MAY 2023

WINGATE

# Property Research Digest: Edition 21

## Economic

Australia's population has rebounded strongly, growing by around 420,000 people over the last 12 months, with net overseas migration contributing around three-quarters of the total, according to the **Australia Bureau of Statistics.** This is the strongest annualised growth since 2009.

All states and territories recorded positive growth, with Queensland growing by just under 115,000 people, closely followed by New South Wales and Victoria, with growth of around 108,000 people.

*The growth over the last 12 months is around 20 per cent above its pre-pandemic level and will cause short term indigestion, particularly in already tight rental markets over the near term.*

**TABLE 1: POPULATION CHANGE BY STATE AND TERRITORY, PRE AND POST PANDEMIC**

| | Change over Previous Year ('000), Dec. '19 | Change over Previous Year ('000), Sept. '22 | Change over Previous Year (%) | % of Pre-Pandemic Growth |
|---|---|---|---|---|
| **New South Wales** | 90.9 | 108.7 | 1.1 | 119.6 |
| **Victoria** | 122.2 | 108.4 | **1.9** | 88.7 |
| **Queensland** | 79.3 | **114.4** | 1.6 | 144.3 |
| **South Australia** | 15.7 | 25.2 | 0.9 | **160.5** |
| **Western Australia** | 33.2 | 50.4 | 1.3 | 151.8 |
| **Tasmania** | 5.2 | 4.1 | 1.0 | 78.8 |
| **Northern Territory** | -0.9 | 0.9 | **-0.4** | -100 |
| **Australian Capital Territory** | 4.2 | 6.3 | 1.0 | 150.0 |
| **Australia** | **349.8** | **418.5** | **1.4** | **119.6** |

Source: ABS Wingate, Wingate Research

All things being equal, there will be a further tightening of the official cash rate as the **Reserve Bank of Australia ('RBA')** remains resolute in its determination to return inflation to the two to three per cent target range. According to the Minutes of the Reserve Bank Board's meeting in April, the Board are keeping options open to either increasing the cash rate or pausing at the next Board meeting.

*According to Macquarie Securities, financial markets are fully pricing in a 25 basis points cash rate increase by August 2023 for a terminal rate of 3.85 per cent (pre-late April inflation data).*

Property and construction advisory firm **Slattery** is forecasting an average of four to six per cent increase in construction costs this year in Australia's major markets (noting that there will be significant variances in our smaller and more remote cities). By 2024, Slattery forecasts that construction costs will revert to a long-term average increase of around three to four per cent.

In parallel, according to CBRE's report, Melbourne developers have expressed that the settlement prices must rise by over 20 per cent to make their projects viable in light of rising costs.

Continued caution is advised for the coming year.

**TABLE 2: CONSTRUCTION COSTS: FORECASTS BY MAJOR MARKET**

| | 2022 | 2023 | 2024 and Beyond |
|---|---|---|---|
| **Sydney** | 6 - 8% | 4 - 6% | 3 - 5% |
| **Melbourne** | 8 - 10% | 4 - 6% | 3 - 4% |
| **Brisbane** | 10 - 12% | 5 - 7% | 3 - 5% |
| **Perth** | 10 -12% | 4 - 6% | 3 - 4% |
| **Adelaide** | 5 - 7% | 5% | 3 - 4% |
| **Hobart** | 12% + | 7 - 9% | 6 - 8% |

Source: Slatterly, Wingate Research

## International Residential

According to the **QV House Price Index** for March, the downturn in the residential property market is gaining momentum in **New Zealand**, with home values recording their largest first-quarter fall in more than 15 years. The latest index indicated national property values fell an average of 3.9 per cent since the start of the year. The average home value fell 13 per cent to $907,737 over the last 12 months.

Managing risk among property developers to prevent spillovers undermining the financial system remains a priority for the **Chinese** government. It will continue to help first home buyers and this should provide a floor to the housing market, which has been weak for several years. According to **Sandalwood Advisors,** home viewings of second hand homes have surged in tier-one and tier-two cities much more than the usual seasonal spike after the lunar new year.

