Research

March 2023

Australia's build-to-rent sector

2022 in review and outlook for 2023

Introduction

2022 was a year of challenges and opportunities for Australia's emerging build-to-rent (BTR) sector. The year has seen the completion and lease of several developments, plus the commencement of new projects, all against a backdrop of a rapidly tightening rental market.

Developers also faced pressure on feasibilities as a result of rising construction and finance costs. Investors and operators in the sector should benefit from several competitive advantages over the coming year as momentum will certainly grow.

44 Ipswich Road, Woolloongabba - JGL Properties

Key points

Rental market trends have been very supportive of BTR over the past year, with vacancy now low in nearly all markets and rents growing strongly.

Tight rental market conditions are unlikely to change anytime soon, with little new supply to alleviate the situation over the medium term.

The strong rental outlook has allowed BTR operators to revise up rental projections. Now, the main constraint on future rental growth is likely rental affordability and not supply/demand balance.

While rental projections have been boosted, developer feasibilities have been squeezed by rising construction costs and finance costs.

Nevertheless, BTR developers still have the advantage over build-to-sell (BTS) developers of not being exposed to further cost increases through an often lengthy sales period.

This means few large scale BTS projects (particularly investor focused projects) have proceeded in 2022 and this will prolong the under-provision of new apartment rental stock further.

The BTR pipeline has continued to grow and projects that have completed in 2022 have been very well received by the market.

The biggest opportunities entering 2023 are that site values are likely to soften, while global economic uncertain will be a favourable environment to attract capital to Australian BTR.

The rental market tightened significantly over 2022

The COVID-19 rental market softening proved relatively brief and rental markets are now tight across much of Australia.

In the smaller capital cities and most of regional Australia, the downturn was virtually non-existent. Vacancy has long been sub-1% in these markets and rents are well above pre-COVID levels. Rental vacancy shortages are at critical levels in many rental places and displacement and rental stress have become urgent and pressing social issues.

Governments have been forced to address these issues. For example, the Queensland government recently held a housing summit to address challenges and meet the housing needs of Queenslanders'.

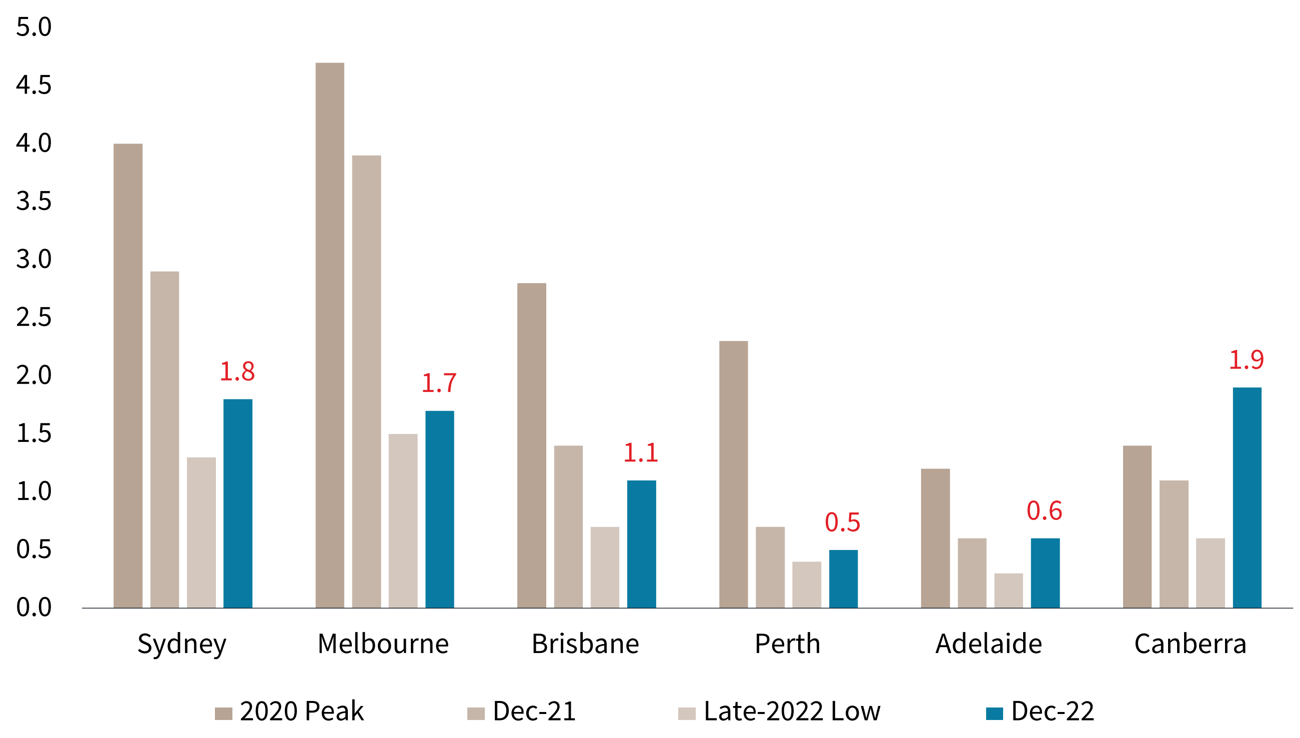
The federal government also made housing supply a major focus of the October budget, implementing a target of over one million dwellings built over the next five years.

