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Victoria nears neutral as rate rises and weak business confidence weigh on sentiment

Victoria scores 5.5 in Q2 2026, approaching the neutral threshold, with office sentiment the weakest of any state nationally

April 2026

Victoria's property market is approaching neutral. The state scored 5.5 in the Australian Property Institute's (API) Property Market Outlook Index for Q2 2026, down from 6.0 in Q1. Property valuers are pointing to the rate hike cycle and a softening job market as the dominant concerns in the months ahead.

Victoria's office market is the weakest of any state nationally, with sentiment at 3.6, down from 3.8 in Q1. Work-from-home arrangements, AI adoption in the workplace and weakening business confidence are weighing on the sector. Residential sits at 5.5, just above neutral. Retail is at 4.7. Industrial (6.4) is holding well above neutral, and agricultural sentiment has improved from 5.6 in Q1 to 6.2 in Q2, the one sector in the state moving in a positive direction.

API Chief Economist Dr Sherman Chan said Victoria's office market reflected structural pressures beyond the rate cycle. "Victoria's office market has its own story. A rating of 3.6 reflects real structural pressure, not just the rate cycle. The way businesses are using space is changing in ways that are compressing demand, particularly in Melbourne's CBD. The improving agricultural rating and a solid industrial score show there are parts of the Victorian market with momentum."

What is driving Victoria's property market

The interest rate outlook is the primary downward pressure across all asset classes. In the office sector, the mismatch between available stock and market demand, work-from-home policy and the evolving use of AI are additional headwinds. Residential valuers point to the 5% Deposit Scheme and persistent housing undersupply as ongoing supports for prices. Industrial is supported by e-commerce growth and technological development.

Dr Chan said the Q3 picture for Victoria would depend on whether structural pressures in office continued to deepen. "Office is the sector to watch most closely in Victoria. At 3.6 it is already the weakest state-sector rating in the country, and the forces driving that, hybrid work, AI adoption, stock



mismatches, are not going away quickly. Agricultural improving and industrial holding firm are positives, but they are not enough to shift the overall picture if office and retail remain under pressure."

Access the full report [here](#).