Australian Retail Review

Knight Frank

October 2026

The retail sector has maintained momentum into 2026 with strong consumer spending, elevated transaction volumes, broadening income growth and stable yields. However, rising bond yields and rate hikes present a key risk to the sector.

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Source: Erina Fair

Key insights

The retail sector retained momentum through 2026, with strong consumer spending, elevated transaction volumes, income growth broadening and yields holding firm — but a renewed rise in interest rates is now the key watchpoint.



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6.8%

Household spending growth

The value of household spending rose by 6.8% in the year to August 2026.

3.4%

Average MAT growth

Across 95 publicly listed retail assets, average annual MAT growth was 3.4% over the past year.

14.2%

Speciality occupancy cost

Across 62 publicly listed retail assets, speciality occupancy costs averaged 14.2% over the past year, relatively unchanged from the year prior.

8.0%

Average retailer EBIT margin

EBIT margins across a selection of major retailers rose to 8.0% in FY26.

$7.5b

Investment volume in H1 2026

Total investment volumes in H1 2026 were $7.5 billion, up 12% on H1 2025 levels.

5.6%

Average retail yield

Retail yields remained relatively stable at 5.6% in Q2 2026.

Capital shifts to tenant retention

A clear change recently has been the redirection of owners' capital to retaining major and large-format tenants. Owners are responding pre-emptively, seeking to utilise CAPEX in return for early renewal, in some cases several years ahead of expiry.

More interest rate hikes are possible

Renewed inflationary pressures across the economy are concerning the RBA, leading to a 25 bps rise in interest rates in September. Further hikes remain possible, with the November meeting the next important marker for the outlook heading into 2027.

Large-format spaces backfilled and reconfigured

Selective downsizing by tenants such as Myer and Target has released substantial big-box floorspace, but that space is being competed for rather than left idle. Owners are also subdividing underperforming medium-box tenancies to accommodate mini-majors.

Housing slowdown may weigh on retail spend

The extent of the housing slowdown will be an important watchpoint for the retail sector, particularly for large format retail and other categories exposed to discretionary household goods spending.

Retail sales remain resilient

Strong consumer spending in 2026, but risks have grown

CONSUMER SPENDING REMAINS RESILIENT

In nominal terms, household spending has continued to grow strongly, rising by 6.8% over the year to August 2026. This outcome has been much stronger than expected given several headwinds, including 100bps of interest rate rises in 2026 and a slowdown in real disposable income growth. Growth has been supported by a pickup in discretionary purchases, with strong spending on recreation and culture (8.5% y/y), clothing and footwear (4.8%), and hotels, cafes and restaurants (6.9%).

SPENDING GROWTH DRIVEN BY OLDER COHORTS

This strength comes despite consumer confidence remaining at relatively low levels. Data from the Commonwealth Bank of Australia indicates that spending growth is being driven by those aged 65 and over, where spending has risen by 10% over the past year, compared with 4–5% for those aged 25 to 54.

RBA research attributes this to the cash flow position of the cohort: many own their homes outright or carry low mortgage balances, insulating them from rate rises, while sizeable deposit holdings mean over 75% of the 65+ cohort typically see their disposable income rise when the cash rate increases. That interaction complicates monetary policy transmission, as the burden of slowing demand falls on a narrower group of mortgaged households while a large and well-funded cohort continues to spend.

FY26 earnings call commentary pointed to retail traffic remaining relatively resilient, with consumers becoming more selective — timing purchases for value and concentrating spending in promotional periods.

