Australian Real Asset Review

Q2 2025

Horizon 3023, Ravenhall, Victoria

Inside

Investment climate

Australia well positioned for tariff turbulence

The global growth outlook has become more uncertain due to a series of tariff announcements by the United States. Volatility in global financial markets has increased significantly. In relation to impacts on Australia, Australia's direct trade exposure to the US is minor at less than 5% of total exports. The main concern is the indirect effect of a possible US recession or a slowdown in China. Financial market volatility is also an issue as it could affect deal flow or business confidence.

In the event of a global slowdown, there are mitigants which could smooth the impact on Australia. The Reserve Bank has scope to reduce interest rates, the Federal government has capacity for fiscal stimulus and Australia's population growth is a good buffer against global shocks.

Looking domestically, Australia has begun a new phase of the economic cycle comprising easing interest rates and firming private sector growth. Employment is growing at around 2.7% p.a., and the unemployment rate remains low at 4.1%. Australia's GDP expanded 1.3% in 2024 and is forecast to grow 2.2% in 2025. A Federal election is scheduled for 3 May 2025.

The headline annual inflation rate fell to 2.4% in Q4 2024, the lowest reading since Q1 2021. Accordingly, the Reserve Bank lowered the cash rate by 25 bps at its February meeting to 4.1% and maintained the cash rate at the April meeting. Further falls have become likely due to the US tariffs. The market interest rate swap curve has steepened and implies the cash rate will fall further to 3.2% in 2026.

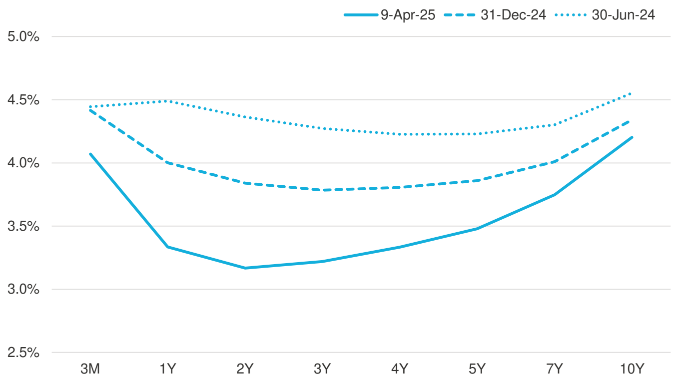
Any falls in either the cash rate or bond yields through 2025 are likely to be positive for real asset valuations given the improvement in relative yields.

Australian economic forecasts

	Jun-25	Jun-26	Jun-27
Real GDP %p.a.	2.0%	2.5%	2.7%
Employment %p.a.	2.6%	1.4%	1.4%
Unemployment %	4.2%	4.4%	4.4%
Business investment %p.a.	0.4%	3.1%	3.3%
Dwelling investment %p.a.	1.3%	4.4%	8.7%
Population %p.a.	1.3%	1.2%	1.2%
Retail sales %p.a.	4.3%	3.1%	3.1%
CPI %p.a.	2.1%	3.5%	2.5%
Cash rate %	4.1%	3.4%	3.4%
10yr Bond %	4.2%	4.2%	4.2%

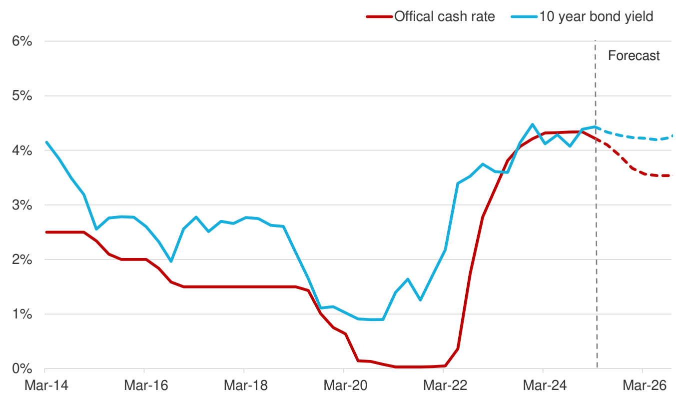
Source: Oxford Economics, March 2025

Australian interest rate swap curves



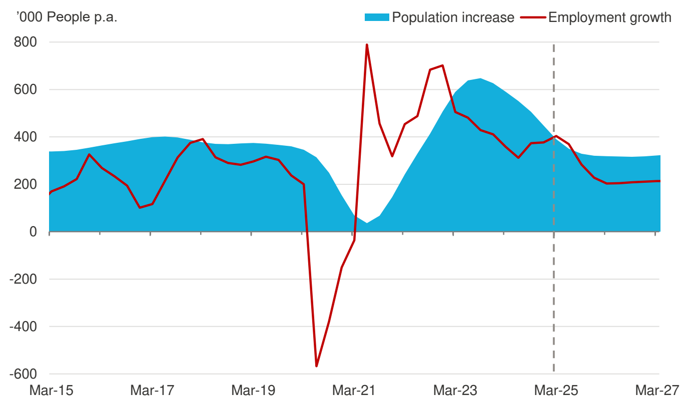
Source: Bloomberg, Dexus Research

Australian interest rate forecasts



Source: Bloomberg, Oxford Economics, Dexus Research

Population and employment growth forecasts



Source: Oxford Economics, Dexus Research

Waking up to a new reality

What volatile markets mean for real assets

History has shown that periods of structural change in the macro environment can lead to changes in asset allocations. We may be in such a period now.

The US trade announcements have ushered in what could be the ‘new reality’ - an extended period of public market volatility, geopolitical risk, below-par global growth and sporadic inflation risk. Investors may look for alternatives to their listed equity investments given diminished earnings growth and higher volatility.

Real assets appear well suited to the new reality. Real assets, which include investments such as real estate, and health, social, transport and energy infrastructure usually have:

› Intrinsic value due to their physical form and essential purpose in keeping society functioning
› High yields with secure income streams
› Low correlation with equity and bond markets
› Inflation hedging properties over time, through leases or contracts, and
› In many cases the ability to add extra value.

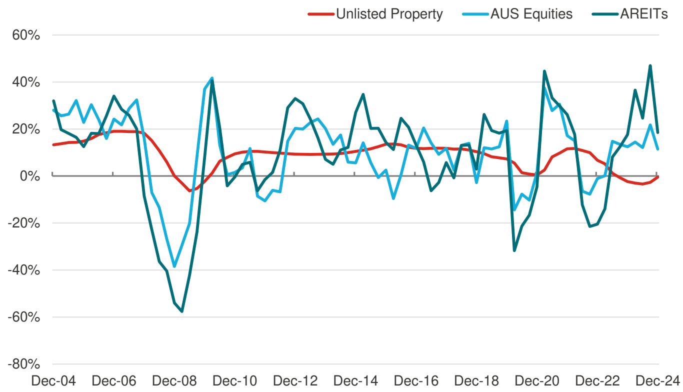
Relative value is looking good. Many types of real assets are at a low point in the value cycle after successive rises in interest rates. If interest rates fall further the headwind will become a tailwind.

