Australian Real Asset Review

Q4 2024

One Farrer Place, Sydney

Inside

Investment climate

Markets pass a watershed moment

There are now clear signs that real asset transaction markets are strengthening. Deal flow in both real estate and infrastructure markets is up significantly compared to this time last year as investors respond to an apparent peaking of the global interest rate cycle.

Real asset investment markets passed a watershed moment in September when the US Federal Reserve cut its cash rate and Australian 10-year government bond yields hovered below 4%. While bond yields have since lifted to 4.2%, lower cash rates in the US and Europe are providing investors with greater confidence that headwinds facing valuations of real assets are alleviating. Forecasts for Australian interest rates to fall in 2025 bode well for liquidity and asset values in the year ahead.

In Australia, the headline monthly inflation rate fell to 3.4% in August, down from 3.8% in July. While this fall was expected, with electricity rebates driving down measured inflation, a stronger than expected lift in retail sales of 0.7% in August points to resilience in demand. Despite these mixed signals, we retain our view, in line with the consensus of economists, that cash rates are at their peak for this cycle (currently 4.35%) and will decline through calendar year 2025.

Consumer confidence in Australia recovered mildly in October with the Westpac-Melbourne Institute index rising by 6.9% to 89.8. The business sector had a relatively weak quarter, with the NAB business confidence index recording -2 index points. GDP growth slowed to just 1.0% p.a. in Q2 2024. Growth is forecast to improve to 2.0% p.a. in FY25, with consumer indicators, infrastructure projects and exports helping to offset weak residential construction.

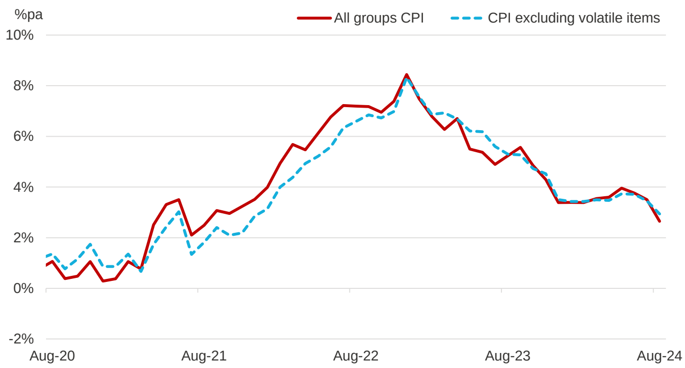
The demand outlook for real asset sectors will be supported by population growth, which is expected to ease from a strong 2.1% p.a. back to a more normal 1.3% p.a. by 2025 as the net migration surge wanes.

Australian economic forecasts

	Jun-24	Jun-25	Jun-26
Real GDP %p.a.	1.0%	1.9%	2.6%
Employment %p.a.	2.4%	2.1%	1.5%
Unemployment %	4.1%	4.5%	4.4%
Business investment %p.a.	2.0%	2.7%	3.6%
Dwelling investment %p.a.	-3.0%	-2.3%	5.1%
Population %p.a.	2.2%	1.3%	1.2%
Retail sales %p.a.	2.0%	2.4%	3.1%
CPI %p.a.	3.8%	2.5%	2.7%
Cash rate %	4.3%	4.1%	3.1%
10yr Bond %	4.3%	4.0%	3.9%

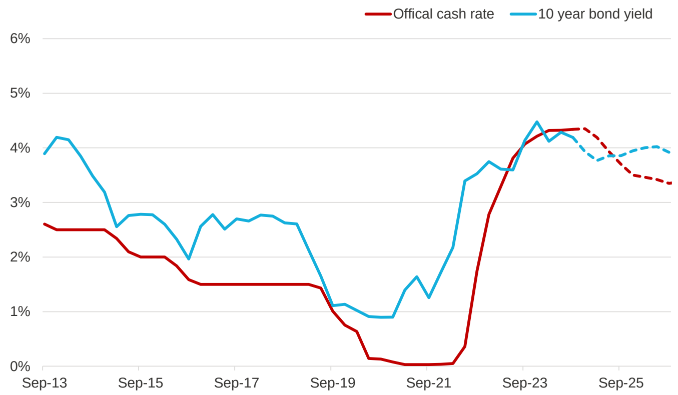
Source: Oxford Economics, October 2024

Australia's inflation rate (monthly)



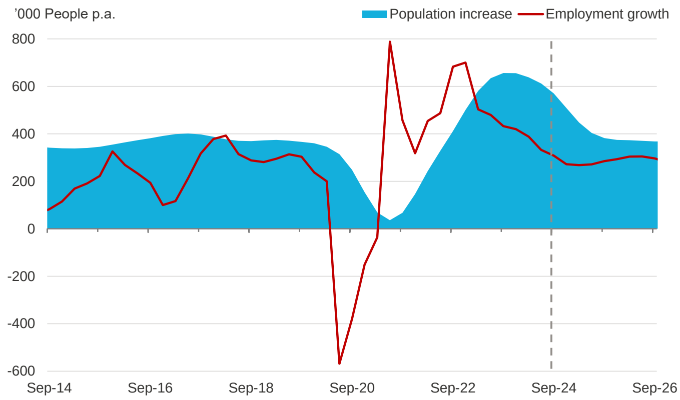
Source: ABS, Dexus Research

Australia's interest rate forecasts



Source: Bloomberg, Oxford Economics

Population and employment growth forecasts



Source: Oxford Economics

Market performance

Transaction market is strengthening

Commercial real estate transaction markets have been quiet over the past 1-2 years, but there are now clear signs of strengthening. Transaction volumes were up 18% in the past 6 months compared to the same period last year. On a pro-rata estimate for Q4 2024, the value of transactions in 2024 is expected to be $44bn, around 11% above the level of 2023. These estimates exclude the pending $9.8bn AirTrunk data centre transaction - so can be considered conservative.

Other signs that the transaction market is becoming stronger are that a) the average size of transactions in calendar 2024 year to date is up 60% on 2023, and b) the proportion of institutional buyers has increased from 34% in 2023 to 64%.

While improving, transaction volumes are still below average so there is a way to go before the market gets back to previous levels of activity. Nevertheless, improving volumes could be evidence that buyers are seeing value at current pricing levels.

After years of underperforming, retail (shopping centre) portfolios are now outperforming the other sectors as relatively high yields and improving rents and occupancy flow through to valuations. Office fund returns were the weakest at -15.2% over the year, due to significant declines in valuations of office buildings, however, in Q3 there were signs of the negative valuation trend tapering with year-on-year return improving slightly. Unlisted property funds in total returned -0.4% in the quarter and -9.0% over the year.

