

Australia Build to Rent Update



Q4 2024

Brighter outlook on the back of the MIT reform

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Liv Aston, Docklands VIC

Development

New supply on the horizon

After a long gestation period, a build-to-rent (BTR) sector in Australia has sprung to life and the quantum of committed and planned development is increasing fast. First-generation supply provided proof of concept and was a learning experience for new platforms. A new wave of second-generation schemes came online in 2024, with these developments shaped by previous learnings around design, amenity, operations and customer experience.

For some platforms it will be their first operational schemes, and attention has turned from delivery to lease up and operational performance. The growing availability of rental and operational data will help to attract new core capital into the sector.

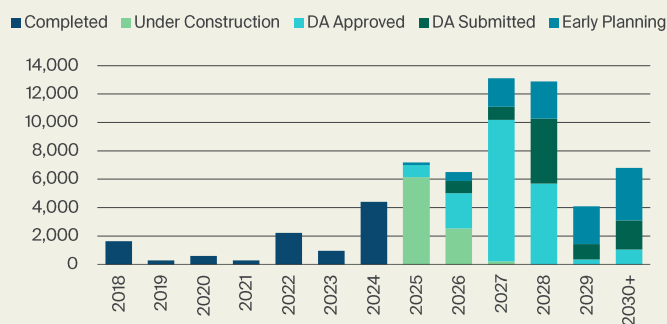
An estimated 8,900 dedicated BTR apartments are under construction nationally and a further 20,000 units are approved for development over the next five years. The pipeline is most advanced in Melbourne followed by Brisbane and Sydney. We are expecting Sydney to move into the limelight in 2025, as investors who have built up a Melbourne-centric portfolio look to build a presence across the Eastern Seaboard.

Development challenges are most acute in Brisbane and we therefore expect new-build supply in this market to lag Melbourne and Sydney in the short term, despite also facing a chronic lack of rental accommodation.

In time larger platforms will look to diversify their portfolios with tier 2 locations, however the “Big 3” cities remain the core focus for investors in the current climate.

Australia BTR pipeline

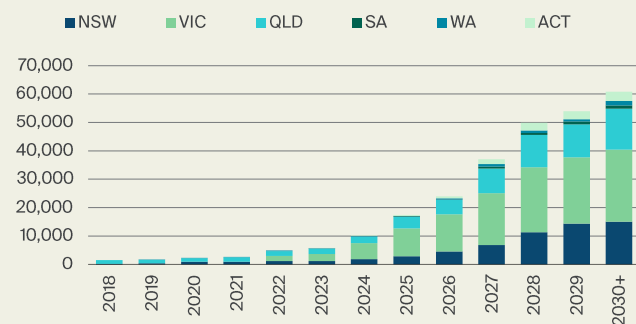
No. of total BTR units each year



Source: Knight Frank Research

Number of BTR units completed and proposed

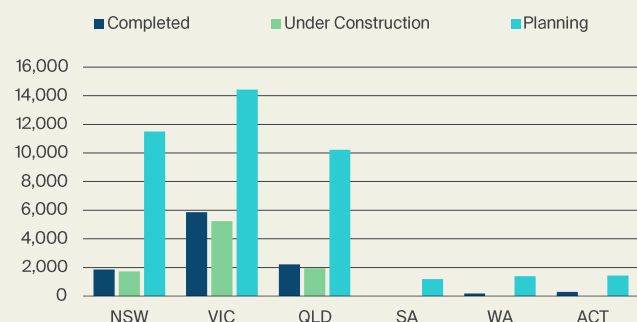
By state, incl. completed, under construction and planned projects



Source: Knight Frank Research

BTR pipeline by states

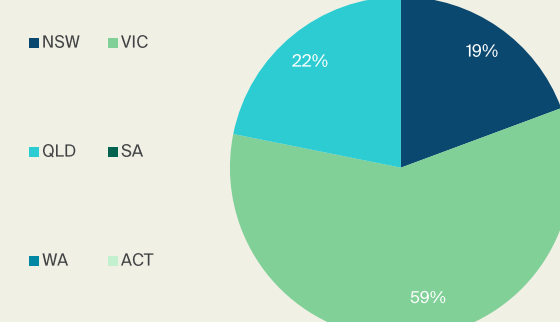
No. of total BTR units, at Q4 2024



Source: Knight Frank Research

Share of under construction BTR units

By states



Source: Knight Frank Research

Rental Market

Rental market to remain tight despite BTR additions

2024 saw a gradual return to a more stable rental growth market following the unprecedented levels of growth seen in the post-pandemic bounce.

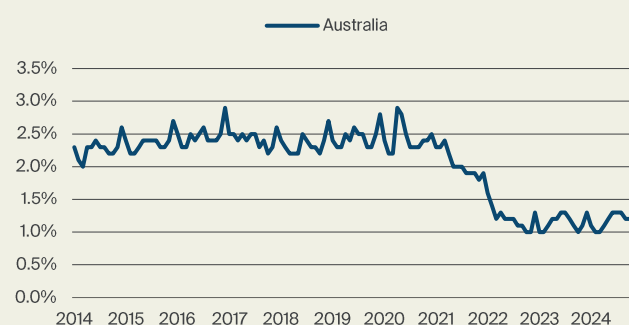
BTR rental growth forecasts remain weighted towards the front end as this trend plays out fully. The challenging development environment will restrict supply in the short term across the entire residential sector, helping to sustain robust rental performance.

