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REAL ESTATE SECTOR INSIGHTS

ASIA PACIFIC – Q1 2024

In this issue

MARCH 2024

Investment Climate

Fast 5: what we're seeing in the industry

Shop till you drop

Tell me more: Retail was the most traded type of commercial property asset in Australia in 2023, for the first time in 20 years. Despite the dominance of e-commerce, shopping centres have been dominating transaction volumes, totalling A$1,213 million across 20 transactions in Q4. While there was a 47% decrease in retail transaction volumes year-on-year, shopping centre deals comprised 78% of transactions.

On the rise: M&A activity set for a comeback

Tell me more: After a period of limited activity in 2023, research conducted by Morgan Stanley indicates that valuations of REITs suggest potential for several merger deals in the near future. Notable recent announcements include BWP's proposed takeover of Newmark Property REIT, as well as ongoing merger discussions between ISPT and IFM. Moreover, transaction volumes are experiencing an upsurge due to increased acquisitions and divestment activity, with companies such as ISPT and Mirvac looking to divest assets to streamline their focus and valuation.

Charting the path – sector resurgence

We expect a positive shift as capital returns to the sector and inflation normalises, potentially lowering debt costs and prompting new pricing adjustments. This is crucial given the growing need for capital to support the sector's growth and sustainability. However, a key challenge lies in the significant number of loans originated in the past 2-3 years, with record-high property prices and low mortgage rates. As these loans mature, we anticipate more distressed sales as developers and investors navigate lower property values, higher interest rates, and increased construction costs.

Adjust your expectations

Tell me more: Misaligned price expectations between vendors and sellers have been constraining transaction volumes across the APAC region as economic headwinds hit the real estate sector. Significant transactions over the last quarter in the office and retail sectors as well as new REIT valuations are helping to provide more realistic pricing benchmarks going forward.

Even artificial intelligence needs a home

Tell me more: Server racks for AI computing can consume four times the power currently used in cloud processes. This will lead to new demand for vast amounts of land and infrastructure to manufacture data centres with more advanced cooling systems and access to power and water. AustralianSuper, Goodman Group and NextDC are all unveiling massive plans to grow their presence in the sector.

Key Resources

- Savills Asia Pacific Investment Quarterly Q4 https://pdf.savills.asia/asia-pacific-research/asia-pacific-research/apiq-q4-2023.pdf
- Asia Pacific Investment Spotlight https://pdf.savills.asia/asia-pacific-research/asia-pacific-research/ap-inv-spotlight-01-2024r.pdf
- Australian Real Asset Review Q1 2024 https://www.dexus.com/dexus-insights/australian-real-asset-review-q1-2024
- Blackstone is building a US$25 billion empire of power-hungry date centres https://www.afr.com/property/commercial/blackstone-is-building-a-us25b-empire-of-power-hungry-data-centres-20240129-p5f0vd
- Banking on AI to drive data centres https://www.afr.com/property/commercial/australiansuper-splashes-2-5bn-banking-on-ai-to-drive-data-centres-20230912-p5e3y4
- More M&A to come for REIT sector https://www.theaustralian.com.au/business/dataroom/more-ma-to-come-for-reit-sector/news-story/2c679801d5b4d2671d9ed258660ffa84
- Mall values to fall before growth in 2025: Region Group boss https://www.afr.com/property/commercial/mall-values-to-fall-before-growth-in-2025-region-group-boss-20240206-p5f2p4

Australia's investment trends

- Although occupiers and investors are conscious of the economic downturn, the **anticipated drop of interest rates in July 2024 will have a positive impact on valuation in the real asset sector**.
- Choosing to maintain the cash rate at **4.35% in February, the RBA is still waiting on lower inflation in the 2-3% target range, expecting this in 2025**. Goods price inflation has declined faster than expected however services inflation is still high and is expected to decline only gradually.
- The **unemployment rate remains low at 3.8% and business investment grew 7.7% last year showing a resilient market**. Wage growth is set to slow this year with expected end-of-year growth sitting at around 3.5%. This reflects the need to reduce business costs and a slowing labour market.
- **Office, retail and industrial sectors will probably be the most reactive to economic conditions** rather than those sectors tied to essential services and non-discretionary spending such as healthcare, infrastructure and student accommodation.
- **Australia's population increased by 2.4% (624,100)** to June 2023 giving investors a positive outlook on long term demand.
- **This population growth has supported household consumption, growing 1% over the year to Q3 2023** however household consumption has remained fairly flat. Consumers are focusing on promotional periods to spend and are increasingly price sensitive. Wage earners and those with mortgages are beginning to approach community services organisations for assistance.
- **Slower growth in international student enrolments is expected over the next twelve months**. Despite this, demand still outweighs supply for accommodation.
- **Home building will slow over 2024; there is a backlog of construction work that is waiting on completion**. Sourcing contractors and labour is difficult, particularly for residential construction while non-residential construction maintains upward pressure on costs. Once construction costs stabilise, building activity could pick up relatively quickly given the strong underlying demand.
- **Activity in infrastructure construction remains strong however capacity is stretched**. This may ease as the Government reduces its project spending while private sector, resource and energy sector investment remains solid.
- **Demand in the industrial real estate sector has moderated in the last year**. The reduction in gross leasing activity has seen the market return to being in line with long-term averages and can be explained by lower levels of demand in discretionary retail.
- **Customers are less willing to accept cost increases as growth of demand is slowing**. For firms sourcing imported goods, price increases have slowed as shipping costs and supply chains have normalised. However, logistics, fuel, utilities, insurance and professional services are non-labour costs that remain elevated.
- **Equity markets made a comeback late in 2023** following an increase in bond prices and a seeming maturation of the US cash rate cycle.
- **ASX200 shares recovered 8.4% in Q4 and 12.4% over 2023**. Experiencing even stronger growth were AREITS recovering 16.6% over the quarter. This can be partially explained by the fall in bond yields of approximately 50 bps over the same quarter.
- **Unlisted property returns saw downward movement during Q4**, with industrial property demonstrating stronger returns at -1.7% and retail following shortly behind at -2.3%. Weak office building valuations saw office returns slump at -10.1%.
- **The listed real estate market featured strong performance in Q4**, an indication that investors are regaining confidence coming into the new year.
- **M&A activity appears to be picking up in the real estate sector** with a $247m takeover offer by Bunnings landlord BWP Trust of Newmark Property REIT to begin the year. Valuations of listed real estate trusts, particularly in the industrial sector are encouraging the possibility of mergers.

