Month in Review

Commercial - October 2023

The Month in Review identifies the latest movements and trends for property markets across Australia.

Executive address

Welcome to our October edition of Month in Review

Since our last report, confronting events that have unfolded in Israel and the Gaza Strip could result in a protracted conflict in the Middle East. The human toll has been devastating and like so many others, we hope that a peaceful resolution can be found quickly.

Australia is geographically removed from the conflict, but the ramifications of what's occurring will be felt by the people of our country in myriad ways, and that includes economically. A run on the price of oil has already seen a spike at the petrol pump which could be a precursor to protracted high energy prices, with relief unlikely until a resolution to the battle is found.

This has all occurred as we had arguably been entering a period of relative stability around interest rates. I suspect the RBA was feeling quietly confident that it had found the right settings for easing inflation back towards desirable levels, with many commentators even suggesting we could be in for rate cuts come 2024. After the events of this past month however, there is a case to be made that we could well see another increase or two, with some speculating it could be as soon as November.

This leads me to this month's edition of Month in Review, in which our residential teams discuss first home buyer markets. The overarching opinion is that this purchaser cohort is eager to buy but continues to face challenges. While a swathe of investors has looked to offload their assets, listing numbers are still relatively tight. This is somewhat unexpected. In August it appeared we were in for a bumper uptick in listings, but the rate of increase has eased. In hindsight, it appears the certainty around interest rates coupled with a more general trepidation about future economic conditions simply brought forward many vendors' decisions to sell. We may well discover that the total volume of listings between August and December will track closer to long-term averages than first thought.

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The other challenge for first home buyers is construction costs. Most first homeowner grants are maximised for those building or buying new property. Unfortunately, elevated construction costs along with building delays have reduced the power of those subsidies. As such, many first home buyers are choosing more reasonably priced established housing. There's also increased demand for attached housing given it's generally a more affordable option.

Our commercial valuers discuss office property this month. Investment in this sector has struggled in the pandemic's wake. A look across our submissions reveals many office markets have reached a new price equilibrium. While there remain challenges, both tenants and property owners are adapting to employee needs. As such, rental agreements are being negotiated with certainty and assets are being priced more consistently.

Turning to rural and we discuss what economic drivers are impacting the industry and how that's manifesting in property prices. The consensus is that good quality rural assets are still in demand, however "price boom" momentum has slowed.

There are fewer places in the world right now that you'd rather be living and investing in than Australia. That said, proceeding without expert advice is fraught with risk. Uncertainty will continue to play a huge part in the national and international conversation. Having experienced, independent, professional guidance will be essential to navigating what lies ahead.

Drew Hendrey
Executive Director
of Valuation & Advisory

National Office Overview

The office market nationally is going through a period of volatility. Around the country we have seen continued high vacancy rates and high incentives, and whilst we are seeing busier city centres, demand has not regained momentum.

Vacancy rates around the country continued their upward trend, with the Property Council of Australia reporting a total vacancy rate in July 2023 of 12.8 per cent, up from January 2023 by 0.3 per cent. This is a significant increase on the pre-pandemic vacancy rate which was reported by the PCA in January 2020 at eight per cent.

Angeline Mann,
Director

The current tenant demand is being driven by tenants wishing to relocate or upgrade with most markets reporting lower vacancy and stronger demand in the premium and A-grade spaces.

Tenant demand continues to be centred around flexible workspaces and is a common theme among all the capital cities. The current tenant demand is being driven by tenants wishing to relocate or upgrade with most markets reporting lower vacancy and stronger demand in the premium and A-grade spaces.

This year we have seen rental rates remain flat with only some green shoots in some of the fringe markets with less supply. Incentives have stayed high across the country with some locations reporting incentives of up to 40 per cent. Given the overall leasing market conditions, general market conditions and the high incentives being reported, we do not expect there to be any substantial growth in rents for some time to come.

Early in 2023 we had predicted the office market to remain generally volatile and uncertain. This has been true of most markets. Inflation and interest rates have continued to be a concern for investors and businesses alike.

Around the country the office market continues to face downward pressure on values. Interest rates and waning investor demand on the back of high vacancy rates and negative market sentiment have led to a softening in yields in some locations by as much as two basis points.

A common theme in our major cities is a lack of transactions making it difficult to ascertain the extent of the softening in the market. Many agents are reporting a lack of new enquiries for offices. They are also noting increasingly challenging conditions in which buyers do not proceed with a sale and often the length of time needed to finalise a sale is noticeably increasing.

The challenges in the office market are likely to continue for some time particularly as we navigate the generally weaker economic conditions ahead.

National Property Clock: *Office*

Entries coloured purple indicate positional change from last month.

Peak of Market:
Bundaberg
Dubbo
Fraser Coast
Gold Coast
South East NSW
Sunshine Coast
Townsville

Starting to Decline:
Coffs Harbour
Geelong
Mid North Coast

Declining Market:
Ballina/Byron Bay
Echuca
Illawarra
Newcastle
Sydney

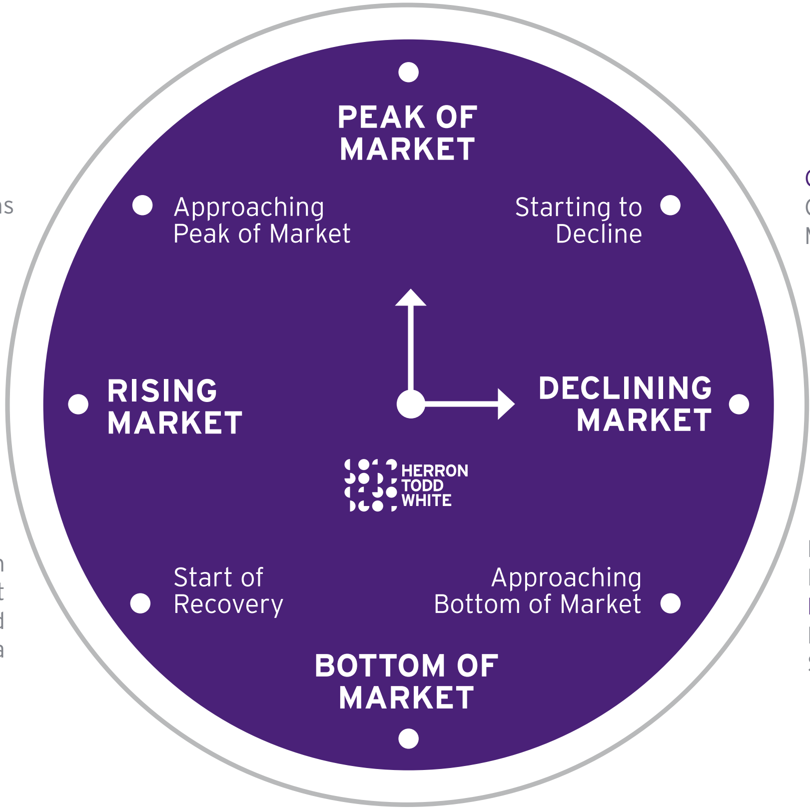
Approaching Bottom of Market:
Brisbane
Ipswich
Lismore
Melbourne
South West WA

Bottom of Market:
Alice Springs
Darwin
Hobart
Launceston
Perth
Toowoomba
Wide Bay

Start of Recovery:
C'berra/ Q'beyan
Central Coast
Emerald
Mildura

Rising Market:
Adelaide
Ballarat
Gladstone
Mackay
Rockhampton

Approaching Peak of Market:
Cairns



COMMERCIAL - RETAIL

HERRON TODD WHITE

New South Wales - Office 2023

Sydney

2023 has again been an unsteady year for the office sector, especially within the Sydney CBD. High vacancy rates continued throughout the year with subdued leasing conditions. The strata market in the CBD, which had been performing very well, has started to show signs of slowing.

