

# Australian New Apartments Review

Q3 2023

Knight Frank's quarterly analysis of high-density residential sites and new apartment market for build-to-sell (BTS) product across Australia

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## New apartment completions to remain sparse across the country

- Site value performance is likely to remain subdued as developers regroup and rebalance their portfolios following a significantly challenging few years, but in the meantime, minimal new apartments are being delivered to market.

Three years on from international and state border closures across Australia, supply chains becoming blocked, brakes being applied to new apartment launches and a lack of urgency moving projects along their early planning stages, have directly impacted the current sparse number of new apartment completions taking place across the country.

Whilst sales volume data over the past year shows a rapidly increasing share of high-density sites suitable for residential development being sold, site values data demonstrates a decline in prices being achieved with many developers parting with sites off-market to regroup and rebalance their portfolios in preparation for better conditions ahead.

Despite elevated high-density site sales activity over the past couple of years, gaining building approval for new apartment projects remains less buoyant given the challenges still overhanging from escalated construction costs.

The collapse of several builders has also encouraged financiers to become more actively involved in the pre-

launch of a project, to ensure due diligence is sound.

This means the lingering undersupply of affordable housing remains unresolved, despite some state governments becoming more actively involved in the conversation to accelerate the planning approval process. It now takes an average 3.3 years for an active developer to deliver a completed high-density apartment project in Australia, from approval.

Developers who are not exploring the build-to-rent asset class, are still building more apartment product geared towards owner-occupiers which is meeting current market demand of cash buyers seeking to downsize, but this also highlights not enough private rental stock has been built given an absence of investors following recent mortgage rate rises. This will continue to place further pressure on weekly rents and availabilities as population growth ramps up.

International investors, once a solution to adding more homes to the rental pool for locals, continue to face a high barrier of entry and as a result, remain at a distance.

**82%**

Share of Australian site sales volume purchased for high-density residential development in the year to June 2023

**-10.3%**

Building approval for apartments change from June 2022 to June 2023 for Australia

**7.1%**

Change in the cost of construction for Australia in the year ending June 2023

**-1.3%**

The change in Australian median established apartment values in the year to June 2023

**8.5%**

Portion of new property sales to international buyers in Australia in June 2023

**1.5%**

Total weighted residential rental vacancy in June 2023 across Australia

**4.10%**

Official cash rate target in September 2023 with forecast by Oxford Economics of 3.40% in 2025

**2.1%**

Australian annual economic growth in 2022 with forecast of 2.9% in 2025 by Oxford Economics

**1.2%**

Australian population change in 2022 to an estimated 26.0 million persons, with 1.4% annual forecast in 2025

# New apartments in Australia

■ Australian high-density site values have begun to stabilise following a decline in the volume of sites sold given the significantly higher cost of construction to date, while new apartment prices grow with the ongoing shallow pipeline.

**-19%**

Australian annual change in high-density residential development site sales volume at the end of June 2023

**-0.5%**

The change in Australia's high-density development site prices in the year to June 2023

**5.7%**

Australia's annual price change in June 2023 for new apartments

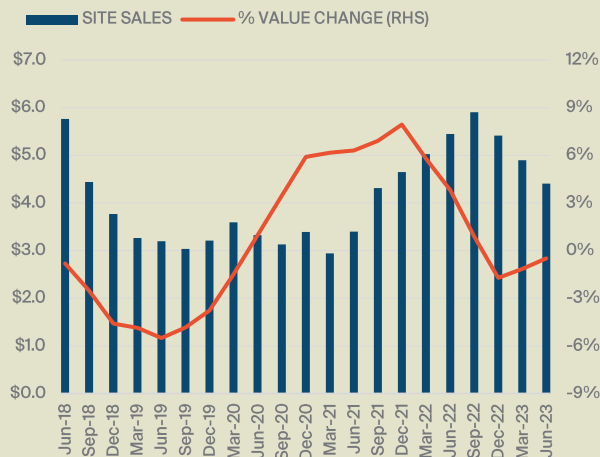
New apartments located across Australia includes all capital cities and major regional cities which have a high proportion of high-density residential living and represent an area which includes populations who regularly visit to socialise, shop or work. The five major cities include the Gold Coast and Sunshine Coast in Queensland, and the Illawarra, Central Coast and Newcastle in NSW.

