

JOBS AND HOMES

**Australia's looming apartment supply crunch
and how to fix it**

A Property Council Report June 2021

Covering the Sydney, Melbourne, Brisbane and
Perth Markets



Introduction

There is a severe crunch coming to Australia's largest apartment markets.

Urbis predicts 2024 apartment supply will be 20 per cent of 2018 levels.

We will lose cranes on our skylines and 30,000 construction jobs across Melbourne, Sydney, Brisbane and Perth in the next few years. By 2024, the impact of government inaction grows into a severe structural undersupply.

Apartments generally take 3-5 years from the planning phase, through sales and construction, to occupation.

We must boost investment in new stock now, including international buyers and build to rent investors, if we hope to provide stock for the growing numbers of people that will be coming to Australia by 2024.



Introduction

How did we get here? And what can we do to fix the supply crunch?

The Property Council of Australia commissioned Urbis to undertake analysis on the state of Australia's apartment market looking at five year trends and the influences of specific domestic and foreign government decisions within the largest sub-markets of Sydney, Melbourne, Brisbane and Perth.

The Property Council understands that property markets are dynamic and cyclical. However, what is clear from the commissioned analysis is the layering of interventions over time have put further downward pressure on demand which is blocking the pathway to future supply.

The Property Council refers to this market analysis in this report and lays out practical plans that Australian governments should adopt to boost apartment supply right now.

The National Supply Crunch in summary

Successful stimulus but...

So far Federal and state **stimulus has largely benefited detached housing supply**

New approvals don't guarantee supply

Approvals mask decline in construction activity and stock overhang in key markets

Negative migration is a further handbrake on investment in new apartments as migration accounts for 56 % of new dwelling demand[^]

Taxes and regulations slow investment

Governments' tax hikes and poor planning have directly impacted new supply



2021: Jobs and housing impact

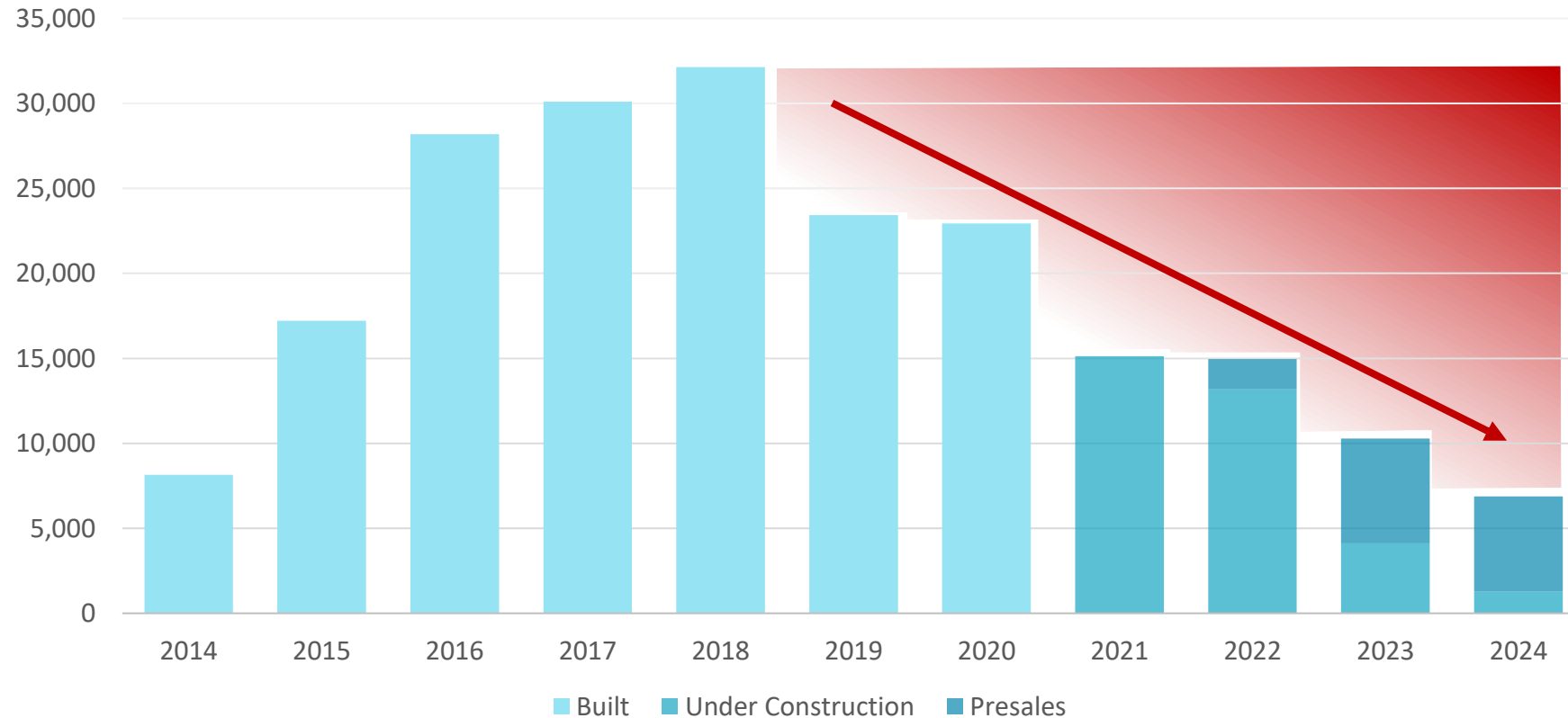
Steep construction decline
2020-2024 vs 2016-2020 – loss of
- **30,000 direct jobs**[^]
- **\$5.9bn housing assets**[^]

2024: Severe supply crisis

2024: 250k net overseas migration
2024: 1/4 of 2018 apartment supply[^]

Eastern Seaboard 2024 - Apartment Supply Crunch

2024 supply for Sydney, Melbourne, Brisbane is only 20 per cent of 2018 levels



Current Status of Projects by Estimated Completion Date.
Data is from projects with 25 units or more within Urbis' study area.



