RESIDENTIAL RESEARCH

Knight Frank

SYDNEY APARTMENTS
RESIDENTIAL MARKET BRIEF Q3 2014

Key Facts

Annual capital growth for apartments was recorded at 13.3%, rental growth at 4% and vacancy at 1.8%

Lending finance has increased whilst building approvals have tapered back in recent months

Residential development site sale volumes are up 68% in the last year; 39% sold to foreign developers

Key transport infrastructure projects underway with a pipeline proposed to 2023

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Growth in apartment values has now reached a height not seen in metropolitan Sydney since 2001, low vacancy has remained despite a significant number of new supply projects coming on line as rents continue to trend upwards.

Overview

Low interest rates sustained over the past 18 months have fuelled investment in the apartment market, leading to an increase in dwelling approvals, sales volume and housing finance increasing in 2014.

At the same time, Sydney was ranked seventh most liveable city in the world. The Economist Intelligence Unit considers the city's stability, healthcare, culture and environment, education and infrastructure when grading the Global Liveability Index. Coupled with a ranking of third for quality of life in the latest Knight Frank Global Cities Survey, it is not surprising that population in Sydney is positively projected.

With the rate of natural increase continuing to climb, and net overseas migration remaining reasonably strong, Greater Sydney is projected to reach a population of 5.64 million by 2024. The population is currently estimated at 4.82 million persons, so this equates to annual growth of approximately 1.7 percent, slightly below the Australian average, but higher than the growth over the past ten years of 1.5 percent.

Development Sites

After many years of undersupply, the federal government's incentive for foreign investors to buy into new projects that increase the housing stock, has led to a buying frenzy amongst property developers. Many are buying up the last of the greenfield sites; office and industrial brownfield sites, and amalgamating single dwelling allotments to achieve efficacy with multi-level complexes around established transport and retail hubs.

In the twelve months to August 2014, sales of major sites likely for high density development in the Sydney metropolitan area totalled $2.7 billion. This was up 68.4 percent on the previous year, as inner city sites become scarce. Foreign developers purchased 39 percent of the sites with

PIPELINE OF PROPOSED KEY TRANSPORT PROJECTS

Schofields Road Stage 1 [2014] Reconstruction of the roadway between Windsor Road to Tallawong Road, Rouse Hill; then **Stage 2 [2017]** will continue onto Veron Road, Schofields. Key for the North West Growth Centre.

South West Rail Link [2015] The construction of a rail link between Leppington to Glenfield; extending commuter connection to the CBD and Airport.

Camden Valley Way [2016] Widening of the road between Bringelly Road, Leppington to Oran Park Drive, Oran Park. Key road for the South West Growth Centre.

Old Wallgrove Road [2016] Upgrading the road between the M7 Motorway and Erskine Park Link Road, Eastern Creek.

Sydney CBD & South East Light Rail [2020] Construction of a dedicated light rail from Central Station and the University of NSW.

North West Rail Link [2020] New rapid transit rail link will connect Bella Vista in Sydney's North West region with eight new railway stations through to the Epping to Chatswood rail link.

WestConnex [2023] Stage 1 includes widening the M4 & M4 East Motorways from Church Street, Parramatta to Parramatta Road, Haberfield and City West Link. Stage 2 is the construction of a link from M5 Motorway at Beverly Hills to St Peters. Stage 3 is the construction of the M4 South Motorway from Haberfield to St Peters. Key project to connect Sydney's West and South-West with the city, airport and ports and provide the missing link in the Sydney Orbital Network.

countries represented being China, including Bridgehill, Greenland, JQZ Group, Fuxing Group/Starryland and Country Garden; Malaysia with TA Global and SP Setia and Singapore's Fu Ji.

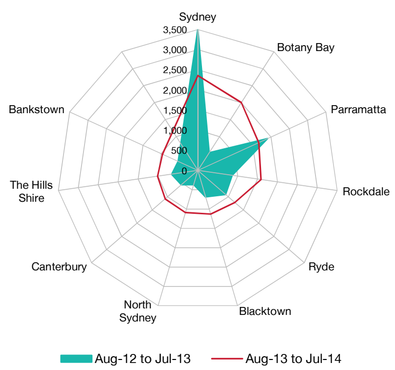
Meriton dominated the local purchasers with sites including the former DEXUS Business Park in Rosebery for $190 million and a Sydney CBD office building planned for residential conversion at 234 Sussex Street, for $60 million.

