

*A review of key drivers for high-density apartment projects across Greater Sydney*



# Sydney Apartment Projects Review

2021

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# SYDNEY APARTMENT PROJECTS

*Sydney recorded the highest volume of residential development site sales of all major Australian cities in 2020. How has this market performed over this time and what's the outlook ahead?*

## Development sites

In a year earmarked for upswing prior to the coronavirus pandemic, 2020 instead saw a continued contraction in the volume of major **sites purchased** by developers suitable for high-density in Sydney (above \$5m). This was influenced by site sales in the Inner Suburbs falling by 39% over this time, the Outer Suburbs down by 10%, although the Middle Suburbs rose 11%.

High-density sites comprised 66% of Sydney's total volume of development sites purchased in 2020 (down from 82% in 2019), which tallied to \$1.3 billion (22% lower YoY).

In 2020, the greatest volume of high-density sites purchased were recorded in the suburbs of Willoughby, North Sydney and Sydney.

Approximately 0.7% of major sites purchased were announced with the intention of constructing a build-to-rent high-density product, by value.

At the end of 2020, high-density **site values** in the Inner Suburbs were down 6.4% at an indicative of \$340,000/per apartment (ranging from \$180,000 to \$550,000/per apartment). Remaining steady, values in Middle Suburbs achieved \$176,000/per apartment

(\$130,000 to \$300,000/per apartment) and Outer Suburbs values were \$77,500/per apartment, ranging from \$40,000 to \$150,000/per apartment.

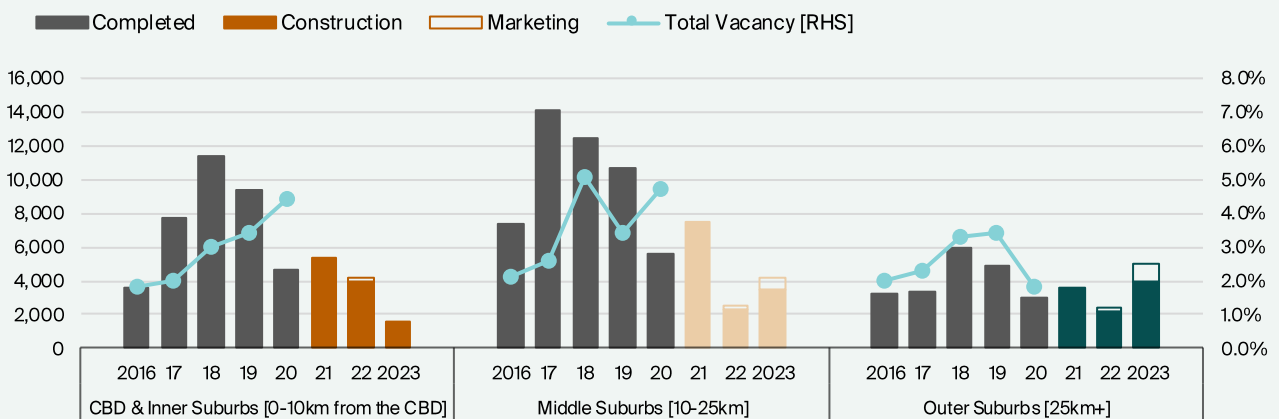
The **cost of construction** in Greater Sydney increased by 2.8% in 2020, as estimated by Rawlinsons.

## New projects pipeline

The **pipeline for new apartments** in Sydney remains at decade lows when taking into account the average time it will take marketing and construction activity for development approved projects with 40+ apartments and 4+ storeys.

## Sydney new apartment pipeline & total residential vacancy

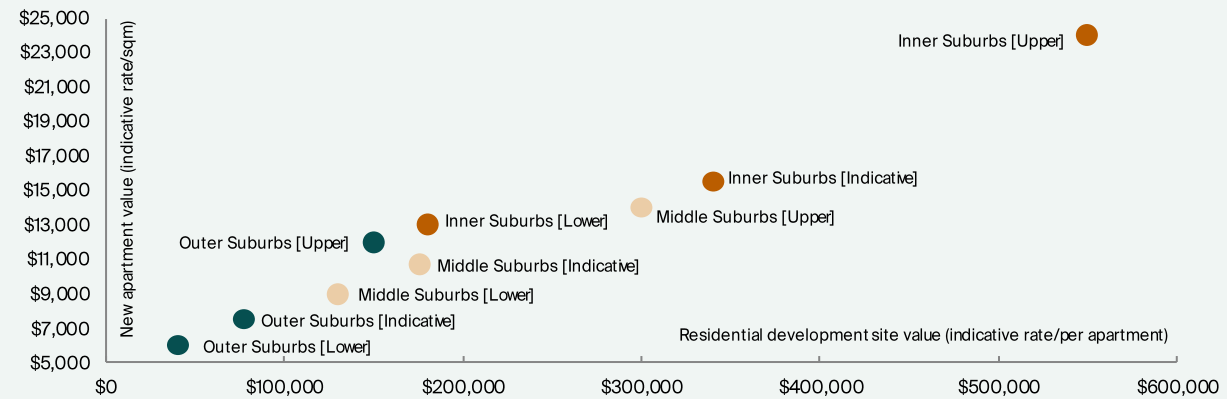
No. of potential apartments, projects with 40+ apartments and 4+ storeys & total residential vacancy [RHS], 31 Dec 2020



Source: Knight Frank Research

### Sydney residential development sites & new apartment values

Average sites based on high-density and new apartments based on standard mainstream 2bed+2bath (excl.CBD), 31 Dec 2020



Source: Knight Frank Research

The Middle Suburbs pipeline is the largest for new apartments to be built in Sydney by 2024 (14,125), followed by the Inner Suburbs (11,175), then Outer Suburbs (10,975). This is considerably lower than the previous three years total built at 28,650; 25,475 and 13,800 new apartments, respectively.

