Robust investor appetite and limited supply bolster retail resilience

▼ 5.0%
Sydney CBD Vacancy Rate H1 25

▼ 3.5%
NSW Household Spending Y-o-Y August 2025

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

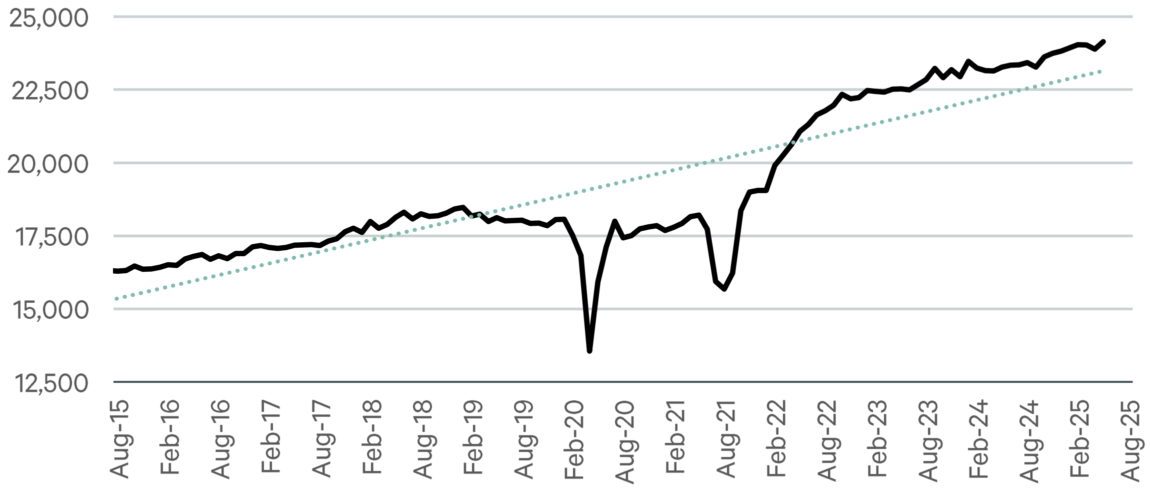
▲ $517m
Q3 25 NSW Retail Investment Volume

Note: Arrows indicate change from previous quarter.

Key Points

- NSW household spending decreased 0.2% m-o-m in August, reaching a total of c. $24.2b.
- The launch of Sydney Metro and Parramatta Light Rail Stage 1 has lifted CBD foot traffic and strengthened retail connectivity across key city and suburban precincts in NSW.
- Development activity remained subdued in Q3 25, with no new completions recorded. Ongoing supply constraints are expected to support further rental uplift.
- Sydney CBD retail vacancy declined by 210 bp in H1 25 to 5.0%, supported by the removal of a notable group of stores at MetCentre, a portion of which were vacant, from the total stock count due to their planned conversion into podium space.
- Over the quarter, super prime CBD rents increased by 2.5%, regional shopping centres rose 1.4%, while sub-regional centres, neighbourhood centres and LFR's rose by 1.3%, 1.0% and 1.2%, respectively.
- Yields were stable across most retail asset classes in Q3 25, aside from regional and neighbourhood shopping centres, which saw a compression of 5 bp and 6 bp respectively.

FIGURE 1: NSW Total Household Spending, Seasonally Adjusted (Aug 15 - Aug 25)



3.5%
Year-on-Year

-0.2%
Month-on-Month

Source: ABS as at Aug 2025, CBRE Research

Economic Overview

Household spend still centred on services rather than goods

NSW GSP rose 1.2% in 2023-24 (-1.0% per capita), up from 4.2% (2.3% per capita) the previous year. As at August 2025, y-o-y household growth for NSW was led by miscellaneous goods and services (7.9%), hotels, cafes and restaurants (5.6%) and food (5.3%).[1]

NSW is set to welcome around one-third of Australia's projected migrant intake over the next decade

Australia's population is forecast to grow by 13% between December 2024 and 2033, according to Deloitte Access Economics. NSW is expected to capture a large portion of this expansion, with its population projected to rise by 12% over the same period.[2] This growth, driven primarily by overseas migration, is anticipated to translate into stronger demand for housing and retail services across the state. CBRE estimates this demographic uplift could generate an additional $4.7 billion in retail spending annually. As NSW absorbs close to one-third of the nation's total population growth, the state is well positioned to benefit from the broader economic ripple effects in the years ahead.