## SITES: SALES & PRICE PERFORMANCE

- Total volume of high-density residential sites sold was \$4.41 billion in the year to June 2023, 19.1% lower than a year ago.
- For a raw apartment site, average values ranged from \$14,000/apartment to \$575,000/per apartment in June 2023, with an indicative rate of \$102,900/apartment.
- Site values for apartment developments fell 0.5% over the past year, with a 0.1% change in the June 2023 quarter.

### Australian Site Sales & Values

High-density residential rolling annual major site sales volume (\$ billion) & % annual change in site values



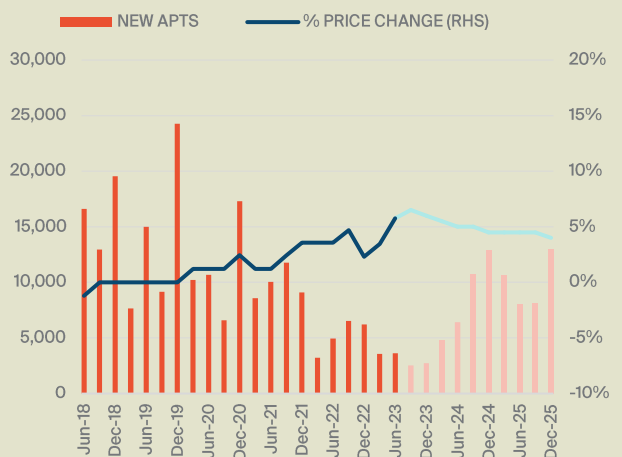
Source: Knight Frank Research

## NEW APARTMENTS: PIPELINE & PRICE PERFORMANCE

- Almost 217,500 new apartments were built in the five years to June 2023. An average 40,800 new apartments were built each year, while this is forecast to average 35,500 in the next 3 years.
- The average price for a new apartment ranged from \$3,000/sqm to \$34,000/sqm in June 2023, with an indicative rate of \$9,200/sqm.
- New apartment prices rose 2.2% in the June 2023 quarter and were 5.7% higher over the past year.
- Average new apartment prices are forecast to change by 6% at the end of 2023, 5% in 2024 and 4% in 2025 according to Knight Frank Research.

