RESIDENTIAL RESEARCH

AUSTRALIAN PRIME RESIDENTIAL PROPERTY

MARKET INSIGHT APRIL 2016

Key Facts

Prime residential property prices in Sydney rose 14.8% in 2015; whilst Melbourne prime property prices grew 11.9%.

The number of square metres US$1M will buy in Sydney is 40 sq m and in Melbourne is 116 sq m based on prime residential prices as at December 2015.

In Australasia, 30% of UHNWIs are **considering buying another residential property** in the next 12 months.

MICHELLE CIESIELSKI
Knight Frank Residential Research

Follow Michelle at @MCiesielski_AU

Knight Frank correctly predicted the Sydney & Melbourne prime residential property markets would outperform other global cities in 2015. We examine the key drivers that influenced this exceptional growth and the outlook for prime property in 2016.

Global Perspective

The value of the prime (luxury) global residential property markets rose on average by 1.8% in 2015, according to the latest results of The Wealth Report Prime International Residential Index (PIRI) compiled by Knight Frank. This was similar to the 2% growth recorded a year earlier. However, in 2015 over 66% of the PIRI 100 locations recorded flat or positive price growth, compared with 62% in 2014.

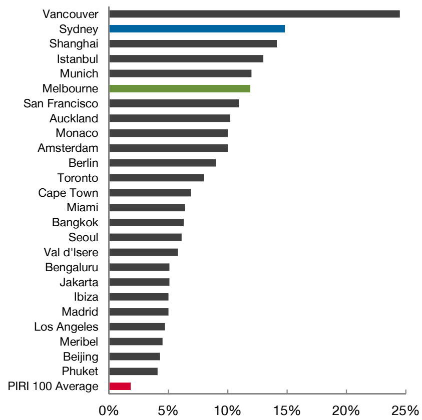
Ranking the top 25 cities in the PIRI 100, Vancouver leads the rankings by some margin, with prices accelerating 24.5% during 2015, as shown in Figure 1. Sydney follows in second place with growth of 14.8%. Many comparisons can be drawn between the two cities—a lack of prime supply, coupled with foreign demand, spurred on by a weaker Canadian (& Australian dollar) explain the city's stellar performance.

Other Antipodean markets in the PIRI 100 also performed strongly with Melbourne and Auckland all recording double-digit annual price growth; up 11.9% and 10.2% respectively.

FIGURE 1

Top 25 Performing Global Cities for Prime Residential Property

Annual change in capital growth 2015



Source: Knight Frank Research (The Wealth Report: PIRI 100)

PROFILE OF ULTRA HIGH NET WORTH INDIVIDUALS IN AUSTRALASIA:

- Own 3.97 residential properties on average; greater than the global average of 3.70.
- 30% are considering buying another residential property in the next 12 months.
- Only 6% are considering changing their domicile or country of residence over the next 10 years; compared to the global average of 16%.
- For those with children, the likely prevalence of sending children overseas for their education is likely to 'slightly increase' over the next 10 years.
- 89% agreed they have started to take a more active role in the management of their wealth.
- Women have taken a more significant role in managing family wealth in 84% of households.
- High concerns remain when passing onto the next generation for instance children won't be encouraged to make their own wealth or won't know how to handle their investments. As a result, 63% are involving their children in their businesses at an earlier age.

Source: Knight Frank Research (The Wealth Report: Attitudes Survey in conjunction with Wealth-X)

A study is undertaken each year with the PIRI results to determine the amount of luxury property, in square metres (sq m), that US$1 million will buy around the world. Monaco is tightest, covering only 17 sq m, followed by Hong Kong at 20 sq m and London with 22 sq m. In Sydney, close to double this size can be purchased, at 40 sq m (down from 41 sq m in 2014). Melbourne is larger again, covering an area close to 116 sq m; equivalent to almost six-times the accommodation size that can be purchased in the highest priced cities in the world. **Despite the significant annual price growth in both cities, the weaker AUD at the end of 2015 has absorbed any real change in allocated size.**