1. Market reality

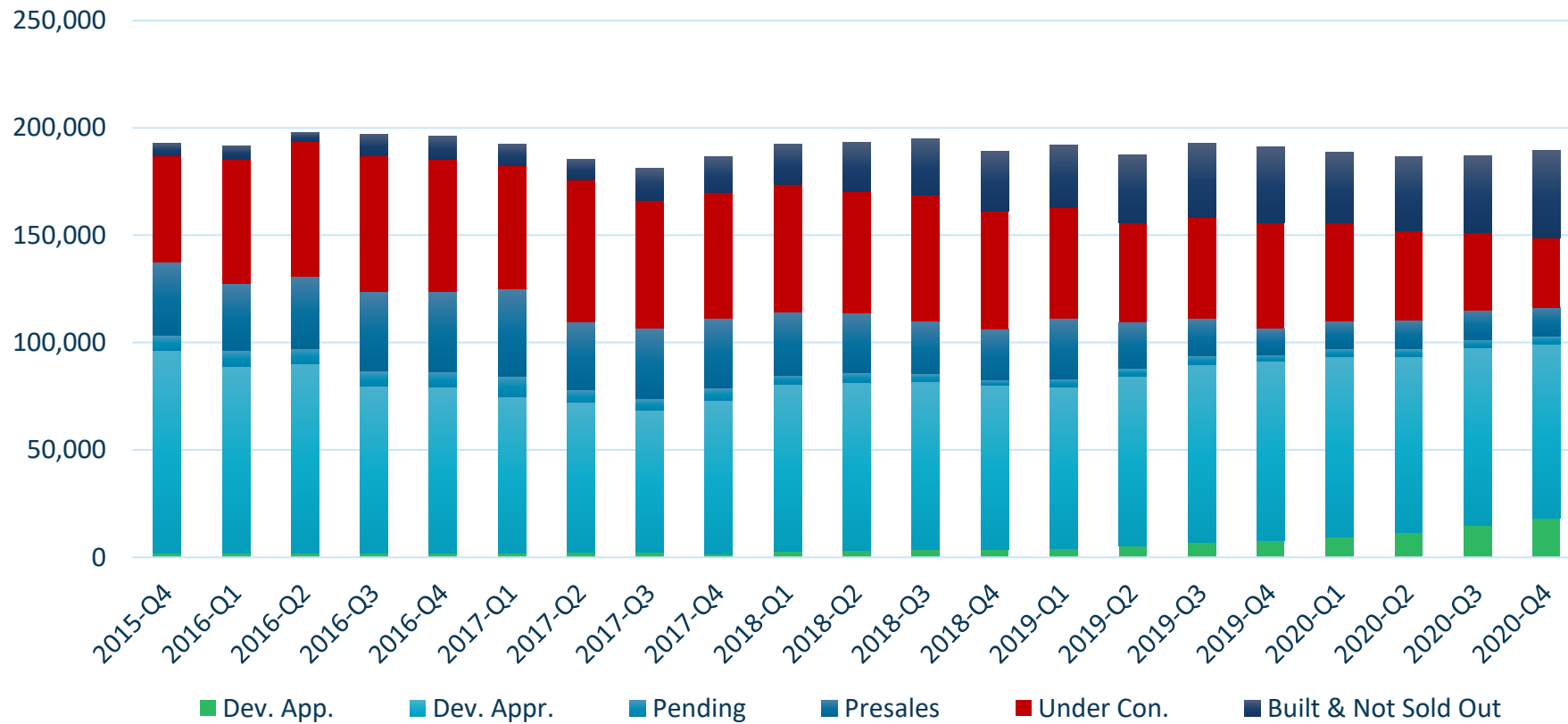


Urbis projects 2024 apartment supply on the Eastern seaboard will be only 20 per cent of 2018 levels

Steep construction decline 2020-2024 vs 2016-2020 means a loss of 30,000 direct jobs and \$5.9bn in housing assets

Nominal Approvals up but Apartment Construction Down

- Weaker market conditions are adding to stock overhang
- 2020 construction volume is around half 2017 and going down



Construction Decline = \$5.9 Billion and 30,000 Direct Jobs

Future impact due to apartment supply crunch

All Cities	Time Period	Annual Average Construction Value (\$M)	Annual Average Direct Jobs FTE	Annual Average Ongoing Jobs FTE	Annual Average Total Jobs FTE
Melbourne	2016 - 2020	\$3,015	5,779	10,888	16,667
	2020 - 2024	\$1,913	3,667	6,908	10,575
Impact		-\$1,102	-2,112	-3,980	-6,092
Sydney	2016 - 2020	\$6,058	10,808	19,727	30,534
	2020 - 2024	\$2,565	4,578	8,355	12,932
Impact		-\$3,492	-6,230	-11,372	-17,602
Brisbane	2016 - 2020	\$1,717	3,348	5,784	9,133
	2020 - 2024	\$541	1,057	1,824	2,881
Impact		-\$1,175	-2,292	-3,960	-6,252
Perth	2016 - 2020	\$589	901	1,364	2,265
	2020 - 2024	\$408	624	944	1,569
Impact		-\$181	-277	-420	-697
Total		-\$5,950M			-30,643 jobs



2. How did we get here?



Governments shape our cities and apartment investment patterns

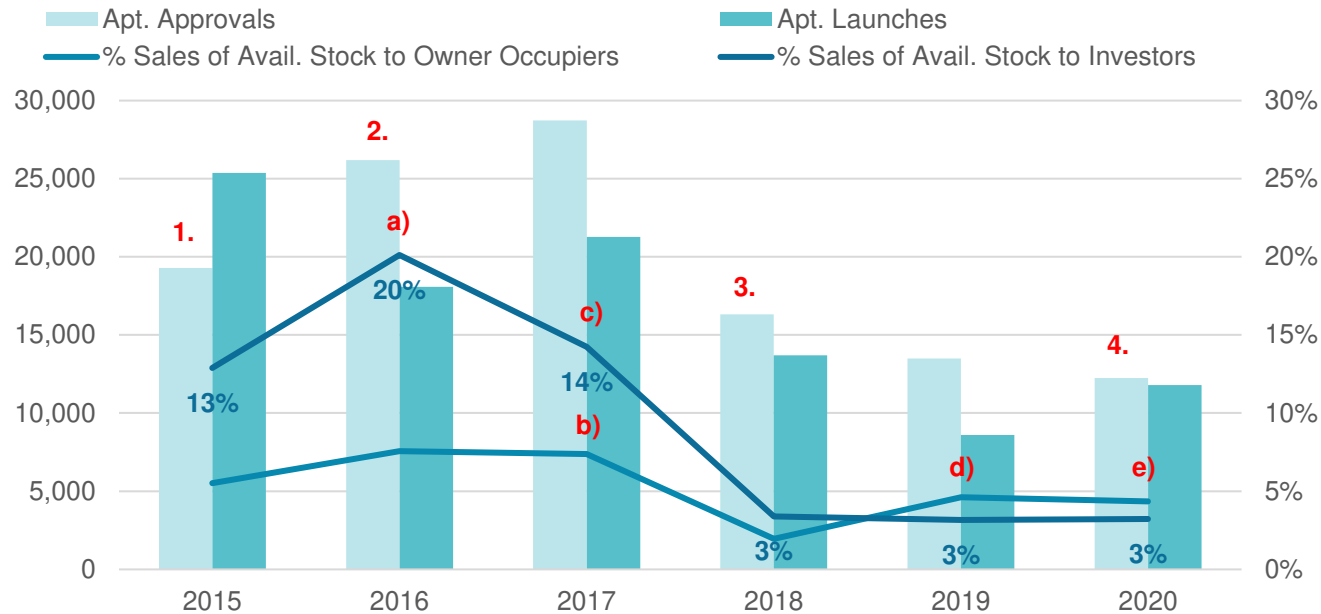
Governments control and incentivise the supply of affordable apartments

International buyers are governments' tax target - even though international buyers help Australian projects get out of the ground because they tend more toward purchasing off the plan

The 2024 apartment supply crunch begins with government interventions in 2015-16

Urbis analysis: Sydney

Governments' impacts over time



Key Demand Side Impacts

- Foreign Purchaser Duty 4% + China Reports Breaches of Capital Controls
- Stamp Duty Deductions – A fair go for First Home Buyers + Grant and Lenders Insurance
- Foreign Purchaser Duty 8% + APRA Lending Standards cap on investor lending
- Banks lower minimum interest rate for loan serviceability
- COVID-19 + Homebuilder + Stamp Duty Exemptions



