



VICTORIAN MARKET SNAPSHOT

MARCH 2026

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OVERVIEW

Victoria's property markets recorded mixed conditions in H2 2025 as earlier improving sentiment moderated somewhat amid persistent inflation and renewed interest rate uncertainty.

The healthcare and seniors living sector remained resilient, supported by strong demographic fundamentals and investment growth opportunities. Melbourne's industrial market softened as supply growth outpaced occupier demand. International investment slowed due to Victoria's tax environment, while demand for development land strengthened due to data centre activity. The office market showed early stabilisation with improved transaction volumes, though vacancy remains elevated and investors continue to favour well-located assets with secure income.

Retail investment remained relatively active, supported by strong capital targeting shopping centres, and the hotel sector benefited from rising room rates despite recent supply additions. Residential markets saw modest improvement in established housing and some apartment segments, although development sites remain subdued.

There is a degree of market uncertainty across all markets in early 2026 driven by geopolitical tensions in the Middle East, and ongoing trade policy adjustments. This environment has contributed to heightened volatility across equity markets and, notably, US Treasury yields. Oil prices are currently rising with impacts to cost of living. Continuing geopolitical instability may place upward pressure on inflation. Early evidence of tariff related inflationary pressure has been reported in the US and is expected to continue during 2026 as businesses pass on higher input and substitution costs. Australia's economy continues to be influenced by broader economic conditions, contributing to a cautious domestic market.

Looking ahead, higher interest rates may temper activity in 2026, though strong population growth and constrained supply is anticipated to support underlying market stability.

HEALTHCARE



SIMON HICKIN

Director | Health

“The healthcare and seniors living sector in Victoria maintained its appeal as a core asset class during the second half of 2025, supported by strong fundamentals, investment growth opportunities, and resilience amid elevated inflation and interest rates. Institutional capital is attracted to the sector because of population growth, ageing demographics, government funding, and private healthcare.

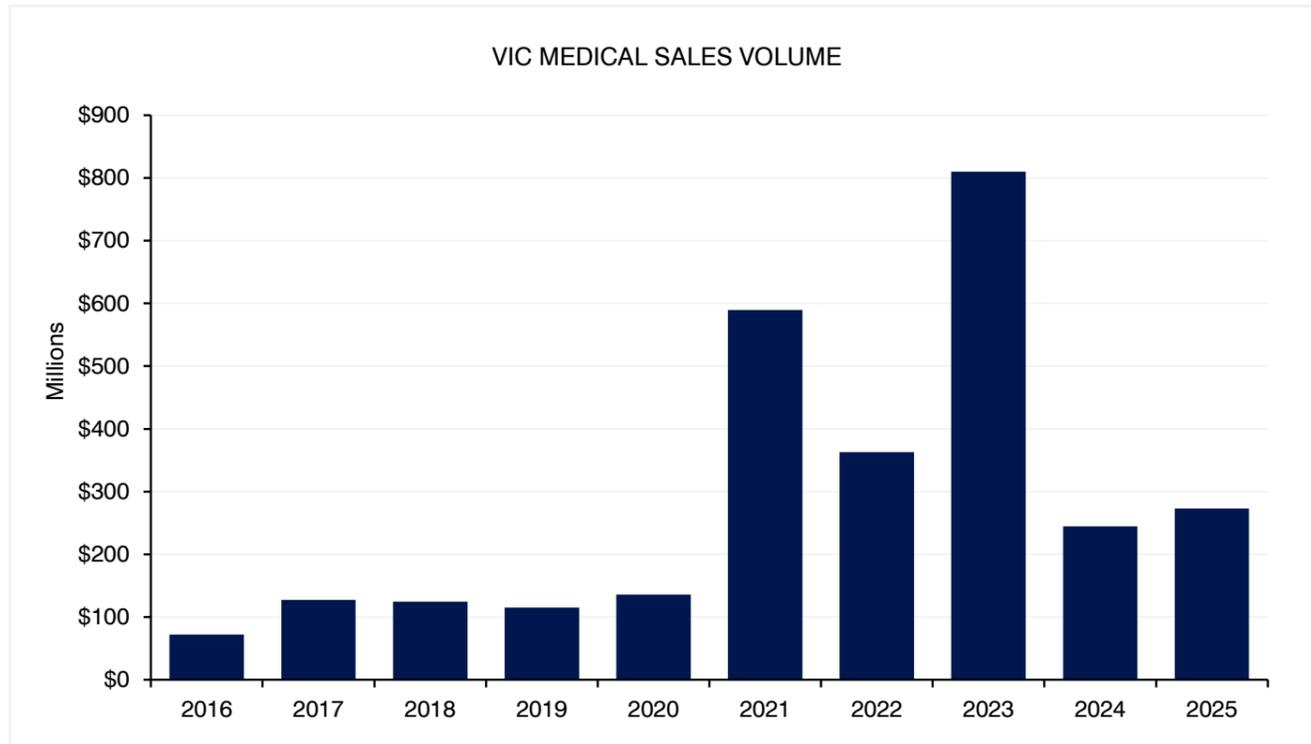
In 2025 Victoria recorded \$224.4 million in medical and hospital property sales across 57 transactions, being at a similar level in 2024. Private investors were again the most active buyer’s group in 2025, accounting for 67.5% of purchases. Prime medical yields averaged 6%, while secondary assets reached 7.5%, with cap rates remaining relatively stable over the year.

The lowering of interest rates during the year maintained overall buyer activity, albeit a disconnect remains between purchasers and vendors even in the face of demand for premium assets. Similarly to 2024, transactions under \$12 million dominated the market with only one transaction above this level.

The private hospital sector continues to face some potential headwinds following the federal government’s review into the sector, along with concerns voiced by the industry over financial viability faced by some operators.

Investment demand for medical assets may dampen over 2026, with the recent interest rate rises in February and March and potential for further rate rises across the year. While cap rates stabilised in 2025, there is an expectation that interest rate rises will put pressure on investment returns.

Investment demand for high-quality medical assets will remain strong, although with interest rates rising again overall market activity is likely to remain subdued in 2026.”



Source: Real Capital Analytics (RCA), M3 Property
 Note: Sales over \$1 million. Includes Medical and Hospital sales

INVESTMENT MARKET

- According to RCA, there were 57 healthcare properties sold in Victoria for a total of \$272.8 million in 2025.
- This compares with \$244.5 million from 72 transactions in 2024.
- Private investors were the most active buyer's group over 2025, accounting for 67.5% of transactions.

YIELDS

- Yields are now averaging between 5.5% to 6.5% for prime medical centre assets and 7.5% for secondary medical assets (predominantly regionally located older facilities).
- Yields for private hospitals generally range between 5.25% and 6.5% for prime assets and 6.75% and 7.5% for secondary assets.
- For the twelve months to December 2025 average cap rates firmed slightly in the private investor market for lower priced assets, with the minimal transaction activity above \$20 million showing inconclusive trends.

OPPORTUNITIES AND CHALLENGES

- Interest rate reductions in February, May and August 2025 contributed to renewed investment activity from institutional investors in the healthcare market, but this activity from institutional investors may slow during 2026 following the rate increases in February and March 2026 and potential for further rate rises.
- GP and other health specialist shortages continue to affect occupancy levels for some medical practices.
- Mental health and wellbeing is becoming an emerging health issue, with 43.7% of people between 16 and 85-years old experiencing a form of mental disorder in their life and 21.4% of people experiencing a mental disorder for at least 12 months.
- Demand for medical services by a growing and ageing population is expected to continue increasing; unhealthy lifestyles, obesity rates and an increasing focus on mental health and wellbeing continue to drive demand for medical services, medical suites and centres.
- Australia's Healthcare and Life Sciences sector is one of the largest and fastest growing in the southern hemisphere, driven by a confluence of government support, industry innovation, and private and institutional investment. Melbourne boasts the largest biomedical ecosystem in the country and is home to 41% of Australia's life sciences companies and generates 60% of the nation's pharmaceutical exports. There are eight Healthcare and Life Sciences precincts in Melbourne. The largest precinct in Melbourne is the Melbourne Biomedical Precinct which is anchored by the Royal Melbourne Hospital and Royal Women's Hospital and brings together three public hospitals and one private hospital, three universities, and seven medical research institutes in a single integrated hub.

