M3 PROPERTY

SOUTH AUSTRALIA MARKET SNAPSHOT

H2 2022

CONTENTS

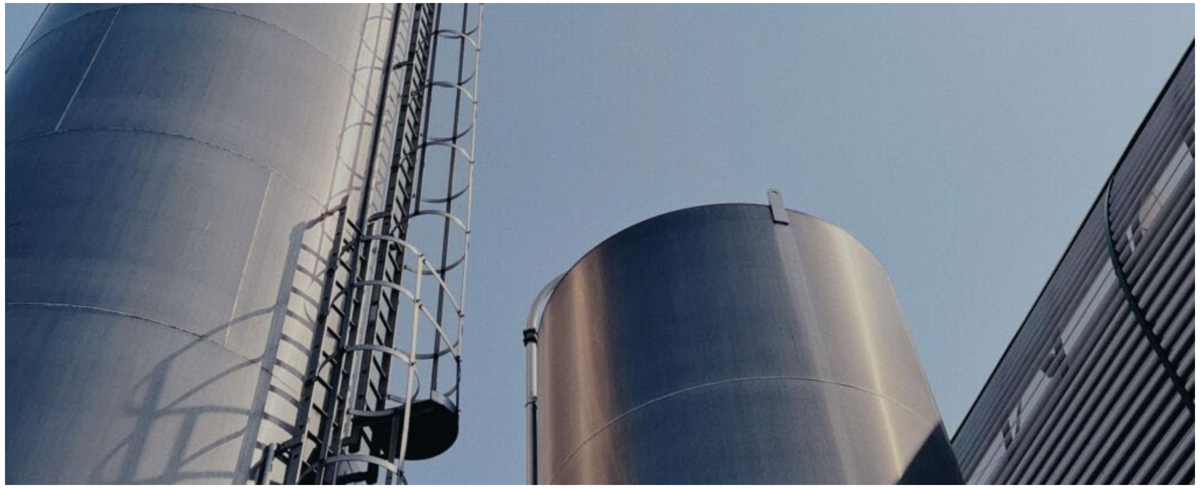
INDUSTRIAL

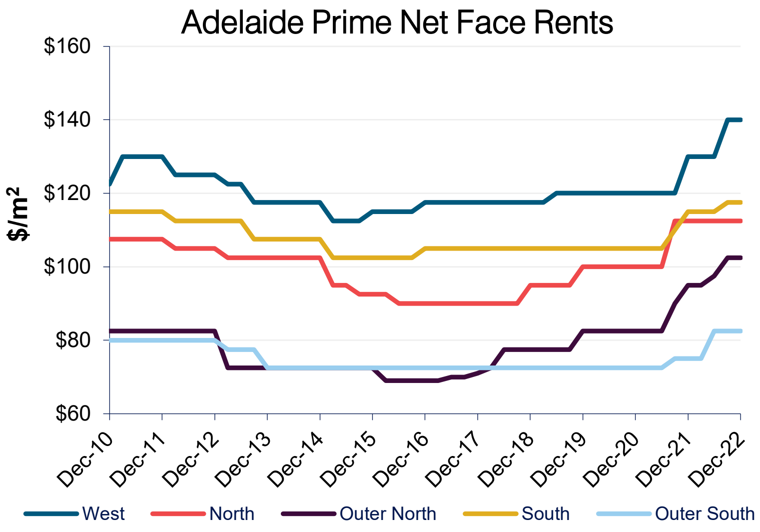
"South Australia's industrial leasing market is at a point of inflection, with a stabilisation of the rental market expected following solid growth over the previous two years. Similar to the broader leasing market, purchaser demand remains strong, underpinned by a resilient local economy and a lack of supply - a situation that is likely to prevail throughout 2023."

NEIL BRADFORD, DIRECTOR

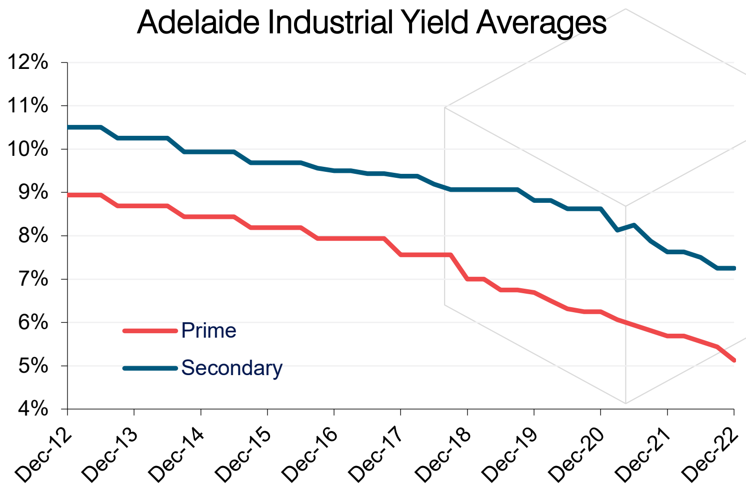
CURRENT STATE OF PLAY

- The South Australian industrial market remained strong in the second half of 2022, with limited stock and continued strong demand.
- Leasing demand remains buoyant; however, with little availability of stock, occupiers continue to be compromised in terms of the space they can secure. This has resulted in reduced leasing activity despite strong demand and will likely see additional movement over the coming years as occupiers transition into better-suited spaces.
- The shortage of supply has driven strong rental growth, although is expected to plateau in 2023.
- Industrial purchasing decisions have become more level-headed due to rising interest rates, tighter financing requirements, and reducing superannuation lending.
- Banks are preferencing lending to quality investments with a reduced appetite for risk which is likely to create further widening of yields between prime and secondary assets.
- Like the broader national commercial property market, the South Australian industrial market is in a phase of "wait and see" at present as some caution enters the market.
- The significant historic oversupply of land has been substantially absorbed resulting in solid land value growth over the past three years.
- The South Australian government is targeting robust growth in the food, hi-tech, space, and defence industries over the coming decade. This will be assisted by changes to government procurement aimed at maximising the use of local manufacturers.
- Collectively, AUD 90 billion will be spent over the next 30 years on the frigate warships and submarine sector alone, spurring activity in the surrounding industrial precincts for parts, labour, IT and more and providing a long-term income base to keep the industrial sector moving.

