# Property Value Forecast

Prepared for TransGrid

June 2021

# Contents

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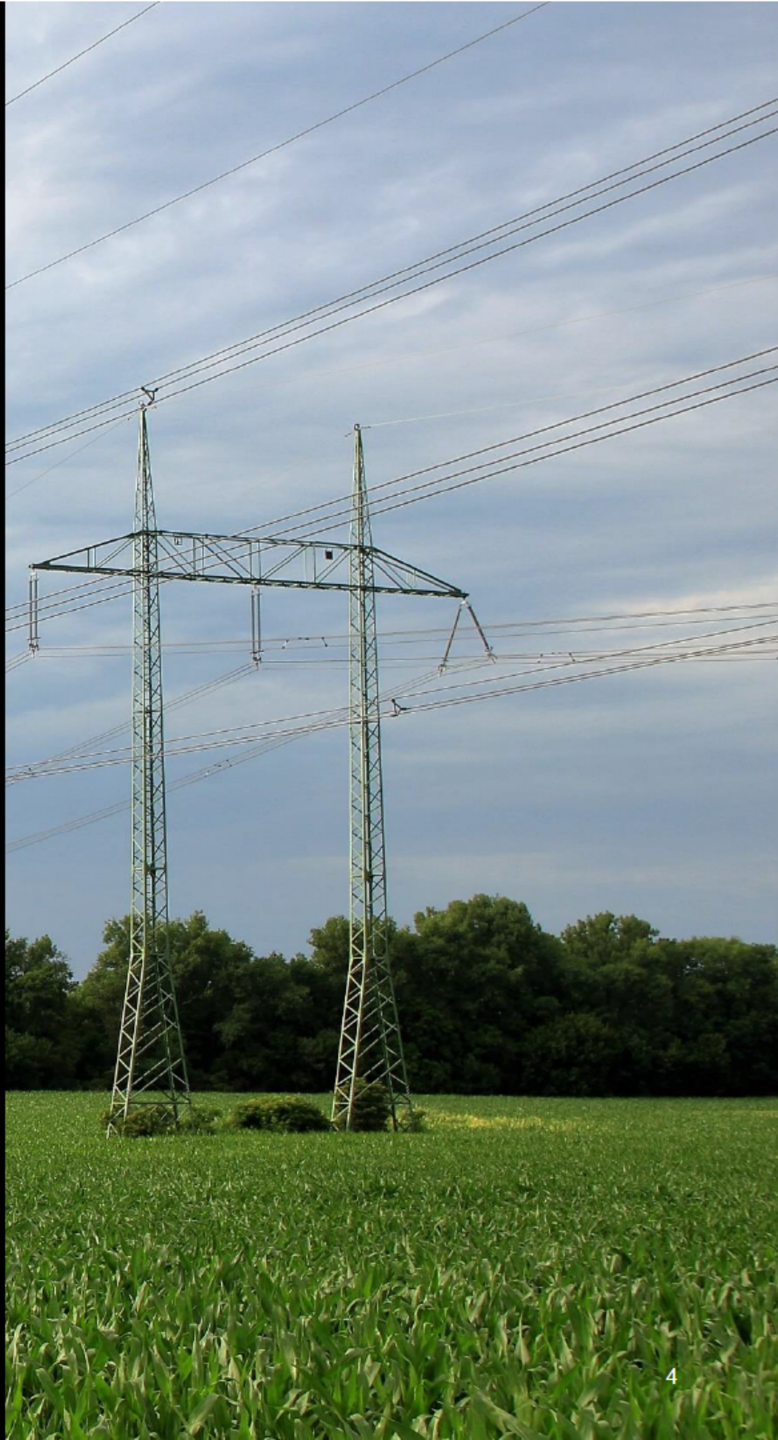
# Background & Scope



# Background & Scope

## Background

TransGrid are putting together a Revenue Reset estimate submission for a potential new transmission line between Bannaby to Sydney [redacted]

Under the TransGrid Compensation Principles for Major projects [redacted] is included into the model for the easement component. However, due to growth in property values in some areas that they will be traversing, TransGrid are considering an increase [redacted] to accommodate the potential future increases.

We have been advised by TransGrid that the property costs (acquisitions and easements) will likely occur over the next five year period. Based on the multipliers identified above, this reflects a compound annual growth rate (CAGR) of [redacted].

A summary of the localities which the proposed line will cross have been tabled on the right.

## Scope

TransGrid have engaged JLL to provide commentary and evidence to understand the potential land value cost escalations associated with the new transmission line between Bannaby to Sydney [redacted].

The research into the land value cost escalations will provide a better understanding to the multiplier that may need to be applied.

**Table: Localities Traversed by Proposed Transmission Line**

| Localities |
|---|
| [redacted] |
| [redacted] |
| [redacted] |
| [redacted] |
| [redacted] |
| [redacted] |
| [redacted] |
| [redacted] |
| [redacted] |
| |

Source: TransGrid

# Proposed Transmission Line

[redacted]

## Sections of the Proposed Transmission Line

As outlined above, TransGrid are considering a potential new transmission line between Bannaby to Sydney [redacted]. This transmission line is made up of four sections:

[redacted]

The [redacted] section of the transmission line is shown on the figure on the right, with the remaining sections shown in the figure overleaf.

## Land Use Types

The table below identifies the land use types within each of the sections.

