

# Australian Retail Review



April 2026

The retail sector has carried significant momentum into 2026 as rising household consumption and tightening supply support fundamentals and boost investment activity. However, the Iran conflict presents new risks that may weigh on the sector in 2026.

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# Key insights

Retail was the strongest-performing sector in 2025 and carried this momentum into 2026. However, geopolitical pressures stemming from the Iran conflict have introduced new risks and uncertainties to the sector.



ALISTAIR READ  
SENIOR ECONOMIST, RESEARCH & CONSULTING

 **4.6%**

Household spending growth

The value of household spending rose by 4.6% in the year to February 2026.

 **50 bps**

Change in interest rates

Interest rates have risen by 50bps in 2026 to 4.1%, with markets pricing in around 50 bps of further hikes in 2026.

 **3.5%**

Average MAT growth

Across 100 shopping centres held by listed companies/REITs, moving annual turnover (MAT) grew by an average of 3.0% in CY25/FY25.

 **8.9%**

Average retailer EBIT margin

EBIT margins across a selection of major retailers rose to 8.9% in H1 2026.

 **\$14.4b**

Investment volume in 2025

Strong investor appetite for retail assets saw transaction volumes rise to \$14.4 billion in 2025, up 43% from 2024.

 **8 bps**

Change in Q4 retail yields

Retail yields declined by 8 bps to 5.64% in Q4, reflecting strong investor competition for retail assets.



## Prime centres continue to perform well

Prime centres have continued to demonstrate healthy levels of rental growth, with tenant sales supporting the higher market rents across most centres. Total retail annual returns rose to 9.2% in 2025.



## Underspend on CAPEX is a rising issue

A slowdown in capital investment (CAPEX) is a growing issue across many retail assets, presenting a mid- to long-term risk for investor returns as non-urgent lifecycle and value driving works are deferred in favour of short-term investor returns.



## Iran conflict brings new risks

The Iran conflict presents a clear headwind for retail property, with risks skewed to the downside. Our view is that the repercussions of the conflict will continue to weigh on conditions through much of 2026.



## Growing margin pressure for tenants

Some tenants have been experiencing growing margin pressure, and this will likely be exacerbated by the impacts of the Iran war.

# Retail sales gain momentum

## Strong consumer spending heading into 2026, but risks have grown

### RISING CONSUMER SPENDING HEADING INTO 2026

In nominal terms, household spending rose by 4.6% over the year to January 2026, showing a continuation of the growth in household consumption through H2 2025. Real household disposable incomes continued to grow strongly in Q4 2025, rising by 3.7% over the year driven by falling inflation, stage 3 tax cuts and real wage growth. Consumers, who initially used this income growth to rebuild savings buffers, began redirecting household income towards higher consumption. Households have increased their spending on recreation and culture (8.8% y/y), food (6.6%), and hotels, cafes and restaurants (5.7%).

### DIVERGENT SPENDING GROWTH AMONG CONSUMERS

Overall consumer demand has remained relatively strong but under the surface there are pockets of strength and weakness. Commonwealth Bank data shows that younger consumers are increasing spending on essentials, but the elevated cost of living remains a concern and continues to weigh on their discretionary spending. However, spending growth among older consumers remains relatively balanced between essentials and discretionary spending.

### IRAN CONFLICT PRESENTS A KEY RISK IN 2026

The recent outbreak of the conflict in the Middle East — particularly the length of the conflict — represents a key downside risk to household consumption through the remainder of 2026. Higher fuel prices, flow-on cost pressures across supply chains, and recent interest rate increases are collectively squeezing household budgets, and early consumer sentiment data suggests confidence is already softening. While household balance sheets remain generally resilient, heightened uncertainty over future costs is likely to weigh on spending — particularly in discretionary categories — in the months ahead.

#### H1 2026 Earnings Call Commentary

“At a macro level, **Australian consumer demand is solid**, but cost of living pressures are being felt unevenly and continue to impact many households.”

— Rob Scott, Managing Director Wesfarmers

“**Spend has been increasing across all customer age cohorts**. Most age groups are broadly maintaining discretionary spending and increasing savings levels.”

