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WINGATE

Property Research Digest: Edition 22

Economic

Minutes of the Monetary Policy Meeting of the Reserve Bank Board flagged that members once more discussed two options: holding the cash rate unchanged or increasing the cash rate by 25 basis points. In weighing up the two options, members recognised that the arguments were finely balanced but judged it was appropriate to increase interest rates.

Members also agreed that further increases in interest rates may still be required, but this would depend on how the economy and inflation evolve. On the positive side of the ledger, the minutes confirmed that the demand for new housing had been weak but was expected to be supported by strong fundamentals in the medium term, including population growth.

'Big 4 Bank' terminal cash rate expectations range from 3.85 to 4.10 percent, with easing expected to be underway by the last quarter of 2023 by one bank, with a cash rate anywhere between 2.60 and 3.60 per cent by early 2025.

Residential

Dwelling prices appear to have plateaued in most capital city markets, with some analysts forecasting double-digit dwelling price growth over the next 12 months based on current growth. It is widely accepted that there are four drivers of housing demand in Australia - population growth, change in household size, affordability and confidence.

In terms of confidence, does the **Westpac-Melbourne Institute** consumer sentiment or time to buy a dwelling index offer any insight into dwelling demand and price growth? On an annualised basis, sentiment peaked at 105.5 in 2013; the time to buy index peaked in 2014 at 155.6. Capital city dwelling prices rose by 10.0 and 6.7 percent in 2013 and 2014. Price growth in 2013 was the strongest over the period until the pandemic.

The findings of a survey regarding the primary determinant of housing demand can be accessed **here.**

TABLE 1

TIME TO BUY A DWELLING AND CONSUMER SENTIMENT INDEX

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 YTD
Time to Buy a Dwelling, Annual Average	125.3	129.5	106.7	151.1	**155.6**	119.8	103.6	124.3	113.8	108.8	112.3	100.6	79.0	**73.0**
Consumer Sentiment, Annual Average	113.7	100.0	98.1	**105.5**	96.6	97.8	99.8	99.6	102.7	98.0	93.7	98.4	103.3	**81.2**
Residential Property Price Index, Eight Capital Cities	4.4%	-4.1%	3.0%	10.0%	6.7%	8.7%	7.7%	5.0%	**-5.1%**	2.5%	3.6%	**23.7%**	-3.2%	-8.0%

Source: Westpac-Melbourne Institute, ABS (2010 - 2021), Corelogic (2022 - 23), Wingate Research

AHURI's latest report examines the impact of the pandemic on patterns of housing supply and demand and how the Australian housing market has changed over the last decade. Key learnings:

- The current housing supply system can deliver detached housing in the outer suburbs on development ready land within 18 months but cannot respond within an effective timeline on land that requires re-zoning;
- The new dwelling supply pipeline, particularly for higher-density products, can be turned off very quickly by rising construction costs. It is far slower to turn back on;
- Supply chains are extremely vulnerable and can quickly cause major delays and dramatically increase project costs.

The report also states that the private rental market is broken, and the government is powerless to intervene and deliver more supply. The government is almost totally reliant on market conditions improving and attracting new investors to ease the rental crisis.

Read more here.

A series of recommendations were presented to the **City of Perth** to increase the residential population of the central business district recently. The measures to stimulate and accelerate residential development in the city include residential rate reimbursements, waiving of development application and building permit fees and a '**City Living**' campaign to attract investors, renters, owner-occupiers, students, and other demographics.

Since January 2019, Perth unit prices have grown by 17.5 percent to around $409,500, albeit declining by 1.2 percent since January 2012. According to the **Real Estate Institute of Western Australia,** the vacancy rate fell to just 0.7 percent in March 2023, down 1.2 percent twelve months ago.

Read more here.

Insightful data from **Bursill Consulting** over the last 10 years, the average time to complete a precinct structure plan in Melbourne was 4.8 years, or if outliers are removed 4.4 years. Following reform through the PSP 2.0 process there were encouraging improvements.

However, since the end of 2022, significant inter-Governmental delays are being experienced which we expect to push the average time to prepare structure plan to more than 5 years. Post PSP approvals and construction would add another 2 years. Bursill Consulting is currently updating its forecast for PSP completions.

