Centuria | CBRE

Demand for Australian real estate

Factors expected to drive demand for commercial real estate over the next decade.

25 AND 80 GRENFELL STREET, ADELAIDE SA

CBRE

Report by CBRE Research, July 2024

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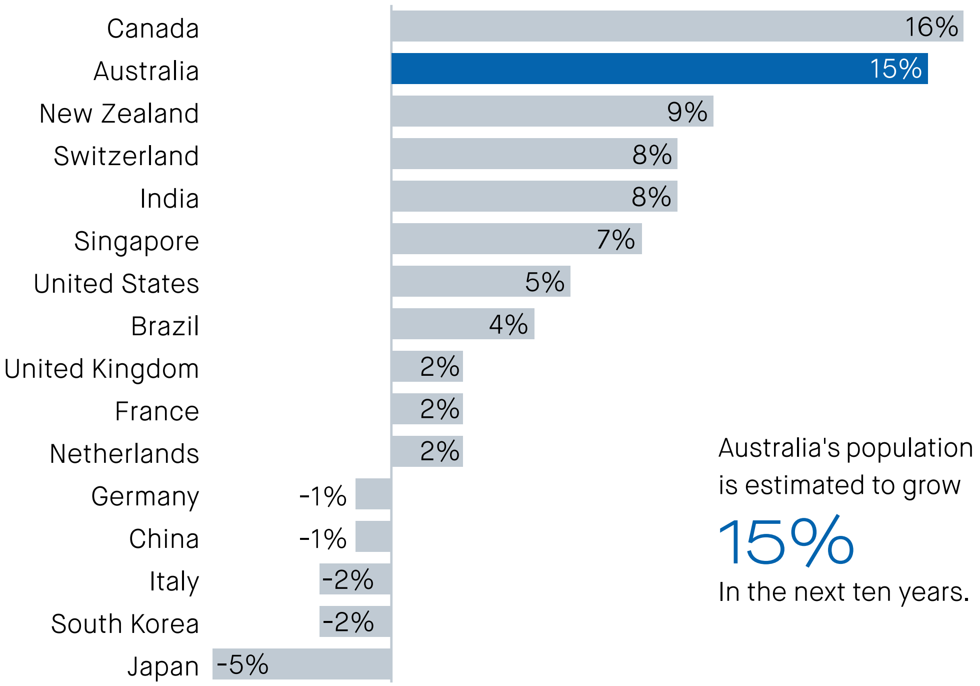
Prepared for Centuria Capital Group.

Contents

Australia's population and income boom

Australia is likely to experience one of the **fastest population growth** rates of OECD countries over 2023-2033.

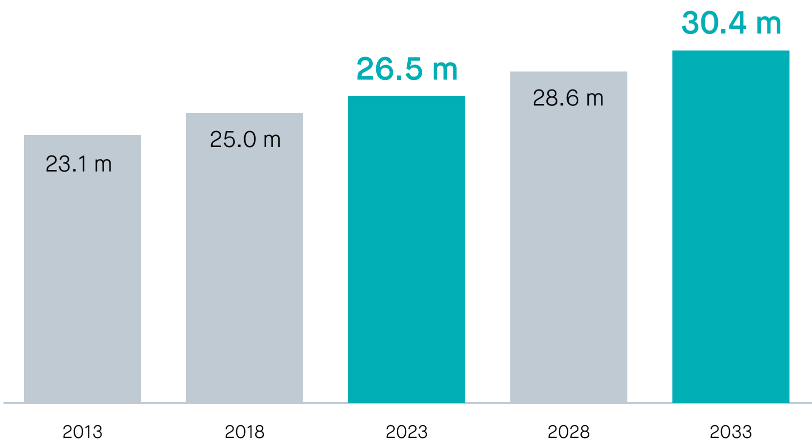


This has been one of the factors attracting international investors to the market. Immigration is likely to contribute to two-thirds of Australia's population growth, from 26.5m in 2023 to 30.4m by 2033.

The employment market has also been particularly robust, adding 1.4m workers between March 2020 and April 2024, at nearly twice historical growth rates. CBRE estimate an incremental 2.6m Australians will join the workforce between 2023 to 2033. Annual incomes (wages) are also likely to grow from $96,000 in 2023 to $132,000 pa by 2033. **This triple boost of higher population, more jobs and higher pay is likely to contribute an incremental $890bn pa to consumer wallets by 2033.**

