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Sydney Leads as Australia's Commercial Property Recovers

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Australia's commercial real estate market has shown signs of steady recovery despite a slight quarterly slowdown, according to the latest MSCI report. The sector recorded \$19.6 billion in transaction volumes in the first half of 2025, a 19 per cent rise compared with the same period last year, aligning closely with long-term averages.

While the second quarter saw volumes dip to \$10.3 billion, down 7 percent year-over-year, the headline figures do not account for nearly \$10 billion worth of pending transactions. These delayed settlements suggest market activity is healthier than the settled numbers

indicate, with investor engagement buoyed by two interest rate cuts from the Reserve Bank of Australia (RBA) this year.

The RBA's rate adjustments are expected to lower capital costs and potentially stimulate additional deal flow in the coming months. Despite persistent geopolitical and economic uncertainties, analysts note that the Australian market remains attractive to both domestic and international investors.

Sector Shifts Reflect Changing Strategies

Industrial real estate retained its role as a core allocation target, but data from the first half of the year indicates a renewed appetite for office properties. Office assets accounted for 29 per cent of foreign investment, followed by data centres at 22 per cent. Industrial and commercial residential sectors each received 17 per cent of offshore allocations.

Domestic investors, however, showed a markedly different preference, concentrating heavily on retail properties, a sector largely overlooked by overseas buyers. Retail accounted for 41 per cent of domestic investment so far this year, while foreign allocations to the sector remained minimal.

Sydney Dominates Investment Flows

Sydney continues to be the nation's leading destination for commercial real estate capital, securing the top four most-invested market segments and appearing in half of the top ten overall.

The city's office market has been the standout performer, attracting \$3.2 billion in transactions year-to-date, with 79 per cent of that capital originating from foreign investors. These high-value deals highlight Sydney's status as an internationally recognised and institutionally held market.

Retail assets in Sydney also performed strongly in the first half, with \$2.3 billion invested. However, both the office and retail sectors experienced slower activity in the second quarter, reflecting broader market volatility in deal flows.

Despite these short-term fluctuations, the combination of sustained foreign interest, sector diversification, and supportive monetary policy suggests that Australia's commercial real estate market, particularly in Sydney, remains on a path of gradual but firm recovery.