Property Digest Edition 25

Domestic Economics

Population

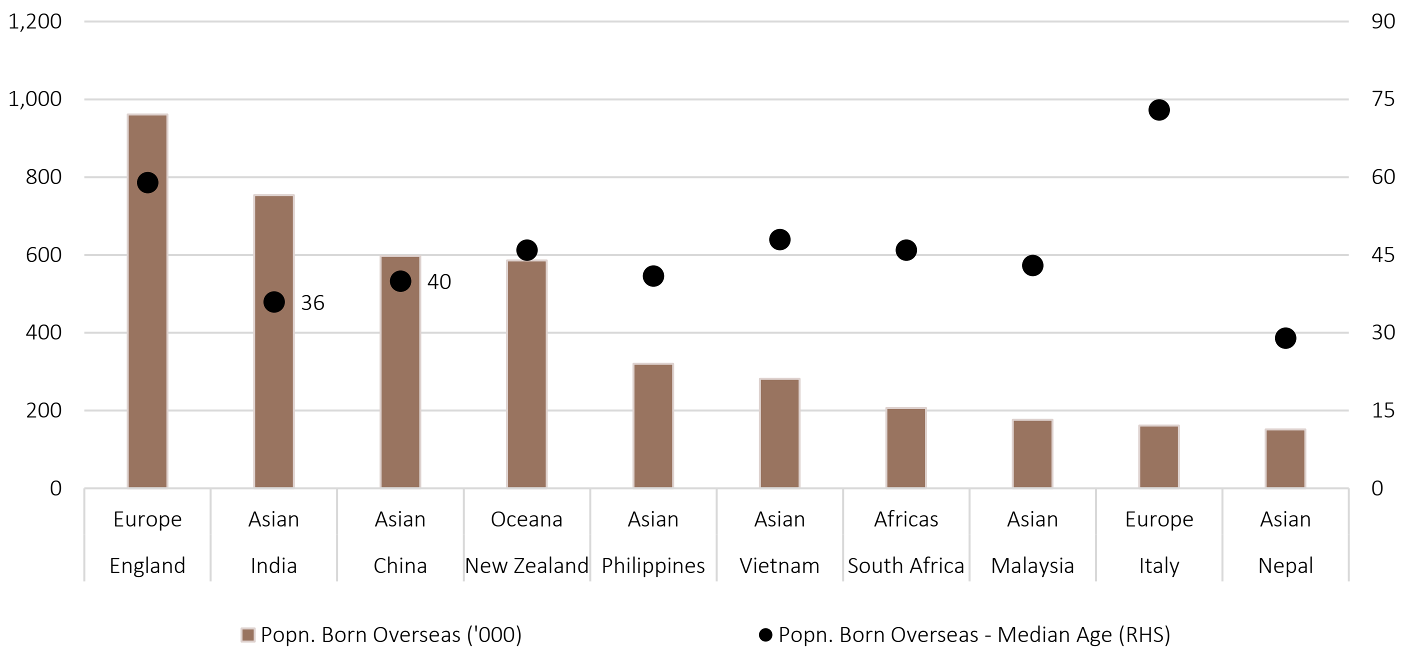
Australia’s robust population growth over the last 12 months has been well documented by the **Australian Bureau of Statistics (ABS),** with more than 80 percent of growth attributed to net overseas migration.

‘Country of birth’ data shows those born in **England**, **India**, **China** and **New Zealand** were the largest groups of overseas-born. The English continued to be the largest group of overseas-born; however, it steadily decreased from a peak of just over a million in 2013. The proportion of Australia's population born overseas was 29.5 percent in 2022. All things being equal, England will soon be overtaken by India and China.

Analysis of birth age shows that **Indian** and **Chinese** born people are well-placed to purchase dwellings, with median ages of 36 and 40, respectively. View here

CHART 1

AUSTRALIA’S OVERSEAS BORN POPULATION - TOP 10 COUNTRIES OF BIRTH, 2012 COMPARED TO 2022



Source: ABS, Wingate Research

Official Cash Rate

Since the **Reserve Bank of Australia (RBA)** commenced raising interest rates, monthly repayments on an average home loan of $500,000 over 25-years have risen by more than $1,200, an increase of more than 52 percent (the average outstanding variable home loan rate has increased by around 330 basis points over the monetary tightening phase).

