RESIDENTIAL RESEARCH

Knight Frank

AUSTRALIAN RESIDENTIAL DEVELOPMENT REVIEW

2018

A REVIEW OF KEY DEVELOPMENT DRIVERS, RESIDENTIAL MARKET TRENDS & OUTLOOK

KEY FINDINGS

Residential development site sales were $8.56 billion across Australia in 2017, down 14.3% in the past three years. **Foreign buyers** purchased 42.7% of all development sites, by value, over this time.

Across Australia, **higher density** site sales ranged significantly from $22,000 to $408,300/per apartment as at 31 December 2017; with an indicative rate of $89,400/per apartment. New apartment prices ranged from $4,000 to $26,000/sqm at this time; with an indicative of $8,200/sqm.

The trend towards **medium density** is evident by the types of development sites being purchased. By value, the proportion of medium density development sites sold was 12.8% in 2017; up from 5.2% two years earlier.

Throughout 2017, 55,270 new **low density** residential land lots were released across the major Australian capital cities, down 6% on the previous year. The median price for a land lot stood at $313,000; an annual increase of 9.1%.

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Knight Frank Residential Research

AUSTRALIAN RESIDENTIAL DEVELOPMENT SITES

The attraction for medium density housing ramped up in 2017 to become a remedy for developer funding constraints and a more affordable option for buyers.

Overview

A strong year was recorded in 2017 for new apartments with a total of 65,700 completed in higher density projects across Australia. The first wave of cooling measures introduced by the Australian Prudential Regulatory Authority (APRA) in late 2014 has now been embedded in the fabric of the residential development market. By the end of 2018, the full impact will have transpired with only 58,700 new apartment completions projected—an annual fall of 10.7%—the first time a decline in apartment completions has been registered in the past seven years.

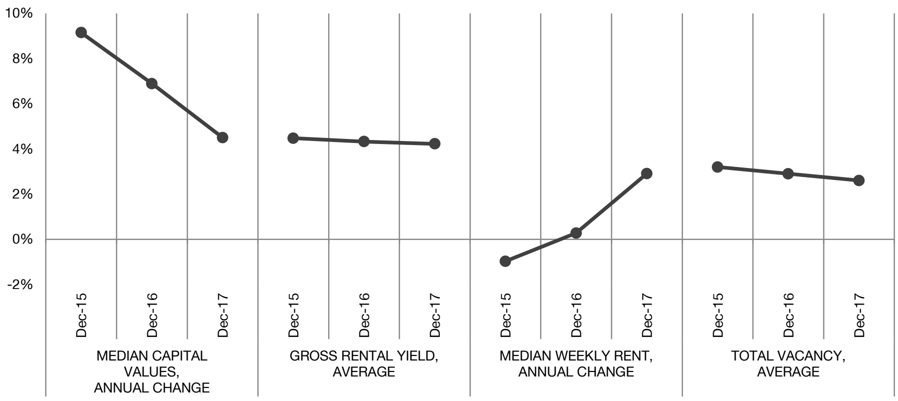
Developers cite the double-barreled obstruction, with investors unable to secure finance for off-the-plan apartments, while this commitment is required to secure funding to get the project off the ground. This has been reflected in housing financing growth sliding in early 2017 when investors started to leave, before the return of owner occupiers into the cooler market. There is also evidence of developers who have purchased income-producing assets, especially in suburban markets with tight office and industrial vacancy, taking advantage of this income stream until their development project has been approved. In addition to this headwind, at the time of publication it's not known the extent the impact of the current banking royal commission will have on lending, although a risk-adverse environment is highly likely to be the new norm.

Taking into account the current demand drivers and a relatively healthy economy, this lack of new supply is becoming a concern over the coming years as population growth is not projected to ease in the major cities in the short-to-medium term, and the weighted average of rental vacancy across Australia, at 2.6%, is trending well below market equilibrium.

Site Sales

Across Australia, the total volume of residential development site sales in 2017 was $8.56 billion—this included sites suitable for low, medium and higher density. Over the past three years total site sales have fallen 14.3% from

FIGURE 1
Key Residential Indicators, Houses and Apartments, Australia



Source: Knight Frank Research, APM, REIA

$10.0 billion in 2015 with all states and territories recording a similar, or lower volume of sales with the exception of Victoria.

Victoria bucked the trend with an increase in medium density and higher density sites. Interestingly, the gap in total sales between New South Wales (NSW) and Victoria (VIC) closed from a differential of $2.7 billion in 2015, to $79 million two years later, with 2017 total sales recorded at $3.78 billion and $3.71 billion respectively (figure 2).

In 2017, there was also activity in less populated states and territories with the Australian Capital Territory (ACT) recording $177.0 million, South Australia (SA) at $66.3 million and Tasmania (TAS) at $6.1 million. Identifying the disclosed purchaser by nationality, from the total development site sales between 2012 and 2014 in Australia, found the portion of foreign investors was 32.5%, by value. This was lower than the 42.7% recorded three years later.

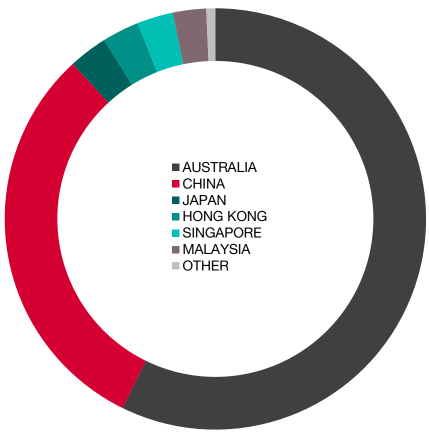
Over this time, almost 87.1% of these sales occurred in Greater Sydney and Greater Melbourne with the remainder occurring outside Australia's two most populated capital cities. A similar analysis completed for the three years earlier resulted in 92.4% selling in the two cities. This has reflected the willingness of foreign developers and investors to now diversify across the country.

Despite the tightened outbound capital controls remaining in play by the Chinese Government, China still represented the largest portion of all foreign purchasers with 31% of all disclosed sales (figure 4). Japan (3.0%) followed, with Hong Kong and Singapore both at 2.8%. Slightly lower with a 2.6% share, Malaysian developers saw most of their transactions happening in Greater Melbourne.

FIGURE 4

Residential Site Sales by Nationality of Purchaser, Australia

Disclosed sales by value, 2015-2017



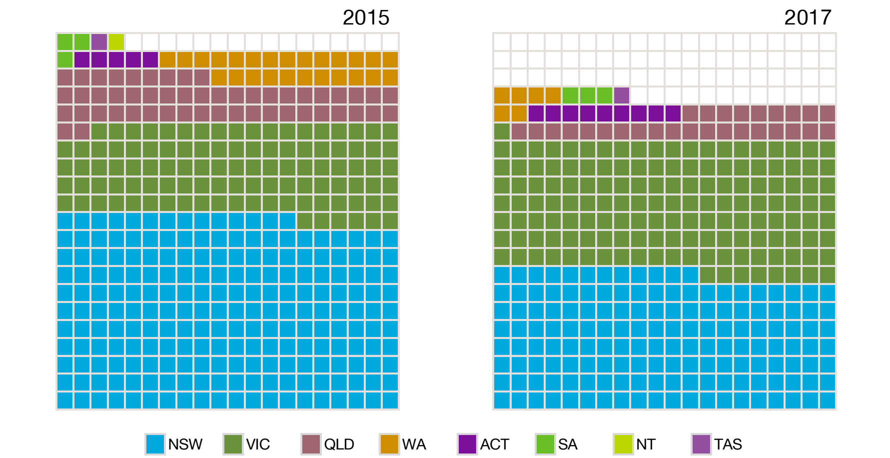
Sites suitable for low, medium and high density development. All sales $2m+, except for NSW & VIC sales being $5M+.

Source: Knight Frank Research

FIGURE 2

Total Residential Site Sales by State, Australia

Each coloured square represents $25m in 2015 & 2017

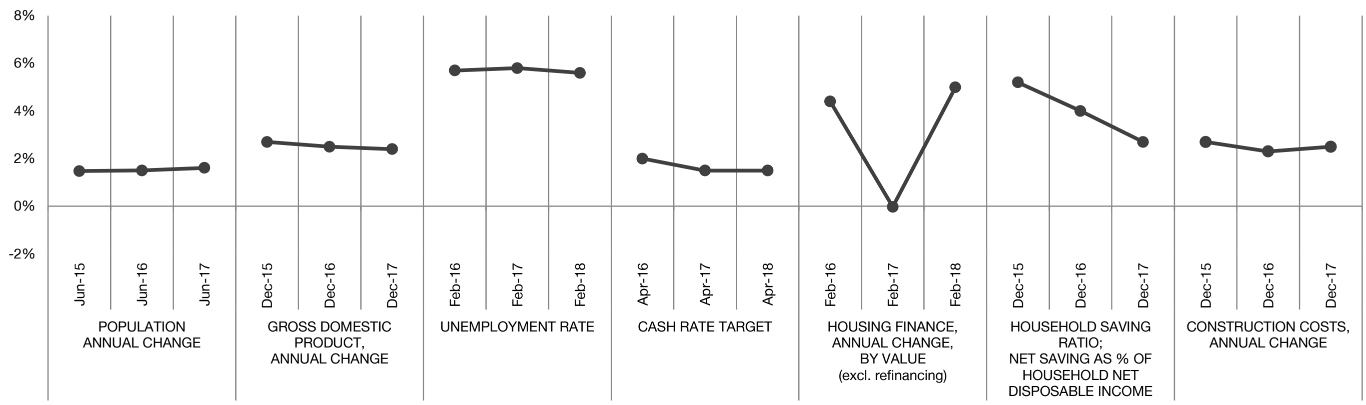


Each square is rounded up to nearest $25m. Sites suitable for low, medium and high density development. All sales $2m+, except for NSW & VIC sales being $5M+.

Source: Knight Frank Research

FIGURE 3

Key Economic Indicators, Australia



Source: Knight Frank Research, ABS, RBA, Rawlinsons

HIGHER DENSITY DEVELOPMENT

Site Sales & Average Rates

Development sites suitable for higher density across Australia cities totalled $5.6 billion in 2017. This was down 26.8% on the previous year, and well-below the $9.2 billion achieved in 2014 as the market continues to correct across the major capital cities. NSW saw the highest volume of sales with $2.8 billion, followed by Victoria with $2.1 billion.

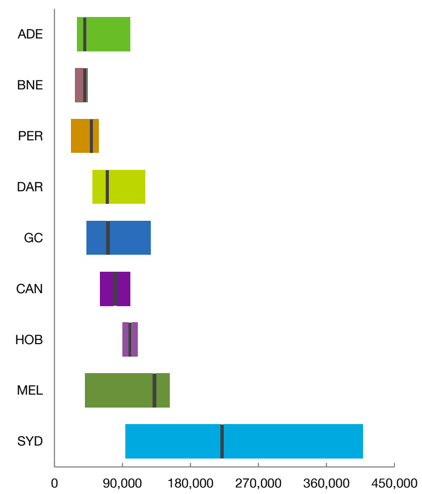
The indicative rate for a higher density site was $89,400/per apartment across Australia, ranging from $22,000/per apartment in Greater Perth with an upper end of $408,300/per apartment in Greater Sydney (excl. the CBD) (figure 5).

Outside the major cities, Greater Hobart achieved the highest indicative rate for higher density sites of $100,000/per apartment, followed by Canberra ($80,000/per apartment), Greater Darwin ($70,000/per apartment) then Greater Adelaide ($40,000/per apartment).

