

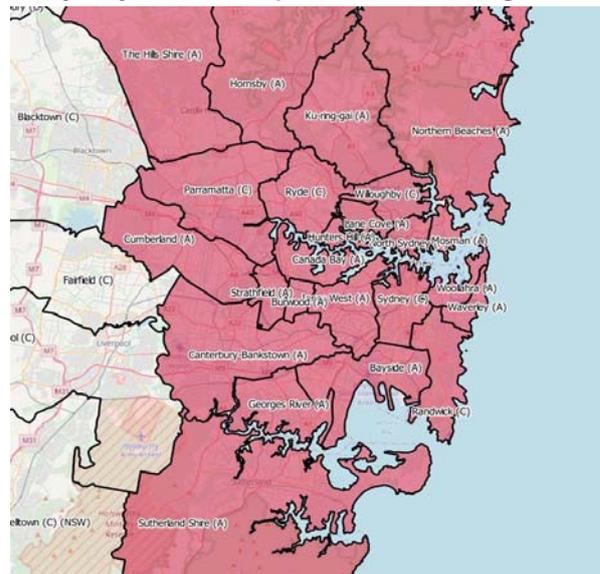
Apartments in Sydney Suburbs 2017-2023 Market Brief

The Sydney suburban apartment market has experienced a significant rise in purchaser activity and price growth in recent years. Strong population growth and an existing dwelling undersupply, coupled with low interest rates supported strong dwelling demand. Rising prices attracted significant investor activity to the market and drove robust off-the-plan sales volumes. However, there are challenges emerging as new supply increasingly comes on line and banks continue to tighten funding to investors.

Apartment development has increasingly moved from inner Sydney suburbs to the city's middle ring. After accounting for around 29% of total apartment building approvals in 2010/11, middle ring Sydney suburbs comprised 40% of apartment building approvals in 2016/17.

This analysis draws from our *Apartments in Sydney Suburbs 2017-2023* report, which covers the Local Government Areas of Sydney to the right, and profiles indicators relating to demand, supply, rents and prices.

Sydney Suburban Apartment Market Regions

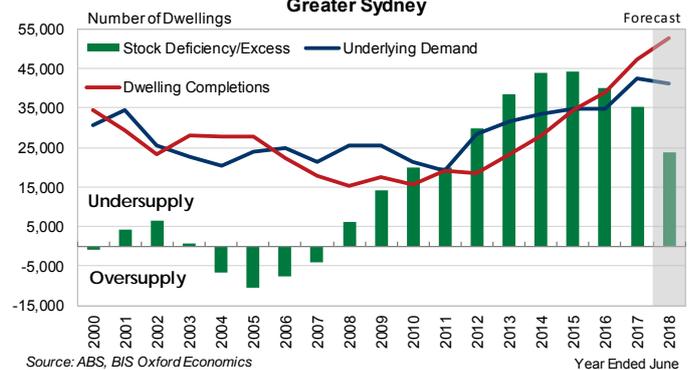


Source: OpenStreetMap

STOCK DEFICIENCY

Underlying demand for dwellings increased over the four years to June 2017 on the back of strong population growth. Low interest rates have allowed pent up demand to be released into the market. Underlying demand rose to an estimated peak of 42,500 dwellings over 2016/17, well above the average of 32,600 dwellings pa over the previous five years. However, dwelling completions surged far ahead of underlying demand. Annual completions doubled from 23,100 starts in 2012/13 to an estimated 47,200 starts in 2016/17. This has seen the underlying dwelling deficiency slowly eroded since 2014/15. Over 2017/18, completions are forecast to remain strong while underlying demand is expected to ease as net interstate outflows rise. This will lead to a further decline in the level of stock deficiency.