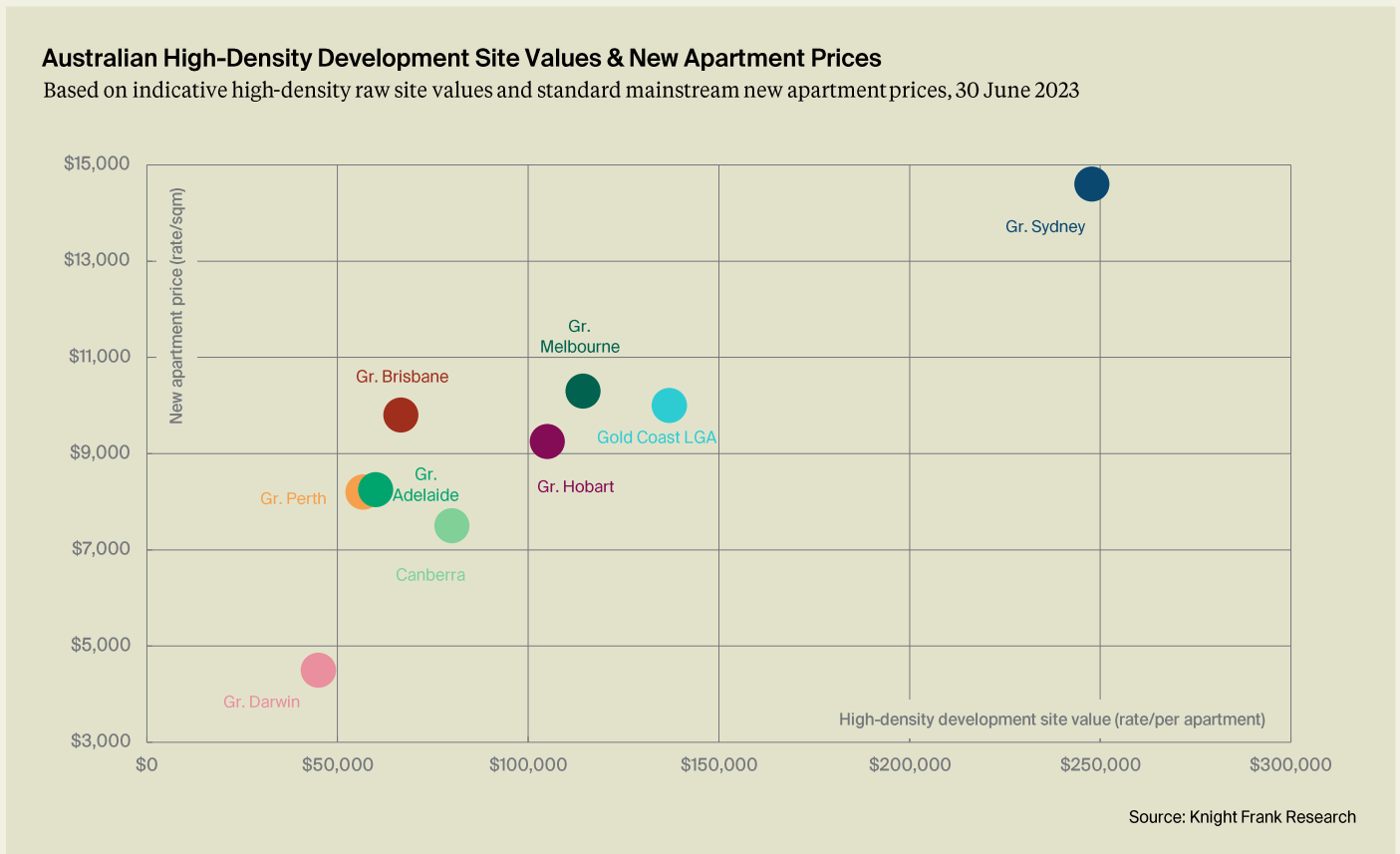
### Australian Pipeline & Prices

No. of new apartments built or due each quarter & % annual change and forecast of new apartment prices



Source: Knight Frank Research

# Snapshot: Development sites & apartment project pricing



## Key drivers

### DEVELOPER ACTIVITY

The volume share of residential development sites being purchased for high-density development in Australia has grown to 82.4% in the year to June 2023, rising from 64.5% five years earlier, and was higher than 60.5% recorded a year ago.

Building approvals across Australia trended 10.3% lower between June 2022 and June 2023 with 69,203 apartments approved as recorded by the Australian Bureau of Statistics.

The appetite of developers remains significantly lower than the 109,164 apartments approved in the same period five years ago.

### COST OF CONSTRUCTION

The cost of construction across Australian cities increased by an

estimated 7.1% in the year to June 2023 according to Rawlinsons.

To build apartments to a standard finish, with a balcony, estimated costs ranged from \$2,635/sqm to \$3,525/sqm (plus GST) in 2022. At the same time, to construct new apartments to a prestige finish was estimated at \$3,690/sqm to \$5,065/sqm.

### ESTABLISHED APARTMENTS PERFORMANCE

Across Australian major cities, established sales volume trended up 4.2% in the June 2023 quarter to count 28,181 apartments, whilst annual sales volume is 25.7% lower than a year ago.

The average days on market for an Australian apartment was 78 days in the June 2023 quarter. This was 85 days one quarter ago.

Median apartment values fell 1.3% in the year to June 2023, while rising 2.7% in the last quarter to stand at \$609,000 according to APM.

### RENTAL MARKET

In the second quarter of 2023, gross rental yields rose 13 bps with Australian apartments averaging 4.92%. Australian median apartment rents increased by 5.8% in the June 2023 quarter, rising 22.2% annually, to \$550 per week (APM).

