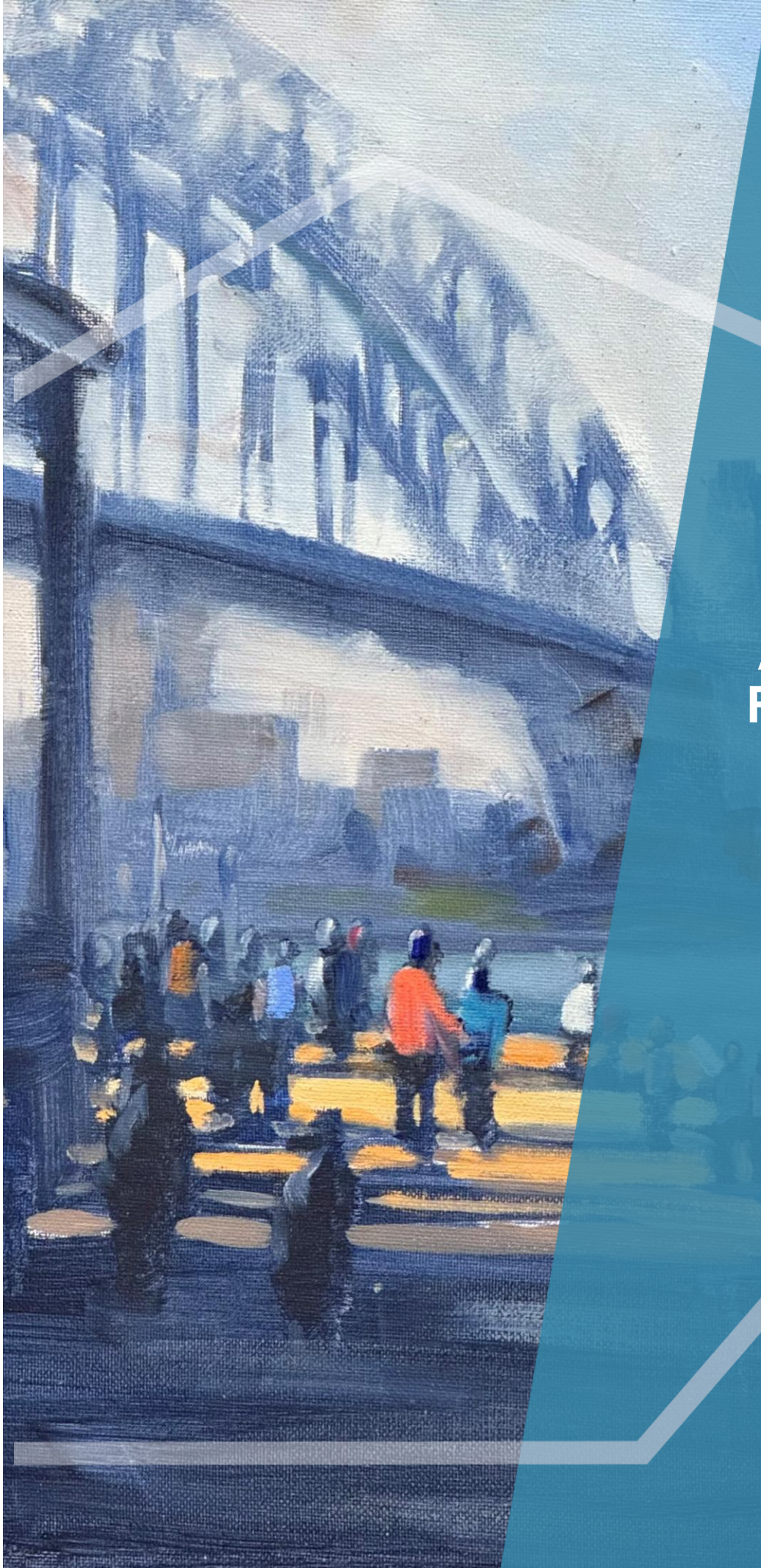


An impressionistic painting of a quay scene. In the foreground, a group of people are standing on a wooden pier or quay, looking out towards the water. The people are rendered in loose, visible brushstrokes with various colors like orange, blue, and white. In the background, a large, light-colored building with a gabled roof and many windows is visible. The sky is a mix of white and light blue, suggesting a bright, slightly overcast day. The overall style is painterly and atmospheric.

dexus

Australian Real Asset Review

Q4 2025

'Circular Quay' by Peter Studley
[@peterstudleyart](#)

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Investment climate

Lift in business confidence a positive sign

The global economic outlook remains unpredictable and shaped by shifts in trade policies, albeit effective tariff rates imposed by the US have eased since April. Global growth is forecast at 3.0% in 2025, edging up to 3.1% in 2026. While global inflation is generally easing there is some upside risk in the US.

Australia's economy is entering a phase of cautious optimism - marked by easing inflation, resilient business confidence, and a pivot from public to private sector-led growth. GDP posted a 1.8% gain in the year to Q2 2025 and is forecast to grow by 2.1% in 2026.

Business confidence has logged four straight positive months. While August softened, the trend remains up which, if sustained, will be supportive for leasing in FY26 across all real estate sectors. While these datapoints are encouraging, confidence will remain sensitive to global risks and financial market strength. The other metric to watch is the labour market where an easing of jobs growth to 1.5% per annum signals a maturing of the cycle.

The monthly headline inflation rate inched up to 3.0% in September 2025. While the trimmed mean was within the RBA's target range, at 2.6%, the Reserve Bank held the official cash rate steady at 3.60% at its September meeting. Consensus forecasts are factoring another 25-50 bps cut to the official cash rate in FY26. If this occurs, and the 10-year government bond yield (currently 4.3%) also tightens, the relative yield shift would be positive for asset values.

Looking forward to 2026, we anticipate a firming of economic growth in Australia as private consumption increases relative to government spending.

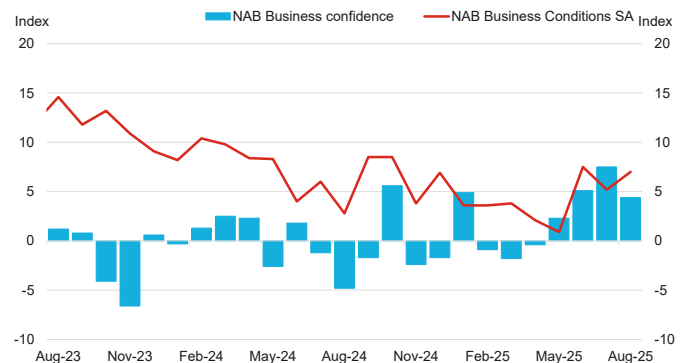
New Zealand's economy remains in the slow lane with a weak Q2 2025 GDP number, leading to the RBNZ maintaining an easing monetary policy stance. GDP contracted by 1.1% in FY25 and is forecast at 2.0% in FY26 (Oxford Economics).

