

FIGURES | MELBOURNE RETAIL | Q3 2025

# Demand-supply imbalance fuels outperformance in large format retail sector

▲ 6.9%

Melbourne CBD Vacancy H1 25

▲ 4.3%

Victoria Seasonally-Adjusted Monthly Household Spending Y-o-Y Growth, August 2025

▲ -1 bp

Regional Centre Y-o-Y Yield Change

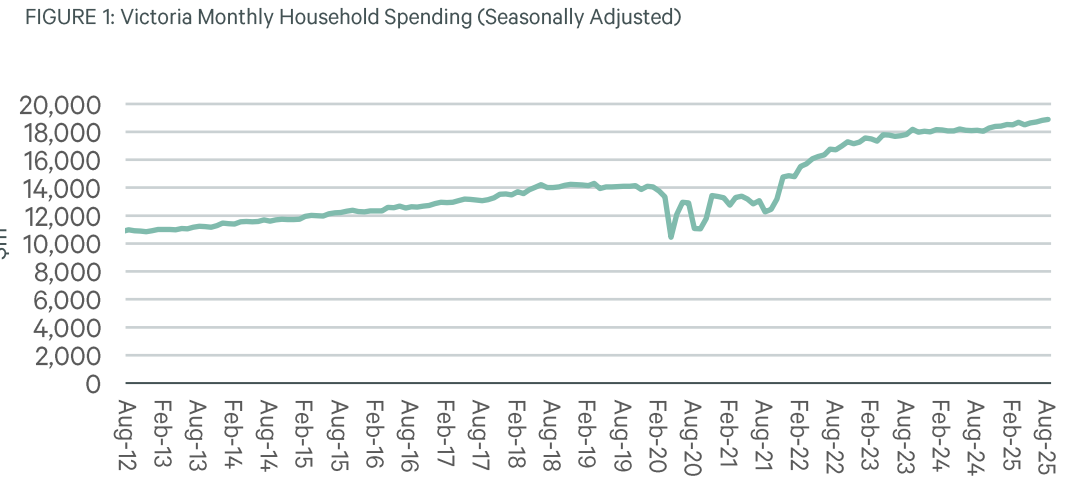
▼ \$71.4m

Q3 2025 Victorian Retail Transaction Volumes

Note: Arrows indicate change from previous quarter.

## Key Points

- Household spending in Victoria in August 2025 rose by 0.4% m-o-m and 4.3% y-o-y in seasonally adjusted terms, hinting at a robust, though seasonally cautious, consumer spending climate in the state.
- In August 2025, Victoria’s unemployment rate was stable at 4.4% (+0.2% y-o-y), however remains low by historical standards.
- Retail supply over 2025 and 2026 is projected to reach c. 366,600 sqm across CBD, shopping centre and LFR assets. Supply is anticipated to align with the five-year historical average of c.143,600 sqm p.a.
- In Q3 2025, net face rents for regional, large format retail and neighbourhood centres saw increases of 3.1%, 0.9% and 0.4%, respectively, while other retail assets remained broadly stable during the quarter.
- Retail investment activity in Melbourne remained subdued in Q3 2025, with total sales reaching \$71.4m. The most notable transaction was the sale of Bunnings Thomastown.
- Sub-regional centres experienced the sharpest yield compression, contracting by 23 bp q-o-q.



+0.4%  
Month-on-Month, August 25



1.3%  
Quarter-on-Quarter, August 25

Source: ABS, CBRE Research

## Economic Overview

### Temporary economic drivers sustain Australia’s economic growth

In Q2 2025, Australia’s GDP grew by 0.6% q-o-q (seasonally adjusted, chain volume measures) and 1.8% y-o-y. Despite underlying softness, this growth was fuelled by robust retail discounting, holiday timing and spending related to the Federal election. Public investment was the main obstacle to expansion, whereas net trade provided a modest boost, largely driven by exports of mining commodities.

In 2023-24FY, Victoria’s GSP experienced a moderate growth of 1.5% in volume terms, following a stronger 3.4% increase in the previous year. This growth is consistent with a broader national trend, as all states and territories reported positive GSP growth, while Australia’s overall GDP growth stood at 1.4%. The state’s decline in GSP per capita (-1.2% y-o-y) reflects population growth outpacing economic output. The healthcare and transport sectors contributed positively, supported by rising demand and a rebound in domestic logistics.

