Apartment Market Overview

Summary

Leigh Warner
Senior Director, Research
T +61 7 3221 1445
Leigh.Warner@ap.jll.com

Hollee Hart
Senior Analyst, Research
T +61 7 3231 1304
Hollee.Hart@ap.jll.com

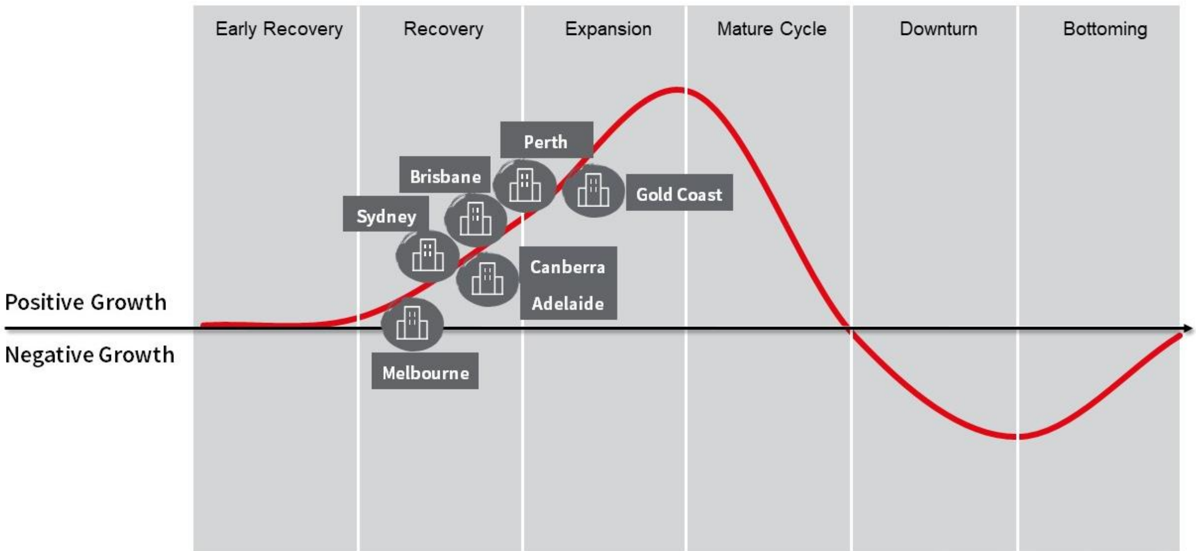
The apartment market has lagged in the broader post-COVID housing market recovery, particularly off-the-plan apartment sales. However, conditions have been slowly improving and the outlook strengthening as investors return the market and look to capitalise on the strength of the broader housing market and rapidly growing prices. Nevertheless, it has remained a tough development environment and few larger apartment projects have progressed to construction in any market in recent quarters.

There also remains wide disparity in conditions across the major apartment markets. Sydney and Melbourne have been particularly affected by the closure of borders and the absence of migration and foreign students. These markets also experienced a much larger and later construction cycle than other markets and are still absorbing the tail end of the last supply cycle. These factors have led to weakest rental market either city has seen in decades, although there are now increasingly signs of improvement.

Other markets, led by the Gold Coast and Perth, are seeing a somewhat stronger lift in pre-sales activity. However, where conditions are most different to Sydney and Melbourne is in the rental market. All other markets are now experiencing tight rental vacancy and rental growth has been building to now strong levels over the last 12 months.

The short-term outlook is now uncertain. The re-entry of investors into the booming housing market may have prompted regulators to cut off any potential speculation and re-introduce macro-prudential policy measures sooner rather than later. However, recent lockdowns across much of the country may now slow the market of it own accord. It is a fine balance. However, medium-term it remains clear than demand is likely to outstrip supply once borders reopen and swing the balance towards under-supply and strong rental pressure.

Australian Apartment Market Cycle



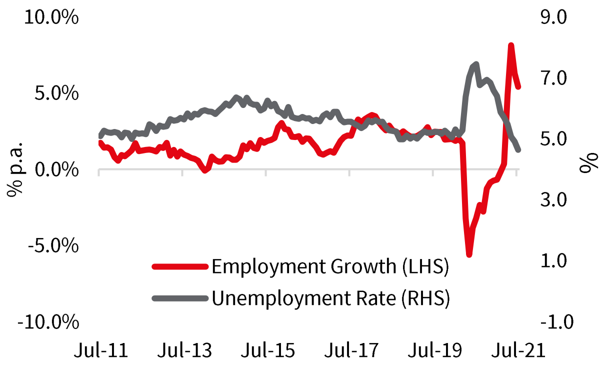
Source: JLL Research, as at 2Q21

Economic and Regulatory

Australia's strong economic rebound now in doubt

- Australia's economic rebound has been incredibly strong to date, which has helped sustain the housing market recovery as the impacts of stimulus measures fade.
- Most notably, the labour market has been stronger than anticipated and unemployment at 4.6% in Jul 21 is much lower than expected after the end of the JobKeeper program.
- GDP in 1Q21 grew by a stronger than expected 1.8%, taking annual growth back to positive (1.1%). The rebound has been led by strong consumption, but private investment (including dwelling investment) has begun to contribute to growth.
- Nevertheless, a recent extended lockdown in Sydney and shorter lockdowns in other states will at a minimum disrupt the momentum in 3Q21. However, with vaccination rates still low, risks remain high of an extended disruption to business that would also require substantial more fiscal policy support.
- The softening of local and global growth prospects has seen bond yields fall recently and made it likely that interest rates will not need to rise for several years yet. It was appearing like regulators would need to turned to macro-prudential measure to slow Australia's rampant housing market, but they may now wait and see if cooling now happens of its own accord.

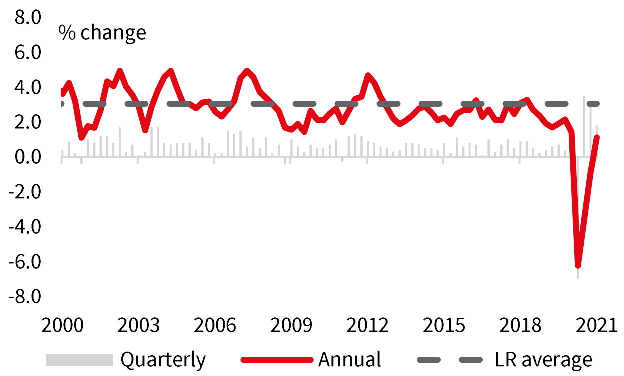
Employment Growth and Unemployment



Source: ABS, JLL Research as at Jul-21

After reaching a peak of 8.1% in May, annual employment growth softened slightly to 5.4% in July. The data has been resilient to Sydney's long lockdown, but leading indicators have softened and the big test still lies ahead.

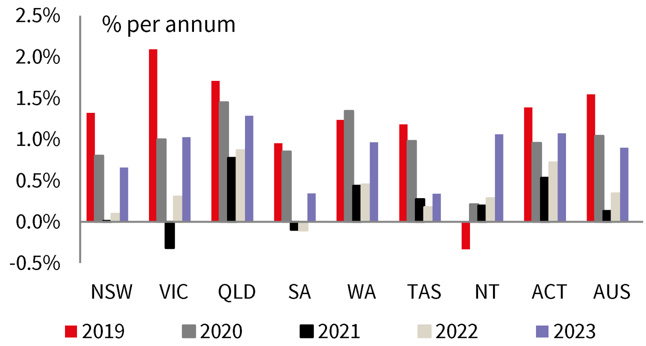
Australian GDP Growth



Source: ABS, JLL Research as at Mar-21

Australia's GDP rebound continued in 1Q20, with a stronger than expected 1.8% growth. After a technical recession over 1H20, this is the third quarter of rebounding growth and has boosted annual growth to 1.1%.

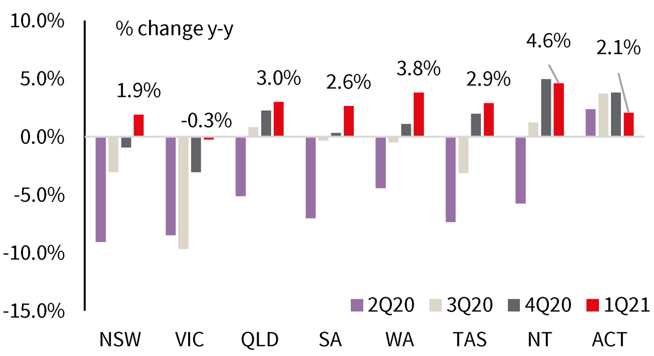
Population Growth by State (% p.a.)



Source: DAE & JLL Research as at Jun-21

COVID-19 has been a population shock that will impact underlying housing demand for a least a few more years. NSW and Victoria, which together received 72% of overseas migration the last 5 years and 70% of foreign students, have felt the impact the most.

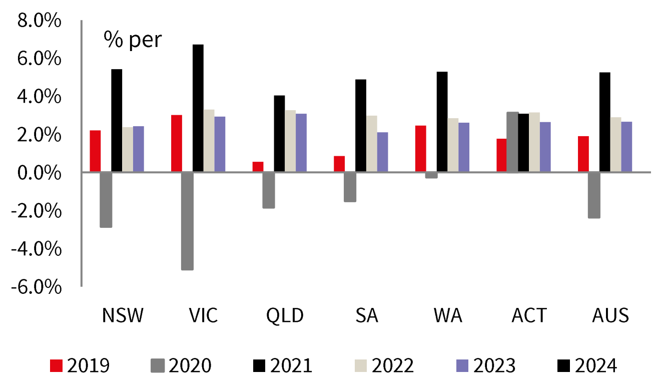
State Final Demand (SFD) Growth



Source: ABS, JLL Research as at Mar-21

All states recorded growth in State Final Demand (SFD) in 1Q21, except for NT (-1.9%). WA (3.0%) experienced the strongest quarterly growth. All states except for VIC (-0.3) recorded positive growth over the year to 1Q21, NT (4.6%) and WA (3.8%) were the strongest performers.

Economic Growth (GSP, GDP) Forecasts



Source: DAE & JLL Research as at Jun-21

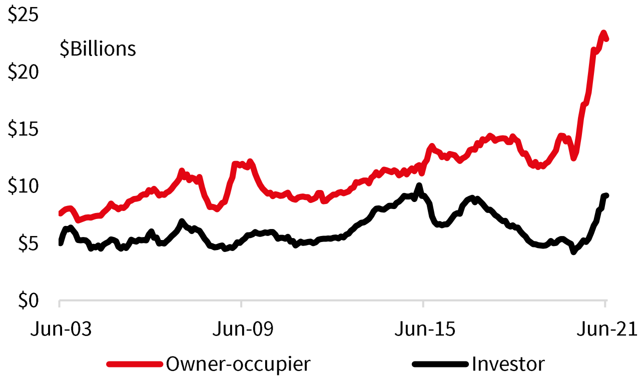
Victoria experienced a larger COVID-19 impact due to the longer lockdown, but has bounced back strongly in 2021. The economic impact on WA and the ACT has been far milder than other states. However, current lockdowns could affect the outlook for a number of states, particularly NSW.

Demand

Investors have jumped on board the housing rebound

- The housing market rebound was initially driven by owner-occupiers, lured into the market by record low interest rates and a range of Federal and state government incentives. This has driven the exiting housing market, while the HomeBuilder has resulted in surging new detached house demand.
- Off-the-plan apartment demand has remain much more muted in most markets. This reflected initially subdued foreign and domestic investor demand.
- However, investor demand has lifted significantly over recent months as investors are lured in by a combination of rapidly growing prices, improvements in the rental market and the record low interest rates.
- Off-the-plan apartment sales rates are starting to improve as investors return. However, in Sydney and Melbourne developers are also still in strong competition with residual unsold apartment stock from the last cycle.
- Many smaller markets saw apartment supply peak much earlier and have cleared most, or all, or this residual stock. Perth in particular is bucking the trend and a stronger local economy has seen a more significant lift in sales rates.

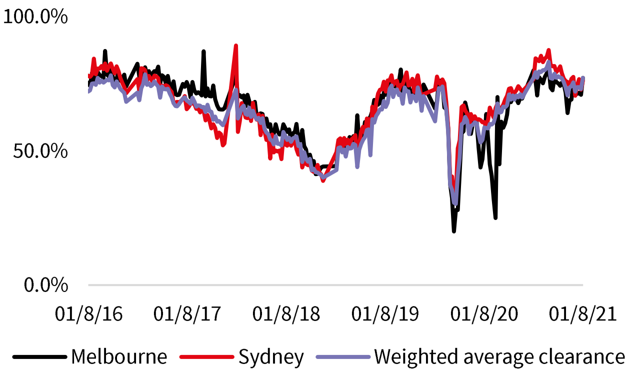
Housing Finance Commitments (ex Refin)



Source: ABS, JLL Research as at Jun-21

Low interest rates, government incentives and pent-up demand have seen owner-occupier finance commitments continue to surge over recent months to unprecedented levels. Investor lending has more than doubled since Jun-20.

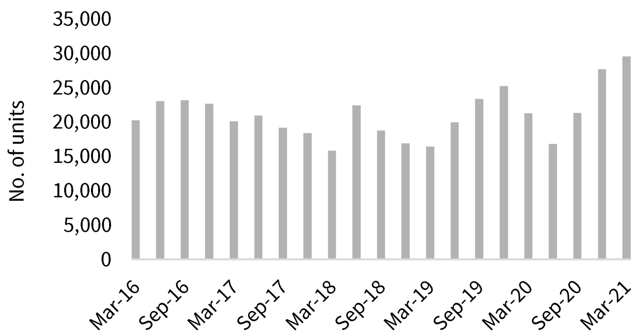
Auction Clearance Rates



Source: CoreLogic, JLL Research as at Aug-21

Auction clearance rates have been very high on the back of very low listing numbers initially. Clearance rates remain high, but have tempered a little recently as listing numbers begin to increase. Lockdowns are yet to affect the market.

