M3 PROPERTY

SPECIALIST
INDEPENDENT
VALUATION

QUEENSLAND MARKET SNAPSHOT

OCTOBER 2024

CONTENTS

CHILDCARE

HEALTHCARE

INDUSTRIAL

OFFICE

RESIDENTIAL DEVELOPMENT

RETAIL

SERVICE STATIONS

M3

QUEENSLAND MARKET SNAPSHOT

The Queensland property market has remained resilient over the first half of 2024, with continued positive occupier demand across most property sectors. Investment demand is focused on good-quality, well-located assets, albeit with a subdued level of sales activity as a result of broader macroeconomic conditions. However, we can now expect the cost of debt to ease noting the recent Fed rate cut, while the RBA is expected to commence a monetary easing phase in 2025 resulting in commercial markets entering a new chapter. These changing conditions including the strong rental growth received, we expect market volatility to ease and yields starting to stabilise after a period of significant softening.

Looking forward, with the Brisbane office leasing market a top performer nationally, we may expect to see an increased portion of investor capital in comparison with previous years and the larger property investment institutions becoming more active in the acquisition space after being somewhat absent in recent periods.

In our latest Queensland 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

JAMES RUBEN
National Director | Specialised Assets

"Over the past 12 months, we have seen continued upward pressure on childcare rents. This has continued to be primarily driven by a combination of increasing construction costs for new centres, and upward pressure on wages, which has been the result of general market difficulties for centres to attract and retain staff. This is likely to continue in the short to medium term. Recent rental growth has to some extent, been counterbalanced by a softening in yields, which has overall seen a degree of stability in capital values for the sector over the past 12-18 months.

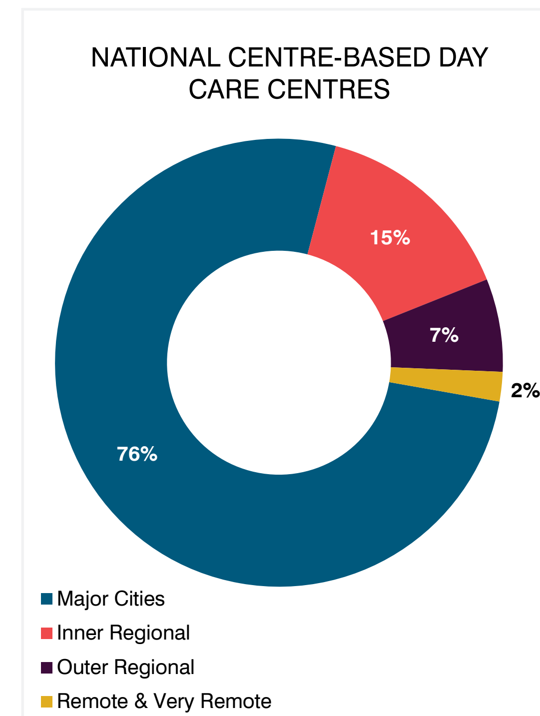
Overall, the market remains generally buoyant, with investment demand focused on good quality, well located assets, and favouring strong lease covenants."

"OVERALL, THE MARKET REMAINS GENERALLY BUOYANT, WITH INVESTMENT DEMAND FOCUSED ON GOOD QUALITY, WELL LOCATED ASSETS, AND FAVOURING STRONG LEASE COVENANTS."

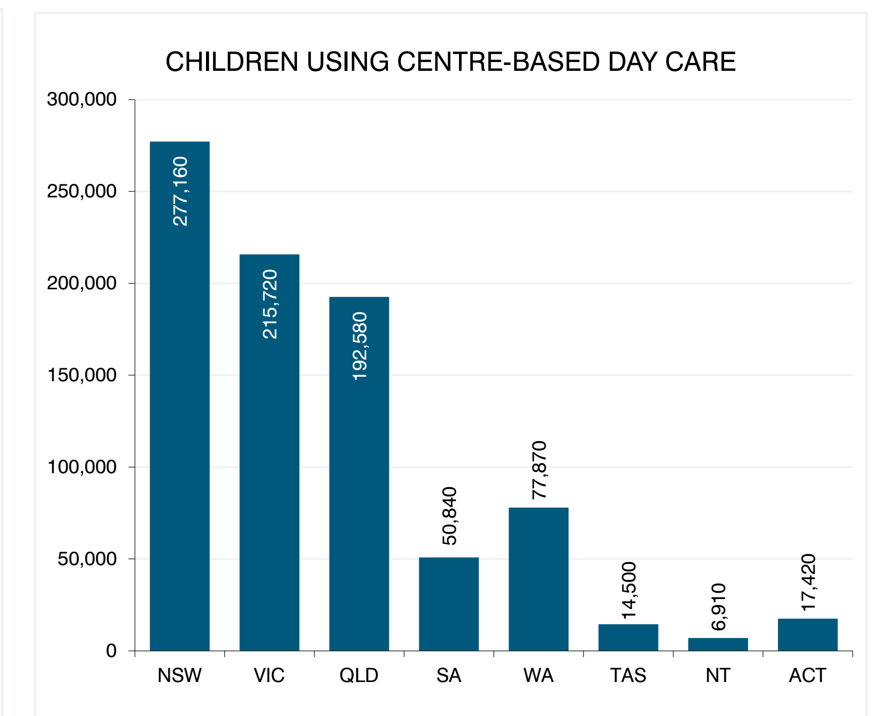
- JAMES RUBEN

CURRENT STATE OF PLAY

- The Childcare Inquiry Report by ACCC released in January 2024 highlights the strong growth of Childcare fees across all services since the introduction of CCS. The ACCC recommends a new approach by the Federal government rather than the current "one size fit 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 additional children if their family income is less than $356,756 per annum.



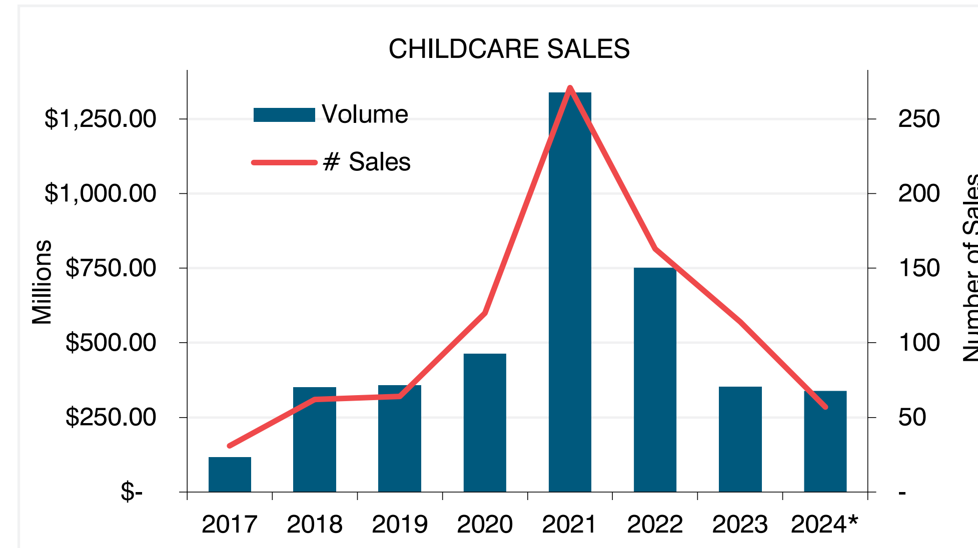
Source: Dept of Education, GapMaps, M3 Property



