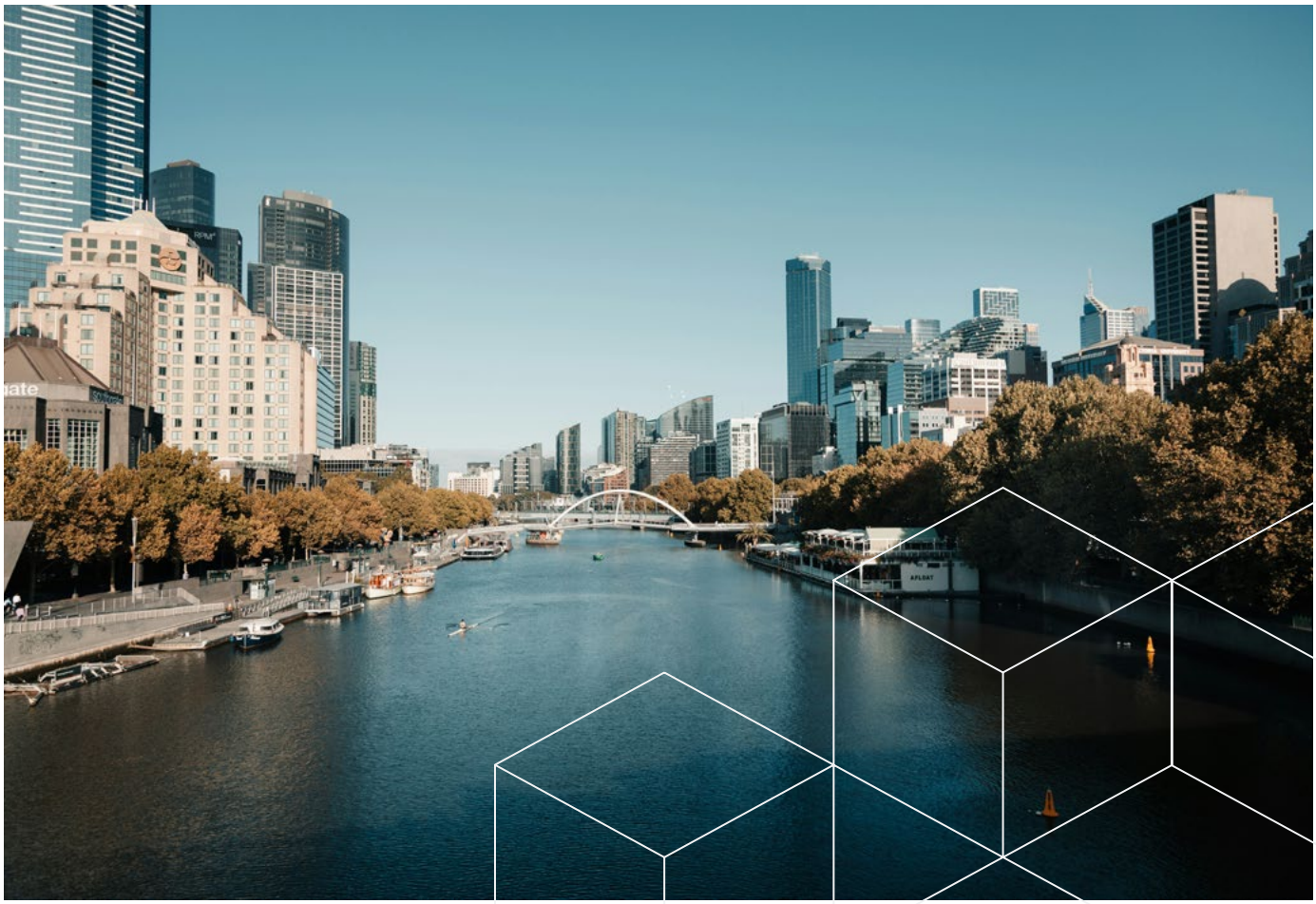
M3 PROPERTY

SPECIALIST
INDEPENDENT
VALUATION



VICTORIAN MARKET SNAPSHOT

NOVEMBER 2026

CONTENTS

HEALTHCARE

HOTELS & ACCOMMODATION

INDUSTRIAL

OFFICE

RESIDENTIAL DEVELOPMENT

RETAIL



OVERVIEW

Victoria's property markets have experienced mixed conditions throughout 2026 to date, as persistent inflation, five interest rate increases and broader economic uncertainty weighed on investor confidence and transaction activity. Higher borrowing costs and Victoria's taxation environment continued to constrain investment, although underlying fundamentals remained supportive across several sectors.

The healthcare and seniors living sector remained resilient, supported by strong demographic fundamentals and investment demand. Melbourne's industrial market softened as increased supply and tenant choice placed pressure on rental growth, while demand for development land strengthened due to data centre activity. The office market remained subdued, although significantly rebased asset values attracted increased interest from private investors.

Retail investment remained relatively strong, supported by capital targeting shopping centres and favourable leasing conditions. The hotels and accommodation sector benefited from improving visitation and resilient room rates, while residential markets remained subdued amid declining values, elevated construction costs and weaker purchaser confidence.

Looking ahead, elevated interest rates and economic uncertainty are expected to temper activity into 2027. However, strong population growth, constrained supply and underlying demand are anticipated to support longer-term market fundamentals, with greater economic stability potentially driving improved investor confidence and transaction activity.

HEALTHCARE



KATERINA YIANNAROS
Associate Director | Healthcare

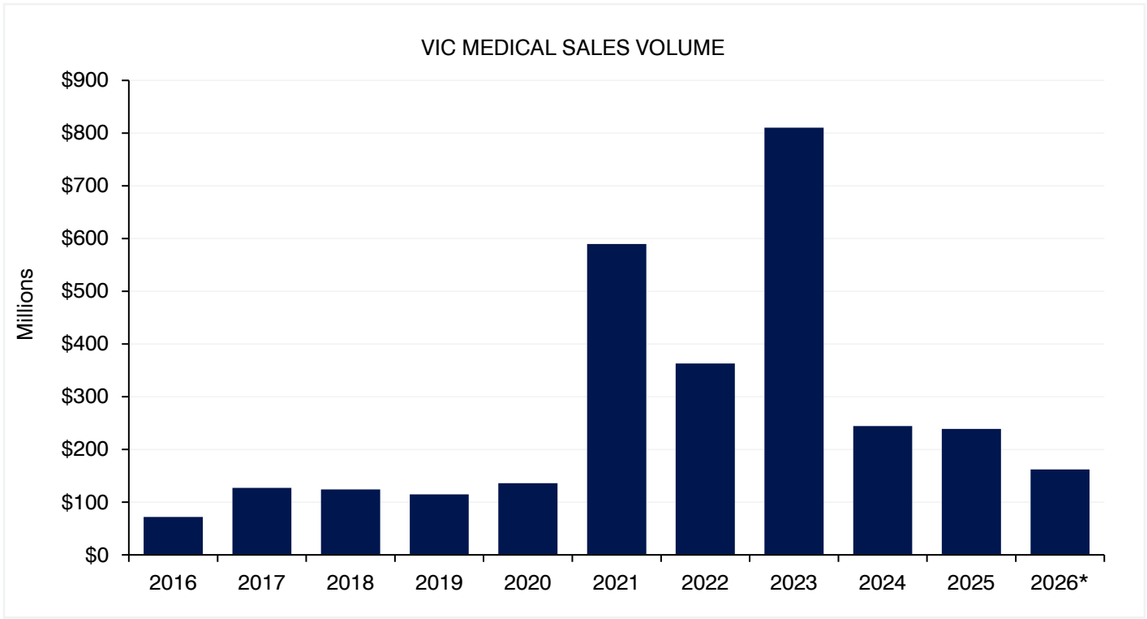
"The healthcare and seniors living sector in Victoria maintained its appeal as a core asset class during the second half of 2026, supported by strong fundamentals, investment growth opportunities, and resilience amid elevated inflation and interest rates. Institutional capital is attracted to the sector because of population growth, ageing demographics, government funding, and private healthcare.