Australia's labour market remains firm, with the national unemployment rate holding steady at 4.2% as of August 2025. In NSW, a modest 10 bp increase also brought unemployment to 4.2%, reflecting an expanding labour force rather than weaker job creation. This points to sustained confidence among job seekers and continued strength in core industries. CBRE expects this solid employment base to help support household incomes, which should underpin discretionary spending and reinforce retail market stability over the near term.

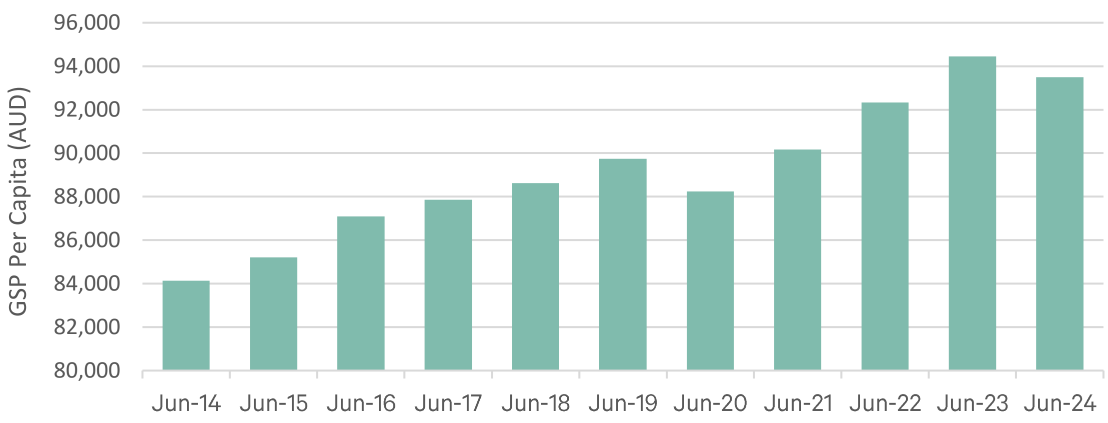
1. According to ABS
2. According to Deloitte Access Economics

New infrastructure projects enhance connectivity and boost visitation

NSW's retail landscape is also being bolstered by significant infrastructure investment. The launch of Sydney Metro in August 2024 has improved connectivity into the CBD, supporting increased foot traffic and retail activity around key stations. Similarly, Parramatta Light Rail, completed in late 2024, is reshaping mobility through Greater Parramatta, with daily patronage expected to reach 22,000 by 2026. The opening of Western Sydney International Airport in 2026 is expected to drive long-term population and job growth, while ongoing upgrades to WestConnex continue to enhance travel efficiency and broaden the reach of major retail centres across the metropolitan area.

Additional infrastructure projects are set to reinforce these trends. The construction of Sydney Metro West will strengthen the connection between the CBD and Parramatta, unlocking new retail corridors. The Beaches Link and Western Harbour Tunnel will ease congestion and improve north–south mobility. In the south-west, upgrades to the M12. Motorway will enhance access to the new airport precinct, while the development of Bradfield City Centre will create fresh opportunities for retail and commercial activity. CBRE expects these projects to reshape how people live, work and shop across NSW, expanding catchments and providing a stronger foundation for retail growth in the decade ahead.

FIGURE 2: NSW Gross State Product Per Capita (Jun 14 - Jun 24)



Source: ABS, CBRE Research

Supply

Retail supply remains limited amid market and structural challenges

No significant retail projects were delivered in Sydney in Q3 25. The lack of new supply largely reflects a combination of structural and market factors. Lengthy planning and approval processes have slowed project commencements, while rising land values and construction costs have reduced project feasibility. Tenant demand remains concentrated in established centres, limiting the case for speculative development. Tighter lending conditions and higher funding costs are also constraining new builds. Projects like the Sydney Fish Market redevelopment, which has faced delays, highlight how these factors can push back delivery timelines, leading developers and investors to prioritise upgrades and redevelopments of existing assets.

