

Australian's economic resilience and demographic trends reveal real estate opportunities for investors

Australia is amid an economic and demographic shift, and new investment opportunities are beginning to surface. For global real estate investors seeking exposure in the Asia Pacific (APAC) region, it is worth exploring "Why Australia?" with the evolving profile of the nation.

Despite global volatility, Australia has remained resilient and shown signs of a positive outlook. Currently, trade figures are strong, unemployment rates remain close to record lows, and inflation is decreasing.

A nation of economic resilience

The most appealing factor is Australia's strong underlying regulatory framework that has upheld the nation as a safe haven for global investors seeking APAC exposure. The nation's strength has been apparent during the past year; despite global volatility, Australia has remained resilient and shown signs of a positive outlook. Currently, trade figures are strong, unemployment rates remain close to record lows, and inflation is decreasing. The resource-rich nation that has been traditionally dependent on the export of fossil-based energy resources is increasingly supporting the global transition to renewable energy to meet net-zero targets and transition away from fossil fuels. The investments in climate change have the potential for job creation and economic growth. Supporting this economic growth, Australia has observed record-breaking annual migration figures of more than half a million. Now, the nation must grapple with the evolving demographics, with real estate investments and government controls needing to adapt to the changing dynamics.

Australia experienced 30 years of economic growth prior to a technical recession in the early months of the COVID-19 pandemic – the most protracted sustained growth of any developed economy. This period included the 2008 global financial crisis when Australia remained the only major economy to avoid a recession. Several factors enabled this, including economic stimulus, proximity to growing Asian economies, abundant natural resources and strong migration rates. Australia still maintains the lowest debt as a percentage of GDP ratio compared with the United

States, United Kingdom, Canada, Germany, Japan, Italy and France. The Reserve Bank of Australia (RBA) forecasts a positive outlook, with household consumption growth, inflation stabilisation, interest-rate decline, and an increase in household wealth by late 2024.

By the 2000s, Australia was able to take advantage of its geographic proximity to the booming Chinese economy, with China becoming Australia's largest trading partner in 2009 at 36.7 percent of exports. Australia has since shifted again, increasing trade with other nations and thereby decreasing China's share of exports to 26 percent. Today, 18 free trade agreements (FTAs) are in place with various nations, including the United States, China, South Korea, Japan and Singapore. The most recent agreement was established with the United Kingdom.

Transition to net zero

Above and beyond Australia's ability to pivot relationships to secure exposure to growing economies, Australia has also demonstrated the ability to transition the economic structure of its own export sector. Proactive steps have taken place to be well positioned to navigate away from coal mining and towards future-focused minerals. Today, Australia is uniquely positioned to benefit from a sixfold increase in demand for the material requirements needed for the transition to a net-zero global economy. This includes its position as the leading lithium producer globally (223 percent larger than the second, Chile) and maintaining the second-largest copper, nickel and cobalt reserves. Per person, Australia has renewable-energy resources that are superior to any other developed country and far superior to its economic trading partners in Northeast Asia. This is even more important with the COP28 agreement seeking to accelerate the transition away from fossil fuels, triple renewable energy, and increase climate finance to achieve the Paris Agreement.

According to the *Intergenerational Report 2023*,¹ the transition to net zero is an opportunity to boost Australia's productivity and economic growth for the next 40 years, due to the global movement for renewables. Investments will be required to accelerate clean-energy businesses and innovation to meet global demand.

Private-sector investment in environmental, social and governance (ESG) outcomes for the built environment is likely to receive increased support for further accelerating the transition to renewables and encouraging innovative initiatives in the pursuit of reducing carbon emissions.

Australia's growing but ageing population

The *Intergenerational Report 2023* forecasts the Australian population to grow from 26.5 million to 40.5 million by 2063, an increase of 14 million, or 50 percent. This growth is predominately based on migration. The nation is observing record-breaking migration numbers after a plunge caused by the pandemic. The Australian Bureau of Statistics (ABS) shows

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that migration reached 624,000 people during the 2023 calendar year. The key topic of discussion has been housing supply, with vacancy rates floating around 1 percent and rental costs rising. The cost of residential homes continues to hold and, in some locations, rise in value, despite the rise in interest rates.

While all real estate sectors will benefit from the forecasted greater population, the living sector is the most immediate beneficiary, due to the large supply/demand imbalance. Australia's local and state government system has led to delays in the planning and development of residential homes compared with other APAC markets. The federal government has intervened to help address the housing demand and affordability, announcing plans to construct 1 million new homes in five years. An additional 30,000 new social and affordable rental houses will be included during the same term by establishing a new fund to tackle affordability. The state governments are also looking to address affordability by increasing supply, with the New South Wales government fast-tracking planning and development approvals across councils with the infrastructure to sustain population growth and housing

development. Furthermore, fees on foreign investors funding build-to-rent projects have been reduced to attract further investment in residential property. According to JLL, the nation's build-to-rent pipeline has risen 56 percent.

Despite Australia's population growth, the nation must grapple with an ageing population, with investments required to support these shifts. According to the United Nations, Australia currently has the third-highest life expectancy in the world. As a result, the median age is set to rise from 38.5 years to between 43.8 and 47.6 years.¹ In the coming decade, the number of people older than 85 is predicted to triple, and the over-65 population is set to double.¹

As a part of the broad living sector, healthcare will benefit from both a growing and ageing Australian population. With the nation enjoying the highest standard of healthcare based on equity and health outcomes, investments are required to maintain and uphold the current standards. The *Intergenerational Report 2023*¹ outlines the significant spending pressures impacted by the ageing population – health, aged care and the National Disability Insurance Scheme (NDIS). It is estimated the ageing population alone will account for approximately 40 percent of the increase in government spending during the next 40 years.¹ Expansions for healthcare services, aged care or home care will be required to increase the support sector.

Australians entering the retirement phase are expected to have higher superannuation balances because they received the superannuation guarantee for an extended period in their careers and at a higher rate.¹ While government spending plays a role, the pressure on public healthcare won't be entirely alleviated, given budget constraints. Government incentivisation of private health insurance and the growing wealth of retirees will likely sustain a strong demand for private healthcare and aged services alongside public options. With the growth in healthcare demand, value-added opportunities are now presenting as a strategy with compelling risk-adjusted returns.

"The lucky country" remains well positioned for investors, with a myriad of opportunities in built-to-sell, build-to-rent and diverse healthcare assets.

Note: ¹Australian Government, The Treasury, *Intergenerational Report 2023*



CONTRIBUTOR

Roger Parker
Joint Managing Director
EG

COMPANY OVERVIEW

EG is an Australian, disciplined, data-driven real estate investment manager and developer with more than A\$5 billion in assets under management.

CORPORATE CONTACT

Sharon Chang | schang@eg.com.au | www.eg.com.au

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