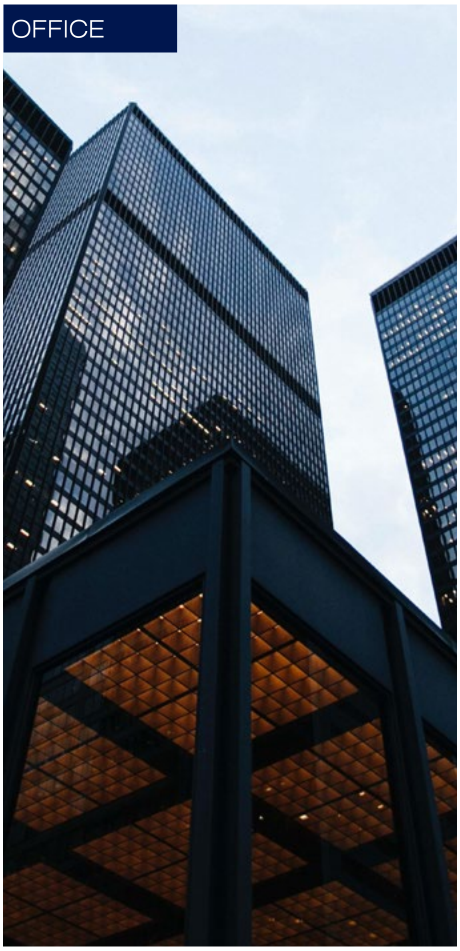
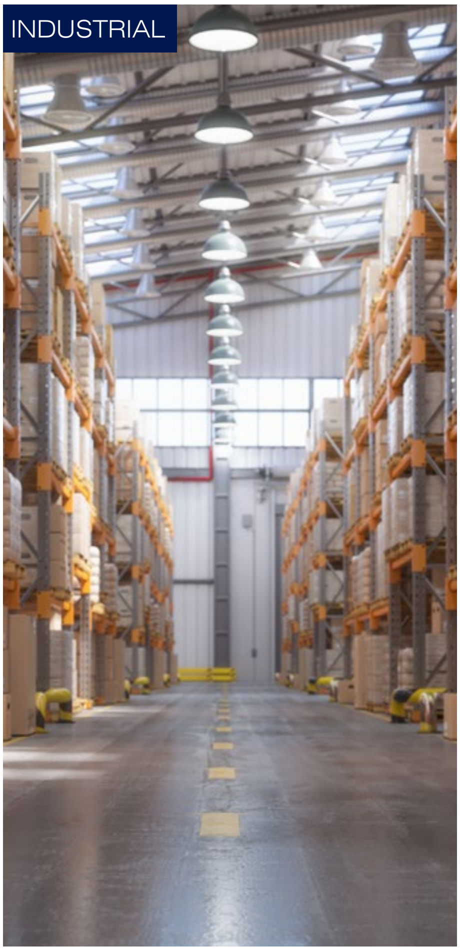
M3 PROPERTY

SPECIALIST
INDEPENDENT
VALUATION





RETAIL, OFFICE & INDUSTRIAL INSIGHT:

THE EVOLUTION OF THREE MAJOR AUSTRALIAN PROPERTY SECTORS

AUGUST 2026

CONTENTS

This Insight explores how three major commercial property sectors have transformed since the pandemic, with Retail booming in comparison with a stabilising but still strong Industrial sector, and Office nearing the bottom of its cycle with investors continuing to seek value and counter-cyclical opportunities. Over the past five years, these key sectors have seen a clear rotation in commercial property performance with investors allocating capital selectively across sectors according to income resilience, pricing and long-term fundamentals.

INTRODUCTION

In 2026, Australia's commercial property market looks very different to how it did five years previously during the pandemic – when office was the stellar performer and retail was at the bottom of its cycle. In 2021, the COVID pandemic was at its peak with lockdowns across NSW and Victoria in particular. Scott Morrison was still Australia's Prime Minister, interest rates were at historic lows and residential real estate was booming across most of the nation. In the commercial property sector, industrial was the standout sector with extremely low vacancy rates, strong returns, limited new supply and rising values. After a decade of low vacancy, solid transaction activity and strong returns, Australia's Office sector was under pressure from government stay-at-home mandates and growing employee demand for flexible work. Investors were starting to take a more cautious approach to office transactions. Meanwhile, the retail property sector was heading to the bottom of its cycle, weighed down by high vacancy rates, particularly in major CBDs, weaker consumer spending during lockdowns, uncertainty about the future of bricks-and-mortar retail and limited transaction activity.

Five years later in 2026, the market has changed considerably. Since 2021, the ultra-low-interest rate environment has ended following successive increases in the official cash rate to 4.35%. Although rates were reduced in 2025, those cuts have since been reversed as inflation remains above the Reserve Bank of Australia's 2-3% target range. Residential markets are static and may face further pressure from recent government policy changes to capital gains tax and negative gearing. In the commercial property sector, the industrial sector has stabilised as vacancy rates rise, new supply is absorbed and transaction activity slows. Office appears to be at or near the bottom of its cycle with cross-border investors continuing to seek value and counter-cyclical opportunities. Retail, by contrast, has become the strongest of the major commercial sectors, supported by record regional centre transactions, renewed institutional and listed real estate investment, low vacancy rates and limited new major retail supply over the medium term.

This insight explores the three main commercial sectors, and traces how Retail has become the booming sector compared to a stabilising industrial sector and an office sector near the bottom of its cycle.