In Melbourne, the growth of public services continues to bolster the city’s development, resulting in an increase in office-based employment. Furthermore, disposable income and consumer spending have seen significant increases in 2025 vs. 2024.

### Inflation hits its lowest point since 2021, while CPI increases, spurred by essential goods

In Q2 2025, annual inflation decreased, reaching its lowest level since Q1 2021, at 2.1%. CPI rose by 0.7% q-o-q with the most notable price increases occurring in the housing, food and non-alcoholic beverages categories. Annual wage growth remained unchanged at 3.4% in the June quarter - however, this marks a decline from the previous year, when it was 4.1%. The proportion of vacant positions rose to 2.1%, while filled jobs increased by 0.2% to reach 16.0 million, indicating a growing demand for workers throughout the economy.

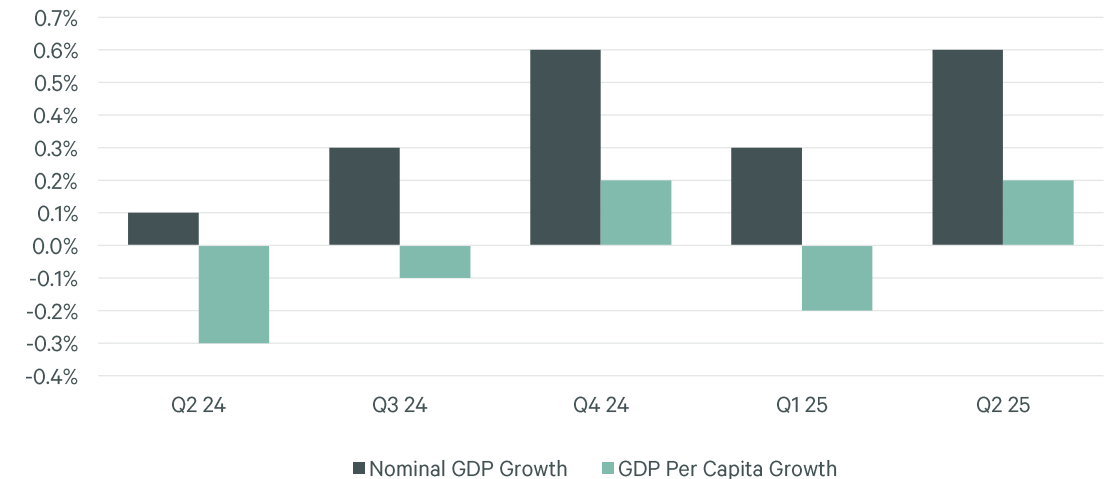
According to the ABS, in August 2025, Victoria’s unemployment rate stood at 4.4%, reflecting a relatively stable labour market but slightly above the national average of 4.2%. The participation rate was 67.0%, and the underemployment rate sat at 5.9% - a signal that while many Victorians are engaged in the workforce, a notable portion may still be seeking more hours or better opportunities.

### End-of-financial-year sales have propelled household expenditure upward

In August 2025, household expenditure in Australia showed considerable y-o-y growth of 5.0%, driven by enhanced consumer demand, especially for personal goods, health and fashion. Discretionary spending saw strong annual growth of 4.2%, as Australians were increasingly willing to spend on non-essential items like clothing, dining out and entertainment, a sign of positive consumer sentiment and economic recovery.

Household spending in Victoria in August 2025 rose by 0.4% m-o-m and 4.3% y-o-y in seasonally adjusted terms, hinting at a robust, though seasonally cautious, consumer spending climate in the state. Spending on transport, health and hospitality indicates a shift back toward services and experiences in Victoria, thanks to post-winter recovery and pre-summer planning.

