CBRE

Neighbourhood shopping centres remain the cornerstone of retail supply pipeline amid ongoing suburban expansion

▼ 4.3%
Sydney CBD Vacancy Rate H2 25

▲ 1.4%
NSW Household Consumption 2026-27F (Deloitte Economics)

▲ 4.8%
Regional Centre Y-o-Y Rent Change

▲ $1.72bn
Q2 26 Greater Sydney Retail Investment Volume

Note: Arrows indicate change from previous quarter.

Key Points

– NSW household spending increased 4.8% y-o-y in May 2026, demonstrating the resilience of consumer demand despite ongoing cost-of-living pressures.

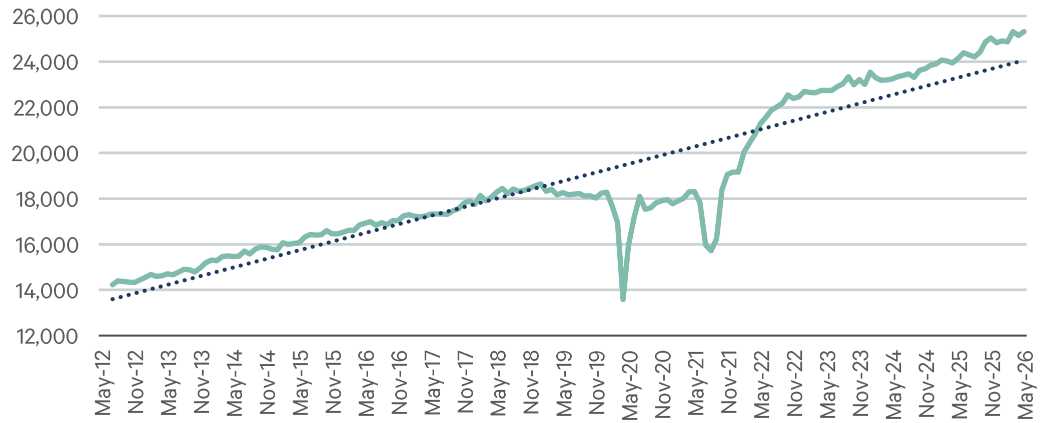
– Development activity remained subdued in Q2 2026, with only c.580 sqm of new supply delivered. This reinforces the structurally constrained supply environment, which continues to support rental growth and outperformance across the market.

– Sydney CBD retail vacancy declined a further 78 bp in H2 2025 to 4.3%, marking the fifth consecutive half-year of tightening since H1 2023, driven by sustained leasing activity across core precincts and improved occupancy in arcade, strip and centre retail formats.

– During the quarter, CBD super-prime net face rents recorded the strongest growth, increasing by 3.3%, followed by LFR assets at 0.4%. Rental levels across all other retail asset classes remained stable.

– Quarterly yield movement was modest, with neighbourhood centres compressing 6 bp and LFR expanding 4 bp, while other retail sectors remained stable. Over the year, regional, sub-regional and neighbourhood centres tightened by 14 bp, 20 bp and 13 bp, respectively.

FIGURE 1: NSW Total Household Spending, Seasonally Adjusted



4.8%
Year-on-Year

0.7%
Month-on-Month

Source: ABS as at May 2026, CBRE Research

Economic Overview

Australia's growth softens amid consumption caution, as AI-driven investment and sticky core inflation shape the outlook

Australia's economy expanded by just 0.3% q-o-q (seasonally adjusted chain volume measure) and 2.5% y-o-y in Q1 2026. Growth moderated due to cautious household consumption, subdued public demand and weather-related disruptions to mining exports. However, private business investment was a key driver, rising 5.7% over the quarter and contributing around 0.7pp to GDP growth. This was largely underpinned by a monumental surge of 18.1% in machinery and equipment investment, particularly linked to the rollout of AI-related data centres, although the net impact on GDP was partly offset by associated import growth.

Headline inflation in Australia eased to 4.0% y-o-y in May 2026, driven by cheaper fuel. However, underlying 'trimmed mean' inflation strengthened to 3.6% y-o-y, the highest in almost two years. Housing costs (+6.5%) and food prices (+3.3%) remain the largest persistent drivers of domestic price pressures. The intense demand for local electrical engineers, specialised construction labour and building materials added immediate upward pressure to domestic service costs.

