National Residential Development
m3property Insight
Autumn 2019
What lies ahead for the National Residential Development Market

• 2019 will continue to remain a difficult year for major Eastern Seaboard residential markets. With an expected turnaround across all states in 2020 and 2021.
• Infrastructure spend across the Eastern Seaboard together with population growth will drive residential prices and, in particular, the Brisbane greenfield market will experience steady growth off the back of infrastructure projects.
• The apartment oversupply experienced in certain market segments of Sydney will dissipate by 2021 with the outer ring expected to take longest to absorb the supply.
• The Residential Development market is expected to stabilise through 2020 with a prediction that Melbourne will experience good growth as a result of an imbalance between demand and supply, falling development approvals and improvement in credit lending following 12 months of instability.
• Adelaide’s opportunities lie within the fringe and inner metropolitan areas with a shift in housing preferences.
• With land values in Perth already starting to rise, it is anticipated that growth in house and unit prices will be positive over the short-term. Steady growth is forecast over the five-year outlook.

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## National Market Overview & Outlook

### Opportunities

**First Home Buyer Demand**
- NSW decreased dwelling values and improved housing affordability has allowed first home buyers to take advantage of the situation and enter the market.

### Challenges

**Supply**
- Strong supply and high levels of vacancy have pushed residential prices downwards.

### Population

**Strong population growth to continue to drive the residential market and return to stable growth in 2020.**

### Affordability

**Brisbane is likely to benefit the most from any changes to policy encouraging new migrants to relocate to cities outside of Sydney and Melbourne.**

### Price Point

- WA is set to benefit from the reduction in dwelling values over the past four years and a possible interest rate fall making it more attractive/accessible to first homebuyers and owner occupiers.

### Population

- Although affordability has declined over 2018 (mainly due to house price growth outpacing wages growth), median house prices still remain far more affordable than other eastern seaboard states.

### Consumer Confidence

- Political risk and negative media comments pertaining to economic conditions may impact on consumer confidence and decision making.

### Credit Tightening

- Credit tightening initiated by APRA and the major banks has dampened demand in WA. This means investors are unable to take advantage of the lower dwelling prices available in the current market.

### Outlook

- Major infrastructure projects are set to attract population and new dwelling projects in those corridors, driving prices and absorption of any oversupply issues.

<table>
<thead>
<tr>
<th>Region</th>
<th>Median Lot Price</th>
<th>Median House Price</th>
<th>Median Unit Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>$485.0k</td>
<td>$1,062.6k</td>
<td>$702.0k</td>
</tr>
<tr>
<td>Melbourne</td>
<td>$336.0k</td>
<td>$796.5k</td>
<td>$589.0k</td>
</tr>
<tr>
<td>Greater Brisbane Region</td>
<td>$410.0k*</td>
<td>$530.5k</td>
<td>$395.0k</td>
</tr>
<tr>
<td>Adelaide</td>
<td>$167.0k</td>
<td>$470.0k*</td>
<td>$343.5k*</td>
</tr>
<tr>
<td>Perth</td>
<td>$259.5k</td>
<td>$510.0k</td>
<td>$389.0k</td>
</tr>
</tbody>
</table>

12 month Outlook

- **Stable**
- **Decline**
- **Increase**

Source: Domain (December Qtr 2018) and UDIA 2018 Mid Year Review ("Greater Sydney")

Source: REIV (December Qtr 2018)

Source: UDIA (Year to 2017), REISA (Year to September 2018 Qtr) *Metro Median Prices

Source: USDA (Year to September 2018) and Queensland Government Statistician’s Office *Brisbane City LGA.
Population redistribution set to benefit smaller capitals

Population growth is set to continue to grow at solid levels in Australia (around 1.5%) over the short- to medium-term. The Visa restrictions proposed by the Liberal Government in August 2018 are set to redistribute population growth to cities outside of Sydney and Melbourne. Depending on jobs, this would result in housing demand rising in the remaining capitals and larger regional cities.

Interest rates likely to fall in 2019 and rise in late 2020

With 2019 expected to be a politically and economically challenging year and median prices expected to fall further in some markets, the RBA is likely to decrease the official cash rate, improving the affordability of dwellings. A turnaround in conditions in 2020 is forecast to result in increased impetus for rising rates. The improving economy should, however, offset the impact of the rise in cost of finance.