Australian economic forecasts

	Jun-25	Jun-26	Jun-27
Real GDP pa	1.8%	2.1%	2.4%
Employment pa	2.2%	1.2%	1.8%
Unemployment	4.3%	4.4%	4.4%
Business investment pa	0.4%	2.9%	2.9%
Dwelling investment pa	4.8%	0.8%	3.5%
Population pa	1.4%	1.2%	1.2%
Retail sales pa	4.1%	3.1%	3.1%
CPI pa	2.0%	2.9%	2.6%
Cash rate	3.8%	3.1%	3.1%
10yr bond	4.2%	4.0%	4.0%

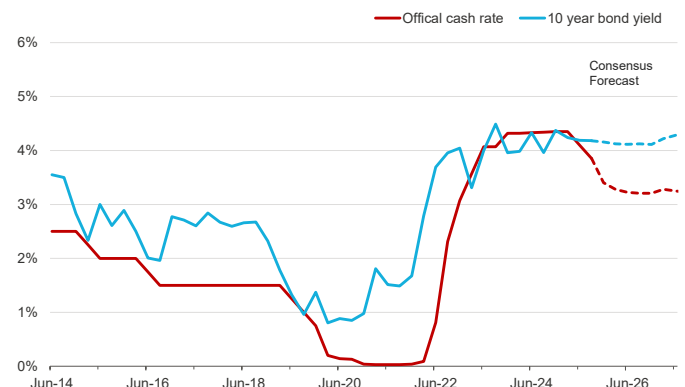
Source: Oxford Economics, September 2025

Business conditions improving



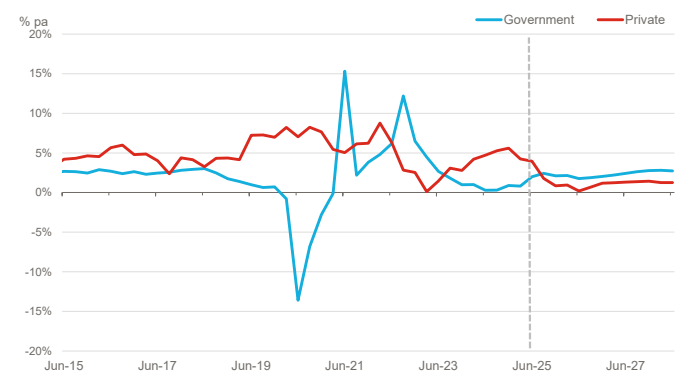
Source: NAB, Dexis Research

Australian interest rates to fall further



Source: Bloomberg, Oxford Economics, Dexis Research

Private consumption to do more of the heavy lifting



Source: Oxford Economics, Dexis Research

Spotlight The return of returns



Reflections from the desk of Peter Studley

I will be retiring soon, and before I go, I wanted to share a few thoughts on the current cycle—shaped by 25 years at Dexus and even before that.

The chart below (my last ever!) tracks total returns for real estate sectors over the span of my working life. It's a bit surreal to realise I've been in the workforce longer than Taylor Swift has been alive!

From 1990 to 2025, Australian real estate has provided steady yield-plus-growth type returns most of the time. Only the most serious global shocks have caused returns to contract.

Currently all the sectors are emerging from a period of contraction triggered by the interest rate spike. It's striking that while rents and cap rates have gone up and down at different times, affecting returns, there have only been two other times in my whole career that we've experienced the kind of recovery that we are in now - once coming out of the 1994 recession, and again following the GFC in 2010. The total return in the five years following those events was an above-average 10% per annum.

My view is that each of the sectors will be reporting returns in the 7% to 9% range over the next 12 months. The return of strong returns should improve investor confidence and stimulate deal flow. I call it the 'return of returns.' In addition, capital growth expectations for the main real estate sectors have improved according to the Procore/Property Council Sentiment survey for September 2025.

As conditions improve, the question will be what choices can we make to drive out-performance?

For me, performance comes down to three things - market movement, asset selection, and value added.

On market movement: CBD office, dominant retail, and the living sectors are best placed to ride this cyclical recovery. Each one has a growing undersupply.

On asset selection: There's plenty of choice out there, so occupiers are going to favour high-quality, well-located assets with great amenities for staff. Secondary assets will get their turn later in the cycle.

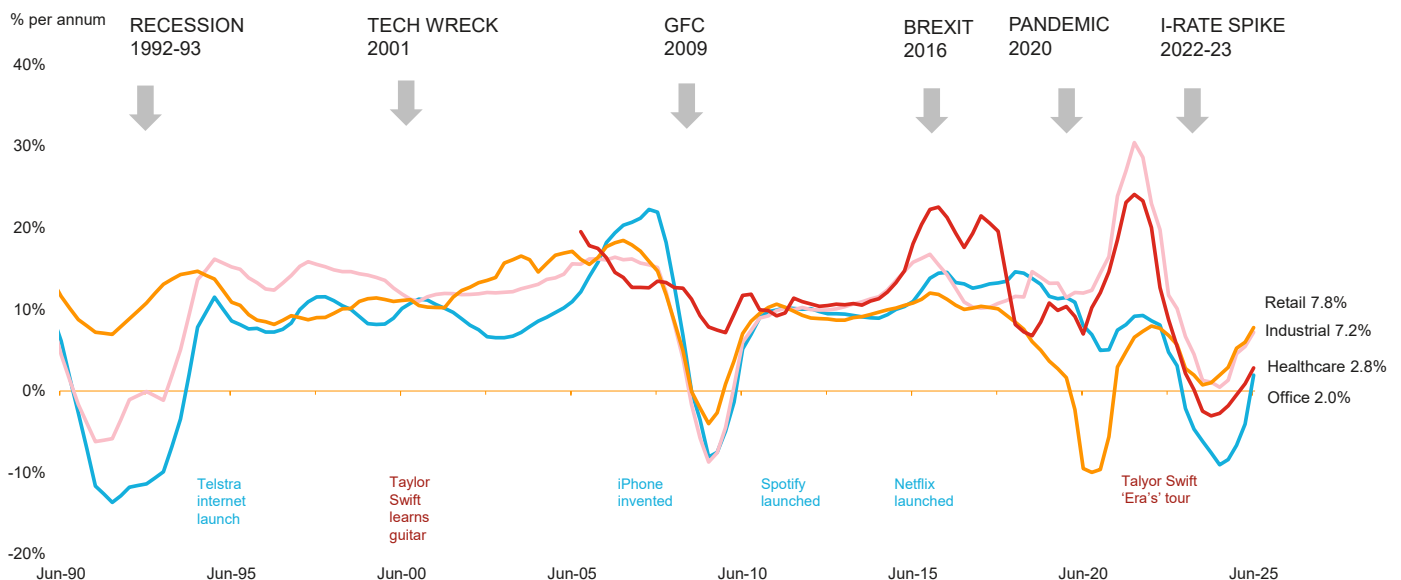
On value added: Construction costs are still a hurdle, so the first places to look for profit are industrial development (short build times help manage risk) and living sectors, where government incentives are boosting supply.

I'm excited about what's ahead. Compared to two years ago, we've got higher initial yields, firmer demand, and a looming shortage of new supply. The latter means demand can shift quite a bit before it dents returns.