**Table: Land Use Types by Section of Proposed Transmission Line**

[redacted]

**Figure:** [redacted]

[redacted]

# Proposed Transmission Line cont.

[redacted]

**Figure:** [redacted]

Source: TransGrid, AECOM

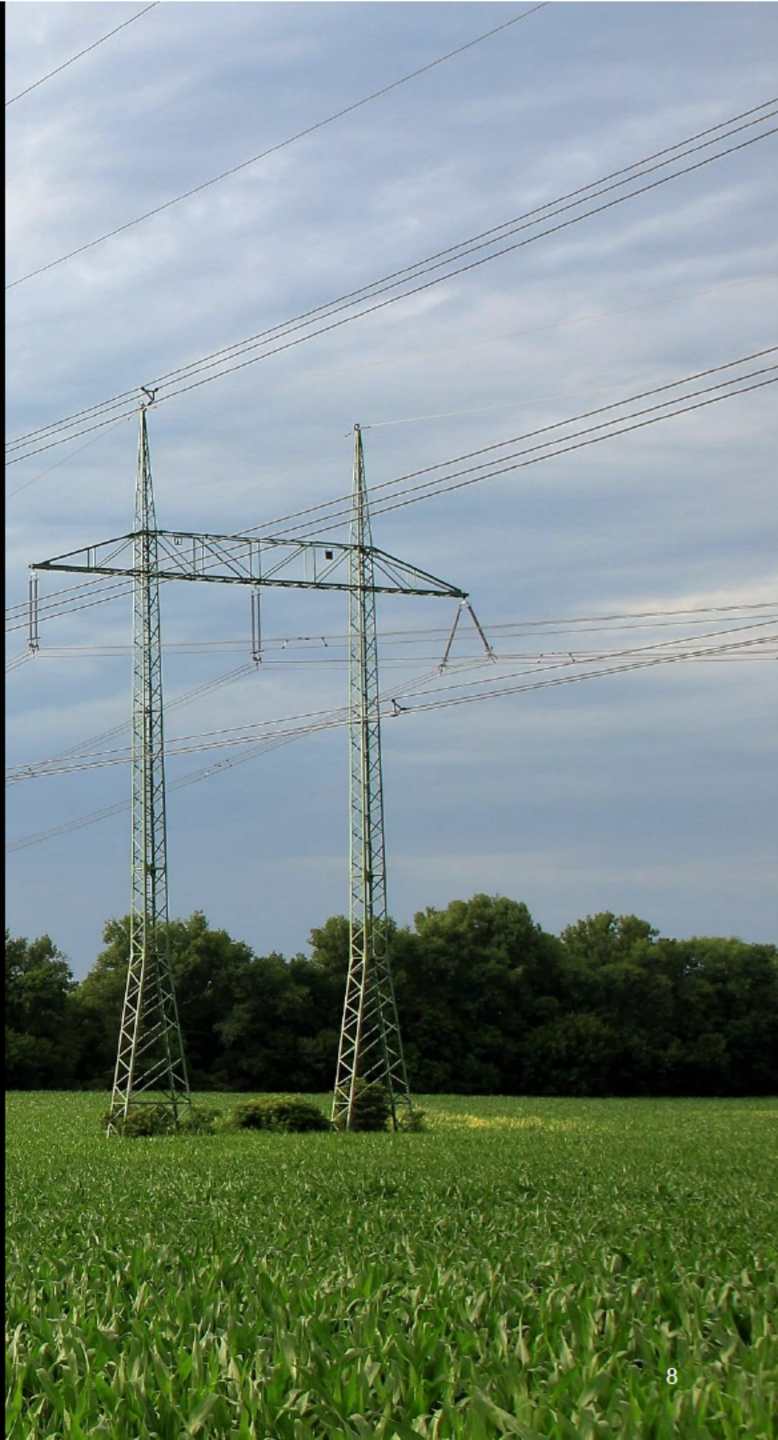
## Local Government Areas

The proposed transmission line traverses the following local government areas (LGAs):

[redacted]

*note these two LGAs sit outside of the Greater Sydney region

# Drivers of Growth



# Economic Growth

## Summary of Key Economic Metrics

Provided in the table below are a selection of historic, current and forecasts for economic and broader demographic considerations.

