

VICTORIAN MARKET SNAPSHOT

SEPTEMBER 2025

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VICTORIAN
MARKET SNAPSHOT
SEPTEMBER 2025

Victoria's commercial property market showed signs of renewed momentum in H1 2025, supported by multiple interest rate cuts. The healthcare and life sciences sector remained resilient, attracting institutional capital for well-located, secure assets. Melbourne's industrial market stabilised with subdued rental growth due to increased supply, though investor interest returned in sub-\$30m transactions.

The CBD office market saw marginal vacancy improvement, with strong interest in premium-grade buildings and higher sales volumes driven by private buyers. Residential development sentiment improved on the back of rate cuts, with fundamentals pointing to stronger activity in late 2025.

Retail investment saw increased capital flows from private, domestic, and offshore buyers, particularly in sub-\$100m neighbourhood centres. Residential living sectors like build-to-rent gained traction, supported by structural housing demand. Finally, prime service station assets continued to perform, though regional assets saw limited demand.

Moving forward, yield stabilisation and further rate cuts are expected to support continued recovery across all sectors.

HEALTHCARE



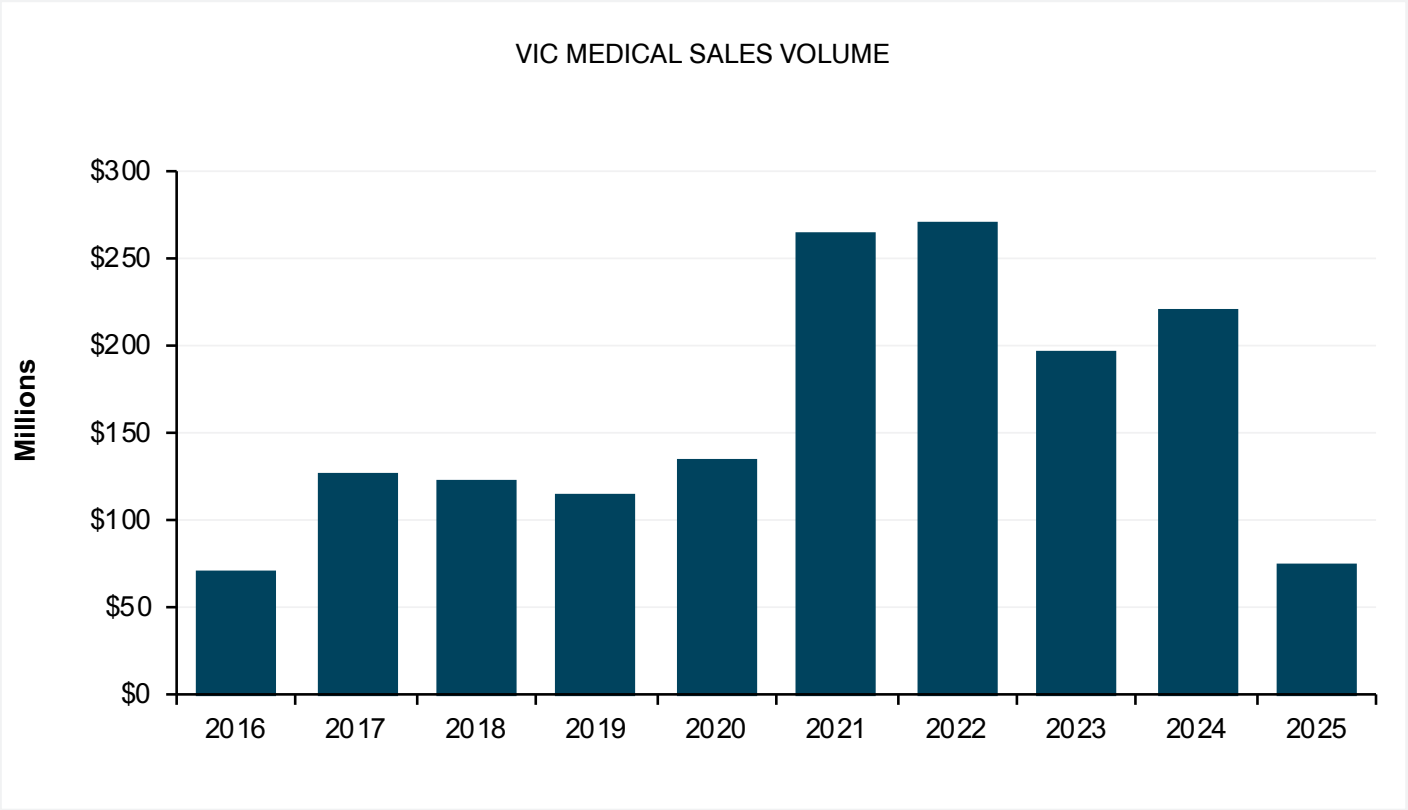
SIMON HICKIN

Director | Health, Aged Care & Seniors Living

“The healthcare and life sciences sector in Victoria maintained its appeal as a core asset class during the first half of 2025, with strong fundamentals and investment growth opportunities.

We are seeing appetite for larger transactions coming back into the market from institutional investors looking for well-located assets with secure cash flow and quality tenants, supported by multiple interest rate reductions in 2025.

Average cap rates stabilised in 2025, with an increase in investor interest due to the positive trends in the economy. A sharpening of cap rates is yet to be seen, with the expectation that further interest rate cuts will put pressure on investment returns to firm moving into the balance of 2025 and 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 29 medical and hospital properties with a total value of \$75.7 million transacted across Victoria in H1 2025. This is somewhat lower than the \$134.3 million from 34 transactions in H1 2024.
- Market activity has reduced due to owners holding onto assets in anticipation of an improvement in market conditions and a firming in yields.
- Private investors were the most active buyer’s group over H1 2025, accounting for 92.5% of transactions.

YIELDS

- Yields are now averaging around 5.5% to 6.5% for prime medical centre assets and above 7.0% for secondary medical assets, depending on various investment characteristics including price level.
- Yields for private hospitals generally range between 5.25% to 6.5% for prime assets and 6.75% and 7.5% for secondary assets.
- Average cap rates have softened by around 30 basis points in the first half of the twelve months to June 2025 with secondary assets softening to a greater extent.

OPPORTUNITIES AND CHALLENGES

- Interest rate reductions in February, May and August 2025 have contributed to renewed investment activity from institutional investors in the healthcare market. Smaller investors have also remained active during the first half of the year.
- 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 grow in importance as a core asset class, supported by key market fundamentals and significant investment growth opportunities.
- The sector continues to benefit from strong investment interest as new and existing institutional capital is drawn to the asset class supported by key fundamentals including population growth, ageing population demographics, government funding and private healthcare.
- Investment demand for high-quality medical assets is anticipated to grow over the medium term, especially for larger investments. Interest rate cuts in February, May and August 2025 may bring more investors into play. The healthcare market is still highly fragmented and there are significant opportunities for consolidation.



INDUSTRIAL

PATRICK CURRAN

Director | Industrial



“The Melbourne industrial market has remained resilient through the majority of 2025. This is despite headwinds from taxation uncertainty and state government balance sheet concerns. Yields have stabilised, and the RBA has reduced the cash rate by 75 basis points since the start of the year. Encouragingly, December 2024 to April 2025 saw some strong transactions in the sub- \$30 million market and institutional players again are showing increased activity. Rental growth has dissipated through H1 2025 due to strong supply coming online and cooling occupier confidence. Rental growth is expected to return to long-term trends in the immediate future.”

CURRENT STATE OF PLAY

- Owner occupiers, high net worth individuals and syndicates are becoming more active in the sub \$30 million investment market.
- Real Estate Investment Trusts (REITs) have shown increased activity and involvement in the market with several transactions above \$50 million occurring in H1 2025.
- Yields have stabilised through H1 2025, assisted by cash rate reductions which at the date of publishing equated to 75 basis points through the year.
- Value rates for industrial land have cooled slightly due to ongoing challenges in development feasibility and increases in supply.