The weighted average total residential rental vacancy for Australian capital cities was recorded at 1.5% in June 2023, rising 10 bps over the past quarter (REIA). Generally, 3% vacancy is considered a balanced rental market between supply and demand.

# Australian High-Density Residential Land Index

■ The *Australian High-Density Residential Land Index* tracks the movement in land values suitable for high-density residential projects across Australia.

## THE PAST YEAR

Australian high-density raw residential development land prices declined by 0.5% in the year to 30 June 2023. A year earlier, site values saw collective annual growth of 3.8%.

This decline in site values was felt most by the smaller cities of Greater Hobart (-12.5%) which saw significant value growth in 2021 and Greater Darwin (-10%) which has seen very little development activity.

The relatively larger markets of Greater Melbourne saw high-density values decline by 8.5% between June 2022 and June 2023 with a lull in construction of new apartments in the dominant inner suburbs market, while Greater Sydney saw -2.1% and Greater Perth -1.2% in site values.

Greater Adelaide was the best

performing city with upward annual growth in values of 20% and this was partly driven by increasing investor interest following strong population growth in the city. The Gold Coast (11.4%) and Greater Brisbane (4.2%) followed, while Canberra registered no change in values over the year.

## THE PAST FIVE YEARS

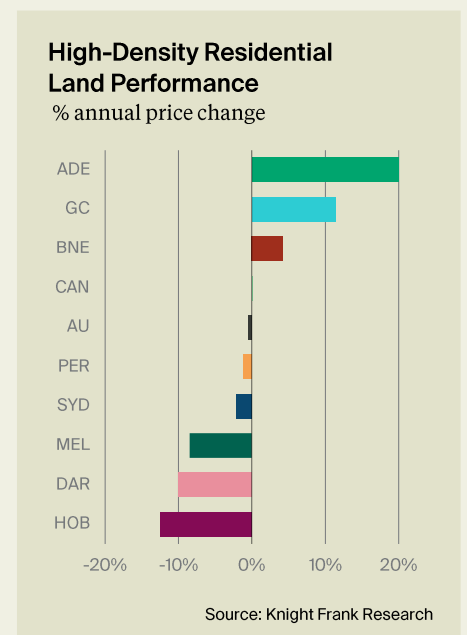
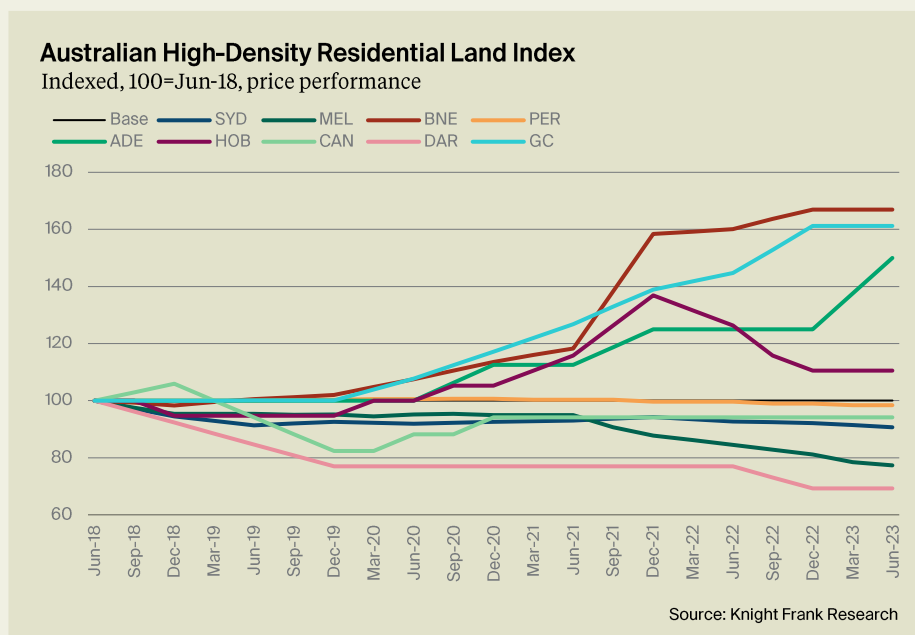
Greater Brisbane saw the highest uplift in values (70%) for residential sites suitable for high-density development over the five years to 30 June 2023, followed by the Gold Coast with 61%.

