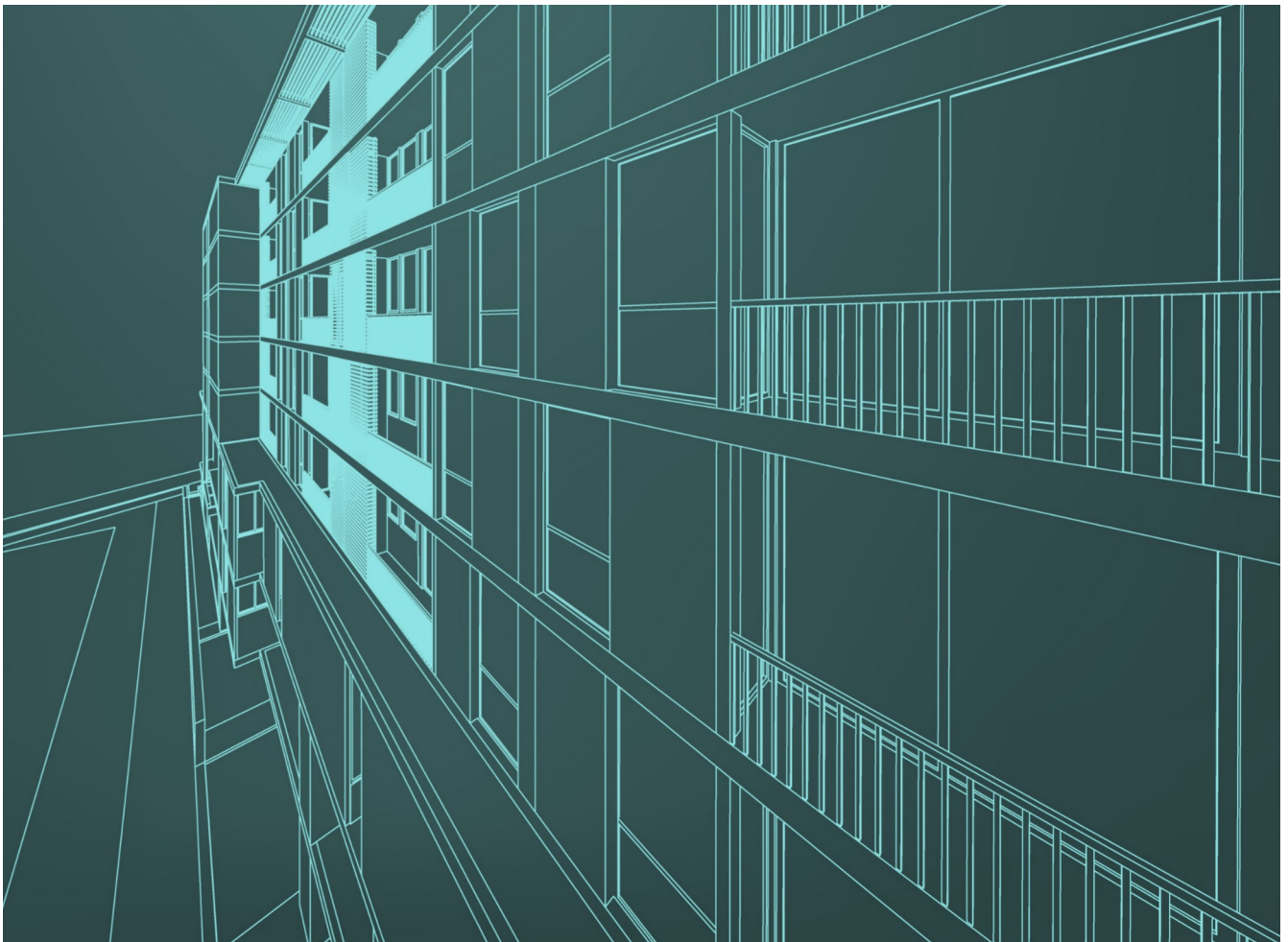


*How are developer's priorities, motivations
and attitudes evolving?*



Australian Residential Developer Survey 2023

knightfrank.com/research

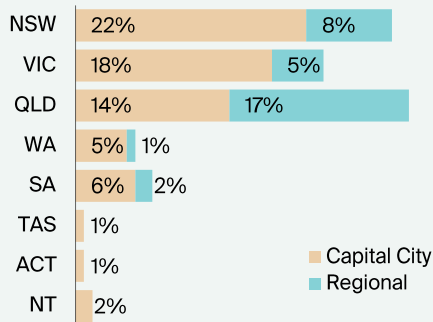


About the survey

The **Knight Frank Australian Residential Developer Survey** was conducted between 28 November and 16 December 2022. The findings represent the views of over 70 Knight Frank developer clients across Australia's six states and two territories. The data below sets out the profile of respondents in terms of where they are located, what type of product they build and the average number of dwellings they add to the housing stock each year.

Where have you been active in the past 3 years?

% of respondents



Source: Knight Frank Research

What type of homes have you built in the past 3 years?

