*A review of key drivers for residential development activity in Australia*

Knight Frank

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# Australian Residential Development Review

**Q1 2023**

# DEVELOPER ACTIVITY

*How has the residential development site market performed across Australia's major cities?*

## The Key Insights

Total value of **sites purchased** suitable for residential development across Australia declined by 20% in the year to 31 December 2022.

Australian **land values** suitable for high-rise residential projects over the year to 31 December 2022, fell by 5.2%.

In Australia, 12,000 **new high-rise homes** were built in 2022, with 6,500 due in 2023 and 26,000 in 2024; all well below the 5-year annual average.

**New apartment prices** in high-rise developments across Australia rose by 2.1% in the year to 31 December 2022.

Australian residential **vacancy** at 1.7% at the end of 2022, has fallen significantly below the 3% equilibrium, with annual **rental growth** of 14%.

**The objective of the *Australian Residential Development Review* is to provide an assessment of how the different type of sites purchased by developers, and their construction pipeline, will shape future residential markets across Australia.**

The residential development and construction space has endured some incredibly challenging times over the past year. While demand for cities with a relative value proposition for investors and first-time buyers encouraged new home price escalation, majority of developers were impacted by the construction obstacles placed when delivering new homes.

This was already in play prior to the higher interest rate environment dampening buyer demand from mid-2022. Across the country, a cross-section of homebuilders have now been severely impacted, and as a result, lost from the industry.

The recent Knight Frank Australian Residential Developer Survey revealed over half the developers cited the availability and cost of materials, with delays in both planning and construction, were the most challenging for their business in 2022. With the exception of ongoing planning delays, these other challenges should ease in 2023 as the focus will turn to restoring buyer confidence.

However, there has been a significantly diminishing pipeline for buyers seeking new apartments across Australia, and this has been most felt in the high-rise development space. Given the level of pre-committed sales required, the scale of the proposed tower and the current uncertain economic times, a considerably larger obligation is required by developers with projects of eight or more storeys.

As a result, over the past few years, many developers have pushed ahead with their less riskier projects which tend to be designed more for owner-occupiers in low and mid-rise developments.

Although there is currently higher demand for this product, the preference by developers towards building more amenity-rich, oversized, owner-occupier projects has already started to create an immense shortage of investor rental stock for the growing Australian population.

**$7.2b**
Total value of sites purchased suitable for residential development across Australia from 1-Jan-22 to 31-Dec-22

**-20%**
Annual change in value of Australian residential development sites purchased as at 31-Dec-22

**78%**
Australian residential development sites purchased within the greater city regions, in the year to 31-Dec-22

**75%**
Share of Australian residential sites purchased for high-density projects, from 1-Jan-22 to 31-Dec-22

**Half**
NSW recorded the highest proportion of residential development site sales in the year to 31-Dec-22 by value; with over half (58%)

The total value of major sites disclosed for potential residential development across Australia was $7.2 billion in the year ending 31 December 2022; including sites suitable for low, medium and high-density projects. Compared to the year before, the total value of sites was down 20.0%.

New South Wales (NSW) recorded the highest proportion (58%) of residential development site sales over this time, followed by Victoria (27%) and Queensland (10%).

When considering residential sites sold suitable for high-density projects with four or more storeys, a 75% share was recorded in Australia for the year to 31 December 2022.

NSW had an allocation of 85%, followed by Western Australia (WA) with 80%, then Queensland at 66%.

There was a larger share of site sales which took place in the greater cites (78%), when compared to regional areas (22%) of Australia.

All major site sales in Tasmania were recorded in Hobart, while 91% of sites in South Australia were in Adelaide and 87% of sites in WA were in Perth.

Sydney recorded 88% of site sales in NSW, while Melbourne saw 72% of site sales in Victoria.

With growing activity in the Queensland regional areas of the Gold Coast and the Sunshine Coast, meant only 53% of site sales occurred in Greater Brisbane.

