M3 PROPERTY

SPECIALIST
INDEPENDENT
VALUATION

SOUTH AUSTRALIAN MARKET SNAPSHOT

OCTOBER 2024

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SOUTH AUSTRALIAN MARKET SNAPSHOT

South Australia's property market has continued to experience strong fundamentals and steady demand during the first half of 2024, albeit with reduced transactional activity across some sectors of the market including Office and Industrial which is reflective of national trends in the current macroeconomic climate. Adelaide's residential market is strong, with a lack of available housing and established land available in the market. The retail sector has experienced renewed interest in assets across all retail sub-categories.

In our latest South Australian Market Snapshot, representatives from each of our valuation sectors share their insights into 2024 as well as opportunities and challenges for the year ahead.

CHILDCARE

MICHAEL SCHWARZ
Director | Specialised Assets

"During the first half of 2024, a slowing in the rate of increase in rents has been observed – particularly for new developments and centres. We are seeing a two-tiered market, with rents for existing centres remaining stable. Early Childhood Education and Care fees continue to increase which has been primarily driven by increasing rents and staff wages. Investment yields have softened slightly, though there is still demand for Early Childhood Education and Care centres which are well located with secure lease covenants.

The sector is coming under the increasing focus of the Federal Government with the Productivity Commission and Australian Competition and Consumer Commission recently completing reviews of the industry. It is not yet known which recommendations arising from these reviews the Federal Government will implement, but it is clear the Federal Government needs to take a more active approach in the governance of the industry to ensure its sustainability."

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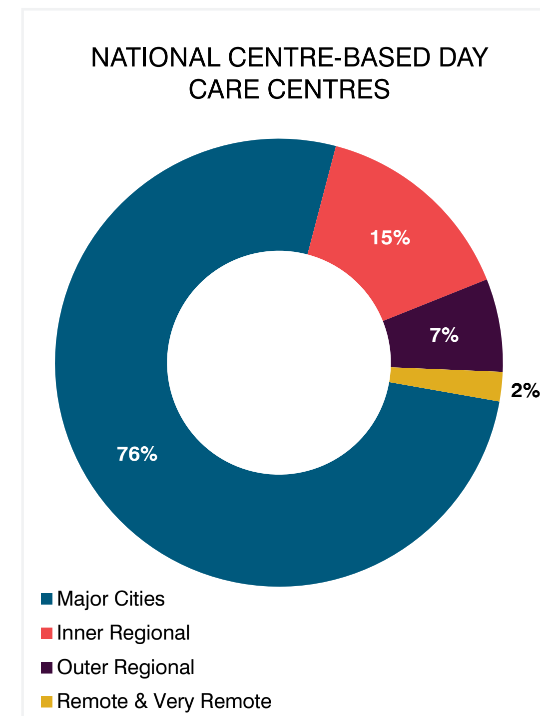
“DURING THE FIRST HALF OF 2024, A SLOWING IN THE RATE OF INCREASE IN RENTS HAS BEEN OBSERVED – PARTICULARLY FOR NEW DEVELOPMENTS AND CENTRES.”

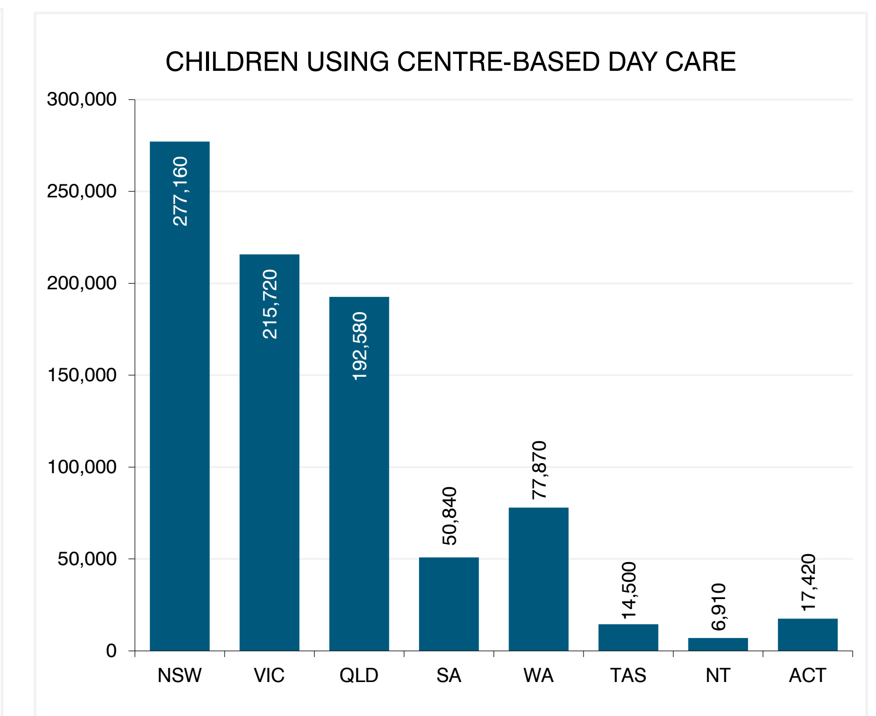
- MICHAEL SCHWARZ

CURRENT STATE OF PLAY

- The Childcare Inquiry Report by the ACCC released in January 2024 highlights the strong growth of Childcare fees across all services since the introduction of Child Care Subsidy (CCS). The ACCC recommends a new approach by the Federal Government rather than the current “one size fits all” regulations in order to deliver the desired objective for both communities and governments.
- Since 1 July 2023, families earning up to $530,000 have been eligible to receive the Childcare Subsidy, with the maximum subsidy increasing to 90% for families earning up to $80,000. The subsidy will decline by 1% for each additional $5,000 in income the family earns. Under the new subsidy, families with more than one child in childcare can also receive a higher subsidy for the



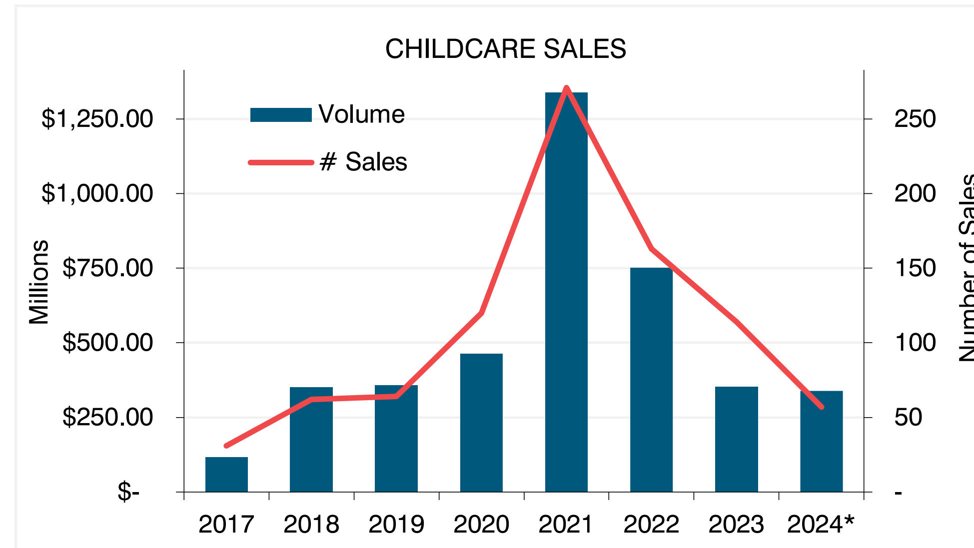
Source: Dept of Education, GapMaps, M3 Property



