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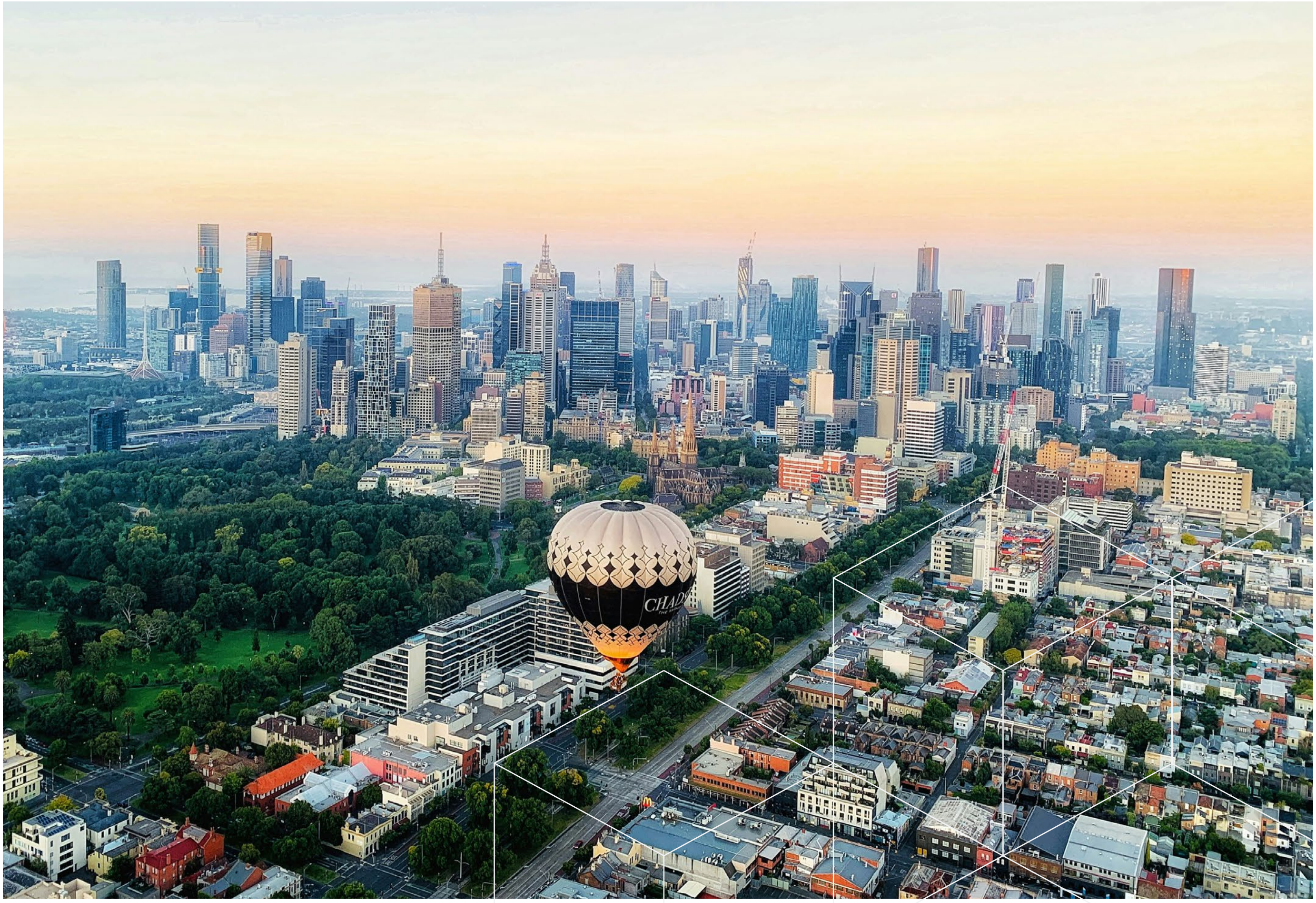


VICTORIAN MARKET SNAPSHOT

APRIL 2025

CONTENTS

M3

VICTORIAN MARKET SNAPSHOT

APRIL 2025

Victoria's property market remained active through H2 2024, despite macroeconomic headwinds.

Industrial saw $4.07B in transactions, driven by offshore and private capital, even though rental growth plateaued. Office vacancies in Melbourne's CBD reached 18%, with incentives remaining heightened and investor activity cautious. Retail recorded $2.05B in sales, with strong demand for sub-regional assets and signs of renewed institutional interest.

Childcare and Healthcare remained resilient, with private capital dominating both sectors. Residential activity remained subdued, but interest rate cuts and tax incentives are expected to lift sentiment in the latter part of 2025. Hotels and Accommodation showed a solid recovery, with ADR and occupancy up, despite reduced transaction volumes year-on-year.

Our experts across valuation sectors share their analysis and insights in our latest Victoria Market Snapshot covering the second half of 2024, as well as what to look out for in 2025, across Childcare, Healthcare, Hotels & Leisure, Industrial, Office, Residential Development and Retail.

CHILDCARE

HARRY DEHNE

Senior Valuer | Specialised Assets

“Australia’s childcare sector continues to evolve amid rising demand, policy reform, and shifting investment trends. The 2024 Inquiry Report from the Australian Competition and Consumer Commission highlighted fee growth across all services since the introduction of the Child Care Subsidy (CCS), urging a shift away from ‘one-size-fits-all’ regulation.

The CCS was expanded in July 2023, increasing affordability for families earning up to $530,000. Investment in the sector remains strong, with 2024 recording $950.9 million in sales—up from $351 million in 2023—although still below the record highs of 2021. Yields range from 5.00% to 6.75%, with investors focused on tenant strength and centre quality.

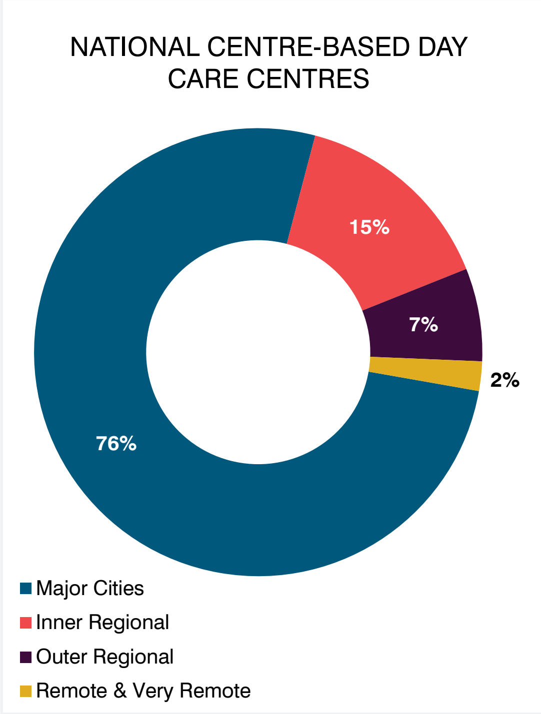
Labour shortages remain a key challenge, though government funding aims to alleviate this. Supply pressures in metro markets are impacting occupancy, while integration of centres into office developments is growing. With bipartisan support and strong demographic trends, long-term demand remains positive. Private investors dominate recent activity as institutional groups continue to divest.”

“AUSTRALIA’S CHILDCARE SECTOR CONTINUES TO EVOLVE AMID RISING DEMAND, POLICY REFORM, AND SHIFTING INVESTMENT TRENDS.”

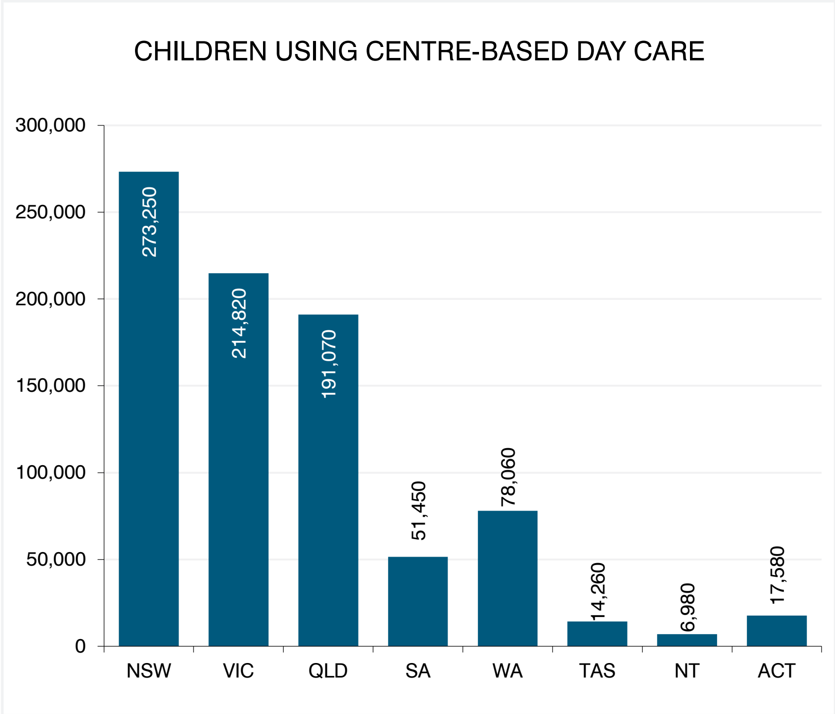
- HARRY DEHNE

CURRENT STATE OF PLAY

- The Childcare Inquiry Report by the Australian Competition and Consumer Commission (ACCC) released in January 2024 highlights the strong growth of childcare fees across all services since the introduction of the Child Care Subsidy (CCS). The ACCC recommends a new approach by the Federal government rather than the current “one-size-fits-all” regulations to deliver the desired objective for both communities and governments.
- Since 1 July 2023, families earning up to $530,000 have been eligible to receive the CCS, with the maximum subsidy increasing to 90% for families earning up to $83,280. The subsidy will decline by 1% for each additional $5,000 in income the family earns. Under the new subsidy, families with more than one child in childcare can also receive a higher subsidy for the additional children if their family income is less than $356,756 per annum



