Australian Retail Review

September 2025

Rebounding household spending and tightening supply have strengthened fundamentals and boosted investment activity, setting the retail sector on a path for sustained growth.

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Key insights

Strong population growth and rising real incomes – combined with limited new supply – have positioned retail as one of the strongest performing sectors, drawing increased capital from investors seeking to capitalise on the rebound.

ALISTAIR READ
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4.2%

Real household disposable income growth

Real household disposable income grew by 4.2% over the year to Q2 2025, the strongest growth since Q1 2021.

5.1%

Household spending growth

The value of household spending rose by 5.1% year-on-year in July 2025.

3.0%

Average MAT growth

Across 100 shopping centres held by listed companies/REITs, moving annual turnover (MAT) grew by an average of 3.0% in CY24/FY25.

8.3%

Average retailer EBIT margin

EBIT margins across a selection of major retailers remained relatively steady at 8.3%.

$6.0b

Investment volumes H1-25

Liquidity has returned to the retail sector with transaction volumes rising to $6.0 billion in H1 2025, a 17% increase from H1 2024.

4 bps

Change in retail yields

Retail yields declined by 4bps to 5.71% in Q2 as falling interest rates resulted in improved investor confidence

High demand for small assets & full control

Recent market activity indicates that retail assets priced below $300 million continue to attract strong investor demand.

Reconfigurations as alternative to expansion

With limited scope for new development, reconfiguring surrendered space offers a cost-effective alternative.

Strong Capital Raising environment

Recent capital raises have delivered strong outcomes, signalling a continued expansion in liquidity among the retail sector in the near-future and the continuation of strong competition for retail assets.

Shifting structure of major tenant leases

Increased competitiveness in the supermarket and discount department store landscape has seen a shift in negotiating power towards landlords when lease expiries are imminent.

Retail sales gain momentum

Population growth and rising real incomes support spending growth

SALES GROWTH GAINS MOMENTUM

In nominal terms, retail sales were up by 5.1% over the year to July signalling a continuation of the turnaround in retail sales seen in late 2024. In the FY25 reporting season, several large retailers mentioned that while trading conditions remain tough, there are green shoots in the consumer environment and outlook for retail consumption, supported by household income growth, falling interest rates and disinflation. Many retailers pointed to a strong pick up in sales growth in the first few weeks of FY26 as an indication that improving consumer sentiment and incomes were beginning to translate into retail sales growth. Retail orientated spending growth has been strong for food (6.3% y/y), but subdued for household goods (3.9%) and clothing (2.2%)

Looking ahead, the outlook for retail sales is positive with strong population growth and easing pressures on household budgets expected to drive higher per capita consumption. This will be particularly beneficial for discretionary retail spending which has been more impacted by cost-of-living pressures.

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.

Commonwealth Bank spending data shows that annual growth in essential and discretionary spending has been the largest among younger consumers in FY25, and this is likely to continue as household balance sheets improve.

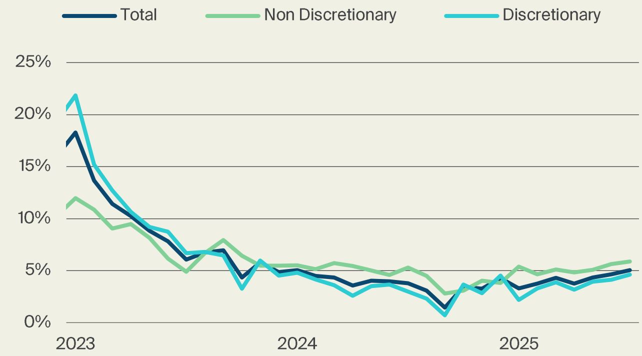
FY25 Earnings Call Commentary

"we have seen a bit of a pickup, a modest pickup. So we are more positive about the consumer outlook than we were 6 months ago. There's definitely some improvement there, but it's still early days. "
– Rob Scott, Managing Director Wesfarmers

"The early trading results for FY26 are encouraging"
– Chris Mentis, CFO Harvey Norman