United States home prices increased 3.8 per cent year-over-year in January, according to the **S&P CoreLogic Case-Shiller Index** report. Along the West Coast, prices are continuing to fall. But in the southeast, prices are rising strongly. The nation's median home price hit $363,000.

Also, in the **United States**, 'Rent Guidelines Board' staff have suggested rent hikes of as much as 8.5 per cent on one-year leases for rent-stabilised apartments and 16 per cent for two-year terms - these are the largest rent rises in 30 years (seven states and the District of Columbia have localities with some form of residential rent control). Read more.

## Residential

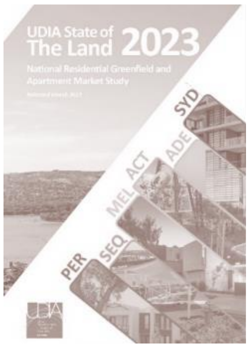
**CoreLogic**'s national unit index shows unit values increased for the first time in 11 months, increasing 0.6 per cent over March. Sydney recorded the strongest monthly growth in unit values across the capitals, up 1.0 per cent, followed by a 0.4 per cent lift in Melbourne. The national unit vacancy rate fell to a new record low of 0.8 per cent in March. Read more.

The **RBA** have reported that median rents began increasing in all states in 2021 and have continued to increase over the past year; however rents for many inner-city suburbs in Melbourne and Sydney are still below pre-pandemic levels. The return of students will go a long way to reversing the inner-city trend over the next 12 months. In February 2023, there were 142,580 international student arrivals to Australia, an increase of 93,270 students when compared with the corresponding month of the previous year. Read more.

**Tasmania** is forecast to have 79,000 more residents by 2033 and the 'Central Hobart Plan' sets out recommendations and actions regarding the supply of additional dwellings in Central Hobart, which could accommodate an additional 7,000 residents over the next 20 years. **Hobarts' answer to Melbourne's 'Postcode 3000'.**

In recent years **Hobart** has experienced steady population growth, rising house prices and increasing land values. Housing supply and affordability have become critical issues in Hobart (the median value of a property in Hobart is $673,333, well above the median price of $488,968 in February 2020).

Despite recent softening, Hobart unit and house prices have risen by around 30 per cent since 2020.




The **UDIA 'State of the Land'** report shows the dramatic softening of all capital city greenfield markets, with sales volumes falling from around 6,300 per month in 2021 to around 3,300 in 2022 (circa ten per cent below the 11 year average).

On a per-project basis, this shows a **fall from 10.3 sales per project per month in 2021 to six sales per project per month in 2022** (largely in line with the long run average). Since 2011, the median dollar per square metre rate has increased from $409 to just over $900, an increase of 6.9 per cent per annum on average.

Lot sizes have fallen by 1.7 per cent per annum over the same timeframe.

*Research4 first quarter data suggests sales volumes fell by eight per cent during the first quarter of 2023 to 1,804 lot sales per month. Annualised sale volumes are currently 31,000, 61 per cent down from peak annual sales.*

**TABLE 3: NATIONAL GREENFIELDS METRICS**

| | Annual Net Lot Sales | No. of Estates | Median Lot Size (Sqm.) | Median Lot Price | $ per Sqm. |
|---|---|---|---|---|---|
| **2011** | 24,588 | 471 | 498 | $235 | $409 |
| **2012** | 27,395 | 553 | 500 | $232 | $398 |
| **2013** | 42,222 | 591 | 493 | $244 | $422 |
| **2014** | 47,129 | 583 | 472 | $246 | $444 |
| **2015** | 48,808 | 571 | 452 | $267 | $505 |
| **2016** | 53,385 | 591 | 428 | $288 | $582 |
| **2017** | 53,544 | 602 | 429 | $309 | $627 |
| **2018** | 39,434 | 647 | 417 | $325 | $680 |
| **2019** | 28,770 | 688 | 421 | $313 | $648 |
| **2020** | 54,262 | 745 | 418 | $312 | $653 |
| **2021** | 76,132 | 618 | 409 | $333 | $716 |
| **2022** | 39,402 | 543 | 407 | $424 | $908 |
| **Per Annum Growth** | **4.0%** | **1.2%** | **-1.7%** | **5.0%** | **6.9%** |