Australia's seasonally adjusted unemployment rate dropped to 4.4% in May 2026, driven by a net gain of 40,300 employed people. During this same period, the nation's estimated resident population officially surpassed the 28 million milestone.

Consumer spending remains resilient as labour market conditions gradually normalise

NSW household spending increased by 0.7% m-o-m, with growth driven by miscellaneous goods and services (+3.0%), clothing and footwear (+2.8%) and hotels, cafes and restaurants (+1.7%), indicating stronger discretionary spending. The uplift suggests improving consumer confidence and a willingness among households to increase discretionary expenditure, providing continued support for retail spending and tenant trading conditions across the state.

The NSW labour market is proving resilient but is showing signs of cooling. The state unemployment rate sits at 4.3% as of May 2026, easing from 4.5% in April 2026. Employment remains strong, with the working-age employment rate at 76.8%, broadly stable over the year. While job advertisements remain the highest in the country, hiring momentum has softened. Employers are prioritising targeted capability and retention over broad expansion. Sydney's largest sectors remain financial & insurance services and professional, scientific & technical activities, accounting for 15.7% and 12.3%, respectively, of total GVA.

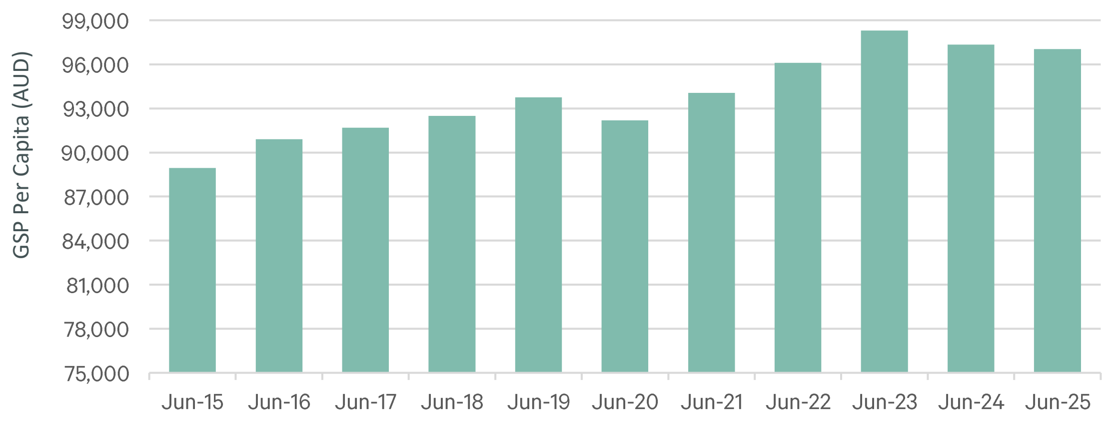
Infrastructure investment expands retail catchments and supports long-term growth across NSW

NSW's retail environment is being supported by a substantial pipeline of transport and infrastructure investment that is improving accessibility and strengthening connections between key population and employment centres. The expansion of Sydney Metro and the opening of Parramatta Light Rail Stage 1 have enhanced connectivity to major retail precincts, while upgrades including WestConnex, the M12 Motorway and broader Western Sydney transport corridors are expected to reduce travel times and improve access across growth areas.

The opening of Western Sydney International Airport in 2026 is expected to act as a catalyst for economic activity across the Western Sydney Aerotropolis, supporting population growth, employment creation and demand for new retail and commercial development. Major projects including Sydney Metro West, the Western Harbour Tunnel and associated road upgrades are also expected to enhance accessibility and expand retail catchments over the medium to long term.

While consumer spending remains constrained by cost-of-living pressures, improved connectivity and ongoing infrastructure investment are expected to support visitation, reinforce the performance of strategically located retail centres and provide a foundation for longer-term retail growth across NSW.

