ABADEEN INSIGHT

Through the cycle: 35 years of Australian property cycles and lessons for today's market.

ABADEEN

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Executive Summary

Australian residential property markets have experienced repeated cycles of growth, correction and recovery over the past 35 years. While the causes and duration of individual downturns have varied, a recurring feature is the relationship between market confidence, development activity and the subsequent availability of housing.

History demonstrates that residential prices, underlying demand and new housing supply do not move together. Buyer sentiment, borrowing capacity and transaction volumes can change relatively quickly, while the development and delivery of new housing typically take several years. Consequently, periods of weaker market conditions can materially affect the supply of housing available in subsequent years.

The current cycle is distinguished by several structural characteristics:

Development activity has contracted substantially

Apartment commencements remain below the peak of the previous construction cycle, with fewer projects progressing through to completion. The effects of reduced development activity are likely to persist beyond any improvement in market confidence.

Housing delivery faces materially higher costs

Construction costs have increased significantly since 2019, while established dwelling values have not increased at the same rate in many markets. This divergence has weakened development feasibility and constrained the capacity of new supply to respond to demand.

Population growth continues to underpin housing requirements

Although net overseas migration has moderated from its post-COVID peak and is projected to decline further, Sydney and Melbourne face substantial long-term population and household growth. The composition and pace of migration remain important variables in assessing future housing demand.

Housing supply is unlikely to respond quickly

National housing targets and planning reforms may facilitate additional development, but financing, construction capacity, infrastructure and project economics continue to influence the rate at which approved dwellings become completed homes.

Market conditions differ materially between Sydney and Melbourne

Sydney continues to face significant barriers to additional supply in established locations. Melbourne has experienced a more subdued residential price cycle since 2017, despite recovering population growth, major infrastructure investment and a contracting apartment development pipeline.

The central conclusion is that short-term weakness in residential markets does not necessarily indicate a corresponding reduction in longer-term housing requirements. The interaction between population growth, development feasibility, replacement costs and the timing of new supply will be important in determining market conditions over the years ahead.

Historical cycles provide useful context for understanding these relationships, but they do not establish when markets will recover or how individual assets will perform. Local supply conditions, affordability, product characteristics and development economics remain critical to any assessment of future market outcomes.

These findings reinforce the importance of experienced development management, disciplined project selection and a detailed understanding of individual sub-markets, where supply constraints, purchaser demand and development feasibility can vary considerably.

Five Findings from 35 years of property cycles

1

Markets reprice

Residential values, borrowing capacity and buyer confidence can adjust rapidly. Historical downturns vary in depth and duration, and recovery is not uniform across markets.

2

Supply responds slowly

Development takes years to deliver. Projects deferred or abandoned during weaker markets reduce the supply of completed housing available in subsequent years.

3

Underlying demand persists

Population and household growth continue to generate housing requirements, even as migration moderates and purchasing activity slows. Demand and housing delivery operate on different timetables.

4

Development feasibility constrains supply

Construction costs remain materially above pre-COVID levels. Where achievable selling prices do not support development costs, fewer projects progress, limiting the supply response.

5

Local markets and expertise matter

Market conditions vary considerably between cities and sub-markets. Development outcomes depend on location, purchaser demand, product quality, acquisition basis and experienced development management.

35 Years of Property Cycles

Different triggers, familiar patterns

The Australian residential property market has been through repeated disruptions over the past 35 years, each with a different cause.

The early 1990s combined recession with very high interest rates. The Global Financial Crisis was a liquidity and credit shock. The 2017-19 downturn followed tighter lending standards and weaker investor demand. COVID-19 caused an abrupt collapse in confidence, followed by a rapid, stimulus-supported recovery.

The current cycle is different again: higher borrowing costs and weaker buyer confidence have coincided with elevated construction and finance costs, making development feasibility materially harder.

History does not provide a timetable for the next recovery. It does, however, show recurring relationships between confidence, values, access to capital and development activity. Those relationships are the focus of this note.

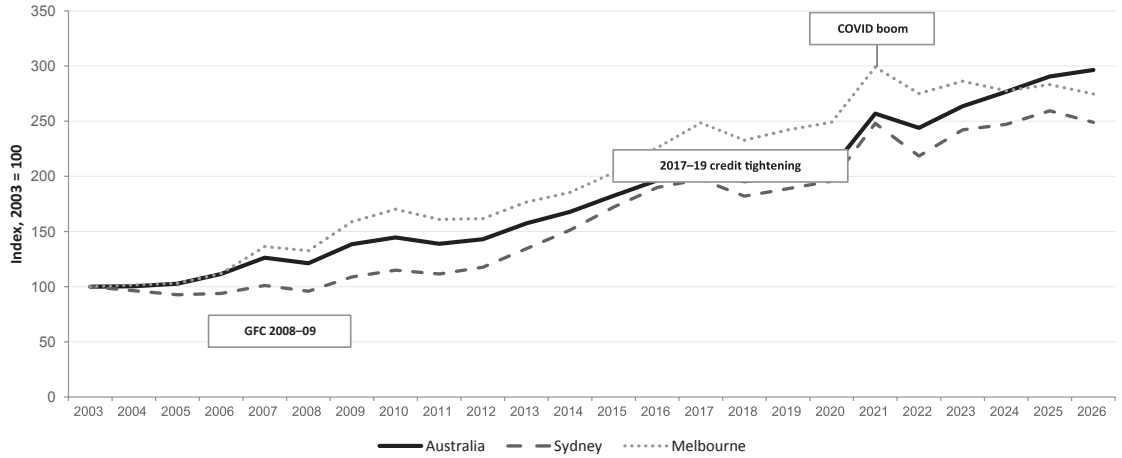
Government support has repeatedly influenced housing activity through the cycle. First-home buyer grants, stamp duty concessions and other purchase incentives can reduce upfront barriers and help deferred buyers enter the market. Their effect depends on borrowing capacity, eligibility and the availability of suitable homes. For developers, attainable product and readiness to release stock can become important advantages when policy support strengthens demand.

> **The catalyst changes from cycle to cycle (interest rates, credit, regulation or an external shock). What recurs is the effect on confidence and, with a lag, on development activity.**

There is no single ‘Australian property cycle’. Sydney and Melbourne have been exposed to the same macroeconomic shocks but have not responded in the same way. Melbourne outperformed into 2010 and has been comparatively subdued since 2017, while Sydney has set new highs in successive cycles.

Australian dwelling values have also not risen in a straight line. The record includes meaningful corrections and extended periods of weak performance. Periods like the present can look exceptional while they are happening but, with hindsight, are usually one phase of a much longer cycle.

