

Commercial Real Estate Market In Australia - Growth, Trends, Covid-19 Impact, and Forecasts (2023 - 2028)

Market Report | 2023-01-23 | 150 pages | Mordor Intelligence

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Report description:

Key Highlights

The Australian commercial real estate market is expected to record a CAGR of more than 5.6% over the forecast period of 2022-2027. The Australian property sector experienced significant uncertainty and transformation in 2020. The COVID-19 pandemic saw employees choosing to work flexibly and increased consumer demand for e-commerce. This disrupted the market and created a number of opportunities for investors, landlords, and occupiers alike.

In 2022, it will be a new era for commercial real estate in Australia, with low interest rates, sustained government stimulus, and a population emerging from pandemic-induced lockdowns that are expected to increase their spending. The market outlook looks promising for commercial real estate investors, bolstered by cheap debt, structural changes, and the under-allocation of real assets.

Two major forces influencing Australia's commercial real estate market are urbanisation and population expansion. Further, the business has seen a number of trends recently, including improved accessibility, shared office spaces, and digital connectivity. In particular, with a hard climate for many areas on the horizon, more innovation in the sector will be necessary to maintain consistent growth. Even before the coronavirus epidemic struck the country, a fall in the value of commercial building activity in Australia was already expected.

Over the years, Melbourne and Sydney's prime office space has experienced high rents and little vacancy. While interest in flexible working spaces has fluctuated, investment in office real estate has remained consistent. This is partly because of the effects of the coronavirus epidemic. Typically, these coworking spaces are hired out on a temporary basis. Companies that don't want to commit to a lengthy lease for office space that might not be completely utilised may find this to be appealing.

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Australia Commercial Real Estate Market Trends

Low Interest Rates in Commercial Real Estate Market

Record low rates and accommodative central bank policies are expected to last for the foreseeable future. While low rates are strongly supportive of capital-intensive assets like real estate, there are a few mechanisms underlying this. Low rates help investors get cheap money, lower the yield on cash and fixed-income investments, make real estate look more appealing, and keep business and consumer activity going.

Over the next two to three years, bond yields are likely to remain at the lower end of their long-term average, while commercial real estate can yield 4 to 5%. That 200-300 basis point spread over the risk-free rate offers a healthy risk premium.

The Reserve Bank of Australia kept the cash rate unchanged at a record low of 0.1% for the 15th month in a row during its March 2022 meeting. While mentioning that the war in Ukraine was a major new source of uncertainty, policymakers reiterated their unpredictability over how persistent the pick-up in Australia's inflation has been on the back of recent developments in global energy markets and ongoing supply-side problems.

Increase in Investments in Commercial sector

The value of commercial real estate transactions in Australia is on track to return to pre-COVID levels this calendar year, following a surge in logistics deals. Together with strong demand for other income-earning real estate asset classes, the strong recovery in 2021 was built on about USD 50 billion in the capital that was looking to ride the logistics boom.

Led by the record-breaking USD 3.8 billion acquisition of the Milestone logistics portfolio by ESR, industrial and logistics sales rose to USD 13 billion over the first nine months of the year, compared to the volume in 2020, which was USD 5.3 billion.

Although many malls are still struggling due to the rise of online sales and lockdown restrictions, retail investment activity has also rebounded. While Singapore, China, and Hong Kong drastically reduced their economic commitment to Australian real estate this year, the USA and Germany represented growth in investment this year, demonstrating the growing confidence that foreign buyers have in the local market.

According to Commercial Real Estate, the value of investment-grade industrial property in Australia will pass the value of office property for the first time in 2026. This is because logistics real estate values are going up and new, larger facilities are being built to accommodate the growth of e-commerce.

Australia Commercial Real Estate Market Competitor Analysis

The Australian commercial real estate market is strong and highly competitive. Indian commercial real estate is becoming a preferred destination for global institutional investors, driven by robust office space take-up, declining vacancy levels, and rising rentals. Small-scale developers are also merging with big real estate developers or exiting the market. Some of the country's major commercial real estate players include Lendlease Corporation, Scentre Group Limited, Mirvac, Pact Construction, and Multiplex Constructions Pty Ltd.

Additional Benefits:

The market estimate (ME) sheet in Excel format
3 months of analyst support

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