

Apartment Market – Project Benchmarking.

Metropolitan Melbourne Analysis.

Prepared for:
Department of Environment, Land, Water and
Planning (DELWP).

June 2016.

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Summary of Main Findings

- The Charter Keck Cramer National Apartment Database tracks apartment projects of 10 or more dwellings across metropolitan Melbourne since 1990 and provides updates on project development status (application, approved, marketed, under construction and completed) for each individual project.
- This report includes analysis of 129 apartment projects incorporating 10,047 individual units that are currently either marketed or under construction within the context of the Plan Melbourne DELWP.

De-Centralisation of the Melbourne Apartment Market.

- The Central Region, as defined by the Plan Melbourne and DELWP geographies, remains the primary region for apartment completions across metropolitan Melbourne. The analysis demonstrates a higher number of completions located within the Central-Balance Region (traditional City-Fringe and Inner Regions) than that of the CBD.
- Throughout the 2000s, the proportion of apartment stock completed within the Central Region (Central CBD and Central Balance) has reduced, with increasing supply delivered across the Eastern, Northern and Southern Regions (however all regions recorded nominal increases).
- As at the end of 2015, there were approximately 122,500 apartments completed across metropolitan Melbourne.
- outside of the Central Region, 33,800 apartments were completed.

Metropolitan Apartment Size Analysis.

- Charter's analysis indicates material difference between the size of one bedroom and two bedroom product, with a two bedroom product serving a more diverse purchaser market.
- The data demonstrates no marginal distinction between median one bedroom apartment size and the region within which the apartments are located for projects launched from 2015.
- There is minimal variance for one bedroom apartments above 50 sq.m across metropolitan Melbourne, which may be a result of the combination of the risk rating of financiers (banks and lenders), and purchaser preferences that do not capitalise significant additional value into a larger one bedroom product.
- There is greater difference across the two bedroom apartment stock, where proximity to the CBD and connectivity to employment opportunities is underpinned by established local infrastructure.
- Two bedroom apartments offer flexibility in design, allowing for a meaningful differentiation of product (heterogeneity). The composition of purchasers into the 2 bedroom apartment market, are less investor oriented and are willing to attach price premium to different product types.

Median Values and Apartment Size Distribution.

- One bedroom apartments were predominantly sized between 41–60 sq.m. (91% of sample data) within a price range of \$435,000–\$454,000.
- Two bedroom apartments were predominantly sized between 61–75 sq.m. (62% of the sample data) within a price range of \$570,000–\$675,000.
- Three bedroom apartments exhibited significant variance and recorded sizes between 70–125 sq.m. with prices ranging between \$489,000–\$1,550,000.
- Value rates increase with a reduction in apartment sizes outside of the Central region (one bedroom and two bedroom value rate comparison), however this relationship does not hold in the Central Region (Central CBD and Central Balance).

Apartments and Housing Affordability – Case Study

- New apartments across Brunswick and Brunswick East have recorded more defined characteristics of being sized between 40 sq.m. and 80 sq.m. and priced between \$360,000 to \$730,000.
 - Nearly all apartments were priced less than the Study Region median house price (only 1.5% of sample apartments were greater than \$880,000)
 - 94% of all new apartment transactions are at or below \$600,000 or 32% below the observed median house price
- New apartments across Hawthorn have recorded a greater dispersion in expressed sales. Units recorded a lower bound size of 40 sq.m. and an upper bound size of 202 sq.m.. Prices across the suburb ranged from \$415,000 to \$2,350,000.
 - Nearly all apartments were priced less than the Study Region median house price (only 2% of sample apartments were greater than \$1,995,000)
 - 93% of all new apartment transactions are at or below \$1,336,650 or 33% below the observed median house price
 - 82% of all new apartment transactions are below \$997,500 or 50% below the observed median house price

Apartment Market Evidence Base.

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Instructions.

Instructing Party

Purpose

This report has been prepared for the Department of Environment, Land, Water and Planning (DELWP) to provide an evidence base and enhanced understanding of the Melbourne apartment market via development project data and analytics.

Understanding the impact of urban policy on the broader housing market requires quantifiable data analytics in addition to strategic objectives. Often an empirical understanding of market dynamics can assist in the architecture of urban policy and use the market to incentivise desired outcomes. This analysis includes both market level supply data and project benchmarking data, which includes data on individual units.

Although this report is a summary only, it includes analysis of 129 projects and 10,047 apartments across projects either currently marketed or under construction. The purpose of this report is to provide policy makers with a data summary that will enhance an empirical understanding of the metropolitan apartment market in Melbourne.

Disclaimer

This report has been prepared for the exclusive use of the party to whom it is addressed and for no other purpose. No responsibility is accepted for any third party who may use or rely on the whole or any part of the content of this report. It should be noted that any subsequent amendments or changes in any form to this report would only be notified to and known by the parties to whom it is addressed. This report has been carefully prepared by Charter Keck Cramer Strategic Research and the information contained herein should not be relied upon to replace professional advice on specific matters.

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1. Apartment Market Data.

The apartment market continues to evolve and mature across metropolitan Melbourne. The increased maturity of the industry is underpinned by a greater sophistication in the delivered product as well as the profile of developers engaging in the market.

Apartment living continues to be accepted as a legitimate alternative to traditional housing typologies and is being reflected by the increased delivery of supply across the Inner and Middle Regions of Melbourne.

While a disproportionate level of media attention remains focussed on the Central Region (specifically that of the Central City), the proportion of apartment supply completed within the Central Region has reduced through the 2000s. As at the end of 2016, it is anticipated that 40% of completed apartment supply will be located outside of the Plan Melbourne Central Region.

1.1 National Apartment Database.

In order to provide DELWP with a robust evidence base, Charter has relied on our proprietary *National Apartment Database* that provides market intelligence on contemporary apartment construction across Australia (Melbourne, Sydney, Brisbane, Perth and Adelaide).

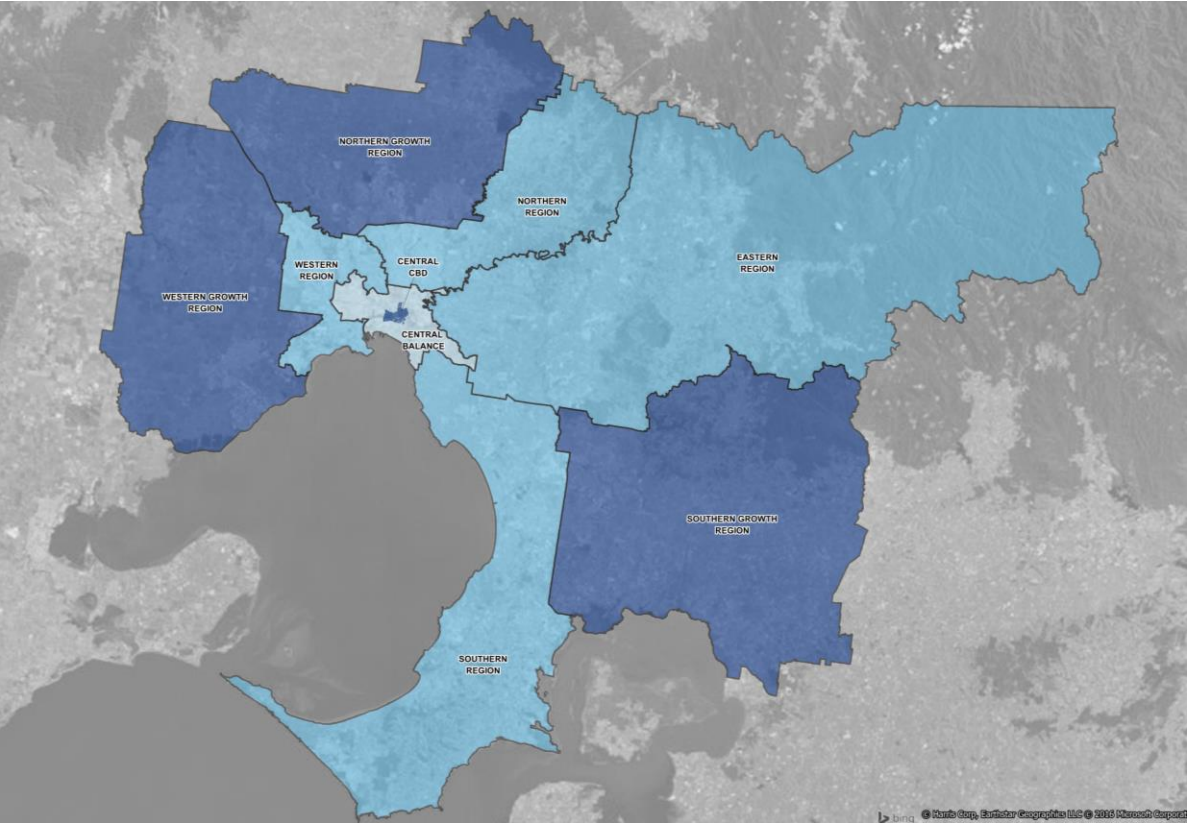
The National Apartment Database tracks contemporary apartment construction of 10 or more dwellings and provides updates on development status (application, approved, marketed, under construction and completed) on individual projects.