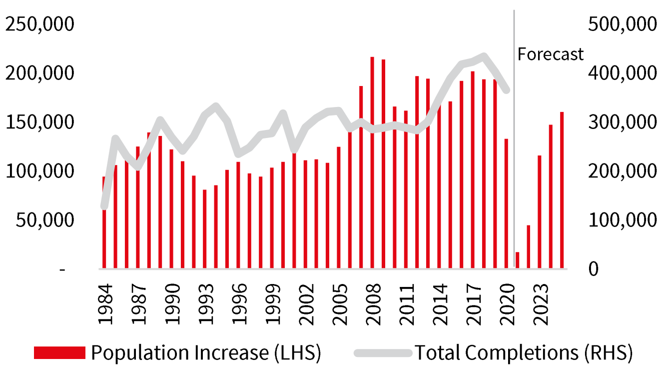
Apartment Sale Volumes (New and Existing)



Source: CoreLogic & JLL Research as at Mar-21

The volume of all apartment sales has increased significantly since 2Q20, but this has largely been existing apartments and new apartment pre-sales rates generally remain muted. Perth has seen a larger lift in demand than most markets.

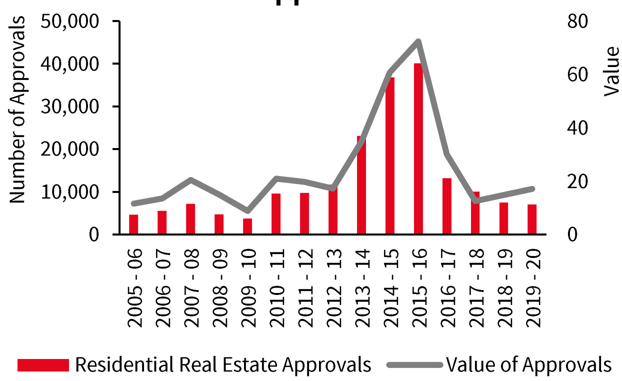
Australian Population Outlook



Source: JLL Research, ABS, Deloitte Access Economics as at Jun-21

'Underlying' demand for dwellings has been affected by closed borders and much lower population growth over 2020 and the next few years. This impact is greater on NSW and Victoria that have received a combined 72% of migration the last 5 years and 70% of international students.

Residential FIRB Approvals



Source: FIRB Annual Report 2019-20

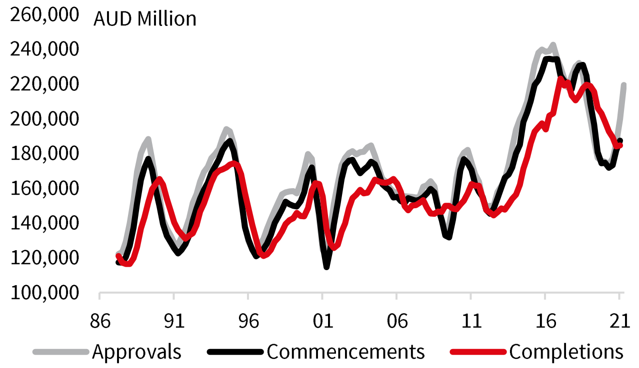
The foreign investment review board's (FIRB) latest report (2019-20) showed that the number of residential real estate approvals dropped (by approx. 457) relative to the previous year (2018-19). Despite this, the value of these approvals rose by $2.3 billion (+16%).

Supply

Apartment supply to remain moderate over medium-term

- There is increased optimism building towards the next apartment supply cycle, but that cycle is at least a few years away and completions will get lower before they rise.
- In line with still subdued (albeit improving) pre-sales demand and the existence of residual unsold stock in some markets, few large scale projects are reaching pre-sales hurdles and commencing.
- Active developers continue to focus more on smaller scale high quality projects in premium locations that appeal more to owner occupiers.
- While dwelling approvals have lifted, this has almost entirely been due to detached housing in response to the HomeBuilder program and apartment approvals remain more subdued.
- Some major projects that were pushed from 2020 into 2021 and completions could rise slightly this year, albeit current lockdowns could see some project slip from 2021 to 2022. Supply is likely to fall sharply in 2022 and remain muted in 2023 and 2024.
- Nevertheless, the next cycle is likely to begin earlier in some markets such as Perth and Brisbane that have worked through residual unsold stock over recent years, while this process will take a little longer in Sydney and Melbourne.

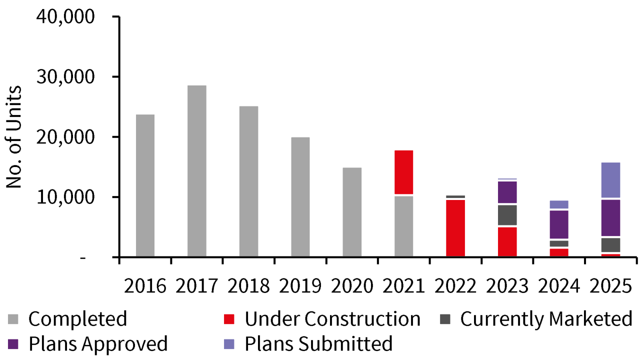
National Dwelling Supply Pipeline



Source: ABS, JLL Research as at Jun-21

Across all dwellings, approvals have risen sharply in recent months and commencements have also risen. However, the improvement has been driven by detached houses due to the HomeBuilder program and will likely wash through soon.

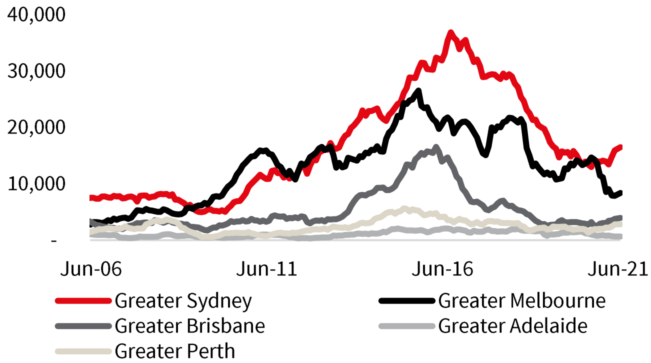
National Inner City Supply Pipeline



Source: JLL Research as at Jun-21

Around 10,300 apartments have completed in 2021 to date, which is slightly inflated by some 2020 projects delayed into 2021. 7,590 units are expected to complete over 2H21, boosting completion to slightly above 2020, but still well below the 2017 peak of nearly 29,000 apartments.

Apartment Approvals (Rolling Annual)



Source: ABS, & JLL Research as at Jun-21

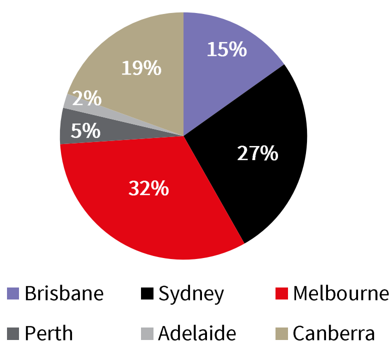
Showing some renewed optimism towards the next apartment supply cycle in a few years time, apartment market approvals have risen over recent months in nearly all major markets, but particularly in Sydney. While prospects are improving, to in some cases this reflects a clearing of planning backlogs.

New Inner City Apartment Supply by City

Stage	Sydney	Melbourne	Brisbane	Perth	Adelaide	Canberra	National
Completed (YTD 2021)	2,005	6,448	313	172	179	1,201	10,318
Under Construction	6,562	7,919	3,733	1,164	464	4,791	24,633
Currently Marketing	1,693	1,573	1,309	1,494	568	1,782	8,419
Plans Approved	7,073	2,543	2,940	1,146	681	1,135	15,518
Plans Submitted	5,182	229	1,201	274	179	1,201	8,266
Total	22,515	18,712	9,496	4,250	2,071	10,110	67154

Source: JLL Research as at Jun-21

Under Construction
By City



Source: JLL Research as at Jun-21

Melbourne still has the largest share of the supply pipeline and represents over 32% of all apartments under construction. Nevertheless, its share is dropping quickly as a number of large projects at the tail end of the last construction cycle complete. It should also be noted that Sydney's apartment supply is much more widely spread beyond the inner city than other cities and it would be a larger share of overall national apartment supply. Similarly, Canberra's share is high relative to its size, but this covers all of the ACT and not just the inner city part of the city.

Recent Completions

Project Name: Parallel

Density: 48 Units

Developer: Laudis Developments

Project Name: The Ferry Residences

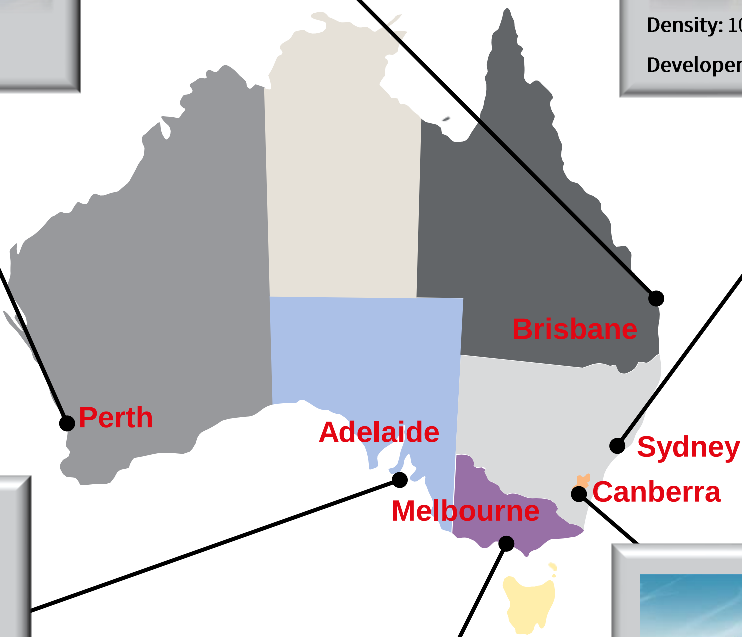
Density: 86 Units

Developer: Pradella

Project Name: Opera Residences

Density: 104 Units

Developer: Landream



Project Name: Penny Place

Density: 152 Units

Developer: Premier Capital Developments

Project Name: Paragon

Density: 227 Units

Developer: Beulah International

Project Name: Cirrus

Density: 226 Units

Developer: Per Se Developments

Notable Sales

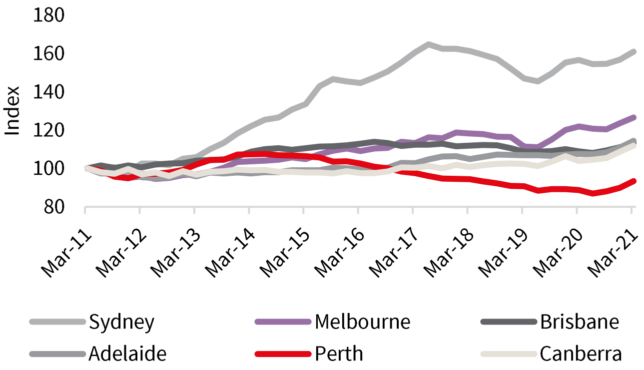
Date	Address	City	Purchaser	Vendor	Price ($, million)	Size (sqm)	Potential Yield (# of units)	Comments
Jul-21	19 Chester Street & 3 Morse Street, Newstead	Brisbane	Frasers Property Australia	Local Private	$16.5	3,016	-	Residential scheme to be lodged late 2021
Jul-21	Cnr Garfield Tce & Enderley Av, Surfers Paradise	Gold Coast	Un-named Sydney Developer	Mick Power	$30	1,500	-	Settlement scheduled for late 2021
May-21	81-95 Burnley Street, Richmond	Melbourne	Gurner	Astrodome Hire	$20	1.3 (ha)	-	Plans (not yet lodged) to build up to 500 apartments, plus a retail village and mixed-use precinct.

Prices

Dwelling prices (including apartments) continue to surge

- Dwelling prices have surged back after what proved to be only a minor impact from COVID-19, growing 5.9% nationally over the three months to July 2021 and 16.1% over the past year.
- Detached dwellings initially drove the rebound, which aligns with demand trends and the impact low interest rates and fiscal incentives had on owner occupiers.
- Initially slower apartment price growth reflected lower investor demand and the impact of residual unsold new apartment stock, particularly in Sydney and Melbourne.
- Nevertheless, apartment price growth have gained momentum and rose 4.1% nationally over the three months to July 2021, which has lifted annual growth to a strong 8.7%.
- Annual price growth in Melbourne is still somewhat lagging other markets reflecting supply issues, but is gaining momentum (5.9% annual). Growth in Sydney over the past three months (7.7%) has been faster than all other capital cities and boosted annual growth to 7.6%.
- In annual terms, Canberra (10.0%) and Perth (9.6%) have seen the strongest growth.

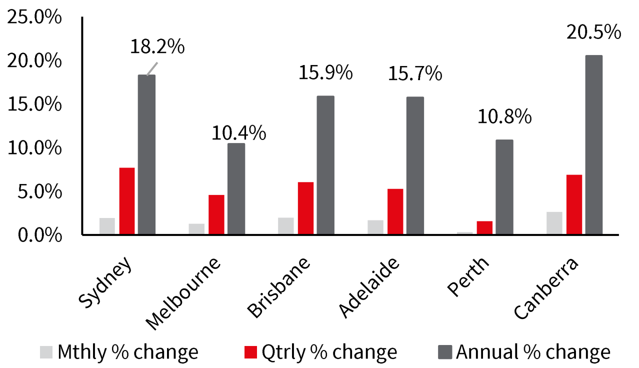
Apartment Price Index (Mar 2011 = 100)



Source: ABS, RBA & JLL Research as at Mar-21

Apartment price growth has been moderate in most markets the last decade, except Sydney where prices are around 61% higher. In Melbourne, prices are 27% higher and only slightly above wage growth, but Perth prices are around 7% lower.

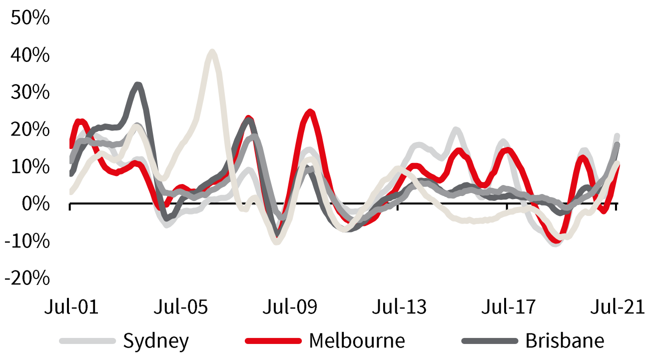
Dwelling Prices



Source: CoreLogic, JLL Research as at Jul-21

Dwelling prices generally have rebounded more strongly than apartment prices to date, reflecting the strength of owner occupier demand for detached housing. All markets are now recording strong double-digit annual dwelling price growth.