$16.1B

RETAIL

SALES IN 2025

STRONG RECOVERY PHASE

$12.0B

OFFICE

SALES IN 2025

SELECTIVE RE-ENGAGEMENT

$12.01B

INDUSTRIAL

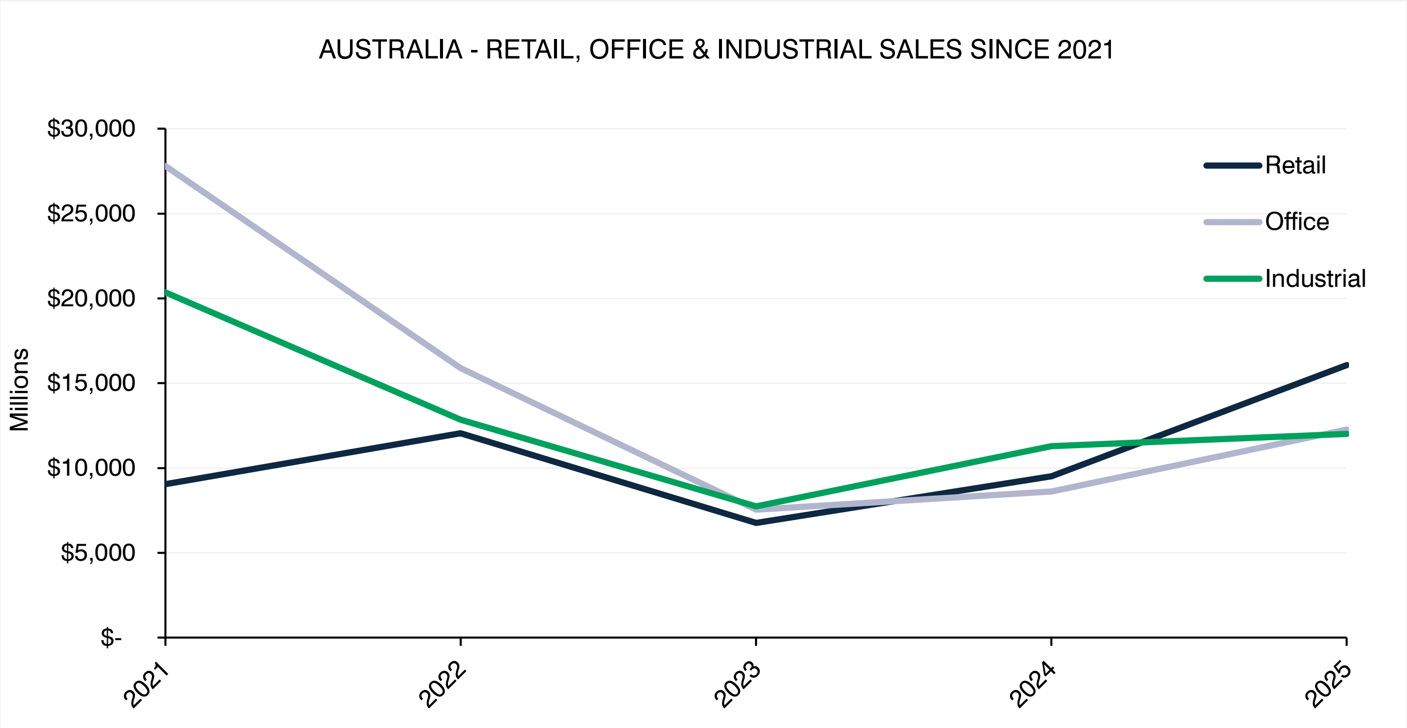
SALES IN 2025

STABILISED MARKET

SECTOR COMPARISON

When looking at the sales trends of the three main commercial sectors between 2021 and 2025, what is clearest is the significant increase in retail sales - from just $9.1 billion in 2021, up briefly to $12.1 billion in 2022, followed by a drop to a low of $6.76 billion in 2023, before climbing to reach significantly higher levels of $16.1 billion in 2025.

Equally, there was a fall of office sales – from $27.8 billion down to just $7.7 billion in 2023 two years later. Office has started to climb back since 2023, but growth has been modest and total sales at $12 billion are still less than half that recorded in 2021. Industrial on the other hand is notable for relative consistency across the same period compared with the office and retail sector. Industrial sales, like office sales, fell from their 2021 peak, but not to the same extent. In 2021 a total of $20.4 billion industrial sales was recorded compared with a low of $7.7 billion in 2023 and a recovery to $12.01 billion in 2025.



Source: Real Capital Analytics (RCA), M3 Property

The graph highlights the clear changes in commercial property momentum: retail has moved into a strong recovery phase, industrial has stabilised after its earlier peak, and office remains far weaker than its 2021 peak but is showing early signs of selective re-engagement.

All three sectors are experiencing softer transaction activity in 2026, reflecting heightened investor caution amid global uncertainty, geopolitical risks in the Middle East, an uncertain economic outlook and the impact of higher interest rates. In the first half of 2026, retail has recorded $6.818 billion in sales, office has recorded $5.933 billion in sales, and industrial has recorded $5.48 billion.

