M3 PROPERTY

SPECIALIST
INDEPENDENT
VALUATION

FOREIGN INVESTMENT IN THE AUSTRALIAN PROPERTY MARKET FOR FY25

DECEMBER 2025

CONTENTS

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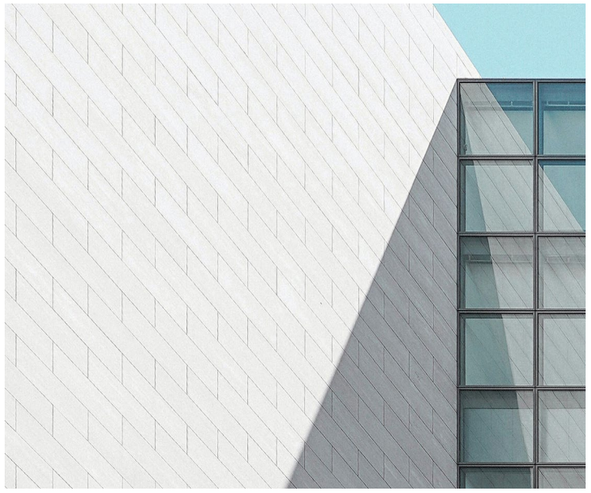


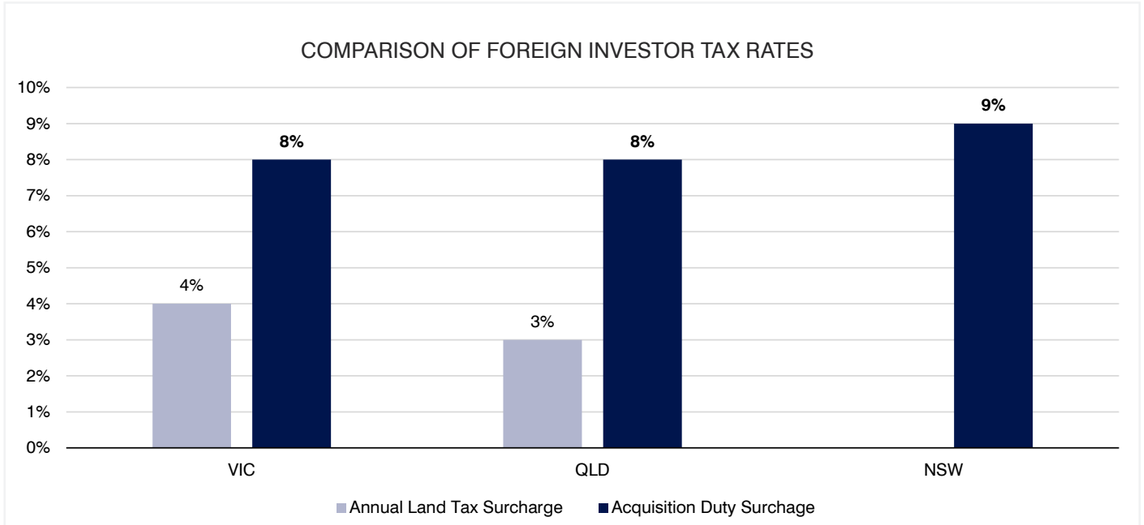
INTRODUCTION

Foreign Investment into the Australian property market eased during FY25, with total cross-border investment volumes reaching approximately AUD$8.632 billion, marking a slight decline from FY24 levels of AUD$10.52 billion. This moderation in capital flows occurred despite improving domestic conditions, as the Reserve Bank of Australia (RBA) initiated a monetary easing cycle with three cash rate cuts in 2025, keeping the rate on hold at 3.6% as of its November meeting. The softer interest rate environment has begun to support investor sentiment, though global macroeconomic uncertainty continues to influence investment strategies. The United States remained the largest foreign investor, contributing approximately AUD$3.756 billion, an increase from AUD$3.301 billion recorded for FY24. Conversely, Japan and Singapore reduced their investment volumes, while Canada significantly increased its exposure from AUD$671 million in 2024 to AUD $1.88 billion.