Landlords continued to battle high vacancy rates. The Sydney CBD vacancy rate for July 2023 as reported by the Property Council of Australia is 11.5 per cent, up from a rate of 11.3 per cent in January 2023.

Not surprisingly, all of the other office centres within Sydney experienced an increase in vacancy. Most notably, North Sydney increased from 19.2 per cent at the start of the year to 22.7 per cent in July this year. Also with a considerable increase was Parramatta. At the start of the year, the Parramatta vacancy rate was 18.1 per cent. Most recent numbers from the PCA indicate a vacancy rate of 23.4 per cent. A number of factors have led to increased vacancy including a continued hesitancy to return to full-time office working arrangements and (in most areas) increases in supply of office accommodation.

The lack of demand has also seen increases in incentives as landlords try to attract tenants. It is not uncommon for incentives to be at circa 40 per cent. Overall, rental rates have remained subdued and are unlikely to see any significant movement.

As indicated by the significant increase in vacancy, we have noticed a considerable increase in supply with a general softening in leasing demand within the Parramatta CBD. That said, the Parramatta strata office market is still going through a stage of uncertainty. It is interesting to note that a recent strata office sale in Phillip Street achieved a rate of over $16,000 per square metre. Prior to this, the most recent sale in the building (several years ago) achieved a rate of just over $13,000 per square metre. This indicates that there is some demand from owner-occupiers looking to enter the strata market.

The lack of demand has also seen increases in incentives as landlords try to attract tenants. It is not uncommon for incentives to be at circa 40 per cent.

Parramatta Office Building — Source: Herron Todd White

A similar story has emerged in the Norwest area. The Norwest precinct is a popular area for small local businesses. The market has mostly remained steady with occasional periods of slowing. A recent sale secured a rate of over $8000 per square metre for a strata office. This is not uncommon but speaks to the steady nature of the market.

Overall, the office market has been plagued with a number of issues as a direct result of the COVID-19 pandemic. Change in tenant demand along with work from home arrangements and, more recently, softening economic conditions including interest rate rises and inflation have led to continued uncertainty for the office market. As there is no anticipated change to market conditions and as more supply continues to become available, we consider it unlikely that there will be any change to the market in the months ahead.

Angeline Mann
Commercial Director

Wollongong

The general feeling is that the Wollongong office market managed to keep its head above water throughout the year, so far surviving a very testing period of time due to the COVID-19 pandemic and the rapid rise in interest rates.

Unsurprisingly, higher value investment sales have been scarce so ascertaining where yields sit

COMMERCIAL - RETAIL

HERRON TODD WHITE

Now that it appears the RBA cash rate is at or nearing its terminal rate, investors have more clarity to make decisions in the short term on buying office assets.

is tough and it likely won't be until 2024 that we see a sale to set the benchmark for investment returns in this sector. Smaller office assets with owner-occupier or part owner-occupier appeal fared relatively well with ongoing demand in the circa sub $2 million range.

The vacancy rate remains elevated however there does not appear to be panic amongst landlords, most being confident that leasing conditions will improve due largely to a strong local economy and the fact that the majority of local businesses and their staff are back full time in the office and fully utilising space. Local businesses have not struggled as much as their capital city counterparts in attracting their staff back to the office.

Leasing agents are reporting sound demand for higher quality premises and for the first time in a while there is a decent selection of space for tenants. However, this is not expected to last too long with one industry insider indicating that Lang's Corner is forecast to be fully leased in the first half of 2024 (currently circa 75 per cent leased), potentially triggering construction of another office building adjoining. While face rents have held firm, incentives have ramped up and therefore effective rents have declined. This will ease as the market absorbs the vacant space. But for now, this is a tenant's market.

Scott Russell
Director

Central NSW

The office market sector in the Newcastle and Hunter Region has very much been playing a wait and see game in 2023. As cost of living and interest rate increases bite, all indicators reflect that the office market should have been weakening, however the very limited office sales during the year meant there was no hard evidence to indicate an actual decline in values in this market segment. We now have some settled sales in the office sector, including some tenanted by federal government agencies, that indicate a significant rise in yields from the peak of the market which was early 2022. In fact we have seen a number of office investment sales with yields over 8%, which would indicate a 150 to 200 basis point increase from the peak of the market. While sub 6.5% yields are still in the market, these are generally associated with very high lease expiry profiles or other issues such as potential for development. This yield expansion is reasonable given the RBA cash rates have risen from 0.1 per cent to 4.1 per cent during this time. Given the underlying stress in the office market currently, including work from home continuation and general floor plate requirements decreasing for both government and corporate entities, this yield expansion is expected to continue throughout the year and into 2024.

On a more positive note, now that it appears the RBA cash rate is at or nearing its terminal rate, investors have more clarity to make decisions in the short term on buying office assets. Should there be interest rate cuts at some stage during next year, it is possible yield compression may return to the market, however those cash rate cuts may be implemented due to economic downturn or the potential for recession so at this stage it is hard to see what the market will have in store for us in 2024.

Ed Thwaites
Valuer

HERRON TODD WHITE

Victoria - Office 2023

Melbourne

The repercussions of the COVID-19 pandemic are still being acutely felt within the Melbourne CBD office market and are best illustrated by the escalation of the office vacancy rate.

According to the Property Council of Australia's Office Market Report, Melbourne's CBD office overall vacancy rate has increased from 14.1 to 15 per cent over the six months to 1 July 2023. The Melbourne metro office markets however have fared better. According to Colliers research, the Melbourne metro market saw strengthening demand throughout the back half of 2022 and the first quarter of 2023. A record 163,100 square metres of space was leased in 2022 and a further 42,776 square metres worth of deals were completed in the first five months of 2023 alone. While many businesses are now only occupying around 80 per cent of space held previously, businesses now tend to be using the space differently, with more collaborative areas and less permanent desks. Landlords and businesses are also upgrading or introducing more amenities to attract staff from working from home to back into the office. Also, many tenants are seeking to upgrade their space and location, resulting in new buildings and quality A-grade stock being quickly absorbed in the city fringe. Whilst face rents for good quality office space remain largely unchanged, it is the incentives which have borne the brunt of the market softness, having increased to around 40 per cent net in many key office sub-markets. We expect the office vacancy rate to peak by the end of 2023.

Many believe now could be the time to reposition or refurbish older buildings and customise them to the new needs of the modern workforce.

In regard to the capital markets, the Melbourne office market continues to face downward pressure on values with the continuing escalation of interest rates and investor caution on the back of high vacancy rates and yield softening. There is further anecdotal evidence that investors are showing increased caution due to higher borrowing costs with new enquiry and general sales volumes having substantially decreased. In many cases, this is a precursor to flattening values and yield softening. Whilst it remains difficult to see just how far values have dropped as a result of limited transactions, the heightened interest rate environment is forcing financial difficulties on many which may force distressed sales in the later half of 2023, allowing good opportunities for astute investors.