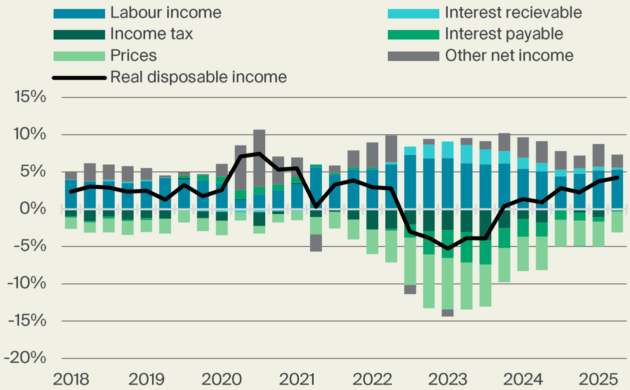
"from our customer surveys and some of the data we're seeing now, we're definitely seeing some green shoots in terms of customer sentiment. So that really has come from the interest rate cut and people starting to feel a bit more optimistic about household budgets going forward."
– Leah Weckert, CEO Coles

Household spending is recovering slowly
Annual growth in household spending by type (%)



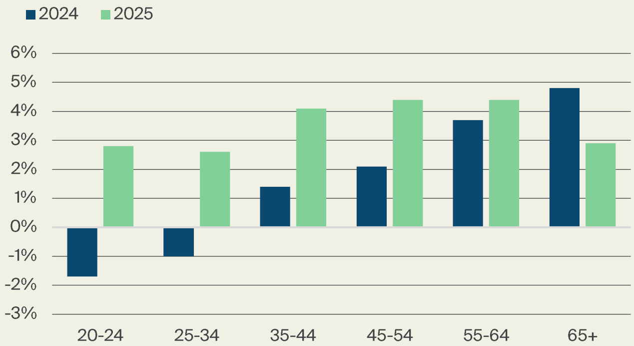
Source: Knight Frank Research, Macrobond

Real disposable income growth rebounds
Year-ended (% change with contributions)



Source: Knight Frank Research, ABS

Young consumers increase discretionary consumption
Annual change in discretionary spending by age for 13 weeks to June (%)



Source: Knight Frank Research, Commonwealth Bank

Sustained income growth

Income growth remains resilient

LEASING SPREADS AND MAT GROWTH DEMONSTATES RESILIENCE

Despite the slower than expected rebound in household consumption, retail owners have reported strong growth in leasing spreads in FY25. 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. All operators of major shopping centres have seen leasing spreads return to growth above 2% in FY25. Operators of neighbourhood assets – such as HomeCo and Charter Hall's Retail REIT (whose strategy focuses on convenience retail) – that have a greater focus on non-discretionary spending have seen the strongest growth in re-leasing spreads. A lack of new retail supply and strong population growth is expected to drive strong future rental growth and releasing spreads.

Moving annual turnover (MAT) growth has also shown resilience despite the delayed rebound in household consumption. Across 100 publicly listed retail assets, annual MAT growth has averaged 3.0%, with 84% experiencing positive MAT growth over their last annual reporting period.

RETAIL MARGIN GROWTH REMAINS ROBUST

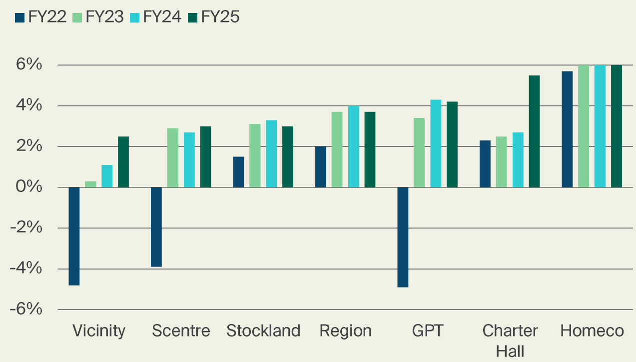
Major retailers have coped well despite the challenging macro climate. A review of EBIT margin data across a selection of well-known Australian retailers reveals resilient performance from many. Retail company profitability and the average EBIT margin have remained robust in FY25, despite the headwinds of rising staff costs and subdued discretionary spending. If the recent improvement in consumer spending is sustained, this is expected to drive improved retailer profitability in FY26.

SEGMENTED RETAIL PERFORMANCE DRIVES RENT OUTCOMES

Prime centre rents are currently holding steady, with sales supporting the passing rents in most centres. However, rents remain under pressure in secondary assets as sales growth remains sluggish.

