ANZ Commercial Property Update Q3 2026

Executive summary

As noted last quarter, Australia's property sector remains well placed to navigate a number of challenges. The Economic Outlook below explores the ongoing impact of the Iran war, higher interest rates and a sticky inflationary environment.

The Commercial property segment is well positioned. The three RBA rate hikes to date in 2026 have had only a mild impact, and while yields may soften and valuations come under pressure through the rest of the year, these movements are likely to continue to be only moderate. An important feature of the Commercial sector in general is that rents are slowly increasing across many asset types and geographies, including the much-maligned Office market, which is providing a valuable offset to any yield softening. This combination of improving rents, strengthening absorption and stable-to-improving vacancies is detailed in the respective Office, Industrial and Retail sections below.

However, it is worth noting that confidence in the sector has declined in recent months. The June 2026 Procore/Property Council Industry Sentiment Survey suggests that this reflects a combination of a weaker growth outlook, some expectation of higher interest rates and greater difficulty obtaining finance, as well as a response to the policy changes announced in the 2026-27 Budget.

We think that if realised, ANZ's base view of stable interest rates over the coming year should gradually improve confidence in the Property sector, as will the eventual resolution to overseas uncertainty. It should also be noted that the changes to the Capital Gains Tax (CGT) regime being applied across all asset classes mean that the relative attractiveness of investing in commercial property is essentially unchanged, and therefore not a factor in the outlook described here.

This is not true for the other key property-related change announced in the 2026-27 Budget. The removal of negative gearing for residential investment properties is already having an impact on the housing sector. But this is not the only factor behind the cooling housing prices now increasingly evident; the cumulative effect of the aforementioned rate hikes had already seen price growth retreat from the late-2025 peak. Combined, these two factors will most likely see housing prices fall over the next year. The Residential Property section in this report explores recent price movements, key indicators to keep an eye on, and expectations for prices through 2026 and 2027.

Economic outlook

The global economy is proving resilient, despite an uncertain geopolitical backdrop. That said, the Australian economy is likely to slow over the coming 18 months as the impact of 75bp of rate hikes and increasing geopolitical fragmentation affect demand.

The Australian economy grew 0.3% q/q or 2.5% y/y in Q1 2026. We think the economy was running a little above trend, but there are signs activity is moderating. ANZ-Roy Morgan Consumer Confidence has been very weak, hovering around pandemic lows, and the household spending pulse has slowed sharply over the past six months. We think it is likely that there has been no growth in 'real' spending (i.e., volumes) over this period.

Real household income growth is also easing rapidly, with real incomes per capita falling 0.7% q/q in Q1. We expect real incomes to end 2026 lower than they began. This softness in incomes is likely to weigh on both confidence and household spending. We're forecasting household consumption to rise just 1.1% y/y in 2026, less than half of the 2.5% growth seen in 2025. GDP is also likely to be weak, growing just 1.1% this year and 1.6% next year.

Given the slowdown in activity, the unemployment rate is likely to drift higher. Even so, we expect the peak to remain below 5% (i.e. below pre-pandemic levels).

The Australian housing market is also slowing due to a combination of rate hikes, weak confidence and policy announcements, and we expect capital city housing prices to ease 2.1% this year and 3.3% next year. Sydney and Melbourne housing prices are likely to fall about 8% this year.

This anticipated slowdown in the economy should give the RBA comfort that inflation will ultimately ease back toward its 2-3% target. The most recent monthly inflation data points to Q2 2026 trimmed mean inflation at 3.7% y/y, a little below the RBA's May forecast of 3.8% y/y. Given this, we think the RBA will keep rates on hold at 4.35% over the coming 12 months.

Inflation pressures are still a risk, and it is possible that the RBA increases the cash rate further if price pressures prove more persistent than expected. But we think businesses may struggle to fully pass on input price rises due to the soft demand outlook and pressure on margins.

So, we think the next move in rates will be down. And we expect a very modest easing cycle next year, with two 25bp rate cuts in the second half of 2027.

