RESIDENTIAL RESEARCH

AUSTRALIAN PRIME RESIDENTIAL REVIEW

H1 2017

WEALTH TRENDS | PROPERTY TRENDS | OUTLOOK

KEY FINDINGS

Australia is projected to see a 70% increase in **UHNWI population** between 2016 and 2026. The current UHNWI population in Sydney is estimated at 1,230 persons whilst Melbourne is closer to 900 persons.

Over the next two years, 30% of Australasian UHNWIs are likely to **purchase another residential property within Australasia**.

Sydney and Melbourne saw the highest net inflows of **HNWI population** globally with 4,000 and 3,000, respectively, in 2015. The current HNWI population in Sydney is estimated at 106,800 persons whilst Melbourne is closer to 74,800 persons.

Prime residential property prices in Sydney rose 9.3% in 2016; whilst Melbourne prime property prices grew 8.8%.

How many **square metres of residential prime property does US$1million buy** across the world? 59 sq m in Sydney & 110 sq m of Melbourne, at 30 December 2016, including both prime houses and apartments.

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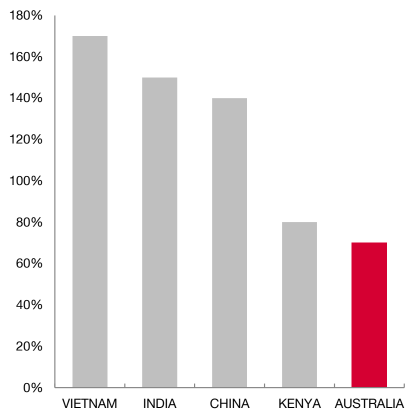
Knight Frank Residential Research

Wealth trends

Despite uncertainty over the future path of fiscal, economic and political policy, wealth creation gathered momentum during 2016. This has resulted in a rise in the global population of ultra-wealthy individuals. Wealth creation also means global demand is rising. The wealthy are more mobile than ever and looking to diversify into new and emerging global markets to preserve future wealth.

As the ongoing migration of the ultra-wealthy population is drawn to our attractive lifestyle and relatively healthy economy, Australia is projected to see 70% growth in its UHNWI population between 2016 and 2026 (Figure 1). Currently the UHNWI population in Sydney is estimated at 1,230 persons, whilst Melbourne is closer to 900 persons as reported by New World Wealth, in The Wealth Report 2017.

FIGURE 1
Projected UHNWI population growth 2016-2026
% population growth of selected countries



Source: Knight Frank Research, New World Wealth

The latest data on HNWI migration has followed a similar trend, confirming the strong and growing desire to live in Australia. The HNWI population in Sydney grew by 4,000 persons and by another 3,000 persons in Melbourne— the two cities leading the global list of net inflows of HNWIs in the year ending 2015 (Table 1). This net inflow of HNWIs represents growth of 4% to the 106,800 HNWI population already based in Sydney and 4% of the 74,800 HNWI persons already in Melbourne.

TABLE 1
Highest net inflows of HNWIs
Year ending 2015, rounded to nearest 1,000

City	Net Inflow	Inflow as % of HNWI population
Sydney	4,000	4%
Melbourne	3,000	4%
Tel Aviv	2,000	6%
Dubai	2,000	5%
San Francisco	2,000	2%

Source: Knight Frank Research, New World Wealth

The movement of private wealth across the world can take the form of temporary investments while others, like migration, are more permanent. Property remains a substantial target for this outbound capital, and its likely 32% of UHNWIs globally will invest in offshore real estate in the next two years, according to The Wealth Report 2017 Attitudes Survey. Over this time, 30% of Australasian UHNWIs are likely to purchase another residential property within Australasia, while 12% are planning to make their next residential property purchase offshore.