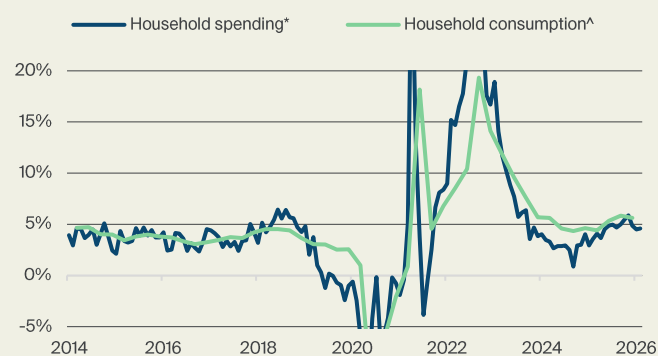
— Matt Comyn, CEO Commonwealth Bank of Australia

“**Price remains the top priority for Australian customers**.... After signs of tentative improvement in customer sentiment towards the end of last year, persistent inflation and the prospects of interest rate rises have seen customers again prioritising ways to save”

— Amanda Bardwell, CEO Woolworths Group

### Household spending and consumption rise

Annual growth in household spending and consumption (y/y%)

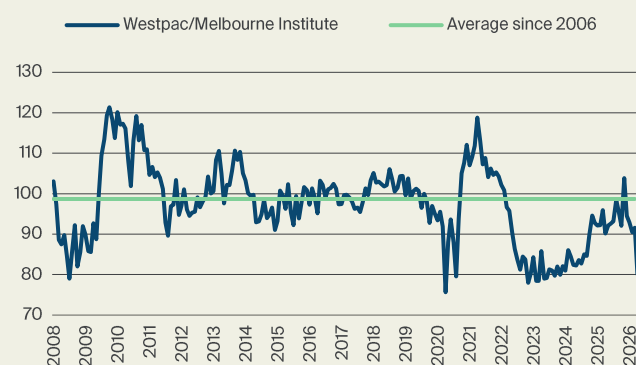


Source: Knight Frank Research, ABS

Note: \*Household spending indicator, ^Household final consumption expenditure

### Consumer pessimism easing

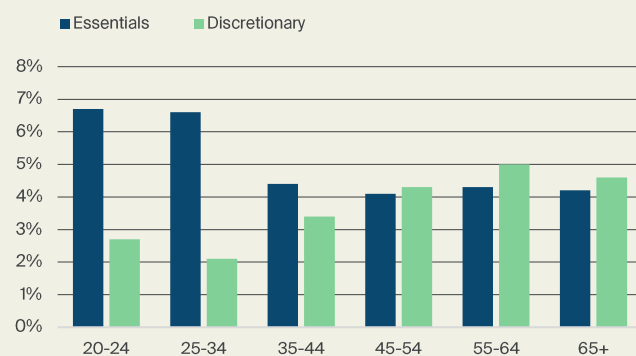
Confidence index, value above 100 signal optimism



Source: Knight Frank Research, Macrobond

### Divergence in spending growth by age

Annual change in spending by type and age in Q4 2025 (%)



Source: Knight Frank Research, Commonwealth Bank

# Improving income growth

## Broad-based income growth for retailers

### SPREADS AND MAT REMAIN STRONG

Retail owners have continued to report solid growth in re-leasing spreads over the past year. Across seven retail REITs, average spreads increased by 4.2% in 2025. This improvement has been broad-based, with all REITs recording spread growth above 3% during the year. Limited new retail supply, combined with strong population growth, is expected to sustain tenant demand for retail space, supporting ongoing strength in re-leasing spreads. This dynamic is also likely to underpin stronger re-leasing growth over coming years as retailers compete for increasingly scarce space. Moving annual turnover (MAT) growth has also continued to improve alongside strengthening household spending. Across 94 publicly listed retail assets, average annual MAT growth was 3.7% over the past year, up from around 3% in 2024. The average uplift has been strongest in City Centre assets as well as outlet stores, and Major and Super Regional assets. MAT growth has grown faster than inflation in these assets, driving a real rise in turnover. However, MAT growth for Sub Regional and Regional centres has been more subdued.

