BUILD-TO-RENT DEVELOPMENT PIPELINE

AUSTRALIAN SUPPLY & DEVELOPMENT

H1 2020

CBRE

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KEY HIGHLIGHTS

- 11,000 units across +30 major Build-to-Rent (BTR) projects
- Nine groups are developing more than one project and are committing significant resources to the sector
- Offshore institutional funding accounts for over 50% of the total pipeline, signalling appeal of the asset class' stable cash flows to global investors in a low yield environment
- First wave of project completions will be a watermark moment for the market allowing customers, developers, investors and lenders to validate BTR thesis
- There is an additional pipeline estimated at over 10,000 units plus currently in due diligence with further announcements expected later in 2020 and beyond

An additional 10,000 units currently in due diligence

The Australian BTR development pipeline has surpassed a landmark threshold of 11,000 units through a major acceleration of new projects announced in 2019 and early 2020 with more to come.

Over the last 12 months, the Australian market has seen an acceleration of momentum with several significant new build-to-rent projects announced. Over 11,000 units across the country form part of the development pipeline for this asset class making small, yet steady inroads into the market.

A significant portion of these projects are backed by major offshore institutional investors including private equity, sovereign wealth funds, pension funds and insurance groups which are well versed in the sector given their existing holdings of Multifamily assets around the world.

Developments are being originated by a variety of groups including global and local players from Greystar to Grocon. In the coming months more is expected from the large players, new entries to this space, as well as the public sector.

Government agencies have also been actively pursuing BTR opportunities in a variety of forms. Major state agencies are exploring avenues for integrating a purpose-built rental model within projects as a means to deliver much-needed housing supply, with a clear focus on the affordable end of the market. Several pilot schemes are currently being tendered across Victoria, New South Wales and Queensland.

Projects are being delivered across the country in many locations such as Perth and the Gold Coast, although the majority of activity is in dense urban locations in Melbourne and Sydney.

A clear emphasis is placed on scale and delivering large institutional-grade product which allows owners to achieve operational efficiencies through economies of scale, with the average size over 350 units per project.

Melbourne's share of activity can be in part attributed to the wider availability of suitable development sites at more affordable prices compared to Sydney.

Nonetheless, demand for sites in Sydney is also strong however, BTR opportunities have been more challenging to secure due to site availability and return constraints.

Governments across local, state and federal levels are yet to pull any meaningful policy levers to support and accelerate the development of the sector. However, Victoria has taken some initial steps by supporting the fast-tracking of approvals with NSW expected to follow.

Debt financing remains another critical hurdle. Credit is available for long term stabilised assets, as demonstrated by Australia's first major BTR term debt facility recently arranged by CBRE Australia. However, favourable construction finance policies specific to BTR are yet to be developed by local banks, in that regard Qualitas' announcement to establish a dedicated $1 billion debt fund may represent a watershed moment for the industry.

We expect the momentum to be maintained with more projects announced as developers work through a pipeline of several thousand units currently under due diligence.

The increasing diversification of transaction types is also expected with shopping centre owners, owners of major sites with mixed-use potential, including not-for-profit entities, and student accommodation specialists all starting to further educate themselves and considering options for expanding into the BTR space.

KEY GROWTH DRIVERS

As Capitalisation Rates across key commercial asset classes compressed in recent years, the gap between residential and commercial yields narrowed significantly to comparable levels.