Apartment Price Growth (Annual % Change)



Source: CoreLogic, JLL Research as at Jul-21

Growth in the smaller capital cities was picking up before COVID-19 and was only very briefly interrupted, leading the recovery. However, Sydney, and to a lesser degree Melbourne, have gained considerable momentum in 2021.

Apartment Price Growth by City

Stage	Sydney	Melbourne	Brisbane	Adelaide	Perth	Canberra
Monthly % Change	1.6%	0.4%	0.8%	0.6%	0.6%	1.3%
Quarterly % Change	5.1%	1.9%	2.7%	1.6%	2.3%	2.8%
6-month % Change	8.2%	5.6%	5.3%	2.3%	6.3%	5.1%
Annual % Change	7.6%	5.9%	7.0%	6.3%	9.6%	10.0%

Source: CoreLogic & JLL Research as at Jul-21

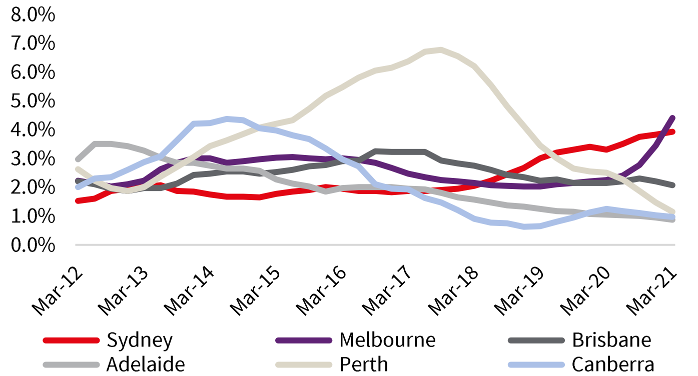
While Perth and Canberra continue to record the highest annual growth, current momentum is best indicated by growth over the last three months which is clearly strongest in Sydney (5.1%). Nevertheless, this momentum remains relatively strong in Perth and Canberra, as well as Brisbane. Momentum is a little slower, albeit solid, in Melbourne and Adelaide. Melbourne is still absorbing some recent very large supply completions and very strong supply over a long period.

Rental Market

Rental markets continue to improve

- While the strength of rental markets across the country still varies widely, all markets are now improving.
- Sydney and Melbourne's rental markets have been the softest they have been for several decades since COVID, being much more affected by closed borders a stemming of the flow of migrants and students. Nevertheless, both markets have recovered over recent months, particularly Sydney.
- Another impact on inner parts of most capital cities, particularly Inner Sydney and Melbourne, has been a supply impact from short-term rental stock entering the long-term rental market. This impact has subsided, but vacancy remains higher in and around major CBDs.
- All other capital city rental markets are now tight and rental growth is gaining strong momentum (particularly Perth). However, apartments rents in the inner city are still a little softer than houses, particularly in Canberra and Adelaide.
- We anticipate all markets will eventually face strong medium-term rental pressures over the next 3-5 years as demand recovers and little new rental supply is added, but Sydney and Melbourne won't fully recover until borders re-open.

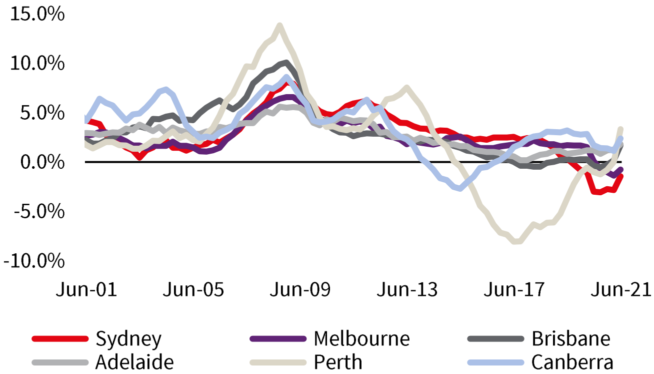
Rental Vacancy (4-qtr Moving Ave, %)



Source: REIA, RTA & JLL Research as at Mar-21

Vacancy is now moderate or low in most across most cities and the turnaround in Perth over recent years has been dramatic. Sydney and Melbourne vacancy remains well above the low level of recent decades, but more recent evidence suggests that they too have begun to fall.

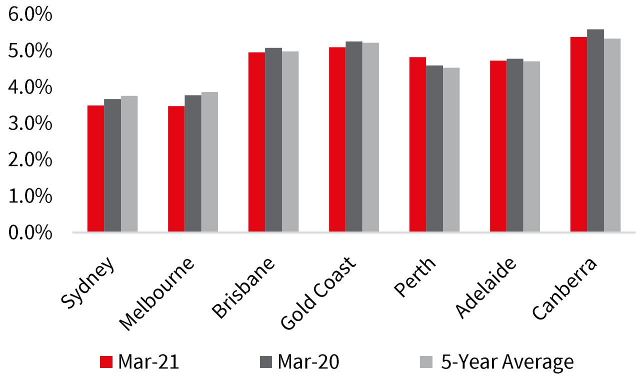
CPI Rental Growth (Annual % change)



Source: ABS & JLL Research as at Jun-21

Rental CPI fell sharply in the midst of the COVID crisis in 2020, but has recovered significantly in all markets in 2021. Particularly the smaller markets where rental vacancy is low. Sydney and Melbourne remain negative on an annual basis.

Gross Rental Yields (%)



Source: CoreLogic & JLL Research as at Mar-21

The quicker turnaround in property prices than in rents has seen yields fall relative to a year ago in most markets, particularly in Sydney and Melbourne where downward rental pressure has been greater. Perth yield rose over the year.

SQM Weekly Asking Rent Index – Units (as at 4 Aug 2021)

Stage	Sydney	Melbourne	Brisbane	Adelaide	Perth	Canberra
Monthly % Change	0.9%	0.3%	1.3%	1.3%	0.2%	1.0%
Quarterly % Change	2.8%	1.5%	2.7%	1.9%	1.7%	1.0%
Annual % Change	0.9%	-4.3%	6.2%	4.8%	14.5%	7.2%

Source: SQM Research & JLL Research as at Aug-21

Apartment market asking rents have recovered significantly over recent months. Growth has been strong in the smaller capital cities where vacancy is already low, particularly Perth and Canberra. Sydney (along with Brisbane) has recorded the strongest growth over the past three months, which has pushed annual growth in Sydney back into the positive. Melbourne is now the only market that continues to record negative annual growth in asking rents, reflecting the abundance of recently completed stock still in the market weighing down the inner-city high density portion of the market.

Outlook and Key Risks

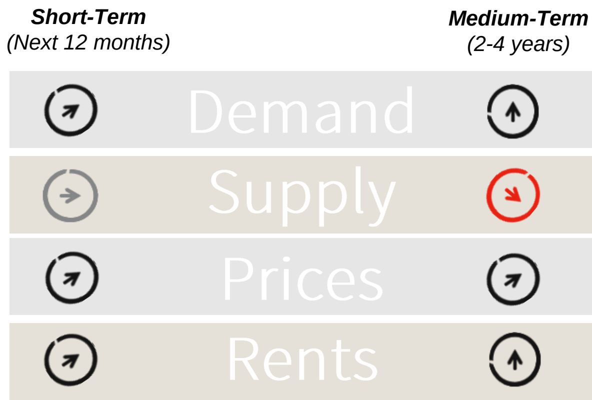
Lockdowns throw doubt over positive apartment outlook

While apartment market demand has lagged detached housing, it had clearly started to lift as investors re-enter the market and look to capitalise on low interest rates and rapidly rising prices. Over the medium-term this was expected to gain more momentum once borders re-open and more migrants and students start flowing back in. While this could well still be the case, the recent rise of the delta variant and extended lockdowns in many cities puts both general housing market confidence and the timing of border re-opening at serious risk.

Nevertheless, one positive factor for the medium-term outlook is that new apartment supply will continue to fall over the next few years and help market balance. It has remained difficult for developers to commence new apartment projects, particularly larger investor projects, and with long project lead times it will be at least 2025 before apartment completions pick up. As such, when borders to inevitably open, much stronger demand will be met by low levels of new supply.

Recent strong price growth momentum is likely to continue in the short-term, albeit perhaps slowing somewhat and with more downside risks if ongoing lockdowns do dent market confidence. However, the favourable supply/demand balance should support steady growth over the medium-term. Similarly, low rental vacancy is already seeing strong rental growth in many markets (with even Sydney and Melbourne now growing) and this is only likely to gain momentum in all markets over the medium-term as demand rebounds and is met by limited supply.

National Apartment Market Outlook



Key Risks

Extended lockdowns dent housing market confidence as incentive boosts fade

The resurgence of COVID infections with the delta variant has already likely had a significant impact, particularly in NSW where Sydney has been under an extended lockdown with no end in sight. At the time of writing, Melbourne and the ACT were also in lockdowns and all of NSW is now restricted, while SA and QLD have also both recently had short lockdowns.

The risks to the housing market are twofold. Firstly, there is a direct impact in that this is likely to further delay the opening of borders and recovery in migration and foreign students, which will ultimately dampen the housing demand recovery (particularly in Sydney and Melbourne). But perhaps the greater risk is that a worsening health crisis and lockdowns damage confidence and momentum in the market, even causing a downturn as opposed to a slowdown.

Regulatory failure

Regulators are seemingly now walking a very fine line in controlling the housing market. Post-COVID stimulus measures have clearly worked exceptionally well and are now arguably getting to the point of over-stimulating the market. This recent rise in investor demand would be of particular concern, raising the risk of speculation completely taking hold and further inflating a housing price bubble. With the rest of the economy still far too fragile to withstand any rise in interest rates, the option already under discussion has been to revert back to macro-prudential measure to slow lending growth (particularly for investors) like those used between 2014 and 2018.

Nevertheless, the big question now is if extended lockdowns will dent confidence and slow the market of its own accord. While there may be the opportunity of waiting and seeing, there seemingly is now a risk of both putting on the brakes to early and stifling a market already slowing, or waiting too long and letting a market with considerable momentum get away.

Construction Costs

While weaker high-rise construction activity has generally kept apartment construction cost escalations limited over recent years, extreme pressures on materials and labour in other parts of the construction sector (particularly detached housing and infrastructure) are increasingly spilling over into higher costs for all construction.

This is something developers will already have plan to tightly control, but there is also a risk of cost pressures escalating further that should be monitored (see Hot Topic, next page).

Escalating construction costs cloud the apartment outlook

While apartment and other high-rise development remains a little more subdued after COVID-19, development across the rest of the residential sector has rebounded extremely strongly due to stimulus measures. HomeBuilder and other first homebuyer incentives have seen a boom in detached house construction across Australia. Infrastructure construction has also been used as a stimulus measure not just in Australia but all round the world. This surge in demand is putting stress on the availability of some trades and materials and in turn has contributed to escalating construction costs across all sub-sectors.

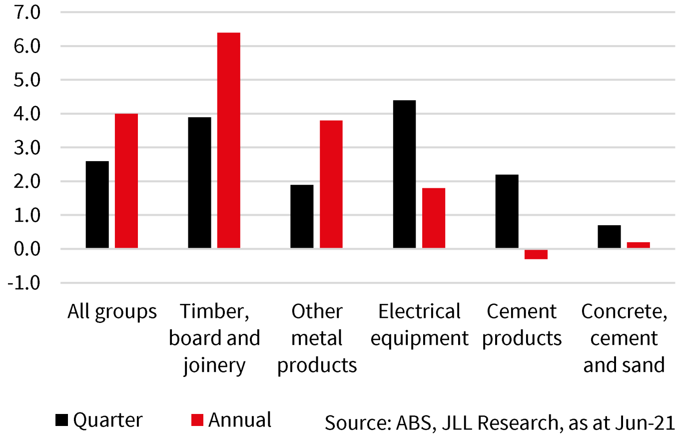
Construction costs are being influenced by several factors, but primarily the availability of materials and labour. The closure of the Australian borders has limited the flow of skilled, unskilled and seasonal migrant workers to Australia. This lack of available workers in times of very high demand has resulted in intense labour market competition for several skilled professions at present. While border closures remain, labour shortages are increasingly likely to contribute to cost escalations, particularly as Australia approaches full employment.

Furthermore, disruptions to global supply chains and the manufacturing of products used in the residential construction industry has also contributed to the higher cost of goods. Builders have reported very steep rises in timber prices. While apartment developers have been more affected by cost increases to steel and copper. The cost of timber, board and joinery rose 3.9% in 2Q21 to be up by 6.4% over the year (ABS) (See Figure 1). Electrical equipment also increased (4.4%) notably in 2Q20, while other metal products increased by 4% over the year.

So, what does this mean for the apartment outlook?

In the short-term, developers will need to manage their projects carefully to mitigate potential shortages of particular trades and to minimise cost escalations on materials. Cost management and maintaining the project schedule will increasingly become a trade-off many developers will need to consider. Some developers may opt to pivot into alternative materials to mitigate these cost/time pressures. Anecdotal evidence suggests that this is already happening, with many builders opting to use steel, recycled timber, or other new non-traditional building materials. However, as more demand shifts, these alternative materials are likely to also see an increase in cost and/or lead times over the short-term.

Figure 1: Change (%) in price inputs for construction materials



Source: ABS, JLL Research, as at Jun-21

Contract cancellations may increase as project viability continues to decline. Anecdotal evidence suggests that some detached housing developers are already choosing to compensate buyers to terminate now unprofitable fixed-price construction contracts. While apartment developers are likely to be much more hesitant to tear up contracts, we may see developers increasingly attempt to rescind contracts signed prior to these cost increases, so that they can raise gross realisations and recoup some of this increased cost by reselling the unit at a higher price than the original contract. However, with off the plan apartment sales only just starting to recover, and with some residual stock from the last cycle still in some markets, it may prove difficult to push up prices and such a move may stifle recovering sales rates.

Over the medium-term, a stronger than expected rebound in high-rise construction could potentially escalate cost pressures and become a larger risk to the viability and profitability of projects. Therefore, we expect to see increased hesitancy from developers in commencing construction, particularly smaller scale developers without many pre-sales, which in turn could delay the next supply cycle. Nevertheless, low supply levels remain a positive factor that will help market balance and support the medium-term outlook for the apartment market over the next few years.