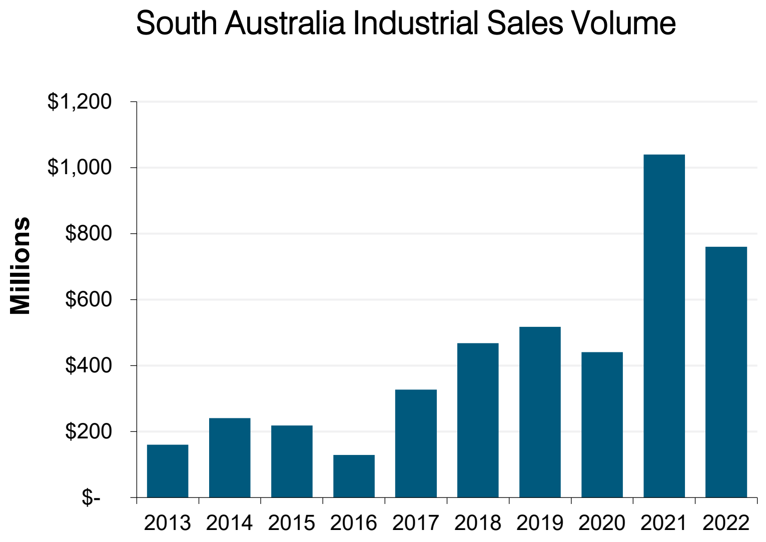




Source: M3 Property



Source: M3 Property



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

RENTAL MARKET

- Across the Adelaide metro, prime net face rents are ranging between $85 and $140 per square metre. Rents grew considerably over 2022.
- 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 4.50% and 5.75%. Yields are forecast to be soften over 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 $760 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.

OPPORTUNITIES AND CHALLENGES

- The lack of leasing supply, particularly for larger space modules, is expected to continue with a moderated yet positive outlook for rental growth in the short term. Reflecting this shortage, satisfying tenant requirements continues to be compromised. 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.

- Limited 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 investment market is likely to be at the top of the cycle with sales activity having declined over recent months. We expect that yields will soften by 50 to 100 basis points over the short to medium term.

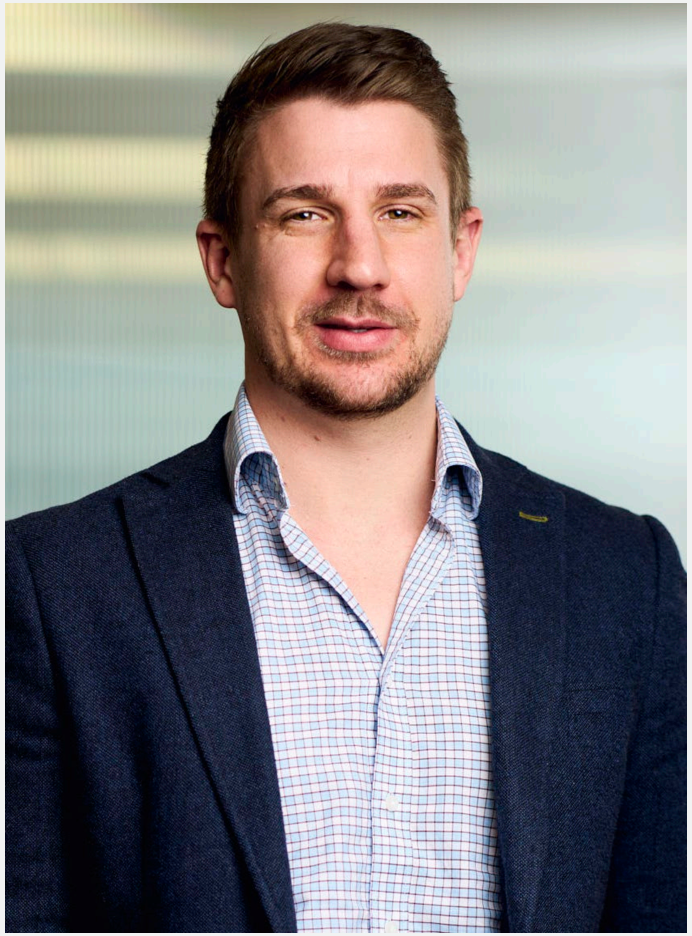
- There is a substantial pipeline of supply proposed for development, much of which is pre-committed.

- The market is expected to remain in a phase of a "wait and see" over the immediate term. More certainty is expected to creep back into the market from mid-year with inflation forecast to trend down and the cash rate forecast to stabilise.