In 2026 YTD, Victoria recorded $161.99 million in medical and hospital property sales across 53 transactions, tracking closely to 2025 levels. Private investors were again the most active buyer group in 2026, accounting for 83.7% of purchases. Prime medical yields averaged 6%, while secondary assets reached 7.5%, with capitalisation rates relatively stabilised across 2026.

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. Notwithstanding challenges within the hospital sector, increased government funding for primary and urgent healthcare services is expected to support continued demand for suitable medical properties.

More broadly, successive cash rate increases throughout 2026 have tempered the investment market outlook. Although yields stabilised in early 2026, the higher interest rate environment is expected to place upward pressure on yields and constrain investment returns, with the 10-year bond yield reaching its highest level in 15 years.

Investment demand for high-quality medical assets is expected to remain strong in the short term, underpinned by limited new construction and supply, although with interest rate changes, overall market activity is likely to remain subdued for the remainder of 2026 - particularly for assets over $30 million."



Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over $1 million. Includes Medical and Hospital sales. *YTD sales as of 22 September 2026.

INVESTMENT MARKET

- According to RCA, there were 53 healthcare properties sold in Victoria for a total of $161.99 million in 2026 YTD.
- This compares with $238.87 million from 68 transactions in 2025.
- Private investors were the most active buyer group over 2026 YTD, accounting for 83.7% of transactions.

YIELDS

- Medical Centre and Allied Healthcare yields are now averaging around 5.50% to 6.50% for prime assets and above 7.00% for secondary assets (predominantly regionally located).
- Hospital yields (freehold) generally range between 5.00% and 6.00% for prime assets and 6.25% and 7.00% for secondary assets.

OPPORTUNITIES AND CHALLENGES

- Interest rate reductions through 2025 supported renewed investor appetite for healthcare assets; however, successive cash rate increases through 2026, together with the potential for further rises, have moderated transaction activity as tighter financial conditions and elevated bond yields weigh on investment decisions.
- GP and other health specialist shortages continue to affect occupancy levels for some medical practices.
- Financial pressures on some private hospital operators, together with the outcomes of the federal government's sector review, remain a risk for hospital assets; conversely, greater government investment in primary and urgent care is creating opportunities for well-located medical centres and allied health facilities.
- 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, 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; bringing 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 grow in 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 current high-interest rate environment will also support this shift.
- The sector will continue to benefit from new and existing institutional capital being drawn to the asset class thanks to its key fundamentals including population growth, ageing population demographics, government funding and private healthcare.
- It is expected that investment demand for high-quality medical assets will remain strong over the medium term. Interest rate increases across 2026 may see continued subdued activity from buyers for the remainder of 2026.
- Transaction activity for lower priced assets under $20 million will remain active due to good demand by high-net-worth private investors, however those over $30 million will be more difficult to trade as the buyer pool is reduced. Institutional investors dominate the market for higher priced assets and they remain much more cautious in their investment selections.

HOTELS & ACCOMMODATION



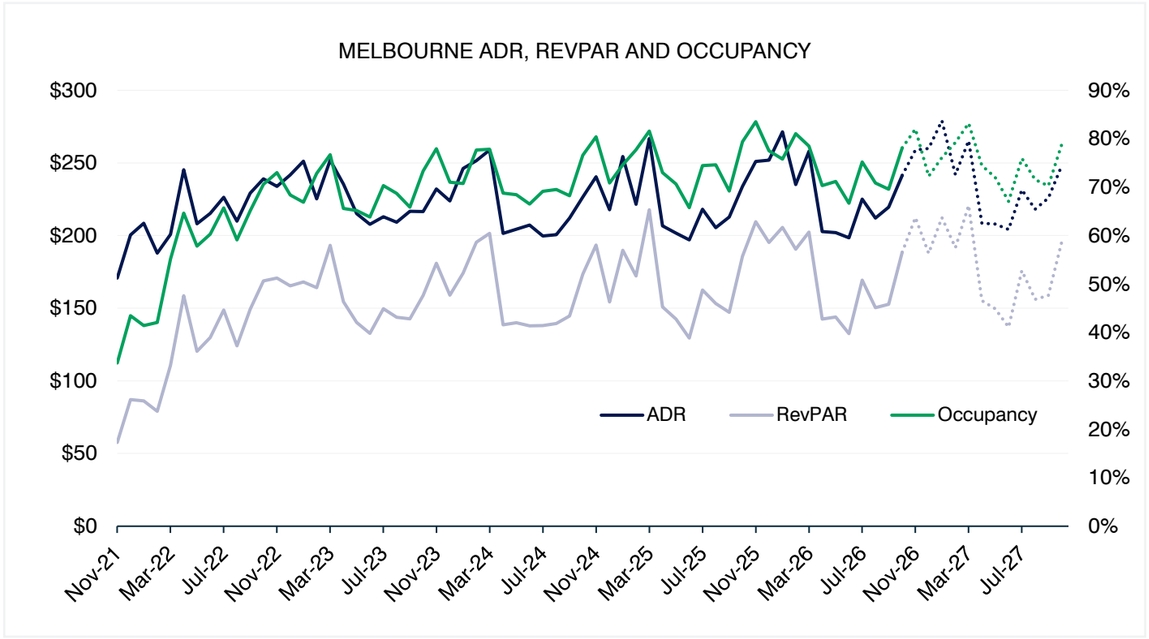
JAMES RUBEN
National Director | Specialised Assets

"The Victorian hotels and accommodation market has entered the second half of 2026 with cautious momentum, as it continues to absorb the new stock created over the past several years. It continues to be supported by stronger domestic visitation, continued recovery in international travel, and improving room demand across Melbourne.