FIGURE 2: Australian Nominal and Real Growth Comparison by Quarter



Source: ABS, CBRE Research

# Supply

## Retail development lags behind Melbourne’s rapid population growth

Melbourne is poised to see c.366,600 sqm of retail supply delivered across 2025-2026. The upcoming supply pipeline remains limited, primarily focusing on LFR developments and neighbourhood centres, which are projected to account for around 37% and 29% of the total supply in the next two years, respectively. This targeted expansion aligns with Melbourne’s recent surge in population, driven by robust migration, economic opportunities and a high quality of life. Therefore, demand for retail facilities is intensifying, placing upward pressure on both existing infrastructure and future development needs.

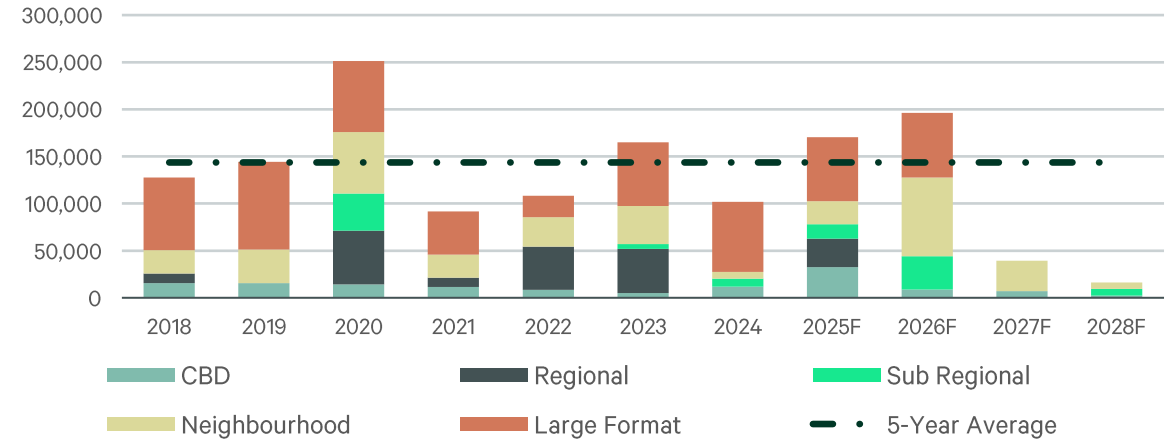
Regional centre supply remains limited. In Melbourne’s highly competitive retail environment, opportunities for establishing new regional centres are scarce. Consequently, asset owners are focusing on enhancing the performance of existing properties through refurbishments and extensions. These upgrades often include modernising infrastructure, refreshing aesthetics, optimising tenant mixes and integrating new technologies to improve the customer experience. Moreover, the rise of e-commerce has spurred innovations in the retail sector as demand for experiential and mixed-use spaces rises in pursuit of attracting foot traffic and boosting overall value.

LFR assets are on track to experience substantial growth, with several new developments springing up across the state, totalling c.136,610 sqm of new supply in 2025-2026. The trend is particularly evident in the expanding growth corridors of the urban fringe and metro areas. Developer confidence in these assets remains strong, indicating a buoyant retail environment across Melbourne in the foreseeable future.

## Newly completed CBD developments are set to play a pivotal role in Melbourne’s retail market trajectory

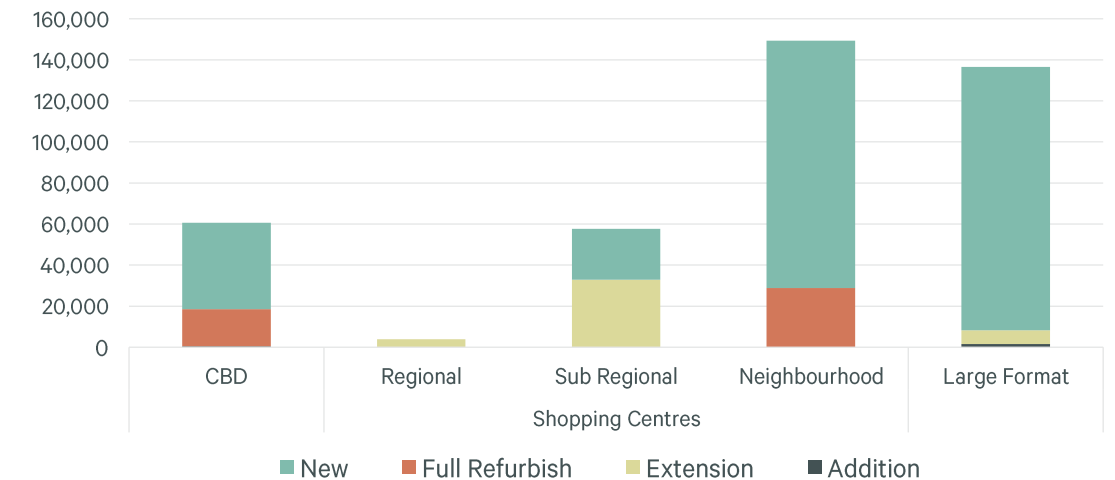
New CBD supply remains limited but notable, with c.41,077 sqm slated for delivery across 2025-2026. In Q3 2025, major completions included The Walk, 299 Bourke and Mecca’s Flagship Bourke, all of which are on track to revitalise the city’s retail core. These developments are expected to drive renewed leasing activity, attract both local shoppers and tourists and enhance the vibrancy of Melbourne’s retail precinct.