Figure 1: Australian dwelling values through the cycle



Source: Cotality (formerly CoreLogic / RP Data); Abadeen analysis

Anatomy of a downturn

Downturns differ in depth, duration and speed of recovery, and in their underlying cause (Table 1). A price fall driven by recession or restricted credit is different from a correction after a period of investor excess or localised oversupply. A market that enters a downturn with surplus stock behaves differently from one where new supply is already constrained. Table 1 sets out how far values fell in each downturn, how long they kept falling and how quickly they recovered.

Table 1: Anatomy of Australian residential downturns

Period	Main catalyst	Peak–to–trough fall and duration	Recovery
1989-91	Recession; mortgage rates ~17%	~8% national and ~19% Melbourne (real), over ~2 years	Slow; Melbourne lagged for most of the decade
1997-98	Asian financial crisis (“Asian flu”)	No material fall	Rate cuts kept growth going
2004-05	Sydney investor boom unwinds; NSW vendor duty; apartment oversupply; rate rises	~7% (Sydney houses) over ~18 months	Sydney broadly flat until 2009
2008-09	GFC; cash rate 7.25%	~6% national over ~9 months	Fast: rates cut to 3%, first-home buyer boost
2017-19	APRA investor and interest-only limits	~8.5% national, ~15% Sydney, ~11% Melbourne, over ~20 months	Fast: rate cuts from mid-2019
2020	COVID-19; borders closed	~2% national over ~5 months	Very fast: record low rates and stimulus
2022-23	Cash rate +4.25 pts to 4.35%	~7.5% national, ~14% Sydney, over ~9–12 months	Around a year to regain the peak
2026	Four rate rises to 4.60%; 2026 Budget reforms to negative gearing and CGT announced	5.2% national, 8.6% Sydney, to September 2026	Ongoing

Source: Cotality; RBA; Abadeen analysis.[1]

Sydney after the early-2000s boom is a useful example. House prices rose by around 25% in the 18 months to December 2003, then fell by around 7% over the following 18 months.[2] Investor participation had been unusually high, with investor loans representing around 45% of housing loan approvals at the peak.

The correction coincided with weaker investor lending, pockets of apartment oversupply and policy intervention. NSW introduced a 2.25% vendor duty on investment-property sales in June 2004 and abolished it 14 months later.[3] Sydney values subsequently remained broadly subdued until 2009.

The contrast with today is important: the early-2000s Sydney correction followed a development boom and pockets of excess supply. The current cycle is occurring with materially more constrained new housing supply.

The mid-2010s apartment construction boom and the 2017–19 credit-led price correction describe different stages of the cycle. Approvals peaked before commencements and completions, so the dates of the construction boom should not be treated as interchangeable with the dates of the price downturn.

[1]Cotality (formerly CoreLogic / RP Data) Home Value Index, nominal unless stated; early-1990s figures are real (inflation-adjusted) and drawn from secondary sources citing CoreLogic. 2026 figures to September 2026. Historical cycle statistics are approximate. [2]RP Data (now Cotality). Other indices recorded larger falls over the period, illustrating the difficulty of measuring individual cycles precisely. [3]NSW introduced a 2.25% vendor duty on the sale of investment property from 1 June 2004 and abolished it from 2 August 2005; a general land tax threshold was reinstated from the 2006 land tax year.

The current cycle

The current cycle is different again. Higher interest rates have reduced borrowing capacity and buyer confidence at the same time as construction and finance costs remain materially above pre-COVID levels. The result has been pressure on both established values and development feasibility.

Importantly, the adjustment is occurring against a different supply backdrop from several earlier downturns. Australia is not entering the current downturn with the same development pipeline that characterised previous periods of excess supply. Apartment commencements remain well below their previous peak and the cost of creating competing new supply remains elevated.

This distinction matters. A downturn caused by weaker confidence and borrowing capacity while underlying demand continues and new supply is constrained may have different longer-term implications from one following a period of excess construction.

Population and migration through the cycle

Migration has behaved very differently from one cycle to the next (Table 2). The early 1990s and COVID-19 periods involved unusually sharp falls in migration, while migration remained comparatively strong through several other downturns. This provides important context when comparing the demand backdrop across cycles.

Table 2: Migration through the cycles

Period	Net overseas migration	Role in the cycle
1989-93	157,000 (1988-89) falling to 30,000 (1992–93)	Migration fell sharply alongside recession and weaker housing demand
2004-05	~124,000	Migration remained comparatively steady during the Sydney correction
2008-09	~299,000 (then a record)	Migration remained strong despite the financial shock
2017-19	~240,000 a year	Migration remained elevated while credit conditions tightened
2020-21	−85,000	Borders closed; inner-city rents fell, but low rates lifted prices
2022-23	~538,000 (record)	Record migration coincided with a materially reduced development pipeline
2024-26	~306,000 (2024-25); ~292,000 (year to Mar-26)	Moderating, but still well above pre-COVID levels

Source: ABS; Department of Home Affairs.[4]

The current downturn is occurring with net overseas migration of around 290,000 a year, materially above the levels prevailing during several earlier cycles. Migration is moderating from its post-COVID peak, but population growth has not disappeared.

This reinforces an important distinction between cycles. A market correcting after a construction boom with surplus stock is different from one in which confidence is weak while population continues to grow and the future supply pipeline is constrained.

> **Sentiment can change in months. Apartment supply cannot.**

Residential property runs on two clocks

It helps to think of residential property as running on two clocks:

• The market clock moves quickly. Rate expectations, borrowing capacity, auction clearance rates and buyer confidence can shift within months.

• The development clock is slow. A project must move through acquisition, design, approvals, financing, presales and construction before completion, and that process takes several years.

This creates a lag. When conditions deteriorate, attention goes to what can be observed: prices, clearance rates, volumes and sentiment. The projects that become unfeasible, are deferred or never start are much less visible. They do not affect today's housing stock. Their effect shows up several years later.

[4] ABS and Department of Home Affairs net overseas migration (NOM) estimates. The ABS changed its NOM methodology from September quarter 2006, so earlier and later figures are not strictly comparable. The 2017-19 figure is an annual average.

When the Market Slows, Development Responds

Apartments are the swing factor

Detached house commencements have been comparatively stable over the past three decades, generally between about 90,000 and 125,000 a year, apart from the Home Builder-driven surge in 2021.[5] Apartment and other higher-density commencements have been much more volatile (Figure 2).

Figure 2: Dwelling commencements: houses vs other residential



Source: ABS Building Activity, Australia; Abadeen analysis

Apartment commencements rose from around 26,000 in 1990 to about 112,000 at their 2016 peak. They then fell sharply, to roughly 60,000 a year during parts of 2019-23, before recovering to around 80,000 in 2025-26.

The 2016 peak produced a large wave of completions over subsequent years. As commencements contracted, the pipeline behind that wave contracted too. This is easy to miss if the market is judged only by completed stock: a development downturn does not remove apartments from today's market; it removes them from the future market.

