



NEW SOUTH WALES MARKET SNAPSHOT

SEPTEMBER 2025

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NEW SOUTH WALES
MARKET SNAPSHOT
SEPTEMBER 2025

In H1 2025, transaction activity across NSW property sectors has remained mixed, with lower interest rates supporting a cautiously optimistic outlook moving forward. The Sydney CBD office market saw limited transactions due to low asset availability, although investor sentiment is improving amid easing interest rates and increased market activity is expected during the remainder of the year. Leasing demand remains stable, with growth in prime locations.

The residential development sector in NSW is benefiting from rate cuts, supporting demand despite persistent high construction costs. The childcare sector shows strong investor interest, particularly for quality assets, though public scrutiny and policy uncertainty present some challenges.

Healthcare and seniors living assets remain resilient, with heightened activity in the sub-\$20 million market. Tenant affordability and lease sustainability are key focuses for investors across sectors. Residential living (Build-to-Rent, Co-Living, PBSA) continues to gain momentum due to affordability pressures and undersupply. Retail assets are attracting strong capital flows, with growing confidence in yield compression and rental growth in key segments.

Our experts across valuation sectors share their analysis and insights in our latest NSW Market Snapshot covering the first half of 2025, as well as what to look out for during the remainder of the year, across Childcare, Health, Aged Care and Seniors Living, Industrial, Office, Residential Development, Residential Living, and Retail.

CHILDCARE



JAMES RUBEN

National Director | Specialised Assets, Hotels & Leisure

“The NSW childcare investment market is showing signs of strong investor sentiment – particularly for well-established and strategic childcare sites.

In the Sydney basin, yields for well-located centres currently range between 4.40% and 5.25%. However, transactions with passing rents above market levels are facing resistance, with several failing to sell when priced below the 5.00% yield threshold.

The recent proposal to strip childcare centres of federal funding has been introduced to parliament and is reflective of the ever-increasing public scrutiny within the childcare sector. Landlords, tenants and owner-occupiers all have suitable exposure to risk regarding malpractice or similar events, which can have very real impacts to profitability and therefore returns for this specialised asset class. Well-informed landlords are taking steps to ensure their investments are protected in these circumstances, with greater scrutiny being placed on lease terms surrounding operational standards.

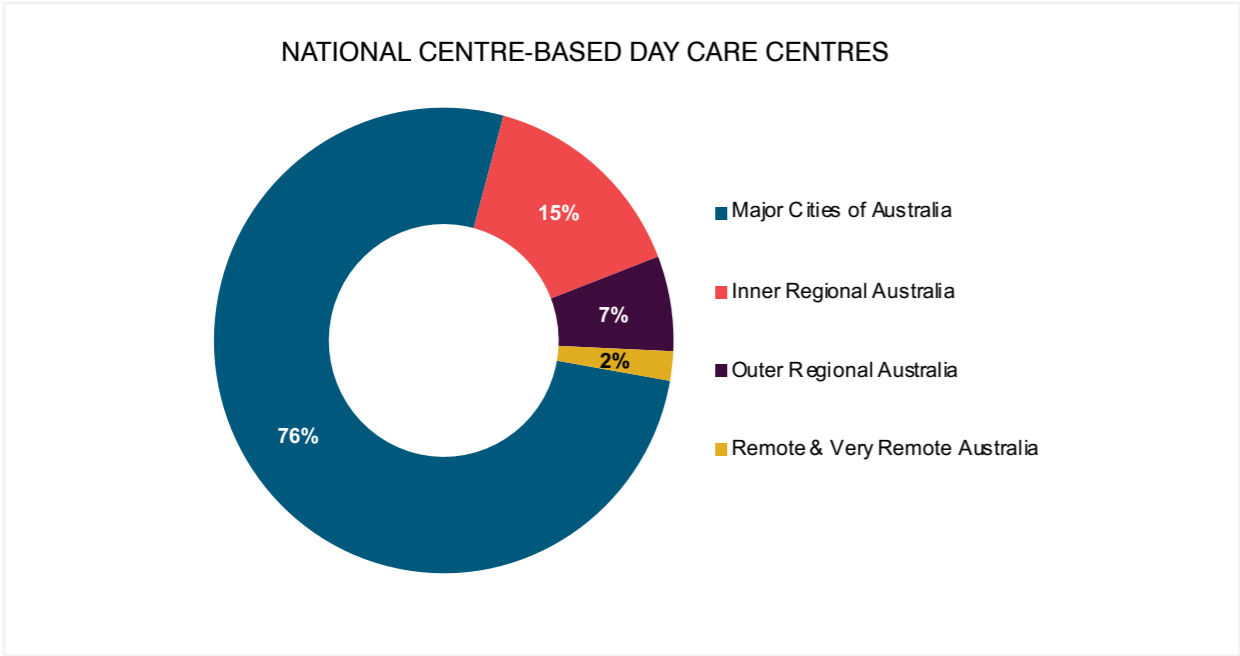
In contrast, satellite cities such as Wollongong and Newcastle are clearly demonstrating softer investment demand, with yields firmly remaining in the 5.75% to 6.25% range. However, recently some sales have begun to test this lower limit.

Development site sales continue to stagnate as the cost of construction rises and stock continues to rise.

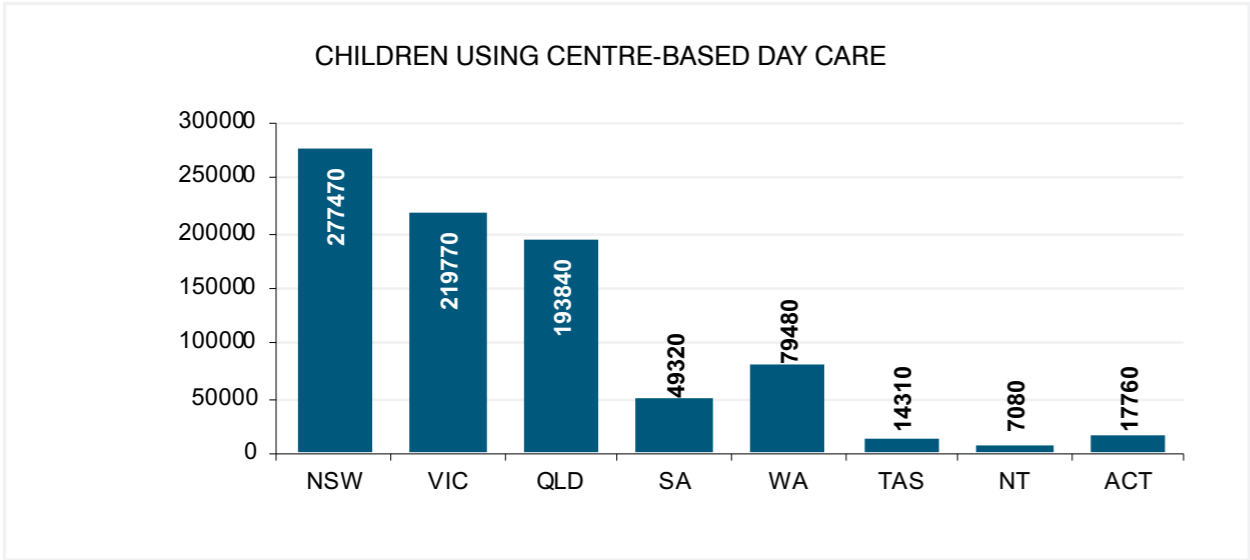
Overall, investors - and in particular financiers - are placing greater emphasis on tenant affordability and lease sustainability, focusing on tenant covenant strength as opposed to long-term unsustainable rentals.”

CURRENT STATE OF PLAY

- The Childcare Inquiry Report by the Australian Competition and Consumer Commission (ACCC) released in early 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 July 2025, families earning up to \$535,279 have been eligible to receive the CCS, with the maximum subsidy increasing to 90% for families earning up to \$85,279. The subsidy will decline by 1% for each additional \$5,000 in income the family earns. From January 2026, CCS-eligible families will be entitled to a minimum of 3 days of subsidised child care.



