Trilogy Funds | MURRAY DARLING CAPITAL

MDC Trilogy Wholesale Yield Fund I

FEBRUARY 2024 | **APIR SPC8913AU**

Fund details[2]

Investment type:
Wholesale Unit Trust

Launch:
September 2022

Distribution frequency[3]:
Quarterly - See Information Memorandum (IM) for details

Minimum initial investment:
$250,000

Unit price[4]:
$1.00

Withdrawals:
See Information Memorandum (IM) for details

Management fee:
Nil. Additional fees are charged to the Trust relating to the assets; see IM for details

Performance fee:
Nil

Entry and exit fees:
Ordinary Units - Nil. Other fees and costs apply and you should read the IM for details

Risks:
This product carries capital, distribution and other risks

10.00% PA[1] Paid Quarterly

[1] December 2023 net distribution rate annualised. Past performance is not a reliable indicator of future performance. Rates are variable.

Portfolio Owner *(MDC Trilogy Property Management I Pty Ltd)*

Properties Under Management (PUM)[5]:
~4,250 (as at 29 February 2024)

Geographic spread
QLD - Toowoomba, Rockhampton
NSW - Inner West Sydney, Northern Beaches

Investment Manager
MDC Trilogy Investment Management I Pty Ltd

Independent research[6]

Favourable
SQM RESEARCH

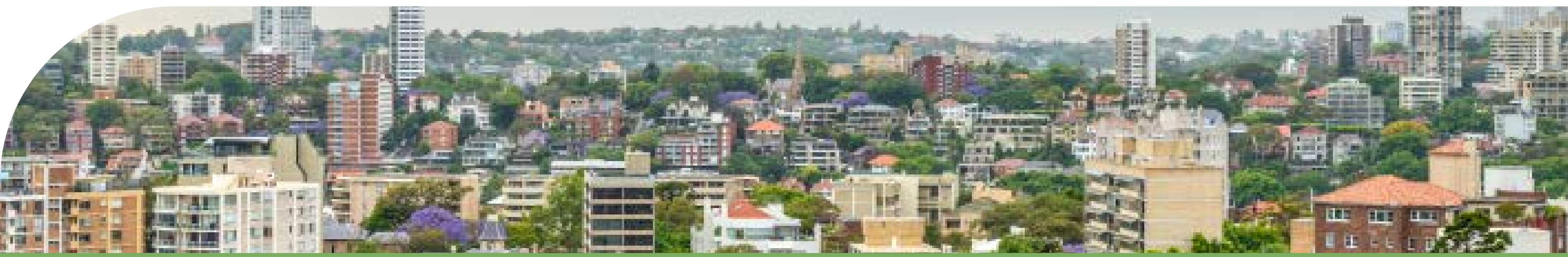
[2] This summary has been provided for illustrative purposes only. All terms and conditions contained herein are subject to the MDC Trilogy Wholesale Yield Fund I's (Fund) Information Memorandum for further details. This summary is not an offer or solicitation to purchase interests in the Fund. Such interests are only offered to investors who meet the definition of a wholesale investor as defined in the Corporations Act 2001, pursuant to the terms of the Information Memorandum, which should be reviewed carefully prior to investing.

[3] See IM for details. Whilst distributions are intended to be quarterly, neither the amount or timing is guaranteed by the Portfolio Owner or Investment Manager.

[4] While unit price is fixed, capital losses can occur in circumstances where an asset of the Trust incurs a capital loss. Past performance is not a reliable indicator of future performance.

[5] These properties are managed by MDC Trilogy Property Management I Pty Ltd and do not comprise assets of the Fund. There is an interposed entity between the (Fund) and MDC Trilogy Property Management, who is the note issuer.

[6] The rating contained in this document is issued by SQM Research Pty Ltd ABN 93 122 592 036 AFSL 421913. SQM Research is an investment research firm that undertakes research on investment products exclusively for its wholesale clients, utilising a proprietary review and star rating system. The SQM Research star rating system is of a general nature and does not take into account the particular circumstances or needs of any specific person. The rating may be subject to change at any time. Only licensed financial advisers may use the SQM Research star rating system in determining whether an investment is appropriate to a person's particular circumstances or needs. You should read the product disclosure statement and consult a licensed financial adviser before making an investment decision in relation to this investment product. SQM Research receives a fee from the Fund Manager for the research and rating of the managed investment scheme.



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Fund commentary

The MDC Trilogy investment team (investment team) has indicatively agreed terms to acquire a portfolio of approximately 900 managements in Sydney's inner-west. The acquisition complements MDC Trilogy's existing inner-west portfolio, with a similarly aligned management fee structure and geographic dispersion. The settlement process has commenced and is expected to be completed in the coming months. This acquisition, which has been indicatively accepted at an attractive valuation, is expected to enhance the existing portfolio and help in continuing to achieve economies of scale in the portfolio.

