

Australian Prime Residential Review

Q3 2023

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

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Sale transactions rise in the prestige residential market

- ◆ A flurry of prestige residential sales activity has taken place in the second quarter of 2023, encouraging prime price growth for most of the major Australian cities and a stronger outlook for the remaining year.

The limited number of exceptional, and most desirable, prime residential property listings continues to create a price floor under many luxury Australian properties. As a result, a flurry of sales activity took place in the second quarter of 2023 after a subdued start to the year.

In pockets of prime suburbs around the country, record sale prices are being achieved, with some taking place before an advertising campaign takes place. Many of these properties are located on the waterfront, large estates and on the upper levels of apartment towers with panoramic views.

Australia's prime price performance of 1.8%, over the year to June 2023, trended above the 1.5% global average annual growth as reported in the Knight Frank Prime Global Cities Index. Australia had three cities trending above the global average and represented in the top 20.

Across Australia's five major cities, Perth prime residential values performed the strongest over this time with 4.0% annual growth, ranking 13th

from 46 global cities. Melbourne was in position 17 (2.2%) and Sydney (1.7%) in 18th place ranked next best, followed by the Gold Coast in 21 (1.5%) then Brisbane in 31 (-1.0%).

Australian prime rental annual growth was 14.4% in June 2023. This was almost double the global average of 7.5% tracked in the Knight Frank Prime Global Rental Index. Sydney, the only city representing Australia amongst the 10 major global cities, ranked third highest with 13.1% growth.

All five of Australia's major cities trended above the global average. A chronic undersupply of rental homes currently extends to most parts of Australia at every price point, and this continues to be reflected in the double-digit rental growth for luxury property being recorded.

The Gold Coast experienced the highest annual prime residential rental uplift with 18.4%, then Melbourne (15.8%) and Brisbane (14.4%). Perth followed behind Sydney, with prime rents 11.3% higher than a year ago.

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

9.7%

Australian stock market in June 2023 annual growth

+6 pts

Business conditions index points in June 2023

19.3%

Profit growth for Australian companies in 2022

8.0%

Annual growth in June 2023 of new private business investment

Key drivers

◆ Business conditions decline despite pause on rate rises.

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 capital 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

Australia's economy grew by an estimated 2.1% in June 2023, while unemployment was recorded at 3.3%. Oxford Economics forecast economic growth to taper back to 1.8% at the end of 2023, 1.3% in 2024 and 2.9% in 2025.

Australia's stock market performance on the S&P/ASX 200 rose in the second quarter of 2023 by 0.4%, to arrive at total change of 9.7% over the past year. The stock market is forecast to record 2.8% by the end of 2023, and a further 2.8% in 2024 and by 4.8% in 2025.

Business conditions diminished 7.5 pts in the June 2023 quarter to +6.5 index points in the NAB business sentiment survey. This was trending

close to half the +12.8 pts a year ago.

Company profits across Australia grew 19.3% in 2022, after recording 5.3% growth in 2021. Annual company profits are forecast to fall by 0.5% in 2023, before falling a further 5.8% in 2024, although company profits are expected to recover by 2.3% in 2025.

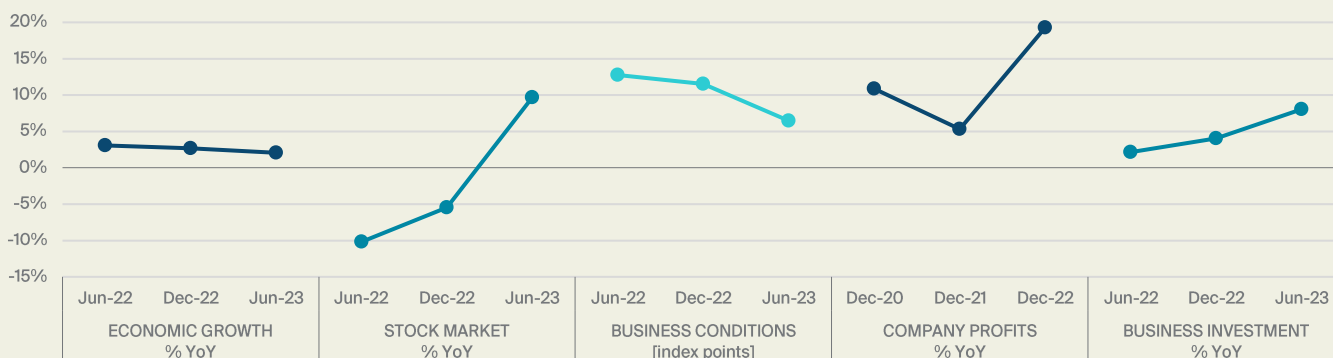
New private business investment grew by 8.0% in the year to June 2023. This was higher than 7.1% annual growth a quarter earlier, and higher than 2.2% growth recorded a year ago.

LENDING ENVIRONMENT

The official cash rate on 5 September 2023 continued to see no movement, with 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 4.07% by the end of 2024.

In the June 2023 quarter, average mortgage lending rates to owner occupiers increased by 5 bps to 6.32% for a 3-year fixed term loan and rose by 50 bps to 8.52% for a standard variable loan. For investors, a 3-year fixed term increased by 18 bps to 6.50%, and a standard variable loan rose by 50 bps to 9.10%.

Australian Prime Residential Key Drivers



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

Prime residential price performance

◆ Strong tick up in prime residential sales transactions in the second quarter of 2023, leading to better price performance than first anticipated.