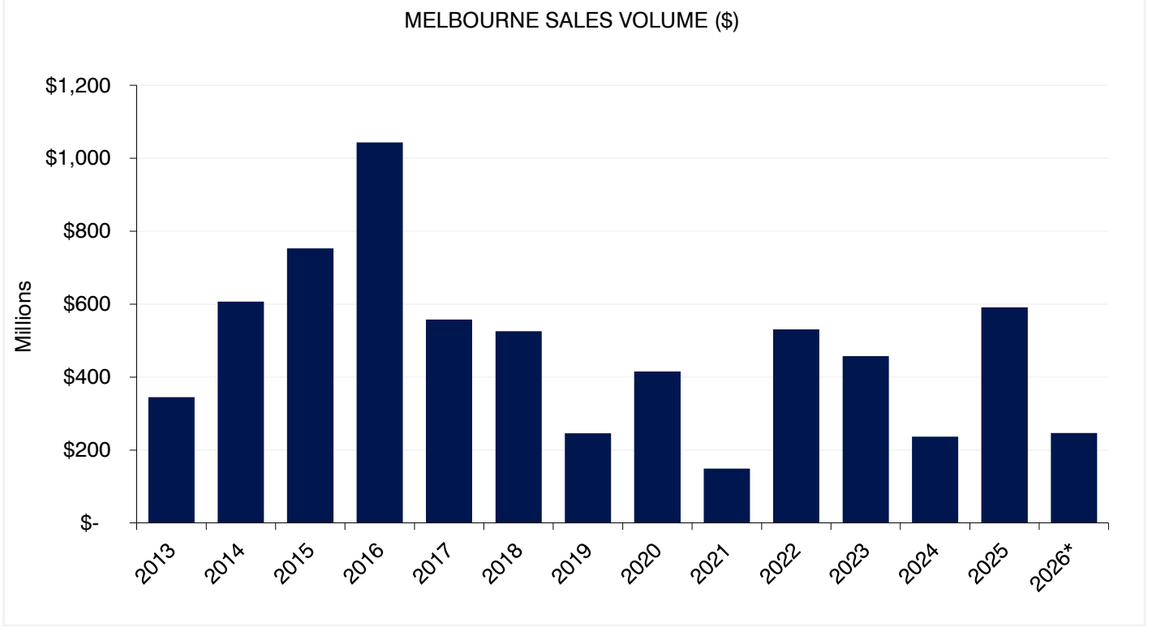
Melbourne's events calendar remains a key driver of seasonal visitor demand, supported by major sporting, cultural and entertainment events, while the recovery in overseas arrivals is expected to continue supporting longer-stay demand through 2026 and beyond.

Despite elevated operating costs, broader economic uncertainty and recent additions to supply, market performance has remained solid, with occupancy and average daily rates continuing to demonstrate resilience. Investment interest in the sector remains active, although purchasers continue to focus on well-located assets with strong underlying demand drivers and stable income profiles as funding and construction costs influence transaction activity and the delivery of further planned new supply.

Over the coming year, we expect to see modest growth in room rates and occupancies, which will continue to support capital values in the sector."



Source: M3 Property, STR/CoStar



Source: RCA, M3 Property
*Note: Sales over $1 million, as of 22 September 2026 includes transactions pending settlement.

CURRENT STATE OF PLAY

- Melbourne's hotel and accommodation market continues to recover, supported by stronger domestic overnight visitation and the continued return of international travellers, although inbound tourism remains below pre-pandemic levels.
- Major sporting, cultural and entertainment events remain a key driver of seasonal demand, with Melbourne continuing to benefit from its established events calendar and resilient leisure travel market.
- Domestic overnight visitation to the Melbourne region increased to 13.5 million visitors in the year ending March 2026, while international visitors to Victoria exceeded 2.9 million and spent a record $10.5 billion over the same period.

TRANSACTIONS

- Accommodation transaction activity in Melbourne strengthened in 2025, with 13 sales totalling approximately $591.3 million, exceeding the levels recorded in both 2024 and 2023.
- As of 22 September 2026, there have been 10 accommodation sales in Melbourne totalling approximately $246.85 million.
- Private buyers were the largest purchasers by dollar value in 2026 YTD, accounting for 39.7% of accommodation sales, followed by cross-border investors at 39.4%.

OPPORTUNITIES AND CHALLENGES

- Melbourne's established events calendar, recovering international visitation and resilient domestic leisure demand provide opportunities for continued occupancy and room-rate growth.
- Recent and planned hotel openings have improved accommodation options across Melbourne; however, new supply may place downward pressure on occupancy growth if demand does not continue to expand.
- Elevated operating costs, construction cost pressures and broader economic uncertainty remain key challenges for operators and developers, particularly in relation to the delivery of planned new hotel supply.

INDUSTRIAL



PATRICK CURRAN
Director | Industrial

"Melbourne's industrial market was more subdued through 2026, with higher supply and increased tenant choice tempering occupier demand and rental growth. Investment activity remained below long-term trends amid economic uncertainty and higher funding costs, while yields were broadly stable to slightly softer and expectations of near-term yield expansion increased.

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.

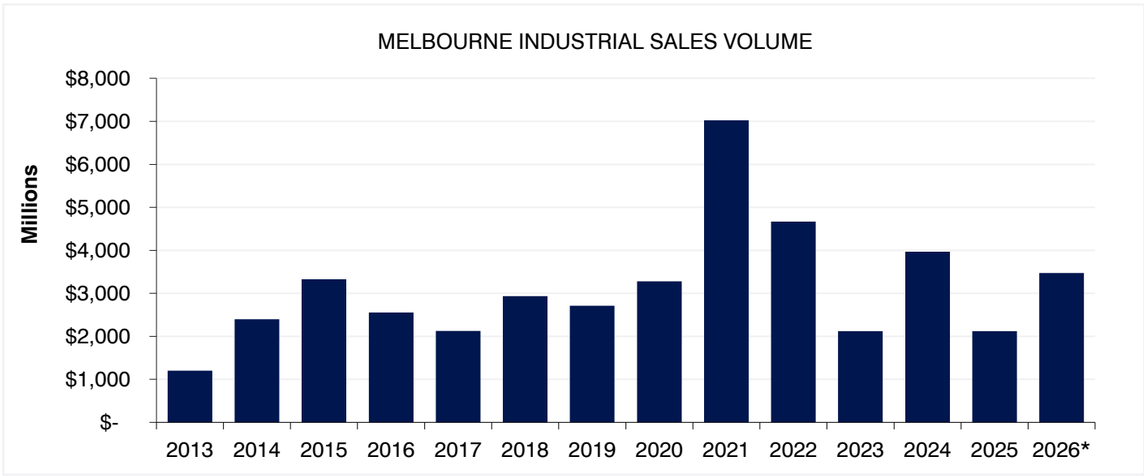
The five cash rate rises of 2026 and lingering inflation issues have removed any latent contractionary pressure on yields. We envisage H2 2026 will continue in a similar manner to H1 2026. Strong economic fundamentals will prevent a material correction, however some negative growth is likely. Prime yields are expected to sit (5.35%–6.00%) and secondary (6.00%–7.00%), while effective rents will face negative pressure."

“STRONG ECONOMIC FUNDAMENTALS WILL PREVENT A MATERIAL CORRECTION, HOWEVER SOME NEGATIVE GROWTH IS LIKELY.”

- PATRICK CURRAN

CURRENT STATE OF PLAY

- Private investors remain the most active purchasers in Melbourne’s industrial investment market, accounting for 52.0% of transaction volume in 2026 YTD, followed by institutional investors at 25.5% and cross-border investors at 10.8%.
- Higher funding costs and economic uncertainty continue to constrain transaction activity. Approximately $1.34 billion of industrial assets above $5 million traded across 99 transactions in 2026 YTD, broadly in line with the subdued levels recorded in 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.
- Investment volumes remain below recent peaks, with investors adopting a more selective approach and favouring assets with secure income, strong locations and limited near-term capital expenditure requirements.



