RESIDENTIAL RESEARCH

AUSTRALIAN RESIDENTIAL DEVELOPMENT REVIEW

2019

A REVIEW OF KEY DEVELOPMENT DRIVERS ACROSS LOW, MEDIUM & HIGH-DENSITY.

KEY FINDINGS

Residential development site sales tallied to $6.1 billion across Australia in 2018, down 36% in the past year. In 2018, **offshore buyers** purchased 43% of all development sites, by value.

Across Australia, **high-density** site sales ranged significantly from an indicative $40,000 to $198,200/per apartment at the end of 2018; with an average of $86,200/per apartment. New apartment prices ranged from an indicative $5,500 to $13,700/sqm at this time; with an average of $8,200/sqm.

The trend towards **medium-density** has tapered back in 2018 as housing becomes more affordable along the east coast. By value, the proportion of Australian medium-density development sites sold was 6.1% in 2018 compared to all sites; down from 11.7% one year earlier.

Throughout 2018, 47,669 new **low-density** residential land lots were released across the major Australian capital cities, down 13.8% on the previous year. The weighted median price for a land lot stood at $320,500 in 2018; an annual increase of 6.8%.

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AUSTRALIAN RESIDENTIAL DEVELOPMENT

With most of the Australian housing market in the midst of correction mode, off-the-back of stricter lending hurdles, developers are now considering other options for the sites such as commercial, hotel and student accommodation. How will this impact the low, medium and high-density housing sectors?

Overview

In years gone by, grasping the performance of the Australian residential development market required three updates—the last direction of the cash rate, how much money was being borrowed to purchase residential property and the movement in the number of new residential buildings being approved. Today, the dialogue is much more complicated and these indicators only start to scratch the surface.

While the banking sector has achieved the Australian Prudential Regulation Authority (APRA) objective of cooling the residential market by creating a stricter lending environment for investors and owner occupiers, they also continue to tighten lending to developers.

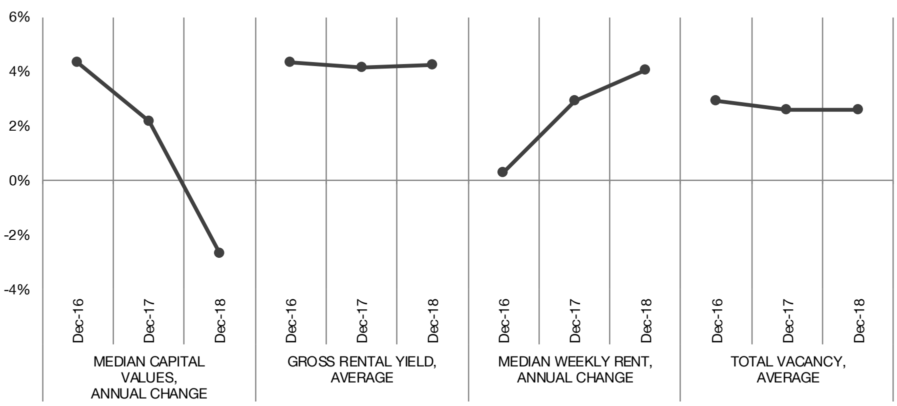
This has caused many projects to be pushed back or change to an alternative use. Over the past year, this has been aided with a historic low office vacancy environment in both Sydney and Melbourne, in addition to, increased competition from the hotel and student accommodation sectors.

There is no denying there has been elevated apartment stock in major Australian cities over the past couple of years, but this has also been met with reasonably strong underlying fundamentals and significant population growth.

With the marketing of these earmarked projects on-hold, delayed in their launch, or removed from the pipeline altogether, most markets are in a position to absorb not only recently completed projects, but those currently under construction by 2022. There is a chance many apartment markets will be well undersupplied by this time.

Over the coming year, the residential

FIGURE 1
Key Residential Indicators, Houses and Apartments, Australia



Source: Knight Frank Research, APM, REIA rental vacancy rate will be closely monitored across the major cities of Australia, last recorded at 2.6% in December 2018. Vacancy in Greater Sydney has recently trended above 3%, although this has not yet been witnessed in Greater Melbourne. The stand-out city has been Greater Perth with 2.8% vacancy recorded at the end of 2018—falling from the recent ceiling of 7.6% in July 2017.

Investment in public amenity has grown over the past couple of years, with a solid pipeline of infrastructure projects proposed over the next decade by the Federal and State Governments. The pipeline of key projects for each major Australian city have been charted in figure 9.