1.2 Melbourne Apartment Market Regions.

Charter has undertaken its analysis with reference to the geographies outlined in Plan Melbourne and DELWP, which segments the market into multiple regions;

- Central CBD Region;
- Central Balance Region;
- Eastern Region;
- Southern Region;
- Southern Growth Region;
- Northern Region;
- Northern Growth Region;
- Western Region; and,
- Western Growth Region.

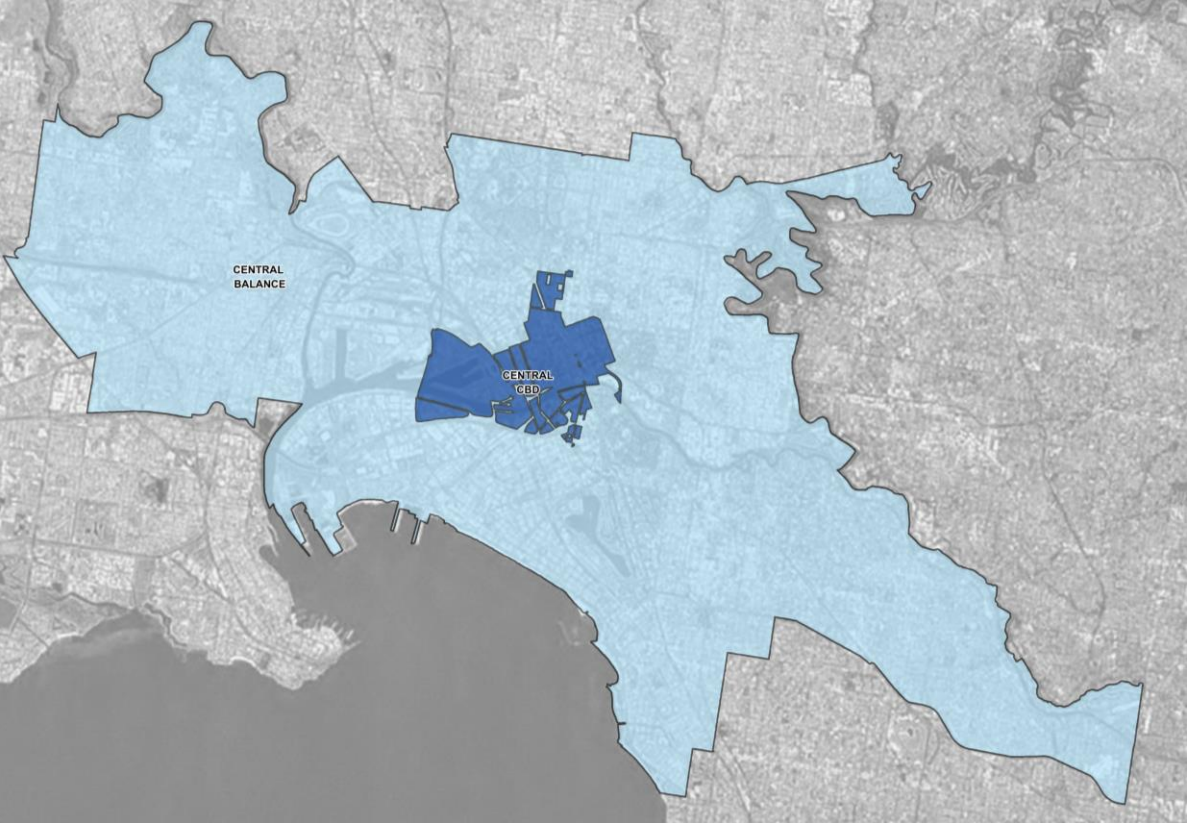
Figure 1: Plan Melbourne and DELWP Study Regions.



SOURCE - Charter Keck Cramer.

Below provides a more detailed view demonstrating the boundaries defining Central CBD and Central Balance.

Figure 2: Plan Melbourne Regions.



SOURCE – Charter Keck Cramer.

1.3 Historic Metropolitan Apartment Supply Analysis.

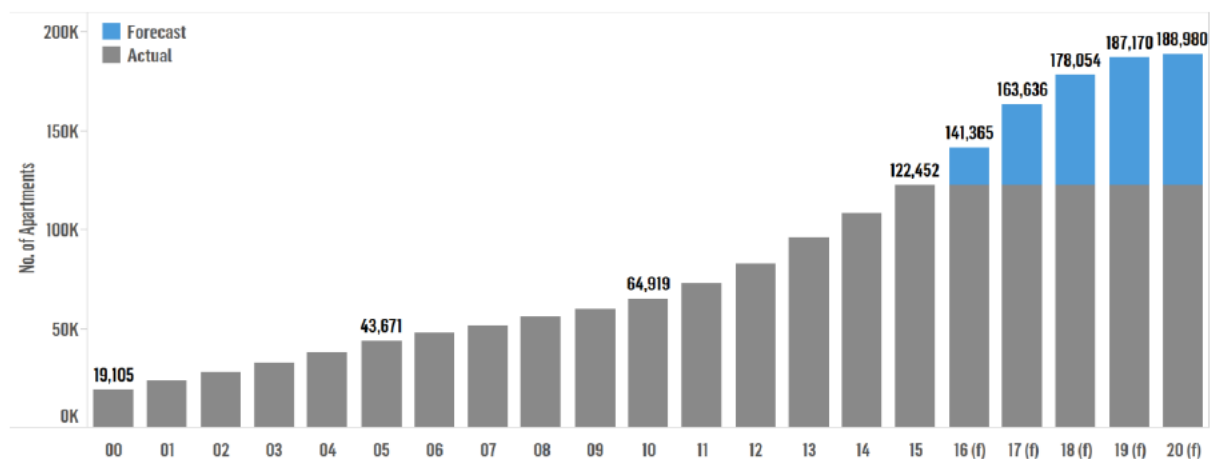
The following analysis will assess the historic and short term future apartment completions recorded across metropolitan Melbourne since 1990¹. The analysis will only consider projects that contain 10 or more apartments, with 'forecast' supply including only projects that are under construction or marketed as at the writing of this report (June 2016).

Given the sample data included projects of 10 or more it will not include projects of a smaller scale. This may create a marginal bias towards these more mature apartment markets, than the less mature where these projects are more likely to locate. Similarly, limiting of 'forecast' supply to projects marketed and under construction, may limit the full aggregation of potential future supply however the assessment will focus on project likely to be completed and add to completed apartment supply rather than incorporate more speculative projects (those at application or mooted).

Apartment completions across metropolitan Melbourne have accelerated in the five years to 2015, recording an increase of 57,533 apartments over the 2010-15 period to reach 122,452 completions as at the end of 2015. This compares with the five years to 2010, which recorded an increase of 21,248 apartments over the period to record a total of 64,919 apartment completions as at the end of 2010.

Elevated levels of apartment completions are anticipated to continue into the short term, with total completed supply anticipated to reach 55,602 apartment completions in the three years to 2018. It should be noted that analysis beyond 2018 is of limited benefit as it will be biased towards large projects located in the Central Region. Therefore, smaller projects with a shorter development timeframe (given the characteristics of these projects) would not be incorporated into these numbers.

Figure 3: Total Metropolitan Apartment Stock (2000-2020f)



SOURCE - Charter Keck Cramer

Within the context of the Plan Melbourne Regions, the highest proportion of stock has historically been delivered within the Central Region.

The Central Region remains the primary region for completed apartment supply across metropolitan Melbourne, however the significance of (and concentration of supply within) the Central Region has eroded through the 2000s.

Across the Central Region, the proportion of apartments completed within the Central CBD Region has reduced since the early 2000s. The Central Balance Region has also recorded some softening, but has not reduced to the extent of the Central CBD Region.

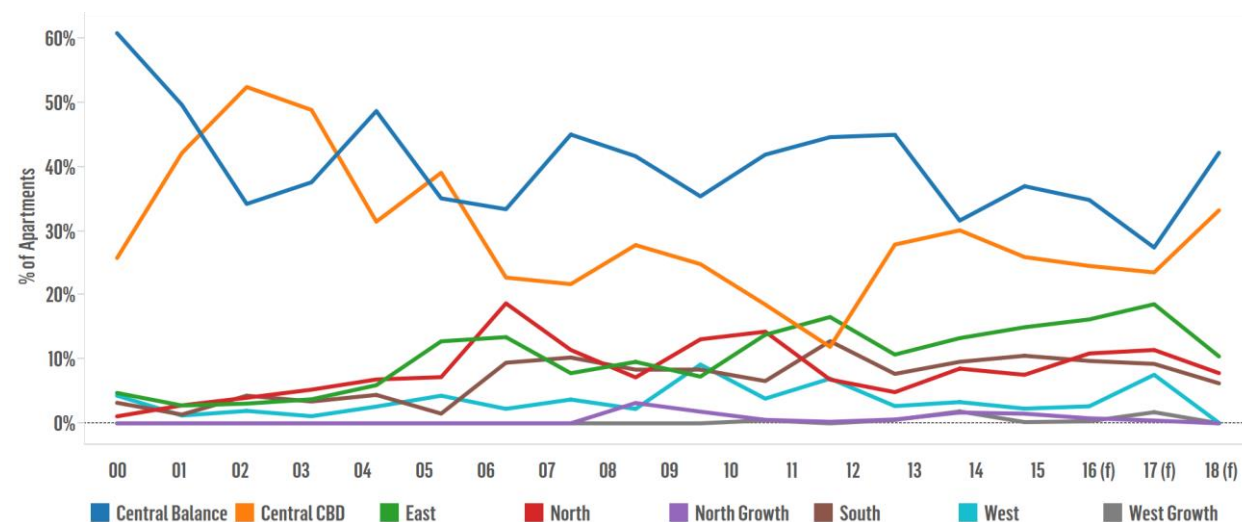
Through the early 2000s, the Central Region accounted for more than 85% of completed apartment supply across metropolitan Melbourne, with some volatility between the Central CBD and Central Balance submarkets observed throughout this period. From the mid-late 2000s, supply was moderated and stabilised to around 60%-65% of completed contemporary apartment stock, with more stability in proportional supply observed across the Central Balance Region compared to the Central CBD Region.

