THE COMMERCIAL CHRONICAL

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SHOPPING CENTRES LEAD COMMERCIAL PROPERTY INVESTMENT BOOM

Retail property has emerged as the standout performer in Australia's commercial property sector, with approximately $13 billion worth of transactions completed in the last financial year.

For the second consecutive year, the retail sector has outperformed all other major commercial property categories, capturing 42 per cent of the nation's total $31.3 billion in transactions, according to JLL Research. The office sector contributed $9.6 billion, while industrial property accounted for approximately $8.7 billion.

Shopping centres have become particularly attractive to investors, driven by consistent population growth and strong competition among different buyer groups. Private capital made a significant push into the market, often outbidding institutional investors and syndicates to become the top acquirer on a dollar basis, with private capital acquisitions totalling $4.3 billion of retail deals.

The market saw 29 deals exceed $100 million and 13 transactions close for more than $300 million, leading to a 66 per cent jump in average deal size to $124 million.

JLL retail investments head for Australia and New Zealand, Sam Hatcher, said demand for retail assets remained strong across the board.

"Demand for retail assets was unwavering, with bidder depth exceeding historical averages," Mr Hatcher said.

Regional shopping centres dominated transaction activity, making up 43 per cent of deals and totalling $5.6 billion in transactions. Yields on regional shopping centres also tightened to an average of 5.8 per cent, reflecting increased investor confidence in the sector.

Partial-interest sales grew in popularity throughout the year, with several major transactions demonstrating this trend. GPT Group spent $1.2 billion acquiring a half-stake in both Sunshine Plaza in Queensland and Macarthur Square in New South Wales from Lendlease. QIC and ART purchased 19.9 per cent of Westfield Sydney for $863 million, while JY Group acquired half of Westfield Marion for $670 million.

JLL expects demand to remain robust in the new financial year, supported by limited supply and a growing number of international players seeking retail assets on Australian shores.

The strong performance of retail property comes as the sector continues to demonstrate resilience despite broader economic challenges. Private capital made up $4.3 billion of retail deals, highlighting the sector's appeal to a diverse range of investors beyond traditional institutional buyers.

Mr Hatcher said the outlook for retail property investment remains positive as competition for quality assets intensifies.

"Demand for retail assets was unwavering, with bidder depth exceeding historical averages."

TAX REFORMS & INDUSTRIAL STRENGHT DRIVE COMMERCIAL PROPERTY RESULTS

Commercial property yields saw varied performance across the last quarter, with industrial assets maintaining their position as the strongest performer while office and retail sectors showed divergent results across different cities.

According to the latest realcommercial.com.au Commercial Yield Report, transaction activity picked up across Australia, though elevated interest rates continue to constrain buyer demand. The sector is now eyeing a potential boost following recent federal budget tax reforms that retained negative gearing benefits for commercial property while removing them for residential investments.

REA Group Senior Economist and report author, Anne Flaherty, said tax changes and shifting risk profiles are driving the mixed performance across commercial property sectors.

"One tailwind for the sector has been the sweeping tax changes brought in following the Federal Budget, which retained negative benefits for commercial property investment, while removing them for residential," Ms Flaherty said.

"Over time, this could translate into increased demand for commercial property, particularly once funding costs are in less restrictive territory."

Industrial property maintained its position as the market's safest option, with gross yields holding relatively stable over the quarter following modest compression across most major cities. The sector is the only property type where yields are sitting lower in every capital city compared to 12 months ago, reflecting ongoing demand.

Western Australia and Queensland led the annual tightening, with industrial yields in Perth compressing by 37 basis points and Brisbane by 19 basis points year-on-year. Adelaide also saw compression of 17 basis points. Sydney and Melbourne industrial yields currently sit at the tightest in the country at 4.2 per cent gross.

The office sector showed the greatest divergence in performance nationwide. Gross yields sharpened over the quarter in Brisbane, down 22 basis points, Adelaide, down 10 basis points, and Sydney, down one basis point. However, they softened in Melbourne, up six basis points, and Perth, up 17 basis points.

Retail property experienced notable national yield compression through June, led by sharp quarterly drops in Brisbane at 25 basis points, Adelaide at 18 basis points, and Melbourne at 10 basis points. Sydney and Perth held flat over the period.

Ms Flaherty said the retail sector continues to carry higher perceived risk.

"Retail yields remain notably higher than office and industrial yields in every capital city, indicative of the higher perceived risk in the sector," she said.

For investors seeking higher headline returns, Queensland continues to lead the pack. Brisbane offers the highest yields across industrial at 5.2 per cent, office at 6.8 per cent, and retail property at 7.9 per cent among all capital cities.

AUSTRALIAN INDUSTRIAL VACANCY FALLS FOR FIRST TIME IN TWO YEARS

National industrial property vacancy has fallen for the first time since March 2024, as developers significantly reduce new warehouse supply amid rising construction costs and higher interest rates.

