled and household spending volumes grew just 0.2% q/q in Q3, down from the 0.9% q/q result in Q2.

ANZ Research also think there has been some mild easing in the labour market. The unemployment rate rose to 4.5% in September, and some forward indicators like ANZ-Indeed Australian Job Ads have eased recently.

While ANZ Research do not expect this to be the start of an upward trend in the unemployment rate, the rise has come at a time when inflation has also picked up. The cooling of inflation stalled in Q3. The 'trimmed mean' metric, the RBA's preferred measure of underlying inflation, came at 3.0% y/y. This means trimmed mean inflation is at the very

top of the RBA's 2-3% target band. It was also the first rise in annual growth since Q4 2022.

### The rise in both inflation and the unemployment rate complicates the picture for the RBA

In a unanimous decision, the RBA's Monetary Policy Board left the cash rate on hold at 3.60% in November.

The decision was largely driven by the higher quarterly inflation data. But the RBA was less concerned about the inflation outlook than ANZ Research expected and noted that some of the increase in trimmed mean inflation was due to "temporary factors". Components like property rates and tobacco recorded sharp rises in Q3, which flowed through to the trimmed mean measure. The RBA is more concerned about other components like market services inflation because this is influenced by domestic price pressures like wages.

The RBA also acknowledged a "recent easing" in labour market conditions but still described it as "a little tight". The RBA revised up its expectations of the unemployment rate but doesn't expect the recent move higher in the unemployment rate to run further.

Looking ahead the RBA noted that there are "risks in both directions to the inflation and employment outlook." ANZ Research think the RBA will take a data-dependent approach from here as they watch

to see how the data evolves. ANZ Research expects just one more 25bp rate cut in February 2026, and for the cash rate to then stay at 3.35% for an extended period. There is a risk that the final rate cut ends up occurring later, such as in May, after the next two quarterly inflation prints.

## Residential Property

As flagged last quarter, the housing market continues to respond positively to recent interest rate cuts, but challenges remain around delivering more supply. This is likely to ensure the housing market remains particularly tight over the near term. However, there are some early positive signs emerging in the data that point toward a better supply versus demand balance being achieved further ahead.

There remain significant pressures on the housing market.

- Population growth has slowed from its peak, but remains at solid levels. Australia's population grew by 423,000 people over the past 12 months, driven by overseas migration of 315,000 people. Overseas migration peaked at over 500,000 people in 2023, so it has slowed significantly, but is still sitting well above average levels. Interestingly, the number of permanent and long-term arrivals has picked up again in recent months. While not exactly the same measure as net overseas migration, it can still be a useful guide and may suggest that the decline in overseas migration has paused.
- The three RBA rate cuts to date are supporting confidence in the housing sector. A useful rule of thumb is that for every 1% reduction in interest rates, the average borrower can increase their borrowing capacity by ~10%. Thus with the cash rate now 75bp lower than at the start of the year, an increase in borrowing capacity in the realm of 7.5% is supporting further price growth.
- The recently-expanded 5% Deposit Scheme will also underpin some price growth in the lower end of the market. While it is too early for the impact of this scheme to be evident in the data, by bringing forward the purchase date for a number of potential purchasers, the additional competition in the market will also add to price growth, at least over the near term.
- Housing completions remain particularly weak. Just 40,500 homes were completed in the June quarter of 2025, down 7% from the previous quarter. This makes June the weakest quarterly result in over a decade, and 30% lower than the previous peak achieved back in December 2016.

The upshot of these factors is that housing prices nationwide now sit 6% higher than at the start of the year, led by Brisbane (+10%) and Perth (+9%). We have also seen a slow turnaround in Sydney (+4.3%) and Melbourne (+3.8%); the latter well overdue after a period of flat prices. Similarly, auction results have also improved, with clearance rates now at the highest level in over a year in Sydney, and the highest in over two years in Melbourne. Figure 1 shows the increase in housing prices across the capital cities over the past five years, with a clear upturn now evident following the RBA's first rate cut earlier this year. This growth is broadly expected to continue through 2026, in line with the drivers noted above.