The new office hybrid model is still taking shape. Many believe now could be the time to reposition or refurbish older buildings and customise them to the new needs of the modern workforce. It is reported that REITs are now seeking B- and C-grade buildings that are ripe for repositioning as it may be more economical to reposition these buildings than to build new developments given the escalation of building costs.

Jason Stevens
Director

Queensland - Office 2023

Brisbane

Over the past 18 months, the office sector has been heavily under the microscope, not only domestically, but globally. Domestic inflation continues to headline the media, whilst global economic conditions remain highly volatile. This uncertainty will continue to plague the commercial investment market until there is stability.

The sharp rise in the cost of debt due to the high inflationary environment has depleted returns and yields have softened accordingly. The investment market has seen the largest softening in value levels.

Transactional volumes are well down in 2023 and the price gap between vendor and buyer expectations appears to continue to be a big issue as book values remain inflated. This has made it difficult for funds and syndicators to on-sell their assets.

Selling agents are reporting that office transactions are becoming harder and harder to get over the line, hence they are taking much longer, with a number of deals falling over in due diligence. This has been a factor of the uncertainty of where interest rates may land in the long term and investors' unwillingness to invest their money into an asset class that is being heavily scrutinised in the market.

As there has been a dearth of office investment sales in 2023, selling agents have and continue to report that yields have softened anywhere

> *Transactional volumes are well down in 2023 and the price gap between vendor and buyer expectations appears to continue to be a big issue as book values remain inflated.*

between 100 to 150 basis points (broadly speaking). We are aware of a number of office transactions in the Brisbane CBD and fringe CBD precincts that are currently in due diligence and once settled, these transactions will support this repricing paradigm.

Traditionally, investment assets are typically bought and valued from the asset's cash flow, however interestingly, buyers are now also looking at the replacement cost of these assets and if it is perceived that it is below replacement cost, then buyers (and investors buying into a property syndication) are much more comfortable proceeding with the acquisition.

Conversely, the owner-occupier market (sub $10 million) remains quite strong, especially for well-located assets with strong fundamentals (functional floor plates, good natural lighting and high car parking ratios). Stock is the biggest issue facing owner-occupiers. As construction costs remain high and unpredictable, we will continue to see strong results for established buildings until there is more stock on the market or construction costs moderate substantially (which is unlikely to happen in the foreseeable future).

From a leasing point of view, there has been a clear uptick in tenant demand for Prime and A grade stock in the CBD and fringe CBD precincts. Even well-located, quality B-plus grade office assets have seen good tenant demand and healthy face rental growth over the past 12 months.

The biggest preference from tenants is for pre-fitted, speculative accommodation or high-quality existing fitouts, as construction costs remain volatile and are a massive deterrent for tenants. Broadly speaking, face rents have increased in line with the increased cost to provide quality office accommodation, however unfitted, warm-shell space is less desirable and larger incentives are required to account for the increasing fit-out costs and the timing it takes from start to finish.

Whilst the office market is likely to remain turbulent for another 12 or so months, the Brisbane office market appears to be holding up reasonably well in comparison to its southern counterparts. Once there is more certainty and economic stability, we will likely see the Brisbane and south-east Queensland office markets bounce back quickly.

Edward Cox
Associate Director

HERRON TODD WHITE

Gold Coast

The office market on the Gold Coast is currently subject to a multitude of factors.

The market has rebounded strongly since 2020, having been aided by record net internal migration to the region and an influx of new and expanding businesses.

Interestingly, the total stock of floor space across the market has remained fairly static over the past decade and as a result, increased demand has resulted in the total vacancy rate across the market reducing to 6.3 per cent (PCA July 2023), from 14.3 per cent in January 2021.

The imbalance between supply and tenant demand has resulted in an increase in rental rates and a softening of incentives across the board. A few examples include:

- In Southport, a circa 2200 square metre net lettable area was leased to an ASX listed education group on a 10 plus 10 year lease, with a commencing gross rental of circa $530 per square metre gross plus car parking. In another nearby building, a level nine tenancy (circa 1400 square metres) and level eight tenancy (840 square metres) were leased on five-year terms for $450 per square metre gross plus car parking.
- A string of B grade tenancies in Surfers Paradise have been leased for rates ranging from $400 to $450 per square metre gross plus car parking, whilst the A grade 50 Cavill Avenue has achieved rates upwards of $600 per square metre gross plus car parking.
- Robina has been a strong performer with a 536 square metre tenancy in an A grade building leased for $547 per square metre gross plus car parking.

The imbalance between supply and tenant demand has resulted in an increase in rental rates and a softening of incentives across the board.

Incentives in the above deals have typically ranged from 10 to 20 per cent.

Due to high building costs, there is limited new product in the pipeline.

There have been minor supply additions in the Robina and Varsity Lakes regions where market dynamics remain strong. The precinct has a vacancy factor of 5.9 per cent which is lower than the city average.

The only notable pending addition is the Proxima development in the Gold Coast Health and Knowledge precinct, with occupation on track for early 2024. This project will add approximately 10,000 square metres of stock to the market and pre-leasing is reported to account for around 65 per cent of the building. The development has a number of key tenants committed, along with a range of other allied heath users. Asking rents start at approximately $450 per square metre net for large upper level tenancies and circa $550 per square metre net for ground floor tenancies.

Proxima Southport — Source: Proxima

The low vacancy rate and rent growth trends are making office assets more desirable to private investors than in years gone by, although buyers are still pushing for softer yield levels due to the increased cost of debt. Owner-occupiers of smaller buildings and strata units are also quite active in the market.

Another trend noted is older quality buildings being renovated to more modern standards to provide superior amenity, spurred by the high costs to establish brand new product and the market's desire for good quality work spaces.

Recent transactions are relatively limited, although the $40 million sale of 35 Robina Town Centre Drive, Robina has recently settled at an analysed yield of 8.16% and a rate of $4361 per square metre of net lettable area.

A smaller, modernised building at 10 Short Street, Southport also transacted this year for $5.65 million. The property was purchased by an owner-occupier with a very short lease expiry and reflected a strong rate of $6,593 per square metre of net lettable area.

Ryan Kohler
Director

HERRON TODD WHITE

Sunshine Coast

The Sunshine Coast continues to have one of the lowest office vacancy rates in Australia at circa four per cent as at July 2023, with the majority of vacancies in older buildings in secondary locations.

Demand from tenants throughout 2023 generally remained robust based on the strong economic conditions seen on the Sunshine Coast, upheld by low unemployment and strong migration numbers. Demand has been from a number of sources, including established local tenants looking to increase floor space, and from national and multinational tenants looking to establish themselves in the region.

As a result of continued demand, rental rates have improved. The high levels of absorption, particularly of A grade stock, have helped to underpin a general increase in gross face market rentals. We do note overall incentives have increased slightly, particularly in Maroochydore (circa 10 to 30 per cent) and Birtinya (five to 30 per cent), as a result of the increased absorption of space. With limited supply additions in the short to medium term, the Sunshine Coast office market is expected to see future shortages in the supply of office space and a continual upward movement in passing rentals.

In the face of rising interest rates, demand in the smaller office market has remained stable and is driven by owner-occupiers. There remains a low supply of strata stock, with little proposed in the short term to accommodate owner-occupier needs. The majority of future supply will be within the Maroochydore CBD and is predominantly tenant led.

