



BUILD-TO-RENT IN THE REGIONS

PART 1 THE PEOPLE

JUNE 2021

The first in a
series of reports
by CBRE Research

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INTRODUCTION

Build-to-Rent (BTR) is a hot topic in the residential property space, and rightfully so.

It represents an exciting opportunity to make a meaningful contribution to housing stock and improve the lives of a wide range of renter households by giving them a better quality renting experience. From the investor perspective institutional investment in rental housing allows impactful investing based on ESG objectives. Despite some challenges and barriers, the pipeline of BTR development activity is growing significantly across Australia and New Zealand, and the first few purpose built buildings are now operating as stabilised assets. It is still early days, however, and at this stage there is no major track record of investment transactions.

So far, almost all development activity has been focused on city centres. This is where the housing need is the most acute; renter population growth the strongest; and rents the highest. There are also challenges specific to these areas, particularly high land values; lack of suitable sites; alternate uses;

and strong competition amongst developers for prime sites.

In New Zealand, 92% of the national BTR pipeline is in the Auckland suburbs. This is a comfortable middle ground for developers that reduces land cost without compromising on the size of the demand base or potential achievable rents. As the sector grows and evolves, the dominance of the Auckland suburban market will diminish. Eventually BTR development will be occurring right throughout the country, and while it is likely to always be focused on major cities, there is significant potential for regional development of institutionalized rental housing that is yet to be explored.

In Australia, most development to date has been in the Melbourne Inner City and along Sydney's population growth corridors. Brisbane's first tentative steps into the BTR landscape are also in the inner city.

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GLOBAL EVIDENCE



When people think of Build-to-Rent in more established markets overseas such as the United States, they tend to think of urban locations.

These are often the core areas of focus for investment and development, especially in more recent years with the ongoing amenity war in efforts of attracting high income tech employees. Although urban geographies do have the largest volume of multifamily and Build-to-Rent stock compared to the total market, non-urban, or regional stock does exist at a reasonable scale. This demonstrates that there is potential opportunity for Australia's and New Zealand's regional markets as Build-to-Rent becomes more mainstream in these countries.

In the US, a survey of the fifty largest metropolitan areas unsurprisingly showed that the largest volume of multifamily stock was in the highly urbanised location of New York-Newark-Jersey City, at around 2.4 million units. Based on a total resident population of 19.8

million, this means an indicative ratio of one multifamily unit per 8 people. In comparison, regional multifamily stock was much smaller. The smallest of the group of fifty was Buffalo-Cheektowaga near the US/Canadian border, with around 65,000 units.

The data produces two insights that point to the potential for Build-to-Rent in regional locations in Australia and New Zealand. The first is that absorption in Buffalo-Cheektowaga is around half of New York-Newark-Jersey City, indicating that while lower, absorption does exist outside of urban areas. While the indicative urban ratio for New York-Newark-Jersey City was one multifamily unit per 8 people, the Buffalo-Cheektowaga resident population of 1.1 million gives a ratio of one multifamily unit per 17 people.

The second insight is the total multifamily stock among the smallest half of the top 50 exceeds that of the single largest urban area.

The 25 largest areas total 12.2 million multifamily units and the 25 smallest areas total 2.9 million multifamily units, around 500,000 more than New York-Newark-Jersey City. Applying this to the emerging Pacific market means that although there is less scope for development at scale in regional locations compared to the more urban parts of a country, the total sum of smaller regional developments has the potential to give city centre development in Australia and New Zealand a run for their money.

This is further backed up by evidence from the UK market. In the UK there are around 180,000 Build-to-Rent units either complete, under construction or in planning. Of this total, while around 81,000 are in London, there are around 99,000 units outside of London. Areas of regional focus include large cities such as Liverpool and Manchester, although there is also development dotted around the rest of the UK in far less populous areas such as Norwich, Bristol, and Newcastle upon Tyne.

THE TOTAL SUM OF SMALLER REGIONAL DEVELOPMENTS HAS THE POTENTIAL TO GIVE CITY CENTRE DEVELOPMENT IN AUSTRALIA AND NEW ZEALAND A RUN FOR THEIR MONEY.

Table 1: US Top 50 Metropolitan Areas by Size Ranked by Multifamily Apartment Stock Volume

Size Ranking	Metro Area	Total Multifamily Stock	Population	Ratio
1	New York-Newark -Jersey City, NY-NJ-PA	2,424,811	19,839,535	8
2	Los Angeles-Long Beach -Anaheim, CA	1,365,316	13,215,144	10
3	Dallas-Fort Worth -Arlington, TX	735,657	7,503,488	10
4	Chicago-Naperville -Elgin, IL-IN-WI	706,319	9,408,177	13
5	Houston-The Woodlands -Sugar Land, TX	662,662	6,980,075	11
46	Oklahoma City, OK	79,540	1,480,894	19
47	Louisville/Jefferson County, KY-IN	75,503	1,273,914	17
48	New Orleans-Metairie, LA	68,905	1,270,253	18
49	Birmingham-Hoover, AL	68,522	1,139,922	17
50	Buffalo-Cheektowaga, NY	65,278	1,128,312	17

