SPECIALIST
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VALUATION

NEW SOUTH WALES MARKET SNAPSHOT

APRIL 2025

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NEW SOUTH WALES MARKET SNAPSHOT

APRIL 2025

New South Wales' property market showed mixed momentum through H2 2024.

Sydney office transactions doubled to $3.4B as yields stabilised and offshore capital dominated. Industrial recorded $3.8B in sales as demand shifted to Sydney's western suburbs, though yields softened and rental growth moderated. Retail saw a resurgence with $3.8B in deals, led by private investors and major trades in sub-regional centres.

Childcare moved through a recalibration phase in the second half of last year, while Healthcare assets remained resilient amid strong private investor activity. Residential markets steadied on interest rate relief, despite planning challenges and falling approvals and Sydney's hotel market recovered occupancy and ADRs, with transaction volumes already picking up in early 2025 amid renewed investor interest.

Our experts across valuation sectors share their analysis and insights in our latest New South Wales Market Snapshot covering the second half of 2024, as well as what to look out for in 2025, across Childcare, Health, Aged Care and Seniors Living, Hotels & Leisure, Industrial, Office, Residential Development and Retail.

CHILDCARE

BRETT BAXTER

Associate Director | Specialised Assets

"The NSW childcare investment market is showing signs of adjustment as investor sentiment becomes increasingly cautious around over-market rentals and tight yields.

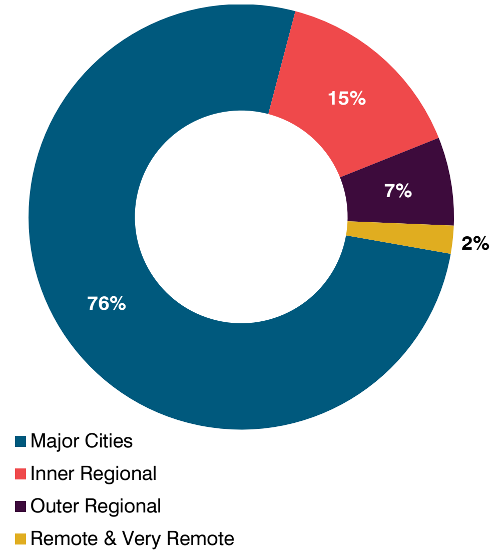
In Sydney, yields for well-located centres currently range between 4.40% and 5.25%. However, transactions with passing rents above market levels are facing resistance, with several failing to sell when priced below the 5.00% yield threshold.

The market is showing early signs of recalibration, with landlords beginning to negotiate leases at more sustainable rental levels. A two-tier market is emerging, where centres priced under $10 million are attracting tighter yields compared to their larger counterparts.

In contrast, satellite cities such as Wollongong and Newcastle are experiencing more subdued investment demand, with yields stabilising in the 5.75% to 6.25% range.

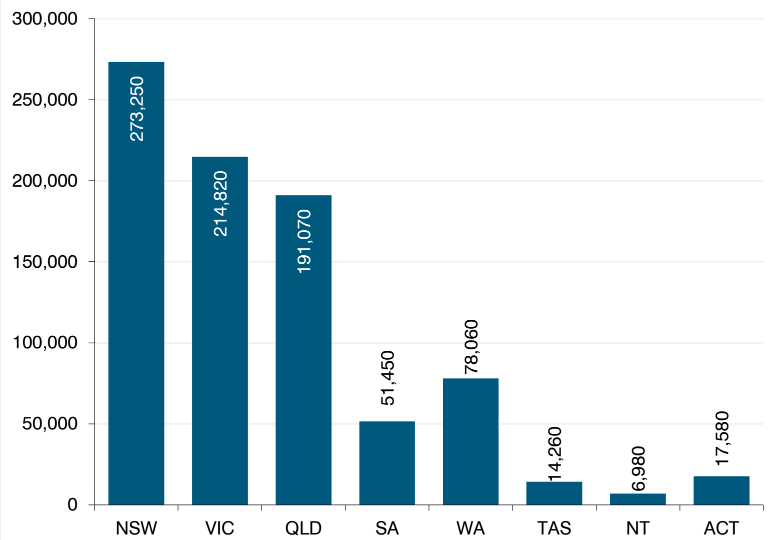
Overall, investors are placing greater emphasis on tenant affordability and lease sustainability, suggesting a shift towards more realistic pricing expectations and long-term value alignment."

NATIONAL CENTRE-BASED DAY CARE CENTRES



Source: Dept of Education, GapMaps, M3 Property

CHILDREN USING CENTRE-BASED DAY CARE



Source: Dept of Education, GapMaps, M3 Property

“OVERALL, INVESTORS ARE PLACING GREATER EMPHASIS ON TENANT AFFORDABILITY AND LEASE SUSTAINABILITY, SUGGESTING A SHIFT TOWARDS MORE REALISTIC PRICING EXPECTATIONS AND LONG-TERM VALUE ALIGNMENT.”