As a result of rapidly rising interest rates, we have generally seen a softening of yields (circa 50 to 100 basis points) since the peak of the market in early 2022. Increased borrowing costs have naturally shifted the appetite for investors. Some notable investment sales in 2023 were:

17/14 Aerodrome Road, Maroochydore QLD

Sale Date	Feb 2023
Sale Price	$2,120,000
Analysed Yield	6.51%

Private Investor.

6 year lease, to a National Tenant expiring December 2028 with 2 x 3 year options.

13-15 Beach, Maroochydore QLD

Sale Date	August 2023
Sale Price	$5,000,000
Analysed Yield	7.40%

2 year lease, to a Government Tenant expiring December 2024 with 1 x 2 year options.

Some notable investment sales are detailed above. Source: Herron Todd White

Moving forward, construction and development of office accommodation will be driven heavily within the developing Maroochydore CBD known as Sun Central. The A1 Building was completed in March 2023, delivering a net lettable area of 2677 square metres comprising ground floor retail and three levels of commercial offices. The building is now fully occupied. The next building to be delivered

The high levels of absorption, particularly of A grade stock, have helped to underpin a general increase in gross face market rentals.

within the precinct is 50 First Avenue which is currently under construction and is estimated to be completed in late 2024. The building will add another 9000 square metres of floor space (five per cent of current supply). At this time, we are unaware of any pre-leasing commitments however are aware that developers are in discussions with potential tenants. We are also expecting to see a large supply of office accommodation in the medium to long term in the Birtinya office precinct with eight lots with circa maximum gross floor area of 36,500 square metres (18.5 per cent of current supply) currently available of which five are reportedly under contract.

Jaydon McDowell
Associate Director

Cairns

The Cairns office market is relatively shallow and has experienced limited new development. The last large office building constructed in Cairns was the state government office tower completed in 2010. There have been several smaller (sub 2500 square metres) tenant-initiated design and construct projects completed, however there are no known significant new developments in the pipeline.

The recent redevelopment of the old Masters building into the new Centrelink premises has made available some larger areas in different buildings within the CBD. There is limited demand for larger tenancy areas at the moment, with demand being mainly for smaller quality areas, of which there are limited numbers available. An older 5000 square metre building in the CBD has been extensively refurbished and provides around 2500 square metres of as new space to the market, offering any required size at around $400 per square metre gross.

There are only a handful of quality green star rated premises in Cairns and these achieve high levels of occupancy. Rent levels are typically $375 to $450 plus per square metre per annum gross and these figures have remained stable. Demand for lesser quality space remains limited with non-inner CBD and well-exposed secondary space in the $250 to $350 per square metre per annum rental range.

There is good demand for owner-occupied premises in well exposed locations with value levels up to $2 million and limited availability.

Shane Quinn
Director

Wide Bay

The commercial office markets in the Wide bay continue to show a reasonable level of resilience in the face of substantial cost of funds rises over the past 12 months. Whilst sales activity has decreased significantly, there is a notable level of activity for lower level and smaller scale office tenancies in the leasing market, albeit on shorter term leases suggesting more cautiousness in the market.

A notable office sale in 2023 was 205 Bourbong Street, Bundaberg West at $1.7 million which occurred in June and reflected an analysed market yield of approximately 7 to 7.5%.

Throughout 2023 office rents within the Wide Bay for lower quality tenancies or tenancies with secondary attributes have typically been in the circa $150 to $220 per square metre per annum gross range. Better quality or more prominent tenancies have achieved rental rates between circa $275 and $350 per square metre per annum gross. These ranges have varied with the exception of medical offices which often achieve rental rates above this range.

Ben Harnell
Associate Director

Townsville

Whilst most property commentators predicted metro office markets to be a strong performer in 2023, the Townsville office market has remained steady throughout the first half of 2023.

There have been limited major sales in the office market this year to date. Yield profiles remain broad at 5.7% for purpose built premium grade assets with strong lease covenants to mid-8% for C to D-grade stock with obsolescence issues, high vacancy levels and short WALEs.

Local developers have been active within the C- to D-grade premises. Their sole purpose is to purchase, renovate and secure a tenant and on sell to the investor market.

We are aware of a current listing known as Stanley Place which according to the current marketing is a landmark 14 level office complex comprising a floor area of approximately 12,820 square metres, is 87 per cent occupied with a 3.24 year WALE underpinned by federal and state government tenants. This property is currently listed for sale by as expression of interest.

Transactions remain underpinned by typical fundamentals: low price points reflect higher risk yields and higher price points are associated with superior quality assets underpinned by longer cash flow expiry profiles considered to be a lower risk opportunity.

Rental rates have remained stable during the year. There is continued pressure on landlords to upgrade vacant space to keep pace with the changing office environment and needs of tenants.

The Townsville office market represents a relatively shallow sector. Whilst sales are typically at a higher price point, volume and frequency is limited. The overall office sector contributes a small percentage of annual sales as our economic drivers are more aligned to the industrial sector.

Jamison Sayce
Associate Director

Mackay

It has been a fairly positive year for the office market in Mackay.

Demand for good quality office accommodation is improving and rentals have increased over the past 12 to 18 months. Agents report a shortage of good quality tenancies with lettable areas of 200 to 300 square metres available for lease and rentals rates have risen to around $400 per square metre per annum in some cases. Private business operators, government and government-funded tenants have been active in the market.

A multi-level commercial property at 65-69 Sydney Street, Mackay was sold for $8.2 million in March to show an analysed market yield of less than 7.0%. The buildings were completed in 1994 and 1996 and overall present as reasonably good quality office and retail accommodation. The buyers are Sydney-based developers who aim to add value through refurbishing and reconfiguring retail and office tenancies.

65-69 Sydney Street, Mackay Source: realcommercial.com.au

The Willetts Road Health and Medical Hub at 93 Willets Road, Mount Pleasant adjacent to the Mater Hospital was sold at $6 million in March.

A single-level office property at 17 Macalister Street, Mackay was sold in May at $1.995 million.

This has been a relatively active period for substantial commercial property sales in Mackay and it appears that rising interest rates have not dampened buyer enthusiasm to any appreciable extent.

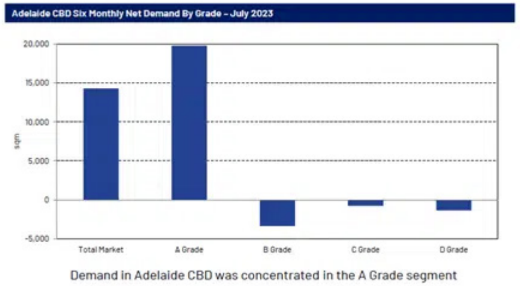
Gregory Williams
Director

South Australia - Office 2023

Adelaide

The Adelaide office market has performed strongly throughout 2023 irrespective of the ever-changing macroeconomic environment. Flight to quality is a prominent trend with its prevalence in the office sector creating unprecedented levels of demand. We are observing large levels of B-grade stock taken off market and being refurbished and reintroduced as higher-grade accommodation fuelling the supply pipeline. Adelaide's skyline is currently undergoing a revamp, bringing about large levels of prime grade office accommodation which is attracting high levels of demand shown through positive net absorption figures and high pre-commitment levels. Large projects, discussed in previous editions of the Month in Review, are attracting tenants looking to pay a premium for better office accommodation to help incentivise workers to return to the office. These new buildings encapsulate the strength of tenant demand for state-of-the-art facilities, hybrid workforce environments, end-of-trip facilities and ESG goals.

