

# ANZ Commercial Property Update Q2 2025

## Economic outlook

### The Australian economy has been resilient

Australia's GDP growth was a little soft in the first quarter of 2025, rising 0.2% q/q to be 1.3% higher over the year. Public demand fell 0.4% q/q, but it is still up 3.8% over the last year. ANZ Research expect public demand will continue to play an important role in supporting the economy.

ANZ Research think the economy is in better shape than the headline GDP figure would suggest, with household sector income and balance sheet dynamics improving. Yearly growth in real household income is growing faster than consumption as savings increase, and the level of real income has already returned to the pre-pandemic trend.

After picking up at the end of last year, momentum in consumer spending has stalled through 2025. The six-month annualised rate for retail sales, or the retail 'pulse', has slowed from 4.6% in January to 1.8% in May. ANZ-Roy Morgan Consumer Confidence is still in pessimistic territory, with US tariff announcements possibly impacting sentiment. Rate cuts should support spending and ANZ Research expect a lift in consumption and GDP growth through the latter part of 2025.

### RBA surprises with a hold in July

In a surprise to the market, and ANZ Research, the RBA's Monetary Policy Board left the cash rate unchanged at 3.85% in July. The Board did not seem as concerned about the global backdrop, and noted that markets have recovered following a period of heightened uncertainty in April.

While there has been good progress on lowering inflation, the (less comprehensive) monthly inflation indicator came in a bit higher than the RBA were expecting in their last forecast. The Board decided that "it could wait for a little more information to confirm that inflation remains on track". In other words, the Board implied that they could wait until their next meeting in August, where they would receive updated RBA forecasts and know the outcome of the June quarter inflation data. Indeed, the June inflation data has come in very close to the middle of the RBA's target band, clearing the way for another 25bp cut in August.

The Board also described the labour market as "strong". The unemployment rate remains historically low at 4.1%. Around 80% of businesses are reporting labour shortages. Forward indicators like ANZ-Indeed Job Ads and ABS job vacancies have risen recently and remain above pre-COVID levels.

ANZ Research expect the RBA to cut the cash rate in August and November. This would take the cash rate to 3.35%.

It is still early days, but the housing sector appears to be responding positively to lower interest rates. But structural issues remain around new housing supply, despite these lower rates, softer construction cost growth and slowing population growth. Australia's underlying housing shortage looks set to remain for an extended period, which will likely result in further upward pressure on both housing prices and rents across most markets.

The RBA has already delivered two rate cuts in 2025, and ANZ Research forecasts expect another two over the remainder of the year. This outlook for lower rates has already started to support activity in the housing sector, especially in markets that had been lagging behind. Both Sydney and Melbourne have seen auction clearance rates improve materially, driving the national average across June and July to the highest result in nearly 18 months. It is a similar story for prices, which nudged higher in the two largest markets over the last quarter, following negative values earlier in 2025.

Melbourne's market is still weaker than the rest of the country, with prices up only 11% over the past five years. This likely reflects several factors such as pricing in changed Government taxes (particularly Land Tax), as well as the relatively greater volume of new supply being delivered in Victoria in recent years. This means that housing affordability has actually improved in Melbourne, unlike in most other capital cities. On the other hand, Figure 1 shows that cities such as Brisbane, Perth and Adelaide have had the strongest price growth, up between 70–80% over the past five years.

The supply side of the equation is still significantly challenged, although the largest problem has changed. In the depths of COVID across 2020–2022, the key issue was rapid material cost escalation as global supply chains came under pressure. Material costs have largely settled now (albeit at very high levels), but the bigger problem is labour availability and cost.

The Infrastructure segment continues to attract a rising share of the construction sector workforce. A report by Infrastructure Australia suggests that as of 2024, there is a shortage of 197,000 infrastructure workers (including trades and labour, project managers, engineers, architects and so on) to complete a significant volume of primarily publicly-funded infrastructure work. The private sector, including housing, finds it hard to compete with the wages on offer across these public projects, meaning that housing construction remains constrained by very real labour and skill shortages.

