

RESEARCH & CONSULTING



MULTIHOUSING

TENANT & INVESTOR SURVEY 2018



AUSTRALIA'S RENTAL SECTOR: TRENDS, OPPORTUNITIES AND DRIVERS

HIGHLIGHTS

Home ownership is becoming increasingly unaffordable for a growing share of the population despite historically low interest rates for home loans.

The growth of iGENs and Millennials who are opting to rent instead of buy is increasing, attracted to the flexibility associated with renting.

Counter cyclical nature of rental demand and the search for higher yielding investments with a secure long-term income stream is attracting institutional investors into providing rental accommodation at scale.

Significant hurdles need to be passed before the development of a Build-to-Rent (BTR) sector accelerates.

Identifying and researching the location, design, specification, amenity and unit mix will be important to maximise efficiency and returns in new BTR developments.



PAUL SAVITZ
Director, Research & Consulting

MULTIHOUSING

Growth in the number of rented dwellings and increasing residential property prices has seen the value of the Australian rental sector soar by \$770 billion over the past five years. The total value of Australian residential dwellings is estimated to be \$6.9 trillion, broadly valuing rental accommodation at \$2.1 trillion.

Surging demand for rental housing

The number of households living in a rented dwelling across Australia has increased by 1.065 million over the past 25 years, the equivalent to roughly 42,600 new rented dwellings per year. In comparison, the number of households who own their dwelling outright has increased by less than 270,000 over the same period.

The proportion of households in the rental sector now equals the number of dwellings which are owned outright (31%). In 1991, the disparity between the two occupancy types was vast, with 41% of all households owned outright compared with just 27% of households being in a rented dwelling.

The growth in rented dwellings has accelerated over the past five years, with the 2016 ABS Census recording a compound increase of 52,770 new rented dwellings per year since 2011, outstripping the formation of households which are either owned outright or with a mortgage (44,670 combined per annum). These figures highlight wider demographic and economic trends which have become

common across Australia over the past five years.

Lower interest rates and the rise of interest only mortgages, coupled with a greater awareness of negative gearing tax policies has made investment into residential property more appealing to “mum and dad” landlords or investors. The development of large scale apartment projects, at historically elevated levels, has also made the entry into the investor and landlord space simpler.

Along with supply side generators, demand drivers have also impacted the growth of the rental sector. Net Overseas Migration across Australia has been at record highs, resulting in an increase of 1.1 million new residents over the past five years.

There is also an increasing desire from younger workers to be mobile, a cohort who takes advantage of the flexibility of renting allowing them to move between locations, without the costs associated with buying or selling. Affordability constraints in the sales market, as five year national dwelling price growth reached 37% at last count, is also curtailing some tenants' plans for purchasing a dwelling, resulting in a

longer stay in the rented sector as they save for a deposit.

Knight Frank expects the demand for rented properties to continue to grow, at the continued expense of those that own their own property outright. Official ABS household projections show approximately 860,000 new households being created between 2016 and 2021. Over this period the number of lone person households is forecast to expand their share of the total dwelling stock by 0.4% at the expense of family households. According to the Knight Frank Tenure Distribution Model, the rise in rented households over the same time period could be 340,000, or an additional 68,000 rented households per year.

The rise of investors and professional landlords

As a sector, the market for rented accommodation is changing. Individual investors are now finding it less appealing (reduced tax incentives and forecast lower returns) and harder to purchase a residential property for investment due to restrictions on lending. Over the next decade we expect the emergence of Build-to-Rent (BTR) or Multihousing – professionally managed rental accommodation in purpose built blocks – to lead and accelerate the growth and delivery of rented dwellings, financed by institutional capital which takes a longer term view on its investment return.

Those exploring entering the sector identify planning policy as one of the biggest hurdles for the emergence of a Multihousing sector at present. Land supply is seen as another key hurdle, especially in Sydney and Melbourne. However, issues relating to tax currently appear to be the major obstacle with State Governments and the Australian Tax Office investigating ways of levelling the playing field to be more in line with Build-to-Sell or commercial investments.

Already the NSW government has established a working group across a number of Government departments to assess the viability of the Multihousing sector in the hope of unlocking the sectors potential to bring forward development and deliver much needed housing.

As the residential investment sector in Australia ripens, investors, developers and operators will be keen to knowledge share from markets with established Multihousing platforms. The US and UK are notable examples of where large-scale investment into BTR or Multihousing has thrust the sector into a mature and desirable asset class albeit relatively low yielding. Investors in Australia believe net yields for this type of rental accommodation could settle around 4% by 2021.

