dexus

Australian Real Asset Review

Q2 2024

Royal Adelaide Hospital

Inside

Investment climate

Economy performing better than expected

While capital markets appear challenging in the short term, the outlook for real assets is expected to improve over the next year given a forecast end to the interest rate tightening cycle and an economy performing better than previously expected.

The headline quarterly inflation rate slowed to 3.6% in March 2024 indicating that the official cash rate of 4.35% is doing its job in constraining inflationary pressures. However stronger than expected labour force data in February has raised concerns that wages inflation may be persistent, keeping interest rates where they are for longer than previously expected. Economists' consensus forecasts are for cash rates to remain at or near current levels until Q4 2024 before declining. The 10-year bond yield has remained relatively steady at 4.1% over the past quarter.

The stronger economy is a two-edged sword for real assets. On one hand a stronger economy may keep interest rates high for longer, however on the other hand stronger economic growth means occupier markets for real estate may be more reslient than first thought. Activity levels in other real asset sectors such as healthcare, student accommodation and infrastructure should be relatively unaffected, being less sensitive to the economic cycle.

The longer-term demand outlook for the real asset sectors will be buoyed by population growth. Australia's population increased by 659,800 in the year to Q1 2024 (+2.5%) driven by a surge in net migration to around double the pre-COVID average.

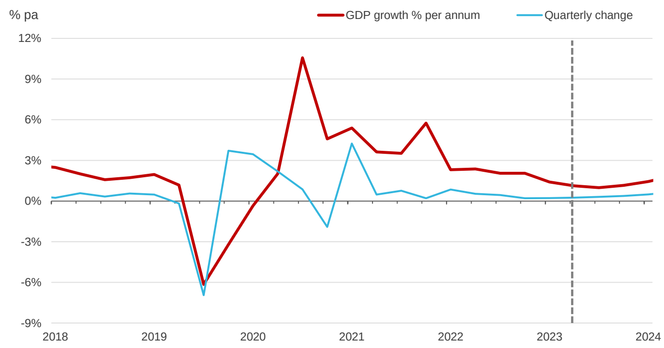
The business sector has remained surprisingly resilient despite a weakening in confidence. Business investment grew by 8.5% in 2023. The unemployment rate remains low at 3.7%. Growth in the Australian economy slowed to 1.5% per annum in Q4 2023 as high interest rates continued to impact consumption spending. GDP growth is forecast to slow to 1.1% in Q2 2024.

Australian economic forecasts

	Jun-23	Jun-24	Jun-25
Real GDP %pa	2.1%	1.1%	2.4%
Employment %pa	3.4%	1.9%	1.8%
Unemployment %	3.6%	4.2%	4.4%
Business investment %pa	10.5%	2.7%	3.9%
Dwelling investment %pa	0.0%	-4.7%	0.5%
Population %pa	2.4%	2.0%	1.6%
Retail sales %pa	3.5%	1.6%	3.7%
CPI %pa	6.2%	3.4%	3.1%
Cash rate %	4.1%	4.4%	3.5%
10yr Bond %	4.0%	4.0%	3.7%

Source: Oxford Economics with Dexus adjustments, March 2024

Australian economic growth

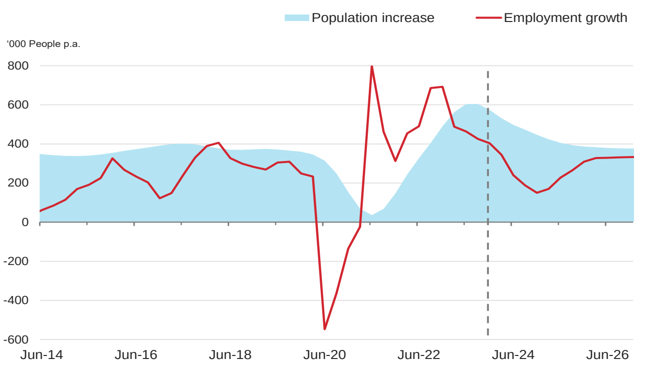


Source: Oxford Economics

Official cash rates and 10-year bond yields

Source: Bloomberg, Dexus Research. Forecasts are from Oxford Economics

Population and employment growth forecasts



Source: Oxford Economics

Market performance

Transaction markets remain subdued

Over the last quarter, both real asset performance and transaction markets have continued to be challenging. High interest rates and market uncertainty have resulted in pressure on asset values.

Unlisted property funds returned -1.6% in the quarter and -8.2% over the year. Industrial funds outperformed within the real estate sectors at -1.8% in the year, followed by retail funds at -2.7%. Office fund returns were the weakest at -12.7%, due to significant declines in valuations of office buildings during the year.

AREITs performed strongly with a 36.6% return in the year to Q1 2024. Listed real estate pricing benefited from an improvement in both broader equity markets and a tightening of bond yields. The strengthening of the AREIT index is an encouraging sign for real assets more broadly as it reflects investor confidence and tends to be leading indicator for unlisted real estate values.

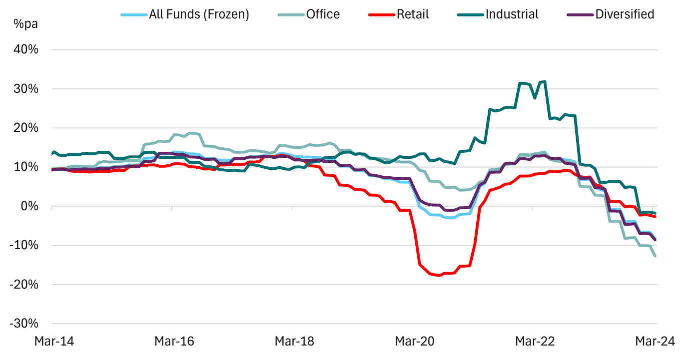
Transaction volumes have been at decade-low levels over the past year as investors adjust to the impact of higher costs of capital. The office sector was particularly affected with transaction volumes in the year to March 2024 just 37.4% of the 5-year average. Office sentiment has been affected by high levels of vacancy and caution about structural impacts of flexible working. The sale of a stake in the landmark asset 225 George Street, Sydney provides an insight into prevailing market values. Anecdotal reports put the capitalisation rate at circa 6.5%, comprising a 19% discount to book value. While soft, the sale should provide more information to valuers and investors in what has otherwise been a stagnant transaction market. Investment demand is anticipated to pick up through FY25, assuming that interest rates are seen to peak and that investors gain a clearer understanding of the cost of capital and market pricing.

