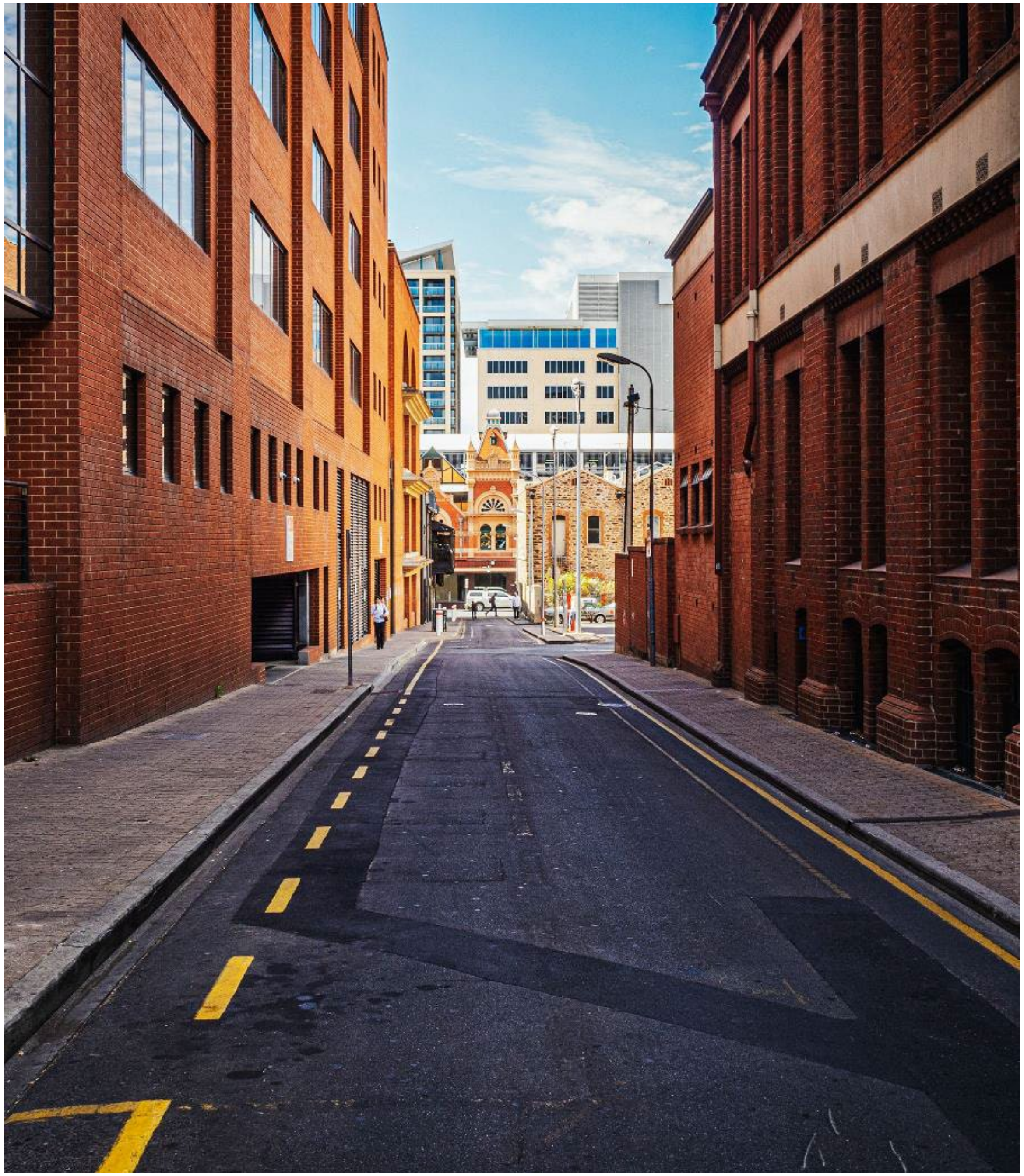
SOUTH AUSTRALIA MARKET SNAPSHOT

SEPTEMBER 2023

CONTENTS



INDUSTRIAL

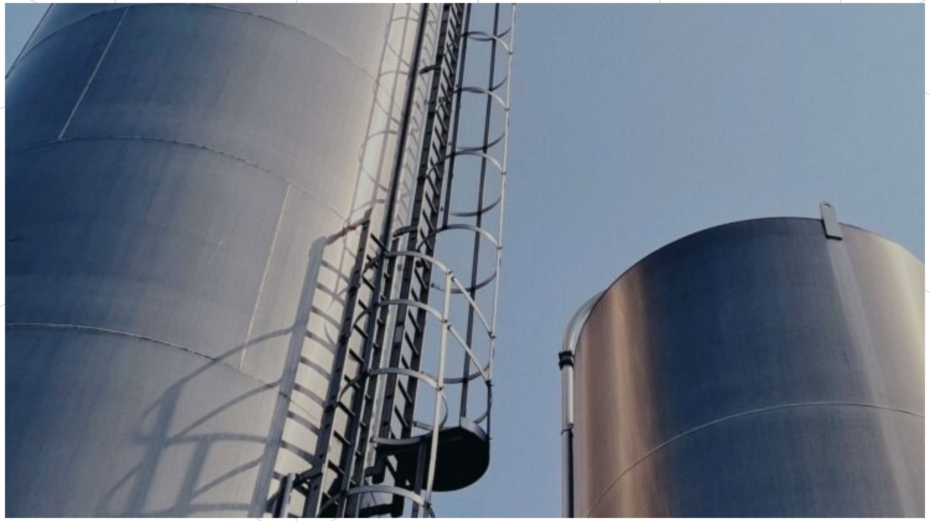
“There has been a lack of transactional activity Australia-wide across the industrial sector with notably fewer transactions over the last six months, compared with the previous year. This is a response to the RBA's decision to continue lifting interest rates with market participants reassessing and taking stock of their position in light of the increased cost of capital.

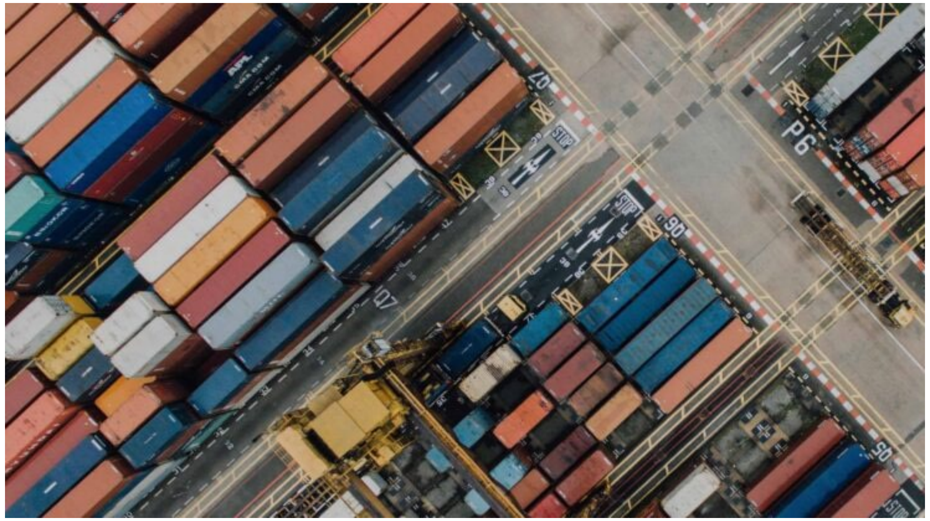
The fundamentals of the industrial sector remain strong, and the shortage of quality stock will ensure continued demand for the remainder of 2023. Low vacancy rates continue to underpin rental growth although we have seen some stabilisation in line with historical trends."