FIGURE 5

Site Sales Price Range & Indicative Rate

Potential higher density development (excl. CBD) Rate/per apartment, as at 31 Dec 2017



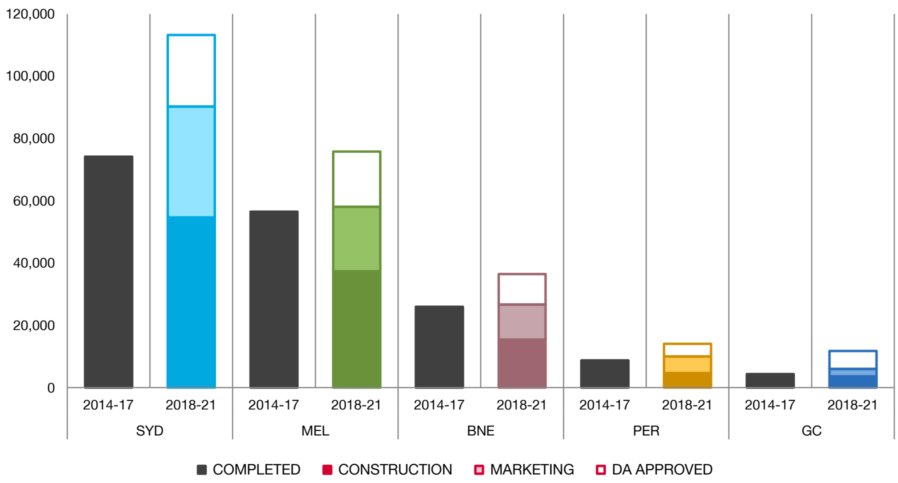
For consistency across the greater cities, the site sales average rate/per apartment is calculated as the purchase price divided by the potential number of apartments, at the time of sale. The range represents the average upper and lower rates.

Source: Knight Frank Research

FIGURE 6

New Apartment Pipeline

Number of apartments, includes projects with 4+ storeys with 25+ apartments, as at 31 Dec 2017



Source: Knight Frank Research

Apartment Pipeline

Over 2014-17, 169,900 new apartments were added to the five major cities' apartment stock, led by Greater Sydney (74,200) and Greater Melbourne (56,500). In total, across the five cities, there are currently 115,850 apartments under construction, with another 75,150 currently being marketed potentially due by the end of 2021. The likelihood of an additional 60,350 DA approved apartments coming on line within this timeframe has also been charted across the five major cities. To arrive at this total, the length of marketing and construction period of the average project of its size was taken into consideration (figure 6).

Apartment Pricing

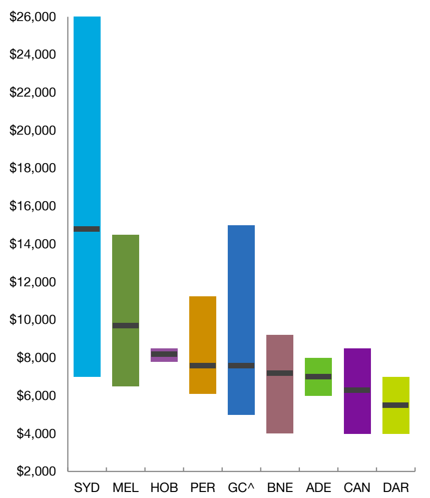
The price of new apartments range vastly across Australian cities from $4,000 in Greater Brisbane, Canberra and Greater Darwin to $26,000/sqm in Greater Sydney (figure 7).

Outside the major cities, Greater Hobart achieved the highest indicative rate for new apartments at $8,200/sqm, followed by Greater Adelaide ($7,000/sqm), Canberra ($6,280/sqm) then Greater Darwin ($5,500/sqm).

FIGURE 7

New Apartment Price Range & Indicative Rate

Rate/sqm for standard mainstream (excl. CBD) 2 bed+2 bath, as at 31 Dec 2017



For consistency, a new apartment is based on an average two-bedroom standard apartment across the cities. The upper end could include an average price for an apartment with views and the lower represents the average for an entry level apartment.

Source: Knight Frank Research ^Based on GFA

As some of the major cities apartment markets have cooled, slight downward adjustments have been made to indicative rates while incentives in these cities have started to incline.

MEDIUM DENSITY DEVELOPMENT

A shift towards low-maintenance living has only just begun with an aging population in downsizing mode, and an increasing trend in time-poor communities. For growing families, upsizing from higher density living to an attached townhouse with a backyard, has become the more affordable option when measured against the low density, standalone dwelling—especially for those buyers in Sydney and Melbourne.

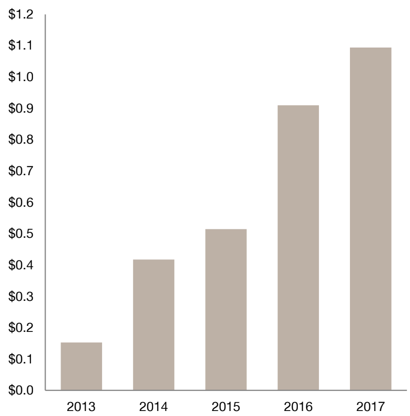
The 'missing middle' has long been identified across Greater Sydney, and only recently addressed via a draft Low Rise Medium Density Housing Code was released in 2016 by the NSW Department of Planning and Environment. It was at this time the share of medium density site sales purchased by developers began to rise across Australia, as well as building approvals for medium density.

In 2013 the volume of medium density development sites was $152.8 million, four years later, this had increased to $1.1 billion in 2017 (figure 8). The NSW Code has now been adopted and is due to take effect from July 2018, allowing fast track complying development approval for one and two storey dual occupancies, manor houses and terraces.

FIGURE 8

Medium Density Development Site Sales, Australia

$ Billion, total volume by value



With potential for medium density. All sales $2m+, except for NSW & VIC sales being $5M+.

Source: Knight Frank Research

DEFINITIONS:

The definition of density ranges across Australia. For consistency in reporting, definitions adopted include:

Higher Density
Projects with more than 25+ apartments and more than four storeys; as defined by Knight Frank Research.

Medium Density
Projects with one and two storeys semi-detached, row or terrace houses; plus flats, units or apartments in a one, two or three storey block; as defined by the Australian Bureau of Statistics (ABS).

Low Density
Single residential allotments 'land lots' within the greenfield land market; as defined by UDIA National Land Survey Program.

LOW DENSITY DEVELOPMENT

Across the major metropolitan areas of Australia 55,270 new residential land lots were released in 2017, down 6% on the previous year according to the UDIA State of the Land National Land Survey Program (table 1).

The median land lot size was 422 sqm in 2017; 16% smaller than in 2014. Lots ranged from a size of 375 sqm in Greater Perth, to 502 sqm in Canberra. Across Australia, the median price for a single land lot stood at $313,000; a rising 9.1% when compared to a year earlier. Greater Sydney continued to command the highest price of the major capital cities by the end of 2017, at a median of $476,000, whilst Greater Adelaide was the most affordable at $167,000.

TABLE 1

Residential Land Lots

Single allotments, 2017

Year Ending	Newly Released Lots (No.)	Annual Net Lot Sales (No.)	Median Lot Size (sqm)	Annual Change in Median Lot Size (%)	Median Lot Price ($)	Annual Change in Median Lot Price (%)	Median Lot Price ($/sqm)
Greater Sydney	9,411	9,269	396	-1.5	476,000	2.8	1,202
Greater Melbourne	22,990	23,750	405	-2.2	281,000	24.3	692
South East Queensland	13,268	12,356	447	-4.9	264,000	1.5	591
Greater Perth	6,885	5,631	375	0.0	227,000	-4.2	605
Greater Adelaide	2,162	1,846	449	8.7	167,000	0.0	373
Canberra	557	531	502	1.4	436,000	16.9	868
Total	**55,270**		**422**	**-1.6**	**313,000**	**9.1**	**746**

Source: Knight Frank Research, UDIA National Land Survey Program

SYDNEY

Population in Greater Sydney was estimated at 5.1 million persons in June 2017. Greater Sydney experienced **population growth** of 2.0% in the year to June 2017. Population is **projected** to grow 1.4% annually to 2036.

Gross State Product in New South Wales (NSW) was recorded at $557,861 million in 2016/17; 2.9% greater than the prior year.

Unemployment stood at 4.4% in Greater Sydney as at December 2017, trending 57 bps lower than recorded in December 2016.

The **cost of construction** across Greater Sydney increased 3.2% in 2017. At this time, it was estimated the cost to build an apartment was $1,815/sqm to $3,780/sqm (plus GST) to a basic standard finish, according to Rawlinsons.

Foreign purchasers must pay a duty surcharge in NSW—8% of the purchase price, in addition to standard state-based stamp duties and FIRB application fees.

RESIDENTIAL MARKET TRENDS

Mainstream Market

Greater Sydney is currently a hive of activity with several major transport projects underway and strong population growth, so far, absorbing the apartment projects being built across the city.

Greater Sydney **median values** increased 0.5% in the December 2017 quarter for houses; rising 4.0% over 2017 to $1,179,500. Apartment values fell 0.4% over the same quarter; although rose 1.7% over 2017 to record a median of $737,000.

House **sales transacted** totalled 46,657 in Greater Sydney in 2017, down 8.5% on the previous year. Apartment sales were down 10.3% over the same time with a total of 29,269 transactions.

Gross rental yields across Greater Sydney houses were achieved at 3.10% in the December 2017 quarter; compressing 20bps when compared to a year earlier. For apartments, gross rental yields compressed 10bps over the same time to achieve 3.80%.

Median rents rose 1.9% over 2017 for Greater Sydney houses, to a weekly rent of $550 in December. Over the same time, apartment rents increased 4.8% to be a weekly rent of $545.

Greater Sydney **total vacancy** was 2.2% as at December 2017; recording 2.0% in the Inner Suburbs (0-10km from the CBD), 2.6% in the Middle Suburbs (10-25km) and 2.3% in the Outer Suburbs (25km+).

DEVELOPMENT SITES

Total Site Sales

A total of $3.76 billion residential development sites transacted in 2017 across Greater Sydney suitable for low, medium and higher density. This is significantly lower than recorded in 2015 when $5.29 billion worth of sites were sold. It was at this time, the NSW Government had begun to rezone many transport corridors to encourage higher density.

A trend had started to emerge in 2016 with developers opting to purchase sites suitable for medium density. The portion of medium density sites in Greater Sydney grew to 6.3% of all site sales, by value, up from 0.6% a year earlier. In 2017, this portion grew further to represent 11.5% of all site sales; equivalent to $434.1 million.

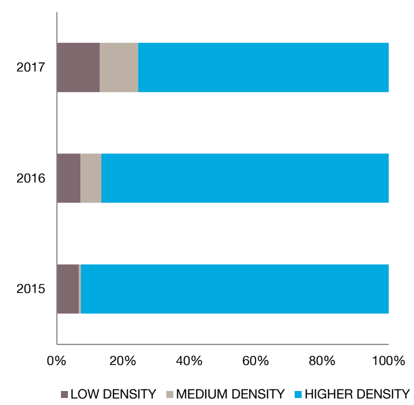
Over this past year, developers trended further away from higher density sites, with the share of sites suitable for low density growing to 12.9% of all site sales, up from 7.2% in 2016 (figure 9).

Low and medium density projects provide a less-risky option for developers to engage in a horizontal staged development, over those with full commitment in a vertical project when the market cools.

FIGURE 9

Development Site Sales by Potential Density, Greater Sydney

Total volume, by value, sales $5M+



Source: Knight Frank Research

HIGHER DENSITY DEVELOPMENT

Site Sales

The sale of residential development sites with potential for higher density across Greater Sydney, totalled $2.84 billion in 2017. This was down 38% on the previous year. When analysing sales with disclosed purchasers, foreign buyers made up 42.6% of these higher density site sales in 2017.

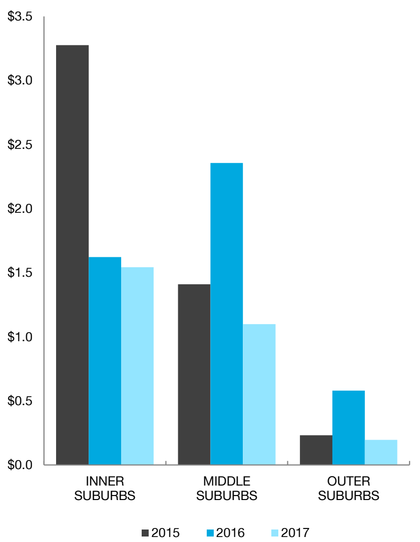
By value, over 54% of 2017's higher density development site sales occurred in the Inner Suburbs of Sydney. Although down 4.8% from 2016, sales totalled $1.54 billion (figure 10). When comparing the Middle Suburbs of Greater Sydney to other major cities, the greatest share of sales, at 39%, were recorded in 2017. This was equivalent to $1.10 billion. This highlights the wide spread of development still to occur across the metropolitan area.

Over the last year, Outer Suburbs higher density site sales represented just over one-third the height achieved in 2016, tallying to $195.8 million.

