



RWC

Vanessa Rader
Head of Research
Ray White Group

The Australian office market

March 2024

The Australian office market

Context

- Change in demand to invest in commercial property... why?
- Who are the buyers and sellers in the market?
- Offshore demand for office assets
- Work from home.. Where are we?
- Office take up, vacancy impacting the markets
- Will this improve?
- Incentives
- Income returns for office investments
- Capital returns & yields
- Looking ahead: the future of the office market

Does low unemployment affect the office market?

(%) unemployment rate, monthly by State

— NSW — Victoria — Queensland — WA — Australia



Chart: Ray White • Source: ABS

National office sale turnover

4 quarter rolling volume (\$)

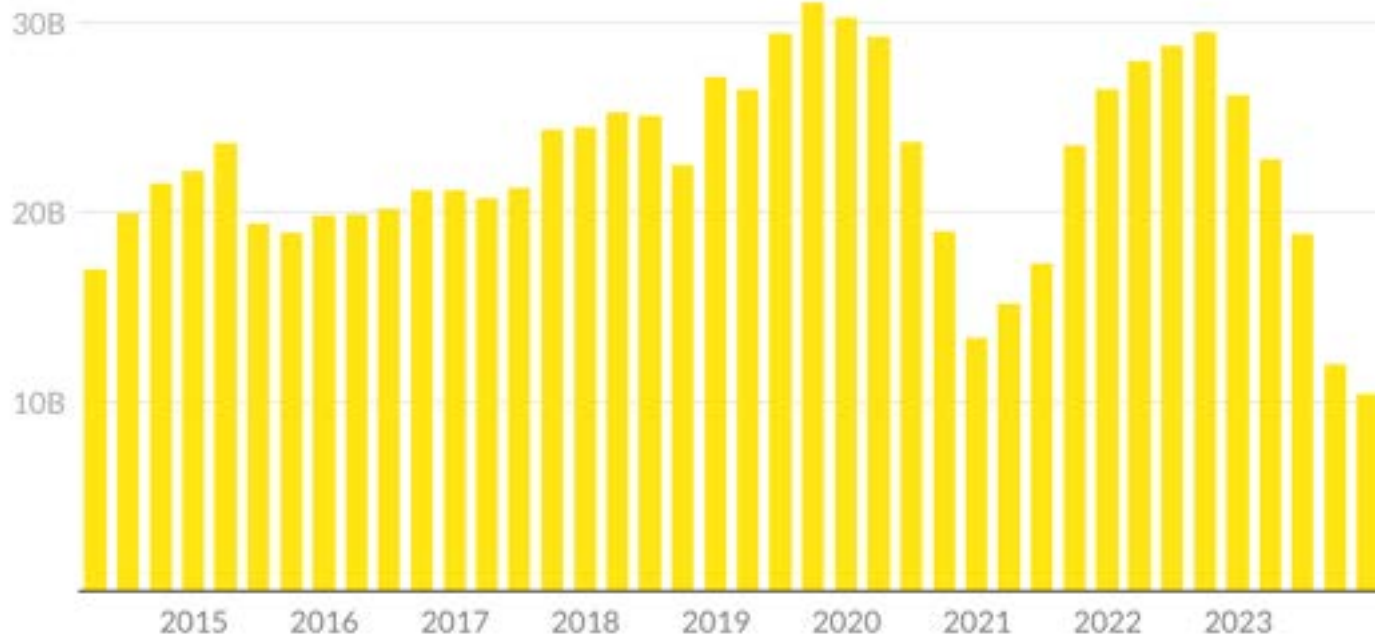


Chart: Ray White • Source: Real Capital Analytics

Annual number of office transactions

Australia

All Sales

780

650

520

390

260

130

0

2015 2017 2019 2021 2023

Over \$100million

36

30

24

18

12

6

0

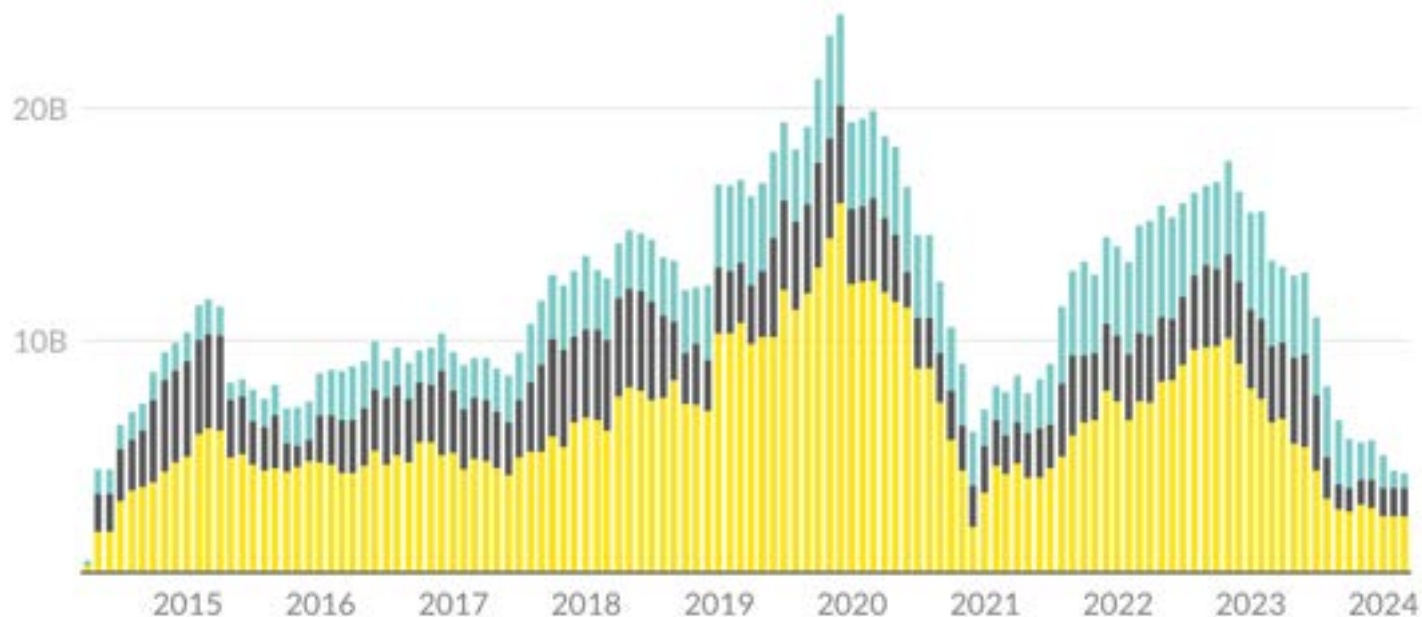
2015 2017 2019 2021 2023

Source: Real Capita Analytics, Ray White

Fall in major office turnover - a Sydney & Melbourne story

Transactions over \$100million, by location, 12 month rolling volume

■ Sydney ■ Melbourne ■ Rest of Australia

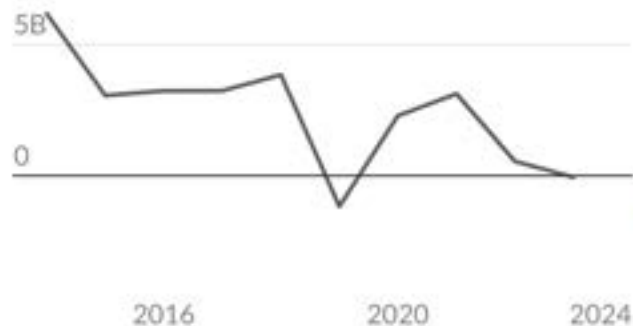


Source: Real Capital Analytics, Ray White

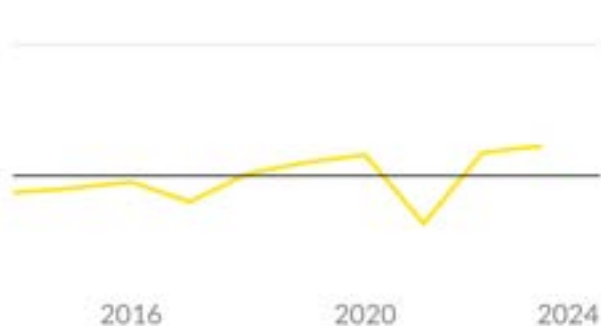
Where the capital flows for office assets

Annual net acquisitions by investor (\$)

