M3 PROPERTY

SPECIALIST
INDEPENDENT
VALUATION

SOUTH AUSTRALIAN MARKET SNAPSHOT

APRIL 2025

CONTENTS

SOUTH AUSTRALIAN MARKET SNAPSHOT

APRIL 2025

South Australia's property market held firm through H2 2024.

Industrial rental growth continued off the back of tight vacancy, with pre-leased builds remaining key. Office vacancy eased to 16.4%, underpinned by strong CBD absorption, even though yields softened.

Healthcare activity was limited but saw higher-value transactions. Retail bounced back with $1.1B in deals, especially in sub-regionals. Residential values climbed sharply despite some supply constraints, with the performance of the hotel market stabilising amid interstate demand and ADR growth. With interest rates easing, renewed transactional activity is expected into 2025.

Our experts across valuation sectors share their analysis and insights in our latest South Australia 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

JAMES RUBEN

National Director | Specialised Assets

"Australia's childcare sector continues to evolve amid rising demand, policy reform, and shifting investment trends. The childcare subsidy that has been introduced and refined over the past several years continues to underpin performance of the sector, and underwrite investor confidence.

Investment in the sector remains strong, with 2024 recording $950.9 million in sales nationally — up from $351 million in 2023—although still below the record highs of 2021. Yields in SA over the past 12 months for leased centres have typically ranged from 5.00% to 6.50%, with investors focused on tenant strength, catchment performance, and centre quality.

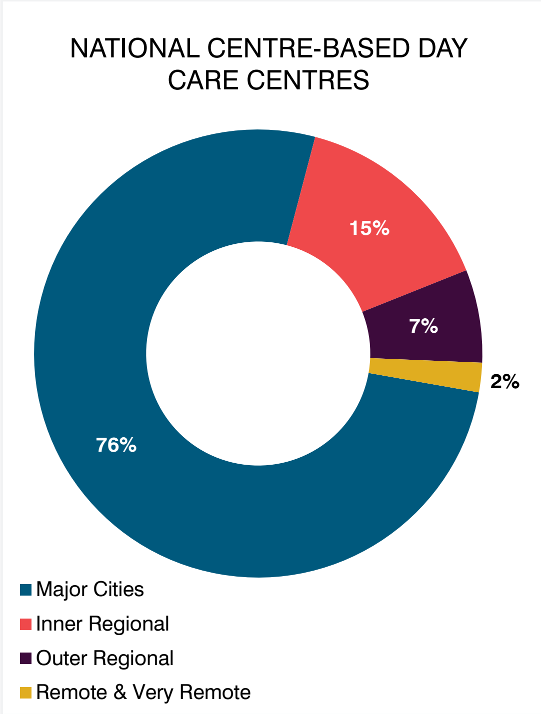
Labour shortages remain a key challenge, though government funding aims to alleviate this over the near term. Supply pressures in metro markets are impacting occupancy, while integration of centres into office developments is growing. With bipartisan support and strong demographic trends, long-term demand is expected to remain positive. Private investors dominate recent activity as institutional groups continue to divest from the sector."

"INVESTMENT IN THE SECTOR REMAINS STRONG, WITH 2024 RECORDING $950.9 MILLION IN SALES NATIONALLY — UP FROM $351 MILLION IN 2023."

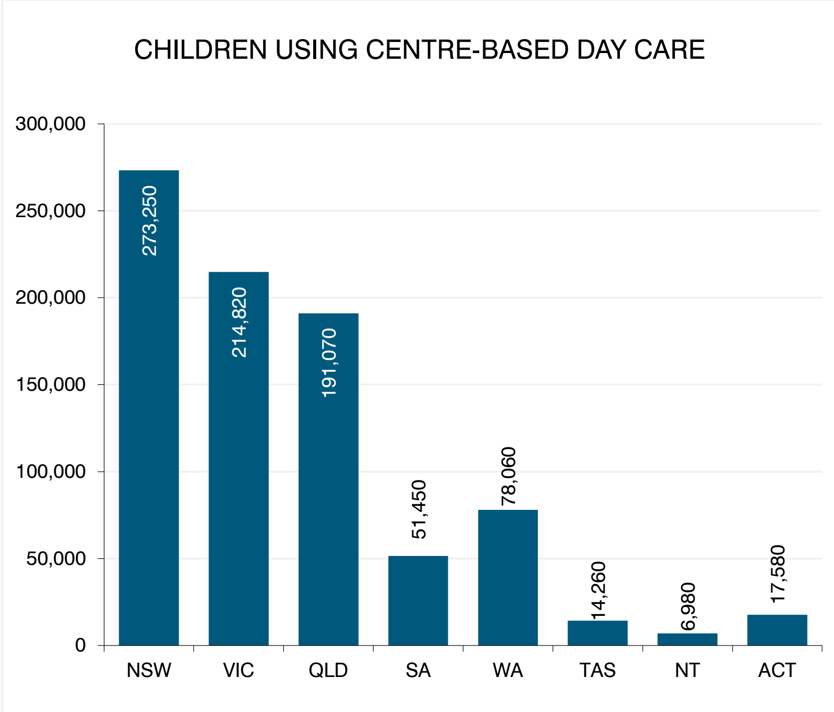
- JAMES RUBEN

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



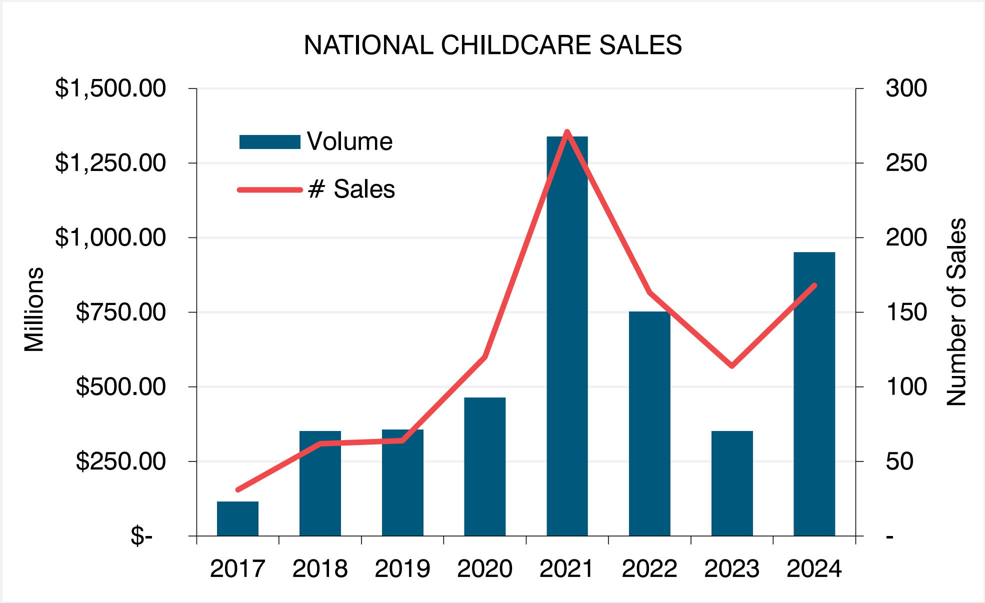
Source: Dept of Education, GapMaps, M3 Property



Source: Dept of Education, GapMaps, M3 Property

INVESTMENT MARKET

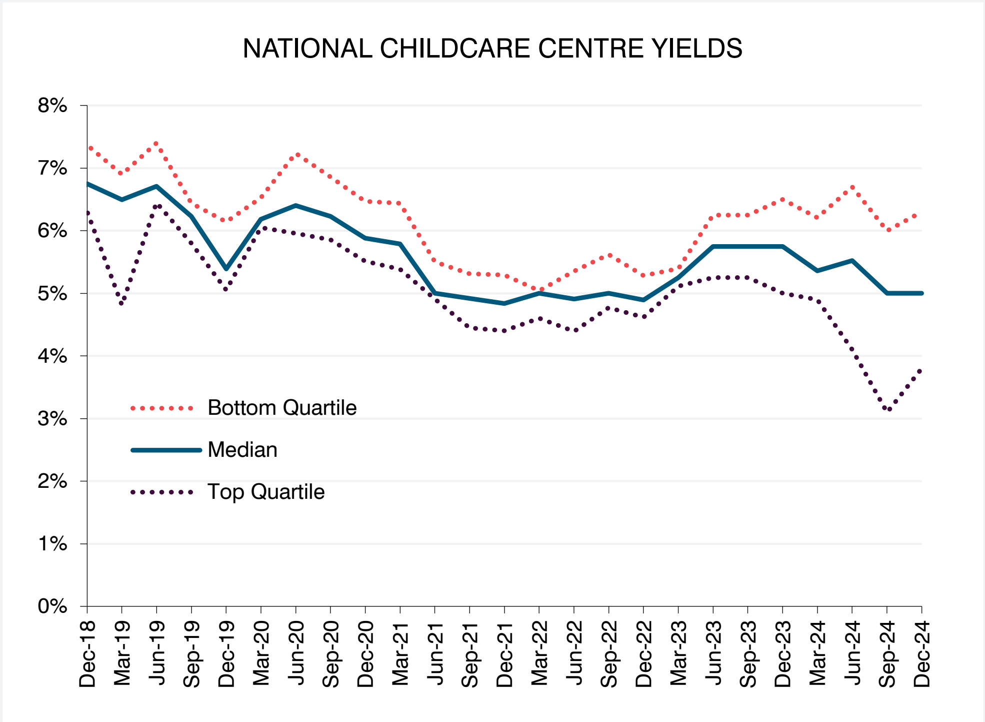
- Childcare centre values are dependent on location, supply/demand, competition, centre size and tenant covenant.
- The childcare investment market showed a high level of resilience during the COVID-19 pandemic. Childcare investment activity reached a record high in 2021, with $1.34 billion of sales (271 properties) recorded nationally.
- While still down on the 2021 record, sales in the childcare sector picked up significantly in 2024. According to Real Capital Analytics (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 and 114 transactions in 2023.



