

Intelligent Investment

Australian Cap Rate Outlook

REPORT
AUSTRALIA

CBRE RESEARCH
DECEMBER 2025



Yields have tightened in Retail & I&L

At this time last year, the cash rate in Australia had peaked at 4.35% and the market was pricing in rate cuts throughout 2025. As such cap rates across sectors had stabilised with prospects of some yield compression.

That yield compression has come through in the Retail and I&L Sectors off the back of 75 bps of cuts to the cash rate. The blended shopping centre cap rate for Australia has tightened 15 bps in 2025 as sentiment towards the sector has significantly improved. Volumes for 2025 in Retail are likely to be the highest of any sector, highlighting the significant investment demand for the sector. Investment appetite for I&L assets remains strong with Super Prime yields also tightening by approximately 26 bps over the course of 2025. Office sector yields have largely been stable this year. There has been some evidence of tightening in the Sydney CBD Core precinct, but most other markets have been flat or softened slightly. While investment demand has been solid this year, investors are demanding a higher yield premium to other sectors given higher vacancy rates in some markets.

What contributes to a property yield

To determine fair value, a commercial property yield consists of two main components: the risk-free rate and the risk premium. The risk-free rate is typically represented by the long-term bond rate. This rate reflects the return on an investment with no risk of financial loss, serving as a baseline for evaluating other investments. For our analysis, we will be using the Australian 10-year **real** bond rate. The risk premium is the additional return that investors demand to compensate for the higher risk associated with commercial property investments compared to risk-free assets. This premium accounts for various factors including supply/demand dynamics, rental outlook, liquidity and others.

Why use real bond rate?

Nominal bonds need additional yield contained in them to compensate investors for future inflation. If inflation expectations rise then bond yields rise to compensate investors. Property investors do not need this because their income (rent) typically rises with inflation over the long term. Therefore, property yields are “real” (inflation adjusted) yields.

Figure 1: Australian Yields by Sector

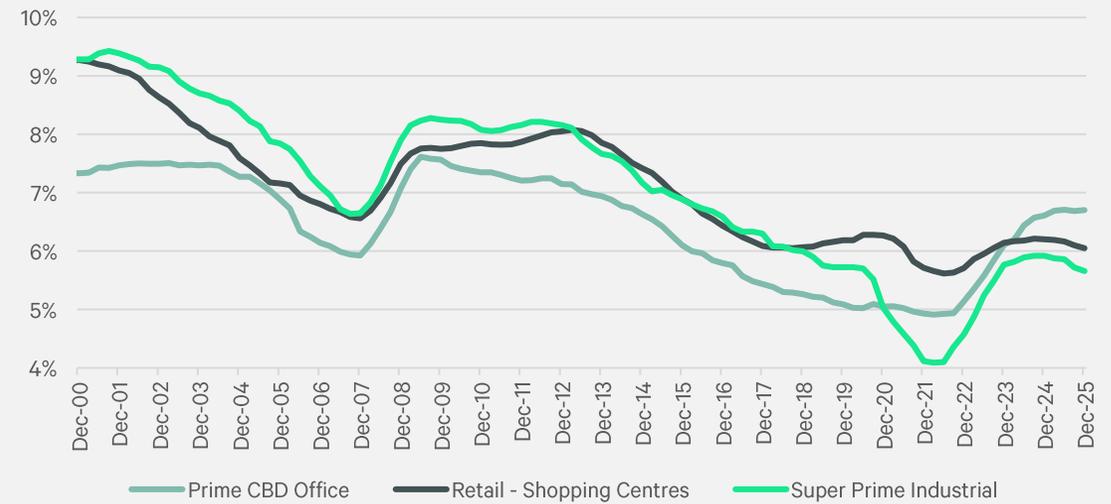
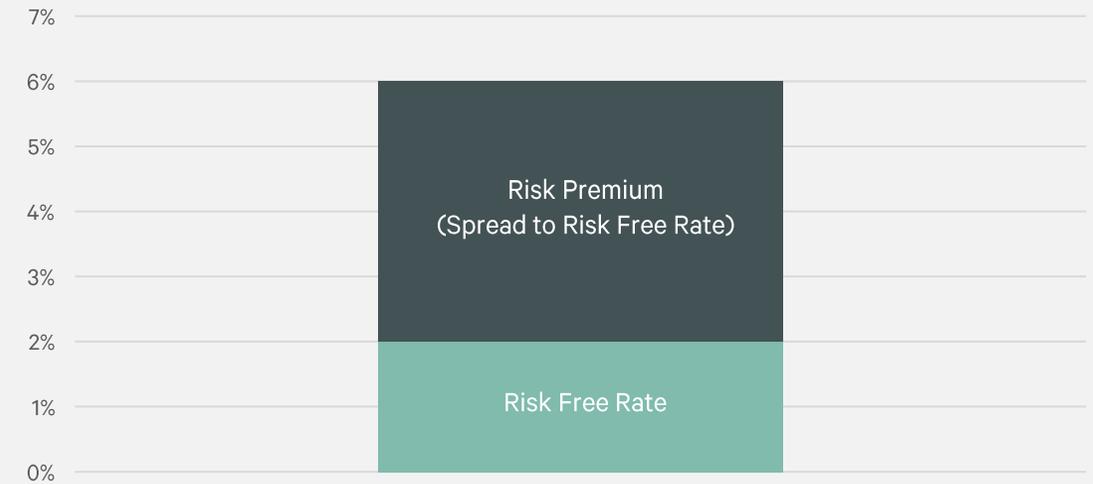


