M3 PROPERTY

SPECIALIST
INDEPENDENT
VALUATION

NEW SOUTH WALES MARKET SNAPSHOT H1 2024

SEPTEMBER 2024

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M3

NEW SOUTH WALES MARKET SNAPSHOT H1 2024

The New South Wales property market has seen steady growth during the first half of 2024 for well-positioned assets with strong income security, rental growth and lease covenants in sectors including Retail, Childcare and Hotels. In the Sydney Office sector, transaction volumes have been low over the past 24 months as increasing interest rates and costs of capital have shifted asset values and caused capitalisation rates to soften across the market.

We are seeing investors begin to re-engage with transaction activity in the Office and Industrial sectors improving in the first half of 2024. Moving forward, while varying opinions remain as to the point at which capitalisation rates will peak, there is a broadening consensus that values are stabilising.

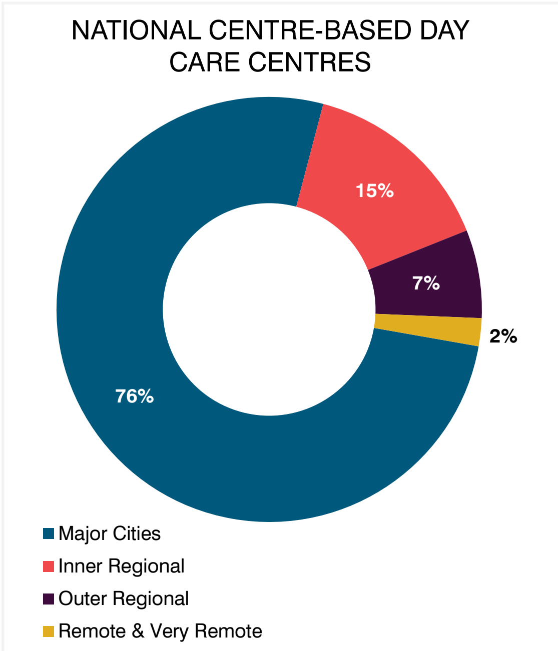
In our latest New South Wales Market Snapshot for H1 2024, representatives from each of our valuation sectors share their insights into the past six months as well as opportunities and challenges for the year ahead.

CHILDCARE

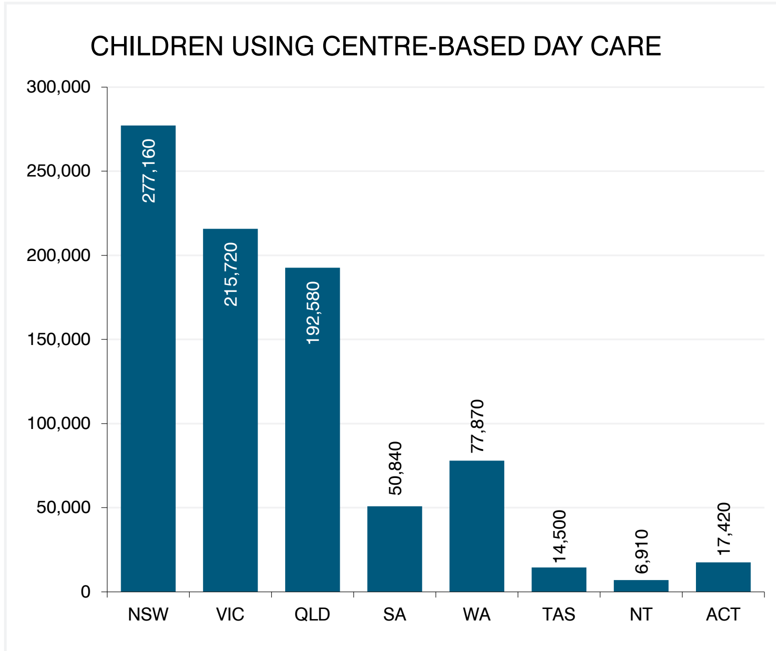
BRETT BAXTER

Associate Director | Specialised Assets

> "In the last six months, we've seen a drastic tightening of yields up to 100 basis points for well-positioned assets in Sydney's Childcare sector with strong lease covenants, preferably with high tax depreciation benefits which have been met with strong interest.
>
> A defining point for investors is the desirability of concessionary land tax profiles and Childcare as a government-backed vital industry. Moving forward, we expect to continue to see the market adjust to newfound investment benchmarks."



Source: Dept of Education, GapMaps, M3 Property



Source: Dept of Education, GapMaps, M3 Property

"WE EXPECT TO CONTINUE TO SEE THE MARKET ADJUST TO NEWFOUND INVESTMENT BENCHMARKS."

