Month in Review Commercial

February 2024

CEO address

Welcome to our February edition of Month in Review

Welcome everyone to our first edition of Month In Review for 2024.

The first months of each year are an opportunity to contemplate what's to come, and conclusions are inevitably reached through the lens of what occurred during the preceding 12-month period.

Significant, and sometimes unexpected, changes were the hallmarks of 2023. Interest rate movements were undoubtably the headline, with many commentators speculating that rising rates combined with the weight of borrowers moving from low fixed-interest rates to higher variable rates would be a catalyst for a mass sell down. It was expected that an increase in listings combined with reduced borrowing capacity among buyers would drive down values.

But this perspective proved too narrow. The basic value principle of supply vs. demand came to pass. We simply had too few housing options to meet the needs of a rising population base, so values increased across most major centres. Our five largest capital cities saw house prices increase by anywhere between three and 15 per cent during the year.

The good news for property owners is that this growth trend looks set to continue in 2024, although most probably at a steadier pace. The reason is current metrics point toward continued low supply and high demand.

The cycle of interest rate rises is either at (or extremely near) its end – the rate hold by the RBA on 7th February shows this new iteration of the Reserve is taking a more cautious approach to easing inflation. With rates on hold – or even potentially dropping – expect buyers to be a bit more bullish on price when securing a home.

Demand isn't going anywhere. Along with domestic housing needs, we continued to see an influx of new arrivals from overseas. Net migration in 2023 was over 500,000 people. While current forecasts are for this volume to be much lower in 2024, the final number is still likely to be well above the long-term average. These people are arriving in the middle of a rental crisis too, all of which feeds into price growth metrics.

Both increased transaction numbers and buyer confidence are feeding into current statistics as well. A recent report by the Australian Financial Review revealed auction clearance rates in the first full week of February hit their highest level in over 18 months, and their highest in Sydney in over two years.

A sub-section of the buyers pool that will be well worth watching this year are those high-net-worth individuals. These purchasers are often market leaders who are not dramatically affected by interest rate movements or cost-of-living issues. Our observation is that this purchaser group have, on the whole, increased their cash reserves throughout 2022 and 2023, and many are ready to invest. This might be in a trophy home (I would not be surprised if price records were broken in several location this year) or in prime commercial holdings. As such, assets with sound fundamentals and secure tenancies should trade well in 2024.

So, a look across this month's submissions should be a cause for cautious optimism among property owners and industry stakeholders. Conditions heading into 2024 appear more favourable now that they were a few years back, and while none of our residential teams are predicting "boom" results, the consensus is that capital gains will return to a steady, long-term averages in most markets.

For readers interested in commercial real estate, our teams discuss the outlook for office markets in 2024. There continues to be challenges around the evolving workspace and flexibility arrangements – a highly relevant topic given the recent implementation of industrial relation legislation.

Finally, our rural valuers deliver their thoughts on the year ahead. After years of sustained growth across several primary industries, many believe this year might be one of consolidation and more muted outcomes. Of course, you'll need to read their thoughts to gain a full appreciation of what may occur in rural during 2024.

Please enjoy our February 2024 edition on Month In Review.

Gary Brinkworth
CEO

EXECUTIVE ADDRESS

HERRON TODD WHITE

National Office Overview

The office market nationally continues to go through a period of volatility with ongoing high vacancy rates and incentives. The country's CBDs are getting back to normal and do seem to be busier, but demand remains low.

Recently released data from the Property Council of Australia (PCA) reveals that vacancy rates around the country persisted with their upward trend. The total National CBD office vacancy rate in January 2024 was reported at 13.5 per cent, up from 12.8 per cent in July 2023. This is a significant increase on the pre-pandemic vacancy rate reported by the PCA in January 2020 at 8.0 per cent.

Angeline Mann
Commercial Director

Tenant requirements have changed which has led to a shift in demand. Flexible work spaces remain a common theme among all the capital cities along with a preference for premium and A Grade space.

Around the country Sydney saw an increase from 11.5 per cent to 12.2 per cent, Melbourne and Adelaide reported strong increases with Adelaide rising from 17 per cent to 19.3 per cent and Melbourne from 14.9 per cent to 16.4 per cent. With the exception of Perth, which saw a decrease, all other capital cities remained essentially stable.

Tenant requirements have changed which has led to a shift in demand. Flexible work spaces remain a common theme among all the capital cities along with a preference for premium and A Grade space. Most markets around the country are reporting stronger demand in this space. This is evidenced by the lower prime vacancy rates compared to the secondary market.

Looking ahead, we expect rental rates to stay flat. Incentives remain high across the country with some locations reporting incentives of up to 40 per cent. Given these overall leasing market conditions, general market conditions and the high incentives being reported, we do not expect any substantial growth in rents this year.

In 2023 we predicted the office market to remain generally volatile and uncertain. Australia's major office markets continue 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.

An example of this is Sydney where several office building sales in the CBD towards the end of last year were circa 6.5% net yield, showing a softening from yields of circa 4.5% to 5.0%. Given this, we expect higher yields in 2024. Investors are very cautious, with a low appetite for risk and a requirement for higher returns. They are wary that many corporate tenants will be putting off expansion.

Our major cities have seen limited transactions making it difficult to ascertain the extent of the softening in the market. Agents report that there are fewer enquiries. At the lower, entry-level price point, buyers are also wary and retreating from the market.

The challenges in the office market are likely to continue for some time particularly as we navigate generally weaker economic conditions. Any interest rate cuts are not likely to have an immediate impact on this market and will take time to have any positive effect.

National Property Clock: *Office*

Entries coloured purple indicate positional change from last month.

Dubbo
Port Macquarie
Sunshine Coast

Coffs Harbour
Geelong
Gold Coast
Hobart
Launceston
Mid North Coast
Townsville

Adelaide
Ballina/Byron Bay
Echuca
Illawarra
Newcastle
Sydney

Brisbane
Ipswich
Lismore
South West WA

Alice Springs
Darwin
Melbourne
Perth
Toowoomba
Wide Bay

C'berra/ Q'beyan
Central Coast
Mildura

Ballarat
Bundaberg
Emerald
Fraser Coast
Gladstone
Mackay
Rockhampton

Cairns

COMMERCIAL - OFFICE

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New South Wales - Office 2024

Yields are set to be higher in 2024. The pressure of interest rates and lack of business confidence is likely to put downward pressure on values.

Sydney

Once again, this year is likely to be dominated by uncertainty for the office sector throughout Sydney. Confidence in the sector continues to be flat with vacancy remaining quite high and caution being exercised by tenants and buyers alike.

