dexus

Australian Real Asset Review

Q3 2025

33 Alfred Street, Sydney

Inside

Investment climate

Lift in business confidence a positive sign

Business confidence and conditions improved sharply in Q2 2025, seemingly due to interest rate cuts, postponement of US tariffs and a lift in global equity prices. If sustained, improved business confidence will support leasing activity across the real estate sectors in H2 2025 after a lull in the first half.

Australia's economy continues on a slow steady growth path. GDP grew by 1.3% in the year to Q1 2025 and is forecast at 2.0% in Q2 2026. The labour market remains strong with employment growing by 2.0% p.a. and the unemployment rate remaining low at 4.3%. In the May 2025 Federal election, the incumbent Labor government was re-elected which provides an element of stability at a time of global uncertainty. The Government is expected to prioritise areas like health policy, energy transition, skills formation and cost of living.

The headline annual inflation rate was steady at 2.4% in Q1 2025, unchanged from the previous quarter and the lowest level since Q1 2021. Positively, services inflation eased to 3.7%, a just-under three-year low. Despite this, the Reserve Bank held the official cash rate steady at 3.85% at its July meeting, no doubt to assess the quarterly July inflation number before making another move. Consensus forecasts are factoring another 25-50 bps cut to the official cash rate in H2 2025.

Looking forward to 2026, we anticipate a firming of economic growth driven by rising residential construction and consumer spending. The outlook for spending will be underpinned by wages growth (currently 3.4% pa) and falling mortgage rates.

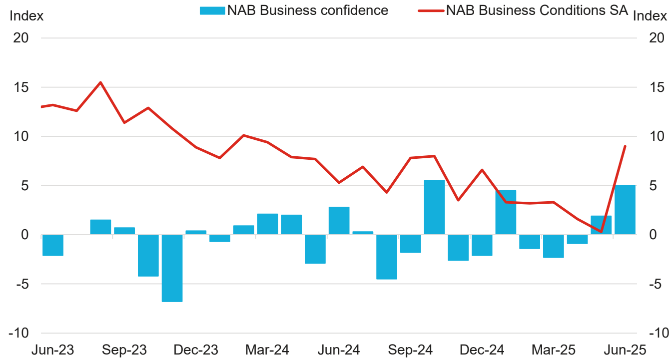
The 10-year government bond yield (currently 4.2%) remaining stubbornly high. If history is a guide, further falls in the cash rate should be accompanied by a tightening of bond yields which would be positive for real asset valuations.

Australian economic forecasts

	Jun-25	Jun-26	Jun-27
Real GDP pa	1.8%	2.0%	2.6%
Employment pa	2.1%	1.4%	1.6%
Unemployment	4.3%	4.4%	4.4%
Business investment pa	0.0%	2.8%	3.8%
Dwelling investment pa	1.3%	4.4%	8.7%
Population pa	1.4%	1.2%	1.1%
Retail sales pa	3.3%	3.1%	3.1%
CPI pa	1.8%	3.0%	2.6%
Cash rate	3.9%	3.4%	3.4%
10yr Bond	4.2%	4.2%	4.2%

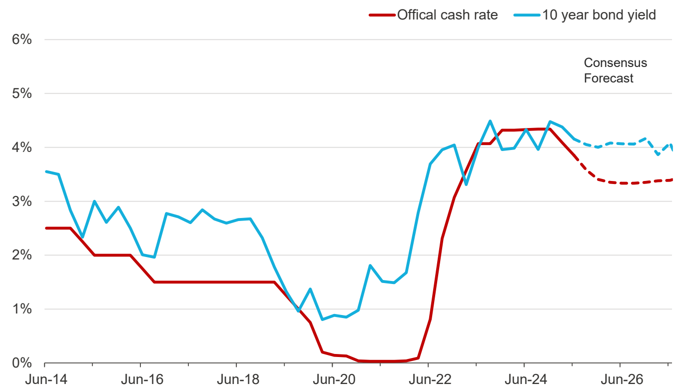
Source: Oxford Economics, June 2025

Business confidence and conditions improving



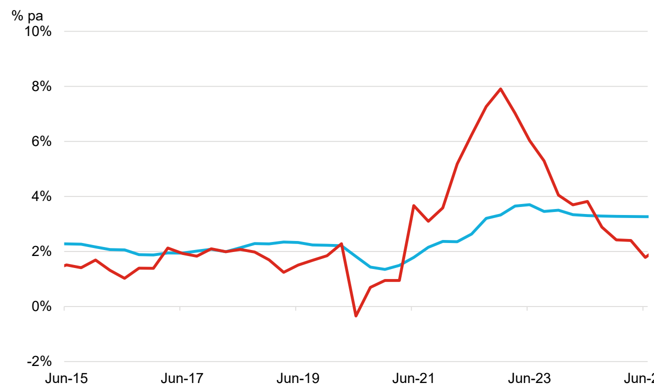
Source: NAB, Dexus Research

Australian interest rates to fall further



Source: Bloomberg, Oxford Economics, Dexus Research

Spending to rise as wages rising faster than inflation



Source: Oxford Economics, Dexus Research

Office recovery underway

A rare opportunity for investors

There are many reasons to believe the Australian office sector is in the early stages of what could be a pronounced recovery. Capitalisation rates appear to have topped out and asset values are bottoming. Rents are growing, and over the past year all four of the major CBDs recorded positive net absorption. A lack of new construction means that vacancy rates are likely to decline over the next few years.

As the chart below shows, office markets follow a well-defined cycle. After periods of high vacancy, supply slows, and over the next 3 to 4 years, space is absorbed, leading to falling vacancy rates and above-average rent growth. Since the 1970s, there have been four such cycles. Effective rent growth per annum during past absorption cycles has ranged from 5% to 20% per annum.

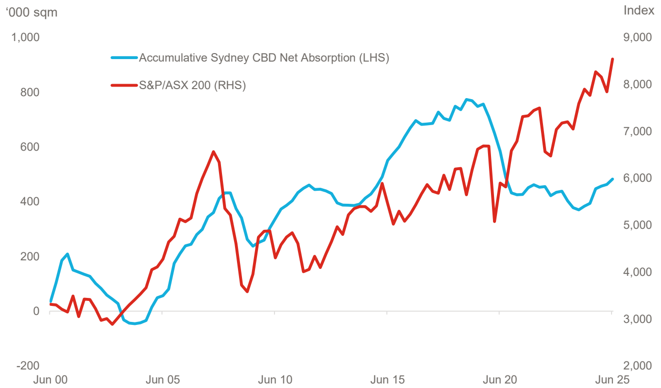
Driving the recovery will be a reduction in the forward supply pipeline. Upcoming supply levels are unlikely to meet the required demand. Total completions in the Sydney CBD and Melbourne CBDs over the next three years are estimated at around half of the long-term average. In addition, we estimate that market rents are 10-20% below the rent required to commence a new building and the average build time is 3-4 years, so new supply is still some way off.

