Canberra

Apartment market

Australia Residential Research | August 2020

Overview

Despite the unprecedented nature of the COVID-19 crisis, Canberra's apartment market has so far remained resilient. While uncertainty and restrictions initially resulted in softening demand, the ACT's strong economic outlook will likely support underlying demand for housing and prevent a marked decline. Capital values have maintained positive growth to date, but a combination of elevated supply levels and weaker population growth will likely add pressure on apartment prices in the short-term. While the overall outlook is comparatively positive, conditions are subject to change, particularly if another outbreak occurs, as in Victoria, or further restrictions are imposed nationally.

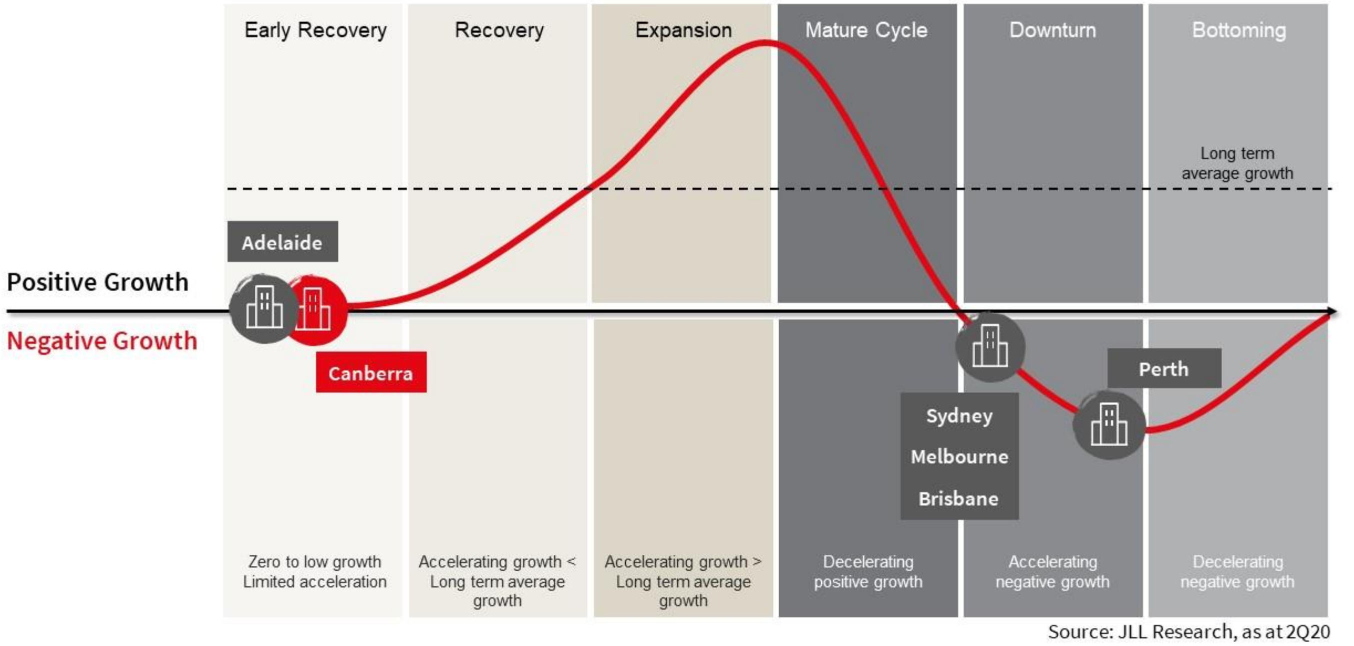
- Despite the challenging environment, the ACT's economy performed well in 1Q20, and is forecast to continue to do so for the remainder of the year, in stark contrast to other states.
- Demand softened at the outset of the COVID-19 crisis, but a strong economic outlook should help avoid a marked decline.
- However, the apartment market in Canberra will face some supply side pressure, with a relatively large 2,700 apartments due to complete in 2020.
- Canberra's rental market remains tight, but pressure from muted population growth and increased supply over the next two years will likely test the market over the next 12 months.
- In contrast to all other major cities, Canberra apartment prices have continued to grow in recent months, albeit very moderately.