FIGURE 10

Total Site Sales Volume Greater Sydney

Potential higher density residential development
$ Billion, sales $5M+

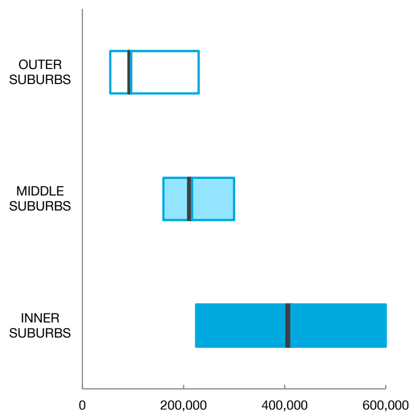


Source: Knight Frank Research

FIGURE 11

Site Sales Price Range & Indicative Rate, Greater Sydney

Potential higher density development (excl. CBD)
Average rate/per apartment, as at 31 Dec 2017



Source: Knight Frank Research

Average Rates

The average sales rate for residential sites with potential for higher density development in Greater Sydney was an indicative $222,100/per apartment as at 31 December 2017 (excl. CBD).

The lower end of the indicative range started at $93,800/per apartment, while the upper end was recorded at $408,300/ per apartment, this being achieved in the Inner Suburbs. At this time, in the Inner Suburbs, the range was $225,000 to $600,000/per apartment (figure 11).

Despite the volume of site sales in the Middle Suburbs being lower in 2017 than achieved the year before, well-located sites pushed up the higher end of the range, to trend between $160,000 to $300,000/per apartment. The indicative rate is slightly higher at $213,000/per apartment, than experienced in the second half of 2017, as only a handful of good quality sites transacted.

By the end of 2017, the Outer Suburbs widened to be $55,000 to $230,000/per apartment; with an indicative rate of $93,800/per apartment. This rate was 17.5% lower than the year before.

Drawing a radius from the Sydney CBD, **Inner Suburbs** are located within 10km, **Middle Suburbs** are within a 10-25km ring and **Outer Suburbs** are located beyond 25km but within the Greater Sydney boundary.

Greater Sydney higher density residential development site **sales volume** were $2.84 billion in 2017; down 38% on 2016.

Over this time, **average site sales** ranged from an indicative $93,800 to $408,300/per apartment; with an indicative of $222,100 per apartment.

There were 54,650 **new apartments** under construction throughout Greater Sydney at the end of 2017. There were a further 35,600 apartments being marketed with an additional 22,950 DA approved and potentially on line by the end of 2021.

New mainstream apartment prices ranged from $7,000/sqm to $26,000/sqm in Greater Sydney, with an indicative of $14,800/sqm as at 31 December 2017.

Apartment Pipeline

Greater Sydney saw 74,200 new apartments completed from 2014 to 2017; the largest of all major cities. The Middle Suburbs contributed the most new apartments with an additional 39,150 apartments over this time. Stock in the Middle Suburbs is projected to grow by another 21,300 new apartments by the end of 2021, with those currently under construction and an additional 15,750 being marketed with DA approval (but not yet commenced).

The Inner Suburbs saw 24,500 apartments completed between 2014 and 2017 with 22,650 under construction and another 7,650 being marketed as at the end of 2017, due for completion by the end of 2021. The Outer Suburbs saw the new supply of higher density apartments grow by 10,550 since 2014. By 2021, this is expected to grow by another 22,950 apartments currently under construction and being marketed.

Also charted across Greater Sydney is the likelihood of an additional 22,950 apartments with DA approval, but not yet marketed, coming on line within this timeframe (figure 12). To arrive at this total, the length of marketing and construction period of an average project of its size, was projected.

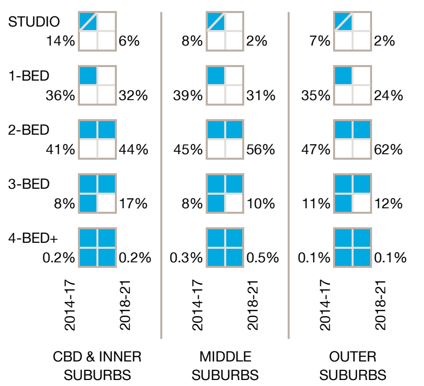
Bedroom Split

The distribution of bedrooms completed across Greater Sydney in the past four years have been dominated by those with 2-bedrooms, representing 44% of all higher density apartments. This was followed by those with 1-bed with 38%, as studios comprised 10% and 3-beds, 8%. However for those projects currently under construction and due in the next four years, a shift towards more efficient floorplans with additional bedrooms is trending. The share of 2-beds have increased to 52% and 3-beds to 13%; to meet market demand. Only 3% will be studios and 30% will have 1-bed.

FIGURE 13

Bedroom Configuration in New Apartments, Greater Sydney

Distribution in completed projects (2014-17) & under construction (due 2018-21)

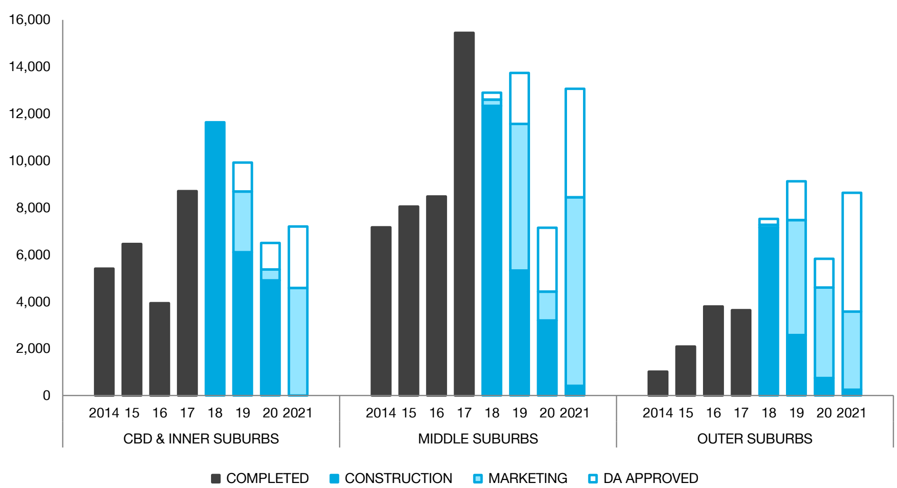


Source: Knight Frank Research

FIGURE 12

New Apartment Pipeline, Greater Sydney

Number of apartments, includes projects with 4+ storeys with 25+ apartments, as at 31 Dec 2017



Source: Knight Frank Research

GREATER SYDNEY TOP 10 SUBURBS NEW APARTMENT PROJECTS:

COMPLETED 2014-17

Wentworth Point
Mascot
Zetland
Parramatta
Rosebery
Wolli Creek
Lane Cove
Waterloo
Epping
Chatswood

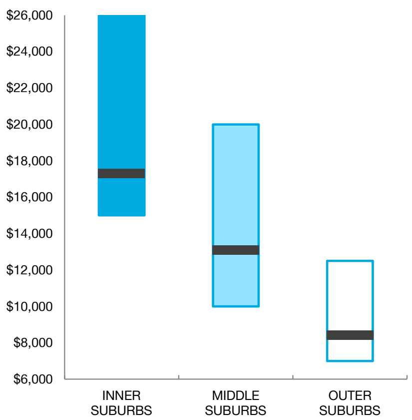
UNDER CONSTRUCTION DUE BY END 2021

Pagewood
Sydney
Mascot
Parramatta
Baulkham Hills
Zetland
Rosebery
Epping
Waterloo
Forest Lodge

DA APPROVED & BEING MARKETED DUE BY END 2021

Macquarie Park
Rouse Hill
Erskineville
Lidcombe
Merrylands
Parramatta
Schofields
Kellyville
Randwick
Liverpool

FIGURE 14
New Apartment Price Range & Indicative Rate, Greater Sydney
Rate/sqm for standard mainstream (excl. CBD) 2 bed+2 bath, as at 31 Dec 2017



Source: Knight Frank Research

Apartment Pricing

Across Greater Sydney, prices for new mainstream apartments can vary significantly; ranging from $15,000 to $26,000/sqm in the Inner Suburbs (indicative $17,300/sqm) as at 31 December 2017 (figure 14). New apartments in the Middle Suburbs, were priced at an indicative $13,100/sqm (ranging from $10,000 to $20,000/sqm), whilst in the Outer Suburbs, an apartment could be purchased for an indicative $8,400/sqm ($7,000 to $12,500/sqm).

MEDIUM DENSITY DEVELOPMENT

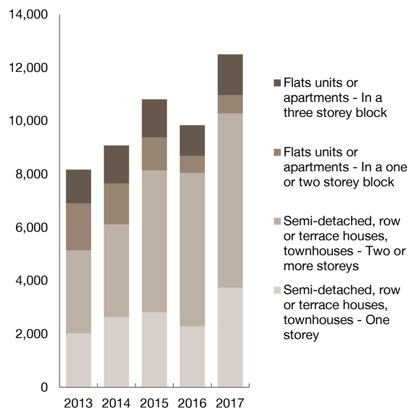
The number of dwellings approved in medium density residential buildings (one and two-storey semi-detached, row or terrace houses & townhouses, plus flats, units or apartments in a one, two or three storey block) in NSW overall increased 52.9% over the past five years - from 8,175 approvals in 2013, to 12,503 approved in 2017, according to the Australian Bureau of Statistics (figure 15).

In the past year, the dominant subtype gaining approval was the semi-detached medium density product with two or more storeys (6,558 approvals or a share of 52.5% of all medium density) followed by those semi-detached but over one storey (3,728 approvals or representing 29.8%).

Given the push towards higher density by the NSW Government in 2014, developers were less inclined to build flats, units or apartments three storeys or below. This was reflected in the number of approvals for this subtype in 2017, with 682 approvals (or 5.5%) for those in one or two storeys, while 1,535 (or 12.3%) were approved for three storeys.

This is likely to change with the NSW Department of Planning and Environment Low Rise Medium Density Housing Code due to take effect from July 2018, allowing fast track complying development approval for one and two storey dual occupancies, manor houses and terraces.

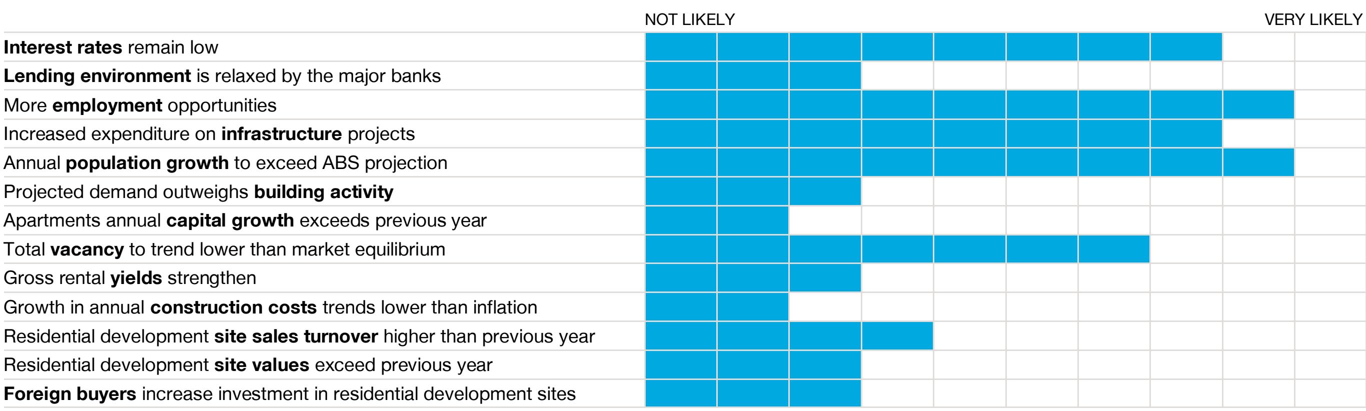
FIGURE 15
Medium Density Building Approvals New South Wales
Total no. of approvals



Source: Knight Frank Research, ABS

The distribution profile has changed since 2013 when semi-detached projects with two or more storeys represented 38.2% of all medium density approvals and those with one storey was 24.7%. Flats, units and apartments took a larger share of 21.6% for projects with one or two storeys and 15.5% for those with three storeys.

