

Australian Residential Review



Q2 2023

Knight Frank's quarterly analysis of the mainstream residential sales and rental markets across major Australian cities and regional areas

knightfrank.com.au/research

► Australia's residential market continues to deliver mixed results driven by historic low rental vacancy, shortage of listed homes and increasing mortgage rates

Residential market

Historically, Australia has the lowest share of homes advertised for rent with 1.4% total residential vacancy at the end of the first quarter in 2023. It was 16 years ago vacancy this low was last experienced in Australia.

Following strong population growth, the greater cities of Adelaide and Perth recorded the tightest vacancy rates in Australia with 0.5% and 0.7%, respectively. Both cities are exceptionally far from the 3% market equilibrium target.

Queensland remains the most impacted by the chronic undersupply of rental accommodation which is discouraging key workers from moving to the state including in the hospitality, construction and education sectors. The double-digit rental growth over the past year has been influenced by vacancy of 0.8% in Greater Brisbane, 0.9% on the Gold Coast and 1.2% across Regional Queensland.

Despite the easing of residential prices over the past year, lending to investors has trended downwards 11%

with the soaring cost of living resulting in only a modest injection of new homes being added to the rental pool. Over the same time, lending to first home buyers has returned removing some rental requirements, but this has quickly been replaced with ramped up overseas migration.

Residential sales continued to decline, with 27% less transactions taking place over the past year. A lower number of listings has meant record sales are still being achieved in pockets around the country but overall, buyer sentiment has become progressively cautious. This follows the 12 intermittent rises to the cash rate target, making the cost to borrow 400 bps higher since May 2022, to stand at 4.10% in June 2023.

Those most active in the market include those buyers not relying on finance to complete the transaction. This is most prevalent with those downsizing from the unencumbered family home with a sizeable balance of funds to enjoy in retirement and buyers transacting in the upper echelon of the residential market.

-27%

The change in Australian residential sales volume in the year to March 2023

78 days

Average number of days an Australian residential home was on the market before transaction

-5.0%

The change in Australia's median values recorded between March 2022 and March 2023

\$904,000

Australian residential median value at the end of March 2023

3.91%

The gross rental yield achieved in March 2023 for an Australian residential investment

16.7%

The annual change in Australian residential rents in March 2023

\$560

Australian residential median weekly rent at the end of March 2023

Key drivers

PEOPLE

Australia's total population grew by 1.2% to 26.0 million persons in the year to June 2022. Over this time, the major cities of Australia saw annual population change of 1.3%, while inner regional areas of Australia saw population growth of 1.3% and outer regional areas of 0.8%. The projected population growth to 2041, is higher, at 1.4% per annum (ABS).

THE ECONOMY

Australia's economy grew by an estimated 2.3% in March 2023, with a forecast of 1.6% in 2023. Whilst unemployment was recorded at 3.8% and is forecast to reach 3.9% over the same time (Oxford Economics).

FUTURE PIPELINE

The weighted average total residential rental vacancy for Australian capital cities was recorded at 1.4% in March 2023, compressing 30 bps over the past quarter (REIA).

Building approvals in the March 2023 quarter fell by 20.9% across Australia, compared to a fall of 6.1% a quarter ago. In this time, 24,237 houses and 12,955 apartments were approved. This was trending 12.4% lower for houses and 33.1% lower for apartments approvals compared to the quarter earlier.

LENDING ENVIRONMENT

New household loan commitments across Australia were down by 5.0% in the March 2023 quarter, higher than the -10.2% change recorded in the previous quarter.

The number of lending commitments to owner occupier first home buyers in Australia grew by 30.9% in March 2023, compared to 24.6% a year earlier. This first home buyer group represented 19.1% of all Australian owner occupier loans in March 2023 (ABS).

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).