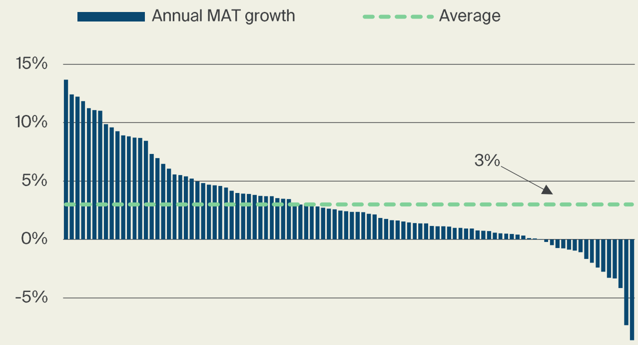
Supermarkets are typically seeing higher rents on renewal with a higher occupancy cost range, and banks have also typically been reviewing at better levels. In contrast, retail categories that are still experiencing operating difficulties are food courts, apparel, luxury stores, cafes homewares and cinemas. These categories are requesting rent reviews and lower market rents following lacklustre sales. Discount department stores have also seen subdued sales and occupancy costs that are trending above their historical average as online sales lower in-store visitation and sales.

Leasing spreads show robust growth
Annual changes by company as reported by financial year (%)



Source: Knight Frank Research, Company Reports

MAT growth occuring across most assets
Annual MAT growth by individual retail assets, CY24/FY25 (%)



Source: Knight Frank Research, Company Reports

EBIT margin reported by major retailers (%)

Retailer	FY24	FY25
Universal Store	16.4	16.3
Supercheap Auto	14.8	14.3
Shaver Shop	10.0	10.3
Kmart Group	8.6	9.2
Rebel	9.4	9.1
BCF	7.6	7.9
JB Hi-Fi Australia	7.4	7.5
The Good Guys	5.9	6.1
Woolworth Food Retail	6.2	5.4
Coles Supermarket	5.2	5.3
Metcash Food	2.3	2.3
Average	8.5	8.3

Capital markets are active

Liquidity returns to the retail market

HIGHER DEAL VOLUMES AS FUNDAMENTALS IMPROVE

Total investment volumes in the retail sector continued to grow in H1 2025 with $6.0 billion traded, up 17% from $5.1 billion in H1 2024. NSW led the way in H1 with $3.0 billion traded, followed by QLD ($1.0 billion) and Victoria ($0.9 billion). The market for retail assets is proving to be the most liquid asset class in H1, followed by industrial ($5.6 billion) and office ($3.7 billion)

Investors are responding to the prospect of an improving economic climate, with reduced uncertainty around the outlook for inflation and lower interest rates removing the brake on deal activity. The return to growth in leasing spreads, MAT and household spending is persuading more investors that the sector's tailwinds are growing, with retail offering a strong long term growth potential as the economy recovers. Looking forward, the outlook for income growth is also arguably the best among the major real estate sectors.

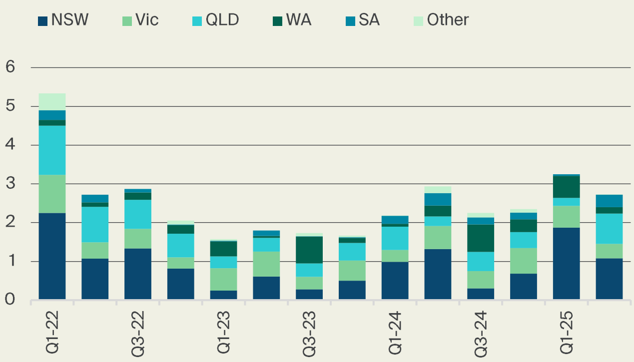
Significant recent transactions include the Scentre sale of a 25% interest in Westfield Chermside to Dexus for $683.1 million, the purchase of QIC's Woodgrove Shopping Centre & Coburns Central for $440.5 million by Assembly JV PGIM, and Iris Capital's purchase of St Ives Shopping Village for $450.0 million.

PRIVATE AND INSTITUTIONAL CAPITAL DRIVING THE MARKET

Private and institutional capital were the largest buyers of retail assets in H1 2025, accounting for 36% and 25% of transactions, respectively. Domestic retail specialists continue to be the most active buyers, capitalising on the trough in asset valuations, selectively buying assets with strong fundamentals to maximise long-term returns.