During the month the MDC Trilogy investment team engaged with several prospective rent-roll vendors in the Sydney area. Discussion and due diligence are underway with several vendors with a view to assess the suitability of portfolios for acquisition. In addition to the management fee structure and geography consideration, the investment team is assessing the practicality of portfolio management reassignments to The Agency, as well as full business acquisitions inclusive of personnel and offices.

During February the portfolio average management fee, represented as the percentage of rent charged as a fee for managing the property, continued to remain stable at approximately 6.4%.

Government policy updates

The NSW Government is reportedly considering a short-term rental tax with a discussion paper being released for public consultation by the NSW Housing Minister. The proposal suggests that levys would be applied to properties rented by short-term providers such as Airbnb and Stayz to encourage property owners to switch to longer-term rentals to alleviate overall rental shortages[1]. It is estimated that approximately 3.5% of rentals in NSW are offered as short-term rental accommodation[2].

NSW may follow the Victorian Government's plan to levy a 7.5% charge on revenue collected by short-stay rental providers to fund public housing initiatives[3]. The levy, effective from January 2025, is intended to lead to the removal of Local Government fees charged separately across the state, and result in a portion of the 29,000 short-stay home rentals in Victoria, representing approximately 4% of total rentals in the state, switching to longer-term rentals[4].

While the longer-term effects of these new policies are yet to be observed, media coverage from the ABC and AFR has noted that while a portion of short-stay rentals are likely to switch to longer-term rentals, thus increasing the number of long-term rental properties, in a majority of cases, the levys are likely to be passed through to renters such as tourists, potentially creating more competitive pricing in the short-term rental market. While these policies may generate some rental market supply in some geographies, the underlying shortage of national rental properties is a longer-term thematic that may take years to change, with lower vacancy rates and upward pressure on rental rates likely to continue.

Property values

Data from CoreLogic shows that national dwelling values increased 0.6% in February, with the combined capitals and combined regional areas both increasing by 0.6%. Values in all capital cities increased during February, with the exception of Hobart (-0.3%). Increases were led by Perth (1.8%), followed by Adelaide (1.1%) and Brisbane (0.9%). February also saw the return of growth in Melbourne (0.1%) and Sydney (0.5%), following the decline experienced in both cities towards the end of 2023[5].

Market commentary[5,6,7] is citing improved household confidence to enter into larger financial commitments as being associated with the recent dampening of inflation and general anticipation of cash rate reduction later in the year. This commentary is supported by the broader increase in property values nationally and trend towards higher auction clearing rates more recently. CoreLogic cited that average clearance rates are now approaching the 70% range, up from the mid 60% range towards the end of last year, and 50% range at the end of 2022[6].

To contextualise recent property value growth, PropTrack reported in February that house values nationally are now 42.6% above pre-pandemic levels, with unit values increasing by slightly under half this at 20.5% over the same period. Houses continue to command a considerable premium with the median value of houses nationally being $825k and $630k for units[7].

Property sales

The summer selling season has drawn to a close with buyer demand reported as remaining consistently strong during 2024 to date following a noted slowdown at the end of 2023. The drivers supporting the demand for properties continue to be cited as continued population growth through migration and immigration. Supply side restrictions due to increases in construction costs, including labour and materials shortages, continue to slow the rollout of new builds to meet demand needs. Buyer appetite is also being evidenced though strong auction clearance rates so far during 2024 that are above the levels seen at the same time last year[7].

New listings in Sydney were 27.7% higher at the start of 2024 than at the same time last year and 27.8% higher in Melbourne reflecting the busiest January since 2011 for Sydney and busiest January for Melbourne since 2008. Stock for sale in Brisbane, Adelaide, and Perth has been cited as being more limited, heightening competition between buyers and contributing to the recent price rises. PropTrack data indicates that the recent increase in stock for sale in Sydney and Melbourne has been met with strong demand, suggesting a return of buyer confidence[7].

Vacancy trends

National rental vacancy rates reported by Domain.com reached a new record low of 0.7% in February 2024, due to ongoing rental supply shortages, and continued migration, and constraints in the construction sector cited as locking renters in for longer[8]. Vacancy rates declined in February across all capital cities with the exception of Adelaide and Hobart which both remained flat. Rates in Sydney (0.8%), Melbourne (0.8%) and Perth (0.3%) are at a record lows, while Adelaide (0.3%) is close to an all-time low.

Realestate.com.au has reported on a growing preference among renters for smaller units over larger houses[9]. This represents a reversal of the trend observed during the pandemic, where renters sought larger properties better suited to remote work and lifestyles preferences. Data shows that units are now leasing 36% faster than in November 2020 at the height of the pandemic, whereas houses are leasing 9% faster. Units are also on market for fewer days than houses, reflecting a heightened level of demand for units that extends beyond the recovery in inner-city markets. If this trend is maintained it is anticipated that vacancy rates for units will continue to decline, placing further pressure on rents.

