

FIGURES | MELBOURNE RETAIL | Q1 2026

# Large format retail remains the sector's standout performer

▲ 6.5%

Melbourne CBD Vacancy H2 25

▲ 3.8%

Victoria Seasonally-Adjusted Monthly Household Spending Y-o-Y Growth, February 2026

▲ -7 bp

Regional Centre Y-o-Y Yield Change

▼ \$287.2m

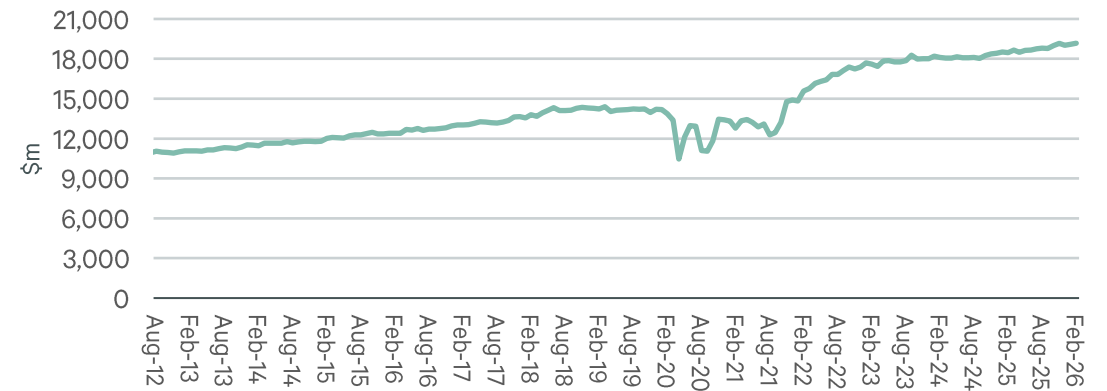
Q1 2026 Victorian Retail Transaction Volumes

Note: Arrows indicate change from previous quarter.

## Key Points

- Household spending in Victoria in February 2026 rose by 0.4% m-o-m and 3.8% y-o-y in seasonally adjusted terms, hinting at continued resilience in consumer demand despite broader economic uncertainty.
- In February 2026, Victoria's unemployment rate held at 4.7% (-0.5 pp y-o-y), remaining low by historical standards.
- Retail supply over 2026 and 2027 is projected to reach c.333,113 sqm across CBD, shopping centre and LFR assets. Supply is anticipated to align with the five-year historical average of c.119,272 sqm p.a.
- In Q1 2026, net face rents for super prime CBD increased 3.6%, reflecting strong demand for flagship locations as luxury and experiential retail continues to rebound. LFR rents rose by 2.8% while other retail assets remained broadly stable during the quarter.
- Retail investment activity in Melbourne (\$5m+) totalled \$287.2m in Q1 2026. The most notable transaction was the sale of Chadstone Lifestyle Centre, a large-format retail centre.
- Sub-regional centres experienced the sharpest y-o-y yield compression, contracting by 28 bp.

FIGURE 1: Victoria Monthly Household Spending (Seasonally Adjusted)



+0.4%

Month-on-Month, February 26



1.3%

Quarter-on-Quarter, February 26

Source: ABS, CBRE Research

## Economic Overview

### Australia maintains resilient growth amid persistent inflation and emerging stagflation risks

In Q4 2025, Australia’s economy continued to demonstrate resilient momentum despite a challenging global backdrop. Australia’s GDP grew by 0.8% q-o-q (seasonally adjusted chain volume measures) and 2.6% y-o-y, maintaining its steady growth trajectory. GDP per capita increased 0.4% in the quarter.

Australia’s inflation pressures remain elevated, with the CPI rising 3.8% y-o-y in January 2026. The biggest contributors continue to be housing costs (+6.8%) and food prices (+3.1%). Moreover, rising costs associated with energy shocks and supply chain disruptions are putting upward pressure on prices. With inflation still above the RBA’s target range, the central bank faces ongoing pressure to keep interest rates high or potentially raise them further, amid concerns about slowing economic momentum and increasing input costs, raising the risk of a stagflationary environment.