Sydney and Melbourne suffered more through COVID-19 and closed borders. This was not only due to less student and migrant demand, but also due to short-term accommodation supply coming into the rental stock. This was also evident to some extent in the other smaller capitals. But this has now reversed as borders have opened and both markets have tightened significantly.

There was a seasonal vacancy rise in all capital cities in December as students returned home, but all markets finished the year below 2% and early this year are expected to quickly fall back to their late 2022 lows.

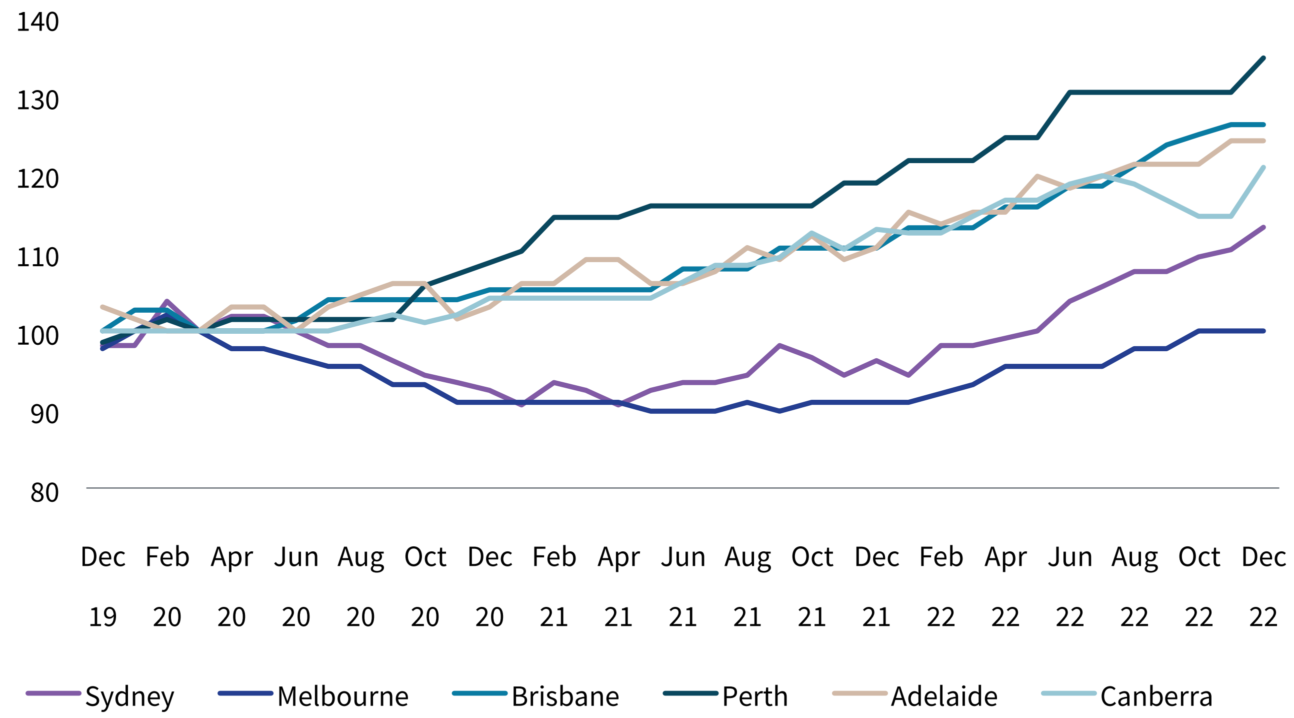
This low vacancy environment has seen very strong rental growth across the country. Two-bedroom apartment asking rents grew by 7-17% across the major capitals in 2022 and all markets now have rents exceeding pre-pandemic levels, in some cases significantly.

Vacancy rates (%) - greater metropolitan area



Source: SQM Research, JLL Research as at Dec-22

Two-bedroom apartment rents (Index, Mar 20 = 100)