Sydney

Summary

Like the existing housing market, more owner-occupier focused smaller apartment developments across much of Sydney have rebounded and performed strongly over the past year. In contrast, more investor-focused projects continue to lag, in part due to residual unsold stock that still exists from the last construction cycle. However, demand has improved over recent months as investors have increasingly come back into the market. Nevertheless, Sydney's recent extended lockdown puts this recovery at significant risk just as it is starting to get going.

Sydney's dwelling prices have shown little impact of lockdown as yet, growing 2% in July to be 18.2% higher over the past year. The rental market is also now clearly in recovery, albeit still soft, with vacancy falling for some time and rents returning to growth.

> "Leading into lockdown there had been some more positive signs of improvement in Sydney's apartment market. However, with no end in sight for current restrictions, it remains to be seen if confidence towards the recovery can be maintained."

Bill Fatouros, Senior Director
Valuation Advisory

6,562

Apartments Under Construction

While construction activity is down 61% from its 2Q18 peak, activity is down just 1.6% over the year. The number of units being marketing has more than doubled since 2Q20 (JLL).

37,045

Apartments Sold (New and Existing)

Annual sales volumes increased 7.3% over 1Q21, relative to 4Q20, when around 34,500 units transacted (CoreLogic). Albeit the protracted lockdown is now likely to temper sales in 2H21.

$794,193

Median Unit Price (all stock, Greater Sydney)

The strong rebound in demand into 2021 has seen apartment values rise 5.1% over the three months to Jul-21, bringing annual growth to 7.6% (CoreLogic).

$600/week

Median Rent – 2 bed Unit (Inner Sydney)

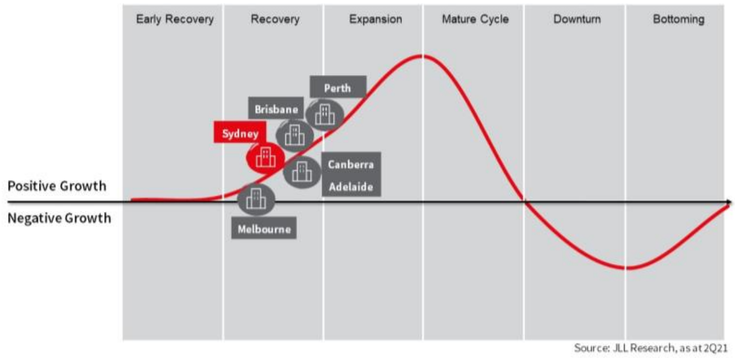
Sydney's inner ring 2-bed apartment rents fell 13% over the year to 1Q21 (REIA). However, more recent SQM Research data suggests rents have generally returned to growth, but the lockdown is risk to this recovery.

3.5%

Gross Apartment Rental Yield (Greater Sydney)

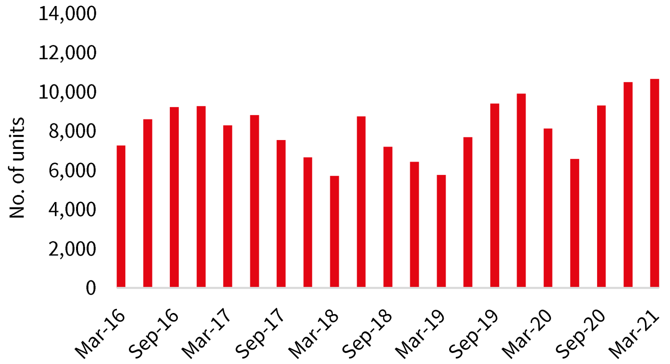
Downward pressure upon rental values has led to gross rental yields declining 17 bps over the year to 1Q21 (CoreLogic). While the rental market had appeared to be stabilising, price growth is still out-stripping rental growth at this point.

Sydney Apartment Market Cycle



Following a mild downturn in 2020, Sydney quickly moved into a recovery phase in 2021. Demand has improved, albeit pre-sales are still moderate. But existing apartment price growth has quickly caught up to other markets in 2021.

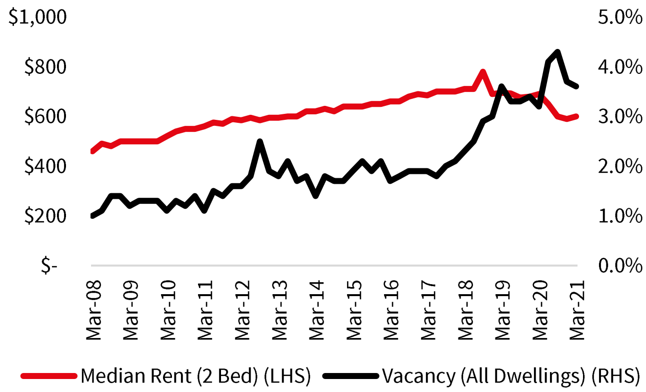
Apartment Sale Volumes (New and Existing)



Source: CoreLogic & JLL Research as at Mar-21

Quarterly sales volumes were up 31% (in 1Q21) relative to 1Q20. The rebound in transactions has brought sales volumes back to growth (+5.4%) in annual terms (CoreLogic).

Median Rent (Inner) vs Vacancy (All Sydney)



Source: REIA & JLL Research as at Mar-21

Vacancy across Greater Sydney is below that of a year ago. Similarly, while CBD vacancy remains elevated, it too is below this time last year. Rental rates grew in 1Q21, which has continued more recently. However, the recent lockdown could derail this recovery.

Sydney

Inner Sydney Supply Summary

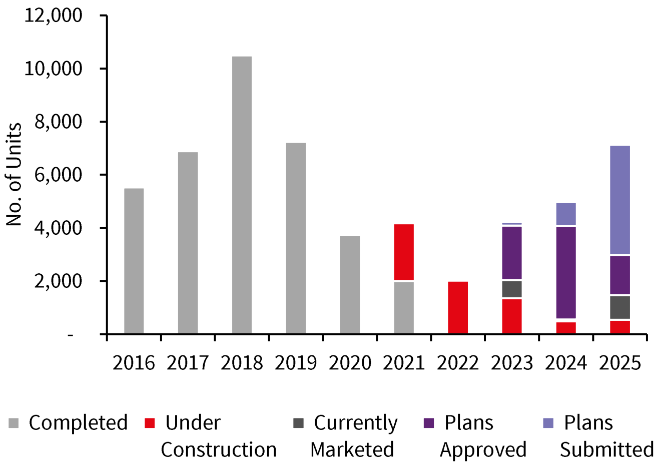
Just over 2,000 apartments have been completed across inner Sydney over the first half of the year, with slightly more currently scheduled to complete over the remainder of the year. This would take 2021 completions to slightly above 2020 levels, but still around 60% lower than the 2018 peak. However, recent lockdowns could feasibly push some completions into 2022.

The number of apartments under construction rose slightly in 2Q21 to 6,560. Nevertheless, it remains an environment where it is generally smaller projects progressing to construction as developers continue to focus on the owner-occupier market.

Sentiment towards the next construction cycle and the total pipeline of projects monitored in Inner Sydney has risen by around 13% over the past year. The number being marketed and with plans submitted in particular have grown strongly, but the number with plans approved has fallen slightly.

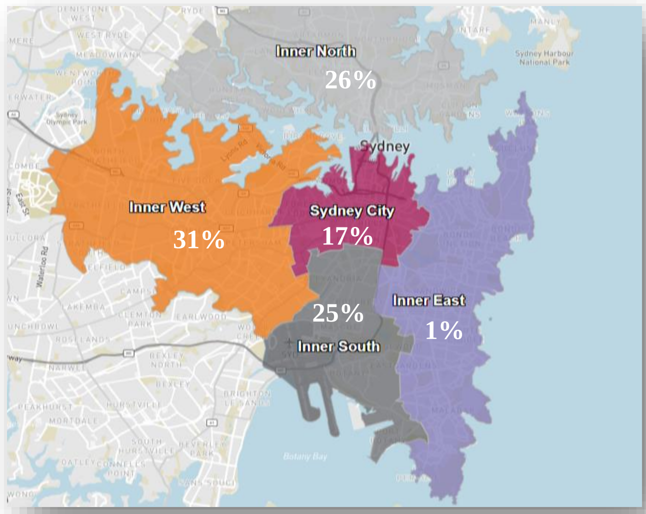
Nevertheless, the next cycle is still some time away. Still moderate pre-sales rates and residual stock will mean that new apartment supply will likely stay lower for longer. Inner Sydney completions will fall sharply in 2022, which is likely to be the trough in the cycle. With long project leads, a more significant lift in completions is not likely until after 2024. In the interim, developers are likely to remain focused on smaller developers in premium suburban locations.

Inner Sydney Apartment Supply



Source: JLL Research as at Jun-21

Under Construction (By Precinct)



Source: JLL Research, as at 2Q21

Inner Sydney Apartment Supply (By Stage and Precinct)

Stage	Sydney City	Inner South	Inner East	Inner North	Inner West	Total
Completed (2021)	882	900	-	-	223	2,005
Under Construction	1,111	1,662	83	1,675	2,031	6,562
Currently Marketing	-	971	197	-	525	1,693
Plans Approved	589	2,473	512	1,108	2,391	7,073
Plans Submitted	1,143	694	2,441	433	471	5,182
Total	3,725	6,700	3,233	3,216	5,641	22,515

Source: JLL Research, as at 2Q21
*Projects over 50 apartments are included

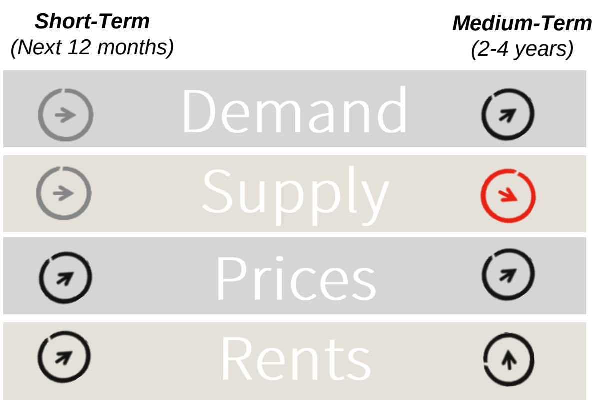
Sydney Apartment Market Outlook

Uncertainty rises with extended lockdown

Just as more optimism starts to emerge about the outlook for new apartment demand in Sydney off the back of strong sentiment and price growth in the broader housing market, the region's extended lockdown throws the sustainability of this sentiment into serious doubt. Regardless, demand should still recover over the medium-term as investor demand rebuilds and as borders re-open and student and migrant demand rebounds.

Increased demand is also likely to be met with moderate levels of new supply over the next few years, which will help support market balance over the medium-term. This is likely to be particularly felt in the rental market – the fall in vacancy and rise in rental growth should accelerate once borders open. Lockdown uncertainty could temper apartment price growth in the short-term somewhat. However, we expect price growth to continue medium term, supported by moderate supply levels, but somewhat tempered by already high prices.

Outlook Summary



Melbourne

Summary

While Melbourne's general housing market is rebounding like most of the country, the apartment market is much more subdued. Demand is softer reflecting more moderate investor demand and closed borders restricting migrants and foreign student demand. The market is also still absorbing the tail end of the last construction cycle, particularly investor focused stock in and around the CBD. The market for smaller boutique apartment developments in premium suburban locations is much stronger in line with robust owner occupier demand. Few larger projects are progressing, but development sites have shown resilience and increasingly being sought for potential build-to-rent schemes. The rental market remains soft as it absorbs recent supply in a softer demand environment, but has improved over recent months.

> "The owner occupier apartment market in the suburbs remains healthy, but investor stock in and around the CBD remains much more subdued and the market is not likely to fully return to health until after borders re-open."

Chris Smirnakos, Senior Director
Valuation Advisory

7,919

Apartments Under Construction
Strong levels of new apartment completions in 1H21 (approx. 6,500 units) has seen the number under construction fall 57% over the year to 2Q21 (JLL).

22,084

Apartments Sold (New and Existing)
Annual sales volumes increased 9.3% over 1Q21, relative to 4Q20, when just over 20,000 units transacted (CoreLogic).

$610,043

Median Unit Price (all stock, Greater Melbourne)
The turnaround in the last six months has seen prices grow by 5.6% (CoreLogic). Albeit growth has slowed in recent months and recent lockdowns are likely to temper the market.

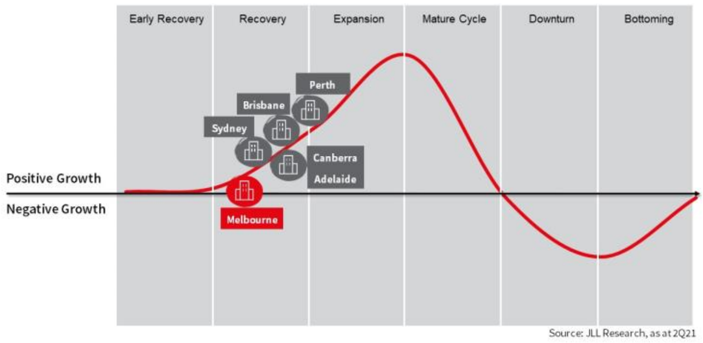
$420/week

Median Rent – 2 bed Unit (Inner Melbourne)
Rents across Inner Melbourne continued to experience declines in 1Q21, dropping 1.2% over the quarter to be 26.3% down YoY (REIA). However, more recent SQM Research data shows some improvement.

3.5%

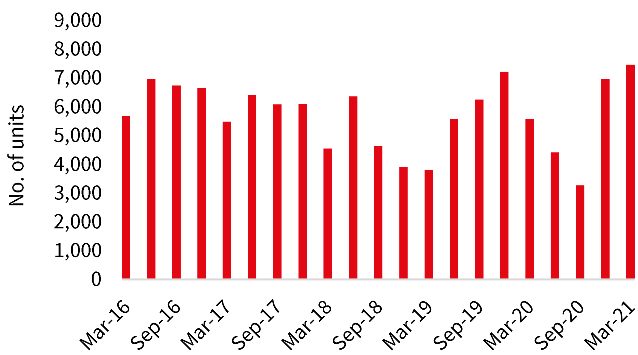
Gross Apartment Rental Yield (Greater Melbourne)
Lockdowns for a large portion of 2020 severely derailed Melbourne's rental market, evident in gross rental yields declining 30 bps over the year to 1Q21 (CoreLogic).