1.2%

Australian annual population growth

2.3%

Annual economic growth in Australia

3.8%

Australian unemployment rate

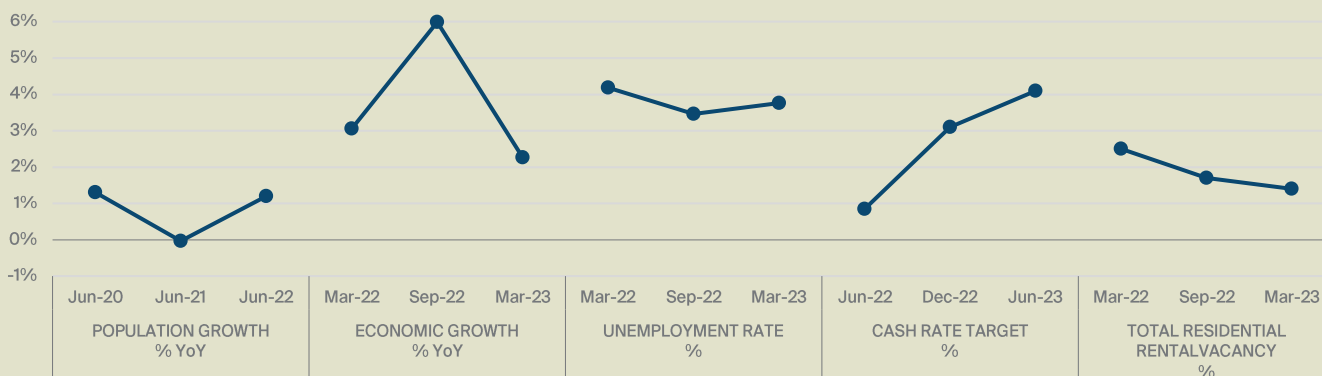
4.10%

Official cash rate target

1.4%

Australian total residential rental vacancy

Australian Mainstream Residential Key Drivers



Source: Knight Frank Research, ABS, RBA, REIA

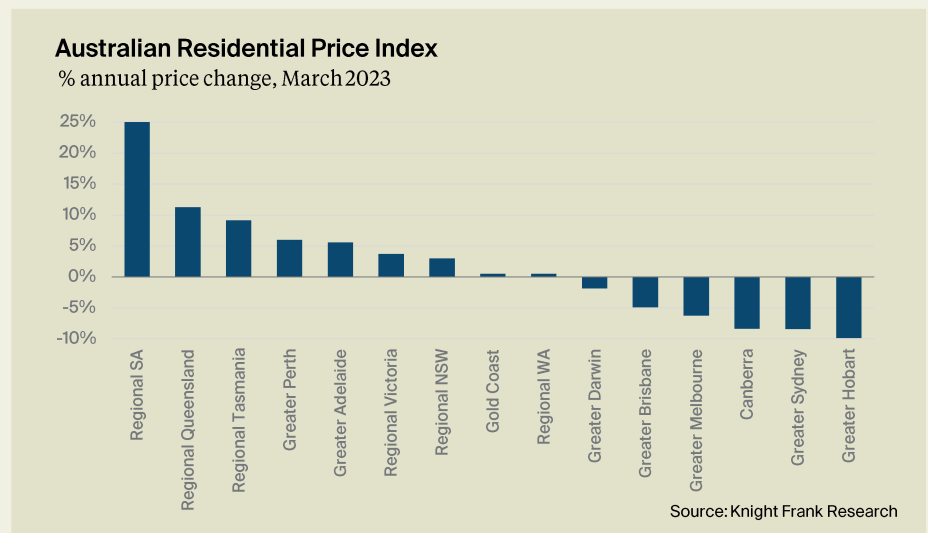
Residential price performance

Regional SA, Queensland and Tasmania leads price growth

Across Australia, mainstream sales volume trended down 26.9% in the March 2023 quarter to total 85,712 residential homes (houses and apartments), as annual sales volume recorded -27.2%.

The average days on market for an Australian home was 78 days in the March 2023 quarter. This was 68 days one quarter ago.

Residential property values across Australia fell 5.0% in the year to March 2023, increasing 0.1% in the last quarter to stand at a median value of \$904,000.