OUTLOOK

- The healthcare sector will continue to maintain its importance as a core asset class, supported by key market fundamentals and significant investment growth opportunities; some other core sectors have become less favoured due to poor investment fundamentals. The sector will continue to benefit from strong investment interest as new and existing institutional capital is drawn to the asset class thanks to its key fundamentals including population growth, ageing population demographics, government funding and private healthcare.
- Investment demand for high-quality medical assets will remain strong over the medium term. The recent interest rate increase in February and March 2026 and potential future interest rate rises may see reduced activity from buyers during 2026. The healthcare market is still highly fragmented and there are significant opportunities for consolidation.

HOTELS & LEISURE



JAMES RUBEN

National Director | Specialised Assets

“During 2025, the Australian hotel market overall has continued to benefit from upward pressure on room rates and stabilising occupancies. This is partly driven by a relatively low Australian dollar. This follows a long stabilisation period after the impact of the pandemic on travel trends.

Most markets across the country have seen stability in investment metrics, and modest growth in capital values.

Over the past six years, Melbourne has seen a huge volume of new hotel stock hit the market – approx. 5,700 hotel rooms.

The impact of this has been downward pressure on occupancies, and upward pressure on room rates. Over the same period, changes to the property tax regime and uncertainty around planning has tempered the appetite of investors into the state.

Astute investors continue to uncover opportunities across the market created by the prevailing market conditions.

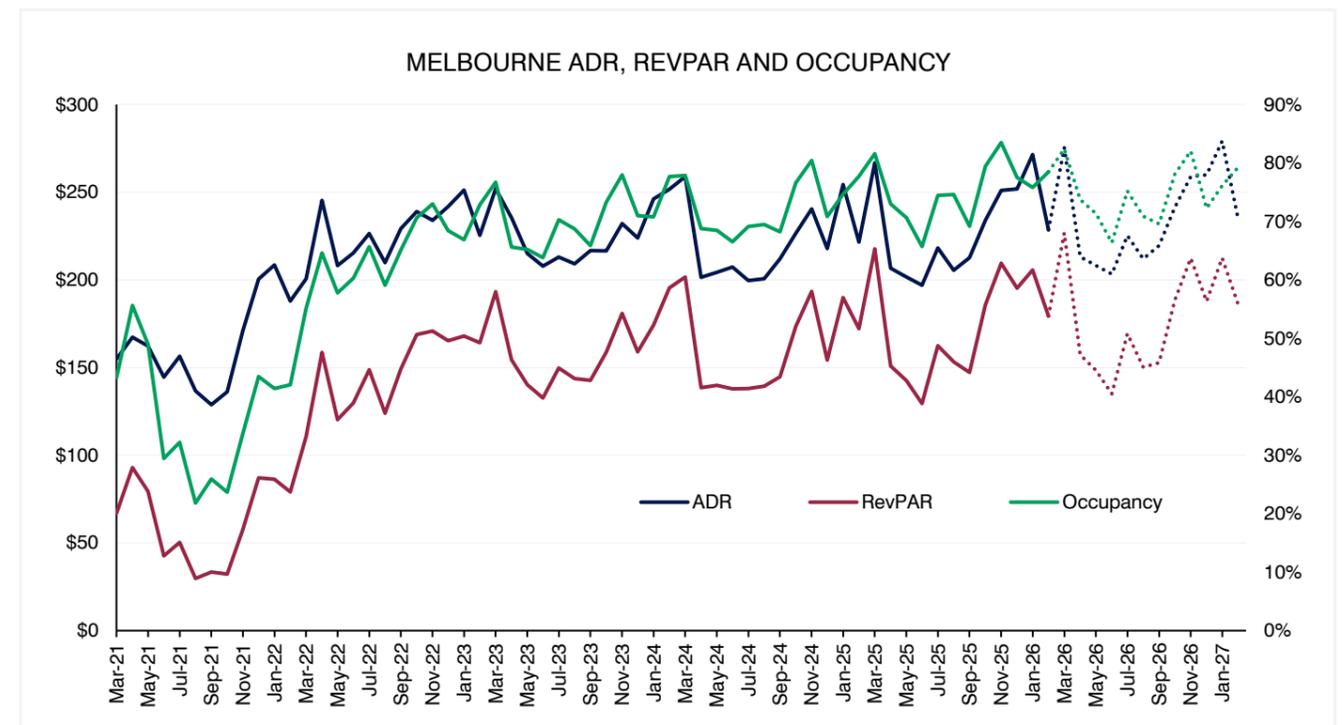
We expect the current trends to continue over the next 12 months with continued stability in investment metrics, upward pressure on room rates and potential market opportunities for savvy investors.”

“DURING 2025, THE AUSTRALIAN HOTEL MARKET OVERALL HAS CONTINUED TO BENEFIT FROM UPWARD PRESSURE ON ROOM RATES AND STABILISING OCCUPANCIES.”