On the demand side, ongoing population and employment growth will be positive for take-up over the next few years. In addition, the stock market is at record highs and the return to office continues with anecdotal evidence that some companies simply do not have enough desks on the peak days of the week.

The fact that sublease space has significantly fallen indicates corporations have stopped consolidating and will need more space. Sydney's net absorption of 92,449 sqm during FY25 was made up tenants such as Allens and HMC Capital expanding, as well as companies like Endeavour Group and Teachers Mutual Bank moving into the CBD from the city fringes and suburbs. The vitality of the CBDs is attracting tenants, and as people have returned, more retail and hospitality options are appearing. Metro rail in Sydney and Melbourne and Cross River rail in Brisbane are adding to the ease of access for commuters.

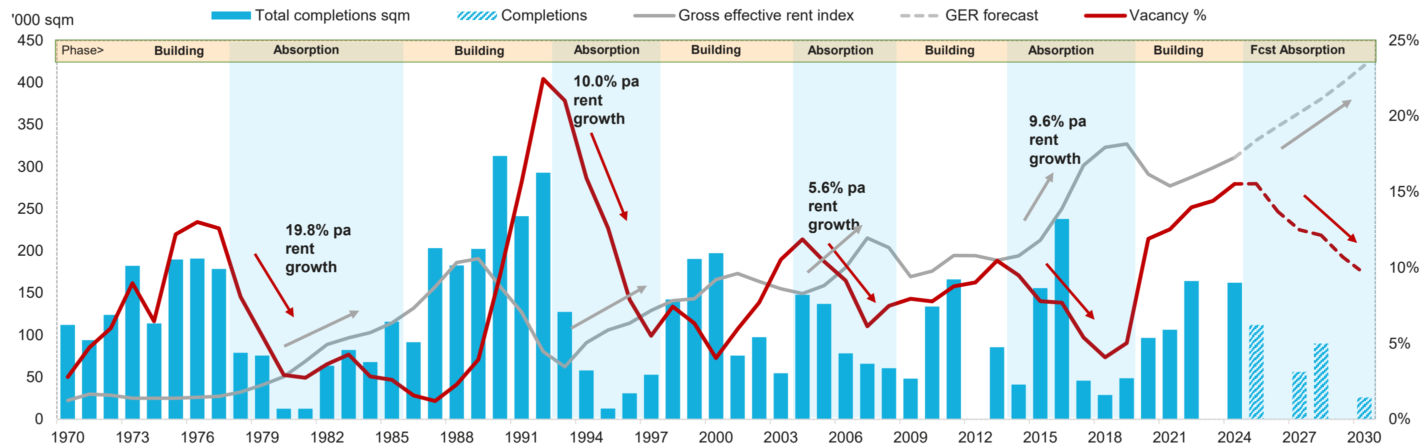
It is not often that a such broad range of indicators point to an office sector recovery. While global uncertainty may pose a challenge, it see unlikely to derail the recovery. Such periods are often a rare opportunity for investors.

Strong share market to support office demand



Source: MSCI, JLL Research, Dexus Research

The office cycle – Sydney CBD office completions with vacancy rate and rent growth



Source: Dexus Research using JLL Research data. Note: Prime gross effective rent growth indexed

Market performance

Unlisted real estate returns are rising quickly

All the unlisted real estate sectors recorded sharply improving returns in the year to June after a period of weakness. Retail and industrial funds reported solid returns of 7.6% and 6.2% p.a. respectively. Office funds also improved with -0.6% for the year. A positive capital return for diversified funds in the month of June indicates the valuation cycle bottomed in H1 2025. Returns for all sectors are expected to move back above 7% per annum within 12 months as revaluations turn positive.

Faced with a recovery in real estate returns, it will be interesting to see how quickly Fear of Acting Too Early (FATE) gives way to Fear Of Missing Out (FOMO). Real estate markets have clearly bottomed. Income growth signals a recovery in values over the next few years. The reporting of positive returns, by itself, should boost confidence and stimulate deal flow.

Australian shares had a strong finish to the year after a tariff-induced slump in April, returning 13.8%. AREITs followed suit, returning 15.4%. The strengthening of A-REIT pricing over the past year indicates increasing confidence in the prospect of growth in the values of underlying assets.

Real estate transaction volumes eased in H1 2025, down 13.4% on the same period last year at $8.2 billion. The fall appears attributable to vendors holding on for a higher price and geopolitical uncertainty deterring buyers. Retail volumes bucked the trend, rising by 3.0% while the other sectors eased. Office transaction volumes were down 16.8%. Over the past year the number of office buildings traded over a size of $100 million was less than half the pre-COVID average.

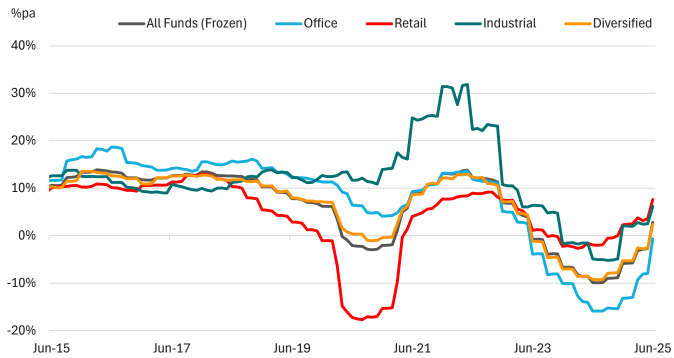
Activity is expected to strengthen in the year ahead given an easing of interest rates and improving sentiment as valuations grow.

Asset class performance to Q2 2025

	Qtr. %	1 yr % p.a.	3 yr % p.a.
AREITs[1]	13.7%	14.0%	15.4%
Australian shares[2]	9.5%	13.8%	13.6%
Unlisted infrastructure[3]	2.1%	11.7%	9.9%
Australian cash[4]	1.0%	4.4%	3.9%
Australian fixed interest[5]	2.6%	6.8%	3.9%
Unlisted property[6]	1.4%	2.8%	-2.8%

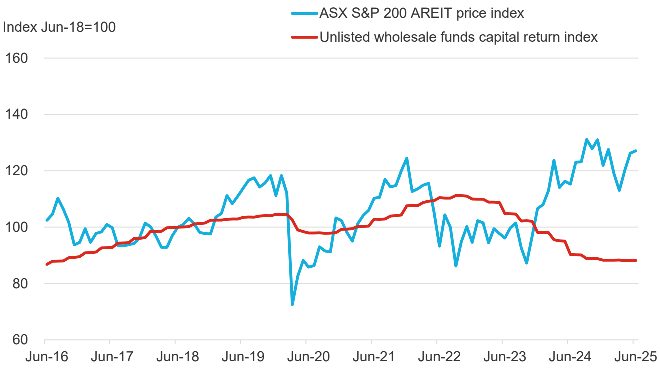
Source 1: S&P/ASX 200 A-REIT Accumulation Index
Source 2: S&P/ASX 200 Accumulation Index
Source 3: MSCI Australia Quarterly Private Infrastructure Fund Index (to Mar-25)
Source 4: Bloomberg BAUBIL Index
Source 5: Bloomberg BACM0 Index
Source 6: MSCI/Mercer Australian Core Wholesale Monthly PFI (NAV pr
e fees)