Looking ahead, c. 387,000 sqm of retail supply is expected between now and end of 2027. Neighbourhood centres are projected to account for just under half of this supply, followed by regional shopping centres at 16% and CBD retail at 14%. The uplift in neighbourhood centre development reflects their strong defensive qualities, with investors drawn to their consistent foot traffic, resilient daily needs spending and ability to capture growth from expanding suburban communities.

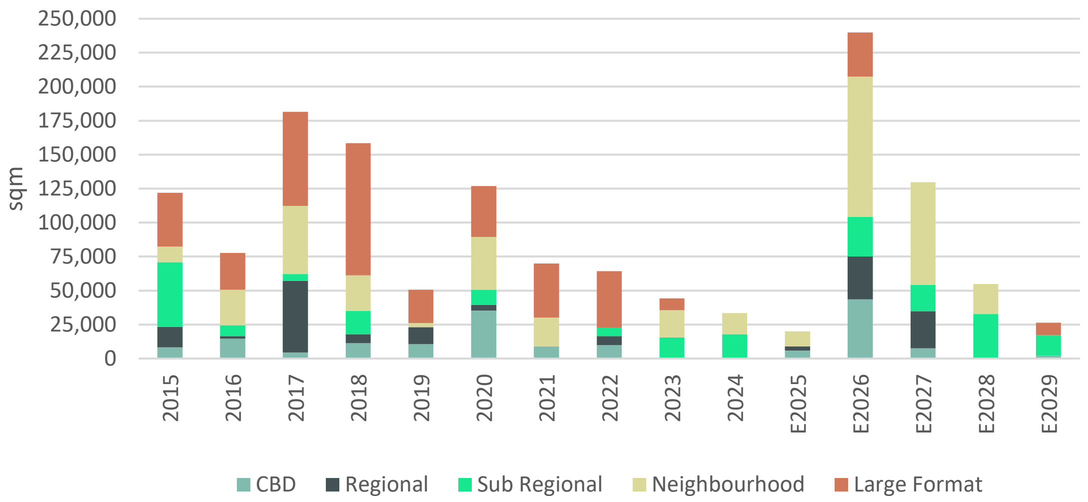
In CY25, retail floorspace additions are forecast to be below the long-term average, with c. 20,000 sqm expected to be added to the market as many projects have got pushed out to 2026. H1 26 will see the greatest amount of space delivered next year, with 64% (c. 54,000 sqm) of the CY26 pipeline.

Vacancy

Sydney CBD vacancy tightens

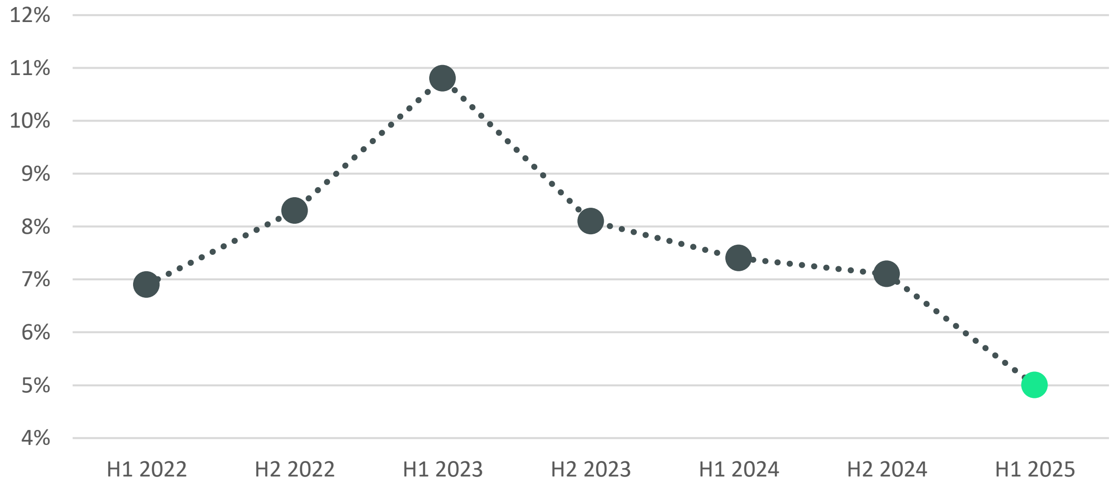
In H1 25, Sydney CBD retail vacancy declined by 210 bp to 5.0%, marking the fourth consecutive half yearly improvement. This improvement was driven by the removal of a notable group of stores at MetCentre, a portion of which were vacant, from the total stock count due to their planned conversion into podium space. If a similar adjustment had been applied in the previous period, H2 24 vacancy would have been 6.1%, compared to the current 5.0%. The gap between core and non-core precincts narrowed, with vacancy rates at 5.0% and 5.2% respectively. If the MetCentre vacancy adjustment had been made in both periods, non-core vacancy in H2 24 would have been 7.0%.