FIGURE 3: Melbourne Retail Supply by Category



Source: CBRE Research

FIGURE 4: Melbourne Future Supply by Property and Development Type, 2025-2028



Source: CBRE Research

## Rental Performance

### Melbourne CBD rents are holding firm amid economic instability

Q3 2025 CBD super prime, sub-regional and prime stripes maintained consistent net face rents. Three segments stood out with modest growth. Regional centres experienced a robust +3.1% q-o-q growth, fuelled by increased consumer demand. LFR spaces saw net face rents rise by 2.1% q-o-q, thanks to a persistent appetite for electronics and bulky items. Meanwhile, neighbourhood centres also showed a 0.4% q-o-q uptick, reflecting a cautiously optimistic outlook among shoppers.

Melbourne CBD rents have lagged behind the wider market, primarily due to a slowdown in activity driven by economic uncertainty. Tenants remained cautious about the economic outlook, particularly in light of fluctuating interest rates. This led to delayed leasing decisions, shorter lease terms and a preference for flexibility, which suppressed rental growth. Despite this, incentives in the CBD fell by 250 bp y-o-y, as vacancy tightened in high foot traffic areas, easing pressure on landlords.

Core strip locations in inner-city areas are outperforming, benefiting from strong rental growth and declining incentives, as demand remains high for well-positioned, high-quality retail spaces. In contrast, non-core strip locations, particularly in outer or suburbs with softer foot traffic, are struggling, as CBD retail and major shopping centres are attracting consumers by providing enhanced convenience and a wider range of options.

### Large Format Retail has emerged as one of the best-performing retail asset classes

LFR assets demonstrated the strongest annual performance, with rents increasing by 4.0%, closely trailed by regional centres at 3.7%. In comparison, other shopping centre assets experienced more moderate y-o-y growth, with neighbourhood centres leading at 2.4%, followed by sub-regional centres at 1.5%.

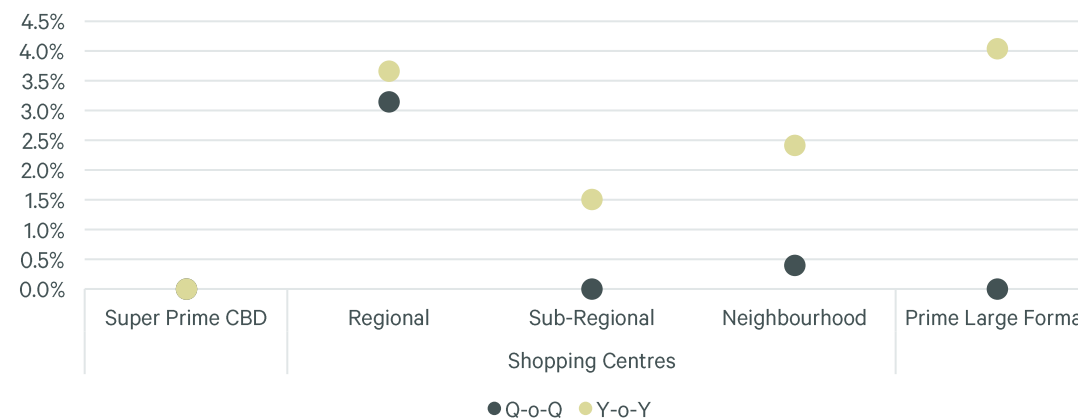
LFR assets have seen a downward trend in leasing incentives of 104 bp y-o-y, signalling a strengthening market driven by heightened tenant demand. LFR vacancy rates in metro Melbourne are tightening, especially in prime centres. As a result, landlords in this high-demand sector are gradually raising rents, influenced by a limited competitive landscape.