FIGURE 2: NSW Gross State Product Per Capita (Jun 15 - Jun 25)



Source: ABS, CBRE Research

Supply

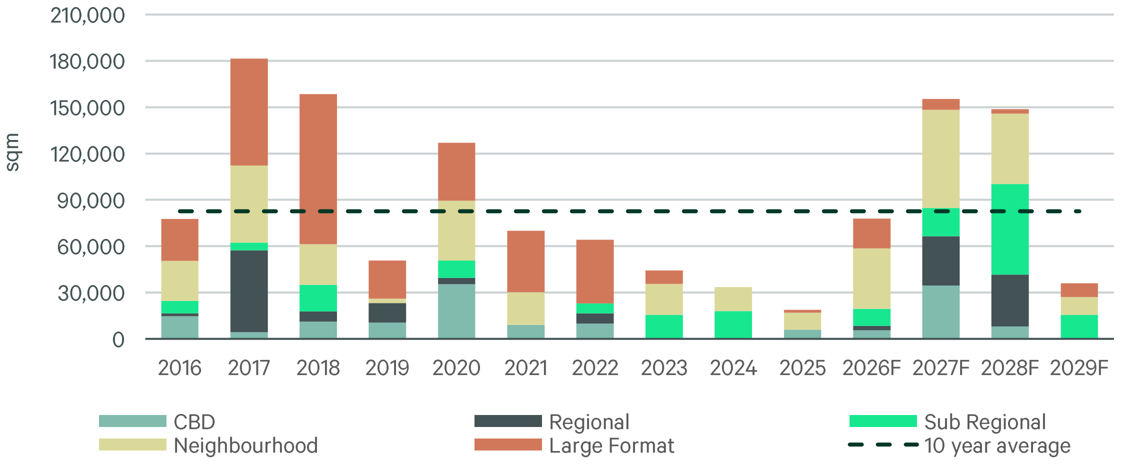
Neighbourhood centres lead NSW's retail supply pipeline as growth corridors drive development activity

Q2 2026 retail supply totalled c.580 sqm in the form of neighbourhood convenience retail. Ongoing planning delays, elevated construction costs and conservative financing conditions continue to constrain new supply, reinforcing a preference for refurbishment and redevelopment over greenfield development within core retail formats.

Through to the end of 2027, c.343,300 sqm of retail floorspace is forecast to be delivered across NSW. The supply pipeline remains broadly aligned with the state's strong population growth and ongoing expansion across Sydney's growth corridors. Neighbourhood centres are expected to account for c.30% of total new supply, reflecting the continued delivery of retail infrastructure to support greenfield residential development. CBD retail and regional shopping centres are forecast to comprise c.12% and 10% of supply, respectively, underpinned by investment in major retail destinations and mixed-use precincts.

As population growth remains focused in Western Sydney and other growth corridors, convenience-based retail formats are well-positioned to meet day-to-day consumer needs. These projects typically benefit from lower development complexity, smaller capital requirements and faster delivery timeframes than major regional centres, making them an attractive and lower-risk proposition for developers.