China, including Hong Kong SAR, contributed significantly to Australia's foreign investment in FY25 with a total volume of $1.047 billion, making it the third-largest source of investment. Hong Kong investors contributed most of this investment, but Mainland China's share of the investment, while still modest, increased slightly from AUD$112 million to AUD$119 million, suggesting a cautious re-engagement with the market. These movements reflect a recalibration of foreign investor priorities, with North American and Asian investors selectively targeting sectors such as industrial, mixed-use, and development sites amid Australia's stabilising economic outlook.

FY25 SNAPSHOT

Foreign investment into Australia reached AUD$8.63 billion, reflecting sustained global confidence in the market. The United States retained its dominant position, contributing AUD$3.72 billion (43%), while Japan (AUD$1.76 billion, 20%) and Hong Kong (AUD$1.05 billion, 12%) remained significant players, consistent with patterns observed in FY24. Collectively, these three countries account for 75% of total foreign inflows, underscoring a concentrated investment landscape.



Source: Mandala Analysis, M3 Property

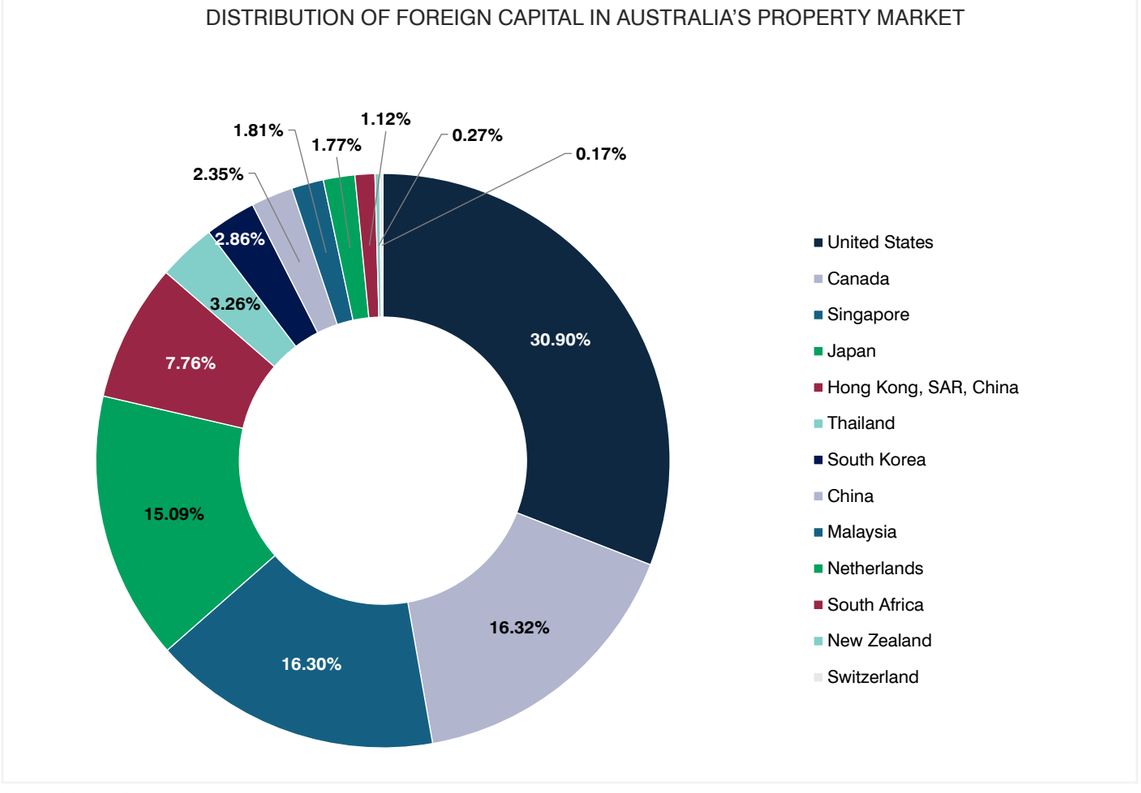
"WHY THE DROP? TAX IMPACTS DRIVING FOREIGN INVESTMENT DECLINE"

Victoria and Queensland levy the nation's highest taxes on global institutional investors, and the impact is clear in the numbers. Victoria applies a 4% annual Absentee Owner Surcharge (AOS) on all foreign-owned property, including commercial and industrial assets, alongside an 8% Foreign Purchaser Additional Duty at acquisition. Queensland enforces a 3% annual foreign surcharge and an 8% Additional Foreign Acquirer Duty on purchases. Unlike NSW, where a 5% surcharge applies only to residential property, these taxes in Victoria and Queensland extend to core institutional sectors, materially reducing returns and deterring capital inflows.

