

SYDNEY APARTMENTS

RESIDENTIAL DEVELOPMENT SERIES H1 2019

Key Facts

Greater Sydney **site values** ranged from an average \$80,000 to \$366,700/per apartment (indicative \$198,300/per apartment) at the end of 2018.

There were 49,800 **new apartments** under construction throughout Greater Sydney at the end of 2018. There were a further 16,050 apartments with DA approval being marketed.

Mainstream **new apartment prices** ranged from \$6,500 to \$26,000/sqm in Greater Sydney by the end of 2018 (indicative \$13,700/sqm).



MICHELLE CIESIELSKI
Director, Residential Research

Follow at @MCiesielski_AU

Over the past year the Sydney apartment market has been in correction mode after several years of significant growth in property values. How has this impacted the key development drivers for the apartment market, and what's the outlook over the next year?

Overview

- There are increasingly more Sydney sites once earmarked for residential being converted, or retained as refurbished office space, reflecting the tight current office vacancy rate. The volume of high-density residential development site sales was again lower in 2018 as a result.
- The nature of site sales are changing, with collective site sales still being created, both vertically (encouraged by favourable strata legislation) and horizontally, with several property owners banding together.
- Funding remains challenging for developers in a cooler apartment market with 12,000 apartments once being marketed, have been placed on-hold with completion pushed out beyond 2022.
- Owner occupiers are now most active and developers are responding, with an increase in the number of bedrooms within apartments projected.
- A significant pipeline remains of major proposed infrastructure projects to 2030.

Development Site Values

The sale of Greater Sydney sites with potential for high-density development totalled \$2.2 billion in 2018, two-thirds the volume recorded the year earlier. High-density site sales made up approximately 78% of total development site sales over the year ending December 2018.

Across Greater Sydney, the average sales rate for high-density residential sites was an indicative \$198,300/per apartment at the end of 2018, excluding CBD sites. Reflecting the lower volume of sales, this indicative rate has decreased 10.3% over the past year.

In the inner suburbs of Sydney, the range extended from \$200,000 to \$600,000/per apartment with an indicative rate of \$366,700/per apartment. Over the course of 2018, the range of development sites values for the middle suburbs remained at \$160,000 to \$300,000/per apartment, although the

SYDNEY

Population in Greater Sydney was estimated at 5.2 million persons in June 2018, with annual **population growth** of 1.8%. The **population projection** is set by the ABS at 1.6% per annum until 2041.

NSW **economic growth** was 2.6% in 2017-18. Greater Sydney **unemployment** stood at 4.0% as at December 2018, trending 30 bps lower than a year earlier.

The **cost of construction** across Greater Sydney increased 1.5% in 2018. At this time, it was estimated the cost to build an apartment to a medium standard (with a balcony) was \$2,970/sqm to \$3,515/sqm (plus GST), according to Rawlinsons.

Greater Sydney **median values** decreased 9.9% to \$702,000 over 2018. Apartment **sales transacted** totalled 24,401 in Greater Sydney in 2018, down 29% on the previous year. The average apartment is **on the market** for 70 days, up from 54 days one year earlier (APM).

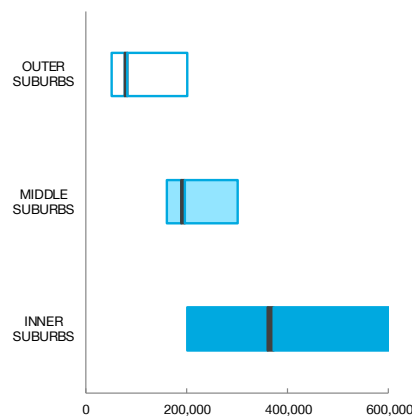
Gross rental yields across Greater Sydney apartments rose 10 bps, to 3.90%, over the December 2018 quarter. **Median rents** fell 2.8% over 2018 for Greater Sydney apartments, to a weekly rent of \$530. Greater Sydney **total vacancy** was 3.2% as at December 2018; recording 3% in the Inner Suburbs (0-10km from the CBD), 5.1% in the Middle Suburbs (10-25km) and 3.3% in the Outer Suburbs (25km+).