FY26 Earnings Call Commentary

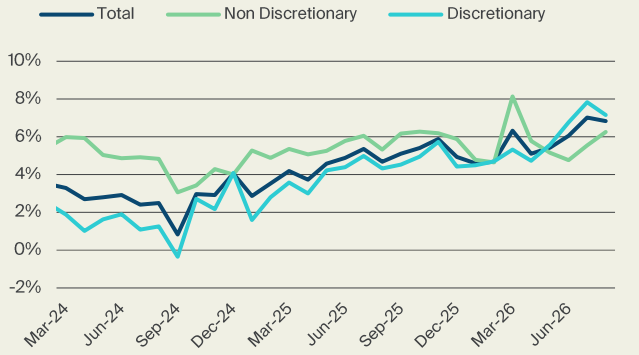
"whilst customers continue to be under extreme pressure when it comes to their household budgets... **they're looking for more value**. And they've become savvier over the last 3 years in finding value."
— Amanda Bardwell, CEO Woolworths Group

"The **increase in mortgage repayments has been concentrated among households, aged approximately 25 to 55**. These households are consuming fewer goods and services than five years ago."
— Matt Comyn, CEO Commonwealth Bank of Australia

"**What we can see is that those promotional periods have become increasingly important when customers are looking for value.** Periods like end of financial year in June and Black Friday become really important, and then maybe it sucks a little bit out of those non-promotional periods."
— Nick Wells, CEO JB HI-FI

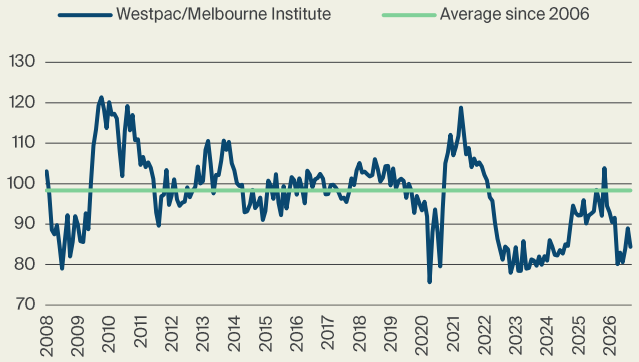
"**Traffic is still okay.** People are still browsing, but there is just that little bit more time taken to make a decision in this environment."
— Cameron Barnsley, CFO Temple & Webster

Household spending remains strong
Annual growth in household spending by type (%)



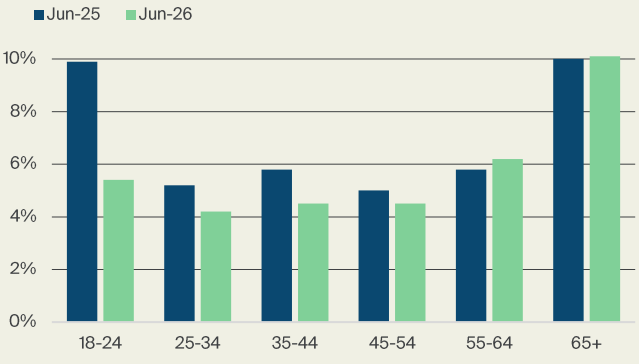
Source: Knight Frank Research, ABS

Consumer confidence improves but still low
Confidence index, value above 100 signal optimism



Source: Knight Frank Research, Macrobond

Older cohort driving spending
Annual growth in household spending by age (%)



Source: Knight Frank Research, CBA

Improving income growth

Broad-based income growth for retailers

SPREADS AND MAT REMAIN STRONG

Retail owners have continued to report growth in re-leasing spreads over the past year. Across seven retail REITs, average spreads increased by 4.6% in FY26, with all seven recording spread growth above 3.5%. Limited new supply, combined with strong population growth, is expected to sustain tenant demand, and the retail vacancy rate has fallen over recent months to 3.0%, its lowest level in over a decade. These dynamics will likely underpin stronger re-leasing growth over coming years as retailers compete for increasingly scarce space.

Moving annual turnover (MAT) growth has also continued to improve alongside strengthening household spending. Across 95 publicly listed retail assets, average annual MAT growth was 3.4% over the past year. The uplift has been strongest in Super and Major Regional assets, where turnover growth has outpaced inflation to deliver a real increase, while Sub Regional and Regional centres have recorded more modest growth of around 2.8%.