Source: Real Capital Analytics (RCA), M3 Property

YIELDS

- Yields for prime freehold interests are in the band of 3.80% to 6.30%. Yields tightened over recent years until 2022. Demand for well-placed centres is still competitive, however other market factors like strong rental growth and investor appetite have pushed yields upwards.
- In the current economic environment, the focus of investors has been heightened to the strength of the tenant lease covenant and centres with known established operators often achieve premium market rates, however for sites which do not meet these investment standards, investors are using their buying power to negotiate purchaser-favourable pricing.
- Childcare investors include small and medium-sized operators, and small-scale passive investors along with large investment trusts and owners; ownership in the childcare market is becoming increasingly consolidated.



Source: M3 Property

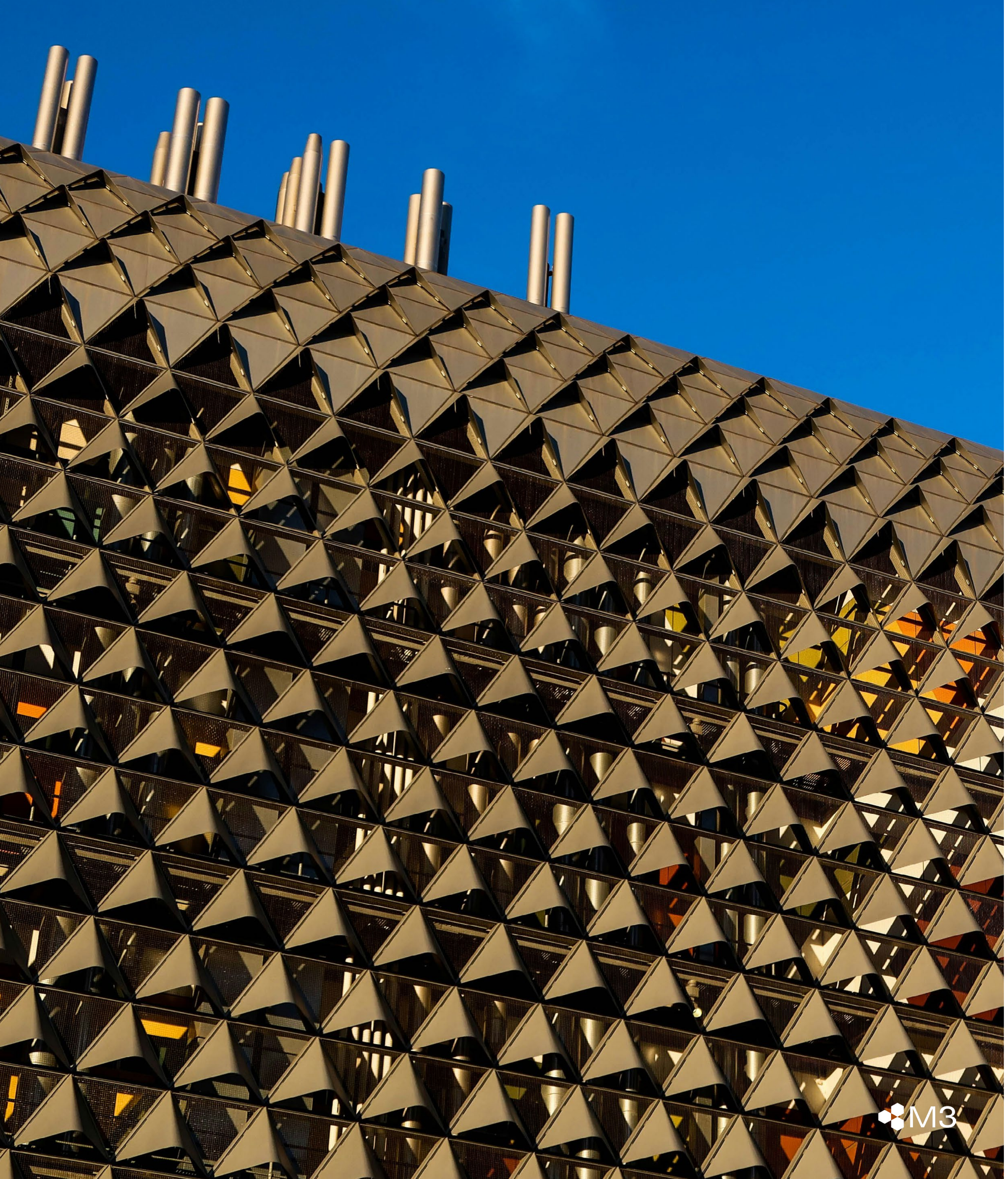
OPPORTUNITIES AND CHALLENGES

- New supply has pushed occupancy rates down to relatively low levels in some metropolitan markets.
- The sector continues to face labour shortages which have resulted in some 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.
- In the May 2024, federal Budget, the government committed to funding a 15% pay increase for early childhood educators, with operators required to commit to capping fee increases by 4.4% over the next year. The pay rise will be phased in over two years, with a 10% increase from December 2024 and a further 5% from December 2025.

OUTLOOK

- An increase in the number of children between 0- to 5-years old and increasing participation in the labour market will drive demand for childcare and the development of new childcare centres in some areas.
- The number of children aged 0- to 5-years old is forecast to increase by 5.29% in South Australia by 2031, which is lower than most other states and territories, except NSW and Tasmania.
- Labour force participation rates are forecast to trend upwards to reach around 64% in South Australia by 2027; this is expected to contribute to a continued increase in the average number of hours children attend childcare per week.
- There is strong bipartisan government support for the childcare sector that will see continued funding 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 major institutional groups continue acquiring centres and portfolios of centres, with more activity from private equity firms expected over the medium term.
- An increase in existing centres undergoing refurbishments and upgrades going forward is anticipated in order to compete for customers within the centre's catchment.

HEALTHCARE

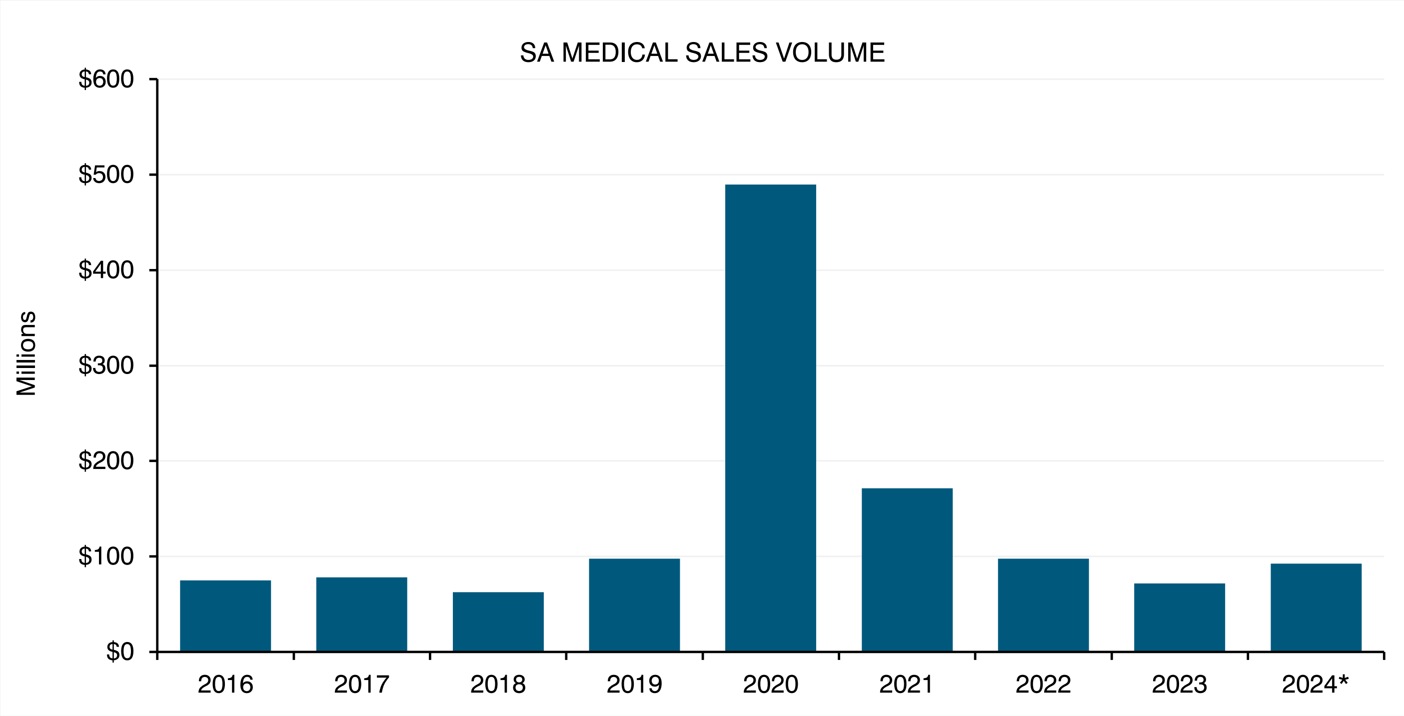


SIMON HICKIN
Director | Healthcare & Office

"South Australia's healthcare sector has seen reduced sales activity during 2024 in comparison with the previous year, even though the total value of assets traded is higher, driven primarily by two large investment transactions.

Positive underlying market fundamentals continue to drive investment activity in the healthcare sector, although most purchasers are smaller investors, and the dominant asset type is priced under $5.0m.

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



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

INVESTMENT MARKET

- According to Real Capital Analytics (RCA), sales volume of healthcare properties in South Australia for 2024 was $92.7 million from 22 transactions. This compares with $71.8 million from 34 transactions in 2023.
- The largest transaction was $42 million for a healthcare centre at 16 Playford Boulevard, Elizabeth and most other assets were priced under $5.0 million.
- Private investors were the most active buyer's group over 2024, accounting for 93.1% of transactions.

