



MELBOURNE TOWARDS A WORLD CITY – THE ROLE OF DENSITY IN THE FUTURE OF MELBOURNE

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I often wonder what John Batman would think of Melbourne today.

Only 176 years after he sailed *Rebecca* into the silty mouth of the Yarra River and noted in his diary “*this will be the place for a village*”. The small legal and administrative port he founded is now on the cusp of World City status. Batman died in 1839 (the year of only the third inner city land sale) and did not witness the declaration of Melbourne as a city in 1847. Nor did he have the opportunity to enjoy the spoils of the 1850s Gold Rush, that period so often relegated to the history class but which funded the University of Melbourne, the first Flinders Street Station, Melbourne Exhibition Centre, the State Library and the Queen Victoria Market; all city defining infrastructure delivered by the time he would have been 56 years old, and still lent on to promote and characterise contemporary Melbourne.

Would Batman consider it fanciful that Melbourne’s population would reach 125,000 by only 1861, a cable tramway system would open in 1885, the city streets would be lit by electric lighting in 1894, and traffic lights would be installed at the corner of Collins and Swanston Streets in 1928 (“what is a car?” he might ask)? Would he marvel at the diverse multicultural precincts formed out of the WW2 immigration boom and the commencement of Asian migration in the 1970’s? Could he comprehend Melbourne with a population of 4.3 million, or that its economic future would no longer be dictated by London, but be linked to the emerging economic and social powerhouse of Asia?

As Australian soldiers repatriated from WW2 and settled into the balance of their lives, the next stage of their lives brought an unprecedented baby boom that would drive the natural population growth of the city. During

the same period the population was also boosted by European immigrants in search of a future in a far but promised land, the commencement of a tradition of immigration that would be the fundamental driver of Melbourne’s population growth (with approximately 25% of Melbourne’s current population born overseas). Melbourne’s population quickly surged past 1.5 million, and although it initially emerged as a dense city, still evident in the fabric of our inner suburbs that reflect the compact land holdings of the time (and the majority of large cities globally), its rapid growth gave rise to the march of suburbia that characterises the city today. Basking in the glory of a suburban utopia, where large land and a commensurately sized house were a ‘right of passage’,

Melbourne’s population has been relatively isolated from the pressures of large global cities, until now.

The city has always been able to manage the issues arising from rapid growth, however the structural shift in socio demographic and global economic paradigms over the past 15 years is giving rise to a fundamental shift in the way Melbournians live, work and play. As a result the city, Melbourne’s people and its infrastructure are being tested. After the latest population boom of the mid-late 2000’s the reality of the extent of Melbourne’s growth is only now dawning on the majority of the population, and a number of consequences of that growth are for the first time being fully recognised.



Melbourne will continue to spread geographically, the fringe supported by the willingness of young families to gain an 'affordable' foothold in the conventional housing market.



Many consequences of growth are obvious. The daily commute in congested traffic and packed public transport, lack of infrastructure capacity, cost of living pressures and the general sense of 'busy-ness' catch many headlines. However, the implications of living in a World City are more widespread. The impact on the fabric of Melbourne is perhaps nowhere more obvious than in the housing sector, where due to affordability constraints the 'right of passage' to the great Australian dream is being tested.

Housing affordability has always been an issue irrespective of the generation, however is impacting on the lifestyles of Generation X more than any previous generation, and is emerging as perhaps the fundamental

issue confronting Generation Y. I often ask myself a number of key questions contemplating Melbourne's housing future...

"How many Generation X and Y'ers in World Cities have the capacity to own their own dwelling? How many can afford to fund a conventional house close to the urban centre? What housing choices are they likely to make to support existing social, employment and cultural networks that so dominate their mutli-tasking lifestyle?"

Melbourne is now asking itself these questions for the first time, and the implications for the future of the city are being evidenced.

