

Real Estate Strategic Outlook: Australia

Economic recovery appears to be on track despite turbulent inflation

Inflation is expected to be higher over the next 6 months

The Reserve Bank of Australia (RBA) has hit pause on rate cuts as headline inflation spiked to 3.2% in September 2025. While most of this increase can be attributed to an unwinding electricity rebates and price indexation in the services segment, there are pockets of momentum in rents and house prices. The RBA has noted 'underlying' inflation rate could be a little higher over the next 6 months, however minimal impact is expected on economic growth outlook, with Australia forecast to be one of the fastest growing OECD countries. Nonetheless, most economists and major banks have revised down their cash rate forecast with 1-2 rate cuts in 2026.

Transaction activity improves with lower borrowing costs

All sectors experienced growth in transaction volumes over the 12 months to September 2025. Foreign capital is increasingly interested in the Sydney CBD office market with a focus on the 'core' sub-market amid improving occupier fundamentals and perceived attractive discounts to peak valuations. The strength of the Brisbane market should not be overlooked, though discounts are not as pronounced. Elevated demand for industrial assets in Sydney and Brisbane has seen yield compression continue, though we believe a more selective approach may be required at a sub-market level with a focus on long-wale assets. Renewed confidence in shopping centres has seen retail transaction volumes climb to a 10-year high, though Large Format (LFR) and Neighborhood assets remain more liquid. With short-term swap rates lower than 12 months ago and the cash rate likely on hold for the next 6 months, stability may present an opportune time for investment.

Residential: Re-acceleration of rental growth

The Australian Build-To-Rent (BTR) sector continues to grow, with operational stock likely to double in size between now and end-2026. Majority of the forecast completions are concentrated in Melbourne, which could see the city's share lift to around 65% of operational BTR supply nationally. Rental vacancy remains incredibly tight with Sydney (1.3%) and Brisbane (0.9%) lower than this time last year, while Melbourne (1.8%) remains relatively unchanged. We have begun to see a re-acceleration of apartment rental growth recording 5-6% year-on-year (Sep 25). While dwelling approvals have marginally improved, they remain at cyclical lows with Build-To-Rent only a small portion of required supply to support population growth. Looking forward, Sydney and Brisbane remain our preferred markets underpinned by challenged purchase affordability, low rental vacancy and significant infrastructure investment.

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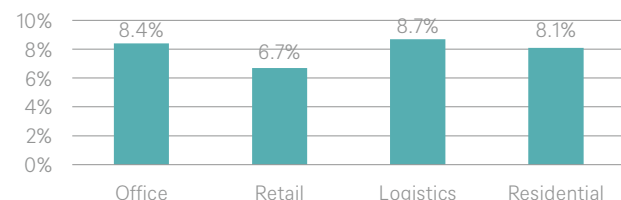
Retail: Could it be time to re-enter retail?

The Australian retail sector has undergone a recovery phase over past couple of years, with improved market fundamentals potentially presenting an attractive entry point. Neighborhood and Large Format Retail (LFR) have been a standout with rental growth underpinned by strength in F&B, growth in construction demand and a wider adoption of work from home. While Regional shopping centres have been laggard with greater exposure to discretionary spend, a re-basing of occupancy costs and tenant remixing has contributed to a rebound in rents now back to 2019 levels. Looking forward, regional shopping centres may provide an attractive play for value-add capital, though assets are tightly held. We believe there may be growing underlying demand for Neighborhood and LFR assets to support expanding population catchments, with NOI yields potentially suited for cash focused investors. Improving real wage growth in the mid-term, compounded by growth in population, should support retail expenditure.

Office: Higher construction costs may weigh on supply

The outlook for the Australian CBD office occupier market remains positive, though there are notable differences at a capital city and sub-market level. Brisbane is the standout performer recording double-digit face rent growth over the past year, with the country's lowest market vacancy. Sydney is next in line but requires a more selective approach with stronger market fundamentals in the 'core' precinct compared to the broader CBD. Melbourne remains a little more complex with higher vacancies and incentives, though the east sub-markets appear more resilient. Supply outlook remains limited, with a 20-25% gap between premium Gross face rents and economic rents, with most markets expecting a supply gap post 2027. While we anticipate moderate yield compression and a period of declining vacancy to benefit incentives, construction cost growth may be a little stronger in the mid-term, particularly in Brisbane. We believe much of the pressure will be on rental growth to unlock future supply.

Total Return Forecast in Australia, 2026-2030f, p.a.



Source: DWS. As of December 2025.

Real Estate Research Team

Office Locations

Frankfurt

Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: +49 69 71909 0

London

45 Cannon Street
London, EC4m 5SB
United Kingdom
Tel: +44 20 754 58000

New York

875 Third Avenue
26th Floor
New York
NY 10022-6225
United States
Tel: +1 212 454 3414

San Francisco

101 California Street
24th Floor
San Francisco
CA 94111
United States
Tel: +1 415 781 3300

Singapore

One Raffles Quay
South Tower
15th Floor
Singapore 048583
Tel: +65 6538 7011

Tokyo

Azabudai Hills Mori JP Tower
1-3-1 Azabudai
Minssato-ku
16th Floor
Tokyo
Japan
Tel: +81 3 6730 1300

Sydney

Level 16, Deutsche Bank Place
Corner of Hunter and Phillip Streets
Sydney NSW 2000
Australia
Tel: +61 2 8258 1234

Teams

Global

Kevin White, CFA

Global Co-Head of Real Estate Research

Simon Wallace

Global Co-Head of Real Estate Research

Americas

Brooks Wells

Head of Research, Americas

Liliana Diaconu, CFA

Office & Retail Research

Ross Adams

Industrial Research

Sharim Sohail

Self-Storage Research

Europe

Ruben Bos, CFA

Head of Real Estate Investment Strategy, Europe

Tom Francis

Property Market Research

Rosie Hunt

Property Market Research

Martin Lippmann

Head of Real Estate Research, Europe

Asia Pacific

Koichiro Obu

Head of Real Estate Research, Asia Pacific

Seng-Hong Teng

Property Market Research

Hyunwoo Kim

Property Market Research

Matthew Persson

Property Market Research

AUTHORS



Koichiro Obu
Head of Real Estate Research, Asia Pacific



Matthew Persson
Property Market Research

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