Source: NMHC

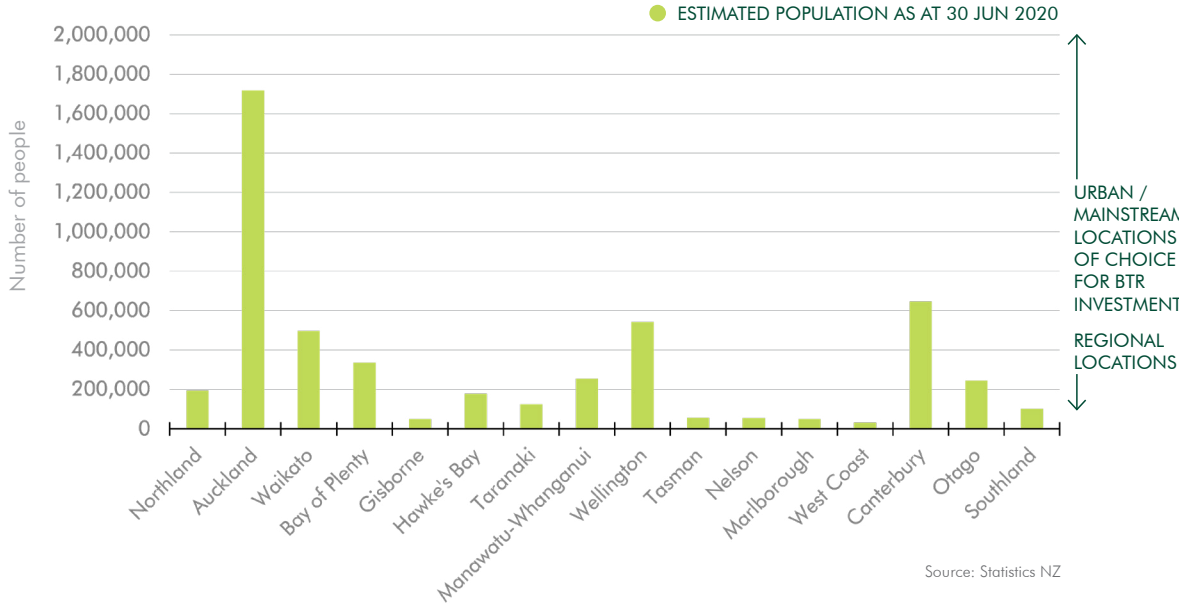
POPULATION

In Australia and New Zealand, the largest populations are in the major urban areas.

Across New Zealand's sixteen regions, the total estimated population as at mid-2020 was just over 5 million. The largest region of Auckland comprised 1.7 million people, or 34% of the total. Adding the population of Wellington and Canterbury regions brought this proportion to

57%. For the purposes of this report we consider the remaining thirteen regions to be 'regional' or non-urban locations of choice for Build-to-Rent development. Individually, these thirteen areas each comprise 10% or less of the total national population.

Chart 1: New Zealand Population by Region



Source: Statistics NZ

In Australia, population is even more concentrated in and around the capitals.

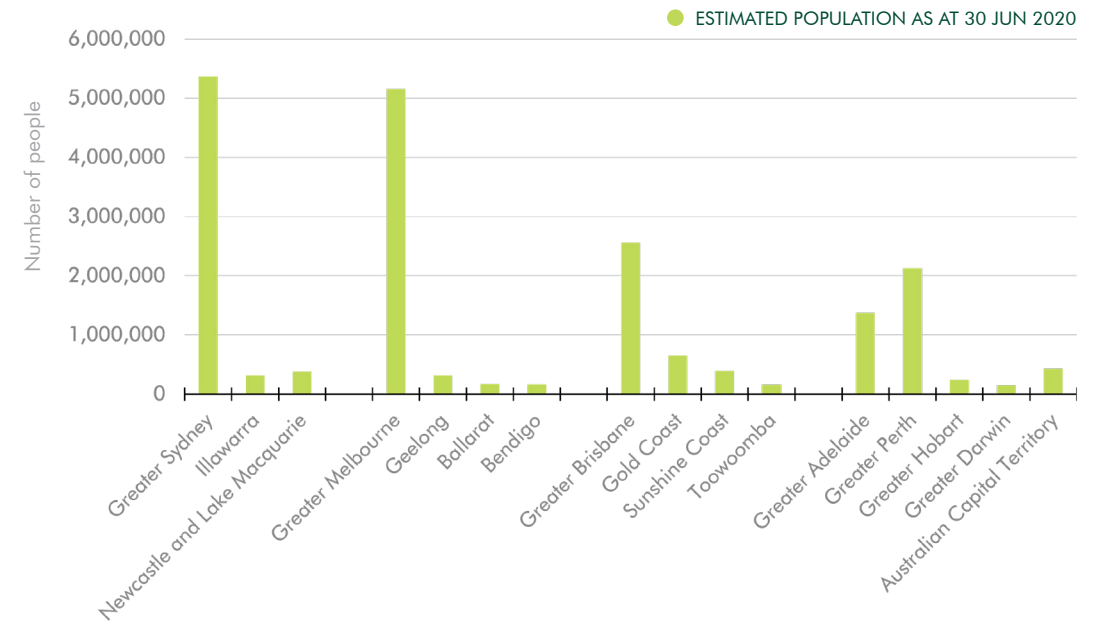
At June 2020, of Australia's total population of 25.7 million, 68% resided in the capital city metropolitan areas (including Canberra) with a further 10% residing in surrounding urban areas within around a two hour driving time of the major capitals (for example, the Gold Coast, Sunshine Coast, Newcastle, Illawarra and Geelong). For the purposes of this report, regional in Australia will refer to these satellite cities. Disaggregated further, 61% of the population reside within or around the three largest metropolitan areas (Sydney, Melbourne and Brisbane).

