Evolving landscapes

Our view for the Greater Brisbane Property Market in 2024

December 2023

HMW REAL ESTATE ADVISORY

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Drivers of the SEQ Property Market in 2024

Population Growth

Robust population growth is forecast to continue, with the Ipswich, Logan, Moreton Bay, and Sunshine and Gold Coasts to see the strongest long-term growth. Population growth will drive occupier demand across all property sectors.

Interest Rate Stabilisation

Interest rates are likely at, or near, their peak. If a further increase is needed, we expect it will be at the RBA's February meeting, following which the next move will likely be a cut. The stabilisation of interest rates will provide greater certainty to the market regarding the cost of debt; however, we do not expect to see an immediate bounce-back in investor demand.

State and Local Government Elections

The Queensland State and Local Government Elections will be held in 2024. The completion of elections typically bring increased confidence and certainty to the market. We expect to see a strong focus in the State Election on the residential market and supply issues.

Global and Domestic Factors

There is a substantial amount of volatility at a global level due to the Israel-Hamas and Russia-Ukraine wars. Furthermore, domestic economic conditions remain uncertain, with inflation proving to be more stubborn than initially expected due largely to high rental, electricity and fuel costs. The economy is forecast to weaken in 2024.

Rental Growth

Property values will be driven by rental growth. However, we note that rental growth is forecast to slow in 2024. Yields are likely to stabilise over 2024 as interest rates stabilise, providing more certainty to the investor market.

Our view for 2024

2024 is expected to see a continuation of uncertain conditions in the commercial property market. Whilst the stabilisation of interest rates will provide investors with increased certainty, we are not expecting a return to strong investment activity. Rather, we are of the view that 2024 will be a year of reset for many of the markets, with rental growth forecast to slow (albeit remain positive), occupier demand to soften, and investors and developers expected to sit on the sidelines for much of 2024 before a pick-up in activity from 2025. Interest in the alternative, more 'recession proof' property sectors, including alternative residential living, will gain further momentum.

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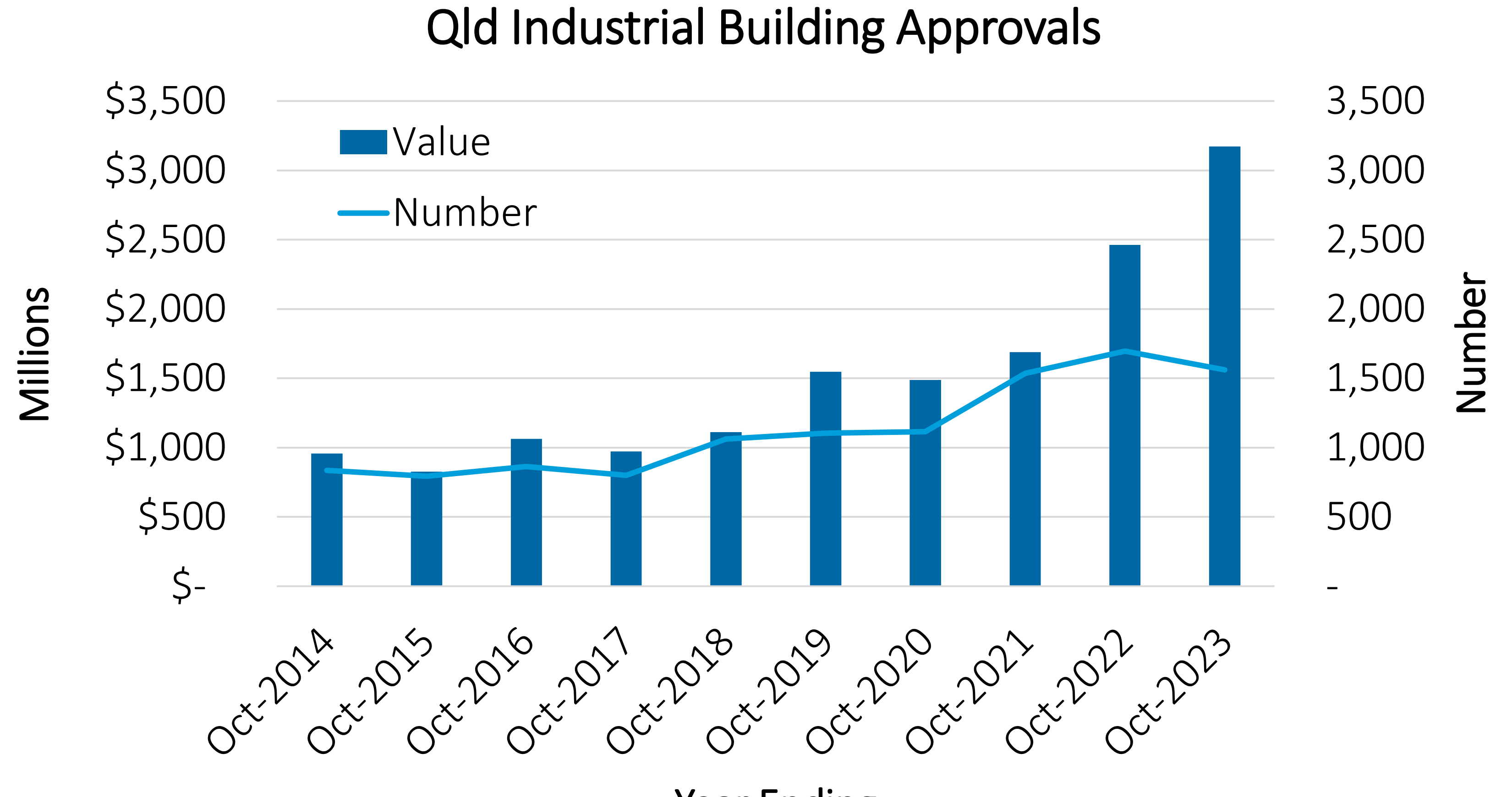
Industry outlook: **Industrial**