Source: JLL Valorem database, as at Jan-23

Cost increases have hurt development feasibilities

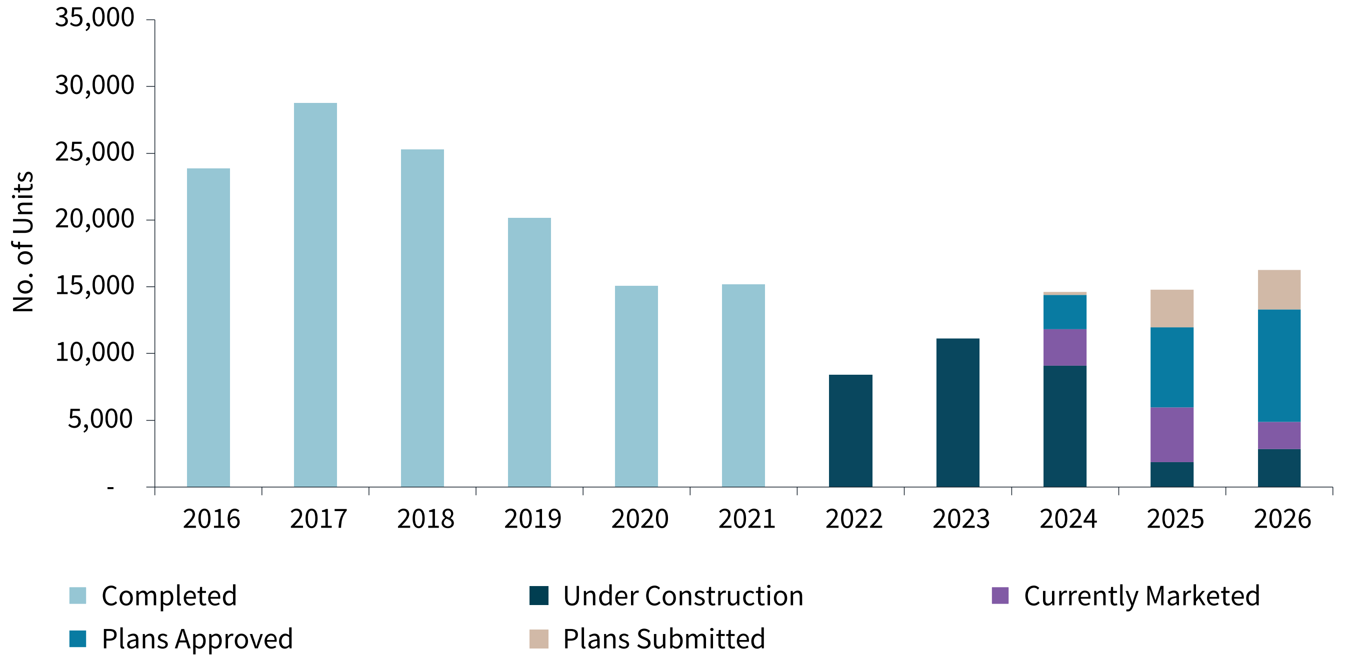
While in theory the strong rental market should be prompt more apartment development, the supply pipeline has not increased as expected in 2022. Developer feasibilities have been squeezed significantly by rapid construction cost increases and by a significant rise in the cost of development finance with rising interest rates.

This has meant very few large scale high-density apartment projects have proceeded to construction in 2022. Generally only smaller scale projects aimed at owner occupiers (particularly downsizers) have proceeded. Demand has been good for these boutique projects and selling periods are shorter, reducing risks of cost escalations.

But larger projects for investors are more reliant on pre-sales and the lack of this stock means additions to rental stock will stay particularly low in coming years.

As a result, the pipeline of inner city apartments that JLL tracks shows that supply levels will remain low until at least 2025 and possibly longer. With net overseas migration projections continuing to be revised upward, we believe this will significantly worsen a national under-supply of dwellings over the next few years. This shortage will also be particularly severe for investor stock that will enter the rental market. As such, there will be no quick fixes for the rental crisis that Australia lurched into in 2022.

National inner city apartment supply



Source: JLL Research as at Dec - 22

What does it all mean for BTR operators?

The tight rental market is most definitely a tailwind for BTR. It has helped projects that are already operational to lease quickly and in some cases, achieve strong rental uplift. Rental performance has also allowed developers to increase the long-term escalations in project feasiblities.

Our analysis suggests that longer-term residential rental growth is slightly above inflation. However, the next five years will see will see above-inflation rental growth. While rental growth will likely slow from the extremes of 2022, it is still likely to average above inflation over the decade in our view. There will be regional variation but all cities are likely to still experience strong growth.

Indeed, we believe that over the medium term it is not the supply/demand balance that will be most relevant in constraining this rental growth, it will be more about affordability. Rents are likely to rise as a portion of income in the short term but there is a limit to what is sustainable long term We recommend that BTR operators undertake scenario analysis of the affordability of project rents relative to their target market's income.

Most or all of the benefit of higher rental projections is offset by increased construction and finance costs. As such, it has also not been a strong environment for BTR developers to progress major new projects in 2022 and many have had to pause building their pipeline.

Despite the challenges for BTR developers, they still have a significant competitive advantage over BTS developers in not having a lengthy selling period where construction and finance costs are not locked in. This has meant that BTR operators have been in a strong position to bid for major high-density development sites over the past year or so. This has been particularly evident in Melbourne where more sites have been available.

The cost pressures developers have faced have already caused buyers to temper their price expectations for sites. Vendor expectations have been slower to adjust to and this has led to a period of much lower site sale transactions since around May.

