

Intelligent Investment

Learnings from operational build to rent

REPORT
NEW ZEALAND

CBRE Research
August 2023

Key Insights

- The survey demonstrates that there is a wide variety of products. Surveyed projects have different demographic makeups, different configurations, and significant differences in inclusion of amenities and services. Location influences these difference to an extent with their developers pitching a particular product based on the area that it is in. Given that there is very little vacancy in the survey sample, it appears that people have been so far successful in getting things right.
- The market is evolving with two types of BTR owners. For some BTR owners, everything is done in house; site acquisition, development, and management. This model allows greater control and establishment of a strong brand. For other market participants, they have a focus on building scale and on the product itself, outsourcing management and other noncore business activities. We expect that evolution of the sector will see a third type emerge with passive institutional investors seeking to acquire existing stock with outsourced management.
- There is a wide range of yields. Yields are influenced by the existence (or lack of) rental premiums, and the nature of the build being typical/standard housing product or optimised for build to rent. Vacancy is essentially nil however once the New Zealand BTR market is established with no severe undersupply, the existence of market competition and how it influences occupier choice will have a greater impact on an individual buildings' occupancy levels.

8/9 projects

have zero vacancy

100%

of BTR owners would develop another BTR project

\$380-\$1,200

Rent Range

3.5%-6.5%

Yield Range

Introduction

The New Zealand build to rent sector burst on to the scene five years ago and has been rapidly evolving. National stock totals approximately 1,700 units in 43 projects. The current Auckland pipeline is 1,000 units in ten projects that either have building consent or are under construction. Behind this active pipeline is a significant imminent pipeline of planned or consented projects.

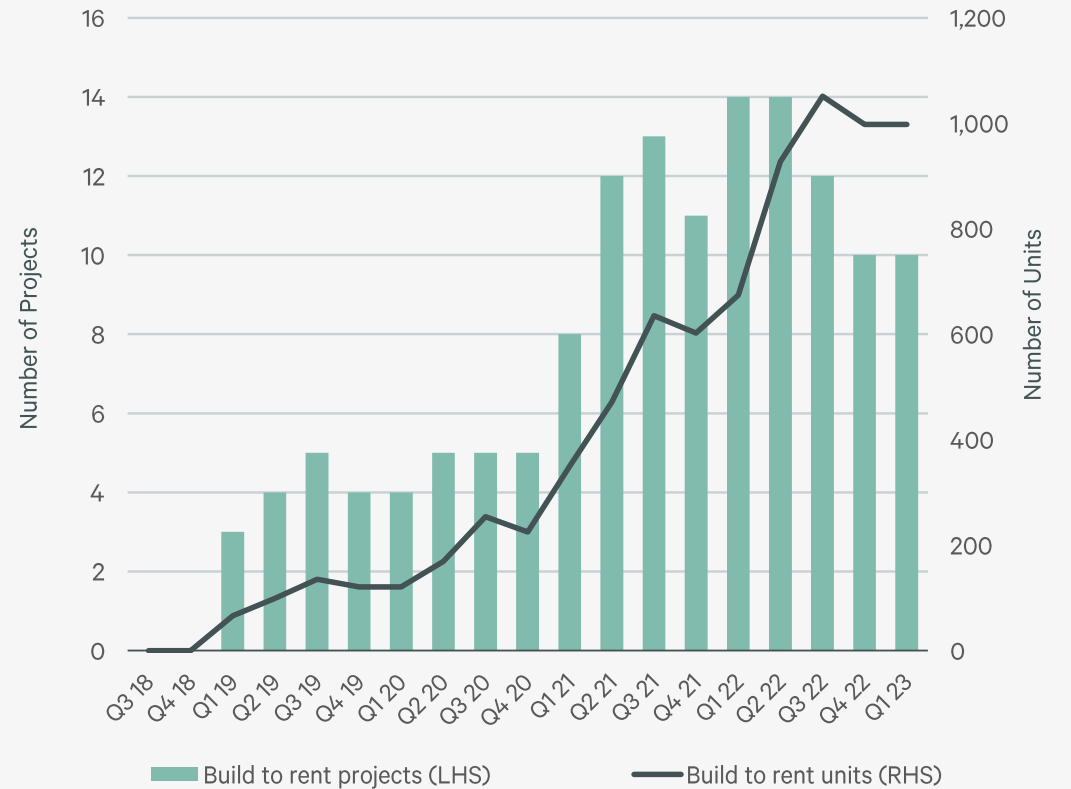
In 2023 there has been progress for institutional grade projects including;

- Continued construction of a 295 unit building at Sylvia Park for owner Kiwi Property
- A site acquisition for a 358 unit project in Takapuna by developers McConnell Property and Cedar Pacific
- Notification of resource consent for a 191 unit project in Epsom by Dilworth Trust Board
- Addition of two new builds to the Simplicity Living portfolio

Build to rent is huge globally and has been growing rapidly in Australia and New Zealand. Undoubtedly, there is a market for this type of product. Higher quality rentals that offer service and amenity not available elsewhere are attractive to occupiers and this has been proven in let up of completed stock.

This report covers the results of a detailed qualitative survey of operational build to rent in New Zealand, providing data and information on multiple aspects including occupancy, management, lease terms, returns, and more. We hope that the contents of this report can be used to support the continued evolution of this sector.