Leveraging off global expertise, Knight Frank Australia is building on its market-leading global presence. Following the success of the UK Tenant Survey, which engaged more than 10,200 tenants living in the private rented sector, Knight Frank Australia and YouGov collaborated to survey over 1,500 tenants living in rental accommodation across Australia.

This data not only allows us to share the most up-to-date headline trends on the key priorities for tenants when looking for

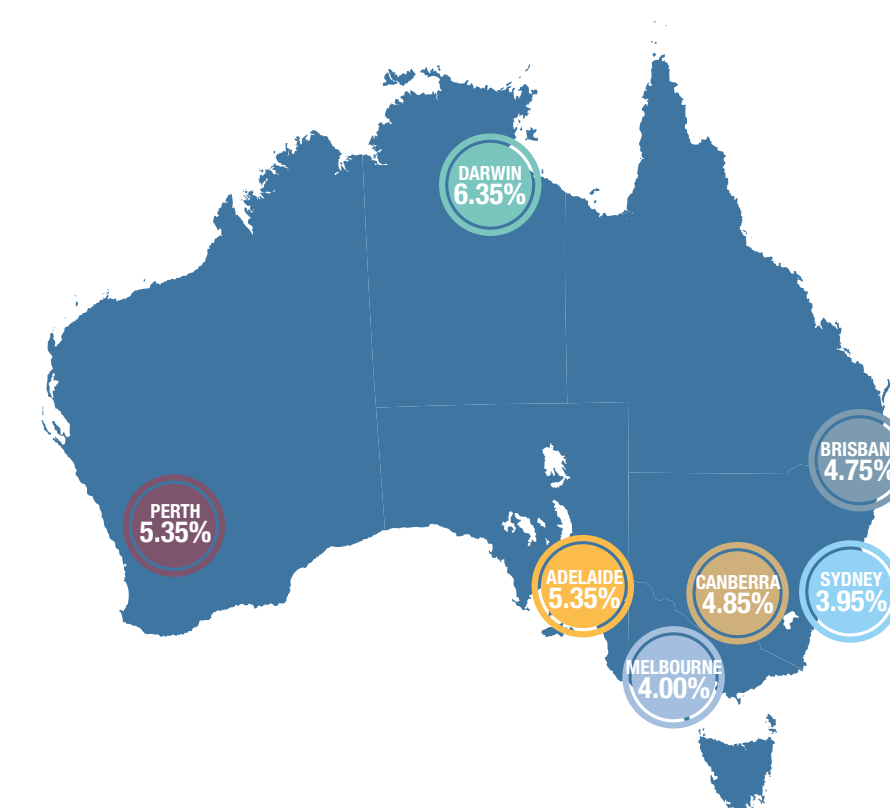
60%

of our survey respondents rent from an individual landlord, highlighting the fragmented nature of Australia's private rental sector.

a home, but also to drill down below the headline findings, pinpointing tenant groups and identifying their particular priorities – helping inform the market on a more localised basis.

WHERE WILL NET BTR YIELDS BE IN 2021?

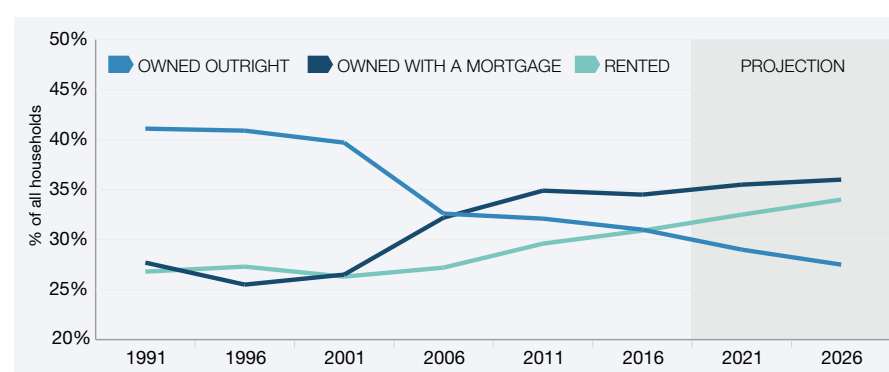
Results based on a survey of 10 major investors or operators



Source: Knight Frank Research 2018 Investor Survey

Rented Households, Australia (% of total)

Five year ABS Census intervals



Source: Knight Frank Research, ABS
Projections based on assumptions and modelling of take up of new residential stock by investor purchasers and demographic changes

TENANT SURVEY 2018

Some 1,500 tenants across Australia responded to the Tenant Survey, conducted for Knight Frank by YouGov. The size of the Knight Frank survey resulted in a close correlation between the market as seen in the ABS Census, and the characteristics of the respondents. However, where appropriate, the data has been weighted to better reflect the current make-up of the private rented sector.