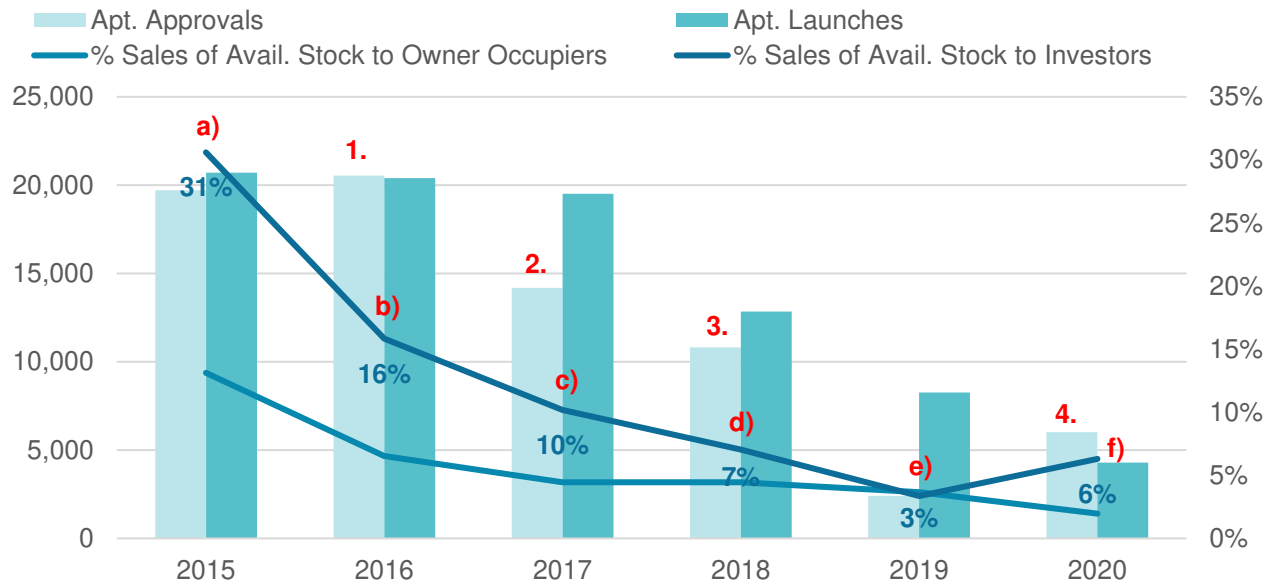
Key Supply Side Impacts

- New Apartment Design Guide & SEPP 65 Update
- Priority Precincts
- Shergold Weir Report
- Fast Tracked Assessments

Source: Urbis 2021
 % Sales of Available Stock are derived from a sample of surveyed projects.
 Sales of available stock measures the volume sold as a proportion of the volume available in each quarter.

Urbis Analysis: Melbourne

Governments' impacts over time



Key Demand Side Impacts

- a. Foreign Purchaser Duty 3%
- b. Foreign Purchaser Duty 7% + China Reports Breaches of Capital Controls
- c. Removal of Stamp Duty Concession for Investors + APRA Lending Standards cap on investor lending
- d. Vacant Residential Land Tax
- e. Foreign Purchaser Duty 8% + Banks lower minimum interest rate for loan serviceability.
- f. COVID-19 + Homebuilder



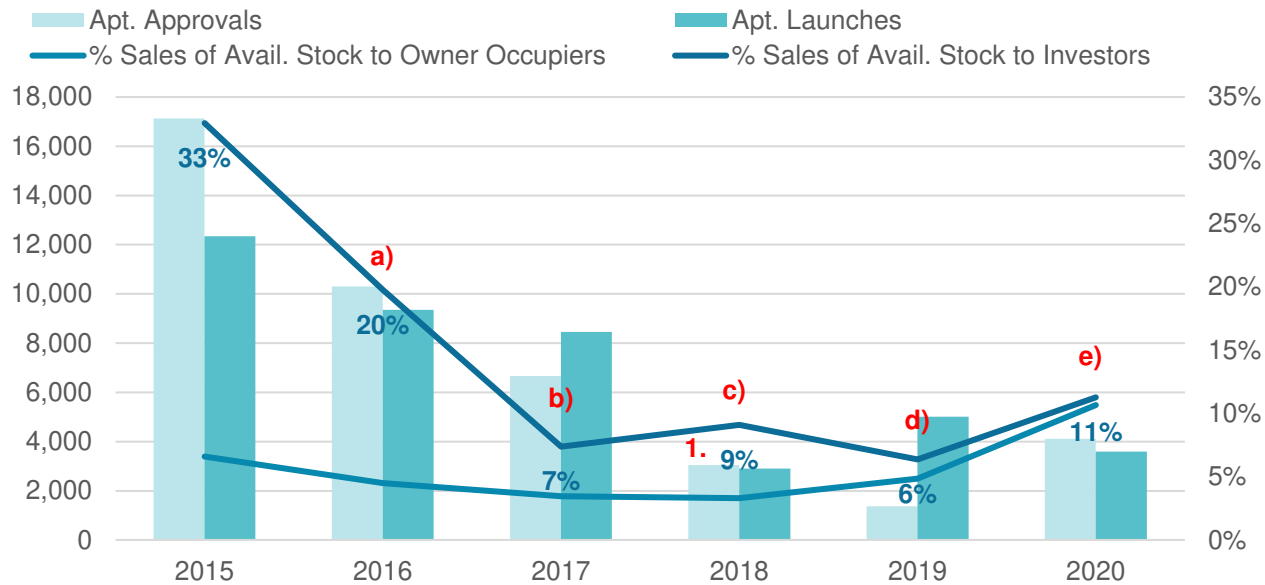
Key Supply Side Impacts

1. C270 introduced
2. BADS introduced
3. Shergold Weir Report
4. Planning Fast Track for Shovel Ready Projects

Source: Urbis 2021
 % Sales of Available Stock are derived from a sample of surveyed projects.
 Sales of available stock measures the volume sold as a proportion of the volume available in each quarter.

Urbis Analysis: Brisbane

Governments' impacts over time



Key Demand Side Impacts

- Foreign Purchaser Duty 3% + China Reports Breaches of Capital Controls
- Absentee Owner Land Tax Surcharge 1.5% + APRA Lending Standards cap on investor lending
- Foreign Purchaser Duty 7%
- Foreign Owner Land Tax Surcharge 2% + Banks lower minimum interest rate for loan serviceability.
- COVID-19 + Homebuilder



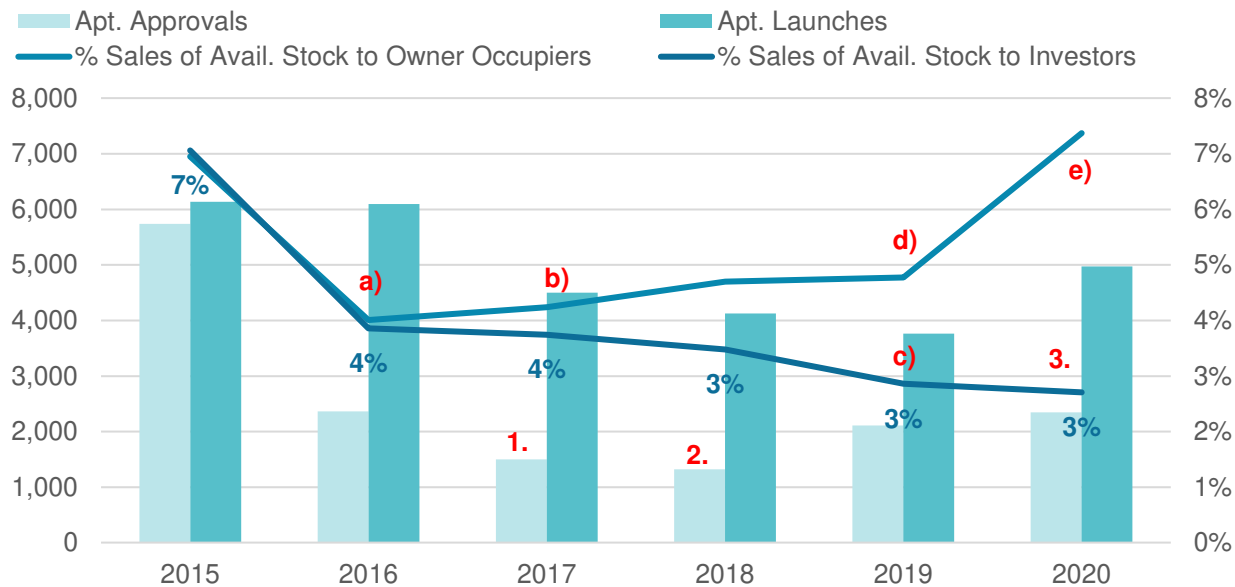
Key Supply Side Impacts

- Shergold Weir Report

Source: Urbis 2021
 % Sales of Available Stock are derived from a sample of surveyed projects.
 Sales of available stock measures the volume sold as a proportion of the volume available in each quarter.

