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New research challenges perceived apartment oversupply

The Urban Development Institute of Australia's (Victoria) Apartment Research Breakfast has highlighted new research by Charter Keck Cramer (Charter), telling us the number of new apartments scheduled for completion in Melbourne in 2017 has reduced considerably due to slowed or delayed projects.

"The research definitely challenges the perception of oversupply risk in Melbourne's apartment market," said Danni Addison, Victorian chief executive of the Urban Development Institute of Australia (UDIA).

Charter's research confirms that Melbourne has already seen its peak level of apartment supply reached in 2016 without any corresponding market-wide falls in prices or rents.

"Throughout 2016 there were a range of house price cooling measures introduced by Government regulators (and some enforced through the banking system) aimed at slowing demand from local and international investors. These policy changes have also had an impact on the supply-side of the market, with the resulting restrictions on finance availability to developers, future apartment supply has begun moderating," said Robert Papaleo, National Executive Director of Charter Keck Cramer.

According to Charter research presented at the UDIA breakfast, apartment commencements fell from a peak of 24,500 apartments in 2015 to 16,300 in 2016 – a reduction of 33 per cent.

"Future completions will decline accordingly, so the regulatory changes and reduced financial liquidity have had their desired effect. This result, however, is at the expense of the industry's ability to deliver more supply which is not aligned with broader housing policy objectives," said Mr Papaleo.

"There's no doubt we're going to see an increasing need for apartments as Melbourne's population continues to grow," said Ms Addison.

"But if overall apartment completions continue to slow, the development industry will struggle to keep up with the demand, and that will be a disaster for housing affordability.

"The pressure is on our policy-makers to deliver the mechanisms industry requires to build the homes Melbourne needs," said Ms Addison.

State Government's recent decision to abolish off-the-plan stamp duty concessions for a large proportion of investors will put extra strain on the market.



“Removing stamp duty concessions for investors of new property may lead them to switch to investment products, rather than invest in property. If this happens, we will see reduced supply, which means upward pressure on home prices and a more expensive rental market,” said Ms Addison.

The research also highlighted that the development industry is experiencing a further evolution of international developer participation.

“The historic strong involvement of Singaporean and Malaysian developers is now being supplemented by the growing involvement of Chinese-originated developers. Apartment completions by Chinese developers first emerged in Melbourne in 2012 and is progressively increasing to account for 18 per cent of projected metropolitan completions across Melbourne,” said Mr Papaleo.

