

Australian Residential Review

Q3 2023

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

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Quarterly residential price growth outpaces annual performance

▲ After experiencing the impact of higher interest rates, limited residential homes for sale and significant delays to new build projects are pointing to higher prices emerging much earlier than first anticipated.

The volume of sales transactions over the past year are lower than a year ago for all major cities and regional areas across Australia. Some locations have seen a decrease in activity off the back of 12 interest rate rises since March 2022, but other locations have tightly held properties with minimal new additional homes being built in the suburb, a modest number of distressed sales which is allowing capital value growth to defy key underlying fundamentals.

Unemployment remains low, interest rate rises have paused for the past three consecutive months given the modest slowdown in the Australian economy, but keeping inflation at bay is proving challenging amid higher fuel and energy costs, on top of already stretched household budgets.

On one hand, this is the ideal opportunity for first home buyers to enter the market, but overall numbers are down. Many have seen their deposit be absorbed by rental growth, the overall cost of living and/or they've been unable to prove serviceability of the loan required to be borrowed. On the other hand, there are a significant portion of cash buyers such as the

growing number of downsizers itching to make their low maintenance living a reality.

This pent-up demand, plus those currently less active in the market including families seeking to upsize, and those much-required investors to keep weekly rents at bay as our population grows, will place further pressure on capital values across the country in the coming years.

In the middle of 2023, Australia's annual residential price growth was in negative territory, but only slightly with -1.3%. Australia was one of the four in ten markets globally which recorded a decline, as overall, house prices saw an uptick given the approach towards peak interest rates, as highlighted in the latest Knight Frank [Global House Price Index](#).

Australia was also one of the two-thirds of the 56 global markets which saw a recovery in price growth in the June quarter. In fact, every Australian capital city saw an improvement in price, except for Canberra which was steady. Regional Australia did not see this price return in the past quarter except for Regional Queensland and Regional WA.

-25%

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

74 days

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

-1.3%

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

\$930,500

Australian residential median value at the end of June 2023

4.19%

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

14.4%

The annual change in Australian residential rents in June 2023

\$555

Australian residential median weekly rent at the end of June 2023

Key drivers

▲ Unemployment remains low and the cash rate steady.

THE ECONOMY

Australia's economy grew by an estimated 2.1% in June 2023, with a forecast of 2.9% in 2025 by Oxford Economics, while unemployment was recorded at 3.3% and is forecast to reach 3.7% over the same time.

LENDING ENVIRONMENT

New household loan commitments across Australia were up by 4.4% in the June 2023 quarter, higher than -5.0% change recorded in the previous quarter.

The number of lending commitments to owner occupier first home buyers in Australia fell by 6.6% in June 2023, compared to -9.5% a year earlier. This first home buyer group represented 18.3% of all Australian owner occupier loans in June 2023 (ABS).

The official cash rate on 5 September 2023 continued to see no movement, with 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 3.40% by the end of 2025.

In the June 2023 quarter, average mortgage lending rates to owner

occupiers increased by 5 bps to 6.32% for a 3-year fixed term loan and rose by 50 bps to 8.52% for a standard variable loan. For investors, a 3-year fixed term increased by 18 bps to 6.50%, and a standard variable loan rose by 50 bps to 9.10%.

NEW BUILDS

Building approvals in the June 2023 quarter grew by 11.2% across Australia, compared to a fall of 21.8% a quarter ago as recorded by the ABS. In this time, 24,346 houses and 17,033 apartments were approved. This was trending 0.1% higher for houses and 32.2% higher for apartments approvals compared to the quarter earlier.

POPULATION

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 change of 1.3% and outer regional areas of 0.8%.

The projected population growth to 2041 by the ABS, is higher, at 1.4% per annum.