Development Site Sales

The total volume of residential site sales in 2018 was $6.1 billion—this included sites suitable for low, medium and high-density development. Over the past year total site sales have fallen 36% with most states and territories recording similar, or less sales activity. Western Australia (WA) was the only city to experience positive growth in site sales volume (of 8%) over this time.

A trend being monitored over the past five years is the closing gap in total sales between New South Wales (NSW) and Victoria from a differential of $3.5 billion in 2014, to only $615 million in 2018; when total sales were recorded at $2.9 billion and $2.3 billion respectively.

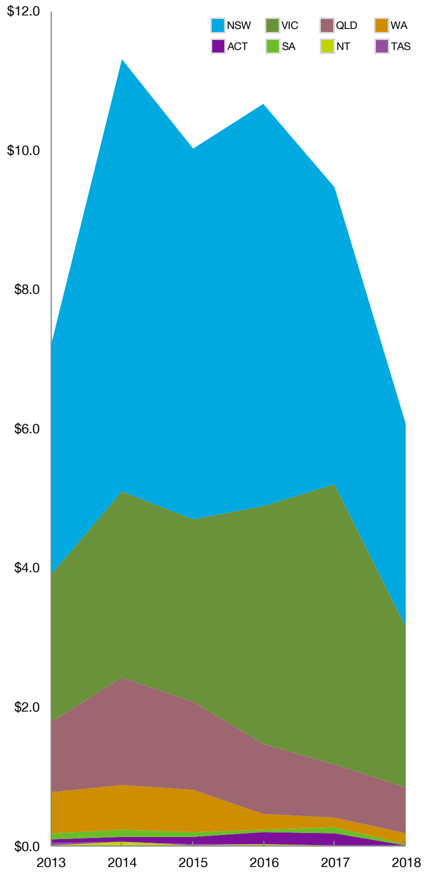
Development sites suitable for high-density have been the preferred option for developers and investors since 2005, by both volume and the number of site sales recorded. Prior to this, low-density, or single dwellings were the most common type of dwelling being built across Australia.

There continues to be a movement towards increasing density around public amenity and transport hubs and in 2018, high-density sites made up 62% of all residential development sales.

Although there are now additional factors at play. Most housing across the country has become more affordable over the past year, while lending to developers has become tighter for medium-to-high-density projects. There are now more developers purchasing sites suitable for single dwelling projects which allow lower development risk—and a backyard for buyers.

The portion of low-density development sites have grown from 13.2% in 2015 across all development site sales, to be 33.3% in 2018. This trend has been heavily influenced by Greater Melbourne and Greater Sydney, as each year their share has grown larger than the previous year.

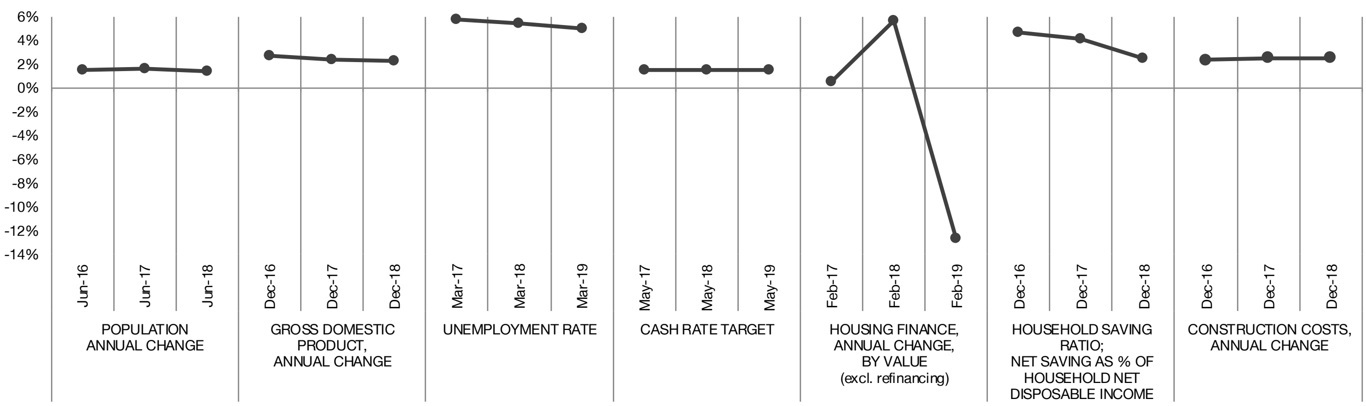
FIGURE 3
Total Residential Site Sales by State & Territory, Australia
$billion