The broad metropolitan/non-metropolitan share over the past 20-years has risen steadily, however, (from a 65%/35% split

in 2001 to its current 68%/32% split), there has been some noted variations in the distribution of growth within these areas.

While the net population figure outside the capital cities and their immediate areas is still significant (a little over 5.7 million), it's spread across the nation suggesting limited scope for true Build-to-Rent development outside the capital cities and their satellites. In fact, just two local government areas in Australia outside the greater capital cities and their surrounds (shown on the chart below) has a population over 150,000 – those being Townsville (196,800) and Cairns (166,449) in North/Far North Queensland.

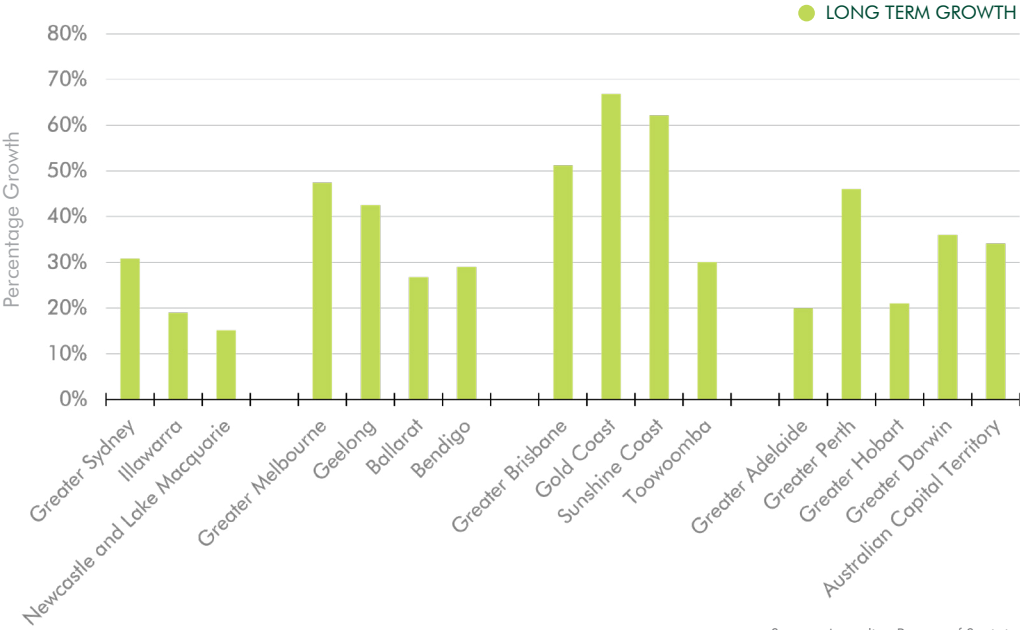
Chart 2: Australian Population by Capital City Regions



Source: Australian Bureau of Statistics

GROWTH

Chart 3: Australian Population Growth 2001-2020



Source: Australian Bureau of Statistics

As highlighted, Australia’s population growth is heavily concentrated in the major urban areas and has become more so.

Over the past 20 years, 76% of Australia’s population growth has occurred within the capital city metropolitan areas, with a further 11% in the surrounding satellite areas. This has equated to a net population increase of almost 40%. The three major metropolitan areas and their surrounds have accounted for 70% of the total population increase.

It is worth noting that the largest increases in percentage terms have been in south east Queensland (Brisbane and the adjacent Gold and Sunshine coasts)

with an overall net increase of 54% followed by Melbourne and Geelong in Victoria and Perth.

There have been noted variations within the urban areas, however. A deeper dive to sub-regions shows the greatest population increases have generally occurred in the immediate inner cities, reflecting recent unit development cycles and a greater acceptance of higher density living, and in the outer mortgage belt areas, reflecting land availability and affordability.

Several New Zealand regions have population growth rates that are in the same league as those of major urban centres.

Given that population growth is a key driver of investment decisions, this bodes well for BTR in the regions.