Property	Sale Date	Sale Price	GLA (m^2)	WALE (Income)	Initial Yield (%)	Equated Market Yield (%)
1161-1171 Main North Road, Pooraka	Nov-22	$26,500,000	10,000	5.41	5.32	5.32
37 Aldershot Road, Lonsdale	Aug-22	$17,515,121	11,335	5.32	5.18	5.18
Lot 301 & 25-35 Martin Avenue & 31-41 Kapara Road & 124-144 Eastern Parade, Gillman	Jul-22	$47,000,000	38,544	1.76	4.70	6.25

RETAIL

“While the past few years have arguably been one of the toughest trading periods for CBD retailing, the combination of office workers returning to the CBD and strong projected white-collar employment growth is expected to bolster confidence in the CBD retail landscape and ensure continued interest from new retailers.”

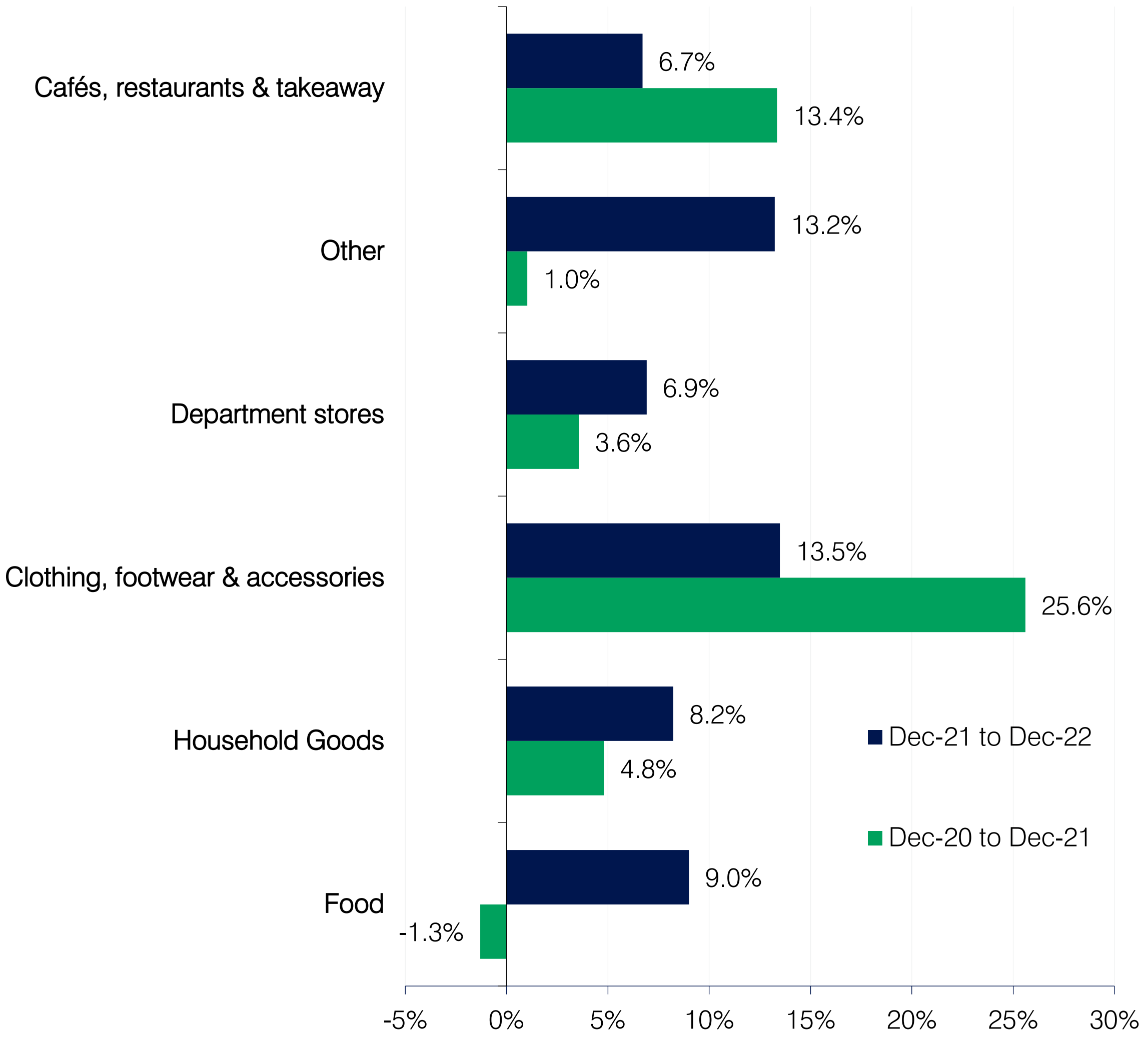


NICK DREYER, DIRECTOR

CURRENT STATE OF PLAY

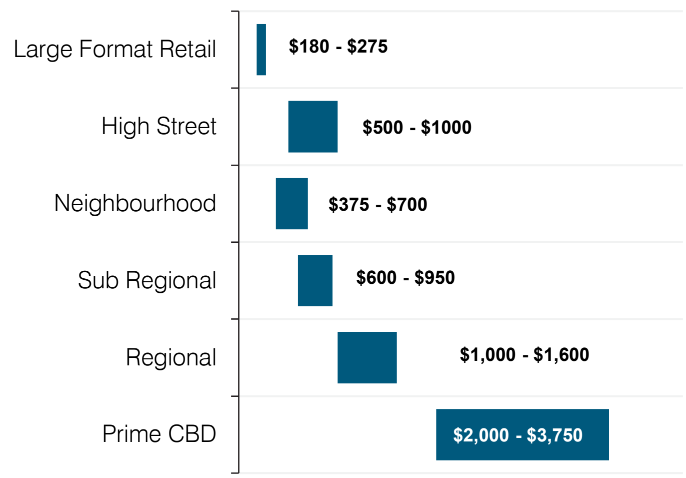
- Adelaide has attracted growing interest from international retailers over recent years.
- UNIQLO and JD Sports opened their first South Australian stores in 2022, with Tiffany & Co and TAG Heuer opening stores in 2023.
- The Shop Trading Hours (Extension of Hours) Amendment Bill 2022 was passed in October, 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 will expand 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 2021 calendar year to the 2022 calendar year was 9.4%, up from 3.4% growth from 2020 to 2021. The strongest growth by retail category was recorded in Clothing, footwear, and accessories (13.5%) followed by Other retailing (13.2%).
- However, following growth through much of 2022, retail trade in South Australia declined by 2.5% during the month of December and we expect to see further monthly declines as consumers adjust to the higher inflationary environment and pull back on discretionary purchases.