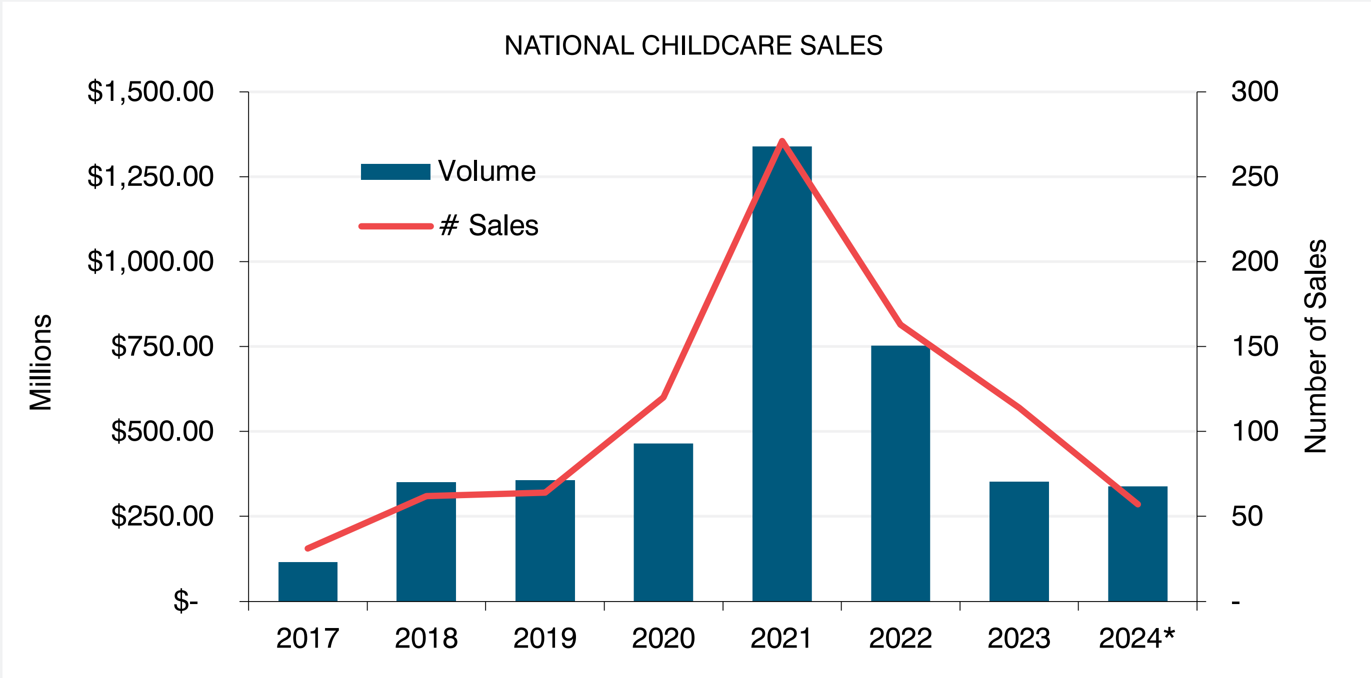
- BRETT BAXTER

CURRENT STATE OF PLAY

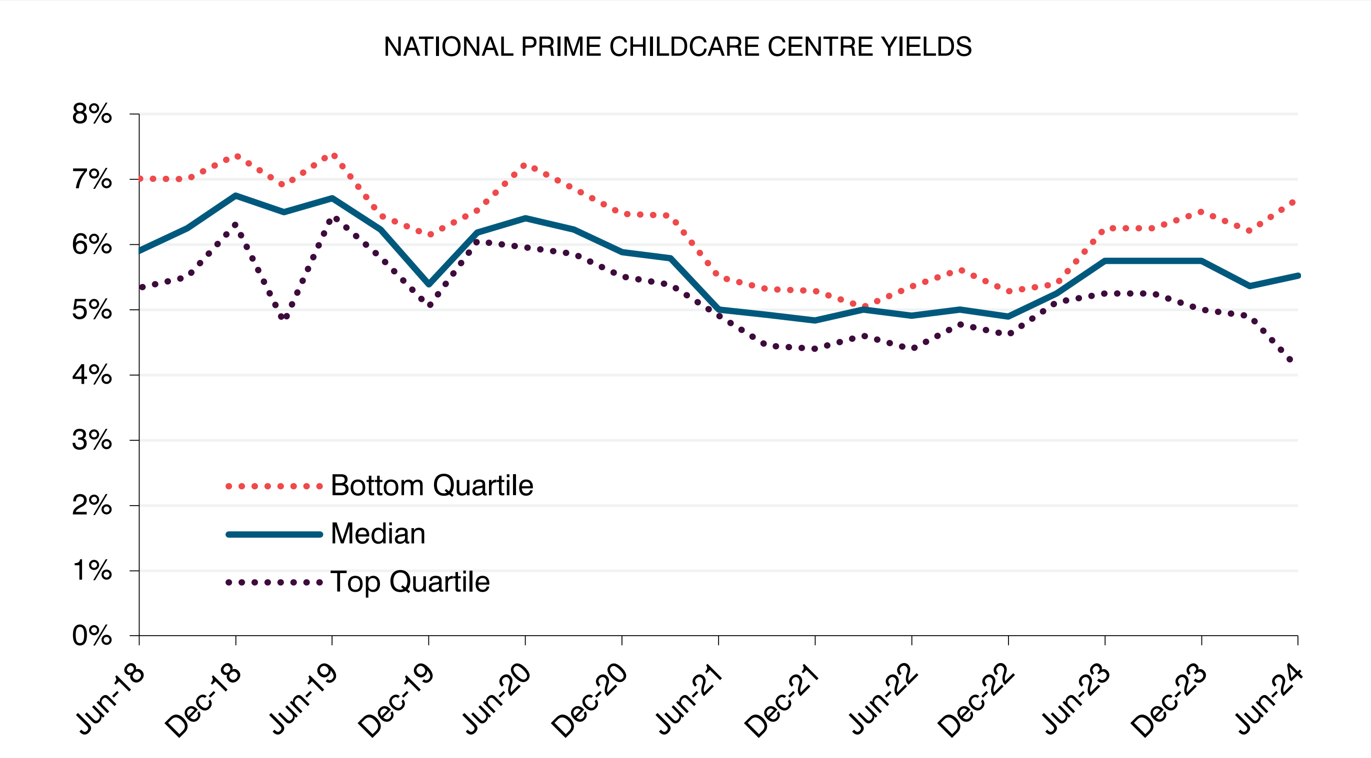
- The Childcare Inquiry Report by ACCC released in January 2024 highlights the strong growth of Childcare fees across all services since the introduction of CCS. The ACCC recommends a new approach by the Federal government rather than the current "one size fit all" regulations in order to deliver the 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.

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



Source: M3 Property

YIELDS

- Recent yields for prime freehold interests in the Sydney basin are in the band of 4.4% to 4.75%. With yields tightening over the last six months drastically by 100 basis points in the Sydney basin area alone.
- Outside the Sydney basin, in satellite cities such as Wollongong and Newcastle, subdued interest has been experienced leading to more stable yields between 5.75%-6.25%.
- Prime properties in the Sydney basin tend to have much tighter yields when compared with the average nationwide yields for prime freehold interests, which are in the band of 4.10% to 6.70%, as shown on the adjacent chart.
- 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.

OPPORTUNITIES AND CHALLENGES

- Strategic sites for childcare centres are becoming rarer, as the market reaches maturity, with operators/developers becoming increasingly sophisticated increasing competition, barriers to entry and undervalued sites becoming somewhat of a rarity.
- 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 to be unfeasible.
- A strong opportunity exists for owner/builders who are familiar with the childcare requirements and building standards to capitalise on unique sites which other non-builders will not be able to be involved with.
- Identified "childcare deserts" in rural NSW locations continue to form a challenge for both government and private operators, as the feasibility and market share of these locations are at odds with viability of childcare centres.
- 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

- An increase in the number of children between 0 to 5 years old and increasing participation in the labour market will drive demand for childcare and the development of new childcare centres in some areas.
- The number of children aged 0 to 5 years is forecast to increase by 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 to reach around 67% in NSW by 2027 and this is expected to contribute to a continued increase in the average number of hours children attend childcare per week.
- • There is strong bipartisan government support for the childcare sector that will see continued funding to the sector towards childcare subsidiary for family households. As a result, the average daily rate per child across all states has growing 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 8-12 centres continue to grow their portfolios, however, nationally we have seen major institutional groups sell down their centres and portfolios.
- We expect to see the childcare market to continue to become more sophisticated, with professional operators who work within networks of five or more continuing to gain market share as they benefit from economies of scale and a distributed employment network to be agile in the marketplace.

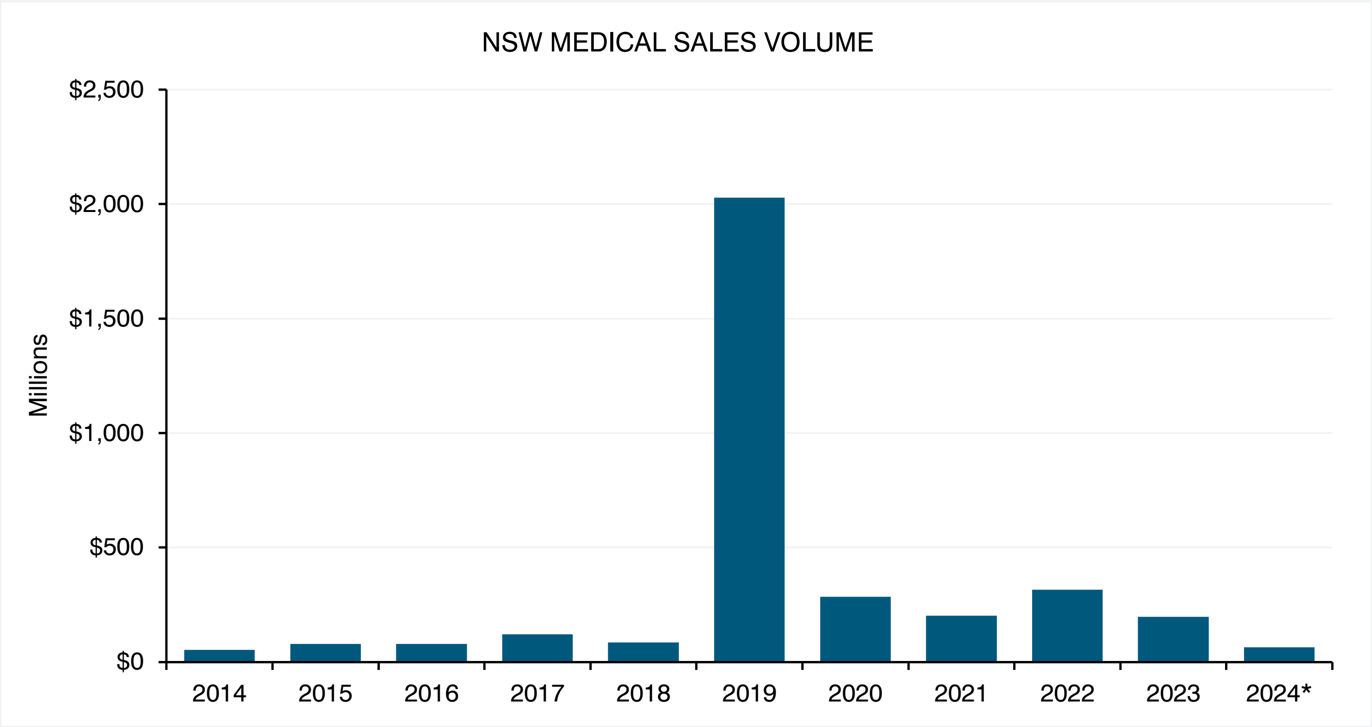
HEALTHCARE

MITCH ENRIGHT
Director | Health, Aged Care & Seniors Living

"The healthcare and seniors living sectors in New South Wales 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 were 60 medical and hospital properties with a total value of $197.5 million transacted across NSW in 2023. This figure does not include the three NSW properties sold within the Healthscope Hospital Portfolio.
- There have been 16 transactions valued at $63.9 million so far in 2024.
- Institutional investors, REITs, and private buyers have been the most active buyer groups over recent years.

YIELDS

- Yields have undergone a period of compression over recent years, with some prime medial yields dropping as low as 3.60%.
- Yields are now averaging around 4.95% for prime medical assets and 7.50% for secondary medical assets (predominantly regionally located).
- Yields for hospitals generally range between 3.60% and 6.30% for prime assets and 6.30% and 7.50% for secondary assets.
- Average cap rates have softened by around 100bps in the twelve months to June 2024. However, yields for prime medical assets have actually tightened by up to 200bps in the twelve months to June 2024.