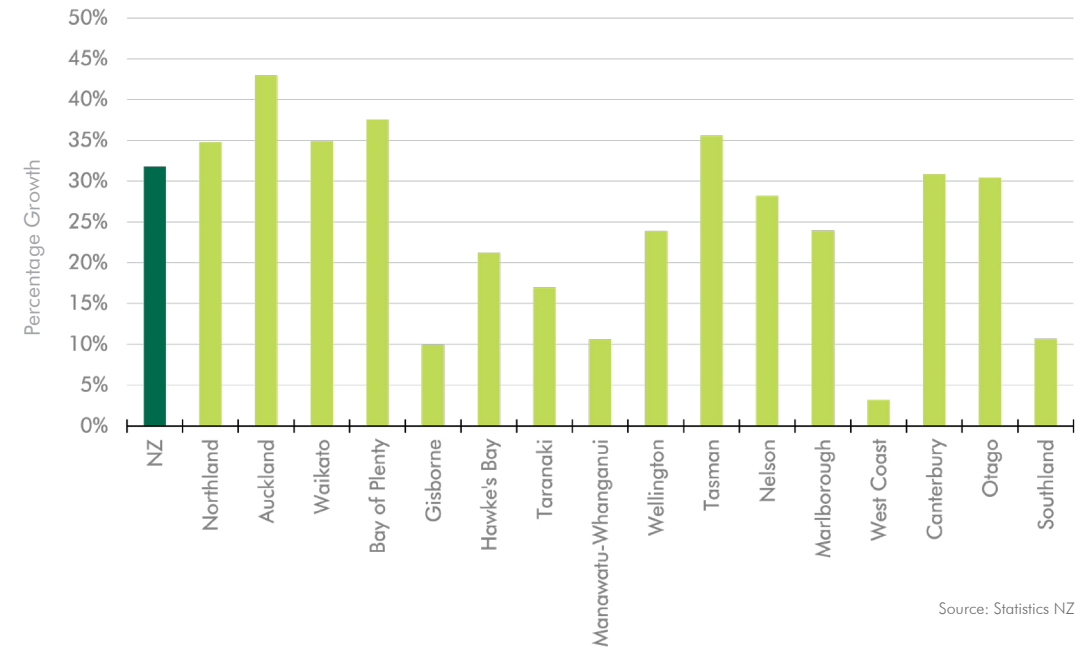
New Zealand population growth over the past 20 years was over 1.2 million people, or 32%. Five regions experienced growth rates above this. The region with the highest population growth was Auckland with 43% growth. This part of New Zealand is regarded as a primary arrival destination of choice for new migrants into the country and has experienced an above average rate of population growth due to strongly positive net external migration over the past decade. The three closest regions to Auckland being Northland, Waikato, and Bay of Plenty have experienced similarly high rates of long term population growth, likely due to a spillover effect with people moving from Auckland to a neighbouring region for housing affordability reasons. The only other region to experience a growth rate

above New Zealand's is Tasman region at the top of the South Island. The population of this region, along with Nelson region, is one of the smaller ones in the country meaning that growth occurred off a low base. Regardless, there has been a population influx into Tasman region at an above average rate.

Although Chart 4 details the overall population growth of a region, certain locations within regions have experienced above average rates of population growth, indicating the existence of on the ground opportunities at the subregional scale within specific towns, cities, and districts. For example, Queenstown-Lakes district in the Otago region is a popular tourism and lifestyle destination that has seen an influx of new residents in recent years, has one of the highest average house prices in New Zealand, and has a recently completed Build-to-Rent development.

THE THREE CLOSEST REGIONS TO AUCKLAND BEING NORTHLAND, WAIKATO, AND BAY OF PLENTY HAVE EXPERIENCED SIMILARLY HIGH RATES OF LONG TERM POPULATION GROWTH.

Chart 4: New Zealand Population Growth 2000 - 2020





INTERNAL MIGRATION

The attractiveness of different parts of the country is a subjective assessment made by individuals and households based on their values and constraints.

It is something that changes over time, not just in a self-contained sense but in a relative sense as well. Housing cost is a key consideration in location decisions and one that does drive certain households to different regions around the country. As COVID came to the forefront in early 2020 and people began to work from home, this acted as a catalyst for user friendly work from home technology and for workers to physically delineate their work space from their living space. The benefits of working from home were quickly realized and there has been a permanent shift in how future work patterns will play out. The use of technology in the future of work is something that impacts the viability of BTR in the regions.

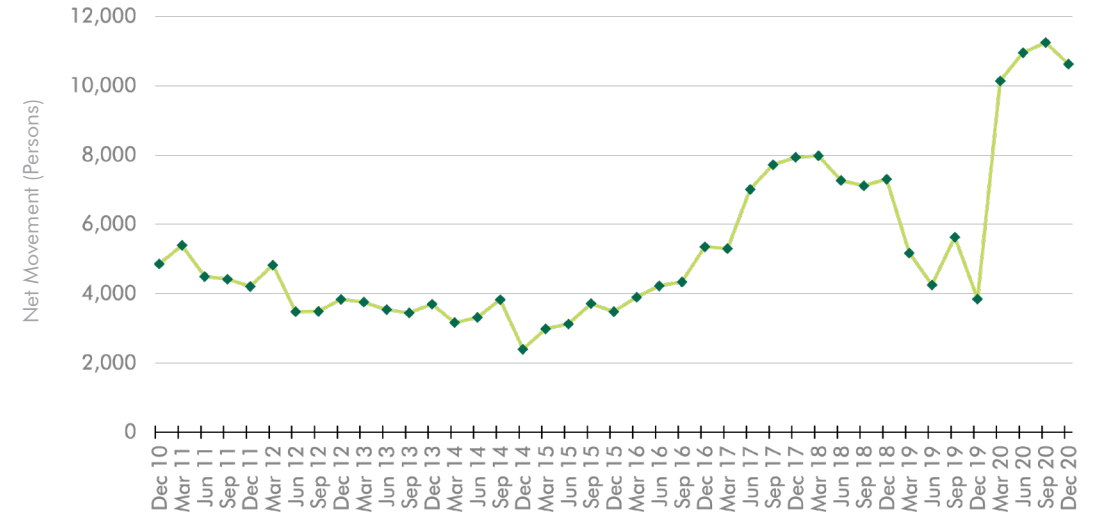
In Australia, there has been a noted rise in the movement of people away from the capital cities in recent quarters. Regional internal net migration data showed the September quarter 2020 recording the greatest movement of residents from capital cities to regional locations on record at 11,200 net nationally. This was the third successive quarter of record net movement to regional Australia. Note that the definition of regional Australia here includes the locations in close proximity to the capital cities (e.g. the Gold Coast, Sunshine Coast, Newcastle, Illawarra and Geelong), so further supports the internal growth trends highlighted earlier.