Key Resources

- RBA Statement on Monetary Policy https://www.rba.gov.au/publications/smp/2024/feb/pdf/statement-on-monetary-policy-2024-02.pdf
- Savills Asia Pacific Investment Quarterly Q4 https://pdf.savills.asia/asia-pacific-research/asia-pacific-research/apiq-q4-2023.pdf
- Asia Pacific Investment Spotlight https://pdf.savills.asia/asia-pacific-research/asia-pacific-research/ap-inv-spotlight-01-2024r.pdf
- Australian Real Asset Review Q1 2024 https://www.dexus.com/dexus-insights/australian-real-asset-review-q1-2024
- More M&A to come for REIT sector https://www.theaustralian.com.au/business/dataroom/more-ma-to-come-for-reit-sector/news-story/2c679801d5b4d2671d9ed258660ffa84
- Mall values to fall before growth in 2025 Region Group boss https://www.afr.com/property/commercial/mall-values-to-fall-before-growth-in-2025-region-group-boss-20240206-p5f2p4

Sub-sector snapshots

Office

CBD activity across the country

The office sector has seen mixed results. Flight to quality and flight to core are still the dominant trends of the quarter and determining the buildings and locations with stronger absorption. Incentives have remained stable in Brisbane, Perth and Sydney Core in Q4 2023, however in weaker leasing markets, incentives have continued to increase. Melbourne and Adelaide CBDs are currently seeing 46.7% and 35.3% net incentives, respectively.

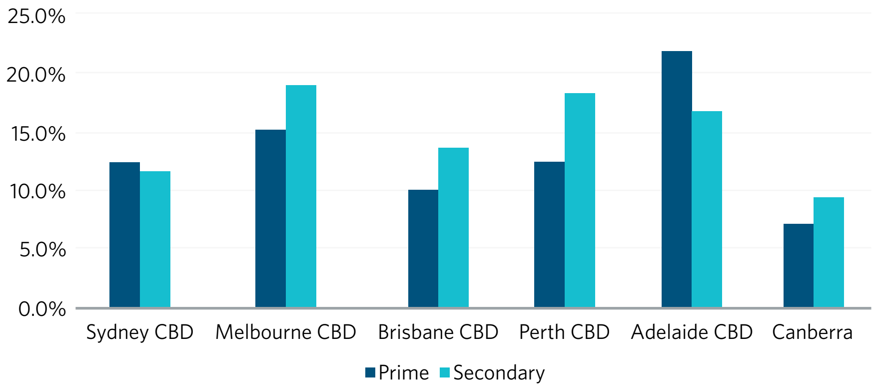
Brisbane and Perth saw declining vacancy and strong leasing demand with the mining sector protecting demand in both cities. Brisbane office leasing demand is stronger than it was pre-pandemic, demand driving the vacancy rate down to 11.1%. Conversely, Sydney CBD has seen poor net absorption and unanticipatedly large withdrawals. Some of these withdrawals are due to office conversion to other uses eg 133 Liverpool Street and 39-41 York Street in Sydney.

Negative net absorption in Melbourne CBD and high levels of withdrawals were anticipated at the close of 2023, a result of the long-planned Australia Post decentralisation combined with a large Telstra sublease. This sublease highlights the growing trend of large corporates adopting hybrid work models and opting to consolidate to offset expansion by smaller tenants.

Australian prime CBD yields expanded by 26 bps in Q4 2023 to average 6.1%. While this represents 120 bps softening from peak pricing, it is anticipated this transactional evidence may help to boost deal volumes and encourage aligned expectations between vendors and purchasers in the following year.

The forward supply pipeline has contracted, providing additional protection to existing stock and supporting rental growth. Interest rates, vacancy rates and high construction costs are all obstructing uncommitted developments.

Figure 9: Vacancy by Grade across CBD Markets - Q4 2023



Source: PCA, CBRE Research

Highlight of capital transactions

In the investment market, the office sector has seen a significant slowdown in a continued phase of price discovery. 2023 investment volumes reached A$6 billion, seeing a 64% decline year-on-year and signifying the lowest annual total since 2009. Unlike previous years, Q4 did not observe a boost in volume due to the usual rush to deal completion at the end of each year.

The quarter saw
A$1.7 BILLION
of transactions, its most significant being the sale of
60 Margaret Street in Sydney by Mirvac and Blackstone to Ashe Morgan and Mitsubishi Estate for approximately $777 million

Other recent transactions include

Gina Rinehart's acquisition of
175 Eagle Street
in Brisbane from Charter Hall for
$227 MILLION,
HSF advised on this transaction.

This was the second purchase by the investor in the Brisbane office sector in 2023. Rinehart and Hancock Prospecting are confident in the long-term recovery of the office sector and a movement away from hybrid work. This aligns with the key findings from HSF's Future of Work Report which was released in Q4 of 2023.

HSF's Future of Work Report released in Q4 of 2023

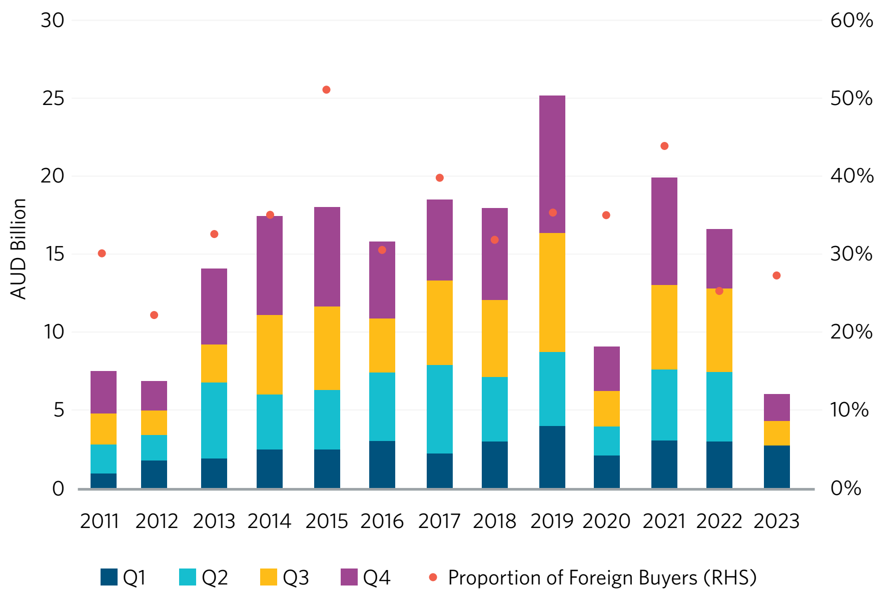
Key statistics from HSF's Future of Work Report

HSF surveyed 500 senior managers at companies with more than 1000 employees globally and found more than one-third of large Australian employers are planning to reduce the pay of staff who continue to work from home in the next three to five years.

37% of respondents
also had plans to "differentiate" pay between remote and in-office staff.

Following these transactions in the office sector, new pricing benchmarks have begun to emerge. Singaporean group Keppel is poised to strike one of the year's largest office deals as it targets the purchase of a half interest in a Sydney skyscraper from a Mirvac-run fund that would value the tower at more than $700m. If the value of this tower was applied across the board to office portfolios, large write-downs would have to be made, even to those who have already cut valuations.

Figure 5: Australia Office Investment Volumes by Quarter



Source: CBRE Research

Key Resources

- Australian Real Estate Quarterly Review, Q4 https://www.dexus.com/dexus-insights/australian-real-estate-quarterly-review-q4-2023
- Australian Real Asset Review Q1 2024 https://www.dexus.com/dexus-insights/australian-real-asset-review-q1-2024
- Australian Office Figures Q4 2023 https://www.cbre.com.au/insights/figures/australian-office-figures-q4-2023
- Australian Office Sublease Barometer December 2023 https://www.cbre.com.au/insights/reports/australian-office-sublease-barometer-december-2023

Industrial and Logistics

A shift in demand across the sector

Demand in the industrial sector has moderated in the last year. The reduction in gross leasing activity has seen the market return to being in line with long-term averages and can be explained by lower levels of demand in discretionary retail.