Vacancy rates in the CBD have increased with the PCA reporting a vacancy rate of 11.5% in July 2023, a significant increase from the record low of 3.7% seen in mid-2019. As we have previously anticipated there continues to be new supply added and a broad lack of demand. Last year we expected a continuation of the slow market conditions which is evidently what occurred. We had been somewhat optimistic about 2024 but looking ahead with confidence low and no change to the demand levels, we are not expecting the market to rebound in 2024.

Asking face rentals remained stable, but incentives remain high. Given the high vacancy, and the continuing uncertainty, high incentives are likely to continue to be offered in order to attract tenants well into 2024.

The owner occupier dominated CBD strata market performed well through 2021 and 2022 on the back of stock reductions. Higher interest rate rises, and general slowing of the economy has resulted in a softening in this sector of the market. 2023 saw the heat come out of this market and a return to slower conditions which we forecast will continue in 2024.

The Metro CBDs have also struggled with high vacancy, with Parramatta and North Sydney reporting vacancy rates of 23.4% and 22.7% respectively for July 2023. No significant improvement to these markets is likely to occur this year.

Yields are set to be higher in 2024. The pressure of interest rates and lack of business confidence is likely to put downward pressure on values. Investors are very cautious, with a low appetite for risk and a requirement for higher returns.

There are some potential opportunities in the market, particularly for owner occupiers looking to secure space. With a slowing in demand, there is likely to be opportunities to secure office space at a lower price level than those seen in 2021/2022.

We consider there to be some major challenges ahead for this market in the near future. Supply and demand factors do not look likely to change and with no sign that confidence is going to return to the market, we predict slow and uncertain conditions in the year ahead.

Angeline Mann
Commercial Director

Central NSW

It is hard to predict what 2024 holds for the Office market sector in the Newcastle and Hunter Region. In 2023 we saw a lower level of good quality office property offered to the market for sale. Local agents have reported that the office sales that did occur had a lower level of enquiry and a strong preference to investment properties with strong tenants and longer lease terms. The sales that did occur throughout 2023 have shown a softening of yields from the peak in early 2022. The rental market has had plenty of supply with diminished demand. This has led to longer letting up periods and higher incentives offered to secure tenants.

A number of factors have led to the uncertainty of the office market. There has been a continuation of employees working from home and a decrease in the floor plate requirement of both government and corporate entities. This trend is expected to continue into 2024.

High inflation and increased interest rates have also increased uncertainty in the market in 2023. On a more positive note, the rate of inflation appears to be easing and it appears the RBA cash rate is at or nearing its peak. This is giving investors more clarity to make decisions around purchasing property. Should there be interest rate cuts at some stage during next year it is possible yield compression may return to the market.

There is some concern over the effect the aggressive increase in interest rates has had on

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the strength of the Australian economy. There is a potential for an economic recession which may negatively impact the office market, however in the short term 2024 is expected to bring a more stable office market sector.

Karen Wise
Senior Property Valuer

Wollongong

The Wollongong office market proved somewhat resilient during 2023 despite vacancy rates remaining elevated compared to National levels, which was largely off the back of increasing supply and the continued move of tenants towards rationalisation of space requirements.

A Grade office space experienced a spike in new supply in recent years, notably the addition of Lang's Corner. The vacancy rate for A Grade space was at 23.9% in July 2023, relative to approximately 18% for the total office market according to the 2023 PCA Office Report. The vacancy rate for prime space is has been creeping down over 2023 which is expected to continue, albeit likely at a slow rate as the surplus space is taken up. Local agents are reporting that A grade space is the more sought after in the current market with companies showing diminishing appetite for lower grade space. New stock is set to hit the market in 2026 with the latest CBD office building adjoining Lang's Corner in Crown Street Mall set to commence early in 2024, with commencement understood to have been triggered by Lang's Corner approaching full occupancy.

Tenant demand in the broader office market is likely to prove sensitive during 2024 and overall vacancy rates are expected to remain at elevated levels. Potential occupants are expected to act with increasing caution due to the broader economic environment which will place pressure on landlords of lower grade stock to reposition the assets.

Rental rates maintained resilient during 2023 with landlords holding firm however incentives played a larger part, resulting in the lowering of effective rents, a trend that is likely to continue given the addition of new space.

Fewer transactions in the past year provided limited guidance on how quickly yields are likely to soften in the coming months however the continued interest rate pressure and economic volatility is likely to bite more in 2024 than what was experienced in the prior year and challenging conditions are expected.

Ian Walker
Associate Director

The Wollongong office market proved somewhat resilient during 2023 despite vacancy rates remaining elevated compared to National levels.

Victoria - Office 2024

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 due primarily to the structural shift in working from home. According to the Property Council of Australia's (PCA) Office Market Report, Melbourne's CBD Office overall vacancy rate has increased from 14.1% to 15% over the six months to 1 July 2023. Whilst the PCA figures as at 1 January 2024 are yet to be released, the vacancy rate is not expected to materially change. The hybrid-work model has continued to drive occupier decision-making and is likely to remain a dominant theme in the office recovery story throughout 2024.

Face rents are expected to show moderate increases for premium and A-grade office space as occupiers continue their flight to quality. This will be offset however by the significant incentives on offer with higher incentives expected to remain for prime office space while slowly increasing for secondary office space. Prime office space incentives are expected to rise from approximately 40 per cent to 42 per cent while secondary office space incentives are expected to rise from approximately 38 per cent to 42 per cent. We expect incentives to remain elevated throughout 2024 as long as high vacancy rates persist.

With Melbourne having the lowest return to office rate in the country, high quality office space will continue to be in demand in 2024 as organisations enforce a return to office policy or a hybrid thereof, as it provides a place for social engagement, collaboration and mentorship. The new office model comprises lower density workspace ratios, collaborative working environments with café style amenities, cutting edge health and hygiene facilities, state of the market building technologies, spacious floor plates and good air ventilation with outdoor areas.

We anticipate that 2024 will see more distressed sales occurring allowing good opportunities for astute investors to capitalise on.

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. Face rents remain elevated in an attempt to maintain declining property values. However, they are underpinned by higher incentives which have increased year on year.

We expect sale volumes will continue to be depressed at least during the first half of 2024, however if buyers get a sense that interest rates have peaked and the narrative around interest rate cuts gathers pace, we could see an increase in sales volumes towards the back half of 2024 and leading into 2025. We anticipate that 2024 will see more distressed sales occurring allowing good opportunities for astute investors to capitalise on.