According to Prological's latest market intelligence report, national vacancy compressed to 3.7 per cent in the first quarter of 2026, with every major market except Adelaide recording tightening conditions. The shift comes as new supply fell sharply to approximately 337,000 square metres nationally in Q1, the lowest quarterly total since early 2023.

The report found developers are increasingly unwilling to build without a tenant secured first, as construction costs remain elevated and the cost of debt has increased following the RBA's reversal from rate cuts in 2025 to three hikes in early 2026. The national pre-commitment rate rose to 65 per cent as a result.

A number of projects with development approval are now contingent on tenant commitments before construction begins, a shift likely to push delivery timelines into 2028 and beyond.

While the data points to tenant leverage narrowing, the report notes the shift is gradual rather than a full reversal of conditions. National prime incentives remain elevated at 16.6 per cent, and Melbourne's super prime incentives are still around 28 per cent, though several research houses expect incentives to stabilise and begin moderating from late 2026 as supply is absorbed.

Peter Jones, Managing Director at Prological, said the industry has reached a turning point in how businesses approach warehouse selection.

"The challenge has shifted from making that case to solving the transition: how do you get from where you are today to where you need to be, without disrupting the operation along the way," Mr Jones said.

The report shows that rising fuel prices have shifted the calculus on facility location, with warehouses positioned closer to customers or with better multimodal access becoming more valuable relative to cheaper sites further out.

Perth remains Australia's tightest industrial market, with vacancy compressing further to 1.7 per cent and the North precinct recording just 0.3 per cent availability. Only one development, an owner-occupied facility, was completed during the quarter.

Melbourne recorded the highest take-up nationally in Q1, driven by two large transactions in the North precinct. Vacancy compressed to 3.8 per cent, making it the tightest East Coast market.

Brisbane saw take-up run more than 60 per cent ahead of the same period last year, with vacancy tightening to 4.0 per cent. Prime rents grew 11 per cent annually, the strongest result of any major market since 2024.

WHAT IS SALE & LEASEBACK, AND WHEN DOES IT MAKE SENSE FOR A BUSINESS?

Many businesses are sitting on capital they do not realise they have access to. Equipment, vehicles, machinery and other assets that have been paid off or partially paid down represent value that is currently locked up in the balance sheet. Sale and leaseback is a financing strategy that allows businesses to unlock that value without giving up the use of the asset.

It is a relatively underused tool in the small to medium business space, but one that is worth understanding.

How sale and leaseback works

In a sale and leaseback arrangement, a business sells an asset it already owns to a finance company and then immediately leases it back. The business receives a lump sum of cash from the sale and continues to use the asset exactly as before, making regular lease payments to the finance company over an agreed term. At the end of the lease, depending on the structure, the business may have the option to purchase the asset back, extend the lease or return the asset.

What types of assets can be used?

Sale and leaseback is often effective with assets that have a clear, assessable market value and a reasonable remaining useful life. Commercial vehicles, earthmoving and construction equipment, manufacturing machinery, medical and dental equipment, and technology assets are all commonly used in these arrangements. The finance company will assess the current value of the asset as part of the process, so the condition, age and marketability of the asset all influence what can be unlocked.