Approximately 35 minutes before the gates opened for the 2023 Melbourne Cup, the Board decided to raise the cash rate target by 25 basis points to 4.35 percent after a four month holding period. The **Statement by the Governor on the Monetary Policy Decision** notes; which is a timely reminder of why we need to get inflation under control:

"… high inflation makes life difficult for everyone and damages the functioning of the economy. It erodes the value of savings, hurts household budgets, makes it harder for businesses to plan and invest, and worsens income inequality.

If high inflation were to become entrenched in people's expectations, it would be much more costly to reduce later, involving even higher interest rates and a larger rise in unemployment".

It appears much of the heavy lifting has been completed by world central banks, and the rate-rising cycle may be nearing completion in Australia. Read more here -

Australian Residential

Building and Construction Forecasts

The **Master Builders of Australia** have released updated building and construction industry forecasts. Around 173,800 new dwellings are forecast for 2022-23 and around 170,100 new dwellings in 2023-24 (well under the estimated 200,000 needed per year to meet population growth). Commencements are expected to rebound modestly in 2024-25 to around 185,000, albeit still well below the peak in 2016 at just under 250,000.

More than 80 percent of the new dwellings are forecasted in New South Wales, Victoria and Queensland. In parallel, the **National Cabinet** has set an extremely optimistic housing target of 1,200,000 new dwellings over five years. Incentive payments will give jurisdictions $15,000 for every dwelling delivered above the old target of 1,000,000 dwellings over five years from July 2024.

TABLE 1

NEW DWELLING FORECASTS, SELECTED STATES

	2021-22 (a)	2022-23	2023-24	2024-25
New South Wales	56,060	49,155	47,935	49,679
Victoria	67,166	55,963	52,611	55,650
Queensland	39,384	34,525	35,985	41,297
South Australia	14,266	11,745	10,842	9,997
Western Australia	21,361	14,744	15,577	19,146
Australia Capital Territory	5,843	4,036	3,609	3,726
Australia	**208,118**	**173,755**	**170,087**	**183,218**
National Housing Accord Target			**240,000**	**240,000**
Cumulative Shortfall			**-69,913**	**-126,695**

Source: MBA, Wingate Research

State Government Policy

With a State election scheduled to be held on 26 October 2024, the **Queensland Government** has doubled the first home owners grant to $30,000; but the 'jury is out' as to whether this will lift the rate of homeownership or simply increase the cost of housing.

The grant applies to houses, units, duplexes and townhouses, as well as grannyflats and modular homes. It will apply for new builds under $750,000, and will be in place from the 20th November until mid-2025. In comparison, other state home owner grants:

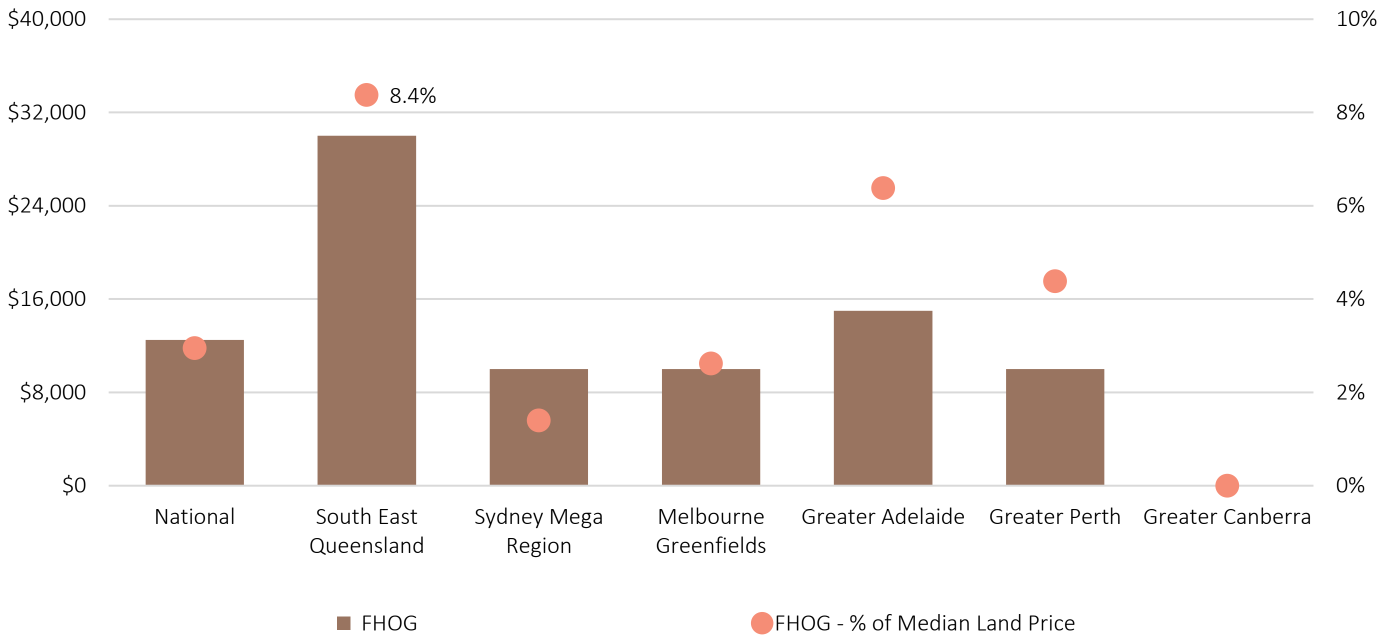
- **New South Wales** - $10,000;
- **Victoria** - $10,000;
- **South Australia** - $15,000;
- **Western Australia** - $10,000.

There are circa 60,000 approved lots of land in the residential land supply data of the **Queensland Government Statistician's Office** (closing stock is land approved by councils for residential house lots but not yet turned into actual house lots by the developer).

According to **Oliver Hume**, the median land price in South East Queensland is around $342,000 and has increased by around 40 percent over the last five years. The region will have a population of almost six million people in 2046, a requirement for almost 900,000 new dwellings. [Read the draft **SEQ Plan here**]

CHART 2

FIRST HOMEOWNERS GRANT AS A PERCENTAGE OF THE CAPITAL CITY MEDIAN GREENFIELD LAND PRICE



Source: ABS, Wingate Research

The **Victorian Government** have released their 40-page strategic planning statement, focusing on five key areas to tackle housing supply and affordability. At the aggregate, the **Victorian Housing Statement** aims to deliver 80,000 new homes each year across the state over the next 10 years, with an important pivot away from greenfield development (where 70 percent of net new dwelling should be in established areas).

Over the last 20 years, on average, 75 percent of all new dwellings in Victoria have been delivered in **Greater Melbourne**, with:

- 11 percent of **Greater Melbourne's** dwellings in inner municipalities;
- 50 percent in **middle** municipalities;
- 39 percent in **growth area** municipalities.

