

Glut of Melbourne high-rise units a downer

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Rebecca Thistleton

High-rise apartments sold off the plan at the height of Melbourne's property boom are being completed as thousands more are approved, pushing the inner-city market to oversupply.

But developers are betting that the CBD will continue to be a popular choice for both owner-occupiers and investors, particularly if the design standard is high.

The 71-storey, 581-unit Tower Melbourne project will be officially launched on Saturday.

However, sales began last year, before planning approval was granted.

Tower Melbourne project director Tim Pearce said CEL Australia was yet to lock in finance for the project but the group had solid relationships with Australian and offshore banks.

Mr Pearce said that, due to the project's scope, CEL began selling the units before the approval in order to test its viability and be certain it would sell before proceeding.

"The response was overwhelming. We've had a very good sales response," he said.

While the pipeline of new stock is still well below levels of the 2010 boom, figures from Oliver Hume research show the amount of stock coming on the market is has risen compared to 2011.

Lack of presales and difficulties securing finance, has meant some

projects have been unable to proceed but Angie Zigomanis of BIS Shrapnel noted that high-rise starts had been higher than expected.

"Presale targets are higher now than in the past but they are being achieved, and having institutional and overseas backers has also helped developers," he said.

Mr Pearce said CEL Australia benefited from offshore funding but presales were still vital. He was confident Melbourne's population growth

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Angie Zigomanis, BIS Shrapnel,

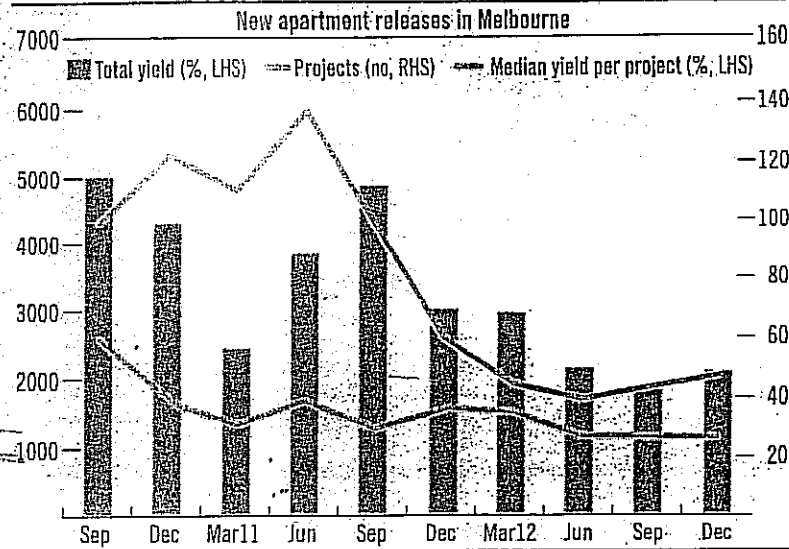
and the desirability of the CBD as a place to live would continue to drive demand for inner-city projects.

Like most high-rise developers, CEL has included a mix of apartment styles in Tower Melbourne, from one-bedroom units to three-bedroom townhouses and penthouses at prices from \$381,000 to \$2.2 million.

Christian Grahame, national operations director for apartments and commercial at Mirvac, said the range of product broadened appeal and therefore demand.

He said Mirvac's upper-end apartments around Docklands were selling well to owner-occupiers who were upgrading from other Docklands

Supply side



units, downgrading from the suburbs and moving from interstate and overseas.

"What we're offering is quite a different product to what you'd find in the CBD," he said.

This week's approval for ISPT to build nearly 3000 apartments on the former Age site in Spencer Street is one of several large projects set to change the landscape of the western end of Melbourne's CBD.

Sean Hogan, senior development manager of development and opportunity, said ISPT was in no hurry to

sell and build all the units, given the time needed to prepare the site. Market demand would also be a factor in deciding how the six-tower project was staged.

Victorian Planning Minister Matthew Guy said Melbourne's inner-city residential market was still Australia's strongest.

The government was taking a long-term approach to planning and allowing projects to get under way.

"It's very important in building confidence and making sure Melbourne is market-ready for large-

scale residential development," Mr Guy said.

From the time a planning application is lodged, marketing generally starts within 12 months and the build is completed two or three years later.

Given their size, inner-city high rises often take longer.

"All the new stock coming on to the market is in large, high-rise projects and it is more than can be absorbed by the market," Mr Zigomanis said.

According to Australian Property Monitors, Melbourne's median unit price fell 2.2 per cent year-on-year to \$390,651 in the December 2012 quarter.

A softening in Melbourne house prices has also been tipped to reduce demand for apartments.

But Jamie Kay, Oliver Hume executive director for apartments, said sales of well-located apartments targeting entry level owner-occupiers was still strong in the CBD fringe, middle ring and even Melbourne's outer ring.

Mr Kay said Oliver Hume was confident demand would continue and his business would launch several developments in the first half of this year.

"Owner-occupiers are attracted by a higher level of architecture, efficient floor planning and an overall higher level of specification, while maintaining a price advantage over traditional landed product in their respective markets," he said.