

MARKETBEAT AUSTRALIA

Investment Q2 2024



12-Mo.
Forecast

Investment
Volume Q2 2024 **\$9.5bn**



Rolling Annual
Volume **\$27.6bn**



Foreign
Investment **38%**



TOTAL INVESTMENT ACTIVITY

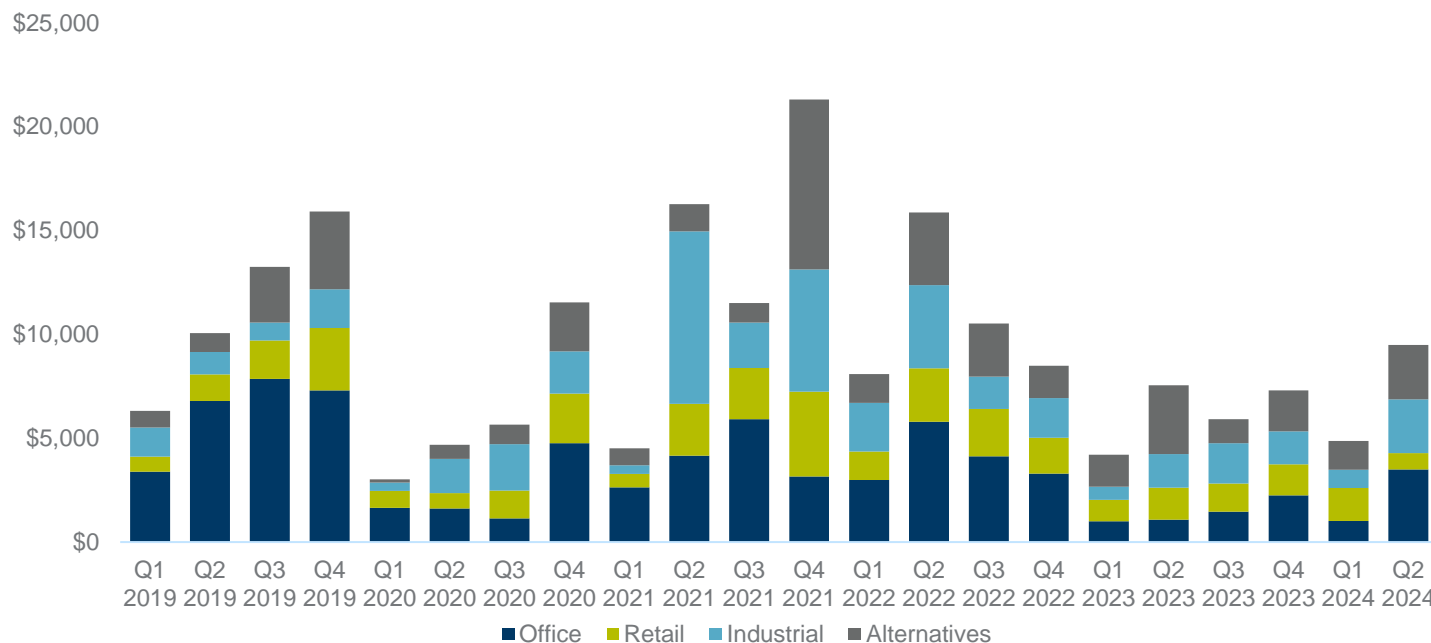
Investment volumes rebound

In Q2 2024, the Australian commercial real estate market experienced a significant surge in investment volume. Both the number of deals and the average size of these deals increased, bringing the total for the quarter to \$9.5 billion for transactions exceeding \$5 million. This contributed to a rolling 12-month total of \$27.6 billion. This growth occurred despite several headwinds within the sector, including higher than target inflation, elevated interest rates, extended due diligence periods, and slower decision-making processes.

Foreign investment played a pivotal role in this uptick, with significant capital inflows from Japan, the United States and Hong Kong. The return of large portfolio deals, which were notably absent in Q1, also provided a much-needed boost to Q2 volume.

Among the sectors, the office sector led the way, attracting \$3.5 billion in investments. The logistics and industrial sector followed closely, securing \$2.6 billion. Similarly, the alternatives sector also saw \$2.6 billion in investments. In contrast, the retail sector struggled, recording just \$784 million, falling below the \$1 billion threshold for the first time since Q1 2021. However, there are a number of significant sized deals that will fall in Q3.