In addition, the yields on infrastructure investments look more attractive. Discount rates fall and valuations increase.

Historically, low points in the value cycle have led to good returns, for example, a buyer of an office building after the previous downturn in 2010 saw the value grow by 112% in the ten years following, which is more than double the average growth rate over the index’s 35-year history. Industrial and retail investments have also offered good growth from low points in the cycle.

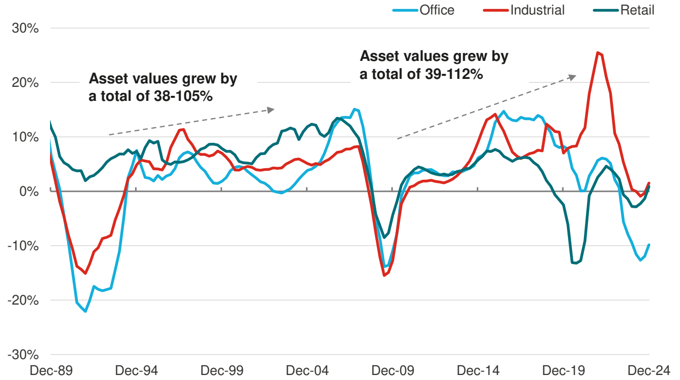
Investors and their advisers will be understandably cautious about making any new investments until the consequences of tariffs are better understood. However, as funds start flowing again, there are good reasons for them to increase allocations toward real assets.

Stability of unlisted returns over the past two decades



Source: MSCI, Bloomberg, Dexus Research

Good buying points for real estate – asset value growth



	Growth in asset values from…	
	1993	2010
Office	38%	112%
Industrial	75%	89%
Retail	105%	39%

Source: MSCI, Dexus Research

Market performance

Unlisted real estate returns on the way back

All the unlisted real estate sectors recorded improving returns in Q1 2025 after a period of weakness. Retail and industrial funds were back in positive territory. This improving trend is expected to continue through 2025, helped by falling interest rates and a strengthening economy. Diversified wholesale total returns were 1.2% q-o-q, the highest since Q3 2022. Returns are expected to move back above 7% per annum levels within 12 months as the drag from revaluations subsides. Unlisted infrastructure performed relatively well over the past year, returning 10.4%.

Australian shares had a weak year to March 2025 returning 2.8%. There has been significant volatility in listed share markets since then in response to the tariff announcements on 2 April 2025 and subsequent postponement. After falling 11.3% initially, by 11 April 2025 the US S&P500 index ended up 6.1% lower than before the announcement. The impact on Australian equities has been more modest, reflecting Australia's low direct exposure to tariffs. The ASX/S&P 200 equities index fell 4.9% initially to be down a net 2.5%. The AREIT index proved its defensive worth, staying in positive territory (+0.3%) by 11 April 2025.

The interest rate environment in the year to Q1 2025 has been relatively stable with a cash rate cut in February. This stability, and an easing of valuations, encouraged a 14% lift in transaction volumes in the year to Q1 2025. Importantly, office transactions in Q1 were up 20% compared to Q1 2024. This uptick signals improving liquidity and growing confidence in valuations.

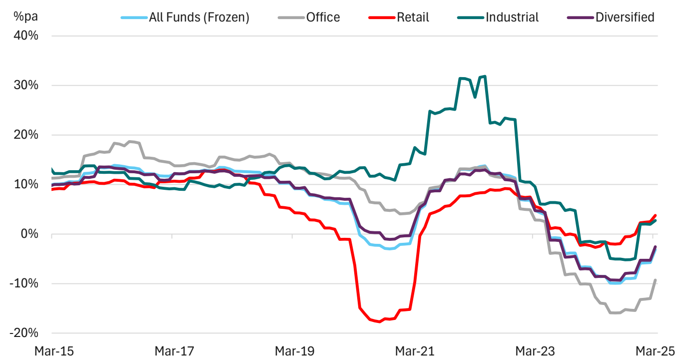
A falling interest rate environment presents a tailwind for real estate performance. Markets are pricing in a further 120bps of interest cuts (as of 10 April 2025).

Asset class performance to March 2025

	Qtr. %	1 yr % p.a.	3 yr % p.a.
AREITs[1]	-6.8%	-5.4%	3.6%
Australian shares[2]	-2.8%	2.8%	5.6%
Unlisted infrastructure[3]	4.5%	10.5%	9.1%
Australian cash[4]	1.1%	4.5%	3.6%
Australian fixed interest[5]	1.3%	3.2%	1.7%
Unlisted property[6]	1.2%	-2.6%	-2.3%

Source 1: S&P/ASX 200 A-REIT Accumulation Index
Source 2: S&P/ASX 200 Accumulation Index
Source 3: MSCI Australia Quarterly Private Infrastructure Fund 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

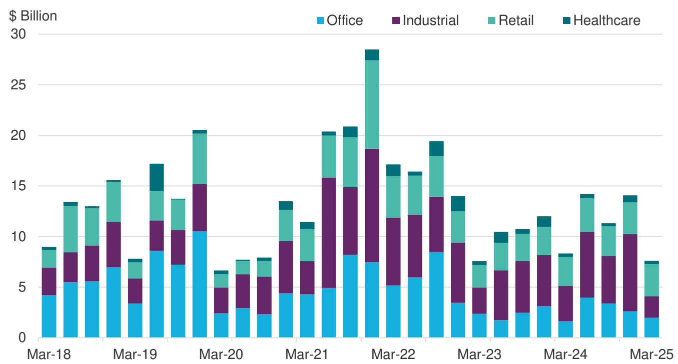


Source: MSCI, Bloomberg, Dexus Research

AREIT price and unlisted capital return indexes

Source: Dexus Research

Quarterly transaction volumes – real estate



Source: MSCI, Dexus Research

Infrastructure

Focus on energy and digital sectors

Global infrastructure deal values were down 19% in Q1 2025 at US$200.7 billion compared to the same period last year. This trend was mirrored in Australia, where infrastructure deal value was down 62% at US$5.4 billion in Q1 2025. Despite the quiet quarter, there were significant transactions across the transport, energy, and digital infrastructure sectors. The growing emphasis on renewable energy and sustainable practices is channelling significant capital into the energy sector including Battery Energy Storage Systems (BESS).

