

# Local Market Intelligence

## Melbourne CBD Grid

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May 2017

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RESEARCH

### KEY CONSIDERATIONS

- ↑ MATURING:** The apartment market in the Melbourne CBD Grid is maturing and attracting an increasing share of **local and international residents**.
- ↓ CHANGING REGULATIONS:** From 1 July 2017 investors purchasing off-the-plan apartments will **no longer** receive **stamp duty concessions**.

### DEMAND CONSIDERATIONS

- 46,000 New Dwellings p.a.**  
Are required to be built each year to accommodate the **95,000 new residents** moving to metropolitan Melbourne each year (VIF 2016).
- 1,900 off-the-plan sales**  
Of **apartments** in the Melbourne CBD Grid in 2016 (Long term annual average = 970 sales p.a.).

(See page 2 for more information)

### SUPPLY CONSIDERATIONS

- 14,900 Apartments**  
**Completed** in the Melbourne CBD Grid as at the end of 2016. (Completions may reach 20,000 by 2020).
- 168 Apartments**  
**Commenced construction** in the Melbourne CBD Grid in 2016. (Long term annual average = 810 p.a.).

(See page 3 for more information)

### MARKET DYNAMICS

- 2.5%**  
**Vacancy rate** in the CCR/City Fringe (at February 2017).
- Oversupply Risks Overstated**  
Current metrics highlight the risks of oversupply are **overstated** and are progressively **dissipating**.

(See page 4 for more information)

### SUBURB CONTEXT & FUNDAMENTALS

- Melbourne is Australia's second largest city with nearly 4.5 million residents (as at June 2016). It is expected to reach 8 million residents by 2050.
- Since the mid-1990s the Melbourne CBD has been transformed into a global destination and has played a major role in reinforcing Melbourne as the World's Most Liveable City (for 5 years running).
- Melbourne is a highly CBD-focussed city, created by a radial transport network with its highest order cultural, entertainment, education, sporting, health, professional services and employment opportunities all located within or adjoining the CBD.
- The south-western quadrant of the Melbourne CBD Grid is rapidly transforming due to its proximity to Southern Cross Train Station as well as its location along Collins and Bourke Streets as a major gateway to the rapidly evolving office and commercial precincts in the Docklands.

### LIVEABILITY AND LIFESTYLE



Shopping precincts including Collins Street (international fashion), Melbourne Central, Emporium, Bourke Street Mall & Queen Victoria Market.



Major universities in or within close proximity to the CBD include Melbourne University (Parkville), RMIT University and Victoria University (CBD).



City-centric employment with 450,300 full time and part time jobs in the City of Melbourne LGA (as at 2015).



Key attractions in and around the CBD include Etihad Stadium, the Aquarium, Art Galleries, Federation Square, Eureka Tower, Crown Casino, the MCG & sports precinct.



Key amenity includes Flagstaff Gardens, Botanic Gardens, the Yarra River & Docklands.

### CONNECTIVITY



Several train stations including Flinders Street, Southern Cross and Melbourne Central connect the CBD to metropolitan Melbourne.



Major arterial roads including Citylink, West Gate and Eastern Freeway within proximity to the CBD.



Several tram & bus routes which extend out into metropolitan Melbourne.



17 km to Melbourne (Tullamarine) Airport.



Shared and dedicated bicycle routes extend throughout the CBD.



Walking distance to Etihad Stadium (Docklands) and Melbourne Cricket Ground (East Melbourne).