FIGURE 7: Victoria 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
<b>CBD Super Prime</b>	<b>6,500</b>	Stable	Stable	<b>5,038</b>	Stable	+3.3%	<b>22.5%</b>	Stable	-250bp
<b>Regional</b>	<b>1,554</b>	+3.1%	+3.7%	<b>1,388</b>	+3.1%	+3.4%	<b>10.7%</b>	Stable	21bp
<b>Sub Regional</b>	<b>904</b>	Stable	+1.5%	<b>767</b>	Stable	-1.2%	<b>15.1%</b>	Stable	235bp
<b>Neighbourhood</b>	<b>731</b>	+0.4%	+2.4%	<b>633</b>	-0.7%	-1.6%	<b>13.5%</b>	100bp	350bp
<b>Prime Large Format</b>	<b>315</b>	+0.9%	+4.0%	<b>274</b>	+1.4%	+5.4%	<b>13.1%</b>	-38bp	-113bp
<b>Prime Strips</b>	<b>569</b>	Stable	+1.0%	<b>467</b>	Stable	+2.2%	<b>17.9%</b>	Stable	-104bp

Source: CBRE Research

FIGURE 8: Net Face Rent Growth by Retail Asset Category



Source: CBRE Research

## Investment Market

### The scarcity of high-quality retail assets is ramping up competition

In Q3 2025, investment activity in Greater Melbourne's retail sector totalled \$71.4m. This included the sale of Bunnings Thomastown (11 Dalton Rd) as part of a major portfolio sale, highlighting strong demand for high-quality retail assets, especially in tightly held industrial precincts with solid fundamentals.

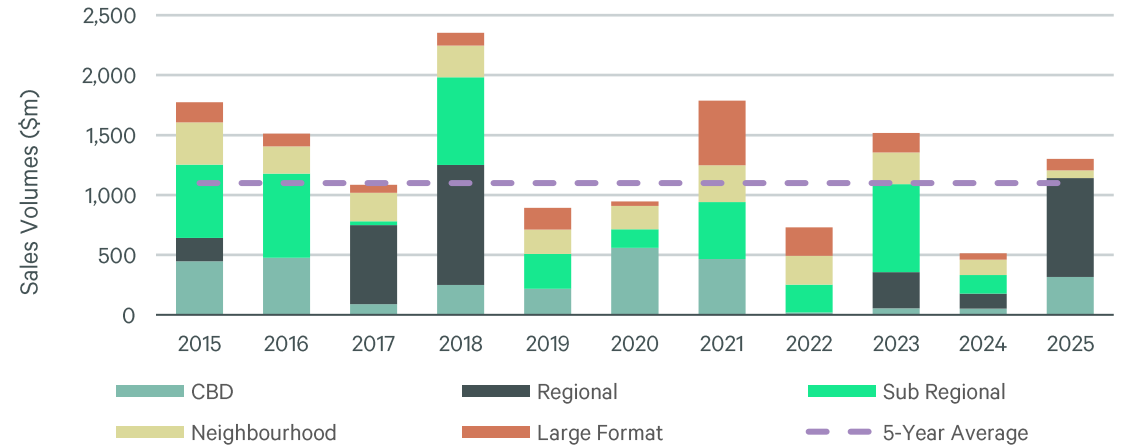
Retail assets are drawing more interest from both private and institutional investors due to their return profiles, limited new supply and inherent growth potential. While institutional capital is reasserting its presence, private capital remains highly active, often stepping in where institutions are more selective. Many top-tier retail assets continue to be tightly held by long-term investors, reducing turnover and curbing supply. As 2025 approaches its tail end, investors are positioned to capitalise on opportunities facilitated by sustained population growth and expected interest rate cuts in late 2025 - early 2026.