Dwelling approvals decreased by 9.1% year-on-year to January 2019, led by falls in other dwellings (-18.5%), according to the ABS (March 2019). This is a symptom of falling demand across many markets and is set to continue over 2019. In terms of numbers, WA (-17.6%) and NSW (-13.1%) accounted for the greatest fall in approvals and Tasmania (12.8%) and ACT (65.9%) were the only States to see an increase. Falling residential supply is likely to keep vacancy in check over 2019, despite the expected weak demand.

Unemployment likely to remain fairly stable

Unemployment is currently at just 5.1% for Australia (ABS (at January 2019). Over the course of 2019 this is expected to remain fairly stable overall due to potential job losses in the retail trade and residential construction being offset by job gains in health care and infrastructure construction. This is a positive for the residential market nationally as jobs growth builds investor confidence. Wages growth, cost of finance and prices are other key drivers of affordability.
Sydney's apartment market and what lies ahead?

"Oversupply of apartments and weakening investor demand off the back of reduced finance resulting from the Hayne Royal Commission will continue to impact the residential market over 2019. Return to growth and improved market conditions are expected from mid - 2020 onwards."

**Inner and Middle Ring**


**Outer Ring**

- Vacancy exacerbated by subdivision and greenfield development as well as infill apartment development, despite continued strong population growth.

### Population Density

<table>
<thead>
<tr>
<th></th>
<th>Inner Ring</th>
<th>Middle Ring</th>
<th>Outer Ring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Persons / km²</td>
<td>5.132</td>
<td>3.045</td>
<td>230.5</td>
</tr>
</tbody>
</table>

### Vacancy Rate

<table>
<thead>
<tr>
<th></th>
<th>Inner Ring</th>
<th>Middle Ring</th>
<th>Outer Ring</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>3.2%</td>
<td>4.2%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

### Median Unit Price

<table>
<thead>
<tr>
<th></th>
<th>Jan-18</th>
<th>Jan-19</th>
<th>Jan-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>$/yoy</td>
<td>$758,000</td>
<td>$610,000</td>
<td>$560,000</td>
</tr>
<tr>
<td>%/yoy</td>
<td>(-9.4%)</td>
<td>(-6.9%)</td>
<td>(-8.5%)</td>
</tr>
</tbody>
</table>

### New Other Residential Building Approvals *

<table>
<thead>
<tr>
<th></th>
<th>Inner Ring</th>
<th>Middle Ring</th>
<th>Outer Ring</th>
</tr>
</thead>
<tbody>
<tr>
<td>%/yoy</td>
<td>-31.45%</td>
<td>-27.91%</td>
<td>-35.23%</td>
</tr>
</tbody>
</table>

**Apartment Market Outlook**

- Expected to recover mid-2020 due to already slowing apartment supply.
- Recovery by the end of 2020, while starting to decrease, high existing vacancy levels may take longer to reach equilibrium.
- Market conditions set to improve from 2021 onwards. While population growth will drive demand, supply is likely to remain strong compared to the other rings.

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"Solid population growth, improved housing affordability and increasing wages growth should see demand strengthen and reduced apartment completions over 2019 and 2020 should see the imbalance between supply and demand turn back towards an undersupply of dwellings by mid to late 2020. This should result in falling vacancy and rising unit prices in 2020 and 2021."

**"Sound market fundamentals will result in modest growth from mid-2020 onwards"**

Jarrod Morgan - Director

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**Population growth set to absorb excess residential stock from 2020**

Absorption of new apartment stock available across all Sydney suburban rings is expected from mid-2020, driven by solid population growth along with increased housing affordability arising from falling unit median prices.

**Sound market fundamentals will result in modest growth from mid-2020 onwards**

Jarrod Morgan - Director

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Major infrastructure projects currently underway (e.g. North West Rail Link, CBD & South East Light Rail, WestConnex, NorthConnex) along with future projects (e.g. Sydney Metro West, Badgerys Creek Airport) will drive employment and therefore population and economic growth. This will increase residential demand in these regions. These upgrades will ensure connectivity between suburbs and provide opportunities for families to trend toward different locations suitable to their preferred lifestyles.
Melbourne’s population growth is expected to remain robust, forecast to increase by 2.4% pa for next 5 years and interest rates to remain low. As a result we expect the residential market to experience further decline in 2019 before growth returns in 2020.