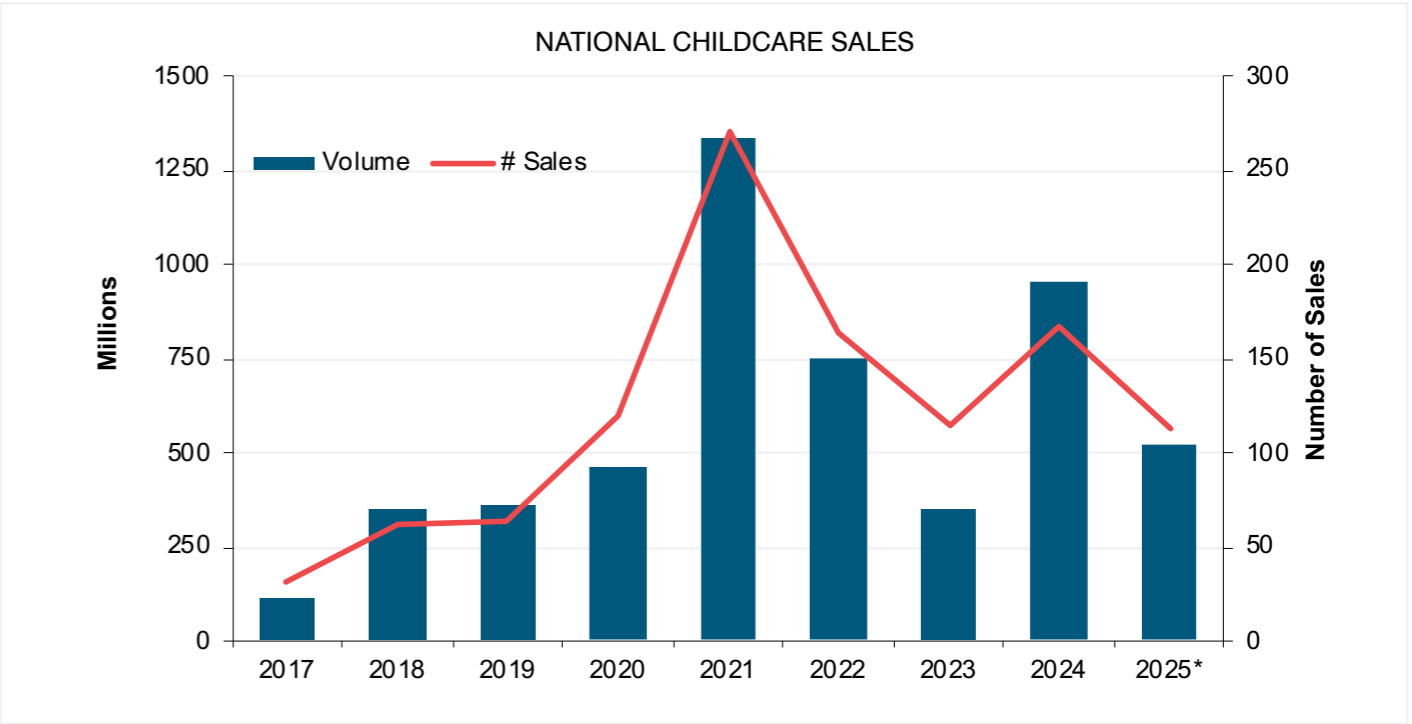
Source: Dept of Education, GapMaps, M3 Property



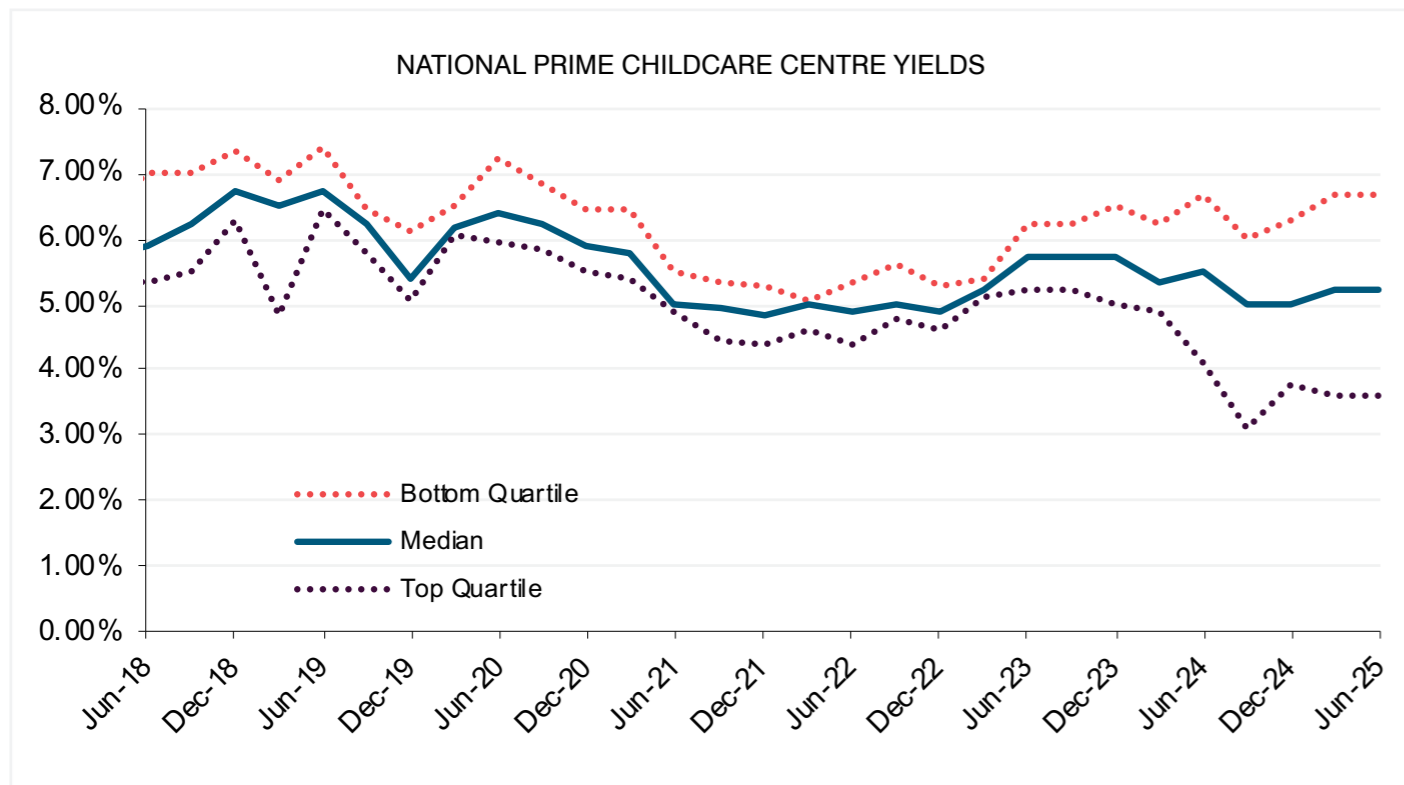
Source: Dept of Education, GapMaps, M3 Property

INVESTMENT MARKET

- Childcare centre values are dependent on location, supply/demand, competition, centre size and tenant covenant.
- While still down on the 2021 record, sales in the childcare sector picked up significantly during 2024 and the momentum has continued in 2025. According to RCA, there were 112 childcare properties sold nationally for a total of \$521.5 million in H1 2025. This is higher than the \$470.6 million from 81 transactions in H1 2024.
- For NSW there were 21 childcare properties sold for \$102.1 million in H1 2025, which is slightly lower than the 21 childcare properties sold for \$113.2 million in H1 2024.



Source: Real Capital Analytics (RCA), M3 Property



Source: M3 Property

YIELDS

- Recent yields for prime freehold interests in the Sydney basin are in the band of 4.40% to 5.25%.
- It has been observed the market is sensitive to passing over-market rentals, which impacts tenants' affordability to pay rent in the longer term.
- Early signs of affordable leases being abandoned, with some market rates being negotiated at more economically sustainable levels.
- Childcare Centres which are sub \$10,000,000 have been observed to attract tighter yields when compared to their larger comparable centres suggesting a two-tier market is emerging.
- Outside the Sydney basin, in satellite cities such as Wollongong and Newcastle, subdued interest has led to more stable yields between 5.75% and 6.25%.
- 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 pricing favourable to the purchaser.
- Childcare investors include small and medium-sized operators, and small-scale passive investors along with large investment trusts and owners. Ownership in the childcare market is becoming increasingly consolidated.