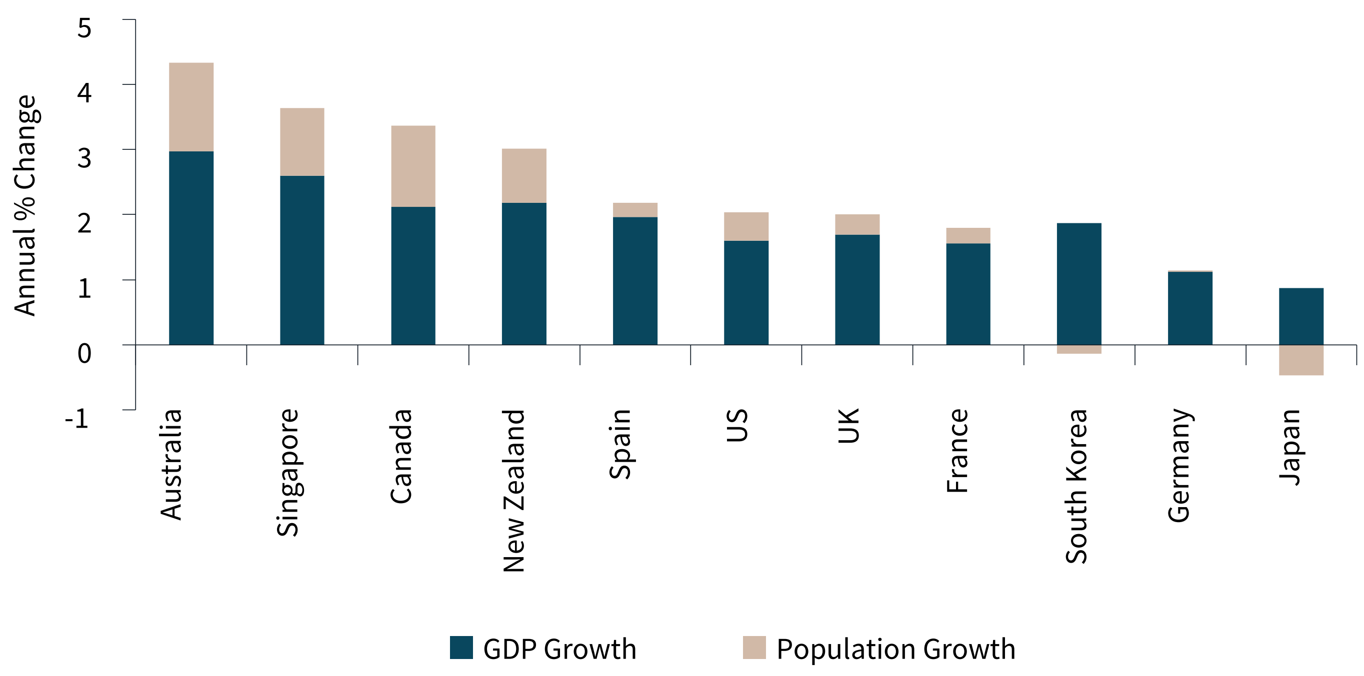
In 2023 we believe that vendor expectations will have to adjust and site sales will have to soften to compensate for higher project cost structures.

However, there is little immediate distress in the site market so this price realisation process may be a slow and steady one rather than rapid adjustment.

The other potential opportunity for BTR developers in 2023 may be the availability of capital. At present the economic pessimism in many other parts if the world is making Australia comparatively insulated outlook appear even more attractive.

On the basis of population and economic growth outlooks, Australia is a key standout. This, combined with the moderate supply outlook is making a compelling case for the apparent safety and stability of Australia's residential market.

Forecast GDP & Population Growth (2022-2031)



Source: Oxford Economics, Feb 2023 as at Feb-23

Current status of Australia's BTR market

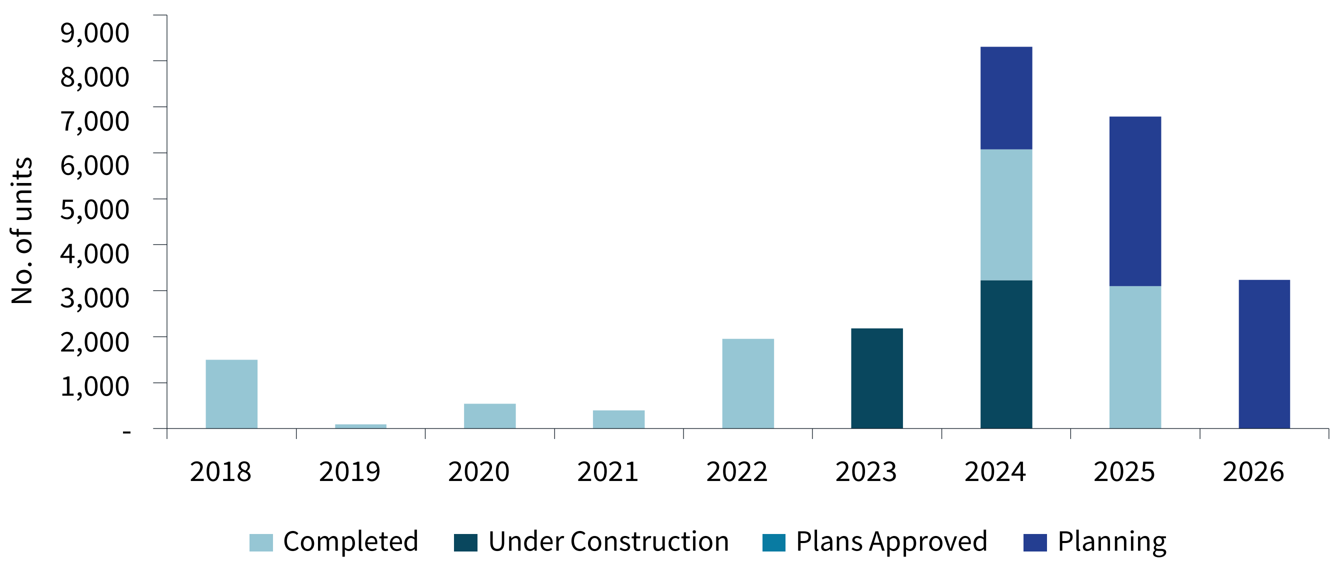
Seven new institutional-grade BTR projects completed over 2022 and added 1,955 apartments to stock. This has taken the total market to 4,486 operational BTR apartments across the county at the end of the year (details of current operational BTR assets can be fund on the following page).

