Regional centres extend their lead as retail demand concentrates in high-performing destinations

▲ 6.5%
Melbourne CBD Vacancy H2 25

▲ 4.7%
Victoria Seasonally-Adjusted Monthly Household Spending Y-o-Y Growth, May 2026

▲ -14 bp
Regional Centre Y-o-Y Yield Change

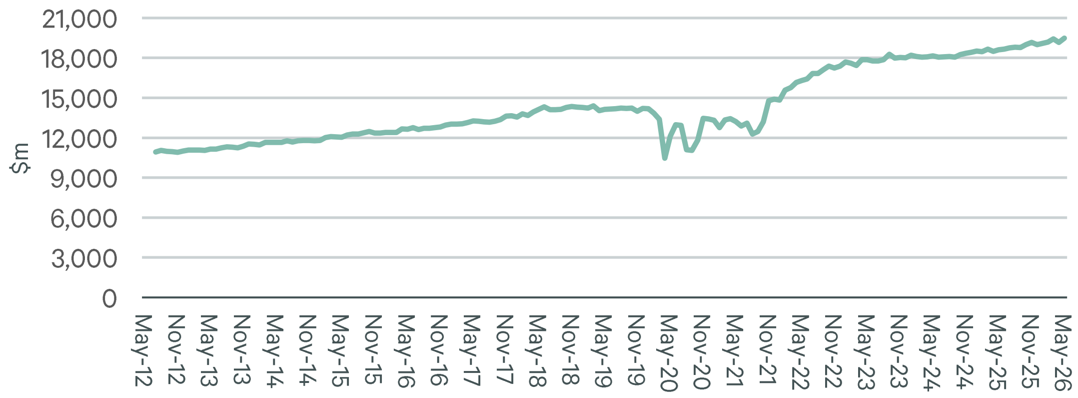
▼ $571.8m
Q2 2026 Victorian Retail Transaction Volumes

Note: Arrows indicate change from previous quarter.

Key Points

- Household spending in Victoria rose by 1.7% m-o-m and 4.7% y-o-y in May 2026 (seasonally adjusted), indicating that consumer demand remains resilient despite ongoing cost-of-living pressures.
- In May 2026, Victoria's unemployment rate increased to 4.9% (+0.5 ppts from 4.4% a year earlier), although it remained relatively low by long-term historical standards.
- Retail supply over 2026 and 2027 is projected to reach c.325,200 sqm across CBD, shopping centre and LFR assets. Supply is anticipated to be above the five-year historical average of c. 121,000 sqm p.a.
- In Q2 2026, net face rents for regional and sub-regional centres increased 1.5%, underpinned by solid occupancy conditions and sustained retailer demand. Other retail assets remained broadly stable during the quarter.
- Retail investment activity in Melbourne ($5m+) totalled $571.8m in Q2 2026, led by the sale of Midtown Plaza (246 Bourke Street) in the CBD.
- Regional centres experienced the sharpest q-o-q yield compression, contracting by 7 bp.

FIGURE 1: Victoria Monthly Household Spending (Seasonally Adjusted)



+1.7%
Month-on-Month, May 26

1.6%
Quarter-on-Quarter, May 26

Source: ABS, 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.

Service sectors and infrastructure-led employment drive Melbourne's economic momentum

In 2024-25FY, Victoria's GSP experienced a moderate growth of 1.1% in volume terms, following a similar 1.4% 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 (-0.8% y-o-y) reflects population growth outpacing economic output. Growth was driven by service industries, led by Financial and Insurance services (2.6%), Health Care and Social Assistance (2.5%) and Transport, Postal and Warehousing (2.4%), reflecting broad national strength.

