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Five rate hikes later, Real Income is still growing

November 2026

Key takeaways

- Five RBA rate hikes in 2026 have weighed on listed Real Asset share prices, particularly Australian REITs, despite continued resilience in underlying cash flows.
- Share prices and income have diverged. Contractual rent reviews, toll escalators and regulated revenues are continuing to support income growth across many essential-use assets.
- The RBA may be approaching the peak of its tightening cycle, potentially creating an opportunity for investors before sentiment towards rate-sensitive assets improves.
- For income-focused investors, lower valuations offer the potential to secure higher starting yields, supported by businesses capable of growing distributions through inflation.

Share prices have fallen, but the income story is different

Five interest rate rises in 2026 have taken Australia's cash rate to 4.85%, its highest level since late 2008. With headline inflation running at 4.3% p.a. in September, the Reserve Bank of Australia (RBA) now expects inflation to remain above its 2–3% target range until late 2027.

For listed Real Assets, this has been a challenging backdrop. Higher bond yields have increased competition for income-seeking capital, while higher financing costs and discount rates have weighed on valuations. A-REITs have come under pressure with the S&P/ASX 300 A-REIT price index declining approximately 14% in the ten months to the end of October. However its now recovered around 4% in the first week of November, most likely as the RBA's outlook is less hawkish.

Yet beneath the share price weakness, we see a different story emerging.

While market valuations have fallen, many of the underlying businesses have continued to grow their earnings and distributions.

For investors such as retirees who are seeking a consistent and growing income stream, this distinction matters. Although capital values remain important, the income generated by an investment depends on the cash flows of the underlying assets, not simply what the market is prepared to pay for them on any given day. When share prices fall but distributions continue to grow, the potential income return available to new investors improves.

We believe this disconnect between valuations and underlying income growth is creating an increasingly attractive opportunity across selected listed Real Assets.

Inflation is feeding through to income

Not all Real Assets are performing equally, which highlights the importance of being active and not blindly following an index. Much of the negative commentary surrounding property has focused on residential market weakness, development activity and the impact of higher interest rates. However, these headlines obscure the resilience of essential-use infrastructure and property assets, many of which benefit from contractual or regulated mechanisms that support revenue growth.

Unlike businesses that must continually negotiate price increases with customers, many Real Assets have inflation protection embedded in their revenue structures. Toll roads benefit from CPI-linked escalators, shopping centres from contractual rent reviews, and regulated infrastructure from tariff adjustments. Importantly, these mechanisms often operate with a lag, meaning inflation from previous periods continues to flow through to revenues and cash flows today.

The August reporting season provided further evidence of this resilience, with a number of businesses reporting strong occupancy, positive rental growth and guiding to continued earnings or distribution growth.

Examples of revenue growth mechanisms across listed Real Assets

Holding	What underpins revenue growth
Transurban Group	CPI-linked or CPI+ toll escalators, including fixed annual increases of 4.25% on CityLink.
Scentre Group	CPI-plus rental escalators on many leases, positive specialty leasing spreads of 3.7% and occupancy of 99.8%.
Vicinity Centres	Leasing spreads of 4.2%, annual rental escalators of 4.8% and occupancy of 99.6%.
APA Group	Inflation-linked tariff escalation across contracted energy infrastructure.
Chorus	Regulated fibre network revenues supported by a regulated asset base and revenue cap; fibre revenue growth of 6%.
Contact Energy	Exposure to higher wholesale electricity prices, alongside its generation and retail operations.
BWP Trust	Bunnings-anchored property portfolio with a mix of CPI-linked and fixed rental escalators, supplemented by market rent reviews.

The broader message is encouraging: many essential-use assets are continuing to deliver nominal income growth despite a difficult interest rate environment. For assets with inflation-plus or 'higher of' rent and toll escalation mechanisms, the benefit can be particularly enduring. Higher inflation may lift the contracted revenue base, with subsequent increases compounding from that higher level.

This is an important characteristic for investors looking to build an income stream that can grow over time and help offset rising living costs.

Could we be approaching the peak in interest rates?