Source: Dept of Education, GapMaps, M3 Property

INVESTMENT MARKET

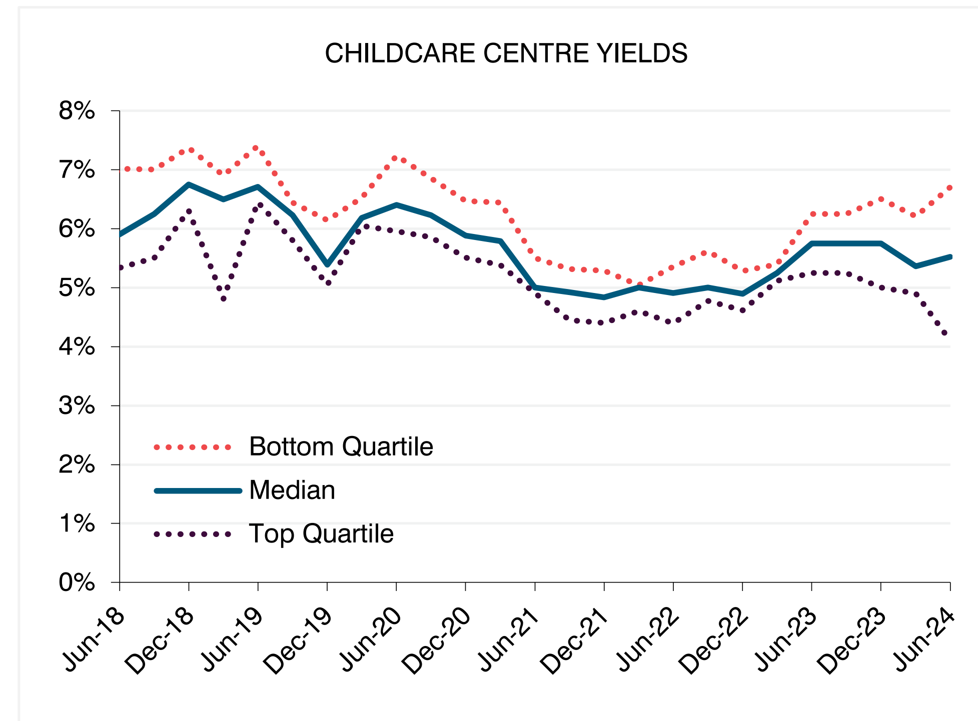
- Childcare centre values are dependent on location, supply/demand, competition, centre size and tenant covenant.
- The childcare investment market showed a high level of resilience during the COVID-19 pandemic. Childcare investment activity reached a record high in 2021, with $1.34 billion of sales (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.



Source: M3 Property

OPPORTUNITIES AND CHALLENGES

- New supply has pushed occupancy rates down to relatively low levels in some metropolitan markets.
- New childcare centres are increasingly being included in new office buildings and business hubs to cater for demand from office workers.
- 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.

OUTLOOK

- Over the medium-term, the number of children aged 0 to 5 years is forecast to increase most strongly in Queensland, followed by Victoria and West Australia, with lower but still strong growth expected in all other states and territories. Furthermore, labour force participation rates are forecast to trend upwards in most states and territories over the medium- to longer-term and this is expected to contribute to a continued increase in the average number of hours children attend childcare per week. These factors will drive demand for childcare and the development of new childcare centres in some areas.
- There is strong bipartisan government support for the childcare sector that will see continued funding to the sector 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 discretionary spending for most family households.
- Private investors have been the major purchaser over the last 12 months, as major institutional groups continue to sell down their childcare portfolios. We anticipate this trend to continue.
- 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

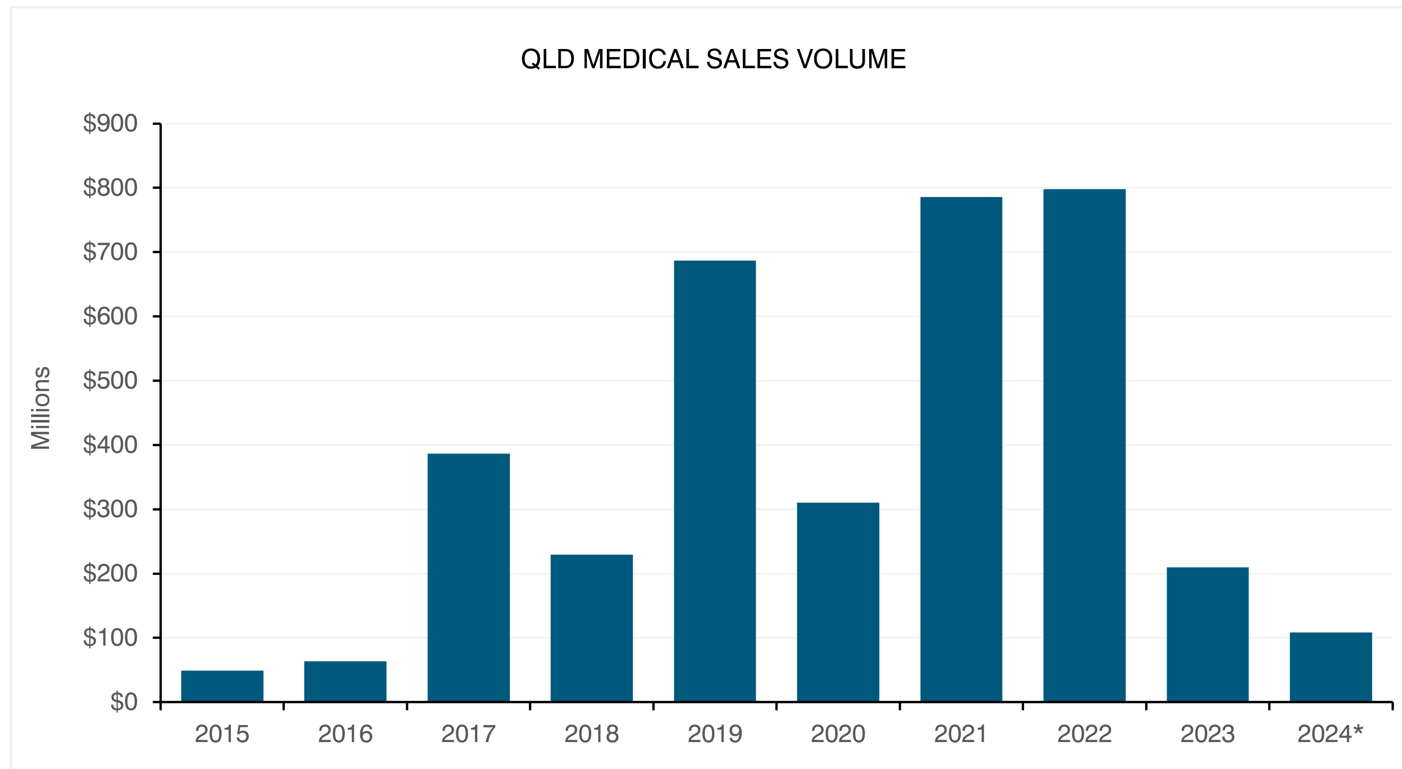
MITCH ENRIGHT

Director | Health, Aged Care & Seniors Living

"The healthcare and seniors living sectors in Queensland continues to maintain its investment appeal in the face of elevated interest rates, strong underlying market fundamentals and continued demand for good-quality assets.

The private hospital sector does face some potential headwinds as the Federal Government recently launched a review into the sector, due to recent concerns voiced by the industry over financial viability concerns being faced by some operators.

We've seen a softening in yields over the past twelve to six months, with mixed results for sales overall. Transaction activity has been positive for healthcare investment assets sub $30 million with strong demand for portfolios in the retirement and land lease sectors supported by new and existing investors continuing to increase scale. Assuming interest rates start to decrease during 2025, we anticipate greater activity to return to the market."



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

INVESTMENT MARKET

- According to RCA, there have been 15 medical and hospital properties with a total value of $108.4 million so far in 2024.
- This compares with there were 45 medical and hospital properties with a total value of $209.7 million transacted across Queensland for the whole of 2023. The 2023 figure does not include the two Queensland properties sold within the Healthscope Hospital Portfolio.
- Institutional investors, REITs, and private buyers have been the most active buyer groups over recent years.