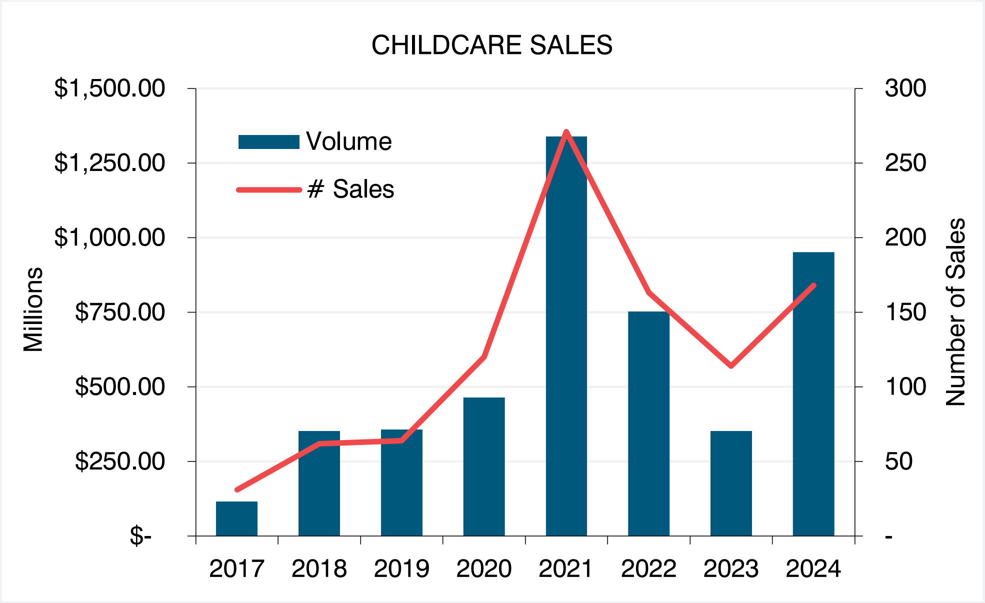
Source: Dept of Education, GapMaps, M3 Property



Source: Dept of Education, GapMaps, M3 Property

INVESTMENT MARKET

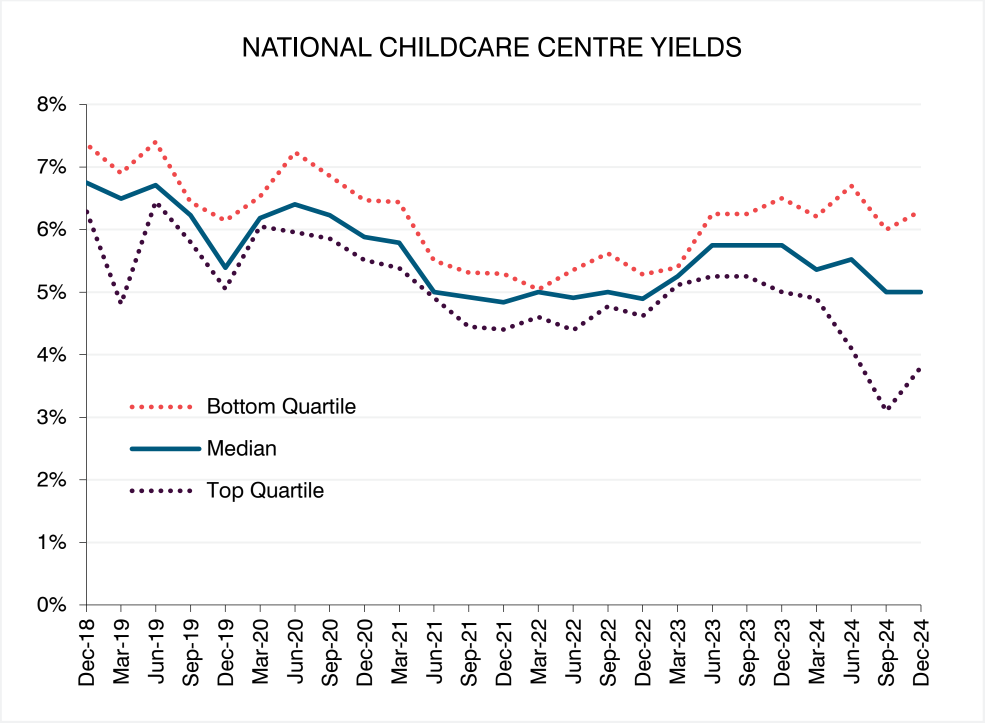
- Childcare centre values are dependent on location, supply/demand, competition, centre size and tenant covenant.
- The childcare investment market showed a high level of resilience during the COVID-19 pandemic. Childcare investment activity reached a record high in 2021, with $1.34 billion of sales (271 properties) recorded nationally.
- While still down on the 2021 record, sales in the childcare sector picked up significantly in 2024. According to Real Capital Analytics (RCA), there were 168 childcare properties sold nationally for a total of $950.9 million for 2024. This compares with a significantly lower $351 million and 114 transactions in 2023.



Source: Real Capital Analytics (RCA), M3 Property

YIELDS

- Yields for prime freehold interests are in the band of 5.00% to 6.75%. Yields tightened over recent years until 2022. Demand for well-placed centres is still competitive, however other market factors like strong rental growth and investor appetite have pushed yields upwards.
- In the current economic environment, the focus of investors has been heightened to the strength of the tenant lease covenant and centres with known established operators often achieve premium market rates, however for sites which do not meet these investment standards, investors are using their buying power to negotiate purchaser-favourable pricing.
- Childcare investors include small and medium-sized operators, and small-scale passive investors along with large investment trusts and owners. Private investors have been the major purchaser over the previous two (2) years.



Source: M3 Property

OPPORTUNITIES AND CHALLENGES

- New supply has pushed occupancy rates down to relatively low levels in some metropolitan markets.
- New childcare centres are increasingly being included in new office buildings and business hubs to cater for demand from office workers.
- The sector continues to face labour shortages which have resulted in some centres placing caps on enrolments, despite being licensed for a higher number of children. The 2023-24 federal Budget included a $1.6 billion investment into the early childhood education workforce, including funding for professional development and training programs; increased funding will help address workforce shortages in the sector.

OUTLOOK

- Over the medium term, the number of children aged 0- to 5- years old is forecast to increase most strongly in Queensland, followed by Victoria and Western Australia, with lower but still strong growth expected in all other states and territories. Furthermore, labour force participation rates are forecast to trend upwards in most states and territories over the medium to longer term and this is expected to contribute to a continued increase in the average number of hours children attend childcare per week. These factors will drive demand for childcare and the development of new childcare centres in some areas.
- There is strong bipartisan government support for the childcare sector that will see continued funding to the sector towards the CCS for family households. As a result, the average daily rate per child across all states has grown by $10-$20 per day, a large increase in discretionary spending for most family households.
- Childcare rents have grown considerably over the last two (2) years following the CCS subsidy and a significant increase in construction costings, resulting in operators being forced to pay higher rents if they wish to operate new centres, by ensuring developments are feasible. We expect this rental growth to continue over the short term.
- Private and foreign investors have been the major purchaser over the last 24 months, we anticipate this interest will continue, albeit we also anticipate institutional funds will begin to re-enter the market.
- An increase in existing centres undergoing refurbishments and upgrades going forward is anticipated in order to compete for customers within the centre's catchment.

HEALTHCARE

SIMON HICKIN

Director | Health, Aged Care & Seniors Living

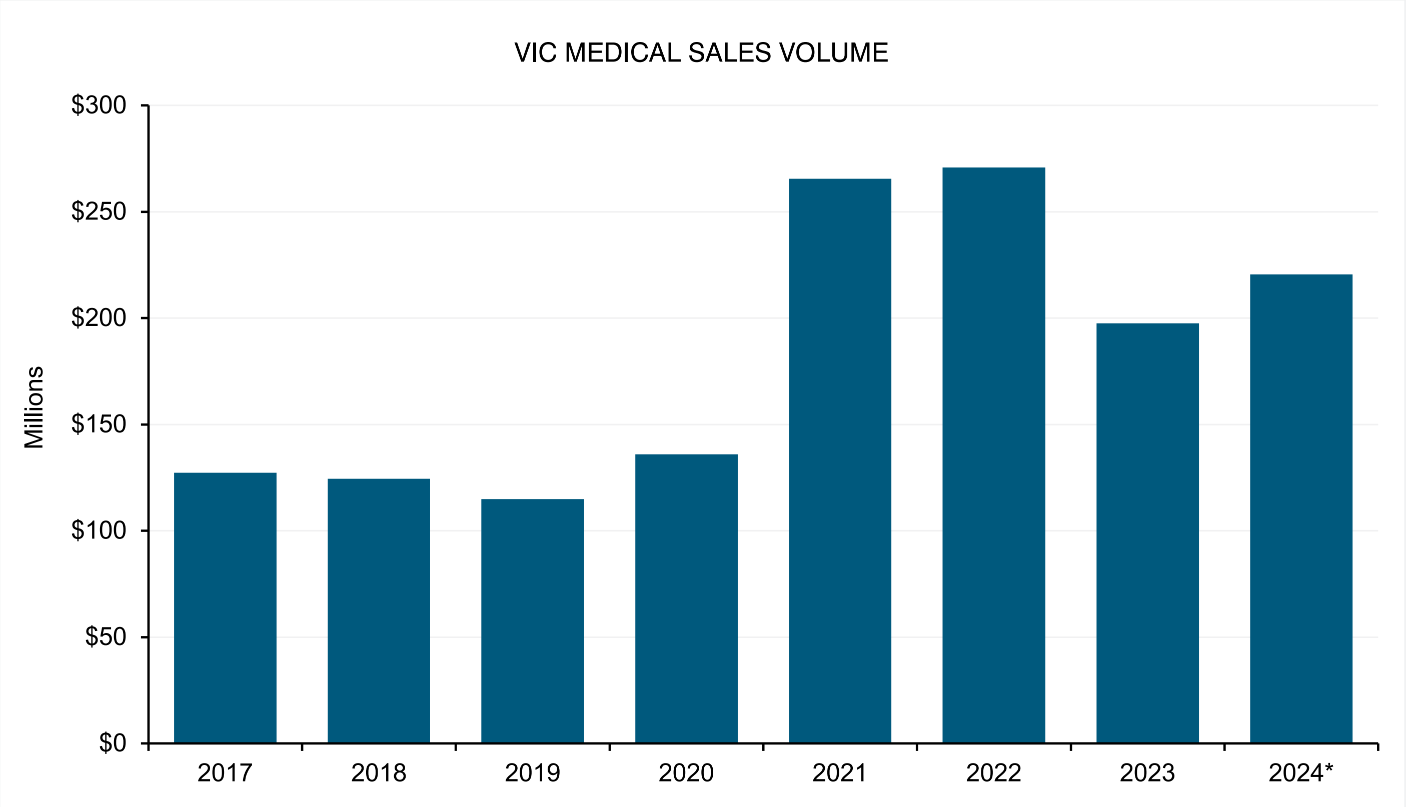
"The healthcare and seniors living sector in Victoria is growing in appeal as a core asset class, supported by strong fundamentals, investment growth opportunities, and resilience amid elevated inflation and interest rates. Institutional capital is increasingly drawn to the sector because of population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

