

Residential Apartment Mix Assessment

Investigation and Summary for
34-46 Flushcombe Road, Blacktown NSW 2148



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Introduction and Scope

We have been instructed to provide a brief report to assess the proposed development mix considered for the site known as 34-46 Flushcombe Road, which is located in Blacktown, NSW.

The drivers of this research are based on the following principals:

1. Identifying the target market both from a socio and geo demographic mix
2. Identifying the current mix of apartments best suited to that target market
3. Outline the demand for apartments in Blacktown versus the current supply
4. Identify any underlying factors that will reinforce the proposed apartment mix.

We believe the client has lodged a DA with Blacktown Council, seeking approval to construct a fifteen storey mixed use building with basement car parking. The ground floor comprises a mix of uses including a food and beverage, restaurant, ancillary service and access space. The upper fourteen storeys compromise residential apartments.

The current proposed apartment mix is as follows:

- 60 x 1 bedroom apartments
- 24 x 1 bedroom plus study
- 50 x 2 bedroom apartments
- 5 x 3 bedroom apartments

The objective of this report is to understand the drivers of demand for apartment types in the Blacktown CBD and through this assessment provide feedback as to whether the above apartment mix can be sustained and demonstrate that the proposed apartment mix is appropriate and responds to the market demand in the area.

Executive Summary

The following is a summary that provides context and findings, which aims to support the subject site's proposed residential apartment mix.

1. The subject site is located in the heart of Blacktown CBD, within close proximity to other newly developed residential towers and future residential and mixed use developments.
2. The residential apartment market is still quite buoyant but has now passed its peak and should plateau in 2022/23.
3. The affordability of housing has decreased rapidly over the last year, which has provided a demand for smaller, medium to high-density dwellings.
4. The Blacktown CBD is not a known choice of location for the downsizer market or larger family demographic. The price points of 3 bedroom residential apartments in Blacktown prohibit the appeal of this demographic that would prefer a townhouse at the same cost.
5. Sales demand evidence points towards a range of between \$500k to \$600k as a strong indicator of where the vast majority of new apartment sales occur in Blacktown, with nearly 85% of sales being 1-2 bedroom apartments.
6. The median unit price for Blacktown is \$520k, which has almost doubled since 2010.
7. The median house price in Blacktown is \$820k, up from \$320k in 2010.
8. The demand for approved or completed investment apartments is strong in the Blacktown market with yields tightening to 4% - 5% over the last year.
9. Almost all of the target market will require parking as part of their purchase. Changes to parking requirements for Blacktown CBD residential developments will make new projects less feasible in relation to demand, sell through and yields.
10. Key planning strategies from Blacktown Council and NSW State Planning will influence a push towards a demand for smaller, inner city dwellings in Blacktown. They are:
 - a. Blacktown Council Local Strategic Planning Statement for 2020
 - b. Sydney's 2036 plan
 - c. Greater Sydney Commission – '3 Cities' plan
 - d. Blacktown Council plan to secure a major university campus of at least 2 faculties located in the city centre of Blacktown – e.g. smaller one-bedroom apartments for investors and tenants.
 - e. Badgery's Creek Airport
11. Blacktown LGA population is expected to grow from 350,000 to 522,000 by 2036.
12. 40% of the Blacktown population live and work in Blacktown
13. Since 2016, there has been an increase of 'lone person' demographic residing in Blacktown. Single person households have grown 143% since 2016, outstripping household type of family households at 82% since 2016.
14. New rules around home lending and increasing interest rates on home loans will force home purchasers to rethink their dwelling type and look for lower priced, reduced sized alternatives.
15. Growth targeted industry sectors requiring infrastructure in Blacktown e.g. health and education centres.
16. Key demographic growth in Blacktown is people aged 20-39, singles and young professional and couples. Houses in the Blacktown LGA are seemingly less affordable to this age group. This points to a demand for more affordable dwellings such as 1-2 bedroom apartments.
17. The proposed apartment mix improves housing choice and improve housing affordability