FIGURE 1
Auckland BTR Active Pipeline



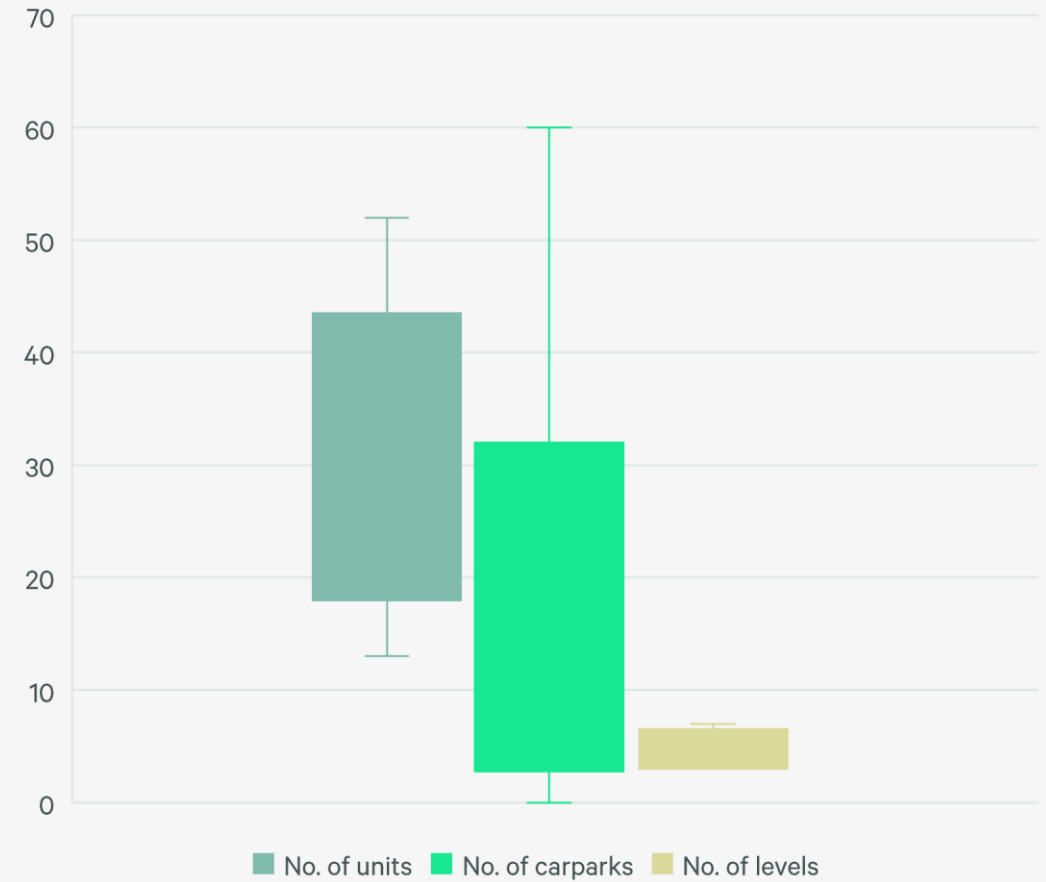
Methodology

This report covers the results of a detailed qualitative survey undertaken in Q2 2023. The survey involved structured, hour long interviews with a range of build to rent owners, developers, and managers, on various aspects of BTR.

We targeted projects that have been operational for a year or more. Data was collected for nine projects across Auckland, Wellington, and Queenstown, with this report aggregating the numbers and insights to show how BTR is working in New Zealand.

The nine projects total 287 units, indicating that data was captured for 17% of the total market.

FIGURE 2
Survey Sample

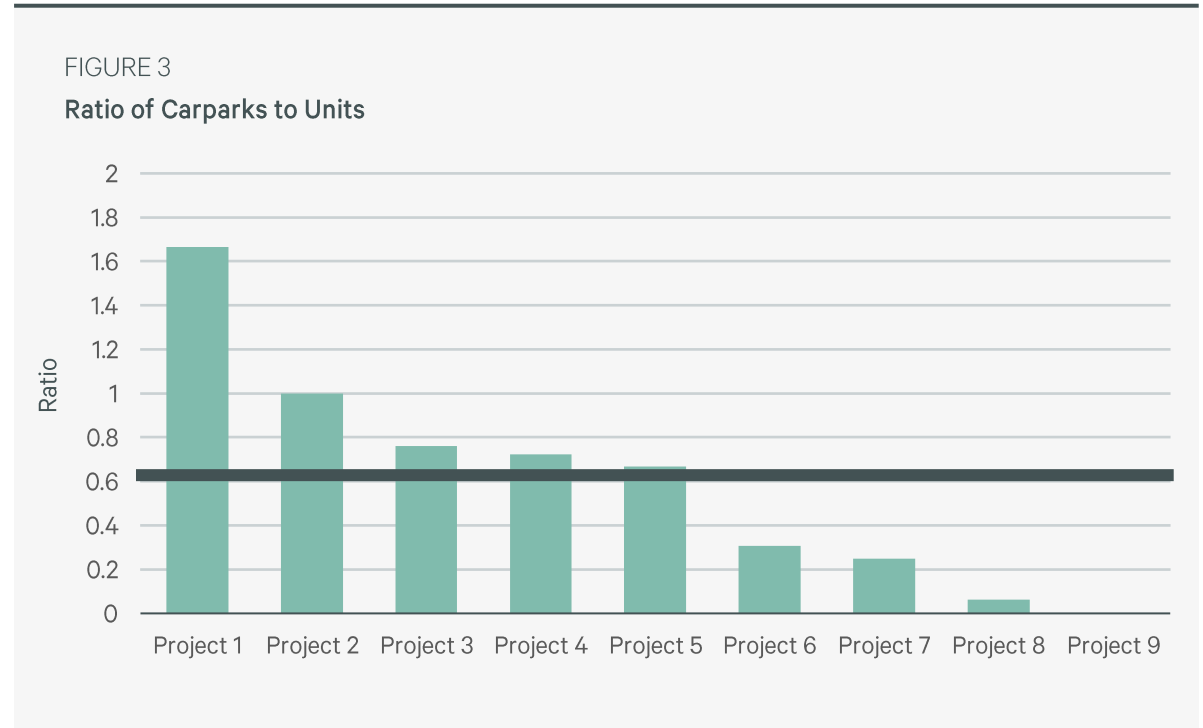


Carparking

The number, type, and price of carparks influences demand for a housing unit. Some units need carparks to activate demand, and some do not. Getting it right can be the deciding factor for a potential end user, which makes it a critical consideration for developers.