The story is similar if we look at housing rents. Advertised rents are up 4% so far in 2025, with Brisbane (+5.6%), Hobart (+5.1%) and Perth (+4.9%) showing the fastest increases. These results are in line with further tightening of the nationwide vacancy rate which now sits at a record low of 1.5%, down from 2.0% at the start of the year. A shortage of listings available on the market, coupled with ongoing difficulties in building new stock, means that the rental market is likely to remain tight through 2026.

Having said all of that, we should not lose sight of some of the positive factors now emerging, which will assist the longer term outlook. While housing completions have recently plumbed new depths,

leading indicators look better and suggest that we will indeed build more much-needed housing over the coming years.

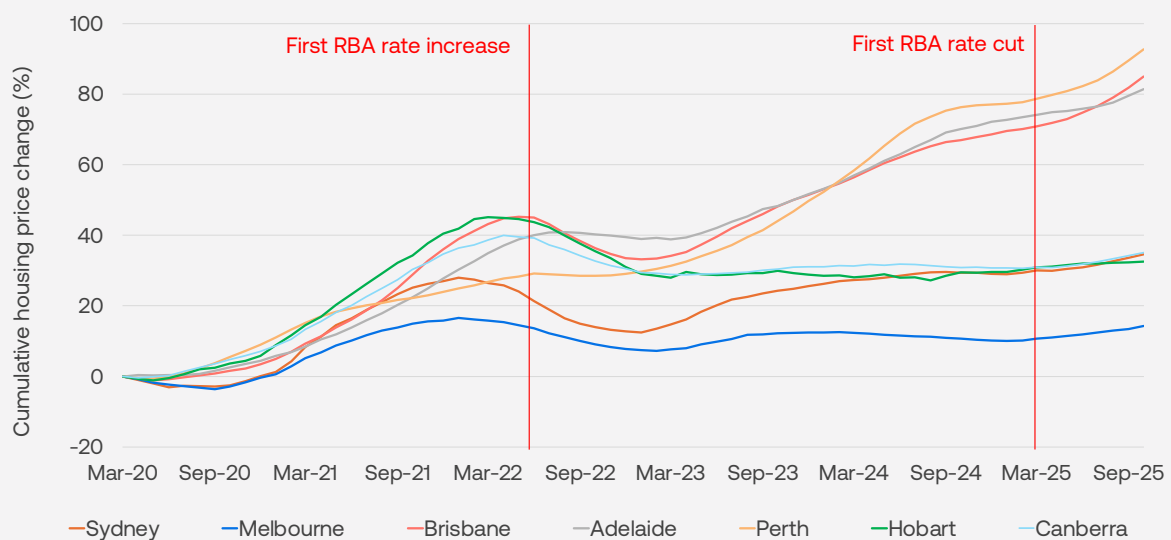
Building approvals may jump around month to month, but over the 12 months to September 2025, they are now 14% higher than the previous year. This is the strongest annual result since late 2022, which was the tail end of the previous boom on the back of the HomeBuilder program. Victoria continues to have the highest volume of approvals (notably outperforming New South Wales), while the strongest growth over the past year has come from South Australia (+25%) and New South Wales (+23%). Housing commencements are showing a similar theme, with new starts over the year to June 12% higher than the previous year (Figure 2).

Another factor that should feed into a better ability to deliver new housing is a reduction in the average time taken. Over the year to June 2025, the average time between commencement and completion for houses dropped from 10.4 months to 9.2 months. While this is still a long way off the ~6.5 months which was typically the case before COVID, it is at least a step in the right direction.

A final factor that should support activity is a stabilisation in construction costs. While costs are still elevated (roughly 40% higher than early 2020), the pace of acceleration has slowed significantly. Construction costs for houses and units are now just 0.3% and 3.0% higher than a year ago, respectively, supported by security of supply chains and a general easing in inflationary pressures. While there is next to zero chance of construction costs returning to the levels of a few years ago, greater cost certainty will ultimately support an improvement in confidence and help deliver more housing over the years ahead.