¹ Analysis will include cumulative apartment completions since 1990, charts and figures will only show cumulative completions from 2000 (although still contain completions since 1990).

The Central Balance Region incorporates a large area, and includes significant higher density apartment markets generally considered independent subregions (City Fringe, Inner Melbourne). The Largest apartment market within the Central Balance Region, as at the completion of 2015 was recorded within the Port Phillip LGA (representing 31% of completed stock – 16,502 apartments), while projects within the Melbourne LGA accounted for the second highest level of completed apartment supply (representing 27% of completed stock – 14,602 apartments).

Since 2010 (to 2015), the largest growth in completed apartments within the Central Balance Region has been recorded Maribyrnong LGA (+22% p.a.) with strong growth also recorded across Stonnington LGA (+20% p.a.) and Yarra LGA (+19% p.a.). Through this period these LGAs went from recording 10%, 33% and 33% of the supply recorded across Port Phillip (in 2010), respectively to 20%, 61% and 58%, respectively in 2015.

Figure 4: Total Metropolitan Apartment Stock by Plan Melbourne Region (2000–2018f)



SOURCE - Charter Keck Cramer

The moderation from the proportional completion of supply within the Central Region has been driven by an increase in apartment completions primarily across the Eastern and Northern Regions with additional supply also being delivered through the Southern Region. Completed supply across the Eastern Region was primarily delivered across the LGAs of Boroondara and Whitehorse while the Northern Region recorded a significant supply delivered across Moreland and Darebin LGAs. Within the Southern Region, the LGAs of Glen Eira, Kingston and Bayside had the highest proportions of apartment completions for the region.

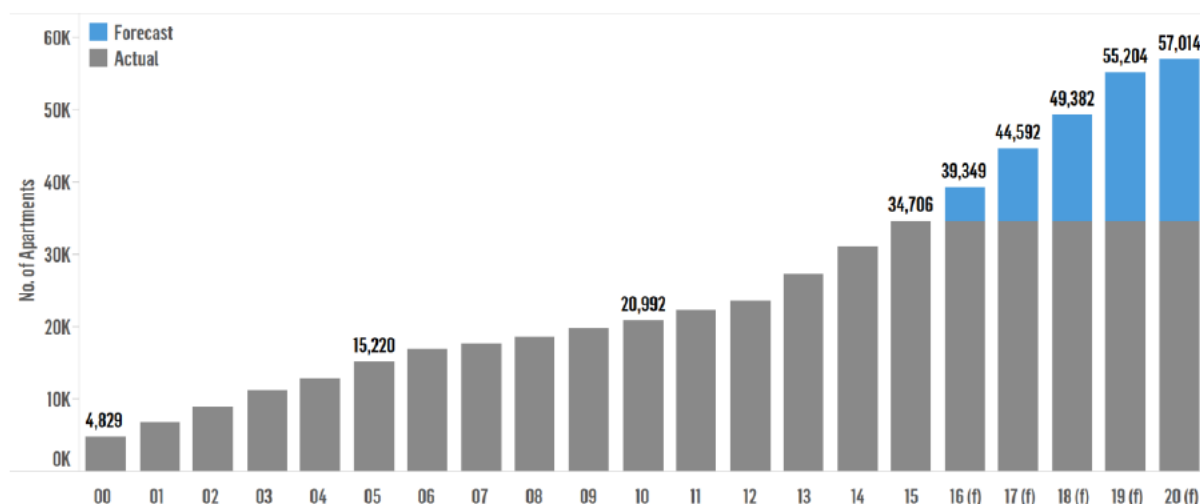
1.4 Historic Metropolitan Region Apartment Supply Analysis.

The following section analyses the historic and short term future contemporary apartment supply across metropolitan Melbourne by each respective Plan Melbourne Region.

1.4.1 Central CBD Region.

Since the 2000s, the Central CBD Region has not been the primary market of completed apartment stock; however the region still records a significant quantum of apartment completions, second only to the Central Balance Region. As at the completion of 2015, Charter's proprietary apartment database recorded 34,706 completed apartments within the Central CBD Region.

Figure 5: Total Plan Melbourne Central CBD Region Apartment Stock (2000-2019f)



SOURCE - Charter Keck Cramer

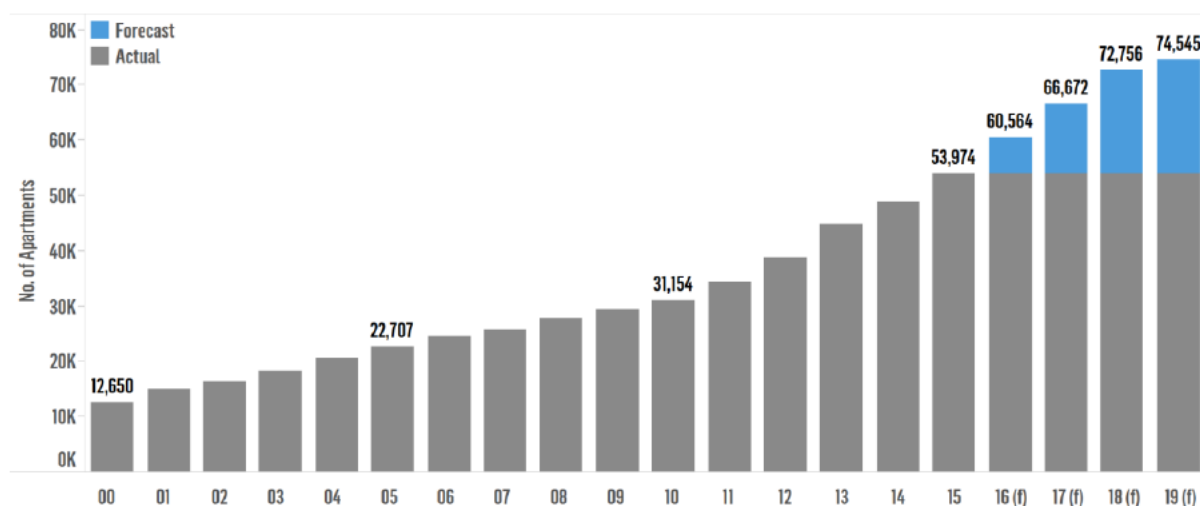
Between 2010-2015, apartment supply across the Central CBD Region increased by 13,714 apartments (from 20,992 apartments recorded in 2010), at a rate of +10.5% p.a. It is anticipated that there will be 49,382 completed apartments across the Central CBD Region by 2018 (an additional 14,676 apartments), increasing by +12.4% p.a. in the three years to 2018.

1.4.2 Central Balance Region.

While the Central CBD Region receives the majority of attention with regards to apartment supply, it has been the Central Balance Region which has delivered the most apartment supply of any submarket across metropolitan Melbourne. As at the end of 2015 there were 53,974 apartment completions recorded within the CBD Balance Region, which was +55% more than that completed across Central CBD over the equivalent period.

This represents an increase of 22,820 apartments in the five years to 2015 (from 31,154 apartments in 2010) at an average annual rate of +11.6% p.a.

Figure 6: Total Plan Melbourne Central Balance Region Apartment Stock (2000-2019f)



SOURCE - Charter Keck Cramer

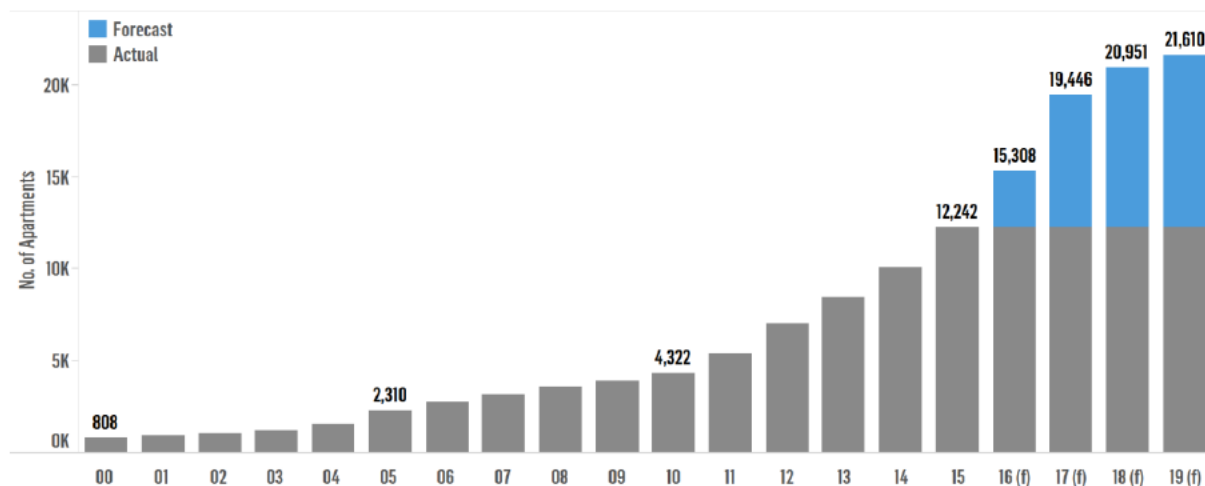
The Central Balance Region is anticipated to record an additional 18,782 apartment completions in the three years to 2018 at a rate of +10.5% p.a.

