

PERTH APARTMENTS

RESIDENTIAL DEVELOPMENT SERIES H1 2019

Key Facts

Greater Perth **site values** ranged from an average \$20,800 to \$60,100/per apartment (indicative \$50,700/per apartment) at the end of 2018.

There were 3,700 **new apartments** under construction throughout Greater Perth at the end of 2018. There were a further 3,000 apartments with DA approval being marketed.

Mainstream **new apartment prices** ranged from \$5,900 to \$11,300/sqm in Greater Perth by the end of 2018 (indicative \$7,700/sqm).



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A decline in the number of new apartments completed in the past year has led to a significant fall in the Greater Perth residential vacancy rate. How are the key development drivers performing for the Perth apartment market and what's the outlook over the coming year?

Overview

- There's a growing positive business sentiment across the city, encouraged by the declining CBD office vacancy rate.
- There is once again appetite for high-density development sites in Greater Perth, although funding remains challenging for most developers.
- There was a 46% drop in the number of apartments completed in Greater Perth in 2018, compared to 2017, and almost 1,400 apartments were placed on-hold, that were once being marketed.
- In the inner suburbs rental market, more are moving from interstate and signing rental agreements (up from 14% in Q1 2018, to 19% of all leases in Q1 2019).
- Tenants signing new leases worked in two main sectors being 'resources' (growing from a 17% share in Q1 2018 to 31% in Q1 2019) and 'finance' (up from 10% to 13% in the same period). This has contributed to the total residential vacancy falling from 5.5%, to 2.8%, over this time.

Development Site Values

In Greater Perth, there was a total of \$96 million sites sold with potential for high-density residential development which transacted in 2018, almost double recorded than one year earlier (for sites greater than \$2 million in value). Over the year ending December 2018, high-density site sales made up approximately 63% of all development site sales.

The average sales rate for residential sites earmarked for high-density development across Greater Perth, excluding CBD sites, was an indicative \$50,700/per apartment at the end of 2018; 3.9% higher when compared to 2017.

Over this time, the indicative sales rate for the inner suburbs of Perth grew by 2% to stand at \$60,100/per apartment; to trend within a range from \$45,000 and \$95,000/per apartment.

PERTH

Population in Greater Perth was estimated at 2.1 million persons in June 2018, with annual **population growth** of 1.1%. The **population projection** is set by the ABS at 1.6% per annum until 2041.

Western Australia **economic growth** was 1.9% in 2017-18. Greater Perth **unemployment** stood at 6.5% as at December 2018, trending 60 bps higher than a year earlier.

The **cost of construction** across Greater Perth increased 1.5% in 2018. At this time, it was estimated the cost to build an apartment to a medium standard (with a balcony) was \$3,080/sqm to \$3,655/sqm (plus GST), according to Rawlinsons. Construction costs are forecast to remain steady over the coming year.

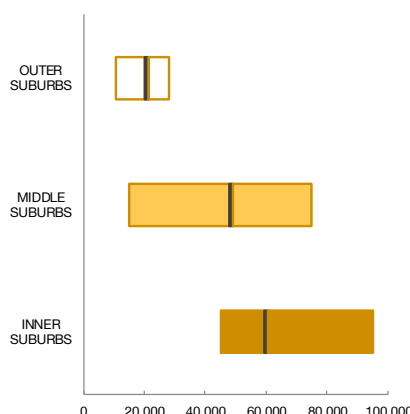
Greater Perth **median values** decreased 2.9% to \$352,000 over 2018. Apartment **sales transacted** totalled 3,113 in Greater Perth in 2018, down 17% on the previous year. The average apartment is **on the market** for 144 days, up from 131 days one year earlier (APM).

Gross rental yields across Greater Perth apartments rose 20 bps, to 4.80%, over the December 2018 quarter. **Median rents** remained steady over 2018 for Greater Perth apartments, at a weekly rent of \$300. Greater Perth **total vacancy** was 2.8% as at December 2018; falling from 5.5% a year earlier.