To reiterate, we will not reach the Government target of 1.2 million homes over the five years to 2029. With completions over the past year so low, we are left with too much work to catch up. However, there appear solid reasons to expect more work to be done over the coming years as a result of having a bold target, and better alignment of objectives between various levels of Government and the private sector.

**Figure 1. Change in housing prices since 2020**



Source: Cotality, ANZ Property

**Figure 2. Housing approvals and commencements**



Source: ABS, ANZ Property

## Commercial Property

Australia's Commercial Property sector continues to strengthen overall, albeit with some differences across the states and territories, and asset types. The September quarter Procore/Property Council survey shows that overall confidence in the sector remains firmly in positive territory, bumping around the highest level in three years. Confidence is still strongest in South Australia, Queensland and Western Australia, while Victoria continues its slow improvement from the doldrums, and the ACT turns downward. The expectations from survey respondents around further rate cuts (albeit before recent inflation data) and easier finance availability over the year ahead are reflected in a solid outlook for construction, employment, and capital value uplift.

Many of these themes reflect ANZ Commercial Property's view of the market. Lower interest rates are supporting commercial property investors, and are expected to see yields tighten a bit further into 2026. Another factor which will drive diverse outcomes across the cities and asset types is the different supply outlook for 2026, which this report focuses on for the office and industrial segments. A wave of new industrial supply is already arriving and changing the balance in that sector. On the other hand, offices are more mixed across the country, but the volume of supply arriving in Melbourne next year is noteworthy, and will slow the city's recovery.



## Offices

The Office sector continues to muddle through a period of structural change, with workers slowly but steadily returning to the CBD in Sydney and Melbourne, and the ‘flight to quality’ showing no signs of slowing down. These themes will continue to be the primary dynamics shaping the Office sector in 2026, while differing supply outlooks are also likely to shape results across the capital cities.

In the last report, we flagged the early signs of improvement in the largest markets of Sydney and Melbourne, and this has largely continued. Sydney’s vacancy rate dropped further and now sits (just) below 15% for the first time in a year. While Melbourne’s vacancy rate did nudge slightly higher in the September quarter (and is still far too high at 18.8%), the good news is that absorption of office space was positive for the third quarter in a row; the first such run since COVID arrived.

In both of these cities, as well as the others, the flight to quality remains evident. The September quarter saw absorption of ‘Prime’ office space increase by 83,000m<sup>2</sup> nationwide; one of the strongest results in the past five years. On the other hand, ‘Secondary’ assets had negative absorption (ie space given up) of 26,000m<sup>2</sup>. This continues a steady trend evident over the past five years. Figure 3 shows the strong shift toward Prime assets evident across all capital cities.

These themes will remain relevant through 2026, while another factor will also have some impact on the office sector, as least over the near term. Some of the capital cities have very different supply outlooks in 2026, which is likely to shape some different outcomes, especially around vacancy rates.

Melbourne has the largest volume of new supply expected to arrive in 2026, which will offset a significant proportion of even the improved demand outlook. This is particularly important for Melbourne, which has already experienced the largest supply increase over the past five years,