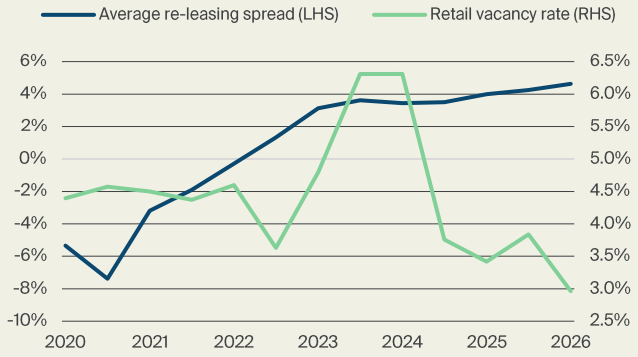
RETAIL MARGINS HAVE PROVED RESILIENT

Major retailers have so far seen more resilience in consumer spending than expected despite increased headwinds through 2026. An analysis of EBIT margins across 15 leading Australian retailers indicates margins were broadly stable, with the average edging up to 8.0% in FY26 from 7.8% in FY25. Outcomes were mixed and did not divide along discretionary and non-discretionary lines — discretionary retailers recorded both the largest improvements and the largest declines. Elevated cost pressures and higher interest rates will likely continue to place pressure on margins over coming months, as will the shift in consumer behaviour towards value and discount-period spending noted across FY26 results commentary.

OCCUPANCY COSTS REMAIN STABLE

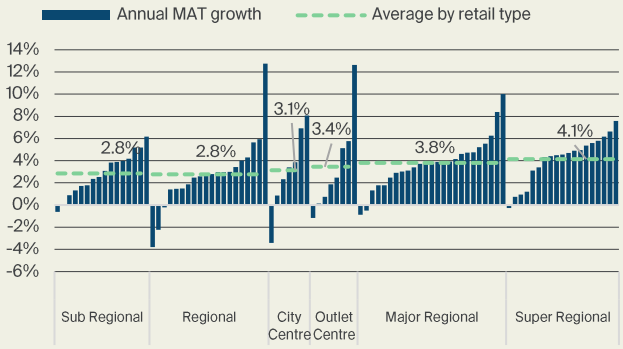
Speciality occupancy costs remain contained, indicating that on average retailers are comfortably meeting their current rent commitments. Across 62 publicly listed retail assets, they averaged 14.2% over the past year, relatively unchanged from the year prior, with costs lower in sub regional, outlet and regional centres and higher in the larger and city centre assets. With MAT growth broadly matching rental growth, this stability suggests landlords have captured turnover gains without eroding tenant affordability. That leaves headroom for continued re-leasing spread growth, particularly in centres where occupancy costs sit below the portfolio average.

Retail re-leasing spreads move higher
Average leasing spread across seven REITs, semi-annual (%)



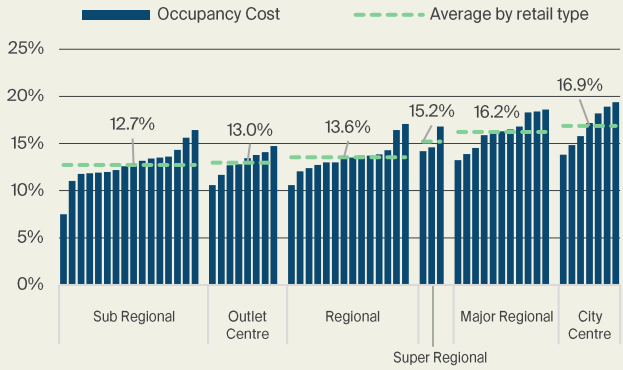
Source: Knight Frank Research, Company Reports, MSCI

Larger centres have higher MAT growth
Annual MAT growth by individual publicly listed retail assets, 95 assets, CY25/FY26 (%)



Source: Knight Frank Research, Company Reports

Occupancy costs higher in larger centres
Speciality occupancy cost by individual publicly listed retail assets, 62 assets, CY25/FY26 (%)



Source: Knight Frank Research, Company Reports

High demand for retail

Transaction activity nearing the highest level in a decade

TRANSACTION ACTIVITY REMAINS ELEVATED

Total retail investment volumes remained elevated in Q2 2026 with $3.4 billion traded, bringing total investment in H1 2026 to $7.5 billion, up 12% on H1 2025. Activity has been driven by stronger demand from domestic institutional investors, generating several significant individual and portfolio sales. Activity in Q3 will likely also be strong with $2.8 billion of closed transactions and $4.0 billion pending.