Knight Frank analysis of the survey highlights the key characteristics and priorities for tenants across the country.

RENTING

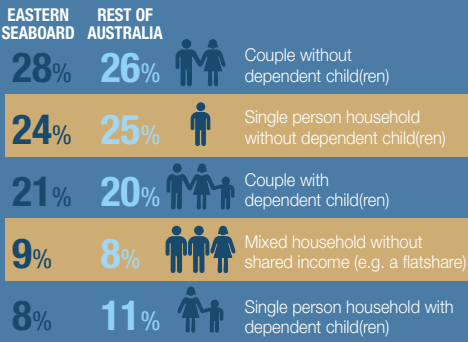
Why are you renting?

Nationally only **41%** of renters are in the sector through choice, be it not coveting the responsibility of owning a home, or not wanting to be stuck in one location or preferring the flexibility of mobility. The remaining **59%** are in the sector due to issues surrounding affordability.

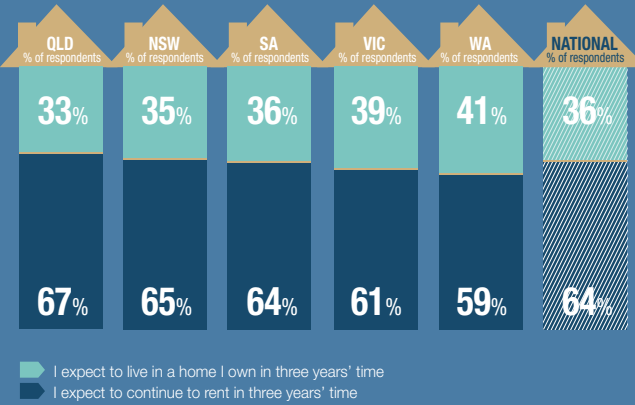
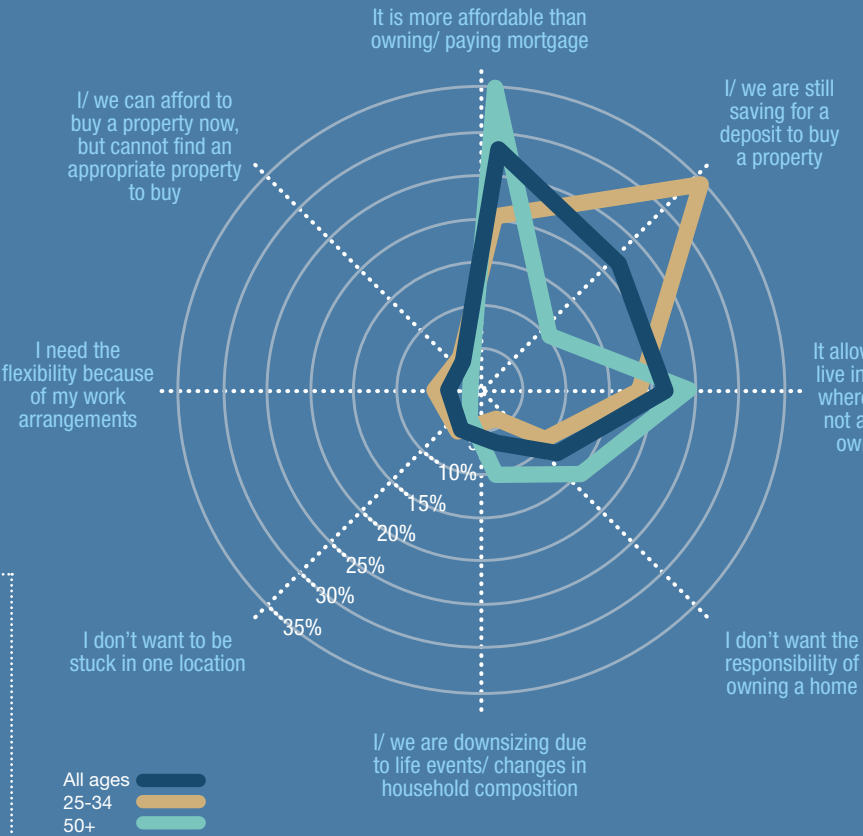
By age group there are marked differences, **33%** of renters aged 25-34 stated that they were in the sector because they were still saving for a deposit to buy a property. However, for those aged 50+ renting was a more affordable option than owning or paying a mortgage for **35%** of all respondents.