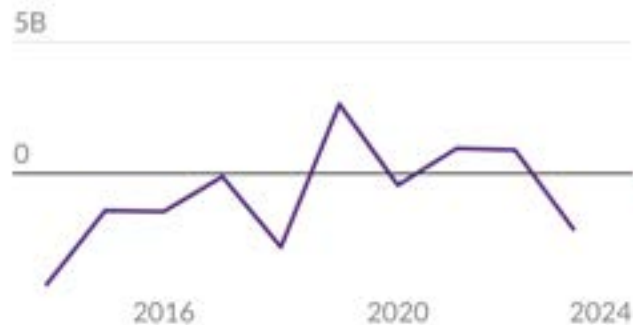
Cross Border



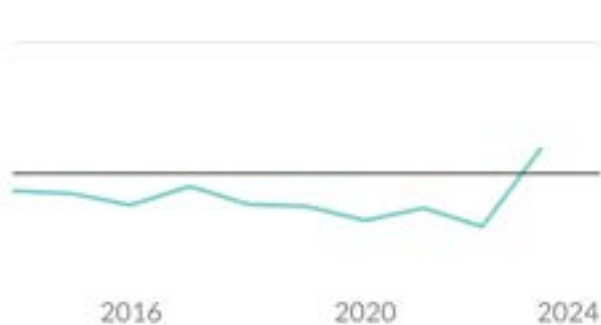
Institutional



REIT/Listed



Private

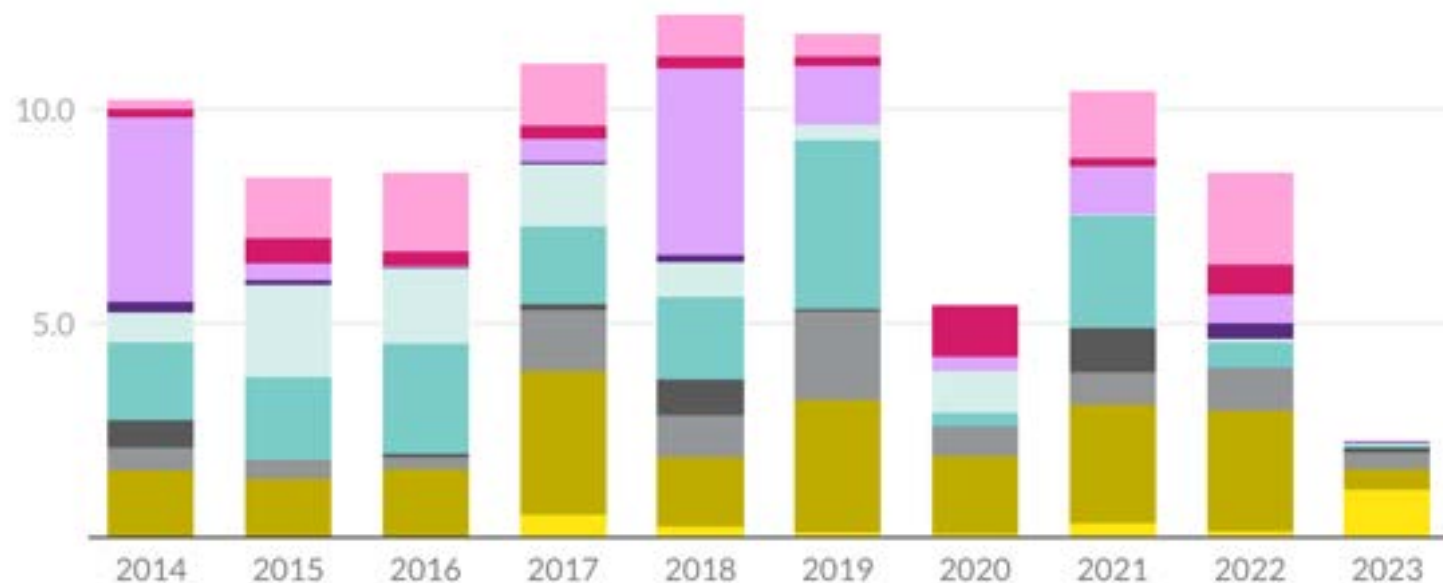


Source: Real Capital Analytics, Ray White

Changing face of foreign buyers into Australian office

\$Billion, by purchaser country

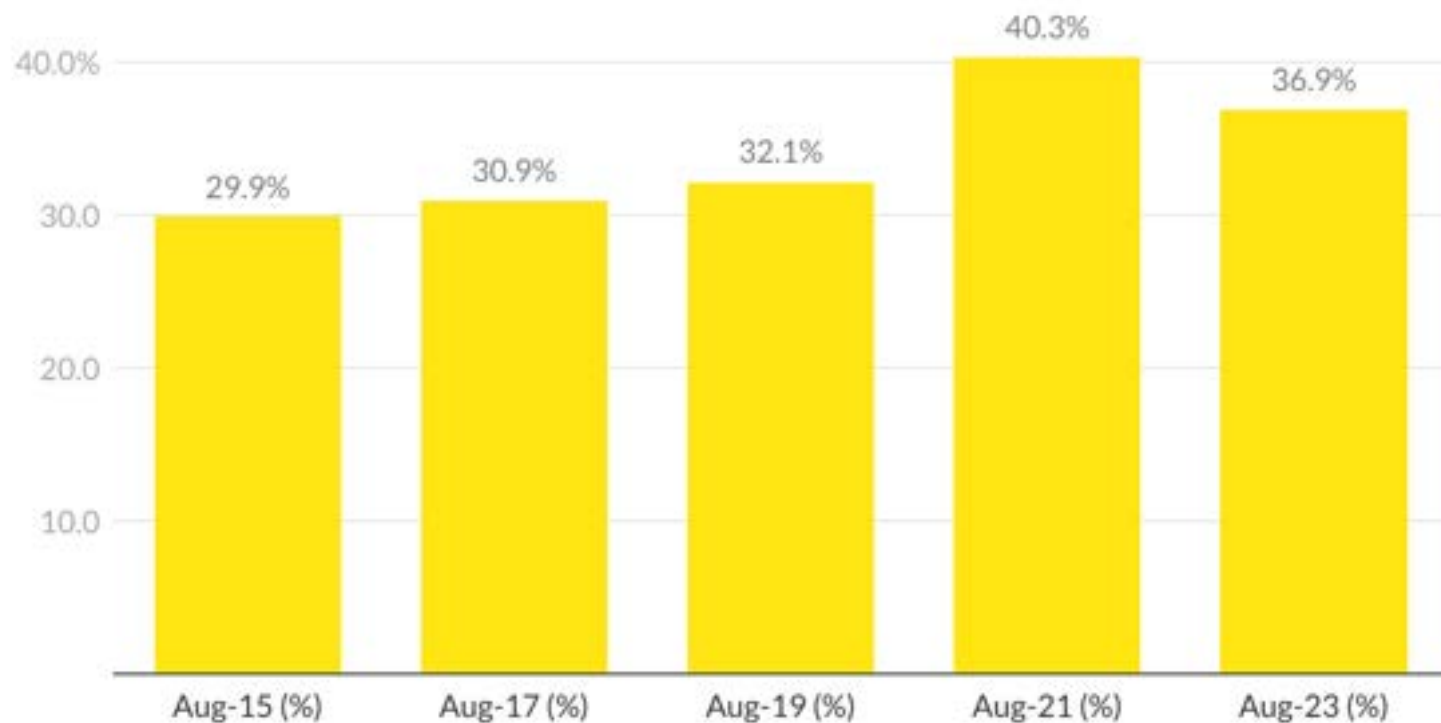