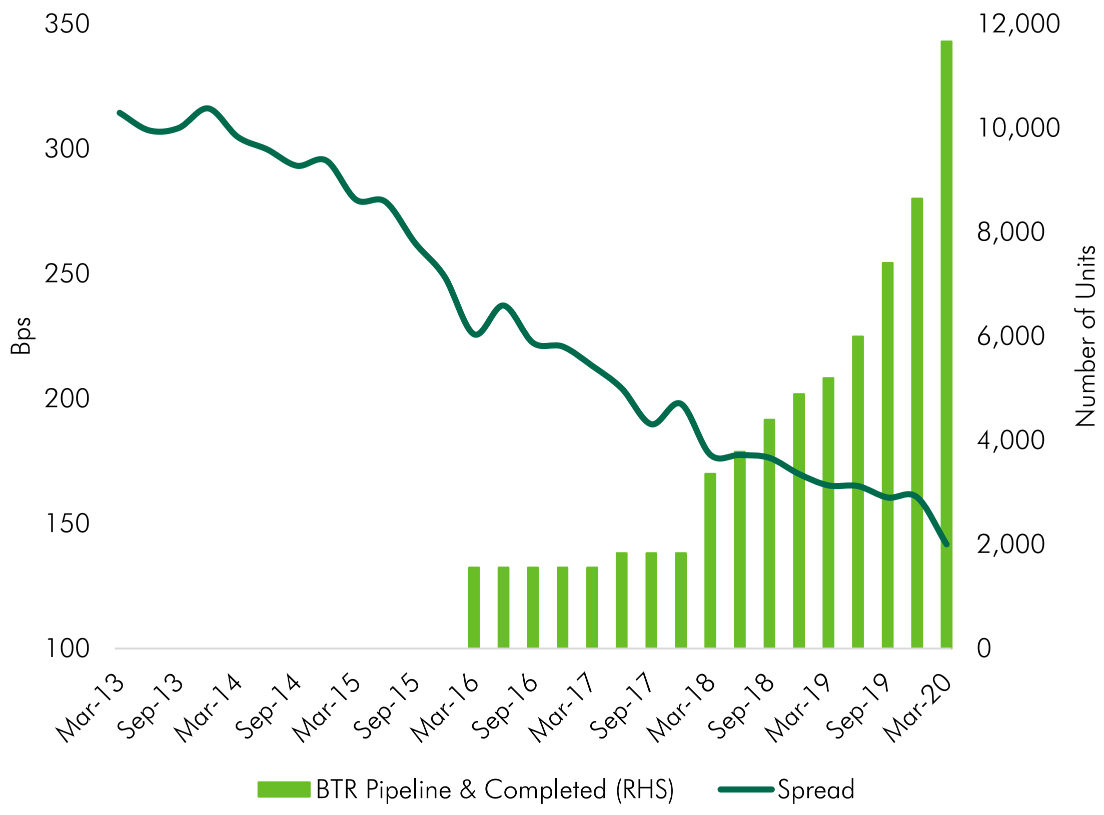
The acceleration was most noticeable in 2019 and early 2020 as cost of capital continued to fall. It has also coincided with lower housing supply due to structural challenges faced in the high density residential market (e.g. planning headwinds, obtaining presales, stricter access to development finance and mortgage financing).

New residential supply in Australia was already declining pre-COVID-19, in 2019 commencements were ~35% below their 2018 level, hence CBRE Research estimated new supply market would tip back into undersupply from 2020 onwards for the first time since 2014. The impacts of a much lower rate of population growth from 2020-22 will, however, offset lower supply scenarios; thus we expect dwelling undersupply in many markets will be pushed out to 2022 rather than occurring earlier.

Developers nevertheless could be capitalising on these dynamics which are accelerating structural shifts in demand drivers such as young, well-educated urban professionals prioritising lifestyle aspirations over home ownership (due to unaffordability) and thereby seeking to rent in well-located, high quality residential developments providing a high level of service rather than save towards home ownership.

BTR has a role to contribute towards this market void, next 12-24 months will be key as the sector faces a perfect storm which could provide tailwind for the sector.

Yield spread – Prime CBD office vs Residential Units



Source: CBRE Research

GEOGRAPHICAL SPREAD

Melbourne has been leading way with its development pipeline; representing over 50% of the national market while Sydney captures just over 25%.

Key to this trend of greater activity in Victoria has been the wider availability of suitable sites and generally reduced barriers to entry in comparison to Sydney.