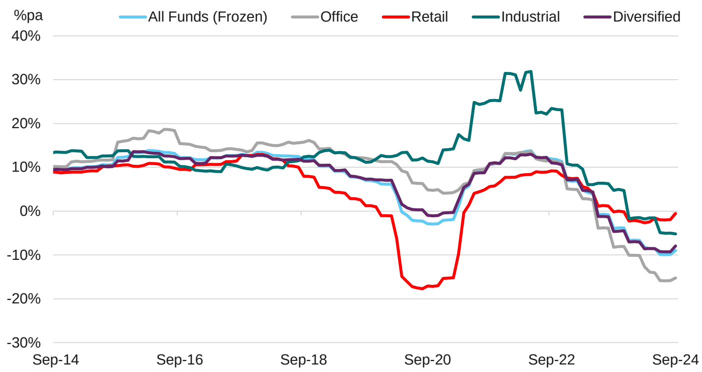
Listed real estate pricing improved again in Q3 2024. AREITs benefited from the strength of broader equity markets. While Australian shares returned 7.8% in the year to Q2 2024, the AREIT index returned 24.6%. The extra rise in the AREIT index is an encouraging sign for real assets and signals greater confidence by investors in the underlying real estate markets.

Asset class performance to Sept 2024

	Qtr. %	1 yr % p.a.	3 yr % p.a.
AREITs[1]	14.5%	47.0%	9.1%
Australian shares[2]	7.8%	21.8%	8.4%
Australian infrastructure[3]	10.1%	18.3%	7.4%
Australian cash[4]	1.1%	4.4%	2.8%
Australian fixed interest[5]	3.0%	7.1%	-1.2%
Unlisted property[6]	-0.4%	-9.0%	-0.7%

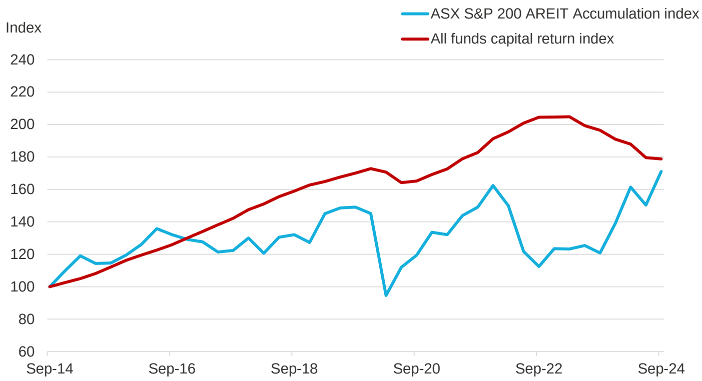
Source 1: S&P/ASX 200 A-REIT Accumulation Index
Source 2: S&P/ASX 200 Accumulation Index
Source 3: Dow Jones Brookfield Global Infrastructure Total Return Index
Source 4: Bloomberg BAUBIL Index
Source 5: Bloomberg BACM0 Index
Source 6: MSCI/Mercer Australian Core Wholesale Monthly PFI

Unlisted wholesale fund returns by sector



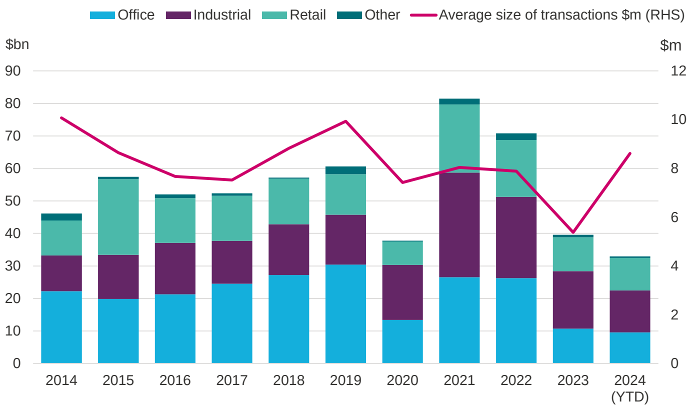
Source: MSCI, Dexus Research

AREIT price and unlisted capital return indexes



Source: Bloomberg, MSCI Core Wholesale Fund Capital Return Index

Yearly investment volumes – real estate



Source: MSCI Real Assets

Infrastructure

Infrastructure deal flow improving

Deal flow in the Australian infrastructure market is gathering pace after a quiet year in 2023. The value of deals in the six months to Q3 2024 was around double the same period last year at US$5.6 billion. The number of deals was only marginally higher at 20, implying the size of deals is growing. The increase in deal flow reflects improving conditions given a number of large-scale deals completed in Asia and Europe, interest cuts from several central banks, a period of stable cash rates in Australia and a sense that the global inflation cycle is under control. We anticipate an even more favourable market for infrastructure M&A opportunities once interest rates begin to fall with infrastructure investors likely to allocate back to core assets as the yield arbitrage widens.

The Australian deal flow was comprised of significant transactions across the transport, energy and digital infrastructure space.

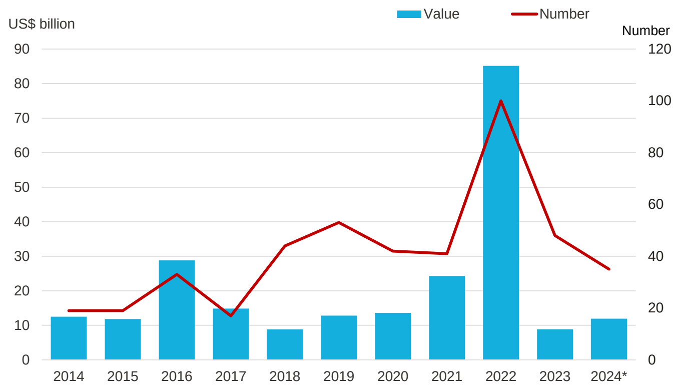
In the transport sector, KKR and Skip Capital have executed an agreement to acquire 74.25% of Queensland Airports Limited (QAL) for an implied value of A$3bn. In addition, John Laing has agreed to acquire Aware Super's 62.5% stake in the Sydney Light Rail PPP. This brings John Laing's holding to 95% with the builder, Acciona, owning the remaining 5%.

In the digital infrastructure space, Blackstone and the Canada Pension Plan Investment Board have agreed to acquire an 88% stake in Australian data centre company AirTrunk for an enterprise value of more than A$24bn.

In the energy infrastructure space, Tokyo-headquartered J-Power has completed the A$1.03bn acquisition of Genex Power, making the Australian renewables developer a 100% subsidiary. In addition, the Australian Retirement Trust (ART) is set to acquire QIC's 33% stake in Powerco via an affiliate transfer, circumventing the pre-emptive regime. PowerCo is a New Zealand-based distributor of electricity and natural gas, of which a 42% interest is managed by Dexus.