Who is renting?

The dominant household type within the private rented sector is couples living without children, however, slight differences are apparent between the Eastern Seaboard and the rest of Australia (28% vs 26%). Nationally, those living on their own follows at **25%**, but represents a smaller proportion than the percentage of households with dependent children at **31%**.



Other: 11% Eastern Seaboard | 11% Rest of Australia

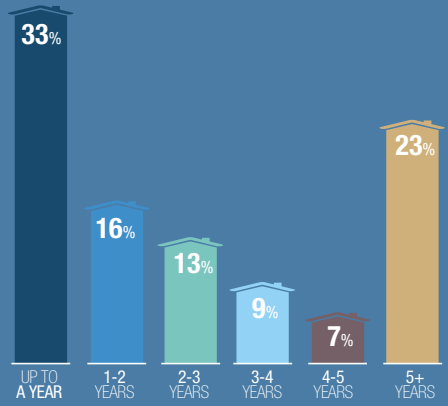


In three years' time...

With affordability and lifestyle key considerations amongst renters, the majority (**64%**) of tenants surveyed expect to be living in private rented accommodation in three years' time, and this is consistent across states.

TENANCIES

How long have you been living in this property?

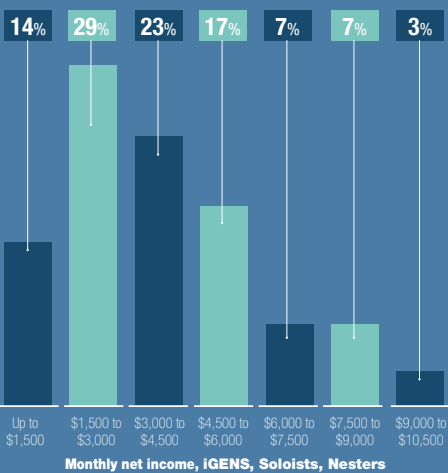


Security of tenure is a major concern for renters with the constant threat of forced relocations if your landlord decides to sell their investment property. Our survey shows that **51%** of renters have lived at their current address for more than two years, with nearly a quarter living there for more than five years.

A professionally owned and operated Build-to-Rent or Multihousing sector can provide that security of tenure for those looking to rent long term, as the accommodation is held by investors backed by long term capital.

Net monthly household income

Our survey shows that a large share of Australian iGENs, Soloists and Nesters, all tenant groups identified by a similar preference of occupying a one bedroom apartment, have a net household income of between **\$1,500** and **\$3,000** per month. Out of the three, Nesters (millennials to forty something couples) have a higher average income.