**Table: Historic, Current and Forecast Economic Conditions (Average % or % p.a. CAGR)**

| National | Historic | Current | Forecast | Observations |
|---|---|---|---|---|
| Standard bank variable mortgage rate (average) | 7.4% (CY91-CY20)<br>5.8% (CY11-CY20) | 4.6% (CY20) | 5.2% (CY21-CY30) | Interest rates to slightly increase after recent compression |
| Treasury Bonds (10 year) (average) | 5.5% (CY91-CY20)<br>2.9% (CY11-CY20) | 0.9% (CY20) | 1.6% (CY21-CY30) | Risk free rates to stabilise in the short term and expected to revert to slightly higher levels |
| CPI (average) | 2.3% (CY91-CY20)<br>1.9% (CY11-CY20) | 1.3% (CY20) | 2.0% (CY21-CY30) | CPI to revert to slightly higher levels than current, akin to historic |
| **NSW** | **Historic** | **Current** | **Forecast** | **Observations** |
| Gross State Product (CAGR) | 2.4% (CY90-CY20)<br>2.1% (CY10-CY20) | -2.4% (CY20) | 2.7% (CY20-CY30) | GSP growth to expected to moderate over the next 10 years to historic levels after recent decline |
| Private housing investment (CAGR) | 2.0% (CY90-CY20)<br>1.9% (CY10-CY20) | -10.2% (CY20) | 1.8% (CY20-CY30) | Negative private housing investment growth in the short term and expected to moderate over next 10 years |
| Retail turnover (CAGR) | 3.1% (CY90-CY20)<br>2.8% (CY10-CY20) | 2.7% (CY20) | 3.0% (CY20-CY30) | Retail growth moderating to long term average over next 10 years |
| Total population (CAGR) | 1.1% (CY90-CY20)<br>1.3% (CY10-CY20) | 0.8% (CY20) | 0.9% (CY20-CY30) | Population growth to decline over the short term and expected to moderate over next 10 years |
| Employment growth (Sydney GCCSA) (CAGR) | 1.4% (CY90-CY20)<br>1.5% (CY10-CY20) | -2.4% (CY20) | 1.5% (CY20-CY30) | Employment growth moderating to long term average over next 10 years |

Source: Australian Bureau of Statistics, Deloitte Access Economics, NSW Department of Planning & Environment, JLL Notes: CAGR – Compound Annual Growth Rate; GCCSA – Greater Capital City Statistical Area

## Implications

- Australia's economy plunged into its first recession in nearly 30 years as it suffered the economic fallout from COVID-19. New South Wales has recently experienced a strong state economy above the national average. Despite the historic strength of the Australian and NSW economies, there was considered to be a risk of future moderation before the onset of the COVID-19 pandemic. The outlook for the NSW economy was for a slowdown of growth in State Final Demand (SFD) and Gross State Product (GSP). A decline in residential construction activity was also expected, after a period of extraordinary growth, which was accelerated due to the economic impacts of the COVID-19 pandemic.
- The Reserve Bank lowered the cash rate twice in March 2020 from 0.75% to 0.50% on 3 March 2020 and again to 0.25% on 19 March 2020 in response to the impacts of the COVID-19 pandemic. As of 3 November, the cash rate has remained at 0.10%.

## COVID-19 Overview & Impacts

The World Health Organisation declared the Coronavirus (COVID-19) a global pandemic on 11 March 2020. The outbreak of COVID-19 has spread globally and is continuing to spread. Since March 2020, countries across the world have implemented various protective policy measures designed to slow the spread of COVID-19. This has included travel and border restrictions, closure of non-essential businesses and services, social distancing, self-isolation and other measures.

Sydney, and broader NSW, has fared well dealing with the COVID-19 health crisis, and is on track to recover more quickly than other established world cities. Economic uncertainty has consequences for property markets.

Factors affecting value could include reduced investor and occupier confidence, softening investment yields, reduced occupier demand, lower rental values and higher vacancy rates. Within a Sydney context, property markets have generally fared well during the COVID-19 pandemic.

# Underlying Common Drivers of Growth

Land is a finite resource, and therefore is influenced by demand and supply in each region. There are a number of driving factors that increase demand for land, and therefore increases values. This is reflected in unimproved land prices, capital values and rental values. While there are numerous drivers that influence property, the main drivers are considered below.

## Economic Growth

- Growth in property prices is correlated to broader economic conditions.
- Strong economic growth is often associated with strong population growth, wages growth, confidence and a other factors that influence demand for property, which in turn drives property prices.
- Not surprisingly, the correlation between house price growth appears stronger compared to SFD (which is a measure of domestic demand) rather than GSP (which is impacted by imports and exports).
- Forecasts by Deloitte Access Economics suggest nominal economic growth ranging from 2.5%-7.3% over the 10 years to 2030 (real growth in the order of 2.2%-5.2%).

## Interest Rates

- Interest rates play a critical role in property markets, particularly for highly geared owners. Adjustments to the cash rate, and its subsequent impact to lending rates, can result in improvements or deterioration in the ability to repay mortgages.
- The Australian market is currently in the midst of record low variable home loan rates, due to the cash rate sitting at 0.10% (as at June 2021). This has contributed to the growth in house prices in recent years, by increasing the borrowing capacity of purchasers.
- Strong capital growth has also been a major source of wealth creation for Sydney homeowners by increasing the equity in existing homes, this in turn may influence future real estate investment decisions.
- The relationship between home loan rates and house prices is not clear cut. Typically, a decline in the home loan rate will be followed by a period of growth in house prices. This is evident in the 5 years prior to 2016, with sustained low interest rates coinciding with strong house price growth. Demand has rebounded very strongly in the second half of 2020 and first half of 2021 on the back of record low interest rates

## Wages/income Growth

- Income growth is a key driver of rental growth as there is a clear relationship between income earned and ability to pay rent. As wages increase, the percentage of income going on rent reduces. Higher wages across the board may also lead to a similar growth in rents.

## Distance to CBD

- A key driver of property values and growth is the distance to the CBD, which may be represented by commuting time to the CBD.
- In his study *House and Land Prices in Sydney from 1931 to 1989,* published in "Urban Studies", Abelson found there was a clear link between the distance of land and houses from the CBD and value. Sydney land and housing prices declined exponentially with the distance from the CBD from 1931 to 1968. This trend was less pronounced from the 1970s onwards but the negative relationship between distance from the CBD was still apparent. House prices tracked less uniformly than land value to distance to the CBD, however, there was still a link observed over the timeframe of the study.

