

INDUSTRY SNAPSHOT

Property Development – Housing

A snapshot of the key statistics and current industry performance in the residential housing property development sector.

November 2016

KEY STATISTICS

 Revenue **\$40.6b**

 Profit **\$3.0b**

 Annual growth
(2011-2016) **-1.0%**

 Projected growth
(2016-2021) **1.2%**

 Wages **\$3.8b**

 Businesses **41,950**

INDUSTRY SNAPSHOT: PROPERTY DEVELOPMENT – HOUSING

This industry snapshot focuses on single dwelling housing construction (home builders). The industry is considered to be in decline, including a national 2.4% contraction in revenue during 2015–2016. This contraction is despite an increased demand for housing and is driven by the property industry's transfer of focus to multi-unit apartment construction over the past five years. In the early 2000s, single dwelling commencements accounted for over 70% of total dwelling commencements, however this has fallen to less than 55% in 2015–2016, as household preferences have moved towards multi-unit dwellings.

CURRENT INDUSTRY PERFORMANCE

1. The changing preferences of home owners towards multi-unit dwellings, has led to revenues declining by an annualised 1.0% over the five years to 2015–2016. This is despite increasing underlying levels of demand for housing and improved affordability of mortgages (due to current low interest rates for home loans).
2. There has been an increase in the total number of construction developments in the past five years, however multi-unit apartments represent a growing share of the total new construction starts, increasing from less than 30% in the early 2000s to over 45% in 2015–2016.
3. In the past five years, there has been an improvement in the affordability of mortgages due to falling interest rates. Interest rates for residential home loans are expected to decrease marginally during 2015–2016 and reach the lowest levels since the 1970s (RBA), which could provide opportunities for the industry.
4. 29% of all single-dwelling developments are in Victoria, with 22% in New South Wales, 20% in Western Australia and 18% in Queensland. South Australia, Australian Capital Territory, Tasmania and Northern Territory together account for less than 11% of all single dwelling developments.
5. There continues to be diversity in the performance of capital cities such as Sydney and Melbourne, compared to the performance of other cities and regional towns.



INDUSTRY OUTLOOK

- In the short term, revenues for the industry in the two years to 2017–2018 are expected to fall, however revenues are forecast to then increase to \$43.0b in 2020–2021 due to the continued short term decline in single-dwelling commencements.
- However, the decline in revenue is then expected to reverse, with annualised revenue growth of 1.2% forecast over the five years through to 2020–2021, resulting in total industry revenue of \$43.0b.
- During this next five years, population is expected to grow which supports demand for property. However, with longer term forecast interest rate rises, mortgage affordability may decline.
- Stronger housing investment is expected in northern New South Wales and southern Queensland with weaker demand in southern states and Western Australia.

Key player analysis

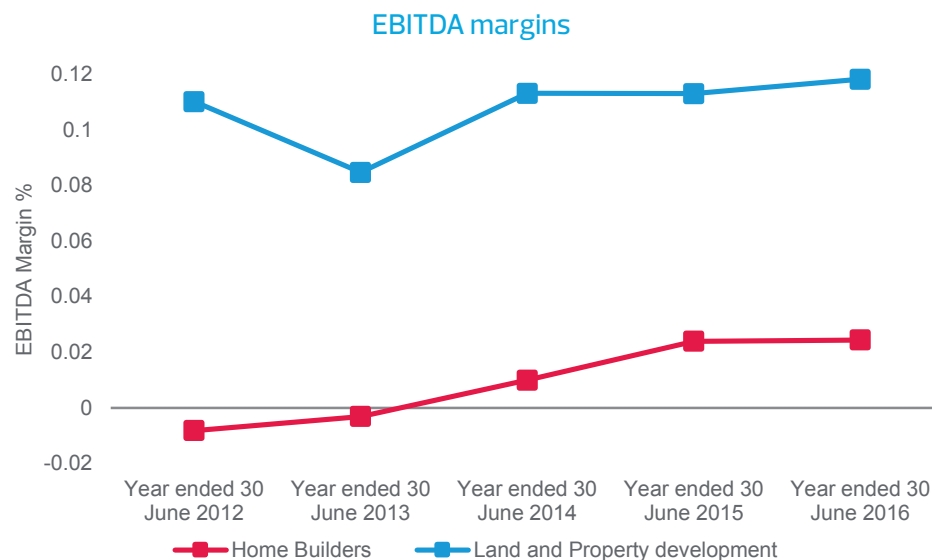
There are only two entities listed on the Australian Stock Exchange, Villa World Limited and Simonds Group Ltd that are primarily home builders. Therefore we have also included below key players who carry out other property development work, alongside home building. Limited information is available in relation to unlisted companies engaged in housing construction. Average NPAT and EBITDA margins for a selection of private construction entities are set out in the last column.

