WESTERN SYDNEY INSIGHTS

NSW Block of Units

ISSUE 2

RWC WESTERN SYDNEY

Executive Summary

RWC Western Sydney is pleased to present our NSW Block of Units Report.

The block of unit market has transitioned into one of the most attractive asset classes in the marketplace. In a time where sophistication around "build to rent" and institutional and offshore investment has increased, the humble "in one line" unit block shows solid returns and future potential in our community which sees continued rapid population gains. The mismatch between demand and supply for residential housing has had a significant effect on the values of residential homes together with vacancies and rental growth which is not expected to dissipate in the short term.

Residential vacancy rates remain at long term lows across the whole of NSW, but the middle and outer rings have felt this strongly given their attractive location and relative affordability. This compression in vacancy has resulted in high levels of rental growth, increasing the attractiveness of residential linked investment opportunities. This year we have seen a decline in investment options on the market with only $65million transacting in the first three quarters of 2023, far from the highs of close to $540million in 2021. With assets remaining tightly held investment yields have seen little upward movement despite the increased cost of finance.

The desire to purchase stems from not only the secure income stream, which is expected to continue to grow, but the future opportunities. Given the high cost of construction, the built form is an attractive investment as the replacement value is likely to render returns unviable. The future potential of subdivision or development linked with the strong gains of the broader residential
market remains a key consideration for investors.

If you'd like to discuss this report in more for learn more about the value of your unit block, we would be delighted to engage in a conversation with you.

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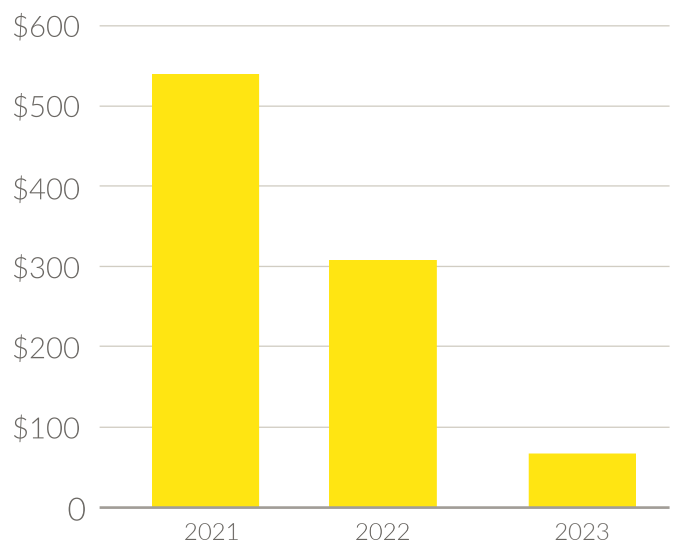
Block of Units
Key Statistics

TOTAL SALES TRANSACTION

$ MILLIONS



SALES TRANSACTIONS

2021	$539.1M	
2022	$307.1M	
2023	$64.7M	*TO 1 OCTOBER

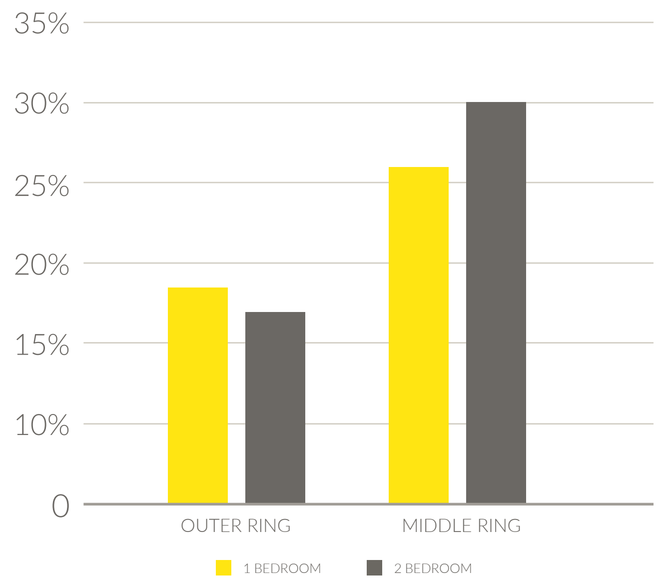
AVERAGE TRANSACTION SIZE: $3.6M

GROSS YIELD RANGE: 3.6% - 7.0%

SOURCE: REINSW (SEPTEMBER 2023)