We have also observed strong levels of tenant centralisation with many occupants realising the benefits of a CBD locality as well as the supply available. The Adelaide CBD average building age is dated which is placing pressure on landlords to rejuvenate their existing premises whilst also providing abundant opportunities for developers to purchase dilapidated sites from unmotivated owners. The below graph portrays the six-monthly net demand highlighting the discrepancies amongst grades and reiterating the strength of prime grade office demand.



Adelaide CBD Six Monthly Net Demand By Grade
Source: Property Council of Australia, 2023

Irrespective of the strong levels of demand, the Adelaide office market has experienced continual increases in vacancy levels. Prime grade vacancy levels are continuing to rise with secondary grade dropping now circa four per cent less than prime, historically an inverse trend. We are seeing a shift in high quality, secondary grade space which is proving competitive with prime grade appealing to a shift of tenant centralisation. An overall rising vacancy rate can be mainly attributed to increasing supply as opposed to a lack of demand.

Low consumer sentiment, rising borrowing costs and a bleak economic outlook have seen yields soften throughout the year. Discussions with local agents indicate that deals have been taking longer to finalise. Adelaide's office market rental growth is on a slower trajectory compared to other major Australian cities, having been stalled via an influx of supply.

A notable sale occurring earlier this year was an 18-level office building at 45 Pirie Street selling for $76.5 million, a massive 27 per cent discount from late 2017 when it was purchased at $105 million. This discount is derived from the building comprising a 75 per cent vacancy as well as significant capital works required to remain competitive with newer office accommodation. Tenants' flight to quality has been observed through all levels of lettable area with Telstra relocating to 60 King William Street occupying 4500 square metres at a face rent of $540,000 per annum net. Similarly, NAB has since moved occupying 3000 square metres at a face rent of $700,000 per annum gross, both commencing in July 2023.

Chris Winter
Commercial Director

Adelaide's skyline is currently undergoing a revamp, bringing about large levels of prime grade office accommodation which is attracting high levels of demand shown through positive net absorption figures and high pre-commitment levels.

Western Australia - Office 2023

Perth

The Perth office property market is experiencing a mixed bag of dynamics and trends in the 2023 calendar year.

The most recent PCA Office Market Report indicates Perth's CBD total vacancy rate was 15.9 per cent for the six months to July 2023, a marginal increase from that recorded in January 2023 (15.6 per cent).

The West Perth vacancy rate however demonstrated positive movement, recording a total vacancy rate of 11.1 per cent, down from 13.2 per cent over the same period. New tenant demand from emerging companies in the mining and resources sector and professional service firms is considered to be a major contributing factor to this encouraging statistic.

However there remains a visible vacancy factor in Perth's traditional office districts, particularly for non-premium grade accommodation. The level of occupancy, as opposed to vacancy, is proving to be a key statistical distinction in the performance of the office property sector given the work from home phenomenon.

Companies continue to reduce their workspace footprints with some downsizing or reconfiguring their office layouts to accommodate a more flexible workforce.

Tenant demand for large-scale floor plates greater than say 500 square metres is soft as prospective occupants demonstrate a preference to secure smaller premises, citing the resilience of the hybrid working model.

Positively there has been a marked uptick in demand for tenancies between 200 and 350 square metres. Availability of this stock in certain fringe CBD locations was constrained and exerted upwards pressure on achievable rental rates.

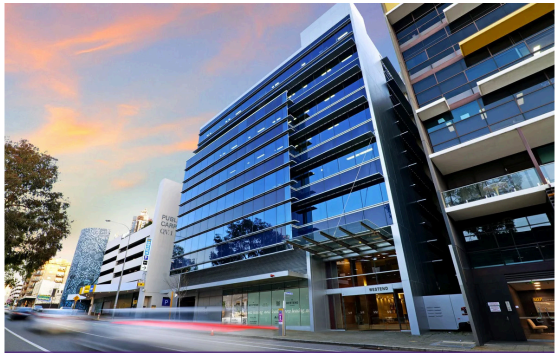
Although demand has increased in this segment, it has not yet translated into substantial rental price growth. Rental rates for office space overall remain relatively stable in 2023. A two-tier market is clear as companies take advantage of the incentives on offer to relocate to premium and A grade accommodation whilst lesser grades languish.

From a sales perspective, there has been very limited stock put to market this year and we anticipate owners will continue to hold tight in the short term.

Of those assets available for purchase, prospective owner-occupiers waived large scale floor plates (greater than 350 square metres), so too prospective investors unless such properties were securely leased to established tenants on attractive terms.

Market participants suggest yield expectations have generally softened and the variance between prime and secondary assets has widened over the course of the year on the back of a succession of cash rate increases by the Reserve Bank of Australia. This has also impacted transactional volumes.

To date the only recorded sale of an office building in the Perth CBD above $10 million is that of 503 Murray Street, Perth. The seven storey A-grade building, constructed circa 2011 and comprising



503 Murray Street, Perth Source: realcommercial.com.au

a net lettable area of 7299 square metres has been recently purchased by a local syndicator for $33.225 million, reflecting $4552 per square metre of net lettable area. The buyer is reportedly intending to rejuvenate the asset and embark on a partial refurbishment program ahead of what they forecast to be an improving office leasing market.

As Perth adapts to the changing landscape of work, the office property market will likely remain a dynamic and evolving sector. With the aid of the city's strong economic fundamentals, the outlook for Perth's office property sector in 2024 is positive.

Greg Lamborn
Director

Northern Territory - Office 2023

Darwin

The Darwin office property market has been relatively steady over 2023 after a flurry of activity during the period of lower interest rates in 2022.

One measure which assists valuers to gauge market trends is when a re-sale is negotiated. These are relatively rare in commercial office space in Darwin, but there is a possibility of this with 13-15 Cavenagh Street, Darwin City, which is now being advertised for sale again, after it was sold in 2022 for $8 million. These two adjoining buildings are in the core area of the Darwin CBD, occupying a combined land area of 1886 square metres and a total net lettable area of 2751 square metres. The tenancy profile has improved since 2022, nevertheless it will be interesting to analyse the changes if a sale is negotiated.

13-15 Cavenagh Street, Darwin City Source: realcommercial.com.au

The most significant recent commercial office sale in the NT has been Berrimah Corporate Park for a reported $78.5 million. This complex is a key part of Berrimah Business Park, which has been developed over the past 10 years and is located closer to the demographic centre of Darwin than the CBD.

Throughout the course of 2023, the lack of availability of quality office space in the CBD has continued to exert upward pressure on rents, with a new level of $800 per square metre per annum (gross) being achieved in a landmark building. There is virtually no quality space available in the CBD, although there is a significant oversupply of C grade accommodation. We will see significant upgrades (such as at 80 Mitchell Street) and eventually a new development to meet this demand once rents sustain a level that such a building is economically viable. Alternatively, tenants seeking quality accommodation will relocate to non-CBD areas such as Berrimah Business Park for their office requirements.

Terry Roth
Director

There is virtually no quality space available in the CBD, although there is a significant oversupply of C grade accommodation.