### RETAIL MARGIN GROWTH HAD BEEN ROBUST

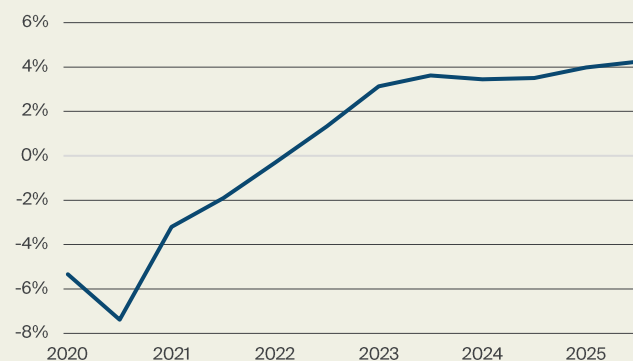
As financial pressures on households eased through 2025, major retailers experienced an improvement in both discretionary and non-discretionary spending conditions. An analysis of EBIT margins across a selection of leading Australian retailers indicates that many achieved continued margin expansion in H2 2025. Average EBIT margins rose to 8.9% in H2 2025, compared with 8.5% in H1 2024. However, the re-emergence of inflation and higher interest rates is expected to squeeze retail margins in 2026, with rising operating costs and the potential for softer consumer confidence and spending.

Following a prolonged period of subdued trading, tenant performance has shown a measurable improvement over the period Q3 2025 to Q1 2026. Food and beverage tenants have recorded continued sales growth, supported by increased renewals and activity relative to 2024. Cinema operators and discount department stores have reported improved sales performance, supporting rental levels that are increasingly aligned with sustainable occupancy cost ratios.

In contrast, sports-oriented apparel, mid market apparel, lifestyle apparel, and luxury retailers continue to experience subdued trading challenges — a trend evident for several years. Softness in luxury retail persists across most locations, with the exception of super prime centres and major CBD assets, where brands continue to benefit from established luxury precincts, stronger brand clustering, and more resilient underlying demand.

### Retail re-leasing spreads

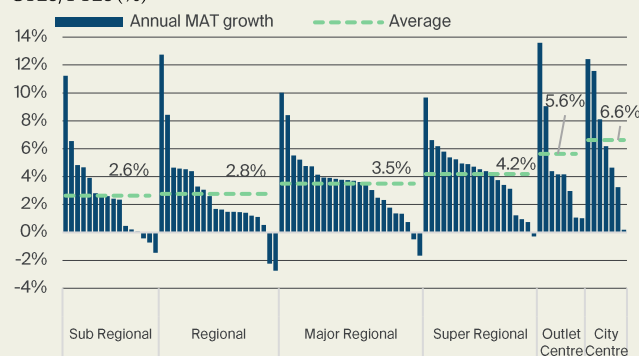
Average spread across seven REITs (%)



Source: Knight Frank Research, Company Reports

### Larger centres have had stronger MAT growth

Annual MAT growth by individual publicly listed retail assets, CY25/FY25 (%)



Source: Knight Frank Research, Company Reports

### EBIT margin reported by major retailers (%)

Retailer	H1 25	H1 26
Universal Store	19.3	20.8
Shaver Shop	14.1	14.1
Supercheap Auto	14.0	13.9
Bunnings	12.9	13.0
Kmart Group	10.8	10.5
Rebel	9.8	9.0
BCF	10.0	8.8
JB Hi-Fi Australia	8.3	8.2
Macpac	3.6	7.5
The Good Guys	6.8	6.6
Coles Supermarket	5.8	5.2
Woolworth Food Retail	5.5	5.1
Officeworks	3.7	4.9
Big W	1.1	3.0
Metcash Food	2.4	2.3
<b>Average</b>	<b>8.5</b>	<b>8.9</b>