Looking ahead, the rest of 2025 is difficult to predict due to increased market volatility. The main considerations for infrastructure investors are any changes to the interest rate outlook, discount rates, aircraft movements through airports and any effects on global inflation.

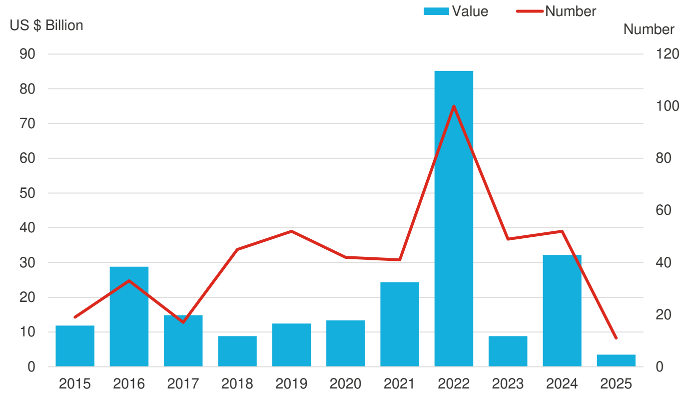
The federal government continues its significant investment in infrastructure. Key highlights of the 2025-26 Federal Budget include $17.1 billion for new and existing road and rail projects, $2.3 billion for critical infrastructure upgrades in Western Sydney, $2.0 billion for upgrading Sunshine Station in Melbourne as part of the Melbourne Airport Rail Link proposal, and $1.0 billion for the Road Blitz program in Melbourne.

Ahead of the federal election on 3 May 2025, the major parties have announced different energy policies. The incumbent Labor government is targeting 82% renewable energy in the national grid by 2030.

The Liberal National Party has announced an intention to scrap renewable energy incentives and expressed opposition to wind farms. Their nuclear policy aims for 38% of Australia's power to come from nuclear energy by 2050, with the remainder from renewables and gas.

In the digital infrastructure sector, Infratil and the Future Fund have acquired an additional 12% of CDC Data Centres from Commonwealth Superannuation Corp (CSC) for $1.65 billion. In the energy sector, Intera Renewables completed the purchase of Limestone Coast North Energy Park in South Australia ($460m) and Ampyr Energy Global has taken ownership of the Wellington battery energy storage system in New South Wales.

Australian M&A infrastructure transaction volumes



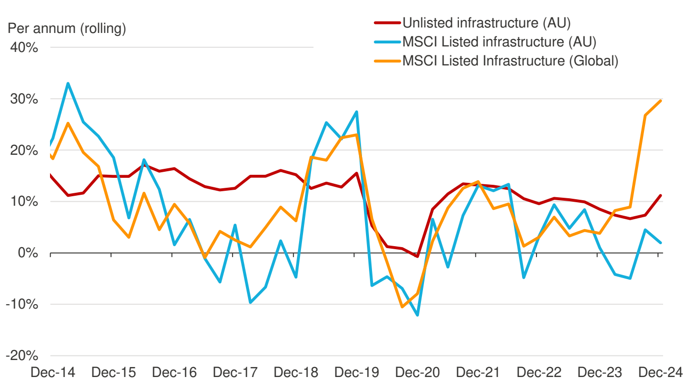
Source: Infralogic (closed transactions), Dexus Research

Major infrastructure transactions Q1 2025

Date	Asset	Buyer	Value (US$ million)
Feb-25	Wellington BESS	Ampyr Energy Global	N/A
Feb-25	Connexa	CPDQ	$526
Mar-25	Canberra Data Centre	Infratil & Future Fund	$1,040
Mar-25	GreenSquare Data Centres	Partners Group	N/A
Mar-25	Transgrid	Future Fund	~$635
Mar-25	Axedale Solar/BESS	Fotowatio Renewable Ventures	N/A
Mar-25	Limestone Coast North Energy Park	Palisade Investment Partners	$293
Mar-25	Dinawan Energy Hub	Copenhagen Infrastructure Partners	N/A
Mar-25	Powerco	Dexus (Rest)	N/A

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

Australian and global infrastructure returns



Source: MSCI Australia Quarterly Private, Infrastructure Fund Index Australia Listed Infrastructure MSCI Index, Dow Jones Brookfield Global Infrastructure Total Return Australian Dollar Index

Office

Office sector turning the corner in 2025

The office sector has exhibited signs of improvement in Q1 2025, with positive trends emerging across the main CBD markets, particularly Melbourne CBD.

Vacancy rates have dipped in most CBDs. Vacancy in Melbourne CBD decreased for the first time since 2021, dropping to 18.6%. Sydney and Perth CBDs also experienced declines in vacancy, totalling 15.3% and 15.7% respectively. However, CBD vacancy in Brisbane edged up to 10.2% from 9.8%.

The improvement in Melbourne was driven by 34,600sqm of positive net absorption, largely due to Coles' centralisation. Despite this, net effective rents declined by 3.0% q-o-q and incentives continue to rise. Conversely, Sydney CBD net effective rents increased by 5.8% over the quarter, while prime incentives decreased to 33%, the lowest since 2021. While Brisbane CBD had negative net absorption over the quarter, net effective rents grew 3.6%.

The corporate right-sizing cycle appears to be moderating. An indicator of this is the level of subleasing across Australia's four main CBDs in Q1 2025, down 52% from 2020 levels (399,000sqm to 193,000sqm). Sublease vacancy has more than halved in both Sydney and Melbourne CBDs compared to 2020. Consequently, office enquiries are expected to improve through 2025. Reports of some firms running short of space as more staff return to the office is a positive sign for future demand for space.

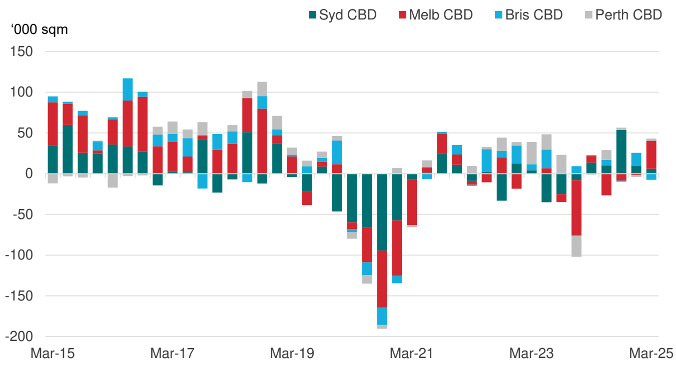
The supply pipeline has contracted significantly, and a significant supply gap is likely to emerge in the next few years. Forecast commencements for Sydney CBD in the next five years are just half of what was completed over the past five years. In Melbourne it is only a third. Tightening supply is expected to protect existing stock from oversupply and drive rent growth. In Sydney the case for further growth in rents is strengthened by an estimated 20% gap between market rent and the economic rent needed for new builds. This suggests a growth phase in market rents as a catch-up occurs.

