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WINGATE

Property Digest: Edition 23

Economic

In March the **Reserve Bank of Australia** acknowledged that it was closer to the point where it will be appropriate to pause interest rate increases. In May it opted to do so but affirmed that the Board remained resolute in its determination to return inflation to target, paying attention to the developments in the global economy, household spending, **inflation** outlook and the labour market while making their decision.

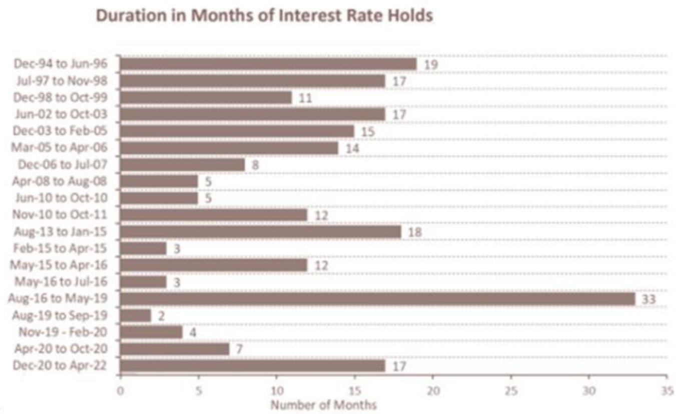
In terms of inflation, the second quarter **consumer price index (CPI)** confirmed that Australia's inflation continued to track lower but remained high. Headline CPI rose by 0.8 percent during the quarter for an annual rate of 6 percent. This is the the lowest quarterly headline inflation since the September Quarter 2021. Significant price rises included new dwelling purchases by owner-occupiers (1 percent), rents (2.5 percent) and international holiday travel and accommodation (6.2 percent). [Read more.]

Interest rates are a key cyclical driver of all-things housing and, on balance, the inflation figure should be enough to keep interest rates on hold, for only the second time in 2023.

The cash rate remained unchanged at 4.1 percent on 1 August.

It is widely recognised that there are four key drivers of demand for housing in Australia; population, household size, affordability and consumer confidence.

Population is the strongest driver.



Australia's population continues to rebound after experiencing one of the largest declines in growth by a developed country during the pandemic according to the Australian Bureau of Statistics. Its rate of growth is a remarkable 42 percent above its pre-pandemic level (see Table 1). While, growth in the 12 months to 31 December 2022 is the strongest since 31 December 2008 (459,500p).

The East Coast states captured around 80 percent of total growth with:

- **New South Wales** leading the way with growth of 138,000 people, followed by Victoria (137,700p) and Queensland (116,600p);
- **Victoria** netted 27.7 percent of total growth (down from 34.9 percent pre-pandemic);
- **Western Australia** captured 12.6 percent of total growth (up from 9.5 percent pre-pandemic);
- The **Australian Capital Territory's** population growth is 97.6 percent above its pre-pandemic level (albeit off a small base);

Australia should grow by no less than 430,000 people in 2024 before normalising at around 350,000 people in 2025. Over the longer term, the key age cohorts driving population growth over the next decade are the baby bonus generation, the millennials and baby boomers, offering insight into future housing requirements.

TABLE 1 – POPULATION GROWTH

	12 Months to 31 December 2022 ('000)	Percentage of Total, 2022	12 Months to 31 December 2019 ('000)	Percentage of Total, 2019	Increase in people (2019 and 2022)
New South Wales	138.0	27.8%	90.9	26.0%	51.8%
Victoria	137.7	27.7%	122.2	34.9%	12.7%
Queensland	116.6	23.5%	79.3	22.7%	47.0%
South Australia	28.5	5.7%	15.7	4.5%	81.5%
Western Australia	62.7	12.6%	33.2	9.5%	88.9%
Tasmania	2.9	0.6%	5.2	1.5%	-44.2%
Northern Territory	2.0	0.4%	-0.9	-0.3%	-322.2%
Australian Capital Territory	8.3	1.7%	4.2	1.2%	97.6%
Australia	**496.8**	**100.0%**	**349.8**	**100.0%**	**42.0%**

Source: ABS, Wingate Research

Whilst there is continuous discussion around forecast population growth in Australia's southern States and dwelling supply shortfalls, new forecasts for **Queensland** suggest that around 6 million people will call **South East Queensland** home by 2046.