Australian household spending showed resilience in early 2026, rising by 0.3% m-o-m in January, which represents a 4.6% increase vs. January 2025. However, a significant shift was observed in February 2026, with a 0.5% decline in household spending, marking the first decrease since September 2024 and indicating a potential softening in consumer behaviour. Heightened speculation about further interest rate increases also deterred some consumers from spending later in the year.

### Victoria’s economic growth is driven by services and public sector expansion

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.

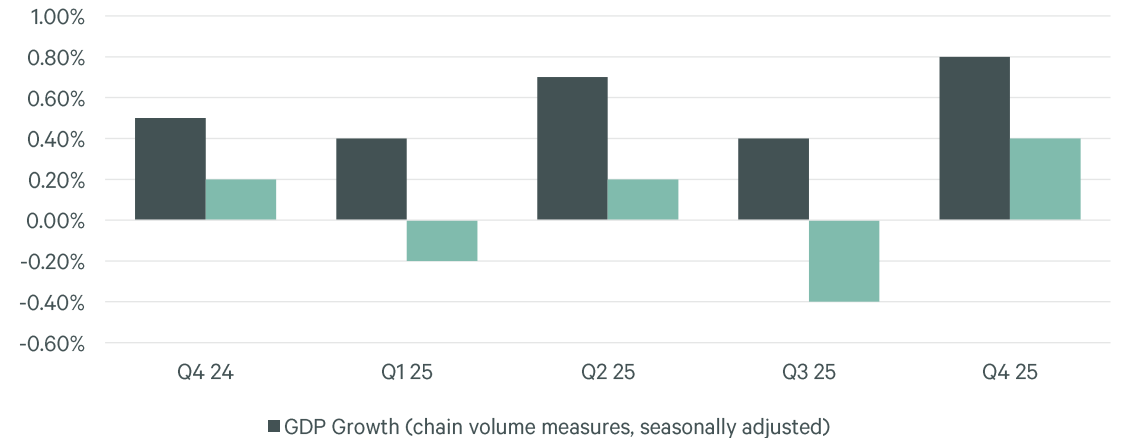
In Melbourne, the growth of public services continues to bolster the city’s economy, resulting in an increase in office-based employment. The largest contributions to growth came from professional, scientific & technical activities and construction.

### Services-led spending holds up as mortgage stress drives household divergence

Household spending in recent months has been driven by services rather than goods. While essential spending remains firm, discretionary spending (including clothing, furniture and recreation) has shown sharper fluctuations. Spending continues to be split, with outright homeowners and those with lower debt levels spending more, while high-interest mortgage holders face tighter budget constraints.

Victorian household spending rose by 0.3% m-o-m in January 2026, marking a 4.6% increase vs. January 2025. While spending in December 2025 showed a significant decrease, overall spending trends show resilience, with Victoria often recording high household income levels. Cost-of-living measures introduced in the Victorian Budget (free public transport for under-18s, energy rebates, healthcare subsidies) are providing indirect support to household cash flow in 2026. Additionally, 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

## Population expansion outpaces new retail supply across Melbourne

Melbourne is expected to record c.374,466 sqm (incl. non-metro) of new retail supply over 2026-2027. The forward pipeline remains constrained and is predominantly weighted toward LFR and neighbourhood centre developments, which are forecast to account for around 43% and 38% of total supply over the two-year period, 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.