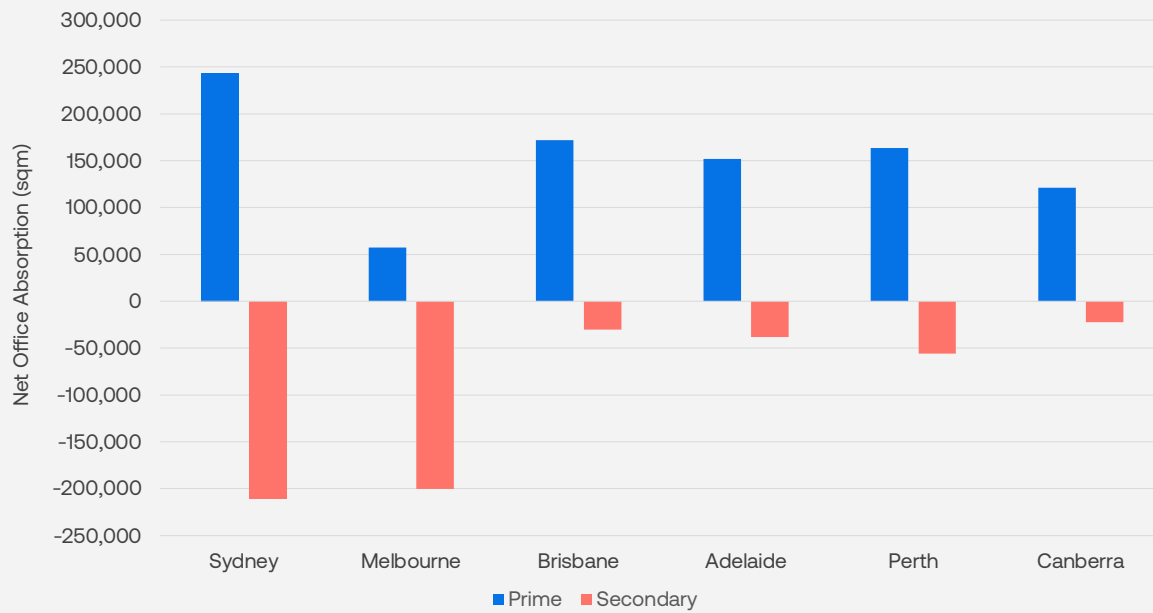


which is part of why the office rental market has been so weak (Figure 4). Around 130,000m<sup>2</sup> of new supply is expected to arrive in Melbourne in 2026, which is essentially equal to the new supply arriving in Sydney, Brisbane, Adelaide and Perth combined. This is slightly greater than the amount of office space absorbed in Melbourne over the past year (110,000m<sup>2</sup>), meaning that new supply will certainly be a headwind to the high vacancy rate that remains. Consistent with the flight to quality story, leasing up of these new assets is expected to be satisfactory, but it will continue to leave a gap in the secondary market as tenants move around.

A similar story is likely to unfold in Canberra. While Canberra has had the lowest office vacancy rate for the past six years, it may lose this crown over 2026 as a solid volume of new supply arrives on the market.

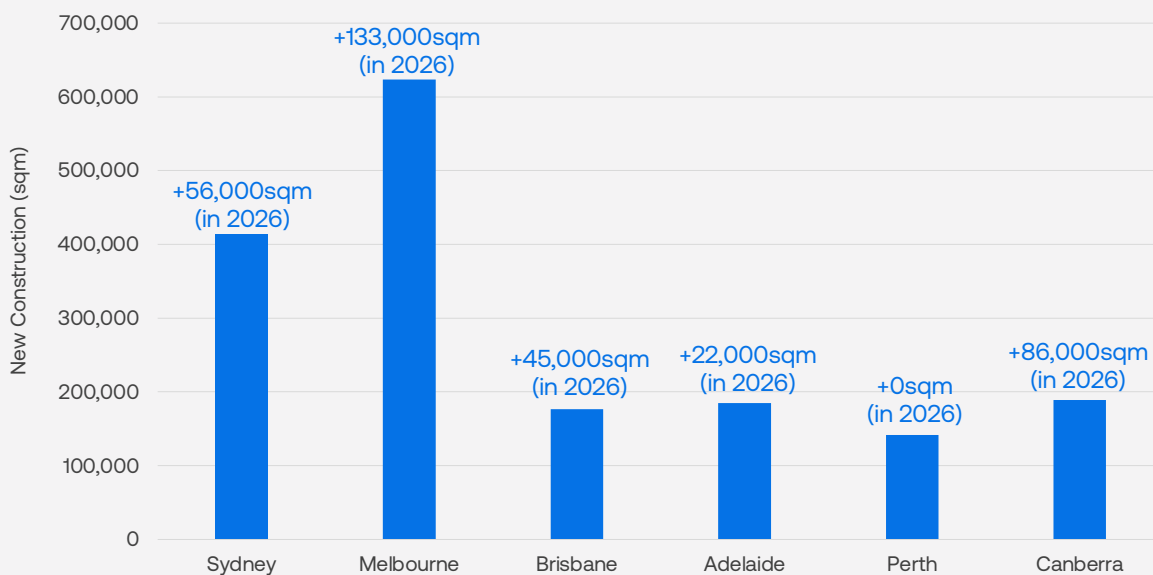
On the other hand, the leasing market for Perth should tighten over the next year with no significant projects currently underway. While there are new approvals in the system, these are likely awaiting signed pre-leases or some further construction cost certainty, and will therefore not arrive in 2026. Zero supply growth means that any new absorption will work to lower the current vacancy rate of 17%. While this is already improved from the peak of 25% nearly 10 years ago, there is still much room for improvement. Sydney should also see some improvement as demand has picked up over the past 18 months, and new supply remains fairly limited over the near term.

