

12-Mo.
Forecast

Investment
Volume Q4 2023 **\$8.1bn** ▲

Rolling Annual
Volume **\$25.7bn** ▲

Foreign
Investment **25%** ▲

TOTAL INVESTMENT ACTIVITY

A solid finish to a slow year

In Q4 2023, the investment volume for Australian commercial real estate reached \$8.1 billion (deals above \$5 million), contributing to a total of \$25.7 billion for the calendar year of 2023.

Despite observing quarter-on-quarter growth to Q4, the overall performance for the year was weak, marking the lowest calendar year volume since the pandemic-affected year of 2020 and the second lowest since 2015. Similar to the trends observed in 2022, inflation and interest rates played pivotal roles in shaping the economic environment and subsequently influencing the commercial real estate sector. The Reserve Bank of Australia continued raising the cash rate to counter inflationary pressures, leading to increased interest rates. This, in turn, elevated the cost of borrowing, impacting the return metrics of new developments, the feasibility of specific projects, and the overall volume of commercial real estate investments.

The office sector took top spot for the first time this year, posting quarter-on-quarter growth of 58% from Q3 to record \$2.3 billion. The alternatives sector took second spot with \$2.2 billion, up 89% from Q3. The retail sector recorded \$2.1 billion of investment in Q4, up from the \$1.3 billion in Q3. The logistics and industrial sector recorded \$1.1 billion in Q4, slightly down from the \$1.9 billion in Q3.

ECONOMIC INDICATORS Q3 2023

Q2 23 Q3 23 12-Mo.
Forecast

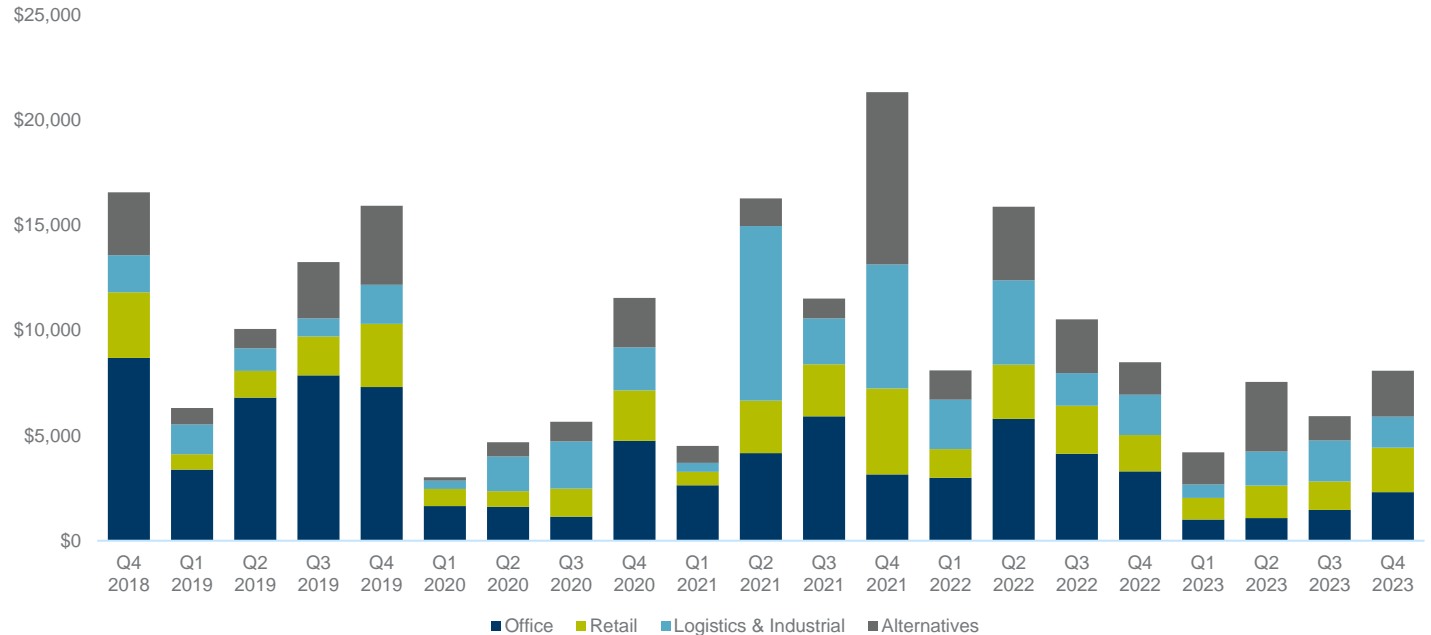
GDP Growth
(National)* **3.1%** **2.2%** ▼