FIGURE 16
Key Development Drivers—One Year Outlook—Greater Sydney



Source: Knight Frank Research

MELBOURNE

Population in Greater Melbourne was estimated at 4.9 million persons in June 2017. Greater Melbourne experienced **population growth** of 2.7% in the year to June 2017. Population is **projected** to grow 1.7% annually to 2036.

Gross State Product in Victoria was recorded at $399,009 million in 2016/17; 3.3% greater than the prior year.

Unemployment stood at 5.9% in Greater Melbourne as at December 2017, trending 16 bps lower than recorded in December 2016.

The **cost of construction** across Greater Melbourne increased 3.0% in 2017. At this time, it was estimated the cost to build an apartment was $2,630/sqm to $3,165/sqm (plus GST) to a basic standard finish, according to Rawlinsons.

Foreign purchasers must pay a duty surcharge in Victoria—7% of the purchase price, in addition to standard state-based stamp duties and FIRB application fees.

RESIDENTIAL MARKET TRENDS

Mainstream Market

Greater Melbourne's resilient annual population growth last recorded at 2.5%, has encouraged strong capital and rental growth—currently competing with Greater Hobart for Australia's most demanded city to relocate or invest.

Greater Melbourne **median values** increased 3.2% for houses in the December 2017 quarter; rising 11.3% over 2017 to $904,000. Apartment values rose 2.8% over the same quarter; rising 8.0% over 2017 to record a median of $506,000.

House **sales transacted** in 2017 totalled 60,455 in Greater Melbourne, down 5.5% on the previous year. Apartment sales were down 7.6% over the same time with a total of 20,683 transactions.

Gross rental yields across Greater Melbourne houses were achieved at 3.20% in the December 2017 quarter, although compressing 30bps when compared to a year earlier. For apartments, gross rental yields were steady over the same time to achieve 4.40%.

Median rents rose 3.7% for Greater Melbourne houses over 2017, to a weekly rent of $425. Over the same time, apartment weekly rents increased 5.3% to $400.

Greater Melbourne **total vacancy** was 2.1% as at September 2017; recording 1.9% in the Inner Suburbs (0-10km from the CBD), 3.1% in the Middle Suburbs (10-25km) and 1.7% in the Outer Suburbs (25km+).

DEVELOPMENT SITES

Total Site Sales

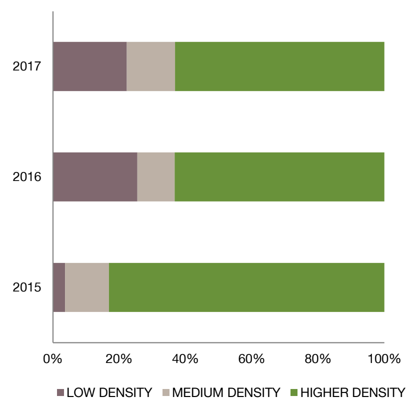
The total volume of Greater Melbourne site sales in 2017, suitable for residential development, has continued to exceed the previous year's record—a historic trend that has occurred for the past five years. A total of $3.3 billion sites were transacted, up 2.4% on 2016.

Low density sites recorded a 22.3% portion of total sales in 2017 (or $734.95 million), falling from a year earlier when these sales represented 25.4%, but still significantly higher than the 3.7% portion recorded in 2015 (figure 17). Medium density site sales represented 13.2% of total sales in 2015. This increased to a 14.6% share in 2017, although dipping slightly in 2016.

This trend towards purchasing low and medium density residential sites has continued to emerge in Greater Melbourne with the sale of sites suitable for higher density representing 63.2% in 2017 when this was closer to 83.1% two years earlier.

This continues to be a result of developer access to debt financing for higher density developments that requires strong pre-sales before construction commences, opting for a logistically easier product to build that also reflects current market demand.

FIGURE 17
Development Site Sales by Potential Density, Greater Melbourne
Total volume, by value, sales $5M+



Source: Knight Frank Research

HIGHER DENSITY DEVELOPMENT

Site Sales

The volume of Greater Melbourne residential development site sales, with potential for higher density, were $2.1 billion in 2017 for those transactions valued higher than $5 million. When compared to 2016, by value, this was up 2.2%. Foreign buyers made 38.7% of higher density site sales in 2017 when analysing those sales with disclosed purchasers.

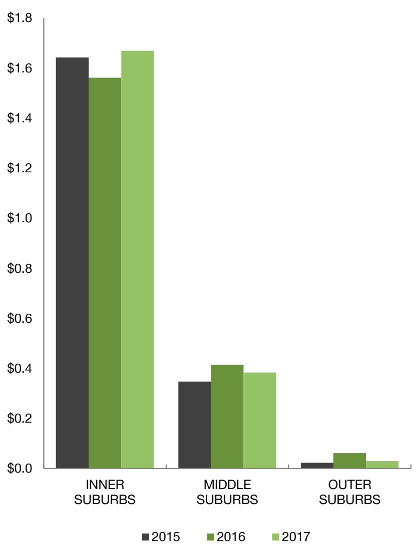
Development of higher density projects continue to concentrate on the Inner Suburbs representing 80% of all Greater Melbourne higher density sales in 2017 (figure 18). Over this time, these sites totalled $1.67 billion; up 6.9% from $1.56 billion compared to the previous year.

Bucking this trend, sales volumes were down in the Middle and Outer Suburbs for higher density sites in 2017. Middle Suburbs sales dropped 7.4% to $301.5 million, while less than half were recorded for the Outer Suburbs, at $30.2 million.

FIGURE 18

Total Site Sales Volume Greater Melbourne

Potential higher density residential development
$ Billion, sales $5M+

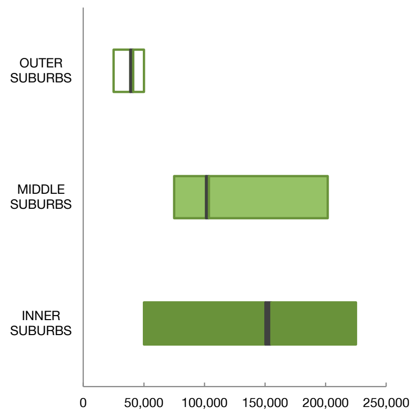


Source: Knight Frank Research

FIGURE 19

Site Sales Price Range & Indicative Rate, Greater Melbourne

Potential higher density development (excl. CBD)
Average rate/per apartment, as at 31 Dec 2017



Source: Knight Frank Research

Average Rates

The average sales rate for residential sites with potential for higher density development in Greater Melbourne was an indicative $132,500/per apartment as at 31 December 2017. The lower end of the range started at $40,000/per apartment, while the upper end was $152,800/per apartment (excl. CBD).

The Inner Suburbs of Greater Melbourne saw an increased volume of sales in 2017 and as a result, the indicative rate rose 14.6% over the same time to $152,800/ per apartment. This sat within in a range of $50,000 to $225,000/per apartment) (figure 19).

Although the volume of sales was lower for Middle Suburbs higher density sites in 2017, the indicative rate increased 20.6% to $102,500/per apartment; ranging from $75,000 to $201,700/per apartment.

Remaining steady whilst the total volume of higher density sites fell, the Outer Suburbs achieved an indicative rate of $40,000/per apartment at the same time, the range being $25,000 to $50,000/per apartment.

Drawing a radius from the Melbourne CBD, **Inner Suburbs** are located within 10km, **Middle Suburbs** are within a 10-20km ring and **Outer Suburbs** are located beyond 20km but within the Greater Melbourne boundary.

Greater Melbourne higher density residential development site **sales volume** were $2.08 billion in 2017; rising 2.2% on 2016.

Over this time, **average site sales** ranged from an indicative $40,000 to $152,800/per apartment; with an indicative of $132,500 per apartment.

There were 37,400 **new apartments** under construction throughout Greater Melbourne at the end of 2017. There were a further 20,700 apartments being marketed with an additional 17,700 DA approved and potentially on line by the end of 2021.

New mainstream apartment prices ranged from $6,500/sqm to $14,500/sqm in Greater Melbourne, with an indicative of $9,700/sqm as at 31 December 2017.

GREATER MELBOURNE TOP 10 SUBURBS NEW APARTMENT PROJECTS:

COMPLETED 2014-17

Melbourne
Southbank
Docklands
South Yarra
Carlton
West Melbourne
Box Hill
Brunswick East
Collingwood
Abbotsford

UNDER CONSTRUCTION DUE BY END 2021

Melbourne
Southbank
Footscray
Moonee Ponds
Carlton
South Yarra
Richmond
North Melbourne
Box Hill
West Melbourne

DA APPROVED & BEING MARKETED DUE BY END 2021

Southbank
Melbourne
Footscray
Port Melbourne
South Yarra
Clayton
Box Hill
West Melbourne
Oakleigh
Doncaster

Apartment Pipeline

Between 2014 and 2017, almost 56,500 new apartments were completed throughout the Greater Melbourne region in projects with 25+ apartments and with 4+ storeys.

This new stock was most prominent in the Inner Suburbs with an additional 47,400 apartments over this time. The stock of apartments in these Inner Suburbs is projected to grow by another 31,500 apartments by the end of 2021 with those currently under construction, and an additional 13,900 being marketed with the potential to be delivered by the end of 2021.

The Middle Suburbs saw 7,700 higher density apartments completed in 2014-17 with 4,650 under construction and another 5,600 being marketed, due by the end of 2021.

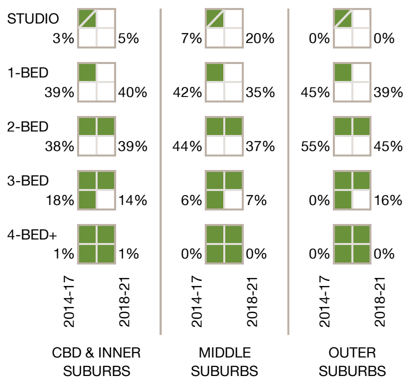
In the four years ending 2017, new apartments in the Outer Suburbs grew by 1,450. Over the next four years, this supply is expected to grow by another 2,450 apartments (figure 20).

Considering the current average marketing and construction timeframe, a further 17,700 apartments with DA approval have been projected to come on line across Greater Melbourne by the end of 2021.

Bedroom Split

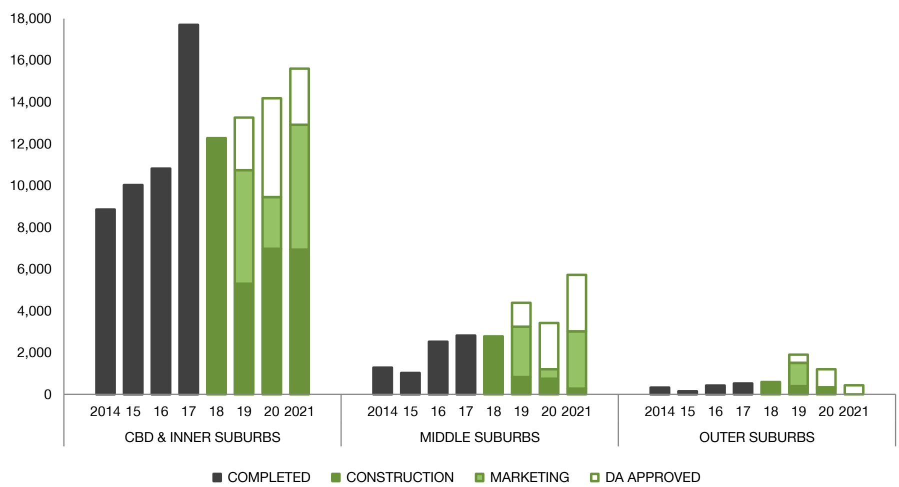
Across Greater Melbourne, distribution of bedrooms in higher density apartments completed in the past four years have been evenly split between those with 1-bedroom and 2-beds holding a share of 39% each. This was followed by 3-beds (17%), whilst 3% were studios and 1% were 4-beds. For projects due in the next four years currently under construction, there is a higher portion of 1-beds (7%), and a fall in 3-beds (13%) being built, bucking the trend experienced in Greater Sydney. The split between new 2-beds and 3-beds remains relatively unchanged to those built since 2014.