FIGURE 3: NSW Retail Supply by Category



Source: CBRE Research

FIGURE 4: Sydney CBD Vacancy by Half Year



Source: CBRE Research

Rental Performance

CBD super prime net face rent increases by 2.5% over the quarter

Sydney's super prime CBD net face rents increased 1.5% over the year and increased by 2.5% over the quarter, reflecting a recovery in leasing demand and strengthening retailer sentiment. Improving foot traffic, minimal vacancy, combined with limited new supply and the strategic repositioning of existing assets, has helped bolster occupancy and bolster an increase in face rents.

In Q3 25, rents at regional shopping centres rose by 1.4%, while sub-regional and neighbourhood centres rose by 1.3% and 1.0% respectively. On an annual basis, regional assets led the way with growth of 4.8%, followed by sub-regional and neighbourhood centres at 3.3% and 2.4%, respectively. While retail sales across Sydney shopping centres have begun to level out amid broader economic uncertainty, the market remains resilient.

Looking ahead, rental growth is expected to track at a moderate pace over the remainder of 2025 underpinned by tight vacancy levels, a limited near-term supply pipeline and improved mobility from recent infrastructure completions. Strong retailer demand, resilient consumer spending in key precincts and a lack of quality space are also expected to support steady rental growth particularly for well-located assets.

Prime LFR rents rose by 1.2% this quarter, due to subdued leasing activity in a tight market. We do expect leasing transactions to be in line with CY24 levels by the end of the year where the majority of leasing deals occur in Q4. Leasing volumes have been significantly lower then in CY22 and CY23 however with the renewal rate at around 95%. With construction costs stabilising, occupiers are increasingly focused on securing lease renewals to avoid higher rents associated with new leases. LFR assets remain well-positioned for further rental growth in 2026, supported by low vacancy rates of around 2.5%, the prospect of interest rate cuts, a constrained supply pipeline and strong population growth continuing to drive demand for LFR goods. Prime LFR rents recorded 9.0% y-o-y growth as of Q3 25.

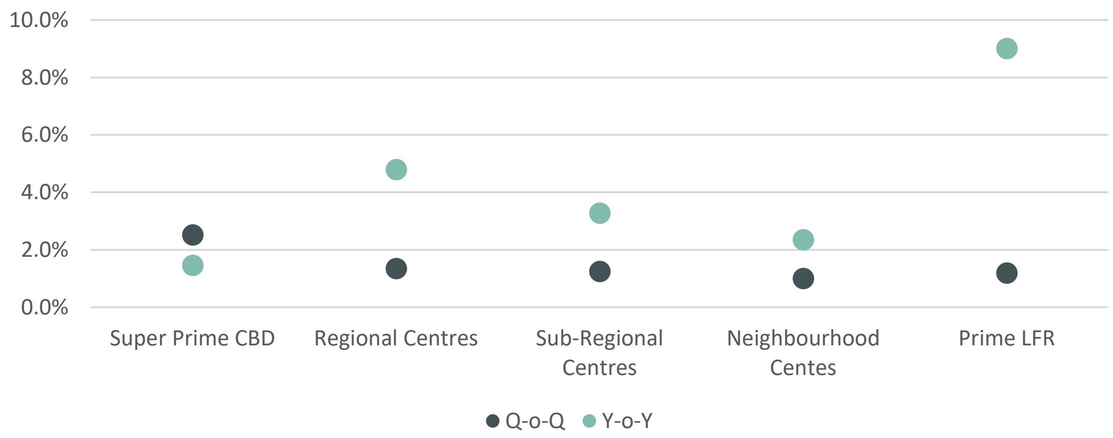
Incentives were stable across most retail sectors in Sydney over Q3 25, aside from CBD Super Prime that fell by 100 bp. A combination of stronger tenant enquiry, lower vacancy levels gave landlords more leverage.

