

Melbourne New Apartments Insight

Q3 2023

Knight Frank's quarterly analysis of high-density residential sites and new apartment market for build-to-sell (BTS) product across Greater Melbourne

knightfrank.com.au/research

New apartment price growth outpaces established stock

■ As more transactions took place for high-density residential build-to-sell sites, site values have remained down over the past 18 months, as increasingly limited stock has lifted new apartment prices.

DEVELOPER ACTIVITY

The volume share of residential development sites being purchased for high-density development in Greater Melbourne has grown to 82% in the year to June 2023, rising from 42.9% five years earlier, and was higher than 30.5% recorded a year ago.

Building approvals across Greater Melbourne trended 22% lower between June 2022 and June 2023 with 19,049 apartments approved as recorded by the Australian Bureau of Statistics.

The appetite of developers remains significantly lower than the 34,779 apartments approved in the same period five years ago.

COST OF CONSTRUCTION

The cost of construction in Greater Melbourne increased by an estimated 5.5% in the year to June 2023 according to Rawlinsons.

Building apartments to a standard finish, with a balcony, ranged from \$2,795/sqm to \$3,345/sqm (plus GST) in 2022. At the same time, to construct new apartments to a prestige finish was estimated at \$4,065/sqm to \$4,770/sqm.

ESTABLISHED APARTMENTS PERFORMANCE

Sales volume trended down 1.7% in the June 2023 quarter with 5,192 apartments, while annual sales volume was 21.4% lower than a year ago. The average days on market for an apartment was 91 days in the June 2023 quarter. This was 99 days one quarter ago. Capital values for apartments fell 5.5% over the year to June 2023, but were up 3.5% in the last quarter to a median value of \$553,000 according to APM.

RENTAL MARKET

Gross rental yields for apartments were up 26 bps, to 5.19%, in the June 2023 quarter. Over the same time, rents increased 4.2% for apartments and trended up 22.0% over the past year, where median rents were \$500 per week (APM).

Total residential rental vacancy was 2.1% in Greater Melbourne at the end of June 2023 according to the REIV, with 2.0% in the CBD & Inner (0-10km) suburbs, 2.9% in the Middle (10-20km) suburbs and 1.6% in the Outer (20km+) suburbs.

82%

Share of Greater Melbourne site sales purchased for high-density residential development in the year to June 2023

-22%

Building approval for apartments change from June 2022 to June 2023 for Greater Melbourne

5.5%

Change in the cost of construction in Greater Melbourne in the year ending June 2023

-5.5%

The change in Greater Melbourne median established apartment values in the year to June 2023

7.4%

Portion of new property sales to international buyers in Victoria in June 2023

2.1%

Total residential rental vacancy in June 2023 across Greater Melbourne

4.10%

Official cash rate target in September 2023 with forecast of 3.40% in 2025 by Oxford Economics

4.7%

Victoria annual economic growth in 2022 with forecast by Oxford Economics of 3.6% in 2025

1.2%

Greater Melbourne population change in 2022 to an estimated 5.0 million persons, with 1.9% annual forecast in 2025

New apartments in Greater Melbourne

Greater Melbourne is forecast by the end of 2025 to receive only two-thirds of the annual average new apartments delivered over the past five years, placing pressure on developers as prices and rents continue to rise.

-20%

Greater Melbourne annual change in high-density residential development site sales volume at the end of June 2023

-8.5%

The change in Greater Melbourne's high-density development site prices in the year to June 2023

3.0%

Greater Melbourne's annual price change in June 2023 for new apartments

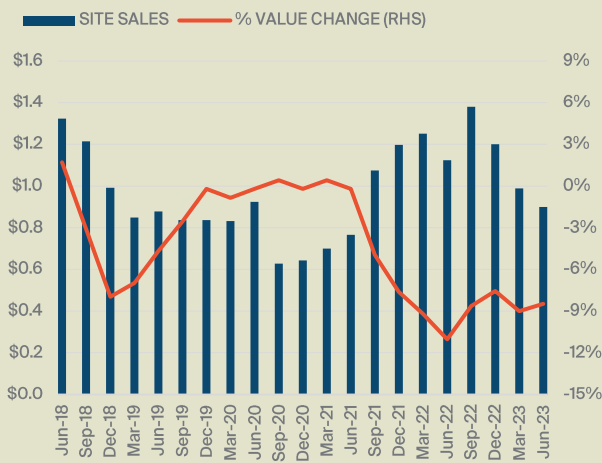
New apartments located in Greater Melbourne represent a geographical area designed by the Australian Bureau of Statistics as being the functional area of the capital city which includes populations who regularly socialise, shop or work within the city.

