

# Australian Retail Review



April 2025

Trading performance has been resilient and with household spending set to improve, the conditions are in place for growth in 2025 and beyond

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# Key insights

After a challenging period, the outlook for the retail sector is increasingly positive with real incomes returning to growth, turnover and leasing spreads in the major centres on an upward trajectory and investor sentiment has improved as macro headwinds ease.




ALISTAIR READ  
SENIOR ECONOMIST, RESEARCH & CONSULTING

 **2.2%**


**Forecast real personal disposable income growth**

Falling inflation, a tight labour market and real wage growth is forecast to drive a 2.2% y/y increase in real personal disposable income in 2025. If realised this would be the strongest growth since 2021.

 **3.5%**

**Forecast retail sales growth**

Retail sales growth has picked up in recent months and the outlook is for continued strong growth over 2025.

 **5.5%**

**Average MAT growth**

Across the top 20 shopping centres, MAT grew by 5.5% in 2024 highlighting an improvement in retail sales.

 **Steady**

**Retailer EBIT remains firm**

Following strong growth in profit margins in FY24, major retailers reported that profits remain steady so far in FY25.

 **\$9.9b**

**Investment volumes 2024**

After a period of limited liquidity, deal flow has risen strongly with \$9.9 billion traded in 2024.

 **45%**

**Private capital most active**

Private investors have been most active, accounting for 45% of total acquisitions in 2024.

## Key indicators

State	Retail sales growth (values, y/y)	Forecast GDP growth (values)	Unemployment rate	Wage growth (y/y)	Population growth (y/y)
NSW	2.3	2.1	4.0	2.9	1.4
VIC	5.0	1.6	4.6	3.2	2.1
QLD	4.0	1.9	4.1	3.7	2.0
SA	3.8	1.8	3.7	3.1	1.2
WA	5.5	2.7	3.4	3.3	2.5
TAS	2.9	0.4	4.0	3.9	0.3
Australia	3.8	2.1	4.1	3.2	1.8

Source: Knight Frank Research, ABS, Oxford Economics

# Economic overview

## Pressures on the consumer are easing

### INFLATION EASING, ALBEIT NOT IN A STRAIGHT LINE

Over the past two years, a combination of pressures on the consumer have proven a challenging backdrop for retail spending. High inflation has out-stripped growth in wages, resulting in declining real incomes, whilst rising interest rates have cut into household budgets even further.

However, after a long wait, households are starting to see relief. Inflationary pressures are easing, albeit at a slowing rate. Globally, headline CPI has fallen and stabilized at around 3% in the United States and 2.5% in Europe, prompting the commencement of interest rate cuts.

In Australia, the decline has been slower with headline CPI at 2.4% at end Q4, within the RBA target band. This contributed to the RBA to lowering the cash rate by 0.25% in February. Slowing inflation on large expenditure items such as rents, food and transport are expected to gradually remove the squeeze on household budgets.

### TIGHT LABOUR MARKET DRIVING WAGE GROWTH

At the same time, ongoing wage growth will start to support consumers more meaningfully as it starts to exceed the pace of inflation, translating into growth in real incomes. The labour market remains tight, and wage growth remains elevated at 3.2% annually according to the WPI measure. Wage growth is expected to remain around current levels, reflecting continued tightness in the labour market, legislated increases in minimum wages and persistent staff shortages in several industries.

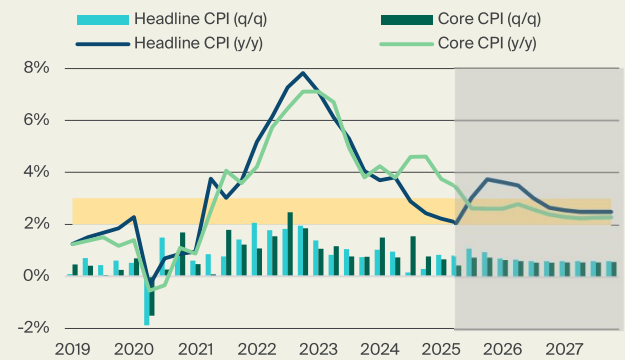
### INCREASED CERTAINTY OVER CASH RATE PROFILE

Uncertainty over the direction of Australian interest rates is now easing, with interest rates now cut and markets currently pricing a terminal rate of 2.8% (markets priced in significantly more rate cuts following the announcement of the US tariffs). Rate cuts will lead to a gradual improvement in consumer spending, particularly among mortgage holders, and enable economic growth more broadly to accelerate, providing a more supportive environment for retailers in 2025. Sentiment is improving in response to recent evidence of resilient trading performance from the major centres and retailers.