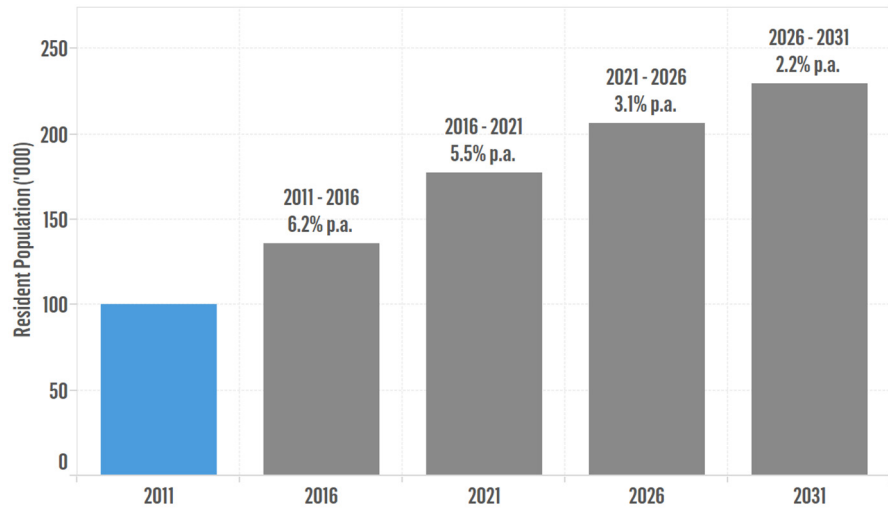
**POPULATION INDICATORS**

The State Government projections, *Victoria In Future 2016*, forecast the population of Metropolitan Melbourne to grow by an average of approximately 95,000 residents each year.

At a more local level, the Melbourne LGA is growing at a very strong rate and will contain around 220,000 residents by 2031.

**Housing preferences in Melbourne continue to change, with apartment living becoming an increasingly accepted and attractive form of accommodation. As the population of Melbourne continues to grow, apartments will play an increasingly important role in housing this growing population.**

**HISTORIC & FORECAST ANNUAL AVERAGE POPULATION GROWTH, MELBOURNE LGA (2011-2031)\***



\*Melbourne LGA = the suburbs of Melbourne, East Melbourne, Southbank, Docklands, West Melbourne, North Melbourne, Kensington, Parkville, Carlton and portions of the suburbs of Flemington, Carlton North, South Yarra, South Wharf and Port Melbourne.

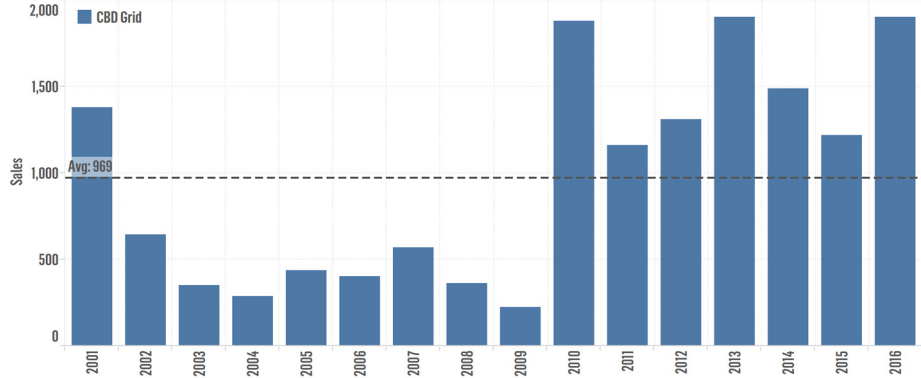
**NEW APARTMENT SALES**

There were 1,900 off-the-plan apartment sales across the Melbourne CBD in 2016 which is the highest ever observed.

There have been elevated levels of new apartment sales since 2010 which is an indication of the maturity of, and demand for, this apartment market.

**The Melbourne CBD Grid is the central location for major transport, employment, amenity and education and these factors will continue to support high levels of purchaser and renter demand.**

**NEW APARTMENT SALES - MELBOURNE CBD GRID (at Dec 2016)**



**DEMOGRAPHIC & SOCIO-ECONOMIC INDICATORS**

At the 2011 Census, there were more overseas arrivals (in the 5 years prior to 2011) in the suburb of Melbourne (42% of the population) than in metropolitan Melbourne (7% of the population).

The CBD also accommodated a greater proportion of university students aged between 18-24 years old in the suburb of Melbourne (56%) than in metropolitan Melbourne (30%) and there were also more residents in the suburb of Melbourne with a Bachelor Degree or Higher (70%) than in metropolitan Melbourne (34%).