A record number of 3,227 units have opened their doors in Melbourne this year. To navigate this period, some Melbourne operators are utilising incentives, typically in the form of a 1 month rent free period (although structures vary), as a tool to accelerate let up rates during the mobilisation period. Once stabilised we are expecting use of these incentives to be phased out.

Whilst a relatively large number of units by historical BTR standards, it represents a modest addition when taking into account the size of the wider private rental market in the city. Existing BTR supply in Victoria accounts for just 0.8% of the rental market (by number of households). When combined with BTR units that are under construction, this remains sub 1%. At this early stage of the BTR market evolution, any concerns around over-supply are short-sighted and there is significant room for growth across all key cities.

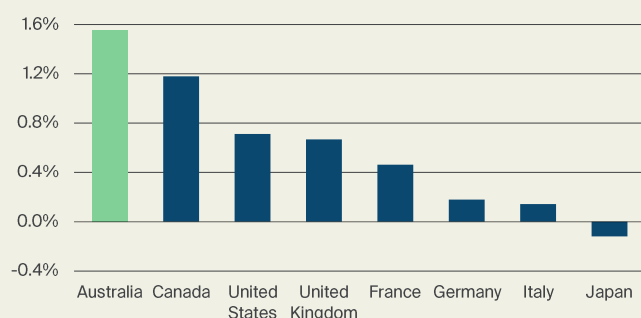
The rental market is highly seasonal in nature and there is a considerable uptick in tenant activity during the peak months of January and February. Operators will be looking to capitalise on this increased tenant demand as we move into the new year, especially for those schemes still in the lease up phase that have come online during quieter periods.

Australia residential vacancy rate
%



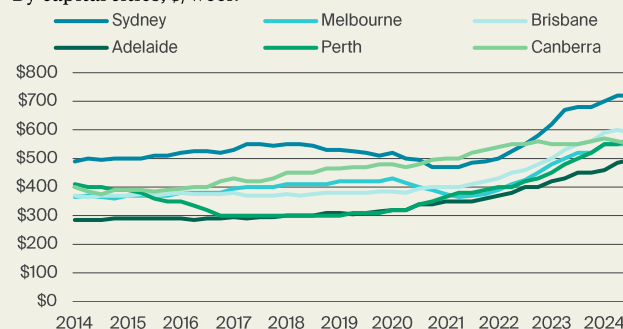
Source: Knight Frank Research

Population growth in major economies
Average annual growth - past 20 years 2003-2023



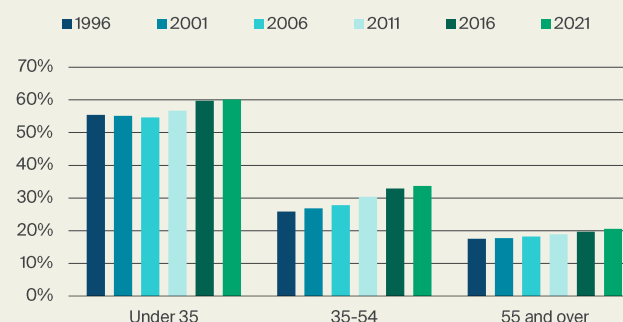
Source: Knight Frank Research

Apartment weekly medium rent
By capital cities, \$/week



Source: Knight Frank Research

More people now renting



Source: Knight Frank Research, ABS

Investment Market

MIT reform to bolster investor confidence

Across all regions globally, investors are seeking greater exposure to alternative sectors and the residential 'living' sectors are at the front of the queue, led by BTR. Investors are gravitating toward living sectors partly because of its defensive characteristics, specifically the ability to adjust rental income streams more quickly than other sectors in response to high inflation.

The underlying fundamentals and investment case for BTR have arguably never been stronger. Indeed, in recent investor surveys, "beds" are often vying with "sheds" for the top spot in preferred sector rankings. However short-term challenges persist.

Investment volumes in 2024 have been impacted by the wider macroeconomic environment and uncertainty around government policy. This has constrained the availability of capital and slowed deal flow.

The development market remains challenging, with persistent build cost inflation putting pressure on feasibilities. Growth of the BTR market in Australia is largely reliant on new-build development to deliver the product, and the pace of construction starts has slowed recently following several years of strong expansion.

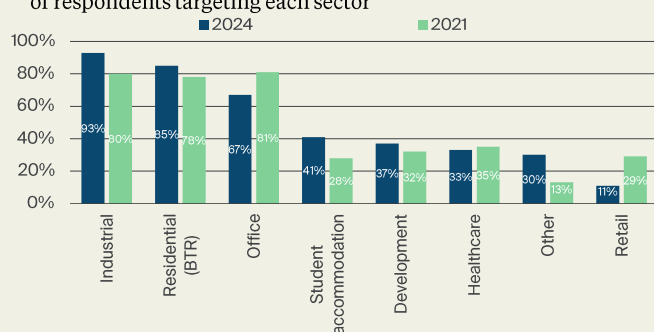
Despite these headwinds, there have been some good wins for the sector recently. After a long delay, critical legislative reform of BTR tax policy has been passed by parliament. This signals to foreign investors that the Australian government supports and recognises BTR as an important component of future housing supply. A more favourable policy/investment setting will help to accelerate inwards investment from established global investors. This is important as domestic funds continue to largely sit on the fence when it comes to BTR.