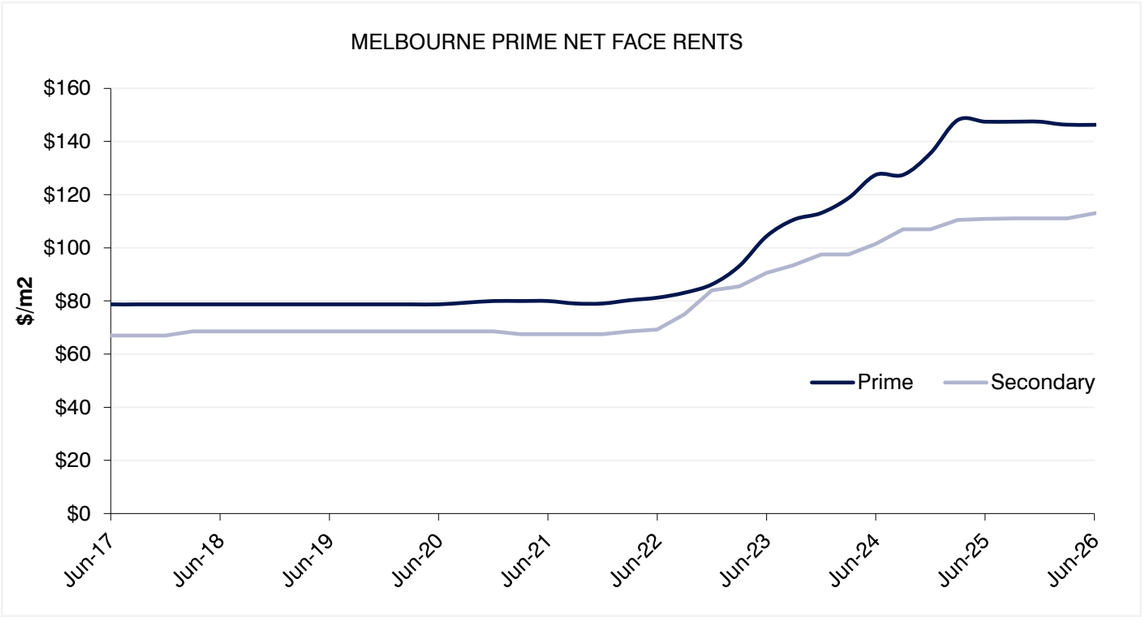
Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over $5 million, YTD* sales up to 26 October 2026.

INVESTMENT MARKET

- Industrial property attracts a broad purchaser profile, ranging from offshore institutions and REITs to local and offshore private investors or developers.
- 2026 YTD has recorded approximately $3.47 billion in industrial assets (transactions over $5 million) across 187 transactions, surpassing 2025 levels.
- In 2025, there were approximately $2.11 billion in industrial assets over $5 million sold across 192 transactions, tracking much lower than previous years.
- This is a steady decline from 194 industrial sales over $5 million (totalling $3.97 billion) recorded across the Melbourne market for the whole of 2024.
- For 2026 YTD, private buyers were the largest purchasers of industrial property in Melbourne accounting for 52% of transaction volume. Cross-border and institutional investors follow with 10.8% and 25.5% market volume, respectively.

RENTAL MARKET

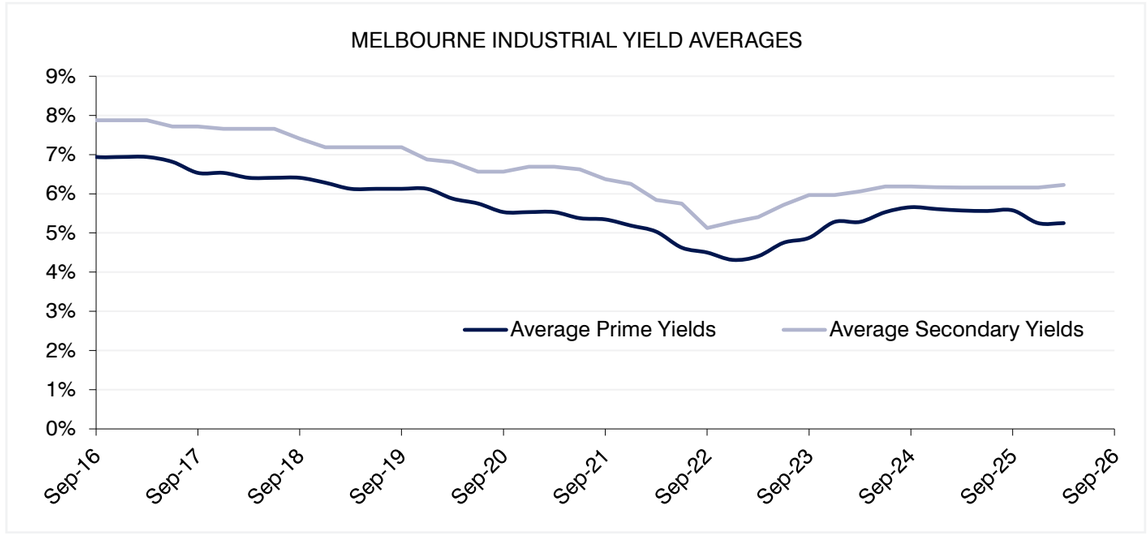
- Melbourne industrial rental growth moderated over the twelve months to June 2026 as increased supply provided tenants with greater choice across several submarkets. Prime net face rents declined by approximately 0.8%, while secondary rents increased by approximately 2.8% over the period.
- Vacancy increased across most Melbourne industrial precincts as additional supply entered the market. The eastern precinct remains the tightest, while the northern precinct records the highest vacancy and the lowest rental levels.
- Incentives increased modestly over the twelve months to June 2026. Prime incentives rose by an average of approximately 0.25 percentage points, while secondary incentives increased by approximately 2.6%, with higher incentives generally evident on pre-lease transactions and properties facing greater leasing competition.



Source: M3 Property

YIELDS

- Prime yields range from 5.25%–5.90%, while secondary yields range from 5.75%–6.70%.
- Over the year to June 2026, prime yields softened marginally, while secondary yields remained stable.
- Higher funding costs and economic uncertainty have removed near-term yield compression expectations, with yields forecast to remain broadly steady.



Source: M3 Property

OPPORTUNITIES AND CHALLENGES

- Industrial land values stabilised at approximately $825/m², with well-located zoned land remaining scarce across key precincts.
- Higher construction and funding costs continue to challenge development feasibility and delay speculative projects.
- Increased supply and low pre-commitment levels are improving tenant choice but placing pressure on effective rents.
- Data centre demand is absorbing metropolitan-fringe land, reducing the future industrial land pipeline and supporting longer-term land values.

OUTLOOK

- 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 125 basis points in the year to 3 November 2026 after inflation data 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 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 CBD office investment market has stayed subdued throughout 2026, broadly continuing the conditions experienced during 2025. Expectations that the market would begin to stabilise have been tempered by persistent inflation, further increases in the cash rate and broader global economic uncertainty. This has coincided with limited improvement in office fundamentals, particularly vacancy, with purchasers continuing to be selective and pricing increasingly sensitive to asset quality, income security, leasing risk and capital expenditure requirements.