FIGURE 21
Bedroom Configuration in New Apartments, Greater Melbourne
Distribution in completed projects (2014-17) & under construction (due 2018-21)



Source: Knight Frank Research

FIGURE 20
New Apartment Pipeline, Greater Melbourne
Number of apartments, includes projects with 4+ storeys with 25+ apartments, as at 31 Dec 2017

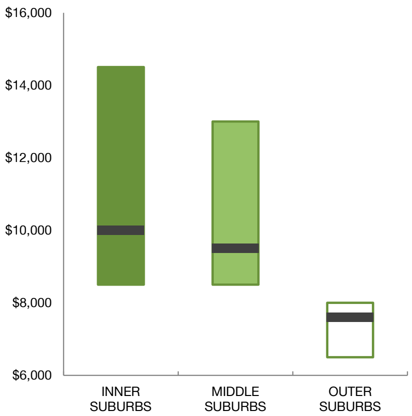


Source: Knight Frank Research

FIGURE 22

New Apartment Price Range & Indicative Rate, Greater Melbourne

Rate/sqm for standard mainstream (excl. CBD) 2 bed+2 bath, as at 31 Dec 2017



Source: Knight Frank Research

Apartment Pricing

Pricing has remained steady in the second half of 2017 for new apartments in the Inner and Middle Suburbs of Melbourne. By year end, the Inner Suburbs had achieved an indicative price of $10,000/sqm (ranging from $8,500 to $14,500/sqm) whilst Middle Suburbs, some dotted along Port Phillip Bay, were an indicative $9,500/sqm ($8,500 to $13,000/sqm). The Outer Suburbs continue to be more affordable ranging from $6,500 to $8,000/sqm, with an indicative rate at $7,600/sqm (figure 22).

MEDIUM DENSITY DEVELOPMENT

As many buyers continue to downsize into the townhouse market, or upgrade into a townhouse as the next best option when priced out of the standalone dwelling market, it's likely we'll see further medium density buildings being approved to meet this demand.

The upward trajectory of medium density projects being approved in Victoria has been sustained, growing at an annual 9.7% in 2017, according to the Australian Bureau of Statistics.

The number of medium density dwellings approved (one and two-storey semi-detached, row or terrace houses & townhouses, plus flats, units or apartments in a one, two or three-storey block) in Victoria rose 39.8% over the five years ending 2017 (figure 23).

In the past year, 14,687 medium density approvals were granted in Victoria. Semi-detached medium density projects with two or more storeys took the greatest share of 73.9% (or 10,851) of all medium density approvals, followed by those semi-detached but over one storey (2,213 approvals or equivalent to 15.1%).

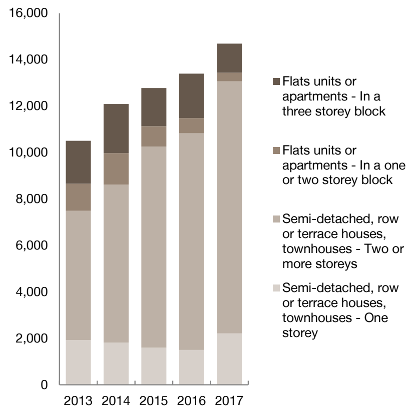
Flats, units and apartments in a three storey block had the next number of approvals, at 1,248, with projects in a one or two storey block following with 375 approvals.

Together these flats, units and apartments represented 11.1% of all medium density approvals in 2017. Back in 2013, these two subtypes (one and two storey, plus, three storey in a block) comprised larger share at 28.8% of all medium density approvals, and recorded almost a double number of approvals.

FIGURE 23

Medium Density Building Approvals Victoria

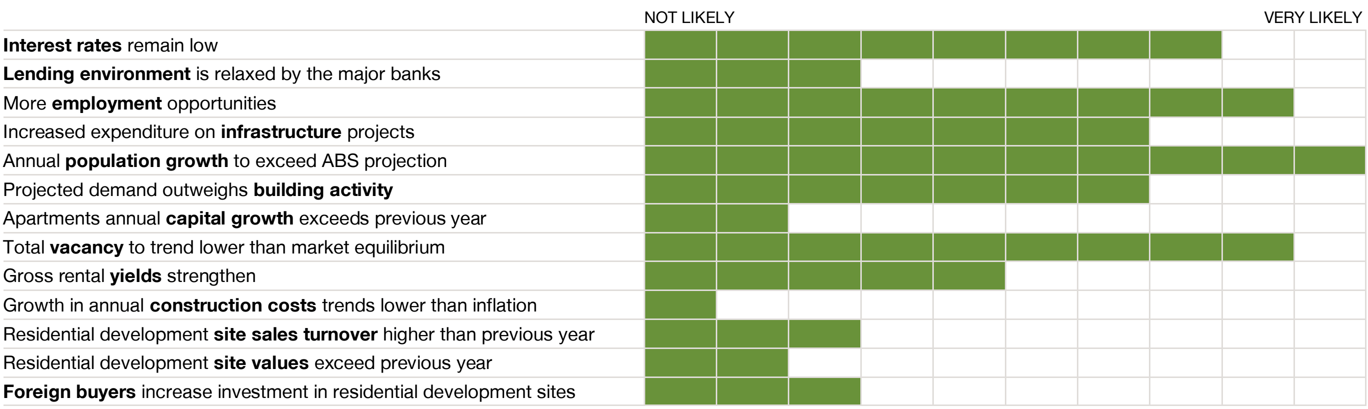
Total no. of approvals



Source: Knight Frank Research, ABS

FIGURE 24

Key Development Drivers—One Year Outlook—Greater Melbourne



Source: Knight Frank Research

BRISBANE

Population in Greater Brisbane was estimated at 2.4 million persons in June 2017. Greater Brisbane experienced **population growth** of 2.0% in the year to June 2017. Population is **projected** to grow 1.8% annually to 2036.

Gross State Product in Queensland was recorded at $308,709 million in 2016/17; 1.8% greater than the prior year.

Unemployment stood at 5.1% in Greater Brisbane as at December 2017, trending 73 bps lower than recorded in December 2016.

The **cost of construction** across Greater Brisbane increased 3.9% in 2017. At this time, it was estimated the cost to build an apartment was $2,635/sqm to $3,175/sqm (plus GST) to a basic standard finish, according to Rawlinsons.

Foreign purchasers must pay a duty surcharge in Qld—3% of the purchase price, in addition to standard state-based stamp duties and FIRB application fees.

RESIDENTIAL MARKET TRENDS

Mainstream Market

Greater Brisbane still delivers the most affordable option for first time buyers and a better rental return for investors when compared to the other East Coast cities; Greater Sydney and Greater Melbourne.

Greater Brisbane **median values** fell 0.6% for houses in the December 2017 quarter; rising 0.4% over 2017 to $549,000. Apartment values fell 2.2% over the same quarter; and over the year by 4.5% to a median of $386,000.

House **sales transacted** in the 2017 year were 34,150 in Greater Brisbane, down 13.5% on the previous year. Apartment sales were down 20.2% over the same time with a total of 11,290 transactions.

Gross rental yields across Greater Brisbane houses were achieved at 4.60% in the December 2017 quarter, although compressing 20bps when compared to a year earlier. For apartments, gross rental yields remained steady over the same time to achieve 4.90%.

Median rents were stable for Greater Brisbane houses, at a weekly rent of $400. Over the same time, apartment weekly rents fell by 1.3% to $370.

Greater Brisbane **total vacancy** was 3.0% as at December 2017; recording 4.0% in the Inner Suburbs (0-5km from the CBD), 2.1% in the Middle Suburbs (5-20km) and 1.9% in the Outer Suburbs (20km+).

DEVELOPMENT SITES

Total Site Sales

In 2017, Greater Brisbane transacted 50% of the residential development site sales recorded two years earlier, with a total of $410.64 million. This was also down 39.6% since 2016—for those sites valued at or above $2 million.

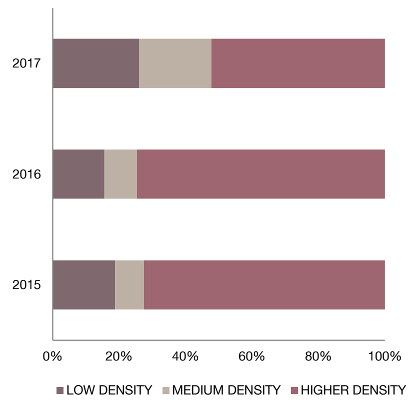
The share of those Greater Brisbane sites suitable for medium density has grown from 8.7% in 2015, to 9.8% in 2016; to 21.7% or $89.12 million in 2017. As the downsizer trend picked up pace in recent years, the townhouse-style product became a viable and affordable option when house values were rising throughout 2015-16.

Since this time, although house values have eased, developers are once again favouring low density sites with a 26% share of all development site sales in 2017; equivalent to $106.91 million. This was significantly higher than experienced in 2016 with a share of 15.5% as buyers consider upgrading before prices begin to rise once again. Over the past year, this trend towards purchasing low and medium density residential sites in Greater Brisbane has resulted in the portion of sites suitable for higher density falling substantially from 72.5% in 2015, to be just over half of all residential development site sales two years later.

FIGURE 25

Development Site Sales by Potential Density, Greater Brisbane

Total volume, by value, sales $2M+



Source: Knight Frank Research

HIGHER DENSITY DEVELOPMENT

Site Sales

Less than half the volume of development sites with potential for higher density were sold across Greater Brisbane in 2017, at $214.6 million, compared to a year earlier. When analysing those sales with disclosed purchasers, foreign buyers made up less than 5% of higher density sales in 2017.

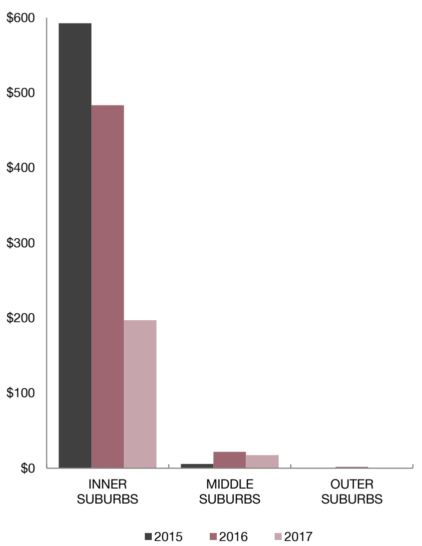
The Inner Suburbs recorded a total $197.1 million of higher density sites in 2017, down 59% on the prior year. The weight towards sales occurring in the Inner Suburbs has fallen since 2015 from 99% to 91.8% in the last year (figure 26). This trend of increased activity in the Middle Suburbs has also been reflected in those new apartments due to come on line by the end of 2021—currently under construction or being marketed with development approval.

In saying this, higher density site sales in the Middle Suburbs also recorded a lower total, to stand at $17.5 million in 2017; while the Outer Suburbs did not record any sales above $2 million.

FIGURE 26

Total Site Sales Volume Greater Brisbane

Potential higher density residential development
$ Million, sales $2M+

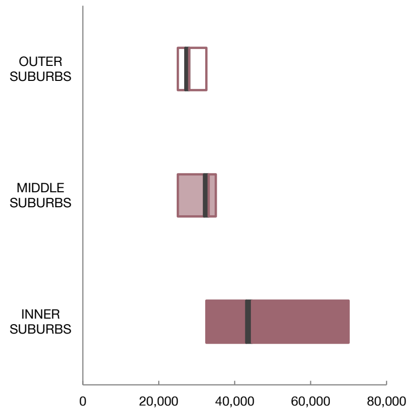


Source: Knight Frank Research

FIGURE 27

Site Sales Price Range & Indicative Rate, Greater Brisbane

Potential higher density development (excl. CBD)
Average rate/per apartment, as at 31 Dec 2017



Source: Knight Frank Research

Average Rates

Across Greater Brisbane, the average sales rate for residential sites with potential for higher density development was an indicative $40,300/per apartment as at 31 December 2017. At this time, the indicative lower end of the range started at $27,500/per apartment, while the upper end was $43,800/per apartment (excl. CBD).

As total sales volume for higher density sites was down across Greater Brisbane, the indicative rate has fallen 18% over the course of 2017. Although sales are lower, if a site suitable for higher density in the Inner Suburbs would have sold at the end of 2017, it would have likely achieved an indicative rate of $43,800/per apartment, or trended between $32,500 to $70,000/per apartment (figure 27).

