Apartment completions falling

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Financing constraints and shortage in bank lending will cause the completion of apartments to fall dramatically in the next few years, new research from JLL shows.

While approvals and commencements in the major apartment markets such as Sydney and Melbourne were at record highs, completions, which determine actual stock hitting the market, were declining. While 2017 will see strong completions exceeding those in 2016, completions will nearly halve in 2018 and halve again in 2019, JLL says.

''The supply pipeline is already shrinking in those markets where supply fears have been of greatest concern,'' JLL Australian head of residential research Leigh Warner said.

''In particular, the number of apartments under construction fell in the second quarter of 2017 in Brisbane, Melbourne and Perth. Banks are certainly imposing much tighter lending conditions on developers in these markets and it is clear that in a more subdued demand environment, less projects are able to proceed to construction.''

In Sydney, however, where the longer-term supply-demand balance remains healthiest, the number of apartments both under construction and being marketed rose in the quarter, he added.

Banks are rationing development finance only to those developers with the strongest track records but even where finance is available, slower sales means developers are taking a longer to reach pre-sale hurdles.

''This is definitely making it harder for larger projects to start and we are seeing a clear shift to smaller owneroccupier focused projects as regulators' measures to slow investor demand continue to bite,'' Mr Warner said.

That said, the gap left by banks has been filled by non-bank private lenders which seized the opportunity to provide development and construction funding to developers at higher interest rates.

In a recent update, private lender Development Finance Partners said its development loans have risen to more than $1.1 billion. DFP principal Baxter Gamble says bank lending for property development projects is more restrained today than immediately post GFC.

At the national level, there were around 52,200 apartments under construction in the inner-city areas of Sydney, Melbourne, Brisbane, Adelaide, Perth and Canberra at the end of the second quarter of 2017.

This was 1.7 per cent higher than last quarter, but most of this increase was due to a rise in Sydney's construction. In contrast, apartment construction in Brisbane fell 9 per cent over the same period and Melbourne fell 3 per cent.

Importantly, the softening apartment markets on the eastern seaboard are forcing a moderate price decline, JLL says.

''The major East Coast capital city markets are all slowing, with Brisbane's relatively large supply pipeline for its size having tipped it into moderate price decline,'' Mr Warner said.

''We expect further moderate pricing pressure in near term within inner Brisbane and inner Melbourne as the market absorbs the substantial completions due over the remainder of the year.''

Even in in Sydney where the apartment market remains buoyant, JLL is expecting a moderation in price growth in the short term, before a stabilisation in 2018.