Uncertainty around US tariffs and retaliatory tariffs presents a risk to interest rates in the US as well as China's growth outlook. Potential flow through impacts on the Australian economy will be a key watchpoint throughout 2025.

### Core inflation nearing RBA target band

Annual and quarterly growth (%)



Source: Knight Frank Research, Oxford Economics

### Wage growth softens but remains elevated

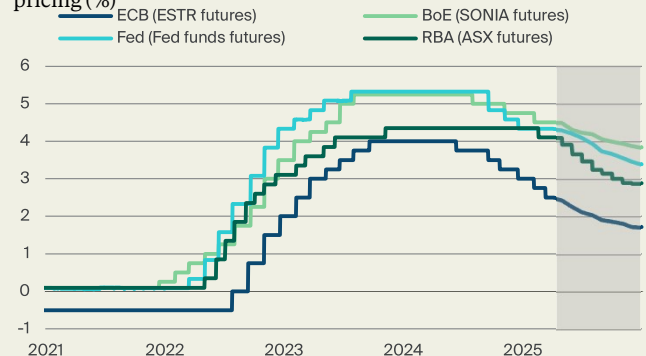
Annual and quarterly growth (%)



Source: Knight Frank Research, Oxford Economics

### Policy rates expected to fall in 2024-25

Implied forecasts of central bank policy rates based on market pricing (%)



Source: Knight Frank Research, Macrobond

# Retail sales trends

## Retail sales outlook is gaining momentum

### SALES GROWTH GAINS MOMENTUM

In nominal terms, retail sales were up by 3.6% over the year to February. This marked a continuation of the turnaround in retail sales throughout late 2024. In the 1H 2025 reporting season, several large retailers signalled they were cautiously optimistic about the outlook for retail consumption growth.

Retailers are reporting that trading conditions have improved since mid-2024. The most recent data for Q4 showed an acceleration, strong sales growth in December reflected consumers taking advantage sales events like Black Friday. This is indicative of the current spending patterns whereby consumers are carefully managing their budgets and concentrating their spending – particularly on discretionary goods – in periods of greater discounting, notably May and November. The rebound in retail spending comes as household real disposable incomes return to growth with easing inflation and steady interest rates.

### POSITIVE OUTLOOK FOR RETAIL SALES

Looking ahead, the outlook for retail sales is improving as some of the pressures on household budgets start to ease. Retail sales are forecast to rise by 3.5% in 2025 in nominal terms and by 2.5% in volume terms, which should provide a boost to discretionary spending on items that have lagged over the past year such as household goods.

Improving in nominal retail sales throughout 2024 has been driven by both price inflation and population growth. A transition towards rising per capita retail sales volumes is expected to bolster future growth. Per capita retail sales volumes rose in Q4 for the first time since 2022, supported by easing retail price growth and cost-of-living measures such as temporary energy rebates.

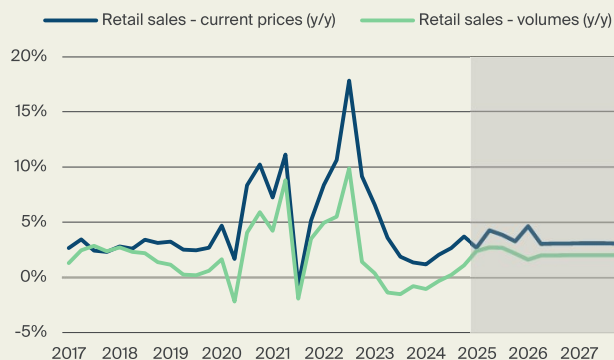
### YOUNGER CONSUMERS DRIVING HIGHER SPENDING

The expected increase in retail spending in 2025 is expected to be driven by younger consumers. The increased cost-of-living over recent years had a more acute impact on younger consumers due to increased exposure to higher interest rates and rent prices. As a result, younger consumers had the largest decrease in spending in 2023 and 2024.