Investors are taking a "wait-and-see" approach to how tax policy in Victoria and Queensland will evolve, which has resulted in reduced foreign investment. The result is stark: foreign investment per capita is approximately 40% lower in Victoria and Queensland compared to NSW, and Victoria has experienced a 53% drop in global institutional investment since 2022, falling from $10 billion to $5 billion. Queensland's inflows have stagnated despite strong economic fundamentals. These surcharges increase occupancy costs, squeeze tenant margins, and have led to delayed or cancelled projects, such as student accommodation developments. Investors are increasingly redirecting capital to NSW or offshore markets where tax burdens are lighter.

Economic modelling produced by McKibbin Software Group 20C Model and Mandala Analysis suggests that removing these surcharges could unlock $8.1 billion in additional investment, add $3.6 billion to GDP, and support 8,400 jobs nationally by 2030. For Victoria alone, the potential uplift is $5.7 billion in investment and 5,900 jobs, reinforcing the critical role of tax reform in restoring competitiveness and attracting long-term foreign capital.

WHO HOLDS THE BIGGEST SHARE?



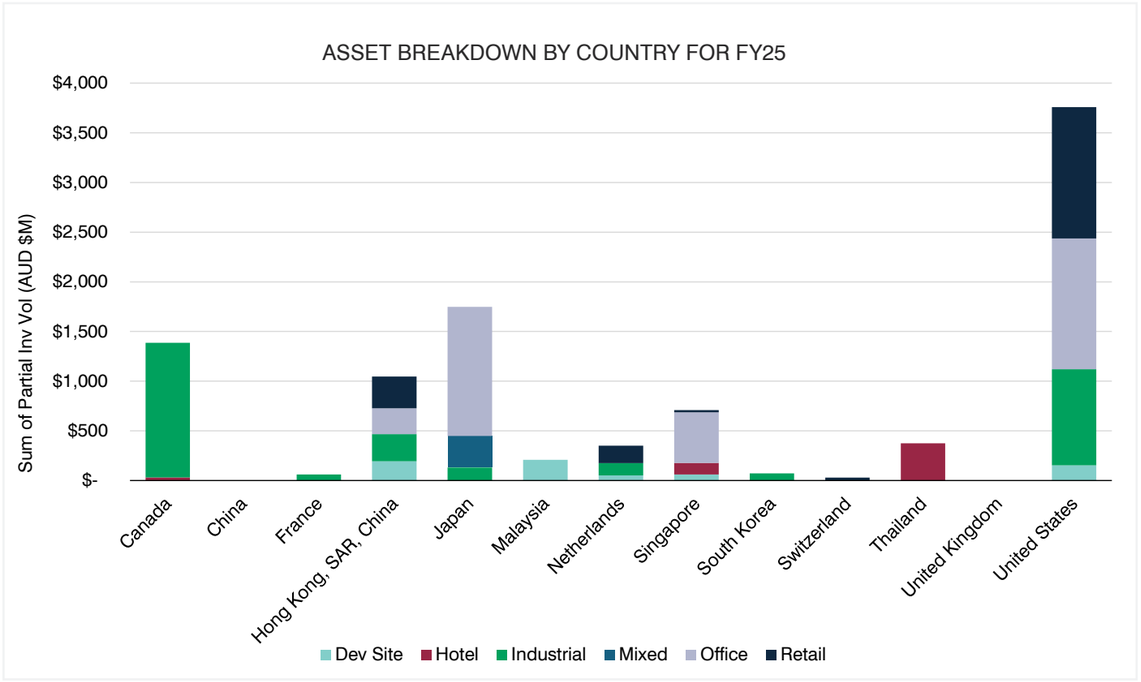
Source: RCA, M3 Property

GLOBAL LANDSCAPE: U.S. LEADS, ASIA RISING

The United States demonstrated a highly diversified approach, allocating substantial capital to office (AUD$1.31 billion) and industrial (AUD$933 million) sectors, alongside significant commitments in retail (AUD$1.32 billion) and development sites (AUD$155 million). This strategy reflects a preference for both stable income-generating assets and long-term growth opportunities.