Property trends

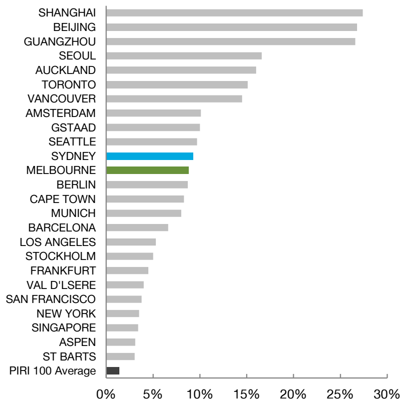
The value of the world's leading prime residential markets recorded slower growth in 2016, according to Knight Frank's unique Prime International Residential Index (PIRI), which tracks the value of luxury homes in 100 key locations worldwide. On average, values rose by 1.4% in 2016, compared with 1.8% in 2015. However, the PIRI 100 also reveals a huge gap of 49 percentage points between the top and bottom ranking, up from 45 in 2015. The top tier is dominated by cities in China, New Zealand, Canada and Australia as shown in Figure 2.

Prime residential property prices in Sydney experienced annual growth of 9.3% in 2016. Over the past two years the Sydney prime market has seen significant growth, peaking at 15.4% in the year ending 2015—outstripping the five year annual average of 6.6%. Throughout 2016, Melbourne prime property prices grew 8.8%, down 60bps from the year earlier, but still trending well above the five year annual average

FIGURE 2

Top 25 performing global cities for prime residential property

Annual % change in capital growth in 2016



Source: Knight Frank Research (The Wealth Report 2017: PIRI 100)

growth of 4.5%. 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 3. Coming off a lower base, the price growth for Melbourne prime was recorded above Sydney prime for the six years to March 2015. At this time, the Sydney prime market overtook, to record total price growth of 43% over the eight years ending December 2016, while Melbourne recorded total growth of 41%.

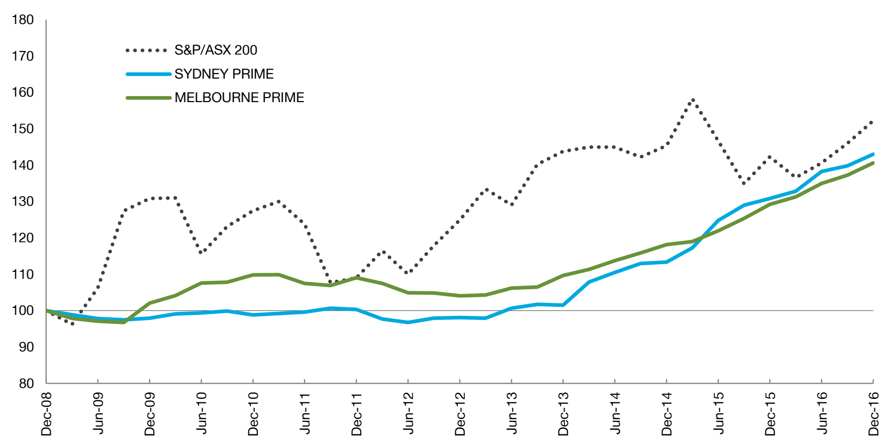
Over the past 24 months, demand for prime property continues to outweigh the limited supply being bought to market in both the established and new supply markets. Locally, retirees and those approaching retirement are still taking advantage of this supply gap in the market, achieving elevated prices for their family home and downsizing to a low-maintenance home, with high-quality modern conveniences. The expat dollar is still favourable and many are securing their ideal home for a future return to Australia. Foreign interest in prime Australian residential property has remained relatively strong throughout 2016 with many currencies holding an ongoing purchasing power against the Australian dollar. More due diligence is being carried out by purchasers, particularly due to the stronger penalties being enforced by the Australian government for those who breach the rules, and the processing fee now payable for every application to the Foreign Investment Review Board (FIRB).

Based on the typical luxury residential value (of houses and apartments) and the exchange rate at the end of 2016, key prime cities have been compared to determine the relative value of how many square metres US$1million would buy around the world in The Wealth Report 2017. The top four, Monaco (17 sq m), Hong Kong (20 sq m), New York (26 sq m) and London (30 sq m), continue to jostle for top position each year. There is a 51 sq m differential between the two top Australian cities, with Sydney (at 59 sq m) and Melbourne (110 sq m), despite both cities recording strong growth. When the same exercise was carried out at the end of 2015, US$1million represented 63 sq m of prime property in Sydney and 115 sq m in Melbourne.