In 2025, increased retail spending is expected to be driven by a rebound in spending from younger consumers, reflecting expected interest rate cuts and a stabilisation in inflation. Early indicators suggest that that year-on-year spending among younger consumers has already grown strongly in late 2024 and early 2025.

### Retail sales outlook has improved

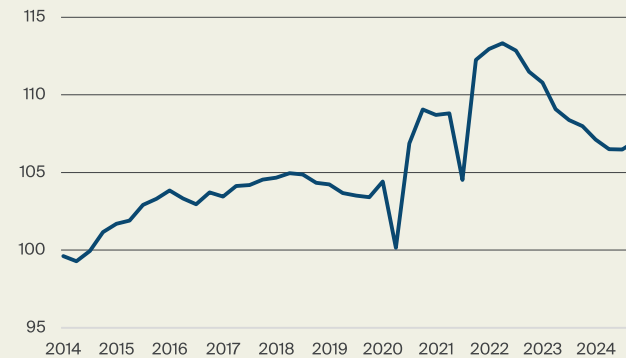
Retail sales growth - total volumes and in current prices



Source: Knight Frank Research, Oxford Economics

### Retail spending per capita has turned

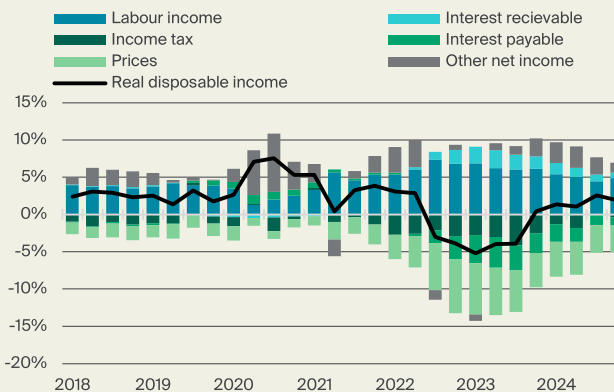
Index - retail turnover per capita (chain volume)



Source: Knight Frank Research, ABS

### Real disposable income growth

Year-ended, % change with contributions



Source: Knight Frank Research, ABS

# Return to income growth

## Welcome improvement in leasing spreads and MAT

### LEASING SPREADS AND MAT GROWTH DEMONSTRATES RESILIENCE

Despite a challenging economic backdrop, retail owners have reported strong growth in leasing spreads in 2024, albeit at a slowing rate. In 2021 and 2022 lease spreads had bifurcated with stronger performance in neighbourhood centres dominated by non-discretionary tenants, but now growth has returned across all centre types. Operators of major shopping centres, such as Vicinity and Scentre group returned to growth, reporting 3.5% and 2.0% respectively, while operators of smaller neighbourhood assets such as HomeCo (6.0%) reported a continuation of solid growth.

In addition, most major shopping centres have experienced a return to solid growth in MAT over the past year. Aggregate visitation levels are moving back toward 2019 levels, and this is translating to renewed interest from retailers in striking new leases.

### EBIT MARGIN DATA UNDERPINNING OPTIMISM

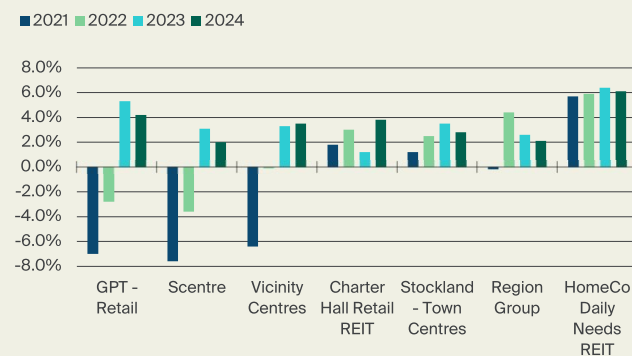
Major retailers have also coped well despite the challenging macro climate. A review of EBIT margin data across a selection of well-known Australian retailers reveals resilient performance from many groups and some significant increases in profitability compared to the pre-pandemic trend. Gross operating profits for retail companies has also shifted towards a period of growth, a trend that will be boosted by recent interest rate cuts.

