

Media Release

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BUSINESS SENTIMENT PROPS AUSTRALIA'S CRE MARKET

Real Estate Institute of Australia (REIA) President, Hayden Groves said the end of 2023 financial year was a mixed period for the sector with investor uncertainty, a challenging leasing market and lower transactions offset by solid reported profits underpinning the commercial real estate market.

REIA's Commercial Agency Engagement Program (Project CRE), found that while consumer confidence has been near record lows for some time now, business conditions for some sectors was still strong.

“Unemployment remains near record lows, and while business confidence is flat, it is nowhere near the recessionary levels of consumer confidence.

“While office vacancy rates remain high across the country, particularly in the Sydney and Melbourne CBDs, occupancy across most asset classes have held up well considering the pace of interest rate hikes are yet to fully impact.

“One key driver of demand for commercial real estate is overseas migration. Both the March and September 2022 quarters were record years for net overseas migration, which is extraordinary given how strong migration intake was prior to the pandemic. Small-scale commercial assets are often a target for new arrivals keen to start a business and with reasonable supply, high-street stock is finding new occupants.

“The emergence of the Build to Rent (BTR) commercial property investment category in more recent years is beginning to play an important role in providing additional housing stock where tenants are demanding it, opening additional investment channels for institutions.”

Mr Groves said that even as markets are quite certain inflation has peaked, long term interest rates remain high.

“In April 2021, the 10 year bond rate in Australia was 1.68 per cent, which supported low commercial property yields. Now, the 10 year bond rate is 3.47 per cent. While this is down from a peak of 3.71 per cent in February 2023, there is no significant downward trend in long term interest rates globally.

“Markets remain unsure as to how long interest rates will need to remain restrictive in order to get inflation back down to target levels.

“Indeed, the RBA has been clear that getting inflation back down to the target range of 2 to 3 per cent is their ultimate goal. The impact of high inflation and interest rates to the commercial property sector has been profound,” he said.

According to global property group JLL, Q4 2022 global investment volumes were down 58% year on year, a massive decline on the all time high set in Q4 2021.

According to Colliers, prime grade office yields increased by 30bps since the low point in early 2022. However, over the same time period, the Australian 10 year bond rate has increased by 196 bps. Unless there is a major drop to the 10 year bond rate, which seems unlikely while inflation remains elevated (even if falling), capitalisation rates in the commercial property sector are almost certain to increase as we will receive more transactional evidence over 2023.

Phase Two of REIA Project CRE will be launched soon.



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Established in 1924, REIA is a federated body of State & Territory Real Estate Institutes representing 85% of Australian real estate agencies. We are a national advocate for the Australian real estate industry which is made up of 46,793 Australian businesses that employs 133,360 Australians.

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