Australian unlisted infrastructure funds returned a creditable 6.7% in the year to June 2024, outperforming listed infrastructure funds (-5.0%). Although returns have softened in recent quarters, the sector has shown greater resilience to the effects of interest rate rises compared to unlisted real estate sectors. This could be due to several reasons including the investment diversity, the length of operating agreements, CPI linkages and/or the frequency of external valuations.

Australian infrastructure transaction volumes



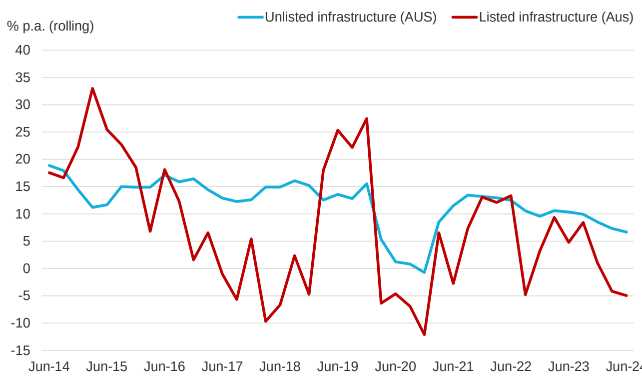
Source: Infralogic (closed M&A transactions), *2024 includes up to Q3

Major infrastructure transactions Q3 2024

Date	Asset	Buyer	Value (USD m)
Sep-24	Perth Airport	Australia Super	n.a.
Sep-24	Queensland Airport	Skip Capital & KKR	$2,066
Sep-24	Onslow Haul Road	Morgan Stanley Infrastructure Partners	$755
Sep-24	Manawa Energy	Contact Energy	$1,400
Sep-24	Sydney Light Rail	John Laing	n.a.
Aug-24	AirTrunk	Blackstone	$16,115
Aug-24	Genex	J-Power	$672

Source: Infralogic, Dexus, *includes closed and pending transactions

Australian infrastructure returns by type



Source: MSCI Australia Quarterly Private, Infrastructure Fund Index, Australia Listed Infrastructure Index

Spotlight on Office performance

Averages hide pockets of relative strength

Office markets are presenting a new challenge for investors. A pronounced divergence in investment metrics between office markets, and even between buildings in the same market is of huge importance to investors.

We've seen unprecedented divergence in effective rents between buildings and locations over the past two years (see charts). In Sydney CBD, CBRE estimate effective rents in the core increased by up to 13% over the past year while contracting in the Western Corridor. The reason for the contraction was an increase in the average incentive in the Western Corridor to 47% compared to just 29% for the Core.

Similarly in Melbourne, premium incentives in the Eastern Core have remained relatively stable over the past year, whereas the Western Core and Docklands have seen a sharp increase. The distribution of vacancy is a big part of this divergence. The average vacancy in Docklands is 24.7% compared to just 17.1% in the eastern core. Docklands has experienced consolidation among the banks and a drift to the CBD.

Vacancy rates are below 10% in the premium buildings in the core of Sydney and Melbourne CBDs. The vacancy story even varies across individual buildings with JLL Research estimating that across all CBD markets that 44% of buildings have no vacancy. Some 66% of the vacant space is contained in just 10% of the buildings.

Management of these assets is contributing to this divergence along with location and attributes of each building.

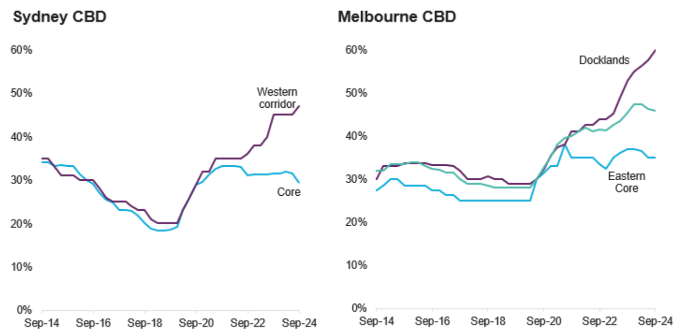
Australia's tight labour market means corporate tenants are in a war for talent. Core CBD locations are being favoured for their vibrancy and access to transport. Quality buildings help attract and retain talented employees. In addition, with hybrid working now common, employers are focussing more on the experience for workers who attend the office.

The definition of quality for office buildings has broadened to include more work-life balance elements. Workers value being close to public transport, restaurants, gyms and other services. In addition, some buildings align better with occupiers' ESG objectives including energy efficiency.

Going forward as corporations become more settled in their hybrid working arrangements, we anticipate that there will be less consolidation of space requirements which should contribute to increasing occupancy levels across the board.

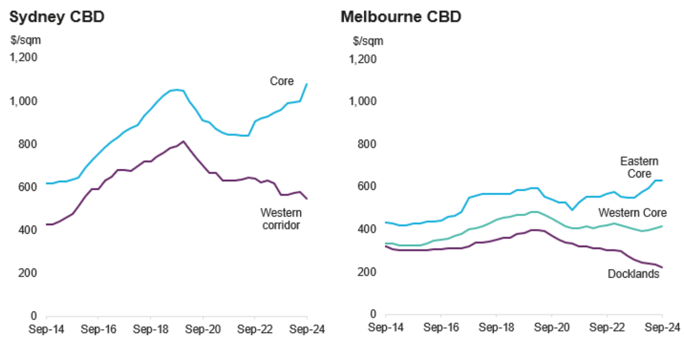
The take-out for investors is when looking at office markets, keep in mind that numbers that look weak on average can mask pockets of strength.

Office incentives by city and precinct



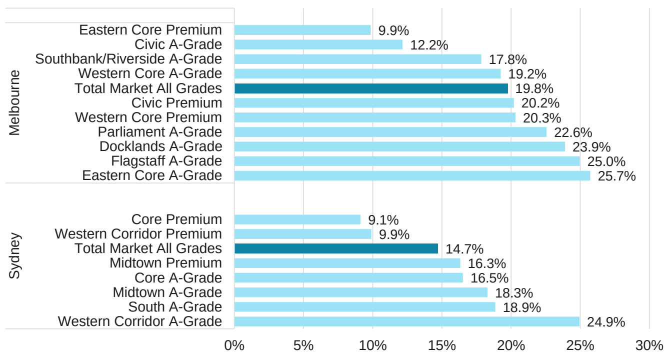
Source: CBRE Research, Incentives are premium except Docklands (prime)

Net effective rents by precinct



Source: CBRE Research, Rents are premium except Docklands (prime)

Vacancy rates by precinct (premium & A grade)



Source: JLL Research

Office

Mixed signals for the office markets

The office sector has experienced a quarter of mixed signals. Demand remains varied across the CBD markets, with the Sydney and Perth CBDs recording positive net absorption while Brisbane and Melbourne were mildly negative. In markets with sustained demand and decreasing vacancy rates, there are subtle indications that prime incentives are beginning to trend downwards.