Consumer Price
Index
Growth (National) **6.0%** **5.4%** ▼

Unemployment
(National)† **3.6%** **3.7%** ▲

*Average annual growth rate, †Seasonally adjusted
Source: ABS; Deloitte Access Economics; Cushman & Wakefield Research

QUARTERLY COMMERCIAL REAL ESTATE INVESTMENT VOLUME (AUDm)



*'Alternatives' includes; aged-, health- and child-care, build to rent, student accommodation, serviced apartments and hotels, mixed use properties, pubs, service stations and self storage.

Source: Real Capital Analytics; Cushman & Wakefield

INVESTMENT BY SECTOR

OFFICE

A return to the top spot

Despite remaining in a period of adjustment following structural changes brought on by the COVID-19 pandemic and ongoing headwinds from inflationary pressures, the office sector recorded \$2.3 billion in investment volume this quarter, which was the highest volume recorded all year for the office sector and also the highest volume of all sectors in Q4 2023. The number of deals was slightly lower than Q3, however there was an increase in deal size and also foreign investment, pushing investment volume \$1 billion higher than Q3. Office investment in New South Wales accounted for 41% of the sectors investment volume, Victoria 28%, Queensland 25% and the balance between South Australia, Western Australia and Tasmania.

Noteworthy deals this quarter included sale of the Sydney CBD asset at 60 Margaret Street, by Mirvac and Blackstone to Ashe Morgan and Mitsubishi Estate for \$777.2 million. Gina Rinehart purchased 175 Eagle Street in Brisbane’s CBD for \$240.0 million from Charter Hall, Shakespeare Property Group secured 8 Nicholson Street in Melbourne from Dexus for \$213.7 million and Elanor Investors purchased 55 Elizabeth Street in Brisbane from Credit Suisse for \$172 million.

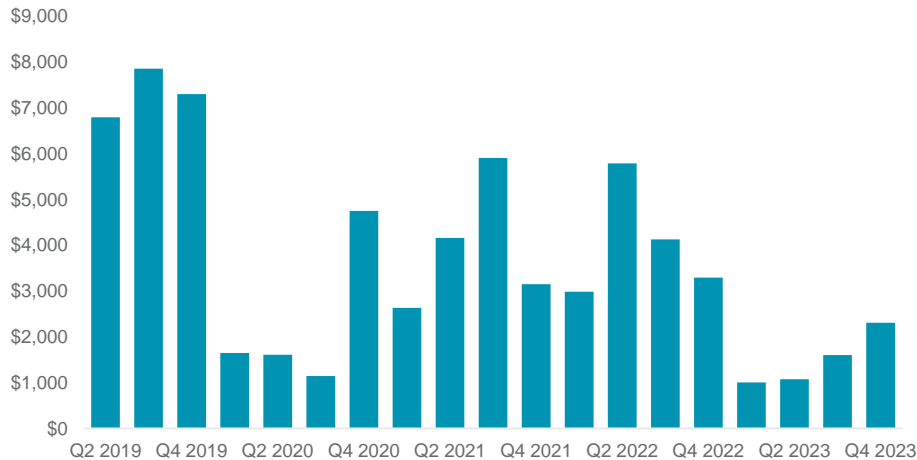
LOGISTICS & INDUSTRIAL

Levels remain above pre-COVID average

Supported by strong underlying tailwinds, Logistics & Industrial (L&I) investment volumes for 2023 remained above pre-COVID averages, despite broader challenges including rising debt costs and divergent vendor and buyer pricing expectations. While the \$1.5 billion recorded in Q4 was slightly down on the \$1.9 billion recorded in Q3, the \$5.7 billion recorded in 2023 was 25% up on the 2015 – 2019 pre-COVID average. Domestic unlisted funds remained the most active buyers in Q4 2023, albeit in almost all cases, acquisitions were backed by offshore capital sources. Near record low vacancy levels and limited uncommitted supply additions continue to drive investor demand for logistics and industrial across our tracked markets.