Office snapshot

	Total Vacancy	Q1 Rent growth* (% p.a.)	Projected Net supply FY25-27 (%p.a.)
Sydney CBD	15.3%	10.0%	1.5%
North Sydney	20.9%	-2.7%	2.0%
Sydney Fringe	14.9%	-9.8%	0.3%
Parramatta	23.9%	-2.1%	2.4%
SOP / Rhodes	20.8%	-4.3%	0.0%
Melbourne CBD	18.6%	-8.8%	1.3%
Brisbane CBD	10.2%	11.6%	1.2%
Perth CBD	15.7%	1.0%	1.8%

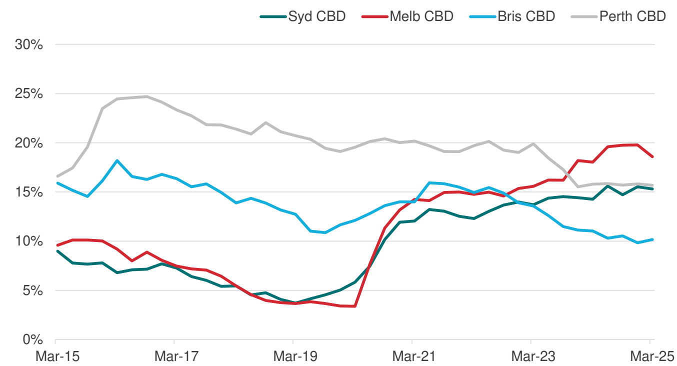
Source: JLL Research, Dexus Research, *Rent growth is net effective

Quarterly net absorption by CBD market



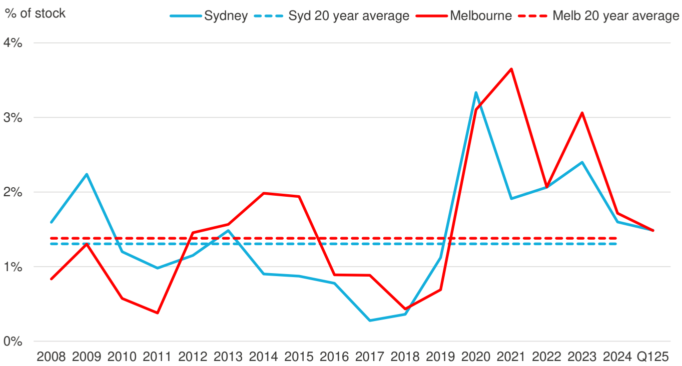
Source: JLL Research, Dexus Research

Vacancy rates by CBD market



Source: JLL Research, Dexus Research

Sydney CBD and Melbourne CBD sublease vacancy



Source: JLL Research, Dexus Research

Office market wrap

Market	Comments	Direction of trend for next 12 months	
Sydney CBD	Sydney CBD net absorption experienced the fifth consecutive quarter of growth at the beginning of 2025, albeit at a slightly slower pace compared to previous quarters. While the city Core remains the most attractive precinct, Midtown continues to absorb the spillover demand from the Core, recording positive net absorption of +15,378sqm over the quarter. The largest tenant relocations mostly net out within the CBD, and SMEs have been driving positive net absorption. As a result, vacancy has slightly decreased to 15.3%. Coupled with improvements in incentives (33.1%), net effective rent uplifted by 5.8%, the highest quarterly growth since 2017. Prime yields remain no change at 6.3%.	Vacancy	↓
		Rents	↑
		Incentives	↓
		Yields	→
North Sydney	Despite the negative net absorption, demand for North Sydney remains positive, with total vacancy decreasing slightly to 20.9%. North Sydney continues to attract tenants from the rest of the North Shore markets, as evidenced by the relocations of PepsiCo (177 Pacific Highway) and Fleet Partners (101 Miller Street), who are previously based in Chatswood and St Leonards respectively. Sublease vacancy also decreased from 2.5% to 1.6% over the quarter, with the PepsiCo deal over TPG's sublease space a large contributor. Incentives have marginally increased, resulting in only a 0.2% increase in net effective rent in the quarter. It is expected that prime grade market yields have now stabilised at an average of 7.2%.	Vacancy	↑
		Rents	→
		Incentives	↑
		Yields	→
Parramatta	Net absorption in Parramatta saw a slight recovery in the first quarter of 2025, driven by the resurgence of small tenant activities. Notably, the University of Sydney expanded its presence in Parramatta by 1,700sqm at 60 Station Street. The vacancy rate in Parramatta decreased marginally to 24.0%. While high-quality assets in the market are performing better, lower grade office spaces are likely to be withdrawn and change of use/adaptive reuse will be considered by their owners. Following several quarters of decline, net effective rent experienced its first quarterly increase of 1.7%, supported by reduced incentives (46.5%) and a healthy rise in face rents. Market yields have also stabilised, remaining unchanged at 8.1%.	Vacancy	→
		Rents	→
		Incentives	→
		Yields	→
Melbourne CBD	The Melbourne CBD has achieved its highest quarterly net absorption since 2018, bolstered by a notable net absorption of 74,530sqm from prime grade assets, the highest since 2019. Vacancy rates have decreased to 18.6%, driven by improved leasing conditions in Docklands and increased withdrawals (-36,850sqm). There has been an increase in larger requirements in early 2025, however decision making is slow with economic uncertainty one of the main factors. The public sector continues to drive consolidation, with DEWR vacating three office spaces in Flagstaff and consolidating into Civic. Rents declined 3% over the quarter, however this was driven by an increase in incentives in Docklands. Prime grade yields are now expected to have stabilised at 7.1%.	Vacancy	→
		Rents	→
		Incentives	↑
		Yields	→
Brisbane CBD	Leasing activity began at a moderate pace in the first quarter of 2025, with some contraction and consolidation activities, resulting in a negative net absorption of 7,549sqm. However, Premium assets remain in demand and continue to experience positive net absorption, totalling 5,166sqm. While overall vacancy slightly increased to 10.2%, Premium vacancy further tightened to 6.0%, significantly lower than its decade average of 10.5%. The tight leasing conditions in Premium assets exerted additional upward pressure on prime net effective rents, which increased by 3.6% over the quarter, primarily due to rising face rents. Demand is expected to continue outpacing supply in 2025, supporting short-term rent growth. Prime average yields are expected to have stabilised, remaining unchanged at 7.1%.	Vacancy	→
		Rents	↑
		Incentives	↓
		Yields	→
Perth CBD	Despite commodity prices remaining soft, the Perth CBD office market largely remained stable over the first quarter of 2025, with a marginal increase in net absorption (+2,584sqm), supported by centralisation activity. Ramelius Resources relocated from East Perth to Perth CBD. The mining and professional services sectors remain the most active industries, with both expansion and contraction activities overall maintaining a balanced market. There has been no change in rents and incentives and yields also remained unchanged at 7.4%.	Vacancy	↓
		Rents	↑
		Incentives	→
		Yields	→

Industrial

A more moderate year ahead

The Australian industrial market has continued to stabilise after a period of rapid growth.

