

Australian Prime Residential Review



Q2 2023

Knight Frank's quarterly analysis of the prime residential sales and rental markets across major Australian cities

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- Sales volume remains low across prime residential markets in Australia due to limited buying opportunities, not from a lack of demand

Prime residential market

The performance of the most desirable, and expensive, residential properties across Australia continues to show sustainable resilience with relatively solid underlying wealth and economic fundamentals.

Record sale prices are being achieved in prime suburbs around the country. Many of these properties are located on the waterfront, large estates and on the upper levels of apartment towers, with a reasonable share taking place before they're even advertised to the market.

In saying this, the number of luxury home sales have been on a downward trajectory. One-quarter of the sales volume recorded in the year to March 2022, wasn't repeated over the past year.

The limited number of property listings is creating a price floor under well-located and exceptional quality prime luxury properties.

The reluctance of vendors to list their homes has been a combination of market sentiment following steep mortgage rate rises in quick succession and hesitation by those who need to buy another home given the lack of choice currently in the marketplace.

However, rising mortgage rates haven't directly impacted half the buyers in the prime residential space, as found in [The Wealth Report 2023](#), as they tend to buy homes without the reliance of a mortgage.

There is no denying there is an element of caution on the buyer side and this has been reflected in the four extra days, on average, it now takes for a prime property to sell when on market.

The demand for owner-occupier product for a primary residence, second homes or redevelopment is placing pressure on the rental market across all quality grades.

Less prestige homes are being purchased for the rental pool and this comes at a time when total residential vacancy remains historically low.

This will be highlighted further as skilled migration ramps up, and less new homes are being built, given the magnitude of challenges currently being experienced in the construction industry.

Prime weekly rents have been double-digit annual growth in 2022, with a similar yearly forecast until the end of 2024.

4.8%

Australia's change in high-net-worth individuals in 2022

2.1%

Change in 2022 of Australia's ultra-high-net-worth individuals

-4.5%

Australian stock market in March 2023 annual growth

+14 pts

Business conditions index points in March 2023

19.2%

Profit growth for Australian companies in 2022

6.6%

Annual growth in March 2023 of new private business investment

Key drivers

WEALTH TRENDS

Australia’s high-net-worth individual (HNWI) population, otherwise known as the millionaire population, grew by 4.8% in 2022, to 2,214,326 people with net wealth of more than US\$1 million according to the Knight Frank Wealth Sizing Model.

This population in the four major cities (Sydney, Melbourne, Brisbane and Perth) comprises 59.8% of the total Australian HNWI population, after being a similar proportion five years ago. The millionaire population in Australia has grown by 28.0% since this time, although lower than the 42.5% global growth.

The HNW population is projected to grow by a further 71.1% in Australia by the end of 2027, higher than the global growth of 56.9%, when the population outside of the four major cities is expected to hold a 42.6% share of all Australian millionaires, up from the current 40.2%.

The ultra-high-net-worth (UHNW) population across Australia grew by 2.1% in 2022, to 17,456 individuals with net wealth of more than US\$30 million.

Australia’s ultra-wealthy population has expanded by 31.1% since 2017, slower than the global growth of 44.0%, where the UHNW share of the four major cities in Australia has remained

similar at 67.3%.

This ultra-wealthy population is projected to grow by a further 40.9% over the next five years, stronger than the global UHNW population growth of 28.5%. Over this time, the share of ultra-wealthy population outside the four major capital cities is likely to grow from 32.7% to 37.2% in 2027.

THE ECONOMY

New South Wales (NSW) recorded economic growth of 1.8% in 2022 while Sydney’s unemployment rate stood at 3.7%, trending 29 bps lower than the year earlier. Oxford Economics forecast economic growth to taper back to 0.3% at the end of 2023, 0.7% in 2024 and 2.6% in 2025.

Australia’s stock market performance on the S&P/ASX 200 rose in the first quarter of 2023 by 2.0%, to arrive at total annual change of -4.5% over the past year. The stock market is forecast to improve 2.4% by the end of 2023, before rising by a further 4.2% in 2024 and 3.0% in 2025.

Business conditions improved 2.5 pts in the March 2023 quarter to +14 index points in the NAB business sentiment survey. This was trending slightly higher than the +13.9 pts a year ago.