Of those projects completed in 2022, more than half were in Melbourne, equating to 83% of the total number of units completed. This included two projects by Home in Southbank and Richmond, Mirvac's Liv Munroe and Realm Caufield. There was also Pellicano's Stanley House and the Canvas-managed Communa stage 1, both in Woolloongabba, Brisbane. Another completion was the second stage of Sentinel's Element 27 project in Subiaco, Perth.

Leasing interest has generally been strong for all BTR developments, reflecting the now tight rental market. Some premium product at higher rent has been a little slower to gain momentum, but those projects closer to median local rents have enjoyed faster leasing. Many have quickly reached a stabilised occupancy and are now lifting asking rents.

Some projects that have been in the market longer, such as The Smith Collective in the Gold Coast and Liv Indigo in Sydney, reported very strong rental uplift over 2022. In fact, these schemes command a significant rental premium over BTS product within their respective schemes.

National BTR supply pipeline



Source: JLL Research as at Dec-22

Despite the challenges facing BTR developers over 2022, the size of the overall supply pipeline between 2023 and 2025 expanded over the year. By the end of 2022, there were a total of 20,515 BTR apartments in the pipeline for this period, which compares to around 13,600 a year earlier.

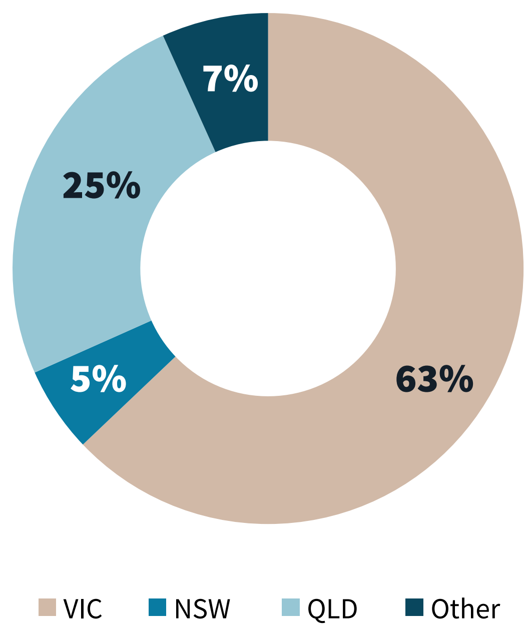
The number of apartments under construction (UC) fell slightly in 4Q22 due to several completions, but there were 5,413 units remaining UC at the end of the year, plus an additional 5,944 with planning approval (PA) and 9,158 in earlier planning stages.

Of those UC or with PA, Melbourne still dominates the pipeline, with around 63% of planned supply. This reflects the abundance of large high-density sites in and around the Melbourne CBD as well as lower land values than in some other markets. Interest in Brisbane (25%) has grew significantly in 2022 and this was the second highest share, but the challenges of making projects work in Sydney are reflected in a lower share of the pipeline.

Looking at both operational and pipeline projects, Home has the largest pipeline of major institutional players with 2,288 apartments, followed by Mirvac's Liv pipeline (2,199) and Greystar (1,944).

A summary of the major institutional players and their portfolio aspirations can be found on page 6. there are also a number of non-institutional players with large potential pipelines. These include Melbourne private companies Salta Properties and Pellicano which both have large landbanks and are quickly developing internal BTR capabilities.

Under Construction and Plans Approved by State



Source: JLL, as at Dec-22

Operational BTR assets*

Brisbane

Project	Robertson Lane
Completed:	2021
Density	89 units
Owner/Op	Arklife

Brisbane

Project	Realm Kangaroo Point
Completed:	2021
Density	200 units
Owner/Op	151 Property (Realm)

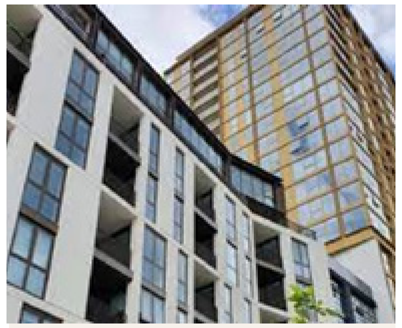
Brisbane

Project	Stanley House
Completed:	2022
Density	152 units
Owner/Op	Pellicano

Gold Coast

Project	Smith Collective
Completed:	2018
Density	1,251 units
Owner/Op	UBS (JLL)