Asset class performance Q1 2024

	Qtr. %	1 yr % p.a.	3 yr % p.a.
AREITs[1]	16.8%	36.6%	11.4%
Australian cash[2]	1.1%	4.2%	2.1%
Australian fixed interest[3]	1.0%	1.5%	-1.3%
Australian infrastructure[4]	1.1%	8.5%	10.4%
Australian shares[5]	5.3%	14.4%	9.6%
Unlisted property[6]	-1.6%	-8.2%	2.9%

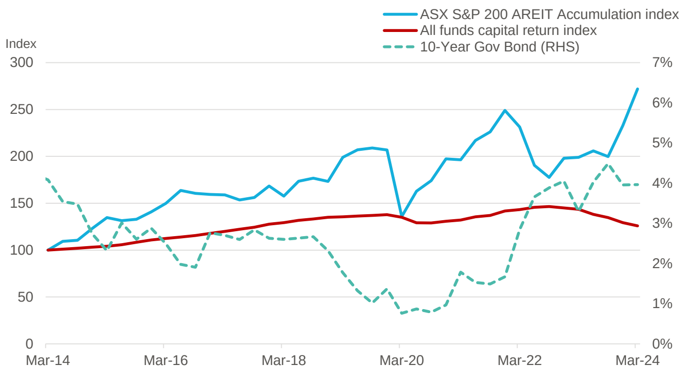
Source 1: S&P/ASX 200 A-REIT Accumulation Index
Source 2: Bloomberg BAUBIL Index
Source 3: Bloomberg BACM0 Index
Source 4: MSCI Australian Infrastructure Index (from Dec-23)
Source 5: S&P/ASX 200 Accumulation Index
Source 6: MSCI/Mercer Australian Core Wholesale Monthly PFI

Unlisted wholesale fund returns by sector



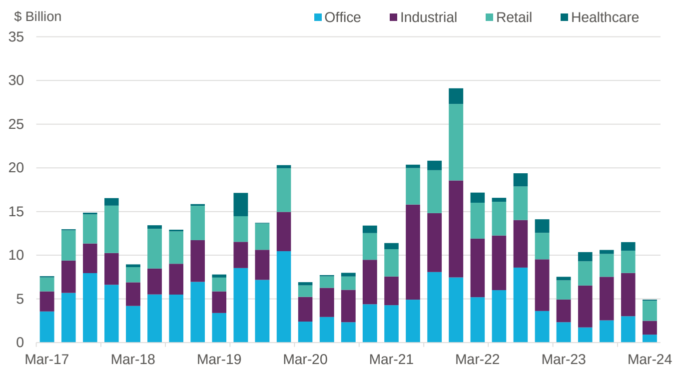
Source: MSCI, Dexus Research

AREIT price and unlisted capital return indexes



Source: Bloomberg, MSCI Core Wholesale Fund Capital Return Index

Annual investment volumes – real estate



Source: MSCI Real Assets

Infrastructure

Deal flow slow amid positive secular trends

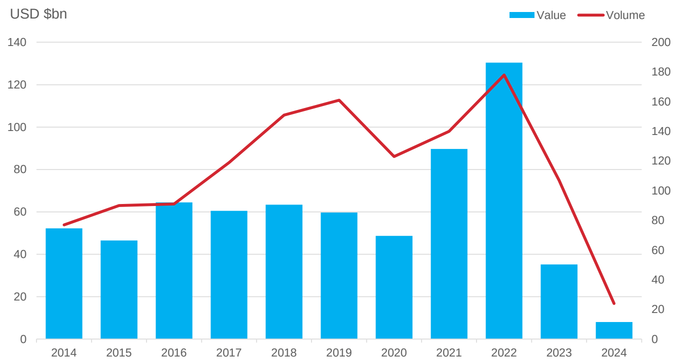
Global infrastructure deal value in Q1 2024 was 28% lower than the same quarter last year at US$191.2 billion. This trend was mirrored in Australia, where total infrastructure deal value in Q1 2024 was 31% lower than the previous year. While high interest rates are weighing on deal activity, volumes are expected to improve in the year ahead assuming the interest rate tightening cycle ends. Investment demand will again be supported by infrastructure's defensive characteristics and secular trends such as the energy transition, digital transformation and demographic shifts.

State Governments have been working to accelerate infrastructure developments in social and affordable housing. The New South Wales (NSW) state government has launched Homes NSW which is aimed at rebuilding the social and affordable housing system, streamlining the building and maintenance of publicly owned and operated housing to drive collaboration between state and federal government, sector experts, peak bodies and local councils. The Queensland (QLD) State government has earmarked sites for social housing PPPs in Pimlico, Townsville to pilot a ground lease model as part of the "Homes for Queensland" programme which will deliver 1 million homes by 2046.

In the energy sector, the NSW government is accelerating a package of reforms to enable EnergyCo to allocate a tranche of access rights, ahead of financial close of the Central West Orana Renewable energy zone (REZ). The QLD government have identified 12 potential sites for REZs that could generate 22 GW of renewable power, with the first site being the Callide REZ in central QLD. The state government of Victoria is accelerating planning approvals for renewable energy projects which will improve investment certainty. New renewable projects in Victoria will be treated as significant economic developments. Victoria has A$90bn worth of investment in its renewable projects pipeline.

The Australian data centre market is set to face surging demand led by the rapid adoption of cloud computing, internet of things, remote work and the artificial intelligence boom. At the same time the sector faces supply constraints, due to long lead times for construction projects and challenges with finding sites with access to adequate power and fibre optic cabling. Many operators are seeing value in partnering with industrial developers. Sydney and Melbourne remain the key markets for data centres with operators becoming open to developing in outer metro areas to gain access to sites that can meet power requirements.