# Underlying Common Drivers of Growth cont.

## Population Growth

- Population growth is a significant driver of property markets, primarily within the residential market. When there is a growing population, the residential supply must meet the expected growth of the region. Where supply does not keep up with demand, growth in prices is likely.
- A growing population coupled with provision of infrastructure has a flow-on impact to economic activity in that location. This drives the growth of property values in respect to land, capital and rental values.
- Population growth provides a base level of demand for property and land. The table below shows the historic annual population growth and the forecast population growth for the states with NSW highlighted.

**Table: Historic Population Growth**

| | Growth p.a. Q4 1981 - Q4 2020 | Forecast Growth p.a. 2017-2066 | Population at Dec 2020 (million) | Proportion of Population |
|---|---|---|---|---|
| New South Wales | 1.10% | 1.02% | 8.17 | 32% |
| Victoria | 1.30% | 1.30% | 6.66 | 26% |
| Queensland | 1.96% | 1.15% | 5.20 | 20% |
| South Australia | 0.73% | 0.50% | 1.77 | 7% |
| Western Australia | 1.78% | 1.24% | 2.67 | 10% |
| Tasmania | 0.59% | 0.21% | 0.54 | 2% |
| Northern Territory | 1.66% | 1.15% | 0.25 | 1% |
| ACT | 1.59% | 1.27% | 0.43 | 2% |
| Australia | 1.35% | 1.10% | 25.69 | 100% |

Source: JLL, ABS 3101.0 Australian Demographic Statistics table 4 Estimated Resident Population, States and Territories (Number), ABS 3222.0 - Population Projections, Australia, 2017 (base) to 2066 Series B

NSW experienced population growth averaging 1.10% per annum between 1981 and 2020. Forecast growth for the period 2017 to 2066 is expected to be 1.02% per annum. This lower rate of population growth in the future supports a moderation in the rates of growth in NSW property markets.

NSW over the past 25 years has consistently seen growth through natural increases and net overseas migration, which has then been offset by consistent negative net interstate migration.

Of key note however is the location of the growth. South West Sydney is expected to support a very significant proportion of Sydney's growth – which will materially support land value growth, especially where the current uses reflect lower intensity uses e.g. agricultural, hobby farms, etc. We've provided below a summary of the Department of Planning, Infrastructure & Environment population projections over the next 5 and 20 years for the LGAs traversed by the proposed line, as well as, Greater Sydney and NSW.

**Table: Projected Population Growth, TransGrid LGAs, Greater Sydney, NSW (CAGR %)**

| Location | 2021 to 2026 | 2021 to 2041 |
|---|---|---|
| TransGrid LGAs | 2.4% | 2.8% |
| Greater Sydney | 1.8% | 1.5% |
| NSW | 1.4% | 1.1% |

Source: NSW DPIE

We have also tabled overleaf the growth rates of the individual LGAs which are traversed by the proposed transmission line.

# Underlying Common Drivers of Growth cont.

**Table: Projected Population Growth, LGAs Crossed by Proposed Transmission Line (CAGR**

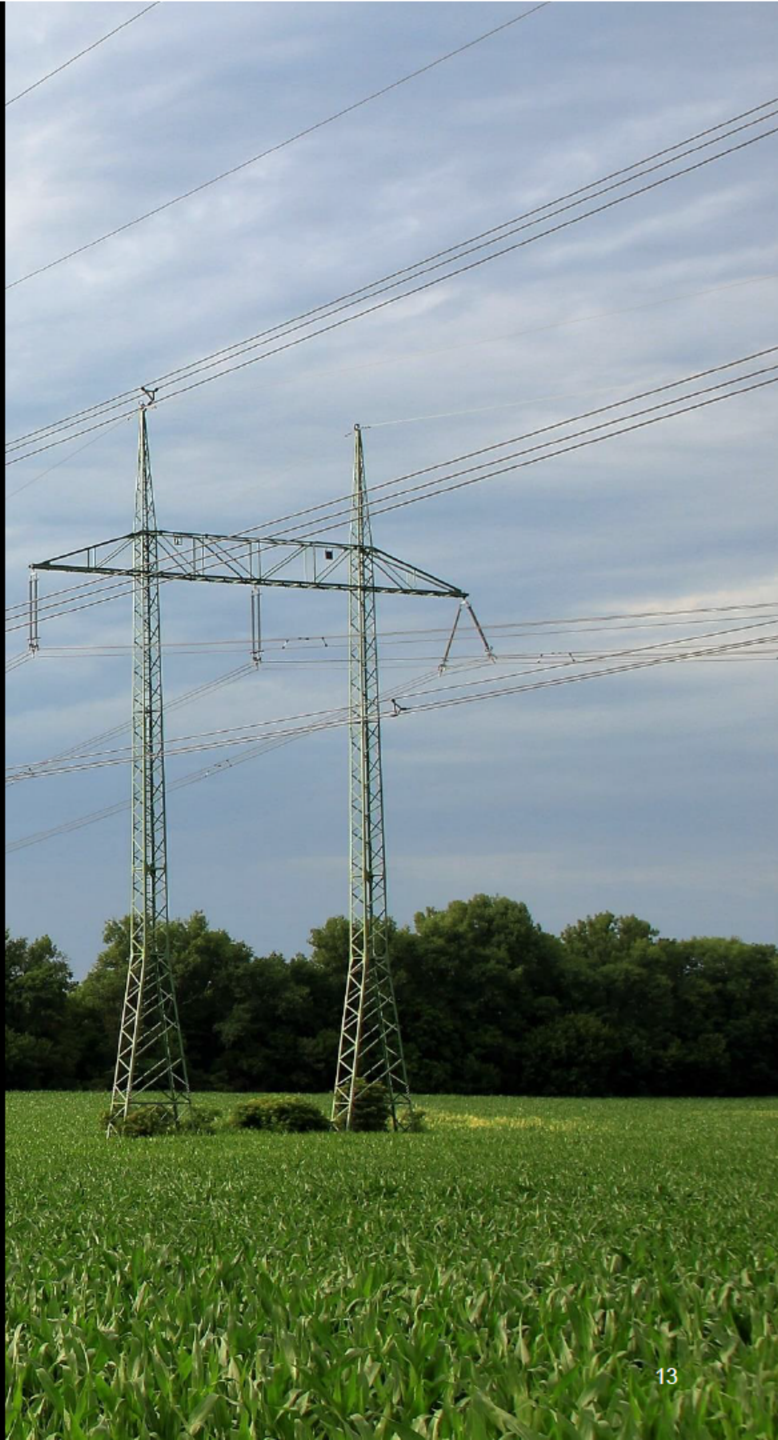
| Location | 2021 to 2026 | 2021 to 2041 |
|---|---|---|
| [redacted] | | |
| | | |

