M3 PROPERTY

SPECIALIST
INDEPENDENT
VALUATION

FOREIGN CAPITAL INVESTMENT IN THE AUSTRALIAN PROPERTY MARKET FOR FY24

DECEMBER 2024

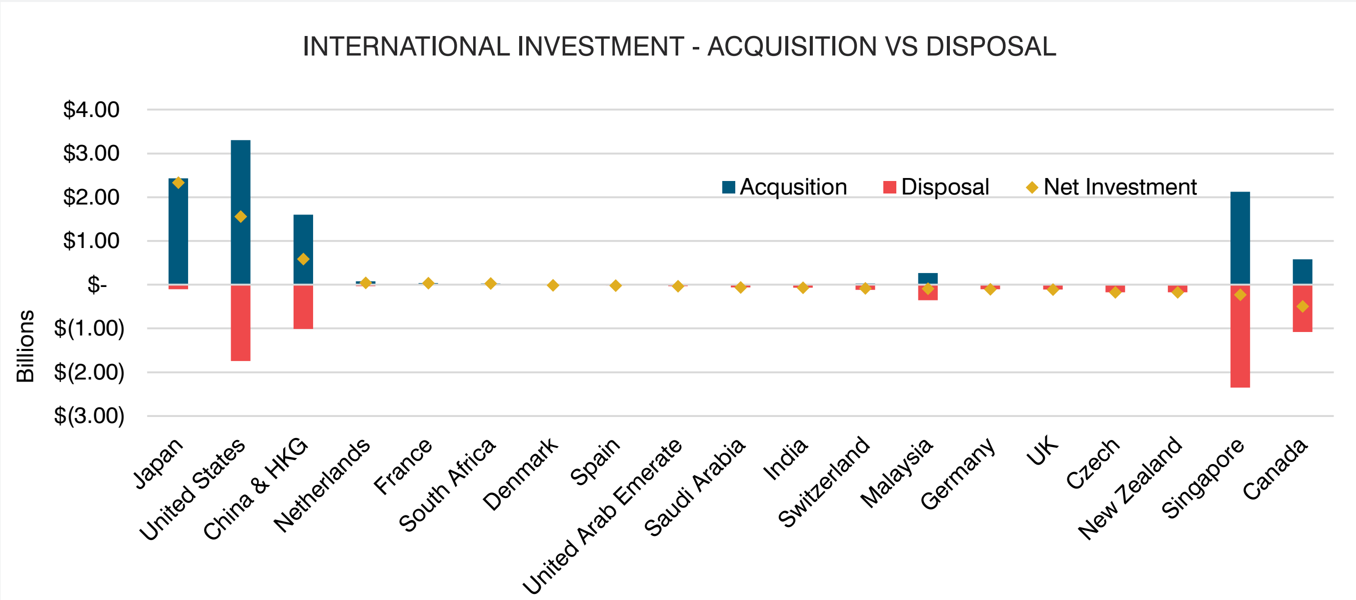
INTRODUCTION

Despite challenging economic conditions, investment into the Australian property market by cross-border investors during the financial year ending June 2024 remained optimistic with a total of circa $10.52 billion invested. While down on the approximately $15 billion invested in the 2023 financial year, the result is still considered satisfactory despite global pressures such as inflation, geopolitical instability, and supply chain issues all combining to create economic uncertainty.

Locally, the Reserve Bank of Australia implemented a period of monetary tightening to combat inflation. The combined challenges of economic uncertainty, high inflation and high interest rates caused investment activity in the Australian market to slow. In the wake of these challenging market conditions, some foreign investors panicked and aggressively shuffled their portfolio allocation while others saw opportunities in the market. Most of the nations that regularly invest heavily in the Australian property market continued to do so, with investors from the United States, Singapore and Hong Kong continuing to invest heavily. However, FY24 saw the re-emergence of Japan as a major investor in Australian property markets. Japanese investors saw counter-cyclical opportunities to enter the Australian market, while Chinese investors largely exited the market.