Sydney



Project	LIV Indigo
Completed:	2020
Density	315 units
Owner/Op	Mirvac (LIV)

Perth

Project	Element 27 Stg 1 & 2
Completed:	2019 & 2022
Density	93 & 80
Owner/Op	Sentinel

* Includes only what JLL classify as prime or 'institutional' grade assets. While we acknowledge that without a widely accepted grading system this is somewhat subjective, we have largely based it off assets that are institutionally backed or that highly likely could be

Melbourne

Project	Home Richmond
Completed:	2022
Density	307 units
Owner/Op	Grocon (Home)

Melbourne

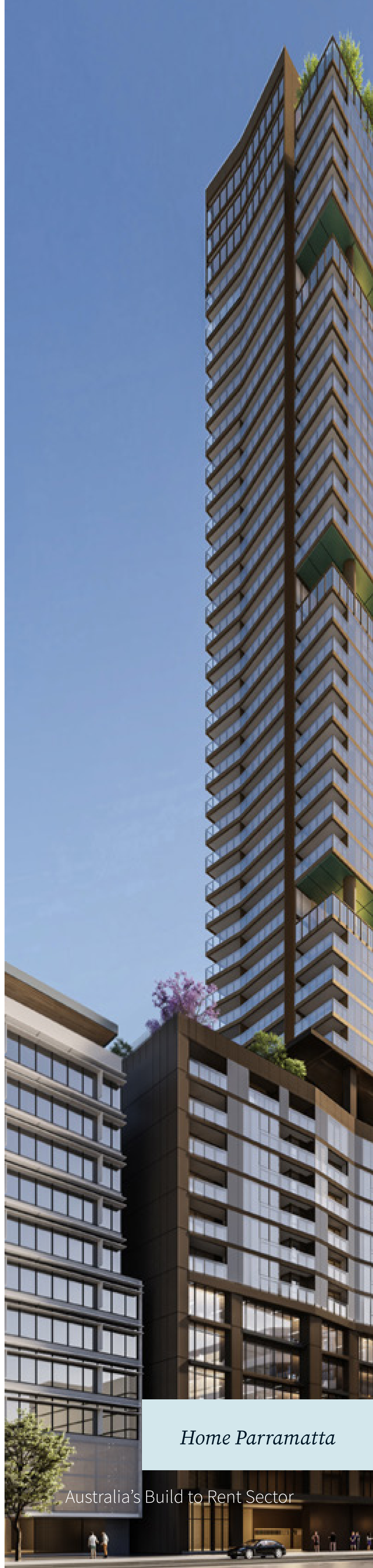
Project	LIV Munro
Completed:	2022
Density	490 units
Owner/Op	Mirvac (LIV)

Melbourne

Project	Realm Caufield Village
Completed:	2022
Density	427 units
Owner/Op	151 Property (Realm)

Melbourne

Project	Home Southbank
Completed:	2022
Density	403 units
Owner/Op	Grocon (Home)



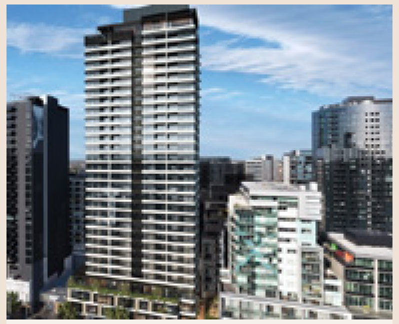
Home Parramatta

Largest BTR projects under construction

Melbourne

Project	Home Docklands
Completed:	2024
Density	676 units
Owner/Op	Grocon (Home)

Melbourne

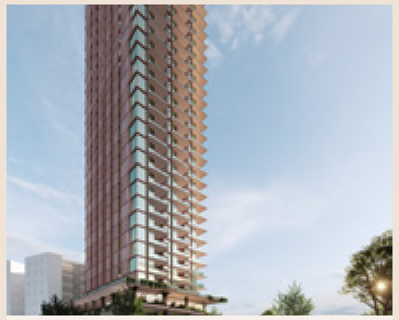


Project	Greystar South Yarra
Completed:	2024
Density	625 units
Owner/Op	Greystar

Melbourne

Project	LIV Aston
Completed:	2024
Density	472 units
Owner/Op	Mirvac (LIV)

Sydney



Project	Home Parramatta
Completed:	2024
Density	425 units
Owner/Op	Grocon (Home)

Institutional BTR fund summary

Operator	Investment Manager	Fund	Capital	Fund Size	Target (Initial)	Current / Pipeline
GREYSTAR	Greystar	GAMV I	APG Ivanhoé Cambridge Ilmarinen	$1.3bn (Raised)	5000+ apts	4 projects 1,944 apts
home	GFM	HOME Trust	GIC Daniel Grollo Group	$2.5bn+ (Raised)	5000+ apts	6 projects 2,400 apts
indi	Investa	BTR Fund	Oxford Properties	TBC	5000+ apts	3 projects 1,370 apts
LIV	Mirvac	BTR Club Fund	Institutional CEFC	Balance Sheet (~$1.3bn) $1.5 - $2bn (Target	5000+ apts	5 projects 2,200 apts
Hines	Hines	BTR Fund	Balance Sheet / Private Funds	$2.0bn+	5000+ apts	3 projects 784 apts
local:	Macquarie Asset Management	BTR Fund	Asia Pacific Real Estate Partnership	$1.1bn	5000+ apts	2 projects 845 apts
NOVUS	Aliro	Novus BTR Trust	M&G Real Estate	$450m	1,000+ apts.	2 projects 368 apts
realm	151 Property (Blackstone)	BTR Rund	Blackstone	TBC	5000+ apts	2 projects 627 apts
Sentinel	Sentinel	BTR Fund	PGGM	$1.5bn	5,000+ apts.	4 projects 911 units