Demand for non-discretionary goods such as groceries and pharmaceuticals remain stable and continues to support the sector. The expected easing of interest rates should support retail spending and consequently the industrial sector as the year goes on.

Movement in vacancy rates

Vacancy rates have increased slightly over the past six months although remain far below global averages. Sydney and Perth vacancy rates remain below 2% with Sydney availability constrained by limited supply in the West. Sub-leasing is a growing trend following the decline in retail volumes. It is clear the market is yet to normalise entirely considering such low vacancy rates, Brisbane being the only capital city with strong supply. Developers are prioritising lower base land costs to offer more competitive rents.

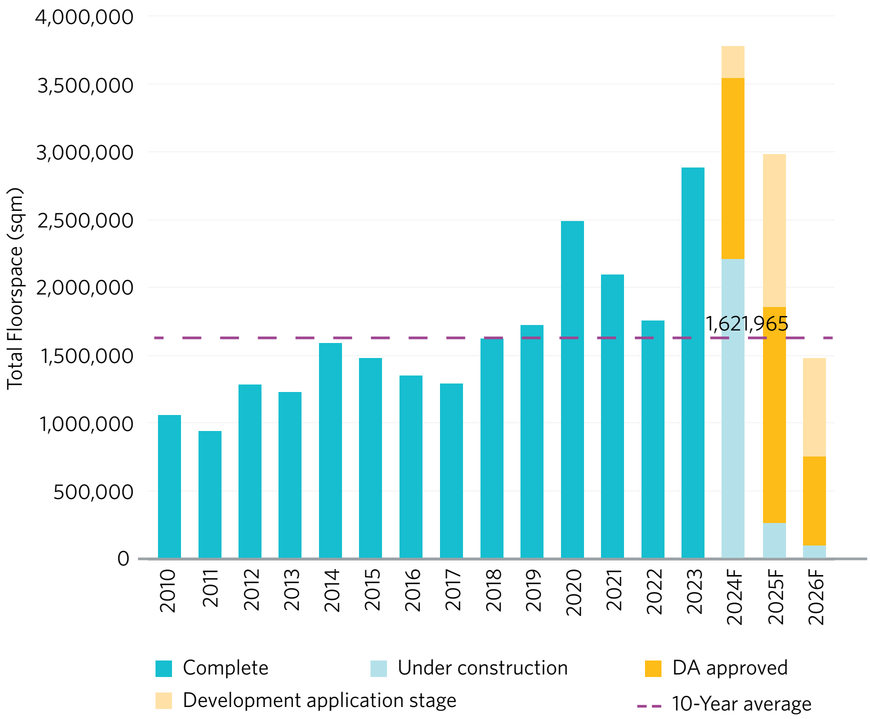
35-60% of new supply is made up of speculative developments which will become more competitive over the next 18 months in Sydney and Melbourne.

Rising vacancy, slower rental growth and longer tenancies mean speculative tenancies no longer have the sector advantage. In order to solidify market safety, new developments are focusing on pre-commitments and longer lease terms going forward.

For 2024, the share of speculative developments is expected to sit at 60% and the CY2024 supply pipeline is expected to total a record high 3.7 million sqm. Most of this supply (40%) is anticipated to be delivered in the Sydney market.

Source: CBRE

Figure 3: Development Supply Pipeline



To note: reflects new projects >5,000 sqm for Sydney and Melbourne, projects >4,000 sqm for Brisbane and Perth, projects >3,000 sqm for Adelaide.

Source: CBRE Research Q4 2023

Leasing trends

Industrial leasing transactions over the quarter highlighted this pre-leasing trend with 38% of deal volume over Q4 2023 consisting of pre-lease transactions.

Notable transactions included:

a pre-lease by ALDI for

c.27,000 sqm

at Eastern Creek, Sydney

a pre-lease by Border Express for

20,500 sqm

in Melbourne's Southeast

a pre-lease by EFM for

18,000 sqm

in Brisbane's Outer South precinct

Despite tapering rental growth, rental stability will be protected by supply constraints including high construction costs and planning issues.

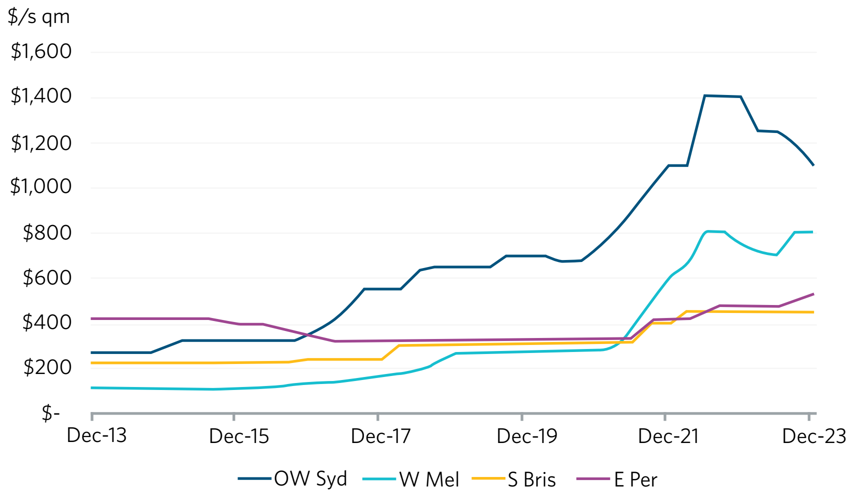
Snapshot of activity in overseas markets and investment trends

Overseas, prominent developers are facing challenges winning approvals to develop the plots of land required for such large data centres. These disputes in the US are a potential preview for what may similarly occur in Australia as the AI industry accelerates demand for data centres.

According to Newmark Group, server racks for AI computing can consume four times the power currently used in cloud processes. This will lead to new demand for vast amounts of land and infrastructure to manufacture data centres with more advanced cooling systems and access to power and water.

AustralianSuper invested $2.5 billion in Vantage Data Centers last year alongside Goodman Group unveiling plans to develop 3 to 4 gigawatts' worth of data centres – equivalent to about $30 billion in end value. NextDC also plans to spend $900 million in this year alone with HSF acting for them on some of these transactions. The amount of capital and energy needed to support all of this development will pose serious questions concerning ESG. QIC plans to invest in agricultural real estate as the market for environmental returns through carbon credits will likely grow simultaneously.

Industrial land values by precinct



Source: JLL Research 2-5HA land values *East Perth = 1HA, Dexus Research

Source: Dexus, JLL

Key Resources

- Australian Real Asset Review Q1 2024 https://www.dexus.com/dexus-insights/australian-real-asset-review-q1-2024
- Blackstone is building a US$25 billion empire of power-hungry date centres https://www.afr.com/property/commercial/blackstone-is-building-a-us25b-empire-of-power-hungry-data-centres-20240129-p5f0vd
- Banking on AI to drive data centres https://www.afr.com/property/commercial/australiansuper-splashes-2-5bn-banking-on-ai-to-drive-data-centres-20230912-p5e3y4

Hotels and Leisure

International travel continues to face challenges

While demand for international travel is strong, structural constraints including shortages of planes and crew are preventing the full recovery of the tourism sector.