Transaction activity has held at relatively subdued, with 171 Collins Street one of the more significant recent transactions, albeit reflective of the stronger end of the market given its Premium Grade quality and prime location. Despite limited completed transactions, there is a substantial volume of Melbourne CBD office stock currently being marketed or considered off-market, generating reasonable purchaser interest and providing greater transparency around current pricing expectations.

A notable trend since mid-2026 has been the increased participation of private investors looking to capitalise on significantly rebased values, in some instances up to 50% below pre-COVID peak pricing. This has created opportunities where vendors are financially motivated or major office owners are seeking to reduce their Melbourne office exposure. Offshore capital stays more constrained, with Victoria's taxation environment making acquisition economics challenging despite the relative value available. More broadly, Melbourne is increasingly attracting attention given its pricing relative to other major Australian office markets, particularly for buyers prepared to accept leasing and capital expenditure risk.

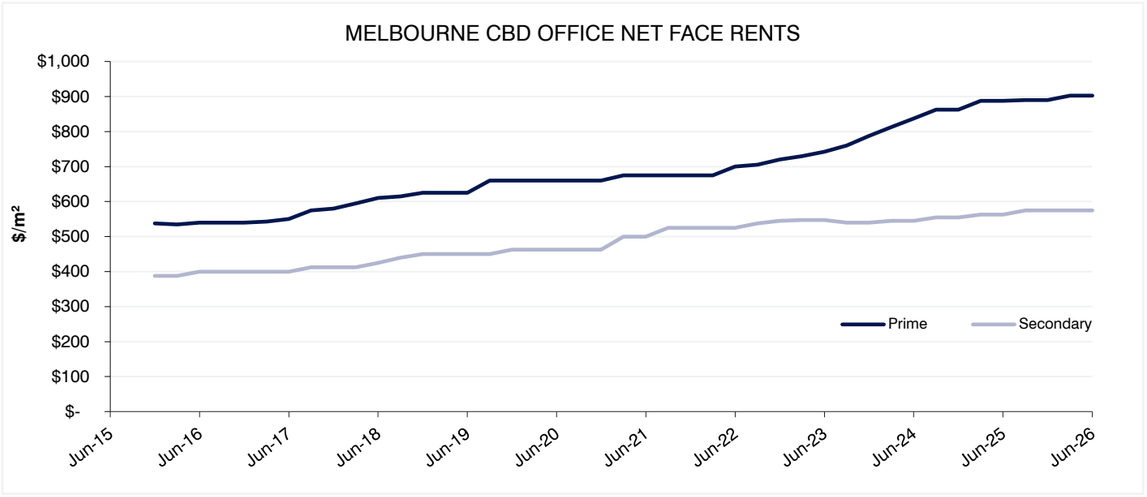
Looking ahead, there is cautious optimism that 2027 could mark the beginning of a period of stabilisation. After several years of repricing, the market may be approaching the bottom of the current cycle, with improving macroeconomic conditions, greater stability in inflation and interest rates, and increased political and policy certainty having the potential to support investor confidence. However, should inflation remain elevated and cash rates continue to rise, further repricing and a delayed recovery in 2027 continues to be possible. For now, Melbourne is currently in a period of price discovery, but increased private capital, the volume of assets currently being tested and Melbourne's relative value provide some grounds for optimism heading into 2027."

CURRENT STATE OF PLAY

- According to the Property Council of Australia (PCA), the Melbourne CBD comprised 5.31 million square metres of office accommodation as at July 2026, increasing by approximately 130,400 sqm over the preceding 12 months. The Western Core continues to be the CBD's largest precinct, accounting for 32.9% of stock, followed by Docklands at 24.3%.
- Vacancy persists as the key challenge, increasing from 17.9% in July 2025 to 18.9% in July 2026, following new supply, subdued leasing demand and a prolonged period of weak occupancy growth, particularly across secondary-grade accommodation.
- Encouragingly, however, net absorption returned to positive territory, totalling approximately 54,800 sqm over the 12 months to July 2026, providing a positive indication of improving occupier demand. New supply has stayed a feature of the market, with gross supply additions averaging approximately 61,800 sqm every six months over the five years to July 2026, reducing to approximately 41,400 sqm on a net basis after withdrawals.
- Looking forward, the development pipeline appears relatively manageable, with approximately 113,800 sqm currently under construction or refurbishment. The broader pipeline increases to approximately 364,800 sqm when submitted and approved projects are included, although not all projects are expected to proceed. Combined with the return to positive net absorption, a more constrained delivery pipeline could assist vacancy levels over the medium term, although the current level of vacant stock means any recovery is likely to be gradual.

RENTAL MARKET

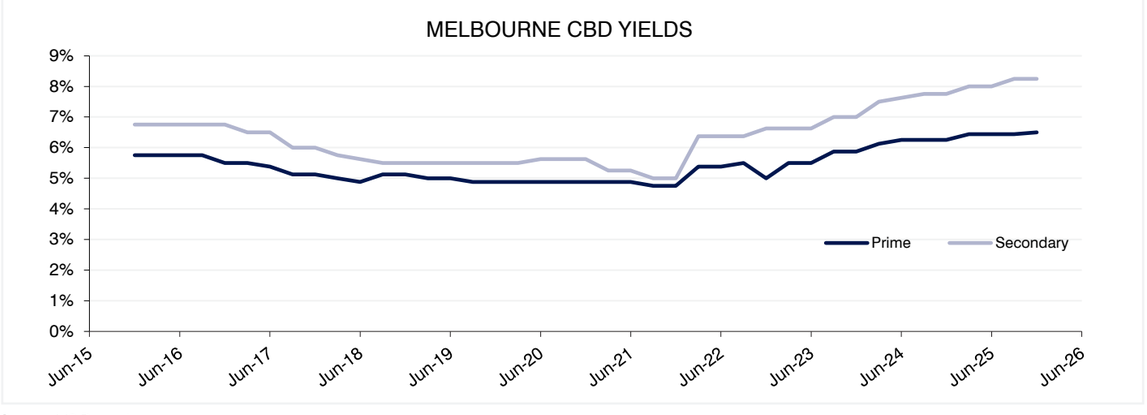
- Prime net face rents continued to record modest growth, increasing by 1.69% over the year to June 2026 to range between $730 and $1,075 per sqm. However, incentives stay elevated at approximately 35% to 47.5%, reflecting the continued competition amongst landlords to secure tenants.
- Secondary rents also recorded positive growth, increasing by 2.2% over the year to range between $525 and $625 per sqm, with incentives holding high at approximately 40% to 45%.
- While face rental growth holds positive across both Prime and Secondary stock, elevated incentives continue to temper effective rental growth. The persistence of these incentives is consistent with the high vacancy environment and highlights the continued competition for occupiers, notwithstanding improvement in headline rents.
- Rental performance becoming ever more location-sensitive across the CBD. Stronger face and effective rental growth has been evident within the Eastern Core, while conditions soften moving west, with parts of the Western Core and Docklands continuing to record negative effective rental growth. This highlights the ongoing flight to quality and location, with occupiers showing a greater willingness to pay for higher-quality accommodation in preferred CBD locations.