2.1%

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

3.3%

Australian unemployment rate in June 2023 with 3.7% forecast in 2025

4.10%

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

1.2%

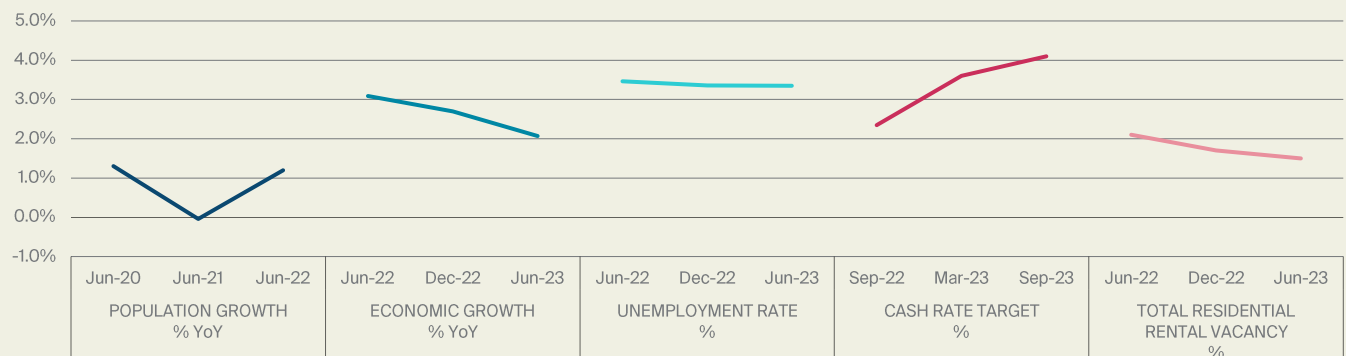
Australian population change in 2022 to an estimated 26.0 million persons, with 1.4% annual forecast in 2025

1.5%

Total weighted residential rental vacancy in June 2023 across Australia

Australian Key Drivers

Mainstream residential market



Source: Knight Frank Research, ABS, RBA, REIA

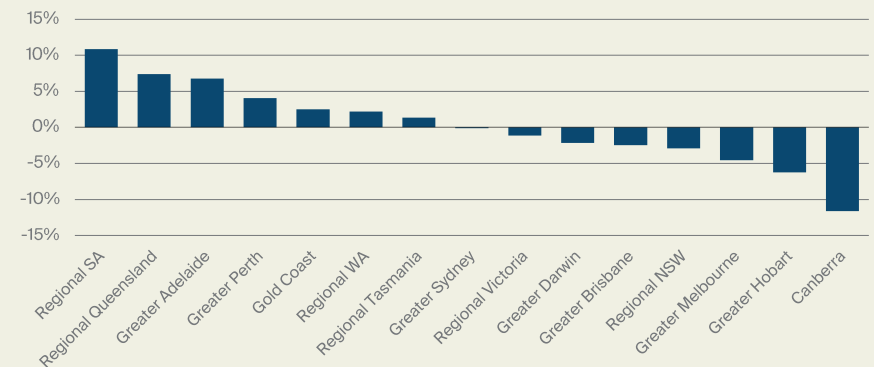
Residential price performance

Regional SA and Regional Queensland lead price growth for the second consecutive quarter.

Across Australia, mainstream sales volume trended down 1.0% in the June 2023 quarter to total 105,862 residential homes (houses and apartments), as annual sales volume recorded -25.1%. The average days on market for an Australian home was 74 days in the June 2023 quarter. This was 77 days one quarter ago.

Residential property values across Australia fell 1.3% in the year to June 2023, increasing 2.6% in the last quarter to stand at a median value of \$930,500. Looking forward, average prices are forecast to change by 3% at the end of 2023, 5% in 2024 and 6% in 2025 according to Knight Frank Research.

Australian Residential Price Index
% annual price change, June 2023



Source: Knight Frank Research

Australian price forecast

Residential Price Forecast

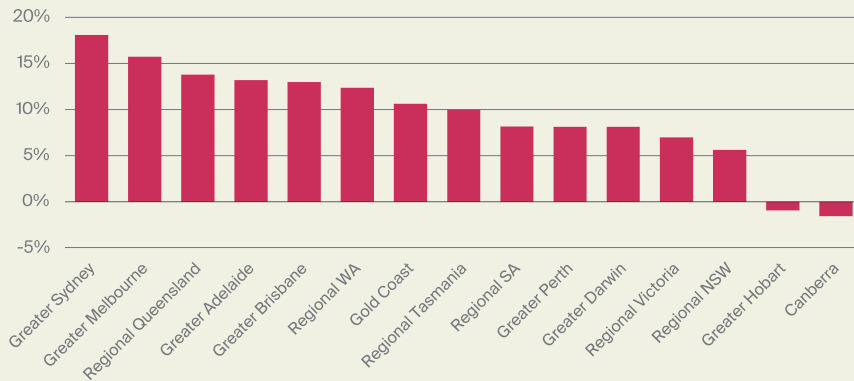
	2021	2022	2023f	2024f	2025f	2023-2025f AVE
Greater Sydney	23%	-9%	4%	5%	6%	5%
Greater Melbourne	15%	-7%	1%	4%	5%	3%
Greater Brisbane	23%	1%	3%	4%	5%	4%
Greater Perth	9%	5%	3%	5%	6%	5%
Greater Adelaide	22%	10%	4%	3%	4%	4%
Greater Hobart	31%	-2%	-1%	4%	5%	3%
Canberra	28%	-7%	-2%	4%	5%	2%
Greater Darwin	29%	1%	-2%	3%	5%	2%
Gold Coast	21%	11%	3%	4%	6%	4%
Regional NSW	30%	14%	-5%	-7%	-1%	-4%
Regional Victoria	22%	12%	-4%	-6%	1%	-3%
Regional Queensland	14%	17%	8%	2%	3%	4%
Regional WA	11%	4%	-5%	-4%	-1%	-3%
Regional SA	5%	24%	18%	5%	3%	9%
Regional Tasmania	32%	17%	3%	0%	2%	2%
Australia	21%	-5%	3%	5%	6%	4%