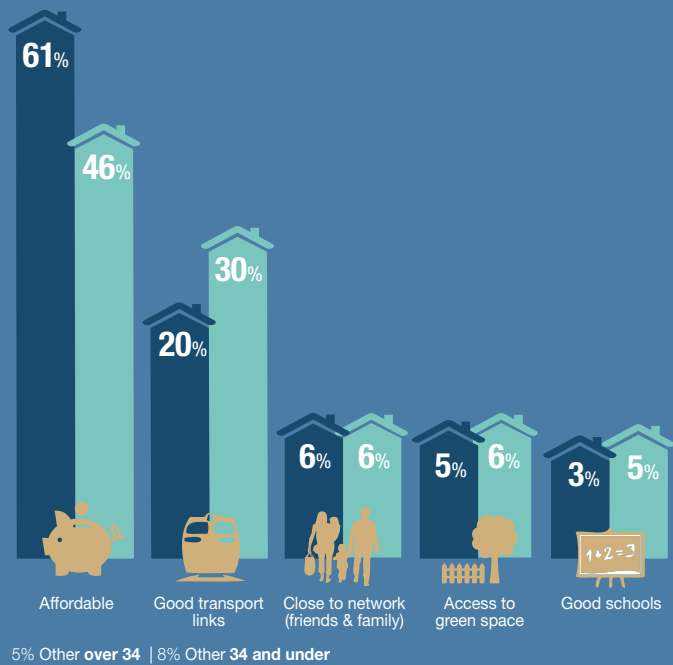


National median monthly net household income c. \$4,050

RENTAL PRIORITIES

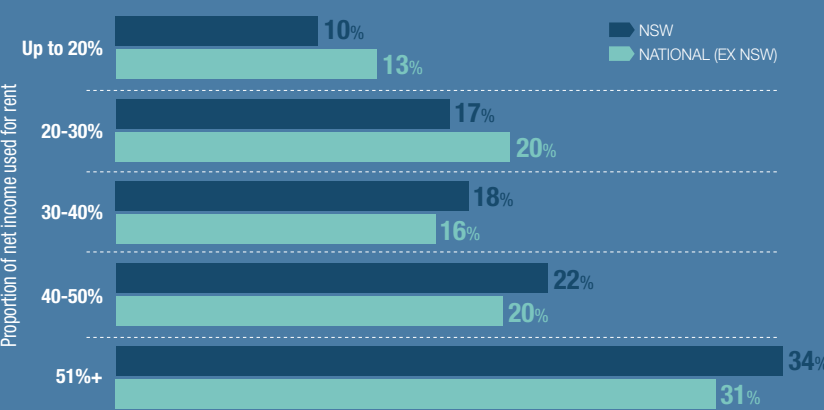
Key priority when choosing a location?

Continuing the theme of the survey's results affordability is the key priority of renters across all states and amongst all age groups. However, there are differences between age groups. The younger population (34 and under) see affordability as less important (**46%**) than older renters (**61%**), but see transport of a greater concern than renters aged over 34. For those under 34 **30%** cite the proximity to transport links or the ease of the commute to work as a factor when looking at an area, compared with **20%** for those aged over 34.



Rental payments as % of net income

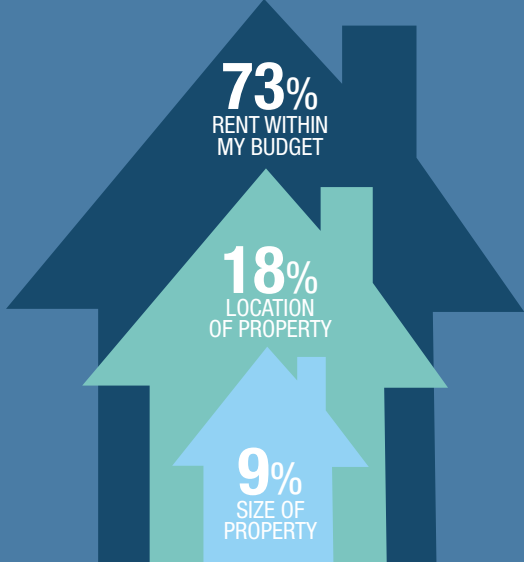
NSW has the highest property prices and most expensive rents across Australia and with that **73%** of all renters allocate more than **30%** (government rental stress levels) of their net monthly income on rent. This figure drops to **67%** nationally (ex. NSW) reflecting relatively more affordable pricing.



Key priority when choosing a property

Australian renters appear price sensitive with almost three quarters (**73%**) of those surveyed suggesting that price is the most important aspect when choosing a property, reaffirming concerns over rental affordability and rising living costs.

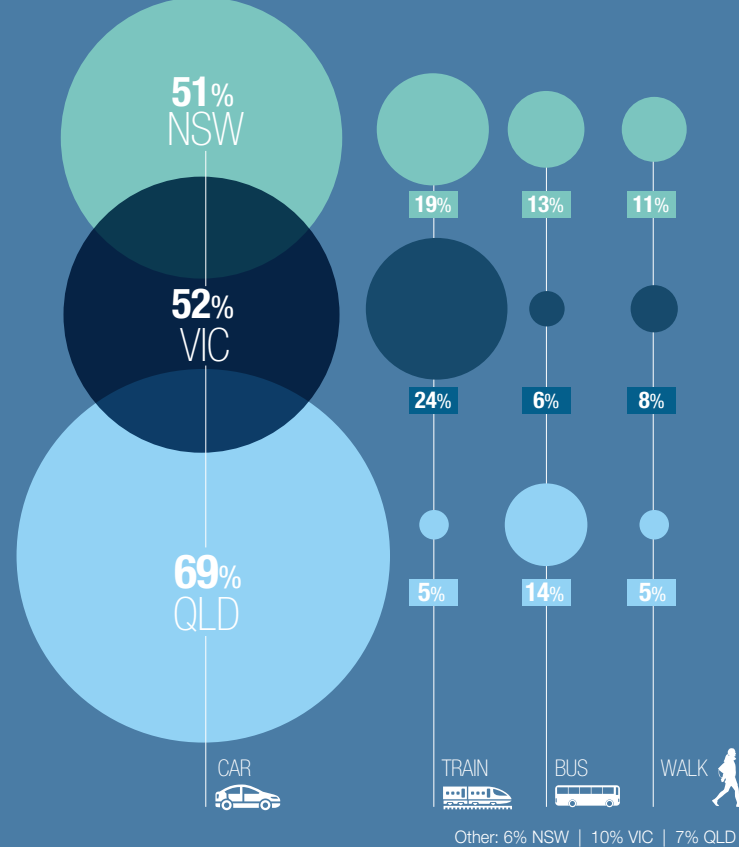
The old adage of location, location, location also rings true with renters placing location at a higher level of importance (**18%**) than the size of property (**9%**) itself.



