CUSHMAN & WAKEFIELD

GLIDE PATH TO CLEARER SKIES

AUSTRALIA CAPITAL MARKETS

NOV 2023

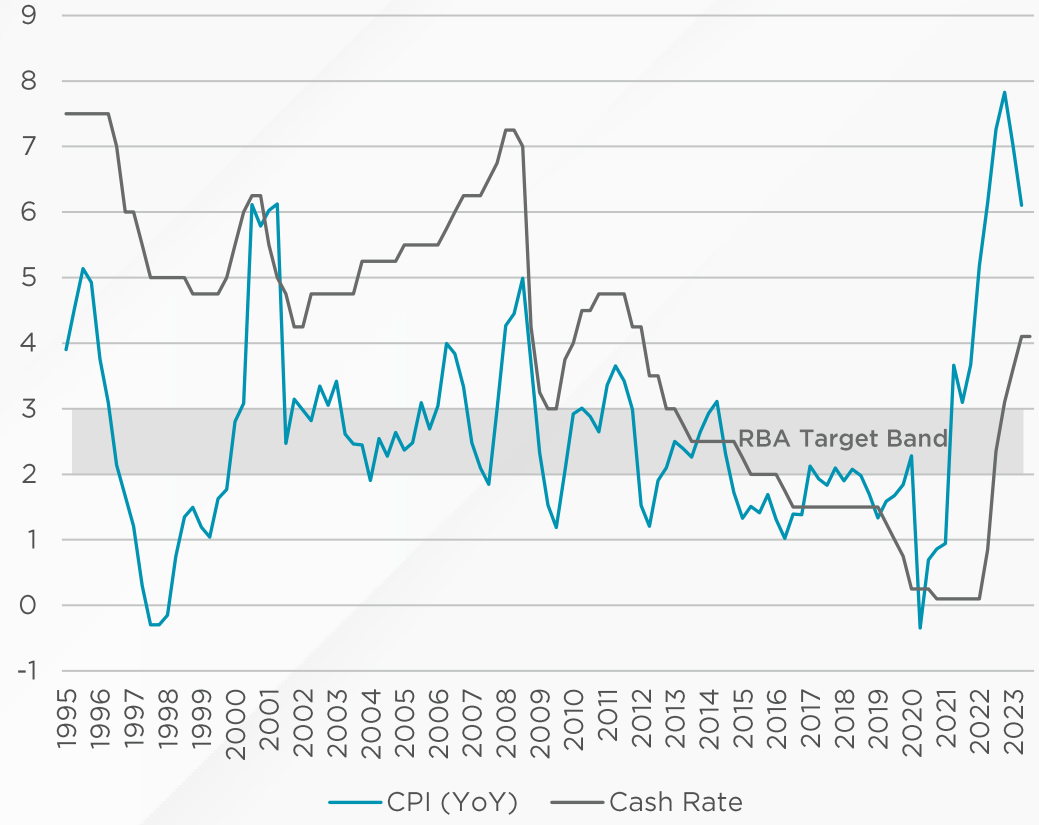
01

WHERE WE ARE IN THE CYCLE?

SLOWING TO A SOFT LANDING

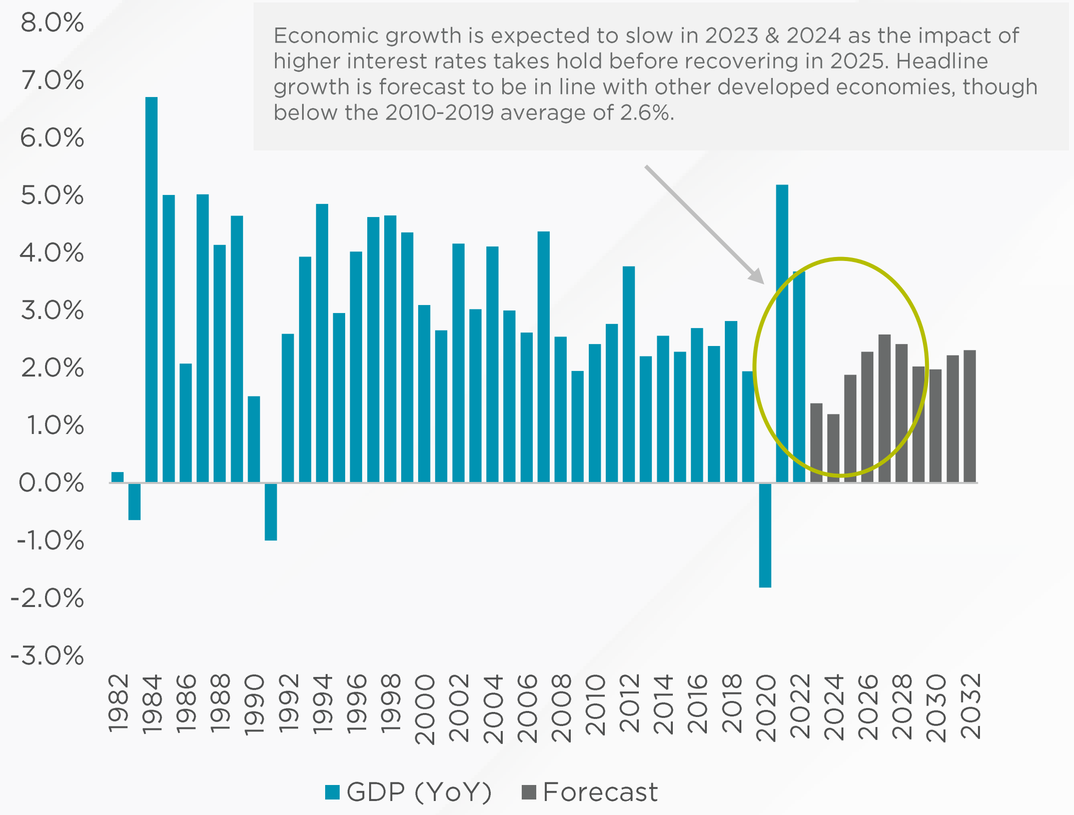
Higher rates expected to cool economy, but growth expected to remain positive