With high inflation and high interest rates, we consider there will be a wider gap in the current two-tier market whereby assets with strong tenancy profiles and underlying land value will continue to perform, whilst the downside pricing risks will be greatest for the secondary B, C and D grade office stock where buildings may experience substantial vacancies for extended periods. It is possible that we will see many of these types of buildings being repositioned for alternate uses. We also anticipate landlords and investors will favour leases with strong review mechanisms which provide a hedge against inflation.

Jason Stevens
Director

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Queensland - Office 2024

Brisbane

The Brisbane office market had mixed results in 2023 with some segments of the market performing quite well, whilst other segments saw a sharp repricing of assets, a significant decline in transactions and a number of failed sale campaigns.

It is likely that the varied segments of the market will continue their current trajectory into 2024 and we don't foresee any real surprises that we haven't already seen over the past 24 months.

The investment market will continue to face its challenges as asset values will likely see further asset write downs due to the changing cost of debt environment and the uncertainty of interest rates. This is having a big impact on the ability for these transactions to proceed as investors are concerned about the investment horizon (5-7years) for office assets. Investor distributions need to be attractive to investors and it's critical for these assets to have a clear and strategic exit strategy upon the investment horizon otherwise capital raising will prove to be difficult, (which has been the case since the start of the interest rate hikes).

We believe the investment market will remain challenging in 2024, however it feels as though we are approaching the bottom of the cycle as the RBA reports inflation is contracting, albeit slowly, toward the targeted two to three per cent inflation rate. By and large, yields have contracted circa 150 basis points for Prime and A-grade assets, whilst secondary assets have likely softened 200 basis points since Q1 2022 (peak of the market). We don't envisage yields for prime grade assets will move much further, if any at all, but we suspect that it will take more time for secondary assets to settle as investors will probe for any distressed vendors in the market and it's likely that we will see some good buying opportunities emerge in 2024.

At the other end of the spectrum, the segment of the market which we consider will continue to remain resilient in 2024 will be the owner occupier market.

At the other end of the spectrum, the segment of the market which we consider will continue to remain resilient in 2024 will be the owner occupier market. A lack of quality stock starved the market in 2023 and it is likely to be an ongoing theme in 2024. High and unstable construction costs are also fuelling this as existing stock is still well below (the ever escalating) replacement costs.

A good example of this was the recent owner occupier purchase of a character freestanding office building at 29 Helen St, Teneriffe which represented a capital value increase of circa 48 per cent from its previous sale in February 2021.

29 Helen St, Teneriffe Source: realcommercial.com.au

The leasing market is also doing reasonably well in certain sub-segments of the market as the pipeline for new office developments is limited. Construction and fit out costs are also having a positive impact on face rents for Premium, A-grade and quality B-grade stock as tenants still want well located and quality office accommodation. The flight to quality theme is still very much at the forefront of most tenant requirements and landlords will have to continually improve building services and fitouts if they are to compete. Older style buildings that defer capital upgrades will see increased building vacancy and downward pressure on face and effective rents.

In general, the overall real estate market was pretty positive in 2023 for Brisbane and we envisage 2024 will be similar. We believe the first half of 2024 will be slow for the investment office market however market sentiment should improve towards the second half of 2024, on the proviso that there are no major adverse economic events and domestic inflation continues to contract to its targeted two to three per cent range. The owner occupier market will remain firm as supply will be the biggest constraint and increased leasing costs will continue to drive this segment of the market in 2024. We expect values will at the very least hold, but it's more likely that capital values will continue to improve.

Alistair Weir
Director

Gold Coast

On the Gold Coast in the year ahead, we expect the office market will be subject to similar conditions to those witnessed in 2023.

Vacancy rates will remain tight off the back of continuing population growth and limited new supply of office space coming to the market. Although it will be interesting to see how businesses rationalise under-utilised floor space and a push for some to bring the workforce back in. Will businesses reduce tenancy areas to more fully utilise their space, or maintain larger floor plates with a view to bringing all staff in at least some days of the week?

The lack of new supply in the pipeline is a function of high land values, construction costs and borrowing costs, along with impacted end values due to higher yield requirements from investors, all placing pressure on feasibilities, despite rental growth within the region.

While yields for leased office buildings have softened in the higher interest rate environment, many commentators are suggesting that rates may reduce by 2025, which should give some investors comfort, and prevent any further softening of yields.

As is the common catch-phrase, there has been a 'flight to quality' from tenants, with improved demand for modern buildings or B-grade buildings with contemporary fitouts. One reason for this is to attract and retain good staff in the current low unemployment environment.

Vacancy rates will remain tight off the back of continuing population growth and limited new supply of office space coming to the market.

Value levels for older buildings have been negatively impacted, reflecting the high cost to renovate such properties.

One example of this is 15 Bay St, Southport, which sold in September 2023 for $7.75million. This building previously sold in 2016 for $12 million and in 2011 for $12.25 million. This is an older leased building with a shorter WALE, therefore impacted by softer rental rates and a softer yield expectation. The sale reflects an analysed yield of 8.06%, a passing yield of 8.66% and a rate per square metre of Net Lettable Area of $2432. The WALE is 2.13 years.

15 Bay St, Southport Source: realcommercial.com.au

On the other end of the quality spectrum, the 'Wyndham Building' at 1 Corporate Ct, Bundall, sold in June 2023 for $46,250,000. The sale reflects an analysed yield of 7.23%, a passing yield of 7.05% and a rate per square metre of Net Lettable Area of $5831. The WALE is 5.05 years. This was purchased by the Gold Coast City Council.

One new office and medical development, known as 'Vicinity Robina', is close to completion, being situated within the Robina Town Centre area and close to Robina hospital. This project will add approximately 2300 sqm of floor space to the market. It will comprise a contemporary two-level building with basement parking, coffee kiosk on the ground floor, along with numerous variable sized strata units.

This property features ground floor tenancies varying from 100 square metres to 228 square metres and first-floor options ranging from 60 square metres to 1400 square metres. The second floor provides access via both a lift and an open foyer staircase. It offers 22 on-grade car parks, along with 58 basement car parks, an ambulance bay, and a coffee kiosk in the main foyer.

Rhys Fitch
Director

Sunshine Coast

As outlined in previous iterations of the month in review, the office market on the Sunshine Coast has proven to be robust. In the face of rapidly rising interest rates over the preceding 18 or so months, the office market proved to be one of the stronger performing asset classes, largely due to the severe lack of supply and persistent demand in the region.

