SEPTEMBER 2023

WINGATE

Property Digest: Edition 24

Economic

State by State

Surprisingly, **Tasmania** is the country's best performing economy, closely followed by **New South Wales** according to **CommSec's State of the States** – an insightful quarterly ranking of economic performance. A strong job market, and relative strength in home loan demand and dwelling starts has kept **Tasmania** in the number one spot but population growth lags in other state and territory economies, restraining momentum. Read more.

CHART 1

ANNUAL GROWTH RATES BY STATE

	Economic growth	Retail spending	Equipment investment	Employment growth	Construction work	Population growth	Housing finance	Dwelling starts
NSW	13.9	0.8	**9.9**	3.4	8.6	1.70	-18.9	-8.1
VIC	10.1	0.2	3.3	3.9	5.6	2.10	-24.9	-18.1
QLD	**14.1**	-1.3	4.2	2.8	4.0	2.22	-15.4	-12.1
SA	9.8	1.7	-1.6	**4.7**	-2.6	1.58	-13.2	-22.6
WA	10.9	0.9	-6.9	1.0	**9.5**	**2.27**	-14.8	-30.1
TAS	6.6	0.7	-10.9	3.2	-2.9	0.51	**-12.0**	-19.2
NT	7.9	-2.9	-3.2	**3.5**	1.4	0.81	-28.6	**5.3**
ACT	8.7	**2.7**	-31.0	3.9	**-9.9**	1.84	-26.1	-44.1
Aust	**11.9**	**0.3**	**3.9**	**3.5**	**5.9**	**1.93**	**-20.0**	**-13.4**

Source: Commsec, Wingate Research

Unemployment Rates

The unemployment rate held steady at 3.7 percent. According to **CBA**, The **ABS** undertook the quarterly benchmarking of the survey in the month and there were some revisions to the population size in recent quarters. This has shifted the participation rate higher in recent months. It rose in August to 67.0 percent, a record high. There have been two main drivers of a rising participation rate. Net overseas migration has been very strong, while the cost-of-living pressures and the tight labour market have also seen the supply of labour shift higher. Read more.

Investment and Lending

According to the **Australian Bureau of Statistics (ABS)** investor lending was only 0.1 percent lower last month than the previous month. Investor lending in **Queensland** was up 6.8 percent. Since January, investor lending has been strongest in Queensland up 23.4 percent, while **Tasmania** was the only other state that recorded an increase. **New South Wales** (-0.8 percent, **Victoria** (-2.6 percent), **South Australia** (-2.6 percent) and **Western Australia** (-1.4 percent) all recorded falls.

The national average loan size has lifted by 2.2 percent to $593,000 (still below the 2022 peak when the average loan size was $618,000). New South Wales is the state with the largest average loan. Read more.

Australian real private capital expenditure rose by 2.8 percent in the second quarter of 2023 according to the **Australian Bureau of Statistics (ABS)**, well above expectations. The outcome was in part due to firms bringing forward investment spending as a temporary tax incentive came to an end in June, and easing supply disruptions.