OPPORTUNITIES AND CHALLENGES

- Traditional childcare operators are now becoming involved in developing their own properties, and either operating the childcare asset on a sale and leaseback or retaining the asset for long-term use. This market segment is growing in strength with many established operators are now preferring this method as opposed to traditional leasehold agreements.
- Strategic sites for childcare centres are becoming rarer; as the market reaches maturity and operators/developers take on a more sophisticated approach, competition and barriers to entry are increasing, and undervalued sites are becoming less common.
- A challenge facing the market is the increasing construction costs, and the high parking requirements involved to obtain development approvals – often leading to many development sites becoming unfeasible.
- Identified “childcare deserts” in rural NSW continue to present a challenge for government and private operators as the feasibility and market share of these locations are at odds with the viability of childcare centres.
- 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

- An increase in the number of children between 0- to 5-years old and increasing participation in the labour market will drive demand for childcare and the development of new childcare centres in some areas.
- The number of children aged 0- to 5-years old is forecast to increase by .09% in NSW by 2031, which is lower than most other states and territories except Tasmania.
- Labour force participation rates are forecast to trend upwards and reach around 67% in NSW by 2027; this is expected to contribute a continued increase in the average number of hours children attend childcare per week.
- 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.
- Ownership of childcare centres is expected to become more consolidated as mid-tier operators with eight to 12 centres continue to grow their portfolios, however, nationally we have seen major institutional groups sell down their centres and portfolios.
- The childcare market is expected to continue to become more sophisticated, with professional operators who work within networks of five or more centres continuing to gain market share as they benefit from economies of scale and a distributed employment network delivers more agility in the marketplace.

HEALTHCARE



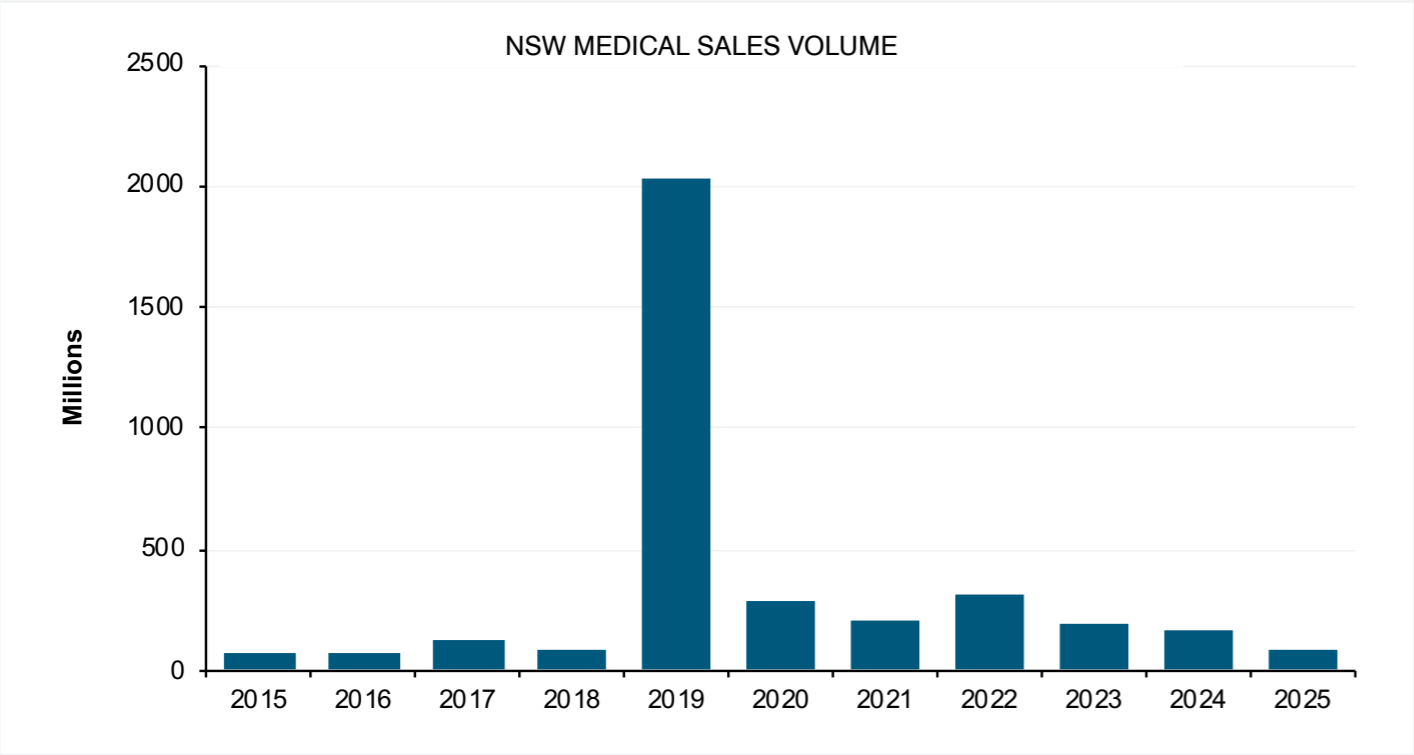
MITCH ENRIGHT

Director | Health, Aged Care & Seniors Living

“The healthcare and seniors living sector performance in NSW has remained relatively stable during the first half of 2025, supported by strong fundamentals and investment growth opportunities.

The first half of this year has seen increased investment activity, particularly for seniors living and freehold medical investment assets at a sub-\$20 million price point. Assets that provide a primary healthcare function have particularly been in high demand. Further highly anticipated interest rate cuts over the back half of 2025 should see further transaction volume across all sectors in the healthcare market.

The private hospital sector continues to navigate headwinds in the sub-sector given the challenges faced by one of Australia’s largest private hospital operators, Healthscope. The impact on valuations and hospital rental levels remains uncertain; however, it should be emphasised that the disruption is not uniformly applicable across all assets at this present time.”



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

INVESTMENT MARKET

- According to RCA, there were 30 medical and hospital properties with a total value of \$89.1 million transacted across NSW in H1 2025. This compares with \$96 million from 25 transactions in H1 2024.
- Private investors were the most active buyer's group over H1 2025, accounting for 74.2% of transactions.

YIELDS

- Yields are now averaging around 5.5% for prime medical centre assets and 7.5% for secondary medical assets, depending on various investment characteristics.
- Yields for private hospitals generally range between 5% to 6% for prime assets and 6.75% and 7.5% for secondary assets.
- Average cap rates have softened by around 30 basis points in the twelve months to June 2025 with secondary assets softening to a greater extent.

OPPORTUNITIES AND CHALLENGES

- Multiple interest rate reductions in 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. There are eight Healthcare and Life Sciences precincts in Sydney. The largest precinct in Sydney is the Westmead Health Precinct which comprises a total of 400,000 sqm of health and life sciences space and is anchored by Westmead Hospital, University of Sydney, Western Sydney University, Viral Vector Manufacturing Facility and the National Biocontainment Centre.

OUTLOOK

- The healthcare sector will continue to become a core asset class, supported by key market fundamentals and significant investment growth opportunities; other core sectors facing strong headwinds from rising inflation and the current 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. Further interest rate cuts in 2025 may bring more investors into play. The healthcare market is still highly fragmented and there are significant opportunities for consolidation.



INDUSTRIAL

JOEL DUCEY

Director | Industrial



“Transaction volumes for H1 2025 have slightly reduced in comparison with H1 2024, although the total value of transactions has increased.

Recent interest rate reductions are yet to have a notable impact on investment yields. It appears likely that further reductions will be required to stimulate increased levels of investor demand.

Tenant demand remains moderate and is being impacted by increased speculative stock completions and growing affordability concerns being driven by increased occupancy costs.

Notwithstanding prevailing headwinds, fundamentals for the sector remain generally positive in the short to medium term.”

CURRENT STATE OF PLAY

- Tenants tend to seek newer buildings in prime locations close to major roads or freight rail networks which are designed to accommodate warehousing, distribution and logistics operations.
- Supply continues to be predominantly pre-commitment led; however, speculative development has increased. A substantial portion of building approvals over the year were for warehouses, reflecting continued demand for specific sub-sectors, including freight distribution services, temperature-controlled warehousing, and e-commerce.
- Whilst the land market remains tight (particularly within the inner sub-markets), there is evidence to suggest an easing of demand, as development becomes more difficult, or unfeasible due to high construction costs, increased funding costs and lower build-out investment values.

