

BRIEF | Intelligent Investment

Residential Advantage 2024 Summary Slides

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CBRE held its annual Residential Advantage client event on 26 June 2024. This event provided an overview of Auckland's medium and high density residential market dynamics and offered insights and solutions for the challenges facing developers, funders, and government agencies.

The 2024 event featured presentations by CBRE experts addressing the build to sell, build to rent, and retirement housing parts of the living sector.

Topics covered

- Auckland supply and demand trends and implications for feasible development
- Lessons from operational build to rent in Australia
- How Australian developers are making build to rent work
- Retirement unit supply
- What are the motivations behind moving to a retirement village

Number of presentations

3

Number of attendees

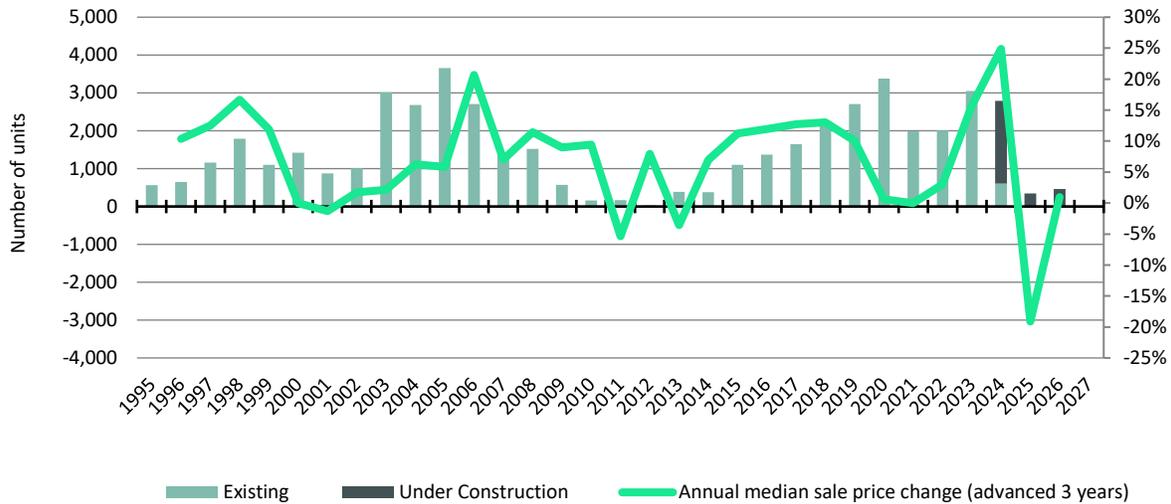
100+

Inaugural event year

2015

House price growth and apartment supply

FIGURE 1: Auckland house price growth and apartment supply



Source: REINZ, CBRE

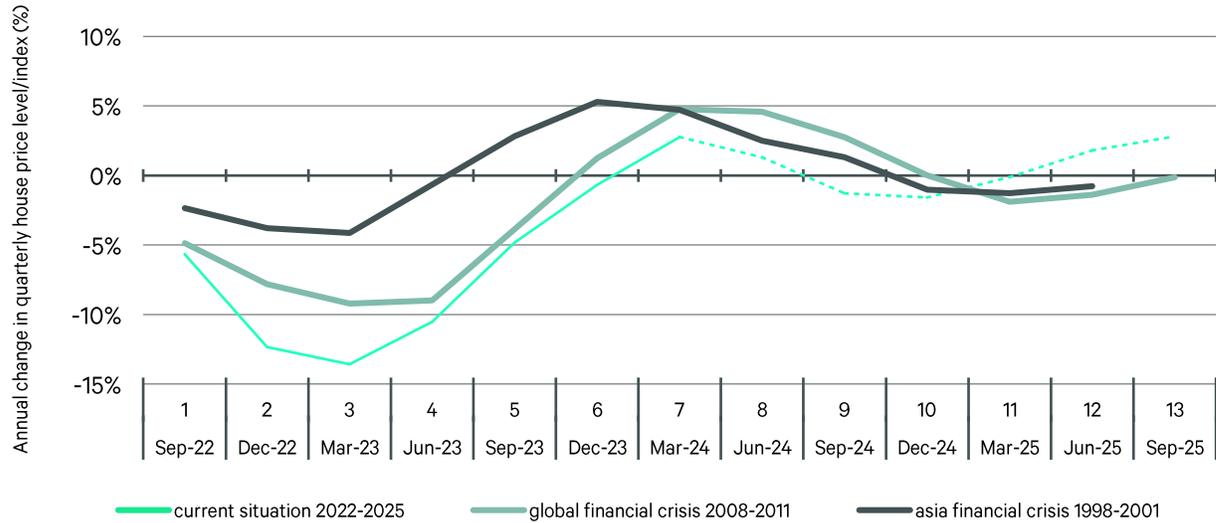
Auckland apartment supply cycles appear to be correlated with broader housing market price growth cycles. In the above chart, we have plotted annual apartment supply against annual house price change advanced by three years. The similar up and down movements indicate that current house price changes are a good forward indicator of the volume of supply that could be coming on stream in the next few years.