Occupier demand was relatively strong through Q1 2025. Occupiers in the transport, postal and warehousing sector (3PLs) were behind most of the take-up in the quarter, with a large amount being prelease space. The outlook for demand is positive with retail spending firming and ecommerce sales growing by 12.2% in the year to Feb-25. Any further rate cuts over the year are likely to support consumer spending, which will drive occupier demand.

Supply has been largely meeting demand with some drift up in vacancy in the outer markets. Most of the supply that came through in the quarter was concentrated in Brisbane, followed by Melbourne and Sydney. Around 50% of the completions in Q1 were speculative and looking ahead about half of the supply pipeline nationally for 2025 is pre-committed, which will help constrain the rise in vacancy rates.

Prime net face rents are growing but the rate is tapering as growth moves back to more normalised levels. Growth in Sydney averaged 1.9% in Q1 2025 while Melbourne and Brisbane recorded 1.4% and 1.1% respectively. Rent growth was most pronounced in Adelaide in Q1 2025 ranging between 7-11% in different precincts. The gap between prime and secondary grade assets continues to widen, as occupiers seek higher quality space.

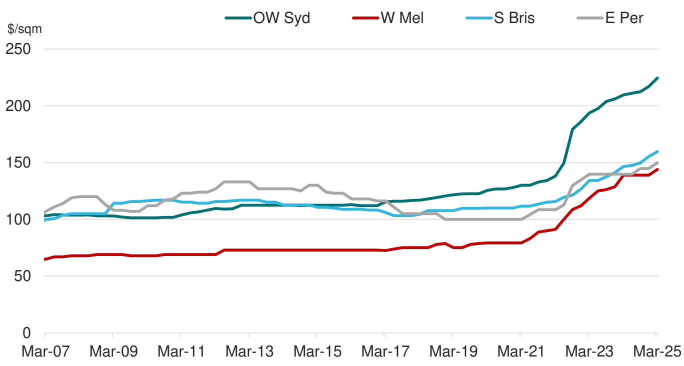
Vacancy rates have increased marginally in the East Coast markets to 2.8% in Sydney and Melbourne. Brisbane vacancy sits higher at 3.6%. Perth saw a fall to 2.5%. Across the nation, vacancy rates are highest in North Melbourne (4.2%) and South Brisbane (4.7%), and Outer West Sydney (4.7%). Vacancy rates, although rising, are still low on a global basis.

Industrial snapshots

	Prime cap rate change q-o-q (bps)	Existing prime net face growth % y-o-y
Outer West Sydney	-13 bps	7.1%
West Melbourne	25 bps	3.6%
East Perth	0 bps	7.2%
South Sydney	-19 bps	6.0%
Inner West Syndey	-6 bps	6.3%
Southern Brisbane	-13 bps	8.9%

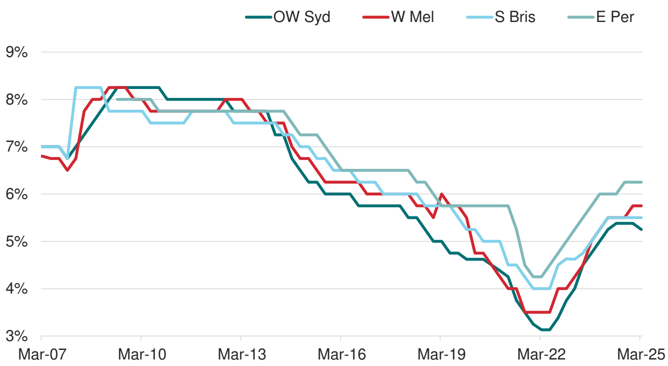
Source: JLL Research, Dexus Research

Industrial net face rents by precinct



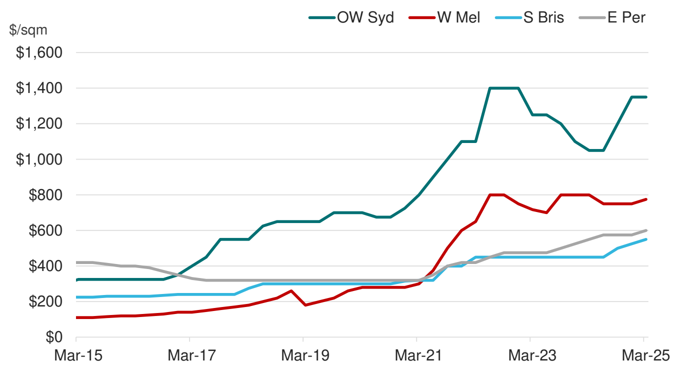
Source: JLL Research, Dexus Research

Industrial cap rates by precinct



Source: JLL Research (average prime), Dexus Research

Industrial land values by precinct



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

Industrial by region

Outer West Sydney

Outer West Sydney saw strong demand in Q1 2025, with 295,000sqm of space being let. Aldi, a food retailer, preleased 87,000sqm of cold storage space in Bradfield. OWS accounted for 50% of total take-up in Sydney in Q1. New supply was concentrated in the Outer Northwest, accounting for almost 50% of new space, followed by the outer South-West at 10%. Due to this high level of supply, it is likely that there will be a slight shift in leasing volumes towards the Outer Northwest in the near future. The vacancy rate in Outer West Sydney was 4.7%*. Prime net face rents rose to $255/sqm, a 3.5% increase q-o-q and 7.1% y-o-y. Prime yields are 5.44%.