Source: ABS, Inter-generational Report, CBRE Research

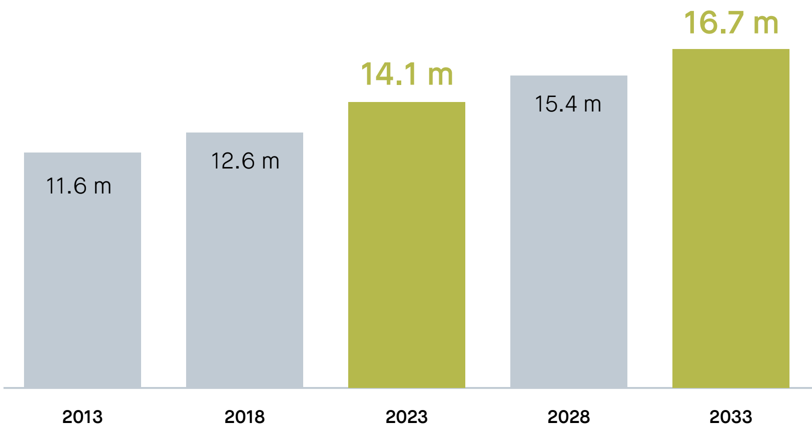
Population



3.9 m

Australian population growth in the next 10 years*

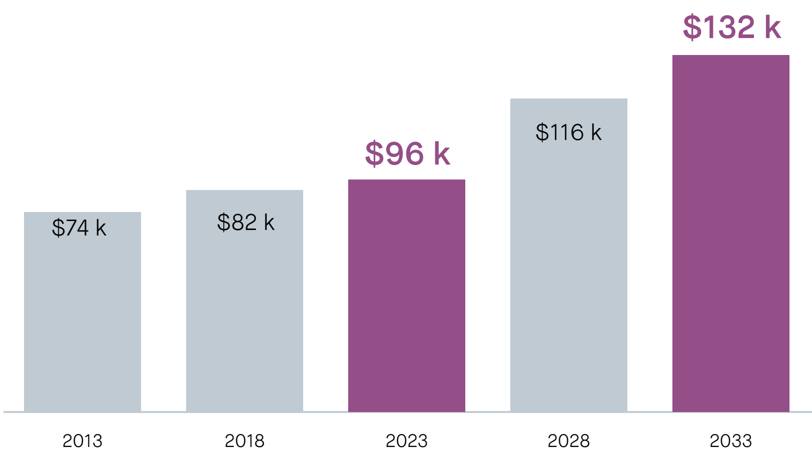
Jobs



2.6 m

Australians to join workforce in the next 10 years*

Earnings



$36 k

growth in household in annual income in next 10 years*

Source: ABS, Inter-generational Report, CBRE Research
*estimate.

Demand for real estate

Population and income trends are key drivers of demand for real estate, alongside structural mega-trends such as technology (incl. eCommerce, hybrid working) and infrastructure investment (airports, precincts). History provides a few basic rules of thumb for converting population growth into real estate space requirement.

CBRE estimate that for every 1 million new Australians, incremental real estate demand is:

Logistics:

4,500,000 sqm

of space as a result of greater demand for goods including groceries, discretionary retail, cars and pharmaceuticals.
For context, this equates to building industrial sites which could fit 200 MCGs (Melbourne Cricket Ground).

Office:

800,000 sqm

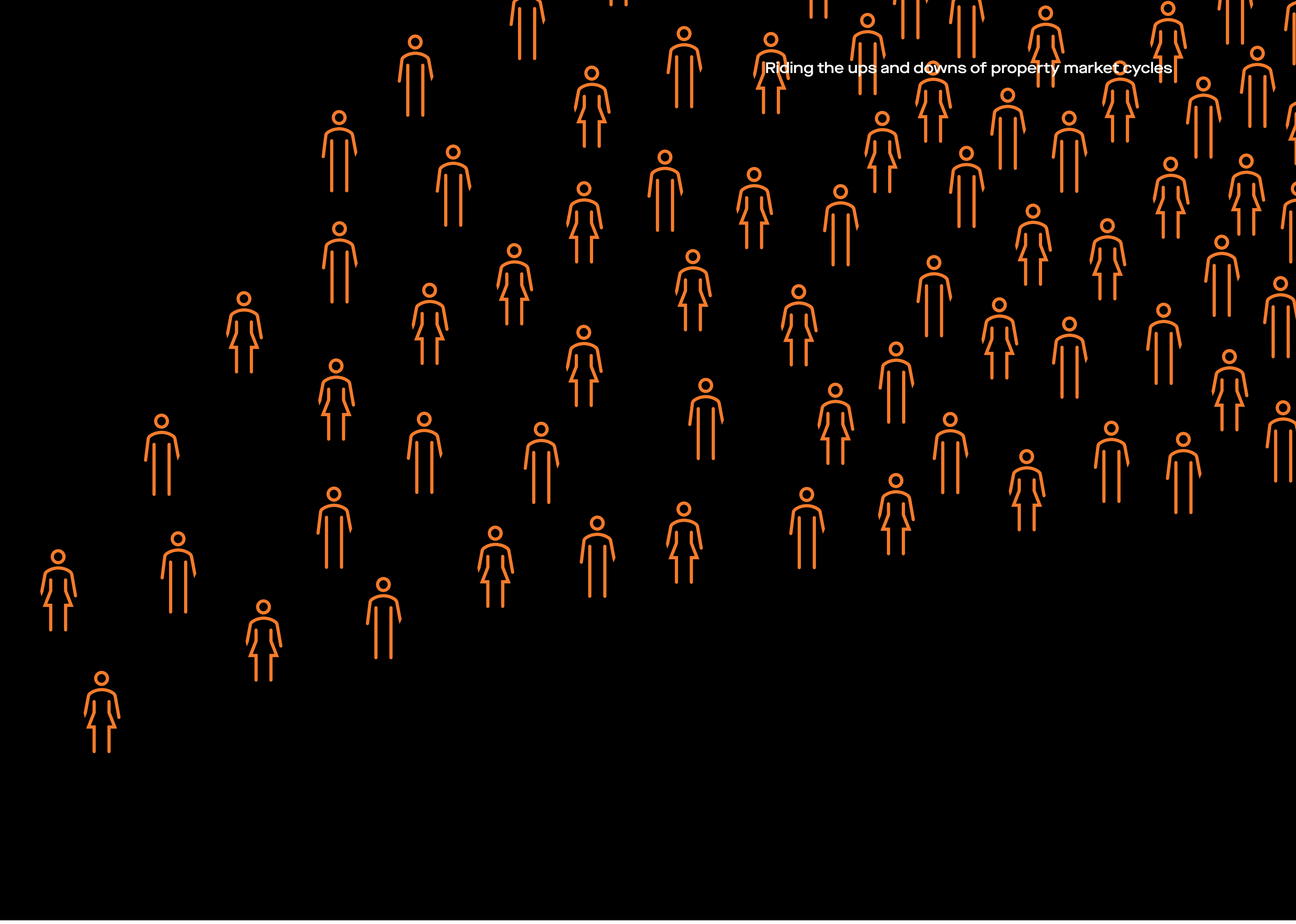
as one in every fifteen new migrants is typically a white collar employee such as an accountant, administrator, analyst, banker, public service or salesperson. Typically, in Australia each office employee is provisioned with 12 sqm of office space. This would equate to constructing another 15-20 office buildings.