Source: UDIA, Research4, Wingate Research

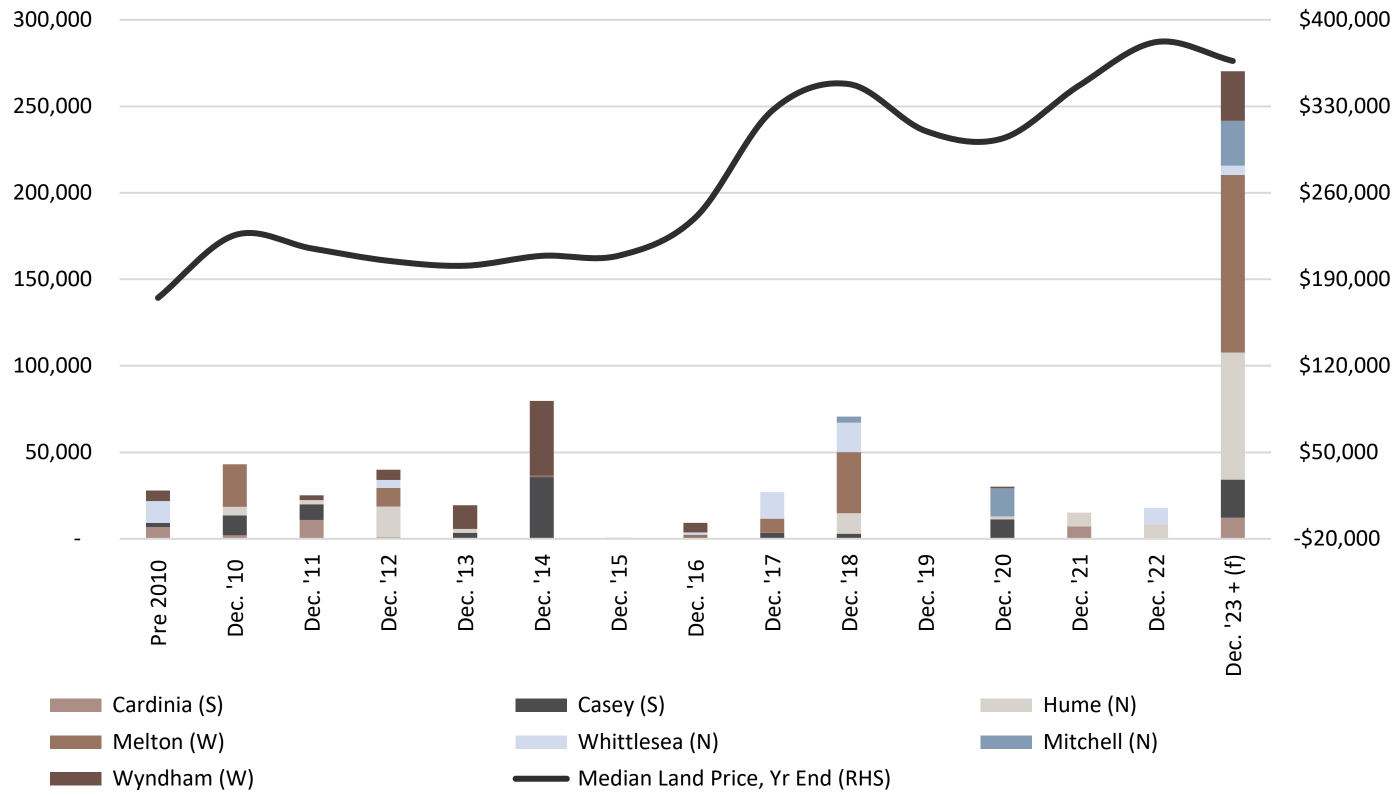
The newly appointed **Victorian Planning Minister** has reignited the housing debate in Victoria, flagging that 70 per cent of future housing should be delivered in established areas. At present, 56 per cent of all dwellings are in established areas.

