

THE COMMERCIAL CHRONICAL

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QUALITY COMES FIRST WITH COMMERCIAL PROPERTY RETURNS

Commercial property investors are increasingly focused on asset quality over broad sector performance, as the gap between top and bottom performers widens across all property types.

Ray White Group, Head of Research, Vanessa Rader said the latest PCA/MSCI data shows all property delivering total returns of 7.8 per cent and capital growth strengthening to 2.3 per cent, but the headline figures mask significant differences. "Across every sector, the gap between the best and worst performing assets continues to widen, and that variation is becoming the defining characteristic of this market," Ms Rader said. "Investors are increasingly willing to wait for assets that meet specific criteria around lease covenant, ESG credentials and physical quality, and the data is beginning to reflect those preferences in return outcomes."

Ms Rader said retail is the clearest example of a sector where broad recovery is real but individual performance varies significantly. "Total returns reached 9.9 per cent nationally with capital growth of 3.8 per cent," she said. Sub-regional centres recorded 12.4 per cent returns, regional centres 12.3 per cent, neighbourhood centres 9.4 per cent, and super and major regional centres 9.2 per cent. Western Australia led all retail states at 10.5 per cent, while New South Wales and Queensland both exceeded 10.2 per cent. "The assets attracting the strongest capital growth remain those with strong anchor tenants, low vacancy risk and demonstrated trade area dominance," Ms Rader said.

According to Ms Rader, industrial property has found a more measured pace after years of exceptional performance. "Total returns of 8.5 per cent with capital growth of 3.9 per cent remain compelling in absolute terms but no longer represent the exceptional outperformance of 2021 and 2022," she said. Queensland industrial led at 10.2 per cent, New South Wales and Western Australia both recorded returns above 9.5 per cent, while Victoria continued to trail at 5.8 per cent. "Rising vacancy in some industrial markets is beginning to introduce uncertainty, particularly for assets in secondary locations or with shorter lease profiles," Ms Rader said.

Ms Rader said office presents the most pronounced example of how average figures can mislead. "Total returns of 6.3 per cent nationally with capital growth of 0.7 per cent suggest a sector slowly stabilising, but that average obscures enormous variation," she said.

Looking ahead, Ms Rader said expectations surrounding further interest rate movements and ongoing economic uncertainty are likely to amplify existing variation. "The headline recovery is real, but the data is increasingly telling investors that where they buy, what they buy, and the quality of what is in place at the time of acquisition will determine whether their individual experience of this market looks anything like the national average," she said.

INVESTORS CIRCLE DARWIN AS COMMERCIAL MARKET MOMENTUM BUILDS

Darwin's commercial property sector is strengthening, with rising rents, limited new supply and increasing investor demand as defence, energy and resource projects signal future growth potential. According to LJ Hooker Commercial Darwin director Lee Doyle, the market is experiencing steady strengthening rather than volatility, underpinned by limited new supply and improving confidence across the Top End. While the market is not yet in boom territory, conditions are firming with prices and rents lifting across most commercial sectors. In some parts of the market, values are already sitting above the previous cycle peak.

"The biggest handbrake to Darwin's commercial sector is feasibility, with construction costs and end values not yet aligned enough to trigger a broad wave of new development," Mr Doyle said. However, he said the gap is narrowing, and the real pivot point will come if flagged defence, oil, gas and mining projects translate into sustained employment and population growth. "If proposed projects in defence, oil and gas, mining and major projects show up as real jobs, real demand and more people on the ground, then the current supply will tighten quite quickly," he said.

Population data suggests momentum is already building. The latest Australian Bureau of Statistics figures show Darwin's population grew 1.7 per cent in 2024-25, up from 1.5 per cent the year before, making it the only capital city to record faster growth than the previous year. That steady population lift, combined with a solid labour market and emerging demand from new asset classes such as data centres and hotel repositioning, is helping underpin confidence in the sector.

