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Australian property confidence tumbles as rate hike cycle becomes market's biggest risk

API Property Market Outlook Index falls to 6.1 as every major state and asset class cools; industrial overtakes residential as the market's most resilient sector

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Australia's property market has entered a confidence slowdown, with the Australian Property Institute's Property Market Outlook Index falling to 6.1 in Q2 2026 from 7.1 in Q1 and 7.3 in Q4 2025. The decline spans all five major states and every key asset class, the sharpest signal yet that the Reserve Bank's February and March cash rate increases have reset expectations across the market.

The survey of 247 property professionals, conducted between 12 and 30 March 2026, found the interest rate outlook has now become the single biggest source of downward pressure on property prices across the key asset classes. Even so, the national index remains above the neutral level of 5.0, suggesting the market is slowing sharply in sentiment terms rather than tipping into outright weakness.

API Chief Economist Dr Sherman Chan said the mood had shifted quickly as inflation concerns, global uncertainty and the prospect of further rate increases weighed on confidence.

"The property story has changed quickly in 2026. For the past several years, constrained supply has been the dominant force in the market. Following the February and March cash rate increases, the interest rate outlook has now become the biggest drag on confidence across the property sector," Dr Chan said.

Industrial property has emerged as the market's strongest-performing asset class. Office and retail have now recorded sub-neutral sentiment in two consecutive quarters, with both sectors sitting below 5.0.



“Confidence has softened in every major state and every asset class. Industrial property is now the standout performer, residential remains supported by structural undersupply, and office and retail continue to struggle below neutral as higher rates and weaker business and consumer confidence bite.”

Outlook for Q3

Dr Chan said a picture was becoming clear across the first two quarters of the survey. In Q1, property professionals were worried. In Q2, they are feeling the impact. The question for Q3 is whether that shift in sentiment starts to show up in actual conditions and transaction volumes.

“Recovery will require greater certainty on a few fronts: some resolution of the Middle East conflict and its effect on fuel supply; a clearer signal from the RBA on the rate path; and evidence that structural opportunities, particularly in industrial property, are generating real activity. Businesses may need to maintain a degree of optimism because the fundamentals in several sectors are stronger than the sentiment numbers suggest.”

Industrial overtakes residential as Australia's strongest sector

Industrial property has overtaken residential as Australia’s most resilient asset class, scoring 6.8. E-commerce demand for warehouses, continued infrastructure investment, technological development and mining activity are all keeping the sector strong while confidence softens elsewhere.

The gap between industrial and office tells the story of the quarter. Industrial scores 6.8 against office’s 4.6, a difference of 2.2 points. Every state’s industrial score sits above the neutral threshold, with Western Australia strongest at 7.5, South Australia at 7.3 and Queensland at 7.2.

Residential: supply crisis limits the fall

Residential property recorded the sharpest single-quarter fall of any asset class, dropping from 7.2 in Q1 to 6.2 in Q2. It remains the second-strongest sector overall and well above the neutral level. Structural factors are limiting how far it can fall.

“The housing supply crisis has not gone away. The ongoing lack of new and existing housing supply, continued population growth, and the federal government’s 5% Deposit Scheme are still

exerting upward pressure on residential prices even as confidence falls. Sentiment is soft, but the fundamentals remain supported by structural undersupply,” Dr Chan said.

Residential valuers point to the interest rate outlook and weakening job market conditions as the main drags on the sector. WA leads at 8.0, followed by Queensland at 7.4 and South Australia at 6.7. Victoria (5.5) and New South Wales (5.2) are approaching neutral.

Office and retail sentiment falls below neutral for the second consecutive quarter

Office sentiment edged down from 4.9 in Q1 to 4.6 in Q2, with Victoria the weakest market nationally at 3.6. Office valuers cite the interest rate outlook, weakening business confidence and the evolving nature of work as the main sources of downward pressure, including AI adoption and ongoing work-from-home arrangements.

Retail fell from 5.4 in Q1 to 4.9 in Q2, its first sub-neutral reading. Consumer confidence, job market conditions and shifting shopping preferences are weighing on the sector. New South Wales is the weakest state at 4.2, while South Australia (6.5) and WA and Queensland (both 5.9) remain in positive territory.

Agricultural property: holding above neutral despite a softer quarter

Agricultural property sentiment eased from 6.2 in Q1 to 5.7 in Q2 but held above neutral. Demand for specific agricultural products, technological development and the quality of agricultural land are all providing support. On the downside, valuers point to physical climate risks, commodity prices and the interest rate outlook.

Western Australia leads the sector at 7.0, while New South Wales (4.9) is the only state below neutral. Victoria (6.2) and South Australia (6.0) are both in positive territory, and Queensland sits at 5.8.

State-by-state: WA leads but no state is immune

Western Australia retains its position as Australia's strongest property market with an index score of 7.8. The drop from 9.0 in Q1 is the largest single-quarter decline of any state. Queensland remains the second-strongest market at 7.3, followed by South Australia at 6.7.

New South Wales (5.2) and Victoria (5.5) are approaching the neutral level, with valuers in both states flagging rate hikes and a weakening job market as the main risks over the coming months.

API Property Market Outlook Index by state:

- Western Australia: 7.8 (Q1: 9.0)
- Queensland: 7.3 (Q1: 8.3)
- South Australia: 6.7 (Q1: 8.1)
- Victoria: 5.5 (Q1: 6.0)
- New South Wales: 5.2 (Q1: 6.2)
- Australia overall: 6.1 (Q1: 7.1)

Access the full report [here](#).

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Interviews

Dr Sherman Chan is available Monday 20 April, Tuesday 21 April, Wednesday 22 April and Thursday 23 April. Contact Holly Reynolds to arrange.

About the API Property Market Outlook

Launched in 2025, the API Property Market Outlook is a quarterly survey of Australian property professionals administered by the Australian Property Institute. The survey captures sentiment and price outlook expectations across residential, office, retail, industrial and agricultural property sectors. The Q2 2026 survey received 247 responses, with 73 per cent of respondents being property valuers.

About the Australian Property Institute

The Australian Property Institute is the professional body for independent property experts in Australia, representing more than 7,000 members including property valuers, advisors, analysts and consultants. In its centenary year, the API continues its commitment to professional standards, policy engagement and evidence-based reform across Australia's \$12 trillion residential property market and beyond.

Note to editors: The API Property Market Outlook Index operates on a scale of 0 (extremely weak) to 10 (extremely strong), with 5 representing a neutral outlook. The Q2 2026 readings represent expectations for the coming quarter, while Q1 2026 readings reflect actual outcomes. Interviews with Dr. Sherman Chan can be arranged via Holly Reynolds.