SITES: SALES & PRICE PERFORMANCE

- Total volume of high-density residential sites sold was \$900.2 million in the year to June 2023, 19.9% lower than a year ago.
- For a raw apartment site, average values ranged from \$30,000/apartment to \$320,000/per apartment in June 2023, with an indicative rate of \$114,400/apartment.
- Site values for apartment developments fell 8.5% over the past year, with a -1.5% change in the June 2023 quarter.

Greater Melbourne Site Sales & Values

High-density residential rolling annual major site sales volume (\$ billion) & % annual change in site values



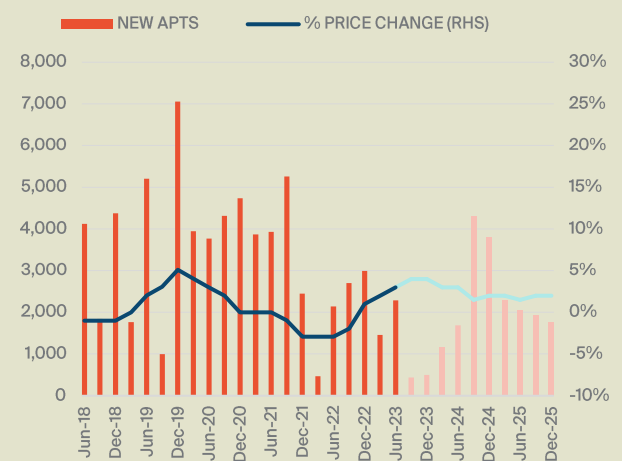
Source: Knight Frank Research

NEW APARTMENTS: PIPELINE & PRICE PERFORMANCE

- Almost 69,700 new apartments were built in the five years to June 2023. An average 13,700 new apartments were built each year, while this is forecast to average 9,100 in the next 3 years.
- The average price for a new apartment ranged from \$7,000/sqm to \$17,000/sqm in June 2023, with an indicative rate of \$10,300/sqm.
- New apartment prices rose 1.0% in the June 2023 quarter and were 3.0% higher over the past year.
- Average new apartment prices are forecast to change by 4% at the end of 2023, 2% in 2024 and 2% in 2025 according to Knight Frank Research.

Greater Melbourne Pipeline & Prices

No. of new apartments built or due each quarter & % annual change and forecast of new apartment prices