2024 FINANCIAL YEAR REVIEW: JAPANESE INVESTMENT IN AUSTRALIAN PROPERTY MARKET INCREASES

The 2024 financial year was full of challenges and uncertainty, with rising global conflicts, economic challenges and the Reserve Bank's battle to keep inflation in check causing a degree of caution from investors. Toward the end of FY24, demand for core property assets increased as investors started to accept that interest rates will remain high for quite some time and reset their expectations. Foreign investors make up a large volume of demand for the Australian property market, with heavy investments into both core and alternative asset spaces mainly due to their large pool of funding and risk tolerance. Traditionally, the United States, China and Singapore are the biggest investors in the Australian real estate industry, but during FY24 we saw some new faces as well as investors exiting the Australian market altogether.



$5m + Acquisition and Disposal from International Investors - Source: RCA, M3 Property

FY24 saw the re-emergence of Japan, a periodical investor in the Australian property market, as well as the exit of several big investors from core asset classes. Historically, the United States has been the biggest source of cross-border investment in Australia. This continued in FY24 with the United States investors purchasing more than $3.3 billion of Australian property assets. However, the United States investors also divested $1.74 billion in assets, resulting in a net total of $1.5 billion in investment for FY24.

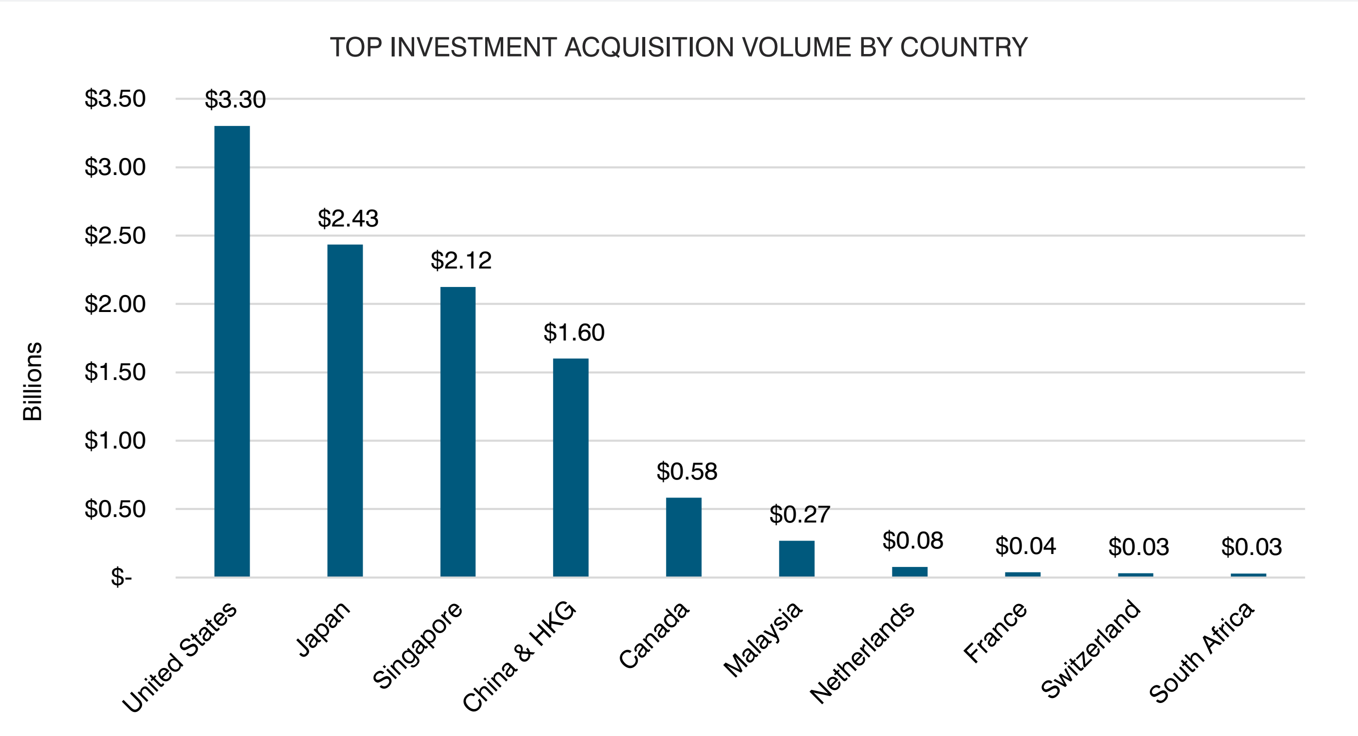
A similar situation exists with Canadian investors, who are divesting their office and hotel assets and instead investing in the industrial and residential sectors. Meanwhile, the Chinese real estate market has worsened, which caused a lot of big-name Chinese investors to divest their current projects and assets in the Australian market to recover liquidity.