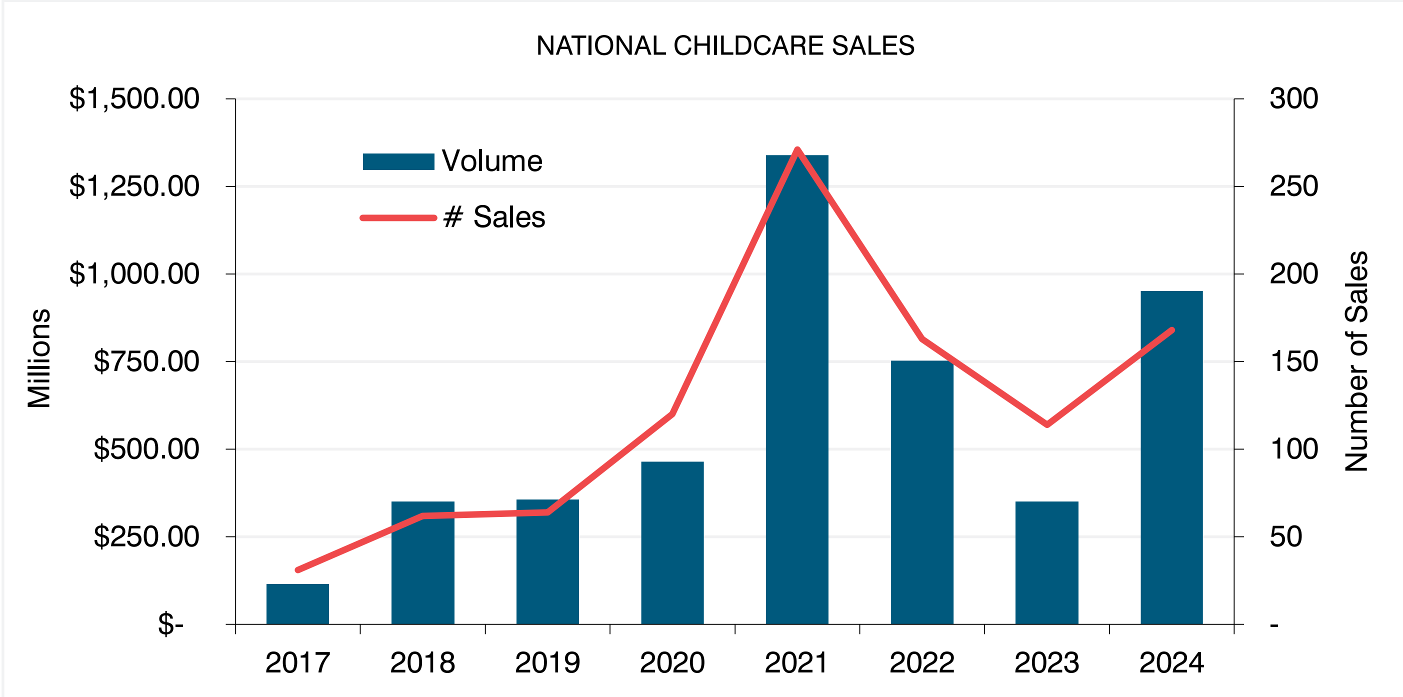
- BRETT BAXTER

CURRENT STATE OF PLAY

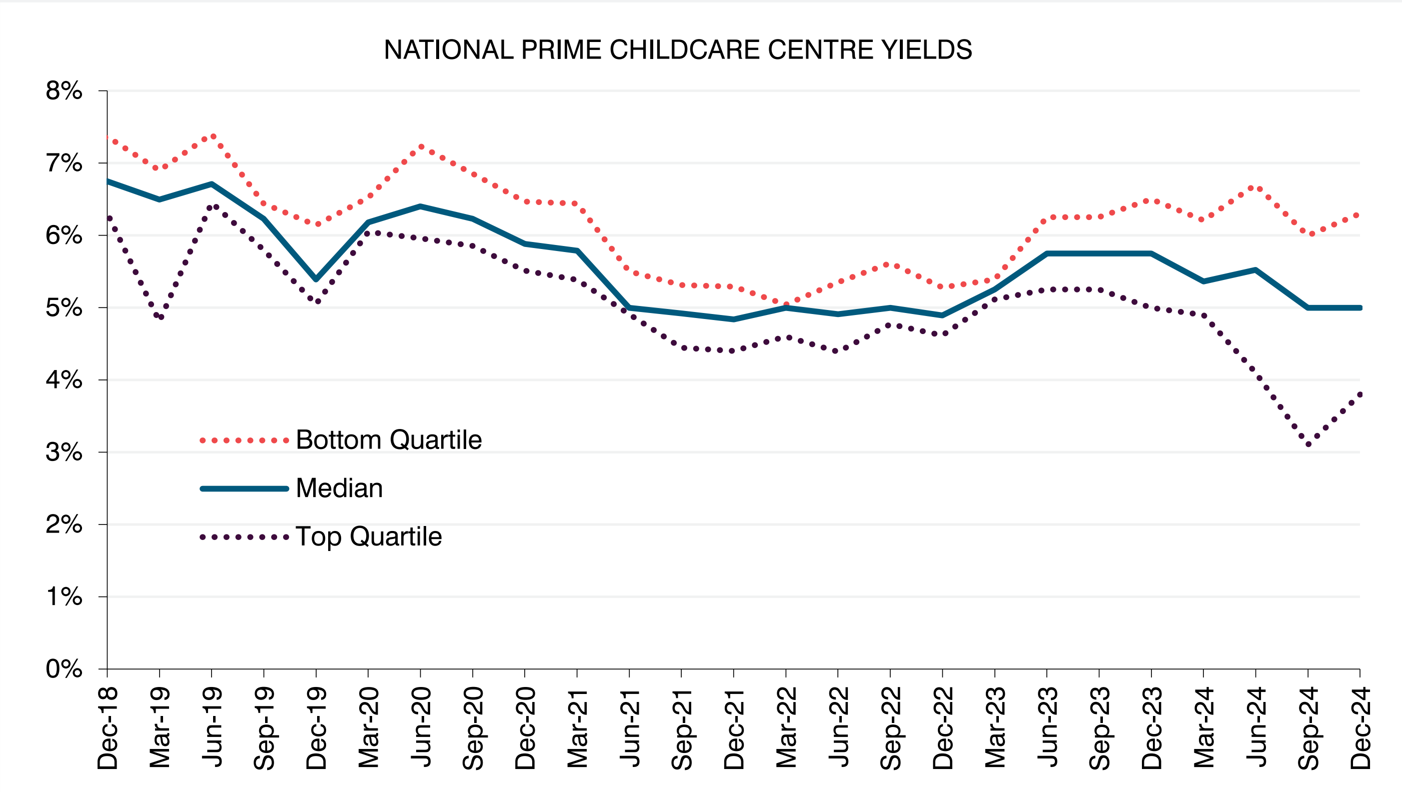
- The Childcare Inquiry Report by the Australian Competition and Consumer Commission (ACCC) released in January 2024 highlights the strong growth of Childcare fees across all services since the introduction of the Child Care Subsidy (CCS). The ACCC recommends a new approach by the Federal government rather than the current “one size fits all” regulations 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 CCS, with the maximum subsidy increasing to 90% for families earning up to $83,280. 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 additional children if their family income is less than $356,756 per annum.

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.
- While still down on the 2021 record, sales in the childcare sector picked up significantly in 2024. According to RCA, there were 168 childcare properties sold nationally for a total of $950.9 million for 2024. This compares with a significantly lower $351 million from 114 transactions in 2023.



Source: Real Capital Analytics (RCA), M3 Property



Source: M3 Property

YIELDS

- Recent yields for prime freehold interests in Sydney are in the band of 4.40% to 5.25%.
- It has been observed the market is sensitive to passing over-market rentals, which impacts tenants' affordability to pay rent in the longer term.
- Early signs of unaffordable leases being abandoned, with market rates being negotiated at lower levels.
- The market will not meet owners' expectations for over-market rentals with tight yields, with several transactions failing to sell in the sub 5.00% mark.
- Childcare Centres which are sub $10.000,000 have been observed to attract tighter yields when compared to their larger comparable centres suggesting a two-tier market is emerging.
- Outside Sydney, in satellite cities such as Wollongong and Newcastle, subdued interest has led to more stable yields between 5.75% and 6.25%.
- 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 achieving premium market rates, however for sites which do not meet these investment standards, investors are using their buying power to negotiate pricing favourable to the purchaser.
- 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.

OPPORTUNITIES AND CHALLENGES

- Strategic sites for childcare centres are becoming rarer; as the market reaches maturity and operators/developers take on a more sophisticated approach, competition and barriers to entry are increasing, and undervalued sites are becoming less common.
- A challenge facing the market is the increasing construction costs, and the high parking requirements involved to obtain development approvals often leading to many development sites becoming unfeasible.
- A strong opportunity exists for owner/builders who are familiar with childcare requirements and building standards to capitalise on unique sites where non-builders cannot become involved.
- Identified "childcare deserts" in rural NSW continue to present a challenge for government and private operators as the feasibility and market share of these locations are at odds with the viability of childcare centres.
- The sector continues to face labour shortages which have resulted in some centres placing caps 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.

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 old is forecast to increase by 4.81% in NSW by 2031, which is lower than most other states and territories except Tasmania.
- Labour force participation rates are forecast to trend upwards and reach around 67% in NSW by 2027; this is expected to contribute 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 to the sector towards the CCS 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 discretionary spending for most family households.
- Ownership of childcare centres is expected to become more consolidated as mid-tier operators with eight to 12 centres continue to grow their portfolios, however, nationally we have seen major institutional groups sell down their centres and portfolios.
- The childcare market is expected to continue to become more sophisticated, with professional operators who work within networks of five or more centres continuing to gain market share as they benefit from economies of scale and a distributed employment network that delivers more agility in the marketplace.

HEALTHCARE

MITCH ENRIGHT

Director | Health, Aged Care & Seniors Living

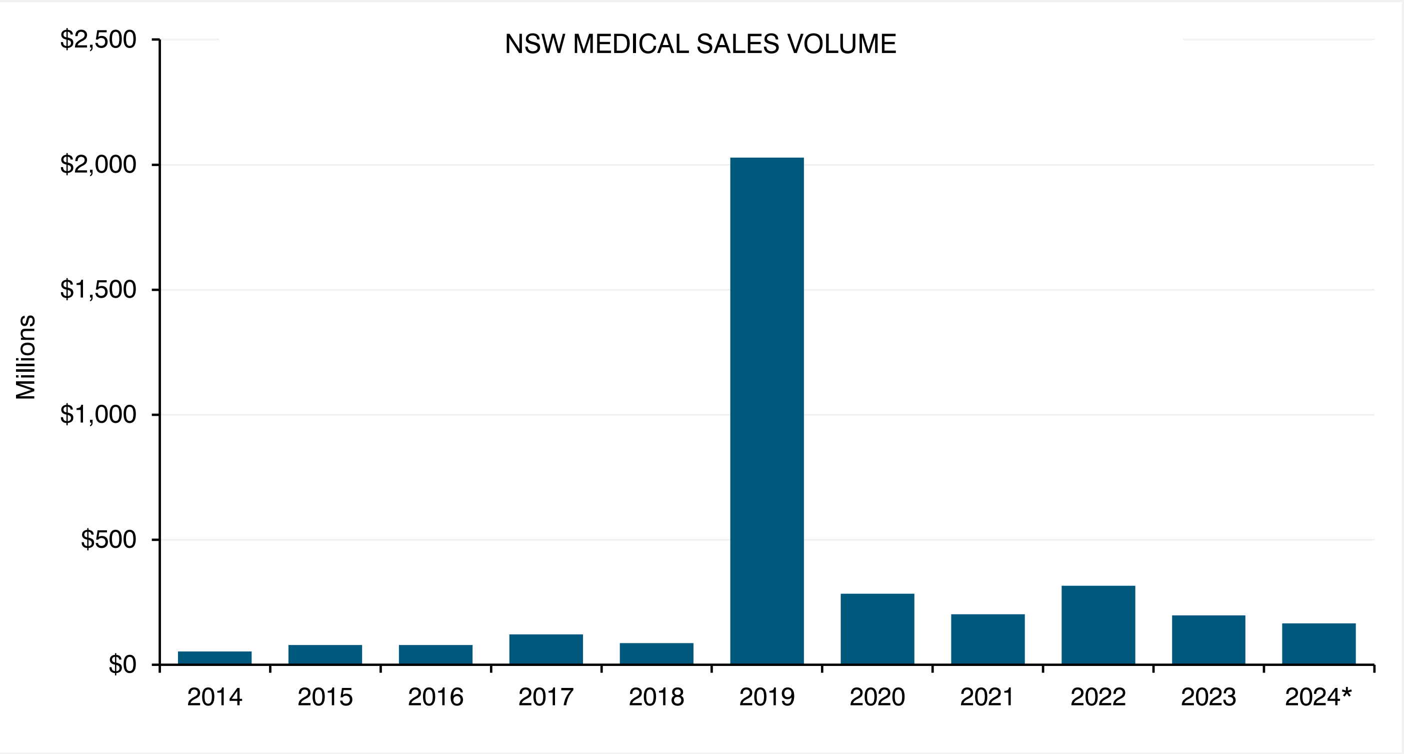
"The healthcare and seniors living sector in NSW is emerging as a core asset class, supported by strong fundamentals, investment growth opportunities, and resilience amid inflation and high interest rates. Institutional capital is increasingly drawn to the sector because of population growth, ageing demographics, government funding, and private healthcare.

