

Melbourne

Apartment Market Snapshot*

Australia Residential Research | January 2019

Overview

Inner Melbourne development activity remained stable in 4Q19. While unit prices have rebounded across Greater Melbourne, a large number of projects remain deferred. Although credit restrictions have eased, buyers remain apprehensive of high-rise developments over concerns regarding both quality and over-supply in this segment of the market. As a result, many developers are still struggling to pre-sell projects and no new marketing campaigns were launched in 4Q19. However, population growth continues to fuel underlying housing demand. Owner-occupier appetite is expected to rise in 2020, particularly as potential downsizer equity rises following gains in the established housing market.

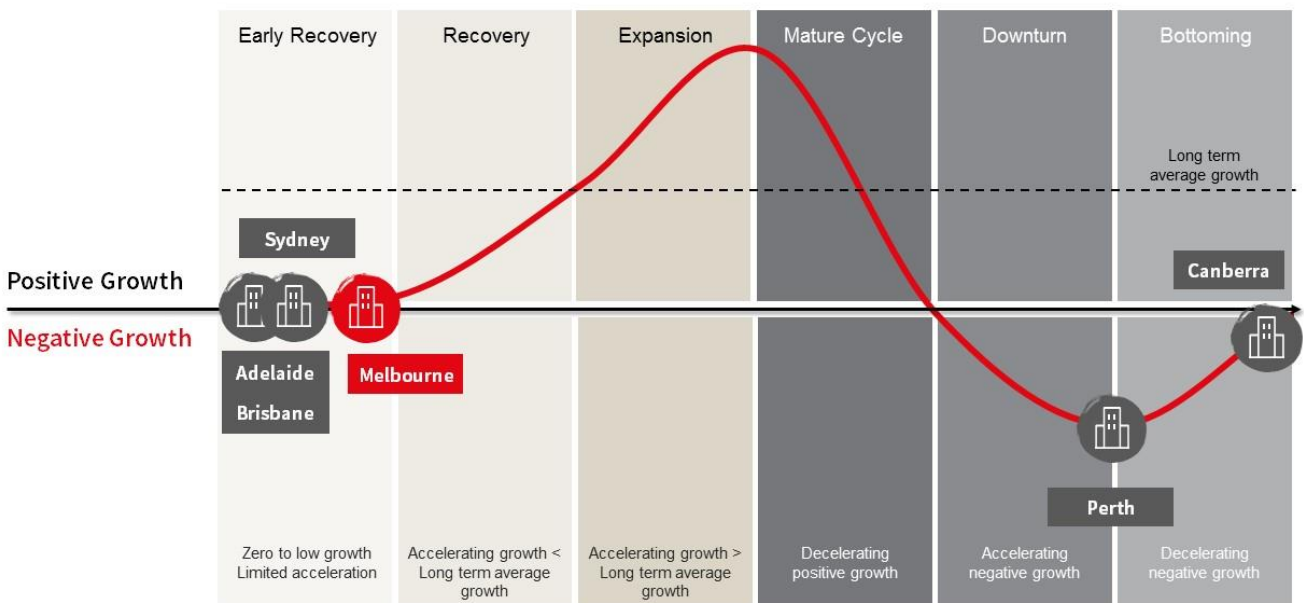
- In 2019 approximately 5,700 apartments completed, reflecting a 16% annual decline in completions.
- At 4Q19, 17,100 apartments were under construction, the majority of these (74%) are located in the Melbourne City precinct.
- Rolling annual apartments sales (new and existing) declined 30% y-o-y in 3Q19. Just 4,994 apartments were sold in the past 12-month compared to the peak of 9,604 in the 12-months to 2Q15.
- With a decline in new rental stock entering the market, apartment rental growth has recently accelerated across all configurations after cooling earlier in 2019.
- Gross rental yields for apartments remained stable, with both substantial price and rental growth recorded in the past 12-

Key Market Indicators: Inner Melbourne

Indicator	Latest	Y-o-Y % Change
Apartment Approvals (as at October 2019)	4,295	-50.4%
Sales Volumes – Units** (12 months to 3Q19)	4,994	-30%
Median Unit Price* (12 months to Dec 2019)	\$576,475	6.5%
Median Rent – 1 bed** (as at 3Q19)	\$410/week	2.5%
Median Rent – 2 bed** (as at 3Q19)	\$560/week	1.8%
Median Rent – 3 bed** (as at 3Q19)	\$795/week	6.0%
Gross Rental Yields* (as at 3Q19)	3.8%	0 bps