Greater Hobart's high-density site values were on a steep upward trajectory from June 2018, reaching 37% growth in December 2021, but the market has cooled since this time to

total 11% over the past five years. In comparison, Greater Adelaide saw most growth occur in this latter period to reach a five-year total growth of 50%.

Since June 2018, Greater Perth high-density development site values trended slightly above par through 2019 and 2020 but returned to be below par (-2%) in the past five years, with other cities including Canberra (-6%), Greater Sydney (-9%), Greater Melbourne (-23%) and Greater Darwin (-31%) recording a decline in site values over this time.

Many recent challenges for development are still to be navigated, but charting site sales volume for each of the cities shows the downward momentum is easing and, in some cases, the trajectory is heading north.



# Australian New Apartments Price Index

■ The *Australian New Apartments Price Index* tracks the movement in mainstream prices for new homes being sold off-the-plan in residential projects across Australia.

## THE PAST YEAR

New apartment price performance across Australia in the year to June 2023 was 5.7%, which was trending higher than 3.6% growth captured the previous year.

Although for established apartments coming off considerable growth during 2021, a 1.3% fall in prices was recorded in the past year, after annual growth of 1.1% in June 2022.

In the past year, a notable rise in new apartment prices was experienced in Greater Adelaide (13.8%), followed by the Gold Coast (11.1%) as demand outstripped an undersupply of new apartments being delivered.

The same can be said for other cities with growth, in addition to, being a more affordable option as opposed to houses in Greater Sydney (7.4%) and Greater Melbourne (3.0%).

Buyers seeking better relative value and yield return for a new apartment turned to Greater Brisbane (3.2%).

There was no price change captured for the greater cities of Darwin, Hobart, Perth and Canberra with less high-density development activity taking place over the year.

## THE PAST FIVE YEARS

Despite travelling at different paces over the five years to June 2023, the Gold Coast (37%) and Greater Brisbane (36%) saw comparable total price growth for new apartments. Another pair of cities was Greater Adelaide (18%), and Greater Hobart (17%), landing with similar growth.

Canberra (10%), Greater Melbourne (5%) and Greater Perth (1%) total growth remained above par for the five years, whilst Greater Sydney was

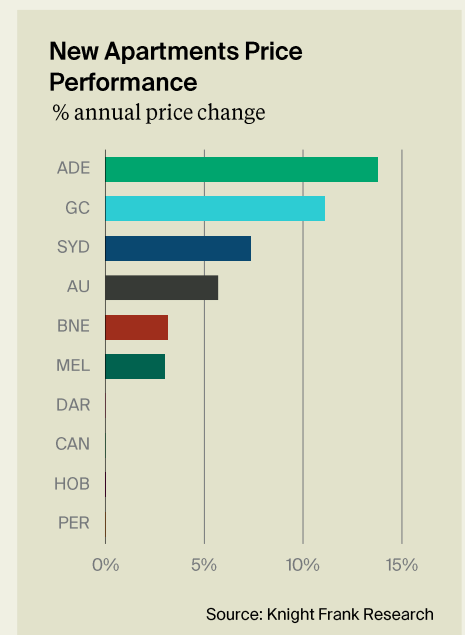
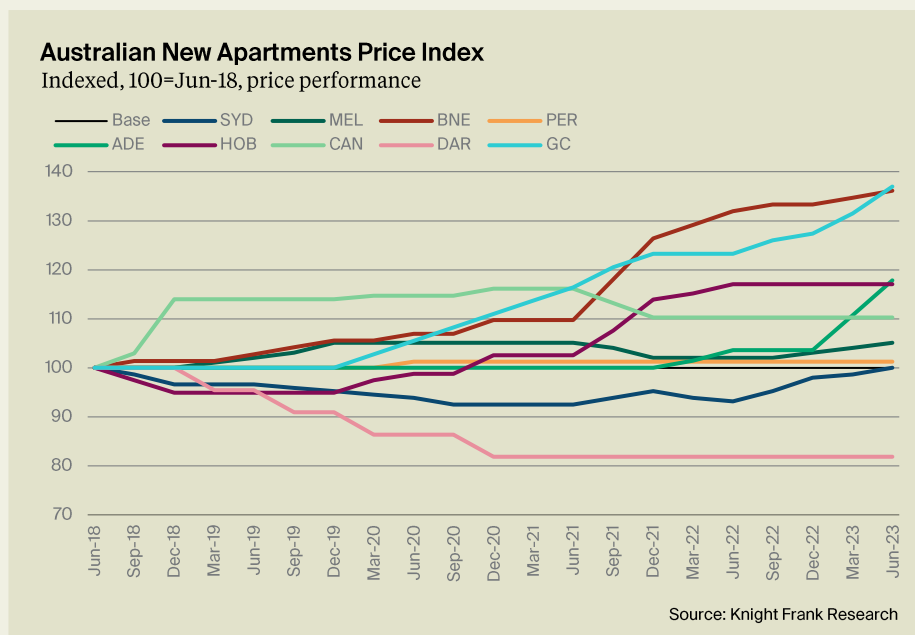
trending below par over this time to be on par by June 2023.