Unlisted wholesale fund returns by sector



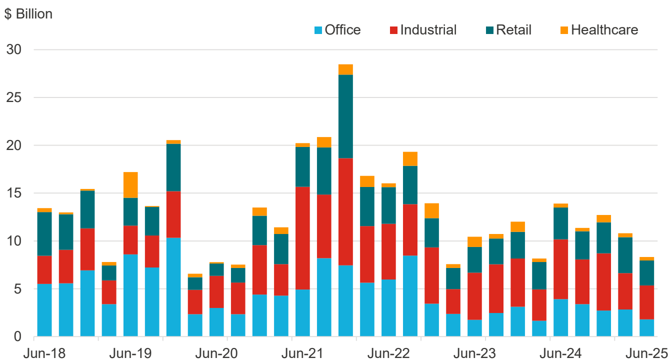
Source: MSCI, Bloomberg, Dexus Research

AREIT and unlisted real estate value indexes



Source: Dexus Research

Quarterly transaction volumes – real estate



Source: MSCI, Dexus Research

Infrastructure

Infrastructure returns improving

In Australia the value of infrastructure M&A deals lifted significantly in Q2 2025 after a quiet first quarter to reach US$4.6 billion. The ongoing level of deal flow shows a degree of resilience among investors amid evolving geopolitical tensions and policy recalibrations by the US administration. There were significant transactions across the transport, energy and social infrastructure sectors. The growing emphasis on renewable energy is channelling significant capital into the energy sector including Battery Energy Storage Systems (BESS).

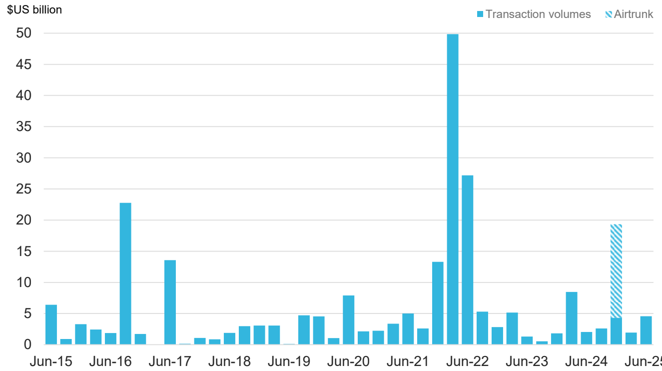
Domestically, infrastructure investment remains robust. Headline engineering construction activity rose 4.7% year-on-year, driven by strong growth in utilities and mining. The sector is buoyed by decarbonisation efforts and a rebound in resource investment, although labour shortages and wage pressures persist.

The re-election of the Albanese Government in May 2025 has reinforced policy continuity in Australia's infrastructure agenda. With a strong parliamentary majority, the Government is positioned to accelerate delivery of its $60.7 billion infrastructure pipeline over the next four years, including major investments in transport corridors, renewable energy transmission and housing supply.

State-led initiatives are expected to underpin infrastructure originations in FY26. NSW continues to progress its rail upgrades to support the rollout of the Mariyung and regional rail fleets as well as work on the Metro rail lines. In Queensland, preparations for the 2032 Brisbane Olympics are accelerating major projects such as Cross River Rail, Brisbane Metro, and the CopperString 2032 transmission line. Victoria is maintaining elevated capital expenditure, with a focus on transport and health precincts.

Unlisted infrastructure returns have improved significantly over the past year, helped by rising valuations. Unlisted infrastructure returned a healthy 11.7% in the year to March 2025 (pre fees) with domestic investments mildly out-performing offshore investments.

Australian M&A infrastructure transaction volumes



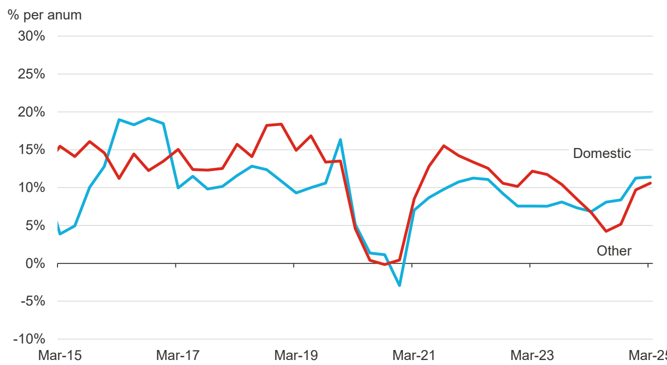
Source: Infralogic (closed transactions), Dexus Research

Major infrastructure transactions Q2 2025

Date	Asset	Buyer	Value (US$ m)
Jun-25	Capella Capital P'ship	Sojitz Corp.	151
Jun-25	Western Downs BESS 2		97
Jun-25	Lancaster & Mulwala solar		95
May-25	Opal HealthCare 50%	Pacific Equity	643
May-25	Atlas Arteria stake		115
May-25	MacIntyre Wind Farm	Korea Zinc Co	1,267
May-25	Lumus Imaging	Affinity Energy	617
Apr-25	Brendale BESS	Akaysha Energy	157
Apr-25	Queensland Airports (74%)	KKR, Skip EIF	1,378

Source: Infralogic, Dexus Research.

Australian unlisted infrastructure returns



Source: MSCI Australia Quarterly Private, Infrastructure Fund Index Australia (NAV post fees)

Office

Office sector now in growth mode

Office sector fundamentals continued to improve in Q2 2025, with positive net absorption across the four major CBDs. Occupied stock in Sydney grew by an impressive 23,546 sqm including the relocation of four legal firms, Allens, Maddocks, Lander & Rogers and Pinsent Masons to larger tenancies at 33 Alfred Street. Melbourne's occupied stock grew by 11,852 sqm, Brisbane by 5,370 sqm and Perth by 5,901 sqm.

Sublease space, an important indicator of the health of office, continued to decrease and is now close to average levels (see chart). For example, Melbourne's sublease space has fallen from 3.7% in 2021 to 1.6%. This is massive. It means that after the COVID disruption, most companies have now right-sized their tenancies and growth from here will depend more directly on employment growth, which implies stronger demand going forward.

Companies are taking advantage of this stage in the cycle to upgrade their fit-out and/or location. The prime vacancy rate in Sydney has decreased from 15.8% compared to 16.7% a year ago. Similarly, Melbourne's prime vacancy is now 18.5% compared to 21.1% a year earlier and in Brisbane, prime vacancy is 6.8% compared to 8.4% a year ago. On the other hand, Perth remains challenging with the prime grade vacancy rate increasing to 17.1% from 15.9%.