HEADLINE INFLATION & INTEREST RATES



Source: RBA, ABS, Moody's Analytics

GDP GROWTH, FORECAST

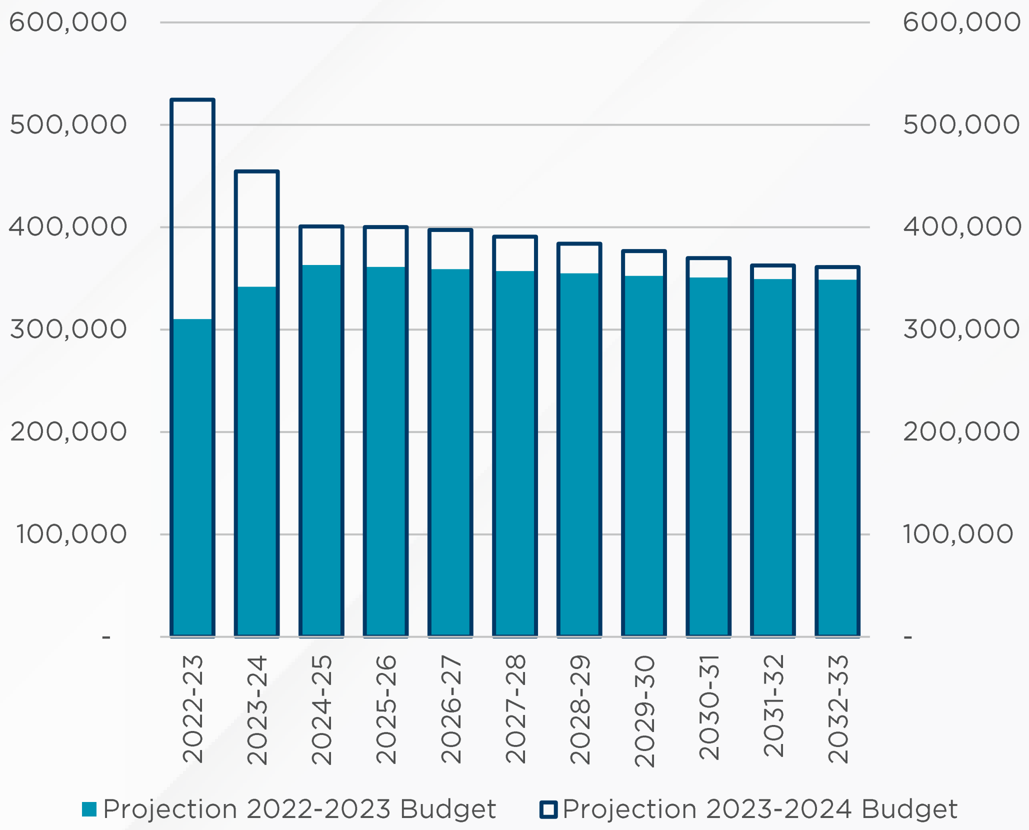


Source: ABS, Deloitte Access Economics, Cushman & Wakefield

POPULATION & JOBS

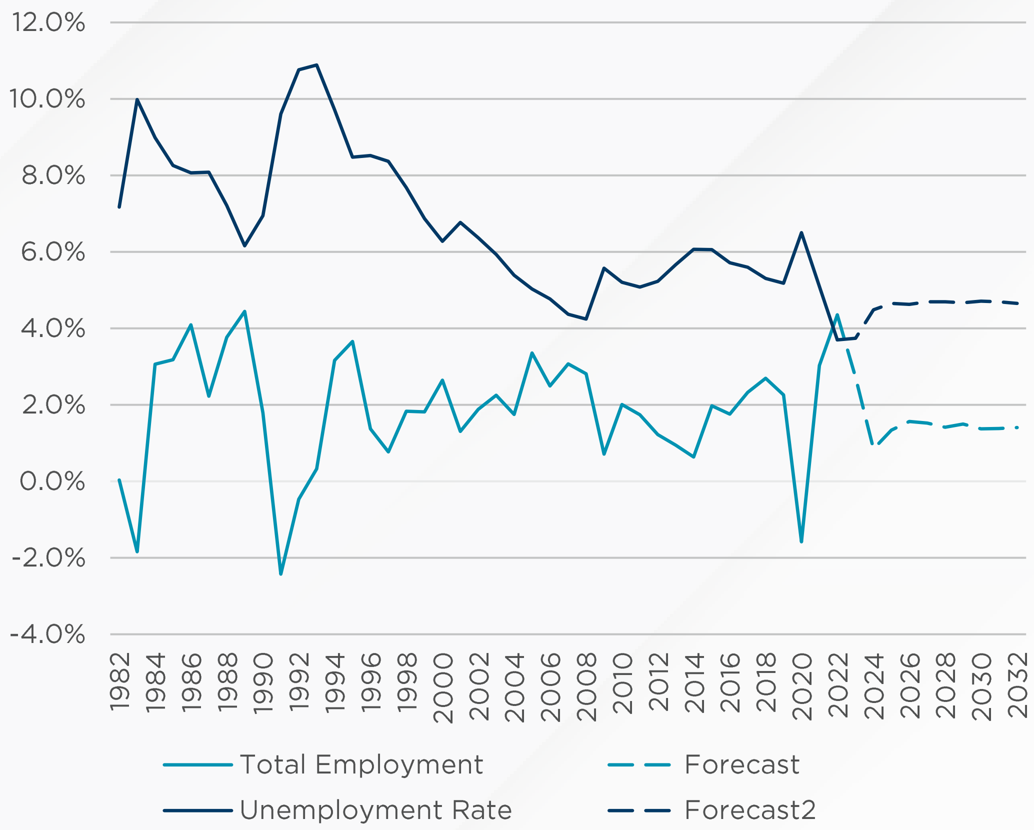
Population to support economic growth but tight labour market to limit employment growth

FY POPULATION GROWTH PROJECTIONS



Source: Centre for Population, Cushman & Wakefield

EMPLOYMENT & UNEMPLOYMENT

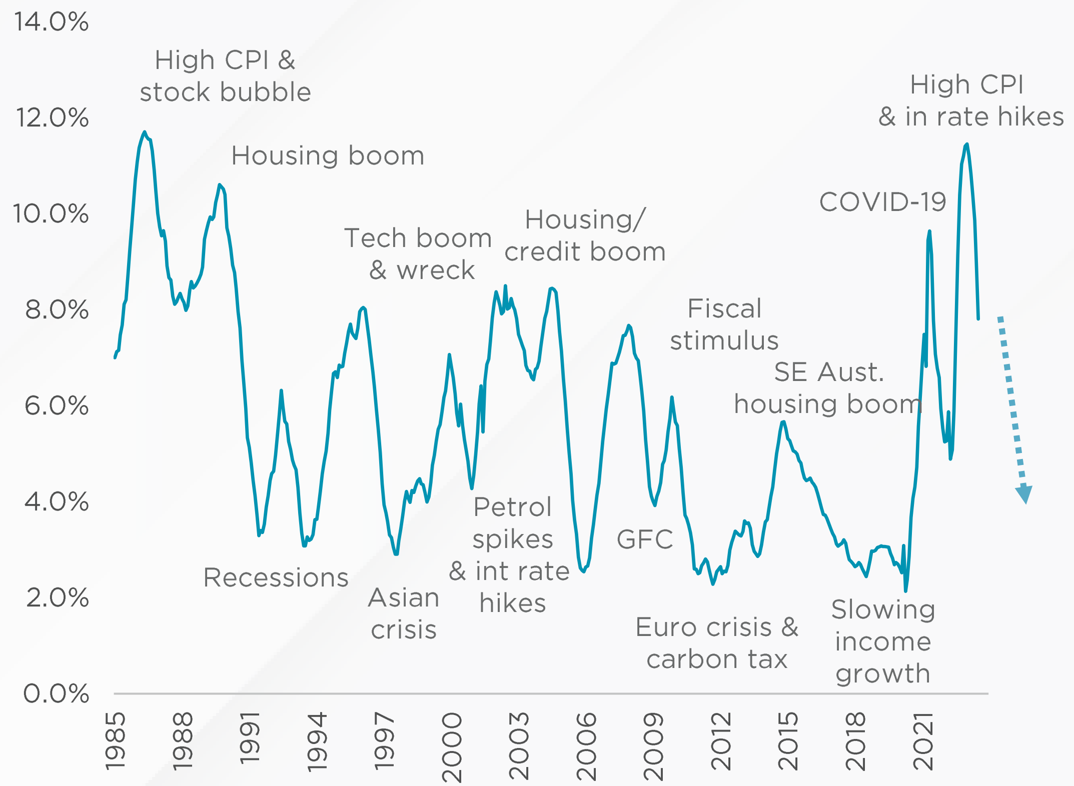


Source: DAE, ABS, Cushman & Wakefield

CONSUMPTION

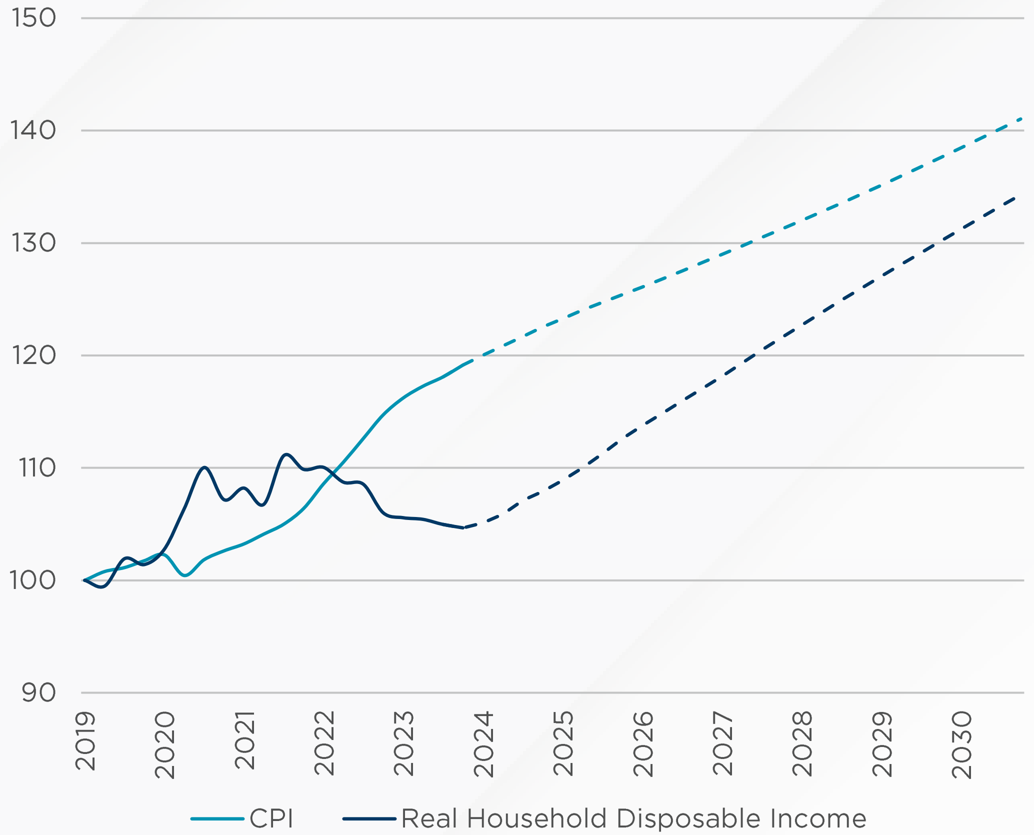
Erosion of purchasing power from inflation already passing through to consumption

RETAIL MAT



Source: ABS, Cushman & Wakefield

INDEX OF CPI, DISPOSABLE INCOME (Q1 2019 =100)

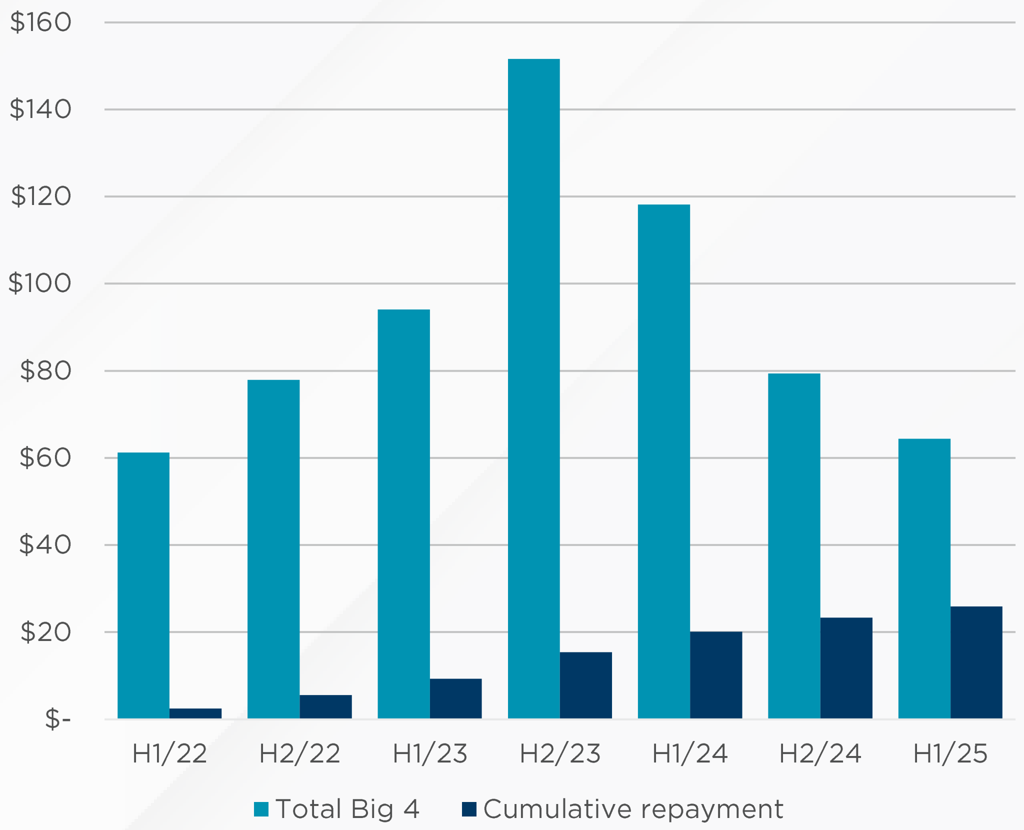


Source: ABS, Moody's Analytics, Cushman & Wakefield

RISK: THE MORTGAGE 'CLIFF'