# Risks emerge for retail

## Iran conflict introduces significant uncertainty and downside risks

### CONFLICT HAS REDUCED INVESTOR APPETITE

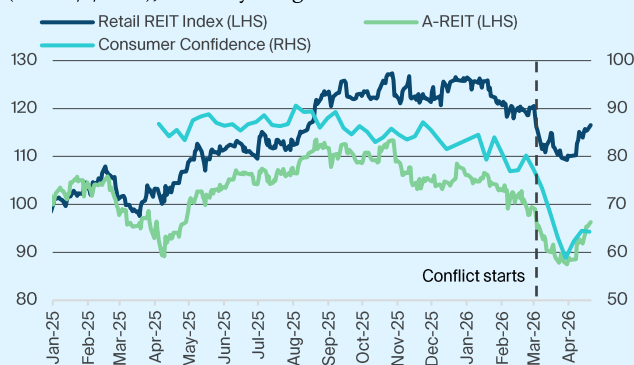
The conflict in Iran has rapidly raised oil prices, and prices of oil derivatives such as petrol and diesel. This will likely drive inflation higher, which is expected to see a much larger rise in interest rates than expected pre-conflict. This will likely weigh on both investor demand through higher borrowing costs, as well as investor returns through slower economic growth impacting income growth. Early evidence of weakening investor confidence can be seen in the A-REIT index, which has fallen by around 11% (to 30 March). Retail-focused A-REITs have been slightly less impacted, falling by around 8%. This decline in investor demand can also be seen in daily sales activity. Retail transactions had their strongest start in 10 years with nearly \$3 billion transacted by the end of February. However, activity has stalled in March as investors took a pause amid elevated uncertainty.

### RISING COSTS TO WEIGH ON CONSUMER SPENDING

As a result of the conflict, there is now significant upward pressure on cash rates and interest rates, which will likely impact the retail sector through lowering household consumption and reducing tenant sales performance. Consumer confidence — often a leading indicator of household consumption — has fallen significantly with ANZ-Roy Morgans measure falling to an all-time low since the series began in 1973. Discretionary retail categories, which had been steadily recovering, are expected to be the most impacted by the pullback in consumption. Tenant performance is also expected to be impacted by both higher costs as well as lower consumer demand. As seen during the pandemic, any uplift in reported sales is expected to be driven primarily by higher input, production and transport costs being passed through to pricing, reflecting price-driven (nominal) growth rather than volume-driven growth.

### Falling consumer confidence and REIT prices

Value weighted index of 8 retail A-REITs & total A-REIT index (100 = 1/1/2025), ANZ-Roy Morgan Consumer Confidence Index

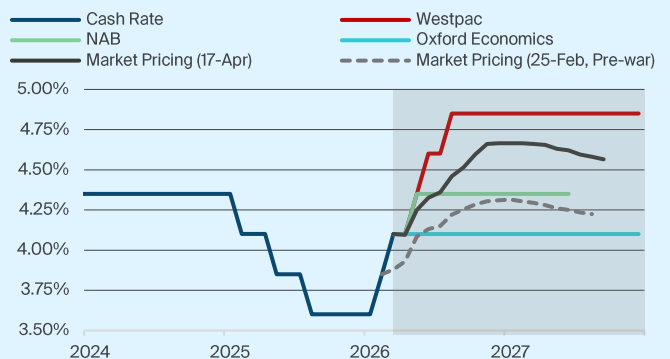


### NEGATIVE NEAR-TERM IMPACTS ON RETAIL

Recent developments present a clear headwind for retail property, with risks skewed to the downside. The key transmission channel runs from energy prices through to inflation, interest rates, and ultimately household consumption — each step compounding pressure on retailer margins and, by extension, rental income. Our baseline view is that the repercussions of the conflict will continue to weigh on conditions through much of 2026, driven primarily by sustained disruptions to energy supply chains in the Gulf. Elevated energy costs are likely to keep inflation above target for longer, but the extent and the extent of the RBA's interest rate response remains uncertain. Households will continue to face cost-of-living pressure as inflation and higher borrowing costs erode disposable incomes, and lower consumption. For retailers — particularly those in discretionary categories — slowing demand alongside rising input costs will compress margins, and some may seek rental concessions from landlords, weighing on income growth for investors.