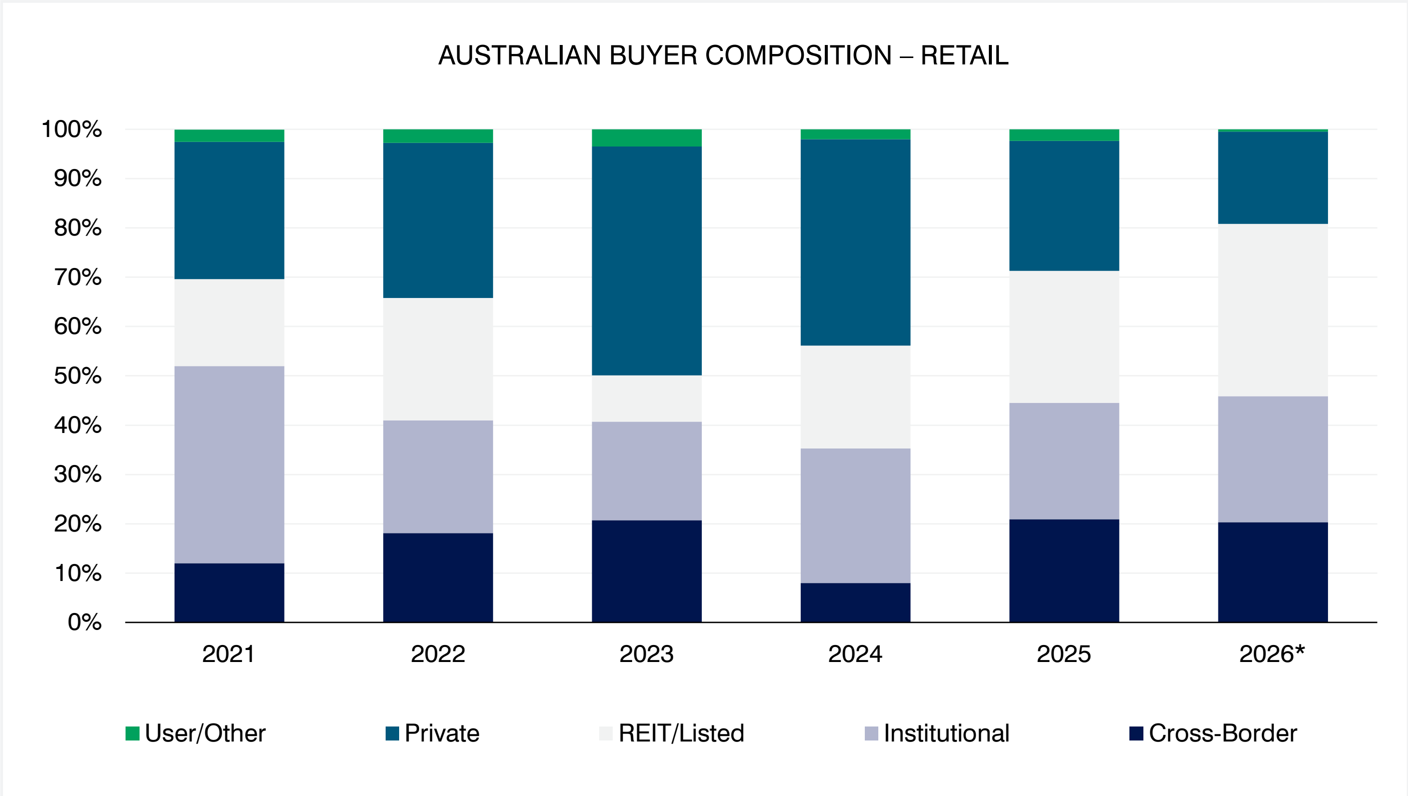
Source: Real Capital Analytics (RCA), M3 Property
Notes: *2026 data is year-to-date as at 30 June 2026

RETAIL

Retail has emerged as the standout commercial property sector over the past two years. After transaction volumes fell sharply earlier in the decade, from $9.05 billion in 2021 to $6.76 billion in 2023, the sector has staged a strong recovery. Institutional capital has returned, while total returns reached 7.3% in 2025 – the highest of the major commercial property sectors. Income returns have also strengthened to their highest level since 2016, reinforcing the view that retail has regained credibility with major investors and is no longer being viewed primarily as a cyclical or rate-driven trade.

Transaction evidence points to both depth and breadth in demand. Retail sales above $10 million reached $16.1 billion in 2025, with activity spread across regional, sub-regional, neighbourhood and large-format assets, although regional centres clearly dominated. Demand was supported by a broad weight of capital, with cross-border investors and institutional investors competing alongside fund managers, syndicators and private buyers for assets offered to market. This resulted in a relatively balanced buyer composition across cross-border capital (20.9%), institutional investors (23.4%), REITs (26.8%) and private investors (26.5%), suggesting confidence in retail was not concentrated in any single capital source.

In the first six months of 2026, retail sales have reached $6.818 billion. The ownership mix has shifted further toward domestic institutional capital, with institutional investors and REITs accounting for 63.7% of activity, while cross-border investment has eased to 13.5%. This points to stronger local conviction in the sector and suggests that the recovery is increasingly being supported by long-term domestic capital rather than opportunistic offshore demand.

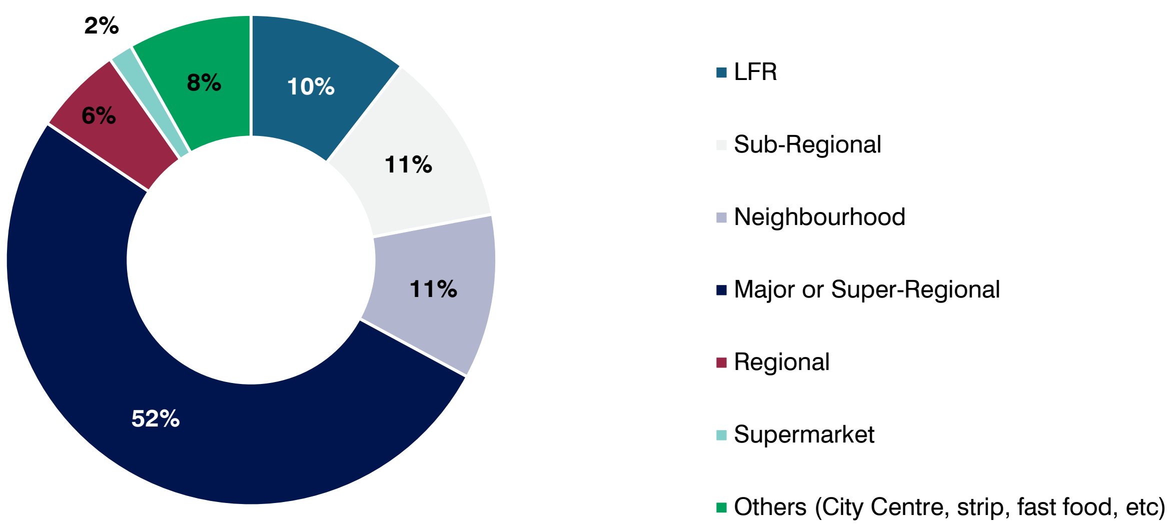


Source: Real Capital Analytics (RCA), M3 Property
Notes: *2026 data is year-to-date as at 30 June 2026