Figure 2: Contributions to a property yield



Source: CBRE Research

Bonds have moved higher, cap rate tightening is likely to be shallower

The interest rate outlook in Australia has fluctuated significantly throughout 2025. Early in the year, the market was pricing in up to 125 bps of interest rate cuts from the peak of 4.35%. In the end, we saw 75 bps of cuts during the year which, as we touched on previously, has caused cap rates in some sectors to tighten.

However, recent inflation prints have seen headline and core inflation rise above 3% which has changed the outlook for interest rates. As of writing, the Australian 10-year bond rate has risen to 4.7%, up about 45 bps from 3 months ago. This has also been a trend globally due to inflation and fiscal deficit concerns. As a result, we have paired back our long-term bond rate forecasts. Our expectation is that the 10-year bond rate will stabilise over the next few years in the low 4% range. Our assumptions on this are as follows.

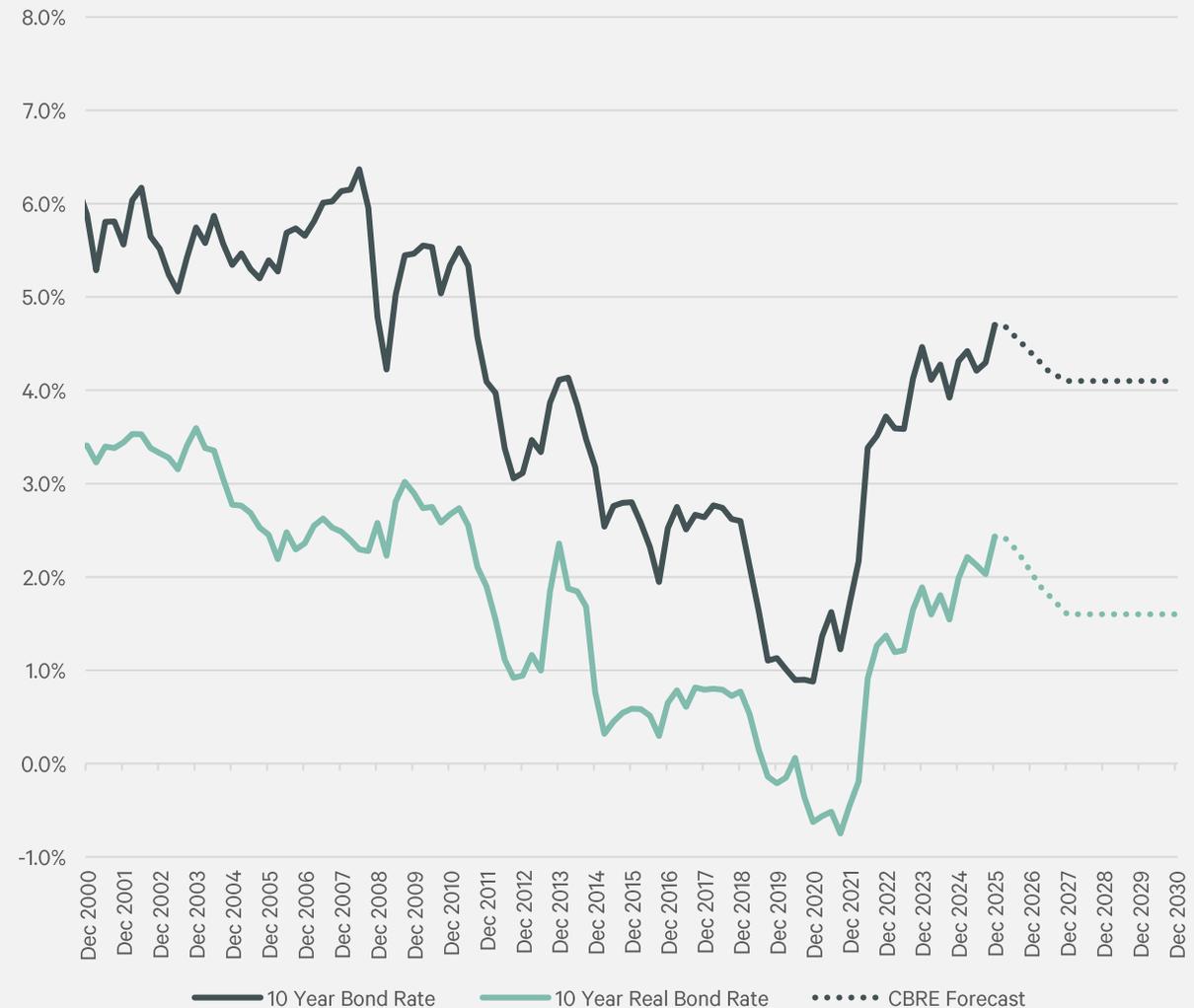
Inflation: While core inflation has risen recently, most of the categories that have contributed to that inflation are non-discretionary. Some of the largest contributions have been from electricity, healthcare, education and housing which are not really indications of an overheated economy, but rather structural supply side issues. We expect that some of these categories will normalise over the next year, which will bring inflation back to the 2-3% target.

Labour market: The labour market remains tight compared to historic averages, although unemployment has been trending up for the past 3 years. We'd expect this to continue with many firms in the private sector remaining cautious and public sector hiring to stabilise due to budgetary constraints.

Economic growth: While GDP growth has improved in Australia in 2025, the expectation is that it will remain below trend next year in the range of 2.0-2.2%. Productivity remains a key inhibitor to economic growth in Australia.

All of these combined factors would allow for the bond rate to moderate over the next few years.

Figure 3: Australian Bond Rates – Historic and Forecast