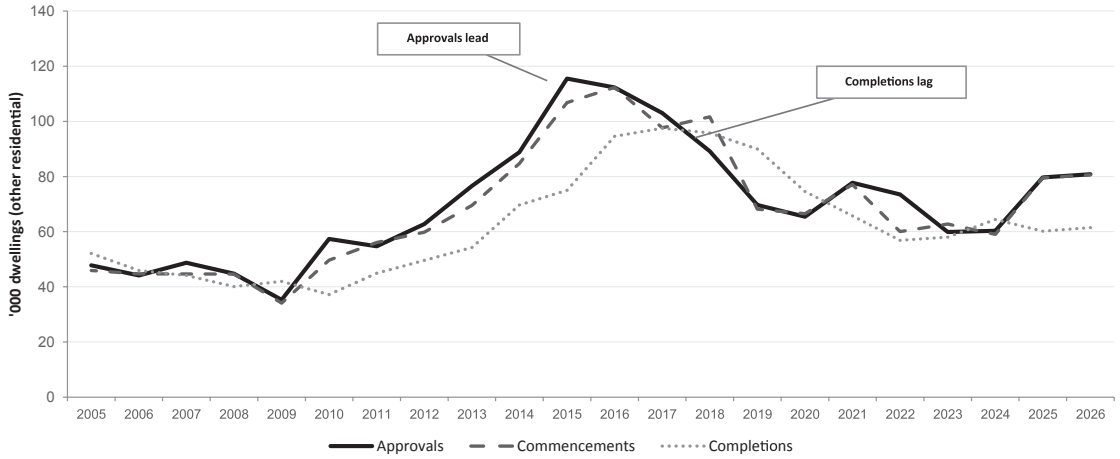
> **When development activity contracts, the effect is delayed. Projects that do not start today are homes that will be missing from the market several years from now.**

[5] *Announced in June 2020, HomeBuilder provided $25,000 grants for eligible new builds and substantial renovations. More than 113,000 households are estimated to have taken up the grant.*

Today's decisions become tomorrow's supply

An approval is not a completed home, and not every approved project proceeds to construction. The lag between the different stages of the development pipeline is visible in the historical data (Figure 3).

Figure 3: The apartment pipeline: approvals, commencements and completions



Source: ABS Building Approvals and Building Activity, Australia

Apartment approvals peaked at around 116,000 in 2015, followed by commencements at around 112,000 in 2016 and completions in 2017–18. All three subsequently declined. Approvals and commencements are now running at around 80,000 a year and completions at around 62,000, materially below the previous cycle's highs.

Higher interest rates, weaker presales, tighter lending, higher construction costs or planning delays can make a project unfeasible quickly. The supply consequence is delayed: a project that does not commence today may only become visible as missing supply two or three years later, when the apartments it would otherwise have delivered fail to arrive.

> **The central lesson from previous cycles is that a slowdown in development today can contribute to a shortage of completed housing tomorrow.**

Demand & Supply Move on Different Clocks

Population growth does not wait for the development cycle

Housing development responds to feasibility, finance and confidence. Population growth follows a different cycle. Australia's post-COVID experience is an unusually clear example (Figure 4).

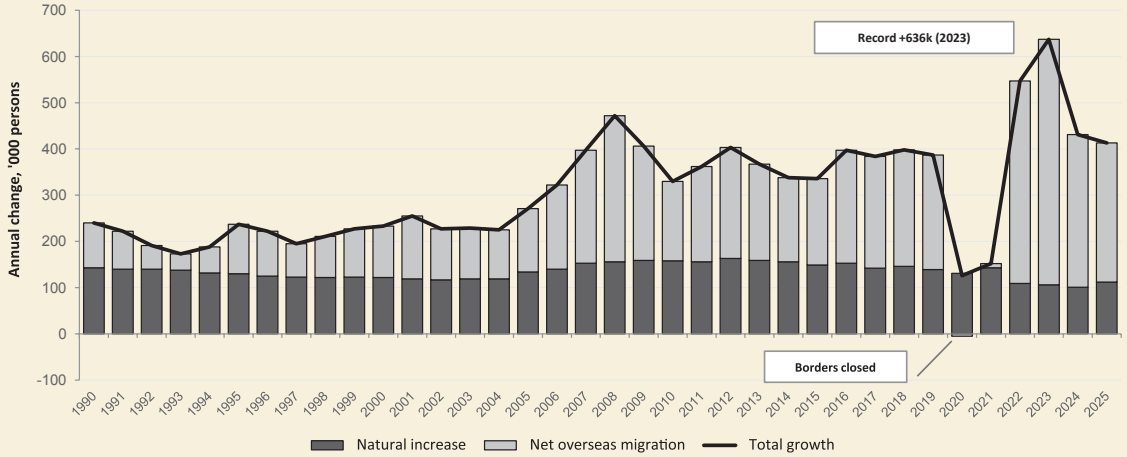
Net overseas migration effectively stopped when international borders closed and rebounded sharply when they reopened. Population growth reached around 636,000 in 2023 before moderating to around 412,000 in 2025.

The timing matters. The strongest post-COVID population growth came after apartment commencements had already fallen well below their previous peak, so demand recovered faster than the supply pipeline could respond. Not every additional resident needs an additional dwelling, because household size, tenure and household formation all matter. But sustained population and household growth ultimately requires more housing.

The two clocks connect through confidence, presales and finance. Population growth can strengthen rental demand before it supports purchases of new homes; changes in interest rates can affect borrowing capacity more quickly than projects can be completed. The timing depends on whether projects become feasible, secure funding and proceed to construction.

> **Population can return to a market much faster than homes can be built for it. After COVID-19, demand recovered while the apartment pipeline was still contracting.**