### Retail yields have selectively compressed as investors back income-secure assets

In Q3 2025, sub-regional shopping centres, LFR assets and regional centres in Melbourne all saw a q-o-q yield contraction, with declines of 23 bp, 10 bp and 7 bp, respectively. Neighbourhood centres also recorded a slight decrease of 1 bp. In contrast, yields for CBD and prime strip locations held steady, indicating continued caution around CBD retail recovery. This bifurcation suggests investors are selectively re-rating assets based on income security, demographic tailwinds and location fundamentals.

After reaching cyclical peaks, yield expansion in the retail sector has begun to moderate, reflecting growing investor confidence in current asset pricing and future interest rate trajectories. In the short term, yields are expected to remain relatively stable, with limited movement anticipated due to cautious optimism and constrained supply. However, Australia's ongoing rate-cutting cycle may influence cap rates and investor return expectations, potentially triggering renewed yield compression in high-performing retail formats as borrowing costs decline and capital flows increase.

FIGURE 9: Victoria Retail Sales by Asset Category



Source: CBRE Research

FIGURE 10: Victoria Retail Yields by Category



Source: CBRE Research

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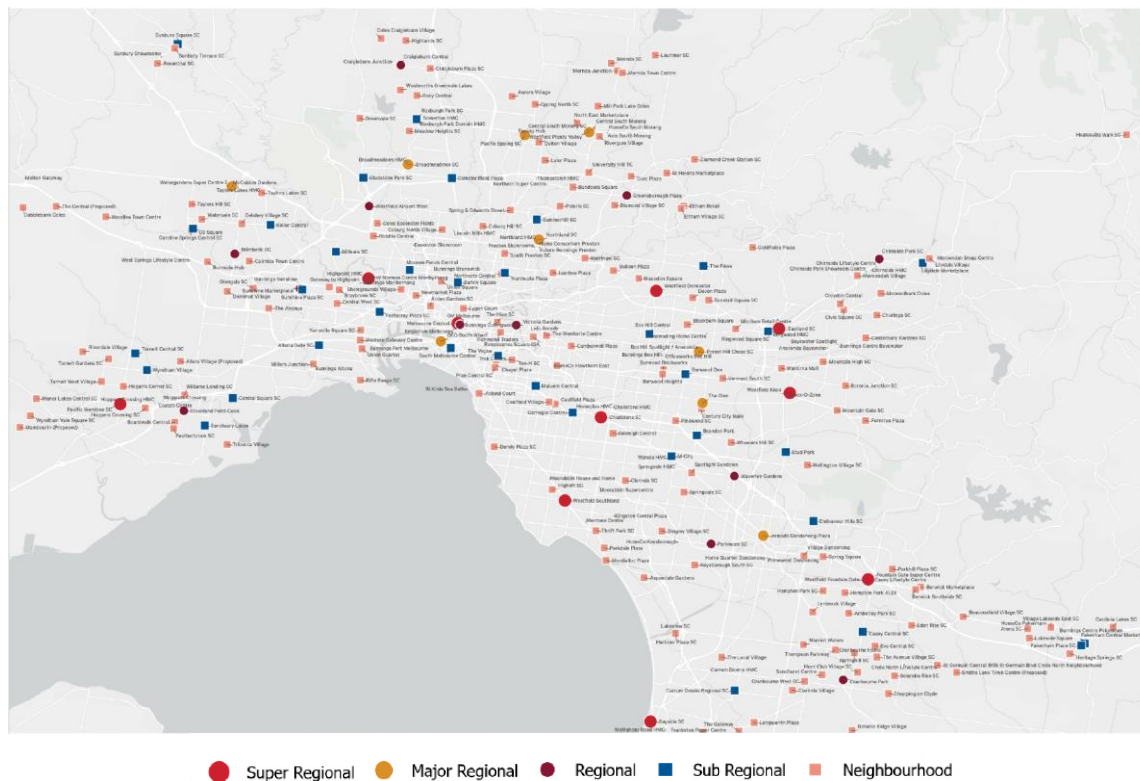
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