International travel is expected to continue to grow over 2024, however persistently high inflation continues to challenge tourism. Transport and accommodation costs paired with slow economic growth will see less of both inbound and outbound international travel. A pickup in tourism from mainland China is anticipated but economic headwinds mean Australia will not see pre-pandemic levels until 2025.

Hoteliers are hopeful about 2024

In preparation for full recovery the Australian hotel sector has seen strong activity. Over the year to December 2023, there were 45 transactions totaling approximately $1.96 billion.

Significant deals included:

the $520 million
sale of the proposed Waldorf Astoria Hotel/One Circular Quay development in Sydney CBD to Fiveight, the property company of Tattarang, reflecting one of the highest value per room metrics in Australia's history

the $192 million
sale of the Sheraton Grand Mirage Resort Gold Coast

the $154 million
sale of the Sofitel Adelaide

the sale of two CapitaLand Ascott properties, including the Novotel Parramatta and Courtyard by Marriott North Ryde, amounting to a combined total of
$109 million

The resilience demonstrated by the hotel sector has prompted traditional investors to investigate the sector as an alternative. Assets in this sector are normally tightly held, preventing easy entrance into the sector. At the end of 2023, there were more than $2 billion worth of hotel assets on the market, triggered by higher debt costs, near-term lease expiries, loan maturities and deferred capital expenditures.

New additions to the hotel market are also slowing down as construction and funding costs have remained high. The supply pipeline has been focused on Melbourne considering lower barriers to entry into that market compared to Sydney. Melbourne is set to become Australia's largest CBD accommodation market going forward.

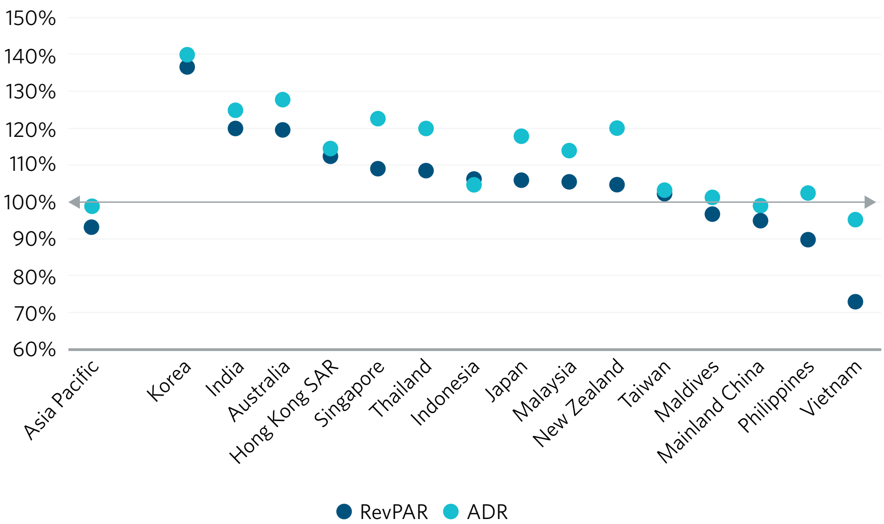
AFR's seven luxury hotel openings to look forward to in 2024

1. The StandardX, Melbourne (February) | Fitzroy
2. Marriott Adelaide (May) | Corner of King William and Flinders Street
3. Novotel & ibis Styles Melbourne Airport (July) | Melbourne Airport
4. The Star Grand Brisbane (August) | Queen's Wharf Entertainment precinct
5. Crowne Plaza Melbourne Carlton (third quarter of 2024) | CBD
6. The Eve Sydney (September) | Surry Hills/Redfern
7. 1 Hotel Melbourne (end of year) | Yarra River

Occupancy rates

In terms of hotel occupancy though, Sydney is leading the country in daily rate (ADR) and revenue per available room (RevPAR). At the end of 2023, Sydney was the only market with occupancy above 75%, ADR above $300 and RevPAR above $200. Brisbane has made the strongest post-pandemic RevPAR recovery, up by 50.9% while Melbourne has not recorded RevPAR growth due to its influx of supply. While the sector remains dynamic, it is waiting on economic recovery to diminish price sensitivity of tourists as well as debt and capital costs.

Figure 19: RevPAR & ADR in major Asia Pacific markets (Full year 2019 vs Full year 2023)



Source: STR, CBRE Research, January 2024.
Source: CBRE

Key Resources

- Construction delays give hotel vendor an edge in scarce market https://www.afr.com/property/commercial/construction-delays-give-hotel-vendor-an-edge-in-scarce-market-20240126-p5f083
- Seven luxury hotel openings to look forward to in 2024 https://www.afr.com/property/commercial/seven-luxury-hotel-openings-to-look-forward-to-in-2024-20231221-p5et4k
- Asia Pacific Real Estate Market Outlook 2024 – Hotels https://www.cbre.com/insights/books/asia-pacific-real-estate-market-outlook-2024/hotels
- A continuation of positive trends | Australia hotel market update: December 2023 https://www.colliers.com/en-jp/news/blog-cvas-australia-hotel-market-update-dec-2023

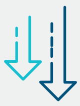
Living Sector: Residential, Build to Rent (BTR), Social Housing and Student Accommodation

The living sector (which includes affordable and social housing, student accommodation, land lease communities, co-living and senior living) will continue to expand and grow. This is off the back of strong demand for residential product and services and changing attitudes to home ownership, increased life expectancy and continued strong population growth, particularly when it comes to overseas students and available rentals.

Constraints continue for renters in Australia, driven by migration

Rental markets that were already feeling the pressures of limited supply felt the added effects of a surge in net overseas migration at the end of last year.

National vacancy rate



The vacancy rate nationally has reached its lowest record in 17 YEARS, having settled at circa **1.0%.**

Net overseas migration for Australia to June 2023 reached its highest ever total at 518,100. May's federal budget forecast 30% lower migration, highlighting the unforeseen pressure to be placed on the residential market.

The largest contributors were temporary visa holders including students.

Student visas

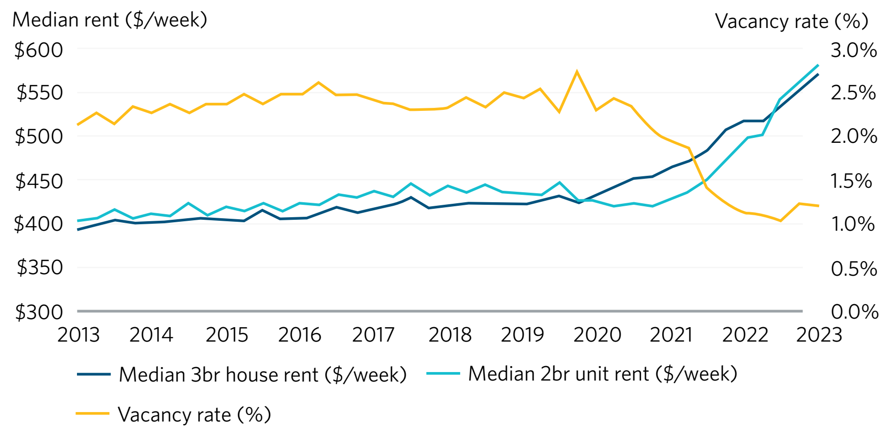
The amount of student visas granted has surpassed the pre-pandemic peak by another **75%.**

More than **282,000** student visas were granted in Australia to June 23 and there are far more coming in than out as departures are yet to return to their pre-pandemic highs.