Yet carparking can be a puzzle. It is expensive to provide; in many cases providing carparks is a break-even exercise, for some its even a loss. In February 2022, the Unitary Plan was updated to remove the requirement to provide on site carparking to service new housing developments. This allows developers to be more dictated by market demands rather than regulatory rules.

We have found that the ratio of carparks to BTR units is quite low. For every 1 BTR unit, there were 0.6 carparks. However, there was distinct variation between the surveyed projects, ranging from no carparks at all up to a ratio of 1.6 per unit. There was also variation in how carpark fees were charged, if at all. Location and target end user played a part in these differences. In addition to permanent occupier carparking, some schemes offer shared electric cars for resident use.



2x none

2 schemes have no private carparking

2x included

2 schemes have their carparks included in the weekly rent.

4x extra cost

4 schemes have their carparks charged in addition to weekly rent, ranging from \$45 per week to \$80 per week.

1x short term

1 scheme which has a low ratio of carparks to units offers shared car use for \$45 per day.

The Build

6/9 projects

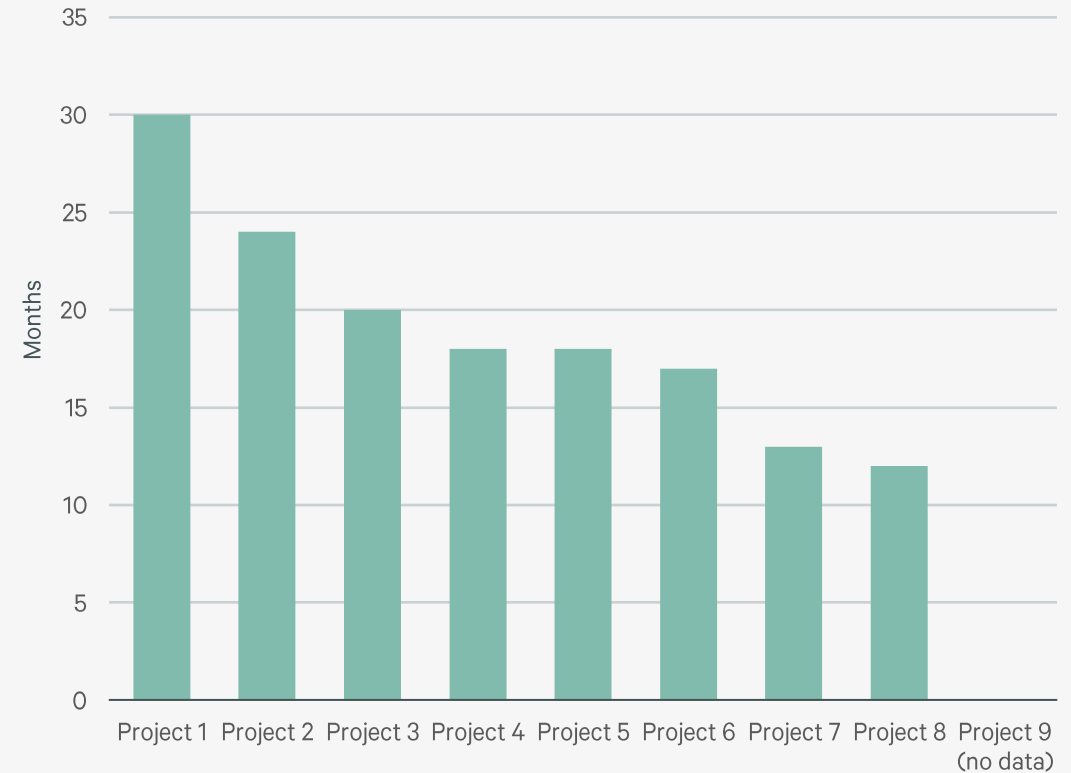
experienced build delays caused by COVID-19

The average build time for BTR across NZ was 19 months. As most of our survey is made up of relatively recent builds, it makes sense that most have been negatively impacted by Covid. BDO's 2023 Construction Sector Report showed that only 12% of projects had been completed on time in the last six months, largely due to supply chain issues, labour sourcing, and severe weather. Two thirds of our BTR survey projects experienced delays, either directly with lockdowns, or indirectly with delivery delays in the supply chain. Future build times for comparable projects are likely to be shorter, but we do expect the overall average build time to increase as the institutional grade materialises and projects become larger in scale.

Build Cost

The average build cost for BTR projects across NZ was \$4,600 per sqm, ranging from \$2,900 per sqm to \$6,300 per sqm. The nature of the project, location, and timing impacts build cost, making it difficult to compare between projects. There does not appear to be a material difference to build to sell construction costs. However, it should be noted that GST tax treatment is different, with BTR incurring GST on inputs vs build to sell which is able to offset this.

FIGURE 4
Build Time



Let Up

Let up refers to the time period between completion of construction and the building becoming fully occupied. Occupancy rates for stabilized BTR assets in established offshore markets generally range from 95% to 98% with a property deemed fully occupied once it reaches this level.

