

A review of key drivers for high-density apartment projects across Greater Melbourne



Melbourne Apartment Projects Review

2021

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MELBOURNE APARTMENT PROJECTS

Melbourne’s residential development market activity is subdued when compared to other Australian cities. How has this market performed in 2020 and what’s the outlook ahead?

Development sites

Melbourne’s residential development market is best described as being in a holding pattern in 2020, with significant compression in the volume of major **sites purchased** by developers suitable for high-density (above \$5m). This was influenced by site sales in the Middle Suburbs falling by 43% over this time, the Inner Suburbs down by 40%, although the Outer Suburbs rose by 28%.

Across the total volume of development sites purchased in 2020, high-density sites made up 59% in Melbourne, down from 69% in 2019 —

tallying to \$520 million (39% lower YoY). The suburbs of Box Hill, South Melbourne and Southbank saw the greatest volume of high-density site purchases in 2020.

By value, approximately 11.1% of major sites were announced to be purchased with the intention of constructing a high-density build-to-rent product.

High-density **site values** across Greater Melbourne remained steady throughout 2020. The Inner Suburbs marked an indicative of \$139,400/per apartment at the end of 2020 (ranging from \$50,000 to \$225,000/per

apartment). Values in the Middle Suburbs achieved \$90,000/per apartment (\$70,000 to \$193,300/per apartment) while the Outer Suburbs values were an indicative \$40,000/per apartment, ranging from \$25,000 to \$50,000/per apartment.

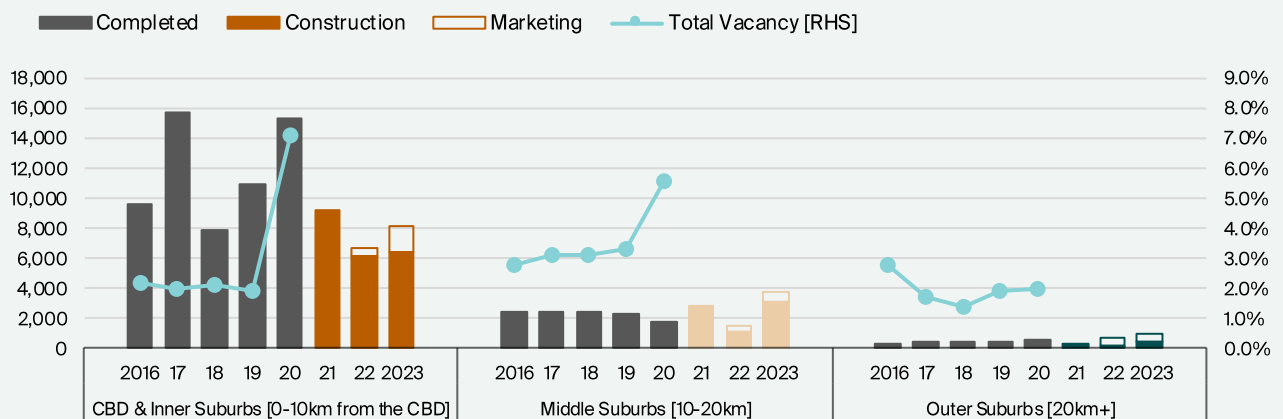
Greater Melbourne **cost of construction** increased by 2.0% in 2020, as estimated by Rawlinsons.

New projects pipeline

Melbourne’s **pipeline for new apartments** will overall trend lower when considering the average marketing and construction

Melbourne new apartment pipeline & total residential vacancy

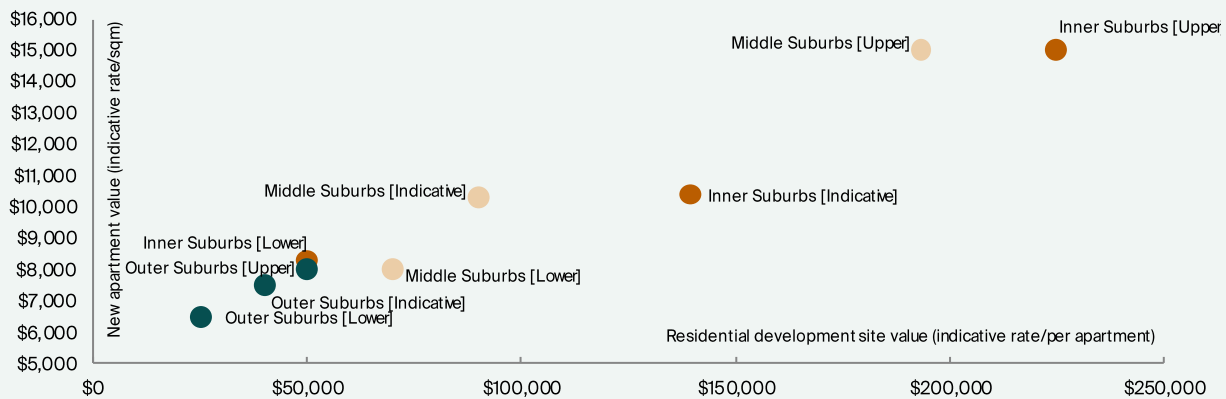
No. of potential apartments, projects with 40+ apartments and 4+ storeys & total residential vacancy [RHS], 31 Dec 2020



Source: Knight Frank Research

Melbourne residential development sites & new apartment values

Average sites based on high-density and new apartments based on standard mainstream 2bed+2bath (excl.CBD), 31 Dec 2020



Source: Knight Frank Research

timeframes required for development approved projects with 40+ apartments and 4+ storeys.