NEIL BRADFORD
DIRECTOR

CURRENT STATE OF PLAY

- The South Australian industrial market remained strong in H1 23, reflecting limited stock and continued demand.
- Leasing demand remains buoyant although stock take-up for H1 was slightly below long-term averages. Reflecting tight supply, occupiers continue to be compromised in terms of the space they can secure as tenants adjust to rising rents.
- Low vacancy rates have driven rental growth although this is expected to moderate with tenants focusing on cost control.
- Industrial purchasing decisions are being reassessed in response to rising interest rates, tighter lending procedures and the elimination of superannuation lending has reduced a small segment of the buying market.
- Banks continue to look for quality investments and have a reduced appetite for risk. This is likely to create a widening of yields between primary and secondary assets which is yet to materialise.
- Reflecting the lack of developable land and minimal englobo parcels to be released, there remains strong demand with growth in certain areas expected.
- Growth in the Transport, Postal and Warehousing, Manufacturing, and Wholesale Trade industries is expected to strengthen over the coming five years which together with defence spending will provide a long-term income base to keep the industrial sector moving.





OPPORTUNITIES AND CHALLENGES

- Vacancy remains tight, particularly for larger space modules with stock levels below 1%. 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.

- Continued scarcity of suitable developable land prevails with a concerning lack of future englobo opportunities, thus presenting increased opportunities for the gentrification of older industrial precincts.

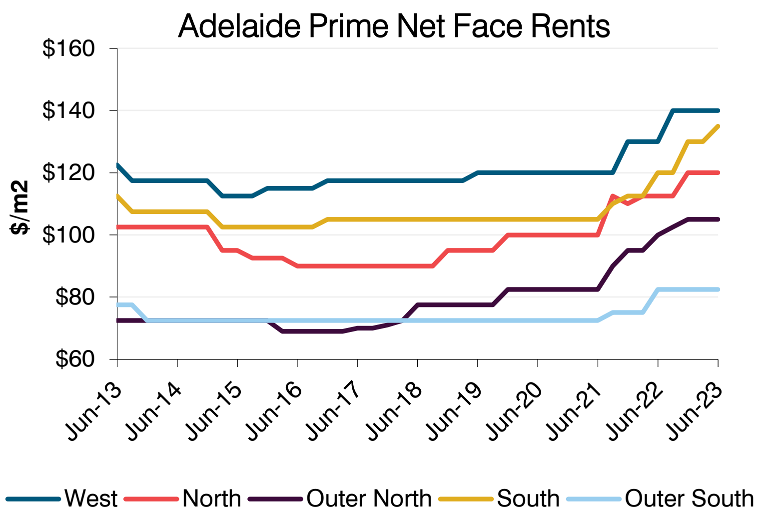
OUTLOOK

- The industrial property investment market cycle is considered to have peaked in late 2022, with sales activity having declined over recent months, and yields expected to soften throughout the remainder of 2023.

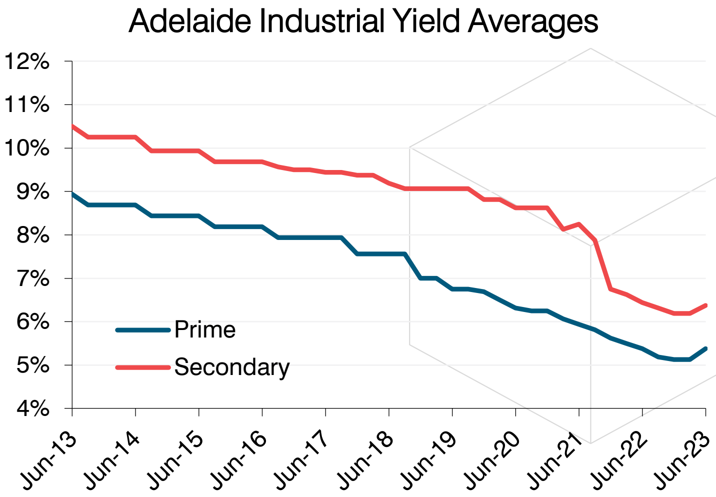
- The supply pipeline is thinning in part - reflecting rising construction costs and supply chain challenges.

- The fundamentals of the industrial sector remain strong, although a cautious approach is likely for the remainder of 2023 pending a more positive outlook on inflation and stabilisation of the cash rate.

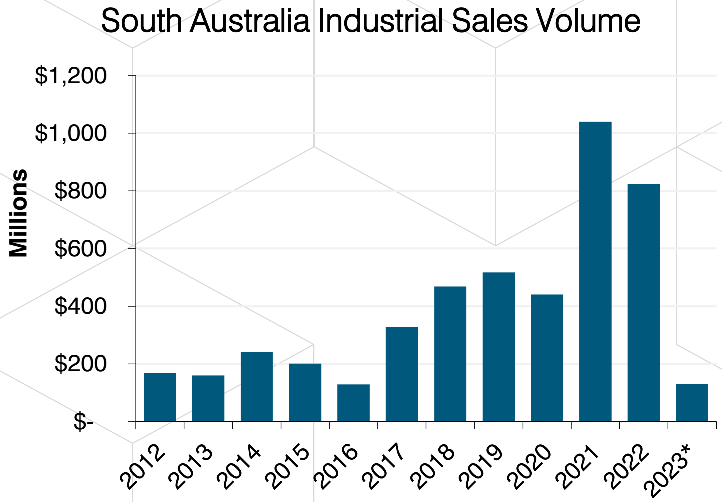
Property	Sale Date	Sale Price	GLA (m^2)	WALE (Income)	Initial Yield (%)	GLA Analysis ($/m2)
27-49 Essington Drive, Edinburgh	May-23	$66,698,588	15,005	14.94	4.39	$4,445
50-60 Millers Road, Wingfield	Mar-23	$14,700,000	2,246	10.00	6.21	$6,545



Source: M3 Property



Source: M3 Property



Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over $5 million
2023* sales to 3 July 2023

RENTAL MARKET

- Across the Adelaide metro, prime net face rents are ranging between $90 and $130 per square metre. Rents had stable growth over the year to June 2023.

- Leasing activity continues to be the strongest in the Outer North and West, with several large-scale developments/projects underway in the area. These precincts include Renewal SA's Edinburgh Park precinct, the adjacent Vicinity estate at Direk developed by the Walker Corporation, Charles Sturt Industrial Park, and Lionsgate Estate (former GM's headquarters), which has benefited from State Government incentives to bring employment to South Australia.

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.

- Prime industrial yields are typically ranging between 4.75% and 6.00%. Yields are forecast to be soften over the second half of 2023.

- Properties with greater than average WALEs are continuing to see strong demand and trading at lower-than-average rates because of the lower income risk associated with the investment.

INVESTMENT MARKET

- After a record year for industrial transactions in 2021, sales volumes moderated in 2022 with $825 million of industrial property transacting above the $5 million threshold. The volume of sales was tracking broadly in line with 2021 levels until the final quarter of 2022.

- The depth of the buyer pool in the Adelaide industrial market has increased during recent years and we have seen institutional buyers expand their presence.

- 2023 sales have been subdued up to the first half of the year. Up to 3 July there has been $129 million of industrial sales.