FIGURE 3

Performance of the Australian share market & prime property

Indexed, 100=Dec-08



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

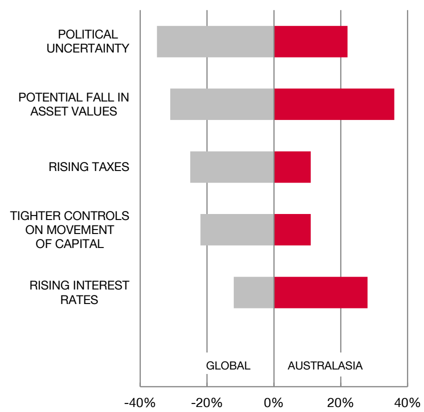
Outlook

There is ever growing demand from the global wealthy population to move their money into 'safe-havens', although increasingly challenged by governments to exercise control over that process around the world. Although wealth flows can be successfully corralled and redirected, they will not be curbed. The highest global threat for UHNWIs to create and maintain their wealth over the next five years is political uncertainty, according to 35% of respondents in The Wealth Report 2017 Attitudes Survey. The survey also found the potential fall in asset values (36%) followed by rising interest rates (28%) are the highest threats to Australasian wealthy clients as shown in Figure 4.

FIGURE 4

Threats for UHNWIs to create and maintain their wealth over next five years

% of respondents who strongly agreed to threat



Source: Knight Frank Research, New World Wealth

Australia is well-positioned for continued inflow of HNWIs in the coming years. The significant price growth experienced since early 2014 for both Sydney and Melbourne prime markets is likely to move towards a more sustainable level annual growth in 2017 of 5% and 4%, respectively.

The Wealth Report 2017 Attitudes Survey responses: Australasian region

- The five factors most important when managing wealth and investment decisions include: wealth preservation (89%), capital growth (73%), income return (59%), minimising risk (57%) and succession planning (51%).
- Capital growth (75%) is the most important factor to millennial clients; followed by looking for innovative ways to invest (61%) and portfolio diversification (47%).
- Potential fall in asset values (36%) followed by rising interest rates (28%) are the highest threats to clients' ability to create and maintain their wealth over the next five years.
- When passing wealth to the next generation, the biggest concerns for clients is the mismanagement of their inheritance (84%).
- On average, client wealth is divided into asset classes: primary residences and second homes (25%), real estate investments (25%), investments such as equities, bond, cash, precious metals etc (23%), personal business (14%), collectables such as art, cars, wine etc (5%) and other (9%).
- Lifestyle scored the most important when choosing somewhere to live (8.7/10) followed by personal security (8.3/10), safe haven for capital (7.2/10), opportunity for capital appreciation (7.2/10) , education for children (7.0/10) and access to transport links (7.0/10).
- An average 2.7 first and second homes are owned by clients. Outside Australasia, homes are predominately located in Europe (34%) and North America (23%).
- Over this time, 30% of Australasian UHNWIs are likely to purchase another residential property within Australasia, while 12% are planning to make their next residential property purchase offshore.

Results based on responses from almost 900 of the world's leading private bankers and wealth advisors, representing over 10,000 clients with a combined wealth of around US$2trillion as provided by New World Wealth. The Attitudes Survey Databank: the numbers behind the trends; including wealth management, succession, education and investment issues can be found in The Wealth Report 2017.

Source: Knight Frank Research, New World Wealth

Definitions

Prime (Luxury) Property is 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 is an ultra-high-net-worth individual—someone with a net worth of over US$30million excluding their primary residence.

HNWI is a high-net-worth individual—someone with a net worth of over US$1million excluding their primary residence.

Australasia refers to Australia, New Zealand, and neighbouring islands in the South Pacific Ocean.

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

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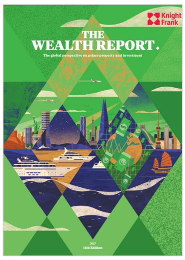

The Wealth Report 2017

Global Tax Report 2017

Prime Global Cities Index Q4 2016

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