Offshore purchasers pay a duty surcharge in Western Australia—this equates to 7% of the purchase price, in addition to standard state-based stamp duties and FIRB application fees.

Similarly over this time, the middle suburbs of Perth (which captures coastal suburbs such as Scarborough) recorded a 13% uptick in indicative values to \$48,700/per apartment (trending from \$15,000 to \$75,000/per apartment). However in the outer suburbs of Perth, at the end of 2018, a high-density site was likely to achieve marginally less than a year earlier from \$10,500 to \$28,000/per apartment, with an indicative of \$20,800/per apartment.

FIGURE 1
Site Sales Price Range & Indicative Rate, Greater Perth
Potential high-density development (excl. CBD)
Average rate/per apartment, as at 31 Dec 2018



Source: Knight Frank Research

Apartment Pipeline

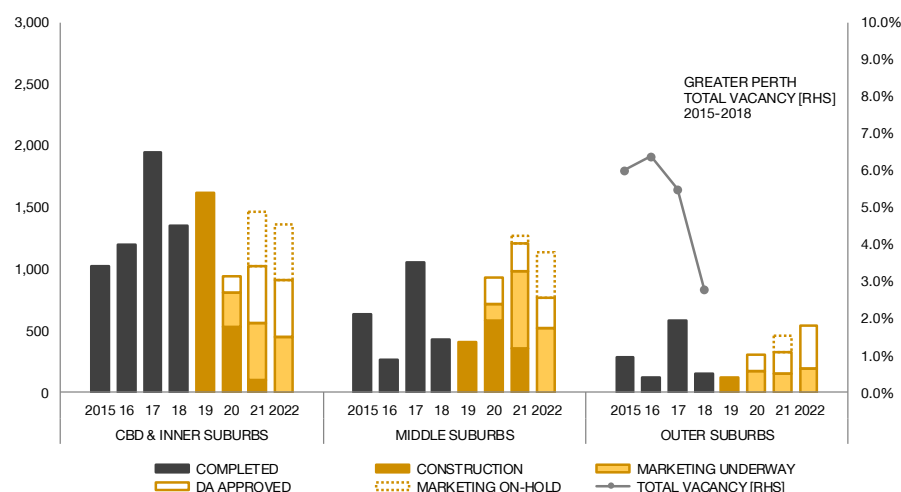
A little over 1,900 new apartments were added to Greater Perth pipeline in 2018, down 46% from 2017. This fall in new supply coupled with increased activity from local and interstate tenants driven by the recovering finance and resources sectors, has aided the significant fall in vacancy from 5.5% in December 2017, to 2.8% one year later.

The inner suburbs of Perth continued to dominate completions in 2018, with 1,350 new apartments. The stock of apartments in the inner suburbs is projected to grow by another 2,250 apartments by the end of 2022—with those currently under construction, and an additional 1,200 apartments being marketed with DA approval, but not yet commenced. The Middle Suburbs saw 450 high-density apartments completed in 2018, with 2,650 under construction or being marketed with development approval due by the end of 2022. New apartments in the Outer Suburbs grew by 150 in 2018. By 2022, this is projected to grow by another 650 apartments currently under construction and being marketed.

To arrive at these estimates, the average marketing and construction timeframe of a similar-sized past project was taken into consideration. There is potential for

FIGURE 2
New Apartment Pipeline & Total Residential Vacancy, Greater Perth

Number of potential apartments each year, includes projects with 4+ storeys with 25+ apartments & % total residential vacancy [RHS], as at 31 Dec 2018