Company profits across Australia grew 19.2% in 2022, after recording 5.6%

growth in 2021. Annual company profits are forecast to fall by 3% in 2023, before falling a further 3.8% in 2024, although company profits are expected to recover by 2.4% in 2025.

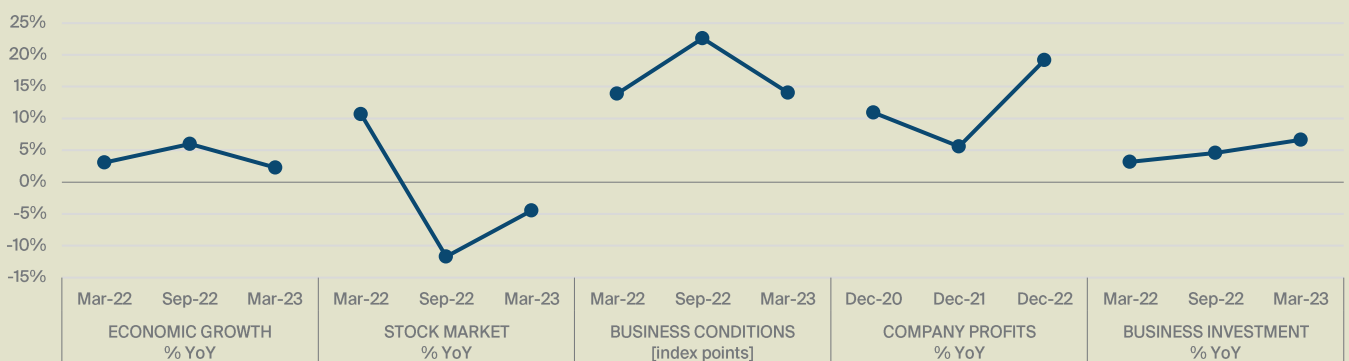
New private business investment grew by 6.6% in the year to March 2023. This was higher than 4.6% annual growth six months earlier, and higher than 3.2% growth recorded a year ago.

LENDING ENVIRONMENT

The official cash rate on 6 June 2023 had been raised 50 bps over the past three months, to a target of 4.10% by the Reserve Bank of Australia. The Oxford Economics forecast for the official cash rate is to be reduced towards an average target of 3.94% by the end of 2024.

In the March 2023 quarter, average mortgage lending rates to owner occupiers increased by 3 bps to 6.27% for a 3-year fixed term loan and rose by 50 bps to 8.02% for a standard variable loan. For investors, a 3-year fixed term decreased by 1 bps to 6.32%, and a standard variable loan rose by 50 bps to 8.60% (RBA).

Australian Prime Residential Key Drivers



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

Prime residential price performance

► Coming off an historic low, a modest rise experienced in time now taken to sell a prime residential home, although price rises recorded in past quarter

-27.3%

Australian prime residential sales volume in March 2023 compared to a year ago

68 days

Average number of days an Australian prime residential home was on the market before transaction

1.1%

The change in Australian prime residential prices in the year to March 2023

10%

Prime Perth

Best annual growth in sale transactions

57

Prime Brisbane

Lowest number of days on market

2.9%

Prime Melbourne

Strongest annual price growth

PRIME SALES & PRICE PERFORMANCE

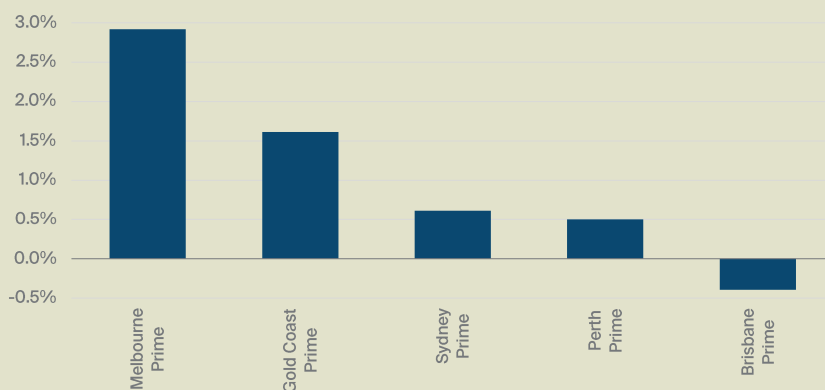
Across the five major Australian cities, prime luxury residential sales volume trended down 23.5% in the March 2023 quarter with 1,252 residential homes, as the annual volume declined 27.3% to a total 6,201 sales.