YIELDS

- Yields are now averaging around 5.0% 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 6.50% 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 market 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 ongoing headwinds.
- The seniors living 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.

INDUSTRIAL

ROSS FARWELL

Director | Industrial

"The volume of industrial property transactions in Brisbane tracked at a slower rate in 2023 and 2024, compared with the previous two years (2021/22) which were largely regarded as boom conditions. Sales transactions in Brisbane's Industrial market in H1 2024 continue to be subdued, with a 'wait and see' attitude due to broader macroeconomic conditions including the current interest rate and inflationary environment. Activity is expected to remain at subdued levels over the next six months.

A pickup in activity is anticipated for the start of 2025, when there is likely to be increased certainty regarding debt funding.

The limited sales transactions that are filtering through are reflecting yield softening in the order of 165 to 200 basis points since the peak of the market in early 2022. Prime yields currently range from 5.65% to 6.25% and were 4.00% to 4.5% at the peak of the market.

In 2022 and 2023 the Brisbane Industrial market witnessed strong rental growth, underpinned by lack of supply and good occupier demand. In the first half of 2024, rents increased, but not to the extent of rental rate increases in 2022-23. This is a result of demand levels normalising off the back of extended growth, largely driven by factors including affordability constraints, increased supply, and general market uncertainty as tenants become more discerning with their relocation and expansion plans.

Incentives have marginally increased, especially in the southern corridor along the Logan motorway corridor due to added supply to the market."

“A PICKUP IN ACTIVITY IS ANTICIPATED FOR THE START OF 2025, WHEN THERE IS LIKELY TO BE INCREASED CERTAINTY REGARDING DEBT FUNDING.”

- ROSS FARWELL

CURRENT STATE OF PLAY

- The volume of industrial property transactions tracked at a slower rate in 2023 and for the first half of 2024 compared with the previous two years (2021/2022) which were largely regarded as boom conditions. Total sales volume of $594.6 million for the first half of 2024 is broadly in line with long term trends.
- The increase in the cost of funding and uncertain economic environment surrounding the drivers that underpin the industrial sector has contributed to a decrease in transactional activity and resulted in a softening of industrial yields across Australia. Prime yields softened by 77 bps in the twelve months to June 2024.
- There has been a continued strengthening in the leasing market and a renewed focus on rental levels from property owners now that market value growth via yield compression has slowed. The Brisbane industrial market witnessed strong growth in net face rents in the twelve months to June 2024, recording 15.6% growth for Prime assets and 23.1% for Secondary assets.
- Lack of stock, cost of land and high construction costs are the main contributors to rental growth.
- The land market continues to be tight across all markets and Industrial land values have continue to grow over the past 12 months, albeit at a slower pace than 2021 and 2022. The growth in land values is expected to stabilise in the short term, as proposed development becomes difficult or unfeasible, due to higher construction costs, the increased cost of funding and lower investment values.

RENTAL MARKET

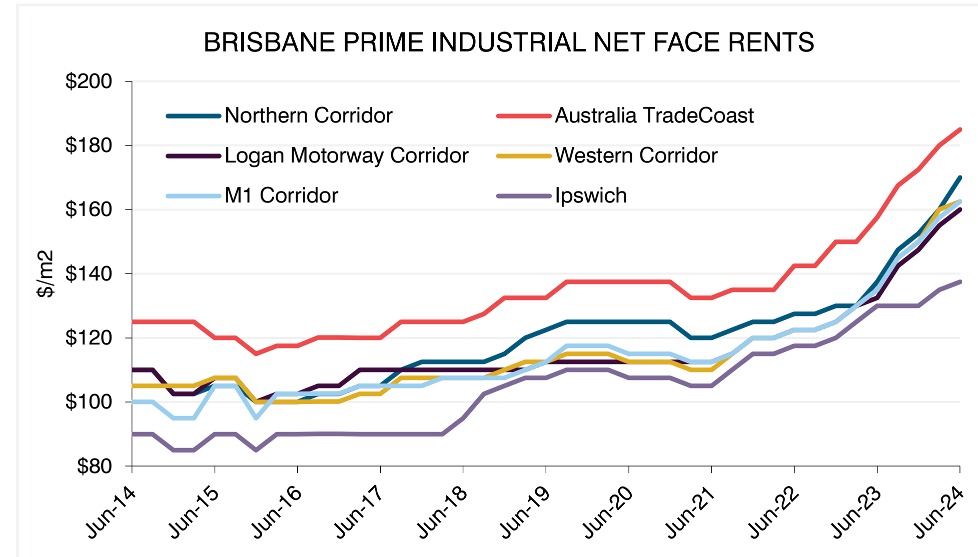
- Prime net face rents are currently ranging between $140 and $190 per square metre with secondary rents ranging between $110 and $155 per square metre.
- There has been a renewed focus on rental levels from property owners over the past year. Prime rents increased by 15.6% in the twelve months to June 2024 with secondary rents increasing by 23.1%.
- Incentives are typically ranging between 5.0% and 15.0% (and larger on major tenant commitments), having trended upwards over the past year.

YIELDS

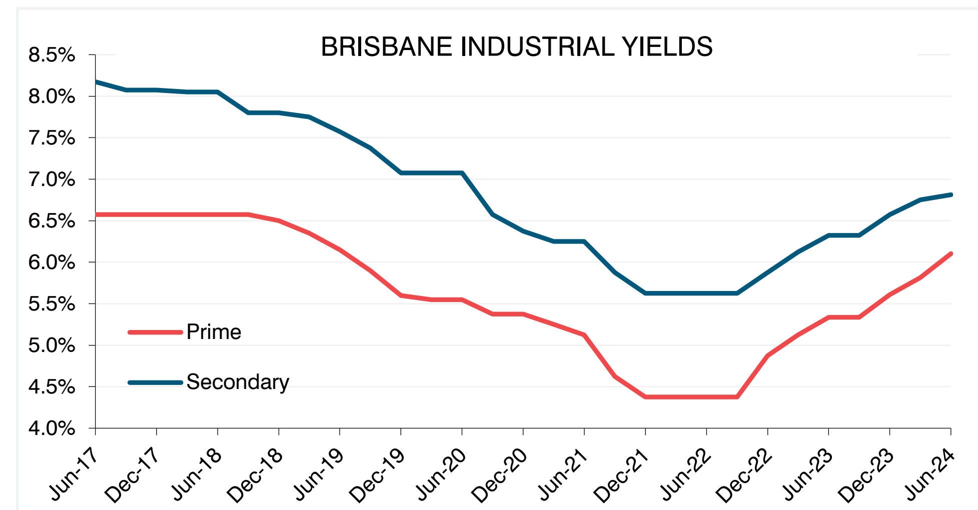
- During the June 2024 quarter, prime yields ranged between 5.65% and 6.50% and secondary yields ranged between 6.25% and 7.25%.
- However, investment demand weakened significantly coming into 2024 due to changes to monetary policy resulting in higher borrowing costs. Investment activity is anticipated to remain subdued until such time that greater certainty exists around the level at which the cash rate will peak.