According to REINZ data, Auckland median house sale prices troughed at \$943,000 in January 2023, having declined by 21% year on year. Median sale pricing for May 2024 was \$1,025,000.

Double dips characterise residential price troughs

Our 2023 symposium investigated a century of housing market cycles in New Zealand and concluded that double dip market behaviour during downturns had become more prevalent. Both downturns occurring since 1993 have exhibited this. The Asia Financial Crisis period of 1998-2001 and the Global Financial Crisis period of 2008-2011 experienced false recoveries midway through their downturns to have an eventual downturn length of around three years. The current situation has exhibited a stronger initial downturn and a weaker false recovery. While we are forecasting a deterioration in house price growth over the remainder of 2024, we also expect positive traction to resume from the June 2025 quarter.

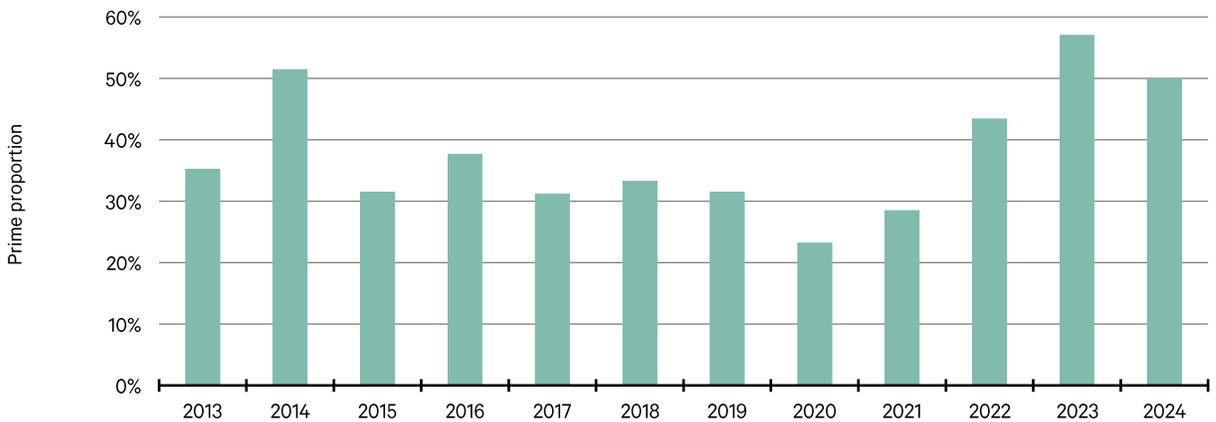
FIGURE 2: Length in quarters of NZ residential price downturns occurring since 1993



Source: REINZ, RBNZ, CBRE

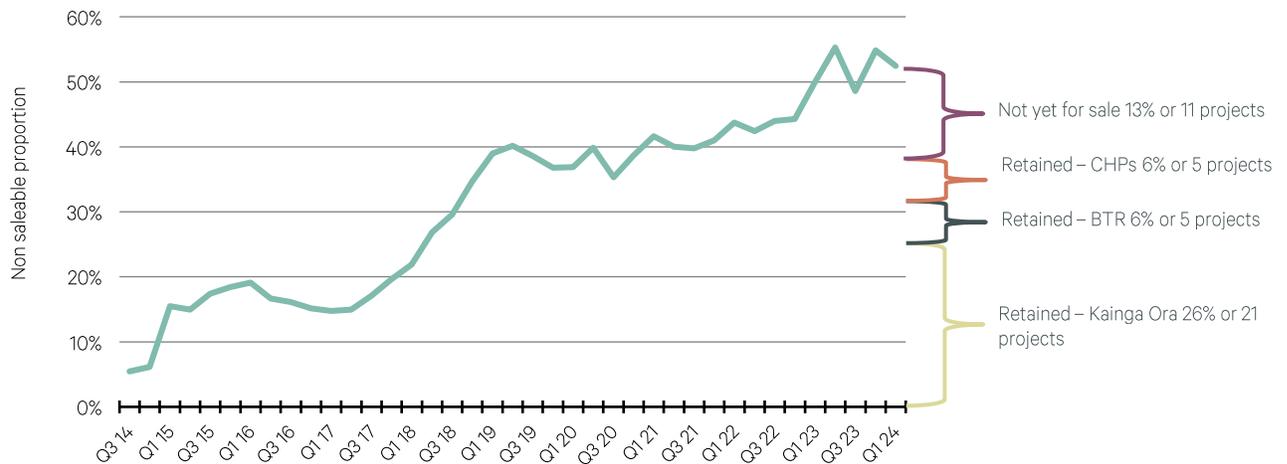
It is a tough market for new build apartment projects and launch volumes are low. Regardless, we are seeing an increased proportion of launches that are quality buildings aimed at owner occupiers. Developers are seeing opportunity with prime grade small scale projects.