YIELDS

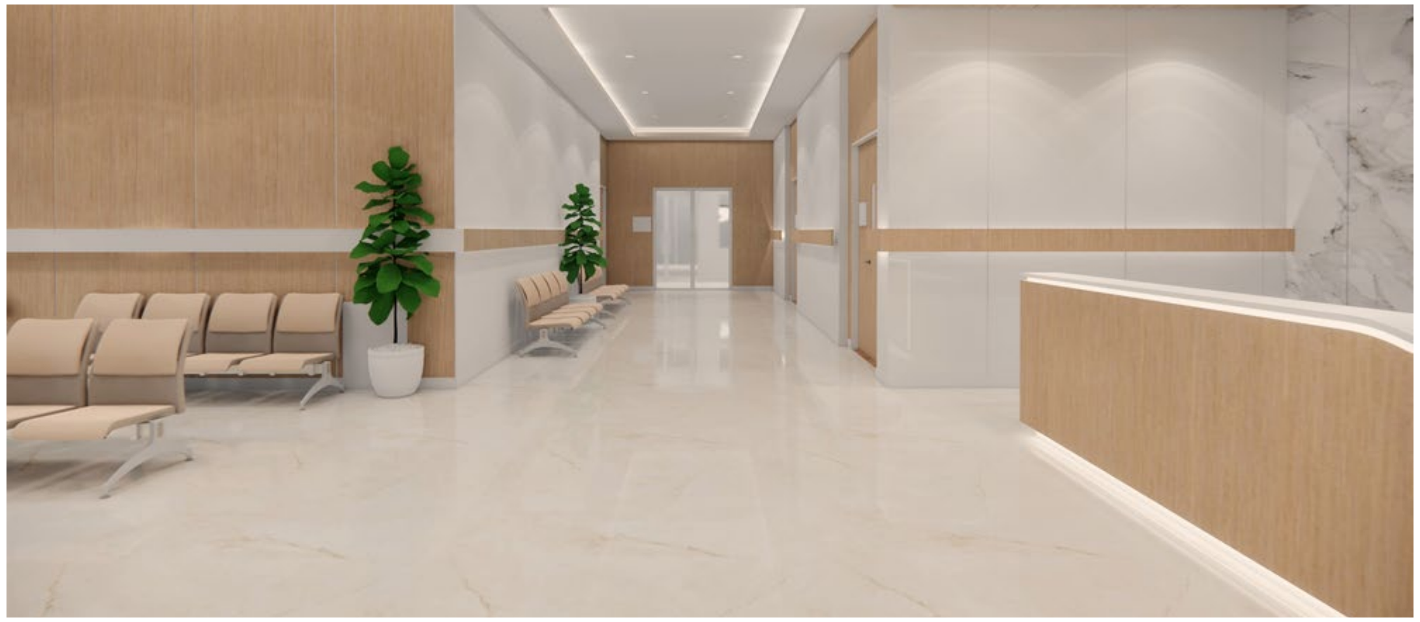
- Yields are averaging around 6% for prime medical centre assets and 7.5% for secondary medical assets (predominantly regionally located older facilities).
- Yields for private hospitals generally range between 5.5% and 6.5% for prime assets, and 6.75% and 7.5% for secondary assets.
- Average cap rates have softened by around 25 basis points to 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 continued to negatively impact investment activity in the healthcare market. Smaller investors remained active during the year, with good enquiry levels for the few 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 grow in importance as a core asset class, supported by key market fundamentals and significant investment growth opportunities.
- 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

ANTONY SCHOBER

Director | Hotels & Leisure

Adelaide's hotel market continues its post-pandemic recovery, with January 2025 occupancy at 70.05%, albeit still below pre-Covid levels. Revenue per available room has rebounded, driven by strong Average Daily Rate growth due to inflation, upgraded stock and improved travel demand supported by high profile events, all of which positions Adelaide as a resilient market within the national hospitality landscape.

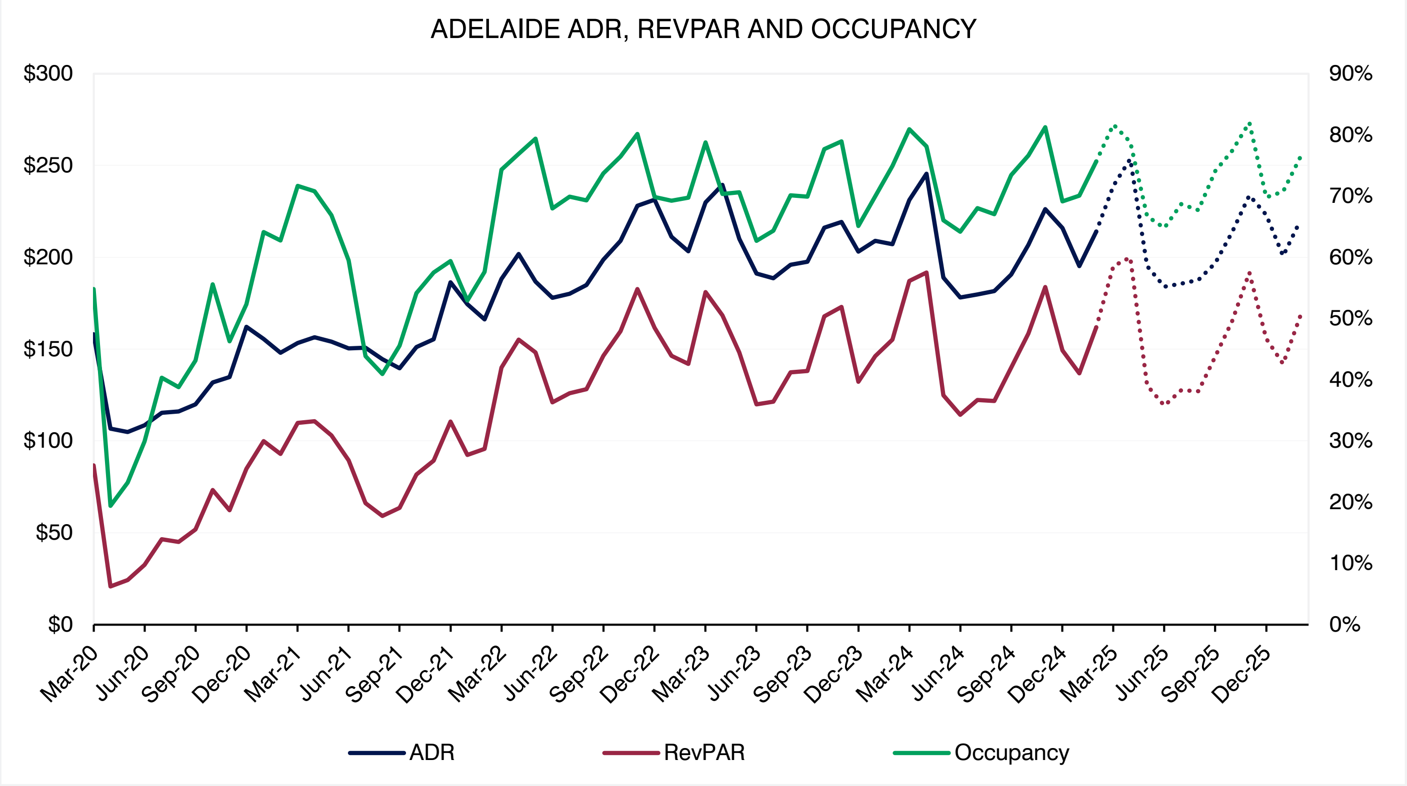
We saw limited hotel transactions in 2024 with a widening bid-ask spread between buyer and seller expectations in addition to high construction costs continuing to challenge the feasibility of new developments. These issues plus a restricted supply pipeline and the growing demand for high-quality accommodation are all forces reshaping Adelaide's hotel investment and operational landscape."

“REVENUE PER AVAILABLE ROOM HAS REBOUNDED, DRIVEN BY STRONG AVERAGE DAILY RATE GROWTH DUE TO INFLATION, UPGRADED STOCK, AND IMPROVED TRAVEL DEMAND.”