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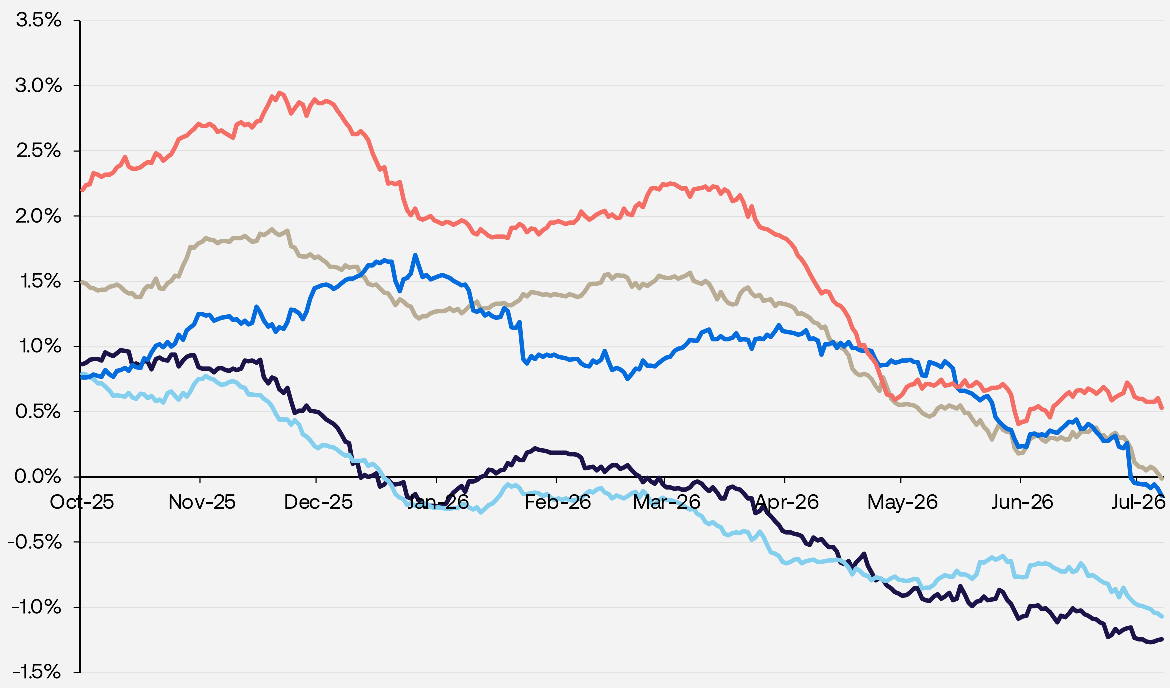
Residential Property

Australia's housing market is now materially cooling. Much of the responsibility for this change is being thrown at the feet of the Budget announcements, especially around the removal of negative gearing. But as flagged in last quarter's report, price growth was already slowing down due to the three RBA rate hikes beginning in February this year. It is, however, fair to say that the combined impact of these rate hikes and the Budget changes will see prices decline somewhat over the next year. The base view remains that housing prices will be insulated from more significant declines due to the persistent underlying shortage of housing. This remains the key question mark for prices over the longer term, but it is hard to see housing supply meaningfully improving in the near term.

Figure 1 shows that housing price growth was already slowing down across all capital cities before the Budget was released in mid-May. This is largely due to higher interest rates impacting both confidence in the market and mechanically reducing the borrowing power of potential purchasers. Prices were going backwards in the two largest cities of Sydney and Melbourne, with both cities' values easing since a peak back in October 2025. For these two markets, just the expectation of higher interest rates in 2026 was enough to take some energy away from buyers, and cause prices to slip. Even for a market like Perth, which had led the country in terms of price increases over the past five years, the impact of higher rates was clear. From price growth between 2.5% and 3.0% m/m through the final quarter of 2025, there was a steady decline in the rate of growth through each month in 2026 (albeit remaining positive, unlike Sydney and Melbourne).

Figure 1. Monthly housing price growth



Source: Cotality, ANZ Property

The proposed removal of negative gearing has materially dampened confidence even further, into a market that was already softening. For clarity, a few of the key points around these changes include:

- Existing arrangements (i.e. the ability to negatively gear against other income such as wages) will continue for all properties held before Budget night.
- Negative gearing will continue to be permissible for all new builds.
- Net rental income losses will still be able to be deducted against other residential property income.
- These losses can also be carried forward and used to offset future capital gains.

The last feature noted above, being able to offset rental losses against future capital gains, will help minimise the overall financial impact on potential new investor purchases. But it does not help with current cash flow, which is the most important component when borrowing capacity is being assessed. As a result, the longstanding feature of Australia's housing market where investors are able to borrow more than owner occupiers is about to undergo significant change. Thus, the market overall is already easing on the back of material reductions in borrowing capacity; higher interest rates reduce borrowing power for everyone, and the removal of negative gearing does the same for investors.

We can see this impact already across a range of indicators. Auction results have dropped significantly, from a nationwide average of 64% in February to just 45% in June, led by rapid declines in Sydney and Melbourne. The last time auction results settled below 50% (aside from when COVID first arrived in Australia) was in 2018, when prices declined around 8% on average. Homes are also taking a bit longer to sell, up from an average of 28 days to 30 days over the past three months.