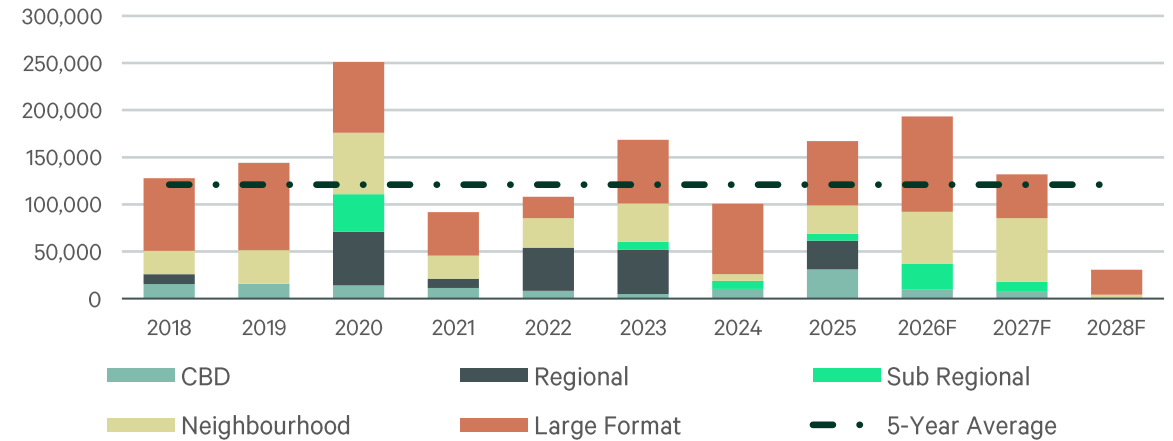
LFR assets are on track to experience substantial growth, with several new developments springing up across the state, totalling c.159,449 sqm of new supply in 2026-2027. The trend is particularly evident in the expanding growth corridors of the urban fringe and metro areas. Developer confidence in these assets remains strong, indicating a buoyant retail environment across Melbourne in the foreseeable future.

## High-profile completions spark renewed leasing activity

New CBD retail supply remains constrained following a wave of high-profile completions in 2025, with only c.17,400 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.

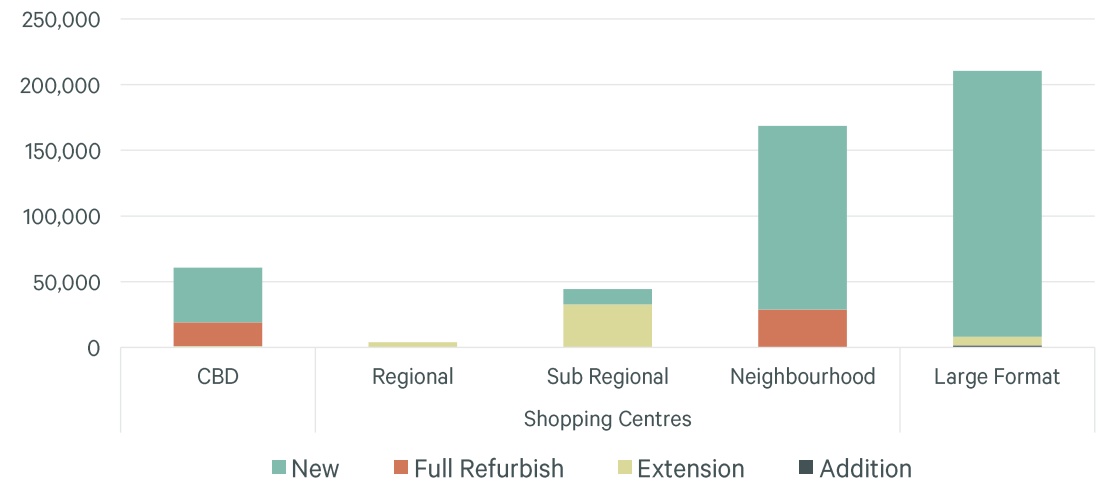
Q1 2026 marked the first full quarter of clear trading uplift from Metro Tunnel, enabled retail, with activity strongest around Town Hall and State Library stations. New clusters of F&B, convenience and service uses have emerged along Swanston Street, Collins Street east and adjacent laneways, largely 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

### Large format retail remains the strongest-performing segment within the retail asset class

In Q1 2026, Melbourne’s CBD super prime retail locations recorded a 3.6% q-o-q and 11.5% y-o-y increase in net face rents, driven by the completion of several major retail projects that revitalised the core retail precinct. Leasing incentives declined by 250 bp y-o-y, as vacancy tightened in high foot-traffic locations, easing pressure on landlords and signalling strengthening tenant demand.

LFR continued its upward trajectory, with net face rents increasing by 2.8% q-o-q and 12.7% y-o-y. Growth was underpinned by resilient household spending and ongoing retailer expansion across growth corridors and suburban locations. This performance continues to reflect Melbourne’s urban sprawl and strong population growth in outer-suburban catchments.