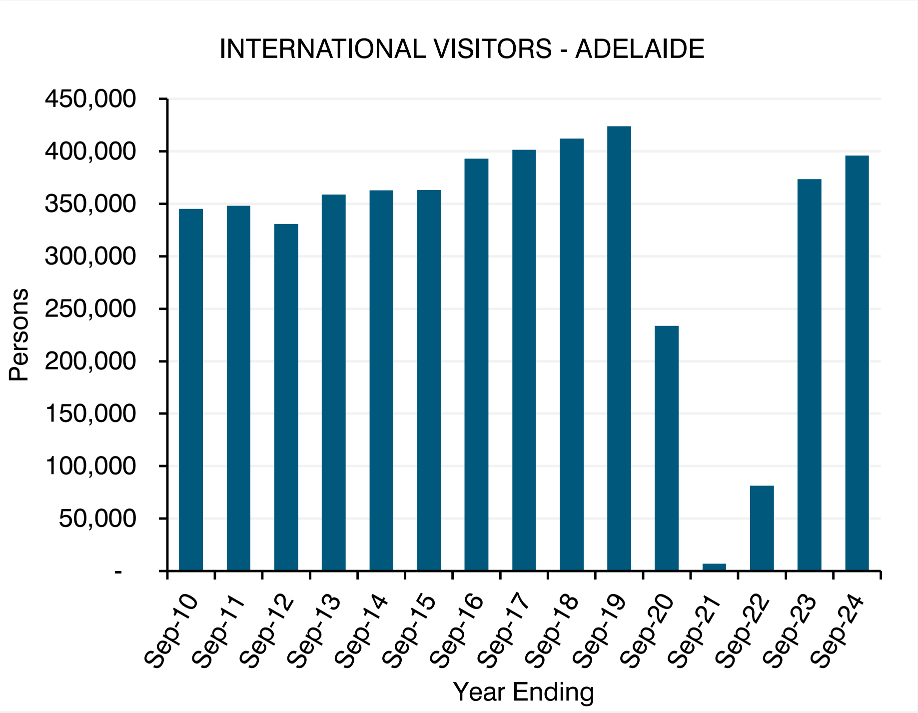
- ANTONY SCHOBER

CURRENT STATE OF PLAY

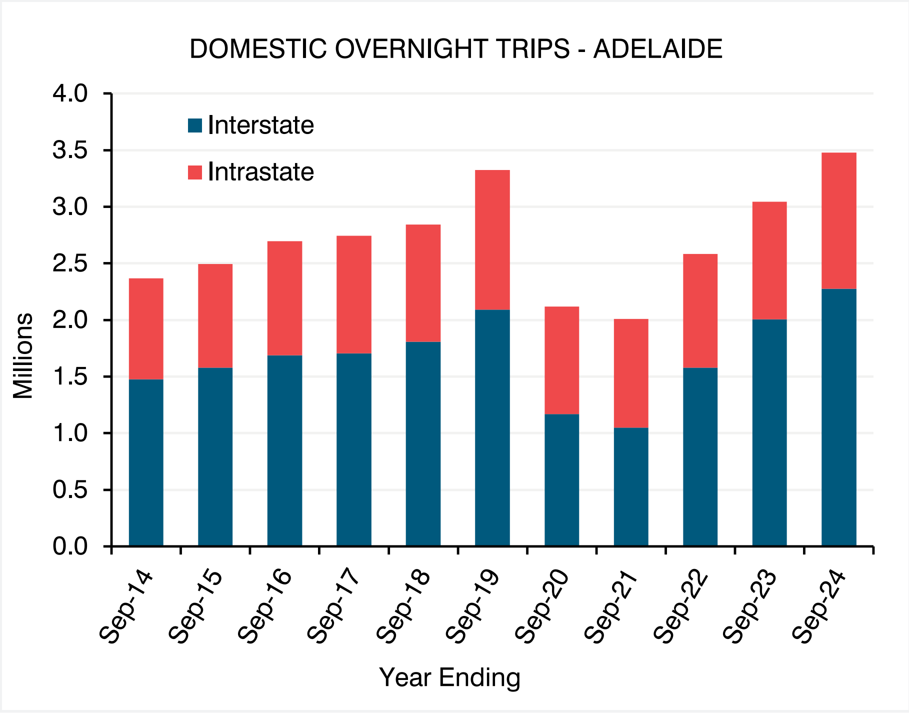
- Prior to the pandemic, the Adelaide occupancy rate generally fluctuated between 70% and 90%. Occupancy rates per room are still below pre-Covid levels, with the Adelaide market recording 70.05% occupancy rates in January 2025; this is comparable to the January 2024 rate, but around 5% lower than the same month pre-Covid.
- Revenue per available room has recovered to pre-pandemic levels which is a result of significant Average Daily Rate (ADR) growth. ADR growth has been influenced by many factors including strong inflation with operators passing on increases in outgoings, an increased quality of stock driving premium rates, and evolving travel trends increasing demand.
- Since the pandemic, international visitor numbers have started rising on a quarterly basis, however, remain lower than pre-pandemic levels. During the year ending September 2024, there were 395,831 international visitors, spending a total 11.35 million nights, in the region.
- Interstate visitor rates to the Adelaide market have returned to pre-pandemic levels.



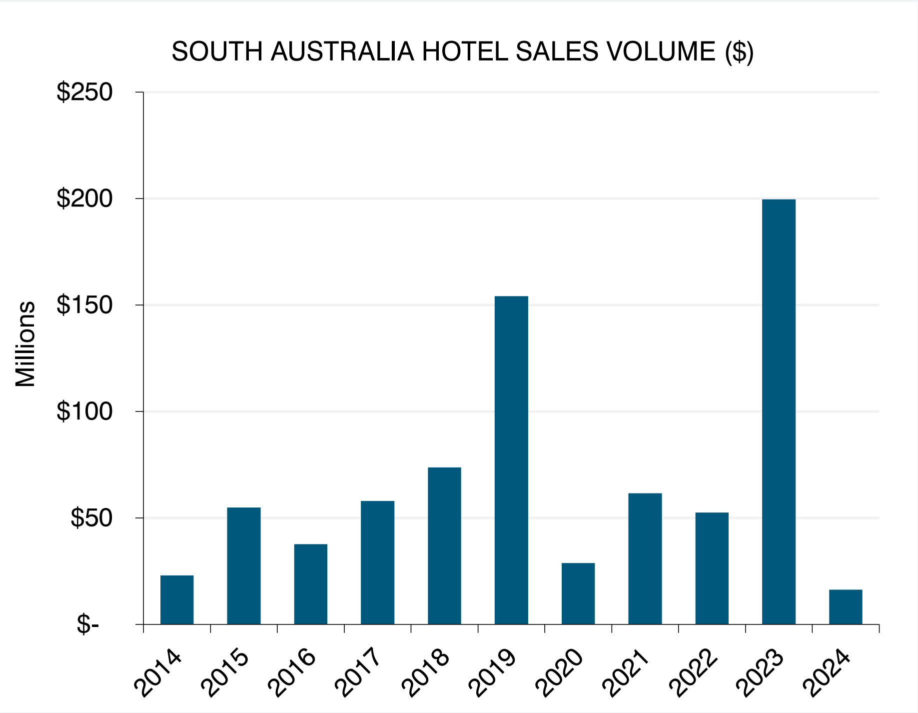
Source: M3 Property, STR



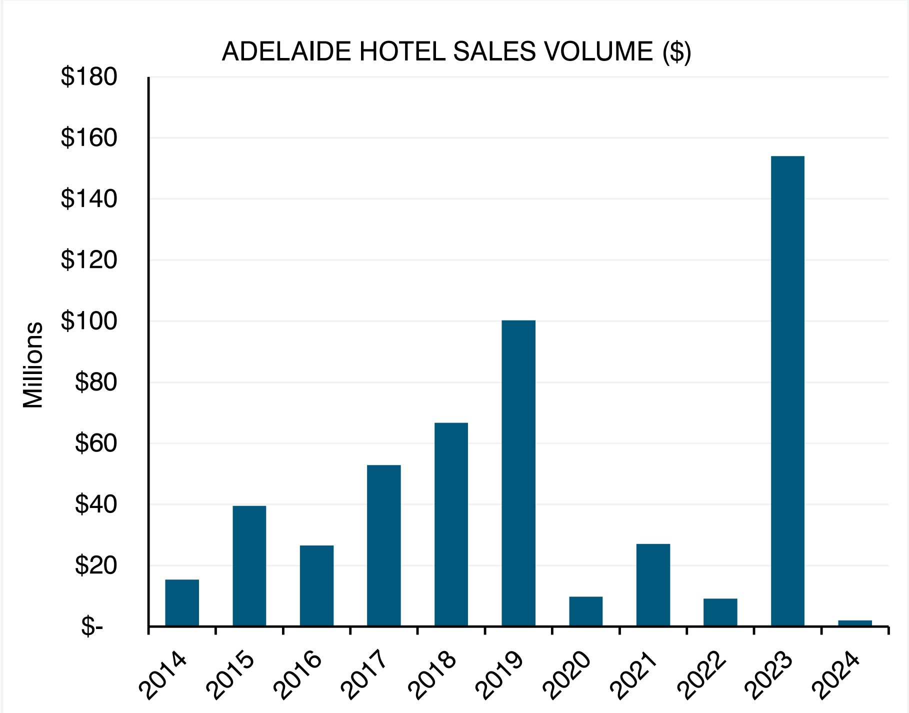
Source: TRA, M3 Property



Source: TRA, M3 Property



Source: RCA, M3 Property



Source: RCA, M3 Property

TRANSACTIONS

- Activity in Adelaide was significantly lower in 2024 due to reduced investment demand. According to RCA, there was only one transaction of a hotel asset in 2024, totalling $1 million. For the broader South Australian market, there were eight transactions totalling $16.38 million. This level of activity is significantly lower than 2023, when there was one transaction totalling $154 million in Adelaide and 11 transactions totalling$199.6 million across South Australia.
- For 2024, private investors were the only group of buyers, acquiring 100% of the hotel assets that sold.

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

MICHAEL LEECH
Managing Director SA

South Australia’s industrial sector remained stable over the second half of 2024. Rents have stabilised after a sustained and strong period of growth while high construction and labour costs have continued to temper new industrial development, with exceptions for strong pre-leasing commitments from tenants.

There continues to be a lack of quality stock on the market, resulting in limited transactions of institutional product. Activity in the sub-$5 million segment remains strong.

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

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

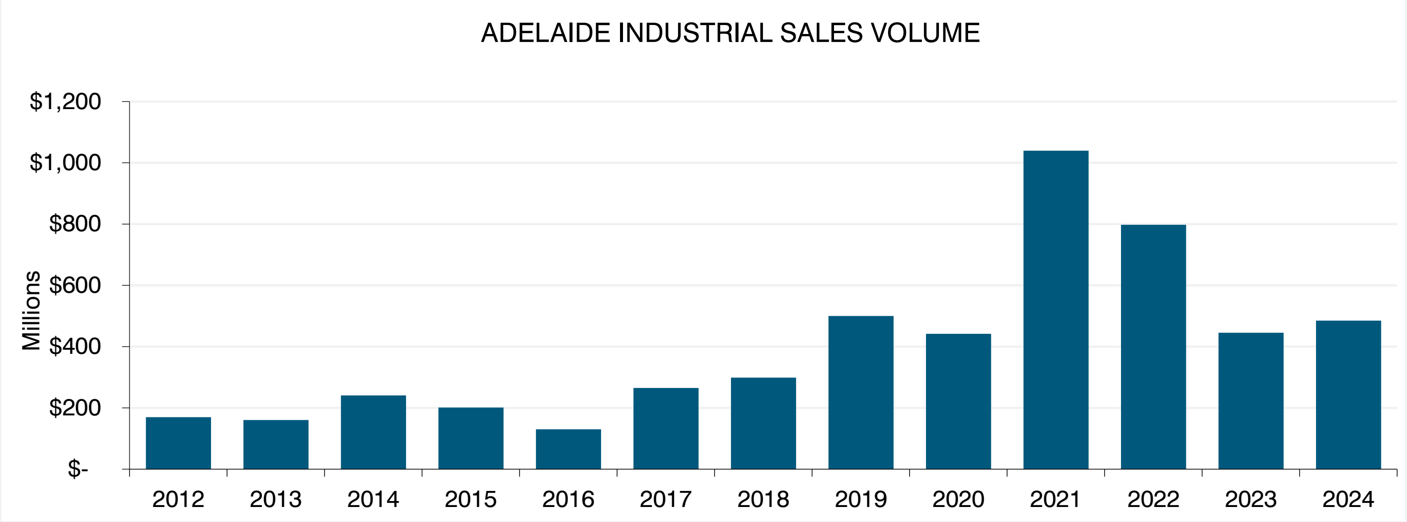
Yields softened somewhat during 2024 for prime and secondary assets across the state, resetting expectations between vendors and purchasers. It is yet to be seen whether recent interest rate cuts will impact this dynamic on the South Australian industrial market moving forward into 2025.