Strong demand and tight supply across precincts such as Berrimah, Pinelands and East Arm have pushed prime industrial rents from roughly \$130-\$150 per square metre two years ago to between \$170 and \$200 today. Higher-quality assets are attracting the most competition, with further upside expected if project activity flows through. The office market is increasingly split in two. Modern A-grade stock is holding up strongly, with prime rents steady at \$700-\$750 per square metre and incentives remaining low. Older B-grade and C-grade offices are facing softer demand as tenants trade up into better-quality space.

Retail is more subdued but stable. Suburban centres and strip locations continue to perform reasonably well, though the tenant mix is shifting. Medical, healthcare, wellness and service-based operators are steadily replacing traditional discretionary retail tenants.

LJ Hooker Commercial head of research Mathew Tiller said Darwin is increasingly on the radar for national investors who are searching beyond the eastern capitals for yield and growth opportunities. Darwin also stands to benefit from broader national spending themes, particularly defence, energy, logistics and infrastructure, but the key variable remains execution. "If those projects translate into sustained employment and population growth, pressure on an already constrained market is likely to intensify further," Mr Tiller said.





MELBOURNE OFFICE TENANTS URGED TO ACT AS SUPPLY WINDOW CLOSES

Melbourne CBD office tenants are being urged to secure space quickly as tightening supply and rising rents shift market conditions back in favour of landlords.

According to Knight Frank's latest Melbourne Insights report, a clear turning point is coming in the market with occupier demand strengthening, net absorption returning to positive territory and new supply set to sharply decline. This is creating mounting pressure on availability, particularly for premium, large-format office space.

Since the beginning of 2025, 62 per cent of occupiers leasing more than 1,000 square metres have either expanded or maintained their footprint, signalling the end of widespread contraction seen in the post-pandemic period.

Knight Frank Partner, Head of Research and Consulting Victoria, Dr Tony McGough, said the data shows a decisive turnaround in occupier behaviour. "The data shows a decisive turnaround in occupier behaviour, with demand trending upward since 2013 and turning positive in 2025, as Melbourne's CBD recorded net absorption of 29,000 square metres last year - its strongest rate since 2018," Dr McGough said.

At the same time, net effective rents in Melbourne's CBD have begun to recover, rising by 4 per cent over 2025, the strongest annual growth since 2019, with further increases forecast as incentives gradually unwind. Knight Frank Analyst, Research & Consulting, Laurence Panozzo said the dynamics are changing. "The dynamics in Melbourne CBD office market have shifted quickly, with demand accelerating, which is set to place upward pressure on pricing for occupiers," Mr Panozzo said.

The research found incentives are expected to remain elevated but fall from their peaks to average 45 per cent by 2030. Consequently, net effective rents are expected to grow at an average annual rate of 5.3 per cent over the next five years, while face rents will rise by 4.2 per cent over the same period.

The tightening conditions are being amplified by a looming supply shock, with Melbourne's CBD set to experience its most significant slowdown in new office development on record. After 2026, there will be no major office projects under construction, with average annual completions forecast to fall to around 34,000 square metres over the next five years.

While this year's new supply is expected to push vacancy up to 20 per cent, this is expected to represent the peak, with vacancy forecast to fall swiftly thereafter. By 2030, the vacancy rate is forecast to sit at 13 per cent, with premium vacancy closer to 8.5 per cent.

Knight Frank Partner, Joint Head of Office Leasing Victoria, Simon Hale, said the supply outlook was creating urgency, particularly for large occupiers with specific requirements. "Despite relatively high vacancy on paper, the reality for tenants, especially those seeking high-quality, contiguous space, is very different," Mr Hale said.

WHAT BUSINESSES WITH ATO DEBT SHOULD KNOW ABOUT THEIR OPTIONS

The post-pandemic leniency that many businesses had come to rely on with the ATO is firmly over. Total collectable tax debt across the small business sector now sits well above \$50 billion, and the ATO has significantly stepped-up enforcement activity, issuing nearly 85,000 director penalty notices in 2024-25 alone.

From 1 July 2025, interest charges on business tax debt were also deemed non-deductible by the ATO, increasing the real cost of carrying that debt. For businesses that have been using overdue tax obligations as an informal cash flow facility, the environment has shifted considerably.