Several landmark transactions underline retail's renewed momentum, with eight super-regional centre transactions above $600 million recorded since the start of 2025. These transactions are listed below:

- Erina Fair, a regional shopping centre in Erina, NSW, sold in October 2025 to Fawkner for $895 million, replacing Westpoint Blacktown as the largest individual retail asset transaction recorded in Australia;
- Westpoint Blacktown, a major-regional shopping centre in Blacktown, NSW, sold in January 2025 to Haben and Hines for $870.35 million;
- Scentre Group sold a 19.9% interest in Westfield Sydney to Australian Retirement Trust for $864 million in December 2025;
- Dexus sold a 50% interest in Macquarie Centre in Macquarie Park, NSW, to UniSuper and Cbus Property for $830 million in April 2025;
- A 50% interest in Westfield Chermside, a super-regional shopping centre in Chermside, Queensland, was sold across two transactions of $683 million in July 2025 and $683.1 million in December 2025 to separate Dexus-run funds;
- Logan Hyperdome, a major regional shopping centre in Loganholme, Queensland, sold in November 2025 for $678.7 million to MA Financial Group; and
- A half share of Westfield Marion, a super regional shopping centre in Marion, South Australia, sold in June 2026 for $670 million to private equity group JY Finance.

RETAIL ASSET TYPES SALES SPLIT



Source: Real Capital Analytics (RCA), M3 Property

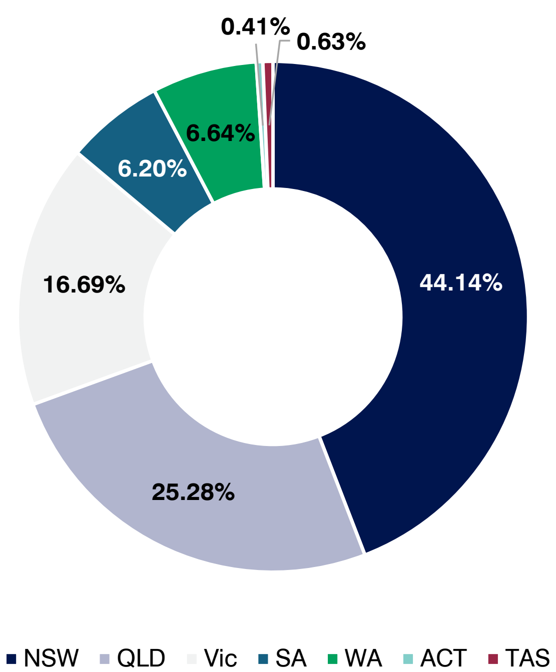
In 2025, major and super-regional assets were the standout retail asset class, accounting for 51.53% of retail sales above $10 million. Activity across other asset types was more evenly spread, with sub-regional centres representing 11.51%, supermarket-anchored centres 10.87% and large-format retail 10.50%. Other retail assets, including city-centre retail, strip shops and fast-food outlets, accounted for 5.8%, while standalone supermarkets represented 1.59%.

The state where the most retail assets over $10 million were sold in both 2025 and the first half of 2026 has been New South Wales. For 2025, NSW accounted for 44.1% of the over $10 million assets, followed by Queensland with 25.3%, and Victoria with 16.7%. For 2026, NSW has so far accounted for 51.6% of the over $10 million assets, followed by Queensland with 23.9% and Victoria with 16.9%.

Institutional investors have returned to retail in a meaningful way, deploying $7.31 billion into retail assets in 2025, with 61% of that capital directed to regional centres. Private capital also increased sharply, supported by lower borrowing costs and improving income returns, which encouraged renewed participation in the sector. Together, these conditions have pushed average sale prices to their highest level in more than a decade and reflect the sector's ability to allow purchasers to allocate large capital sums into direct property via single transactions, particularly assets valued above $300 million.

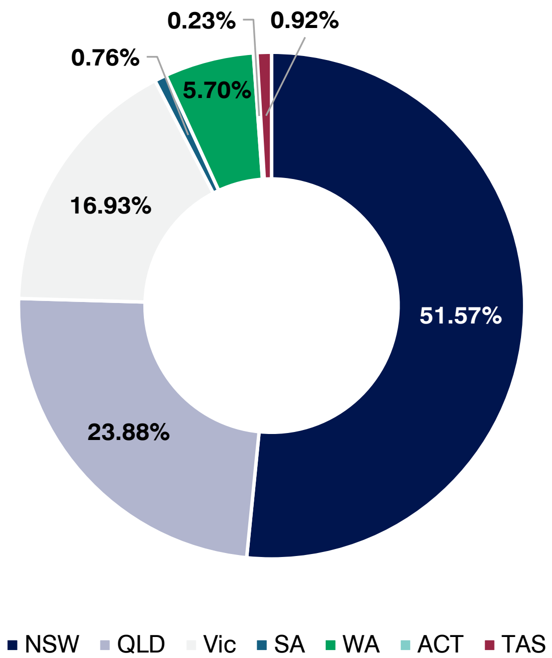
The structural backdrop remains highly supportive. Australia's major shopping centres continue to benefit from dominant supermarket anchors, resilient non-discretionary spending, high occupancy and a tightly constrained development pipeline. This supply scarcity is becoming increasingly important as population growth adds to demand in a market already characterised by low retail floorspace per capita and limited capacity for new regional centre development. No new regional centres have been built in Australia since 2018, and none are currently planned. Against this backdrop, the recovery in retail investment appears to reflect genuine confidence in long-term fundamentals rather than a short-term cyclical rebound, supporting the view that Australian retail remains one of the more compelling retail investment markets globally.