FIGURE 5: NSW Key Leasing Rates by Retail Asset Category

Asset Type	NFR (AUD/sqm)			NER (AUD/sqm)			Incentives (%)		
	Q325	Q-o-Q Change	Y-o-y Change	Q325	Q-o-Q Change	Y-o-y Change	Q325	Q-o-Q Change	Y-o-y Change
CBD Super Prime	**11,104**	2.5%	1.5%	**9,439**	3.7%	1.5%	**15.0%**	-100bp	Stable
Regional	**1,956**	1.4%	4.8%	**1,613**	1.4%	3.7%	**17.5%**	Stable	83bp
Sub-Regional	**1,192**	1.3%	3.3%	**1,049**	1.3%	2.1%	**12.0%**	Stable	100bp
Neighbourhood	**1,187**	1.0%	2.4%	**1,027**	1.0%	1.2%	**13.5%**	Stable	100bp
LFR	**671**	1.2%	9.0%	**598**	1.2%	11.1%	**10.8%**	Stable	-167bp

Source: CBRE Research

FIGURE 6: Net Face Rent Growth y-o-y, by Retail Property Type (Sep 24 - Sep 25)



Source: CBRE Research

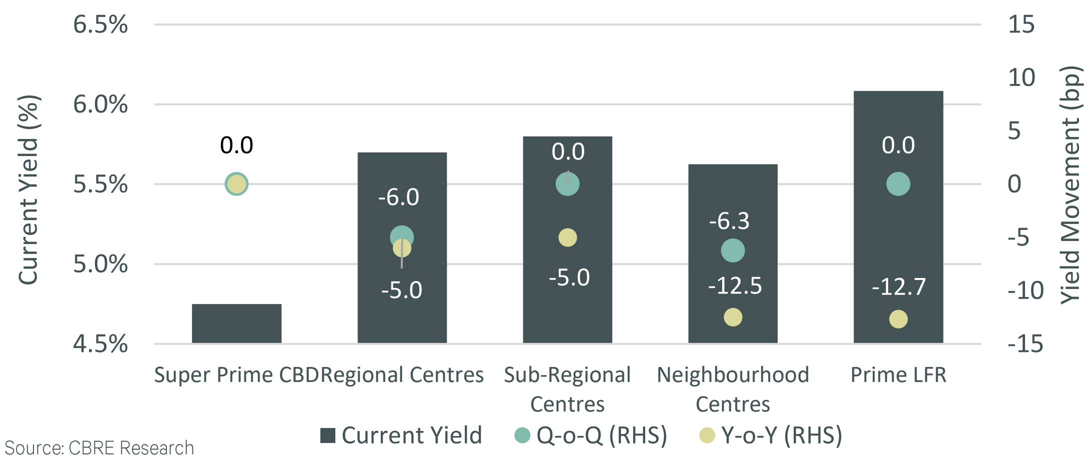
Investment

Sydney retail investment volumes moderated this quarter

A total of $517 million of investment sales was recorded in Q3 25 over four transactions in the Sydney metro region (for sales > $5 million). The largest transaction was the $319 million sale of Abu Dhabi Investment Council and Challenger Life's 50% stake in the Bankstown Central shopping centre to JY Group, with the remaining 50% interest held by Vicinity Centres. Looking ahead, the sector is expected to attract further investment and maintain stable yields due to strong consumer demand, constrained new supply and the ongoing appeal of well-located, essential service-led centres.

