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Turbulence, Tailwinds and Turning Points: Commercial Property Outlook

PWN Real Estate & Real Assets Forum

June 2026

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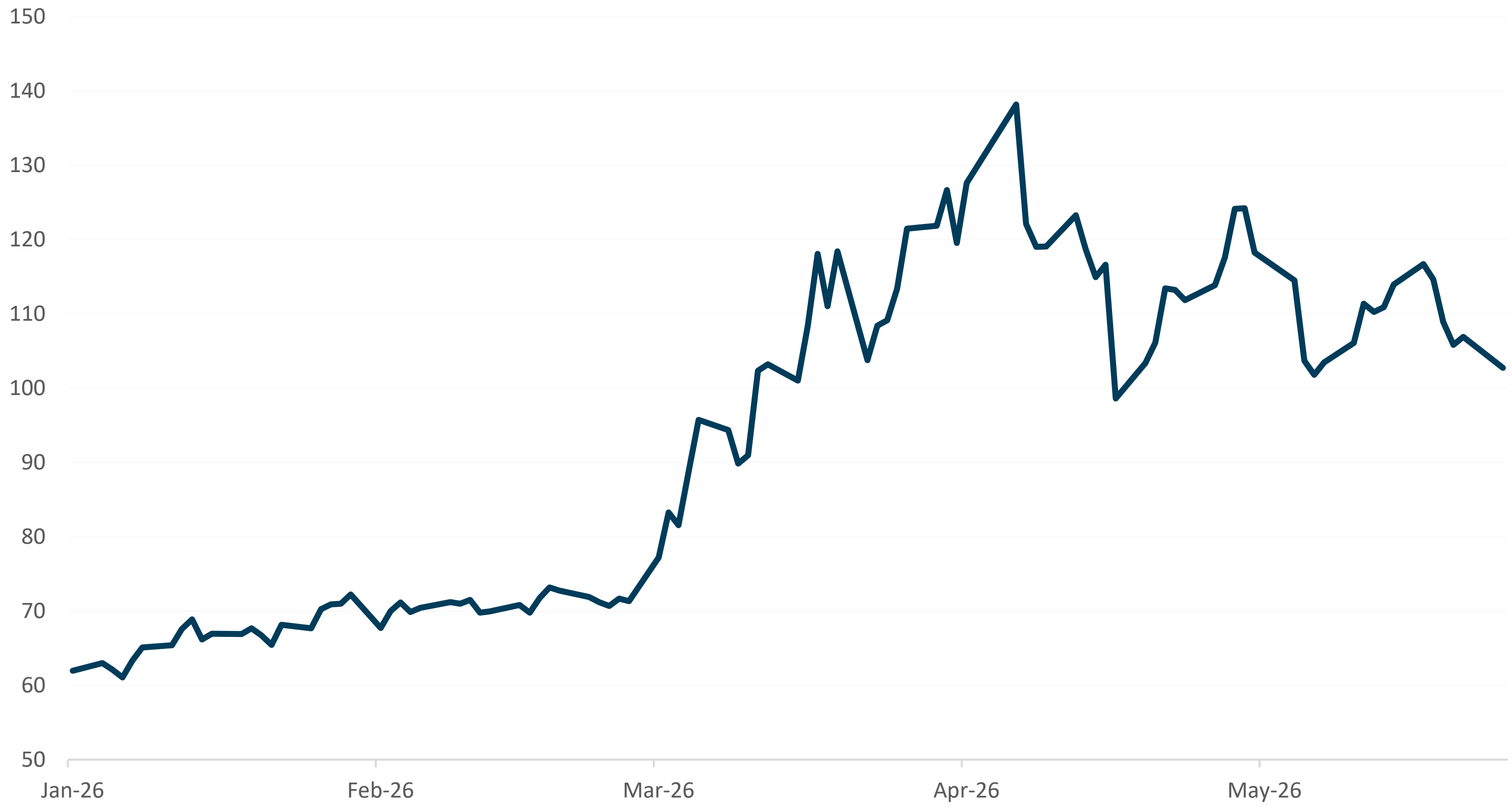
Will they, or won't they?

Resolution of Iran-US conflict is critical to the outlook, with most forecasts predicated on the Strait reopening by end-June

Europe Brent Spot Price FOB Dollars per Barrel



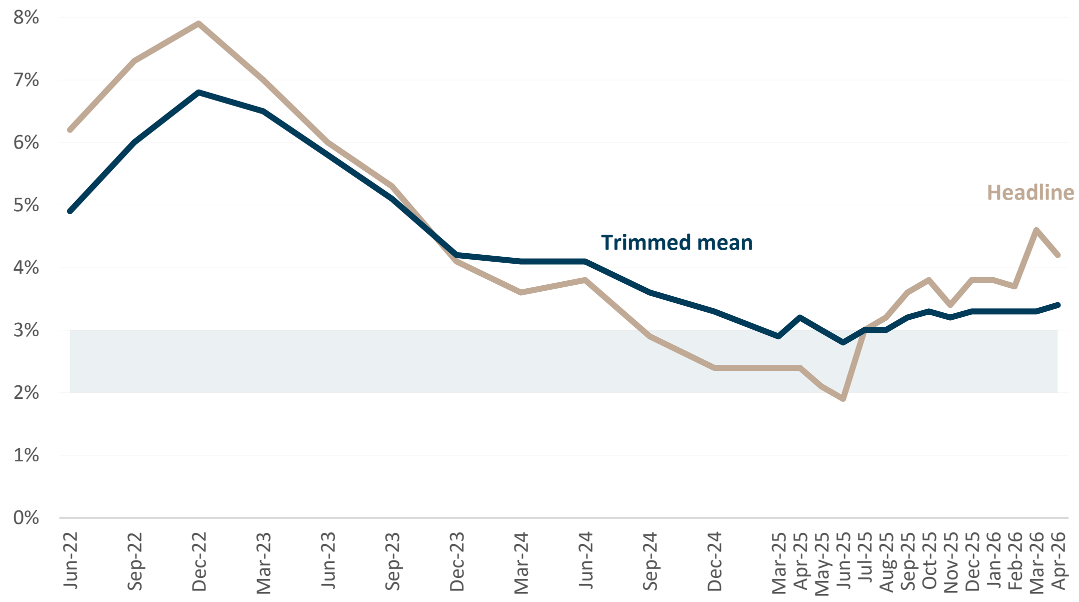
Source: EIA (28th May)

- Optimism that 60-day deal will be agreed
- Political and economic pressures rising
- Rubio now involved
- Oil prices have fallen
- Bond yields have retreated
- But we have been here before…

Strait of Hormuz closure risks fuelling inflation

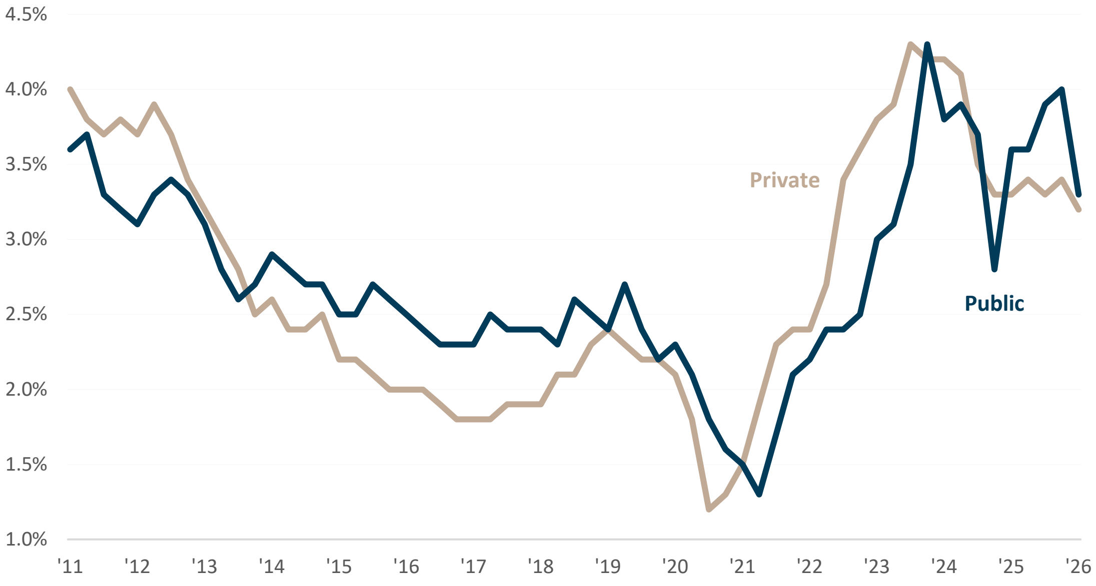
Pass-through has been limited to date, but impact of second-order effects likely to rise if disruption persists