In 2024, Victoria recorded $220.6 million in medical and hospital property sales across 70 transactions, increasing from $197.5 million in 2023. Private investors were the most active buyer's group in 2024, accounting for 91.5% of purchases. Prime medical yields averaged 6%, while secondary assets reached 7.5%, with cap rates softening over the year.

High interest rates dampened overall investment activity, as a disconnect remains between purchasers and vendors even in the face of sustained demand for premium assets, meaning overall transaction volumes remain subdued.

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

Investment demand for high-quality medical assets will remain strong, with interest rate cuts in 2025 likely to assist in more transactional volumes, albeit at stabilised values."



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

INVESTMENT MARKET

- According to RCA, there were 70 healthcare properties sold in Victoria for a total of $220.6 million in 2024.
- This compares with $197.5 million from 74 transactions in 2023.
- Private investors were the most active buyer's group over 2024, accounting for 91.5% of transactions.

YIELDS

- Yields are now averaging around 6% for prime medical centre assets and 7.5% for secondary medical assets (predominantly regionally located older facilities).
- Yields for private hospitals generally range between 5.5% and 6.5% for prime assets and 6.75% and 7.5% for secondary assets.
- Average cap rates have softened by around 25 to 50 basis points in the 12 months to December 2024, with secondary assets softening to a greater extent.

OPPORTUNITIES AND CHALLENGES

- High interest rates during 2024 negatively impacted investment activity in the healthcare market. Smaller investors remained active during the year, although there were good enquiry levels for the handful of higher priced investment-grade assets that came to the market.
- 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.

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 including elevated inflation and the current high interest rate environment will also support this shift.
- The sector will continue to benefit from strong investment interest as new and existing institutional capital is drawn to the asset class thanks to its key fundamentals including population growth, ageing population demographics, government funding and private healthcare.
- Investment demand for high-quality medical assets will remain strong over the medium term. Interest rate cuts in February 2025 may bring more investors into play. The healthcare market is still highly fragmented and there are significant opportunities for consolidation.

HOTELS & LEISURE

ANTONY SCHOBER

Director | Hotels & Leisure

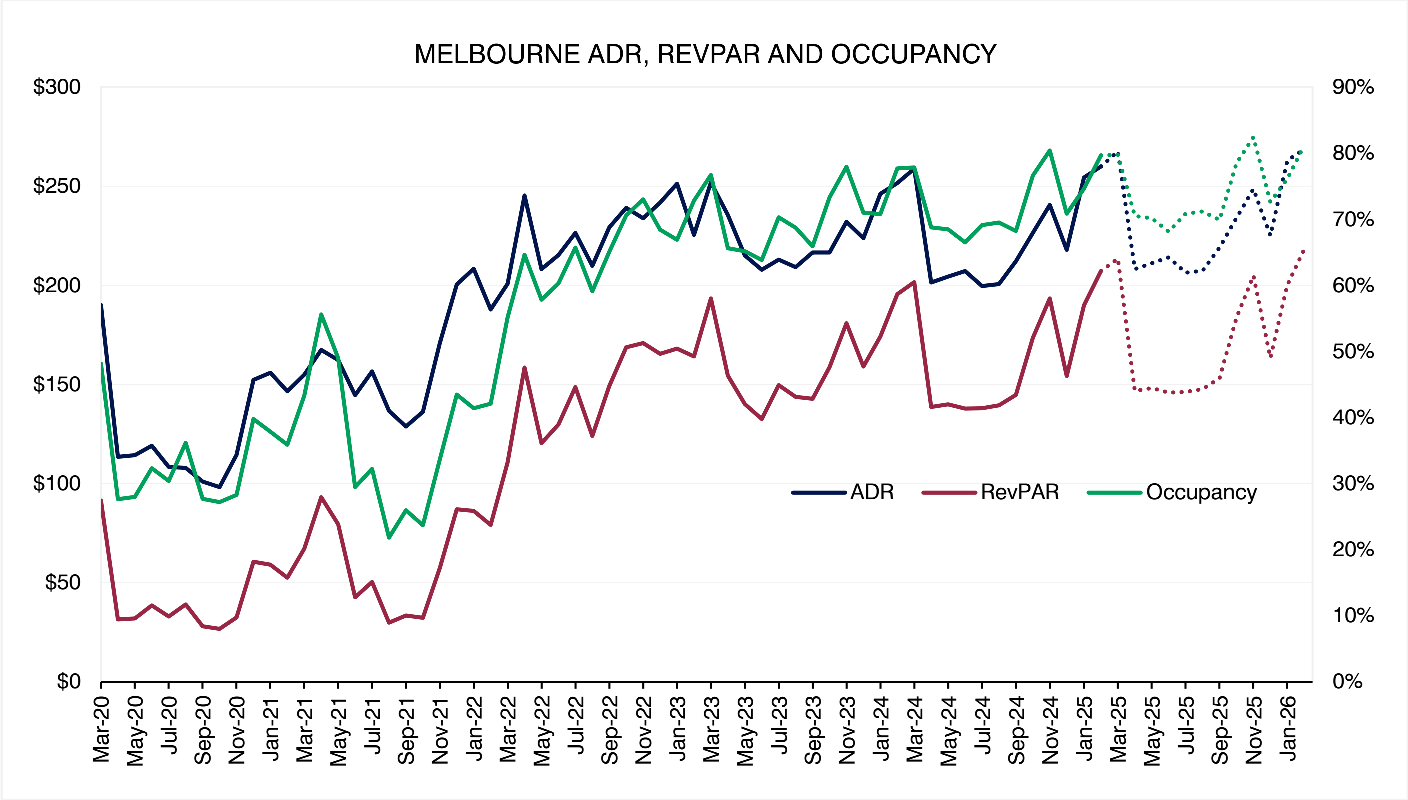
> “Melbourne’s hotel market is showing solid recovery with January 2025 occupancy at 74.63%, up nearly 4% year-on-year and only 10% below pre-Covid levels, even though 1,100 new rooms have been added over two years. Revenue per available room has returned to pre-pandemic levels, driven by strong Average Daily Rate growth amid inflation, improved stock quality, and shifting travel trends. International and domestic visitor numbers remain below pre-pandemic levels but are rebounding.
>
> With 1,800 rooms in the pipeline and growing demand for sustainable, high-quality offerings, evolving tourism trends are reshaping Melbourne’s hospitality investment and operational landscape.”

“REVENUE PER AVAILABLE ROOM HAS RETURNED TO PRE-PANDEMIC LEVELS, DRIVEN BY STRONG AVERAGE DAILY RATE GROWTH AMID INFLATION, IMPROVED STOCK QUALITY, AND SHIFTING TRAVEL TRENDS.”