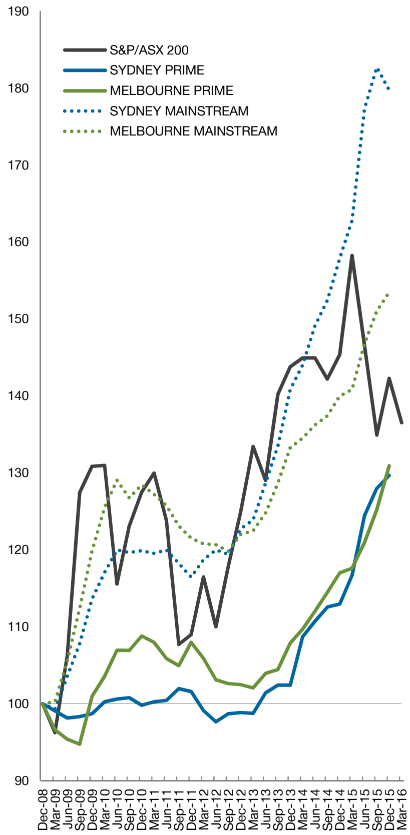
Local Perspective

Price growth in the Sydney and Melbourne prime residential markets, although lagged, have generally followed an upward trajectory in the Australian share market (S&P/ASX 200) as shown in Figure 2, when **indexed to December 2008 (post the Lehman's collapse).** Over this time to December 2015, coming off a lower base, the **Melbourne prime market recorded cumulative growth of 31% while prime Sydney prices grew by 30%.**

Although when isolating performance since June 2012, Sydney prime prices grew 33%, compared to 27% in Melbourne. Since this time, the upswing in the share market along with other stimulus such as favourable business conditions, and more recently a stable political environment have renewed confidence in the prime end of the market. **Many persistent Sydney vendors, willing to only accept their original listing price set several years prior, were triumphant by the end of 2014.**

Despite this vast capital growth in both prime markets over the seven year period to December 2015, **the broader mainstream market in Sydney and Melbourne significantly outperformed at 80% and 53% respectively**. In late 2008 and the years following, the federal government introduced several fiscal stimulus packages, including an extension to the First Home Owners Grant. This resulted in a recovery of the mainstream market at a faster rate than the prime

FIGURE 2
Performance of Prime Property, Mainstream Property & Share Market
Indexed, 100=Dec-08



Source: Knight Frank Research, S&P Dow Jones Indices LLC, ABS

market in 2009 and into the first half of 2010. In more recent years, this mainstream market has been strongly driven by the population growth of overseas migration in Sydney (and limited new supply) and interstate migration into Melbourne; relaxed rules for self-managed superannuation funds and the underlying lower mortgage lending rates for local investors; although the recent cooling measures introduced by the Australian Prudential Regulation Authority (APRA) are starting to impact.

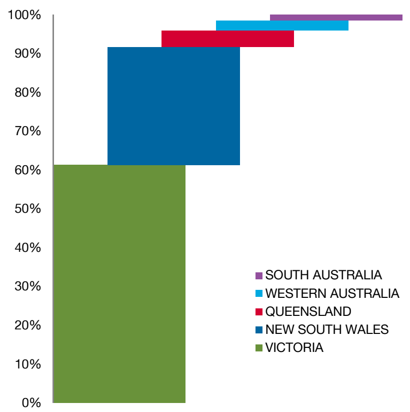
Key Drivers

Across the past decade there has been **limited new supply of prime residential properties** built by global standard; especially within close proximity to the Sydney CBD and with uninterrupted harbour views. However over the next 10 years, there are potentially three prime residential towers in the revamped Circular Quay precinct; within close proximity to the renovated Circular Quay wharves and the new Sydney Light Rail Terminal. Also another four towers in Barangaroo, including part of the new Crown Casino. In the pipeline for Melbourne city, One Queensbridge will accommodate high-end luxury with the most expensive apartments Melbourne has yet to experience, as well as Australia 108; which is now under construction. Both are well-positioned for vantage points along the Yarra River, and enjoy views of the CBD.

Foreign buyers not meeting the investment migrants criteria of the Significant and Premium Investment Visas, must buy a 'new' property in order to comply with the federal government's foreign investment regulation. **There continues to be limited new stock available at this high-end of the market in prime locations, especially in Sydney.** This demand for foreign buyers comes at a time when the purchasing power of the lower Australian dollar has been much stronger, notwithstanding a recent rally.