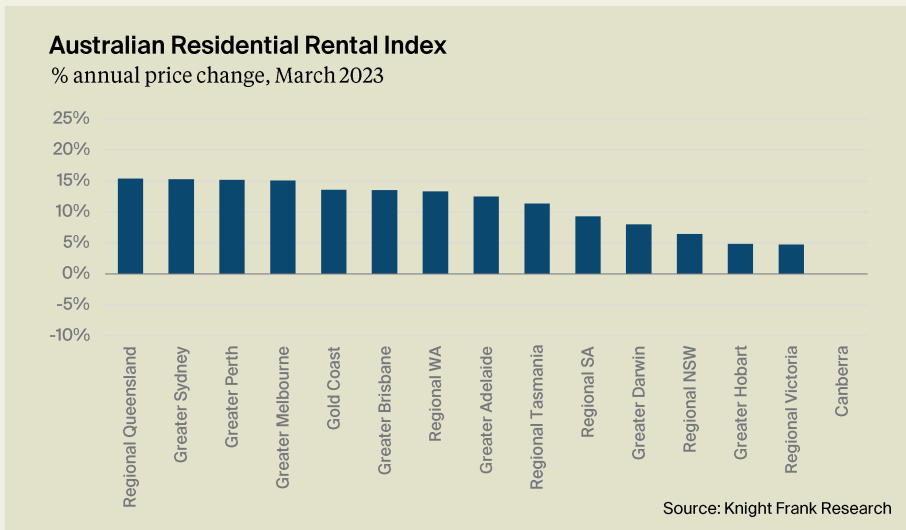


Australian price forecast

Residential Price Forecast						
	2021	2022	2023f	2024f	2025f	2023-2025f AVE
Greater Sydney	23%	-8%	▲ -1%	▲ 5%	▲ 6%	▲ 3%
Greater Melbourne	15%	-6%	▲ -2%	▲ 4%	▲ 5%	▲ 2%
Greater Brisbane	23%	0%	▼ -2%	▲ 4%	▲ 5%	▲ 2%
Greater Perth	9%	6%	▼ 1%	▼ 5%	● 6%	▼ 4%
Greater Adelaide	22%	12%	▼ 2%	▼ 3%	▼ 4%	▼ 3%
Greater Hobart	31%	-4%	▲ -1%	▲ 4%	▲ 5%	▲ 3%
Canberra	28%	-7%	▲ 0%	▲ 4%	▲ 5%	▲ 3%
Greater Darwin	29%	0%	▼ -2%	▲ 3%	▲ 5%	▲ 2%
Gold Coast	21%	11%	▼ 1%	▼ 4%	▼ 6%	▼ 4%
Regional NSW	27%	13%	▼ -5%	▼ -7%	▼ -1%	▼ -4%
Regional Victoria	21%	10%	▼ -4%	▼ -6%	▼ 1%	▼ -3%
Regional Queensland	19%	15%	▼ 8%	▼ 2%	▼ 3%	▼ 4%
Regional WA	10%	4%	▼ -5%	▼ -4%	▼ -1%	▼ -3%
Regional SA	6%	22%	▼ 18%	▼ 5%	▼ 3%	▼ 9%
Regional Tasmania	31%	16%	▼ 3%	▼ 0%	▼ 2%	▼ 2%
Australia	21%	-4%	▲ -1%	▲ 5%	▲ 6%	▲ 3%

Residential rental market

► Forecast remains solid for rental price growth



From an investment perspective, gross rental yields rose 21 bps in the first quarter of 2023, as Australian residential property averaged 3.91%.

Across Australia, residential rents increased by 4.7% in the March 2023 quarter, rising 16.7% annually, to stand at \$560 per week.

This is being influenced by the historically low 1.4% rental vacancy recorded at the end of the first quarter in 2023.