INVESTMENT MARKET

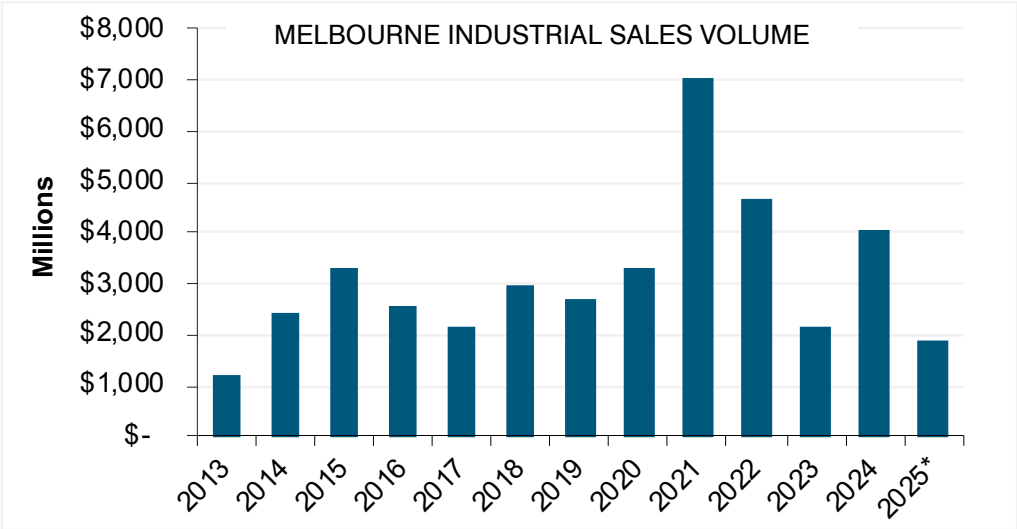
- According to RCA, there were 107 industrial sales totalling circa \$1.912 billion recorded across the Melbourne market during H1 2025, compared with 98 sales totalling a fractionally lower \$1.910 billion for H1 2024
- Private investors were the largest buyers of industrial property in Melbourne in H1 2025 with 47.7% of transactions, followed by cross-border investors at 33% of transactions.
- The market participation of listed and unlisted REITs continues to remain subdued during H1 2025 as a 'wait and see' approach was adopted regarding interest rates and ongoing inflation.

YIELDS

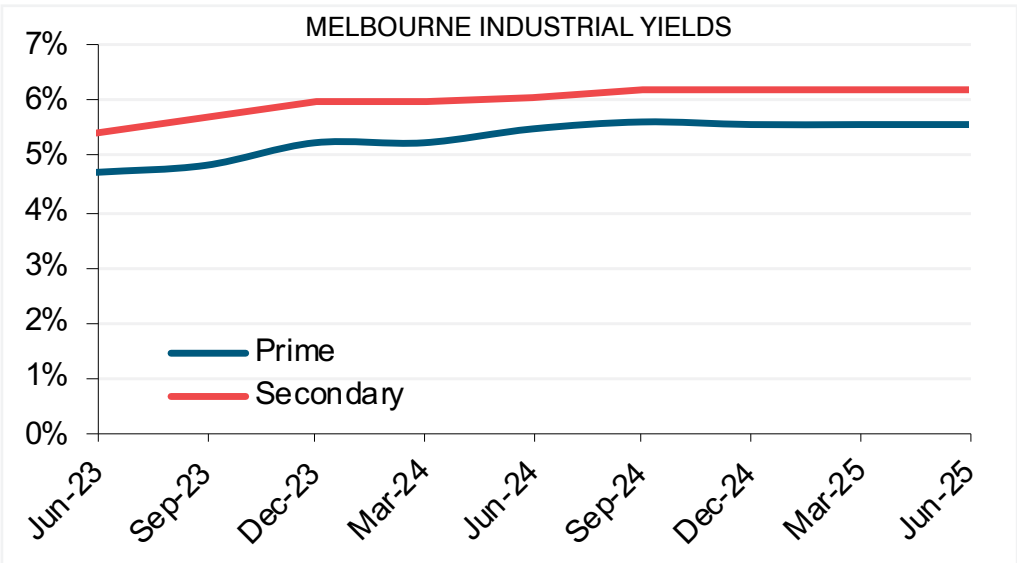
- Prime assets are currently trading at yields between 5.25% and 6.25%. Secondary assets are trading between 5.75% and 6.75%.
- Prime yields softened by circa 55 basis points while secondary yields softened by circa 10 basis points in the twelve months to end of H1 2025.
- In the decade prior to 2021, 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.

RENTAL MARKET

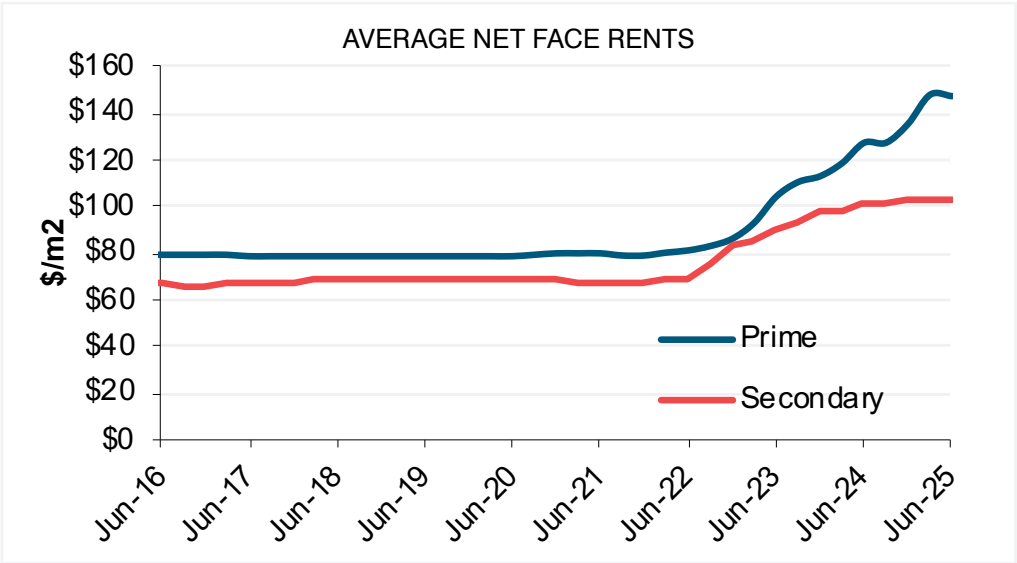
- Increased supply and occupier caution have resulted in limited face rental growth through H1 2025. The market is considered close to equilibrium.
- Incentives have increased over the same period which has resulted in a cooling of effective rentals.



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



Source: M3 Property



Source: M3 Property

OPPORTUNITIES AND CHALLENGES

- Despite concerns in the investment market due to inflationary pressures, recent transactions show land values continue to increase. The market sees a persistent shortage of well-located industrial zoned land in the key areas of the east, the south east and inner western precincts.
- Construction cost growth appears to have moderated and cost certainty should help to increase supply.

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 will have more options in the market.
- Incentives are beginning to grow, particularly in tenancies greater than 5,000 square metres.
- Face rental growth for prime and secondary accommodation is expected to continue, however effective rental growth is expected to be tempered by incentive increases.
- The Reserve Bank of Australia (RBA) has cut the interest rate by 75 basis points since the start of 2025 and this is likely to generate more interest by reducing borrowing costs; however, the unfolding US trade tariff situation continues to create uncertainty.
- It appears the market is approaching the end of the yield decompression cycle. Sale volumes are expected to continue gathering momentum in 2025.

CBD OFFICE



JONATHON CLOSE

Director | Office

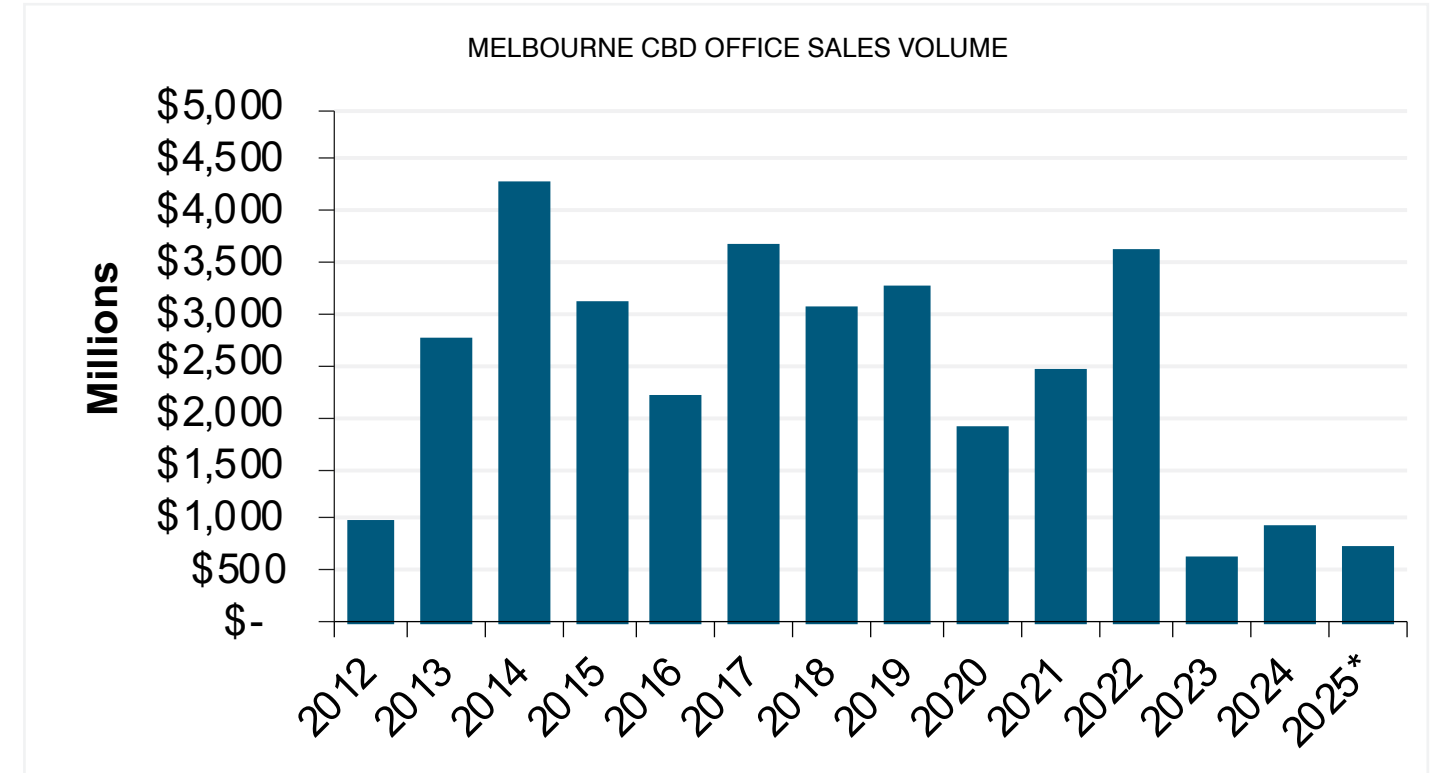
“During the first half of 2025, the Melbourne CBD office market has performed modestly, with momentum slowly building. Vacancy rates have decreased marginally from 18% in July 2024 to 17.9% in July 2025, with occupiers showing preference for high-quality, newly constructed Premium Grade buildings. In July 2025, vacancy for Premium Grade buildings was 16.4% which is somewhat lower than the total vacancy rate for the Melbourne CBD. Incentives are forecast to remain stable, albeit heightened, and are anticipated to slowly reduce in FY26 and FY27, due to the lack of forecasted new supply.

