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WINGATE

Property Research Digest:

Edition 30

Economics

Official Cash Rate

The **Reserve Bank of Australia** (RBA) left the cash rate target unchanged at 4.35% following its recent board meeting. Inflation has fallen since its peak in 2022, as higher interest rates have helped to bring aggregate demand and supply closer to balance. However, according to the RBA, house prices continue to rise, driven by the ongoing imbalance between strong demand and a limited supply of new housing.

Listen to Michelle Bullock's media conference here.

The **Commonwealth Bank** (CBA) is the only big four bank forecasting a cash rate reduction this year. **ANZ**, **NAB, CBA** and **Westpac** all forecast at least a 0.25% cut in the first half of 2025. By the end of 2025, the consensus cash rate target is expected to be 3.41%.

Table 1 - Consensus Cash Rate Forecasts

	Q3. '24	Q4. '24	Q1. '25	Q2. '25	Q3. '25	Q4. '25	Q1. '26	Q2. '26
ANZ	4.35%	4.35%	4.10%	3.85%	3.85%	3.60%	3.60%	3.60%
CBA	4.35%	4.10%	3.85%	3.60%	3.35%	3.10%	--	--
NAB	4.35%	4.35%	4.35%	4.10%	3.85%	3.60%	3.35%	3.10%
Westpac	4.35%	4.35%	4.10%	3.85%	3.60%	3.35%	3.35%	3.35%
Average	**4.35%**	**4.29%**	**4.10%**	**3.85%**	**3.66%**	**3.41%**	**3.43%**	**3.35%**
Median	**4.35%**	**4.35%**	**4.10%**	**3.85%**	**3.73%**	**3.48%**	**3.35%**	**3.35%**

Source: ANZ, CBA, NAB, Westpac, Wingate Research

Producer Price Index

The **ABS** Producer Price Index series for home building materials showed a slowdown in growth but not a decline in prices. Over the past forty years, there have been very few periods when the cost of home-building materials fell, and those instances saw only a marginal decline in costs.

A material fall in the cost of new home building is unlikely without significant policy intervention to increase the supply of land, increase the availability of labour, and reduce the cost of manufacturing building products in Australia.

Population

Australia's population has steadied, growing by 615,300 people over the last 12 months – net overseas migration totalled 509,800. Population growth peaked in September last year with annualised growth of 2.5%.

All states and territories recorded positive population growth over the year ending 31 March 2024, with Western Australia experiencing the fastest growth rate at 3.1%. **Download the report** here.

According to **Oxford Economics**, net overseas migration will halve to 245,000 in FY2025 and decline further to 210,000 in FY2026. Migration levels are projected to gradually recover, returning to a steady rate of around 250,000 per year by FY2028.

Residential

Home Prices

CoreLogic reported that home prices across the combined eight capital cities rose by 0.5% in September, following two consecutive increases of 0.3%. However, momentum is slowing, with the September quarter seeing just a 1.1% increase, the slowest quarterly growth since the December 2022 quarter, when prices declined by 2.2%.