The three-year migration projection of approximately 1.135 million to July 2024 will transform into demand for 450,000 new dwellings. This doesn't include natural increases to demand which will require an additional 150,000 dwellings.

Despite knowledge of this additional demand, completions in Australia to June 2023 did not exceed 15,000 dwellings. Compounding this issue, the pipeline is slowing further due to constraints including high construction costs, the high cost of debt and zoning constraints. Considering this, rents should generally continue to increase above CPI although the pace of growth will be forced to slow due to affordability pressure.

Figure 6: Australian Median Rent and Vacancy Rate



Source: Real Estate Institute of Australia, SQM Research, CBRE Research

Real assets driving investment activity

Purpose-built student housing is still an attractive sector to investors with Blackstone signaling confidence in the sector at the end of last year. The investor acquired the Brisbane located Student One portfolio quoted at an initial yield of 5.50% for US$322 million.

Launch of Housing Australia Future Fund

Social housing was also a point of focus in Q4 2023 with the Government pledging to deliver the single biggest investment in social and affordable housing in more than a decade.

Housing Australia Future Fund

The **$10 billion Housing Australia Future Fund (HAFF) was** launched 1 November 2023. HAFF will create a secure, ongoing pipeline of funding for social and affordable rental housing, fulfilling the commitment the Government made to the Australian people. HSF has multiple roles advising on with the delivery of 30,000 new social and affordable rental homes in the fund's first five years.

30,000

new social and affordable rental homes in the fund's first five years.

In addition, the Government has also confirmed an additional $1 billion will be invested in the National Housing Infrastructure Facility to support new homes.

Challenges across the sector continue

Residential investors are likely to see house price increases of approximately 5% according to Halmarick and Barrenjoey's Masters. However, Sydney and Melbourne markets are predicted to sit below the national average at 3.8% and 3.2% respectively. It is likely demand will be pushed to realign with borrowing capacity as pandemic household savings have been largely drained. ABS data suggests the household savings ratio has fallen to its lowest level since 2007.

On the supply side, lending constraints will also push people to sell their dwellings prior to buying others, generating normalised transaction volumes.

Unemployment will also play a role in housing prices and affordability with the Reserve Bank (RBA) expecting increases throughout the year.

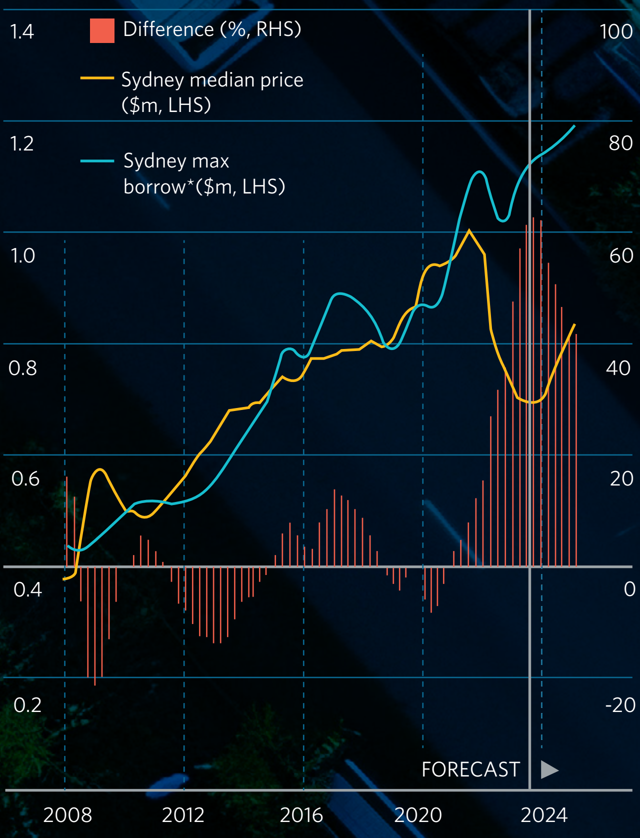
Build to rent (BTR) has been a hot topic in the Australian real estate market over the past two years but, to date, we have not seen a significant amount of BTR developments in Australia given the high construction costs, current tax laws and relatively low yields. During the next 12 months we expect that the landscape for BTR developments will improve as federal and state government recognise that BTR can offer greater flexibility and choice for renters seeking long term security of tenure.

Findings from CoreLogic survey

Despite these economic headwinds, a survey by CoreLogic found the majority of survey respondents conveyed a positive sentiment toward the overall economy in 2024, with **57%** expecting some economic growth, and a similar number (59%) tipping home values to rise this year.

71% of respondents also named fluctuations in interest rates as the primary driver of the Australian real estate market in 2024 indicating there is strong expectation that interest rates will come down by the end of the year.

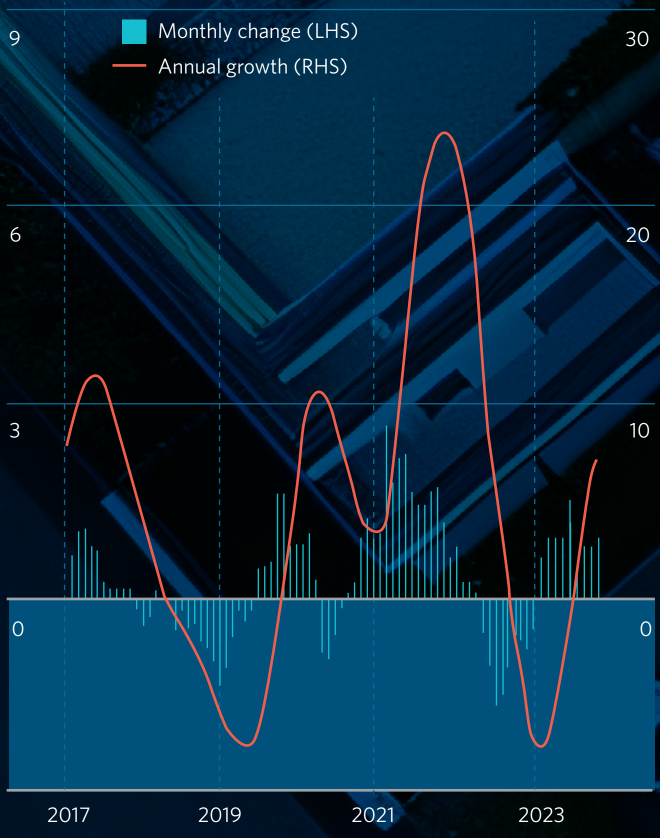
Borrowing capacity v price



*Capacity 80% loan to value ration

Source: AFR, Barrenjoey, CoreLogic

Capital city dwelling prices (%)