What do we expect will impact the market in 2024?

- Release of the Shaping SEQ 2023 Regional Plan, establishing a regional approach to industrial land planning and identification of key areas to meet future demand.
- Greater certainty regarding the cost of debt to reignite investor demand in the latter half of 2024.

2024 Outlook

- Rental growth will continue to be supported by the supply / demand imbalance. However, a large amount of new supply to enter the market in 2024, as well as weaker macroeconomic conditions, we expect that rental growth will slow from the record levels we have been seeing.
- We expect to see some occupiers scale back expansion plans or rationalise their existing footprint in 2024 due to higher occupancy costs. Higher costs may also encourage some occupiers to consider their supply chain, as well as building and operational efficiencies.
- There will be a continued focus by developers (and national and global occupiers) on improving the sustainability of new industrial developments. Features such as rooftop solar panels, greenery, rainwater capture and reuse systems, EV charging systems, and energy efficient lighting are expected to become standard considerations in new industrial estates and developments. As a result, we expect to see more developments seeking Green Star and EnviroDevelopment certification.
- Investment demand is expected to increase following the stabilisation of interest rates and higher certainty regarding the cost of debt. Industrial properties are still expected to remain a sought-after investment given the robust fundamentals for the sector and increased certainty regarding longer-term occupier demand.
- The release of the Shaping SEQ 2023 Regional Plan is anticipated to provide more clarity for industrial developers going forward. The Plan will establish a regional approach to industrial land planning to complement Local Government planning. The Draft identified the LGAs of Gold Coast, Ipswich and Logan as playing key roles in meeting future demand, due to freight and logistics networks and freight volumes from the southern states.



Source: ABS, HMW REA

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Industry outlook: **CBD Office**

What do we expect will impact the market in 2024?

- Further reduction in the CBD vacancy rate, driven by the flight to quality trend in the occupier market.
- Continued changes in office design and space requirements as corporate occupiers adjust to post-pandemic worker trends.