Australian rental forecast

Residential Rental Forecast						
	2021	2022	2023f	2024f	2025f	2023-2025f AVE
Greater Sydney	7%	13%	▲ 18%	▼ 11%	▼ 8%	▼ 12%
Greater Melbourne	0%	11%	▲ 17%	▲ 12%	▼ 9%	▲ 13%
Greater Brisbane	11%	14%	▼ 13%	▼ 9%	▼ 7%	▼ 10%
Greater Perth	10%	15%	▲ 21%	▼ 13%	▼ 9%	▼ 14%
Greater Adelaide	9%	10%	▲ 17%	▲ 11%	▼ 8%	▲ 12%
Greater Hobart	9%	10%	▼ -4%	▼ 2%	▼ 3%	▼ 0%
Canberra	10%	3%	▼ -3%	● 3%	▲ 5%	▼ 2%
Greater Darwin	10%	5%	▼ 2%	▼ 2%	▼ 2%	▼ 2%
Gold Coast	19%	18%	▼ 8%	▼ 5%	▼ 3%	▼ 5%
Regional NSW	12%	9%	▼ 3%	▼ 2%	▼ 3%	▼ 3%
Regional Victoria	11%	8%	▼ 1%	▼ 1%	▼ 1%	▼ 1%
Regional Queensland	13%	16%	▼ 10%	▼ 8%	▼ 4%	▼ 7%
Regional WA	11%	17%	▼ 8%	▼ 4%	▼ 1%	▼ 4%
Regional SA	10%	8%	▼ 6%	▼ 2%	▼ 2%	▼ 3%
Regional Tasmania	17%	10%	▼ 7%	▼ 4%	▼ 3%	▼ 5%
Australia	7%	16%	▲ 17%	▼ 11%	▼ 8%	▼ 12%

Established houses

-1%

Darwin
Best annual growth in sale transactions

59

Perth
Lowest number of days on market

6.0%

Perth
Strongest annual price growth

5.84%

Darwin
Highest gross rental yield

14.6%

Perth
Strongest annual rental growth

\$1,020,000

Australian cities median house value at the end of March 2023

-5.1%

The change in Australian cities median house value in the year to March 2023

15.3%

Annual median weekly rental growth in March 2023 across Australian city houses

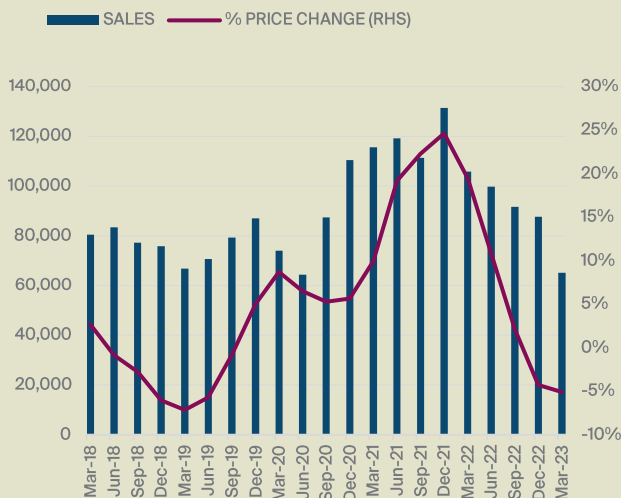
Australian major cities

SALES & PRICE PERFORMANCE

- ▶ Sales volume across Australian major cities trended down 25.7% in the March 2023 quarter to total 65,158 houses, whilst annual sales volume was 26.4% below a year ago.
- ▶ The average days on market for an Australian house was 75 days in the March 2023 quarter. This was 64 days one quarter ago.
- ▶ Across Australian major cities, median house values fell 5.1% in the year to March 2023, but rose by 0.3% over the last quarter to \$1,020,000 (APM).

Australian Cities Houses Sales Market

No. sales per quarter & % annual price change



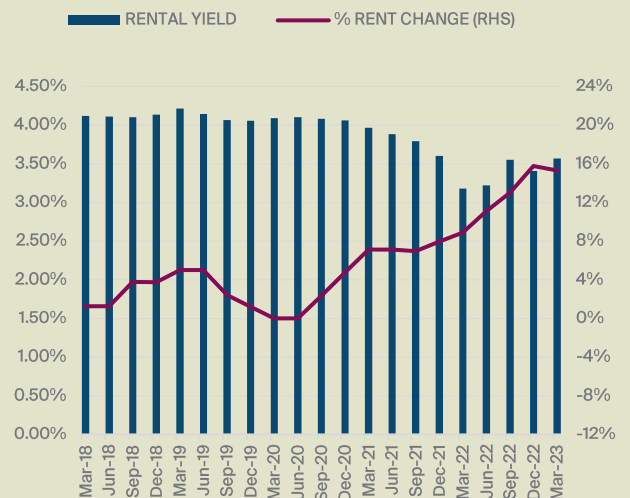
Source: Knight Frank Research, APM

RENTAL MARKET

- ▶ Gross rental yields rose 16 bps with Australian houses across the major cities averaging 3.57%.
- ▶ Median apartment rents increased 2.7% in the March 2023 quarter, up 15.3% annually, to stand at \$565 per week (APM).