Canberra Key Market Indicators

Indicator	Latest	Y-o-Y % Change
Apartment Approvals (12 months to May 2020)	2,466	-41.3%
Sales Volumes – Units (12 months to 1Q20)	3,089	19%
Median Unit Price (as at July 2020)	$444,167	2.7%
Median Rent – 1 bedroom* (as at 1Q20)	$475/ Week	3.3%
Median Rent – 2 bedroom* (as at 1Q20)	$560/ Week	1.8%
Median Rent – 3 bedroom* (as at 1Q20)	$695/ Week	3.7%
Gross Rental Yields* (as at 1Q20)	5.7%	0.10% bps

*Inner Central Canberra
Source: JLL Research, ABS, CoreLogic, REIA

Australian Apartment Market: Capital Value Cycle



Source: JLL Research, as at 2Q20

Economic Overview

The ACT's economy has performed well considering the current environment, but some risks remain

State Final Demand (SFD) in the ACT grew at a strong annual pace of 4.2% in 1Q20, considerably outpacing all other states. However, considering measures to curb the outbreak were not introduced until late March 2020, 1Q20 data does not fully reflect the impact of the COVID-19 crisis on state and territory economies. Nevertheless, 4.2% growth does reflect some resilience considering most states' SFD grew at a rate of less than 1% or declined over the same period. Further, the ACT's economy is the only territory or state expected to avoid a recession in 2020. According to Deloitte Access Economics (DAE), SFD in the ACT is forecast to grow at a solid rate of 3.1% in 2020 (revised from -0.3% earlier in the year).

While employment declined marginally by 0.2% in 1Q20, DAE forecasts it will rebound over the remainder of the year to grow 1% in 2020 and remain positive in 2021/22. Nevertheless, moderate employment growth is expected to translate to higher unemployment in the ACT. However, it will be increasing from a very low base of 3.4% in 2019 and grow to 4.4% in 2020, before reaching a comparatively moderate peak of 5.7% in 2021.

The ACT's population growth, which had already begun to slow prior to border closures, is expected to further moderate in line with other states. Population growth is expected to increase at a modest rate of 1% in 2020, before reaching a trough rate of 0.8% in 2021. However, as deadlines to reopen both domestic and international borders are regularly revised, population growth figures are subject to change.

Retail turnover, which grew by 3.7% Y-o-Y in June, is expected to moderate to 1% in 2020 due in part to increasing unemployment. Following which, it is forecast to rebound to 3.9% in 2021 and 4.8% in 2022.

While conditions in the ACT are expected to moderate, the overall outlook is positive considering the current environment. With the exception of a second outbreak, the main risk to its economy, as with any state, is the eventual end of JobKeeper payments. However, the Federal government has announced that payments will now be extended, at a lower rate, by a further six months, which should maintain the ACT's positive economic outlook for at least the short-term. .

Key Economic Indicators - ACT

State Final Demand Growth
4.2% Year Ended Mar-20

Population Growth
1.0% Year Ended Dec-19

Retail Turnover Growth
3.7% Year-on-Year Jun-20

Employment Growth
-0.2% Year Ended May-20

Demand

Demand for housing softened, but a solid economic outlook should help curb any sharp declines

According to CoreLogic, the number of apartment transactions in Canberra rebounded strongly earlier this year, with almost 3,100 transactions over the 12 months to March 2020 and the highest figure recorded. However, transaction numbers in the ACT have since declined for most of 2Q20 as the COVID-19 crisis, and resulting uncertainty, unfolded and hampered demand. This is evident in auction clearance rates, which declined to an average 27% in April 2020. They have since rebounded, averaging around 71% over both months. However, this is on the back of a smaller number of auctions taking place, which declined to an average of just over 40 auctions per weekend over the same period, approximately half of pre-COVID-19 figures.

Lending data from the ABS showed the value of new commitments to owner-occupiers increased by 7.4% over the 12 moths to June 2020, which is largely tied to the recovery of the market in late-2019/early-2020. The value of new commitments in the ACT increased 1.9% over the month to June.

In contrast the value of new loan commitments to investors declined by 2.9% over the year to June 2020, but again this was much lower then the national decline. The introduction of a rental cap in the ACT in November 2019 may have dampened investor demand in the territory somewhat.

While demand for housing has softened, the ACT's resilience to the COVID-19 crisis to date, supported by the extension of JobKeeper payments, should prevent a sharp decline in underlying demand. While conditions are still subject to change, demand for housing in the ACT should withstand the crisis better than other capital city markets.