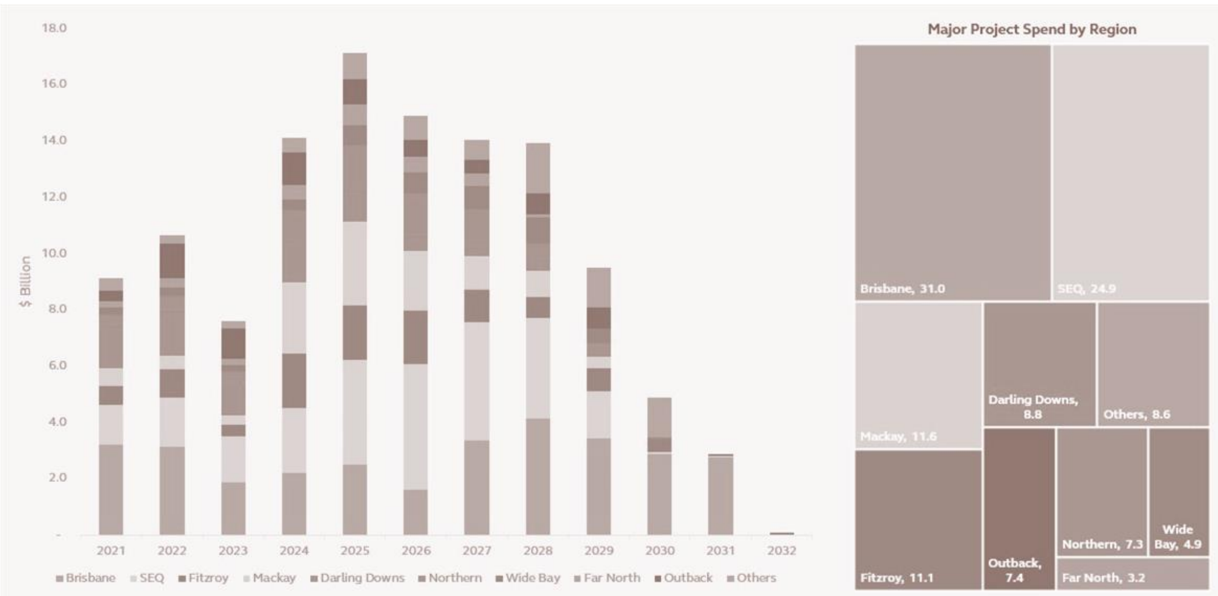
Non-mining firms continued to drive most of the increase in the quarter, reaching another all-time high. Equipment, plant and machinery capex, which feeds closely into Australian gross domestic product calculations, eased to 1.9 percent in the second quarter.

The **unemployment rate** held steady at 3.7 percent. According to **CBA**, The **ABS** undertook the quarterly benchmarking of the survey in the month and there were some revisions to the population size in recent quarters. This has shifted the participation rate higher in recent months. It rose in August to 67.0 percent, a record high. There have been two main drivers of a rising participation rate. Net overseas migration has been very strong, while the cost-of-living pressures and the tight labour market have also seen the supply of labour shift higher. Read more.

More than $120 billion will be invested in major projects across **Queensland** over the next decade. According to **Arcadis**, Southeast Queensland will see a significant increase in the volume of major project expenditure across transport infrastructure, utilities, energy transition (renewables) and health (capital expansion program). Around 47 percent of investment (circa $56 billion) will be focused in **Southeast Queensland**.

CHART 2

QUEENSLAND MAJOR PROJECT SPEND BY REGION



Source: Arcadis, Wingate Research

Residential

Dwelling Price Growth

As most States ‘pivot to / back to+’ a focus on policy that directs 70 percent of net new dwellings in established areas (or 85:15 in Greater Adelaide), it is somewhat timely to review the performance of the unit market over the last ten or so years.

Since 2012 national unit prices have increased by 43.6 percent or around $45 per day, from $418,595 to $601,102 according to Corelogic. As a comparison, house prices have risen by 58.4 percent, just under $69 per day.

The strong growth was in **Sydney** which rose by $72.03 per day, followed by **Hobart** ($48.62) and **Melbourne** ($40.94). Unit prices in **Perth** only rose by only 0.3 percent or 30 cents per day, while in **Darwin** units fell by around 18 percent or around $20 per day over the same timeframe.