West Melbourne

West Melbourne demand was relatively stable in Q1 2025, with most of the demand from logistics tenants. Aldi leased 28,000sqm in Boundary Road, Derrimut. Marek, a warehousing and storage supplier, also leased 22,000sqm in Ravenhall. JLL reported a total of 165,000sqm of take-up in the quarter. The current West Melbourne vacancy rate is 3.1%. Average net face prime rents rose to $144/sqm, a 3.6% change both q-o-q and y-o-y. Prime yields are 6.00%.

Brisbane (South & Australian Trade Coast)

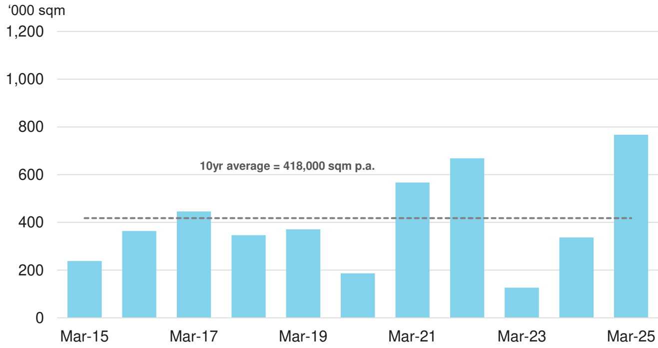
Total take-up in Southern Brisbane and the Australian Trade Coast was 105,000sqm through the first quarter of the year. Most of the demand was driven by Transport, Wholesale and Logistics tenants. United Rentals, a rental and hiring service, pre-leased 21,000sqm in Brisbane Airport (ATC). Stoddart, a building construction company, leased 16,000sqm in Richlands. Net face prime rents rose to $159/sqm in South Brisbane over the quarter, a 2.7% rise q-o-q and 8.9% y-o-y. ATC prime net face rents saw a marginal lift of 0.7% in Q1 2025, but are still up 10.1% y-o-y. Vacancy rates have been significantly higher in the Southern precinct and are currently at 4.7%, and 3.7% in the ATC. Average prime yields are currently 5.88% in both precincts.

Perth (East & South)

Perth has seen elevated levels of take-up over the past few years. In the past quarter, there was a combined 39,000 square metres of take-up. Offsite Construction Perth leased 12,000sqm in Welshpool, East Perth, continuing a trend of engineering and infrastructure demand. Vacancy has fallen across Perth over the quarter, driven by the solid leasing demand. South Perth vacancy is currently 3.5%, while it is 2.2% in the East. Net face prime rents grew 3.5% q-o-q in the East, and 3.6% in the South. Prime yields are currently 6.50% in both precincts.

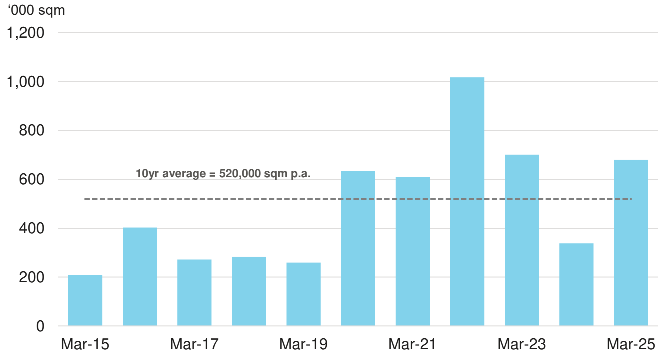
*Note: Vacancy data from Cushman and Wakefield

Outer West Sydney gross take-up



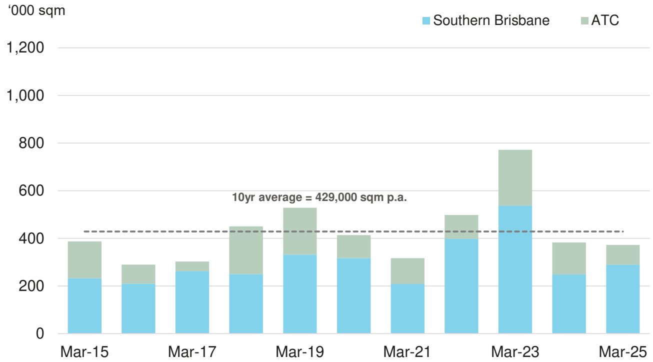
Source: JLL Research (gross take-up), Dexus Research

West Melbourne gross take-up



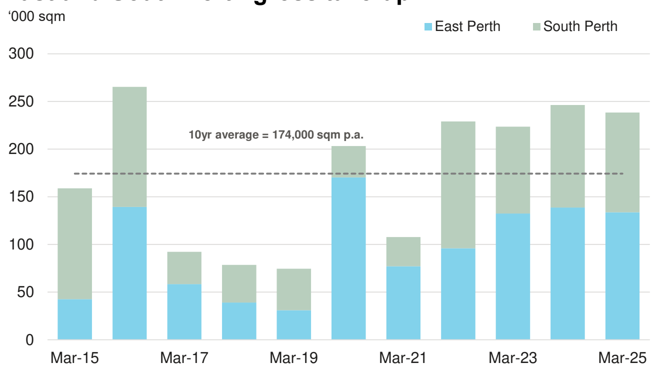
Source: JLL Research (gross take-up), Dexus Research

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 2025

Australia's retail sector showed encouraging signs of life in the first quarter of 2025. February retail sales increased by 3.6% y-o-y. The RBA cash rate target was cut from 4.35% to 4.10% in February which should provide a further boost to the retail environment moving forward. Growth over the past year has been led by pharmaceuticals at 11.3% y-o-y, and food spending at 4.1%. Online retail sales growth continues to outpace that of in-store sales at 12.2% y-o-y, which benefits successful omni-channel retailers.

Consumer confidence nudged up to 94.1 in March. While still in pessimistic territory (below the neutral 100 mark), it is the most optimistic consumers have felt since April 2022. There are some concerns, with a net balance of 25 respondents saying their financial position has deteriorated over the year, a level rarely seen outside of downturns. A risk over the coming months is the impact of the global uncertainty. This looms as a likely drag on both business and consumer sentiment. Having said that, employment growth and wages growth are positives for the retail sector at present.

