

Sydney



Achieve Ambitions

Apartment Market

Australia Residential Research | August 2020

Overview

The impact of the COVID-19 crisis has begun to extend beyond Sydney's rental market; where it was initially most evident. Closed borders have seen population growth largely halt and short-term accommodation become permanent rentals, resulting in higher vacancy and rental discounting. Apartment prices initially remained resilient, but have now begun to fall in recent months. Demand remains weak, but has somewhat been bolstered by JobKeeper payments, the extension of which should prevent a further marked decline in the short-term. Further, there is an increasing risk of another partial or full lockdown in NSW as the number of cases increase, as in Victoria, and deepen the recession and housing market downturn.

- Despite recovering auction clearance rates, which are being propped by lower volumes of listings, demand for housing in Sydney remains largely weak.
- Completion levels declined in 2Q20 and are set to fall further over the next several years, with a slow pre-sales market making it very challenging for developers to progress any projects.
- Apartment prices have grown robustly by 9.5% over the year to July 2020. However, CoreLogic's hedonic data series showed apartment prices fell 0.6% in June and by 0.7% in July.
- The already soft rental market has softened further, but some indicators suggest the worst has past, at least for now. The vacancy rate increased to 4.5% in June 2020, which has prompted landlords to discount rents and offer generous incentives to prospective tenants.

Inner Sydney Key Market Indicators

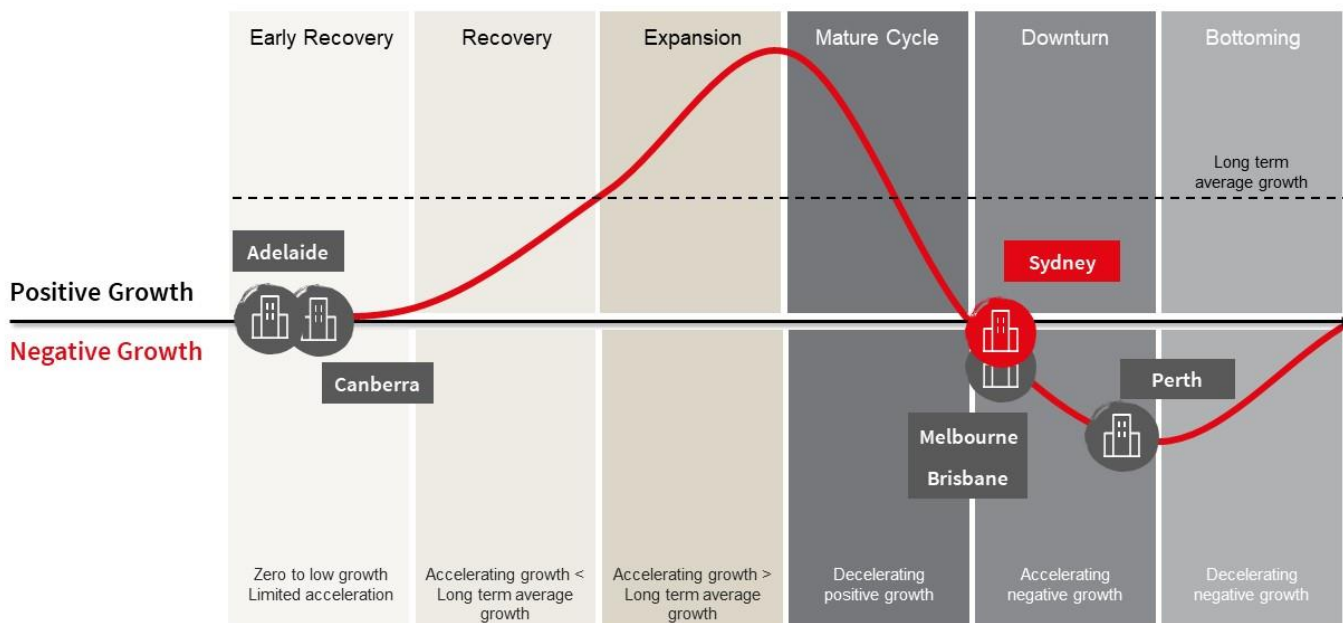
Indicator	Latest	Y-o-Y % Change
Apartment Approvals (12 months to May 20)	2,701	-57.5%
Sales Volumes – Units* ** (12 months to 1Q20)	34,178	22.8%
Median Unit Price* ** (as at July 2020)	\$747,238	9.5%
Median Rent – 1 bed* (as at 1Q20)	\$550/ Week	0.9%
Median Rent – 2 bed* (as at 1Q20)	\$690/ week	-1.4%
Median Rent – 3 bed* (as at 1Q20)	\$814/ week	0.5%
Gross Rental Yields** (as at 1Q20)	3.9%	0.05% bps