TABLE 1

CAPITAL UNIT UNIT PRICE PERFORMANCE

	Jan-12	Jun-23	Increase - %	Increase - $	Price Increase per Day
Sydney	$501,765	$797,806	59.0%	$296,041	$72.03
Melbourne	$428,150	$596,413	39.3%	$168,263	$40.94
Brisbane	$416,587	$504,487	21.1%	$87,900	$21.39
Adelaide	$293,755	$444,157	51.2%	$150,402	$36.59
Perth	$417,371	$418,623	0.3%	$1,252	$0.30
Hobart	$318,728	$518,570	62.7%	$199,842	$48.62
Darwin	$447,242	$365,397	-18.3%	-$81,845	-$19.91
ACT	$478,279	$597,370	24.9%	$119,091	$28.98
Australia	**$418,595**	**$601,102**	**43.6%**	**$182,507**	**$44.41**

Source: Corelogic, Wingate Research

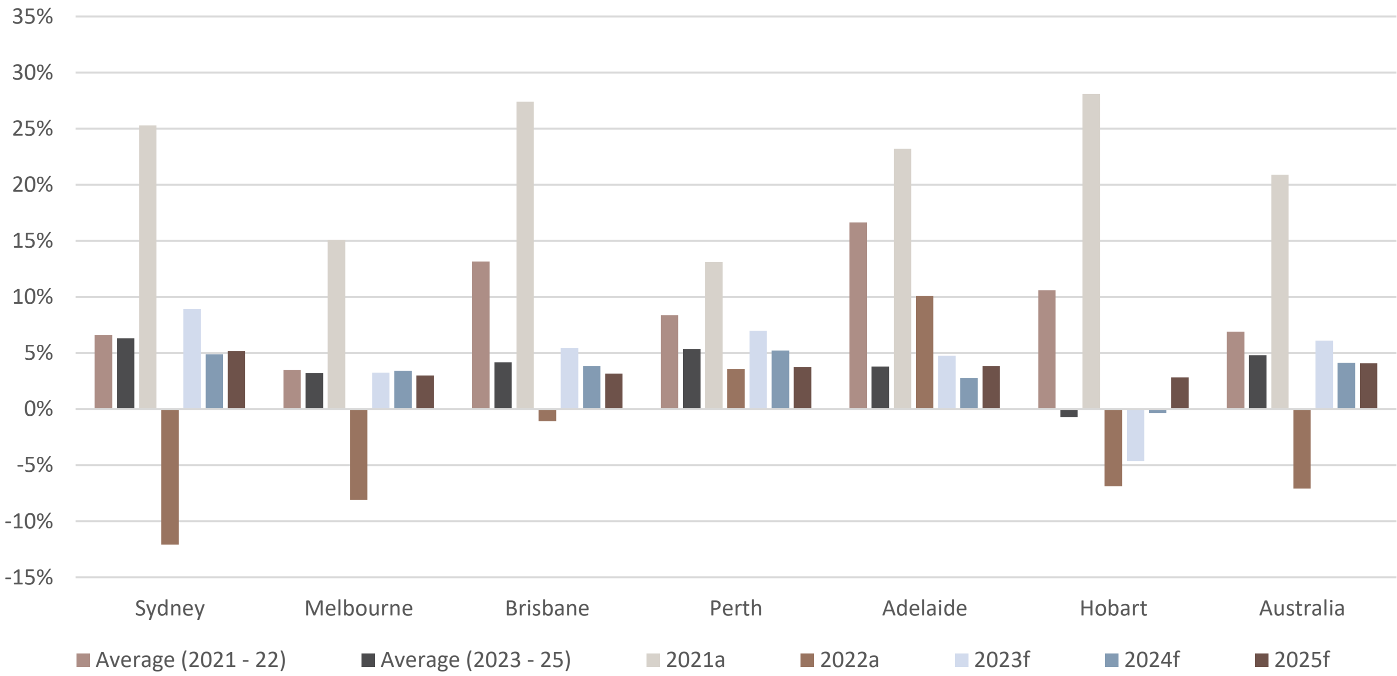
Forecast Dwelling Price Movement

All things being equal, the **official cash rate** may have peaked, with some economists suggesting the next movement will be down. What could this mean for dwelling prices over the next few years. Adopting a consensus view across the **'Big 4' Banks**, the average national growth to 2025 is 4.8 percent per annum (nominal), with **Sydney** and **Perth** leading the way at 6.3 and 5.3 percent per annum. **Brisbane** is forecast to grow by 4.2 percent. **Hobart** is the only capital city markets expected to fall (on the back of 10.1 percent average growth per annum in 2021 and 2022).

