

## Real Estate Strategic Outlook: Australia

### Australia expected to benefit from increased investment demand

#### Cautiously optimistic for a turn in the economic cycle late 2024

The Reserve Bank of Australia has left the cash rate unchanged at 4.35% over the past six months, however recent volatility in inflation figures place caution around the timing and magnitude of rate cuts.

Australia's inflation rate has seen a material decline to 3.6% (April 24), with higher interest rates flowing through to household budgets. Recent upticks in the monthly inflation figures, attributable to sticky services inflation and a challenged housing market suggest the path to disinflation is unlikely to be smooth. Further pressure is likely to come from higher petrol prices and an end to energy rebates. Considering recent events, economists and major banks have revised down their expectations to a single rate cut of 25 basis points late 2024. The RBA remains cautious on its decision, with a headline inflation target between 2-3% by the second half of 2025. Nonetheless, a period of falling interest rates and declining inflation will support a rebound in economic growth 2025+.

#### Improving investor confidence to drive transaction volumes

Transaction volumes remain subdued but are expected to improve. The transaction market has been influenced by a period of weaker demand as investors adjust pricing expectations to match increases in the cost of capital. Office and industrial saw the largest repricing between 150-200 basis points.

Positively, a recent stabilisation in the cash rate has allowed the spread between the transaction and valuation market to narrow. With declines in the cash rate and subsequently the 10 year gov bond yield expected later this year, this will likely see an increase in liquidity enter the market and a moderate decline in property yields in coming years.

#### Residential: Lower vacancy against ambitious housing targets

The residential market continues to be influenced by strong immigration inflows against weaker housing completions. Rising house prices against record low vacancy has led to poor purchase affordability and a competitive rental market. While the federal government is committed on increasing supply, the current BTR pipeline only represents a small portion of required supply. Capacity constraints within the construction sector and high build costs look to see vacancy

remain lower over the next couple of years, which bodes well for rent growth prospects.

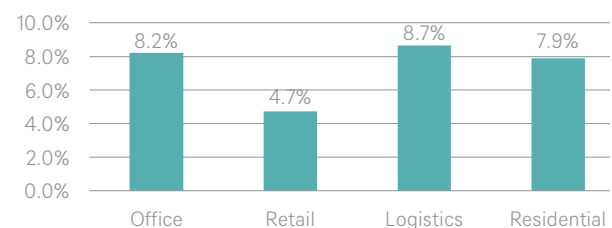
#### Logistics: Robust demand outlook amid constrained supply

The fundamentals of the Industrial market remain robust despite a weakened economic backdrop. Capital values have been mostly resilient due to strong face growth. Slowing household consumption has led to a reduction of inventory with sub-leasing more apparent. Increased supply has seen vacancy and incentives lift across all markets. Further impacts to vacancy look to be mitigated by high pre-commitment levels. The Sydney market looks to have the strongest fundamentals with a tighter vacancy rate, high levels of pre-commitment over the next two years and limited serviced land. Future demand could be supported by continued growth in population and ecommerce. Infill markets close to population catchments and locations around key/future infrastructure should fare better.

#### Office: A rebound in the office market at an attractive price point

The office market market has been challenged, however there are reasons to be optimistic. Occupancy rates have significantly improved and sub-leasing declined as businesses become more certain on flexible working arrangements and space requirements. There continues to be a divergence in leasing performance with a preference towards newer prime grade stock in core locations. Limited upcoming new supply should help drive an improvement in vacancy, incentives and ultimately effective growth. Large discounts to book values amid improving fundamentals are more favourable in the Sydney office market, which present an attractive buying opportunity over the next 6-12 months.

### Total Return Forecast in Australia, 2025-2033f, p.a.



Source: DWS, June 2024

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