

MELBOURNE APARTMENTS

RESIDENTIAL DEVELOPMENT SERIES H1 2019

Key Facts

Greater Melbourne **site values** ranged from an average \$40,000 to \$139,400/per apartment (indicative \$120,400/per apartment) at the end of 2018.

There were 37,400 **new apartments** under construction throughout Greater Melbourne at the end of 2018. There were an additional 10,250 apartments with DA approval being marketed.

Mainstream **new apartment prices** ranged from \$6,500 to \$14,500/sqm in Greater Melbourne by the end of 2018 (indicative \$9,600/sqm).



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Across the capital cities, Greater Melbourne has recorded the most number of apartments with marketing being put on-hold, pushing back their completion beyond 2022 and aiding the ongoing fear of oversupply. What's the outlook for the other key development drivers for Melbourne?

Overview

- Although the volume of high-density development site sales was down, there were still a number of recent significant sales achieving premium prices for well-located sites.
- Development funding remains challenging given the slowdown in the Greater Melbourne apartment market over the past year. Conversely, stricter lending for purchasers have impacted the number of pre-sales achieved.
- A little over 12,900 apartments that were once marketed have been placed on-hold with the likelihood they will no longer be completed by the end of 2022.
- As investors have retreated, developers are building apartments with more bedrooms to accommodate the owner occupier and downsizing market.
- Compared to previous years, there are significant major infrastructure projects in the pipeline for Greater Melbourne — most expected online by 2031.

Development Site Values

A little under half the volume of sales of sites with potential for high-density residential development in Greater Melbourne transacted in 2018 (\$890 million) when compared to the volume recorded the year earlier. High-density site sales made up approximately 54% of total development site sales over the year ending December 2018.

The average sales rate for sites earmarked for high-density development in Greater Melbourne, excluding CBD sites, was an indicative \$120,400/per apartment at the end of 2018, falling 9.1% over the year.

The inner suburbs of Greater Melbourne saw the range of \$50,000 to \$225,000/per apartment remain in place throughout 2018, although the indicative rate fell 8.8% to stand at \$139,400/per apartment. A similar trend was experienced in the middle suburbs over 2018 with the indicative rate

MELBOURNE

Population in Greater Melbourne was estimated at 4.96 million persons in June 2018, with annual **population growth** of 2.5%. The **population projection** is set by the ABS at 1.9% per annum until 2041.

Victoria **economic growth** in was 3.5% in 2017-18. Greater Melbourne **unemployment** stood at 4.0% as at December 2018, trending 190 bps lower than a year earlier.

The **cost of construction** across Greater Melbourne increased 3.5% in 2018. At this time, it was estimated the cost to build an apartment to a medium standard (with a balcony) was \$2,930/sqm to \$3,495/sqm (plus GST), according to Rawlinsons.

Greater Melbourne **median values** decreased 4.3% to \$479,500 over 2018. Apartment **sales transacted** totalled 16,146 in Greater Melbourne in 2018, down 30% on the previous year. The average apartment is **on the market** for 69 days, down from 80 days one year earlier (APM).

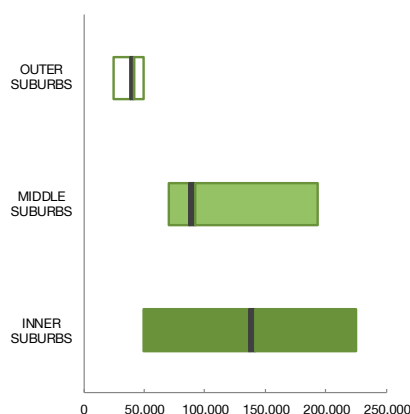
Gross rental yields across Greater Melbourne apartments rose 10 bps, to 4.40%, over the December 2018 quarter. **Median rents** rose 2.5% over 2018 for Greater Melbourne apartments, to a weekly rent of \$410. Greater Melbourne **total vacancy** was 2.2% as at December 2018; recording 2.1% in the Inner Suburbs (0-10km from the CBD), 3.1% in the Middle Suburbs (10-25km) and 1.4% in the Outer Suburbs (25km+).

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

repositioning to \$90,000/per apartment (down 12%) to range from \$70,000 to \$193,300/per apartment.

With little new apartment supply entering the outer suburbs of Melbourne, site values have remained steady for the past two years with an indicative of \$40,000/per apartment; ranging from \$25,000 to \$50,000/per apartment.