Fixed-rate mortgage roll-off to be a drag on household's disposable income, dampen consumption

EXPIRING FIXED RATE MORTGAGES



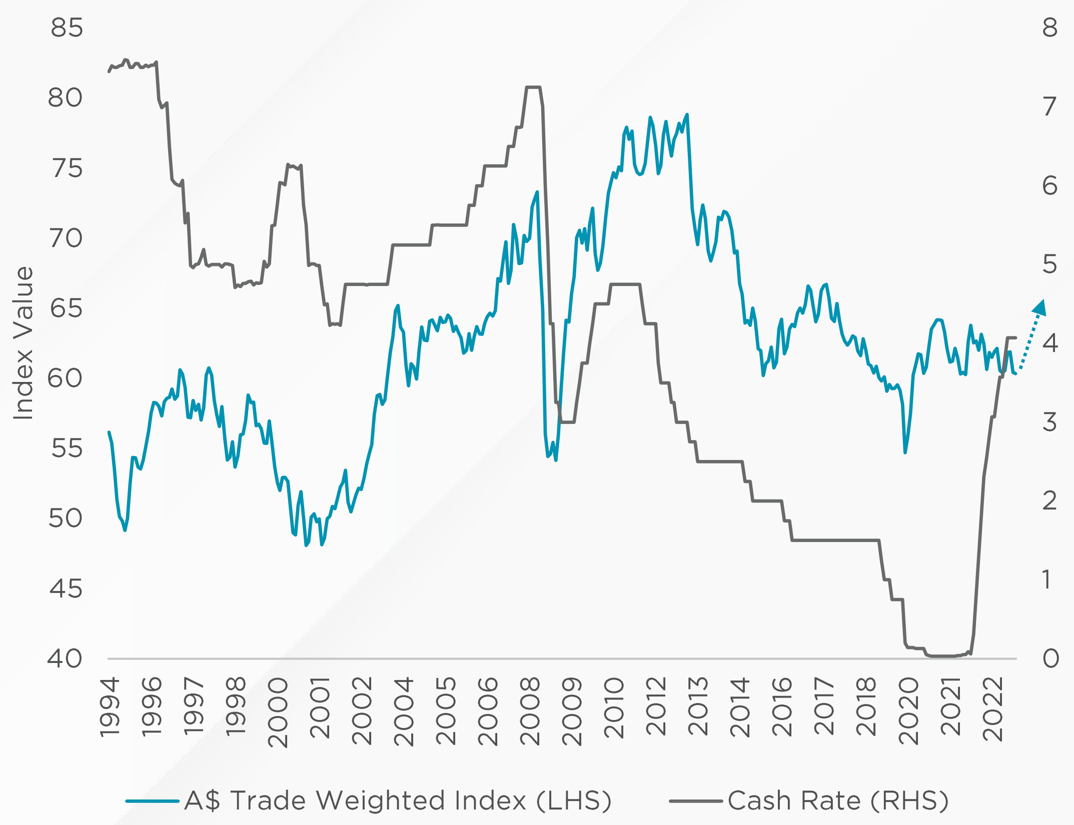
Source: Banks' financial statements, ASX, Cushman & Wakefield

- Unlike other advanced economies, the Australian housing market is characterised by short-term fixed rate mortgages of 2-3 years, after which mortgage rates switch to floating or refixed at prevailing rates.
- During the COVID-19 pandemic the Australian housing market saw a spike in transaction volumes that pushed prices higher as buyers took advantage of historically low interest rates.
- These fixed rate mortgages are now set to become floating following a 400 bps increase in the interest rates since Q1/2022. The four 'major' banks, which accounted for circa 80% of all home loans from ADIs in 2020 & 2021, expect circa $270 billion worth of mortgages to roll over from fixed to floating rates between July 2023 to June 2024.
- This equates to an estimated $25 billion of additional mortgage repayments by the end of 2025. Although this is a significant amount, household final consumption expenditure was $1.2 trillion in 2022, and the drag on discretionary spending will be at least partially offset by population growth.
- The bigger risk would be if households attempt to rebuild savings that have been drawn down over the past 18 months (household savings fell to a 15-year low of 3.2% in Q2 2023) or if signs of stressed selling begin to emerge.

EXPORTS

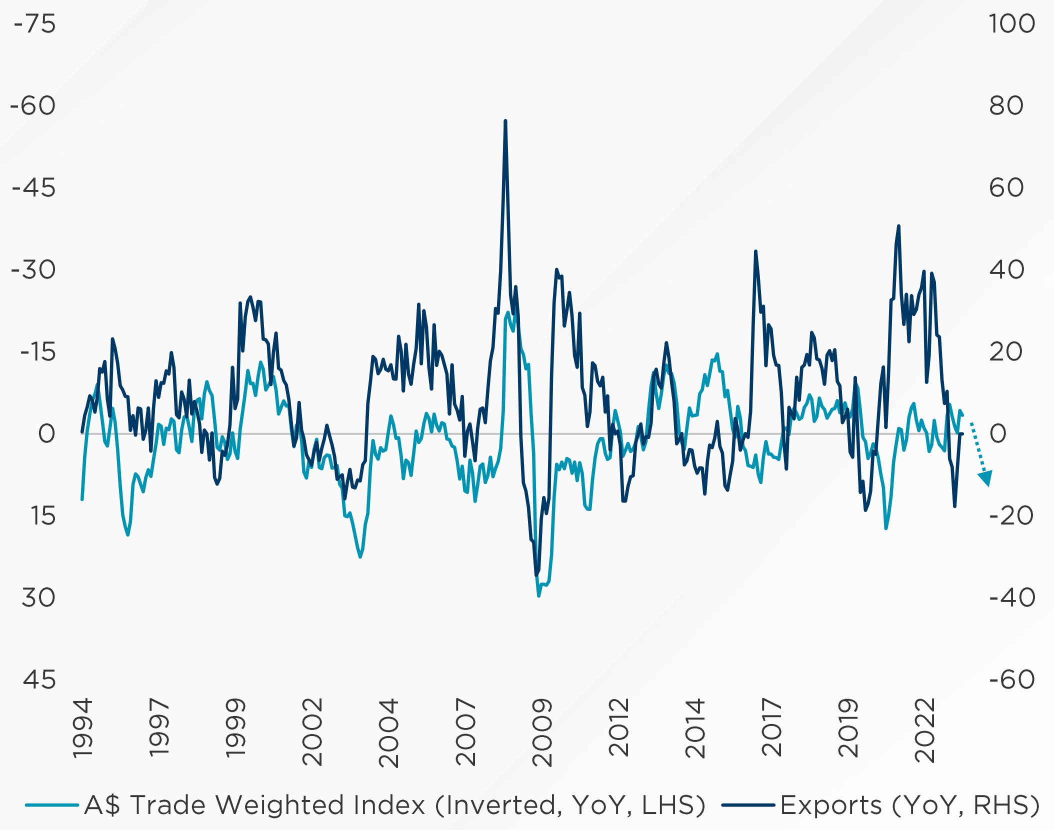
A higher cash rate should strengthen the Australian dollar and weaken exports