In the Middle Suburbs of Greater Brisbane this would have been closer to $32,500/per apartment or range from $25,000 up to $35,000/per apartment. The Outer Suburbs could have achieved a rate trending from $25,000 to $32,500/per apartment, with an indicative of $27,500/per apartment.

Drawing a radius from the Brisbane CBD, **Inner Suburbs** are located within 5km, **Middle Suburbs** are within a 5-20km ring and **Outer Suburbs** are located beyond 20km but within the Greater Brisbane boundary.

Greater Brisbane higher density residential development site **sales volume** were $214.6 million in 2017; down 58% on the previous year.

Over this time, **average site sales** ranged from an indicative $27,500 to $43,800/per apartment; with an indicative of $40,300 per apartment.

There were 15,450 **new apartments** under construction throughout Greater Brisbane at the end of 2017. There were a further 11,250 apartments being marketed with an additional 9,800 DA approved and potentially on line by the end of 2021.

New mainstream apartment prices ranged from $3,800/sqm to $9,200/sqm in Greater Brisbane, with an indicative of $7,200/sqm as at 31 December 2017.

GREATER BRISBANE TOP 10 SUBURBS NEW APARTMENT PROJECTS:

COMPLETED 2014-17

Newstead
West End
South Brisbane
Fortitude Valley
Chermside
Hamilton
Woolloongabba
Milton
Brisbane
Albion

UNDER CONSTRUCTION DUE BY END 2021

Woolloongabba
Brisbane
West End
South Brisbane
Newstead
Fortitude Valley
Kangaroo Point
Toowong
Indooroopilly
Hamilton

DA APPROVED & BEING MARKETED DUE BY END 2021

Fortitude Valley
South Brisbane
Newstead
Albion
Hamilton
Upper Mount Gravatt
Toowong
Bowen Hills
Greenslopes
Seven Hills

Apartment Pipeline

Over the four years ending 2017, 26,000 new apartments were added to the Greater Brisbane region, led by the Inner Suburbs with an additional 20,250 apartments over this time.

The stock of apartments in projects with 25+ apartments and 4+ storeys in these Inner Suburbs is projected to grow by another 13,800 apartments by the end of 2021 with those now under construction and an additional 9,200 being marketed (figure 28).

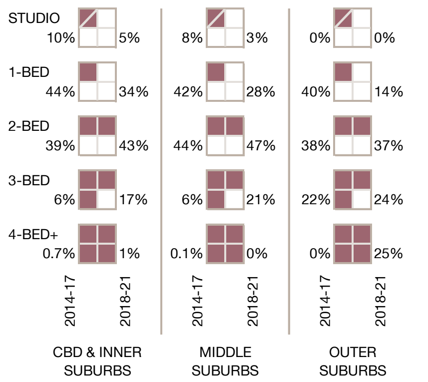
At the end of 2017, the Middle Suburbs saw 5,250 new apartments completed since the start of 2014; with 1,550 under construction and another 1,850 being marketed due for completion by the end of 2021. The Outer Suburbs saw the new supply of higher density apartments grow by a total of 500 since 2014. By 2021, this is expected to grow by another 350 apartments via those now under construction and being marketed with DA approval.

An improved Greater Brisbane market will dictate when, or if, the 9,800 apartments with DA approval commence construction and be completed by 2021, given a large portion of these funded projects will be determined by pre-sales.

Bedroom Split

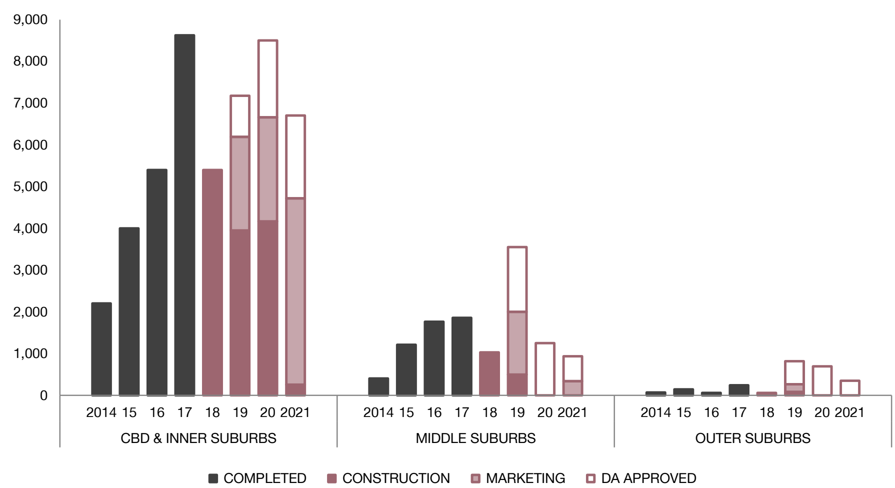
The trend towards more bedrooms in higher density apartments is evident in projects under construction due by 2021 across Greater Brisbane. There are 44% being built as 2-beds, whilst 17% are 3-beds, up from a share of 41% and 6%, respectively, built since 2014. Many downsizing are looking for larger than traditionally-sized floorplans, although the share of 4-beds have remained steady at 1%. Studios previously held a 10% share and 1-beds at 43% since 2014, while in the next four years its likely we'll see only a 5% share of studios and 33% 1-beds built, respectively.

FIGURE 29
Bedroom Configuration in New Apartments, Greater Brisbane
Distribution in completed projects (2014-17) & under construction (due 2018-21)



Source: Knight Frank Research

FIGURE 28
New Apartment Pipeline, Greater Brisbane
Number of apartments, includes projects with 4+ storeys with 25+ apartments, as at 31 Dec 2017



Source: Knight Frank Research

FIGURE 30
New Apartment Price Range & Indicative Rate, Greater Brisbane
Rate/sqm for standard mainstream (excl. CBD) 2 bed+2 bath, as at 31 Dec 2017

Source: Knight Frank Research

Apartment Pricing

With an elevated level of new mainstream apartments coming on line in the Inner Suburbs of Brisbane in 2016 and 2017, the indicative price has fallen 11.1% over the course of 2017. At this time, the Inner Suburbs achieved an indicative $8,200/sqm (ranging from $6,300 to $9,200/sqm) while the Middle Suburbs ranged from $4,600 to $5,200/sqm, with an indicative of $4,850/sqm. The Outer Suburbs indicative price stood at $4,000, being at the upper end of a wide range of $3,800 to $4,900/sqm (figure 30).

MEDIUM DENSITY DEVELOPMENT

Over the year ending 2017, the number of dwellings approved in in medium density residential buildings (one and two-storey semi-detached, row or terrace houses & townhouses, plus flats, units or apartments in a one, two or three-storey block) in Queensland declined 19.5%, according to the Australian Bureau of Statistics (figure 31).

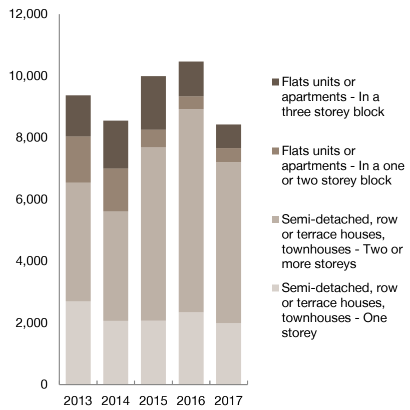
A total 8,246 medium density projects were approved in 2017—the lowest in any year over the past five years—and follows a peak of 10,464 projects in 2016.

As houses become more affordable with capital values falling across Greater Brisbane in 2018, its likely this trend will continue over the coming years.

Analysing these medium density approvals, those semi-detached, row or terraces took a 85.6% share with 7,209 approvals for projects in a block with three or lower storeys. This was weighted similarly in 2016, but from 2013 to 2015, this share averaged only 70.8%.

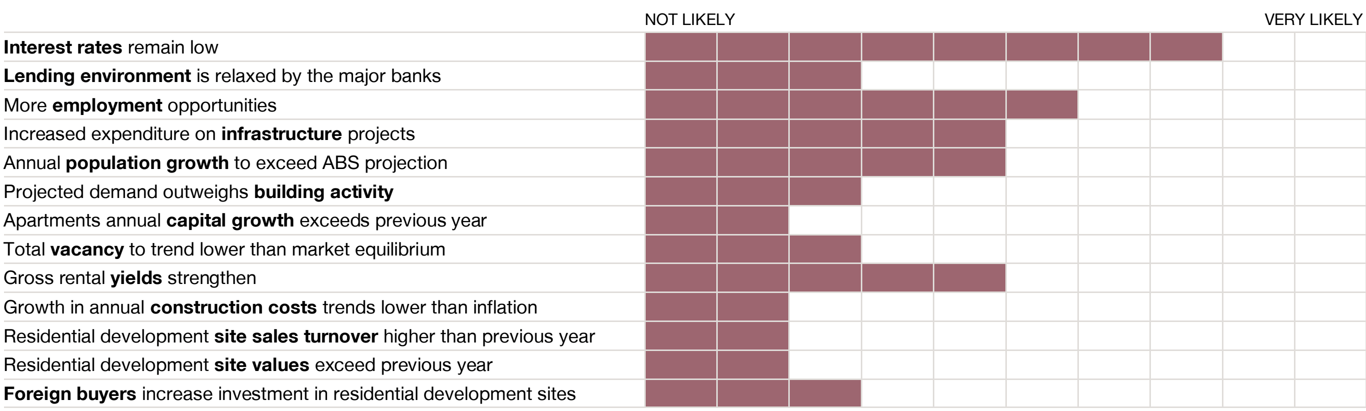
From 2014, as more developers invested in higher density projects (those with four or more storeys) across Greater Brisbane, the share of flats, units and apartments with three or less storeys within medium density projects fell from 34.4% in that year, to 14.4% in 2017.

FIGURE 31
Medium Density Building Approvals Queensland
Total no. of approvals



Source: Knight Frank Research, ABS

FIGURE 32
Key Development Drivers—One Year Outlook—Greater Brisbane



Source: Knight Frank Research

PERTH

Population in Greater Perth was estimated at 2.04 million persons in June 2017. Greater Perth experienced **population growth** of 1.0% in the year to June 2017. In 2013, population was **projected** to grow 2.5% annually to 2036.

Gross State Product in Western Australia was recorded at $233,152 million in 2016/17; 2.7% lower than the prior year.

Unemployment stood at 5.9% in Greater Perth as at December 2017, trending 106 bps lower than recorded in December 2016.

The **cost of construction** across Greater Perth increased 1.5% in 2017. At this time, it was estimated the cost to build an apartment was $2,840/sqm to $3,395/sqm (plus GST) to a basic standard finish, according to Rawlinsons.

Foreign purchasers are currently exempt from duty surcharges in WA. From 1 January 2019, 4% of the purchase price will be taxed, in addition to standard state-based stamp duties and FIRB application fees.

RESIDENTIAL MARKET TRENDS

Mainstream Market

Over the past year unemployment improved in Greater Perth and although capital values have been impacted in recent years, the worst of the market correction has certainly passed. In the last quarter of 2017, positive capital growth was recorded for both houses and apartments.

Greater Perth **median values** rose 0.5% for houses in the December 2017 quarter although overall decreased 2.5% over 2017 to $557,500. Apartment values increased 1.0% over the same quarter; but overall was down by 1.7% in 2017 to record a median of $369,500.

In 2017, house **sales transacted** were 27,572 in Greater Perth, down 3.2% on the previous year. Apartment sales were up 5.7% over the same time with a total of 3,465 transactions.

Gross rental yields across Greater Perth houses were achieved at 4.20% in the December 2017 quarter, remaining stable when compared to a year earlier. For apartments, gross rental yields were also steady over the same time to achieve 4.40%.

Median rents decreased 5.4% in 2017 for Greater Perth houses, to a weekly rent of $350. Over the same time, apartment weekly rents remained steady at $300.

Greater Perth **total vacancy** was recorded at 5.5% as at December 2017; down from 6.4% one year earlier. In the Inner Suburbs, Knight Frank Property Management recorded average vacancy of 1.6% across 2017.

DEVELOPMENT SITES

Total Site Sales

The total volume of residential development site sales in Greater Perth continued to fall below annual sales recorded since 2015, for those valued at, or above $2 million.