QUARTERLY COMMERCIAL REAL ESTATE INVESTMENT VOLUME (AUDm)



*Alternatives' includes; aged-, health- and child-care, build to rent, student accommodation, serviced apartments and hotels, mixed use properties, pubs, service stations and self-storage.

Source: Real Capital Analytics; Cushman & Wakefield

ECONOMIC INDICATORS Q1 2024

Q4 23 Q1 24 12-Mo.
Forecast

GDP Growth (National)* **2.0%** **1.7%** ▼

Consumer Price Index Growth (National) **4.1%** **3.6%** ▼

Unemployment (National)† **3.9%** **3.9%** ▲

*Average annual growth rate, †Seasonally adjusted
Source: ABS; Deloitte Access Economics; Cushman & Wakefield Research

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INVESTMENT BY SECTOR

OFFICE

Are we seeing the bottom of the cycle?

The office sector, despite facing structural changes, recorded \$3.5 billion in Q2, aligning with the 10-year average of \$3.8 billion. While the sector had been grappling with the delay in alignment of vendor and purchaser price expectations, it appears that this trend is beginning to reverse. The office sector may have reached its lowest point in the pricing cycle and is now poised for a turnaround.

Significant transactions this quarter included Mirvac's sale of a circa 66% interest in the still-to-be-constructed 55 Pitt Street to Mitsui Fudosan for \$1.3 billion. Additionally, Mirvac sold a 50% interest in National Australia Bank House at 255 George Street in Sydney to Singapore-based Keppel REIT for a reported \$363.8 million. Moving north to Brisbane, Quintessential have purchased 240 Queen Street from Brookfield for \$250 million.

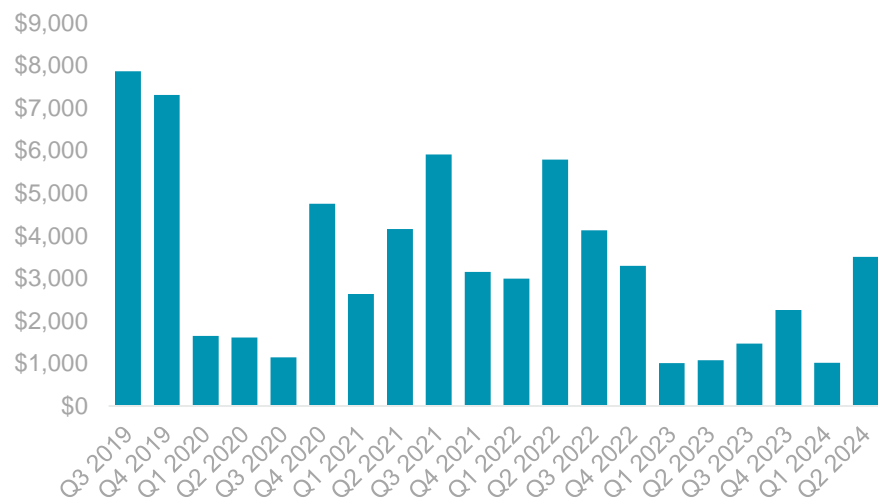
LOGISTICS & INDUSTRIAL

Resilience drives continued performance

Following a subdued Q1 2024, transaction volumes increased sharply in Q2 2024, increasing from \$900 million to \$2.6 billion, marking the strongest quarter since Q2 2022. The resurgence of larger portfolio deals significantly bolstered investment volumes, surpassing the ten-year quarterly average of \$1.7 billion. Though speculative developments have slightly increased the national vacancy rate, it remains near record lows. This ongoing tight vacancy continues to fuel rental growth and attract substantial investment to the sector.