Many foreign buyers have already seen success in other global cities after buying into new projects where new life has emerged in once obsolete inner-city areas; these buyers are now in a position to add a Sydney or Melbourne property to their global portfolio. In fact, of the most important global cities to UHNWIs (for where to live, invest, educate their children, grow their business, network and spend their leisure time), **Sydney enters the top ten list at 8th place in The Wealth Report Attitudes Survey, up from 14th place in 2015.**

FIGURE 3
State and Territory distribution of Significant Investment Visa grants
Portion of total granted, 2014-15 FY



Source: Knight Frank Research, Dept of Immigration and Border Protection

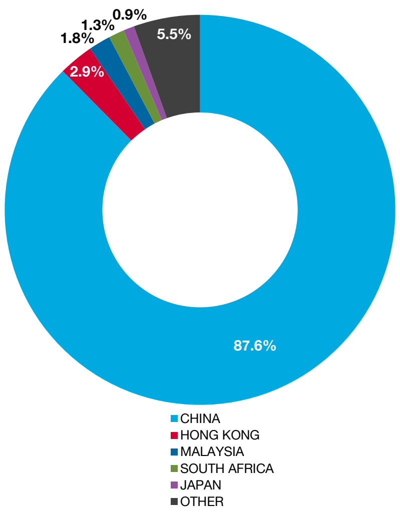
The past decade has seen remarkable **growth in cross-border investment flows by individuals with global wealth**. Analysing the Significant Investor Visas (SIV) granted in Australia, over 61% of these SIVs have been granted in Victoria and 30% in NSW as displayed in Figure 3. Those from China have taken over 87% of the total visas granted, followed by Hong Kong (2.9%) and Malaysia (1.8%) as shown in Figure 4.

On average 18% of UHNWIs in Asia are considering changing their domicile or country of residence over the next 10 years; the main reasons being for quality of life/health and their children's education. Over the same time, for those with children, the likely prevalence of **sending children overseas for their education is likely to 'significantly increase'.**

Also taking advantage of the lower AUD, **expats** are returning temporarily to purchase a property – with stunning views, close to the water, recreation and cultural precincts – in preparation for when they return from their fast-pace, global postings.

Downsizers who have previously lived in prestigious suburbs of Sydney and Melbourne, may not necessarily seek a full -time tree-change, or sea-change, rather looking at a lower-maintenance home in a similar location or centralised closer to the CBD. This way, they're familiar with their community and amenity, near to family and friends; whilst close enough to stroll to cafés, fine-dining, exhibitions at the local galleries and casino.

FIGURE 4
Significant Investment Visa grants for Top Five Source Countries
Percentage of total granted, 2014-15 FY



Source: Knight Frank Research, Dept of Immigration and Border Protection

HIGH NET WORTH INDIVIDUALS AS INVESTMENT MIGRANTS

Significant Investor Visa (SIV) | Introduced 24 November 2012

- Investment migrants under this scheme are required to **invest at least AU$5 million into complying investments in Australia for a minimum of four years** before becoming eligible for permanent residency.
- The SIV scheme is intended to target the migration of high net-worth individuals to Australia with the longer-term aim of transferring wealth of international businesses and individuals to benefit Australian businesses and the broader economy.

Premium Investor Visa (PIV) | Introduced 1 July 2015

- Investment migrants under this scheme are required to **invest at least AU$15 million into complying investments in Australia for a minimum of 12 months** before becoming eligible for permanent residency; a more expeditious pathway than the SIV.
- The PIV scheme is aimed at attracting applicants with business and entrepreneurial skills and capital to enhance investment into innovative Australian businesses and the commercialisation of Australian ideas, research and development.

Source: Department of Immigration and Border Protection

Outlook

The scale of the slowdown in China, an expected volatile share market and the speed of further US interest rate rises will determine the performance of prime global property markets across developed and emerging markets alike over the next 12-18 months.

