

Charter Insight

State of Market – Melbourne’s Central City Region Apartment Market.

[Period Ending June 2017] – Edition 34.

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Charter Keck Cramer’s semi-annual *State of Market (SOM) Report* for the Melbourne Central City Region (CCR)* for H1-2017 is now available for subscription.

Insights drawn from analysis of proprietary demand, supply and market balance metrics (since 1990) provide an evidence base that challenges many broadly-held perceptions of the Melbourne CCR apartment market’s current status.

Stamp Duty Changes – A Tale of Two Halves

Market conditions through FY 16/17 in the Melbourne CCR apartment market have, as expected, moderated relative to the recent cyclical peak conditions over 2014 and 2015.

This trend however has been interrupted by the significant impact from the abolition of the off the plan (OTP) stamp duty exemptions for investors that came into effect from 1 July 2017. The increased international purchaser surcharge was less significant in light of the more dramatic stamp duty change.

These changes have intermittently distorted the Melbourne CCR apartment market (as well as the metropolitan market) with the release of many projects brought forward in an attempt to maximise sales prior to the removal of this incentive.

This first round effect of changed policy is reflected most prominently in the +110% increase in releases between H2-2016 and H1-2017. Importantly, the purchaser market has responded with a corresponding +115% increase in estimated sales of off the plan apartments over the same period with sales activity following supply availability.

Charter believes that both FTS as well as apartment releases would have been considerably lower in H1-2017 with the FY 16/17 results also commensurately lower due to slowing macro-demand conditions had the stamp duty changes not been introduced.

The second-round effects of the stamp duty changes will be (a) a higher supply in 2019-2020, but (b) a deeper lull in releases through 2017-2018 and (c) lower completions post 2020 than would otherwise have occurred.

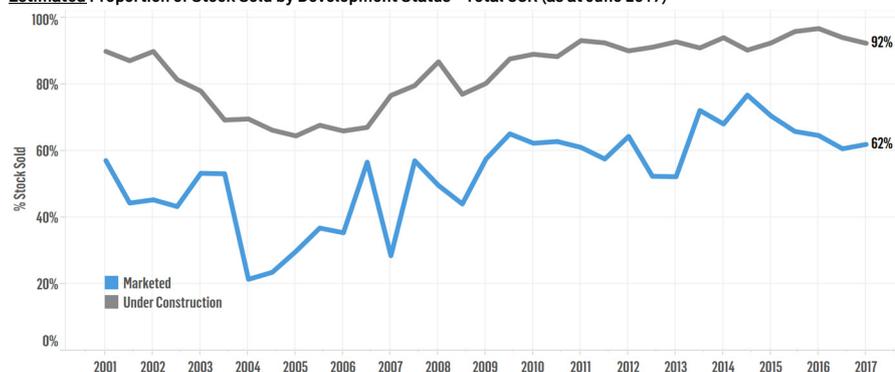
The Melbourne CCR Apartment Market Continues to Self-Regulate and is not Oversupplied

There are several proprietary metrics Charter uses to track the performance and balance of the Melbourne CCR apartment market. These metrics continue to highlight that the market is not oversupplied and is maturing and successfully self-regulating.

The proportion of stock sold for all projects **Under Construction** at the end of H1-2017 was 92% which is higher than its long-term average.

The proportion of stock sold for projects being **Marketed** at the end of H1-2017 was 62% which is also higher than its long-term average.

Estimated Proportion of Stock Sold by Development Status - Total CCR (as at June 2017)



Source: Charter Keck Cramer.

*CCR = CBD Grid, CBD North, City North, Docklands, Southbank, St Kilda Road and Fishermans Bend.