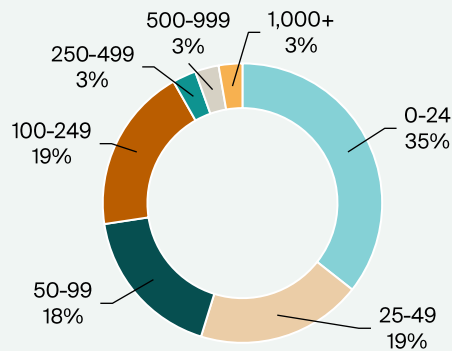
% of respondents



Source: Knight Frank Research

How many residential dwellings do you build on average, per year?

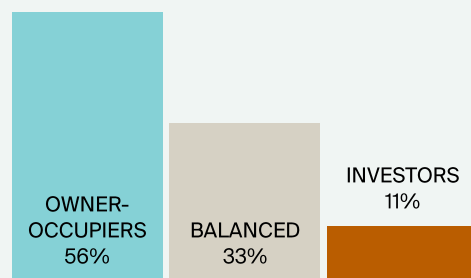
% of respondents



Source: Knight Frank Research

Who was the main intended buyer for your last project?

% of respondents



Source: Knight Frank Research

AT A GLANCE

Michelle Ciesielski analyses and explores the findings from this year's Australian Residential Developer Survey to understand how developer's priorities, motivations and attitudes are evolving.

04.

What are developers thinking about?

We explore the world of land availability and making projects stack up.

05.

Australian High-Rise Residential Land Index

Tracks the movement in land values suitable for high-rise projects across the eight capital cities of Australia.

06.

Building resilience

What did developers find most challenging in 2022, and what will have the greatest impact in 2023?

07.

How does the development landscape in the UK compare to Australia?

A case study to better understand developer priorities, motivations and attitudes.

08.

Unblocking the bottlenecks

How are developers dealing with the constraints to deliver more homes across Australia?

10.

Buyer Dynamics

Who are developers accommodating in their next project?

11.

Australian High-Rise Residential New Homes Index

Tracks the movement in mainstream prices for new homes being sold off-the-plan in Australia's eight capital cities.

12.

Holding the key

We take a look at the new apartment pipeline across Australia in low-rise, mid-rise and high-rise projects.

14.

Luxe Living

Developers share features becoming more prevalent in new luxury developments.

15.

The Big Five

Five key trends developers should have on their radar in 2023.

WHAT ARE DEVELOPERS THINKING ABOUT...

For a seasoned developer, it's all about the future land opportunities and keeping an active construction pipeline.

The overwhelming majority of respondents to our survey are flagging concern around the availability of suitable development land with 53% saying it is limited across Australia, with one-quarter further adding it is considered very limited.

Despite this supply constraint, almost half the developers felt residential site values would fall in their market when asked to consider the next six months.

Depending on the stage of construction, the feasibility of the current pipeline has certainly been on the minds of Australian developers given the uncertainty in the market. When buying residential sites in 2022, 38% of developers said they reduced their profit margin.

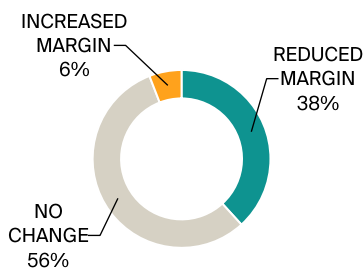
In order to keep their pipeline active in 2023, 25% said they were considering this move again. If they are indeed in a position to do this, it would ensure their skilled tradespeople are retained and perhaps position themselves early to catch the upswing for the delivery of the project.

79%

Developers surveyed say the availability of land supply is limited or very limited

In 2022, how did you factor in your profit margin?

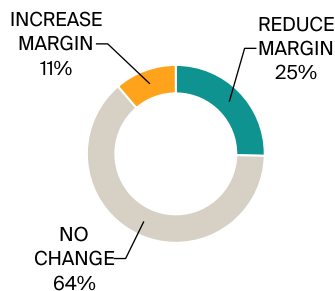
% respondents when buying residential sites



Source: Knight Frank Research

In 2023, how will you factor in a profit margin?

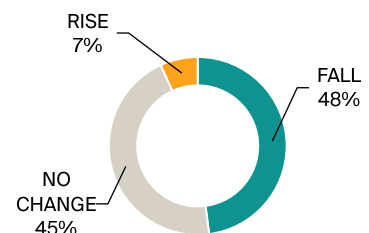
% of respondents when considering their active pipeline



Source: Knight Frank Research

What do you feel will happen to residential site values?