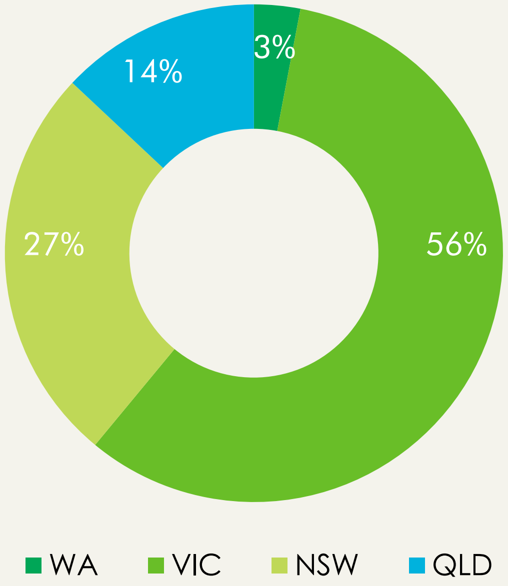
Interestingly the Gold Coast and Perth are among the first mover markets where some of the very first projects reached completion.

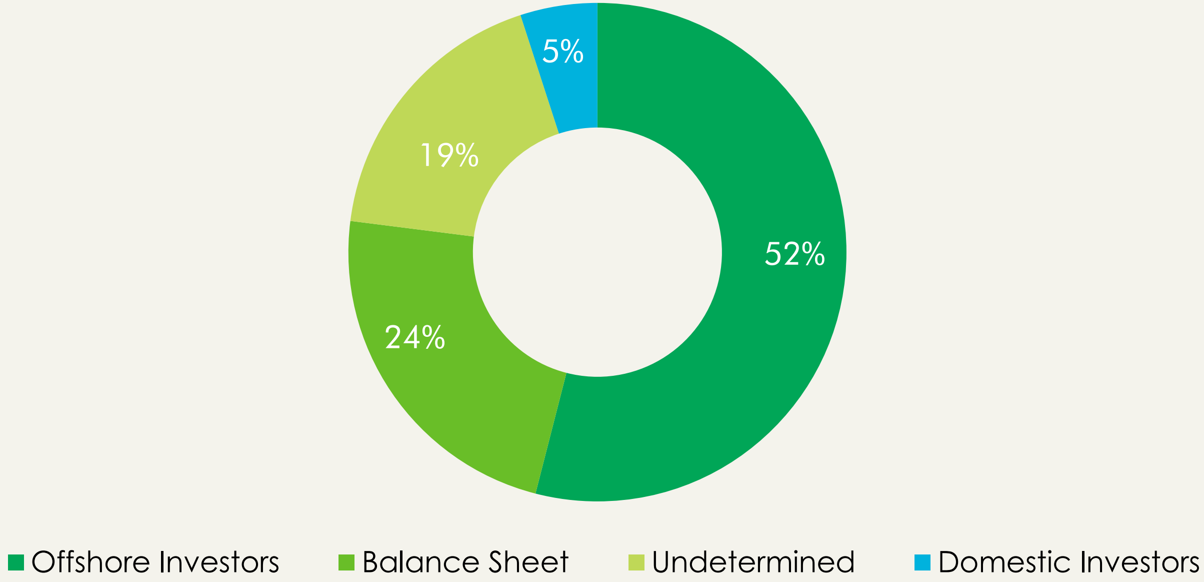
SOURCE OF FUNDING

Offshore institutional investors have been instrumental in facilitating the first wave of projects to be launched in the Australian marketplace. Developers have been able to secure equity backing from a variety of major global investors including private equity funds, sovereign wealth funds, pension funds and insurance companies predominantly from North America and Europe with some participation from Asia.

Most notably these investors are well versed in BTR/Multifamily given the material holdings within their portfolios. They are now seeking exposure to this asset class in their Australian portfolios as well for diversification purposes.

Notable interest has also been registered with local investors, some of which are familiar with the asset class having deployed billions of dollars into US Multifamily markets.





Source: CBRE

WHAT'S INCLUDED

Unlike the US market, there is currently no standardised definition in Australia of what constitutes a BTR asset.

For the purposes of this report we have collated data on purpose-built residential development designed for rent and held in single ownership (this excludes general residential strata units held for rent).