RETAIL

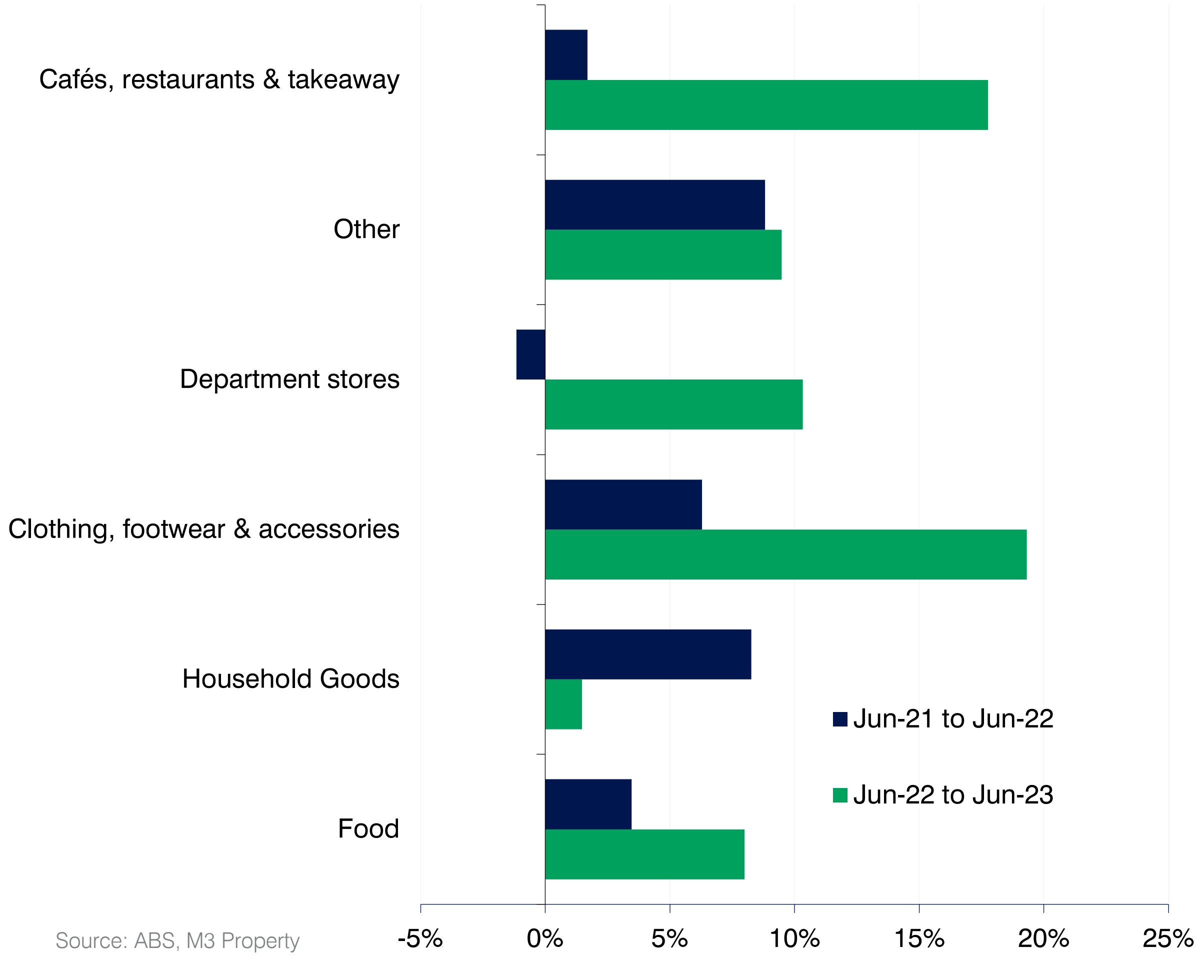
“The lack of transactional activity is hampering price disclosure. Vendor and purchaser expectations continue to be misaligned creating paucity in the market.

While assets that have transacted have shown a softening in metrics, reflective of the increased cost of capital, shopping centres are still seen as attractive assets due to their prominent locations, large land tracts, flexible zoning provisions, re-set rental levels and relatively attractive total returns as opposed to some other asset classes."