Annual CPI



Source: ABS

Annual Wage Growth



Source: ABS

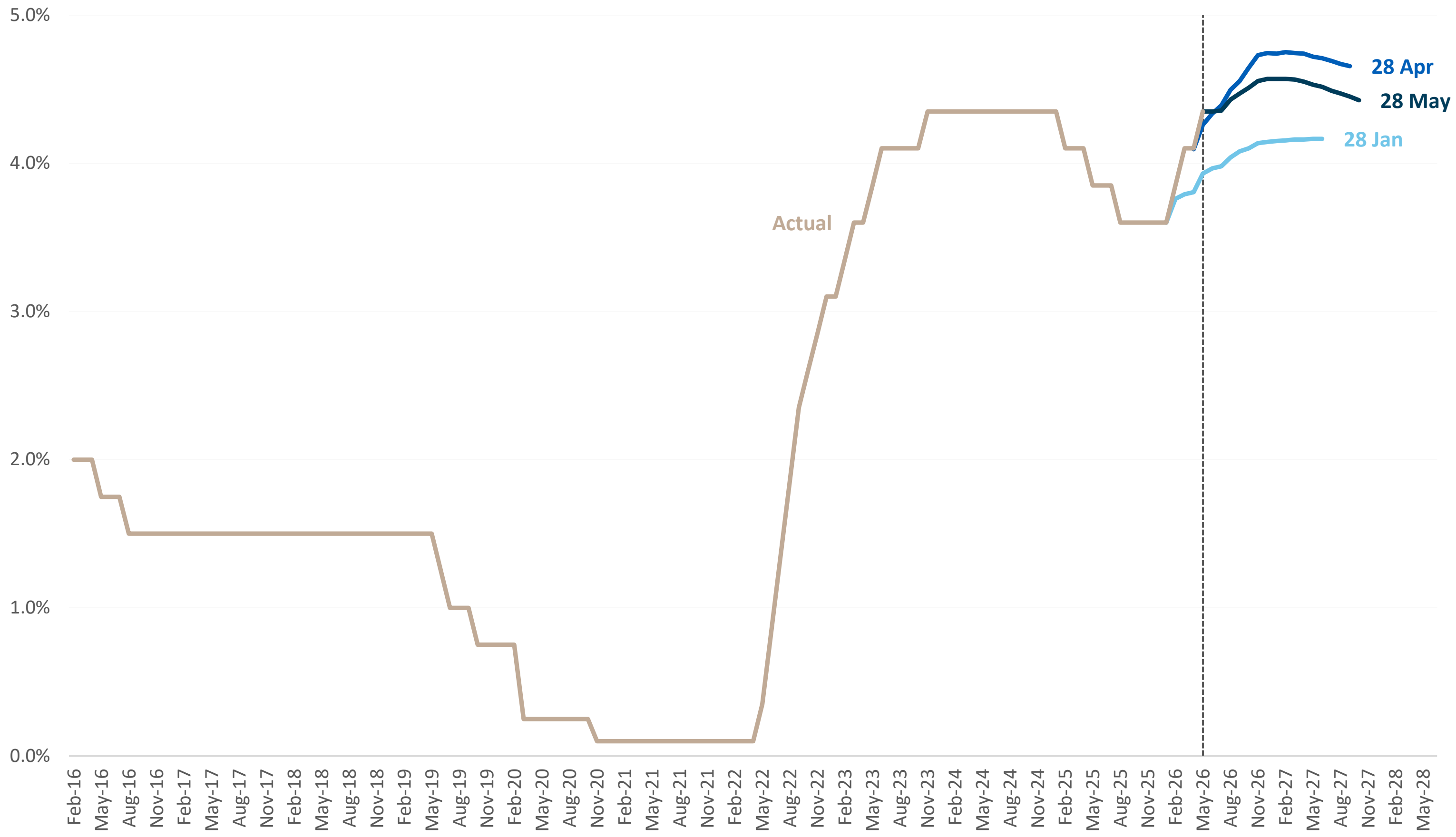
- April inflation came in below expectations but largely driven by volatiles such as the temporary fuel excise cut
- Fuel costs have already started flowing through to construction costs, but broader impacts have been limited – likely to worsen

- Private wage pressure continues to ease, and larger state-based enterprise agreements and aged care wage increases are cycling out
- Some upwards pressure from Q3 following Fair Work's Annual Wage Review (+4.75% minimum award rate)

Another hike on the cards, but we are close to the top

Cash rate now "somewhat restrictive", allowing the RBA to wait and see how the fuel shock plays out

Cash Rate Forecast

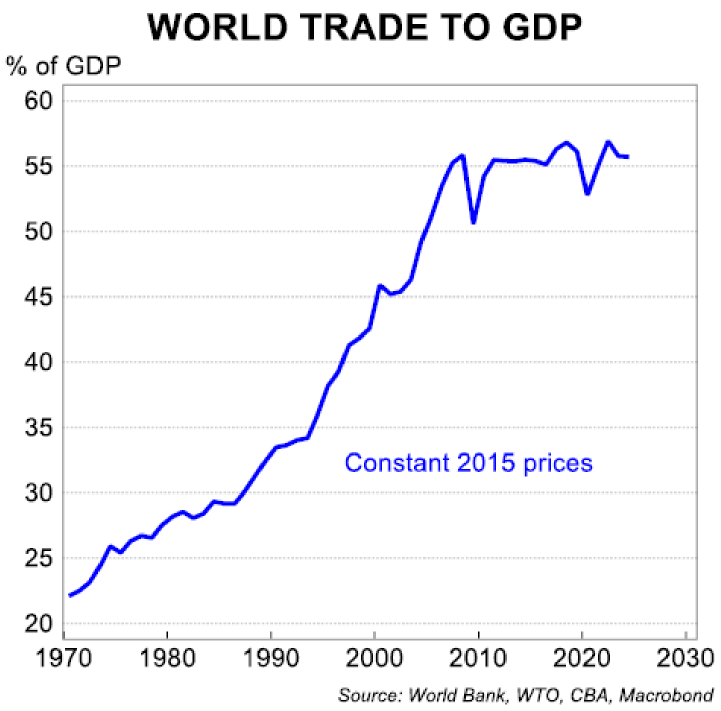


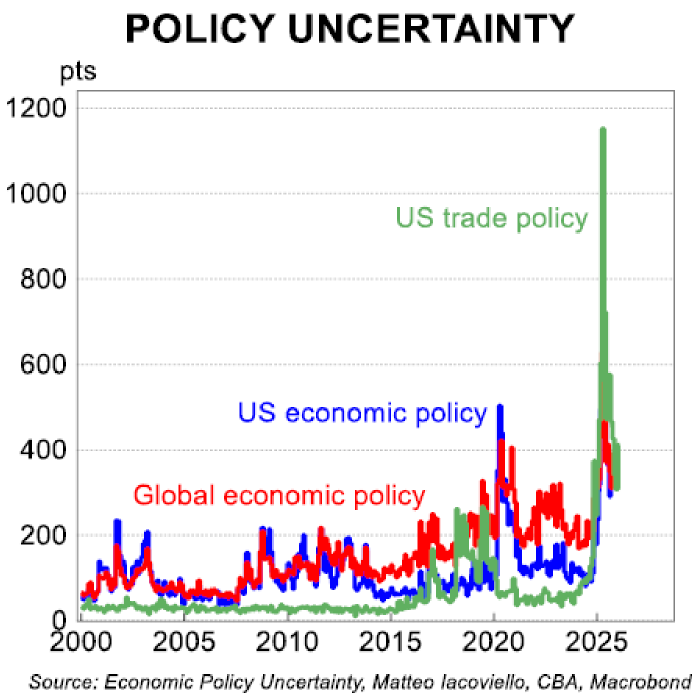
Source: RBA; ASX

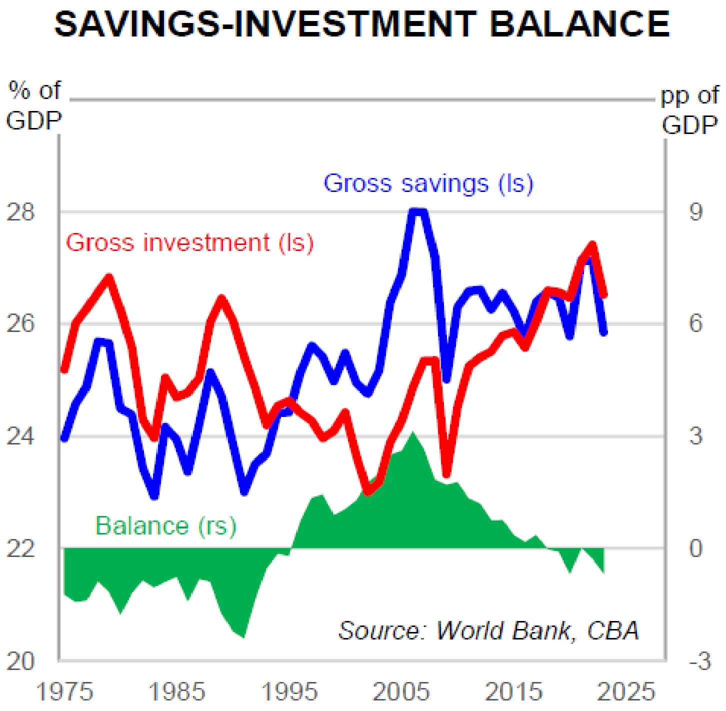
- June hold likely
- Forecast peak cash rate has moderated (~1 more hike in 2026)
- Easing in labour market raises dual-mandate stakes
- Further hikes from the RBA now would increase the likelihood of cuts in 2027
- Hormuz the key watch

Neutral rates are shifting higher

Deglobalisation is reconfiguring alliances and supply chains, leading to higher investment in defence, renewables, and domestic manufacturing