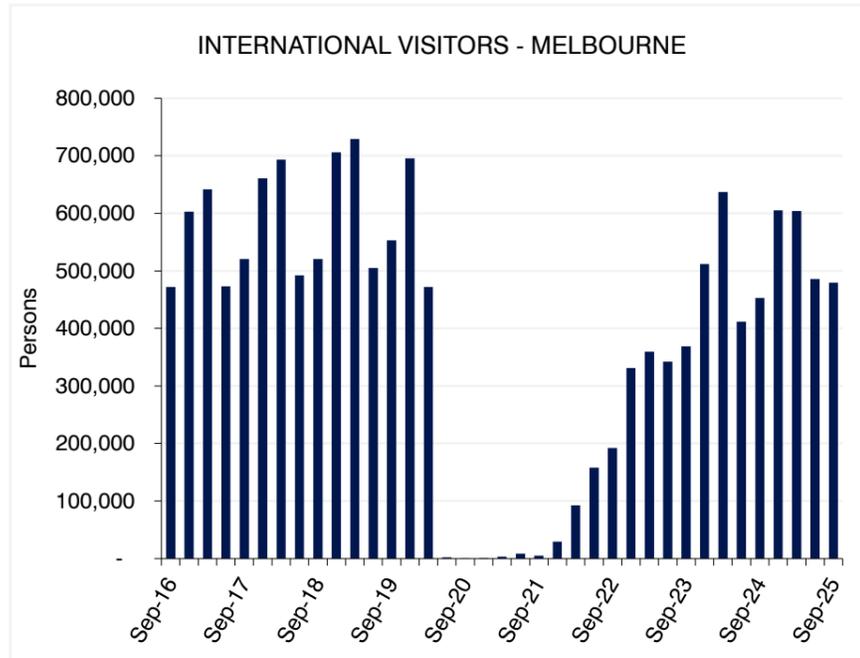
- JAMES RUBEN

CURRENT STATE OF PLAY

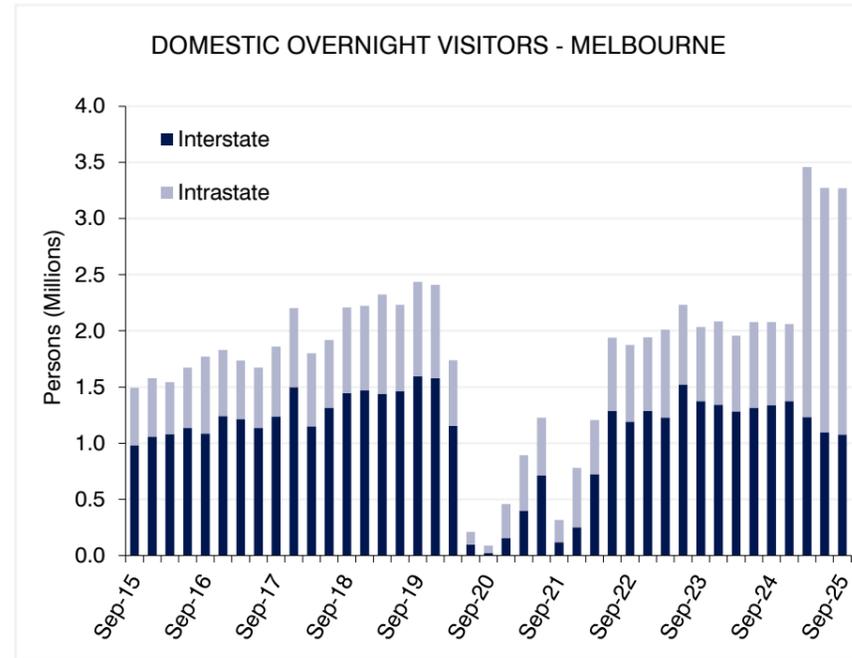
- Prior to the onset of the pandemic, the Melbourne occupancy rate generally ranged between 80% and 90%. Occupancy rates per room are about 10% below pre-Covid levels, with the Melbourne market recording 75.80% occupancy rates in January 2026, which is 1.13% higher than the vacancy level recorded in January 2025.
- There has been an extensive new supply of hotel rooms to the market over the past 24 months. Despite this additional supply of around 1,100 new rooms, occupancy rates increased year-on-year indicating the market has absorbed the new supply.
- Revenue per available room has recovered to pre-pandemic levels which is a result of significant Average Daily Rate (ADR) growth, influenced by a number of factors including strong inflation, with operators passing on increases in outgoings; increased quality of stock driving premium rates; and evolving travel trends increasing demand.
- International visitor numbers have started rising on a quarterly basis; however, they remain significantly lower than pre-pandemic levels. During the year ending September 2025, there were 2.17 million international visitors, spending a total 42.5 million nights, in the region.
- There were 12.01 million domestic overnight visitors to the Melbourne region during the year ending September 2025. Interstate visitors accounted for 33% of domestic overnight visitors during the year.



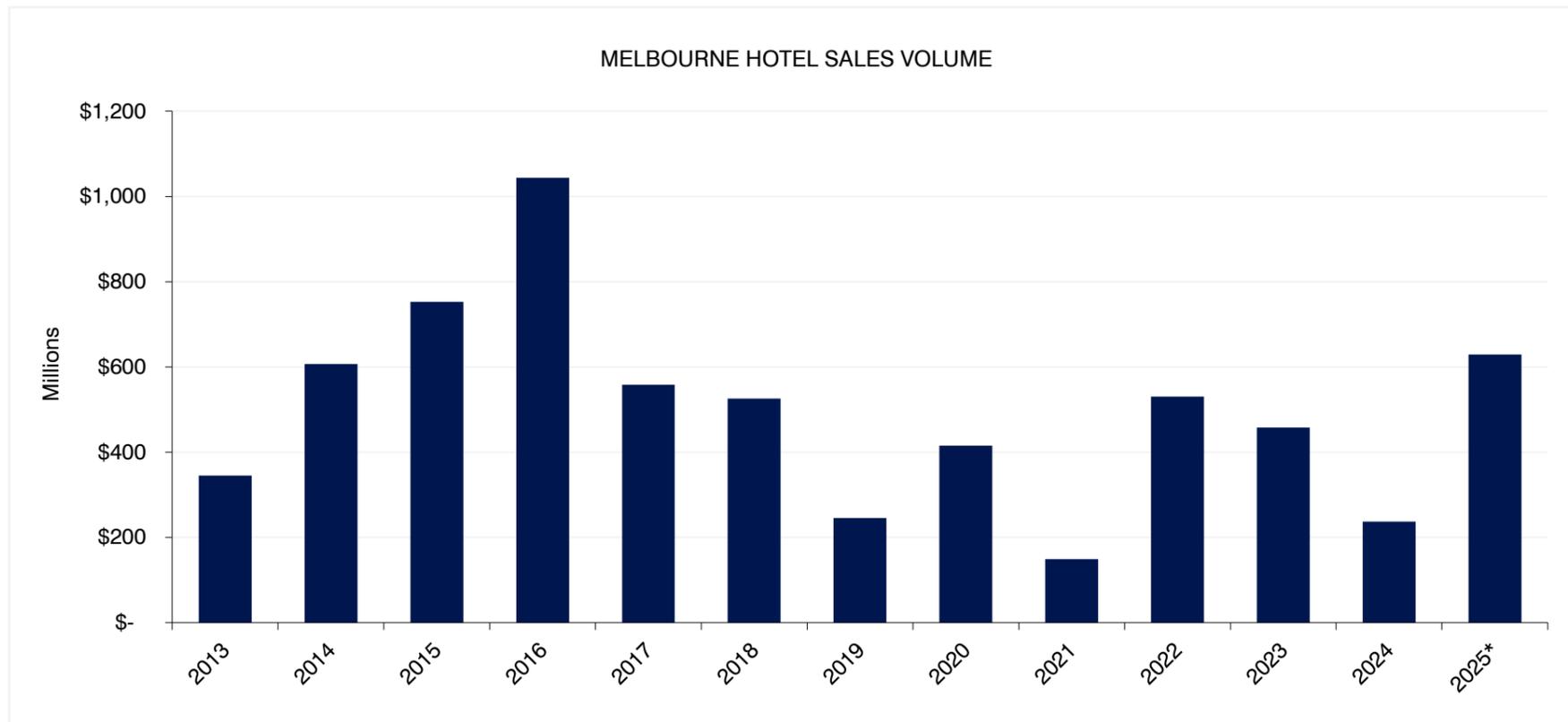
Source: M3 Property, STR/CoStar



Source: TRA, M3 Property



Source: TRA, M3 Property



Source: Real Capital Analytics (RCA), M3 Property

TRANSACTIONS

- According to RCA, there were 16 transactions of hotel assets across Melbourne during 2025, totalling \$629 million, compared to \$237 million hotel transactions across seven sales in 2024.
- Cross-border investors formed the largest group of buyers in 2025 with 49.5% of transactions, followed by Institutional groups at 23.7%.

OPPORTUNITIES AND CHALLENGES

- A few hotels have opened in the Melbourne hotel scene during 2025. The Hotel Indigo Melbourne Little Collins and Holiday Inn Melbourne Bourke Street Mall have officially opened after an eight-year project as part of the Melbourne Walk precinct. This marks IHG's first dual-branded hotel in Australia, offering 452 rooms. 1 Hotel Melbourne opened its doors on June 19, 2025, on the Yarra River in the North Wharf precinct. The sustainable luxury hotel offers 277 rooms.
- With the opening of these hotels, Victoria now has total hotel room supply of 65,493 rooms.
- There remains a significant number of new hotel rooms in the pipeline. There are an estimated 1,300 new rooms due to be added to the Melbourne supply in 2026 and beyond.
- Changing consumer expectations and travel trends around sustainability and social governance will continue to influence both consumer decision making and investment.
- Demand for good quality, sustainable assets is expected to grow, together with consumer demand for higher quality accommodation products and services.
- Evolving technology continues to improve efficiency in hotel management, with potential to reduce staffing levels and improve margins.
- New trends such as leisure travel, digital nomadism, eco-tourism, wellness tourism and boutique product positioning are all contributing to the transforming market.

INDUSTRIAL



PATRICK CURRAN

Director | Industrial

“The second half of 2025 saw Melbourne’s Industrial market diverge. The investment market saw limited growth in occupier demand, which was considered slightly below the levels of supply. Sentiment improvement and talk of yield contraction from H1 2025 faded as further interest rate cuts became unlikely.