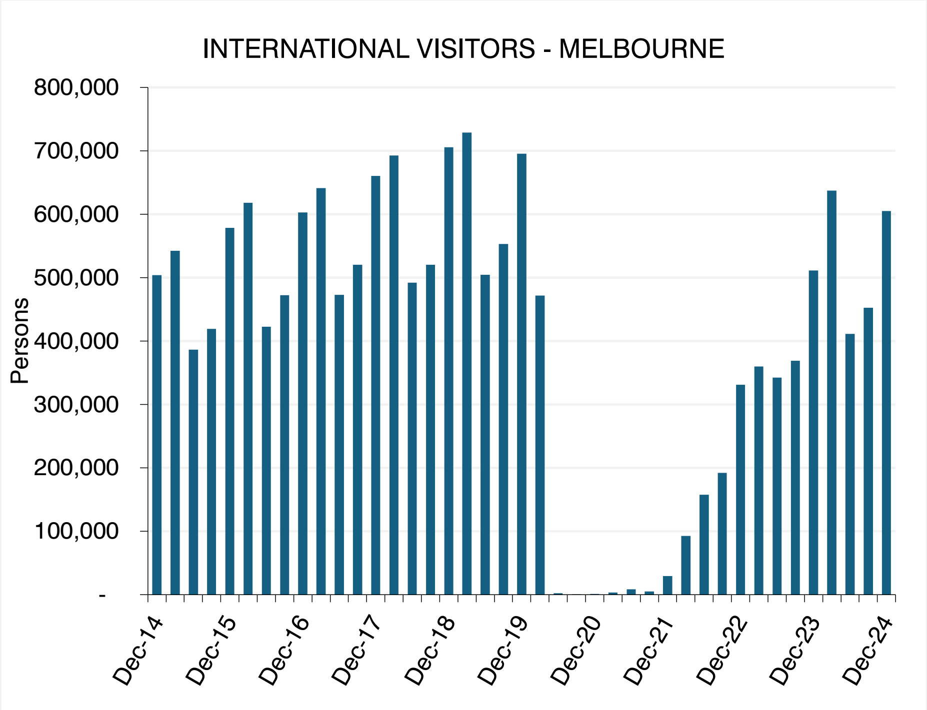
- ANTONY SCHOBER

CURRENT STATE OF PLAY

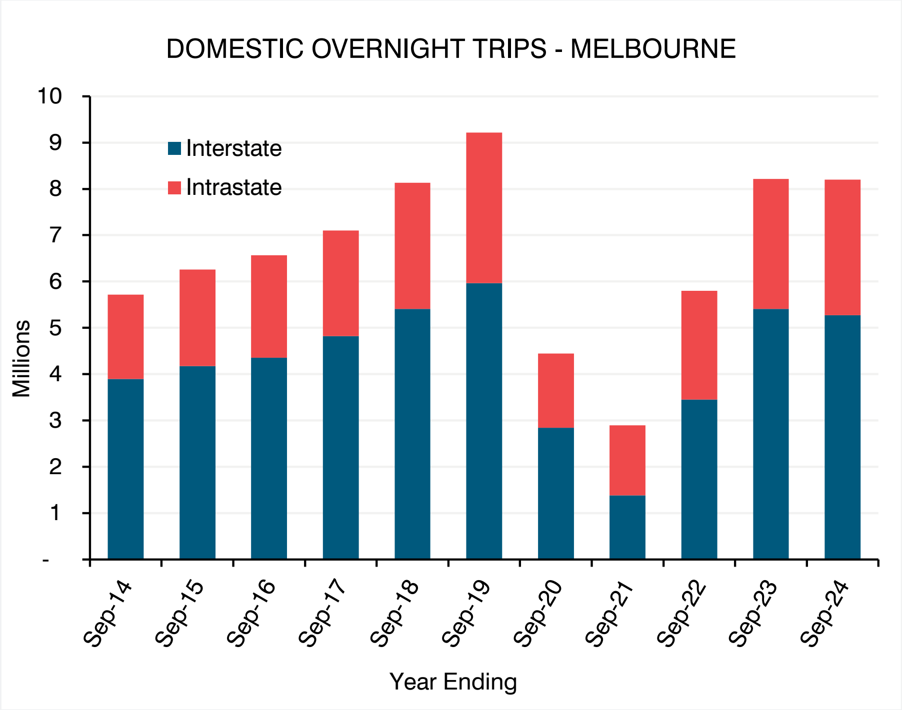
- Prior to the onset of the pandemic, the Melbourne occupancy rate generally ranged between 80% and 90%. Occupancy rates per room are about 10% below pre-Covid levels, with the Melbourne market recording 74.63% occupancy rates in January 2025, which is almost 4% higher than the vacancy level recorded in January 2024.
- There has been extensive new supply of hotel rooms come to the market over the past 24 months. Despite this additional supply of around 1,100 new rooms, occupancy rates increased year-on-year indicating the market has absorbed the new supply.
- Revenue per available room has recovered to pre-pandemic levels which is a result of significant Average Daily Rate (ADR) growth, influenced by a number of factors including strong inflation, with operators passing on increases in outgoings; increased quality of stock driving premium rates; and evolving travel trends increasing demand.
- International visitor numbers have started rising on a quarterly basis; however, they remain significantly lower than pre-pandemic levels. During the year ending September 2024, there were 2.01 million international visitors, spending a total 43.6 million nights, in the region.
- There were 8.19 million domestic overnight visitors to the Melbourne region during the year ending September 2024 which is 14.7% below pre-pandemic levels. Intrastate visitors accounted for 23% of domestic overnight visitors during the year.



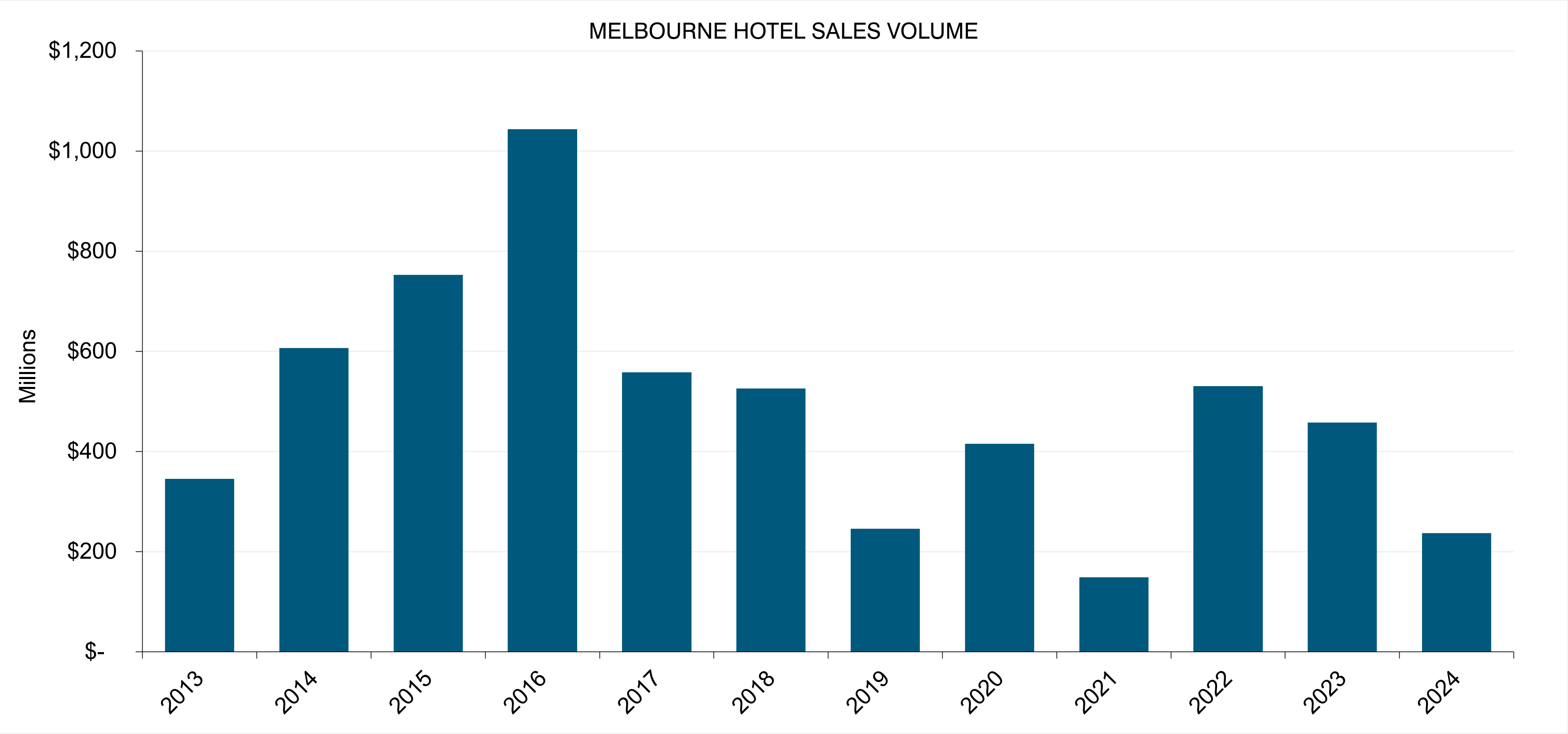
Source: M3 Property, STR



Source: TRA, M3 Property



Source: TRA, M3 Property



Source: STR, M3 Property

TRANSACTIONS

- Activity in Melbourne is lower than in 2023 due to several interrelated factors including reduced investor demand related to economic uncertainty and interest rates, government policy and taxation and unrealistic bid-ask spread between buyer and seller expectations.
- A further key factor in the lack of transactions is that hotel owner's have set high expectations around transaction prices on the basis that if the property doesn't sell that they will continue to trade instead. With international and domestic tourism returning to pre-Covid levels, hotel owners are currently happy to trade and recoup lost revenue from the border closures.
- According to RCA, there were seven transactions of hotel assets across Melbourne during 2024, totalling $237 million, compared to $457.8 million of total hotel transactions across nine sales in 2023.
- Institutional investors formed the largest group of buyers at 55.4% in 2024, followed by private groups at 39.6%.

OPPORTUNITIES AND CHALLENGES

- There are a significant number of new hotel rooms in the pipeline. There are an estimated 1,800 new rooms due to be added to the Melbourne supply in 2025 and 2026.
- We expect increased transaction activity with bid-ask spreads expected to narrow.
- Changing consumer expectations and travel trends around sustainability and social governance will continue to influence both consumer decision making and investment.
- Demand for good quality, sustainable assets is expected to grow, together with consumer demand for higher quality accommodation products and services.
- Evolving technology continues to improve efficiency in hotel management, with potential to reduce staffing levels and improve margins.
- New trends such as leisure travel, digital nomadism, eco-tourism, wellness tourism and boutique product positioning are all contributing to the transforming market.