**Metropolitan Melbourne is growing rapidly. A large number of overseas arrivals, many of whom are either students or are highly educated, are moving into the Melbourne CBD which is creating high demand for new dwellings.**

**DEMOGRAPHIC & SOCIO-ECONOMIC DRIVERS OF DEMAND, MELBOURNE (2011)**

<p><b>RECENT OVERSEAS ARRIVALS (% of Pop)</b></p> <p>SOURCE - ABS (2011)</p> <p>Suburb of Melbourne   Metro Melbourne</p> <p><b>42 %</b>   <b>7 %</b></p>	<p><b>UNI STUDENTS % of 18-24 year olds</b></p> <p>SOURCE - ABS (2011)</p> <p>Suburb of Melbourne   Metro Melbourne</p> <p><b>56 %</b>   <b>30 %</b></p>
<p><b>LEVEL OF EDUCATION</b></p> <p>SOURCE - ABS (2011)</p> <p><b>Bachelor Degree or Higher</b></p> <p>Suburb of Melbourne   Metro Melbourne</p> <p><b>70 %</b>   <b>34 %</b></p>	<p><b>MEDIAN AGE</b></p> <p>SOURCE - ABS (2011)</p> <p>Suburb of Melbourne   Metro Melbourne</p> <p><b>26 Years</b>   <b>36 Years</b></p>

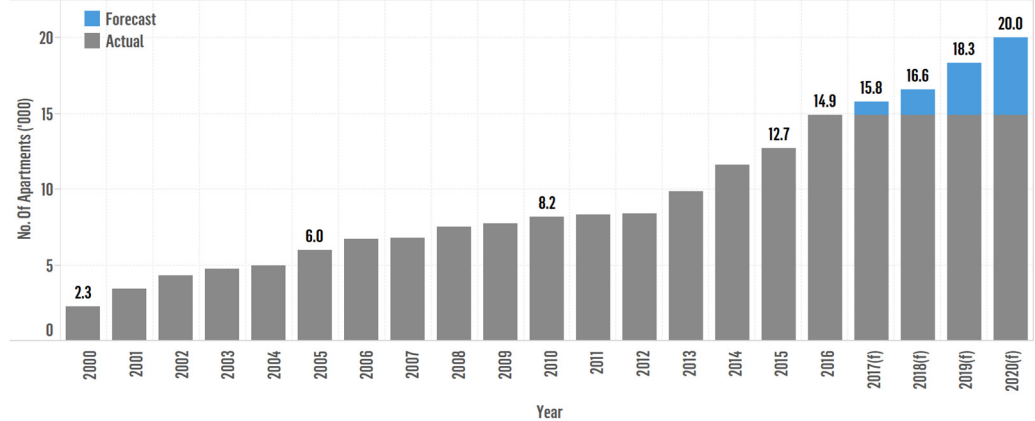
**COMPLETED APARTMENTS**

The Melbourne CBD Grid had 14,900 completed apartments at the end of 2016. This is forecast to increase to around 20,000 completed apartments by the end of 2020.

The supply of completed apartments is dispersed across the CBD Grid.

**It is to be expected that the CBD Grid would accommodate large numbers of apartments due to the centralised location of Melbourne's transport services and employment and education industries.**

**HISTORIC AND PROJECTED POTENTIAL\* STOCK - MELBOURNE CBD GRID (as at Dec 2016)**



\*Potential includes projects Under Construction & Marketed but excludes any project which was not marketed as at Dec 2016.

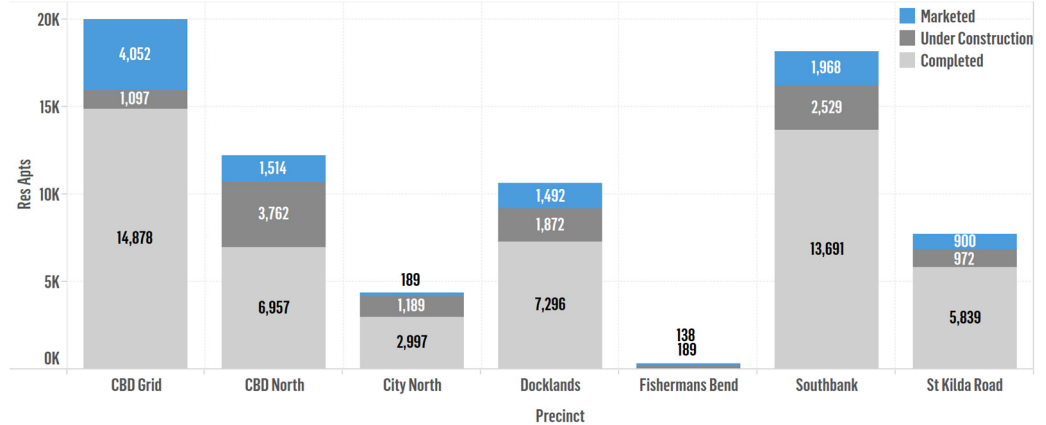
**ACTIVE FUTURE SUPPLY**

There were 1,097 apartments (in 4 projects) under construction and a further 4,052 apartments (in 10 projects) being marketed in the Melbourne CBD Grid (as at December 2016).