## Australian total site sales suitable for residential development, by state & territory

By value, sites suitable for low, medium and high-density development, purchased between 1-Jan-22 and 31-Dec-22

**NSW**
- $4.13b total site sales
- +29% change YoY
- 88% in Greater Sydney
- 85% for high-density projects

**VIC**
- $1.96b total site sales
- -53% change YoY
- 72% in Greater Melbourne
- 60% for high-density projects

**QLD**
- $734.2m total site sales
- -32% change YoY
- 53% in Greater Brisbane
- 66% for high-density projects

**WA**
- $60.5m total site sales
- -72% change YoY
- 87% in Greater Perth
- 80% for high-density projects

**SA**
- $86.8m total site sales
- -39% change YoY
- 91% in Greater Adelaide
- 54% for high-density projects

**TAS**
- $8.7m total site sales
- -67% change YoY
- 100% in Greater Hobart
- 62% for high-density projects

**ACT**
- $181.6m total site sales
- 88% change YoY
- 41% in district Canberra Central
- 57% for high-density projects

**NT**
- $0m total site sales
- -
- -
- -

Source: Knight Frank Research

# HIGH-RISE RESIDENTIAL LAND INDEX

**The *Australian High-Rise Residential Land Index* tracks the movement in land values suitable for high-rise residential projects across Australia.**

After recording 6.8% growth in raw high-rise residential development land prices in the year to 31 December 2021, Australian values fell by 5.2% in the year to 31 December 2022.

This decline in site values was mostly influenced by the larger cities of Melbourne (-6.7%) and Sydney (-5.1%), whilst the relatively significantly smaller market of Hobart saw values decline by 19.2% in 2022, following growth of 30.0% the year before.

Brisbane was the only city to see upward annual growth in values (5.3%) and this was partly driven by interstate developers finding value for money as state borders reopened and increased competition from sites earmarked for build-to-rent product. While Perth, Adelaide, Canberra, Darwin and the Gold Coast registered no change in values over the year.

Overall, Brisbane saw the highest uplift in values (69.5%) for sites suitable for high-rise residential development over the five years to 31 December 2022, followed by the Gold Coast (41.3%) and Adelaide (25.0%).

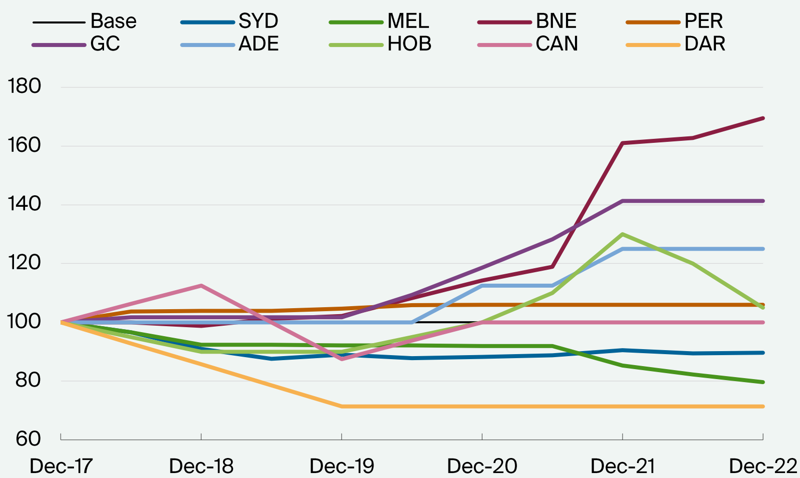
Perth's high-rise site value growth (total of 6% in the past 5 years) was inching higher until mid-2020, but has remained relatively stable since this time. In comparison, Hobart saw most growth occur in this latter period to reach a 5-year growth of 5%.

From 1 January 2018, Canberra has experienced high-rise development site values dip, but return to be on-par, whilst Darwin (-28.6%), Melbourne (-20.4%) and Sydney (-10.3%) are still trending below values at this time.

Performance is likely to remain subdued with further fall in site values expected as developers regroup and rebalance their portfolios following a significantly challenging few years.

**Australian High-Rise Residential Land Index**

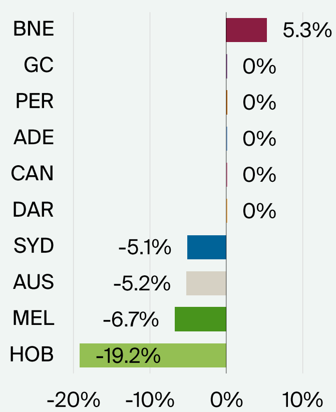
Indexed, 100=31-Dec-17, by major cities




Source: Knight Frank Research

**High-rise residential land performance**

% annual growth, 31-Dec-22, major Australian cities




Source: Knight Frank Research

# HIGH-RISE PIPELINE

**Australian high-rise residential new homes pipeline**

Number of new apartments built, or potentially built with 8+ storeys each year in major cities, when compared to the 5-year annual average