As the market evolves and interest in the asset class increases, the industry will progressively develop standards and classifications for what constitutes a BTR product. The Property Council of Australia's Build-to-Rent Committee is working with key stakeholders with global expertise to develop such standards.

Some key trends emerging from the data set collated by CBRE include the average size of each project, which exceeds 350 units, a figure not dissimilar from metrics observed in other major markets such as US and UK, and supports the ability to achieve operational efficiencies while keeping operating costs under control.

Key Statistics (CBRE Data Set)

Average No. units	365
Median No. units	350
Total No. units	11,784

Source: CBRE, Cordell

PIPELINE DEVELOPMENT

The pipeline includes projects across the development spectrum ranging from recently completed assets to projects in early stages which may still require development approvals, noting that many have already secured the required funding.

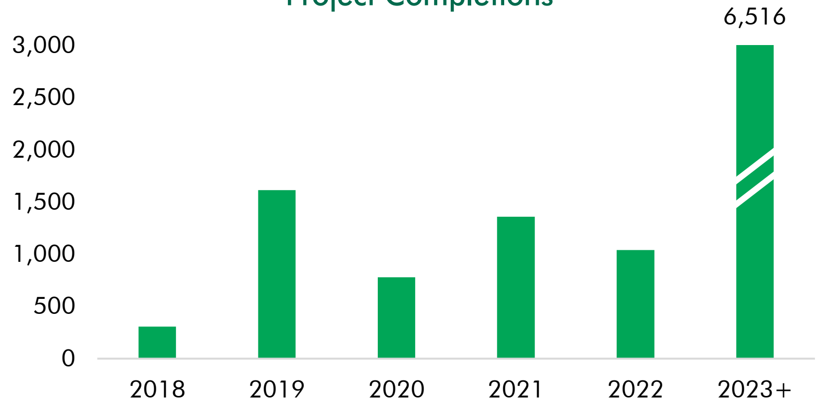
Only a handful of projects have been completed to date by private developers mostly located in Sydney, the Gold Coast and Perth.

More are due to reach practical completion in 2020 with Mirvac's much anticipated first project at Olympic Park recently completed. During the course of 2019 and 2020 multiple new projects have been secured, announced or planned by a broad spectrum of players with expected completions from 2022 onwards.