Notable transactions included Fawkner Property's $895 million acquisition of Erina Fair from the Lendlease JV NPS, Scentre Group's sale of a 20% stake in Westfield Sydney to Australian Retirement Trust for $864 million, and Temasek's sale of a 50% stake in Westfield Marion to The JY Group for $670 million.

Portfolio activity included Frasers Property selling three Eastern Creek assets to Vicinity Centres for a combined $400 million, and Charter Hall acquiring three assets from LaSalle (managing the portfolio on behalf of BVK) for $360 million.

HIGHER INTEREST RATES MAY SLOW ACTIVITY

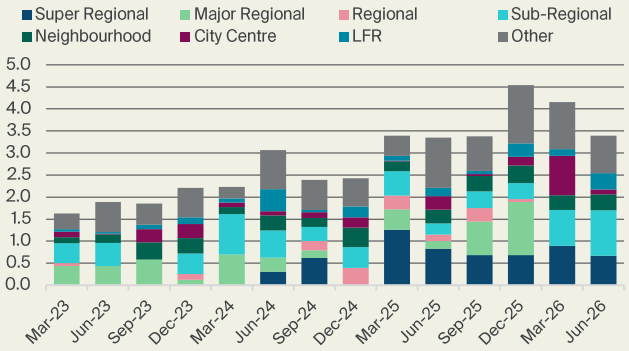
Cumulative transaction activity to August is running close to 2022 levels; if surpassed, volumes would be the highest in over a decade. However, the recent spike in global bond yields, combined with signs of a new international rate hiking cycle, could slow activity over the coming year as return hurdles become harder to clear. Renewed rate rises would also introduce greater uncertainty over the resilience of consumer spending and the retail outlook, weighing on investor sentiment and conviction. Given how quickly bond yields and hurdle rates have moved recently, current volumes are unlikely to reflect the shift yet — transactions completing now were largely underwritten on earlier assumptions, so the effect on activity should become clearer over the coming quarters.

STRONG INSTITUTIONAL APPETITE FOR RETAIL

Institutions have been the key source of new capital into retail in 2026, with $1.4 billion in net acquisitions, while cross-border investors have been net sellers, capitalising on the rebound in values to recycle capital into other opportunities.

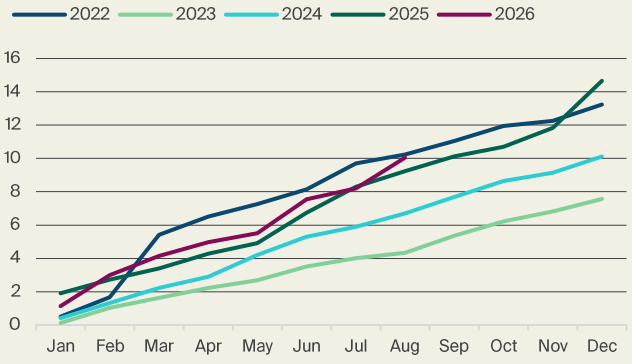
This marks a clear shift in the buyer landscape. Between 2023 and 2025, new capital deployment into retail came largely from private and cross-border buyers; in 2026 both institutional and REIT/Listed groups have returned as net buyers for the first time since 2022.