Softening buyer sentiment and tighter credit conditions are driving a market slowdown which we expect will continue for the remainder of 2019.

Lot sales declined during 2018 as a balancing act after a strong 2017 (lot sales outpacing lot releases).

Following strong sales and price growth over the last 3 years, Melbourne’s land market is returning to the historical lot sales of approximately 17,000 to 20,000 lot sales per annum.

"We expect lot sales to return to 2015 - 2016 levels selling approximately 20,000 lots per annum over the next 2 years"

Luana Kenny - National Director

Not all doom and gloom for Melbourne market

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Greater Brisbane Region

Affordability and improvements to infrastructure to drive demand in Ipswich, Logan and Moreton over medium - term

What will drive growth in Ipswich, Logan and Moreton?

- The key driver of demand in the Ipswich, Logan and, to a lesser extent, Moreton Bay regions is affordability. There is also a significant amount of private and public investment underway/planned which is improving the current and future liveability in these regions.
- In addition to the future rail upgrades, which are noted below, benefiting the Ipswich and Logan regions over the short- to medium-term will be upgrades to major road networks. The Ipswich Motorway is currently being upgraded between Rocklea and Darravale and key areas of congestion on the Logan Motorway are being upgraded as part of the Logan Motorway Enhancement Project.

What does this mean for Greater Brisbane?

Population growth to drive the residential market

- Growth in lot sales during recent years has occurred alongside a strengthening in Net Interstate Migration (NIM). NIM is forecast to strengthen further over coming years, driving residential demand.
- Ipswich, Logan and Moreton are forecast to experience the strongest population growth which will lead to growth in lot pricing and englobo land.

Increased demand for vacant land in Ipswich, Logan and Moreton

- During the 2018 financial year, there were 7,358 vacant residential lots sold across Greater Brisbane. Ipswich, Moreton Bay and Brisbane accounted for the largest amount of sales.
- Demand for vacant land is expected to grow. We forecast annual vacant lot sales to increase to average between 8,500 and 9,500 p.a. (up from a five-year average of 8,040) from 2019 to 2021.
- Demand is expected to be strongest in the Ipswich, Logan and Moreton Bay LGAs due to affordability and continued improvements to infrastructure in these locations.
- Vacant land price growth is expected to be 5%-7.5% p.a. over the coming three years.
- Ipswich is expected to experience some of the strongest price growth across Greater Brisbane – a result of recent growth in englobo land prices and forecast strong demand for vacant lots.

Englobo Land Prices to Rise

- The average price for englobo land was $524,722/ha in 2018, up 5.21% from $498,715/ha in 2017.
- From 2013 to 2018, compound annual growth for englobo land prices across Greater Brisbane was 5.47%.
- A significant portion of englobo sales during recent years have occurred in the rapidly-growing Ipswich LGA.
- Englobo land price growth to average circa 5% p.a. over the coming three years.
Adelaide bucking the national trend!

“Adelaide benefits from a consistent market with stable growth continuing despite price corrections occurring in other parts of Australia. While Adelaide hasn’t witnessed the strong gains in recent years in value levels, it is unlikely to experience strong falls either.”

Infill vs Greenfield Development

Over the past 10 years, development activity in Greater Adelaide has been focused on infill development, rather than greenfield development. According to the 30-Year Plan for Greater Adelaide (2017 Update), 76% of Adelaide’s growth is now occurring in established suburbs. The 30-Year Plan also reported that there is now more than 20 years of suitably zoned broadhectare land available for development within the metropolitan fringe and nearby townships.

Why?

- Goals of the revised 2017 30-Year Plan for Greater Adelaide.
- Encourage renewal of existing neighbourhoods with numerous infill projects currently being driven by the SA Government via Renewal SA.
- Projects include, Bowden, Glenside, Woodville West, St Clair, Marden, Port Adelaide, Kilburn / Blair Athol, Lightsview, Tonsley & Port Adelaide.