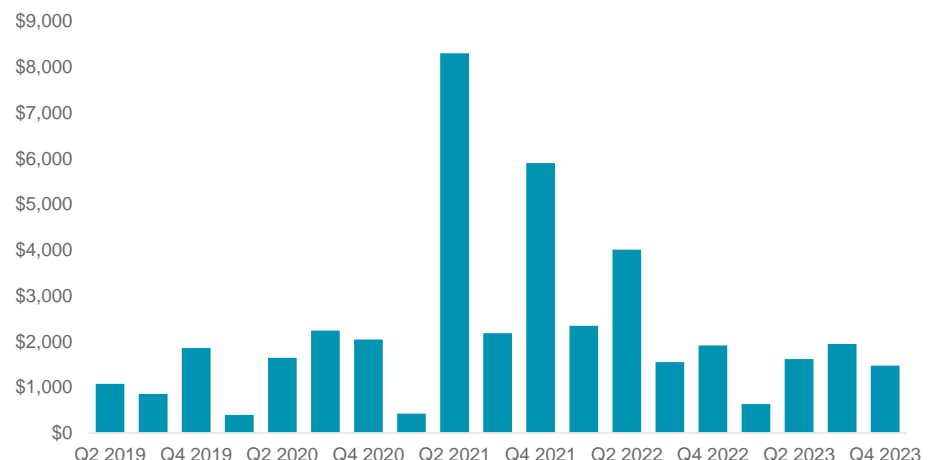
Major transactions in Q4 2023 included Pittwater Industrial acquiring 51 Eastern Creek Drive, Eastern Creek from Dexus for \$87.0 million and AsheMorgan buying three Brisbane assets from CapitaLand for \$73 million.

OFFICE CRE QUARTERLY TRANSACTION VOLUMES (AUDm)



Source: Real Capital Analytics; Cushman & Wakefield

LOGISTICS & INDUSTRIAL CRE QUARTERLY TRANSACTION VOLUMES (AUDm)



Source: Real Capital Analytics; Cushman & Wakefield

RETAIL

Even with significant inflationary pressures affecting discretionary spending, the retail sector concluded 2023 on a robust note, recording \$2.1 billion in investment during Q4. This marked the first time surpassing the \$2 billion in a quarter since Q3 of 2022. A number of large shopping center transactions predominately to domestic investors drove the higher quarterly total.

Queensland led in retail investment, contributing \$678 million, accounting for 32% of the total for this quarter. Following, New South Wales accounted for 29%, Victoria for 26%, and Western and South Australia each recording 7% and 6% respectively.

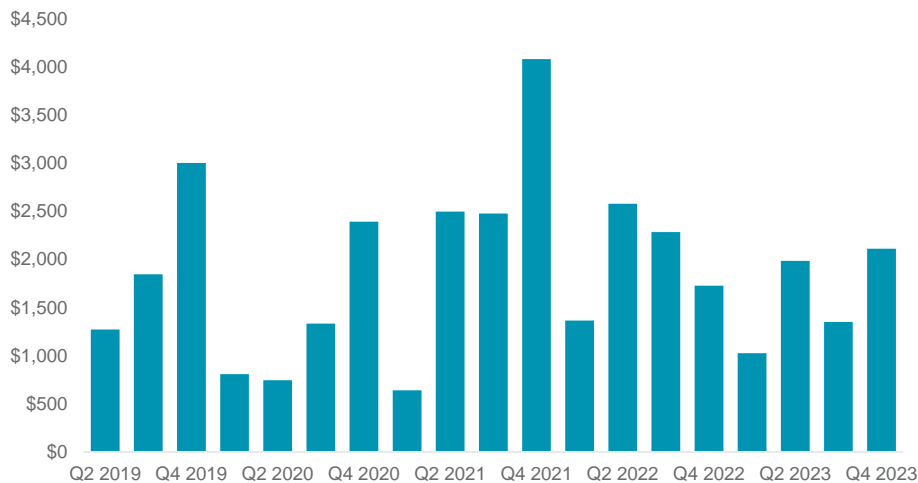
Significant transactions included Lendlease’s sale of Cairns Central Shopping Centre to Fawkner Property for \$390.0 million and Haben Property Fund purchased the remaining 50% of Stockland Townsville from Stockland for \$123.5 million to now have full ownership. Vicinity now has total control of Chatswood Chase, buying back the remaining 49% from GIC for \$307.0 million, which is a 45% discount to the price that they sold it to GIC six years ago.

ALTERNATIVES

For the first time in Cushman and Wakefield records the alternatives sector has taken the largest market share of the sectors in a calendar year, accounting for 32% of total investment activity with \$8.2 billion. This was aided by a very strong Q4, recording \$2.2 billion, boosted by a significant number of hotel transactions. Across 2023 there were around 50 transactions per quarter for the sector, with the largest transactions being in the Build-to-Rent, hotel and hospital sub-sectors, with the bulk of the large deals to domestic investors.