Sydney CBD had a strong quarter with net absorption of 54,000 sqm in Q3 2024, outperforming expectations. This was driven by the reabsorption of sublease space (particularly by financial institutions) and activity mainly from small tenants. Total vacancy declined by 0.9%, and prime incentives fell by 0.4 percentage points to 34.4%. Net-effective rent growth increased by 3.0% over the year.

Brisbane CBD had weaker demand than anticipated, with negative net absorption of 1,300 sqm over the quarter. However, Brisbane continues to hold the lowest vacancy among the CBDs, at 10.5% and is seeing strong rent growth. Perth CBD saw declining vacancy and positive net absorption.

The soft demand environment in Melbourne CBD persisted, with negative net absorption of 8,500 sqm over the quarter and net effective rent growth falling by 2.1%. Melbourne continues to experience a divergence across precincts. Vacancy in the Docklands precinct is 24.7% compared to 19.8% across the Melbourne CBD and 17.1% in the Eastern Core.

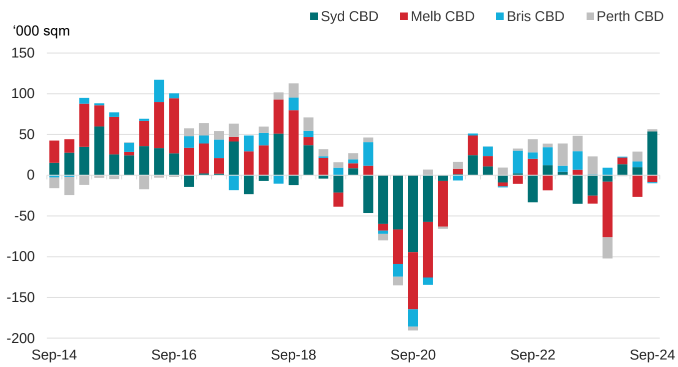
The supply pipeline has significantly contracted, with forecast commencements for FY24-27 down 33% compared to the five-year average. This reduction in the forward supply pipeline will help protect existing stock from additional supply risk and support rent growth through the cycle. Rising construction costs, interest rates, and vacancy rates have put pressure on the feasibility of uncommitted developments.

Office snapshot

	Total Vacancy	Q3 Rent growth* (% p.a.)	Projected Net supply FY25-27 (%p.a.)
Sydney CBD	14.7%	3.0%	1.0%
North Sydney	21.9%	-3.5%	2.6%
Sydney Fringe	14.1%	-2.3%	1.5%
Parramatta	24.4%	-4.8%	0.7%
SOP / Rhodes	21.3%	-2.7%	0.0%
Melbourne CBD	19.8%	-6.4%	1.1%
Brisbane CBD	10.5%	13.5%	1.2%
Perth CBD	15.7%	1.4%	1.2%

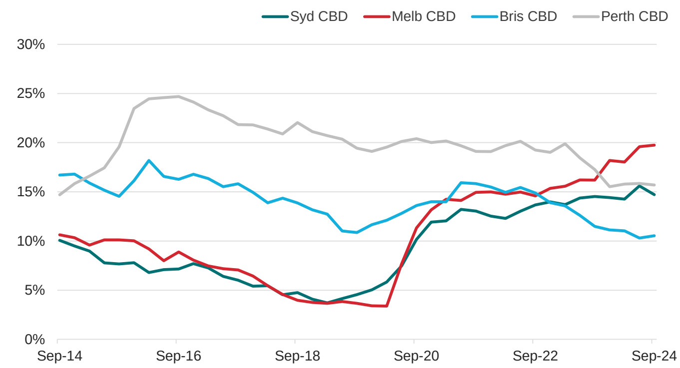
Source: JLL Research, Dexus, *Rent growth is net effective

