

Australian Retail

The irreplaceable asset

Why supply scarcity and structural demand are reshaping the investment case for Australian retail.

September 2026

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Introduction

Australian retail has spent much of the past decade contending with an investment narrative shaped by e-commerce disruption, changing consumer behaviour and pressure on retailer profitability.

These forces prompted investors to question the long-term durability of shopping centre income and the role of physical retail. However, the Australian market has evolved differently from many offshore markets. A stronger mix of non-discretionary retail, lower exposure to department stores and increasingly constrained new supply have supported a more resilient operating model. At the same time, physical stores have become an integral part of omnichannel retail networks, supporting customer acquisition, fulfilment and experience.

The investment question has therefore shifted. Rather than whether retail can withstand structural disruption, the focus is now on which assets are best positioned to convert demand and limited supply into sustainable income growth. Low vacancy, improving retailer economics, positive re-leasing spreads and population growth concentrated in major urban catchments are creating increasingly supportive conditions for high-quality assets.

These trends do not support a broad-based view of the sector. Asset quality, trade area strength, barriers to new competition and execution capability are likely to play an increasingly important role in determining performance. As the valuation reset largely moves into the rear-view mirror, future returns are expected to be driven less by sentiment and more by cash-flow growth and active management.

This paper examines the structural forces reshaping Australian retail and the characteristics most likely to drive outperformance. While the outlook is supportive, a materially weaker consumer environment, slower population growth, changes in migration settings or higher-for-longer interest rates could moderate future growth outcomes.

Indooroopilly Shopping Centre, QLD

Executive summary

Australian retail has progressed beyond recovery and into an income-led phase of the cycle. Low vacancy, positive re-leasing spreads and healthier retailer economics are converging with population growth and limited new supply. The opportunity is therefore less focused on a broad sector rebound and more about selecting scarce, productive assets positioned to convert demand into durable income growth.

Key takeaways

01

The reset is complete

The e-commerce disruption narrative has run its course. Occupancy cost ratios have declined 2.6 percentage points from their 2018 peak. Re-leasing spreads are positive. Retail specialist REITs trade near NTA. The sector has moved from recovery to expansion.

02

Fundamentals are stronger than most investors recognise

Total retail turnover is at all-time highs, up 57% over 10 years. Retailer EBITDA margins improved 3.2 percentage points over five years. Vacancy is low.

03

Population growth is a durable advantage

Australia's population grows at 1.7% per annum in the near term, approximately six times the OECD average over the same period. Retail sales are forecast at 3.5% per annum over ten years – three times population growth. Sydney, Melbourne, Brisbane and Perth are the primary beneficiaries.

04

Supply constraints are intensifying

Construction costs are up 78% since 2007. New retail supply is near zero. The gap between required and forecast supply by 2030 is equivalent to 31 regional centres, at current provision levels. Existing quality assets are approaching genuine irreplaceability.

05

Execution and asset quality will drive outperformance

Premium, dominant-trade-area centres with active management platforms are outperforming on net operating income (NOI) growth, sales and capital value. The performance gap between prime and secondary retail is widening. Mixed-use conversion and AI capability are the next sources of differentiated return.

The retail reset

From misperception to expansion

The retail valuation reset is visible, but the more important shift for investors is now in income. With rents rebased, vacancy low and leasing spreads positive, future performance should be driven less by recovery in sentiment and more by the ability of individual assets to compound cash flow.

A decade of misread fundamentals

Investor caution was shaped by the US and UK experience, where oversupply and department store exposure created stress. Australia entered the same period with a more defensive model built on non-discretionary spend around supermarkets, pharmacies, food and services, supporting habitual visitation and more resilient trade-area economics. The slower growth of e-commerce has led to a more orderly remixing of centres towards tenants that embrace online retail.

COVID then stress-tested that distinction. After a sharp listed-market sell-off, retail turnover recovered to 57% above its level ten years earlier, compared with cumulative inflation of 35%. The question has moved from whether Australian retail can withstand disruption to which assets can translate the sector's stronger footing into sustained income and value growth, a shift reflected in retail asset values increasing 5.1% over the same period and with total returns at 9.8%, according to MSCI as at 30 June 2026.