South Australia MAT Growth by Retail Sector



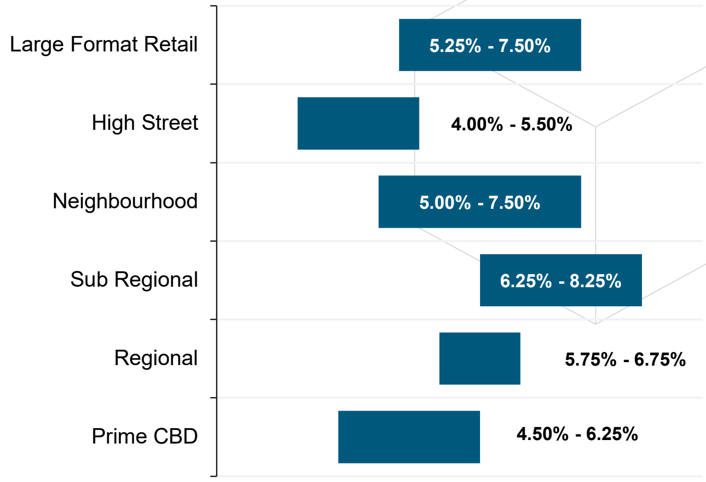
Source: ABS, M3 Property

Adelaide Net Face Rent Ranges ($/m²)



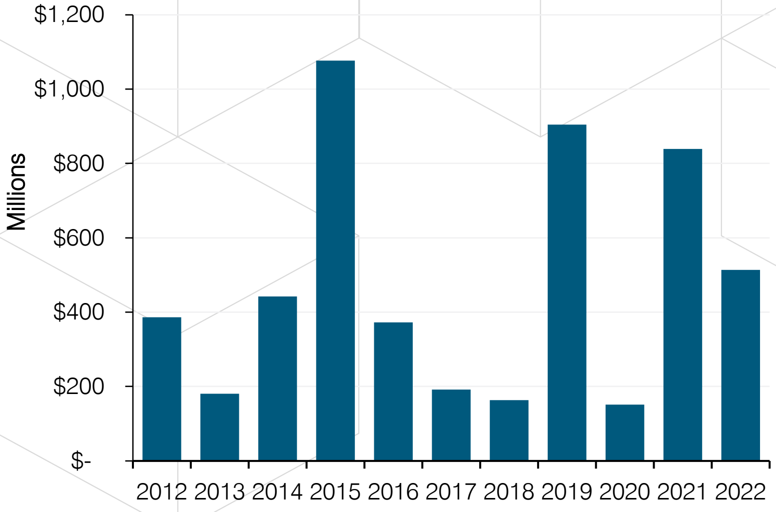
Source: M3 Property

Adelaide Retail Yield Ranges



Source: M3 Property

South Australia Retail Sales Volume



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

RENTAL MARKET

- Net face rents were steady across all retail property types in South Australia during 2022.
- Incentives rose at the start of the COVID-19 pandemic and have since stabilised at an elevated level.
- Leasing agents have reported that vacancy rates for Adelaide's CBD and high street retail properties are trending downwards. If this movement is sustained, we would expect to see rents come under upward pressure.

YIELDS

- Yields for some retail property types in South Australia began to soften in the second half of 2022.
- Sub Regional and Neighbourhood centre yields softened 25 basis points whilst Large Format Retail centre yields softened 15 basis points over the second half of the year.

INVESTMENT MARKET

- Sales volumes totalled $514 million during 2022, with the largest sale being the Colonnades Shopping Centre, of which Nikos Property Group acquired a 50% share of the centre from Perron Group.
- Privates and institutional groups were the most active players in the market during 2022.
- Nationally, commercial real estate investment activity has slowed since mid-2022 and more subdued conditions are expected to continue over 2023. Yields are expected to soften over the short-term.

OPPORTUNITIES AND CHALLENGES

- Retail in the CBD was negatively impacted by COVID-19 due to major declines in CBD workers, tourists, and international students. However, with borders now open and growth in CBD office occupancy rates, conditions are improving.
- Employment in white-collar industries is expected to grow at a stronger rate over the coming five years than seen over the previous five years - a positive for CBD retailers.
- In the current economic environment, Sub Regional Centres have the potential to come under pressure due to their higher reliance on discretionary spending.
- New and proposed residential and commercial developments are expected to positively drive foot traffic in some retail precincts of Adelaide. The Rundle Street Mall precinct is expected to benefit from Lot 14’s Entrepreneur and Innovation Centre and the Tarrkarri Centre for First Nation’s cultures.

OUTLOOK

- Household consumption is expected to continue to rebalance over the coming year, with spending on retail services to grow more strongly than spending on retail goods.
- 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.