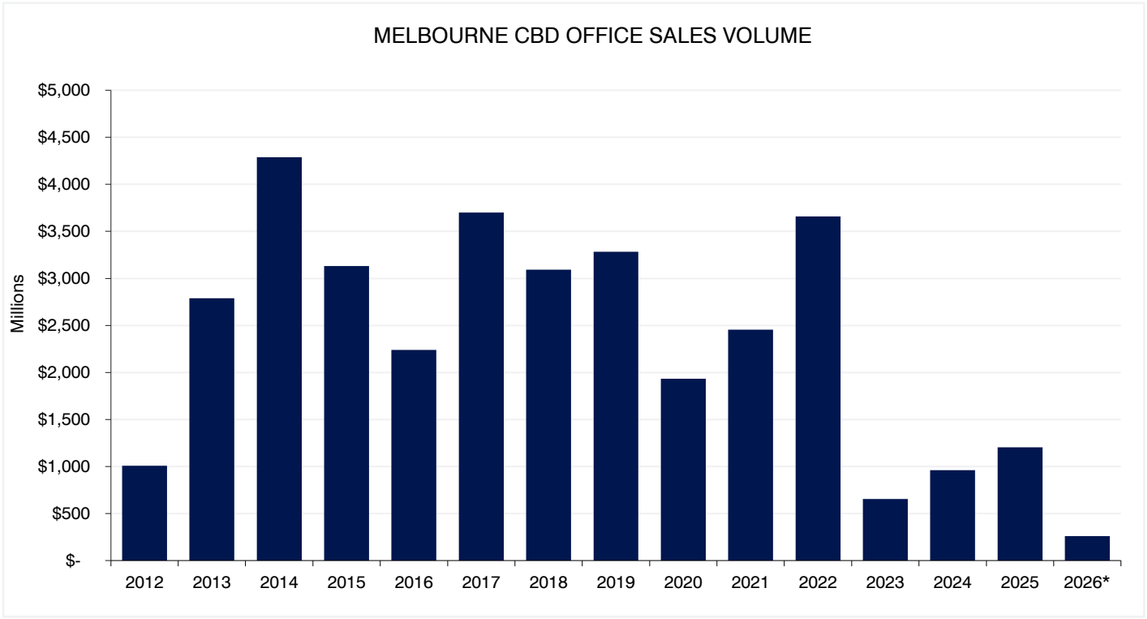
Source: M3 Property

YIELDS

- Investment yields continued to soften through 2026, with Prime yields ranging between 5.75% and 7.25% and Secondary yields between 7.50% and 9.50% at the end of H2 2026.
- Yield softening has been considerably more pronounced across Secondary stock, with Prime and Secondary yields increasing by approximately 20bps and 65 bps, respectively, over the 12 months to H2 2026.
- This widening spread reflects greater investor sensitivity towards vacancy, leasing risk, capital expenditure and asset quality, with stronger demand continuing to favour better-quality, well-located assets with secure income profiles.
- More recent market activity through the September quarter indicates further yield softening, influenced by higher cash rates and expectations of further increases. This has coincided with a significant volume of CBD office assets being actively marketed or tested off-market, with offers in some instances materially below initial vendor expectations and book values, placing further pressure on investment pricing.



Source: M3 Property



Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over $5 million, YTD* sales as at 30 June 2026.

INVESTMENT MARKET

- According to RCA, 18 sales totalling $1.204 billion were recorded in the Melbourne CBD office market during 2025, up from 17 sales totalling $960.5 million in 2024. Activity has been slower in the first half of 2026, with 10 sales totalling approximately $384.8 million.
- Despite subdued transaction volumes, there is currently approximately $5 billion of Melbourne CBD office stock being marketed or considered off-market. This represents a significant volume of potential transactions and is generating increased price discovery as purchasers assess opportunities at materially rebased values.
- Private buyers accounted for the largest share of transaction value in the first half of 2026 at 51.1%, followed by institutional purchasers at 47.0%, highlighting the increased role of private capital in the current market.
- The most significant recent transaction has been the 50% interest in 171 Collins Street, which exchanged in late August 2026. The transaction provides an important benchmark for the stronger end of the market given the property's Premium Grade quality and prime Eastern Core location, with preliminary analysis indicating an implied equated market yield of approximately 5.75% to 6.00%.

OPPORTUNITIES AND CHALLENGES

- A distinct two-tier market has emerged across the Melbourne CBD. The Eastern Core continues to attract stronger tenant and purchaser demand, supporting superior rental and investment performance relative to the Western Core and Docklands. The divergence is becoming increasingly pronounced, with location now a major driver of performance alongside building quality, particularly as tenants and investors become more selective.
- The volume of stock currently being tested could materially reset Melbourne's investment benchmarks. Approximately $5 billion of CBD office assets are being marketed or considered off-market, compared with only approximately $385 million transacted in the first half of 2026. With offers on some assets reportedly well below initial vendor expectations and book values, the eventual clearing of this stock is likely to provide much-needed evidence as to where yields and capital values have reset.
- Victoria's taxation environment is creating a material pricing disadvantage for offshore capital. Despite the substantial repricing of Melbourne office assets, offshore investors may require materially higher investment returns than domestic purchasers to compensate for additional taxation and holding costs, in some instances translating to a pricing differential of 50 basis points or more. This can make acquisitions difficult to justify and reduce offshore competition. The resulting gap has created an opportunity for domestic private investors, who have increasingly entered the market to acquire assets at heavily rebased pricing with less competition from traditional offshore capital.

OUTLOOK

- 2027 has the potential to mark the beginning of a stabilisation period rather than an immediate recovery. After several years of repricing, Melbourne appears closer to the bottom of the cycle, with materially reset values and increased private capital activity providing some grounds for cautious optimism.
- The significant volume of assets currently being tested will be critical in setting the next pricing benchmark. As the approximately $5 billion of on-market and off-market opportunities progresses, resulting transactions should provide greater clarity around where yields and capital values have reset, potentially helping bridge the gap between vendor and purchaser expectations.
- The two-tier nature of the market is expected to stay a key theme. The Eastern Core should continue to benefit from stronger occupier and purchaser demand, while assets in less-preferred locations, particularly those carrying vacancy, leasing or capital expenditure risk, are likely to stay under greater pressure.
- The timing of recovery stays heavily dependent on the broader economic environment. Greater stability in inflation and interest rates could support investment activity and confidence during 2027; however, further cash-rate increases would place renewed pressure on funding costs and required returns, potentially resulting in further yield softening and delaying the market's recovery.