Japan Singapore Hong Kong, SAR, China United Kingdom United States China
Malaysia Canada Germany Other



Source: Real Capital Analytics, Ray White

Working from remain elevated but has declined since 2021

% of people that regularly work from home



Source: Australian Bureau of Statistics

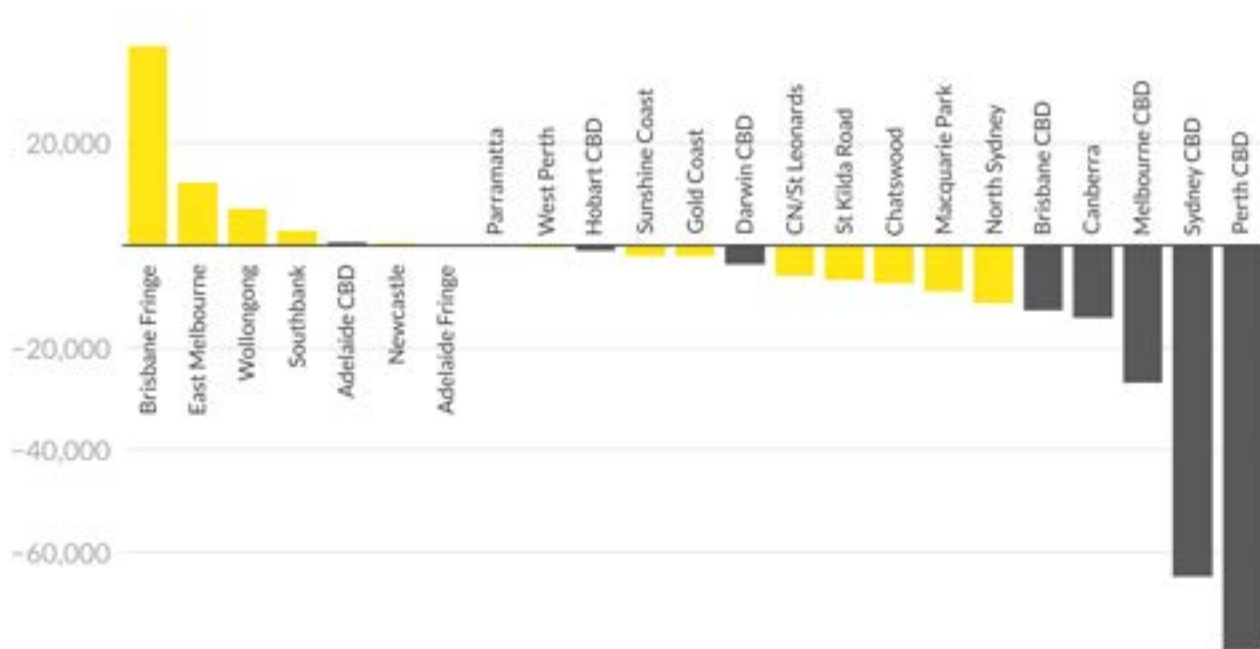
What is the real story?