FIGURE 1
Site Sales Price Range & Indicative Rate, Greater Melbourne
Potential high-density development (excl. CBD)
Average rate/per apartment, as at 31 Dec 2018



Source: Knight Frank Research

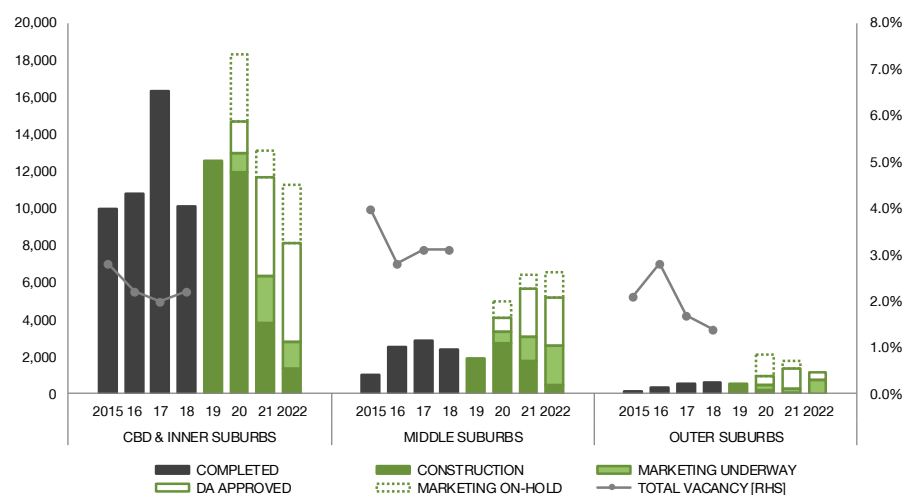
Apartment Pipeline

Almost 13,100 new apartments were completed throughout the Greater Melbourne region in 2018, 34% less than came online in 2017. This allowed the six-month average trend vacancy to remain steady at 2.2% in December 2018.

New stock was most evident in the inner suburbs of Melbourne with an additional 10,150 apartments over this time. The number of apartments in the inner suburbs is projected to grow by another 26,700 apartments with those currently under construction; and 4,950 more being marketed with the potential to be delivered by the end of 2022. In the middle and outer suburbs, 2,950 high-density apartments were completed in 2018 with 7,650 under construction, and another 5,250 being marketed, due within the next four years.

Potentially 20,300 development approved apartments could be added to the supply pipeline by 2022 across Greater Melbourne, although project launch, marketing and presales must start soon. The current pipeline for Greater Melbourne has also considered almost 12,900 apartments which launched to marketing stage in recent years, but are now on-hold, or taken out of the pipeline altogether, after being converted to office or student accommodation assets.

FIGURE 2
New Apartment Pipeline & Total Residential Vacancy, Greater Melbourne
Number of potential apartments each year, includes projects with 4+ storeys with 25+ apartments & % total residential vacancy [RHS], as at 31 Dec 2018



Source: Knight Frank Research, REIV

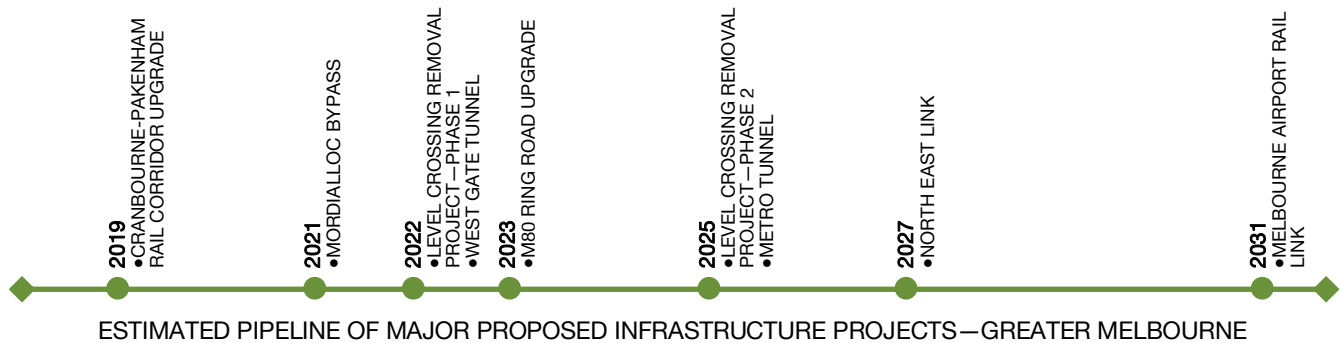
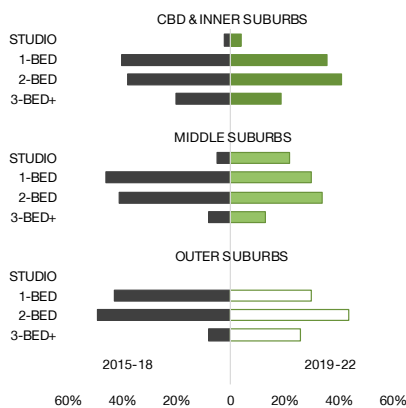


FIGURE 3

Split of Bedrooms in New Apartments Greater Melbourne

Distribution in completed projects (2015-18) & under construction (due 2019-22)



Source: Knight Frank Research

Bedroom Split

The number of 1-bedroom apartments dominated new supply in 2015-18 in Greater Melbourne, making up 41% of all new stock. This was closely followed by 2-bedroom apartments with a 38% share. Although over the coming four years, apartments under construction are most dominant in the 2-bedroom configuration (40% share) with 1-bedrooms dropping to hold a 35% share. Although similar to Greater Brisbane, this was bucking the trend of the other major cities where 2-bedroom apartments took the lion share, by some margin, over the past four years. The portion of studio apartments being built over this time rose from 3% to 7% in Greater Melbourne, whilst the growth in the share of 3-bedroom (or more) apartments remained stagnant, potentially falling short to meet current buyer demand.