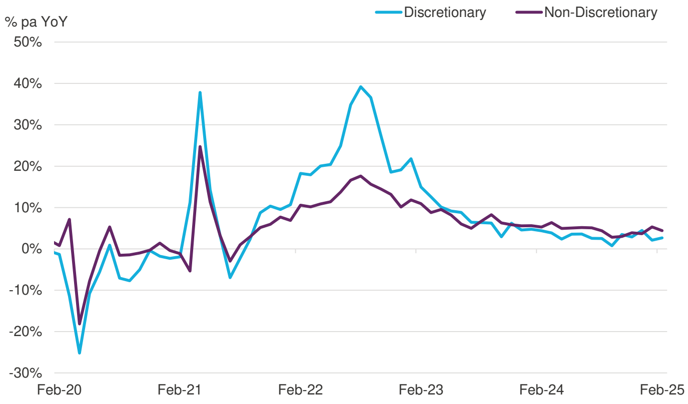
Population growth is a major contributor to retail sales growth. In 2025, this is expected to remain positive but ease from the high levels of last year. In addition, retail price inflation is expected to ease. Despite these influences, we anticipate an increase in headline retail sales growth in 2025 due to a significant turnaround in real per capita spending (see chart). Per capita spending has been unusually negative in recent years in response to monetary tightening and inflation. It should return to more normal levels given rising incomes and easing cost of living pressures.

Retail sales growth by category (Feb-2025)

	m-o-m	y-o-y	MAT
Cafes	0.2%	3.4%	2.0%
Clothing	0.4%	0.4%	1.4%
Department Stores	1.5%	3.2%	0.9%
Food	0.6%	4.1%	3.1%
Other	-1.0%	5.6%	5.6%
Household Goods	-0.3%	2.9%	1.5%
Total	**0.2%**	**3.6%**	**2.8%**
Online Sales	1.7%	12.2%	10.3%

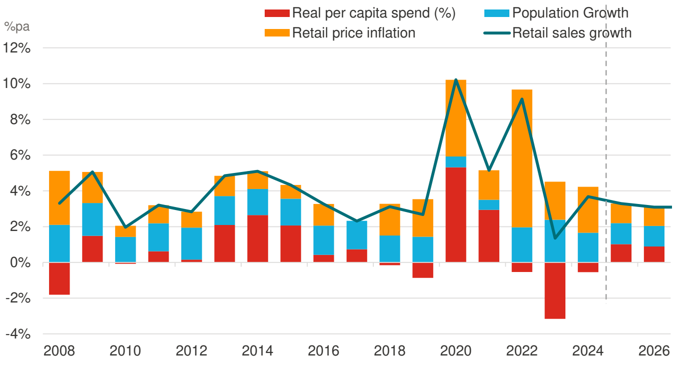
Source: ABS, Dexus Research

Discretionary vs non-discretionary spending growth



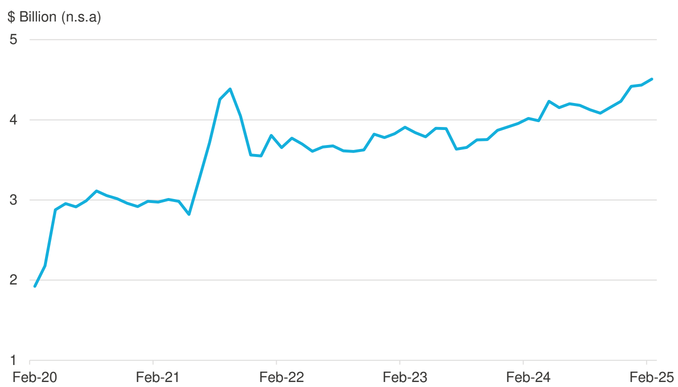
Source: ABS, Dexus Research

Components of retail sales



Source: Oxford Economics, Dexus Research

Level of ecommerce sales



Source: ABS, Dexus Research

Retail performance

Retail's improving value proposition

The retail property market continues to demonstrate resilience. Investor sentiment towards retail assets is firming, underpinned by steady income streams and favourable supply dynamics. While retail unlisted funds posted a modest total return of 2.8% in the year to February 2025, they significantly outperformed the broader market's -3.1% p.a. return and were the best-performing sector on the MSCI Australian wholesale index.

Demand for space is solid, particularly evident in the tightening CBD retail vacancy rate, which improved by 80 basis points in the second half of 2024 to reach 11.3%.

The supply side of the equation is looking particularly favourable for existing assets. Construction costs and planning restrictions are acting as natural handbrakes on new supply. Consequently, the new supply pipeline of subregional and regional space is running at just 70% of the 20-year average. There are no new regional shopping centres in development.

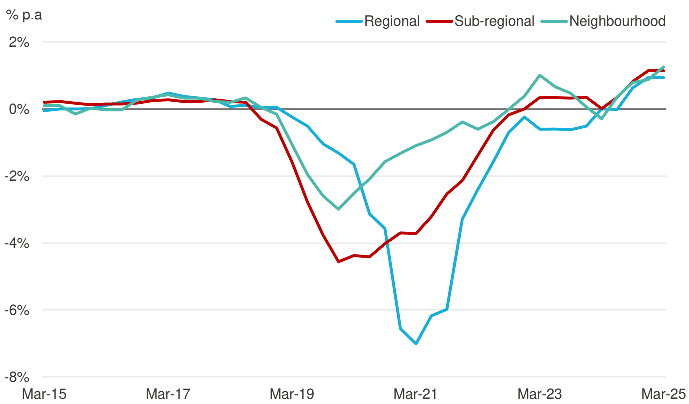
The investment case for retail property has strengthened considerably. Yields have been more stable than in other sectors, and some sub-sectors, like Sydney neighbourhood centres, are even seeing yield compression. Over the past decade, a shift in the shopping centre category mix to include more services and experiences has made cash flows more secure, which may be leading to a re-evaluation of risk premiums. Growing rents and firming yields bode well for capital gain and total returns over the next few years.

Retail performance snapshot

	Q4 Specialty rent growth % y-o-y.	Cap rate change q-o-q (bps)
Sydney		
Regional	1.0%	0
Sub-regional	0.4%	0
Neighbourhood	1.5%	-12.5
Melbourne		
Regional	1.0%	0
Sub-regional	0.5%	-25
Neighbourhood	0.6%	0
SE QLD		
Regional	2.6%	0
Sub-regional	4.8%	-12.5
Neighbourhood	3.2%	-12.0