FOREIGN ACQUISITIONS: US RETAINS NUMBER ONE SPOT

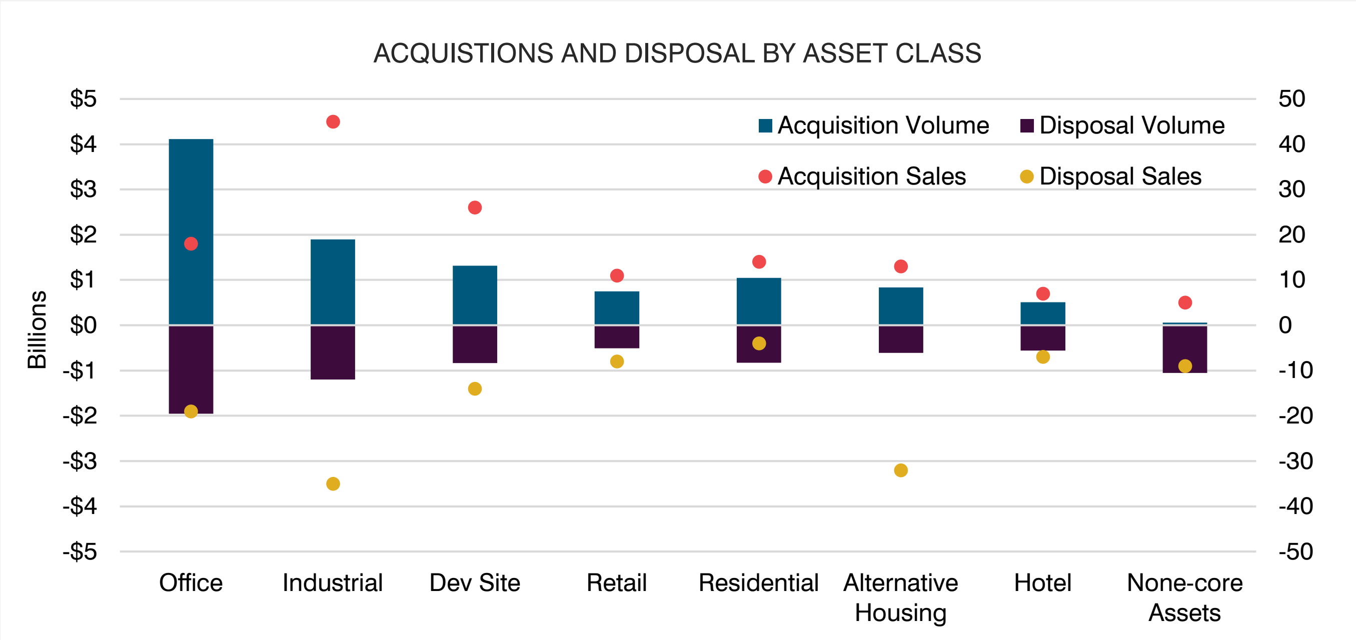
The United States retained the number one position as top cross border investors in the Australian property market, with investors purchasing a wide range of assets. Japan and Singapore follow in 2nd and 3rd with $2.4 billion and $2.12 billion respectively. Hong Kong and China combined is the only other nation to have invested over $1 billion in Australia property over the same period.

The United States, Singapore and Hong Kong have vested interests in the Australian real estate and property sector and are the biggest international buyers. During FY24, United States investment and equity firms had appetite for a wide range of property sectors in Australia, while Singaporean and Chinese investors prefer more traditional and core asset types such as retail, industrial and office. Singaporean investors also have some exposure to residential and hotel spaces but have also divested a large number of holdings from their portfolio.

Meanwhile, after several years of being relatively quiet, Japanese investors re-emerged as key investors in Australian property markets, particularly in the office sector.