SHAUN O’SULLIVAN
DIRECTOR

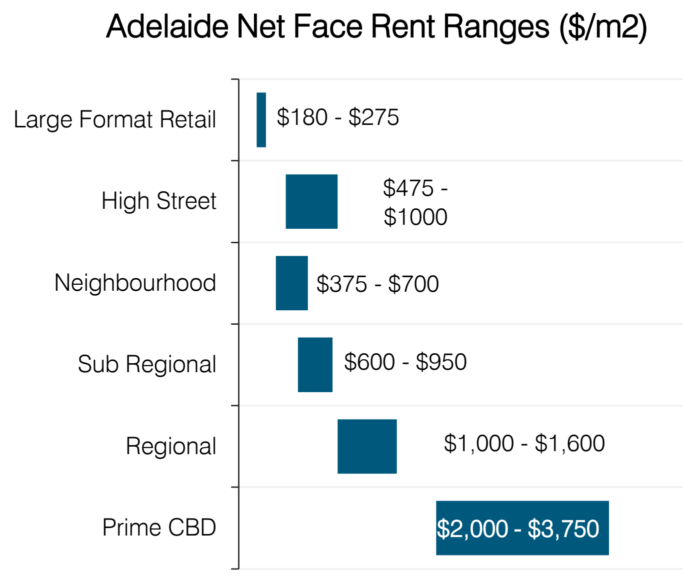
CURRENT STATE OF PLAY

South Australia MAT Growth by Retail Sector

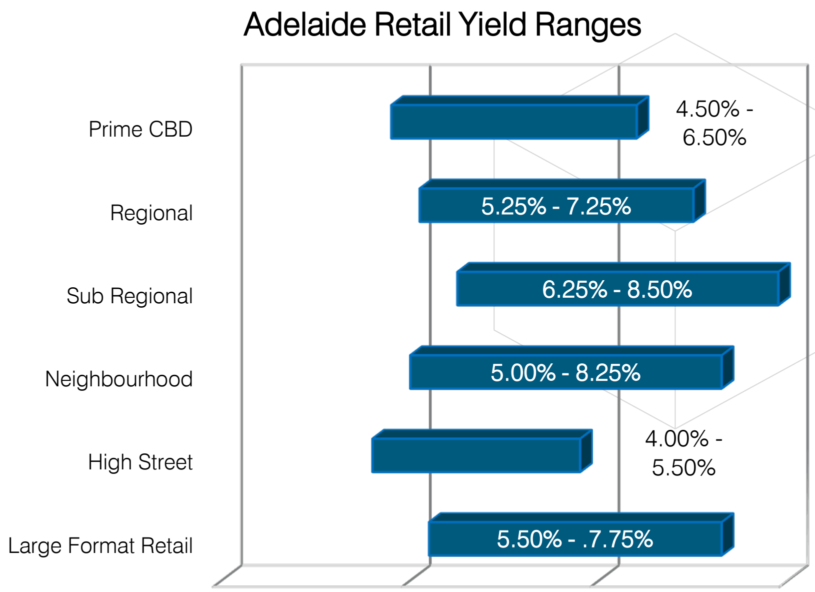


Source: ABS, M3 Property

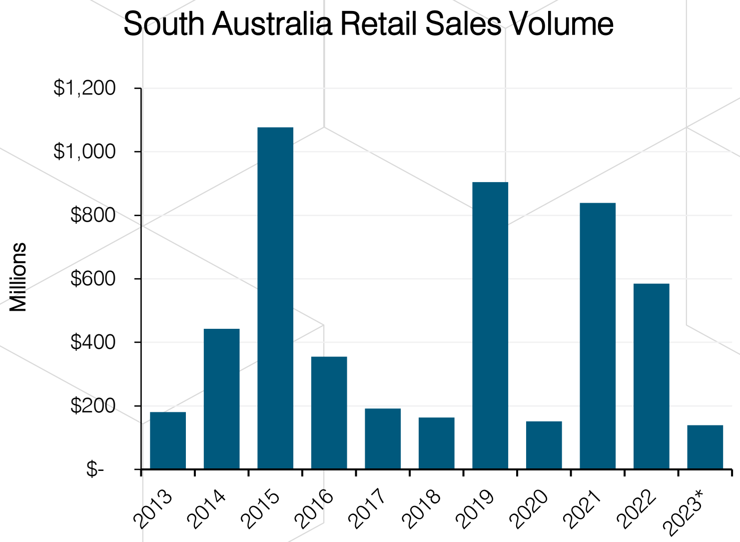
- Adelaide has attracted growing interest from international retailers over recent years.
- UNIQLO and JD Sports opened their first South Australian stores in 2022, with TAG Heuer opening a store in 2023.
- The Shop Trading Hours (Extension of Hours) Amendment Bill 2022 was passed in October 2022, allowing retailers to open from 9am on Sundays (previously 11am) and for shopping centres to open on Boxing Day (previously only CBD retailers could trade on Boxing Day). These changes have expanded retail and leisure opportunities for South Australians.
- New retail space coming to the market is generally part of mixed-used projects and in new / growing residential communities.
- There has been increased tenant demand for Adelaide's suburban high street locations over the past two years due to more people working from home.
- Total retail spending growth in South Australia from the year to June 2023 was 9.0%, up from 4.8% growth from the year to June 2022.
- The strongest growth by retail category was recorded in Clothing, footwear, and accessories (19.3%) followed by Cafés, restaurants & takeaway (17.8%).



Source: M3 Property



Source: M3 Property



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

RENTAL MARKET

- Due to ongoing vacancies, there are a number of options available in the CBD for tenants entering the leasing market as well as for those whose leases are close to expiry.
- Net face rents showed only moderate growth were steady across most retail property types in South Australia during the year to June 2023.
- Incentives rose at the start of the COVID-19 pandemic and have since stabilised at an elevated level.

YIELDS

- Yields for most retail property types in South Australia began to soften in the second half of 2022 and continued into the first half of 2023, although the lack of transactions has hampered pricing disclosure.
- The yield spread between primary and secondary assets has been widening reflecting a flight to quality and purchasers seeking appropriate risk-adjusted returns for non-core assets.

INVESTMENT MARKET

- Sales volumes are significantly down on the previous two years.
- The most significant transaction to occur was the sale of Brickworks Marketplace for $85,000,000 from Charter Hall to FRP Capital.
- AMP Capital Shopping Centre Fund (ASCF) has offered to the market a 50% interest in Westfield Tea Tree Shopping Centre with expectations of circa $350,000,000.
- Nationally, commercial real estate investment activity has slowed whilst vendor and purchaser expectations attempt to align.

OPPORTUNITIES AND CHALLENGES

- The Adelaide CBD has bounced back from the impacts of COVID-19 and border closures. Office occupancy rates in the CBD are at about 82% of pre-pandemic levels while the total number of weekday visitors to the CBD is at 93% of pre-pandemic levels, resulting in increased foot traffic positively impacting CBD retailers.

- Employment in white-collar industries is expected to grow steadily and outpace blue-collar employment over the next decade - a positive for CBD retailers.

- In the current environment, centres with strong exposure to discretionary spending, in catchments with high mortgage stress, will face more challenging trading conditions.

- Whilst purchasers have been cautious with acquisitions, reflective of not knowing how much further the market will soften, some purchasers have seen this as an opportunity to acquire assets with fewer active buyers in the market.

- New and proposed residential and commercial developments are expected to positively drive foot traffic in some retail precincts of Adelaide. The Rundle Mall precinct is expected to benefit from Charter Halls 60 King William Street (recently completed), Lot 14's Entrepreneur and Innovation Centre and the Tarrkarri Centre for First Nation's cultures.

OUTLOOK

- Household consumption in H1 was driven by increased spending on services, which increased by 2.4%, whereas demand for retail goods dropped by 4.1%.

- Over the short-term, retail turnover will be elevated by consumer price inflation. Sales volumes are expected to be patchy as consumers adjust to the higher interest rate environment.

OFFICE

"With the increase in interest rates, SA office markets experienced a flow-on effect with reduced pricing expectations by purchasers resulting in many office buildings being taken off the market.

Additionally, vacancy rates have increased mainly due to new supply although leasing demand has also been impacted by more people working from home, although this is likely a lesser concern in Adelaide than other states.

We've seen a softening in market yields due to market conditions, with some evidence that price expectations between vendors and purchasers have started to narrow with some activity occurring."

SIMON HICKIN
DIRECTOR

CURRENT STATE OF PLAY

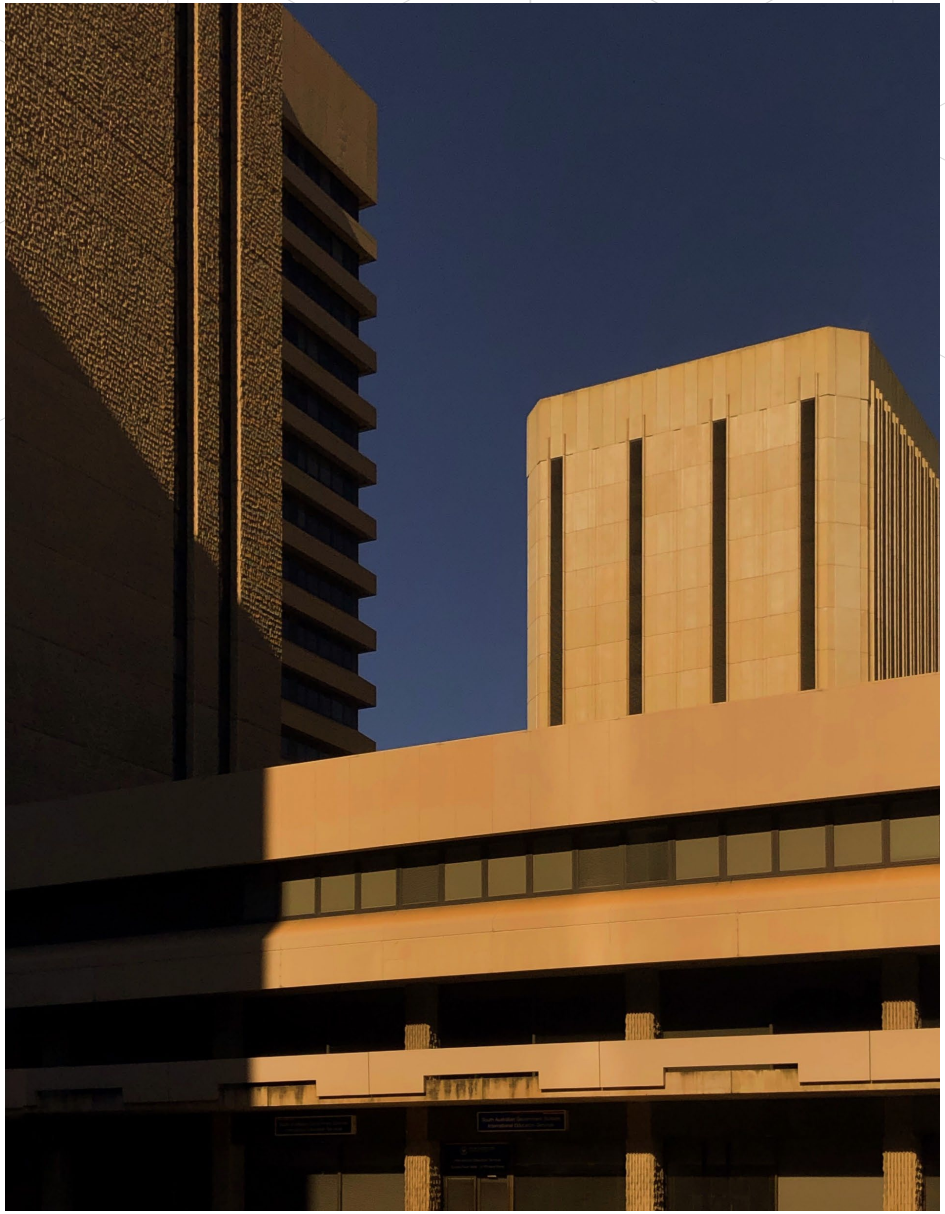
- Since the interest rate increases from mid 2022 the office sector market has seen a slowing in transactional activity especially for higher priced assets and a softening in investment returns. The degree of softening differs significantly depending on the quality of the asset and lease expiry profile.