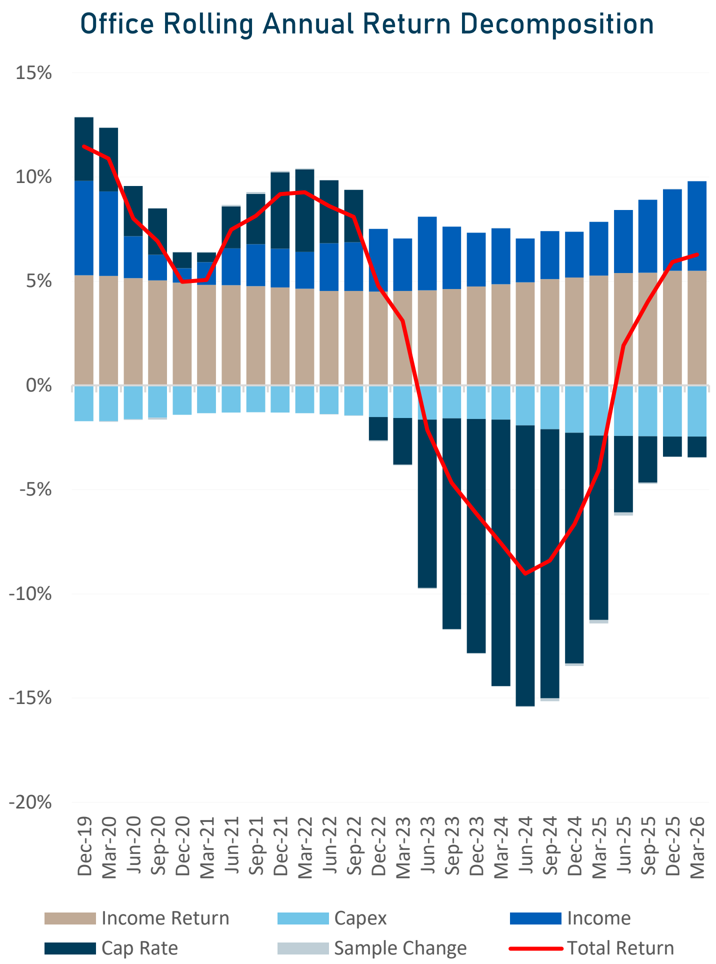


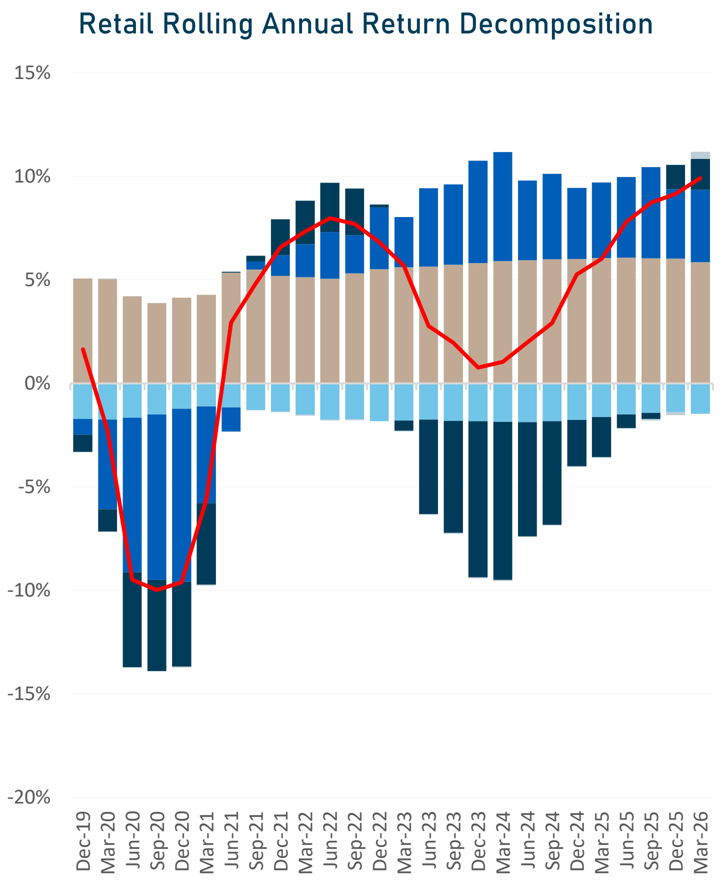


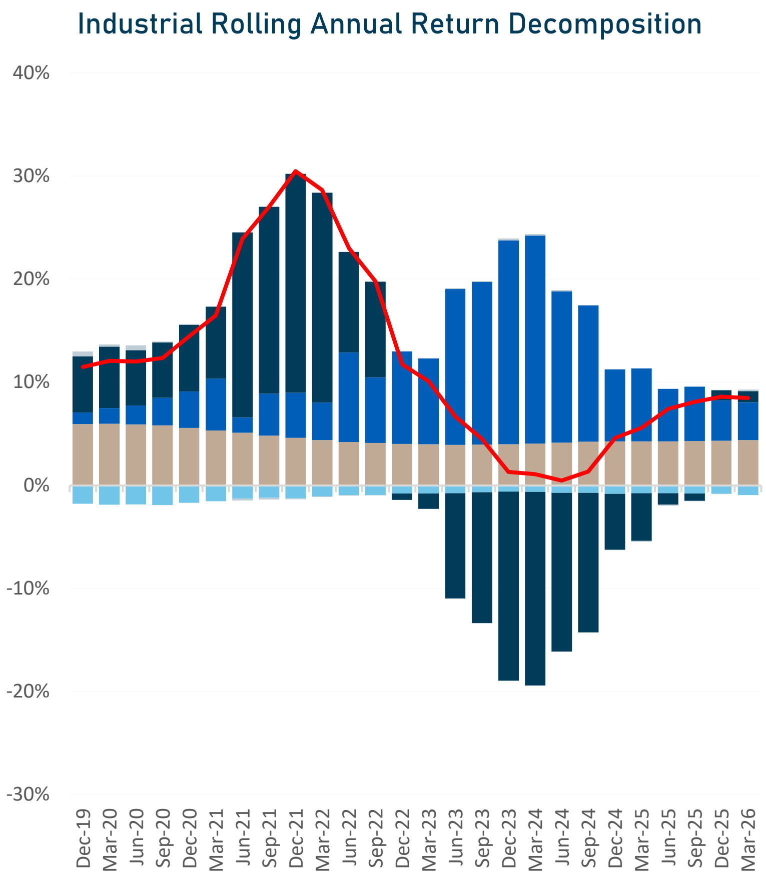
- Globalisation plateauing as world economy enters new era – security more important than efficiency
- Greater government intervention, volatility, and investment in defence, manufacturing, supply chain resilience, and net zero
- Shift from savings to investment and demographics to put upwards pressure on rates – unlikely to return to the negative real rates of pre-COVID

Pricing driven by sentiment and interest rates

Valuation correction driven by cap rate expansion rather than income deterioration





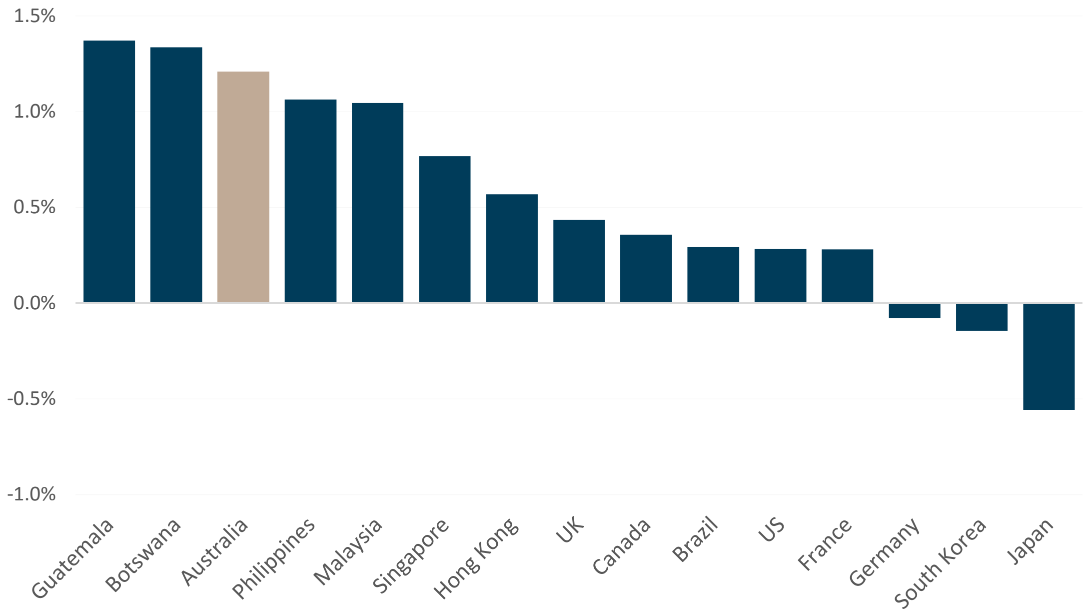


Source: MSCI (Mar-26); Cromwell

Population growth continues to underpin demand

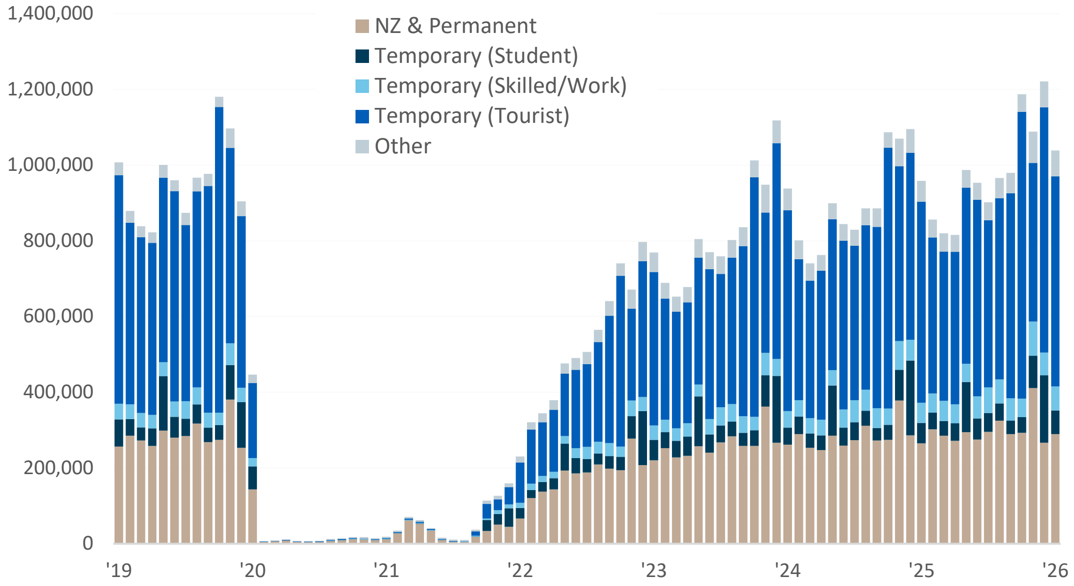
Migration reduces but doesn't eliminate the ageing of Australia's population