The improvement comes despite rising staff costs and subdued discretionary spending, which bodes well for profitability to rise further as the outlook improves in 2025.

Reported EBIT margin in 1H 2025 (%)	
Retailer	1H 2025
Universal Store	19.3
Shaver Shop	14.1
Supercheap Auto	12.6
Kmart Group	10.5
BCF	8.6
Rebel	8.5
JB Hi-Fi Australia	8.2
Harvey Norman	5.4
Coles Supermarket	5.2
Woolworth Food Retail	5.2

### Leasing spread by major owner

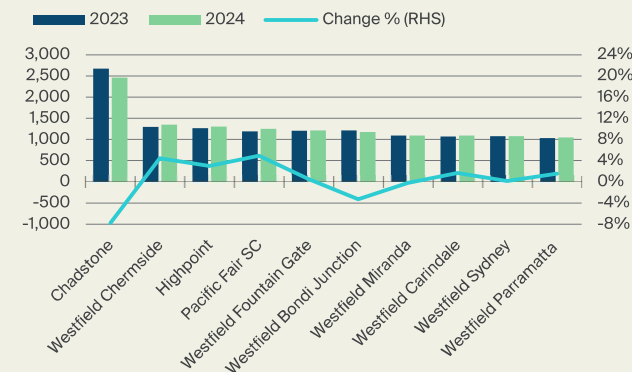
Annual changes as reported by calendar year



Source: Knight Frank Research, Company reports

### Estimated MAT and annual growth by centre

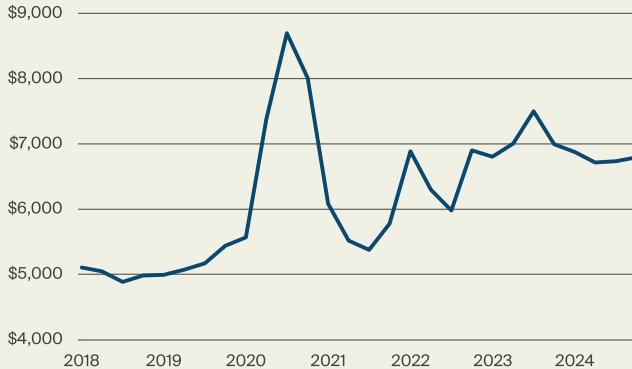
AUD millions



Source: Knight Frank Research, Shopping Centre News

### Retail company gross operating profits

AUD millions



Source: Knight Frank Research, ABS

# Capital markets

## Liquidity has returned with reduced uncertainty

### HIGHER DEAL VOLUMES AS FUNDAMENTALS IMPROVE

Total investment volumes in the retail sector rebounded strongly in 2024 with \$9.9 billion traded, up 39% from 2023. NSW led the way with \$3.6 billion traded, followed by Victoria (\$2.1 billion) and QLD (\$1.8 billion). Shopping centres continued to account for a high proportion (79%) of transaction volumes.

Investors are responding to the prospect of an improving economic climate, with reduced uncertainty around the outlook for inflation and interest rates removing the brake on deal activity. The improvement in leasing spreads and MAT levels is also persuading more investors that the sector has been resilient through this period of consumer weakness and offers long term growth potential as the economy recovers. As a result, the market for retail assets is proving to be more liquid than office markets, and the outlook for income growth is arguably the best among the major sectors.

Preliminary data indicates that total retail investment volumes reached \$2.9 billion in Q1 2025 representing a 29% increase year-on-year. In January 2025, the sale of Westpoint Shopping Centre (Sydney) for \$900m by QIC to both Haben and Hines was completed. This transaction set the record for the largest individual retail property transaction in Australia, highlighting the growing optimism and fundamentals underpinning the Australian retail sector.