Melbourne will continue to spread geographically, the fringe supported by the willingness of young families to gain an 'affordable' foothold in the

conventional housing market. There are however many thresholds that living on the fringe will test, and not all Gen Y's will be as willing to make a least cost housing decision based on geography...many will (albeit reluctantly) seek to trade a backyard for other lifestyle considerations. The discretionary lifestyle choices of first and second home buyers are already being manifested in the infill development context, particularly the emergence of the townhouse and contemporary apartment sector. As Melbourne trends towards World City status, so will the housing choices (either discretionary or forced) of its residents.

Housing affordability is likely to continue to be eroded, and for those seeking to stay close to the inner city (for lifestyle or employment and economic reasons) the only option will be to enter the townhouse and apartment markets long term. But we must remember that in pure dollar terms apartments are not 'affordable'. As a new 50sqm single bedroom apartment with a car space in Richmond will sell for circa \$450,000 - \$475,000, equivalent to a three bedroom house and land package on the fringe...the decision is therefore fundamentally lifestyle based. Even in the rental market context, that same one bedroom apartment will rent for circa \$425 per week, still a considerable drain on finances and enough to fund a housing debt of circa \$260,000. Even against the background of these affordability reality checks, the townhouse and apartment sectors are the conduits to future supply in Melbourne, as recognised by Melbourne's longstanding urban consolidation policies.

Apartments have long been part of Melbourne's fabric, but in the contemporary context emerged in the

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Central City Region in the early 1990's, supported by the City of Melbourne's *Postcode 3000* initiative and a set of entrepreneurial private developers who converted obsolete vacant office buildings into apartments. The market has now reached critical mass across the inner and middle suburbs, with approximately 60,500 new apartments completed since 1990, with 70% of those added in the last 10 years alone. We are witnessing the largest structural shift in housing typology since the commencement of the suburban dream in the 1950s, and acceptance of (and planning for) densification is paramount to the future success of the city.

Apartments have, until recently, fundamentally been a discretionary housing form catering for the needs of inner city residents and students seeking to stay 'close to the action'. No longer purely a lifestyle choice of young inner city dwellers, the sector is now mainstream. Entrenched in sound economic and social fundamentals the market is positioned for significant future growth to meet underlying housing demand within established infill precincts (both inner urban and metropolitan), provide access to desired amenity and meet the changing demographic profile of Melbourne's population, all at a relatively affordable price point to conventional housing.

It is only in the past five years that the apartment market has reached critical mass beyond the central city region. The supply of new apartments is economic cost driven; developers will only provide new stock when purchaser demand is evidenced at the required price (to cover development cost and return a desired margin), and purchaser demand will only be manifested when the apartment price is supported relative to the conventional housing and townhouse pricing of a location.

Theoretically, apartments should be viable at a critical mass in a location when the established housing market (conventional houses and townhouses) breaches affordability thresholds, and conditions are suitable for the cheaper apartment alternative to slide into the housing affordability hierarchy. In CBD and inner fringe regions the lack of housing alternatives has supported the emergence of the apartment market much sooner, however the suburban house price growth of the past decade has now created economically viable conditions for apartments to proliferate across the broader market.

Importantly, it must be remembered that the majority (circa 80%) of the apartment market is orientated to investors, and therefore tenants are the predominant occupants. As apartments emerge as the only 'affordable' inner city solution to entry level owner occupiers, the occupancy profile will alter and the sector will be increasingly characterised by owner occupiers. A denser city is already bringing planning conflicts, infrastructure and services provision to the forefront of people's minds, and the debate around how Melbourne will look and operate in the future is only just commencing.

Melbourne has not had the benefit of hundreds of years of progressive evolution, the city has matured within a compact timeframe, and the issues now being debated have arisen equally quickly. Batman would surely marvel at how far Melbourne has progressed in such a short period, but the community will need strong leadership, vision and courage to set the future direction. How we deal with the future of the city now will be critical to how liveable Melbourne will be in the future.

Sam Nathan is speaking at the Property Council's *Growth Summit* on 6 October 2011 and is a member of the Residential Developers Committee.

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