Population Growth (2025-30 CAGR)



Source: IMF (Apr-26)

Monthly Overseas Arrivals by Visa Type



Source: ABS (Mar-26)

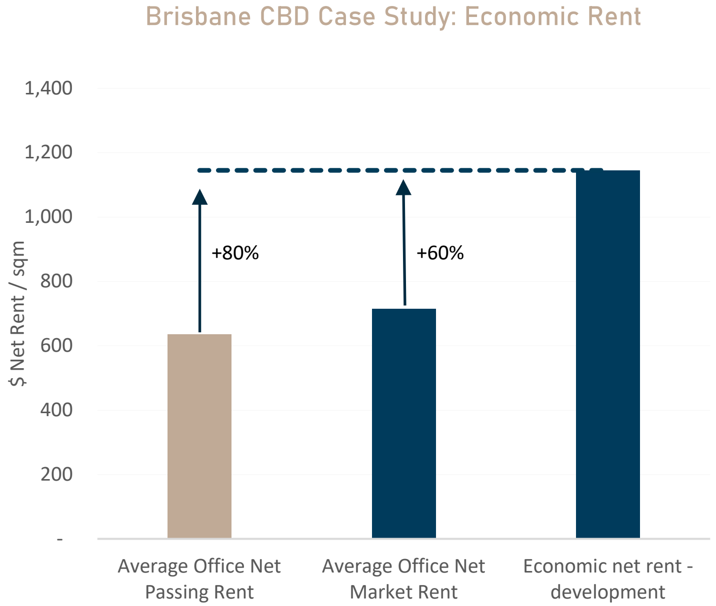
- Population growth unparalleled across developed economies
- NSW and VIC continue to attract overseas migrants…QLD and WA the top location for those moving interstate
- Cities continuing to outperform regional areas (1.8% vs 1.1% FY25)

- Net overseas migration is accounting for a greater proportion of population growth
- Implications for demographic profile and customer engagement

Constrained supply the biggest story in real estate

Ongoing demand and limited new supply bode well for a tightening of vacancy rates across commercial real estate, supporting the outlook for rental growth

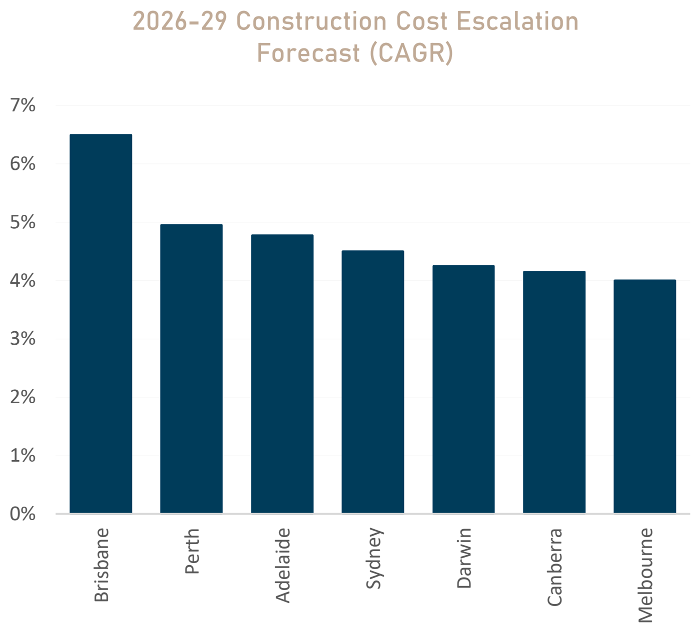
Development largely unfeasible



Produced by Cromwell. Source: CBRE analysis as at 31 October 2025

- Office economic rents have increased by 50-70% since 2020, industrial +60-90%
- Economic rents now comfortably exceed market rents across most sectors and markets

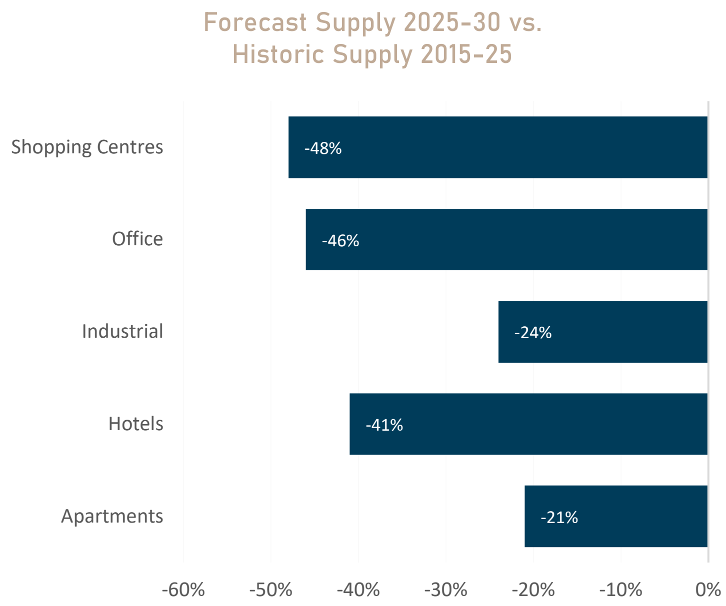
Dynamic to persist over the med-term



Produced by Cromwell. Source: Rider Levett Bucknall, Riders Digest 2026

- Pressures have intensified since March
- Little relief in sight given energy costs and infrastructure pipeline, particularly in QLD

Supply pipeline heavily constrained



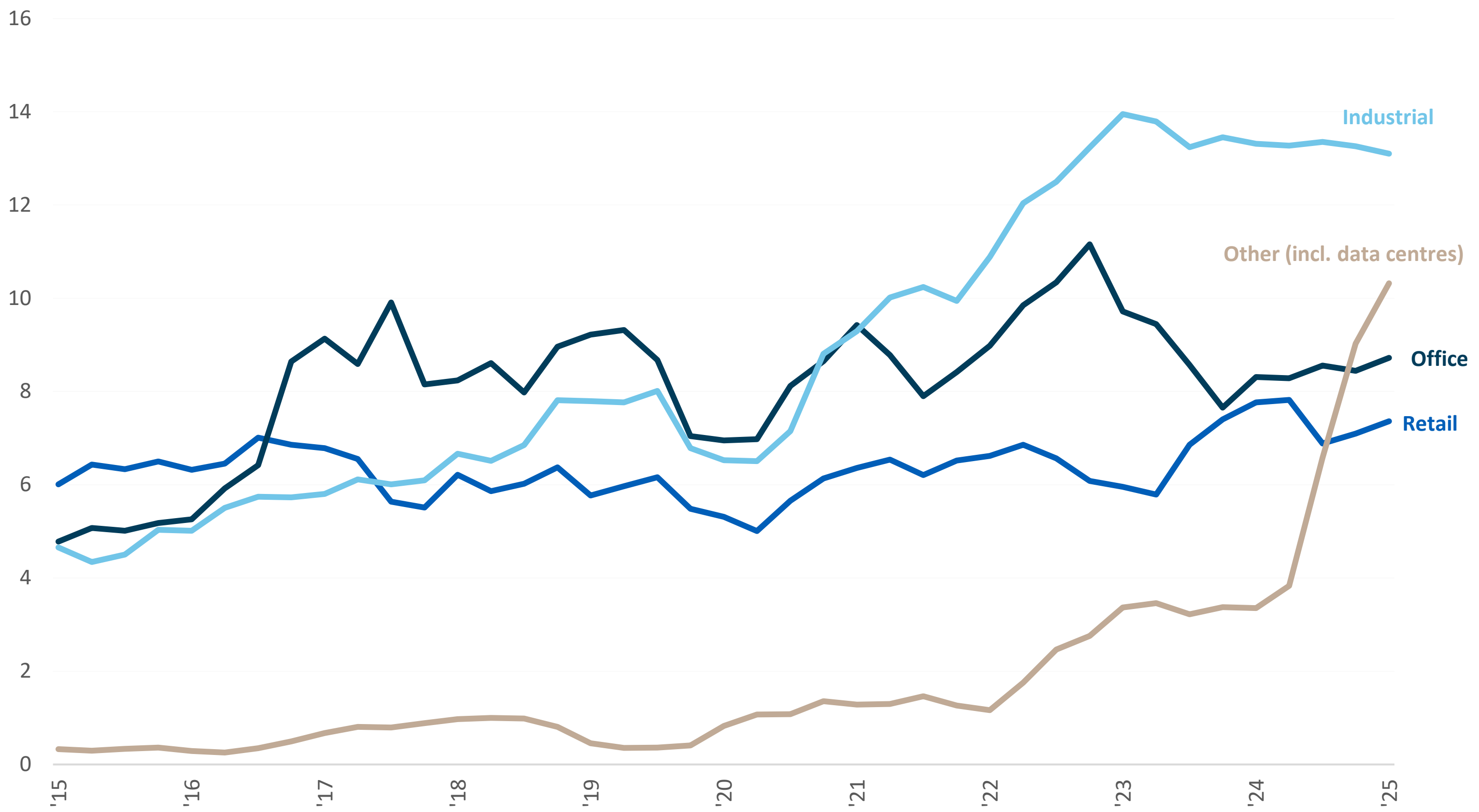
Produced by Cromwell. Source: 2026 Pacific Real Estate Market Outlook, CBRE

- The result is a heavily constrained supply pipeline across most sectors
- Step up in development activity unlikely until rents/valuations sufficiently appreciate

Data centres crowding out other sectors

Demand clearly outpacing supply, leading to absorption of industrial land and competition for resources