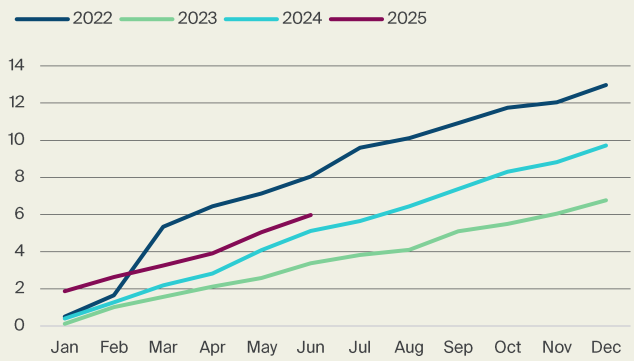
Public and cross-border capital continued to be a net seller of assets in H1. For some time, REITs have been selectively divesting assets. As market conditions improve, we expect renewed participation on the buy-side, and the strong recovery in equity prices including for REITs will help to facilitate this. Looking forward, the combined effect of REITs rejoining the market, positive leasing trends, rising retail demand, and broader investor liquidity is expected to accelerate competition and investment in retail.

Australian retail investment remains strong
Investment volumes by state (AUD billions)



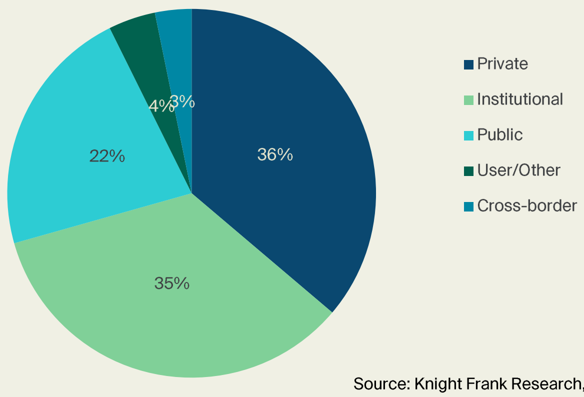
Source: Knight Frank Research, RCA

Retail transaction voumes improve in 2025
Cumulative retail transaction volume by year (AUD billions)



Source: Knight Frank Research, RCA

Private capital driving transactions
Share of investment volumes by buyer type, H1 2025 (%)



Source: Knight Frank Research, RCA

Asset values on the rise

Retail valuations return to growth, but divergence persists

EMERGING DIVERGENCE IN RETAIL VALUATIONS

Retail sector capital values grew by 1.6% over the year to Q2 2025 – the first annual growth since Q1 2023. This rise has been driven by both falling interest rates and strengthening rental growth.

However, capital value growth did not occur across all retail types with a growing divergence between retail asset classes. Strong capital growth persists for large super/major regional assets and small neighbourhood assets as strong population growth and consumer preferences for convenience underpin strong retail spending. Capital values remained relatively stable for regional and sub-regional retail in Q2.

YIELDS STARTING TO COMPRESS

Retail yields declined by 4bps to 5.71% in Q2 as falling interest rates improved investor confidence and markets interest rates continued to fall. Retail yields have 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 28 bps over the past two years, while average office and industrial yields have both risen by 97 bps and 86 bps respectively.

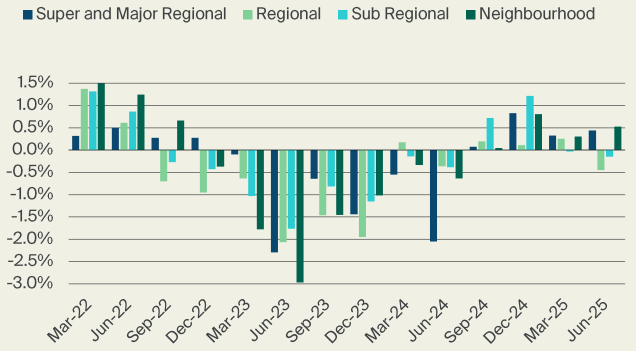
The performance delineation between retail types emerged during the pandemic, with neighbourhood centres outperforming, has lessened with yields trending out at different rates across all asset types. Cap rates for the more sharply priced neighbourhood and major regional centres were more immediately 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. Yields remain above the pre-COVID levels for all classes except neighbourhood centres. Looking ahead, we expect the current delineation to largely persist with neighbourhood and super/major regional centres outperforming.