KEY OUTCOME: THE ABOVE FINDINGS SUPPORT THE PROPOSED APARTMENT MIX AT THE SUBJECT SITE

The following drivers underpin the results of this report:

- 1. Demand versus Supply**
- 2. Infrastructure and Industry Growth in Blacktown**
- 3. Housing Affordability**
- 4. Changing Demographics within Blacktown**

1. Demand Versus Supply

Blacktown Market Analysis

Blacktown has been in the process of gentrification over the last decade, moving from what was a working class suburb to a desirable location, home to a mix of residential, office, retail, medical and hospitality uses including up market restaurants, bars and cafes.

With this mix of uses and its transitional nature, Blacktown's character is multifaceted with a large variety in the type and intensifications of uses, from single dwelling homes, through to high-rise apartment, retail and office buildings.

The residential character of Blacktown over the last 5 years has largely been driven by a demographic weighted towards young, single professionals and young couples who have driven the demand for medium density townhouses and smaller designer style apartments, attracted by the proximity to transport and services, relative affordability and the large variety of hospitality and retail offerings.

Blacktown is also a centre for employment, with demand for commercial and retail space strongly supported by the health care industry, food and beverage and specialised retail also feature heavily in the tenant mix. Older shop top buildings in the CBD are particularly attractive to redevelopment for more suitable tenants looking to align with brands with distinctive and character filled spaces. The main office districts centre around the Central Station, extending up and down Main Street, Richmond Street and the subject site on Flushcombe Road.

Overall, the site is a prized Blacktown location and provides appeal for apartment purchasers and commercial uses.

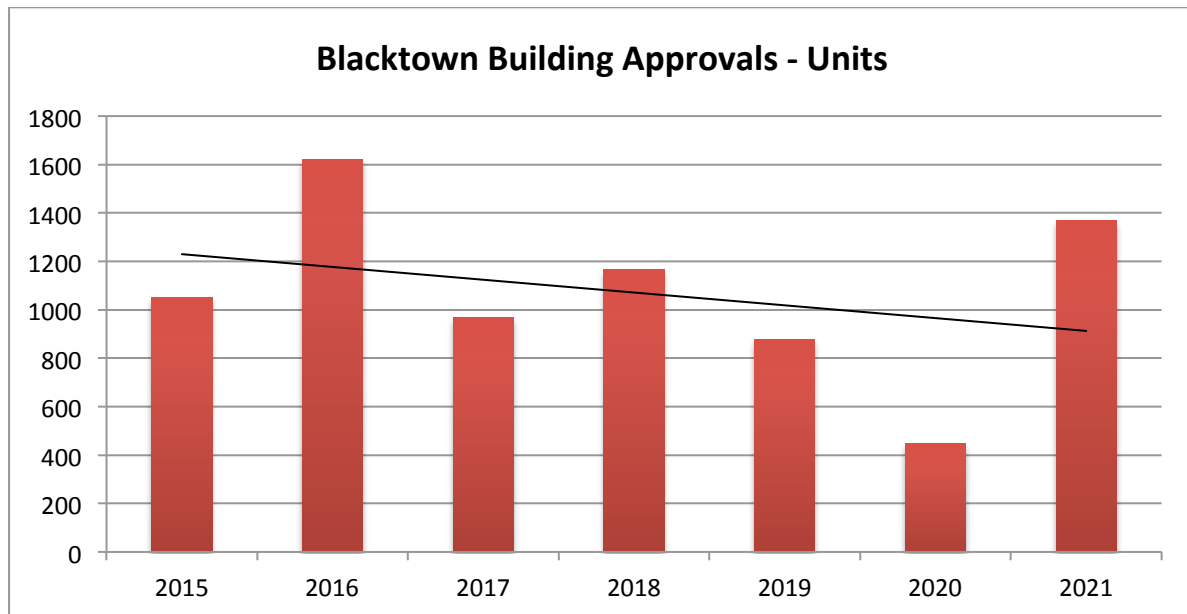
Future Analysis

Taking into account the current demand drivers and a relatively healthy economy, even though residential apartment building approvals are up on last year, a lack of new supply in the apartment market is becoming a concern over the coming years as population growth is expected to outstrip demand for apartments in the short-to-medium term¹.