Source: Knight Frank Research, REIWA

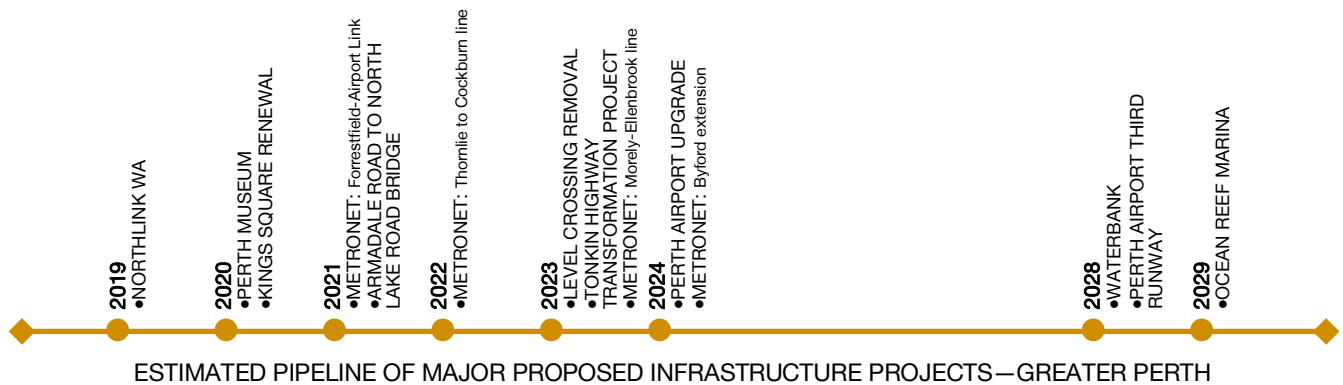
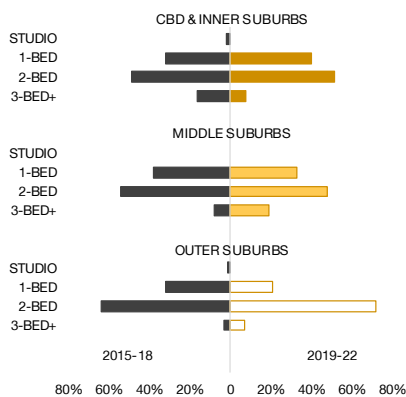


FIGURE 3

Split of Bedrooms in New Apartments Greater Perth

Distribution in completed projects (2015-18) & under construction (due 2019-22)



Source: Knight Frank Research

an additional 2,400 development approved apartments coming on line by 2022 across Greater Perth. While the current pipeline has also taken into consideration almost 1,400 apartments which launched marketing campaigns in recent years, but now currently on-hold. Removing this stock from the pipeline could potentially result in an undersupply of high-density stock in the inner suburbs of Perth by 2021.

Bedroom Split

Across Greater Perth, the number of apartments with 2-bedrooms continued to dominate the mix built in 2015-18, representing 53% of all new stock. This was followed by 1-bedroom apartments with 34%. For apartments due by 2022, and currently under construction, there is

a lower portion of 2-bedrooms (51%) coming online, with an increase in 1-bedroom stock (to 37%) being built. Greater Perth continues to have the lowest portion of new studio apartments being built across the major cities, whilst there remains consistency (a 12% share) in 3-bedrooms (or more) apartments being delivered.

New Apartment Pricing

The price for new mainstream apartments in Greater Perth have remained stable now for eighteen months at \$7,700/sqm, with several signs the next move will be trending upwards.

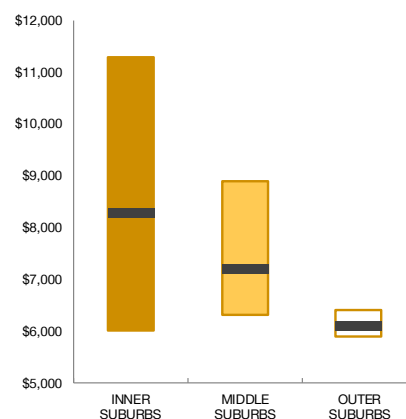
The inner suburbs of Perth ranged from \$6,000 to \$11,300/sqm at the end of 2018. Over the past year, the indicative rate remained steady at \$8,300/sqm.

New apartments in the middle suburbs were priced at an indicative \$7,200/sqm; ranging from \$6,300 to \$8,900/sqm at the end of 2018. In the outer suburbs, apartments could be purchased for an indicative \$6,100/sqm; with a range of \$5,900 to \$6,400/sqm.