% of respondents when considering the next 6 months



Source: Knight Frank Research

AUSTRALIAN HIGH-RISE RESIDENTIAL LAND INDEX

-5.2%

AVERAGE ANNUAL CHANGE IN
HIGH-RISE DEVELOPMENT LAND
VALUES IN 2022

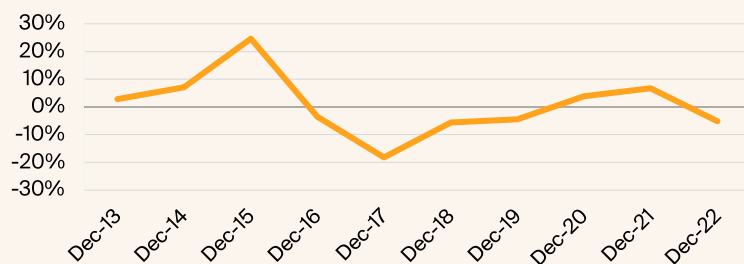
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THE NUMBER OF CAPITAL CITIES
REGISTERING NO CHANGE IN VALUE
ON AN ANNUAL BASIS

Brisbane

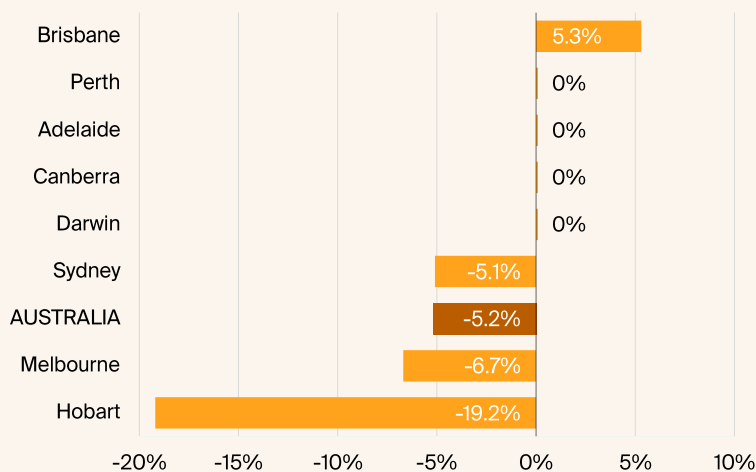
THE CITY WITH THE STRONGEST
GROWTH IN LAND VALUES
IN THE 12 MONTHS TO Q4 2022

Australian high-rise residential land index
% annual growth, capital cities



Source: Knight Frank Research

Australian high-rise residential land performance
% annual growth, Q4 2022, capital cities



Source: Knight Frank Research

The Australian High-Rise Residential Land Index tracks the movement in land values suitable for high-rise residential projects across the eight capital cities of Australia.

After recording 6.8% growth in high-rise residential land prices in 2021, values fell by 5.2% in 2022. This market is likely to remain subdued as developers regroup following a challenging few years, and as it has become evident, the higher interest rate environment is dampening buyer demand.

This decline in site values was mostly influenced by the larger cities of Melbourne (-6.7%) and Sydney (-5.1%), whilst the relatively smaller market of Hobart saw values decline by 19.2% in 2022, following growth of 30.0% the year before.

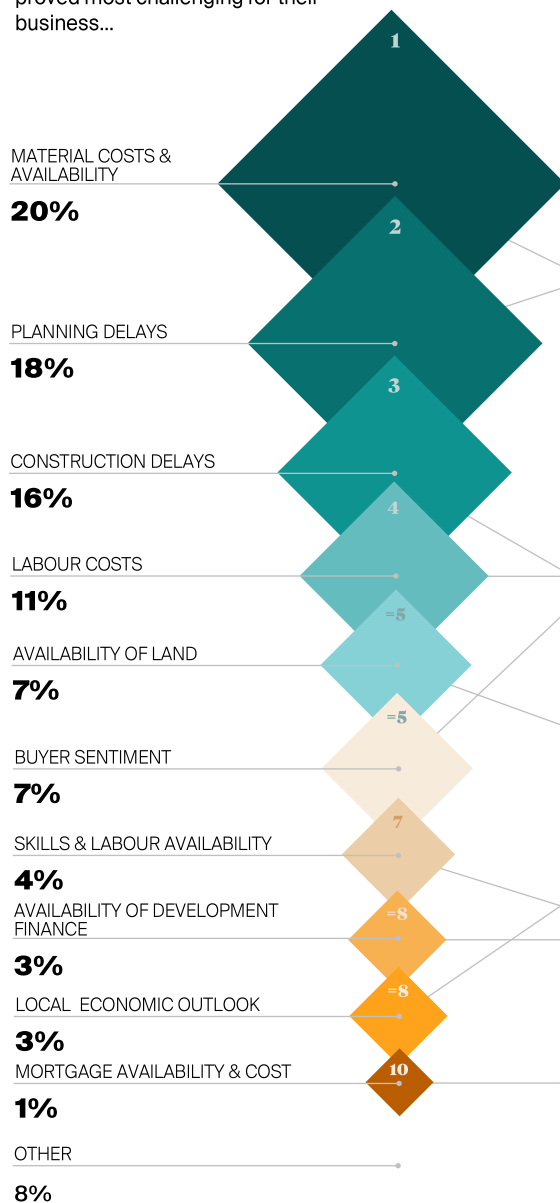
Brisbane was the only city to see upward growth in values (5.3%) and this was partly driven by interstate developers finding value for money as state borders reopened. The remaining four capital cities registered no change in values over this time.

