Greystar

The case for investing in Australia's up-and-coming multifamily market

Recently, Jonathan Schein, senior vice president and managing director of global business development for Institutional Real Estate, Inc, spoke with Chris Key, managing director, Australia, at Greystar. Following is an excerpt of that conversation.

Catch us up with what Greystar is doing in Australia.

We are pioneering. The multifamily sector has never existed in Australia, and we are trying to create it. Over history, North America, parts of Continental Europe and Japan have been the only markets where multifamily really existed. Over the last decade, that has begun to change, and we're on the beginning of the journey in this part of the world.

And what is Greystar's emerging footprint in Asia Pacific overall?

We set up our business in Asia Pacific in 2017. We have four offices — Shanghai, Tokyo, Sydney and Melbourne — with varying levels of staffing in each. We are 36 people strong across the region. Under our control, we have around 2,000 units in the region, which include a project opening in Shanghai this year, a project in South Yarra in Melbourne announced earlier this year, and then an additional project in Shanghai.

What will make multifamily attractive in Australia?

We see multifamily as a resilient asset class. When you look back over cycles, the performance of multifamily compared with other sectors has demonstrated much lower volatility than office or any of the other, as we describe them, major "food groups" of institutional real estate investment.

Our strategy in Australia, as it is globally, is city focused. We are attracted to gateway cities — the larger cities that attract the best talent, where the major corporates operate. Sydney and Melbourne are our two biggest and most vibrant cities. What has happened over time with housing, with rents and with occupancy — and what really feeds the resilience story — is in stark comparison to what has happened in office, industrial or retail. We have analysed over 20-plus years what has happened to rents and occupancy across those different sectors, and we see a far greater resiliency in the rental profile in housing, along with its continual upward trend over time, whereas other segments, such as office, swing with much greater volatility.

Can you give some examples?

During the global financial crisis, Sydney office rents fell by about 27 percent, while Melbourne rents fell by about 10 percent. At the same time, there was no decline in rents in housing. In terms of occupancy for Sydney apartments, vacancy has been as low as 1 percent, and the highest it has been in two decades is 4.6 percent. At the same time, vacancy in Sydney's office sector has been up to 11.9 percent, and the lowest it has been is 3.7 percent. The highest vacancy we have ever seen in Sydney apartments is not much more than the lowest vacancy we have ever seen in Sydney office, but the highest vacancy in Sydney office buildings is 2.5 times what you see in apartments. Melbourne is a similar story. In the early 1990s, office vacancy went to 24 percent and 26 percent in Sydney and Melbourne, respectively, while vacancy in housing only went to 4.5 percent and 6.0 percent, respectively. When you overlay what happened to rents at the same time, you have a really good growth and occupancy and, therefore, resilience story by comparison to other sectors.

Are these properties high-end, middle-income, low-income, workforce housing?

I would broadly describe the product as a mid-market to upper-mid-market offering. We differentiate that as a mid-market offering with a very high standard of amenity and service. It is volume housing — it isn't affordable or workforce housing — and one of the biggest challenges we have had in Australia is a framework or structure of tax that de-incentivises institutional investment into housing and highly incentivises private sector — or to use the American phrase, "mom and pop" — investors to buy housing and rent it out, because they can get an advantageous personal tax outcome.

As of the last census in 2016, 32.6 percent of the Australian population rent their homes from mom-and-pop investors. We build apartment buildings and, increasingly, more and more of the proportional share of housing delivered in this country has trended towards high density, as Australians try to control urban sprawl, consolidate our cities and manage transport. Approximately a third of our population is now in rental accommodation, but they rent from mom-and-pop investors. We believe institutional ownership and management can offer these renters a better overall experience and greater security of tenure.

How does your expertise in management operations, having worked at both Macquarie and JLL, impact your investment strategy in the region?

Greystar broadly balances its global lens with local expertise. Several of us were hired as the first employees in a particular country, so the objective was to bring in the leader who best understood the local market and had the knowledge and the connectivity within that market to build out the business — to set the strategy and then put in place all the building blocks that needed to follow. As for Australia, I had a conviction about the evolution of housing in this country, the continued need for more and more rental housing. I believed there could be a better way for it to be done than what was already being offered to the consumer. I also saw this as a fantastic opportunity to bring Greystar's global expertise to Australia. Beyond that, there is Greystar's global lens in the asset class, which differentiates us from other firms in Australia. Anybody else in Australia who is doing this now is doing it for the first time. There is no substitute for nearly 30 years of multifamily experience and managing more than 1,800 properties worldwide, housing more than a million people.