FIGURE 4

New Apartment Price Range & Indicative Rate, Greater Perth

Rate/sqm for standard mainstream (excl. CBD)
2 bed+2 bath, as at 31 Dec 2018



Source: Knight Frank Research

TOP 10 PERTH SUBURBS FOR NEW APARTMENTS

COMPLETED IN 2018

Claremont
West Perth
Subiaco
South Perth
Menora
Scarborough
East Perth
Mount Pleasant
North Fremantle
North Coogee

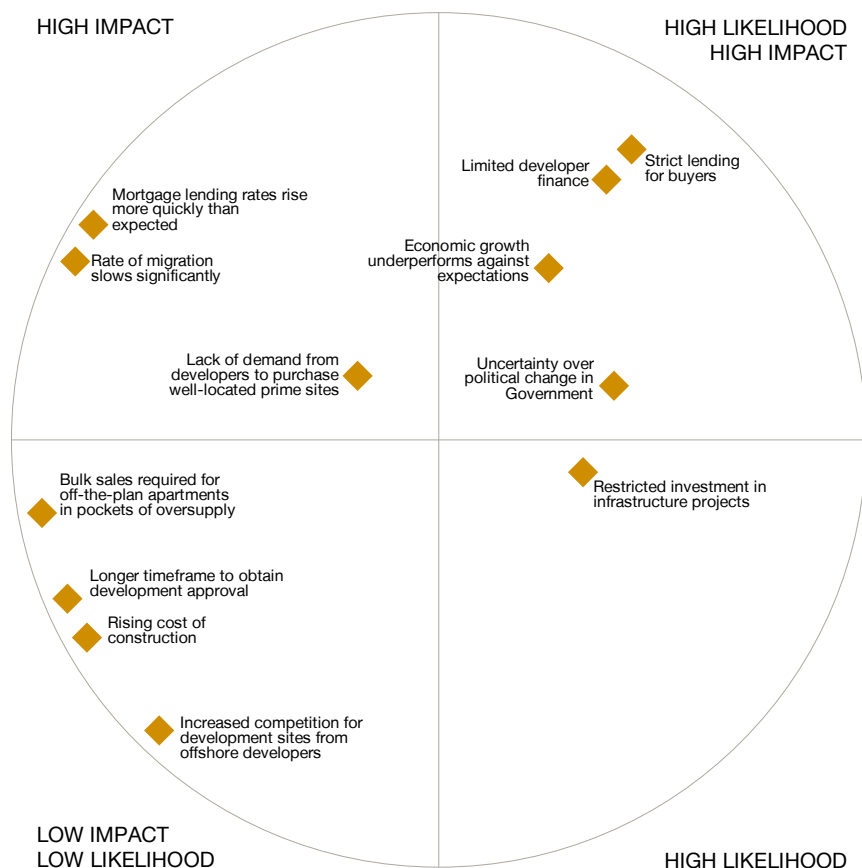
UNDER CONSTRUCTION DUE BY END 2022

Perth
Applecross
Rivervale
Mount Pleasant
Burswood
Claremont
East Perth
Victoria Park
East Victoria Park
Scarborough

FIGURE 5

Key Development Drivers Risk Monitor, Greater Perth

Scenarios assessed on the likelihood and their impact over the next year



Source: Knight Frank Research

Definitions

High-density covers projects with more than 25 apartments in a complex and more than four storeys in height; as defined by Knight Frank Research.

Geographies cover the **Inner Suburbs** being within the LGAs of Perth, South Perth, Victoria Park, Vincent, Subiaco, Cambridge, Nedlands, Claremont, Cottesloe, Peppermint Grove, Mosman Park, Fremantle and East Fremantle. **Middle Suburbs** are within the LGAs of Stirling, Bayswater, Bassendean, Belmont, Canning and Melville. **Outer Suburbs** are those remaining but located within the Greater Perth boundary.

Note: Unless stated, all references to dollars or \$ refer to Australian dollars (AUD).

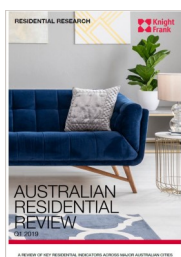
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