COVID-19 Sydney Boarding Houses Market Implications

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May 2020

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Overview

There are 1,120 Boarding Houses registered with New South Wales Fair Trading, as at April 2020. Of these, 928 (or 82.9%) are located in the Sydney Metropolitan Area. The City of Sydney accounted for 31.8% of registered boarding houses followed by the Inner West with 21.3% of the Metropolitan total.

Since the start of the COVID-19 pandemic, there have been a limited number of transactions of Sydney boarding houses. Anecdotally, boarding house operators have been reporting requests for reductions in occupancy fees from residents, and higher turnover of occupants due to loss of employment or reduction in wages due to COVID-19. However, this activity has largely settled and the flexibility of boarding houses as an asset has allowed many operators to adapt relatively quickly to market conditions. Operators have been shifting to a focus on longer-term occupancies at lower rates.

Boarding houses are likely to remain an attractive cash flow asset within the fabric of Sydney housing well beyond the end of the COVID-19 pandemic, albeit with a likely short-term softening of yields.

Outlook

Factor	Comment	3-month Outlook
Supply	Supply of new boarding houses that have already commenced is expected to continue over the next few years, albeit at a slower pace than over recent years. The commencement of new projects is unlikely to proceed in the short-term.	▼
Occupant Demand	Demand for boarding rooms in the Sydney region is expected to remain subdued while state and national borders remain closed, travel remains restricted, unemployment levels continue to grow and social distancing rules apply.	▼
Occupancy Fees	Given weakened demand, it is likely that occupancy rates will remain low until occupant demand has seen a resurgence. Assuming Australia continues to progress on the current path of reduced infection rates and relaxing of restrictions, demand is likely to increase towards the end of 2021, after migration levels start to rise again and the unemployment rate decreases.	▼
Yields	Investment yields are forecast to soften over the short-term, particularly for secondary stock in secondary locations. Assuming Australia continues to flatten the infection curve, yields are expected to stabilise again in 2021 when investor sentiment improves in a low interest rate environment.	▲

Key Contacts

James Ruben
NSW | Director
+61 2 8234 8102
james.ruben@m3property.com.au

Jennifer Williams
NSW | National Director Research
+61 2 8234 8116
jennifer.williams@m3property.com.au