BUILDING RESILIENCE

Over half the developers in the survey stated the availability and cost of materials, with delays in both planning and construction were the most challenging for their business in 2022. With the exception of ongoing planning delays, these other challenges are expected to ease as the focus turns to restoring buyer confidence.

Most challenging in 2022

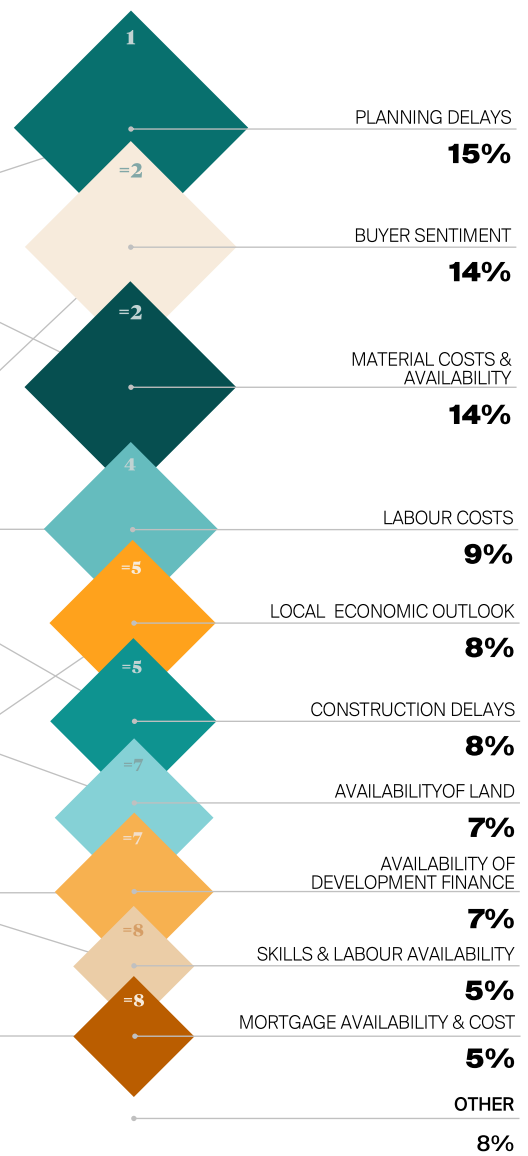
% of respondents that said factors proved most challenging for their business...



Source: Knight Frank Research

Greatest impact in 2023

% of respondents that said factors will have the greatest impact on residential development...



% of respondents (choose up to three for each year)

CASE STUDY: AUSTRALIA & THE UK

How does the development landscape in the UK compare to Australia? To better understand how priorities, motivations and attitudes are evolving for developers, a similar *Residential Developer Survey* was conducted with UK developers and homebuilders by Knight Frank Research.

Land availability

UK: The survey revealed 85% of developers found the available land market supply was limited or very limited.

AUS: When Australian developers were asked, 79% agreed with this statement.

Land prices

UK: Land values declined 1.3% for greenfield and fell 9.2% for urban brownfield development sites in 2022. A further

fall is expected in 2023 by 52% of developers.

AUS: In 2022, land values were 5.2% lower for sites suitable for high-rise development, with 48% of developers saying this growth trajectory is likely to continue in 2023.

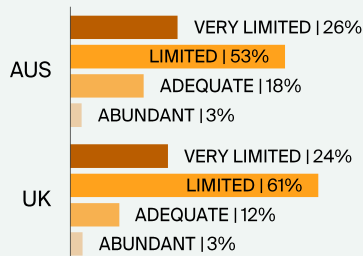
Build costs

UK: 76% of UK developers shared the escalating build costs in 2022 was a significant to moderate impact on their business. Adding all factors like material and labour costs and availability together, a 12% proportion said this was a key challenge in 2023, however 41% said the impact of planning and the environment was a bigger challenge.

AUS: The impact of higher build costs were significant to moderate for 92% of Australian developers and 37% believe this will be their greatest challenge once again in 2023, along with the availability of materials and labour.

Land availability

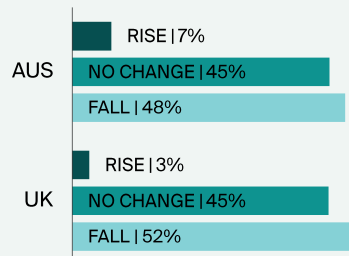
% of respondents that said available land market supply was...



Source: Knight Frank Research

Land prices

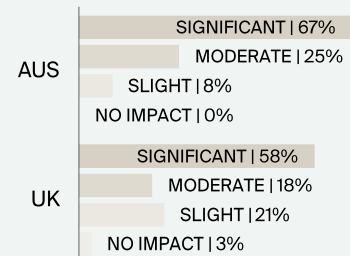
% of respondents that thought 2023 land prices will...



