



Commercial Property Market Update

June 2026

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Executive summary

As the market moves beyond the recent cycle of volatility, we are seeing clearer divergence across sectors. Retail has strengthened, industrial remains underpinned by long-term demand drivers, while office continues to adjust to hybrid work and AI-driven change. The next phase will be defined by how these structural shifts intersect with persistent interest rate and inflation pressures.

Office sector

- Vacancy continues to rise amid softer labour market and slowing employment growth. Weaker condition remains concentrated in lower-grade assets.
- Capital values have stabilised but face expansion risk from higher interest rates and bond yields.
- Returns remain modest with improving capital growth. However, demand uncertainty persists due to structural shifts in office usage due to hybrid working and AI.

Retail sector

- Retail is currently the strongest performing sector driven by both rental growth and recovering capital values.
- Conditions improved relative to the last publication with falling vacancy, supported by resilient spending and limited new supply. However, this data is yet to fully reflect evolving consumer conditions amid higher interest rates and persistent inflation driven by the Iran conflict.
- Recent cap rate compression reflects solid investor demand, particularly for prime assets – though the outlook is exposed to softer consumer confidence and higher rates.

Industrial sector

- Fundamentals remain relatively tight but gradual easing is expected with new supply and softer demand.
- Returns remain solid, underpinned by income stability and recent capital growth.
- Pricing remains stable, although it will be important to assess whether supportive structural demand – such as from e-commerce, logistics, and data centres – can offset pressures from rising interest rates and long-term bond yields.

KPMG Commercial Property Uncertainty Index

- Uncertainty across all three sectors remains below their long-term averages, although short-term dynamics have diverged in recent months.
- Uncertainty has declined materially in office and industrial sectors, signalling improving stability and reduced volatility in returns. Retail uncertainty has increased recently but it reflected stronger (but more dispersed) returns rather than a deterioration in underlying conditions.

Economic considerations

- Economic growth has softened, growing only 0.3% over the March quarter 2026. However, demand for commercial space, particularly industrial, remains strong supported by AI-driven private investment.
- The labour market is gradually loosening which is dampening office demand and contributing to the continuing increase in vacancy rates.
- The AI boom presents additional structural headwinds for office demand. However, the risks appear contained as our analysis suggests only a small share of roles are highly exposed, with around 6% of office-based jobs facing meaningful substitution risk.
- Household consumption has remained resilient but now faces downside risks from higher interest rates and declining consumer confidence.
- Elevated inflation has driven multiple rate hikes, with implications for investor risk appetite and downward pressure on asset valuations.
- Construction activity remains strong but constrained by capacity limits and rising costs. Overall, low supply will look to provide some support to rents and income growth.

Economic forecasts	Current	2026 (f)	2027 (f)
Real GDP growth	2.5% (Mar qtr)	1.0%	1.6%
Unemployment rate	4.5% (Apr)	4.4%	4.8%
Core inflation	3.4% (Apr)	2.8%	2.9%
RBA cash rate	4.35% (May)	4.60%	4.35%
Population growth	1.6% (Sep qtr)	1.2%	1.2%

Executive summary – sector outlook

Office:

- Despite a near-term rise in vacancy driven by recent supply completions, the development pipeline is declining sharply. Take-up remains strong, with evidence of spillover demand from premium office space to lower-grade assets. However, a cooling labour market, alongside structural changes in the workforce driven by AI, presents headwinds. On balance, these factors are expected to keep vacancy broadly stable over the medium term.
- Higher interest rates and bond yields are placing upward pressure on yields, potentially reversing the recent stabilisation in cap rates.

Retail:

- Peak retail performance is likely behind us.
- Consumer headwinds including higher interest rates, persistent inflation, and geopolitical uncertainty are expected to weigh on demand.
- While total returns have been strong, the outlook is more mixed, with limited upside potential for both capital growth and income returns.

Industrial:

- Industrial property remains the most structurally supported sector, although conditions are now stabilising rather than accelerating.
- Vacancy rates have broadly stabilised across major markets following recent increases, supported by continued occupier demand particularly from logistics and data centre users.
- Returns are expected to continue growing, but at a more normalised pace compared to the strong performance seen in the prior cycle.

		Current (Q1-26)	Next 12 months
Office	Vacancy rate	15.0%	Steady
	Cap rate	6.1%	Slightly up
	Returns	6.7%	Slightly down
Retail	Vacancy rate	5.2%	Slightly up
	Cap rate	5.6%	Slightly up
	Returns	9.4%	Slightly down
Industrial	Vacancy rate	4.3%	Steady
	Cap rate	5.4%	Slightly up
	Returns	7.4%	Slightly down

Key economic events and market conditions

GDP growth weakened in the March quarter, despite a rise in private investment.

Economic growth slowed to 0.3% in the March quarter, after rising by 0.9% in the December quarter. Annual growth also eased to 2.5%, from 2.6% previously. Much of the growth in GDP over the quarter was attributed to an increase in private investment, particularly machinery and equipment which rose by 16.3% q/q and contributed 0.7ppt to quarterly economic growth. Household consumption remained steady, rising by 0.5% q/q and 2.5% y/y, and contributed 0.3 percentage points to growth.

Growth in retail turnover firmed over the last six months, supported by stronger real household consumption.

Annual growth in nominal retail turnover averaged 5.2% in the March quarter 2026, after climbing to a three-year high of 5.7% in the prior quarter.

This data on household spending patterns (based on monthly bank transactions) also showed that real household spending volumes grew by 2.8% in the March quarter, the fastest pace since the June quarter 2023.

However, the sharp uplift in inflation and subsequent rise in interest rates will look to moderate household demand.

Headline inflation was 4.2% in April 2026, significantly higher than the already-elevated 3.8% seen in the beginning of the year, and above the RBA's target band of 2–3%.

Crucially, the RBA's preferred measure of underlying inflation – the trimmed mean – has also been moving in the undesirable direction. After removing the most extreme price movements (such as the spike in fuel prices associated with the Iran conflict), underlying inflation ticked up to 3.4% in April, highlighting that the inflationary pressures within the economy are in part reflecting domestic capacity constraints. Ultimately, elevated underlying inflation has seen the RBA deliver three consecutive cash rate increases to start the year.

Meanwhile, data for non-residential construction costs also show that price growth has accelerated, rising for the third consecutive period to be up 4.3% through the year in the March quarter.

Chart 1: GDP growth



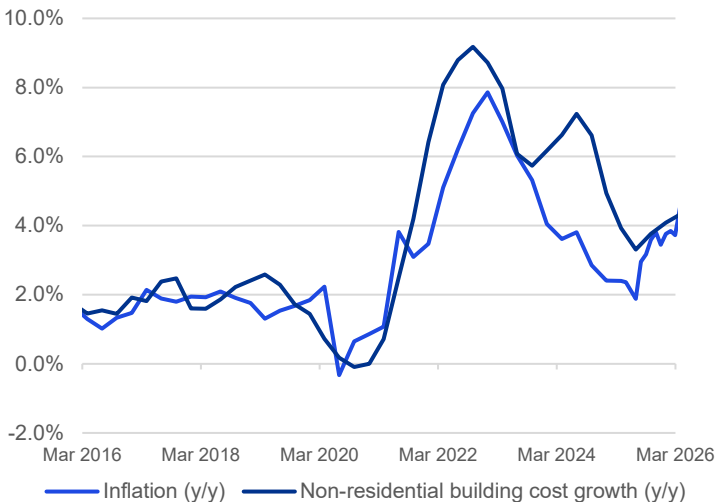
Source: KPMG, ABS, Haver

Chart 2: Retail turnover and household spending



Source: KPMG, ABS, Haver

Chart 3: Inflation and building costs



Note: Inflation reported at a quarterly frequency prior to April 2025.

Source: KPMG, ABS, Haver

The unemployment rate climbed to its highest level since November 2021, but it remains low by historical standards.

Labour market conditions have softened compared to the beginning of the year, with the seasonally adjusted unemployment rate rising to 4.5% in April 2026 from 4.1% in January.

Recent data show that a higher-than-usual number of people remained unemployed for this time of year, partly reflecting uncertainty associated with the Iran conflict which weighed on business sentiment and hiring activity. Employment also recorded its first monthly decline since November 2025.