TRANSPORT

Main mode of transport

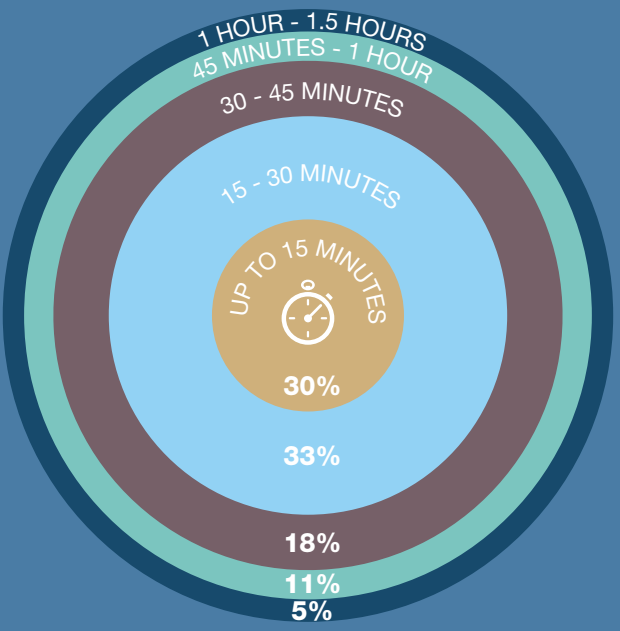
The car is the dominant form of transport for most Australians, emphasised by **61%** of all respondents stating that the car was their main mode of transport for a daily journey to either work or a place of study. This figure increases to **69%** in Queensland, but drops to **51%** across New South Wales and **52%** across Victoria, due to the greater accessibility to rail within the main urban metropolitan areas of these two states. This trend reverses in Queensland with only **5%** relying on rail, but a larger **14%** of renters using the bus as their main form of transport.



Average commuting time

Across Australia **63%** of renters surveyed live within a 30 minute commute of their place of work or study.

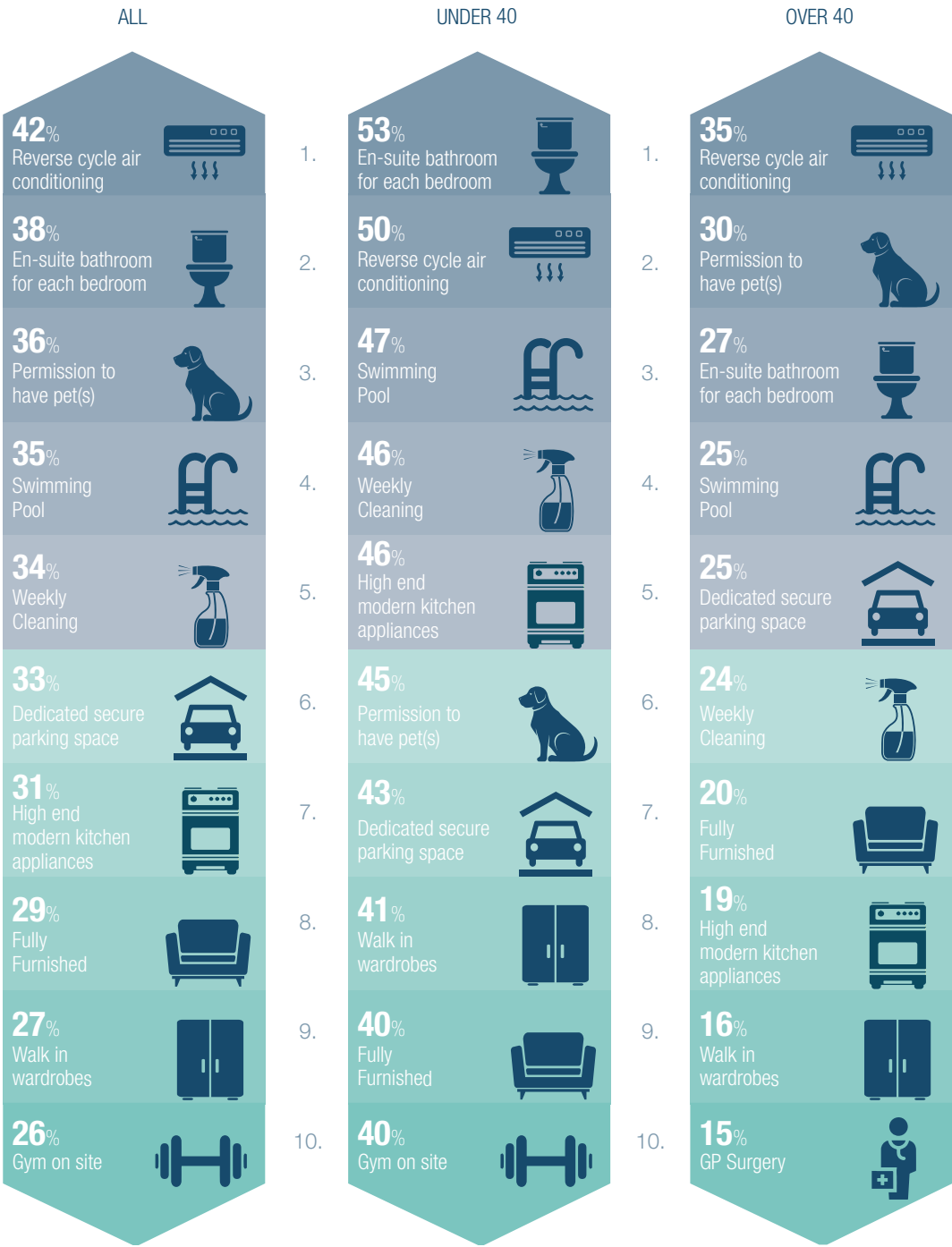
Underlining the importance to iGEN renters of living in central and/or well connected locations, **75%** live within 1km of a public transport stop or station. This falls to **61%** for families who prefer more suburban locations and have a greater reliance on the car for transport.