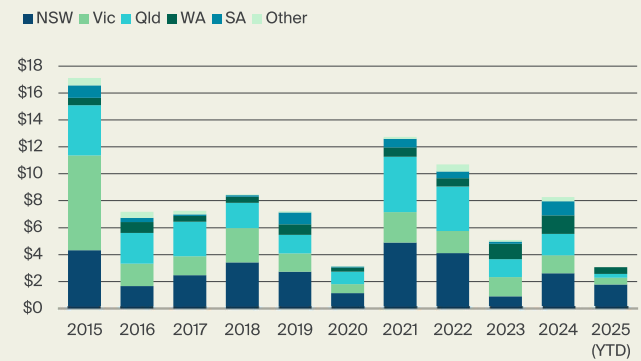
### PRIVATE CAPITAL DRIVING THE MARKET

The change in investment market conditions over the past two years has led to a significant shift in the composition of investors seeking exposure to the retail sector. Domestic institutions and cross-border investors largely sat on the sidelines in 2024. Listed groups and institutions opted to reduce their holdings and private investors have been the most active buyers.

This trend has started shifting in 2025 as REITs and institutions increase their acquisitions and private capital have transitions to a net seller. Continued positive leasing trends, resilience in non-discretionary retail and increased liquidity is expected to intensify competition and capital inflows. Cross-border investment has shown signs of improvement, with acquisitions in 2025 already higher than 2024 levels. This shift in buyer composition away from private capital is expected to persist throughout 2025.

### Shopping centre investment volumes

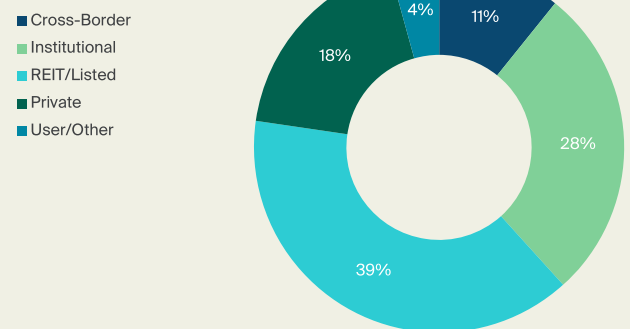
Investment volumes by state (AUD millions)



Source: Knight Frank Research, RCA

### Sellers of retail assets in 2024

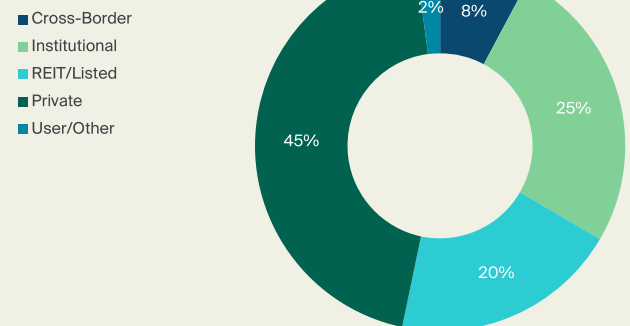
Proportion of sales by vendor type



Source: Knight Frank Research, RCA

### Buyers of retail assets in 2024

Proportion of purchases by buyer type



Source: Knight Frank Research, RCA

# Shopping centre supply

## Shopping centre returns to be supported by falling supply

### LIMITED GROWTH IN NEW SHOPPING CENTRES

Looking ahead, the development pipeline remains very limited, partly owing to the steep rise in construction costs and elevated interest rates. Major shopping centre owners are more focussed on optimising the performance of existing assets rather than expanding their holdings by development of new centres. This is expected to see greater investment in extensions and refurbishments of existing facilities. Around 10% of shopping centres are currently being extended or renovated, while 20% are planning to in the future.

State and federal government's have recently emphasised the need for greater housing supply, largely focusing on the densification of housing in capital cities. This is expected to strengthen the position of existing shopping centres through increasing the population with their catchment, raising both foot traffic and sales density.