Source: RBA, CBRE Research

Office

National Outlook

The Australian office market has observed further green shoots in 2025. Rental growth is returning to most markets, with some cities and precincts observing growth rates well above trend. Yields across the country largely stabilised in 2025, as buyer sentiment gradually improved following 75 bps worth of interest rate cuts. The only market with evidence of yield tightening was in Sydney, and particularly prime grade assets in the Core precinct. This remains the most competitive investment market in the country.

We have modelled the national average yield which uses net effective rental growth to forecast the risk premium. As of December 2025, the risk premium for Australian Prime CBD Office yields stands at 4.27%, which is below the long-term average of 4.83%. This tightening in the risk premium has only occurred in the last 3 months due to the increase in the bond rate. This is likely to restrict cap rate compression in the short-term across most markets. Our assumption is that bond rates will normalise over the next two years which will allow for about 40bps of cap rate tightening for Prime Australian CBD office. The risk premium of 4.70% in 2030 is tighter than the long-term average due to the known decline in supply over the next 5 years and the expectation of above trend rent growth due to high economic rents.

Cities Outlook

Our view is that Sydney will remain the favoured city for capital and therefore will continue to observe some moderate cap rate tightening in 2026. Brisbane is also expected to record some moderate tightening next year, given the strong rental growth and tighter vacancy environment in that market. Melbourne yields are expected to be stable in 2026 given some supply being delivered will impact on vacancy. However, over the medium-term, yields are likely to tighten to below Brisbane's given the expected improvement in fundamentals of that market. We expect Perth, Adelaide and Canberra to be relatively stable in 2026 as further transactional evidence comes through. Cap rate tightening in those markets is more likely in 2027, in line with our assumptions of a lowering bond rate.

