**Key Facts**

*Upward annual trajectory continues* in apartment values (up 6.0%) and rents (up 2.6%); vacancy is stable at 2.9%.

*Building approval momentum* is driving a rise in lending finance.

*Residential development site sales totalled* $1.4 billion in the last year; 36% sold to foreign developers.

*Key transport infrastructure projects* are in the pipeline for next ten years.

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**Overview**

In August 2014 Melbourne received the title of ‘World’s Most Liveable City’ for the fourth year in a row—defeating 139 other global cities to top The Economist Intelligence Unit’s Global Liveability Index. Earlier in the year, Melbourne was ranked best global city for quality of life in the Knight Frank Global Cities Survey. The strengths in the fields of healthcare, education, infrastructure and sport continues to elevate Melbourne as a popular destination for enquiries into apartment sales by foreign and local investors.

Strong population is projected for metropolitan Melbourne coming in just behind Perth, across the major cities across Australia. Projections of 2.0 percent per annum, over the next thirty years, will sustain demand for housing, as it has in the past ten years annually trending at 2.1 percent.

Sustained low interest rates over the past eighteen months have continued to push building approvals upwards and driven up sales volumes and housing finance.

**Development Sites**

Over the twelve months to August 2014, $1.4 billion worth of major sites have been purchased, potentially suitable for high density residential development in the Melbourne metropolitan area. A comparison to the previous year, shows a 57.7 percent increase in sales volume.

Foreign buyers made up 36 percent of the total number of sales including the record sale of 93-119 Kavanagh Street, Southbank for $145 million to Malaysian developer, PJ Development Holdings in June 2014 and a month later, China based Australia Star Tower Development Pty Ltd purchasing the Kinnears Rope Factory site in Footscray for $60 million.

Singapore’s Aspial Corporation purchased the site for the 100 storey tower to be...
vacancy will trend above the market equilibrium of three percent over the medium term.

Over the next ten years, there are a number of key proposed rail and road projects in the pipeline for metropolitan Melbourne. The Dingley Bypass and the East West Link have been planned to improve congestion and freight movement on Melbourne roads, whilst the Melbourne Rail Link and Airport Rail Link are proposed to support the increased number of commuters travelling on the existing rail network.

Planning
With the exception of Moreland, the top ten Local Government Areas (LGA) witnessed an upward trajectory in apartment approvals between 2012/13 and 2013/14.

Melbourne LGA continued to dominate building approvals in the 2013/14 financial year with 4,520; outstripping the next ranked, Stonnington LGA at 1,907 approvals.

Construction
Cranes have dominated much of Melbourne’s skyline for the best part of the last decade. Over this period, according to the Rawlinsons Building Price Index, costs of construction have increased 4.3 percent year-on-year. The Building Price Index is based on the effect of building costs brought about by periodic variations in the rates of labour and materials, as well as, reflecting the cost effect of building activity and resource availability at any time. In June 2005 the Building Price Index overtook the Consumer Price Index for the first time since June 1989 and has continued on an upward trajectory.

The number of building permits for residential apartments, issued by certifying authorities in the state of Victoria, totalled 23,370 in the year to July 2014. This increased 9.4 percent on the year before, and overall exceeds the ten year average of 15,540 building approvals per year. It is forecast that building approvals will continue to increase over the coming twelve months with the number of apartments to accommodate recent development sites transacted.

The volume of building approvals in the pipeline currently outweighs other capital cities; however strong population is projected for the Melbourne metropolitan area and demand remains supportive. If this level of population is not reached, or only provisionally met, it is likely that vacancy will trend above the market equilibrium of three percent over the medium term.

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Completions
In Victoria, the total value of work completed on new residential apartments, less the direct effects of price changes, has shown upward momentum since 2007. Trending well above the ten year average, the total value of work completed tallied to $5.82 billion in the year to June 2014.