Melbourne Apartment Market Cycle



Melbourne's apartment market has improved, but its recovery has lagged other markets. This reflects the market still working through the tail end of the last construction cycle and residual investor apartment stock in and around the CBD.

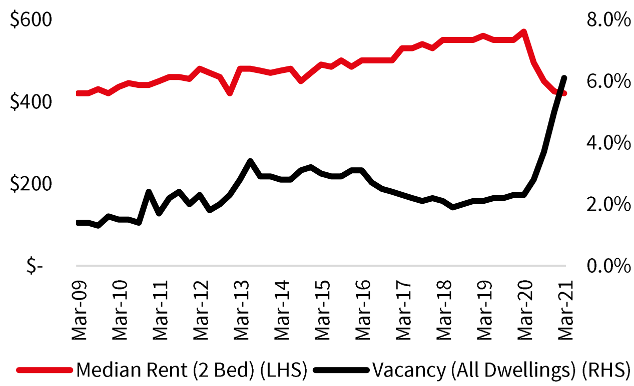
Apartment Sale Volumes (New and Existing)



Source: CoreLogic & JLL Research as at Mar-21

While annual transaction volumes remain down (-10.2%) over the year, sales volumes have steadily increased since 3Q20 (CoreLogic). Albeit recent lockdowns may derail the recovery.

Median Rent (Inner) vs Vacancy (All Melbourne)



Source: REIA & JLL Research as at Mar-21

Rental vacancy across Melbourne rose to 6.1% in 1Q21 and its highest level in decades, but has SQM Research data suggests some more recent improvement. Similarly, recent evidence suggest that rents have started to grow again. Nevertheless, it remains a tenant market.

Melbourne

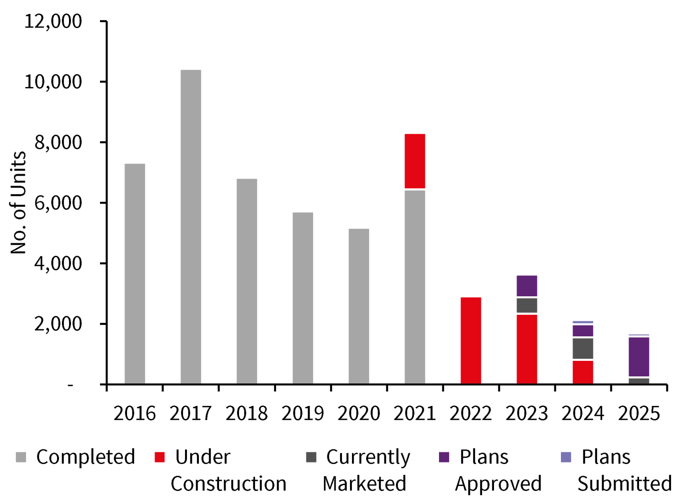
Inner Melbourne Supply Summary

Inner Melbourne has seen an extremely strong 6,450 apartments complete over the first half of 2021. However, almost 4,700 of these were in 1Q21, with Melbourne's lockdowns in 2020 pushing a number of major project completions from 2020 into 2021. This means that 2021 completions has already exceed those in 2020 and 2019 and there is a further 1,860 apartments scheduled to complete over the second half that will take 2021 completion to around 8,300 (a level only surpassed in 2017).

Despite this still strong delivery of projects at the end of the last construction cycle, conditions have been tough for some time for developers and few new major projects have commenced for some time. As such, the supply pipeline will fall sharply in 2022 and likely stay relatively low right out to 2025.

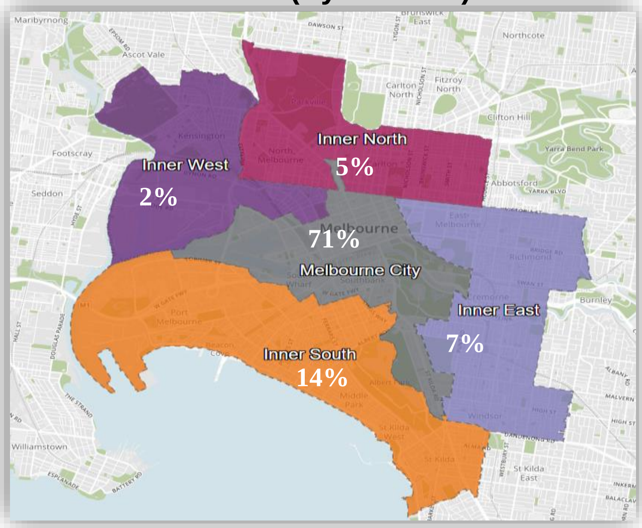
Around 81% of supply already completed in 2021 has been in the central Melbourne City precinct. Similarly, the precinct remains 71% of the supply still under construction at the end of 2Q21. This high concentration of development and the existence of residual unsold stock in a number of projects is making commencing any new large scale projects in Inner Melbourne extremely difficult. Nevertheless, smaller scale projects more targeted at owner occupiers, particularly downsizers, remains a totally different proposition and sales rates and prices are much stronger. However, competition is getting strong with most developers now targeting this market.

Inner Melbourne Apartment Supply



Source: JLL Research as at Jun-21

Under Construction (By Precinct)



Source: JLL Research, as at 2Q21

Inner Melbourne Apartment Supply (By Stage and Precinct)

Stage	Melbourne City	Inner South	Inner East	Inner North	Inner West	Total
Completed (2021)	5,224	210	462	172	380	6,448
Under Construction	5,653	1,125	573	375	193	7,919
Currently Marketing	659	483	49	51	331	1,573
Plans Approved	768	585	267	478	445	2,543
Plans Submitted	-	-	-	229	-	229
Total	12,304	2,403	1,351	1,305	1,349	18,712

Source: JLL Research, as at 2Q21
*Projects over 50 apartments are included

Melbourne Apartment Market Outlook

Supply still needs to absorbed in the short-term

Melbourne's last supply cycle was a large one, but one justified by very strong population growth and strong investor demand. However, neither is strong at present and the level of apartment completions will remain relatively high in 2021. Another Melbourne lockdown is also a risk to strong broader housing market sentiment. Residual unsold stock from the last cycle will keep pre-sales limited and very few new projects commencing. Developers will continue to focus on smaller boutique projects in premium suburbs or BTR. Rental growth is also likely to remain limited due to new supply and the lack of migrants and foreign students coming in.

Nevertheless, the outlook is brighter over the medium-term. Demand should recover as investors re-enter the market and once borders re-open. New apartment supply will fall further and be low beyond 2021, which will help the re-balancing of the market. The strength of the overall existing market should help drive robust apartment price growth, while rental vacancy should tighten significantly.

Outlook Summary

Short-Term *(Next 12 months)*

Medium-Term *(2-4 years)*

Brisbane

Summary

Brisbane's emerging apartment market recovery was halted by COVID-19, but has now resumed and appears to be gaining momentum. Apartment pre-sale demand has not rebounded to the same extent as existing housing demand and the owner occupier market, but there are signs of improvement. An increase in interstate migration is helping boost demand, while investor interest is also showing signs of improvement. While demand levels are steadily improving, market balance is also being assisted by very low levels of new supply. Brisbane's apartment construction peaked in 2016 and has fallen significantly since. Improved market balance is already evident in the rental market, where vacancy is now relatively low and rental growth has returned. Brisbane apartment prices have joined in the general dwelling price rebound, which is likely to continue for some time yet.

> "Winning the 2032 Olympic Games is a major confidence boost for Brisbane and should support the housing market through the direct economic activity and jobs created and indirectly via raising Brisbane's global profile and long-term migration rates."

Troy Linnane, Senior Director
Valuation Advisory

3,733

Apartments Under Construction
The number of apartments under construction has fallen steadily since JLL first began monitoring it in 2016. Activity is down 5% YoY, but 83% less than the 1Q16 peak (JLL).

11,541

Apartments Sold (New and Existing)
Annual sales volumes increased by 23% over the year to Mar-21. While quarterly volumes (1Q21) are up 56% compared to 1Q20 (CoreLogic).

$415,536

Median Unit Price (all stock, Greater Brisbane)
Brisbane's apartment price growth gained momentum into 2021 with prices rising 2.7% over the three months to July to be 7.0% higher in annual terms (CoreLogic).

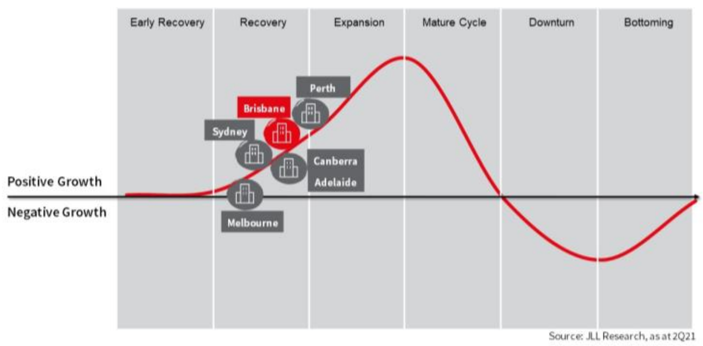
$460/week

Median Rent – 2 bed Unit (Inner Brisbane)
Inner ring apartment rents were hit hard by COVID-19, falling 5.1% over the year. However, rents grew 2.2% in 1Q21 (REIA), which more recent evidence suggests has gained strong momentum in recent months.

4.9%

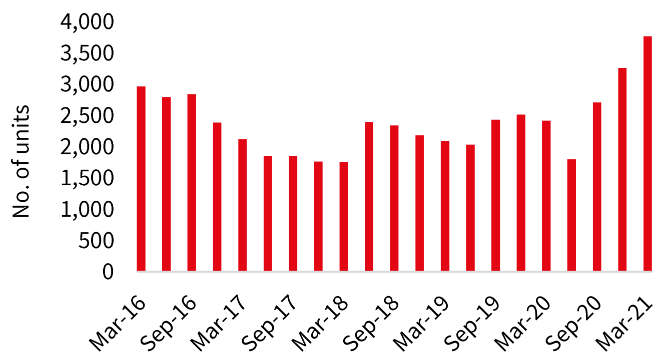
Gross Apartment Rental Yield (Greater Brisbane)
Rental yields fell moderately (- 12 bps) over the year to 1Q21 (CoreLogic). This is largely due to downward pressure upon rents at the onset of COVID.

Brisbane Apartment Market Cycle



Increased interstate migration and demand has helped Brisbane's Apartment Market navigate a recovery into 2021. Low supply levels, robust underlying demand and growing investor interest is likely to see the market improve further over the remainder of 2021 and into 2022.

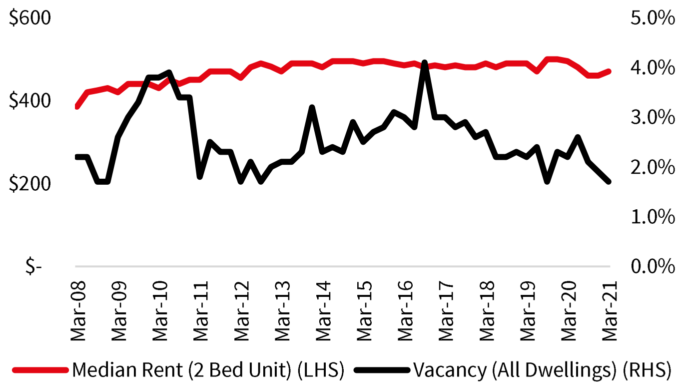
Apartment Sale Volumes (New and Existing)



Source: CoreLogic & JLL Research as at Mar-21

Despite transactions dropping to around 1,800 in 2Q20, quarterly sales volumes have increased 109% since that trough (CoreLogic). Equating to more than 3,750 sales in 1Q21.

Median Rent (Inner) vs Vacancy (All Brisbane)



Source: RTA & JLL Research as at Mar-21

Rental vacancy across Greater Brisbane is lower in 1Q21 (1.7%) than it was in 1Q20 (2.2%) and more recent SQM Research data suggests this has fallen significantly since to around 1.3%. While rents are still down over the year, again more recent data suggests a strong return to growth over recent months.

Brisbane

Australia | Q2 2021

Inner Brisbane Supply Summary

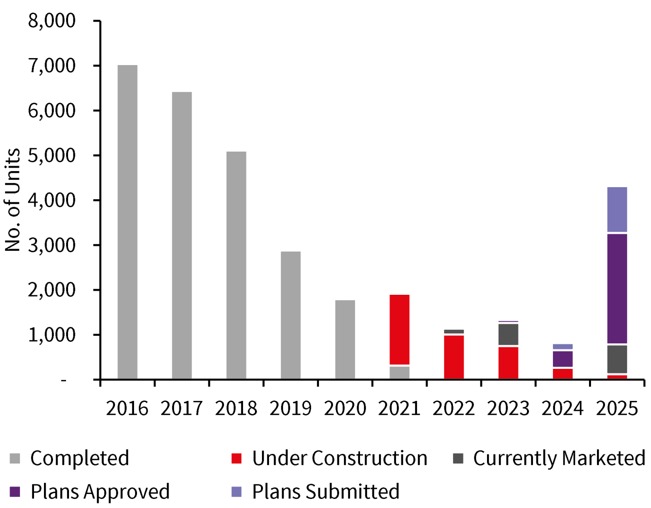
Brisbane's inner city apartment supply pipeline has fallen sharply since peaking in 2016. Just 313 apartments completed over the first half of 2021. There remains around 1,600 under construction and due for completion by the end of the year, which would make annual completions slightly more than 2020 but still around 73% below 2016 peak levels.

Supply will fall further in 2022 to around 1,100 apartments on current estimates and stay low over at least 2023 and 2024. While there is potential for a significant lift in 2025, most of these projects are not yet committed and many will likely push out further.

Despite the very moderate pipeline of projects over the next few years, the market does seemed to have passed a trough and greater optimism among developers is now seeing a rise in activity. The total number of apartments under construction rose by just under 1,000 apartments in the quarter to around 3,730, while the number of apartments being marketed also rose 47%.