Like most asset classes, yields of investment assets have softened slightly in line with higher borrowing costs, however value levels have been underpinned

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by rental growth and record low vacancy rates which remain at circa 4% as we kick off 2024. Although purchasers and tenants alike are more cautious as a result of economic uncertainty and higher cost of funds, we anticipate that the low supply levels will generally uphold rental rates and values in the region throughout the year.

The narrative through 2024 will remain to be the lack of available supply both in the form of rentals purchasing options. Various sources insist that inflation has peaked and suggest that possible rate cuts are on the horizon. Agents have reported that this is already instilling a level of confidence back into the market. If inflation continues to ease, and rate cuts are implemented, it is likely that our somewhat insulated office market will continue to be one of the stronger performers in the country.

Jaydon McDowell
Associate Director

Cairns

The Cairns office market is relatively shallow and has experienced limited new development, with the last major office development being the State Government office tower that was completed in 2010.

There have been several smaller (sub-2500 square metre) 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.

Quality green star and NABERS/BEEC rated premises of which there are only a handful of such buildings in Cairns achieve high levels of occupancy and higher rental levels with these appealing to state and federal Government entities primarily. Rentals for ‘A grade’ office are strong and have been increasing in line with holding/fit out costs as lessors try to maintain a base yield. This rental market is considered somewhat reactive to asking rentals with Government tenants more often ‘deal takers’ rather than negotiating asking levels.

The rental market for ‘B Grade’ office accommodation has been reasonably strong in recent years appearing to be fueled largely by a substantial pool of NDIS funding and a surge in NDIS providers establishing in the region over this period. Demand for lesser quality space in the CBD remains limited, however this is typically a result of buildings being very dated and offering poor quality accommodation or having very limited to no onsite parking. Non-inner CBD and well exposed secondary space appears to be moderately strong however demand begins to fall away above circa-500 square metres.

There have been limited quality office properties presented to the market in recent years which has resulted in very limited sales activity. Many of the larger inner city office complexes are held by long term established families and are very seldom released to the open market.

Local and southern investor demand remains strong, but activity is once again limited by a severe shortage of quality investment stock. At this stage we envisage no major change to the office market in Cairns in the short term.

The Cairns office market is relatively shallow and has experienced limited new development.

Shane Quinn
Director

Mackay

A large former government office at 110 Wood Street was sold in December at $3.2 million with vacant possession. It was built in 1995 and has a total lettable area of 1283 square metres.

110 Wood Street, Mackay Source: realcommercial.com.au

The property is partitioned into two tenancy areas of 785 square metres and 498 square metres. There is rooftop car parking available consisting of 40 bays with an additional two disabled persons car parks provided at ground level adjacent to the main entry foyer. Parking provisions are a distinguishing feature of this property in the local market. Analysis shows $2494/ square metres of net lettable area. It was last sold in 2017 at $2.8 million when it was partially leased.

We expect steady leasing demand for office accommodation through 2024 with only moderate rental growth anticipated. Investment yields are expected to remain relatively stable in comparison

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to 2023 levels. Rising building insurance premiums are expected to further bite into net income returns from this asset class.

Gregory Williams
Director

Townsville

The Townsville Office leasing market performed modestly throughout 2023 with high employment not having any tangible influence on occupancy, which is predicted to continue into 2024. Whilst most high-profile agencies reported pent-up demand, businesses in most cases had deferred leasing decisions in order to fully understand future requirements.

We do envisage increased absorption in 2024, though this will predominantly be a result of churn and vacancy will remain elevated across the broader sector. The Townsville CBD does represent a greater depth of older established buildings reflecting higher levels of functional obsolescence for lesser grade office space, which produce an elevated level of vacancy. In respect to superior grade office space the hangover effect of flexible working from home arrangements post COVID-19 remains, which in turn has resulted in businesses having to address their future tenancy requirements.

Face rental growth momentum carried through 2023 albeit marginal. Incentives for higher grade office space is now reaching 30 per cent and will remain high on the back of elevated competition between landlords.

In recent years Townsville has produced some impressive sales by value for typical regional markets outside the broader SEQ areas. Transaction numbers thinned leading into the end of 2023 although this is a largely function of limited stock rather than an overarching inactive market. Whilst the current interest rate is at an elevated level and is in part retarding activity, we envisage that the 2024 localised market segment will remain relatively stable, with higher priced assets being more sensitive to shortening cash flow expiries, and upward movement in investment yields.

Holistically, the Townsville office market represents a relatively shallow sector by volume. We envisage landlords and local developers to increase activity within the C to D-Grade market in an attempt to reposition and or repurpose inner city assets with potential to lease an on-sell to the active investor market. The market for A/Premium grade assets will be thinly traded as landlords endeavor to hold off on transactions until interest rates and market uncertainty can be fully understood.

Jason Searston
Director

In recent years Townsville has produced some impressive sales by value for typical regional markets outside the broader SEQ areas.

Toowoomba

As with 2022, there was very limited demand for new office space in the Toowoomba during 2023. The exception has been smaller tenancies between 100 and 200 square metres which continue to experience moderate levels of activity, particularly associated with the inner city area which consists of a high proportion of former dwellings converted to office space suited to professional users both as owner-occupiers and tenants.

There have been very few new office projects commenced in 2023 with completion scheduled during 2024 and this is attributed to high constructions costs, labour and material shortages and increased finance costs combined with tighter credit assessment guidelines. Several projects have been commenced by existing inner city tenants and include construction of a new NAB Branch and Business Banking Centre within the city centre; and the purchase and major refurbishment of two existing office buildings by a local accounting group and national building firm. In the government sector the former Suncorp call centre, was purchased and refurbished for the Main Roads department as their main office and a former bank building in the CBD has been refurbished for their customer service centre. Both of these projects will result in additional vacant floorspace as the developers relocate into the new premises during 2024.

Other projects in the planning stage include redevelopment of an inner city site as the new seven story Heritage Bank Head office and a new administration building for the Toowoomba Regional Council. The Council currently leases officespace in and around the Toowoomba City centre which has affected vacancy rates and will likely increase when the new civic centre Civic Administration in completed. A development application has also been lodged for the former Gasworks site which sits within a 'Toowoomba Railway Priority Development Area' on the CBD fringe which will comprise 56 apartments over nine levels with ground floor retail tenancies.

Growth continues to be experienced in the NDIS sector with strong lease terms obtained by

Activity in this sector is expected to remain stable during 2024 with minimal variation in yields, rental rates and vacancy rates.

property owners, although these generally relate to fringe CBD areas.

Investor demand continues to be very strong with interest from non-local buyers and properties generally marketed direct to potential purchasers.