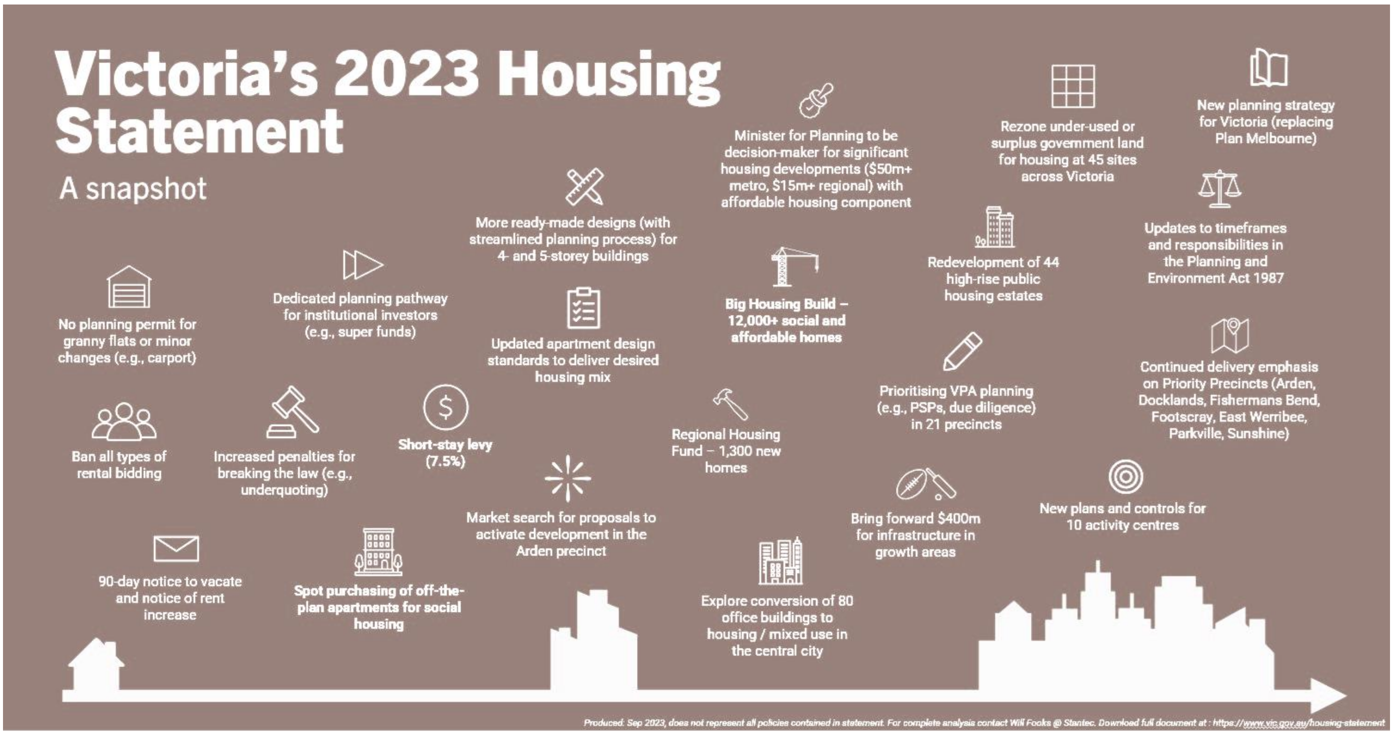
Adopting a similar ratio, this suggests around 61,000 of the 80,000 new dwellings will be in Greater Melbourne and the balance in regional Victoria.

We need robust discussion around housing choice moving forward , a blend of detached, medium density and high density housing. Perhaps, along the lines of that by the 'pro-density' Western Australia Planning Minister, John Carey

"… curbing urban sprawl is not a priority during a housing crisis. Our number one priority at the moment is to get as much housing out the door".

CHART 3

SNAPSHOT OF VICTORIA'S HOUSING STATEMENT



Source: Stantec, Wingate Research

The **Western Australian** government has established a dedicated housing supply unit to boost housing supply and affordability. Over the last 12 months, Western Australia's population has grown by 2.8 percent, the strongest of any State. This equates to growth of around 78,300 people - as a comparison over the 12 months prior to the pandemic, Western Australia grew by only 33,300 people (the pre and post pandemic variance is around 135 percent). It's share of national population growth has risen from 9.5 to 13.9 percent.

__**Greenfield**__

Melbourne greenfield sales volumes have fallen to their lowest level in more than ten years, with annualised volumes dropping to less than 7,500 (from around 24,000 sales during the pandemic, the highest on record). This equates to around three sales per project per month. The average monthly project sales rate over the last 17 years is 6.6.

With interest rates yet to reach their terminal rate, land 'rebates' sitting at 4.9 percent of the median land price (and trending up) and stock overhang approaching the level experienced post-GFC (say 8 months' supply), sales volumes may not return to trend levels until early 2025. Read more here

In **New South Wales**, the **Department of Planning and Environment** is working on a pilot **Urban Development Program (UDP)** to better coordinate the unlocking of residential growth in the **Western Parkland City** encompassing the eight local government areas of the Blue Mountains, Camden, Campbelltown, Fairfield, Hawkesbury, Liverpool, Penrith and Wollondilly. The program will monitor and coordinate the delivery of development, land supply, and infrastructure.