Residential:

420,000

apartments and houses assuming a typical density of 2.4 individuals per household.

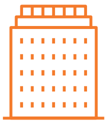
Source: CBRE Research



Retail:

800,000 sqm

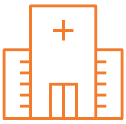
of shopping centre, large format retail and neighbourhood centres to accommodate needs for groceries and discretionary retail, including eating out. This equates to building another five Pacific Fair or another three Chadstone shopping centres.



Hotels:

11,500

hotel rooms to accommodate the domestic leisure and business travel needs. This equates to circa 20-30 large hotel properties.



Hospitals:

~3,300

hospital beds are required to maintain waiting time for elective surgery. This equates to constructing circa 15-20 new private hospitals.

Evolving jobs growth

Australia has added a staggering 1.6 million jobs over the past 5 years to May 2024.

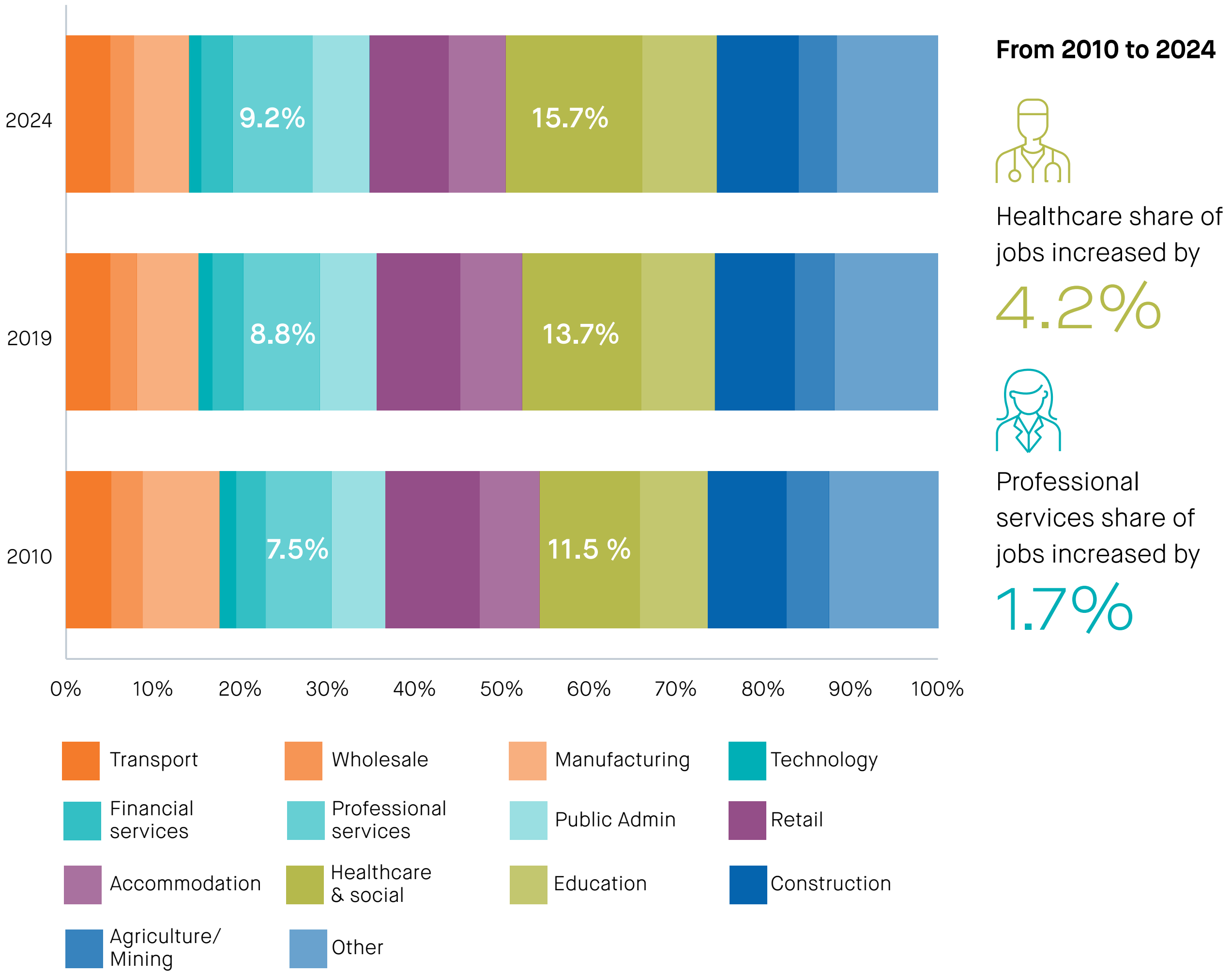
The growth has been 25% faster than the previous 5-year period over 2015-2020. It is even more remarkable considering the economy was "locked down" over 2020-21 and more recently has faced a period of constrained monetary policy (high interest rates).