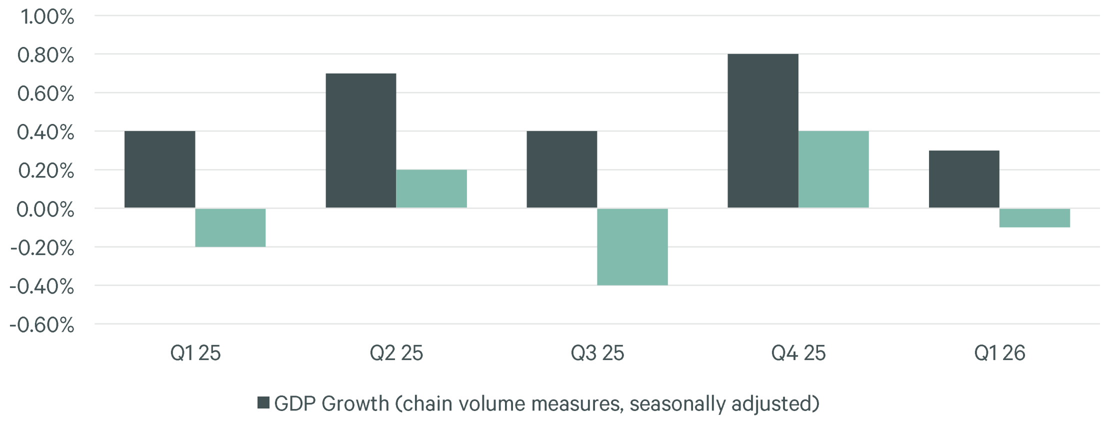
Melbourne's economy is rapidly expanding, fuelled by major investments in the VIC State Budget and extensive infrastructure projects. Office-based employment is surging, driven primarily by strong demand in the professional, scientific & technical services and construction sectors.

Household spending rebounds on services, but cost pressures keep underlying demand fragile

Australian household spending rebounded strongly in May 2026, rising by 1.3% m-o-m (seasonally adjusted), reversing a dip in April, and jumping 5.5% vs May 2025. Growth was driven primarily by services, particularly hotels, cafes and restaurants, alongside mid-season and EOFY clothing sales. While outright homeowners spent more, high-interest mortgage holders faced severe budget constraints, keeping discretionary spending volatile.

Victorian household spending rose by 1.7% m-o-m in May 2026. The household spending categories that drove the rise for the month were clothing and footwear (+3.5%), transport (+3.0%) and miscellaneous goods and services (+2.6%). While monthly discretionary spending fluctuates with promotional sales and major events, persistent inflation and housing expenses have led to overall tighter household budgets. Despite this, strong population growth, driven by overseas migration and student arrivals, continues to underpin aggregate consumption, even as per-household spending remains constrained.

FIGURE 2: Australian Real GDP and GDP Per Capita Growth by Quarter



Source: ABS, CBRE Research

Supply

Melbourne's retail expansion shifts to growth corridors as convenience and large format retail drive future supply

Melbourne is expected to record c.325,200 sqm of new retail supply (incl. non-metro projects) over 2026-2027. The development pipeline remains concentrated in neighbourhood and large format retail (LFR) centres, which are forecast to account for c.43% and 40% of total supply, respectively, over the two-year period. This development focus reflects Melbourne's ongoing population growth, underpinned by strong migration, employment opportunities and favourable lifestyle attributes. Therefore, demand for retail facilities is intensifying, placing upward pressure on both existing infrastructure and future development needs.

Supply across the regional centre segment remains limited. In Melbourne's mature and highly competitive retail landscape, opportunities to develop new regional centres are scarce due to land constraints, high capital costs and planning complexities. 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.

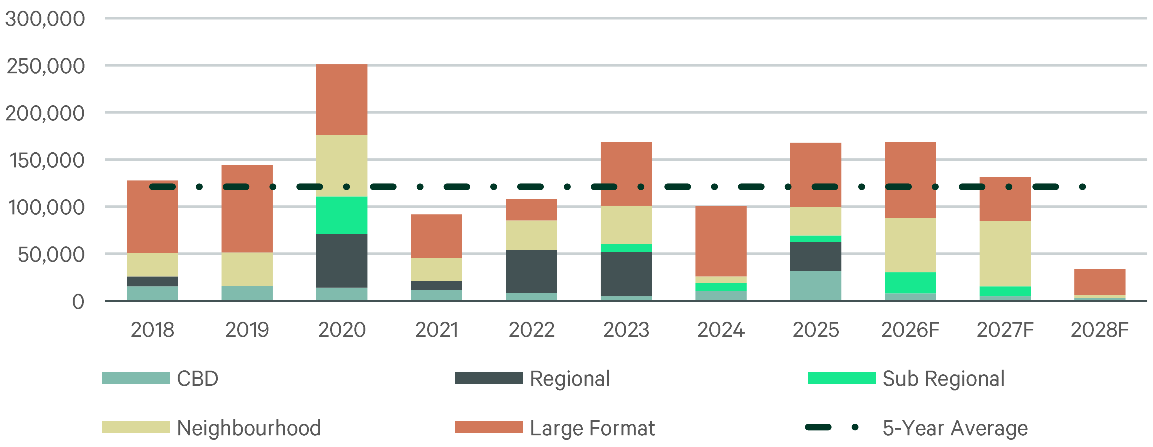
Meanwhile, LFR assets are expected to record significant growth, with c.130,350 sqm of new supply scheduled for delivery over 2026-2027. The trend is particularly evident in the expanding growth corridors of the urban fringe and metro areas.