Recent BTR site sales

155 Johnston Street, Fitzroy VIC

Buyer: Greystar

Deal Size: $31.0m ($12,128/sqm)

Site Area: 2,556 sqm

Description: The site has main frontages to Argyle/Young Streets with a significant portion of land to Johnston Street that was undevelopable and subject to a long-term ground lease in favour of the adjoining owner.

Sale Date May 2022

50 Constance Street, Fortitude Valley QLD

Buyer: Arklife

Deal Size: $25.0m ($8,990/sqm)

Site Area: 2,781 sqm

Description: Contracted in July 2022 via an option agreement, the site had an existing car parking use. Upon settlement in Dec-22, Arklife have submitted a DA for a 31 storey building with 327 BTR apartments, 1750 sqm of office space and 680 sqm of ground-level retail.

Sale Date December 2022

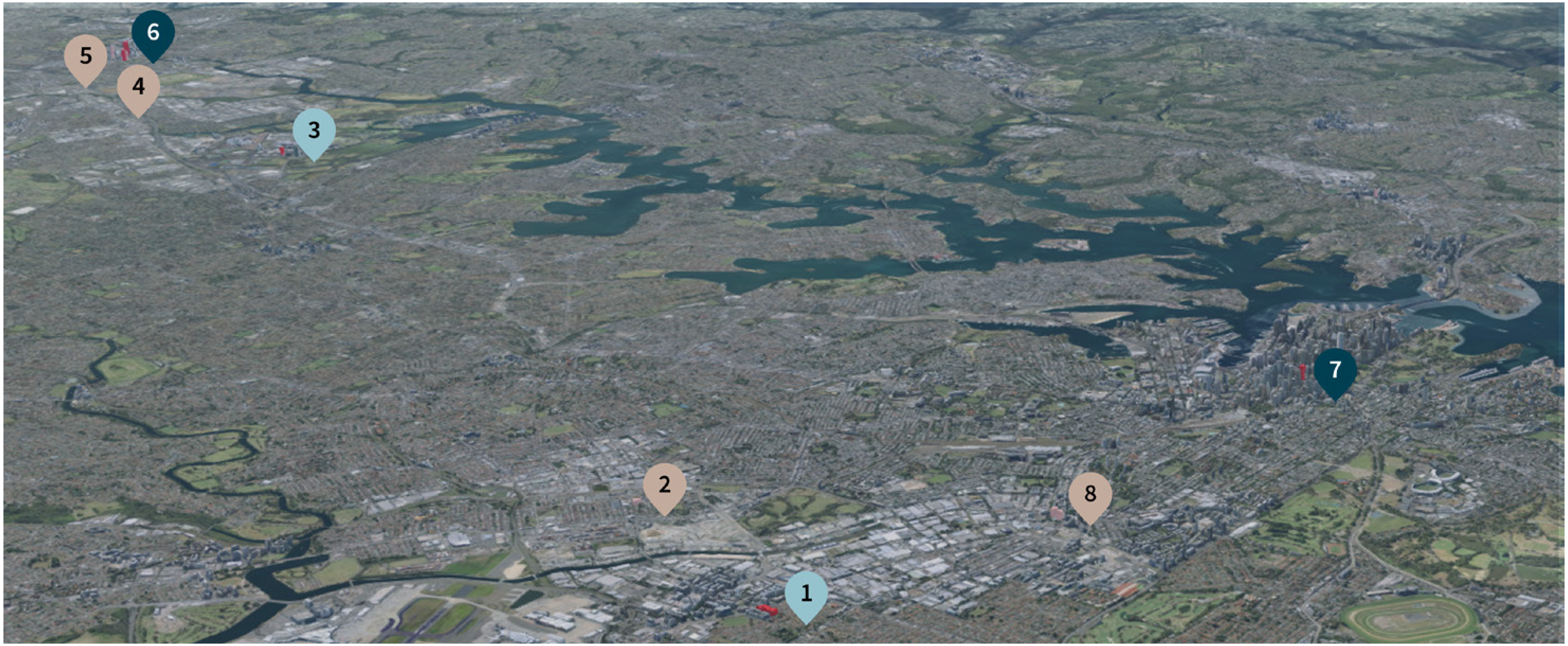
Melbourne BTR projects

	Asset	Stage
1	Suleman Group – 31-69 McLister Street, Spotswood	Under Construction
2	Indi – 3 McNab Street, Footscray	Under Construction
3	LIV Albert Fields – 395-403 Albert Street, Brunswick	Plans Approved
4	Solarino House, Brunswick	Under Construction
5	Hines – 10 Ballarat Street, Brunswick	Plans Submitted
6	Sentinel – 164-168 Roden Street, West Melbourne	Under Construction
7	Salta - 695-699 La Trobe Street, Docklands	Plans Approved
8	Home - 685-691, Docklands	Under Construction
9	Cromwell – 700 Collins Street, Docklands	Plans Approved
10	Landream – 100-1006 Franklin Street, Melbourne	Plans Approved
11	LIV Aston – 7-23 Spencer Street, Docklands	Under Construction
12	Greystar – 15-87 Gladstone Street, South Melbourne	Under Construction
13	Montague Square – 138 Ferraras Street, South Melbourne	Completed
14	65 Haig Street, Southbank	Plans Approved
15	334 City Road, Southbank	Plans Submitted
16	Home Southbank – 256-258 City Road, Southbank	Completed
17	132 Kavanagh Street, Southbank	Plans Approved
18	Novus on Sturt – 153 Sturt Street, Southbank	Under Construction
19	Beach House – 3-7 Wellington Street, St Kilda	Under Construction
20	Greystar – 35 Claremont Street, South Yarra	Plans Approved
21	Home – 246 Bridge Road, Richmond	Completed
22	Riverside Richmond – 10-30 Burnley Street, Richmond	Plans Submitted
23	Salta - 9-10 River Boulevard, Richmond	Plans Approved
24	Burnley Street – 81-95 Burnley Street & 26 Donnside Street, Richmond	Plans Submitted
25	11-41 Buckurst Street, South Melbourne	Plans Approved
26	LIV Munro – 91-111 Therry Street, Melbourne	Completed

Plans Submitted Plans Approved Under Construction Completed

Plans Submitted Plans Approved Under Construction Completed

Sydney BTR projects



	Asset	Stage
1	Meriton - 200 Coward Street, Mascot	
2	Home – 73 Mary Street, St Peters	
3	Pavilions, Indigo – 2 Figtree Drive, Sydney Olympic Park	
4	Novus on Harris – 39-43 Hassall Street, Parramatta	

Plans Submitted Plans Approved Under Construction Completed

	Asset	Stage
5	12 Hassall Street, Parramatta	
6	Home – 185 Macquarie Street, Parramatta	
7	Investa – 256-302 Pitt Street, Sydney	
8	Emerald City – 296-298 Botany Road, Alexandria	

Plans Submitted Plans Approved Under Construction Completed

Brisbane BTR projects