In 2024, NSW recorded $164.8 million in medical and hospital property sales across 50 transactions, down from $197.5 million in 2023. Most assets sold for under $10 million, with private investors accounting for 98.1% of purchases. Prime medical yields averaged 5.25%, while secondary assets reached 7%, with cap rates softening over the year.

High interest rates dampened overall investment activity, as a disconnect remains between purchasers and vendors even in the face of sustained demand for premium assets, meaning overall transaction volumes remain subdued.

The private hospital sector continues to face some potential headwinds following the federal government's review into the sector along with recent concerns voiced by the industry over financial viability faced by some operators.

Investment demand for high-quality medical assets will remain strong, with interest rate cuts in 2025 likely to assist in more transactional volumes, albeit at stabilised values."



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

INVESTMENT MARKET

- According to RCA, there were 50 medical and hospital properties with a total value of $164.8 million transacted across NSW in 2024. This compares with $197.5 million from 60 transactions in 2023.
- The largest transaction was $20 million for the Corrimal Medical Centre at 46-50 Underwood Street, Corrimal; most other assets were priced under $10.0 million.
- Private investors were the most active buyer's group over 2024, accounting for 98.1% of transactions.

YIELDS

- Yields are now averaging around 5.25% for prime medical centre assets and 7% for secondary medical assets, depending on various investment characteristics.
- Yields for private hospitals generally range between 5%-6% for prime assets and 6.75% and 7.5% for secondary assets.
- Average cap rates have softened by around 50 basis points in the twelve months to December 2024 with secondary assets softening to a greater extent.

OPPORTUNITIES AND CHALLENGES

- High interest rates during 2024 negatively impacted investment activity in the healthcare market. Smaller investors remained active during the year, although there were good enquiry levels for the handful of higher priced investment-grade assets that came to the market.
- GP and other health specialist shortages continue to affect occupancy levels for some medical practices.
- Mental health and wellbeing is becoming an emerging health issue, with 43.7% of people between 16 and 85 years old 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 an increasing focus on mental health and wellbeing continue to drive demand for medical services, medical suites and centres.

OUTLOOK

- The healthcare sector will continue to become a core asset class, supported by key market fundamentals and significant investment growth opportunities; other core sectors facing strong headwinds from rising inflation and the current interest rate environment will also support this shift.
- The sector will continue to benefit from strong investment interest as new and existing institutional capital is drawn to the asset class thanks to its key fundamentals including population growth, ageing population demographics, government funding and private healthcare.
- Investment demand for high-quality medical assets will remain strong over the medium term. Interest rate cuts in February 2025 may bring more investors into play. The healthcare market is still highly fragmented and there are significant opportunities for consolidation.

HOTELS & LEISURE

JAMES RUBEN

National Director | Specialised Assets, Hotels & Leisure

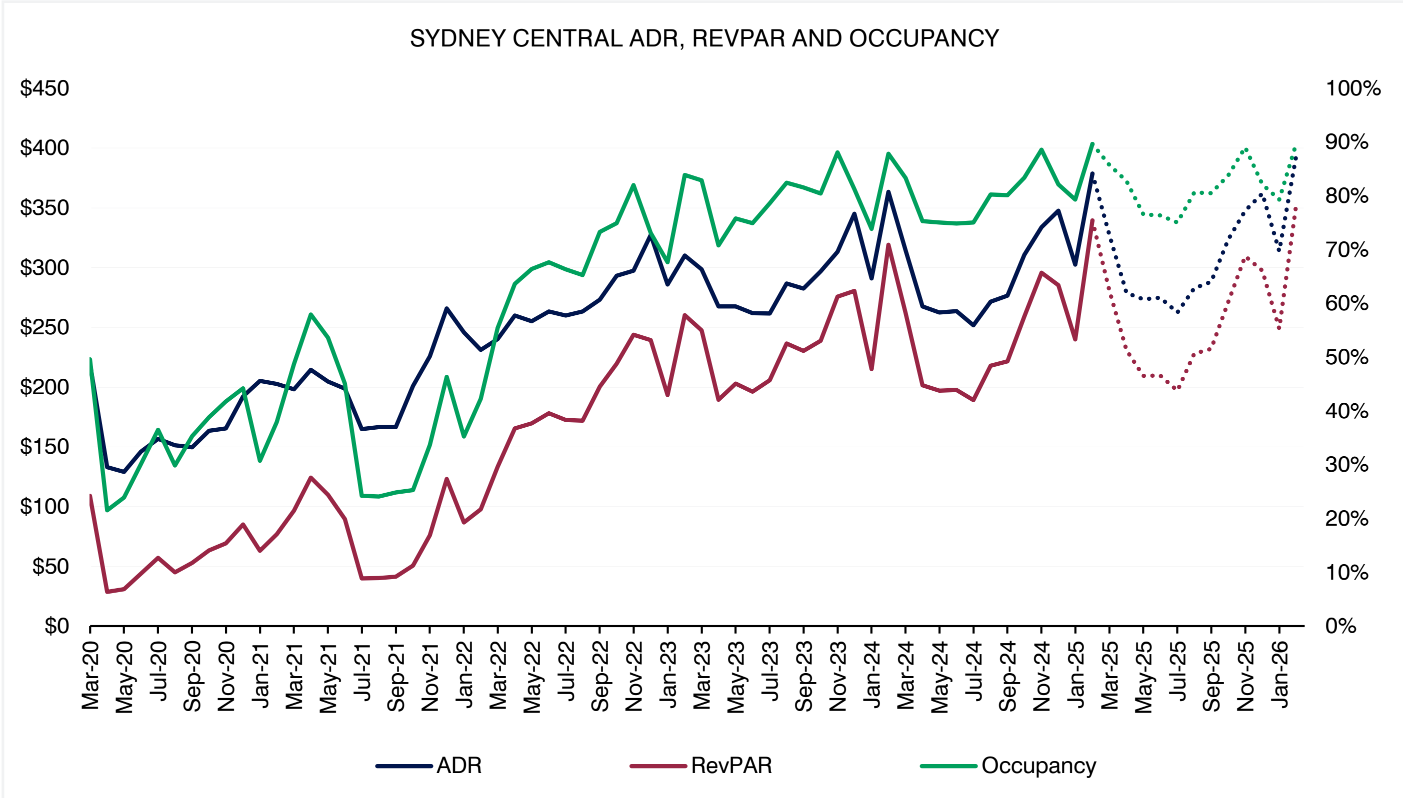
> “Sydney’s hotel market has largely rebounded since the impacts of the Covid lockdowns, with reported January 2025 occupancy at 79.33%, and strong growth in average daily rate which has been influenced by inflation, upgraded stock, and shifting travel trends. Revenue per available room is now stronger than pre-pandemic levels. Domestic visitor numbers appear to be fully recovered, though international arrivals remain 34.77% below pre-Covid levels.
>
> Transaction volumes fell across 2024 to $219.2M but rose early in 2025 with $289.3M in sales, led by the Sir Stamford Hotel. Rising construction costs continued to challenge delivery of new hotels, though refurbishment opportunities remain.
>
> Sustainability, evolving travel trends, and technology are continuing to shape the market with an increased demand for quality, efficient assets amid a transforming and increasingly experience-driven market.”

"REVENUE PER AVAILABLE ROOM IS NOW STRONGER THAN PRE-PANDEMIC LEVELS. DOMESTIC VISITOR NUMBERS APPEAR TO BE FULLY RECOVERED."