These policy changes are clearly aimed at stimulating new housing supply. By retaining negative gearing and the option of the existing CGT regime for new builds only, the Government is aiming to encourage investors to build new, rather than purchase existing. Of all housing finance over the past year, only 18% of new investor loans were for the construction or purchase of new homes. This figure will be an interesting watch point over time to see if investor behaviour does indeed change.

But building new homes takes time. Over the near term, the supply of homes is more about the number of listings available for purchase. Figure 2 shows that the number of listings available at any point in time is a good indicator of the housing balance, and whether prices are rising and falling. For example, in markets like Perth and Brisbane, with listings far below their long term average, it has been a sellers' market and buyers have had to compete aggressively, pushing up prices. However, both cities have seen a recent increase in the number of listings available, as homes take longer to sell. Listing volumes are therefore a key indicator of where prices might go over the near term. One can also watch 'for sale' signs in their neighbourhood, as an increase would be a strong signal that prices will ease.

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Figure 2. Housing Listings

	July	Change since March	Long-term average
Sydney	22,988	3%	21,127
Melbourne	27,089	2%	23,846
Brisbane	12,699	41%	17,373
Adelaide	4,164	15%	7,072
Perth	10,533	46%	16,629
Hobart	742	-23%	1,613
Darwin	510	42%	991
Canberra	1,987	-4%	1,763

Source: Cotality, ANZ Property

Over the longer term, the key question is to what degree can these policy changes support housing supply? They may be able to by shifting investor behaviour, but tax is only a small part of the overall equation. Construction costs are still a significant issue, and likely to worsen further as the impact of higher oil prices continues to flow through. At the same time, project feasibilities and presales required for finance become more challenging when prices are easing. As noted in previous editions of this report, new building approvals have been trending higher, but only gradually, and there is a long way to go before construction is back to acceptable levels.

Thus overall housing supply is likely to remain constrained. Over the year to March 2026, only 173,000 homes were built nationwide; the lowest since 2014 and 22% lower than what was built back in 2017. This theme is consistent across almost all states and territories, although the 16% y/y increase in completions in South Australia is a noteworthy bright point. Another positive is the recent increase in new housing approvals, which are up 9% y/y, led by strong gains in New South Wales (+11% y/y) and Queensland (+19% y/y). These approvals are a great first step, but there is much work to be done before we reliably have the workforce available and appropriate construction costs to deliver all of these homes consistently.

This means that while prices are set to fall over the near term, the fundamental shortage of housing across Australia is likely to limit the longer-term downside to prices. The improvement in approvals noted above is a good start, but it is hard to see the stock of housing materially improving over the next couple of years, which could essentially put a floor underneath housing prices.

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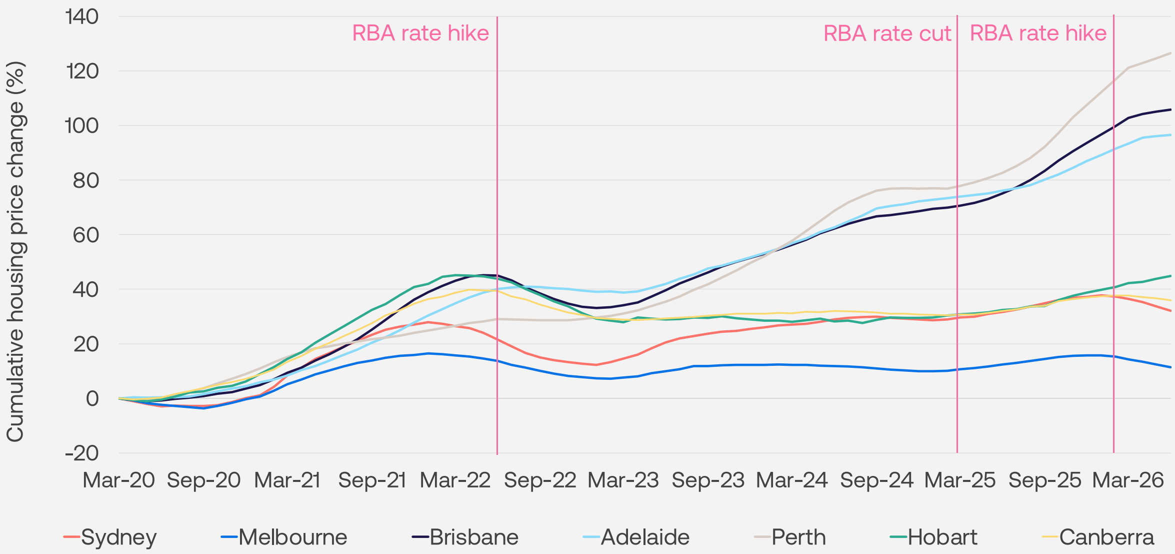
Figure 3. Change in Housing Prices since 2020