Across the Sydney metropolitan area, sites are averaging $132,000 per apartment. The CBD & South region average $173,000 per apartment with recent sales achieving close to the North average of $248,000. Whilst the North West averaged closer to $105,000 per apartment, some sales recorded close to $140,000.

Planning

Based on the number of building permits issued by certifying authorities for new residential apartments, building approvals in NSW have tapered back in the past two months after a robust 2013/14 recording an average 2,405 approvals a month. July 2014 saw only 1,602 building approvals for new apartments, although this is above the NSW ten year monthly average of 1,498 approvals. With the number of recent site sales, it is expected that the number of applications will escalate, and in turn follow through to a rise in building approvals.

FIGURE 1
Building Approvals, Highest LGAs
Total number of new residential apartments



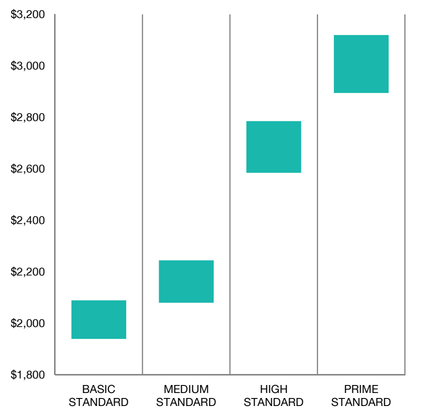
Source: Knight Frank Residential Research, ABS

In 2013/14, the Sydney Local Government Area (LGA) dominated the number of building approvals (at 2,358), although lower approved than the previous year (at 3,487). As expected, Botany LGA saw a surge in building applications with the change in zoning (from 521 to 2,002) and as Parramatta city gains momentum, it sustained a similar number of building approvals as reported in 2012/13.

Construction

The subdued level of building activity back in 2012 has been offset with many cranes now along the Sydney skyline. Over the past ten years, according to Rawlinsons, cost of construction has increased circa 4.5 percent per annum, with a standard multi-storey apartment complex now costing on average $2,015/sqm for a basic finish. A prime finish would be closer to an average of $3,010/sqm.

FIGURE 2
Total Construction Costs Sydney Metropolitan
$/sqm for multi-storey, high density residential



Source: Knight Frank Residential Research, Rawlinsons Construction Handbook, 2014

Key transport projects are now underway across the metropolitan area including Schofields Road, in the North West and the South West Rail Link and Camden Valley Way, in the South West. The Sydney CBD & South East Light Rail, North West Rail Link and WestConnex are all scheduled for post-2020.

TABLE 1

Key Indicators, Apartments, June 2014

Region	Median Capital Value ($)	Capital Growth Last Quarter (%)	Capital Growth Last Year (%)	Gross Rental Yield (%)	Sales Volume Last Year (no.)	Median Weekly Rent ($)
Sydney, 2000	659,500	1.5	7.8	5.88	691	735
CBD & South	688,500	0.1	9.8	4.81	12,559	635
North	676,000	3.8	13.2	4.57	9,779	590
North West	520,000	3.7	13.4	4.87	12,132	485
South West	474,500	3.9	14.5	4.90	10,691	445
Far West	309,000	3.9	14.3	5.64	4,204	335
Sydney Metropolitan	568,500	3.5	13.3	4.81	47,952	525
Australia	436,000	2.1	7.7	4.92	159,834	410

Source: Knight Frank Residential Research, Residex

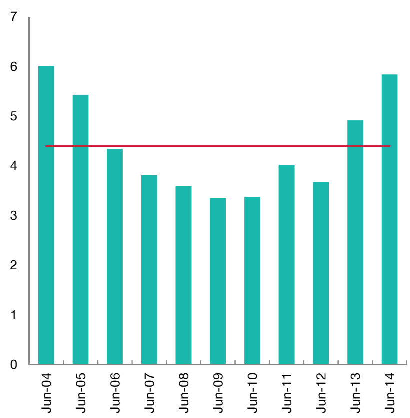
Completions

The total value of work completed on new residential apartments, after the direct effects of price changes have been eliminated, has shown significant upward growth in NSW since 2012, to $5.84 billion, in the year to June 2014.