Inner Suburbs represent the largest pipeline for new apartments to be built in Melbourne by 2024 (24,125), followed by the Middle Suburbs (8,150), then Outer Suburbs (1,975); compared to the previous three years completed at 34,250; 6,500 and 1,500 new apartments, respectively.

Victoria’s high-density **building approvals** were down 6.4% on the previous year, with 10,882 apartments. The last quarter of 2019 recorded a decline of 55% on Q3 2019 (ABS). A new apartment in Victoria averaged 155 sqm **internal floor space** in 2019/20, increasing from an average 148 sqm a year ago (CommSec).

New apartment pricing

New apartment prices at the end of 2020 stayed similar to a year ago. New apartment prices in Melbourne’s Inner Suburbs was an indicative \$10,400/sqm in this time, to range between an average of \$8,300 and \$15,000/sqm.

The Middle Suburbs were \$10,300/sqm (\$8,000 to \$15,000/sqm) and the Outer

Suburbs recorded \$7,500/sqm, ranging from \$6,500 to \$8,000/sqm.

Apartment demand

Economic growth and unemployment had started to improve by the end of 2020 and confidence had commenced trickling through to Melbourne’s apartment market. Although a key driver, population growth, was visibly absent and relied on in this city.

Despite annual apartment **sales turnover** in Melbourne falling by 21% in 2020, **capital values** rose by 2.5% to stand at a median of \$570,000 (APM) for **established apartments**.

Through this time, residential **vacancy** increased from 2.2% to 5.4%, (REIA), trending well above a balanced market at 3%. The Outer Suburbs recorded the lowest vacancy at 2.0%, followed by the Middle Suburbs with 5.6%, then the Inner Suburbs at 7.1%. As a result, apartment rents were reduced by 7.6% over this time across Melbourne (APM).

Buyer profile

More apartments were being purchased by owner-occupiers across Melbourne in recent year, in particular, by downsizers and first home buyers.

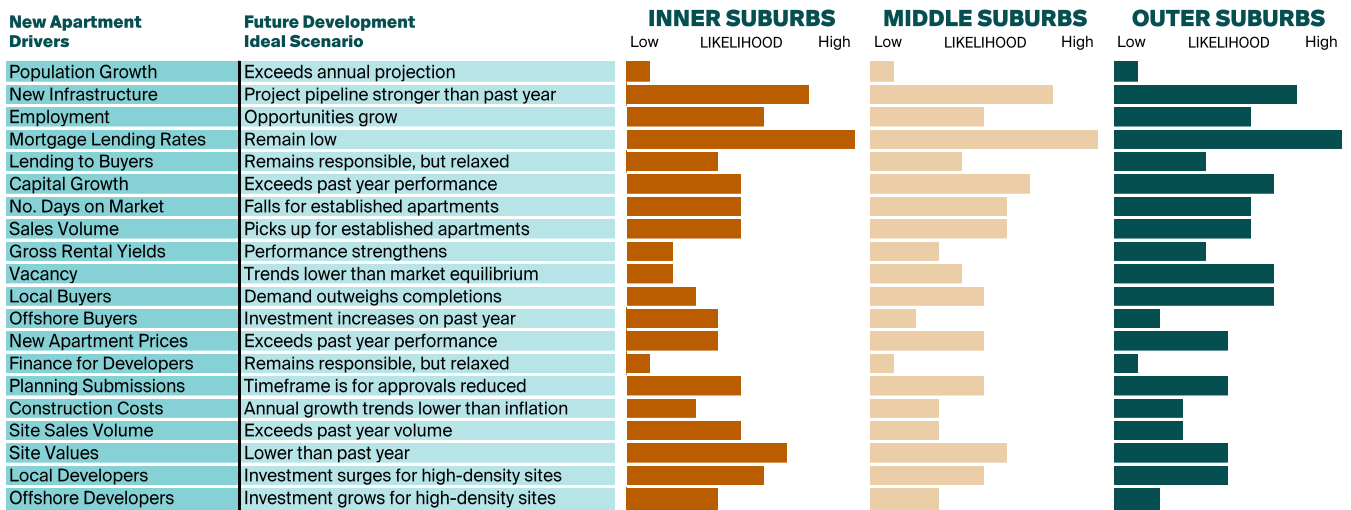
The responsible lending environment has encouraged new household **loan commitments** to increase by 10.2%, in 2020, across Victoria. The split of **investor** loans fell from 28% to 25%, while **owner-occupier** loans grew from 72% to 75%. **First home buyer** activity increased 23% over this time, to comprise a 32% share of all new loans approved in Victoria (ABS).

Outlook

The Melbourne residential market has been **forecast** by Knight Frank Research to grow by 7% in 2021 and by 7% by the end of 2022. Although with some significant challenges ahead, the forecast for the Melbourne apartment market alone is modest at 1% growth in 2021 and 2% growth in 2022.

In Melbourne, for new apartment projects, challenges will be the migration pause impacting population growth, developer’s ability to obtain funding and the elevated vacancy. At the same time, the greatest opportunity continues to be the low mortgage lending environment for buyers, government investment in new infrastructure projects and lowered site values creating an opportunity for developers to landbank.

MELBOURNE APARTMENT PROJECTS | ONE YEAR OUTLOOK



Source: Knight Frank Research

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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