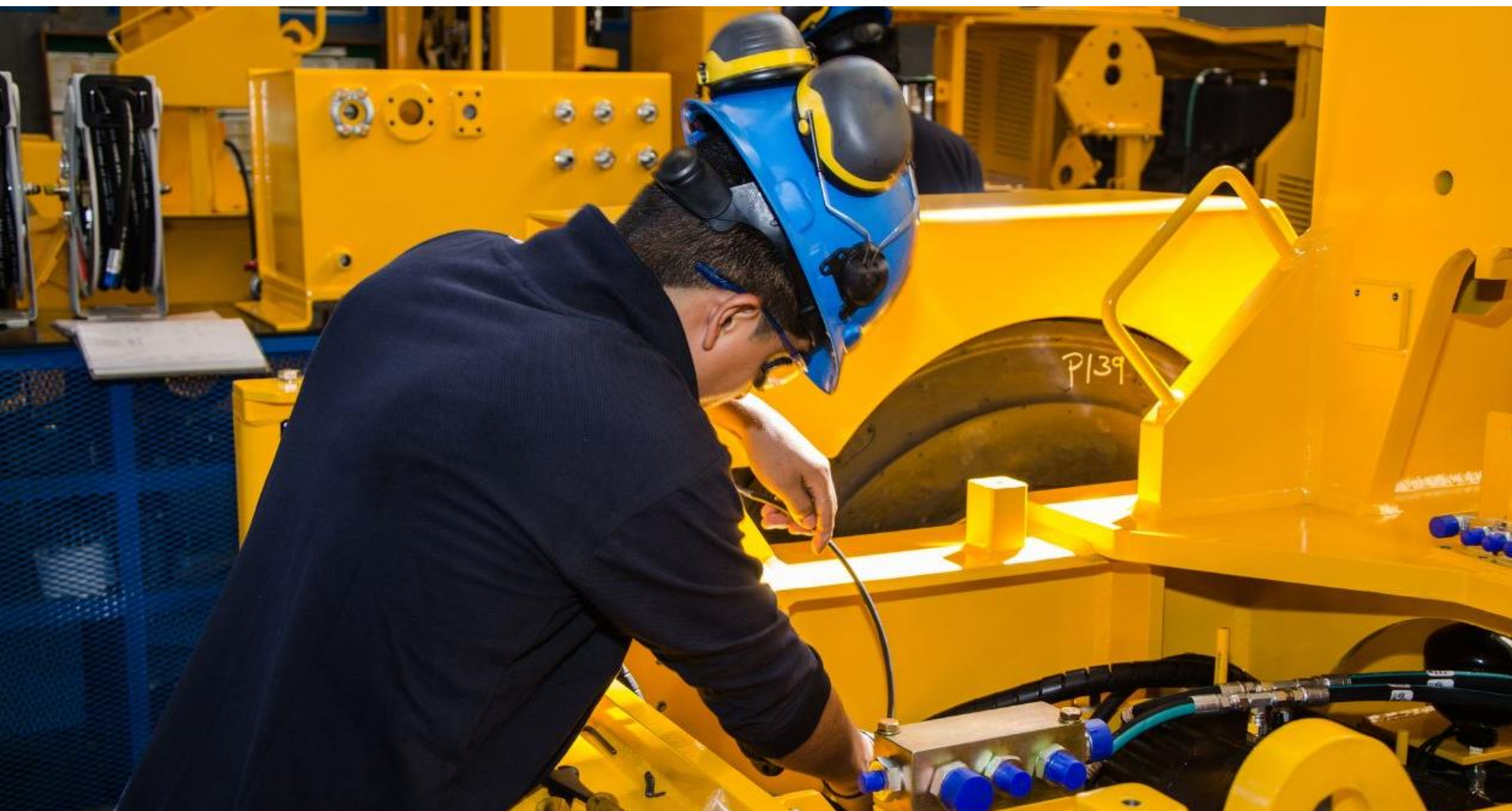
When it tends to make sense

Sale and leaseback is not the right solution for every situation, but there are circumstances where it is particularly well suited. A business that needs working capital but does not want to take on additional debt may find that releasing equity from existing assets is a more appropriate path than a business loan. A business investing heavily in growth that needs cash without disrupting operations can use sale and leaseback to fund expansion while keeping the assets in service. And a business that has recently paid off equipment outright may have significant value sitting idle on the balance sheet that could be put to better use.

What to consider before proceeding

There are a few considerations worth working through before entering a sale and leaseback arrangement. The ongoing lease payments become a fixed cost obligation, so understanding how they sit within your cash flow is important. The tax treatment can vary depending on how the arrangement is structured, and input from your accountant is worthwhile before committing. And as with any finance product, the terms of the lease, including the payment schedule, end-of-term options and any early exit provisions, should be clearly understood before signing.

A finance broker can help you assess whether sale and leaseback is appropriate for your situation and compare your options across lenders who offer this type of arrangement.



WHAT THE NEW FINANCIAL YEAR MEANS FOR YOUR EQUIPMENT FINANCE STRATEGY

With EOFY behind us and the new financial year underway, many businesses that rushed to beat the 30 June deadline are now taking stock. Others that held off on equipment decisions are starting to think about what they need for the year ahead.

Either way, the start of a new financial year is a natural point to step back and think about equipment finance more strategically rather than reactively.

Here are four things worth considering as you plan your approach to equipment finance in FY27.

The instant asset write-off is to become permanent

One of the most significant changes for small business equipment planning is the government's announcement that the $20,000 instant asset write-off threshold is proposed to be made permanent from 1 July 2026, if the legislation passes Parliament. For several years, businesses have had to make investment decisions under annual uncertainty about whether the threshold would be extended. If the permanent extension is legislated, it removes that pressure and allows businesses to plan equipment purchases based on genuine operational need and cash flow timing rather than tax deadlines.

Now is a good time to review what you are currently financing

The start of a new financial year is an ideal moment to review your existing equipment finance commitments. Are the interest rates on your current facilities still competitive? Are there assets you are still financing that are no longer core to your operations? Are any loan terms coming to an end that will require a decision about refinancing or replacement? Getting across these questions early in the year gives you time to act thoughtfully rather than under pressure.

Plan your asset purchases across the year, not just at EOFY

One of the downsides of the annual EOFY rush is that it compresses business investment decisions into a narrow window, which can lead to rushed choices, stretched cash flow and competition for finance and supply at the same time as everyone else. With a full financial year ahead, businesses that map out their likely equipment needs now have more time to make better purchasing decisions.

Choose the right finance structure for each asset

Not all equipment finance is the same, and the structure that suits one asset may not be right for another. A chattel mortgage gives the business ownership of the asset from day one and may allow GST to be claimed upfront, while a finance lease keeps the asset off the balance sheet and suits businesses that prefer to upgrade regularly. Hire purchase falls somewhere between the two. The right choice will depend on the type of asset, how long you intend to use it, your GST registration status and your broader tax position.

A finance broker can help you compare your options across a range of equipment finance products and lenders.