¹ RP Data, APM, ABS

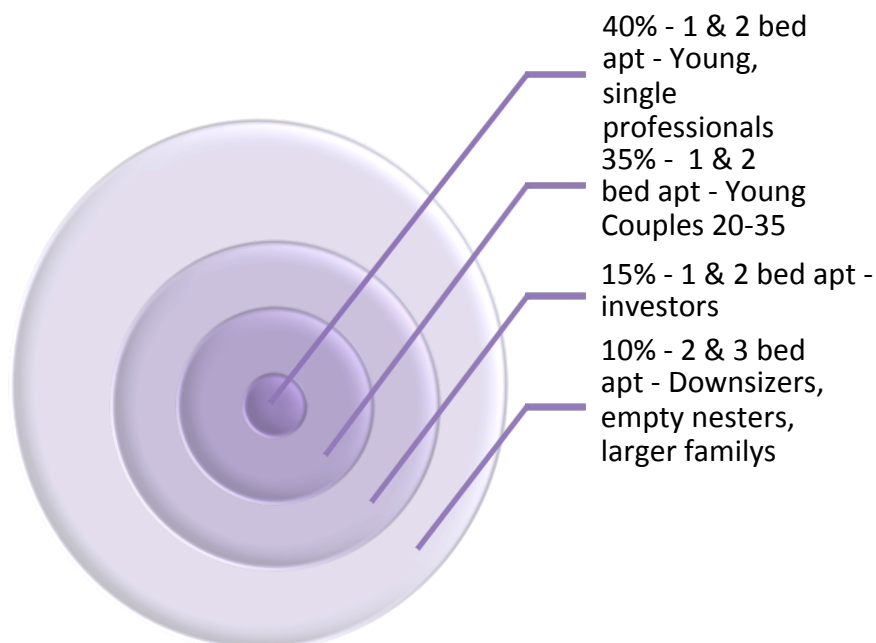
Whilst the next two years is expected to see a plateauing of prices for apartments and housing market generally, the risk of declines in prices, barring any unexpected deterioration of wider macro-economic conditions, is limited mainly to three bedroom apartment stock, and non-premium locations that do not attract owner occupiers and investors.

Table 1. Blacktown Building approvals – Residential apartment approvals are recovering from previous years to fulfill demand but still trending downwards which risks an undersupply.



Source – Corelogic, Australian Bureau of Statistics

The chart below is an assessment of the apartment type and % demand by certain demographics based on the subject site location.