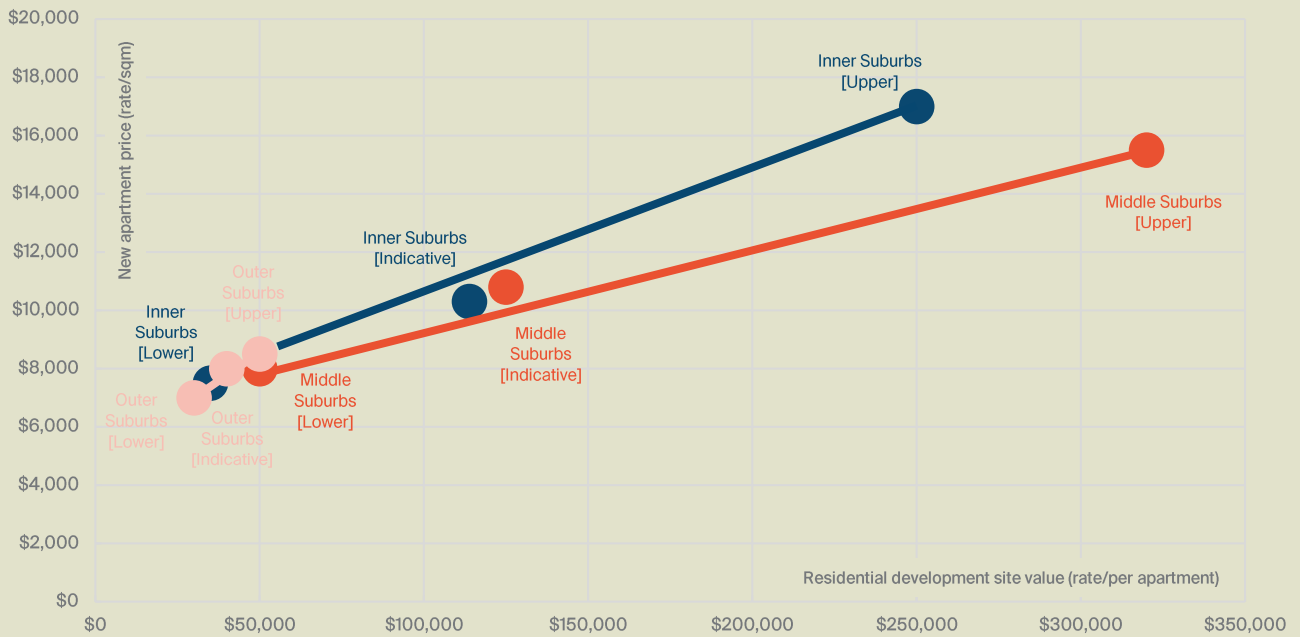


Source: Knight Frank Research

Snapshot: Development sites & apartment project pricing

Greater Melbourne Residential Development Site Values & New Apartment Prices

Based on high-density raw site values and standard mainstream new apartment prices, 30 June 2023



Source: Knight Frank Research

Greater Melbourne new apartments forecast

Greater Melbourne New Apartments Forecast

	2021	2022	2023f	2024f	2025f	2023-2025f AVE
Site Price Performance	-8%	-8%	-	-	-	-
New Apartment Pipeline	15,500	8,300	📉 4,700	📈 11,000	📉 8,000	📈 7,900
New Apartment Price Performance	-3%	1%	📈 4%	📈 2%	📈 2%	📈 3%
Residential Price Performance	15%	-7%	📈 1%	📈 4%	📈 5%	📈 3%
Residential Rental Market	0%	11%	📈 14%	📈 12%	📉 9%	📈 12%

Source: Knight Frank Research

New apartments in Melbourne prime regions

■ Although developer demand for buying high-density residential sites across Melbourne's prime regions has been lowered over the past year, new apartment prices have sustained an upward momentum given less product choice.

-46%

Melbourne prime regions annual change in high-density residential development site sales volume at the end of June 2023

-9.6%

The change in Melbourne's prime regions high-density development site prices in the year to June 2023

3.3%

Melbourne's prime regions annual price change in June 2023 for new apartments

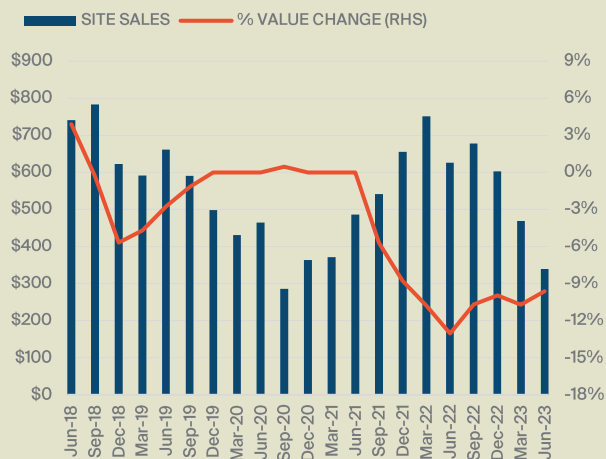
New apartments located in the prime regions are considered to include Inner Melbourne, Inner East, Bayside and the Eastern Suburbs of Melbourne.

SITES: SALES & PRICE PERFORMANCE

- Total volume of high-density residential sites sold was \$339.6 million in the year to June 2023, 45.7% lower than the year earlier.
- For a raw apartment site in the prime regions, average values ranged from \$50,000/apartment to \$320,000/per apartment in June 2023, with an indicative rate of \$167,000/apartment.
- Site values for apartment developments fell 9.6% over the past year, with -1.4% recorded in the June 2023 quarter.

Melbourne Prime Site Sales & Values

High-density residential rolling annual major site sales volume (\$ million) & % annual change in site values