As flagged by the **Property Council of Australia** in Victoria, there are concerns:

- Potential delivery of two new metropolitan greenfield plans in 2023/24, down from the originally forecast three;
- Delays until next financial year for finalisation of the updated **Victoria in Future** population projections and the **Urban Development Program** report (with updated analysis of supply, consumption and adequacy of residential and industrial land).

The **Victorian Planning Authority** is currently finalising its work program - there will be significant changes as they pivot to a desired 70/30 planning strategy.

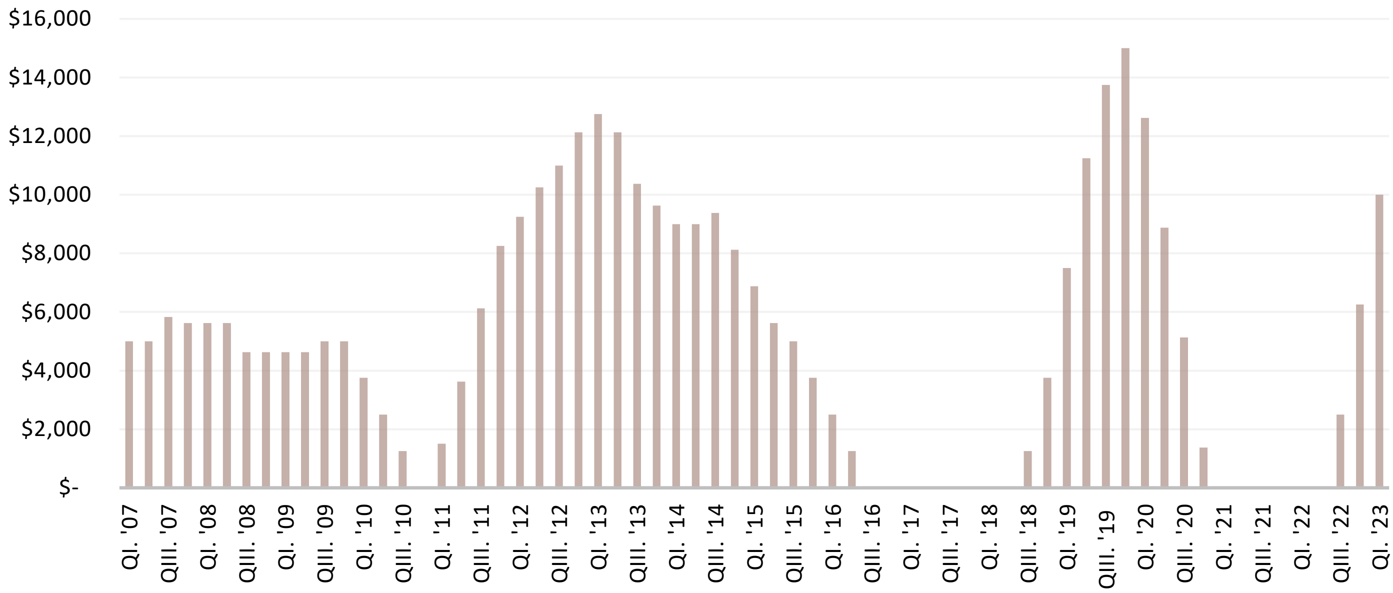
Incentives have re-entered most capital city greenfield markets - no real surprises. Perhaps it is more about how long the incentive cycle runs and how long this cycle may prevail in the case of Melbourne. The most aggressive period of incentives was the period between QI. '11 and QII. '16 - incentives peaked at around $13,000 on a moving annual average basis. The rebate equated to around 6.2 percent of the land price.

Pre-pandemic during the two and a half years to QIV. '20, rebates peaked at just under $15,000 - around 4.7 percent of the land price (perhaps moving higher except for the pandemic).

In the first quarter of this year, the MAA rebate is $10,000, around 2.6 percent of the land price. If rebates reach the previous peak of 6.2 percent in early 2013, this would equal a rebate of around $23,500.

CHART 1

MELBOURNE GREENFIELD REBATES



Source: Wingate Research

JLL have released their latest apartment market overview flagging that demand remains patchy, with investor demand constrained. On the supply side, apartment construction levels are moderate and are likely to remain so for at least several more years. While developers are getting more confident about the demand / supply outlook, pressures from high construction and rising finance costs mean few large projects are progressing to construction.

Download the JLL report here.

The **Wingate Bi-Annual Sentiment Survey** confirmed medium and high density residential as the preferred asset class over the coming years as the imbalance between demand and supply continues to widen.