More broadly, net interstate migration figures are showing a strengthening shift towards Queensland and Western Australia, largely at the expense of Victoria.

Data for the year ended September shows net annual interstate migration to Queensland at 27,100, its highest aggregate since the start of 2006. Western Australia recorded its first quarter of positive movement since June 2013. By contrast, Victoria (negative 3,536) saw annual movement turn negative for the first time since 2008. This shift is expected to accelerate further over the course of 2021 if extended border closures remain a thing of the past and is already having significant impacts on the rental markets in Perth and Brisbane, where vacancy is quickly tightening and rental growth pressures strengthening.

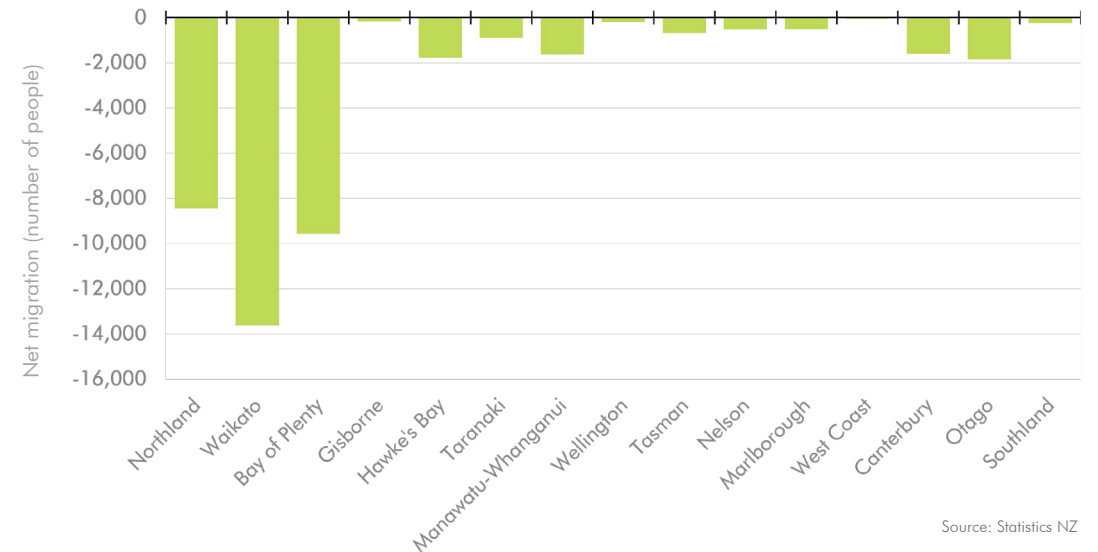
Internal migration has also been influencing New Zealand's regional population changes for several years. Despite Auckland's economic opportunity, in every region it has lost more people than it has gained between the 2013 and 2018 Census dates. Rapidly escalating housing costs during this time are likely to have been a factor for financially stressed households. For mortgage free households the attractiveness of freeing up capital by selling an Auckland property and purchasing in the regions has also been a driver of change. The net loss of older persons from Auckland combined with a smaller gain of younger adults seeking work has kept the median age for Auckland residents low relative to other regions.

Chart 5: Quarterly Net Population Movement to Regional Australia



Source: Australian Bureau of Statistics

Chart 6: Net Migration Loss from Auckland to Other Regions 2013-2018



Source: Statistics NZ

AGE CHANGE



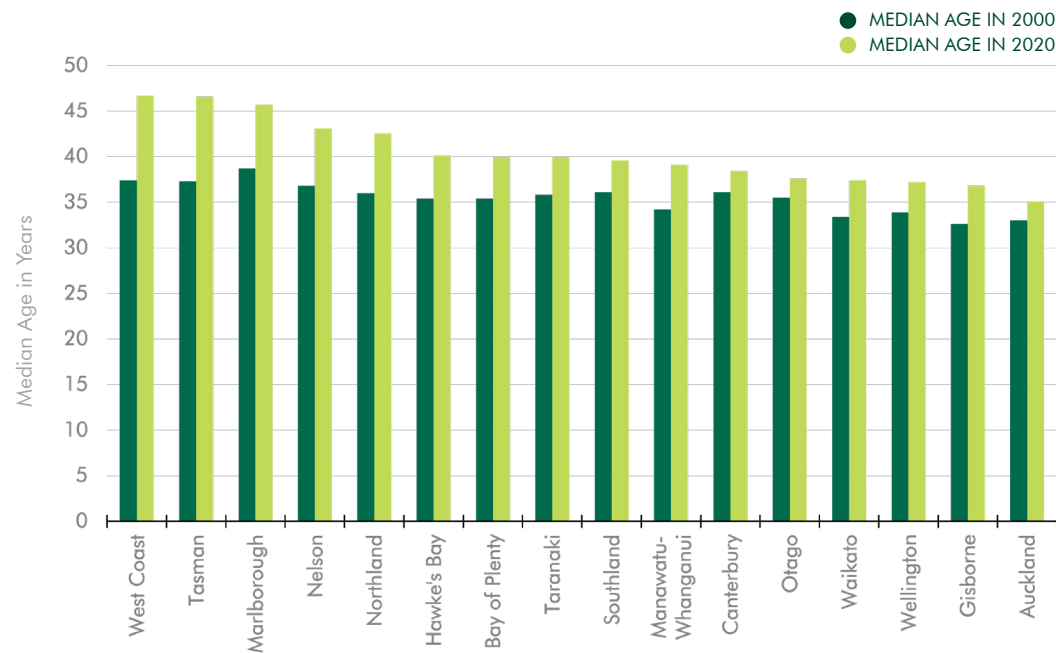
It is well known that both Australia and New Zealand have an ageing population, however long term data shows that some regions have aged faster than others due to the impact of net internal migration.