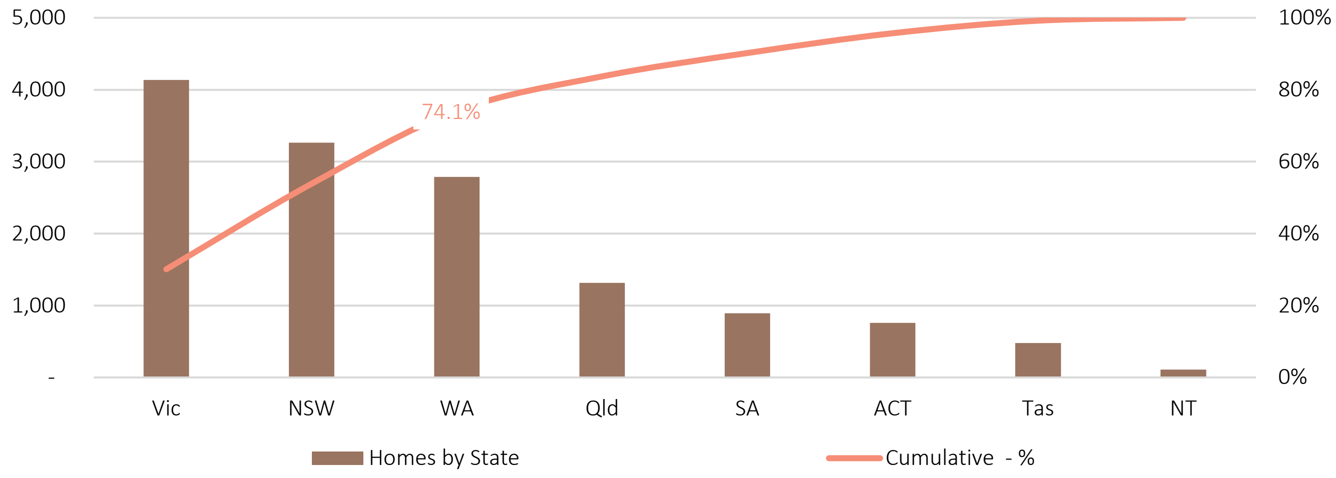
Most capital cities have seen a slowdown in price as listings lift and affordability constraints continue. There remains a wide divergence between state growth momentum. **Read more** here**.**

Social and Affordable Housing

Housing Australia has selected an initial pipeline of 185 projects to potentially deliver more than 13,700 social and affordable homes across the country. These projects are part of the first funding round of the Federal Government's **Housing Australia Future Fund Facility (HAFF)** and **National Housing Accord Facility (NHAF).**

The average project size is 74 dwellings, with 53% of product in projects less than 50 dwellings. The market is dominated by apartments, medium to high-density projects, and 1- to 2-bedroom dwellings, suggesting that most of the projects will be in cities and designed to cater ageing and smaller households.

Chart 1 - HAFF by State



Source: Federal Government, Wingate Research

As Bob Birrell (Centre for Population and Urban Research at **Monash University)** stated, *"strategies to fix the housing crisis need to cover all the levers that can be applied - opening the fringe, new industry policy, reducing migration levels, improved workforce training, changes to monetary policy, new transport links, innovation in construction techniques and adoption of advanced manufacturing methods".*

All these factors have a role to play in restoring our housing system to equilibrium.

THE WINGATE WAY

Greenfield Land

Research by **RPM** shows that rebates and promotions on greenfield land projects in Melbourne currently average around 10% of the gross price, close to $40,000 on average. The southeast municipalities of Cardinia (with a median price of c.$470,000) and Casey (c. $440,000) afford some of the largest rebates on offer.

Since the mid-2000s, the average rebate in Melbourne is just over $7,000, a total of 71 quarters. Surprisingly, promotions and rebates were offered in almost two-thirds of those quarters. **Listen to RPM's August Victorian Greenfield recap here.**

Multi-Unit - Build to Sell

According to **Urbis**, over the last decade, inner and middle Melbourne have seen an average of approximately 10,000 apartment completions per annum. However, the pipeline supply sits well below the long run average, around half of the approved projects remain inactive: approved, but not able to proceed.

A major concern is the growing delay in project delivery, it now takes two and a half years longer to deliver apartment projects compared to five years ago. On average it takes 75 months for an apartment building to go from the development application stage to completion. **Read the full report here.**

Multi-Unit - Build to Rent

According to data from **Charter Keck Cramer** and **JLL**, Melbourne will be the build to rent capital of Australia. Much discussion continues around feasibility inputs, including rental premiums and annualised rental growth on the assets path to stabilisation.