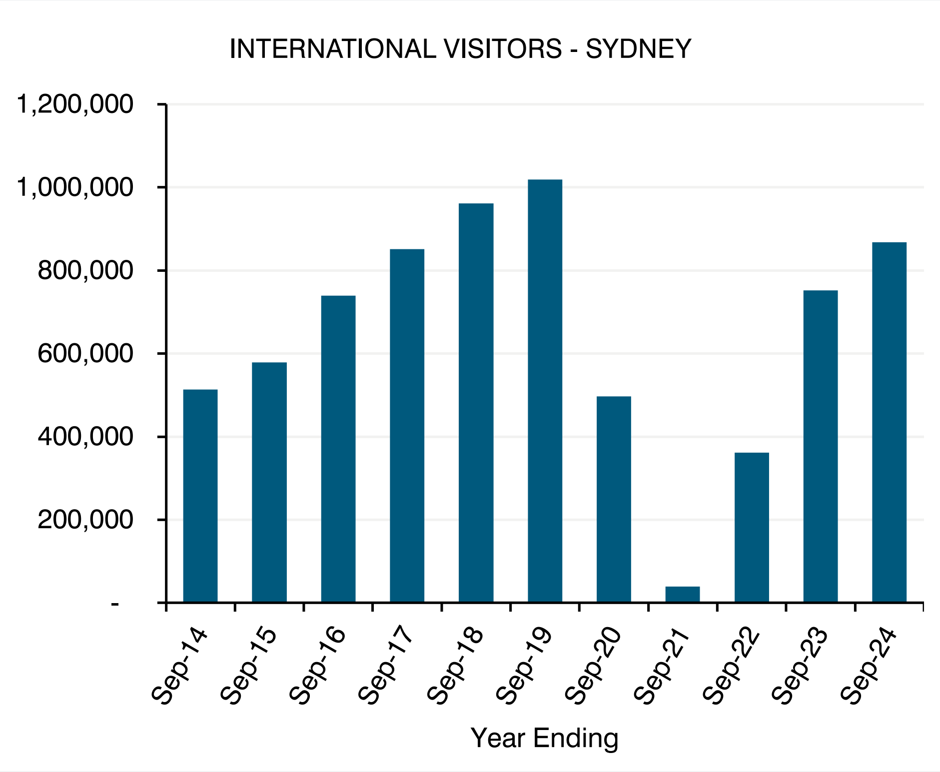
- JAMES RUBEN

CURRENT STATE OF PLAY

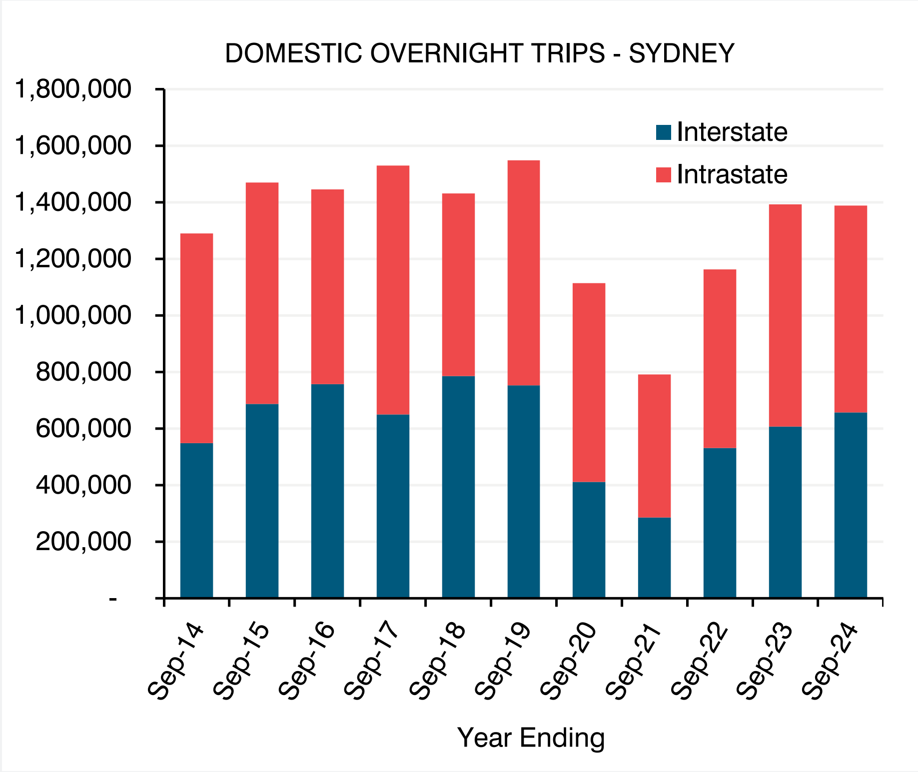
- Occupancy rates per room have largely recovered to pre-pandemic levels, with the Sydney market recording 79.3% occupancy rates in January 2025, which is a 5.48% increase on January 2024.
- Revenue per available room has recovered to pre-pandemic levels as a result of significant Average Daily Rate ADR growth influenced by several factors including strong inflation (with operators passing on increases in outgoings), increased quality of stock driving premium rates, and evolving travel trends increasing demand.
- International visitor numbers have started rising on a quarterly basis; however, they remain somewhat subdued compared to pre-pandemic levels, and are currently 34.77% below pre-pandemic levels. During the year ending September 2024, there was 867,625 international visitors, spending an average of 27.8 nights per trip in the region, slightly above the average of 24.5 nights for the year ending September 2023.
- Domestic travel remains strong, with rates of interstate visitors to the Sydney market having returned to pre-pandemic levels. There was 1,388,033 domestic overnight visitors to the Sydney region during the year ending September 2024. Intrastate visitors accounted for 67% of domestic overnight visitors during the year.



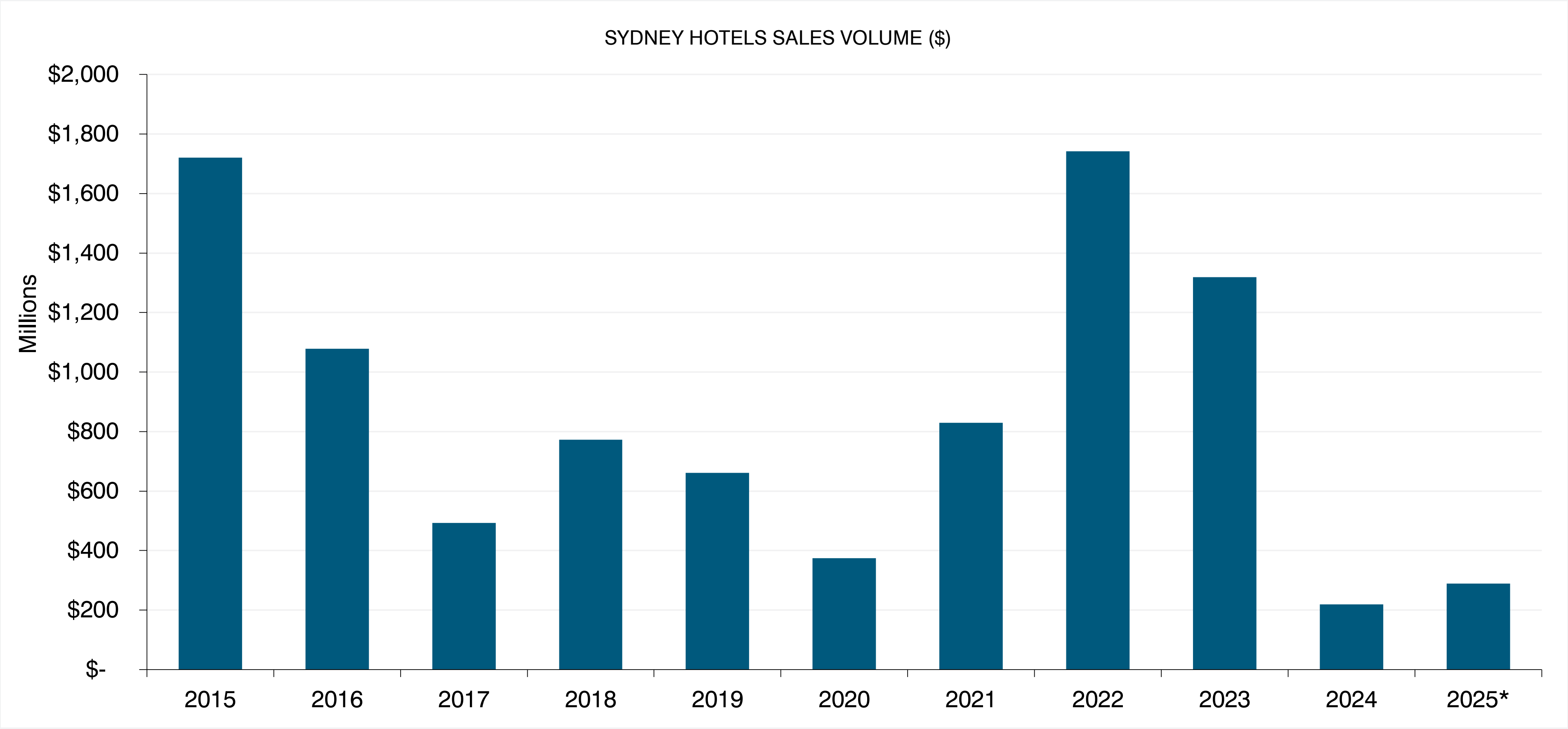
Source: STR, M3 Property



Source: TRA, M3 Property



Source: TRA, M3 Property



Source: Real Capital Analytics (RCA), M3 Property

TRANSACTIONS

- Activity in Sydney was lower in 2024 due to reduced investment demand. According to Real Capital Analytics (RCA), there were seven transactions in 2024, totalling $219.2 million of hotel assets across Sydney. This level of activity is significantly lower than 2023 when there were 12 transactions totalling $1.3 billion.
- So far in 2025, there have been two hotel transactions totalling $289.3 million. This includes $265 million for the sale of the Sir Stamford Hotel at Circular Quay in February 2025.
- In 2024, private investors formed the largest group of buyers at 74.4%, followed by institutional groups at 25.6%.

OPPORTUNITIES AND CHALLENGES

- Construction costs continue to place pressure on new hotel development; conversion and refurbishment/repositioning opportunities exist within the market to repurpose alternate use properties or older accommodation assets.
- Changing consumer expectations and travel trends around sustainability and social governance will continue to influence both consumer decision making and investment.
- Demand for good quality, sustainable assets is expected to grow, together with consumer demand for higher quality accommodation products and services.
- Evolving technology continues to improve efficiency in hotel management, with potential to reduce staffing levels and improve margins.
- New trends such as leisure travel, digital nomadism, eco-tourism, wellness tourism and boutique product positioning are all contributing to the transforming market.