Source: Knight Frank Research

Build costs

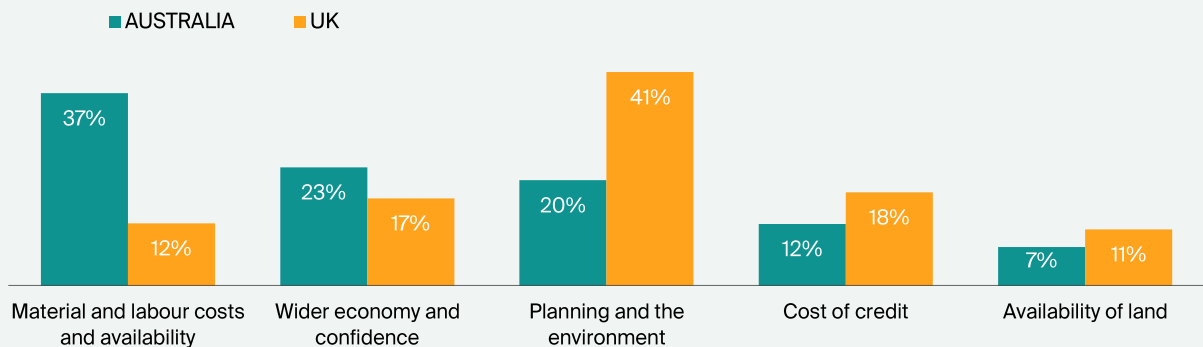
% of respondents sharing the impact build costs had in 2022...



Source: Knight Frank Research

What are the key challenges for housebuilders and developers in 2023?

% of respondents (choose up to three)



Source: Knight Frank Research

UNLOCKING THE BOTTLENECKS

How are developers dealing with the constraints to deliver more homes across Australia?

Over recent years like many, developers and homebuilders have pushed forward exceptionally well when faced with multiple bottlenecks to get the job done.

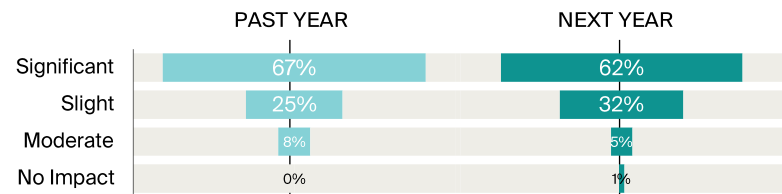
Every single Australian developer surveyed was impacted by rising build costs in 2022. Build cost escalation saw 67% of developers impacted significantly in their business over the past year and 62% expect further impact in 2023.

When asked about changing to other methods of construction, one-third had already made a change to combat the rise in cost of raw materials and 56% were considering a change.

Although when it comes to planning, nine in ten developers surveyed said the impact from planning regulations is causing a barrier for the delivery of future housing supply. Not surprising, half the respondents now believe a site with development approval is ideal for their next purchase.

The impact of escalated build costs to your business...

% respondents



Source: Knight Frank Research

Will you be changing to other methods of construction?

% of respondents considering the rise in cost of raw materials



Source: Knight Frank Research

92%
Developers surveyed said the impact from planning regulations is causing a barrier for the delivery of future housing supply

Ideally, what is the planning status of the next development site you buy?

% respondents

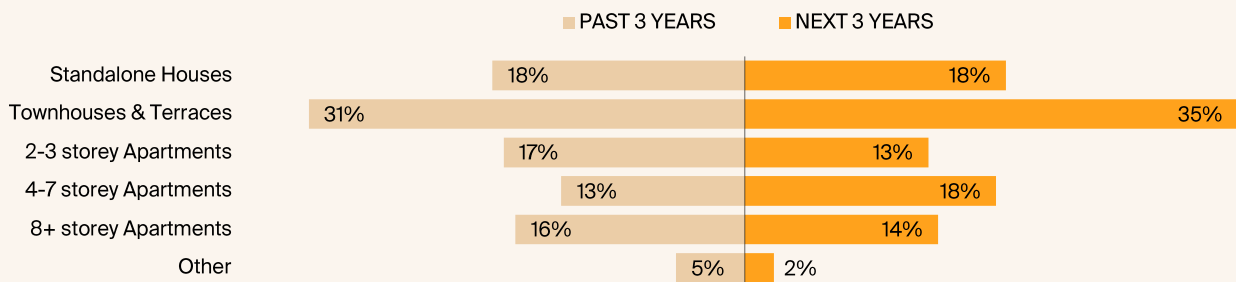


Source: Knight Frank Research

DEVELOPERS PUSH FORWARD

What type of residential homes have you built?