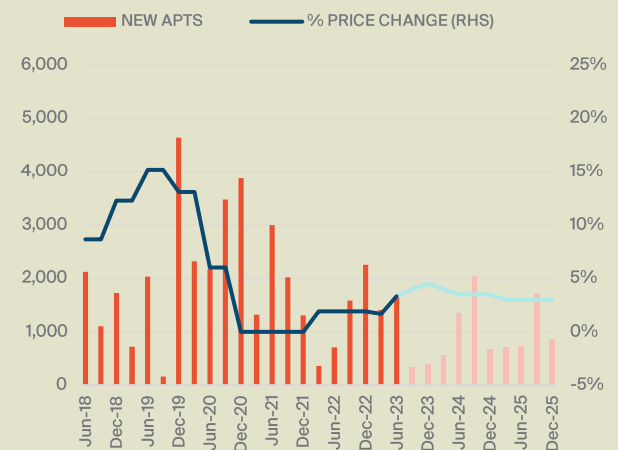
Source: Knight Frank Research

NEW APARTMENTS: PIPELINE & PRICE PERFORMANCE

- A little under 40,300 new apartments were built in the five years to June 2023. An average 7,900 new apartments were built each year, while this is forecast to average 4,200 in the next 3 years.
- The average price for a new prime luxury apartment ranged from \$20,000 to \$32,000/sqm in June 2023, with an indicative rate of \$25,000/sqm.
- New prime luxury apartment prices rose 1.6% in the June 2023 quarter and were 3.3% higher in the past year. Prices are forecast to change by 5% at the end of 2023, 4% in 2024 and 3% in 2025 according to Knight Frank Research.

Melbourne Prime Pipeline & Prices

No. of new apartments built or due each quarter in prime regions & % annual change and forecast of new prime luxury apartment prices



Source: Knight Frank Research

New apartments in Melbourne inner suburbs

■ A significant reduction in the number of new apartments built in the inner suburbs of Melbourne has seen new apartment prices continue to climb.

-31%

Melbourne inner suburbs annual change in high-density residential development site sales volume at the end of June 2023

-6.8%

The change in Melbourne's inner suburbs high-density development site prices in the year to June 2023

3.0%

Melbourne's inner suburbs annual price change in June 2023 for new apartments

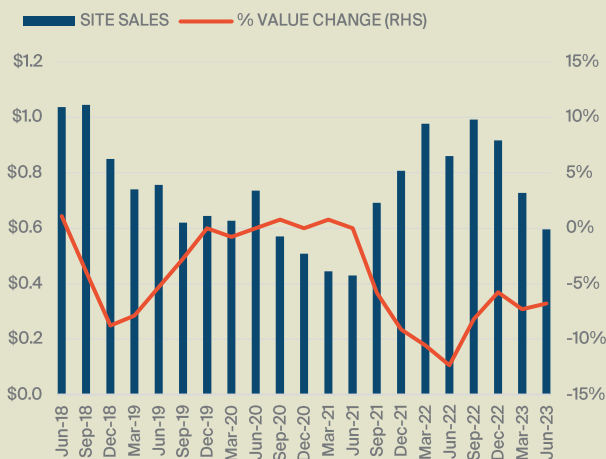
New apartments in the inner suburbs of Melbourne are located within a 10-kilometre radius from the Central Business District.

SITES: SALES & PRICE PERFORMANCE

- Total volume of high-density residential sites sold was \$596.2 million in the year to June 2023, 30.7% lower than a year ago.
- For a raw apartment site, average values ranged from \$35,000/apartment to \$250,000/per apartment in June 2023, with an indicative rate of \$113,900/apartment.
- Site values for apartment developments fell 6.8% over the past year, with a -1.5% change in the June 2023 quarter.

Melbourne Inner Ring Site Sales & Values

High-density residential rolling annual major site sales volume (\$ billion) & % annual change in site values



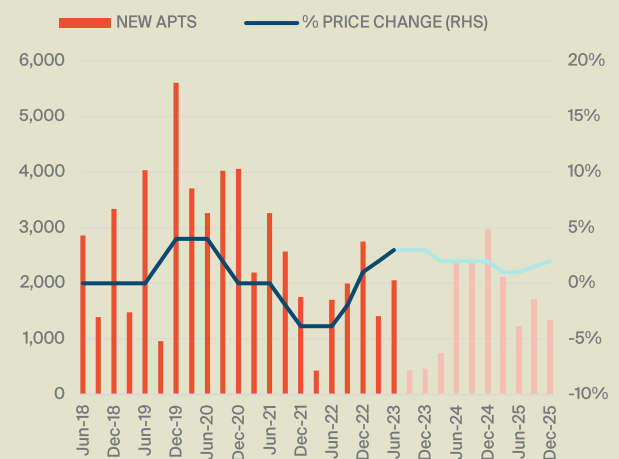
Source: Knight Frank Research

NEW APARTMENTS: PIPELINE & PRICE PERFORMANCE

- Close to 54,900 new apartments were built in the five years to June 2023. An average 10,800 new apartments were built each year, while this is forecast to average 7,200 in the next 3 years.
- The average price for new apartments ranged from \$7,500/sqm to \$17,000/sqm in June 2023, with an indicative rate of \$10,300/sqm.
- New apartment prices rose 1.0% in the June 2023 quarter and were 3.0% higher over the past year.
- Average new apartment prices are forecast to change by 3% at the end of 2023, 2% in 2024 and 2% in 2025 according to Knight Frank Research.