Source: Dept of Education, GapMaps, M3 Property

INVESTMENT MARKET

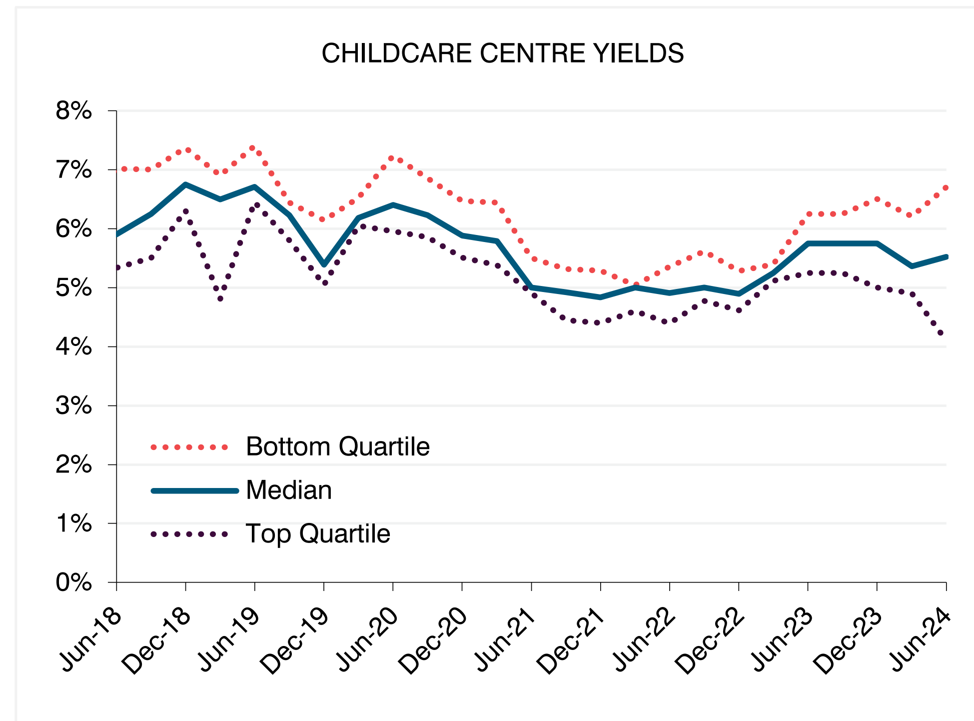
- Childcare centre values are dependent on location, supply/demand, competition, centre size and tenant covenant.
- The childcare investment market showed a high level of resilience during the COVID-19 pandemic. Childcare investment activity reached a record high in 2021, with $1.34 billion of sales (271 properties) recorded nationally. Activity slowed significantly in 2023, with $351 million of childcare sales recorded (114 properties) during the year.
- Activity has picked up in 2024, with a total of $338.7 million transacted across 58 sales so far.



Source: Real Capital Analytics (RCA), M3 Property

YIELDS

- Yields for prime freehold interests are in the band of 4.10% to 6.70%. Yields tightened over recent years until 2022. Demand for well-placed centres is still competitive, however other market factors like strong rental growth and investor appetite have pushed yields upwards.
- In the current economic environment, the focus of investors has been heightened to the strength of the tenant lease covenant and centres with known established operators often achieve premium market rates, however for sites which do not meet these investment standards, investors are using their buying power to negotiate purchaser-favourable pricing.
- Childcare investors include small and medium-sized operators, and small-scale passive investors along with large investment trusts and owners. Ownership in the childcare market is becoming increasingly consolidated.



Source: M3 Property

OPPORTUNITIES AND CHALLENGES

- New supply has pushed occupancy rates down to relatively low levels in some metropolitan markets.
- The sector continues to face labour shortages which have resulted in some childcare centres having to put a cap on enrolments, despite being licensed for a higher number of children. The 2023-24 Federal Budget included a $1.6 billion investment into the early childhood education workforce, including funding for professional development and training programs. Increased funding will help address workforce shortages in the sector.
- In the May 2024 Federal Budget the Government committed to funding a 15% pay increase for early childhood educators – albeit with operators required to commit to agreeing to not increase their fees by more than 4.4% over the next year. The pay rise will be phased in over two years, with a 10% increase from December 2024 and a further 5% from December 2025.

OUTLOOK

- An increase in the number of children between 0 to 5 years old and increasing participation in the labour market will drive demand for childcare and the development of new childcare centres in some areas.
- The number of children aged 0 to 5 years is forecast to increase by 5.29% in South Australia by 2031, which is lower than most other states and territories except NSW and Tasmania.
- Labour force participation rates are forecast to trend upwards to reach around 64% in South Australia by 2027 and this is expected to contribute to a continued increase in the average number of hours children attend childcare per week.
- There is strong bipartisan government support for the childcare sector that will see continued funding towards childcare subsidiary for family households. As a result, the average daily rate per child across all states has grown by $10-$20 per day, a large increase in spending for most family households.
- Ownership of childcare centres is expected to become more consolidated as major institutional groups continue acquiring centres and portfolios of centres. We also expect to see further activity from private equity firms over the medium-term.
- We expect to see more existing centres undergoing refurbishments and upgrades going forward in order to compete for customers within the centre's catchment.

HEALTHCARE

SIMON HICKIN
Director | Healthcare & Office

"South Australia's healthcare sector has seen increased activity during the first half of 2024 in comparison with last year, mostly driven by the not-for-profit sector which has been quite active in the market – particularly for the aged care and retirement living sector which is seeing strong demand.

Positive underlying market fundamentals continue to drive investment activity in the healthcare sector, although purchasers remain cautious about their pricing decisions – especially for higher-priced assets.

Moving forward, we expect confidence to continue to build in the market dependent on positive cash rate decisions."

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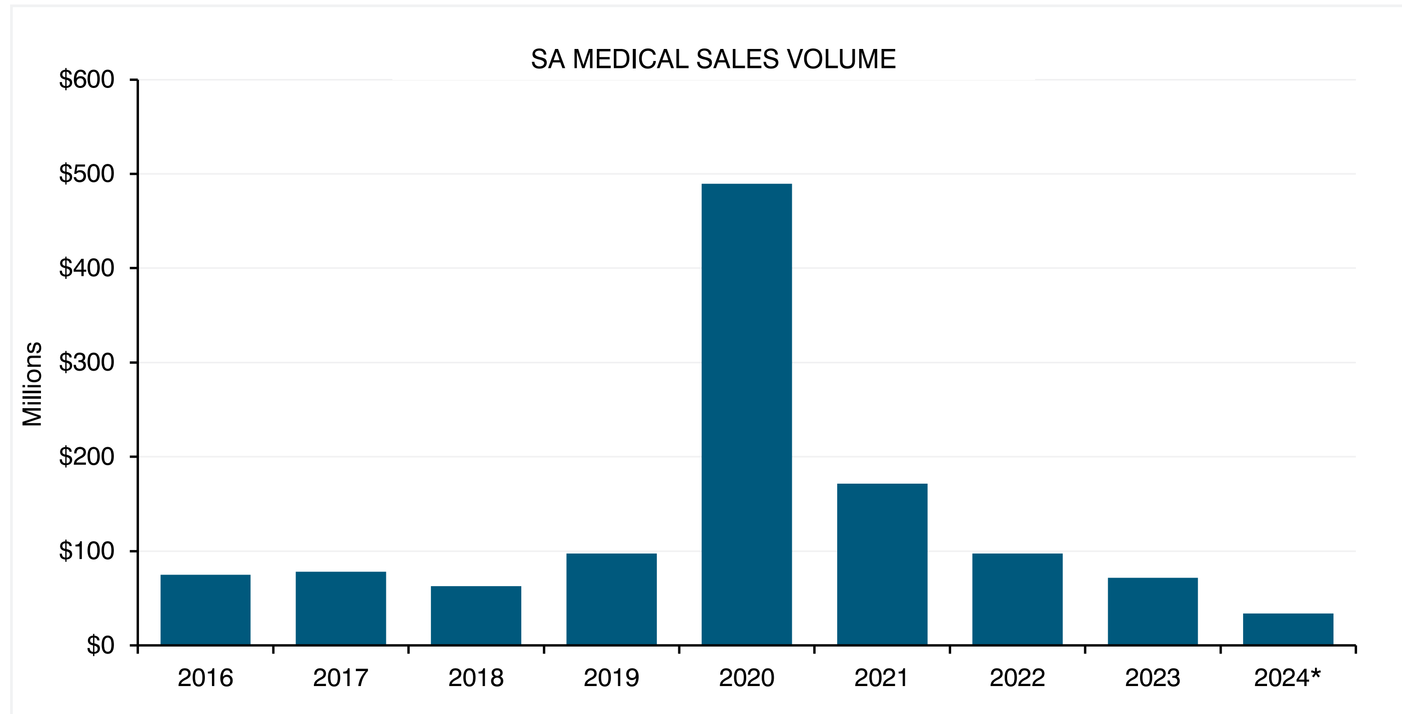


Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over $1 million. Includes Medical and Hospital sales

INVESTMENT MARKET

- According to RCA, sales volume of healthcare properties in South Australia for 2023 was $71.8 million from 34 transactions.
- There have been 13 transactions valued at $33.8 million so far in 2024.
- Institutional investors, REITs, and private buyers have been the most active buyer groups over recent years.