Urbis Analysis: Perth

Governments' impacts over time



Key Demand Side Impacts

- China Reports Breaches of Capital Controls
- APRA Lending Standards cap on investor lending
- Foreign Purchaser Surcharge 7%
- Off-the-plan Stamp Duty Rebate + Banks lower minimum interest rate for loan serviceability.
- COVID-19 + Homebuilder + Building Bonus



Key Supply Side Impacts

- MetroNet
- Shergold Weir Report
- State Development Assessment Unit and Perth City Deal

Source: Urbis 2021
 % Sales of Available Stock are derived from a sample of surveyed projects.
 Sales of available stock measures the volume sold as a proportion of the volume available in each quarter.



3. What we can do to fix the supply crunch



Sydney, Melbourne, Brisbane, Perth

Governments must move now to boost supply and meet
2024 demand

Fixing the Apartment Supply Crunch



The Government Challenge

Governments' actions have
crunched supply

The Market Reality

3-5 years to complete substantial
apartment projects

Stimulus and attraction of investment
must start now

Fixing Melbourne

Shelve the Windfall Gains Tax

Provide foreign buyer surcharge relief

Extend apartment stamp duty
concessions beyond Melbourne CBD

Fixing Perth

Provide foreign buyer surcharge relief

Make the stamp duty rebate for off
the plan permanent

Remove land tax barriers for Build to
Rent housing



Fixing Sydney

Provide foreign buyer surcharge relief
Accelerating planning approvals

Fixing Brisbane

Provide foreign buyer surcharge relief
Invest in off the plan stamp duty relief

The Sydney Opportunity



Reduce Taxes

- Remove foreign investor tax surcharges as part of tax reform
- Reform of the NSW tax system and changes to stamp duty in accordance with seven Property Council principles
- Infrastructure Contributions Reform to be implemented



Provide Stimulus

- First home buyers stimulus stays in place to attract the market.
- Provide stimulus to encourage downsizing to apartments and seniors living to provide housing supply
- Additional government incentives for affordable housing provision



Streamline Planning

- Recommendations from the NSW Productivity Commission's White Paper implemented
- Planning system reform continues from local level and upwards
 - Fast tracked planning assessments

The Melbourne Opportunity



Reduce Taxes

- Remove the foreign buyer surcharge to stimulate investment
- Ensure wide eligibility for Build-to-Rent land tax discount
 - Withdraw Windfall Gains Tax



Provide Stimulus

- Provide foreign buyer surcharge relief
- Extend apartment stamp duty concessions to greater Melbourne



Streamline Planning

- Implement code assessment in Residential Growth Zones
- Ensure planning system reform streamlines major apartment approvals
 - Amend C270

The Brisbane Opportunity



Reduce Taxes

- Remove the foreign buyer surcharge to stimulate investment
- Remove land tax barriers for Build to Rent housing



Provide Stimulus

- Invest in off the plan stamp duty concessions
- Introduce a rightsizer grant to stimulate downsizing to apartments and seniors housing, to provide housing supply



Streamline Planning

- Extend BCC's Green Building Incentives Policy for residential buildings
- Reduce the minimum number of carparks required for residential
- Make a 'use' definition for BTR and amend local assessment criteria

The Perth Opportunity



Reduce Taxes

- Remove the foreign buyer surcharge to stimulate investment
- Remove land tax barriers for Build to Rent housing



Provide Stimulus

- Make off the plan stamp duty concessions permanent
- Introduce a rightsizer grant to stimulate downsizing to apartments and seniors housing, to provide housing supply



Streamline Planning

- Introduce a referrals model such as SARA to streamline application processes
- Create planning reporting framework to ensure statutory timelines are met
- Fund digitisation of planning pathways to increase accountability and efficiency

URBIS Disclaimer

This data has been prepared for the Property Council of Australia – May 2021.



Disclaimer

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The recent international outbreak of the Novel Coronavirus (COVID-19), which the World Health Organisation declared a global health emergency in January 2020 and pandemic on 11 March 2020, is causing a material impact on the Australian and world economies and increased uncertainty in both local and global market conditions.

The effects (both directly and indirectly) of the COVID-19 Outbreak on the Australian real estate market and business operations is currently unknown, and it is difficult to predict the quantum of the impact it will have more broadly on the Australian economy and how long that impact will last. As at March 2020, the COVID-19 Outbreak is materially impacting global travel, trade and near-term economic growth expectations. Some business sectors, such as the retail, hotel and tourism sectors, are already reporting material impacts on trading performance now and potentially into the future. For example, Shopping Centre operators are reporting material reductions in foot traffic numbers, particularly in centres that ordinarily experience a high proportion of international visitors.

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Background

This research was conducted to reveal the state of the off-the-plan apartment market within the inner city areas of Melbourne, Sydney, Brisbane and Perth. The intention of this is to identify interventions and events that have had an impact over the past five to six years.

Impacts can be from domestic and foreign events / interventions. They can also be more on the demand side or supply side of the equation.

Importantly from this research and what the data shows is that some interventions have had a bigger impact than others. Together, these interventions and events have combined to have a significant impact on the construction pipeline and therefore jobs.

Specifically, the PCA engaged Urbis with the following questions in mind:

1. What is the state of Australia's apartment market and what are the trends within its largest sub-markets (Sydney, Melbourne, Brisbane and Perth)?
2. What specific (domestic and foreign) government decisions have impacted key trends within these apartment sub-markets?
3. What is the timing and effect of these decisions and what is the cumulative impact on the apartment construction pipeline?

Scope

Urbis' scope of works was agreed to be delivered as a data output, which has been compiled into this document. This should enable the PCA to identify and pin-point specific interventions and events within each sub-market. Having this at hand should provide the ability to speak directly to the facts relating to the impact of certain interventions and events.

1. Urbis will source and present a combination of proprietary Urbis and public data on the following apartment sub-markets: Sydney, Melbourne, Brisbane, and Perth:
 - (a) Sales velocity – speed of sale measure for a sample* of projects (trend over time in % of available stock sold)
 - (b) Purchaser profile – owner occupier vs. investor purchasers
 - (c) Approvals – trend over time in apartment approvals
 - (d) Pipeline size and status – including no. of projects and no. of apartments at - application, approved, presales, construction, completed
 - (e) Value – indicative project construction value to provide an estimation of pipeline (status) stages
2. Urbis will undertake research to evaluate the effect and timing of key market impacts - each indicator will be charted to determine impacts:
 - (a) The impact of state-based foreign investor surcharge increases – timing reviewed above market indicators
 - (b) The impact of findings from the Hayne Royal Commission on lending practices – timing reviewed above market indicators
 - (c) Federal government actions on foreign investment capital into Australian residential investment (corporate and personal) – timing reviewed above market indicators
 - (d) The potential impact of continued closed international borders of the apartment housing markets
 - (i) We will review available indicators over the duration of 2020 to date to show the impact on rents, prices and flow on activity in the market (launches, applications, approvals)
 - (ii) We will provide COVID-impacted apartment demand scenarios in line with government migration scenarios
 - (iii) We will comment on the pipeline risks and the value of activity including economic flow on benefits that could be impacted (or safeguarded)
 - (e) The reduction of lending by financial institutions for apartment housing development
 - (i) This will be observed from data trends and timing of interventions/tightening practice
 - (f) Specific initiatives in state and territory planning systems
 - (i) We will seek feedback from our Planning colleagues and members on the impact of specific initiatives (qualitative feedback) and cross check timing of specific major Planning reform on pipeline.
3. Urbis will undertake a parallel assessment of the wider housing market (i.e. volume and price of houses) to inform the extent to which the apartment market has been impacted beyond other parts of the housing sector.

