RESIDENTIAL RESEARCH

COLLECTIVE SALES FOR RESIDENTIAL DEVELOPMENT

MARKET INSIGHT SEPTEMBER 2018

Key Facts

The share of **collective sales** in Australia was seven times greater in 2017/18 than five years ago, with 16.5% of total disclosed sales; although down from 20.4% a year ago.

Foreign buyers purchased 44% of collective site sales in 2017/18; with a 59.8% share being vertical site sales and 40.2% being horizontal sites.

Vertical collective sales suitable for higher density in NSW was 17.3% of total sales in 2017/18, up from 3.8% two years earlier and prior to strata legislation reform.

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Across Australia, collective site sales suitable for residential development continue to transact with multiple homeowners banding together horizontally, to form residential super-lots, and vertically, with owners of individual apartments and office suites. Foreign developers, now established in the market, are also proving comfortable exploring this type of purchase.

There has been strong activity of major site sales with potential for residential development in recent years, peaking in 2014/15 at $11.1 billion. By 2017/18, a total of $8.5 billion sites transacted, slightly lower than the $8.9 billion recorded in 2013/14.

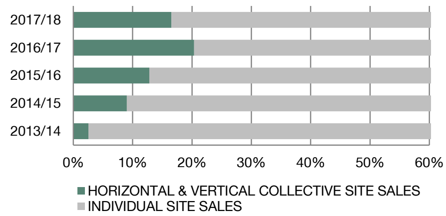
Collective site sales suitable for low, medium and high density development made up 16.5% of total disclosed sales in 2017/18; representing seven times more than five years ago (figure 1). These collective sales include horizontal sites, with multiple homeowners banding together to form amalgamated residential super-lots; and vertically, with owners of individual apartments, office and industrial suites within a building.

Although the portion of collective site sales was lower than recorded in 2016/17, when represented 20.4% of exchanged sales, the nature of this type of transaction tends to equates to longer settlements. So there are likely to be more transactions backdated in this period, once settled.

FIGURE 1

Collective Site Sales Suitable for Residential Development, Australia

% portion of disclosed total sales, by value



Residential development site sales suitable for low, medium and high density; threshold of $2M+ for all states, with the exception of NSW & Victoria being $5M+.

Source: Knight Frank Research

Across Australia, when analysing buyer nationalities, local buyers dominated horizontal site sales with almost 82% of total collective sites five years ago, by value. At this time, foreign buyers represented only 3.1% of collective sales (figure 2). The split of foreign buyers purchasing collective horizontal sites grew to 56.9% in 2014/15, to more recently record 17.7% in 2017/18.

This follows a number of large non-collective sites being transacted. In this last year, foreign and local buyers represented a reasonably even spread between horizontal and vertical collective site sales compared to previous years. Foreign developers established in the market, are now proving comfortable exploring this type of purchase.

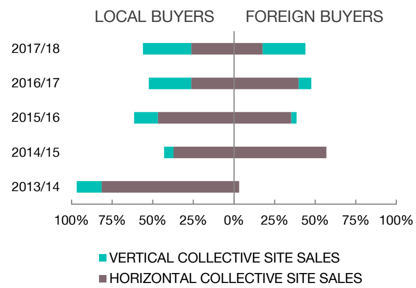
The portion of vertical site sales have continued to grow since 2013/14 when 15.4% of collective sales were purchased by locals—this is now around 30%. There were no significant collective vertical sites sold to foreign investors five years ago, but fast-forward to 2017/18, this portion tallied to 26.3%.

Vertical site sales have been more prevalent in New South Wales (NSW) since new legislation for strata properties came into operation in late 2016—growing from a share of 3.8% in 2014/15 to 17.3% in 2017/18 of total site sales suitable for higher density. This is despite a smaller share of collective site sales compared to a year earlier (figure 3).

FIGURE 2

Split of Buyer Nationality for Collective Site Sales, Australia

% of total collective sales suitable for residential development, by value



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Source: Knight Frank Research

This reform provides owners of freehold strata lots with an alternative way to end their strata scheme. This can be done by agreeing to a plan allowing for the collective sale, or redevelopment, of their strata complex in circumstances where not all, but at least 75%, of owners agree.

A similar strata reform is proposed for Western Australia (WA), with the Strata Titles Amendment Bill 2018 currently with the Standing Committee on Legislation for review, to encourage the upgrade of buildings not currently reaching full potential and to curb urban sprawl. Interestingly, in WA, 63.1% of potential higher density sites were sold in a collective manner in 2017/18, although its important to note the small sample of sales.

In Victoria, the share of collective site sales by value has fallen each year since 2014/15. The relative value of development sites are still favourable when compared to NSW and there remains a good mix of available sites across the suburbs of the planned city. At this stage, this avoids the need to explore this option.

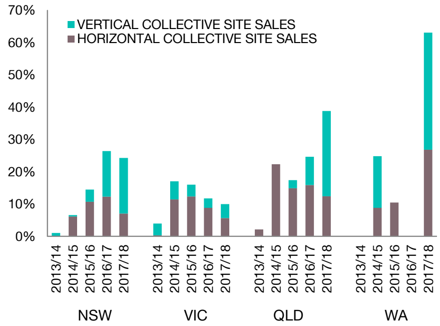
Bucking this trend, despite Queensland development sites being relatively better priced than both states, collective sales suitable for higher density has continued on an upward trend since 2015/16. This has been the result of a mixture of Brisbane inner city apartment blocks and office suites selling in one line reflecting recent weaker office market conditions, with high vacancy and little prospect for many secondary buildings.

Whilst the flurry of collective site sales has not been as prevalent in the media headlines recently, there are still many being cultivated behind the scenes with the average timeframe of 2-3 years before coming to market.

FIGURE 3

Collective Site Sales Suitable for Higher Density Residential Development

% portion of disclosed total sales for each state, by value



Residential development site sales suitable for higher density development equivalent to 4+ storeys and 25+ apartments; site sale threshold of $5M+ for NSW and Victoria, and $2M+ in Qld and WA.

Source: Knight Frank Research

Definitions

Collective site sales have the potential for residential development and include more than one vendor coming together to form a group in order to sell their property, in one line, to a purchaser. This includes properties with Strata title (and with potential to meet requirements for Strata subdivision), Torrens title, Community title or state equivalent.

Horizontal examples include the sale of multiple single dwellings, or land owners grouping together to form an amalgamated residential super-lot with the intention for redevelopment.

Vertical examples include the sale of an entire complex with two or more levels, comprising multiple owners of residential, office or industrial suites with the intention for redevelopment.

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

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