Residential Development Review

A monitor of housing development, land release and transport infrastructure in the growing metropolis

Sydney Edition
March 2019
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Highlight
July-December 2018

We are pleased to draw on our planning and analytics expertise to present you this update on residential development in Sydney.

The residential market has changed substantially from a year ago. The price declines that began in 2017 Q3 have continued unabated while record high dwelling completions flood the market with more supply. Despite the burst of completions, a longer view both backward and forward shows that Sydney still has a lot of work to do to adequately accommodate population growth.

Approvals have continued to fall since 2016 with developers keenly aware of the changing market and tougher prospects for selling stock. The market has not completely collapsed, with greenfield activity still strong and particular hotspots of infill development still running strong.

One example is Parramatta LGA which saw over 2,700 dwellings approved in just six months to the end of 2018. There is a clear divide between east and west in quantity of dwelling supply, as eastern LGAs mostly continued to keep a lid on their growth.

Major infrastructure projects, aligned with the plans A Metropolis of Three Cities and Future Transport 2056, are being delivered, built, and planned around Sydney at a rapid pace. Highlights include the imminent opening of Sydney Metro Northwest and the Westconnext M4 East tunnels.

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Growth Outlook

A summary of actual and projected growth in population, households, and dwellings in metropolitan Sydney across a longer timeframe

Source: NSW Department of Planning and Environment; Mecone estimate of required approvals; Mecone projections of approvals and completions 2019-2024

Sydney’s housing market is driven by several macro trends, the main one of which is population growth. The population trends affecting Sydney include international and domestic net migration as well as natural births and deaths. Including all these factors, the state government projects Sydney’s population to grow by an average of 85k per year during 2011-2036.

When trends in persons per dwelling are considered, the projection implies that 35k new dwellings must be completed every year to maintain occupancy rates and household size.

Actual dwelling supply depends on the approval and construction process as well as market conditions. Sydney has gone through an extreme market cycle over the last five years, causing prices and approvals to surge to a peak in 2016 and 2017. The delay in bringing dwellings to completion means that a peak in completions is now occurring while prices are falling.

The number of approved dwellings has been higher than the expected household growth in Sydney in the last five years. However, actual completions were generally under the required dwelling count prior to 2016. Since then, the number of completions has exceeded household growth, meaning an excess of supply is feeding back into market conditions. The decline in approvals in 2017-18 means that completions will also decline in the next 2-3 years, likely starting a new market cycle.

Source:
NSW Department of Planning and Environment; Mecone estimate of required approvals; Mecone projections of approvals and completions 2019-2024
In the last five years, Sydney has experienced an intense housing market cycle from growth to peak to decline. During this time, the approvals data shows a clear response to the market conditions. Approvals across Sydney rose to a peak of 31k in 2016 H2 and have declined by 30% since then as prices dropped. Apartments have made up the vast majority of approvals across Sydney over the five-year period, with a total of 165k multi-unit approvals vs 83k detached approvals. This is a clear reflection of the strategic planning emphasis on infill development.

Completions across Sydney are currently at their highest point from the last five years. The data indicates there is an average two-year lag between approval and completion for a new dwelling. While approvals can respond quicker to market conditions, the resulting completions don’t occur until after market conditions have changed. Sydney dwelling prices are currently declining due in part to the large volume of completed dwellings coming online.

The infill vs greenfield pattern also shows clearly in the approvals by region. Most of the greenfield development in Sydney is occurring in the Central and Western Districts. The other three districts, with virtually all infield development, still account for half of Sydney’s approvals.

Approvals in all districts have followed the overall five-year trend consistent with market conditions, except for the Central District which has maintained an elevated rate of approvals while other districts declined in 2018.
The five-year trends showed that dwelling approvals across Sydney have generally declined in the last two years in response to market conditions. However, the Central District has maintained an elevated rate of approvals. This pattern has continued into the second half of 2018, when the Parramatta and Blacktown LGAs had the highest amount of approvals out of all Sydney LGAs. The Parramatta LGA result is especially remarkable since it is essentially all infill development, while the Blacktown LGA includes most of the North West Growth Area greenfield development.

It was generally true during 2018 that more dwelling approvals occurred per LGA from Parramatta westward. In the Eastern and North Districts, only three LGAs had more than 500 approvals in the half-year: Sydney, Bayside, and Ryde. This is partly because the eastern LGAs are physically smaller, but they also face more constraints and community opposition against significant increases in residential development. Some smaller LGAs along or near Sydney Harbour had by far the lowest approval totals, such as Mosman with 7, Burwood with 13, and Hunters Hill with 19.
In the half year ending Dec 2018, many LGAs had dwelling approval totals lower than their five-year averages, with only 8 exceeding their averages. Some larger LGAs such as Sydney, Hornsby, Canterbury-Bankstown, and Georges River were 40-60% under their longer-term average approval counts. This is a sign that the slowdown in development activity is not restricted to a specific geographic area. Of the LGAs that did exceed their five-year average, most were in outer suburban or greenfield areas, suggesting that greenfield development may be holding up better.