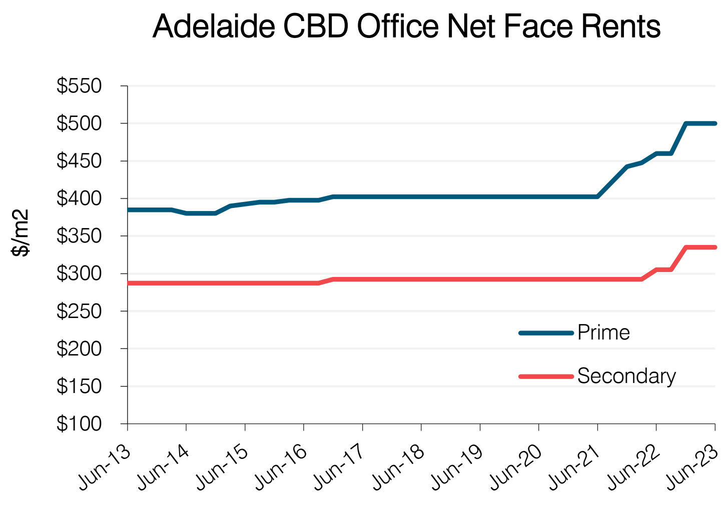
- The current wave of new supply from CBUS, Charter Hall and Walker Corp is being driven by major commitments to government departments.

- The new supply has driven a quantum leap in rents, and we're expecting some rental growth across the rest of the market as a result. This is being overshadowed by a significant increase in vacancy for A grade stock, because of three large tenant moves into new supply.

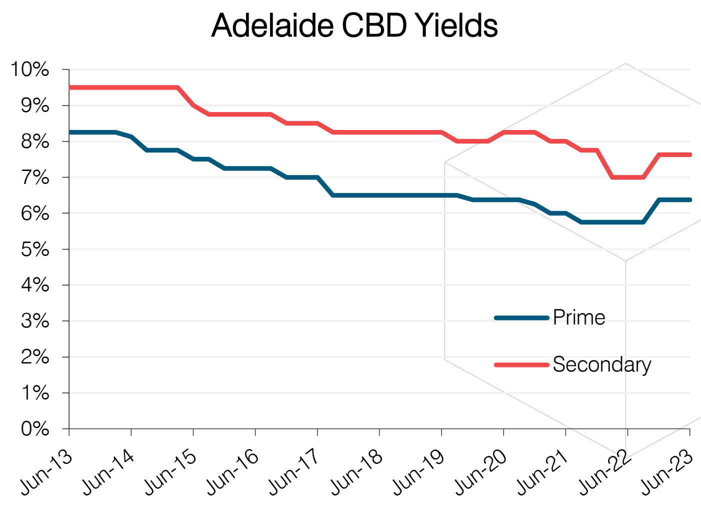
- Tenants continue to see value opportunities in the CBD due to proximity to restaurants, events and more, contributing to a shift in fringe and suburban tenants moving into the CBD.

- 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.

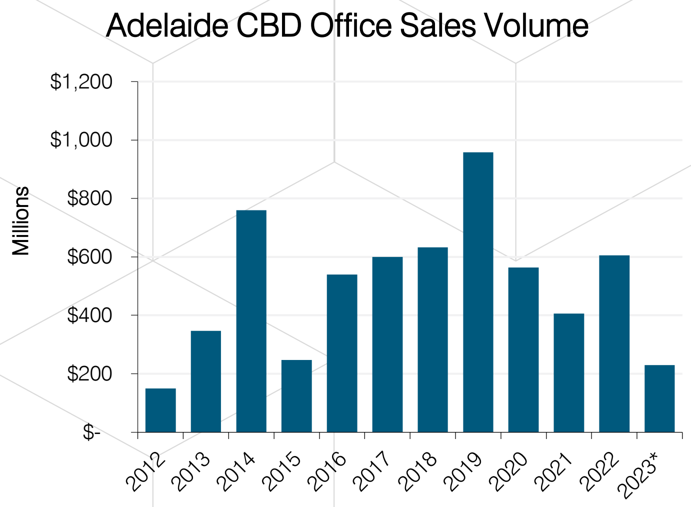




Source: M3 Property



Source: M3 Property



Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over $5 million
2023* sales to 8 August

RENTAL MARKET

- There is a reasonably large number of options available in the CBD for tenants entering the leasing market as well as for those whose leases are close to expiry.
- Whilst prime net face rents have experienced strong growth over the past two years, rental growth in the secondary market lagged, with movement seen during the second half of 2022. As at the June quarter 2023, prime net face rents ranged from $450 to $550 per square metre and secondary net face rents ranged between $250 and $425 per square metre.
- Prime incentives range between 27.5% and 45%. Secondary incentives range between at 25% and 40%.

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 and other eastern seaboard yields fueled investor interest and sales volumes over recent years.
- Yields softened further in the first half of 2023, with prime yields ranging between 5.75% and 7.00% and secondary yields ranging between 7.25% and 8.00%. Investment activity has slowed in 2023 to date.

INVESTMENT MARKET

- There was $605 million of office transactions in the Adelaide CBD during 2022. Despite the number of transactions decreasing from 2021 (20 transactions) to 2022 (13 transactions), the volume of sales in dollar terms increased.
- Acquisitions were heavily supported by institutional and private investors, making up over 75% of all transactions (by $ value) in 2022. In the year prior, acquisitions were relatively evenly split between institutions, offshore groups and privates.
- The largest transaction to occur in 2023 was the sale of GHD Building (211 Victoria Square), acquired by a syndicate facilitated by Harmony Property Investments.
- 2023 sales have totaled $229 million during the first half of 2023 and are tracking at a subdued rate compared to 2022.