* New and existing

** Greater Sydney

Source: JLL Research, ABS, CoreLogic, NSW Government

Australian Apartment Market: Capital Value Cycle



Source: JLL Research, as at 2Q20

Supply

The COVID-19 crisis will prolong Sydney’s apartment construction downturn

Sydney’s inner city supply pipeline peaked in late-2018 and has been declining sharply ever since. Pre-COVID developers were getting slightly more optimistic toward the next cycle, but the economic and price uncertainty created will likely keep pre-sales demand low for some time. This will likely see few new projects proceed in the short-term and prolong the construction downturn by at least a year or two.

To date, JLL has not recorded any significant delays due to COVID-19 in projects in advanced stages of development. Almost 2,340 apartments, comprising more than half of 2020’s expected completions, have been delivered as at 2Q20. With only a further 1,600 apartments in Sydney’s inner precincts due to complete in 2H20, total completions this year will be almost 46% below 2019 levels.

The number of apartments under construction in inner Sydney also declined 35% over the year and at 6,670 is the lowest recorded by JLL. With only 750 apartments in the marketing stage of development, levels are unlikely to noticeably increase in the short-term. In contrast, the number of apartments with plans approved increased by 16% in 2Q20. However, this is likely remnant of previously recovering developer sentiment and the redesign of projects to better fit the current market. Many of those projects are likely to experience delays, or be abandoned all together. JLL has recorded 12 projects since March that have been abandoned in their current form.

With the construction downturn now set to take longer than previously expected, the shortfall in supply will likely see Sydney’s apartment market eventually emerge from the crisis a tight one, but this still may be a few years away due to the short-term decline in population growth.

Figure 1: % of Stock Under Construction in the Inner Sydney Apartment Market Precinct Map

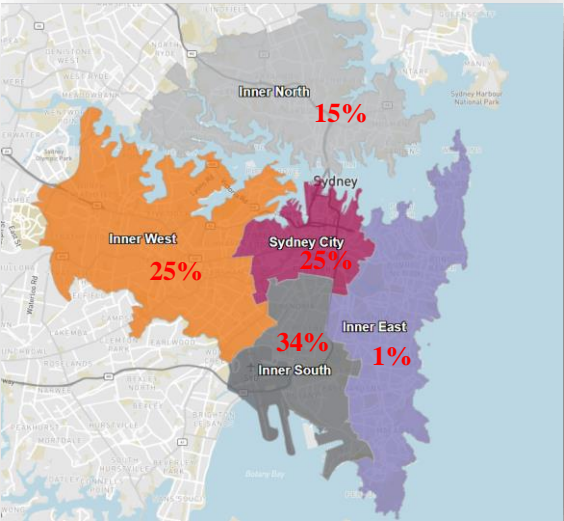
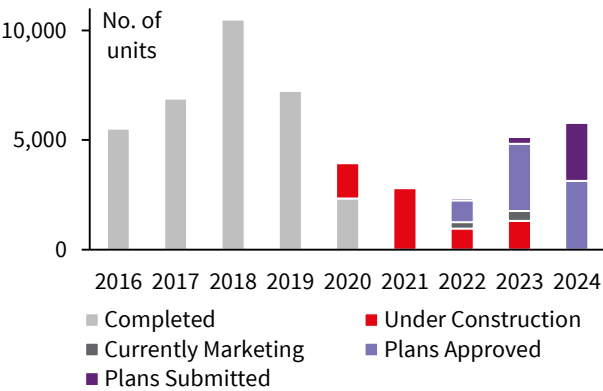


Figure 2: Inner Sydney Supply Pipeline by Status



Source: JLL Research, as at 2Q20
*Projects over 50 apartments are included

Figure 3: Supply Pipeline 2020 – 2024 by Stage and Precinct (Number of Apartments, as at 2Q20)

Stage	Sydney City	Inner South	Inner East	Inner North	Inner West	Total
Completed (YTD 2020)	95	997	293	268	683	2,336
Under Construction	1,637	2,279	90	988	1,673	6,667
Currently Marketing	174	200	-	50	328	752
Plans Approved	1,225	2,545	550	1,613	1,241	7,174
Plans submitted	72	466	70	418	2,028	3,054
Total	3,203	6,487	1,003	3,337	5,953	19,983

Source: JLL Research, as at 2Q20

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