The department continues to develop the **UDP Dashboards** across other regions, including housing activity, lot activity and population trends. Read more here

Apartment

Increases in construction costs have led to the great 'reset' in terms of retail apartment rates per square metre according to **Urbis**. In the second quarter of 2023, the national rate per square metre increased by 15 per cent. Since the pandemic, the rate per square metre has increased by 9 percent per annum, with the average one-bedroom apartment increasing from around $515,000 to just over $700.000. Visit **Urbis Apartment Essentials** to read more

New research from **Knight Frank** indicates that the expanding 'build-to-rent' (BTR) sector in Australia is projected to witness a surge in completions, based on the current robust pipeline of developments and the growth trends in the United Kingdom.

According to '**Breaking the Shackles'**, if the BTR stock reaches 55,000 units by 2030, it would still only constitute 1.5 percent of the overall rental supply in Australia. As of September 2023, there are approximately 8,350 dedicated BTR apartments under construction nationwide, with an additional 12,900 units approved for development. Download the report here

Industrial and Logistics

Australia continues to defy the broader trend of softening industrial fundamentals across global markets with strong occupancy levels and rent growth. It has been one of the better performing asset classes over recent years, with per hectare land values in some markets such as Melbourne greater than residential. **CBRE** have released their quarterly industrial and logisics report:

- E-commerce penetration rates stabilising at around 13 percent;
- Gross take-up in the third quarter has exceeded that of the last two quarters;
- Despite rental growth, the rate of growth has tempered in some markets;
- The national mid-point yield for super price grade assets is 5.49 percent.

Read full report here

TABLE 2

INDUSTRIAL AND LOGISTICS, QIII. '23

	Est. New Industrial Supply	Est. Gross Take-up	Sub Prime Midpoint Yield
Sydney	308,000	260,000	5.04%

Melbourne	310,000	359,000	5.39%
Brisbane	116,400	174,200	5.58%
Adelaide	0	15,200	5.72%
Perth	95,600	32,100	5.75%
Australia	**830,000 sqm.**	**825,000 sqm.**	**5.49%**

Source: CBRE, Wingate Research

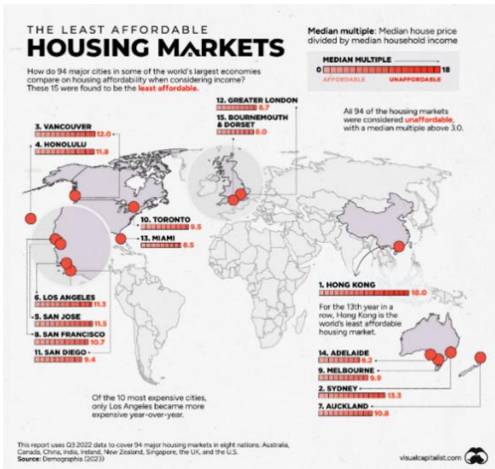
International Residential

Two of the top ten least affordable housing markets are in **Australia**, namely Sydney and Melbourne. How are other international markets tracking?

House prices have fallen across the **United Kingdom** for the first time since 2009. The average house price was 4.7 percent lower in the third quarter than in the same period last year, with a more challenging picture for housing affordability. The rise in mortgage payments follows the Bank of England's increase in interest rates a low of 0.1 percent in November 2021 to the current 5.25 percent.

The opposition has promised that it would build 1.5 million new homes and the next generation of new towns as part of its vision to 'Get Britain Building Again'. The next election is scheduled to be held no later than 28th January 2025.

The preliminary residential price index for the July through September period published by **Singapore's Urban Redevelopment Authority** showed private home prices rebounding gently from a 0.2 percent quarterly decline from April through June and demonstrating unexpected resilience in the face of rising interest rates and a rising project pipeline. The average cost of a home on the market is around $2,080,000.



In **New Zealand**, there has been an 18 percent fall in house prices since late 2021. The country has also experienced strong wage growth, a possible peak in interest rates, an easing of lending rules and government policy changes. Property sales volumes have increased four months in a row.

On balance, house price growth in the coming year or two could well be weaker than in past 'rebounds'.

The **White House** has released a guidebook that will help communities and housing providers identify federal resources to finance conversions to residential and mixed-use developments. Cities have struggled to cope with half-empty downtown business districts (there are an estimated $1 billion US square foot of vacant office space across America). What do you need to earn to buy a home in the United States – Read more here

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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