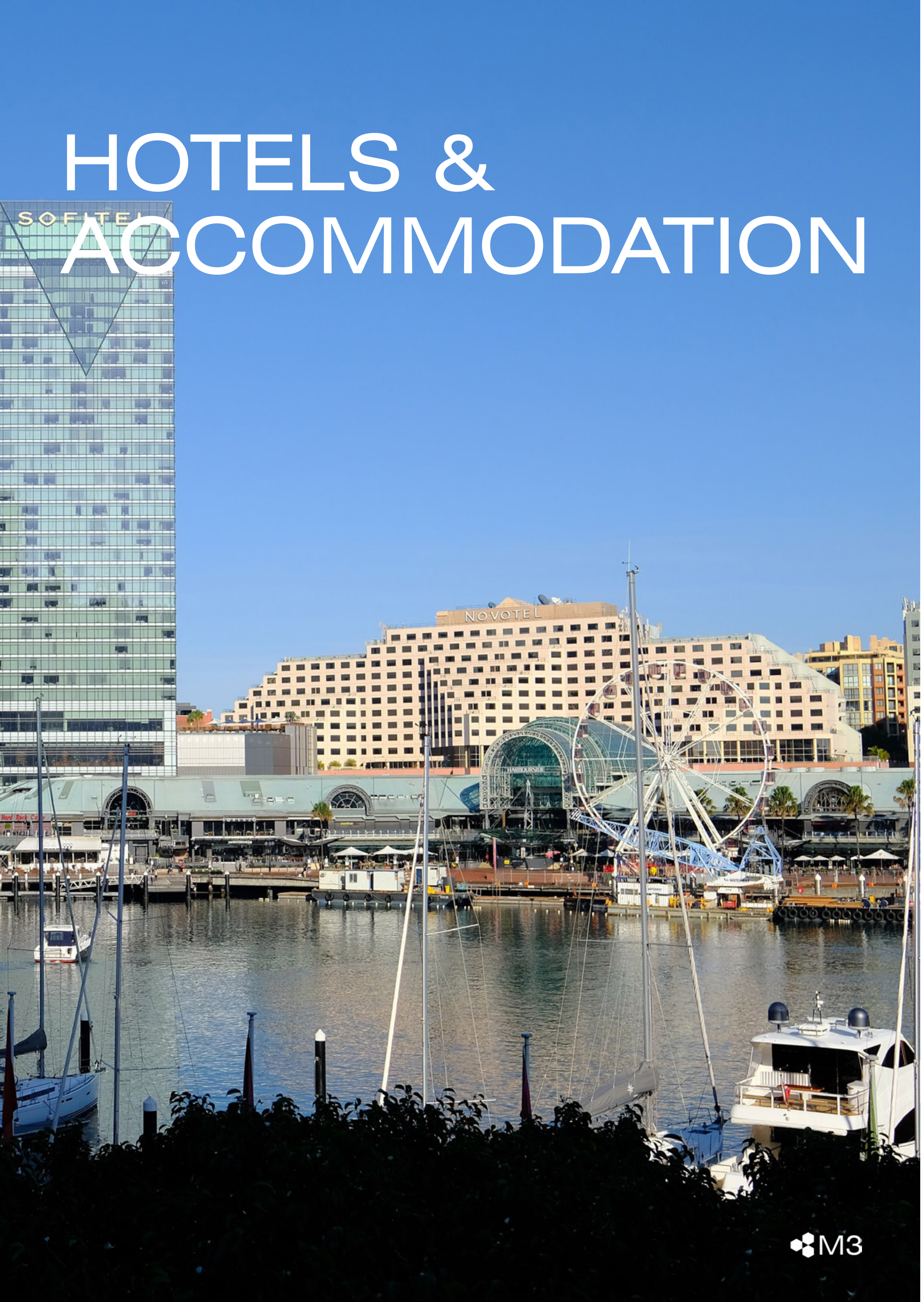
OPPORTUNITIES AND CHALLENGES

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

HOTELS & ACCOMMODATION



JAMES RUBEN
National Director | Specialised Assets

"Over the first half of 2024, we've seen steady continued growth in average room rates across most NSW hotels and accommodation markets. Occupancy rates have largely recovered following the impacts of the COVID-19 lockdowns. However, there is still likely to be some degree of recovery in occupancies resulting from the full return of travel from international source markets.

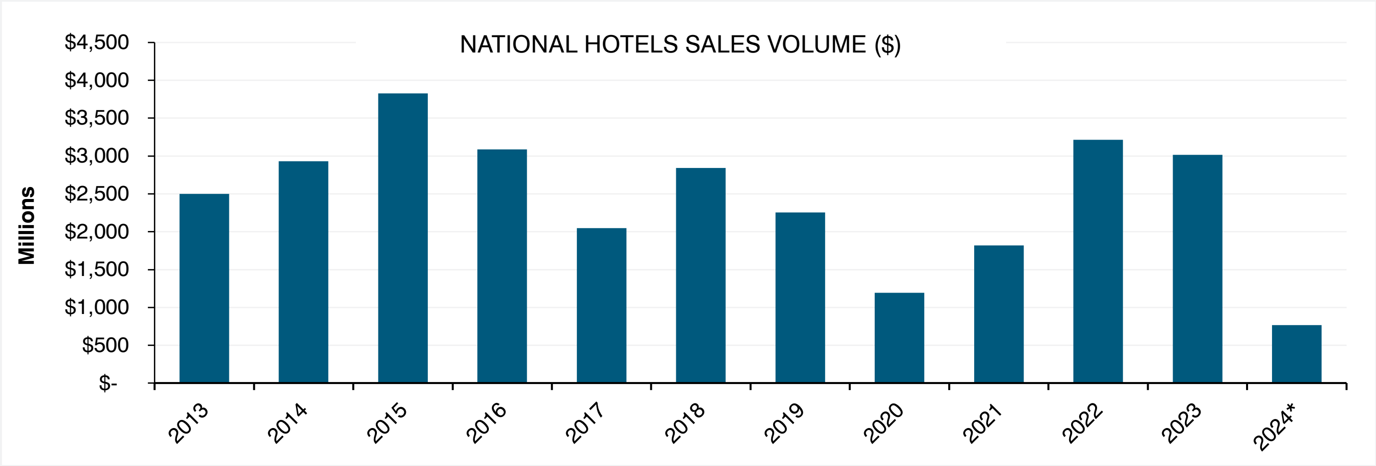
Investment metrics have remained stable over the first half of 2024, and delivery of new hotel stock continues to be challenged by elevated construction costs and a difficult lending environment. Over the remainder of the year, we're expecting room rates to continue their growth pattern and investment metrics to remain largely stable. However, the challenges of delivering new stock are likely to persist until at least the end of 2024."

"OVER THE REMAINDER OF THE YEAR, WE'RE EXPECTING ROOM RATES TO CONTINUE THEIR GROWTH PATTERN AND INVESTMENT METRICS TO REMAIN LARGELY STABLE."