Prime effective rent growth has been significant in the Brisbane with a 13.1% uplift over the last year, followed by Sydney at 11.1% and Perth at 1.8%. Tenants continue to seek high incentive levels therefore face rent growth drove these rent increases.

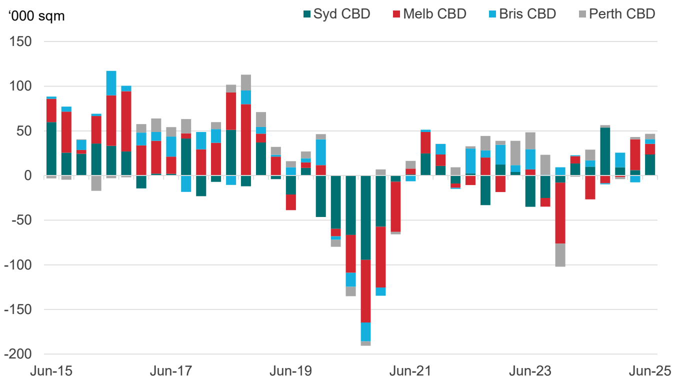
A lack of supply will drive medium term rent growth. The average per annum completions over the next three years in Sydney and Melbourne are 54% and 57% of the last ten-year averages respectively. And with office market rents still well below economic rents, further completions over the next three years are unlikely.

Office snapshot Q2 2025

	Total vacancy	Rent growth* % p.a.	Projected net supply FY26-28 (%of stock).
Sydney CBD	15.6%	11.1%	3.2%
North Sydney	20.5%	-3.0%	7.4%
Parramatta	23.0%	1.3%	0.0%
SOP / Rhodes	20.5%	-3.6%	0.0%
Melbourne CBD	18.4%	-5.8%	3.4%
Brisbane CBD	9.9%	13.1%	4.5%
Perth CBD	17.1%	1.8%	0.0%

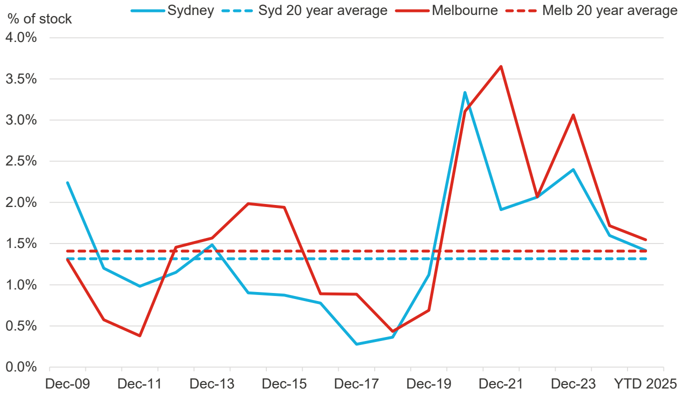
Source: JLL Research, Dexus Research, *Rent growth is net prime effective

Quarterly net absorption by CBD market



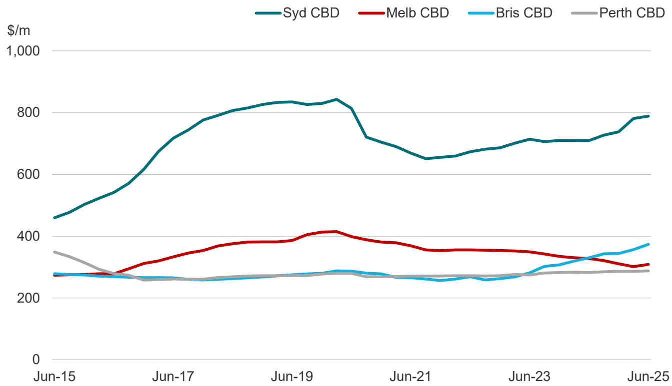
Source: JLL Research, Dexus Research

Sydney CBD and Melbourne CBD sublease vacancy



Source: JLL Research, Dexus Research

Prime net effective rent growth



Source: JLL Research, Dexus Research

Office market wrap

Market	Comments	Direction of trend for next 12 months
Sydney CBD	Tenant movement following the completion of major refurbishments at 33 Alfred Street, 279 Clarence Street, and the office component of 121 Castlereagh Street accounted for nearly half of Q2 2025's net absorption (+23,546 sqm), with the remainder driven by SME activity. The flight to quality theme continues to shape SME relocations, with well-fitted assets in core locations offering views remaining highly attractive. While secondary vacancy rose from 13.8% to 15.3%, total market vacancy edged up just 0.3ppts to 15.6%, offset by a decline in prime vacancy. Prime grade net effective rents continued to recover, rising by 1.0% over the quarter, while elevated incentives in secondary stock dragged net effective rents lower. Capital values also recorded similar growth for prime assets, supported by stable cap rates at 6.3%.	Vacancy ↓ Rents ↑ Incentives ↓ Yields ↓
North Sydney	North Sydney recorded positive tenant demand in Q2 2025, driven by relocations such as Icon Construction's move from the city fringe and McGrath Foundation's transition from coworking to a direct lease. Net absorption reached nearly +6,500 sqm, reducing overall vacancy to 20.5%, with declines observed across both prime and secondary grades. Tenant movement was largely fuelled by heightened competition among major landlords offering brand-new spec fitouts and elevated incentives, which rose to 40.9% for prime and 41.3% for secondary assets. The remainder of financial metrics remained relatively stable over the quarter.	Vacancy ↑ Rents ↑ Incentives ↑ Yields ↓
Parramatta	Parramatta recorded strong net absorption (+9,760 sqm) in Q2 2025 across all grades. While the precinct remains a key back office hub for financial and accounting firms, recent months have seen growing demand from industrial tenants in Western Sydney shifting from warehouse based offices to dedicated commercial space, often selecting Parramatta for its proximity to established industrial estates. As a result, enquiry profiles have diversified and are expected to contribute to net demand once deals are finalised. Flight to quality continues to drive tenant preferences, with increasing demand for spec fitouts and enhanced amenities. Prime grade assets recorded healthy face rental growth, which has translated into capital value uplift, supported by stable cap rates.	Vacancy ↓ Rents ↑ Incentives → Yields ↓
Melbourne CBD	Centralisation remains evident in the Melbourne CBD, with tenants relocating from fringe markets across a diverse industry profile. Demand in Docklands continues to gain momentum, recording another quarter of positive net absorption, totalling 9,620 sqm, mainly driven by Simonds Homes' move to Collins Square Tower 1, accounting for most of the CBD's 11,850 sqm absorption. Improved deal flow pulled total vacancy down slightly to 18.4%, though upcoming FY26 supply is expected to keep upward pressure on vacancy, with incentives remaining elevated. Decision making remains slow, JLL notes that 55 briefs above 1,000sqm were released between January and June 2025, with only 7 of these transacted. Notably, sublease vacancy continues to wind down, now at 1.5%, reflecting progress toward the end of the rightsizing cycle. Stabilised yields are supported by rental growth, driving a 2.2% uplift in capital values over the quarter.	Vacancy ↑ Rents ↑ Incentives → Yields ↓
Brisbane CBD	Brisbane's office market fundamentals remain healthy, with overall vacancy edging down to 9.9% and premium grade vacancy tightening further to 6.8%, reflecting continued flight to quality. Tenant movement is largely driven by expansion and consolidation, particularly among government occupiers. While the upcoming completion of 205 North Quay in Q3 2025, anchored by Services Australia, is expected to deliver a significant boost to net absorption, future government-led activity may moderate due to budget constraints. Prime net face rents rose 3.3% over the quarter, marking a 9.7% annual increase, resulting market yields softened slightly by 6.5bps to average 7.2%. Well-positioned secondary assets may benefit from spillover demand, with further rental uplift anticipated.	Vacancy ↑ Rents ↑ Incentives ↓ Yields ↓
Perth CBD	Perth CBD office market saw continued positive net absorption in Q2 2025, largely driven by the completion of Brookfield's Nine the Esplanade, with over 87% of space pre-leased. While most tenants moved within the CBD, backfill space contributed to a rise in Core precinct vacancy (14.8%), lifting total vacancy to 17.1%. A flight to value trend is emerging, evidenced by an increased demand in the West End from tenants seeking to expand their footprint at more affordable rates. Prime assets remained stable throughout the quarter, with rental growth beginning to drive capital value uplift, supported by steady yields.	Vacancy ↓ Rents ↑ Incentives ↓ Yields ↓