During H1 2025, 11 sales in the Melbourne CBD office market totalled \$683.7 million - significantly higher than the 6 sales totalling \$213.5 million recorded for H1 2024, with private buyers accounting for the largest share of sales. Prime and secondary yields continued to soften over 2024; prime yields are estimated to have softened by circa 19 basis points, and secondary yields by circa 38 basis points, over the 12 months to the end of H1 2025.

Following three successive cash rate reductions and forecasted strong population growth, sales momentum has improved throughout 2025 as prospective buyers are seeking opportunities within the Melbourne office market. We anticipate that yields will remain mostly stable throughout the remainder of 2025 and early 2026, with prospects of yield tightening for those higher quality assets with reduced income risk.”

“INCENTIVES ARE FORECAST TO REMAIN STABLE, ALBEIT HEIGHTENED, AND ARE ANTICIPATED TO SLOWLY REDUCE IN FY26 AND FY27, DUE TO THE LACK OF FORECASTED NEW SUPPLY. ”

- JONATHON CLOSE



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

CURRENT STATE OF PLAY

- According to the Property Council of Australia (PCA), there was 5,178,604 square metres of office space in the Melbourne CBD as of July 2025; a decrease of 500 square metres from July 2024. The Western Core remains the largest precinct, accounting for 33.24% of total CBD stock, followed by Docklands (23.48%).
- The total vacancy rate for Melbourne's CBD office market decreased marginally from 18.0% in July 2024 to 17.9% in July 2025. The vacancy rate has remained largely stable over the past year at 18%. New supply added to the market, and negative / subdued net absorption over the past four years has contributed to increased year on year vacancies, especially for secondary quality stock.
- There is currently 266,692 square metres of stock under construction in the CBD. Adding developments already submitted and with approvals, the total supply pipeline for the Melbourne CBD is 521,992 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

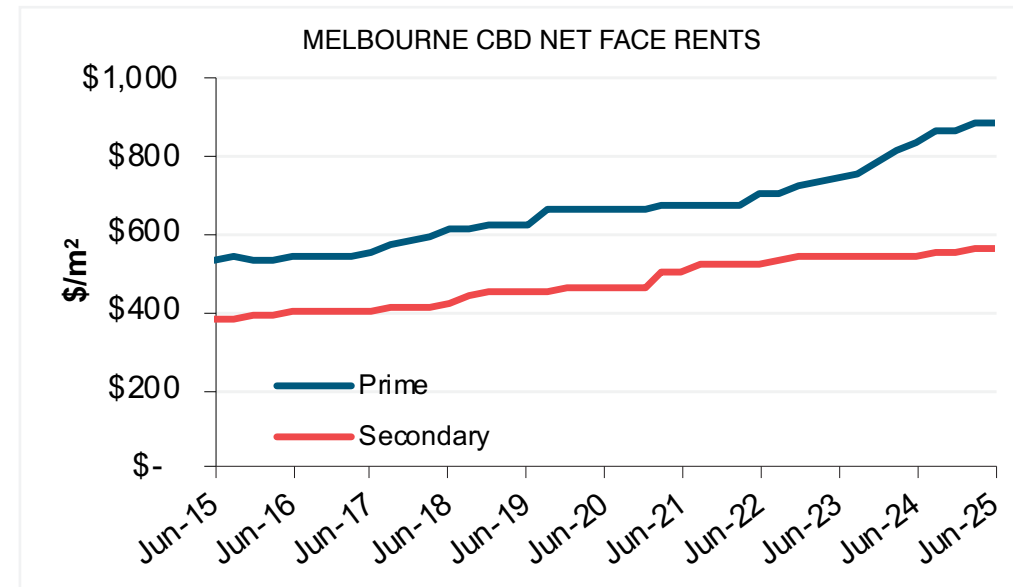
- Prime net face rents increased by 5.97% over the year to the end of H1 2025 to range between \$725 and \$1,050 per square metre. Prime incentives ranged between 37.5% and 47.5% at the end of H1 2025. Incentives bottom line have increased over the year.
- Secondary net face rents ranged between \$510 and \$615 per square metre at the end of H1 2025, growing by 3.21% over the year. Secondary incentives generally range between 40% to 55%, tightening the bottom line and resulting in a 7.71% decrease in secondary net effective rent.

YIELDS

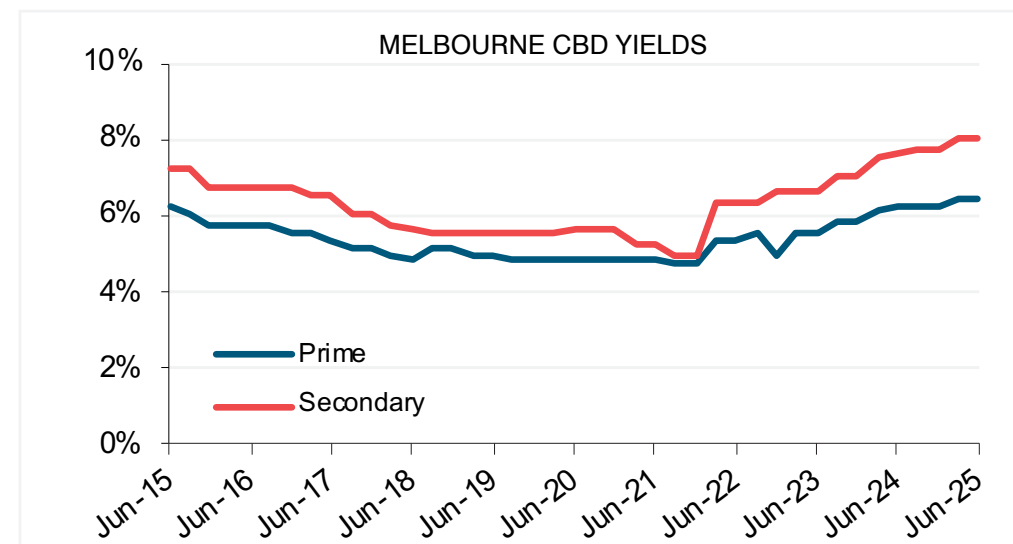
- At the end of H1 2025, yields ranged between 5.63% and 7.25% for prime buildings and 7.50% and 8.50% for secondary buildings.
- Prime and secondary yields continued to soften over 2024; prime yields are estimated to have softened by circa 19 basis points, and secondary yields by circa 38 basis points, over the 12 months to the end of H1 2025.

INVESTMENT MARKET

- According to RCA, there were 11 sales totalling \$683.7 million recorded in the Melbourne CBD Office market during H1 2025, significantly higher than the 6 sales totalling \$213.5 million recorded for H1 2024.
- Private buyers accounted for the largest share of sales (by total value transacted) with 51.9% of the transactions in H1 2025, followed by cross-border (41%) and institutional investors (7.1%).
- The largest transaction so far in 2025 is the \$260 million sale of the Flinders Gate complex at 172 Flinders Street Melbourne which was sold by Dexus to Asian based private equity firm PAG.



Source: M3 Property



Source: M3 Property

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 Premium Grade buildings, with high expectations around the level of amenities 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.
- 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

- The medium-term outlook for white-collar employment in Melbourne is positive, with BIS Oxford Economics forecasting an additional 128,030 people to be employed in white collar employing industries in Melbourne through to 2028. Occupier demand in the CBD market is expected to strengthen over this period.
- Prime face rents are expected to remain largely stable in 2025, with the market approaching the end of the yield softening cycle. Incentives are forecast to remain stable, albeit heightened and reducing in FY26 and FY27. Effective rental growth is expected to strengthen as incentives reduce in the second half of the decade.
- The Melbourne office market is performing modestly, with momentum slowly building and occupancy vacancy rates stabilising over the past year. Following three successive cuts to the cash rates we expect sales momentum to improve in the remainder of 2025.