Source: Barrenjoey, Corelogic

Key Resources

- Australian Prime Residential Review Q4 https://content.knightfrank.com/research/1243/documents/en/australian-prime-residential-review-q4-2023-10949.pdf
- Asia Pacific Investment https://pdf.savills.asia/asia-pacific-research/asia-pacific-research/ap-inv-spotlight-01-2024r.pdf
- Interest rate changes tipped to shape 2024 real estate market https://www.corelogic.com.au/news-research/news/2024/interest-rate-changes-tipped-to-shape-2024-real-estate-market
- Latest opportunities in the living sector https://www.cbre.com.au/insights/articles/latest-opportunities-in-the-living-sector
- What to expect from house prices in 2024 https://www.afr.com/chanticleer/what-to-expect-from-house-prices-in-2024-20240104-p5ev7d
- Delivering on the $10 billion Housing Australia Future Fund https://ministers.treasury.gov.au/ministers/julie-collins-2022/media-releases/delivering-10-billion-housing-australia-future-fund

Spotlight on Retail

The retail sector experienced several shifts in 2023 that are expected to persist into 2024. These changes have been influenced by evolving consumer tastes, fluctuations in the supply of high-quality retail spaces, and alterations in the types of tenants generating demand and the properties meeting it.

Snapshot of activity across the sector

Retail turnover is growing at a slower rate of 2.2% in 2023, compared to 7.6% the previous year. Households are prioritising mortgage repayments with the cash rate at a decade high. While discretionary spending is weaker than non-discretionary, the November Black Friday sales helped to generate positive sales growth. Total retail sales growth is expected to recover in the long term, strengthened by population growth of 380,000 per annum.

E-commerce sales have remained steady since 2021 however shopping centres still play an important role in online fulfilment. Centres are under pressure to adapt to this role and to new consumer expectations and technology.

Since the pandemic, increased foot traffic has driven growth in rents and occupancy, especially in enclosed shopping centres. Australia's largest convenience shopping centre landlord, Region Group found that sales growth was 0.5 per cent higher in centres where an e-commerce facility like click-and-collect had been installed.

On the investment side, rents have been continuously strengthening over the past few years. Neighbourhood and sub-regional rents have seen more marked improvement than regional and super regional centres.

Occupancy costs (ratio of rent to turnover) for specialty categories including clothing still present an improving value equation for retailers, sitting well below the pre-Covid average.

Rising yields are strengthening the value equation of investors. Sydney regional and sub-regional markets have seen shopping centre yields grow by 50 bps and neighbourhood shopping centre yields grow by 75 bps. It is anticipated that cap rate rises will moderate and be more subdued than office and industrial sectors going into next year.

Shopping centres dominate transactions volumes

Shopping centres have been dominating transaction volumes, totaling A$1,213 million across 20 transactions in Q4 2023. This was a 47% decrease in transaction volumes year-on-year and 78% of these transactions were shopping centre deals.

In fact, retail was the most traded type of commercial property asset in 2023, for the first time in 20 years.

Key Resources

- Australian Real Estate Quarterly Review, Q4 https://www.dexus.com/dexus-insights/australian-real-estate-quarterly-review-q4-2023
- Australian Retail Figures Q4 2023 https://www.cbre.com.au/insights/figures/australian-retail-figures
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- Shopping Centre news: https://www.shoppingcentrenews.com.au/latest-news/industry-news/fawkner-property-swoops-on-cairns-central-in-390-million-acquisition/

Key transactions

Chatswood Chase

the sale of the remaining half of Chatswood Chase Shopping Centre in Sydney for **$307 million** was the most significant transaction.

Eastgate Bondi Junction

ISPT is understood to have entered due diligence talks to sell Eastgate Bondi Junction in Sydney. The company is also looking to offload Ashfield Mall in Sydney's inner western suburbs for **$169 million** to private group, Mintus. ISPT is seeking to divest retail assets as it looks to merge with **infrastructure group IFM Investors**.

BWP Trust takeover of Newmark Property REIT

Retail landlord, BWP Trust, the **owner of 75** mostly Bunnings Warehouses has launched a takeover over of landlord Newmark Property REIT – whose tenants include Bunnings, Officeworks and Kmart – in a deal that will create a **$3.5 billion** national portfolio of large format retail assets.

Midland Gate shopping centre

Midland Gate shopping centre has been snapped up for **$465 million** by Melbourne based fund Manager Fawkner Property Group in partnership with HK based alternative asset manager PAG.

Cairns Central

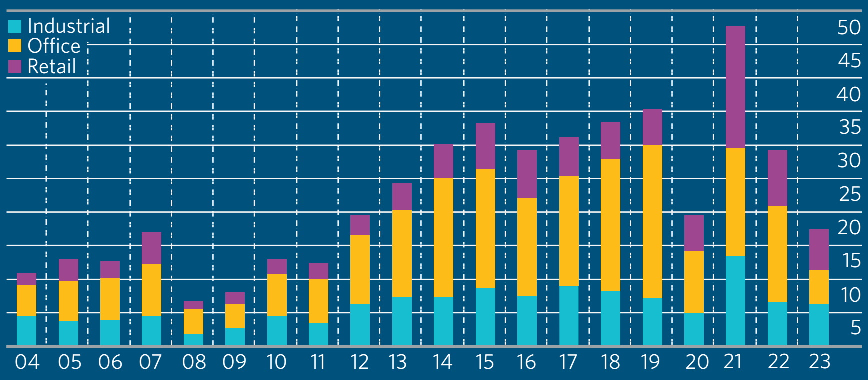
sale of Cairns Central to Fawker Property Group for **$330 million**. This acquisition continues Fawkner's push into the regional and sub-regional retail categories.

Smaller transactions in the quarter may also help to provide pricing benchmarks however the mismatched vendor-buyer expectations and the high cost of debt still weigh on the sector.

JLL Research anticipates $3.5 billion of offshore core and core plus mandates looking to allocate to the sector, significantly up on prior years. As valuations adjust, these overseas investors will enter the market.

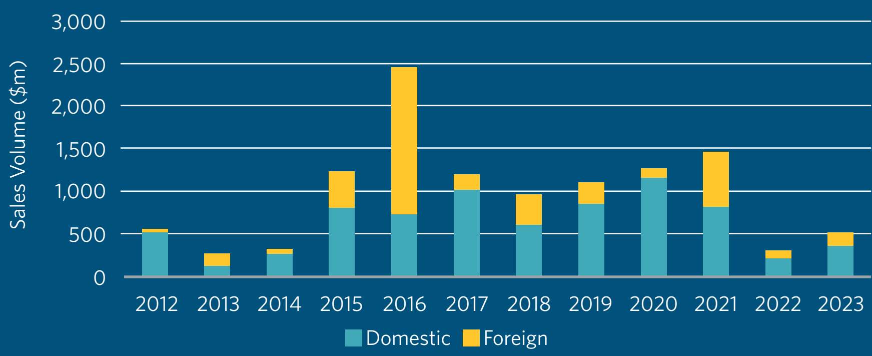
Shopping centres and asset owners anchored by vendors of non-discretionary items appear to be the most attractive as well as regional and subregional assets. Going forward, the retail sector will also doubtlessly be a beneficiary of Australian immigration.