Figure 4: Australia's population growth and its components



Source: ABS National, state and territory population

Melbourne: a Market to Lead Into

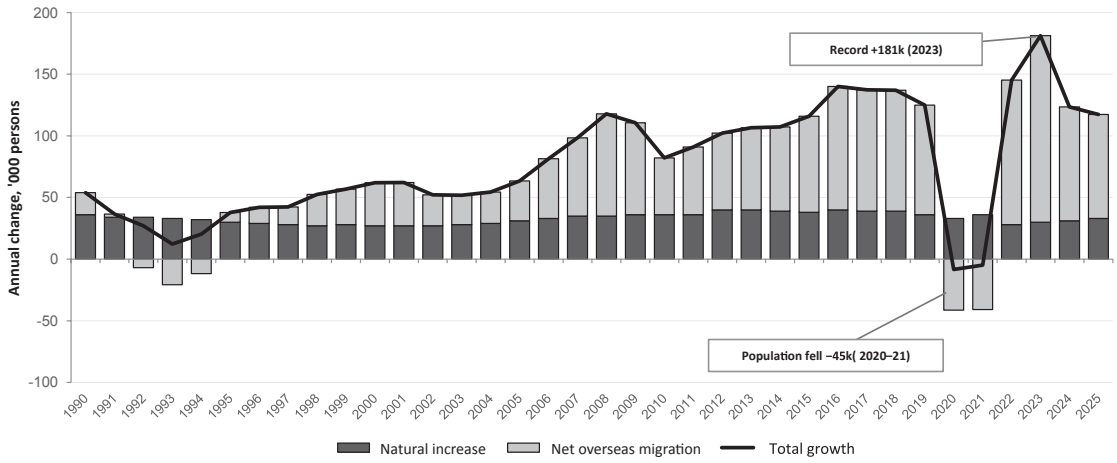
Melbourne has materially underperformed Sydney since around 2017 (Figure 1), despite facing many of the same national conditions. Several Victoria-specific factors help explain that divergence. Melbourne absorbed a large share of the 2010s apartment boom, experienced an unusually sharp population disruption during COVID-19, and has faced higher taxation of property investors. These factors have weighed particularly on the investor market that has historically supported off-the-plan apartment sales.

The fundamentals are changing. Victoria's population growth has subsequently rebounded strongly. The State added around 181,000 people in 2023, principally through migration, marking a strong rebound from the disruption experienced during COVID-19. This has strengthened the underlying housing demand base even while Melbourne's residential price cycle remains comparatively subdued (Figure 5).

Infrastructure is moving from disruption to dividend. Melbourne is beginning to realise the benefit of an extended period of major infrastructure investment. After years of construction activity and disruption, major projects are progressively moving into operation. The Metro Tunnel and West Gate Tunnel now provide additional transport connections, with further benefits to follow as the broader programme is completed.

Supply has not kept pace. Against that improving demand backdrop, housing supply has contracted sharply. UDIA's State of the Land 2026 illustrates the extent of the contraction. Melbourne recorded approximately 11,300 multi-unit completions in 2025, 41% below the decade average and around half the 2017 peak. Active build-to-sell apartment supply was approximately 3,900 dwellings, 67% below its decade average. The multi-unit pipeline declined for a seventh consecutive year.[6]

Figure 5: Victoria's population growth and its components



Source: ABS National, state and territory population

New apartments do not stack up at today's prices. UDIA Victoria estimates that a mid-rise apartment costs around $838,000 to deliver and requires a sale price of around $922,000 to be feasible, approximately $300,000 above Melbourne's median unit price of around $617,000. These measures are not directly comparable, but the difference illustrates the challenge of delivering new apartments at prices supported by the broader established market. This feasibility gap helps explain why stronger underlying demand has not translated into a corresponding supply response.

Why we are leaning in. Melbourne combines a comparatively subdued residential price cycle with rebuilding demand, improving connectivity and a constrained development pipeline. An easing in interest rates could provide a further catalyst by improving purchaser borrowing capacity and reducing project financing costs, while competing new supply remains difficult to create.

For development capital, the opportunity is to acquire well-located sites at values supported by current development economics and progress them for delivery into the next cycle. The acquisition must stand on today's achievable selling prices and delivery costs; an immediate recovery in residential values should not be required.

Our focus is on inner, middle-ring and bayside locations where deep owner-occupier demand can support high-quality product and where developable land remains constrained. Victoria's tax settings and the possibility of a slower recovery than in Sydney remain important risks and reinforce the need for disciplined acquisition.

When demand outruns delivery

For much of the 2010s, annual dwelling completions broadly tracked estimated underlying demand, with the apartment boom lifting completions above 200,000 in several years. That balance changed sharply after COVID-19 (Figure 6).

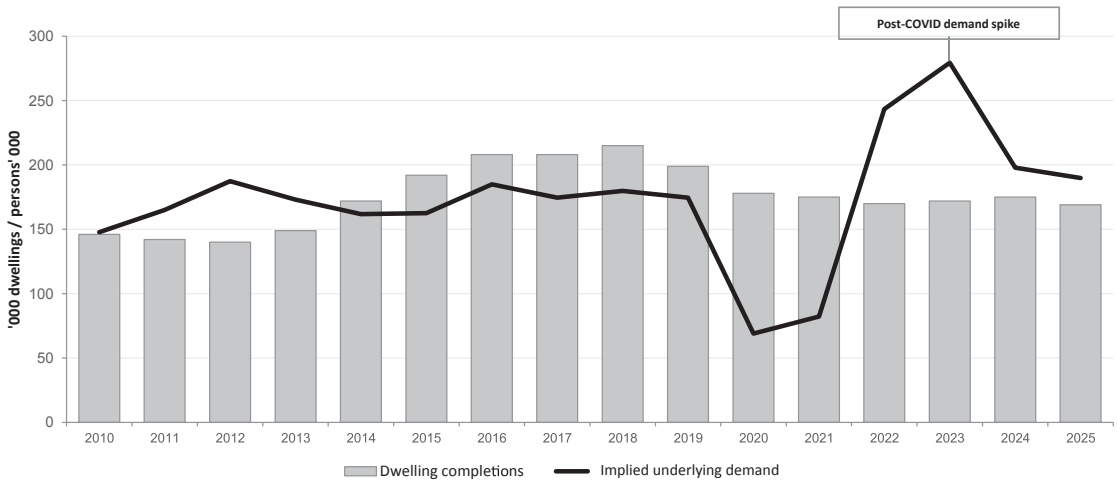
In 2023, we estimate underlying demand at around 279,000 dwellings, against approximately 172,000 completions - a gap of roughly 107,000 dwellings in a single year. The gap has since narrowed as population growth moderated, while completions have remained broadly flat. The estimate is indicative rather than a precise measure of the housing deficit; its value is in illustrating the scale and direction of the imbalance.

Supply shortfalls can accumulate

After 2016, apartment commencements contracted and the completions pipeline weakened. Population growth then accelerated as borders reopened. The demand and supply cycles moved in opposite directions at precisely the wrong time.

Short-term weakness in buyer confidence can reduce transactions without resolving the underlying housing shortage. Households may defer purchasing, remain in rental accommodation or postpone forming a separate household, while their housing needs persist. Where delivery continues to fall short of underlying household requirements, the imbalance carries forward. Lower sales volumes today should therefore be distinguished from a lasting reduction in the need for housing.

Figure 6: Dwelling completions vs implied underlying demand



Source: ABS; Abadeen analysis

[6] *UDIA, State of the Land 2026 (Victoria chapter); UDIA Victoria media release on the apartment feasibility gap, 2026.*

Migration and the Policy Overlay

Where migration stands

Net overseas migration has already moderated materially from its post-COVID peak. NOM reached approximately 538,000 in 2022-23, fell to around 306,000 in 2024-25 and was approximately 292,000 in the year to March 2026.