ALLENDALE SQUARE, PERTH WA

So which industries are hiring at an accelerated pace? The chart below paints a picture of jobs mix for professions exposed to logistics, office, retail, hotels and health/education over the past 15 years. It allows us to see changes in the hiring economy.

The three sectors which have seen the fastest jobs growth in recent times are: health & social; professional services and financial services. For instance, healthcare has increased from 11.5% of all jobs in Australia during 2010 to 15.7% currently. The other notable shift is professional services increasing from 7.5% to 9.2% share of jobs market. Some of these gains have come at the expense of manufacturing sector.

Share of jobs in Australia by sector

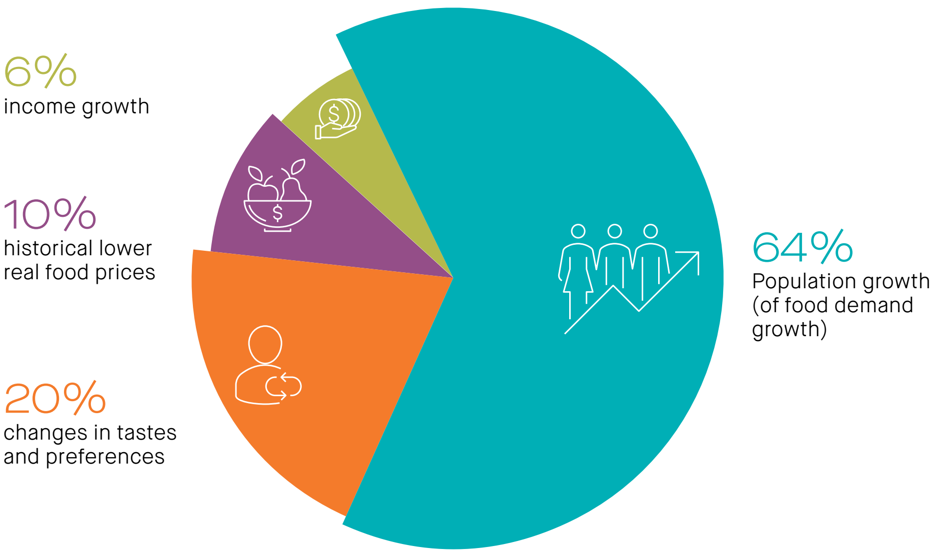


Source: ABS, CBRE Research

Agriculture real estate – the food economy

Agriculture contributes approx. $85 bn of production value to the Australian economy. The demand for agricultural real estate has been underpinned by increasing domestic spend on food, Australia's role in global food trade and productivity benefits from corporatisation of farms.

The volume of household food consumption has increased at an average of 2.4% p.a. over the past 30 years, according to the Australian Bureau of Agricultural and Resource Economics and Sciences. The key drivers of this growth in household food consumption include:

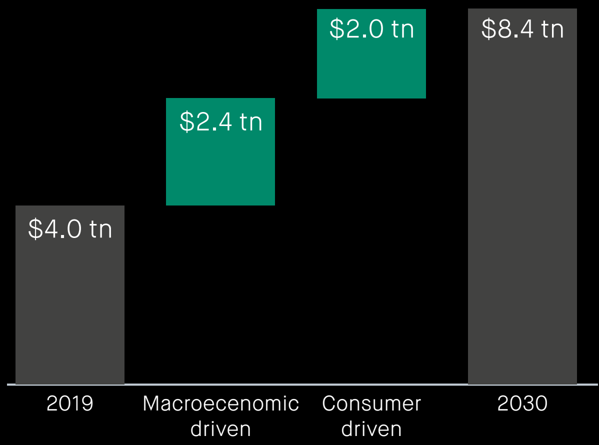


These drivers are also in play across Australia's key export markets in Asia, where the 2020s could see an incremental $4.4 trillion growth in food expenditure. Australian agriculture is well placed due to recent free trade agreements, perceived quality and security of supply.

Source: OECD FAO, PWC, CBRE Research

160 ELM STREET, GUYRA NSW

Asia total food spend (USD tn) by growth driver



In the current geo-political environment, Australian agriculture plays a significant role in global food security, with around 72% of agriculture (by value) exported. By way of example, Australian lamb, wool and barley account for 20%-30% of global trade value. Similarly, Australian beef, canola, sugar cane and wheat account for 10%-20% of global trade.

Agriculture can provide portfolio diversification for real estate investors. ANREV, the Asian Association for Investors in Non-Listed Real Estate Vehicles, estimates Australian farmland generated annual returns of 11% between 2015-2023. Roughly half of the returns are from income. International investors remain attracted to Australia's agricultural land market and currently own 14% of land value, with a focus on livestock in the Northern Territory and WA markets. Canada, China and USA collectively comprised circa 55% of in-bound foreign investment in Australian agriculture in the past decade.

Source: OECD FAO, PWC, CBRE Research

13 GARDEN STREET, EVELEIGH NSW

Riding the infrastructure wave

Real estate which is well located to benefit from Government infrastructure spend should experience out-sized income and capital growth.

Currently, there are large programs of work targeting transport and healthcare. For context, infrastructure construction spend on transport has increased to $48bn in FY23, which is threefold higher than levels in the early 2000s. Two thirds of the transport spend is on roads and one third on rail, including inner-city metro. This opens up a number of opportunities in logistics and office sectors.