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

Source: Knight Frank Research

FIGURE 2
Key Economic Indicators, Australia

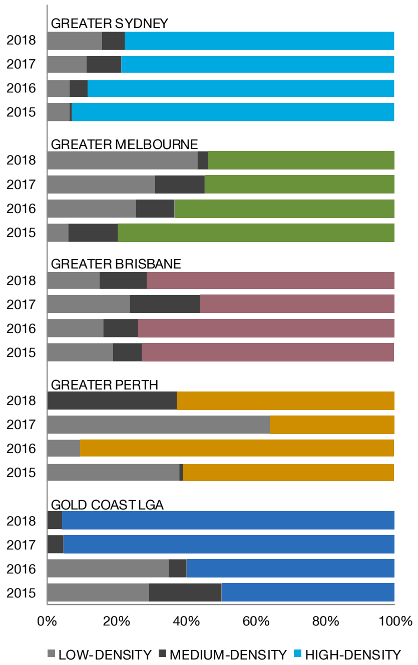


Source: Knight Frank Research, ABS, RBA, Rawlinsons

FIGURE 4

Development Site Sales by Potential Density, Major Australian Cities

Total volume, by value



All development site sales $2m+, except for Greater Sydney & Greater Melbourne sales being $5M+.

Source: Knight Frank Research

Offshore Developers & Investors

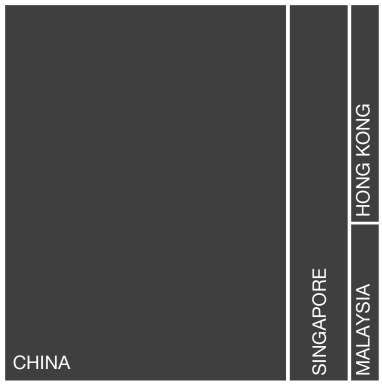
Offshore developers and investors have formed a growing part of the Australian east coast development landscape over the past five years. In 2018, this group purchased approximately 43% of Australian site sales suitable for residential development, by value. This was lower than the 45% share recorded in 2017, as still being largely influenced by the outbound capital restrictions placed on Chinese-based companies and individuals. In saying this, Chinese developers and investors still made up 31% of the offshore countries purchasing Australian residential development sites in 2018, by value. This was followed by Singapore (with 8%), Hong Kong (2.4%) and Malaysia (1.3%).

Greater Sydney was still the most popular city for investment by offshore developers and investors with a 39% share, followed by Greater Melbourne with 36%. Compare this to one year earlier, this share has fallen from 46% and 45% respectively, as those offshore developers now familiar in the two largest cities, expand across the country. This trend extends to the willingness to diversify across different housing types, with the portion of low-density site sales sold to offshore groups increasing from 27% in 2017, to 45% in 2018, embracing local market trends.

FIGURE 5

Top 4 Offshore Countries for Australian Development Site Sales, 2018

Portion of sales, by value



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

Source: Knight Frank Research

HIGH-DENSITY DEVELOPMENT

Apartment Pipeline

From 2015 to 2018, close to 195,650 new apartments were added to the five major cities' apartment stock, led by Greater Sydney (90,200) and Greater Melbourne (57,700).

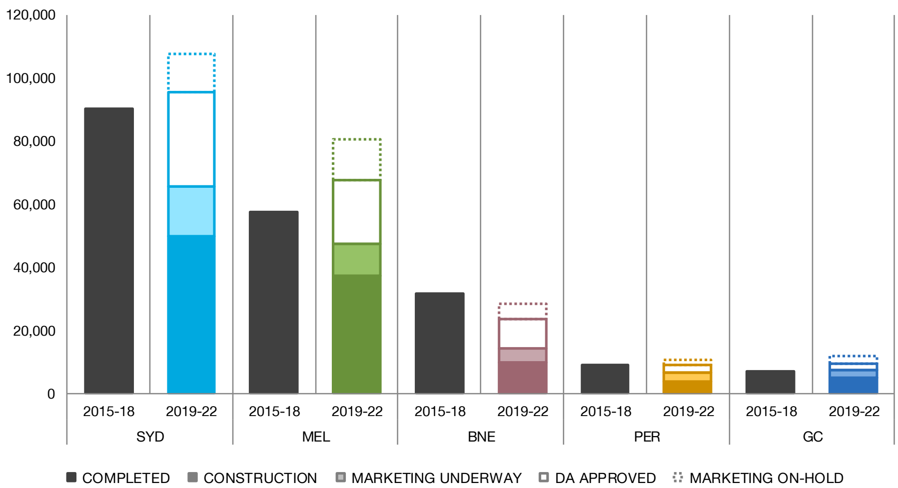
In total, across the five cities, there are currently 105,300 apartments under construction, with another 36,800 currently being marketed and potentially due for completion by the end of 2022. The likelihood of an additional 63,550 development approved apartments coming on line within this time has also been charted in figure 6.