Source: NSW DPIE

## Infrastructure

- Infrastructure spending is a key element to strong capital growth in the property market.
- Treasurer Josh Frydenberg's 2021-2022 budget speech in May 2021 announced new infrastructure spending commitments of $15.2 bn, aimed at creating jobs and improving transport networks and connections between cities and regional areas. This included the commitment of the Great Western Highway and Newcastle Airport in New South Wales.
- This follows the announcement of the increased infrastructure spend of $100 bn across the next decade.
- Particular infrastructure projects influencing property prices in Sydney include Western Sydney Airport, expected to create 28,000 local jobs by 2031 along with wider benefits to the local economy.

# Historic Land Value Growth Analysis



# Introduction

In considering historic land value growth, we have initially had regard to the land use types tabled above. Further, based on a review of the preliminary costings we have focussed our analysis on the following land use types as these indicatively account for ~93% of the value:

- Hobby Farm
- Industrial
- Residential
- Rural Residential

We have considered a variety of data sources and have tabled these below. These sources include a mix of publicly available data, subscribed data and JLL proprietary data.

## Long Term Land Value Trends – NSW Valuer General

The NSW Valuer General provides long term land value trends for various land use types, based on benchmark properties. These observations are provided from 1996 to 2020 and include the following relevant land uses:

- Residential
- Small industrial
- Large industrial
- Hobby farms and home sites

## Median Sale Price – CoreLogic

JLL subscribe to the use of a refined quarterly series published by CoreLogic which tables median sale prices (along with some other relevant information) across residential houses, units and land. This series is from Q1 1990 to Q1 2021. On review of the growth rates shown in this series, it became apparent that reducing land size for residential land lots was a factor – artificially reducing the growth in values. As such, we've had reliance to the growth experienced on a $/sqm basis. The average land area details is however a short series, starting from Q3 2013.

## Industrial Land Value Series – JLL Research

JLL research provides a subscription based research service which tracks various property sectors, including industrial. The industrial series has been tracking industrial land values for certain markets in Sydney since the 1980's, with the land values of various sizes tracked on a quarterly basis.

Over the next few pages we have summarised our analysis of these historic data sources into the various land use types. We have had consideration to both broader Greater Sydney trends, as well as, more specific localised observations relevant to the proposed corridor (by reference to area or LGAs).

# Hobby Farm and Rural Residential

Provided below are historic land value growth observations related to hobby farms and rural residential. We've considered these two land use types together as the data being considered, the Valuer General long term land value trends, appears to combine these under "hobby farms and home sites".

## Greater Sydney

Provided below are historic land value growth observations for hobby farms and rural residential across Greater Sydney.

**Table: Hobby Farms and Home Sites, Greater Sydney (%)**

| Years | CAGR |
|---|---|
| 24 | 7.8% |
| 20 | 7.0% |
| 10 | 7.4% |
| 5 | 9.8% |

Source: NSW Valuer General

## Localised Observations

Provided below are historic land value growth observations for hobby farms and rural residential from areas within / near the proposed transmission line.

**Table: Hobby Farms and Home Sites, Localised (%)**

| Years | CAGR |
|---|---|
| 24 | [redacted] |
| 20 | [redacted] |
| 10 | [redacted] |
| 5 | [redacted] |

Source: NSW Valuer General

The tables shows a relatively strong level of growth, especially over the past five years. The growth is particularly significant in the localised series, broadly aligning to the announcement of the airport and supporting infrastructure, which would likely have impacted growth of values.

# Industrial

Provided below are historic land value growth observations related to industrial.

## Greater Sydney

Provided below are historic land value growth observations for industrial across Greater Sydney.

