SYDNEY RESIDENTIAL DEVELOPMENT INSIGHT

MARKET FORCES ARE SHIFTING THE DEVELOPMENT OF HOUSING TO NEW LOCATIONS

Sydney's population is moving further out from the CBD, as residential development opportunities increase due to rezoning, infrastructure improvements, improved amenity and affordability constraints

November 2014

South Sydney, North West, Inner West and the Outer West are projected to see a high proportion of new residential development throughout the next 10 year period, as the population shifts further from the core city centre

Rezoning and better transport connections will improve accessibility to previously non residential areas providing new opportunities for developers

At least 29,000 homes across Greater Sydney are needed per year for the next 20 years just to match projected demand

Increased competition for sites, particularly as levels of Asian capital surge, are pushing residential development land values higher

PAUL SAVITZ
Associate Director
Research and Consulting

"The median value of an apartment across Sydney has grown by 37% over the past 5 years, 55% over 10 years, 128% over 15 years, 245% over 20 years and by 305% over the past 25 year period."

Market in context

Evidence suggests there is an undersupply of housing currently being experienced across Sydney. Countering this shortfall has been significant investment into residential development sites in recent years. As a result approvals for new housing stock are increasing, particularly for apartments, which have increased by 58% in just two years.

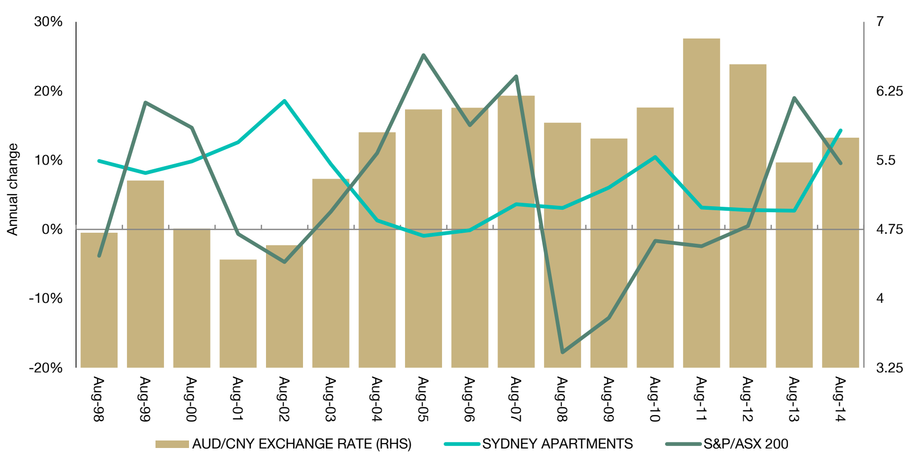
Our estimates indicate that future supply may close the gap on future demand. However, there remains pent up demand for residential accommodation that is being fuelled by population growth (and net migration) and unrelenting international interest in Sydney residential property.

This is evident through the continued outperformance of Sydney apartment values, compared with the rest of the country. After suppressed capital growth from late 2011 to early 2013, apartments across Sydney witnessed considerable growth of 13.8% over the year to September 2014. Market strength has now pushed the median value of an apartment to $585,500, although great variation exists between suburbs. In addition to values sales volumes have improved across most markets, as confidence, and output rise. However, as values increase affordability is fast becoming a growing concern.

Housing affordability is partly being stretched by rising numbers of domestic and international investors placing upward pressure on apartment pricing, as corresponding growth in more mainstream investments slow. When growth in the stock market cools, Sydney apartment prices have tended to rise and vice versa, as investment flows into the other. This trend is reflected in Figure 1, and shows how the relationship between the two has been opposite in cyclical nature.

Sydney is a diverse market accommodating many different buyer preferences and price points. Prices for development sites and gross realisations achievable upon completion will vary from suburb to suburb and from development to development. Ensuring the right product mix is provided within a development will contribute to a schemes success in this growing market.

FIGURE 1
Cyclical Comparison of Sydney Apartments, Stock Market and Chinese Yuan



Source: Knight Frank, Residex, RBA, Yahoo Finance

WHERE ARE THE NEXT GROWTH HOTSPOTS?