Meanwhile, wages growth eased marginally in the March quarter, rising by 3.3% over the year, while quarterly growth remained unchanged at 0.8% for a third consecutive quarter. In late May, the Fair Work Commission increased the FY27 minimum wage by 4.75%, pointing to some upside risk to wages growth going forward.

Momentum in non-residential construction activity has continued to build.

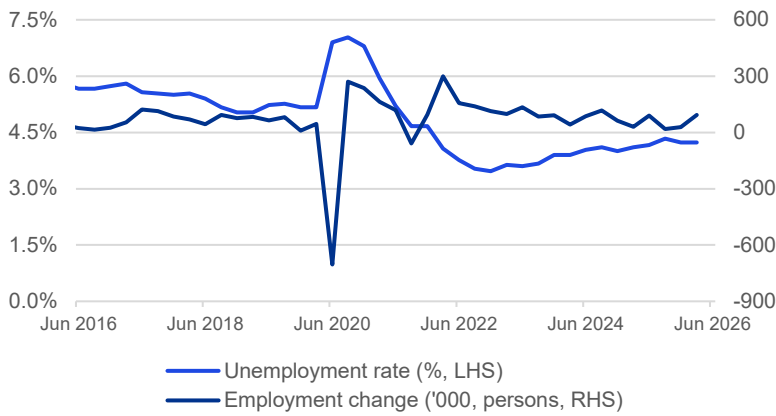
The first half of FY26 saw a robust performance for non-residential construction demand, with the value of work approved up 19.8% compared to the corresponding period of FY25. This builds upon the 12.7% rise in approvals recorded across the full FY25 financial year, which translated into a total of \$76.2 billion worth of approved work.

Looking to actual building activity, the value of work commenced grew by 12.1% in the first half of FY26. While this was cooler than the 19.1% seen across FY25, it was broadly consistent with the pace of approvals growth during the prior financial year.

Following a decline in FY25, the value of work completed has rebounded in the first half of FY26. A total of \$35.3 billion in work was completed so far, up 14.5% on the corresponding period in FY25, as delivery bottlenecks began to ease after capacity had been strained by the surge in commencement activity.

The value of work in the backlog was up 19.2% in the first six months of FY26, compared to a year ago, and has been growing over the past four years. This sustained build-up highlights persistent capacity constraints in the construction sector. Looking ahead, renewed increases in construction costs are likely to further slow delivery, suggesting the backlog will not be cleared in the near term.

Chart 4: Labour market



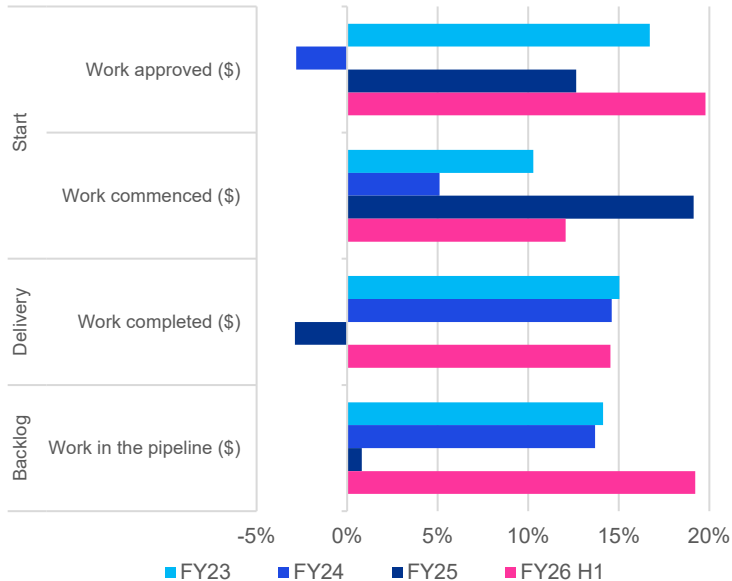
Source: KPMG, ABS, Haver

Chart 5: Wages growth



Source: KPMG, ABS, Haver

Chart 6: Non-residential construction activity by stage (annual growth)



Note: Work in the pipeline is the sum of work yet to be done and work not yet commenced. FY26 is data for the Sep and Dec quarters, compared to the corresponding period of FY25.
Source: KPMG, ABS, Haver

Commercial property exposures as a proportion of lending over the long term has trended upward.

Over the year to the December quarter 2025, the exposure of authorised deposit-taking institutions to commercial property expanded 8.8% to \$480.2 billion. Through the year, the overall share of commercial property exposures (as a proportion of total assets) stabilised at around 7%.

Financial stress remained at low levels throughout the year.

The share of non-performing commercial real estate loans continued to be largely unchanged, dipping to 0.7% in the December quarter. This low level reflects conservative lending practices amongst banks operating in Australia.

The number of businesses which are entering external administration appears to have stabilised. Latest data from the Australian Securities and Investments Commission (ASIC) show that 9,307 companies entered administration in the first eight months of FY26, which is 1.3% fewer than in the corresponding period of FY25. Based on this trajectory, the full-year outcome for FY26 is likely to reverse the sequence of annual increases observed from FY21 to FY25.

In terms of industry composition, construction accounted for the largest share of administrations in the first eight months of FY26 (25%), followed by accommodation and food services (15%).

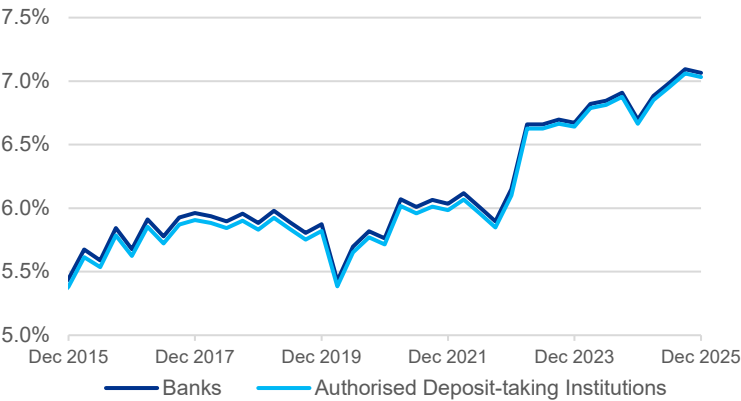
Ongoing trends in lender appetites remain little changed.

After a brief pause, industrial assets (as a share of commercial property exposures) have again expanded their presence in commercial lending, rising to 19.5% in the December quarter 2025. This was 0.6ppt higher than a year ago, and demonstrates the attractiveness of the sector to investors, particularly with strength in demand for data centre and warehouse space.

Meanwhile, exposure to retail appears to have stabilised somewhat at 23.8%, although it is still 0.8ppt lower compared to the December quarter 2024.

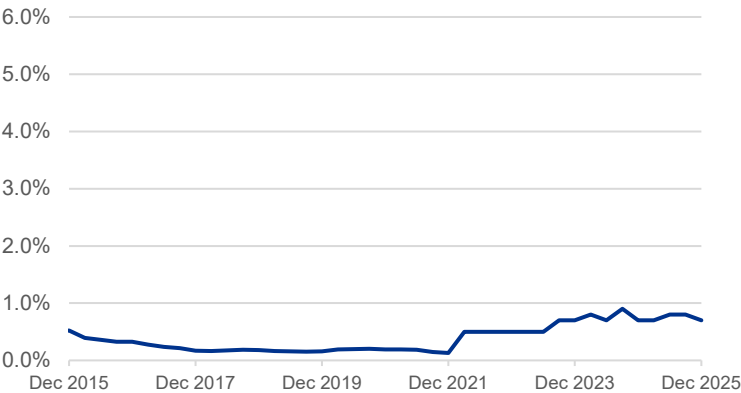
However, for the office sector, the fall in exposure has been more marked, dropping a further 0.7ppt to 24.9% in the December quarter 2025, to be 1.8ppt lower than a year prior.