Unfortunately, there are no easy solutions here. The pipeline of work will remain elevated as we cannot simply stop infrastructure projects, productivity improvements remain elusive, and training and upskilling of new workers naturally takes time. And while there are opportunities around recognising and attracting skilled workers from overseas, this too will take time to improve. As a result, Government targets of 1.2 million new homes built by 2029 will almost certainly not be achieved.

Over the past 12 months, 177,000 dwellings were built nationwide. While this reflects some (marginal) improvement on the 175,000 completed a year earlier, it is a long way off the 240,000 homes per year needed to reach the 1.2 million target. It's worth noting that we have come close to this annual number previously; in 2016/17 we built a record 223,000 homes. But engineering construction (largely roads, rail and mining projects) is 30% (~\$35bn) higher today compared to 2016/17, which shows where resources have been focussed lately.

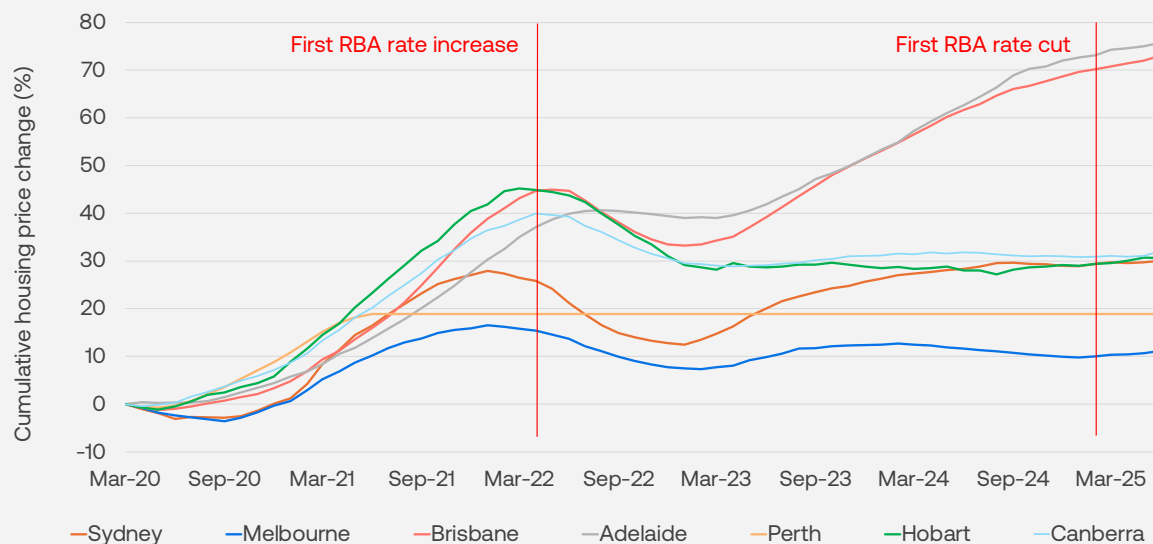
Leading indicators of construction aren't much better. New commencements are currently running at 168,000 per year, which is 25% below the most recent peak in 2021. A ray of light can be seen in the building approvals data, which show some slow but steady progress. From an annual low of 165,000 a year ago, approvals over the last

12 months now sit at 183,000. This increase has come from most states and territories, but most noticeably in Western Australia (+37%) and South Australia (+27%). However, a sustained period of improvement will be required to help get anywhere near the 1.2 million home target.

This all means that housing markets are likely to remain challenged for some time. The combination of lower interest rates and ongoing population growth means that prices will see some upward

pressure, likely including markets that have previously lagged such as Melbourne. And an inability to deliver adequate supply will also put pressure on rental markets which already have low vacancy rates. However, as rental affordability worsens, people are likely to continue to adapt their living arrangements (such as increasing household size), meaning that rents will probably grow at a slower pace than in recent years.