Population is growing, but it is also changing and the number people aged 65 years or older will increase. Single person households will almost double to 40.5 percent by 2046. Which regions will outperform? Read more.

Residential

Further signs of a correcting residential market with the **Housing Industry of Australia New Homes Sales** report indicating that sales have fallen by 33.2 percent over the last 12 months. Cancellations remain a concern, and on average, one in every four sales is cancelled due to interest rate and construction costs increases.

On a **state-by-state** basis, sales fell the most in **New South Wales** (-56.1 percent), followed by **Queensland** (-38.5 percent), **Victoria** (-31.2 percent), **Western Australia** (-12.1 percent) and **South Australia** (-2.8 percent). Read more.

According to the **Australian Housing and Urban Research Institute (AHURI)**, over the last 30 years, ownership rates for households at age 30 - 34 have declined substantially; from 65 percent of people born in the mid to late 1950s being home owners by age 30 - 34, to only 45 percent of people born in the mid to late 1980s.

This fall in the ownership rate has materialized as house prices have nearly tripled, suggesting that increasing house prices and falling affordability are associated with a delay in housing market entry for Australian households according to AHURI. Read more.

Research by the **Institute of Public Affairs (IPA)** suggests that over the six years to 2028, Australia is set to face a net housing supply shortfall of 252,800 dwellings. Almost two-thirds of net new migrants in the financial year ending 2023 have arrived in Australia on student visas, while two thirds of the subsequent year's net migration intake will be made up of international students. Read more.

Last financial year, the **Federal Government** saw the largest ever net intake of **international students** - more than 250,000 people, which was more than twice the previous high of 122,000 in the financial year ending 2009. Between the financial years ending 2023 and 2028 it is expected that around 772,000 net new international students will settle in Australia.

The **South Australian State Government** is open for business and has abolished stamp duty for first homebuyers purchasing a new property valued up to $650,000. Duties will also be abolished for first home buyers purchasing vacant land where a new home will be built valued up to $400,000. The property value cap for the First Home Owner Grant will also be increased from $575,000 to $650,000.

As shown in **Table 1**, South Australia's population growth is circa 82 percent higher than its pre-pandemic level, circa 28,500 people to 31 December 2023. **Adelaide's** median house price has fallen by 2.1 percent from recent there peak to $704,488 - the smallest decline from peak of all capital city markets. House prices have risen by 72.2 percent since 2012, the third strongest behind Sydney and Hobart. Read more.

Planning policy in a number of capital city markets continues to restrict greenfield land supply, in part driving up land prices. Detached housing in many markets is no longer affordable, alternative housing models have developed to help deliver affordable product including landlease and townhouse models.

The **2021 Census** showed that 12.6 percent of all dwellings were townhouses - 'semi-detached, row or terrace house, townhouse' as defined by the **ABS**. Nationally, there were a total of 113,884 townhouse approvals over the five years to 2021. Since 2011, there have been 402,920 townhouse approvals nationally.

TABLE 2 – TOWNHOUSES AS A PERCENTAGE OF TOTAL DWELLINGS

	Townhouses as a Percentage of Total Dwellings	Median House Price ('000's)	Median Greenfield Land Price ('000's)
Greater Sydney	12.8%	$1,293.5	$716.0
Greater Melbourne	16.2%	$911.0	$382.0
Greater Brisbane	11.4%	$792.1	$358.0
Greater Adelaide	16.3%	$704.5	$235.0
Greater Perth	14.2%	$606.6	$228.0
Greater Hobart	6.1%	$696.9	n/a
Greater Darwin	10.5%	$585.7	n/a
Australian Capital Territory	17.2%	$943.2	$623.0
Australia	**12.6%**	**$766.7**	**$424.0**

Source: ABS, Corelogic, UDIA, Wingate

The **Urban Development Institute of Australia (Victoria)** and **Wingate** conducted it's mid-year client luncheon with a key note address from the **City of Melbourne's Deputy Lord Mayor**. One of the key themes was the City of Melbourne's robust apartment pipeline, circa 21,500 approvals across 109 active permits.