Quarterly net absorption by CBD market



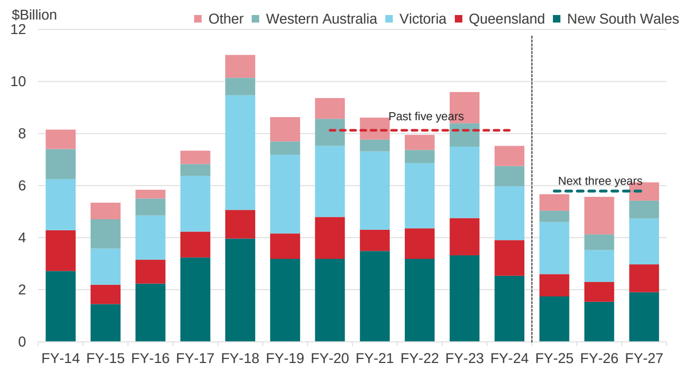
Source: JLL Research, Dexus Research

Vacancy rates by CBD market



Source: JLL Research

Office commencements



Source: Oxford Economics

Office market wrap

Market	Comments	Direction of trend for next 12 months	
Sydney CBD	The Sydney CBD office market had the strongest quarterly net absorption in nine years. The financial sector remained active, with Westpac and ANZ reabsorbing sublease space previously offered to the market. The total vacancy rate decreased by 0.9ppts to 14.7%. Prime incentives decreased to 34.4%, and yields expanded by 6bps to 6.32% this quarter.	Vacancy	↓
		Rents	↑
		Incentives	↓
		Yields	→
North Sydney	North Sydney is facing challenges with weak demand and rising vacancy rates. Vacancy rates increased by 1.2ppts over the quarter to 21.9%, partly due to competition with the CBD. Net absorption was negative at -1,100 sqm, totalling -38,300 sqm for the year. Yields expanded by 25bps over the quarter to 7%. Despite stable prime face rents, incentives have increased by 2.3ppts through the year to 39%.	Vacancy	↑
		Rents	→
		Incentives	↑
		Yields	→
Parramatta	Parramatta's market has improved, recording positive net absorption of 12,200 sqm for the year. The area is characterised by a two-tiered market where new stock significantly outperforms older buildings. Vacancy rates decreased by 0.4ppts to 24.4%, while incentives remained stable at 47%.	Vacancy	→
		Rents	→
		Incentives	↑
		Yields	↑
Melbourne CBD	Melbourne CBD experienced a weak quarter in demand, primarily due to consolidation in the public administration sector. Total vacancy increased by 0.2ppts to 19.8%. Tenants continued to leverage high incentives, now at 44%, to upgrade their spaces. The flight to quality was evident, with A-grade take-up reaching 10,800 sqm, surpassing the 10-year average of 9,600 sqm. The Civic precinct outperformed expectations, with the Commonwealth Department expanding by 5,000 sqm at Melbourne Central Tower, reducing vacancy in the precinct by 1.82ppts to 14.2%.	Vacancy	→
		Rents	→
		Incentives	↑
		Yields	↑
Brisbane CBD	Brisbane CBD recorded negative net absorption for the first time since Q1 2022, at -1,300 sqm. Vacancy increased slightly by 0.2ppts to 10.5%, however decreased by 0.9% over the year. The CBD recorded 13.5% effective rental growth over the year. Limited supply over the next five years is expected to support continued growth. Both incentives and yields remained stable at 40% and 7%, respectively.	Vacancy	↓
		Rents	↑
		Incentives	→
		Yields	→
Perth CBD	Perth CBD demand was driven by small expansions in the professional, scientific, and technical services sector. Take-up over the quarter was 2,900 sqm, however was negative over the year at -12,200 sqm. While below the 10-year average of 11,600 sqm, demand still outpaces new supply, which will be minimal until Elizabeth Quay Four completes. Vacancy declined by 0.2ppts in the quarter, and 1.6ppts over the year to 15.7%. Incentives remain high at 48%.	Vacancy	↓
		Rents	↑
		Incentives	→
		Yields	↑

Industrial

Industrial rent growth tapering

The industrial sector has boomed in the past two years, seeing unprecedented rent growth and incredibly low vacancies. This growth has been slowly easing over the past few quarters as demand for space tapers in line with economic indicators.

Face rents lifted in most markets in Q3 2024, although at a reduced rate compared to the levels of the past two years. Outer West Sydney and South West Sydney saw 0.6% and 1.7% growth respectively. Much of this growth was accompanied by rising incentives, so in many markets, rent growth has been weak on an effective basis.

Take-up remains fairly solid. National take-up picked up slightly over the quarter, largely driven by demand in Perth and Melbourne. A significant amount of sublease space is being offered onto the market, particularly from third party logistics tenants. However demand for calendar 2024 is expected to be slightly above last year with pockets of strength among non-discretionary retailers, fresh foods, engineering and pharmaceuticals.

Vacancy rates for most markets are estimated to sit between 3% and 4%. Rates continue to rise at a slow pace but are still largely below their pre-COVID averages. Vacancy rates in outer markets such as Outer West Sydney, West Melbourne and South Brisbane, where the bulk of new construction is occurring, are rising while vacancy rates in the inner markets remain tighter due to supply constraints.

A significant amount of supply was completed over the quarter, around 825,000 sqm nationally, with nearly half of it located in Outer West Sydney.

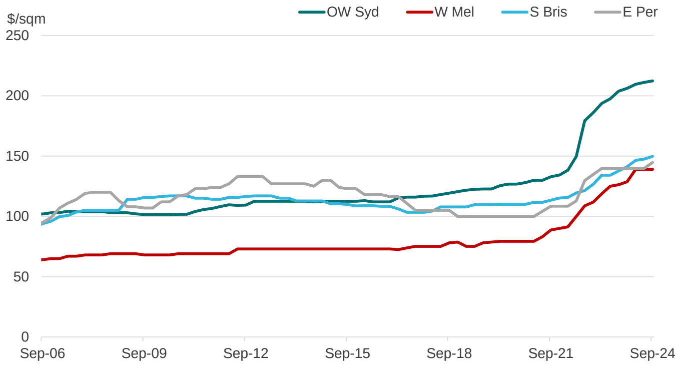
Prime yields have not seen much movement over the quarter, holding stable across most markets. Perth yields expanded by 25 bps in both East and South. Increasing replacement costs are anticipated to bolster rents in the medium to long term. Although speculative supply has been successful in recent years due to rising rents, developers are likely to prioritise pre-committed projects moving forward.

Industrial snapshot

	Prime cap rate change from Q1 2024 (bps)	Existing prime net face growth % y-o-y
Outer West Sydney	6 bps	4.2%
West Melbourne	0 bps	10.1%
East Perth	25 bps	3.6%
South Sydney	0 bps	21.8%
Inner West Syndey	6 bps	5.4%
Southern Brisbane	0 bps	8.8%

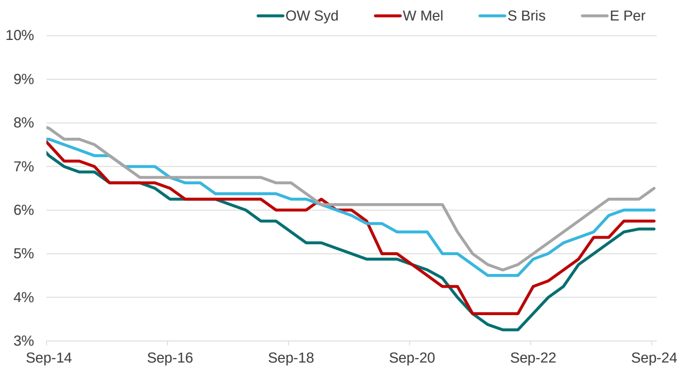
Source: JLL Research, Dexus Research

Industrial rents by precinct



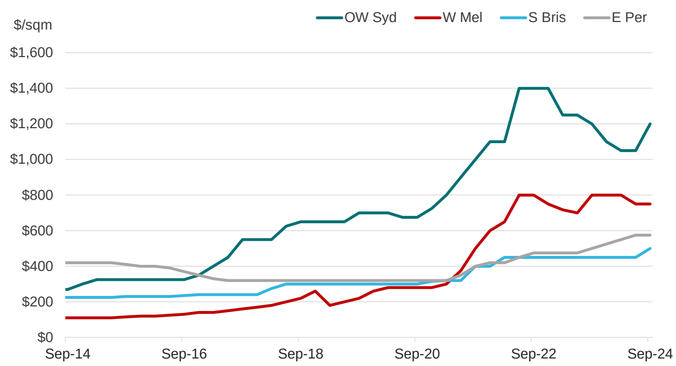
Source: JLL Research, Dexus Research

Industrial cap rates by precinct



Source: JLL Research (average prime), 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 saw an uplift in take-up with 391,000 sqm in the twelve months to Sep-24. This is in line with the 10 year average, suggesting that demand could be normalising. Major tenants moves were from CTDI Australia Pty Ltd, a global engineering, repair and logistics company, who leased 30,500 sqm in Kemps Creek and Coles who leased 18,000 sqm in Eastern Creek. Both these tenants moved into recently completed facilities. Prime rents rose 0.6% over the quarter, and vacancy rose to 3.6%.