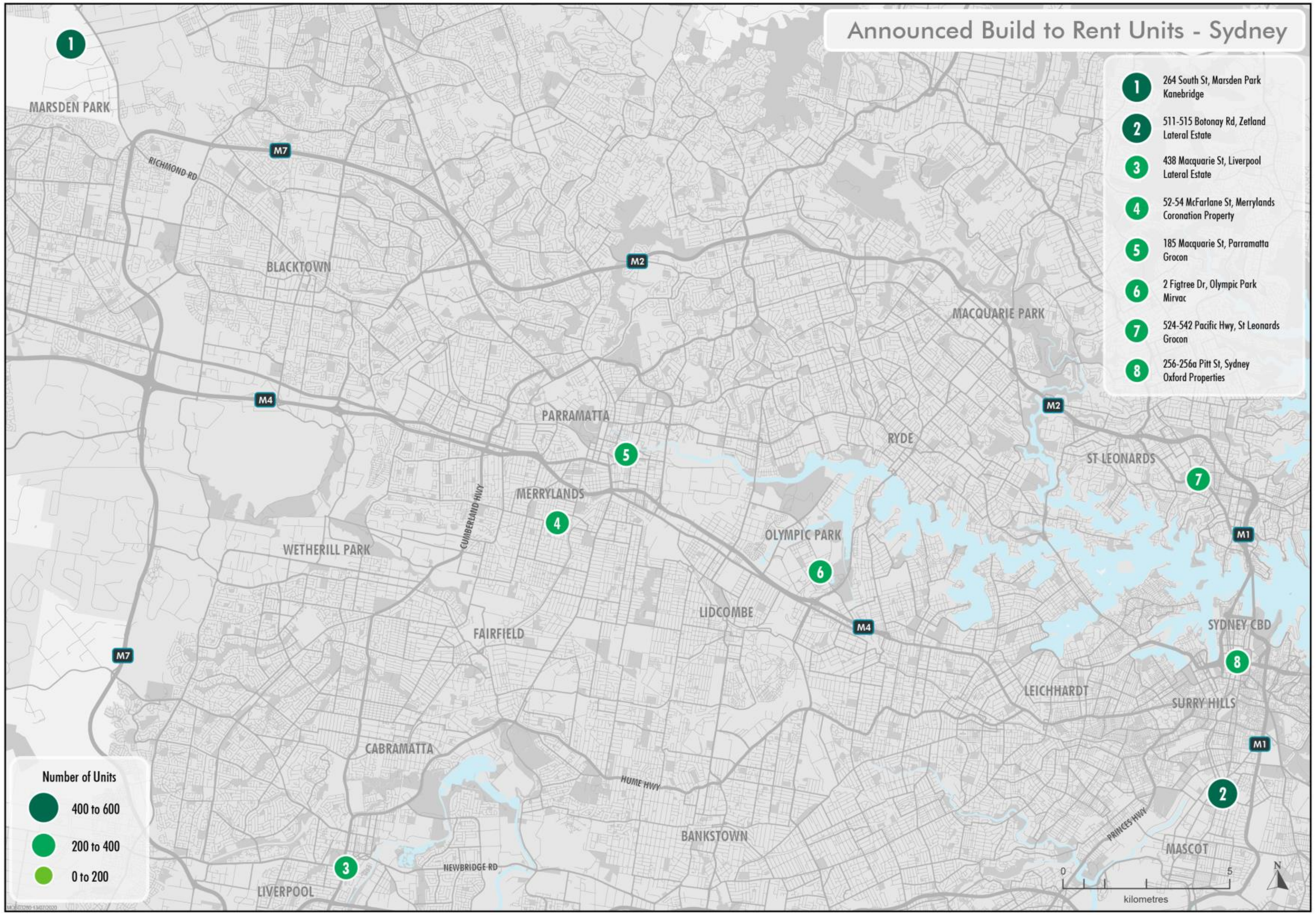
Over 50% of both Sydney and Melbourne's current development pipeline is still in the early planning stages though a number of projects are currently under construction and due to complete in the coming 1-2 years.

As more assets come to market, the ability to experience them first-hand could increase general awareness and build up momentum with all stakeholders – tenants, developers, investors, financiers and government.