Affordability impacts – simply highlighting that rents and prices of apartments form an accessible entry to the housing market in high demand zones. Diminishing the supply will reduce that opportunity.

Supply Chain Impacts – Remplan analysis provides a high level indication of value of supply chain activity and employment that could be lost or safeguarded depending on what happens to future pipeline.

Supply/Demand Dynamics – this is basically presented throughout the data (as we are showing sales velocity trends against the pipeline of supply over time). Similarly we have included the closed border impact scenario on housing markets which will tell this story.

*Note: Urbis monitors all apartment projects with 25 apartments or more across Sydney, Melbourne, Brisbane, Perth and the Gold Coast on a quarterly basis. Each quarter, we survey a sample of these projects once they have launched for sales to the market. This provides us with data intelligence on off-the-plan sales, profile of purchasers and apartment supply data at a granular level. Together, this intelligence comprises our Urbis Apartment Essentials Platform.

Surveys are sent to consenting participants (developers) at the end of every quarter with the participant responsible for completing the survey with the unconditional sales achieved for the study period by product type, price point and sqm range. Information is then collated and reviewed individually in order to identify corrections or errors in survey completion. No responsibility is taken by Urbis in terms of the accuracy of the information contained in the survey.

Data is analysed and reported based on the sample of data collected at the time of the study period.

This data pack has been prepared for the Property Council of Australia.
September 2021 (Data to Q2-2021)

**Click on text below to go to section in workbook*

3. Detailed Charts & Data for Reference

- 3.1 Melbourne + Sydney + Brisbane Combined
- 3.2 Melbourne
- 3.3 Sydney
- 3.4 Brisbane
- 3.5 Perth

Urbis Staff Responsible for this Dataset:

Directors: Mark Dawson & Nathan Stribley
Associate Director: Dylan Gray
Consultant: Terence Giang

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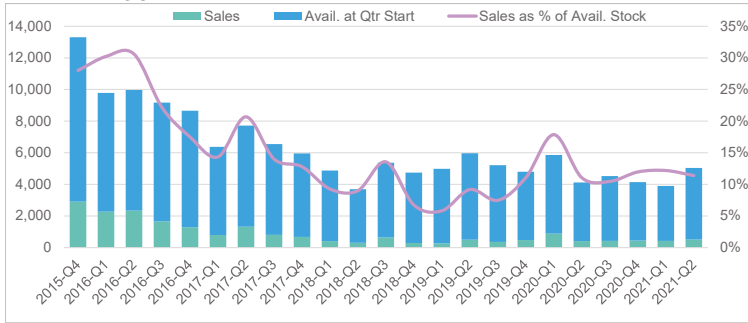
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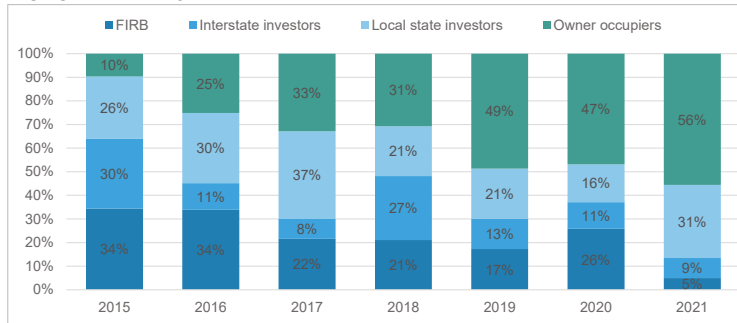
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SALES VELOCITY



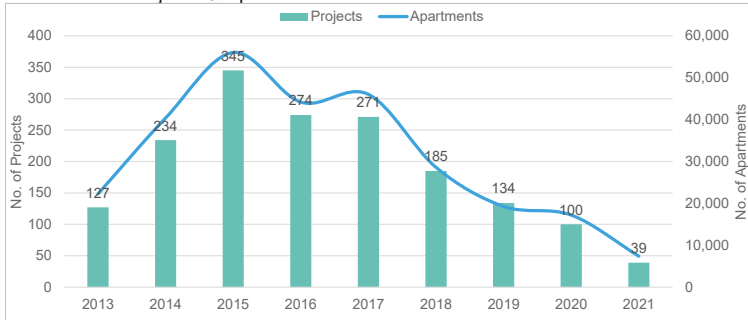
Source: Urbis Apartment Essentials

PURCHASER PROFILE



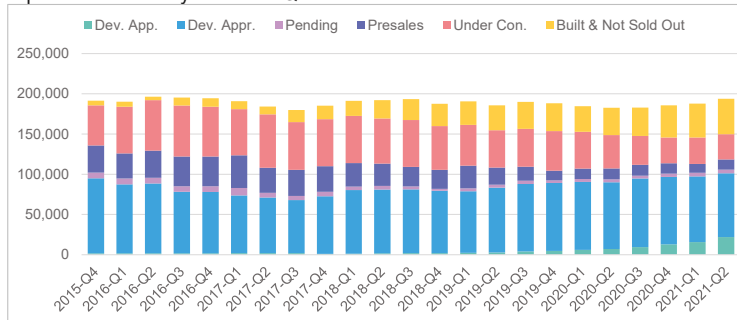
Note: 2021 results reflect data in Q1 and Q2. Source: Urbis Apartment Essentials

Launches of Projects & Apartments



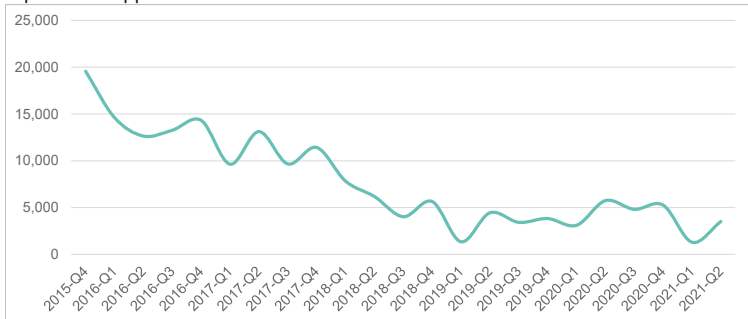
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Apartment Stock by Status at Qtr