TOTAL RETURNS RISE FOR ALL ASSETS

Total annual returns for retail assets rose to 7.8% in Q2 2025. This strength has occurred across all asset classes and continues to be largely driven by income growth; however capital returns are now positively contributing to total returns. Super and major regional retailers have seen the largest increase in returns over the past year, followed by neighbourhood, sub-regional and regional retailers. A lack of new supply – reflecting high land values and construction costs – will likely support strong rental growth and further underpin favourable returns for retail assets.

Retail sector returns to growth

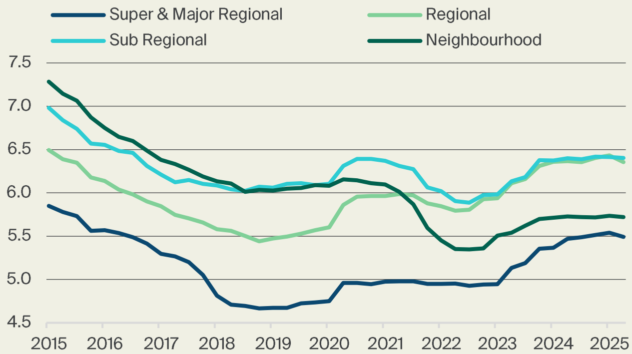
Quarterly capital value growth, average for major sectors (%)



Source: Knight Frank Research, MSCI

Retail cap rates stabilise

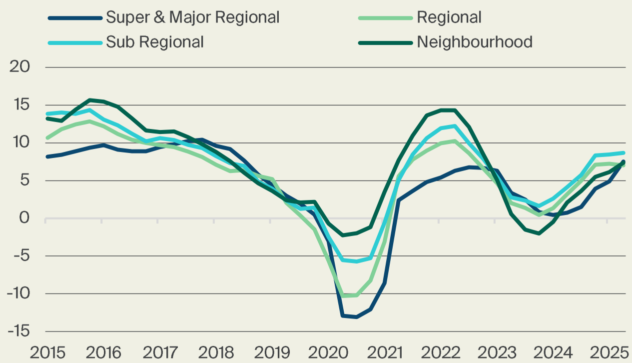
Quarterly cap rates by retail type (%)



Source: Knight Frank Research, MSCI

Total returns rebound across all retail classes

Rolling total annual return rates by retail type (%)



Source: Knight Frank Research, MSCI

Market outlook

Key themes in 2025

HIGH DEMAND FOR SMALL ASSETS & FULL CONTROL

Recent market activity indicates that retail assets priced below $300 million continue to attract strong investor demand, with competitive bidding across multiple retail categories and parties. This segment has demonstrated liquidity and depth, supported by resilient retail fundamentals. In contrast, the market for quality metropolitan retail assets valued above $300 million has seen limited transactional activity in recent years, reflecting a thinner pool of capital and fewer benchmark deals. However, the recent off-market transaction involving Westfield Chermside – where Dexus Wholesale Shopping Centre Fund acquired a 25% interest for $683 million – demonstrates continued investor confidence in prime assets and reinforces underlying market fundamentals.

Recent transactions involving large-scale retail assets have increasingly featured joint venture structures, with acquiring parties actively seeking capital partners to share investment exposure. Notably, buyers have shown a clear preference for arrangements that offer greater influence over asset management or direct operational control.

STRONG CAPITAL RAISING ENVIRONMENT

Recent capital raises have delivered strong outcomes, signalling a continued expansion in liquidity among the retail sector in the near-future and the continuation of strong competition for retail assets. Recent examples include Charter Hall Convenience Retail Fund which raised $1.75 billion of equity and GPT's Wholesale Shopping Centre Fund. Most institutional retail owners are looking to grow their funds under management in addition to optimising their portfolios by divesting non-core or partial interests in fully owned assets to fund developments.

RESIDENTIAL DEVELOPMENTS ARE COMPLEMENTARY TO THE CORE FOCUS ON RETAIL

The growing national focus on boosting housing supply, combined with strong residential price growth, has prompted some retail centre owners to explore adding residential components through build-to-rent or build-to-sell developments.