Australian infrastructure transaction volumes



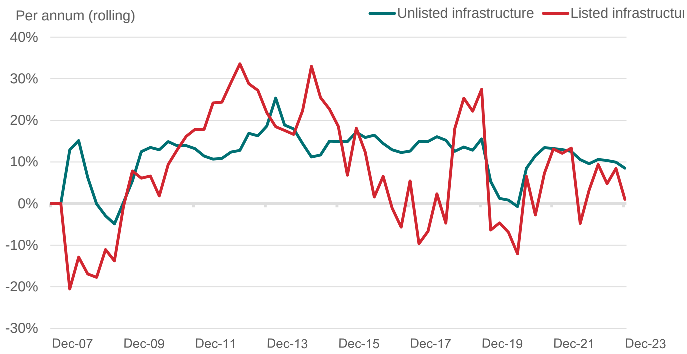
Source: Infralogic (closed transactions), *2024 includes only Q1 data

Major infrastructure transactions Q1 2024

Date	Asset	Buyer	Value (A$'m)
Jan-24	Gigacomm	Macquarie	~100
Feb-24	Dungowan pumped hydro	EDF Group	n/a
Feb-24	ITP Development	EDP Renovaveis	n/a
Feb-24	Walcha Energy	Origin	n/a
Mar-24	Zen Energy	Stonepeak	~70
Apr-24	Eastlink	Future Fund	n/a

Source: Infralogic, Dexus

Australian infrastructure total returns by type



Source: MSCI

Spotlight on
Student accommodation

The opportunity in student accommodation

Australia's tertiary education sector is poised for significant growth, placing emphasis on investment in more infrastructure, including quality student accommodation. An undersupply points to opportunities for investment in the student accommodation sector.

International student enrolment has rebounded strongly, surpassing pre-COVID levels. Visa applications have surged, totaling 273,586 in the 2023 financial year, up 32.4% from the pre-Covid financial year 2019. Further, enrolments in higher education have increased by 10% in the year to January 2024 compared to the same period in 2019. Victoria and Queensland saw the largest growth. A recent tightening of Federal Government immigration policy was mainly targeted at vocational education. Universities are unlikely to be impacted.

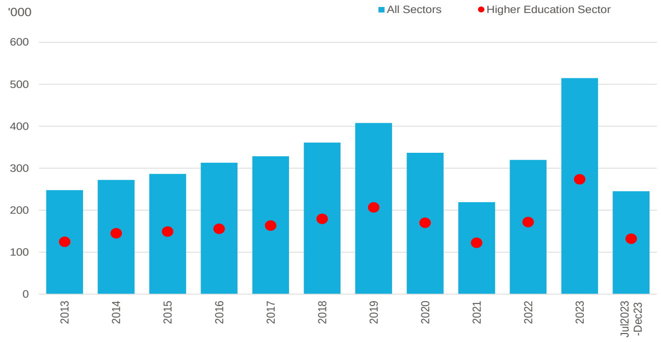
The challenges posed by the COVID-19 pandemic and rising interest rates have led to a shortage of housing in Australia. In the broader housing market, CBRE projects that there will be a deficit of 377,000 dwellings over the next five years to 2028. Student accommodation also has had a chronic undersupply across the capital cities, with near full occupancy across the markets and double-digit rental growth heading into Semester 1 2024. Additionally, both on and off campus operators are reporting rebooking rates are now running at 40-45%, up from 30% in prior years. This undersupply points to strong fundamentals for rent and occupancy.

Across the top private sector managers in Australia, there were 57,434 operational on and off campus student accommodation beds within 115 properties at the start of Semester 1 2024.

Higher barriers to development will mean the delivery of new student accommodation will be subdued over the next three years. Savills forecast 7,770 new Purpose Built Student Accomodation (PBSA) beds, across inner city locations in Australia's capital cities, to become operational over the next three years. This is a 52% decline compared to 2021-2023.

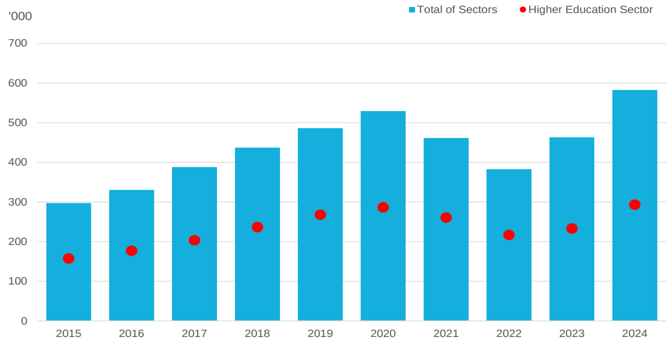
The sector has attractive characteristics for investors including strong counter-cyclical features that will help achieve consistent returns. Additionally, the short-term nature of leases means rents can be rebased keeping pace with inflation and adapting to the economic environment.

Recovery in higher education visa application



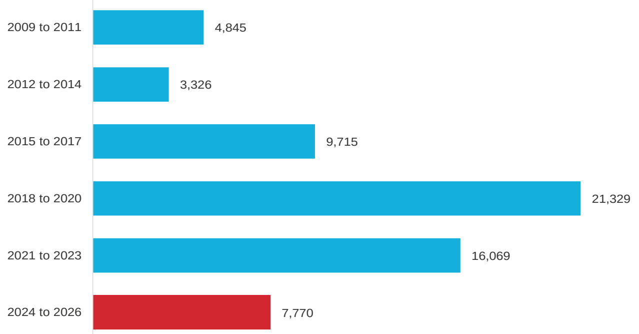
Source: Department of Home Affairs

Recovery in international student enrolment



Source: Department of Education (year to date Jan-2024)

New student accommodation delivery to be subdued



Source: Savills (number of PBSA beds)

Office

Mixed year for the office sector

Several key indicators are now pointing towards an improvement in market fundamentals over the next year or two. Net absorption in the Sydney and Melbourne CBDs turned positive in Q1 2024 after two negative quarters.

Large consolidations within the financial sector were a drag on net absorption through 2023 and led to an increase in sublease space in the market. However, these consolidations are likely to have largely run their course with the big four banks and consulting firms having rationalised their space requirements. Sublease vacancy fell by 15,000 sqm in Sydney CBD in Q1 2024.