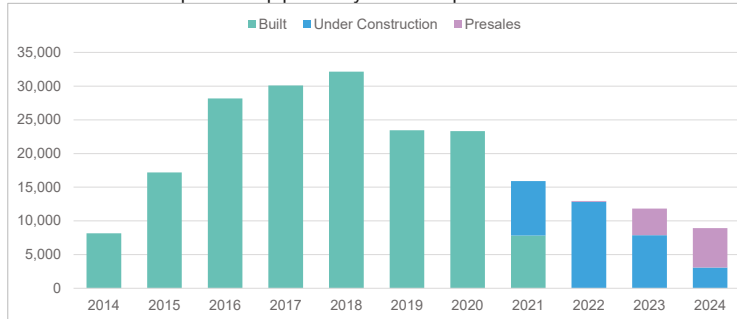
Source: Urbis Apartment Essentials

Apartment Approvals



Source: Urbis Apartment Essentials

Historic & Future apartment pipeline by Est. Completion Date



Source: Urbis Apartment Essentials

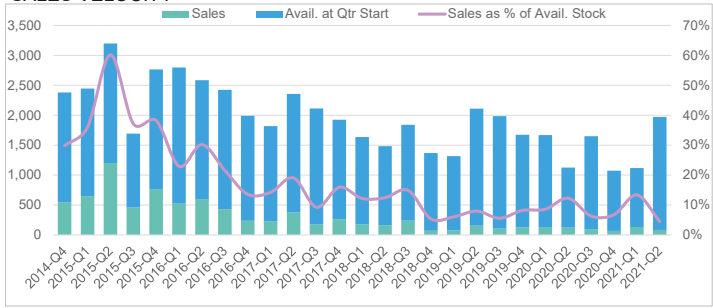
Key Observations

The effects of the market forces are clear when you consider the annual pipeline for the next 4 years is less than half the level of the previous 4 years.

CONSTRUCTION VALUE IMPACT Estimate

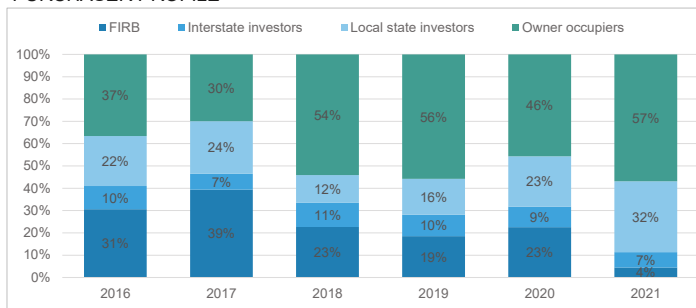
	Apartments Delivered	Total Construction Value
Past 4 Year Avg.	28,383	10,832,210,000
Future 4 Year Avg.	12,880	4,891,360,000
Construction Value Impact		\$5,940,850,000

SALES VELOCITY



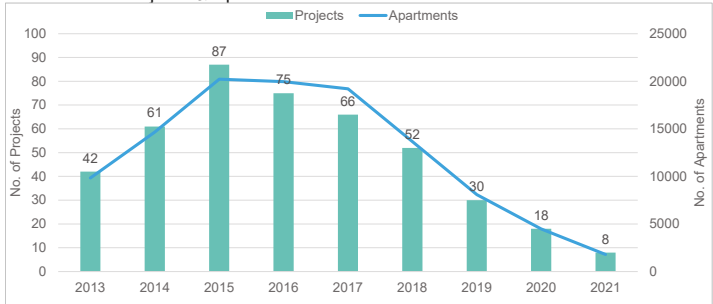
Source: Urbis Apartment Essentials

PURCHASER PROFILE



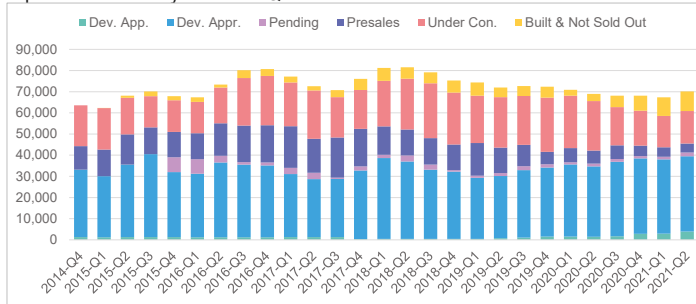
Note: 2021 results reflect data in Q1 and Q2. Source: Urbis Apartment Essentials

Launches of Projects & Apartments



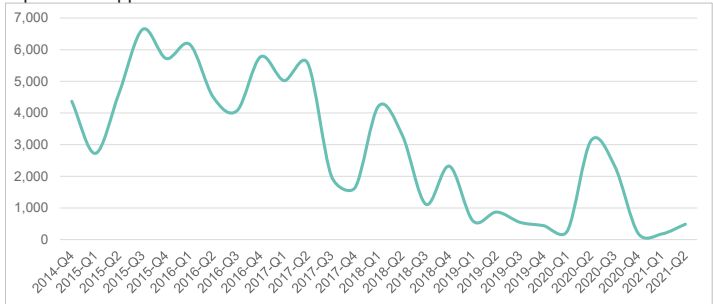
Note: 2021 results reflect data in Q1 and Q2. Source: Urbis Apartment Essentials

Apartment Stock by Status at Qtr



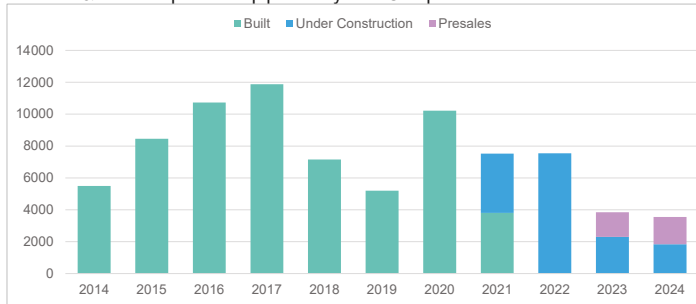
Source: Urbis Apartment Essentials

Apartment Approvals



Source: Urbis Apartment Essentials

Historic & Future apartment pipeline by Est. Completion Date



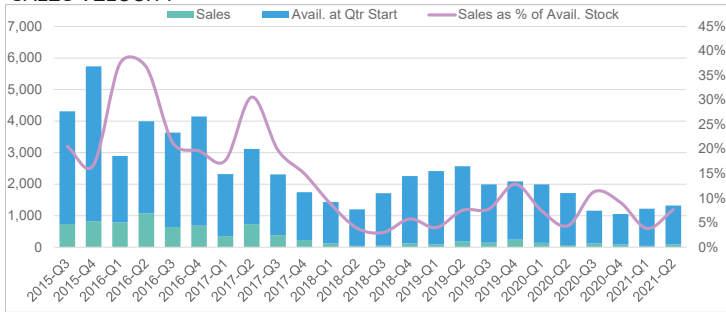
Source: Urbis Apartment Essentials

CONSTRUCTION VALUE IMPACT ESTIMATE

	Apartments Delivered	Construction Value Per Unit*	Total Value
Past 4 Year Avg.	8,615	\$350,000	\$3,015,250,000
Future 4 Year Avg.	4,620	\$350,000	\$1,617,000,000
		Construction Value Impact	\$1,398,250,000

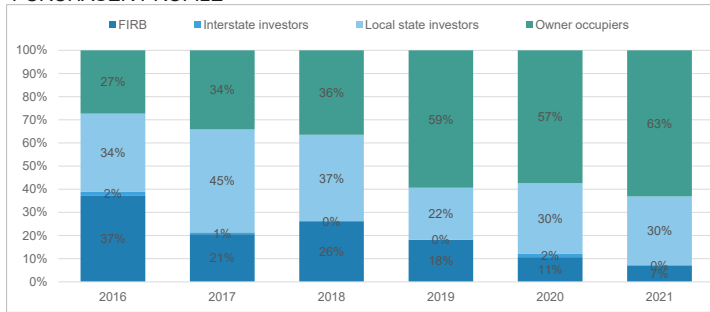
*General market rate across each state for median product 2 bed, 2 bathroom apartment, basement parking for 1 car, base level amenities and lift.