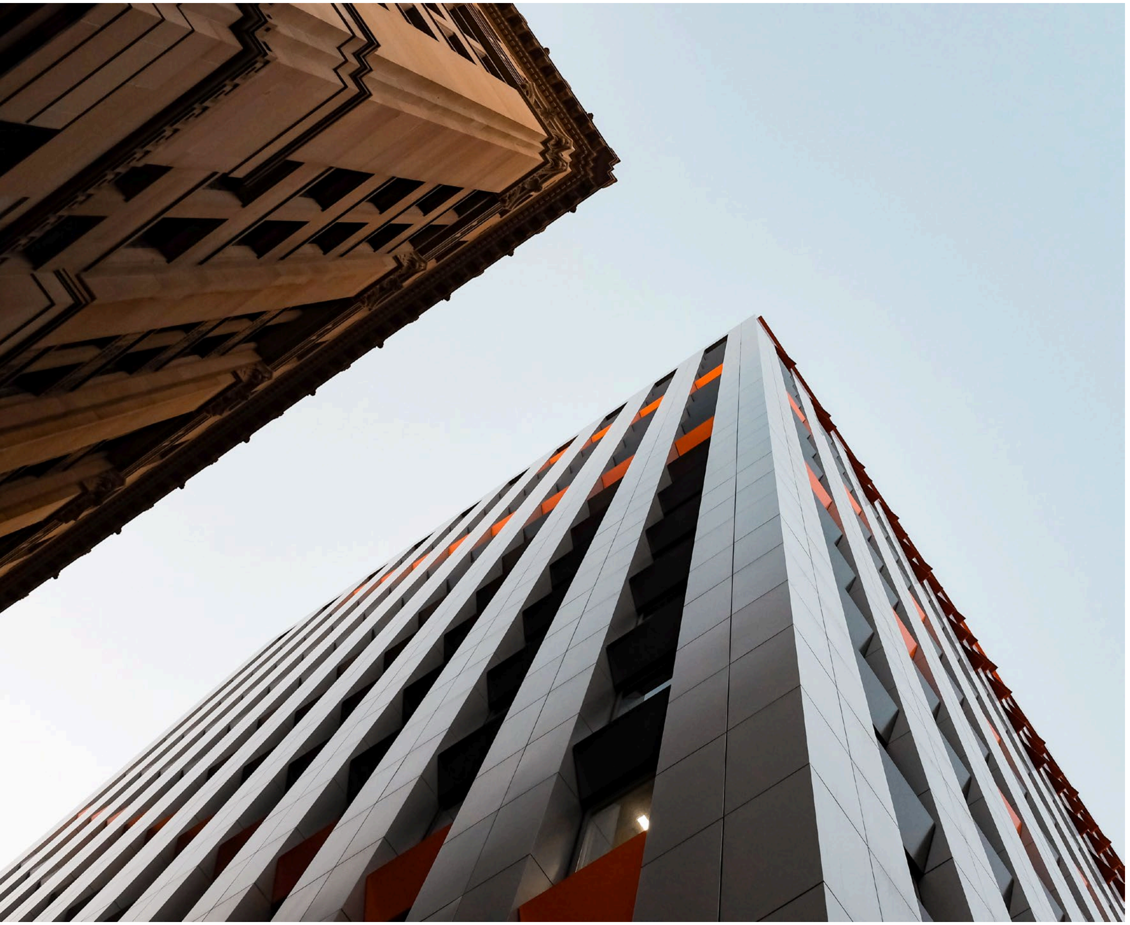
Property	Sale Date	Sale Price	GLA (m^2)	WALE (Income)	Initial Yield (%)	Equated Market Yield (%)
49 Seaford Road, Seaford Meadows	Dec-22	$5,930,000	1,691	9.90	5.05	5.05
Fairview Green Shopping Centre, 325 Hancock Road, Fairview Park	Jun-22	$39,500,000	5,714	7.46	6.09	4.86

OFFICE

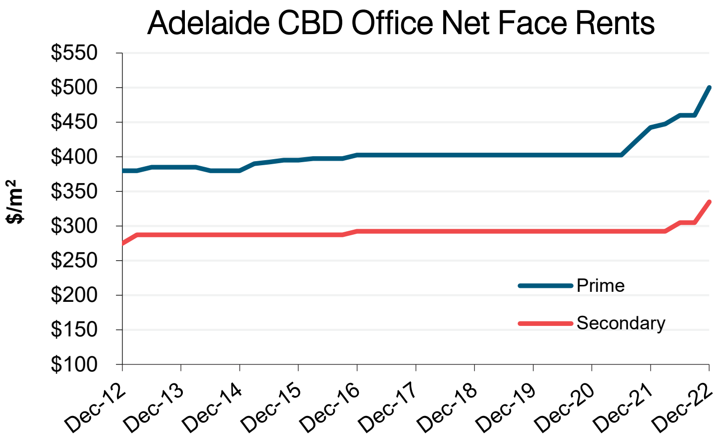
“While new developments have achieved high levels of pre-commitment at record rental rates due to strong demand for higher-quality, newly-constructed prime space, the amount of secondary vacant accommodation is likely to increase over the short term as these new developments are completed.”