1.4.3 Eastern Region.

The Eastern Region is the primary non-Central subregion across metropolitan Melbourne. As at the end of 2015, the Eastern Region has recorded 12,242 apartment completions since 1990. This represents approximately 20-35% of the apartment supply completed across each of the Central submarkets.

Completed apartment supply has accelerated since the end of 2010 (4,322 completed apartments), recording an additional 7,920 apartment completions in the five years to 2015 at an average annual rate of +23.1% p.a.

Figure 7: Total Plan Melbourne Eastern Region Apartment Stock (2000-1019f)



SOURCE - Charter Keck Cramer

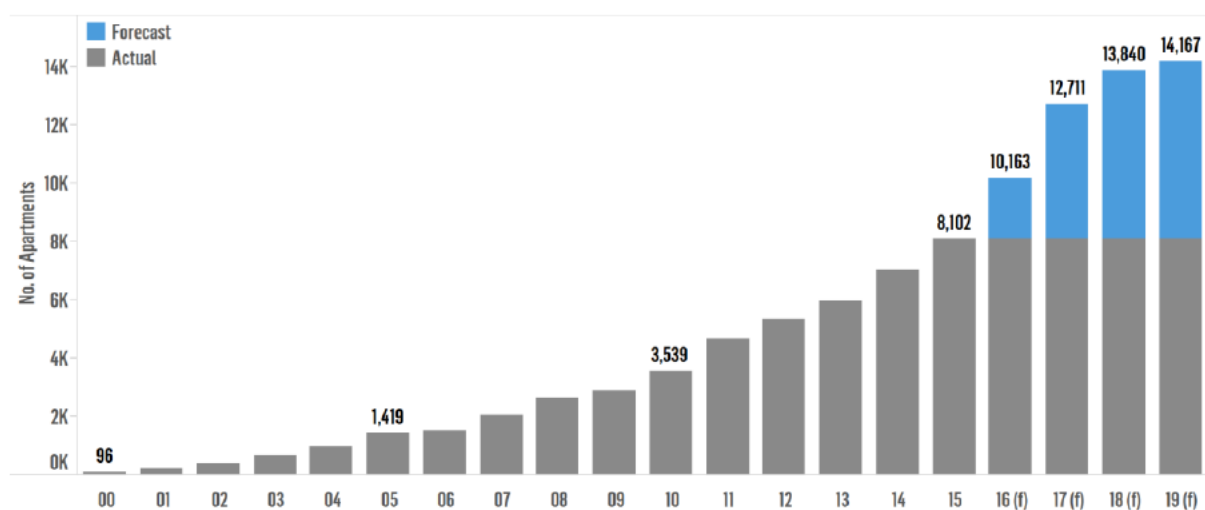
It is anticipated that the Eastern Region will record an additional 8,709 apartment completions in the three years to 2018 at an average annual rate of +19.6% p.a.

The Eastern Region of metropolitan Melbourne has supported higher levels of apartment supply through established transport infrastructure underpinning connectivity to city centric employment and entertainment opportunities as well as established local lifestyle amenity through metropolitan Melbourne's historic urbanisation patterns.

1.4.4 Northern Region.

As at the end of 2015, the Northern Region had recorded 8,102 contemporary apartment completions since 1990. Acceleration in apartment supply from 2010 has been less pronounced across the Northern Region than that observed across the other regions. The Northern Region recorded 4,563 apartment completions between 2010-2015 at an average annual growth rate of +18% p.a.

Figure 8: Total Plan Melbourne Northern Region Apartment Stock (2000-1019f)



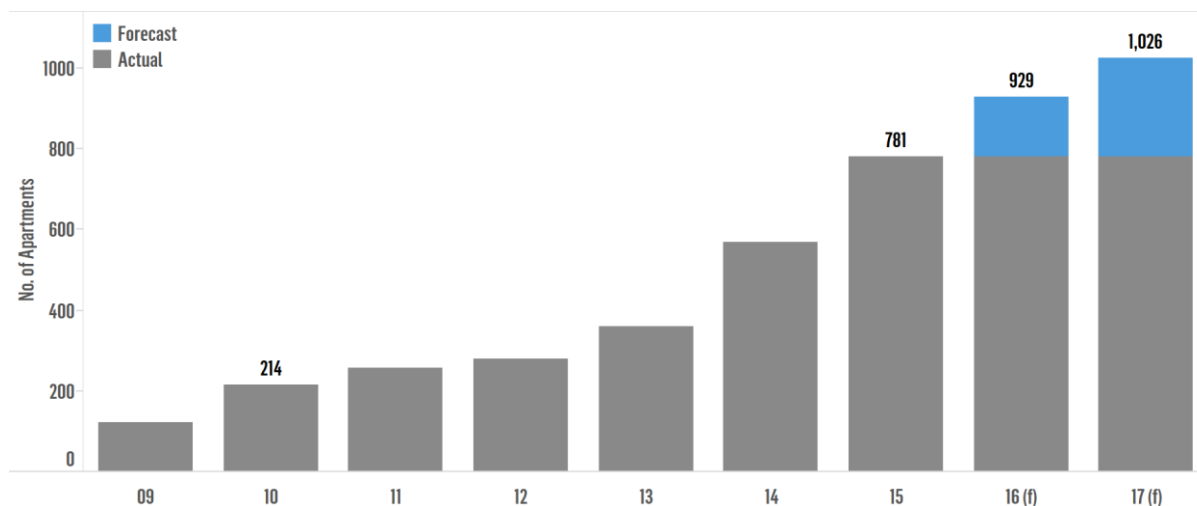
SOURCE - Charter Keck Cramer

The Northern Region is anticipated to record 5,738 apartment completions in the three years to 2018 (recording a total of 13,840 apartment completions) at an average annual rate of +19.5% p.a.

1.4.5 Northern Growth Region.

The Northern Growth Region has been comparatively limited, which is reflective of the lower pricing pressures and less competitive market fundamentals to trade down to apartment dwellings. Completions commenced in 2009 and recorded limited additional supply until the early-mid 2010s. As at the end of 2015 there were 781 recorded apartment completions, and increase of 567 at a rate of +29.6% p.a.

Figure 9: Total Plan Melbourne Northern Growth Region Apartment Stock (2000-1019f)



SOURCE - Charter Keck Cramer

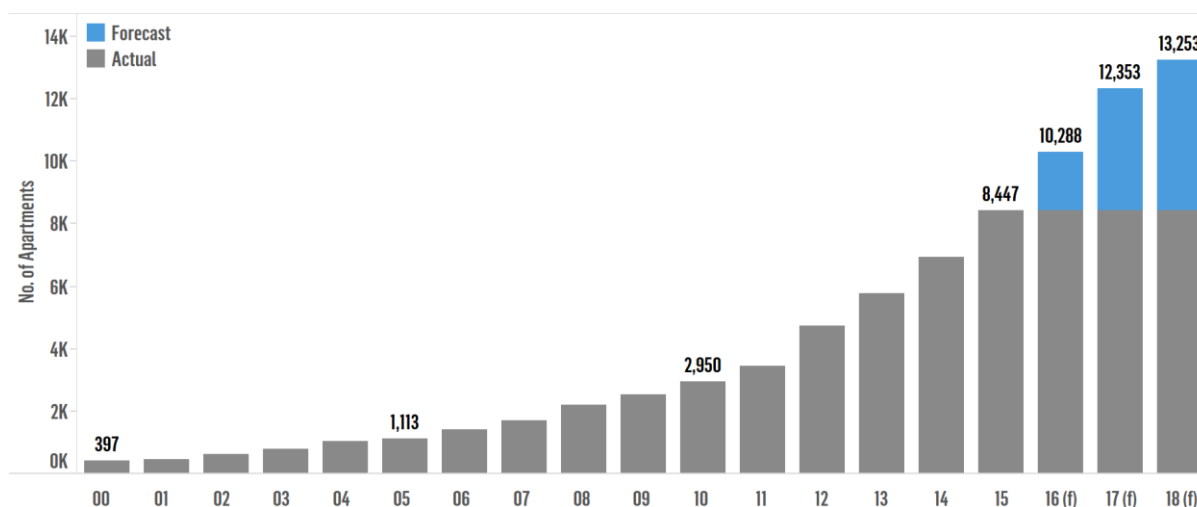
In the short term (to 2017), it is anticipated that 245 apartments will be completed, increasing aggregate apartment supply across the region to 1,026 (at a rate of +14.6% p.a.). Given the lower level of market maturity across the Region, projects are of a lower scale and as such, there are no projects that have launched that have anticipated completion dates beyond 2017.