Say I'm a superannuation fund out of Melbourne or an institutional investor out of London. Why is Australia multifamily an attractive place for long-term residential real estate investors?

Well, it is the greatest country on Earth — that is probably point No 1! But seriously, until the emergence of the current virus and the pandemic, we have had a tremendous run. In 2017, we took the record for the longest and most sustained period of economic growth of any developed country in history. We are a major beneficiary of immigration, with probably the strongest population growth of any of the world's advanced economies. Additionally, we have the local market fundamentals that underpin success in rental housing. There is a very deep pool of potential customers — as I said, almost a third of our population today is renting — which translates to a cohort of about 8 million people looking for rental housing. We have long-term, sustained, strong rental growth in the major markets across the country and have structural undersupply in our largest city, Sydney. And we have a young population looking for choice and flexibility, who feed the demand for multifamily housing — people who are marrying later, having children later, staying in rental accommodation longer.

Do you see the trend for working from home impacting Greystar's strategy at all?

We are still trying to get our heads around what the long-term implications are, and I have seen some extensive analysis on ways to plan and design our buildings as a result of the pandemic. There will be some near-term shocks, and, yes, over the longer term there will be some changes, but I think people have underestimated the way people enjoy the socialisation aspects of work and having a differentiated place. I don't know what you all have taken away from your experience working from home. I have young children and have been at home for two months, trying to homeschool and work at the same time, whilst my wife goes to work each day as an essential worker in the hospital — and I cannot wait for the day that I can get back to the office.

What opportunities do you see for the Australian build-to-rent market in the context of today's investment climate and demographic environment?

We can try to remove ourselves from the pandemic for a moment, but it is very difficult to decouple from that. Australian housing supply, probably like other markets around the world, is going to be pretty drastically impacted by the effects of the virus. Once immigration bounces back and we move through to the other side of this time, we are going to have a pretty drastic undersupply situation here in Australia. We were already coming off of all-time highs in terms of the delivery of supply in the Australian market, and despite those record levels of housing, we were maintaining occupancy in the high 90 percent range for housing.

It's very well to discuss how strong the demand side of the equation is, but the expectation is that national housing supply is going to fall back to a level not seen since the 1960s. The Urban Development Institute of Australia has put out numbers for New South Wales, specifically, saying that by 2022 housing supply will be at the same level it was in 1953 — in other words, a drastic shortage of housing. To grasp the scale of the opportunity in Australia for the multifamily sector, we have roughly a A$7 trillion housing market. If we can follow a newer multifamily market like the United Kingdom and get to 1 percent penetration in the housing market, that is a A$70 billion investment opportunity. So we see in Australia an enormous scale opportunity, very strong fundamentals and a window of time where build-to-rent can really break through and provide meaningful supply to fill a hole, which has been left by the traditional market.

A last word?

There are really two key points: resilience and opportunity. Institutional investors, certainly in Australia, have historically had a very large exposure to retail and seen that as a key foundation for their real estate investment portfolios. That has to change. Before the virus, we were seeing retail's death by 1,000 cuts — the Amazon effect, e-commerce. With COVID-19, that became one massive cut. A lot of stores won't recover from this. Greystar is investing into what is arguably a much stronger and more robust real estate asset class, and we hope more institutional investors will take the opportunity now to start investing in multifamily housing, creating a new foundation for their Australia portfolios going forward.

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CORPORATE OVERVIEW

Greystar is a leading, fully integrated real estate company offering expertise in investment management, development and management of rental housing properties globally. Headquartered in Charleston, South Carolina, United States, Greystar manages and operates an estimated US$200 billion–plus of real estate in nearly 200 markets globally, including offices throughout the United States, United Kingdom, Continental Europe, Latin America, and the Asia Pacific region. Greystar is the largest operator of apartments in the United States, managing more than 660,000 units/beds, and has a robust institutional investment management platform with approximately US$35 billion of assets under management, including nearly US$15 billion of assets under development. Greystar was founded by Bob Faith in 1993 with the intent to become a provider of world-class service in the rental residential real estate business. To learn more, visit www.greystar.com.