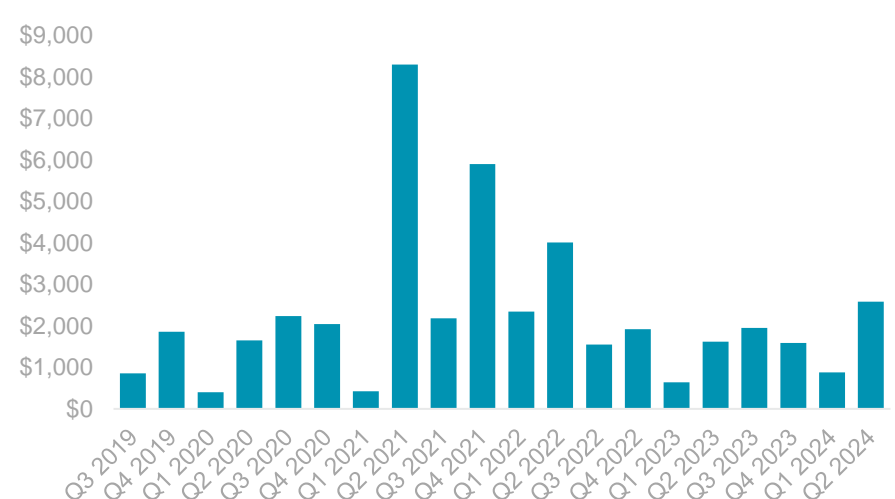
The largest deal of the quarter was Goodman's sale of a 12-asset portfolio for approximately \$780 million to Barings and Rest. The portfolio included assets in Sydney and Melbourne, albeit with a higher weighting to Melbourne. Other deals included Hale acquiring a cold storage fund-through asset in Morningside (Brisbane) for \$105.3 million, while Arrow Capital purchased 7-15 Gundah Road, Mount Kuring-Gai from ESR for \$101.8 million. Beyond this, there were multiple other larger confidential acquisitions, including portfolio trades.

OFFICE CRE QUARTERLY TRANSACTION VOLUMES (AUDm)



Source: Real Capital Analytics; Cushman & Wakefield

LOGISTICS & INDUSTRIAL CRE QUARTERLY TRANSACTION VOLUMES (AUDm)



Source: Real Capital Analytics; Cushman & Wakefield

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RETAIL

A subdued second quarter

The retail sector experienced a sluggish second quarter, with investments totalling \$784 million, marking the first dip below the billion-dollar benchmark since Q1 of 2021, when transactions amounted to \$640 million. The absence of major transactions involving City, Super Regional, and Major Regional Centres affected the sector's volume. However, there was significant activity in neighbourhood centres. As retail is further along in its cycle, as yield and price softening occurred earlier compared to some other sectors, the yields achieved have been quite attractive and much closer to recent peak book values.

Significant transactions in this quarter included the sale of Maddington Central in Perth for \$107 million by Vicinity Centres and co-investor Challenger to Realside. Additionally, Vicinity Centres disposed of Karratha City Centre to Fawkner Property for \$95.9 million, further enhancing Fawkner's retail platform. Mirvac also sold Cooleman Court in Weston, ACT to Region Group for \$74 million.

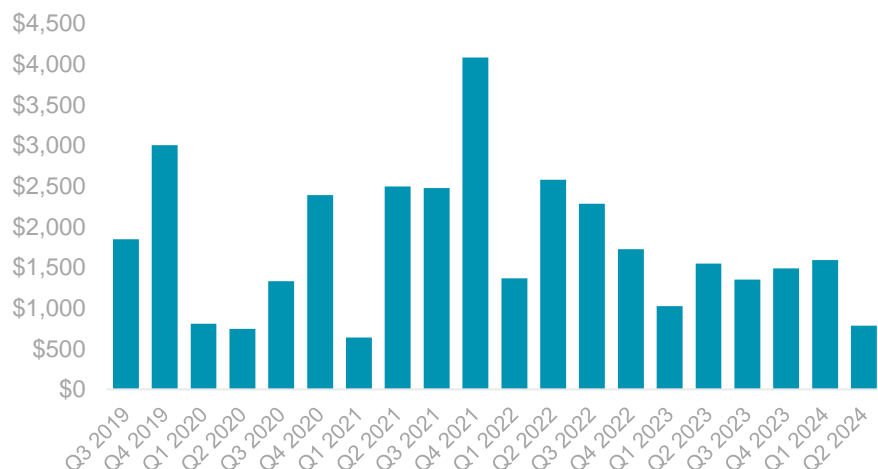
ALTERNATIVES

From strength to strength

The alternatives sector is gaining significant traction as investor preferences shift towards returns beyond traditional commercial real estate markets. The living sector, in particular, is attracting heightened interest due to a persistent mismatch between housing supply and demand. With rental vacancy rates at historic lows, the scarcity of available housing options has intensified, prompting investors to seek innovative solutions and capitalise on emerging opportunities within this sector. As a result, investment in Q2 surged to \$2.6 billion, surpassing the ten-year average of \$1.7 billion. Of this \$2.6 billion, roughly 45% was invested in the living sector, primarily into stabilised land lease assets.