YIELDS

- Yields are now averaging around 5.50% for prime medical centre assets and 7.50% for secondary medical assets (predominantly regionally located older facilities).
- Yields for private hospitals generally range between 4.75% and 6.00% for prime assets and 6.25% and 7.50% for secondary assets.
- Average cap rates have softened by around 50bps to 100bpts in the twelve months to June 2024 with secondary assets softening to a greater extent.

OPPORTUNITIES AND CHALLENGES

- Rising interest rates has slowed investment activity in the healthcare sector as expected. There is still strong demand from institutional-grade investors, however, there is a lack of quality stock.
- Mental health and well-being is becoming an emerging health issue, with 43.7% of people aged between 16 and 85 experiencing a form of mental disorder in their life and 21.4% of people experiencing a mental disorder for at least 12 months.
- Demand for medical services by a growing and ageing population is expected to continue increasing. Unhealthy lifestyles, obesity rates and increasing focus on wellbeing and mental health continue to drive demand for medical services and medical suites and centres.

OUTLOOK

- The healthcare sector as an asset class will continue to grow to become a core asset class as it is supported by key market fundamentals, has significant investment growth opportunities, and particularly as other core sectors face strong headwinds from rising inflation and the current interest rate environment.
- The sector will continue to benefit from strong investment interest as new and existing institutional capital is drawn to the asset class off the back of its key fundamentals: population growth, aging population demographics, government funding and private healthcare.
- Investment demand for high-quality medical assets will remain strong over the medium-term, despite interest rate pressures coming into play. The healthcare market is still highly fragmented and there are significant opportunities for consolidation.

INDUSTRIAL

MICHAEL LEECH
Managing Director SA

"South Australia's Industrial sector has seen continued positive market fundamentals in the first half of 2024, despite some constraints on new supply tempering the market. Construction and labour costs may impact the normalisation of the supply pipeline over the coming years thus maintaining upward pressure on rents.

Despite ongoing investor and rental demand, there remains a lack of quality stock on the market. Vacancy rates have marginally increased but remain at historically low levels and continue to underpin modest rental growth.

Limited transactional activity occurred during the first half of the year, reflecting pressure on feasibilities and understanding the direction of the broader macroeconomic climate.

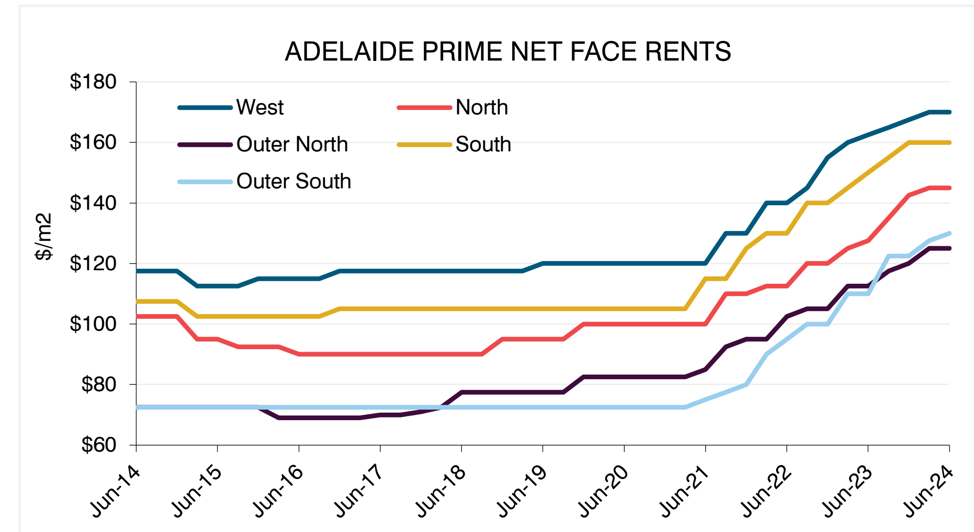
Demand for new builds has largely been driven by pre-lease commitments, which are almost a must for large-space modules. The availability of existing warehouse stock remains low, which is a headwind for the movement of tenants and owner-occupiers alike. This is leading to compromised space solutions, which will require a longer-term adjustment for the normalisation of the industrial supply pipeline."

CURRENT STATE OF PLAY

- The fundamentals of the South Australian industrial market remained strong in H1 2024, reflecting limited stock and continued demand.
- There has been a continued strength in the leasing market and a renewed focus on rental levels from property owners now that market value growth via yield compression has slowed.
- Low vacancy rates have driven rental growth, although this is expected to moderate with tenants focusing on cost control.
- Industrial purchasing decisions are being reassessed in response to rising interest rates, tighter lending procedures and the elimination of superannuation lending has reduced a small segment of the buying market.
- Banks continue to look for quality investments and have a reduced appetite for risk. This is likely to create a widening of yields between primary and secondary assets which is yet to materialise.
- Reflecting the lack of developable land and minimal englobo parcels to be released, there remains strong demand with growth in certain areas expected.
- Growth in the Transport, Postal and Warehousing, Manufacturing, and Wholesale Trade industries is expected to strengthen over the coming five years which, together with defence spending, will provide a long-term income base to keep the industrial sector moving.

RENTAL MARKET

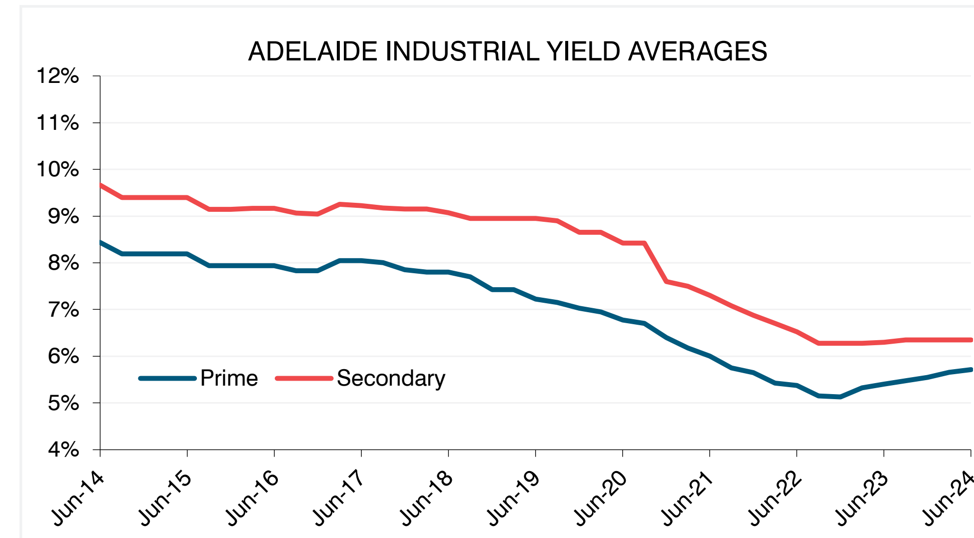
- Across the Adelaide metro, prime net face rents are ranging between $120 and $190 per square metre. Prime rents increased by 10.2% over the twelve months to June 2024.
- Leasing activity continues to be the strongest in the Outer North and West, with several large-scale projects in the area. These precincts include Renewal SA's Edinburgh Park precinct; the adjacent Vicinity estate at Direk developed by the Walker Corporation; Charles Sturt Industrial Park, and Lionsgate Estate (former GM's headquarters). These projects have benefited from State Government incentives to bring employment to South Australia.