“SOUTH AUSTRALIA’S INDUSTRIAL SECTOR REMAINED STABLE OVER THE SECOND HALF OF 2024. RENTS HAVE STABILISED AFTER A SUSTAINED AND STRONG PERIOD OF GROWTH.”

- MICHAEL LEECH

CURRENT STATE OF PLAY

- The fundamentals of the South Australian industrial market remained strong during 2024, reflecting limited stock and continued demand.
- There has been continued strength in the leasing market and a renewed focus on rental levels from property owners now that market value growth via yield compression has slowed. The Adelaide industrial market witnessed moderate growth in net face rents in the 12 months to December 2024, recording 3.9% growth for prime assets and 6.5% for secondary assets.
- Low vacancy rates have driven rental growth, although this is expected to moderate with tenants focusing on cost control.
- The land market continues to be tight across all markets and Industrial land values have continued to increase over the past 12 months. Growth in land values is expected to moderate in H1 2025, as proposed development becomes difficult or unfeasible, due to elevated construction costs, the increased cost of funding and lower investment values.
- Growth in the transport, postal and warehousing, manufacturing, and wholesale trade industries is expected to strengthen over the coming five years and, together with defence spending, will provide a long-term income base to keep the industrial sector moving.



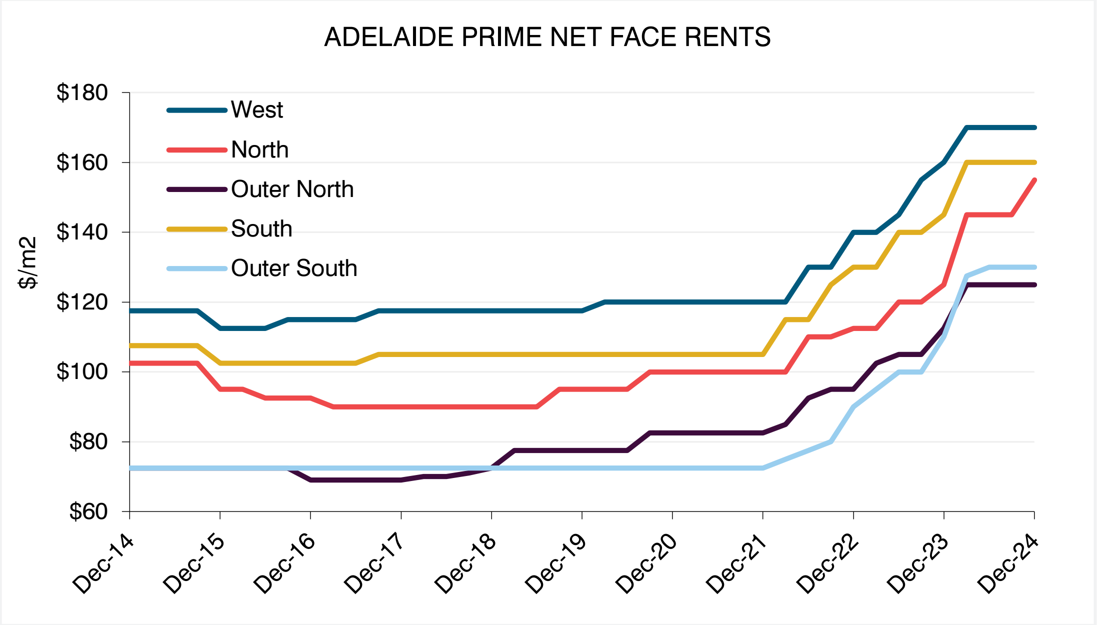
Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over $5 million

INVESTMENT MARKET

- There was $485.29 million of industrial properties transacted across South Australia during 2024, compared with $445 million transacted in 2023.
- Private investors were the primary transactors during 2024, accounting for 70.7% of purchases and 32.4% of sellers.
- Listed funds and Real Estate Investment Trusts (REITs) have largely paused purchasing in the SA industrial market while offloading a small percentage of their portfolio; the majority of transactions are with private investors, with a small portion of institutional investors active in the market.

RENTAL MARKET

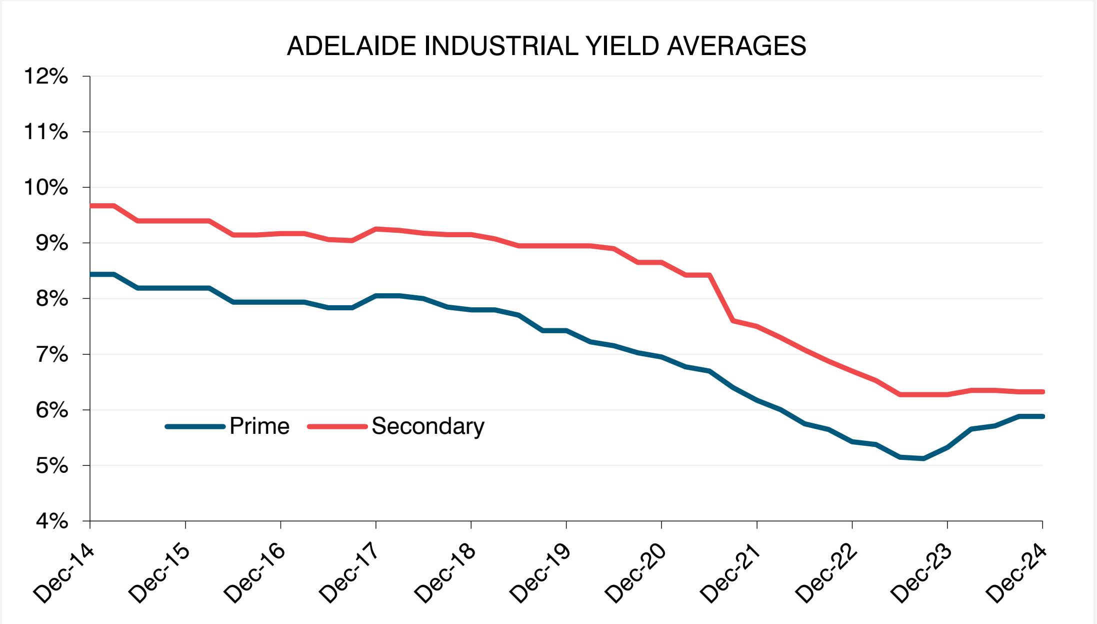
- Across the Adelaide metropolitan market, prime net face rents are ranging between $115 and $190 per square metre. Prime rents increased by 3.9% over the 12 months to December 2024.
- Leasing activity continues to be the strongest in the outer north and west, with several large-scale projects in the area including Renewal SA's Edinburgh Park precinct, the adjacent Vicinity estate at Direk developed by the Walker Corporation, Charles Sturt Industrial Park, and Lionsgate Estate (formerly GM's headquarters). These projects have benefited from state government incentives to bring employment to South Australia.



Source: M3 Property

YIELDS

- There remains a spread between Adelaide's industrial yields and other eastern seaboard industrial yields, making the market attractive to investors looking for yield and geographic diversification, whilst also obtaining a competitive return.
- Yields have softened in the 12 months to December 2024. Prime industrial yields have softened by around 22 basis points and are typically ranging between 5.5% and 6.5%, averaging at 5.89%. Secondary yields are between 5.5% and 7.75%, with an average of 6.35%.
- Properties with greater than average weighted average lease expiries (WALEs) are continuing to see strong demand and trading at lower-than-average rates because of the lower income risk associated with the investment.



Source: M3 Property

OPPORTUNITIES AND CHALLENGES

- Vacancies remain tight, particularly for prime-grade properties where the vacancy rate is below 2%. This is expected to continue in the short term, providing a moderated yet positive outlook for rental growth. As the market changes in response to softening economic conditions, supply shortages may potentially hide any signs of weakening demand as the supply-demand equilibrium is progressively restored.
- A continued scarcity of land suitable for development prevails with a concerning lack of future englobo opportunities, thus presenting increased opportunities for gentrification of older industrial precincts.

OUTLOOK

- The Reserve Bank of Australia (RBA) cut the interest rate by 25 basis points to 4.1% in February 2025, after keeping the rate on hold at 4.35% since November 2023 to combat rising inflation.
- It appears the market is approaching the end of the yield decompression cycle. Sale volumes are expected to continue gathering momentum in 2025 with the new interest rate cut.
- The supply pipeline is thinning in parts, reflecting rising construction costs and supply chain challenges.

CBD OFFICE

SIMON HICKIN

Director | Healthcare & Office

> "South Australia's institutional-grade office market saw continued subdued demand in the second half of 2024, with reduced activity in the market and vendors extending sales periods. With the RBA reducing the cash rate by 25 basis points in February, we anticipate market activity will pick up in 2025.
>
> Adelaide's office leasing market is seeing increased levels of activity, with total vacancies decreasing from 19.3% in January 2024 to 16.4% in January 2025 and 51,467 square metres of office space absorbed by new tenants, the strongest net absorption of all CBD markets in Australia.
>
> As interest rates continue to reduce and confidence increases across markets, we expect increased transactional activity to return to the investment sector."

AS INTEREST RATES CONTINUE TO REDUCE AND CONFIDENCE INCREASES ACROSS MARKETS, WE EXPECT INCREASED TRANSACTIONAL ACTIVITY TO RETURN TO THE INVESTMENT SECTOR."