Figure 4: Australian Prime CBD Office Yield

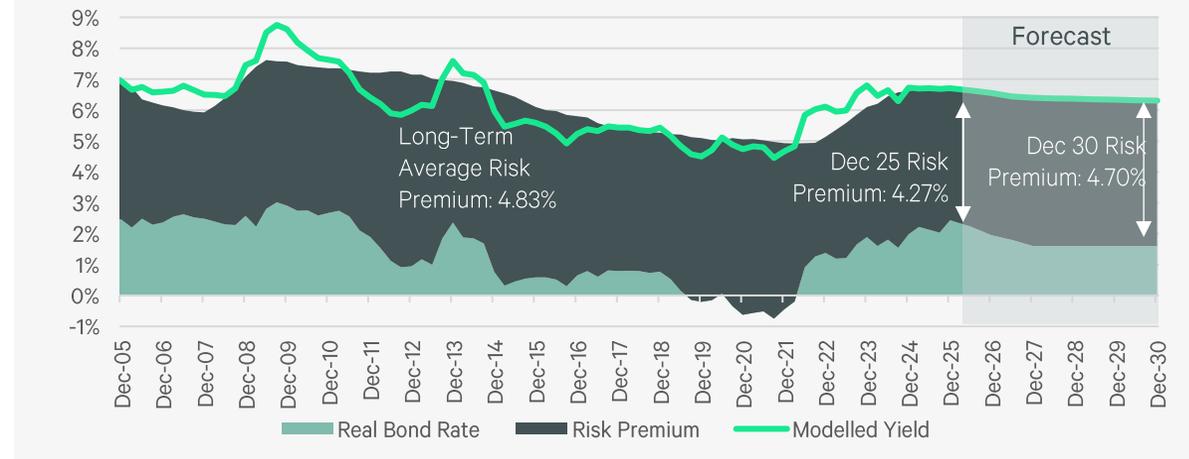
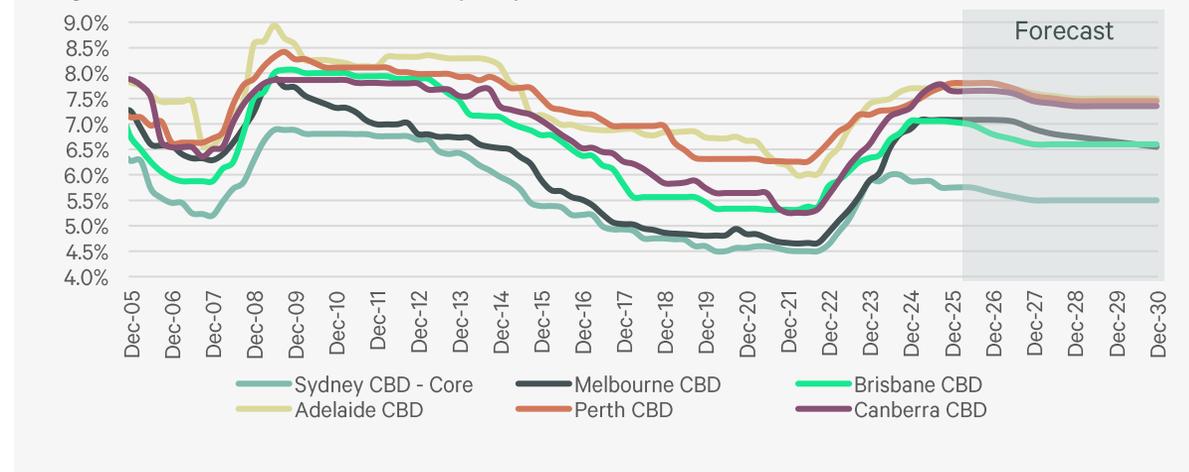


Figure 5: Prime CBD Office Yields by City



Source: CBRE Research

Industrial & Logistics

National Outlook

Industrial yields in Australia have followed a sustain compression trend since the mid-2000s, spanning multiple cycles and amounting to roughly two decades of structural yield convergence, despite intermittent periods of cyclical volatility. This has been underpinned by long-term structural shifts in both occupier demand and investor behaviour. The expansion of e-commerce, improving tenant covenant strength, and an extended period of low interest rates broadened the capital base targeting the sector, while rising land values across metro markets and key transport corridors lifted replacement costs and reinforced pricing power. Together, these forces drove a prolonged decline in yields and firmly established Super Prime industrial assets as premium, tightly held investments.