VACANCY BY REGION

% ANNUAL GROWTH



% ANNUAL GROWTH IN AVERAGE OUTER RING UNIT RENTS

- 1 BEDROOM 15.85%
- 2 BEDROOM 17.02%

SOURCE: FACS INSIGHTS (JUNE 2023)

% ANNUAL GROWTH IN AVERAGE MIDDLE RING UNIT RENTS

- 1 BEDROOM 26.88%
- 2 BEDROOM 30.00%

SOURCE: FACS INSIGHTS (JUNE 2023)

5.9% - 6.3%
INVESTMENT INTEREST (ONLY) RATES

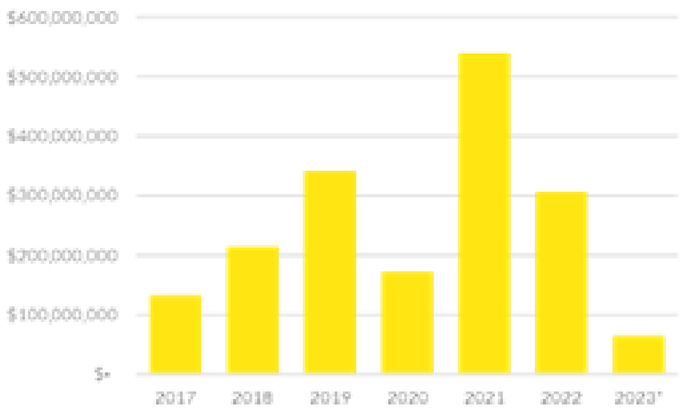
SOURCE: RBA (AUGUST 2023)

1.4%	1.4%	1.3%
SYDNEY TOTAL VACANCY	MIDDLE RING VACANCY	OUTER RING VACANCY

SOURCE: REINSW (SEPTEMBER 2023)

Block of Units *Transactions*

NSW BLOCK OF UNIT TRANSACTIONS



SOURCE: RWCWS *2023 TO 1 OCTOBER

The popularity of block-unit markets has surged recently, though with assets being tightly held, the investment volumes have hit a long-term low.

In the initial three quarters of 2023, the market saw about $65 million in transactions through 18 sales, markedly lower than the 75 sales in the previous year and 134 in 2021. This market segment has reaped significant benefits from the sharp uptick in population, fueled by the return of overseas migration, with New South Wales becoming the prime destination for newcomers.

CONSTRUCTION HURDLES

The construction of new housing was notably restrained during the COVID-19 era and continues to face challenges due to the ongoing high costs associated with supply chain disruptions and labor shortages, leading to a housing supply deficit. This scarcity has tightened the rental market, evidenced by sustained low vacancies and a swift climb in average rents.

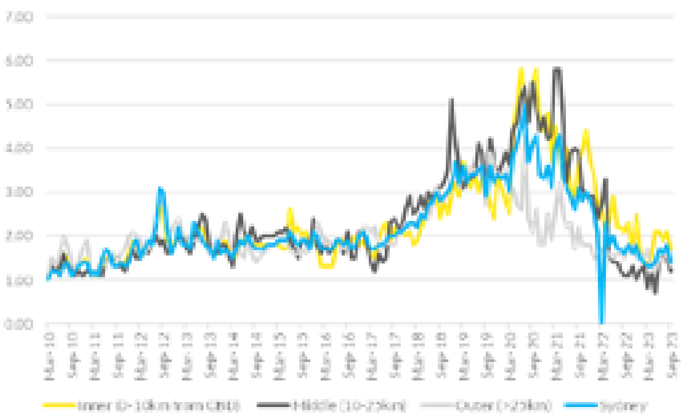
BUILD-TO-RENT TREND

Responding to the supply-demand imbalance, Australia has seen a rise in "Build to Rent" developments, an asset class well-established in Europe and the UK. The block unit market has been a forerunner to this trend, offering tenants lease stability and providing owners with a consistent income.