Recent Completion

Source: thecapitolresidences.com.au

The Capitol developed by Crafted, the property is located in the City precinct of Canberra, where around 4% of projects under construction in Canberra are located. The project completed in 2Q20 and comprises just over 200 apartments.

Supply

Apartment completions will increase in 2020 and stay strong in 2021, before moderating

Almost 980 apartments completed in Canberra in 2Q20, bringing the total number of completions so far in 2020 to 1,110. Completions are expected to remain robust over 2H20, with a further 1,580 apartments under construction due to complete by the end of the year (Figure 2). With almost 2,700 apartments due to complete, 2020 completions are expected to be around 39% higher than 2019.

The total number of apartments currently under construction in Canberra has moderated to 4,750 in 2Q20, after peaking at 5,740 last quarter. Nevertheless, the supply pipeline remains robust for a relatively small apartment market. Should all projects materialise, completions this year and in 2021 (2,270) will comfortably surpass the last peak construction year in 2017 (Figure 2).

The number of apartments under construction are currently concentrated (39%) in the Inner North precinct of Canberra. However, as the development of the second stage of the light rail progresses, we expect to see increased construction activity in the Inner South and Woden precincts of Canberra.

The number of apartments with plans approved has increased to almost 1,100 in 2Q20, while the number of apartments with plans submitted remained stable over the quarter, but declined by 9% Y-o-Y. However, it should be noted that for a small apartment market, the submission or approval of plans for one or two projects can substantially alter the overall trend in the number of apartments approved or submitted.

Elevated supply levels had raised concerns of a supply glut in Canberra long before the COVID-19 crisis. However, weaker underlying demand as a result of slower population growth will only serve to heighten concern about the elevated supply levels over the next few years.

Evidence of caution towards launching new projects is present in the number of apartments currently being marketed, which have been in decline for four consecutive quarters and reached 1,840 in 2Q20.

However, the number of apartments being marketed may increase in the short-term, as JLL is aware of a number of phased developments that are expected to go ahead with subsequent stages as planned.

Considering the historical shortage of dwelling supply in Canberra, and committed supply levels declining post 2021, any excess supply in the market should be absorbed relatively quickly.

Figure 1: Canberra Apartment Market Precinct Map

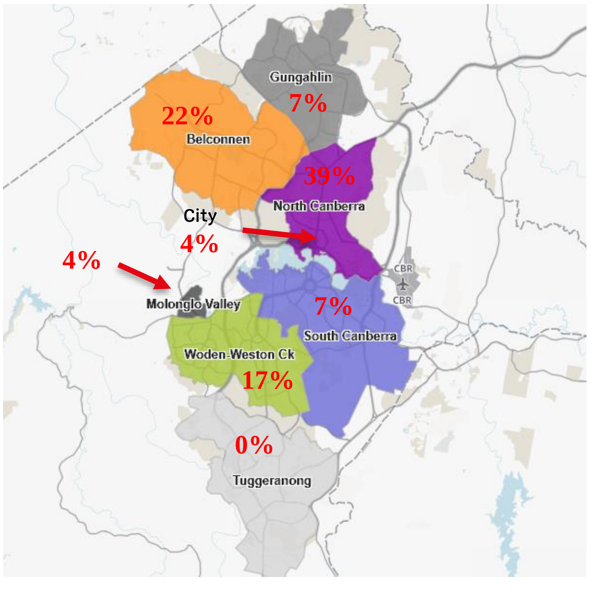
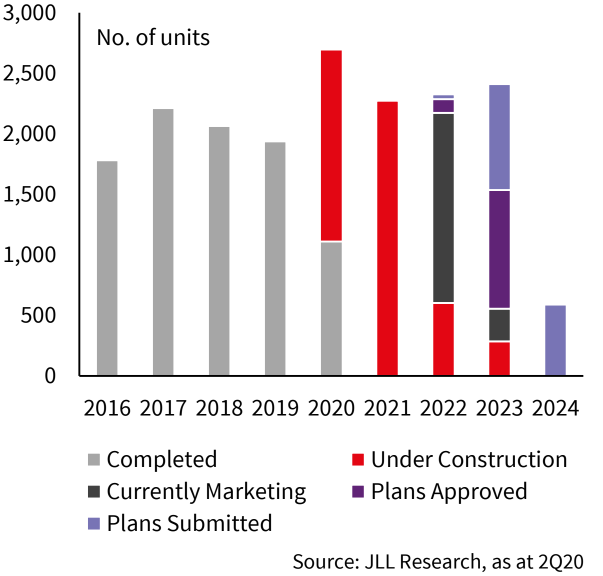