INVESTMENT MARKET

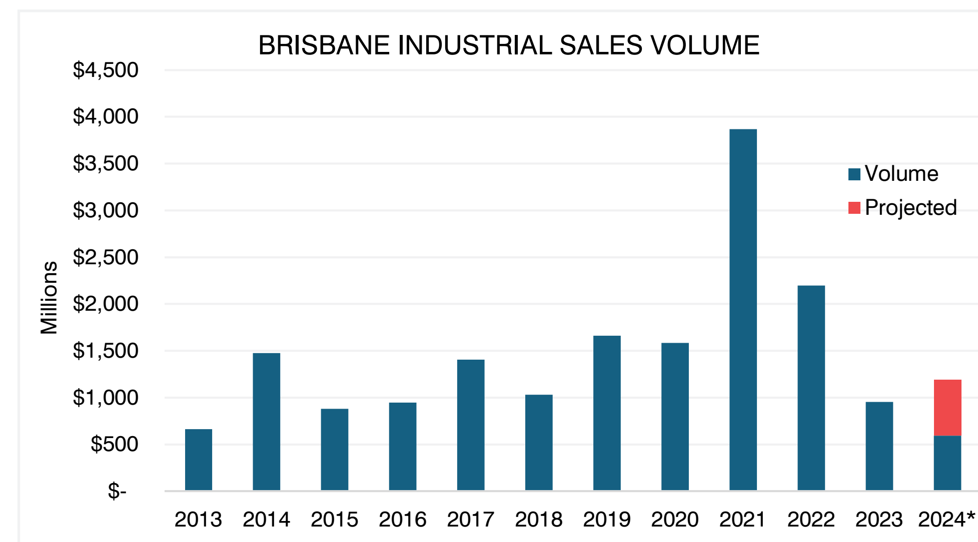
- According to RCA, there has been $594.6 million across 40 transactions over $5 million in the Brisbane market for H1 2024. Projections suggest that the FY total for 2024 will be circa $1.2 billion.
- This is slightly higher than the $551.1 million across 45 transactions over $5 million recorded across the Brisbane market for H1 2023.
- Sale activities during 2023 were significantly lower than previous years, with changes to the monetary policy resulting in a softening in demand.
- For H1 2024, private investors have accounted for the largest share of sales (45.9% by value), followed by institutional investors (23.3% by value).
- Listed funds and REITs had exited the Brisbane Industrial trading market in 2024, with limited involvement as buyers.



Source: M3 Property



Source: M3 Property



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

OPPORTUNITIES AND CHALLENGES

- There were substantial increases in supply during 2023 with a number of developments reaching practical completion. There remains a substantial pipeline of DA approved supply to come to the market in 2024 and beyond. However, supply chain disruptions, higher construction costs, and the rising cost of debt are expected to continue impacting the delivery of some projects over the short term.
- With household discretionary incomes to come under increased pressure over the coming year, we expect to see demand from retail groups moderate.
- Occupiers continue to seek modern, efficient buildings and are increasingly expecting ESG features in new developments.

OUTLOOK

- We expect rental growth to be moderate in 2024, as leasing demand remains robust and the availability of leasing options is limited. The rental growth will be driven by the transport and logistics and manufacturing sectors, which account for the bulk of current enquiries. Demand from the retail trade sector is expected to wane given cost of living pressures which has led to a pull-back in retail spending from consumers.
- Land rates are expected to be stabilise over the coming 6 to 12 months given high construction costs, continued supply chain issues and the potential easing of demand for investment stock.
- With interest rates likely to remain flat over the second half of 2024 it is anticipated that investment activity will remain subdued and yields are forecast to continue to soften over the short-term. Market forecasts are generally for interest rate cuts early 2025. The unwinding of book values to current market yields is expected towards the latter part of 2024, which will trigger more transactional activity as buyer and purchaser expectations narrow.

CBD OFFICE

M3

MICHAEL COVERDALE
Managing Director

"The Brisbane Office market has seen a limited number of transactions during the first half of 2024, being somewhat similar to volumes experienced in 2023. However, we are seeing the market entering a new phase, with market volatility easing due to strong rental growth and yields starting to stabilise after a period of significant softening. Looking ahead, rental growth is expected to continue to strengthen over the short to medium term given the limited supply of new assets to the market and ongoing construction supply constraints. While rates are also expected to fall during 2025, gradually reducing funding costs for property investors.

Consequently, we're currently seeing vendors who have previously had assets on the market start to reconsider that position and hold onto their stock, given the strong rental growth experienced, aided with stabilising debt cover.

Overall, occupier demand has strengthened in the market, with the vacancy rate forecast to reduce or remain stable. As a result, we expect strong rental growth to continue over the next 12 months.

With the Brisbane Office Leasing market a top performer nationally, we may expect to see increased portion of investor capital being placed in Brisbane in comparison to previous years."

CURRENT STATE OF PLAY

- According to the Property Council of Australia, there was 2,316,324 square metres of office space in the Brisbane CBD as of July 2024.
- The Brisbane CBD office vacancy rate decreased from 11.6% to 9.5% over the year to July 2024. The decrease in the vacancy rate was driven by strong net absorption of 13,870 sqm.
- The Brisbane CBD has a healthy medium-term supply pipeline. Work is well underway at 360 Queen Street (which has pre-commitments to BDO and HopgoodGanim), 205 North Quay (Services Australia) and Dexus's Waterfront project (Deloitte and MinterEllison). There is 56,793 square metres of space due to be delivered in 2025 and 269,752 square metres of supply mooted for development in the CBD. However, we do not expect to see any major projects proceed to construction in the short-term without a significant pre-commitment.

RENTAL MARKET

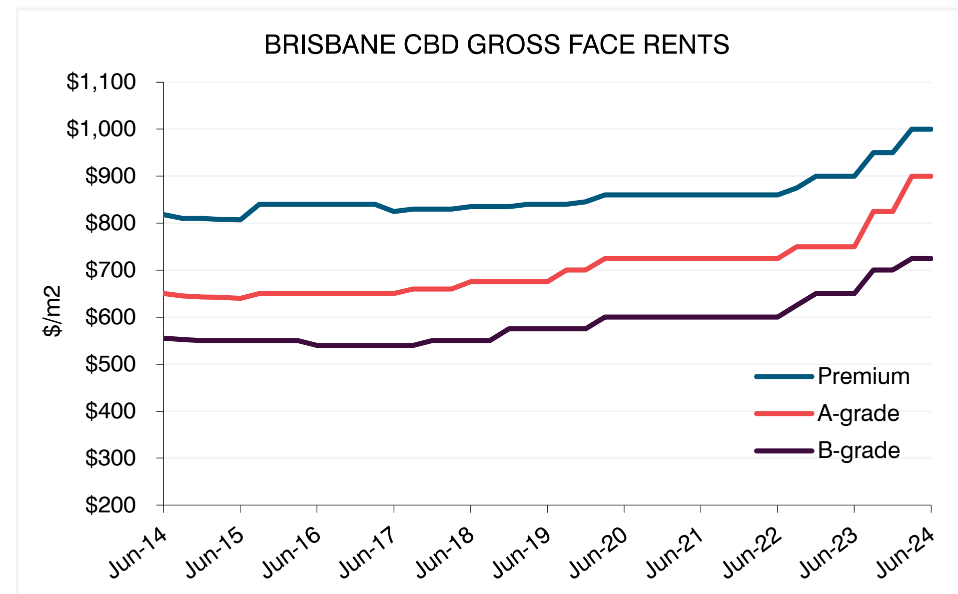
- As at June quarter 2024, Premium gross face average rents ranged from $950 to $1,200 and are estimated to have grown by 11.1% in the twelve months to June 2024.
- A-grade gross face average rents ranged from $825 to $975 and are estimated to have grown by 10% year on year.
- Incentives averaged 38.785% for both Premium and A-grade.
- B-grade gross face average rents ranged from $700 to $800 during the quarter, and are estimated to have grown by 11.54% year on year, with incentives averaging 42.5%.