OPPORTUNITIES AND CHALLENGES

- The CBD has an ageing stock profile with a large proportion being greater than 30 years and an inability to recycle old buildings.
- There remains a greater ability for new/modern developments to achieve superior effective rental growth compared to older stock which will likely be impacted by reduced demand as new stock is added to the market.
- Whilst a substantial portion of new supply to be added to the market this year is pre-committed; the relocation of tenants will leave a sizeable amount of backfill space in the market.
- 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 between 2022 and 2027.

OUTLOOK

- Net face rental growth is expected to remain subdued due to the elevated vacancy rate.

** Includes Administrative and Support Services; Finance and Insurance; Information Media and Telecommunications; Professional, Scientific and Technical Services; Public Administration and Safety; and Rental, Hiring and Real Estate Services*

Property	Sale Date	Sale Price	Lettable m²	$/m²	Market Yield (%)
99 Frome Street, Adelaide	Jul-23	$13,000,000	3,432	3,788	7.85%
211 Victoria Square, Adelaide	Feb-23	$130,500,000	17,774	7,342	6.80%

RESIDENTIAL

"Adelaide's residential market remains stable with continued growth. Strong prices are being driven by a lack of stock and continued steady demand.

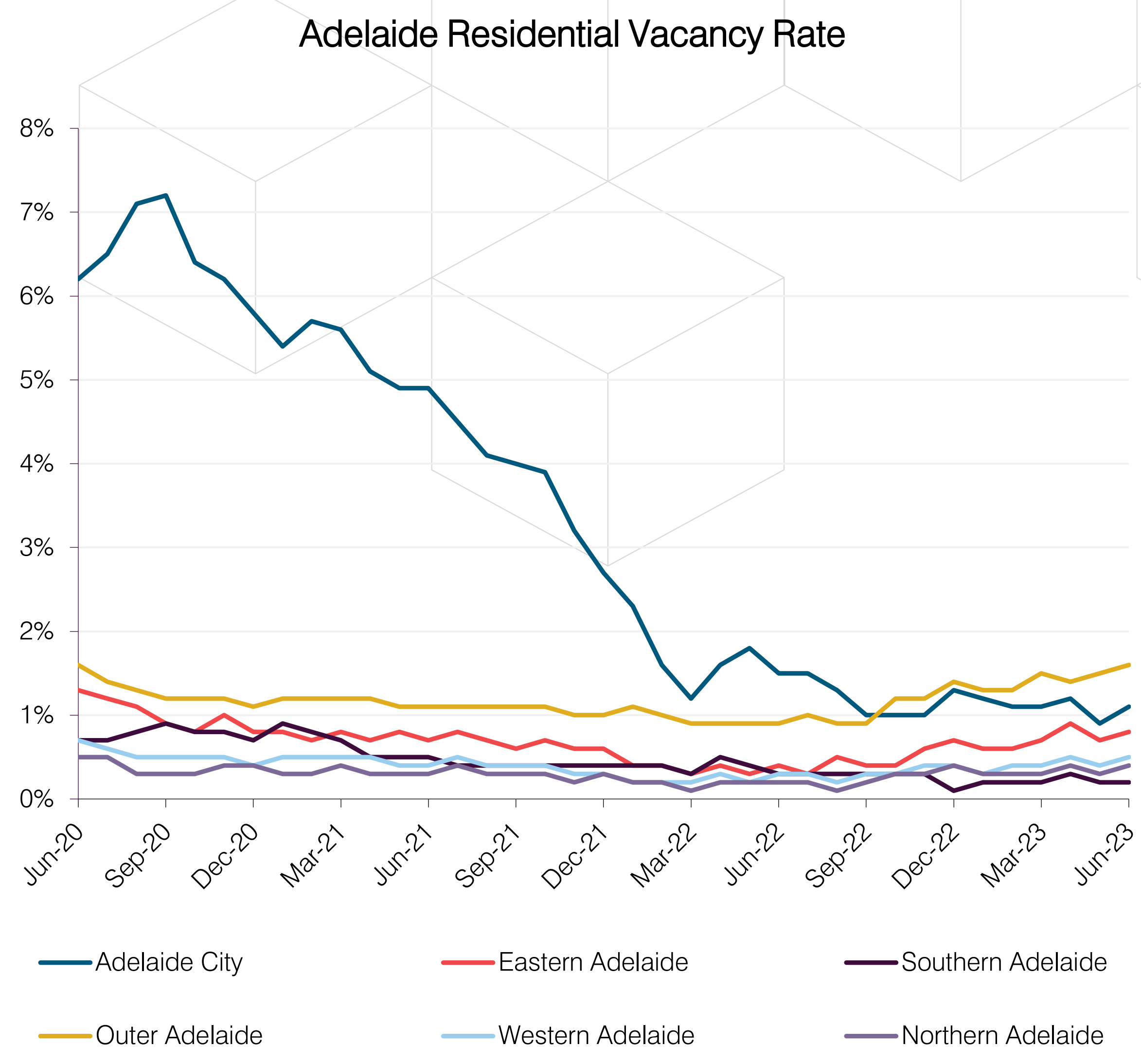
Land sales have eased however demand remains strong and those in the market are actively pursuing land.

The market is being assisted by shorter lead-in times for construction, which in some instances until recently extended out to 12 months or more. In addition, further government funding for first home buyer grants is providing a stimulus for the local market."

KYM DREYER
DIRECTOR

CURRENT STATE OF PLAY

- Adelaide was a standout performer of the residential market through the pandemic, with strong residential demand and a shortage of dwellings for sale resulting in strong price growth.
- However, 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. Over the year to the March 2023, weekly rental rates for houses increased by 11.1% across the Adelaide Metropolitan, which compares to average annual growth of 4.5% per annum over the five years.
- Rents for units / flats also saw robust growth, albeit more volatile depending on the number of bedrooms, with 13.5% growth recorded for two-bedroom units and 13.5% growth recorded for three-bedroom units. One-bedroom units saw growth of 21.3% over the year.



Source: SQM, M3 Property

OPPORTUNITIES AND CHALLENGES

- South Australia has benefitted from positive net interstate migration flows during much of the pandemic. Whilst net interstate migration into South Australia is likely to slow, overseas migration is forecast to continue recovering during 2023.
- Despite affordability having deteriorated over the past year, the Adelaide residential market remains one of the more affordable capital cities of Australia.
- Tight vacancy rates across the city are expected to push rental rates up further.

OUTLOOK

- Dwelling prices are expected to stabilise over the short-term, with the unit market likely to be more insulated than the established house market due to tight rental market conditions.
- It is apparent that given strong growth in purchaser demand for established allotments, demand for englobo land parcels continues to be strong with record prices being reported for greenfield sites across metropolitan Adelaide with a number of pending transactions expected to settle within ensuing months that will confirm the strong level of market sentiment and development appetite.
- The SA Government's 2021 Land Supply Report shows there to be circa 22,400 development ready greenfield lots across Greater Adelaide. The Outer North region has the largest supply of development ready greenfield lots (12,400 lots) together with the largest estimated supply of undeveloped zoned and future urban growth lots.