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



Source: Cotality, ANZ Property

**Figure 2. New housing commencements remain in the doldrums**

State/Territory	Completions		Approvals	
	12 months to December 2024	12 months to December 2023	12 months to May 2025	12 months to May 2024
New South Wales	45,552	47,567	46,569	43,350
Victoria	60,220	56,435	55,960	52,734
Queensland	31,575	34,611	37,848	33,239
South Australia	11,865	10,705	14,336	11,305
Western Australia	20,457	17,513	23,040	16,772
Tasmania	2,791	3,471	2,340	2,590
Northern Territory	416	626	536	442
Australian Capital Territory	4,349	4,555	2,248	4,528
Australia	177,225	175,483	182,877	164,960

Source: ABS, ANZ Property



## Commercial Property

Australia's Commercial Property segment remains mixed across the asset classes. Demand for Industrial property is still red hot supported by positive fundamentals, the Office market continues to muddle through a period of structural change, and the Retail sector has strengthened despite fairly sluggish overall retail spending.

Values for most assets remain below their 2022 peaks, in line with softer yields. However, yields have largely stabilised now, and if anything, are under some pressure to tighten following recent RBA rate cuts and general consensus that several more cuts will arrive this year. This will likely mean the yield softening cycle is over, and begin to put some upward pressure on asset valuations.

The Procore/Property Council survey notes that while confidence in the Commercial Property sector stabilised at solid levels in the June 2025 quarter, there are significant differences across the states. South Australia, Queensland and Western Australia continue to lead the way, while Victoria lags behind; a position it has held for almost all of the past five years. Respondents were increasingly convinced of further rate cuts to come, and also optimistic that finance availability will continue to improve over the year ahead. These positive factors are somewhat offset by critical concern over housing supply and affordability, while tax reform is also flagged as an increasingly important issue for the Federal Government. These factors, including the state differences, are largely consistent with the environment and outlook that we see across the three main Commercial Property sectors; Offices, Industrial and Retail.



## Offices

As noted above, the Office sector is going through a period of structural change. This is arriving on two fronts, both of which are shaping different outlooks across locations and asset types. Specifically, these changes include:

- WFH is still unwinding, but at different rates across the cities.
- Flight to quality continuing apace.

The return to the office post-COVID has finally gathered steam. Vacancy rates have now stabilised even in the laggard cities of Sydney and Melbourne (albeit remain far too high, at 15% and 18% respectively), as businesses increasingly succeed in bringing their employees back to the office. CBRE data suggest that Perth, Brisbane and Adelaide continue to have “...the strongest attendance rates, which are close to pre-COVID levels on peak days”. On the other end of the scale, while Melbourne attendance continues to improve, a weekly average of 61% of pre-COVID levels suggests there is still a long way to go.

This means that there are significant differences in the Office markets across the country, with Perth and Brisbane seeing the most clear improvement. Vacancy rates in Perth have improved from around 22% before COVID arrived to 17% today, while Brisbane continues to tighten from nearly 17% four years ago, to just under 15% now.

However, these movements understate the pace of change within the sector across each city. The ‘Flight to Quality’ continues to gain momentum, as the demand profiles of Government and large Corporate tenants continue to evolve. For businesses seeking to increase the presence of their workers in the Office, quality fit outs with good end of trip facilities are increasingly important. At the same time, new legislation