As the affordability debate rages on and the Labor government pivots back to its **Plan Melbourne** aspirational scenario of 70 percent of net additional dwellings in established Melbourne, it is questioned whether Melbourne's inner municipalities can offer affordable product that matches the profile of surging migrant-led demand whom have a strong preference for larger dwellings.

Socio-demographic profiles and median house and unit price comparisons for selected inner city and growth area municipalities is shown in the following table. For a breakdown by municipality see here.

TABLE 3 – INNER AND GROWTH AREA MUNICIPALITIES

	Median Age	Ave. No. of Children per Family (All Households)	Ave. No. of People per Household	Ave. No. of Motor Vehicles per Household	Median House Price	Median Unit Price
Average, Inner	35.7	0.4	2.1	1.3	$1,615,458	$559,142
Average, Growth Areas	35.6	1.0	2.9	2.0	$647,286	$456,770
Variance	-0.1	0.5	0.7	0.8	-$968,173	-$102,372
Growth Areas: Inner	-0.3%	120.9%	35.0%	63.4%	-59.9%	-18.3%

Source: ABS, REIV, Wingate Research

The average **Victorian** apartment now costs around $38,718 more to build than a house according to the **ABS.** Figures show the average apartment approved for construction in the past year will cost $490,602 compared to $451,884 for a house. In 2016, the cost to build an apartment was $298,849 compared to $303,736 for a house. In percentage terms, that is an increase of 64 and 49 percent respectively.

In an environment where affordability is front of mind and average mortgage repayments have increased by around $25,000 - $30,000 per annum over the last 12 months, **Oliver Hume** data suggests that 60 percent of greenfield purchasers have a household income less than $140,000.

No surprises as **SMEC** reports that Victorian civil construction costs have escalated at unprecedented levels over the last couple of years. The results of investigations into civil construction cost trends since early 2018 associated with Victorian urban greenfield development are detailed below in Table 4. Civil construction costs increased by 46.8 percent since the second quarter of 2018, with the strongest increase in sewer charges. Read more.

TABLE 4 – CONSTRUCTION COST INDEX

	Q2. '18	Q2. '19	Q2. '20	Q2. '21	Q1. '22	Q3. '22	Q1. '23
Road and Drainage	100.0	102.8	100.0	103.6	110.0	123.2	139.6
Sewer	100.0	119.6	108.3	114.3	120.7	133.6	146.4
Potable Water	100.0	107.6	105.9	106.2	118.3	128.9	137.8
Recycled Water	100.0	108.0	106.3	106.9	118.3	130.7	139.3
Overall	**100.0**	**110.3**	**106.4**	**110.2**	**118.2**	**131.0**	**146.8**

Source: SMEC, Wingate Research

At last year's **Queensland Housing Summit** a commitment was made to review **ShapingSEQ** to respond to the immediate housing and growth management needs of the region. In the coming weeks, the **Queensland Government** will release a consultation draft of the updated **SEQ Regional Plan.**

The review will be a targeted amendment of the existing ShapingSEQ that will reflect updated population and dwelling growth assumptions and will include a more robust approach to data and monitoring of supply to address specific areas of housing supply pressure. **Land and Supply and Development Monitoring Reports** read more.

New South Wales will require approximately 900,000 additional dwellings by 2041, yet it has a projected housing shortfall of 134,000 dwellings over the five years of the **National Housing Accord.** Can the additional dwellings be delivered by 2041?