In 2020, NSW high-density **building approvals** were down 18.7% on the previous year, with 13,855 apartments. Although, the last quarter of 2019 was trending upwards, recording a sharp 91% rise on Q3 2019 (ABS). A new apartment in NSW averaged 121 sqm **internal floor space** in 2019/20, larger than the 114 sqm average one year ago (CommSec).

#### New apartment pricing

The Inner Suburbs saw the most movement in **new apartment prices** in 2020, albeit softer than a year ago. Prices in Sydney’s Inner Suburbs fell 6.1% to an indicative \$15,500/sqm in this time, to range between an average of \$13,000 and \$24,000/sqm. Middle Suburbs recorded a fall in prices by 0.9% at \$10,700/sqm (\$9,000 to \$14,000/sqm) and Outer Suburbs was stable at \$7,500/per sqm, ranging from \$6,000 to \$12,000/sqm.

#### Apartment demand

Although population growth remained low, economic growth returned, and unemployment tightened significantly by the end of 2020 — raising confidence in the viability of Sydney’s apartment market. Annual **sales turnover** in Sydney apartments had tightened to 1.1%, whilst **capital values** remained steady to stand at a median of \$730,000 in 2020 (APM) for established apartments.

In this time, residential **vacancy** had fallen from 3.4% to 3.3% (REIA), providing less choice of rental accommodation, although this is still trending above a balanced market of 3%. The Outer Suburbs recorded the lowest vacancy at 1.8%, followed by the Inner Suburbs with 4.4%, then the Middle Suburbs at 4.7%. In response, apartment rents were reduced by 7.8% over this time across Sydney (APM).

#### Buyer profile

In recent years, more apartments were being purchased by owner-occupiers, particularly by downsizers and first home buyers. The relaxation of lending restrictions across the finance sector has aided new household **loan commitments** in NSW increasing by

18.8% in 2020. The split of **investor** loans fell from 34% to 29%, while **owner-occupier** loans grew from 66% to 71%.

NSW **first home buyer** activity increased 35% over this time, to comprise a 24% share of all new loans approved (ABS).

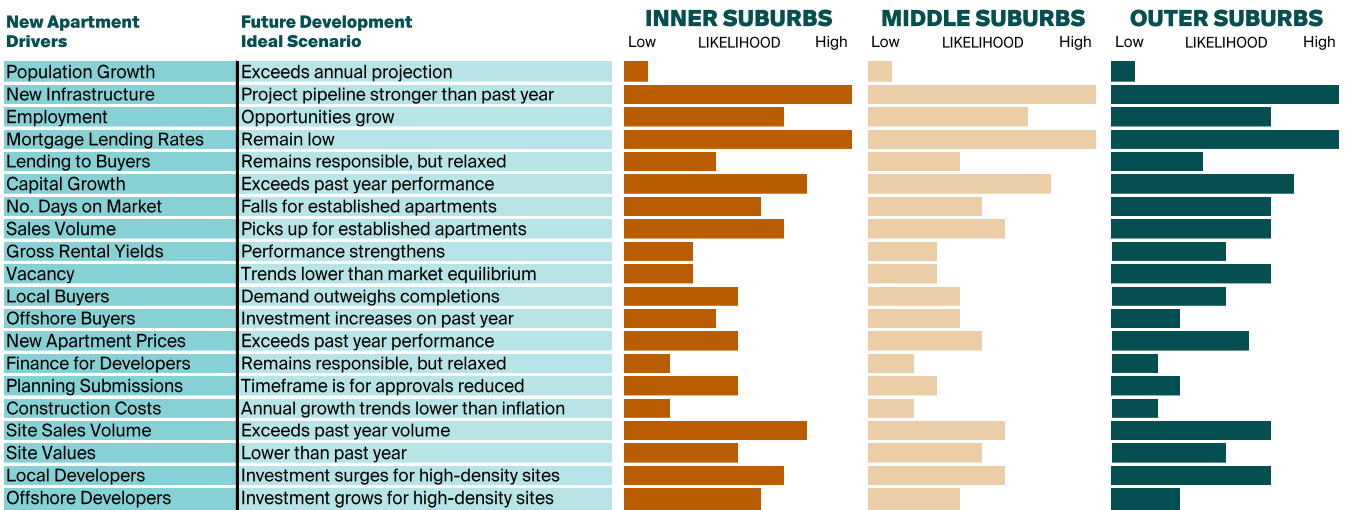
#### Outlook

Knight Frank Research **forecast** Sydney’s residential market to grow by 12% in 2021, and by 8% by the end of 2022. Isolating the Sydney apartment market, given the challenges ahead, the forecast is lower at 2% growth in 2021 and 3% growth in 2022.

The drivers most challenged for new Sydney apartment projects include the unexpected pause in migration, the limited availability of finance for developers and rising construction costs.

On the flip side, the greatest opportunities remain to be low mortgage lending rates for buyers, a solid new infrastructure pipeline and local developers being able to purchase more affordable sites compared to previous years.

## SYDNEY APARTMENT PROJECTS | ONE YEAR OUTLOOK



Source: Knight Frank Research

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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