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## News release

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### **Inner Sydney apartment market to begin the long road to recovery later this year** *A large proportion of Sydney-siders choosing to live close to place of work*

Leading forecaster and industry analyst, BIS Shrapnel, expects demand for inner Sydney apartments to increase slightly this financial year, with a more pronounced upturn forecast to begin 2009/10.

The recovery in the number of new apartments being built in the inner Sydney area will be triggered by strong rental market fundamentals, which will result in an anticipated 29 per cent growth in rents over the three years to 2010, due to ongoing high demand in an undersupplied market, according to the BIS Shrapnel's *Inner Sydney Apartments, 2007 to 2014* report. However, any significant upturn in prices and purchaser demand in the short-term will be delayed by rising interest rates.

The Australian Bureau of Statistics (ABS) 2006 Census data of residents living in apartment developments of three storeys and above revealed demand for rental apartments in the inner Sydney area was being driven primarily by the 20-to-34 year old age group. A large proportion of this segment of the population were professionals/white collar workers and subsequently likely to be working in the Sydney CBD or immediately surrounding commercial centres.

In contrast, the owner-occupier segment of the inner Sydney apartment market was driven by demand across the population, although this group was more likely to be aged 40 years and over, according to the ABS. This segment was predominantly comprised of lone person households and couples with no children, signifying a large proportion of empty nesters. Apart from inner Sydney itself, owner-occupiers were most likely to have been previously living in the Eastern Suburbs or on the North Shore.

The last Census found 40 per cent of total inner Sydney apartment residents worked in the CBD, although 89 per cent worked in inner Sydney in general. Further, a survey of apartment residents undertaken by BIS Shrapnel in 2006 indicated that 33 per cent of residents had moved within or into the inner Sydney area so they could be closer to their place of employment.

"The 2006 Census data indicates around half of the population living in apartments in inner Sydney came from overseas, and to a lesser extent, interstate and regional New South Wales," said BIS Shrapnel senior project manager and report author, Mr Angie Zigomanis.

The main source countries were the United Kingdom (most of whom were here to work) and China (most of whom were here to study). The Census found 15 per cent of inner Sydney apartment residents were full-time students, with the majority of these students born overseas.

"Given these residents are not familiar with Sydney, it would seem they have a larger preference to live close to where they work or study," said Zigomanis.

"Lifestyle choices also seem to influence where Sydney-siders choose to live. The 2006 Census found around 34 per cent of people living in inner Sydney were walking to work -- further evidence that many inner Sydney apartment dwellers also work in the CBD or surrounds."

Despite the employment, lifestyle and demographic factors strongly driving demand for owner-occupied and rental apartments in the inner Sydney area, ABS data indicates the proportion of owner-occupied versus investor-owned apartments moved slightly in favour of owner-occupiers between the 2001 and 2006 Census.

Residents who either owned or were paying a mortgage on their apartment increased from 33 per cent to 35 per cent of the occupied apartment stock. Nevertheless, this contrasts strongly when compared to the entire Sydney metropolitan area where owner-occupied dwellings comprise 67 per cent of the total dwelling stock.

Reflecting the downturn in off-the-plan purchaser demand in recent years, new inner Sydney apartment completions fell from a peak of 2,700 apartments in 2003/04 to less than 1,000 apartments in 2006/07, according to BIS Shrapnel -- at a time of strengthening tenant demand, driven by solid conditions in professional employment and further growth in overseas student numbers. BIS Shrapnel forecasts apartment completions will reach a still low 1,250 in 2007/08, rising slightly to 1,500 in 2008/09.

"It's a story Sydney-siders know well," said Zigomanis. "We're simply not building enough apartments in the inner Sydney area. Given the lag between an off-the-plan sale and the completion of the apartment can extend up to three years, there will not be any respite in the short-term, and with demand consistently strong, this will drive up rents.

"However, investors still aren't buying in large enough numbers, which means the supply response will be slow and rents will continue to rise. We expect this market imbalance to remain for a few more years yet."

BIS Shrapnel forecasts the undersupply of rental stock will peak at over 2,500 apartments by 2009/10, or equivalent to almost 10 per cent of the inner Sydney rental apartment stock. This severe imbalance will enable average rental growth to hit nine per cent per annum between 2007/08 and 2009/10, following on from the nine per cent growth already seen in 2006/07, according to Zigomanis.

However, despite rising rents and improvement to yields, rising interest rates will continue to dampen investor demand in the short term, also delaying any upturn in prices. BIS Shrapnel expects the value of investor-grade apartments will show only limited growth in 2007/08 and 2008/09, before accelerating in 2009/10 and peaking in 2011/12, as the improving rental returns and a calmer interest rate environment tempt investors back to the market.

Apartments geared towards owner-occupiers are expected to perform slightly better during the same period. Over the five years to 2012, BIS Shrapnel are forecasting total rental growth of 44 per cent, with corresponding price growth of 29 per cent over the same period.

## **About BIS Shrapnel**

BIS Shrapnel is Australia's leading provider of industry research, analysis and forecasting services. BIS Shrapnel helps clients better understand the markets in which they operate, through reliable and detailed market data, analysis of developments and drivers and thoroughly researched forecasts.

BIS Shrapnel compiles accurate, clearly explained and detailed information on industry sectors, markets and industries in which their clients operate. BIS Shrapnel provides market size and segmentation data, market shares, consumer attitudes and supplier reputation information, and regularly conducts both business-to-business and consumer research.

Over the company's 43-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.

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