As the ink dries on what will be my last quarterly report, I want to thank my team at Dexus and all the alumni who have contributed to our research. It's been rewarding to see how good research can shape strategy and decision-making. It's gratifying to see communities enjoying life in high quality shopping centres, office buildings and industrial estates that were enabled by research in the initial stages. As AI becomes a more helpful tool, research teams will evolve, but the core skills - observation, analysis, insight, communication, and influence - will always matter.

I hope you will continue to follow me in my next career in art! (Instagram handle @peterstudleyart).

Structural and cyclical influences on the real estate value cycle



Market performance

Unlisted real estate recovery gains momentum

All unlisted real estate sectors reported positive and improving returns throughout Q3 2025. Retail and industrial funds continued to lead the sectors, reporting strong returns in the year to Q3 2025 of 8.3% and 7.5% respectively. Office funds have continued their recovery reporting positive returns for the first time since May 2023 at 3.2% for the year. Accordingly, the diversified funds followed suit with a solid return of 5.5%. Growth in values through the quarter support the expectation that returns can be expected to move back to above 7% per annum within 12 months.

Asset values have shown growth in almost all sub sectors in the first half of 2025. Within the retail sector, neighbourhood centres and super-regionals have led the charge. Prime industrial has led secondary industrial reflecting a flight to quality. The flight to quality was even more pronounced in the office sector where Premium Grade office values grew by 1.7% while B grade office is lagging.

Australian shares and AREITs had another relatively strong quarter and returned 10.6% and 4.1% in the year to Q3 2025, respectively. The improvement in the AREIT market over the past year reflects growing investor confidence in the growth of underlying assets.

Real estate transaction volumes in Q3 2025 were down 26% compared to the same period last year at \$8.5 billion. The decrease in transaction volumes can be attributed to a lack of large transactions and vendors holding on to stock in anticipation of recovery.

Healthcare and retail assets showed strong resilience over the year to date with transaction volumes up 28% and 5%, compared to the same period last year. Office transactions were down 18% in the year to date with very few large assets settling. Liquidity in the office market should improve over the next year due to the upside in valuations, particularly for high quality assets.

Asset class performance to Q3 2025

	Qtr. %	1 yr % p.a.	3 yr % p.a.
AREITs ¹	4.6%	4.1%	19.8%
Australian shares ²	4.7%	10.6%	15.2%
Unlisted infrastructure ³	2.6%	12.2%	9.7%
Australian cash ⁴	0.9%	4.2%	4.1%
Australian fixed interest ⁵	0.4%	4.1%	4.2%
Unlisted property ⁶	2.2%	5.5%	-2.7%

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 Jun-25)

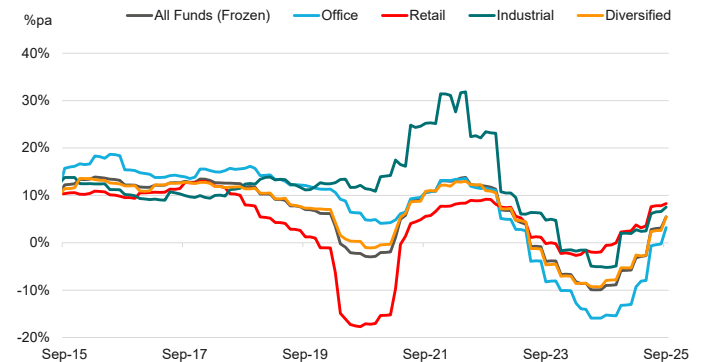
Source 4: Bloomberg BAUBIL Index

Source 5: Bloomberg BACMO Index

Source 6: MSCI/Mercer Australian Core Wholesale Monthly PFI

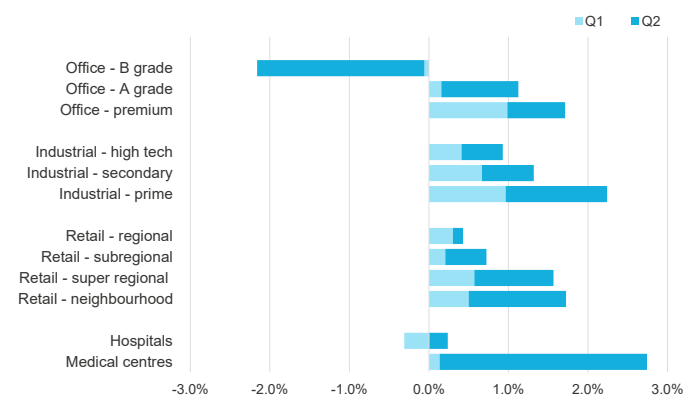
*Note: unlisted property and infrastructure are NAV pre fees

Unlisted wholesale fund returns by sector



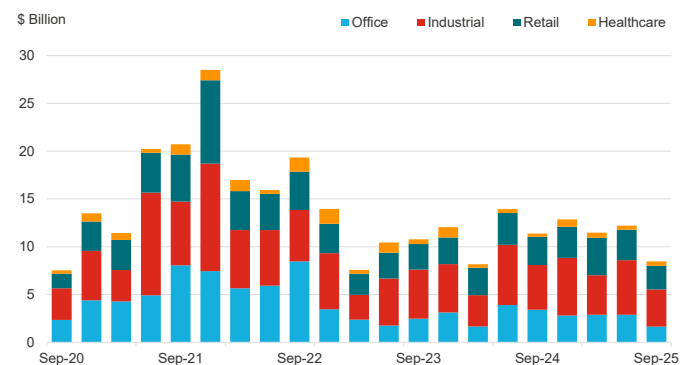
Source: MSCI, Bloomberg, Dexis Research

Recent trends in asset value growth by subsector



Source: Dexis Research, Asset value growth in the 6 months to June

Quarterly transaction volumes – real estate



Source: MSCI, Dexis Research

Infrastructure

Infrastructure returns improving

The third quarter of 2025 was defined by a complex interplay of global trade realignment, heightened geopolitical tensions and equity market buoyancy. Despite the mixed signals, infrastructure deal flow appears to be picking up.

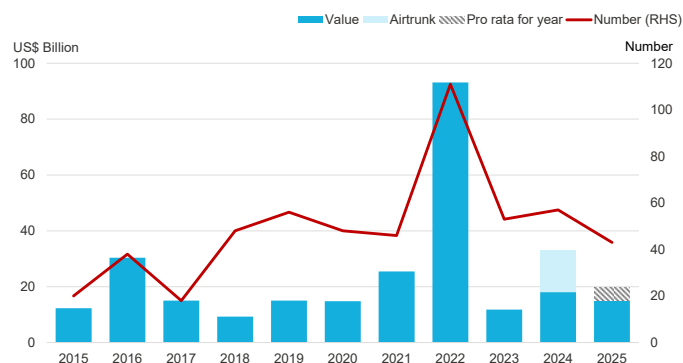
Global infrastructure M&A totalled US\$93.5 billion in the quarter, up from US\$80.6 billion the same time last year. Telecommunication M&A experienced the largest volume globally, followed by energy and renewables at US\$21.9 billion. When it came to Australia and New Zealand, transaction volumes equated to US\$7.5 billion with social infrastructure leading the way at US\$2.5 billion. These transaction volumes were up almost 200% vs this time last year and 58% on Q2 2025. There were 18 transactions in the quarter which was the above the average of 13. Major transactions included the sale of Manawa energy for US\$1.4 billion and the US\$753 million sale of the Transmission Gully to ACC in July 2025.