This does not indicate a strategic shift, as retail remains the primary focus for most market participants. Rather, it represents a complementary growth opportunity through residential value-adds. Although still emerging, those exploring these residential opportunities are considering multiple pathways forward including joint ventures, equity partnerships, or owner-led development.

SHIFTING STRUCTURE OF MAJOR TENANT LEASES

Increased competitiveness in the supermarket and discount department store landscape has seen a shift in negotiating power towards landlords when lease expiries are imminent. Retail landlords are increasingly pushing major tenants for a structural change in lease terms, although some landlords have more leverage than others. Larger centres and retail owners with large portfolios have a greater opportunity to change some leases given their increased focus on the future growth of the major tenants.

The structure of tenant leases is also an important component for potential buyers when comparing assets. It will be important over the coming period to assess whether a centre's cap rate accurately incorporates whether the major tenant is paying turnover rent or not given the significant impact this has on generating income growth. It is expected that investment markets will drive increased cap rate compression for asset owners who are achieve lease terms which provide cashflow for growth.

RECONFIGURATIONS AS ALTERNATIVE TO EXPANSION

Ongoing poor performances by many large Department stores and Discount Department stores nationally, has led to some tenants negotiating to close stores, or handing back all or a portion of their GLA, on expiry of leases or mid-term.

With limited scope for new development, reconfiguring surrendered space offers a cost-effective alternative. A recent example includes David Jones relinquishing a floor in Westfield Bondi Junction, which was successfully repurposed for a gym and a relocated mini-major tenant, achieving improved rental outcomes. Reconfiguring space vacated by Department/Discount Department stores, presents an opportunity to enhance asset performance and unlock latent value. It allows owners to refresh and optimise their centre layouts and tenant mixes and drive increased foot traffic by updating tenant mixes for in-demand uses such as gyms, medical/wellness and cosmetic clinics.

Given the lower rents typically associated with traditional anchor tenants (on a $/sqm basis), transitioning to a diversified tenant mix such as mini-majors, experiential retailers, gyms, or simply retailers which are new to the market, can deliver immediate rental uplift and strengthen long-term cashflow. While capital expenditure is often required to enable these transformations, the strategic upside lies in reducing exposure to underperforming tenants and repositioning assets to meet evolving consumer demand for experience-led retail. This approach supports portfolio resilience, improves income durability, and aligns the centre with broader market trends.

Recent transactions

Interest	Property	Date	Price (m$)	GLAR (m^2)	Purchaser	Vendor	Initial yield %
25%	Westfield Chermside, QLD	Jul-25	683.1	156,449	Dexus	Scentre	5.13%
100%	Waverly Gardens Shopping Centre, VIC	Jul-25	165.0	39,227	Charter Hall	Elanor Investors JV Heitman	-
100%	Chullora Marketplace, NSW	May-25	145.0	19,316	Charter Hall	Henroth Investments	~5%
100%	Kurralta Central, SA	May-25	75.2	10,672	Taplin	Coles	5.03%
100%	Woodgrove Shopping Centre & Coburns Central	Jun-25	440.5	54,911	Assembly JV PGIM	QIC	6.85%
100%	St Ives Shopping Village, NSW	May-25	450.0	17,475	Iris Capital	EK Nominees P/L	~5.5%
50%	Northland Shopping Centre, VIC	Feb-25	385.0	97,759	Andrianakos Property	GPT	7.07%
100%	Lake Macquarie Square, NSW	Jan-25	122.5	24,535	Revelop	Charter Hall Retail REIT	6.41%
50%	Cockburn Gateway, WA	Dec-24	300.0	69,961	GPT	Perron Group	5.26%
50%	Belmont Forum, WA	Dec-24	182.0	118,891	GPT	Perron Group	6.00%
50%	Roselands Shopping Centre, NSW	Dec-24	165.7	63,631	HMC Capital	Vicinity	7.43%
50%	Carlingford Court, NSW	Dec-24	120.0	33,135	HMC Capital	Vicinity	7.01%
100%	Figtree Shopping Centre, NSW	Dec-24	192.0	21,984	Fawkner Property	Paragon REIT	~6.25%-6.5%
50%	Elizabeth Centre, SA	Nov-24	170.0	86,532	Andrianakos Property	Vicinity	8.13%

Source: Knight Frank Research, RCA

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