FIGURE 3: NSW Retail Supply by Category



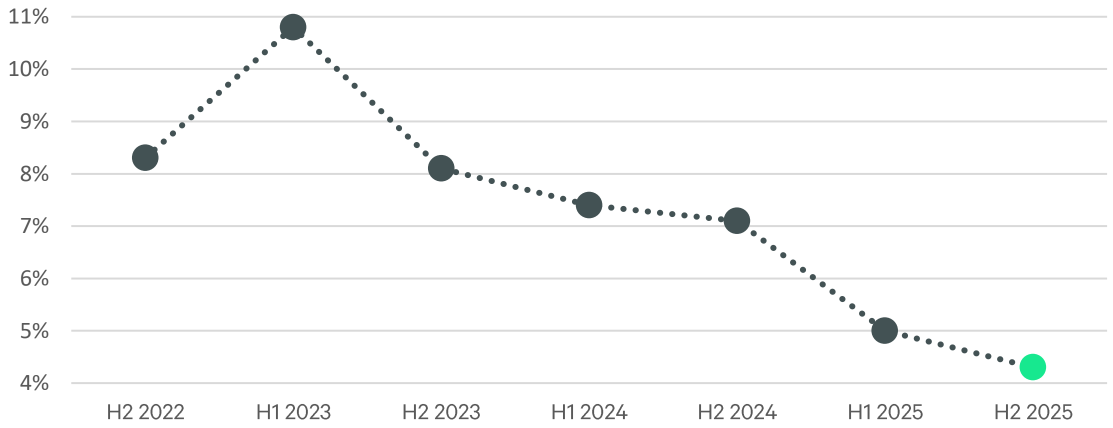
Source: CBRE Research

Vacancy

Sydney CBD vacancy tightens to record low

In H2 2025, Sydney CBD retail vacancy tightened by a further 78 bp to 4.3%, marking the fifth consecutive half-year of improvement since H1 2023 from a peak of 10.8%. Unlike earlier periods, the decline was driven by genuine occupier-led absorption rather than stock adjustments, with leasing activity strengthening across core precincts. Improved occupancy in CBD arcades, together with tightening across strip and centre retail formats, supported the reduction amid constrained prime availability and improving trading conditions. A widening divergence emerged between core and non-core precincts, with core vacancy compressing to 4.0% versus 4.9% in non-core areas, underscoring the concentration of demand within Sydney's prime retail corridors and the increasingly supply-constrained nature of the CBD.

FIGURE 4: Sydney CBD Vacancy by Half Year



Source: CBRE Research

Rental Performance

Premium CBD locations remain the primary beneficiaries of tenant demand

Sydney's super prime CBD retail market remained the strongest-performing retail segment in Q2 2026, with net face rents increasing 3.3% q-o-q and 13.1% y-o-y. Growth was driven by record-low vacancy, limited supply and strong retailer demand for premium CBD locations, supporting continued rental growth and landlord pricing power.

Regional, sub-regional and neighbourhood shopping centres recorded stable net face rents over the quarter, while increasing 4.8%, 3.6% and 2.1% y-o-y, respectively. The stronger performance of regional centres reflects their dominant catchment positions, higher foot traffic and broader tenant mixes, which continue to support retailer demand and rental growth.

Large Format Retail (LFR) also remained resilient, with net face rents increasing 0.4% q-o-q and 5.5% y-o-y, underpinned by retailer expansion, population growth across key growth corridors and continued demand for bulky goods and lifestyle retailing. While consumer confidence continues to influence the timing of larger discretionary purchases, leasing sentiment among LFR operators remains positive, with expansion focused on sites that align with network requirements for location, scale and accessibility.

Incentives for super prime CBD retail declined by 250 bp q-o-q and 500 bp y-o-y, reflecting tightening vacancy and strong competition for premium retail space. In contrast, incentives remained broadly stable across all other retail asset classes in Q2 2026, supported by disciplined leasing conditions and limited new retail development.

A two-speed retail market emerges as prime assets outperform secondary stock

Looking ahead, rental growth across shopping centres is expected to remain measured through 2026 as retailers navigate elevated operating costs and maintain a disciplined approach to expansion.

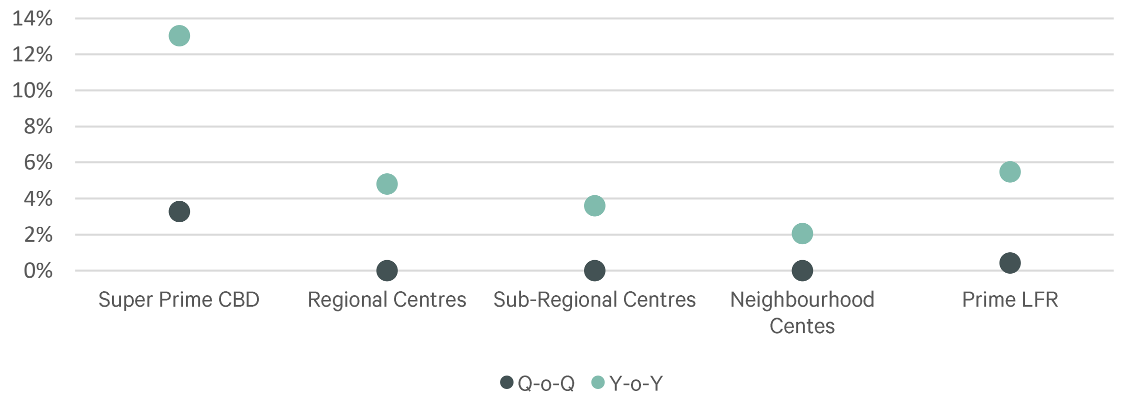
While demand for prime, well-located space remains resilient, leasing momentum is likely to be concentrated among well-capitalised operators, moderating rental growth across secondary assets. In the LFR sector, low vacancy of c.2.5% and a constrained supply pipeline are expected to continue supporting rental growth, with retailer demand remaining focused on high-quality centres offering strong visibility, accessibility and complementary national tenants.