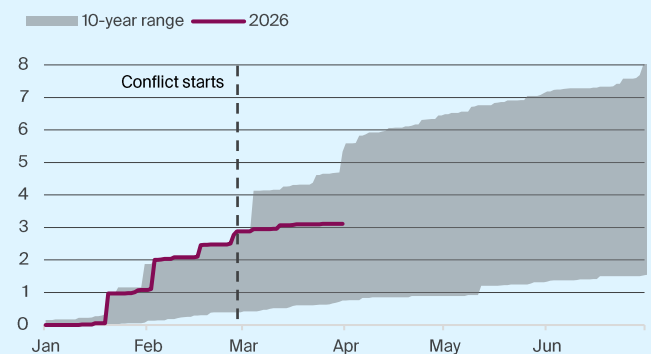
### Diverse range of interest rate forecasts

Cash rate - historical, market pricing and forecasts by source (%)



### Retail transactions on pause after conflict

Daily cumulative transaction volume by year, retail (AUD billions)



# High demand for retail

## Transaction activity surges as investors flock to the retail sector

### TRANSACTIONS ROSE IN 2025

Total retail investment volumes increased sharply in 2025, with \$14.4 billion traded, up 43% from \$10.1 billion in 2024. Transaction activity was driven by stronger investor demand for large-format assets, particularly super regional (\$3.5 billion) and major regional (\$2.6 billion) centres.

Before the Iran conflict, investors materially increased their exposure to large retail assets as confidence in underlying fundamentals has strengthened. Investors saw large centres as best positioned to benefit from a growing shortfall of retail space, combined with ongoing densification and rising foot traffic. At the same time, robust growth in spreads, MAT and household spending growth had reinforced investor conviction that sector tailwinds are strengthening.

Transaction momentum accelerated in H2 2025, with \$7.9 billion of assets traded, compared with \$6.6 billion in H1 2025. Notable transactions late in the year included Scentre Group's sale of a 50% interest in Westfield Chermside (via two separate 25% stakes) to Dexus for approximately \$1.37 billion, alongside MA Financial's acquisition of QIC's Hyperdome Shopping Centre for \$678.7 million.

### IRAN CONFLICT TO SLOW TRANSACTION ACTIVITY

Elevated transaction activity continued into early 2026 with around \$3.6 billion of retail transactions in Q1 2026. This includes Lendlease's sale of Erina Fair to Fawcner Property for \$895 million (gross), representing the largest ever 100% trade of an Australian shopping centre. Australian Retirement Trust also acquired a 20% stake in Westfield Sydney from Scentre for \$864 million.

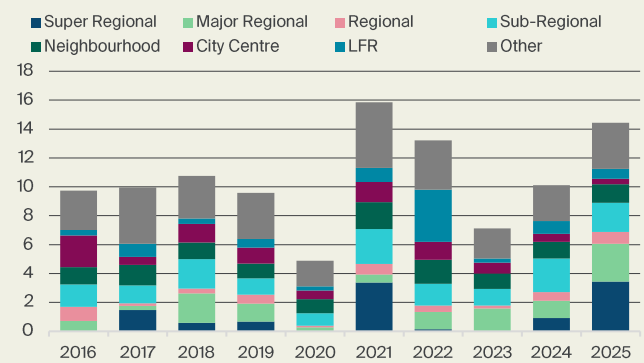
However, since the US-Israel-Iran conflict began at the end of February, transaction activity has slowed markedly. An expected lift in inflation and interest rates has seen investors transition back to a wait-and-see approach. This is expected to weigh on transaction activity in coming months.

### DIVERSE RANGE OF INVESTORS IN RETAIL ASSETS

Retail assets were purchased by a diverse range of capital in 2025. Privates were the largest buyers (31%), followed by public capital (27%), institutions (22%) and cross-border capital (19%). Domestic retail specialists continue to be the most active buyers, capitalising on the trough in asset valuations by selectively buying assets with strong fundamentals to maximise long-term returns. There has been an uptick in competition for city centre, sub-regional, and neighbourhood with increased demand from private and syndicated buyers looking to expand retail exposure.