YIELDS

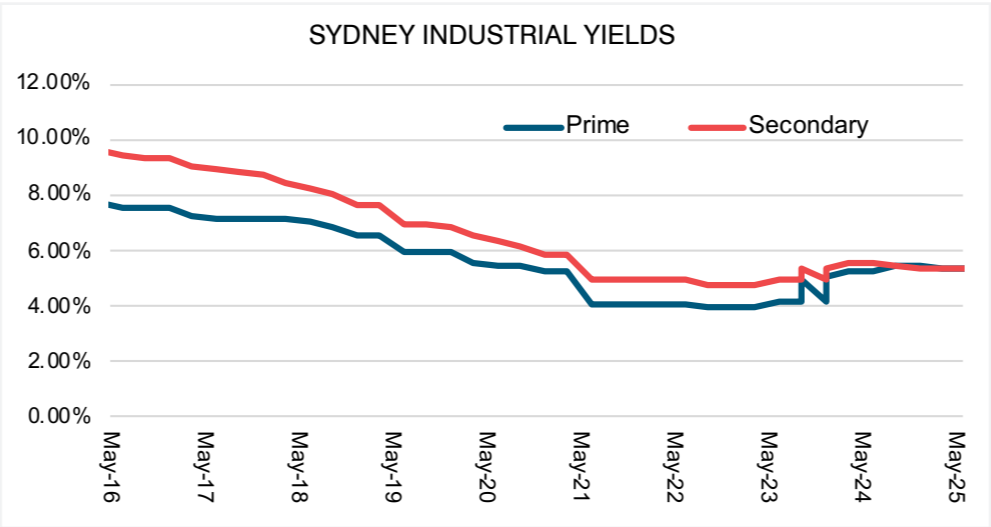
- Following a period of sustained yield compression, recent sales transactions point to yields softening by up to as much as 135 basis points since the peak of the market in 2021-22.
- Yield decompression began to occur from early 2023, reaching 5.41% for Prime yield average and 5.34% for Secondary yield average as of the end of H1 2025.
- Incentive levels have softened, with prime incentives currently ranging between 12.50% - 17.5% and secondary incentives ranging between 10% - 17.5% as of the end of H1 2025.

INVESTMENT MARKET

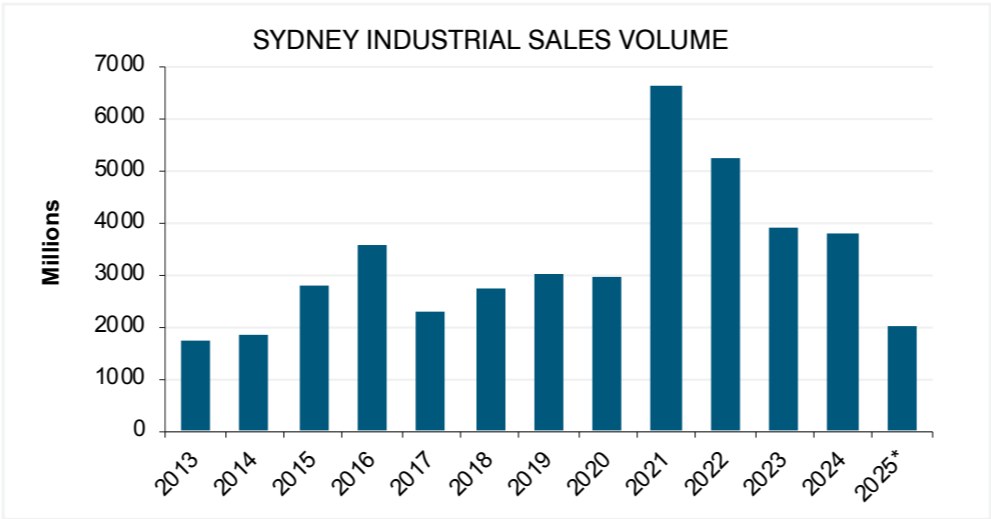
- According to RCA there were 39 industrial properties transacted across the Sydney market for H1 2025, totalling \$2.003 billion in value. This compares with 48 industrial properties transacted across Sydney in H1 2024 (above \$10 million price point), totalling \$1.59 billion of sales. Whilst more properties sold in H1 2024, the total value of the transactions was significantly lower.
- Offshore groups and Private Investors were the top two buyers during H1 2025, making up 60.7% and 16.1% of Sydney Industrial buyers respectively. Listed/ REITs and Institutional Investors also participated in the market (10.1% and 6.8%).

RENTAL MARKET

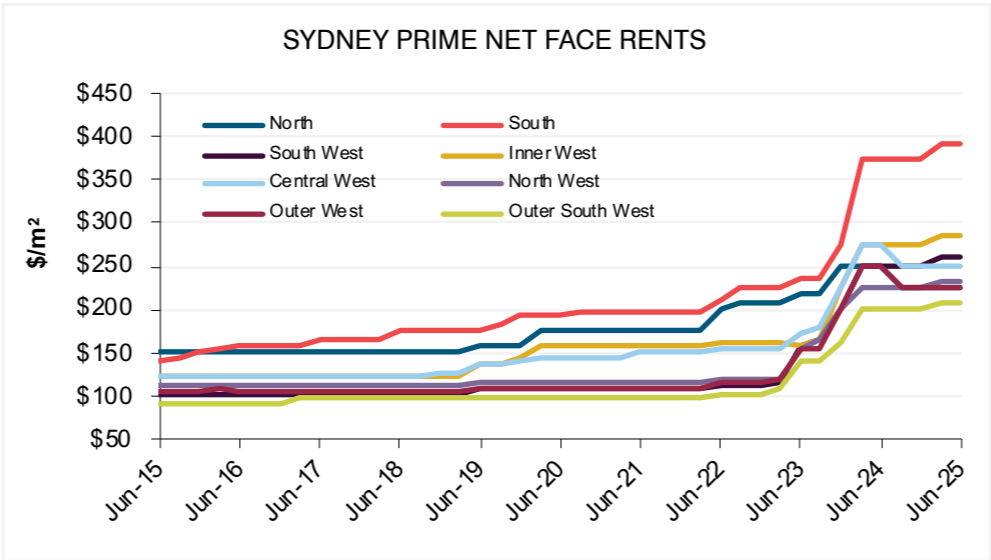
- Prime net face rents ranged between \$175 and \$416 per square metre at the end of H1 2025, with secondary net face rents ranging between \$140 and \$275 per square metre. The strongest growth in H1 2025 occurred in the South and Outer West Precincts.



Source: M3 Property



Source:M3 Property



Source:M3 Property

OPPORTUNITIES AND CHALLENGES

- With a higher level of development completions in 2025, nearly 50% of the supply pipeline is pre-committed. The Northwest region accounts for 83% of new stock completions. The majority of new projects due for completion in 2025 are concentrated in the Outer Northwest and Outer Southwestern regions.
- Occupiers continue to seek modern, efficient buildings and are increasingly expecting Environmental-Social-Governance (ESG) features in new developments.

OUTLOOK

- Occupier demand is expected to remain relatively robust going into H2 2025. Occupancy will remain tight, albeit at slightly higher levels than the 2024/25 financial year.
- Whilst the land market remains tight (particularly within inner sub-markets), there is evidence to suggest an easing of demand, as development becomes more difficult, or unfeasible due to high construction costs, increased funding costs and lower investment values. Land values are expected to remain stable in the short term, noting that the key drivers of demand remain generally positive for the sector.
- The RBA's decision to reduce the interest rate by 75 basis points between February and August 2025 is yet to have a material impact on the investment market. Institutional investors remain cautious amid global economic headwinds, increased speculative stock completions and moderating tenant demand. Further interest rate cuts may generate more interest by reducing borrowing costs; however, the unfolding US trade tariff situation continues to create uncertainty.
- Market activity is expected to remain stable despite interest rate cuts between February and August 2025. Owner occupiers remain most active in the \$2 to \$20m price bracket. Institutional investors remain cautious amid continuing global economic headwinds, moderating rental growth, increased speculative stock completions and affordability concerns.

CBD OFFICE

ANDREW DUGUID

National Director | Office



“Transaction activity in the Sydney CBD has been limited in FY25 due largely to a low level of market offerings.

Investor sentiment is improving and depth of demand broadening, with a stronger buyer profile, supported by lower interest rates and costs of capital and a sense that the market cycle is turning. The second half of 2025 calendar year is expected to see increased market activity as more assets are brought to market leading into the end of the year.

Face rents have continued to show moderate growth with incentives steady. Overall leasing demand has been neutral although good activity has been observed in the CBD core and in prime assets in strategic locations.”

CURRENT STATE OF PLAY

- According to the latest Property Council of Australia Office Market Report (OMR), the Sydney CBD Office market is made up of 5,367,514 square metres of space as of July 2025.
- Over the twelve months to July 2025, the Sydney CBD vacancy rate increased from 11.6% to 13.7%.
- Net absorption across all grades was positive during the twelve months to January 2025 at 56,532 square metres.
- Newer premium-grade assets are performing well, with tenants capitalising on high incentives to relocate to higher-quality office space.