The Federal Government remains committed to its A\$60.7 billion infrastructure pipeline, with major investments in transport corridors, renewable energy transmission and housing supply. The Government has committed to a new emissions target of 62% to 70% reduction by 2035 (below 2005 levels). Powerco, New Zealand's largest dual electricity and gas distributor and majority-owned by Dexus-managed funds, has entered into an agreement to acquire Firstlight Network, an electricity distribution business serving the Tairāwhiti and Wairoa regions in New Zealand. The acquisition, subject to regulatory approval, reflects Powerco's strong asset management capabilities and strategic approach to bolt-on growth.

Looking ahead, the first half of FY2026 presents a cautiously optimistic outlook. While global trade tensions and geopolitical risks remain, Australia's resilient fundamentals and policy continuity suggest a stable investment climate. Infrastructure originations are expected to benefit from sustained demand for real assets, particularly in energy storage, digital infrastructure and mid-market opportunities.

Unlisted infrastructure returned a solid 12.2% in the year to June 2025, just below listed infrastructure at 14.4%.

Australian M&A infrastructure transaction volumes



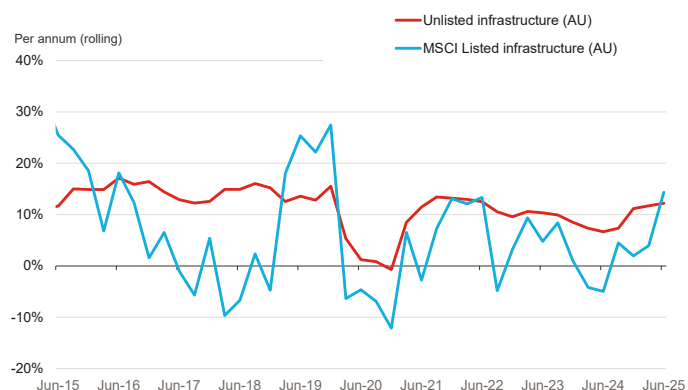
Source: Infralogic (closed transactions), Dexus Research

Major infrastructure transactions Q3 2025

Date	Asset	Buyer	Value (US\$ m)
Jul 25	Manawa Energy	Contact Energy	1,400
Jul 25	Cleanpeak Energy	KKR	328
Jul 25	TransGrid (10% stake)	GIC	635
Jul 25	4 Renewable Projects (652MW)	HMC	612
Jul 25	Transmission Gully	ACC	753
Aug 25	Ace Power	TagEnergy	149
Aug 25	North Queensland Airports	JPMorgan IIF	425
Sep 25	Dalrymple Bay Infrastructure	Institutional Investors	349

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

The Australian office market showed a broad-based improvement in demand in Q3 2025 reflecting expansion of tenants across a range of industries. Net absorption was positive for the quarter in Sydney (+36,162 sqm), Melbourne (+5,093 sqm), and Brisbane (+24,838 sqm), while Perth was flat. Notably, Melbourne recorded its third consecutive quarter of positive net absorption, with 49,771 sqm absorbed over the past year, the strongest 12-month result since 2019. This marks the largest total for the four main CBDs since 2018.

Vacancy rates are stable or declining in most CBDs, reflecting the improved demand and a lower level of supply. In addition, vacancy in Premium Grade buildings is significantly lower than the total market as tenants move to the better buildings. In Sydney CBD the premium vacancy rate fell to 10.7% compared to 14.9% for total vacancy. In Melbourne CBD, premium and total vacancy are 16.5% and 18.8% respectively. Premium vacancy in Brisbane is just 5.8%. Sublease vacancy is back to average levels, indicating that corporate hybrid working policies have settled into a rhythm and demand is organically growing again.

A defining feature this phase of the current cycle is the subdued supply pipeline. There are no major completions scheduled for Sydney CBD in FY26, and new supply remains limited across other core markets. This lack of new stock is central to the improving outlook, as it allows recent demand gains to translate into lower vacancy and upward pressure on rents.

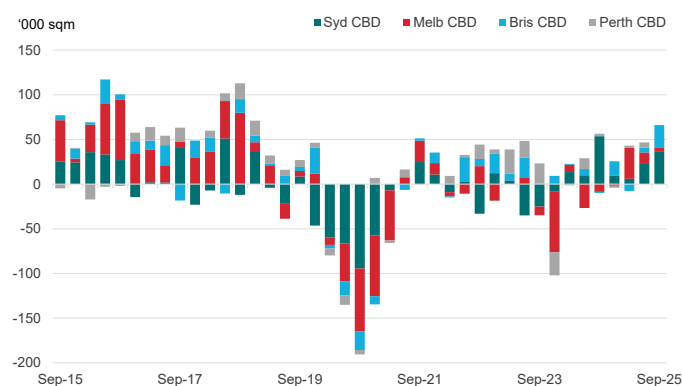
Net effective rents grew by 10.4% in Sydney and 10.8% in Brisbane over the past year. Melbourne CBD rents are positive for the quarter but still down on the year. Throughout much of the post-pandemic period, premium office rent growth outperformed the lower grades. However, this quarter, there are early signs of improvement in Sydney's A-grade market, suggesting a catch-up is underway.

Office snapshot Q3 2025

	Total vacancy	Rent growth* % p.a.	Projected net supply FY26-28 (% of stock).
Sydney CBD	14.9%	10.4%	1.0%
North Sydney	20.6%	-2.6%	2.4%
Parramatta	15.6%	-4.8%	0.9%
SOP / Rhodes	22.1%	2.6%	0.0%
Melbourne CBD	21.6%	-3.5%	0.0%
Brisbane CBD	18.8%	-3.5%	1.1%
Perth CBD	10.6%	10.8%	1.5%

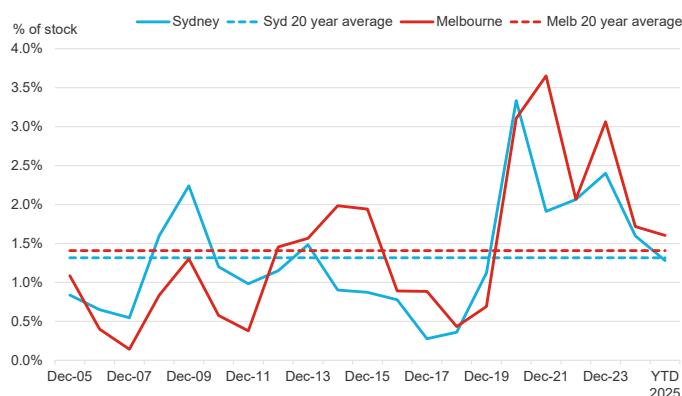
Source: JLL Research, Dexus Research, *Rent growth is net prime effective