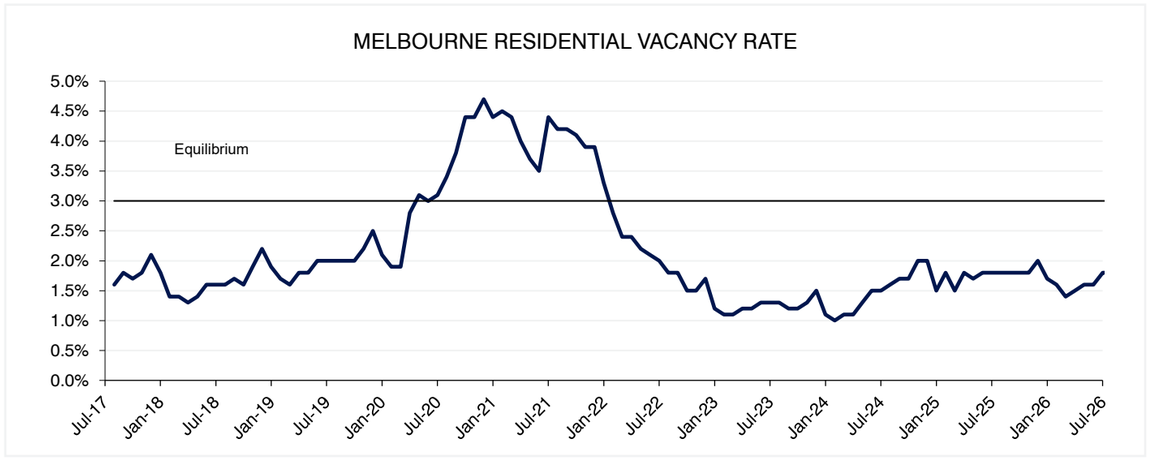
RESIDENTIAL DEVELOPMENT



LUANA KENNY
National Director | Residential Development

"Melbourne's residential market has continued to remain subdued throughout 2026, with prices remaining below July 2025 levels with the median house and unit values down 3.4% and 1.5% respectively. The market is expected to remain subdued for the balance of 2026, with prices likely to see further declines. The residential development and lot markets remain constrained by elevated construction costs, planning delays and weaker purchaser confidence, while proposed changes to capital gains tax and negative gearing from 1 July 2027 have added uncertainty for investors and development demand.

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 improve confidence in 2027, leading to price growth in the latter part of next year. This is expected to increase activity in the residential development market in 2027."



Source: M3 Property, SQM
*Note: The market equilibrium vacancy rate is considered to be 3.0%. Vacancy rates higher than this typically represent an oversupplied rental market whilst lower vacancy rates typically represent an undersupplied market.

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 1.8% in July 2026. Vacancy has been consistently under 2.0% since July 2022.
- Melbourne's median house price was $936,528 in July 2026, down 3.4% year-on-year, while the median unit price was $632,021, down 1.5%.
- House prices have continued to decline, with Australian dwelling values falling 5.2% since their March 2026 peak as higher interest rates and policy uncertainty weigh on market confidence. The downturn is expected to deepen, with prices forecast to fall 8%–11% nationally from peak levels before beginning to recover in 2027. Sydney and Melbourne are among the markets facing greater downside, with CommBank forecasting peak-to-trough declines of around 13% and 12%, respectively.
- Residential values have continued to soften, with national dwelling values declining 1.1% in September, marking the sixth consecutive monthly fall and taking values 5.2% below their March 2026 peak. Higher interest rates, affordability constraints and weaker consumer sentiment continue to weigh on purchasing capacity and buyer demand.
- Victoria recorded 36,227 house approvals and 21,810 unit/townhouse approvals in the 12 months to July 2026, annual changes of +9.1% and −6.9%, respectively. 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 supressed 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 ongoing conflict in the Middle East, we have started to see cost increases in material and operations, being an ongoing risk 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 in the latter part of 2027 once market sentiment and consumer confidence improves.

OPPORTUNITIES AND CHALLENGES

- The growth corridors of Melbourne continue to face headwinds relating to unlocking planning controls, approval of new Precinct Structure Plans (PSPs) and high Development Contributions with this expected to be an ongoing challenge in 2027. The announcement by the state government to focus resources on greater development in established infill locations resulted in further delays in approving PSPs and impacted supply to the market in these areas. Following the State election in November, depending on the result, this may see a renewed focus in the greenfield area.
- 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 the delivery of housing. Feasibilities continue to be challenged, placing further pressure on projects, impacting affordable supply to the market.
- 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.
- Against a backdrop of accelerating investor credit growth, with investors accounting for approximately 38% of total mortgage demand, APRA implemented high debt-to-income (DTI) lending constraints, which may temper investor participation moving forward.
- Mortgage approvals are showing signs of softening, with ANZ reporting a 12% decline in mortgage applications since the Federal Budget's proposed property tax changes, compared with larger falls of 15% at CBA and 20% at Westpac, highlighting weaker purchaser confidence and borrowing capacity as a near-term challenge for residential development demand.

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.
- Approvals are expected to remain subdued in the near term, with ongoing uncertainty in market conditions weighing on developer sentiment. Elevated construction costs and feasibility constraints are likely to continue limiting commencements, while changes to capital gains tax and negative gearing is influencing investor activity and the demand toward existing and newly built dwellings.
- The market is expected to remain relatively soft for the balance of 2026 and into 2027, with a high likelihood of further price reductions, and ongoing market challenges.

RETAIL



SHAUN O'SULLIVAN
Managing Director | VIC

"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 many transactions occurring across all sub-sectors.

Heading into the latter half of 2026, capital remains strong for the sector, although the broader interest rate environment continues to contribute to a level of caution in the market. That said, investors remain attracted to the strong underlying thematics of the sector.

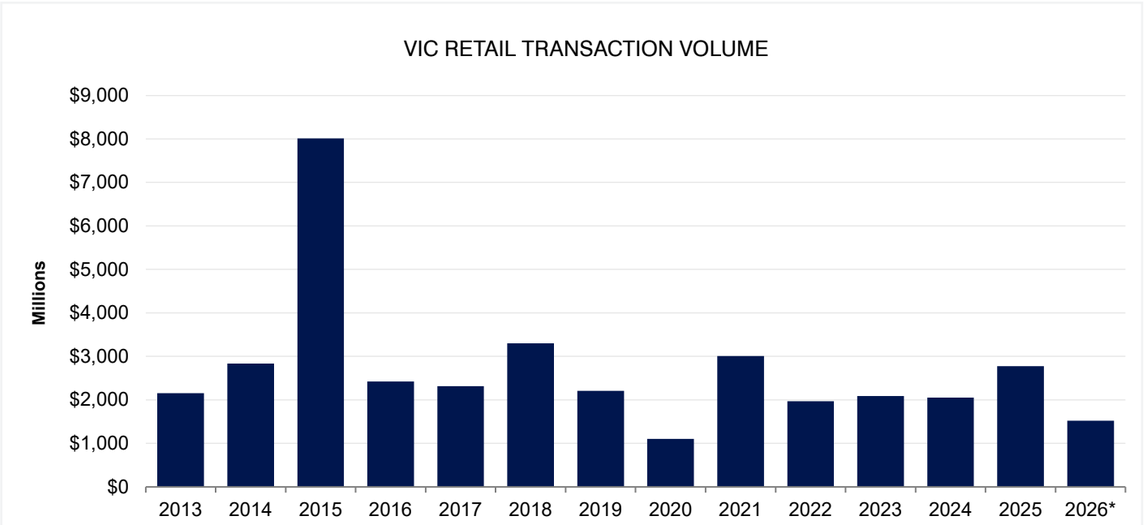
On the income side, landlords are achieving strong leasing spreads, helped by low levels of vacancy, population growth and constrained new floorspace supply. However, retailers continue to face operational challenges including navigating higher inflation, consumer 'cost of living' pressures, and heightened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

“ON THE INCOME SIDE, LANDLORDS ARE ACHIEVING STRONG LEASING SPREADS, HELPED BY LOW LEVELS OF VACANCY, POPULATION GROWTH AND CONSTRAINED NEW FLOORSPACE SUPPLY.”