Source: M3 Property

YIELDS

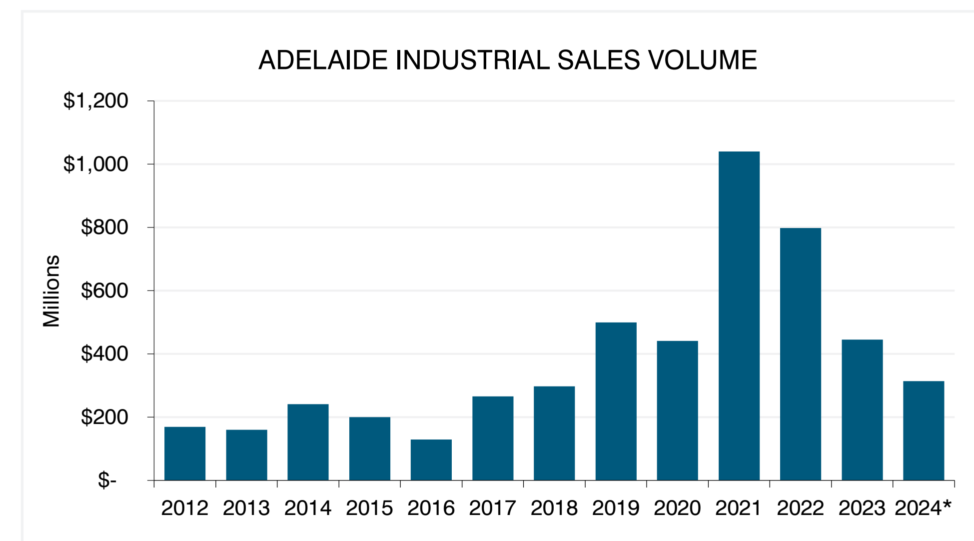
- There remains a spread between Adelaide's industrial yields and other eastern seaboard industrial yields, making the market attractive to investors looking for yield and geographic diversification, whilst also obtaining a competitive return.
- Yields have softened in the twelve months to June 2024. Prime industrial yields are typically ranging between 5.50% and 6.50%, averaging at 5.71%. Secondary yields between 5.50% and 7.75% with an average of 6.35%.
- Properties with greater than average WALEs are continuing to see strong demand and trading at lower-than-average rates because of the lower income risk associated with the investment.



Source: M3 Property

INVESTMENT MARKET

- There has been $314.2 million of industrial properties transacted across South Australia in the first eight months of 2024. This compares with $256.8 million for the first eight months of 2023.
- Private investors have been the primary transactors so far during 2024, accounting for 85.4% of purchases and 61.4% of sellers.
- Listed funds and REITs have stopped purchasing in the SA Industrial market while offloading a small percentage of their portfolio. Majority of transactions are with Private investors, with a small portion of Institutional Investors' activities in the market.



Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over $5 million

OPPORTUNITIES AND CHALLENGES

- Vacancy remains tight, particularly for prime-grade properties where vacancy is below 1%. This is expected to continue in the short-term, providing a moderated yet positive outlook for rental growth. As the market changes in response to softening economic conditions, supply shortages may potentially hide any signs of weakening demand as the supply / demand equilibrium is progressively restored.
- A continued scarcity of suitable developable land prevails with a concerning lack of future englobo opportunities, thus presenting increased opportunities for the gentrification of older industrial precincts.

OUTLOOK

- The industrial property investment market cycle is considered to have peaked in late 2022, with sales activity having declined over recent months, and yields expected to continue softening in the short-term going into 2025.
- The supply pipeline is thinning in part - reflecting rising construction costs and supply chain challenges.
- The fundamentals of the industrial sector remain strong, although a cautious approach is likely for 2025, pending a more positive outlook on inflation and stabilisation of the cash rate.

CBD OFFICE

SIMON HICKIN
Director | Healthcare & Office

"Investor demand in South Australia's Institutional-grade office market remains subdued during the first half of 2024. The recent transaction of 121 King William Street has contributed to the setting of a new, moderated investment return benchmark for the market.

The office vacancy rate in the prime end of the market has reduced slightly over the first half of the year. There is still significant new supply coming to the market, however much of this supply is seeing a high level of pre-commitment so vacancy levels will likely continue to trend down moving forward.

Once interest rates start to reduce and confidence increases across markets, we anticipate greater transactional activity to return to the investment sector."

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"ONCE INTEREST RATES START TO REDUCE AND CONFIDENCE INCREASES ACROSS MARKETS, WE ANTICIPATE GREATER TRANSACTIONAL ACTIVITY TO RETURN TO THE INVESTMENT SECTOR."

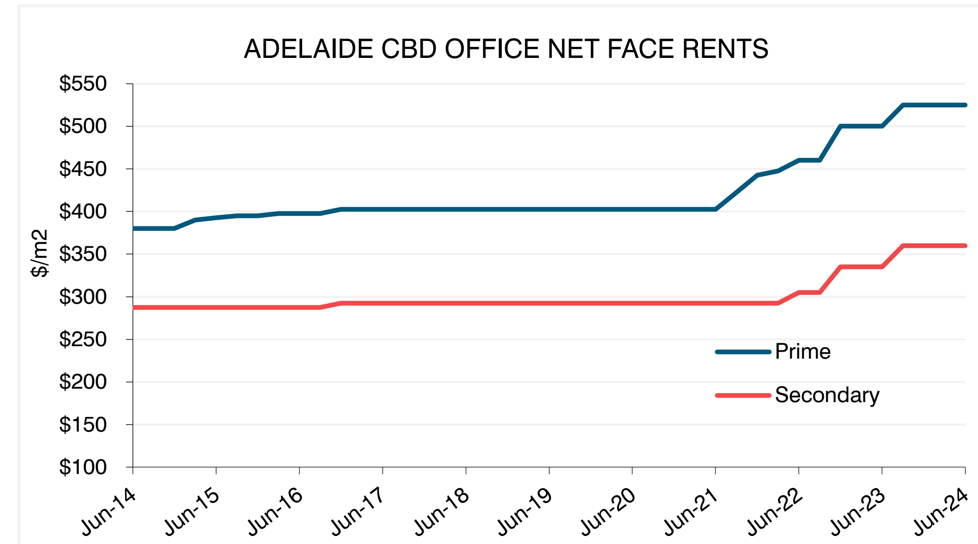
- SIMON HICKIN

CURRENT STATE OF PLAY

- According to the Property Council of Australia (PCA), there was 1,563,717 square metres of office space in the Adelaide CBD as of July 2024; an increase of 44,917 square metres from July 2023.
- The total vacancy rate for Adelaide's CBD office market decreased from 19.3% in January 2024 to 17.5% in July 2024.
- Vacancy has decreased due to 29,041 square metres of office space absorbed by new tenants, being the strongest net absorption of all CBD markets.
- 42-56 Franklin Street, Adelaide is currently under construction (approx. 21,000m²), with a further 9,486 square metres of office space being refurbished.
- Investor demand at previously compressed yields has significantly reduced. Currently vendors are reluctant to reduce asking prices and selling periods are extended.
- Since the interest rate increases from mid 2022, the office sector has seen a slowing in transactional activity - especially for higher-priced assets - and a softening in investment returns. The degree of softening differs significantly depending on the quality of the asset and lease expiry profile.
- Tenants continue to see value opportunities in the CBD due to proximity to restaurants, events and more, contributing to a shift in fringe and suburban tenants moving into the CBD.
- Corporate occupiers continue to show demand for flexible space that can be expanded or contracted during the term of the lease, buildings with high energy and wellness ratings, outdoor areas, building third space, and natural lighting.