As a way of comparison, national dwelling prices grew by 6.9 per cent per annum in 2021 and 2022 as shown in the below chart. **Adelaide** and **Brisbane** dominated with growth of 16.7 and 13.2 per cent respectively.

CHART 3

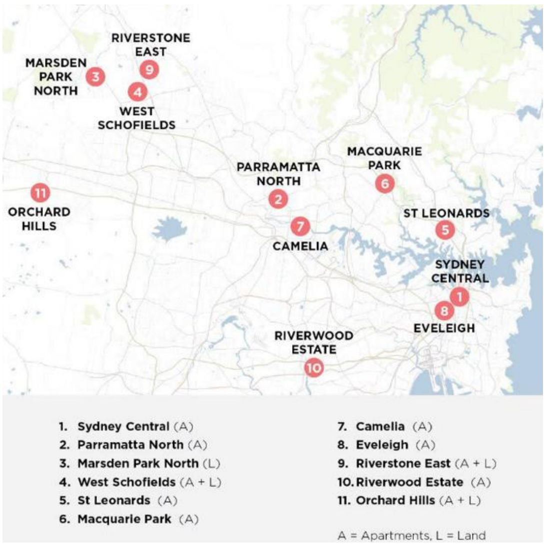
DWELLING PRICE FORECASTS ('BIG 4' BANKS)



Source: ANZ, CBA, NAB, Westpac, Research

New South Wales would need to build 75 percent more homes than are forecast over the next five years to keep up with demand. The state is expected to deliver just 36,000 new homes a year for the next five years with documents revealing that the government is committed to increasing the supply of housing via land rezonings. A total of 11 suburbs have been prioritised for state-led rezoning by the middle of 2024.

The priority areas leverage off the significant infrastructure investment in Sydney, including the Sydney Metro Northwest.



The 11 suburbs feature three within the **Sydney Metro Northwest** catchment (**Marsden Park North, Riverstone East, and Schofields West**). The suburbs all fall within the **Blacktown** municipality, an area forecast by the department of planning to supply the highest proportion of new homes of any municipality in Sydney to 2028.

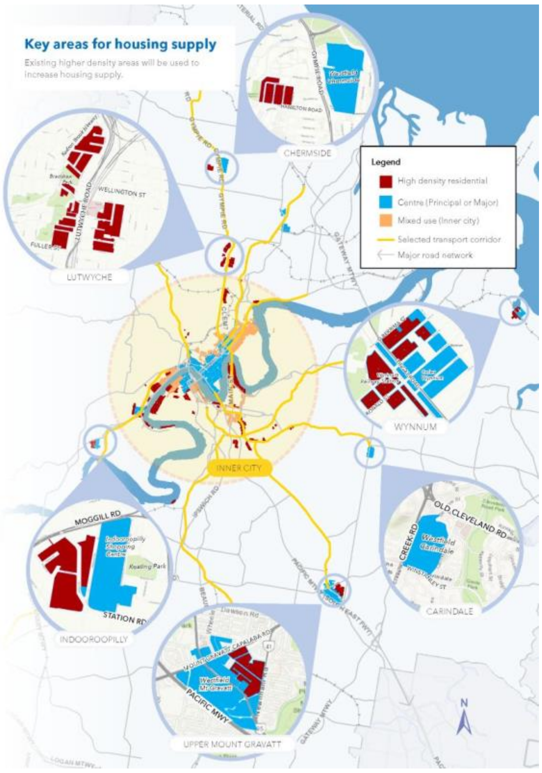
Oliver Hume research indicates that strong population growth, driven by robust overseas and interstate migration to **Queensland**, is having a significant impact on land prices across Southeast Queensland.