In metropolitan Melbourne, unit rents have increased on average by 4.8% per annum since the early 2000s, notably:

- **One-bedroom units** recorded the strongest growth of 4.8%per annum, followed by two and three-bedroom units, which grew at 4.4% per annum.
- **Two-bedroom units** in the western suburbs recorded the strongest growth of 5.5% per annum, followed by one bedroom and three bedroom in the northwest and Mornington Peninsula.

Table 2 - Moving Annual Unit Rents, Long Run Growth per Annum

	1 Bedroom	2 Bedroom	3 Bedroom
Inner	4.8%	4.2%	4.0%
Inner East	4.7%	4.7%	4.3%
South	4.9%	5.0%	4.3%
Outer West	5.2%	**5.5%**	5.0%
Northwest	**5.4%**	4.9%	4.3%
Northeast	5.2%	4.6%	4.3%
Outer Eastern	4.9%	4.6%	4.6%
Southeast	5.0%	5.0%	4.8%
Mornington Peninsula	5.3%	5.2%	**5.4%**

Source: Victorian Government, Wingate Research

Planning

The **New South Wales Department of Planning, Housing and Infrastructure (DPHI)** has introduced a new State Significant Rezoning Policy.

This policy shift marks a significant change in how complex rezoning proposals will be handled, potentially offering quicker and more predictable outcomes for state-significant developments. It simplifies the rezoning process into two clear pathways:

- **State-led rezonings:** for large-scale areas or precincts, where DPHI assumes responsibility for leading planning, studies, and community engagement (as per **Accelerated TOD Precincts**)
- **State-assessed planning proposals:** for sites of state planning significance or proposals that have been unreasonably delayed in the planning system

Read more about the policy here.

First Homeowner Grant

The **Northern Territory Government** is offering homeowner grants of up to $50,000 - the largest grant available in any Australian state or territory. This grant is available for owner-builders and off-the-plan purchases, with no cap on the build or purchase price. It can also be used for transportable homes, assuming they are permanently fixed and legally approved. This grant replaces the $10,000 First Homeowner Grant. **Read more** here**.**

Industrial

According to **Savills**, average prime rents have remained unchanged for two consecutive quarters across core markets: Melbourne West, Brisbane Southside and Adelaide North-West. In Perth, prime rents rose by 3.2% over the last quarter. In Sydney West, prime rents declined by an average 7.1%, following a spike in vacancy rates during the quarter.

Industrial vacancy rates have risen on the east coast, reaching an average of 3.4% in July 2024, up from 2.8% in March. Melbourne's vacancy rose to 3.1% from 2.7%, while Brisbane's vacancy is relatively stable at 3.4%, compared to 3.5% in March.

Office

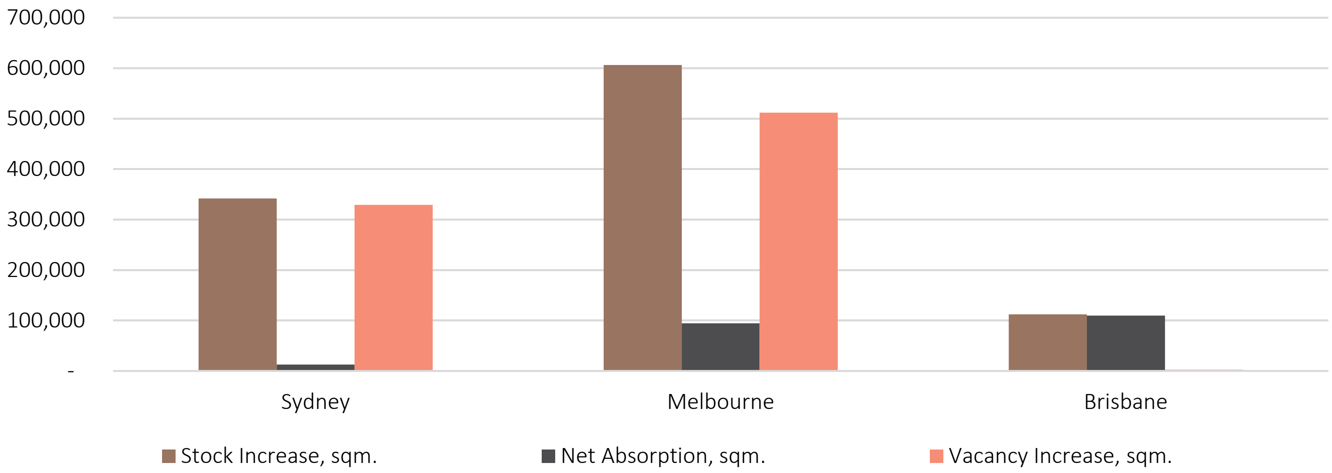
According to **CLSA**, economic face rents for Sydney Central Business District (CBD) new builds have increased by 42% from 2020 to 2024. The key drivers include 100bps cap rate expansion, 32% construction cost inflation, 19% outgoings inflation, and 10% higher incentives.