### STRONG POPULATION GROWTH IN CAPITAL CITIES

Over the year to June 2024, the Australian population expanded by a further 552,000 people, reflecting growth of 2.1%. Recent population growth continues to be underpinned by overseas migration.

Population growth is forecast to slow to below the 10-year average from 2025 to 2028 (averaging 1.2%) reflecting slower growth in migration. However, population growth is forecast to continue to be centred in capital cities, with the total capital city population expected to grow at twice the rate of regions over the next decade.

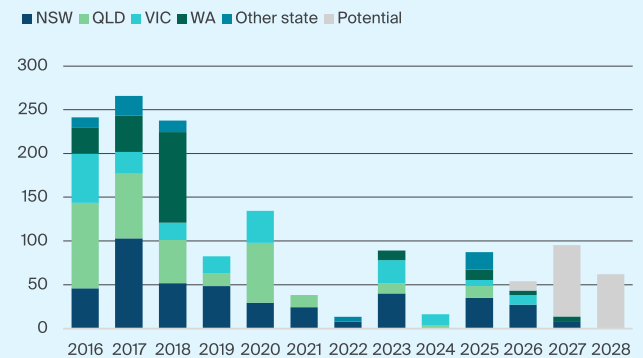
### FALLING SHOPPING CENTRE SUPPLY PER CAPITA

Australia's strong population growth, and limited new shopping centre area, is driving a decline in per capita supply and underpinning high visitation levels and MAT growth in the major centres.

This trend is downward trend is forecast to persist over coming years as shopping centre as demand grows faster than supply. This is expected to drive strong income growth for shopping centre owners and underpin sustained tenant demand.

### Construction of new shopping centres

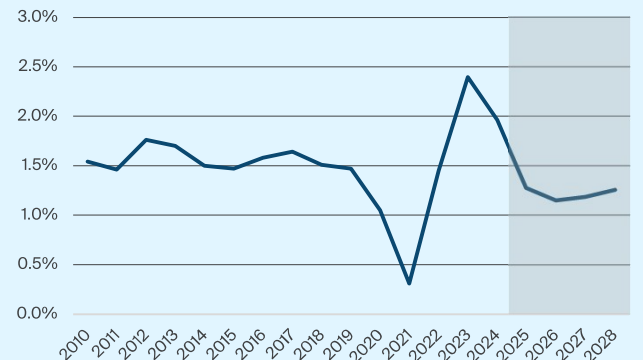
Gross lettable area (square metres)



Source: Knight Frank Research, Cordell

### Australian population growth

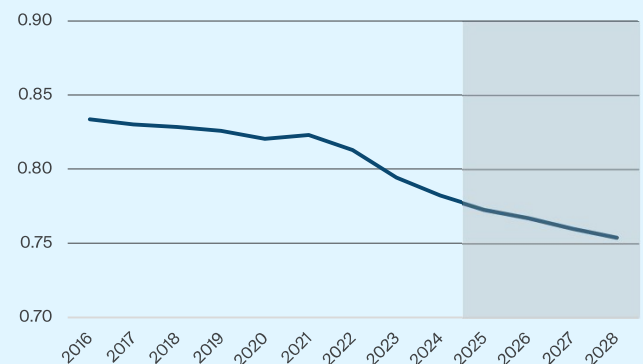
Annual growth (%)



Source: Knight Frank Research, Oxford Economics

### National shopping centre area per capita

Gross lettable area per capita (square metres)



Source: Knight Frank Research, Cordell, Oxford Economics, PCA

# Pricing and returns

## Valuations have returned to growth

### RETAIL VALUATIONS GROW ACROSS ALL TYPES

Capital returns across all types of retail assets experienced a second consecutive quarter of growth in Q4 2024, indicating the bottom of the cycle valuations cycle has likely passed. Sub-regional retail capital values, which were the hardest hit since 2022, have experienced the largest rebound, followed by the super/major regional and neighbourhood sectors.

