

SYDNEY NORTH WEST LEADS APARTMENT CONSTRUCTION

Strong growth in capital values have been witnessed across the Sydney metropolitan area, which has contributed to a high volume of apartments being added to the pipeline of developments under

Key facts July 2014

Population projected to increase by 1.7% per annum out to 2029

Over **26,600 apartments** currently under construction across metropolitan Sydney

Vacancy up to 1.9%, whilst **weekly rents stable at \$520**, as **rental yield estimated at 4.95%**

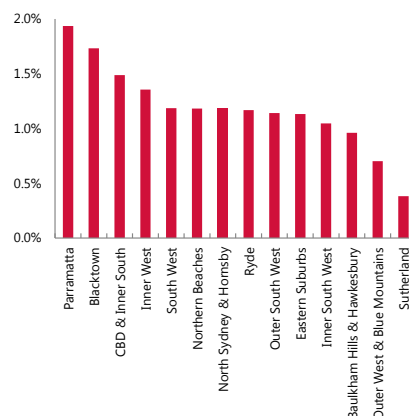
Metropolitan Sydney saw annual **capital growth of 12.15%** with **median value at \$549,500**

The resilient Australian economy, historically low interest rates and a stable political environment have aided the growth of the Sydney residential market over the last eighteen months. After a long period of undersupply, solid population growth resulting from a natural increase and high net migration is driving the new supply pipeline.

Sydney has endured a long period of undersupply. The geographic constraint of being located within a basin, together with a trend towards inner city living, means that higher density around established transport hubs will be required in the future to allow more residential accommodation to be built. The NSW Government has begun to rezone key areas with the implementation of Urban Activation Precincts around Herring Road, Macquarie Park, Epping Town Centre, North Ryde and Mascot Stations, Carter Street Lidcombe, Wentworth Point, Randwick and Anzac Parade South.

Due over the next three years, there are 26,680 apartments currently under construction in metropolitan Sydney. The North West region dominates the mix with 37.1% (9,890 apartments) in the pipeline followed by the CBD & South regions with a combined 8,200 apartments. Within the North West region, the highest volume of apartments under construction include Parramatta (1,640) and inline with the Urban Activation Precincts; Macquarie Park (600), Sydney Olympic Park (585), Wentworth Point (580) and Epping (524). The South West region, coupled with North, comprise 8,585 apartments or just over 32%.

FIGURE 1
Sydney Population Growth
% annual change over past five years (at SA4 level)

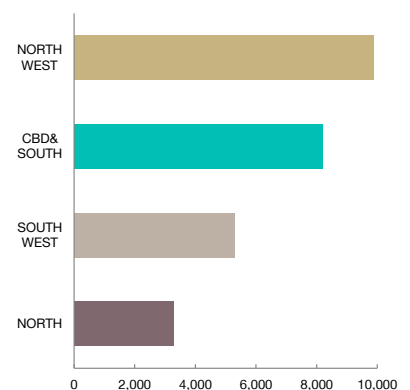


Source: Knight Frank Residential Research, ABS

The requirement to lift residential stock is supported by an increase in population with the Australian Bureau of Statistics (ABS) projecting positive growth for metropolitan Sydney of 1.7% on an annual basis out to 2029; 20 bps above the ten year average. Parramatta (at 1.9% annual growth), Blacktown (at 1.7%) and CBD & Inner South (at 1.5%) have had the strongest annual growth since 2009, followed by the Inner West, South West and Northern Beaches.

The latest [Knight Frank Global Cities Survey](#) ranks Sydney as the third best for quality of life behind Melbourne and Frankfurt. This attractiveness coupled with the Federal Government's incentive for foreign investment into the local market, has driven competition amongst foreign and local developers; investors and owner occupiers.

FIGURE 2
Sydney New Apartments
total number under construction



Source: Knight Frank Residential Research

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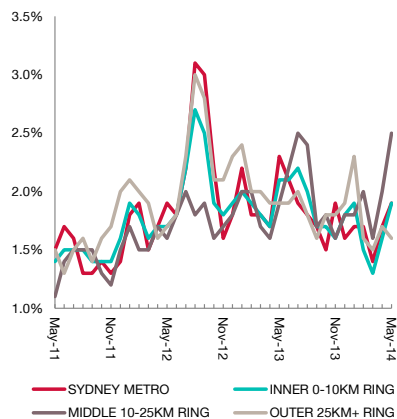
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RESIDENTIAL MARKET UPDATE JULY 2014

Vacancy in metropolitan Sydney is up 20 bps in the first five months of 2014 to stand at 1.9%; trending slightly above the 1.8% average held over the past three years. Similarly, the 'Inner 0-10km ring' recorded 1.9% vacancy in May 2014. The 'Middle 10-25km ring' at 2.5%, was a major contributor to the total vacancy result, rising 60 bps in the last twelve months whilst the 'Outer 25km+ ring' fell 30 bps to 1.6%.

FIGURE 3
Sydney Vacancy
% total of residential investment stock



Source: Knight Frank Residential Research, REINSW

Rental market

Despite the recent upward movement in vacancy, off the back of increased supply, median apartment rents in metropolitan Sydney have remained steady at \$520 per week; whilst gross rental yield averaged 4.95%.

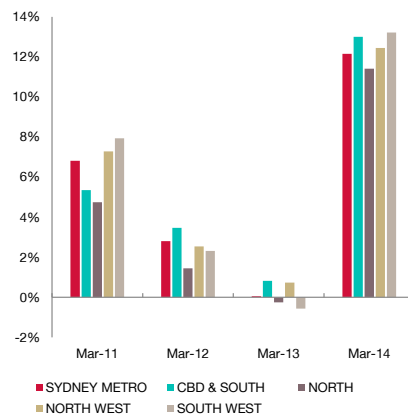
Over the three years to March 2014, the North West region recorded the highest growth in rents at 3.9% per annum to reach \$480 per week and a rental yield of 5.00%. The CBD & South region achieved the highest weekly rent at \$645 after annual

growth of 3.4%, whilst achieving slightly lower growth at 3.3%, median rents in the South West were \$440 per week. The weekly rent in the North region was recorded at \$585 with annual growth of 2.8% and a rental yield at 4.70%. The CBD & South region rental yields were estimated at 4.89% while the South West was highest at 5.05%.

Capital values

After suppressed capital growth from late 2011 to early 2013, apartments across metropolitan Sydney witnessed considerable growth of 12.15% over the twelve months to March 2014, to stand at a median value of \$549,500. The South West achieved the best annual growth at 13.22% closely followed by CBD & South region with 13%. Sustaining the highest annual growth since March 2011, the North West recorded 12.45% whilst the North was closer to 11.40%. The CBD & South currently hold the highest median value at \$688,000 followed by the North region at \$651,000, North West at \$501,500 and the South West at \$457,000.

FIGURE 4
Sydney Apartments Median Values
% change in annual capital growth



Source: Knight Frank Residential Research, Residex

“Higher density around established transport hubs will be required in the future to allow more residential accommodation to be built”



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Knight Frank Residential regions are defined as:
 CBD & South – postcodes 2000 to 2059
 North – postcodes 2060 to 2109
 North West – postcodes 2110 to 2159
 South West – postcodes 2160 to 2249
 Sydney Metro – postcodes 2000 to 2249

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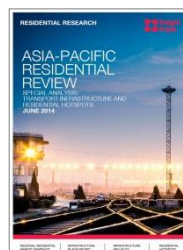
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