Conversely, Japan's investment profile remains concentrated in office assets (AUD$1.29 billion) and industrial properties (AUD$461 million), signalling confidence in Australia's commercial real estate market and a focus on core, income-stable assets. Hong Kong SAR China adopted a balanced approach, distributing its AUD$1.05 billion across industrial (AUD$274 million), office (AUD$260 million), retail (AUD$320 million), and development sites (AUD$194 million), indicating a strategy aimed at diversification and mixed-use development potential.

Singapore, with AUD$709 million, focused primarily on office (AUD$510 million) and hotel (AUD$116 million) investments, reinforcing its interest in both commercial and hospitality markets. Moderate contributions from Canada (AUD$256 million), Netherlands (AUD$352 million), and Malaysia (AUD$209 million) were largely directed toward office and industrial sectors, while Switzerland (AUD$31 million) and the United Kingdom (AUD$1.4 million) remained minor participants.



Source: RCA*, M3 Property
Note: *Where sales data is known as of September 2025

SPECIALISED INVESTMENT TRENDS: THAILAND TARGETS HOTELS

Thailand emerged as a specialised investor in FY25, committing AUD$376 million exclusively to hotel assets, signalling a clear focus on Australia's hospitality sector. Key acquisitions included Park Hyatt Melbourne (AUD$205 million) by KS Hotels, Hilton Adelaide (AUD$110 million) by Amora Hotels & Resorts, and Vibe Hotel Gold Coast (AUD$61 million) by KS Hotels. These transactions highlight Thailand's confidence in Australia's tourism-driven markets and its strategic intent to capture long-term value in premium hospitality assets. This niche approach contrasts with broader diversification strategies seen among other Asian investors, positioning Thailand as a targeted player in the luxury and full-service hotel segment.

STRATEGIC IMPLICATIONS

1. U.S. Leadership and Diversification: The United States' broad sectoral spread underscores its long-term commitment to Australia's property market and confidence in both core and growth-oriented assets.

2. Asian Capital Consolidation: Japan and Hong Kong continue to strengthen their positions, mirroring FY24 trends, with a pronounced focus on office and mixed-use developments.

3. Hospitality Sector Growth: Thailand's exclusive hotel investment and Singapore's dual focus on office and hospitality signal rising interest in tourism-related assets, presenting opportunities for developers in this segment.

4. Policy and Development Outlook: With office and industrial sectors attracting most foreign capital, strategic planning should prioritise these areas while leveraging emerging opportunities in retail and hospitality to diversify Australia's investment appeal.