The flow of international capital into this market has slowed considerably due to Victorian taxation structures, depleting the purchaser pool for institutional assets and limiting demand. This subdued current state of play is considered likely to continue.

The development land market however saw several transactions of scale and material growth as Data Centre operators and developers jostled to take positions and capitalise on forecast demand in the space. Swaths of land have effectively been removed from the future land supply pipeline. This will likely have a medium to long term positive impact on traditional industrial land and built form assets.

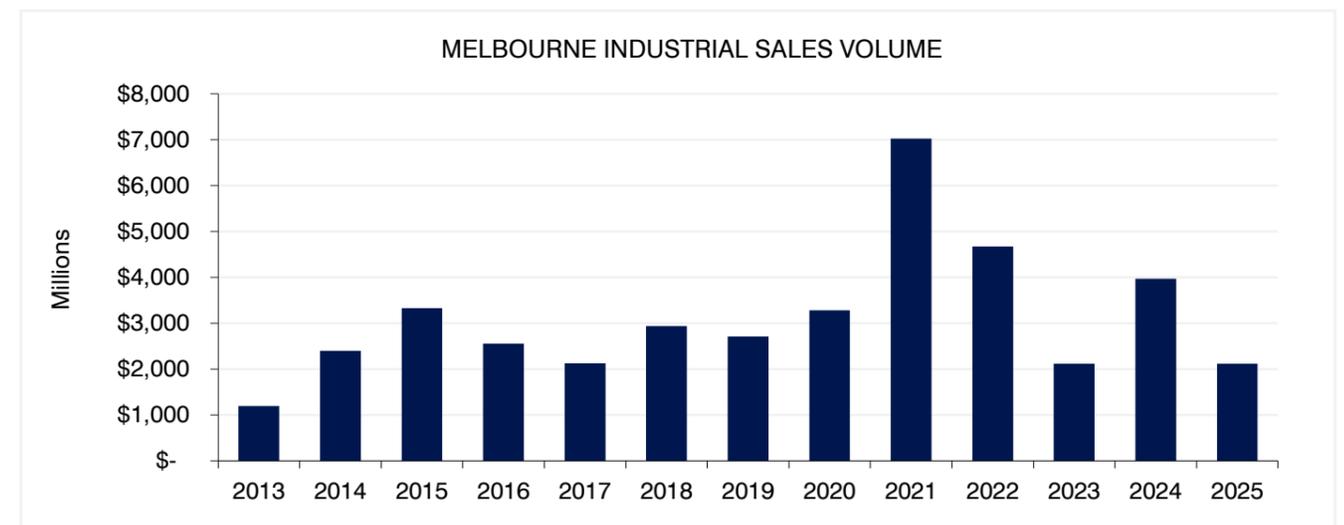
The February 2026 cash rate rise and lingering inflation issues have removed any latent contractionary pressure on yields. We envisage H1 2026 will continue in a similar manner to H2 2025. Strong economic fundamentals and a plethora of opportunistic investors will avert any material capital value erosion. Yields are expected to hold - prime (5.25%–5.90%) and secondary (5.75%–6.70%), while effective rents will face negative pressure.”

**“STRONG ECONOMIC
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EROSION.”**

- PATRICK CURRAN

CURRENT STATE OF PLAY

- High net worth individuals and syndicates are becoming more active in the \$10 to \$30 million investment market as listed Real Estate Investment Trusts (REITs) continue their limited transactional activity.
- The increase in the cost of funding and uncertain economic environment has contributed to a level of transactional activity below long term trends. Melbourne prime yields are relatively stable having softened by just 3 bps over the 12 months to December 2025.
- Demand for industrial zoned land remains strong, however given elevated interest rates and associated holding costs, the market for unzoned land awaiting Precinct Structure Plan approval has softened.
- There were fewer transactions in 2025 compared to 2024, with most of the deals transacting for under \$30 million.



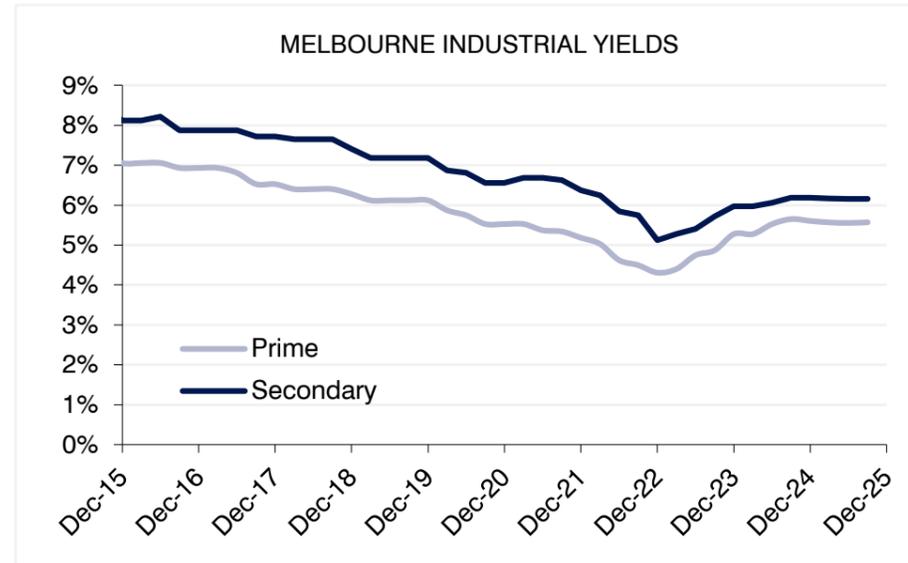
Source: Real Capital Analytics (RCA), M3 Property
Note: sales over \$5 million

INVESTMENT MARKET

- According to RCA, there was a total of \$2.11 billion transacted across 192 sales (over \$5 million) for 2025 compared with \$3.96 billion across 194 sales for 2024.
- All transactions in 2025 were under \$60 million, with the largest sale being the sale of 14-30 Agar Drive in Truganina for \$55.8 million.
- Private buyers were the largest buyers of industrial property in Melbourne in 2025 with 56.8% transaction volume. Cross border and Institutional investors follow with 29.7% and 4.7% market volume, respectively.
- The market participation of listed and unlisted REITs remained subdued for 2025 as a 'wait and see' approach was adopted regarding interest rates and ongoing inflation.

YIELDS

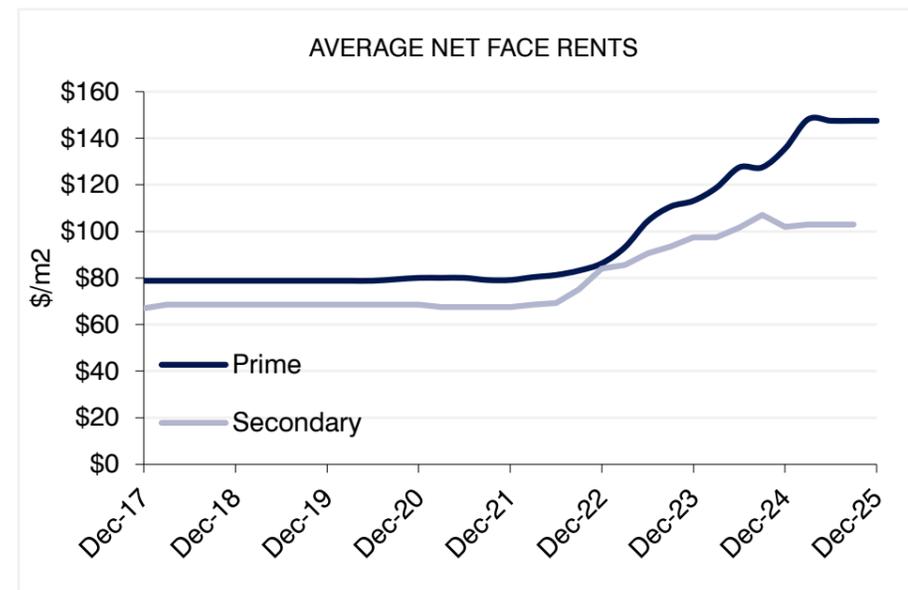
- Prime assets are currently trading at yields between 5.25% and 5.90%. Secondary assets are trading between 5.75% and 6.70%.
- Yields remained stable over the twelve months to December 2025, with prime and secondary assets both softening by just 3 basis points.
- In the decade prior to 2021, healthy investor appetite and the spread between property yields and interest rates exerted significant downward pressure on yields. However, economic uncertainty and the cost of debt have seen yields soften over the past two years.