New Apartment Pricing

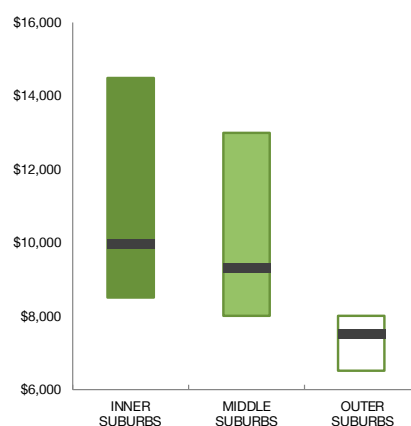
The price range of \$6,500 to \$14,500/sqm for new apartments remained constant across Greater Melbourne in 2018, despite the indicative rate falling from \$9,700, to \$9,600/sqm, over this time.

By the year's end, the inner suburbs of Melbourne achieved an indicative price of \$9,950/sqm (ranging from \$8,500 to \$14,500/sqm) whilst in the middle suburbs, some located along Port Phillip Bay, were an indicative \$9,300/sqm (\$8,000 to \$13,000/sqm). The more affordable outer suburbs with much less new stock continue to range from \$6,500 to \$8,000/sqm, with an indicative rate at \$7,500/sqm.

FIGURE 4

New Apartment Price Range & Indicative Rate, Greater Melbourne

Rate/sqm for standard mainstream (excl. CBD) 2 bed+2 bath, as at 31 Dec 2018



Source: Knight Frank Research

TOP 10 MELBOURNE SUBURBS FOR NEW APARTMENTS

COMPLETED IN 2018

Southbank
Melbourne
Moonee Ponds
South Yarra
Richmond
Doncaster
Malvern East
Docklands
Brunswick
Brunswick East

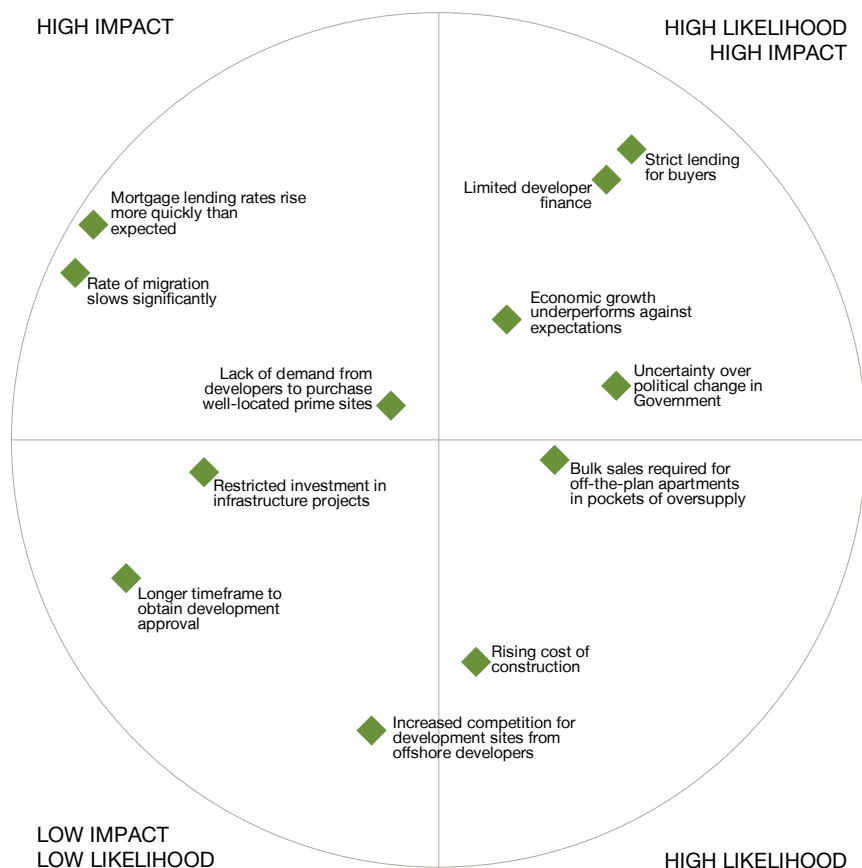
UNDER CONSTRUCTION DUE BY END 2022

Melbourne
Southbank
Footscray
Carlton
West Melbourne
Box Hill
Docklands
Burwood East
Moonee Ponds
Clayton

FIGURE 5

Key Development Drivers Risk Monitor, Greater Melbourne

Scenarios assessed on the likelihood and their impact over the next year



Source: Knight Frank Research

Definitions

High-density covers projects with more than 25 apartments in a complex and more than four storeys in height; as defined by Knight Frank Research.

Geographies start by 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.

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

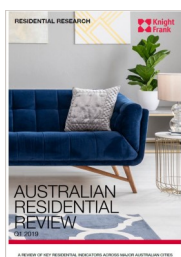
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