These projects are largely located in the western portion of the Grid (along Spencer Street) as well as the northern portion of the Grid (along La Trobe Street).

**The CBD Grid has been, and will continue to be, one of the most active and evolving sub-markets across the Melbourne Central City Region.**

**ACTIVE FUTURE PROJECTS\* - MELBOURNE CENTRAL CITY REGION (as at Dec 2016)**



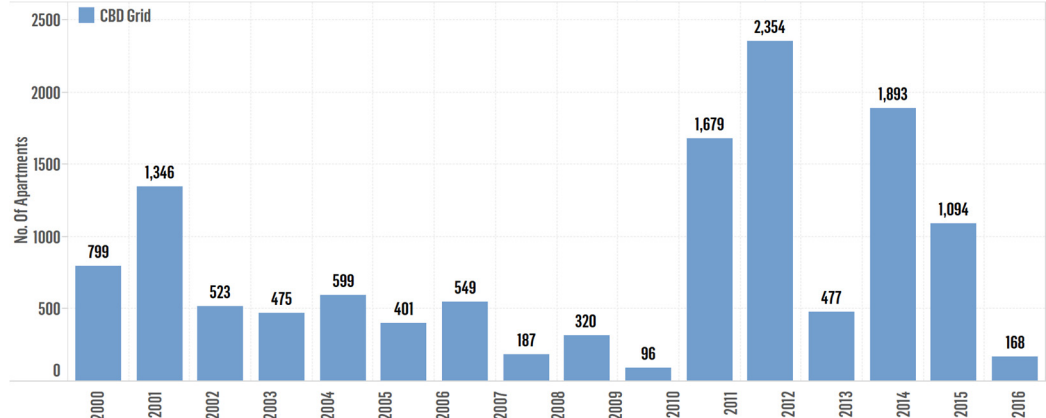
\*These are projects that are currently under construction or being marketed (as at December 2016).

**COMMENCEMENTS**

In 2016, there were only 168 apartments in a single project that commenced construction in the CBD Grid. This however has followed 5 years of unprecedented levels of construction commencements.

The reduction in commencements is a function of the increasing size of the projects released to the market. **As observed above, high quality projects that meet the market and achieve high levels of market acceptance (i.e. presales) are still proceeding and commencing construction.**

**HISTORIC CONSTRUCTION COMMENCEMENTS - MELBOURNE CBD GRID (as at Dec 2016)**



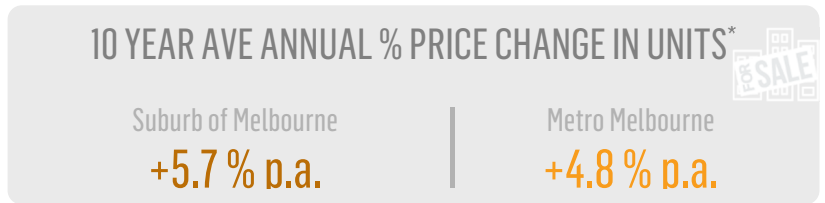
**PRICE RELATIVITY**

Over the last 10 years, price growth of Units in the suburb of Melbourne (+5.7% p.a.) has been higher than the wider metropolitan Melbourne equivalent (+4.8% p.a.). **This price growth is a reflection of the demand to reside in the suburb of Melbourne.**

Melbourne's most expensive housing submarkets are concentrated within 5km of the CBD, where the median house price is approximately \$1.4million, compared to an overall metropolitan median of \$600,000.

**Apartments in the Melbourne CBD Grid are located within (and are surrounded by) Melbourne's most expensive housing markets (which provide residents an alternative and less-expensive form of accommodation) that still benefits from the substantial amenity provided by the central city setting.**

**PRICE RELATIVITY - MELBOURNE 3000 & 3004 (as at DEC 2016)**



\* Units include apartments, flats, units, townhouses and terrace houses although in the suburb of Melbourne these will primarily be apartments. \*\* These are median house prices recorded by the VGV as at Dec 2016.