1.4.6 Southern Region.

The Southern Region recorded 8,447 completed apartments as at the end of 2015, and was the second largest apartment market (by apartment completions) of the non-Central Regions. Apartments have predominantly been delivered in Inner-Southern Regions (Glen Eira, Bayside and Kingston LGAs) compared to middle and outer Southern Region LGAs.

Contemporary apartment supply increased by 5,497 between 2010-2015 at an average annual growth rate of +23.4% p.a.

Figure 10: Total Plan Melbourne Southern Region Apartment Stock (2000-1019f)



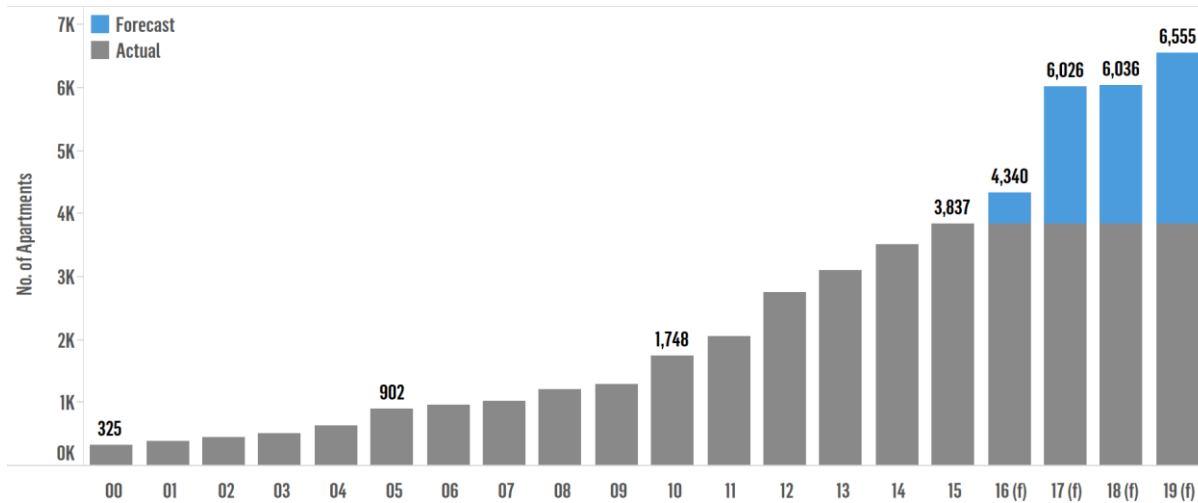
SOURCE - Charter Keck Cramer

It is anticipated that apartment supply will increase by 4,806 apartments to 13,253 apartments in the three years to 2018 at a rate of 16.2% p.a. Short term future supply is anticipated to be delivered primarily across Glen Eira LGA and Kingston LGA.

1.4.7 Western Region.

The Western Region has recorded comparatively limited contemporary apartment supply to that of alternative non-Central Regions. The Western Region market fundamentals are less supportive of higher-density dwellings as a competitive alternative, which ultimately limits the quantum of supply across the Region. As at the end of 2015, the Western Region recorded a cumulative completed supply of 3,837 apartments, which was an increase of 2,089 apartments from 2010 at a rate of +17.0%p.a.

Figure 11: Total Plan Melbourne Western Region Apartment Stock (2000-1019f)

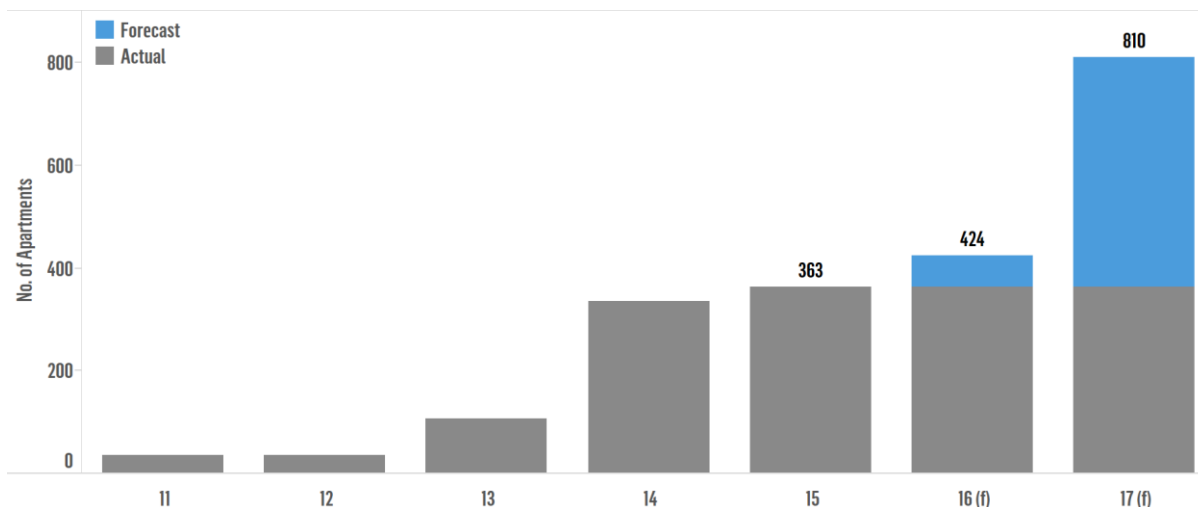


Short term future supply is anticipated to be elevated through 2017 before moderating to levels reflective of historical annual supply. It is anticipated that short term future supply will increase by 2,718 apartments in the three years to 2018 (cumulative apartment supply of 6,036) at an average annual growth rate of +19.5% p.a.

1.4.8 Western Growth Region.

The Western Growth Region recorded its first apartment completions in 2011. Supply has been comparatively subdued across the Western Growth Region with the most significant year of completed supply occurring in 2014. As at 2015, there were 363 completed apartments across the Western Growth Region. This represented an increase of 327 completed apartments from 2011.

Figure 12: Total Plan Melbourne Western Growth Region Apartment Stock (2000-1019f)



The lower scale of apartment projects, reflective of growth regions, means that expected future completions are unknown beyond 2017 as at the writing of this report. It is anticipated that there will be 447 apartment completions in the two years to 2017 (totalling 810 completed apartments across the Region).

1.5 Development Status by Region

The following analysis demonstrates the total completed and short term supply of contemporary apartments across the major Plan Melbourne Regions since 1990.

The Central Region of Plan Melbourne encompasses apartment submarkets of significance that are usually segmented for more granular analysis and are considered by the development industry as distinct submarkets with unique underlying fundamentals. These markets include the Central City Region, the City Fringe and parts of the Inner East that have traditionally been the most serviced by local amenity, accessibility to transport and employment options which have underpinned a high degree of project completions.

DELWP's Central CBD Region covers a similar area to that of Charters Central City Region; however Charter's boundaries also encompass the Fisherman's Bend Precinct to the west and St Kilda Road to the south. A larger proportion of the Docklands is incorporated within Charter's Region as well as additional area surrounding the North Melbourne Railyards and the University of Melbourne precinct.

The Central Balance Region defined by DELWP covers the entirety of Charter's City Fringe Region as well as parts of the Inner Region to the east and west of the City Fringe. The Central Balance area extends 15km south-east to Warrigal Road and a further 10km north-west to the suburb of Braybrook, whereas Charter's City Fringe area is bounded by Kooyong Road to the east and Maribyrnong River to the west.

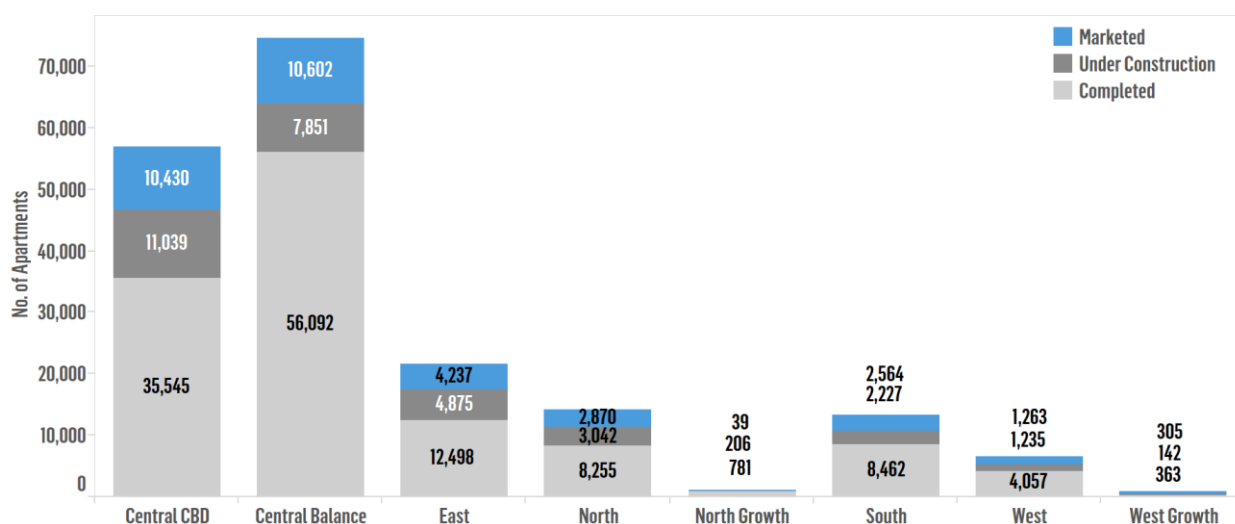
In this context, the Central Region has been a significant focus of apartment completions since 1990 with 93,000 completed apartments across the Central CBD and Central Balance Regions collectively. The Central Region also contains 18,900 apartments currently under construction with an additional 21,000 apartments being marketed.