Melbourne Inner Ring Pipeline & Prices

No. of new apartments built or due each quarter & % annual change and forecast of new apartment prices



Source: Knight Frank Research

New apartments in Melbourne middle suburbs

Following elevated sales volume in the middle suburbs for high-density residential sites, values have tapered back, although the development pipeline remains subdued encouraging higher prices for new apartments.

48%

Melbourne middle suburbs annual change in high-density residential development site sales in June 2023

-14.8%

The change in Melbourne's middle suburbs high-density development site prices in the year to June 2023

4.9%

Melbourne's middle suburbs annual price change in June 2023 for new apartments

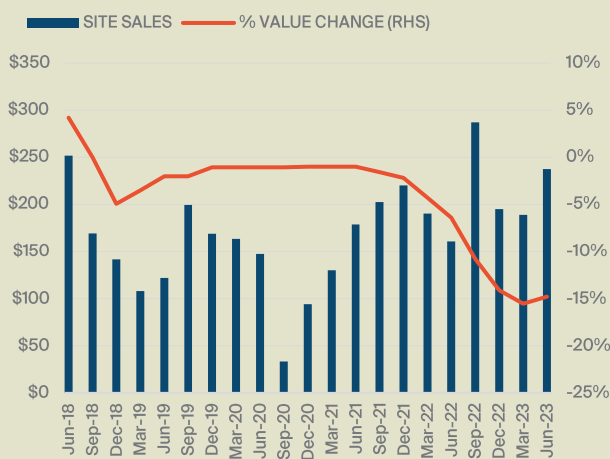
New apartments in the middle suburbs of Melbourne are located between a 10-kilometre and 20-kilometre radius from the Central Business District.

SITES: SALES & PRICE PERFORMANCE

- Total volume of high-density residential sites sold was \$237.4 million in the year to June 2023, 47.6% higher than the year earlier.
- For a raw apartment site, average values ranged from \$50,000/apartment to \$320,000/per apartment in June 2023, with an indicative rate of \$125,000/apartment.
- Site values for apartment developments fell 14.8% over the past year, with a -1.3% change in the June 2023 quarter.

Melbourne Middle Ring Site Sales & Values

High-density residential rolling annual major site sales volume (\$ million) & % annual change in site values



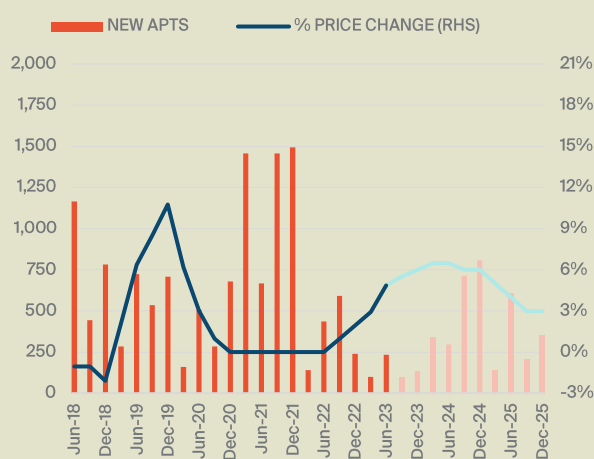
Source: Knight Frank Research

NEW APARTMENTS: PIPELINE & PRICE PERFORMANCE

- Almost 13,100 new apartments were built in the five years to June 2023. An average 2,600 new apartments were built each year, while this is forecast to average 1,600 in the next 3 years.
- The average price for a new apartment ranged from \$8,000/sqm to \$15,500/sqm in June 2023, with an indicative rate of \$10,800/sqm.
- New apartment prices rose 1.9% in the June 2023 quarter and were 4.9% higher over the past year.
- Average new apartment prices are forecast to change by 6% at the end of 2023, 6% in 2024 and 3% in 2025 according to Knight Frank Research.

