

Melbourne Prime Residential Insight



Q2 2023

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

knightfrank.com.au/research

► Melbourne home to considerably more millionaires and ultra-wealthy people in 2022 with stronger economic forecast from 2024 for wealth creation

5.8%

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

+14 pts

Business conditions index points in March 2023

6.6%

Annual growth in March 2023 of new private business investment

Key drivers

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 millionaire population has 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 (UHNW) population in Melbourne grew by 5.8% in 2022, to 2,685 people with net wealth of more than US\$30 million.

From 2017, the Melbourne ultra-wealthy population has expanded by 50.8%, ahead of the Australian growth of 31.3%, where the Melbourne share of the Australian UHNW population has expanded from 13.4% to 15.4%.

This ultra-wealthy 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 4.0%, trending 48 bps lower than the year earlier. Oxford Economics forecast economic growth to taper back to 1.3% at the end of 2023, 1.3% in 2024 and 3.5% in 2025.

Australia's stock market performance on the S&P/ASX 200 rose in the first quarter of 2023 by 2.0%, to arrive at total annual change of -4.5% over the past year.

The stock market is forecast to improve 2.4% by the end of 2023, before rising by a further 4.2% in 2024 and 3.0% in 2025.

Business conditions improved 2.5 pts in the March 2023 quarter to +14 index points in the NAB business sentiment survey. This was trending slightly higher than the +13.9 pts a year ago.

Company profits across Australia grew 19.2% in 2022, after recording 5.6% growth in 2021.

Annual company profits are forecast to fall by 3% in 2023, before falling a further 3.8% in 2024, although company profits are expected to recover by 2.4% in 2025.

New private business investment grew by 6.6% in the year to March 2023. This was higher than 4.6% annual growth six months earlier, and higher than 3.2% growth recorded a year ago.

LENDING ENVIRONMENT

The official cash rate on 6 June 2023 had been raised 50 bps over the past three months, to 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 3.94% by the end of 2024.

In the March 2023 quarter, average mortgage lending rates to owner occupiers increased by 3 bps to 6.27% for a 3-year fixed term loan and rose by 50 bps to 8.02% for a standard variable loan. For investors, a 3-year fixed term decreased by 1 bps to 6.32%, and a standard variable loan rose by 50 bps to 8.60% (RBA).

Established prime residential

► Melbourne prime property experiences strongest price growth in Australia, although sales volume on downward trajectory

-23.6%

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

2.9%

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

9.1%

Annual prime residential rental growth in March 2023 in Melbourne

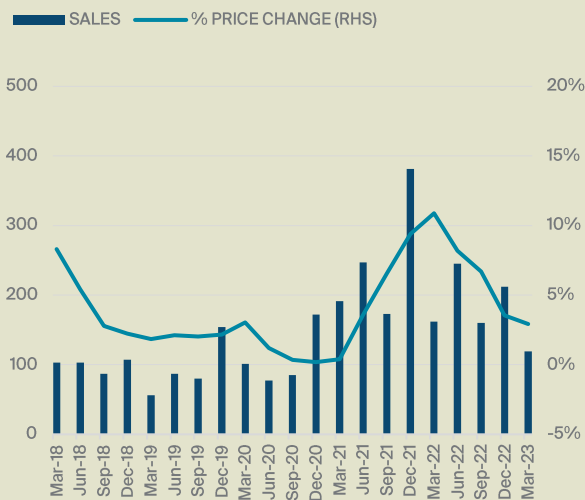
Prime Melbourne

PRIME SALES & PRICE PERFORMANCE

- Melbourne prime residential sales volume trended down 43.9% in the March 2023 quarter with 119 homes sold, with annual sales volume 23.6% lower than a year ago with a total 736 sales.
- Average days on market for prime residential home stood at 78 days in the March 2023 quarter. One quarter ago, this was 70 days.
- Prime residential prices increased 2.9% over the year ending March 2023, while in the last quarter, prices were up by 1.5%.

Melbourne Prime Residential Sales Market

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



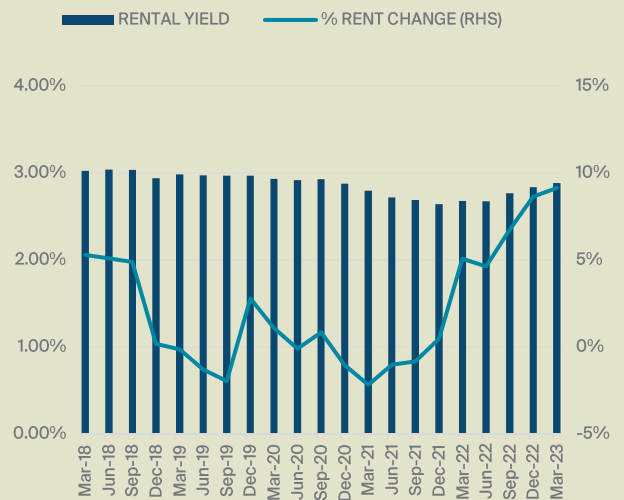
Source: Knight Frank Research

PRIME RENTAL MARKET

- Melbourne gross rental yields for prime residential properties increased 5 bps in the first quarter of 2023, to 2.89%.
- Rents rose 3.2% for prime residential homes in the March 2023 quarter and were up 9.1% in the past year.

Melbourne Prime Residential Rental Market

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%	4.6%	↓ 1.3%	↓ 1.3%	↓ 3.5%	↓ 2.0%
Unemployment Rate	5.1%	3.7%	↑ 3.9%	↑ 4.2%	↑ 4.1%	↑ 4.1%
Cash Rate Target	0.1%	1.2%	↑ 3.8%	↑ 3.9%	↑ 2.9%	↑ 3.6%
Stock Market	17.5%	-1.7%	↑ 2.4%	↑ 4.2%	↑ 3.0%	↑ 3.2%
Company Profits	5.6%	19.2%	↓ -3.0%	↓ -3.8%	↓ 2.4%	↓ -1.5%

Source: Oxford Economics

Melbourne Prime Residential Forecast

	2021	2022	2023f	2024f	2025f	2023-2025f AVE
Prime Price Performance	9%	4%	↓ -1%	↓ 2%	● 4%	↓ 2%
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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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

James Thorpe
+61 3 9604 4625
james.thorpe@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



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