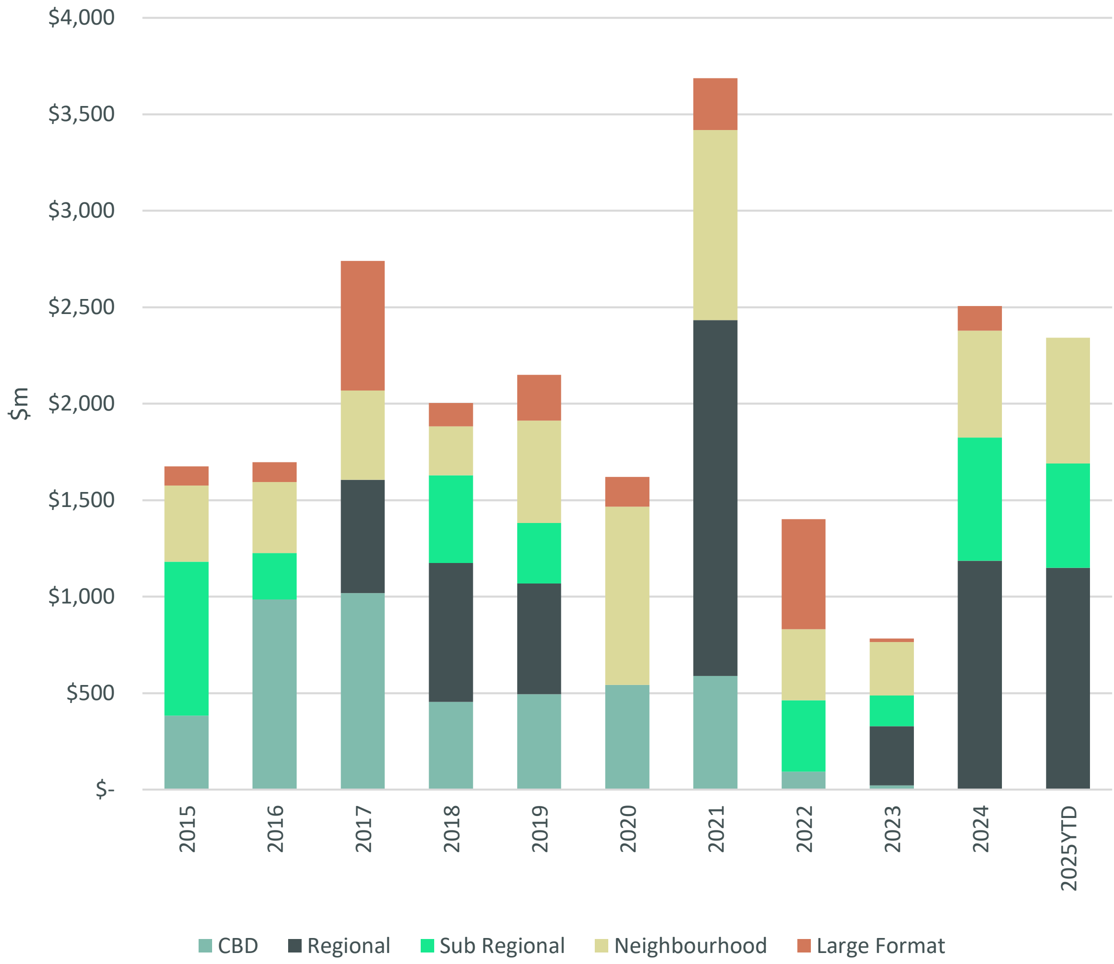
Yields remained relatively stable across retail asset classes in the September quarter, aside for regional and neighbourhood shopping centres. Regional centre yields tightened by 5 bp, while neighbourhood centres tightened by 6 bp. Regional shopping centre yield tightening was due to strong investor demand, resilient income streams, improving leasing metrics and limited availability of prime assets driving competition and compression. Neighbourhood centres yield tightening was supported by their defensive characteristics, stable income and strong local footfall. Sub-regional centre yields remained flat, with steady income but greater exposure to discretionary spending and higher tenant turnover keeping investor demand balanced.

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 non-metro, Strip and Stand Alone sales.
Source: CBRE Research

Research Contacts

Jack Sywak

Research Analyst
+61 468 323 533
jack.sywak@cbre.com

Kate Bailey

Head of Retail and Alternatives Research
+61 438 528 352
kate.bailey@cbre.com

Sameer Chopra

Head of Research, Pacific and ESG APAC
+61 422 242 830
sameer.chopra@cbre.com