HERRON TODD WHITE

Property Market Indicators

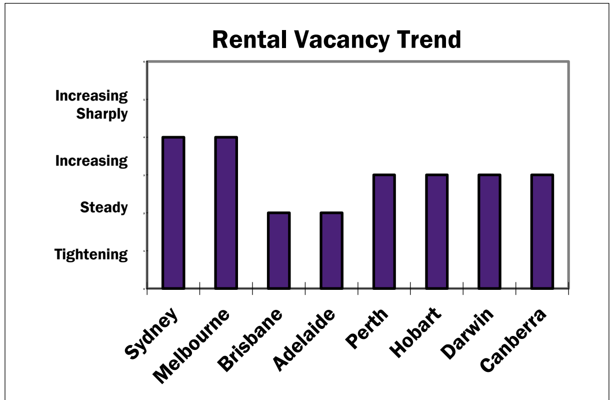
October 2023

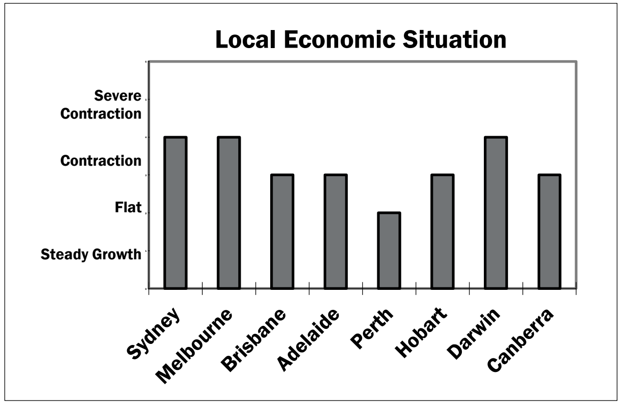
Capital City Property Market Indicators – Office

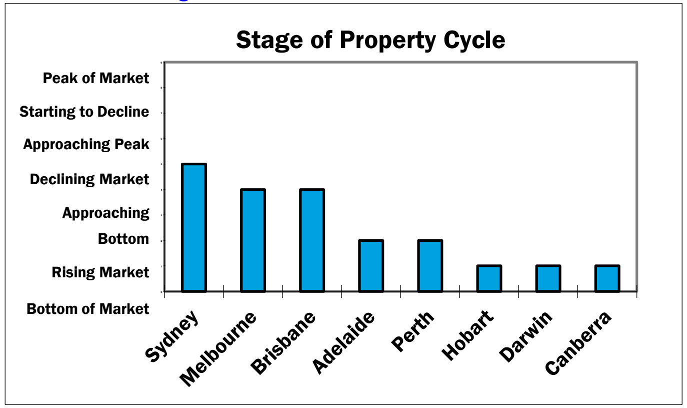
Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Large over-supply of available property relative to demand	Balanced market
Rental Vacancy Trend	Increasing	Increasing	Tightening	Tightening	Steady	Steady	Steady	Steady
Rental Rate Trend	Declining	Stable	Increasing	Stable	Stable	Declining	Stable	Stable
Volume of Property Sales	Declining	Declining significantly	Declining	Steady	Steady	Steady	Steady	Steady
Stage of Property Cycle	Declining market	Approaching bottom of market	Approaching bottom of market	Rising market	Bottom of market	Bottom of market	Bottom of market	Start of recovery
Local Economic Situation	Contraction	Contraction	Flat	Flat	Steady growth	Flat	Contraction	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Significant	Significant	Large	Significant	Large	Large

Red entries indicate change from 3 months ago to a higher risk-rating

Blue entries indicate change from 3 months ago to a lower risk-rating







East Coast & Country New South Wales Property Market Indicators – Office

Factor	Canberra	Central Coast	Coffs Harbour	Lismore	Ballina/Byron Bay	Mid North Coast	Newcastle	South Est NSW	Sydney
Rental Vacancy Situation	Balanced market	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Tightening	Steady	Steady	Steady	Tightening	Increasing	Steady	Increasing
Rental Rate Trend	Stable	Stable	Stable	Increasing	Stable	Stable	Declining	Stable	Declining
Volume of Property Sales	Steady	Increasing	Declining	Steady	Steady	Declining	Declining	Steady	Declining
Stage of Property Cycle	Start of recovery	Start of recovery	Starting to decline	Approaching bottom of market	Declining market	Starting to decline	Declining market	Peak of market	Declining market
Local Economic Situation	Flat	Steady growth	Flat	Flat	Flat	Flat	Flat	Steady growth	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Large	Significant	Significant	Significant	Small	Large	Large	Significant	Significant

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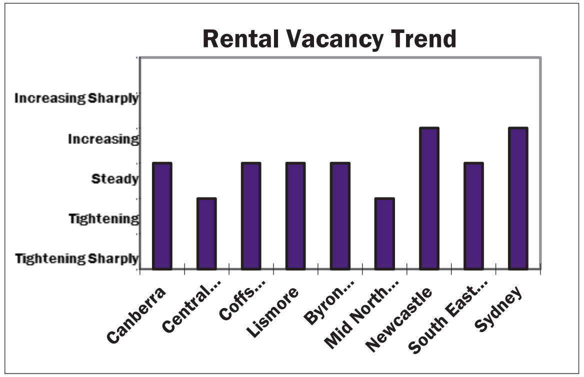

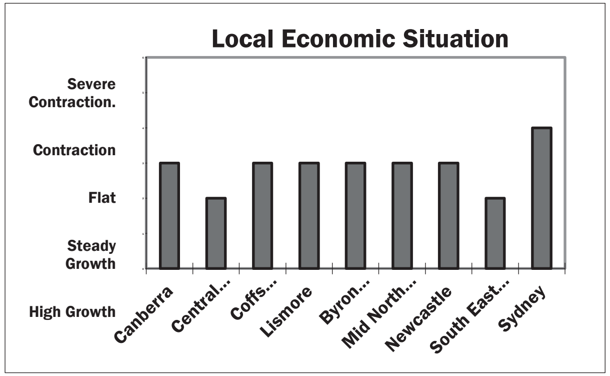

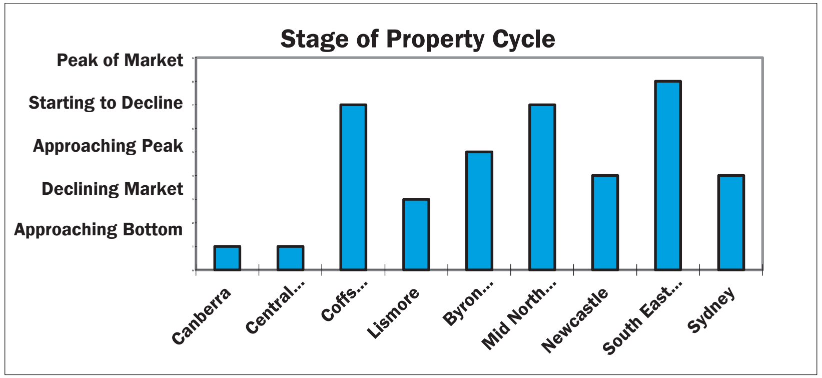

Victorian and Tasmanian Property Market Indicators – Office

Factor	Illawarra	Ballarat	Echuca	Melbourne	Geelong	Mildura	Hobart	Launceston
Rental Vacancy Situation	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Tightening	Steady	Increasing	Increasing	Steady	Steady	Steady
Rental Rate Trend	Stable	Increasing	Declining	Stable	Declining	Stable	Declining	Declining
Volume of Property Sales	Declining	Increasing	Steady	Declining significantly	Declining	Declining	Steady	Steady
Stage of Property Cycle	Declining market	Rising market	Declining market	Approaching bottom of market	Starting to decline	Start of recovery	Bottom of market	Bottom of market
Local Economic Situation	Steady growth	Steady growth	Flat	Contraction	Contraction	Steady growth	Flat	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Large	Small	Small	Significant	Significant	Small	Significant	Significant