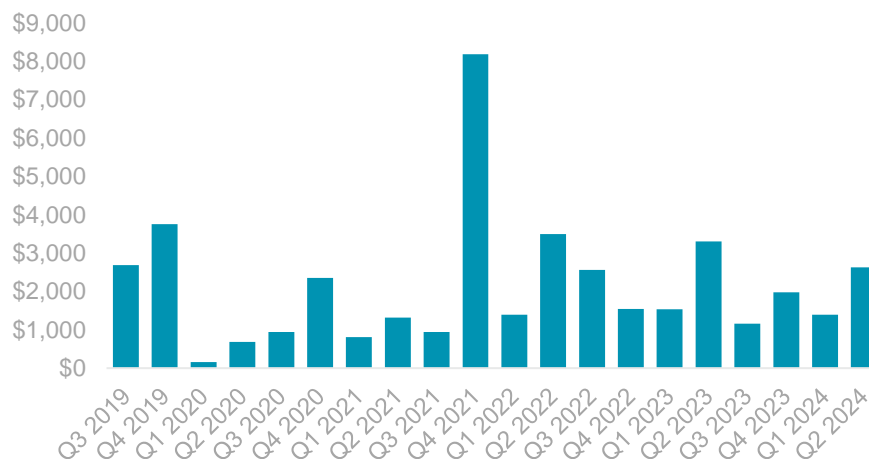
This quarter saw notable transactions, including Stockland's sale of a 49.9% stake in 1,190 homes across three land lease communities to US-based Invesco for \$548.9 million. Additionally, Japan's Sumitomo Forestry acquired a majority share of the Build-to-Rent asset at 50 Quay Brisbane for \$375 million. In another significant move within the living sector, Proprium Capital Partners purchased an eight-property portfolio of land lease communities from Living Gems for \$284.5 million.

RETAIL CRE QUARTERLY TRANSACTION VOLUMES (AUDm)



Source: Real Capital Analytics; Cushman & Wakefield

ALTERNATIVES CRE QUARTERLY TRANSACTION VOLUMES (AUDm)



Source: Real Capital Analytics; Cushman & Wakefield

*'Alternatives' includes; aged-, health- and child-care, build to rent, student accommodation, serviced apartments and hotels, mixed use properties, pubs, service stations and self-storage.

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INVESTMENT BY LOCATION

New South Wales continues to dominate the investment sector, capturing a third of the total investment in Q1 with an impressive \$3.3 billion. Victoria claimed the second spot with \$2 billion, accounting for 21% of the overall investment. Queensland followed closely in third place, contributing \$1.6 billion or 17% of the total. Additionally, \$1.5 billion was allocated to Australia-wide investments, which encompass multi-state portfolios. The remaining investments were distributed among South Australia, Western Australia, and the Australian Capital Territory.

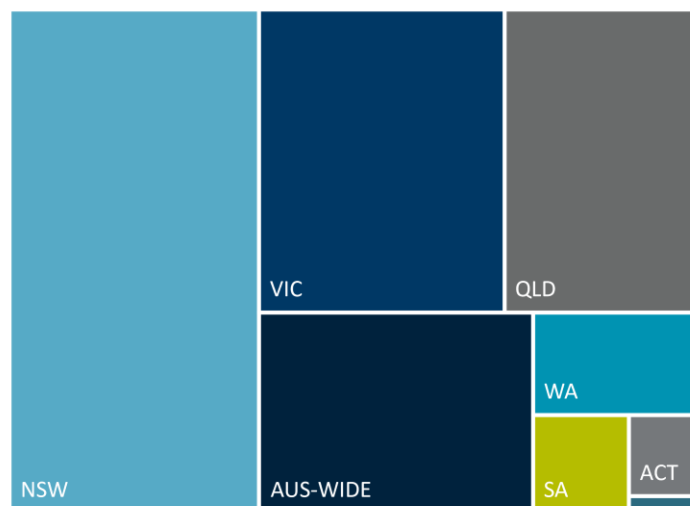
FOREIGN INVESTMENT

In Q2 2024, foreign investment activity amounted to \$3.6 billion, representing 38% of the total volume, consistent with the long-term quarterly average of approximately 36%. The majority of this foreign capital originated from Japan and the United States, contributing \$1.7 billion and \$1.1 billion, respectively. Hong Kong added \$345 million, while Singapore rounded out the total with \$70 million. Although overseas investment in Australia has been declining on an annual basis since 2020, Q2 witnessed a notable resurgence in cross-border capital, particularly from outside the Asia-Pacific.