Underlying Demand, Supply and Stock Deficiency/Excess Greater Sydney



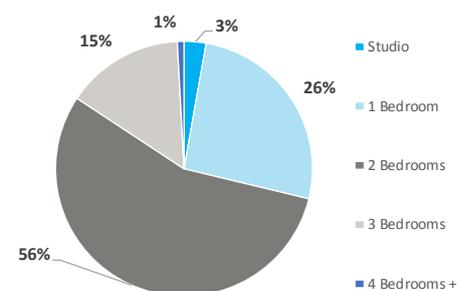
Source: ABS, BIS Oxford Economics

APARTMENT OCCUPIERS

Two bedroom apartments account for the majority of the Sydney apartment stock, at 56% of occupied apartments at the 2016 Census. Moreover, studios and one bedroom apartments account for another 29% of Sydney's occupied apartment stock, with the remaining 15% containing three or more bedrooms.

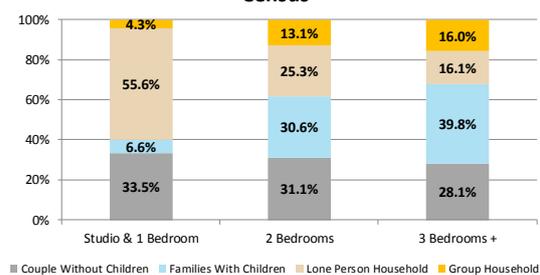
The households occupying apartments are reflective of the composition of the apartment stock. Studio and one bedroom apartments are dominated by lone person households (who accounted for 55% of total studio and one bedroom apartments), while two bedroom apartments have a more even split of lone person, couple without children and family with children households, at around 25-30% each. In comparison, family with children households were the most prevalent household type in three bedroom apartments (40% of households).

Share of Bedroom Type, 2016 Census



Source: ABS, BIS Oxford Economics

Households in Apartments 4+ storeys, 2016 Census



Source: ABS, BIS Oxford Economics

Studio and one bedroom apartments are dominated by rental tenants, who account for 76% of households. In contrast, only 12% were fully owned suggesting that studio and one bedroom apartments are not attracting downsizers. Around 74% of two bedroom apartments were renting. Households with a mortgage accounted for the larger share at 18%. In contrast, a high share of three bedroom apartments were owner occupied (43%), with a high percentage (18%) being fully owned. This suggests that many owner occupiers in three bedroom apartments are downsizers and are buying with full equity.

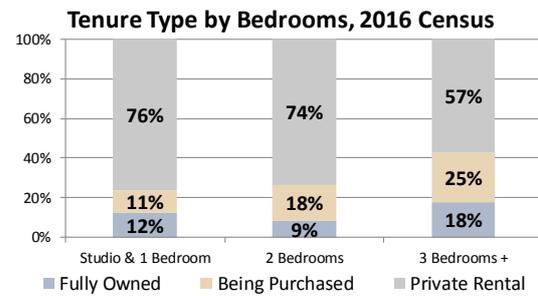
APARTMENT SUPPLY

The high density sector has benefited most in this upturn in the Sydney market. High density building approvals more than doubled from 13,500 approvals in 2012/13 to 30,100 approvals in 2016/17. While there has also been a moderate upswing in house approvals, the medium density sector has remained flat. Inner Sydney has traditionally attracted the greatest amount of high density activity, although the middle ring has begun to account for a greater share of high density dwelling approvals. The deterioration of affordability in Sydney has encouraged a shift towards both apartments over houses, and also activity from inner to middle regions.

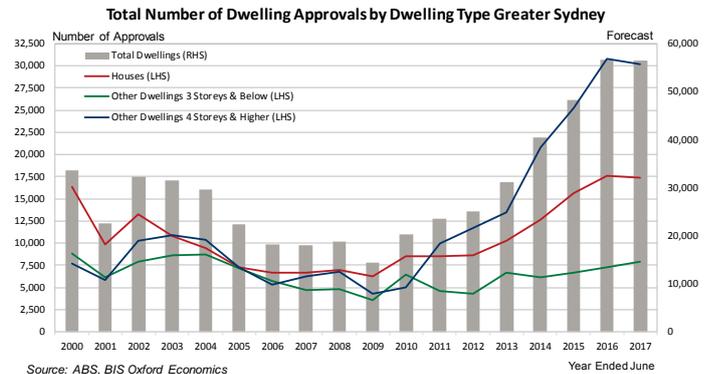
RENTS, PRICES AND YIELDS

As the market picked up, median price growth for units averaged 9.1% per annum between 2012 and 2017. This price growth was fairly even geographically across the Inner and Middle regions of Sydney, ranging from 10.8% per annum in Eastern Suburbs to 7.3% in the Middle West.