OFFICE SECTOR RETAINS TOP SPOT IN FOREIGN CAPITAL ALLOCATION

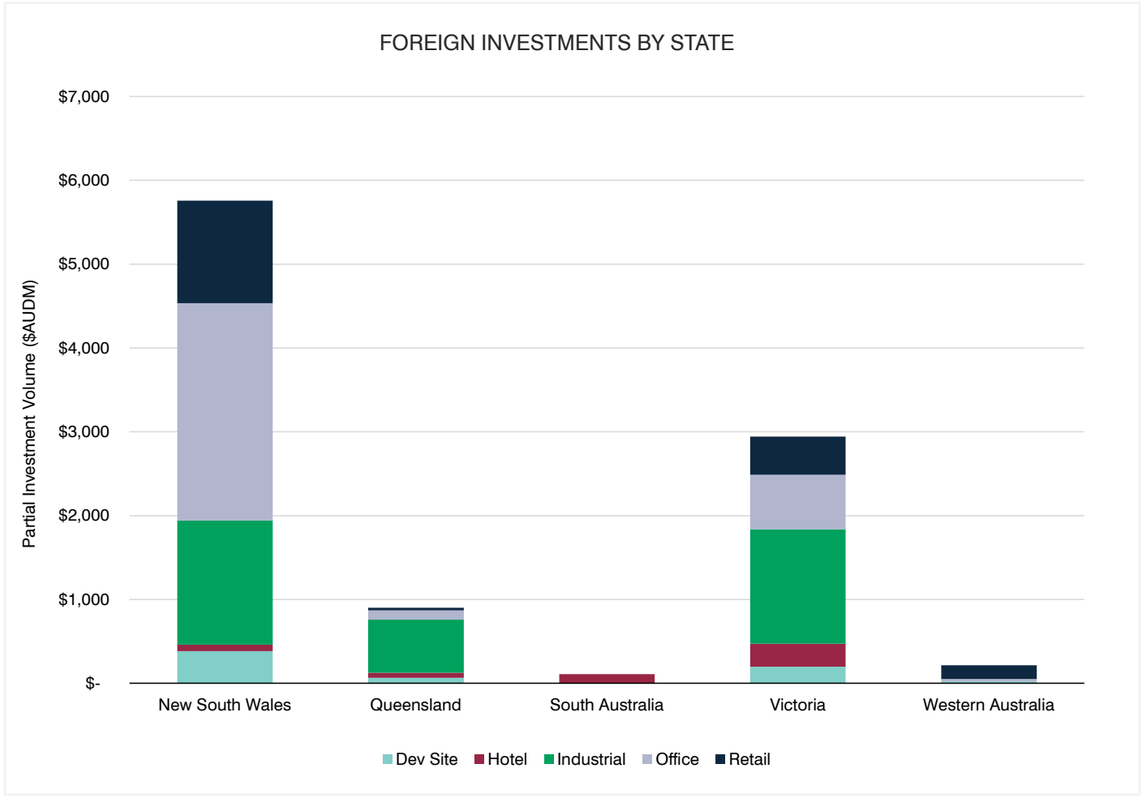
In FY25, office assets remained the largest and most actively traded asset class, consistent with FY24, accounting for over AUD$3.38 billion in foreign investment. This continued dominance reflects sustained demand for prime commercial real estate in Australia's major CBDs. The two most significant office transactions of the year were both in Sydney, the largest sale being the AUD$608 million acquisition of 135 King Street by Daibiru, a Japan-based corporation, from Investa Property Group in April 2025. The property spans 33,042 square metres. Another notable deal was the AUD$580 million purchase of IAG House at 388 George Street, comprising 38,333 square metres, sold in January 2025 by Morgan Stanley to Investa Property Group and Bentall Green Oak, a Canada-based investment manager. Among foreign investors, Singapore led office investment with AUD$1.26 billion, followed by Japan at AUD$718 million, both showing strong allocations to prime office assets.

These transactions highlight the continued confidence in Australia's office market, particularly from long-term institutional investors seeking stability and scale. These trends suggest that while overall volumes have softened, strategic capital continues to target high-quality assets in Australia's core markets. Beyond office, industrial assets attracted AUD$2.18 billion, and development sites drew AUD$669 million, indicating strong foreign interest in future-growth assets.

STATE TRENDS

Sydney Dominates, Melbourne Holds Ground, Brisbane Emerges

Sydney captured approximately AUD$5.63 billion, according to Real Capital Analytics, representing 63% of total foreign inflows and reaffirming its role as Australia's premier gateway city. Office assets dominated the market, with Sydney CBD alone attracting AUD$2.37 billion, supported by landmark transactions such as Salesforce Tower and IAG House, reflecting strong demand for premium office stock. Retail also featured prominently, with the acquisition of Westpoint Shopping Centre in Blacktown (AUD$870 million) marking the largest retail transaction of the year and underscoring investor appetite for large-format retail assets. Industrial assets continued to draw significant capital, with major logistics transactions including Connect Central Sydney Logistics Estate (AUD$330 million) and St Marys Intermodal Facility (AUD$145 million), highlighting Sydney's strategic role in supply chain infrastructure. This dominance mirrors FY24 patterns, with Sydney recording approximately AUD$4.9 billion, driven by liquidity, scale, and infrastructure advantages such as the Sydney Metro expansions.