The highest level of completed apartment supply has occurred within the Central Balance Region (56,000 apartments), compared to the Central CBD Region (35,500 apartments).

There are a higher number of apartments currently under construction within the Central CBD Region (11,000 apartments) compared to Central Balance Region (7,850 apartments).

Both of the Central Region submarkets have similar levels of apartment supply currently being marketed (10,400 apartments within the Central CBD Region and 10,600 apartments across the Central Balance Region).

Figure 13: Project Status by Plan Melbourne Region (as at May 2016)



SOURCE - Charter Keck Cramer

Outside of the Central Region, the Eastern Region recorded the second highest number of apartment completions (12,500) and also contained the greatest number of short-term apartment supply with a further 9,100 apartments either under construction or marketed.

Apartment market supply has reflected the historic urbanisation patterns of Melbourne with a weighting towards the east. This region of Melbourne, contains a high proportion of established transport infrastructure and additional fundamental pricing pressures that support a more compact and affordable dwelling option.

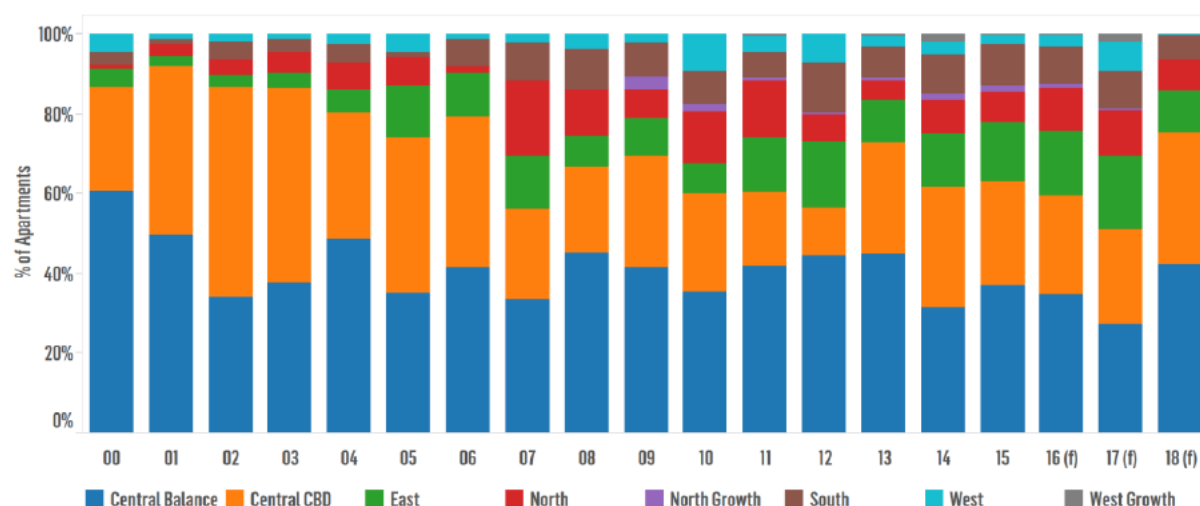
The Northern Region and Southern Region have observed similar quantum of completed apartment supply, recording 8,250 and 8,460 apartment completions respectively. The short term future supply is greater across the Northern Region (5,900 apartments under construction and marketed) compared to the Southern Region (4,800 apartments under construction and marketed).

The Western Region has the lowest quantum of completed apartment supply (4,060 completions) as well as the lowest quantum of short term future supply (2,500 apartments under construction and marketed). In comparison to the other regions the Western Region is challenged by lower pricing fundamentals, which constrains the trade-off between housing types within their respective hierarchy (low-density, medium-density, high-density) and therefore limits the quantum of stock that can reasonably be delivered within the Region.

1.6 Regional Apartment Completions.

The proportion of apartment supply delivered within the Central Region (Central CBD and Central Balance) has eroded through the 2000s. The decline has been most prominent through the Central CBD Region, while the Central Balance Region, although moderating, has been comparatively stable through the 2000s.

Figure 14: Regional Comparison – Apartment Completions (200-2018f)



SOURCE - Charter Keck Cramer

The proportion of apartment supply delivered across the Eastern Region has increased, most notably from the 2010s. Additional non-Central supply has been delivered across the Northern and Southern Regions. There has been greater variance in the annual proportion of supply delivered across the Northern Region (compared to the Eastern Region). The Southern Region has been comparatively more stable and has predominantly been underpinned by 'inner' LGAs within the Region (Glen Eira, Port Phillip and Kingston LGAs).

2. Case Study.

In addition to understanding aggregate project benchmarking data, Charter has also undertaken a more detailed analysis of two suburban apartment markets including Hawthorn and Brunswick/Brunswick East. The two submarkets demonstrate the role of apartments within the context of a less affordable submarket (Hawthorn with a median house price of \$1,995,000, as at the end of 2015) and a more affordable suburb (Brunswick/Brunswick East with a median house price of approximately \$880,000, as at the end of 2015).

These characteristics enable an empirical and detailed analysis of the role that new apartment supply plays in the broader housing market, from both a housing diversity and housing affordability perspective.

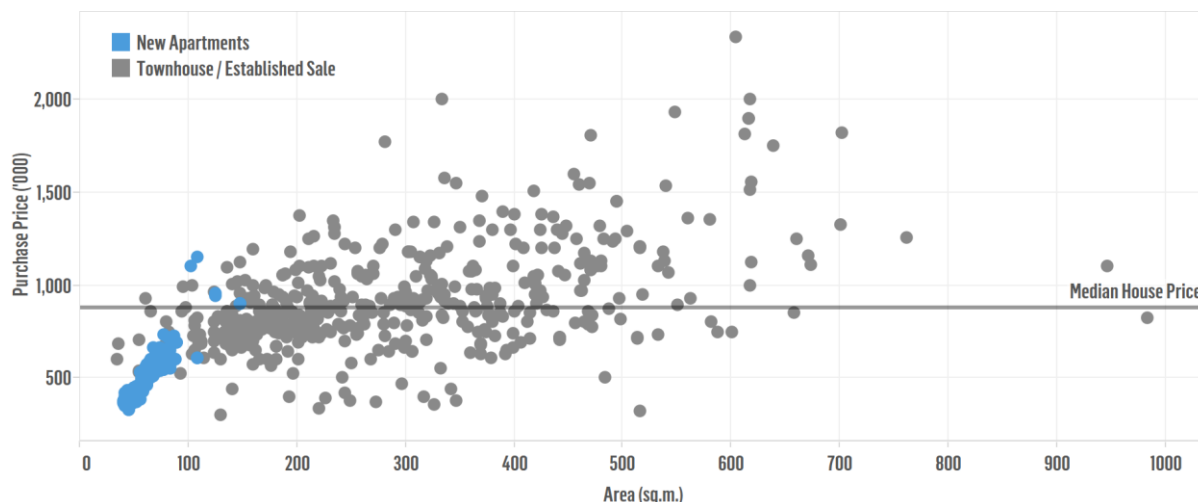
The Hawthorn and Brunswick/Brunswick East Study Regions are both located within Charter's Inner Region of Melbourne, but are defined by Plan Melbourne as being situated within the Eastern Subregion and Northern Subregion respectively.

2.1 Brunswick and Brunswick East Case Study

2.1.1 Whole of Market Housing Analysis.

Charter has analysed all housing sales (both established and new supply) in Brunswick and Brunswick East ("Brunswick Study Region") between January 2015 and June 2016. The analysis included 1,000 housing transactions comprising a mix of apartments, townhouses and established dwellings. These established house and townhouse transactions have been compared to sales from currently active (marketed and under construction) apartment projects within the Brunswick Study Region.

Figure 15: Brunswick Study Region– New vs Established Housing Sales (January 2015–June 2016)



SOURCE - Charter Keck Cramer, Pricefinder.

Although townhouse and established dwelling sales are based on land area, apartment sales and their respective value rates are based on the apartment's internal area, which drives apartment values.

This analysis demonstrates the role and function that new apartment supply plays in relation to all housing market transactions. The median house price across the combined Brunswick Study Region is approximately \$880,000, which means that 98.5% of all new apartment sales in Brunswick and Brunswick East are below the median house price.

Across the Brunswick Study Region, new apartment product provides an affordable outlet for demand than what would otherwise exist within the Study Region. Apartments provide affordable purchase opportunities, in contrast to the balance of housing options available in the broader housing market.