SIMON HICKIN, DIRECTOR

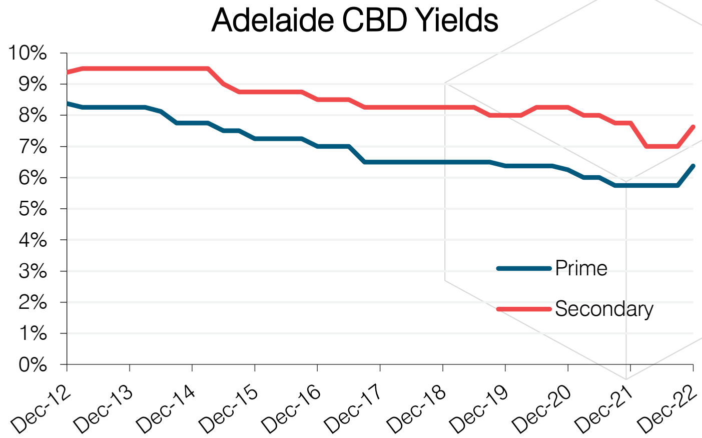
CURRENT STATE OF PLAY



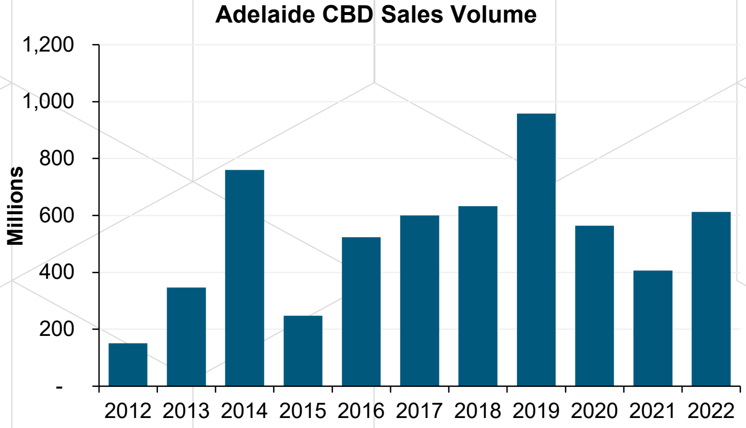
- Yields stabilised during the first half of 2022 after an extended period of compression. The second half of 2022 saw a slow down in investment activity compared to previous years as more uncertainty entered the market with a softening in investment returns starting to emerge.
- The current wave of new supply is being driven by major commitments to government departments.
- Tenants continue to see value opportunities in the CBD, and this has contributed to a shift in fringe and suburban tenants moving into the CBD.
- Nationally, corporate occupiers are showing increased demand for flexible space that can be expanded or contracted during the term of the lease, buildings with high energy and wellness ratings, building third space, and natural lighting.
- According to the PCA, occupancy in the Adelaide CBD was at 67% of its pre-pandemic level in January 2023. The Adelaide occupancy rate is second highest of the capital cities, behind Perth.
- Over the past year there has been significant increases in value for key development sites.



Source: M3 Property



Source: M3 Property



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

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 December quarter 2022, prime net face rents ranged from $450 to $550 per square metre and secondary net face rents ranged between $275 and $400 per square metre.
- Prime incentives tightened during 2022 to range between 25.0% and 42.5%. Secondary incentives also tightened, ranging between at 20% 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.
- Over the December 2022 quarter, prime yields ranged between 5.75% and 7.00% and secondary yields ranged between 7.25% and 8.00%.

INVESTMENT MARKET

- There was $612 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 2022 was the sale of Grenfell Centre, acquired by Centuria Capital and MA Financial Group.

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

- The CBD vacancy rate is forecast to trend downwards in the first half of this year, before increasing in the second half of 2023.
- Net face rents are expected to continue trending upwards, with rental growth forecast to strengthen over the medium term.

** 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	Site (m²)	Site $/m²	Lettable m²	$/m²	Initial Yield (%)
99 Gawler Place, Adelaide	Oct-22	$69,385,000	1,550	44,765	11,127	6,236	6.28
BankSA, 97 King William Street	Jan-22	$43,000,000	2,564	16,771	15,115	2,845	4,59

RESIDENTIAL

“The Adelaide residential market has remained resilient across both the land and housing markets, despite repeated interest rate increases and the end of the COVID-19 real estate boom that has recently seen market corrections across a number of interstate markets including Melbourne and Sydney.

One of the key factors pushing up price levels for land has been the ongoing shortage of land supply, which we expect will be met through ongoing development programs over the next six- to 12-month period in conjunction with easing purchaser demand and declining affordability. ”

