

Melbourne Prime Residential Insight

Q3 2023

Knight Frank's quarterly analysis of the Melbourne prime luxury residential sales and rental markets

knightfrank.com.au/research

Pause in rate rises sparks an increase in sales activity

◆ New private business investment strengthens.

WEALTH TRENDS

Melbourne's high-net-worth individual (HNWI) population, otherwise known as the millionaire population, grew by 6.4% in 2022, to 420,648 people with net wealth of more than US\$1 million according to the Knight Frank Wealth Sizing Model.

This population in Melbourne comprises 19.0% of the total Australian HNWI population, after being a 17.7% proportion five years ago. Since this time, Melbourne's millionaires have grown by 37.7%, slightly lower than the Australian 28% growth.

The HNW population is forecast to grow by a further 72.6% in Melbourne by the end of 2027, lower than the Australian growth of 71.1% when Melbourne is expected to hold a 19.2% share of all Australian millionaires.

The ultra-high-net-worth individual (UHNWI) population in Melbourne grew by 5.8% in 2022, to 2,685 people with net wealth of more than US\$30 million. From 2017, Melbourne's ultra-wealthy have expanded by 50.8%, ahead of the Australian growth of 31.3%, where the Melbourne share of the Australian UHNWIs has grown from 13.4% to 15.4%.

This population is forecast to grow by a further 60.2% over the next five years, faster than the Australian UHNW population growth of 40.9%.

THE ECONOMY

Victoria recorded economic growth of 5.6% in 2022 while Melbourne's unemployment rate stood at 3.8% in June 2023, trending 57 bps higher than the year earlier. Oxford Economics forecast economic growth to taper back to 1.8% at the end of 2023, 1.0% in 2024 and 3.6% 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% annual growth recorded a year ago.

5.8%

Growth in Melbourne's ultra-high-net-worth individuals in 2022

+6 pts

Business conditions index points in June 2023

8.0%

Annual growth in June 2023 of new private business investment

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%.

Melbourne prime established residential

- ◆ Prime residential price growth in Melbourne misses the sales volume upward momentum over the past quarter as the marketing time for listed properties lengthens.

-31%

Melbourne prime residential sales volume in June 2023 compared to a year ago

2.2%

The change in Melbourne's prime residential values in the year to June 2023

15.8%

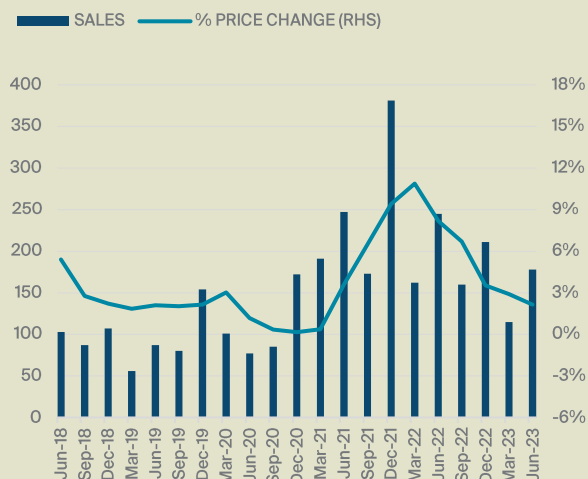
Annual Melbourne prime residential rental growth in June 2023

SALES & PRICE PERFORMANCE

- ◆ Sales volume trended 55% higher in the June 2023 quarter with 178 prime residential homes sold in Melbourne, while the 664 annual sales volume was 31% lower than a year ago.
- ◆ The average days on market for prime residential home stood at 83 days in the June 2023 quarter. One quarter ago, this was 78 days.
- ◆ Over the year ending June 2023, prime residential prices increased 2.2% but were down 1.1% in the past quarter.
- ◆ Prime prices are forecast to change by 1% at the end of 2023, 3% in 2024 and 5% in 2025 according to Knight Frank Research.

Melbourne Prime Residential Sales & Prices

No. prime sales per quarter & % annual prime price change



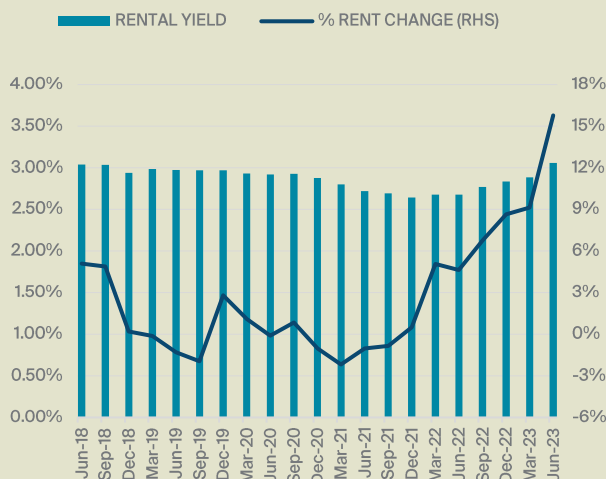
Source: Knight Frank Research

RENTAL MARKET

- ◆ Gross rental yields for Melbourne prime residential properties increased by 17 bps, to 3.06%, in the second quarter of 2023.
- ◆ Rents rose 5.2% for prime residential homes in the quarter to June 2023, and over the past year were up 15.8%.
- ◆ Looking forward, Knight Frank Research forecast prime rents to rise by 19% in 2023, with 10% growth likely in 2024 and 8% in 2025.

Melbourne Prime Residential Rents & Yields

Prime gross rental yield & % annual prime rental change



Source: Knight Frank Research

Melbourne prime residential forecast

Key Drivers Forecast

	2021	2022	2023f	2024f	2025f	2023-2025f AVE
Economic Growth	4.7%	4.7%	1.8%	1.0%	3.6%	2.1%
Unemployment Rate	5.1%	3.7%	3.7%	4.3%	4.3%	4.1%
Cash Rate Target	0.1%	1.2%	3.8%	3.9%	2.9%	3.6%
Stock Market	17.5%	-1.7%	2.8%	2.8%	4.8%	3.5%
Company Profits	5.3%	19.3%	-0.5%	-5.8%	2.3%	-1.3%

Source: Oxford Economics

Melbourne Prime Residential Forecast

	2021	2022	2023f	2024f	2025f	2023-2025f AVE
Prime Price Performance	9%	4%	1%	3%	5%	3%
Prime Rental Market	0%	9%	19%	10%	8%	12%

Source: Knight Frank Research

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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