Prime strip retail saw a slight moderation in net face rents, declining 1.0% q-o-q and 0.7% y-o-y, reflecting a period of adjustment for discretionary-focused high-street locations as consumer patterns continue to evolve.

Regional, sub-regional and neighbourhood centres remained broadly stable on a quarterly basis, with performance diverging slightly on an annual measure. Regional centres recorded robust 3.1% y-o-y rental growth, supported by strong anchor tenant performance and elevated consumer demand. Neighbourhood centres also achieved a 0.4% y-o-y uplift, reflecting sustained demand for convenience-based retail and a cautiously optimistic consumer outlook.

Leasing incentives remained broadly stable over the quarter. On an annual basis, CBD super prime incentives declined by 250 bp, while LFR and prime strip assets recorded reductions of 113 bp and 38 bp y-o-y, respectively. In contrast, sub-regional and neighbourhood centres saw incentive levels increase by 60 bp and 100 bps y-o-y, reflecting more competitive leasing conditions in these segments.

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 suburban areas 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.

FIGURE 7: Victoria Key Leasing Rates by Retail Asset Category

Asset Type	NFR (AUD/sqm)			NER (AUD/sqm)			Incentives (%)		
	Q1 26	Q-o-Q Change	Y-o-y Change	Q1 26	Q-o-Q Change	Y-o-y Change	Q1 26	Q-o-Q Change	Y-o-y Change
<b>CBD Super Prime</b>	<b>7,250</b>	+3.6%	+11.5%	<b>5,800</b>	+3.6%	+15.1%	<b>20.0%</b>	Stable	-250bp
<b>Regional</b>	<b>1,554</b>	Stable	+3.1%	<b>1,388</b>	Stable	+3.1%	<b>10.7%</b>	Stable	Stable
<b>Sub Regional</b>	<b>904</b>	Stable	Stable	<b>767</b>	Stable	-0.7%	<b>15.1%</b>	Stable	60bp
<b>Neighbourhood</b>	<b>731</b>	Stable	+0.4%	<b>633</b>	Stable	-0.7%	<b>13.5%</b>	Stable	100bp
<b>Prime Large Format</b>	<b>344</b>	+2.8%	+12.7%	<b>299</b>	+2.8%	+14.2%	<b>13.1%</b>	Stable	-113bp
<b>Prime Strips</b>	<b>563</b>	-1.0%	-0.7%	<b>464</b>	-1.0%	-0.3%	<b>17.5%</b>	Stable	-38bp

Source: CBRE Research

FIGURE 8: Net Face Rent Growth by Retail Asset Category



Source: CBRE Research

## Investment Market

### Prime retail assets hold ground as capital remains highly disciplined

Victoria’s retail investment market recorded \$287.2 million in transactions (incl. non-metro) in Q1 2026, reflecting cautiously improving liquidity amid an environment of constrained asset availability. The sale of Chadstone Lifestyle Centre (675-685 Warrigal Road) underscores the depth of demand for LFR centres, particularly those underpinned by resilient income streams, non-discretionary tenant mixes and strategically embedded metropolitan locations. The transaction highlights LFR’s continued appeal as a defensive retail sub-sector, offering durable cash flows and lower re-leasing risk.