RENTAL MARKET

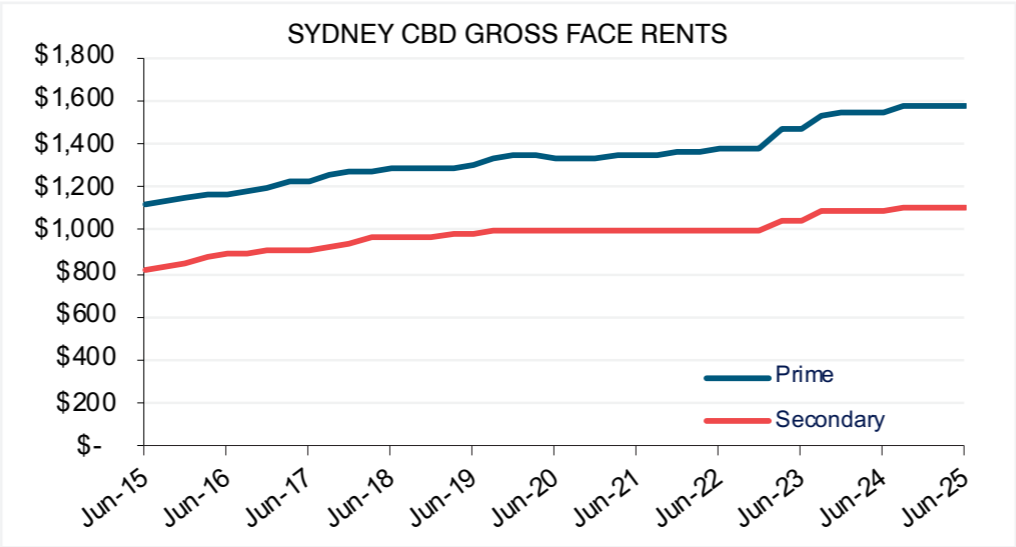
- Sydney CBD prime gross face rents increased by circa 1.78% in the twelve months to June 2025 to range between \$1,195 and \$1,955 per square metre.
- Sydney CBD secondary gross face rents increased by circa 1.38% during the year, ranging between \$890 and \$1,310 per square metre in June 2025.
- CBD Prime incentives remained stable in the twelve months to June 2025, and range between 32% and 39%. Similarly, secondary incentives were also stable and range between 32% and 39%.

YIELDS

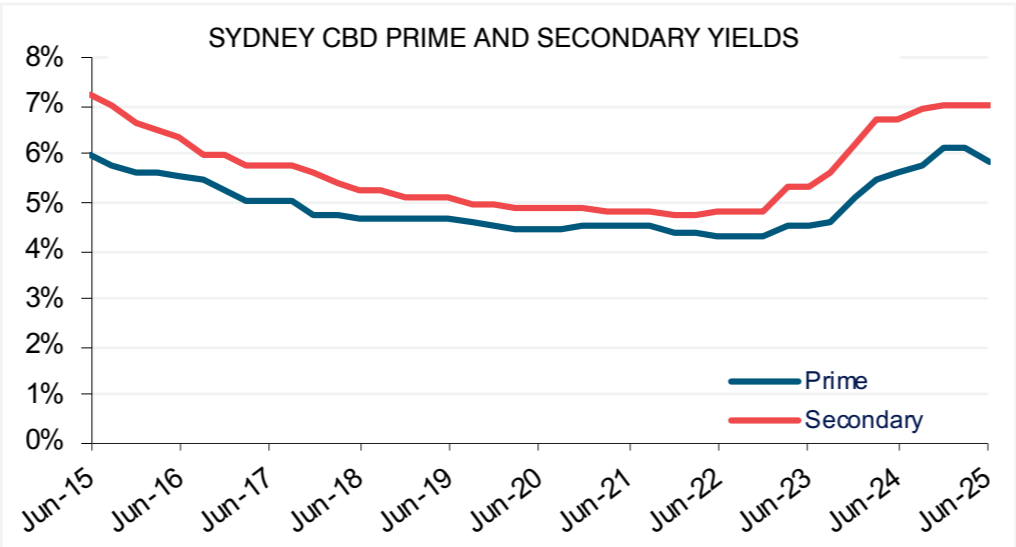
- Prime CBD yields ranged between 5.25% and 6.55% during the June 2025 quarter, softening by 10 basis points compared to the June 2024 quarter.
- Yields for secondary CBD office assets ranged between 6.3% and 7.8% during the June 2025 quarter. Secondary yields softened by 30 basis points compared to the June 2024 quarter.

INVESTMENT MARKET

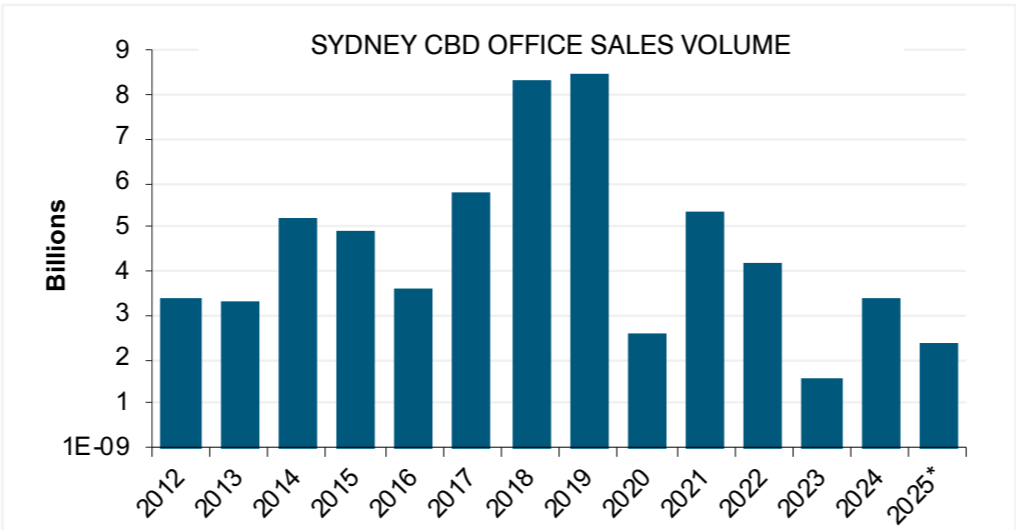
- According to RCA, there have been 27 sales totalling \$2.38 billion recorded in the Sydney CBD Office market in H1 2025. The total is slightly higher than \$2.28 billion from 41 sales in H1 2024.
- The largest transaction so far in 2025 is the \$608 million sale in April 2025 of 135 King Street, Sydney, sold by Investa Commercial Property Fund to Japanese based Daibiru.
- Cross-border buyers have been the largest buyers of office property in Sydney in H1 2025, accounting for 79.4% of the transactions.



Source: M3 Property



Source: M3 Property



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

OPPORTUNITIES AND CHALLENGES

- The Sydney Metro project will improve connectivity across Sydney and occupier demand is likely to increase around new Metro stations, including Central Station, Pitt Street, Martin Place and Hunter Street.
- The vacancy rate has increased during H1 2025 and is expected to remain higher than 2024 for the remainder of 2025, with around 219,048 square metres of new office space to be added to the market by the end of the year.

OUTLOOK

- Occupier demand is likely to gradually improve throughout 2025.
- The medium-term outlook for white-collar employment in Sydney is positive, with Oxford Economics Australia forecasting an additional 139,730 people to be employed in white collar employing industries in Sydney by 2028.
- There are about 219,048 square metres of supply entering the Sydney CBD market during 2025 as well as a large pipeline of mooted supply.
- Prime gross face rents increased by an average of 1.78% over the year to June 2025. Rental growth is forecast to strengthen over the coming years and with incentives forecast to trend downwards, effective rents are forecast to grow strongly over the 10-year horizon.
- With the RBA reducing the cash rate by a total of 75 basis points in February, May and August 2025, further increases in market activity are expected throughout 2025.

RESIDENTIAL LIVING



PENNY DAVIDSON

Director | Specialised Assets, Hotels & Leisure



“In the first half of 2025, the residential living sector in Australia remains in its early stages, with limited operational assets.

Most investors are currently entering the market via Fund Through and Direct Development opportunities due to the lack of prospects to buy standing stock.

