

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
17.5% Vacancy Rate	▲	▼
29,041 6-month Net Absorption, sqm	▲	▲
\$315 Prime Net Effective, sqm pa	■	■

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
1.0% (National) GDP Growth	▼	▼
1.5% (South Australia) State Final Demand Growth	▲	▼
4.2% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMY OVERVIEW:

The second-quarter GDP release was a key highlight among recent economic updates. It showed real growth slowing, with GDP increasing by 1% in the year to June 2024. Adjusted for population growth, however, per capita GDP declined by 1.5%, indicating weaker economic output per person. This highlights the economy's growing reliance on population growth, as net overseas migration surged to over 70,000 in Q2, contributing significantly to overall economic activity and helping offset productivity challenges. Forecasts for South Australian gross state product remain modest for 2024, forecast to increase 1.7% over 2024, before recovering to grow 2.9% in 2025.

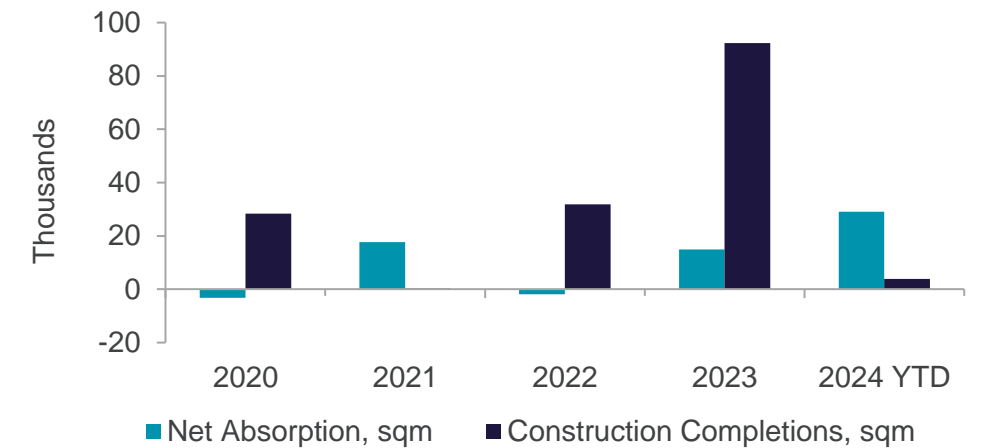
DEMAND:

Adelaide CBD recorded its highest net absorption since 2019, with 29,041 sqm absorbed in the first half of 2024. Demand for prime-grade office space improved, contributing 14,755 sqm of net absorption. Secondary-grade offices, such as B-grade, also experienced positive net absorption of 11,432 sqm, following two consecutive half-years of negative figures. Amid the limited supply of current and future prime office space, better-quality B-grade offices are expected to benefit from spillover demand, while A-grade offices continue to see steady demand. The strong absorption of higher-quality stock in Adelaide's CBD reflects a continued flight to quality by tenants.

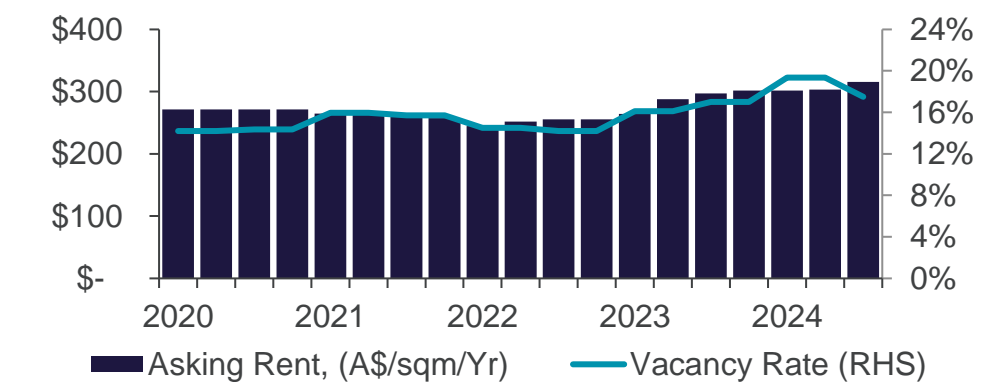
RENT:

Rents and incentives in the Adelaide CBD have remained stable across all office grades. Throughout 2024, net effective rents have seen gradual increases, while net incentives have slowly declined. With office demand holding steady, this trend is expected to continue. As of Q3 2024, the average net effective rent stands at \$315 per sqm per annum for prime-grade offices and \$199 per sqm per annum for secondary-grade offices. Net incentives have decreased to 35% for prime-grade and 42% for secondary-grade offices.