Retail capital market cycle: Expansion phase

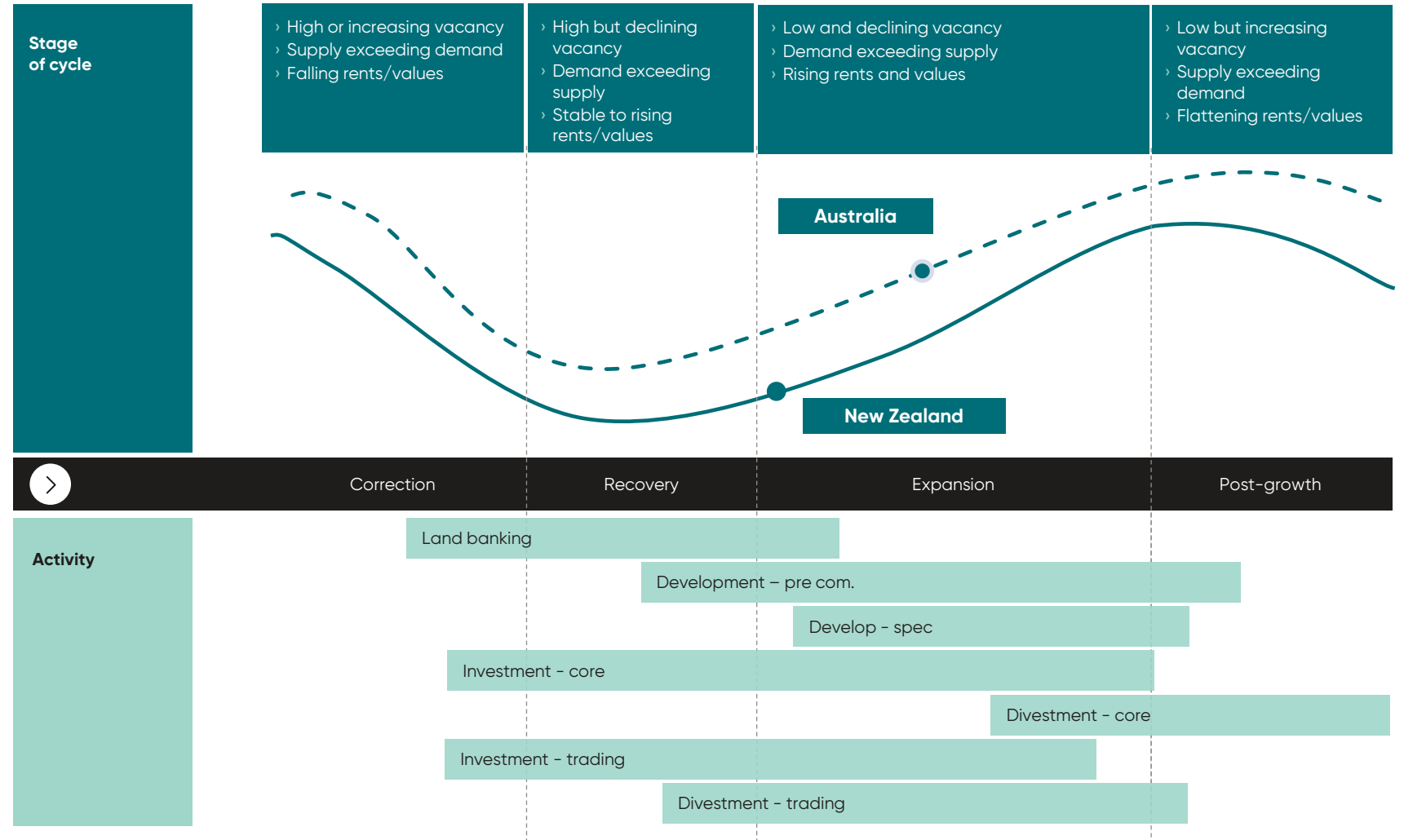
Our data points to Australia now being in the expansion phase of the retail capital market cycle.

Low and declining vacancy, demand exceeding supply, rising rents and values. This is the phase most favourable for core investment, where income growth translates into value appreciation. New Zealand sits approximately one phase behind in recovery, providing a useful parallel for the trajectory Australia has already navigated.

Near-term geopolitical risk and trade uncertainty warrant a degree of caution in the short term. Consumer confidence is sensitive to macro headlines. However, Australia's growth drivers are not contingent on any particular geopolitical outcome. The cycle may slow, although underlying supply constraints remain supportive.

The deep-value entry window has largely closed. Investors who remained underweight through the reset phase now face the question of whether to re-enter at current pricing or wait for a correction that may not materialise given supply constraints.

Retail's expansion phase supports income growth Stage of the cycle for New Zealand and Australian retail



Source: Dexus Research
Note: Line depicts the value cycle, amplitude varies.

Current conditions favour core and core-plus strategies, with value-add in repositioning and mixed-use conversion. Retail specialist REITs trading near NTA confirm private market re-pricing is underway. Transaction activity has increased, with capital flows from domestic superannuation funds, overseas institutional investors and private equity returning to a market that was largely avoided for a period of several years.

+3.5% p.a.