At current cap rates of 5.25% for new premium builds, economic face rents in Sydney CBD are around $1,920 per square metre compared to $1,350 in 2020. Melbourne and Brisbane economic rents have increased by nearly 60 and 40%, respectively, since 2020.

JP Morgan suggests that office valuations have declined by as much as 23% in the two years to June 2024.

East coast prime CBD office stock increases, net absorption and vacancy increases since December 2019 are shown in the following chart from **Jarden / CBRE**. Stock has increased by around 1,100,000 square metres since December 2019, net absorption sits at only 220,000 square metres.

Chart 2 - Prime Grade CBD Office - Stock, Occupied Stock and Vacancy Change



Source: Jarden, CBRE, Wingate Research

Clearly, not all asset classes have been travelling at the same speed, leading to varied market performance, with the submarkets responding uniquely to prevailing market characteristics. **Read more** here.

International Residential

China

The **People's Bank of China** has offered the Chinese economy a helping hand with several property support measures. Interest rates on outstanding mortgages will be lowered by an average of 50bp and it will reduce the minimum deposit ratio on second home purchases from 25% to 15%. The new 15% deposit requirement is the same as that for first home purchases.

Shanghai and **Shenzhen** are planning to lift key remaining restrictions on home purchases to attract potential buyers and shore up their flagging real estate markets. Under the changes, potential buyers will no longer have to be vetted for eligibility, and residents will be allowed to buy homes in the popular cities. The cities will also seek to remove limits on the number of homes that people can buy. **Learn more** here.

United States of America

According to the **S&P CoreLogic Case-Shiller Index** home prices increased 5.4% over the 12 months to June. The 10-city composite rose 7.4% over the 12 months to June, slightly lower than the 7.8% over the 12 months to May. Prices rose in all the 20 major metro markets tracked by the index. The largest price gain took place in **New York**, which recorded a year-over-year increase of 9%.

According to **Zillow**, since 2000, the average household income has doubled while the average price for its listings has tripled to $360,000.

United Kingdom

According to data from **Halifax**, house prices in the **United Kingdom** in August increased 4.3% year-on-year, the biggest annual gain since November 2022. On a monthly basis, prices rose 0.3% in August from July.

The recently elected Labour Government has released a draft policy to deliver 1.5 million new homes over the next five years. Green belt/ wedge land is not insignificant in the UK, representing almost 17,000 square kilometres or 12.4% of the UK. **Learn more** here.

THE WINGATE WAY

New Zealand

As expected, the **Reserve Bank of New Zealand** (RBNZ) lowered the official cash rate by 50bps on the 9t October to 4.75% (still 40bps higher than the RBA's cash rate).

Inflation has fallen and is expected to sit close to 2% over the year ahead. Combined with weak growth, rising unemployment and excess capacity in the economy, a further 50bp reduction is expected in November this year.

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 can add significant value for stakeholders.

Our platform comprises over 200 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 and collective responsibility to our people, co-investors, shareholders and business partners and we take pride in the strong performance of our investments over more than two decades.

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