Figure 3. Office Absorption Rates since 2020



Source: JLL, ANZ Property

Figure 4. New Office Supply since 2020



Source: JLL, ANZ Property

## Industrial

As noted in previous reports, Industrial assets remain very attractive with a strong underlying demand profile. But we are starting to see early signs that a wave of supply is now starting to catch up to the market, and will drive a much better-balanced supply vs demand dynamic over the next year or two.

It must be reiterated that demand remains red hot. Much of this is supported by online spending, which has increased significantly both in dollar terms, as well as a percentage of total household spending, in recent years. The latest NAB Online Retail Sales Index shows that online spending in August was 15% higher than a year ago, with strong growth occurring across all states and territories, and in both metro and regional areas. By comparison, total household spending was up just 5% over the same period, so online spending continues to rise as a proportion.

But new Industrial supply is arriving, and at a rapid pace. This report has previously shown that building approvals for Industrial assets have been elevated, and this remains true. Approvals are running well ahead of long-run averages across all states and territories. Over the past 12 months, Industrial approvals nationwide are 80% higher than the same period five years ago, led by Western Australia (+150%) and Queensland (+100%).

Importantly, these approvals are converting into actual construction activity and, in turn, finished product. Work done on Industrial properties over the year to June 2025 was up 70% from early 2020 (Figure 5). And there remains a significant backlog of Industrial buildings still under construction. Work yet to be done sits around a record level of \$7.2bn, which is more than double the value from 5 years ago. This means that construction activity is likely to remain elevated at least through 2026, and additions to supply will continue to arrive.

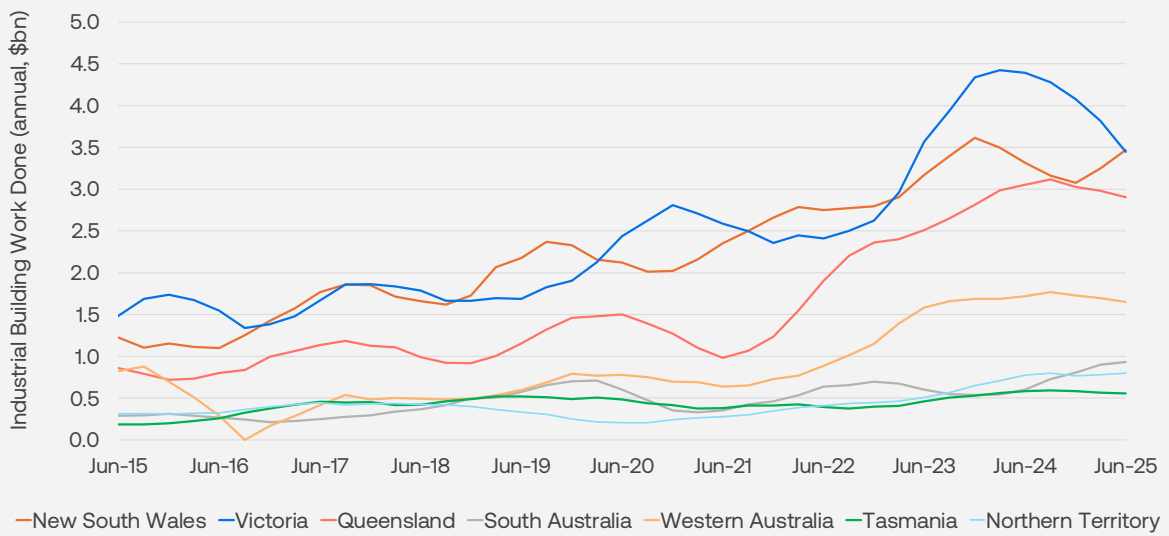
The upshot of this new supply is that we are now seeing some softening in the Industrial rental market. It is only mild so far, and not across all markets, but conditions have changed from the peak of 2022/23. Headline rental growth has slowed to an average of 5.2% over the year to June 2025, down from growth between 10-20% over each of the previous three years.