RETAIL SALES BY STATE 2025



Source: Real Capital Analytics (RCA), M3 Property

RETAIL SALES BY STATE 2026



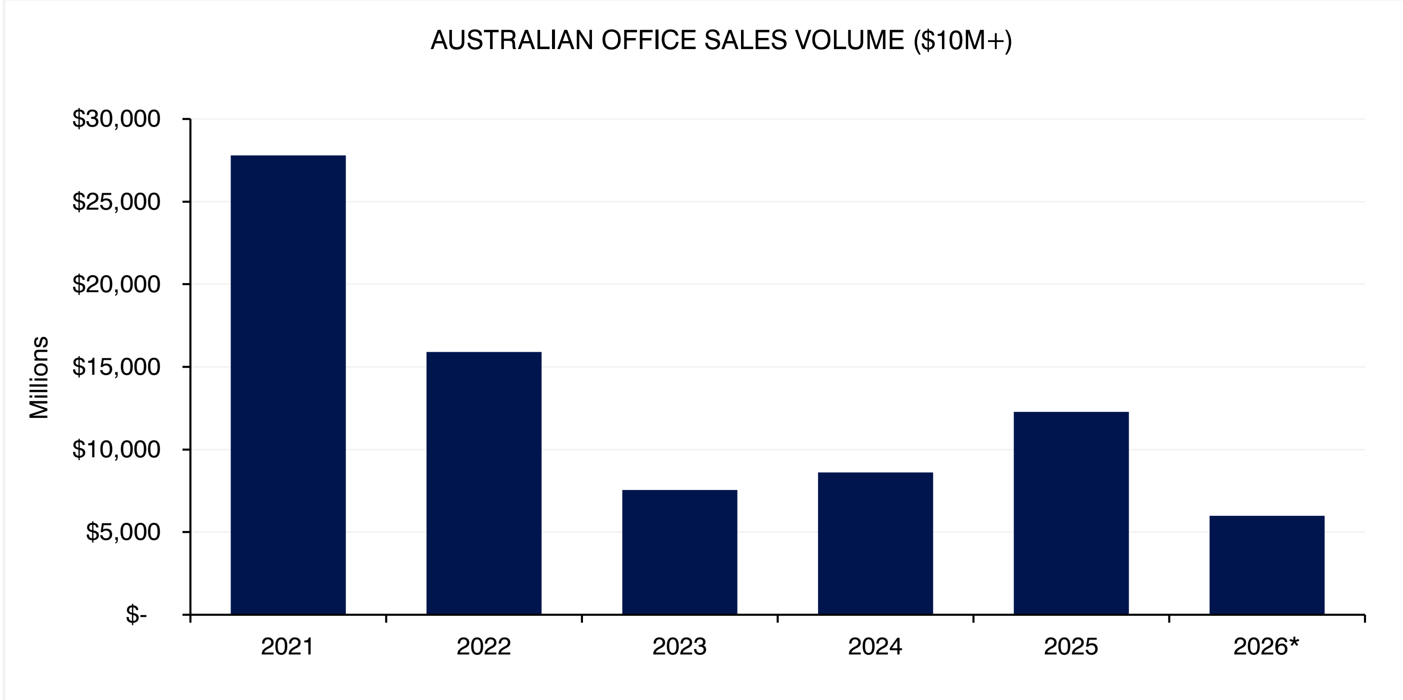
Source: Real Capital Analytics (RCA), M3 Property

OFFICE

Office is currently the weakest of the three major sectors, although there are signs of stabilisation. Rather than broad-based liquidity, activity has been driven by fewer but larger transactions, particularly involving premium CBD assets. Total office sales above $10 million reached $12.3 billion in 2025, with cross-border capital accounting for the largest share of activity at 39.5%, followed by institutional investors at 24.0%, private investors at 24.4% and REITs at 8.2%. Cross-border investment totalled $4.85 billion over the year, highlighting the continued importance of offshore capital in the sector.

In first half of 2026, office sales above $10 million have reached $5.933 billion, with the ownership mix so far shifting toward institutional capital. Institutional investors have accounted for 37.5% of activity so far in 2026, compared with 29.5% for cross-border investors, 19.1% for private investors and 10.5% for REITs. While offshore investors remain important, the increase in institutional participation suggests that selected domestic capital is beginning to re-engage with the sector, particularly where pricing, asset quality and location align.

The ownership mix in office is the clearest evidence of how selective the market has become. Offshore capital continues to play an outsized role, particularly in major gateway markets such as Sydney CBD, where foreign investment accounted for 56.2% of activity in 2025. Real Estate Investment Trust (REIT) participation remains comparatively low, reinforcing the view that office investment is still being driven by targeted, selective capital rather than broad-based market momentum.