CASH RATE V TRADE WEIGHTED A$



Source: RBA, ABS, Moody's Analytics

TRADE WEIGHTED A$ V EXPORTS

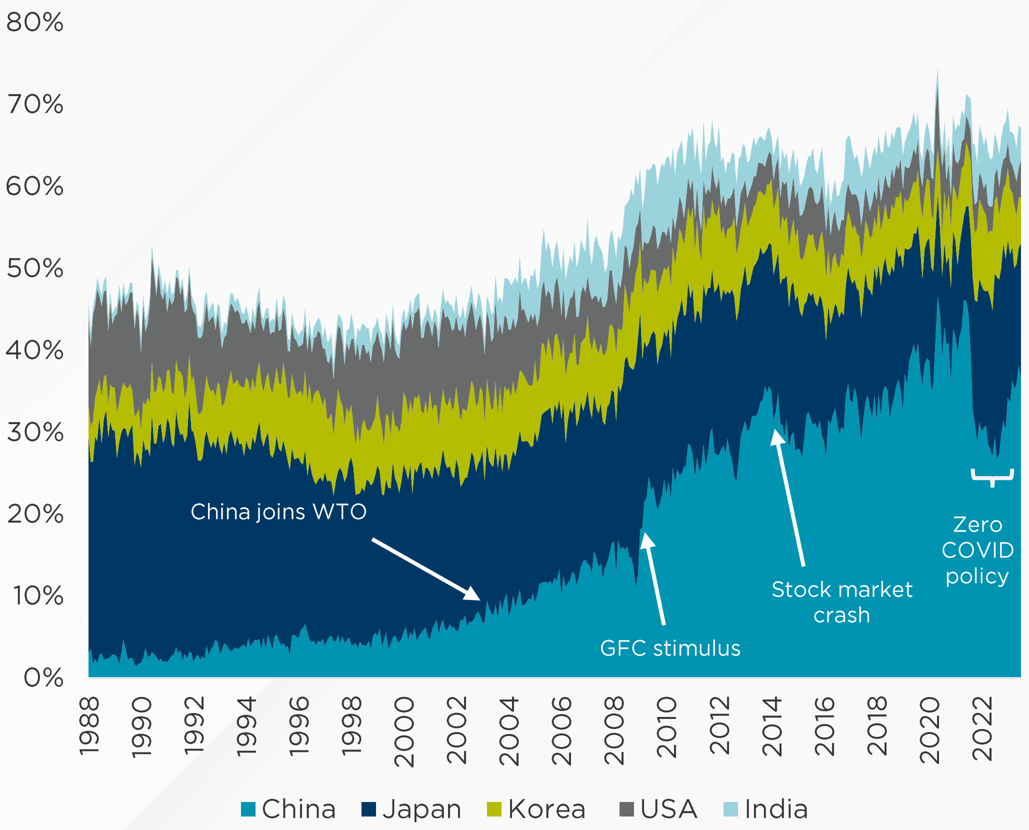


Source: RBA, ABS, Moody's Analytics, Cushman & Wakefield

EXPORTS

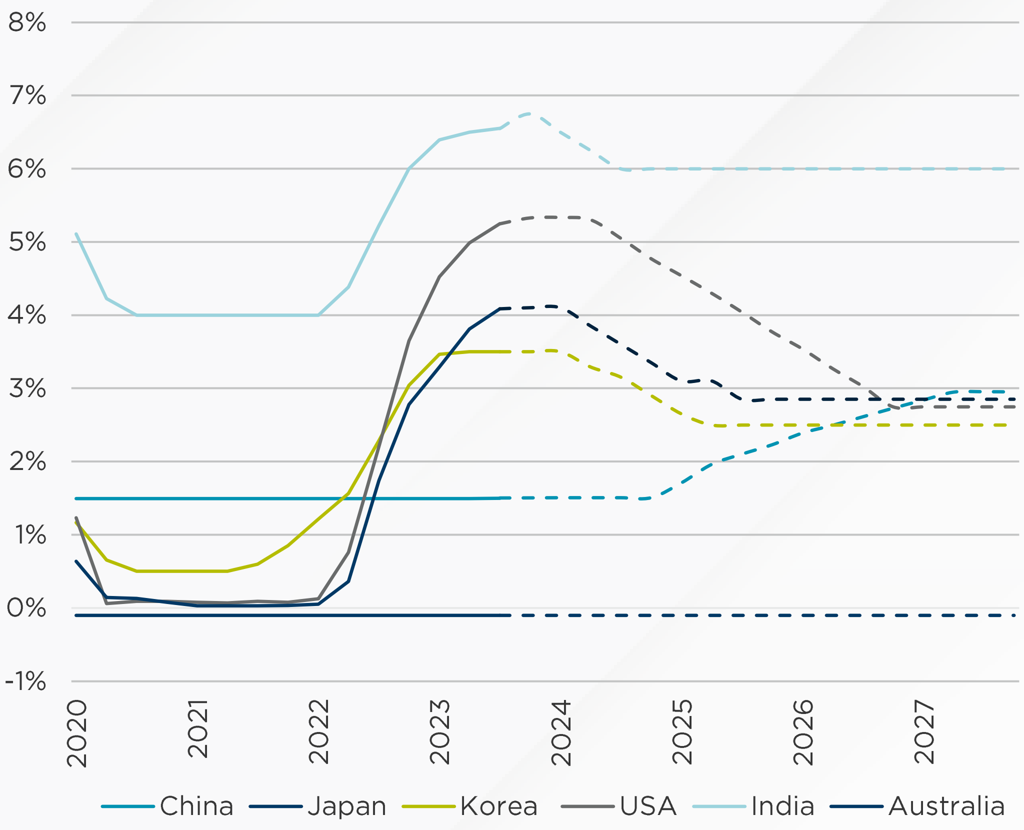
Terms of trade likely to deteriorate as interest rates converge with major trading partners

SHARE OF EXPORTS BY DESTINATION



Source: ABS, Moody's Analytics, Cushman & Wakefield

POLICY RATES OF MAJOR TRADING PARTNERS

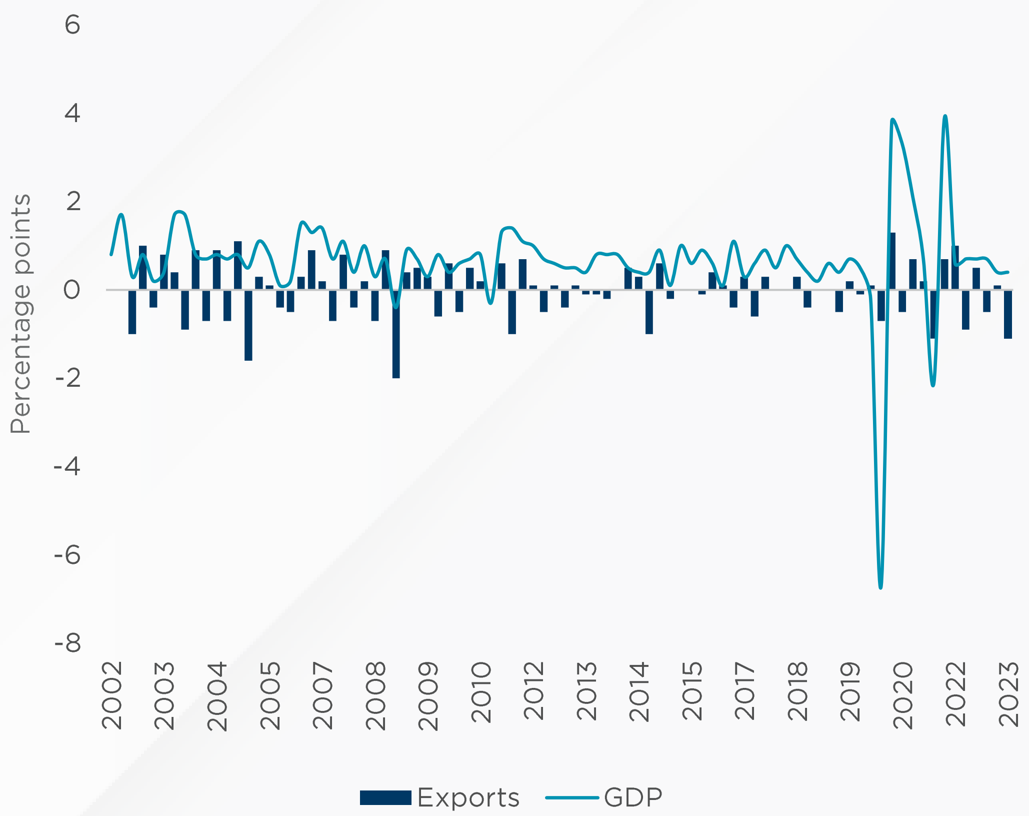


Source: RBA, PBoC, BoJ, BoK, US Fed, RBI, Moody's Analytics, Cushman & Wakefield

RISK: SLOWER CHINESE GROWTH

A slowdown in Chinese growth to weigh on Australian exports

EXPORTS CONTRIBUTION TO GDP



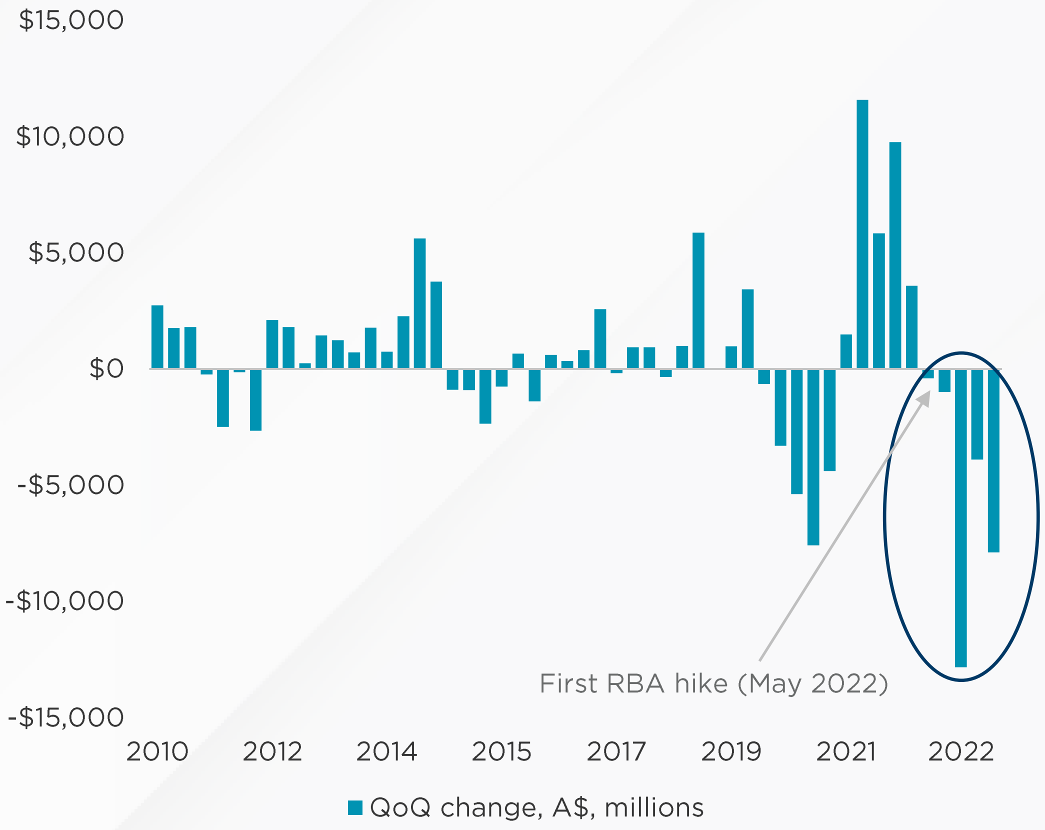
Source: RBA, ABS, Moody's Analytics

- Exports are a key segment of the Australian economy, accounting for 1.7 percentage points of GDP growth in 2022. Since the GFC, China has been the main recipient of Australia's exports, receiving circa one third of Australia's export volume.
- The Chinese economy is currently dealing with a number of economic headwinds, with several forecasters expecting GDP growth to fall below 5% in 2024 and 2025.
- In the September 2023 RBA minutes China was mentioned 15 times, with the board focusing on the risks to the Australian economy from a slowdown in its largest trading partner.
- Chinese capital controls limit the financial exposure of the Australian market to a Chinese slowdown. The primary transmission mechanism would be a negative shock to exports.
- This would limit the impact of any Chinese slowdown as a fall in direct exports would be at least partially offset by a depreciation of the Australian dollar.
- The impact of a more severe slowdown of the Chinese economy would be more substantial, but even in this scenario the financial sector would remain insulated and credit should continue to flow to the Australian economy.