YIELDS

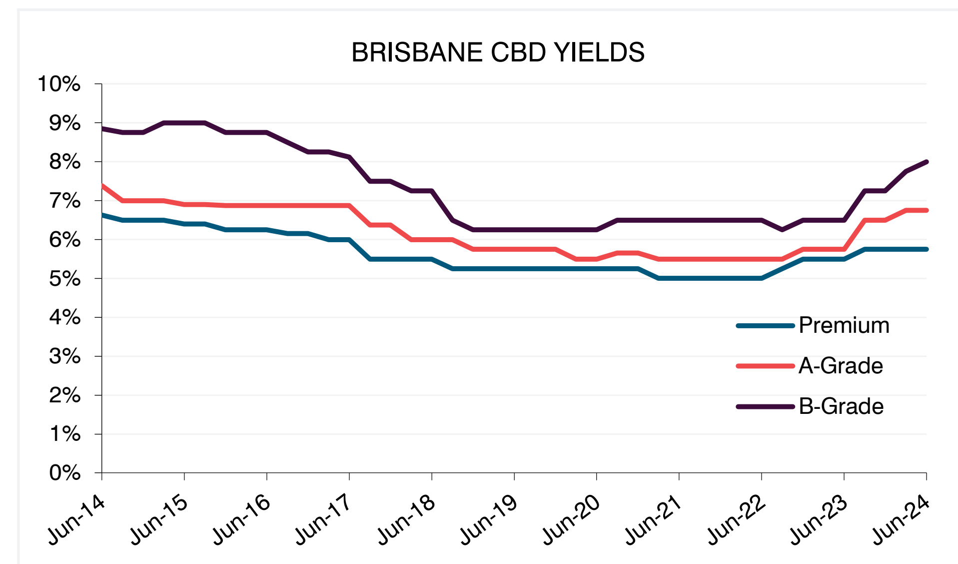
- Yields in the Brisbane CBD office market softened in the past twelve months.
- In the twelve months to June 2024, yields for Premium-grade buildings have softened up to 50 bps to range from 5.50% to 6.25%; yields for A-grade buildings have softened by 100 bps to range from 6.50% to 7.75%; and yields for B-grade buildings have softened by 150 bps to range from 7.50% to 8.50%.
- With pre-committed supply, cost of debt likely to ease, lowering vacancy and incentive level, sale activity is expected to increase. Some yield decompression will be limited going forward and stabilise in 2025 with greater divergence between prime and secondary assets.

INVESTMENT MARKET

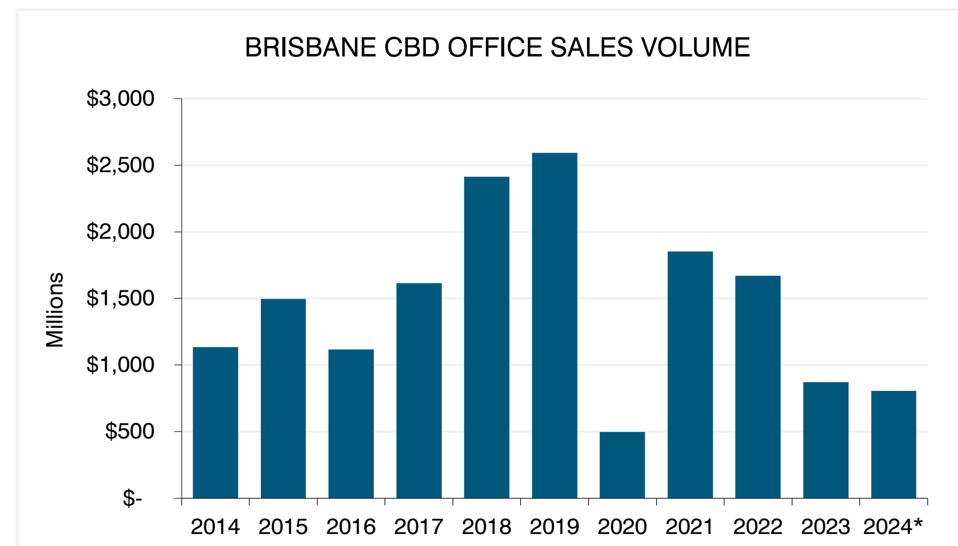
- Sales activity in the Brisbane CBD office market averaged $1.50 billion per annum over the five years to the end of 2023.
- According to RCA, there have been 11 sales totalling $805.6 million recorded in the Brisbane CBD Office market to the end of H1 2024. Sales volumes for H1 2023 are significantly higher than the 7 sales totalling $348.8 million recorded for H1 2023, and have already close the FY 2023 total of $872.2 million.
- The largest transaction so far in 2024 is the $250 million sale of 240 Queen Street Brisbane in June 2024 to fund manager Quintessential with Clarence Property purchasing 120 Edward Street Brisbane for $119 million.
- Institutional buyers have been the largest buyers of office property in Brisbane in 2024, accounting for 62.6% of the transactions.



Source: M3 Property



Source: M3 Property



Source: Real Capital Analytics (RCA), M3 Property

OPPORTUNITIES AND CHALLENGES

- Conditions remain favourable to occupiers. Occupiers are showing preference for high-quality, newly-constructed buildings, being critical of the level of amenity and end-of-trip facilities. Occupiers are also increasingly considering the building's NABERS and WELL ratings.
- Office occupancy rates remain lower than they were prior to the pandemic. In recognition of the changing work habits of employees (including more employees working from home), occupiers are seeking tenancies with numerous collaboration areas and breakout spaces as well as leases that allow for expansion and contraction of space during the lease term.
- The Cross River Rail and Brisbane Metro projects will improve connectivity in the CBD and Fringe, UQ, Boggo Road and the Exhibition Showgrounds, integrating with the existing rail lines. We expect occupier demand will strengthen surrounding the new transport linkages.

OUTLOOK

- The Brisbane CBD office space has a limited supply pipeline planned for the next 3 years and includes a healthy level of pre-commitment. There are also an abundant amount of mooted supply planned for the sector.
- Occupier demand has strengthened, and this will drive net absorption over the coming six months. The medium-term outlook for white-collar employment in Brisbane is positive with BIS Oxford Economics forecasting an additional 53,640 persons to be employed in white collar employing industries in Brisbane over the five years to June 2028.
- The vacancy rate is forecast to reduce or remain stable over the next 12-months.
- In the short term it is likely that net absorption and likely withdrawals of secondary stock from the market will offset the increase in supply becoming available 2025.
- We expect to see further increases of the gross face and effective rents during the remainder of 2024 with rental growth strengthening over the medium-term.
- Incentives on new leases are likely to remain high as owners look to increase face rents after many years of limited growth. However, incentives on lease renewals have stabilised and could possibly reduce. This may particularly be the case for tenants where there's value/utility in existing fitouts, given the significant increase in costs to fund a new tenancy.

RESIDENTIAL DEVELOPMENT

STEPHEN LINNANE
Director | Residential Development

"Brisbane continues to be one of the strongest housing markets in the country, and this is likely to remain for the rest of 2024 with dwelling prices continuing to grow.

Due to the slowdown of new supply coming to the market and high population growth, demand from renters continues to increase pushing vacancy rates down and rental prices up.