### Strong investor demand for retail assets

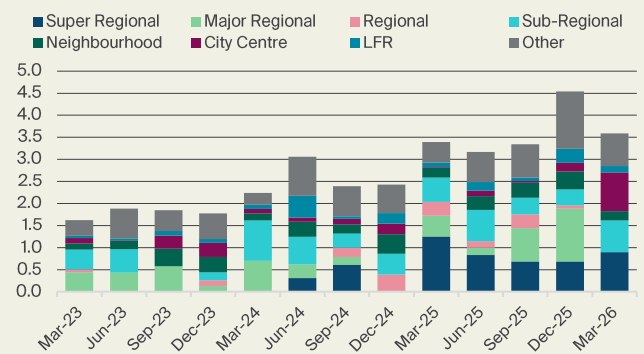
Transaction volumes by retail type (AUD billions)



Source: Knight Frank Research, RCA

### Retail transactions by type

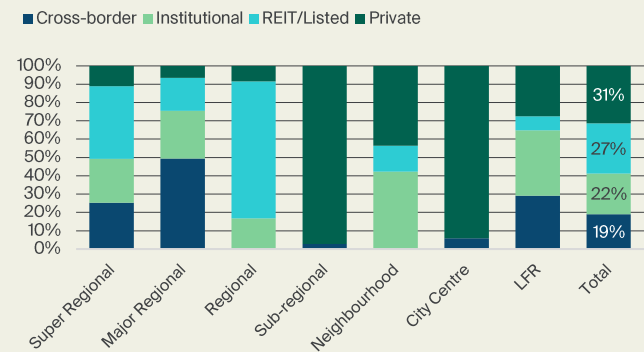
Transaction volumes by retail type (AUD billions)



Source: Knight Frank Research, RCA

### Retail buyers

Share of total transactions by buyer and retail type, 2025 (%)



Source: Knight Frank Research, RCA

# Asset values are rising

## Retail asset values grow at their fastest rate in a decade

### CAPITAL VALUES RISING ACROSS ALL RETAIL TYPES

Average retail sector capital values increased by 1.3% in Q4 2025, marking the strongest quarterly growth since Q4 2015. This brought total capital growth over 2025 to 3.0%.

This uplift reflects a combination of tightening yields and sustained income growth, as improving operating conditions translated into stronger investor sentiment. Capital growth was evident across all retail formats, with performance underpinned by resilient consumer spending and improving fundamentals.

### YIELDS BEGINNING TO COMPRESS

Retail yields compressed by 8 bps in Q4 2025 to 5.64%, supported by falling interest rates, improving financing conditions and strengthening household spending. Yield compression has been broad-based across the sector, although regional and sub-regional centres recorded the largest moves, with yields tightening by 14 bps and 17 bps respectively in Q4. This reflects the rising confidence in the retail sector as investor demand is returning for the retail segments that have been the weakest over recent years.

Regional and sub-regional centres continue to deliver standout income performance, with annual income returns of around 6.9%—the highest of any retail subsector. Improving household incomes and solid discretionary spending have underpinned retailer demand, while limited new supply has constrained competition for space. As a result, conditions have tightened further, with vacancy in regional centres remaining exceptionally low at 0.9% in Q4 2025 and sub-regional vacancy falling 1.3% over the year to 4.6%.

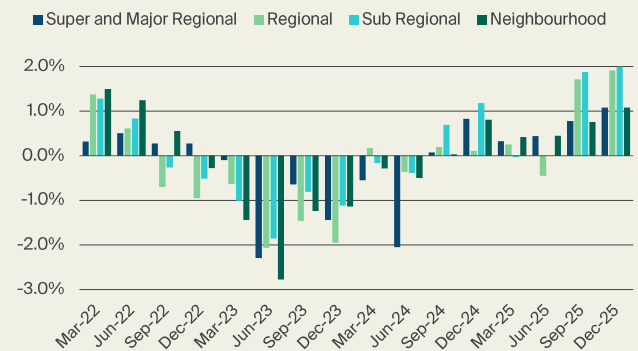
### RETAIL THE STRONGEST PERFORMER IN 2025

Retail had the strongest total return of all commercial property sectors in 2025, with annual returns of 9.2%. Performance was well balanced, underpinned by solid capital growth of 3.0% alongside sustained income growth of 5.4%.

