

Interest Rate Hikes and Implications for Commercial Property

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Following the hike in interest rates announced by the RBA last week, monetary policy remains firmly focused on inflation control, reinforcing a higher-for-longer interest rate environment. This decision has important implications for commercial property markets, particularly in how investors assess income certainty, valuation risk, and sector resilience.

Higher interest rates may place pressure on valuation metrics, with cap rates adjusting to reflect increased debt costs and return expectations. Sectors with softer leasing fundamentals — notably secondary office and discretionary retail — remain more exposed, as limited rental growth and higher incentives reduce the ability to offset rising yields.

In contrast, sectors supported by strong underlying demand are better positioned. Industrial and logistics assets continue to demonstrate resilience, underpinned by supply constraints and sustained rental growth. Healthcare, convenience retail and other essential-service assets also benefit from long lease terms, stable occupancy, and non-discretionary demand, providing relative income defensiveness.

The recent rate hike is expected to further temper development activity, with elevated construction and financing costs constraining new supply in many sectors. Over time, this dynamic may support rental growth in undersupplied markets.

For investors, last week's decision reinforces the importance of disciplined asset selection and balance sheet management. At Corval, we remain focused on assets with durable income streams and strong fundamentals, positioned to perform through interest rate cycles.

