

Financial planning for individuals has not been easy the last few years with major corrections in the Australian Stock Market and economic upheavals in many European Countries and in the USA. To get control of your Finances one would :

- Reviewing your financial planning frequently
- Give your investments time
- Diversify your portfolio into different asset class
- When Investing in Property, Invest in the best opportunity that is of medium to high density, in the inner urban suburbs, in a major metropolis and in property that most people can afford to own or occupy
- View how your investments affect you from an individual basis
- Make informed decisions. That could be a no or a Yes, so long as you make one!

## MELBOURNE

Melbourne is fundamentally a different city to what it was 5 or 10 years ago, Melbourne is growing up and becoming recognised as a World City!

The only people to underestimate Melbourne are Melbournians themselves!

### **What is driving Melbourne as a city in the context of the Apartment Market :**

There is a major evolution of the Apartment Market in Melbourne particularly over the last 3 or 4 years, which started to emerge since 1990 out of the empty city that Melbourne was, where people only entered the city for work purposes from 9 to 5pm – then back to the suburbs.

With only 1250 apartments back then, with around 2200 residents in the CBD and immediate surrounds. 1250 equates to one or 2 peak morning train loads of passengers today, that is nothing.

In 2000, larger infrastructure developments started to come on board, as did some social infrastructure projects to support the evolving precincts. Stock level of apartments increased during this period up to 17,000 completed apartments ... Melbourne was starting to come alive!

During this period an astonishingly low amount of apartments came onto the market, widening the gap between supply and demand for both owner occupiers and renters as internal migration strengthened and immigration numbers increased.

The fringe of Melbourne began to grow (2 to 3km from the CBD) due to affordability and demand and started to mature quicker than the CBD (likes of Richmond, Carlton, Prahran, Collingwood etc).

In 2011, Melbourne is now the most Multicultural City in Australia by far and Melbourne's internationally recognised laneways have finally come to life. The population of this area is around 42,000 residents who are driving commerce and lifestyle factors in the CDB and surrounds. Making Melbourne a fundamentally different city to what it was just 10 years ago, we are sure you would agree! Melbourne is now a CBD centric city similar to New York, Paris, Rome.

Completion of apartments 10 years ago was around 350 pa and now sits at 3000 pa, still not enough to meet the high demand, resulting in an undersupply of 20,000 dwellings in Melbourne today.

The CBD of Melbourne is the hub of Apartment Living and a ripple effect underpinned by demand and affordability has ensured apartments are now being developed from the inner circle outwards up to and including 10km (and in satellite hubs further out of Melbourne) to meet the demand in the areas of Footscray, Dandenong, Mentone, etc.

With a lack of land supply other than for apartment sites, the CBD has evolved and resulted in the urban sprawl of Melbourne. As a city Melbourne is not restricted by our geography (except the bay) thus Melbourne will grow to be a bigger city than Sydney as it spreads across the entire Metropolitan area. This expansion is relatively new and has evolved only over the past 5 years and continues to strengthen, largely due to in affordability of housing within the 8 to 10 km zone of the CBD.

In the last 10 years 33,000 apartments were completed in the Fringe zone demonstrating how Melbourne is becoming accepted as a First Class World City of Apartment Living. And a further 10,000 apartments built beyond the inner urban fringe.

This demonstrates that the fundamentals that have driven the apartment market in non-CBD areas, has started to mature over the last 5 years. Apartments can only co-exist under certain circumstances being the house pricing hierarchy – what this means is that in any inner suburb, the most expensive property is a house on a free standing block and the next cheapest is a unit that shares a block. What happens when this townhouse becomes too expensive, people look to apartments! This has a direct impact on how the Apartment Market is evolving and beginning to become an option to owner occupiers and investors alike.

A CBD does not provide option of what you can buy or rent and your only choice is an apartment, however in the suburbs you still have choice that is driven by your budget and affordability. With affordability dropping choice drops and apartments become a solution, as they slide under the affordability threshold.