- New and existing (Greater Melbourne)
- **New and existing Inner Melbourne

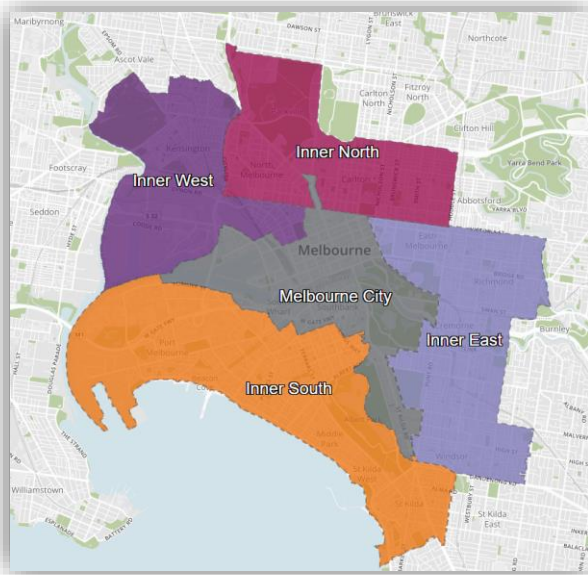
Australian Apartment Market: Capital Value Cycle



Source: JLL Research, as at 4Q19

* Please note: a condensed market Snapshot is completed in Q2 and Q4, while a full market report is completed in Q1 and Q3.

Figure 2: Inner Melbourne Apartment Market Precinct Map



Supply

Approximately 5,721 apartments completed in 2019, 16% less than in 2018.

1,100 apartments across four projects completed in 4Q19. The five-year supply pipeline continues to shrink as projects are deferred and with limited plans being submitted for new projects. Many large scale projects remain approved but are unlikely to proceed under existing designs that are largely catered towards investor-grade stock. This is a result of weaker sentiment regarding physical defects in high-rises and comparatively lower investor demand compared to the upswing of the previous cycle.

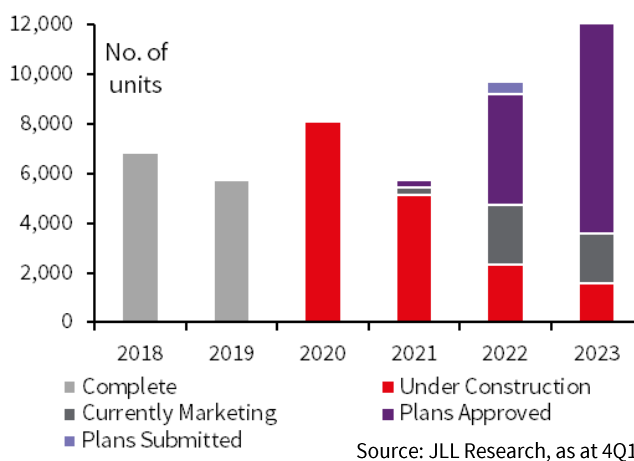
Grocon recently re-submitted plans for the Coles Richmond Plaza re-development. Grocon with partner GIC, purchased the site in 2019 and have submitted altered plans for 368 units under Grocon’s Home build-to-rent brand. In total there are 2,900 build-to-rent units in the pipeline at various stages in Inner Melbourne.

As of 4Q19 there are approximately 17,100 apartments under construction, a marginally lower level compared to 4Q18 (17,900). Over the quarter, Gurner commenced construction on the Victoria and Vine apartments in Collingwood after a short marketing period reflecting the continued demand for quality stock in fringe locations with high amenity.

In 2020 we are likely to see more developers re-submit plans, particularly for non-CBD projects, to appeal to owner-occupiers and sophisticated investors. Owners of sites with pre-C270 permits in the CBD will face tough decisions over losing permits for projects with large scale unachievable today. However, such projects are difficult to pre-sell under current conditions.

Completions will rise to approximately 8,100 apartments in 2020 with notable projects such as CBUS and ISPT’s Collins Arch (315 apartments) and Lendlease’s Melbourne Quarter – East Tower (725 apartments) scheduled to complete. Additionally, the final units in major multi-staged developments such as Australia 108 (World Class Land) and Capitol Grand (LK property group) are set to complete.

Figure 3: Inner Melbourne Supply Pipeline by Status



Source: JLL Research, as at 4Q19

Figure 4: Five-Year (2019-2023) Supply Pipeline by Stage and Precinct (Number of Apartments, as at 4Q19)

Stage	Melbourne City	Inner North	Inner East	Inner South	Inner West	Total
Completed	2,312	1,543	896	-	970	5,721
Under Construction	12,746	1,002	1,250	1,707	442	17,147
Currently Marketing	2,546	166	373	942	200	4,227
Plans Approved	9,124	581	1,852	3,991	484	16,032
Plans Submitted	825	72	368	78	90	1,433
Total	27,553	3,364	4,739	6,718	2,186	44,560

Source: JLL Research, as at 4Q19

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