Sydney - Q3 2022

MARKET IN MINUTES

Savills Research

New Apartment Sales

Opportunity in luxury and rightsizing markets

The latest data from REA Group shows the highest enquiry per listing by price has been seen in the $2 to $4 million plus market. A good example of this sector being under supplied was highlighted in the Eastern Suburbs where square metre rates for oversized luxury apartments have recently achieved record values, nearing double comparably located sales rates in a declining market.

The most undersupplied of these sectors appears to be the $3 – $4 million dollar price range with substantially less available stock showing a premium of 13.2 enquiries per listing as opposed to the next best of 11.9 enquiries per listing in the $4 million plus market.

Of all apartment types, 4 bedrooms are the most undersupplied with a premium of 12.1 enquires per listing with 3 bedrooms coming in second at a considerable drop to 9.7 enquires per listing. There is a clear correlation between the size and function of well-designed luxury apartments that is leading to higher square metre rates being achieved.

Rates achieved per square metre

Region	From	To
City	$18,000	$118,000
Eastern Suburbs	$20,000	$108,000
Lower North Shore	$15,000	$50,000
Upper North Shore	$15,000	$40,000
Northern Beaches	$12,000	$30,000
Inner West	$12,000	$18,000
Sutherland Shire	$11,000	$30,000
Greater Western Sydney	$7,000	$14,000

Source Savills Research, CoreLogic

Population outpaces supply

The Greater Sydney Commission set a target to deliver 36,250 dwellings per annum between 2016 and 2036. Subsequently, there have been significantly less net dwelling completions in Greater Sydney in FY 2020 - 21 with 29,785 dwellings and 10,418 dwellings to January 2022. This follows a period of comparatively high net completions in Greater Sydney, particularly in 2017 - 18 and 2018 - 19. During this period, completions were still lower than implied dwelling demand in the Eastern Suburbs (where 89% of net completions over the past 5 years were apartments), Lower North Shore (99%), Upper North Shore (96%), Northern Beaches (80%) and the Inner West (96%).

Dwelling approvals of 34,960 were granted in FY 2021 – 22 for Greater Sydney, over half of which were apartments. While around 85% of apartment approvals result in dwelling completions, there is also a delay between approvals and completions which in NSW, currently averages 114 weeks for apartments. This suggests that there will be less supply than required to meet housing demand in Greater Sydney in the short term – even after allowing for the population impacts caused by COVID.

There are several regions in Sydney where dwelling demand is expected to exceed supply, even before factoring in faster or greater immigration volume, more international students, or changes in inter-state migration. Within all regions there are still opportunities for successful projects off the back of evidence-based planning.

“ **Current enquiry remains 50 – 150% higher than pre-COVID levels** ”

Focal points

Development news and analysis in brief

LUXURY MARKET OUTPERFORMS

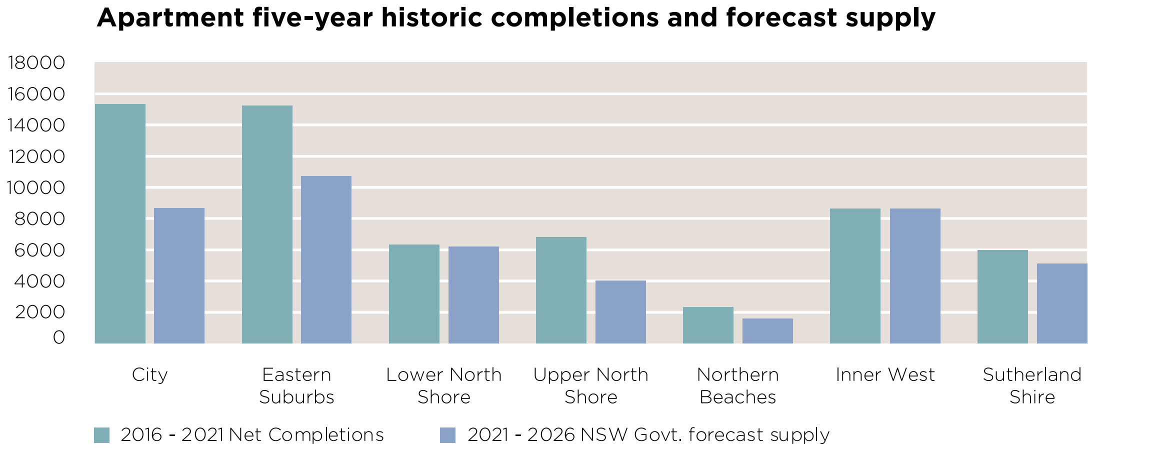
Certain areas have an undersupply of luxury and oversized apartments.