To arrive at this pipeline an allowance has been made to deduct the 33,100 apartments which had once launched with marketing campaigns, but are now on-hold. There is a low chance these

FIGURE 6

New Apartment Pipeline, Major Australian Cities

Number of potential apartments each year, includes projects with 4+ storeys with 25+ apartments, as at 31 Dec 2018

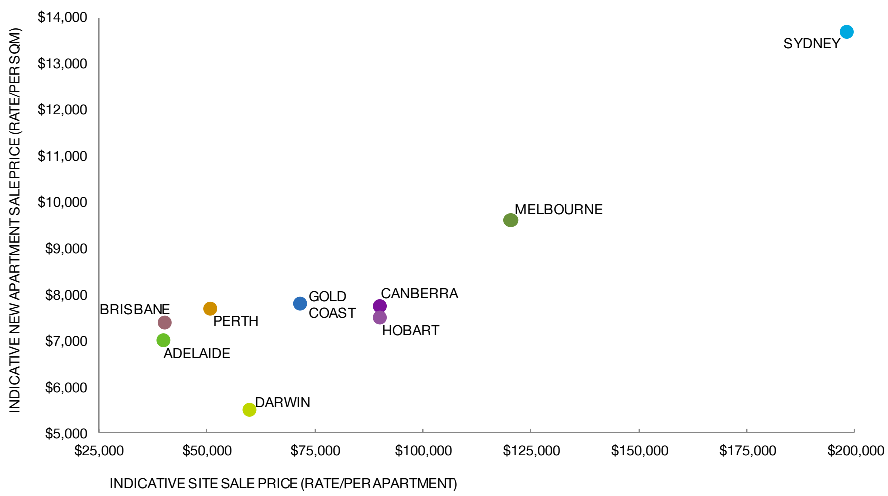


Source: Knight Frank Research

FIGURE 7

Site Sale & New Apartment Indicative Price Rates, Major Australian Cities

Sites based on potential high-density development (excl. CBD) and new apartments based on standard mainstream 2bed+2bath, as at 31 Dec 2018



For consistency across the 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. Note: the Gold Coast new apartment rate is based on GFA.

Source: Knight Frank Research

projects will come back to market and be completed by the end of 2022, given the stricter funding environment and a cooler off-the-plan new apartment market.

Development Site Values

Major development sites suitable for high -density across Australia cities totalled $3.7 billion in 2018. As the market continues to correct across the major cities, the 2018 volume was 40% lower than the previous year, and less than half the volume of sales achieved in 2014.

NSW recorded the greatest volume of high-density site sales in Australia with $2.2 billion (59% of the total volume), followed by Victoria ($890 million), Queensland ($508 million) and WA ($96 million).

The average value for a high-density site across Australia was $86,200/per apartment (excluding the CBDs across the cities)—ranging significantly from an indicative $40,000/per apartment in Greater Adelaide, to an indicative $198,300/per apartment in Greater Sydney at the end of 2018.

Greater Melbourne achieved an indicative rate of $120,400/per apartment while Greater Perth and Greater Brisbane recorded $50,700/sqm and $40,300/sqm respectively. Outside the major capital cities, Canberra and Greater Hobart achieved the highest indicative values for high-density sites at $90,000/per apartment, followed by the Gold Coast ($71,700/per apartment) and Greater Darwin ($60,000/per apartment).

New Apartment Pricing

The price of a standard new apartment can range widely across Australian cities with the average value being $8,200/sqm at the end of 2018. Starting from an indicative $5,500/sqm in Greater Darwin, to $9,600/sqm in Greater Melbourne; through to an indicative $13,700/sqm in Greater Sydney.

The other cities indicative rates stretched between $7,000/sqm (Greater Adelaide) and $7,800/sqm (Gold Coast). The other cities being Greater Brisbane ($7,400/sqm), Greater Hobart ($7,500/sqm), Greater Perth ($7,700/sqm) and Canberra ($7,750/sqm).