RESIDENTIAL DEVELOPMENT

LUANA KENNY
Managing Director



“Following a subdued 2024, market sentiment in the Residential Development sector started to improve in early 2025 - particularly off the back of the recent cash rate cuts in February, May and August. We anticipate price growth in housing and off-the-plan apartments and townhouses in the back half of 2025. We expect the residential lot market will take longer to see price growth. However, titled stock is reducing which will flow through to a decrease in rebates in this market.

The much-needed price growth will assist in improving the viability of feasibilities, giving developers confidence to proceed with projects. Fundamentally, low housing supply and construction starts, increased population, and low unemployment rates will support future growth in the price of dwellings, resulting in increased development activity in 2026.

The outlook for the market is more optimistic, with confidence starting to return as demonstrated by recent high capital value sales by developers in Victoria.”

“THE OUTLOOK FOR THE MARKET IS MORE OPTIMISTIC, WITH CONFIDENCE STARTING TO RETURN AS DEMONSTRATED BY RECENT HIGH CAPITAL VALUE SALES BY DEVELOPERS IN VICTORIA.”

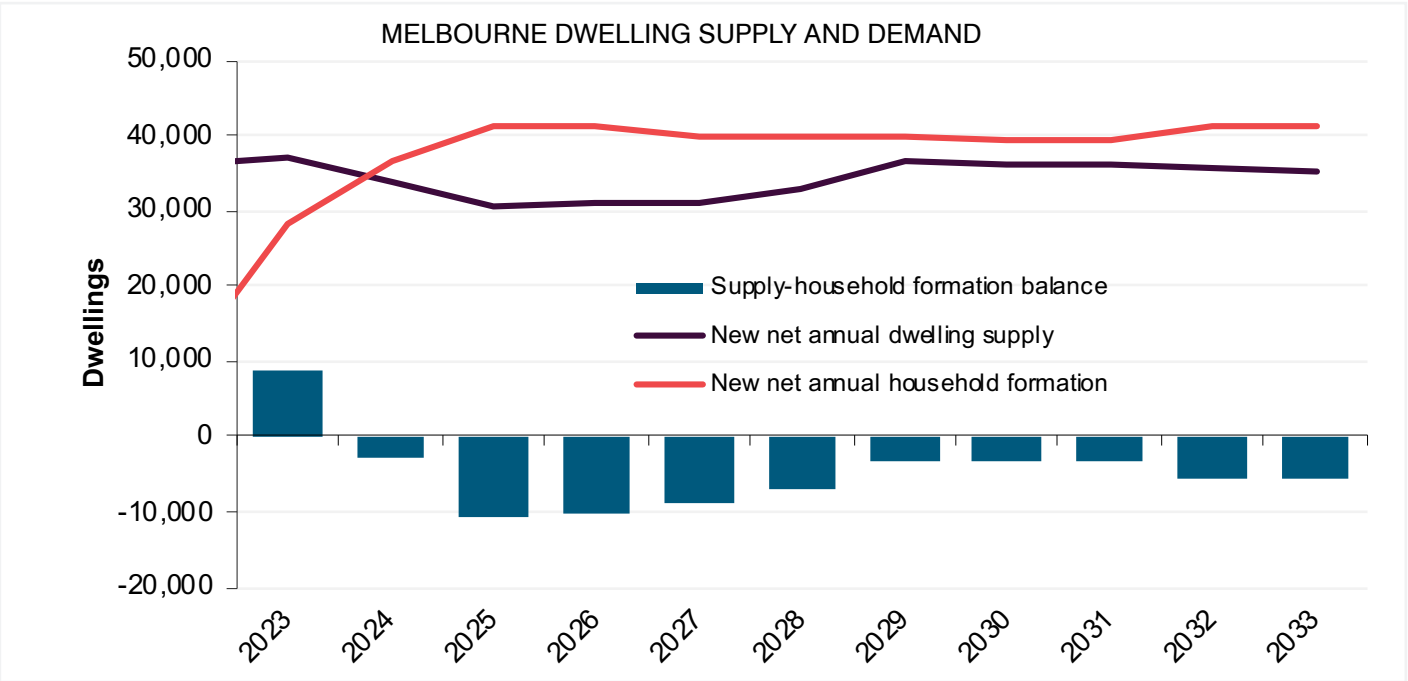
- LUANA KENNY

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 1.8% in June 2025.
- According to CoreLogic, Melbourne's median house price was \$952,339 at the start of August 2025, a year-on-year increase of 0.87%. Unit prices increased by 1.80% year on year to reach \$621,281 by August 2025.
- The Melbourne market has seen sustained increases for the last five months following the February, May and August 2025 cash rate cuts and it looks like the market is finally starting to increase again after a period of stable prices over the last three years. Oxford Economics forecast that house prices are expected to decline by a modest 2.4% during 2025, before recovering into the medium term. However, the recent cash rate cut is likely to provide a modest boost to the market, and nominal growth during the latter part of 2025 is now expected.
- The unit market has seen sustained increases for the last six months and it looks like the market is finally starting to increase again after a period of stable prices over the last three years. 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 forecast that unit prices are expected to increase by 3.5% for CY25.
- There were 55,858 dwelling approvals in the 12 months to April 2025, up 6.73% on the 52,335 approvals in the 12 months to April 2024. Approval rates for new dwellings are currently below the 10-year average.
- Housing Australia is forecasting net dwelling completions in Victoria to total 30,600 for 2025 (compared to 33,700 in 2024), 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 and elevated construction costs.
- In the year to March 2025, a total of 38,787 houses and 22,810 units were completed in Victoria, compared with 33,772 houses and 22,467 units in the previous year.
- In September 2023, the Victorian state government released its Housing Statement, setting an ambitious target of 800,000 new dwellings over 10 years to address the housing shortage and affordability issues faced by Victorians.
- Since mid-2023 around 113,290 dwellings, comprising 65,483 houses and 47,807 units, have been completed. This represents 14% of the government's target of 800,000 new dwellings completed by 2033.



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.



Source: NHFIC, M3 Property

OPPORTUNITIES AND CHALLENGES

- The growth corridors of Melbourne continue to face headwinds relating to unlocking planning controls and approval of new Precinct Structure Plans (PSPs) and planning permits. Excessive time delays in the planning process due to constraints relating to infrastructure, including drainage, flora and fauna, and approval of Cultural Heritage Management Plans, 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 will see further delays in approving PSPs and impact increased supply to the market in these areas.
- Planning continues to be a challenge with ongoing permit approval delays, uncertainties in existing areas around development guidelines, and government and local authority intervention delaying development.
- State property taxes continue to be an impost, increasing the cost of developing and delivering new home supply to the market. The introduction and increase of taxes disadvantages 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. The introduction of the Windfall Gains Tax has created uncertainty, particularly in regional areas, increasing the cost of developing land.

OUTLOOK

- Over the past few years, back-to-back interest rate hikes, 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. While the recent cash rate cuts may help ease some financing challenges, if these conditions persist, there is a risk of a further market correction in development site values.
- 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 lower in 2025 than the past few years.
- The price gap between detached dwellings and apartments has been narrowing over the past 12 months; unit values have risen at a faster rate than house values, driven by affordability constraints making it increasingly difficult for many first-home buyers to enter the market.

RESIDENTIAL LIVING



ANTONY SCHOBBER

Director | Specialised Assets

“While transaction volumes across the residential living sector remained subdued during the first half of 2025, investor interest continues to build, particularly in segments such as build-to-rent and student accommodation. These sub-sectors are increasingly viewed as stable, scalable alternatives to traditional residential and commercial real estate assets, offering secure income streams amid a shifting economic backdrop.

Fundamentally, structural housing undersupply, population growth, and ongoing affordability challenges continue to support demand for alternative housing formats. Although macroeconomic conditions and planning uncertainties have slowed delivery in the short term, we expect a recovery in development activity as policy clarity improves, and yields stabilise.

Institutional investors are increasingly seeking exposure to the residential living sector, not only for its longer-term growth prospects but also for its ability to deliver socially impactful housing outcomes. As construction costs begin to stabilise and the market adjusts to new valuation benchmarks, we anticipate renewed momentum across the broader sector heading into late 2025 and 2026.”