COMMERCIAL REAL ESTATE

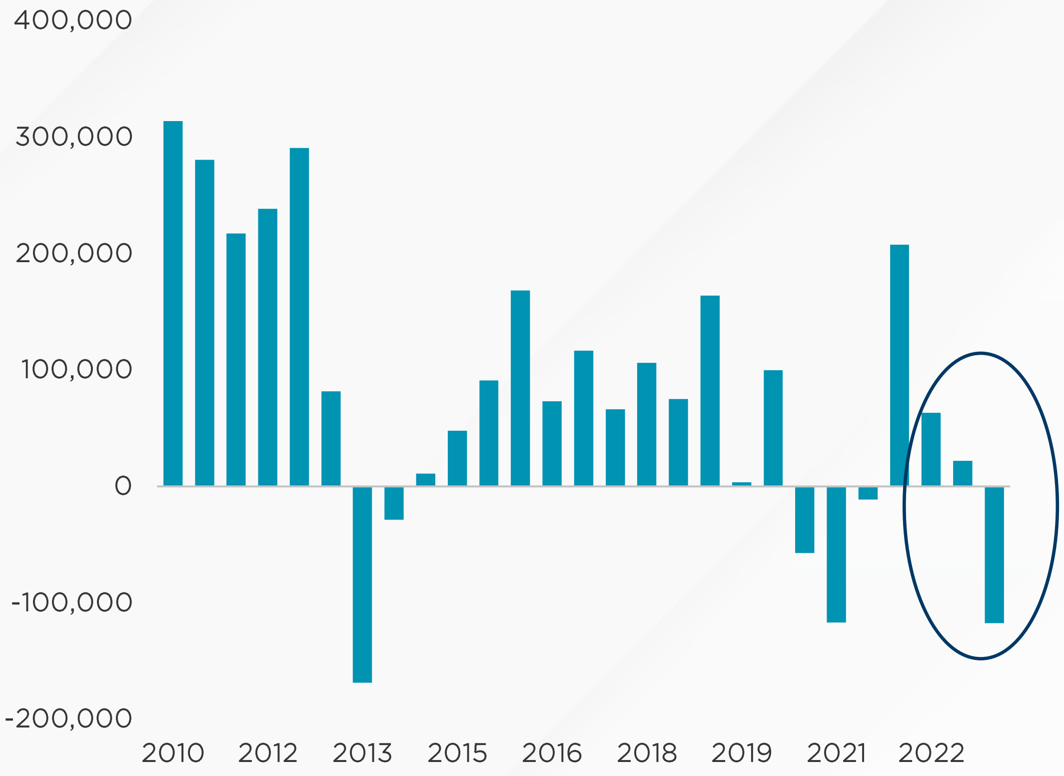
Australian commercial real estate already showing signs of a downturn

ROLLING ANNUAL INVESTMENT VOLUME



Source: RBA, ABS, Moody's Analytics

6-MONTH OFFICE NATIONAL NET ABSORPTION (SQM)

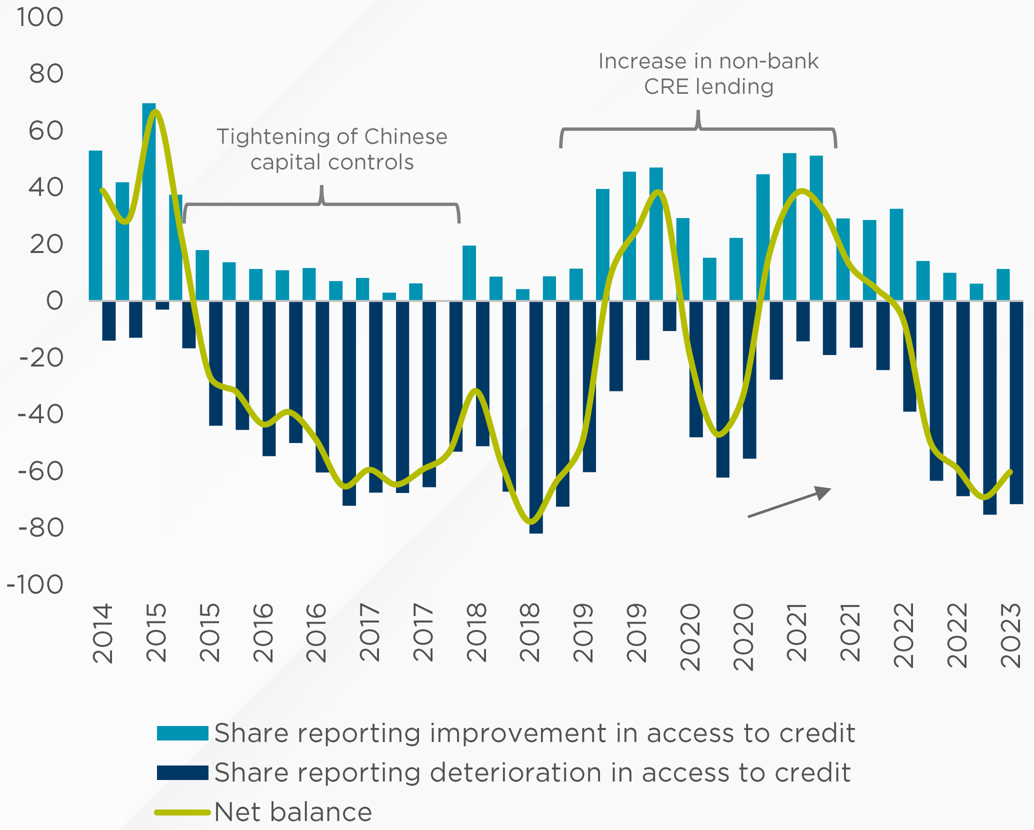


Source: PCA, Cushman & Wakefield

CREDIT

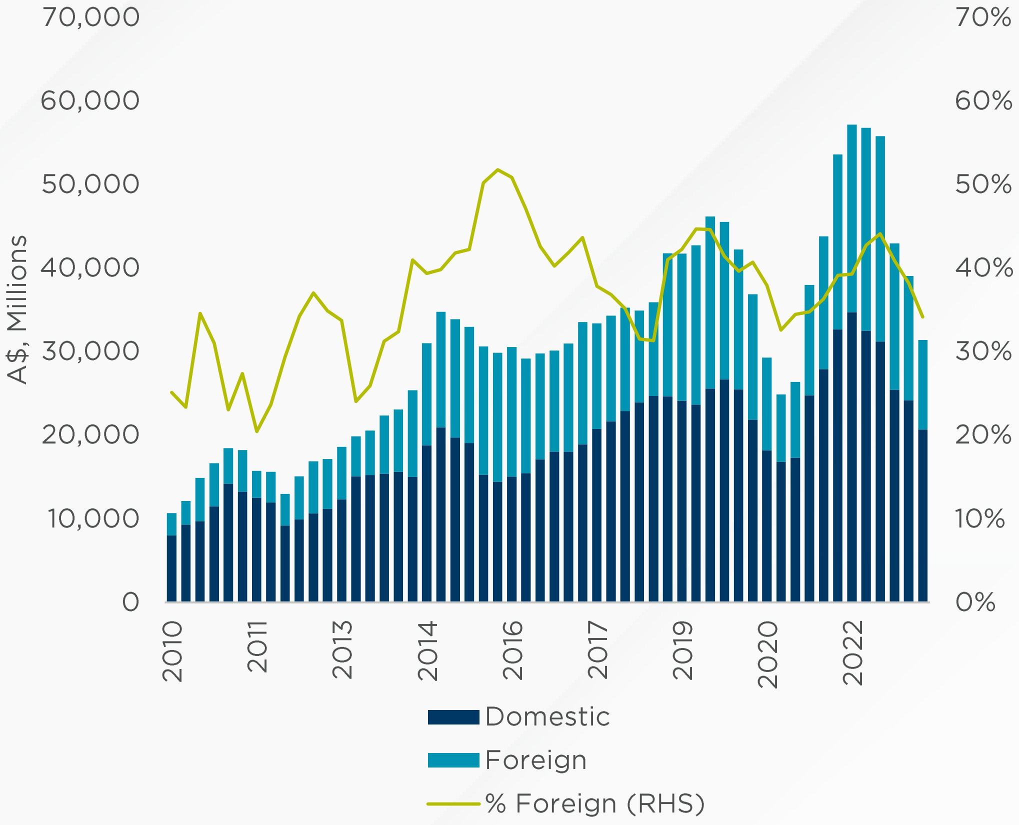
Tighter credit conditions one factor limiting CRE investment volumes