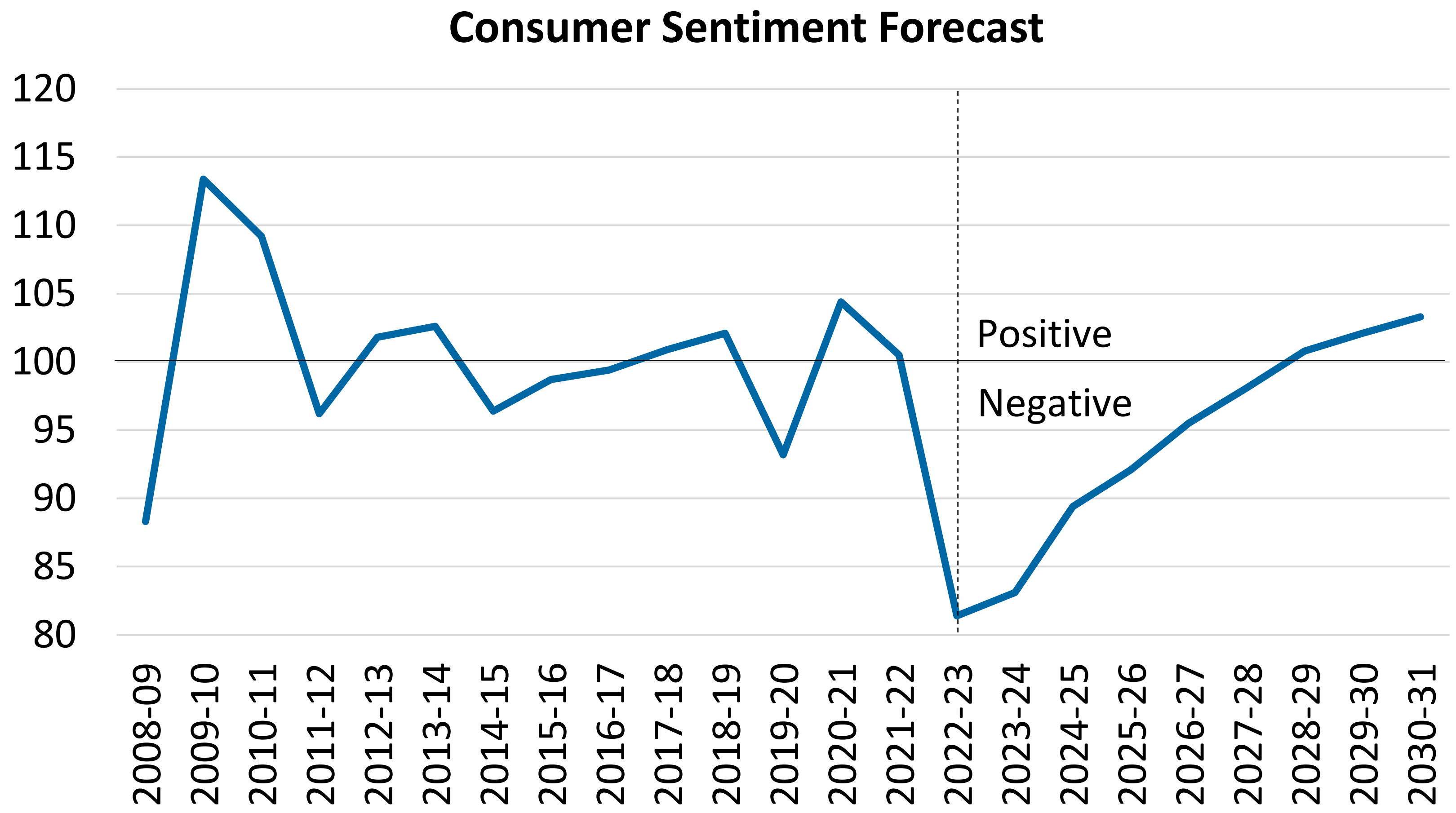
2024 Outlook

- Labour shortages in some industries will continue to give employees a degree of bargaining ability when it comes to flexible working arrangements. The Federal Government's changes to flexible working legislation came into effect in June 2023, with more employees being able to request flexible working arrangements and employers having increased obligations. However, and on the contrary, we have seen some large corporates implement more stringent 'minimum days in the office' requirements over the past year as well as incentive schemes for employees who attend the office more. Recent occupancy reports show a trend of rising office occupancy rates, however, we expect occupancy rates to plateau over the near-term with a return to pre-pandemic levels unlikely.
- Whilst occupiers are showing preference to upgrade into higher quality buildings in an attempt to encourage staff back into the office as well as satisfy corporate ESG requirements, they are also expected to take an increasingly pragmatic view of their space requirements upon lease expiry. With employees continuing to work hybridly and rising costs of occupation putting pressure on profitability of some operators (particularly as Australia heads into a weaker economic environment), we expect to see a growing trend of firms rationalising their footprint.
- The abovementioned has the potential to result in more firms also considering desk sharing / hot desking arrangements. A recent global study by CBRE on Workplace and Occupancy Management showed that 64% of global office space is underutilised. The research also reported that space sharing has increased global occupancy rates when defined as the allocation of people to seats. The majority of study participants had reduced their footprint since 2020, with over 30% of participants reducing by at least 10%.
- Transaction volumes are expected to increase from 2023 levels, however, still remain subdued by historical levels. Premium quality office buildings will attract stronger demand due to the tight vacancy rate and robust occupier demand in this segment of the market. Lower quality office buildings will increasingly be considered for repurposing / redevelopment and may see further softening in yields over 2024.
- Prime face rents are forecast to grow moderately strongly over 2024, driven by the declining vacancy rate.