Greater Darwin (-18%) was the only city with steady or negative growth throughout this time.

## THE PRIME LUXURY MARKET

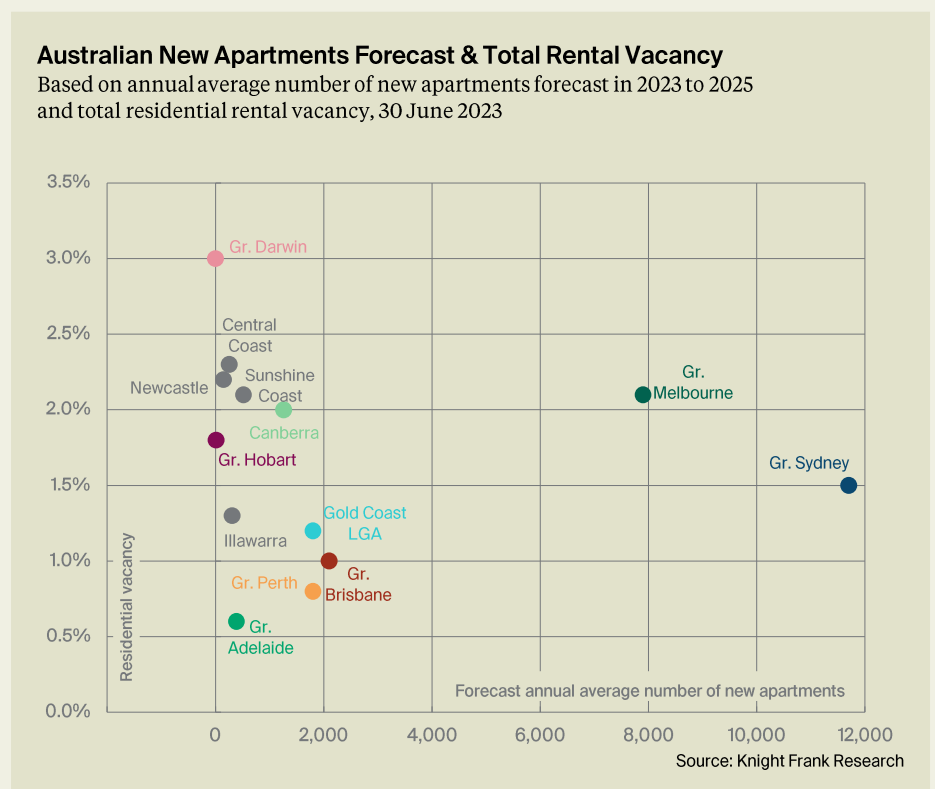
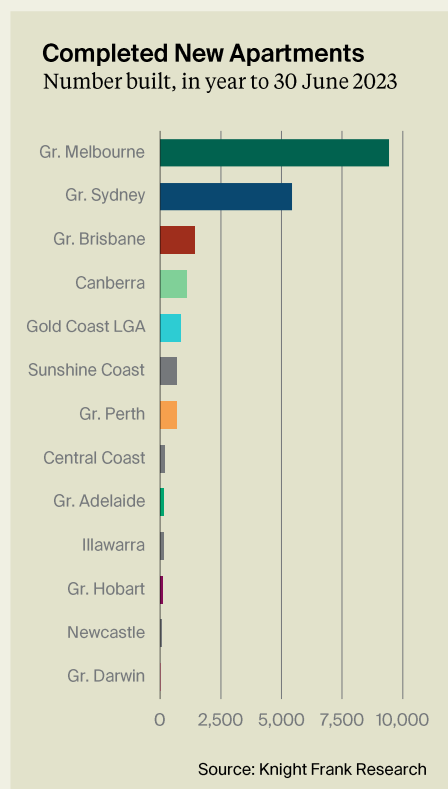
When considering the prime new apartment market (top 5% of the market, by value), off-the-plan prices grew faster than the mainstream market rising 7.1% over the year to June 2023. Many of these buyers have not been as reliant on gaining finance to continue being active in the market.