Below is just a sample of projects across airports, roads, metro and hospitals which should start to reach practical completion over 2024-27.

Western Sydney Airport

West Gate Tunnel

SA Women's and Children Hospital

Logan Hospital expansion

Melbourne Metro

Sydney Metro, City and West

Source: ABS, CBRE Research

Future supply

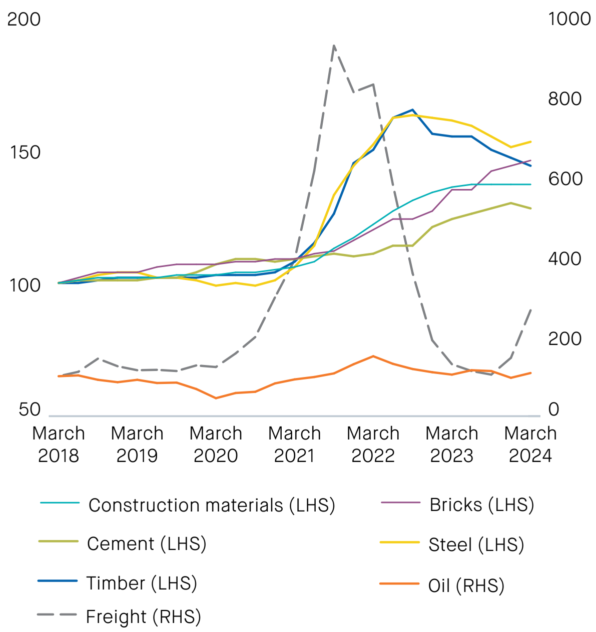
Commercial real estate supply is likely to be restricted over the next five years. Current high construction costs, high cost of finance, infrastructure bottlenecks and regulatory hurdles make development challenging.

Construction material costs have increased by 35%-40% on 2019 levels. Bricks, cement and steel prices remain elevated and have resumed their upward trajectory despite a weaker residential construction cycle. There are also twice as many construction job vacancies in early 2024 compared to 2019 levels, putting upward pressure on labour.

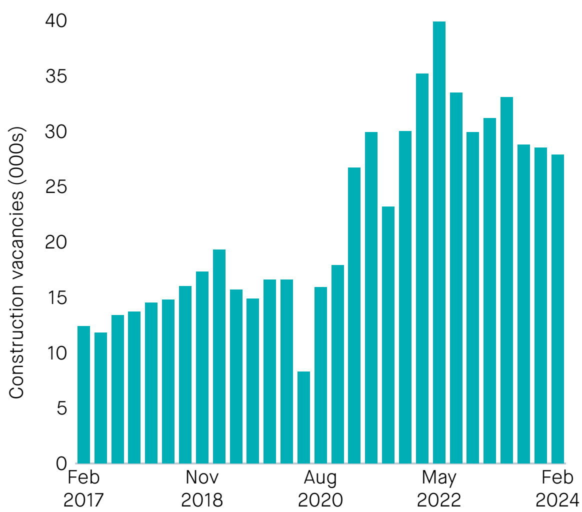
To put this in perspective, Infrastructure Australia estimates a deficit of 229,000 construction workers just in the infrastructure sector. It takes approximately 3-4 years for a construction worker to be qualified (after apprenticeship, qualifications), and the industry also suffers from leakage with 42% of construction workers leaving the sector after 8 years of employment. For commercial real estate, the workforce has also found increasing opportunities in the booming infrastructure sector.