CURRENT STATE OF PLAY

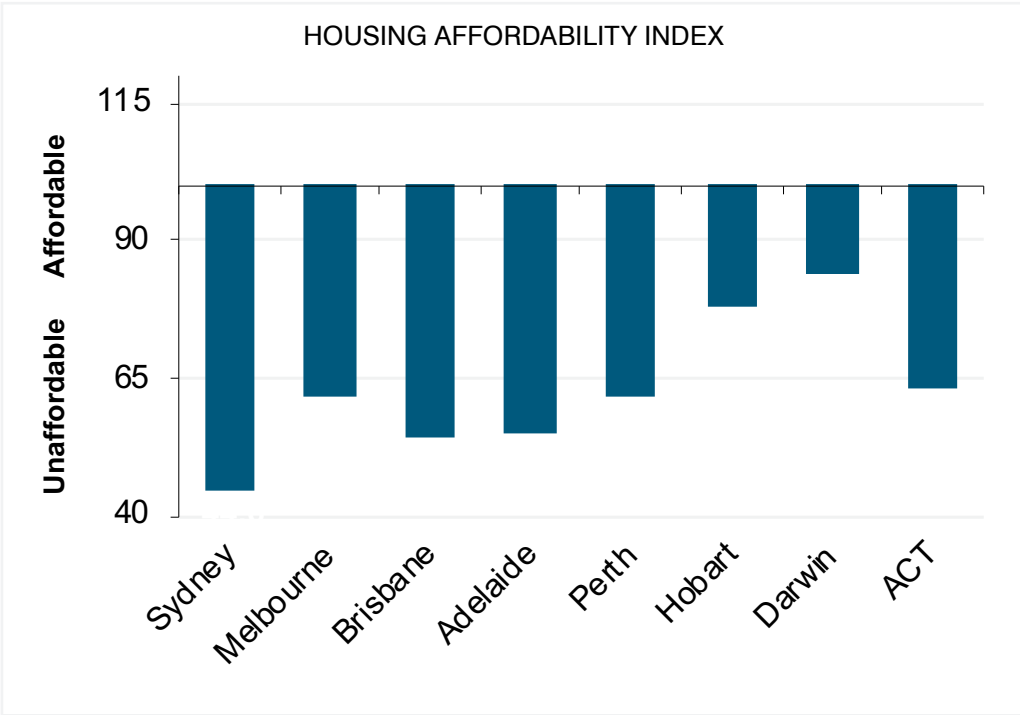
- The residential living sector includes non-traditional residential dwellings that are held on an en-bloc basis (rather than being strata titled), with dwellings generally being professionally managed and leased. There are various sub-sectors of the residential living sector, including build to rent, co-living, new generation boarding houses, purpose-built student accommodation, manufactured housing and affordable housing. The sub-sectors are:
 - Built to Rent – large scale apartment buildings offering long term rentals.
 - Co-Living – shared residential living with flexible leases.
 - Boarding Houses – houses with self-contained rooms which allow residents to lodge for short or extended periods of time.
 - Student Accommodation – accommodation tailored specifically for tertiary education students.
 - Manufactured Housing – housing targeted at the over 55 years segment of the population.
 - Affordable Housing – housing targeted at low-income earners.

DEMAND DRIVERS

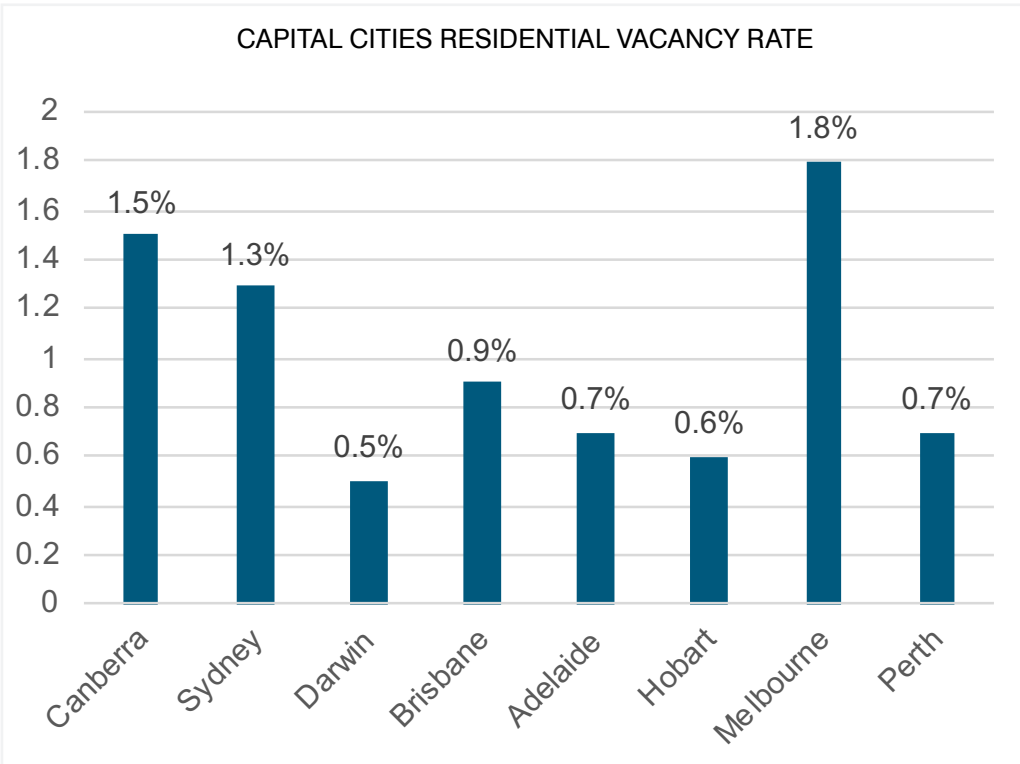
- Affordability is a key challenge for most major cities with most of Australia’s capital cities considered unaffordable according to the HIA Affordability Index.
- Housing affordability has declined over the past ten years due to strong growth in house prices with the trend expected to continue in the short term. This creates demand for alternative forms of housing, especially build to rent and co-living.
- Vacancy rates are tight across all markets creating a shortage of available housing and further contributing to demand for alternative forms of housing.

SUPPLY

- The Build-to-Rent sector has been attracting increased institutional investors over recent years. Build to rent dwellings are purpose-built, and generally institutionally owned, managed and operated.



Source: HIA, M3 Property - as of December 2024



Source: SQM, M3 Property - as of April 2025

- There is a significant pipeline of build to rent properties nationally, however, we note that projects are at varying stages of the development and planning process.
- Active players developing or with plans to develop include Mirvac (LIV), Australian Super (Assemble), GIC (HOME), Blackstone, Sentinel (Hermes) and Aliro (Novus).
- Build-to-Rent apartment complexes are typically medium-to high rise developments, comprising between 400 and 600 units and generally a ground floor retail component. The groups that are active in the market are looking to build scale through the delivery of large projects. There remains, however, some significant barriers that are preventing stronger growth in the build to rent sector, including tax laws, construction costs, cost of land, unclear planning policies and difficulties obtaining finance.

BUILD-TO-RENT HOUSING

The Victorian State Government provides various incentives for Built-To-Rent Housing as a way to increase rental options and provide secure housing for residents. These incentives include:

- Land tax concessions of 50% for up to 30 years for eligible BTR developments completed and operational between January 1, 2022 and December 31, 2031.
- Aims to add more social housing homes in Victoria by helping organisations invest in new social housing.
- Under the Ground Lease Model, Homes Victoria leases land to a consortium to build, operate and maintain housing on the site for 40 years. The Ground Lease Model aims to renew ageing older style social housing with modern, energy-efficient housing.
- Around 52% of the nation’s built-to-rent housing pipeline is in Victoria.

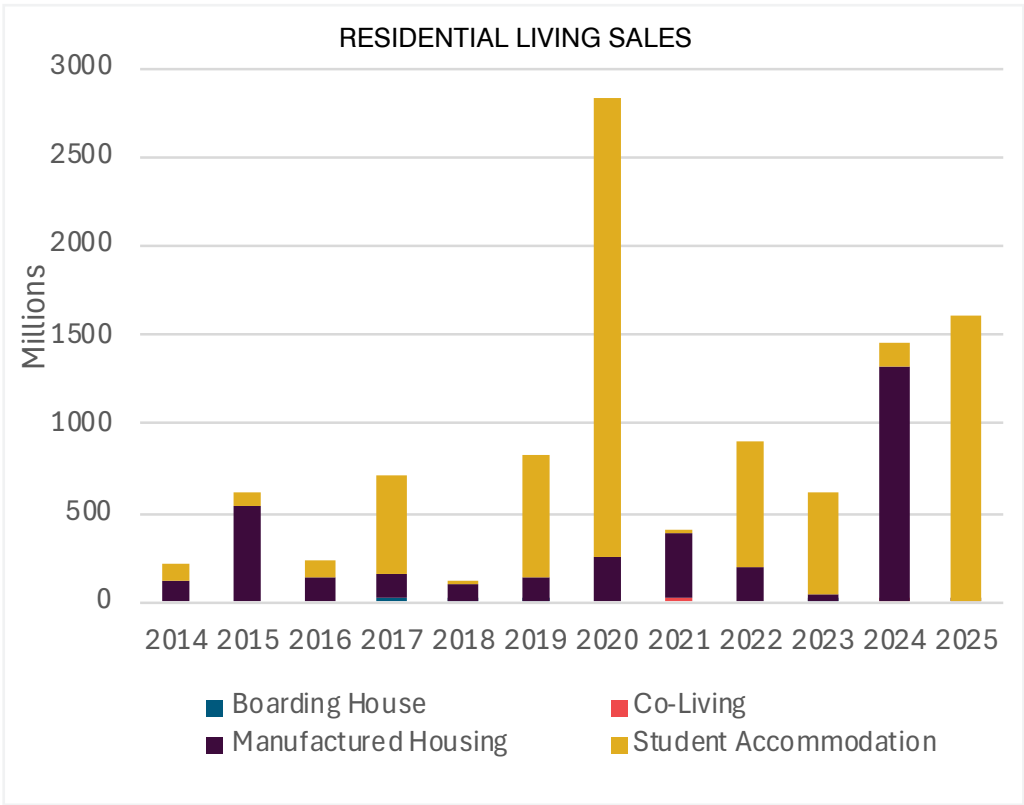
SOCIAL HOUSING

The Victorian New Rental Development Program was announced in 2020 and provides funding for leasing or purchasing homes from the private sector for use as social housing. The provisions:

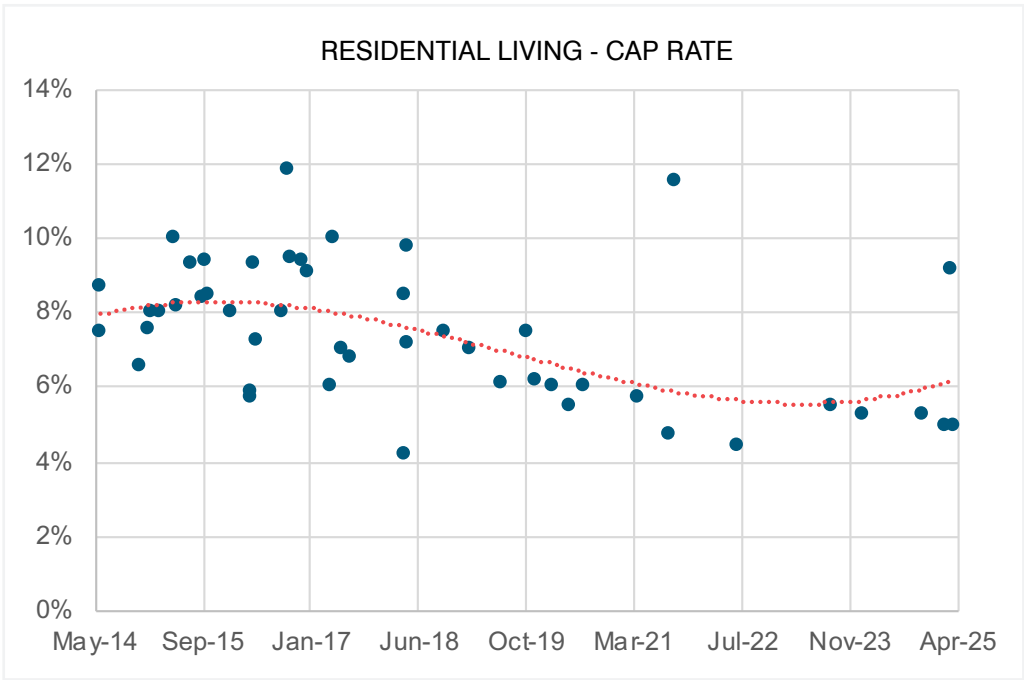
- Provides over \$60 million of funding over 10 years.
- Has delivered over 400 rental homes to date.
- Aims to add more social housing homes in Victoria by helping organisations invest in new social housing.

INVESTMENT OVERVIEW

- Australia's residential living sub-sectors are immature relative to other Asia Pacific markets. However, the demographic drivers behind demand for residential living sector demand are positive and we expect that this will result in growth in these sectors over the medium- to longer-term.
- According to RCA, the Residential Living sector transacted \$1.45 billion across 35 assets over the year 2024, with the majority in manufactured housing totalling \$1.31 billion in value.
- This is very much subdued compared to the historical record in 2020, with 2.84 billion transacted across 41 sales throughout the year, largely due to the pandemic with many operators liquidating.
- Over the year-to-date 2025, there has been 11 sales in the Residential Living sector across Australia, totalling \$1.6 billion in transactions.
- Investor demand for student purpose-built student accommodation is robust, with this sub-sector of the residential living sector being more mature than some of the other sub-sectors.
- Transaction volumes are generally low compared to other residential sectors due to limited stock on the market. As a result, we have seen increased instances of investors seeking development-led deals, either through the acquisition of development sites or in conjunction with local developers.
- Compared to the traditional residential market, the residential living sector offers a more passive commercial and institutional investment opportunity with low revenue volatility.
- Australia has already seen growth in the build to rent sector over the past two years, and the student accommodation market is relatively mature, however, there remains significant opportunities across all sub-sectors of the residential living sector market.



Source: M3 Property



Source: M3 Property

- According to RCA, over the year-to-date 2025 the average cap rate in the residential living sectors is 6.4%, softening compared to the average of 5.28% over the year 2024.
- Over the last decade we have seen a full compression cycle starting in 2015, where the average cap rate peaked at 8.6%. Industry cap rate compressed over the next few years to 2022, with the lowest average cap rate at 4.4%, before softening again until now.
- Commercial property yields have eased significantly over the last 18 months. Institutional investors have increasingly been looking to diversify their portfolios, particularly away from some investment classes that have been seen to carry more risk and to more defensive assets that are less cyclical.

OUTLOOK

- Compared to the traditional residential market, the residential living sector offers a more passive commercial and institutional investment opportunity with low revenue volatility.
- When comparing the status of the residential living sector in Australia with other Asia Pacific countries as well as the USA and Europe, we believe there to be significant opportunity for growth in this sector domestically.
- Australia has already seen growth in the build to rent sector over the past two years and the student accommodation market is relatively mature, however, there remains significant opportunities across all sub-sectors of the residential living sector market.

RETAIL



SHAUN O'SULLIVAN

Director | Retail

“During H1 2025, capital has continued to focus on retail assets with investor interest primarily from domestic syndicators, private capital and wholesale funds. Renewed interest is also being observed from offshore capital in jurisdictions where overseas capital is more favourably treated by the tax regime. Institutional participants have continued to re-mix their portfolios, divesting non-core assets, but have also re-entered the market as buyers and this has buoyed the market.

Notable large-scale completed or pending transactions include Macquarie Centre (50% for \$830m), Westfield Chermiside (25% for \$683m), Top Ryde (100% for circa \$500m (pending), Woodgrove (100% for \$440m), and Northland (50% for \$385m). In the sub \$100m bracket there has been multiple transactions of good-quality Neighbourhood centres in the 5.25% to 5.75% range and several Bunnings Warehouses transact at circa 5.00%, reflecting liquidity for these assets that wasn't present during 2023 and 2024. With further pending cuts to the cash rate, vendors are considering the best time to divest assets.

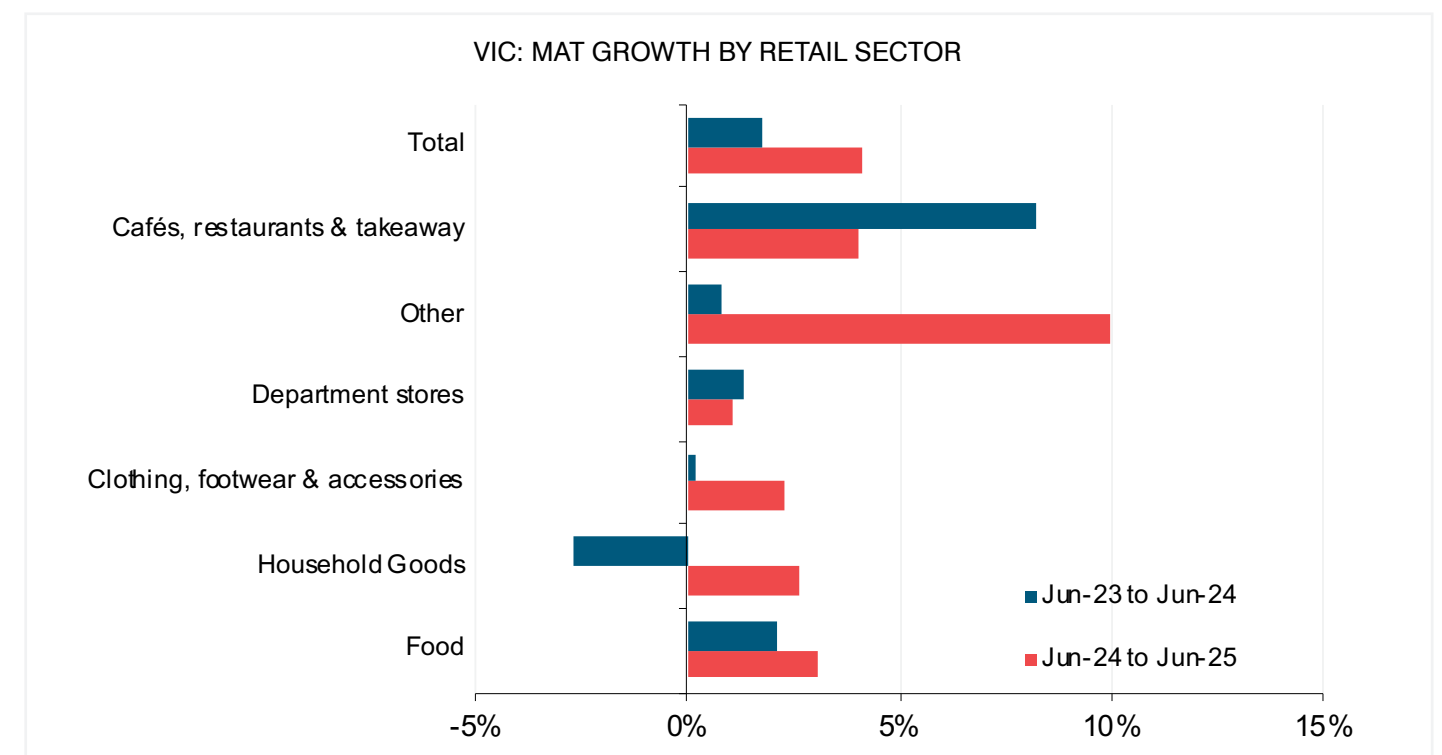
Development is occurring in the Neighbourhood, LFR and QSR markets, assisted by rental growth from national brands proceeding with store roll-out programs. The lack of discretionary anchored developments in the Sub-Regional and Regional Centre markets continues to assist with the floorspace supply / demand equation.”