- SHAUN O’SULLIVAN

CURRENT STATE OF PLAY

- Total retail spending in Victoria increased by 4.61% over the year to August 2026, up from 2.66% growth over the year to August 2025.
- The strongest retail category growth was recorded in Clothing, Footwear and Accessories, which increased by 8.48% over the year to May 2026.
- Growth in online retail and the continued expansion of online marketplaces are prompting centre owners to adjust tenancy mixes, with a continued shift toward health and beauty, services, food-based retailing and entertainment.
- Rental spreads for Australian REIT shopping centre owners have materially improved over the past 12 months, supported by low vacancy, population growth and constrained new floorspace supply. Although owners are cautious that economic headwinds may dampen rental growth in the short term.



Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over $5 million *YTD sales as at 10 October 2026.

INVESTMENT MARKET

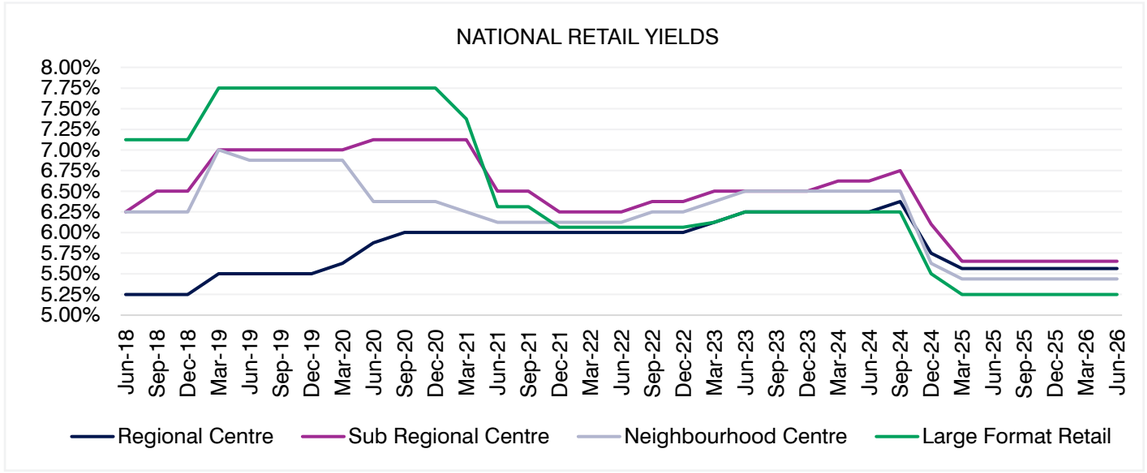
- According to RCA, approximately $1.5 billion in Victorian retail assets valued above $5 million was transacted across 59 sales during 2026 YTD.
- This compares with 79 retail sales totalling $2.77 billion across the Victorian market for 2025, which is an increase on the 70 sales totalling $2.05 billion in 2024.
- Private buyers were the largest buyer group in 2026 YTD, accounting for 36.4% of sales (by dollar value). Additionally listed funds/REITs represented 27.5% of Victorian retail transactions. while offshore investors accounted for 14% of buyers.

TRANSACTIONS

- During 2026 YTD, Victoria's largest disclosed retail transactions by partial investment volume comprised the A$480 million acquisition of a 50% interest in Watergardens Shopping Centre by Commonwealth Superannuation Corporation, the A$327.5 million acquisition of a 50% interest in The Glen Shopping Centre by MA Financial Group, and the A$190 million sale of a 50% interest in Westfield Airport West sold by the Perron Group to the JY Group.
- Another notable transaction was IFM Investors' acquisition of the Oreana retail portfolio for approximately A$300 million, comprising of four Victorian assets.
- A number of Woolworths- and Coles-anchored transactions also occurred, reaffirming investor acceptance of this sought-after asset class. Disclosed yields for relevant grocery-anchored sales ranged from 5.1% to 6.4%, including Burwood Brickworks at 6.18%, Summerhill Shopping Centre at 5.52% and Coles & ALDI Kilmore at 5.20%.

YIELDS

- Retail yields remain attractive relative to office and industrial, supported by resilient income profiles, low vacancy and constrained new floorspace supply.
- Strong transactional activity through H1 2026 confirmed yields were broadly stable, with some tightening evident in neighbourhood and sub-regional centres. However, the February, March, May, September and November 2026 cash rate increases, have introduced a level of caution to the market.
- As at the June quarter 2026, freestanding stores occupied by ASX-listed retailers such as Bunnings and Officeworks were generally trading at 4.50% to 5.50%, neighbourhood centres ranged from 5.25% to 7.00%, sub-regional centres from 5.25% to 7.00%, and regional centres from 5.00% to 6.75%, depending on asset quality and centre characteristics.



Source: M3 Property
Note: Yield figures are based on the average of the reported prime yield range.

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 have reported portfolio occupancy of 99.8% as at 30 June 2026; the highest in more than a decade. This theme should continue in the short term for strong centres.
- Rental growth has been solid. National retailers with store rollout 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).
- A-REITs are reporting strong leasing spreads, including GPT (6.6%), VCX (4.2%), Region Group (4.0%) and Scentre Group (3.7%) to 30 June 2026.
- Institutional capital values the stabilised income profiles of Shopping Centres, backed by long-term leases and fixed rental growth.
- Retail theft and crime put 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 assets can be challenging 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 play 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 to 4.85% in November 2026, coupled with the four 25 basis point increases earlier in the year, may moderate discretionary consumer spending. There is, however, still a level of caution regarding the economic headwinds and the negative impact the Federal Budget has had on the housing market. In this environment, buyer behaviour is likely to become more considered and selective of where capital is committed, supporting a more sustainable and balanced market as assets are brought to market throughout 2026.
- Over the medium term, we expect to see most new supply to be focused on convenience based / daily needs retailers, particularly in locations experiencing or forecast to experience stronger population growth.

KEY CONTACTS



SHAUN O'SULLIVAN
Managing Director VIC
shaun.osullivan@m3property.com.au



JAMES RUBEN
National Director, Specialised Assets
james.ruben@m3property.com.au



LUANA KENNY
National Director, ResDev.
luana.kenny@m3property.com.au



ETHAN PURCELL
Director, ResDev.
ethan.purcell@m3property.com.au



JONATHON CLOSE
Director, Office
jonathon.close@m3property.com.au



PATRICK CURRAN
Director, Industrial
patrick.curran@m3property.com.au



KATERINA YIANNAROS
Associate Director, Healthcare
katerina.yiannaros@m3property.com.au



JOSEPH BRASACCHIO
Associate Director, ResDev.
joseph.brasacchio@m3property.com.au



HARRY DEHNE
Managing Valuer, Specialised Assets
harry.dehne@m3property.com.au

M3 PROPERTY

m3property.com.au

DISCLAIMER © M3 Property Australia Pty Ltd. Liability limited by a scheme approved under Professional Standards Legislation. This report is for information purposes only and has been derived, in part, from sources other than M3 Property and does not constitute advice. In passing on this information, M3 Property makes no representation that any information or assumption contained in this material is accurate or complete. To the extent that this material contains any statement as to the future, it is simply an estimate or opinion based on information available to M3 Property at that time and contains assumptions, which may be incorrect. M3 Property makes no representation that any such statements are, or will be, accurate. Any unauthorised use or redistribution of part, or all, of this report is prohibited.