Construction input costs

Raw materials

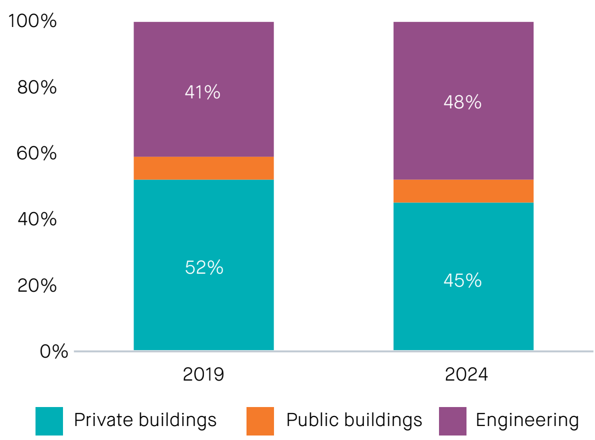


Construction job vacancies



Source: ABS, Drewy, Trading Economics, CBRE Research

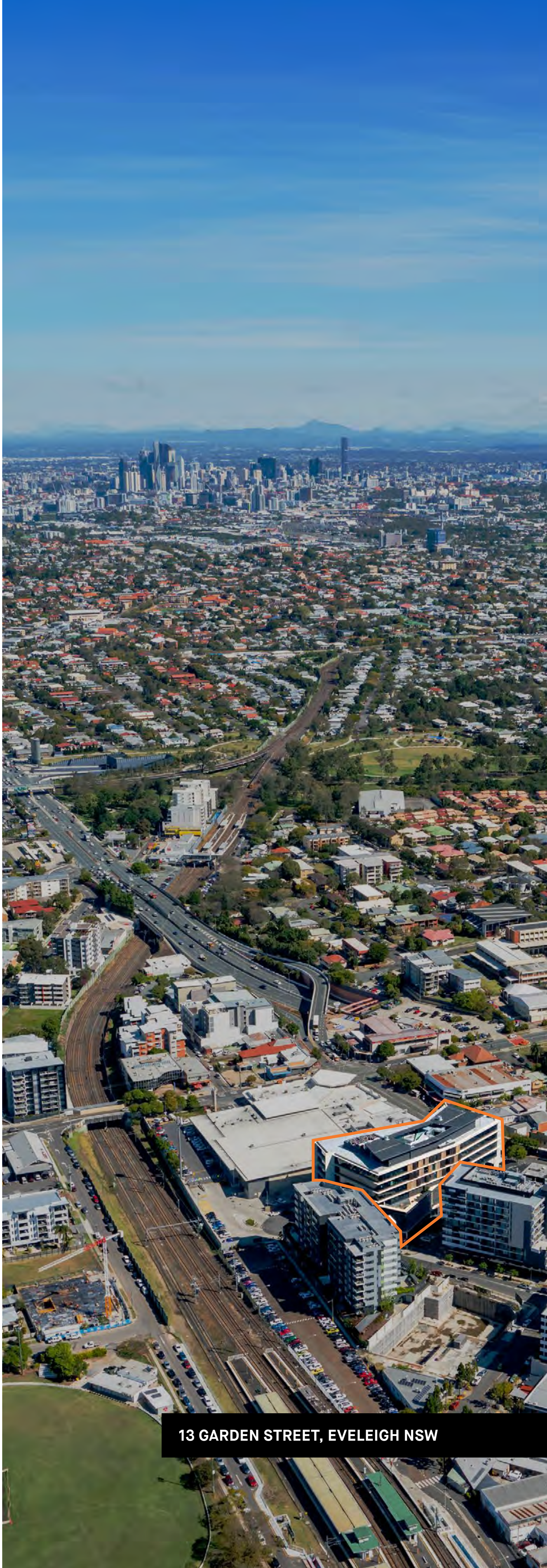
Construction spend mix shifting to infrastructure



In the current environment, anecdotal evidence continues to point to many new projects failing to receive approval at investment committee stage. A combination of higher than expected construction costs and higher debt funding costs are contributing to supply challenges. This is already evident in hotels, hospitals, residential and retail, and likely to spread to logistics and office. For example, supply in residential and retail is just half of historical levels.

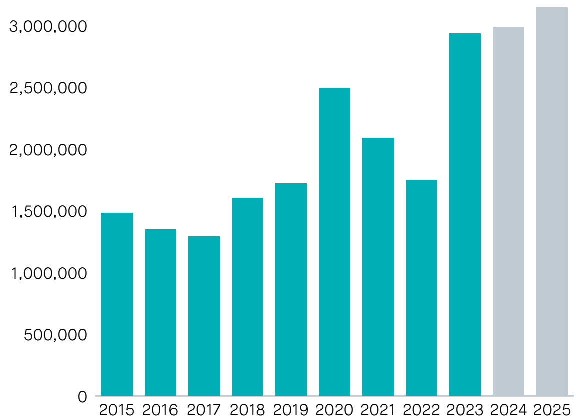
Future supply is also being restricted by requirements for pre-leasing ahead of receiving credit approval, particularly for new office supply. CBRE's Lenders Sentiment Survey 1H 2024 points to lenders requiring at least 50% leasing pre-commitment for new office developments, which is likely to prove challenging in the current environment.