FIGURE 5: NSW Key Leasing Rates by Retail Asset Category

Asset Type	NFR (AUD/sqm)			NER (AUD/sqm)			Incentives (%)		
	Q226	Q-o-Q Change	Y-o-y Change	Q226	Q-o-Q Change	Y-o-y Change	Q226	Q-o-Q Change	Y-o-y Change
CBD Super Prime	**12,577**	3.3%	13.1%	**11,319**	6.3%	19.7%	**10.0%**	-250bp	-500bp
Regional	**2,023**	Stable	4.8%	**1,669**	Stable	4.8%	**17.5%**	Stable	Stable
Sub-Regional	**1,219**	Stable	3.6%	**1,073**	Stable	3.6%	**12.0%**	Stable	Stable
Neighbourhood	**1,199**	Stable	2.1%	**1,038**	Stable	2.1%	**13.5%**	Stable	Stable
LFR	**699**	0.4%	5.5%	**624**	0.4%	5.5%	**10.8%**	Stable	Stable

Source: CBRE Research

FIGURE 6: Net Face Rent Growth y-o-y, by Retail Property Type (Jun 25 - Jun 26)



Source: CBRE Research

Investment

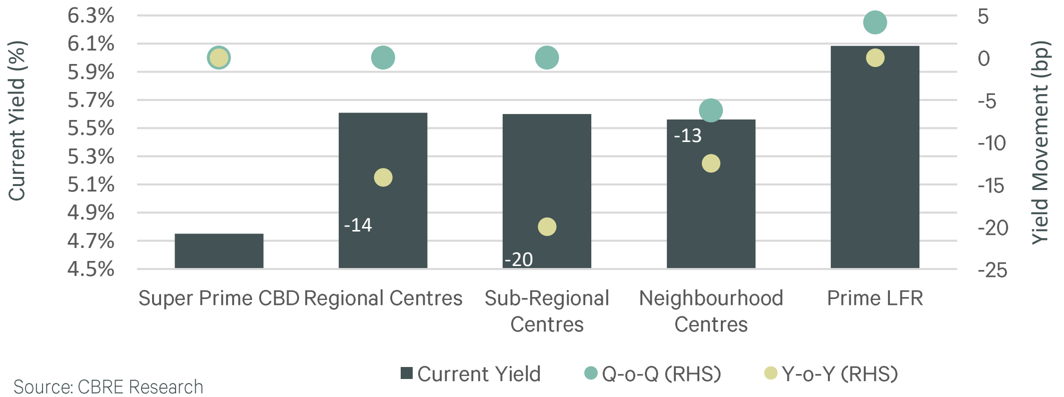
Transaction activity eases from 2025 highs as market momentum stabilises

A total of $1.7 billion in retail investment sales was recorded across Greater Sydney during Q2 2026 (for transactions above $5 million). The quarter was anchored by the $568 million acquisition of a 50% stake in Macarthur Square by the GPT Wholesale Shopping Centre Fund (GWSCF) from the Lendlease-managed Australian Prime Property Fund - Retail. The transaction demonstrates the continued depth of capital targeting institutional-grade retail assets capable of delivering resilient cash flows and inflation-linked rental growth.

In Q2 2026, neighbourhood centre yields tightened by 6 bp q-o-q, while yields remained stable across all other retail asset classes, reflecting continued investor preference for defensive, convenience-based retail assets.