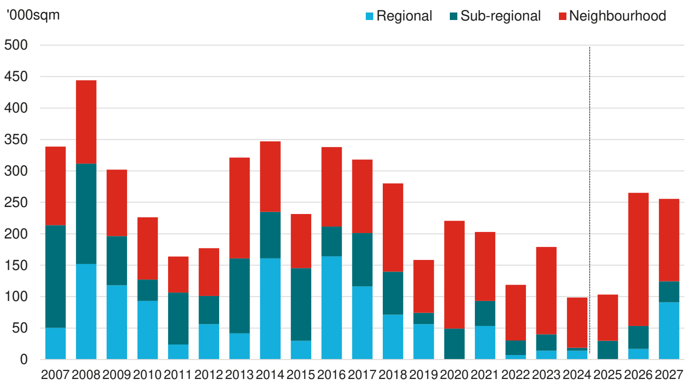
Source: JLL Research, Dexus Research

Shopping centre rent growth



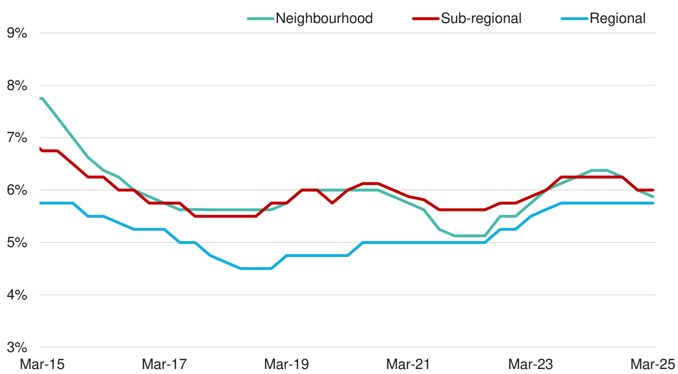
Source: JLL Research, Dexus Research

Australian enclosed shopping centre supply



Source: JLL Research, Dexus Research

Yields by centre type



Source: JLL Research, Dexus Research

Healthcare

Federal budget good news for Medicare

The Federal Government recently announced their 2025-26 budget, which aims to tackle some of the workforce and cost issues within the healthcare sector. Key initiatives include the expansion of bulk billing incentives, with a $7.9 billion investment to enable Australians to see a GP for free. This translates to 18 million additional bulk-billed GP visits each year until 2030. The new Bulk Billing Practice Incentive Program will also provide additional funding to GPs and practices that bulk bill all their patients.

To address workforce shortages, the government has committed $662.6 million towards new doctors and nurses through various incentives. This includes support for more junior doctors and salary incentives for junior doctors to specialise in general practice. These measures are expected to result in an additional 1,300 doctors entering GP training over four years from 2026, with the government funding training for more than 2,000 new GP trainees each year by 2028.

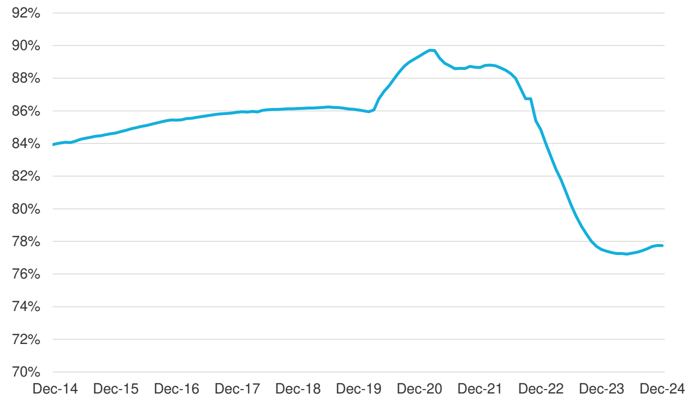
Surgery waiting times are still an issue. While in 2023-24, the median waiting time for elective surgery declined to 46 days from 49 days in 2022-23, this is significantly up compared to five years ago. Increasing volumes are part of the problem. The rate of patients waiting for surgery is increasing faster than patients are receiving surgery. The number of patients undergoing elective surgery in Australia reached a record high in 2023-24, with 778,500 admissions, a 5.8% increase from the previous year.

In the current high-cost landscape, private hospitals are facing a variety of operational challenges including a reduction in profitability as costs rise faster than revenue. According to the Private Hospital Sector Financial Health Check (October 2024), expenditure of private hospitals increased at a CAGR of 4.1%, while revenues only increased at a CAGR of 2.9%.

These issues have led to Healthscope, a major private hospital operator facing closure or take-over. Healthscope's challenges include rising operational costs, difficulties in servicing around $1.6 billion in debt and termination of contracts with major insurers Bupa and AHSA due to disputes over hospital facility fees. An inquiry has been launched into the Healthscope run Northern Beaches Hospital after the tragic deaths of two children. Healthscope has agreed to begin discussions with the NSW government about returning the hospital to public control and there are questions about the role of PPPs in the health sector in NSW in future.

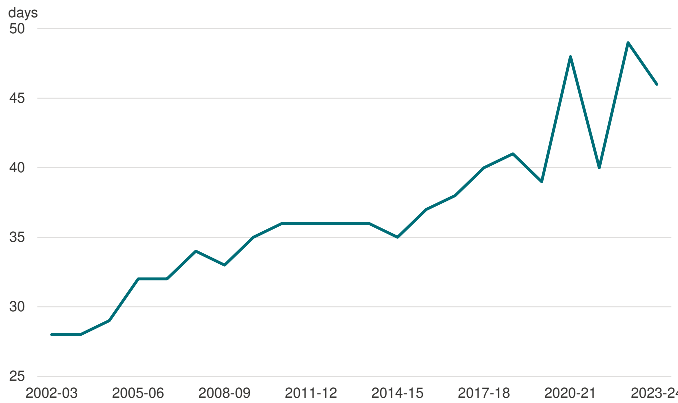
On a positive note, Australia's healthcare system rates highly in global comparisons on metrics like health spending per capita and hospital beds per head of population. Health is forecast to have the fastest output growth of any Australian industry over the next five years.

Total GP bulk billing rates (rolling 12 months)



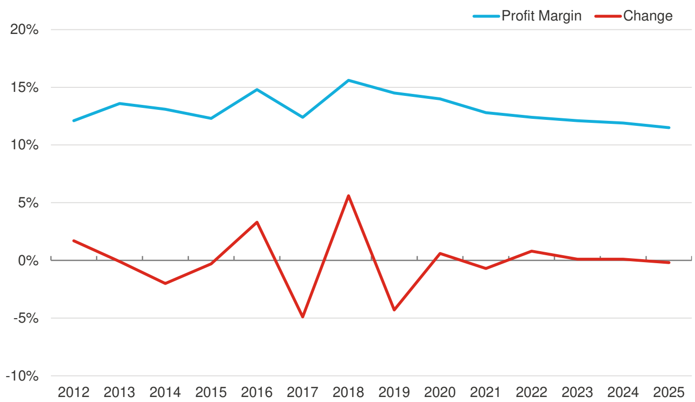
Source: Medicare statistics, Dexus Research

Public hospital elective surgery wait times



Source: Australian Institute of Health and Welfare, ABS News, Dexus Research

Private general hospital profit margins



Source: IBIS World, Dexus Research

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