Other factors to consider

- Other indicators which indicate changing WFH habits
 - Public transport movements
 - Car parking rates & occupancy
 - Co-working space demand
 - Tenant requirements
 - Beyond size, location, price
 - Role of the Landlord has changed
 - ESG requirements

CBD office take up remains difficult

6 month net absorption by market (sqm)

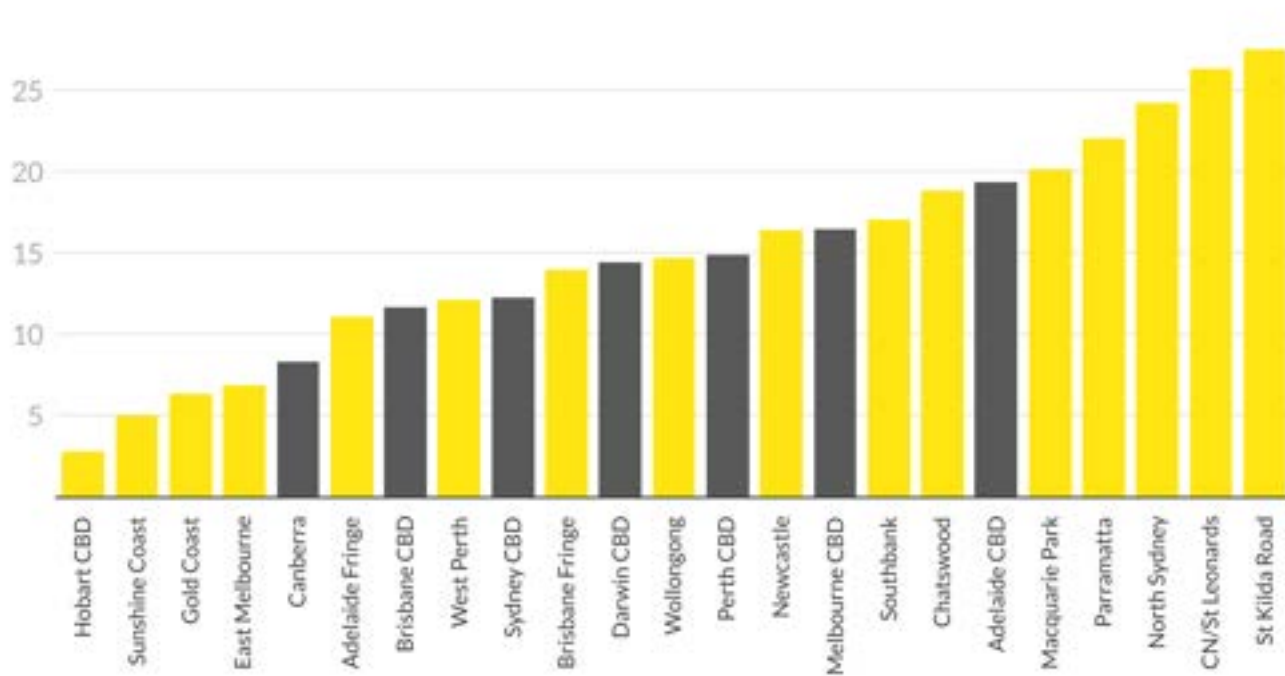


Grey bars represent CBD markets