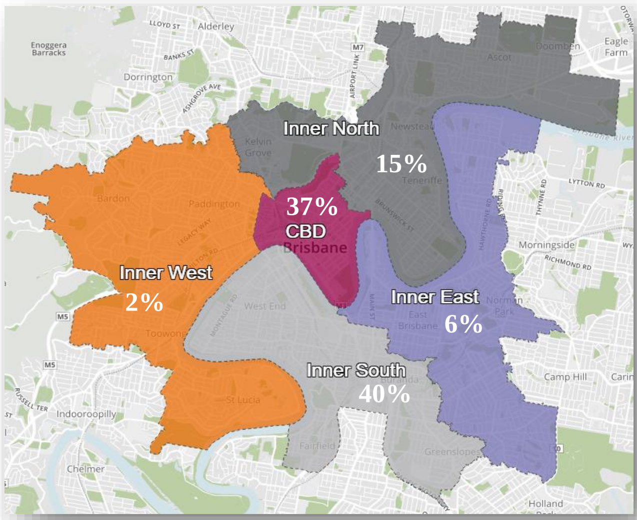
While conditions are improving, pre-sales rates remain moderate and it is still challenging to reach pre-sale funding hurdles. As such, there is still a stronger focus on smaller high quality projects that appeal to owner occupiers, particularly downsizers. Interest in BTR projects is also strong and the number of projects underway is slowly increasing.

Inner Brisbane Apartment Supply



Source: JLL Research as at Jun-21

Under Construction (By Precinct)



Source: JLL Research, as at 2Q21

Inner Brisbane Apartment Supply (By Stage and Precinct)

Stage	Brisbane CBD	Inner North	Inner East	Inner South	Inner West	Total
Completed (2021)	-	45	-	268	-	313
Under Construction	1,398	555	224	1,494	62	3,733
Currently Marketing	-	232	173	822	82	1,309
Plans Approved	113	1,568	131	920	208	2,940
Plans Submitted	-	871	330	-	-	1,201
Total	1,511	3,271	858	3,504	352	9,496

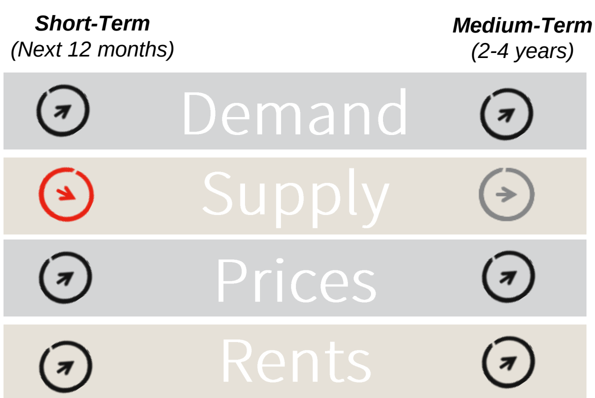
Source: JLL Research, as at 2Q21
*Projects over 50 apartments are included

Brisbane Apartment Market Outlook

Momentum likely to build over next year

The Brisbane apartment market now has a lot of tailwinds behind it that should see its recovery gain pace quickly over the next few years. Demand prospects are buoyed by an improving local economic outlook, increasing interstate migration and over the medium-term by a likely strong recovery in overseas migration. In addition, we expect a strong rebound in investor demand, driven by good capital growth and rental growth prospects, plus attractive rental yields and affordable prices relative to Sydney and Melbourne. This increase in demand will be met with further reductions in new supply in the short-term and only a moderate rise in completions over the medium-term. This is likely to see the market swing quickly towards under-supply. This pressure is already evident in an improving rental market, but rental growth is likely to build further as vacancy falls to low levels. This swing in market balance, along with relatively affordable prices at present, are also likely to support robust price growth over the medium-term.

Outlook Summary



Perth

Summary

After several false starts, the recovery of Perth's apartment market appears to be gaining momentum and leading most other markets nationally. Demand for existing dwellings has picked up across the country, but Perth has seen a more clear rise in new apartment demand that is reflected in continued strong sales reported by local listed developer Finbar. Increasing demand reflects a strong recovery in local economic and population growth on the back of a strong resources sector, plus a 75% discount on off-the-plan apartment sales introduced before COVID-19. Optimism towards the next development cycle is rising rapidly with increased demand, but long project lead times mean supply will remain low in the short-term and take a while to lift more substantially. Perth's rental market has tightened significantly and low vacancy has seen strong rental growth return across much of Perth.

> "Perth's long-awaited apartment market recovery has continued to gather momentum. General confidence remains high on the back of a strong resource sector that is creating jobs and drawing people back into the region."

Craig Carroll, Director
Valuation Advisory

1,164

Apartments Under Construction
The number of apartments under construction has risen by 15% over the year to 2Q21. While those being marketing fell 8% over the year (JLL, 2Q21).

6,996

Apartments Sold (New and Existing)
Annual sales volumes were 30% higher over the year to 1Q21. This is the highest number of transactions annually Perth has achieved since 4Q07 (CoreLogic).

$395,979

Median Unit Price (all stock, Greater Perth)
Unit prices gained considerable momentum in the first half of 2021, albeit grow has slowed in recent months. Values have risen by 9.6% over the year to July 2021 (CoreLogic).

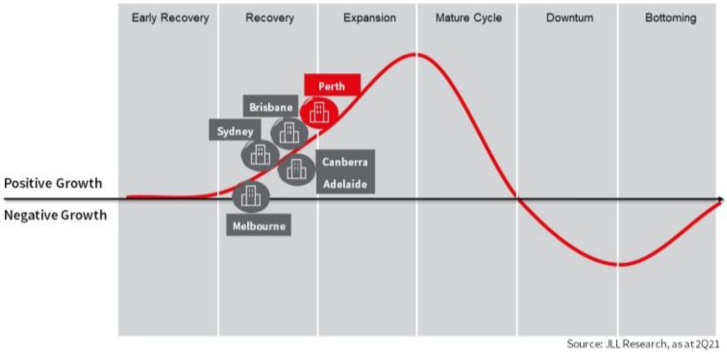
$400/week

Median Rent – Inner Perth
A very tight rental market with low vacancy has placed upward pressure upon Inner Perth rents, with values rising over the year (10.5%) and quarter (5.0%) (REIA).

4.8%

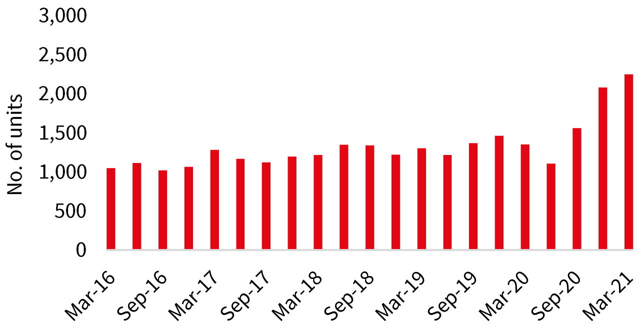
Gross Apartment Rental Yield (Greater Perth)
Perth was the only capital city which experienced an increase (+23 bps) gross rental yields over the year to 1Q21 (CoreLogic) due to strong rental growth.

Perth Apartment Market Cycle



After an extended period of weakness, Perth's apartment market has finally turned a corner. Relative affordability to other cities as well as to detached housing stock within Perth, has been a key driver within the housing market.

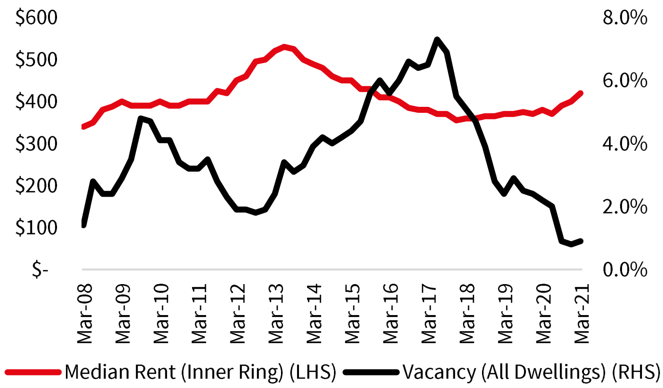
Apartment Sale Volumes (New and Existing)



Source: CoreLogic & JLL Research as at Mar-21

Sales volumes have increased 103% since their COVID-19 trough in 2Q20. While quarterly volumes (1Q21) are up 66% compared to 1Q20 (CoreLogic).

Median Rent (Inner) vs Vacancy (All Perth)



Source: REIA & JLL Research as at Mar-21

The rebound in migration to WA has seen vacancy across greater Perth has fallen to be 0.9% in 1Q21. All rings have recorded strong growth in rents, albeit the inner-city apartment market has lagged other markets somewhat.

Perth

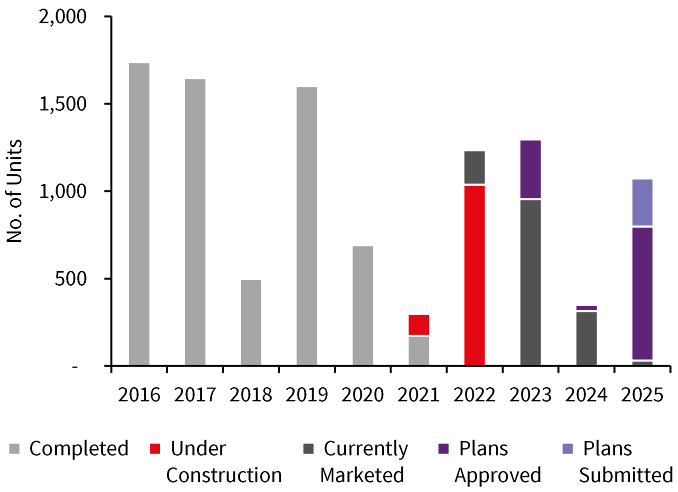
Inner Perth Supply Summary

Perth has experienced tough apartment market development conditions for some time. Apartments remain a small portion of Perth's overall housing stock, but did have a stronger period of growth during WA's mining boom period both before and after the GFC. This has left Inner Perth with a somewhat lumpy apartment supply over recent years, but overall, the level of new completions has been very moderate. The level of completions was comparatively higher in 2017 and 2019, but very low in 2018 and 2020 (>700 units). Nevertheless, taken as whole, completions have still been low. Over the five years to 2020, Inner Perth has seen an average of only 1,270 apartments per annum.

While developer optimism towards the next cycle is rapidly rising with improved demand, the future supply pipeline remains limited at present. Just 172 apartments were completed over the first half of 2021 and 126 due for completion over the remainder of the year. Nevertheless, completions are expected to lift back to around 1,200 in 2022 and likely a similar level in 2023.

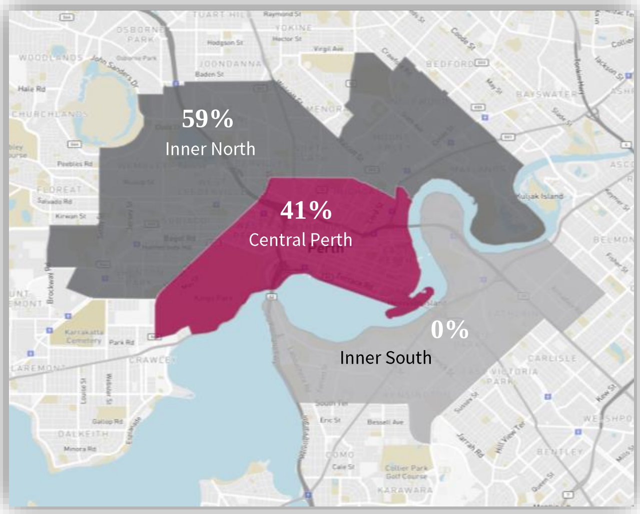
While the supply pipeline out to 2025 remains relatively moderate at present, there is the potential for some larger dormant regeneration projects to reactivate and pipeline could expand quickly. There is also the potential for supply to lift quickly in several other precincts outside of the monitored inner city area, including several premium coastal suburbs.

Inner Perth Apartment Supply



Source: JLL Research as at Jun-21

Under Construction (By Precinct)



Source: JLL Research, as at 2Q21

Inner Perth Apartment Supply (By Stage and Precinct)

Stage	Central Perth	Inner North	Inner South	Total
Completed (2021)	-	49	123	172
Under Construction	480	684	-	1,164
Currently Marketing	540	315	639	1,494
Plans Approved	454	382	310	1,146
Plans Submitted	-	99	175	274
Total	1,474	1,529	1,247	4,250

Source: JLL Research, as at 2Q21
*Projects over 30 apartments are included

Perth Apartment Market Outlook

Recovery set to hit full swing over next 12 months

Momentum is already building fast in Perth's apartment market and we expect this to continue for some time yet. Demand prospects will be underpinned by stronger local economic conditions driven by a robust resources sector, which in turn will drive stronger interstate migration and overseas migration when borders re-open. Investors too will be attracted by a combination of Perth's relative affordability, strong rental and price growth prospects and stamp duty discounts. Supply will respond and already there is more interest in sites and in re-activating older development schemes. However, it will take at least a few years for this increased activity to translate to materially higher completions and the market will tighten further in the interim. Already rental vacancy is low and rental pressure is strong and this is unlikely to abate for some time. Robust price growth is also likely to continue for some time as Perth apartment prices catch up after a decade of no growth.

Outlook Summary

Short-Term
(Next 12 months)

Medium-Term
(2-4 years)

Adelaide

Summary

Adelaide's apartment market has held up well to COVID-19 and a relatively large supply pipeline in 2020 and over recent years. The local economy has proved resilient and has seen less impact from closed foreign borders than most other states, while benefiting from increased net interstate migration (in a large part due to less outflow of people to other states). Strong conditions in the existing housing market driven by low interest rates and low levels of stock for sale has helped support the take-up of recent and pending apartment completions. Supply levels will fall significantly in 2021 and over the next few years, which will further support a swing in market balance. Pressure is already evident in the rental market, with sub-1% vacancy and growing rents. Apartment prices have also grown solidly over the past year.

> "Despite a short recent lockdown, SA has managed to stay relatively COVID-free which has helped local economic activity and seen the state's net interstate migration turn positive for the first time since the early-2000s."

Tracy Gornall, Senior Director
Valuation and Advisory

464

Apartments Under Construction
Construction has fallen 63% YoY and is now 76% below its 3Q18 peak. While new planning approvals are up 6%, submissions have declined by 80% over the year to 2Q21.