SALES VELOCITY



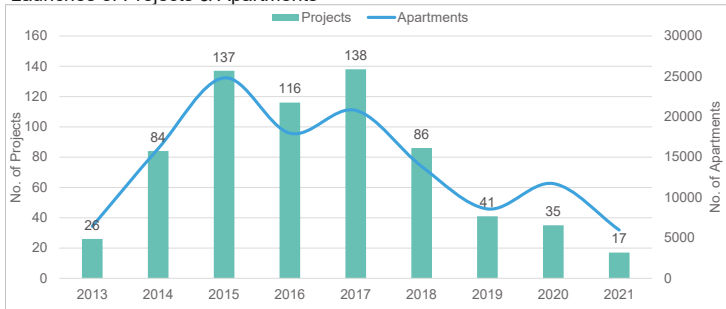
Source: Urbis Apartment Essentials

PURCHASER PROFILE



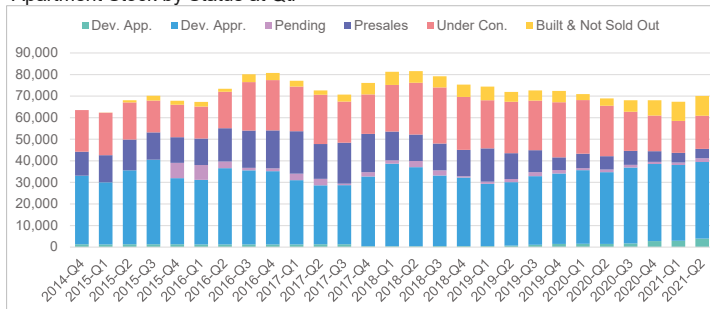
Note: 2021 results reflect data in Q1 and Q2. Source: Urbis Apartment Essentials

Launches of Projects & Apartments



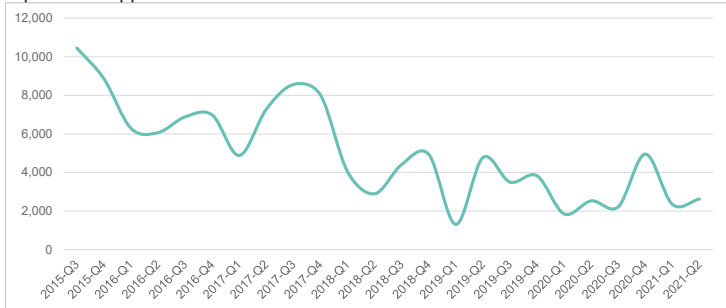
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Apartment Stock by Status at Qtr



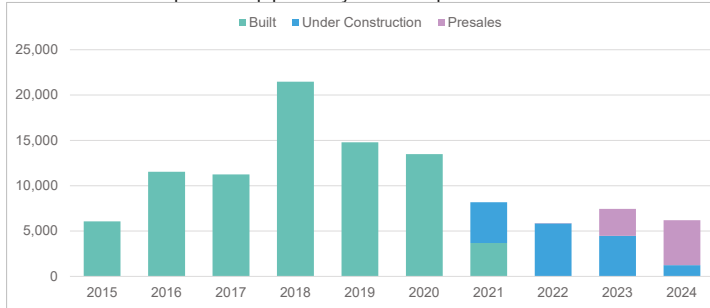
Source: Urbis Apartment Essentials

Apartment Approvals



Source: Urbis Apartment Essentials

Historic & Future apartment pipeline by Est. Completion Date



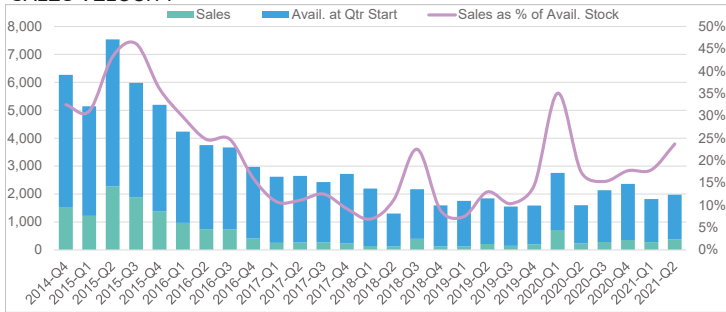
Source: Urbis Apartment Essentials

CONSTRUCTION VALUE IMPACT ESTIMATE

	Apartments Delivered	Construction Value Per Unit*	Total Value
Past 4 Year Avg.	15,251	\$400,000	\$6,100,500,000
Future 4 Year Avg.	6,778	\$400,000	\$2,711,200,000
		Construction Value Impact	\$3,389,300,000

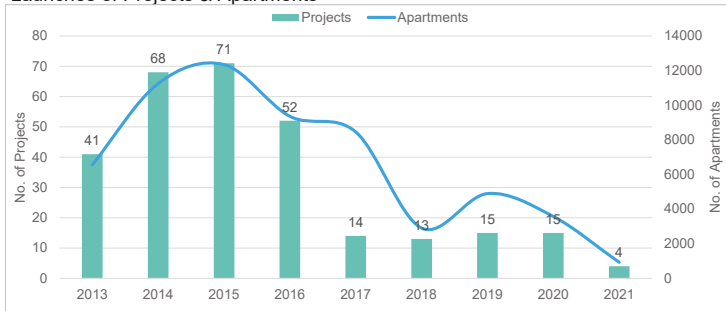
*General market rate across each state for median product 2 bed, 2 bathroom apartment, basement parking for 1 car, base level amenities and lift.

SALES VELOCITY



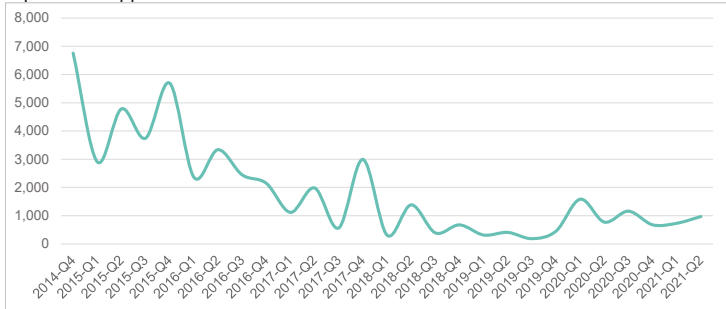
Source: Urbis Apartment Essentials

Launches of Projects & Apartments



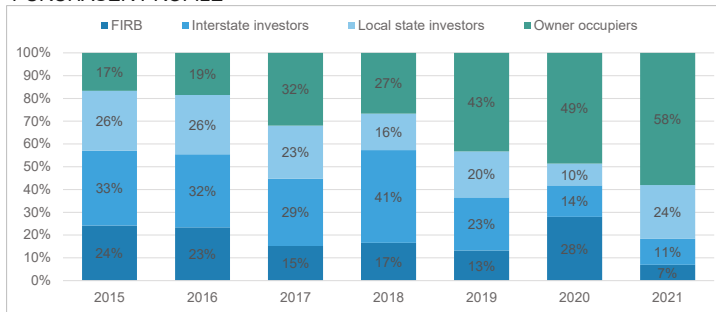
Note: 2021 results reflect data in Q1 and Q2. Source: Urbis Apartment Essentials