For most of the nine projects we surveyed, let up was a matter of weeks, irrespective of building scale. Two thirds had a let-up period under four months. It is difficult to compress let up further, especially as building scale increases, because management resource is limited and moving goods and furniture requires the use of service lifts, which is problematic if everyone is trying to use it at the same time. The building manager will usually schedule move ins to maximize efficient use of load zones, service elevators, and corridors, with viewings staggered as appropriate.

It must also be considered in the context of rent. Most of the nine schemes are at the top end of market rents for the areas in which they are located. Depth of demand thins at higher price points, however the take up results prove it is there for the right product.

Commencing Registrations of Interest

It is common for offshore projects to get a bit of a head start generating occupier interest by advertising their project prior to completion. We have seen this in New Zealand to an extent with some advance marketing undertaken however most of our surveyed buildings started advertising for tenants less than two weeks out from completion. One project commenced registrations of interest 6 months prior to the completion of the build, however this was targeting highly specific occupier groups for the affordable housing on offer.

FIGURE 5
Project Let Up Period

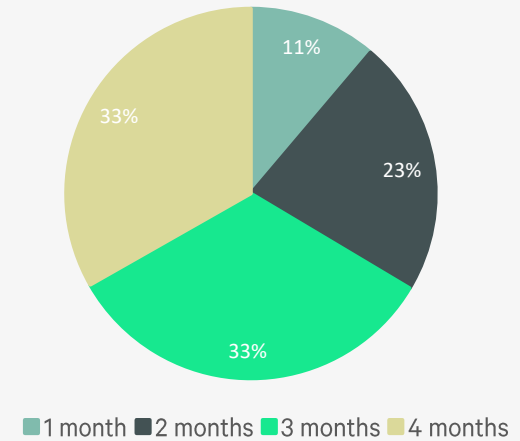
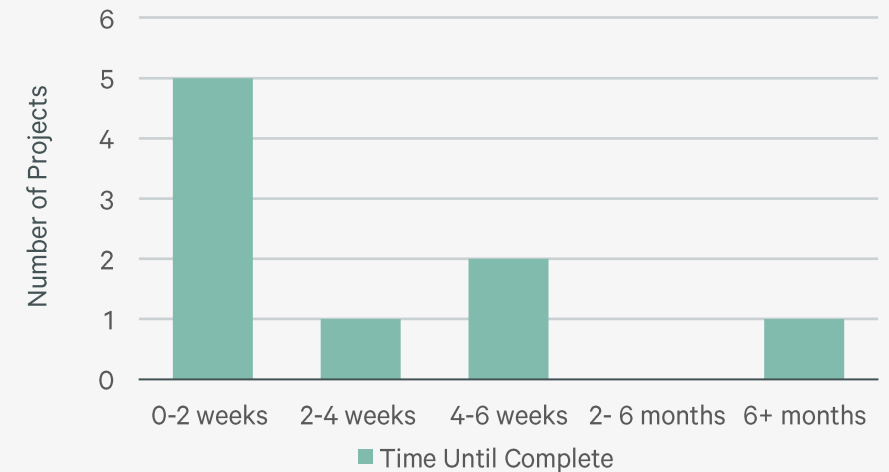


FIGURE 6
Commencing Registrations of Interest



Occupancy

8/9 projects

have zero vacancy

At the survey date, 8 of the 9 projects had 0% vacancy and the remaining project had 10% vacancy with five units available.