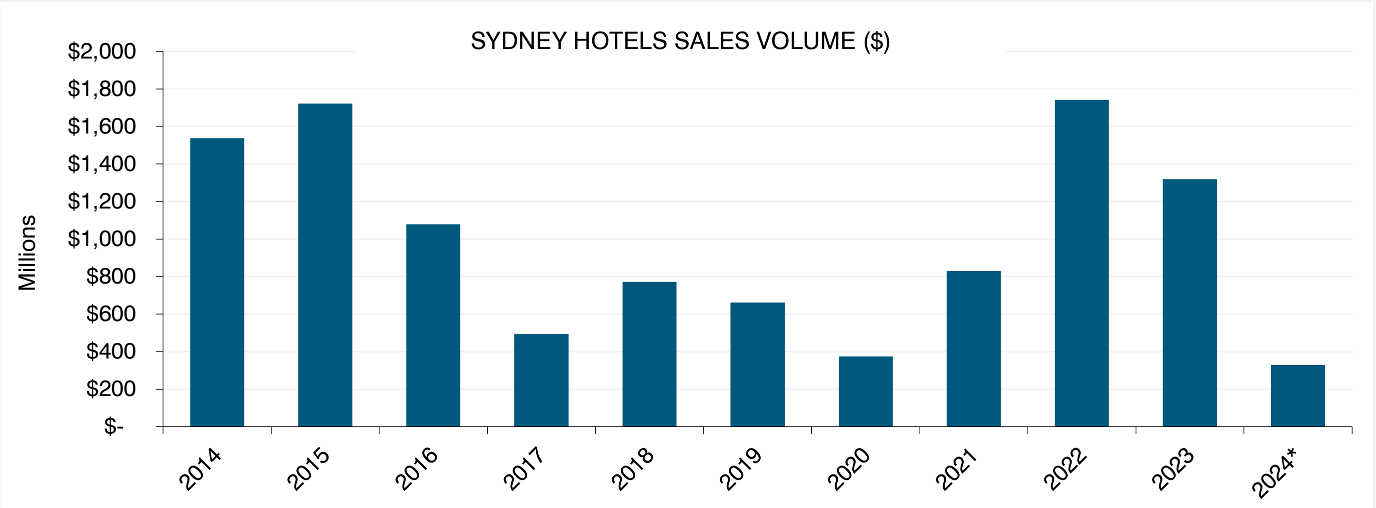
- JAMES RUBEN

TRANSACTIONS

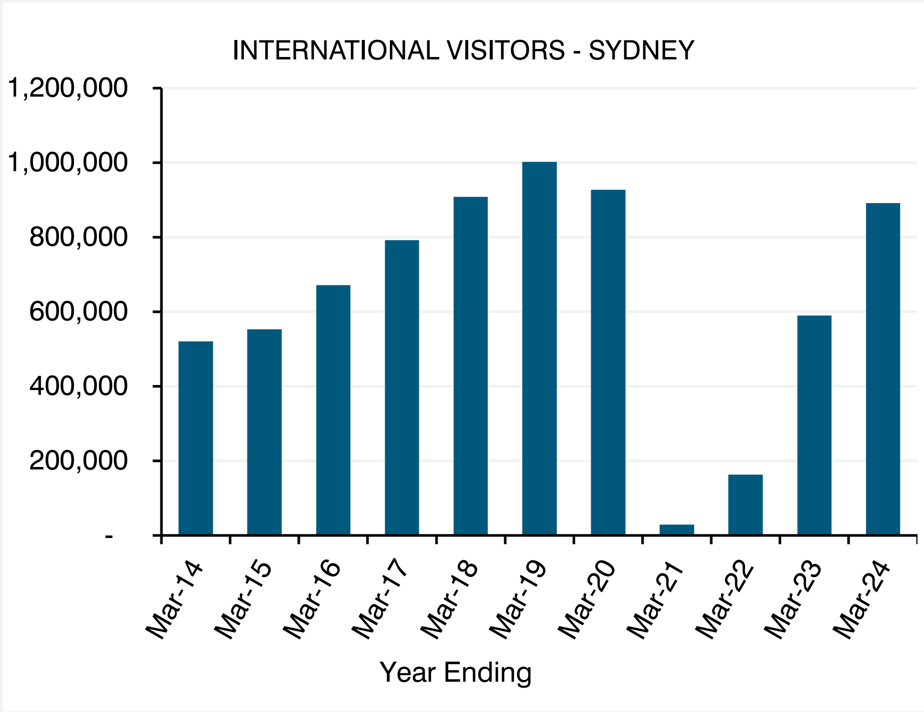
- Nationwide there were the similar number of hotel transactions in 2023 as there were in 2022. According to RCA, there were 92 transactions of hotel assets totalling $3.01 billion nationwide in 2023.
- Activity in Sydney is lower in 2024 due to reduced investment demand. According to RCA, there are 4 transactions as of June 2024, totalling $329.7 million of hotel assets across Sydney. This level of activity is subdued compared to H1 2023, with $908.97 million total hotel transactions across 6 sales.
- Offshore groups (predominantly from the Asia Pacific region) are typically the largest buyers of accommodation properties in New South Wales. However, so far in 2024, private investors formed the largest group of buyers at 84.7% followed by institutional groups at 15.3%.



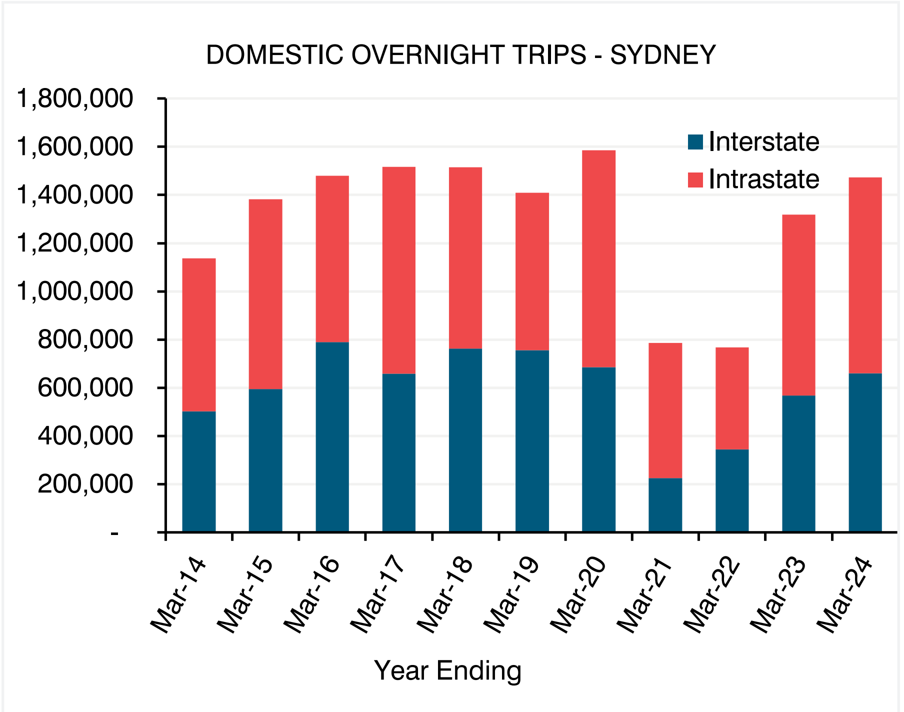
Source: Real Capital Analytics (RCA), M3 Property



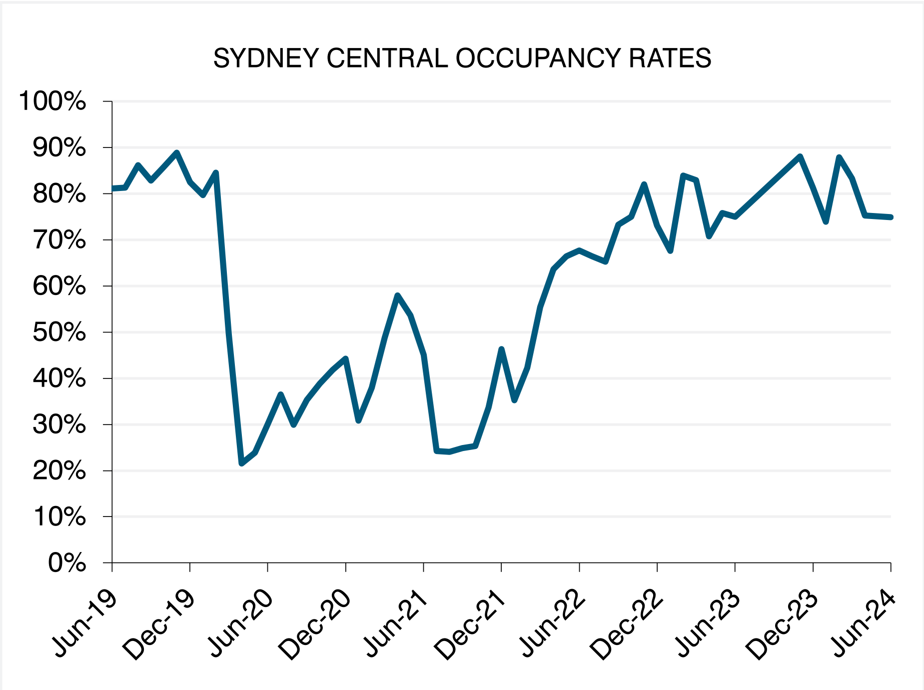
Source: Real Capital Analytics (RCA), M3 Property



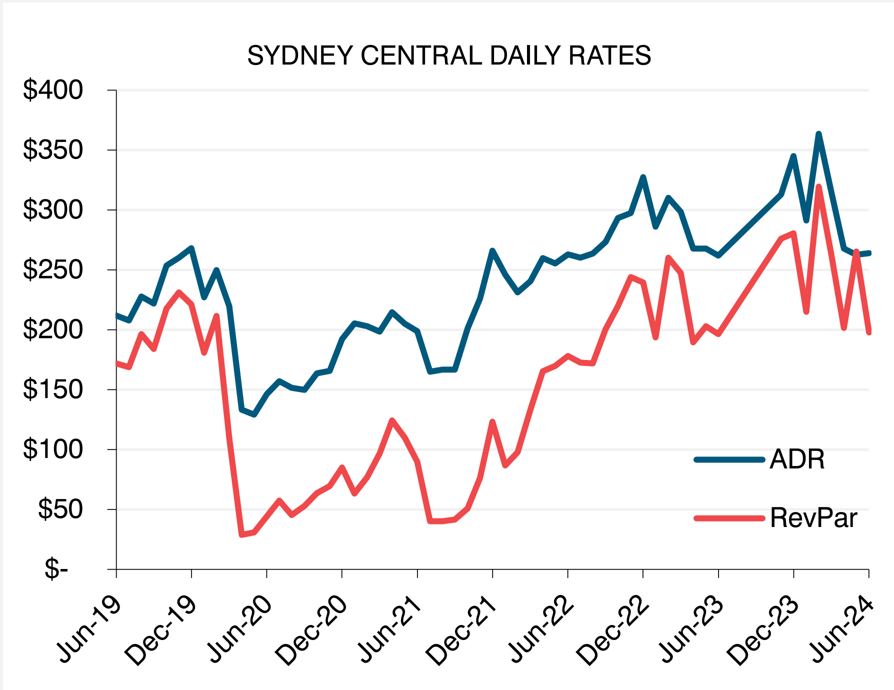
Source: TRA, M3 Property



Source: TRA, M3 Property



Source: STR, M3 Property



Source: STR, M3 Property

CURRENT STATE OF PLAY

- Occupancy rates per room have largely recovered to pre-pandemic levels, with the Sydney market recording 75% occupancy rates in June 2024.
- Revenue per available room has recovered to pre-pandemic levels which is a result of significant ADR growth. ADR growth has been influenced by a number of 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.
- International visitor rates to the Sydney market remain below pre-pandemic levels but are showing significant year-on-year gains.
- Inter-state visitor rates to the Sydney market have returned to pre-pandemic levels.