Chart 7: Bank loan exposures to commercial property (share of total assets)



Source: KPMG, APRA, Haver

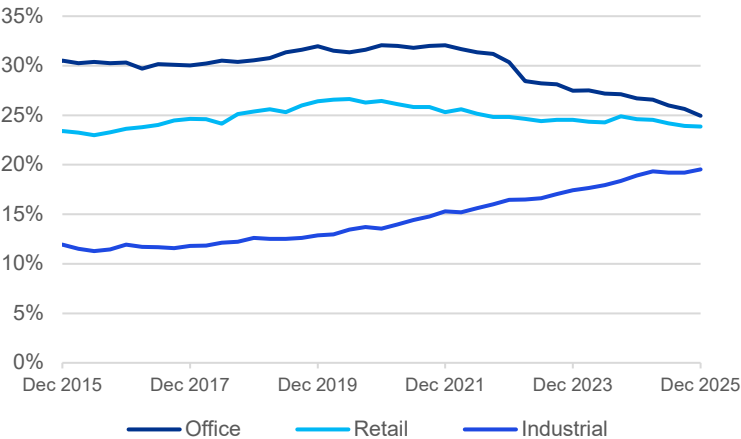
Chart 8: Non-performing rate (share of banks' commercial property exposures)



Note: Data reported as impairment rate prior to 2022.

Source: KPMG, APRA, Haver

Chart 9: Exposures of different commercial property segments (share of total commercial property exposures)



Source: KPMG, APRA, Haver

Foreign demand for commercial investment continues to display strength.

Data for the first three quarters of FY26 indicate that values of approved commercial investment proposals are on track to surpass FY25 levels, with a year-to-date total of \$209.5 billion.

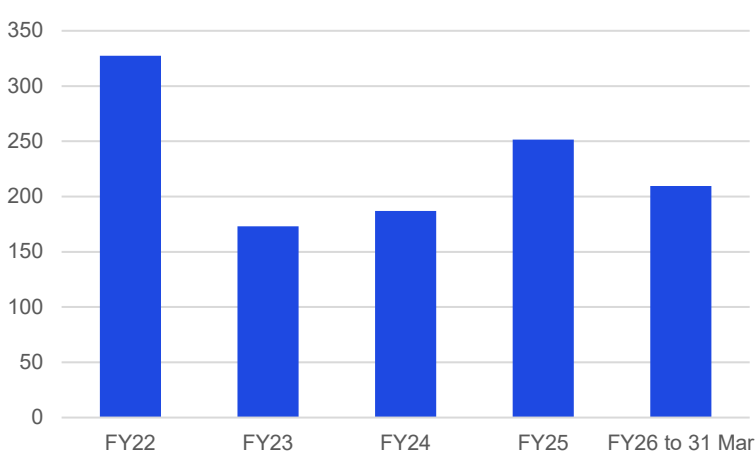
This follows the full year result of \$251.5 billion in FY25, which was 34% higher than FY24.

The United States remained the largest source of commercial foreign investment, however, the origin of proposals was more broad-based in FY26 compared to FY25.

After an outsized \$122.3 billion contribution in FY25, only \$33.2 billion worth of proposals were from the United States over the first three quarters of FY26. This decline was more than offset by investment from other regions, with notable rises from Singapore, the United Kingdom, the United Arab Emirates, and China.

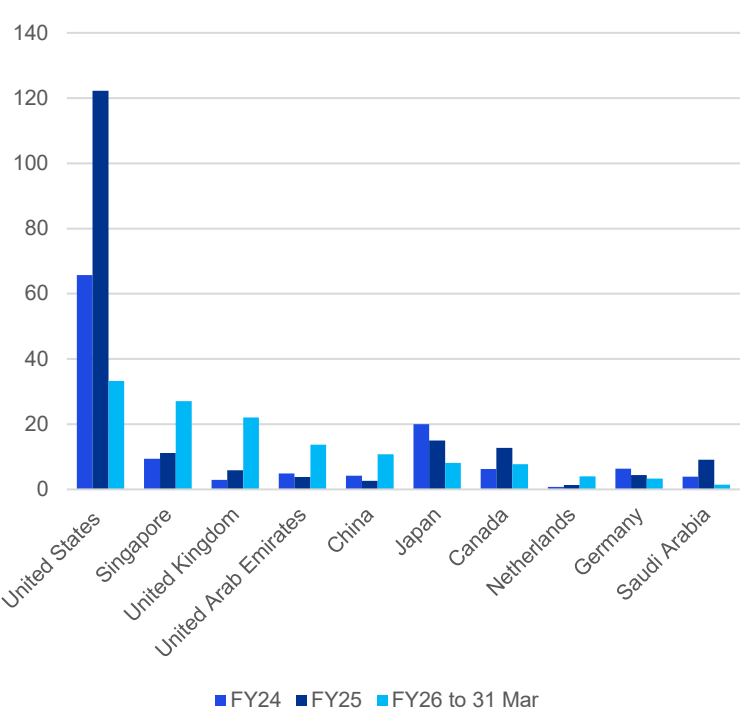
In contrast, investment flows from Japan have weakened following a period of strength in FY23 and FY24.

Chart 10: Value of foreign commercial investment proposals (\$ billion)



Note: FY26 only includes data until 31 March 2026
Source: KPMG, Commonwealth Treasury

Chart 11: Sources of foreign commercial investment proposals (\$ billion)



Note: FY26 only includes data until 31 March 2026.
Source: KPMG, Commonwealth Treasury

KPMG Commercial Property Uncertainty Index

Introduction

The KPMG Commercial Property Uncertainty Index provides insights into the unpredictability and potential risks associated with investing in office, industrial and retail property.

An asset that produces consistently fair returns should generate a stable, low uncertainty index. Where an index spikes, it signals investors are expecting, or are reacting to, significant changes in market conditions.

Chart 12 presents the KPMG Commercial Property Uncertainty Index for the Industrial, Office, and Retail sectors between the June quarter 2008 and the September quarter 2025.

Historical performance

During the Global Financial Crisis (2008–2010), all three commercial property sectors in Australia experienced sharp spikes in uncertainty due to volatile economic conditions, tighter and costlier financing, and weakened investor sentiment. As markets stabilised, uncertainty levels remained relatively steady from 2010 to 2020.

A new wave of uncertainty emerged with the onset of the COVID-19 pandemic in 2020, though its impact varied across sectors. The Retail sector saw an immediate spike due to lockdowns and a rapid shift to online shopping. Recovery followed as restrictions eased, supported by government stimulus and consumer demand.

The Industrial sector, particularly logistics and warehousing, initially benefited from the e-commerce boom. However, ongoing supply chain disruptions and global trade shifts contributed to rising uncertainty in 2021.

In contrast, the Office sector experienced a delayed spike. The widespread adoption of remote work led businesses to reassess their need for physical office space, creating long-term uncertainty around future demand.

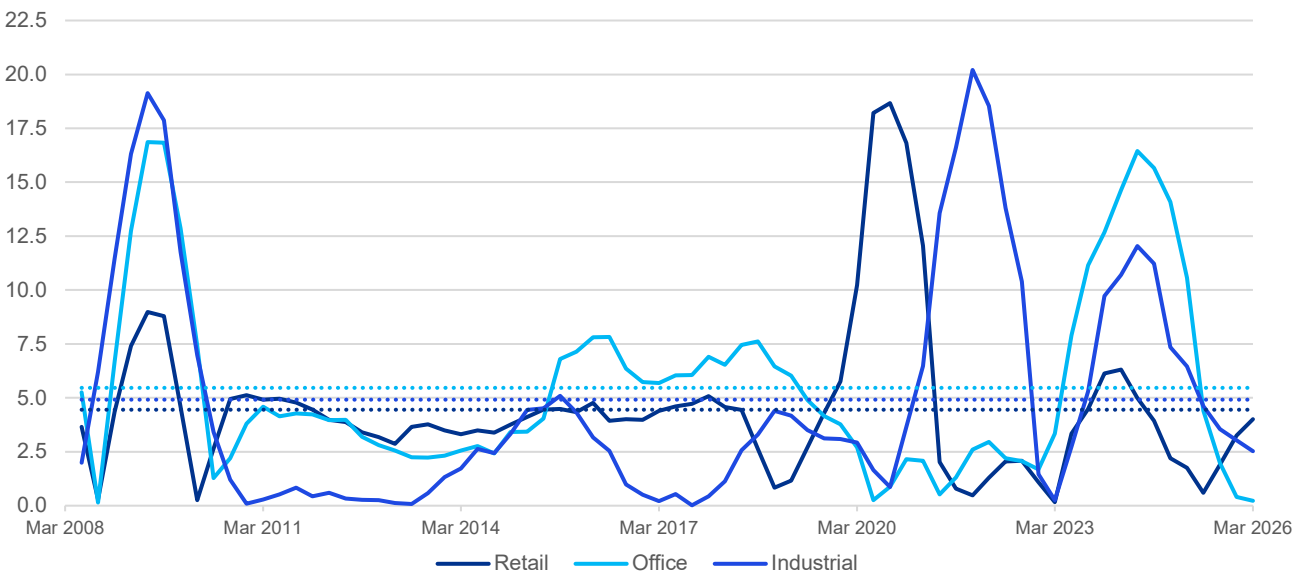
Recent performance

The KPMG Commercial Property Uncertainty Index indicates that uncertainty across all three sectors remains below their long-term averages, although short-term movements have diverged in recent months.