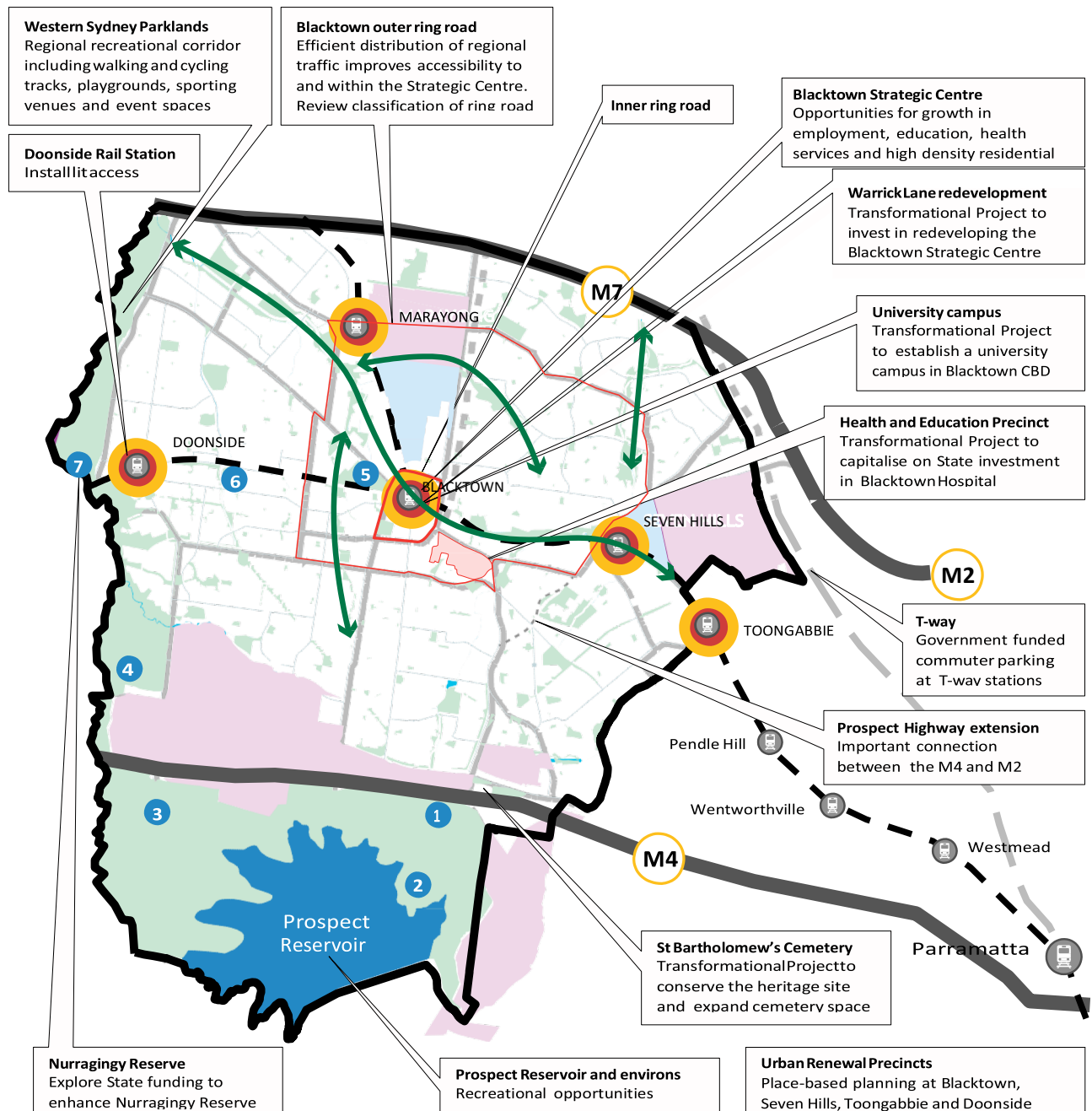


Source: APM – sales by apartment type over the last 12 months in the Blacktown CBD, assessment of feedback from local Real Estate Agents, New and Off the Plan developments sold and on the market, RP Data