As illustrated in Figure 6, this structural compression has not been linear. Periods of cyclical volatility have occurred, largely reflecting movements in real bond rates and changes in risk pricing. Our modelling framework decomposes yields into real bond rates and a risk premium, highlighting that while bond yields have been the primary driver of recent outward yield pressure, the long-term downward trajectory over the past 20 years remains intact.

Since late 2022, elevated inflation and higher real bond yields have widened industrial yields from cyclical troughs, slowing the pace of compression and re-pricing risk premiums. As at December 2025, the national industrial risk premium is estimated at 3.23%, its lowest level in three years, though still below the long-term average of 5.30%. This reflects the sector's defensive income profile and continued investor preference for high-quality logistics assets, even in a higher-for-longer rate environment.

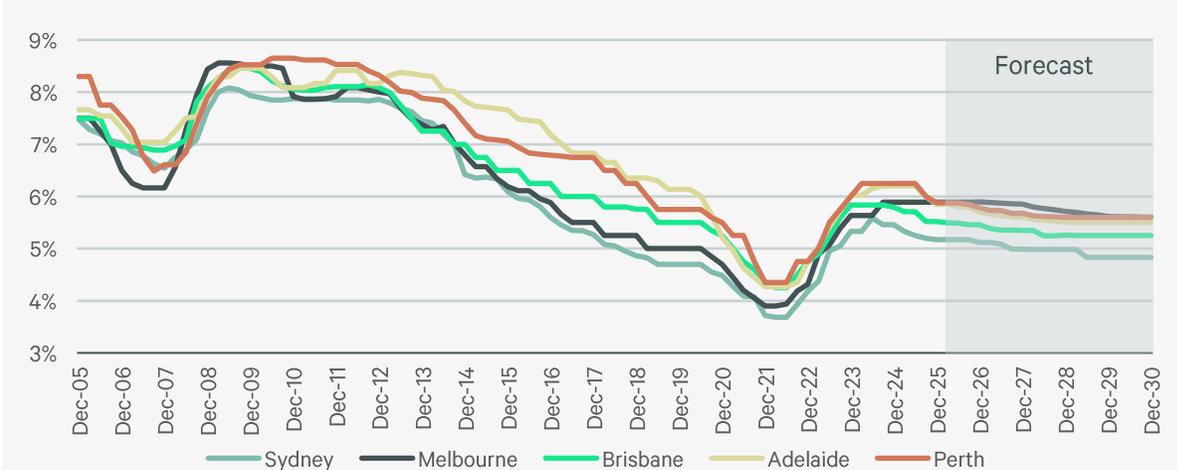
Cities Outlook

At a city level, Super Prime industrial yields remain differentiated, reflecting variations in supply pipelines, land constraints and market depth. Sydney is expected to remain the tightest-priced market nationally, underpinned by land scarcity, structural undersupply and deep institutional demand. Melbourne is forecast to record the softest yields by 2030, reflecting a combination of a larger development pipeline and ongoing impact of foreign purchaser tax settings, which continue to weigh on offshore investor pricing relative to other cities. Brisbane yields are expected to remain relatively tight, supported by population growth, infrastructure investment and constrained availability of institutional-grade stock. Perth is likely to price just wider than Melbourne, with solid economic growth offset by lower liquidity and a narrower investor base. Adelaide is expected to remain mid-range, supported by stable fundamentals but limited by the smaller scale of the market. Overall, city-level outcomes point to a slower and shallower re-tightening cycle, with yield differentiation increasingly driven by structural factors rather than uniform national compression.