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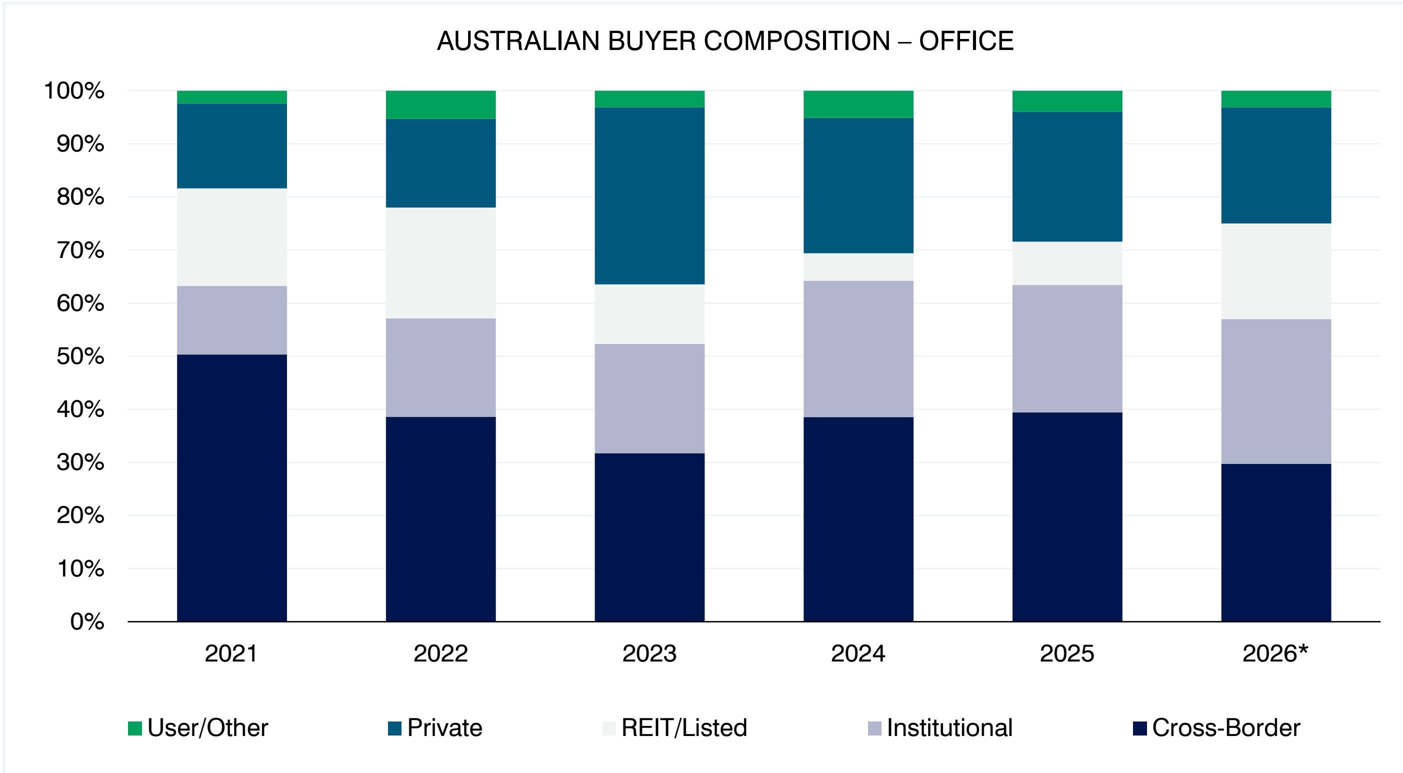


Source: Real Capital Analytics (RCA), M3 Property
Notes: *2026 data is year-to-date as at 30 June 2026

Several major transactions demonstrate this concentration in large individual plays. Significant office sales from 2025 include:

- The complicated sale of the 99-year leasehold Grosvenor Place in Sydney NSW was the single most defining office transaction of 2025. A 75% share held by Blackstone Group was sold in December 2025 across two transactions to existing partial owner Commonwealth Super Corporation (CSC) for a total of $1.35 billion, giving it sole ownership of the leasehold;
- CSC then subsequently sold a 50% interest in the 99-year leasehold of Grosvenor Place for $860 million to General Property Trust (GPT) in December 2025, leaving CSC and GPT each holding a 50% interest in the property;
- 10-20 Bond Street, Sydney, NSW was sold for $580 million to BGO and Investa Property Group in January 2025;
- 175 Liverpool Street, Sydney, NSW was sold for $469 million to Mitsubishi Estate Asia and Nippon Steel Kowa Real Estate in July 2025;
- 750 Collins Street in Melbourne was sold for $381 million to Singapore-based TrustCapital Advisors (TCA) in November 2025; and
- 50% interest Central Plaza One in Brisbane at $206 million in October 2025 to Aravest – reflecting circa $412 million 100% interest.

Sales in the year to date for 2026 include:

- 90-100 Mount Street, North Sydney, sold for $558 million to BGO and Investa Property Group in February 2026;
- A 50% share of 680 George Street, sold for $415.5 million in May 2026 to Centuria Capital Group; and
- A 19.9% interest in Salesforce Tower at 180 George Street Sydney was sold for $357.2 million to OUE REIT in February 2026.

Investment activity is increasingly concentrated in prime assets, while capital continues to diversify into alternative sectors.