Source: Knight Frank Research

Residential rental performance

▲ Rental growth greatest in Sydney and Melbourne.

Australian Residential Rental Index
% annual rental change, June 2023



Source: Knight Frank Research

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.

From an investment perspective, gross rental yields rose 11 bps in the second quarter of 2023, as Australian residential property averaged 4.19%.

Across Australia, residential rents increased by 2.8% in the June 2023 quarter, rising 14.4% annually, to stand at \$555 per week. Knight Frank Research forecast rents to change by 15% at the end of 2023, with 11% likely in 2024 and 8% in 2025.

Australian rental forecast

Residential Rental Forecast

	2021	2022	2023f	2024f	2025f	2023-2025f AVE
Greater Sydney	7%	13%	▲ 16%	▼ 11%	▼ 8%	▼ 12%
Greater Melbourne	0%	11%	▲ 14%	▲ 12%	▼ 9%	▲ 12%
Greater Brisbane	11%	14%	▼ 13%	▼ 9%	▼ 7%	▼ 10%
Greater Perth	10%	15%	▲ 17%	▼ 11%	▼ 9%	▼ 12%
Greater Adelaide	9%	10%	▲ 16%	▲ 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%	▼ 9%	▼ 5%	▼ 3%	▼ 6%
Regional NSW	13%	9%	▼ 3%	▼ 2%	▼ 3%	▼ 3%
Regional Victoria	14%	11%	▼ 1%	▼ 1%	▼ 1%	▼ 1%
Regional Queensland	13%	15%	▼ 10%	▼ 8%	▼ 4%	▼ 7%
Regional WA	8%	17%	▼ 8%	▼ 4%	▼ 1%	▼ 4%
Regional SA	11%	8%	▼ 6%	▼ 2%	▼ 2%	▼ 3%
Regional Tasmania	14%	12%	▼ 7%	▼ 4%	▼ 3%	▼ 5%
Australia	7%	14%	▲ 15%	▼ 11%	▼ 8%	▼ 11%

Source: Knight Frank Research

Established houses in major Australian cities

-14%

Darwin
Best annual change in sale transactions

53

Brisbane
Lowest number of days on market

5.4%

Perth
Strongest annual price change

5.86%

Darwin
Highest gross rental yield

17.2%

Perth
Strongest annual rental change

\$1,050,000

Australian cities median house value at the end of June 2023.

-1.2%

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

12.0%

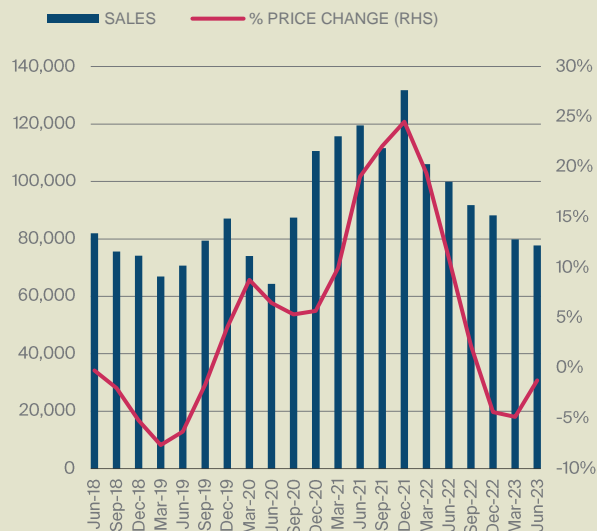
Annual median weekly rental change in June 2023 across Australian city houses

SALES & PRICE PERFORMANCE

- ▲ Sales volume across Australian major cities trended down 2.8% in the June 2023 quarter to total 77,681 houses, whilst annual sales volume was 24.9% below a year ago.
- ▲ The average days on market for an Australian house was 72 days in the June 2023 quarter. This was 74 days one quarter ago.
- ▲ Across Australian major cities, median house values fell 1.2% in the year to June 2023, and rose by 2.7% over the last quarter to \$1,050,000 (APM).