“DURING H1 2025, CAPITAL HAS CONTINUED TO FOCUS ON RETAIL ASSETS WITH INVESTOR INTEREST PRIMARILY FROM DOMESTIC SYNDICATORS, PRIVATE CAPITAL AND WHOLESALE FUNDS.”

- SHAUN O’SULLIVAN

CURRENT STATE OF PLAY

- Total retail spending growth in Victoria for the 12 months to May 2025 was 3.95%, up from 1.89% growth for the 12 months to May 2024.
- The strongest growth by retail category was recorded in cafes, restaurants and takeaway (5.77%), followed by department stores (3.38%).
- 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. The pattern of rationalisation of fashion and growth of health and beauty, services, food-based retailing, and entertainment has been a trend over the past five years.



Source: ABS, M3 Property

INVESTMENT MARKET

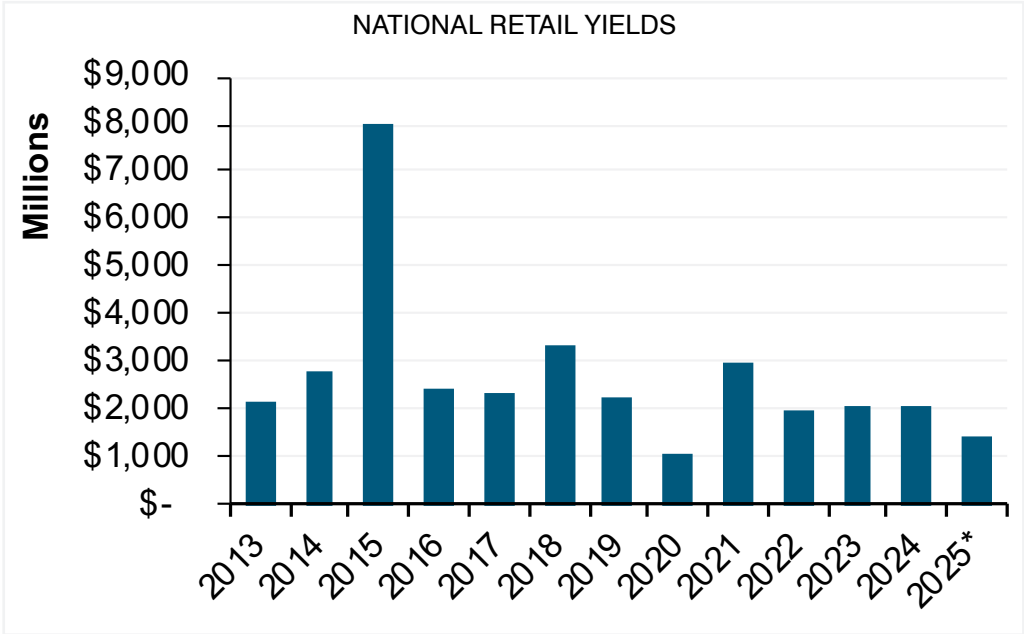
- According to RCA, there were 27 retail sales totalling \$1.42 billion across the Victorian market in H1 2025. The total for H1 2025 is somewhat higher than the \$962.34 million recorded in H1 2024, albeit with fewer transactions than the 37 transactions recorded for H1 2024.
- Private buyers were the largest buyer group in H1 2025, accounting for 42.8% of sales (by dollar value). Additionally, there was a healthy mix of listed funds/REITs and offshore and institutional investors in the market. Listed funds/REITs represent 24.7% of Victorian retail transactions, whereas institutional and offshore investors accounted for 29.4%.

TRANSACTIONS

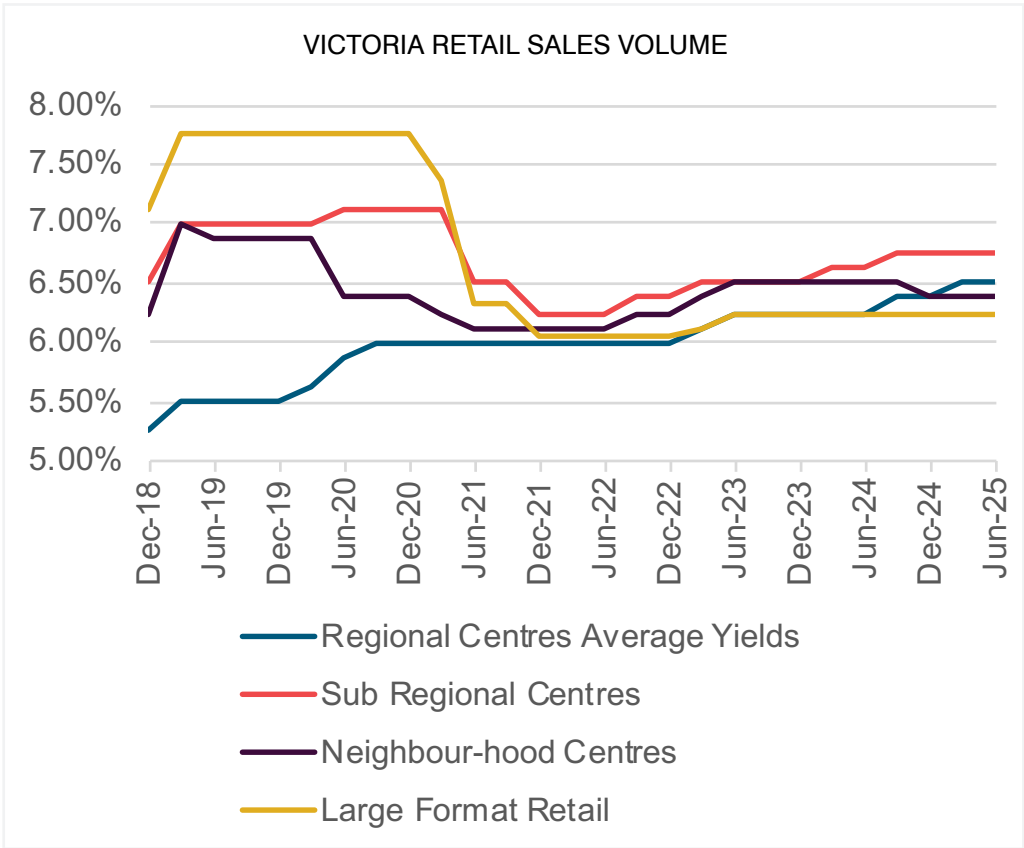
- In the last six months we have witnessed a number of large transactions being completed in Victoria including \$440m for the sale of Woodgrove Shopping Centre and \$385m for a half share of Northland Shopping Centre.

YIELDS

- Retail yields generally continue to look attractive relative to the alternative investment classes of office and industrial.
- Single tenanted retail assets with values of sub-\$25m continue to be well sought after by the market, with recent sales including Dan Murphy’s, Cheltenham and Coles, Cowes both reflecting yields of circa 4.6%.
- The sale of Bunnings, Clyde North for \$44,000,000 at 4.90% showed further strength in the market.
- Mernda Junction Shopping Centre has transacted to the newly established Charter Hall Convenience Retail Fund for a yield of circa 5.50%.
- We expect there to be downward pressure on yields for prime neighbourhood and sub-regional centres following the renewed purchaser interest in the sector and the reducing cost of capital.
- Prime yields for CBD retail properties generally ranged from 2.00% to 4.75% during H1 2025. Secondary yields ranged between 3.75% and 6.5%.