Forecast retail sales growth over the next 10 years

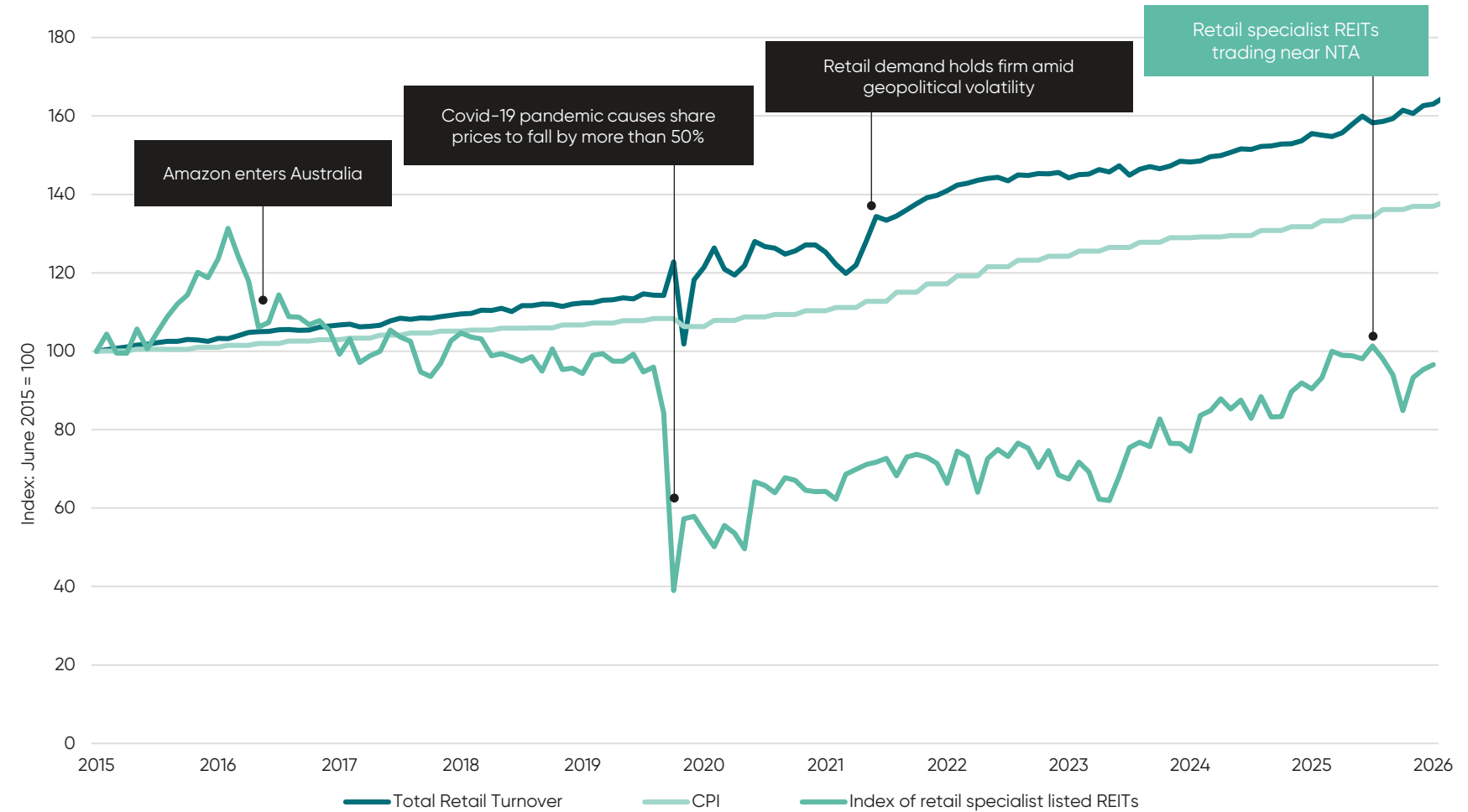
3× faster than population growth, signalling rising per-capita spend
Jun-26 to Jun-36

Key takeaway

The broad re-rating has occurred. The next leg of returns should depend on income growth and asset selection rather than a further recovery in sector sentiment.

Retail turnover has outpaced inflation

Total retail turnover vs CPI vs retail specialist REITs



Source: ABS, Oxford Economics, IRESS, Dexus.
Retail specialist REITs includes Scentre Group and Vicinity as at Jun-26

Fundamentals matter

From recovery to income growth

Ocean Keys Shopping Centre, WA

Retail's recovery is now visible in the operating fundamentals. Lower occupancy costs, improving retailer profitability and positive re-leasing spreads are creating a stronger base for sustainable income growth.

Re-leasing spreads: the inflection confirmed

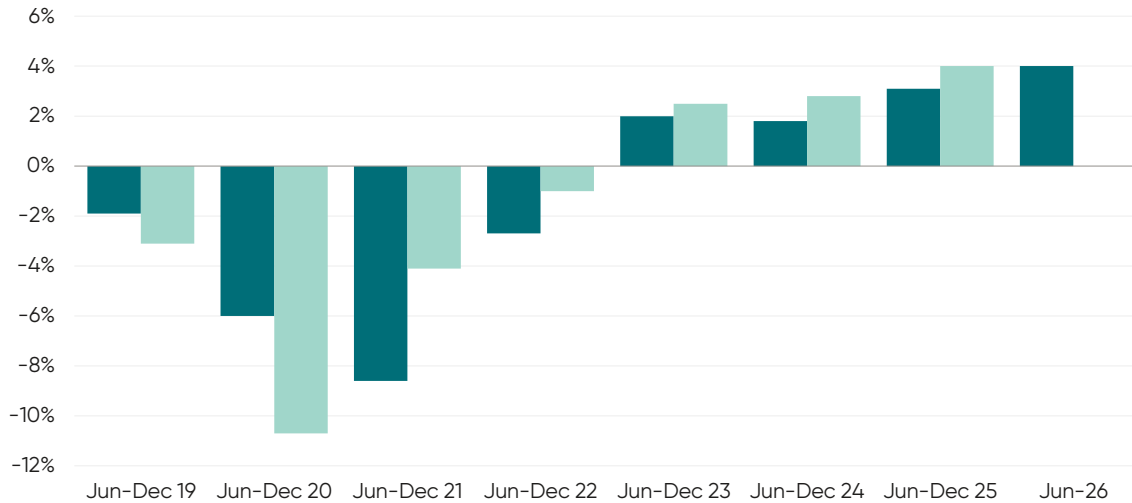
Re-leasing spreads, the difference between expiring rents and new rents on re-leased space, turned positive in 2024 for regional shopping centres and reached above 4% at 30 June 2026. This is the clearest operational signal that the leasing market has turned. For most of the preceding five years, negative spreads reflected landlords conceding rent reductions to retain tenants. Positive spreads mean demand for quality space is genuinely outstripping supply, and market rents are rising from a rebased level.

The compounding effect of consistent positive re-leasing spreads over a three-to-five-year horizon is material for income forecasting. As leases expire and roll to higher rents, the income recovery already visible in the data will compound through the NOI line.

Re-leasing spreads turn positive

Clearest inflection since 2019 – rental growth returning off a rebased low

Regional shopping centre re-leasing spreads



Source: Company Reports, Dexus.

Occupancy costs: From stress to health

The operating metrics that drive income – occupancy costs, retailer profitability, re-leasing spreads and vacancy trends – have all moved in the right direction and are reinforcing each other.