While the chance to subdivide and enhance value appeals to some, many long-term private investors are drawn by the steady income growth and the potential for capital returns linked to the residential market. In today's economic landscape, the heightened replacement costs render existing dwellings like these an even more appealing investment.

Sydney Residential *Vacancy Rates*

SYDNEY RESIDENTIAL VACANY RATES (%)



SOURCE: REINSW

Challenges within the NSW housing market persist.

POPULATION DYNAMICS

The state's population grew by 156,300 during the 2022/23 financial year, while new housing completions failed to meet the 50,000 mark across NSW.

This discrepancy has placed significant pressure on the housing market, notably affecting the rental sector with sharp rent increases and historically low vacancy rates.

Western Sydney is poised to absorb the brunt of this population surge,thanks to burgeoning employment opportunities and available land for development.

The latest figures from the Real Estate Institute of New South Wales (REINSW) indicate a tight vacancy rate of 1.3% in the outer regions of Sydney as of September 2023.

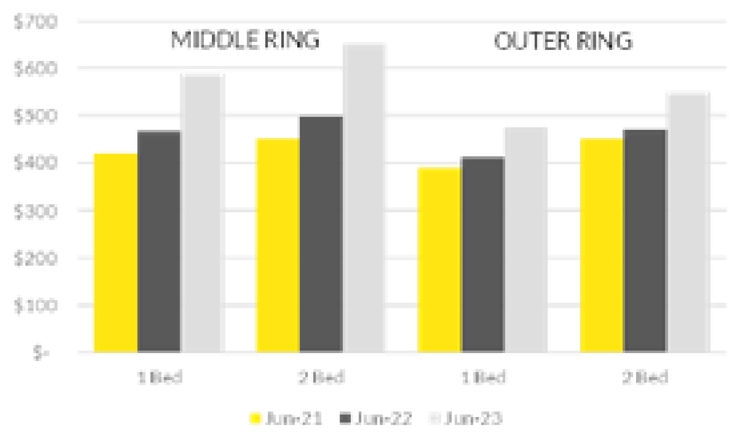
This rate has consistently hovered around 1.5% over the past 18 months, a decrease from the five-year average of 2.2%. The middle ring of Sydney mirrors this trend, with current vacancies at a slim 1.2%, compared to a 3.2% five-year average.

CONSTRUCTION COSTS

With construction costs remaining high and approval processes protracted, the addition of new homes to meet demand is expected to be gradual. This slow pace is likely to drive further rent hikes. For investors, the robust rental returns present lucrative investment opportunities, with many seizing competitive yields. The stability of these returns, coupled with the prospects of future capital growth, underpins the appeal of these investments.

Block of Units
Rental Insights

GREATER SYDNEY MEDIAN WEEKLY UNIT RENTS



SOURCE: FACS INSIGHTS

Following on from the tight vacancy landscape, rental growth has been exceptional, particularly in the middle ring markets.

Rental Growth in Middle Ring:

- Two-bedroom apartments increased by **30%** to an average rent of **$650/week.**
- One-bedroom apartments increased by **26.9%** to **$590/week.**

Despite these increases, affordability remains a concern:

Outer Ring Rental Rates:

- **$475/week** for one-bedroom units
- **$550/week** for two-bedroom units.

Both categories in the outer ring still experienced substantial growth, with increases in the high teens over the last year.