Quarterly net absorption by CBD market



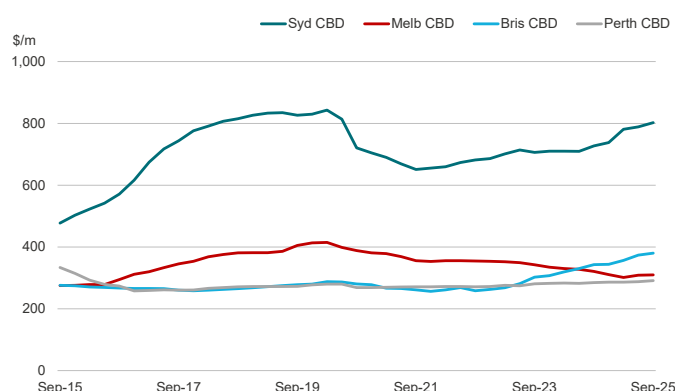
Source: JLL Research, Dexus Research

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	The Sydney CBD office market recovery continues, led by buildings in the premium core. Take-up was strong in Q3 2025, with net absorption reaching 36,000sqm, well above the 10-year average. Total vacancy fell by 70 basis points to 14.9% and premium vacancy to 10.7%, reflecting improved tenant demand. Premium rental growth has extended to all precincts rather than being centred around the core. Premium Western Corridor effective rents grew an impressive 14.1% q-o-q from a low base.	Vacancy	↓
		Rents	↑
		Incentives	↓
		Yields	↓
North Sydney	North Sydney faces the near-term challenge of the Victoria Cross completion, expected in Q4. However, some upside is emerging with the prospect of increased office withdrawals for residential conversion. While the overall vacancy rate is 20.6%, there is a growing divergence between grades, with vacancy in Prime Grade buildings at just 16.5% compared to 24.1% for secondary stock. This gap is expected to widen over time as tenants move out of older buildings into new.	Vacancy	↑
		Rents	↑
		Incentives	↑
		Yields	↓
Parramatta	Parramatta's office market is slowly recovering, experiencing net absorption of 21,000 sqm over the year, outpacing the 10-year average. The vacancy rate decreased by 220 basis points through the year to 22.1%. However, there is a growing issue with secondary stock where the vacancy rate is 30.7%, almost double that of Prime Grade stock at 15.8%. Prime net face rents grew 3.5% year-on-year, while incentives fell 40bps to 46.1%.	Vacancy	↓
		Rents	↑
		Incentives	→
		Yields	↓
Melbourne CBD	Melbourne's office market continued its recovery, with net absorption of 50,000 sqm over the year, the strongest annual result since 2019. Vacancy decreased by 90 basis points to 18.8%. Flight to quality in Melbourne is leading to a reduction in prime vacancy at the expense of secondary. Over the past year prime vacancy has fallen by 2.6 ppts while secondary has increased by 3.3 ppts. Early signs are that net absorption is now translating into prime rents: both net face rents and net effective rents grew through the quarter (0.4% and 0.3% respectively).	Vacancy	↑
		Rents	↑
		Incentives	→
		Yields	↓
Brisbane CBD	Brisbane remains the fastest-growing CBD office market nationally. Net absorption reached 39,000 sqm for the year, and vacancy held steady at 10.6%, the lowest among major CBDs. Flight to quality is particularly evident with vacancy in Premium Grade buildings remaining low at 5.8%, compared to 13.7% for secondary buildings within the CBD. Net effective rents grew strongly, up 7.4% over the year. Incentives edged down by 19bps to 39.4%, further supporting rental growth.	Vacancy	↑
		Rents	↑
		Incentives	↓
		Yields	↓
Perth CBD	Perth's CBD experienced a mixed quarter. Net absorption was flat (-84 sqm for the quarter) and, vacancy held steady at 17.1%. The gap between premium and secondary stock remains evident in the market with vacancy rates at 9.9% and 20.2%, respectively. Prime net effective rents grew 2.3% over the year, and incentives remain at 47.7%, their lowest level since 2020.	Vacancy	↓
		Rents	↑
		Incentives	↓
		Yields	↓



Industrial

Supply pipeline moderating

Demand in Q3 2025 could be described as relatively constrained, however it did vary across the country. Just under 800,000 sqm of deals were completed across Australia over the September quarter with Sydney leading demand (318,000 sqm) followed by Melbourne (295,000 sqm). Should similar demand levels continue through the next few months, take-up for the calendar year 2025 will be in line with or slightly above that on the prior year. Higher incentives and stabilising face rents are creating a more affordable environment for occupiers, which could help drive stronger demand in the coming months.

Through the quarter, just over 500,000 sqm of supply came online. This was largely concentrated in Outer West Sydney, South East Melbourne and West Melbourne across major projects including Aspect Industrial Estate (Kemps Creek), Rubix Connect (Dandenong South) and 427-451 Sommerville Road (Tottenham). Supply pipelines are anticipated to moderate over the next six months due to rises in construction costs. An increasing proportion of supply is pre-leased rather than speculative.

Vacancy rates continued to creep up in most markets, particularly in the outer markets, where the new stock is new stock entering the market. North Melbourne currently has the highest vacancy in the nation (5.1%), followed by South Brisbane (5.0%) and Outer West Sydney (4.7%). As more developments reach completion, vacancy rates may rise further, although Australian vacancy rates continue to rank low on a global scale.

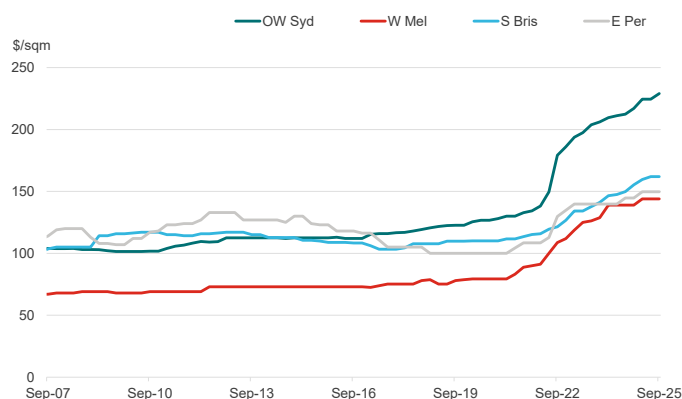
Prime net face growth was mostly flat through the quarter. Inner West Sydney saw the largest growth, (3.5% q-o-q), followed by Outer West Sydney (2.0% q-o-q), Southwest Sydney (1.4% q-o-q) and North Melbourne (1.8% q-o-q). This growth is likely offset by increases in incentives over the period, putting further downward pressures on net effective rents. Rent growth is still strong on a yearly basis for most markets, although short term net face growth is likely to come from rises in incentives rather than growth in effective rents.