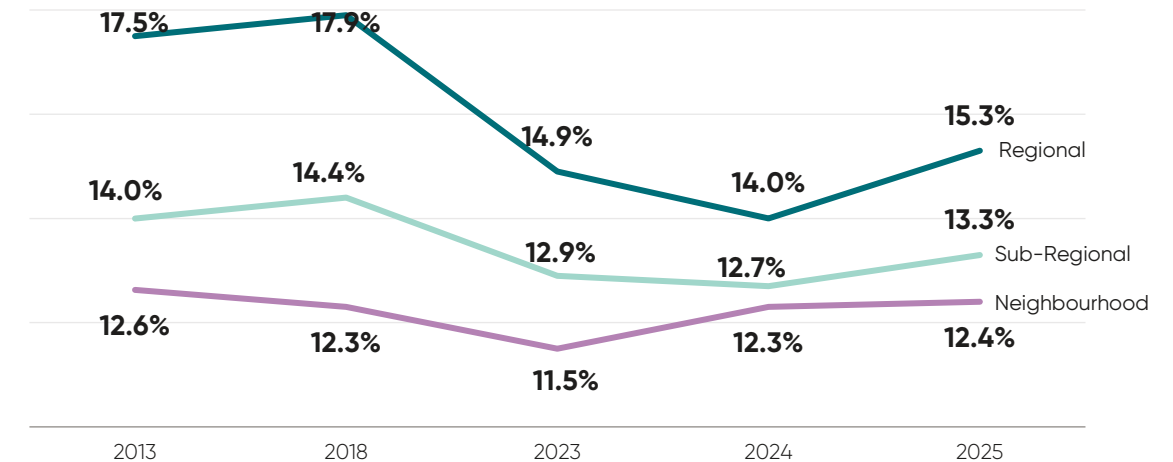
Occupancy cost ratios – rent and outgoings as a proportion of retailer sales – peaked at 17.9% for regional centres in 2018 and 14.4% for sub-regional centres in the same year. These levels reflected a period when rents had not adjusted to the genuine trading environment. Retailers operating at these ratios were under margin pressure, limiting their willingness to absorb rental growth and, in some cases, contributing to leasing stress and wider vacancy.

By 2025, occupancy cost ratios had declined materially: 15.3% for regional centres, 13.3% for sub-regional and 12.4% for neighbourhood centres.

The 2.6 percentage point decline from the 2018 regional-centre peak has reduced the rent burden on sales. That gives retailers greater resilience through softer trading periods and leaves more capacity to absorb rental growth as leases reset. Lower occupancy costs do not guarantee stronger rents, but they improve the conditions in which positive re-leasing spreads can be sustained without recreating tenant stress.

Occupancy costs have fallen

providing tenants with headroom to absorb the rental growth now flowing through re-leasing spreads



Source: ABS, Urbis, JLL, RLB, Company Reports, CBRE Research 2024, Dexus.

Key takeout

Positive re-leasing spreads now matter less as a turning-point signal than as an underwriting input: If sustained alongside lower occupancy costs, they can lift income without relying on vacancy compression.

Population growth is concentrating demand where supply is tight

More consumers, greater spending density

Indooroopilly Shopping Centre, QLD

Australia's demographic growth is investable because it is concentrating in major urban catchments where new retail floorspace is difficult to deliver. For institutional investors, the opportunity is not simply more consumers, but greater spending density around established centres with limited competitive supply.

Growth is concentrating in constrained urban catchments. Near-term population growth of approximately 1.7% per annum is concentrated in the major cities, led by Perth, Brisbane, Melbourne and Sydney. As those catchments deepen, existing centres can capture incremental demand without requiring a commensurate increase in floorspace, making trade-area selection more important than national demographic averages.

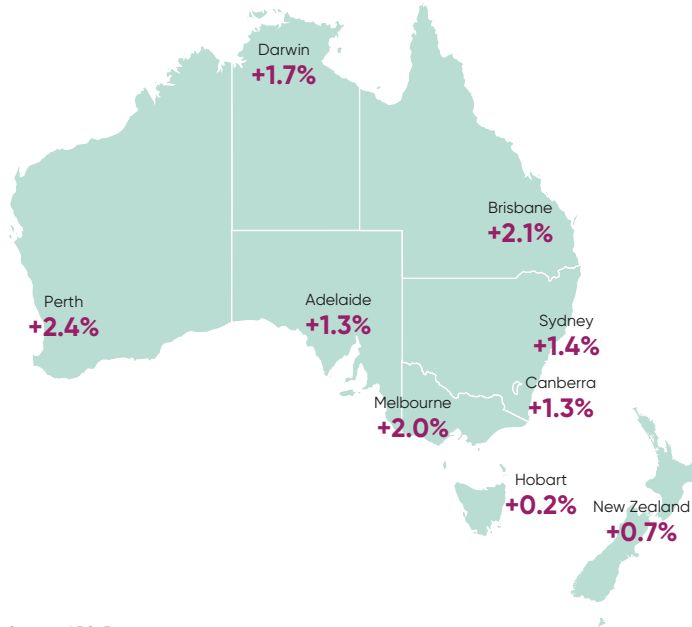
Retail sales are forecast to grow by 3.5% per annum over the next decade, around three times the rate of population growth. That gap points to rising expenditure per person as well as more consumers, strengthening the productivity outlook for centres positioned around food and beverage, leisure, services and other categories supported by urban lifestyles.

Densification and the inner-city opportunity

For investors, densification directs more demand towards established assets that are already difficult to replicate. Government policy targets 70% of new dwellings in infill locations, compared with 54.6% in 2022-23, placing population growth close to existing centres while limiting the scope for competing supply. With Australian inner cities still less dense than global peers, that catchment uplift has a long runway.

