

March 2010

Apartments in Melbourne's Central City Region: Surviving Another Crisis!

The prevailing and expected future conditions in Melbourne's residential apartment market are comprehensively examined in Charter Keck Cramer's 'State of the Market - Residential Apartments in Melbourne's Central City Region (January 2010)'. To subscribe to this report please visit <http://www.charterkc.com.au/research/publications>

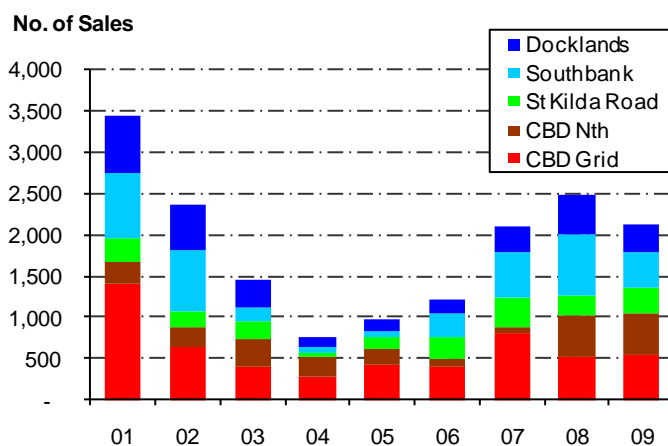
Charter Keck Cramer has consistently expressed its opinion, even when the cries of oversupply were at their highest in the mid 2000s, that there will be a sustainable need and increasing opportunity for more new apartments in Melbourne. The underlying strength of demand fundamentals and high barriers to supply cannot deny this inevitability.

Just as the apartment market weathered a range of "crises" over the past two decades it has now come through the biggest shock of them all, the Global Financial Crisis, in strong shape. For the last 3 years (2007 to 2009) annual new apartment sales have been higher than the average over the past decade. Clearly, the supply imbalance afflicting the national housing market is also at play in Melbourne's apartment market.

Over the past 10 years Charter has committed to publishing its semi-annual **State of the Market – Apartments in Melbourne's Central City Region (CCR)** report to monitor demand, supply and market balance so as to enable informed decision making by its Clients based on facts rather than popular opinion. The following Research Insight presents some findings and extracts from the latest report (for the period ending December 2009) with the full report providing a much more comprehensive analysis of these and a range of other market indicators.

Demand

Volume of First Time Sales by Precinct (2001-2009)

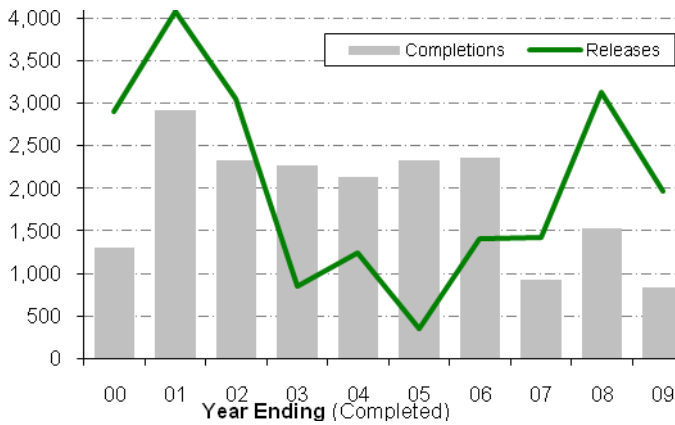


- Of the FTS recorded across 2009, 90% related to apartments contained within Investor-orientated projects which continue the trend observed over the past decade. Tighter rental market conditions, strong population growth and project financing considerations have contributed to the growing demand for Investor product.

- Residential property market conditions in Melbourne substantially improved over the course of 2009 with Melbourne being a national standout. These conditions were translated into greater confidence and strong demand for new apartments.
- In 2009, there were over 2,100 First Time Sales (FTS) of residential apartments recorded across the CCR (inclusive of the CBD Grid, CBD North, St Kilda Road, Southbank and Docklands precincts). These FTS related primarily to off-the-plan sales, as well as sales by developers that occurred during construction and after completion of projects.
- Sales in 2009 were slightly lower than in 2008 but were still 11% higher than the average over the 2000s which included a massive boom in the early part of the decade.
- Sales activity in 2009 was strongly biased towards the second half with sales in the six months to December 2009 (H2-2009) being the highest for any half-year since H2-2001.

Supply

Apartments – Completions & Releases – Central City Region

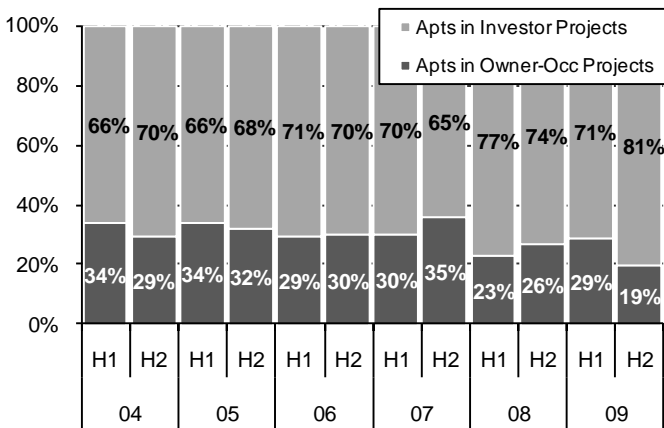


- Future supply in planned projects at the end of 2009 was estimated to be about 10,000 apartments across the CCR. Around half of this quantum is contained in future masterplanned stages at Docklands.

- At the end of H2-2009 there was a stock of 24,560 completed apartments across the CCR. This stock is projected to increase by 28% by 2013 with 3,100 apartments currently under construction and a further 2,900 being marketed.
- Despite the historic high level of population growth recorded in recent years completions have averaged only less than 1,100 p.a. since 2007 due to weaker market conditions mid decade. Completions were much higher in the earlier part of the decade at over 2,200 p.a. between 2000 – 2006.
- Construction commenced on over 2,100 apartments in 2009 which was the highest annual rate since 2003 notwithstanding the stringent financing requirements post GFC.
- There were just under 2,000 apartments released in 2009 with almost all being late in H2-2009 in response to improved demand conditions. Such a level of releases however is still insufficient to meet underlying purchaser and occupier demand.

Market Balance

Apartment Stock Overhang by Project Type



- Stock absorption for completed projects and those under construction were both around 90% whilst around 50% of marketed apartments were also sold.

- At the end of 2009, there was a total of around 1,700 unsold apartments (stock overhang) across projects either recently completed, under construction or marketed. This overhang equates to 7% of the total market (ie. completed stock as at the end of 2009).
- This stock overhang is considered to be overstated because of the spurt of new releases that occurred in late 2009 (indicated by 68% in marketed projects) but nonetheless, it has reduced considerably from a peak of 2,800 in 2004. At that time, overhang equated to 17% of the then completed stock.
- 81% of stock overhang was contained within Investor-orientated projects. The proportion of stock overhang in Investor projects has risen since the mid 2000s, when this type of project typically accounted for 65-70% of overhang.
- At the end of 2009, just under 80% of all apartments in current projects were sold which represents a healthy stock absorption.

Outlook

- Conditions in Melbourne's CCR residential apartment market are expected to remain solid through 2010 as more certainty returns to the economy and broader housing market. Notwithstanding higher interest rates in 2010 from 2009 emergency low levels, investors will recognise ongoing opportunities for strong occupancy from a growing pool of renters who now have a diminished capacity to move into home ownership due to the contraction of the First Home Owner Boost, higher house prices and increased interest rates.

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