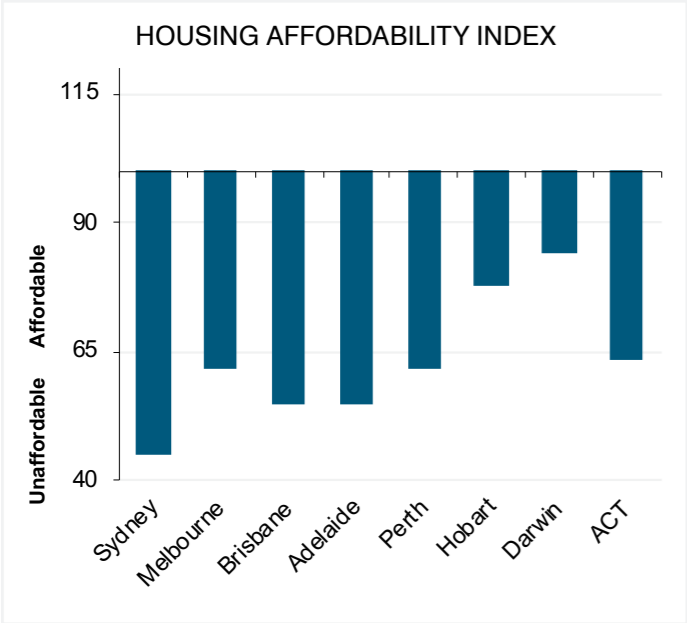
Demand from investors both nationally and internationally continues to increase for Build to Rent, Co-Living and PBSA assets primarily due to affordability constraints and lack of supply.

Currently, there are approx. 10,000 Build to Rent units operational in Australia, which is double that of 2024. A high proportion of those are situated in Melbourne.

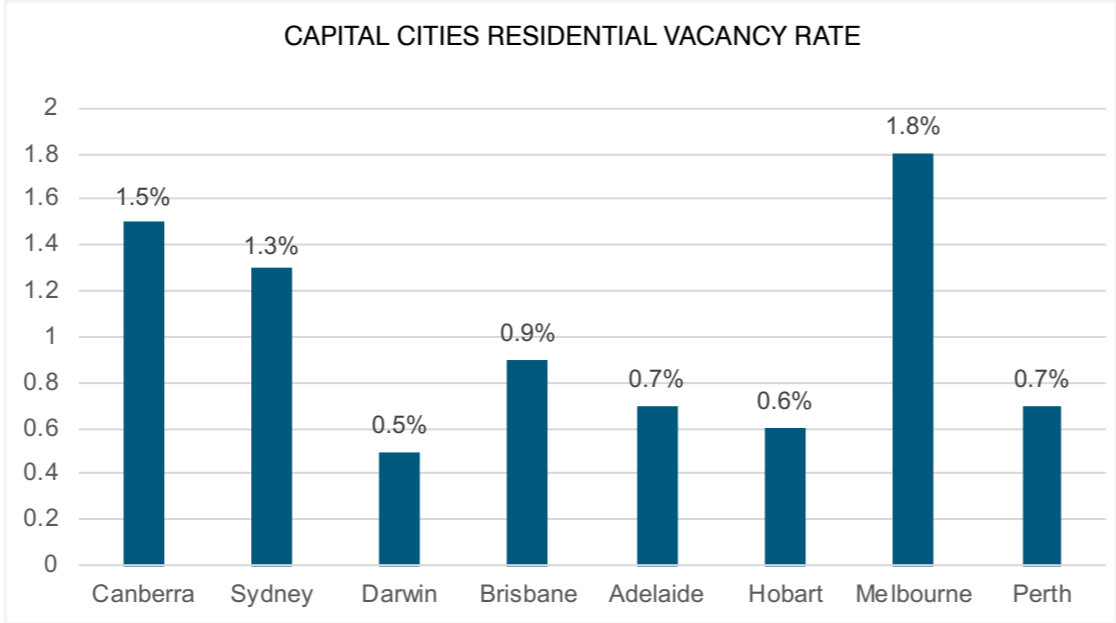
Over the coming years, we expect to continue to see significant opportunities across all sub-sectors of the residential living sector market.”

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.
- 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.



Source: HIA, M3 Property - as of December 2024



Source: SQM, M3 Property - as of April 2025

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.
- 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.

GOVERNMENT SUPPORT

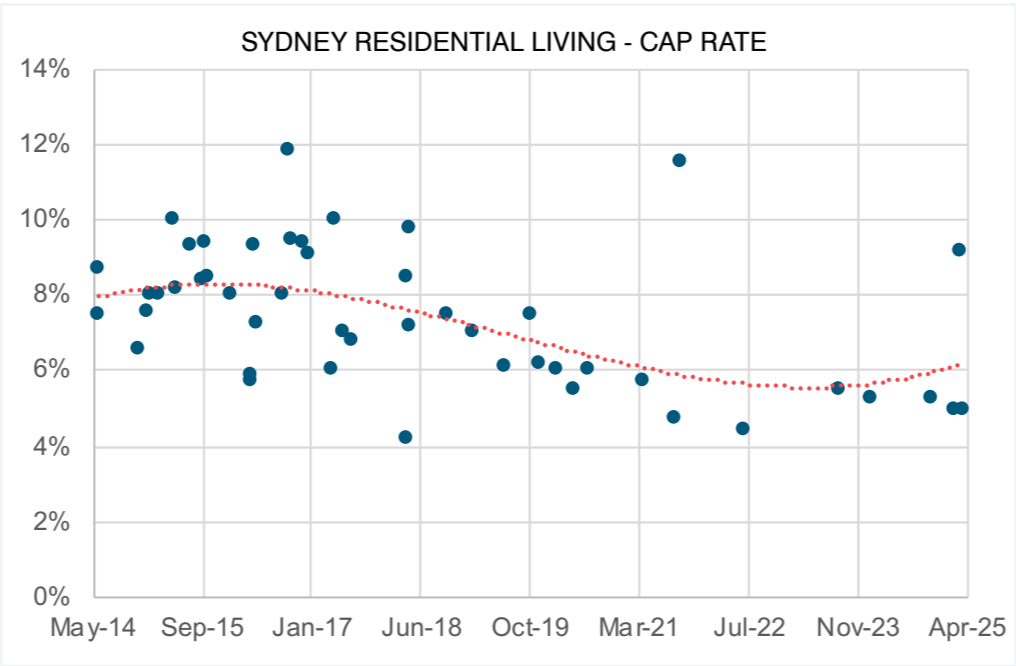
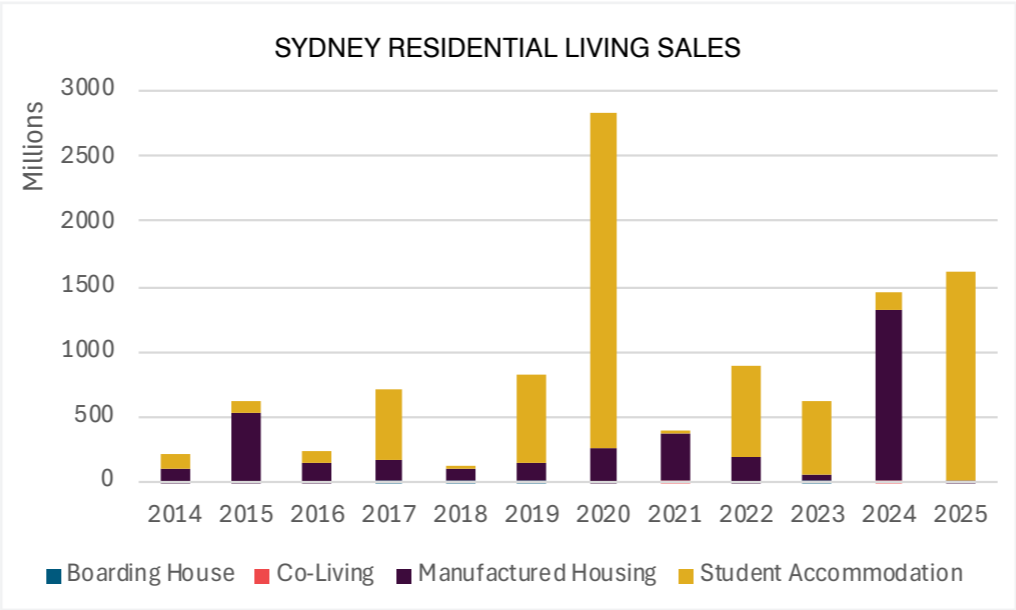
- The NSW Government legislation to support affordable and diverse housing is the State Environmental Planning Policy (Housing) 2021 (Housing SEPP) which commenced in November 2021 and is designed to encourage the supply of affordable and diverse housing to the New South Wales residential market.
- The Housing SEPP consolidated five former housing-related policies relating to affordable rental housing, housing for seniors and persons with a disability, caravan parks, manufactured home estates, and affordable housing.
- The Housing SEPP includes the planning rules for caravan parks and manufactured home estates, group homes, social and affordable housing, short-term rental accommodation, retention of existing affordable rental housing, and secondary dwellings. It improves the way that boarding houses, Build-to-Rent housing, and seniors housing are delivered to the market and also introduced co-living housing and independent living units as new housing types.