Figure 2: Canberra Supply Pipeline by Status



Source: JLL Research, as at 2Q20

*The supply pipeline includes projects with 30 units and over

Table 1: Supply Pipeline 2020 – 2024 by Stage and Precinct (Number of Apartments, as at 2Q20)

Stage	Gungahlin	Belconnen	Inner North	Inner South	Molonglo	Tuggeranong	City	Woden	Total
Completed (2020 YTD)	277	494	52	81	-	-	207	-	1,111
Under Construction	312	1,058	1,856	335	191	-	184	810	4,746
Currently Marketing	270	-	552	258	188	571	-	-	1,839
Plans Approved	-	343	283	354	115	-	-	-	1,095
Plans Submitted	48	-	744	270	195	-	-	245	1,502
Total	907	1,895	3,487	1,298	689	571	391	1,055	10,293

Source: JLL Research, as at 2Q20

Pricing

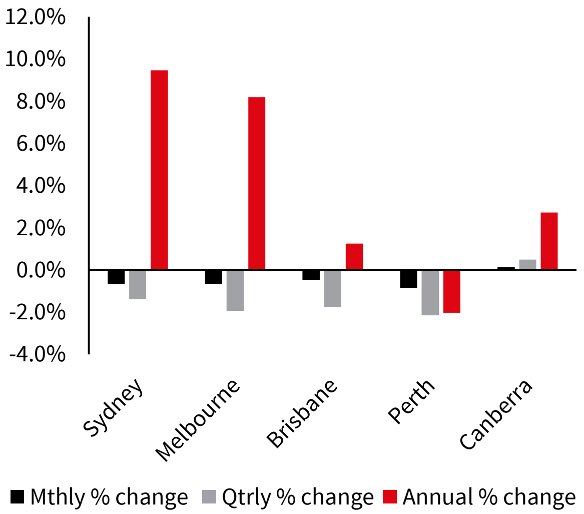
Apartment capital values continue to grow, but show signs of softening

According to CoreLogic's latest quarterly data series (1Q20), the median apartment price in Canberra increased by 2.6% over the 12 months to March 2020 (Figure 3). The more up to date hedonic series from CoreLogic, showed annual price growth remained 2.7% to July, with the median price reaching $444,170.

The hedonic data series also showed that apartment prices grew 0.1% in July 2020 and was the only major market to grow in the month. Prices in Canberra were 0.5% higher over the 3 months to July, which compares to a decline of 1.5% across all capital city markets.

Nevertheless, elevated levels of supply over the next two years, combined with moderate demand, are likely to slow the absorption of new supply and add some downward pressure on the apartment capital values in the short-term.

Figure 3: Median Unit Annual Price Growth



Source: CoreLogic, JLL Research as at Jul-20

Rental Vacancy and Rents

Increasing supply coupled with weaker demand may see Canberra's tight rental market soften

The vacancy rate in Canberra increased to 1.1% in 1Q20 from a low of 0.6% 12 months earlier, but tightened Q-o-Q from 1.3% in 4Q19, according to the Real Estate Institute of Australia (REIA). More recent data from SQM Research suggests that this tight vacancy rate has held through COVID-19 to June, but in Civic is elevated.

Considering Canberra's large international student population, the absence of this segment of the rental market due to border closures may add upward pressure on the rental vacancy rate in the short-term. Further, typically short-term rentals converting to long-term leases in the absence of tourism and business travel have increased rental stock in the city, adding upward supply side pressure on the Civic vacancy rate. However, with domestic borders reopening and interstate travel resuming, anecdotal data suggests that this trend is now stabilising.

This may help curb any growth in the vacancy rate in an already tight market. Nevertheless, with population growth almost halving and more apartments coming on to the market over the next two years, Canberra's apartment rental market will likely soften in the short-term.