OPPORTUNITIES AND CHALLENGES

- Construction costs continue to place pressure on new hotel development; however, conversion and refurbishment/ repositioning opportunities exist within the market to repurpose alternate use properties or older/tired accommodation assets.
- Evolving 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

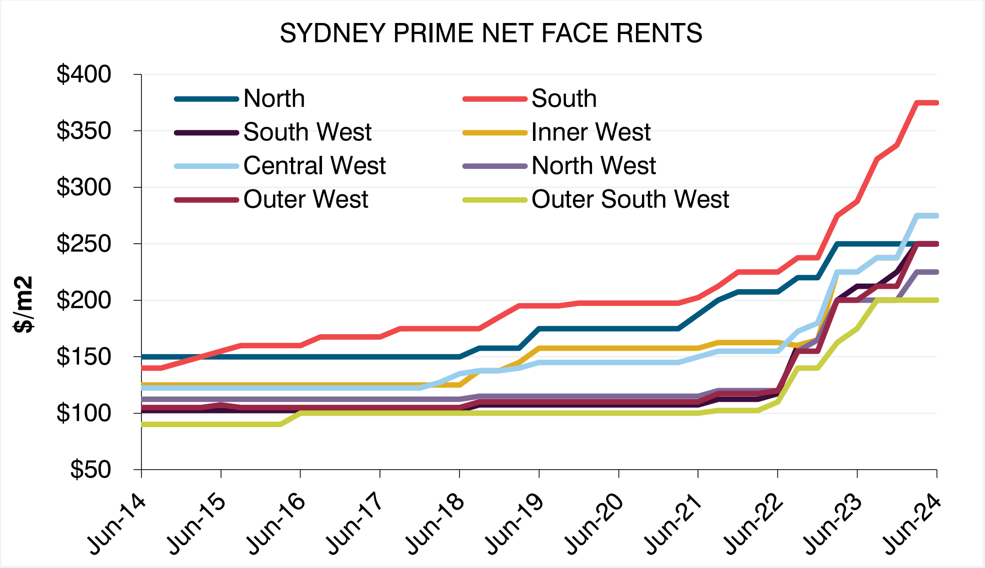
> "Following a subdued 12 to 18 months, sale transactions are now beginning to filter through the NSW Industrial Market. These sales are reflecting yield softening in the order of 100 to 125 basis points since the peak of the market in 2021-2022.
>
> There is evidence to suggest that leasing demand is beginning to moderate, following an extended period of exponential growth. This moderation is a result of several factors, including but not limited to affordability constraints, increased supply, and general market uncertainty as tenants become more discerning with their relocation and expansion plans."

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.
- Competition with other land uses in the southern and inner submarkets has reduced available industrial stock in these precincts, which has led to the ongoing migration of activity into the western precincts and even further afield into major regional centres owing to growing affordability concerns, traffic congestion and paucity of development land in Sydney (outside of the Western Sydney Aerotropolis precinct). This has also led to the rising prominence of multi-level warehousing, particularly within the highly built up, inner metropolitan Sydney sub-markets such as South Sydney.
- 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 investment values.

RENTAL MARKET

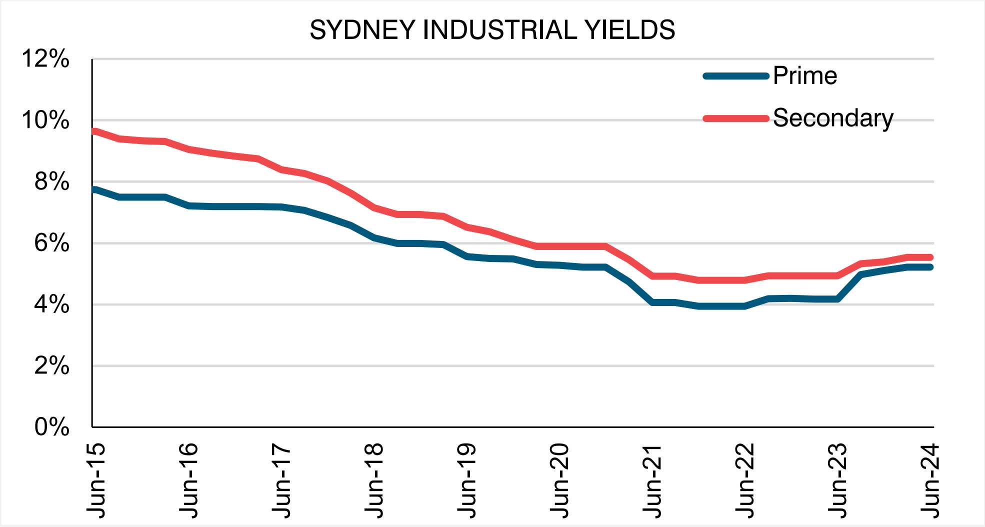
- Prime net face rents ranged between $175 and $400 per square metre at the end of Q2 2024, with secondary net face rents ranging between $135 and $250 per square metre. The strongest growth in the twelve months to Q1 2024 occurred in the South and Outer West Precincts.



Source: M3 Property

YIELDS

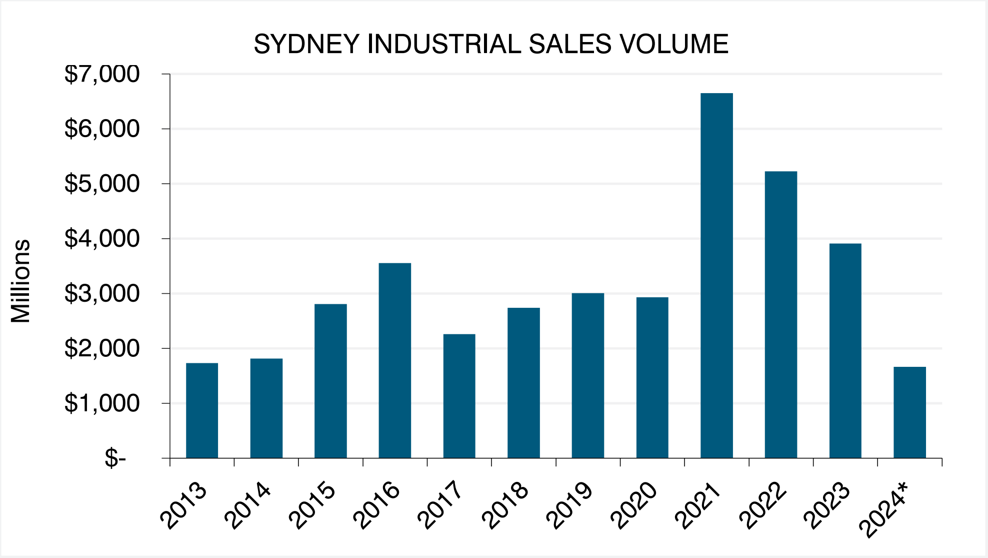
- Yield softening became evident from mid 2023. Prime average yields reflected 5.22%, whilst secondary average yields reflected 5.53% as at 30 June 2024.
- Incentives began to soften in the first half of 2024, with Prime incentives currently ranging between 8.33% and 15% and secondary incentives currently ranging between 10% and 15%.



Source: Real Capital Analytics (RCA), M3 Property

INVESTMENT MARKET

- According to RCA, there has been $1.66 billion of sales over $10 million across 46 sales in the Sydney market for H1 2024. This is somewhat lower than the $1.95 billion of sales across 49 transactions over $10 million recorded across the Sydney market for H1 2023.
- Changes to the monetary policy have resulted in an easing in investor demand as market participants consider the impact of a rising interest rate environment on yields and internal return hurdles.
- Offshore groups, Private and Institutional Investors have been the key buyers in 2024.