Chart: Ray White • Source: PCA Office Market Report, Jan 2024

Record high levels of vacancy across the country

% vacancy rate

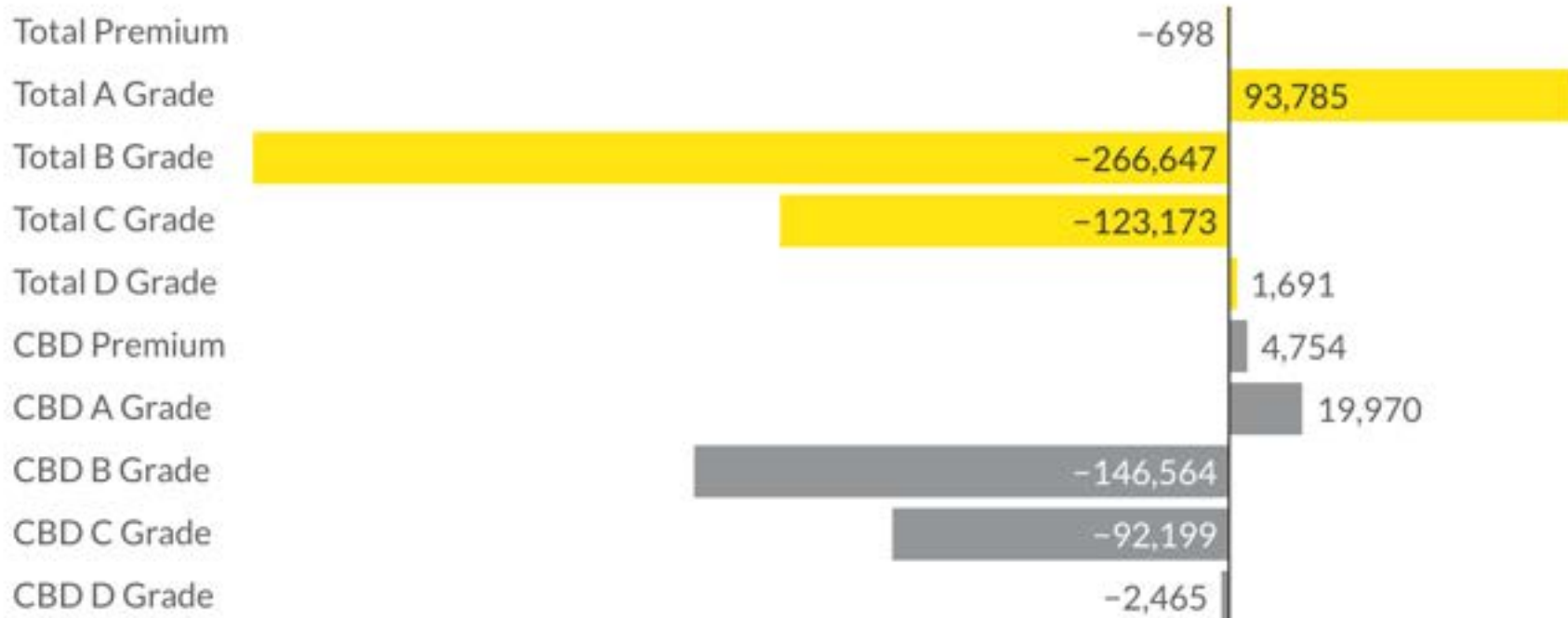


Grey bars represent CBD markets

Chart: Ray White • Source: PCA Office Market Report, Jan 2024

Higher quality grade office space records better take up

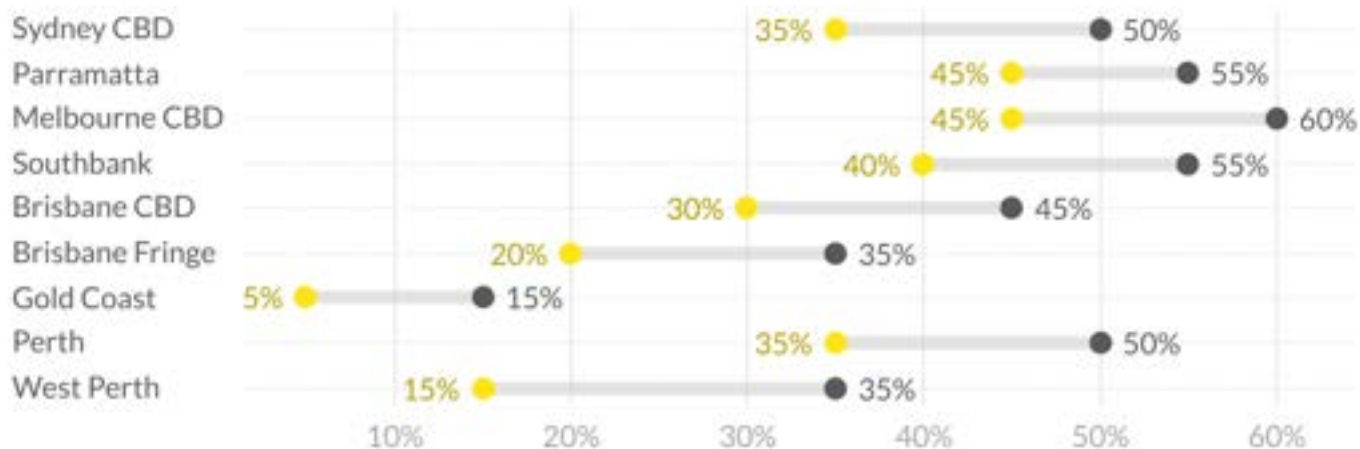
B-grade stock continues to be the most impacted Nationally