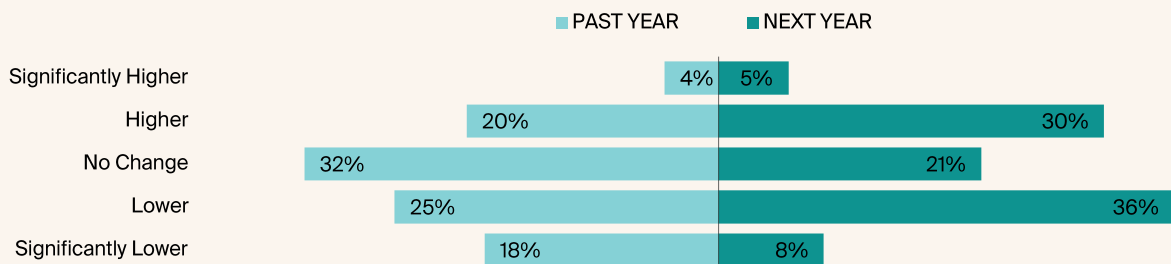
% respondents (choose multiple)



Source: Knight Frank Research

How does the total number of your new builds compare to your average?

% respondents



Source: Knight Frank Research

BUYER DYNAMICS

Developments became more sensitive to the requirements of domestic buyers in recent years.

Back in 2020, global developers who had delayed their projects were asked if they had planned to make any changes to the design of their developments on second attempt to the market. Developer clients sharing their thoughts at the time were divided down the middle.

Not only did buyers have time to reflect on their lifestyles during lockdown, but they did at a time when the demands and expectations of a home grew significantly. As a result, developers have been catapulted to pivot towards larger sized houses, and apartments with notable amenities, to entice those with growing appetites for the convenience and agility of apartment living.

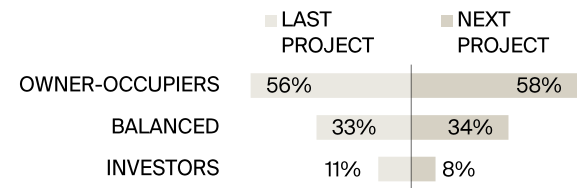
The share of Australian developers building stock suitable for investors has gently diminished in the past decade.

When asked, 11% of Australian developers stated their last project was built with the intention of an investor buyer, however only 8% said this would be the case for their next project. More are preferring to opt for a balanced buyer pool or designed purely for an owner-occupier.

Missing in action for developers has been the non-resident international buyers, who by law, must buy a new dwelling to add to the housing rental stock if they plan to invest in Australia.

Who is your main intended buyer group?

% respondents when considering their own projects



Source: Knight Frank Research

An average 14% of projects were allocated towards international buyers in 2019.

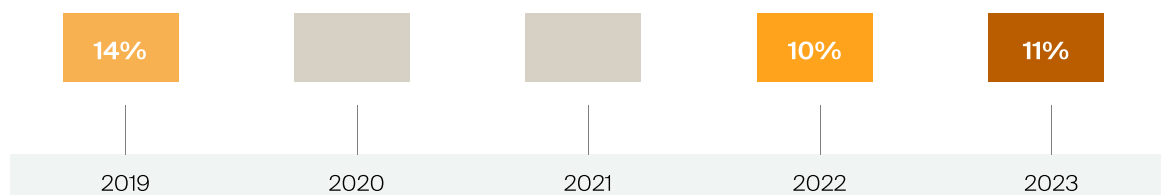
With international border closures, the doubling of FIRB application fees, unfavourable currency plays and increased competition from other countries, the allocation by developers geared towards international investors in their projects dropped to an average 10% in 2022.

However, this also coincided at a time when rental vacancy was historically low across most Australian cities and double-digit annual rental growth was being logged.

Developers are more optimistic for international buyer activity in 2023. They expect to increase their allocation to an average 11% for these types of buyers across their projects.

What proportion of your projects are allocated for international buyers?

Total average for each year



Source: Knight Frank Research

AUSTRALIAN HIGH-RISE RESIDENTIAL NEW HOMES INDEX

2.1%

AVERAGE ANNUAL GROWTH IN
HIGH-RISE NEW HOMES
VALUES IN 2022

5

THE NUMBER OF CAPITAL CITIES
REGISTERING AN INCREASE IN VALUE
ON AN ANNUAL BASIS

Brisbane

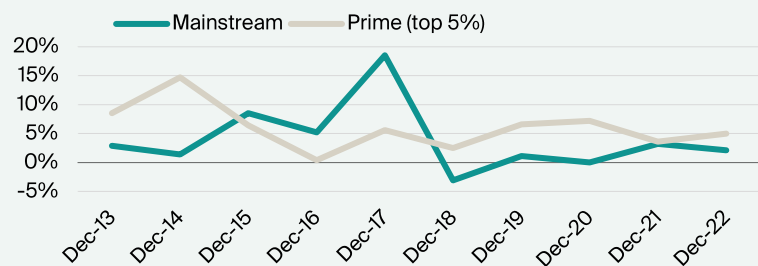
THE CITY WITH THE STRONGEST PRICE
GROWTH IN HIGH-RISE NEW HOMES
IN THE 12 MONTHS TO Q4 2022

The Australian High-Rise Residential New Homes Index tracks the movement in mainstream prices for new homes being sold off-the-plan in residential projects across Australia's eight capital cities.