Key Metrics FY 16/17

DEMAND

Purchaser Demand
(FY 16/17)
Slowing - (Distorted)
(5th highest amount observed)

Occupier Demand
(FY 16/17)
Strong
(Rents increased and vacancy rates decreased)

SUPPLY

Apartment Releases
(FY 16/17)
Decelerating
(4th highest amount observed)

Apartment Commencements
(FY 16/17)
Normalising
(2nd highest on record)

Apartment Completions
(FY 16/17)
Peaked
(Highest quantum ever observed)

MARKET BALANCE

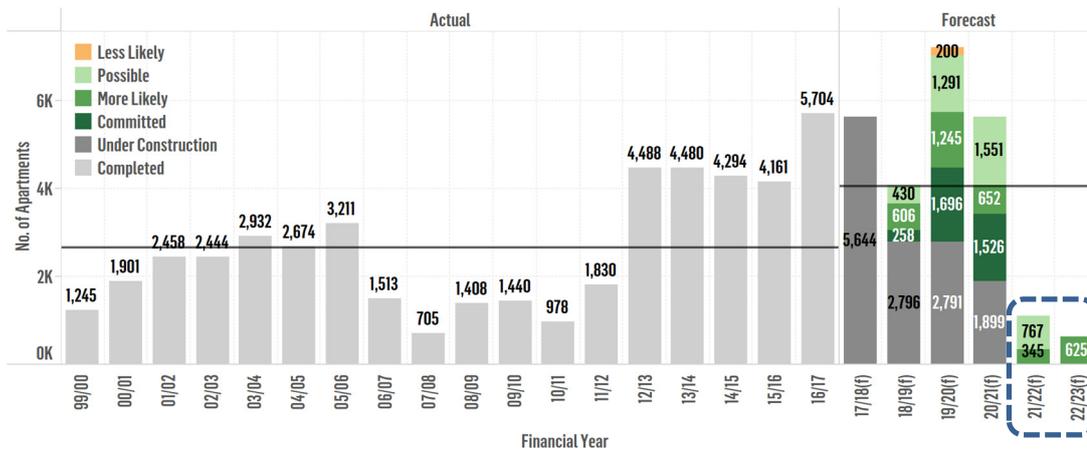
Pre-Sold Apartments
(FY 16/17)
High
(Higher than long term average)

Future Apartment Supply

There were a record number of apartments completed in the Melbourne CCR over FY16/17. This is a function of the extremely active market over 2014-2015 which saw record levels of releases, sales and construction commencements.

New supply in FY 17/18 will reach similar levels to those observed in FY 16/17 before temporarily falling away in FY 18/19 and then potentially returning to above average completions for FY 19/20 and FY 20/21.

Historic and Projected Potential* Completions – Total CCR by Current Status (as at 30 June 2017)



Note: The projections in this chart extend out to FY 21/22 and FY 22/23 due to a few large apartment projects that are currently marketed and that are estimated to be completed within this period of time. These figures must not be read as a forecast or as implying that this is the only quantum of apartments to enter the market during that period of time. Projects that are launched in the next few years will also comprise those figures and will be picked up in due course when they are released to the market.

SOURCE - Charter Keck Cramer* Potential - includes projects Under Construction & Marketed (Committed, More Likely, Possible & Less Likely) but excludes any project which was not Marketed as at June 2017.

Outlook

The market context for future supply is now fundamentally changing. Apartment developers now must respond to a more restrictive planning framework (C270 which came into effect in November 2016 and the new apartment design guidelines which came into effect in March 2017). Developers and purchasers alike now have to also contend with:

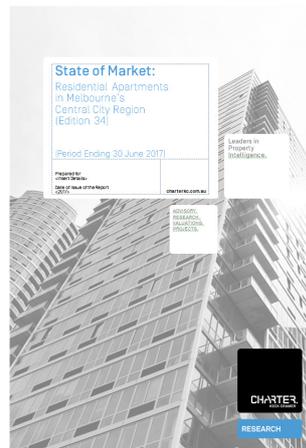
- The removal of stamp duty exemptions for investors (from 1 July 2017);
- Various government taxes such as increased stamp duty surcharges on foreign investors (from 1 July 2016) and the vacancy tax (from 1 January 2018); and
- 50% cap on sales of off the plan apartments to foreign purchasers (from May 2017).

Charter anticipates that the Melbourne CCR apartment market will recoil through 2017-2018 in response to the distortions and changes that have occurred through 2016-2017.

Releases are likely to be lower than expected with sales also likely to be lower than would ordinary have occurred. **It is important to anticipate that this recoil in the market will not necessarily be a reflection of a poorly functioning apartment market given that the underlying fundamentals that have underpinned this market over the past 10 years will largely remain in place.**

State of Market Report - Melbourne CCR H1-2017

Full details about the key findings and observations for the Melbourne CCR apartment market can be found in Charter's *State of Market Report*.



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