Melbourne is now a world city and our cost of living is on a par with other expensive world cities, which defines how we live and what we are going to do within our preferred locations, our housing choices and our levels of affordability.

Melbourne has a relatively dense population that is driving the housing affordability issues which is creating a positive effect on the apartment market. Apartments offer a long term solution to future housing in Melbourne.

The housing affordability issue is without doubt the main issue that is facing Gen Y today! They opt to remain close to the CBD and the action, to remain close to their social networks, to minimise commute times ... whilst still maintain a lifestyle of choice. Thus an apartment meets their needs.

The only option for Gen Y to get a foot hold in the property market is to buy an Apartment. The primary reason why parents are helping their children secure an apartment, off the plan, early on in life, giving their children the opportunity to buy at today's prices. To avoid the reality of their children never being able to own a property, if their children wait until they can afford to buy.

Melbourne inner suburbs, is the fastest growing region in the whole of Australia with 75% of Melbournians living in these suburbs. The north and western suburbs are still relatively unaffected by apartments, but give them 10 years and the urban sprawl and affordability affecting inner suburbs today will reach the outer suburbs.

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*Irrespective of property cycles* Melbourne will be a strong apartment city in 10, 15 and 20 years time. Today only 3% of Australian population (astonishingly low figure) live in dwellings that have 3 or more levels, this figure will grow in the future ... the fundamentals dictate it! Only 17% of this 3% is in Melbourne with the majority in Sydney. There is a wide gap to be filled by developers, with planning permits having doubled during the last 3 years to meet the demand - meaning there is a structural shift starting to occur in Melbourne. Melbourne is only at the beginning of its phase of becoming an Apartment City which will become the norm of Gen Y and their offspring of the future. Families are becoming accustomed to living in less space and in apartments driven by affordability and lifestyle choice. This entire generation is becoming accustomed to denser cities and apartment style living. To be close to the action, to live work and play close to where they choose to and be close to public transport whilst living within 10km's of the CBD.

The result of denser living has created longer term tenants, tenants who do not wish to move often because they are close to the action and finding a new place is becoming more difficult and more expensive. Plus the fact that most young people simply cannot save a deposit to purchase where they wish to live never mind afford the mortgage. Renting is the cheaper option!

Compared to other global cities, who are accustomed to living in apartments, more and more couples and families with children, will move into an apartment in the coming years. They simply do not have choice! The long term vision is that more families will bring up kids in apartments. That is accepted fact.

*People do not understand or comprehend just how fast Melbourne is growing.* Interstate migration is on the increase, as more and more citizens are attracted to larger cities where the chance of getting a job or making it is enticing. There is also natural population growth which equates to around 35% of the population growth. The vast majority of our population growth is through immigration into Australia with 120,000 arriving in the Metropolitan Area between 2007 and 2009. A very high figure that admittedly slowed the last 2 years but continues at around 90,000 new immigrants today. There has been a population surge in Melbourne over the last 10 years!

In 2004 the Metro population was 4.5 million and in 2008, the Metro population of Melbourne sat at 5.2 million. A 700,000 adjustment to the upside in 4 years requiring 280,000 dwellings to meet this demand! This has positively affected the apartment market that is growing to cater to this fundamental need.

Think of the changes to The CBD to Docklands, Richmond, Abbotsford, Port Melbourne, Brunswick, Carlton, Fitzroy and positively spreading further and further out to provide dwellings for

Melbourne's massive population increase resulting in a Boom in the Apartment Market. This is positive news!

Another long term driver is the low vacancy rates experienced across Metropolitan Melbourne during the last 7 years being under 2% and as low as 0.5% in some areas. This long term statistic is highly favourable to landlords. Rental growth has been consistent during this period and continues to strengthen as demand increases. New apartment stock is attracting a higher level of rental income versus older style apartments thus benefiting the land lords.

An undersupply of rental accommodation + low vacancy rates + higher demand for rental accommodation = higher Rental Increases and tenant occupancy time.