Metro Tunnel activation drives new leasing hotspots

New CBD retail supply remains constrained following a wave of high-profile completions in 2025, with only c.12,800 sqm scheduled for delivery across 2026-27. Major projects such as The Walk, 299 Bourke and Mecca's Flagship Bourke have already begun to stimulate leasing activity, drawing both local shoppers and tourists while enhancing the vibrancy of the city's retail precinct.

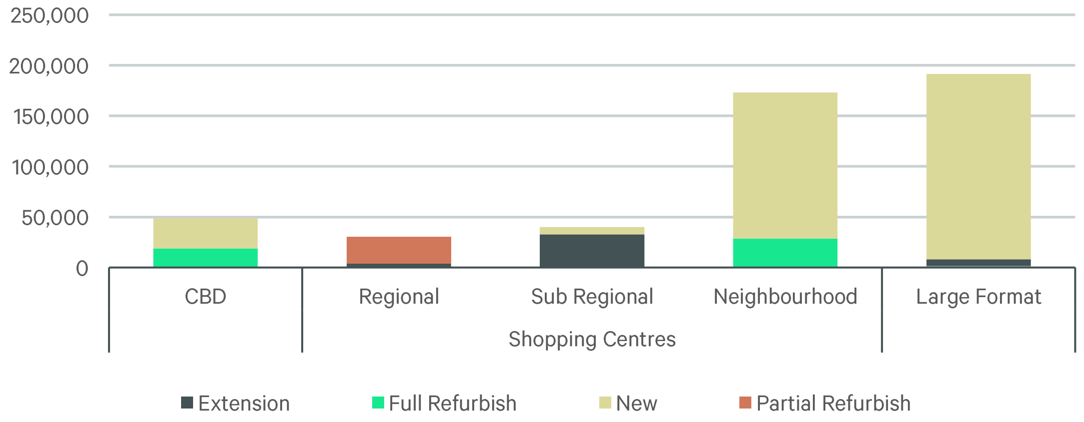
The first half of 2026 marked a clear trading uplift from Metro Tunnel-enabled retail, with activity strongest around the new Town Hall and State Library stations. New clusters of F&B, convenience and service uses have emerged along Swanston Street, Collins Street east and adjacent laneways, largely comprising compact tenancies typically under 150 sqm.

FIGURE 3: Melbourne Retail Supply by Category



Source: CBRE Research

FIGURE 4: Melbourne Future Supply by Property and Development Type, 2026-2028



Source: CBRE Research

Rental Performance

Regional centres lead shopping centre rental growth as retail fundamentals remain resilient

In Q2 2026, Melbourne's CBD super prime retail locations recorded stable net face rents q-o-q, while increasing by a strong 11.5% y-o-y. Annual growth was driven by the completion of several major retail projects and flagship store openings that have revitalised the core retail precinct, boosting foot traffic and reinforcing demand for premium retail space.

Regional and sub-regional shopping centres recorded net face rent growth of 1.5% q-o-q. On an annual basis, regional centres outperformed, recording rental growth of 4.7%, while sub-regional centres increased 1.5%. Performance was supported by strong anchor tenant trading and sustained consumer demand, reflecting the resilience of convenience and essential retail spending.

Neighbourhood centres remained stable over the quarter, with net face rents increasing by a modest 0.4% y-o-y. While convenience-based spending continues to support occupier demand, rental growth remains constrained by a more competitive leasing environment and limited tenant expansion activity.

LFR continued its upward trajectory, with net face rents increasing by 0.2% q-o-q and 10.6% y-o-y. Growth was underpinned by resilient household spending and ongoing retailer expansion across growth corridors and suburban locations. The sector continues to benefit from Melbourne's urban sprawl and strong population growth in outer-suburban catchments, where new residential development is driving demand for large-format retail accommodation. As a result, LFR remains one of the strongest-performing retail asset classes in the market.