INVESTMENT

- 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.

RESIDENTIAL LIVING SALES

- According to RCA, there has been the 11 sales in the Residential Living sector across Australia, totalling \$1.6 billion in transactions.
- This compares with the sale of 35 assets during 2024, totalling \$1.31 billion in value.
- Investor demand for student purpose-built student accommodation and manufactured housing are robust, with these sub-sectors 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



RESIDENTIAL LIVING - CAP RATE

- 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.
- 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.

RESIDENTIAL DEVELOPMENT

JARROD MORGAN

Director | Residential Development



“In the first half of 2025, market conditions have improved for the NSW Residential Development sector.

With multiple cash rate reductions, this interest rate relief has brought a positive flow-on effect into the residential market. Although development costs remain high, their rate of growth has continued to normalise.

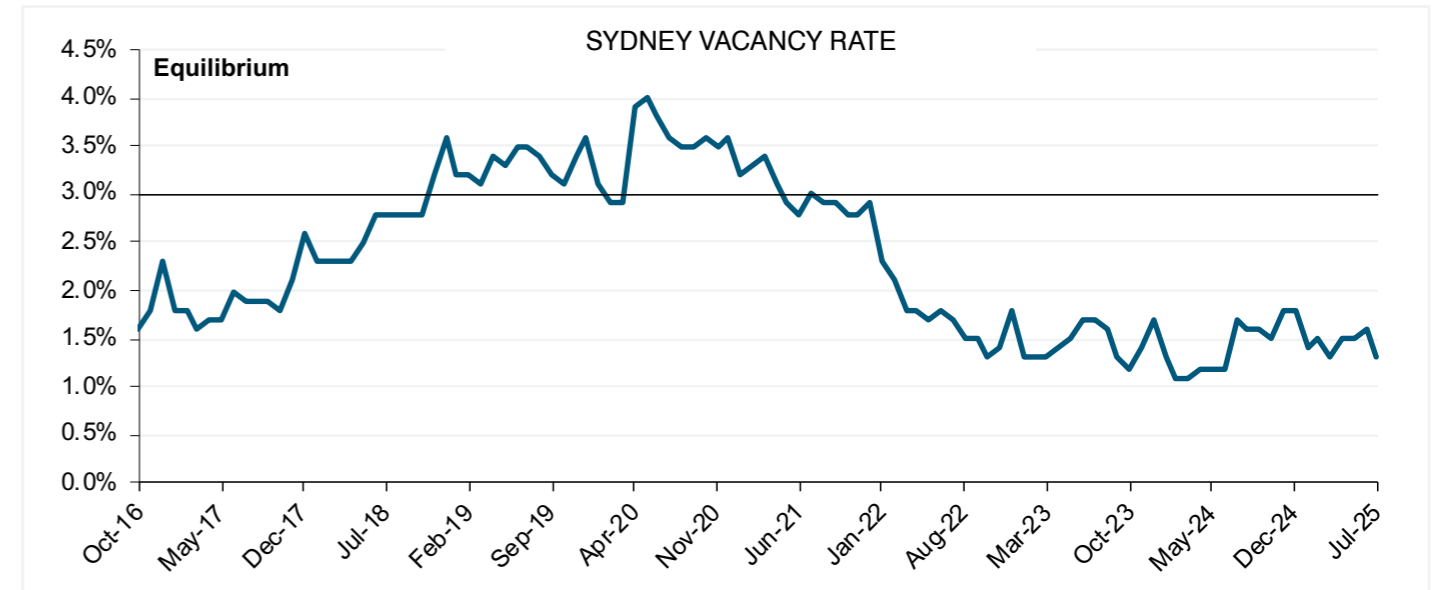
Demand continues to outweigh supply, noting continued supply constraints. Prices are expected to continue to grow in the second half of 2025.”

CURRENT STATE OF PLAY

- According to CoreLogic, Sydney’s median house price was \$1,496,985 at the start of July 2025, an annual increase of 2.1%. Unit prices increased 0.9% year on year to reach \$863,257 by July 2025.
- The Sydney metropolitan residential market vacancy rate was 1.2% in June 2025, the same as recorded 12 months prior. The vacancy rate continues to be well below the benchmark equilibrium rate of 3.0%, indicating that the market is undersupplied. The tight vacancy rate has driven strong growth in rental rates, although this growth has slowed in recent months.
- There were 46,123 dwellings approved in New South Wales in the twelve months to April 2025, up 0.53% year on year.

“DEMAND CONTINUES TO OUTWEIGH SUPPLY, NOTING CONTINUED SUPPLY CONSTRAINTS. PRICES ARE EXPECTED TO CONTINUE TO GROW IN THE SECOND HALF OF 2025.”

- JARROD MORGAN



Source: SQM, M3 Property, SQM

OPPORTUNITIES AND CHALLENGES

- Population growth has increased exponentially compared to the subdued level during the pandemic period. Growth is forecast to strengthen over the short term with New South Wales expected to be a key beneficiary of growing overseas arrivals.
- Growth for Sydney houses continued during H1 2025, albeit at a more modest rate than during 2024. Following the May 2025 rate cuts, Oxford Economics have forecast house prices would experience an increase of 2.1% for CY2025.
- Median unit prices are expected to grow faster than house prices over the next few years due to affordability pressures pushing more buyers towards the unit market. Unit prices are expected to continue growing in 2025, with Oxford Economics forecasting a 2.5% increase for CY25.
- The recent interest rate cut is likely to provide a modest boost to the market, and we now expect there to be slightly higher growth for both houses and units than this forecast during 2025.

OUTLOOK

- Tight vacancy rates across Sydney are expected to continue in the face of tightening dwelling supply. Housing Australia forecast net dwelling completions in NSW to total 22,800 for 2025, 1,700 dwellings fewer than in 2024. Over the medium term, dwelling completions are forecast to be lower (averaging 24,600 per annum between 2026 and 2028). Supply completions will likely continue to be impacted by elevated construction costs, labour and materials shortages, and tightening credit conditions.
- House rents are forecast to continue growing, albeit at a slower rate than the last few years, being driven by the tight vacancy rate and rising affordability constraints in the owner occupier market. Unit rents are also expected to increase strongly, with demand from migrants and foreign students expected to strengthen.



RETAIL

ANDREW CASH

Director | Retail



“We have seen capital continue to focus on retail assets during the first half of 2025 with investor interest derived predominately from domestic syndicators, private capital and wholesale funds.

We are also seeing renewed interest from offshore capital in jurisdictions where overseas capital is more favourably treated. Institutional participants have continued to re-mix their portfolios, being both active with divestments but also with acquisitions, which has buoyed the market.

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.