Geopolitical uncertainty has introduced near-term headwinds, with inflation concerns and the prospect of further rate increases feeding through to higher borrowing costs and softening investment demand. However, the medium-term fundamentals remain intact. Supply-side conditions remain supportive — development feasibility is materially constrained by elevated land values and construction costs, limiting new supply and underpinning conditions for continued rental growth.

### Retail sector returns to growth

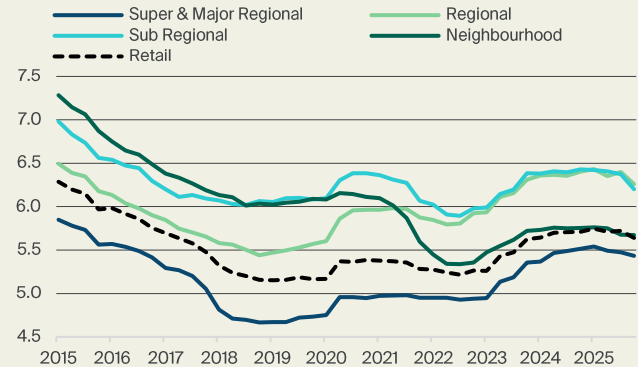
Quarterly capital value growth, average for major sectors (%)



Source: Knight Frank Research, MSCI

### Retail cap rates stabilise

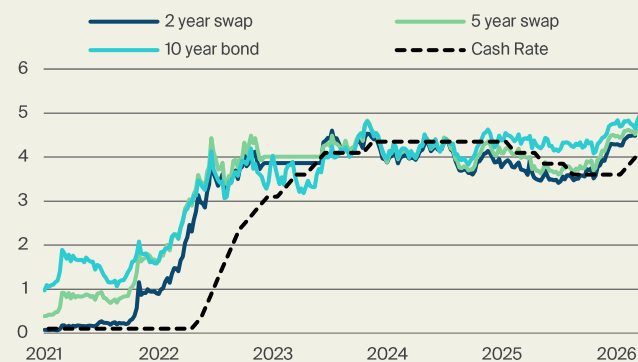
Quarterly cap rates by retail type (%)



Source: Knight Frank Research, MSCI

### Australian borrowing costs have risen sharply

Yield by swap duration



Source: Knight Frank Research, Macrobond

# Market outlook

## Key themes in 2026

### INTEREST RATE HIKES MAY KEEP YIELDS STEADY

Renewed interest rate rises in early 2026 are likely to arrest the early signs of yield compression evident in the retail sector. Crucially, effective borrowing costs had only recently reset lower before rates began rising again — meaning yields had not yet meaningfully adjusted to reflect the prior easing cycle. With interest rates expected to return to levels broadly consistent with those prevailing when current yields were established, yields are expected to remain relatively stable in the near term.

Looking further ahead, the yield outlook remains downward as interest rates are expected to fall from around H2 2027. Underlying fundamentals are expected to continue to improve— including a constrained development pipeline and stronger income growth — are sustaining buyer appetite and supporting the case for tightening yields over the medium term, even as the risk-free rate moves higher.

### EARLY SIGNS OF MARGIN PRESSURE ON TENANTS

Some tenants are experiencing growing margin pressure, and this will likely be exacerbated by the impacts of the Iran war. This margin pressure — resulting from rising costs and a likely pullback in household consumption due to cost-of-living pressures — is causing tenants to want more from their landlord and driving more defensive strategies.

Some owners are softening rent escalations, offering concessions on non-rent charges and prioritising occupancy stability over income growth. Outgoings growth above CPI is viewed as a key risk to renewals, with negotiations becoming more bespoke and concession-driven.

### PRIME CENTRES CONTINUE TO PERFORM WELL

Prime centres have continued to demonstrate healthy levels of rental growth, with tenant sales supporting the sustainability of passing rents and generally higher market rents across most centres. In contrast, rents and sales within secondary assets are expected to remain under pressure, with centre and tenant performance largely influenced by asset location, tenant mix and use, levels of foot traffic, competition within the relevant trade areas, and the impact of increasing cash rates/product prices on disposable incomes. Secondary assets also remain more exposed to risks around prolonged under investment in capital expenditure which can impact achievable rents.