The Australian Government's current projections assume further moderation, to approximately 245,000 in 2026-27 and 225,000 a year from 2027-28. These are projections rather than targets and actual migration will depend on arrivals and departures across permanent and temporary visa categories.

This is an important distinction for the housing outlook. Our base case does not assume that the exceptional post-COVID migration surge continues. It assumes migration normalises materially from those levels.[7]

What lower migration would mean

Migration policy remains contested and could change over the life of projects being acquired today. Rather than attempting to predict future policy or electoral outcomes, we consider the housing implications across a range of migration scenarios.

The major political parties propose different approaches. While the Government's projections envisage further moderation in migration, the Coalition proposes linking an annual migration cap to new homes completed. These different approaches reinforce the need to assess housing demand under more than one scenario.

The current Government's permanent migration program is 185,000 places, while the National Planning Level for new overseas student commencements is 295,000 for both 2026 and 2027.[8] These settings are only part of the NOM equation: NOM also reflects temporary migrants, Australians and New Zealand citizens moving across the border, and departures as well as arrivals.

Migration is moderating from its post–COVID peak and policy settings could reduce it further. The relevant investment question is how housing demand and development feasibility respond under materially lower migration scenarios.

Table 3: Illustrative migration scenarios

Scenario	Illustrative NOM	Indicative housing implication
Current Treasury projection	~225,000 –245,000 p.a.	Continued population and household growth, but materially below the post-COVID surge
Lower migration scenario	~150,000 p.a.	Slower household formation and rental demand; less pressure on the existing supply-demand imbalance
Very low migration scenario	Below ~100,000 p.a.	Materially weaker incremental housing demand; greater sensitivity for investor-led and migration-exposed product

Illustrative scenarios are for sensitivity analysis only and are not forecasts of migration policy or outcomes. Household formation would also depend on migrant composition, household size, natural population growth and interstate migration.

[7] ABS, Overseas Migration, 2024–25 and National, state and territory population, March 2026; Australian Government, Budget 2026–27. NOM was approximately 538,000 in 2022–23, 306,000 in 2024–25 and 292,100 in the year to March 2026. Budget forecasts assume 245,000 in 2026–27 and 225,000 from 2027–28.

[8] Australian Government, Department of Home Affairs, Permanent Migration Program 2025–26; Department of Education, Managed Growth for International Education – 2026 Arrangements and 2027 Arrangements.

The type of migrant matters

Headline migration numbers do not translate directly into demand for new owner-occupied housing. Different migrant cohorts affect the market differently.

International students and working holiday makers primarily affect rental demand, particularly in inner-city markets. Temporary skilled migrants are more likely to form conventional households and some subsequently transition to permanent residency. Permanent skilled and family migrants have a greater propensity over time to participate in the broader housing market, including owner-occupation.

The implication is that the composition of migration matters alongside the headline number. A reduction concentrated in international students would have different housing effects from an equivalent reduction in permanent skilled migration.

What this means for the investment thesis

Lower migration would reduce incremental housing demand and is therefore an important downside scenario. It would not, however, operate in isolation. The effect on individual projects would depend on location, product, tenure and the composition of the migration reduction.

It could also affect the supply side. The residential construction industry relies materially on migrant labour, so migration settings that reduce construction-worker availability could place additional pressure on delivery capacity and costs. The demand and supply effects therefore need to be considered together.

For underwriting purposes, our base case assumes migration moderates broadly in line with current Treasury projections rather than remaining at post-COVID peaks. A materially lower migration environment should also be considered when testing demand and sales assumptions. The objective is not to rely on a particular migration policy outcome, but to ensure that acquisitions remain supportable under a meaningfully weaker demand scenario.

Why This Cycle Is Different

The established market can soften without reducing the cost of creating new housing. When selling prices and replacement costs diverge, the adjustment is more likely to come through reduced development activity than a material reversal in construction costs.

Earlier cycles also involved weaker confidence, lower development activity and periods of constrained supply. What sets the current cycle apart is how much the cost of creating new supply has increased.

The cost base has reset

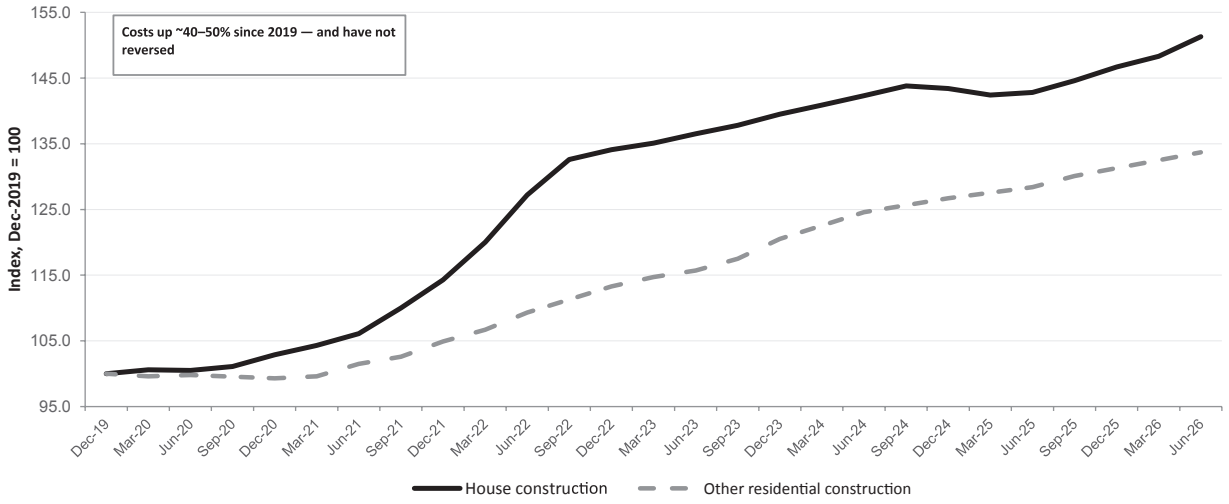
Construction costs rose sharply after COVID-19 and have not returned to their previous base. ABS construction output prices for houses are approximately 50% above December 2019 levels, while prices for other residential construction are around 34% higher (Figure 7).

The rate of cost escalation has moderated from its peak, but the increase in the underlying cost base has not reversed. Labour, materials, finance and regulatory costs continue to affect the price at which new housing can feasibly be delivered.

This matters because development responds to levels, not merely rates of change. Construction-cost inflation can fall back to 3% or 4%, but if the underlying cost base is already 30%-50% higher, the feasibility constraint remains.