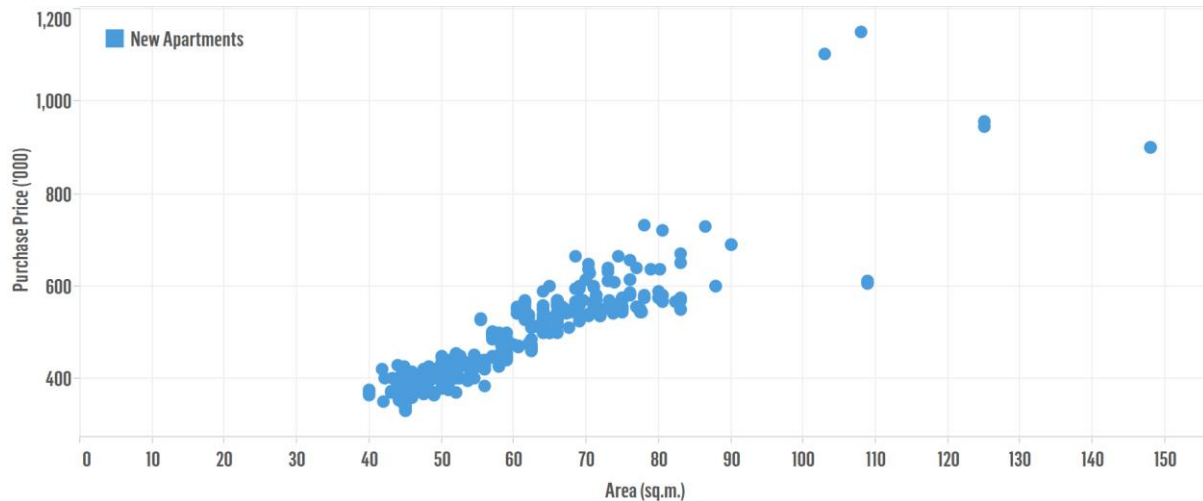
The profile of product provided, is reflective of the pricing conditions within the Brunswick Study Region. The provision of smaller and more affordable established house and townhouse product (compared to the Hawthorn Study Region) places a market ceiling on the nominal price new apartment product can be competitively priced at. This impacts the diversity of stock which is able to be delivered to the market (given the compressed pricing bands), while still remaining competitive within the submarket pricing hierarchy.

New apartment supply also maintains the competition amongst new and established townhouse stock, which is the next alternative option for potential apartment purchasers.

2.1.2 New Apartment Transactions.

Charter has further analysed the distribution of new apartment sales in the Brunswick Study Region (January 2015 – June 2016). Consistent with other apartment markets across Melbourne, new projects have continued to evolve in order to offer more affordable purchase and rental opportunities.

Figure 16: Brunswick Study Region– New Apartment Sales Analysis (January 2015-June 2016)



SOURCE - Charter Keck Cramer

New apartments across Brunswick and Brunswick East have recorded internal areas of between 40-80 sq.m., and are priced between \$360,000-\$730,000.

There are a number of key affordability and diversity implications based on new apartment sales activity:

- Nearly all apartments were priced less than the Study Region median house price (only 1.5% of sample apartments were greater than \$880,000)
- 94% of all new apartment transactions were at or below \$600,000 (or 32% below the observed median house price)
- 50% of all new apartment transactions were below \$440,000 (or 50% below the observed median house price)

Over time, purchasers in Brunswick and Brunswick East have shown a strong willingness to accept apartments as an affordable trade-off when compared against alternative housing opportunities. The Brunswick Study Region is underpinned by strong connectivity into the CBD, a high degree of retail and lifestyle amenity as well as a historic light industrial and textiles history which allows renewal opportunities of scale.

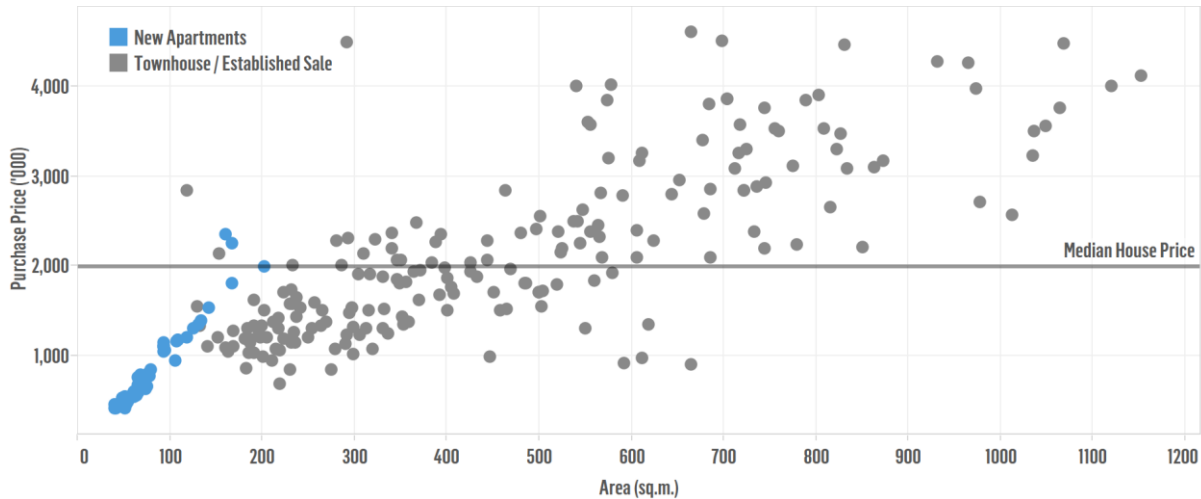
The lower median house price, and the availability of alternative unit and attached stock alternatives, places a ceiling across the new high-density residential dwelling market.

2.2 Hawthorn Case Study

2.2.1 Whole of Market Housing Analysis.

Charter has analysed all housing sales (both established and new supply) in Hawthorn between January 2015- June 2016. This analysis includes 300 housing transactions with a mix of apartments, townhouses and established dwellings. These established house and new townhouse transactions have been directly compared to new apartment sales from currently active (marketed and under construction) projects in Hawthorn.

Figure 17: Hawthorn – New vs Established Housing Sales (January 2015-June 2015)



SOURCE - Charter Keck Cramer

The above graph analyses townhouse and established dwelling sales, which are based on land area, apartment sales and value rates have been based on internal area, which drives apartment values.

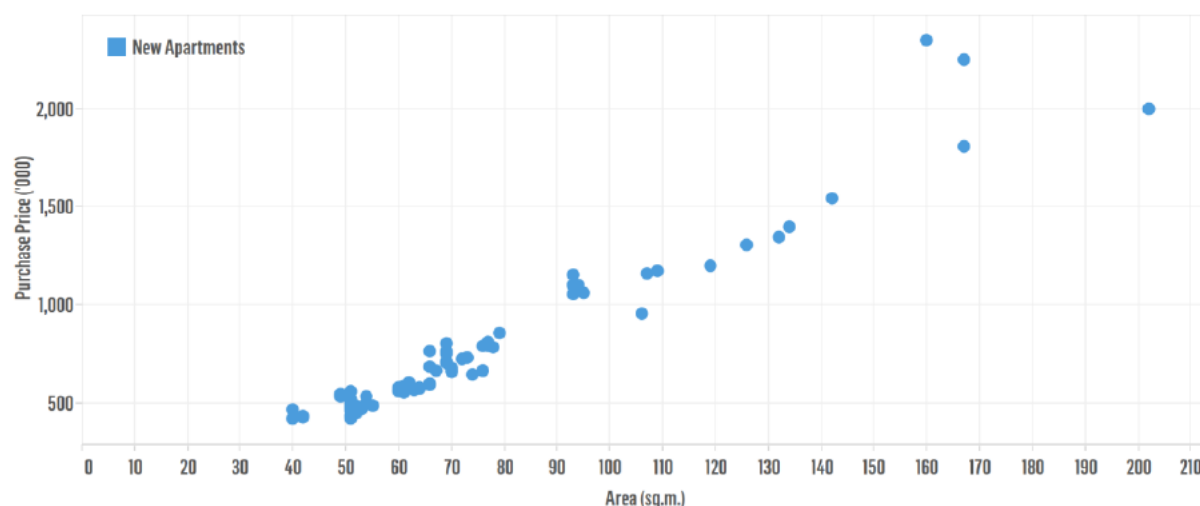
This analysis demonstrates the role and function that new apartment supply plays in relation to all housing market transactions. The median house price across Hawthorn in 2015 was \$1,995,000, which means that 98% of all new apartment sales in Hawthorn were below the median house price. Importantly, more than half of the new apartment prices were below \$600,000, which was approximately 70% less than the suburb median.

The profile of new apartment product marketed or under construction across Hawthorn, is more diverse than that observed across the Brunswick Study Region. The apartment product observed across Hawthorn appeals to a greater range of potential purchasers due to the greater ability to trade off into alternative dwelling products due to the higher price points observed across the suburb.

Within Hawthorn, there is a mix of affordable entry level and aspirational apartment product types, as well luxury and downsizer apartment dwelling products. This allows apartment products to target specific purchasers and act beyond that of an affordability outlet, but as a genuine lifestyle alternative which is at a more affordable price point to the competing detached product. The Hawthorn apartment market targets purchasers wanting a high-end/luxury product at a comparatively more affordable price, or a product which is easier to maintain given the purchasers relative stage in life.

2.2.2 New Apartment Transactions.

Figure 18: Hawthorn – New Apartment Sale Analysis (January 2015–June 2016)



SOURCE - Charter Keck Cramer

New apartments across Hawthorn have recorded a larger distribution of sales. This is due to the higher median house price which underpins greater flexibility in the ability to deliver different higher density product which caters to multiple purchaser cohorts (e.g. affordable, luxury, aspirational, downsizer).

A lower median house price compresses the price point that apartments can respond within, as the trade-off away from established housing stock occurs at a lower price point.