Source: RCA, M3 Property



Source: RCA, M3 Property

FOREIGN ACQUISITIONS BY ASSET TYPE: OFFICE SECTOR HAS THE HIGHEST LEVEL OF CROSS-BORDER INVESTMENT

Looking at acquisition and disposal by asset types, the office sector has the most positive investment across the board, mainly due to the high capital values and improving occupancy demand. There was a total of $4.1 billion invested in office assets during FY24 across 18 sales, while investors divested 19 assets totalling $1.95 billion. The largest cross-border investment in the office sector was the purchase of 66% stake in the $2 billion office tower project to be built at 55 Pitt St, Sydney, which was sold by Mirvac Group to Japanese real estate developer Mitsui Fudosan.

It is also important to note that some transactions were also between cross-border buyers and sellers, usually at a premium, thus generating net positive investment for the overall Australian real estate market. An example would be the sale of 60 Margaret St, Sydney, owned partially by the United States based Blackstone to Japanese Investor Odakyu (among several other partners).

Industrial is the second most popular asset class for international investors by volume, and generated the highest volume of transactions, with acquisition volume nearly 50% higher than disposal volume. There were 44 industrial assets funded and acquired by cross-border investors during FY24, totalling $1.89 billion in volume while 35 industrial assets were sold by cross-border investors for a total of $1.2 billion. Looking across the board, the United States was the largest purchaser of industrial assets, comprising 51% of cross-border purchasers in FY24, followed by Canadian and Hong Kong investors. Investors from the United States comprised 31% of total cross-border Industrial asset sellers, followed by Singapore (40%) and China (14%).

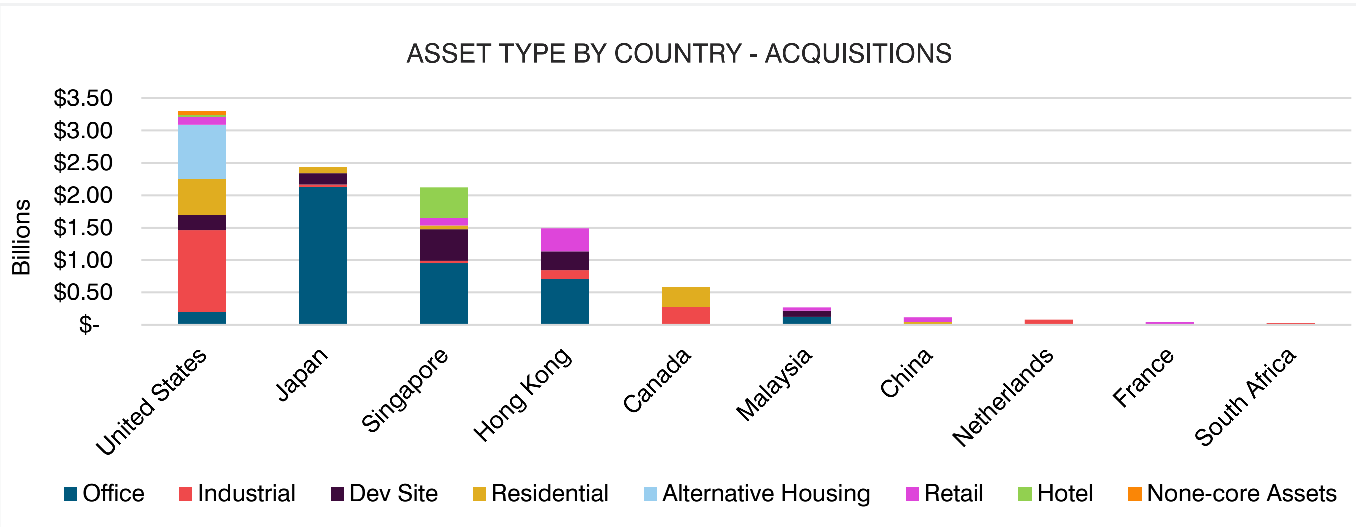
Development sites are also an attractive asset class for cross-border investors, with $1.3 billion invested across 26 sales. Demand for retail assets tracks much lower than other commercial assets (office and industrial) and is more consistent with residential and alternative housing assets, while alternative assets like noncore and hotel assets have lower market activity. Non-core assets are also the only asset with negative net investment from cross-border investors, reinforcing the international trends and demand for core asset types.