Retail uncertainty has increased, rising from 1.9 to 4.0 over the past six months (since the previous report) – bringing it close to its long-term average. On a year-on-year basis, Retail uncertainty has risen by 2.3 index points. Nevertheless, the observed rise in volatility is being driven by higher returns, which have increased the dispersion of outcomes. In this context, higher volatility reflects stronger but less predictable upside movements rather than a deterioration in market conditions.

Uncertainty has declined in both the Office and Industrial sectors. Office uncertainty fell sharply from 2.0 to 0.2 over the past six months and is down by 10.3 index points over the year. Similarly, Industrial property uncertainty decreased from 3.6 to 2.5 over the past six months, and 3.9 index points over the year.

Chart 12: KPMG Commercial Property Uncertainty Index



Note: Dotted lines indicate long-run average.

Source: KPMG

Retail property sector

Space conditions

Retail conditions have continued to improve since our previous report. Data for the March quarter 2026 indicates that vacancy declined to 5.2%, representing a 40 basis point reduction over the past six months. Prime centres remain the standout performers, with vacancy holding at approximately 1% since September 2025.

This performance reflects a solid trading environment, underpinned by resilient household spending. Market feedback also suggests that rental growth has been broad-based across the retail sector, with net face rents increasing across all segments.

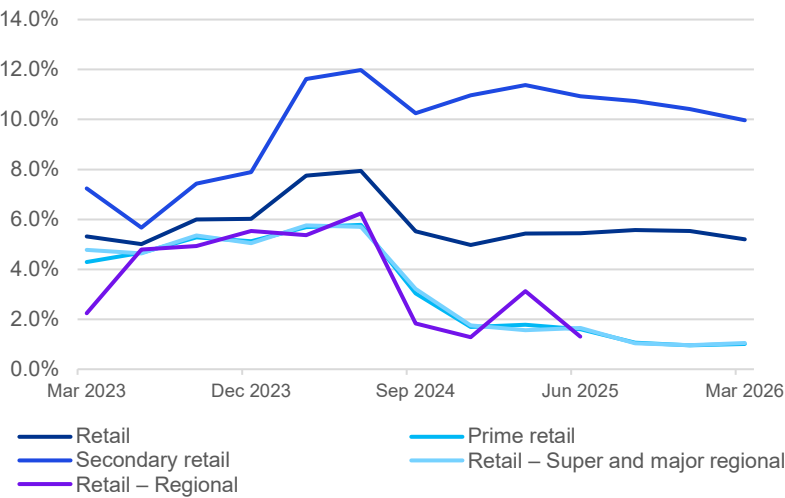
However, these conditions may likely reverse. Current data does not yet fully capture the impact of the Iran conflict, which has contributed to a sharp decline in consumer confidence. This is compounded by the cumulative effect of three recent interest rate increases, which are likely to weigh on household spending and retail performance going forward. Nevertheless, the lack of upcoming supply of retail development may help offset the pressures from an increasingly uncertain geopolitical and economic environment. Albeit with a potential for an upward drift, constrained supply and easing demand are likely to keep vacancy broadly stable.

Asset pricing

Capitalisation rates have continued to compress since September 2025, with the sector average currently sitting at 5.6%, tightening by 16 basis points relative to six months ago. This reflects sustained strength fundamentals and is underpinned by robust capital flows into the retail sector.

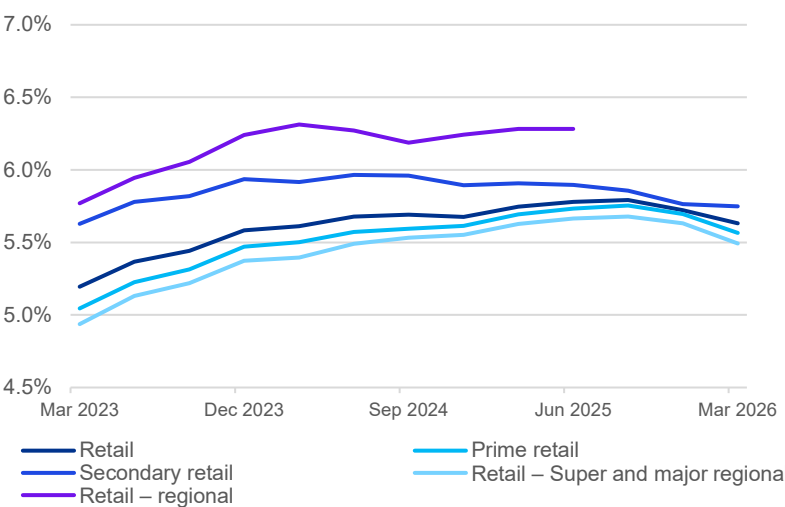
Prime centres have led the compression trend, with cap rates declining by 18 basis points, compared to a more modest 11 basis point tightening for secondary assets. This divergence highlights the continued investor preference for higher-quality assets, particularly in a more uncertain macro-economic environment.

Chart 13: Vacancy rates across retail property subsectors (%)



Note: Data for Retail – Regional not reported by MSCI since June 2025.
Source: KPMG, MSCI/PCA

Chart 14: Capitalisation rates across retail property subsectors (%)



Note: Data for Retail – Regional not reported by MSCI since June 2025.
Source: KPMG, MSCI/PCA

Retail property sector (cont.)

Investment performance

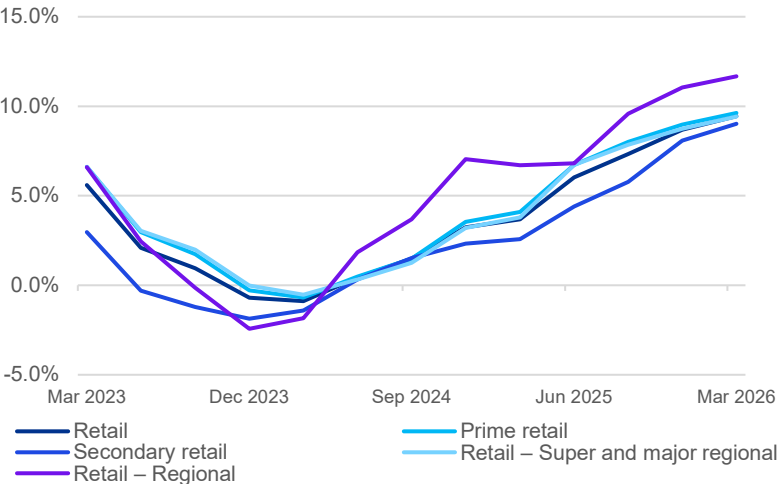
After a period of declines through 2023 and early 2024, retail asset performance has strengthened steadily over 2025 and into 2026. Total returns increased from 7.3% in the September quarter of 2025 to 9.4% in the March quarter of 2026. Prime retail returns rose from 8.0% to 9.6%, while total returns for secondary retail increased from 5.7% to 9.0%.

This improvement in total returns is driven by both rising rental income and capital growth.

Income returns have remained resilient over this period and are now being further supported by the recovery in capital growth.