Source: Ray White, Property Council of Australia, January 2024

Office incentives at long term highs across most markets

% of 5 year lease



Source: Ray White

- Flexibility on term: 3-year lease offers
- Tenant expectations surrounding fit out – in addition to rental abatement
- No short-term solution to these rates, what is the impact on rents?
- Prime vs Secondary

Income returns holding up

Sydney & Melbourne CBD's lag behind (%)

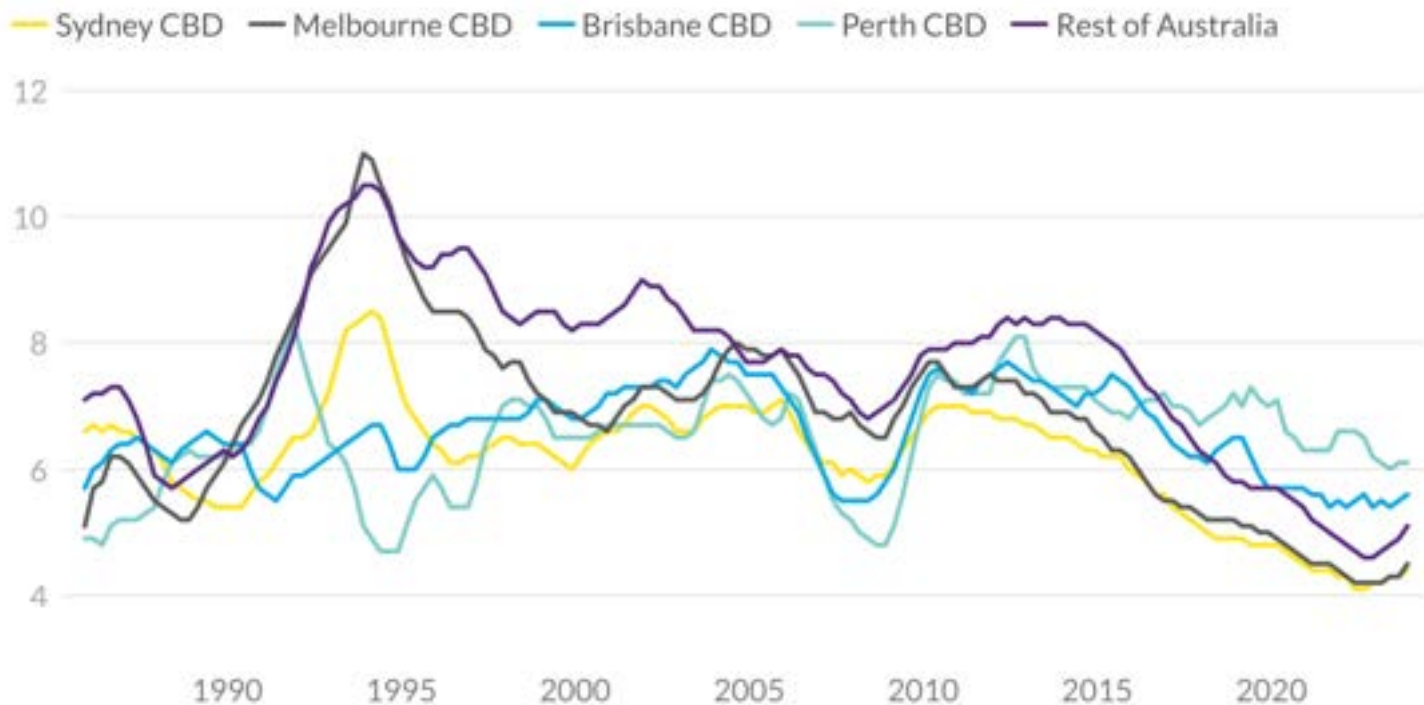


Chart: Ray White • Source: MSCI

Capital returns difficult across the country

(%) led by Sydney & Melbourne CBDs

— Sydney CBD — Melbourne CBD — Brisbane CBD — Perth CBD — Rest of Australia



Chart: Ray White • Source: MSCI

Are yields at their peak?