This is because the characteristics of individual regions drive certain age groups into and away from them. Certain regions appeal as retirement destinations and have seen an influx of older persons as new residents over the past twenty years, impacting the need for retirement and healthcare services. On the net negative side, some regions have seen a loss in the proportion of younger persons due to the economic opportunities that other regions provide them with. Regions that have aged significantly and at a faster rate than others are likely to have experienced both of these phenomena.

Location decisions by age are important as they are a key determinant of the future potential for BTR in the regions.

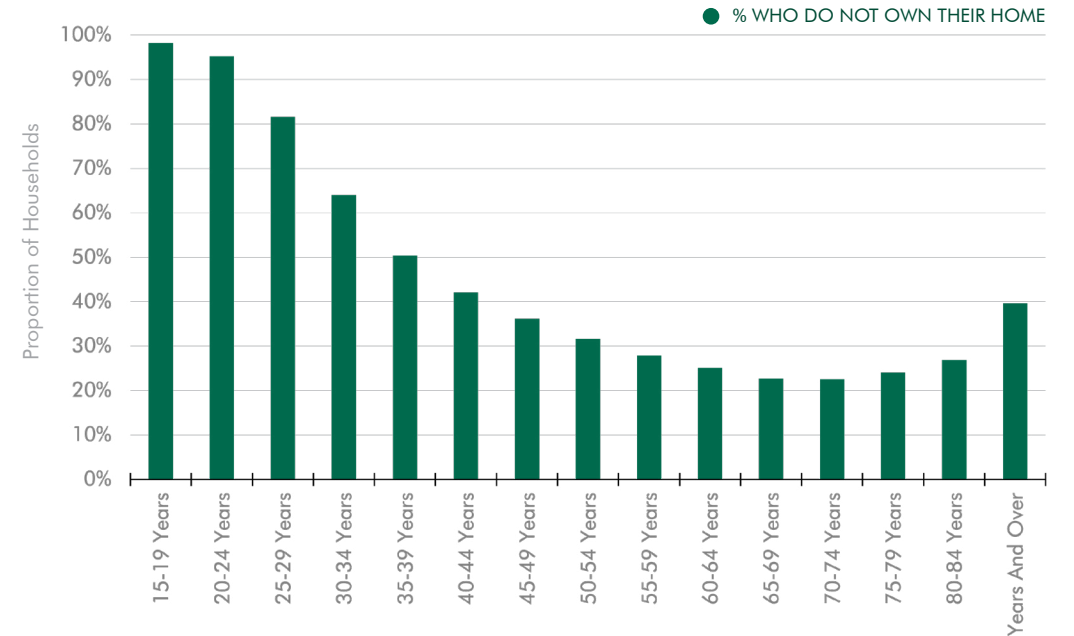
Although individuals in rental housing are diverse, the main occupier base is younger people. This is because as people age, they tend to move from a rental tenure into home ownership, as shown in Charts 7 and 8.

Chart 7: New Zealand Change in Median Age by Region 2000-2020



Source: Statistics NZ

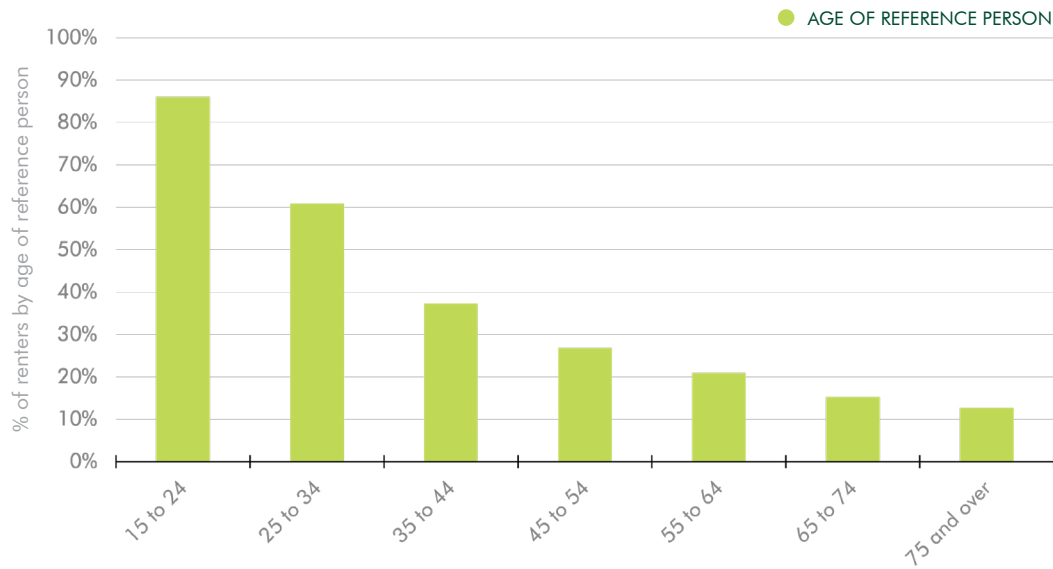
Chart 8: New Zealand Renter Proportion by Age - Census 2013