Land prices have increased by 7.5 percent over the last 12 months. Results across municipalities vary with **Logan** up by 29.8 percent, while the **Gold Coast** fell by 36.1 percent (at $637,000, Gold Coast is the most expensive land market in Southeast Queensland). Read here.

The **State Planning Commission in South Australia** have released a Discussion Paper for the **Greater Adelaide Regional Plan** and seek engagement. Population projections suggest that Greater Adelaide's population could grow by around 670,000 people over the next 30 years, more than 60 people per day (and an increase of around 46 percent). See discussion paper interactive map here.

The **Brisbane City Council**, recently announced financial incentives under the new **Housing Supply Action Plan**. The scheme will incentivise new apartments within the existing inner city, high-density and principal and major centre zones. Under the plan, Council have committed to significantly reduce Council's infrastructure charges including:

- 75 percent reduction for studio, one and two-bedroom apartments within inner-city, high-density principal and major centre areas with an existing approval since 1 January 2022;
- 75 percent reduction for studio, one and two-bedroom build-to-rent apartments within inner-city, high-density principal and major centre areas with an existing approval since 1 January 2022;
- 50 percent reduction for studio, one and two-bedroom apartments within inner-city, high-density principal and major centre areas approved from 1 September 2023 onwards;
- 50 percent reduction for studio, one and two-bedroom build-to-rent apartments within inner-city, high-density principal and major centre areas approved from 1 September 2023 onwards;
- 100 percent permanent and ongoing reduction for registered community housing providers.



Approved projects will need to be completed by 31 August 2027, while new projects will need to be approved by 30 June 2025 and completed within four years.

Rental Vacancies and Rent Inflation

SQM Research data shows that the national residential rental vacancy rate has fallen to 1.2 percent in August 2023. The total number of rental vacancies dropped by 3,439 dwellings, bringing the total to 35,425 vacant and available rental properties. Most capitals recorded a decrease in vacancies, with **Sydney**, **Perth** and **Canberra** reporting decreases in rental vacancy rates during the month, standing at 1.4 percent, 0.4 percent and 1.9 percent respectively.

Rental inflation data from the the **ABS** shows that rents grew by 7.6 per cent in July 2023 (up from 7.3 percent in June and 2.0 percent in July 2022). The monthly consumer price index indicator lags more contemporary updates such as **CoreLogic** which revealed an increase of 9.4 per cent. In **New South Wales**, the median weekly house rental has risen for the 36th consecutive month. Renters across **Sydney** are not only faced with the highest rents in the country, but the highest median house and unit prices.

Regardless of employment or income everyone should be living in a home that is safe and dignified, no one should be couchsurfing or living in there car. What broke the rental market in Australia ? Read more.

Housing Policy

The Federal government's key housing policy is set to pass parliament. The **Housing Australia Future Fund (HAFF)** includes 30,000 new and affordable social homes to be built in its first five years. A quick summary from **CBRE**:

- **Funding** - $10 billion invested with the 'Future Fund' which pays out $500 million per annum. The Government will also invest an additional $1 billion (potentially, Year 1 investment is $1.5b., Year 2 - $500m, Year 3 - $500m.);
- **Intent** - to fund 30,000 affordable and social homes. Of this 20,000 is for social housing and 10,000 for affordable housing plus $200 million to remediate current social housing stock;
- **Investment** - a proportion of the returns will fund annual service payments for community housing providers over 25-years. Funds will be distributed by a new body called Housing Australia (previously National Housing Finance & Investment Corporation - NHFIC). They are responsible for financing, guarantees and capacity building;
- **Where** - allocated on a per capita basis, New South Wales allocated $160m. per annum to support target of 9,300 residences (Victoria ~$130m., Queensland ~ $100m., Western Australia ~$50m., South Australia ~$30m. and Australian Capital Territory ~$10m.).

It will be challenging to build the 30,000 homes (and this is acknowledged by Parliamentary Inquiry) but in any case, the funding flows to community housing providers and States in the first instance. Read more.