5,597

Apartments Sold (New and Existing)
Unit transactions have rebounded strongly in recent quarters, pushing annual sales volumes up 8.1% over the year to 1Q21 (CoreLogic).

$359,359

Median Unit Price (all stock, Greater Adelaide)
Apartment values have continued to grow steadily, rising 1.6% in the three months to July 2021 to be up 6.3% over the year (CoreLogic, July 2021).

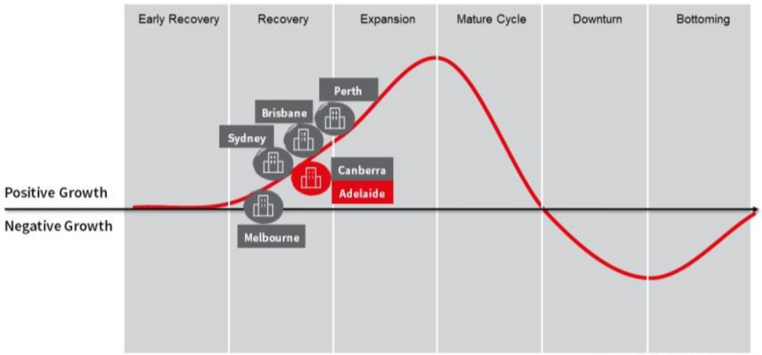
$350/week

Median Rent – 2 bed Unit (Inner Adelaide)
Two-bed unit rents returned to growth in 1Q21, rising 8.6% over the year to 1Q21. More recent SQM Research data suggests that rental growth momentum has continued to build.

4.7%

Gross Apartment Rental Yield (Greater Adelaide)
Gross rental yields fells marginally (- 5 bps) over the year to 1Q21 and are equivalent to their fiver-year average (CoreLogic).

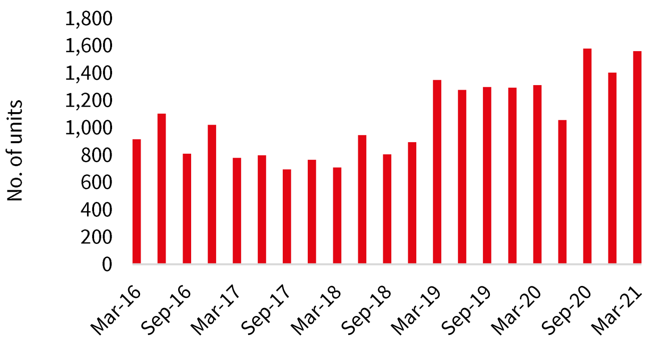
Adelaide Apartment Market Cycle



Source: JLL Research, as at 2Q21

After a brief interruption at the onset of COVID-19, Adelaide has returned to its characteristic steady growth. While strong supply levels in 2020 dampened the market somewhat, the unit market has continued to improve throughout 2021.

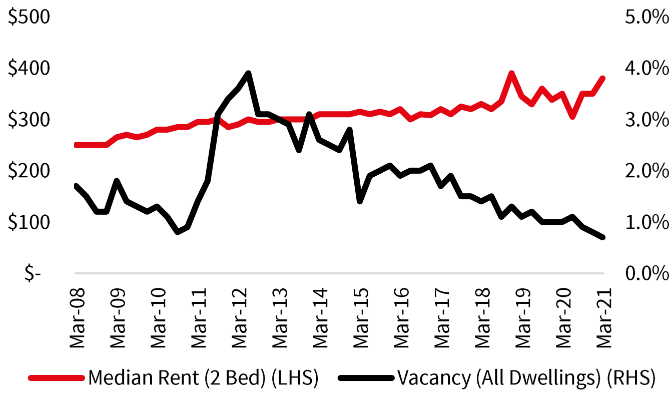
Apartment Sale Volumes (New and Existing)



Source: CoreLogic & JLL Research as at Mar-21

Quarterly sales volumes fell to just over 1,000 apartment transactions in 2Q20 (CoreLogic). Sales volumes have rebounded strongly, rising 48% since this trough.

Median Rent (2 Bed) vs Vacancy (All Dwellings)



Source: REIA & JLL Research as at Mar-21

Adelaide's rental market is tight, vacancy was 0.7% in 1Q21 and more recent evidence suggests it has stayed strong. This has placed some upward pressure upon rents, although strong levels of new supply has put more pressure on Inner Adelaide unit rents.

Adelaide

Inner Adelaide Supply Summary

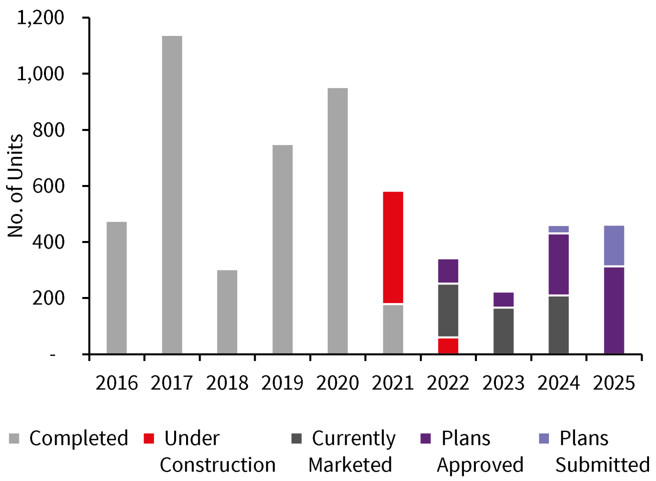
While 2020 completions were relatively high for Adelaide's emerging and relatively shallow apartment market, completions will contract sharply in 2021. Less than 600 new units are anticipated to complete by the end of the year. Along with improved demand conditions and limited stock in the existing market, this moderate supply will aid the absorption of any residual unsold stock in recent completions.

The CBD has been a focus of development over recent years, but supply fears have tempered new activity somewhat. Smaller projects, particularly in the Inner North and Inner South that appeal to owner occupiers have now become a key focus of developers.

The number of apartments under construction across Inner Adelaide fell further to just 464 in 2Q21 and is around 76% low than its late-2018 peak. Nevertheless, developers are becoming cautiously optimistic now as the broader housing market rebounds, which is reflected in marketing activity rising significantly over recent quarters since a mid-2020 trough.

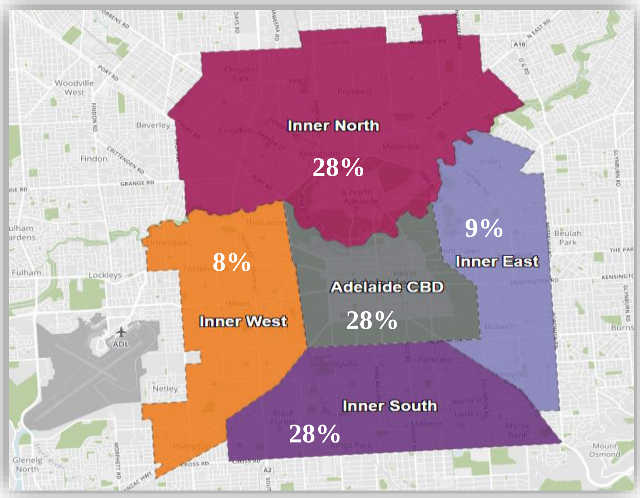
While optimism towards the next cycle is building and more new projects are likely to emerge, the reality is that pre-sales rates remain moderate at present and long project lead times mean it will take some time for the next cycle to get going. As such, completions will likely remain limited in 2022 and 2023 and a material lift in completions is not likely until at least 2024.

Inner Adelaide Apartment Supply



Source: JLL Research as at Jun-21

Under Construction (By Precinct)



Source: JLL Research, as at 2Q21

Inner Adelaide Apartment Supply (By Stage and Precinct)

Stage	Adelaide CBD	Inner North	Inner East	Inner South	Inner West	Total
Completed (2021)	152	27	-	-	-	179
Under Construction	128	128	44	128	36	464
Currently Marketing	118	82	252	71	45	568
Plans Approved	360	29	33	103	156	681
Plans Submitted	-	48	101	30	-	179
Total	758	314	430	332	237	2,071

Source: JLL Research, as at 2Q21
*Projects over 20 apartments are included

Adelaide Apartment Market Outlook

Solid medium-term outlook, underpinned by better demographics

Adelaide's small and emerging inner city apartment market is still absorbing some of the supply completed in 2020 and over recent years, particularly in the CBD where demand has also been affected by less foreign students. This will likely keep a lid on price and rental growth in the apartment market in the short-term. Nevertheless, broader housing demand conditions are stronger and a lack of stock in the existing housing market will help drive some demand towards new apartments. Population growth should also remain supportive of underlying demand for Adelaide. Improved net interstate migration should continue in the near-term and SA could also feasibly get a larger share of overseas migration when borders re-open due to its strong COVID performance and national migration policy encouraging migrants to settle outside of the major capitals. Strong affordability and relatively high yields could also see Adelaide get a larger share of investor demand and help support robust medium-term market prospects for the market.

Outlook Summary

Short-Term *(Next 12 months)*

Medium-Term *(2-4 years)*

Canberra

Summary

The ACT economy and labour market have been strong through COVID, but are being tested by a current lockdown and the spread of Sydney's COVID outbreak. Nevertheless, the strong economy and low interest rates have underpinned a very strong rebound in Canberra's housing market. The apartment market has lagged somewhat due to softer demand and relatively strong supply levels over recent years. Nevertheless, apartment demand and prices have improved as rising land and detached house prices have made well located apartments more attractive again. Canberra's rental market is tight and sub-1% vacancy and strong detached house rental growth is increasingly lifting apartment rental growth. However, in contrast to other markets, Canberra's apartment market supply will remain relatively elevated over at least the next two years, which may temper the market over the medium-term.

> "While the apartment market has certainly lagged the broader strength in the Canberra housing market, apartment demand is improving and increasing pricing pressures are supporting a shift in demand back to infill medium-density projects."

Marcus Hon, Senior Director
Valuation and Advisory

4,791

Apartments Under Construction

Construction activity has stabilised and is down just 1% over the year to 2Q21. Similarly, the number of apartments being marketing is down just 3% YoY (JLL).

3,621

Apartments Sold (New and Existing)

Sales volumes rebounded strongly over the second half of 2020. Whilst momentum has slowed into 2021, annual transactions are up 16% over the year to 1Q21 (CoreLogic).

$501,754

Median Unit Price (all stock)

Unit prices have grown by 2.8% over the three months to Jul-21. Annual growth remains strong at 10.0% (CoreLogic, July 2021).

$560/week

Median Rent – 2 bed Unit (Inner Canberra)

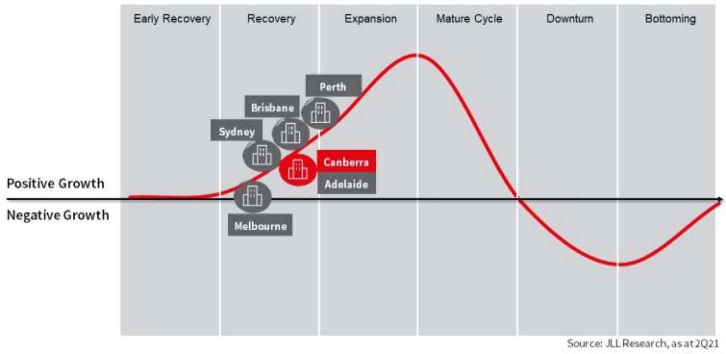
Two-bed stock grew 4.4% over 1Q21 to be up 3.6% over the year (REIA). While one-bed improved over the quarter and more recent evidence suggests rental growth is building across most parts of the market.

5.4%

Gross Apartment Rental Yield

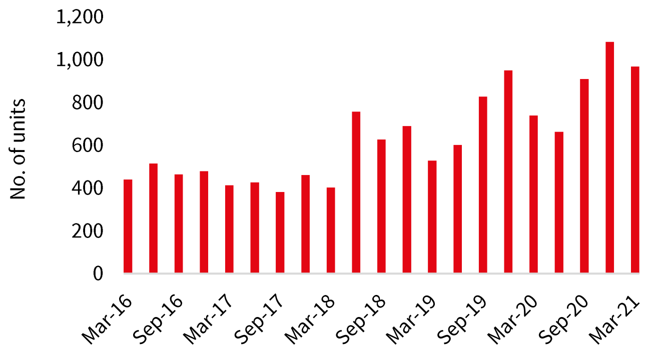
Gross rental yields have fallen 21 bps over the year to 1Q21. Canberra's yields have been falling gradually since 3Q19 and are now slightly above their 5-year average of 5.3% (CoreLogic).

Canberra Apartment Market Cycle



Canberra's apartment market has remained very resilient, with price growth and sales volumes rebounding quickly to robust levels quickly after COVID-19. Albeit the recent lockdown could slow the market in 3Q21.

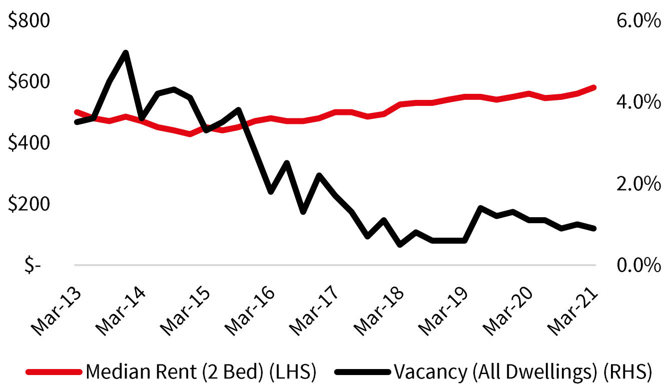
Apartment Sale Volumes (New and Existing)



Source: CoreLogic & JLL Research as at Mar-21

Despite transactions declining 11% in 1Q21 (relative to 4Q20), quarterly sales volumes are up 31% compared to 1Q20 (CoreLogic). Pre-sales have also lifted, but not to same extent as the existing market to date.

Median Rent (2 Bed) vs Vacancy (All Dwellings)



Source: REIA & JLL Research as at Mar-21

Canberra rental vacancy has been low for some time and remained just 0.9% in 1Q21. Rental growth for inner city apartments has been more subdued than the rest of the city, but it has also returned to growth in recent quarters. More recent evidence suggests momentum is building quickly.