KYM DREYER, DIRECTOR

CURRENT STATE OF PLAY

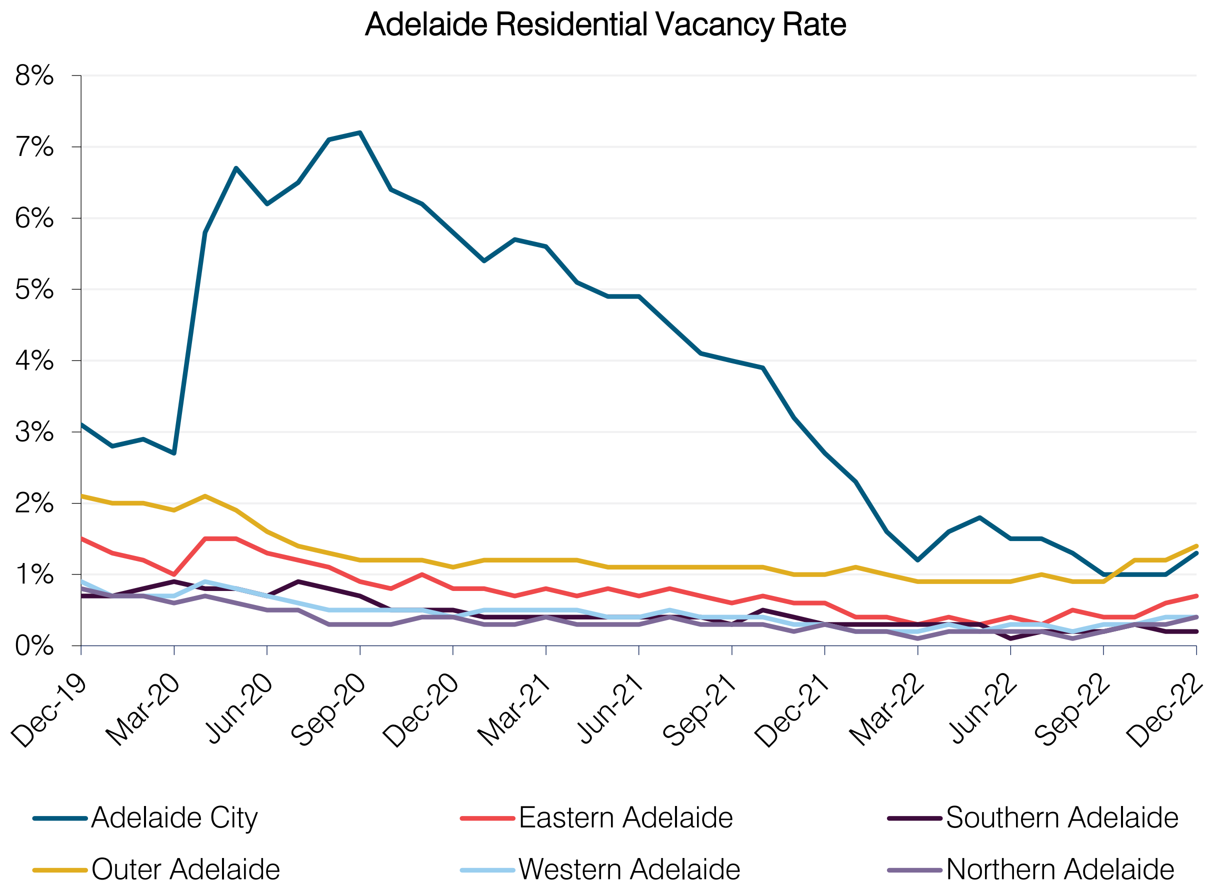
- Adelaide has been a standout performer of the residential market during the pandemic, with strong residential demand and a shortage of dwellings for sale resulting in strong price growth.

- 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 December 2022 quarter, weekly rental rates for houses increased by 14.3% across the Adelaide Metropolitan, which compares to average annual growth of 7.1% per annum over the five years. Rents for units / flats also saw robust growth, albeit more volatile depending on the number of bedrooms, with 14.3% growth recorded for two-bedroom units and 16.3% growth recorded for three-bedroom units. One-bedroom units saw growth of 10.4% over the year.

- Whilst lagging behind some of the bigger capital cities, conditions in the Adelaide residential market have now started to cool.



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 decline over the short-term, with the unit market likely to be more insulated than the house market due to tight rental market conditions.
- In response to the high inflation environment, the RBA is expected to increase the official cash rate to be circa 3.50% by mid-year. Following this, we anticipate that conditions in the residential market will start to stabilise as more certainty and confidence builds in the market.
- 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 (m^2)	Site $/$m^2$
12-16 Glen Osmond Road, Parkside	Dec-22	$6,800,000	Urban Corridor	Zamaz Property Seven Pty Ltd	4,084	$1,665
63 & 69 Justs Road, Sellicks Beach	Dec-22	$6,300,000	Suburban Neighbourhood Zone	Sellicks Beach Land Pty Ltd	61,860	$102
Lot 100 Maryvale Road, Athelstone	Nov-22	$7,200,000	Suburban Activity Centre	CP 10MR Pty Ltd	9,775	$737
5 Nelson Road, Wistow	Sep-22	$3,500,000	Master Planned Neighbourhood	Springlake Development Pty Ltd	80,010	$44
Lot 9001 Paech Road, Mount Barker	Sep-22	$5,500,000	Master Planned Neighbourhood	LCA Mount Barker Pty Ltd	98,320	$56

SPECIAL INTEREST – TOURIST ACCOMODATION

"We expect occupancy and average daily rates to continue to trend upwards this year on the back of a strong performance in 2022 after borders re-opened and the market was able to realise their desire to travel, after being curbed by the restrictions over the past two years. However, as we enter a higher inflationary and cash rate environment, there is increased potential for consumer spending on discretionary items to come under pressure over the medium-term."

MICHAEL SCHWARZ, DIRECTOR

CURRENT STATE OF PLAY

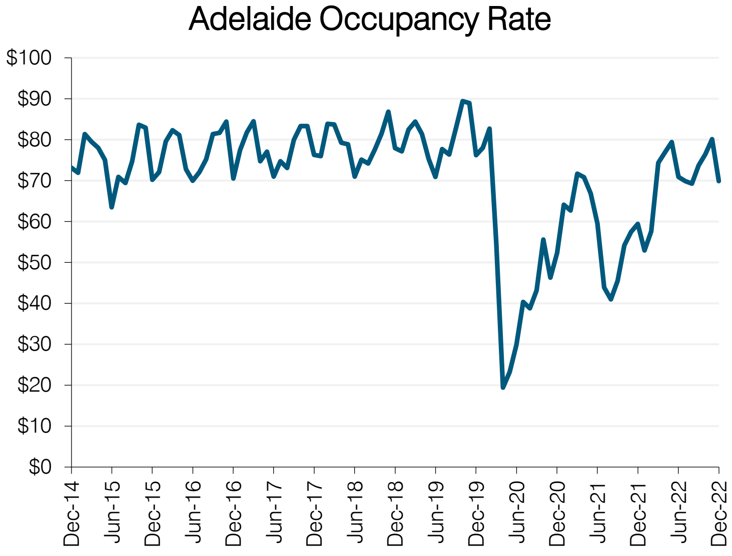
- The number of domestic visitors to Adelaide totalled 2.582 million over the year to September 2022, increasing from 12-months prior. However, this is still lower than pre-pandemic. The number of domestic business travellers to Adelaide had been growing steadily from 2019.
- Metropolitan Adelaide is in the midst of a supply upswing, with above average levels of hotel developments either recently completed, under construction or approved.