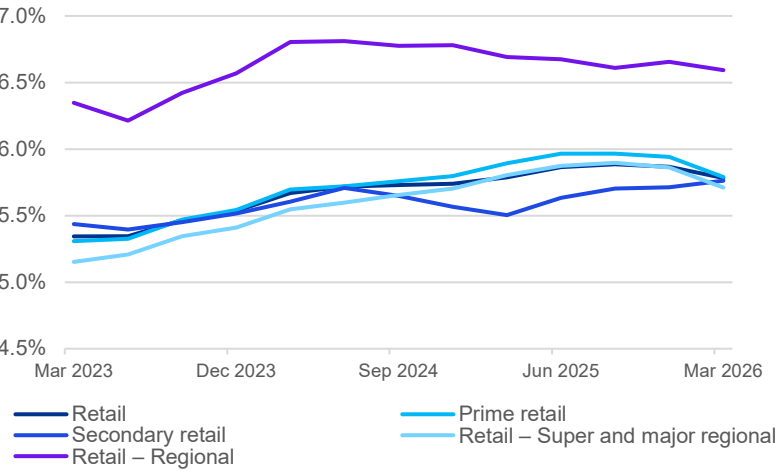
Following a period of negative growth from 2023 to 2024, capital growth has steadily recovered, with overall retail values rising by 3.5% in the March quarter of 2026, up from 1.3% in the September quarter of 2025. This recovery has been broad-based, with secondary retail recording the largest increase.

Chart 15: Total returns across retail property subsectors (%)



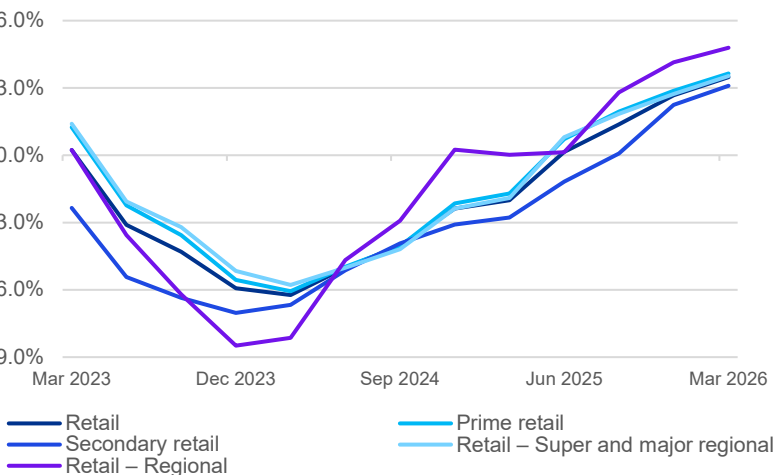
Source: KPMG, MSCI/PCA

Chart 16: Income returns across retail property subsectors (%)



Source: KPMG, MSCI/PCA

Chart 17: Capital returns across retail property subsectors (%)



Source: KPMG, MSCI/PCA

Office property sector

Space conditions

The labour market has shown signs of softening since our last report. While the unemployment rate remains low, employment growth has slowed significantly, which continues to place upward pressure on office vacancy rates. National CBD vacancy has increased to 15.0%, from 14.6% six months ago.

While vacancy continues to trend higher overall, conditions vary across markets. Sydney has shown early signs of stabilisation, with vacancy holding at 13.8% since the December quarter. In contrast, Melbourne recorded the largest increase, with vacancy rising by 67 basis points, while Brisbane also saw a notable uptick of 60 basis points over the same period.

Asset quality remains a key differentiator. Premium and A-grade office assets have continued to demonstrate relative resilience, with vacancy increasing by 47 basis

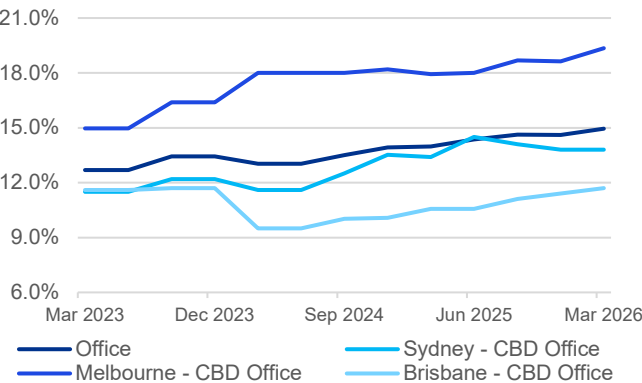
points to 14.1% over the past six months. In comparison, lower-grade assets have experienced a much sharper deterioration, with vacancy rising by 135 basis points to 17.1%, highlighting the ongoing divergence in tenant demand toward higher-quality space.

Asset pricing

Capitalisation rates appear to have peaked at around 6.1% in the September quarter of 2025 and have since remained broadly stable.

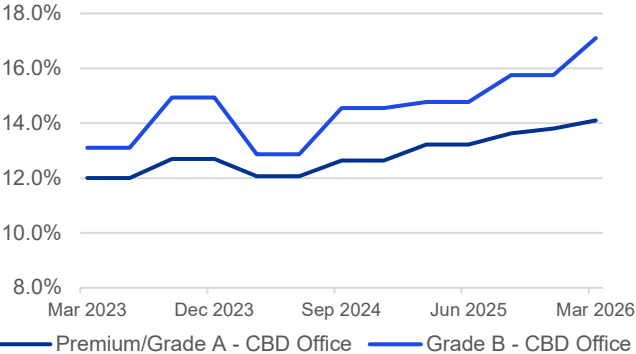
However, persistently high domestic inflation – even prior to recent developments in the Middle East – has shifted the path of interest rates. The RBA has increased the cash rate three times in 2026, while government bond yields have also remained elevated. Together, these factors suggest a renewed risk of outward pressure on capitalisation rate.

Chart 18: Vacancy rates across office property by location (%)



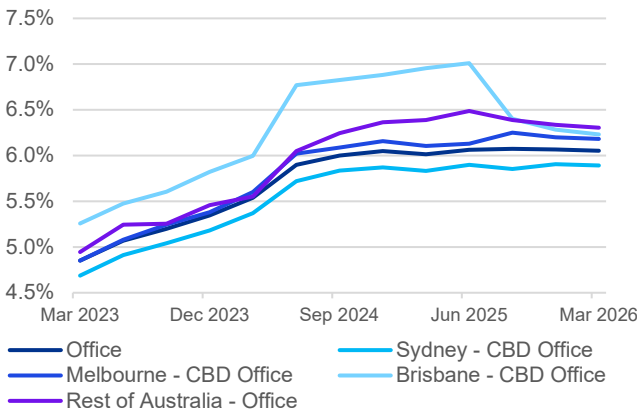
Source: KPMG

Chart 19: Vacancy rates across office property by quality (%)



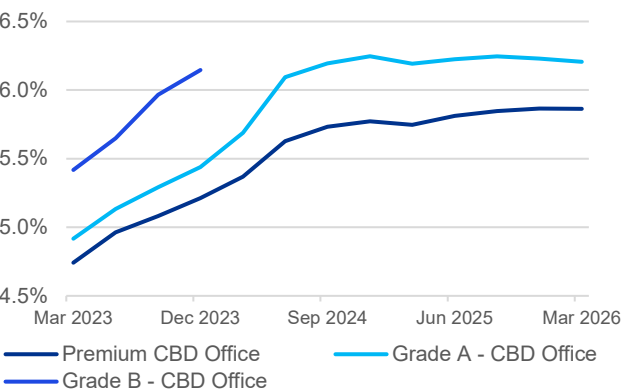
Note: The data represents the average rates collected across Sydney, Melbourne, and Brisbane.
Source: KPMG

Chart 20: Capitalisation rates across office property by location (%)



Source: KPMG, MSCI/PCA

Chart 21: Capitalisation rates across office property by quality (%)



Note: Data for Grade B – CBD Office not reported by MSCI since December 2023.
Source: KPMG, MSCI/PCA

Office property sector (cont.)