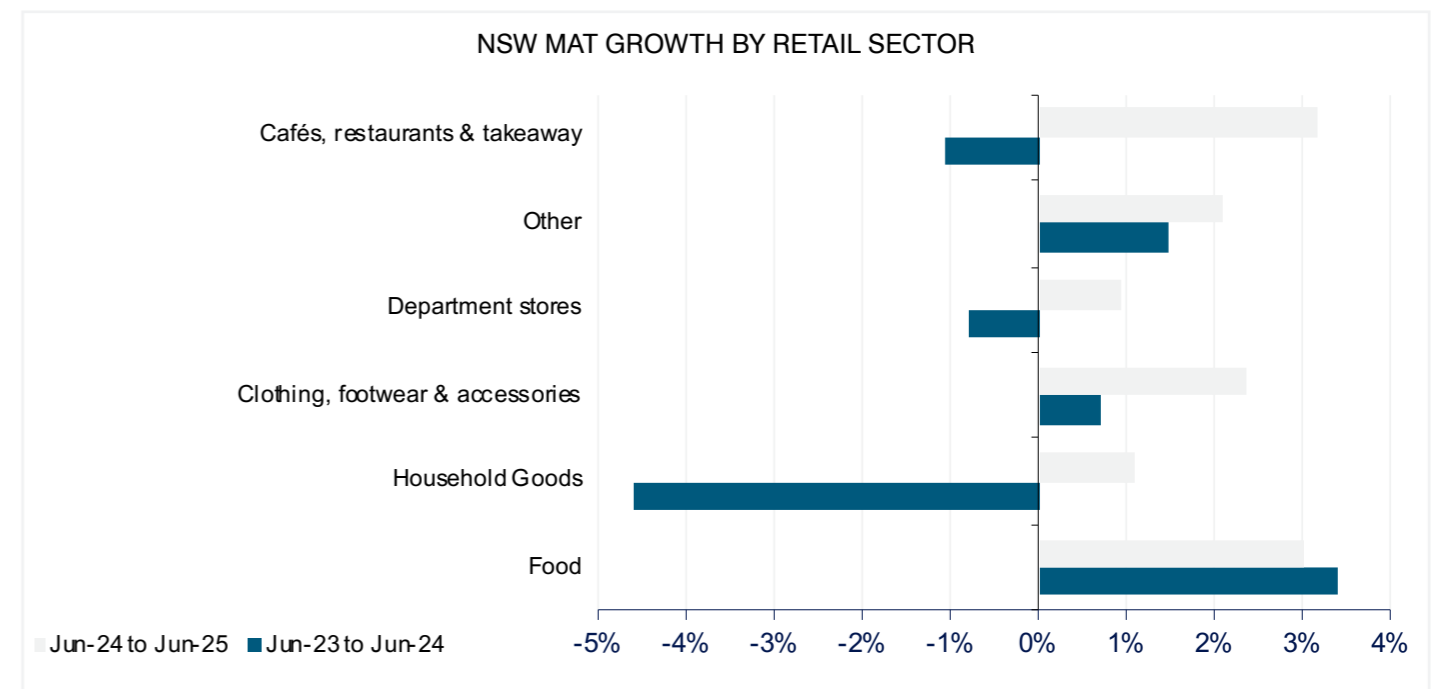
There is growing confidence that yield compression may occur in the short to medium term following multiple 2025 RBA cash rate cuts. With the stabilisation of yields and rents, it should pave the way for future growth for the retail sector.”

“WITH THE STABILISATION OF YIELDS AND RENTS, IT SHOULD PAVE THE WAY FOR FUTURE GROWTH FOR THE RETAIL SECTOR.”

- ANDREW CASH

CURRENT STATE OF PLAY

- Total retail spending in NSW for the 12 months ended May 2025 increased by 1.51%, increasing from the 0.67% growth recorded for the 12 months ended May 2024.
- The strongest growth by retail category was recorded in café, restaurants and takeaways (2.78%), followed by food (2.16%).
- Rental spreads (i.e. the difference between a tenant's 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.



INVESTMENT MARKET

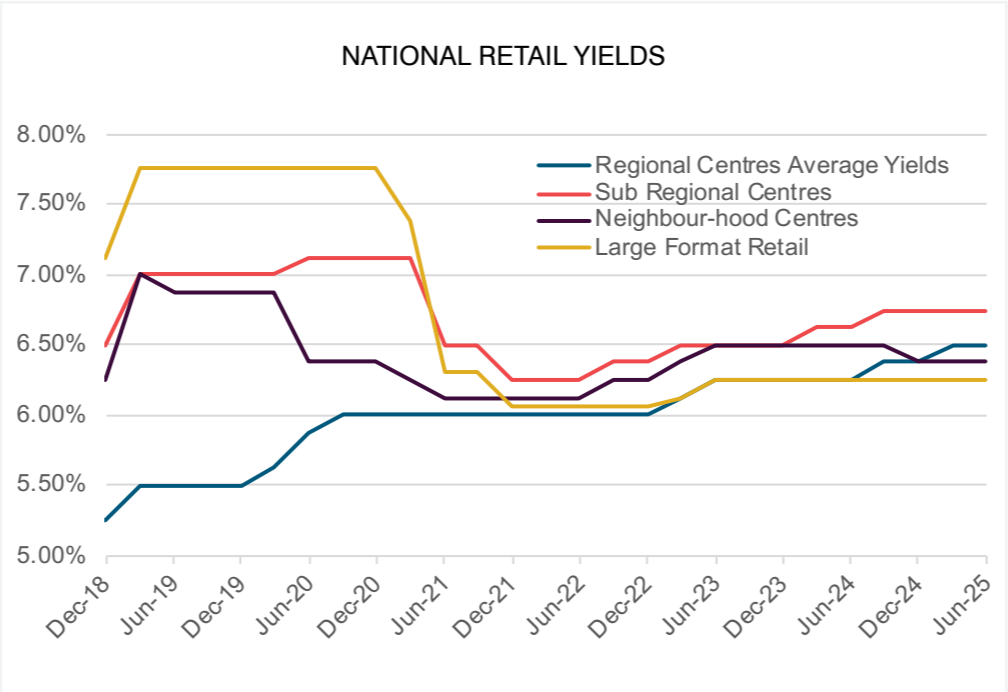
- According to RCA, there were 59 retail sales totalling \$4.142 billion recorded across the NSW market for H1 2025 somewhat higher than the \$2.4 billion from 61 transactions in H1 2024. The total for H1 2025 has already surpassed the \$3.5 billion total transactions recorded for the whole of 2024.
- Institutional investors were the most active buyer group in H1 2025, accounting for 33.2% followed by cross-border investors (22.9%) and listed/REIT investors (22.7%).
- Meanwhile, listed funds and REITs were the largest sellers of NSW retail assets in H1 2025, comprising 34.7% of transactional sellers.

TRANSACTIONS

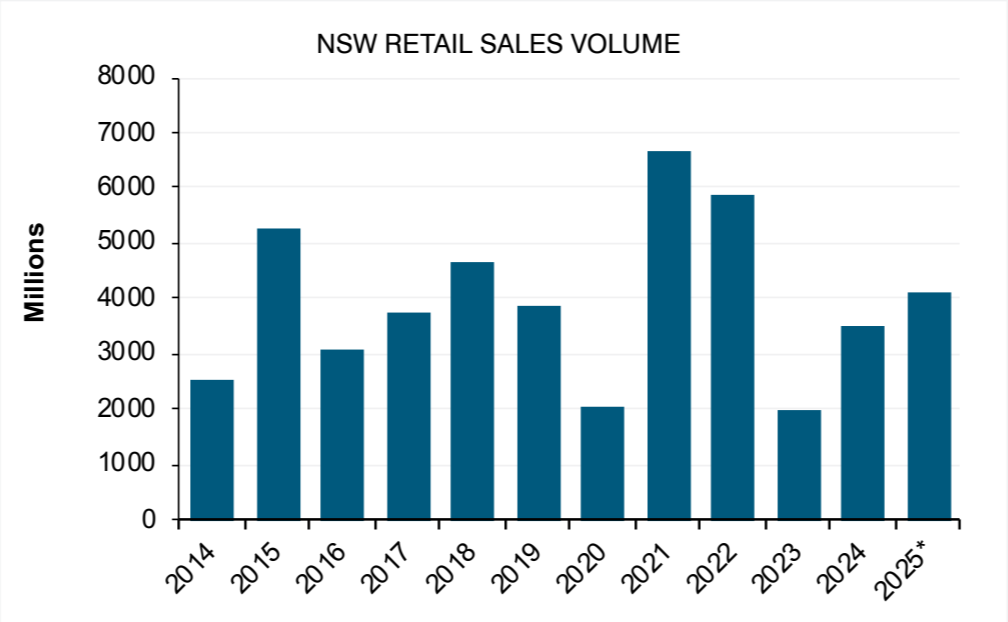
- In the first half of 2025, there have been 9 transactions of more than \$100 million.
- The largest scale transaction which has occurred in NSW is Macquarie Centre (50% for \$830m), with multiple large scale assets currently pending settlement or formal announcement.

YIELDS

- Retail yields generally continue to look attractive relative to the alternative investment classes of office and industrial.
- 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. Further pending cuts to the cash rate has vendors considering the best time to divest assets.
- 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.



Source: M3 Property, RCA
Note: Sales over \$5 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.
- 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

- Local and offshore private capital are likely to continue challenging other buyer groups to capitalise on quality retail assets, particularly up to \$100 million, however this is likely to be challenged by the re-emergence and demand for institutional investors.
- 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, 3.85% in May 2025 and 3.6% in August 2025. Further rate cuts later in 2025 will continue to improve sentiment.
- These interest rate cuts mean purchasers are likely to become more active in considering assets offered for sale during 2025.
- The retail market is expected to return to stability and certainty in H2 2025, as vendor and purchaser expectations converge, resulting in more transactions across the sector.

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