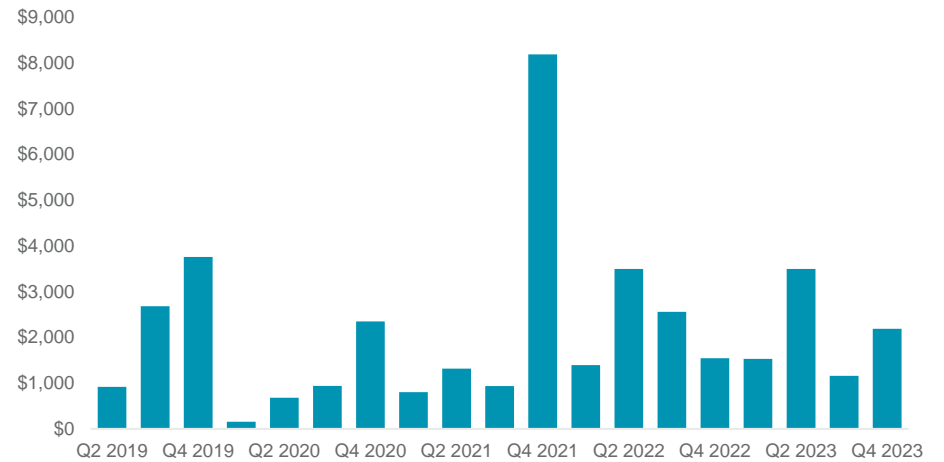
The largest transaction for the quarter was the last (tranche 3) of the MPT Hospital Portfolio, which was purchased by HealthCo REIT and HMC Capital for \$470.0 million, bringing the total portfolio sale to \$1.2 billion. The InterContinental Sydney Double Bay was purchased by a consortium including United Cinemas chief executive Sam Mustaca, Rebel Property Group’s Allen Linz, and Capit.el Group’s Eduard Litver for \$210.0 million.

RETAIL CRE QUARTERLY TRANSACTION VOLUMES (AUDm)



Source: Real Capital Analytics; Cushman & Wakefield

ALTERNATIVES CRE QUARTERLY TRANSACTION VOLUMES (AUDm)



Source: Real Capital Analytics; Cushman & Wakefield

*'Alternatives' includes; aged-, health- and child-care, build to rent, student accommodation, serviced apartments and hotels, mixed use properties, pubs, service stations and self storage.

INVESTMENT BY LOCATION

New South Wales continued its hold on top spot, after a short hiatus in Q2, recording \$3.0 billion or 37% of total investment volume across the country, with the office sector accounting for about a third of New South Wales transaction volume. The \$2.1 billion recorded for Queensland placed the state second overall, with Victoria third, accounting for 22%. Portfolio acquisitions across multiple states or 'Australia-wide' transactions accounted for 6% of total transaction volume.

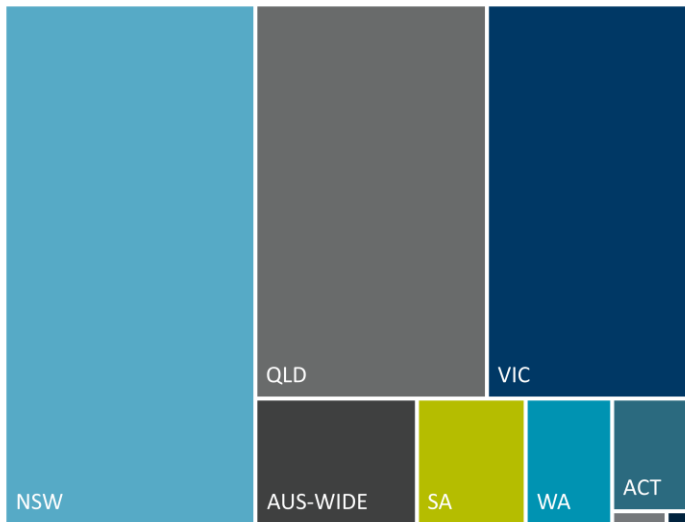
FOREIGN INVESTMENT

Q4 foreign investment activity accounted for \$2.1 billion, approximately 25% of total volume, significantly below the quarterly average of around 36%, but accounting for 34% across 2023. The bulk of foreign capital came from Japan, accounting for around 60% in Q4, Singapore 25% and the United States 11%. While the total investment volume was only \$300 million lower than Q3, a significant uptick in domestic investment pushed the share down. The ongoing strong volumes of foreign investment continue to highlight the attractiveness of the Australian commercial real estate market as a capital deployment destination.