Revisit Melbourne 2030.

There are key learnings from Sydney's greenfield experience, where in a constrained market, the median land price is north of $2,500 per square metre. Is the Victoria Government prepared for a median land price in excess of $625,000 by the time our population exceeds New South Wales in less than seven years based on trend growth – that's a rate of $2,000 per square metre!

While in terms of supply, there are around 40 precinct structure plans under preparation, pre-commencement and not on the program totalling around 275,000 - 300,000 lots (subject to applied dwelling yield).

**CHART 1: MELBOURNE GREENFIELDS: MEDIAN LAND PRICE AND LOTS DELIVERED IN STRUCTURE PLANS**




Source:, Wingate Research

Greenfield settlement statistics from **HWL Ebsworth** illustrated that only 2.1 per cent of land sales fell over in the second half of 2022. Analysis of over 3,000 land settlements showed:

- 70.2 per cent settled on time;
- 19.1 per cent settled on a short extension (up to 2 weeks); and
- 8.6 per cent settled on a long extension (2-12 weeks).

As a comparison, this percentage was only one per cent in the first half of 2022, down from a peak of 13 per cent in 2019 (fallovers occur where purchasers cannot complete their contractual obligation to settle, so the vendor terminates and takes their deposit).

In **South Australia**, the Minister for Planning has announced the establishment of an online land supply dashboard to help keep developers, councils and agencies up to date on land availability and rezoning activity. The online tool is in the process of being created and will be launched early in the 2023 / 24 financial year.

*Over the last five years, Greater Adelaide's greenfield land price has risen by around 35 per cent to around $235,000 (an increase of around $60,000). At the peak of the current cycle, land sales volumes exceeded 5,000 (more than double the average).*

The **Queensland Government** has announced a raft of initiatives for Build-to-Rent developments that feature at least 10 per cent of rental homes as affordable housing, driving more investment to deliver new rental supply. The concessions include:

- A 50 per cent discount on land tax payable for up to 20 years;
- Full exemption for the two per cent foreign investor land tax surcharge for up to 20 years;
- A full exemption from the 'Additional Foreign Acquirer Duty' for the future transfer of a 'Build-to-Rent' site.

**Brisbane City Council** have released their new Inner City Strategy which sets the direction for future planning changes in the inner city. Key take-outs:

- Kurilpa - provision of additional housing by allowing building heights similar to the CBD;
- City Centre - new masterplan is to be prepared to support growth as cultural and entertainment hub;
- Newstead - unlock industrial land for mixed use developer which parallels other parts of Newstead.
- Woolloongabba - focus on delivering housing and supporting events around the Gabba.

Read more

**ABS** data shows that new home building approvals in **New South Wales** had risen since their historic low in January. Apartment approvals, particularly in built-up urban areas, have remained doggedly low and have been low since early 2019. Read more.

*In aggregate, the annual number of approvals should be over 70,000, as it was between 2016 - 2018.*

## Other Asset Classes

**CBRE** released their latest **Hotels Australia Overview and Outlook** and although international visitation is firmly in recovery, short-term overseas arrivals remain around 40 per cent below pre-pandemic levels. The reopening of China's borders will be key to the rate at which our inbound tourism economy recovers in 2023.