Source: RCA , M3 Property

Melbourne secured AUD$1.17 billion (6.44% of total FY25 investment volume into Australia), maintaining its position as the second-largest destination for foreign investment. The Melbourne CBD recorded a total investment volume of AUD$718 million for FY25, according to Real Capital Analytics. Office assets led the market, with notable transactions including 750 Collins Street (AUD$390 million), acquired by Singapore-based TrustCapital, and the Flinders Gate Complex (AUD$260 million), purchased by Hong Kong-based PAG. These deals reinforced Melbourne's appeal among institutional investors. Retail also played a significant role, with Woodgrove Shopping Centre (AUD$440 million) in Greater Victoria marking the second-largest retail transaction of the year. Development sites attracted interest from AXA Group and SP Setia, signalling confidence in Melbourne's long-term growth potential. In comparison, FY24 recorded a higher total investment volume of approximately AUD$2.33 billion across the CBD and Greater Melbourne, reflecting stronger transaction activity in the previous year. Despite the decline in FY25, Melbourne continues to demonstrate resilience and remains an attractive destination for diversified capital, supported by consistent interest in CBD office and retail assets.

Brisbane closely followed, Brisbane recorded A$576.8 million, complemented by Gold Coast's AUD$323.6 million, reflecting Queensland's growing appeal for foreign investors. Industrial assets dominated, with major acquisitions such as Logos Wacol Logistics Hub (AUD$250 million) by JD Property and PGIM Real Estate, and Arcadia Industrial Estate (AUD$91 million) acquired by Blackstone, signalling confidence in Brisbane's logistics corridor. Hospitality investments were also significant, with Vibe Hotel Gold Coast (AUD$61 million) purchased by KS Hotels (Thailand based), highlighting strong interest in tourism-driven assets. Queensland's investment profile contrasts with Sydney and Melbourne's office-led strategies, positioning it as a niche market for hospitality and industrial growth. This trend aligns with FY24 figures, with Brisbane CBD and Fringe totalling approximately AUD$912 million, reinforcing Queensland's role as an emerging destination for specialised investment.

INVESTMENT PATTERNS OF AUSTRALIA'S LEADING FOREIGN PLAYERS

Cross-border investment activity for FY25 was dominated by five major institutional players based in the United States and Japan.

PGIM Real Estate, headquartered in the United States and operating as an insurance-based investor, led the market with an acquisition volume of approximately AUD$944.7 million across six properties. PGIM Real Estate's investment in the St Marys Intermodal Facility in Western Sydney and the Yatala Distribution Centre in Queensland reflects foreign investors' confidence in Australia's logistics sector. These assets offer proximity to ports, intermodal hubs, and major highways, supporting freight and e-commerce growth. The focus on industrial infrastructure highlights structural shifts toward online retail and supply chain modernisation, while Western Sydney's connectivity to the new airport and Queensland's position along the Brisbane-Gold Coast corridor provide long-term demand drivers.

Hines, alongside Haben Property Fund, completed the AUD$870.35 million acquisition of Westpoint Shopping Centre in Blacktown, Sydney, a super-regional retail hub anchored by Woolworths, Coles, and Kmart. Hines' acquisition of Westpoint Shopping Centre in Blacktown reflects confidence in suburban retail resilience, supported by strong population growth in Western Sydney and its role as a regional hub for essential goods and services. Western Sydney's rapidly expanding household base, combined with major infrastructure projects such as the Metro West rail and upgrades to road networks, strengthens long-term foot traffic and enhances redevelopment potential. These factors align with investor strategies that prioritise high-growth suburban markets where population density and improved accessibility drive sustained retail performance and future mixed-use opportunities.

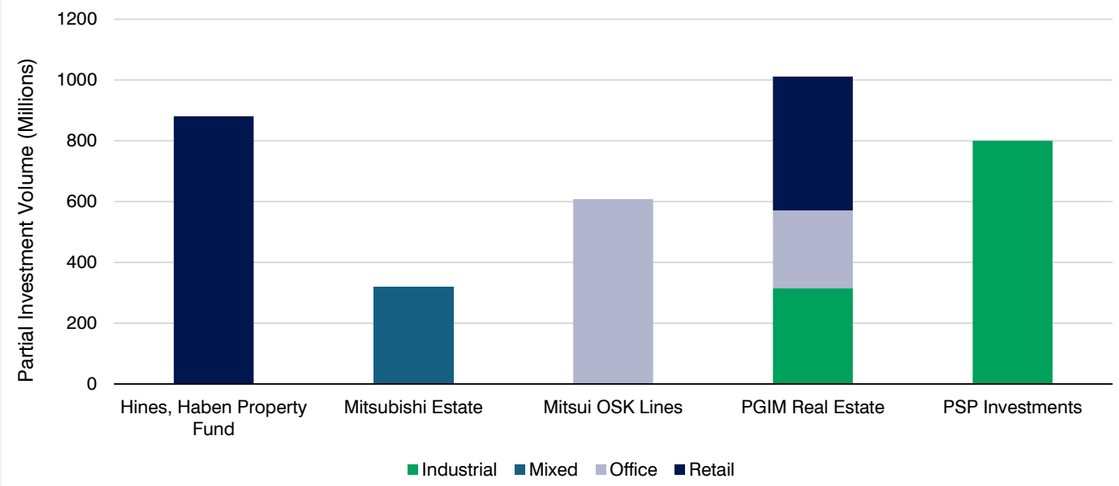
> **Cross-border investment activity for FY25 was dominated by five major institutional players based in the United States and Japan.**