Industry outlook: **Retail**

What do we expect will impact the market in 2024?

- In the CBD, the opening of Queen's Wharf (expected from August), including three luxury hotels and 50 plus restaurants and retail outlets.
- Continued growth in international tourist numbers to benefit CBD and tourist-centre retailers.
- Cost of living pressures and their impact on consumer spending.



Source: IBISWorld, HMW REA

2024 Outlook

- Subdued conditions are expected to continue in the retail sector over 2024 due to weak economic conditions and cost of living pressures. However, the medium-term outlook is more positive, with consumer sentiment forecast to increase gradually, continued growth in the number of international tourists, population growth, and an easing of cost-of-living pressures.
- New supply to the market is expected to be largely dominated by convenience and non-discretionary focused developments in strong population growth corridors.
- The completion of Queen's Wharf will see new supply in the CBD increase, with potential to put pressure on existing retailers (particularly food and beverage retailers, with a large number of new restaurants to be delivered).
- We expect to see a continued drive by the large retail property owners to bring consumers into centres through various strategies, such as:
  - Art and sporting exhibitions (e.g. Banksy and NBA exhibition at QueensPlaza).
  - Repositioning of assets to include non-retail tenancies such as childcare, medical, sport / recreation precincts, event space office / coworking space, and libraries. (e.g. Westfield Knox in Victoria recently added a full-size basketball court with the next stage of the development including a 2,000 square metre library).
  - Partnerships with different community groups and entertainment providers (e.g. Scentre Group partnered with Disney, Netball Australia and Live Nation to bring free performances, activities and events to centres).

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Industry outlook: **Residential**

What do we expect will impact the market in 2024?

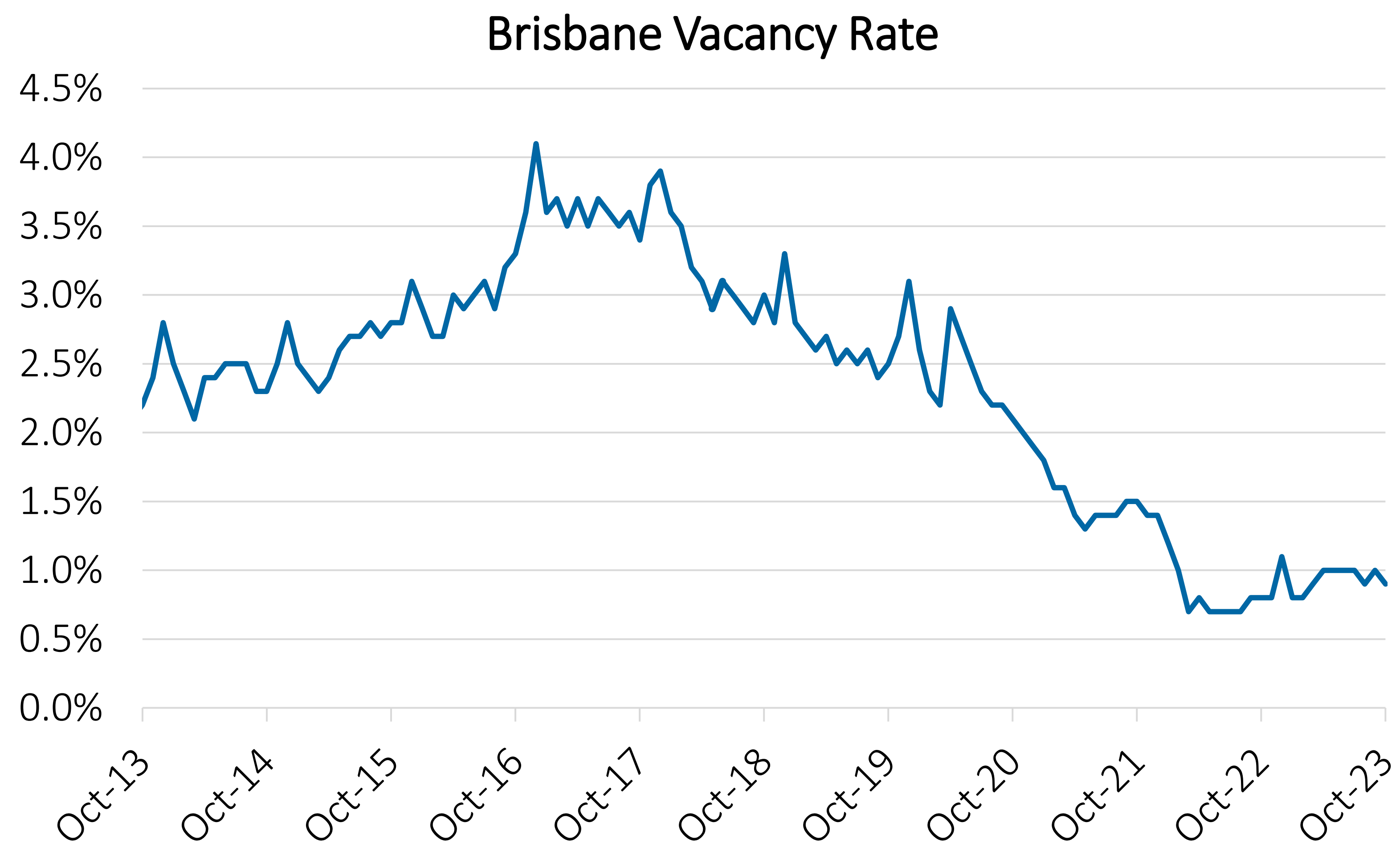
- The BCC Housing Supply Action Plan and Build to Rent Incentive Policy are expected to encourage increased investment in the alternative residential living sectors.
- Buyer ‘fear of missing out’ with house prices expected to continue to rise, albeit at a slower rate.
- Demand in some market segments to be boosted by the State Government’s doubling of the First Home Owner Grant.
- The biggest barriers to new supply entering the market will include construction costs, interest rates, and labour availability.