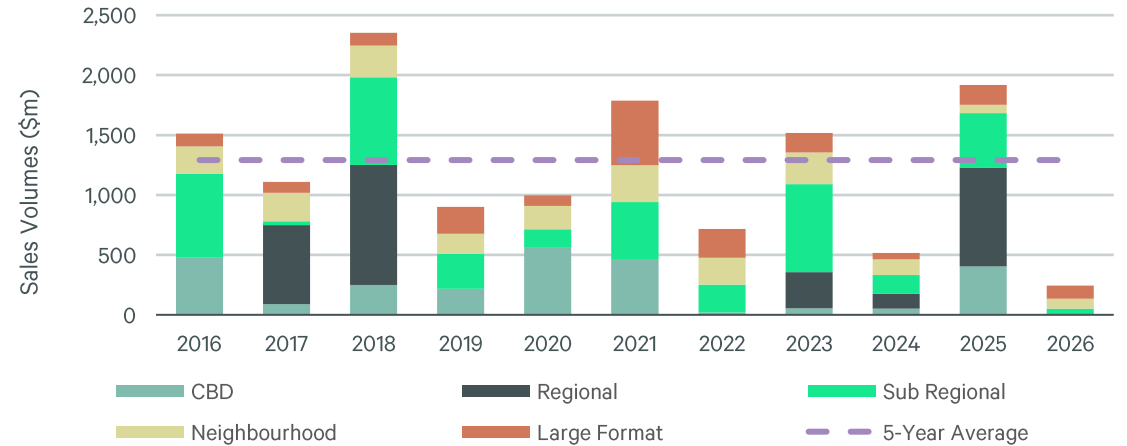
Retail assets continue to attract heightened interest from both private and institutional investors, supported by resilient return profiles, limited new supply and embedded income growth potential. While institutional capital is gradually re-establishing its presence, private investors remain particularly active, often filling gaps where institutional mandates are more selective. 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 Q1 2026, Melbourne retail yields compressed across sub-regional centres (-5 bps), while super-prime CBD retail softened (+25 bps), with all other retail asset classes remaining stable. 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

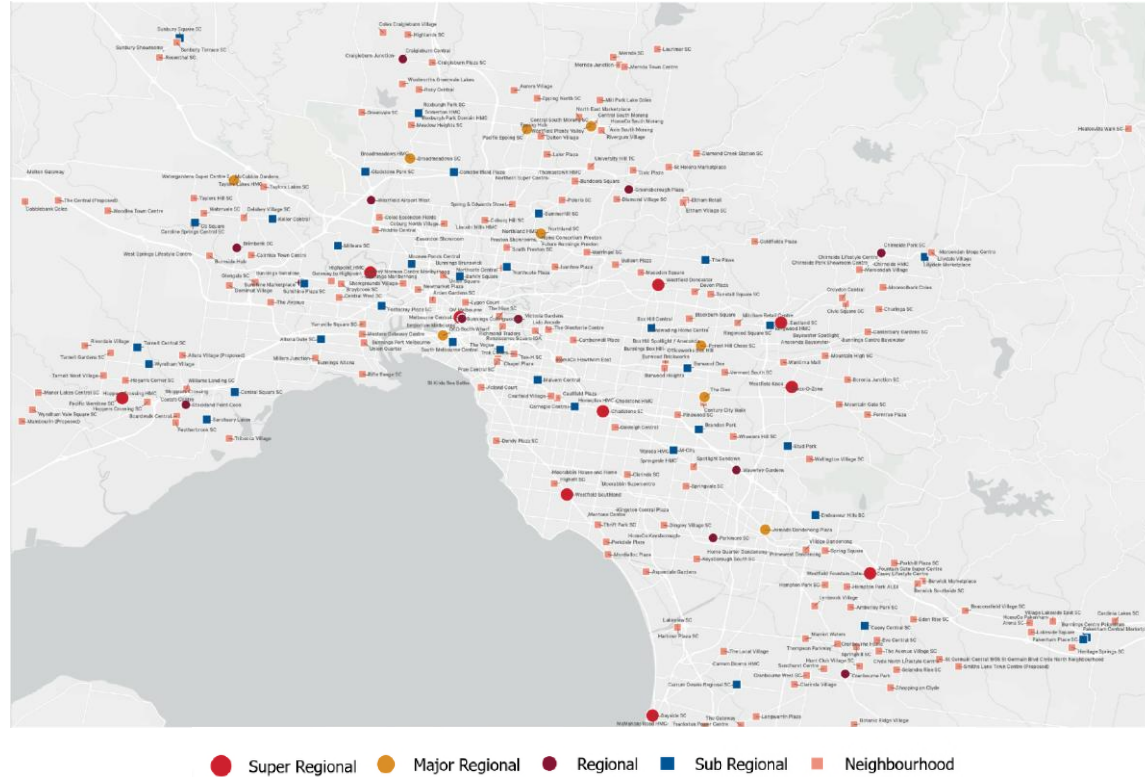
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