Similar to other long-term investors, the United States has a fairly diversified portfolio, with cross-border investors holding significant investments in industrial, residential and alternative housing assets. Surprisingly, the United States has significantly reduced their interest in office and non-core assets over the last financial year.

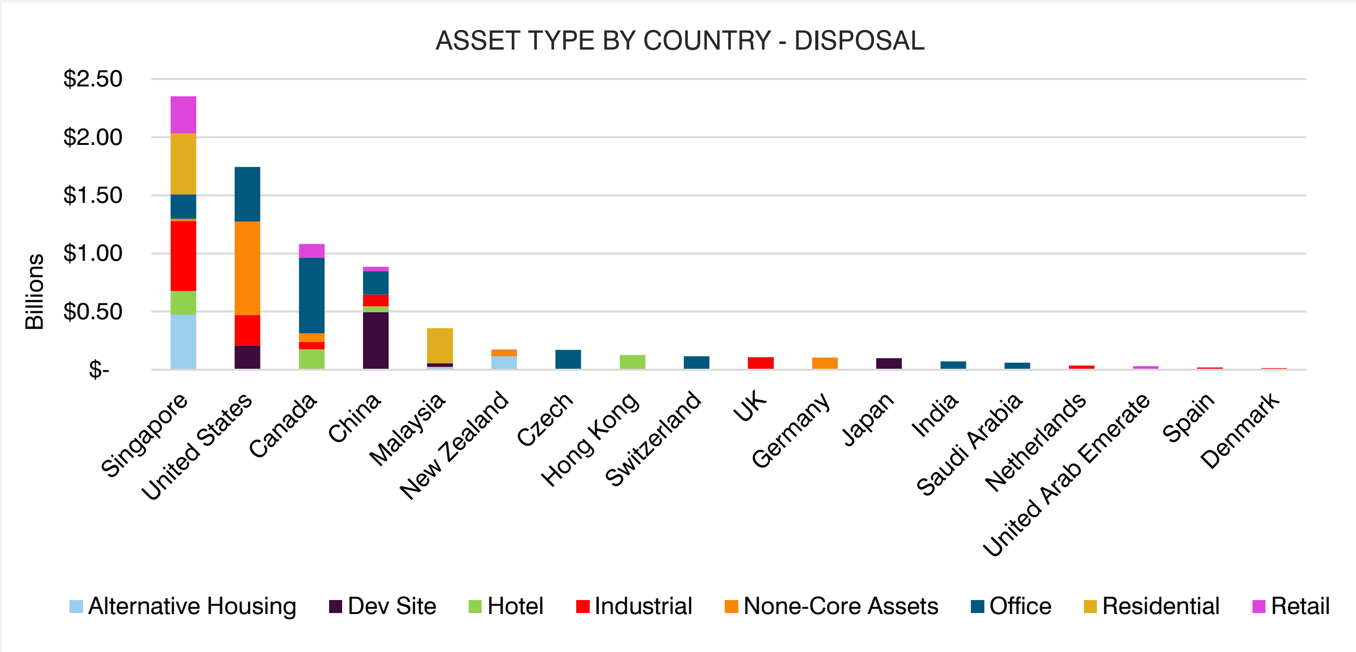
Singaporean investors purchased predominantly office assets, development sites and hotels, while disposing of residential, industrial, retail and alternative housing assets. Despite Singapore having a total net negative investment into Australia this year and divesting a lot of core assets, it seems that Singaporean investors are still fairly active in the market and are reallocating their capital allocations in each sector rather than selling out completely.

Hong Kong investors had the opposite investment approach, purchasing traditional and core assets like office and retail along with a small amount of industrial and a healthy amount of development sites. Hong Kong investors still have a healthy appetite for traditional asset classes, only disposing some of their hotel assets over the last financial year.

We are seeing the opposite happening for mainland Chinese investors due to the current economic and market conditions in China. Many large-scale Chinese investors in Australia are offloading their current holdings to generate liquidity. Chinese investors traditionally prefer speculative and appreciative development assets along with a healthy mix of stable income, which is why we are seeing a lot of disposals of core assets and development sites from their portfolio.