2024 Outlook

- House prices across Greater Brisbane are forecast to increase in 2024 as a result of several factors, including the growing supply shortage and low, albeit rising, listings. The forecast stabilisation in interest rates over the first half of the year, before an expected cut to the official interest rate in the second half of the year, will also see increased confidence enter the market, however, this will occur in the context of continued affordability constraints. Price growth is forecast to continue, however, at a slower rate than seen over much of 2023.
- The State Government’s recent decision to double the First Home Owner Grant will boost demand in this segment of the market. However, given the price limit of $750,000, this will predominantly be felt in outer and regional locations as well as the apartment and townhouse markets. The move has been questioned in the current market given the already growing shortage of dwellings relative to demand, and the broader implications the grant will have on housing affordability.
- Over the medium-term, we are expecting to see buyer demand for apartment and townhouse dwellings strengthen, with buyers increasingly being priced out of the detached dwelling market.
- With vacancy expected to remain at low levels due to reduced dwelling completions and sustained demand, robust rental growth is likely to continue over the short- to medium-term. We expect that this will encourage stronger investment in the alternative residential living sectors such as Build to Rent, Student Accommodation and Affordable Living.
- The 2032 Olympic and Paralympic Games will contribute to longer-term interest in the SEQ residential property market, particularly from interstate and overseas investors.

The role of Build to Rent in Brisbane’s Housing Shortage

- The Federal, State and Local Governments have introduced more favourable tax incentives to encourage BTR development. However, conditions in the wider residential market are also encouraging increased development in the sector.
- Strong population growth, more people renting, changing household composition, and affordability constraints in the occupier market have put increased pressure on the rental market. Furthermore, low approval rates for new developments, high construction costs and increased funding costs, have resulted in difficulties achieving presales in the build to sell market and subdued apartment completions.
- Investors are showing a growing interest in BTR. With strong demographic and supply / demand fundamentals, we expect to see an increase in the number of BTR developments proposed for Brisbane in 2024.



Source: SQM, HMW REA

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Industry outlook: **Childcare**

What do we expect will impact the market in 2024?

- Queensland Government's Free Kindergarten initiative starting 1 January, contributing to stronger demand for services for three- and four-year-olds.
- Continued workforce shortages forcing enrolment caps in centres and impacting occupancy rates.
- Release of Productivity Commission report into the cost and availability barriers impacting access to childcare (due June 2024) and the final report by the ACCC on the market for the supply of childcare services (due by 31 December year).

Qld Government's Free Kindergarten for Queensland Families

- The Queensland Government's free kindergarten for all Qld families will start on 1 January 2024 and is available in sessional or long-day care settings, with families eligible for 15 hours per weeks, 40 weeks per year. The program is expected to save families $4,600 per annum and assist more than 60,000 families.
- The reforms are expected to boost female labour force participation, help an additional 8,000 children attend kindergarten, and have potential to put upward pressure on long-day care centre occupancy rates.
- Depending on local catchment supply and demand, ineligible centres without approved kindergarten programs have potential to see occupancy rates taper back as a result.