Property	Sale Date	Sale Price	Zoning	Purchaser	Site (m²)	Site $/m²
Allotment 271 Frisby Road, Angle Vale	Jul-23	$13,000,000	Master Planned Neighbourhood Zone	T4 Frisby Pty Ltd	237,200	$55
53 Martin Road, Mount Barker	Jul-23	$12,000,000	Master Planned Neighbourhood Zone	UPG 210 Pty Ltd	281,000	$43
100 Folkestone Road, Dover Gardens	Jun-23	$14,850,000	General Neighbourhood Zone	EPDC NO 10 Pty Ltd	34,500	$430
49 Angle Vale Rd & Lot 34 Clifford Rd, Evanston Gardens	Apr-23	$11,771,000	Master Planned Neighbourhood Zone	Maps Evanston 1 Holdings & Ors	112,400	$105
27 Valetta Road, Kidman Park	Mar-23	$18,000,000	General Neighbourhood Zone	Catholic Church Endowment Society	42,950	$419

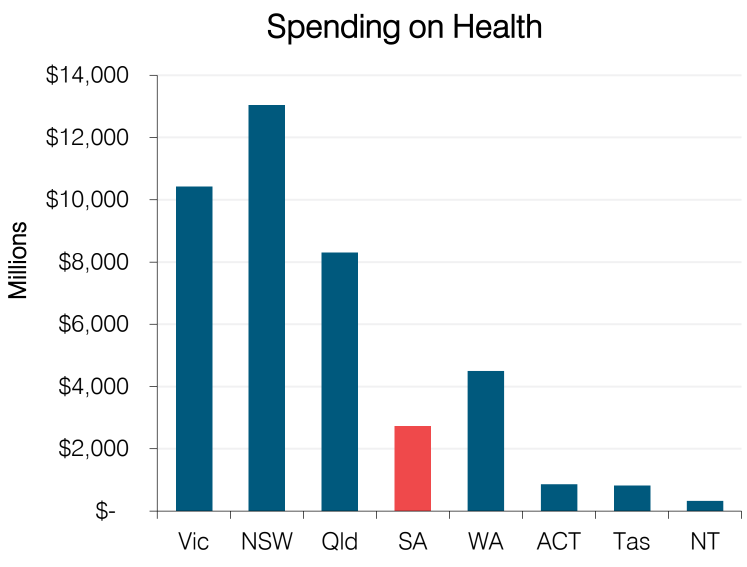
HEALTHCARE

"South Australia's healthcare sector continues to see solid demand due to strong market fundamentals, including the government's strategic focus and resulting partnerships between the public and private sector.

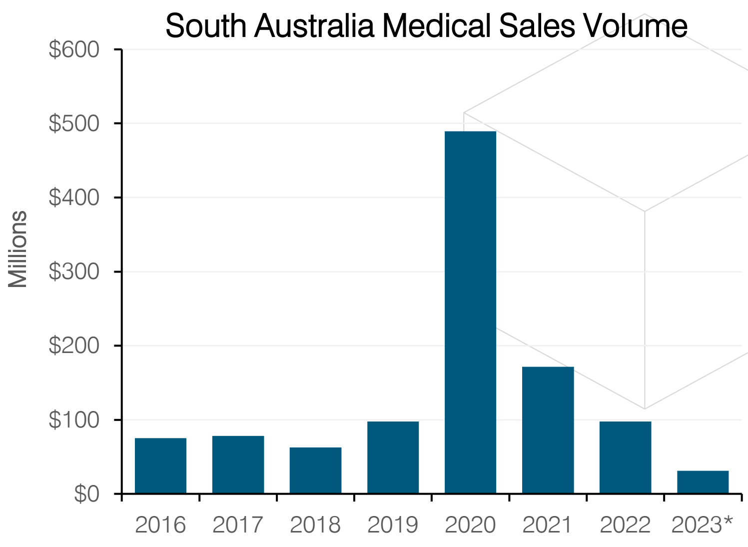
Investor expectations are still yet to re-balance as a result of less market transactions occurring in 2023.

We anticipate the sector will continue to see high levels of demand for prime assets that have strategic market positioning."

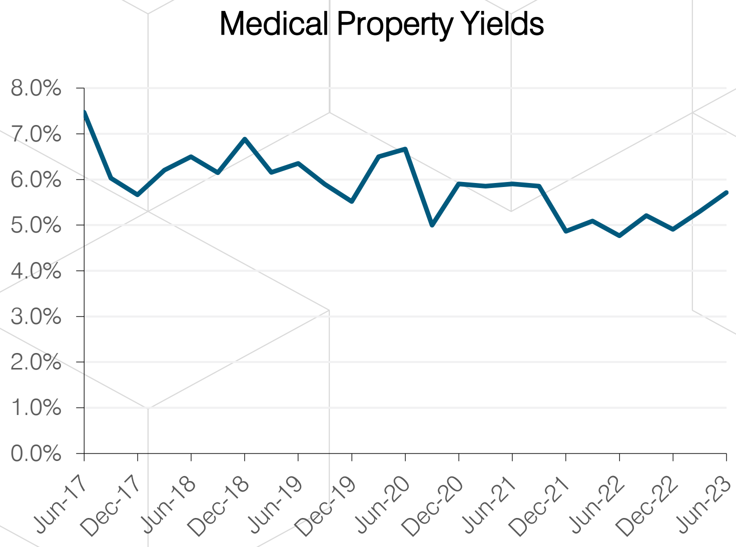
SIMON HICKIN
DIRECTOR



Source: GapMaps, M3 Property



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



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

NATIONAL TRANSACTIONS

- There were numerous healthcare portfolios offered to the market nationally during 2022 with a significant variance in purchaser and vendor pricing expectations being a key driver in their withdrawal from the market.
- Transactions for several assets have completed during the first half of 2023, which has reflected in a capitalisation rate softening, especially for secondary healthcare assets with income risk associated with short WALE's and below-average tenant covenant strengths.

INVESTMENT MARKET

- Medical investment activity in South Australia reached record highs in 2020 with close to $500 million of sales recorded. In 2020, there were 9 medical and hospital properties transacted across South Australia.
- The five-year average for medial sales volume excluding 2020 is $101 million. 2022 sales volume was marginally below the five-year average recording $98 million of sales recorded.
- 2023 has recorded $31 million of medical and hospital properties across South Australia during the year to August, representing a subdued market compared to previous years.
- Institutional investors, REITs, and private buyers have been the most active buyer groups over recent years. While some years have had international investors attribute to the buyer composition.

YIELDS

- Yields have undergone a period of compression over recent years.
- Core investment healthcare yields currently average between 4.50% and 5.50%.
- Yields for secondary assets are ranging between 5.50% and 6.50%.
- Yields are anticipated to soften during the second half of 2023.

OPPORTUNITIES AND CHALLENGES

- Rising interest rates has slowed investment activity in the healthcare market as expected. There is still strong demand from institutional grade investors, however, there is a lack of quality stock.
- Mental health and well-being is becoming an emerging health issue, with 43.7% of people aged between 16 and 85 experiencing a form of mental disorder in their life and 21.4% of people experiencing a mental disorder for at least 12 months.
- Demand for medical services by a growing and ageing population is expected to continue increasing. Unhealthy lifestyles, obesity rates and increasing focus on wellbeing and mental health continue to drive demand for medical services and medical suites and centres.
- Life Science continues to emerge as a key sub-sector within the healthcare market as the appetite from institutional groups for these type of assets increases, specifically during 2022, with numerous transactions occurring in this sub-sector.

OUTLOOK

- The healthcare sector will likely continue to grow as 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.