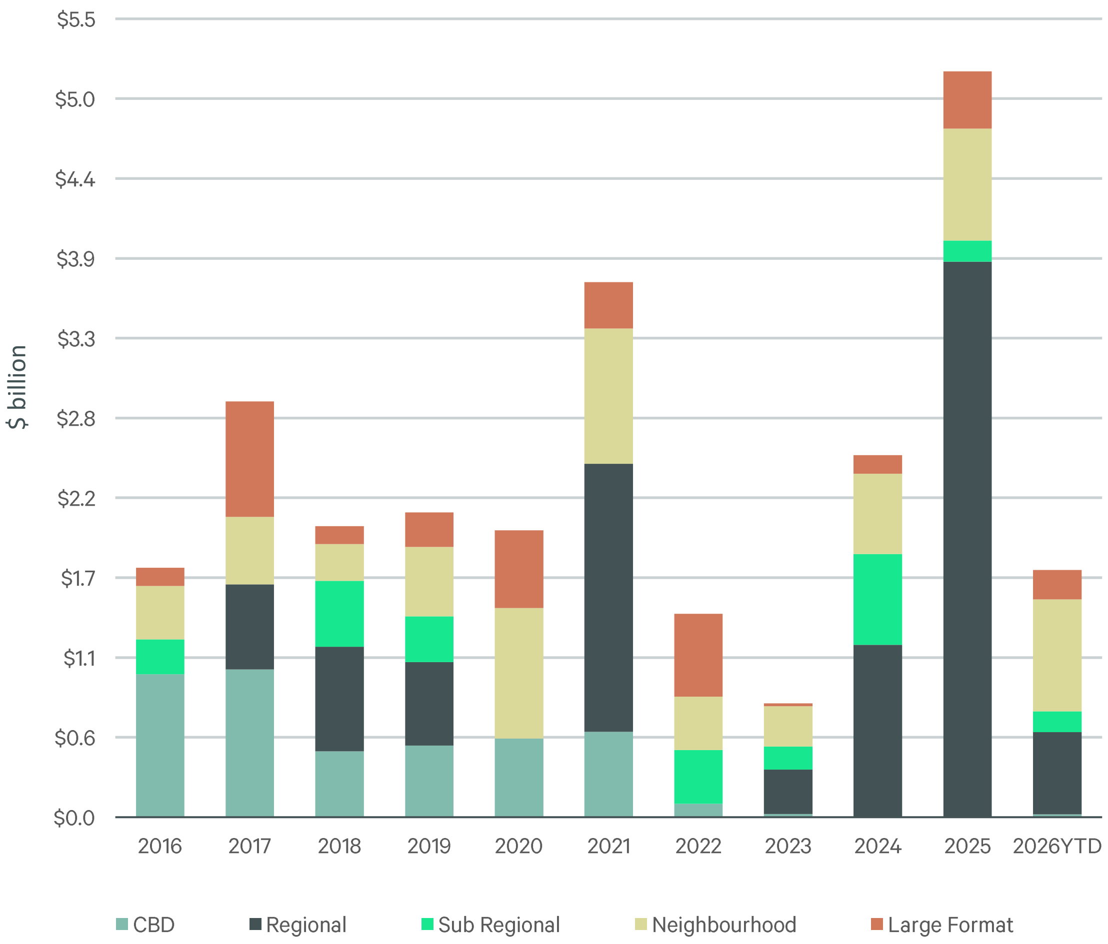
Over the year, regional shopping centre yields compressed by 14 bp, sub-regional centres by 20 bp and neighbourhood centres by 13 bp. Yield tightening was supported by the defensive characteristics of these assets, including stable income streams, non-discretionary tenant mixes and strong local catchment demand. While investor demand for neighbourhood centres remained strong, higher tenant turnover and greater exposure to smaller-format retailers moderated the extent of yield compression relative to larger shopping centre formats, where scale, anchor strength and income security continue to attract institutional capital.

FIGURE 7: NSW Retail Yields by Category



Source: CBRE Research

FIGURE 8: NSW Retail Investment Sales by Category (greater than $5 million)



To Note: Excludes Strip and Stand Alone sales.
Source: CBRE Research

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