2024 Outlook

- Population growth, household disposable income, labour force participation (including female participation), and government assistance are expected to drive strong demand for childcare.
- The recent decline in new supply being brought to the market is expected to continue over 2024. Older centres in areas with higher supply relative to demand will increasingly need to undertake refurbishments / upgrades to compete with new centres.
- Recent changes to funding for the sector will improve the affordability of childcare services for most families. The Productivity Commission is also examining the cost and availability barriers impacting affordable access to childcare for families (final report due June 2024) and the ACCC's final report on the supply of childcare services is due by the end of 2023.
- The *potential* introduction of fee caps (through changes brought about by the above-noted reports) could limit revenue growth for owner operators. We do not expect any major impact on the rental market if this occurs due to other positive drivers.
- Labour shortages are expected to continue, resulting in centre occupancy rates being limited by forced enrolment caps. According to the ACA, during the week of 9-13 October, nationally, a total of 11,123 places were withheld from families. The ACA states that the industry needs at least 10,000 trained teachers to fill vacancies. Negotiations are underway between the Federal Government and several industry bodies / unions over Government-funded pay rises; however, any changes will take some time to be enacted.
- Lower occupancy rates have started to flow through to the investment market, with G8 recently paying Genius a lump sum payment of $26.5 million to take on 31 underperforming centres. We expect childcare centres will continue to be viewed favourably by investors, albeit, with a greater focus on centre performance (in recognition that not all centres / locations are being impacted by labour shortages / lower occupation rates).

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Industry outlook: **Self-Storage**

What do we expect will impact the market in 2024?

- Robust levels of new supply to enter the SEQ market.
- Continued focus on technological improvements which will, over time, reduce labour costs and improve the profitability of some centres.
- In some sub-markets, softening in consumer demand and new supply completions to impact rental growth and occupancy levels of some centres.

2024 Outlook

- 2024 could be a difficult year for some self-storage centres due to the somewhat discretionary nature of the industry and record levels of new supply being added to the market.
- Our discussions with industry participants and the latest data available show that customer demand in some areas (predominantly lower socio-economic areas) weakened in 2023, reflected in lower average occupancy rates.
- Further softening in demand is expected to occur in some sub-markets in 2024 due to economic conditions and new supply. This will likely result in weaker rental growth, and for new facilities in oversupplied catchments, a longer time to reach sustainable occupancy levels. However, some sub-markets have not seen a reduction in occupancy rates and these conditions may continue provided new supply complements demand.

2024 Drivers
Tailwinds
Population Growth
Population growth to remain strong, being boosted by both overseas and interstate arrivals.
New Housing Supply
The housing market remains undersupplied relative to demand. The construction industry has come under significant pressure over the past 18 months due to cost pressures, project delays and project feasibility issues.
Housing Tenure
Home ownership has trended downwards as a proportion of total households over recent decades. This trend is expected to continue, largely because of affordability constraints (with dwelling demand continuing to exceed supply) and other factors such as growth in the Build to Rent sector encouraging longer-term rentals.
Dwelling Sizes / Structure
Smaller lot sizes, the inclusion of home offices (with more people working hybridly), and urban densification are contributing to reduced space at home. Apartments and townhouses are growing as a share of total dwellings.
Headwinds
Discretionary Income
Discretionary incomes will continue to be squeezed, and as a result, discretionary spending will continue to come under pressure.
Consumer Sentiment
Consumer sentiment remains deeply negative, however, is expected to start improving in 2024.
Online Retailing and Business Demand
Online retail spending is contracting due to weak economic conditions impacting the discretionary spending power of consumers.
New Supply
A record level of new self-storage is planned/under construction for SEQ.