Figure 4: Median Canberra Rents by Region

Zone	No. of bedrooms	Median rent ($/wk)	Annual % change	Quarterly % change
Inner Central	1 b/r	475	3.3%	5.6%
	2 b/r	560	1.8%	1.8%
	3 b/r	695	3.7%	-0.7%
Inner South	1 b/r	385	1.9%	4.1%
	2 b/r	480	9.1%	4.3%
	3 b/r	570	-1.7%	1.2%
West & North	1 b/r	380	0.0%	0.0%
	2 b/r	460	2.2%	2.2%
	3 b/r	520	4.0%	0.0%
Outer South	1 b/r	400	2.6%	0.0%
	2 b/r	450	4.7%	0.0%
	3 b/r	480	2.1%	4.3%

Source: REIA, JLL Research, as at March 2020

Upcoming Completion

Source: canberratimes.com.au

High Society – at Republic, Belconnen

High Society, the third stage of GEOCON's Republic development, is due to complete in late 2020. The project is the tallest residential tower in Canberra. Once completed, it will deliver almost 550 apartments. The four stages of the development comprise of a combined 1,250 apartments.

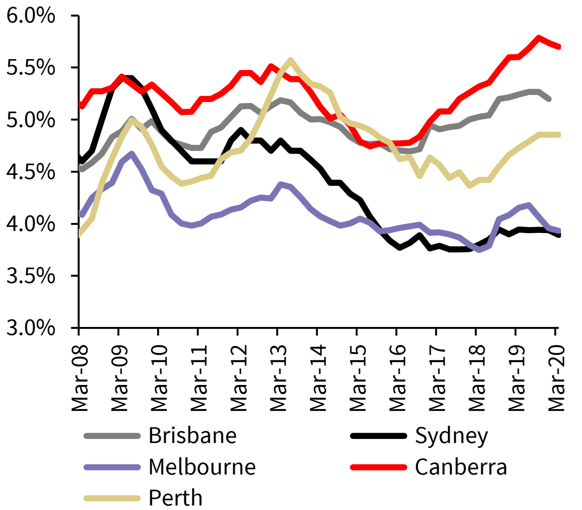
Gross Rental Yields

Apartment yields increased on the back of robust rental growth

Median gross apartment yields in Canberra stood at 5.7% in 1Q20, according to CoreLogic. They increased marginally from 5.6% 12 months earlier on the back of strong annual rental growth. However, as price growth recovered, gross median yields declined marginally from 5.8% over the quarter. Canberra yields remain the highest out of the major capital city markets.

With rental growth likely to slow in the short-term, and price growth now slowing again, median apartment yields are likely to remain relatively stable in the short-term.

Figure 5: Median Gross Rental Yields (Units)



Source: CoreLogic & JLL Research as at Mar-20

Site Sales

Developer interest in greenfield sites initially slowed on the back of uncertainty of the impact of COVID-19. Sales have since increased somewhat, but remain muted

Following the 2019/20 to 2022/23 land release program, the Suburban Land Agency's (SLA) latest sales results showed five greenfield sites transacted in 2Q20, totaling $21.8 million. While the majority of sales took place in April 2020, most were over the counter sales following a tepid auction that took place at the outset of the COVID-19 crisis when the residential market was shrouded in uncertainty. Overall, the number of sales in 2Q20 were roughly half the number of sales compared to 1Q20 and 2Q19.

Of the five sales, four were located in Gungahlin Town Centre and one in Taylor. The largest of the sold sites, located in Gungahlin Town Centre, was 16,340 sq m, which was purchased by Englobo Group Dickson Venture. The maximum number of dwellings on the site is 350, significantly higher than the number of dwellings on other sites sold, which ranges between 70 – 160. Perkovic Group. purchased two adjacent sites, also in Gungahlin Town Centre. Both sites are approximately 5,000 sqm and have a maximum dwelling allowance of 70 and 77.

Further sales are expected as sentiment towards the Canberra market improves, with a number of large sites currently in the middle of transacting and expected to close in 3Q20.

Hot Topic

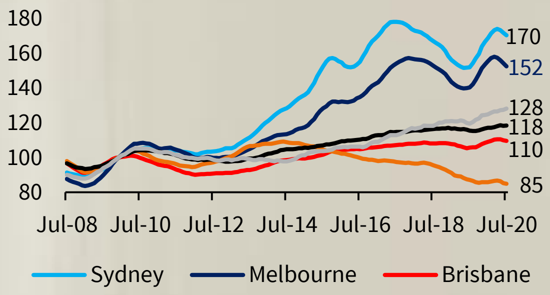
Is the shift to Apartment living over or just beginning?