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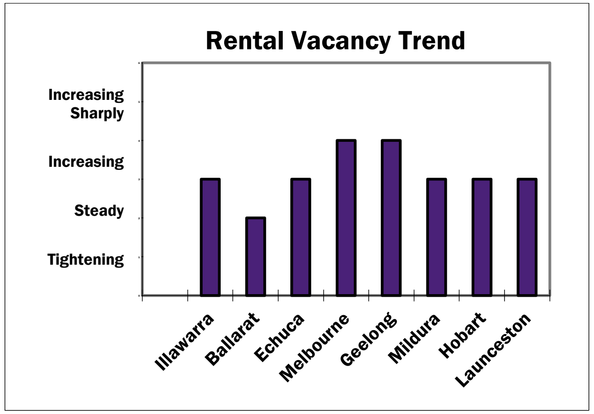

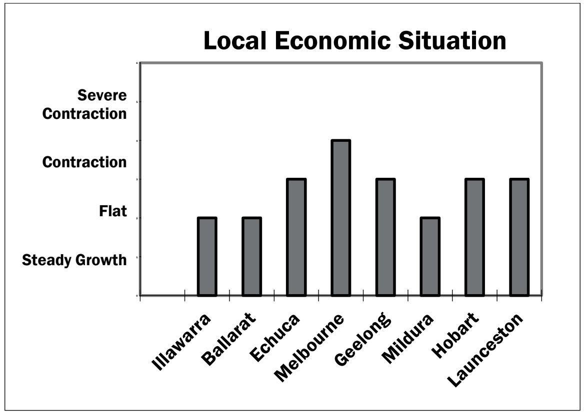

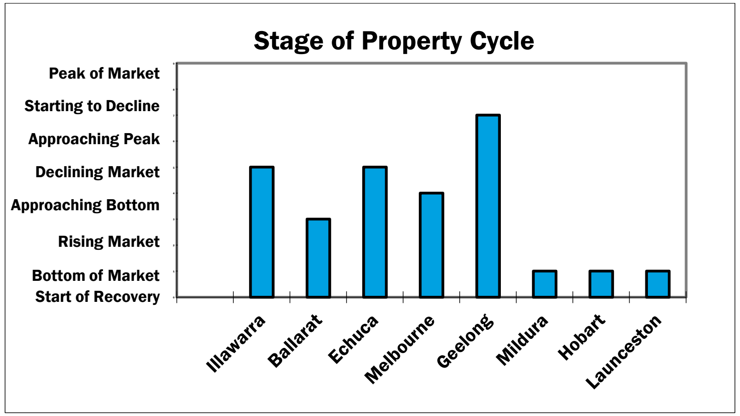

Queensland Property Market Indicators – Office

Factor	Cairns	Townsville	Mackay	Rockhampt-on	Gladstone	Wide Bay	Fraser Coast	Bundaberg	Emerald	Sunshine Coast	Brisbane	Ipswich	Gold Coast	Toowoomba
Rental Vacancy Situation	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Shortage of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Shortage of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Steady	Steady	Tightening	Tightening	Steady	Steady	Steady	Steady	Tightening	Tightening	Tightening	Tightening	Tightening
Rental Rate Trend	Stable	Stable	Stable	Stable	Increasing	Stable	Stable	Stable	Stable	Increasing	Increasing	Stable	Increasing	Increasing
Volume of Property Sales	Steady	Steady	Steady	Steady	Increasing	Steady	Declining significant-ly	Declining	Steady	Steady	Declining	Declining	Steady	Steady
Stage of Property Cycle	Approaching peak of market	Peak of market	Rising market	Rising market	Rising market	Bottom of market	Peak of market	Peak of market	Start of recovery	Peak of market	Approaching bottom of market	Approaching bottom of market	Peak of market	Bottom of market
Local Economic Situation	Steady growth	Steady growth	Steady growth	Steady growth	Steady growth	Flat	Flat	Flat	Steady growth	Flat	Flat	Flat	Flat	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Significant	Significant	Significant	Significant	Significant	Significant	Significant	Small	Small	Significant	Large	Significant	Large

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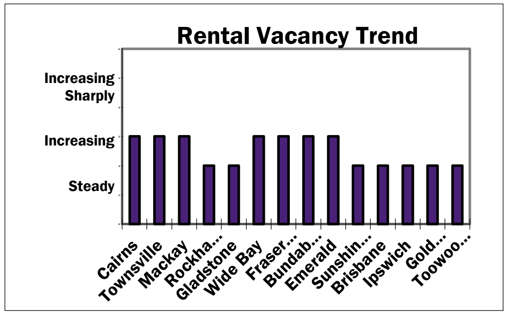

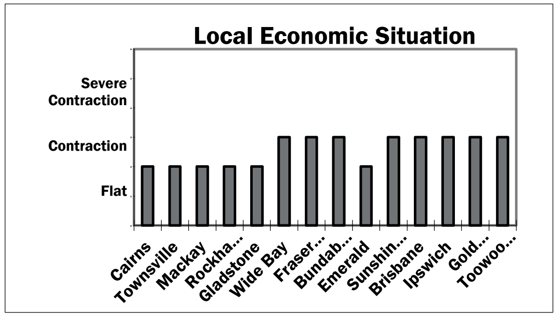

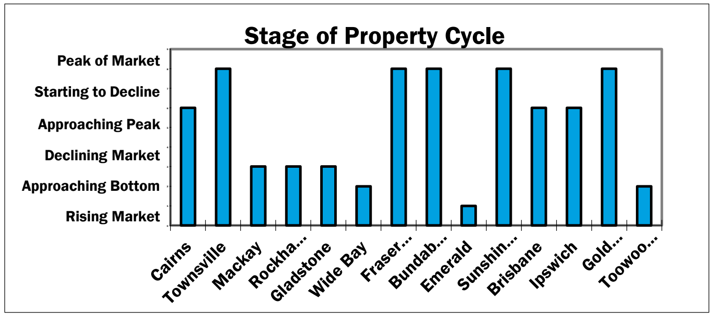

SA, NT and WA Property Market Indicators – Office

Factor	Adelaide	Alice Springs	Darwin	Perth	South West WA
Rental Vacancy Situation	Balanced market	Balanced market	Large over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Tightening	Steady	Steady	Steady	Increasing
Rental Rate Trend	Stable	Stable	Stable	Stable	Declining
Volume of Property Sales	Steady	Steady	Steady	Steady	Declining
Stage of Property Cycle	Rising market	Bottom of market	Bottom of market	Bottom of market	Approaching bottom of market
Local Economic Situation	Flat	Contraction	Contraction	Steady growth	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Large	Large	Small