Australian Cities Houses Rental Market

Gross rental yield & % annual rental change



Source: Knight Frank Research, APM

Established houses

5%
Regional SA
Best annual growth in sale transactions

47
Regional Tasmania
Lowest number of days on market

25.1%
Regional SA
Strongest annual price growth

5.19%
Regional WA
Highest gross rental yield

15.4%
Regional Queensland
Strongest annual rental growth

1.6%
Regional Australia
Average residential rental vacancy

\$727,500
Regional Australia median house value at the end of March 2023

6.0%
The change in Regional Australia median house value in the year to March 2023

10.0%
Annual median weekly rental growth in March 2023 across Regional Australia houses

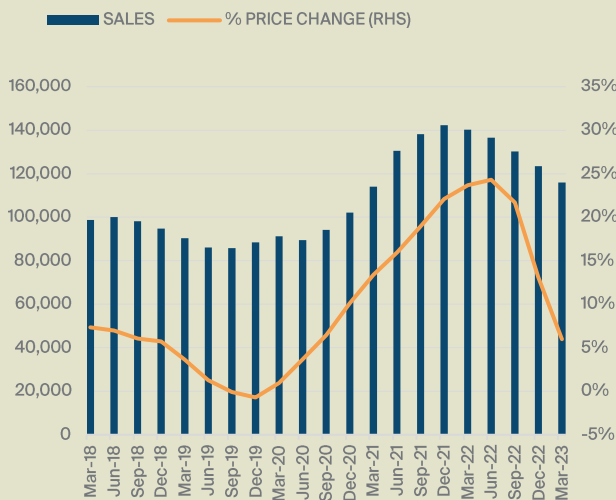
Australian regional areas

SALES & PRICE PERFORMANCE

- ▶ In the year to March 2023, the volume of house sales across Regional Australia was 115,902, trending 17.3% lower than a year ago.
- ▶ The average days on market for a regional house in Australia was 69 days in the March 2023 quarter. This was 65 days one quarter ago.
- ▶ Values for Australian regional houses rose 6.0% in the year to March 2023, although falling 1.4% in the last quarter to \$727,500 (Knight Frank Research).

Regional Australia Houses Sales Market

No. annual sales & % annual price change



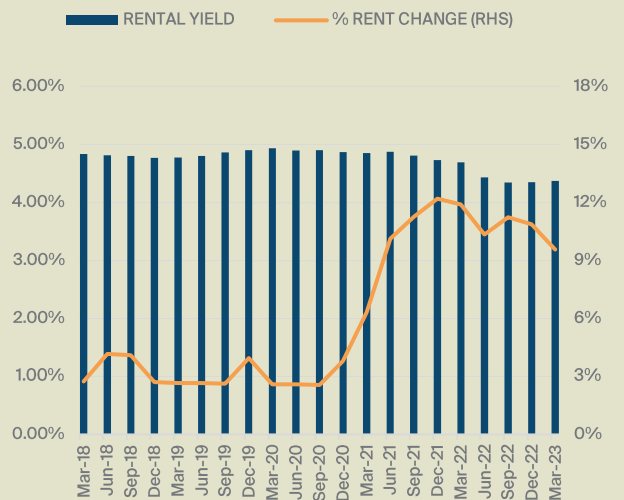
Source: Knight Frank Research, APM

RENTAL MARKET

- ▶ The residential rental vacancy for Regional Australia was recorded at 1.6% in March 2023, rising 12 bps over the past quarter.
- ▶ In the first quarter of 2023, gross rental yields rose 2 bps with regional houses averaging 4.37%.
- ▶ Across Regional Australia, house rents grew by 1.0% in the March 2023 quarter, rising 9.6% over the past year to stand at \$515 per week (Knight Frank Research).