Source: Statistics NZ

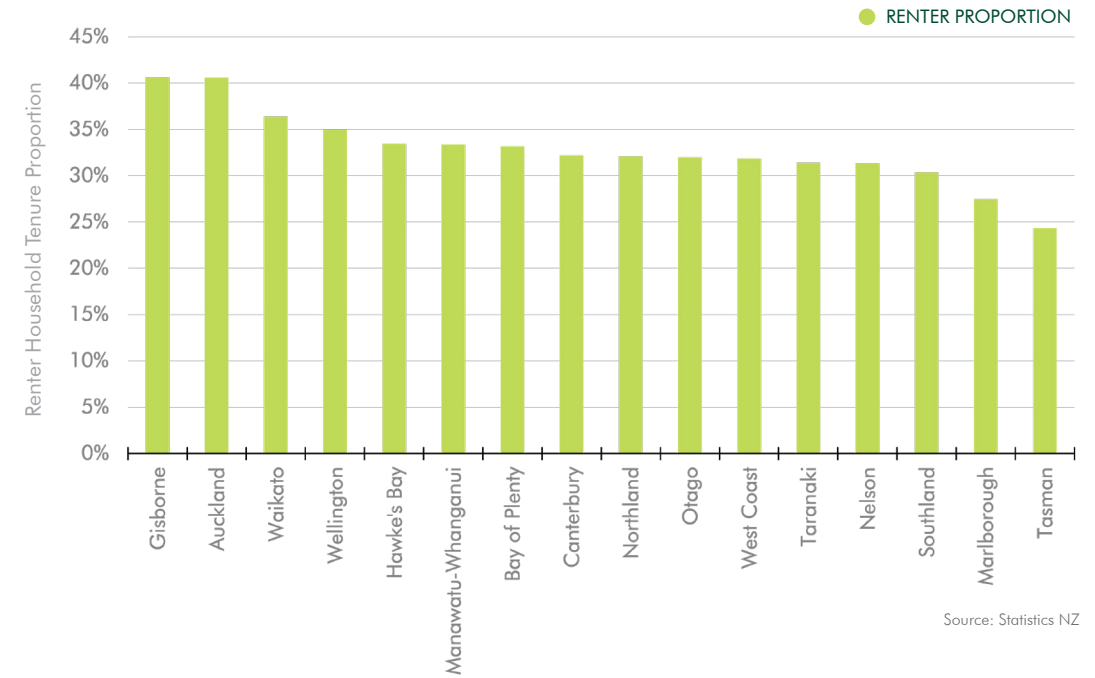
The high cost of home ownership has caused people to be renting for longer. This has pushed out the average age of purchasing a first home, increasing the demand for rental property at a rate over and above general population growth. Regions with working age renters have a preexisting demand base for Build-to-Rent housing, however the older a regional population is, the less likely it is they will be renting.

Chart 9: Australia % of Renters by Age of Reference Person - 2017-18



Source: Australian Bureau of Statistics

Chart 10: New Zealand Proportion of Renter Households

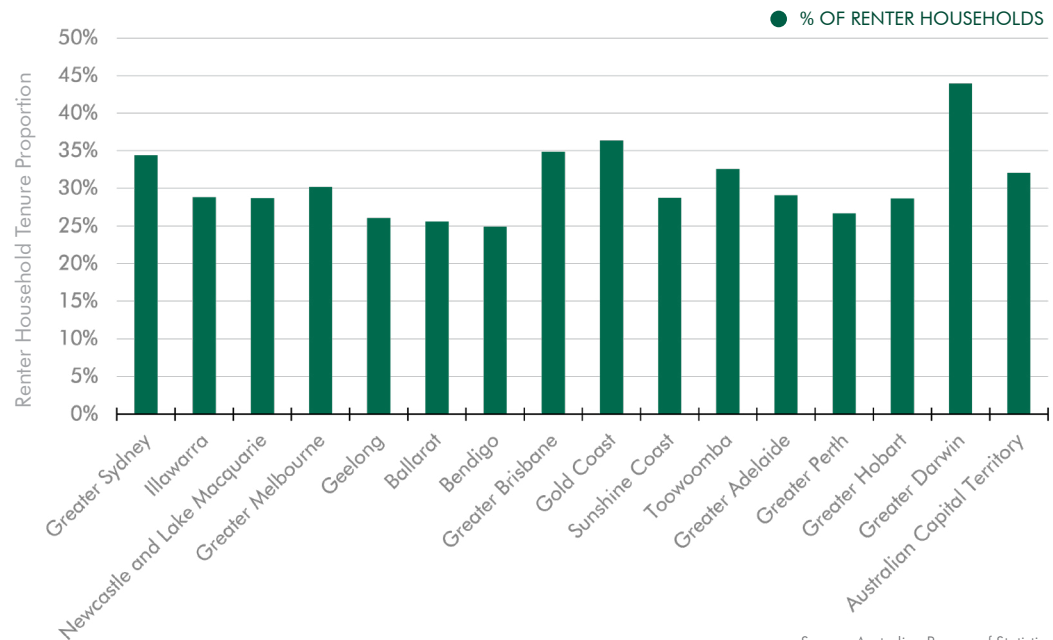


Source: Statistics NZ

This is reinforced by the above chart showing the proportion of renter households per region. The two highest proportions are Auckland, and Gisborne, regions that have the two youngest median ages in 2020. Tasman region has the lowest proportion of renter households, which combined with a high population growth rate and large increase in median age indicates that older owner occupiers have relocated to this area for a mixture of lifestyle and economic reasons.