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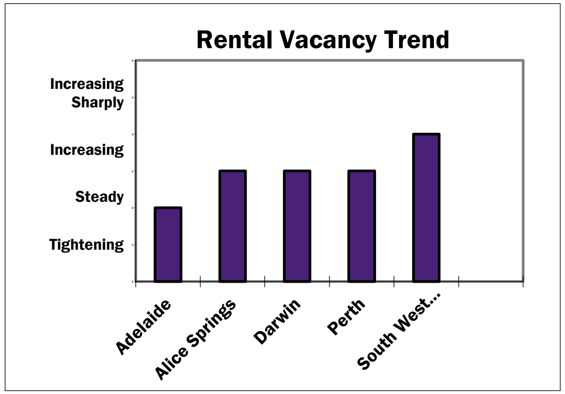
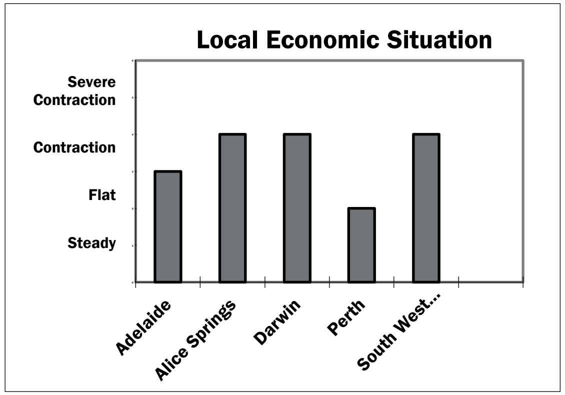
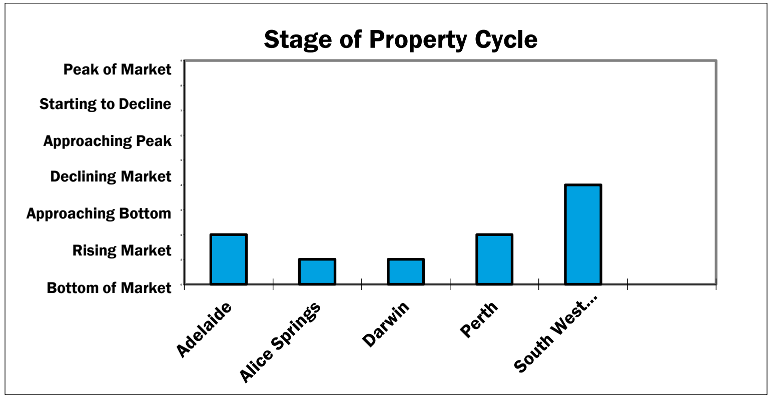






TALK TO YOUR LOCAL EXPERT

Commercial

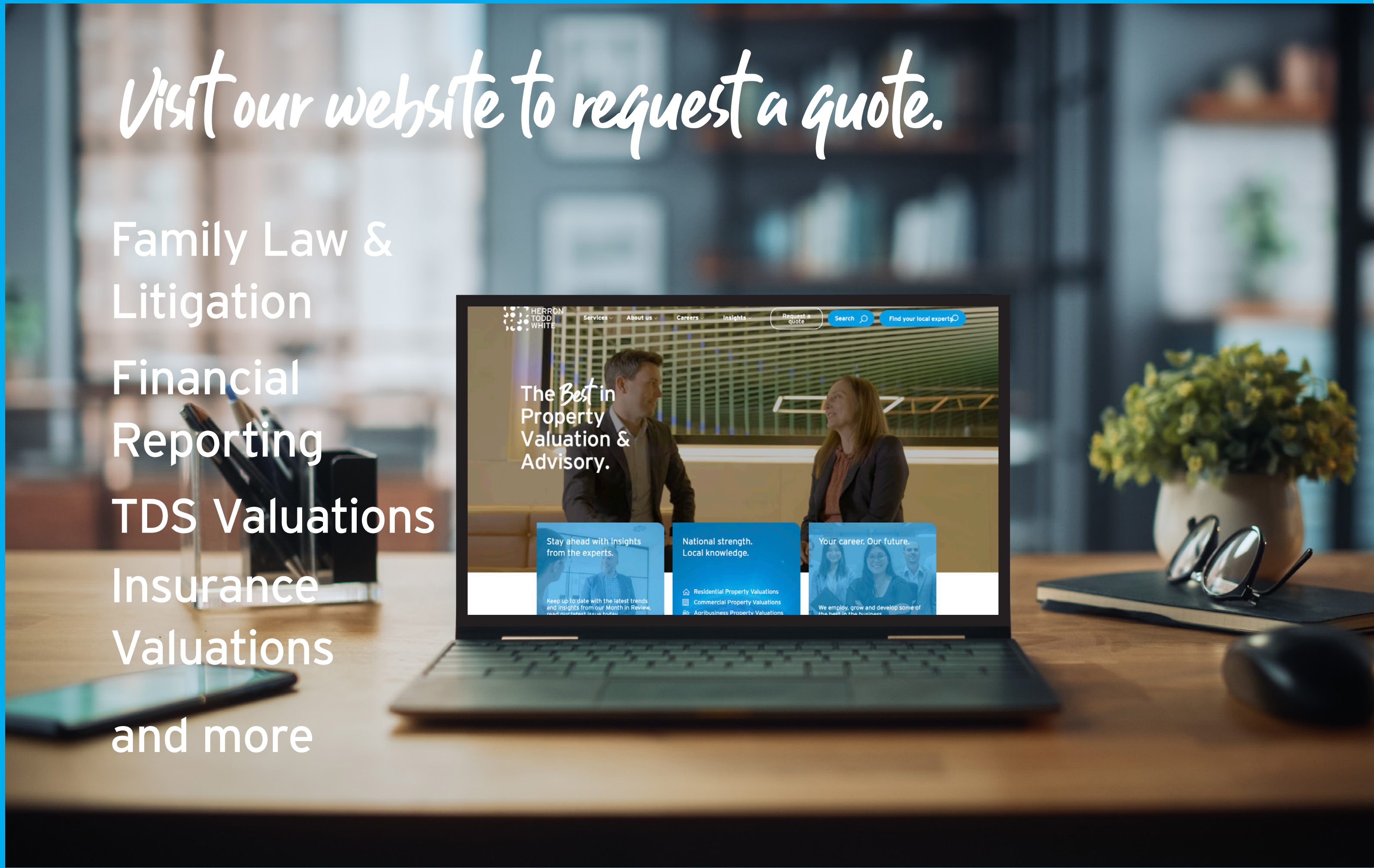
NT	Terry.Roth@htw.com.au
SA	Chris.Winter@htw.com.au
QLD	Alistair.Weir@htw.com.au
ACT	Scott.Russell@htw.com.au
VIC	Jason.Stevens@htw.com.au
WA	Greg.Mullins@htw.com.au
NSW	Angeline.Mann@htw.com.au
TAS	Andrew.Peck@htw.com.au

Residential

NT	Will.Johnson@htw.com.au
SA	Jarrod.Harper@htw.com.au
QLD	David.Notley@htw.com.au
ACT	Angus.Howell@htw.com.au
VIC	Perron.King@htw.com.au
WA	Brendon.Ptolomey@htw.com.au
NSW	Matt.Halse@htw.com.au
TAS	Andrew.Peck@htw.com.au

Rural

NT	Frank.Peacocke@htw.com.au
SA	Graeme.Whyte@htw.com.au
QLD	Will.McLay@htw.com.au
ACT	Scott.Fuller@htw.com.au
VIC	Graeme.Whyte@htw.com.au
WA	Luke.Russell@htw.com.au
NSW	Angus.Ross@htw.com.au
TAS	Graeme.Whyte@htw.com.au



HERRON TODD WHITE

www.htw.com.au

1300 880 489
admin@htw.com.au