Source: ABS, ANZ Property

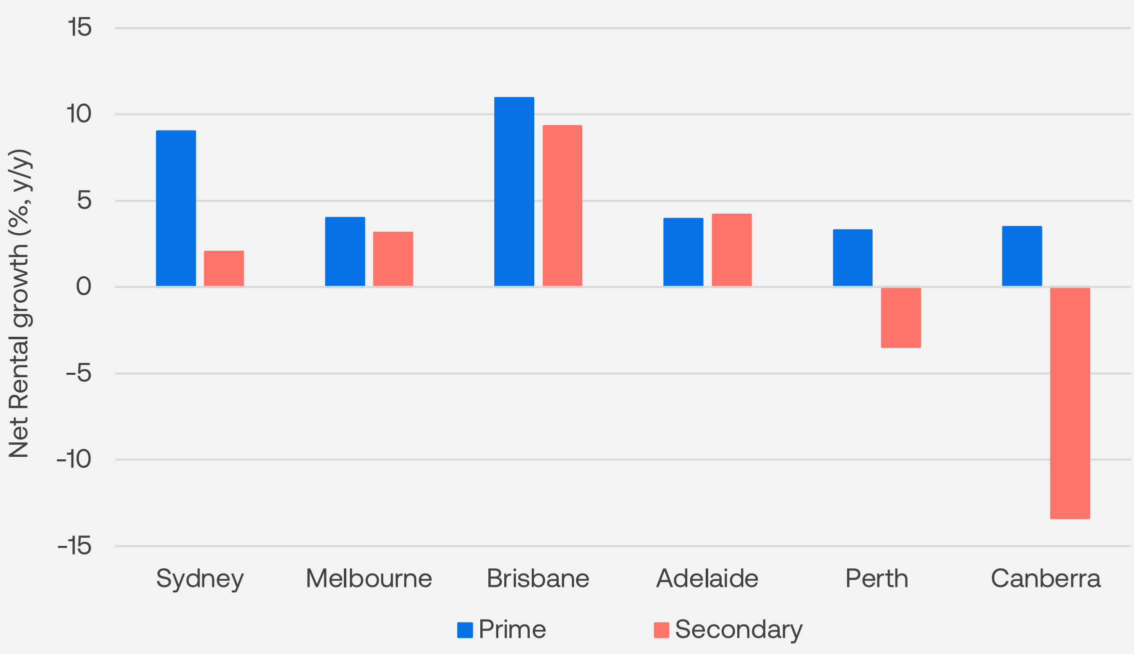
Offices

The previous Q2 2026 report described that the Office sector had seen solid improvement, with absorption of space positive over the past two years. This has continued into the June quarter, and it increasingly looks like the sector has found its floor and is now recovering at a decent pace.

We see further confirmation of this in capital value data. After falling by more than 20% between 2022 and 2024, values in Sydney and Melbourne have now increased by 13% and 7% respectively. Similar growth has occurred across other capitals over the past two years, led by Brisbane with a 14% increase, 4-5% in Adelaide and Canberra, although Perth has remained flat. Overall, these results confirm that businesses are increasingly comfortable with their employees' office attendance, and there is plenty of capital holding the same view.

However, we have noted previously that the outcomes in the Office sector are better in the Prime (Premium/A Grade) segment of the market, and this remains the case. Figure 4 shows that office rents over the past year have outperformed in the Prime space compared to their Secondary counterpart for each capital city (with the marginal exception of Adelaide). This reflects the clear tenant preferences that have emerged, with Prime assets more likely to provide good end of trip amenities, larger and more flexible floor plates, and greater energy efficiency. This flight to quality continues unabated and is worthy of a deep dive across the capital cities.

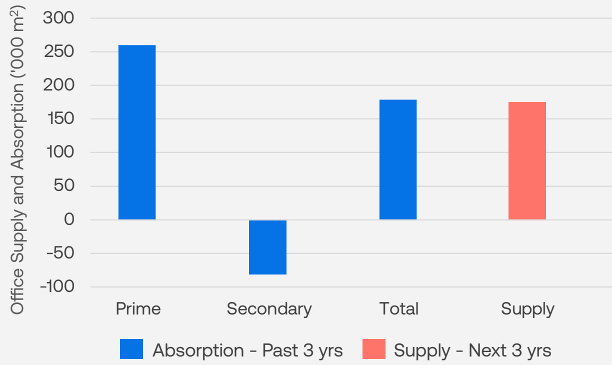
Figure 4. Office Rents Prime vs Secondary



Source: JLL, ANZ Property

- **Sydney** has had the greatest level of absorption of Office space across the capitals over the past three years, taking up a net 180,000m². This has seen the overall vacancy rate gradually improve from a high of 15.6% to 13.9% today, although this is still well above pre-COVID levels. However, the entirety of this absorption has occurred in the Prime segment, while a total of 80,000m² of Secondary flooring has been vacated since 2023. A sizeable amount of new supply arriving over the next three years will limit the improvement in the overall vacancy rate, but the Prime market, including these new buildings, is likely to outperform.