Property	Sale Date	Sale Price	Site (m^2)	Site $/m²	Lettable m²	$/m²	Initial Yield (%)
135-139 Daws Road, St Marys	May-23	$3,710,000	1,835	2,022	727	5,103	6.64
672-680 Grand Boulevard, Seaford Meadows	Mar-23	$6,900,000	3,030	2,277	992	6,956	4.98

CHILDCARE

“We're currently seeing a strong rate of increase in rents and fees in the childcare sector, driven by inflationary pressures.

These increases may be unsustainable in the long-term causing the Federal government to instigate ACCC and Productivity Commission enquiries into the sector. Some of the factors impacting potential unsustainability of some services include staff shortages due to a lack of qualified workers primarily as a result of low remuneration, increasing wages expenses on top of increasing rental costs.

However, the increasing commitment of the Federal Government to support the sector is creating a positive outlook for this asset class."

MICHAEL SCHWARZ
DIRECTOR

CURRENT STATE OF PLAY

- There is strong bipartisan government support for the childcare sector that will see continued funding to the sector.
- Early Childhood Education and Care assets remain a popular real estate investment with properties typically having long term leases and within an industry which has strong governmental support.
- With increases in interest rates in past 6-12 months, there has been a softening in demand and resulting prices/yields for Early Childhood Education and Care (ECEC) assets in recent months with caution due to oversupply in some areas.

OPPORTUNITIES AND CHALLENGES

- The sector continues to face labour shortages which have resulted in some childcare centres having to place a cap on enrolments, despite being licensed for a higher number of children.
- With increasing construction costs, there has been an upward pressure on rents with new centres setting new benchmarks. This has placed increased operational pressure on services which has resulted in a corresponding upward pressure of daily fees and financial pressure on families.
- There are opportunities to expand and/or establish new services in some areas that show low supply, however this will require considered due diligence with the selection of the lessee/operator critical in the success of the service.

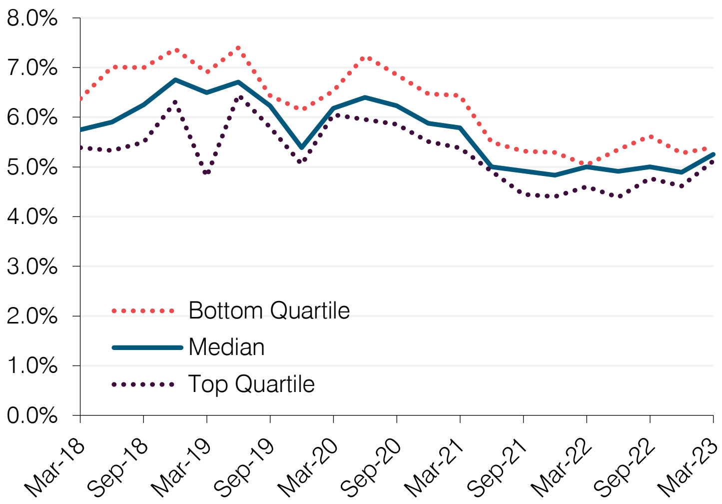
OUTLOOK

- In late 2022 it was announced that both the ACCC and Productivity Commission will conduct separate inquiries into the supply of childcare services and childcare pricing nationally. The ACCC final report is due by 31 December 2023 whilst Productivity Commission report is due June 2024.
- The labour force participation rate is forecast to trend upwards to reach 69% nationally by 2031, compared with 65% in 2020. As labour force participation increases, demand for childcare is expected to increase.

CHILDCARE CENTRE YIELDS

- Within South Australia, current yields for prime freehold interests are in the band of 5.25% to 5.75%. Yields tightened over recent years until early 2022. However, we have seen demand soften for some assets since mid-2022, and yields have pushed upwards as a result.
- Childcare investors include small and medium-sized operators along with large investment trusts and owners. Ownership in the childcare market is still largely single owner operators, however is becoming increasingly consolidated with larger corporate / institutional owners active in the market.

Childcare Centre Yields

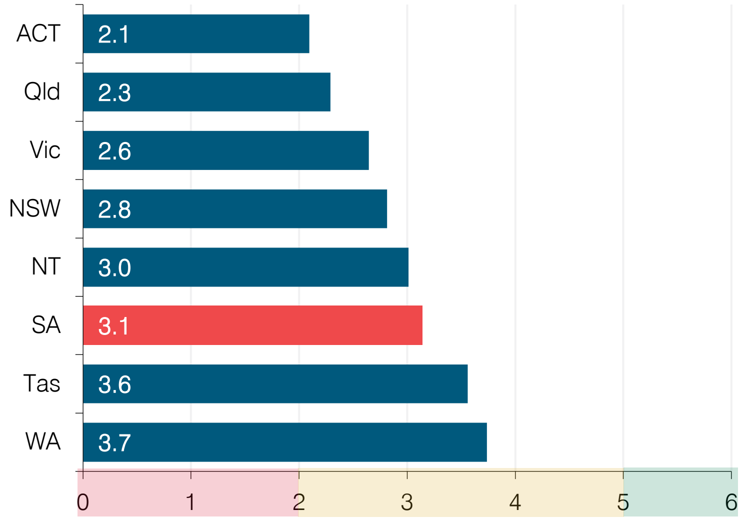


Source: STR, M3 Property

SUPPLY DEMAND RATIO

- Approximately 49,060 children use Centre Based Day Care in South Australia, this equates to 44% of all children aged 0-5 years having attended Centre Based Day Care in the State in the past year.
- Currently South Australia has a ratio of Children to Licensed Child Place of 3.14
- A location with a balanced level of supply and demand will have a ratio of between 2.20 and 3.00 children per licensed place.
- Increasing supply in recent years has resulted in some areas of Adelaide which are now oversupplied.
- Regional South Australia remains, generally, under supplied.

Children to LDC Place Ratio

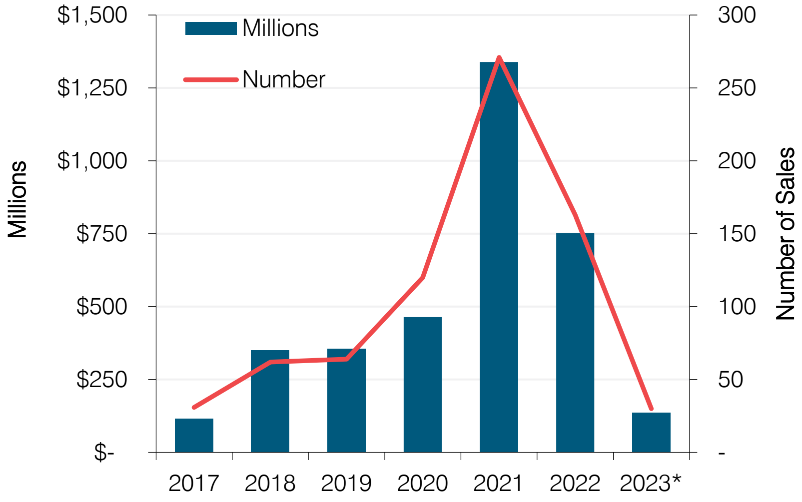


Source: STR, M3 Property

INVESTMENT MARKET

- 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 in 2022, with $752 million of childcare sales recorded (163 properties) during the year.
- With the advent of increases in the cash rate the market softened in late 2022.
- Activity has remained more subdued in 2023, with sales tracking at comparable levels to 2019 and 2020 to date.

Childcare Sales



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

+61 8 7099 1800

L 13 / 26 Flinders St
Adelaide SA 5000

m3property.com.au
infosa@m3property.com.au

M3