DEAL SIZE

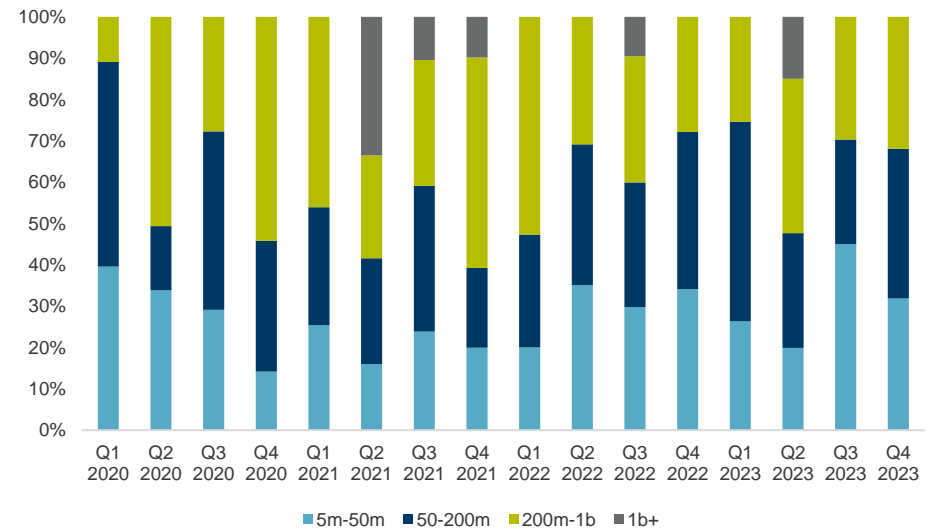
During this quarter, there was a notable rise in mid-range deals, with the \$50 million to \$200 million bracket comprising 36% of transactions, a significant increase from 25% in Q3, but back in line with the long-term average. As debt costs rose and leveraged investors or those that need to leverage were hampered, we saw decrease in larger size deals, however in Q4 we saw the deal breakup by price revert to long-term averages. This gives some indication that purchasers are adjusting to the higher rate environment and buying patterns are starting to normalise.

TRANSACTION ACTIVITY BY LOCATION, Q4 2023



Source: Real Capital Analytics; Cushman & Wakefield

INVESTMENT BY PRICE BRACKET (AUD)



Source: Real Capital Analytics; Cushman & Wakefield

MARKETBEAT

AUSTRALIA

Investment Q4 2023



SIGNIFICANT TRANSACTIONS, Q4 2023

PROPERTY	LOCATION	PURCHASER	VENDOR	SECTOR	PRICE
60 Margaret Street	Sydney	Ashe Morgan / Mitsubishi Estate	Blackstone / Mirvac	Office	\$777m
MPT Hospital Portfolio Tranche 3	Australia Wide	HealthCo REIT / HMC Capital	Medical Properties Trust	Alternatives	\$470m
Cairns Central Shopping Centre	Cairns	Fawcner Property	Lendlease	Retail	\$390m
Chatswood Chase	Sydney	Vicinity Centres	GIC	Retail	\$307m
175 Eagle Street	Brisbane	Gina Rinehart	GIC, PSP Investments, Charter Hall Group	Office	\$240m
8 Nicholson Street	Melbourne	Shakespeare Property Group	Dexus	Office	\$214m
InterContinental Sydney Double Bay	Sydney	Sam Mustaca, Allen Linz, & Eduard Litver	Fridcorp / Piety Investments	Alternatives	\$210m

Outlook

- Investment volumes in Australian commercial real estate was weak overall in 2023, however, 2023 finished strongly in Q4 with the highest quarterly total for the year.
- Inflation has come off its peak, however the impacts of higher interest rates are still passing through the economy. While there is some disagreement over timing, it is generally expected that the first rate cut will be some time in H2 2024
- The Reserve Bank of Australia raised the cash rate in November to 4.35%, while the 10-year government bond yield increased from around 4.2% to 4.6% between September and November. However, the 10-year bond yield came back to 4.2% in December.
- Seemingly price expectations between vendors and purchasers have come somewhat more into alignment, as we have reached the turning point for inflation, which is providing better clarity on interest rate expectations. We are seeing a higher volume of large deals completed, which is aiding price discovery after a period of subdued large deals.
- As always, in a more uncertain market conditions, individual property fundamentals will be of increasing importance with higher quality properties expected to outperform.

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