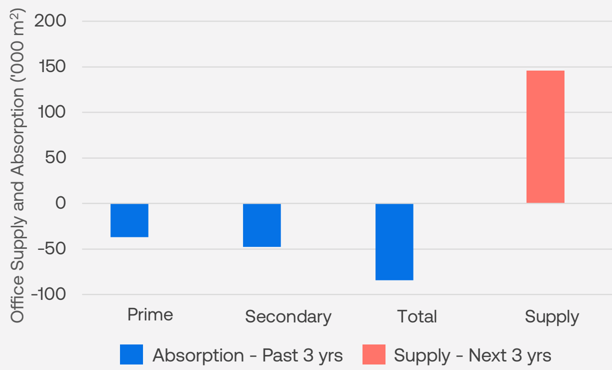
Figure 5. Sydney Office Absorption and Supply



Source: JLL, ANZ Property

- On the other hand, **Melbourne**'s Office market remains challenged. Absorption in 2025 was the strongest since 2019, but the first six months of 2026 have seen a reversion to greater vacancies, across both the Prime and Secondary segments. With a solid amount of new supply set to arrive in the second half of 2026, Melbourne's vacancy rate is set to worsen further over the near term. A gap in new projects across 2027 and 2028 does create an opportunity for some much-needed tightening in the market, but that can only occur if businesses and Government are actually taking up space.

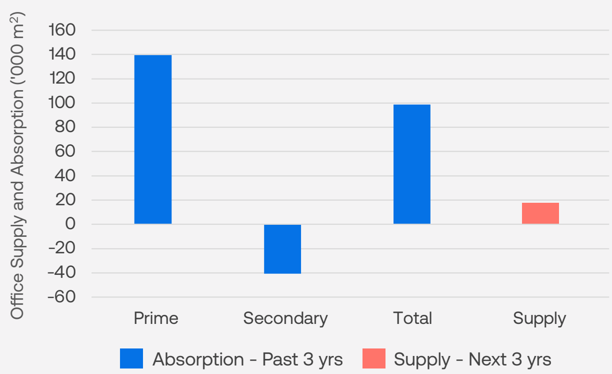
Figure 6. Melbourne Office Absorption and Supply



Source: JLL, ANZ Property

- The Office sector in **Brisbane** remains particularly strong. Absorption has been positive over each of the past five years and has accelerated over the past 12 months to the fastest pace in about 15 years. Yet even within this solid dynamic, the Prime segment is materially outperforming. Absorption has been negative for Secondary assets for each of the past three years, and the vacancy rate of 14.9% for these assets is well above the 7.7% of their Prime counterparts. However, a very slim supply pipeline over the next three years (with 45 Eagle Street now expected to deliver in 2029 instead of 2028) could well see a tightening market across all asset types.

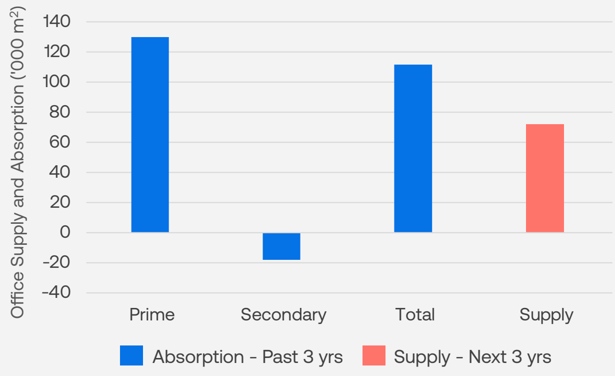
Figure 7. Brisbane Office Absorption and Supply



Source: JLL, ANZ Property

- **Adelaide** has also recorded five years of positive absorption, which has seen the total vacancy rate ease from a high of 18.0% to 14.5%. Once again, the entirety of this absorption over the last three years has occurred in the Prime space (+130,000m²), while Secondary has gone backwards (-18,000m²). Most of Adelaide's new supply is expected to arrive in late 2028, meaning that overall vacancy should continue to ease over the next few years.