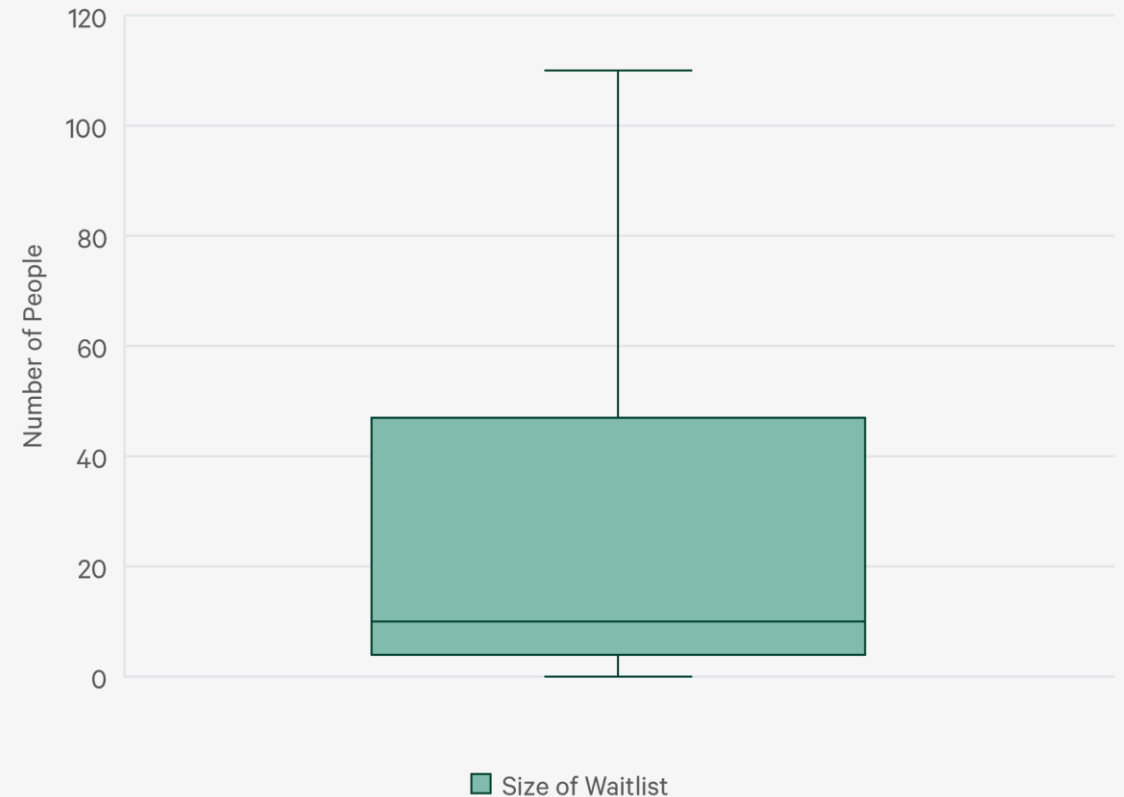
Waitlist

Most of the BTR owners have a mailing list of interested parties that they contact when units are becoming available. We identified a typical waitlist range of 0 to 110 people and an average of 28 people per project. It is likely that not all are genuine prospective residents, however, some are seeking very specific units within a project.

Days Vacant Between Tenancies

The average days vacant between tenancies is 4.5 days, indicating less than one week's rent is lost between tenancies. This varies by unit size. Vacancy periods tend to be shorter for smaller units. Some projects are yet to experience any vacant periods, being relatively new with decent resident retention to date.

FIGURE 7
Size of Waitlist



Management

Build to rent requires active, high-quality management, because management of the building and its occupiers is crucial to maximizing returns.

For most of the projects surveyed we found that the owner (likely also the developer) is also the manager. We have observed that this type of full spectrum involvement encourages efficiency and quality. Building BTR to a high standard reduces the dollars spent on fixing maintenance issues, and the time spent for the manager to sort issues out. With the manager also being the owner, they are incentivized to be highly responsive to their residents and take good care of the asset. Where an external manager has been appointed, the owner/developer is more likely to be focused on property development as their core business. The scale of the building does not appear to impact an outsourcing decision.

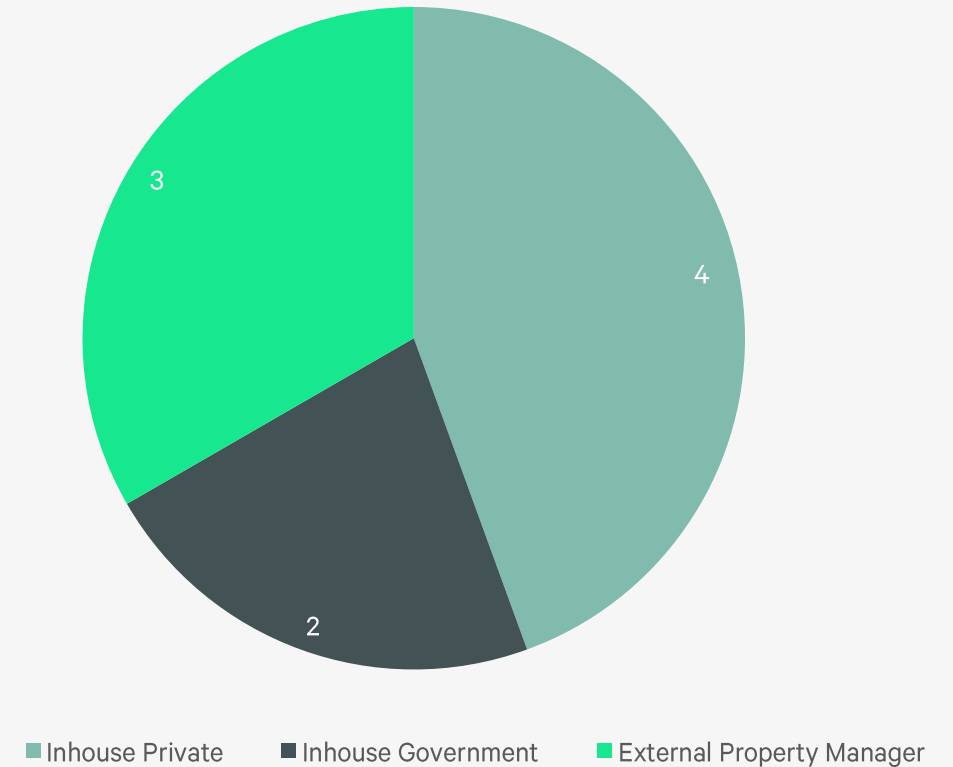
Management Fees

5.50%-5.75%

the current range of management fees for BTR projects

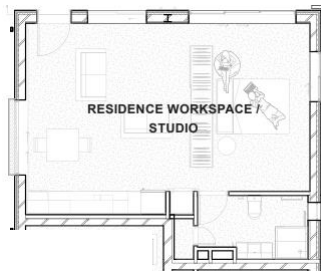
Management fees for the externally managed BTR projects range from 5.50% to 5.75% of gross rent. It appears that the service provided for this fee is much like standard property management. True BTR offers a level of service and amenity beyond standard rental stock, which requires greater resourcing of skilled management.