Apartment Values

Table 1: Key Indicators, Apartments, June 2014

<table>
<thead>
<tr>
<th>Region</th>
<th>Median Capital Value ($)</th>
<th>Capital Growth Last Quarter (%)</th>
<th>Capital Growth Last Year (%)</th>
<th>Gross Rental Yield (%)</th>
<th>Sales Volume Last Year (no.)</th>
<th>Median Weekly Rent ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melbourne, 3000</td>
<td>441,500</td>
<td>2.4</td>
<td>5.4</td>
<td>5.71</td>
<td>2,625</td>
<td>475</td>
</tr>
<tr>
<td>CBD &amp; Inner/North West</td>
<td>422,000</td>
<td>2.1</td>
<td>4.1</td>
<td>4.89</td>
<td>14,616</td>
<td>395</td>
</tr>
<tr>
<td>North East</td>
<td>492,000</td>
<td>1.3</td>
<td>7.2</td>
<td>4.14</td>
<td>6,226</td>
<td>390</td>
</tr>
<tr>
<td>South East</td>
<td>459,000</td>
<td>1.2</td>
<td>6.5</td>
<td>4.37</td>
<td>6,589</td>
<td>385</td>
</tr>
<tr>
<td>Bayside/Frankston</td>
<td>494,000</td>
<td>1.6</td>
<td>6.9</td>
<td>4.28</td>
<td>7,140</td>
<td>405</td>
</tr>
<tr>
<td>Melbourne Metropolitan</td>
<td>462,500</td>
<td>1.9</td>
<td>6.0</td>
<td>4.47</td>
<td>34,285</td>
<td>395</td>
</tr>
<tr>
<td>Australia</td>
<td>436,000</td>
<td>2.1</td>
<td>7.7</td>
<td>4.92</td>
<td>159,834</td>
<td>410</td>
</tr>
</tbody>
</table>

Source: Knight Frank Residential Research, Residex

Apartment rents

Melbourne metropolitan rents were up 2.6 percent over the twelve months to June 2014 to a median weekly rent of $395. At the same time, gross rental yields compressed marginally, by 4bps, to 4.47 percent, as prices rose. The suburb of Melbourne achieves a weekly rent at $475. Located in the Inner (0-10km) ring, the 6-month average vacancy trend was recorded at 3 percent in August 2014, steady over the last month.

The metropolitan Melbourne trend also remained steady at 2.9 percent, just shy of the three percent market equilibrium. This is likely to increase slightly in the coming months, although this is also dependent on the rate of take-up with the growing population, supporting demand.

The CBD & Inner/North West region continues to achieve the best gross rental yields at 4.89 percent. The suburb of Melbourne achieves a yield of 5.71 percent, driven by the performance of the one-bedroom apartments market, whilst the two-bedroom market remains steady.

Table 2: Total Vacancy

<table>
<thead>
<tr>
<th>Ring</th>
<th>Aug-14</th>
<th>Jul-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner (0-10km)</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Middle (10-20km)</td>
<td>3.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Outer (20km+)</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Total</td>
<td>2.9</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: Knight Frank Residential Research, REIV
Outlook

- Gross State Product in Victoria is forecast at 2.4 percent per annum over the next five years; averaging 21.1% as a share of Australia’s output.
- Low interest rates are forecast to remain steady with no change expected until mid to late 2015 and banks are lending at competitive rates.
- Population growth to continue, projected annually at 2.0 percent over the next thirty years remaining supportive of apartment demand.
- Projected overall construction costs to increase 0.4 percent per quarter until March 2015 (AECOM).
- Building approvals will continue to rise over the coming twelve months with the number of apartments to accommodate recent development sites purchased.
- With interest rates remaining low and strong population growth, the rate of capital growth is likely to be sustained for the remainder of 2014, with growth steady heading into 2015.
- As more new supply comes on line after a long period of work completed annually, it is likely that vacancy will trend above the market equilibrium of three percent for the medium term.

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