Australian commercial property deal volumes by asset type ($b)



Source: JLL

Figure 7: Retail Buyer Profile



Source: CBRE Research

Asia Pacific Region

Fast 5: What we're seeing across the region

The polls are open

Tell me more: Multiple elections will be held across the APAC region in the first half of the year, including in Taiwan, India, Pakistan, Indonesia, Cambodia and South Korea. Investments in certain sectors such as residential may be subdued in Q1/2024 as purchasers wait out election results and future easing of monetary policy. The US Presidential race will also impact the region's geopolitical tensions and economic policy.

Robust Retail REITs

Tell me more: The Chinese Government's approval of applications for its first four publicly-traded retail REIT in Q4/2023 is a move to bolster its real estate market. This will provide new exit channels, liquidity and transparency for the sector. Following the collapse of Evergrande, the country's property sector is heading in a new direction that will no doubt come with additional scrutiny.

Beds, meds and sheds

Tell me more: Defensive property types with protective factors such as rent indexation, short lease terms and reliable recurrent income are still on trend. Pair these factors with sectors underpinned by non-discretionary spending and demand secured by population growth – investors are enticed.

You can have everything... in moderation

Tell me more: After a boom in many real estate alternative asset sectors, we are now seeing industrials and retails cap rates and vacancy rates begin to moderate. Economic growth in the APAC region is similarly normalising with Oxford Economics predicting Asia Pacific's GDP growth to moderate from 4.3% in 2023 to 3.5% in 2024.

Cloudy with a chance of quantitative easing

Tell me more: After the introduction of conservative monetary policies across the region, inflation rates are coming in line with central bank targets. However, most countries' interest rates have now reached their peak and gained some stability. More certainty around interest rates and borrowing costs should help to facilitate a floor in pricing going forward.

Key Resources

- Savills Asia Pacific Investment Quarterly Q4 https://pdf.savills.asia/asia-pacific-research/asia-pacific-research/apiq-q4-2023.pdf
- Asia Pacific Cap Rates Report Q4 2023 https://www.colliers.com.au/en-au/research/2023-q4-apac-cap-rates-snapshot-colliers
- Asia Pacific Capital Tracker Q4 2023 https://www.jll.com.au/en/trends-and-insights/research/asia-pacific-capital-tracker
- Asia Pacific Investment Spotlight https://pdf.savills.asia/asia-pacific-research/asia-pacific-research/ap-inv-spotlight-01-2024r.pdf

Regional Snapshots

China

Beijing has made a renewed commitment to economic development and high-quality growth. Having introduced new fiscal and monetary policies to increase domestic consumption, China will continue to reduce its dependency on real estate and grow its high-tech industries. These recent policy interventions seem to have successfully stimulated economic recovery with China's GDP surprising the market and expanding by 4.9% YoY in Q3 of 2023.

The International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD) and other investment banks have accordingly upgraded China's 2024 growth forecast to between 4.6% and 5.0%.

China's total transaction volume for 2023 sat 18% below its total the year before at RMB629 billion. Despite this, the economy has begun to normalise with more realistic vendor expectations introducing new opportunities. The residential sector accounted for 18% of total transaction volume, recording a 63.9% growth year-on-year.

Shanghai and Beijing are the most attractive investments featuring both sustained tenant demand and higher rent affordability. Developers in these areas are most likely to concentrate their efforts on converting and upgrading stock as there has been a marked reduction in land supplied for rental housing development.

In October 2023, China accepted the applications of its first four retail Real Estate Investment Trusts (REITs) in an effort to boost the real estate sector and provide new exit channels and liquidity. In December 2023, retail recorded a 57.2% increase in transactions year-on-year. Developer cash flow problems and delinquencies led to 584,000 listings in the first three quarters of 2023 however many assets failed to sell. Those assets that did sell sold for a discount of 23.1% on average.

Hong Kong

Two sizeable Hong Kong deals at the end of 2023 reflected the lack of distress in the Hong Kong office market. The Security and Futures Commission purchased twelve floors (296,000 sq ft) in One Island East for HK$5.4 billion and Li Ning, a Chinese sportwear retailer purchased the office of Harbour East in Island East (144,000 sq ft) for HK$2.2 billion.

Total transaction volumes increased by 16% year-on-year, reaching HK$31.1 billion. Office assets dominated transactions (60%) despite falling prices and rents. Although borders reopened, hotel and retail transactions only made up 34% of transactions. The industrial sector barely factored into transaction volumes, only reaching HK$1.9 billion, a decrease of 88%. The two major industrial deals that took place were the CR Logistics purchase of another Kerry warehouse for HK$1 billion and the Blackstone and StoreFriendly purchase of an industrial building in Tsuen Wan for approximately HK$560 million.

The launch of YOHO WEST in Tin Shui Wai generated action for the residential sector late in 2023. The first three batches saw a sales rate of more than 80%, buyers encouraged by multiple rounds of rates cuts in 2024.

Malaysia

Malaysia's economic growth aligned with Bank Negara Malaysia's (BNM) economic forecast of around 4%, experiencing total growth of 3.9% in the first three quarters of the year. BNM expects further growth of 4-5% in 2024 despite challenging global headwinds. The value of major transactions grew 84% year-on-year reaching MYR3.7 billion. Major transactions included Alliance Bank Malaysia's acquisition of 24 floors of office suites and four adjoining retail lots for MYR406 million for its new headquarters. The sale of the W luxury hotel in Kuala Lumpur by Tropicana Corporation Berhad to IOI Properties Group Berhad also made waves in the market, setting a new benchmark of RM1.8 million per key.

Development is active in the country with large parcels of land being secured for the construction of 2,600 drewllings by KSL Bestari Sdn Bhd and for data centre expansion by STT GDC Malaysia Sdn Bhd, Yu Ao Sdn Bhd and Microsoft Payments (Malaysia) Sdn Bhd. These trends signify positive expansion for the country in 2024 across sectors.

Singapore

Singapore's real estate market has been fraught with economic uncertainty, weak investor sentiment, misaligned price

expectations and thorough due diligence to prevent money laundering. Investment sales in Q4/2023 fell 26.6% quarter-on-quarter, landing at S$5.4 billion. Residential sales drove the sector, making up 64.4% of sales followed by commercial (30.4%) and industrial (5.2%).

The majority of residential land sales derived from the award of four Government Land Sale (GLS) sites, totalling S$2.8 billion. Investment sales in the private sector were subdued however noteworthy deals included the sale of two adjoining freehold plots at Gentle Road for S$30.9 million, a residential redevelopment site at Sophia Road for S$33.6 million and a new detached house at Mount Rosie Road for S$33.9 million.

The industrial sector continued to contract for the second consecutive quarter in Q4 to S$278.2 million. The public sector again drove transactions with two industrial GLS sites worth a total of S$89.0 million awarded. Private industrial sales declined 58.1% quarter-on-quarter to S$189.2 million in Q4.