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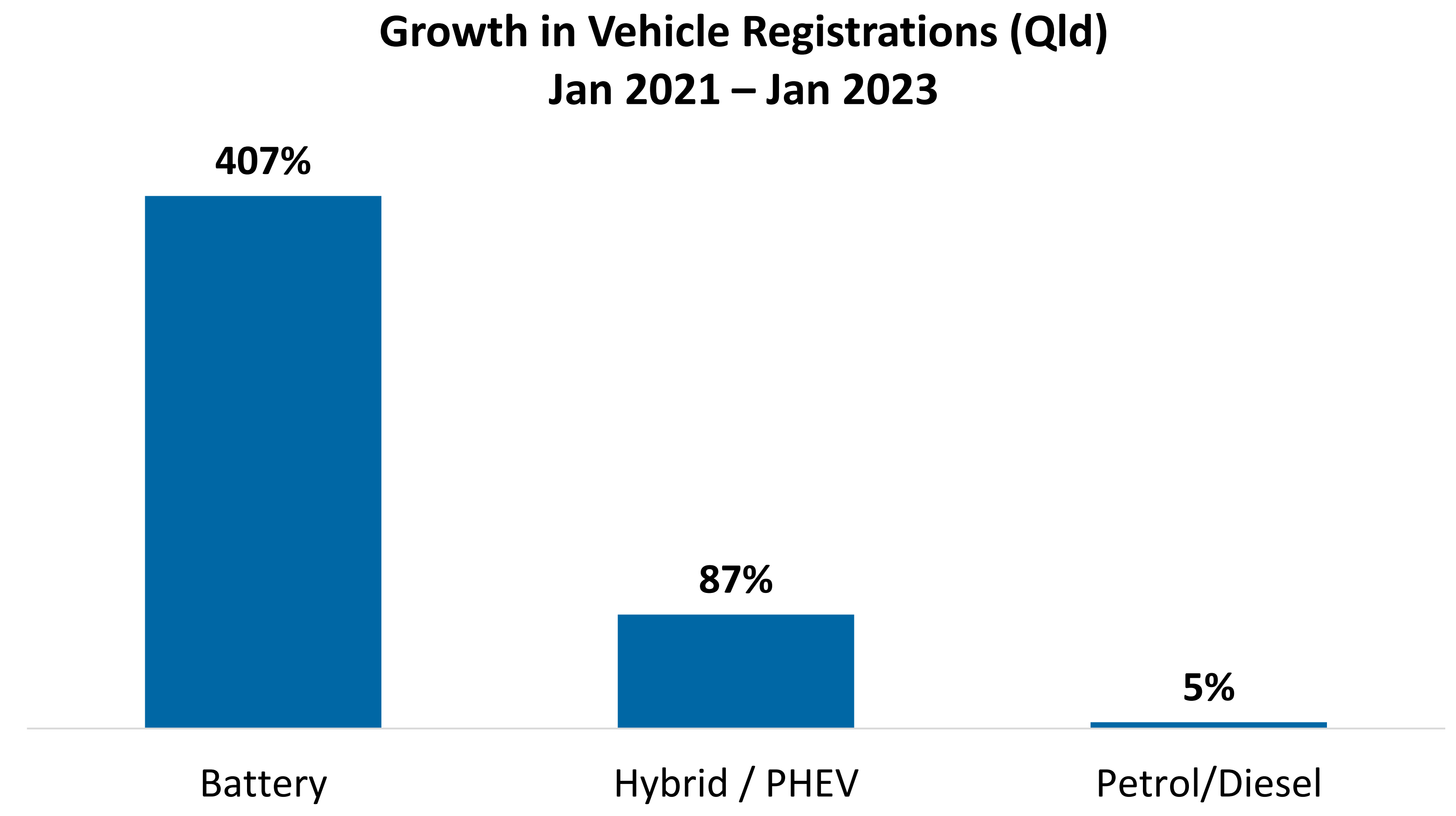
Industry outlook: **Service Stations**

What do we expect will impact the market in 2024?

- High fuel prices, as well as Government incentives, are expected to drive continued growth in hybrid and battery vehicle uptake:
  - Queensland Zero Emission Vehicle Rebate Scheme (up to $6,000 for new Zero Emission Vehicles).
  - Government target of 50% of new passenger vehicle sales to be zero emission by 2030 (100% by 2036).

2024 Outlook

- Service station investment activity reached a record high in 2022, however, decreased considerably in 2023. Anecdotally, many smaller, first-time buyers left the market in 2023, with higher LVR requirements and reduced market confidence contributing to this.
- Yields have softened circa 25 basis points this year, similar to the softening in childcare centre yields.
- Investment demand is expected to strengthen in 2024 as interest rates stabilise and confidence gradually returns to the market. The price point of service stations, combined with long lease terms, will continue to encourage investment in the sector over the short- to medium-term, despite longer-term threats to fuel retailing.
- Service stations with good locational attributes and future development potential are expected to see stronger demand whilst assets in less desirable locations may see further softening in yields.
- Fuel prices are likely to continue to be impacted by global factors into 2024. Consumers are likely to respond by becoming savvier with fuel refilling timing and usage. Despite fuel demand being relatively inelastic, If high prices persist, it would not be unreasonable to suggest that consumers may rethink travel options, opting for public transport where available or reducing distances travelled for day and extended trips.
- Service stations will continue to evolve over 2024 and beyond, with increased offerings of food, retail, and services (including parcel pick up, electric vehicle charging stations, and car wash / detailing) expected to form part of new developments.