Source: M3 Property

RENTAL MARKET

- The Melbourne industrial market saw net face rental growth moderate in the twelve months to December 2025, with greater supply and more choice available for tenants in some markets. There was marginal decline in net face rents for Prime assets of 0.8% over the twelve months to December 2025, while there was a slight increase of 2.8% for Secondary assets.
- Greater supply has seen vacancy rates increase across most Melbourne industrial markets. The Eastern market remains the tightest for vacancies. The Northern market has the highest vacancies and lowest effective rentals.
- There was an increase in the size and frequency of incentives in the market to finish 2025 with average prime rates at circa 15% and average secondary rates circa 10%.



Source: M3 Property

OPPORTUNITIES AND CHALLENGES

- Serviced land values of 1-2ha remained stable at \$826 per square metre in the twelve months to December 2025. The market continues to see a persistent shortage of well-located industrial zoned land in the key areas of the east, the southeast and inner western precincts.
- Construction cost growth moderated through 2025 which assisted supply. However, the ongoing Middle Eastern conflict will likely increase costs materially through 2026 and challenge project feasibilities.

OUTLOOK

- Remerging inflation concerns caused by a disconnect between fiscal and monetary policy, limited productivity growth in the economy and the local impacts of the conflict in the Middle East will collude to generate uncertainty in H1 2026.
- Occupier demand is expected to remain at strong levels over the coming months with growth in e-commerce and solid public sector investment forecast to continue driving demand for warehouse and advanced manufacturing space (particularly food).
- Due to increasing supply coming online, occupiers now have more options in the market.
- Face rental growth for prime and secondary accommodation is expected to remain stable in the short to medium term as new stock enters the market with low levels of pre-commitment.
- The RBA raised the cash rate by 25 basis points at its February and March 2026 meetings after inflation data released in January and February 2026 indicated the CPI was too far above its target range of 2%-3%. The conflict in the Middle East has also added to inflationary pressure, however the RBA was at pains to point out the conflict was not the main driver of the cash rate increase. The recent adjustment follows three rate cash rate cuts in 2025. The RBA is concerned with weak economic output, productivity in the labour force and ongoing expansionary fiscal policies fuelling inflation in the economy.

CBD OFFICE

JONATHON CLOSE

Director | Office



“The Melbourne office market showed slight signs of improving sentiment through the latter half of 2025 as confidence gradually returned and economic conditions became clearer. However, earlier interest rate increases in 2026, with more anticipated throughout the year, have begun to temper this momentum.

Compared with the other Australian capital cities, Melbourne continues to lag in its recovery. Demand is overall subdued, influenced by broader economic uncertainty and the state’s adverse tax environment. Despite this, the weaker conditions are positioning the city as a potential bottom-of-cycle opportunity for investors seeking longer-term value, with transaction volumes in 2025 greater than the two years prior.

Vacancy levels remain high, although the forward supply pipeline is relatively moderate. This balance, combined with the expectation of rising economic rents, is likely to support effective rental growth over the next two years. Incentives, which remain elevated, are anticipated to gradually decline as market fundamentals stabilise.

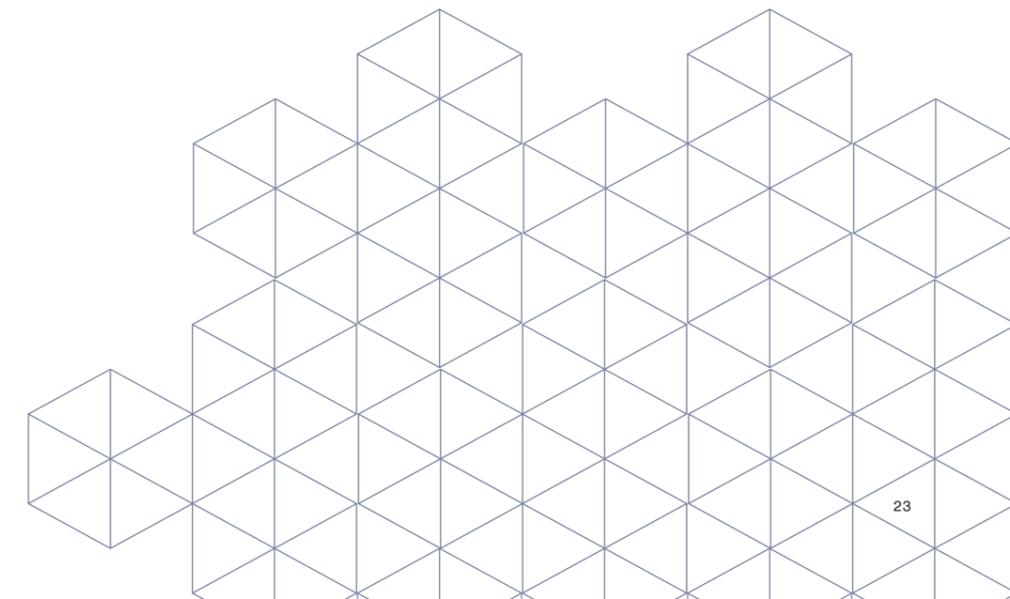
Investment activity is expected to remain steady, with yields largely flat throughout 2026. Purchasers are showing most interest towards lower-risk assets, particularly buildings with minimal capital expenditure requirements, secure income profiles, and strong locations. Assets that do not meet these criteria may continue to experience pricing pressure as investors maintain a disciplined, risk-focused approach.”

“PURCHASERS ARE SHOWING MOST INTEREST TOWARDS LOWER-RISK ASSETS, PARTICULARLY BUILDINGS WITH MINIMAL CAPITAL EXPENDITURE REQUIREMENTS, SECURE INCOME PROFILES, AND STRONG LOCATIONS.”