Rental rates

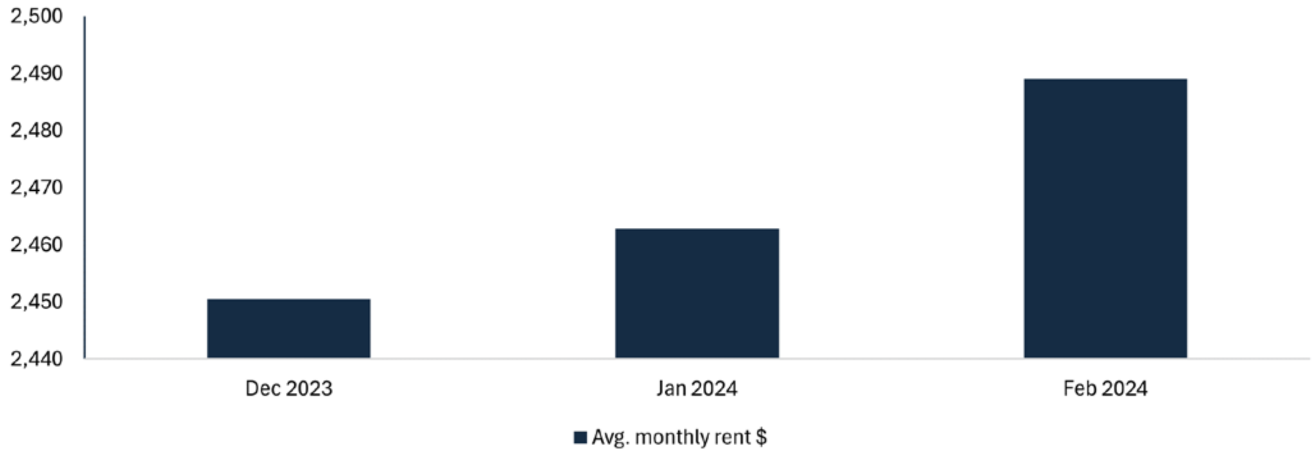
The premium paid for house rentals over units during the pandemic is reported to be reversing with the Sydney, Melbourne and Brisbane markets returning to pre-pandemic levels or below. Several drivers for the for this trend are being cited, including the reopening of CBD offices and preference to co-locate within proximity to the workplace, public transport and to take advantage of relatively cheaper unit rentals over houses to abate cost of living pressures. The vacancy rate differential between units and houses, 1.6% and 0.9% respectively, also provided some additional opportunity for renters to secure a unit[10].

Recently, there has been a surge in rental prices for units, outpacing the increases seen for houses. PropTrack has reported national unit rental increases of 17% over the last year, equating to $80 weekly, while house rental prices increased at a slower pace of 10.5% over the same period, an increase of $55 per week[10]. The variance was reported as being more pronounced in the capital cities where collectively the growth in weekly unit rents is reported to be more than double that of weekly house rental growth (18.8% annual growth in the capital cities vs 7.1% in regional areas). It is reported that unit rental price increases were seen in all capital cities with the exception of Canberra and Hobart where prices remained relatively static.

Calendar year to date, we believe the portfolio has continued to benefit from the pass-through of rental increases. The average monthly rent per property increased $39 over the first 2 months of the year, this represents an uplift in portfolio rents of 1.6% for this period. We believe this has resulted in the migration of properties in the portfolio towards higher rental-range brackets.

1. https://www.abc.net.au/news/2023-09-20/airbnb-victorian-tax-properties-short-stay-rental/102878180
2. Calculated based on data sourced from the CoreLogic Market Trends report February 2024
3. https://www.afr.com/property/residential/nsw-mulls-levy-on-airbnb-rentals-to-fix-housing-crunch-20240215-p5f5d6
4. Calculated based on data sourced from the CoreLogic Market Trends report February 2024
5. https://www.corelogic.com.au/news-research/news/2024/housing-values-record-a-subtle-re-acceleration-in-february-as-sentiment-improves?utm_medium=email&utm_source=newsletter&utm_campaign=au-res-hvi-2024-mar
6. https://www.corelogic.com.au/__data/assets/pdf_file/0028/21979/CoreLogic-HVI-Mar-2024-FINAL.pdf
7. https://www.proptrack.com.au/insights-hub/proptrack-home-price-index-february-2024/
8. https://www.domain.com.au/research/vacancy-rates-february-2024-1266500/
9. https://www.realestate.com.au/insights/why-unit-rents-are-growing-faster-than-houses/
10. https://www.proptrack.com.au/insights-hub/why-more-renters-now-prefer-smaller-units-over-larger-houses/

Portfolio Average Monthly Rent per Property



Portfolio Monthly Rental Distribution