- SIMON HICKIN

CURRENT STATE OF PLAY

- According to the Property Council of Australia (PCA), there was 1,570,376 square metres of office space in the Adelaide CBD as of January 2025; a year-on-year increase of 6,811 square metres.
- The total vacancy rate for Adelaide's CBD office market decreased from 19.3% in January 2024 to 16.4% in January 2025; the reason for this decrease is that 51,647 square metres of office space was absorbed by new tenants, the strongest net absorption of all CBD markets in Australia.
- 42-56 Franklin Street, Adelaide (approx. 21,000 square metres), and the Market Square development at 30 Gouger Street (approx. 22,000 square metres) are currently under construction, with a further 56,948 square metres of office space under refurbishment, including major refurbishments of 45 Pirie Street and 30 Pirie Street.
- Significant repricing has occurred in the Adelaide CBD with a further softening in investment returns over the year. Prime yields are now tracking 100 basis points to 200 basis points above the peak of the market in 2021.
- Since the interest rate increases from mid 2022, the office sector has seen a slowing in transactional activity - especially for higher-priced assets - and a softening in investment returns; the degree of softening differs significantly depending on the quality of the asset and lease expiry profile.
- With the RBA reducing the cash rate by 25 basis points in February 2025, we expect to see market activity pick up in 2025.
- Tenants continue to see value opportunities in the CBD due to proximity to restaurants, events and more, contributing to a shift in fringe and suburban tenants moving into the CBD.
- Corporate occupiers continue to show demand for flexible space that can be expanded or contracted during the term of the lease, buildings with high energy and wellness ratings, outdoor areas, building third space, and natural lighting.

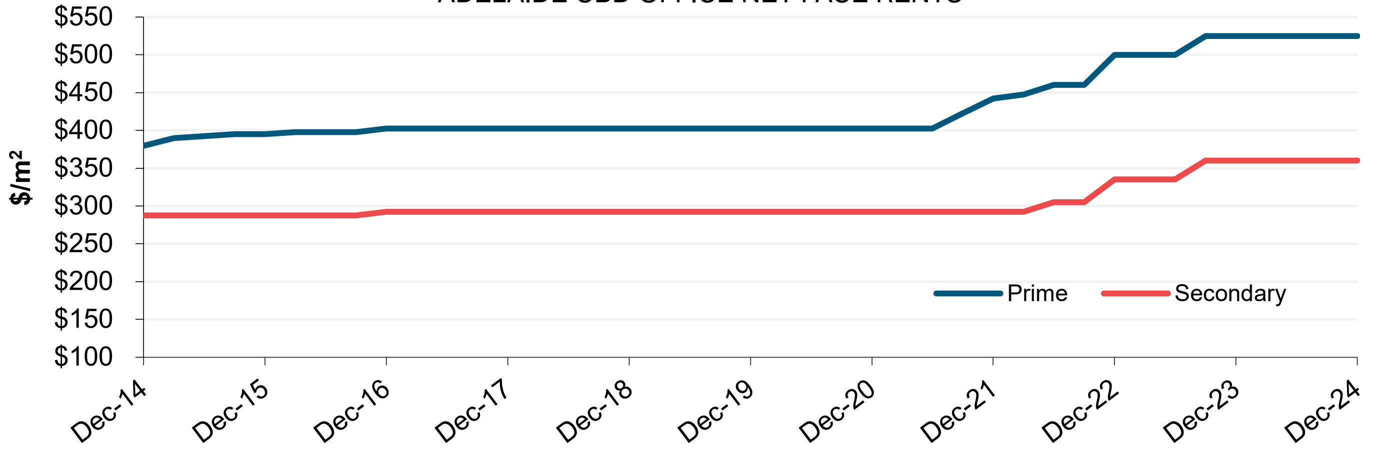
OPPORTUNITIES AND CHALLENGES

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

OUTLOOK

- Employment growth in white-collar employing industries is forecast to strengthen over the medium-term, with annual growth of 3.1% forecast by BIS Oxford Economics each year until 2027.

ADELAIDE CBD OFFICE NET FACE RENTS

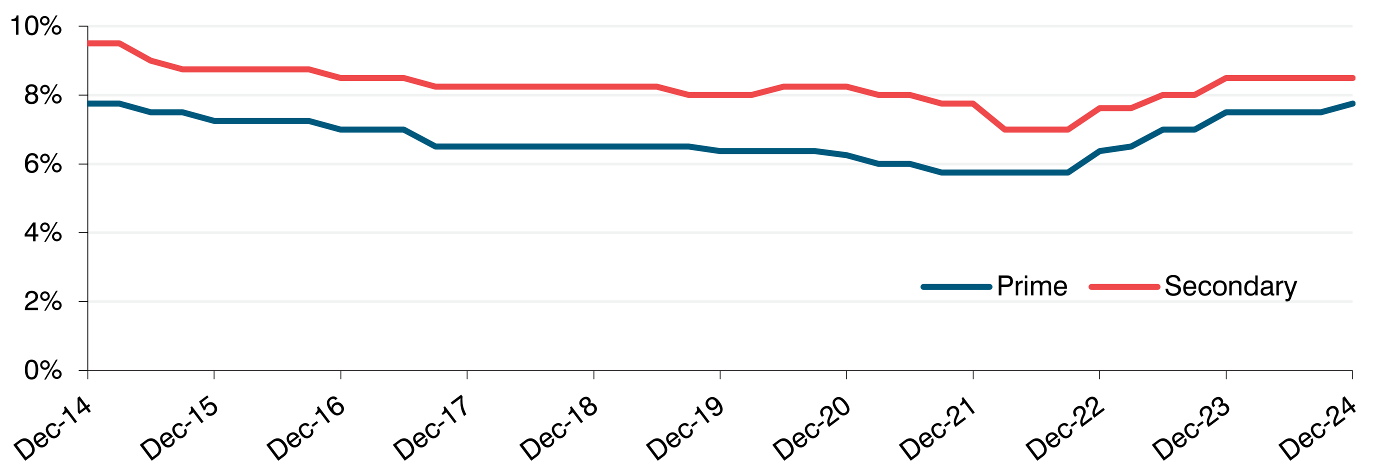


Source: M3 Property

RENTAL MARKET

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

ADELAIDE CBD YIELDS

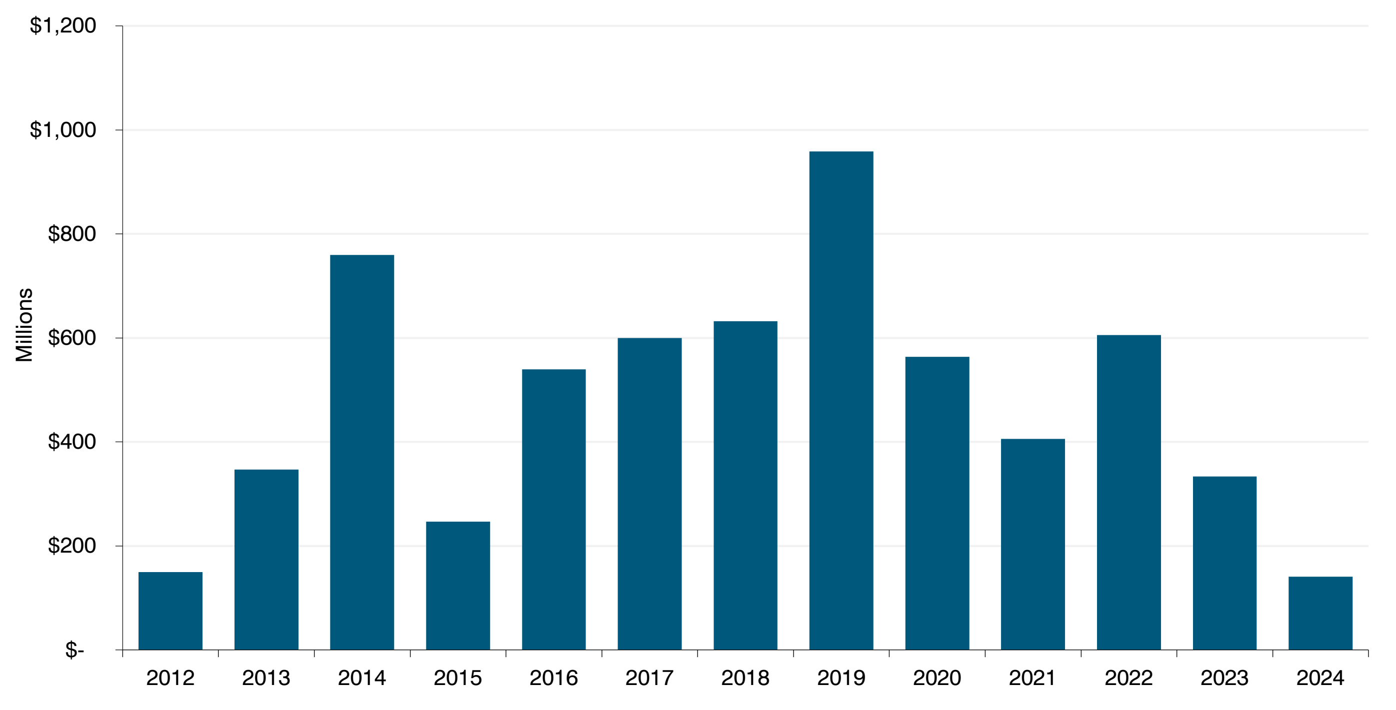


Source: M3 Property

YIELDS

- Purchasers continue to have a greater focus on pricing risk, income security and strength of tenant covenants.
- The attractive spread between office yields in Adelaide compared to eastern seaboard yields fueled investor interest and sales volumes over recent years.
- Yields softened in the first half of 2024 but remained stable in the second half of the year, with prime yields ranging between 7% and 8% and secondary yields ranging between 8% and 9% in the December 2024 quarter.

ADELAIDE CBD OFFICE SALES VOLUME



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

INVESTMENT MARKET

- According to RCA, there were five sales totalling $141.03 million recorded in the Adelaide CBD office market in 2024, significantly lower than the 12 sales totalling $333.62 million recorded for 2023.
- Private investors were the largest buyers of office property in Adelaide in 2024, accounting for 81.9% of the transactions, with institutional investors accounting for the remaining 18.1% of transactions.
- The largest transaction to occur in 2024 was the sale of City Central Tower 2 by Charter Hall at 121-129 King William Street, acquired for $84.25 million by a private Adelaide-based investor.

