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Melbourne apartments continue forward march

Residential developers have been cashing in on Melbourne's strong inner-city apartment market, selling more than 2600 units in the first half of the year.

The record sales activity will help to drive Melbourne's total apartment stock up to 33,770 by the end of 2013, a 27 per cent increase on current levels.

Charter Keck Cramer's *State of the Market* report estimates that 88 per cent of all new apartment sales were in projects geared towards the investment market.

Report author, Robert Papaleo, said net international migration and the continued strength of the foreign student market boded well for Melbourne's inner-city apartment stock.

Mr Papaleo said the next three years of Melbourne apartment supply (about 7500 units) would satiate the need from the city's rising population.

"What's effectively happening is the market is playing catch-up ... we had population growth but apartment supply died off a bit (between 2007 and 2009)," he said.

"The danger will come if the market continues these high levels of supply into the future."

Mr Papaleo said the fundamentals remained sound for Melbourne's apartment market but warned a slackening of investor demand, which is currently funnelling in through intermediaries such as financial planners, could jeopardise the market.

"Effectively what investors are buying is a financial product rather than property," he said.

Mr Papaleo added there were additional risks associated with reduced overseas student numbers on the back of tightened migration rules.

High-rise developer Tony Brady's Melbourne Star project was identified by Charter Keck as one of the strongest sellers in the central city region.

"We're finishing the apartment block next week with 260 apartments and there is not one apartment left for sale," said Mr Brady.

He said the predominance of three-bedroom apartments meant the project appealed to owner-occupiers, with just 30 per cent sold to investors.

But many apartments remain unsold, with stock overhang rising to 1871 units in the first half of 2010.

This equates to 7 per cent of all apartments in the Melbourne central city region and the highest level of stock overhang was recorded in the CBD grid (690).

About 90 per cent of these apartments were in projects currently being marketed, according to Charter Keck.

Mr Papaleo predicts price growth will moderate for the remainder of 2010 as interest rates cool demand, but he expects investors will continue to drive high levels of apartment sales.

Three projects incorporating 888 apartments have been withdrawn, mostly due to poor sales figures or an inability to lock in construction finance.