The average days on market for a prime home in Australia was 68 days in the March 2023 quarter. This was 64 days one quarter ago.

Prime residential property prices rose 1.1% in the year to March 2023, while rising 1.0% in the last quarter.

Prime Australian Residential Price Index

% annual price change, March 2023



Source: Knight Frank Research

Australian prime price forecast

Prime Residential Price Forecast

	2021	2022	2023f	2024f	2025f	2023-2025f AVE
Sydney Prime	16%	1%	0%	3%	6%	3%
Melbourne Prime	9%	4%	-1%	2%	4%	2%
Brisbane Prime	11%	0%	2%	4%	4%	3%
Perth Prime	10%	1%	1%	2%	3%	2%
Gold Coast Prime	17%	4%	3%	3%	3%	3%
Australia	12%	2%	0%	3%	5%	3%

Source: Knight Frank Research

Prime residential rental market

- Forecast remains for significant rental growth of prime luxury homes across Australia, as residential rental yields continue to rise

2.89%

Gross rental yield achieved in March 2023 for an Australian prime residential investment

12.7%

The annual change in Australian prime residential rents in March 2023

4.2%

Change in Australian prime residential rents in the March 2023 quarter

4.00%

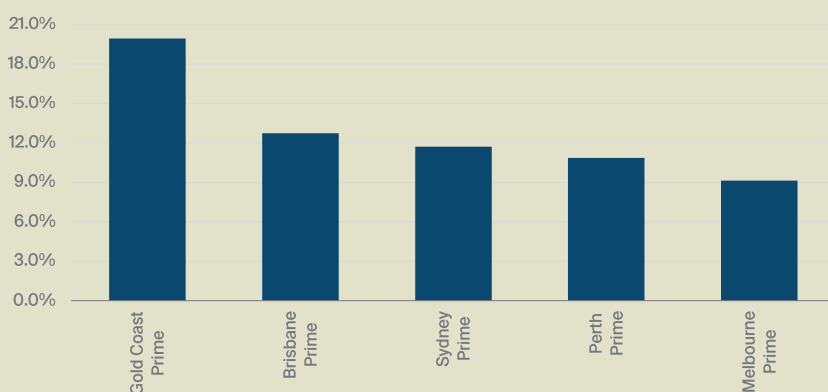
Prime Gold Coast
Highest gross rental yield

19.9%

Prime Gold Coast
Strongest annual rental growth

Prime Australian Residential Rental Index

% annual rental change, March 2023



Source: Knight Frank Research

PRIME RENTAL MARKET

From an investment perspective, gross rental yields rose 9 bps in the first quarter of 2023, as prime luxury residential property averaged 2.89% across the five major cities of Australia.

Prime residential rents increased by 4.2% in the March 2023 quarter, rising 12.7% annually.

This is being influenced by the historically low 1.4% rental vacancy recorded across Australia at the end of the first quarter in 2023.

Australian rental forecast

Prime Residential Rental Forecast

	2021	2022	2023f	2024f	2025f	2023-2025f AVE
Sydney Prime	7%	7%	▲ 18%	▲ 12%	● 7%	▲ 12%
Melbourne Prime	0%	9%	▲ 19%	▲ 10%	▼ 8%	▲ 12%
Brisbane Prime	5%	12%	▲ 16%	▼ 10%	▼ 8%	▼ 11%
Perth Prime	10%	8%	▲ 13%	● 8%	▼ 6%	▲ 9%
Gold Coast Prime	14%	19%	▲ 21%	▼ 14%	▼ 9%	▼ 15%
Australia	7%	11%	▲ 18%	● 11%	▼ 8%	▲ 12%

Source: Knight Frank Research

Data digest

Prime (luxury) residential property

The most desirable and most expensive property in a given location, generally defined as the top 5% of each market by value.

Prime residential sales

Sales hold a threshold of \$3 million in Sydney and Melbourne and \$2 million in Brisbane, Perth and the Gold Coast.

Ultra-high-net-worth individual (UHNWI)

Someone with a net worth of over US\$30 million including their primary residence.

High-net-worth individual (HNWI)

Someone with a net worth of over US\$1 million including their primary residence.

Currency

All references made to dollars or \$ is Australian Dollars (AUD), unless stated.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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The Wealth Report 2023



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