Building Work Commenced $b – rolling 12 months



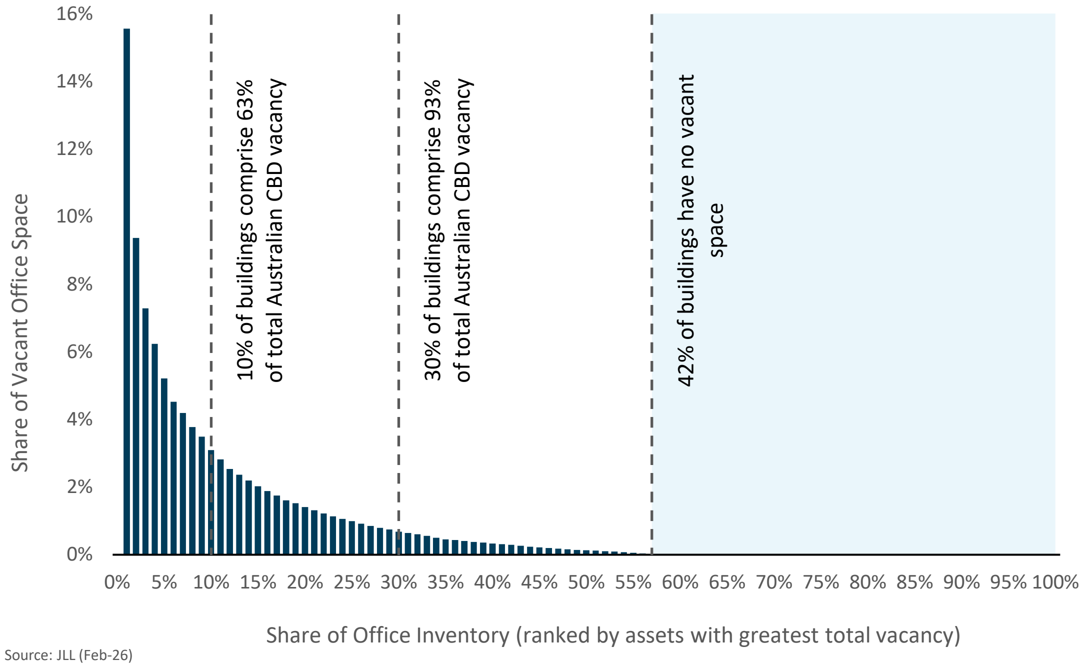
Source: ABS; Cromwell. Data to Dec-25

- AI/data centre investment is underpinning US economic growth…starting to become evident in Australia
- Building construction better for broader economy than fitout phase
- Demand outpacing supply, developers paying up to 2x normal industrial land rates
- Community concerns rising

Headline data obscure nuance across office

Conditions and performance vary significantly across markets, precincts, and assets, providing ample opportunities for alpha

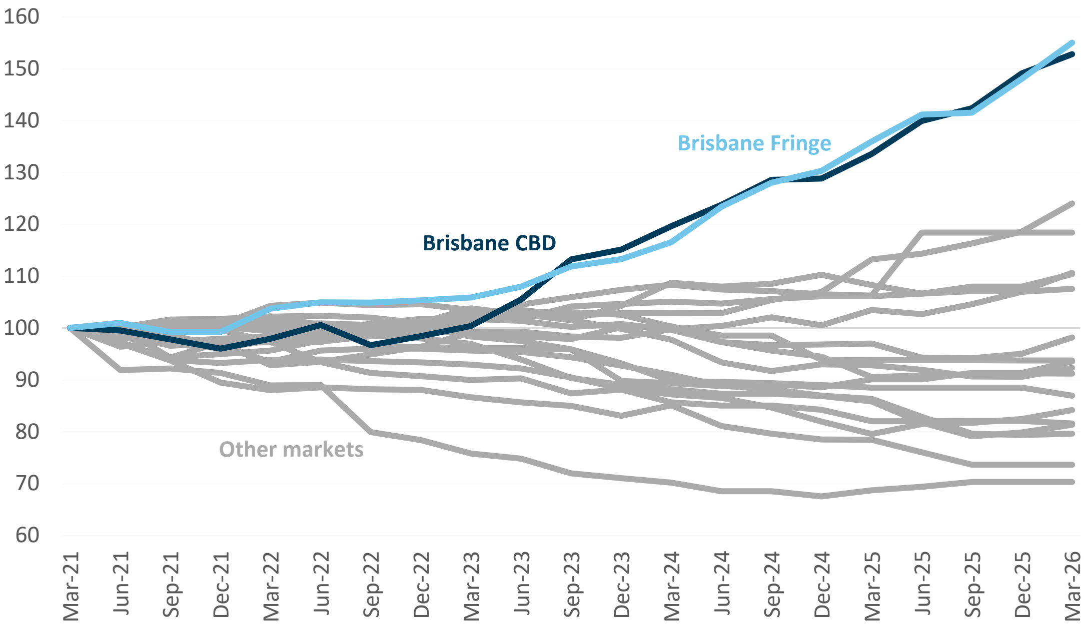
Office Vacancy Concentration – Australian CBD Markets



Source: JLL (Feb-26)

- 93% of vacancy is concentrated in 30% of assets
- Many precincts outside Sydney/Melbourne are tighter than trend
- Structural vacancy may overstate broader market softness

Net Effective Rent $sqm by Market – 5y Index



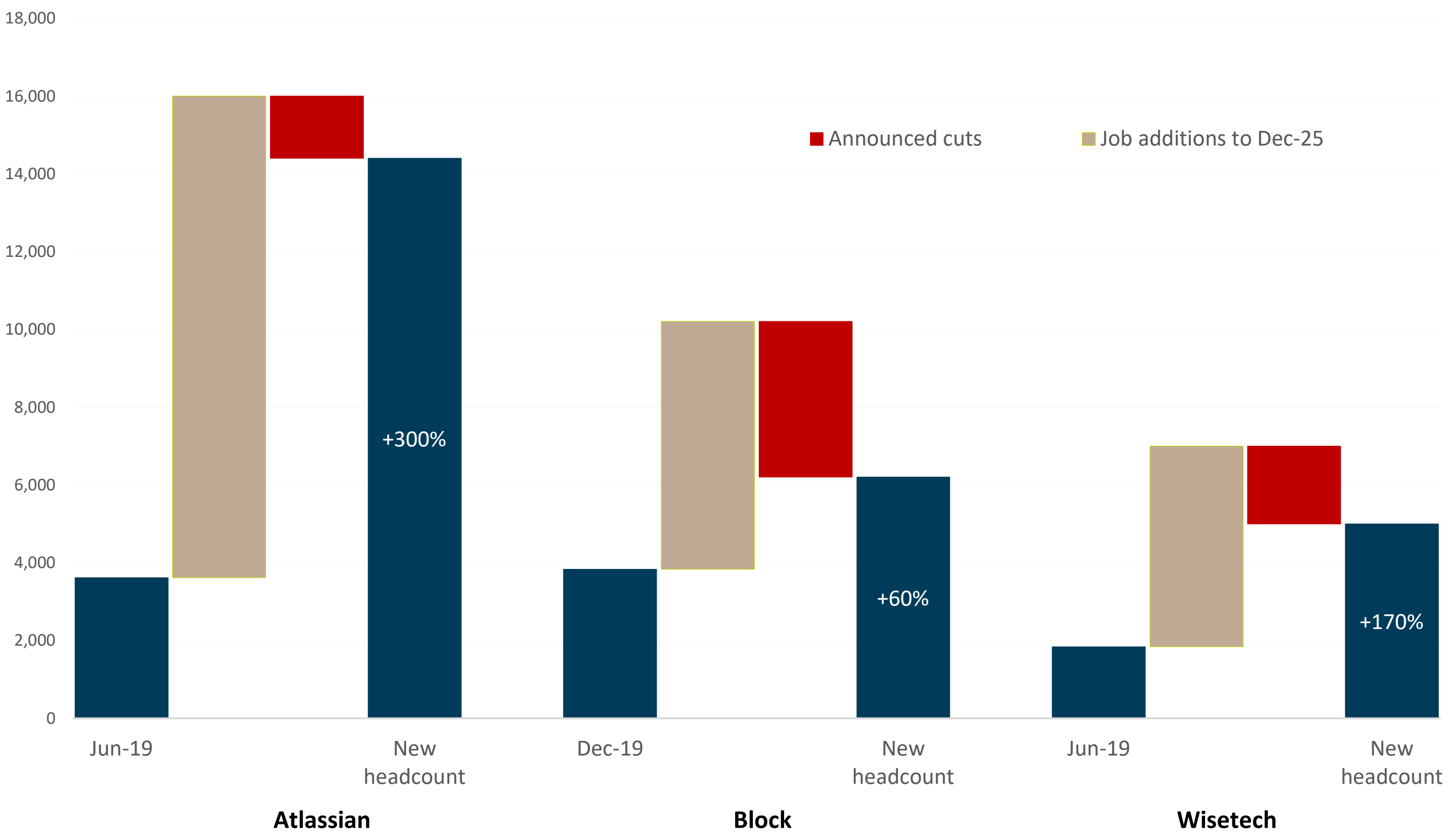
Produced by Cromwell. Source: JLL data to Mar-26

- Market variances not properly priced – dislocation between sentiment and fundamentals
- Attractive opportunities available with diligent asset selection

Productivity has driven expansion…is AI different?