The benefit should emerge through higher sales density, more frequent visitation and stronger leasing demand, but it will not be evenly distributed. The clearest exposure is through well-located centres in growing infill catchments, particularly where trade areas are affluent, transport-connected and protected from new supply.

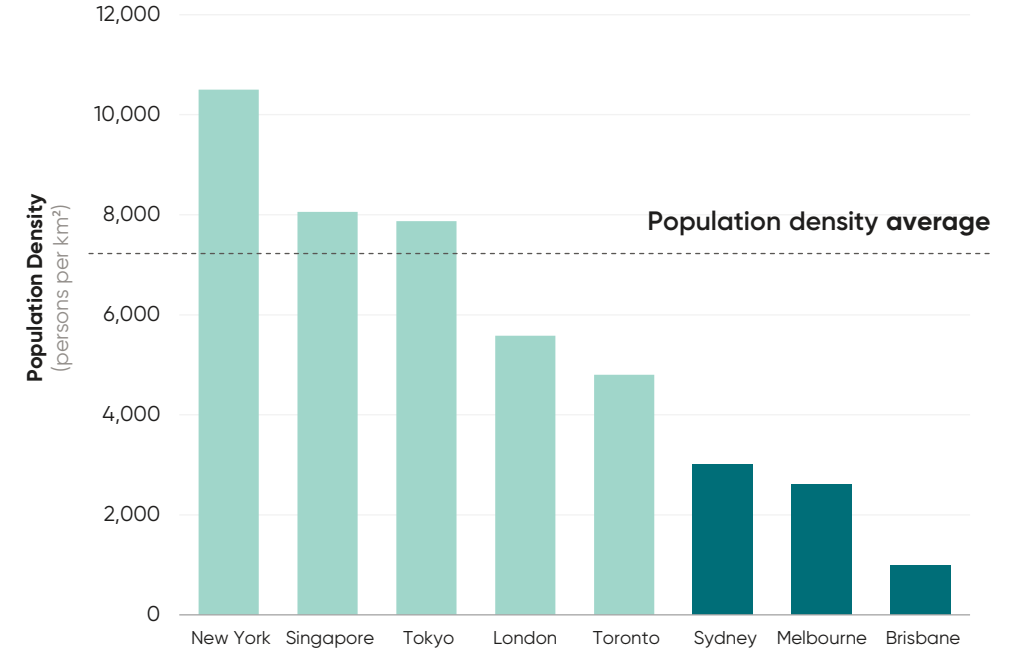
Australia's population is highly urbanised Population growth in Australian capital cities from 2024 - 2025



Source: ABS, Dexus
Population growth based on ERP in 'greater' city areas

Population density in major Australian cities is lower than global cities on average suggesting continued growth and retail demand in inner-city areas

Population density, by global city



Source: ABS Regional Population 2018-19 and 2022-23, Country Census Bureaus, Local Governments. Inner-city regions defined with Local Government Area boundaries falling within 20km of city CBD, Dexus.

Investor takeout

The demographic edge is highly local. Infill assets can capture both population growth and higher spending density, while national averages can obscure meaningful differences between cities and trade areas.

Scarcity is a competitive advantage

The supply picture in numbers

For owners of high-quality metropolitan centres, the supply gap is a valuation moat. Demand can grow without being diluted by a comparable wave of new competition.

Looking at the supply picture, Australia currently has about 0.95 square metres of retail floorspace per person, yet the forecast pipeline covers only a fraction of the space required to maintain even that provision through 2030.

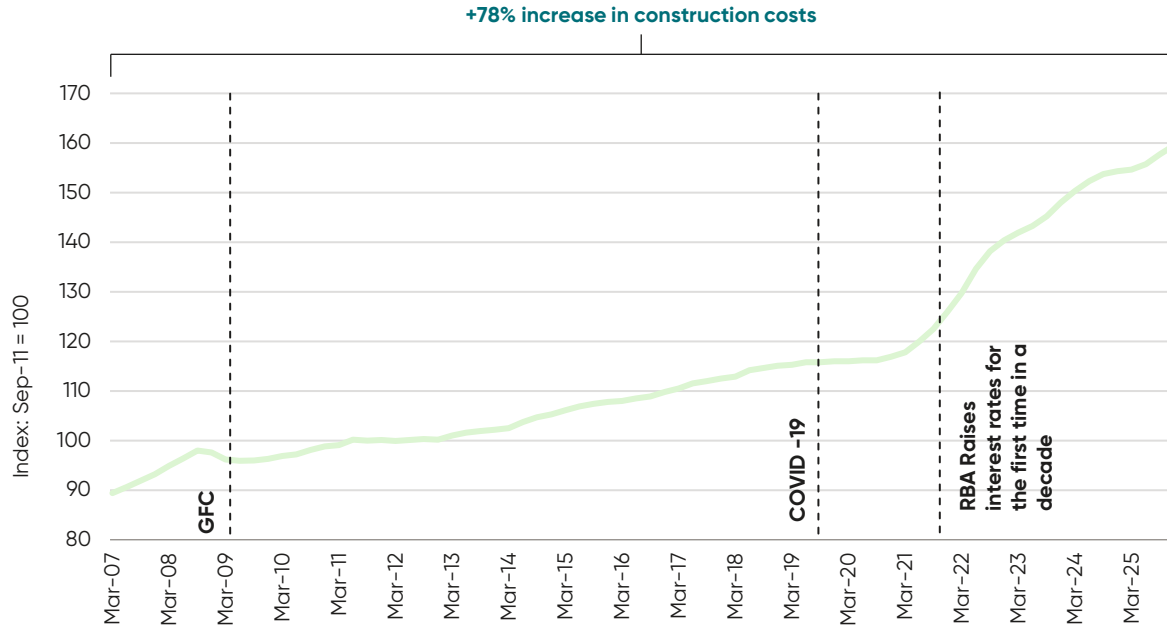
The shortfall is unlikely to be closed through conventional development. Construction costs are 78% higher than in 2007, while scarce infill land, long approval pathways and competing residential uses continue to challenge feasibility. This shifts the source of future capacity from new greenfield centres to the expansion and intensification of existing sites.