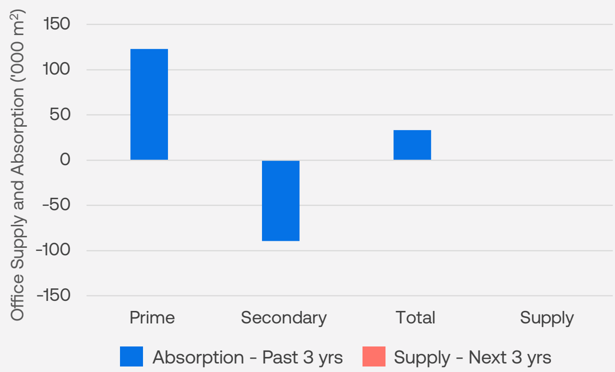
Figure 8. Adelaide Office Absorption and Supply



Source: JLL, ANZ Property

- **Perth's** office market continues to tighten in a slow but steady fashion. Absorption has been positive for six consecutive years, although the divergence between prime and secondary assets is stark. Over the past three years, 120,000m² of prime assets have been taken up, but this has been nearly offset by 90,000m² of secondary vacancies. Perth's vacancy rate is now down to 16% from a peak of 20%, and this is set to continue grinding lower in the absence of any new supply over the next three years.

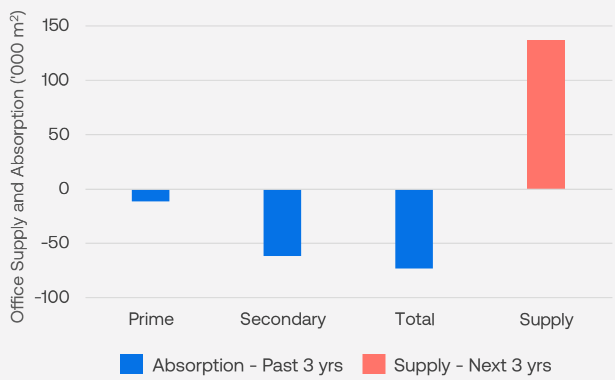
Figure 9. Perth Office Absorption and Supply



Source: JLL, ANZ Property

- **Canberra** has the unwanted distinction of the longest run of negative absorption, now spanning 4 consecutive quarters. This has seen the vacancy rate increase from a low of 8.0% in late 2024 to 10.5% today, as a combined result of three new completions already in 2026, as well as the continued consolidation of space by various Government tenants. A number of new buildings over each of the next three years is likely to see the overall vacancy rate continue to rise from here, although the Prime sector of the market should continue to be more resilient.

Figure 10. Canberra Office Absorption and Supply



Source: JLL, ANZ Property

Industrial

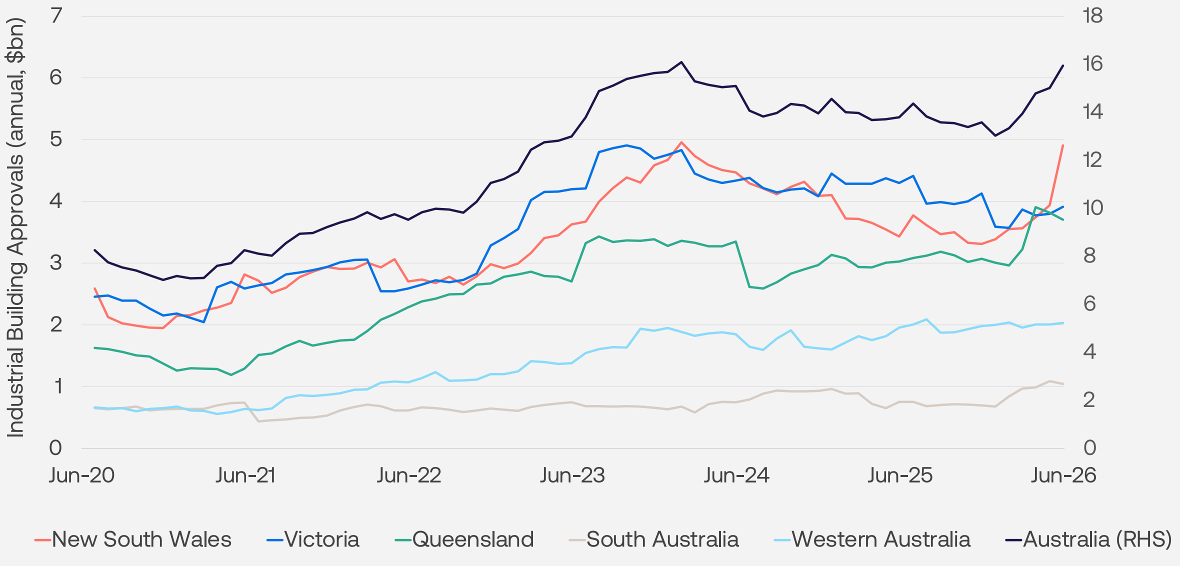
The Industrial segment remains solid, underpinned by strong demand across the country. This is being driven by the combination of continued growth in online retailing, as well as different drivers across various geographies. These include the storage requirements of the mining, agriculture and infrastructure construction segments, while data centres are increasingly adding to the demand and competition for Industrial zoned land.