INDUSTRIAL

JOEL DUCEY
Director | Industrial

> "Transaction volumes in the NSW industrial market increased from the second half of 2024 into the first quarter of 2025, following a relatively subdued period of activity during the 6 months prior.
>
> Although recent sales suggest that yields are stabilising, investors remain cautious amidst signs of a moderation in rental growth, rising incentives, increased speculative stock completions, and broader economic uncertainty.
>
> Despite facing some headwinds, industrial property remains relatively sought after on account of its favourable underlying demand drivers, when compared to some other asset classes."

CURRENT STATE OF PLAY

- Newer buildings in prime locations close to major roads or freight rail networks which are designed to accommodate warehousing, distribution and logistics operations continue to generate more robust demand than the broader market.
- Supply continues to be predominantly pre-commitment led; however, speculative development has increased. A substantial portion of building approvals over the year were for warehouses, reflecting continued demand for specific sub-sectors, including freight distribution services, temperature-controlled warehousing, and e-commerce.
- Over the past few years, competition with other land uses in the southern and inner sub-markets has reduced available industrial stock in these precincts, which has led to the ongoing migration of activity into western precincts and major regional centres.
- Whilst the land market remains tight (particularly within the inner sub-markets), there is evidence to suggest an easing of demand, as development becomes more difficult, or unfeasible due to high construction costs, increased funding costs and lower build-out investment values.

YIELDS

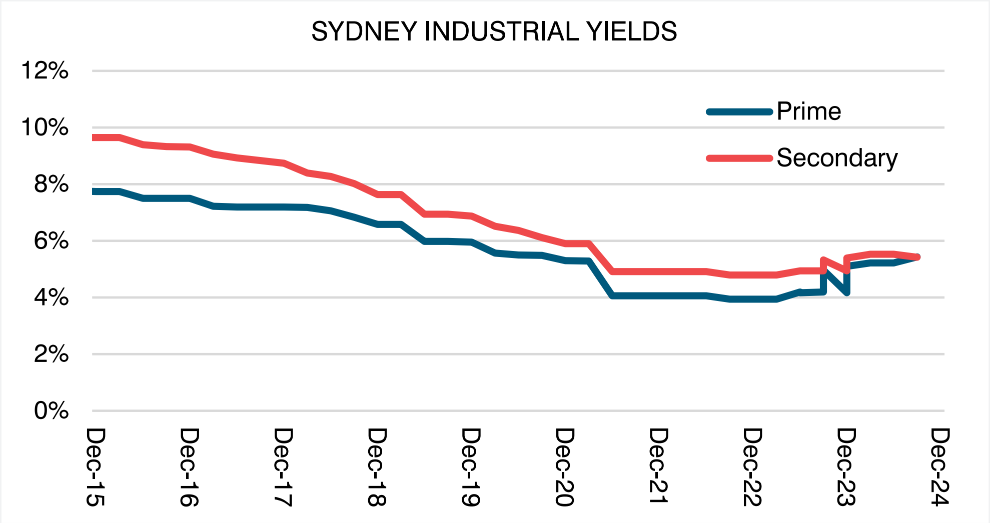
- Following a period of sustained yield compression, recent sales transactions point to yields softening by up to as much as 135 basis points since the peak of the market in 2021-22.
- Yield decompression began to occur from early 2023, reaching 5.41% for Prime yield average and 5.34% for Secondary yield average as of December 2024.
- Incentive levels softened during 2024, with Prime incentives currently ranging between 8.33% - 17.5% and secondary incentives ranging between 10% - 17.5% as of December 2024.

INVESTMENT MARKET

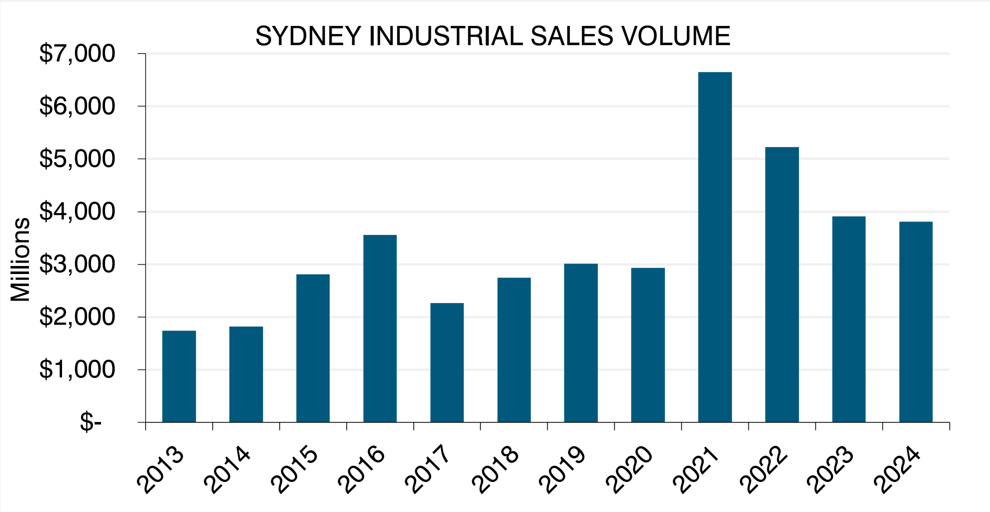
- According to RCA there was $3.81 billion of sales over $10 million across 119 sales in the Sydney market during 2024. This is slightly lower than the $3.91 billion of sales over $10 million recorded across the Sydney market for 2023.
- Changes to the monetary policy have resulted in an easing in investor demand as market participants consider the impact of a high interest rate environment on yields and internal return hurdles.
- Offshore groups and Institutional Investors were key buyers in 2024, making up 40.6% and 28.3% respectively.

RENTAL MARKET

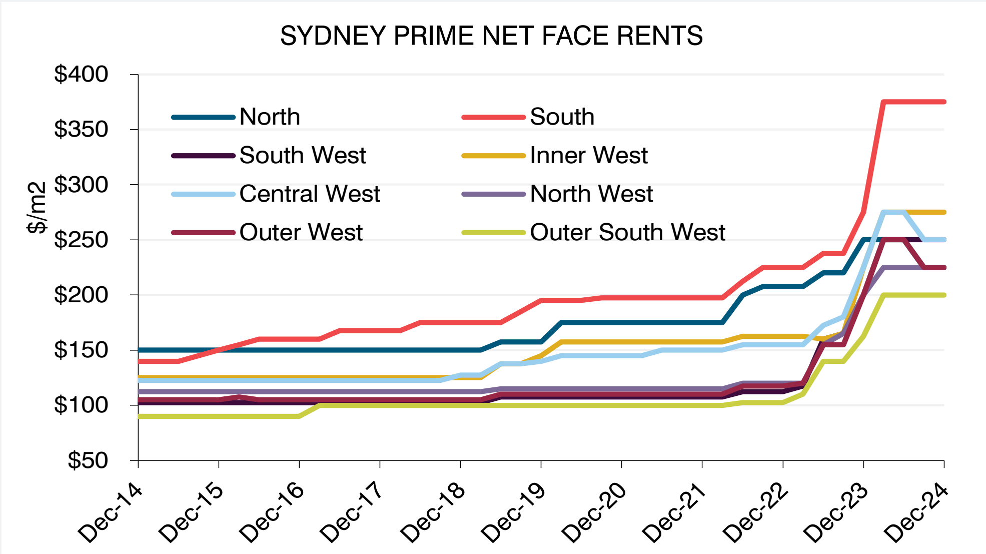
- Prime net face rents ranged between $175 and $400 per square metre at the end of 2024, with secondary net face rents ranging between $150 and $275 per square metre. The strongest growth in 2024 occurred in the South and Outer West Precincts.



Source: Real Capital Analytics (RCA), M3 Property



Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over $10 million



Source: Real Capital Analytics (RCA), M3 Property

OPPORTUNITIES AND CHALLENGES

- A number of speculative stock completions occurred during 2024, with further completions anticipated for 2025. This is likely to somewhat alleviate the supply imbalance that has prevailed over the past 2-3 years. It is also likely to place further downward pressure on rental growth and place increased pressure on incentive levels.
- Occupiers continue to seek modern, efficient buildings and are increasingly expecting Environmental-Social-Governance (ESG) features in new developments.

OUTLOOK

- Occupier demand is forecast to remain steady in 2025. Rental growth will be driven by the transport and logistics and manufacturing sectors, which account for the bulk of current enquiries.
- Whilst the land market remains tight (particularly within inner sub-markets), there is evidence to suggest an easing of demand, as development becomes more difficult, or unfeasible due to high construction costs, increased funding costs and lower investment values. Land values are expected to remain stable in the short term, noting that the key drivers of demand remain generally positive for the sector.
- The Reserve Bank of Australia (RBA) cut interest rates by 25 basis points to 4.10% at its February 2025 meeting, after keeping the rate on hold at 4.35% since November 2023 to combat rising inflation.
- The market appears to be approaching the end of the yield decompression cycle, with sales volumes likely to be dependent on the pace and frequency of interest rate reductions and broader economic conditions.

CBD OFFICE

ANDREW DUGUID

National Director | Office

“Transaction activity in Sydney’s CBD gradually improved through 2024 with positive momentum continuing in early 2025.