Retail transaction activity remains elevated
Transaction volumes by retail type (AUD billions)



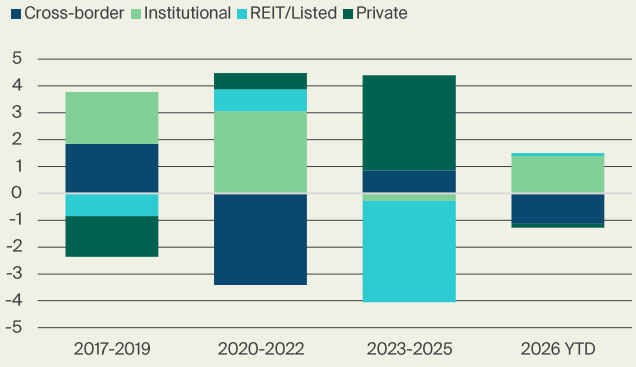
Source: Knight Frank Research, RCA

Retail transactions tracking above 2025
Monthly cumulative retail transaction volumes (AUD billions)



Source: Knight Frank Research, RCA

Institutions invest while cross-border sell
Net transaction volumes by investor type (AUD billions)



Source: Knight Frank Research, RCA

Asset values stabilise

Retail asset values remain resilient, but there are risks ahead

CAPITAL VALUES RISING ACROSS ALL RETAIL TYPES

Average retail sector capital values increased by 0.5% in Q2 2026, bringing total capital growth over the past year to 3.7% — the strongest annual result since Q4 2017, although the quarterly profile has moderated through 2026.

This uplift reflects a combination of tightening yields and sustained income growth, as improving operating conditions translated into stronger investor sentiment. Capital growth was evident across all retail formats, with performance underpinned by resilient consumer spending and improving fundamentals.

Quarterly capital growth appears to have peaked in Q4 2025 and has slowed through 2026 as yields have stabilised, a pattern likely to persist over the remainder of the year given the higher interest rate environment. Medium-term fundamentals nonetheless remain intact: development feasibility is materially constrained by elevated land values and construction costs, limiting new supply and supporting income-driven capital growth. With yields unlikely to compress much further from current levels, it is likely that returns will increasingly depend on income growth rather than yield compression.

DEMAND FOR INCOME FOCUSED ASSETS KEEPS YIELDS STEADY

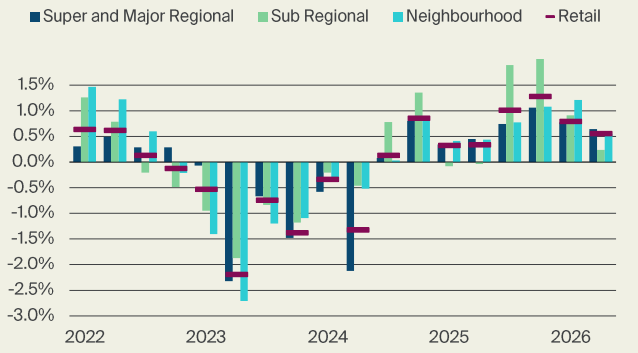
Retail yields were broadly unchanged in Q2 2026 at 5.6%, holding firm despite higher interest rates and tighter financial conditions.

Renewed inflation and cost pressures have increased investor demand for more defensive, income-producing assets such as retail, keeping yields steady even as bond yields have risen. A key risk to this resilience is a potential pullback in consumer spending that erodes income growth. The signals to watch are slowing household spending and consumption, particularly for discretionary goods, and any further compression in the spread between retail cap rates and long bond yields.