Net face rents have grown in all markets through the quarter, with Brisbane CBD leading at 2.9%. The Brisbane and Perth CBDs continue to show the strongest improvement in vacancy, falling 2.5 ppts and 4.1 ppts in the past year respectively. Vacancy in Melbourne continues to diverge across precincts. The Eastern Core recorded falling vacancy in Q1 2024 down to 13.9%, whilst in the Docklands precinct vacancy increased to 21.4%.

Occupancy rates in the CBD core, and in higher grade buildings, tend to be significantly higher than more peripheral CBD locations and lower grades. Relocating customers prefer these "super-core" buildings. For example, the Dexus office portfolio which has a bias towards quality core CBD assets has a high occupancy of 94.5%, well above the market average.

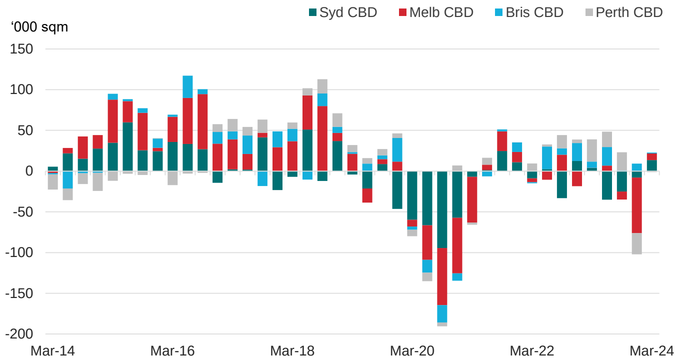
A contraction in the forward supply pipeline will serve to protect existing stock from supply risk and support rent growth through the cycle. Rising construction costs, interest rates and vacancy have put pressure on the feasibility for uncommitted developments. Capital is also diverting towards sectors with higher returns, shown by an increase in planned non-office developments in CBDs.

Q1 2024 office snapshot

	Total Vacancy	Rent growth* (% p.a.)	Net supply FY24-26 (%pa)
Sydney CBD	14.3%	1.2%	1.1%
North Sydney	20.6%	-2.0%	2.6%
Sydney Fringe	12.0%	1.3%	0.7%
Parramatta	23.9%	-11.5%	0.9%
SOP / Rhodes	23.4%	-4.8%	0.0%
Melbourne CBD	18.0%	-6.2%	1.8%
Brisbane CBD	11.0%	19.2%	1.2%
Perth CBD	15.8%	2.7%	1.0%

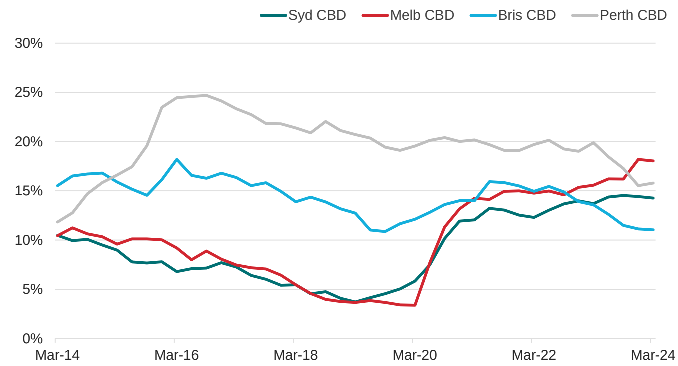
Source: JLL Research, Dexus
*Net effective

Quarterly net absorption by CBD market



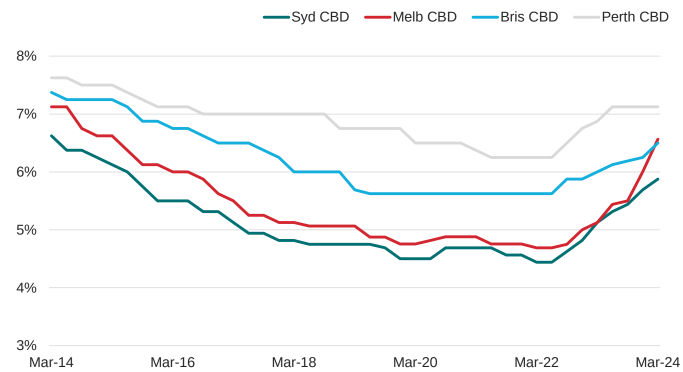
Source: JLL Research, Dexus Research

Vacancy rates by CBD market



Source: JLL Research

Prime yields by CBD market



Source: JLL Research

Office market wrap

Market	Comments	Direction of trend for next 12 months	
Sydney CBD	Sydney's elevated vacancy compressed slightly in the quarter to 14.3%, still above trend. The CBD saw positive net absorption for the quarter driven by the reabsorption of sublease space from the Commonwealth Bank. Occupiers continue to centralise into the CBD, with 5,000sqm of net absorption from tenants previously operating in North Sydney and suburban Sydney. Prime incentives were broadly flat through the quarter, increasing 0.1 ppts, whilst vacancy fell 0.2ppts to 14.3%.	Vacancy	→
		Rents	→
		Incentives	↑
		Yields	↑
North Sydney	Vacancy contracted in Q1 2024 in North Sydney for the first time since Q3 2022. Miller Workplace, a coworking operator, took 3,000sqm of previous WeWork space in 50 Miller Street. Incentives continue to rise, up 1.1ppts q-o-q, totalling 2.3ppt for the year, stopping net effective rental growth. The projected completion of the Victoria Cross overstation development in 2025 will put further pressure on the leasing market, limiting scope for improving rent growth in the short term.	Vacancy	↑
		Rents	→
		Incentives	↑
		Yields	↑
Parramatta	Parramatta continues to struggle with high incentives and falling rents. Q1 2024 was a quiet quarter in Parramatta, with 2,000sqm of net absorption, helping to support falling vacancy, albeit slowly. Incentives have continued to rise, now at 46.6%, up 2.1ppt through the year. Smaller tenants were more active through the quarter, more than making up for the 5,000sqm withdrawal by the Department of Health and Aged Care at 2-12 Macquarie Street.	Vacancy	→
		Rents	→
		Incentives	↑
		Yields	↑
Melbourne CBD	The ongoing trend of occupiers upgrading space (flight-to-quality and core) has seen higher quality and better located stock outperform with vacancy shifting towards Docklands and the Western Core. Alongside vacancy, incentives in Melbourne are diverging geographically and across grades, with significantly higher incentives reported in the Docklands precinct, than in the Eastern Core, reflecting tenant demand. Incentives increased to 43%, up 0.4 ppts over the quarter, prime net face rents grew 1%, leaving effective rents to fall 1.3% over the quarter.	Vacancy	→
		Rents	→
		Incentives	↑
		Yields	↑
Brisbane CBD	Strong demand and a limited supply pipeline has set Brisbane up for strong performance over the medium term. Prime vacancy has continued to fall, now comfortably below 10%. Net absorption has remained positive, whilst limited supply and prime withdrawals have helped further tighten the market. This has allowed for continued improving rental growth, a strong 3.9% over the quarter and 19.2% y-o-y.	Vacancy	↓
		Rents	↑
		Incentives	↓
		Yields	↑
Perth CBD	Q1 2024 was a relatively slow quarter in the improving Perth CBD market. Net absorption was positive among the higher grades, albeit negative for secondary stock. Incentives have held steady, allowing for positive net effective rent growth (2.7% y-o-y). There are increasing risks around the supply pipeline with Elizabeth Quay Four under construction.	Vacancy	↓
		Rents	↑
		Incentives	→
		Yields	↑

