Melbourne Prime Residential Review

Q3 2020
Melbourne’s ultra-wealthy population have had an extended period to reflect on their lifestyles during lockdown with the demands on the home expanding, the way they live and use their space. How has the local prime property market performed this past quarter?

Heading into 2020, confidence had started to return to Melbourne prime property, spurred on by lower interest rates, rising wealth and prominent prime projects being built. COVID-19 has since redirected the buyers’ minds on their priorities and lifestyle.

To better understand how attitudes have changed as a result of the pandemic, a Knight Frank Global Buyer Survey was conducted in June 2020. One in four surveyed, said they were more likely to move home in the next 12 months as a result of the pandemic. Upgrading the family’s primary residence was the main reason and after a period of confinement, the message, not surprisingly, is that buyers want more space.

Wealth trends
At the end of 2019, Australian ultra-high-net-worth individuals were expected to grow by 5.2% per annum, by the end of 2024.

According to the Knight Frank City Wealth Index for 2020 based on wealth, investment and lifestyle, Melbourne ranked 40th, from 100 global cities.

Prime sales performance
Across Melbourne’s prime regions, the volume of sales in the second quarter of 2020 tallied to 77 prime properties. This was 25% below the first quarter volume, however annually, up 21% over the past year.

The average days on market for a prime property in Melbourne was 90 days in the June 2020 quarter. This was 86 days one quarter ago.

Prime price performance
Capital growth for prime property rose 1.2% over the past year to June 2020, although fell by 1.0% in the last quarter. Globally, Melbourne ranked 24th from 45 cities for annual price growth.

At the end of June 2020, those buying with the New Taiwan Dollar were ranked most advantaged for a currency play when buying Melbourne prime property, with a 6% discount.

In terms of relative value at this time, one could buy 98 sqm of internal luxury floorspace in Melbourne for US$1 million, compared to $1 sqm in Sydney or 22 sqm in Hong Kong.

Prime rental performance
Gross rental yields for Melbourne prime property trended down 1 bps to 2.92% over the June 2020 quarter. A year ago this yield was also recorded at 2.97%. Over the quarter ending June 2020, rental growth fell by 1.2% for prime property in Melbourne.

New prime development pipeline
In mid-2020, there had been 50,655 medium- and high-density new apartments and townhouses completed in Melbourne’s prime regions since 2015. There are 41,075 more forecast by the end of 2024 in the pipeline; currently under construction or being marketed with DA approval.

In this pipeline, the distribution of bedrooms have been weighted towards 2-bed configured apartments with 44% of the total share, followed by studio & 1-bed (35%) then 3-bed+ (21%).

Melbourne new prime apartment prices have increased 25.9% since 2015 to an indicative $17,000/sqm at the end of the first half of 2020; to range between an average of $15,000/sqm and $25,000/sqm.

Outlook
As the second wave of lockdown is extended, it’s likely the Melbourne prime property market will lag other cities in recovery in late 2021. Although lowered over the next five years, the market may be further hindered by a solid pipeline of new supply across the prime regions and heavy reliance on a weakened population growth.
City Wealth Index 2020
Melbourne
100 global cities ranked

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Source: Knight Frank Research

Increase in the number of Melbourne prime properties sold over the past year

90 Average days on market for prime residential properties in Melbourne in Q2 2020

“There was a 6% discount for Melbourne prime property when purchased with New Taiwanese Dollar in Q2 2020”

Prime property price performance
% annual capital growth, as at 30 June 2020

-10% -5% 0% 5% 10% 15%

Source: Knight Frank Research

Distribution of bedrooms in new apartments
% portion, Melbourne prime regions
- Studio+1-bed
- 2-bed
- 3-bed+

H2 2020-H2 2024
H1 2015-H1 2020

Source: Knight Frank Research

-0.1% Growth in Melbourne prime rents between Q2 2019 and Q2 2020

“In prime regions of Melbourne, there are 19% less new apartments and townhouses forecast to be built over the next five years”

Melbourne prime residential price and rental performance
- Annual Capital Growth
- Annual Rental Growth
- Gross Rental Yield (RHS)

Source: Knight Frank Research
Prime (luxury) residential 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. Prime residential sales hold a threshold of AU$3 million in Melbourne prime regions. Ultra-high-net-worth individual (UHNWI) is someone with a net worth of over US$30 million including their primary residence. Otherwise known as ultra-wealthy. 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 reference to dollars or $ refers to 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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