**Table: Small & Large Industrial Sites, Greater Sydney (%)**

| Years | Small CAGR | Large CAGR |
|---|---|---|
| 24 | 7.9% | 6.0% |
| 20 | 7.3% | 4.3% |
| 10 | 6.7% | 3.9% |
| 5 | 9.7% | 6.6% |

Source: NSW Valuer General

**Table: Industrial, Greater Sydney (%)**

| Years | CAGR |
|---|---|
| 10 | 10.9% |
| 5 | 17.7% |

Source: JLL Research
Note: Utilises the 1 hectare series – only those consistently tracked over the past ten years

## Localised Observations

Provided below are historic land value growth observations for industrial areas within / near the proposed transmission line.

**Table: Small & Large Industrial Sites, Localised (%)**

| Years | Small CAGR | Large CAGR |
|---|---|---|
| 24 | [redacted] | [redacted] |
| 20 | [redacted] | [redacted] |
| 10 | [redacted] | [redacted] |
| 5 | [redacted] | [redacted] |

Source: NSW Valuer General

**Table: Industrial, Localised (%)**

| Years | CAGR |
|---|---|
| 10 | [redacted] |
| 5 | [redacted] |

Source: JLL Research
Note: Utilises the 1 hectare series – only those consistently tracked over the past ten years

The tables above show a relatively inconsistent historic growth, with the JLL series showing a very strong historic growth. Part of this is likely explained as the JLL series tracks key industrial precincts, whereas, the Valuer General series is a mix of industrial precincts.

# Residential

Provided below are historic land value growth observations related to residential.

## Greater Sydney

Provided below are historic land value growth observations for residential across Greater Sydney.

**Table: Residential Land, Greater Sydney (%)**

| Years | CAGR |
|---|---|
| 24 | 7.9% |
| 20 | 7.1% |
| 10 | 6.5% |
| 5 | 3.9% |

Source: NSW Valuer General

**Table: Residential Land, Greater Sydney (%)**

| Years | CAGR |
|---|---|
| 7.5 | 9.4% |
| 5 | 4.6% |

Source: CoreLogic
Note: Have utilised $/sqm due to the impact of reducing average lot areas

## Localised Observations

Provided below are historic land value growth observations for residential areas within / near the proposed transmission line.

**Table: Residential Land, Localised (%)**

| Years | CAGR |
|---|---|
| 24 | [redacted] |
| 20 | [redacted] |
| 10 | [redacted] |
| 5 | [redacted] |

Source: NSW Valuer General

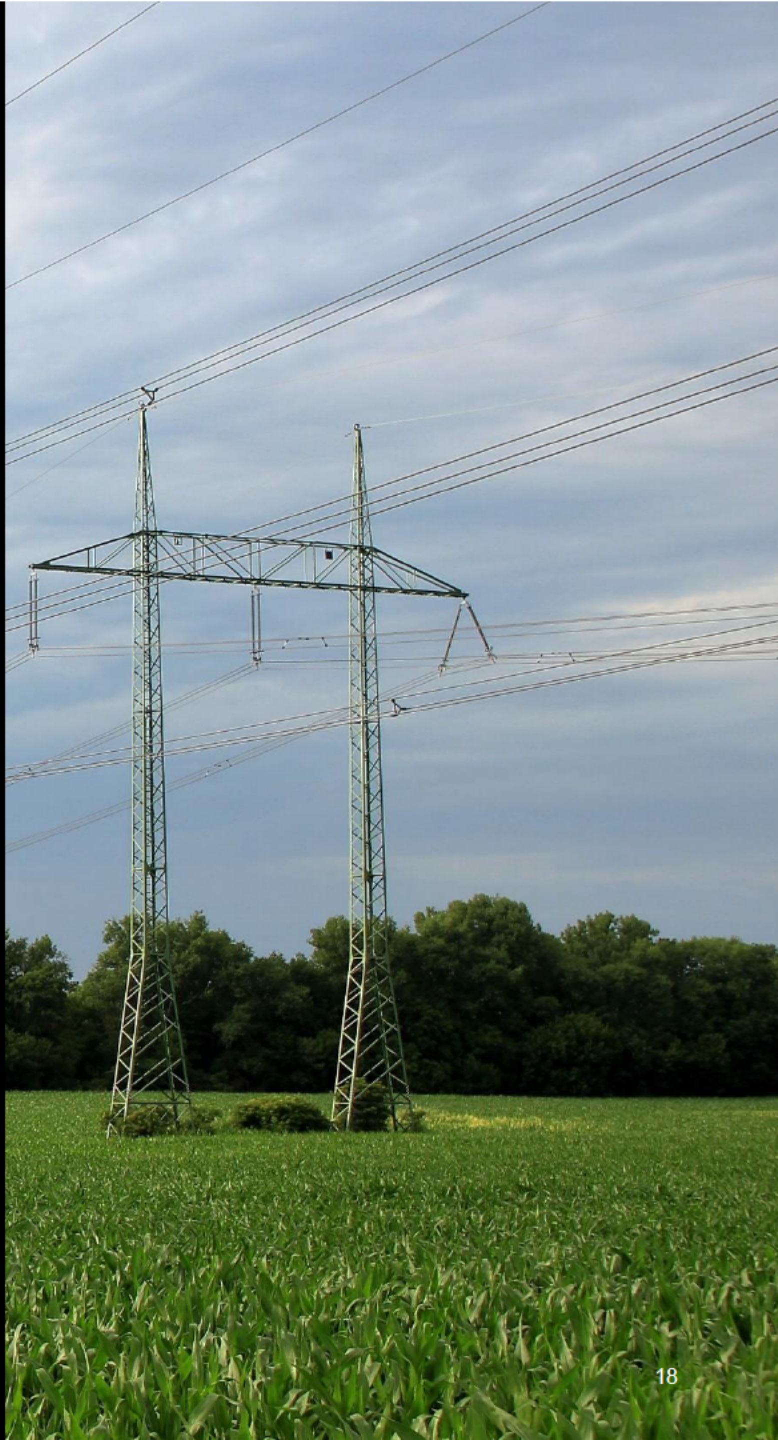
**Table: Residential Land, Localised(%)**