Activity in this sector is expected to remain stable during 2024 with minimal variation in yields, rental rates and vacancy rates. Factors that may affect these metrics include the number of properties vacated as current tenants/owners relocate to newly developed or refurbished premises; the vacated premises are generally larger office buildings that will require refurbishment and potentially reconfiguration to provide smaller tenancies with incentives to attract tenants likely. Given refurbishment costs may not be viable there is likely be an increase in secondary quality space which has limited demand unless the rental rate is competitively low.

Ian Douglas
Director

South Australia - Office 2024

Adelaide

The Adelaide office market in 2023 saw unprecedented supply levels of office accommodation introduced to market with notable buildings including 60 King William Street and One Festival Tower. We anticipate the strength of tenant demand for state-of-the-art facilities, hybrid workforce environments, end-of-trip facilities and ESG goals to strengthen throughout 2024. The flight-to-quality trend is becoming increasingly prevalent which is identifiable with high pre-commitment levels for new buildings. As a result of this shift the Adelaide skyline saw a backlog of dated, less efficient and undesirable office space becoming vacant.

This has been observed at 150 Grenfell Street which comprised a full reconstruction and expansion of two adjacent five-storey office buildings implementing 9300 square metres of lettable space. The existing services fit-out and façade were removed in order to capture changing tenant demands. We envision that this form of refurbishment will continue over the coming years

150 Grenfell Street Source: Built Environs, 2024

Whilst the office sectors broad prospects appear promising following the CBD resurgence with workers flocking back to the city there are certainly some sub-markets that investors should look to avoid.

as older accommodation is phased out of the market.

The Adelaide CBD average building age is dated placing pressure on landlords to rejuvenate their existing premise whilst also presenting opportunities for developers to purchase older sites from unmotivated owners. This is the case with 45 Pirie Street which was purchased in 2023 for $76.5 million being a 27% discount from late 2017 where it was purchased at $105 million. The building is set to undergo extensive refurbishments entailing a new entry foyer, entrance plaza as well as high quality end-of-trip amenities.

We anticipate tenant centralisation to prosper as many suburban office occupiers realise the benefits of a CBD locality with an enticing array of amenities and plentiful convenience based-retail offerings. This shift will also assist with the backfill of abandoned, lower-quality office spaces as discounted opportunities arise for occupiers.

In the short term we anticipate rents for higher grade office space to continue rising as demand is fierce yet the further influx of supply over the medium-to-long term may see an easing of rents across all grades of office accommodation. Whilst secondary office accommodation vacancy rates have been noted to tighten, the further supply will place greater downward pressure on rents. Discussions with local agents have indicated that we are expected to see a further rise in incentives as lower grade office space attempts to compete with the newer stock. We are aware of landlords heavily incentivising agents in order to retain and attract tenants with incentives around the 40% level no longer uncommon.

Whilst the office sectors broad prospects appear promising following the CBD resurgence with workers flocking back to the city there are certainly some sub-markets that investors should look to avoid. These would typically reside within lower grade, secondary office sectors with the buildings most likely requiring costly capital expenditure in order to compete with flight-to-quality trends.

Chris Winter
Commercial Director

COMMERCIAL - RETAIL

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Western Australia - Office 2024

Perth

The office property market in Perth is poised for a recovery in 2024. The city's strong economic fundamentals underpinned by a robust mining sector together with a renewed focus on sustainability are likely to boost demand for high quality office space.

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, plus professional service firms, is 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.

The hybrid working model appears here to stay and we expect companies to continue to reduce their workspace footprint.

From a leasing perspective, a 'two tier' market is clear as companies take advantage of the considerable incentives on offer to relocate to premium and 'A' grade accommodation whilst lesser grades are presumed to languish, particularly in the 'fringe' CBD markets.

As Perth adapts to the changing landscape of work, the office property market will likely remain a dynamic and evolving sector.

Tenant demand for large-scale floor plates greater than say 500 square metres is anticipated to remain soft as prospective occupants demonstrate a preference to secure smaller premises citing the resilience of the 'work from home' movement.

Positively there was an uptick in activity in the smaller sub-500 square metres market segment during 2023 and we expect demand for tenancies between 250 square metres and 350 square metres to remain buoyant. Availability of this stock in certain fringe CBD locations is however constrained and likely to exert upwards pressure on achievable rental rates.

A key trend to watch during 2024 will be the increased focus on environmental sustainability and energy efficiency measures from tenants and landlords alike. A growing number of tenants are targeting premises that meet their ESG principles. Landlords, keen to attract such tenants, are likely to retrofit buildings to incorporate sustainable design features such as solar panels and HVAC systems, while also providing a heightened level of amenity.

Despite the succession of cash rate increases by the Reserve Bank of Australia (RBA) since May 2022, any impact on capitalisation rates for leased office investment acquisitions is yet to be ascertained with any degree of confidence given a lack of transactions in the interim period. There was very limited stock put to market during 2023 and we anticipate owners will continue to 'hold-tight' in the short term. Discussions with a number of industry participants suggest yields north of 8.0% are required in order to secure a sale. However, the absence of market transactions in the current interest rate environment determines that such feedback is very much anecdotal.

Of those assets available for purchase, expect high net worth investors and/or local syndicates to seek opportunistic acquisitions of older stock and embark on refurbishment programs or alternatively, witness such buildings being entirely withdrawn from the market and re-purposed.

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

Greg Lamborn
Director

HERRON TODD WHITE

Northern Territory - Office 2024

Darwin

All Darwin property markets are very dependent on employment created by larger infrastructure projects, When these types of projects are active, it creates population growth, which in turn leads to demand for all forms of property. Unfortunately, over the past 10 years those projects have not materialised to an extent which creates that employment growth.

A prime example is the $5.8 billion proposal by Santos to exploit gas in the Timor Sea by piping it to Darwin for processing. The recent decision of the Federal Court to dismiss a legal challenge by traditional owners and environmental groups means that Santos can re-commence construction. Delays due to various legal challenges to the project have been very costly.

Regardless of various opinions as to the worth of such challenges, there is no doubt that if the project proceeds, then it will provide a much-needed fillip to the Territory economy.

Regardless of various opinions as to the worth of such challenges, there is no doubt that if the project proceeds, then it will provide a much-needed fillip to the Territory economy.

In the context of the office space market, the direct impact may be minimal, as larger companies generally administer these types of projects from interstate, retaining only a relatively small local presence. However, there could well be more indirect benefits from demand for office space from various sub-contractors and others associated with the project.

There is a very limited supply of A Grade office space in Darwin CBD which would suit these types of occupiers in any case. Any which does become available is well sought after with upward pressure on rents, in complete contrast to lower grade space which is oversupplied and with high vacancies.