In 2024, $3.4 billion of transactions were recorded, more than doubling the level of transaction activity in 2023. Yields have stabilised at between 5.25% and 6.5% for prime office assets in core locations, with secondary yields ranging from 6.3% to 7.8%. With capitalisation rates shifting 150 to 300 basis points since mid-2022, the broadening consensus is the yield decompression cycle is close to an end.

Offshore investors have dominated recent investment activity. The RBA interest rate cut in February 2025, a widening perception that capitalisation rates are approaching cyclical peaks, improving office occupancy levels and a broader economic outlook have all contributed to a more positive outlook for office investment in 2025.

Demand for CBD office space strengthened through 2024 with positive absorption over the year (41,600 m^2). Vacancy rates rose slightly over the same period to 12.8%, reflecting new supply delivery to the market.

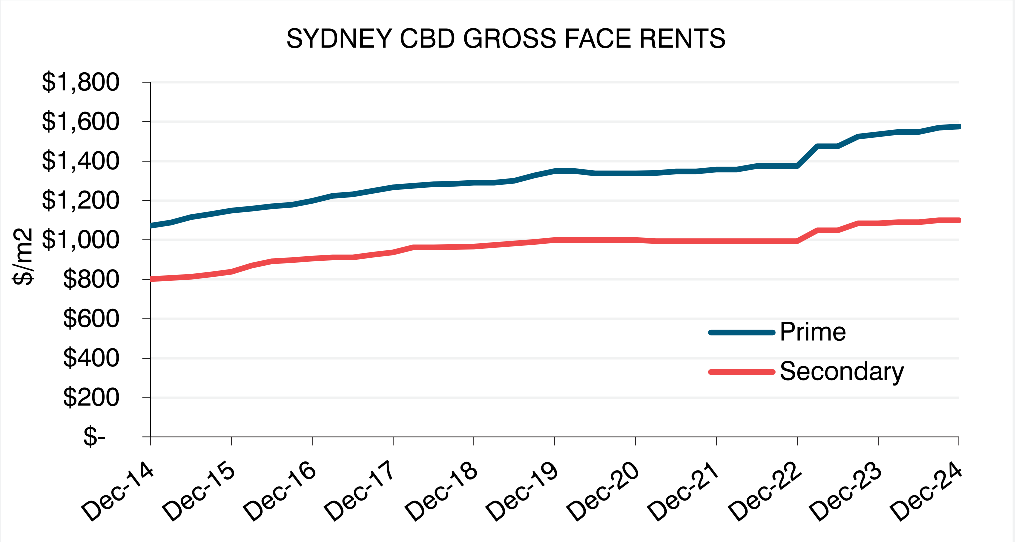
Prime gross face rents continued to grow, supported by stable incentives, albeit still high, which typically range from 32% to 39%. The completion of infrastructure projects including Sydney Metro has been a key driver of office space demand with strong leasing activity and growth experienced in those precincts closest to Metro stations.”

CURRENT STATE OF PLAY

- According to the latest Property Council of Australia Office Market Report (OMR), the Sydney CBD Office market is made up of 5,300,562 square metres of space as of January 2025.
- Over the twelve months to January 2025, the Sydney CBD vacancy rate increased marginally from 12.2% to 12.8%.
- Net absorption across all grades was positive during the twelve months to January 2025 at 41,604 square metres.
- Newer developed premium-grade assets are performing well, with tenants capitalising on high incentives to relocate to higher-quality office space.

RENTAL MARKET

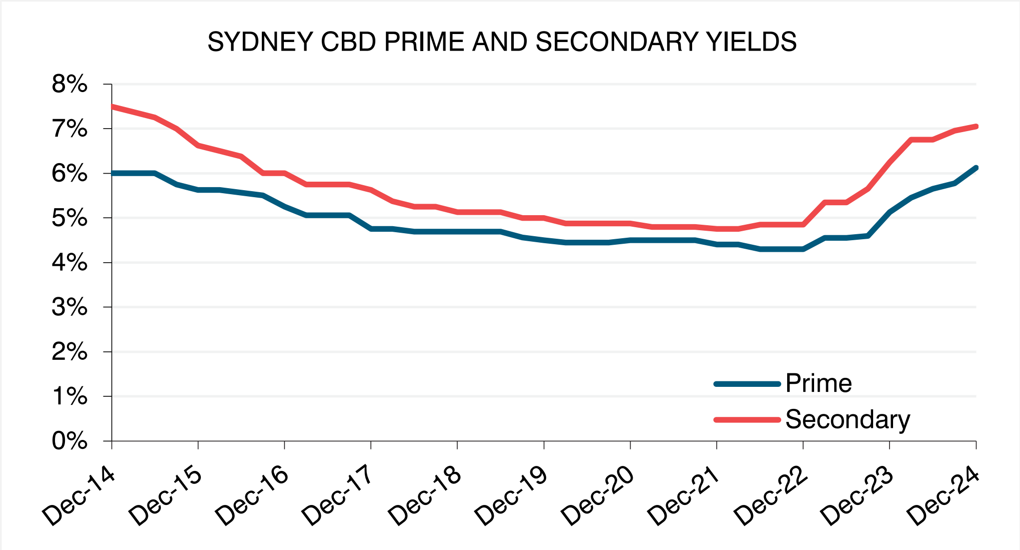
- Sydney CBD prime gross face rents increased by circa 2.44% in the twelve months to December 2024 to range between $1,195 and $1,955 per square metre.
- Sydney CBD secondary gross face rents increased by circa 1.38% during the year, ranging between $890 and $1,310 per square metre in June 2024.
- CBD Prime incentives remained stable in the twelve months to December 2024, and range between 32% and 39%. Similarly, secondary incentives were also stable and range between 32% and 39%.



Source: M3 Property

YIELDS

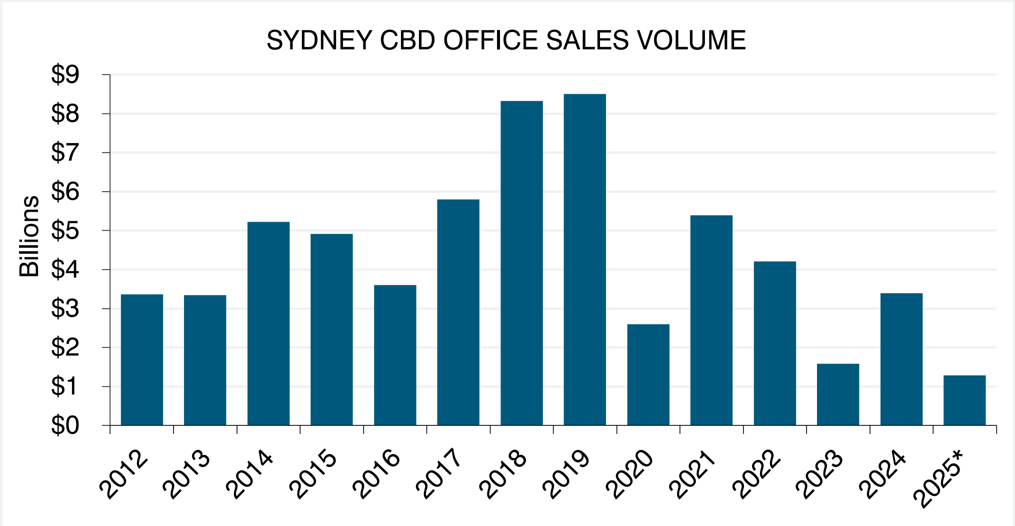
- Prime CBD yields ranged between 5.5% and 6.75% during the December 2024 quarter, softening by 100 basis points compared to the December 2023 quarter.
- Yields for secondary CBD office assets ranged between 6.3% and 7.8% during the December 2024 quarter. Secondary yields softened by 80 basis points compared to the December 2023 quarter.



Source: M3 Property

INVESTMENT MARKET

- According to RCA, 25 sales totalling $3.39 billion were recorded in the Sydney CBD Office market in 2024, twice the level of sales recorded in 2023 (14 sales totalling $1.58 billion).
- The largest transaction so far in 2024 is the $1.32 billion sale in June 2024 of a two-thirds share to Mitsui Fudosan in a new office tower planned to be built at 55 Pitt Street Sydney.
- Cross-border buyers have been the largest buyers of office property in Sydney in 2024, accounting for 62.1% of the transactions.
- The first two months of 2025 saw three transactions totalling $1.29 billion recorded in the Sydney CBD Office market.



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

OPPORTUNITIES AND CHALLENGES

- The Sydney Metro project will improve connectivity across Sydney and occupier demand is likely to increase around new Metro stations, including Central Station, Pitt Street, Martin Place and Hunter Street.
- The vacancy rate is forecast to increase during 2025, with around 219,048 square metres of new office space to be added to the market for the remainder of the year.

OUTLOOK

- Occupier demand is likely to gradually improve through 2025.
- The medium-term outlook for white-collar employment in Sydney is positive, with Oxford Economics Australia forecasting an additional 139,730 people to be employed in white collar employing industries in Sydney by 2028.
- There are about 219,048 square metres of supply under construction in the Sydney CBD market as well as a large pipeline of mooted supply.
- Prime gross face rents increased by an average of 2.44% over the year to December 2024. Rental growth is forecast to strengthen over the coming years and with incentives forecast to trend downwards, effective rents are forecast to grow strongly over the 10-year horizon.
- With the RBA reducing the cash rate by 25 basis points in February 2025, further increases in market activity are expected throughout 2025.