The lowest proportion of detached dwelling approvals vs all approvals occurred in the Sydney, North Sydney, Lane Cove, and Waverley LGAs. The highest proportion of detached dwelling approvals occurred in Camden, Wollondilly, Blue Mountains, and Hawkesbury LGAs.

The highest quantity of multi-unit dwelling approvals per LGA was far and away in Parramatta with 2,615, compared to the 2nd-highest value of 1,136 in Bayside. The highest quantity of detached dwelling approvals per LGA was in Blacktown with 1,612; the 2nd-highest was 1,153 in Camden.
In Sydney’s South West Growth Area, dwelling construction has been most active in the Catherine Fields, Edmondson Park, and East Leppington precincts in the last six months. The Northern Road and Bringelly Road are both being substantially upgraded, both to support present residential development and in anticipation of the Aerotropolis area developing in coming years. Mixed-use development around the South West Rail Link (SWRL) stations has been zoned for, but no substantial activity has occurred yet in these zones. A handful of multi-unit buildings have been built elsewhere in the Growth Area.

**Precinct (Capacity)**
- Austral (7,578 lots)
- Catherine Field part (3,200 lots)
- East Leppington (4,415 lots)
- Edmondson Park (6,000 lots)
- Leppington North (9,770 lots)
- Oran Park (7,540 lots)
- Turner Road (4,020 lots)
- Unzoned Precincts: 52,000 lots
Planning for the North West Growth Area is well advanced including large tracts rezoned and a draft Land Use and Infrastructure Implementation Plan (LUIIP) released to shape development in the coming years. The Sydney Metro Northwest rail link, terminating in the Tallawong Station precinct, is approaching an opening date in May 2019. A corridor has been protected for an extension of the rail line through Marsden Park.

In the last six months, major building activity has been occurring in the Marsden Park and Schofields areas across several precincts. Across the entire North West Growth Area, only two multi-unit buildings have been finished, both in the North Kellyville precinct. All other dwellings have been fully or semi-detached.

### Precincts rezoned

- **Future employment**
- **Future suburban**
- **Existing residential area**
- **Partially rezoned**
- **Rezoned for residential use**
- **Rezoned for non-residential uses**
- **Dwellings started**

### Precincts not rezoned

- **Unzoned Precincts: 11,200 lots**

### Developed

- **39%**
- **12%**
- **22%**
- **22%**
- **71%**
- **54%**
- **27%**
- **1%**
- **23%**
- **5%**

### Available

- **39%**
- **12%**
- **22%**
- **22%**
- **71%**
- **54%**
- **27%**
- **1%**
- **23%**
- **5%**

### Precinct (Capacity)

- **Alex Avenue (8,505 lots)**
- **Box Hill (13,276 lots)**
- **Colebee (1,000 lots)**
- **Marsden Park (12,690 lots)**
- **Marsden Park Industrial (1,264 lots)**
- **North Kellyville (7,741 lots)**
- **Riverstone (14,011 lots)**
- **Riverstone East (5,800 lots)**
- **Schofields (3,876 lots)**
- **Tallawong Station (4,962 lots)**

**Unzoned Precincts: 11,200 lots**
The process for major transport infrastructure projects takes 2-3 years for design and approval plus 3-6 years of construction. This makes it critical to look ahead at projected growth and plan out the infrastructure required to support the growth by maintaining productivity and quality of life.

Sydney’s infrastructure boom is well under way with several major projects about to be opened after years under construction and many more in planning. The first major projects to be completed will be the Sydney Metro Northwest line and the Westconnex M4 East tunnel. By 2020, several more projects will be opening including Northconnex, the CBD & SE Light Rail, and Westconnex New M5 tunnels.

Construction has started for Sydney Metro CBD & Southwest and will imminently begin on Parramatta Light Rail Stage 1 and the Westconnex M4 to M5 Link. Planning is well advanced for Sydney Metro West and the F6 North Extension and has begun for Sydney Metro WSA and the Western Harbour Tunnel.
The project has finished construction and is in testing and commissioning. Operations are expected to commence in May 2019.

Sydney Metro CBD & Southwest
Tunneling and station construction is in progress between Chatswood and Sydenham. Bankstown Line conversion contracts have been signed.

Sydney Metro West
Integrated transport and land use planning is in progress to support a final business case and defined route, committed by the state government.

Parramatta Light Rail
Stage 1 has been fully designed with $2.4 billion of funding committed. Construction contracts were signed in Dec 2018, work to begin imminently.

Sydney Metro Western Sydney Airport
Initial planning is under way to define a route and staging options connecting WSA to the rail network. The federal and state gov’ts have committed $7 billion.

Westconnex – M4 East
The opening date of the M4 East connecting Concord and Haberfield is approaching in the next few months. Construction took three years and cost $3.8b.

Westconnex – M4-M5 Link
Formal planning approval was granted in 2018 and early works have begun already.

Northconnex
Tunnel excavation is nearing completion and fitout is under way. The $3 billion project is expected to open in 2020 connecting Wahroonga and the M2.
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