Charter Keck Cramer’s key findings

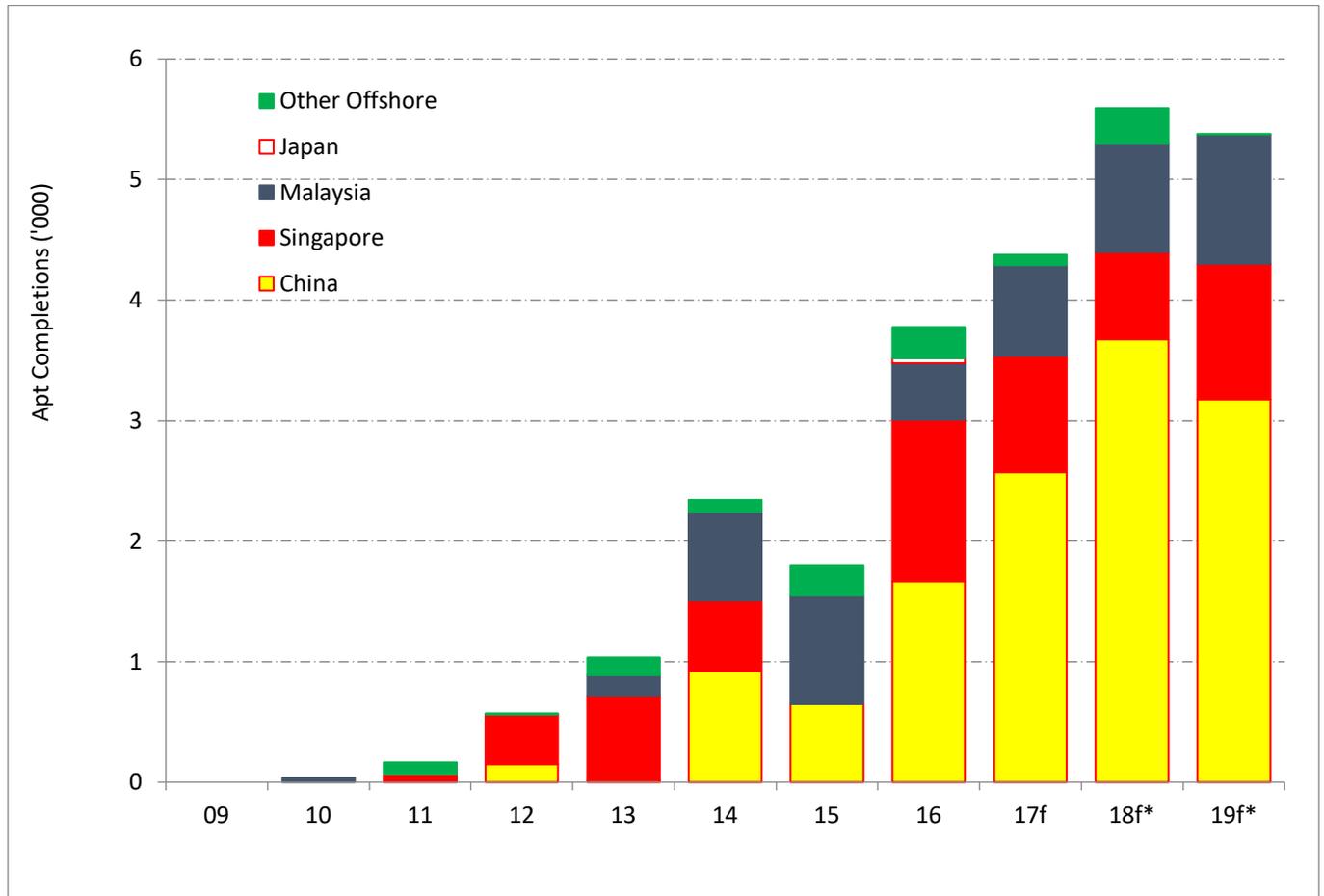
- Melbourne accounted for 37% of national capital city apartment releases in 2016, which has fallen from nearly 60% in 2010, and has been impacted by the rising influence of Sydney as an apartment market.
- 280 new projects were released in 2016 across Metro Melbourne amassing to 20,500 apartments (median of 36 apartments per project and 4 projects of more than 500 apartments). This compares to 305 projects released in 2015 amassing to 24,300 apartments (median of 38 apartments per project, however with 7 projects of more than 500 apartments).
- There was continuing rebalancing of new project releases to the City Fringe and Suburban regions with the Central City Region experiencing a moderation of new releases. The Melbourne Central City region accounted for 11% of all national apartment releases (25% in 2010).
- Across Metro Melbourne there were 19,200 apartments completed in 2016 with 16,950 expected completions in 2017.
- There are currently 29,300 apartments under construction across Metro Melbourne with a further 29,200 being marketed, and potentially deliverable, between 2018 – 2020.
- International developers accounted for 20% of 2016 completions across Metro Melbourne with the importance of this cohort of developers set increase significantly. International developers are now accounting for 33% of Melbourne’s Active future supply to be delivered 2017 – 2019.

Metropolitan Melbourne Annual Apartment Commencements



Source: Charter Keck Cramer

Metropolitan Melbourne Apartment Completions by Developer Origin



Source: Charter Keck Cramer

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ABOUT: URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA

The Urban Development Institute of Australia (UDIA) is a nationally recognised advocacy body that supports Australia’s urban development industry. The UDIA informs and engages government, key policy makers, and industry members, **enabling better policy and better business decisions.**

With a primary focus on the residential property sector, UDIA’s Victorian Division protects and promotes over 50,000 individuals from over 350 member companies across the state. UDIA members are property developers, consultants and a range of other professionals involved in producing, financing and marketing residential property.

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