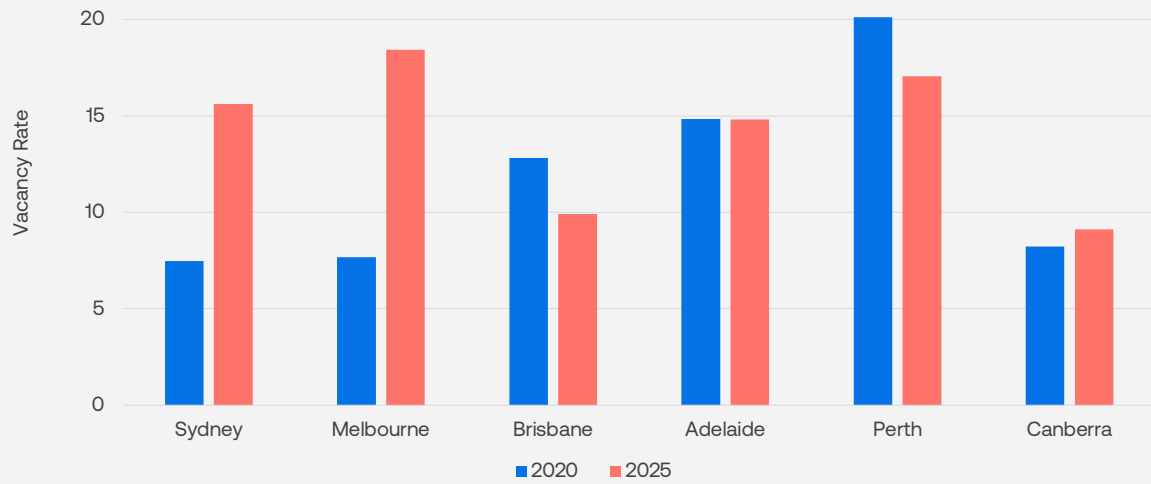
dictates that Australia’s largest corporates are subject to mandatory climate reporting. This extends not just to their direct business operations, but factors that are a consequence of their actions, such as occupying Office space. As a result, these large firms are assessing the environmental credentials of the assets they occupy in greater detail. Any desire to report lower emissions tends to push demand towards Prime grade assets which are more likely to be energy efficient.

This shift is increasingly evident across a number of metrics. The aforementioned vacancy rates show very different pathways between Prime (Premium and A Grade) and Secondary (B/C/D Grade) buildings. For example, the improvement in the Brisbane market has entirely occurred in the Prime space, where vacancy rates have fallen from 16% four years ago, to just 6.8%. Vacancy rates are now lower in the Prime segment across every capital city, with the exception of Sydney and Melbourne where they are equal, but have improved faster in Prime buildings over the past year.

This theme is also clear when we look at overall absorption of office space. Over the past five years, total office space absorption has increased by a relatively soft 100,000m<sup>2</sup> nationwide. But within this, we see an incredible shift toward Prime buildings. Prime assets have seen absorption rise by 740,000m<sup>2</sup>, while Secondary buildings have given up 640,000m<sup>2</sup> over the same time period.

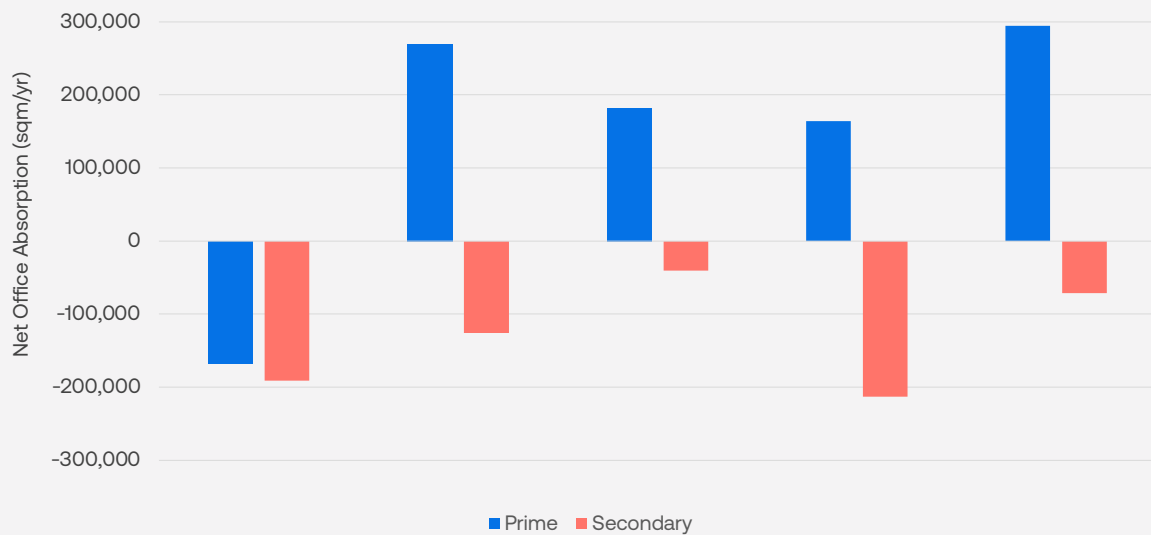
This flight to quality is currently most clear at the larger end of the market, in line with the updated reporting requirements mentioned earlier. But even for smaller assets, it is becoming clear that these themes should be kept in mind. In particular, it is important to understand, or at least think about, what current tenants will demand when their existing lease expires.