Regional Australia Houses Rental Market

Gross rental yield & % annual rental change



Source: Knight Frank Research, APM

Established apartments

6%

Darwin
Best annual growth in sale transactions

60

Gold Coast
Lowest number of days on market

9.7%

Gold Coast
Strongest annual price growth

7.06%

Darwin
Highest gross rental yield

24.0%

Sydney
Strongest annual rental growth

\$592,000

Australian cities median apartment value at the end of March 2023

-4.4%

The change in Australian cities median apartment values in the year to March 2023

22.2%

Annual median weekly rental growth in March 2023 across Australian city apartments

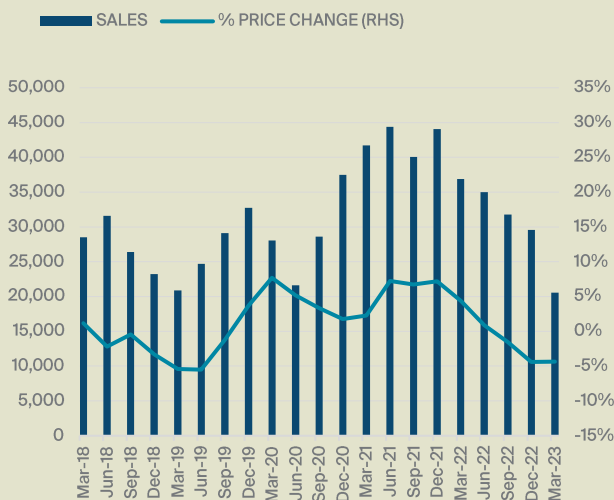
Australian major cities

SALES & PRICE PERFORMANCE

- ▶ Across Australian major cities, sales volume trended down 30.5% in the March 2023 quarter to count 20,554 apartments, whilst annual sales volume is 29.3% lower than a year ago.
- ▶ The average days on market for an Australian apartment was 86 days in the March 2023 quarter. This was 79 days one quarter ago.
- ▶ Median apartment values fell 4.4% in the year to March 2023, while falling 1.0% in the last quarter to stand at \$592,000 (APM).

Australian Cities Apartments Sales Market

No. sales per quarter & % annual price change



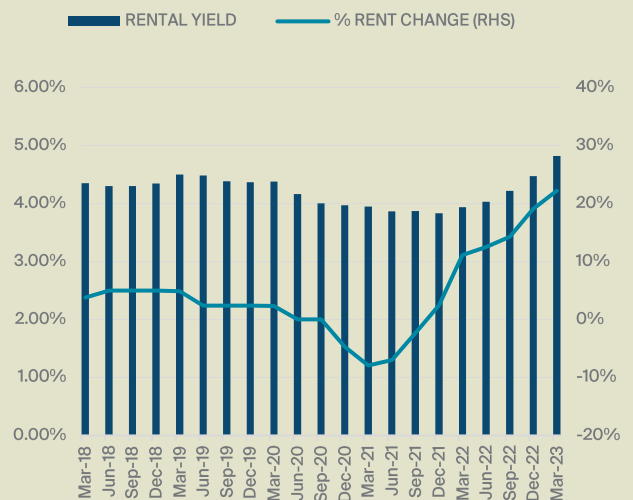
Source: Knight Frank Research, APM

RENTAL MARKET

- ▶ In the first quarter of 2023, gross rental yields rose 35 bps with Australian apartments averaging 4.82%.
- ▶ Australian median apartment rents increased by 10.0% in the March 2023 quarter, rising 22.2% annually, to \$550 per week (APM).

Australian Cities Apartments Rental Market

Gross rental yield & % annual rental change



Source: Knight Frank Research, APM

Data digest

Major regional areas

Considered to be a Local Government Area (LGA) outside a greater city, with more than 10,000 dwellings at the time of the ABS Census 2021.

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.

Recent Research



Sydney Residential Insight
Q2 2023



Global House Price Index
Q1 2023



Australian Prime Residential
Review Q2 2023



The Wealth Report 2023



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

Justin Bond
+61 7 3246 8872
justin.bond@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