Canadian pension fund PSP Investments secured third position, deploying AUD$799.9 million, representing circa 42.53% of Canada's total foreign investment. PSP Investments pursued a logistics-driven strategy through its minority stake in the Aliro Group Industrial Value Fund, encompassing 19 warehouse and distribution assets across Sydney, Melbourne, and Brisbane, including sites in Greater Dandenong and Sutherland Shire. PSP Investments' focus on logistics assets aligns with Australia's accelerating e-commerce penetration and supply chain modernisation, where demand for last-mile delivery hubs and cold storage facilities has outpaced supply. Industrial land scarcity near major transport corridors in Sydney and Melbourne further amplifies the value proposition of these assets.

Japanese investors accounted for two of the top five buyer positions, with Mitsubishi Estate Co., Ltd (MEC), a leading Real Estate Operating Company (REOC), committing $693.6 million across two transactions, and Mitsui OSK Lines investing AUD $608.2 million in a single strategic acquisition. Mitsubishi Estate's involvement in the Harbourside Precinct redevelopment in Darling Harbour, highlights its confidence in Sydney CBD's regeneration and long-term growth prospects. The mixed-use project, valued at approximately AUD$2 billion, will feature luxury residential apartments, premium-grade office space, curated retail offerings, and significant public domain improvements, including a waterfront promenade and park. Under the joint venture agreement, MEC and Mirvac will act as equal partners, each holding a 50% stake in the development and ownership of the precinct, with staged completion expected to begin in FY2027. This landmark investment elevates MEC's cumulative Australian portfolio to over A$18 billion and reinforces its strategic focus on high-quality, integrated work-live-play environments aligned with evolving urban lifestyles.

Similarly, Mitsui OSK Lines' focus on logistics infrastructure reflects its alignment with Australia's role as a trade gateway to Asia-Pacific. Investments in industrial assets near intermodal hubs and port precincts support global supply chain connectivity, reinforcing the strategic importance of Sydney's western freight corridors and Melbourne's outer industrial zones. Overall, the trend continues through FY25 where global investors seek stable income streams amid volatility in other asset classes.

TOP 5 FOREIGN INVESTMENTS IN AUSTRALIA BY ASSET CLASS



Source: RCA , M3 Property

REGULATORY SHIFTS RESHAPING FOREIGN INVESTMENT GOING FORWARD

Streamlined Approvals
Faster processing for low-risk proposals in FY2025

Residential Purchase Ban
Two-year restriction on buying established dwellings

BTR Incentives
Reduced fees and benefits for Build-to-Rent projects

Sensitive Sector Scrutiny
Investments in critical infrastructure and data-risk assets

Regulatory changes in FY25 played a pivotal role in shaping foreign investment flows, influencing both sector preferences and deal structures. In 2025, Australia introduced a series of targeted reforms to its foreign investment framework aimed at balancing national interest protections with the need to attract global capital. The Australian Government's updated Foreign Investment Policy, effective from January 2025, introduced a risk-based approach to streamline approvals for low-risk proposals, particularly in sectors like commercial real estate, new housing, and non-critical minerals. A new performance benchmark was also set, with a goal to process 50% of applications within 30 days.