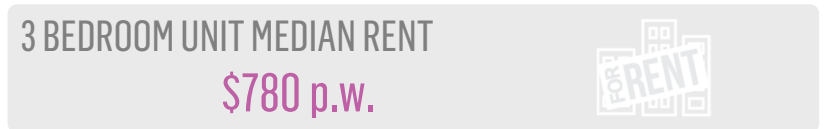
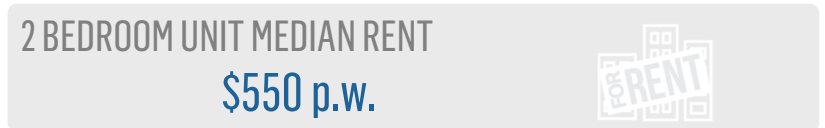
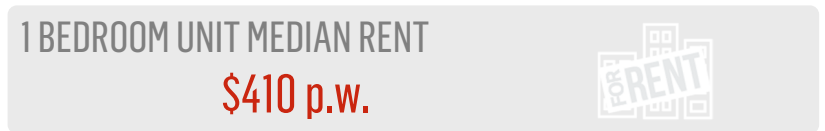
**RENTS**

In the 12 months to March 2017, the median weekly rent in the CBD Grid/ St Kilda Road for a 1 bedroom unit was \$410 p.w. whilst a 2 bedroom unit was \$550 p.w. and a 3 bedroom unit was \$780 p.w. **Importantly, over the last 12 months, rents in this sub-market have marginally increased even though there have been high levels of apartments completed during this time.**

The median rents also relate to all units of varying quality and age and **do not truly reflect the underlying achievable rents for newer stock, which is at a premium to the overall market.**

Vacancy Rates at the end of February 2017 in the CCR/City Fringe (0-4km from the CBD) were 2.5% which is below the rate of 3% (when the market is considered to be in equilibrium). **Vacancy rates remain low as a result of high levels of population growth in and across metropolitan Melbourne and it is anticipated that vacancy rates will continue to remain low over 2017 due to high population growth.**

**MEDIAN UNIT WEEKLY RENTS- MELBOURNE 3000 & 3004 (MAR 2016 - MAR 2017)\***



\* Units include apartments, flats, units, townhouses and terrace houses although in the suburb of Melbourne these will primarily be apartments. Rents for postcode 3000 and 3004 have been recorded jointly by the data providers.

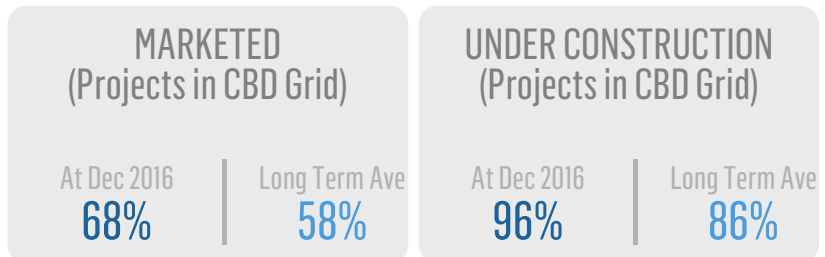
**ABSORPTION RATES**

The absorption rate\* is an indicator of total absorption and has been designed to act as a benchmark for market balance.

Absorption of apartments in projects in the CBD Grid that are being marketed or that are under construction are both above their respective long term averages.

**This is a relevant finding which suggests that the CBD Grid is not in oversupply as often suggested by the mainstream media.**

**ABSORPTION RATES - MELBOURNE CBD GRID (at Dec 2016)\***



\* This is defined as the number of sold apartments as a percentage of the total stock of apartments (of a particular status). The long term average relates to the period 2001 – 2016.

This Report provides an overview of the Melbourne CBD Grid and has been carefully prepared by Charter Keck Cramer for Fragrance Group. This Report is not intended to be comprehensive nor render financial advice and neither Charter Keck Cramer nor any persons involved in its preparation accepts any form of liability for its contents. The information contained herein was compiled in April 2017 and should not be relied upon to replace professional advice on specific matters. Charter Keck Cramer is not providing advice about a financial product, or the suitability of investment and is not a holder of an Australian Financial Services Licence. This report is Copyright and cannot be reproduced without written permission of Charter Keck Cramer.

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Sources: Charter Keck Cramer, ABS, Office of Housing (OoH), REIV, CLUE 2015, Plan Melbourne 2017-2050, Google maps, Price Finder, walkscore.com, VIF 2016 and Melbourne City Council.



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