Source: ABS, Drewy, Trading Economics, CBRE Research

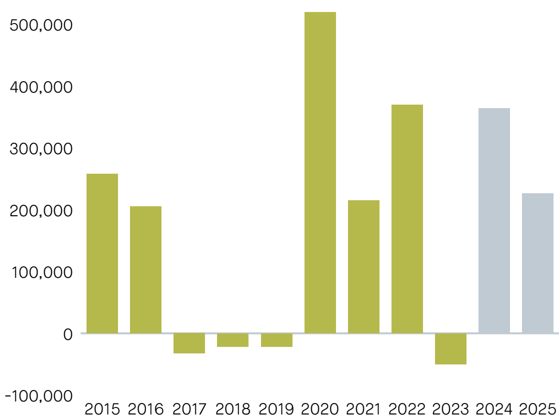


New supply by sector

Industrial and logistics



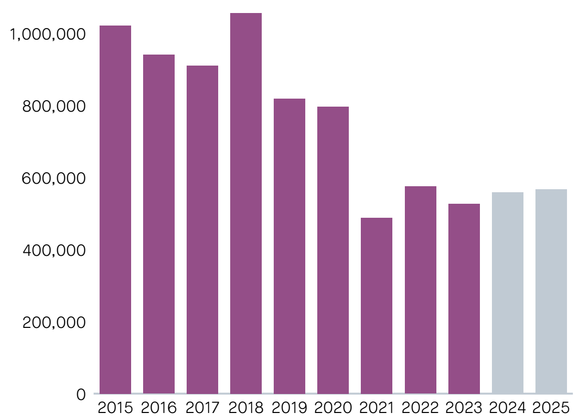
Office



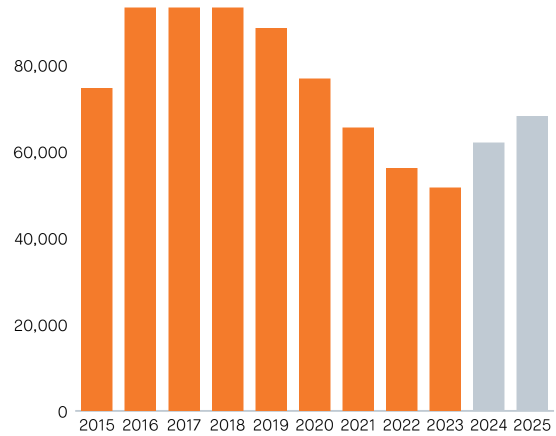
Actual Forecast

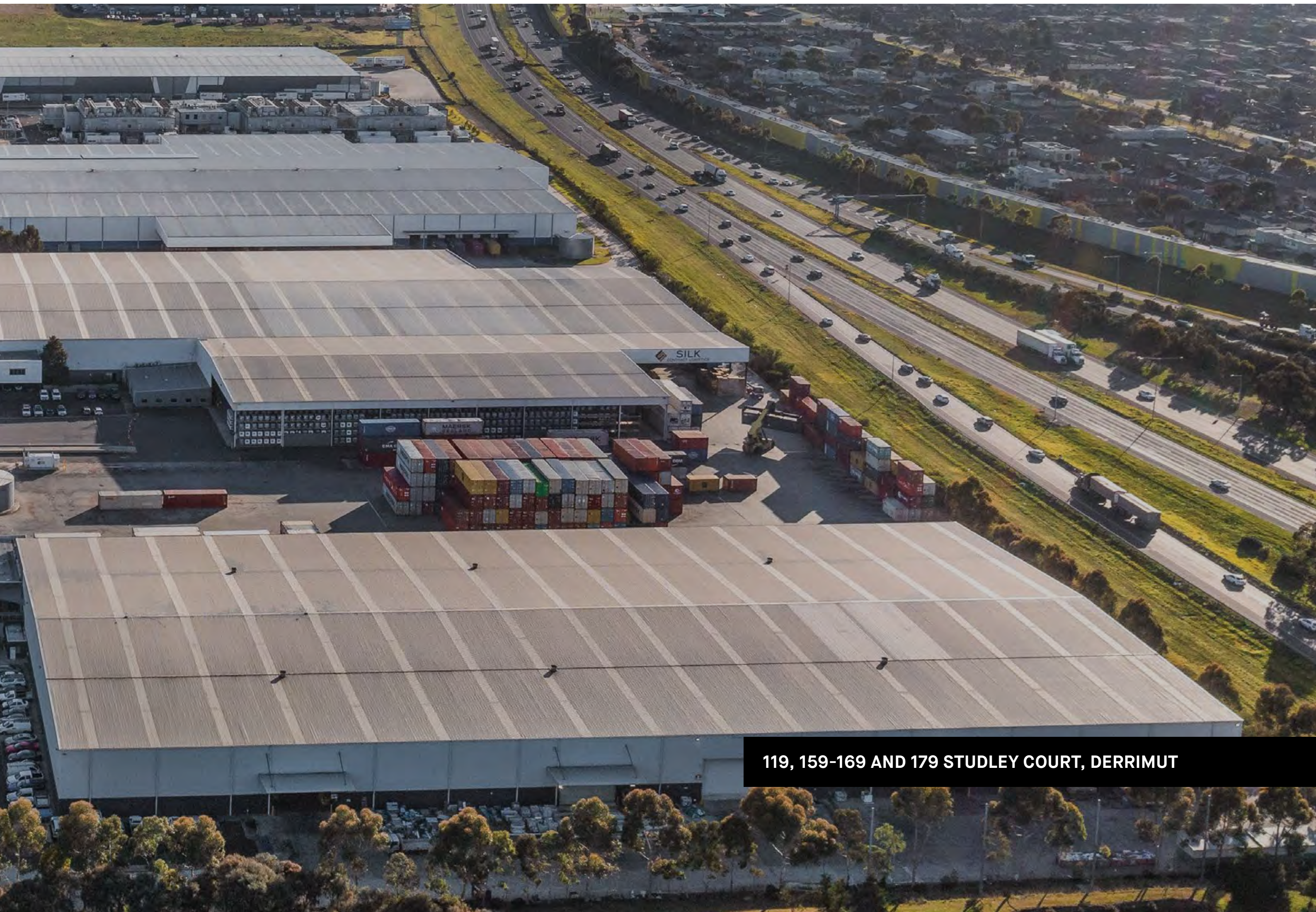
Source: CBRE Research

Retail



Apartments





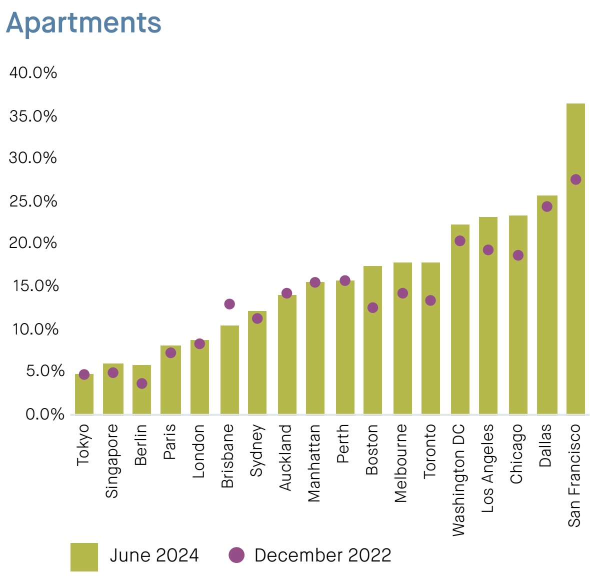
119, 159-169 AND 179 STUDLEY COURT, DERRIMUT

Rent outlook

Tight vacancy (sub 1%) in industrial and logistics has been a key driver of outsized rent growth in 2022 and 2023.