Canberra

Canberra Supply Summary

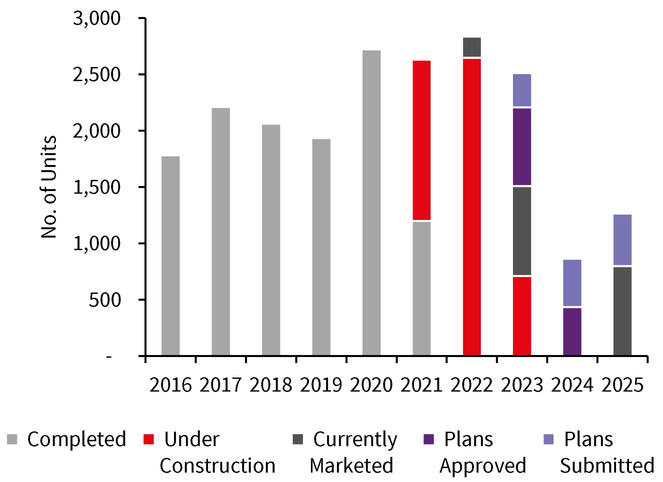
Canberra saw an average of 2,000 apartment per annum complete between 2016 and 2019, which was an unprecedented level of supply for a relatively young apartment market. However, completions rose to another level in 2020, with just over 2,700 apartment completed over the year.

So far around 1,200 apartments have completed over the first half of 2021 and around 1,430 are expected to complete before the end of the year, which will take completions to slightly below 2020 levels. Completions are likely to stay high and slightly exceed 2,800 in 2022.

Supply could also stay elevated in 2023, but many of these projects are still not committed and could easily still be delayed or abandoned. Indeed, development conditions have been much tougher since the start of 2020, which is reflected in a 54% drop in the number of apartments under construction since the end of 2019 to be 7,919 at the end of 2Q21.

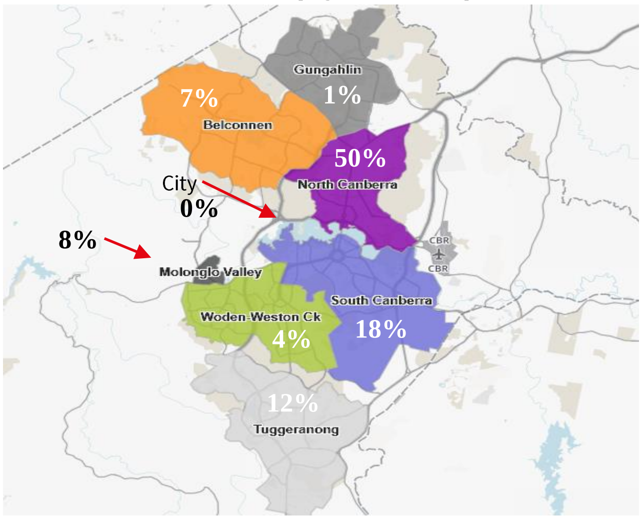
Nevertheless, the lift in the broader housing market demand, rising prices and tight rental vacancy are all improving sentiment towards the market and dulling previous supply concerns. North Canberra has been a focus of development over recent years due to the light rail that opened in 2019, but the focus is shifting slightly toward the south as Stage 2 gets closer to construction.

Canberra Apartment Supply



Source: JLL Research as at Jun-21

Under Construction (By Precinct)



Source: JLL Research, as at 2Q21

Canberra Apartment Supply (By Stage and Precinct)

Stage	Gungahlin	Belconnen	Inner North	Inner South	Molonglo	Tuggeranong	City	Woden	Total
Completed (2021)	145	226	173	-	43	-	184	430	1,201
Under Construction	45	355	2,412	844	372	571	-	192	4,791
Currently Marketing	429	220	267	68	-	-	-	798	1,782
Plans Approved	-	222	534	42	45	-	120	172	1,135
Plans Submitted	48	-	524	-	30	30	-	569	1,201
Total	667	1,023	3,910	954	490	601	304	2,161	10,110

Source: JLL Research, as at 2Q21
*Projects over 20 apartments are included

Canberra Apartment Market Outlook

COVID re-emerges as cloud over short-term outlook

The short-term momentum of Canberra's apartment market recovery now could rest on the success of the current lockdown in containing the virus. If successful, we expect that the strong momentum of the broader ACT housing market will continue to spill over into increased apartment demand. Prices should also continue to grow steadily in the short-term despite the fact supply will remain elevated, while low rental vacancy will see continued robust rental growth. However, there is now some risk that the virus is not contained and dents broader confidence.

Over the medium-term, apartment demand should remain solid and be supported by a growing lack of affordability in the detached housing market. However, the continued strong supply potential is quite likely to temper the market over the next few years and slow growth in both prices and rents beyond 2021.

Outlook Summary

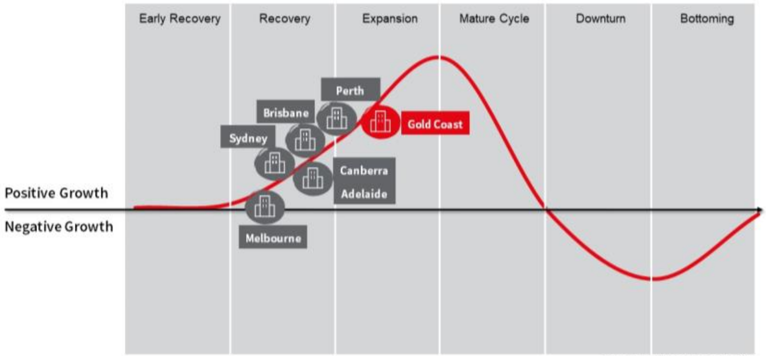
Short-Term *(Next 12 months)* ***Medium-Term*** *(2-4 years)*

Gold Coast

Summary

The Gold Coast apartment market is well into an expansion phase on the back of strong local population growth. Robust demand from locals, SEQ and interstate buyers have all boosted development sales rates, while existing housing market demand is booming. Limited new supply in 2021 and relatively low levels of residual stock are supporting market balance. The rental market has also recovered swiftly after a brief interruption in mid-2020. Vacancy is at an all time low and rental growth has returned. Apartment values have been trending upward for some time now and are expected to continue on this trajectory. Demand for development sites has increased and with sales highly contested, vendors are achieving their lofty expectations and several new pricing benchmark have been set recently.

Capital Value Market Cycle



Source: JLL Research, as at 2Q21

> "COVID-19 related lifestyle migration has been a big boost for the Gold Coast and this strong migration has seen the housing market tighten significantly over the past year. However, investor demand still remains more moderate."

John Muchall, Director
Valuation Advisory

3,518

Apartments Under Construction

Construction activity increased by 14% over the year to 2Q21 (JLL). Despite this, the number of apartments marketing has declined by 12% over the same period.

8,472

Apartments Sold (New and Existing)

Rolling annual unit transactions increased 19% over 1Q21 (relative to 4Q20), while annual sales volumes are up 23% over the year to 1Q21 (CoreLogic).

$450,000

Median Unit Price (all stock)

Aparment prices across the Gold Coast grew 8.0% over the year to 1Q21 (CoreLogic), but indications are that momentum has increased further recently.

$470/week

Median Rent – 2 bed Unit

After a brief drop in rents in 2Q20, two-bed unit rents are up 4.4% over the year to 1Q21 (REIA) on the back of low vacancy and rental growth momentum has built over recent months.

5.1%

Gross Apartment Rental Yield

Gross rental yields have fallen 16 bps over the year to 1Q21. Yields have slipped slightly below their five-year average (CoreLogic).

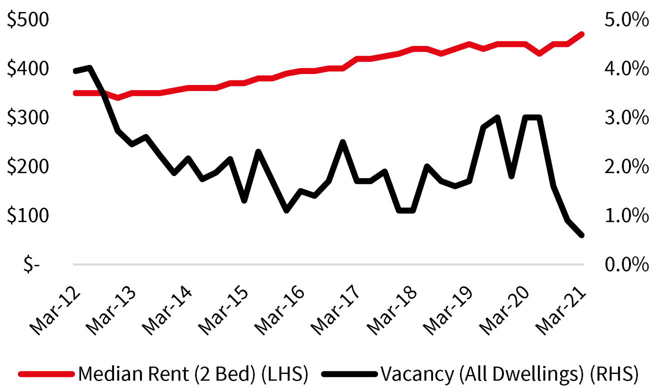
The Gold Coast was has been very quick to rebound from COVID once domestic tourism recovered and interstate migration form southern states increased. Price momentum is now strong and the market is well into expansion mode.

Apartment Sale Volumes (New and Existing)

Source: CoreLogic & JLL Research as at Mar-21

Since falling to a trough of less than 1,200 sales in 2Q20, apartment transaction have increased by 142%. Transactions in 1Q21 were 65% higher than in 1Q20 (CoreLogic).

Median Rent (2 Bed) vs Vacancy (All Dwellings)



Source: RTA & JLL Research as at Mar-21

Since spiking to 3% in mid-2020, vacancy for all dwellings across the Gold Coast has fallen to be just 0.6% in Mar-21. With limited supply and high demand, rents are growing strongly across the Gold Coast.

Gold Coast

Australia | Q2 2021

Gold Coast Supply Summary

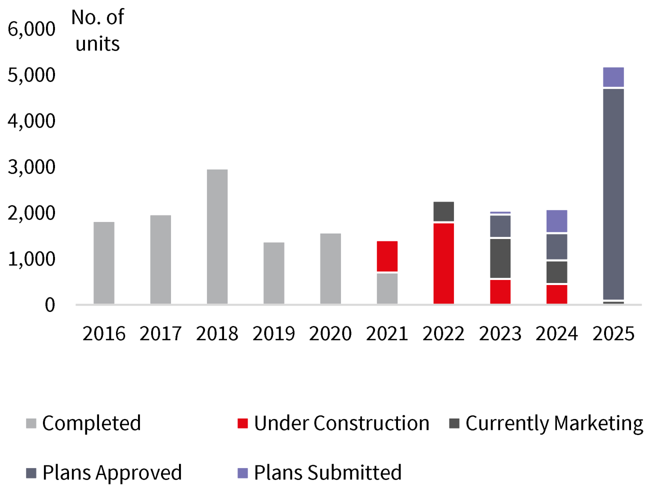
Development prospects are improving quickly on the Gold Coast and the number of apartments in the total supply pipeline increasing by 25% over the year to 1H21 (relative to 2H20). While marketing activity is down 12% over the year, this is due to many projects commencing construction over the past year.

Construction activity increased by 14% over the year, with fifteen projects starting construction in the first half of 2021. The median project size of these commencements was 95 apartments, which has increased from 53 units in 1H20, when only nine developments commenced construction.

While planning submissions are down 7% over the year, the number of apartments with planning approval and expected to complete prior to 2025 increased by 68% over the year to 1H21. This suggests that developers are positioning themselves for the next cycle.

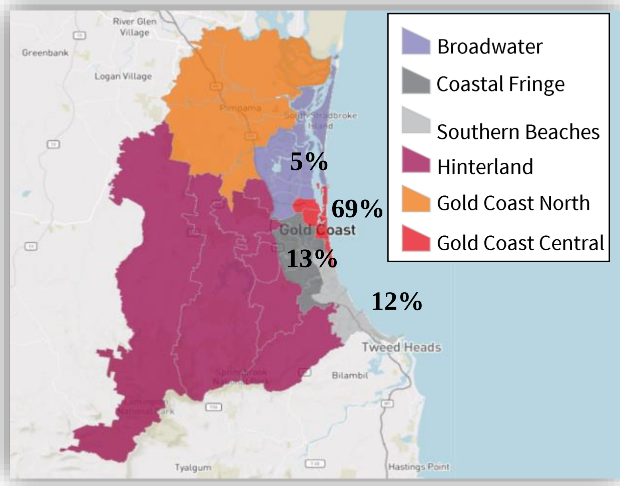
Despite the rise in planning activity, long project lead times mean it will take some time for the supply pipeline to rise materially. JLL data estimates around 1,400 apartments will complete in 2021, representing a 10% decline from 2020. New apartment supply is expected to rise in 2022, with 1,800 units already under construction and anticipated to complete, before likely falling again in 2023.

Gold Coast Apartment Supply



Source: JLL Research, as at 2Q21

Under Construction (By Precinct)



Source: JLL Research, as at 2Q21

Gold Coast Apartment Supply (By Stage and Precinct)

Stage	GC Central	Broadwater	Coastal Fringe	Southern Beaches	Total
Completed (2021 YTD)	481	61	150	16	708
Under Construction	2,425	188	474	431	3,518
Currently Marketing	946	79	155	787	1,967
Plans Approved	3,780	1,135	460	356	5,731
Plans Submitted	585	135	54	292	1,066
Total	8,217	1,598	1,293	1,882	12,990

Source: JLL Research, as at 2Q21
*Projects over 20 apartments are included

Gold Coast Apartment Market Outlook

Under-supply to sustain growth over the medium-term

The Gold Coast apartment market has a lot of tailwinds behind it that should now see its expansion continue for some time yet. Underlying housing demand is being supported by strong interstate migration and an improving local economic outlook in the short-term. While over the medium-term, a likely recovery in overseas migration and foreign investment when borders re-open will boost apartment demand. Furthermore, we expect domestic investors to increasingly return to the market, lured by strong growth prospects, attractive yields and relative affordability. Limited new supply in the short-term will support market balance over the medium-term. Economic uncertainty, increased construction costs and market competition will likely mean that inferior projects continue to be delayed or abandoned. We expect to see the market move further into a position of under-supply, which will support an upward trend in capital values and rental growth.

Outlook Summary

Short-Term *(Next 12 months)*

Medium-Term *(2-4 years)*

Authors:

Leigh Warner
Senior Director
Research – Australia
Leigh.Warner@ap.jll.com

Hollee Hart
Senior Analyst
Research – Australia
Hollee.Hart@ap.jll.com

About JLL

JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. JLL shapes the future of real estate for a better world by using the most advanced technology to create rewarding opportunities, amazing spaces and sustainable real estate solutions for our clients, our people and our communities. JLL is a Fortune 500 company with annual revenue of $18.0 billion in 2019, operations in over 80 countries and a global workforce of over 92,000 as of September 30, 2020. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit jll.com.

About JLL Research

JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 400 global research professionals track and analyse economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

jll.com.au