MEET THE TENANTS

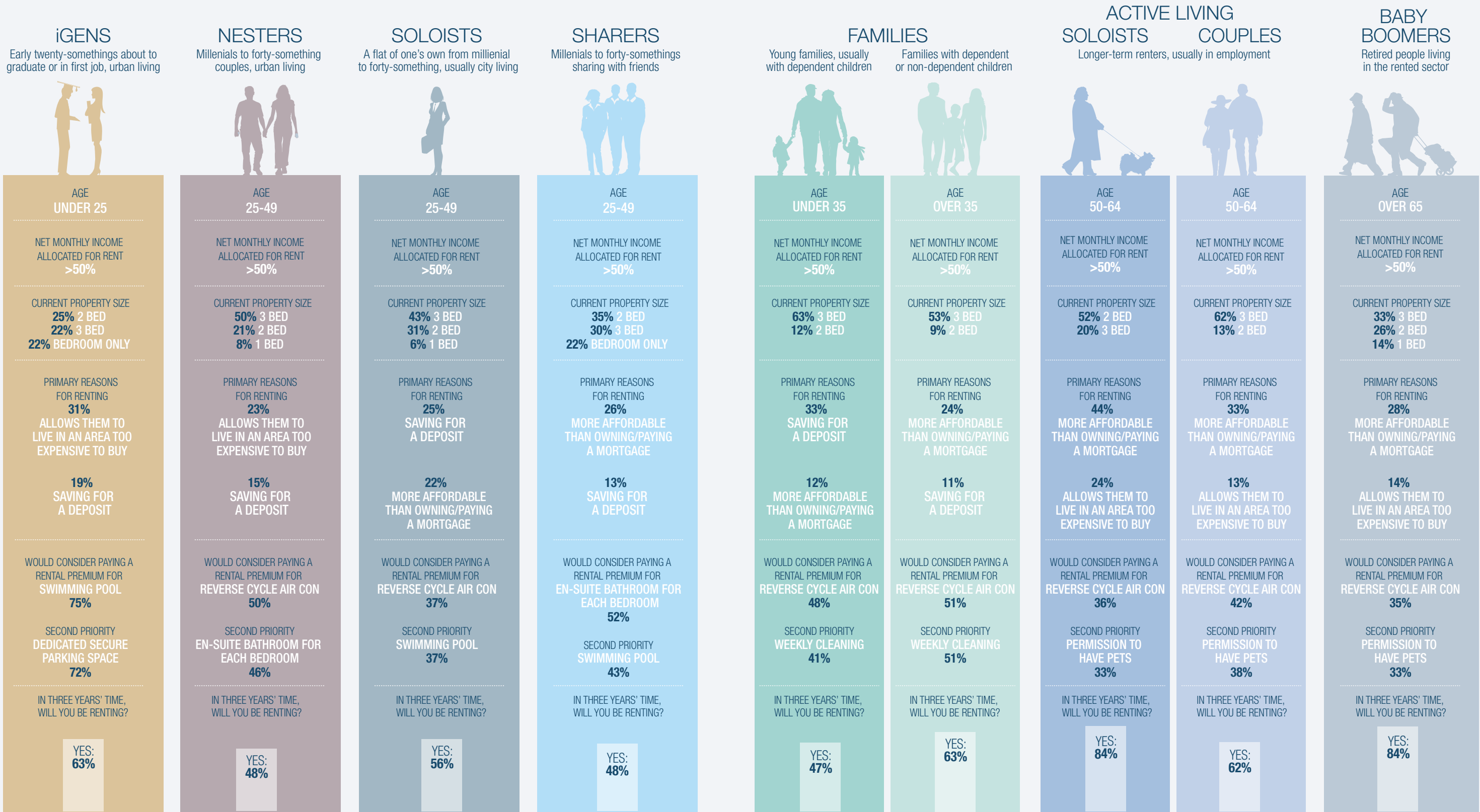
The provision of amenity space or added facilities within a building allows for the differentiation of product amongst those developing housing specifically for rent, and decreases occupancy risk if done well. Across Australia almost half of all respondents would pay a premium for air conditioning. Knowing your target market will increase occupancy and provide an opportunity to charge above market rents, as certain amenities or facilities are more important to some groups than others.