Planning constraints reinforce the cost barrier. In the urban catchments where demand is concentrating, large suitable sites are rare and residential alternatives can support stronger land values.

Existing owners therefore hold an incumbency advantage. They control the locations, customer relationships and, in some cases, development rights through which incremental retail capacity can be delivered.

Rising construction costs constrain supply

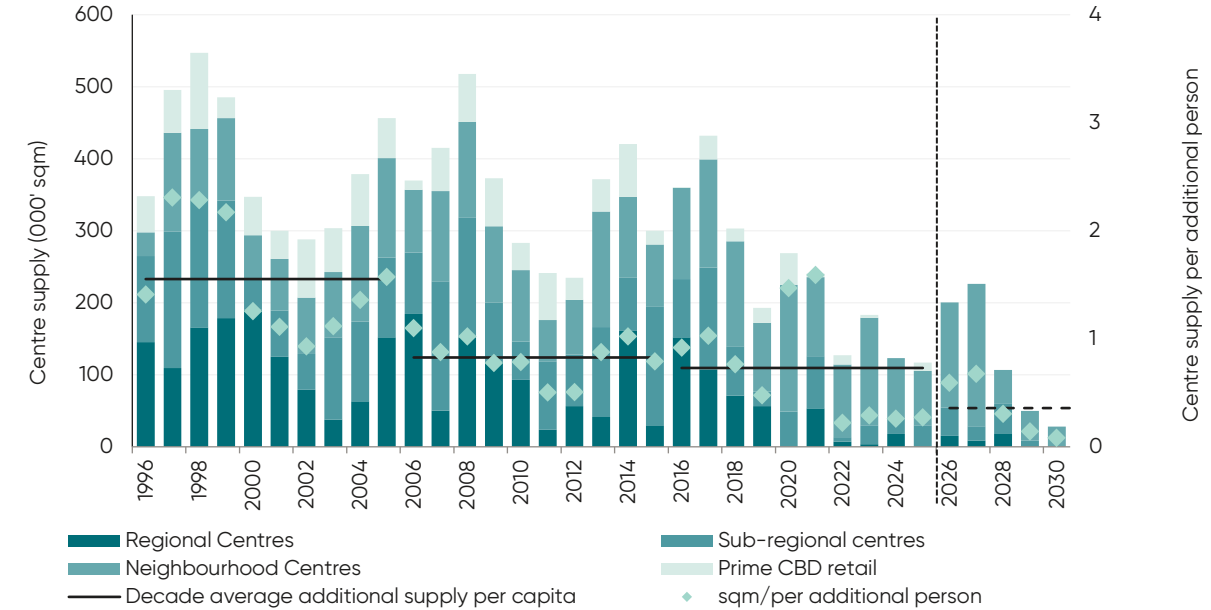
National building construction index:



Source: ABS Producer Prices Indexes Australia, January 2026 Release, Valuer General July 2023, Colliers, JLL, ICSC, Dexus

New retail supply is increasingly limited

Australia new shopping centre supply (CY) 1996 - 2030F



Source: JLL, Oxford Economics, PCA, Urbis, Dexus. Actual retail floorspace refers to gross lettable area (GLA); forecast retail floorspace refers to gross floor area (GFA)

Scarcity creates a valuation moat

Where replacement cost exceeds market value and planning constraints limit new competition, existing assets gain a floor to valuation and retain more of the income benefit from trade-area growth. The implication is most powerful at the asset level, where genuine barriers to entry can be tested rather than assumed.

The strongest centres increasingly share infrastructure-like characteristics: Long-duration income, embedded demand growth and material barriers to entry. Mixed-use intensification can reinforce that advantage because the owner of the existing site controls both the retail platform and the pathway to add new uses.

Key takeout

Scarcity should be underwritten at the trade-area level. The strongest valuation protection sits where replacement is least feasible and owners retain control of expansion through existing sites.

Beyond the e-commerce narrative

Stores as strategic assets

Physical stores are no longer being assessed as an alternative to e-commerce, but as part of the infrastructure that makes omnichannel retail work.

For investors, the differentiator is how effectively a centre supports discovery, fulfilment and high-conversion in-store spend.

Leading retailers have recognised that physical stores are strategic assets within an omnichannel model. JB Hi-Fi, Australia's fifth-largest online retailer by market share, fulfils online orders from its network of more than 220 stores rather than from centralised distribution centres, after determining this is more efficient. Online sales account for 16.8% of total revenue. The store network supports both immediate purchasing and lower-cost fulfilment options such as click and collect.

LSKD has opened 23 physical stores across Australia since 2022, prioritising placement in seven of the top ten centres by turnover. They are the decisions of sophisticated operators who have determined that physical presence drives awareness, trust, conversion and retention in ways that digital alone cannot replicate.

More broadly, Australia's online share of total retail sales has stabilised at approximately 11%, well below the UK at approximately 28% and the US at approximately 15%. Constrained last-mile economics and consumer preference for physical retail have capped further share gains.