Industrial

Rent growth continues to moderate

Growth in the industrial sector continued to moderate. Inquiry levels in Q2 2025 were slow, with many occupiers cautious about expansion or relocation decisions and favouring renewals. Take-up nationally was 1.2 million sqm in the past six months, below the average six month run rate of 1.3 million sqm. Most of the leasing activity in Q2 was due to logistics and retail tenants. While soft in the short term, the outlook for demand is expected to improve as interest rate cuts and wages growth help lift consumer spending and occupier demand.

Close to half of the supply pipeline for 2025 has now completed, with 558,000 sqm coming onto the market in Q2. A shift from speculative to prelease strategies is leading to a decrease in speculative supply. Half of the remainder of supply due to come online in the next 6 months is pre-committed. High construction costs are weighing on development feasibilities, pushing out the timing of many planned developments. This should help constrain the rises in vacancy in the future.

Vacancy rates continued their slow rise across the country, excluding Perth where they declined slightly. Sydney vacancy is highest in the Outer West (4.7%) and South (4.0%) but is overall sitting at 3.0%. Melbourne vacancy is highest in the North (4.5%) and is overall 2.9%. Brisbane South vacancy is the highest nationally at 6.7%, with overall vacancy at 4.3%. Perth vacancy is the tightest across the country at 2.8%.

Net face rent growth has slowed and incentives have crept up to attract tenants, pushing net face rents up but keeping net effective rents flat. For most markets, rent growth was flat through Q2 2025. West Melbourne, South Brisbane and the ATC saw the most rent growth with 3.6%, 1.4% and 1.9% respectively.

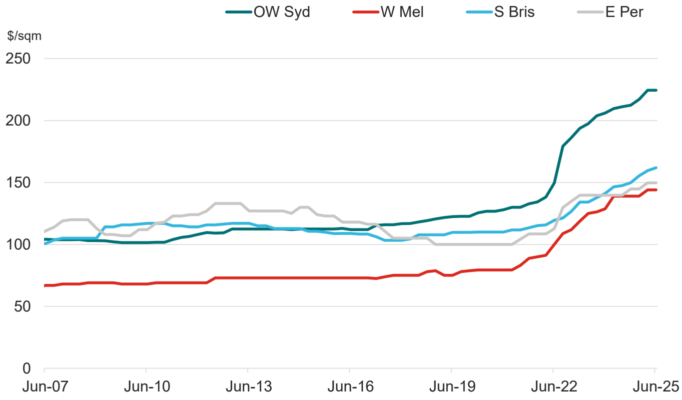
Yields have stabilised in the past six months, with some markets seeing mild yield compression.

Industrial snapshot Q2 2025

	Prime cap rate change q-o-q (bps)	Existing prime net face growth % y-o-y
Outer West Sydney	-6 bps	6.3%
West Melbourne	0 bps	3.6%
East Perth	-25 bps	7.2%
South Sydney	0 bps	1.0%
Inner West Syndey	0 bps	5.0%
Southern Brisbane	-12 bps	9.7%

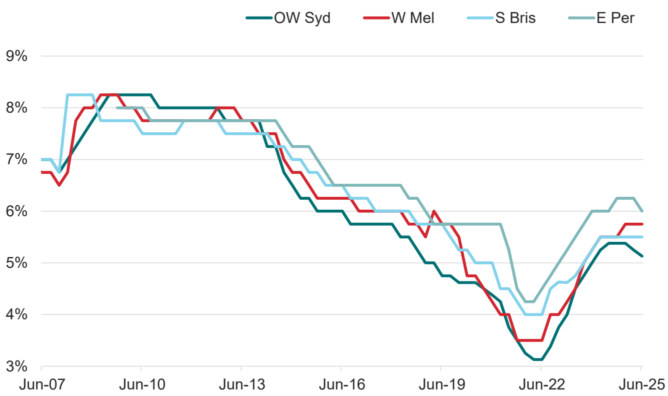
Source: JLL Research, Cushman and Wakefield, Dexus Research (Vacancy rates are Cushman and Wakefield)

Industrial net face rents by precinct



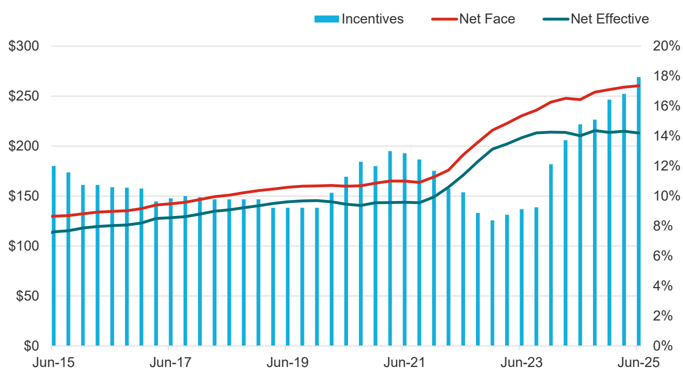
Source: JLL Research, Dexus Research

Industrial cap rates by precinct



Source: JLL Research (average prime), Dexus Research

Sydney prime net rents and incentives



Source: JLL Research, Dexus Research. 2-5HA land values. East Perth = 1HA.