Offshore purchasers pay a duty surcharge in NSW—this equates to 8% of the purchase price, in addition to standard state-based stamp duties and FIRB application fees.

indicative rate fell 9% to stand at \$192,000 by the end of the year.

The top end of development site values in the outer Sydney suburbs compressed to trend up to \$200,000/per apartment, starting from an average of \$50,000/per apartment; with an indicative of \$80,000/per apartment.

FIGURE 1
Site Sales Price Range & Indicative Rate, Greater Sydney
Potential high-density development (excl. CBD)
Average rate/per apartment, as at 31 Dec 2018



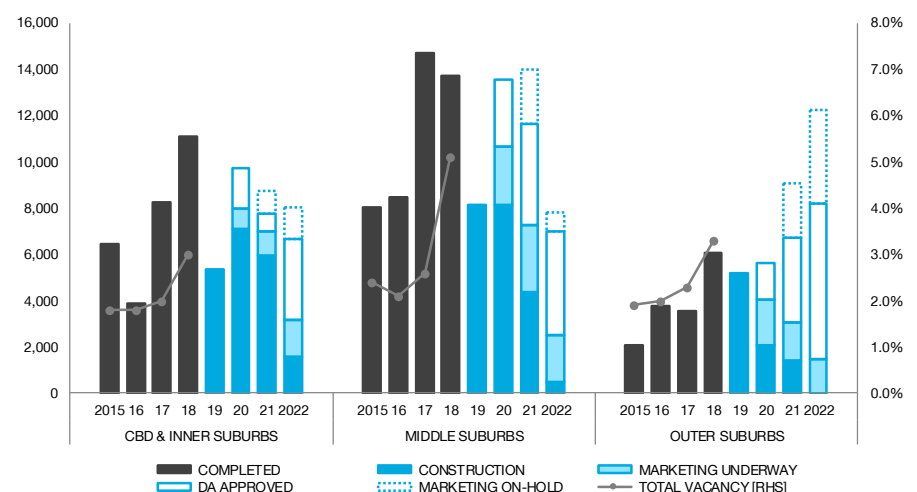
Source: Knight Frank Research

Apartment Pipeline

Greater Sydney recorded the highest number of new apartments completed across the capital cities in 2018, with 30,900 apartments recorded over this time. At this time there were 49,800 new apartments under construction and a further 16,050 apartments with DA approval being marketed. An additional 11,950 apartments were once projected by 2022, and had reached their marketing stage, but have since been abandoned awaiting the arrival of more suitable market conditions.

The middle suburbs of Sydney continued to contribute the most new apartments with 13,750 apartments being added in 2018. Significantly elevated stock in the middle suburbs since 2017 has seen the vacancy rate reach 5.1% in December 2018, although there is some relief in store with the completion of new apartments to fall to 8,150 apartments in 2019. The inner suburbs saw 11,100 apartments completed in 2018 with 19,950 under construction and 3,500 being marketed due for completion by the end of 2022. The outer suburbs saw the new supply of high-density apartments grow by 6,050 since January 2018. By 2022, this is expected to grow by another 13,750 apartments under construction or currently being marketed.

FIGURE 2
New Apartment Pipeline & Total Residential Vacancy, Greater Sydney
Number of potential apartments each year, includes projects with 4+ storeys with 25+ apartments & % total residential vacancy [RHS], as at 31 Dec 2018