Australian Cities Houses Sales & Prices

No. sales per quarter & % annual price change



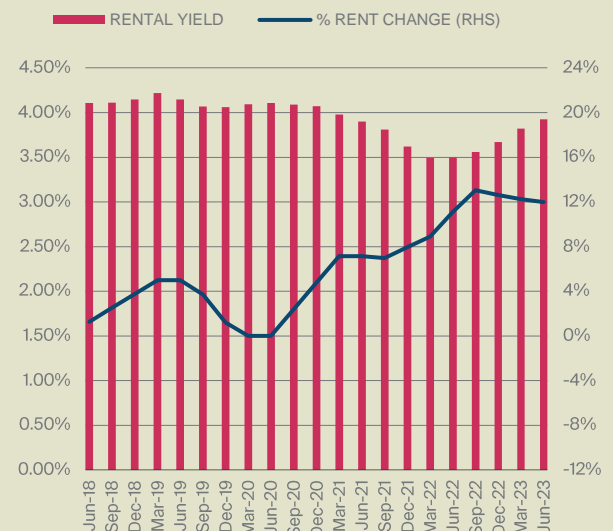
Source: Knight Frank Research, APM

RENTAL MARKET

- ▲ Gross rental yields rose 11 bps with Australian houses across the major cities averaging 3.93%.
- ▲ Median apartment rents increased 1.8% in the June 2023 quarter, up 12.0% annually, to stand at \$560 per week (APM).

Australian Cities Houses Rents & Yields

Gross rental yield & % annual rental change



Source: Knight Frank Research, APM

Established houses in Regional Australia

-13%
Regional SA
Best annual change in sale transactions

60
Regional Tasmania
Lowest number of days on market

10.9%
Regional SA
Strongest annual price change

\$669,500
Regional Australia median house value at the end of June 2023

0.8%
The change in Regional Australia median house value in the year to June 2023

6.08%
Regional WA
Highest gross rental yield

13.8%
Regional Queensland
Strongest annual rental change

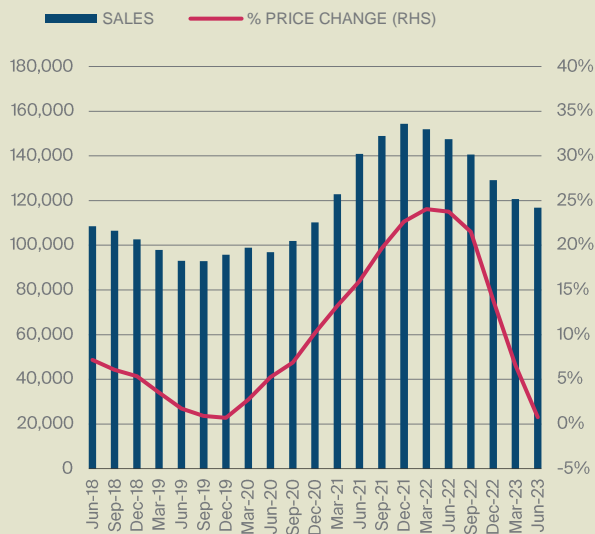
1.8%
Regional Australia
Average residential rental vacancy

9.7%
Annual median weekly rental change in June 2023 across Regional Australia houses

SALES & PRICE PERFORMANCE

- ▲ In the year to June 2023, the volume of house sales across regional Australia was 116,797, trending 20.8% lower than a year ago.
- ▲ The average days on market for a regional house in Australia was 88 days in the June 2023 quarter. This was 83 days one quarter ago.
- ▲ Values for Australian regional houses rose 0.8% in the year to June 2023, falling 1.4% in the last quarter to \$669,500 (Knight Frank Research).