The good news is that businesses in this position have more options than many realise, and acting early can make a significant difference.

ATO payment plans are a starting point, not a solution

The ATO does offer payment plans, and for businesses with manageable debt levels and strong ongoing cash flow, these can provide breathing room. However, interest continues to accrue on the outstanding balance, and ATO payment plans sit alongside your existing financial obligations rather than replacing them. For businesses already stretched, a payment plan alone may not be enough to stabilise the position.

Business finance can be used to clear tax debt

One option available to eligible businesses is using a business loan or line of credit to pay out the ATO debt and consolidate it into a single commercial facility. This converts the tax debt into a structured business loan with defined repayment terms, removes the ATO as an active creditor, and can reduce the overall interest cost depending on the rate secured. For lenders, a business carrying ATO debt is a more complex application than one without. The business needs to demonstrate viable ongoing trading, and the purpose of the loan will be scrutinised. This is an area where working with a finance broker who understands business lending can make a meaningful difference to both the outcome and the speed of the process.

Acting early keeps more options open

The further a tax debt increases, the fewer the options available to resolve it. Once the ATO issues a director penalty notice, directors become personally liable for certain obligations, including PAYG withholding, GST and superannuation. Garnishee notices, court recovery action, and, in serious cases, departure prohibition orders are all tools the ATO is actively using. Businesses that engage early, before enforcement escalates, are in a much stronger position to negotiate, refinance or restructure. Waiting until the pressure becomes acute significantly narrows what is available.

How a finance broker can help

A finance broker with experience in business lending can help compare your options across a range of business loan products and structure an application that presents the business in the strongest possible light. If your business is carrying ATO debt, speaking to a finance broker early is a good first step.

This article is general in nature and does not constitute tax advice. Please consult a qualified accountant or tax adviser regarding your specific circumstances.



4 WAYS TO STRENGTHEN YOUR BUSINESS CASH FLOW BEFORE THE NEW FINANCIAL YEAR

How a business crosses the 30 June line matters more than many owners realise.

Starting the new financial year with a strong cash position gives you options. Starting it stretched gives you problems, often at the worst possible time, when expenses reset, BAS obligations are due, and the pressure of a new annual targets kicks in.

Here are four areas to focus on before EOFY to give your business the strongest possible start to FY27.

Chase outstanding invoices now, not later

Unpaid invoices are cash your business has already earned but cannot use. The closer you get to 30 June, the harder they become to collect, as clients slow their own payments ahead of EOFY. Make contact now and prioritise your oldest and largest outstanding amounts. The cash in your account on 1 July is worth considerably more than an invoice you are still chasing in August.

Plan ahead for your tax obligations

EOFY brings with it a cluster of tax obligations that can hit cash flow hard if they are not anticipated. GST, income tax instalments, payroll tax and superannuation contributions can all fall due in quick succession around the end of the financial year. Building a clear picture of what is coming and when, before June, is a straightforward way to avoid being caught short. Your accountant can help you model the timing and identify any opportunities to manage the position more effectively.

Use supplier terms strategically

Most businesses focus on accelerating incoming cash at EOFY but give less thought to the timing of outgoing payments. Reviewing your supplier payment terms and, where appropriate, timing larger payments to fall just after 30 June rather than before it can meaningfully improve your closing cash position. This is not about delaying payments beyond agreed terms, but about being deliberate with the timing of discretionary expenditure within the terms you already have.

Consider invoice finance if payment cycles are working against you

For businesses whose cash flow is tied up waiting on slow-paying clients, invoice finance allows you to access a portion of the value of outstanding invoices before they are paid. Rather than waiting 30, 60 or 90 days for a client to settle, you receive the funds quickly, and the finance provider collects from the client when the invoice falls due. It is a flexible option that scales with your revenue and does not require you to take on fixed debt.

If strengthening your cash position before 30 June involves exploring finance options, a finance broker can help you compare your options to find a structure that suits where your business is right now.