Our base case aligns with historical precedent, but we do expect winners and losers

Tech Firm Headcounts



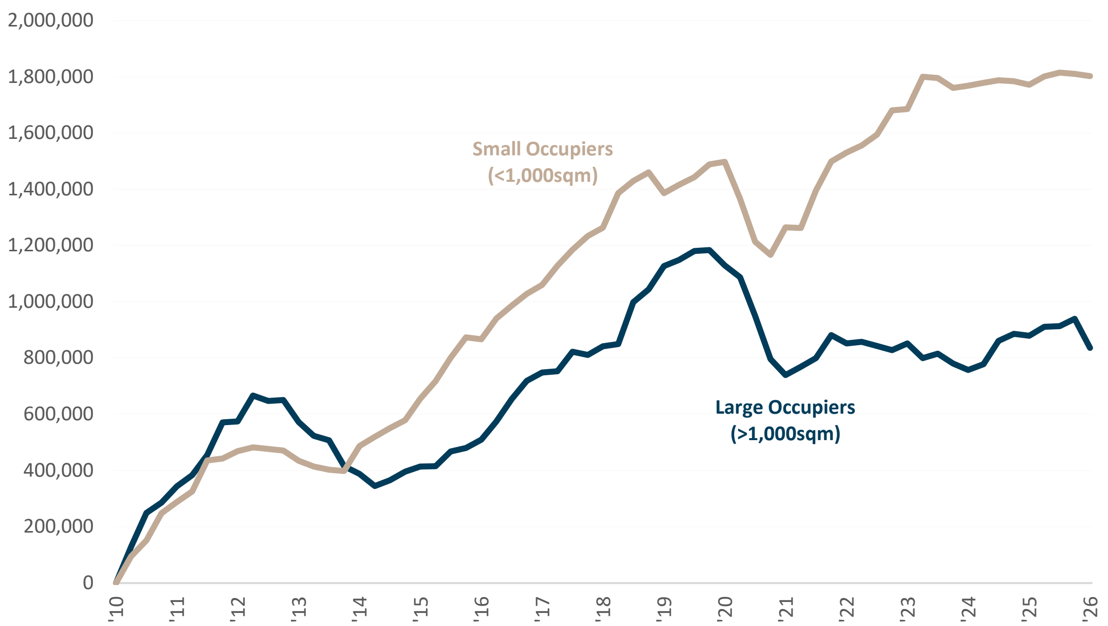
Source: Cromwell analysis of SEC filings and media reports as of Apr-26

- Media narratives at either end of the spectrum dominate – reality somewhere in the middle
- Easier to imagine existing jobs lost rather than the non-existent jobs to emerge
- Pockets of weaker hiring evident, but not job losses
- Expect growth amidst disruption – picking winners and losers important

Office demand to be small-tenant led?

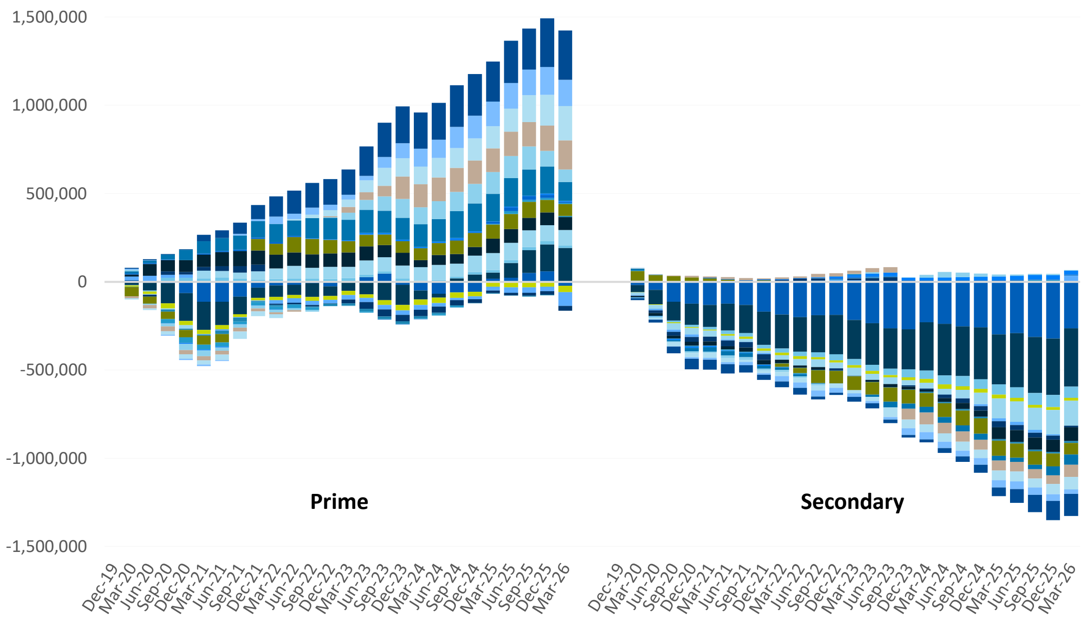
New company formation plus pandemic-era drivers (dynamism, job type resilience) important in AI era

National Cumulative Net Absorption by Tenant Size (sqm)



Source: JLL (Mar-26); Cromwell. Small occupiers (<1,000sqm) calculated as the residual of total net absorption minus large occupier (>1,000sqm) moves.

National Cumulative Net Absorption by Market (sqm)



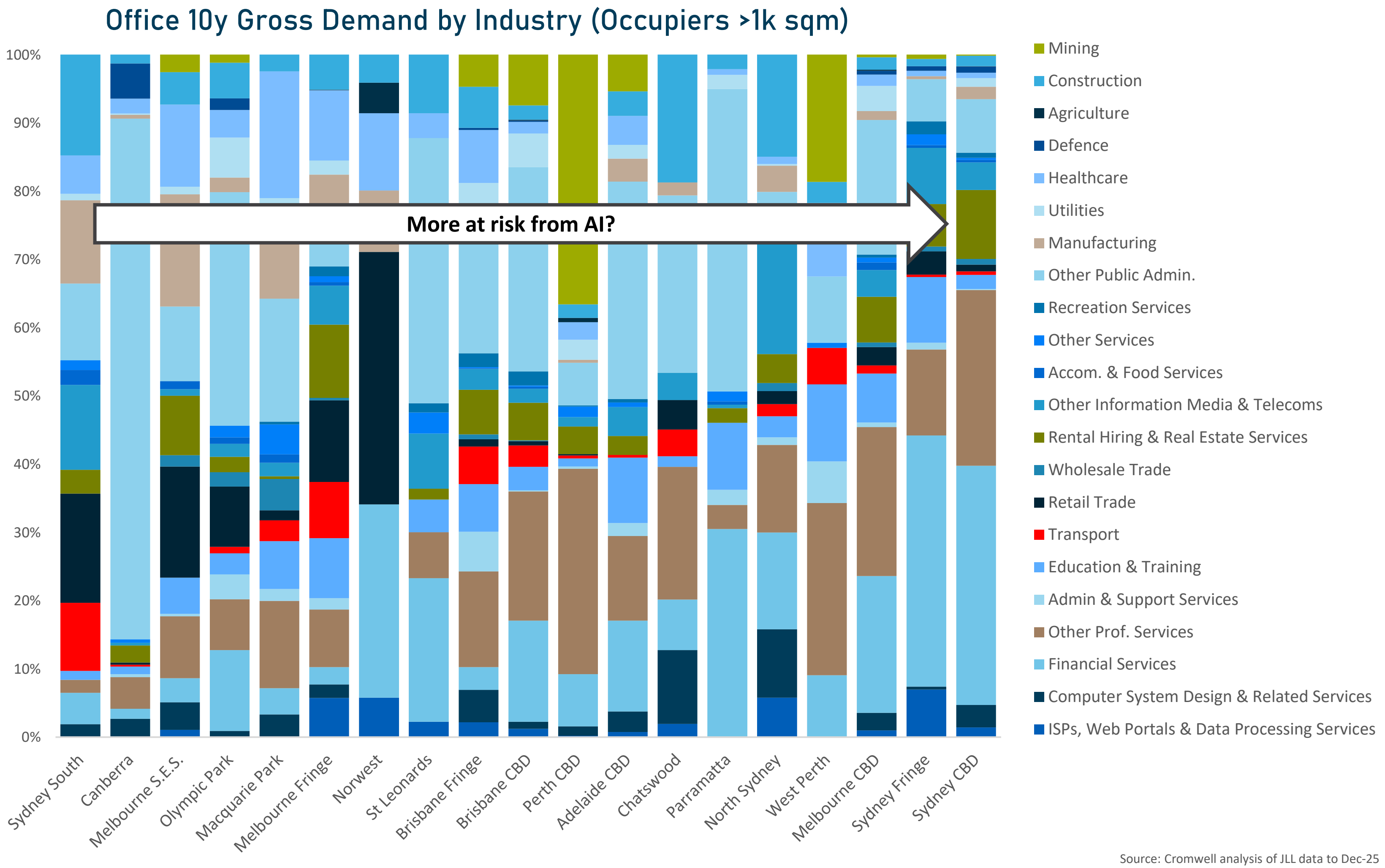
Source: Cromwell analysis of JLL data (Mar-26)

- Small tenants increased their footprint by 23% on average over 2025. Mid-sized tenants expanded by 2%, large tenants contracted by 11%
- Large occupier demand in the CBDs has been improving, but who will be more expansionary as AI shapes workforces?

- Flight to quality evident, but Premium isn't right for everyone
- Alignment to occupier needs more important than grade label
- Withdrawal of obsolete stock a normal market rebalancer

Are traditional office occupiers the safest bet?