RENTAL MARKET

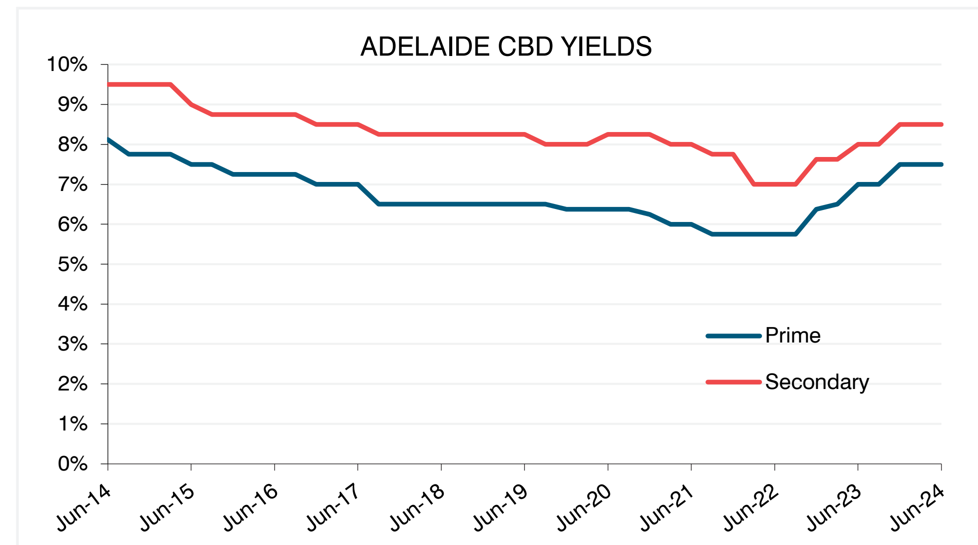
- As at the June quarter 2024, prime net face rents ranged from $450 to $600 per square metre and secondary net face rents ranged between $270 and $450 per square metre.
- Prime incentives range between 30% and 45%. Secondary incentives range between at 25% and 40%.



Source: M3 Property

YIELDS

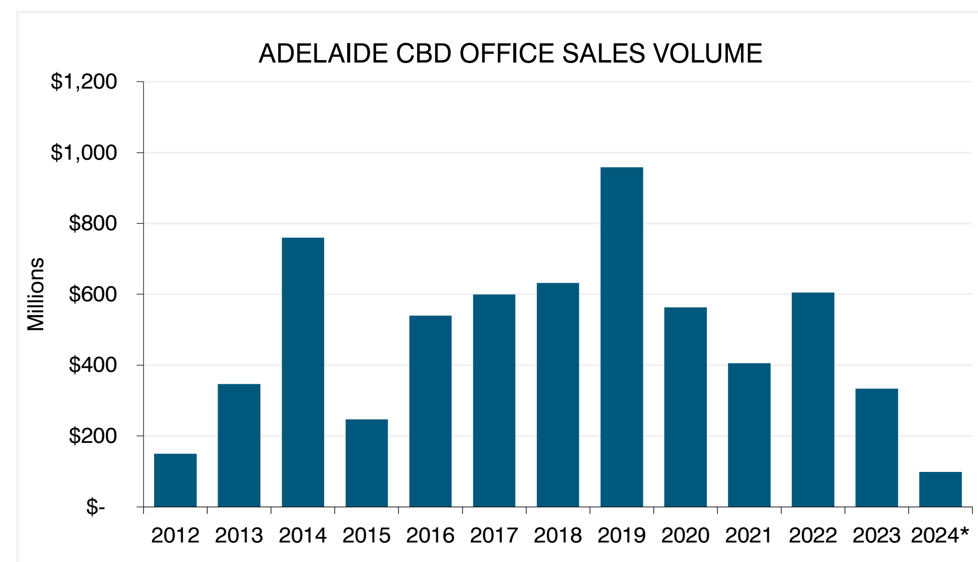
- Purchasers continue to have a greater focus on pricing risk, income security and strength of tenant covenants.
- The attractive spread between office yields in Adelaide and other eastern seaboard yields fueled investor interest and sales volumes over recent years.
- Yields softened in the first half of 2024, with prime yields ranging between 7.00% and 8.00% and secondary yields ranging between 8.00% and 9.00% in the June 2024 quarter.



Source: M3 Property

INVESTMENT MARKET

- According to RCA, there have been 2 sales totalling $98.5 million recorded in the Adelaide CBD Office market to the end of H1 2024. Sales volumes for H1 2024 are lower than the 5 sales totalling $287.9 million recorded for H1 2023.
- Private investors have been the largest buyers of office property in Adelaide in 2024, accounting for 100% of the transactions.
- The largest transaction to occur in 2024 was the sale of City Central Tower 2 at 121-129 King William Street, acquired for $84.25 million by a private investor.



Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over $5 million

OPPORTUNITIES AND CHALLENGES

- The CBD has an ageing stock profile, with a large proportion being greater than 30 years and an inability to recycle old buildings.
- There remains a greater ability for new/modern developments to achieve superior effective rental growth compared to older stock which will likely be impacted by reduced demand as new stock is added to the market.

OUTLOOK

- Net face rental growth is expected to remain subdued due to the elevated vacancy rate.
- Employment growth in white-collar employing industries is forecast to strengthen over the medium-term with annual growth of 3.1% forecast by BIS Oxford Economics each year until 2027.

RESIDENTIAL DEVELOPMENT

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KYM DREYER

Director | Residential Development

"Adelaide's residential market remains strong, with a lack of available housing and established land available in the market. The underlying level of demand will continue to drive strong price growth.

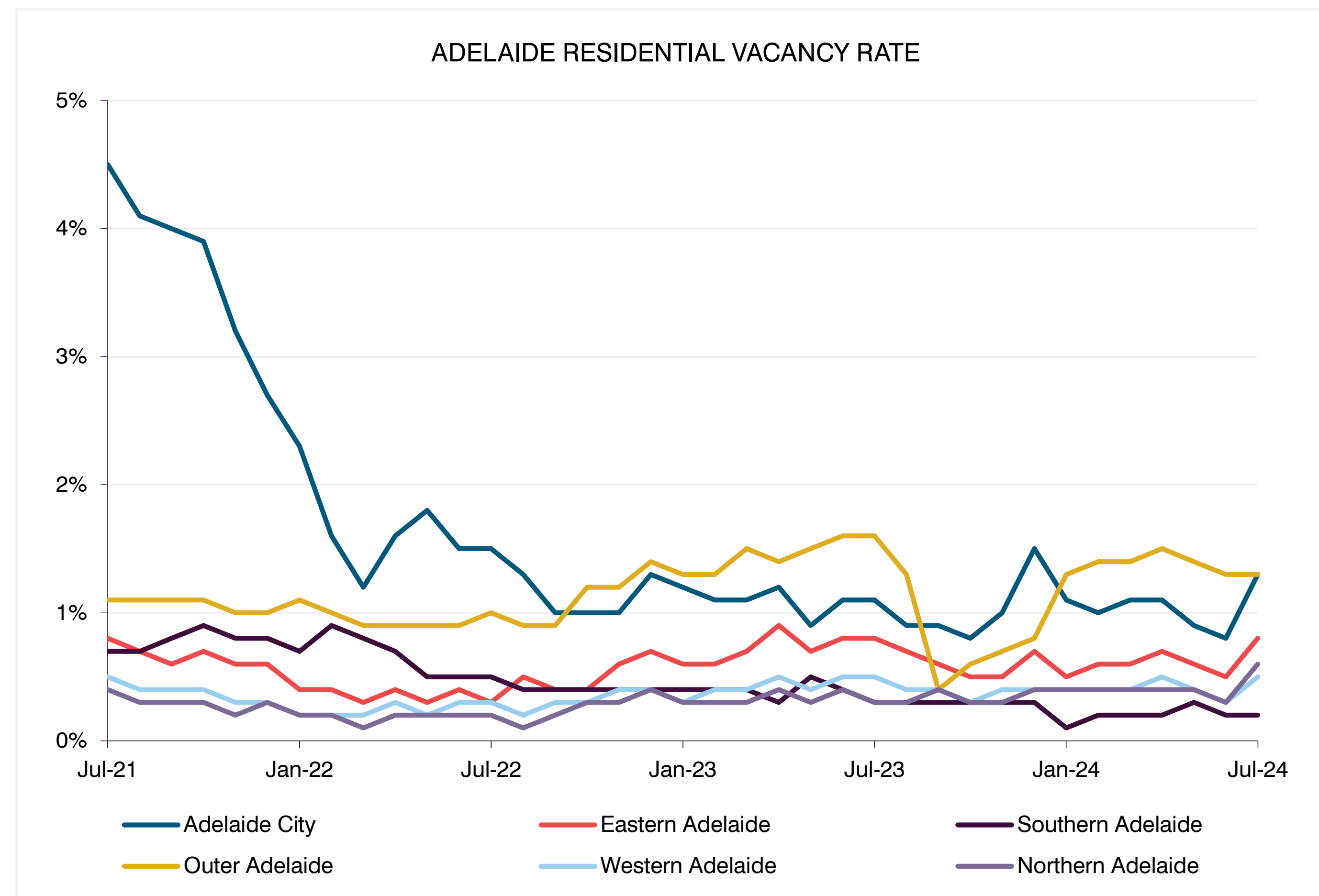
There may be some equilibrium returning to the market moving forward into the second half of the year, with a determining factor being the amount of stock that comes to the market during the final quarter.