SURVEY OF AUSTRALIAN CRE CREDIT CONDITIONS



Source: RICS, Cushman & Wakefield

ROLLING ANNUAL INVESTMENT VOLUMES

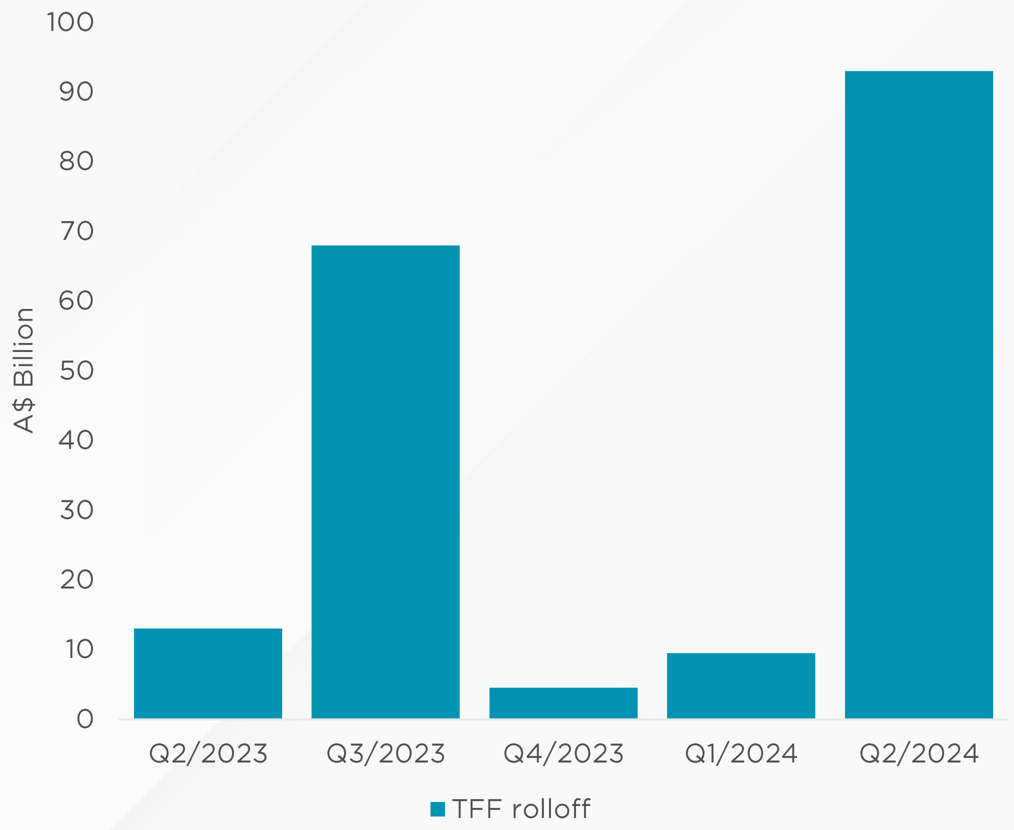


Source: RCA, Cushman & Wakefield

RISK: TERM FUNDING FACILITY ROLL OFF

Banks likely to have to raise capital to repay Term Funding Facility funds maturing in June 2024

TFF MATURITIES



Source: RBA, Cushman & Wakefield

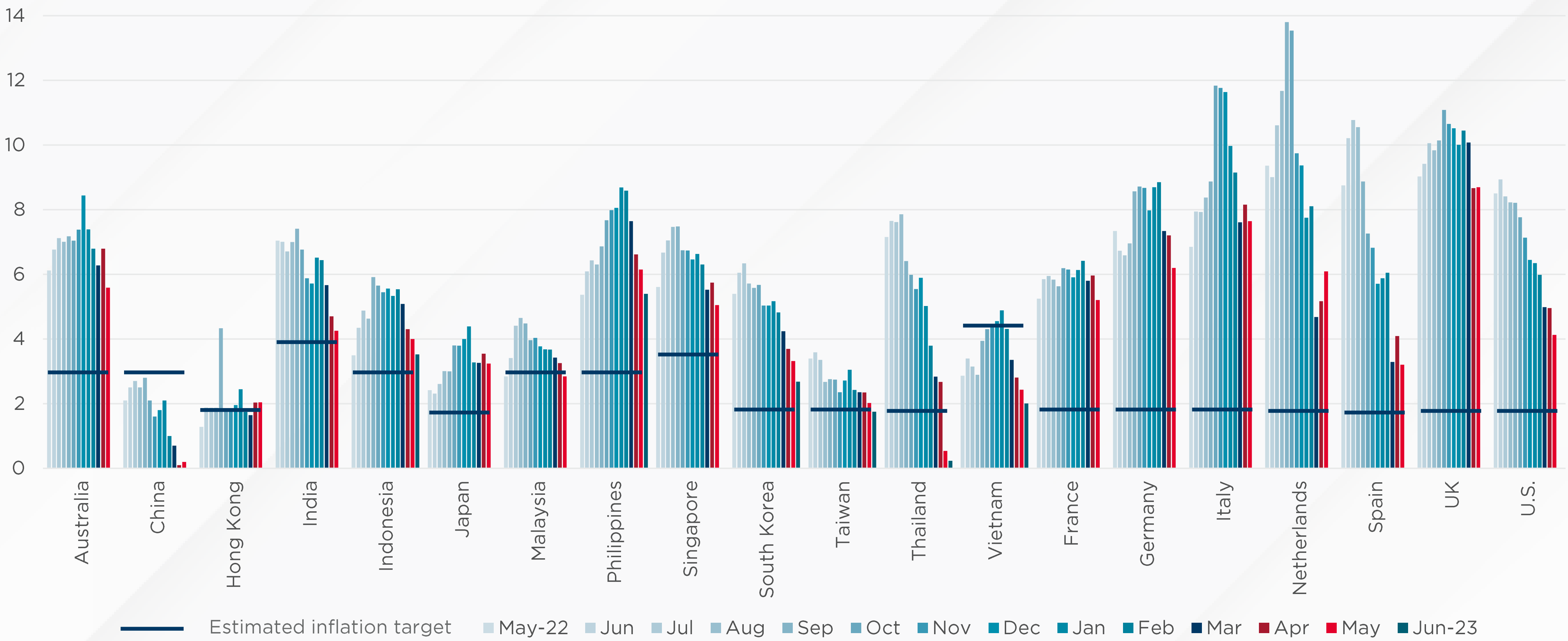
- The Term Funding Facility (TFF) was introduced by the Reserve Bank of Australia (RBA) in 2020 to help mitigate the shock of the COVID-19 pandemic on the Australian economy. The TFF provided low-cost funding to banks at a 3-year term to ensure that credit continued to flow into the real economy.
- The major and midsized Australian banks utilized 100% of their allotted TFF funding, while smaller and foreign banks utilized 50-60%. In total banks accessed $188 billion of TFF funds.
- These funds are now due to be repaid. Banks are likely to need to raise capital to repay TFF funding, and the cost of this capital will be substantially above the cost of TFF funding.
- Thus far, it appears that banks have had no issues in raising capital to repay TFF funds. However, circa 50% of TFF funds are coming due in Q2 of 2024. Banks will be looking to raise capital for repayment throughout H1 of 2024.
- Barring a substantial shock, it is not anticipated that banks will have an issue raising these funds. However, it may restrict the flow of credit into the economy during the first half of 2024, especially into sectors that are perceived to carry more risk. If the RBA were to pivot earlier than expected it would offset the impact of TFF capital raising.

02

THE PATH FORWARD

PHASE 1: GET INFLATION BACK TO TARGET

Consumer price inflation (CPI), year-over-year percent change

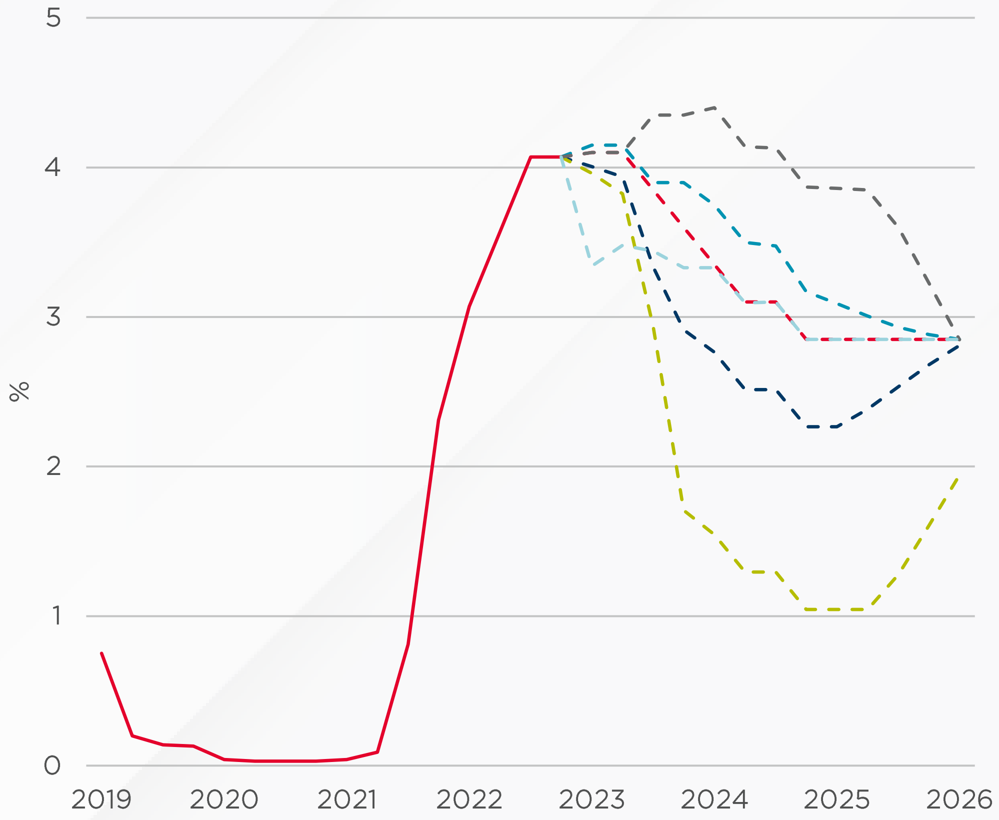


Source: Various governments, Moody's Analytics. Note: Australian monthly data are estimated – official data are released quarterly.