Regional Australia Houses Sales & Prices
No. annual sales & % annual price change

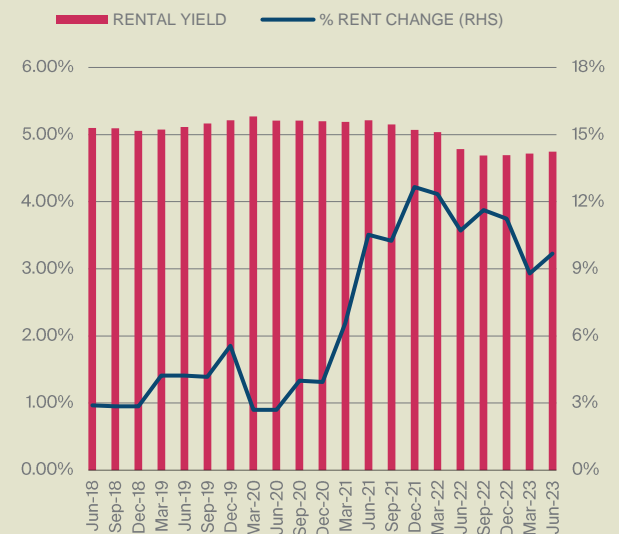


Source: Knight Frank Research

RENTAL MARKET

- ▲ The residential rental vacancy for regional Australia was recorded at 1.8% in June 2023, rising 17 bps over the past quarter.
- ▲ In the second quarter of 2023, gross rental yields rose 3 bps with regional houses averaging 4.75%.
- ▲ Across regional Australia, house rents grew by 3.0% in the June 2023 quarter, rising 9.7% over the past year to stand at \$510 per week (Knight Frank Research).

Regional Australia Houses Rents & Yields
Gross rental yield & % annual rental change



Source: Knight Frank Research

Established apartments in major Australian cities

-3%

Perth
Best annual change in sale transactions

52

Brisbane
Lowest number of days on market

15.3%

Adelaide
Strongest annual price change

7.35%

Darwin
Highest gross rental yield

27.6%

Sydney
Strongest annual rental change

\$609,000

Australian cities median apartment value at the end of June 2023

-1.3%

The change in Australian cities median apartment value in the year to June 2023

22.2%

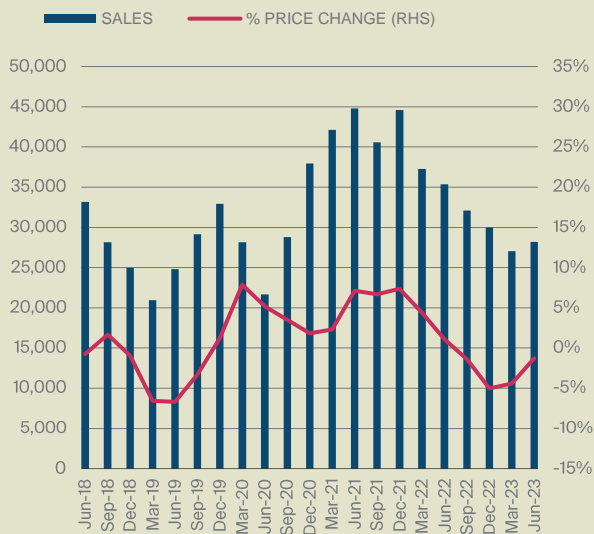
Annual median weekly rental change in June 2023 across Australian city apartments

SALES & PRICE PERFORMANCE

- ▲ Across Australian major cities, 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 (APM).

Australian Cities Apartments Sales & Prices

No. sales per quarter & % annual price change



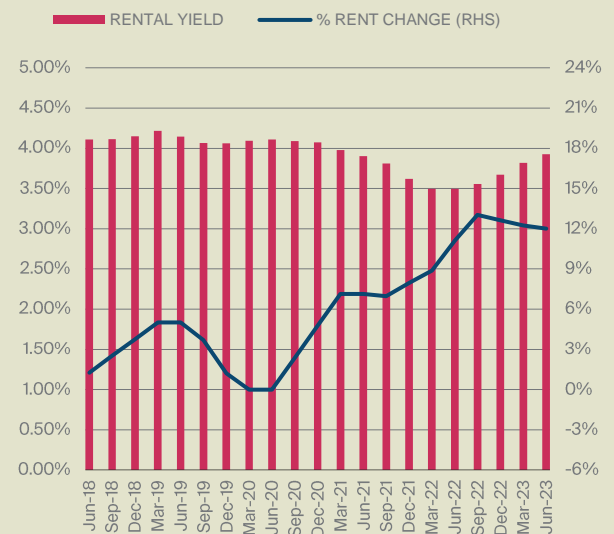
Source: Knight Frank Research, APM

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).

Australian Cities Apartments Rents & Yields

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.

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Residential Research

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