West Melbourne

West Melbourne take-up during the twelve months to Sep-24 was nearly double that of the previous period. Elders preleased 36,000 sqm in Ravenhall, and several manufacturing tenants leased a combined total of 33,400 sqm of space in the West. Prime net face rents were flat over the quarter, still sitting $139/sqm, but saw 10.1% growth in year in year terms. Vacancy is currently at 3.8%.

Brisbane (South & Australian Trade Coast)

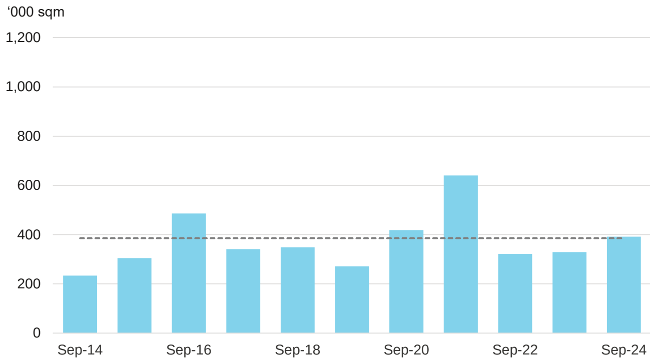
Gross leasing in Brisbane in the twelve months to Sep-24 was lower than in the two previous periods, and broadly in line with the pre-covid levels, suggesting that demand is normalising after a solid run. CEVA logistics subleased 55,000 sqm of space in the South, however they took up 22,000 sqm along the Trade Coast. Southern prime net face rents have risen by 1.6% to $150/sqm over the quarter and have seen 8.8% growth annually. Trade Coast prime net face rent growth was a little more modest with 0.3% growth in the quarter, and 14.3% annually. Vacancy is now sitting at 4.0% in the South, the highest in the nation, and at just 2.6% in the Trade Coast.

Perth (East & South)

Take-up in Perth for the twelve months to Sep-24 was the largest seen since the same period in 2015. Two major tenancies included an 18,000 sqm site split across two tenancies with one of the tenants being AEC with just under 10,000 sqm, and a 15,000 sqm site in South Perth leased by Rubber Gem, a manufacturing group. Over the year, Prime net face rents are estimated to have grown by 3.6% in East Perth and 1.7% in South Perth. Vacancy is still incredibly low in these precincts sitting at 1.9% in the South and 1.6% in the East.

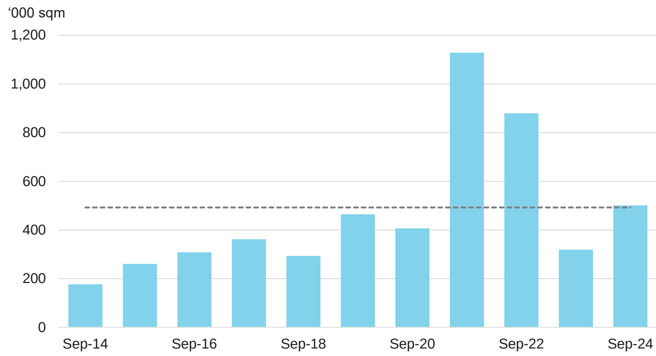
Note Vacancy data for all markets is from SA1 property

Outer West Sydney gross take-up



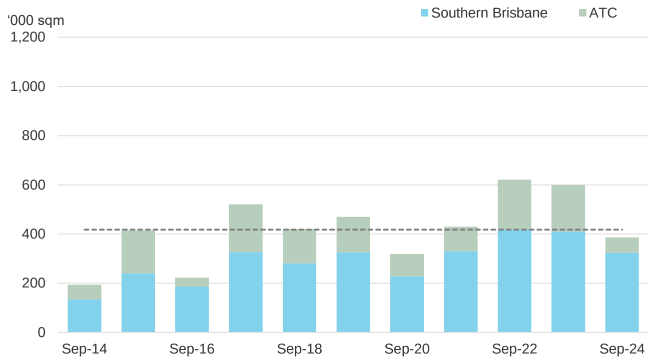
Source: JLL Research (gross take-up), Dexus Research.

West Melbourne gross take-up



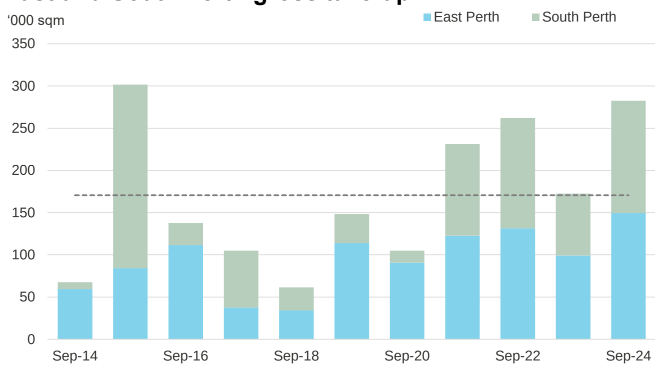
Source: JLL Research (gross take-up), Dexus Research

South Brisbane and ATC gross take-up



Source: JLL Research (gross take-up), Dexus Research

East and South Perth gross take-up



Source: JLL Research (gross take-up), Dexus Research

Retail indicators

Sales growth to improve through FY25

Recent sales numbers indicate a broad-based improvement after a sluggish year in FY24. Retail sales grew by a strong 0.7% in August to take year on year sales growth to 3.1%. The recent uptick in retail sales has been primarily led by pharmaceuticals and toiletries, which grew by 8.7% year-on-year, and food, which increased by 3.8% year-on-year.

The usual retail indicators are still somewhat mixed, but clearly the positive factors are outweighing the negative. On the negative side, cost of living pressures are still weighing on spending. In addition, consumer confidence remains below average despite a mild improvement in recent months.

On the positive side, wages have risen with real wages pushing into positive territory, tax cuts have significantly boosted after tax incomes, most of the major banks have started to reduce mortgage rates on new lending and it is likely that after sharp rises in interest rates through FY23, consumers now perceive a stable cash rate as a positive. In addition, a surge in population growth has helped mask a subdued level of spending per capita.

Going forward, much will depend on the labour market. While employment growth is gradually softening, the unemployment rate remains tight, supporting a level of household spending. There is cautious optimism for a soft landing in jobs growth as monetary tightening continues to work through the economy, tempering inflation while maintaining employment stability.

After a post-pandemic lull, consumers are now spending more online. Online spending grew by 13.3% year-on-year.