To support housing supply, the government implemented a two-year ban on foreign purchases of established residential dwellings (April 2025 - March 2027), with exceptions for Build-to-Rent (BTR) developments and large-scale housing projects. The two-year ban on established dwellings is expected to redirect billions into Build-to-Rent projects, reinforcing housing supply objectives. These exceptions are designed to channel foreign capital into developments that increase housing stock, with reduced FIRB fees and specific affordability and tenure requirements for BTR projects.

Additionally, the reforms incentivise early applications and competitive participation by offering 75% fee refunds for unsuccessful bids, and they reduce duplication in competition assessments. However, investments in sensitive sectors such as critical infrastructure, defence-adjacent sites, and data-rich assets are now subject to heightened scrutiny, reflecting a broader national security agenda.

These regulatory changes indicate a shift in policy focus. Australia continues to welcome foreign capital, particularly in sectors that support housing supply and infrastructure development, while applying greater scrutiny to areas considered strategically sensitive. This approach is influencing how and where foreign investors allocate capital, requiring strategies that align with housing priorities and comply with enhanced security measures.

Summary of Tax Impact on Global Institutional Investment

Victoria and Queensland Introduce Targeted Taxes for Overseas Investors.

State or Territory	Land Taxes – ongoing, paid every year			Duty Rates – paid once-off at purchase			Impact of taxes and duties on global institutional investors	
	Are there additional taxes on global investors?	**What do these taxes apply to?**	**What is the rate?**	**Are there additional rates on global investors?**	**What do these taxes apply to?**	**What is the rate?**	**What is the impact?**	**What is driving the impact?**
Vic	Absentee owner surcharge (AOS)	**All land** with exemptions for build-to-rent properties	4%	Foreign purchaser additional duty	Residential and development land only	8%	Very high	Annual land taxes in Victoria and Queensland cover all property including offices and industrial. While Queensland's tax applies when foreign ownership reaches a 50% stake, Victoria's land tax applies when any foreign ownership exists. These taxes increase costs for investors, deterring investment and reducing economic activity.
Qld	Foreign surcharge	**As in Vic,** but does not apply if <50% foreign ownership	3%	Additional foreign acquirer duty		8%	Very high	
NSW	Surcharge land tax for foreign owners	Residential only	5%	Surcharge purchaser duty	Residential and land development only	9%	Medium	Global institutional investors invest relatively small amount in residential property (6% in apartments). These residential-only land taxes and duties centre on improving housing affordability for Australians.
Tas	Foreign investor land tax surcharge		2%	Foreign investor duty surcharge		8%		
ACT	Foreign ownership surcharge		0.75%	N/A	N/A	N/A		
WA	N/A	N/A		Foreign buyers' duty	Residential and development land only	7%		
SA				Foreign ownership surcharge		7%		
NT				N/A	N/A	N/A	N/A	N/A

Source: Mandala Analysis, M3 Property
Note: Development refers to land that is to be modified for residential purposes. All rates are shown as the current value as of August 2025.

CONCLUSION

While traditional heavyweights such as the United States maintained strong activity, other key players like Japan and Singapore scaled back allocations. In contrast, Canada significantly increased its investment, and China/ Hong Kong SAR made a notable return with over AUD $1 billion in acquisitions. China's investment also showed a modest uptick, signalling a cautious but potentially strengthening re-engagement with the Australian market. These shifts reflect a broader recalibration of global capital, with investors selectively targeting resilient sectors and repositioning portfolios in response to both macroeconomic conditions and local opportunities.

As monetary policy continues to ease, Australia remains well-positioned to attract long-term foreign capital in the next phase of the market cycle. We expect to continue to observe a significant trend of foreign capital into Australian markets as it offers relatively higher yields compared to core markets in Asia and Europe. Historically, foreign investment has supported Australia's property market for 21 of the past 25 years (Mandala Analysis), bridging domestic savings gaps and funding major developments.

While FY25 recorded a moderation in inflows, Australia's relatively high-income return compared to other Asia-Pacific markets provides a competitive advantage. According to Capital Economics, total returns in Australia are projected to average around 6% per annum over 2025–2029, supported by income resilience, while other regional markets such as Hong Kong face structural challenges and negative total returns. Although global conditions remain uncertain and higher-for-longer bond yields could limit recovery, Australia's position within the region can be expected to remain comparatively strong.

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