FIGURE 8
Management Groups



Rent

Studio



\$550

Weekly Studio Rent

One Bedroom



\$380-\$825

Weekly One Bedroom Rent

Ranges from affordable one bedroom rent to rooftop one bedroom rent

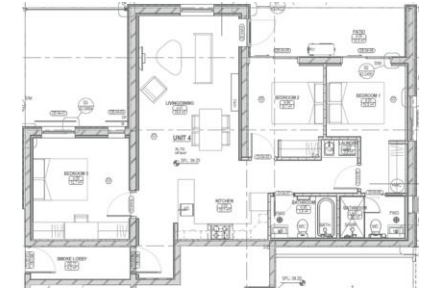
Two Bedroom



\$460-\$935

Weekly Two Bedroom Rent

Three Bedroom



\$540-\$1,200

Weekly Three Bedroom Rent

Lease Terms

Most Common Lease Term

Under new tax legislation, build to rent tenants must be offered a 10-year fixed-term tenancy agreement with the ability to terminate the tenancy with 56 days' notice, in order for the building to be excluded from the property interest limitation rules. Tenants do not have to accept this offer and can request other tenancy agreements as provided for by the Residential Tenancies Act 1986.

Despite all BTR tenants being offered 10 year leases, the most common lease term for BTR property in NZ is 12 months, usually followed by rolling onto periodic. Some BTR owners offer additional lease lengths ranging from 6 months upward, however take-up of these non mainstream lease lengths has been limited.

Proportion of Tenants Breaking the Lease

Given that most of the surveyed projects do not charge a fee for breaking the lease, it is a reasonably common occurrence as personal circumstances change. For the projects that have data, the average proportion of households breaking their lease was 22%. It appears that the nature of occupiers impacts the rate of lease breaks. Households that are younger, impacted by rising cost of living, and taking up opportunities overseas appear more likely to break their lease partway through. For older households, moving into home ownership was a factor. For some households, they broke their lease to move to a different unit within the same scheme.

FIGURE 9
Most Common Lease Term

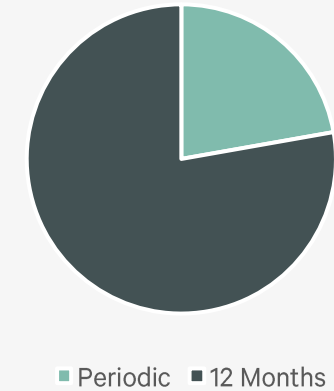
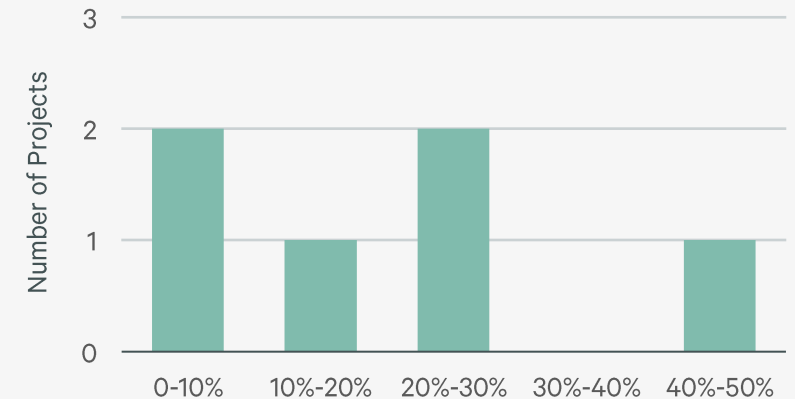


FIGURE 10
Proportion of Tenants Breaking the Lease



Residents

People per Household Ratio

535 people live in the 287 units across the nine BTR buildings. This puts the average number of people per household at 1.9, and reflective of the most common household type being couples.

There is considerable variation in building designs and how they are pitched to market, reflected in the type of household that they appeal to. Projects which include larger three bedroom apartments appeal to family households which have more people per unit. Projects with a large proportion of one bedroom units appeal to singles as well as couples, which reduces the average number of people per unit.

A small number of units have part time residents, for example sole parent households that have shared custody of a child.

Age of Residents

The majority of residents are 18-40 years old. However, we have noticed a growing proportion of older residents that are 40-65 years old compared to our earlier assessments of BTR resident age profiles. This has occurred in tandem with projects coming on stream that appeal to family households.

FIGURE 11
People per Household Ratio

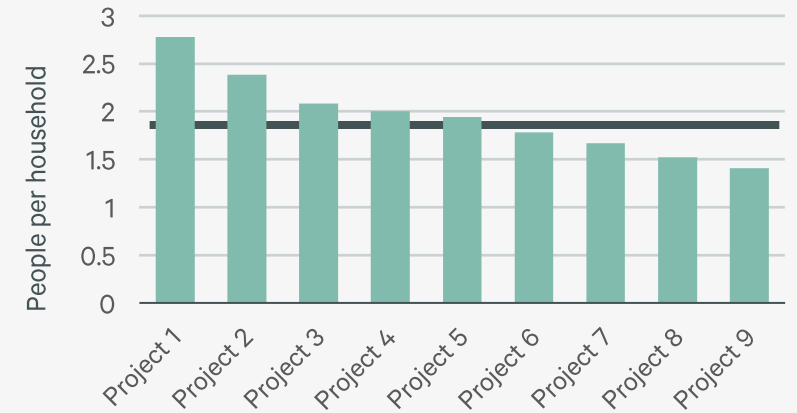
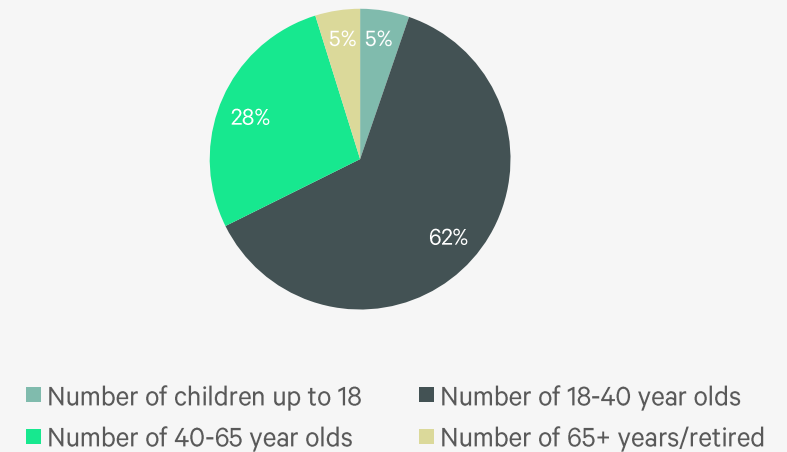