### YIELDS TAKE A PAUSE, BUT RETAIL HAS BEEN LESS IMPACTED THAN OFFICE AND INDUSTRIAL

Retail yields stabilised at 5.7% as a markets became increasingly confident that interest rates have peaked. However, retail has been less impacted than office and industrial markets that were priced more sharply prior to the correction, given that retail yields had previously shifted out during the pandemic. Average retail yields have moved out by only 44 basis points over the past two years, while average office and industrial yields have both risen by around 120bps. As a result, average office yields have surpassed retail yields after edging lower during the pandemic.

The performance delineation that emerged during the pandemic, with neighbourhood centres outperforming, has lessened with yields trending out at different rates across all asset types. Cap rates for the more sharply priced neighbourhood and major regional centres were more immediately susceptible to the higher cost of debt and so shifted out more quickly, while sub-regional centres were generally held at higher rates and have seen a slightly smaller adjustment.

### STRONG INCOME GROWTH DRIVING TOTAL RETURN

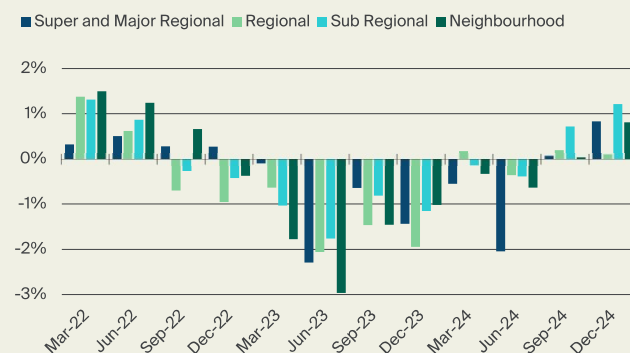
Total annual returns on retail assets grew by 5.2% in 2024 as strong income growth (6.0%) more than offset a fall in capital values (-0.7%).

While valuations have lagged and may have a little further to adjust, pricing does now appear to be stabilising. Retail is well placed to benefit from rising income returns as the market enters a recovery phase in 2025.

Capital returns are expected to experience growth throughout 2025 with an expected fall in interest rates. Investors increasingly perceive an opportunity to acquire assets at a cyclical low point that will pave the way for strong performance in years to come.

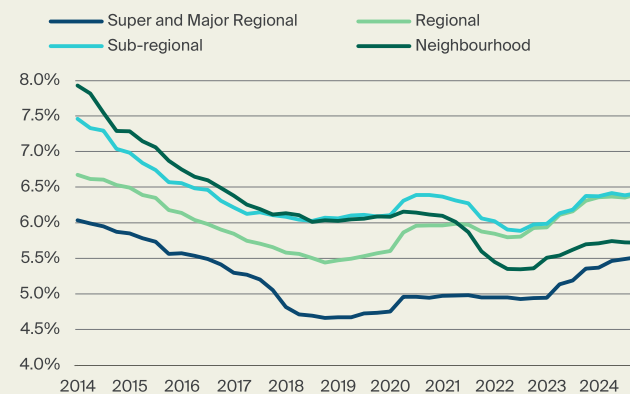
### Retail sector capital return by type

Quarterly capital value growth, average for major sectors



Source: Knight Frank Research, MSCI

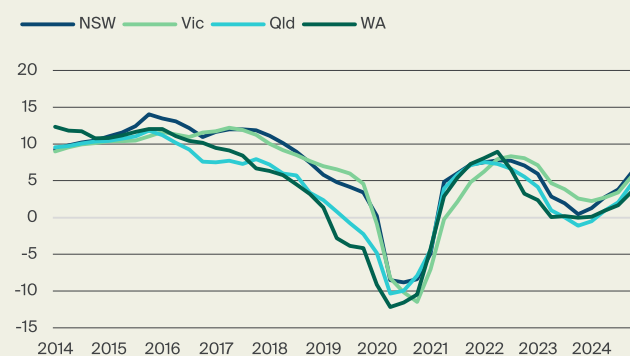
### Average retail cap rates by type



Source: Knight Frank Research, MSCI

### Total return by state

Rolling annual %pa



Source: Knight Frank Research, MSCI



# Market outlook

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## Key themes in 2025

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### MAJOR RETAILERS BECOMING MORE ACTIVE

Australia's major supermarkets are becoming increasingly active in the market for retail assets reflecting continued competition for retail space and market share.