Figure 3. Office CBD vacancy rate



Source: JLL, ANZ Property

Figure 4. Office absorption rates



Source: JLL, ANZ Property

## Industrial

Industrial assets remain the strongest of the Commercial Property segments, as a very strong underlying demand profile is not yet being matched by equivalent growth in supply. While new supply will eventually arrive and ease pressure on rents, the long term prospects for the sector remain positive. Some opportunity presents currently with values below their 2022 peak in some markets, although this gap is likely to continue to close.

Demand for Industrial assets continues to rise on the back of changed consumer spending behaviours. Online retailing continues to rise, both in dollar terms as well as the percentage of total retailing. Figure 5 shows that while total retail sales keep rising at a slow but steady pace, the share of spending that is being conducted online is also rising. This double whammy means that total online spending is now nearly 2.5x higher than before COVID, including growth of 8.4% over the past year (compared to 3.3% in total retail trade, and just 2.6% in traditional bricks and mortar retailing).

Importantly, the outlook for online retailing remains positive. A detailed survey by Australia Post reported that in 2024, one in five Australian households purchased online once per week. While this is a much higher share than in previous years, it still suggests there is plenty of room for further growth. Reported spending intentions back this up, with all demographics (including the older age brackets) becoming more comfortable spending online, and anticipating doing so more in future. The report also found that online spending is currently growing faster in regional areas compared to metro areas, meaning that the growth outlook is truly widespread across the country.

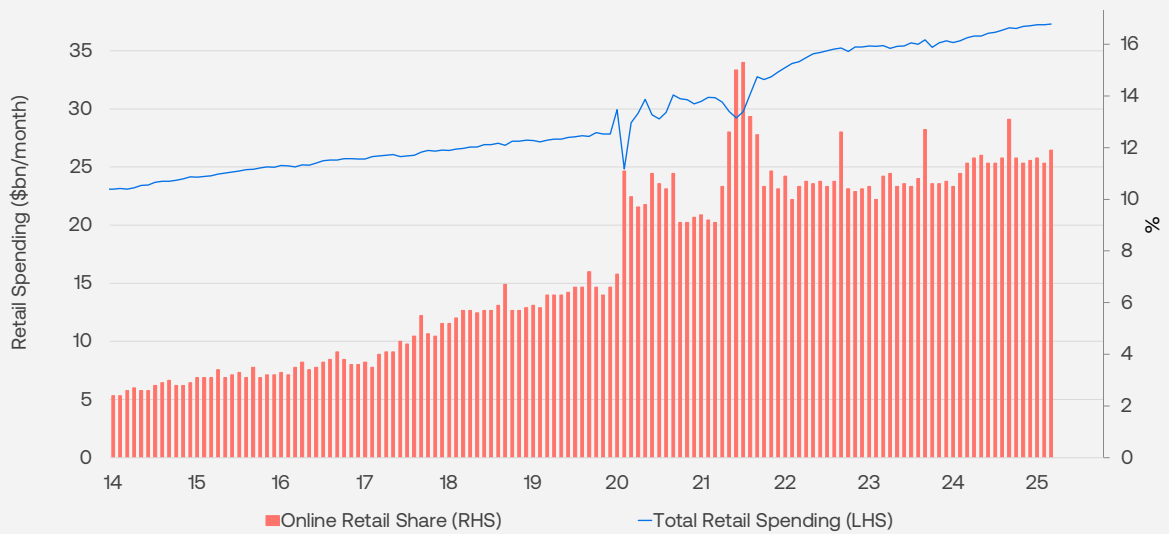
This strong demand has resulted in Industrial rents increasingly sharply over the last five years. Rents have increased ~70% since 2020 in Sydney and Melbourne, and are up ~50 % across Brisbane,