For residential asset investors, such as those owning blocks of units, the past three years have been particularly profitable:

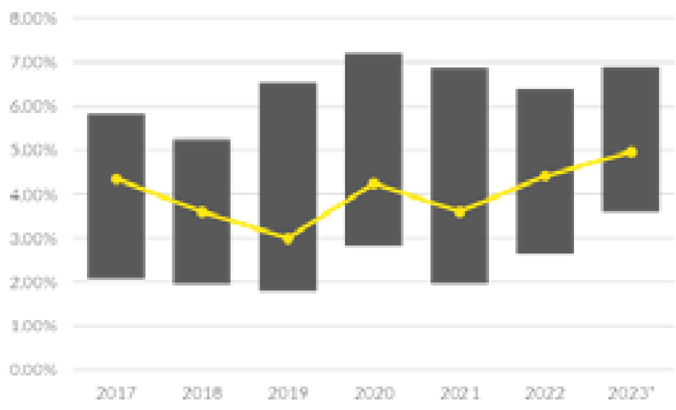
- Income growth has exceeded **20%** in the outer regions.
- In the middle ring, the increase has been more than **40%.**

This level of income growth has notably outstripped the rise in finance costs. Interest rates for investment loans on an interest-only basis currently range between 5.9% and 6.3%. These have risen by approximately 400 basis points over the same period.

Considering the high cost of construction, the attractiveness of built forms with a robust income profile is further enhanced. Investors find stability in these assets, as yields have remained relatively stable compared to other asset classes, making them an appealing option in the current economic landscape.

Investment *Yield Insights*

NSW BLOCK OF UNITS GROSS YIELD RANGE



SOURCE: RWCWS *2023 TO 1 OCTOBER

Investment yields for blocks of units have demonstrated a modest uptick, reacting to the rising cost of capital and an increase in income returns.

This year's transactions show investment yields ranging broadly from 3.6% to 7.0%, reflecting the diversity in asset size and quality.

YIELD INFLUENCES:

- Regional transactions offer a yield discount compared to metropolitan areas.
- Factors such as unit composition, age, and development potential contribute to value variations.
- Boarding house investments have recently emerged in the market, presenting an alternative investment that differs in future potential.

The current year has seen a scarcity of investment opportunities, with investors choosing to retain assets amid growing income streams. Conversely, development prospects have increased, particularly for boarding house sites aiming to leverage the "build to rent" trend and the urgent need to address the demand-supply gap accentuated by NSW's population growth.

However, the feasibility of these developments is challenged by high construction costs. To align with the economic realities, significantly elevated rents would be necessary, potentially rendering some potential projects financially unviable.

Conclusion

The block of unit market is expected to remain a hot commodity capitalising on improvements in residential rents and overall capital value appreciation.

Driven by robust population growth and a constrained supply of new housing—particularly acute in NSW and, more specifically, Western Sydney—there will be sustained high demand for occupancy, ensuring that investment yields remain sharp. As an appealing asset class within the private market, it serves as a more accessible alternative to the rapidly emerging "build to rent" sector, which is gaining traction amid the housing shortage.

Despite the optimism for this asset type, a continuation of limited sales activity is expected, as the compelling returns on offer encourage owners to hold onto their properties.

While the robust growth in rents might moderate, the pressure is likely to persist until the supply-and-demand imbalance is rectified, a process projected to span the medium to long term. With vacancies scarce and the costs of developing new stock remaining prohibitive, the prospect of steady, substantial returns will keep these investments in favour.

Yields have experienced a slight increase, yet properties offering prospects for rental growth, or those amenable to short-term enhancements, value-adds, or redevelopment, may still command tight yields in spite of rising finance costs.

The rental market's strain suggests that properties with boarding house potential will continue to attract a new segment of buyers. Nonetheless, the feasibility of such developments hinges on construction costs, which could prove to be a significant barrier to their viability.

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OUR OFFICE

With a strong foundation of experience and expertise, we bring a winning combination of dynamism and operational rigour to the commercial agency space.

Our People are *Your Advantage.*

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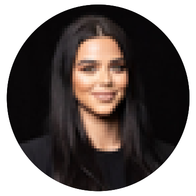

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EA to Peter Vines

LEASING

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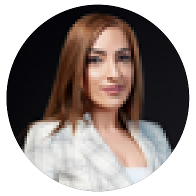
Senior Leasing Executive

SAMUEL GONG
Sales & Leasing Executive

TERESA MULLINS
Leasing Executive

ASSET MANAGEMENT



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Office Assistant

Who we are,
what we do,
why we do it