This situation is expected to be maintained throughout 2024. It will only be changed if there is an increase in supply of A Grade space through construction of a new building, or possibly a significant upgrade of an existing building. Although rents for this type of space are increasing, they are not really at a level to justify construction except with a very strong pre-commitment from a tenant.

Historically, the most likely tenant would be the NT Government, which dominates the local tenant market. However, their appetite to take on a commitment of this nature at the current time is questionable, especially with 2024 being an election year,

It would therefore appear that it is unlikely that the current situation will change significantly in 2024.

Terry Roth
Director

COMMERCIAL - RETAIL

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Property Market Indicators

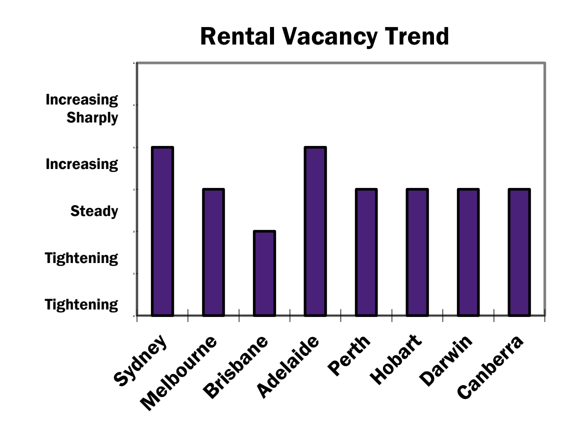
February 2024

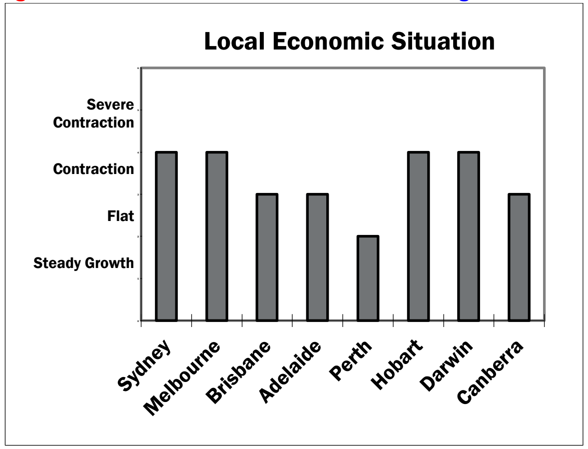
Capital City Property Market Indicators – Office

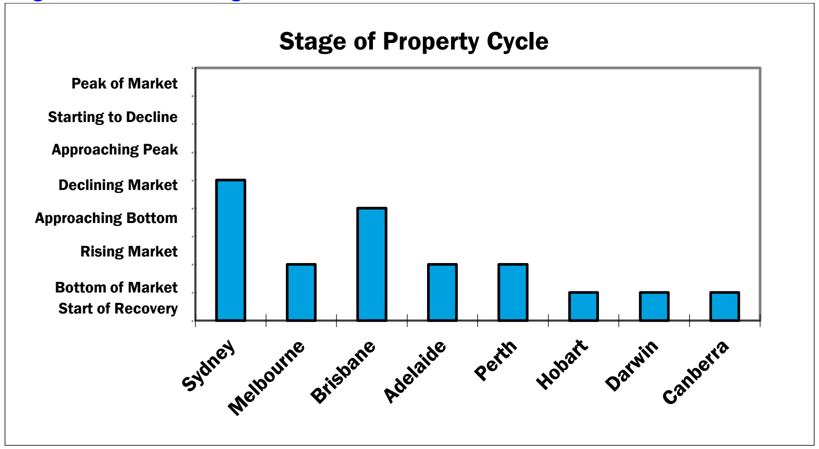
Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Over-supply of available property relative to demand	Large over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Shortage of available property relative to demand	Large over-supply of available property relative to demand	Balanced market
Rental Vacancy Trend	Increasing	Steady	Tightening	Increasing	Steady	Steady	Steady	Steady
Rental Rate Trend	Declining	Stable	Increasing	Stable	Stable	Stable	Stable	Stable
Volume of Property Sales	Declining	Declining significantly	Declining	Declining	Steady	Declining	Steady	Steady
Stage of Property Cycle	Declining market	Bottom of market	Approaching bottom of market	Declining market	Bottom of market	Starting to decline	Bottom of market	Start of recovery
Local Economic Situation	Contraction	Contraction	Flat	Flat	Steady growth	Contraction	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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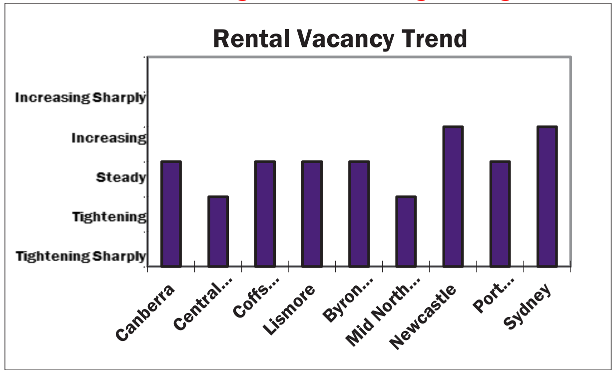