Following the flurry of activity in the standalone housing market throughout the pandemic, many turned to new apartments as a more affordable option. For many, there wasn't much choice of new stock which in turn, drove up new apartment prices. A rise in new home values was noted in Brisbane (4.2%), Adelaide (3.6%), Hobart (2.8%), Sydney (1.6%) and Melbourne (1.0%). There was no change captured for the other cities.

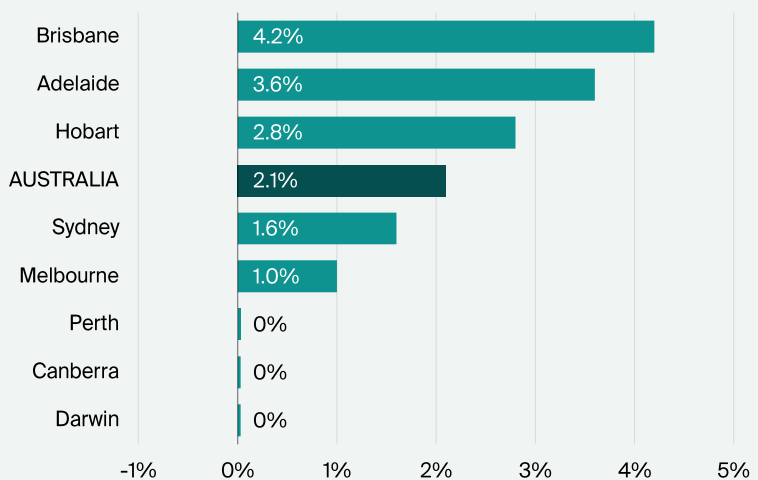
Overall, new homes in high-rise developments grew by an average annual 2.1% in 2022, though slowing from 3.2% one year ago as buyer sentiment moderates. There remains some strength in the prime (top 5%) market with annual growth of 5.0% in 2022, after 3.6% growth in 2021, as developers start to deliver more high-end apartment options.

Australian high-rise residential new homes index
% annual growth, capital cities



Source: Knight Frank Research

Australian high-rise residential new homes performance, mainstream
% annual growth, Q4 2022, capital cities



Source: Knight Frank Research

HOLDING THE KEY

As migration picks up pace over the next two years, the construction delivery pipeline diminishes across Australia's three largest capital cities.

New apartment pipeline

The supply of new homes continues to be constrained for most Australian capital cities, which is directly impacting the current rental vacancy of 1.7% and the annual rental growth of 14% in 2022.

There will continue to be significant pressure for the rental market with less new dwellings being designed for investor buyers to add to the rental pool, coupled with recent higher investor mortgage lending rates. There is also the further challenge with 52% of developers surveyed saying the cost of living crisis is having a significant impact overall on buyer sentiment.

With many priced out of the standalone housing market in our major capital cities, and the increasing trend towards downsizing, we take a closer look at the new apartment pipeline across Australia in low-rise, mid-rise and high-rise projects.

Major capital cities

Although significantly lower than the height of 2017-2018, Melbourne recorded the highest number of new apartments built in the past two years (22,455), closely followed by Sydney with 21,256, then Brisbane at 4,570.

1.7%
Current rental vacancy

14%
Annual rental growth

52%
Developers surveyed say the cost living crisis is having a significant impact on buyer sentiment

Across the three cities, all have a lower volume of new apartments forecast in the coming two years, before supply is likely to mirror a similar trend and volume delivered between 2013 and 2016. Perth is experiencing a slightly elevated construction pipeline with the number of new apartments in 2023-2024 closely matching those built in 2019-2020.

Smaller capital cities

Canberra's new apartment market has grown since 2017, with increasing construction activity expected to peak in 2023-2024. Adelaide saw new homes built ramp up in 2019-2020, although 2025-2026 is forecast to overtake this tally. There has been less activity in 2021-2022 in both Hobart and Darwin but have new projects due by 2026.

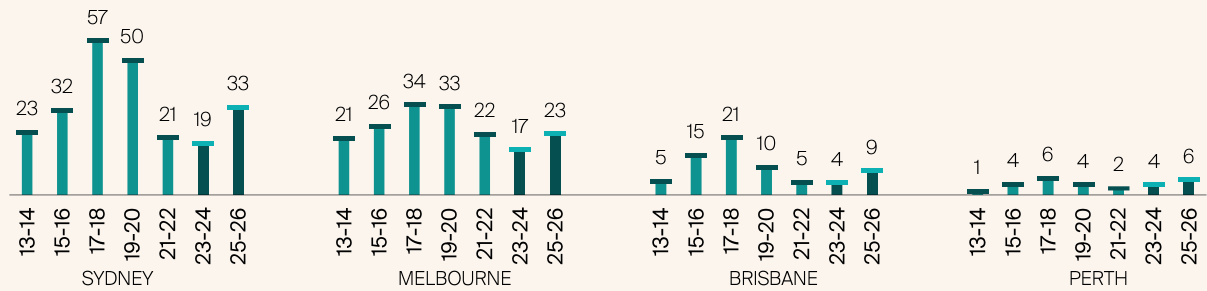
Prime lifestyle markets

The Gold Coast is the most active of the lifestyle markets following a similar trend to the major capital cities, with a lowered volume of new apartments built in 2021-2022 compared to past years, although this is due to pick up again over the next two years. Downsizer buyers continue to be drawn to the handful of low and mid-rise projects slated on the Sunshine Coast, Byron Bay and Southern Highlands.