Investment performance

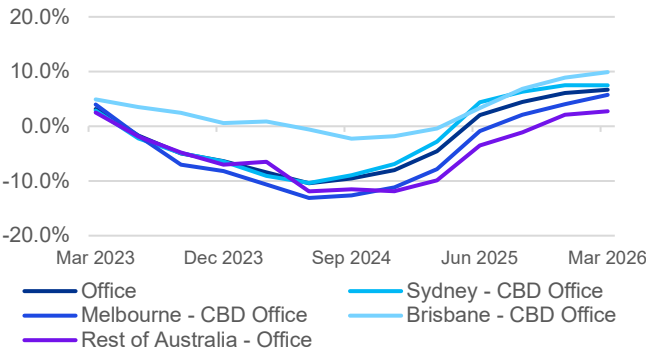
Total returns have continued to strengthen, remaining positive for four consecutive quarters and rising to 6.7%, up from 4.4% six months ago.

Across the eastern seaboard markets, Melbourne CBD office recorded the largest increase in total returns over the period. However, Brisbane currently leads in absolute terms, registering the highest level of total returns among the major cities.

Income returns have remained relatively stable across markets, providing a consistent underpinning to overall performance.

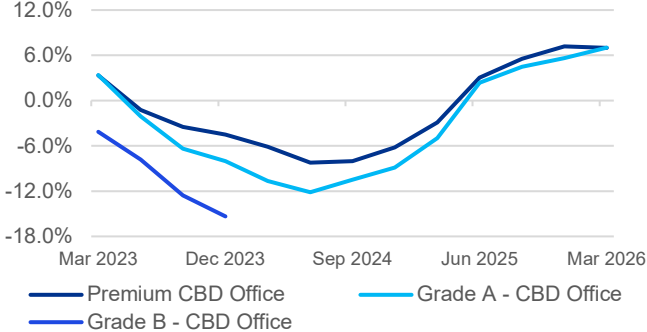
In contrast, capital growth has only recently turned positive for two consecutive quarters. While most markets have seen a return to modest capital appreciation, Melbourne continues to lag, with capital growth still slightly negative, albeit now approaching neutral levels.

Chart 22: Total returns across office property by location (%)



Source: KPMG, MSCI/PCA

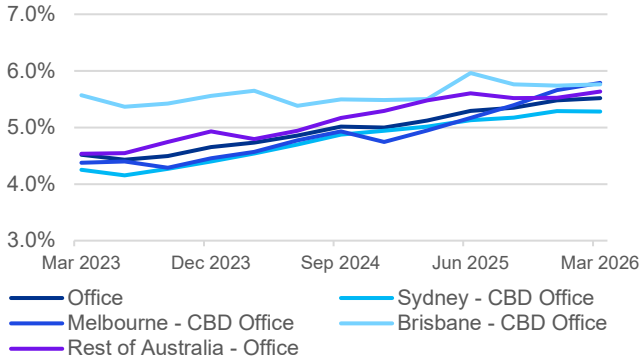
Chart 23: Total returns across office property by quality (%)



Note: Data for Grade B – CBD Office not reported by MSCI since December 2023.

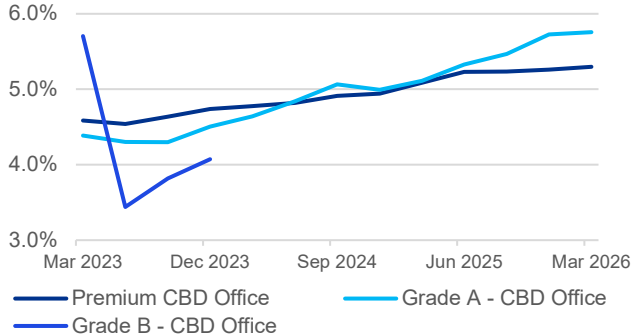
Source: KPMG, MSCI/PCA

Chart 24: Income returns across office property by location (%)



Source: KPMG, MSCI/PCA

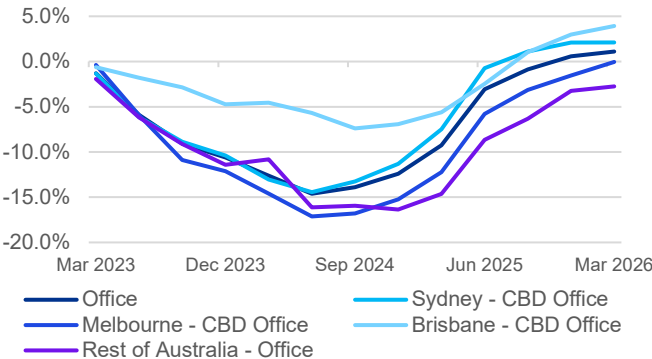
Chart 25: Income returns across office property by quality (%)



Note: Data for Grade B – CBD Office not reported by MSCI since December 2023.

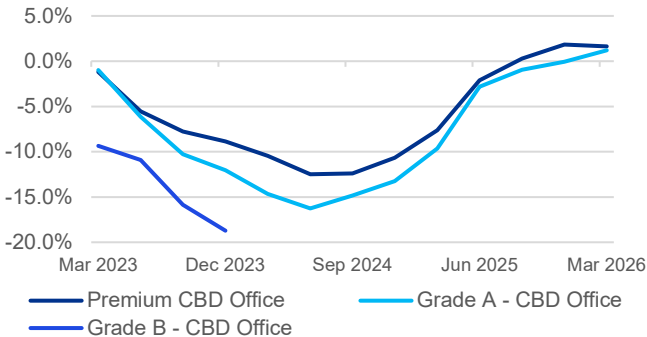
Source: KPMG, MSCI/PCA

Chart 26: Capital returns across office property by location (%)



Source: KPMG, MSCI/PCA

Chart 27: Capital returns across office property by quality (%)



Note: Data for Grade B – CBD Office not reported by MSCI since December 2023.

Source: KPMG, MSCI/PCA

Industrial property sector

Space conditions

Vacancy rates have edged higher over the past six months, rising to 4.3% from 4.0%, as new supply begins to come online in response to previously strong demand.

The increase has been most pronounced in Sydney; however, it continues to record the lowest vacancy rate among the major markets, reflecting its relatively tight underlying supply–demand balance.

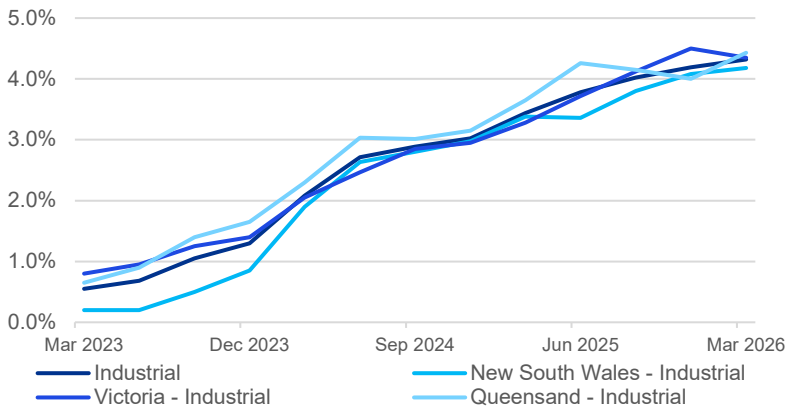
Looking ahead, softer economic conditions are expected to weigh on occupier demand, particularly as pressures on consumer spending and business activity intensify. Nevertheless, structural tailwinds – most notably the continued expansion of e-commerce and growing demand linked to AI and data-driven industries – are likely to provide a partial offset and support for industrial assets.

Asset pricing

Capitalisation rates have remained broadly stable over the past six months, currently sitting at 5.4%.

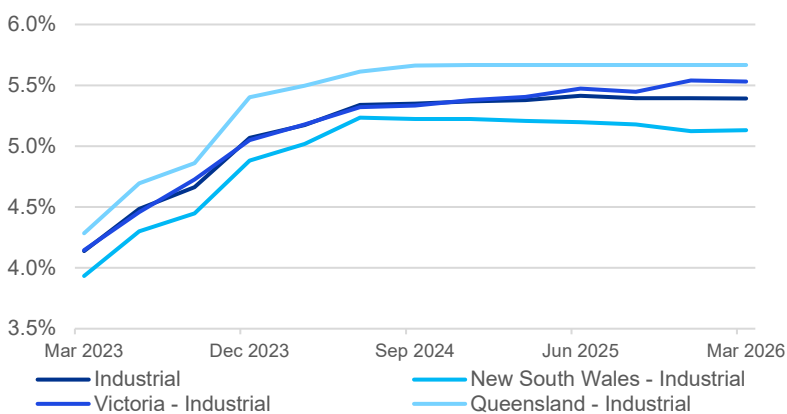
However, there is a renewed risk of cap rates expansion. The RBA has increased the cash rate three times in 2026, while government bond yields have also remained elevated, raising required returns for investors. As a result, while pricing has held firm to date supported by still-solid occupational fundamentals and structural demand drivers, these macro-financial conditions suggest that further cap rate expansion has the potential to re-emerge.