After many years in the planning, all levels of Government are identifying areas for increased urban development and instigating significant infrastructure upgrades and new developments, as well as rezoning land for development that is complimentary to their urban development objectives. This has resulted in an increase in development site sales for medium and high density residential apartments which will help to significantly alleviate the current housing shortage and affordability issues across Sydney.

Our research supports that higher density residential development is most successful when located around good public transport hubs, educational facilities and retail centres. The emerging trend in the market is for a more convenient lifestyle which includes greater accessibility via public transport to the workplace, entertainment venues and recreational venues. Proximity to schools and Universities is a high priority for a large section of the market and many occupiers will require a variety of retail amenity to support their busy lives.

The requirement to increase residential supply is supported by an increase in population with the New South Wales State Government projecting positive growth for metropolitan Sydney of 1.7% on an annual basis out to 2031, 20 bps above the ten year average. This equates to population growth of 1.575 million over the 20 year period to 2031, or growth of 78,775 per annum.

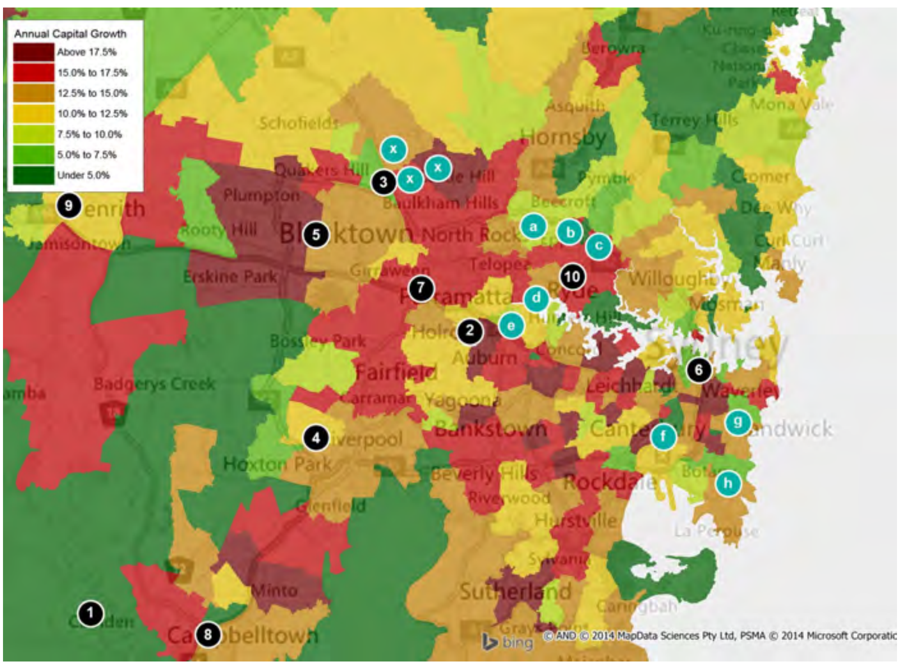
Therefore, at the current (2011 Census) rate of 2.7 people per household across Sydney, an additional 29,177 new dwellings are required per year to match demand based on past household formation rates. However, it is likely that the average household size will decrease over the next 20 years due to higher rates of apartment building, as a response to greater levels of demand from one and two person households.

Figure 2 focusses on those locations which are projected to have the highest growth potential over the next 10 to 20 years, due to strong population growth through rezoning and better transport connections. In terms of Local Government Areas Camden (at 178% growth), Auburn (at 68%), The Hills Shire (at 59%), Liverpool (at 54%), Blacktown (at 52%) and Sydney (at 49%) have the strongest 20 year population growth projections (to 2031), all equating to annual growth of over 2% per annum.

On the back of infrastructure commencements, growth initiatives and the development of better quality stock, unit values are already starting to rise in a number of locations across the Inner and Outer West. Picking those areas that will see continued price growth will be the next big question for land owners, investors and developers alike.