-25%

Australian prime residential sales volume in June 2023 compared to a year earlier

73 days

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

1.8%

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

15%

Perth Prime

Best annual growth in sale transactions

57

Brisbane Prime

Lowest number of days on market

4.0%

Perth Prime

Strongest annual price growth

PRIME SALES & PRICE PERFORMANCE

Across the five major Australian cities, prime luxury residential sales volume trended up 43% in the June 2023, although the annual volume declined 25% to a total 6,110 sales.

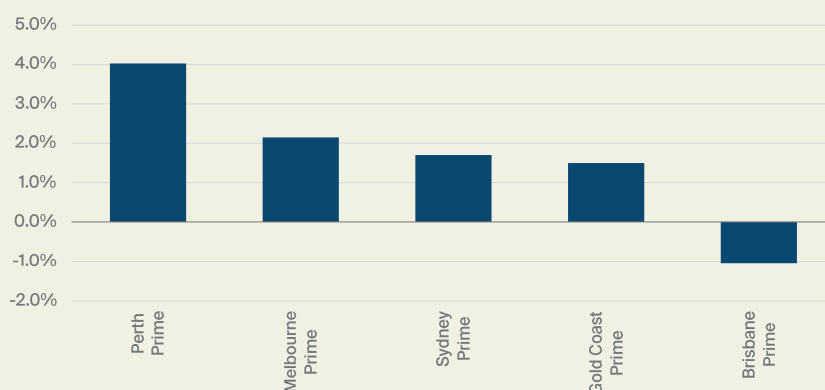
The average days on market for a prime home in Australia was 73 days in the June 2023 quarter. This was 68 days one quarter ago.

Prime residential property prices rose 1.8% in the year to June 2023, while rising 0.9% in the last quarter.

Looking forward, prime prices are forecast to change by 3% at the end of 2023, 4% in 2024 and 5% in 2025 according to Knight Frank Research.

Prime Australian Residential Price Index

% annual price change, June 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%	▲ 3%	▲ 5%	▲ 7%	▲ 5%
Melbourne Prime	9%	4%	▼ 1%	▼ 3%	▲ 5%	▼ 3%
Brisbane Prime	11%	0%	▲ 2%	▲ 3%	▲ 4%	▲ 3%
Perth Prime	10%	1%	▲ 5%	▲ 4%	▲ 4%	▲ 4%
Gold Coast Prime	17%	4%	▼ 3%	● 4%	▲ 5%	● 4%
Australia	12%	2%	▲ 3%	▲ 4%	▲ 5%	▲ 4%

Source: Knight Frank Research

Prime residential rental market

◆ Double-digit annual prime residential rental growth continues to be recorded for all five major Australian cities and is likely to remain elevated over coming years.

2.95%

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

14.4%

The annual change in Australian prime residential rents in June 2023

3.2%

Change in Australian prime residential rents in the June 2023 quarter

4.07%

Gold Coast Prime

Highest gross rental yield

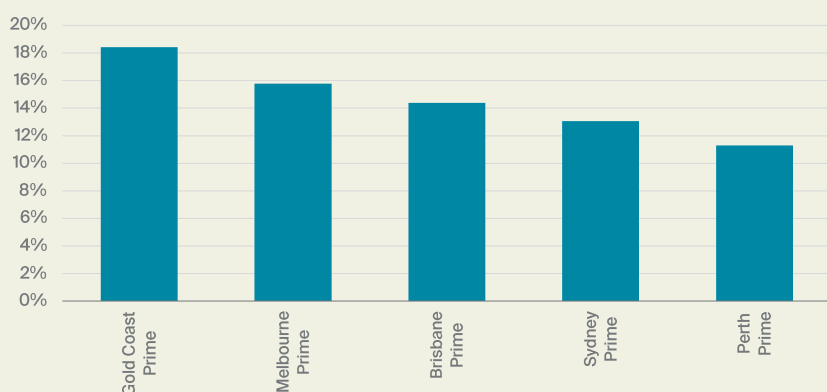
18.4%

Gold Coast Prime

Strongest annual rental growth

Prime Australian Residential Rental Index

% annual rental change, June 2023



Source: Knight Frank Research

PRIME RENTAL MARKET

From an investment perspective, gross rental yields gained 6 bps in the second quarter of 2023, as prime luxury residential property averaged 2.95% across the five major cities of Australia.

Prime residential rents increased by 3.2% in the June 2023 quarter and rose by 14.4% over the past year.

This is being influenced by the historically 1.5% rental vacancy recorded across Australia in June 2023.

Knight Frank Research forecast prime rents to rise by 18% in 2023, with 11% growth likely in 2024 and 8% in 2025.

Australian prime 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.

Recent Research



Prime Global Cities Index



Prime Global Rental Index



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The Wealth Report 2023



Residential Research

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



Residential

Erin van Tuil
+61 2 9036 6699
erin.vantuil@au.knightfrank.com



Residential Site Sales

Justin Bond
+61 7 3246 8872
justin.bond@au.knightfrank.com



Residential Project Sales

Luke Hayes
+61 2 9036 6700
luke.hayes@au.knightfrank.com



Franchise Partnerships

Sally Edvardsen
+61 2 9036 6845
sally.edvardsen@au.knightfrank.com



Valuations

Alistair Carpenter
+61 2 9036 6662
al.carpenter@au.knightfrank.com