Chart 28: Vacancy rates across industrial property by location (%)



Source: KPMG

Chart 29: Capitalisation rates across industrial property by location (%)



Note: Queensland data not reported by MSCI since March 2025; figures shown are based on KPMG's internal estimates.

Source: KPMG, MSCI/PCA

Industrial property sector (cont.)

Investment performance

Total returns have continued to strengthen since the December quarter of 2024, but the momentum now appears to be moderating.

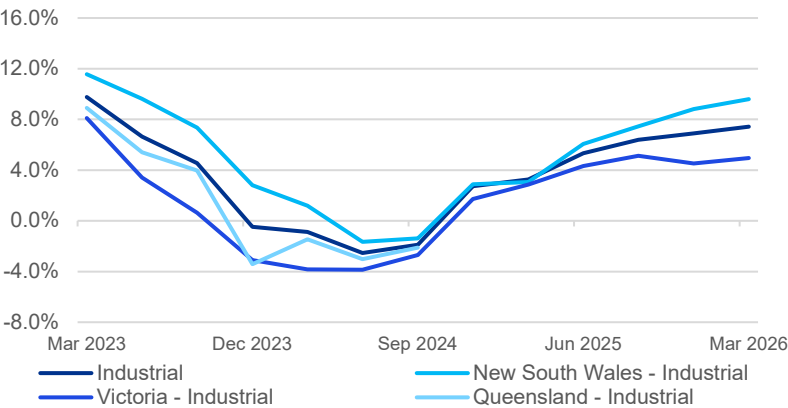
The data suggests that performance over the past six months has been led by Sydney, where total returns increased by around 100 basis points. In contrast, Melbourne recorded a modest decline of 20 basis points over the same period, indicating some divergence in market performance across key cities.

Income returns have remained relatively stable, growing at a consistent pace since late 2024 and continuing to provide a reliable underpinning to overall returns. This stability reflects resilient rental conditions and sustained occupier demand, albeit at a moderating pace.

The recent uplift in total returns has therefore been primarily driven by capital growth. With capitalisation rates stabilising over recent quarters, sustained investor sentiment and firmer pricing outcomes have all together supported a recovery in capital values.

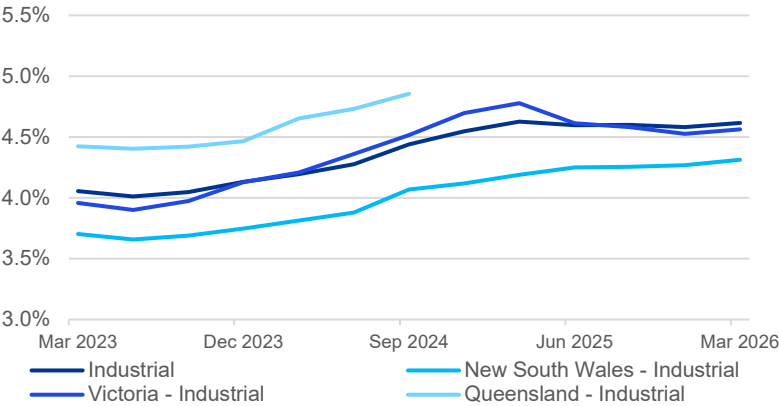
Looking ahead, while income returns are expected to remain steady, the trajectory of total returns will increasingly depend on movements in capital values, particularly given the evolving interest rate environment and potential for renewed cap rate expansion.

Chart 30: Total returns across industrial property by location (%)



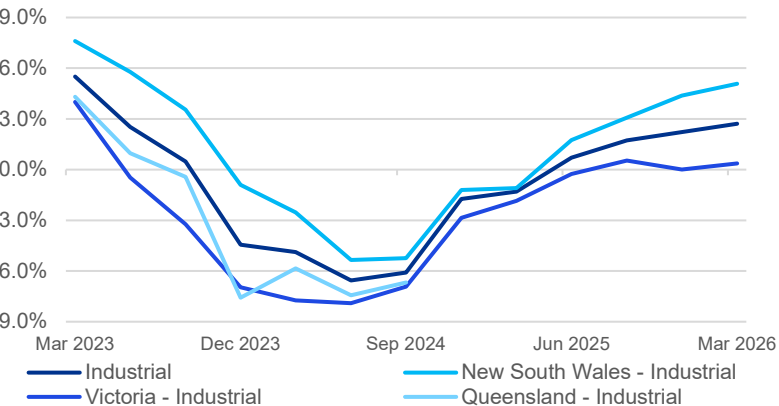
Note: Queensland data not reported by MSCI since September 2024.
Source: KPMG, MSCI/PCA

Chart 31: Income returns across industrial property by location (%)



Note: Queensland data not reported by MSCI since September 2024.
Source: KPMG, MSCI/PCA

Chart 32: Capital returns across industrial property by location (%)



Note: Queensland data not reported by MSCI since September 2024.
Source: KPMG, MSCI/PCA

AI and jobs: What does it mean for Office?

Methodology – assessing the potential impact of AI on the workforce

We adopt a task-based framework developed by the International Labour Organization (ILO).¹ Rather than classifying occupations as fully automatable or not, this approach evaluates the extent to which individual tasks within each job are exposed to generative AI (GenAI).

Each task is assigned an exposure score based on its susceptibility to AI-driven automation. These task-level scores are then aggregated to the occupation level using two key dimensions: the average exposure across tasks and the degree of variation within the role. This allows occupations to be grouped into broad exposure categories reflecting how deeply AI can penetrate day-to-day work.

For practical interpretation, there are five exposure levels (from highest to lowest):

1. **Level 5:** Occupations face high and consistent exposure across most tasks, implying significant potential for automation or workforce reduction.
2. **Level 4:** Occupations also have substantial exposure, albeit uneven across tasks.
3. **Level 3:** Occupations exhibit a mix of automatable and non-automatable tasks, pointing to job redesign rather than elimination.
4. **Level 2:** Occupations have low overall exposure, with AI primarily acting as a productivity-enhancing tool.
5. **Level 1:** Occupations with minimal or no exposure, with tasks that are difficult to automate using current technologies.

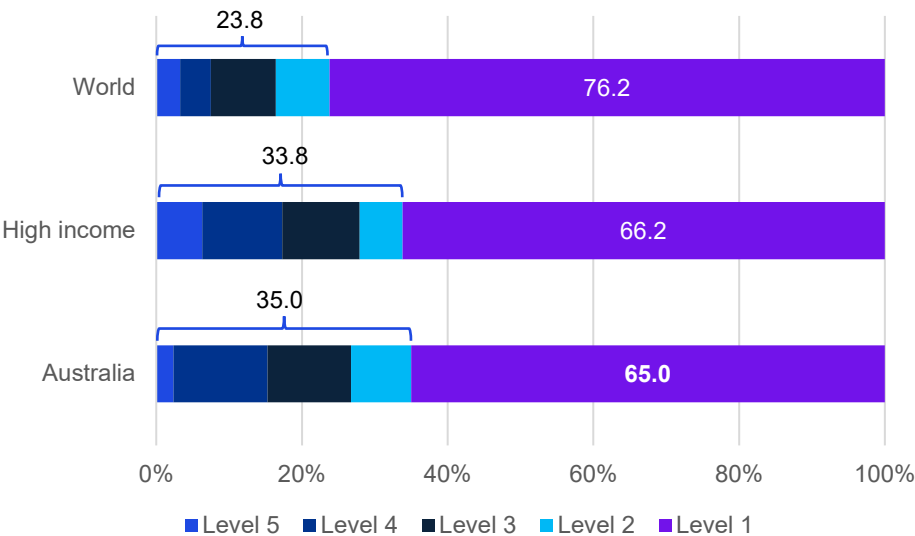
Assessing the potential impact of AI on the Australian workforce

We then apply this ILO framework to the Australian labour force and occupational database to derive a comprehensive list of occupations with corresponding GenAI exposure scores.