RESIDENTIAL DEVELOPMENT

KYM DREYER
Director | Residential Development

"During the second half of 2024 and into the early months of 2025, Adelaide's residential market continued to show strong results, with strong demand and the lack of available housing, apartment product as well as established land available in the market continuing to drive robust price growth.

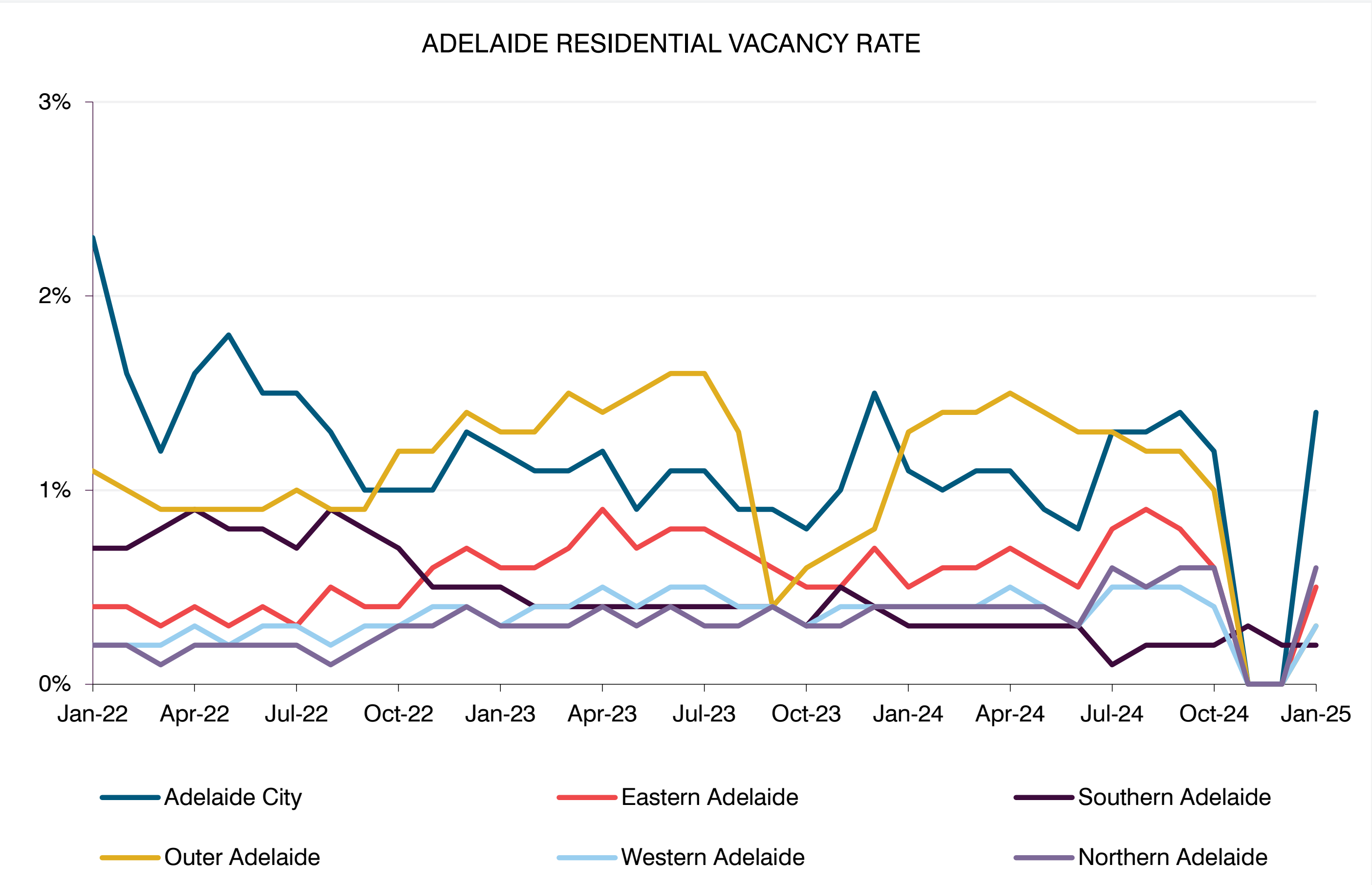
In 2025, we anticipate land prices for proposed allotment product within the major growth areas of Adelaide may stabilise somewhat, but this is contingent on the supply of finished allotment product. This supply is currently being impacted across the major growth areas within metropolitan Adelaide due to the lack of service infrastructure.

The residential development market is continuing to see strong price growth for greenfield sites, with anecdotal evidence of significant increases in price levels being achieved for sites – especially within the northern growth areas of metropolitan Adelaide and also in Mount Barker. We expect that as land is rezoned within growth areas identified by the South Australian government, similar price growth is anticipated.

However, some projects are expected to be delayed up until 2026 with future development being tempered by the lack of service infrastructure currently available with a number of fringe suburban locations with the South Australian government now providing funding to fast track the provision of services into the future."

CURRENT STATE OF PLAY

- The median house price for Adelaide grew by 12.59% to reach $872,553 in February 2025. The median unit price increased 20.52% to reach $685,291 in February 2025.
- Strong price growth in the absence of comparable wages growth has resulted in a sharp and substantial deterioration in housing affordability in both the metropolitan and non-metropolitan markets.
- Vacancy across Adelaide's metropolitan residential market continues to be well below the benchmark equilibrium rate of 3.0%, indicating that the market is significantly undersupplied.
- The tight vacancy rate continues to drive strong growth in rental rates. In the 12 months to January 2025, rental rates for houses increased by 4.6% across the Adelaide Metropolitan area to reach $665 per week; rents for units/flats also saw robust growth, with rents increasing by 14.7% to reach $516 per week.



Source: M3 Property, SQM

OPPORTUNITIES AND CHALLENGES

- While South Australia benefitted from positive net interstate migration flows during much of the pandemic, this has slowed with negative net interstate migration for the year to June 2024; strong overseas migration is forecast to continue during 2025.
- Despite affordability deteriorating over the past few years, the Adelaide residential market remains one of the more affordable capital cities in Australia.
- Tight vacancy rates across the city are expected to continue pushing rental rates upwards, albeit at a slower rate than the last few years.
- Despite development constraints, there was significant price growth within new estates with allotment prices reported to rise by 22% over the year. The decline in sales activity paired with rising prices indicates continued strong levels of demand in the market.
- Given the tight rental market, there is an increasing number of investors participating in the market highlighting the speculative nature currently influencing the land market.

OUTLOOK

- Dwelling prices are expected to stabilise over the medium term, with the unit / apartment market likely to be more insulated than the established house market due to tight rental market conditions.
- Given strong growth in purchaser demand for established allotments, demand for englobo land parcels will continue to be strong, with record prices reported for greenfield sites across metropolitan Adelaide.
- The SA government's 2023 Land Supply Report shows there to be circa 21,650 development-ready greenfield lots across greater Adelaide. The outer north region has the largest supply of these lots (14,550 lots) together with the largest estimated supply of undeveloped zoned and future urban growth lots.
- The SA government is boosting residential land supply and paving the way for close to 40,000 new residential homes across the state as part of the A Better Housing Future plan, and the current pipeline of residential rezonings.
- The performance of the 2025 market will be influenced by the ongoing issues around falling levels of allotment production, ongoing levels of accumulated pulled forward demand influenced by government grants / rebates etc. and investor demand. The net result from these influences we expect will be moderating sale volumes, placing upward pressure on pricing, and high demand from investors.

RETAIL

SHAUN O’SULLIVAN
Director | Retail

“In 2025 the Shopping Centre and Retail investment market is poised for continued gains.

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 expected to continue to occur as owners re-weight their portfolios and recycle capital. On the income side, 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.

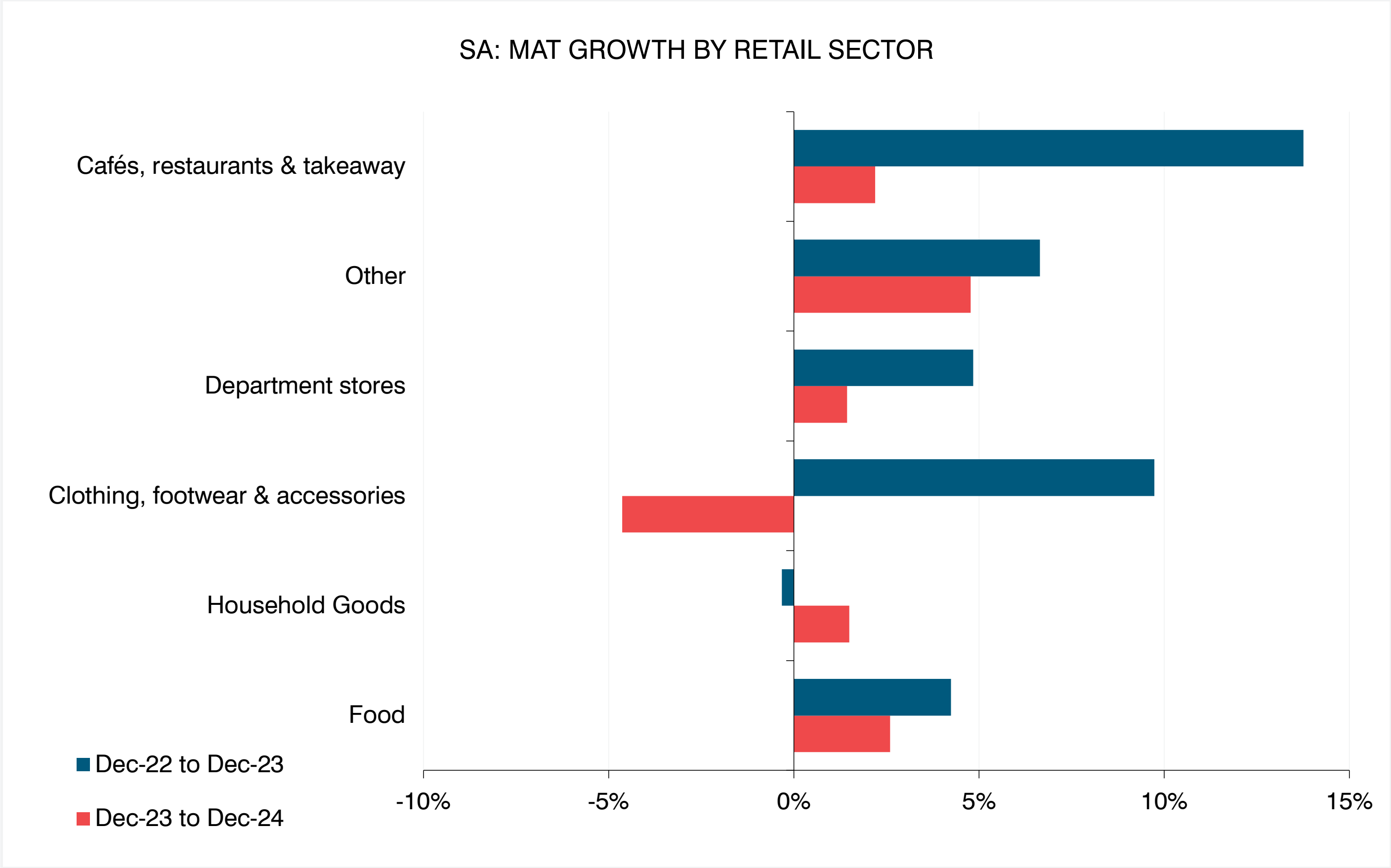
However, the supply of assets for sale may be constrained with institutional investors having already disposed of many non-core assets and private investors being less inclined to sell in a strengthening market.”