Industrial snapshot Q3 2025

	Prime cap rate change q-o-q (bps)	Existing prime net face growth % y-o-y
Outer West Sydney	-13 bps	7.8%
West Melbourne	0 bps	3.6%
East Perth	0 bps	3.5%
South Sydney	-6 bps	1.0%
Inner West Sydney	-13 bps	7.4%
Southern Brisbane	0 bps	8.1%

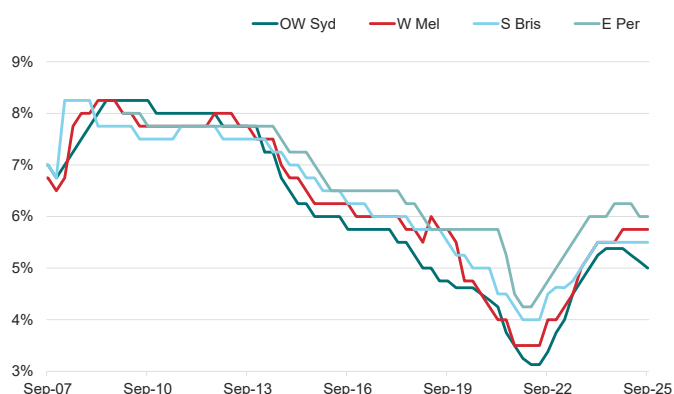
Source: JLL Research, Cushman and Wakefield (vacancy rates), Dexus Research

Industrial net face rents by precinct



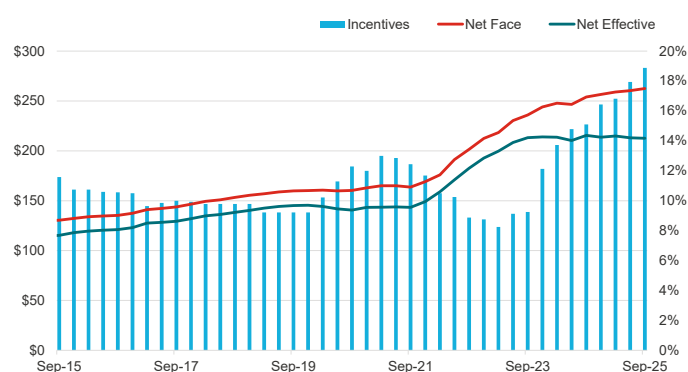
Source: JLL Research, Dexus Research

Industrial cap rates by precinct



Source: JLL Research (average prime), Dexus Research

Sydney prime net rents and incentives



Source: CBRE Research, Dexus Research

Industrial by region

Outer West Sydney

Outer West Sydney has seen elevated levels of demand through the quarter, with 137,000 sqm of space leased. This is nearly double the previous quarter (71,000 sqm in Q2). Everfast Worldwide Express Logistics, a rail transport company, leased over 36,000 sqm in Greystanes and FedEx, a delivery service, leased 21,000 sqm in Erskine Park. Vacancy is sitting at 4.7% (according to Cushman and Wakefield). Around 80,000 sqm of new supply completed in the quarter, with Aspect Industrial Estate (Mirvac) adding close to 66,000 sqm in Kemps Creek. Net face rents grew 2.0% over the quarter, and 7.8% y-o-y. Prime yields have contracted 13 bps in Q3 2025.

West Melbourne

Demand in West Melbourne through Q3 2025 was slightly more subdued than in the first two quarters of the year, with take-up at 157,000 sqm. Despite this, the take-up for the 12 months to Q3 has been larger than the previous two periods. The manufacturing company Makita and Temple and Webster, a retailer, leased 35,000 sqm and 32,400 sqm respectively in Truganina. Vacancy in the West is sitting at 4.5%, with Aliro's 27-251 Somerville Road adding over 50,000 sqm of new space into the precinct (although half of this was pre-committed). Both prime net face rents and prime yields remained flat through the quarter.

South Brisbane

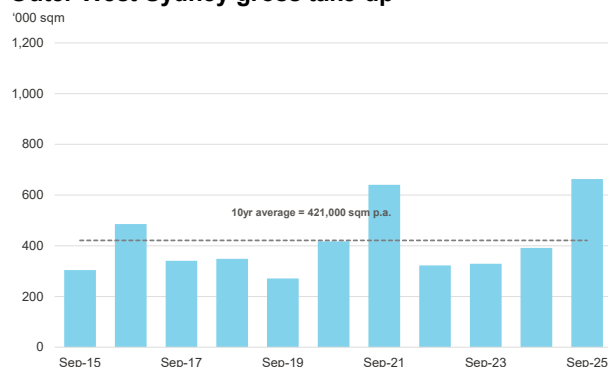
South Brisbane saw 59,000 sqm of demand in the quarter, nearly half that in Q2 2025, with the 3PL company, FDM Logistics and Modscape, a construction company, each leasing around 13,000 sqm in Willawong and Archerfield. The Trade Coast had 42,500 sqm of take-up which, in contrast to the South, is far greater than Q2. Powerlink Queensland, an electricity transmission corporation, leased 11,000 sqm in Pinkenba. Vacancy is now 5.0%, largely due to the new supply added to the market in previous months. Along the Trade Coast, vacancy is much tighter at 2.8%. Both prime net face rents and prime yields held steady in each market through Q3.

Perth (East and South)

Perth saw a slight lag in take-up over the quarter, although demand in the 12 months to Q3 2025 remains above the 10-year average. AusPost leased 15,000 sqm in Jandakot and Sandvik Mining and Construction leased 12,400 sqm in Wattle Grove. Vacancy in the South is currently 4.0% and 2.0% in the East. There is close to 70,000 sqm of supply due to come online in these markets though next quarter, although most of this is pre-committed. Prime net face rents have been flat through the quarter. Prime yields contracted 25 bps in the East but were steady in the South.

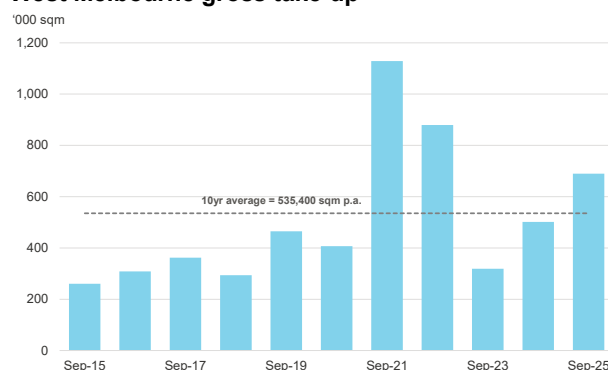
*Note: Vacancy data from Cushman and Wakefield

Outer West Sydney gross take-up



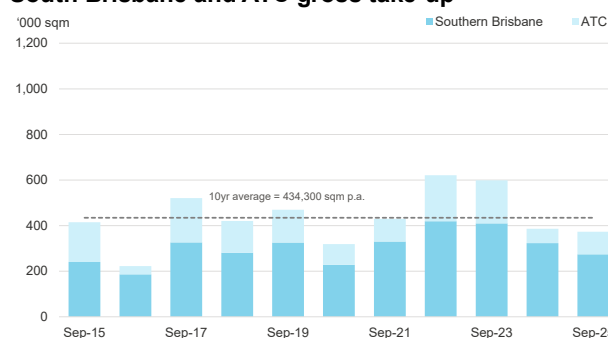
Source: JLL Research (gross take-up), Dexis Research

West Melbourne gross take-up



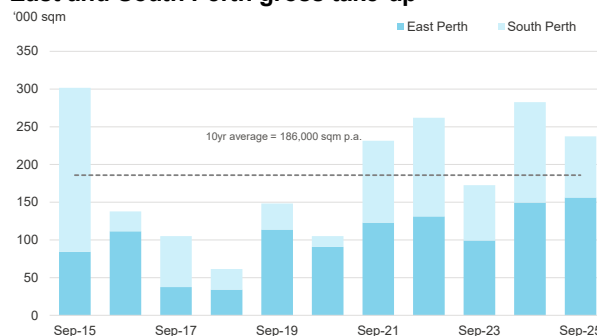
Source: JLL Research (gross take-up), Dexis Research

South Brisbane and ATC gross take-up



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

East and South Perth gross take-up



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

Retail indicators

Retail sales at above average pace

Consumer spending was stronger than expected with Australian retail sales recording a solid +3.7% gain in the year to August 2025. Growth over the year has been led by cafes, restaurants & takeaway at 7.0%, other retailing at 5.7% and household goods at 3.7%.