The common thread is not a retreat from digital, but a move towards integrated networks that combine online discovery with physical access, fulfilment and customer experience.

The role of artificial intelligence (AI)

Whilst household income remains a primary determinant of how much consumers spend, 55% of Australians use AI to learn about products and around 62% use AI to compare brands, prices and reviews before purchase. Agentic AI is also shortening decisioning for higher-intent shoppers, who arrive at physical stores better informed and closer to purchase. In-store conversion rates run at 20 to 40%, compared with 1.6 to 3% online. AI-assisted pre-shopping is making this advantage more efficient, not less relevant.

For landlords, AI is both a tool and a competitive differentiator. The AI adoption curve for retail operators runs from functional analytics through operational optimisation to digital twin technology and, over a longer horizon, autonomous centre management. Operators who invest in data infrastructure earliest will capture compounding cost, productivity and tenancy mix advantages.

Tenant mix evolution

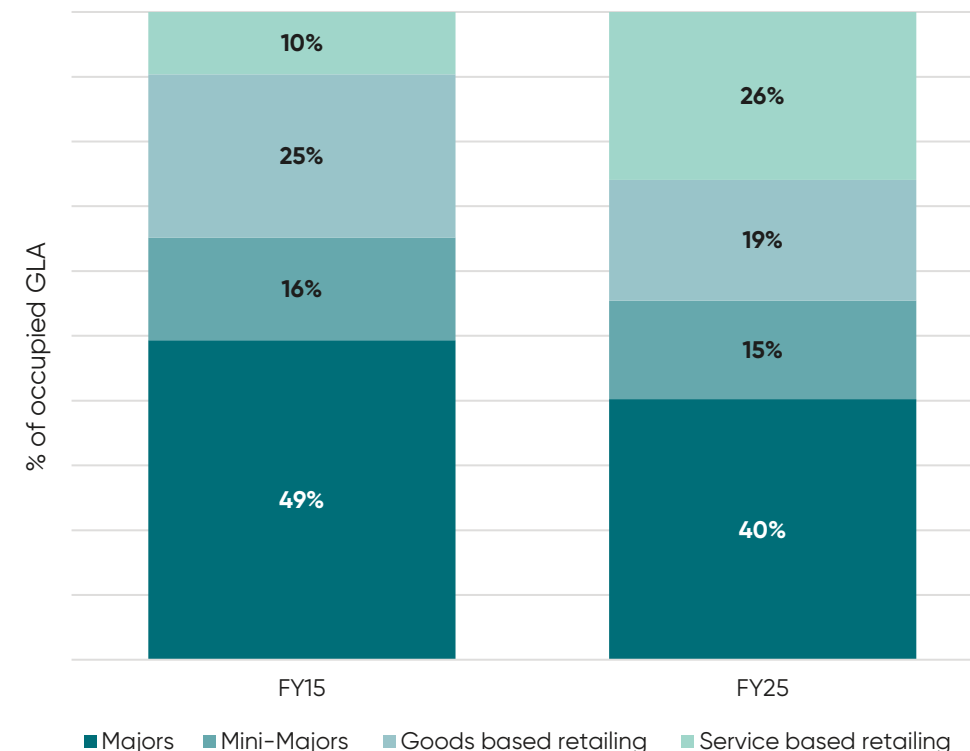
The composition of gross lettable area (GLA) in Australian regional centres has shifted materially over the last six years alone. Department store share has declined from 17% to 13% of GLA between 2019 and 2025. Entertainment and leisure, retail services and health categories have grown. Non-retail uses – medical, childcare, fitness – have increased from 6% to 8% of GLA. The space vacated by department stores has been absorbed by smaller occupiers.

At Westfield Southland, Victoria, the downsizing of David Jones from three to two floors freed space that was backfilled with mini-majors and specialty tenants, generating a significant uplift in sales. Australian centre operators have actively repositioned their tenant mixes towards the categories most resilient to digital disruption, and the financial results confirm the strategy is working. We would expect routine replenishment-led categories to be more exposed to automation and subscription models, while categories reliant on advice, immediacy, service and experience should retain a stronger physical role.

GLA mix rotating to higher growth uses

Regional centres are evolving toward areas online retail can't replace
Services, leisure and experience – driving income growth, not just protecting it

% of occupied regional GLA by category compared to 10 years ago



Source: Urbis Shopping Centre Benchmarks 2025, Dexus

Key takeout

The relevant digital question is network productivity, not channel substitution. Centres that help retailers integrate discovery, fulfilment and in-store conversion should attract a deeper tenant pool.

The next phase of outperformance

Where asset quality meets execution

SHOPS



Westfield Chermide, QLD

A stronger sector backdrop will not eliminate dispersion. Scarce catchments can support outperformance, but the conversion of demand into income depends on asset quality, embedded optionality and the operating platform. Institutional exposure therefore needs to be underwritten at both the asset and manager level.

Premium retail: defensive and growth-oriented

Premium retail centres, those with dominant trade areas, diverse non-discretionary anchoring, affluent catchment demographics and high per-visit productivity, are outperforming across all key metrics. Premium portfolio NOI growth of +2.7% benchmarks above the MSCI at 2.5%. Premium value growth of +3.7% compares favourably with non-premium assets at 1.0%. Occupancy cost ratios within premium assets have declined approximately 120 basis points from their 2023 peak and stabilised.

Premium centres in supply-constrained locations with affluent trade areas are the most defensive through cyclical softness and typically recover first when conditions stabilise. Discretionary leasing recovers earliest at the highest-quality destinations.