2. Infrastructure and Industry Growth in Blacktown

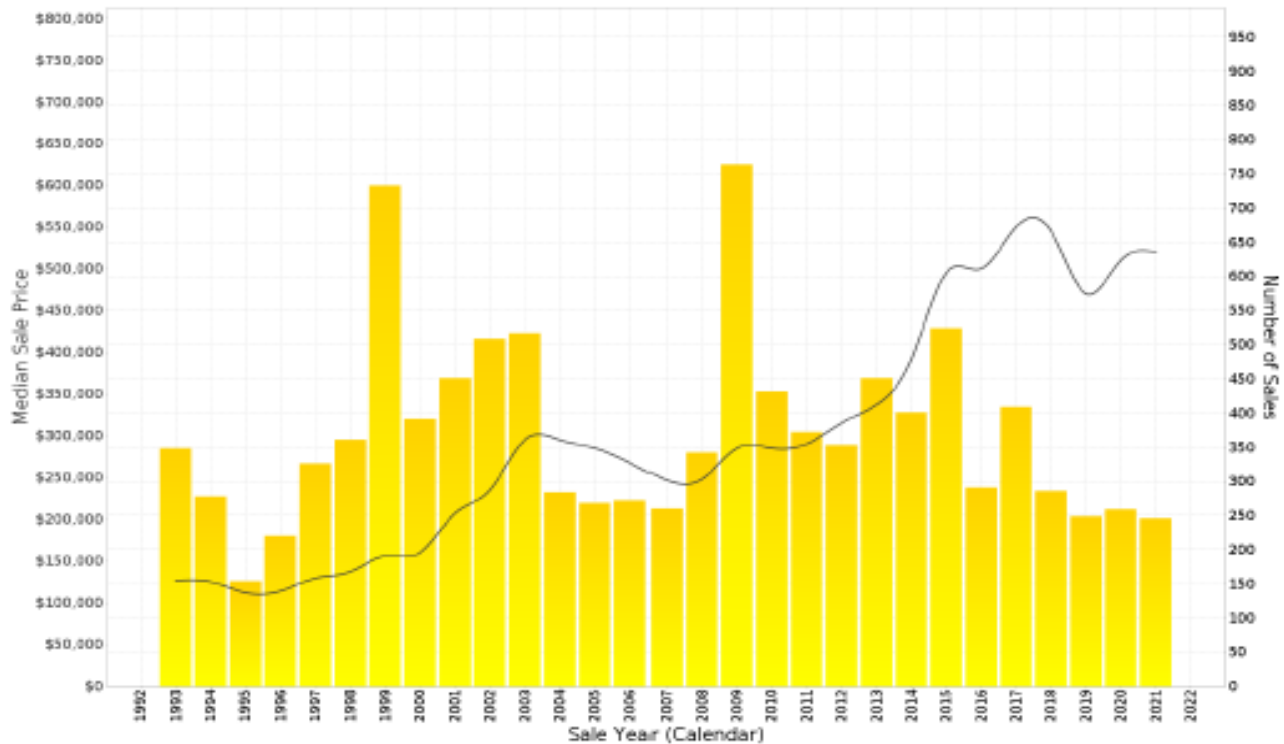
On the following page is a graphic that illustrates infrastructure changes to Blacktown, which is believed to be one of the key drivers of demand for smaller apartments in Blacktown CBD and the subject site; but specifically:

- New University Campus = smaller, affordable apartments to purchase or rent. This drives the investor market for smaller apartments in the inner city location.
- Health and Education Precinct upgrade to Blacktown Hospital = employment opportunities for young professionals wanting affordable dwellings close to this precinct.
- Upgraded transport infrastructure = ensuring easier, quicker access to and from Blacktown CBD for employment and residents.
- Badgerys Creek Airport



3. Housing Affordability

Number Sold versus Median Value - Units



Source: APM, Corelogic

The graph above describes the changes in median values of units since 1992 with it currently sitting at \$520,000. With the median price of houses now over \$800,000 and tipped to reach \$900,000 in 2 years, the affordability of dwellings for home purchasers is decreasing.

There has been much media and industry commentary about housing affordability of which the Treasurer, Josh Frydenberg has now tasked a new inquiry into the impact of tax and regulation on housing affordability and supply³. Whilst there does not seem to be immediate relief for first homebuyers or buyers struggling to get into the property market, there are also new pressures that will be applied to the property market such as increased interest rates and new rules around home loan applications.

Prices have risen inexorably higher, housing costs as a proportion of income have increased, and home ownership has slipped, particularly among 20 to 39-year-olds. Within this demographic is the largest target market for apartments in Blacktown⁴. Housing affordability and tougher lending rates will increase the demand for lower priced dwellings including smaller apartments and townhouses.