Industrial

Industrial sector proving resilient

The industrial sector is proving resilient in the face of a sluggish retail sector and soft business confidence. Industrial demand has tapered, with Sydney and Melbourne seeing a slowing in gross leasing take-up over the quarter. Occupier activity is often slower in the first quarter of the year so much will depend on how retail trends affect warehousing requirements over the next few quarters.

Vacancy rates lifted mildly through 2023, however, remained sub 2% in Dec-23 (reported by CBRE). Vacancy is anticipated to increase over the year, as some tenants consolidate or sublease excess space taken-up during the boom COVID years of 2021 and 2022.

Rents grew over the first quarter of the year, particularly in Melbourne and Brisbane. Outer West Sydney saw net face rents increase by 1.7% over the quarter, and South Sydney saw the largest increase in net face rents with 6.4% quarterly growth. West Melbourne rents surprised on the upside with 8.0% growth over the quarter. In many areas this growth in face rents has been underpinned by increases in incentives so the effective growth is somewhat lower. Perth was the only market where face rents have remained flat over the quarter.

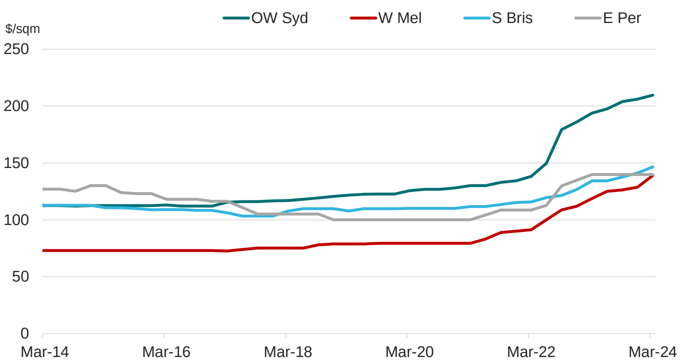
Cap rates grew in most markets according to JLL Research. Outer West Sydney cap rates grew 25 bps over the quarter and West Melbourne rates by 38 bps. Increasing yields will likely play on developers' minds, particularly as construction costs and land values remain high making it harder to achieve required rents on new developments. Trading has been thin, however JLL Research reports land values were flat in both West Melbourne and South Brisbane, while decreasing in Sydney.

Industrial snapshot

	Prime cap rate change Q1 2024 (bps)	Existing prime net face growth % y-o-y
Outer West Sydney	25	8.2%
West Melbourne	38	17.1%
East Perth	0	0.0%
South Sydney	13	41.0%
Inner West Syndey	13	12.6%
Southern Brisbane	13	9.2%

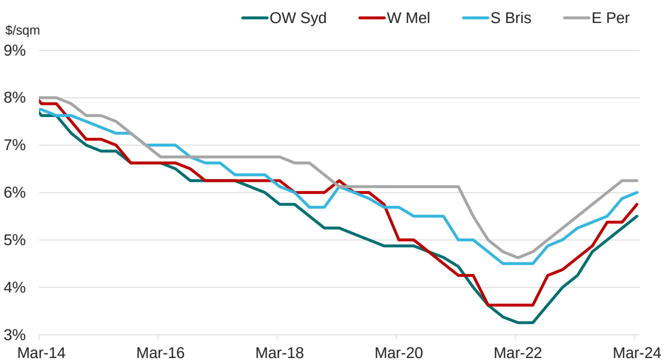
Source: JLL Research, Dexus Research

Prime rents by precinct



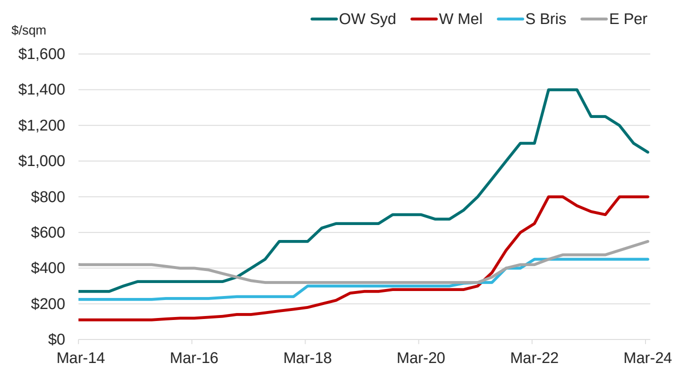
Source: JLL Research, Dexus Research

Prime yields by precinct



Source: JLL Research, Dexus Research

Industrial land values by precinct



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

Industrial by region

Outer West Sydney

Outer West Sydney gross leasing was 300,000 sqm in the year to Q1 2024, nearly double the take-up of the previous period. However, the gross leasing for the latest quarter was less than half the previous quarter. Of the take-up that did happen in the quarter, it mostly comprised Transport and Warehousing as well as Manufacturing tenants, with Humes and Allmach Systems (in the South West) involved in the provision of products to Sydney's active infrastructure pipeline. Prime net face rents grew by 1.7% over the quarter and 8.2% over the year.