WOULD YOU BE WILLING TO PAY A HIGHER RENT FOR...



GETTING TO KNOW THE TENANTS

The Knight Frank survey identifies the main types of tenant living within the private rented sector and their rental preferences. These groups, based on socio-demographic characteristics, present insights into current and future choices.



INVESTOR SURVEY FINDINGS

On 15 September 2017, Treasury released draft legislation aimed at increasing the supply of 'affordable housing' in Australia. These measures were previously announced in the 2017-18 Federal Budget, and include an increased CGT discount for Australian resident individuals investing in affordable housing and the introduction of an Affordable Housing Managed Investment Trust (MIT), but excludes long-term residential rental products like the emerging BTR sector.

Market hurdles

Knight Frank spoke to 10 major investors and operators who have publicly expressed an interest in developing a BTR portfolio in Australia. The survey provides a snapshot and reflects on the state of the market.

All groups responded that the draft legislation requires clarification, and that current or even future government policy was a major threat to their business strategy. Land supply and planning policy are seen as other key hurdles reiterating frustrations felt across the wider development sector.

"Federal, state & local Council policies are stifling the establishment of the sector."

"GST is a large hurdle, as well as planning legislation in various jurisdictions."

Investment is ready

If not for the sectors hurdles it is evident from the responses that total investment and growth of the sector could be significant. Raising capital is not considered an impediment to progress, and is not a barrier to the evolution of BTR in Australia as an alternative asset class.

Our insight spans the thoughts of super funds, listed real estate groups, privately owned property companies and international operators, who aspire to commit upwards of \$200 million to over \$1 billion each to BTR in Australia over the next five years. Extrapolating this investment level out to include all groups which have shown an initial interest in BTR would mean a potential sector worth upwards of \$12 billion within 10 years, if hurdles could be lowered.

This is a new real estate asset class which would provide not just housing, but jobs and economic prosperity. It is clear from our Survey that the initial interest in the sector will be weighted towards Sydney and Melbourne.

"To reach its potential the sector will require assistance from Government to stimulate and encourage early investors to take a risk on a new sector."

But government support is still crucial in accelerating activity within the sector, as in its current form returns for most investors is below the required rate for the level of risk involved. These large scale investors are looking for the long term in respect to BTR investments.

Over 60% of our survey responders said they intend to hold their Australian assets for more than 10 years, with 80% of groups letting and managing via their own in-house platform.

Although BTR is an extremely niche immature market, optimism surrounds our survey. Assuming the economy performs in line with market expectations, investors see net yields settling between 3.95% in Sydney, 4.00% in Melbourne and 4.75% in Brisbane by 2021 for a stabilised asset. This compares to an average 5.20% across Canberra, Perth and Adelaide.

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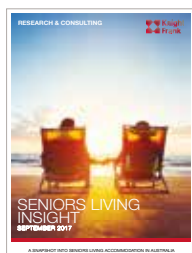
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