

# Charter Insight

## Sydney's "Mega Sites"

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Since 2014, Sydney's residential property market has continued to experience boom conditions. During this time, a trend of "Mega Site" sales has emerged, underpinned by buoyant market conditions and supported by factors including state and local government planning initiatives as well as the increasing activity of offshore - particularly Chinese - developers with the appetite and capacity to deliver projects of such scale.



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Having advised on a significant number of these acquisitions and subsequent projects, we take a moment to reflect on a few macro observations relating to Sydney's recent "Mega Site" trend and the key factors that contributed to its emergence.

### OVERVIEW

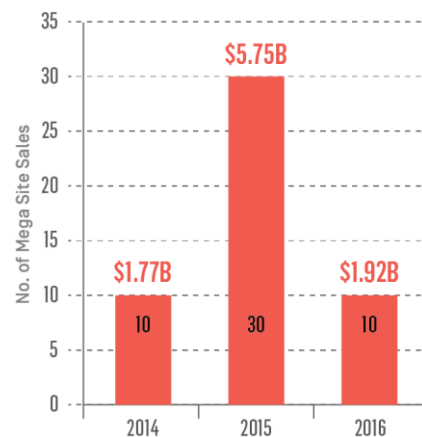
- » Sydney continues to experience an undersupply of dwelling stock, exacerbated by a growing population with supportive long term forecasts.
- » Developers have responded in recent years with our research identifying the purchase of 50 "Mega Sites" throughout the Sydney metropolitan area.
- » Government initiatives are focusing on urban renewal / increased density within activity centres and transport corridors with many new developments being focused in these locations.
- » Large scale projects in favourable locations continue to sell strongly off the plan.
- » Recent increases in development activity have still not met underlying dwelling requirements.

### SYDNEY'S "MEGA SITE" RESIDENTIAL DEVELOPMENT TREND

Since 2014, a total of 50 residential development sites transacted throughout the Sydney metropolitan area at price points each exceeding \$100M, equating to a cumulative land price of over \$9.4B and an average site sale price of circa \$189M. This far exceeds sales of similar sites within the other major east coast capital cities of Melbourne (7 equivalent site sales) and Brisbane (no such site sales) during the corresponding period, highlighting Sydney as a key location for large scale investment into residential development.

The sale of these "Mega Sites" (residential development sites with a price tag in excess of \$100M) boomed throughout 2015 off the back of strong capital growth in residential markets and ongoing favourable conditions for purchase. In 2015 alone there were 30 Mega Site sales across Sydney with a combined sale price of \$5.7B. Throughout 2016 the volume of sales reduced to 10 which was in keeping with 2014 volumes.

### Mega Site Sales (\$100M+) 2014 - 2016



### WHAT HAS CAUSED THE MEGA SITE BOOM?

The following key factors have contributed to Sydney's recent "Mega Site" phenomenon:

- » A robust NSW economy and "booming" residential market conditions, with Sydney's median house price increasing by approximately 42% during this period.
- » A continued low interest rate environment with cheaper financing options available to both developers and purchasers acquiring completed product.
- » Planning initiatives aimed at development and expansion of key centres and corridors. *A Plan for Growing Sydney* released by the NSW Government in December 2014 being one such initiative which aims to "accelerate urban renewal across Sydney at train stations, providing homes closer to jobs".
- » Greater development activity in priority growth areas identified by the Department of Planning & Environment NSW with sites in these locations "up-zoned" to accommodate high density development and encourage urban renewal.
- » Record levels of planned infrastructure expenditure - with a particular focus on transport - aligning with and underpinning strategic planning initiatives.