"SALES VOLUMES ARE SIGNIFICANTLY UP ON PREVIOUS YEARS, HITTING A NEW RECORD BOOSTED BY THE SALE OF SEVERAL LARGE REGIONAL AND SUPER-REGIONAL CENTRES."

- SHAUN O'SULLIVAN

CURRENT STATE OF PLAY

- Total retail spending growth in South Australia for the year ending December 2024 was 2.14%, down from 5.26% for the year ending December 2023; the strongest growth by retail category was recorded in food (2.60%).
- Rental spreads (i.e., the difference between a tenants' 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.
- New retail space coming to the market is generally part of mixed-used projects and in new/ growing residential communities.



Source: ABS, M3 Property

RENTAL MARKET

- Due to ongoing vacancies, there are a number of options available in the CBD for tenants entering the leasing market and tenants for whom leases are close to expiry.
- Net face rents were steady across most retail property types in SA during the year to December 2024.
- Incentives remained steady across all retail types in the year to December 2024.

TRANSACTIONS

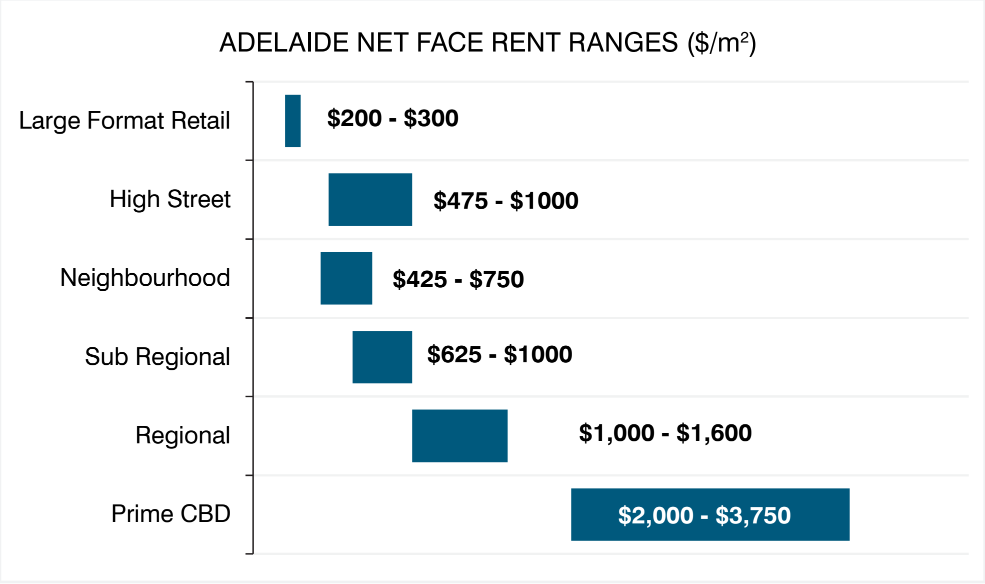
- The largest sale during 2024 was the sale of a half-share in regional shopping centre Westfield Tea Tree Plaza for $308 million. The half-share was purchased from Dexus by an investor fund managed by Scentre Group and Barrenjoey Capital Partners. A Scentre Group and Barrenjoey Capital managed fund also recently acquired a 50% interest in Westfield Westlakes from Dexus for $174.7m.
- Transactions have broadly reflected yield softening for assets above $20 million, although there are exceptions.

YIELDS

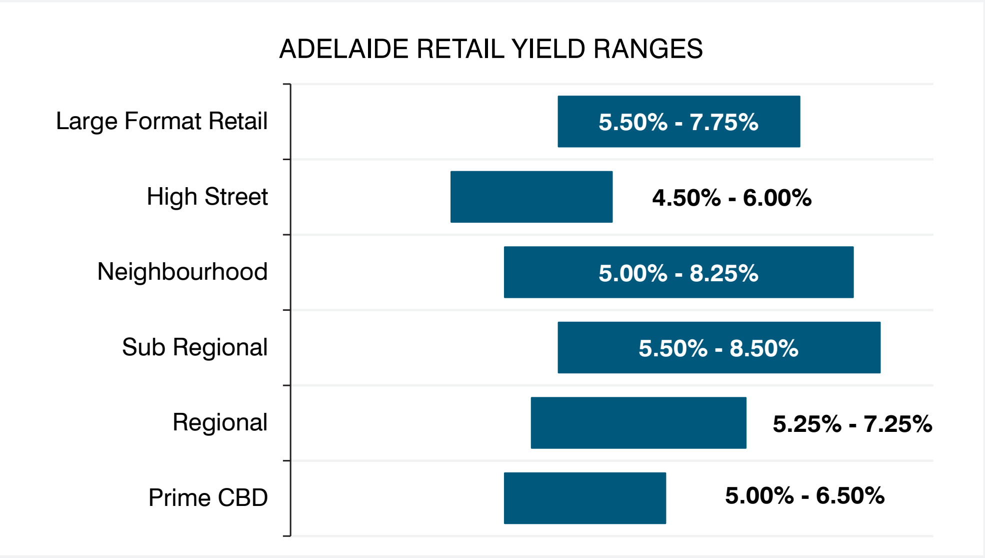
- Retail yields generally continue to look attractive relative to the alternative investment classes of office and industrial.
- Prime yields for CBD retail properties currently range from 5.0% to 6.5%, while high street retail properties range from 4.5% to 6.0%.

INVESTMENT MARKET

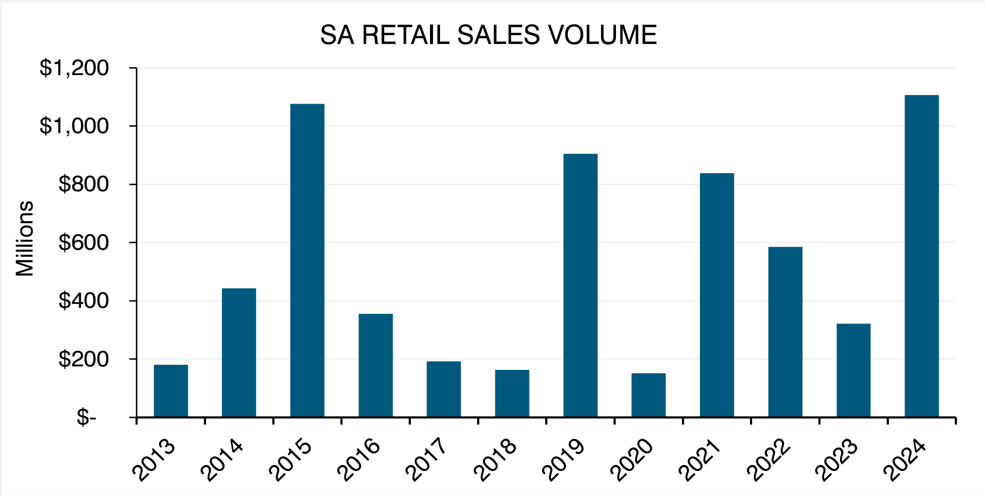
- Sales volumes are significantly up on previous years, hitting a new record boosted by the sale of interests in several large regional and super-regional centres.
- SA retail recorded 20 sales, equating to $1.11 billion transacted in 2024, compared with $321 million transacted across 21 sales in 2023.



Source: M3 Property



Source: M3 Property



Source: Real Capital Analytics (RCA), M3 Property

OPPORTUNITIES AND CHALLENGES

- Retailers are seeking increased store sizes in quality centres to drive productivity.
- Supply of retail floor supply continues to be constrained but stabilising and potentially reducing construction costs may change the status.
- Shopping centres have natural advantages through planning and transport to assist with the housing supply crisis as cities expand vertically, but the overly onerous regulatory framework provides hurdle
- Centres still pay a vital role in the community. Retail is where people do their living. 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

- 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.

KEY CONTACTS

MICHAEL LEECH
Managing Director
michael.leech@m3property.com.au

ANTONY SCHOBER
Director | Specialised Assets
antony.schober@m3property.com.au

JAMES RUBEN
National Director | Specialised Assets
james.ruben@m3property.com.au

KYM DREYER
Director | Residential Development
kym.dreyer@m3property.com.au

SHAUN O'SULLIVAN
Director | Retail
shaun.osullivan@m3property.com.au

SIMON HICKIN
Director | Healthcare & Office
simon.hickin@m3property.com.au

FRANK RICCIO
Director | Residential Development
frank.riccio@m3property.com.au

CHRIS METCALF
Valuer | Industrial
chris.metcalf@m3property.com.au

M3 PROPERTY

m3property.com.au