FIGURE 3: Proportion of prime grade saleable projects launched per year



“It is a delicate balance between offering a compelling product at a compelling price”

FIGURE 4: Non saleable projects as a proportion of the total pipeline



Growth in the non saleable pipeline

The non saleable pipeline experienced proportional growth from 2017 to 2018. This was a period when Auckland's housing market was flat, and launch activity was restrained, especially in the CBD. However, the primary driver was an increase in the volume of apartment projects being undertaken by Kainga Ora for social housing. This then stabilised at circa 30-35 Kainga Ora projects on the go at any one time.

The non saleable pipeline maintained its market share during the 2019-2021 period due to a lift in the number of build to rent apartment projects in Auckland. The pipeline peaked at 183 projects in Q4 2021, and the BTR pipeline peaked soon after at 14 projects.

Recent growth in the non saleable pipeline has been well capitalised developers forging ahead in what is a low presales environment with the intention of selling closer to or upon completion.

Non saleable projects

42

Australian Build to Rent Supply

FIGURE 5: Supply by region

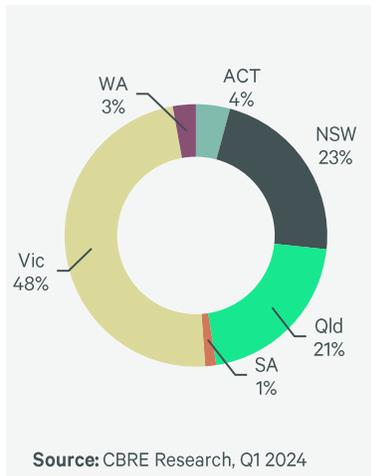
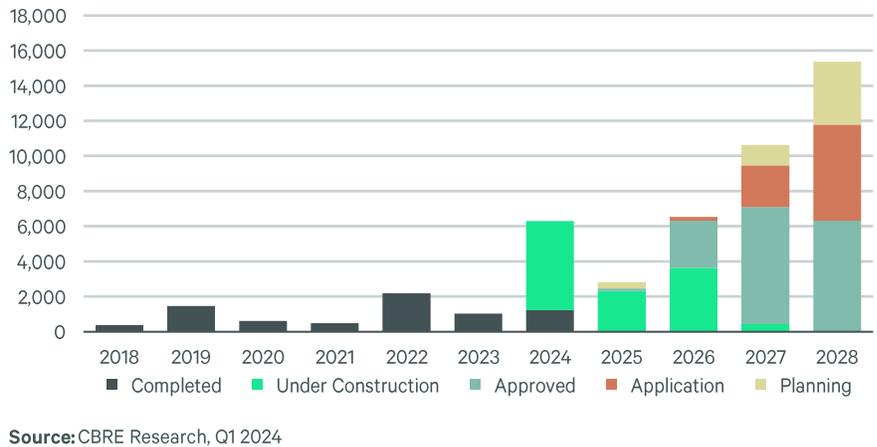
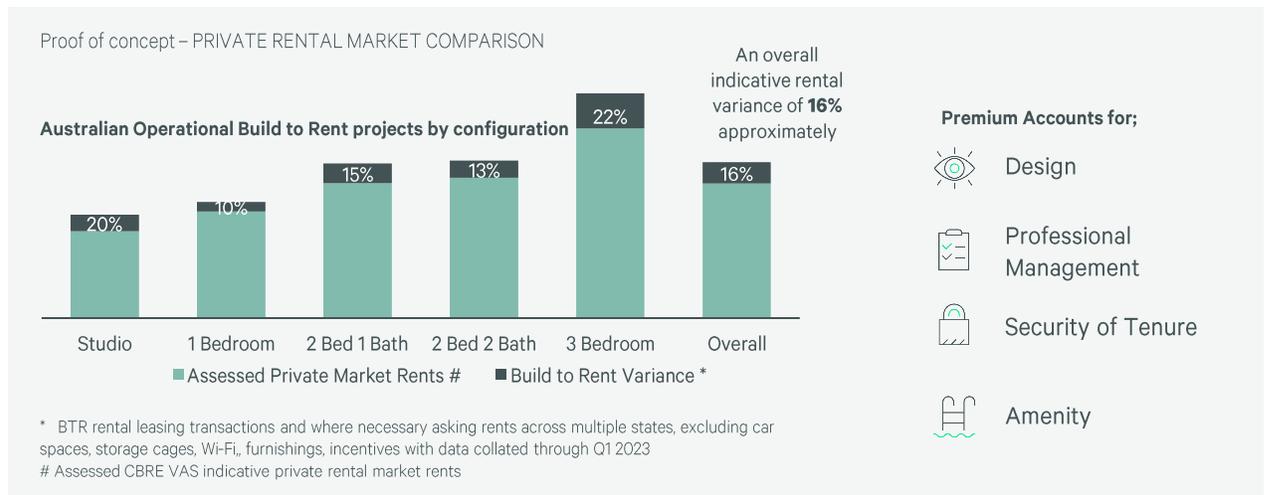