Consumer spending has been supported by easing interest rates and rising real wages. The RBA reduced the cash rate by a further 25bps in August 2025 to 3.60%, representing the third cut in the year to date, with consensus forecasting a further reduction over the next year. Notably, wage growth has outpaced CPI over the past few years, improving purchasing power and disposable income for households. Improved purchasing power provides a pathway for increased retail spending.

There are a few mixed indicators to watch as we approach the all-important Christmas season. Despite a broadly positive quarter, consumer sentiment fluctuated, declining by 3.5% in October, after earlier improvements between May and August. Discretionary spending growth tapered off, increasing by just +0.2% in August 2025 and employment growth has eased.

On balance, conditions continue to point to sustained growth in retail sales growth over the remainder of the year. Rising incomes, coupled with tax relief and further interest rate cuts should help to ease cost-of-living pressures and lift disposable income. Major retail events such as Black Friday sales and the Christmas period are expected to result in an uptick in household spending.

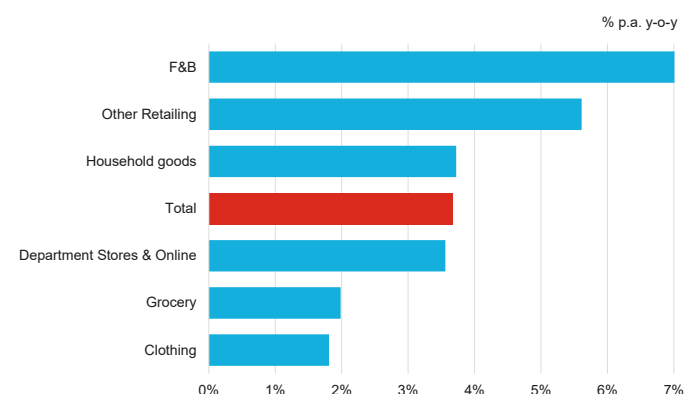
Retail sales growth by category (Aug-25)

	m-o-m %	y-o-y %	y-o-y ave ¹
F&B	0.7%	7.0%	3.7%
Clothing	0.6%	1.8%	4.0%
Department stores	2.3%	3.6%	0.7%
Food	0.3%	2.0%	3.4%
Other	-1.0%	5.6%	3.7%
Household goods	-0.9%	3.7%	2.9%
Total	0.0%	3.7%	3.3%

Source: ABS, Dexus Research ¹Pre-COVID 5y average

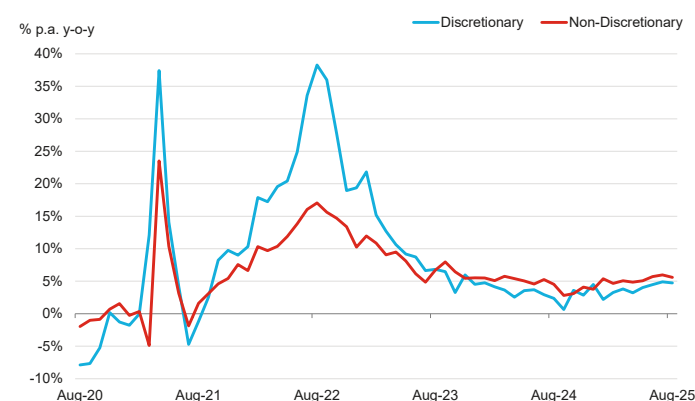
**This series uses seasonally adjusted experimental estimates of retail turnover using bank transactions*

Retail sales growth by category



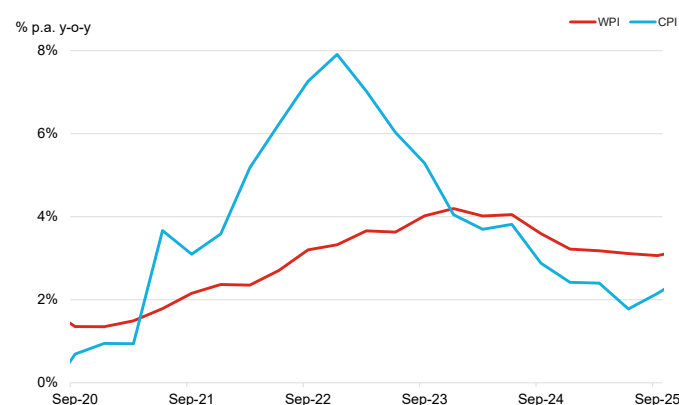
Source: ABS, Dexus Research

Discretionary vs non-discretionary spending growth



Source: ABS, Dexus Research

WPI & CPI growth



Source: Oxford Economics, Dexus Research

Retail performance

Retail's improving value proposition

The investment case for retail property is strengthening. 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, in the year to September 2025, posting a strong total return of 8.3% (outperforming the 5.5% p.a. return for all funds).

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 10 years. In addition, the major listed retail managers reported positive releasing spreads during the recent full year reporting season.

Investor sentiment for convenience retail is strong on the back of the perceived reliability of non-discretionary spending. However, the value equation is looking very tight. Demand for smaller retail assets has led to yields for Sydney neighbourhood centres falling below regional centres for the first time on record.

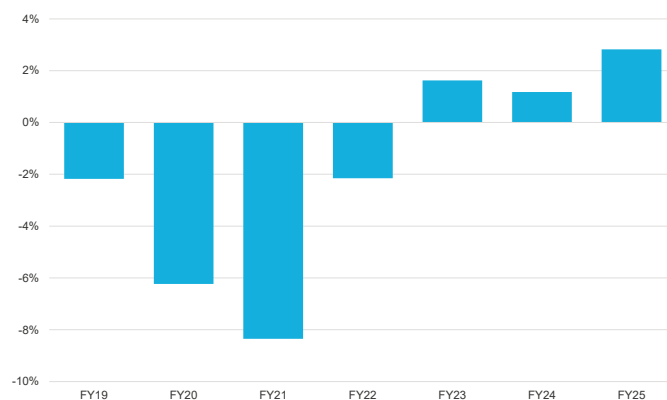
Comparatively, the investment case for large lifestyle retail centres is improving. Over the past decade, a shift in the category mix of larger shopping centres to include more services and experiences has made cash flows more secure, vacancy rates have fallen and occupancy costs are low. Additionally, yields are higher than at any time in the past seven years.