INDUSTRIAL

PATRICK CURRAN
Director | Industrial

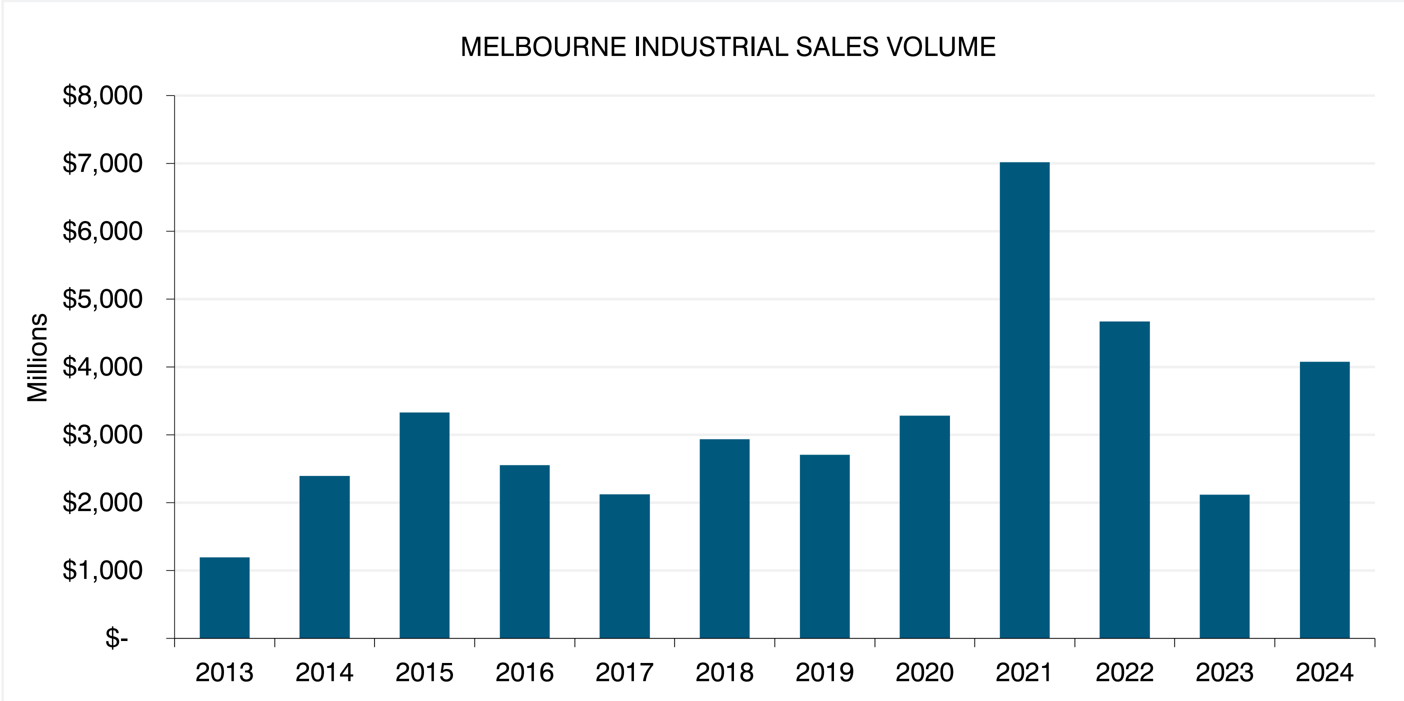
> “The Melbourne industrial market, although stifled, showed significant resilience through the majority of 2024. This is despite headwinds from taxation uncertainty, a lack of confidence in the state government and limited market participation from institutional players.
>
> Yields appear to have stabilised and the Reserve Bank of Australia reduced the cash rate by 25 basis points in February 2025. Although inconsistent, December 2024 to February 2025 saw some strong transactions in the $5 to $30 million bracket.
>
> Double digit rental growth slowed in the second half of 2024 due to strong supply coming online. Rental growth is expected to return to long-term trends in the immediate future.”

CURRENT STATE OF PLAY

- High net worth individuals and syndicates are becoming more active in the $10 to $30 million investment market as listed Real Estate Investment Trusts (REITs) continue to sit out of the market, due to their increasing cost of capital.
- The increase in the cost of funding and uncertain economic environment underpinning the industrial sector has contributed to decreased transactional activity and softening of industrial yields across Australia. Melbourne prime yields are considered to have softened by circa 125 basis points over the 24 months to December 2024.
- 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.
- Yield expansion is generally considered to have tempered with stability evident at the current levels.
- December 2024 to February 2025 saw a moderate increase in transactions, mostly at circa $30,000,000 and below; the market above this amount remains thinly traded when compared with long-term trends.

“DESPITE HEADWINDS, THE MELBOURNE INDUSTRIAL MARKET REMAINED RESILIENT THROUGH 2024 AND IS BEGINNING TO SHOW GREEN SHOOTS FOR 2025.”

- PATRICK CURRAN



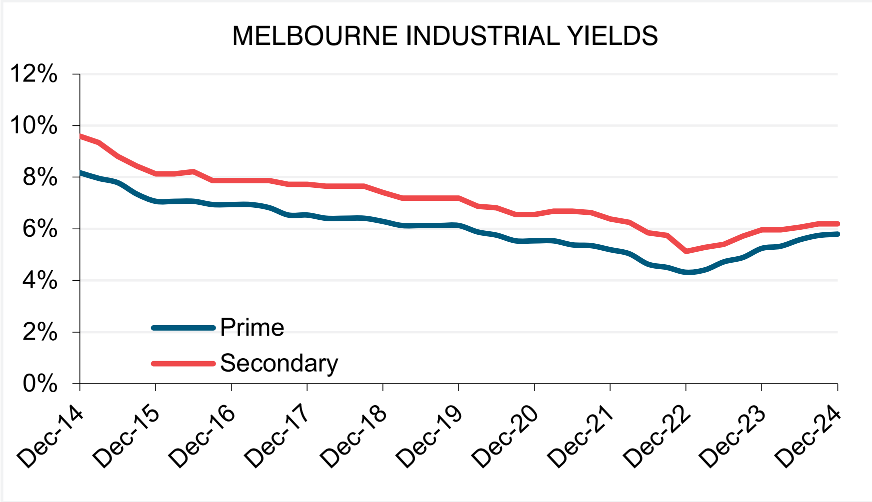
Source: Real Capital Analytics (RCA), M3 Property
Note: sales over $5 million

INVESTMENT MARKET

- According to RCA, there were 196 industrial sales totalling circa $4.07 billion recorded across the Melbourne market to the end of 2024, compared with 92 sales totalling circa $2.1 billion for 2023.
- The largest sale during 2024 was the sale of the Austrak Business Park in Somerton for $600 million. The property was purchased by joint venture partnership between Aware Super and US-based Barings.
- Offshore investors were the largest buyers of industrial property in Melbourne in 2024 with 44.8% of transactions, followed by private investors at 41.6% of transactions.
- The market participation of listed and unlisted REITs remained subdued for 2024 as a ‘wait and see’ approach was adopted regarding interest rates and ongoing inflation.

YIELDS

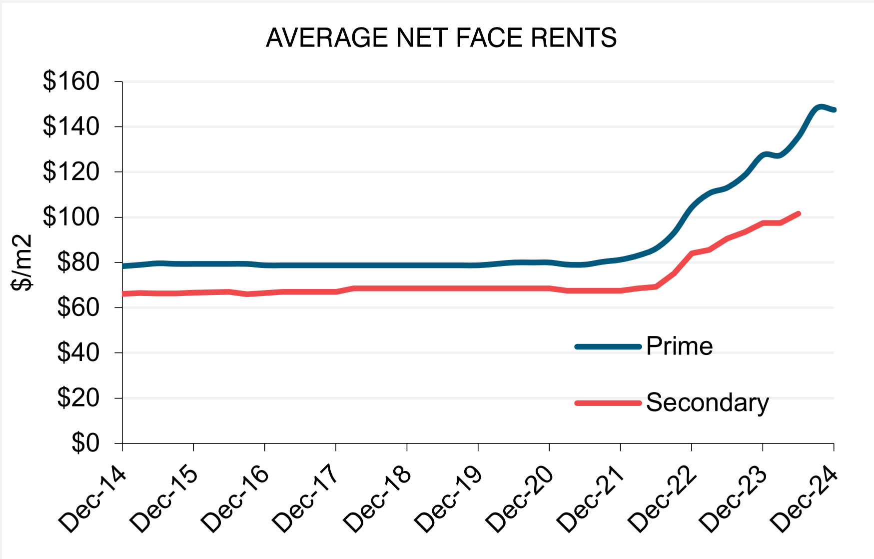
- Prime assets are currently trading at yields between 5.25% and 6.25%. Secondary assets are trading between 5.75% and 6.75%.
- Prime yields softened by circa 55 basis points while secondary yields softened by circa 25 basis points in the twelve months to end of 2024.
- In the decade prior to 2021, healthy investor appetite and the spread between property yields and interest rates exerted significant downward pressure on yields. However, economic uncertainty and the cost of debt have seen yields soften over the past two years.



Source: M3 Property

RENTAL MARKET

- The Melbourne industrial market saw strong growth in net face rents in the 12 months to December 2024, recording about 15% growth for prime assets and about 12% for secondary assets. All this growth occurred in the first half of 2024; during the second half of the year, rents remained stable as the leasing market cooled.
- Over the first half of 2024, incentives remained broadly steady for prime (an average circa 11%) and secondary buildings (an average circa 6.5%). However, as the leasing market cooled during the second half of the year, prime incentives increased to an average circa 13.5% and secondary incentives increased to an average circa 9%.
- There is a sense that in the past six months rental growth has plateaued.



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 southeast 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) cut the interest rate by 25 basis points to 4.10% at its February 2025 meeting, after keeping the rate on hold at 4.35% since November 2023 to combat rising inflation. As per the advice of the RBA, further material cuts are unlikely in the near term.
- 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

> "As of January 2025, Melbourne CBD's office market comprises 5.18 million square metres of stock, with vacancy sitting at 18% due to subdued demand and ongoing new supply. Prime face rents rose 5.71% over 2024, while incentives increased, impacting net effective rents. Investor activity remains cautious amid softening of yields and extended selling periods.
>
> In 2024, $960.6 million in sales were recorded, led by offshore buyers. Occupier demand favours high-quality, sustainable buildings. There continues to be a growing gap between Prime Grade assets compared to Secondary stock. The new Commercial and Industrial Property Tax has introduced uncertainty in the market. Despite current challenges, a positive employment outlook supports rental growth and future occupier demand, particularly for flexible, amenity-rich office space."