Figure 6: Australian Super Prime Industrial Yield



Figure 7: Super Prime Industrial Yields by City



Source: CBRE Research

Retail

National Outlook

The uncertainty faced by the Australian retail real estate sector due to the pandemic disruption and accelerated e-commerce adoption has now largely abated. While Australia’s e-commerce penetration rate continues to grow, retailers have adopted a hybrid approach, utilising their existing retail networks to support their e-commerce operations. Furthermore, several tailwinds have come to the fore for the retail real estate sector more recently. Ongoing population growth and densification of existing urban locations, tight retail supply outlook, high construction costs and lack of land availability of scale in established metropolitan locations have highlighted the ‘core social infrastructure’ and ‘difficult to replicate’ nature of existing major shopping centres (especially at today’s construction costs). As a result, investor appetite for retail assets has been strong recently, with some investors increasing their exposure to retail, particularly given the headwinds in office and relative value compared to industrial.

We have modelled the national average shopping centres yield (regional centres, sub-regional centres, and neighbourhood centres) using net effective rental growth to forecast the risk premium. The results are represented in figure 8. As with office and industrial the modelled yield for retail is far more volatile than the actual yield, largely due to the bond rate fluctuations. Our current Australian average shopping centres yield is close to 100 basis points tighter than our modelled yield, highlighting both the recent spike in bond yields as well as strong investor appetite for retail assets, which has driven yield compression over the past year. As of December 2025, the risk premium for Australian shopping centres stands at 3.60%, below the 20-year average of 5.15%. We anticipate national shopping centre yields will tighten by around 35 bps by late 2028.

Category Outlook

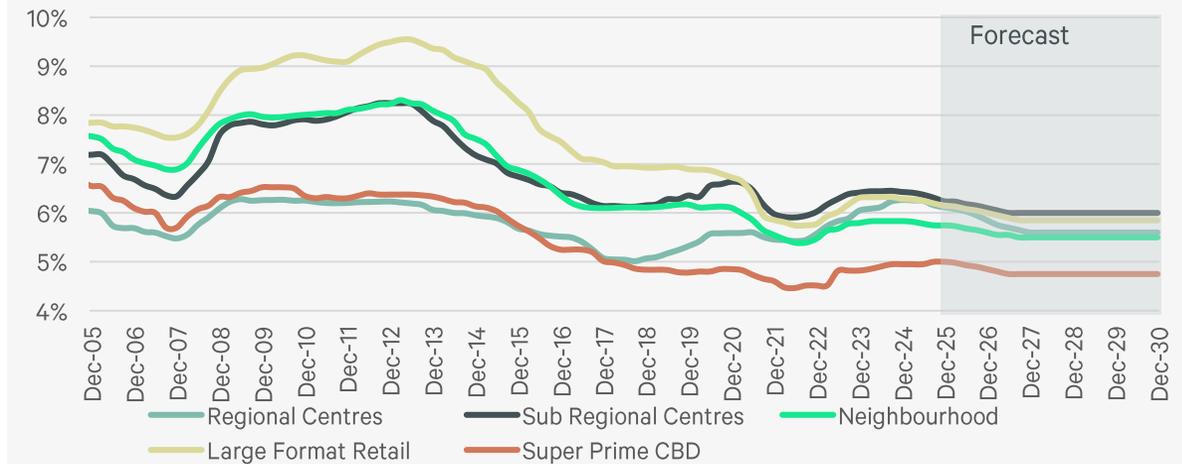
We anticipate that the current tighter spreads will normalise in the medium term but remain below the historic long-term average spreads. Regional shopping centre spreads are forecast to remain below the 20-year average of c.4.45% given the lack of new supply, which will drive rental growth, and as established regional centres are expected to remain difficult to replicate experiential destinations for consumers. Sub-regional shopping centre spreads are forecast remain tighter than the 20-year average of c.5.55%, with tight supply and ongoing investor demand a key driver.

For neighbourhood and large format retail centres (LFR), while the supply outlook has lifted in recent years, this is to cater to growing populations, particularly in growing outer metropolitan catchments. Investor appetite remains strong for neighbourhood and LFR centres, with institutionalisation of these categories, their relatively defensive natures and high correlation to population growth expected to keep spreads below their 20-year averages of c.5.45% for neighbourhoods and c.6.30% of LFR centres.

Figure 8: Australian Shopping Centre Yield



Figure 9: Australian Retail Yields by Category



Source: CBRE Research

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