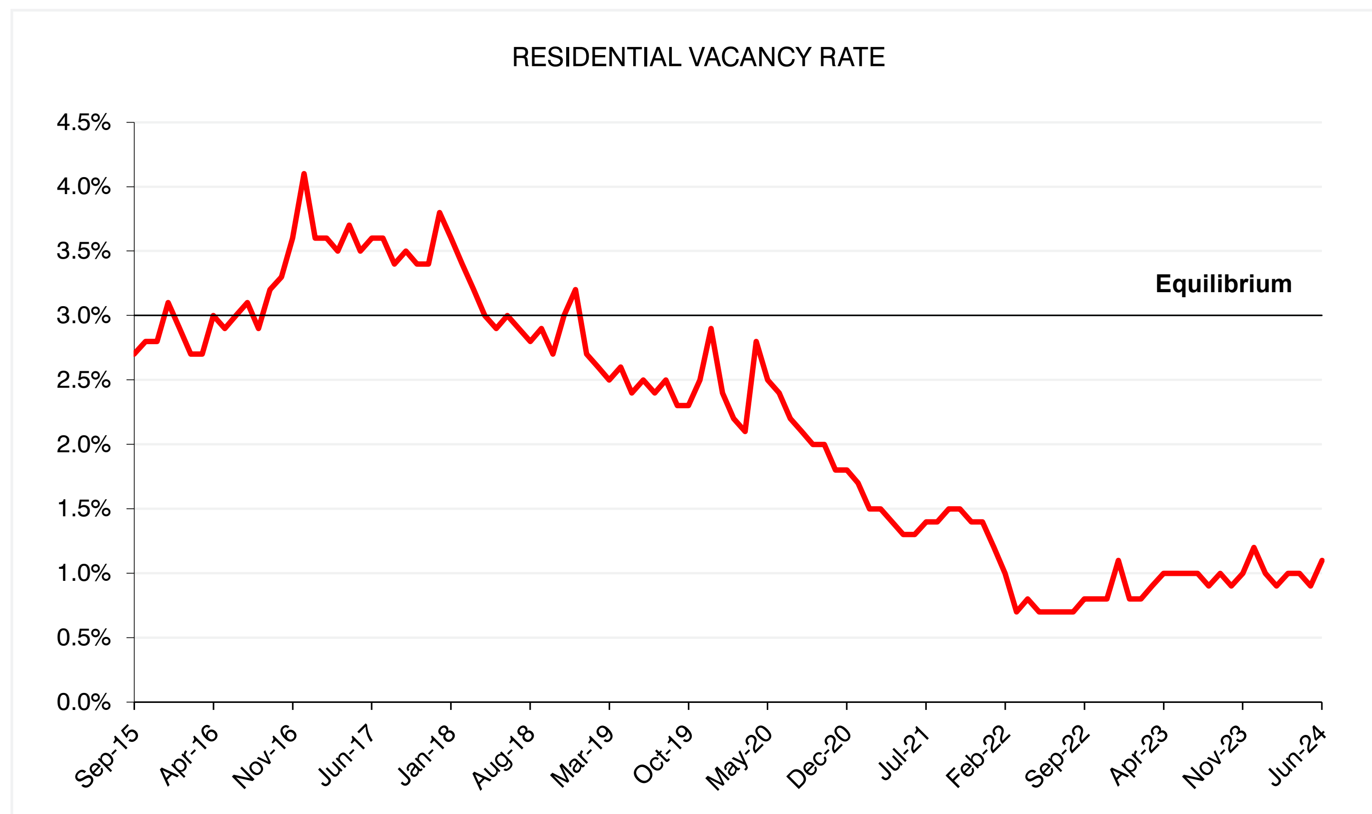
Construction costs remain high and are expected to increase throughout 2024. There is little availability of builders, creating a challenge for developers to secure builders to complete projects.

Overall, we see the housing market to remain strong but expect the rate of growth to moderate due to the higher interest rate environment and cost of living pressures."

M3

CURRENT STATE OF PLAY

- According to CoreLogic, Brisbane median house prices grew by 18.13% to reach a new peak of $966,825 in August 2024.
- With strong demand and a surge in population growth, median unit prices are also at a new peak of $638,909 in February 2024, and will likely continue to rise throughout the second half of 2024.
- Housing affordability has declined considerably since the September 2020 quarter. According to the HIA Affordability Index, affordability within Greater Brisbane deteriorated to an index score of 54.1 during the December quarter 2023 (an index score of 100 indicates the threshold for an 'affordable' market, with an index level below 100 indicating an unaffordable market).
- In June 2024, the Brisbane metro area had a vacancy rate of 1.1%, slightly higher than the 1.0% of June 2023. All submarkets are still sitting below the equilibrium level.
- The tight vacancy rates have put strong upward pressure on rentals across the Greater Brisbane residential market.



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 will continue to drive an undersupply market, resulting in price growth across all sectors.
- Planning is constraining the ability to deliver land and built form in a timely manner.
- The townhouse market will be appealing, particularly in middle ring suburbs and growth areas, as affordability worsens.

OUTLOOK

- Due to a combination of back-to-back interest rates rises, increased construction costs, and difficulties securing building contractors, feasibilities for development projects are being detrimentally impacted. We are noting an increased number of projects are unable to proceed with the current market fundamentals and that this is a significant risk to the development site market. If these conditions continue there is risk of a market correction for development site values.
- Rents are expected to continue to increase strongly over the short-term, with vacancy being below the equilibrium level in most sub-markets.
- The South-East Queensland market is forecast to continue benefiting from robust inter-state and internation migration, a shortage of stock and from the development of associated infrastructure for the 2032 Olympics.