Melbourne is fundamentally an Investor Orientated market with the majority of new development stock being targeted to Investors. Off the Plan is ideally suited to investors with a small shift towards owner occupiers wanting to ensure that they have a chance of getting into the property market today at today's prices.

The shortage of dwellings between 2008 and 2009 equated to around 36,000 too few to keep up with the population growth. Today this figure is estimated to be over 20,000 with pressure starting to build again to meet the unusually high demand in the market place.

Developers picked up on the fact that post GFC there would be a shift of investment class, from stock market risk towards bricks and mortar giving investors a level of security and confidence in their investment ... and they planned for this change accordingly. They shifted the way apartments were delivered by providing smaller but better designed apartments meeting today's needs more effectively in terms of affordability and effective use of space. A 50 sq/m one bedroom apartment today is far more user friendly than a 60 sq/m one bedroom apartment of 5 or 6 years ago.

The demand to provide affordable dwellings was increasing and the market moved accordingly, to meet this demand and have done this better than any other capital city.

Overall development costs of delivering an apartment to the market today have grown dramatically. Today, if a developer does not come to market at around 8,500 to \$9,500 per square meter his development will not stack up and he will stand to lose money. Construction costs for 2011 alone have risen by 7%; meaning that the reality is that the next development to come to market will already be at least 7% more expensive to you per square meter! When the cost base increases the retail price goes up accordingly. The unusually high demand compounded by a drastic undersupply will ensure that new developments are being bought up by investors and or owner occupiers alike. Opportunity to secure an apartment is more prevalent today than it has ever been simply as a direct result of the above fundamentals we have shared with you. These fundamentals are not going away!

The reality is that off the plan apartments have over the last 20 years increased in price per square meter and will continue to increase into the future as long as there are price increases in construction, material, labour etc ... and there no doubt will be!

Do you know that 88% of all apartments under construction in the inner fringes have already been sold? And that all those currently being marketed off the plan and not under construction have sales of 76%. You may not be aware that the banks will not finance the development until at least 100% of

the cost of the development has been achieved in pre-sales. What this means to you is a tightening of supply pitched against an unusually high demand. This is a long term trend. Can you still see prices dropping under these circumstances?

We are now down to 0.4 of one year supply left in the apartment market, meaning that of all the supply of new and off the plan apartments in the market it has been met with demand. This is the comfort that we take out of the market place today.

Last year, in the central region, only 850 apartments were completed and this year they expect that to rise to around 950 completed apartments in the inner fringes. In 2012 this figure is expected to rise to 1700 still way short of current and growing levels of demand. Over last year, this year and in 2012 supply will be lower than demand delivering lower than average levels of stock that will only come to market in the first half of 2013!

Of all the projects launched between 2008 and 2010, 54% of these apartments within 4km's of Melbourne CBD are under construction and 13% of apartments have been committed to begin construction, 15% are only possible (but over time will probably reach construction phase due to undersupply) 8% less likely to be constructed but the abandoned figure is between 8 to 10%!

What this means to you is that all the doom and gloom being espoused in the media is not fundamentally correct as overall 84% of projects launched are being funded by the big 4 banks and are either under construction now or will soon be.

(Other projects being funded by off shore funders account for 7% and the remaining 9% is being funded by local institutions.)

Melbourne is going to achieve world city status by moving forward and adopting the attitude of being an apartment city because the fundamental demand for density has increased dramatically and continues to do so. Melbourne is a young city (only 176 years old) with incredible fundamental demands being placed on it to absorb more residents in the inner fringes ... Melbourne has pressures and is percolating towards boiling point and is growing quickly and density is the answer to deal with and absorb this growth.

This is a summary of what the apartment market is in Melbourne and painting the positive picture of where Melbourne as an apartment city with increased inner density will grow into in the near future!

Property being a medium to long term hold, you would want to know what is happening in Melbourne to assist you in making an informed decision as to whether you choose not to invest in Melbourne or you choose to Invest in Melbourne.