RETAIL RETURNS TO BE DRIVEN BY INCOME GROWTH

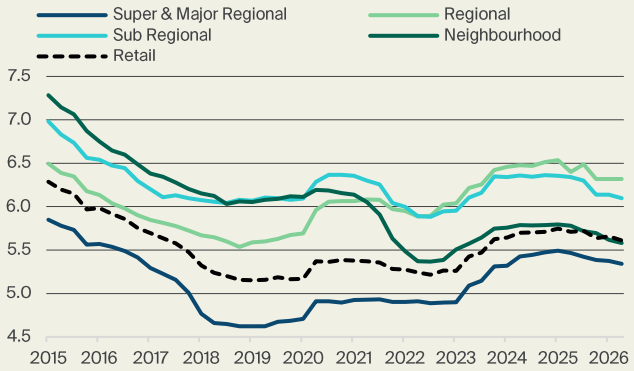
Retail assets have continued to perform relatively well over the past year with annual returns of 9.8%. Performance was well balanced, underpinned by 5.9% income growth and 3.7% capital growth. Total returns continue to be strongest for sub regional and regional assets experiencing 12.0% and 11.5% total returns over the year to Q2 respectively, followed by neighbourhood (9.3%) and super and major regional (9.0%).

Retail sector capital growth is slowing
Quarterly capital value growth, average for major sectors



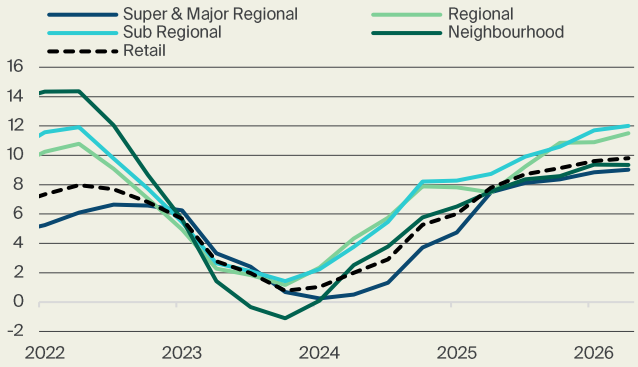
Source: Knight Frank Research, MSCI

Retail cap rates stabilising
Quarterly cap rates by retail type (%)



Source: Knight Frank Research, MSCI

Total returns highest for sub regional assets
Rolling total annual return rates by retail type (%)



Source: Knight Frank Research, MSCI

Market outlook

Key themes in 2026

CAPITAL SHIFTING TO TENANT RETENTION

A clear change over the past six months has been the redirection of owners' capital towards retaining major and large-format tenants. With alternative big-box space now available across a far wider set of centres, remaining majors hold credible relocation options and negotiating leverage has moved in their favour. Owners are responding pre-emptively, obtaining pricing for plant and equipment replacement ahead of any failure and offering contributions or full replacement — along with the associated NABERS and operating-efficiency benefits — in return for early renewal, in some cases several years ahead of expiry. That is a marked departure from the reactive pattern of previous cycles and from the broad deferral of non-development capex evident six months ago.

LARGE-FORMAT SPACE IS BEING BACKFILLED AND RECONFIGURED

Selective downsizing by tenants such as Myer and Target has released substantial big-box floorspace, but that space is being competed for rather than left idle. Backfill is coming from apparel and sporting goods operators such as H&M, Rebel and Mecca taking larger formats. Owners are also subdividing underperforming medium-box tenancies to accommodate mini-majors, though reconfiguration is capital-intensive and constrained where upper-level or blind floorplates carry structural and loading limitations. Together, these shifts point to the continued trend of repositioning the centre mix to suit evolving tenant and consumer demand profiles.

ENTERTAINMENT OPERATORS A CREDIBLE SOLUTION FOR LARGE FLOORPLATES

Large-format entertainment operators are expanding across multiple centres, with both incumbents taking materially larger footprints and new operators entering. Although in the early stages, evidence points to experiential uses becoming a more credible solution for large vacated floorplates than they have been over the past decade.

RISE IN LONG-TERM YIELDS A REMINDER THAT RENTAL GROWTH IS KEY

The higher interest rate and inflation environment confirms that real estate strategies will require rental growth to drive out-performance in the near term. This is resulting in investors seeking out market segments such as retail that are experiencing strong rent growth and supportive medium-term fundamentals such as limited new supply.