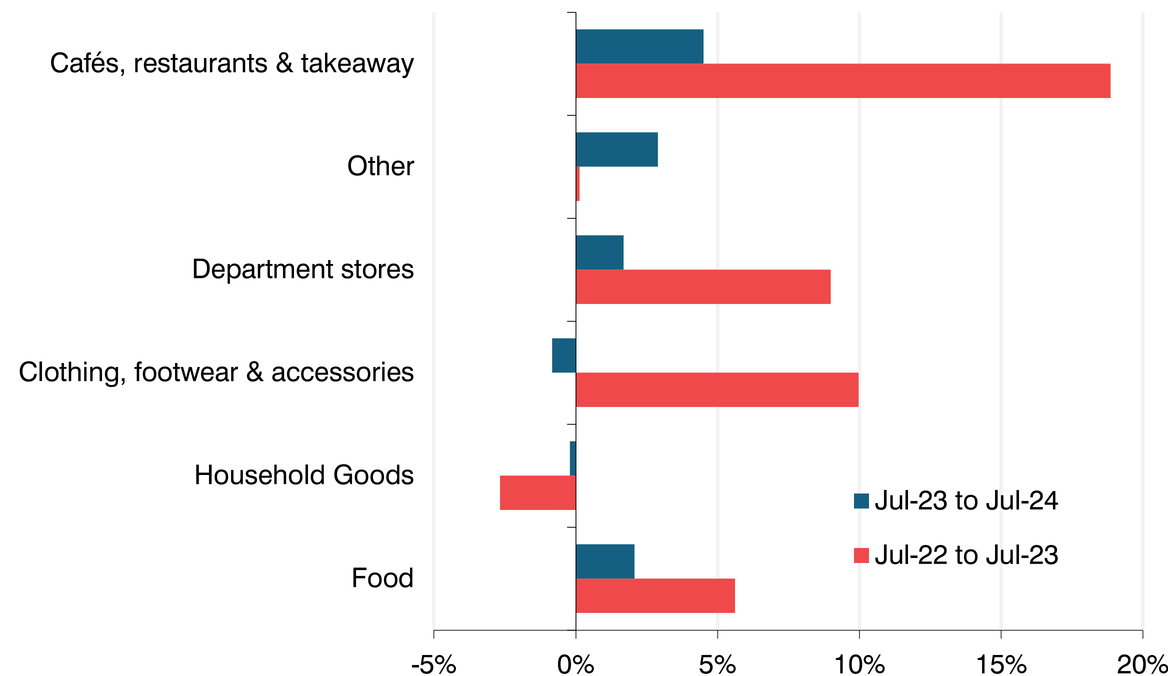
RETAIL

DUANE GILLILAND
Director | Retail

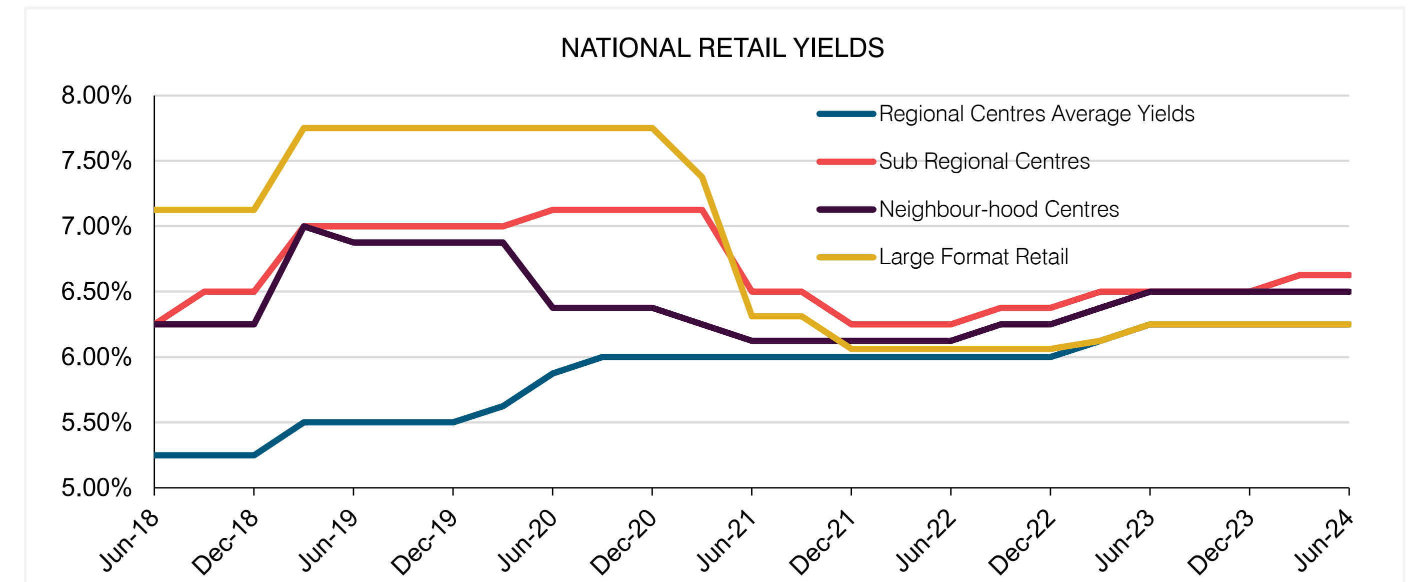
> "The first half of 2024 saw generally stable sales activity in Queensland's Retail sector with expectations between vendors and purchasers for secondary stock realigning.
>
> Owners are hesitant to sell primary assets unless they have to, and sales of primary assets that have occurred have reflected strong results.
>
> As we see more certainty around interest rates, it is likely we'll continue to see an increase in activity in the market."

CURRENT STATE OF PLAY

- Total retail spending in Queensland for the 12 months ended June 2024 increased by 3.66%, which is an increase from the 0.24% recorded for the 12 months ended June 2023.
- The strongest growth by retail category was recorded in department stores (3.53%), followed by food (2.82%) and clothing, footwear and accessories (2.60%).
- 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 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.
- Spending on high-end, discretionary items such as luxury retail and restaurants has not been materially impacted by the cost-of-living crisis.
- In the CBD, the Queen's Wharf Project is well underway and will deliver circa 40,000 square metres of retail, dining, and entertainment space upon completion. Included will be circa 6,000 square metres of luxury retail floorspace in DFS's T Galleria, the group's largest shopping footprint in Oceania. The Integrated Resort Development component is scheduled for completion in 2024.
- The redevelopment of the Buranda Village Shopping Centre has recently been approved by Brisbane City Council. Vicinity Centres plans to construct 10,000 square metres of open-air retail and dining, four residential buildings, community space, and up to 50,000 square metres of office, commercial, and health space across three buildings on the site. Construction is anticipated to commence in 2024.



Source: ABS, M3 Property



Source: M3 Property

YIELDS

- Whilst retail yields softened throughout 2023, they generally continue to look attractive relative to the alternative investment classes of office and industrial.
- There has been a softening in Queensland prime yields in the last 12 months, with large format retail centres averaging at 6.38% in June 2024, a 13 bps increase from June 2023. Prime strip retail is averaging at 6.38% in June 2024, a 13 bps increase from June 2023.

TRANSACTIONS

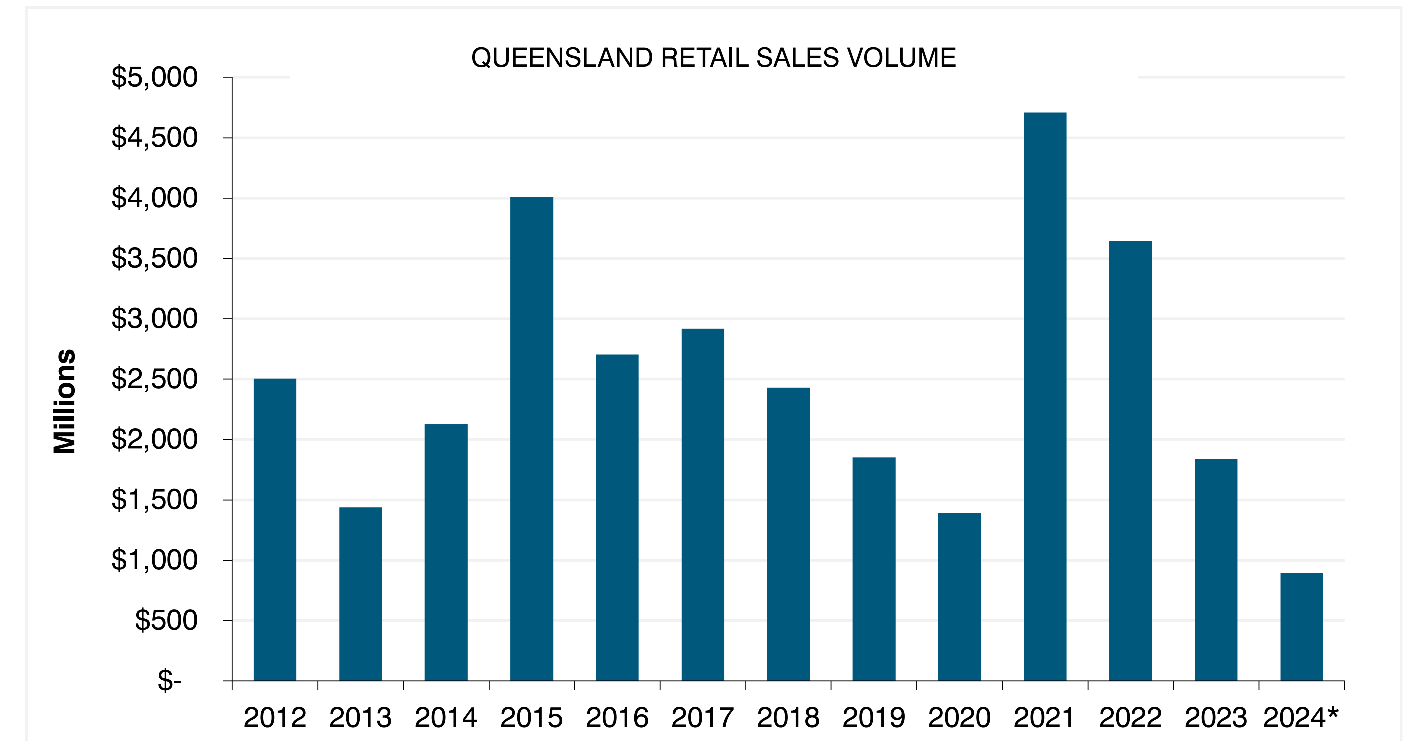
- There has been 1 transaction of more than $300 million and 1 transaction of more than $100 million so far in 2024.
- The largest transaction so far in 2024 is the sale of Cairns Central Shopping Centre, a regional shopping mall in Cairns, which sold for $390 million to Fawkner Property in February 2024.