FIGURE 3

Value of Work Completed, NSW

$billions, new, residential apartments



Source: Knight Frank Residential Research, ABS

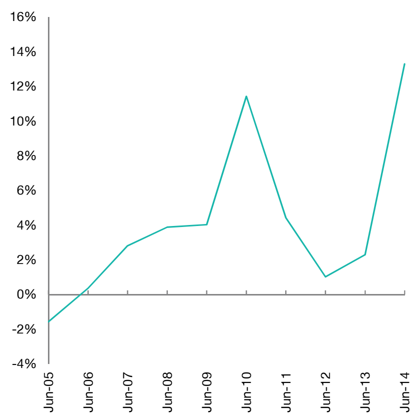
Apartment Values

Growth in apartment values has now reached a height not seen in metropolitan Sydney since 2001. In the twelve months to June 2014, capital growth was achieved at 13.3 percent. Last quarter has sustained this rate, at 3.5 percent with the last month realising growth of

FIGURE 4

Median Values, Sydney Metropolitan

% annual change in growth for apartments



Source: Knight Frank Residential Research, Residex

1.2 percent. Sales turnover increased 29 percent over the past year to 47,952 apartments; currently the highest volume across Australia. The CBD & South region has the highest median values in Sydney, at $688,500, closely followed by the North region at $676,000. Median values in the Sydney CBD were $659,500 in June 2014.

Many off-the-plan sales occurring in the past year, have yet to be included in the data until the time of settlement. This new supply is well overdue in many markets. New apartments with high quality, in well positioned locations, can achieve an average of $30,000/sqm in the Sydney CBD.

Apartment Rents

Rent for Sydney metropolitan apartments rose four percent on the past year to $525 a week rent in June 2014. The suburb of Sydney achieves $735 per week, and across the regions, the CBD & South region achieves the highest weekly rents, followed by the North region. Vacancy in Sydney has trended well below the market equilibrium of three percent since October 2012. Based on the proportion of unlet residential properties to the total rent roll, total vacancy in Sydney Metropolitan, in August 2014, was 1.8 percent. This was down 20 bps from the month prior, with the Inner and Outer rings pushing down the vacancy, despite the Middle ring rising to 2.1 percent.

TABLE 2

Total Vacancy (%)

Ring	Aug-14	Jul-14
Inner (0-10km)	1.8	2.0
Middle (10-20km)	2.1	1.9
Outer (20km+)	1.6	1.9
Total	1.8	2.0

Source: Knight Frank Residential Research, REINSW

Gross rental yields have compressed marginally across the metropolitan area after recent significant gains in capital values. Apartments in Sydney currently average 4.81 percent, slightly below the Australian average.

Outlook

- Low interest rates are forecast to remain steady with no change expected until mid to late 2015 and banks are keen to lend at competitive rates.
- A positive outlook is forecast for the NSW economy, largely driven by a solid pipeline of residential construction and increased state government expenditure on a number of key infrastructure projects.
- Annual population growth to continue at 1.7 percent powered by net overseas migration.
- Construction costs have been projected by AECOM to increase 0.8 percent per quarter until March 2015, as many skilled tradespeople in demand are also being attracted to working on major government infrastructure projects underway.
- Building approvals have eased in recent months, although this is likely to be short lived. The high number of development site sales occurring in 2014 will lift applications and, in turn, the number of approvals.
- Capital value growth is unlikely to be sustained at current levels over the medium term, however with interest rates remaining low and strong population growth, its likely that growth in values will be experienced in the short term.
- As new supply comes on line after a long time of undersupply, vacancy is expected to move closer to equilibrium and we expect rents to witness low to moderate growth throughout this time.

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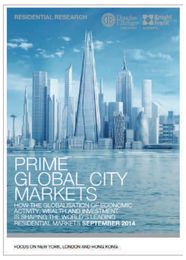

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