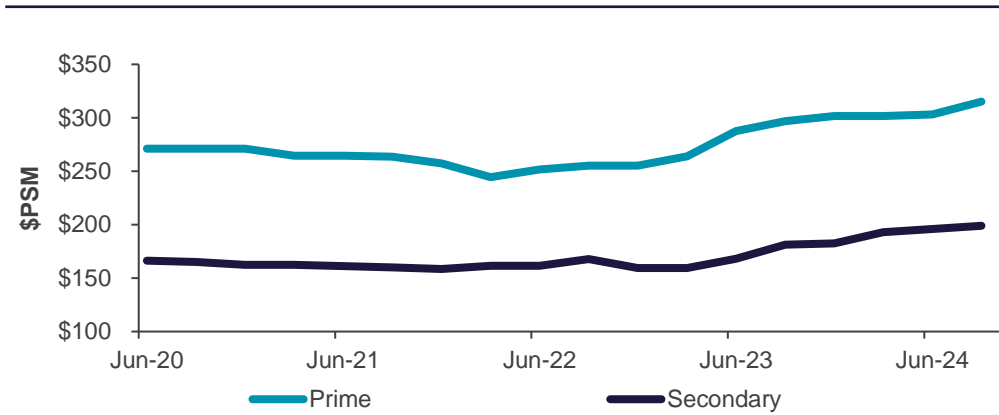
SPACE DEMAND / DELIVERIES



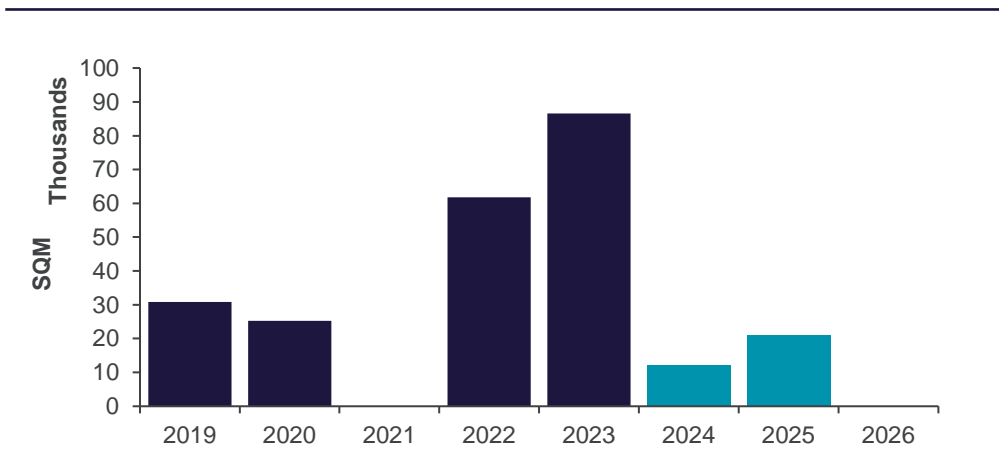
OVERALL VACANCY & PRIME NET EFFECTIVE RENT



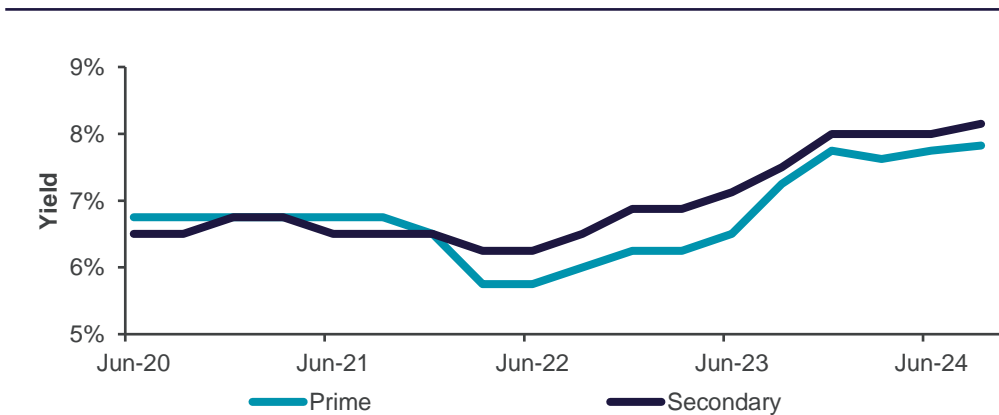
AVERAGE NET EFFECTIVE RENTS



SUPPLY



AVERAGE YIELDS



VACANCY & SUPPLY:

In H1 2024, the Adelaide CBD market has received 3,834 sqm of new and refurbished office space. Combined with improving demand and continued stock withdrawals, the vacancy rate dropped from 19.3% in H1 2024 to 17.5% by July 2024. Since January 2023, the market has seen a significant influx of approximately 122,000 sqm of office space.

With development activity slowing and a limited new supply pipeline, the outlook for the remainder of 2024 is subdued, with only 9,500 sqm expected to come online, mainly from One Fifty at 150 Grenfell Street. The Kyren project at 42-56 Franklin Street is set to deliver around 21,000 sqm of A-grade office space in 2025. Beyond this, Adelaide’s CBD development pipeline remains limited.

YIELDS:

Amid the broader downturn in commercial real estate, Adelaide CBD office yields softened throughout 2023 and into the first half of 2024, largely driven by high interest rates and reduced demand due to remote work. By September 2024, prime office yields ranged between 6.90% and 7.75%, indicating that the market may be nearing the bottom of the cycle. Secondary-grade yields, after remaining stable since 2023, showed slight improvement, settling between 7.15% and 8.15% by September 2024, signaling potential for recovery.

INVESTMENT MARKET:

Adelaide CBD office transaction volumes have remained subdued, with the off-market sale of 121-129 King William Street in Q3 2024 by Charter Hall to Kyren Group standing out as the only notable transaction. The property was sold for \$84.25m at a yield of approximately 7.60%, generating a modest profit of around \$2 million compared to its 2019 acquisition.

Another significant sale was 104 Frome Street, a boutique office in the Adelaide Frame submarket, which was purchased by a private investor. Although transaction volumes remain low, recent sales offer a welcome break from the transaction drought that has affected Adelaide for over a year. Despite economic uncertainties and rising operational costs, there is cautious optimism in the market, with investors still actively seeking opportunities amid improving conditions.

OUTLOOK

- The outlook for the Adelaide CBD office market remains positive, with steady rental growth, improving vacancy rates, and an investment market beginning to show signs of recovery despite ongoing challenges.
- Economic growth is expected to strengthen in Q4 and through 2025, as Gross State Produce reverts to align with longer term averages.
- Occupier demand is expected to remain steady, with prime-grade offices continuing to benefit from the flight-to-quality trend and limited supply in medium term.
- New supply is expected to moderately increase vacancy in 2025. The absence of new supply between 2026 and 2028 is anticipated to help vacancy rates return to the long-term average.
- Recent transaction activity suggests that yields are nearing the bottom of the cycle, with some moderate softening expected before rebounding.

MARKET STATISTICS

SUBMARKET	INVENTORY (SQM)	DIRECT VACANT (SQM)	OVERALL VACANCY RATE	6-MONTH NET-ABSORPTION (SQM)	UNDER CONSTRUCTION (SQM)	NET EFFECTIVE RENT (\$ SQM PA)	AVERAGE NET INCENTIVES	AVERAGE OUTGOINGS (\$ SQM PA)
Prime	743,853	148,707	20.0%	14,755	30,485	\$315	35.0%	\$143
Secondary	819,864	124,684	15.2%	14,286	-	\$199	41.5%	\$125
TOTALS	1,563,717	273,391	17.5%	29,041	30,485			

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	SQM	TYPE
No notable transactions in Q3 2024				

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	BUYER	SQM	PRICE / \$ PSQM
121-129 King William Street	Adelaide Core	Kyren Group	12,378	\$6,800

KEY PROJECTS UNDER CONSTRUCTION & COMPLETIONS

PROPERTY	SUBMARKET	MAJOR TENANT	SQM	OWNER/DEVELOPER
150 Grenfell Street	Adelaide Frame	N/A	9,485	Kambitsis Group
42-56 Franklin Street	Adelaide Core	N/A	21,000	Kyren Group

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