Tasks a better indicator of automation risk, but industry breakdowns may provide a useful proxy



Source: Cromwell analysis of JLL data to Dec-25

- Back-office processing roles most at risk – particularly offshore
- Expect slower adoption across government, manufacturing, construction
- Best opportunities intersect market, tenant, and asset
- HQs may become more valuable as collaboration and innovation dominate

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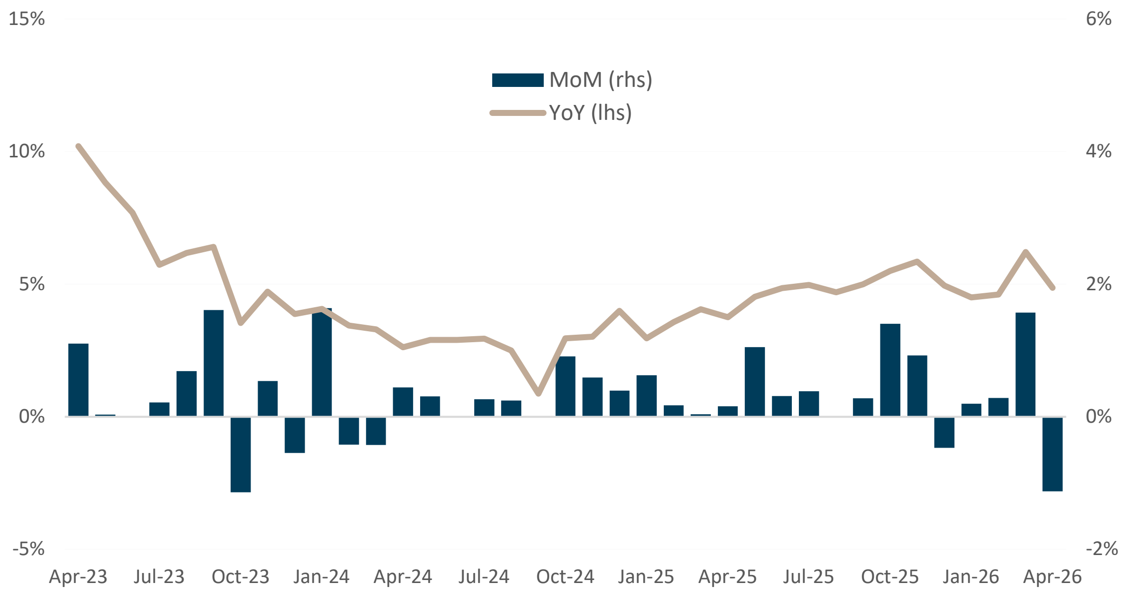
Downbeat consumers point to softer spending outlook

Spending has been resilient over 2026 but faces headwinds as rate hikes flow through and broader cost-of-living pressures start to bite

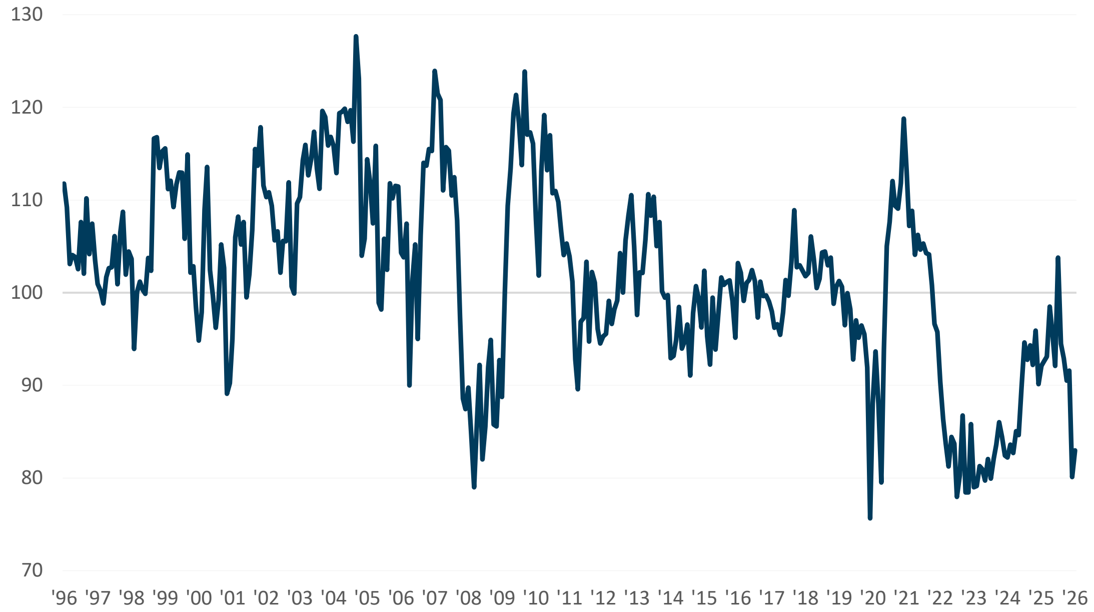
Household Spending Indicator Growth



Source: ABS (Apr-26); Cromwell

- Household spending outperformed over 2025, supported by growing incomes and wealth and a tight labour market
- Bank spending trackers show resilience amidst rising mortgage repayments and fading tax cut benefits

Westpac-Melbourne Institute Consumer Sentiment Index



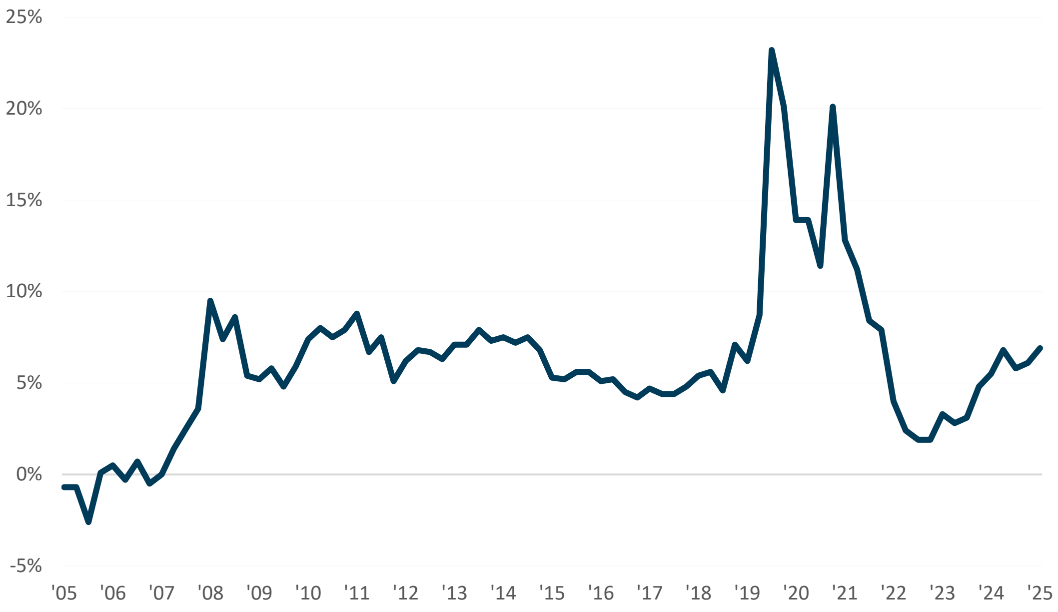
Source: Westpac/Melbourne Institute (May-26); Cromwell

- Pressures reflected in very weak consumer sentiment
- Negative wealth effect may emerge (Syd/Melb) over coming months
- Expect renewed divergence by age / net debt status

But households and shopping centres are starting from a solid base

Savings buffers can be drawn down to maintain consumption while reasonably tight vacancy conditions support the rent growth outlook

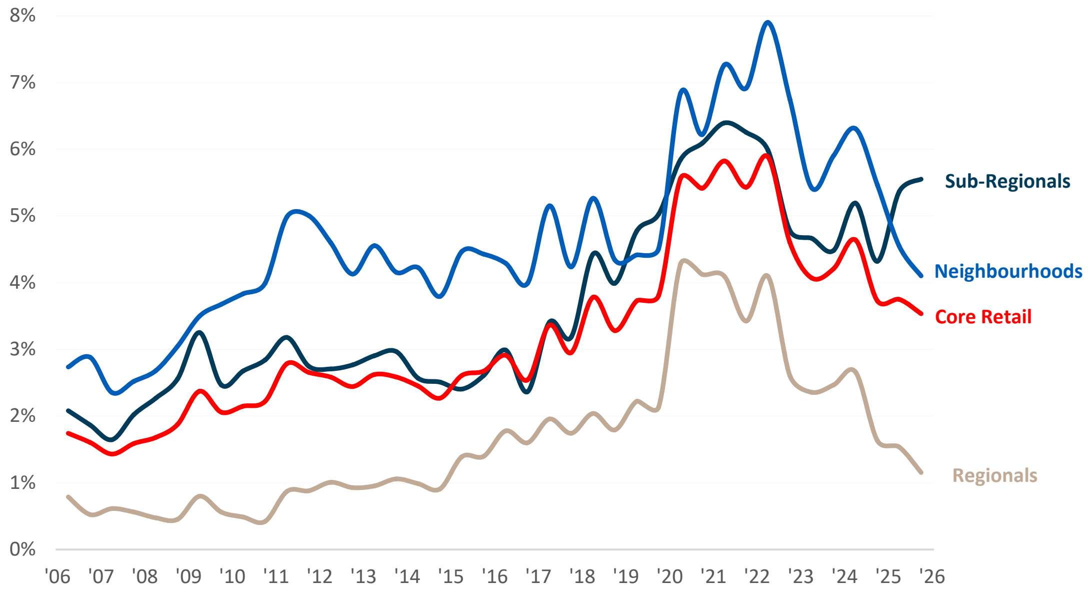
Household Savings Ratio



Source: ABS (Dec-25); Cromwell

- Latest data don't incorporate recent rate hikes, but show consumers facing into pressures on solid footing
- Household savings ratio has rebounded from a low of 1.9% in 2023 to 6.9% and balances in offset accounts have increased to $344b

Shopping Centre Specialty Vacancy Rate % (excl. Canberra, GLA-weighted)