West Melbourne

Gross leasing in West Melbourne slowed in the 12 months to Q1 2024. However, take-up in the first quarter of 2024 was 10% higher than the previous quarter, with 100,000 sqm of leasing. Infrastructure activity was again a theme with leases to BTi Logistics and Apex (rail transport), Enersys (energy) and World Wire Cables. With a significant amount of supply due to enter the market through the year, we expect that take-up will increase, although rising vacancy will likely follow. While prime net face rents lifted by 17% in the year, incentives also rose, reducing the effective growth.

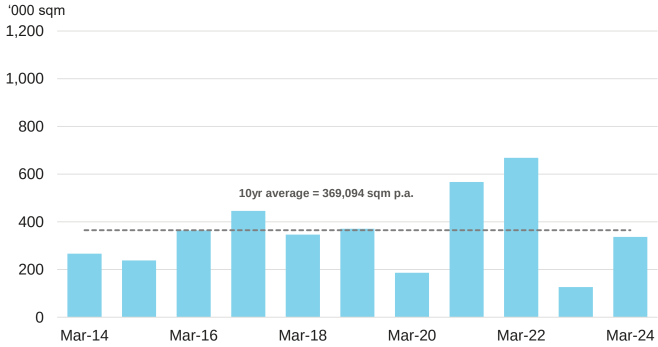
Brisbane (South & Australian Trade Coast)

Gross leasing in Brisbane in the twelve months to March 2024 was higher than pre-pandemic levels and above the 10 year average. The Trade Coast precinct is performing better than the south. Trade Coast saw a significant increase in leasing activity while Southern Brisbane take-up slowed. Leasing was driven by transport tenants. Prime net face rents grew by 5.9% in the Trade Coast in Q1 2024 and by 3.8% in Southern Brisbane. Growth is expected to taper as vacancy creeps upward through the year, and incentives rise further.

Perth (East & South)

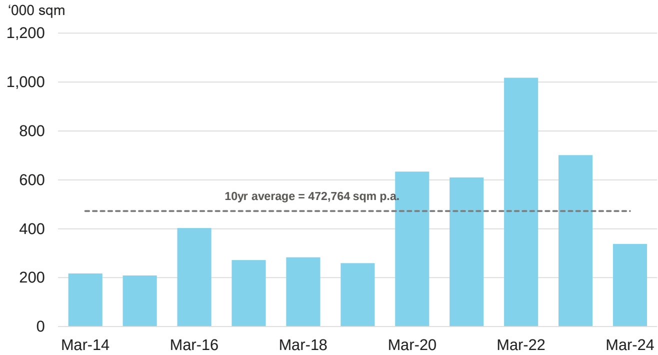
Perth saw a substantial amount of gross take-up in the year to March 2024, and was well above the 10 year average for the third consecutive year. There was a significant increase in take-up in South Perth over the quarter, while East Perth take-up was slightly lower than the past two quarters. Demand was driven by engineering and logistics with Downer Group and Energy Logistix taking space South Perth, the latter at Jandakot. Prime net face rents have been flat in the past 12 months in all Perth markets, despite the improved demand.

Outer West Sydney gross take-up



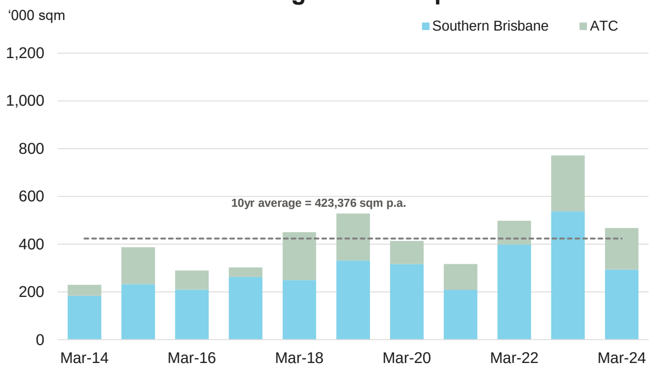
Source: JLL Research, Dexus Research.

West Melbourne gross take-up



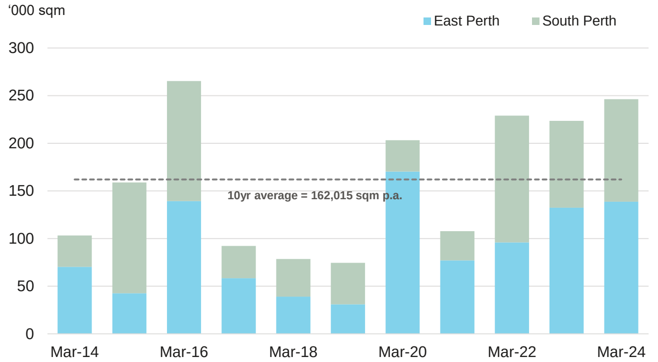
Source: JLL Research, Dexus Research

South Brisbane and ATC gross take-up



Source: JLL Research, Dexus Research

East and South Perth gross take-up



Source: JLL Research, Dexus Research

Retail indicators

Cost of living still weighing on retail sales

The food and beverage sectors have enjoyed steady turnover growth with cafes surprising on the upside. Yet cost-of-living increases are still affecting consumer spending, leading to a fall in household goods and liquor sales. There has been a mild improvement in discretionary spending via a pick-up in clothing sales.

Overall, retail turnover growth in Australia has remained positive at 1.6%, with the strongest markets being Queensland and Victoria, thanks to a tight labour market and high level of overseas migration.

The positive headline number disguises a per-capita recession in retail spending (middle chart). Strong population growth, supported by migration, has substantially offset a large contraction in per capita spending, resulting in an increase in aggregate retail sales. In addition, inflation in the price of goods sold has kept headline turnover numbers up.

A tight labour market and strong wage growth are sources of strength for the retail sector. Seasonally adjusted unemployment has stayed lower than previously forecast, and even declined slightly in February to 3.7%.