Student Housing

According to **CBRE**, there are in excess of 590,000 international students studying in Australia and they account for around a quarter of university enrolments. Enrolments are only six percent below their prior peak. Consolidation remains the theme in the sector with cap rates ranging from 5 to 6.5 percent

The 'living sector' spanning apartments, hotels and even social housing is drawing investors into Australia. In the **United States**, cap rates average 4.9 percent, in the **United Kingdom** they are around 3.75 percent.

TABLE 2

PURPOSE BUILT STUDENT ACCOMODATION CAP RATES

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Canberra
Cap Rate	5.00 - 5.50%	5.25% - 5.75%	5.75% - 6.25%	6.00 - 6.75%	6.00 - 6.75%	6.00 - 6.75%

Source: CBRE, Wingate Research

International Residential

New home sales in the **United Kingdom** capital, London have fallen to an 11-year low as rising interest rates and a cost-of-living crisis tempers. The average home value decreased by 5.3 percent in August year-on-year, its fastest decline since the 2009 financial crisis. This average house value is £259,153 (around A$500,000), a drop of £14,600 (around A$28,500) over the 12 months. Watch the performance of house prices since 2009. Read more.

China is more dependent on real estate than any other country with almost 30 percent of Chinese gross domestic product dependent on realestate (around 13 percent in Australia and 17 percent in the United States). More than 50 Chinese developers have defaulted or failed to make debt payments in the last three years, according to the credit ratings agency Standard & Poor's.

New Zealand housing price growth eased to 0.5 percent in July. Growth in the Auckland region remained stronger relative to other regions, up 0.9 percent. Established housing sales volumes in New Zealand fell in July, while the number of new listings remained low. The median house price is $800,000, flat or townhouse / share wall unit is $627,000. The median apartment price is $588,000 according to **Corelogic**.

In contrast to Australia, the national party in New Zealand outlines in its housing growth plan that it would fast-track developments on new land. The party's proposed housing growth policy would require councils to zone enough land for 30 years of demand - affording a range of housing typologies for all demographic co-horts / living sectors. The importance to cities of housing policy and why flexible zoning system are needed. Read more.

Office in Focus

A property audit led by **Hassell**, in partnership with **Ethos Urban** (supported by **Property Council of Australia)**, has identified around 90 buildings constructed before 1990 that are ready for transformation largely in the **Melbourne** central city grid. Its has been suggested that the buildings could deliver around 12,000 dwellings accomodating around 20,000 people - '**Postcode 3000'** ' (a planning initiative launched in the early 1990s, coordinated by the City of Melbourne, which aimed to boost residential development in the central business district).

Anecdotally, developers with experience in office to residential conversion in **Melbourne** indicate that cost to refurbish could be in line with the cost of a new build. This has led to much discussion around where capital values need to be for projects to be viable in Melbourne and other capital city markets.

As an example, retails apartment values in **Melbourne** and **Brisbane** sit around $13,000 per square metre, much closer to $20,000 per square metre in **Sydney**.

TABLE 3

CENTRAL BUSINESS DISTRICT OFFICE INSIGHTS

	Sydney	Melbourne	Brisbane	Gold Coast	Adelaide	Perth	Canberra
A Grade							
Vacancy	11.8%	13.7%	17.9%	4.4%	14.8%	16.7%	7.0%
Core Market Yield	5.6%	5.7%	6.4%	7.2%	7.1%	7.5%	6.0%
Capital Values (p.s.m.)	$18,587	$11,307	$10,425	$5,592	$6,205	$8,458	$7,333
Secondary							
Vacancy	11.7%	17.2%	10.6%	6.4%	17.1%	19.8%	9.6%
Core Market Yield	6.1%	6.1%	7.1%	7.4%	7.5%	8.0%	7.5%
Capital Values (p.s.m.)	$13,931	$8,788	$7,811	$4,543	$4,447	$5,659	$4,600

Source: Colliers, Wingate Research

To learn more about the study. Read more.

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