NEW APARTMENT PIPELINE

New apartment pipeline in major capital cities

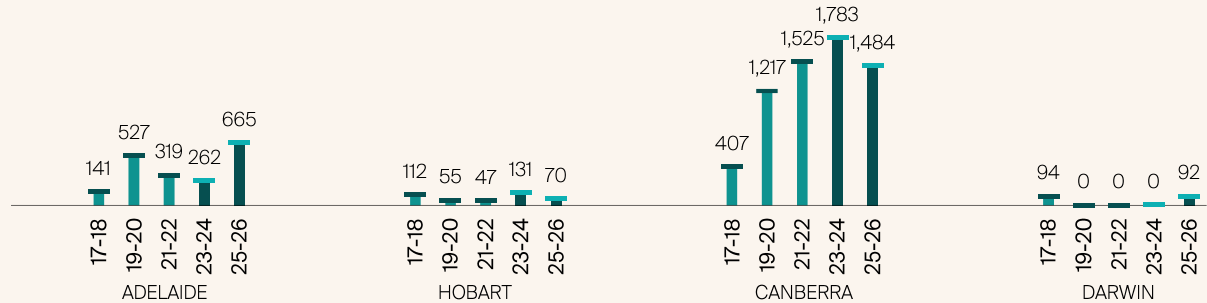
Number (thousands) of new apartments built, or potentially built, in low, mid and high-rise projects



Source: Knight Frank Research

New apartment pipeline in capital cities

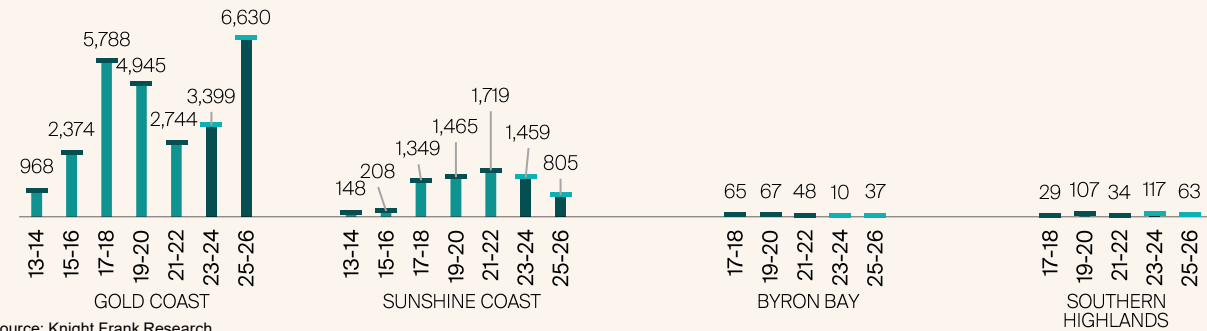
Number of new apartments built, or potentially built, in low, mid and high-rise projects



Source: Knight Frank Research

New apartment pipeline in prime lifestyle markets

Number of new apartments built, or potentially built, in low, mid and high-rise projects



Source: Knight Frank Research

THE BIG FIVE

Five key trends developers should have on their radar

01.

NEW INVESTOR STOCK

- Total residential rental vacancy is significantly below the market equilibrium of a 3% balanced market in almost every city and regional area of Australia.
- Aside from developers exploring a hybrid, build-to-rent model for responding to the rental crisis, the incentive for developers to build more investor stock is limited.

02.

NSW STATE ELECTION

- The NSW State Election is being held on Saturday 25 March 2023.
- Traditionally, the months either side stifles property investment, which is important to note for Australia's largest market.
- Watch for announcements on future housing supply and infrastructure spend.

03.

SETTLEMENT RISK TIPPING POINT

- How will rising mortgage rates impact those who purchased homes off-the-plan 12-24 months ago which are coming up for settlement.
- In recent years, this tipping point has not been much of a major concern given the imbalance between slower apartment delivery and pent-up buyer demand.

04.

DOWNSIZERS MAKE THE MOVE

- Will more retirees be enticed by the Federal Government revised downsizing incentive to sell the family home, given many highly desire low maintenance living, but still remain risk-adverse.
- Better returns for cash in the bank, will downsizers start to move at the first sign of a green shoot given the little choice in market.

05.

INTERNATIONAL INVESTORS RETURN

- Watch for the potential currency play in favour for Australian property investment.
- Tourism and new student visas are being issued once again, and the local economy is welcoming those returning for face-to-face learning, although this may place pressure on rental markets.

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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