A year earlier, price growth was akin at 7.2%, which reflects the ongoing shortage of lateral luxury product being built as a standalone development or is integrated within the upper floors of a project.



# Australian New Apartments Pipeline

■ The *Australian New Apartments Pipeline* tracks the number of new apartments built, or potentially built with 4+ storeys each year in the major cities across Australia.



## THE PAST YEAR

The number of newly completed apartments was a little over 20,200 between June 2022 and June 2023 across Australia's major cities.

Greater Melbourne saw the largest share of new apartments built (9,400) in this time, followed by Greater Sydney (5,400), Greater Brisbane (1,450) and Canberra (1,100).

Less than one thousand new apartments were built in each of the remaining capital cities and major regional cities including on the Gold Coast (850), the Sunshine Coast (700), Greater Perth (700), NSW Central Coast

(170), Greater Adelaide (160), the Illawarra (120), Greater Hobart (90) and in Newcastle (70).

## THE NEXT THREE YEARS

Although Greater Melbourne saw the highest number of new apartments delivered in the year to June 2023, Greater Sydney (11,700) is forecast to overtake Greater Melbourne (7,900) for the highest annual average number of new apartments to be built in 2023 and until the end of 2025. This coincides with total residential rental vacancy in June 2023, being at 1.5% and 2.1%, respectively, with both cities trending

well below a balanced market of 3%.

In fact, all major Australian cities were at 3% vacancy (being Greater Darwin which is not expected to deliver any high-density development in the next three years) or well below this equilibrium (like Greater Adelaide with 0.6% vacancy, but only has an average 390 new apartments forecast annually by the end of 2025).

Greater Brisbane (with 1.0% vacancy) has an annual average of 2,100 new apartments due to be built in this time, Greater Perth has 1,800 (0.8%), the Gold Coast LGA has 1,800 (1.2%) and Canberra with 1,300 (2.0%).

# Australian new apartments forecast

## Australian New Apartments Forecast

	2021	2022	2023f	2024f	2025f	2023-2025f AVE
Site Price Performance	8%	-2%	-	-	-	-
New Apartment Pipeline	39,500	20,900	📉 12,500	📈 34,800	📈 39,900	📈 29,100
New Apartment Price Performance	4%	2%	📈 6%	📈 5%	📈 4%	📈 5%
Residential Price Performance	21%	-5%	📈 3%	📈 5%	📈 6%	📈 4%
Residential Rental Market	7%	14%	📈 15%	📉 11%	📉 8%	📉 11%

Source: Knight Frank Research

## Data Digest

### Major sites

Considered to hold a raw site value threshold of \$2 million or more for all cities, except for Sydney and Melbourne being \$5 million or more.

### High-density

Includes residential apartment projects with 4+ storeys in height.

### Currency

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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