Source: RCA, M3 Property. Note: Sales over \$1 million



Source: M3 Property

OPPORTUNITIES AND CHALLENGES

- Rental levels within shopping centres have largely reset over recent years, leading to more stable income profiles.
- Shopping centres sit on large tracts of land with flexible zoning provisions, allowing for a variety of mixed uses to be introduced, supporting the retail component and extracting further value for the owner. Some shopping centres are adding co-working tenants, childcare, serviced apartments and other non-traditional retail uses.
- 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.
- The role of shopping centres in assisting with last mile logistics also provides opportunities.
- Under-performing anchor tenants are seen as a key income risk by potential purchasers, being mindful that while a vacant anchor tenancy can provide re-positioning opportunities, it creates income uncertainty and re-purposing is capital intensive.

OUTLOOK

- Institutional capital is becoming more active in the market and this will compete with private and syndicator capital which has been dominate in recent years.
- Investors will remain focused on assets offering long-term secure income streams to quality tenants coupled with good income growth.
- Consumer confidence started to improve over the second half of 2024 and is likely to improve further following the RBA’s decision to cut interest rates to 4.1% in February 2025 and then to 3.75% in May 2025. Further rate cuts later in 2025 will continue to improve sentiment.
- The February, May and August rate cuts have buoyed investors looking at retail assets.
- There could be supply constraints for good quality assets offered to market, as vendors may be reluctant to sell while the market is still improving.

SERVICE STATIONS



HARRY DEHNE

Senior Valuer | Specialised Assets

“Victoria’s service station market reflects a two-tier profile. Prime assets - such as highway service centres and well-located metropolitan sites with strong convenience components and long-term leases to national tenants - continue to attract solid demand. In contrast, secondary regional assets with weaker lease covenants are drawing limited investor interest and significantly softer yields.

The sector has evolved well beyond fuel. IBISWorld estimates non-fuel sales now account for around 15% of industry revenue and a materially higher share of operator net income, particularly for modern convenience-led formats. Nonetheless, risks remain from shifting federal and state policy frameworks and the rising uptake of electric vehicles.

Recent investment activity has been somewhat subdued, with low transaction volumes and recent activity dominated by private investors, in line with national trends. Yields range from as sharp as 4.5% for inner-metro assets with long leases to national tenants and up to 9.0% for regional investments with less desirable leasing covenants.

Looking ahead, transaction volumes are anticipated to increase for prime-grade assets underpinned by national covenants, long WALEs and contemporary retail offerings, particularly following recent interest rate cuts. Yields are likely to continue to show a large spread.”

CURRENT STATE OF PLAY

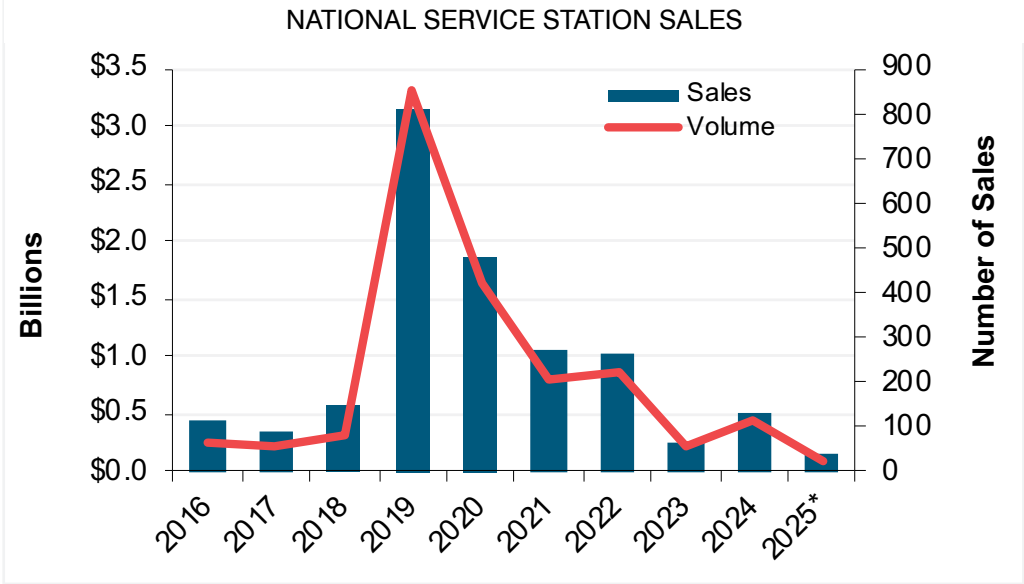
- Service stations compete on price, location, marketing, and promotions.
- Service stations have evolved to focus more on the sale of convenience and grocery items, which has boosted profit margins. According to IBISWorld, non-fuel products account for 15.0% of industry revenue.
- Nationally, demand for highway service centres in strategic locations has been strong. These assets generally include a retail offering, with leases to high-quality national tenants.
- Major national players include BP, Viva Energy (Coles Express) and Ampol.

INVESTMENT MARKET

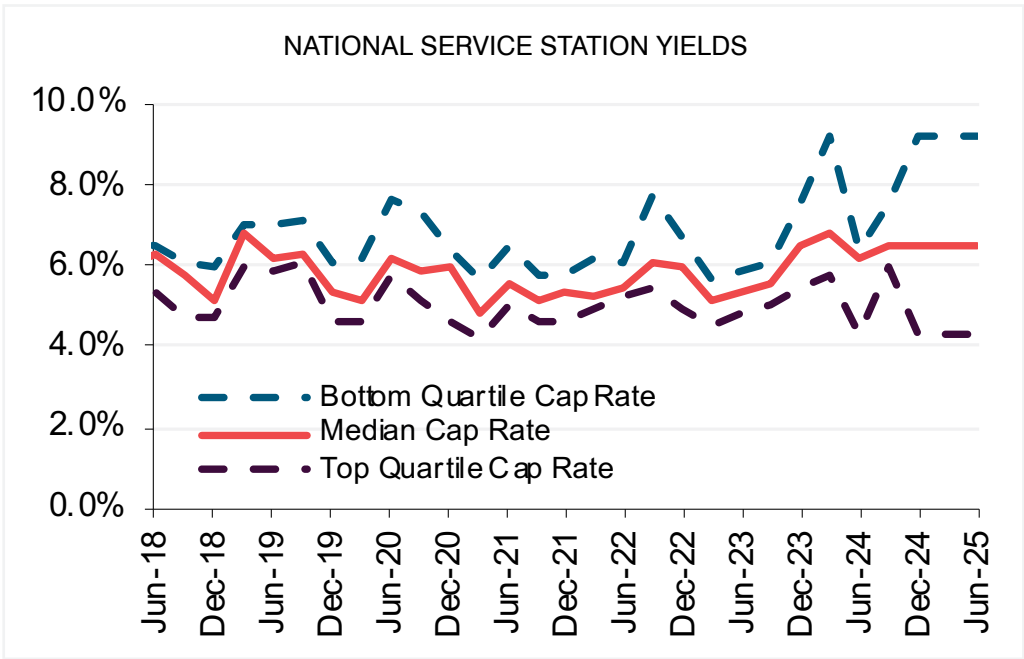
- According to RCA, there were 24 service station sales totalling \$142.8 million recorded across the national market for H1 2025, somewhat lower than the \$275.7 million from 57 transactions in H1 2024.
- Private buyers accounted for all service station transactions in H1 2025.

YIELDS

- Service station yields in Victoria demonstrate a large spread, ranging between 4.5% for a circa \$10 million asset leased to Viva in Moonee Ponds, up to approximately 9.0% for secondary regional assets, typically of a lower price point.
- Yield levels for service stations have historically stayed around the 6% mark, and the more recent transactional activity indicating that premium assets are typically showing yields in the 5.0% to 6.25% range.
- Regional locations generally have softer yields than metropolitan locations, with the spread between metropolitan and regional yields widening over recent years.



Source: RCA, M3 Property. Note: Sales over \$1 million



Source: M3 Property

OPPORTUNITIES & CHALLENGES

- Prime locations (such as on major arterial roads or large intersections) are critical in obtaining the large volume of fuel sales required to make a service station financially viable.
- Strong competition in the industry makes it difficult for new entrants in the market – which are also faced with large initial capital outlays, heavy regulatory constraints and gaining environmental approvals.
- There continues to be evolving federal and state policy frameworks and the increasing uptake of electric vehicles. These factors may influence future fuel demand and the broader viability of traditional service station operations. To mitigate these risks and maintain market relevance, future-proofing strategies such as the integration of EV charging infrastructure and continued retail diversification is being undertaken.
- Operating conditions have been volatile over recent years, largely due to global oil price fluctuations and pandemic-related travel disruptions.
- Contamination risk and remediation costs are increasingly falling on the tenant which improves the attractiveness of investing in service stations.

OUTLOOK

- Looking ahead, transaction volumes are anticipated to increase for prime grade assets underpinned by national covenants, long WALEs and contemporary retail offerings, particularly following recent interest rate cuts. Yields are likely to continue to show a large spread.
- Private investors have been the major investor over the last 12 months, we consider this trend to continue, albeit we also anticipate institutional funds will begin to re-enter the market for larger premium assets.

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