RESIDENTIAL DEVELOPMENT

JARROD MORGAN
Director | Residential Development

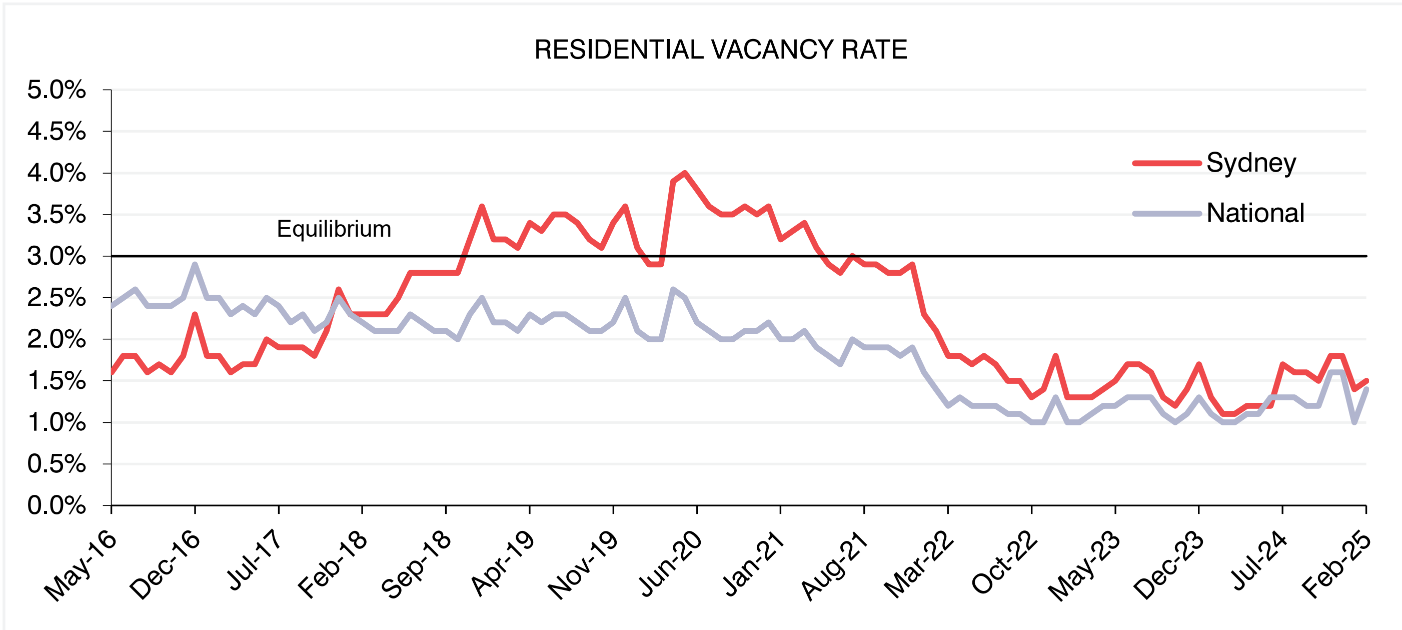
> "In the second half of 2024, the NSW Residential Development market remained steady.
>
> The anticipation of interest rate relief, which has now occurred, has brought a positive flow-on effect on the residential market with improved sentiment. Rates of growth have now normalised, although high building costs, a complex planning environment, increased statutory costs and continued elevated interest rates continue to challenge the development sector. As a function of this, we expect to see improving market conditions in 2025."

CURRENT STATE OF PLAY

- According to CoreLogic, Sydney's median house price was $1,472,032 at the start of February 2025, an annual increase of 5.65%. Unit prices increased 3.55% year on year to reach $857,969 by February 2025.
- The Sydney metropolitan residential market vacancy rate was 1.4% in January 2025, fractionally higher than the 1.3% recorded 12 months prior. The vacancy rate continues to be well below the benchmark equilibrium rate of 3.0%, indicating that the market is undersupplied. The tight vacancy rate has driven strong growth in rental rates, although this growth has slowed in recent months.
- There were 42,936 dwellings approved in New South Wales in the twelve months to December 2024, down 5.22% year on year.
- There was a stronger than expected recovery in residential markets throughout 2023 following a downturn during the later part of 2022. Strong growth for the Sydney market continued through most of 2024 before slowing in the last quarter. Oxford Economics is predicting house prices will decline slightly by around 1% through to the end of FY25.

“THE ANTICIPATION OF INTEREST RATE RELIEF, WHICH HAS NOW OCCURRED, HAS BROUGHT A POSITIVE FLOW-ON EFFECT ON THE RESIDENTIAL MARKET WITH IMPROVED SENTIMENT.”

- JARROD MORGAN



Source: SQM, M3 Property
*Note: The market equilibrium vacancy rate is considered to be 3.0%. Vacancy rates higher than this typically represent an oversupplied rental market whilst lower vacancy rates typically represent an undersupplied market.

OPPORTUNITIES AND CHALLENGES

- Population growth has increased exponentially compared to the subdued level during the pandemic period. Growth is forecast to strengthen over the short term with New South Wales expected to be a key beneficiary of growing overseas arrivals.
- Median house and unit prices in Sydney’s residential markets increased through the first eight months of 2024, before growth slowed for the rest of the year. Prices are expected to stabilise or decline slightly during 2025 and Oxford Economics is forecasting house prices will experience a drop of 1% in 2025.
- Median unit prices are expected to grow faster than house prices over the next few years due to affordability pressures pushing more buyers towards the unit market. Unit prices are expected to continue growing in 2025, with Oxford Economics forecasting a 2.5% increase for CY25.

OUTLOOK

- Tight vacancy rates across Sydney are expected to continue in the face of tightening dwelling supply. Housing Australia forecast net dwelling completions in NSW to total 22,800 for 2025, 1,700 dwellings fewer than in 2024 . Over the medium term, dwelling completions are forecast to be lower (averaging 24,600 per annum between 2026 and 2028). Supply completions will likely continue to be impacted by elevated construction costs, labour and materials shortages, and tightening credit conditions.
- House rents are forecast to continue growing, albeit at a slower rate than the last few years, being driven by the tight vacancy rate and rising affordability constraints in the owner occupier market. Unit rents are also expected to increase strongly, with demand from migrants and foreign students expected to strengthen.

RETAIL

ANDREW CASH

Director | Retail

“The Shopping Centre and Retail investment market is poised for continued gains as we move into 2025.

There was renewed interest in retail assets across all key retail sub-categories in 2024. Attracted by the higher yields offered by regional and sub-regional assets in comparison to other asset classes, interest in a number of these centres transacted, reflecting activity in this asset class that was not present during 2023.

We also saw the re-emergence of institutional investors as buyers, signalling improved sentiment in the sector.

Moving into 2025, transactions are continuing to occur as owners re-weight their portfolios and recycle capital. However, the supply of assets for sale may be constrained with institutional investors having already disposed of non-core assets and private investors being less inclined to sell in a strengthening market.

Focusing on income, whilst rents have stabilised with positive leasing spreads occurring, subdued consumer confidence has impacted turnover growth.

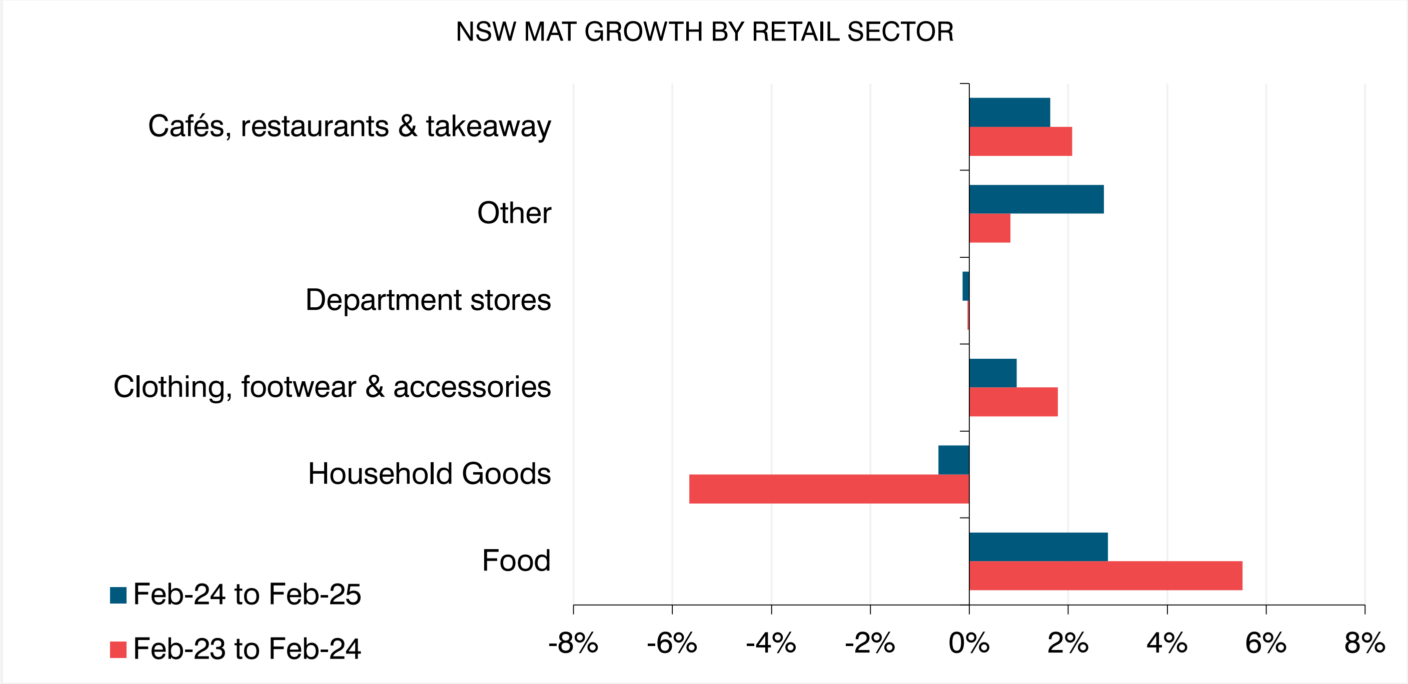
The impact of cost-of-living pressure and sustained higher interest rates continues to dampen retail spending across all categories, but there is expectation for improvement during 2025 now interest rate cuts are beginning to materialise.”