- JONATHON CLOSE

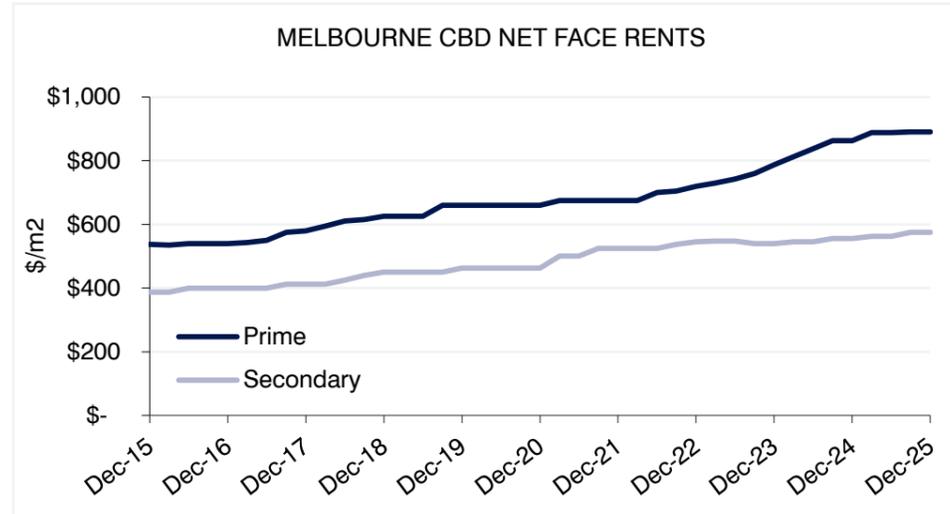
CURRENT STATE OF PLAY

- According to the Property Council of Australia (PCA), there was 5,279,222 square metres of office space in the Melbourne CBD as of January 2026; an increase of 100,118 square metres from January 2025. The Western Core remains the largest precinct, accounting for 33.17% of total CBD stock, followed by Docklands (24.12%).
- The total vacancy rate for Melbourne’s CBD office market increased from 18% in January 2025 to 19% in January 2026. New supply of 108,627 sqm added to the market over the past 12 months, and negative / subdued net absorption over the past four years has contributed to increased year on year vacancies, especially for secondary quality stock.
- Over the past five years, there has been an average of 67,034 square metres of new supply added to the market every six months. Accounting for withdrawals, net supply additions averaged 44,857 square metres every six months.
- There is currently 262,327 square metres of stock under construction or refurbishment in the CBD. Adding developments already submitted and with approvals, the total supply pipeline for the Melbourne CBD is 513,327 square metres, however, not all projects approved will proceed to development.
- Investor demand at previously compressed yields has significantly reduced; currently vendors are reluctant to reduce asking prices and selling periods are extended.



RENTAL MARKET

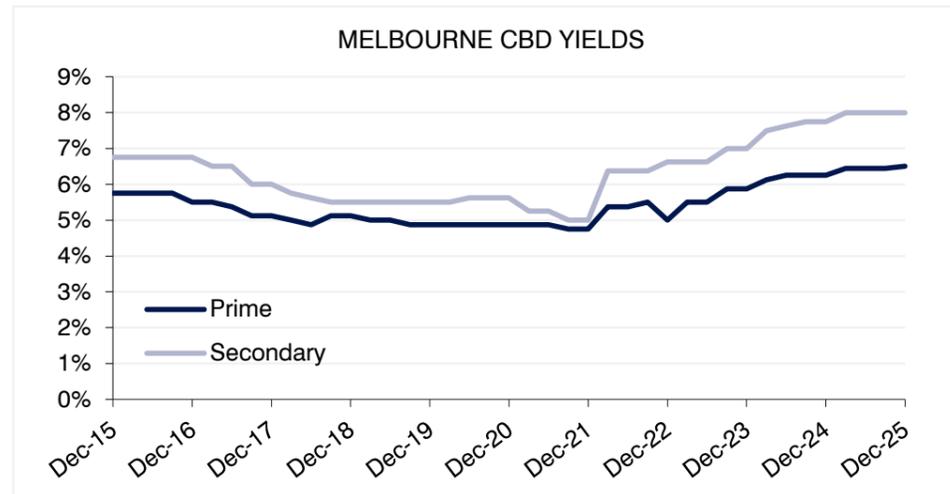
- Prime net face rents increased by 3.19% over the year to the end of 2025 to range between \$730 and \$1,050 per square metre. Prime incentives ranged between 35% and 47.5% at the end of 2025.
- Secondary net face rents ranged between \$525 and \$625 per square metre at the end of 2025, growing by 3.6% over the year. Secondary incentives generally range between 40% and 45.0% at the end of 2025.



Source: M3 Property

YIELDS

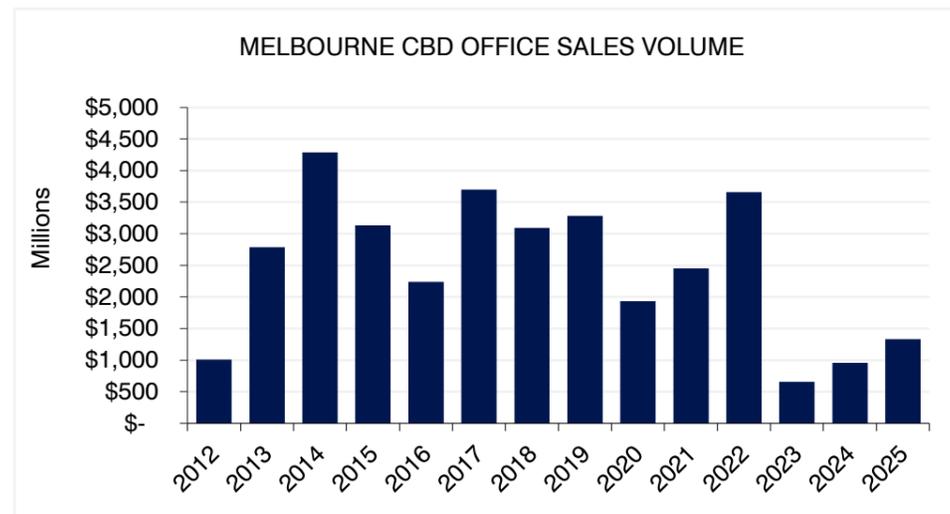
- At the end of H2 2025, yields ranged between 5.75% and 7.25% for prime buildings and 7.50% and 8.50% for secondary buildings.
- Prime and secondary yields continued to soften during 2025; both prime and secondary yields are estimated to have softened by circa 25 basis points over the 12 months to the end of 2025.



Source: M3 Property

INVESTMENT MARKET

- According to RCA, there were 18 sales totalling \$1.331 billion recorded in the Melbourne CBD Office market to the end of 2025, higher than the 17 sales totalling \$960.5 million recorded for 2024.
- Offshore buyers accounted for the largest share of sales (by total value transacted) with 48.5% of the transactions in 2025, followed by private (35%) and institutional investors (16.4%).
- Largest sale was the circa \$386 million sale of 750 Collins Street which was sold by GPT Group to Singapore based investment management firm, Trust Capital.



Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over \$5 million

OPPORTUNITIES AND CHALLENGES

- The high vacancy rate in the Melbourne CBD market continues to make conditions favourable to occupiers. Occupiers are showing preference for high quality, newly constructed buildings, being critical of the level of amenity and end-of-trip facilities. Occupiers are also increasingly considering the building's NABERS (National Australian Built Environment Rating System), Green Star and WELL ratings.
- Office occupancy rates remain substantially lower than they were prior to the pandemic. In recognition of the changing work habits of employees (including more employees working from home), occupiers are seeking tenancies with numerous collaboration areas and breakout spaces, and leases allowing for expansion and contraction of space during the lease term.
- The Victorian Government's Commercial and Industrial Property Tax (CIPT) was introduced in July 2024 and is creating a degree of uncertainty. Stamp duty on commercial and industrial properties will be progressively abolished and replaced with the new CIPT which will apply ten years after the settlement date at the rate of 1% per annum of the site value. The CIPT has been greeted with caution by the industry with investors adopting a wait-and-see approach.

OUTLOOK

- There is 262,327 square metres of supply under construction or refurbishment in the Melbourne CBD. The increased cost of construction as well as rising interest rates have potential to push some development timeframes out.
- Prime face rents are forecast to rise modestly particularly in the East End of the CBD during 2026 and onwards, while other parts of the city are forecast to remain flat. Effective rental growth is expected to strengthen as incentives reduce in the medium term.

RESIDENTIAL DEVELOPMENT

LUANA KENNY

Managing Director



“Following a subdued period, there was nominal growth and improvement in the Victorian residential market during the second half of 2025, with some market segments, particularly off-the-plan apartment developments in certain areas, showing reasonable price growth. However the residential lot market remains subdued and it is anticipated this market will continue to face challenges throughout 2026.

Whilst the market is expected to remain cautious in 2026, the fundamentals of Victoria including high population growth, low vacancy rates and reducing housing supply will put pressure on the market. We anticipate this will lead to price growth in the established market, which is expected to increase activity in the residential development market in 2027.”