Project Completions

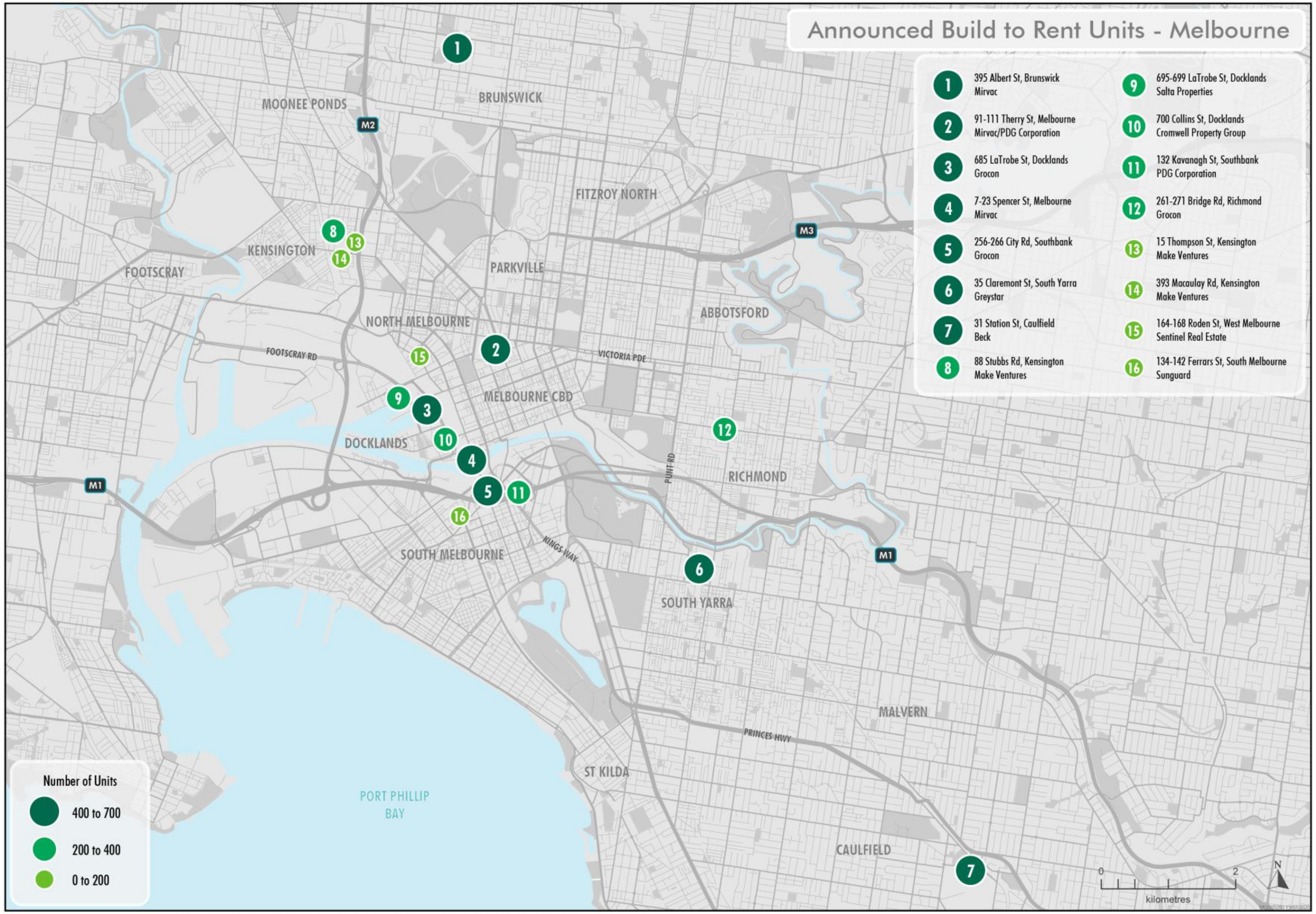


SYDNEY



Announced Build to Rent Units - Sydney
1 264 South St, Marsden Park Kanebridge
2 511-515 Botonay Rd, Zetland Lateral Estate
3 438 Macquarie St, Liverpool Lateral Estate
4 52-54 McFarlane St, Merrylands Coronation Property
5 185 Macquarie St, Parramatta Grocon
6 2 Figtree Dr, Olympic Park Mirvac
7 524-542 Pacific Hwy, St Leonards Grocon
8 256-256a Pitt St, Sydney Oxford Properties
Number of Units
400 to 600
200 to 400
0 to 200
MARSDEN PARK
BLACKTOWN
PARRAMATTA
MERRYLANDS
WETHERILL PARK
FAIRFIELD
CABRAMATTA
LIVERPOOL
BANKSTOWN
LIDCOMBE
OLYMPIC PARK
MACQUARIE PARK
RYDE
ST LEONARDS
SYDNEY CBD
LEICHHARDT
SURRY HILLS
MASCOT
RICHMOND RD
CUMBERLAND HWY
HUME HWY
NEWBRIDGE RD
PRINCES HWY
M7
M2
M4
M1
0
5
kilometres
N