FIGURE 12
Age of Residents



Returns

Yield

A common assertion of market participants outside of the BTR sector is that yields relative to other asset classes are too low to be attractive, however this contradicts the reality of a growing BTR sector locally. CBRE Australia's 2017 research report 'Moving in to Multifamily' identified BTR as a new product that transforms the risk/return profile, and highlighted that risk adjusted returns based on yield appear competitive to other asset classes.

Overseas multifamily asset performance throughout the pandemic has heightened awareness of the low-risk nature of BTR. CBRE's Q2 2023 NZ Lender Sentiment Survey identifies BTR as the 2nd most desired asset class for financiers to increase their exposure to, after industrial.

The fight against inflation has impacted all property investment yields. For BTR, asset value write downs have triggered a softening. A few years ago, yields were in the 3% to 5% range. Our survey indicates that this has now increased to be in the 3.5% to 6.5% range.

Operating Cost

Optimisation of operating expenses impacts yield. To assess standard operating costs, CBRE has benchmarked a range of projects beyond those that were surveyed for this report to include operational and planned developments across Australia and NZ. Standard operating costs of managing a BTR ranged from 20-30% of gross revenue.

3.5%-6.5%

Yield Range

20%-30%

Operating Cost Range

% of Gross Revenue

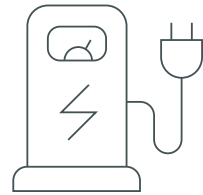
Services and Amenities



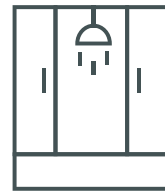
Cleaning



Pet sitting



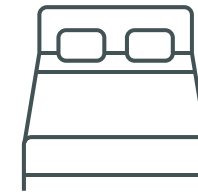
EV charging



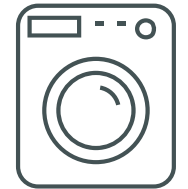
Storage lockers



Internet



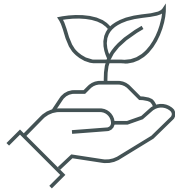
Guest room



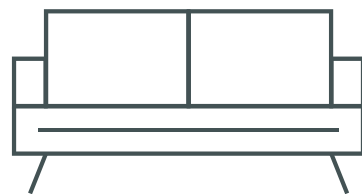
Laundry



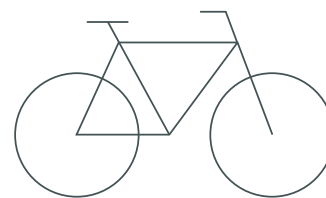
Workshop



Garden



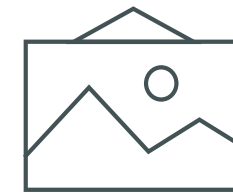
Lounge



Bike storage



E-bike charging



Art library



Secure mail

Pets

Allowance of Pets

Pet friendliness is often a key point of difference between BTR and standard rental stock. This is evident in our survey sample where two thirds of the buildings allow pets.

The BTR owners that allow pets have found the effect to be positive especially in regard to longer resident tenure. Although none of the buildings offer specific pet spaces or charge a fee, there is typically a pet policy that forms part of the agreement between landlord and tenant.

We have found that most BTR owners tend to carefully manage the inclusion of pets, such as interviewing prospective tenants with pets to check the fit, dictating an upper weight limit on the policy to restrict large breed dogs, or banning dogs from being left unattended. Although pet policies are restrictive to an extent, BTR owners collaboratively engage with residents to support them in meeting their obligations. One even provides a not-for-profit dog sitting service.

Percentage of Units with Pets

For the BTR projects that allow pets, 15% to 50% of households had at least one pet. The types of pets are mainly dogs and cats. One of the owners cited a lesson learnt to not have two neighbouring units that each have a dog, as this can set off barking.

FIGURE 13
Allowance of Pets

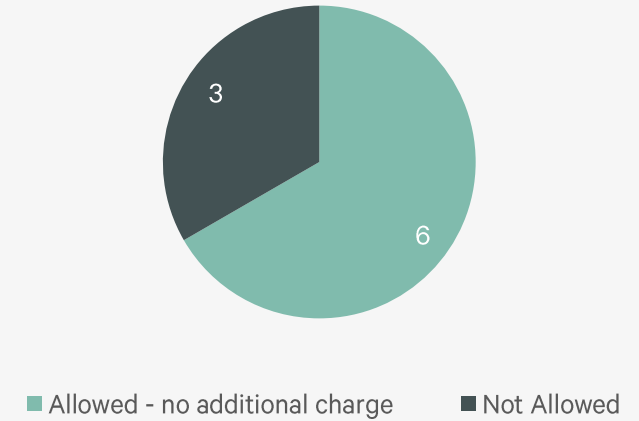
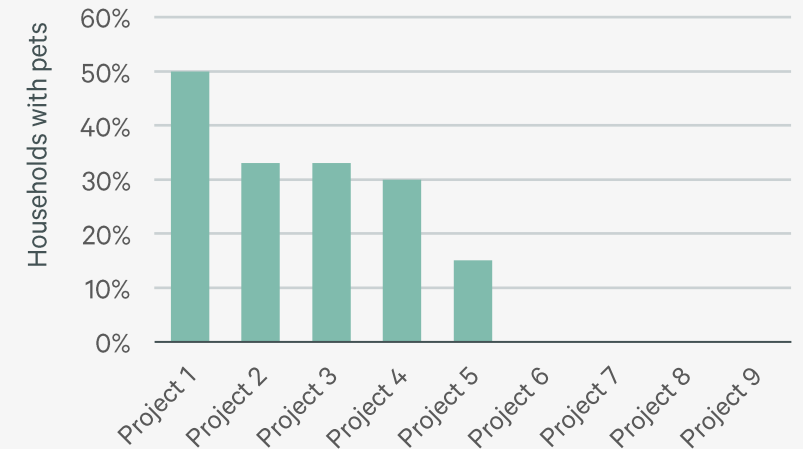