CURRENT STATE OF PLAY

- According to the Property Council of Australia (PCA), there was 5,179,104 square metres of office space in the Melbourne CBD as of January 2025; an increase of 8,755 square metres from January 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 increased from 16.6% in January 2024 to 18% in January 2025. However, the vacancy rate remained stable over the months from July 2024 to January 2025 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.
- Over the past five years, there has been an average of 83,556 square metres of new supply added to the market every six months. Accounting for withdrawals, net supply additions averaged 55,839 square metres every six months.
- There is currently 211,627 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 468,627 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

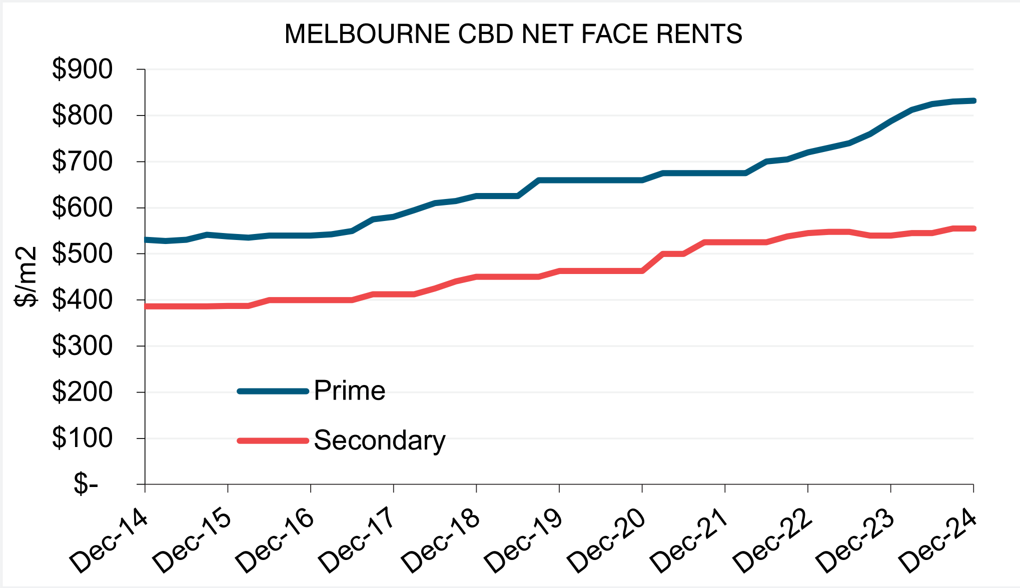
- Prime net face rents increased by 5.71% over the year to the end of 2024 to range between $675 and $980 per square metre. Prime incentives ranged between 37.5% and 45.0% at the end of 2024. Incentives bottom line have increased over the year.
- Secondary net face rents ranged between $500 and $610 per square metre at the end of 2024, growing by 2.78% over the year. Secondary incentives generally range between 37.5% and 45.0%, tightening the bottom line and resulting in a 0.68% increase in secondary net effective rent.

YIELDS

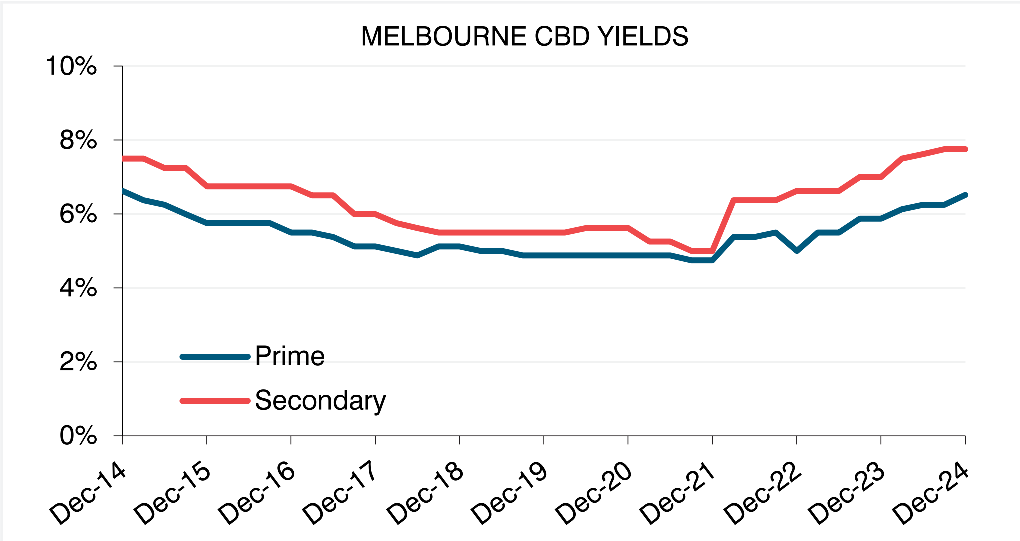
- At the end of H1 2024, yields ranged between 5.50% and 7.25% for prime buildings and 7.50% and 8.75% for secondary buildings.
- Prime and secondary yields continued to soften over 2024; prime yields are estimated to have softened by circa 50 basis points, and secondary yields by circa 100 basis points, over the 12 months to the end of 2024.

INVESTMENT MARKET

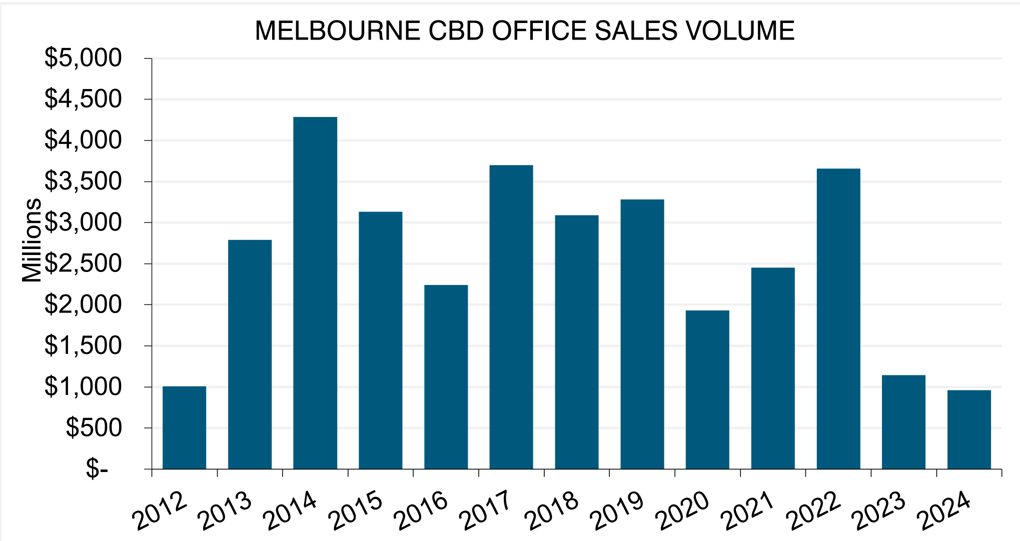
- According to RCA, there were 17 sales totalling $960.6 million recorded in the Melbourne CBD Office market to the end of 2024, higher than the 11 sales totalling $655.2 million recorded for 2023.
- Offshore buyers accounted for the largest share of sales (by total value transacted) with 42.4% of the transactions in 2024, followed by private (27.6%) and institutional investors (12.1%).



Source: M3 Property



Source: M3 Property



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

OPPORTUNITIES AND CHALLENGES

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

OUTLOOK

- There is 211,627 square metres of supply under construction in the Melbourne CBD. The increased cost of construction as well as rising interest rates have potential to push some development timeframes out.
- 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 forecast to rise modestly in 2025, while 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.

RESIDENTIAL DEVELOPMENT

LUANA KENNY

Managing Director

The recent rate cut and off-the-plan stamp duty savings is expected to marginally improve market sentiment, following a subdued 2024, although the measures in place are unlikely to result in the price growth required to improve the viability of feasibilities. While the market will continue to be cautious, we do expect nominal growth within the Victorian housing market in the second half of 2025.

Fundamentally, low housing supply and construction starts, increased population, and low unemployment rates will support future growth in the price of dwellings, with increased development activity and a resulting increase in housing supply.

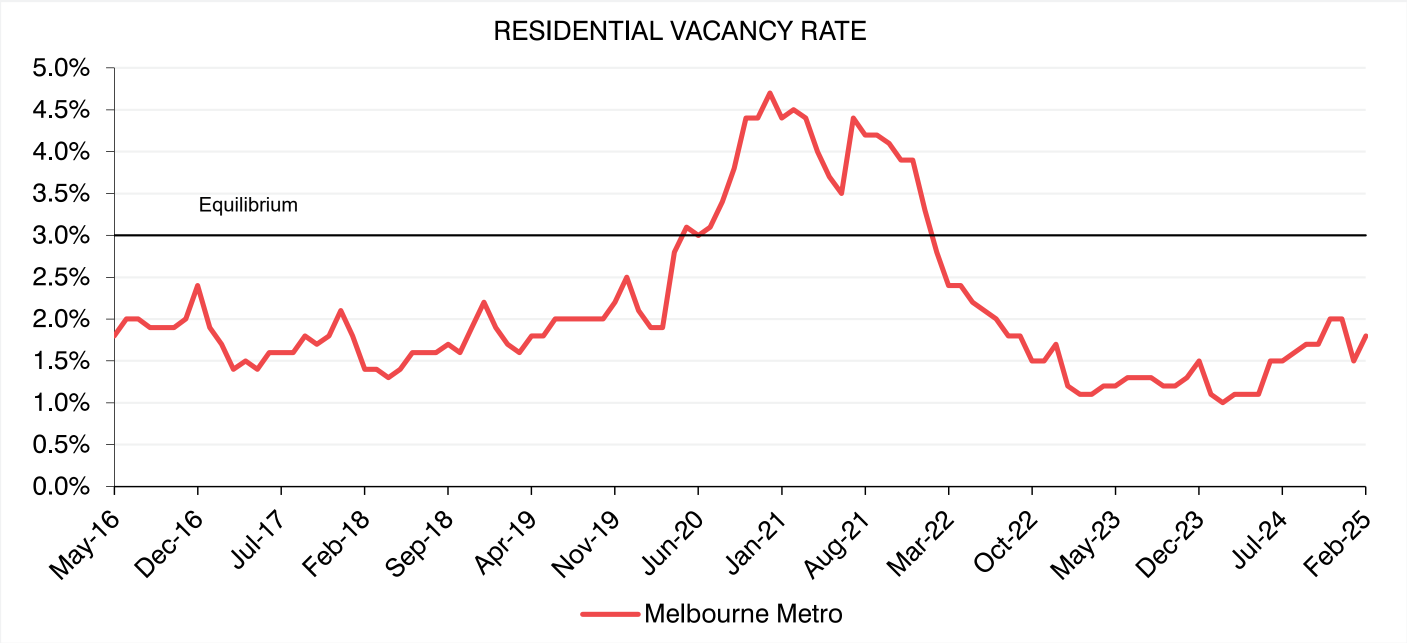
Whilst the market remains subdued, there have been some cases of rebalanced land prices and stabilisation of construction costs, which should help to bring more apartment projects to the market once price growth is experienced in the latter part of 2025 and early 2026.

