

Decade-low supply cycle underpins apartment investment opportunity

Surging house prices across the country and a return to normality as borders open and people go back to work in the city are fuelling the demand for apartments.

The demand imbalance from a record low supply of new apartments in Australia's capital cities coupled with national borders reopening, as international students and migration increase, will cause apartment prices to surge.

Across the Australian east coast, there are only 20,000 apartments scheduled to be built in 2022 compared to 50,000 completed in 2019.



*Millennials recently overtook the Baby Boomers as Australia's largest living generation favouring mixed-use communities, close to shops, restaurants and offices. **Brook Mitchell***

Next year is expected to see new apartment completions in Melbourne declining 55 per cent from the peaks of 2016, with Sydney apartment completions down by 65 per cent and Brisbane new apartment completions 80 per cent lower than five years ago.

The lack of new supply is good news for apartment investors [as median sale prices will start to appreciate at good levels](#) reflecting the looming shortage.

Before the COVID-19 shock, Australia's underlying housing balance was undersupplied. With housing construction levels not meeting the underlying housing demand since 2009, Australia was estimated to be undersupplied by about 79,000 dwellings at the onset of the pandemic.

Reflecting the imbalance between Australia's housing undersupply and persistently strong underlying demand, the overall residential vacancy rate of Sydney, Melbourne and Brisbane all sat below 4 per cent before COVID-19.

While vacancy rates increased during the pandemic, largely due to the removal of foreign students, repatriation has been a large element in the surge of demand to buy which in turn is seeing vacancy rates retract.

A review of both housing and apartment prices over the 25 years [shows that prices have doubled every five to seven years](#).

Despite the pandemic and restrictions imposed on the east coast, apartment prices have generally remained resilient, with Melbourne units up 2.5 per cent over 2020, Sydney up 0.2 per cent and Brisbane values up 3.8 per cent over the year.

With Melbourne open for business but a lack of new supply coming to market, it is only a matter of time before prices of apartments start to accelerate.

The resilience of the apartment market has also been underpinned by the rise of the millennial generation, and their preference for urban living. Millennials (those born between 1980 and 1994) recently overtook the Baby Boomers as Australia's largest living generation favouring mixed-use communities, close to shops, restaurants and offices.

Investors, renters and owner-occupiers who had turned to the regional areas for bargains [are looking to get back to the cities as life returns to normal](#).

The cities offer more amenities, schools, educational facilities, jobs and easy transport, making them more desirable to live in. Further, with many workers returning to their city jobs, long commutes could negate the positives of regional living.

The pandemic saw investors flee from the apartment market as vacancy rates edged upwards across most capital cities. But with the easing of restrictions, falling unemployment and limited stock, this asset is becoming highly sought after.

Stretched housing affordability and population growth likely to surge once Australia's borders open up suggest there will again be a structural shift to higher density living. A similar pattern has emerged across most developed economies.

While separate houses remain, overall, the most common housing type, this is quickly changing. As at 2006, 74.8 per cent of housing was separate houses, whereas as at 2016, the proportion of separate houses fell to 72.9 per cent. In Sydney and Melbourne, the reducing proportion of separate houses has fallen at even greater rates.

Once Australia's international borders re-open, demand for high-density development will again rise, with these new residents often requiring transitional accommodation before they potentially purchase property.

Source: <https://www.afr.com/wealth/personal-finance/decade-low-supply-cycle-underpins-apartment-investment-opportunity-20210418-p57k8f>