FIGURE 6: Supply by development stage



Build to rent supply has been dominated by projects in Melbourne, Victoria, however this could be set to wane as projects in other regions come to the fore. 2024 is a landmark year for new supply in Australia with further developments expected to come on stream in the next five years.

FIGURE 7: Rent premiums



When adjusting for product typology, building age, and specification, the rent premium for BTR is an indicative 16% on top of non-BTR rent levels. The premium accounts for specialised design, professional management, security of tenure, and amenity, to become effective market rent for BTR.

FIGURE 8: Build to rent models

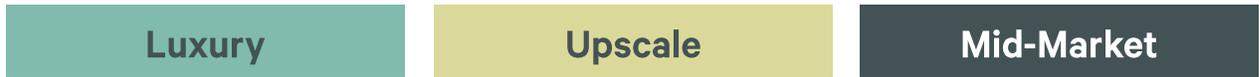


FIGURE 9: Operational observations

Occupiers	<ul style="list-style-type: none"> - Different cohorts for different projects - Demand for unexpected configurations - Highlights the important of design and flexibility
Lease Up Strategy	<ul style="list-style-type: none"> - Implications for setting rents too high or too low - Let up rate ranges from 3 to 8 units per week - No consistent approaches to incentives
Furnished Units	<ul style="list-style-type: none"> - Higher demand than expected - Pricing \$ per week and % based - Discount to market rents
Operating Costs	<ul style="list-style-type: none"> - Specific costs for 'BTR' use underestimated - Elevated increase for wages, insurance & utilities - Less reliance on UK, we have our own datasets

The Australian experience provides valuable learnings for the New Zealand build to rent market being just a few years ahead in its evolution.

Occupier data shows that the demand base is different for different projects. Even if two projects were to be at the exact same location, variation in design would capture demand from different groups of people. Identifying the optimum target market for a location and designing to appeal to them is of critical importance.

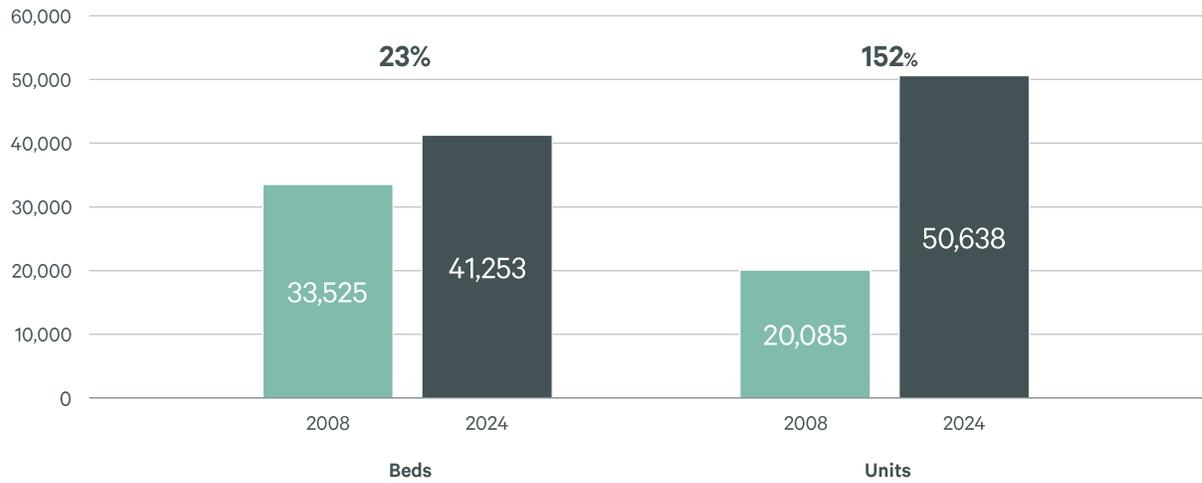
Early projects focused on one and two bedroom units as having the broadest appeal however unmet demand has become apparent for studio and three bedroom configurations.