### RISING REQUIREMENT FOR LOGISTICS INTEGRATION

As online and bricks-and-mortar retail continue to converge, there is a growing expectation that landlords will provide click-and-collect facilities for a wider range of tenants. To date, these facilities have largely been branded specifically for supermarkets. Investment has typically been driven by supermarkets seeking either direct landlord capital investment and/or capital incentives as part of lease renewals. Increasingly, however, speciality retailers are seeking tenant-agnostic click-and-collect solutions that are clearly identifiable and easily accessible to consumers.

### UNDERSPENDING ON CAPEX IS CREATING RISKS

A slowdown in capital expenditure (CAPEX) since COVID is creating growing risks across many retail assets. With significant cost escalation and operational challenges in recent years, many owners have prioritised short-term cost containment and tenant retention over long-term asset quality. This delay in long-term CAPEX is beginning to grow into larger, unavoidable future costs. Higher-quality assets continue to cover critical risk items but are cutting back on discretionary upgrades, while older and lower-tier assets are deferring both risk and presentation spend, increasing long-term exposure. This is leading more owners to engage property management agents with professional expertise in capital delivery; this has been particularly noticeable with older or lower tier assets where owners require assistance to address complex legacy issues that have been deferred until the expenditure is unavoidable.

CAPEX backlogs present a risk for investors and are increasingly influencing transaction activity. For example, older sub-regional assets with legacy issues are facing deeper technical due diligence, valuation pressure and purchaser caution. Deferred capital spending is now becoming a central risk consideration for investors rather than a secondary issue. Prolonged under investment in capital works for an asset, such as the integration of logistics, is expected to weigh on future achievable rents. This has a large impact on investment returns but also impacts the ability to spend on operational expenditure (OPEX) for day-to-day maintenance of assets to a level that meets consumer expectations — particularly given the cost of this work is rising with the recent surge in inflation.

## Recent transactions

Interest	Property	Date	Price (m\$)	GLAR (m <sup>2</sup> )	\$/m <sup>2</sup> GLAR	Purchaser	Vendor	Initial yield	IRR
19.90%	*Sydney Central Plaza - Portfolio Deal, NSW	Dec-25	864.0	53,801	~\$14,000	Australian Retirement Trust (ART)	Scentre Group	~5.00%	~6.50-6.75%
19.90%	*Westfield Sydney - Portfolio Deal, NSW	Dec-25		43,217	~\$83,000	Australian Retirement Trust (ART)	Scentre Group	~4.25%	~6.50-6.75%
100%	Hyperdome, QLD - Main Centre	Nov-25	542.5	73,348	7,430	MA Financial	QIC	6.55%	7.76%
100%	Erina Fair, NSW**	Oct-25	895.0	114,447	7,820	Fawkner Property	Lendlease	6.76%	7.24%
50%	Bankstown Central, NSW	Aug-25	318.6	85,442	8,115	JY Group	Challenger/Elanor	~6.25%	~6.75-7.00%
100%	Top Ryde City, NSW	Jul-25	525.0	77,488	6,775	MA Financial (25%) & Keppel REIT (75%)	Bevillesta Pty Ltd (Receivers and Managers appointed)	6.26%	7.56%
100%	Burwood One, VIC	Oct-25	210.0	26,830	7,827	Private Investor	Charter Hall	4.88%	6.02%
25%	Westfield Chermside	Jul-25	683.0	156,449	4,366	Dexus	Scentre Group	5.19%	6.82%
100%	Woodgrove Shopping Centre & Coburns Central, VIC	Jun-25	440.5	54,623	6,907	Assembly Funds Management	QIC	6.85%	7.63%

Source: Knight Frank Research  
Notes: \*Reported in Market - Analysis Underway, \*\*Gross Price

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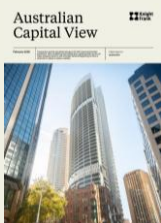
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Melbourne CBD: Economic rent to moderate supply | Q1 2026



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