"WHILE THE MARKET WILL CONTINUE TO BE CAUTIOUS, WE DO EXPECT NOMINAL GROWTH WITHIN THE VICTORIAN HOUSING MARKET IN THE SECOND HALF OF 2025."

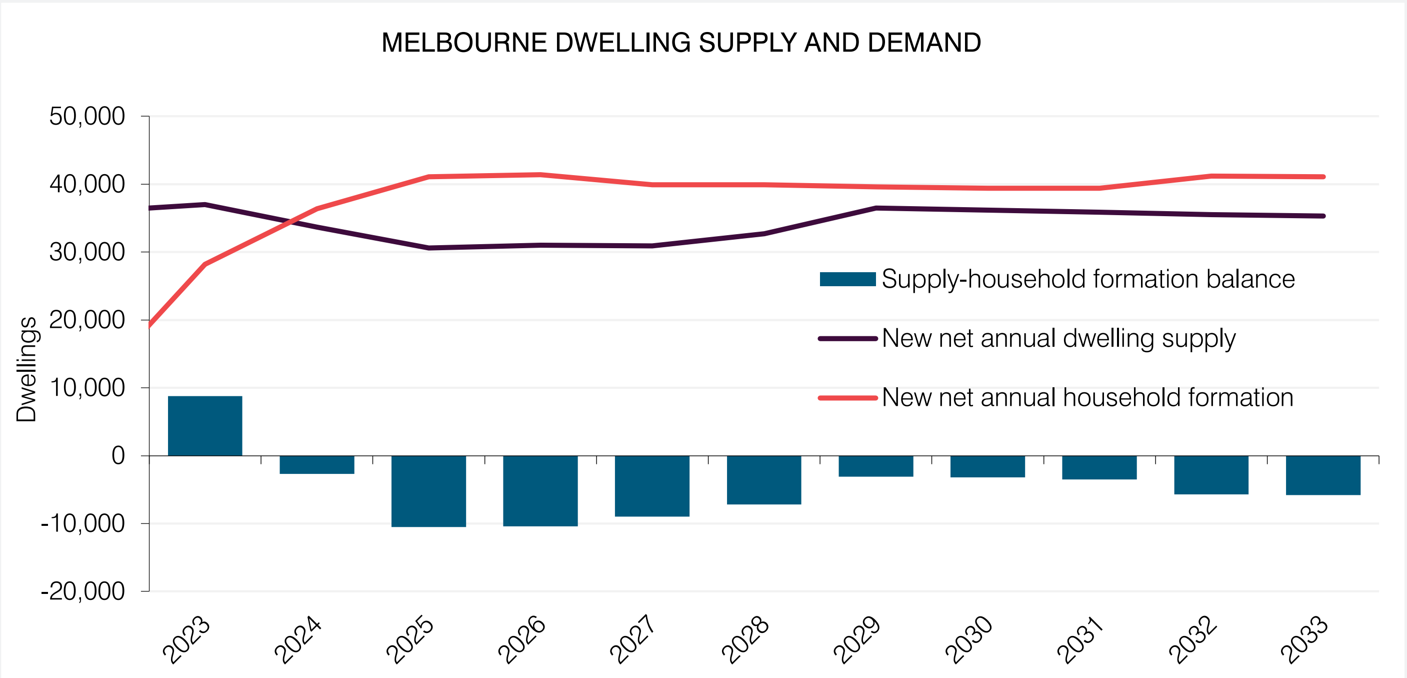
- LUANA KENNY

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 1.5% in January 2025.
- According to CoreLogic, Melbourne's median house price was $916,763 at the start of March 2025, a year-on-year decline of 2.76%. Unit prices decreased by 0.48% year on year to reach $604,574 by March 2025.
- The Melbourne market recovery has stalled, with median house prices dropping over the last six months. Prior to the February 2025 interest rate cut from the RBA, Oxford Economics forecast house prices were expected to decline by 4% during 2025, before recovering into the medium term. However, the recent interest rate cut is likely to provide a modest boost to the market, and nominal growth during 2025 is now expected.
- The median unit price has been stable for the last few months of 2024 and is expected to remain largely stable in the first half of 2025. 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. Prior to the February 2025 interest rate cut from the RBA, Oxford Economics forecast unit prices were expected to decline by a marginal 0.3% for CY25. However, the recent interest rate cut is likely to provide a modest boost to the market, and nominal growth in the latter half of 2025 is now expected.
- There were 52,739 dwelling approvals in the 12 months to December 2024, up 1.96% on the 51,724 approvals in the 12 months to April 2023. 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 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.
- 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.



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 face significant 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 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 housing supply to the market in these areas.
- The 2024 Victorian state Budget allocated $700 million to expand the Victorian Homebuyer Fund, which helps first time buyers purchase properties up to a value of $700,000 in regional Victoria, or $950,000 in metropolitan Melbourne. The Victorian scheme will end once the federal government's Help to Buy scheme is established.
- The state government has recently introduced further property taxes, 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.

OUTLOOK

- Population growth has rebounded which will assist with a market recovery in the longer term.
- In the short term, Oxford Economics forecasts the market to remain subdued with house and unit values both expected to decline during 2025. However, the recent interest rate cut is likely to provide a modest boost to the market, and nominal growth during 2025 is now expected.
- Over the longer term Oxford Economics is forecasting a market recovery with stronger growth for both houses and units in 2026-27.
- Increasing overseas and domestic migration rates will place upward pressure on housing demand, supporting an increase to unit and housing price in the longer term and demand for CBD and inner-city apartment developments, which have faced challenges since early 2020.

RETAIL

SHAUN O'SULLIVAN
Director | Retail

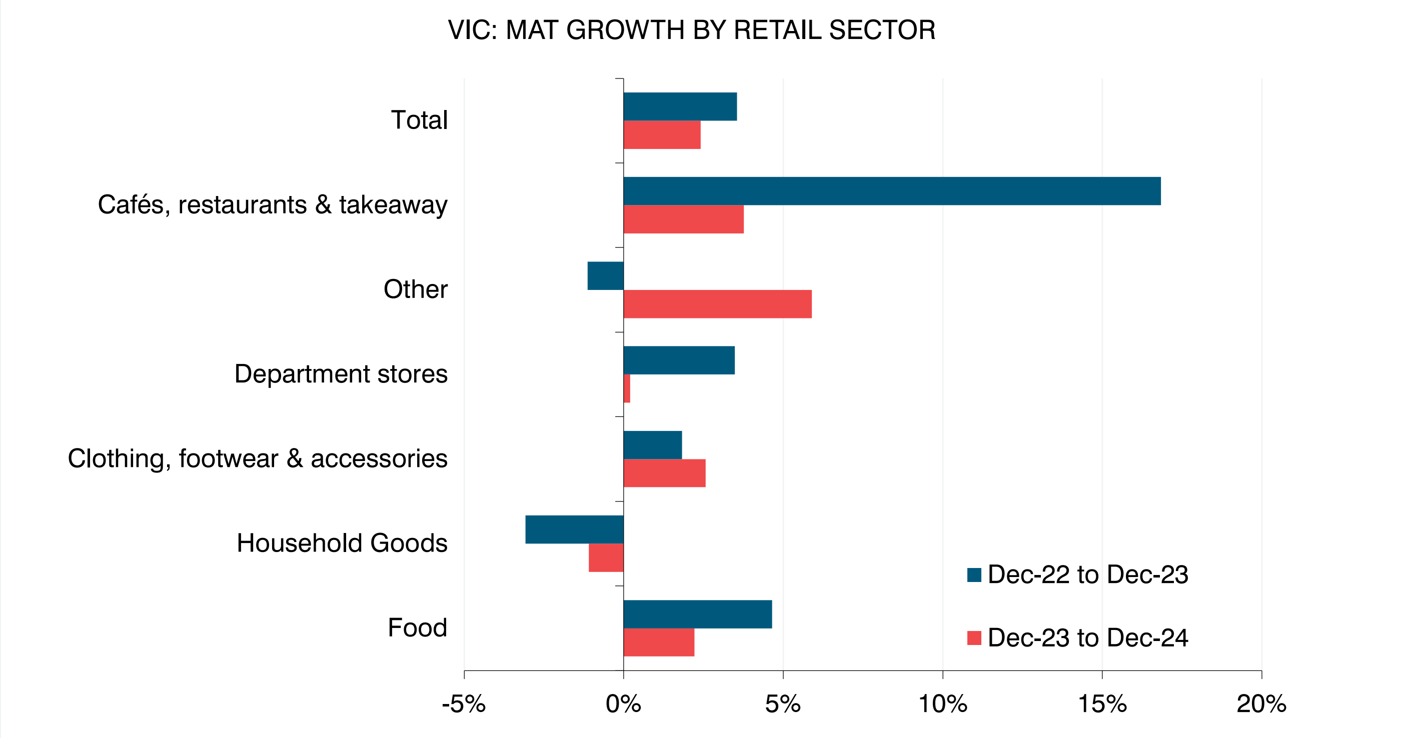
> "In 2025 the Shopping Centre and Retail investment market is poised for continued gains.
>
> There was renewed interest in retail assets across all key retail sub-categories in 2024. Attracted by the higher yields offered by regional and sub-regional assets in comparison to other asset classes, interest in a number of these centres transacted, reflecting activity in this asset class that was not present during 2023.
>
> We also saw the re-emergence of institutional investors as buyers, signaling improved sentiment in the sector.
>
> Moving into 2025, transactions are continuing to occur as owners re-weight their portfolios and recycle capital. The supply of assets for sale may be constrained with institutional investors having already disposed of many non-core assets and private investors being less inclined to sell in a strengthening market. This will put downward pressure on yields for certain sub-categories.
>
> On the income side, whilst rents have stabilised with positive leasing spreads occurring, subdued consumer confidence has impacted turnover growth.
>
> The impact of cost-of-living pressure and sustained higher interest rates continues to dampen retail spending across all categories, but there is expectation for improvement during 2025 now interest rate cuts are beginning to materialise."