Retail performance snapshot Q3 2025

	Specialty rent growth y-o-y %	Cap rate change q-o-q bps
Sydney		
Regional	0.5%	0
Sub-regional	0.9%	-25
Neighbourhood	0.5%	-38
Melbourne		
Regional	0.5%	0
Sub-regional	0.5%	0
Neighbourhood	0.1%	-13
SE QLD		
Regional	2.8%	0
Sub-regional	2.1%	0
Neighbourhood	0.3%	0

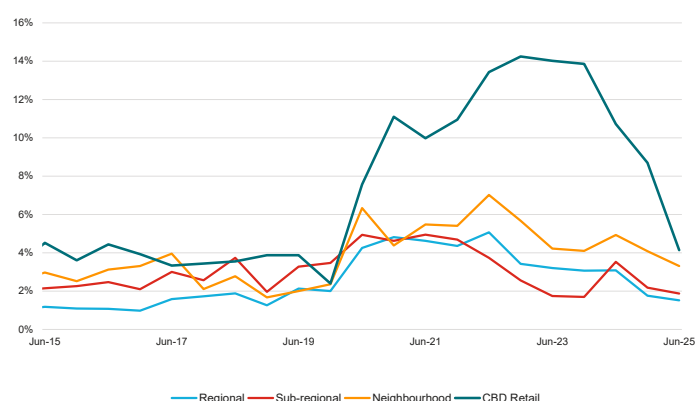
Source: JLL Research, Dexus Research

Retail REIT releasing spreads



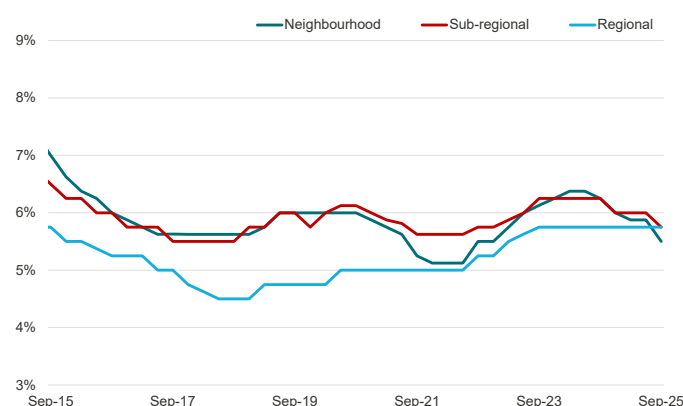
Source: UBS, Dexus Research

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

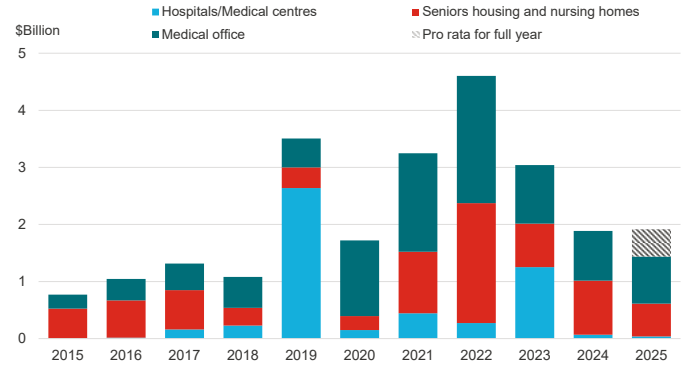
Investor sentiment for healthcare assets remains positive with surveys showing a preference for diversification into a range of alternatives, including the living sectors and data centres. There was a mild improvement in healthcare transaction volumes over the 2024 run rate with \$1.3 billion of deals done in the first six months of 2025. Deal flow in the calendar year to date has been characterised by a lack of large transactions including major hospital deals - a fact which is making price discovery difficult. Deal flow has been buoyed by smaller deals, mainly in the aged care and medical office subsectors.

A capacity gap in the private hospital sector should help underpin the value of existing assets and create an opportunity for further investment in new assets. While demand for private hospital services is rising rapidly, the number of projects reaching completion is not keeping up. In the next three years (2026-2028), \$1.8bn of private hospitals are due to complete, well below the 10-year average.

Faced with a large and complex health sector, investors are aligning with the prevailing trends in provision of health services. Australia's ageing population is expected to favour the hospital sector as well as life sciences. Shifts towards shorter hospital stays and outpatient care are favouring specialist clinics, day hospitals and rehabilitation premises. Sectors like aged care, general practice and mental health still have positive demand themes but will be more exposed to staffing issues than the other subsectors.

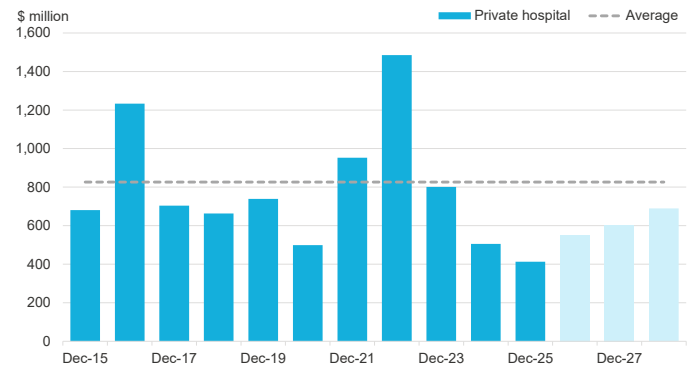
Many of the operational issues observed over the past two years can be traced to the pandemic in 2020 when the costs of providing health services lifted, yet (for various reasons) the escalations in both Medicare rebates and PHI premiums have stalled. Over the past two years, measures taken by the federal government have largely corrected the imbalance and going forward, the pace of growth in funding is expected to better match growth in service costs (see chart). In the case of private insurance, the Federal government has recently granted a 3.7% average increase in premiums to bring them more in line with service costs. State and Federal governments are investing in staff recruitment and training programs, and health is one of five key focus areas for the skilled migration program.

Healthcare transaction volumes



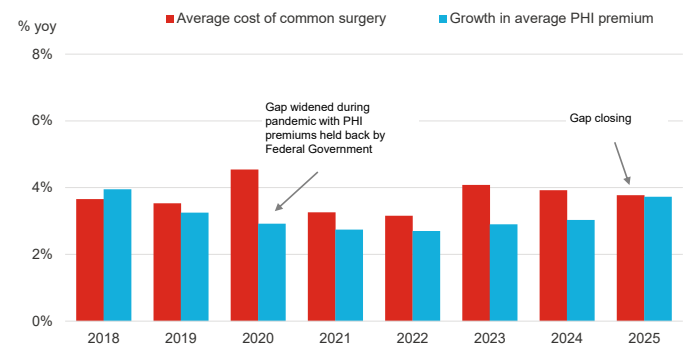
Source: Dexis Research with Oxford Economics

Private hospital commencements



Source: MSCI Real Capital Analytics, Dexis Research

Private health insurance premiums and service costs



Source: APRA Statistics, Dexis Research



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