In Australia, while around 31% of households rented in 2016, shares are typically higher in the major capitals where housing affordability is more of an issue and in locations with a more transient population (e.g. Gold Coast, Sunshine Coast, Darwin). Much higher rental shares, above 50%, are evident in the inner-city areas of the major capitals where the greatest amount of unit stock is provided and where the highest proportion of people aged in the 20 to 34 year age cohorts reside.

Chart 11: Australia Proportion of Renter Households



Source: Australian Bureau of Statistics



HOUSEHOLD TYPES

The types of renter households in the regions are another key determinant of BTR demand in these areas.

As an emerging sector, Build-to-Rent is new build property, designed and built for the purpose of long-term rental tenure under single ownership. This means that there is likely to be a price premium due to the new build quality, outside of the premium associated with service and amenity that is characteristic of the sector.

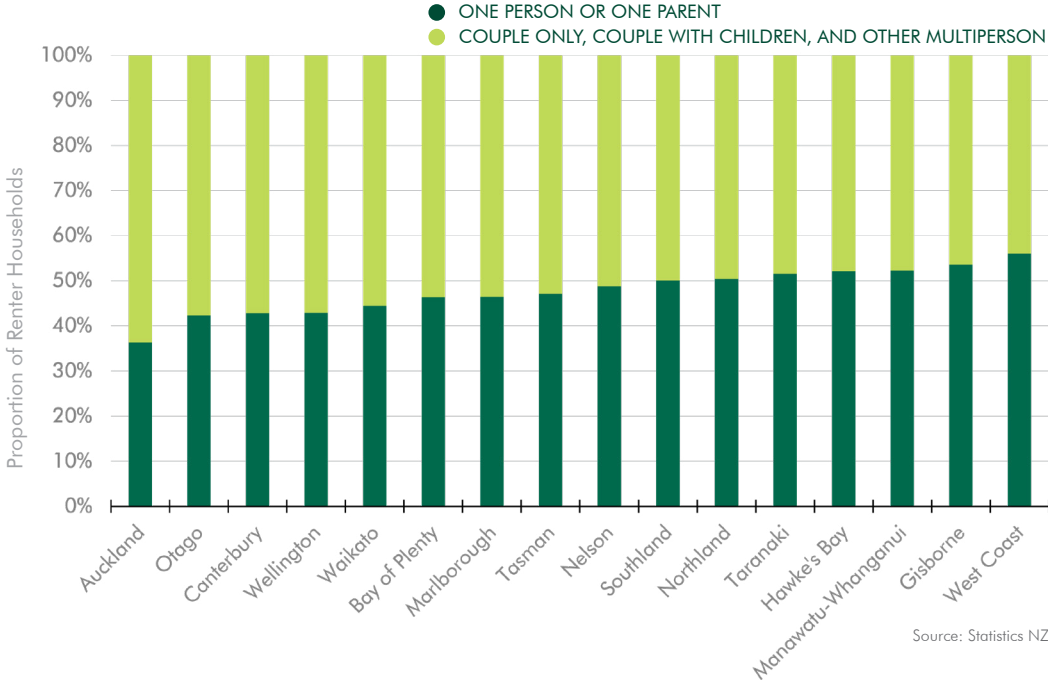
Even though BTR pricing in the regions is likely to be cheaper than Build-to-Rent pricing in the three main cities, it will be more expensive than existing rental stock. This means that most occupier households will require two or more incomes to afford the rental cost. While higher income singles and solo parent households are part of the demand base, primary demand is more likely to be sourced from households with multiple income sources.

Using household type as a proxy gives an indication of the proportion of larger

renter households that are likely to have more than one income earner. The region with the largest proportion of these households is Auckland, where around two thirds of renter households have two or more adults. In second place is Otago, which is likely due to the large contingent of students flatting in Dunedin. In third and fourth place are Canterbury and Wellington respectively, indicating a decent demand base in these areas.

Some of the smaller regions in New Zealand have a high proportion of single person and solo parent renter households. These households are unlikely to be the main target market for Build-to-Rent as economic trade offs mean they may be more likely to choose existing rental stock over the service and amenity that BTR provides.

Chart 12: New Zealand Renter Household Composition



CONCLUSION SO FAR

There is a need for a better-quality rental offer both inside and outside of cities, however at this early stage of the sector evolution in Australia and New Zealand, it can be difficult to make a highly amenitised city centre Build-to-Rent project stack up.

In the regions, lower land costs and lower density typologies reducing the overall construction cost can mitigate some of the issues that city centre developers are facing. The data on established markets show that while the largest volume of multifamily stock is in core urban centres, demand also exists in more regional locations, which when combined are a significant component of the total potential occupier market. While some regions have certain factors that are highly supportive of Build-to-Rent, such as high population growth, other factors can negate this to reduce overall viability, such as a low proportion of renter households.

This Part 1 report has examined the potential for regional Build-to-Rent development from a people perspective. It uncovers the development opportunity outside of the three major cities, with each of the regional locations having population characteristics that are supportive of a new type of rental housing. The next report in the series will build upon this by delving into employment and affordability, and the opportunity that the post Covid world of flexible working provides.



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