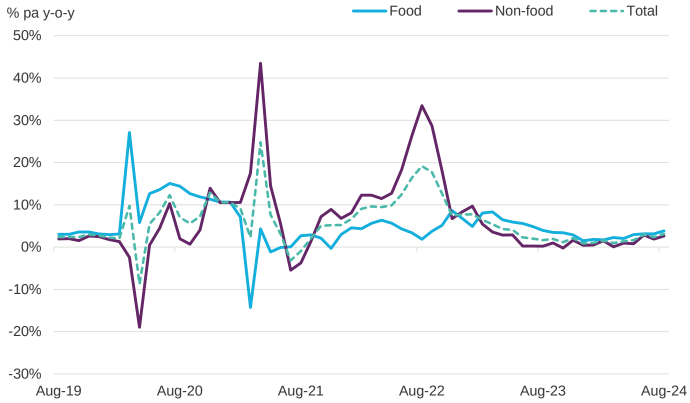
Our view is for continued momentum in retail sales driven by population growth, rising incomes and alleviating cost of living pressures. Retail sales are expected to grow at an average rate of 3.5% over the cycle.

Retail sales growth by category (August 2024)

	m-o-m	y-o-y	MAT
Cafes	1.0%	0.5%	2.2%
Clothing	1.5%	2.1%	0.4%
Department Stores	1.6%	2.2%	1.0%
Food	0.6%	3.8%	2.7%
Other	1.3%	6.6%	3.3%
Household Goods	-0.3%	1.4%	-1.3%
Total	**0.7%**	**3.1%**	**1.8%**
Online Sales	-1.1%	13.3%	6.4%

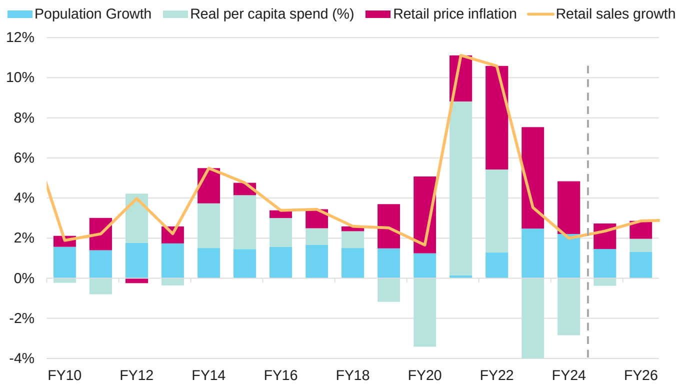
Source: ABS, Dexus Research

Discretionary vs non-discretionary spending growth



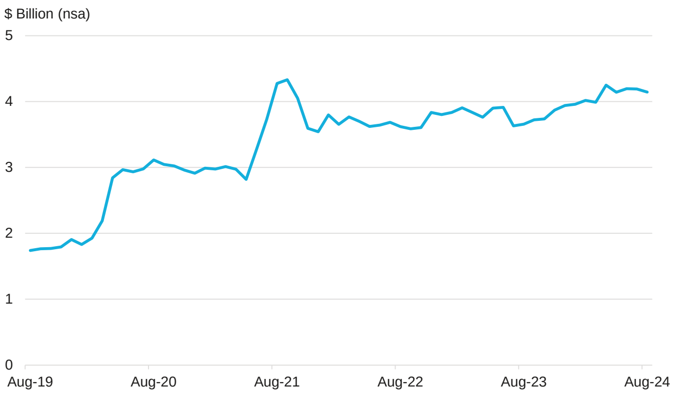
Source: ABS, Dexus Research

Components of retail sales



Source: Oxford Economics, Dexus Research

Level of ecommerce sales



Source: ABS, Dexus Research

Retail performance

Retail investment looking more compelling

The retail sector appears to have reached a significant inflexion point after a challenging period over the past five years, including interruptions to trading during the pandemic.

Shopping centre fundamentals are generally positive. Vacancies across shopping centre types have held relatively steady despite the weak sales environment. Melbourne and Sydney have seen a small uptick in vacancy while vacancy has declined in Adelaide and Perth. Lower occupancy costs than before the pandemic will help preserve occupancy levels and provide room for future growth in shopping centre rents. Rents are responding, as evidenced by both Vicinity and Scentre Group reporting positive releasing spreads over the past year.

A lack of new shopping centre supply is another positive, particularly given population growth is adding to aggregate demand. The supply of enclosed shopping centre space projected over the next two years is around 70% of the 20-year average, and there is no development of regional shopping centres. Supply of shopping centre space is being held back by construction costs and planning constraints.

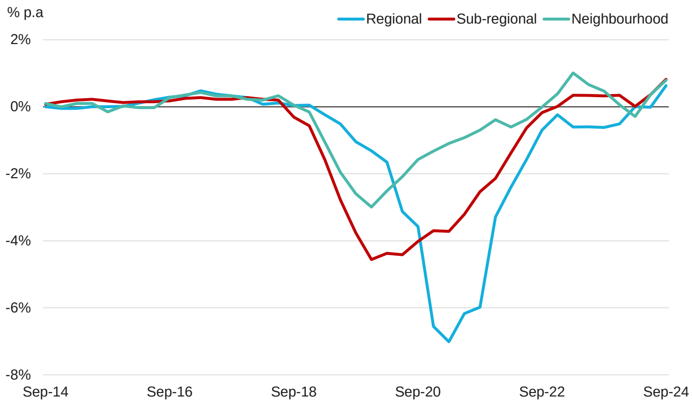
The retail sector is looking compelling on a relative value basis. Yield expansion has been milder than the other main real estate sectors and total returns for retail funds in Q3 2024 of -0.5% p.a. exceeded the ‘All funds’ index of –9.0% p.a. Yields have been broadly flat on a quarterly basis, with no expansion recorded for any shopping centre class and even some marginal contraction for Sydney Neighbourhood shopping centres.