Source: RCA, M3 Property

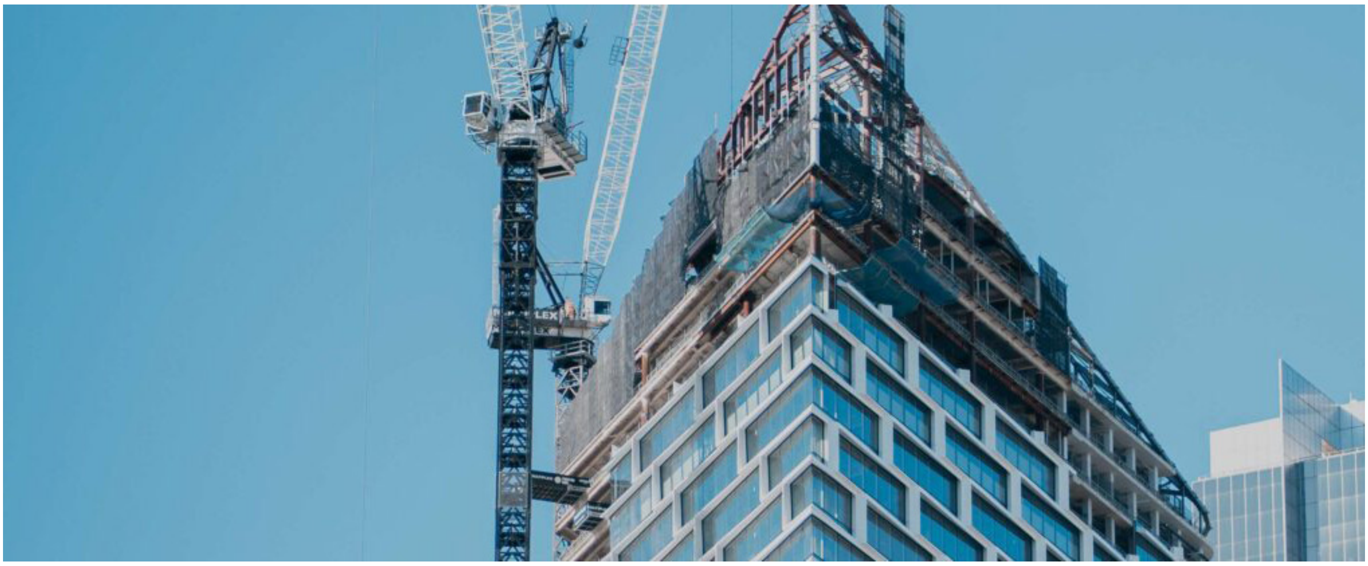


Source: RCA, M3 Property

LOOKING TO FY25

There are many drivers that impact the level of foreign investment and these can stem from specific market behaviour, and country macroeconomic and global conditions. Traditionally, the key consideration of foreign capital when entering the Australian market has been its broad market stability, underpinned by sound Government and macroeconomic policy. Some overseas markets such as the United States and others have started to lower interest rates. The Australian exchange rate and likely change to a period of monetary softening by the Reserve Bank of Australia in 2025 is a key consideration to foreign investors in Australia now. If we look to the prime office market as an example, we are seeing recent foreign investors such as German based Deka and Singaporean based Keppel and SingLand purchasing assets in Sydney while Hong Kong based PAG purchased an asset in Melbourne.

Through improved debt cover within Australia and increased occupancy demand, it seems like most commercial markets are heading towards or near the bottom of the market cycle. These market factors include the favourable exchange rate and / or the cost and availability of capital in some overseas economies. Therefore we expect foreign investment to improve throughout FY25, mostly in core retail, office and industrial markets. Meanwhile for those foreign economies facing headwinds such as China, we are seeing further evidence of Chinese investors exiting the market.



CONCLUSION: CROSS-BORDER INVESTMENT REMAINS SOLID

Overall, cross-border investment into the Australian real estate market remains solid, although not as robust compared with previous financial years. However given the current stage of the market cycle, we expect this to increase. We are seeing a lot of offloading of assets from countries facing economic headwinds and small capital allocations, mainly for liquidity reasons. Yet strong and long-term investors like the United States, Singapore and Hong Kong are still actively seeking opportunities in the market, along with Japanese investors re-entering the Australian market after years of inactivity.

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