Source: Real Capital Analytics (RCA), M3 Property

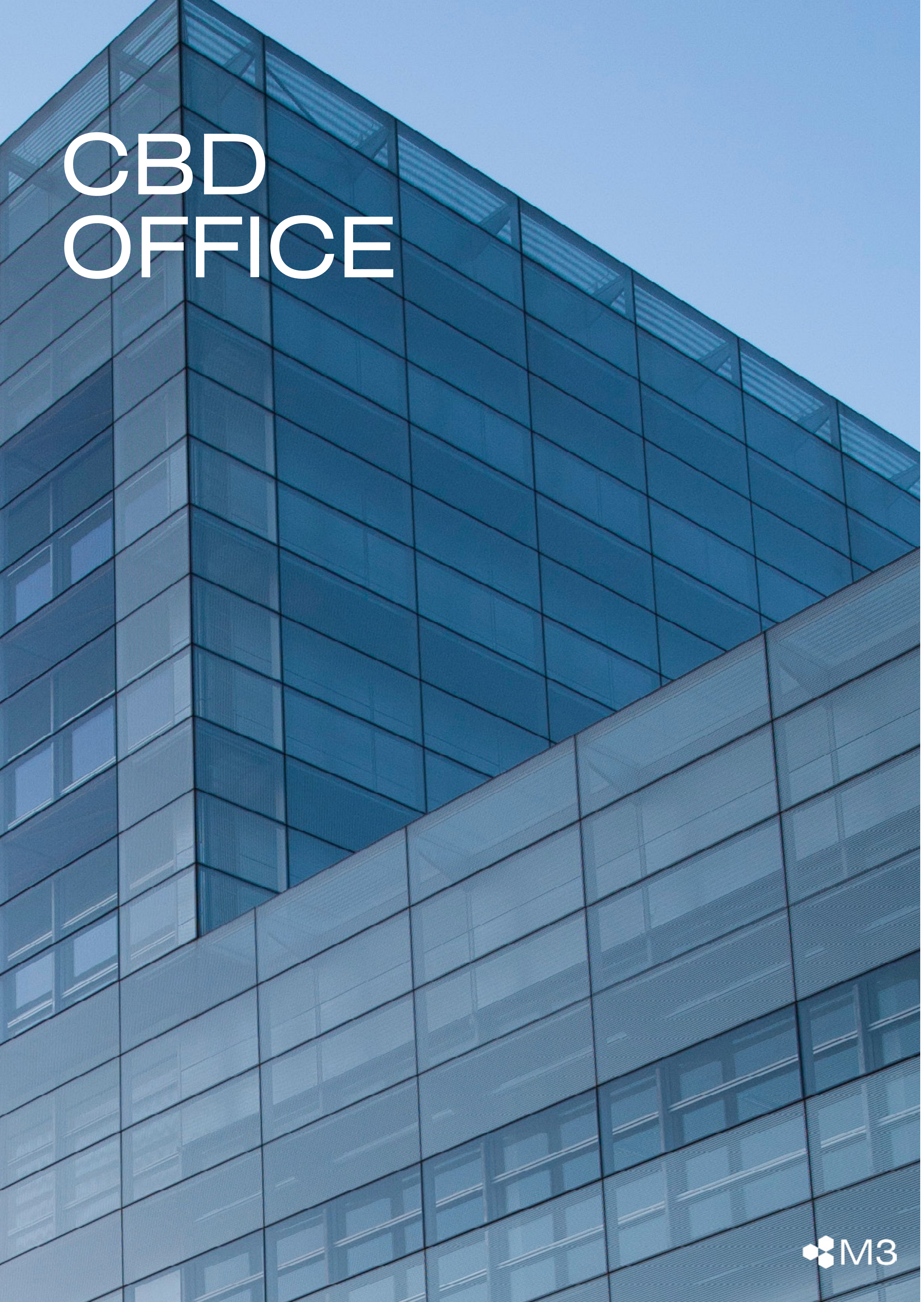
OPPORTUNITIES AND CHALLENGES

- The volume of industrial property transactions in 2024 to date has remained subdued compared to the previous 3 years. Current transaction volume is tracking a little more than halfway above the long-term average but remains significantly lower than the record height of $24.24 billion in 2021.
- The increase in the cost of funding and broader economic uncertainty has led to a decrease in transactional activity and a softening of industrial yields across Australia.

OUTLOOK

- There is a substantial pipeline of new speculative and pre-committed supply to come to the market in 2024. Notwithstanding this, higher construction costs and the rising cost of debt are expected to delay some projects in the short term.
- Leasing market conditions have eased over the first half of 2024, and whilst rental growth is anticipated to continue, this is expected to be at a more moderate pace.
- 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 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.

CBD OFFICE



ANDREW DUGUID
National Director | Office

> "Transaction volumes of core capital city office assets have been low over the past 24 months, as increasing interest rates and costs of capital have shifted asset values and caused capitalisation rates to soften across the market. Investors are beginning to re-engage and transaction activity has improved in the first half of 2024. While varying opinions remain as to the point at which capitalisation rates will peak, there is a broadening consensus that values are stabilising.
>
> Recent transactions of 333 George Street, Sydney and 5 Martin Place, Sydney, have contributed to a developing confidence that the capitalisation rate decompression cycle is slowing.
>
> Leasing demand has strengthened in the CBD Core with this precinct attracting tenants and driving rental growth, with incentives stabilising. Metro station development has been a strong driver of demand. In secondary CBD locations where vacancies have been persistently high, demand remains subdued."

CURRENT STATE OF PLAY

- According to the latest Property Council of Australia Office Market Report (OMR), the Sydney CBD Office market comprised 5,177,437 square metres of space as of July 2024.
- Over the twelve months to July 2024, the Sydney CBD vacancy increased marginally from 11.5% to 11.6%.
- Net absorption across all grades was negative during the twelve months to July 2024 (-69,258 sqm).
- Newer developed premium-grade assets are performing well, with a flight to quality occurring.

RENTAL MARKET

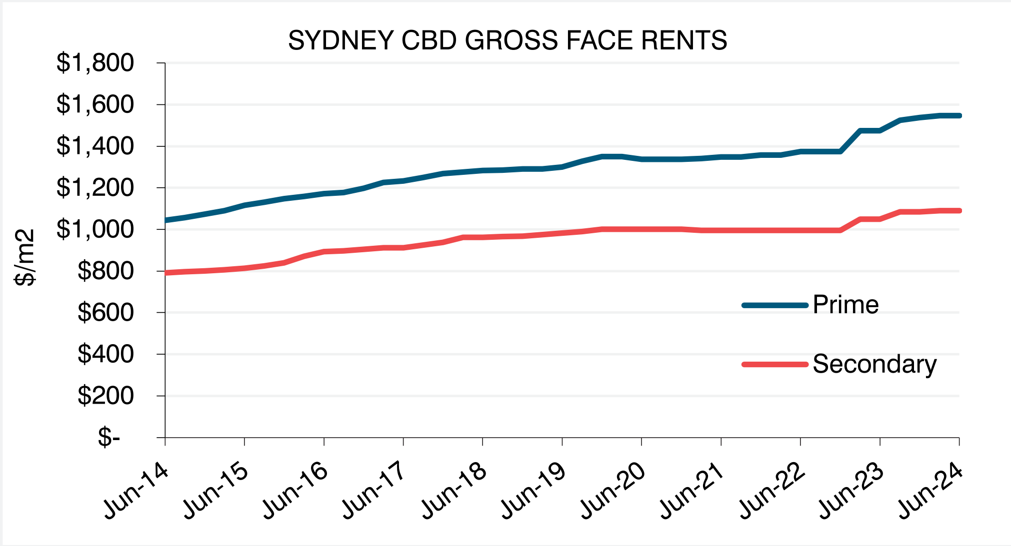
- Sydney CBD Prime gross face rents increased by circa 4.92% in the twelve months to June 2024 to range between $1,160 and $1,935 per square metre.
- Sydney CBD Secondary gross face rents increased by circa 3.81% during the year, ranging between $880 and $1,300 per square metre in June 2024.
- CBD Prime incentives increased by circa 1.0% in the twelve months to December 2023, ranging between 32% and 39%. Similarly, secondary incentives increased by circa 2.0%, ranging between 32% and 39%.

YIELDS

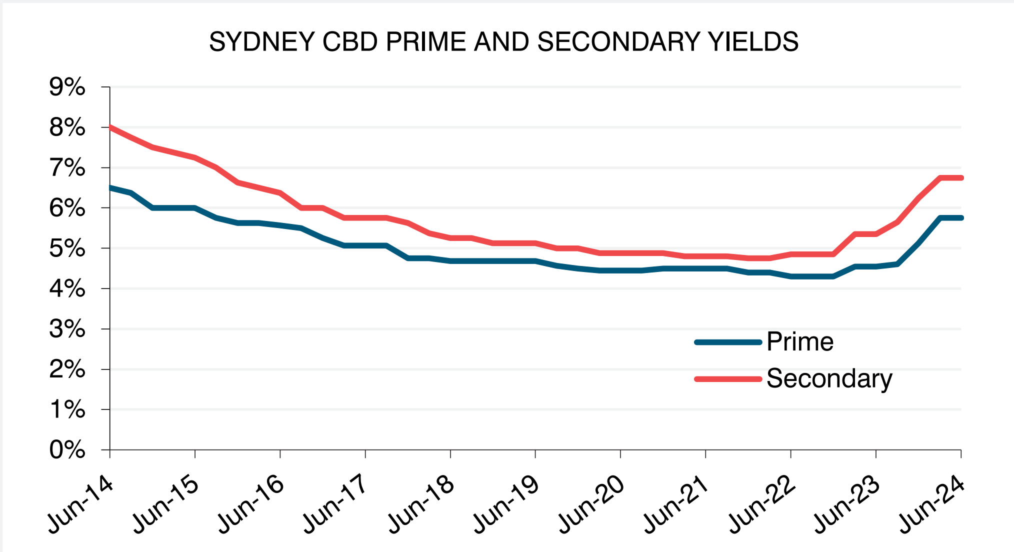
- Prime CBD yields ranged between 5.00% and 6.50% during the June 2024 quarter, softening by 125 bps compared to the June 2023 quarter.
- Yields for secondary CBD office assets ranged between 6.00% and 7.50% during the June 2024 quarter. Secondary yields softened by 140bps compared to the June 2023 quarter.