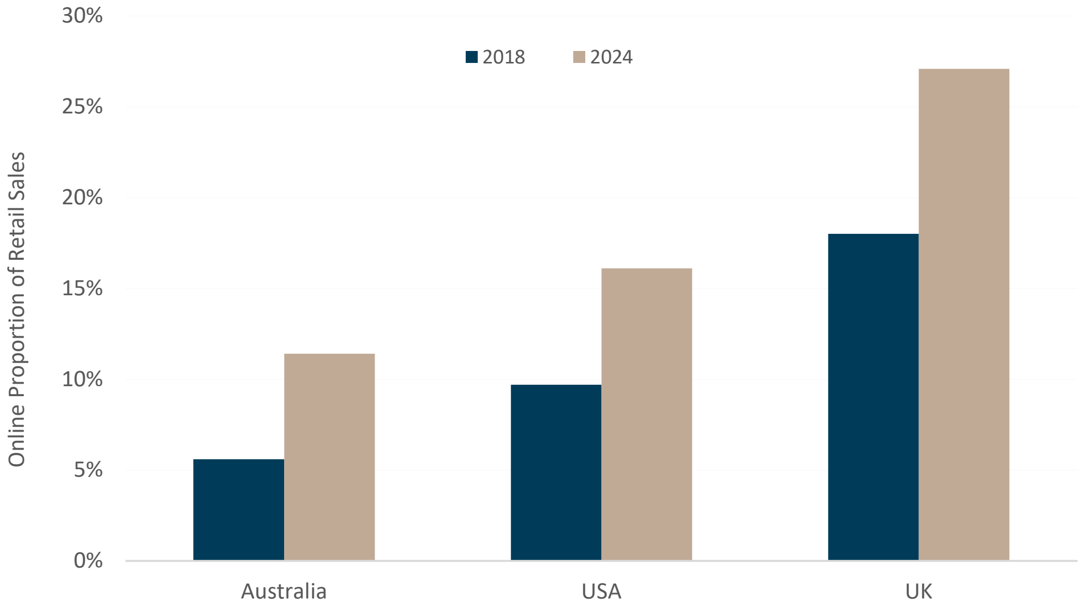
Source: JLL (Mar-26); Cromwell

- Shopping centre vacancy rates have decreased from their pandemic highs – Regional and Neighbourhood centres both below 10y avg
- Quality assets are well placed to continue generating foot traffic and leasing demand

Industrial conditions supported by thematic drivers and limited supply

While the headline supply pipeline appears elevated, we expect actual completions to undershoot due to construction, infrastructure, and feasibility challenges

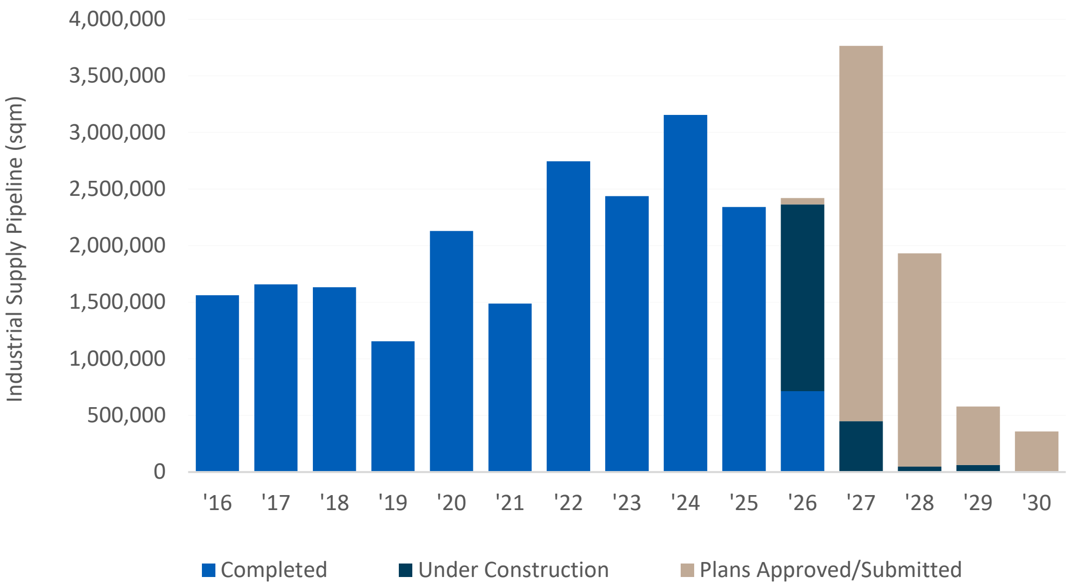
Online Proportion of Retail Sales



Produced by Cromwell. Source: ABS (Jul-25)

- E-commerce penetration tailwind still has further to run
- May not reach UK / Asia levels, but trajectory is outpacing the USA
- Supply chain reconfiguration and elevated uncertainty may nudge inventory requirements higher

Supply forecasts continue to be revised down



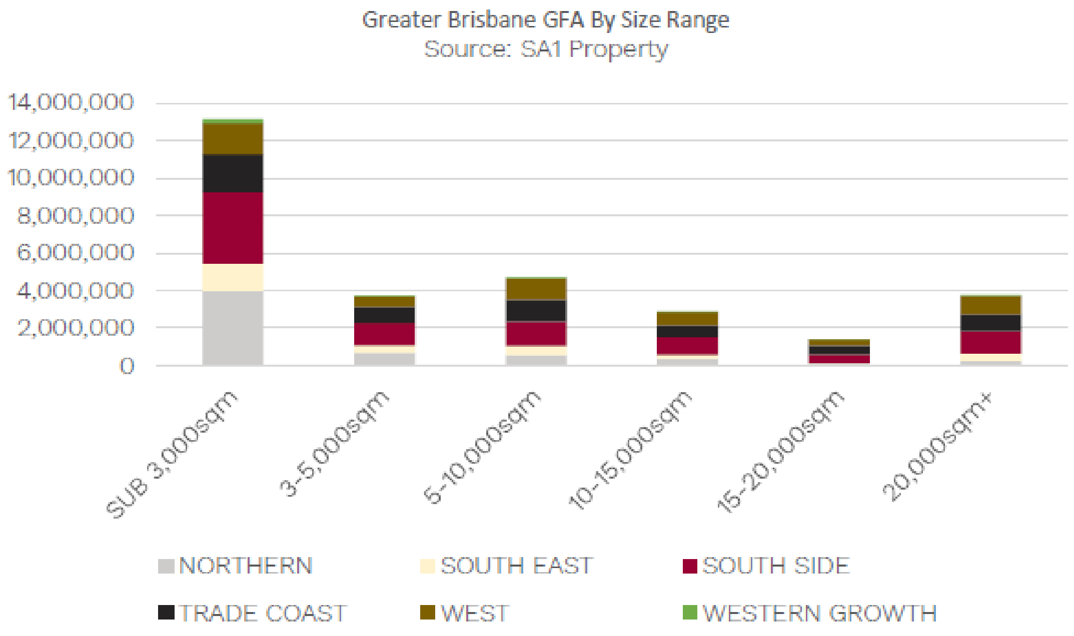
Source: JLL (May-26)

- Completed supply in 2024 ended up 8% below mid-year forecast…2025 ended up 49% below
- Conditions remain challenging and delays / postponements are likely…actual under construction pipeline is muted

Industrial asset selection and development capability critical

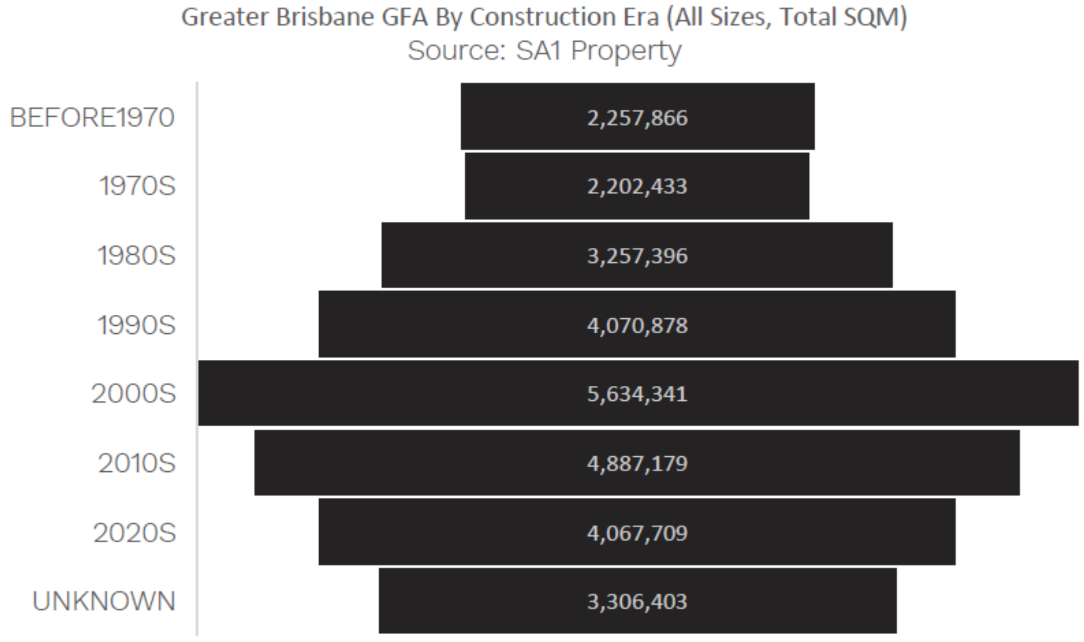
Sector-wide tailwinds are easing, but plenty of divergence and opportunity beneath the headlines

Industrial sector remains highly fragmented



- Industrial is a highly fragmented sector with high levels of private ownership
- Limited institutional focus on small lot segment of the market

Rising obsolescence presents opportunity for hands-on managers



- Physical requirements have changed significantly over last 10 years
- Older assets aren’t efficient – higher rent relocation justifiable

Summary

- Markets optimistic that a US-Iran deal is close, but forecasts go out the window if negotiations fall over
- Investment surge and demographic destiny point to higher inflation and interest rates vs. pre-COVID
- Commercial property returns being held back by sentiment and macro landscape rather than fundamentals
- Lack of supply to power rental growth over the next five years
- AI won't be the death of the office – try and turn down the noise and focus on the controllables
- Consumers facing headwinds but shopping centres are well placed
- Active asset management and development capability are critical to unlocking industrial opportunities


Heritage