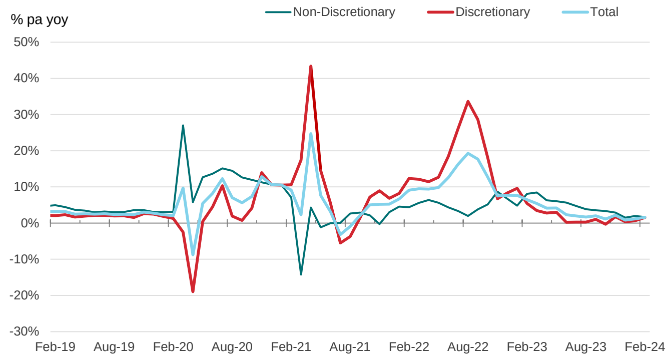
E-commerce sales growth has stabilised after falling from pandemic-induced highs, roughly maintaining its market share. Shopping centres are continuing their steady evolution towards food and services as well as expanding the range of uses on site.

Retail sales growth by category

	m-o-m	y-o-y	MAT
Cafes	0.5%	2.9%	7.3%
Clothing	4.2%	4.0%	1.2%
Department Stores	2.3%	2.1%	1.8%
Food	-0.1%	1.7%	4.1%
Other	-0.4%	2.7%	1.0%
Household Goods	-0.8%	-2.2%	-3.8%
Total	**0.3%**	**1.6%**	**2.4%**
Online Sales	1.1%	2.9%	3.0%

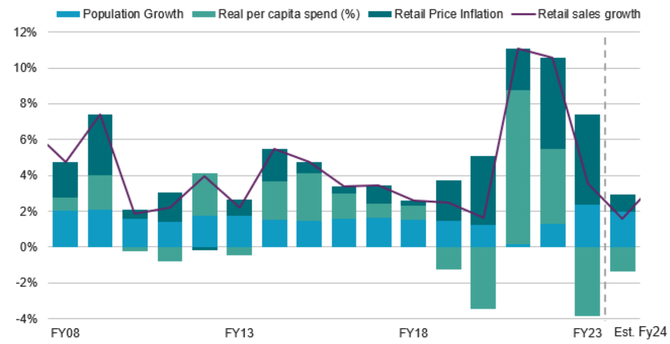
Source: ABS, Dexus Research

Discretionary vs non-discretionary spending



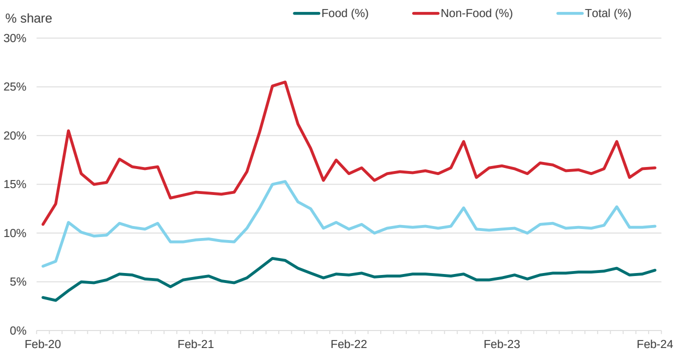
Source: ABS, Dexus Research

Components of retail sales



Source: Oxford Economics, Dexus Research

E-commerce share of retail sales by type



Source: ABS, Dexus Research

Retail performance

Retail investment looking more compelling

On various metrics the investment case for shopping centres is improving. Vacancies have fallen significantly since the pandemic across the main enclosed shopping centre types. City retail vacancies remain high but have plateaued. The return of international tourism has helped drive foot traffic in CBDs which is now approaching pre-pandemic levels.

Additionally, the rapid return of foot traffic to shopping centres emphasises the enduring role of physical stores, for the execution of omnichannel strategies with shopping centres acting as both a community hub and a convenient place to shop.

The income growth story looks positive given retail turnover growth is leveraged to population growth, which is currently surging due to migration levels almost double the past average. At the same time, construction cost pressures are limiting the supply of new shopping centre space with additions of regional and subregional space in 2024 estimated at less than 10% of the average for the past decade. This growing imbalance between demand and supply augers well for vacancies to decline and rents to grow.

The retail sector is looking much more compelling on a relative value basis. Over the past three years yields on large regional shopping centres have lifted by 80 basis points to an average of 5.8% making them more attractive relative to the office and industrial sectors.

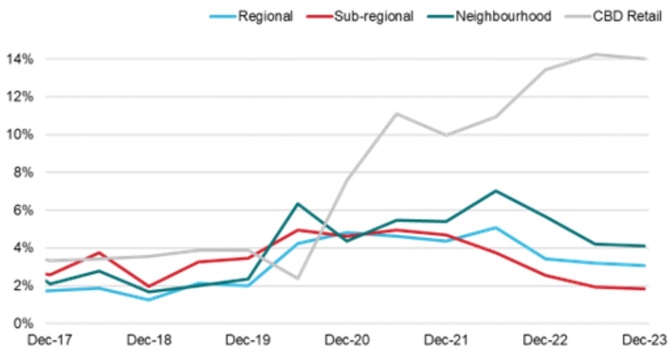
It appears investors are waking up to the positive story. Over the past year, the discount to net tangible assets for listed retail REITs in Australia has narrowed from 20%-30% to 0%-10% indicating greater confidence in the future stability of these asset values over office and diversified AREITs.

Retail performance snapshot

	Specialty rent growth % y-o-y.	Cap rate change y-o-y(bps)
Sydney		
Regional	0.0%	25
Sub-regional	0.0%	37
Neighbourhood	0.0%	50
Melbourne		
Regional	0.0%	25
Sub-regional	-0.1%	0
Neighbourhood	0.0%	12
SE QLD		
Regional	0.0%	75
Sub-regional	0.0%	75
Neighbourhood	-1.6%	37