	Asset	Stage
1	Buranda Village – 294 Ipswich Road, Woolloongabba	
2	Communa Stage 1 – 30-36 Wolseley Street, Woolloongabba	
3	Communa Stage 2 – 30-36 Wolseley Street, Woolloongabba	
4	Stanley House – 148 Logan Road, Woolloongabba	
5	Realm Kangaroo Point	
6	Arklife – 13-17 Cordelia Street, South Brisbane	
7	2 Cordelia Street, South Brisbane	
8	ARKlife Aprtments – 28-32 Robertson Street, Fortitude Valley	
9	Berwick House – 60-70 Berwick Street, Fortitude Valley	
10	210 Brunswick Street, Fortitude Valley	
11	60 Skyring Terrace, Newstead	
12	Perry House – 6 Edmondstone Street, Bowen Hills	
13	44 Ipswich Road Woolloongabba QLD	

35 Claremont Street, South Yarra - Greystar

Outlook: Key trends in 2023 and beyond

As we move into 2023, conditions won't be all smooth sailing for Australia's BTR market, but there will remain a number of great opportunities that will hopefully see momentum in the sector continue to build. Below are some of the key trends we believe will dominate the BTR narrative in 2023

1

Greater operational data and analysis

With the completion of several new projects in late 2022, there will be more hard upon which to base analysis of project leasing metrics, rents and desired amenities and features.of project leasing metrics, rents and what sorts of amenity/features are and are not working.

2

Even greater government support

The pressure on governments to address imbalances in the rental market will only intensify and we expect to see major steps forward to support BTR in 2023 across both taxation and planning regulations.

3

More foreign capital to flow into the sector

The relative stability of Australia's economy and The prospect of strong demand in the residential rental sector should see many groups look to boost their allocation to Australian BTR where they can. This may also be greatly aided by potential changes to withholding tax arrangements if they are to materialise.

4

New players emerging

We have already started to see new local market startups and traditional BTS developers look to move into BTR. Not all will succeed and there ultimately will be some rationalisation, but in 2023 we expect to again see some new names get wider exposure in the BTR space.

5

A wider geographic focus

So far BTR projects have been very highly focused on Melbourne. While Melbourne is likely to remain popular, major operators will want to diversify their exposure more. The fundamentals of many smaller markets are conducive to this strategy. Sydney will remain tougher from a feasibility sense, but larger groups will be determined to find a way to get greater exposure to Australia's largest and most expensive housing market.

6

Site acquisition opportunities return

As vendor expectations adjust to the reality that higher interest rates mean much lower demand and pricing for sites (from all sectors). This adjustment will likely to see the number of opportunities increase for those BTR operators still in a position to buy sites and build their pipeline, perhaps in the second half of the year.

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