Melbourne Middle Ring Pipeline & Prices

No. of new apartments built or due each quarter & % annual change and forecast of new apartment prices



Source: Knight Frank Research

New apartments in Melbourne outer suburbs

■ The outer suburbs of Melbourne remains predominately a standalone house and townhouse market with only a small number of new high-density apartments being built in recent years, although more are due by the end of 2025.

0

Melbourne outer suburbs high-density residential development site sales volume at the end of June 2023

-5.9%

The change in Melbourne's outer suburbs high-density development site prices in the year to June 2023

6.7%

Melbourne's outer suburbs annual price change in June 2023 for new apartments

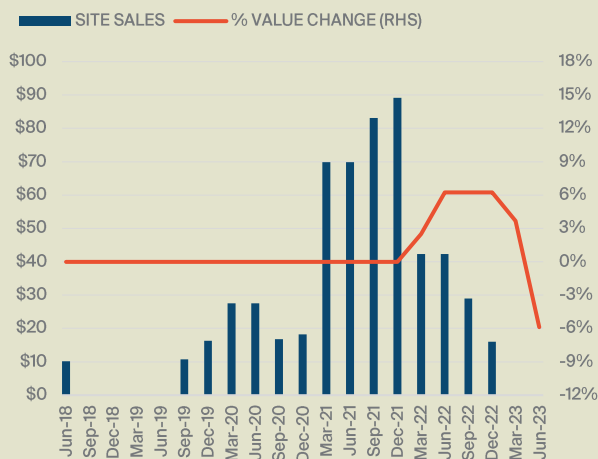
New apartments in the outer suburbs of Melbourne are located outside a 20-kilometre radius from the Central Business District.

SITES: SALES & PRICE PERFORMANCE

- No major high-density residential sites were disclosed as sold in the year to June 2023, although a volume of \$423 million was recorded a year ago.
- For a raw apartment site, average values ranged from \$30,000/apartment to \$50,000/per apartment in June 2023, with an indicative rate of \$40,000/apartment.
- Site values for apartment developments fell 5.9% over the past year, with a -5.9% change in the June 2023 quarter.

Melbourne Outer Ring Site Sales & Values

High-density residential rolling annual major site sales volume (\$ million) & % annual change in site values



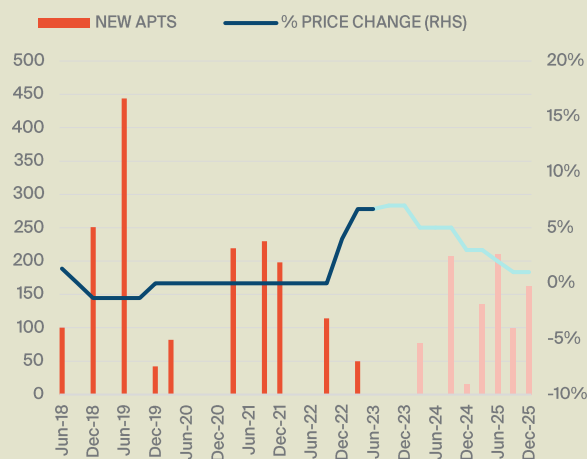
Source: Knight Frank Research

NEW APARTMENTS: PIPELINE & PRICE PERFORMANCE

- Close to 1,700 new apartments were built in the five years to June 2023. An average 300 new apartments were built each year, while this is forecast to average 500 in the next 3 years.
- The average price for new apartments ranged from \$7,000/sqm to \$8,500/sqm in June 2023, with an indicative rate of \$8,000/sqm.
- New apartment prices were steady in the June 2023 quarter but were 6.7% higher over the past year.
- Average new apartment prices are forecast to change by 7% at the end of 2023, 3% in 2024 and 1% in 2025 according to Knight Frank Research.

Melbourne Outer Ring Pipeline & Prices

No. of new apartments built or due each quarter & % annual change and forecast of new apartment prices



Source: Knight Frank Research

Data digest

Major sites

Considered to hold a raw site value threshold of \$2 million or more for all cities, except for Sydney and Melbourne being \$5 million or more.

High-density

Includes residential apartment projects with 4+ storeys in height.

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 regions

Prime regions cover postcodes in Inner Melbourne: 3000, 3002, 3004-3006, 3008, 3013, 3053, 3065; Inner East: 3121, 3141, 3181-3182; Bayside: 3184-3188, 3191, 3193, 3195-3196, 3205-3207; Eastern Suburbs: 3101-3104, 3122-3127, 3142-3146.

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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