PRICES STABILISE

Minimal available stock and rising rents underpin ongoing uncertainty.

GROWING UNDERSUPPLY

Dwelling approvals aren't enough to support the growing population

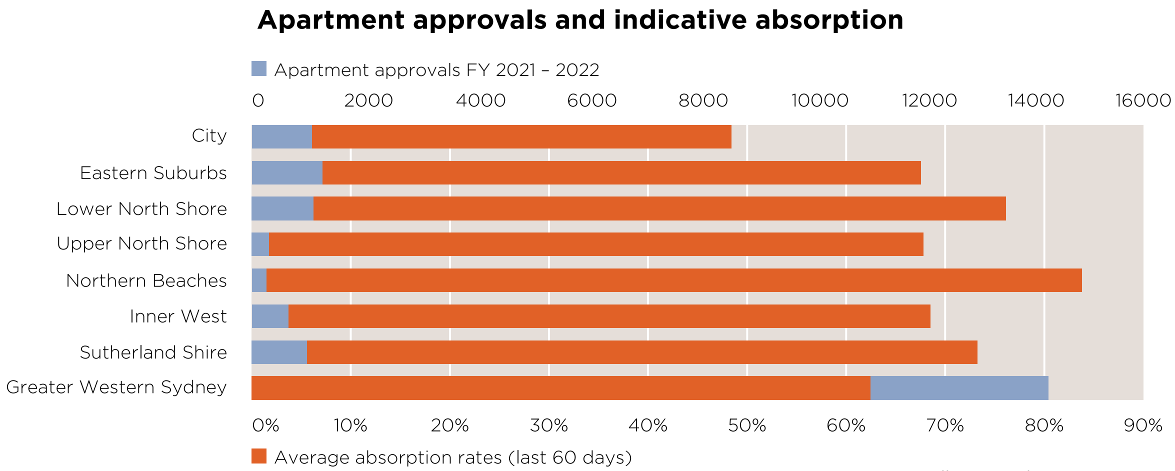


Source Savills Research, NSW DPE, ABS

Investment stock absorption remains low

As the second consecutive quarter with rising interest rates, it was expected that we would see little change to absorption as first home buyers and investors continued to show caution. A levelling of pricing has been observed over the quarter which has shown a resilience in underlying value as we see an increase in rental yields and a lack of projects advertised in the affordable market, limiting supply.

New apartment enquiry has eased from its peak in late 2021, however, current enquiry remains 50 – 150% higher than pre-COVID levels which supports the sentiment that this sector is simply on hold until certainty is provided on affordability and value moving forward.



Source Savills Research, CoreLogic, ABS

Outlook

Moderate volumes of FIRB assessed buyers with foreign debt will likely continue to see value in Sydney for the remainder of the year, as the pending first home buyer stimulus promises to create upward pressure on sub $1.5 million apartment prices from mid-January 2023 onward.

The current enquiry volume as opposed to pre-COVID levels, suggests that there is still considerable demand from locals that will compound to provide a stronger start to 2023 than would be expected off the back of the current year.

The most critical leading indicators to watch will be net migration volume compared to current approvals, which will help us determine the supply vs demand balance as we also consider shifts in household makeup and first home buyer volume.

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