New apartments across Hawthorn have recorded a greater dispersion in expressed sales. Units recorded a lower bound size of 40 sq.m. and an upper bound size of 202 sq.m. while prices across the suburb ranged from \$415,000 - \$2,350,000.

There are a number of key affordability and diversity implications based on new apartment sales activity:

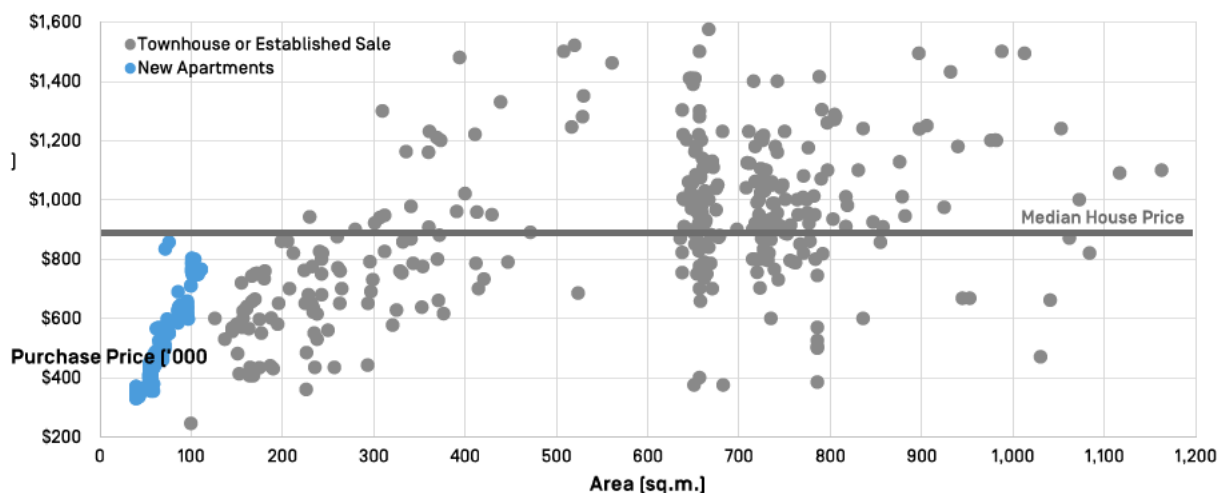
- Nearly all apartments were priced less than the Study Region median house price (only 2% of sample apartments were greater than \$1,995,000)
- 93% of all new apartment transactions were at or below \$1,336,650 (or 33% below the observed median house price)
- 82% of all new apartment transactions were below \$997,500 (or 50% below the observed median house price)
- 56% of all new apartment transactions were below \$600,000 (or 70% below the observed median house price)

2.3 Doncaster Case Study

2.3.1 Whole of Market Housing Analysis.

Charter has analysed all housing sales (both established and new supply) in Doncaster between March 2014–2015. This analysis includes 600 housing transactions with a mix of apartments, townhouses and established dwellings. These established house and new townhouse transactions have been directly compared to new apartment sales from currently active (under construction) projects in Doncaster.

Figure 19: Doncaster – New vs Established Housing Sales (March 2014-15).



SOURCE - Charter Keck Cramer and Pricefinder

Although townhouse and established dwelling sales are based on land area, apartment sales and value rates have been based on internal area, which drives apartment values.

This analysis demonstrates the role and function that new apartment supply plays in relation to all housing market transactions. The median house price of all townhouse and established sales is \$900,000, which means that 100% of all new apartment sales in Doncaster are below the median house price.

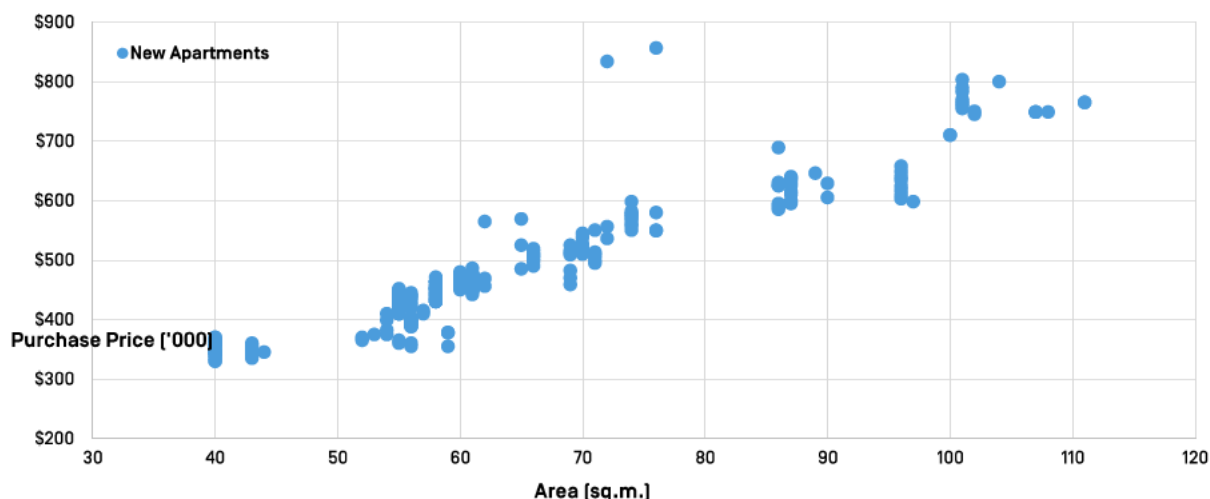
Recent new apartment projects provide consumers with access to purchase opportunities that would not otherwise exist in Doncaster. Apartments provide affordable purchase opportunities relative to the balance of housing opportunities available in the broader housing market.

Furthermore, the effect of new apartment supply is to maintain pricing pressure on new townhouse developments. Without this volume of new apartment supply then townhouse developers would face less competition in the marketplace.

2.3.2 New Apartment Transactions.

Charter has further analysed the distribution of new apartment sales in Doncaster (March 2014-15). Consistent with other apartment markets across Melbourne, new projects have continued to evolve product in order to offer increasingly affordable purchase and rental opportunities.

Figure 20: Doncaster – New Apartment Sales Analysis.



SOURCE - Charter Keck Cramer

There are a number of key affordability and diversity implications based on new apartment sales activity:

- All new apartment transactions are below the median house price
- 84% of all new apartment transactions are below \$600,000 or 33% below the observed median house price
- 67% of all new apartment transactions are below \$500,000 or 45% below the observed median house price

Over time purchasers in Doncaster have shown a strong willingness to accept apartments as an affordable trade-off when compared against alternative housing opportunities, as evidenced by the over 1,500 apartments (completed and under construction).

Across Melbourne the established housing conditions and local amenity drivers differ, as evidenced in chapter 2, however analysis on other suburban apartment markets yields similar patterns of sale distribution and affordable purchase opportunities.

2.4 The Role of Apartments.

The Melbourne housing market should be viewed as an integrated system encompassing a range of housing products across a broad geographic region. Just as exclusive regions like Hawthorn do not provide housing product at a price point relevant for first home buyers, apartments have a particular role and function in the Melbourne market. Typically apartments provide opportunities for purchasers or renters to access a desired region at an affordable price point.

Increasingly younger purchasers are priced out of townhouse or detached dwellings and choose apartment living for both lifestyle and affordability reasons. Investors, able to achieve commercially attractive yield, provide new housing stock into the local rental market which puts downward pressure on rents. Developers have responded to these needs by creating product that reflects current levels of market demand.

Larger 3-4 bedroom apartments (which may be suitable for families) are generally delivered into more exclusive locations where a larger, more expensive product still represents an affordable entry point into a suburb in the context of the more expensive established housing market.

The Brunswick and Hawthorn Study Region case studies provide empirical evidence supporting the diverse role the apartment market plays within the context of the broader metropolitan Melbourne market.

Across the Brunswick Study Region, apartments primarily play the role of entry level or affordable housing alternatives for purchasers who are priced out of more traditional housing forms as well as an investor driven product. The structure of the overall housing market across Brunswick and Brunswick East demonstrates a ceiling to the price competitiveness of apartments which results in a much narrower product profile delivered to market. This further demonstrates that the profile of apartment supply price and type, is ultimately influenced by the established housing market forces due to apartments a product acting as a substitute underpinned by budgetary constraints.

The Hawthorn case study demonstrates the evolving role of apartments and higher density dwelling options across a suburb with significant pricing barriers to entry. While also offering an affordable product reflective of that observed across suburbs with lower median house prices (Brunswick and Brunswick East), the significantly more expensive established housing market has more opportunities to offer alternative dwelling opportunities at higher price points.

This allows for a product at the entry level and affordable scale as well as the aspirational/luxury product types for potential downsizers and those unable to purchase the equivalent established home (three and four bedroom).

Apartments provide an affordable alternative to established housing. The pricing fundamentals of apartment submarkets influence the diversity of the apartment product and flexibility in responding to market demand.

Apartments located within more expensive suburbs are able to target a broader purchaser market. Potential purchasers, who want to live within the locality but are unable to afford traditional detached dwellings, look to substitute into more affordable apartment stock. In comparison, a more affordable suburb will have a price ceiling, limiting the incentive for purchasers to trade off into a more compact housing option when larger dwelling alternatives remain affordable.