| Years | CAGR |
|---|---|
| 7.5 | [redacted] |
| 5 | [redacted] |

Source: CoreLogic
Note: Have utilised $/sqm due to the impact of reducing average lot areas

The tables above show some moderate growth for residential land both more broadly and localised, albeit a slightly strong growth appears to have occurred in the local area.

# Potential for Growth in Excess of Historic Rates



# Potential for Growth in Excess of Historic Rates

[redacted]

## Summary

As outlined earlier within this report, some of the areas [redacted] are going through significant changes. We have summarised some of these changes below:

- The proposed line either directly passes or is nearby the Western Sydney Aerotropolis or the South West Growth Area. The Western Sydney Aerotropolis is planned to become a thriving economic centre in Western Sydney, centred around the new Western Sydney International (Nancy-Bird Walton) Airport.
- The new Western Sydney International Airport is expected to become operational in 2026 – broadly in line with the time period for property / easement acquisitions.
- Supporting the Western Sydney Aerotropolis, the new Western Sydney International Airport and the South West Growth Area is a range of committed and investigated infrastructure. Some of this infrastructure includes:
  - The Sydney Metro Western Sydney Airport: connecting St Marys with the new Western Sydney International Airport. To be delivered by 2026 (in line with the airport)
  - Western Sydney Growth Roads Program
  - Western Sydney Infrastructure Plan including the M12

## Implications

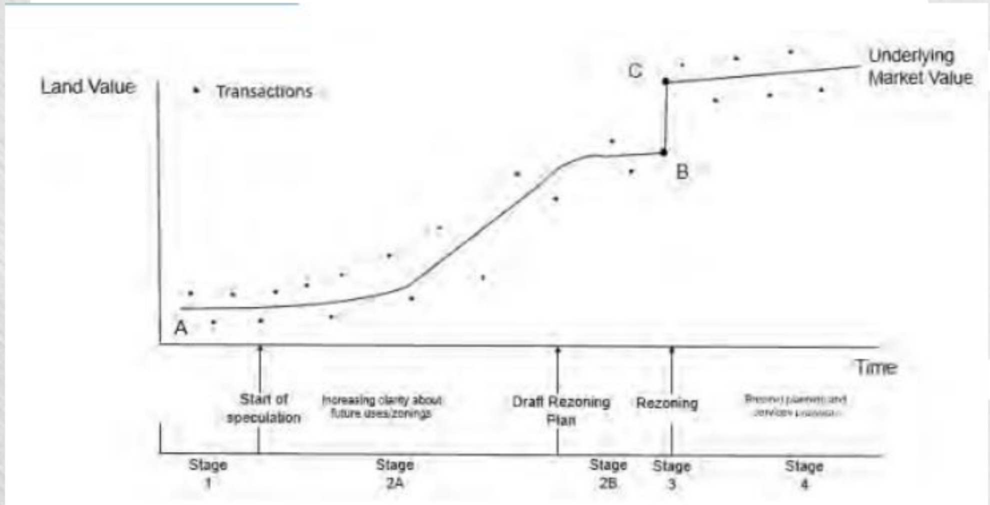
The changes outlined can and have led to speculative purchases of land within this broader Western Sydney area. The NSW Valuer General undertook research which was published in February 2021 titled "Review of the impact of rezoning potentiality on land values". This research utilised the Western Sydney Aerotropolis as a case study and found:

> *The review concludes that it is possible to have sufficient and consistent evidence to support upward trends in the assessment of land values reflecting potentiality prior to a rezoning occurring.*

It is likely over the next five years for the speculative behaviour to continue, which will impact underlying land values. This will have the greatest impact for land within / near the Western Sydney Aerotropolis and South West Growth Area, particularly land which is of a lower current value (e.g. rural land) with the belief it may be rezoned in the future for higher values (e.g. residential, industrial, etc.) Therefore the speculation will have a particular impact on the northern sections of the proposed transmission line.