Mixed-use: unlocking embedded value

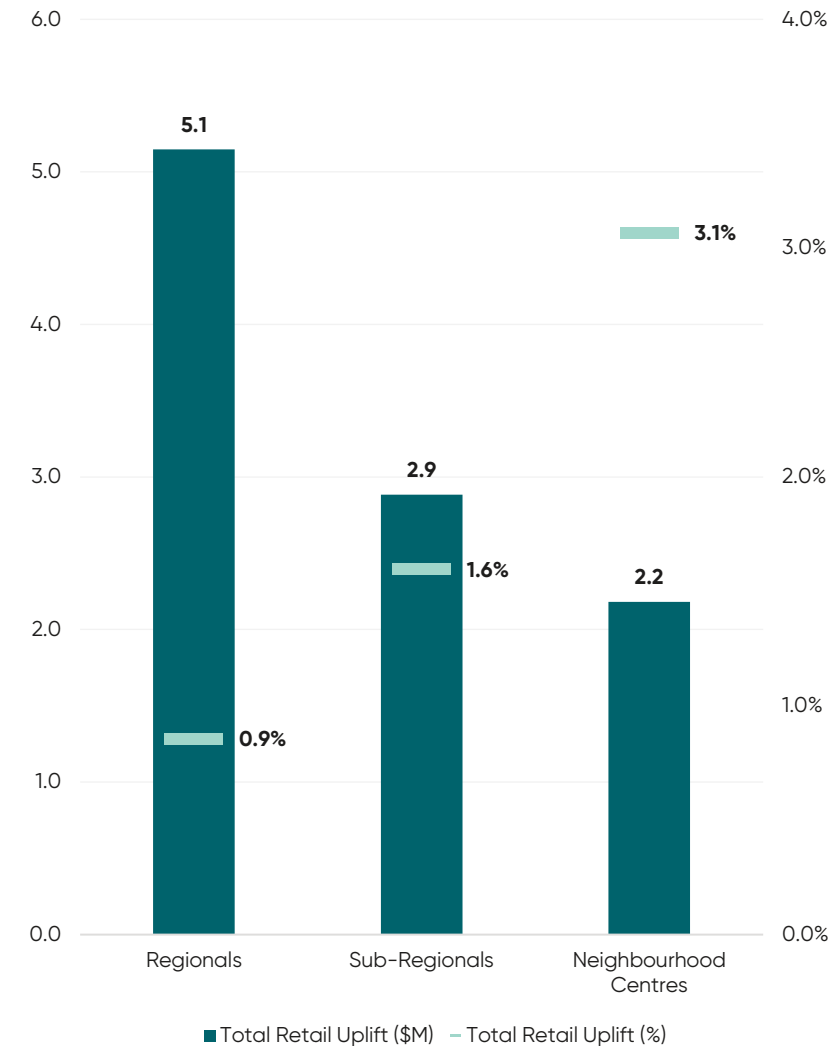
Converting retail-dominant sites to mixed-use destinations is one of the most significant value-creation strategies available to retail asset owners over the next decade. The case is driven by three intersecting forces: land scarcity in inner-city locations, government support for densification and the operational benefits that residential co-location brings to retail productivity.

Build-to-rent (BTR) co-location provides a direct illustration of the retail productivity benefit. A development of 300 apartments brings approximately 600 residents to a centre's doorstep, generating an estimated \$11.4 million in additional annual retail spending at an average of \$19,000 per capita. The turnover uplift to the adjacent retail centre is estimated at 1% to 3% depending on centre type. On-site residents extend trading hours, diversify the visitor base and support centres' evolution towards destinations that capture consumer spending across a broader range of categories and dayparts.

Active management: The operational alpha

Retail property is more operationally intensive than most institutional asset classes. Value is created and sustained through active tenant management, trade area optimisation, investment in consumer experience and the ability to reposition assets quickly when anchor or tenant circumstances change. The dispersion in retail performance increasingly reflects execution capability rather than sector exposure alone.

BTR and mixed-use co-location support retail turnover Rental uplift, by centre type



Source: SQM Research, Urbis Apartment Essentials Database, Urbis Spotlight on BTR May 2024, ABS, Dexus.

Data and AI: The emerging differentiator

Operators who invest in data and AI capability, from customer insight tools to predictive tenancy modelling and operational efficiency systems, are building advantages that will compound over the next decade. The trajectory from analytic tools through operational optimisation to digital twin technology represents a sustained investment horizon. Allocators selecting retail managers should assess data and AI capability as an emerging dimension of the operational platform, alongside financial metrics and track record. The performance gap between data-capable and traditional managers is expected to widen materially as the technology matures.

Key takeout

Premium catchments create the opportunity, while active leasing, mixed-use execution and data capability shape the potential for differentiated returns.

Investor implications

Five considerations shaping the next phase of retail investment



Be selective as performance dispersion persists

The improved sector backdrop does not remove performance dispersion. Focus should remain on productive assets in dominant, growing and supply-constrained trade areas.



Underwrite income growth, not another broad re-rating

With much of the valuation reset having occurred, returns should increasingly depend on leasing outcomes, sustainable rental growth and improvements in NOI.



Assess the asset and manager together

Catchment quality and barriers to entry create the opportunity. Active leasing, tenant remixing, capital allocation and development execution determine how much of that opportunity reaches returns.



Treat optionality as additional value, not the base case

Mixed-use intensification can unlock embedded value, but should be assessed against planning, feasibility, funding and execution requirements.



View data and AI as an emerging operating advantage

Data capability may improve leasing decisions, customer insight and operating efficiency, but it should complement established asset-management capability rather than displace the core underwriting fundamentals.



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