PHASE 2: RBA PIVOTS

Most forecast scenarios have the RBA pivoting mid-2024

CASH RATE SCENARIOS (MOODY'S ANALYTICS)



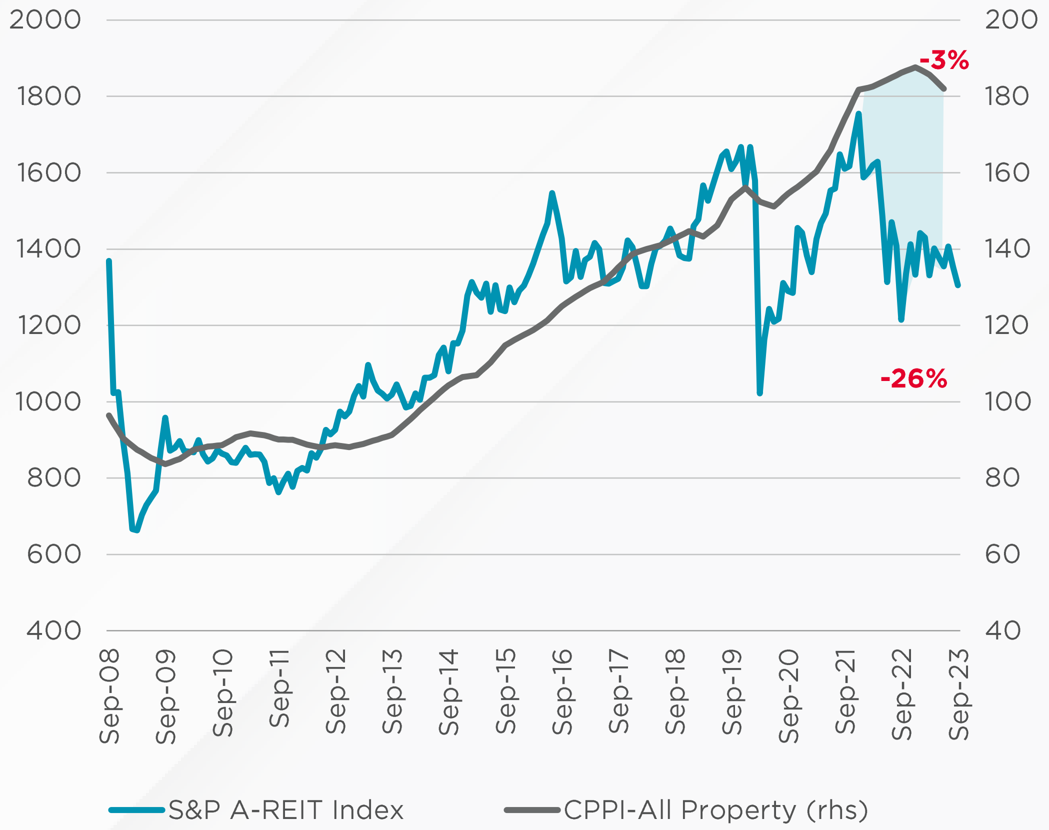
Source: RBA, Cushman & Wakefield

Scenario	First cut	Narrative	Cash rate at Q4 2024
Baseline	Q2 2024	Most likely outcome	3.35%
S1	Q2 2024	Supply-side stress eases & stronger-than-expected rebound in China	3.85%
S2	Q1 2024	Mild global recession	2.85%
S3	Q4 2023	Deep global recession, renewed supply-side stress, geopolitical tensions, China slowdown	1.60%
S4	Q1 2025	Stagflation	4.35%
S5	Q4 2023	Renewed supply-chain stress but RBA prioritises soft demand	3.35%

PHASE 3: PRICE DISCOVERY

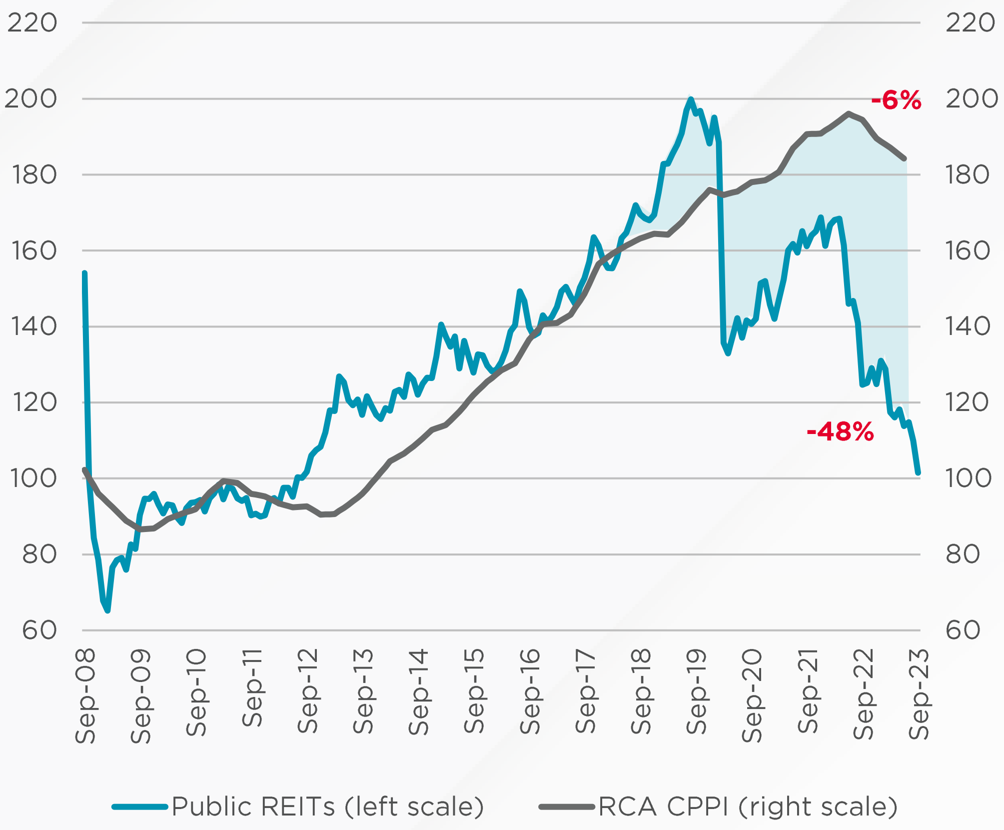
Australian listed property has likely overcorrected, while unlisted property has yet to fully capitalize rates

CPPI VS. PUBLIC A-REITS (ALL PRODUCT TYPES)