Industrial by region

Outer West Sydney

Outer West Sydney (OWS) saw its strongest demand over the past decade in the twelve months to Q2 2025, although take-up in the second quarter stalled. The largest lease deal completed in OWS was a 19,000 sqm prelease in Kemps Creek from The Consortium Clemenger, a warehousing and storage company. New supply in OWS made up around 35% of all supply that came online over the quarter. Net face rent growth was flat in Q2, although incentives rose impacting net effective rents. Vacancy in the Outer West remains high at 4.7%.

West Melbourne

West Melbourne leasing volumes were strong in the quarter, with 160,000 sqm of leasing completed. Effective logistics, a warehousing and storage company, leased 30,000 sqm in Tottenham followed by Tasman Logistics services, a 3PL leased 27,000 sqm in Altona North. A large amount of supply in the West has completed in the past six to nine months, although this trend is tapering with only 100,000 sqm coming through in Q2 (330,000 in Q424). Prime net face rents in West Melbourne saw no growth over the quarter and are up 3.6% year on year. Vacancy in West Melbourne is sitting at 3.6%, the second highest across Melbourne.

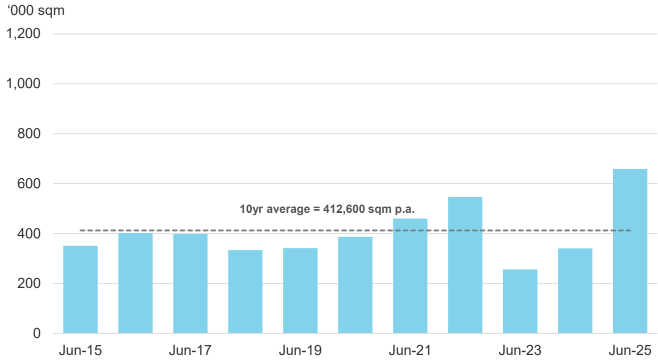
South Brisbane

Demand in South Brisbane doubled over the second quarter, with 105,000 sqm let compared to 50,000 sqm in Q1. Dixie Cummings, a wholesale retailer, leased 25,000 sqm in Staplyton followed by Toll transport a logistics and transport company who leased 20,000 sqm in Heathwood. The Australian Trade Coast (ATC) saw a constrained amount of demand in the quarter. Supply was highest in the South with 117,000 sqm of new stock completed, followed by 35,000 sqm in the ATC. Prime net face rents grew in Q2 by 1.45% and are now up 9.7% y-o-y for the South. Net face prime rents were up 1.9% qoq in the ATC and 6.6% y-o-y. Vacancy is highest in the South sitting at 6.7% and 2.9% in the ATC.

Perth (East and South)

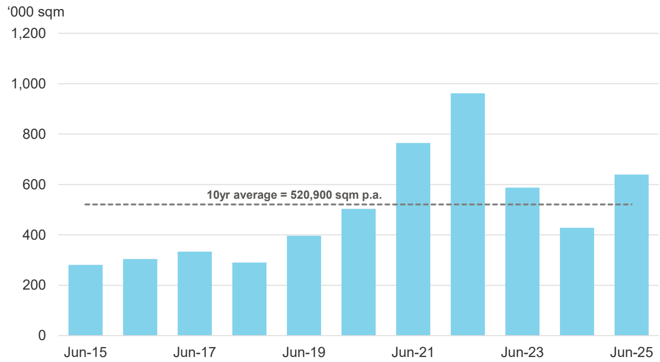
Take-up in Perth was largely concentrated in the East, which saw significantly elevated levels of demand in Q2 with 78,000 sqm of take-up. South Leasing deals across 320,000 sqm were completed in South Perth in Q2. Matic Transport, a road transport company, leased 16,600 sqm in Canning Vale. SMS Mining Services alongside CTI Logistics leased 10,000 sqm each in Hazelmere. New completions totalled 32,000 sqm across the Perth market, with most of this concentrated in the East. Net face prime rents were flat across the Perth market for the quarter. Vacancy has decreased in the East and is now 1.9% and is 4.7% in the South.

Outer West Sydney gross take-up



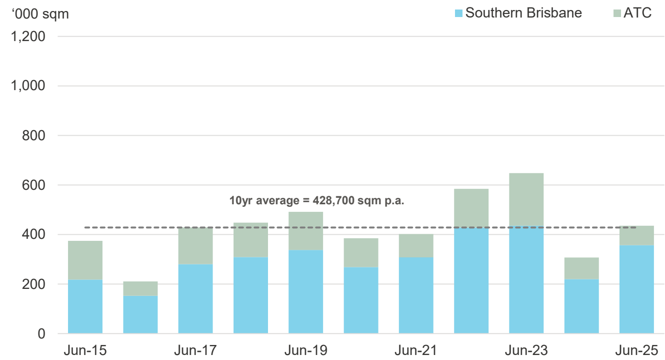
Source: JLL Research (gross take-up), Dexus Research

West Melbourne gross take-up



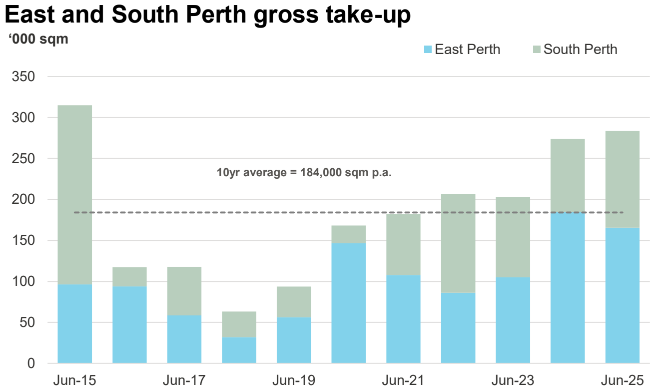
Source: JLL Research (gross take-up), Dexus Research

South Brisbane and ATC gross take-up



Source: JLL Research (gross take-up), Dexus Research

East and South Perth gross take-up



Source: JLL Research (gross take-up), Dexus Research

Retail indicators

Benefits of lower mortgage rates yet to emerge

Australia's retail sales growth has moderated in recent months with monthly growth numbers about half the long-term average. However, growth in the year to May was a creditable 3.3% y-o-y. Growth in the year has been led by specialised food retailing at 13.4%, pharmaceuticals 8.6%, takeaway food at 6.6% and department stores at 3.7%.

After a strong start to the year, consumer sentiment has fluctuated over the quarter with the index dipping to 92.4 in June. Sentiment remains cautious with inflation, taxation and global uncertainty noted as major concerns.

There are good reasons to be positive about an improvement in sales growth over the next year. Wages are now rising faster than inflation and mortgage interest rates are falling, both of which should provide relief from cost-of-living pressures. The RBA cash rate target was cut from 4.10% to 3.85% in June, with consensus forecasting another two rate cuts this year. Interest rate cuts typically take six to nine months to flow through to the economy, so the retail sector is expected to benefit from the two cuts since February during H2 2025. Additional benefits are likely, with consensus pointing to further cuts ahead.