Above | Similar | Below

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|---|---|---|
| SYD | 23,600 | 20,450 | 14,400 | 10,100 | 3,900 | 1,100 | 10,800 | 8,200 |
| MEL | 7,900 | 11,000 | 13,400 | 9,700 | 6,200 | 2,300 | 9,300 | 7,000 |
| BNE | 7,800 | 4,900 | 2,600 | 2,400 | 500 | 350 | 2,550 | 1,500 |
| PER | 1,100 | 1,500 | 1,200 | 750 | 150 | 850 | 1,350 | 1,650 |
| GC | 1,500 | 1,400 | 1,900 | 800 | 1,300 | 1,550 | 1,900 | 2,400 |
| ADE | <50 | <50 | <50 | <50 | <50 | <50 | <50 | 150 |
| HOB | <50 | <50 | <50 | 50 | <50 | <50 | <50 | <50 |
| CAN | <50 | 400 | 350 | 750 | <50 | 450 | 300 | 1,000 |
| DAR | <50 | 100 | <50 | <50 | <50 | <50 | <50 | <50 |
| AUS | 42,000 | 40,000 | 34,000 | 24,500 | 12,000 | 6,500 | 26,000 | 22,000 |

Source: Knight Frank Research

**The *Australian High-Rise Residential New Homes Pipeline* tracks the number of new apartments built, or potentially built with 8+ storeys each year in the major cities across Australia.**

Traditionally, Melbourne dominates the new high-rise residential homes being delivered given more sites have planning controls which allow increased height to be achieved within the city, when compared to other cities around Australia. This was no different in 2022, with 6,200 new apartments delivered to the market, although this was significantly below the Melbourne five-year average of 9,650. A little over one-third of this is due in 2023 (2,300), before a similar volume returns in 2024 (9,300) and 7,000 in 2024.

In Sydney, 3,900 new high-rise apartments were completed, less than one-fifth the number built back in 2018 (23,600) and in 2019 (20,450). Although less than one-third the volume of new high-rise apartments are forecast in 2023 (1,100), before construction completions are due to ramp up again in 2024 (10,800) and 2025 (8,200); although both still below the 14,500 five-year city average.

In 2018 (7,800) and in 2019 (4,900) was the only time the delivery of new high-rise apartments in Brisbane trended above the city's five-year average of 3,640. Since this time, 500 apartments were delivered in 2022 with only 2,550 (in 2024) and 1,500 (in 2025) are due.

High-rise apartment completions in Perth dipped in 2022, to 150 new apartments, while 2023 remains below the 950 five-year average for Perth. There is an opportunity for rental vacancy relief with 1,350 new apartments due for delivery in 2024 and 1,650 in 2025.

Whilst the Gold Coast saw a dip in 2021 to 800 new apartments delivered, the pipeline remains elevated from the five -year average of a modest 1,400 being built per year, given the significant population growth in the city.

# HIGH-RISE RESIDENTIAL NEW HOMES INDEX

**The *Australian High-Rise Residential New Homes Index* tracks the movement in mainstream prices for new homes being sold off-the-plan in residential projects across Australia.**

Following the flurry of activity in the standalone housing market throughout the pandemic, many turned to new apartments as a more affordable option. For many, there wasn't much choice of new stock which in turn, drove up new apartment prices in high-rise developments across Australia by 3.2% in the year to 31 December 2021.

A year later, as buyer sentiment moderated with each mortgage rate rise, new apartment prices slowed, but still saw growth of 2.1% in the year to 31 December 2022.

An increase in values was noted for new high-rise homes in Brisbane (4.2%), Adelaide (3.6%), Hobart (2.8%), Sydney (1.6%) and Melbourne (1.0%). Although there was no price change captured for the cities of Perth, Canberra, Darwin and the Gold Coast.

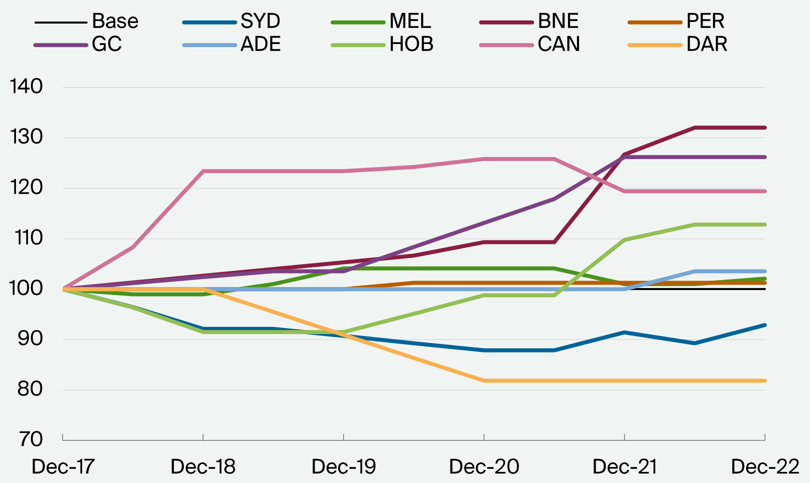
Over the five years to 31 December 2022, Brisbane experienced the highest growth in new high-rise home prices with 32.0% growth, followed by the Gold Coast with 26.2%, Canberra with 19.4% and Hobart with 12.8%.