In contrast, prime strip retail experienced a slight moderation in rental performance, with net face rents remaining stable over the quarter and declining by 1.0% y-o-y. While Melbourne's leading retail strips continue to attract occupier interest, rental growth has softened as retailers adopt a more cautious approach to expansion and focus on proven trading locations.

Leasing incentives remained stable over the quarter across Melbourne's retail market. On an annual basis, CBD super prime incentives declined by 250 bp as vacancy tightened in high-footfall locations, reducing landlords' reliance on incentive packages and signalling strengthening tenant demand. Similarly, LFR incentives contracted by 38 bp y-o-y.

FIGURE 7: Victoria Key Leasing Rates by Retail Asset Category

Asset Type	NFR (AUD/sqm)			NER (AUD/sqm)			Incentives (%)		
	Q2 26	Q-o-Q Change	Y-o-y Change	Q2 26	Q-o-Q Change	Y-o-y Change	Q2 26	Q-o-Q Change	Y-o-y Change
CBD Super Prime	7,250	Stable	+11.5%	5,800	Stable	+15.1%	20.0%	Stable	-250bp
Regional	1,577	+1.5%	+4.7%	1,409	+1.5%	+4.7%	10.7%	Stable	Stable
Sub Regional	917	+1.5%	+1.5%	779	+1.5%	1.5%	15.1%	Stable	Stable
Neighbourhood	731	Stable	+0.4%	633	Stable	-0.7%	13.5%	Stable	100bp
Prime Large Format	345	+0.2%	+10.6%	300	+0.2%	+11.1%	13.1%	Stable	-38bp
Prime Strips	563	Stable	-1.0%	464	Stable	-0.6%	17.5%	Stable	-38bp

Source: CBRE Research

FIGURE 8: Net Face Rent Growth by Retail Asset Category

Source: CBRE Research

Investment Market

Investors prioritise defensive retail assets as market fundamentals remain supportive

Victoria's retail investment market recorded $571.8 million in transactions (incl. non-metro assets) during Q2 2026, demonstrating sustained investor appetite for retail assets despite ongoing economic uncertainty. Activity was highlighted by the $154 million sale of Midtown Plaza (246 Bourke Street), reinforcing confidence in Melbourne CBD retail and its improving leasing fundamentals.

Among the 12 transactions recorded during the quarter, five were within the LFR sector. This underscores the depth of demand for LFR centres, particularly those underpinned by resilient income streams, non-discretionary tenant mixes and strategically embedded metropolitan locations.

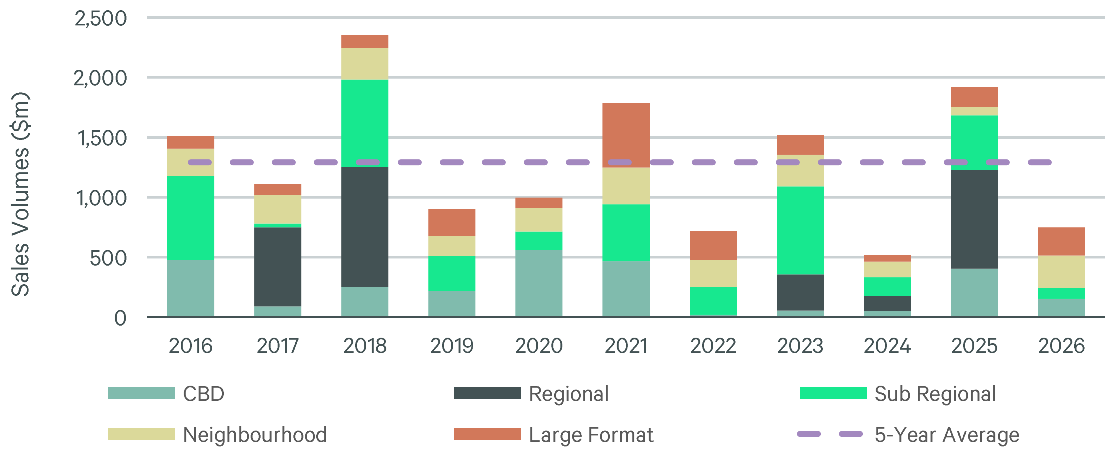
Retail assets continue to attract heightened interest from both private and institutional investors, supported by resilient return profiles, limited new supply and embedded income growth potential. Constrained availability of quality assets continues to suppress transaction volumes, intensifying competition and pricing pressure for prime stock.