FIGURE 14
Proportion of Households with Pets



Furnishing

Of the nine schemes surveyed;

- 4 had whiteware only
- 2 had no furnishing or appliances at all
- 2 had a selection of units (average = 20%) that were furnished
- 1 was entirely furnished

None of the projects surveyed includes small furnishings such as linen, cutlery, or cookware. In overseas project examples these types of BTR rentals are popular with new immigrants. We anticipate greater uptake of furnishings than initially expected in the market, with new NZ arrivals as the main demand base.

Cost

For the projects that had whiteware only, provision was factored into the rent with no additional fee payable by the tenant. This was the same for the fully furnished project. The two projects that had a selection of units furnished charged an additional \$40 per week.

FIGURE 15
Standard Furniture Items

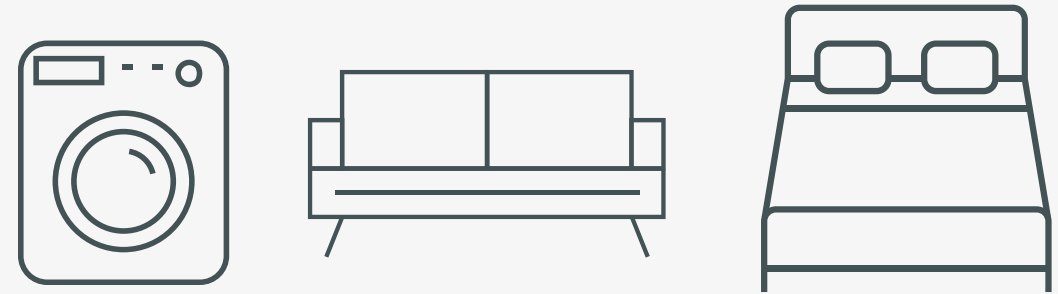
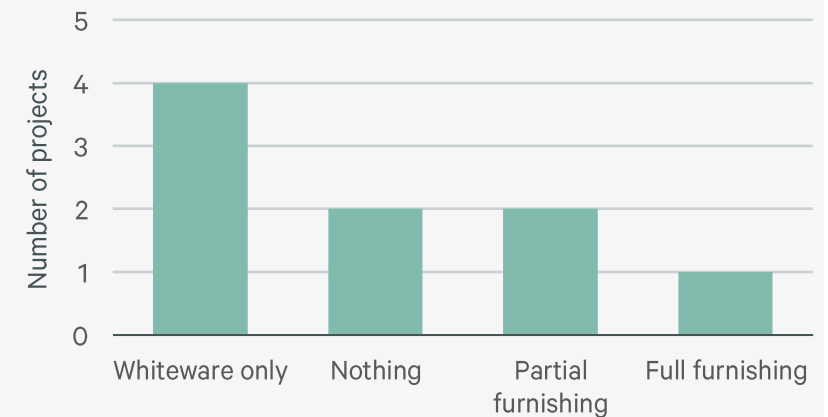


FIGURE 16
Furnishing



The Future

Confidence in the sector is clear with all of the surveyed BTR owners reporting that they would develop another BTR project in the future.

Interestingly, a much smaller proportion said that they would consider purchasing a completed BTR off another party. Owners seek to optimise their assets and without input into a new build development this can be hard. The layout, look, and feel of a building is integral to brand and for this reason new build is preferred as the best way to establish a market presence that is consistent across assets. A couple of BTR owners indicated that they would be willing to overlook off brand design and take on the management risk of a building if the price was right.

Regulatory Change

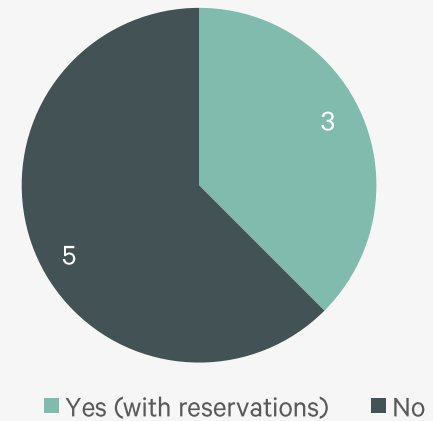
Reintroducing depreciation on residential property would significantly incentivise property owners to purchase and develop BTR units in NZ. This is because as BTR property depreciates over time, the level of tax BTR owners would have to pay on their property also decreases. This is a major positive incentive that increases owners net income through tax benefits. Of the BTR owners surveyed, all agreed that reintroducing depreciation on residential would have a positive effect.

100%

of BTR owners would develop another BTR project

FIGURE 17

Would BTR owners purchase another BTR?



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