However, these headline rents still do not tell the entire story. We are seeing incentives beginning to rise across some markets, and when these are taken into account, effective rents are up only 2% over the last year. Growth now appears confined to Brisbane and Adelaide, while effective rents are essentially flat across Sydney, Melbourne and Perth (Figure 6).

Looking ahead to 2026, it seems likely that with more new supply arriving around the country, we will see more pressure on rents. Any easing in effective rents would mark the end of a tremendous five-year upswing. But underlying demand will remain solid, ruling out any potential for Industrial rents to return to their pre-COVID levels. At the same time, lower interest rates should continue to drive some (mild) yield tightening, underpinning valuations, and ensuring that 2026 is still a solid year for Industrial assets.

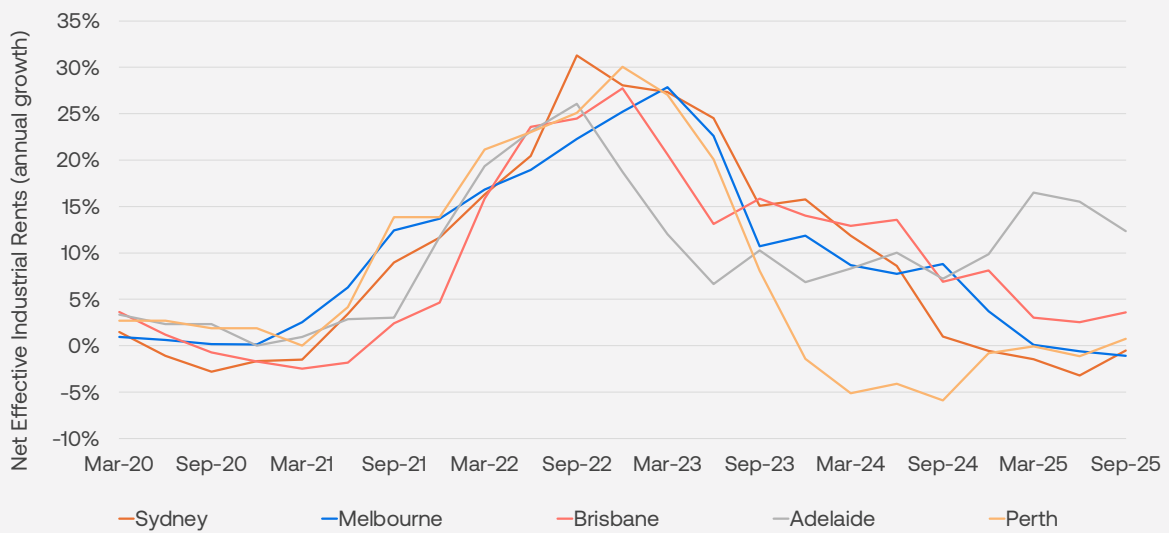


**Figure 5. Industrial Building Work Done**



Source: ABS, ANZ Property

**Figure 6. Net Effective Industrial Rents**



Source: JLL, ANZ Property



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