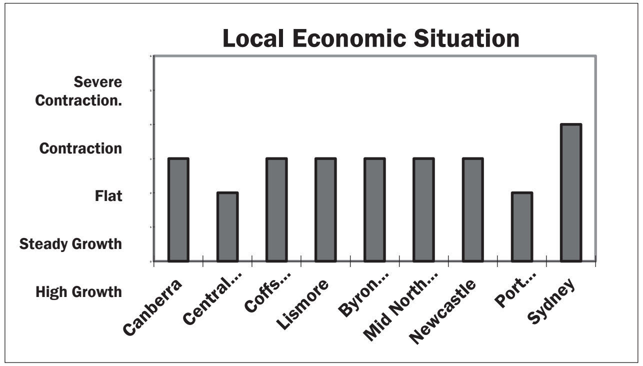

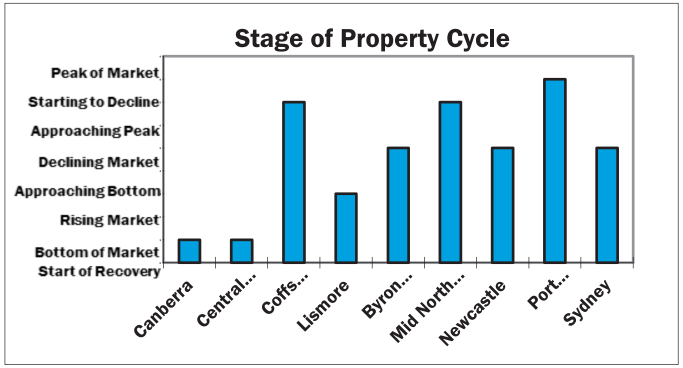

Victorian and Tasmanian Property Market Indicators – Office

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	Large over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Shortage of available property relative to demand	Balanced market
Rental Vacancy Trend	Steady	Tightening	Steady	Steady	Increasing	Steady	Steady	Steady
Rental Rate Trend	Stable	Increasing	Declining	Stable	Declining	Stable	Stable	Stable
Volume of Property Sales	Steady	Increasing	Steady	Declining significantly	Declining	Declining	Declining	Declining
Stage of Property Cycle	Declining market	Rising market	Declining market	Bottom of market	Starting to decline	Start of recovery	Starting to decline	Starting to decline
Local Economic Situation	Steady growth	Steady growth	Flat	Contraction	Contraction	Steady growth	Contraction	Contraction
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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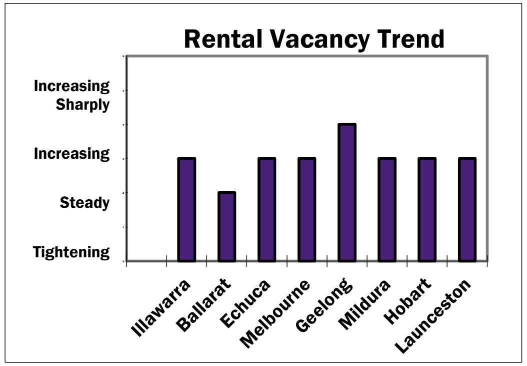

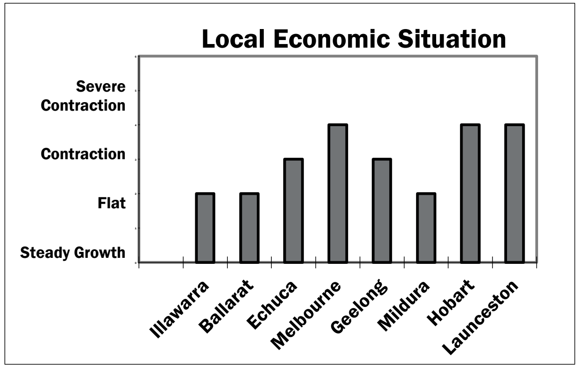

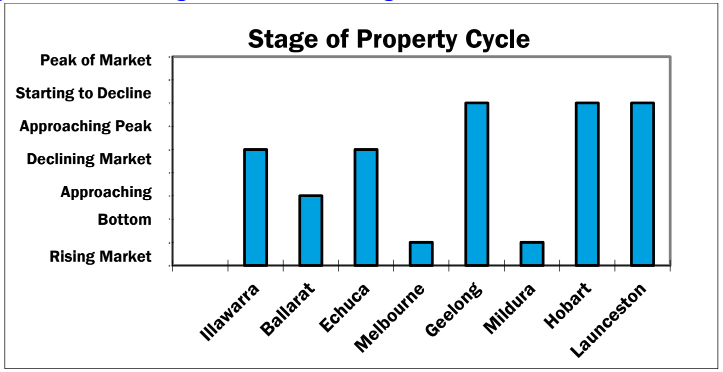

Queensland Property Market Indicators – Office

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	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	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	Steady	Steady	Steady	Steady	Steady	Steady	Tightening	Tightening	Tightening	Steady	Tightening
Rental Rate Trend	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Increasing	Increasing	Stable	Increasing	Increasing
Volume of Property Sales	Steady	Steady	Steady	Steady	Steady	Steady	Increasing	Increasing	Steady	Steady	Declining	Declining	Steady	Steady
Stage of Property Cycle	Approaching peak of market	Starting to decline	Rising market	Rising market	Rising market	Bottom of market	Rising market	Rising market	Rising market	Peak of market	Approaching bottom of market	Approaching bottom of market	Starting to decline	Bottom of market
Local Economic Situation	Flat	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	Nil	Nil	Significant	Significant	Significant	Large	Small	Large

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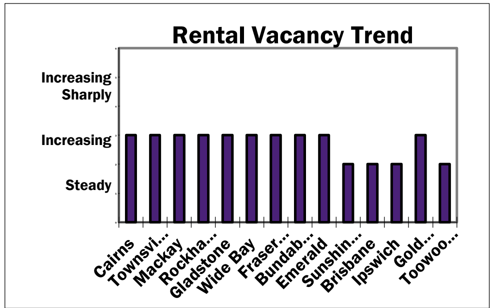

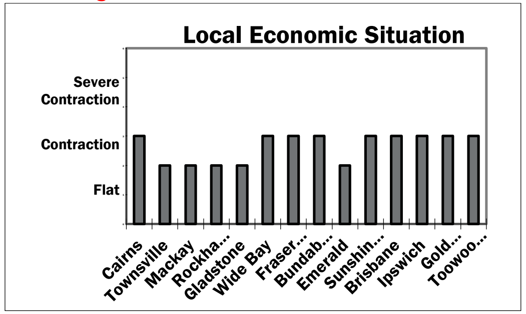

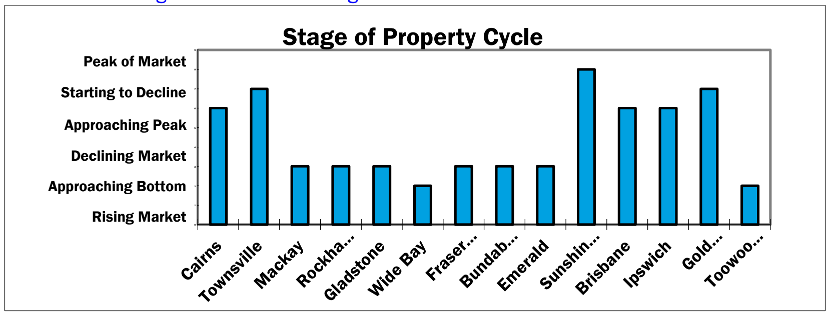

SA, NT and WA Property Market Indicators – Office

Factor	Adelaide	Alice Springs	Darwin	Perth	South West WA
Rental Vacancy Situation	Over-supply of available property relative to demand	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	Increasing	Steady	Steady	Steady	Increasing
Rental Rate Trend	Stable	Stable	Stable	Stable	Declining
Volume of Property Sales	Declining	Steady	Steady	Steady	Declining
Stage of Property Cycle	Declining 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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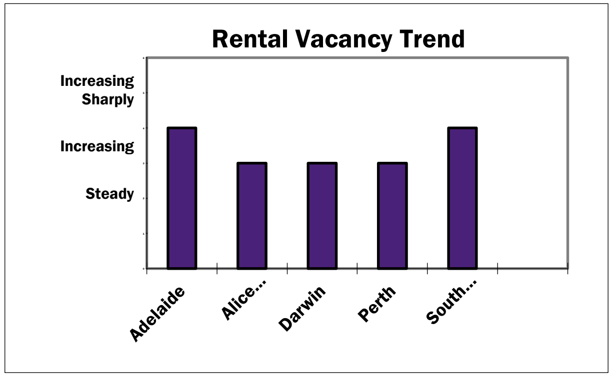