³ Australian Financial Review

⁴ APM. RP Data

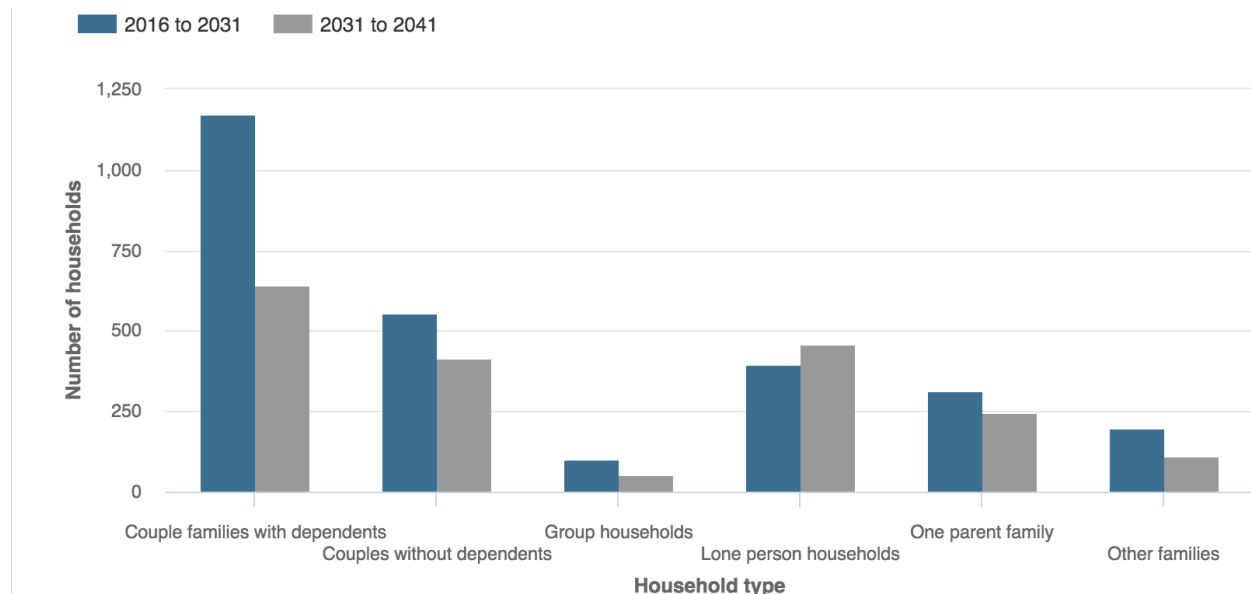
Where affordability has been an issue, the buyer demographic will choose an apartment as a first home option and as a way of getting a foot in the door of the property market. This leads to an increase in demand of 1-2 bedroom apartments. 3 bedroom apartments are seen as a less attractive option to townhouses and are more popular than a larger apartment – especially for young families.

4. Changing Demographics within Blacktown

Blacktown Key Demographic Insights⁵:

- The size of Blacktown (Centre) is approximately 15.9 square kilometres.
- The population of Blacktown (Centre) in 2011 was 43,374 people.
- By 2016 the population was 47,158 showing a population growth of 8.7% in the area during that time. The population is expected to increase to 71,440 by 2036.
- The predominant age group in Blacktown LGA is 30-39 years.
- Households in Blacktown LGA are primarily couples with children and are likely to be repaying \$1800 - \$2399 per month on mortgage repayments.
- In general, people in Blacktown (Centre) work in a professional occupation.
- In 2011, 61.9% of the homes in Blacktown were owner-occupied compared with 56.1% in 2016.
- Currently the median sales price of units in the area is \$520,000.

Increasingly, ‘Lone Households’ will contribute to the need for smaller dwelling types including 1-2 bedroom apartments in the future. As seen in the below table, lone person households are the only household type to increase over other household types – over time.



Source – home.id

⁵ (Source – ABS, NSW Department of Planning)

As per the executive summary and research provided, I firmly believe the apartment mix that is proposed should be supported given it provides a wide range of dwelling type at affordable price points, provides the target market with the right mix of apartment type to ensure a good commercial rate of sale and should satisfy the Apartment Design Guide.

If you have any questions, please do not hesitate to call me.

A handwritten signature in black ink, appearing to read 'Tony McGinley', is positioned above the printed name and title.

Tony McGinley
Director

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