On the transactional front, OTPP and Hines acquired two BTR assets in Brisbane from private construction and property group, ADCO (managed by dedicated BTR platform Arklife); an 89-unit operational asset in Fortitude Valley and a 265-unit development in South Brisbane due for completion in Q1 2025. Lendlease received backing from Japanese investor Nippon Steel Kowa Real Estate for their 499-unit BTR tower in Melbourne's Docklands. Whilst in Sydney, new ventures have secured capital this year including Apt.Residential and Scape – in both cases backed by Dutch pension funds.

Moving into 2025, activity will accelerate on the back of likely rate cuts by mid year. We expect strong demand for operational schemes driven by a scarcity factor and appetite for income-producing assets. On the development side, stabilising constructions costs will help feasibilities and perception around development risk.

Preferred sectors for investment

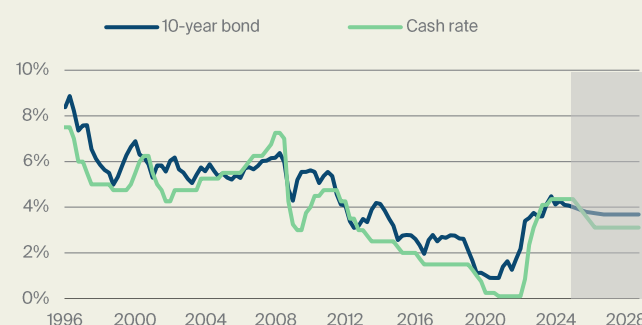
ANREV survey of global investors in the APAC region - proportion of respondents targeting each sector



Source: Knight Frank Research

10 year bond yield and cash rate

Historic and forecast interest rates



Source: Knight Frank Research, Oxford Economics

Recent Significant Sales

| Property | Price (A\$m) | Units | Completion / Est. completion | Purchaser | Vendor | Sale date |
|--|--------------|-------|------------------------------|--|--|-----------|
| 899 Collins St, Docklands, VIC (40%) | ~ 200.00 | 499 | 2026 | Nippon Steel Kowa RE | Lendlease | Q4-24 |
| 28 Robertson St, Fortitude Valley, QLD | c350* | 89 | 2021 | Hines JV Ontario Teachers' Pension Plan | ADCO Constructions | Q4-24 |
| 13-17 Cordelia St, South Brisbane, QLD | c.350* | 265 | 2025 | Hines JV Ontario Teachers' Pension Plan | ADCO Constructions | Q4-24 |
| 50 Quay St, Brisbane, QLD (minority) | / | 475 | 2026 | Sumitomo Forestry, Moata Ventures, Grosvenor | Cedar Pacific JV Queensland Government | 2024 |

*Portfolio sale

Recent scheme launches – Asking Rents

| Property | Operator | Completion | 1-Bed from (\$/week) | 2-Bed from (\$/week) | 3-Bed from (\$/week) |
|--|------------------|------------|----------------------|----------------------|----------------------|
| Indi Sydney, NSW | Indi | H2 2024 | 1,094 | 1,499 | 2,299 |
| Liv Aston / 7 Siddeley St, Docklands, VIC | LIV | H2 2024 | 685 | 895 | 1,440 |
| Local: Kensington / 348 Macaulay Rd, Kensington, VIC | Local | H2 2024 | 664 | 737 | 1,238 |
| Home Docklands / 685 La Trobe St, Docklands, VIC | Home | H2 2024 | 720 | 800 | 1,200 |
| Berwick House / 60 Berwick St, Fortitude Valley, QLD * | Pellicano Living | H1 2024 | 690 | 850 | / |

*Furnished

Major Developments

| Property | Units | Status | Owner | Est. Completion |
|---|-------|--------------------|------------------------------------|-----------------|
| Indi Sydney / Corner of Pitt & Bathurst St, Sydney, NSW | 234 | Completed | Investa JV Oxford Properties | H2 2024 |
| LIV Albert Fields / 395-411 Albert St, Brunswick, VIC | 498 | Under Construction | Mirvac JV CEFC & Mitsubishi Estate | H1 2025 |
| Indi Footscray / 3 McNab Ave, VIC | 702 | Under Construction | Investa JV Oxford Properties | H2 2025 |
| LIV Anura / 60 Skyring Terrace, Newstead, QLD | 396 | Under Construction | Mirvac JV CEFC & Mitsubishi Estate | H1 2025 |
| Brunswick & Co. / 210 Brunswick St, Fortitude Valley, QLD | 366 | Under Construction | Frasers Property | H1 2025 |



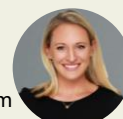
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