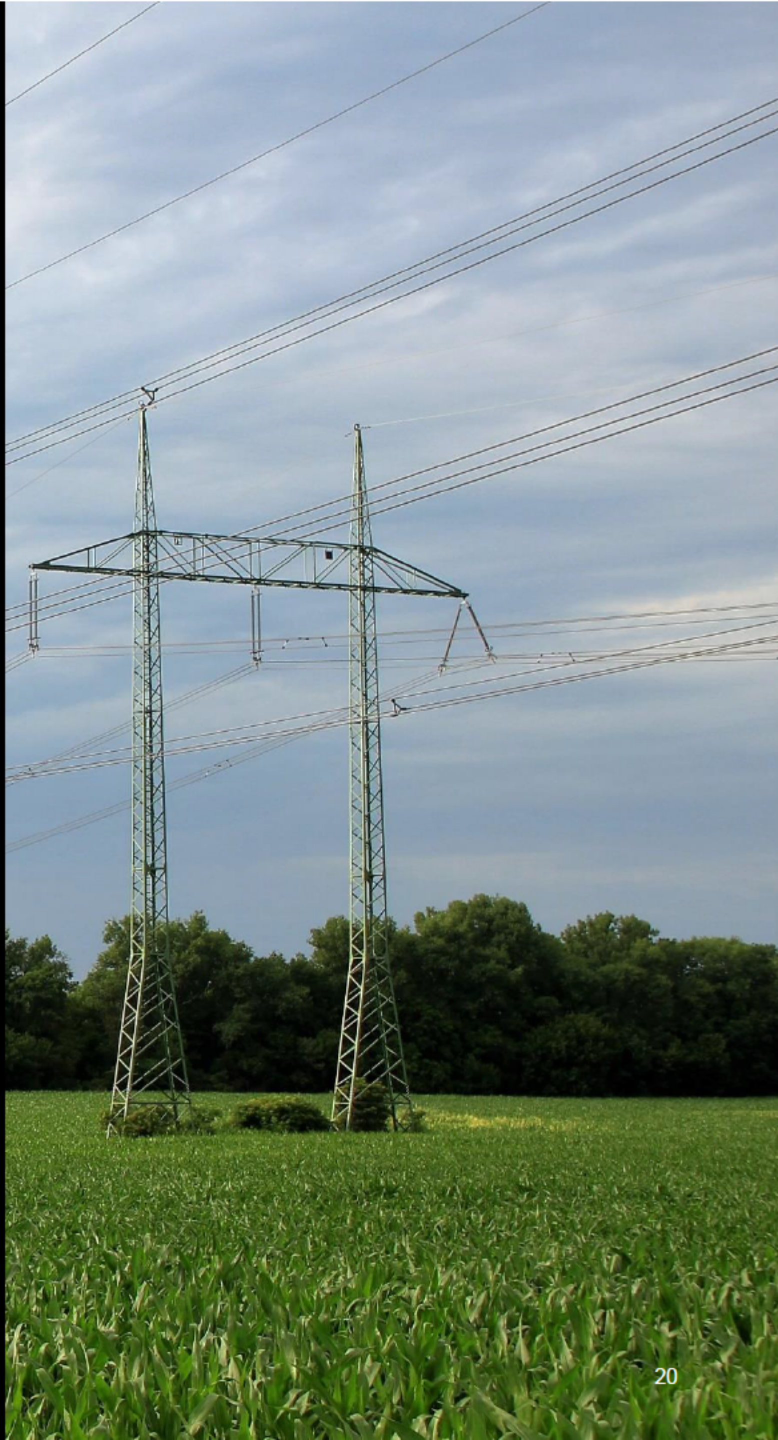
As identified by the above mentioned paper there is support for the hypothesis that growth occurs in line with the following. Given the significant level of rezoning that is occurring around the TransGrid line this is of relevance.

**Table: Growth Profile Around Rezoning Potential**




Source: NSW Valuer General

# Forecast Observations



# Forecast Observations

[redacted]

As outlined, TransGrid have engaged JLL to provide commentary and evidence to understand the potential land value cost escalations associated with the new transmission line between Bannaby to Sydney [redacted].

Under the TransGrid Compensation Principles for Major projects [redacted] is included into the model for the easement component. However, due to growth in property values in some areas that they will be traversing, TransGrid are considering an increase [redacted] to accommodate the potential future increases.

We have been advised by TransGrid that the property costs (acquisitions and easements) will likely occur over the next five year period. Based on the multipliers identified above, this reflects a compound annual growth rate (CAGR) of [redacted].

## Land Value Growth Observations

### Long-term Greater Sydney Growth

Significant evidence exists showing Greater Sydney has generally achieved compound annual land value growth of between 7% and 9% over the longer term across a variety of land uses. This provides underlying support for [redacted] under the Compensation Principles for Major projects.

We have provided below some more specific observations related to the sections of the proposed transmission line.

### Bannaby to [redacted]

Considerations related to the Bannaby to [redacted] section of the proposed line include:

- Due to the location of this section, there will likely be less rezoning speculation across this part of the line. In part supported by relatively benign investment and population growth projections.
- Some of the land uses will likely see limited growth along this section e.g. grazing and national parks.
- Having identified the above, the values across this section will reflect a relatively low base, providing some support for growth.
- The northern portion of this section, will traverse areas with greater activity which will likely support growth.

On balance, we anticipate [redacted] to be reasonable and supported by the underlying Greater Sydney historic growth rate and the factors identified above.

### Northern Sections of the Line

Considerations related to the northern sections of the line ([redacted]) include:

- Evidence exists for land uses in this area to achieve higher growth rates then broader Sydney (hobby farm, rural residential and industrial).
- There is significant planned infrastructure and forecasted population growth.
- Potential exists for greater levels of rezoning speculation (due to the factors identified earlier) along these sections of the proposed transmission line.

On balance, we anticipate a multiplier toward the higher end of the range ([redacted]) to be reasonable and supported by the underlying historic growth of the areas traversed and the factors identified above.

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