Adelaide saw all of the five-year growth in the past year (3.6%) and similarly, half of the 2.1% growth for Melbourne came in 2022 (1.0%). Perth's five-year performance was attributed to growth in mid-2020 to overall record 1.3%. Darwin (-18.2%) and Sydney (-7.1%) are still recording new high-rise apartment prices lower than 1 January 2018.

There remains some strength in the prime luxury (top 5%, by value) off-the-plan market with annual growth of 5.0% in the year to 31 December 2022, after 3.6% growth in the year before, as developers start to deliver large, high-end, owner-occupier preferred apartment options for rightsizers.

Australian High-Rise Residential New Homes Index

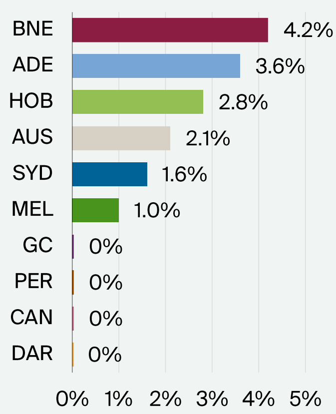
Indexed, 100=31-Dec-17, by major cities




Source: Knight Frank Research

High-rise residential new homes performance

% annual growth, 31-Dec-22, major Australian cities




Source: Knight Frank Research

# BUYER DYNAMICS

Every month the Reserve Bank of Australia have met since May 2022, a cash rate increase has been announced to curb inflation, and a mortgage rate rise has followed. As a result, new household loan commitments continue to trend downwards in tandem with lower housing market sentiment. Although the Australian economy remains relatively solid despite ongoing global uncertainty.

**More stock suited towards owner-occupiers being built**

The Australian Residential Developer Survey 2023 revealed developers built a larger proportion of owner-occupier stock in their last project, compared to building for investors. When developers were asked the intended buyer for their next project, this rising owner-occupier share is likely to continue.

**Residential market is short of investor buyers**

Australian residential rental vacancy has fallen significantly below equilibrium of 3%, recording 1.7% at the end of 2022, with annual rental growth of 14%. The ramping up of population growth, in an already tight rental market, is encouraging higher rents to be achieved as a result. But in many instances, investors are also grappling with increased mortgage costs to maintain.

For many new investors when buying a property to add to the rental pool, borrowing capacity has become a hurdle when securing a new loan, in addition to higher mortgage lending rates.

**International investors slowly return**

Developers in Australia are planning to allocate on average, 11% of their projects towards international buyers in 2023. This is higher than the 10% share in 2022 projects. By comparison, prior to international border closures, projects in 2019 saw an 14% allocation assigned by developers.

According to an NAB residential survey at the end of Q4 2022 found the proportion of property sales to international buyers in new projects was 5.2% in Australia, higher than 5.0% recorded at the end of Q3 2022. Both remain lower than the five-year average of 6.2%.

## Five factors to watch in 2023

**Planning delays**

The greatest impact on residential development in 2023 cited by developers are planning delays.

**Buyer sentiment**

Buyer sentiment in 2023 will be significantly dependent on the number of further increases to the official cash rate.

**Material costs and availability**

Although this was the number one factor developers stated as being the most challenging in 2022, this pressure has started to ease in 2023 but remain high.

**Cost of labour**

Elevated labour costs are ongoing for homebuilders with the skilled worker shortage and infrastructure projects creating increased competition.

**Local economic outlook**

Despite global uncertainty, the local economy remains relatively solid given full employment continuing to take place, and inflation appearing to have peaked.

## DATA DIGEST

**Major sites** for all states & territories are $2m+, except New South Wales & Victoria are $5m+.

**High-density** covers projects with more than 25 apartments in a complex and more than four storeys in height.
**Medium-density** covers 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.
**Low-density** covers a residential dwelling on single allotment.

**Currency** reference to dollars or $ refers to Australian dollars (AUD), unless stated.

## We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.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