

# The Persistence of the Private Market Illiquidity Premium in Australian Real Estate

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A defining characteristic of private real estate markets is the presence of an illiquidity premium – the additional return investors expect to receive in exchange for holding assets that cannot be readily traded. In Australian commercial property, this premium has historically persisted across market cycles, underpinned by the long-term nature of the asset class and the operational complexity associated with direct ownership.

However, the magnitude of the illiquidity premium is not static. It tends to vary depending on broader market conditions, interest rate settings, and capital availability. During periods of low volatility and abundant liquidity, the spread between private and public market pricing often compresses as competition for assets intensifies. Conversely, in periods of uncertainty or rising interest rates – such as the current environment – investors typically demand higher risk-adjusted returns, widening the illiquidity premium.

Importantly, the persistence of this premium reflects more than just reduced liquidity. Private real estate can offer access to stable income streams, active asset management opportunities, and lower short-term pricing volatility relative to listed markets. These characteristics remain attractive to long-term patient investors seeking diversification and reliable income.

In Australia, sectors supported by strong structural fundamentals – including industrial, agriculture, and convenience-based retail – continue to attract capital despite tighter financial conditions. This suggests that while the illiquidity premium may fluctuate over time, investor appetite for high-quality private real estate remains durable where income resilience and long-term demand drivers are evident.