On this basis, we estimate that 35.0% of jobs in Australia (around 5 million roles) are currently exposed to AI to some degree. This level of exposure is broadly comparable to other advanced economies, reflecting Australia's large professional services and knowledge-based employment base, and is significantly higher than the global average.

Importantly, exposure is not concentrated at the extremes. Instead, it is centred in the mid-to-upper exposure categories (Levels 3 and 4), where a meaningful share of tasks within occupations can be automated, but full job displacement is unlikely. This reinforces the view that AI is more likely to reshape jobs than eliminate them outright, driving changes in how work is performed rather than whether it exists.

Chart 33: A global comparison of current jobs exposure to AI (%)



¹ International Labour Organization, [Generative AI and Jobs: A global analysis of potential effects on job quantity and quality](#)

AI and jobs: What does it mean for Office? (cont.)

Implication for the demand for Office

To translate workforce exposure into real asset implications, we identify which occupations are predominantly office-based.

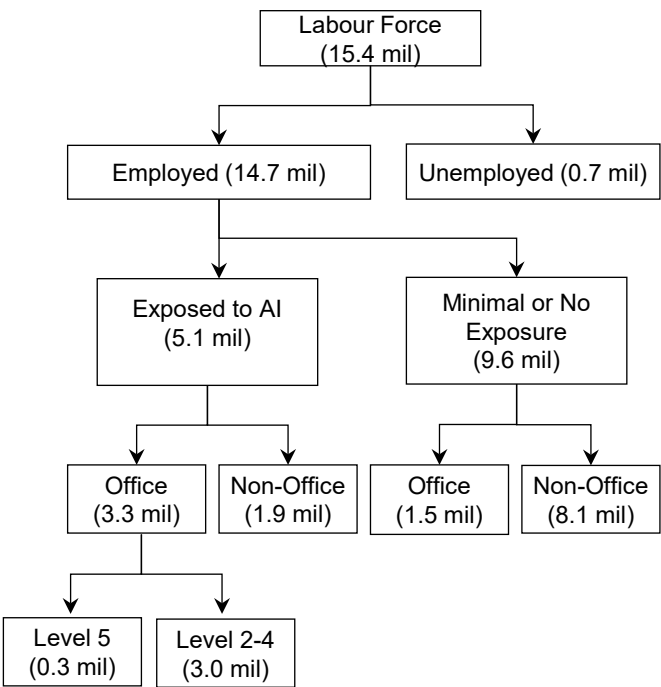
We find that about 65% of jobs (approximately 3.3 million) that are exposed to AI are office-based. However, only 7.0% of these (or 0.3 million) of these roles fall into Level 5, where tasks are highly and consistently automatable; suggesting a meaningful risk of workforce reduction and erosion of demand for office space.

Taken together, around 0.3 million office-based roles (out of roughly 4.7 million current office roles) face meaningful exposure at the highest end of the spectrum, where AI substitution risks are most pronounced. By contrast, the majority of office-based employment sits in roles where AI is more likely to augment productivity rather than replace jobs outright.

Takeaway

- Only a small share of office jobs are really at risk of disappearing.
- Most office workers won't be replaced – they will work differently.
- Office demand is likely to drift lower over time, but not significantly lower.

Chart 34: Exposure of the Australian workforce to AI (%)



Technical appendix

What is uncertainty?

Uncertainty in a financial asset and from an investment return perspective is defined as the conditional volatility of a disturbance that is unforecastable from the perspective of economic agents, which include investors.

An economic disturbance is an event or action that reduces the predictability of the future net cash flows from income-producing assets, like commercial property.

If an economic disturbance alters the perception an investor has of an asset's ability to earn a predictable return in the future (usually, in some context, to the return it has earned in the past) then the value an investor places on that asset will change; and where that information is not fully transparent across all participants in the market, there is likely to be an increased variance in (investor) valuations.

There can be a wide variety of shocks that alter investor expectations, but where changes occur rapidly (i.e. more volatility) the record of the past necessarily contributes less to predictions about future income. Volatility, which is a well-known indicator for measuring asset price risk, is conventionally measured as the standard deviation of asset returns.

Increases in uncertainty can depress hiring, investment, or consumption if households or investors are subject to fixed costs, are risk averse, and/or if financial constraints tighten in response to higher uncertainty.

What does the KPMG Commercial Property Uncertainty Index measure?

The KPMG Commercial Property Uncertainty Index tracks the variability of total returns from real estate properties. These returns are calculated based on the Morgan Stanley Capital International (MSCI) and Property Council of Australia Property Index (MSCI/PCA Property Index). This MSCI/PCA Index reflects the overall returns from direct real estate investments that are not leveraged, taken from one property valuation to the next, and considers only those properties that are completed and available to rent.

The KPMG uncertainty index does not break down how much of the uncertainty in the market is due to changes in property values (capital returns) versus rental income (income returns). Instead, it provides a measure of the overall level of uncertainty linked with the total returns from property investments.

Properties that yield steady and reasonable returns are typically associated with a lower score on the uncertainty index, indicating a stable market environment. Conversely, a spike in the index suggests that investors are either anticipating, or responding to, significant shifts in the market. An increase in the index value is an indicator of rising uncertainty in the investment environment, while a decrease suggests the opposite.

Technical appendix (cont.)

How is the KPMG Commercial Property Uncertainty Index calculated?

The KPMG Commercial Property Uncertainty Index has been constructed using total returns within a stochastic volatility model framework; an approach similar to that applied to measure stock market volatility. The stochastic volatility model treats volatility as a random process that evolves over time as opposed to treating it as constant or deterministic.

The uncertainty index value calculated using a stochastic volatility model tells users whether total returns of commercial property is more volatile in the current period, compared with previous periods (i.e. the index value is higher in period t than in period $t-1$) or less volatile (i.e. the index value is lower in period t than in period $t-1$).

A consistently low index number would indicate that the returns from the property market are stable and less variable. This stability could be due to a robust underlying demand for property or economic stability. In such a case, investors might lower their hurdle rates, as the risk associated with investing is perceived to be lower, and hence, they can accept lower returns for the reduced risk.

A moderate or high index number indicates a more volatile investment performance. In a volatile and uncertain investment environment, adopting a 'wait and see' approach can be advantageous. Volatility can lead to rapid and unpredictable changes in investment values. By waiting, investors can avoid making decisions that might result in significant losses due to unforeseen market movements. Uncertainty often implies a lack of information or the presence of conflicting information. Delaying investment decisions allows for the collection and analysis of additional data, leading to more informed decision-making. Alternatively, investors might also want to adjust their hurdle rates higher in such scenarios to compensate for the increased risk.

How is the stochastic volatility formula applied in the KPMG Commercial Property Uncertainty Index?

The key idea behind stochastic volatility models is that the latent volatility cannot be directly observed; instead, it must be inferred from the returns data. To achieve this, we firstly estimate the square of total returns, y_t , using a conditional mean equation:

$$y_t = \mu + \sigma_t \epsilon_t \quad (1)$$

We then model the evolution of the variance term, σ_t^2 , over time using a standard stochastic volatility process (see Harvey et al, 1994):

$$\log(\sigma_t^2) = \alpha + \beta \log(\sigma_{t-1}^2) + \omega \eta_t \quad (2)$$

where ϵ_t and η_t are iid $N(0,1)$ random variables.

The stochastic volatility parameters α , β and ω are then estimated by casting (1) and (2) into a state-space form using a Kalman Filter.

We then define the measure of uncertainty as:

$$U_t = \sqrt{E(\sigma_t^2)}$$

References

Harvey A, Ruiz E, Shepard N. 1994. Multivariate Stochastic Variance Models. *Review of Economic Studies* 61: 247-264

Jurado K, Ludvigson S, Ng S. 2015. Measuring Uncertainty. *American Economic Review* 105: 1177–1216.



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