In **South Australia**, land has been unlocked to lift supply in Aldinga, Noarlunga Downs and Golden Grove. The Aldinga release will see 800 new homes developed through a **Renewal SA** initiative, while 600 homes will be constructed at Noarlunga Downs through the **South Australian Housing Authority**. **YAS Property & Development** will begin a code amendment process for land at Golden Grove, which will site an additional 500 homes. Additional land has been identified in Goolwa North (around 2,500 homes), with an additional 230 at Fisherman Bay.

These further land releases follow the largest land release in the state's history announced in February, which together will deliver a total of almost 30,000 new homes.

The incumbent New South Wales government has introduced new infrastructure contributions legislation. The renamed **Housing and Productivity Contribution** will be levied on all developments which increase the intensity of residential use on land apart from social and affordable housing development applications.

The new charge will be $10,000 per new dwelling for infill (urban development sites) and $12,000 per dwelling for greenfield development. From 1 October 2023, these new rates will replace the previous State Infrastructure Charges.

Greater Sydney Region

Land use	Contribution rate
Houses (detached, semi-detached and townhouses)	$12,000 per dwelling / lot
All other residential accommodation (residential flat buildings and units)	$10,000 per dwelling / lot
Industrial	$15 per square metre of new gross floor area for industrial development
Commercial	$30 per square metre of new gross floor area for commercial development
Retail	$30 per square metre of new gross floor area for retail development

International Residential

Singapore is raising taxes for property purchases amid concerns that surging prices could run ahead of economic fundamentals. This will be the third round of cooling measures.

The biggest jump is the doubling of stamp duties for foreign buyers to 60 percent. Singaporeans buying their second residential property will pay an **Additional Buyers Stamp Duty** rate of 20 percent, up from 17 percent, while those buying their third and subsequent residential property will have to pay an increased rate of 30 percent, up from 25 percent.

Read more here.

House prices in **New Zealand** fell by 0.8 percent last month and are now 17.5 percent below their November 2021 peak. The volume of housing sales in New Zealand rose for the second consecutive month in April but remained very low. In late May, the Reserve Bank of New Zealand (RBNZ) increased the cash rate by 25 basis points to 5.50 percent - the twelfth consecutive increase.

The shift towards higher density continues in New Zealand as detached consents continue to fall, down 23 percent year-on-year. Multi-family consents are up 4 percent over the same period. All things being equal, Australia should mirror this trend.

The RBNZ noted that the surge in net immigration would fill worker shortages and provide a boost to inflation - a sure watch for the Reserve Bank of Australia with surging migration here.

United Kingdom's housing and regeneration agency, **Homes England**, has released its five-year strategic plan, focusing on how it will support communities and families by enabling the delivery of affordable homes alongside the regeneration of towns and cities. Like Australia, home ownership has fallen - from a peak in 1973 of circa 71 percent to 63 percent. As a comparison, home ownership peaked in 1966 at 73 percent in Australia, it is now 66 percent.

A key takeout for **Australia** from the strategic plan is the desire to work with institutional investors and investment managers to provide a range of financial tools that attract more institutional capital to invest in housing.

Read the plan here.

Retail

According to the **Australian Bureau of Statistics**, retail sales volumes fell 0.6 percent in the first quarter of 2023, following on from a 0.3 percent decline in the last quarter of 2022. The quarter-on-quarter falls mark the biggest six-month contraction in retail sales volumes since 1986 (excluding the pandemic and GST introduction periods). Annual growth slowed to 0.3 percent. The detail shows weakness in the quarter centred on household goods and was more pronounced in Queensland.

Industrial

According to **Savills**, East Coast industrial markets are witnessing a growth rate of more than seven times their 15-year average. Prime rents on the east coast grew by nearly 40 percent and secondary rents by 45 percent compared to three years ago. Some sub-markets are even experiencing growth of over 50 percent.

Sydney's prime net face rents are the highest across the nation, reflecting growth of 36.4 percent over the year. Melbourne has been similarly strong, with rents growing on average 16.4 per cent year-on-year.

