

Q1

Unsurprisingly, inflation, interest rates and the economy's strength continue to dominate the conversation.

Quarterly Review – Q1 2023

This quarterly review is less positive than prior quarters as the property market is having the correction it 'had to have' this year, and with this comes the appropriate concern for all our stakeholders and the broader industry.

The current level of inflation and rising interest rates continue to adversely impact commercial property values due to the increased debt, as well as significantly restricting demand from buyers until markets stabilise.

Locally, there continues to be limited major transactional evidence to support some of the bolder claims from commentators and economists regarding valuation 're-ratings'; however, we expect more data and evidence by the end of the financial year reporting period.

There are widely conflicting views on when the increase in rates will stop rising and if they will be lowered again in the future; however, we are preparing for the best and worst-case scenarios.



The Brisbane waterfront redevelopment site opposite Gold Tower and Blue Towers.

Our deal flow has increased by multiples compared to a normal year. From a buyer's perspective, it's exciting to see many high-quality assets, that rarely trade, coming to market.

We are pleased that much of our debt was fixed in 2021 and 2022, limiting the impact on our portfolio. Our most recent acquisitions also remain comfortably above budget despite market pressures.

We continue to see an increase in the volume of groups selling commercial assets at present. Motivations vary, and whilst most sales don't appear to be 'distressed', we know many are selling before the market potentially worsens.

For Marquette, we are not intending to trade assets until we are back in an up-cycle. As a result, whilst we remain aware of the current conditions, we are

not panicked, and we continue to focus our efforts on adding value to our assets through tried and tested methods.

Our deal flow has increased by multiples compared to a normal year. From a buyer's perspective, it's exciting to see many high-quality assets, that rarely trade, coming to market. Most of the groups that appear to be buying at present are investors whom we hold a high regard for. This gives us confidence that if we are not at the bottom yet, we're not far off.

As always, we are patiently considering offers on select assets that suit us and our investors, but not chasing them down.

Whilst the underlying cash rate change has reverberated through the market, we have been less exposed in part due to some strategic hedging during our recent acquisitions.

Metrics

Q1—2023

FUNDS UNDER MANAGEMENT	\$1.24B
ASSETS CURRENTLY ACTIVE	8
TOTAL NLA (SQM)	~118K
AVERAGE REALISED RETURNS	21.0%
CURRENT ASSET OCCUPANCY	~91%
CURRENT STAFF	9

Accurate as at 31 March, 2023.



Our first New South Wales property, Barangaroo, on Sydney's Harbour, acquired in 2022.

Leasing activity in the March quarter is traditionally slow to gain momentum with all of January essentially lost to the Christmas break. Encouragingly, the Brisbane CBD commercial market, where we have a large investment, continued to head in the right direction.

Premium vacancy is down to ~4%. A-grade vacancy is down to ~10% and 2022 rent growth was up ~8% p.a. With vacancy rates continuing to gradually tighten, upwards pressure is also evident on the underlying rental rates within our CBD assets.

Whilst we are enjoying rental growth, tenant incentives remain too high for our liking. Additionally, fit-out expenses have risen by 50% in just two years. Unfortunately, we don't expect any relief until vacancy rates decrease to the point where negotiations between tenants and landlords are more balanced.

Across our portfolio, we have seen demand levels continue to remain elevated with genuine leasing engagement and conversion across 6 of our assets that required leasing activity.

Leasing

PROPERTY	DEALS	TOTAL NLA (SQM)
GOLD TOWER	7	2,712
BLUE TOWER	1	850
HIGHPOINT	1	483
130 QUEEN STREET	1	24
189 GREY STREET	2	1,171
BARANGAROO	1	26
TOTALS	13	5,266

Summary of our recent leasing activities, made up of both newly executed HOAs and leases. Accurate as at 31 March, 2023.



Encouragingly, the Brisbane CBD commercial market appeared to continue its level of tenant enquiry seen towards the end of 2022, reinforcing a cautiously positive outlook for the year ahead.

Gold Tower (pictured) was the obvious stand out in Q1, with the commencement of the Waterfront Brisbane redevelopment directly opposite. This has had a positive impact on the leasing activity and resulted in several newly executed HOAs and leases either agreed upon or executed.

We are also currently negotiating several significant lease deals within Blue Tower, and we hope to provide more detail in Q2.

At our Grey Street, South Bank asset, we closed two exciting deals for 1,170sqm, taking total occupancy from 78.5% up to ~90% after just 5 months of ownership.

Across the quarter, the new rental rates achieved in our assets are in line with or exceeding our original budget. We believe this will positively impact both cash flow and any new valuations on our portfolio.

Our major upgrade of the Blue Tower lobby commenced in Q1.





Designed by Cavill Architects and under construction with Hutchinson Builders, the new lobby will vastly improve the Blue Tower for our customers and become a timeless addition to the public realm of Brisbane.

We continue to receive significant deal flow despite the current economic uncertainty in surrounding markets.

Outlook

Our key priority each day is to improve and protect what we own and maintain strong communication with all stakeholders as we encounter tougher times.

As a result of the ongoing uncertainty, we continue to monitor and examine the strength of our existing portfolio with targeted forecasts and scenario testing so we can respond appropriately to emerging changes in the broader market.

Our second priority is to assess growth opportunities. We remain open to opportunistic deals in our search for value and returns for investors. As always, each deal is analysed and considered on its merits rather than simply its availability.

We believe property remains the best asset class, and we are confident in our ability to achieve great outcomes, regardless of the market cycle.

Toby Lewis
Managing Director
+61 400 886 074
toby@marquette.com.au



As always, if you have any questions,
please contact our team.

marquette.com.au/contact