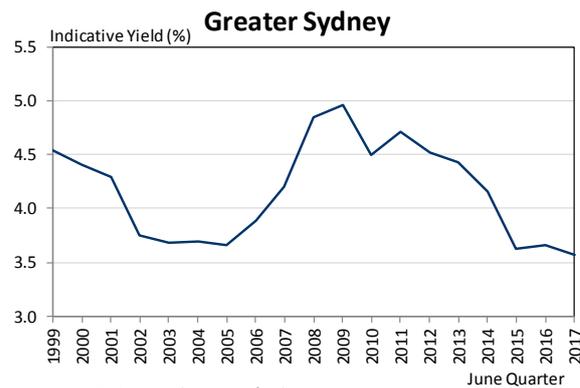
The result has been that indicative unit yields have now fallen below their previous lows of 2005, to be 3.6% in June 2017. This would suggest little potential for further unit price growth (and eventually the possibility of price declines), as occurred during the mid-2000s. A smaller dwelling deficiency and tightening restrictions on investor activity will also add drag to market sentiment.



Source: ABS, BIS Oxford Economics



Source: ABS, BIS Oxford Economics



Source: DHS, PriceFinder, BIS Oxford Economics

Disclaimer: BIS Oxford Economics has taken great care to ensure accuracy and balance in this report and the service it represents, but does not warrant the completeness or infallibility of the information. The entire contents are intended as general market information only and BIS Oxford Economics implies no specific advice pertaining to the situation of any particular user and no warranty either expressed or implied is made as to the applicability of the information to the requirements or circumstances of any individual recipient. The opinions are contingent by nature and materially different actual outcomes may eventuate. BIS Oxford Economics Pty Ltd and its staff do not accept any liability for any loss or damage whatsoever arising out of the use or dissemination of all or any part (whether in printed, online, verbal or any other form) of this report or service, and intends by this statement to exclude any such liability.

In addition to this report on the Sydney suburban apartment market, BIS Oxford Economics produces detailed reports for the central city apartment markets in Sydney, Melbourne and Brisbane. BIS Oxford Economics also produces reports on the broadacre land markets in Melbourne, Sydney, Perth, Brisbane, Adelaide and Gold Coast & Sunshine Coast. Further details of these reports are available on our website at www.bisoxfordeconomics.com.au

As well as producing the range of reports listed above, we regularly undertake bespoke commissioned research projects for individual clients, assisting them with strategy, planning and business decision-making. Typical assignments in this service include:

- Forecast demand for products and services
- Qualitative and quantitative research
- Preparation of prospectus material
- Market risk assessment
- Financial feasibility assumptions
- Strategic planning assistance

For more information as to how BIS Oxford Economics can assist you with your residential property research needs, please contact Angie Zigomanis, Senior Manager Residential Property at azigomanis@bisoxfordeconomics.com.au or (03) 8679 7304

Melbourne Office:
BIS Oxford Economics Pty Ltd
 Level 40, 525 Collins Street
 Melbourne VIC 3000
 AUSTRALIA
 F: (03) 9614 0033
 T: (03) 8679 7300
www.bisoxfordeconomics.com.au

Sydney Office:
BIS Oxford Economics Pty Ltd
 Level 8, 99 Walker Street
 North Sydney NSW 2060
 AUSTRALIA
 F: (02) 9959 5795
 T: (02) 8458 4200
www.bisoxfordeconomics.com.au



**BIS OXFORD
 ECONOMICS**