“RENTAL DEMAND IS RISING, PUSHING VACANCY RATES LOWER, THOUGH RENTAL PRICE GROWTH IS EXPECTED TO BE MODEST IN 2026 COMPARED TO THE HIGHER INCREASES OF THE 2022-2024 PERIOD.”

- LUANA KENNY

CURRENT STATE OF PLAY

- Low vacancy rates and limited supply coming to the market continue to put pressure on rental rates, with the vacancy rate reducing from its peak in December 2020 of 4.7% down to 1.7% in January 2026. Vacancy has been consistently under 2.0% since July 2022.
- According to RP Data, Melbourne's median house price was \$977,579 at the start of March 2026, a year-on-year increase of 5.5%. Unit prices increased by 2.7% year on year to reach \$642,431 by March 2026.
- The Melbourne house market has started to gain momentum in recent months, with median house prices increasing for each of the last twelve months. This was expected to continue increasing in 2026. With Oxford Economics forecasting house prices to increase by 10.1% during 2026. However, with recent global events and the higher likelihood of further cash rate increases, the forecast of growth at this level is unlikely, with a more subdued growth outlook.
- The median unit price also started to gain momentum, with median unit prices increasing over the past twelve months, and was expected to continue increasing in 2026. Over the medium term, unit growth will benefit from worsening housing affordability as buyers look to purchase more affordable apartments or townhouses rather than houses. Oxford Economics is forecasting unit prices to increase by 6.9% during 2026. As per the above, with potential further increases in the cash rate, the expected growth is anticipated to be lower for 2026 than first originally forecasted.
- There were 55,570 dwelling approvals in the 12 months to November 2025, up 4.05% on the 53,570 approvals in the 12 months to November 2024.
- Housing Australia is forecasting net dwelling completions in Victoria to total 31,000 for 2026 (compared to 30,600 in 2025), with completion rates to remain suppressed with an average of 31,500 completions per annum between 2026 and 2028, before improving in 2029. Supply completions are likely to continue being impacted by the supply of fully serviced land, elevated construction costs, and low revenue growth. With the conflict in the Middle East, we have started to see cost increases in material and operations, being an ongoing risk to supply for 2026.
- Since mid-2023 around 143,129 dwellings, comprising 91,553 houses and 51,576 units, have been completed. This represents 18% of the government's target of 800,000 new dwellings completed by 2033. The low housing completions will start to put pressure on house prices, resulting in the Victorian market being undersupplied, which should lead to stronger price growth from 2027.



Source: SQM, M3 Property.
 *Note: The market equilibrium vacancy rate is considered to be 3%. Vacancy rates higher than this typically represent an oversupplied rental market whilst lower vacancy rates typically represent an undersupplied market.

OUTLOOK

- Over the past few years, rising construction costs, and a shortage of building contractors have significantly impacted development feasibilities. An increasing number of projects continue to be unviable and unable to proceed under current market conditions, posing an ongoing risk to the development site market.
- The market remains undersupplied due to limited new construction, while population growth continues to drive demand. Rental demand is rising, pushing vacancy rates lower, though rental price growth is expected to be modest in 2026 compared to the higher increases of the 2022-2024 period.
- The price gap between detached dwellings and apartments has started to widen again following higher median price growth for houses compared with units in the twelve months to February 2026. However, over the medium term, unit values are expected to increase at a faster rate than house values, driven by affordability constraints making it increasingly attractive for first-home buyers to purchase units or townhouses.

OPPORTUNITIES AND CHALLENGES

- The growth corridors of Melbourne have faced significant headwinds relating to unlocking planning controls and approval of new Precinct Structure Plans (PSPs) and planning permits with this expected to be an ongoing challenge in 2026. Excessive time delays in the planning process due to constraints relating to flora and fauna, approval of Cultural Heritage Management Plans and drainage solutions, have in part contributed to a drag in the approval of proposed PSPs and issuance of planning permits impacting on development within growth areas. The announcement by the state government to focus resources on greater development in established infill locations has seen further delays in approving PSPs and impacting supply to the market in these areas. The growth areas provide an affordable option however with a lack of funding in infrastructure, this will put supply under pressure.
- In March 2026, the Victorian State Government announced new planning controls governing 25 activity or transport centres across Melbourne which will allow for increased height limits and create the capacity for an additional 300,000 homes around the activity centres to be constructed by 2051.
- The introduction of new zones around nominated activity centres and the Suburban Rail loop has also resulted in increased development contributions further impacting the viability of feasibilities and potential delivery of housing. Feasibilities will continue to be challenged and with increased construction costs, this will place further pressure on projects.
- State property taxes continue to be an impost, increasing the cost of developing and delivering new home supply to the market. The increase of taxes continues to disadvantage Victoria in terms of attracting investment to the property market, delivering the housing supply required to meet affordable housing opportunities and keeping up with increasing population growth.



RETAIL



SHAUN O'SULLIVAN

Director | Retail

“During 2025, improved liquidity led to a wave of Shopping Centre transactions which has paved the way for continued performance of the sector in 2026.

There has been strong transactional activity in the Shopping Centre investment market over the last 12 to 18 months. A weight of capital was chasing retail assets during 2025 as institutional investors competed with fund managers, syndicators and private investors to secure centres offered for sale. This resulted in a large number of transactions occurring across all sub-sectors.

Heading into 2026, capital remains strong for the sector although the February and March 2026 cash rate rises, and potential for further increases, has resulted in a level of caution in the market. That said, investors are attracted by the strong underlying thematic of the sector.

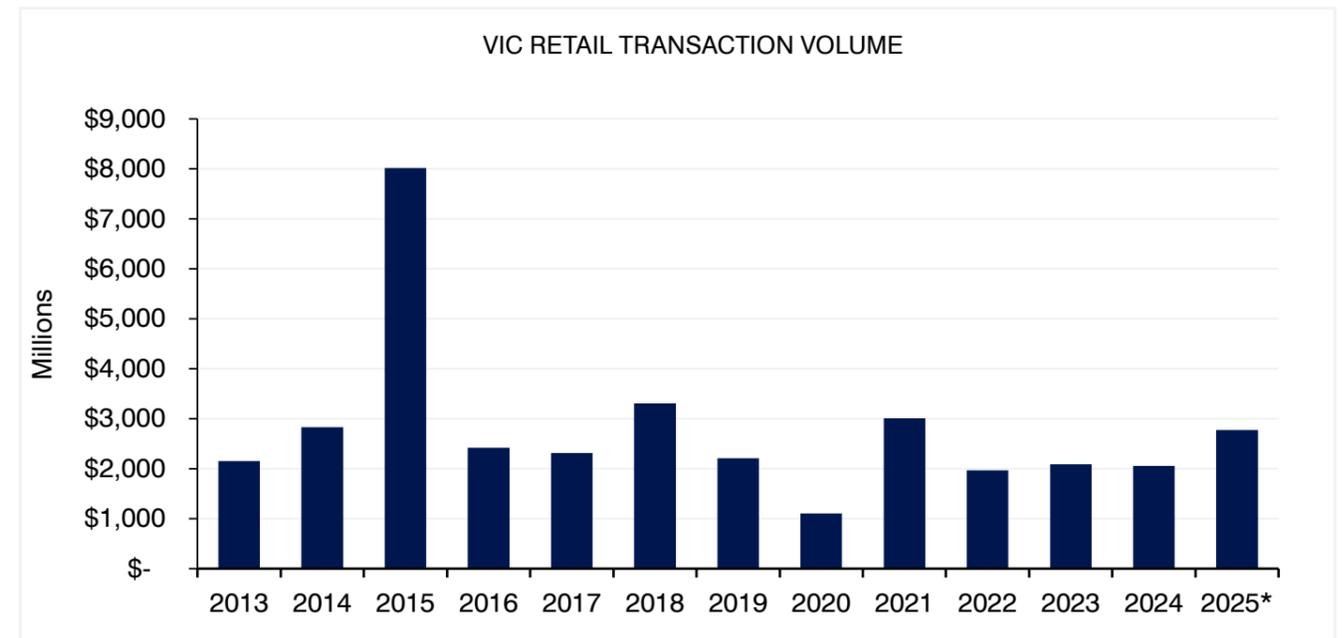
On the income side, landlords are achieving strong leasing spreads, helped by low levels of vacancy, population growth and constrained new floorspace supply. However, retailers continue to face operational challenges including navigating higher inflation, consumer ‘cost of living’ pressures, and heightened stock theft and crime.”