Recent completed projects provide a more reliable basis for assessing development costs than historical benchmarks alone. Feasibilities need to reflect total delivery costs, including finance, infrastructure, statutory charges and the time required to complete.

Figure 7: Construction output prices since December 2019



Source: ABS Producer Price Indexes, Australia (output of the construction industries)

Housing targets do not equal housing delivery

Australia's housing targets illustrate the scale of the challenge, but targets do not themselves create supply. Under the National Housing Accord, NSW's implied share is approximately 377,000 homes over the five years to 2029, around 75,400 a year.[9]

NSW has delivered at that pace only around the peak of the previous construction cycle. Annual completions reached approximately 72,900 in 2018, compared with approximately 49,500 in the latest financial year, around 34% below the implied Housing Accord annual run-rate (Figure 8).

The gap should not be interpreted as a forecast that the target will be missed by a particular amount. It demonstrates the scale of the increase in development activity required from today's starting point.

This explains an apparent contradiction in today's market: Australia has a recognised need for substantially more housing, yet is struggling to get new projects to start.

NSW planning reforms are expanding the range of potential development sites. With delivery capacity still constrained, greater site choice may moderate competition for land and vendors' price expectations. This can improve feasibility, although additional development capacity will take time to translate into completed homes.

The forward pipeline remains constrained

The forward indicators suggest that the supply challenge is unlikely to resolve quickly. UDIA's State of the Land 2026 forecasts a cumulative national dwelling delivery shortfall of approximately 380,000 homes over 2026–30 relative to National Housing Accord targets.[10]

The weakness is particularly pronounced in higher-density housing. Multi-unit completions across the capital cities were approximately 42% below their decade average in 2025, while Sydney multi-unit completions were around 70% below their 2018 peak.

These figures are forecasts and industry estimates rather than certainty about future supply. Their significance is that they are consistent with what the development pipeline already shows: weak commencements, elevated delivery costs and difficult feasibility are limiting the number of projects progressing to construction.

The significance for development capital is not that housing targets guarantee stronger values. It is that new competing supply remains difficult and expensive to create. Where projects can be acquired on a basis that supports feasibility at current values, elevated replacement costs and a constrained forward pipeline can improve the relative position of those projects against future competing supply.

[9] *The National Housing Accord targets 1.2 million well-located new homes nationally over the five years from 1 July 2024.*

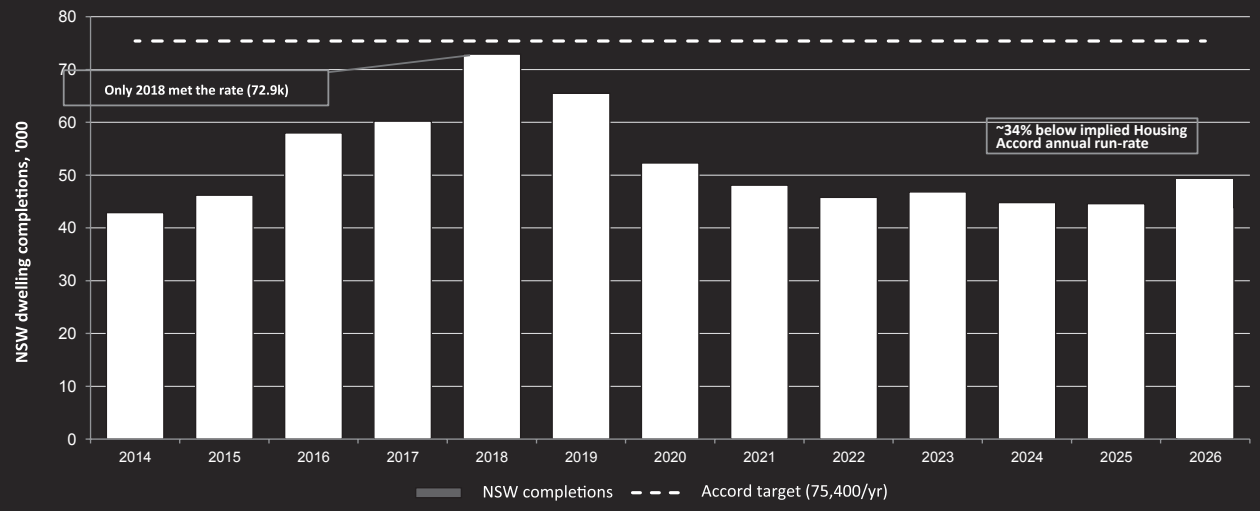
[10] *UDIA, State of the Land 2026. Sydney completions data as reported by UDIA.*

The missing-middle opportunity

The housing opportunity extends beyond high-rise apartments and conventional detached housing. The "missing middle" (including terraces, townhouses and low-rise apartments) can provide more attainable housing choices in established locations close to transport, employment and services.

For Abadeen, the opportunity is to identify sites where additional housing capacity can translate into commercially viable product. Acquisition price, efficient design, construction approach and the depth of local purchaser demand remain critical. Planning uplift creates potential; disciplined delivery converts that potential into homes.

Figure 8: NSW dwelling completions vs Housing Accord run-rate



Source: ABS Building Activity, Australia; National Housing Accord

Enabling supply and the Abadeen Communities opportunity

We expect governments to remain under pressure to enable additional housing supply through planning reform, land release and investment in enabling infrastructure. In locations where approvals and servicing are sufficiently advanced, greenfield development can offer one of the more efficient near-term pathways to additional housing, with delivery staged to match demand.

This supports our view that Communities are an attractive opportunity for investment capital. The strongest opportunities combine a disciplined land basis, a credible infrastructure programme, attainable purchaser price points and flexibility over product mix and stage release.

Replacement Value Matters

Selling prices and replacement costs do not move together

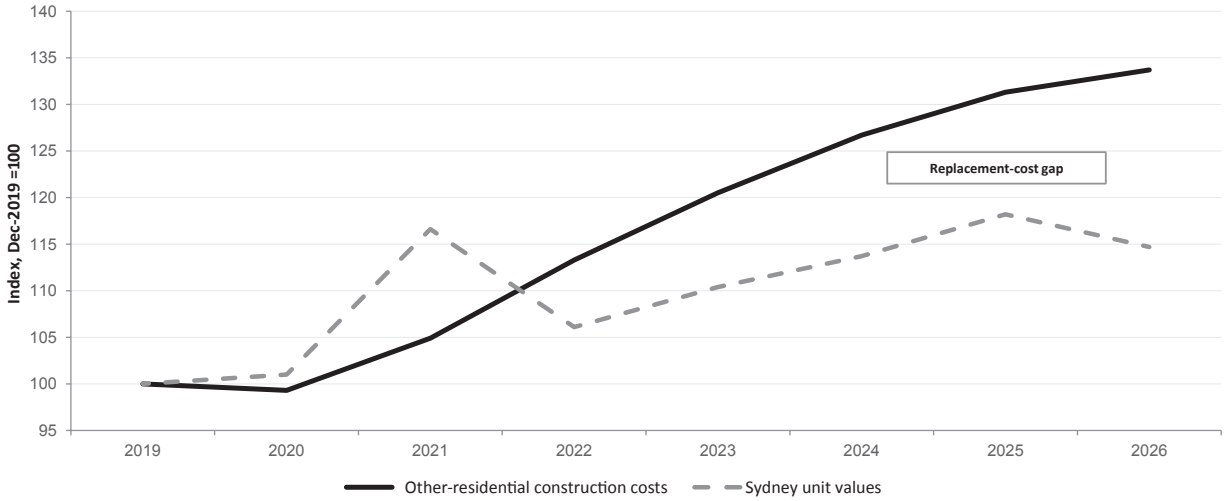
> **Value is not only what a property trades for today. It is also what it would cost to reproduce the same quality, in the same location, in the future.**