DEFINITIONS

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

High-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.

MEDIUM-DENSITY DEVELOPMENT

While mainstream house prices across the Australian east coast were peaking in late-2017, medium-density housing became a viable option for those priced out of the low-density, single dwelling housing market. Over the past year, this product type has become less desirable as houses have become more affordable.

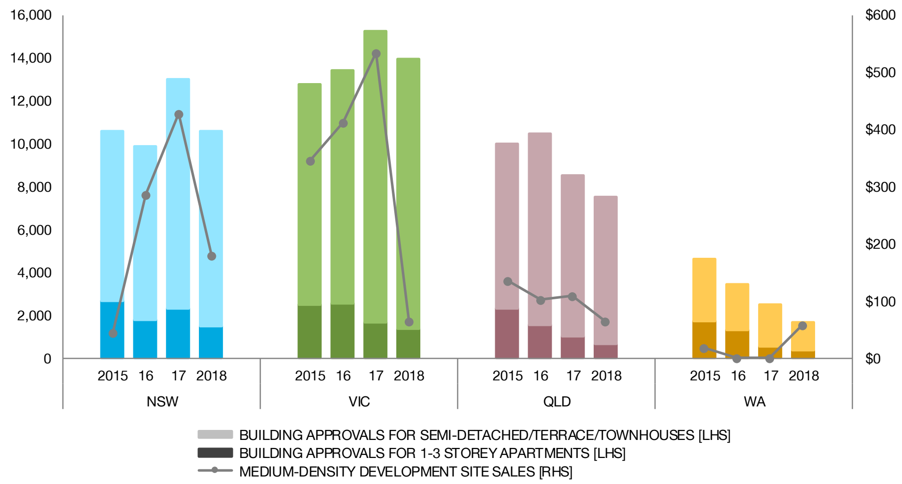
In NSW and Victoria, this was reflected in the elevated number of medium-density building approvals from a combined 28,250 in 2017, falling to 24,515 in 2018. Similarly, in 2017, the volume of site sales suitable for medium-density development in NSW peaked at $429 million ($180m in 2018), and in Victoria reached $535 million ($65m in 2018).

Low maintenance living is still in demand with an aging population and medium-density is well-suited. Although there is a growing trend from this group for high-density living requiring no maintenance at all. This complements their hotel lifestyle when travelling post-career, and allows a lock-up-and-leave option when abroad.

FIGURE 8

Medium-Density Building Approvals & Development Site Sales, Major Australian States

Total annual number of approvals &
$ million, site sales with potential for medium-density development, by value



All medium-density site sales represented were $2m+ except for NSW & VIC site sales being $5m+.

Source: Knight Frank Research, ABS

LOW-DENSITY DEVELOPMENT

There were 47,670 new residential land lots were released in 2018 across the major metropolitan areas of Australia. This was down 13.8% on the previous year, according to the UDIA State of the Land National Land Survey Program.

The median land lot size was 420 sqm in 2018; 16% smaller than recorded in 2014. Lots ranged from a size of 375 sqm in Greater Perth, to 507 sqm in Canberra. Across Australia, the median price for a single land lot stood at $320,500 in 2018; up 6.8% when compared to 2017. Greater Sydney continued to command the highest lot price of the major capital cities by the end of 2018, at a median of $489,000, whilst Greater Adelaide was the most affordable at $176,000.

TABLE 1

Residential Land Lots

Single allotments, 2018

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	7,187	5,708	379	-4.3	489,000	2.7	1,290
Greater Melbourne	18,466	15,811	400	-1.5	339,000	21.1	848
South East Queensland	11,148	10,609	433	-3.3	267,000	1.1	618
Greater Perth (incl. Peel)	6,674	4,811	375	0.0	222,000	-1.8	591
Greater Adelaide	3,114	2,392	426	-5.3	176,000	5.4	412
Canberra	1,080	790	507	1.4	462,000	4.8	911
Total	**47,669**		**420**	**-0.5**	**320,500^**	**6.8**	**798^**