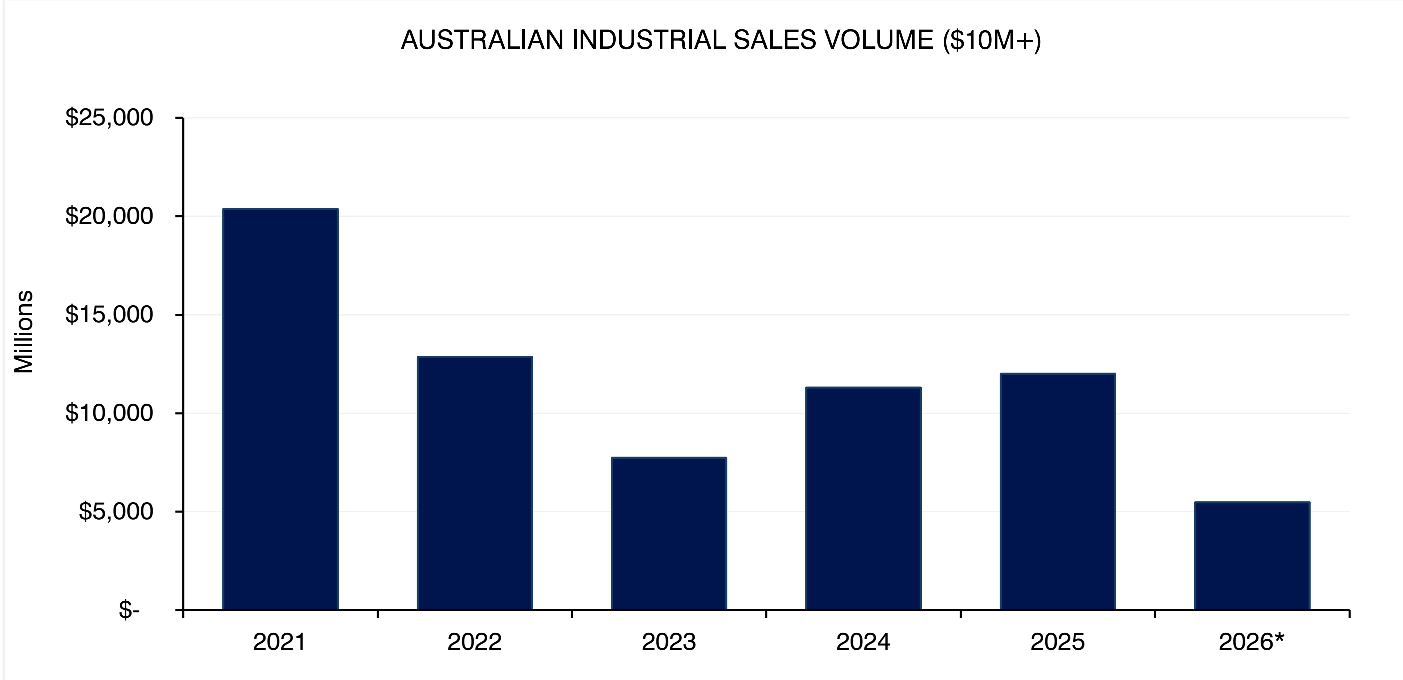
Sydney and Brisbane continue to appear stronger than Melbourne from an investment perspective. Sydney has recorded all of the sales over $500 million sales over the past 18 months, including Grosvenor Place, Salesforce Tower and 90-100 Mount Street. Prime yields in Sydney are reported to be between 5.11% and 5.91% yields. In Brisbane there are currently three large prime assets in Central Plaza Two, 480 Queen Street and 123 Albert Street are all reportedly under due diligence and expected to settle at yields between 6.50% and 7.00%. Overall prime yields in Brisbane and Melbourne are higher than Sydney and currently average range of between 5.75% and 7.25%.

In 2026, the office sector is not only bleeding capital to the retail sector but is also losing capital to non-traditional assets such as data centres, build-to-rent housing, energy infrastructure and the healthcare property sector. These asset classes are attracting capital on the back of significant diversification among investors. Each of these alternative sectors are in demand due to long term structural headwinds such as an increase in overall population, ageing population, explosion of AI driven data demand and severe housing shortages. A prime example of the sort of sales happening in alternative sectors is the sale of 24 Markwell Street, Bowen Hills, a life sciences campus occupied by Sullivan Nicolaides Pathology, sold for $445 million in June 2026.

Office vacancy rates highlight office's decline as the prime commercial asset class. By early-2021, prime office vacancy in Sydney CBD had risen to 8.2% from a low of 2.6% in early 2020. After peaking at 14.1% in mid-2024, Sydney CBD prime office vacancy had eased to 12.5% by mid-2026. Melbourne shows a sharper deterioration, with prime office space increasing from 6.2% in early 2021 to 17.6% in early 2026. Meanwhile, Brisbane has been the best performing market and has seen prime office vacancy actually decrease from 11.5% in early 2021 to 7.7% in mid-2026.

This reflects a pronounced flight-to-quality trend, with demand increasingly concentrated in Sydney CBD, particularly the Core Precinct. Buyer depth remains strongest for well-located prime assets in these markets, while demand for non-CBD office assets remains comparatively thin. By mid-2026, this divergence has become more evident, reinforcing a trend that had been anticipated for several years.

Overall, office investment is being led by investors taking a longer-term view on repricing and market recovery, rather than by broad domestic momentum. Capital continues to flow into the sector, but is increasingly focused on higher-quality assets and stronger leasing markets. In 2025, activity has centred on prime assets in core locations and gateway cities, supported by the flight-to-quality trend and limited availability of high-quality space.



Source: Real Capital Analytics (RCA), M3 Property
Notes: *2026 data is year-to-date as at 30 June 2026