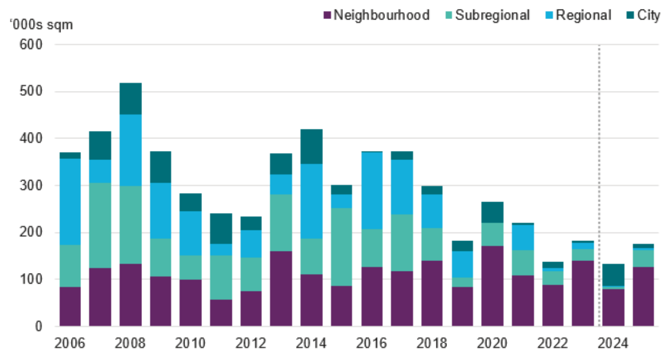
Source: JLL Research, Dexus Research

Shopping centre vacancy rates



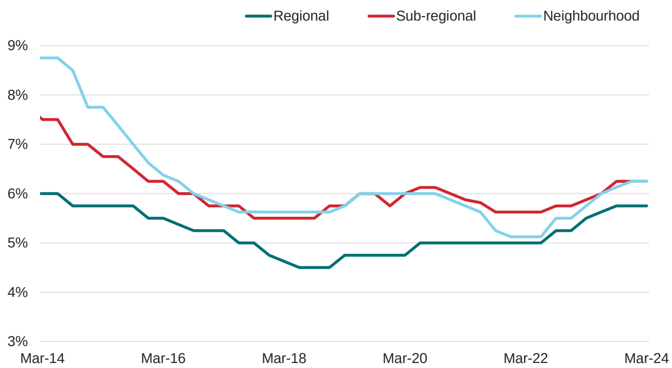
Source: JLL Research, Dexus Research

Australian enclosed shopping centre supply



Source: JLL Research

Yields by centre type



Source: JLL Research, Dexus Research

Healthcare

Growing pains for the private hospital sector

Past reports have covered the positive thematics for demand in the healthcare sector which have led to strong performance over the past decade. These are ongoing. This quarter we discuss some of the pressures associated with such rapid growth.

Private health insurance hospital coverage has remained flat over the year as consumers deal with rising premiums. In addition, with the indexation of Medicare, rising service fees are leading to higher out-of-pocket costs for patients. Nationally, GP visits have flattened over the past year after a decade of growth, albeit telehealth attendances have declined in favour of in-person appointments.

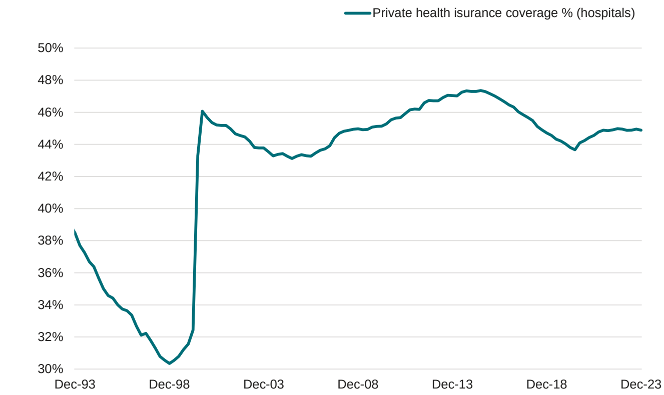
In the private hospital sector, demand for elective surgeries is strong with the number of patients admitted for surgery increasing by 18% in FY23. However, elective surgery waitlists have grown longer, with patients waiting an average of 49 days to be admitted for elective surgeries over the FY23 period, compared to the average of 40 days in the prior year. Staff shortages are contributing to the backlog, slowing the rate at which the waiting lists can be treated. These factors, along with general cost inflation is are among the challenges being felt by the private hospital sector.

Staff shortages have become more prevalent in the healthcare industry, with Victoria University projecting a shortfall of more than 100,000 nurses in 2025 and anecdotal reports of shortages of clinicians in some areas. APHRA has reported a 2.9% increase in registered health practitioners over the past year, with 14.3% more applications for registration, yet this is still not keeping up with the demand for healthcare workers. Technological advances will likely help aid digital transformations within the workplace, helping to ease the pressure on staff within the industry.

Returns are easing at a slightly slower rate to the other property sectors as all are affected by high interest rates, with the total return reported by MSCI at -1.3% in the year to Dec-23. Healthcare assets have historically been above all property sectors and continue to hold stronger through this property cycle.

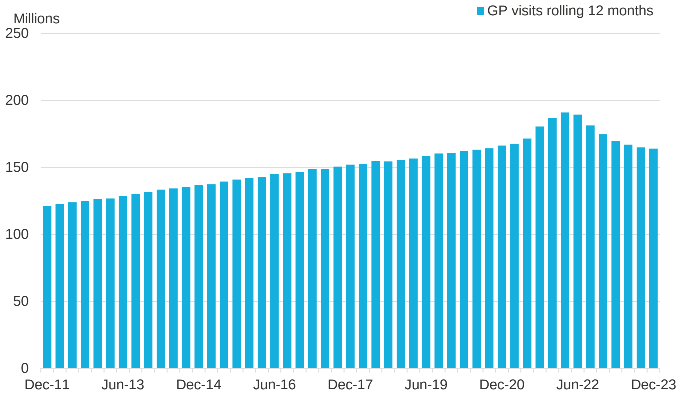
The silver lining to these challenges is that they are driven by supply-side pressures such as inflation and staff shortages rather than weakness on the demand side. Demand thematics remain generally positive. Pressures faced by operators are a reminder that while healthcare tends to be a lower risk sector than say office, it is not without risk, and the fundamentals of covenant and location remain important.

Private insurance coverage (National %)



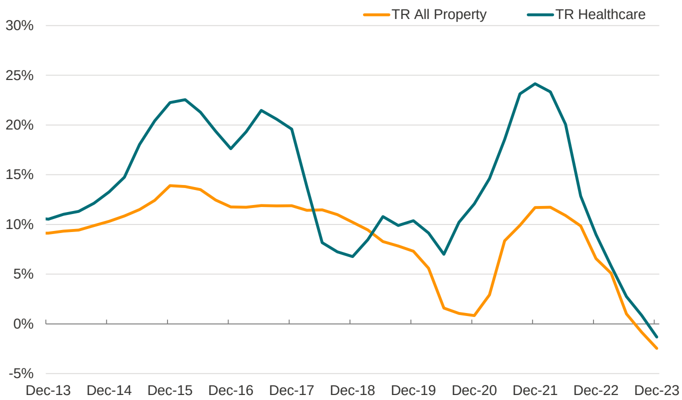
Source: APRA, Dexus Research

National GP visits – rolling twelve months



Source: Medicare, Dexus Research

Healthcare total returns



Source: MSCI Real Assets, Dexus Research

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