Adelaide and Perth. However, the pace of growth has slowed recently. From 15-20% annual growth through 2022 and 2023, increases have cooled to just 2% (Melbourne), 4% (Sydney), and 7% (Brisbane and Perth). Adelaide is the outlier with increases of 14% from a year ago.

This overall slower rate of increase is likely due to new supply arriving on the market, following a period of sustained high levels of new building approvals. Figure 6 shows the strong increase in approvals in recent years, which are likely beginning to arrive on market now. This full supply side response is likely to take an extended period to arrive, due to capacity constraints in the construction sector (similar to the housing discussion earlier). Overall, it means that the days of double digit Industrial rent growth are now behind us, and any growth will be much more moderate going forward. However, given the strong demand for these assets, it is unlikely that rents will fall back to levels from previous years.

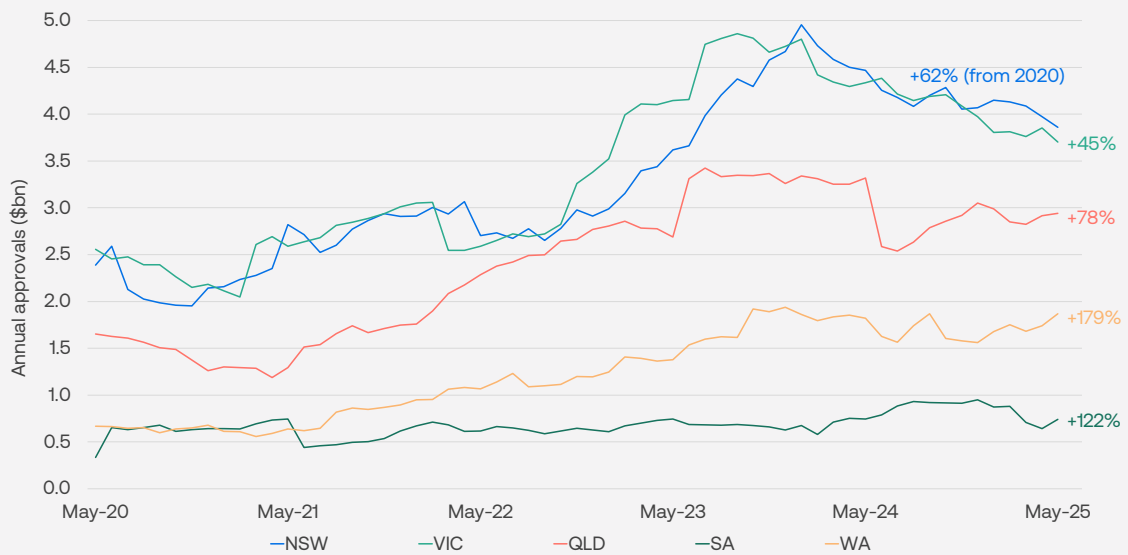
Despite this strong demand profile, Industrial values have fallen somewhat in recent years in some markets. Values are currently off ~10% in Melbourne, 6% in Perth, and 4% in Sydney, although have increased slightly in other cities. It's worth keeping in mind that these drops in valuations are solely due to softening yields in line with the previous increases in interest rates, as the cumulative impact of 2022-23 rate hikes took time to flow through. However, even in those markets where values are below their previous peaks, prices have started to nudge higher again. This is likely to continue in light of the two rate cuts already introduced this year, and the prospect of several more arriving, which should see yields tighten somewhat in an already strong sector.