In 2017, residential sites were $129.46 million, almost a quarter of the volume recorded in 2015 when Greater Perth site sales totalled $573.75 million—a similar trend currently being experienced in Greater Sydney and Greater Brisbane with their total volume of site sales also peaking in this year.

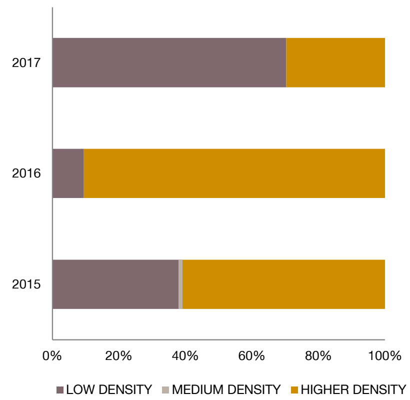
Breaking down Greater Perth development site sales by potential density, in 2015, higher density sites represented 60.9%. Although the base became lower in subsequent years, in 2016 this rose to 90.6% with several Inner Suburb sales, but tapered back to 29.7% in 2017 (figure 33).

Unlike the East Coast, Greater Perth has not experienced the recent trend towards medium density sites by developers and buyers as low density housing has become more affordable in Greater Perth over the past three years. Continuing to develop this more traditional house-and-land product, the residual of total development site sales in 2017 has been for low density housing, with a 70.3% share.

FIGURE 33

Development Site Sales by Potential Density, Greater Perth

Total volume, by value, sales $2M+



Source: Knight Frank Research

HIGHER DENSITY DEVELOPMENT

Site Sales

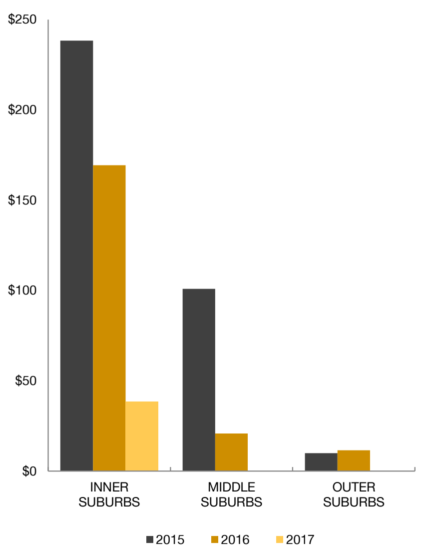
The sale of Greater Perth residential development sites with potential for higher density totalled $38.5 million in 2017.

This was down significantly from $349.3 million worth of sites sold in 2015 and $201.8 million sold in 2016—or down 81% across the greater region in 2017, when compared to the volume recorded in 2016.

Analysing sales with disclosed purchasers, foreign buyers made up 38.4% of these higher density sales in 2017.

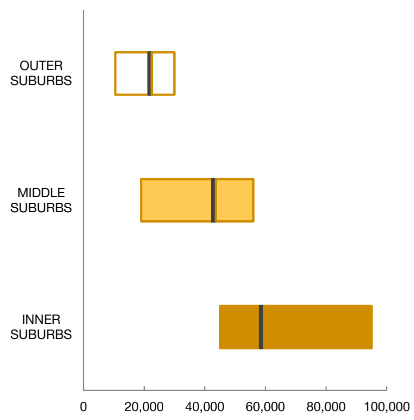
Traditionally, the Inner Suburbs of Greater Perth tend to hold the concentration of higher density site sales and projects currently under construction. In 2017, this was no different with the Inner Suburbs recording all sales in Greater Perth above the $2 million threshold (figure 34).

FIGURE 34
Total Site Sales Volume Greater Perth
Potential higher density residential development
$ Million, sales $2M+



Source: Knight Frank Research

FIGURE 35
Site Sales Price Range & Indicative Rate, Greater Perth
Potential higher density development (excl. CBD)
Average rate/per apartment, as at 31 Dec 2017



Source: Knight Frank Research

Average Rates

The average sales rate for residential sites with potential for higher density development across Greater Perth was an indicative $48,800/per apartment as at 31 December 2017. At this time, the indicative lower end of the range started at $22,000/per apartment, while the upper end was $58,900/per apartment (excl. CBD).

Across Greater Perth, whilst total sales volume for higher density sites was lower in 2017, the indicative rate has only decreased 2.2% over this time. If a site suitable for higher density in the Inner Suburbs would have sold at the end of 2017, it would have achieved an indicative rate of $58,900/per apartment, or ranged between $45,000 and $95,000/ per apartment (figure 35).

Similarly for the Middle Suburbs, if a site came to market it would likely have achieved an average range from $19,000 to $56,000/per apartment (indicative of $43,300/per apartment) at this time.

In the Outer Suburbs of Greater Perth, a site could have achieved a rate from $10,500 to $30,000/per apartment, with an indicative of $22,000/per apartment.

Perth **Inner Suburbs** are 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.

Greater Perth higher density residential development site **sales volume** were $38.5 million in 2017; down 81% on the previous year.

Over this time, **average site sales** ranged from an indicative $22,000 to $58,900/per apartment; with an indicative of $48,800 per apartment.

There were 3,600 **new apartments** under construction throughout Greater Perth at the end of 2017. There were a further 2,400 apartments being marketed with an additional 5,800 DA approved and potentially on line by the end of 2021.

New mainstream apartment prices ranged from $5,900/sqm to $11,250/sqm in Greater Perth, with an indicative of $7,600/sqm as at 31 December 2017.

Apartment Pipeline

From the start of 2014 to the end of 2017, 8,800 new apartments were added to the Greater Perth region, led by the Inner Suburbs with 5,150 new apartments over this time. The stock of apartments in these Inner Suburbs is projected to grow by another 3,450 apartments by the end of 2021 with those currently under construction and an additional 2,200 apartments being marketed with DA approval, but not yet commenced.

The Middle Suburbs saw 2,450 higher density apartments completed since the start of 2014 with 1,100 under construction and another 2,100 being marketed as at 31 December 2017; due by the end of 2021.

New apartments in the Outer Suburbs grew by 1,250 since 2014. By 2021, this is projected to grow by another 1,150 apartments currently under construction and being marketed.

The likelihood of an additional 4,050 apartments with DA approval coming on line within this timeframe has also been charted across Greater Perth (figure 36). To arrive at this total, the current length of marketing and construction period of an average project of its size was taken into consideration.

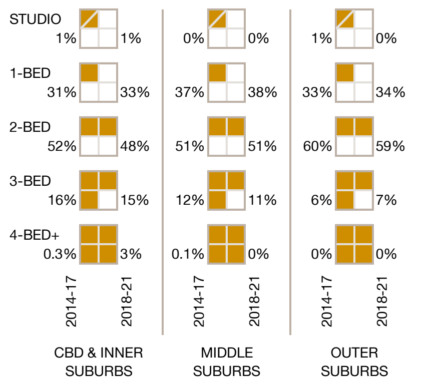
Bedroom Split

Across Greater Perth, distribution of bedrooms in higher density apartments completed in the past four years have been weighted towards 2-bedrooms with 53%. This was followed by 1-bed with 33%. For projects due in the next four years currently under construction, there is a lower portion of 2-beds (50%), and a slight increase in 1-beds (to 34%) being built. Studio apartments comprise 1% of all new builds—the lowest representation across all the major cities—and this remains for those due by the end of 2021. Over this period, 4-bed apartments are expected to grow to a share of 4%.

FIGURE 37

Bedroom Configuration in New Apartments, Greater Perth

Distribution in completed projects (2014-17) & under construction (due 2018-21)

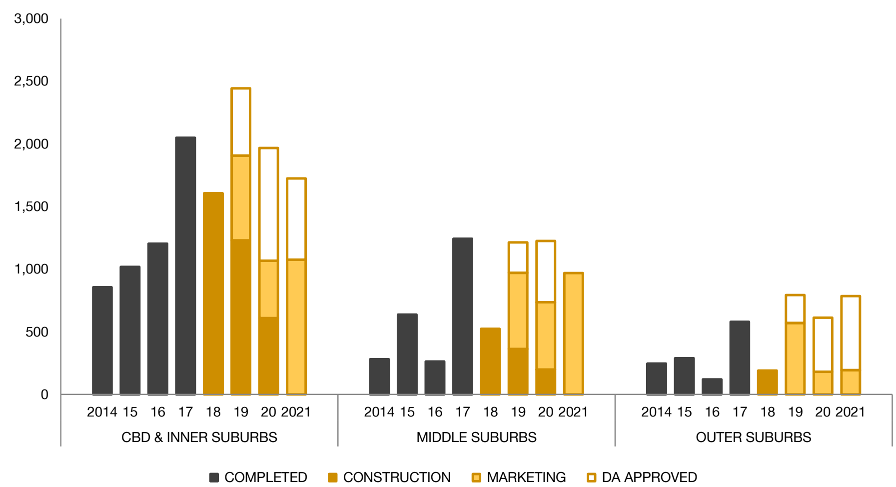


Source: Knight Frank Research

FIGURE 36

New Apartment Pipeline, Greater Perth

Number of apartments, includes projects with 4+ storeys with 25+ apartments, as at 31 Dec 2017



Source: Knight Frank Research

GREATER PERTH TOP 10 SUBURBS NEW APARTMENT PROJECTS:

COMPLETED 2014-17

East Perth
Perth
Rivervale
Subiaco
Fremantle
Cockburn Central
Cannington
North Fremantle
Burswood
West Leederville

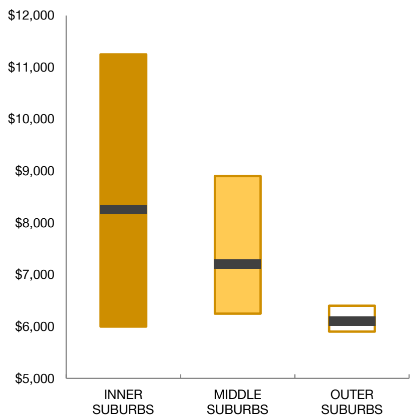
UNDER CONSTRUCTION DUE BY END 2021

Perth
East Perth
Mount Pleasant
Claremont
Rivervale
Subiaco
South Perth
West Perth
Fremantle
Burswood

DA APPROVED & BEING MARKETED DUE BY END 2021

Burswood
Applecross
Perth
East Perth
South Perth
Rivervale
Joondalup
Fremantle
Belmont
Maylands

FIGURE 38
New Apartment Price Range & Indicative Rate, Greater Perth
Rate/sqm for standard mainstream (excl. CBD) 2 bed+2 bath, as at 31 Dec 2017



Source: Knight Frank Research

MEDIUM DENSITY DEVELOPMENT

The number of dwellings approved in medium density residential buildings (one and two-storey semi-detached, row or terrace houses & townhouses, plus flats, units or apartments in a one, two or three -storey block) in WA declined 28% from 2016 to 2017, according to the Australian Bureau of Statistics (figure 39).

In this past year, 2,484 medium density approvals were granted, when compared to 3,448 in 2016.

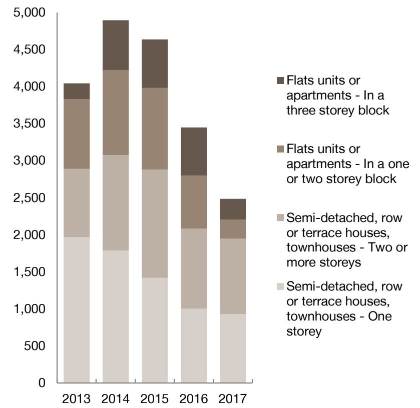
WA's medium density building approvals peaked in 2014 with 4,896—at the same time the housing market did—providing an alternative, affordable option for owner occupiers and investors alike.

This was also when close to 40% of flats, units and apartments in a three storey or less block were approved—the greatest share of this subtype over the past five years.

Since this time, a significant number of higher density projects have been approved and in some cases achieved pre-sales and built across Greater Perth.

Although medium density approvals have tapered back, there remains demand for good quality medium density projects with an aging population seeking downsizing options.

