EG

EG Funds Management

Sydney's build-to-sell opportunity: Addressing a critical housing need

Sydney's residential property market is undergoing significant transformation. For institutional investors, this dynamic environment offers unique opportunities for wealth generation. Driven by demographic shifts, affordability challenges and a pronounced housing-supply deficit, this is a moment for strategic action.

The housing crisis: Supply fails to meet demand

Sydney faces a housing shortage that is both chronic and intensifying. With vacancy rates below 1.0 percent, the market is under immense pressure. The factors driving this shortage include:

Limited rezoning activity

Only 0.2 percent of approvals in Sydney result from rezoning, highlighting significant constraints in urban infill opportunities (National Housing Finance and Investment Corporation, 2022–23). Whilst the state government has recently instigated significant and welcome reform in this regard, rezoning scarcity is more pronounced here than anywhere else in Australia.

Rapid population growth

Sydney's population is projected to grow significantly, with Australia welcoming approximately 600,000 overseas migrants in 2023 alone (Australian Bureau of Statistics, 2023). With net migration for 2024 estimated to be an additional 340,000, this influx places further strain on an already stretched housing market. New South Wales is projected to grow by nearly 1 million more people by 2034, with more than 650,000 of them expected to be living in Sydney (Department of Planning, Housing & Infrastructure, 2024).

Chronic supply constraints

Sydney's property market is grappling with a scarcity of available housing stock. This issue stems from decades of underdevelopment, constrained land availability and increasing regulatory challenges, including a conservative approach to urban renewal.

These factors have created an environment where supply continues to fall short of rising demand. This dynamic underscores the city's need for innovative residential solutions, making build-to-sell (BTS) developments highly relevant.

For investors, this environment underscores a resilient market with strong demand drivers, offering a compelling case for investments in build-to-sell developments.

The affordability challenge

Homeownership remains out of reach for many Sydneysiders due to recent strong price growth in the standalone housing market. The median house price is now 1.8 times that of apartments – a record high (CoreLogic, 2024). This affordability gap is shifting demand towards medium- and high-density housing options, particularly in well-located suburbs with good public transport links and diverse community amenities. While there are some signs of house-price growth easing, recent cost-of-living increases have maintained affordability issues.

Rental markets, too, reflect this imbalance in demand and supply. During the past three years, rental growth for units has outpaced that of detached housing, with units achieving a 9.9 percent annual increase compared with 9.0 percent for houses (CoreLogic, 2024). High-quality apartments – which combine affordability, location and desirable amenities – are increasingly seen as an optimal asset to meet both owner occupier and investor demand.

Why build-to-sell?

BTS developments directly address market needs by creating supply in a high-demand environment. The state government's recent planning-related reforms have sought to increase residential densities, whilst accelerating rezonings and housing approvals. Whilst more needs to be done, it is a significant step in the right direction.

BTS projects are also ideally positioned to benefit from Sydney's inherent strengths:

Long-term market stability

Sydney's residential property sector has demonstrated resilience and consistent growth over time. The 15-year compound annual growth rate (CAGR) for house and apartment prices stands at 7.8 percent and 5.1 percent, respectively (CoreLogic, 2024). This stability enhances the attractiveness of residential investments compared with other asset classes.

Robust infrastructure investment

The city's ongoing infrastructure improvements – such as new metro stations and upgrades to arterial roads – enhance connectivity and drive demand for well-located housing.

Economic resilience

Residential real estate, valued at approximately A$10 trillion (Australian Taxation Office, 2024), constitutes Australia's largest property sector. This underscores the sector's importance and its ability to attract both domestic and international investment.

For developers and investors alike, the alignment of market demand, affordability trends and stabilising construction costs creates a unique window to act. For investors, Sydney's property market offers not only financial returns but also the opportunity to secure a stake in a globally recognised, stable and thriving city.

Market insights driving build-to-sell developments

The current landscape highlights significant trends influencing BTS opportunities:

Shift in buyer preferences

With freestanding homes in locations with good public transport and social infrastructure becoming increasingly unaffordable, more buyers are turning to apartments. This trend is expected to continue given the wide gap between house and apartment prices.

Demand for transit-oriented developments

Projects near public transport nodes are gaining traction, offering residents easy access to employment hubs and amenities.

Emerging growth areas

Suburbs undergoing urban renewal, such as the Western Corridor through Olympic Park to Parramatta and the Northern Corridor, are becoming focal points for residential developments, aligning with population growth and infrastructure upgrades.

These insights provide a clear roadmap for developers aiming to address Sydney's housing challenges, while aligning with institutional investors' investment priorities of securing strong returns in global cities.

Addressing construction costs

While rising construction costs have long been a concern for developers, recent data points to a return to a longer-term trend in these increases. According to Rider Levett Bucknall's first quarter 2024 construction market update, cost pressures are stabilising, creating a more predictable environment for project execution (Rider Levett Bucknall, 2024).

Unlocking investor value

For institutional and private investors, BTS developments in Sydney present a compelling case. The combination of a current supply constraint, robust demand and Sydney's global reputation as a safe haven for investments make this an attractive proposition. Additionally, structuring opportunities can further enhance returns for foreign investors seeking exposure to Australia's resilient property market.

Sydney's housing market stands at a crossroads, with a need for increased residential supply to meet burgeoning demand. For developers and investors alike, the alignment of market demand, affordability trends and stabilising construction costs creates a unique window to act. For investors, Sydney's property market offers not only financial returns but also the opportunity to secure a stake in a globally recognised, stable and thriving city.

CONTRIBUTOR

Roger Parker

Managing Director

EG Funds Management

COMPANY OVERVIEW

EG is one of Australia's largest independent real estate investment platforms, managing real estate on behalf of institutional investors and wholesale clients to generate strong returns with lasting positive impact.

CORPORATE CONTACT

Angela Maxwell

amaxwell@eg.com.au

www.eg.com.au