Prices are visible and adjust quickly. The cost of replacing an existing property is less visible and can move very differently.

Replacement value is not simply the cost of construction. It reflects the total cost of recreating comparable housing: land, design and approvals, construction, consultants, finance, government contributions, marketing and the time required to deliver.

When these costs rise materially, the price at which new competing supply can feasibly be created also rises. Established property values can adjust quickly; the cost base for new development is much slower to reset.

Figure 9: The replacement–cost gap: Sydney units vs construction costs



Source: ABS Producer Price Indexes; Cotality

Since December 2019, construction output prices for other residential buildings have risen by approximately 34%, compared with around 15% growth in Sydney unit values. The result is a materially wider gap between the cost of creating new apartments and the value of existing stock.

The significance of replacement value is not that established housing must immediately reprice to the cost of new construction. Markets can trade below replacement cost for extended periods, particularly where demand is weak or existing supply is abundant.

The more important effect is on future supply. If prevailing selling prices do not support the cost of land, construction, finance and an appropriate development return, fewer projects are economically capable of proceeding. Over time, that limits the amount of new competing product entering the market.

For a project acquired on a viable basis, this can be important. The relevant comparison at completion is not simply with today's established housing values, but with the economics faced by another developer attempting to create competing product at that time.

Replacement value is therefore a useful discipline, not a valuation shortcut. An asset trading below replacement cost is not necessarily undervalued. Location, product quality, amenity, depth of demand and the availability of substitute stock remain critical.

The replacement-cost argument is strongest where an asset is difficult to replicate and there is enduring demand for the product being created. It is much weaker where existing supply is abundant, demand is shallow or the product itself is readily substitutable.

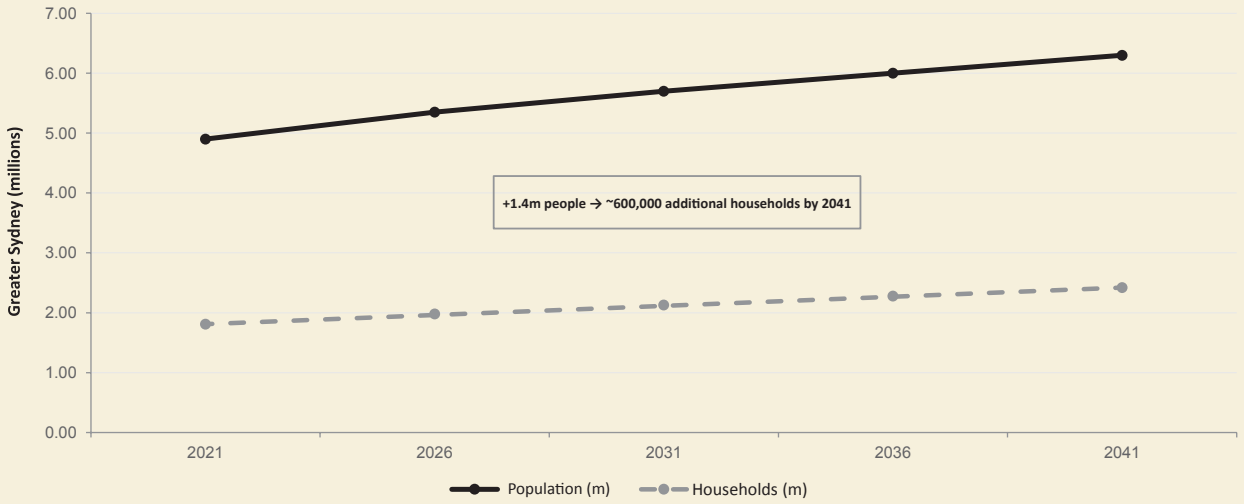
The long-term requirement has not disappeared

Whatever the short-term price cycle, Sydney and Melbourne must accommodate materially larger populations and many more households over the coming decades.

Sydney continues to grow

Greater Sydney had around 4.9 million residents in 2021. NSW Government projections indicate this could reach around 6.3 million by 2041, with households rising from about 1.8 million to around 2.4 million (Figure 10).[11] That implies approximately 600,000 additional households over two decades.

Figure 10: Greater Sydney population and household projections



Source: NSW Department of Planning, Housing and Infrastructure, NSW Population Projections, Key Findings (Greater Sydney, 2021–2041)

The exact number will change as projections, household sizes and migration assumptions evolve. The more important point is the difference in timescale. A property cycle lasts several years. Accommodating the growth of a major city takes decades.

Melbourne also faces substantial long-term growth. The Victorian Government's Victoria in Future 2023 projects metropolitan Melbourne's population to grow from around 5.1 million in 2023 to about 8.0 million by 2051. That implies a requirement for approximately 1.3 million additional dwellings in metropolitan Melbourne by 2051.[12] The State's Housing Statement targets 800,000 new homes across Victoria over ten years, an ambition that sits well above the flat production outlook UDIA expects for Melbourne in the near term.

For long-term capital, this matters because assets acquired or developments started today will not compete in today's market. They will compete in a market shaped by the population, housing stock and replacement costs that exist on completion and in the years that follow.

[11] *NSW Department of Planning, Housing and Infrastructure, NSW Population Projections, Key Findings (Greater Sydney, 2021–2041)*
[12] *Department of Transport and Planning (Vic), Victoria in Future 2023; Victorian Government, Victoria's Housing Statement (2023).*

Investing Through the Cycle

> **A developer acquiring today sets today's entry basis for a project that may start in 12–18 months and compete for buyers several years from now.**

Development is inherently forward-looking

A residential developer is rarely buying today's housing market. An acquisition typically needs 12–18 months of design, approvals and procurement before construction starts, and construction may take a further two to three years. The project is delivered into market conditions several years removed from those at acquisition.