Source: S&P REIT Index, RCA
CPPI data to June 2023

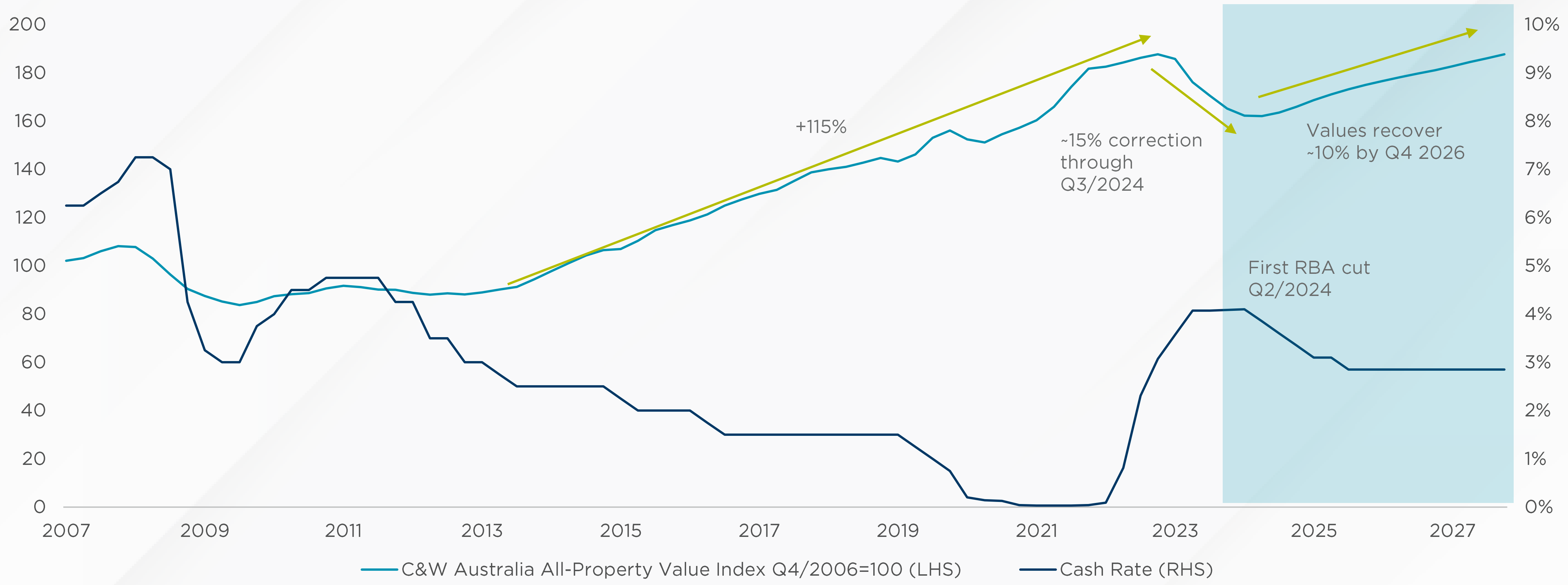
OFFICE CPPI VS. OFFICE A-REITS



Source: RCA; Cushman & Wakefield
CPPI data to June 2023

PHASE 4: RECOVERY IN PROPERTY VALUES

Rate cuts have historically been a signal to buy

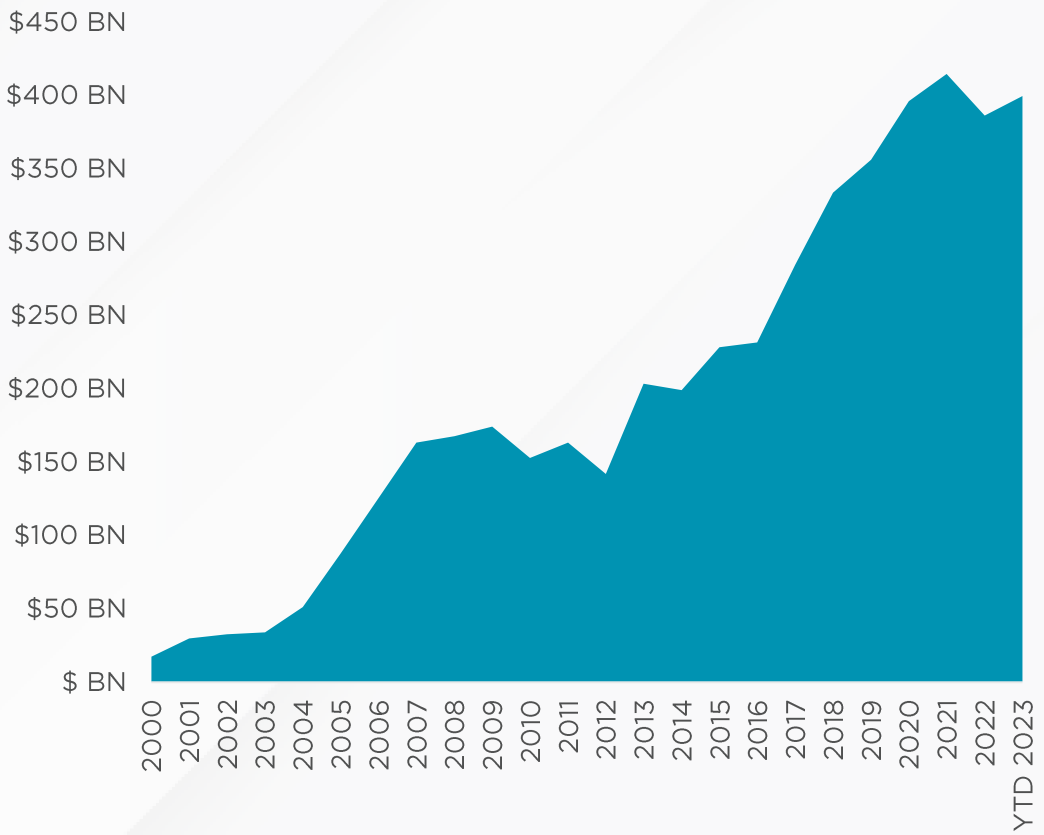


Source: RBA, MSCI, Moody's Analytics, Cushman & Wakefield

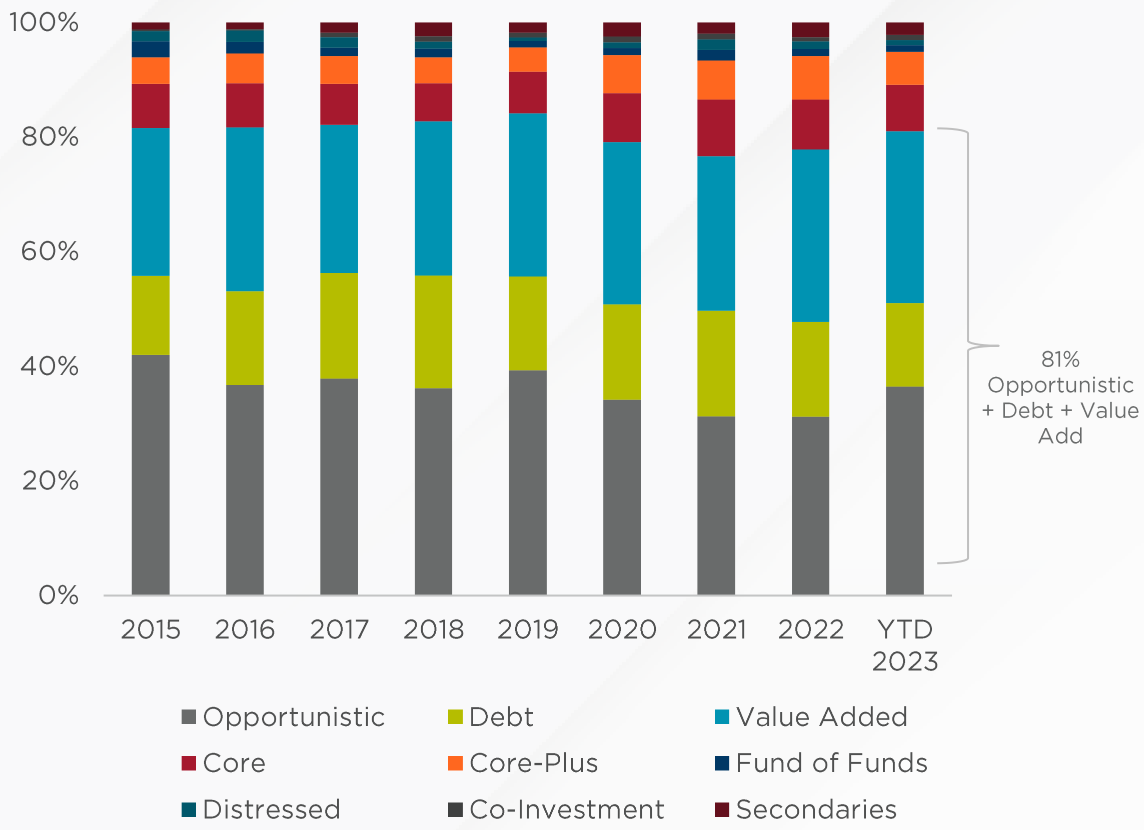
GLOBAL CAPITAL WAITING TO POUNCE

(Dry Powder Swells to $400 BN) Plenty of opportunistic, debt and value-add capital hunting deals…

GLOBAL DRY POWER, $BN



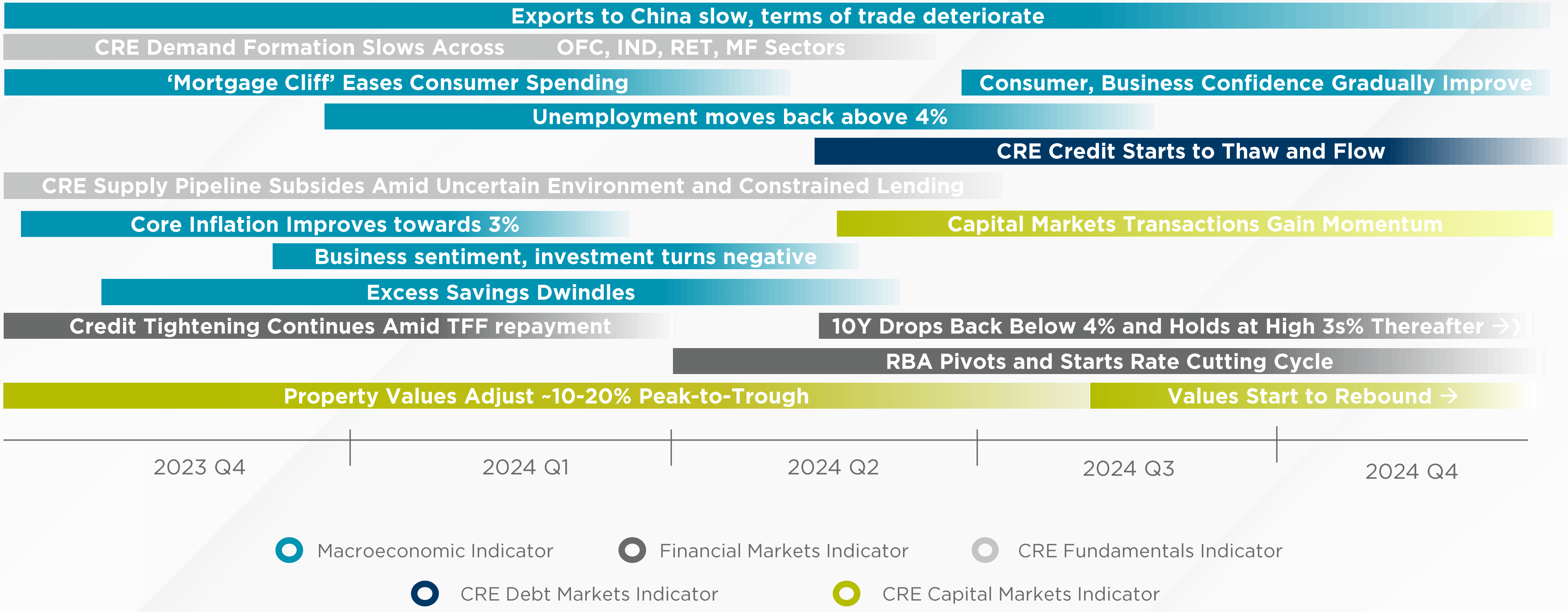
BY STRATEGY: OUTSIZED SHARE OF CAPITAL SEEKING YIELD



Source: Preqin and Cushman & Wakefield Research; through July 2023.

C&W's Baseline Glide Path

Glide path timeline for key indicators



Source: Cushman & Wakefield Research

CONTACTS

SEAN ELLISON
National Economics & Forecasting Manager
sean.ellison@cushwake.com

JOSH CULLEN
International Director & Head of Capital Markets
josh.cullen@cushwake.com

NICK RATHGEBER
International Director, Capital Markets
nick.rathgeber@cushwake.com

DR. DOMINIC BROWN
Head of International Research
dominic.brown@cushwake.com

MARK HANSEN
International Director, Capital Markets
mark.hansen@cushwake.com

LEIGH MELBOURNE
International Director, Capital Markets
leigh.melbourne@cushwake.com

CUSHMAN & WAKEFIELD

ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in approximately 400 offices and 60 countries. In 2022, the firm reported revenue of $10.1 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), Environmental, Social and Governance (ESG) and more.

For additional information, visit www.cushmanwakefield.com.