Different projects have embarked upon different lease up strategies, with pros and cons to each. Some have set initial rents low and let up quickly but then faced pushback with resetting to market. Others have set initial rents too high which has affected let up speed.

Furnished units in particular are in high demand, especially from new migrants, with 30% and in some instances 40% of units in a building having sufficient demand to absorb furnished units.

Operating costs may have been underestimated in some projects, for example the ongoing marketing cost of event publicity and carrying out community comms. The BTR sector has also not been immune to inflation with higher than expected increases in insurance and labour cost.

FIGURE 10: Growth in unit numbers: 2008 vs 2024



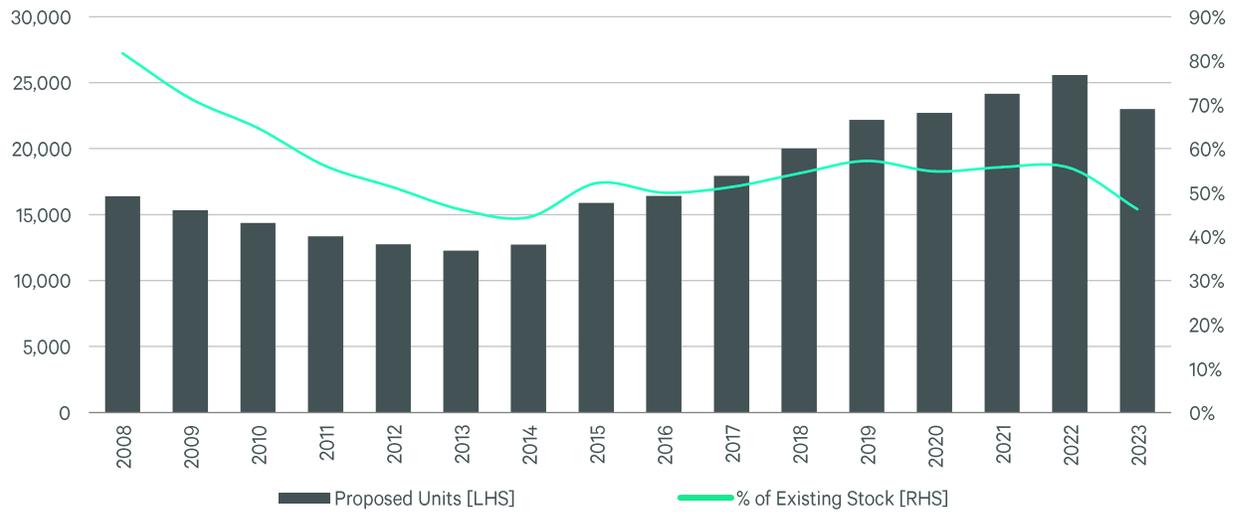
Source: CBRE

The retirement housing sector has experienced strong growth over the past decade off the back of an ageing population and increasing demand. While the volume of care beds has increased by 23% between 2008 and 2024, even stronger growth has been recorded for the unit offering in retirement villages. This has coincided with highly amenitised villages meeting consumer demand.

FIGURE 11: Key Demand Drivers

 Aging Population	 Increased Sector Profile	 Enhanced Product Offering
 Improved Commercial Terms	 Access To Care	 Better Product Acceptance

FIGURE 12: Development Pipeline



Source: CBRE

High levels of development activity look set to moderate with proposed units being fewer than in 2021 and 2022, as operators focus on their existing land bank as opposed to securing new sites. A difficult new build environment and high debt costs are influencing a reduction in retirement unit building consents issued in 2023. Despite this, motivation to buy into a village remains high for a growing segment of New Zealand's population.

FIGURE 13: What is the motive for a residents purchase

 Companionship (Versus Social Isolation)	 Security	 Peace of Mind (Medical Assistance)
 No Maintenance	 Down Sizing	 Equity Release ("Lock and Leave")

A lack of capital gain is not a deterrent

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