“MOVING INTO 2025, TRANSACTIONS ARE CONTINUING TO OCCUR AS OWNERS RE-WEIGHT THEIR PORTFOLIOS AND RECYCLE CAPITAL.”

- SHAUN O’SULLIVAN

CURRENT STATE OF PLAY

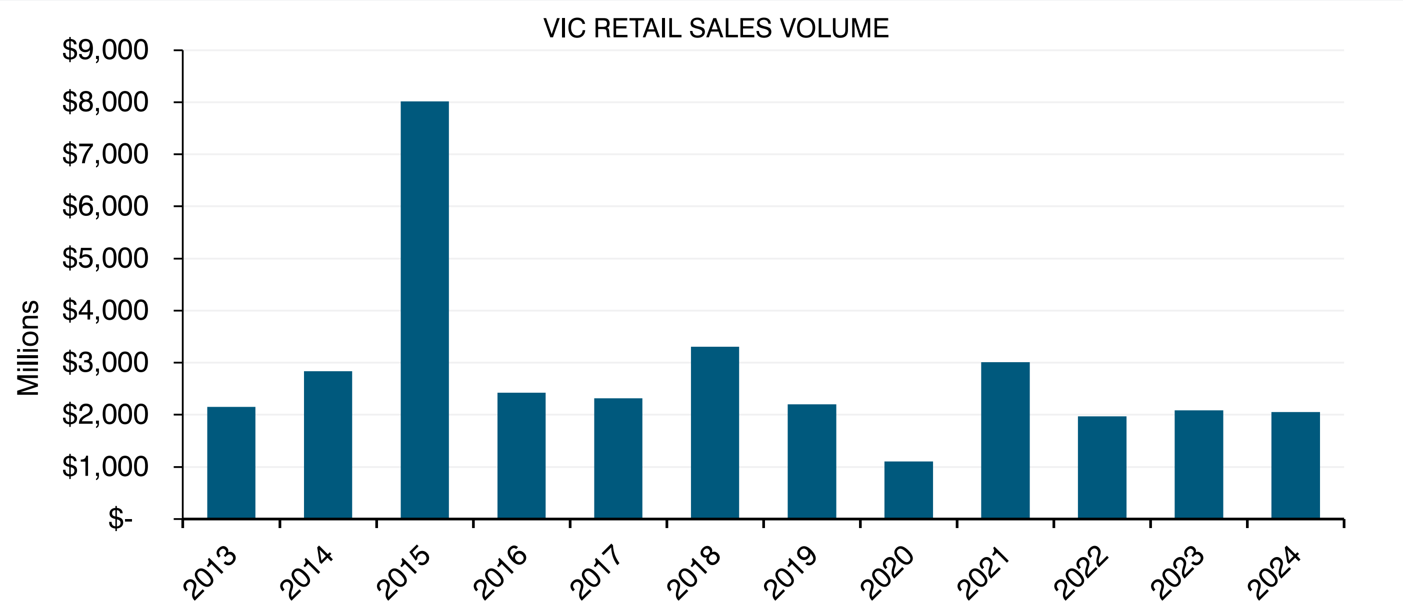
- Total retail spending growth in Victoria for the 12 months to December 2024 was 2.42%, down from 3.55% growth for the 12 months to December 2023.
- The strongest growth by retail category was recorded in cafes, restaurants and takeaway (3.77%), followed by clothing, footwear and accessories (2.57%).
- 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 70 retail sales totalling $2.05 billion across the Victorian market for 2024 on-par with the 69 sales totalling $2.08 billion in 2023.
- Private buyers were the largest buyer group in 2024, accounting for 52.2% of sales (by dollar value). Additionally, there was a healthy mix of listed funds/REITs, offshore and institutional investors in the market. Listed funds/REITs represent 22.3% of Victorian retail transactions. whereas institutional and offshore investors accounted for 16.2% and 8.3% respectively.



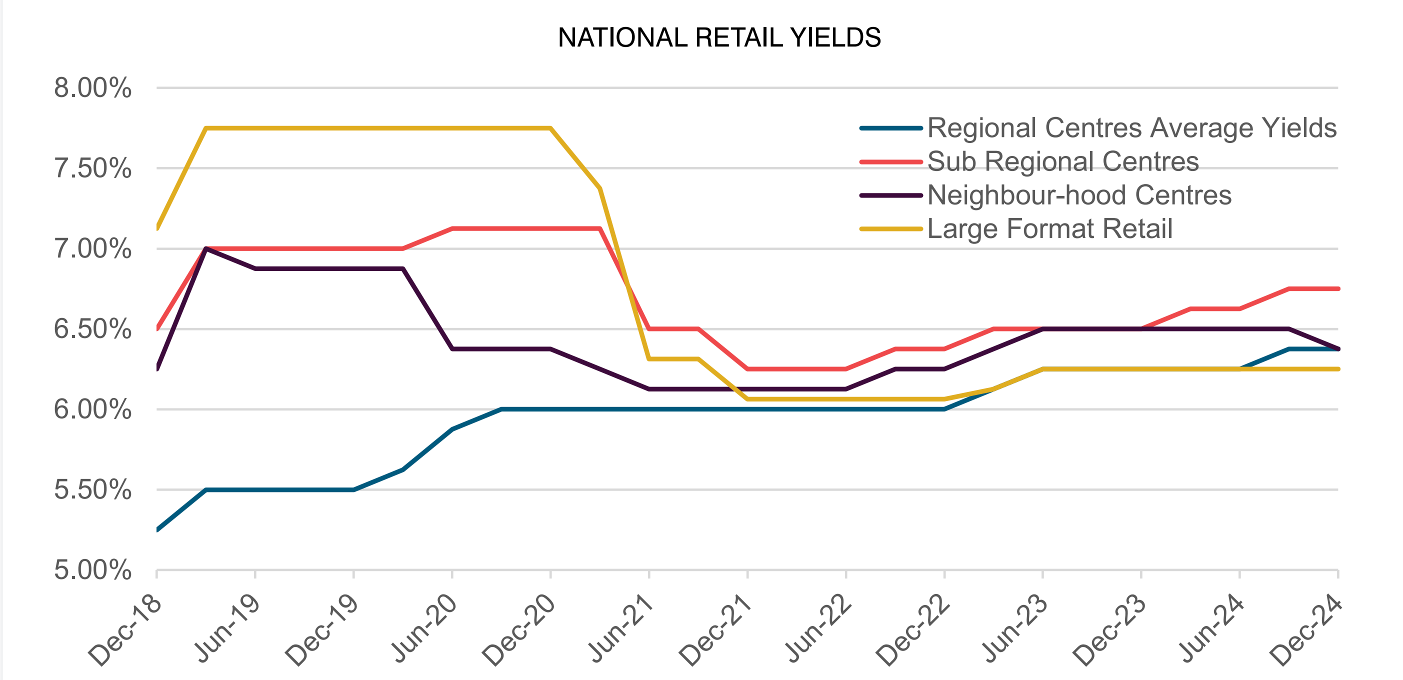
Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over $5 million

TRANSACTIONS

- In the last six months we have witnessed a number of large transactions being completed in Victoria including $385m for a 50% share of Northland Shopping Centre (GPT to Nikos Property) and $223.5m for David Jones Melbourne (Woolworths Group to IP Generation).
- There are also potential transactions for Woodgrove Shopping Centre (c$440m) and Waverley Gardens (c$180m).
- Private investors held on to their assets over 2024, whereas REITS and institutional investors have disposed of some retail assets as part of their re-evaluation of portfolio allocations. However, disposals by institutional investors are expected to moderate for the remainder of 2025.

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%.
- 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.
- The 50% interest in Northland reflected a market yield of circa 6.50% and Woodgrove is expected to reflect a similar yield depending on the result of the campaign.
- Prime yields for CBD retail properties generally ranged from 1.75% to 4.75% during the December quarter 2024. Secondary yields ranged between 3.5% and 6.5%.



Source: M3 Property, RCA

OPPORTUNITIES AND CHALLENGES

- Retailers are seeking increased store sizes in quality centres to drive productivity.
- Supply of retail floor supply continues to be constrained but stabilising and potentially reducing construction costs may change the status.
- 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 hurdle.
- 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

- 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. Further rate cuts later in 2025 will continue to improve sentiment.
- The February rate cut means purchasers are likely to become more active in considering assets offered for sale during 2025. The potential for further rate cuts in 2025 is buoying the investment market.

KEY CONTACTS

LUANA KENNY
Managing Director
luana.kenny@m3property.com.au

ANTONY SCHOBER
Director | Specialised Assets
antony.schober@m3property.com.au

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

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

SHAUN O'SULLIVAN
Director | Retail
shaun.osullivan@m3property.com.au

SIMON HICKIN
Director | Healthcare
simon.hickin@m3property.com.au

HARRY DEHNE
Senior Valuer | Specialised Assets
harry.dehne@m3property.com.au

M3 PROPERTY

m3property.com.au