MELBOURNE



Announced Build to Rent Units - Melbourne
1 395 Albert St, Brunswick Mirvac
2 91-111 Therry St, Melbourne Mirvac/PDG Corporation
3 685 LaTrobe St, Docklands Grocon
4 7-23 Spencer St, Melbourne Mirvac
5 256-266 City Rd, Southbank Grocon
6 35 Claremont St, South Yarra Greystar
7 31 Station St, Caulfield Beck
8 88 Stubbs Rd, Kensington Make Ventures
9 695-699 LaTrobe St, Docklands Salta Properties
10 700 Collins St, Docklands Cromwell Property Group
11 132 Kavanagh St, Southbank PDG Corporation
12 261-271 Bridge Rd, Richmond Grocon
13 15 Thompson St, Kensington Make Ventures
14 393 Macaulay Rd, Kensington Make Ventures
15 164-168 Roden St, West Melbourne Sentinel Real Estate
16 134-142 Ferrars St, South Melbourne Sunguard
Number of Units
400 to 700
200 to 400
0 to 200
MOONEE PONDS
BRUNSWICK
FITZROY NORTH
KENSINGTON
FOOTSCRAY
PARKVILLE
NORTH MELBOURNE
ABBOTSFORD
FOOTSCRAY RD
VICTORIA PDE
MELBOURNE CBD
DOCKLANDS
RICHMOND
PUNT RD
SOUTH MELBOURNE
KINGS WAY
SOUTH YARRA
MALVERN
PRINCES HWY
ST KILDA
PORT PHILLIP BAY
CAULFIELD
M1
M2
M3
0
2
kilometres
N

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SERVICE OFFERING

CBRE's dedicated specialist advisory and transaction-focused Build-to-Rent committee leverages a number of individual business lines' specialisation, providing bespoke solutions for clients across transaction lifecycles.

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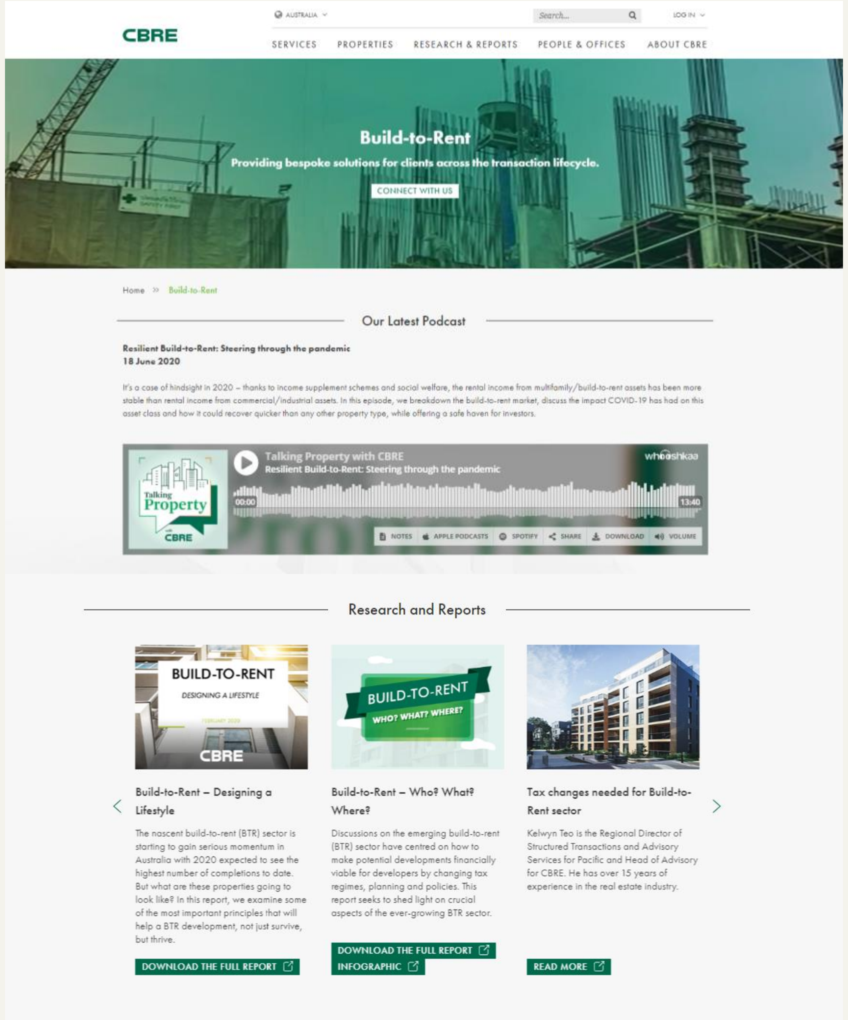
RECENT BTR RESEARCH



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