% capitalisation rate

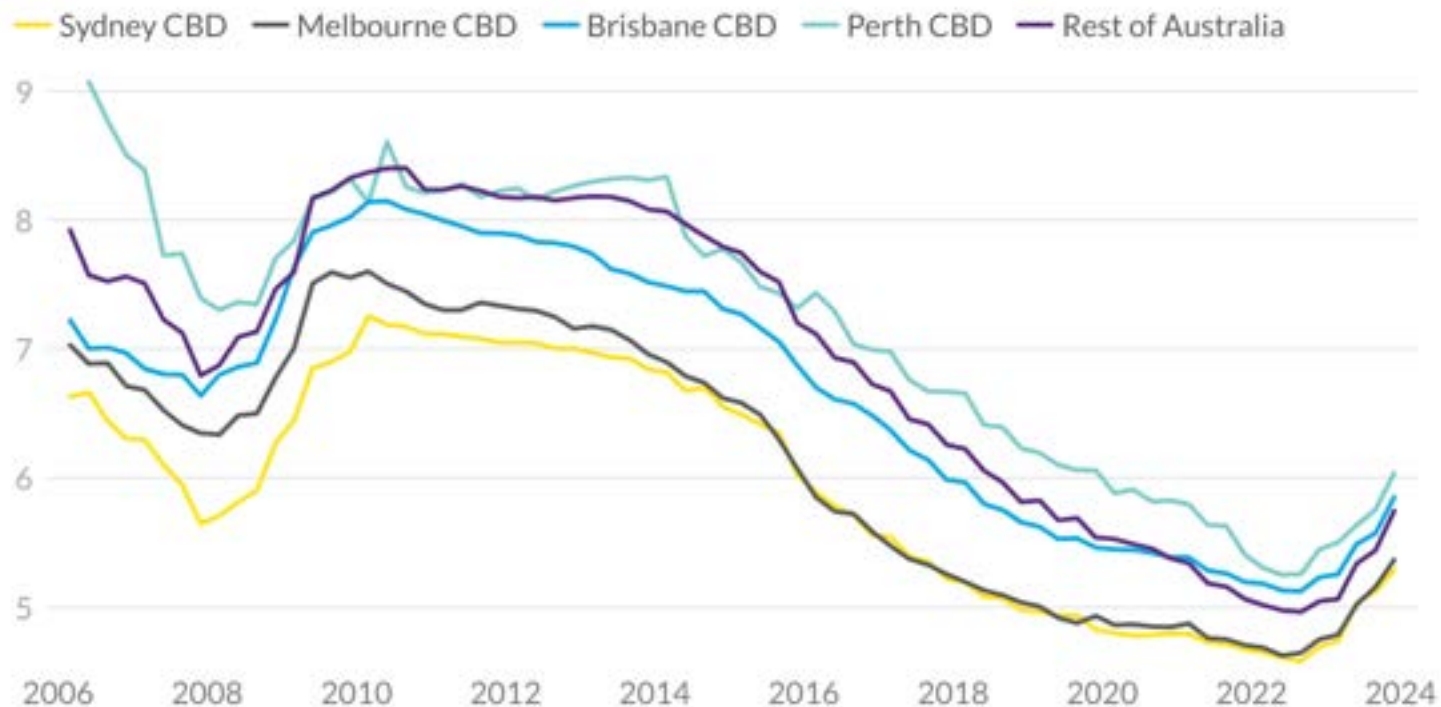


Chart: Ray White • Source: MSCI

Looking ahead

For our office markets

- Interest rate movements will improve confidence but likely to benefit the smaller end of the market;
- Sales volumes are likely to improve after quiet 2023 – but at the right price;
- Occupancy still an issue for the office market – and will be over the medium term;
- This will impact rents, returns. Landlords which offer “community” within their assets will be rewarded;
- What is the role of Government to lead by example?
- Opportunistic investors will dominate the buyer landscape this year local, offshore, syndicates;
- Investment yields have grown, but will they moderate now sentiment around interest rates has shifted?