The residential development market is seeing strong price growth for greenfield sites, with anecdotal evidence of significant increases in price levels being achieved for sites – especially within the northern growth areas of metropolitan Adelaide. However, future development is being tempered by the lack of service infrastructure with the SA Government providing funding to fast track the provision of services into the future, which may delay projects up until 2026.

This issue aside, allotment sales within recently released estates are also showing strong price growth, in part reflecting the higher costs of construction. Where allotments can be established in the short term, typically within existing estates where services are available, sale rates are expected to remain quite strong."

CURRENT STATE OF PLAY

- The median house price for Adelaide had annual growth of 15.76% to reach $830,609 in August 2024. The median unit price increased 17.74% to reach $546,429 by August 2024.
- However, strong price growth in the absence of comparable wages growth has resulted in a sharp and substantial deterioration in housing affordability in both the metropolitan and non-metropolitan markets.
- Vacancy across Adelaide's metropolitan residential market continues to be well below the benchmark equilibrium rate of 3.0%, indicating that the market is significantly undersupplied.
- The tight vacancy rate continues to drive strong growth in rental rates. Over the year to the August 2024, rental rates for houses increased by 11.35% across the Adelaide Metropolitan area to reach $657 per week.
- Rents for units / flats also saw robust growth, with rents increasing by 12.89% to reach $499 per week.



Source: M3 Property, SQM

OPPORTUNITIES AND CHALLENGES

- While South Australia benefitted from positive net interstate migration flows during much of the pandemic, this has since slowed with negative net interstate migration for the year ending December 2023. However, strong overseas migration is forecast to continue for the remainder of 2024.
- Despite affordability having deteriorated over the past few years, the Adelaide residential market remains one of the more affordable capital cities of Australia.
- Tight vacancy rates across the city are expected to push rental rates upwards.

OUTLOOK

- Dwelling prices are expected to stabilise over the medium-term, with the unit market likely to be more insulated than the established house market due to tight rental market conditions.
- It is apparent that given strong growth in purchaser demand for established allotments, demand for englobo land parcels will continue to be strong with record prices being reported for greenfield sites across metropolitan Adelaide.
- The SA Government's 2023 Land Supply Report shows there to be circa 21,650 development ready greenfield lots across Greater Adelaide. The Outer North region has the largest supply of development ready greenfield lots (14,550 lots) together with the largest estimated supply of undeveloped zoned and future urban growth lots.
- The SA Government is boosting residential land supply paving the way for close to 40,000 new residential homes across the state as part of the A Better Housing Future plan and the current pipeline of residential rezonings.

RETAIL

SHAUN O'SULLIVAN
Director | Retail

"Over the first half of 2024 we have witnessed renewed interest in retail assets across all retail sub-categories in South Australia's Retail market. In particular we have seen fund managers and syndicators continue to chase sub-regional and regional centres, attracted by the higher yields offered by these assets. We have also seen the re-emergence of institutions / AREITs as buyers, with a number of groups acquiring or being in the process of acquiring centres, signalling an improved sentiment in the sector.

There are various interests in regional shopping centres currently exchanging, reflecting activity in this asset class that was not present during 2023. This has, in part, been the result of vendors being more willing to meet the market on pricing. Transactions are expected to continue to occur during the remainder of 2024 as owners re-weight their portfolios and recycle capital."

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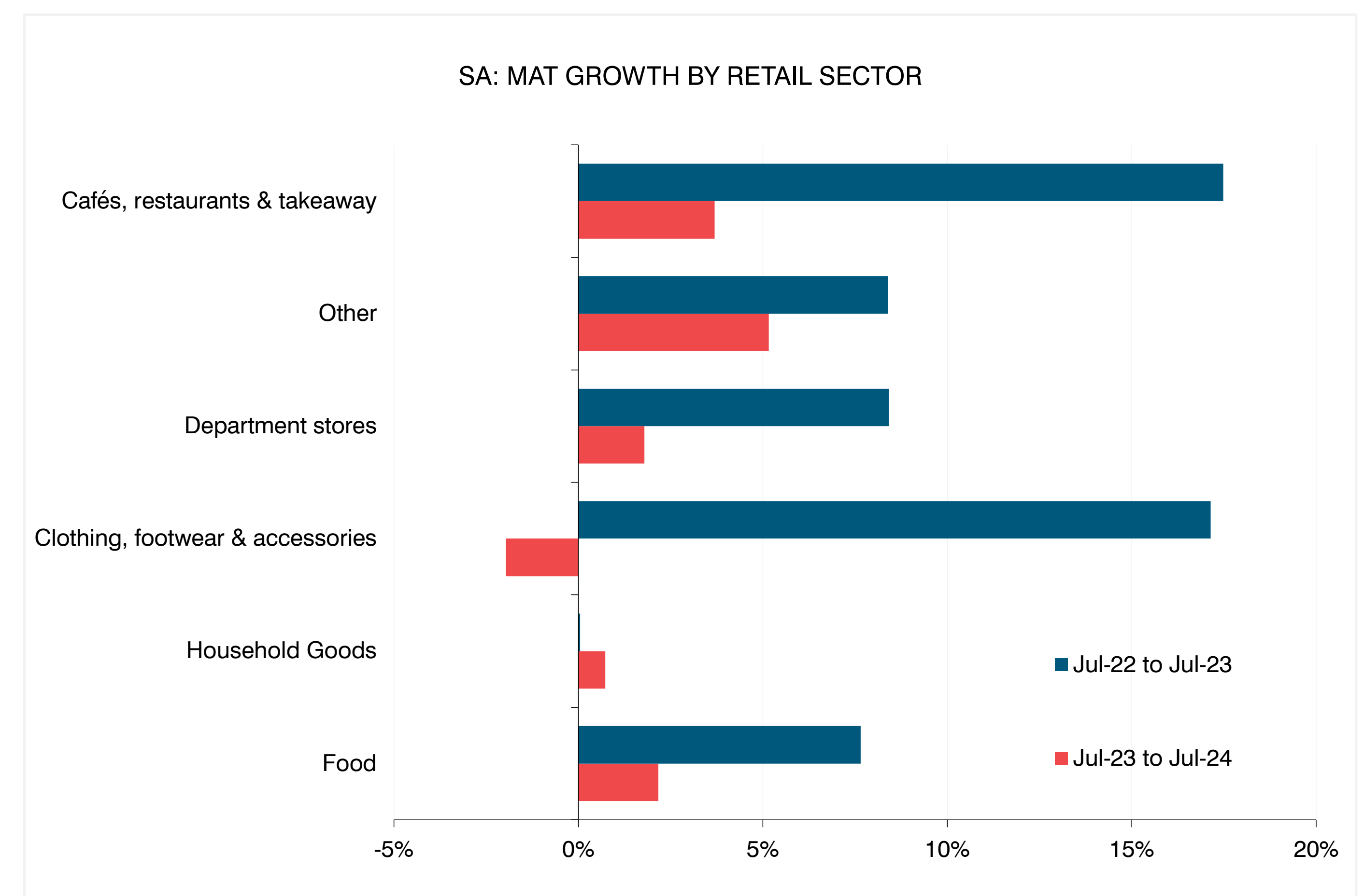
“TRANSACTIONS ARE EXPECTED TO CONTINUE TO OCCUR DURING THE REMAINDER OF 2024 AS OWNERS RE-WEIGHT THEIR PORTFOLIOS AND RECYCLE CAPITAL.”