Figure 5. Evolution of Australia's online retail spending



Source: ABS, ANZ Property

Figure 6. Industrial building approvals



Source: ABS, ANZ Property



## Retail

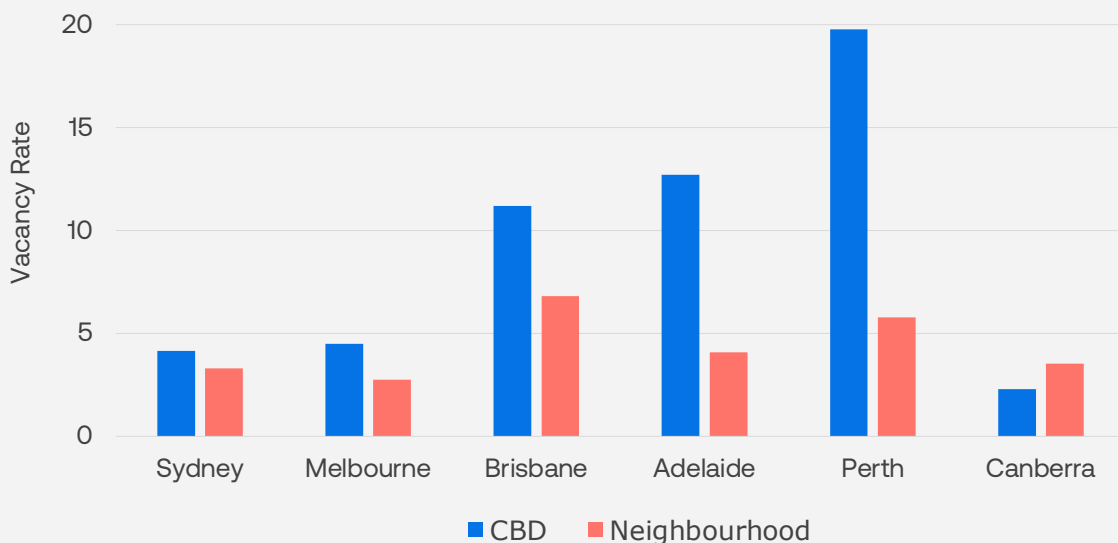
The Australian Retail sector continues to hold up reasonably well despite the fairly soft macro backdrop. Consumer confidence is still in negative territory, households are saving more, and retail spending is under pressure. But Retail Property assets have performed as well as could be hoped for over the past year, and there are reasons for optimism over the year ahead. These include the prospect of further interest rate cuts (supporting both retail spending as well as Retail property yields), wages continuing to run slightly stronger than inflation, and significant recent improvement in the CBD Retail segment.

CBD Retail assets continue to improve overall. Sydney and Melbourne vacancy rates have now returned to pre-COVID levels, sitting at just 4.1% and 4.5% respectively (Figure 7). This has been driven in part by hefty rental declines (Sydney down 45%, Melbourne down 30%) that have made it more viable for new tenants to enter. In contrast, without this rental adjustment, cities like

Brisbane, Adelaide and Perth continue to have CBD vacancies above 10%. With foot traffic still improving and vacancies at low levels, we expect CBD rents will start climbing again across Sydney and Melbourne. However, a return to early 2020 levels remains a long way off.

Neighbourhood assets have been much more consistent and are still providing a stable base across the states. Vacancy rates are sitting within a narrow range from 2.7% (Melbourne) to 6.8% (Brisbane), with all cities now at or below pre-COVID levels. Rents have edged higher in a measured fashion, consistent with the spending environment; slow but steady. Importantly, Neighbourhood assets have proven more resilient to online retail disruption than traditional Strip Retail formats, adding to their defensive appeal. The steady leasing environment and contained vacancy rates suggest investors are still comfortable with this asset class, even as consumer spending remains relatively tight.

**Figure 7. Retail vacancy rates**



Source: JLL, ANZ Property

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