INVESTMENT MARKET

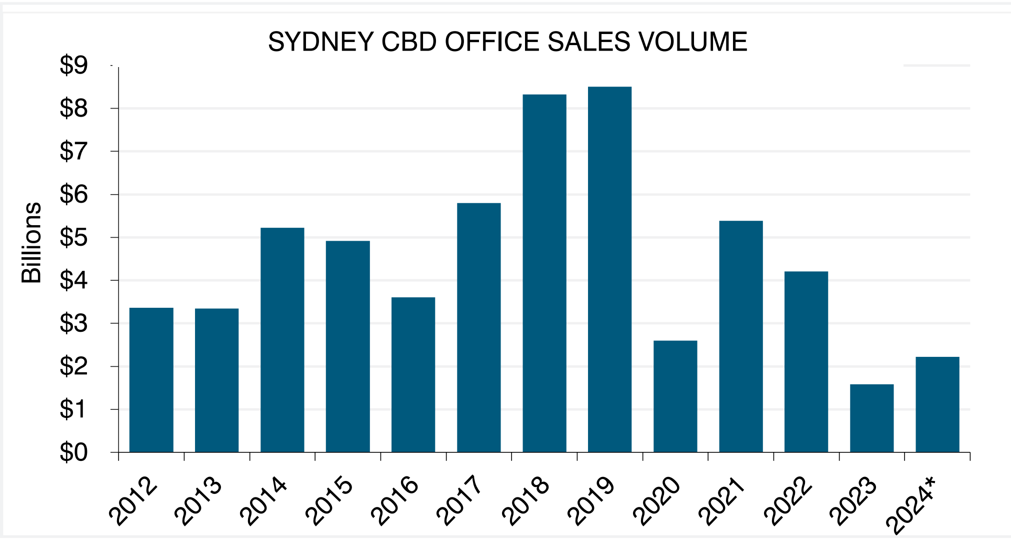
- Sales activity in the Sydney CBD office market averaged $4.46 billion per annum over the five years to the end of 2023.
- According to RCA, there have been 8 sales totalling $2.22 billion recorded in the Sydney CBD Office market to the end of H1 2024. Sales volumes for H1 2023 are significantly higher than the 8 sales totalling $513.6 million recorded for H1 2023, and have already surpassed the FY 2023 total of $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 constructed at 55 Pitt Street Sydney.
- Cross-border buyers have been the largest buyers of office property in Sydney in 2024, accounting for 76.4% of the transactions.



Source: M3 Property



Source: M3 Property



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

OPPORTUNITIES AND CHALLENGES

- The Sydney Metro project will improve connectivity across Sydney. Occupier demand is likely to increase around the new Metro stations, which include Central Station, Pitt Street, Martin Place and Hunter Street.
- The vacancy rate is forecast to increase over 2024, with around 176,637 sqm of new office space to be added to the market for the remainder of the year. However, there has also been a large amount of withdrawal from the market which will help to apply downward pressure for office vacancy.

OUTLOOK

- Occupier demand is likely to be relatively neutral over the near-term and we expect that some tenants will hold off making major relocation or expansionary decisions given softening economic conditions.
- The medium-term outlook for white-collar employment in Sydney is positive with Oxford Economics Australia forecasting an additional 139,730 persons to be employed in white collar employing industries in Sydney from 2023 to 2028.
- There is circa 410,750 square metres of supply under construction in the Sydney CBD market as well as a large pipeline of mooted supply. Three new Over Station Developments are scheduled for completion in 2024.
- Prime gross face rents increased by an average of 4.92% over the year to June 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.

RESIDENTIAL DEVELOPMENT

JARROD MORGAN
Director | Residential Development

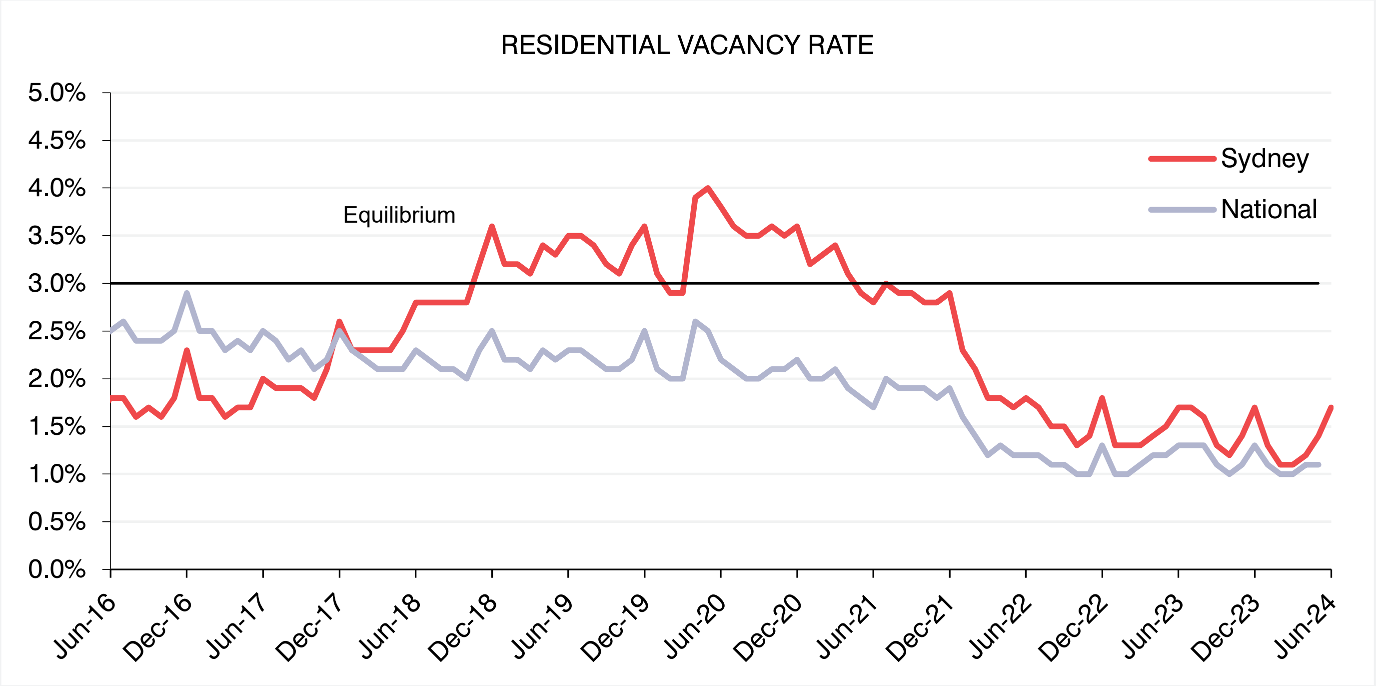
> "In the first half of 2024, as anticipated the NSW Residential Development market has continued to enjoy strengthening market conditions.
>
> Challenges in the development sector, including elevated building costs, a complex planning environment, increased statutory holding costs and higher interest rates are resulting in constrained supply. With ongoing population growth, coupled with these supply challenges, we continue to see an undersupplied market with upward pressure on prices.
>
> In 2025 we expect an acceleration in price growth with these market conditions continuing, combined with an expectation of a lower interest rate environment."

CURRENT STATE OF PLAY

- According to CoreLogic, Sydney's median house price was $1,400,630 at the start of 2024, an annual increase of 14.66%. Unit prices increased 8% year on year to reach $834,578 by January 2024.
- Vacancy across Sydney metropolitan residential market continues to be well below the benchmark equilibrium rate of 3.0%, indicating that the market is undersupplied. The tight vacancy rate is driving strong growth in rental rates.
- There were 46,491 dwellings approved in New South Wales in the twelve months to November 2023, down 12.62% year on year.
- There has been a stronger than expected recovery in residential markets following a downturn during the later part of 2022. The Sydney market recovery slowed in the last quarter of 2023 and house prices are forecast to stabilise through to the end of FY2024.

“IN 2025 WE EXPECT AN ACCELERATION IN PRICE GROWTH WITH THESE MARKET CONDITIONS CONTINUING, COMBINED WITH AN EXPECTATION OF A LOWER INTEREST RATE ENVIRONMENT.”

- 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.
- Affordability constraints are expected to divert some buyer demand away from houses to the unit and townhouse market. We expect to see demand for owner-occupier, family-suitable units and townhouses strengthen as a result. Furthermore, State Government initiatives such as the First Home Buyer Choice will likely stimulate stronger demand at the lower end of the market.

OUTLOOK

- Whilst tight vacancy rates across the city are expected to push rental rates up further (particularly in the context of rising demand from overseas arrivals), dwelling approvals continue to face challenges in 2024 due to a fluctuation of dwelling prices, construction cost blow-outs, and the prospect of lengthy project delays. We expect prices to continue in an upward trajectory.
- Median house rents are expected to continue increasing strongly in H2 2024 as continuing affordability constraints in the purchaser market and stronger population growth puts mounting pressure on the rental 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 NSW Retail Shopping Centre market has observed higher transaction volumes during the first half of 2024, in comparison to 2023, and in contrast with other asset classes.