DEALS

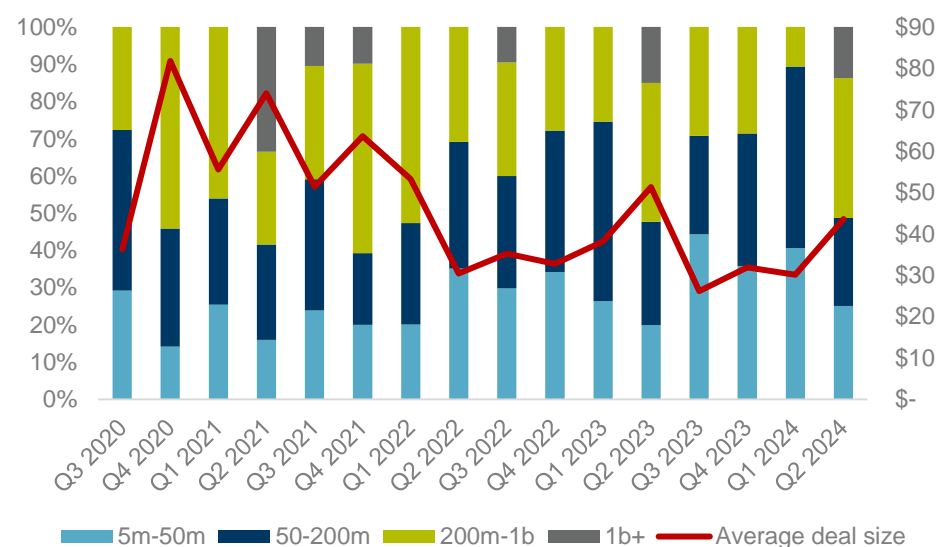
For the first time in a year, deals exceeding \$1 billion re-emerged in the market. Additionally, there was an increase in transactions ranging from \$200 million to \$1 billion, with these brackets making up 51% of the total volume, surpassing both the five-year and ten-year averages of 40%. During Q2 2024, approximately 250 transactions were recorded, with an average transaction value of \$45 million and a median transaction value of \$115 million.

TRANSACTION ACTIVITY BY LOCATION, Q1 2024



Source: Real Capital Analytics; Cushman & Wakefield

INVESTMENT BY PRICE BRACKET & AVERAGE DEAL SIZE (AUDM)



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SIGNIFICANT TRANSACTIONS, Q2 2024

PROPERTY	LOCATION	PURCHASER	VENDOR	SECTOR	PRICE
55 Pitt Street	Sydney	Mitsui Fudosam	Mirvac	Office	\$1.3b (66%)
Stockland Land Lease Partnership	Aus Wide	Invesco Real Estate	Stockland	Alternatives (MHE)	\$549m
Goodman Industrial Portfolio	Aus Wide	Barings / REST Super (JV)	Goodman	Logistics & Industrial	\$777m
50 Quay Street	Brisbane	Sumitomo Forestry	Vicinity Centres	Alternatives (BTR)	\$375m
National Australia Bank House	Sydney	Keppel REIT	Mirvac	Office	\$364m
5 Martin Place	Sydney	Cbus Property	CPP Investment Board / Dexus	Office	\$310m (50%)
Living Gems Land Lease Portfolio	Queensland	Proprium Capital Partners	Living Gems	Alternatives (MHE)	\$285m

Outlook

- We anticipate investment volumes in Australian commercial real estate will continue its drive in the coming quarters, building on the positive momentum seen in Q2 2024.
- Inflation has come off its peak, however the impacts of higher interest rates are still passing through the economy. While there is some disagreement over timing, Cushman & Wakefield Research expect that the first rate cut will be some time in H1 2025. If the labour market remains tight and inflation sticky, there is the risk of an increase in H2 2024.
- The Reserve Bank of Australia is likely to maintain the cash rate at 4.35% in the near term. Given the recent trends, we foresee the 10-year government bond yield remaining above 4%, continuing a pattern not seen since 2010-11.
- In the office sector, ongoing price discovery suggests that while transaction values are approximately 20% below peak 2022 levels, the market may have bottomed out or is nearing bottom and is gearing up for a rebound.
- As always, in a more uncertain market conditions, individual property fundamentals will be of increasing importance with higher quality properties expected to outperform.

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