- SHAUN O’SULLIVAN

CURRENT STATE OF PLAY

- Total retail spending growth in South Australia for the 12 months ended June 2024 was 2.49%, significantly down from 9.02% growth for the 12 months ended June 2023.
- The strongest growth by retail category was recorded in cafes, restaurants and takeaway (4.54%), followed by food (2.25%).
- Rental spreads (i.e., the difference between a tenants’ new rent and their prior rent) have materially improved over the last 12 months for AREIT shopping centre owners.
- Growth in the online retail sector and the continuing expansion of online marketplaces has resulted in centre owners changing their tenancy mix. The pattern of rationalisation of fashion and growth of health and beauty, services, food-based retailing, and entertainment has been a trend over the past five years.
- New retail space coming to the market is generally part of mixed-used projects and in new / growing residential communities.



Source: ABS, M3 Property

RENTAL MARKET

- Due to ongoing vacancies, there are a number of options available in the CBD for tenants entering the leasing market as well as for those whose leases are close to expiry.
- Net face rents were steady across most retail property types in South Australia during the year to June 2024.
- Incentives remained steady across all retail types in the year to June 2024.

TRANSACTIONS

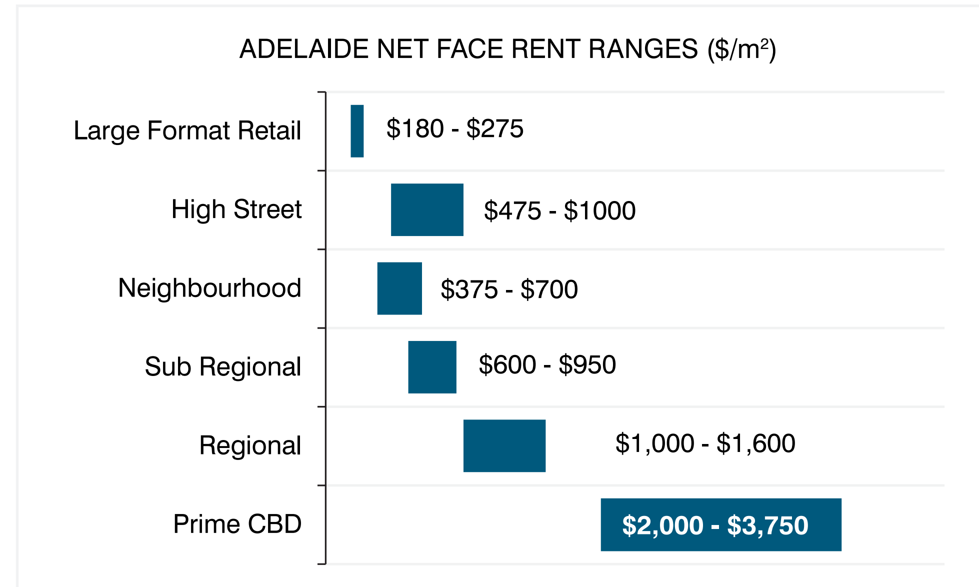
- The largest sale during the first seven months of 2024 was the sale of a half share of Westfield Tea Tree Plaza, a Regional Shopping centre for $308 million. The half share was purchased from Dexus by an investor fund managed by Scentre Group and Barrenjoey Capital Partners. A Scentre Group and Barrenjoey Capital managed fund has also recently acquired a 50% interest in Westfield Westlakes from Dexus for $167.3m.
- Transactions have broadly reflected yield softening for assets above $20 million, although there are exceptions.

YIELDS

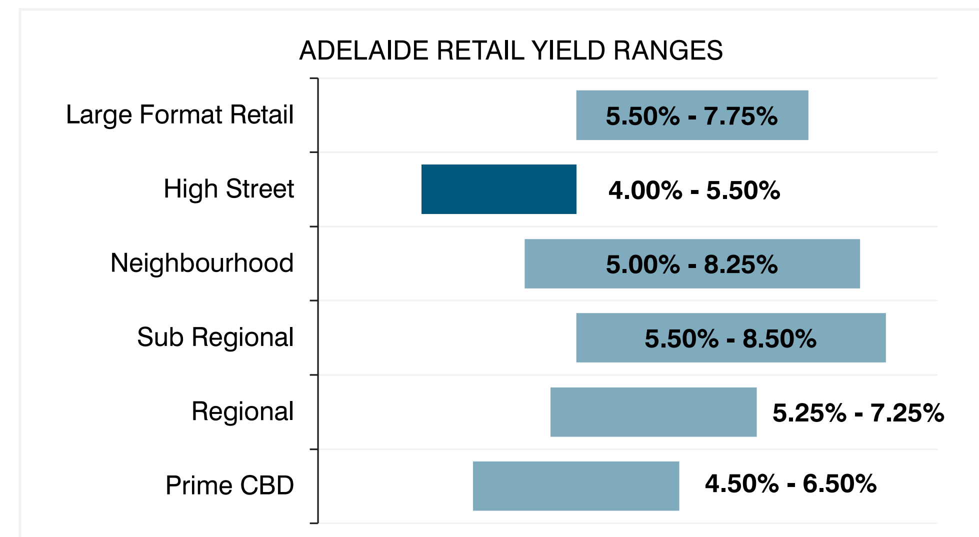
- Retail yields generally continue to look attractive relative to the alternative investment classes of office and industrial.
- Prime yields for CBD retail properties currently range from 4.50% to 6.50%, while High street retail properties range from 4.00% to 5.50%.

INVESTMENT MARKET

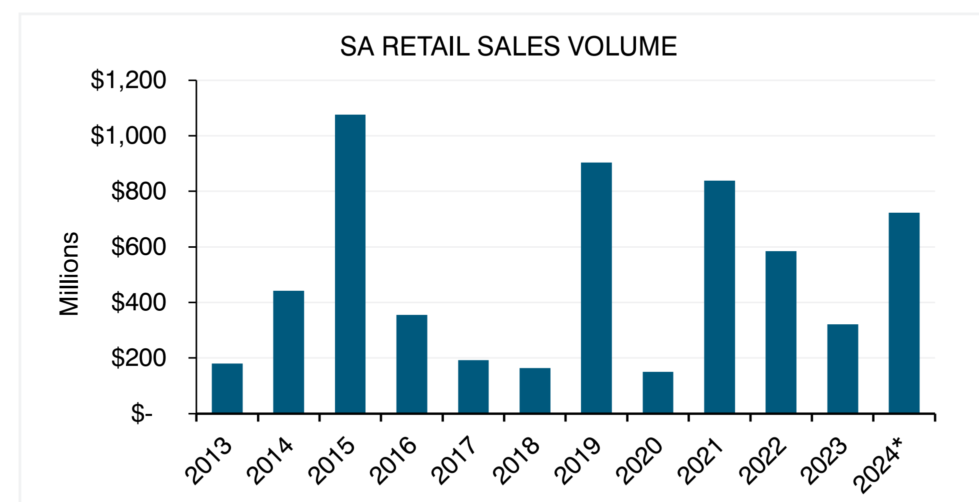
- According to RCA, there have been 12 retail sales totalling $723.4 million recorded across the South Australian market to the end of July 2024. Sales volumes for the first seven months of 2024 have already surpassed the total of $321.6 million from 16 transactions recorded for the whole of 2023.
- Institutional buyers and REITs have been the largest buyer groups in 2024, accounting for 42.6% and 24.2% of sales respectively.