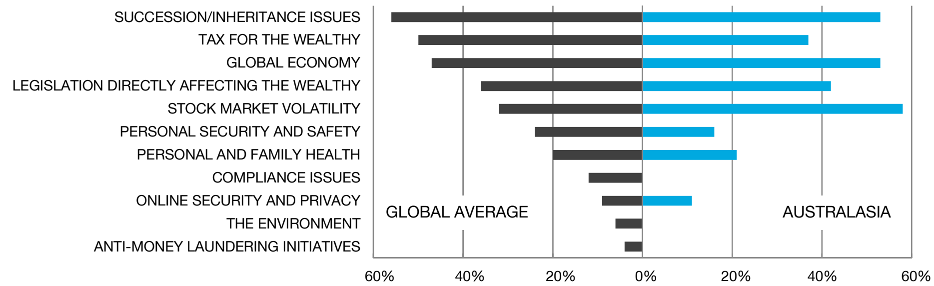
The biggest concerns to UHNWIs around the globe regarding wealth creation and preservation over the next 10 years continues to be succession/inheritance issues, tax for the wealthy and the global economy, as shown in Figure 5. In Australia, share market volatility is the top concern for UHNWIs. Respondents from The Wealth Report Attitudes Survey gave greater weighting to concerns regarding legislation directly affecting the wealthy, personal and family health and online security and privacy than their global counterparts.

Knight Frank has analysed the annual prime residential price growth for ten global cities in 2015 and forecast prices in 2016. Sydney prime is expected to remain the best performer, although the pace of price growth is expected to slow from close to 15% year-on-year in 2015, to 10% in 2016; while Melbourne prime is likely to see annual growth closer to 6%. Australia's economic slowdown, uncertainty surrounding the Australian leadership with a federal election looming, weaker share market performance in the past 12 months and the new foreign investment fees explains the lower rate of growth likely in 2016.

FIGURE 5

Biggest concerns to UHNWIs regarding Wealth Creation and Preservation over the next ten years

% of respondents who listed an issue (when asked to select three)



Source: Knight Frank Research (The Wealth Report: Attitudes Survey in conjunction with Wealth-X)

Definitions

Prime (Luxury) Property

The most desirable and most expensive property in a given location, generally defined as the top 5% of each market by value. Prime markets often have a significant international bias in terms of buyer profile.

UHNWI

We use UHNWI as an abbreviation for ultra-high-net-worth individual—someone with a net worth of over US$30m excluding their primary residence.

Unless stated, all references to dollars or $ refer to Australian dollars.

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RESIDENTIAL RESEARCH

Michelle Ciesielski
Director
+61 2 9036 6659
Michelle.Ciesielski@au.knightfrank.com

Matt Whitby
Head of Research and Consultancy
+61 2 9036 6616
Matt.Whitby@au.knightfrank.com

RESIDENTIAL PROJECT MARKETING & KEY STATE CONTACTS

Michael Robinson
Head of Project Marketing, Australia
+61 3 9604 4775
Michael.Robinson@au.knightfrank.com

Sam Kandil
Director, Sydney (NSW)
+61 2 9036 6793
Sam.Kandil@au.knightfrank.com

Daniel Cashen
Director, Melbourne (Vic)
+61 3 9604 4749
Daniel.Cashen@au.knightfrank.com

Neil Kay
Senior Director, Perth (WA)
+61 8 6210 0112
Neil.Kay@au.knightfrank.com

Gillian Bail
Director, Brisbane (Qld)
+61 7 3246 8842
Gillian.Bail@au.knightfrank.com

Peter McVann
Managing Director, Adelaide (SA)
+61 8 8233 5210
Peter.Mcvann@au.knightfrank.com

Terry Daly
Managing Director, Canberra (ACT)
+61 2 6221 7869
Terry.Daly@au.knightfrank.com

Scott Newton
Chief Executive Officer, Hobart (Tas)
+61 3 6220 6999
Scott.Newton@au.knightfrank.com

Matthew Knight
Managing Director, Darwin (NT)
+61 8 8982 2502
Matthew.Knight@au.knightfrank.com

INTERNATIONAL PROJECT MARKETING

Erin Van Tuil
Director
+61 2 9036 6699
Erin.VanTuil@au.knightfrank.com

Knight Frank