This creates an important distinction between acquiring before a market adjustment and acquiring during one (Table 4). A site bought 12–18 months ago may have been priced on stronger assumptions for land value, end values or sales rates. If conditions then weaken while costs stay high, the project is caught between its historical acquisition basis and today's development economics.

Table 4: Acquiring before vs during the adjustment

	Acquired 12–18 months ago	Acquired today
Land price	Set in a stronger, more competitive market	Reflects moderated vendor expectations
Underwriting	Based on pre-adjustment end values and sales rates	Tested against current end values and costs
Cost and finance	Repriced after acquisition	Construction pricing and finance terms more visible
Competition	Many bidders for sites	Fewer buyers; potentially greater negotiating leverage
Delivery	Into the same future market, from a higher basis	Into a market shaped by today's low commencements

Acquiring during a weaker market does not remove risk, and it does not rely on prices recovering immediately. The investment case rests on the relationship between entry basis, development timeframe, replacement cost and the competing supply likely to exist on delivery. If weak conditions are constraining commencements today, projects acquired and progressed now can move through planning and construction while the effect of today's lower commencements flows through to future completions. The opportunity is not to buy because the market is weaker. It is to buy selectively where the entry basis and timeframe offer exposure to a more favourable supply-demand balance at presale and completion.

A worked example: bought 12 months ago vs bought today

Table 5 compares two buyers of the same hypothetical 60-apartment, mid-rise site in an established middle-ring location. One bought in late 2025. The other buys today and starts construction in 12–18 months.[13]

Table 5: Illustrative feasibility, $m

	12 months ago: original	12 months ago: today	Today: current values	Today: +10% values
End value (GRV)	64.0	59.5	59.5	65.5
Land	15.0	15.0	11.5	11.5
Construction	31.5	33.0	33.0	33.0
Other costs	7.0	8.3	7.3	7.3
Total cost	53.5	56.3	51.8	51.8
Profit	10.5	3.2	7.7	13.7
Margin on cost	~20%	~6%	~15%	~26%

Source: Abadeen illustrative analysis

The lower acquisition basis restores the illustrative margin to approximately 15% at current end values, before assuming any market recovery. A recovery in end values would provide further upside; illustratively, a 10% increase lifts the margin to approximately 26%.

The example is deliberately simple. Actual project returns will depend on financing, timing, sales rates, construction costs and project-specific risks. Its purpose is to illustrate the importance of acquisition basis: two projects delivered into the same future market can produce materially different outcomes because they were acquired at different points in the cycle.

Quality and scarcity still matter.

Location, design quality, amenity, natural light, well-proportioned layouts and depth of owner-occupier demand remain critical. In established locations where developable land is limited and competing product is expensive to create, those qualities become harder to replicate.

Higher replacement costs may constrain future supply, but they do not improve the investment case for generic or poorly located product. The relevant question is whether an equivalent asset, with the same location, amenity, design and scarcity, could realistically be created at a comparable price. The investment case cannot rest on population growth or undersupply alone.

The right asset matters more than the perfect time

Uncertainty naturally focuses attention on timing. But waiting for greater market certainty can also mean accepting different entry conditions. As rate expectations, prices and sentiment change, vendor expectations and competition for sites can change with them. Weaker markets can offer more time for due diligence, less competition and greater negotiating leverage. For long-term investors, the emphasis should therefore be less on calling the precise bottom and more on asset quality, entry basis and the market into which the project will ultimately be delivered.



Do not let a six-month news cycle determine a ten-year property decision.

[13] *Illustrative example only. It does not represent a specific Abadeen project or a forecast. Figures are rounded; "other costs" include professional fees, statutory charges, marketing, holding costs and finance.*

Abadeen Outlook

Supply

Housing delivered over the next several years will largely be determined by projects already approved, financed or started today. The contraction in apartment commencements since the last peak has consequences for the forward supply pipeline that cannot be reversed quickly. Even if approvals and commencements improve, a material increase in completed apartment supply will take several years to arrive.

Our base case is therefore that apartment supply remains constrained in the near term, with any meaningful recovery in completions lagging an improvement in development activity.

Demand and migration

The post-COVID surge in population growth is not a permanent run-rate. Our base case assumes migration moderates materially from recent peaks, broadly in line with current Treasury projections, rather than remaining at the levels recorded immediately after borders reopened.

We do not rely on elevated migration to support the investment case. Sydney and Melbourne continue to face substantial long-term population and household growth, while projects are also tested against materially lower migration scenarios.

Feasibility and replacement value

We expect construction-cost growth to moderate from its post-COVID peak, but not for the underlying cost base to return to pre-COVID levels. Land, construction, finance and other development costs therefore continue to set a relatively high threshold for new projects to become feasible.
Where current end values do not support those costs and an appropriate development return, the likely response is fewer projects proceeding rather than new housing being delivered materially below its cost of creation.



Key observation: Our base case is that the next phase of the cycle will be defined less by a lack of housing demand than by the difficulty of delivering enough new supply at economically viable prices.

Sydney and Melbourne

We do not assume Sydney and Melbourne will move together or recover at the same pace. Sydney combines strong long-term housing demand with high barriers to new supply in established locations. Melbourne has experienced a materially weaker price cycle, while population growth has recovered and the forward apartment pipeline remains constrained.
The two markets therefore present different acquisition opportunities. The common discipline is the same: identify projects where acquisition basis, development timeframe, future competing supply, underlying demand and replacement economics support the investment case without requiring an immediate recovery in market values.

Investment implication

Our strategy does not depend on identifying the precise bottom of the cycle. The objective is to acquire selectively at a basis supported by current values and current development economics, while recognising that projects acquired today will ultimately compete in a market several years removed from the conditions at acquisition.
Any subsequent recovery in values can provide additional upside, but it should not be required to justify the acquisition.

> **The opportunity often emerges before confidence returns. The market we can see today is only part of the picture.**

What History Tells Us

Thirty-five years of Australian property cycles do not provide a formula for predicting what happens next. They do, however, demonstrate that prices, development activity and housing demand operate on different timetables.

The current cycle is occurring against an unusual combination of weaker confidence, materially higher replacement costs, constrained new development and continuing long-term population growth. None of those factors determines the timing of a recovery, nor does housing undersupply guarantee the performance of an individual asset.

For Abadeen, the implication is instead one of discipline: acquire on an appropriate basis, focus on locations and product with enduring demand, understand what competing supply will cost to create, and consider the market into which a project will ultimately be delivered rather than simply the market visible at acquisition.

Periods of uncertainty can therefore create opportunity for investors with the capital and perspective to look through the immediate cycle. The objective is not to identify the precise bottom of the market, but to understand what is, and is not, being built today and what that means for the supply available several years from now.

The media reports the market we can see today. The real opportunity often lies in understanding the supply that will not exist tomorrow.

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