FIGURE 39
Medium Density Building Approvals Western Australia
Total no. of approvals



Source: Knight Frank Research, ABS

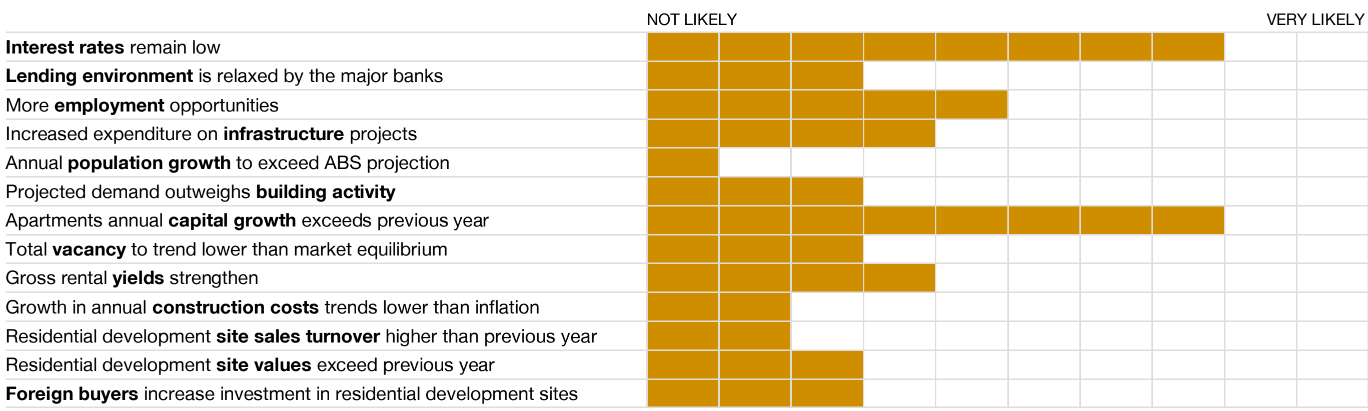
Buyers will most likely find this in a semi-detached, row or terrace with two or more storeys, given 1,017 approved in 2017, followed by those with one storey with 929 approved—both subtypes representing 78.3% of all medium density projects approved.

Apartment Pricing

Prices for new mainstream apartments in the Inner Suburbs of Perth ranged from $6,000 to $11,250/sqm as at 31 December 2017. Over the past year, the indicative rate remained steady at $8,250/sqm (figure 38).

New apartments in the Middle Suburbs were priced at an indicative $7,200/sqm (ranging from $6,250 to $8,900/sqm), whilst in the Outer Suburbs, apartments can be purchased for an indicative $6,100/sqm ($5,900 to $6,400/sqm).

FIGURE 40
Key Development Drivers—One Year Outlook—Greater Perth



Source: Knight Frank Research

GOLD COAST

The Gold Coast LGA has an **estimated population** of 592,330. The Gold Coast LGA experienced **population growth** of 2.7% in the year to June 2017. Population is **projected** to grow 2.2% annually to 2036.

Unemployment stood at 5.2% for the Gold Coast LGA as at 30 September 2017, trending 20 bps lower than recorded a year earlier.

Gold Coast LGA higher density residential development site **sales volume** were $210.57 million in 2017; up 53.3% on 2016. Over this time, **average site sales** ranged from an indicative $42,500 to $127,500/ per apartment; with an indicative of $70,800 per apartment.

There were 3,600 **new apartments** under construction throughout the Gold Coast LGA at the end of 2017. There were a further 2,400 apartments being marketed with an additional 5,800 DA approved and potentially on line by the end of 2021.

New mainstream apartment prices ranged from $5,000/sqm to $15,000/sqm in the Gold Coast LGA, with an indicative of $7,600/sqm as at 31 December 2017.

Foreign purchasers must pay a duty surcharge in Qld—3% of the purchase price, in addition to standard state-based stamp duties and FIRB application fees.

RESIDENTIAL MARKET TRENDS

Mainstream Market

The Gold Coast residential market has matured substantially following the redevelopment of Pacific Fair Shopping Centre integrating many international retail brands and the expansion of the University Hospital with a G:Link stop at the entry.

This links to the Light Rail Spine through to Broadbeach and up to Helensvale heavy railway station providing a link to Brisbane City and Brisbane Airport. The light rail will then eventually extend south linking through to the Gold Coast International Airport.

Median apartment values in the Gold Coast LGA was steady in the December 2017 quarter, although rose by 1.2% over the year to $420,000. **Sales transacted** in 2017 were 8,596 apartments, down 18.7% on the previous year.

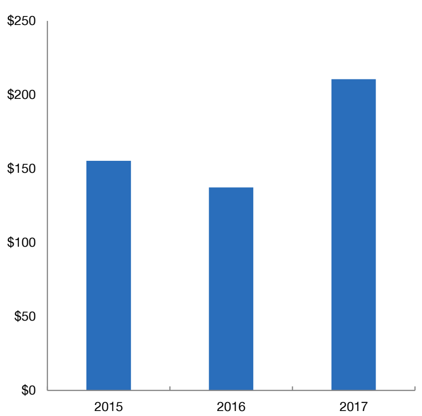
Gross rental yields across Gold Coast LGA apartments were achieved at 5.80% in the December quarter 2017, similar when compared to a year earlier. In 2017, **median rents** rose 3.8%, to a weekly rent of $410. The Gold Coast City **total vacancy** was 1.1% as at December 2017; falling significantly from 2.5% one year earlier.

HIGHER DENSITY DEVELOPMENT

Site Sales & Average Rates

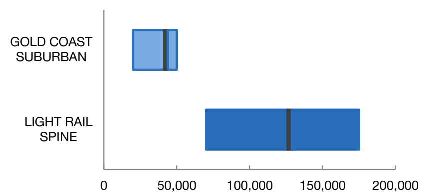
The volume of sales for development sites suitable for higher density in the Gold Coast LGA was one-third higher in 2017, at $210.57 million, than recorded in 2016 (figure 41). When analysing the sales with disclosed purchasers, foreign buyers made up 17.2% of these higher density sales in 2017.

FIGURE 41
Total Site Sales Volume Gold Coast LGA
Potential higher density residential development
$ Million, sales $2M+



Source: Knight Frank Research

FIGURE 42
Site Sales Price Range & Indicative Rate, Gold Coast LGA
Potential higher density development (excl. CBD)
Average rate/per apartment, as at 31 Dec 2017



Source: Knight Frank Research

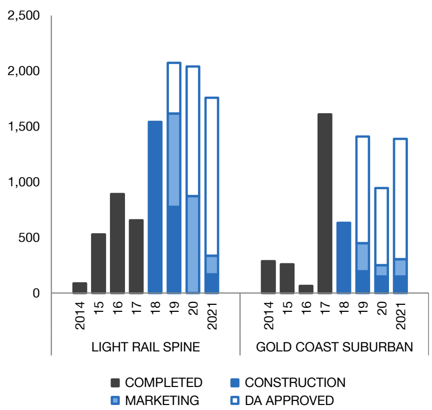
The sales rate for residential sites with potential for higher density in the Gold Coast LGA was an indicative $70,800/per apartment, ranging from $42,500 to $127,500/per apartment as at 31 December 2017 (figure 42). Along the Light Rail Spine, the site sales average ranged from $70,000 to $175,000/per apartment; whilst the Gold Coast Suburban area ranged from $20,000 to $50,000/per apartment.

Apartment Pipeline & Bedroom Split

A little over 2,150 new apartments were completed along the Light Rail Spine since 2014. This is projected to grow by another 2,500 apartments currently under construction and 1,900 being marketed by the end of 2021. The Gold Coast suburban area saw 2,200 apartments completed in 2014-17 with now 1,150 under construction and another 500 being marketed due by the end of 2021 (figure 43). The timing and viability of an additional 5,800 apartments with DA approval continues to be heavily reliant on pre-sales to secure funding.

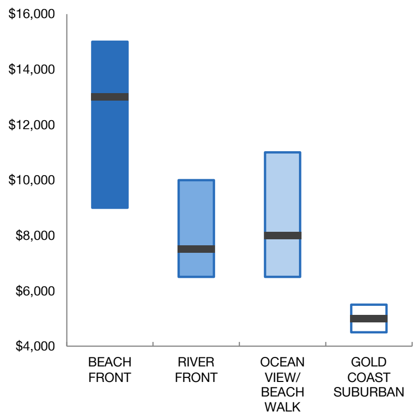
In the Gold Coast LGA, the distribution of bedrooms in apartments completed in 2014-17 have been weighted towards 2-beds with 43% of the total share, followed by 1-beds (39%), 3-beds (15%) and studios (3%). Currently under construction, there is a trend towards less 1-beds being built (to only 25%) and more 2-beds (49%), 3-beds (17%) and studios (4%) with 4-bed apartments expected to grow to a share of 4% of all new completions in 2018-21.

FIGURE 43
New Apartment Pipeline, Gold Coast LGA
Number of apartments, includes projects with 4+ storeys with 25+ apartments, as at 31 Dec 2017



Source: Knight Frank Research

FIGURE 44
New Apartment Price Range & Indicative Rate, Gold Coast LGA
Rate/sqm (GFA) for standard mainstream (excl. CBD) 2 bed+2 bath, as at 31 Dec 2017



Source: Knight Frank Research

Apartment Pricing

Gold Coast new apartment prices ranged from $9,000 to $15,000/sqm along the Beachfront; with an indicative of $13,000/sqm by the end of 2017 (figure 44). At this time, those new apartments on the Riverfront could be purchased for an indicative $7,500/sqm; ranging from $6,500 to $10,000/sqm while those with an Ocean View/Beach Walk were at an indicative $8,000/sqm with a wider range from $6,500 to $11,000/sqm. New apartments located in the wider Suburban area were recorded with an indicative rate of $5,000/sqm; trending from $4,500 to $5,500/sqm.

Development Sites: Light Rail Spine suburbs located along the G:Link from Main Beach to Palm Beach. **Gold Coast Suburban** are those suburbs outside the Light Rail Spine but within the Local Government Area (LGA) boundary.

New Apartments: Beachfront from Main Beach to Coolangatta. **Riverfront** from Southport to Broadbeach Waters. **Ocean View/Beach Walk** from Main Beach to Coolangatta; both sides of Gold Coast Highway. **Gold Coast Suburban** are all remaining suburbs within the LGA boundary.

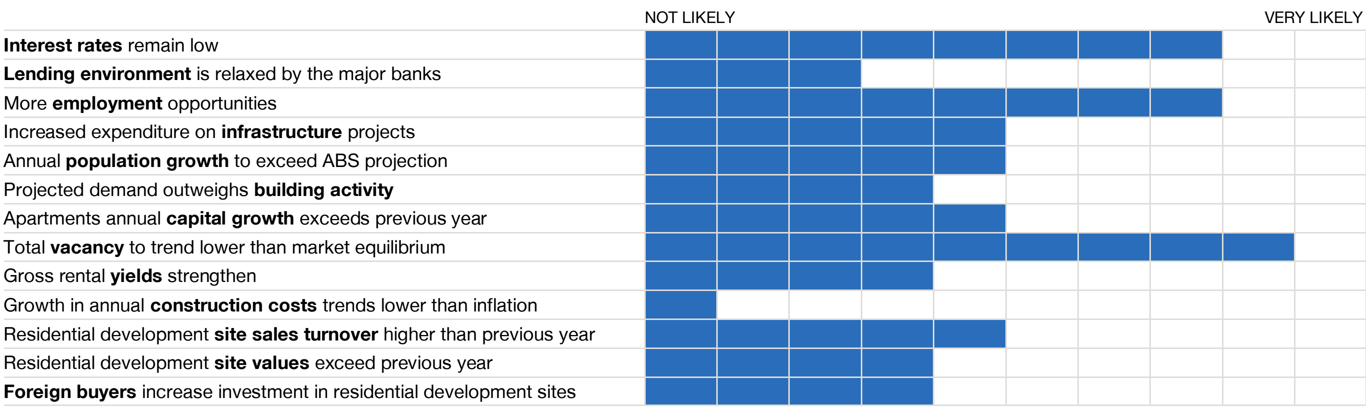
GOLD COAST LGA TOP 3 SUBURBS NEW APARTMENT PROJECTS:

COMPLETED 2014-17
Southport
Hope Island
Biggera Waters

UNDER CONSTRUCTION DUE BY END 2021
Surfers Paradise
Benowa
Southport

BEING MARKETED DUE BY END OF 2021
Surfers Paradise
Broadbeach
Southport

FIGURE 45
Key Development Drivers—One Year Outlook—Gold Coast LGA



Source: Knight Frank Research

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