- Resource-focused regions are seeing demand from mining operators who require warehousing, laydown areas and equipment storage facilities.
- Agricultural production generates ongoing demand for storage, processing and distribution facilities.
- Major infrastructure projects require significant space for construction materials, plant and equipment.

Each of these factors appears set to remain, giving confidence in the outlook for the asset class as a whole.

But as noted previously, while Australia struggles to build the necessary level of housing, we are increasingly adept at building industrial property. The volume of industrial construction keeps rising, reaching a record $22.1bn over the year to March 2026. This reflects growth of 180% over the past decade, with activity tripling across each of New South Wales, Victoria, Queensland and South Australia, materially boosting the supply of industrial property available for businesses. Further, it is clear that construction will not ease any time soon. The backlog of work yet to be done has stabilised at a record $7.0bn, and new approvals are up a further 15% over the past year to $16.0bn (Figure 11).

Figure 11. Industrial Building Approvals



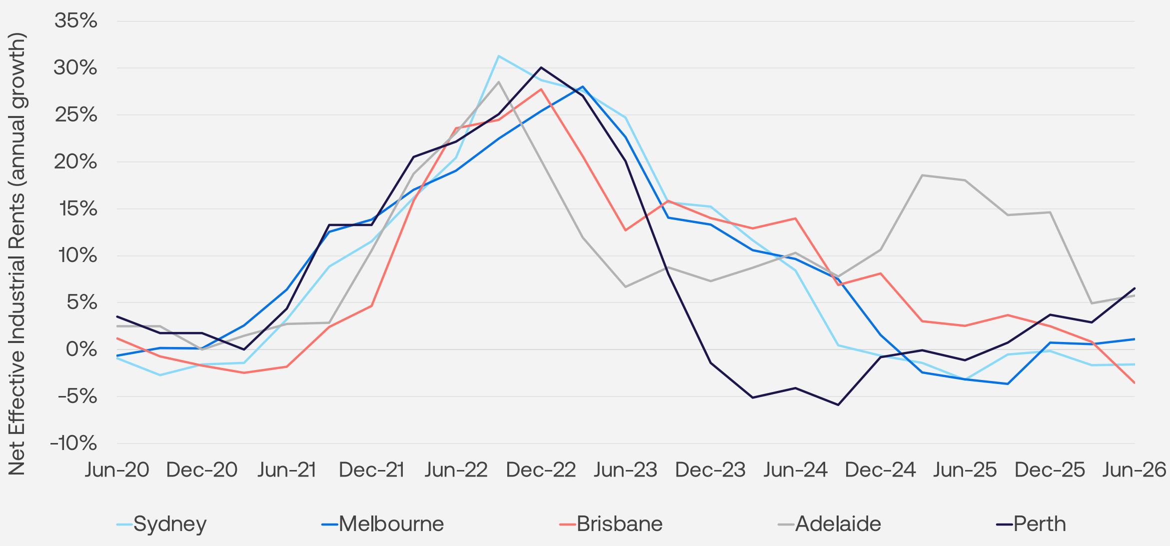
Source: ABS, ANZ Property

This upswing in supply is also evident when we look at rental trends across industrial assets. Face rents continue to nudge higher, up an average of 3.7% y/y across the country. There are some differences across the cities, with Adelaide leading the way (+8.6% y/y), and Sydney more subdued (+1.3% y/y). But for all locations, these figures are well below the 20-30% y/y growth experienced through the 2022 to 2024 peak. This directly reflects the greater industrial product availability, giving tenants more options.

However, the rental picture softens further when we look at the impact of incentives. Incentives on new leases continue to increase, and are now above 10% in all cities except Adelaide. When these get stripped out of the face rents described above, the net rents soften somewhat. We find now (Figure 12) that net rents are up just 1.0% y/y on average nationwide, including some mild declines in Sydney (-1.6% y/y) and Brisbane (-3.5% y/y).

While this sounds like a negative story, and with the promise of further supply arriving, it should be reiterated that demand remains very strong. This means that the outlook for the industrial segment remains positive, albeit with a more subdued rental outlook compared to recent years. It should also be remembered that the greater supply is directly supporting Australian businesses and productivity by providing greater ability to relocate or expand premises where required; something that was unduly difficult a few years ago.