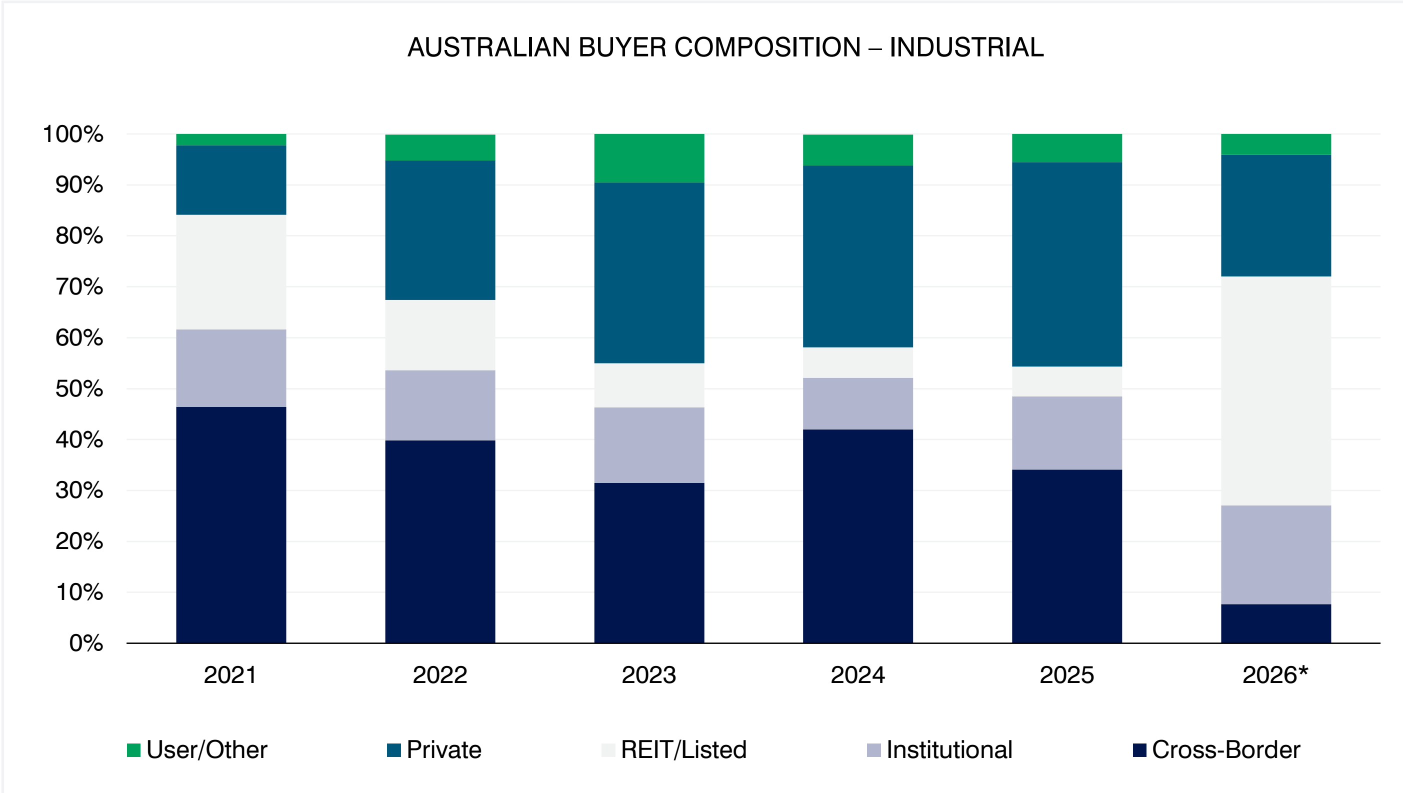
INDUSTRIAL

Industrial remains structurally strong, although its recent performance suggests a market that has normalised rather than accelerated. The underlying fundamentals remain attractive, supported by continued demand for logistics and industrial space, but the pace of transactions and investment of capital is less extreme than during the peak of logistics-led expansion.

In 2025, industrial sales above $10 million reached $12.01 billion across 505 transactions, indicating strong depth and liquidity. Buyer composition remained heavily weighted toward private and institutional capital, with private investors accounting for 38.7% of activity and institutional investors accounting for 35.2%, while cross-border investors represented 10.2% and REITs 9.0%. This mix highlights the continued importance of private ownership in the sector, alongside sustained institutional interest.

In 2026 year-to-date, industrial sales above $10 million have reached $5.48 billion across 150 transactions, pointing to a quieter but still active market. The buyer mix has shifted, with cross-border capital accounting for 34.2% of activity so far, while private investors remain the largest group at 40.1%. Institutional investors have represented 14.4% of activity and REITs 9.0%, suggesting that although offshore capital has become more prominent in the current year, private capital continues to dominate industrial investment.

Major transactions also demonstrate the sector's ongoing appeal. There were five industrial properties sold for over $150 million in 2025 and one industrial property sold to date for more than $150 million in 2026.



Source: Real Capital Analytics (RCA), M3 Property
Notes: *2026 data is year-to-date as at 30 June 2026

The largest transactions from 2025 are listed below:

- The sale of Connect Central Sydney Logistics Estate at 2 Christina Road, Villawood, NSW, which sold in March 2025 for $326.8 million to Gateway Capital, Ontario Teachers' Pension Plan and Korea Investment Corporation through the unlisted Gateway Capital Urban Logistics Partnership, was the largest industrial sale in 2025;
- Port Adelaide Distribution Centre at 25-91 Bedford Street, Gillman, South Australia, was sold for $216 million to Centuria Capital in October 2025;
- Minto Intermodal Facility, 9 Sonny Batter Road, Minto, NSW, was sold for $200 million to Goodman Group in February 2025;
- Gibson Island site, 282 Paringa Road, Murarrie, QLD, was sold for $198.44 million to Goodman Group in November 2025; and
- 85 Sharps Road, Tullamarine, Victoria, was sold for $170 million to AirTrunk in December 2025. AirTrunk plans to build a hyperscale data centre campus on the site.

$327M

largest portfolio sale, 2025

$2B

largest portfolio sale, YTD 2026

The two largest transactions to date in 2026 are:

- Interlink Distribution Centre at 59 Sarah Andrews Close, Erskine Park, formed part of a broader $2 billion portfolio transaction in June 2026, under which Goodman Australia Industrial Partnership agreed to acquire Brickworks Industrial Partnership's 50.1% interest in the portfolio; and
- Greystanes Park at 2 Foundation Place, Greystanes, which sold for $336 million in April 2026 to the Aliro Group Industrial Vehicle.

While the industrial sector is no longer experiencing the peaks of 2021, it remains liquid, well supported and underpinned by durable fundamentals, with strong support by private investors.

CONCLUSION

Overall, the past five years have marked a clear rotation in commercial property performance.

Retail has moved from being the most challenged sector to the strongest, supported by renewed institutional demand, resilient income and limited new supply. Industrial remains fundamentally sound but has shifted into a more normalised phase after its earlier surge, while office is still working through the effects of structural change and higher capital costs.

The result is a more differentiated market, where investors are no longer treating commercial property as a single cycle but are instead allocating capital selectively across sectors according to income resilience, pricing and long-term fundamentals.

For further insight into these sectors, contact our National Directors on the following page. ⟶

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