Reporting year end	Jun-16	Jun-16	Dec-15	Jun-16	Jun-16	Jun-16
Market cap date	Sep-16	Sep-16	Sep-16	Sep-16	Sep-16	Sep-16
Key player analysis	AVJennings Ltd	Cedar Woods Properties Ltd	Devine Ltd	Sunland Group Ltd	Simonds Group Ltd	Villa World Ltd
Revenue (\$m)	317.9	177.2	213.1	284.8	628.8	321.6
NPAT %	10.8%	24.0%	-16.9%	10.6%	-1.4%	8.0%
EBITDA %	13.9%	26.2%	-13.9%	16.2%	1.1%	14.5%
EBIT %	13.8%	25.4%	-14.2%	15.8%	0.7%	14.2%
ROCE %	6.3%	9.1%	-6.5%	6.2%	11.3%	10.1%
Gearing [D/(E+ D)]	20.8%	8.9%	13.6%	19.6%	-11.2%	24.9%
Working capital as a % of revenue	67.6%	21.7%	15.3%	60.1%	2.8%	31.2%
Market capitalisation (\$m)	215.7	339.2	73.0	242.1	36.7	236.3
Market capitalisation/NTA	0.6x	1.2x	0.3x	0.7x	1.6x	1.1x
Market capitalisation/NA	0.6x	1.2x	0.3x	0.7x	1.4x	1.1x

Source: Capital IQ

The largest three home builders by revenue in 2014–2015 were all private entities. These were ABN Corporate Services Pty Ltd (\$1.06 billion), BGC Australia Pty Ltd (\$1.04 billion) and Metricon Group Pty Ltd (\$786 million).

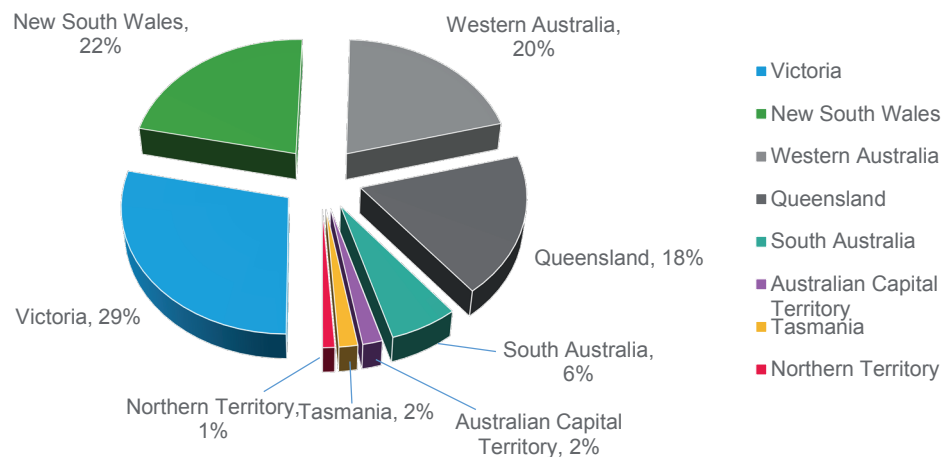
Entities engaged in the development of residential land typically generate significantly higher profit margins than residential home builders. Historical EBITDA margin trends can be compared for home builders versus land and property developers:



Geographical analysis

Victoria has more single-dwelling developments than any other state (29%), with the Northern Territory the least (1%).

Geographical split of single-unit work completed 2015–2016



Source: IBISWorld

TRANSACTIONS

A review of transactions in recent years shows the key players that are listed on the Australian Stock Exchange have expanded through the acquisition of assets (land), as opposed to the acquisition of other companies. Major private players including Metricon and ABN Group have been acquisitive in recent years pursuing other home builders.