“GROWTH IN THE ONLINE RETAIL SECTOR AND THE CONTINUING EXPANSION OF ONLINE MARKETPLACES HAS RESULTED IN CENTRE OWNERS CHANGING THEIR TENANCY MIX.”

- SHAUN O’SULLIVAN

CURRENT STATE OF PLAY

- Total household spending on retail in Victoria for the 12 months to December 2025 was up 3.2% year on year.
- The strongest growth by retail category was recorded in food (6.0%), followed by hotels, cafes and restaurants (5.5%).
- Rental spreads (i.e., the difference between a tenants’ new rent and their prior rent) have materially improved over the last 12 months for Australian Real Estate Investment Trust (AREIT) shopping centre owners.
- Growth in the online retail sector and the continuing expansion of online marketplaces has resulted in centre owners changing their tenancy mix.



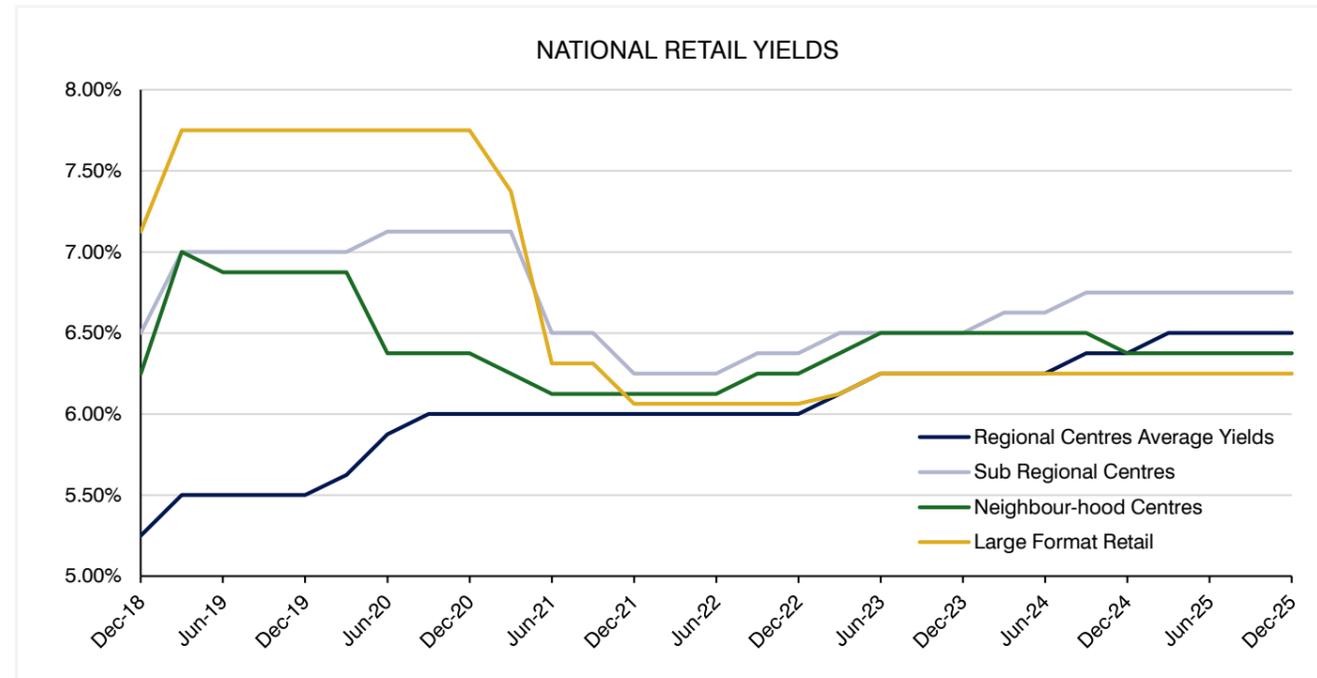
Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over \$5 million

INVESTMENT MARKET

- According to RCA, there were 79 retail sales totalling \$2.77 billion across the Victorian market for 2025, which is an increase on the 70 sales totalling \$2.05 billion in 2024.
- Private buyers were the largest buyer group in 2025, accounting for 50.2% of sales (by dollar value). Additionally listed funds/REITs represented 27% of Victorian retail transactions, while offshore investors accounted for 17.7% of buyers.

TRANSACTIONS

- During 2025 there were a number of large transactions being completed in Victoria including \$440m for the sale of Woodgrove Shopping Centre, \$385m for a half share of Northland Shopping Centre, \$210m for Burwood One, \$170m for Waverley Gardens and \$58m for Mernda Junction.
- The Summerhill shopping centre was also sold as part of the \$360m sale of the BVK Portfolio that also included Bonnyrigg Plaza (NSW) and Morayfield Supercentre (QLD).
- A number of Bunnings transactions also occurred, reaffirming the investor accepted metrics for this sought after asset class.



Source: M3 Property, RCA

YIELDS

- Retail yields generally continue to look attractive relative to the alternative investment classes of office and industrial.
- The transactions that occurred in H2 2025 confirmed yields were stable, or in some categories they confirmed yield tightening. However, the February and March 2026 cash rate increases and concerns of further rises has brought a level of caution to the market.
- In broad terms, from the transactions that have occurred, Bunnings Warehouses are trading in the range of 4.75% to 5.25%, Neighbourhood Centres 5.25% to 6.50%, prime Sub Regionals 5.00% to 5.75%, prime Regionals 4.75% to 5.50% and secondary Regionals exhibiting a larger range of 6.00% to 7.00% reflecting the variance in this sub-category.

OPPORTUNITIES AND CHALLENGES

- A lack of development is improving the demand /supply equation. With population growth contributing to demand, vacancy levels are generally quite low across all sub-categories. Scentre Group and GPT have reported portfolio occupancy of 99.8%, the highest in 13 years. This theme should continue in the short term for strong centres.
- Rental growth has been solid. National retailers with store roll out programs are agreeing to increased rents to help facilitate the commencement of developments for Neighbourhood Centres, Large Format Retail (LFR) Centres and Quick Service Restaurants (QSR).
- AREITS are reporting strong leasing spreads, including GPT (4.9%), VCX (4.6%), Region Group (3.4%) and Scentre Group (3.2%).
- Institutional capital appreciates the stabilised income profiles of Shopping Centres, backed by long term leases and fixed rental growth.
- Retail theft and crime puts extra pressure on the resourcing and profits of retailers and landlords. This is an unwanted focus of the industry and a drag on operations.
- Stratum retail can be challenging assets to sell, attracting reduced levels of investor capital.
- Shopping centres have natural advantages through planning and transport to assist with the housing supply crisis as cities expand vertically, but the overly onerous regulatory framework provides hurdles.
- Centres still pay a vital role in the community. Retail is where people do their living. Some shopping centres are adding co-working tenants, childcare, serviced apartments and other non-traditional retail uses.

OUTLOOK

- Consumer confidence had been improving over the past year; however, the RBA's decision to increase the cash rate by 25 basis points in February 2026 and again in March 2026 is expected to temper discretionary consumer spending in the near term as households adjust to higher borrowing costs. In this environment, buyer behaviour is likely to become more considered rather than speculative, contributing to a more sustainable and balanced market as assets are brought to market through 2026.
- Over the short term, retail turnover will remain elevated by consumer price inflation and sales volumes are expected to be patchy as consumers prepare for unexpected economic conditions from the international trade sources.

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