Source: Australian Automobile Association, HMW REA

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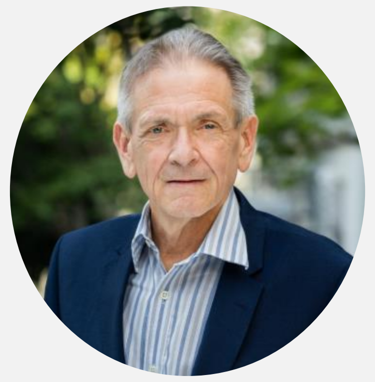

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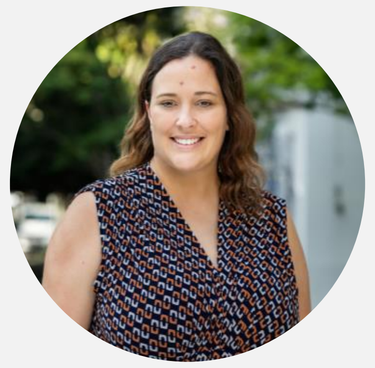

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Springfield City Group

*"I have known Ross Perkins for almost 30 years through his involvement in **advising and valuation advice** on the **Greater Springfield development**. Ross has valued the majority of commercial projects as well as the **Brookwater Residential project** which at the time was extremely unique given the aspiration to develop an upmarket golf course community in an area which did not enjoy high residential values.*

*Ross has always been a **trusted advisor** to the Springfield City Group and his **knowledge of the industry is unsurpassed**. He has shown a willingness to understand innovation and I know he is **highly regarded** by developers and lenders as someone who gets the balance right."*

Andrew Harper

Managing Director

Cornerstone Property Services Pty Ltd

*"Research is always important but in uncertain times like these it is critical. Casey Robinson has written **insightful research papers** for over 10 years on various aspects of the various property markets including self-storage, NDIS accommodation, the health sector and the commercial markets.*

*Her **deep understanding** of the future impact of economic events and policy on property markets results in **articulate, relevant and thoroughly researched articles.***

*We have frequently taken her findings into account when making property decisions and **her research is always the first to read**."*

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Property Valuation Services

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- Non-mortgage, trust, asset (Government and private) and GST valuations.
- Pre-acquisition valuations and consultancy advice, in addition to disposal strategic solutions and advice.
- Tactical advice on portfolio balance and strategies.

Property Economic and Research Services

- Catchment analysis for proposed business and property ventures.
- Supply and Demand research for proposed business and property ventures.
- Property market research.

NDIS Disabled Housing Project Consultation and Advice

- Independent review and advice in relation to NDIS development and funding.

Property Portfolio Valuer/Valuation Management

- Valuation management services including obtaining quotes and selection.
- Preparation of a program for communication and deliverables.
- Provision of a structured reporting process.
- Review of valuation methodology, rationale and sales for appositeness.

Highest and Best Use Assessments

- Identification of potential uses of the property for either redevelopment, repositioning or refurbishment.
- Review town planning and zoning constraints impacting on future development and use the site.
- Supply and demand / needs analysis for the perceived highest and best uses of the site.

Project Feasibility Analysis

- Highest and best use of the site.
- Gross Realisable value of the project based on highest and best use.
- Residual analysis studies to establish Project Related Site value.
- Market value of the site on the basis of a third-party, independent of the proponent.

Rental Review, Determinations and Assessments

- Strategic advice on tenant lease Terms and Conditions and recommendations for negotiations of leases.
- Market analysis of rental transactions to assess the Current Market Rental value.
- Market rent assessment based on the proposed/existing lease terms and conditions.

Tenant Representation Activities

- Engagement of appropriate consultants for new leases and/or lease renewals.

Project and Investment Funding Sourcing

- *Quintessential Finance* overseen by Tony Rickards, Partner, HMW Group.
- Credit assessments or loan submissions to supplement internal resources and skills.
- Independent review and advice on loan submissions, credit assessments and underwriting policies, specialising in property development and investment finance.
- Genuine and considered insights into the performance and outlook of industry sectors.
- Hindsight reviews of loans to give opinion on the health of your loan exposures and underwriting practices.
- Loan portfolio impairment stress testing / modelling.
- Origination of lending opportunities (e.g. broking).

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