Retail performance snapshot

	Q3 Specialty rent growth % y-o-y.	Cap rate change q-o-q (bps)
Sydney		
Regional	1.0%	0
Sub-regional	0.4%	0
Neighbourhood	0.4%	-12.5
Melbourne		
Regional	1.0%	0
Sub-regional	0.4%	0
Neighbourhood	0.4%	0
SE QLD		
Regional	1.1%	0
Sub-regional	3.2%	0
Neighbourhood	3.1%	0

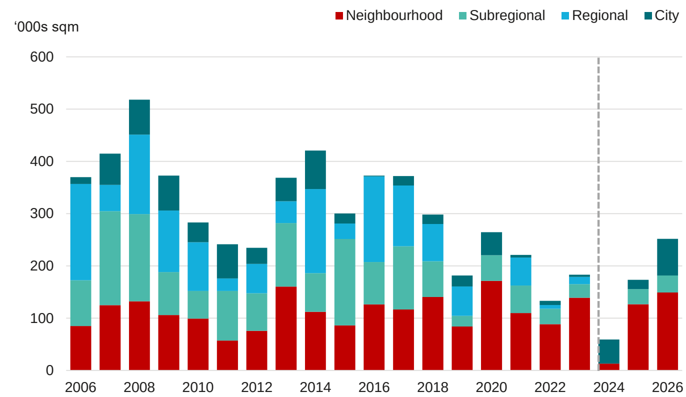
Source: JLL Research, Dexus Research

Shopping centre rent growth



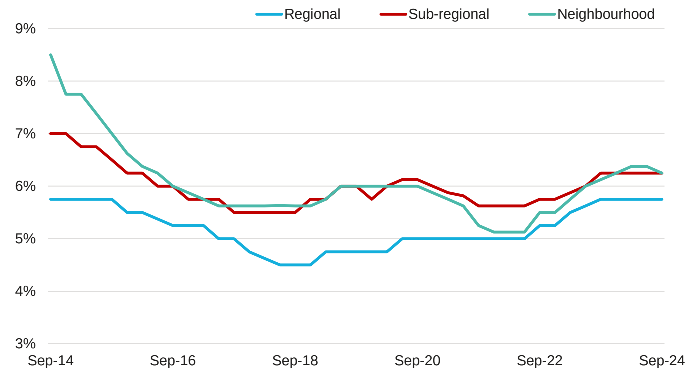
Source: JLL Research, Dexus Research

Australian enclosed shopping centre supply



Source: JLL Research

Yields by centre type



Source: JLL Research, Dexus Research

Healthcare

Short term challenges but growing demand

The healthcare sector continues to face some challenges in the form of cost pressures and staffing issues. However, the underlying demand for healthcare services continues to increase, which should ensure continued investment and government support over the long term.

Australians continue to suffer from chronic conditions, and the proportion is increasing. Those with chronic conditions are reliant on the medical system to provide diagnosis, support and potential treatment. Approximately 6 in 10 people are living with a long-term health condition. Once a person is diagnosed with a chronic condition, they persist through that person's lifetime and require long term active management.

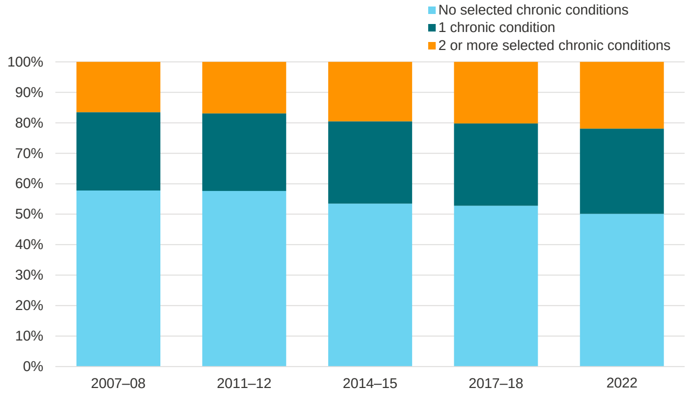
In 2022-23, 60% of people who visited a GP in the last twelve months had a long-term health condition, and almost one in six claimed a Chronic Disease Management Service. Hospitals are often utilised by those with chronic conditions with 55% of hospitalisations associated with persons with a chronic condition, and 74% of all bed days, according to the AIHS Australia's Health 2024 report. As the proportion of people with chronic condition increases, so does the need for medical services and the case for sustained government and private investment.

An increase in demand for elective surgery, as well as a large backlog from Covid, has put strains on hospitals. The wait times for elective surgery have increased significantly, with 50% of patients waiting 49 days for surgery in 2022-23, up from 40 days in 2021-22. 9.6% of patients waited longer than 365 days for surgery in 2022-23, up from 6.3% in 2021-22. This growing backlog of patients continues to press on healthcare systems, but on a positive note, it points to a strong demand outlook over the long term.

The Aged Care Bill 2024 is a new reform introduced to improve the quality of support for ageing Australians. This new program was designed to help provide better support for home care as well as new funding for specialists programs for the aged care system. With a growing ageing population, this bill is designed to support the demand for aged care systems, helping to alleviate the strain on the sector. It includes measures to build a stronger workforce through additional training and new regulatory requirements.

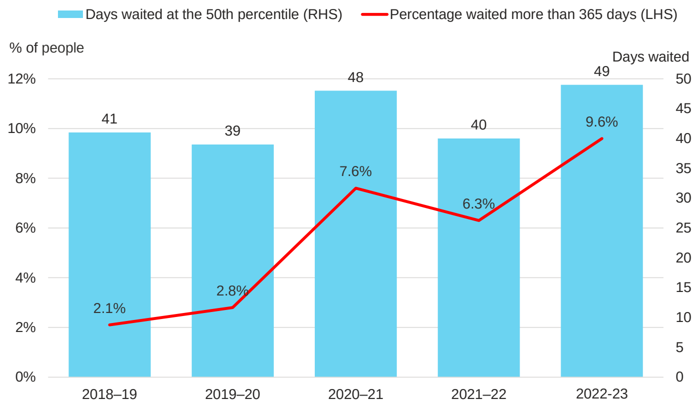
Investor interest in healthcare as a real asset class is relatively strong according to the latest Asia Pacific Investor Sentiment Survey. Healthcare, including life sciences topped the list of preferred alternative real asset classes along with real estate debt and data centres.

Australians with chronic conditions over 15 years



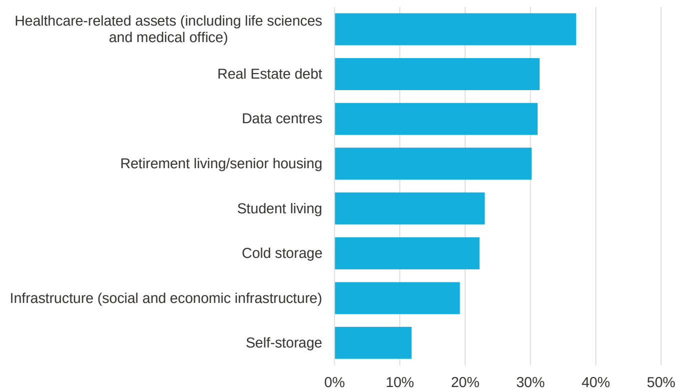
Source: Australian Institute of Health and Welfare

Elective surgery wait times



Source: Australian Institute of Health and Welfare, Dexus Research

Preferred alternative real asset classes in 2024



Source: CBRE Research, Asia Pacific Investor Sentiment Survey

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