Source: Knight Frank Research, UDIA National Land Survey Program

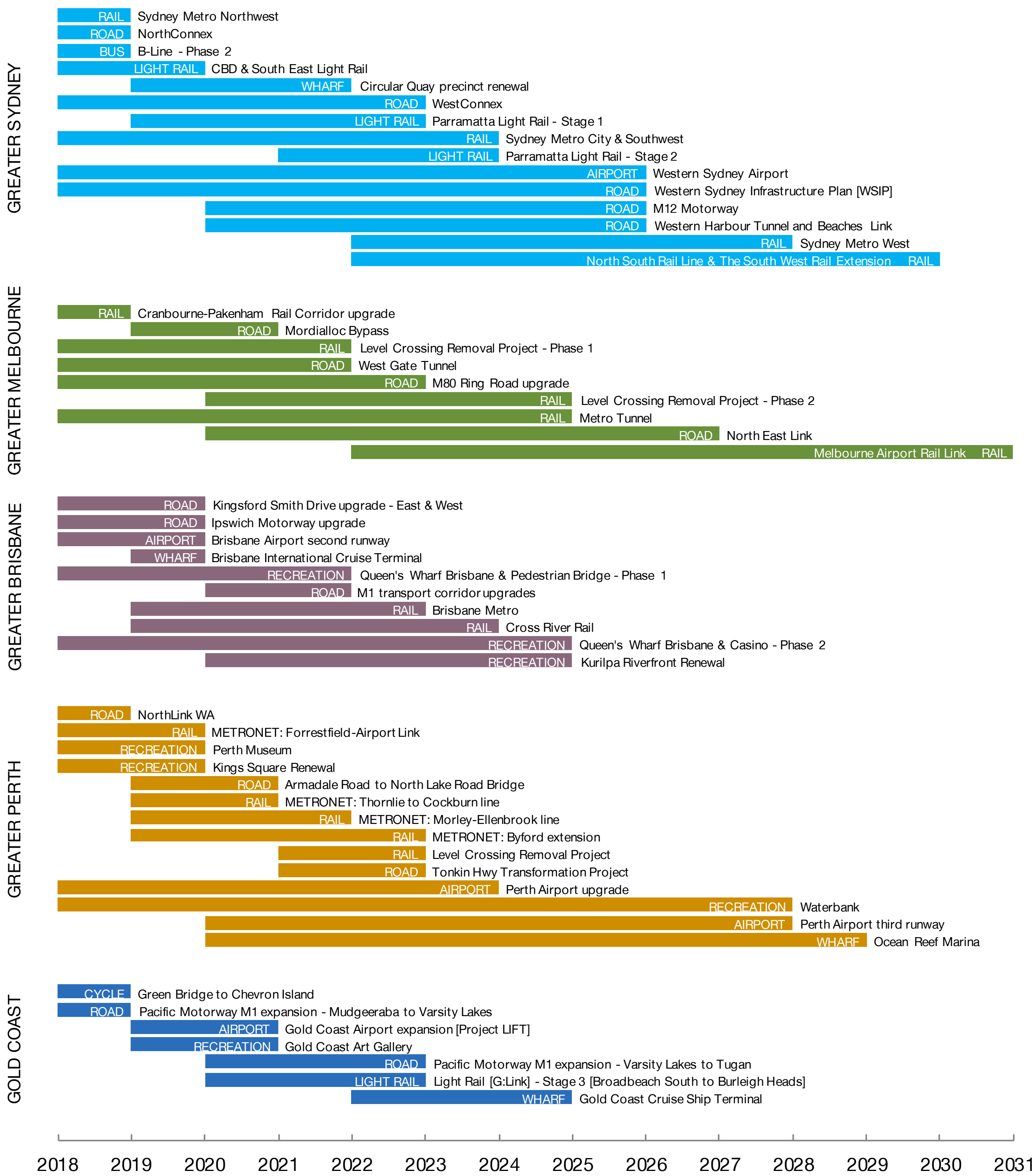
^weighted average

INFRASTRUCTURE DEVELOPMENT

FIGURE 9

Proposed Key Infrastructure Projects, Major Australian Cities

Estimated timeline, as at April 2019



Source: Knight Frank Research

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Low-density covers single residential allotments 'land lots' within the greenfield land market; as defined by UDIA National Land Survey Program.

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

RECENT MARKET-LEADING RESEARCH PUBLICATIONS

Sydney Apartments Development Series H1 2019

Melbourne Apartments Development Series H1 2019

Brisbane Apartments Development Series H1 2019

Perth Apartments Development Series H1 2019

Gold Coast Apartments Development Series H1 2019

Australian Residential Review Q1 2019

Chinese Developers in Australia 2019

Collective Sales for Residential Development 2018

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