Figure 12. Industrial Effective Rents



Source: JLL, ANZ Property

Retail

While household spending remains a key risk to the economy as described earlier, spending to date has been broadly supportive of the Retail property sector. Vacancy rate data (which are only available six-monthly in the retail space) show further improvement across many asset types and geographies. We continue to see outperformance across neighbourhood centres, while CBD assets are heading in the right direction but with plenty of room for improvement across some locations.

Neighbourhood centres remain robust, characterised by low vacancy rates across the country. Melbourne is leading the way with the lowest vacancy rate in two decades at just 2.5%, followed closely by Canberra (2.8%) and Adelaide (3.0%). Brisbane's vacancy remains the highest at 5.9%, but this reflects strong improvement from a peak of 11.8% in 2021. Somewhat surprisingly, rents are only experiencing mild growth (+1-2% y/y across all the capital cities), but market demand remains very strong for these assets. This reflects the relative stability on offer, underpinned by blue chip anchor tenants such as the supermarkets, compared to the more structural changes taking place across other asset classes.

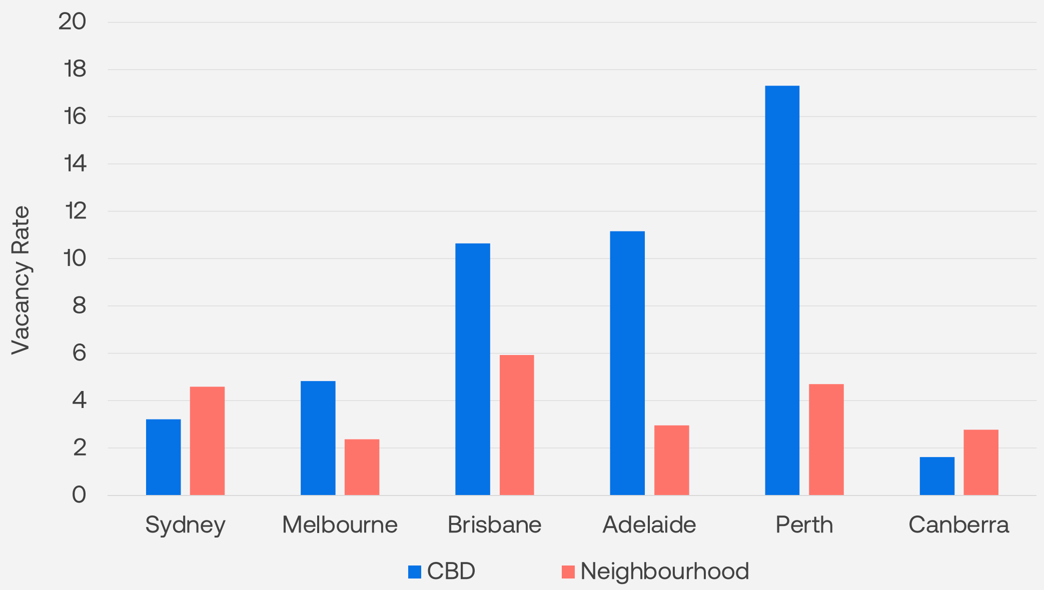
The CBD retail segment also continues to improve on aggregate. The nationwide CBD vacancy rate fell further over the first half of 2026, and at 6.5% is now back in line with pre-COVID levels. This reflects a remarkable turnaround from the high of 13.5% back during the COVID-impacted 2021

CBD assets are heading in the right direction but with plenty of room for improvement across some locations.

period. Vacancies remain particularly low across the CBDs of Canberra, Sydney and Melbourne, although the latter two cities have achieved this through a significant downward adjustment in rents. CBD rents are now slowly recovering in Sydney and Melbourne but remain around 40% and 25% respectively below pre-COVID levels.

On the other hand, CBD retail vacancies are still quite high in Perth (17%), Adelaide and Brisbane (both 11%). These cities have not had anywhere near the same adjustment in rents compared to Sydney and Melbourne, meaning that values have held up better despite the higher vacancy. However, these vacancies still reflect improvement in recent years, falling by 7% in Brisbane, 5% in Adelaide, and 4% in Perth. This positive momentum, even in the absence of rental adjustments, reflects a combination of greater CBD office occupancy in these cities, as well as resilient spending patterns. Without rents taking a step down, further improvement in rental vacancies for these CBD assets will be highly dependent on the household spending environment, which remains an important watch as noted earlier.

Figure 13. Retail Vacancy Rates



Source: JLL, ANZ Property

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