INVESTMENT MARKET

- According to RCA, there have been 23 retail sales totalling $893.3 million recorded across the Queensland market to the end of H1 2024. Total sales volume for H1 2024 is higher than $701.5 million recorded for H1 2023.
- Given that there were fewer transactions in H1 2024 (23 as compared to 27 in 2023), price per transaction has increased significantly.
- Institutional investors have been the most active buyer group in 2024, accounting for 61.6% of sales (by $ value). Private investors were the next largest buyer groups taking up circa 20.8% of sales.
- Meanwhile, listed funds and REITs have been unloading their QLD Retail assets in 2024, comprising 64.2% of transactional sellers.

“AS WE SEE MORE CERTAINTY AROUND INTEREST RATES, IT IS LIKELY WE’LL SEE AN INCREASE IN ACTIVITY IN THE MARKET.”

- DUANE GILLILAND



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

M3

JEREMY HOFFMAN
Director | Specialised Assets

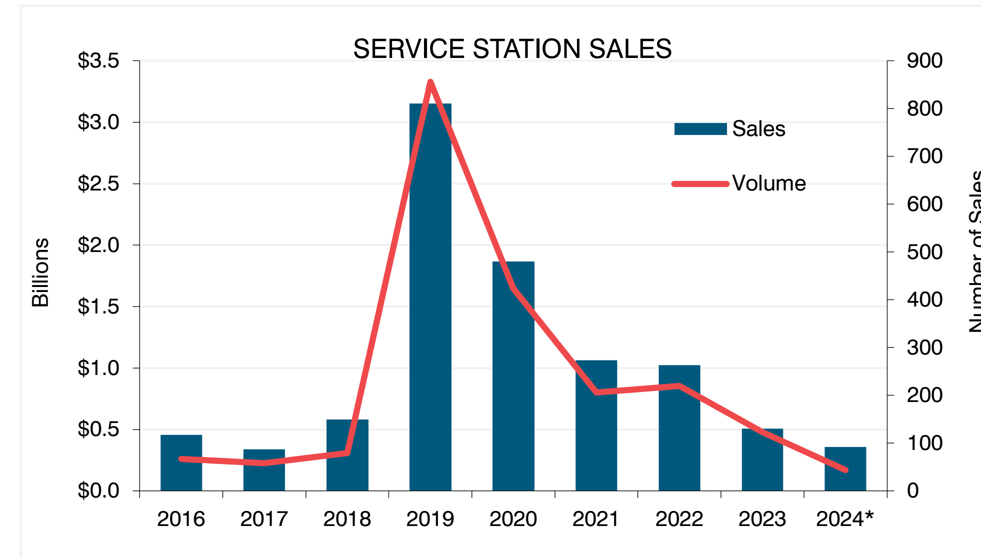
> "During the first half of 2024, the Queensland Service Station market has seen upward pressure on capitalisation rates which appears to be more pronounced for secondary assets and locations. We are seeing increased barriers to entry, with the cost to build making it harder to develop assets.
>
> Lower volumes of fuel and shop sales are evident, however higher margins are being seen. This is a result of broader market conditions and cost of living pressures, including people travelling and consuming less, as well from increasing electric vehicle use.
>
> Moving forward, we expect to see continued demand for well-located prime assets with high-quality tenants."

CURRENT STATE OF PLAY

- The total value of service station transactions is up both nationally and in Queensland for the first half of H1 2024 compared with H1 2023.
- 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.
- Service station yields have softened since the second quarter of 2022.

INVESTMENT MARKET

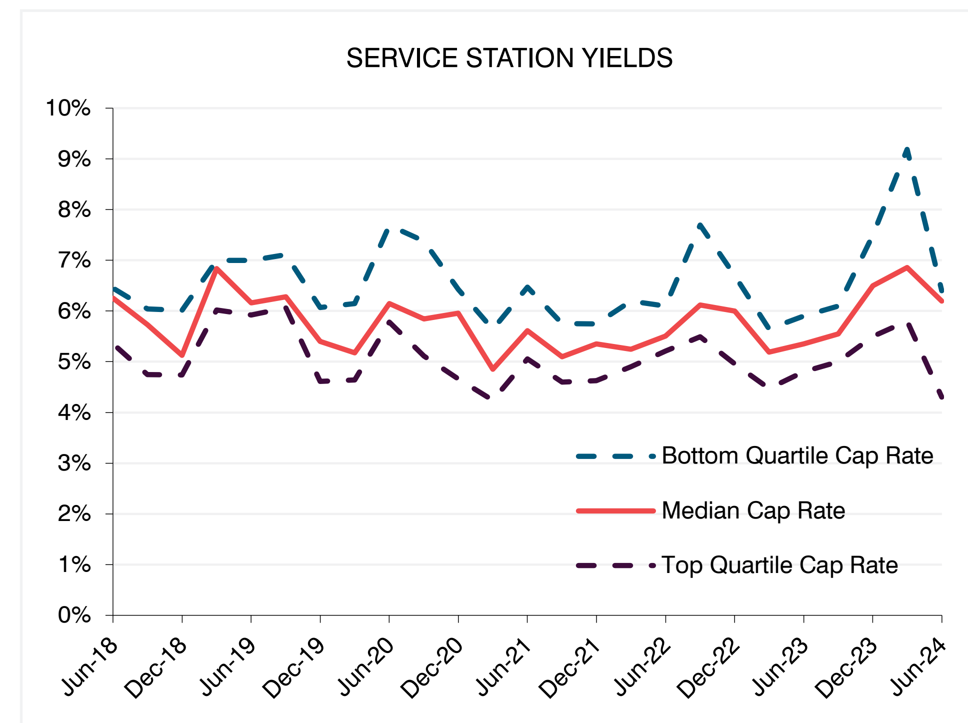
- According to RCA, there have been 51 sales of service stations totalling $265.6 million across Australia to the end of H1 2024. The total sales amount for H1 2024 is higher than the 55 sales totalling $259.4 million recorded across Australia for H1 2023.
- Of the 51 national sales, there were 19 sales totalling $104 million in Queensland to the end of H1 2024. This is slightly higher than the 20 sales totalling $99.7 million recorded for H1 2023
- Total value of service station investments are up both nationally and within Queensland 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

- Service station yields have been coming under upward pressure over the past 12 months and transaction activity has remained subdued compared to the peak of the market around 2019/20. However, yield levels for service stations have historically stayed around the 6% threshold, and with the surge in activities over the last quarter, yield levels seem to have restabilised at the same position.
- 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.
- 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.

KEY CONTACTS

MICHAEL COVERDALE
Managing Director
michael.coverdale@m3property.com.au
+61 405 711 210

DUANE GILLILAND
Director | Retail
duane.gilliland@m3property.com.au
+61 401 955 609

JAMES RUBEN
National Director | Specialised Assets
james.ruben@m3property.com.au
+61 408 497 038

JEREMY HOFFMAN
Director | Specialised Assets
jeremy.hoffman@m3property.com.au
+61 468 646 985

MITCH ENRIGHT
Director | Health
mitchell.enright@m3property.com.au
+61 430 181 007

ROSS FARWELL
Director | Industrial
ross.farwell@m3property.com.au
+61 401 933 994

STEPHEN LINNANE
Director | Residential Development
stephen.linnane@m3property.com.au
+61 452 476 617

m3property.com.au

DISCLAIMER © M3 Property Australia Pty Ltd. Liability limited by a scheme approved under Professional Standards Legislation. This report is for information purposes only and has been derived, in part, from sources other than M3 Property and does not constitute advice. In passing on this information, M3 Property makes no representation that any information or assumption contained in this material is accurate or complete. To the extent that this material contains any statement as to the future, it is simply an estimate or opinion based on information available to M3 Property at that time and contains assumptions, which may be incorrect. M3 Property makes no representation that any such statements are, or will be, accurate. Any unauthorised use or redistribution of part, or all, of this report is prohibited.