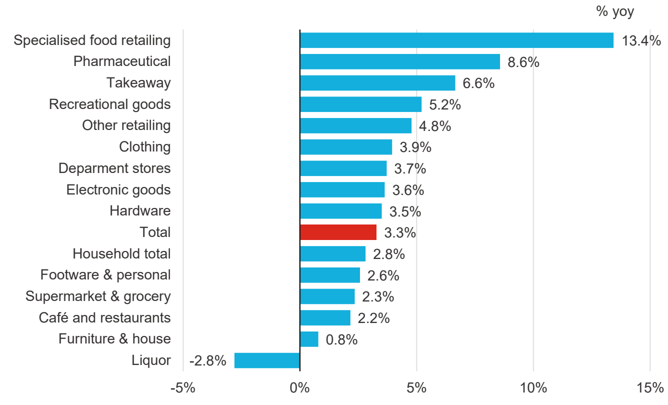
Residential construction will also be a major factor expected to boost retail spending over the next two years. The bottom chart illustrates how the supply of new housing leads to increased retail spending due to both the extra demand for household items associated with moving into a new dwelling and because the economic conditions which drive house building are also good for all types of spending. Government programs to boost supply of housing will provide a welcome stimulus to the retail sector, increasing the chance of an upside surprise.

Retail sales growth by category – May 2025

	m-o-m %	y-o-y %	y-o-y Ave[1]
Cafes & takeaway	0.0%	3.8%	4.5%
Clothing & footwear	2.9%	3.5%	2.8%
Department stores	2.6%	3.7%	0.0%
Supermarkets	-0.4%	2.3%	4.1%
Pharmaceuticals	0.6%	8.6%	4.6%
Household goods	0.0%	2.8%	2.8%
Total	0.2%	3.3%	3.4%
Online sales	-0.6%	8.4%	10.8%

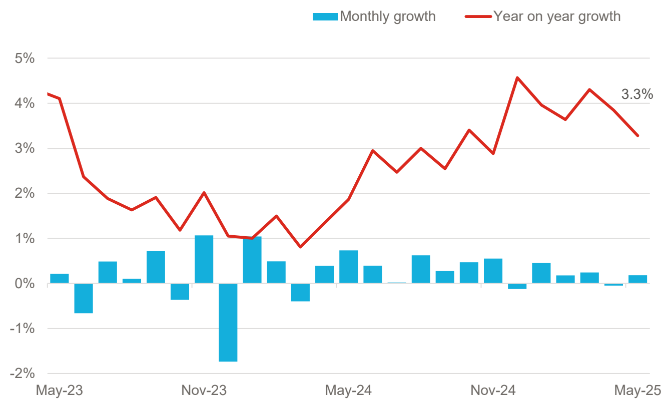
Source: ABS, Dexus Research. 1. Pre-COVID 10yr average

Retail sales growth by category



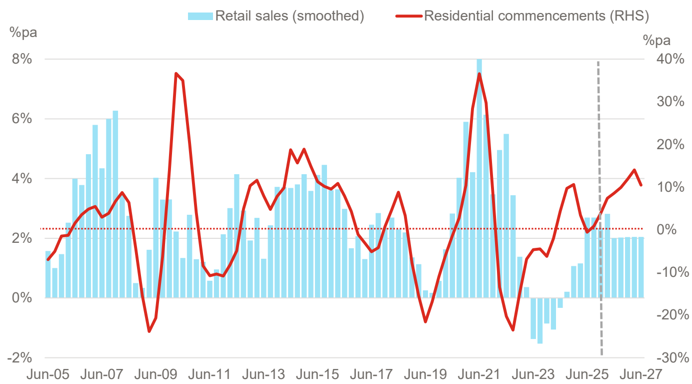
Source: ABS, Dexus Research

Monthly and yearly sales growth rates (total sales)



Source: Haver, Dexus Research

Residential commencements and real retail sales



Source: Oxford Economics, Dexus Research

Retail performance

Retail's improving value proposition

The investment case for retail property has strengthened considerably. Investor sentiment towards retail assets is firming, underpinned by steady income streams and favourable supply dynamics. Retail unlisted wholesale funds were the best-performing sector in the MSCI Australian Wholesale Index, posting a solid total return of 7.6% in the year to June 2025, significantly outperforming the broader market's 2.4% p.a. return.

Demand for space remains reasonably steady and a lack of new supply has brought vacancy rates down since the pandemic. The improvement was particularly evident in the tightening CBD retail vacancy rate, which declined by nearly 10 percentage points in the past two years.

The supply side of the equation is particularly favourable for existing assets. Construction costs and planning restrictions are acting as natural handbrakes on new supply.

Rent growth prospects in the retail sector are firming. Shopping centres are seeing broad-based rental growth, with regional shopping centres recording stronger specialty rent growth than at any point in the past ten years. This is further supported by major listed retail managers reporting positive releasing spreads.

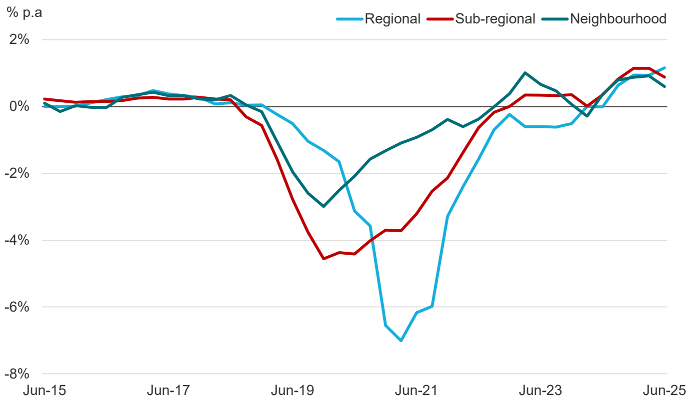
Over the past decade, a shift in the shopping centre category mix to include more services and experiences has made cash flows more secure, which may be leading to a re-evaluation of risk premiums. Growing rents and firming yields bode well for capital gains over the next few years.