South Korea

The Bank of Korea's (BoK) Monetary Policy Board raised the Base Rate in January 2023 and sustained this elevated rate the entire year. Q4 of 2023 saw a 0.4% contraction in in Korea's economy quarter-on-quarter.

GDP is expected to expand at 2.1% for the remainder of this year and inflation should ease from 3.6% to 2.6%, prompting a possible relaxation of BoK's tight monetary policy.

Office transaction volumes in Q4/2023 totalled KRW1.99 trillion, weighed down by constrained vacancies. Notable transactions included KORAMCO REITs & Trust's acquisition of Majestar City Tower 1 near Seocho Station for KRW399.2 billion and game developer, Krafton's acquisition of Megabox Square Seongsu, an 8-storey mixed-use asset for KRW243.5 billion.

The logistic sector has slowed down as supply additions in the past two years have significantly outpaced growth in demand. No new transactions were negotiated in Q4. This sector is a microcosm of the widespread conservative approach taken by institutional investors in the current economic climate.

Japan

Q3/2023 saw a strong rebound in Japan's corporate profits by 20.1% year-on-year. The weak yen has benefited export industries, especially in the auto manufacturing industry. Japan's December CPI of 2.6% demonstrates consistent easing since a record high of 4.2% in January 2023. The Bank of Japan is now looking towards monetary policy normalisation, expecting strong wage growth.

The logistics sector is holding sustained interest from investors in spite of rising vacancy rates. Hotels have also been thriving as tourism demand increases, along with prime high street retail.

Indonesia

Indonesia's investment is at its peak, reaching IDR1,400 trillion with foreign direct investment making up 63.8% of total investment. The logistics industry continues to entice investors with a particular focus on high-tech, storage warehouses and distribution hubs. Indonesia's economy has remained stable with a growth rate of 5.05% as well as stable inflation of 2.61% year-on-year as of December 2023.

In the real estate sector, hotels and retail are performing stronger than residential, apartments experiencing a decline in sales. The office market in Jakarta has also seen growth, with consolidations and tenant relocations around flight to quality. The holidays have guided sector performance with shopping centres recording a 15% increase in foot traffic and subsequently strong sales. Conversely, upcoming elections have dampened the apartment market with investors waiting on election results before purchasing new stock.

Key Resources

- Savills Asia Pacific Investment Quarterly Q4 https://pdf.savills.asia/asia-pacific-research/asia-pacific-research/apiq-q4-2023.pdf
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- Asia Pacific Investment Spotlight https://pdf.savills.asia/asia-pacific-research/asia-pacific-research/ap-inv-spotlight-01-2024r.pdf

Key contacts

Australia

Real Estate

Luke Simpson
Managing Partner, Real Estate (Australia & Asia)
T +61 7 3258 6612
M +61 405 223 184
luke.simpson@hsf.com

Jane Hodder
Partner
T +61 3 9288 1692
M +61 419 875 388
jane.hodder@hsf.com

Frank Poeta
Partner
T +61 8 9211 7893
M +61 403 304 304
frank.poeta@hsf.com

Julie Couch
Partner
T +61 2 9225 5425
M +61 414 787 425
julie.couch@hsf.com

Julie Jankowski
Partner
T +61 7 3258 6515
M +61 404 220 015
julie.jankowski@hsf.com

David Sinn
Partner
T +61 3 9288 1509
M +61 418 399 567
david.sinn@hsf.com

Nicholas Cowie
Partner
T +61 2 9225 5551
M +61 405 154 025
nicholas.cowie@hsf.com

Niresha Mudalige
Partner
T +61 3 9288 1421
M +61 447 605 868
niresha.mudalige@hsf.com

Michael Back
Senior Advisor
T +61 7 3258 6611
M +61 404 083 512
michael.back@hsf.com

Corporate – funds

Robert Bileckij
Partner
T +61 2 9322 4390
M +61 418 388 629
robert.bileckij@hsf.com

Fiona Smedley
Partner
T +61 2 9225 5828
M +61 405 223 701
fiona.smedley@hsf.com

Katrina Swift
Executive Counsel
T +61 7 3258 6664
katrina.swift@hsf.com

Finance

Andrew Booth
Managing Partner, Finance (Australia & Asia)
T +61 3 9288 1269
M +61 419 876 126
andrew.booth@hsf.com

Martin MacDonald
Partner
T +61 3 9288 1913
M +61 439 556 881
martin.macdonald@hsf.com

Phillip McMahon
Partner
T +61 7 3258 6558
M +61 407 852 970
phillip.mcmahon@hsf.com

Melita Cottrell
Partner
T +61 2 9225 5199
M +61 410 459 416
melita.cottrell@hsf.com

Lucy McCullagh
Partner
T +61 3 9288 1318
M +61 412 286 832
lucy.mccullagh@hsf.com

Tax and Stamp Duty

Jinny Chaimungkalanont
Partner
T +61 2 9322 4403
M +61 418 479 417
jinny.chaimungkalanont@hsf.com

Nick Heggart
Partner
T +61 8 9211 7593
M +61 437 001 229
nick.heggart@hsf.com

James Pettigrew
Partner
T +61 2 9322 4783
james.pettigrew@hsf.com

Toby Eggleston
Partner
T +61 3 9288 1454
M +61 413 151 183
toby.eggleston@hsf.com

Ryan Leslie
Partner
T +61 3 9288 1441
M +61 418 186 499
ryan.leslie@hsf.com

Environment, Planning & Communities

Heidi Asten
Partner
T +61 3 9288 1710
M +61 448 614 545
heidi.asten@hsf.com

Melanie Debenham
Partner
T +61 8 9211 7560
M +61 410 486 327
melanie.debenham@hsf.com

Madeline Simpson
Special Counsel
T +61 7 3258 6662
M +61 414 942 276
madeline.simpson@hsf.com

Peter Briggs
Partner
T +61 2 9225 5155
M +61 409 030 299
peter.briggs@hsf.com

Kathryn Pacey
Partner
T +61 7 3258 6788
M +61 447 319 055
kathryn.pacey@hsf.com

ASIA

Glynn Cooper
Partner, Infrastructure & Energy, Singapore
T +6010 882 2371
glynn.cooper@hsf.com

Nanda Lau
Head of Corporate, Shanghai
T +86 21 23222117
nanda.lau@hsf.com

Adrian Cheng
Asia Head of Finance Singapore
T +65 6868 8029
adrian.cheng@hsf.com

Vik Tang
Partner, Jakarta
T +62 21 3973 6118
vik.tang@hsf.com

Tommy Tong
Partner, Hong Kong
T +852 21014151
tommy.tong@hsf.com

Warathorn Wongsawangsiri
Managing Partner, Bangkok
T + 66 2 857 3828
warathorn.wongsawangsiri@hsf.com

Nonnabhat (Niab) Paiboon
Partner, Bangkok
T + 66 2 857 3834
niab.paiboon@hsf.com

Benjamin Lohr
Partner, Hong Kong
T +852 2101 4022
benjamin.lohr@hsf.com