The last decade has been a period of enormous growth in apartment supply in all Australian markets. This reflects the confluence of a number of economic, demographic and social trends that have seen apartment living accepted in Australia like never before.

This shift has been most evident in Sydney and Melbourne, but also smaller capital cities where there is less population and affordability pressures. The latter of which, many people would think has forced the shift.

However, the facts do not support that affordability is the only driver. Over the last decade, wages grew by around 31% across all major cites, while dwelling prices have grown by around 70% in Sydney and 52% in Melbourne, but by less than wage growth in all other capital cities (See Figure 1). So, given that apartment development has surged in all markets - even in Perth were prices are 15% lower than they were 10 years ago - there must be much more to the trend than just prices and affordability.

Figure 1: Dwelling Price Index (Dec 2009 = 100)



Source: CoreLogic, JLL Research as at Jul-20

Population growth and planning pressures have also undoubtedly also played a role. Australia's population has continued to grow at a very strong 1.6% p.a. over the past decade, faster than other comparable developed economies. Planning authorities have also responded to population pressures by encouraging greater infill density as opposed to greenfield development on the urban fringe.

So all these factors partially explain the shift to apartments, but the big intangible factor is the attitudinal shift among younger generations who have seemingly rejected living on the urban fringe. Instead, many are consciously deciding to maintain the inner-urban lifestyle they have come to enjoy and rent or buy apartments instead of other dwelling types. Older 'empty nester' Australians are also making conscious decisions to downsize into lower-maintenance apartments

The COVID-19 crisis may weaken attitudes to high-density living and disrupt the rise of apartments for a period. However, one potential silver lining is that the crisis may boost the prospects of build to rent (BTR) residential (which is institutionally owned and operated rental stock). With developers in the traditional build to sell market facing a challenging time getting projects going, it is a good time for BTR operators to get a foothold and acquire sites with less competition.

We firmly believe any softening sentiment towards apartment living resultant of the COVID-19 crisis will prove short-term, and that apartments will forevermore be a much greater share of new housing construction in Australia.

Outlook

Overall, the outlook for Canberra's apartment market is positive, but some risks remain

The outlook for the ACT's economy over the next 12 months is robust, which places Canberra's housing market in a unique position amongst other capital cities. A relatively tight unemployment rate, the extension of JobKeeper payments and record low interest rates, will help support underlying demand for housing. This should curb any marked decline in demand and potentially see demand rebound to near pre-COVID-19 levels.

Completions in 2020 are expected to reach a new construction peak for Canberra. While 2021 completion levels are likely to be more moderate than 2020, they are expected to exceed historical levels. Considering recent dwelling shortages in Canberra, new supply should be absorbed in a relatively short period of time once population growth returns to more normal levels.

Nevertheless, a large number of apartments entering the market over a short-period of time, and short-term population growth restrictions, will likely add downward pressure on capital values over the next two years.

The same goes for Canberra's tight rental market. Increasing supply levels will likely see the city's vacancy rate increase, particularly with the rate of population halving over the next two years. The slower rate of population growth will likely be the result of a fall in both interstate and, more so, overseas migration. Both demographics are largely renters, at least on arrival. As such, a higher vacancy rate should see rental growth moderate over the same period.

While the overall outlook for Canberra's apartment market is positive, a change in conditions such as a second outbreak in the city, the closure of borders, or withdrawal of Federal support further the down the line, could rapidly change the outlook for the market.

Ahmed Almihdar
Senior Analyst
Research
Ahmed.Almihdar@ap.jll.com
+61 2 9220 8513

Leigh Warner
Senior Director
Head of Residential Research
Leigh.Warner@ap.jll.com
+61 7 3231 1445

Marcus Hon
Director
Integrated Property Advisory
Marcus.Hon@ap.jll.com
+61 409 308 687

JLL Canberra
Level 7
121 Marcus Clarke Street
Canberra ACT 2601
Tel: +61 2 6274 9888
Fax: +61 2 6248 7501

JLL.com.au