As a result, investment yields have shown nominal change over the past 6 months - particularly in the neighbourhood centre space. There has also been a re-emergence in buyer activity at an institutional level, signaling an improvement in market sentiment for the retail sector.

Landlords remain cautious to dispose of prime assets unless priced favourably, and sales for prime assets that have occurred have resulted with strong outcomes. Secondary assets have been more difficult to price for purchasers.

Retail buyers will remain focused on good-quality assets with strong income security, rental growth and lease covenants."

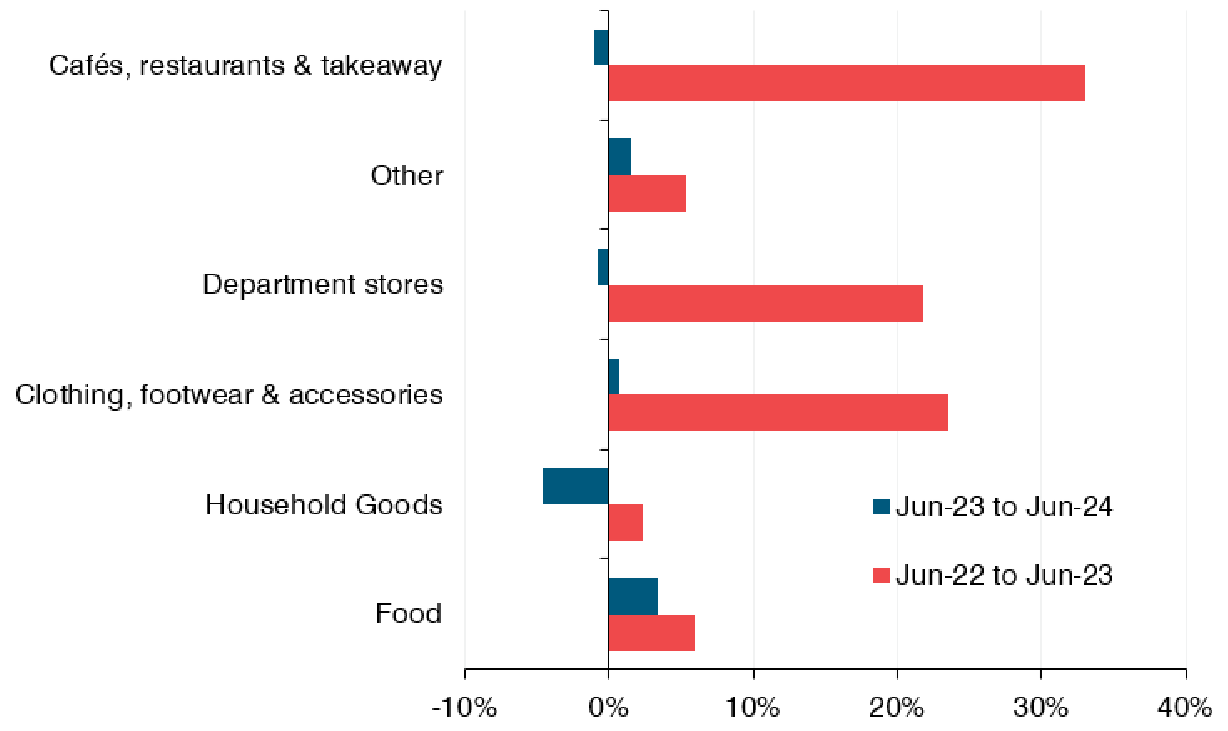
“RETAIL BUYERS WILL REMAIN FOCUSED ON GOOD-QUALITY ASSETS WITH STRONG INCOME SECURITY, RENTAL GROWTH AND LEASE COVENANTS.”

- ANDREW CASH

CURRENT STATE OF PLAY

- Total retail spending in NSW for the 12 months ended June 2024 increased by 2.23%, which is an increase from the 1.70% recorded for the 12 months ended June 2023.
- The strongest growth by retail category was recorded in food (3.17%), followed by clothing, footwear and accessories (0.64%).
- 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.

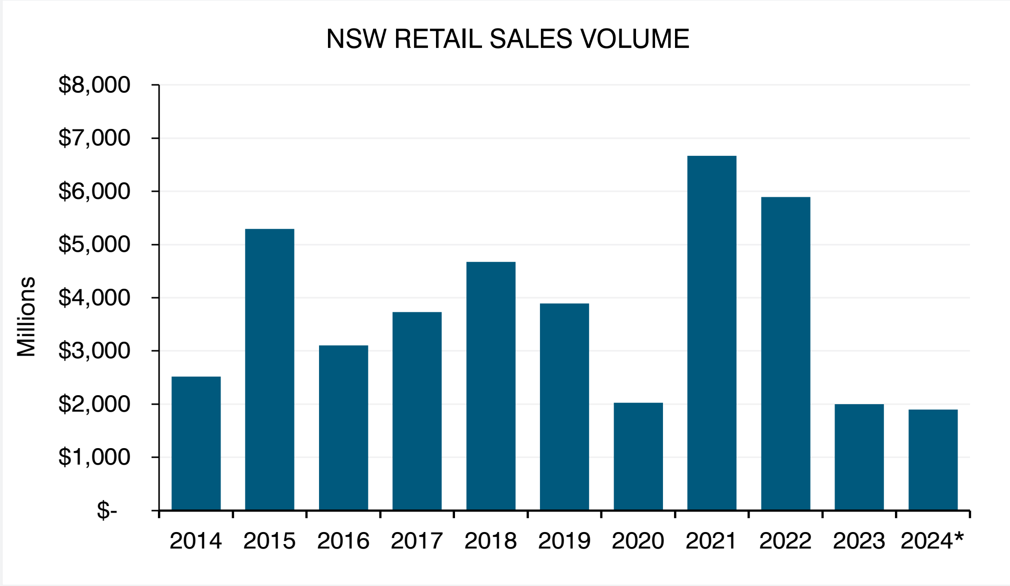
NSW MAT GROWTH BY RETAIL SECTOR



Source: ABS, M3 Property

INVESTMENT MARKET

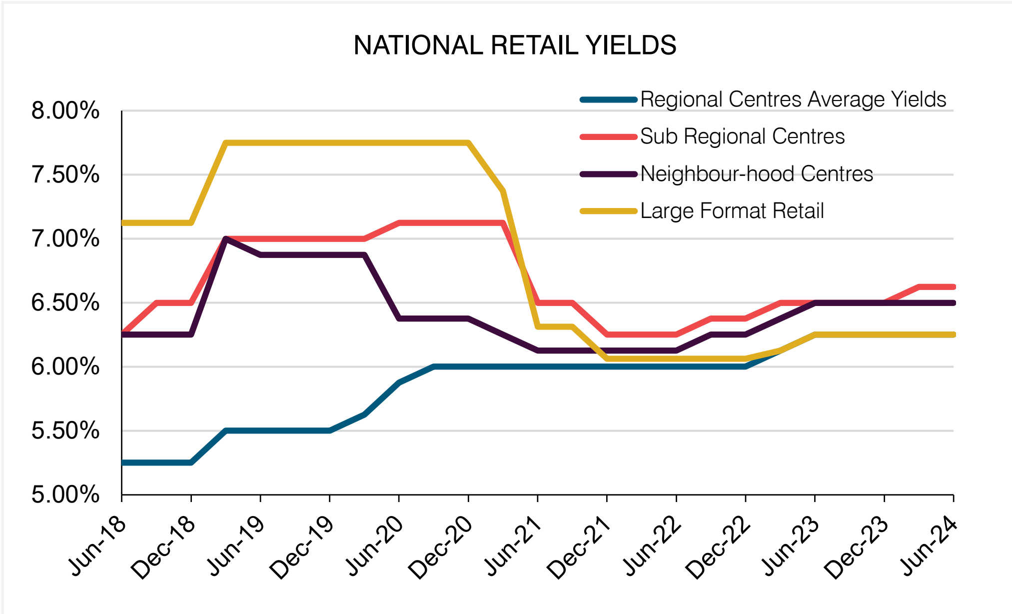
- According to RCA, there have been 49 retail sales totalling $1.89 billion recorded across the NSW market to the end of H1 2024. Total sales volume for H1 2024 are significantly higher than $1.03 billion recorded for H1 2023, and almost equalled the total of $1.97 billion achieved for FY 2024.
- Given that there were fewer transactions in H1 2024 (49 as compared to 52 in H1 2023), price per transaction has increased significantly.
- Private buyers have been the most active buyer group in 2024, accounting for 53.7% of sales (by $ value). REIT buyers were the next largest buyer groups taking up circa 31.2% of sales.



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

YIELDS

- National retail yields generally continue to look attractive relative to the alternative investment classes of office and industrial.
- Nationally, shopping centre yields have been stable. The one exception is that yields for super prime Sub Regional assets have softened slightly by 12.5 bps over the year to June 2024.



Source: M3 Property

TRANSACTIONS

- There has been 1 transaction of more than $300 million and 4 transactions of more than $100 million so far in 2024.
- The largest transaction so far in 2024 is the sale of Stockland Glendale, a sub-regional shopping mall in Lake Macquarie, which sold for $315 million to IP Generation in May 2024.

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. 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 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.

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