Melbourne's ongoing population growth, particularly across key growth corridors, is expected to underpin sustained demand for convenience-based retail, supporting selective development activity despite elevated construction costs. With interest rates in 2026 remaining firmly restrictive, capital allocation decisions and pricing expectations across the retail investment market continue to be shaped by funding costs. In this environment, prime retail assets with secure income streams are expected to demonstrate yield stability, even as broader valuation recovery remains measured.

Income security drives selective yield compression amid retail divergence

In Q2 2026, Melbourne retail yields were largely stable, with modest compression recorded in regional centres (-7 bp) and LFR (-2 bp), while prime strip yields expanded by 7 bp. Modest compression was underpinned by resilient household spending and limited new supply, although pricing remained highly selective, reflecting WALE quality and capex considerations. Stability across the broader retail assets indicates valuation support has largely held, with capital markets awaiting clearer transactional evidence. This ongoing bifurcation underscores increasingly targeted investor re-rating based on income security, demographic tailwinds and locational fundamentals.

FIGURE 9: Greater Melbourne Retail Sales by Asset Category



Source: CBRE Research

FIGURE 10: Victoria Retail Yields by Category

Source: CBRE Research

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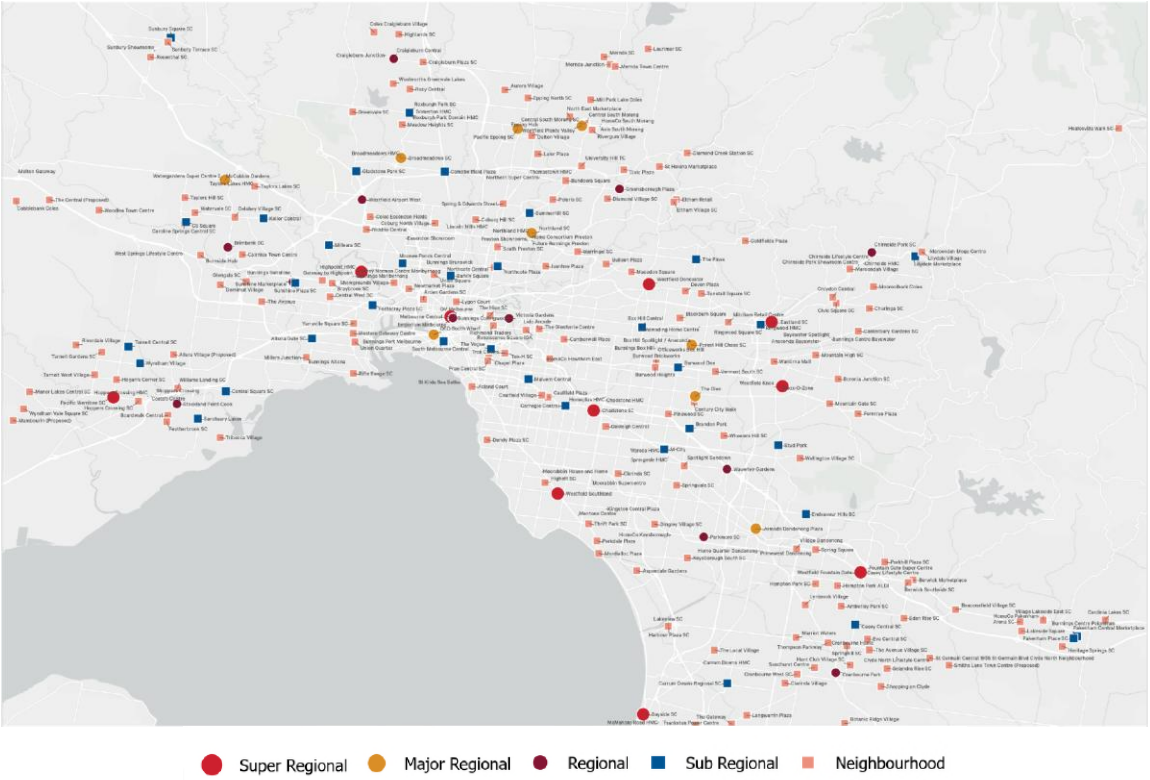

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