As a start, the **New South Wales** State government will enable developers to construct taller and denser buildings - and have approvals fast-tracked under changes to planning rules that will also curtail the power of councils. Under the proposal:

- Housing developments valued at more than $75 million and of which at least 15 percent is to be used for affordable housing will get access to a 'state significant development' pathway that would fast-track approvals;
- Developers proposing such projects will be able to add 30 percent to the 'floor space to land size' ratio and build 30 percent higher than the local environment plans allow.

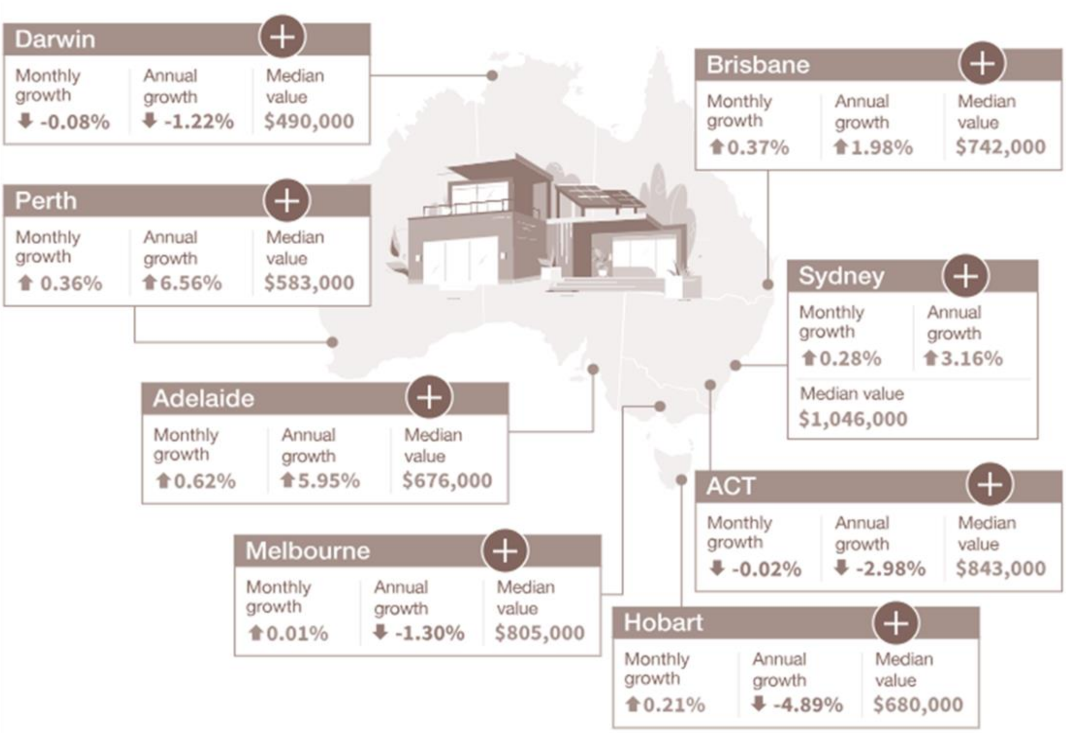
Read more about the Sydney housing supply forecast.

Also in **New South Wales**, the Minns Government has announced that staff from the **Greater Cities Commission** and **Western Parklands City Authority** will be redeployed into the **Department of Planning and Environment**. This should reduce the overlap and duplication between agencies and redirect valuable but limited resources to bolster planning delivery against the Government's priorities. Planning processing times had blown out from 69 days on average in July 2021 to 116 days in March 2023.

Since 2012, **Sydney** house and unit prices have grown by 99 and 58 percent respectively - Sydney accounts for around 19 percent of the national dwelling supply only. Does the industry think that **Sydney** will experience the strongest price growth over the next 12 months? Read more.

In 1984, an average Sydney house cost $75,000, less than four times the typical income. In 2023 the average house cost is just over $1 million, or more than 12 times typical wages of $94,000. In 1984, repayments as a percentage of earnings was 28 percent of earnings - now it's more than 60 percent.

CHART 1 – CAPITAL CITY HOUSE PRICES



Source: PropTrack, Daily Telegraph, 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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