Source: M3 Property



Source: M3 Property



Source: Real Capital Analytics (RCA), M3 Property

OPPORTUNITIES AND CHALLENGES

- Rental levels within shopping centres have largely been reset over recent years, leading to more stable income profiles.
- Shopping centres sit on large tracts of land with flexible zoning provisions, allowing for a variety of mixed uses to be introduced, supporting the retail component and extracting further value for the owner. Many shopping centres are adding co-working tenants, childcare, serviced apartments and other non-traditional retail uses.
- The role of shopping centres in assisting with last mile logistics also provides opportunities.
- Under-performing anchor tenants are seen as a key income risk by potential purchasers, being mindful that while a vacant anchor tenancy can provide re-positioning opportunities, it creates income uncertainty and re-purposing is capital intensive.

OUTLOOK

- Consumer confidence will be closely monitored over the next six months to measure the impact of the increased cost of living and increased interest rates on consumer spending and turnover of retail tenants.
- With interest rates stabilising, purchasers have become more active in considering assets offered for sale.

SERVICE STATIONS

JAMES RUBEN
National Director | Specialised Assets

> "There have been a limited number of individual service station transactions in South Australia during the first half of 2024. The evidence that is available has indicated that investment metrics for prime service station assets have somewhat stabilised. There continues to be upward pressure on rents driven by compressing margins for operators, and a diversification of typical service station offerings.
>
> Secondary assets in less exposed locations with shorter lease terms, older buildings and poor lease covenants are expected to remain somewhat challenged over the next 12 months. Highway service centres and prime service station offerings are expected to remain stable over the remainder of the year."

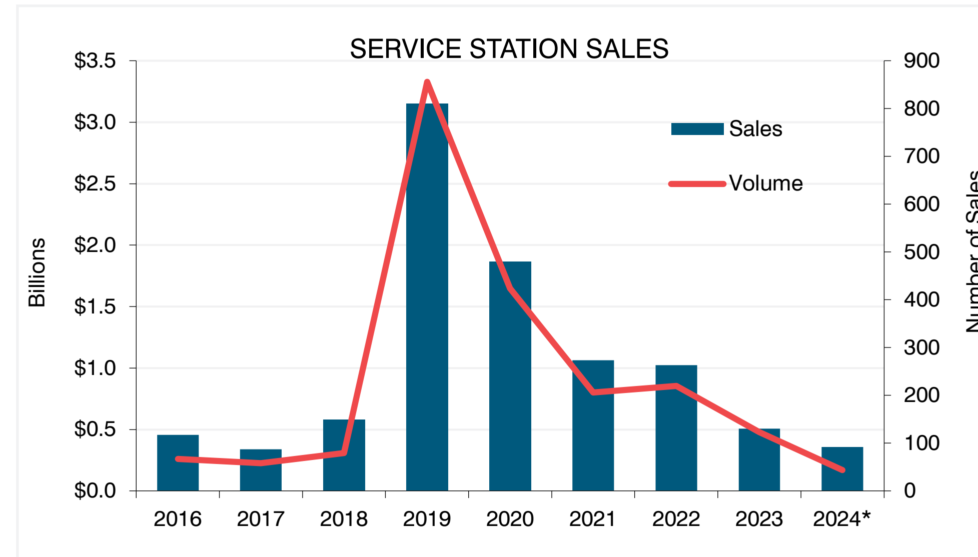
CURRENT STATE OF PLAY

- The total value of service station transactions is up nationally for the first half of H1 2024 compared with H1 2023. There were three transactions in H1 2024 in South Australia compared with two transactions in H1 2023, with the average price per transaction also increasing in H1 2024 from $4 million to $5.23 million per transaction.
- Demand for highway service centres in strategic locations has been strong. These assets generally include a retail offering, with leases to high-quality national tenants.
- Ownership of service stations is expected to become more consolidated as major institutional groups continue acquiring individual properties and portfolios of service stations.
- An increase in demand arising from market consolidation by both the major and independent fuel networks has seen upward pressure placed on service station rental levels after a long downwards trend.
- Industry consolidation has been to the detriment of smaller independents and has significantly reduced their capacity to pay, effectively pricing them out of the upper end of the market and constraining prospects of rental growth for the lower end due to a reduced tenant pool.

M3

INVESTMENT MARKET

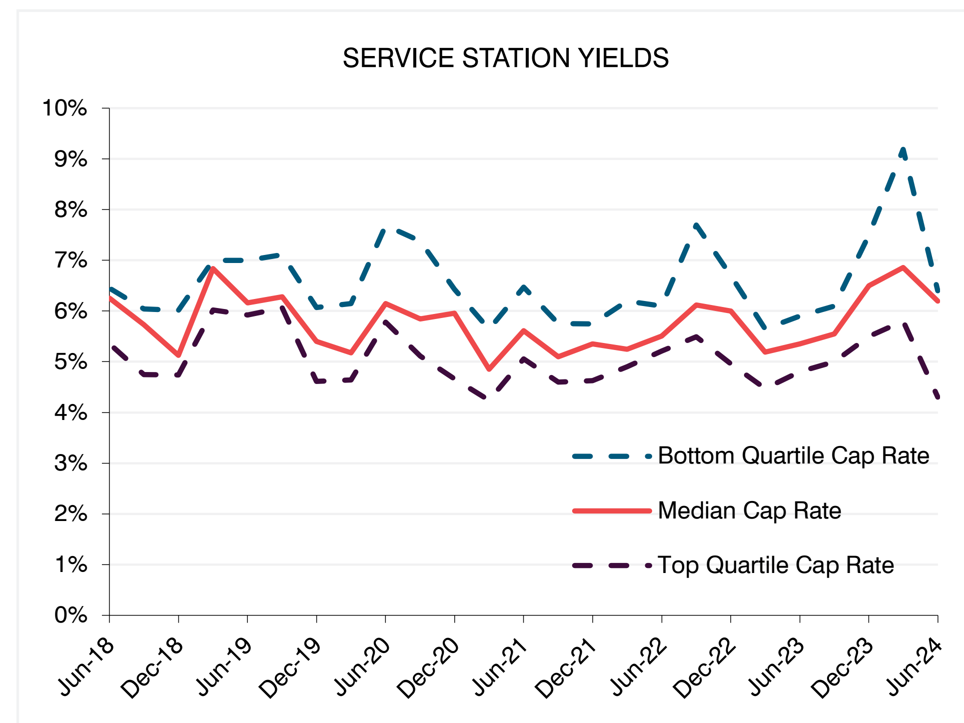
- According to RCA, there have been 51 sales of service stations totalling $265.6 million across Australia to the end of H1 2024. The total sales amount for H1 2024 is higher than the 55 sales totalling $259.4 million recorded across Australia for H1 2023.
- Of the 51 national sales, there were just 3 sales totalling $15.7 million in South Australia to the end of H1 2024. This compares with 2 sales totalling $8 million for H1 2023.
- Total value of service station investments are up nationally for the first half of 2024 compared with H1 2023. However, sales remain subdued compared to the peak of the market around 2019/20 and are also below the volumes achieved in 2021/22.



Source: Real Capital Analytics (RCA), M3 Property

YIELDS

- A surge in investment activity in the last quarter has provided solid evidence of yield softening in the sector, which has been more pronounced for secondary assets.
- Regional locations generally have softer yields than metropolitan locations, with the spread between metropolitan and regional yields widening over recent years.



Source: M3 Property, RCA

OPPORTUNITIES AND CHALLENGES

- Service stations have evolved to focus more on the sale of convenience and grocery items, which has boosted profit margins, with non-fuel products accounting for 15.0% of industry revenue.
- Operating conditions have been volatile over recent years, largely due to global oil price fluctuations and pandemic-related travel disruptions.
- Actual profits can vary considerably between retailers, with some service station sites making substantial profits and others making little depending on their operational model.
- Strong competition in the industry makes it difficult for new entrants in the market – which are also faced with large initial capital outlays, heavy regulatory constraints and gaining environmental approvals.

OUTLOOK

- We expect that the yield differential between prime and secondary service station investments will become more defined over the medium-term as investors look to acquire service stations that have a wider convenience and services offering and / or an alternative use.
- Assets with future development opportunities are keenly sought after, particularly sites with surplus land in strong growth corridors.

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