> "Our estimates highlight a need to deliver over 29,000 new additional dwellings per year for the next 20 years just to match demand based on past household formation rates."
>
> PAUL SAVITZ
> **Associate Director**
> **Research & Consulting**

FIGURE 2
Annual Apartment Price Growth and Future Development Hotspots
Apartment value growth by postcode, year to September 2014



Source: Knight Frank, Residex, NSW Department of Planning, Environment & Infrastructure

TABLE 1
Top 10 LGA's for Population Growth
Projections 2011-2031

	Total growth	Total % change	Av Annual % change
1. Camden	103,900	177.8	5.1
2. Auburn	52,800	67.9	2.6
3. The Hills Shire	103,900	58.7	2.3
4. Liverpool	100,850	53.6	2.1
5. Blacktown	160,950	51.5	2.1
6. Sydney	90,200	49.2	2.0
7. Parramatta	79,100	45.3	1.9
8. Campbelltown	64,600	42.7	1.8
9. Penrith	76,850	41.6	1.7
10. Ryde	44,300	40.8	1.7

TABLE 2
Urban Activation Precincts (UAP)
8 precincts identified to provide 30,000 homes

a. Epping Town Centre
b. Herring Road, Macquarie Park
c. North Ryde Station
d. Wentworth Point
e. Carter Street
f. Mascot Station
g. Randwick
h. Anzac Parade Corridor

x. A further 3 precincts, located along the North West Rail Link, were announced in August 2014 and are currently at planning stage: Kellyville Station, Bella Vista Station & Showground Station

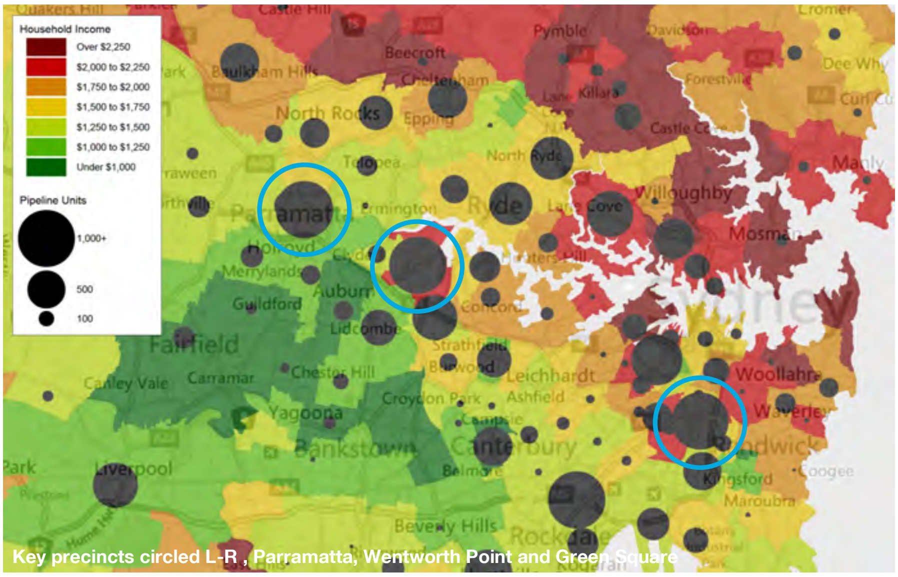
EMERGING RESIDENTIAL DISTRICTS

The residential development pipeline is extremely active, with schemes proposed across all price points and across all affordability levels. Here we highlight 3 key precincts being transformed with large residential development pipelines (Fig 3).

FIGURE 3

Future Residential Apartment Supply and Household Income

Monthly household income, Census 2011, units under construction in next 3 years



Key precincts circled L-R , Parramatta, Wentworth Point and Green Square

Source: Knight Frank, ABS, Cordell

WENTWORTH POINT

INDICATIVE SITE VALUE / UNIT $100,000-$115,000

AVERAGE NEW BUILD APARTMENT $8,500/sqm

The Wentworth Point UAP, rezoned in 2014, is located in Sydney's inner west, 16km from the Sydney CBD. The 18 ha precinct will deliver thousands of new homes with easy access to public transport, shops, services, jobs and the many facilities and parklands of Sydney Olympic Park. The waterfront site will include two new residential neighbourhoods, totaling around 2,300 apartments in buildings of up to 25 storeys.