Retail performance snapshot Q2 2025

	Specialty rent growth y-o-y %.	Cap rate change q-o-q bps
Sydney		
Regional	1.0%	0
Sub-regional	0.8%	0
Neighbourhood	0.8%	0
Melbourne		
Regional	1.0%	0
Sub-regional	0.5%	0
Neighbourhood	0.8%	0
SE QLD		
Regional	3.7%	0
Sub-regional	3.0%	-12.5
Neighbourhood	1.4%	0

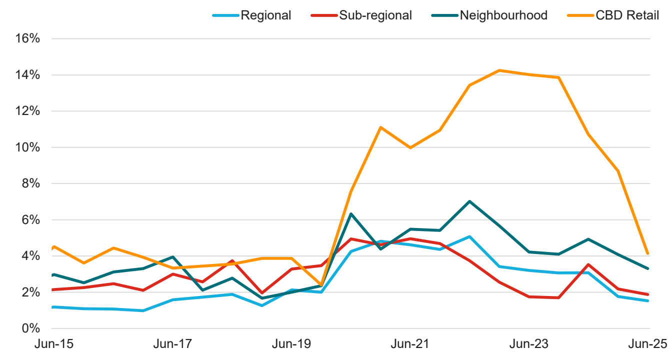
Source: JLL Research, Dexus Research

Shopping centre rent growth



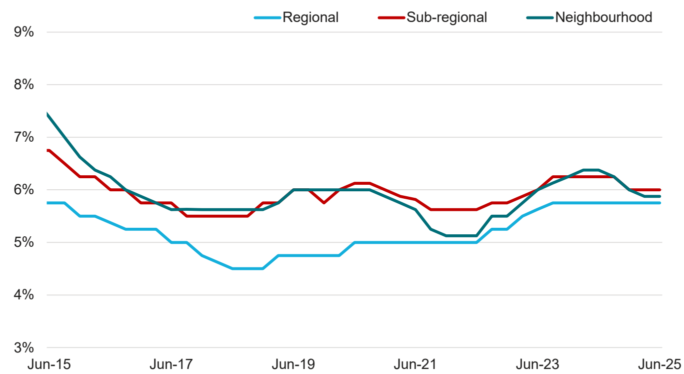
Source: JLL Research, Dexus Research

Australian shopping centre vacancy rates by type



Source: JLL Research, Dexus Research

Capitalisation rates by centre type



Source: JLL Research, Dexus Research

Healthcare

Healthcare turning the corner

Healthcare total returns are increasing and expected to rise in the year ahead. There have been relatively few large transactions in recent months, however investor interest in healthcare remains solid and is pivoting toward day hospitals, specialist clinics and life sciences hubs—assets that align with outpatient care trends and shorter patient stays. These formats offer higher throughput, lower operating costs and strong alignment with both public and private healthcare priorities. Healthcare real estate continues to demonstrate strong defensive characteristics. Prime hospital assets are displaying relatively stable valuations, reflecting investor confidence in essential infrastructure and long-term income stability.

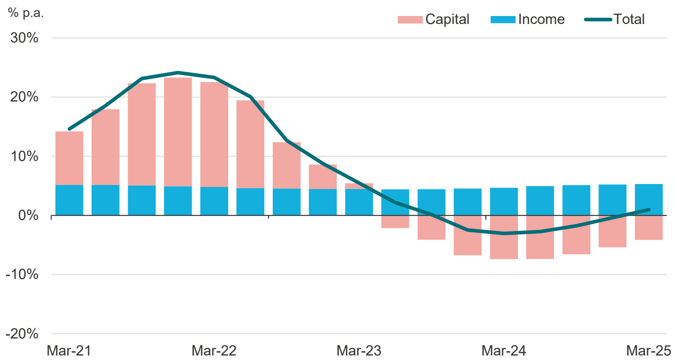
Despite recent challenges with operating costs, conditions are expected to improve over the next few years given an easing of the overall inflation rate, investment in workforce training and increases in funding via the Medicare and Private Health Insurance (PHI) programs.

While there has been a focus on issues faced by hospital operator Healthscope, those issues are not necessarily reflective of the entire private hospital sector given the high debt levels involved. While the level of private health insurance service payments to hospital operators came under the spotlight, mitigation measures are already being taken. The Minister for Health and Aged Care approved an average 3.7% increase in health insurance premiums and creation of the Private Health CEO forum to examine further reforms. The Government has acknowledged the extra $350 million in voluntary payments PHIs have contributed to the sector in the past few months. They have ceased any regulatory intervention for the short term, noting they anticipate further voluntary payments, helping close the funding gaps.

All levels of government are motivated to resolve capacity issues in the healthcare sector. Several state governments have introduced funding initiatives aimed at training and recruiting frontline healthcare workers. For example, Queensland is investing $1.7 billion to grow its health workforce by 45,000 staff by 2032, including doctors, nurses and allied health professionals. The NSW budget includes $274.7 million to boost staffing at newly built and upgraded hospitals, adding 250 healthcare workers.

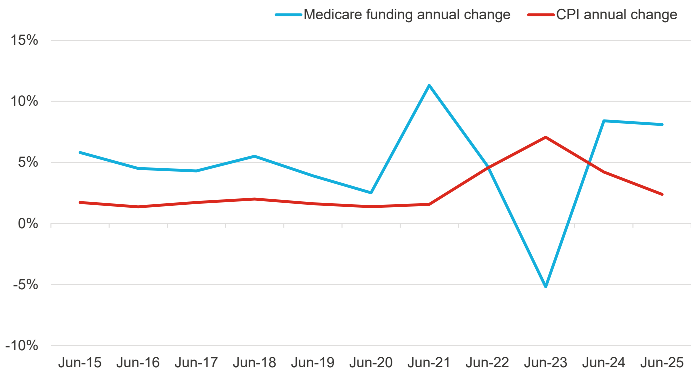
In relation to Medicare, growth in funding is now exceeding the broad inflation rate. The Federal Government is expanding Medicare bulk billing incentives and introducing the Bulk Billing Incentive Program from November 2025.

Healthcare total returns improving



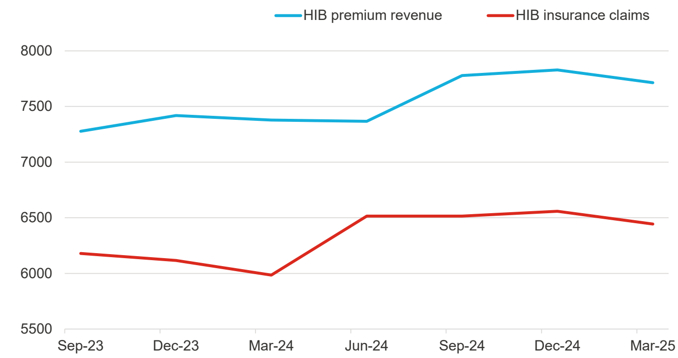
Source: MSCI, Dexus Research

Medicare funding compared to inflation



Source: IBIS World, Oxford Economics, Dexus Research

Health insurance premium revenue and claims



Source: APRA Statistics, Dexus Research

Dexus Research

Peter Studley
Head of Research

e: peter.studley@dexus.com
d: +61 2 9017 1345

James Melville
Research Manager

Matea Callus
Senior Research Analyst

Micheal Scott
Research Manager (Contract)

Disclaimer

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Dexus Funds Management Limited
ABN 24 060 920 783
Australian Financial Services Licence Holder
(Licence Number 238163)

Registered Office
Level 30, Quay Quarter Tower, 50 Bridge Street
Sydney NSW 2000
Australia
PO Box R1822
Royal Exchange NSW 1225
Australia