Source: Knight Frank Research, REINSW

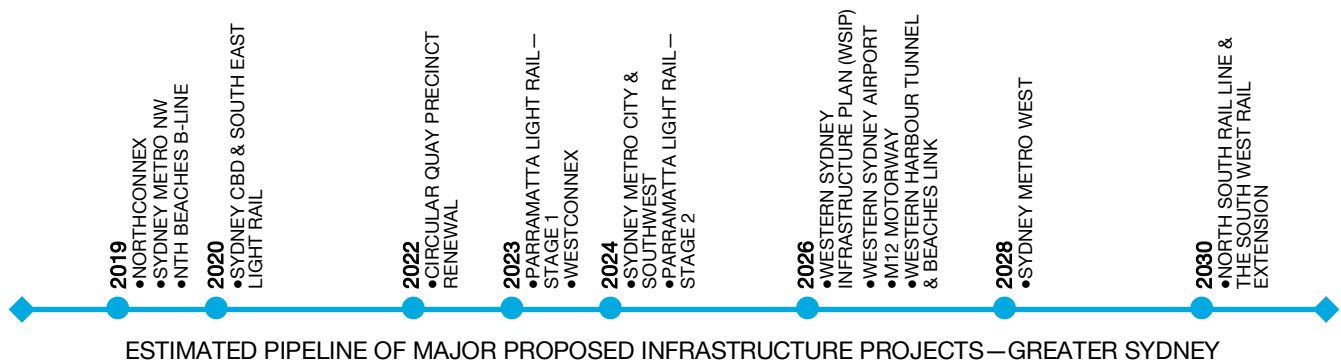
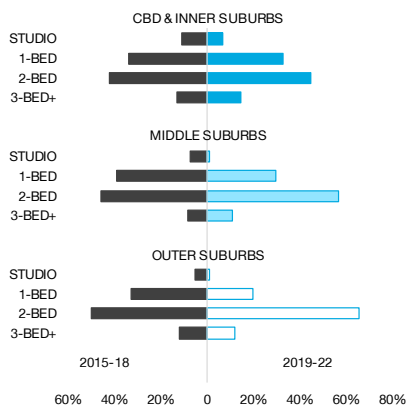


FIGURE 3

Split of Bedrooms in New Apartments Greater Sydney

Distribution in completed projects (2015-18) & under construction (due 2019-22)



Source: Knight Frank Research

Bedroom Split

The distribution of apartments completed across Greater Sydney between 2015 and 2018 have been dominated by those with 2-bedrooms, representing 45% of all high-density apartments. This was followed by those built with 1-bedroom at 36%, while 8% were studio apartments, and 10% had more than 3-bedrooms.

A shift towards owner occupier buyers has seen the share of 2-bedroom apartments under construction rise to 54% due for completion by 2022. This was most evident in the outer suburbs with the portion of 2-bedroom apartments built over the next four years rising to 66%, up from 50%. With increased demand from families and downsizers living in high-density across Greater Sydney saw apartments with more than 3-bedrooms rise to 13%.

New Apartment Pricing

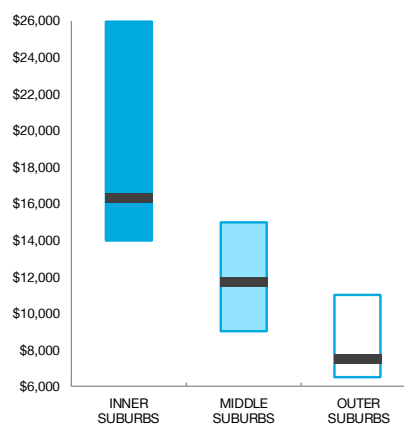
Prices for new mainstream apartments have fallen over the course of 2018 (from \$14,700 to \$13,700/sqm), reflecting the wider performance of the mainstream established market and the rise in new apartment completions.

Prices still vary significantly across Greater Sydney; ranging from \$14,000 to \$26,000/sqm in the inner suburbs (indicative \$16,300/sqm) by the end of 2018. New apartments in the middle suburbs of Sydney, were priced at an indicative \$11,700/sqm (ranging from \$9,000 to \$15,000/sqm), whilst in the outer suburbs, an apartment could be purchased for an indicative \$7,500/sqm (\$6,500 to \$11,000/sqm).

FIGURE 4

New Apartment Price Range & Indicative Rate, Greater Sydney

Rate/sqm for standard mainstream (excl. CBD) 2 bed+2 bath, as at 31 Dec 2018



Source: Knight Frank Research

TOP 10 SYDNEY SUBURBS FOR NEW APARTMENTS

COMPLETED IN 2018

Pagewood
Epping
Parramatta
Macquarie Park
Ryde
Waterloo
Zetland
Wentworth Point
Penrith
Kirrawee