### RETAIL SPECIALISTS TO DOMINATE TRANSACTIONS

Retail specialists are expected to remain the dominant buyers of retail assets despite increased interest and inquiries from non-retail specialists. Elevated expectations regarding the returns on retail assets from non-retail buyers are expected to limit non-specialist purchases. Non-specialist buyers also face several hurdles compared to local specialists including reduced leverage in rental negotiations and higher facility management costs.

The transaction speed of retail assets has increased recently, this is expected to persist throughout 2025. Buyers who are waiting to raise capital before preparing an offer will be less competitive in a fast-moving market. Retail specialists and buyers that are ready to deploy capital are likely to be able to move quicker in a market that places a premium on transaction speed.

### GROWTH IN MIXED USE RETAIL DEVELOPMENTS

There is a growing trend of new retail assets selling that have, or are finalising, a development approval for mixed-use. Currently, these development approvals do not appear to be adding significant value to the sale prices of these assets. However, more retail facilities selling with approval for mixed-use could expand the marketability of these developments.

In particular, the recent focus of state governments on increasing housing supply has driven increased interest in redeveloping existing retail assets to incorporate residential housing.

For example, Scentre Group has been reported as being in talks with the NSW government for rezoning approvals to add over 4000 houses at Westfield Warringah Mall and Westfield Tuggerah. At several other sites across NSW, Scentre Group has either received – or is reported to be in talks with the NSW government for – rezoning approval to allow for the development of residential mixed-use around existing Westfield shopping centres.

## Recent transactions

Location	Property	Date	Price (m\$)	GLAR (m <sup>2</sup> )	Purchaser	Vendor	Initial yield %
Melbourne, VIC	David Jones Burke Street	Dec-24	223.5	21,035	IP Generation	Woolworths	6.66
Howrah, TAS	Glebe Hill Village	Dec-24	50.3	6,002	Charter Hall/Telstra Super	Tipalea Partners	5.72
Kalkallo, VIC	Kallo Town Centre	Dec-24	64.5	7,423	Region Group	Oreana Property Group	6.13
Roselands, NSW	Roselands Centre	Dec-24	165.7	63,631	HomeCo	Vicinity	7.43
Carlingford, NSW	Carlingford Centre (50%)	Dec-24	120.0	33,135	HMC Capital	Vicinity	7.01
Cranbourne Park, VIC	Cranbourne Park	Dec-24	126.5	46,279	IP Generation	ISPT	7.97
Success, WA	Cockburn Gateway (50%)	Dec-24	300.0	69,843	GPT	Perron Group	/
Cloverdale, WA	Belmont Forum (50%)	Dec-24	182.0	49,048	GPT	Perron Group	/
Wollongong, NSW	Figtree Shopping Centre	Nov-24	192.0	21,983	Fawcner Property	Paragon REIT	6.25
Coorparoo, QLD	Coorparoo Square	Nov-24	46.7	6,778	Private	Frasers	7.82
Elizabeth, SA	Elizabeth City Centre (50%)	Nov-24	170.0	80,392	Andrianakos Property	Vicinity	8.20
Plumpton, NSW	Plumpton Marketplace	Nov-24	180.0	18,132	Woolworths	Lendlease	4.99
Melbourne, NSW	Melbourne Central Corner	Nov-24	60.0	5,680	Yulong Investments	Landream	4.71
Blacktown, NSW	Westpoint Blacktown	Oct-24	900.0	100,879	Haben/Hines	QIC	6-6.25
Warriewood, NSW	Warriewood Square (50%)	Oct-24	135.5	30,301	The JY Group	ISPT	6.5

Source: Knight Frank Research, RCA

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

### Recent Research



Australian Industrial Review  
Q4 2024



Leading Indicators Report  
April 2025



Sydney CBD Office Market  
February 2025



Australia Build to Rent  
Update Q4 2024



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