Planning Reform

- Revised Development Act.
- Zoning changes across Adelaide’s major transit corridors, growth areas and activity centres.

Changing Demographics & Needs

- Population growth and an ageing population.
- Household composition – household sizes are shrinking.
- Household income – Increase in single income households.
- Ethnicity – familiarity, community and social hubs.
- Preference for low maintenance lifestyle.

Cost

- Establishing new land is expensive, including significant infrastructure spend needed.
- Transport affordability and availability.

 Developers Perspective - Key benefits of smaller scale developments

- Lower developer risk;
- Easier to obtain funding and less capital required;
- Quicker presales period, thus making it easier to meet presale targets to cover debt financing; and
- Construction timeframes shorter, thus reducing holding costs.

“Given our stable market and modest population growth, the need for high density living hasn’t been as urgent as the Eastern States”

Kym Dreyer – Managing Director

Current and future infill types driving the market

<table>
<thead>
<tr>
<th>Infill Type</th>
<th>Past 5 years</th>
<th>Next 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A move back to CBD living, with growth in high density, high rise developments occurring</td>
<td>• Slowdown in high density, high rise developments within the CBD and a move towards high to medium density, within the Fringe and Inner Metropolitan areas.</td>
<td></td>
</tr>
</tbody>
</table>

Key Drivers

- Residential rental vacancy in the Adelaide CBD is above 3.00%, indicating a current oversupply in the CBD.
- There are a further circa 1,200 apartments that are currently under construction and expected to complete in the Adelaide CBD over the next two years.
- Tightening in lending conditions has led to a slow down in investor interest.
- An increase in the foreign investor surcharge has impacted on foreign investor interest.
- Higher proportion of purchasers that are owner occupiers, over investors.
- Product differential between owner occupiers and investors - owner occupiers steer towards smaller boutique style developments rather than large scale generic developments.
- The affordability of Adelaide gives purchasers more choice across all price points.

Future Growth Areas for Infill by LGA

- Future Growth Areas

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Perth

Balanced outlook for supply overall, but pockets of oversupply remain
Forecast supply compared to dwellings required over 2019-2020 by Local Government Area

Perth at a turning point in the cycle, after 5 years in the doldrums

<table>
<thead>
<tr>
<th>Current Trends</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Land</strong></td>
<td>• Over the past six months, prices have risen sharply, driven by strong demand in Inner Perth and the South East with the REIWA (February 2019) reporting double digit growth over the six-months to December 2018.</td>
</tr>
<tr>
<td><strong>Infill v Greenfield Supply</strong></td>
<td>• Demand for infill areas has been increasing since 2012 and at the end of 2017 infill developments represented 42% of all development activity. See chart below (left page).</td>
</tr>
<tr>
<td><strong>Dwelling Demand and Vacancy</strong></td>
<td>• After peaking at 7.3% in June 2017, Perth dwelling vacancy fell to 2.8% (below the equilibrium vacancy) in December 2018 and largely stabilised in January at 2.9% according to REIWA. Meaning Perth overall is no longer considered to be oversupplied.</td>
</tr>
<tr>
<td><strong>First Home Buyer Demand</strong></td>
<td>• WA First Home Owners (FHO) Grant is still available for new dwellings, subject to conditions and thresholds. FHO are also able to get stamp duty concessions on houses and land. At November 2018, around 25% of dwelling finance was for FHOS. See chart below (right).</td>
</tr>
<tr>
<td><strong>House Prices</strong></td>
<td>• Perth house prices have stabilised over 2018 having fallen from their cyclical peak of $550,000 in March 2014. Median prices are currently reported by the REIWA at $510,000.</td>
</tr>
<tr>
<td><strong>Dwelling Demand and Vacancy</strong></td>
<td>• Unit median prices have fallen for five consecutive calendar years to reach $389,000 as at December 2018.</td>
</tr>
</tbody>
</table>

**“While pockets of dwelling oversupply remain the outlook for Perth overall is positive, with the underlying growth in land values likely to result in increasing median prices over the short-term.”**

Jennifer Williams - National Director