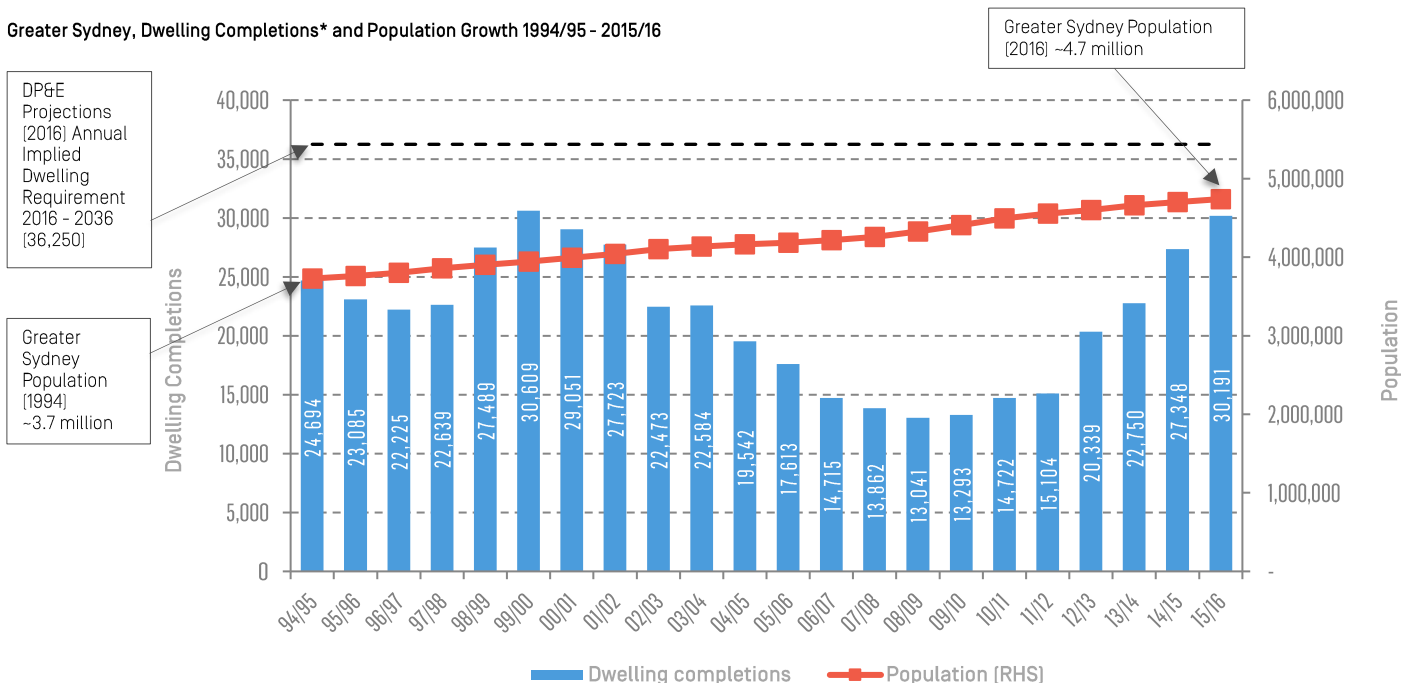
- » Strong market fundamentals luring off-shore developers with the appetite, capacity and indeed preference to deliver Mega Site projects.
- » An inherent undersupply of dwelling stock, with pent-up demand compounded by reduced development activity subsequent to the Global Financial Crisis (GFC).
- » Sydney's population growing at its fastest rate for 30 years. Annual population growth in Sydney is forecast to average 85,000 - 90,000 additions per annum out to 2036.

### THE UNDERSUPPLY STORY

Over the past 20 years new dwelling completions have typically been unable to meet annual implied dwelling requirements based on forecast population growth.

This historic dwelling supply versus demand equation is highlighted in the following chart.