The outlook for interest rates remains uncertain, but the November RBA decision offered some indication that the tightening cycle may be maturing. While the Board raised rates for the fifth time this year, the decision was not unanimous. Six members voted to increase the cash rate, while three preferred to hold. The RBA continues to highlight inflation risks, but it also expects economic growth to slow and unemployment to rise as the cumulative effect of earlier rate increases works through the economy.

We are not attempting to predict the exact peak for interest rates. However, we believe the balance of risks for listed Real Assets is becoming more favourable following the substantial adjustment in valuations.

Historically, confidence that interest rates are stabilising can be an important catalyst for rate-sensitive assets. As uncertainty around bond yields diminishes, investors may become more willing to recognise the value of reliable, growing cash flows.

The opportunity for investors is that this re-rating can begin well before the RBA delivers its initial rate cut. Waiting for a definitive change in monetary policy may therefore mean missing part of the potential recovery in valuations, while also foregoing the higher starting yields available today.

Where we see the opportunity

The recent sell-off has affected a broad range of listed Real Assets, but the underlying income outlook remains firmly intact for assets with essential-use characteristics, durable pricing power and sound balance sheets, where recurring cash flows can support a consistent and growing income stream through the economic cycle.

We see opportunities across four key areas:

- **Transport and freight networks:** Toll roads, rail networks and airports provide long-life exposure to essential economic infrastructure. CPI-linked tolls, regulated access charges and the recovery of passenger and freight activity can support revenue growth. **Transurban Group**, **Aurizon Holdings** and **Auckland International Airport** provide exposure.
- **Shopping centres and daily needs:** Despite pressure on some retailers and broader consumer spending, major shopping centres continue to benefit from high occupancy, tenant demand and contractual rental increases. **Scentre Group**, **Vicinity Centres**, **HomeCo Daily Needs REIT** and **Region Group** provide exposure to retail property with different demand drivers.
- **Housing and living:** Population growth, housing undersupply and changing accommodation needs support long-term demand for residential communities and student housing. **Stockland**, **Mirvac Group**, **Sun Communities (USA)** and **Unite Group (UK)** provide exposure to different parts of this market.
- **Digital and energy infrastructure:** Growth in artificial intelligence, data consumption and electrification is increasing demand for the physical infrastructure supporting the digital and energy economies. **Chorus**, **Digital Realty (USA)** and **DigiCo Infrastructure REIT** provide exposure to digital infrastructure, while **APA Group**, **AGL Energy**, **Contact Energy** and **Genesis Energy** provide exposure to energy infrastructure and generation.

Across these sectors, our preference is for businesses where earnings and income growth are supported by underlying demand, contractual arrangements or structural drivers, rather than relying solely on a recovery in asset valuations.

The opportunity isn't dependent on falling rates

Inflation remains elevated and further interest rate increases cannot be ruled out. Higher bond yields could place renewed pressure on listed Real Asset valuations, while weaker economic activity, rising financing costs or operational challenges could affect earnings and distributions.

However, following the significant repricing of listed Real Assets, particularly A-REITs, we believe valuations already reflect a more challenging interest rate environment, providing some potential buffer against further tightening.

Importantly, our investment case is not solely dependent on interest rates falling. Many of these businesses continue to benefit from inflation-linked revenues, contractual escalators and demand for essential services. While share prices may remain volatile, these characteristics can support income growth even in an environment where interest rates stay higher for longer.

For income-focused investors, we believe this is where the opportunity lies: the potential to invest in quality, long-life listed Real Assets at more attractive valuations, with higher starting yields and the prospect of growing distributions over time.

The ClearBridge Australian Real Income strategy is built around these principles. It holds around 35 listed Real Assets across Australia, New Zealand and a modest amount in selected global markets. The aim is to reduce income concentration, soften income shocks and grow the dollar value of income over time.

About the Author



Andrew Chambers
Managing Director, Portfolio Manager, ClearBridge Investments
- 31 years of investment industry experience
- Joined the firm in 2011
- Chartered Accountant (CA)
- Graduate Diploma in Applied Finance and Investment from the Financial Services Institute of Australasia
- Bachelor of Commerce from the University of Melbourne

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