Recent transactions include:

Announcement Date	Target	Acquirer	Deal Value \$m
31/08/2016	Simonds Group Limited (60.97% Stake)	SR Residential Pty Ltd	43
29/07/2016	Wisdom Properties Group Pty Ltd. (51% Stake)	Sumitomo Forestry Co., Ltd.	n/a
22/03/2016	ABN Group	Dale Alcock (Private Investor)	n/a
10/11/2015	Devine Limited (49.37% Stake)	CIMIC Group Limited	63
14/11/2014	Stellar Homes Pty Ltd	Scott Salisbury Group	n/a

Source: Capital IQ

IPO ACTIVITY

There has only been one IPO in the past three years, Simonds Group Limited on 17 November 2014. However, there have been a number of public offerings by companies already listed on the ASX. Villa World Limited, Ultima United Limited and Cedar Woods Properties Ltd have undertaken capital raisings by the issue of equity in the past 3 years.

Company	Listing/ issue date	Total transaction value \$m	Number of shares offered	Offer price \$	Price per ASX on 1 November 2016 \$	Share price movement since listing/ issue date
Villa World Limited (ASX:VLW)	17/09/2013	27.20	17,000,000	1.60	2.26	41.3%
Cedar Woods Properties Ltd. (ASX:CWP)	06/05/2014	5.04	740,586	6.80	4.42	-35.0%
Ultima United Limited (ASX:UUL)	15/09/2014	1.23	6,132,109	0.20	0.03	-85.0%
Villa World Limited (ASX:VLW)	28/01/2015	26.69	14,049,570	1.90	2.26	18.9%

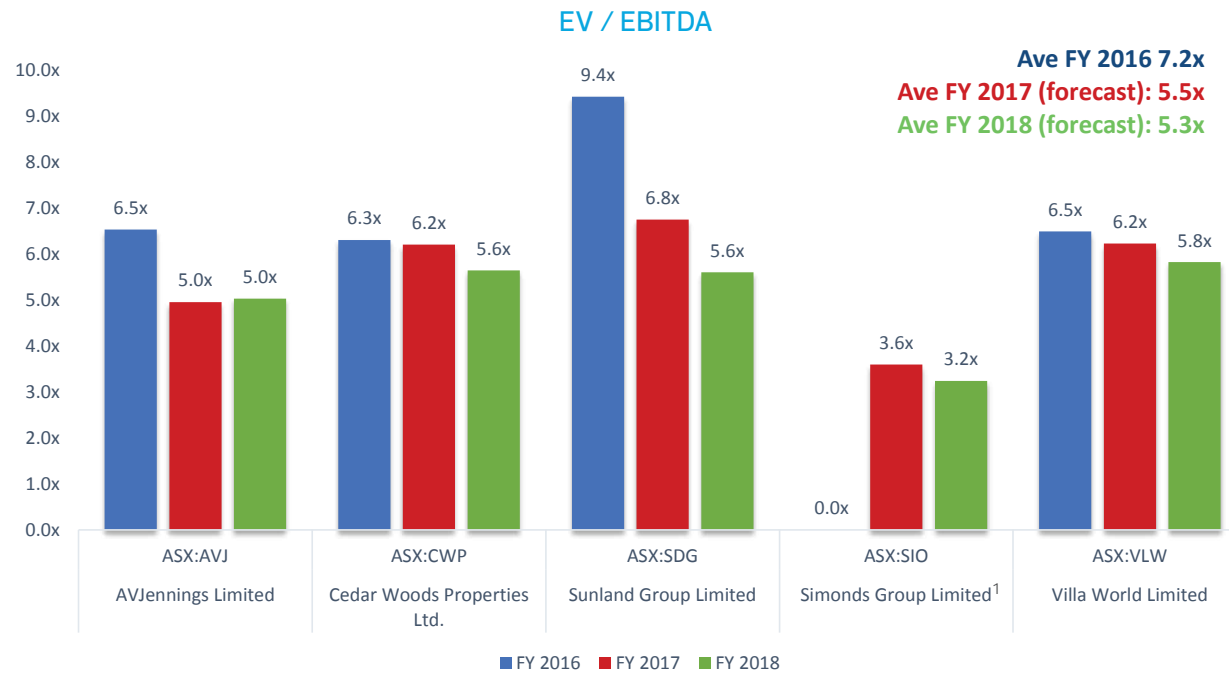
Source: Capital IQ

On 31 August 2016 Simonds Group announced a deal with Roche Holdings, which will privatise the home builder.



TRADING MULTIPLES

- Historical sector EV/EBITDA multiples range from 6.4x to 9.4x with an average of 7.2x
- The average forecast multiples of 5.5x and 5.0x for FY16 and FY17 respectively



Source: Capital IQ

¹Simonds reported an EBITDA loss in FY16.

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