SUPERANNUATION CAPITAL RETURNS, SIGNALLING RENEWED CONFIDENCE IN RETAIL

A cluster of large transactions with superannuation funds as buyers points to institutional capital returning to the retail sector after several years on the sidelines. Australian Retirement Trust has closed on a 20% stake in Westfield Sydney and has a 50% stake in Westfield Mt Gravatt under contract for $882.5 million, while Cbus has 50% stakes in Westfield Carindale and Lakeside Joondalup under contract for a combined $1.3 billion. The scale of these deals reflects super funds' conviction in the structurally constrained supply pipeline for large retail centres and the resilient rent growth this scarcity supports.

RENEWED INFLATION SEES RBA RAISE INTEREST RATE

Renewed inflationary pressures across the economy have raised concern at the RBA that inflation is moving away from the target. As a result, the RBA’s monetary board decided to raise interest rates by 25 bps in September. RBA language remained hawkish with a focus on upside inflation risks rather than the downside risks to unemployment. The November meeting is the next important marker for the outlook heading into 2027 with another rate hike possible.

With most markets in recovery mode, the prospect of further rate rises may see the pace of growth ease in coming quarters. It also highlights the importance of asset selection and ensuring investment strategies are match-fit for a higher-for-longer environment.

HOUSING SLOWDOWN MAY WEIGH ON DEMAND FOR HOUSEHOLD GOODS

The extent of the housing slowdown will be an important watchpoint for the retail sector, particularly for large format retail and other categories exposed to discretionary household goods spending. This effect operates through two channels: a wealth effect, where falling house prices dampen consumer confidence and spending; and a turnover effect, where fewer transactions reduce demand for the goods households typically buy when moving, such as furniture and appliances. Sydney and Melbourne appear most exposed, having recorded the largest capital city declines to date.

This may temper leasing demand and sales-based rent growth for large format retail tenants, as well as household goods retailers within shopping centres, in these two cities, reinforcing the case for centres to maintain good exposure to a resilient, non-discretionary tenant mix.

Recent transactions

Interest	Property	Date	Price (m$)	GLAR (m^2)	$/$m^2$ GLAR	Purchaser	Vendor	Initial yield	Equivalent Yield	IRR
100%	Ed.Square Shopping Centre, NSW	Jul-26	248.0	24,502	10,122	PGIM Real Estate JV Assembly Funds Management	Frasers Property	5.71%	5.79%	7.24%
100%	*Eastern Creek Quarter, ECQ & SC, NSW	Jun-26	400.0	40,835	11,844 – ECQ Outlet & SC 4,375 – LFR	Vicinity Centres	Frasers Property		~6.00%	~7.25%
50%	Westfield Marion, SA	Jun-26	670.0	138,712	9,660	The JY Group	Temasek JV Mapletree Investors	6.33%	6.02%	7.50%
50%	*Sunshine Plaza, QLD	Jun-26	622.0	106,600	~11,700	GPT	Lendlease		5.5%	
50%	*Macarthur Square, NSW	May-26	568.0	108,100	~10,509	GPT	Lendlease	~5.75%	~5.75%	~7.00%
75%	*Uptown Shopping Centre, QLD	Feb-26	211.5	61,384	4,480	Vicinity Centres	IFM Investors	6.50%	6.58%	7.58%
19.90%	*Sydney Central Plaza - Portfolio Deal, NSW	Dec-25	864.0	53,801	~$14,000	Australian Retirement Trust (ART)	Scentre Group	~5.00%	~5.00%	~6.50-6.75%
19.90%	*Westfield Sydney - Portfolio Deal, NSW	Dec-25		43,217	~$83,000	Australian Retirement Trust (ART)	Scentre Group	~4.25%	~4.63%	~6.50-6.75%

Source: Knight Frank Research
Notes: *Reported in Market, as advised by Acquisition Valuer/Agents. **Gross Price.
Dates here do not necessarily align with the dates used in by MSCI RCA in the transactions analysis.

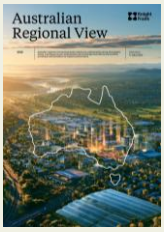
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