When compared to global markets, Australia's logistics vacancy is extremely tight and likely to remain amongst the lowest globally. In office, Australia's vacancy is mid-pack, sitting between Asian cities and US counterparts. While vacancy is elevated in office, it has shown signs of stabilising over the past 12 months as the industry benefits from a robust jobs market and improving return to work trends.

Global vacancy trends



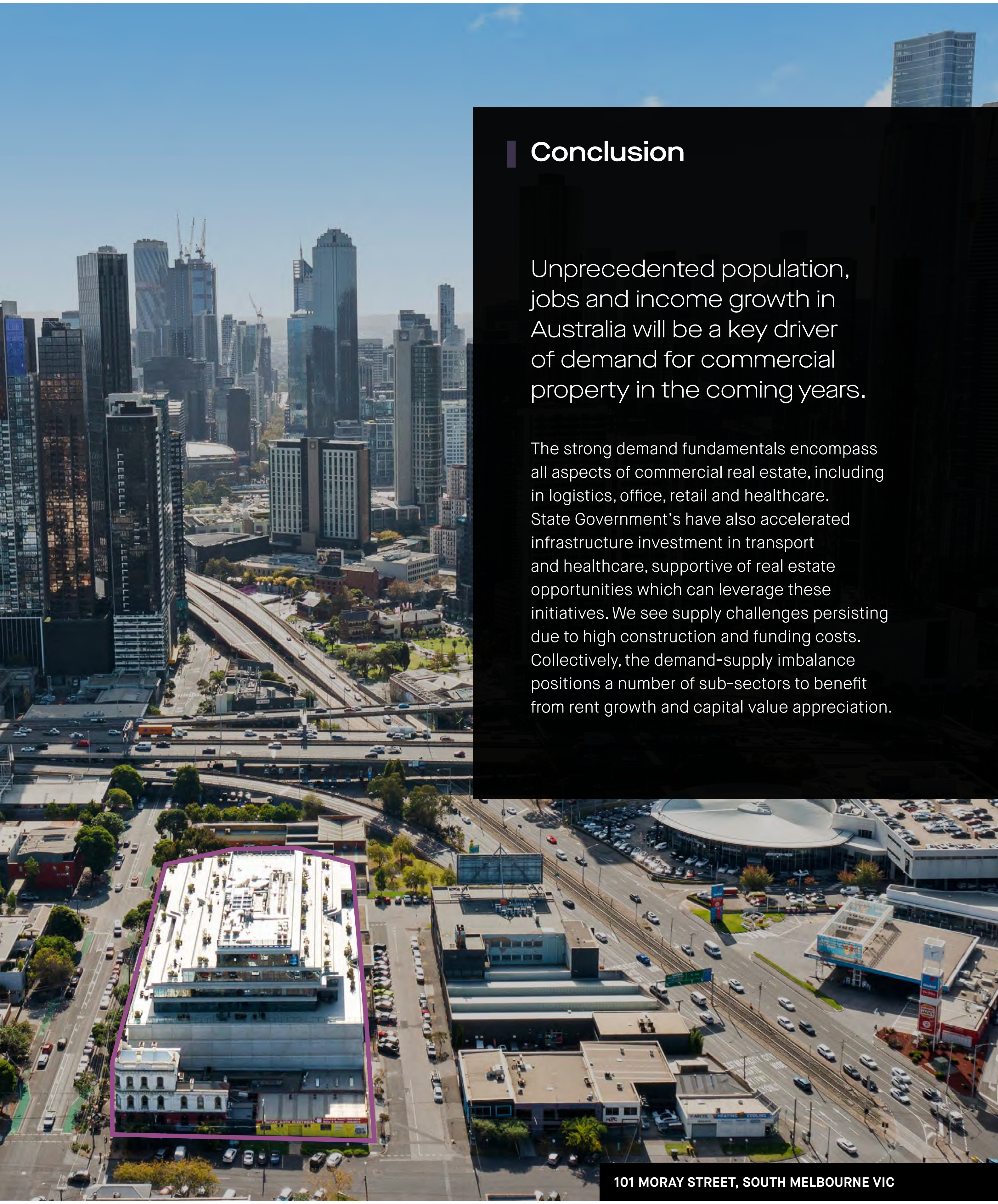
The outlook for rent growth is positive but bifurcated. Tight vacancies have already contributed to a material uplift in rents for residential and logistics. Looking ahead, CBRE forecast office and retail could see face rent growth and incentives stabilise/reduce in most geographies. There are exceptions, with Melbourne CBD office and some suburban office markets likely to see incentives remain at elevated levels over the near/medium-term.

Source: CBRE Research

Conclusion

Unprecedented population, jobs and income growth in Australia will be a key driver of demand for commercial property in the coming years.

The strong demand fundamentals encompass all aspects of commercial real estate, including in logistics, office, retail and healthcare. State Government's have also accelerated infrastructure investment in transport and healthcare, supportive of real estate opportunities which can leverage these initiatives. We see supply challenges persisting due to high construction and funding costs. Collectively, the demand-supply imbalance positions a number of sub-sectors to benefit from rent growth and capital value appreciation.



101 MORAY STREET, SOUTH MELBOURNE VIC

FURTHER INFORMATION

For information on Centuria's listed and unlisted commercial property funds visit centuria.com.au or contact the Centuria Investor Services team on **1300 22 44 24** or **contactus@centuria.com.au**.