OPPORTUNITIES AND CHALLENGES

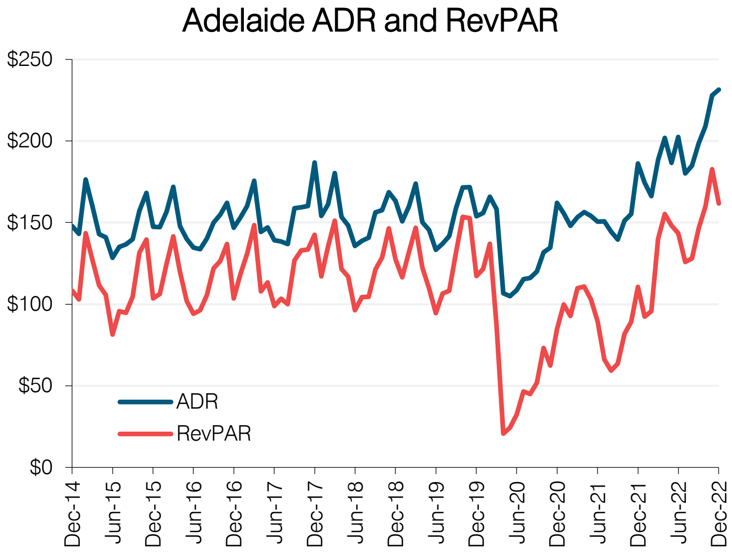
- The State Government's Experience Nature Tourism Fund, announced in late 2022, provided $2 million in funding. Approximately $486,000 has been allocated which means another $1.5 million is still available.
- Previously, the State Government's Tourism Industry Development Fund, instigated in 2020, was fully allocated across 114 regional tourism development projects. The projects unlocked $82.7 million of tourism infrastructure across South Australia.
- A challenge the industry has experienced over the past six months, which is also anticipated to continue over the next 12 months, is the cost of living, interest rate rises and the impact of this on disposable income and/or income available for travel.

OUTLOOK

- Whilst visitation remains substantially lower due to consumer uncertainty, Australia's borders are now open to international visitors and tourism is expected to increase steadily during 2023 and beyond.



Source: STR, M3 Property



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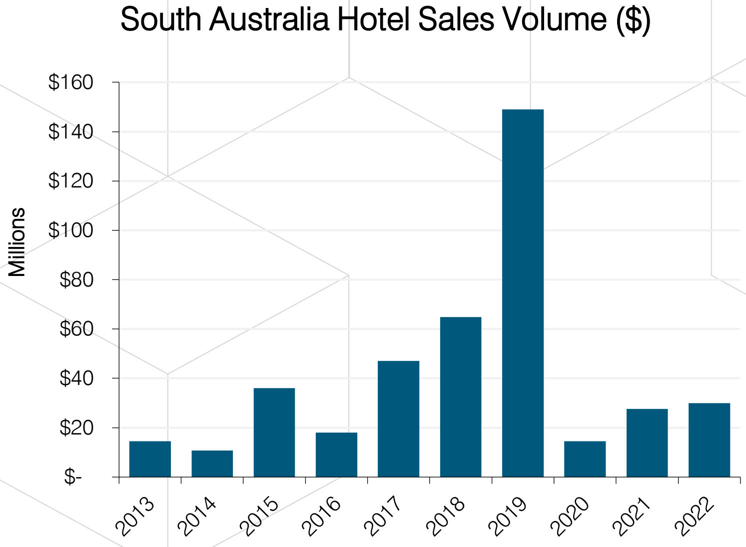

Source: Real Capital Analytics (RCA), M3 Property
Note: Sales over $5 million

OCCUPANCY RATES

- Occupancy rates have improved, however, remain slightly below their pre-COVID levels.
- Occupancy rates in Adelaide typically peak in February / March and October / November.
- During December 2022, the occupancy rate across Adelaide accommodation providers was 69.9% (compared with 59.4% in December 2021, 52.3% in December 2020, and 76.2% in December 2019).

DAILY RATES

- Average Daily Rates (ADR) have trended upwards over the past year and reached $231 in December 2022, higher than pre-COVID levels.
- Revenue Per Available Room (RevPAR) has also trended upwards and was $162 during December.
- There remains a wider spread between ADRs and RevPARs due to lower occupancy rates, however, as occupancy improves this spread will tighten.

INVESTMENT MARKET

- Hotel sales activity in South Australia increased in 2022 to be $29.93 million compared to the previous year.
- There were no large properties transacted during 2022, with most sales occurring in the $5 to $10 million price point. During 2020, 2021 and 2022, all transactions recorded were between private buyers.

+61 8 7099 1800

L 13 / 26 Flinders St
Adelaide SA 5000

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

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