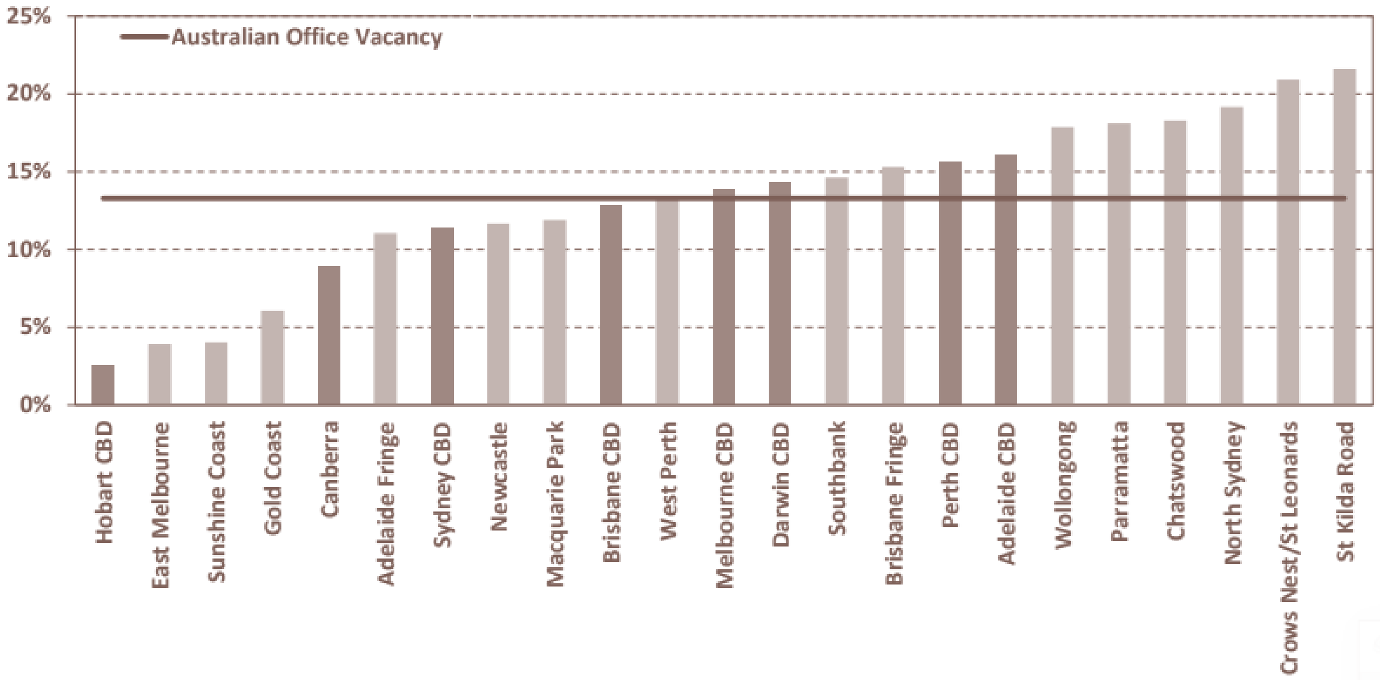
Read more here.

Office

At the aggregate, **J.P. Morgan** suggests that central business district office valuations have declined by seven to eight percent from their 2022 peak levels. Analysis by **Barrenjoey** on the Melbourne market shows that prime central business district office vacancy is 16.2 percent and is forecast to increase. There are around 230,000 square metres of projects under construction (with around 31 percent pre-committed). Anecdotal evidence suggests that construction costs have increased by 30 - 40 percent over the last three years.

CHART 2

CBD AND NON-CBD OFFICE VACANCY RATES



Source: PCA

Agriculture

Australian farmland values maintained their strong growth momentum in 2022 as the national median price per hectare increased by 20 percent to just over $8,500 per hectare, according to the latest **Australian Farmland Values** report. Rising prices through 2022 extended the recent period of growth to a record ninth consecutive year. Tasmania was the clear standout with a rise in its median price per hectare of 54.9 percent. Victoria, South Australia and Western Australia all recorded growth of more than 20 percent. Sales volumes declined in all States except South Australia. **Read more here.**

TABLE 2

AUSTRALIAN FARMLAND VALUES

	Qld	NSW	Vic	Tas	SA	WA	NT	National
2022, Year-on-Year Median Price Growth	18.9%	15.9%	25.3%	**54.9%**	23.0%	22.5%	108.3%	**20.0%**
2022, Year-on-Year Transaction Volume Growth	-30.9%	-41.9%	-44.6%	-13.8%	5.9%	-27.6%	-28.1%	**-34.3%**

Source: Australian Farmland Values, Wingate Research

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.

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