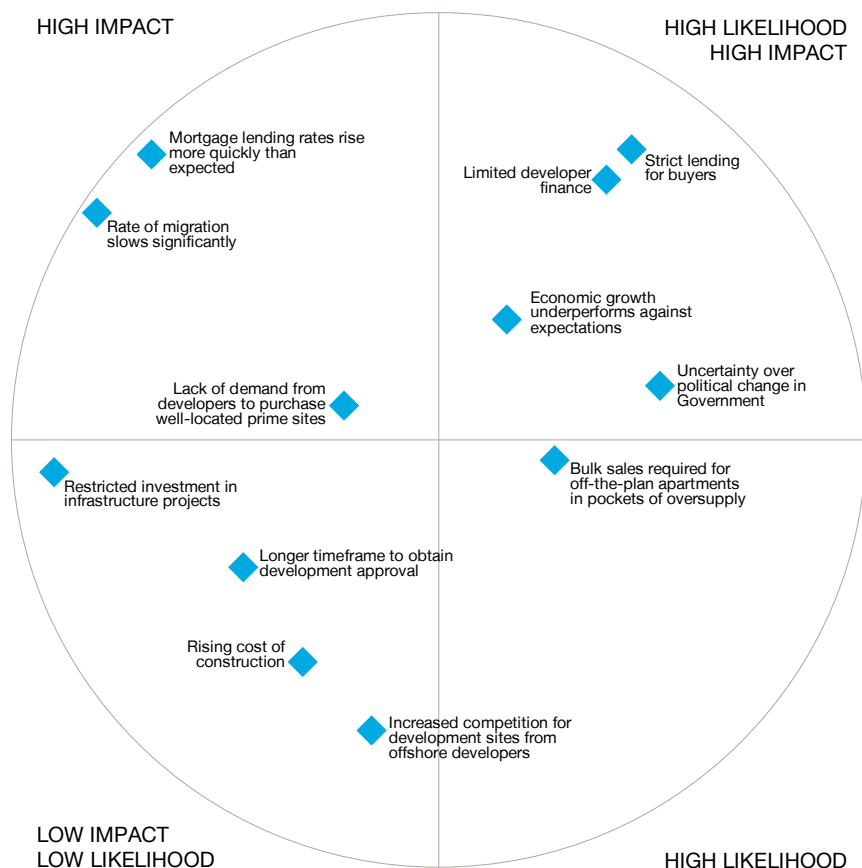
UNDER CONSTRUCTION DUE BY END 2022

Sydney
St Leonards
Erskineville
Mascot
Lidcombe
Zetland
Baulkham Hills
Sydney Olympic Park
Westmead
Parramatta

FIGURE 5

Key Development Drivers Risk Monitor, Greater Sydney

Scenarios assessed on the likelihood and their impact over the next year



Source: Knight Frank Research

Definitions

High-density covers projects with more than 25 apartments in a complex and more than four storeys in height; as defined by Knight Frank Research.

Geographies start by drawing a radius from the Sydney CBD; **Inner Suburbs** are located within 10km, **Middle Suburbs** are within a 10-25km ring and **Outer Suburbs** are located beyond 25km but within the Greater Sydney boundary.

Note: Unless stated, all references to dollars or \$ refer to Australian dollars (AUD).

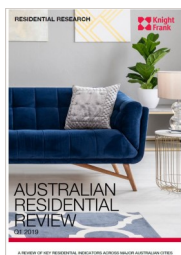
RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Australian Residential Development Review 2019



Focus On Sydney Q2 2019



Australian Residential Review Q1 2019



Collective Sales for Residential Development 2018

Knight Frank Research Reports are available at [KnightFrank.com.au/Research](https://www.knightfrank.com.au/Research)

RESIDENTIAL RESEARCH

Michelle Ciesielski

Director, Head of Residential Research, Australia

+61 2 9036 6659

Michelle.Ciesielski@au.knightfrank.com

RESIDENTIAL SITE SALES

Adam Bodon

Director, Site Sales, NSW

+61 2 9036 6797

Adam.Bodon@au.knightfrank.com

RESIDENTIAL PROJECT MARKETING

Richard Klein

Partner, Head of Residential Project Marketing, NSW

+61 2 9036 6672

Richard.Klein@au.knightfrank.com



Important Notice

© Knight Frank Australia Pty Ltd 2019 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Australia Pty Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Australia Pty Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Australia Pty Ltd to the form and content within which it appears.