GREEN SQUARE

INDICATIVE SITE VALUE / UNIT $200,000

AVERAGE NEW BUILD APARTMENT $13,000/sqm

The $8bn project is transforming this southern precinct into a vibrant and sustainable urban environment. At the heart of the Green Square development is the new town centre, a major new retail and residential district of nearly 10,000 apartments, a far move away from its industrial past. The City of Sydney has also committed $440m over the next 10 years to deliver quality infrastructure and community facilities such as a new library and aquatic centre, as well as parks, public art and a community creative hub.

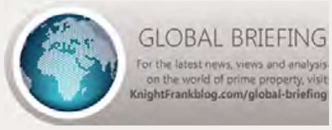
PARRAMATTA

INDICATIVE SITE VALUE / UNIT $100,000-$125,000

AVERAGE NEW BUILD APARTMENT $9,000/sqm

Parramatta appears well placed to undergo a period of rejuvenation. The progression of Parramatta Square in conjunction with the sharp upturn in residential development, which will provide around 7,000 new apartments to Parramatta over the next five years, is expected to boost local amenity. New developments will provide an attractive option for both investors - attracted by the increasingly higher number of local office workers, students and commuters - and owner occupiers looking for well connected urban living at a more affordable price point.

Red = Proposed / Yellow = Underway



Outlook

Residential Land Values - There remains a flow of Asia based developers looking to source their first residential investment in the Australian market. Increased competition is pushing land values higher, and at this point new entrants are prepared to accept slightly lower profit margins for a foothold in the market. However, end buyer affordability constraints and increasing supply may begin to limit the level of price growth over the next few years.

Infrastructure - Projects which are either planned or under construction will continue to accelerate residential development and open up new areas to developers and buyers alike.

Housing Approvals - Apartment approvals are now trending at their highest level since the start of the data series in 2001. However, total approvals are still below the level of required housing need.

Demographics - A greater number of smaller households are forming, impacting on required housing. Apartment living is becoming increasingly favored as households prefer convenient living to supplement changing lifestyles and affordability.

Investors - Value of investor loans at September 2014 was 25% greater than at the same point in 2013 and 76% higher than three years ago. Interest rates are expected to remain stable over the short term which suggests investment into residential property will continue. A decline in the exchange rate could deepen housing demand, by adding increasing numbers of overseas investors to the buyer pool.

FIRB - The current parliamentary inquiry into foreign investment in Australian residential real estate, which is due to report in late November 2014, has the potential to impact on the level of foreign buyer demand. It is highly likely the parliamentary committee will recommend tougher screening and/or restrictions for foreign buyers of residential property.

FIGURE 4
Housing Approvals to Remain Historically High
Greater Sydney rolling 12 months total

Source: Knight Frank, ABS

FIGURE 5
Housing Finance to Investors To Continue to Trend Upwards
AUD$ Billions, Australia

Source: Knight Frank, ABS

RESEARCH & CONSULTING
Paul Savitz
Associate Director
+61 2 9036 6811
paul.savitz@au.knightfrank.com

Matt Whitby
Head of Research & Consulting
+61 2 9036 6616
matt.whitby@au.knightfrank.com

RESIDENTIAL RESEARCH
Michelle Ciesielski
Associate Director
+61 2 9036 6659
michelle.ciesielski@au.knightfrank.com

PROJECT MARKETING SYDNEY
Andrew Drury
Director
+61 2 9036 6713
andrew.drury@au.knightfrank.com

INTERNATIONAL PROJECT MARKETING
Erin Van Tuil
Associate Director
+61 2 9036 6699
erin.vantuil@au.knightfrank.com

ASIAN MARKETS
Dominic Ong
Senior Director
+61 2 9036 6747
dominic.ong@au.knightfrank.com

RESIDENTIAL DEVELOPMENT VALUATIONS
Chris Sutton
Divisional Director
+61 2 9036 6604
chris.sutton@au.knightfrank.com

Andrew Berwick
Valuer
+61 2 9036 6654
andrew.berwick@au.knightfrank.com

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