Apartment Approvals



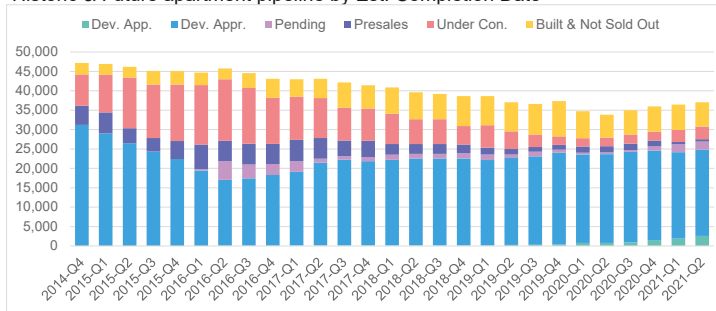
Source: Urbis Apartment Essentials

PURCHASER PROFILE



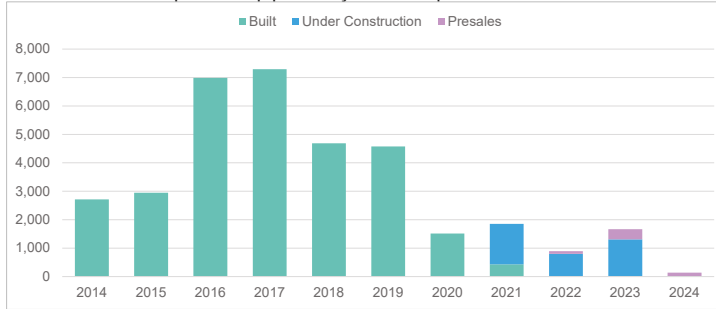
Note: 2021 results reflect data in Q1 and Q2. Source: Urbis Apartment Essentials

Historic & Future apartment pipeline by Est. Completion Date



Source: Urbis Apartment Essentials

Historic & Future apartment pipeline by Est. Completion Date



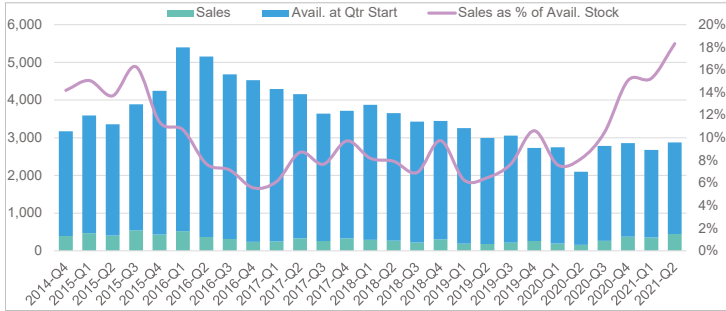
Source: Urbis Apartment Essentials

CONSTRUCTION VALUE IMPACT ESTIMATE

	Apartments Delivered	Construction Value Per Unit*	Total Value
Past 4 Year Avg.	4,517	\$380,000	\$1,716,460,000
Future 4 Year Avg.	1,482	\$380,000	\$563,160,000
		Construction Value Impact	\$1,153,300,000

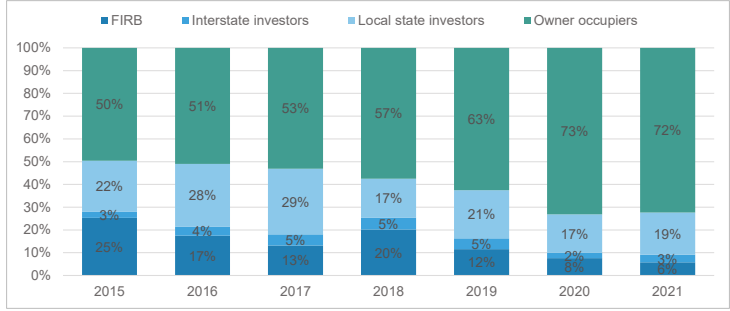
*General market rate across each state for median product 2 bed, 2 bathroom apartment, basement parking for 1 car, base level amenities and lift.

SALES VELOCITY



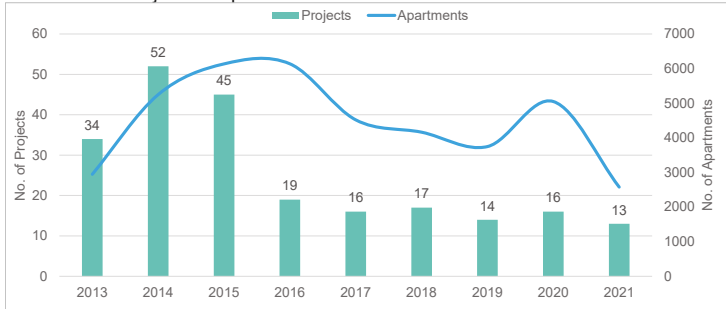
Source: Urbis Apartment Essentials

PURCHASER PROFILE



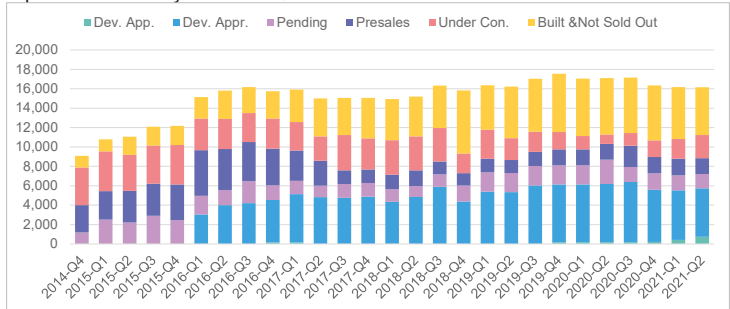
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Launches of Projects & Apartments



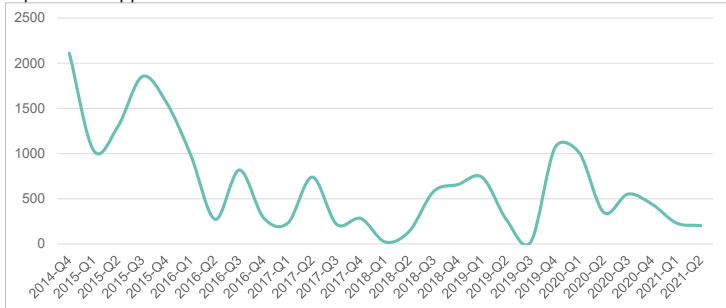
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Apartment Stock by Status at Qtr



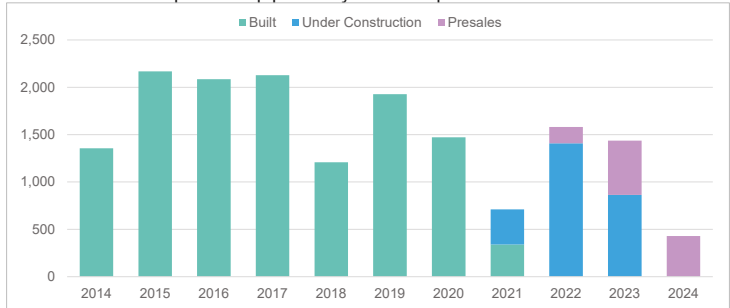
Source: Urbis Apartment Essentials

Apartment Approvals



Source: Urbis Apartment Essentials

Historic & Future apartment pipeline by Est. Completion Date



Source: Urbis Apartment Essentials

CONSTRUCTION VALUE IMPACT ESTIMATE

	Apartments Delivered	Construction Value Per Unit*	Total Value
Past 4 Year Avg.	1,696	\$350,000	\$593,600,000
Future 4 Year Avg.	1,245	\$350,000	\$435,750,000
		Construction Value Impact	\$157,850,000

*General market rate across each state for median product 2 bed, 2 bathroom apartment, basement parking for 1 car, base level amenities and lift.