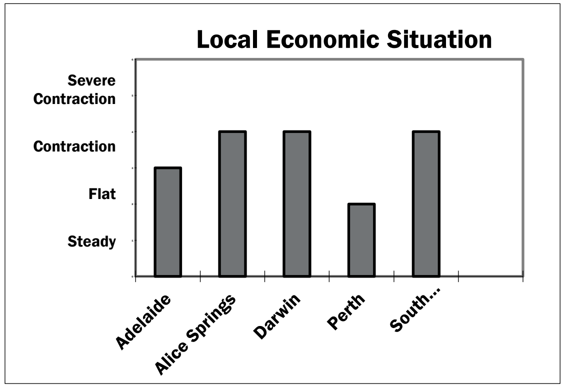

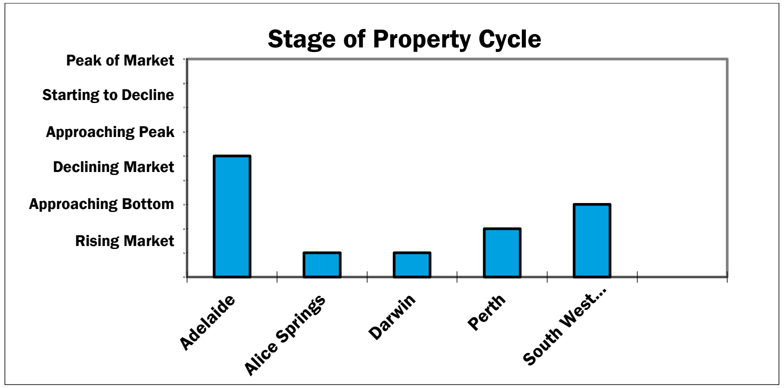

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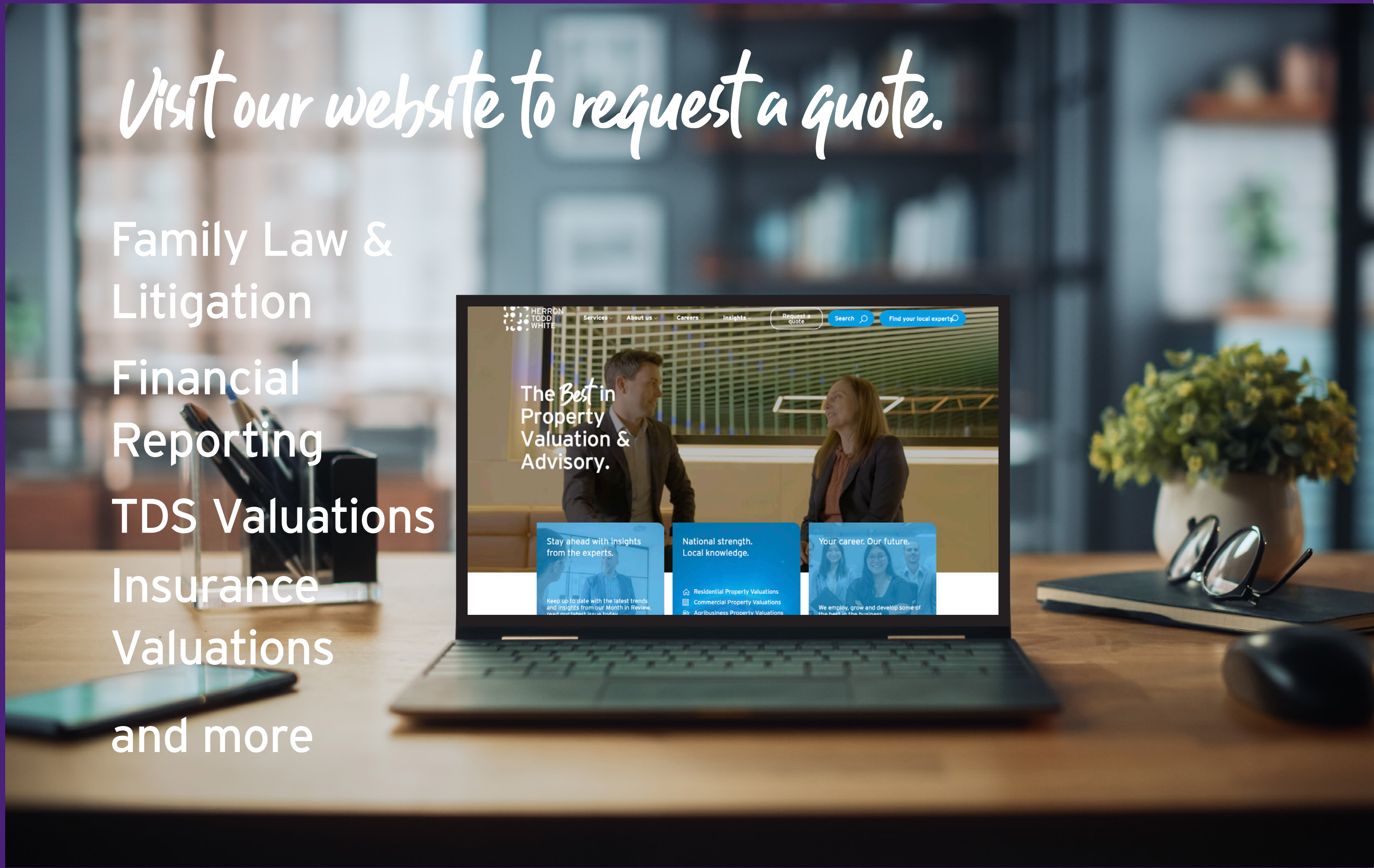

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