“WHILST RENTS HAVE STABILISED WITH POSITIVE LEASING SPREADS OCCURRING, SUBDUED CONSUMER CONFIDENCE HAS IMPACTED TURNOVER GROWTH.”

- ANDREW CASH

CURRENT STATE OF PLAY

- Total retail spending in NSW for the 12 months ended December 2024 increased by 1.31%, dropping from the 2.98% growth recorded for the 12 months ended December 2023.
- The strongest growth by retail category was recorded in food (2.65%), followed by clothing, footwear and accessories (0.57%).
- Rental spreads (i.e. the difference between a tenant’s new rent and their prior rent) have materially improved over the last 12 months for Australian Real Estate Investment Trust (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.



Source: ABS, M3 Property

TRANSACTIONS

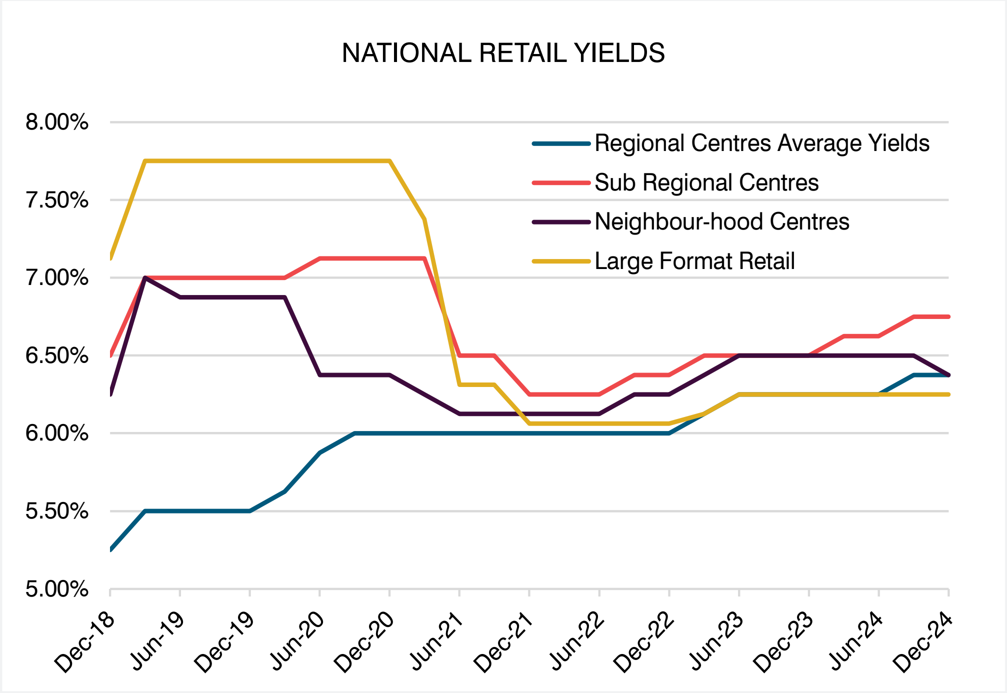
- In the first quarter of 2025, there have been 6 transactions of more than $100 million.
- The largest transaction to settle so far in 2025 was the sale of Westpoint Blacktown, a sub-regional shopping mall in Blacktown. The centre sold by Queensland Investment Corporation for $870.35 million to local syndicator Haben and US investment manager Hines and marked the largest individual retail asset transaction in Australian history.
- There were 7 transactions of more than $100 million in 2024.
- The largest transaction to settle in 2024 was the sale of Stockland Glendale, a sub-regional shopping mall in Lake Macquarie. The transaction was the largest sub-regional shopping centre sale in almost two decades. Constructed in 1996, Stockland finally agreed to part ways with the asset for $315 million, selling to IP Generation, a private group with a keen interest in the retail sector.

YIELDS

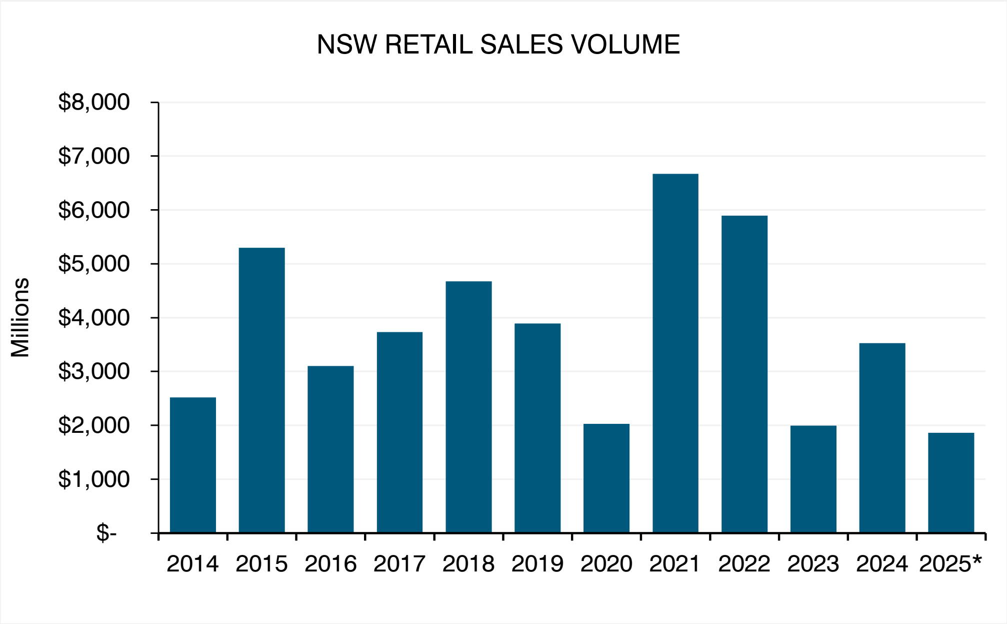
- Retail yields generally continue to look attractive relative to the alternative investment classes of office and industrial.
- Single tenanted retail assets with values of sub-$25m continue to be well sought after by the market, with recent sales including Woolworths Umina and Bunnings Albion Park, both reflecting a yield of circa 5.0%.
- We expect there to be downward pressure on yields for prime neighbourhood and sub-regional centres following the renewed purchaser interest in the sector and the reducing cost of capital. Yields for neighbourhood centre assets with values of sub $60m located in metropolitan Sydney have resulted from circa 5.50% to 6.00%.
- Notable sub-regional and regional transactions occurring in late 2024 include the 100% interest in Westpoint Blacktown which was acquired by Haben and Hines and reflects a market yield of circa 6.25%, whilst the 50% (management) interests acquired by HMC from Vicinity in Carlingford Court and Roselands reflected a market yield of circa 6.00% and 6.75%, respectively.

INVESTMENT MARKET

- According to RCA, there were 128 retail sales totalling $3.525 billion recorded across the NSW market for 2024. Total sales volume for 2024 was significantly higher than the $1.99 billion recorded for 2023.
- So far there have been 16 retail sales totalling $1.86 billion recorded across NSW for the first quarter of 2025.
- Private buyers were the most active buyer group in 2024, accounting for 50.4% of sales (by $ value). Listed Funds/Real Estate Investment Trusts (REIT) were the next largest buyer group taking up circa 18.3% of sales followed by Institutional Investors with 15.3% of sales.



Source: M3 Property



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

OPPORTUNITIES AND CHALLENGES

- Rental levels within shopping centres have largely 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. Some 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

- Local and offshore private capital are likely to continue challenging other buyer groups to capitalise on quality retail assets, particularly up to $100 million, however this is likely to be challenged by the re-emergence and demand for institutional investors.
- Investors will remain focused on assets offering long-term secure income streams to quality tenants coupled with good income growth.
- Consumer confidence started to improve over the second half of 2024 and is likely to improve further following the RBA's decision to cut interest rates to 4.1% in February 2025.
- The February rate cut means purchasers are likely to become more active in considering assets offered for sale during 2025.
- The retail market is expected to return to stability and certainty in 2025, as vendor and purchaser expectations converge, resulting in more transactions across the sector.

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