Greater Sydney, Dwelling Completions\* and Population Growth 1994/95 - 2015/16

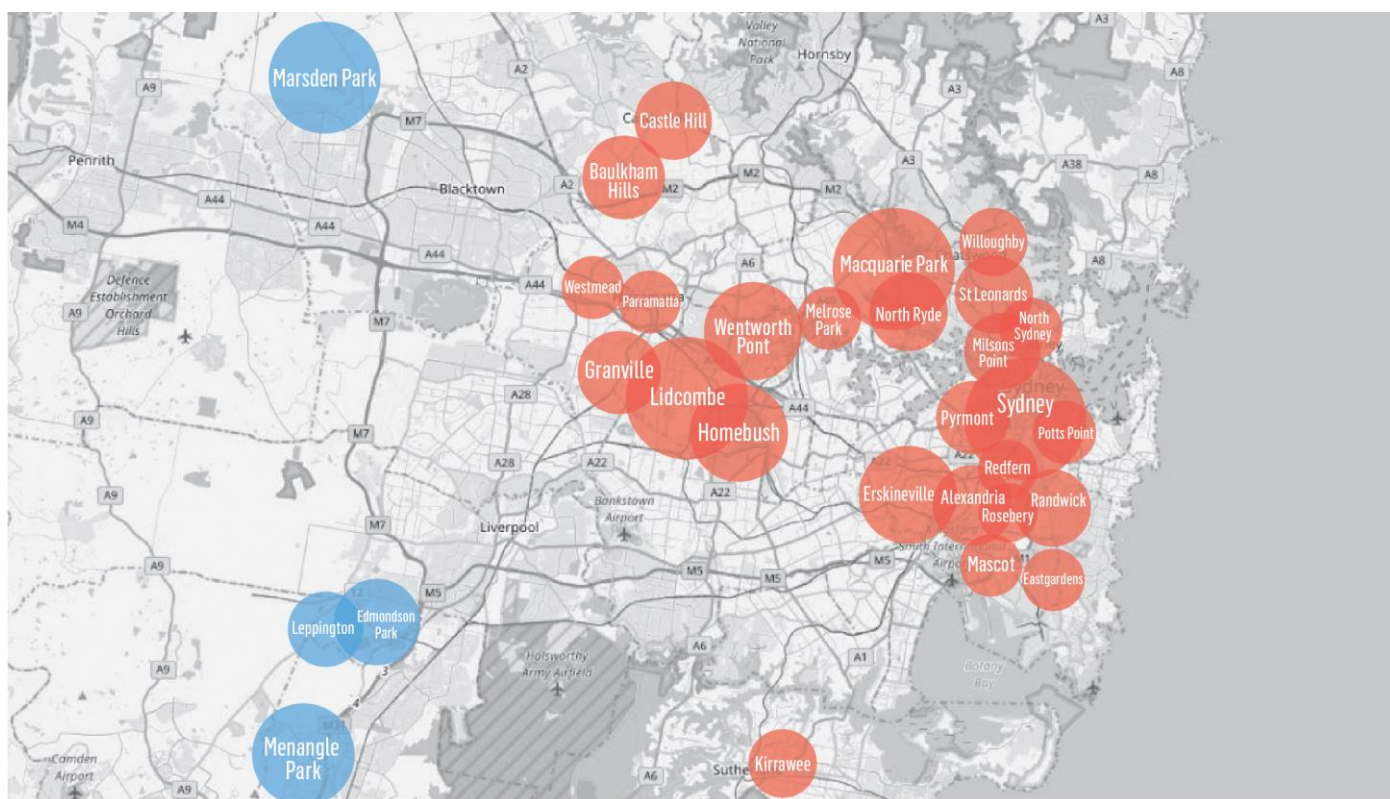


SOURCE - DP&E; ABS; Charter Keck Cramer

\* Includes new separate houses, apartments, townhouses and other medium density typologies.

### WHERE HAVE THE MEGA SITES TRANSACTED?

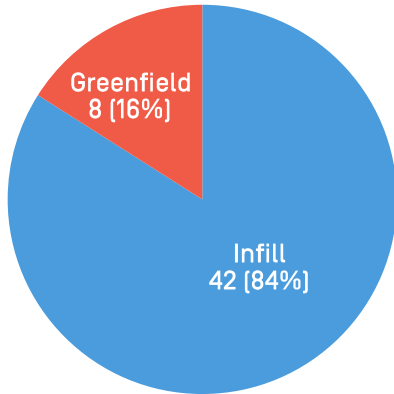
As identified below, the Mega Site sales have been relatively geographically dispersed; generally following major transport linkages. The size of each circle approximately reflects the scale of Mega Site sales in each location.



**WHAT TYPE OF SITES ARE THEY?**

High density infill / brownfield sites accounted for 84% of the Mega Site sales in Sydney with the remaining 16% relating to englobo residential subdivision sites dispersed throughout suburban fringe greenfield locations. This ratio reflects a continued focus by developers and Government on urban renewal projects and growing acceptance by Sydneysiders of high density suburban living. The statistics also point to the relative scarcity of large scale greenfield development sites.

**Infill Vs Greenfield Projects**

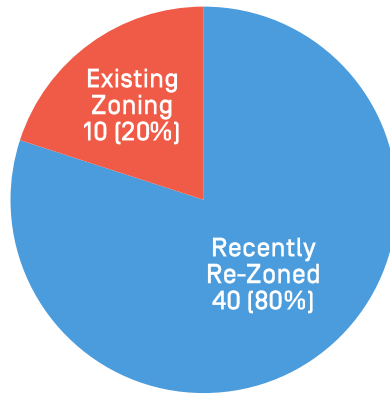


**THE RE-ZONING EQUATION**

Research by Charter indicates that 40 of the 50 Mega Sites purchased had recently been re-zoned and/or granted greater development controls. Re-zoning of these Mega Sites is enabling new residential supply through urban renewal and gentrification of former industrial, commercial and low density residential

locations, or extension to fringe suburban areas into previously rural locations. Most Mega Sites are located in close proximity to existing / proposed transport infrastructure, underpinning suitability of these locations to accommodate increased densities. The proportion of re-zoned Mega Site sales is consistent with the NSW Government's strategic planning initiatives and numerous infrastructure proposals.

**Re-Zoning - Existing Planning Zones Vs Re-Zoned**

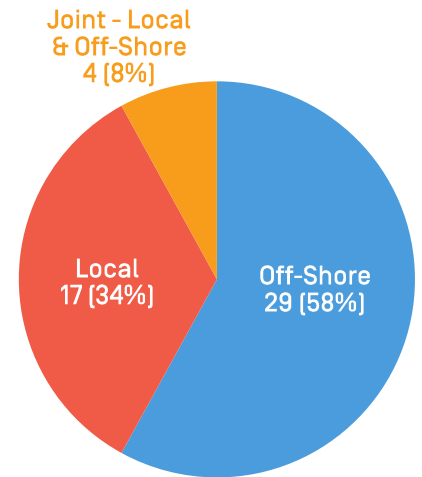


**WHO HAS BEEN ACQUIRING THESE MEGA SITES?**

Research by Charter indicates that 33 of the Mega Sites (66%) have been acquired by offshore developers (or local developers with offshore backing) with most of these Chinese based. Additional purchases have been made by Japanese and Singaporean interests.

Local developers accounted for the remaining 17 acquisitions (34%).

**Local Vs Off-Shore Developer / Purchasers**



**MARKET PERFORMANCE OF RECENTLY COMPLETED DEVELOPMENTS**

With a ramped up residential supply pipeline in recent years, the Sydney residential apartment market has responded well with strong purchaser demand evident. Solid market fundamentals have underpinned acceptance of new stock additions and although capital value growth eased somewhat throughout 2016 (albeit still robust at 11%), solid take-up rates have been evident in both CBD and suburban locations.

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