**CHART 2: HOSPITALITY, METRICS BY MAJOR MARKET**

| Cairns | Dec22 | Y-o-y | Relative to 2019 |
|---|---|---|---|
| OCC | 64% | 32% | 0.86 |
| ADR | $215 | 28% | 1.44 |
| RevPar | $136 | 69% | 1.18 |

| Darwin | Dec22 | Y-o-y | Relative to 2019 |
|---|---|---|---|
| OCC | 63% | 13% | 1.06 |
| ADR | $219 | 27% | 1.48 |
| RevPar | $138 | 44% | 1.63 |

| Brisbane* | Dec22 | Y-o-y | Relative to 2019 |
|---|---|---|---|
| OCC | 69% | 38% | 0.96 |
| ADR | $215 | 29% | 1.36 |
| RevPar | $147 | 78% | 1.29 |

| Perth | Dec22 | Y-o-y | Relative to 2019 |
|---|---|---|---|
| OCC | 67% | 19% | 0.94 |
| ADR | $203 | 15% | 1.23 |
| RevPar | $137 | 37% | 1.13 |

| Gold Coast | Dec22 | Y-o-y | Relative to 2019 |
|---|---|---|---|
| OCC | 70% | 38% | 1.00 |
| ADR | $270 | 23% | 1.37 |
| RevPar | $189 | 69% | 1.36 |

| Adelaide | Dec22 | Y-o-y | Relative to 2019 |
|---|---|---|---|
| OCC | 71% | 22% | 0.90 |
| ADR | $196 | 26% | 1.26 |
| RevPar | $139 | 54% | 1.10 |

| Sydney* | Dec22 | Y-o-y | Relative to 2019 |
|---|---|---|---|
| OCC | 64% | 69% | 0.82 |
| ADR | $250 | 31% | 1.13 |
| RevPar | $161 | 121% | 0.88 |

| Hobart | Dec22 | Y-o-y | Relative to 2019 |
|---|---|---|---|
| OCC | 77% | 19% | 0.93 |
| ADR | $218 | 26% | 1.18 |
| RevPar | $168 | 49% | 1.08 |

| Melbourne* | Dec22 | Y-o-y | Relative to 2019 |
|---|---|---|---|
| OCC | 60% | 65% | 0.80 |
| ADR | $216 | 39% | 1.16 |
| RevPar | $130 | 129% | 0.87 |

| Canberra | Dec22 | Y-o-y | Relative to 2019 |
|---|---|---|---|
| OCC | 70% | 62% | 0.93 |
| ADR | $205 | 20% | 1.20 |
| RevPar | $144 | 96% | 1.10 |

Source: CBRE

Yields for city-based centres continued their long-term compression, falling from 6.8 per cent in 2014 to 4.9 per cent in 2022, according to **Cushman & Wakefield**. While centres outside cities, average yields have compressed from 7.2 per cent in 2014 to 5.3 per cent in 2022.

According to **AreaSearch**, childcare approvals have declined to the point where new long daycare places have fallen 45 per cent in Victoria, 44 per cent in NSW and 40 per cent in Queensland from pandemic highs - squeezed by construction and finance costs.

## About Wingate

Wingate is a leading alternative investment manager focused on property debt, mid-market corporate debt and direct property investment. Investment opportunities are driven by our specialist Property and Corporate Investments origination and credit teams.

In addition, we hold strategic investments in a select number of innovative, high growth financial services businesses where our experience and track record add significant value for stakeholders. Our platform comprises over 170 investment and fiduciary professionals dedicated to the Australian market.

We are driven by long-term, trusted relationships and delivering sustainable growth through the economic cycle. We feel a deep sense of personal responsibility to our people, co-investors, shareholders and business partners and we take pride in the strong performance of our investments over almost two decades.



**Melbourne**

Level 48, 101 Collins Street

Melbourne, VIC, 3000

Ph: +61 3 9913 0700

**Sydney**

Governor Phillip Tower Level 37

1 Farrer Place, Sydney, NSW, 2000

Ph: +61 2 8039 0900

wingate.com.au