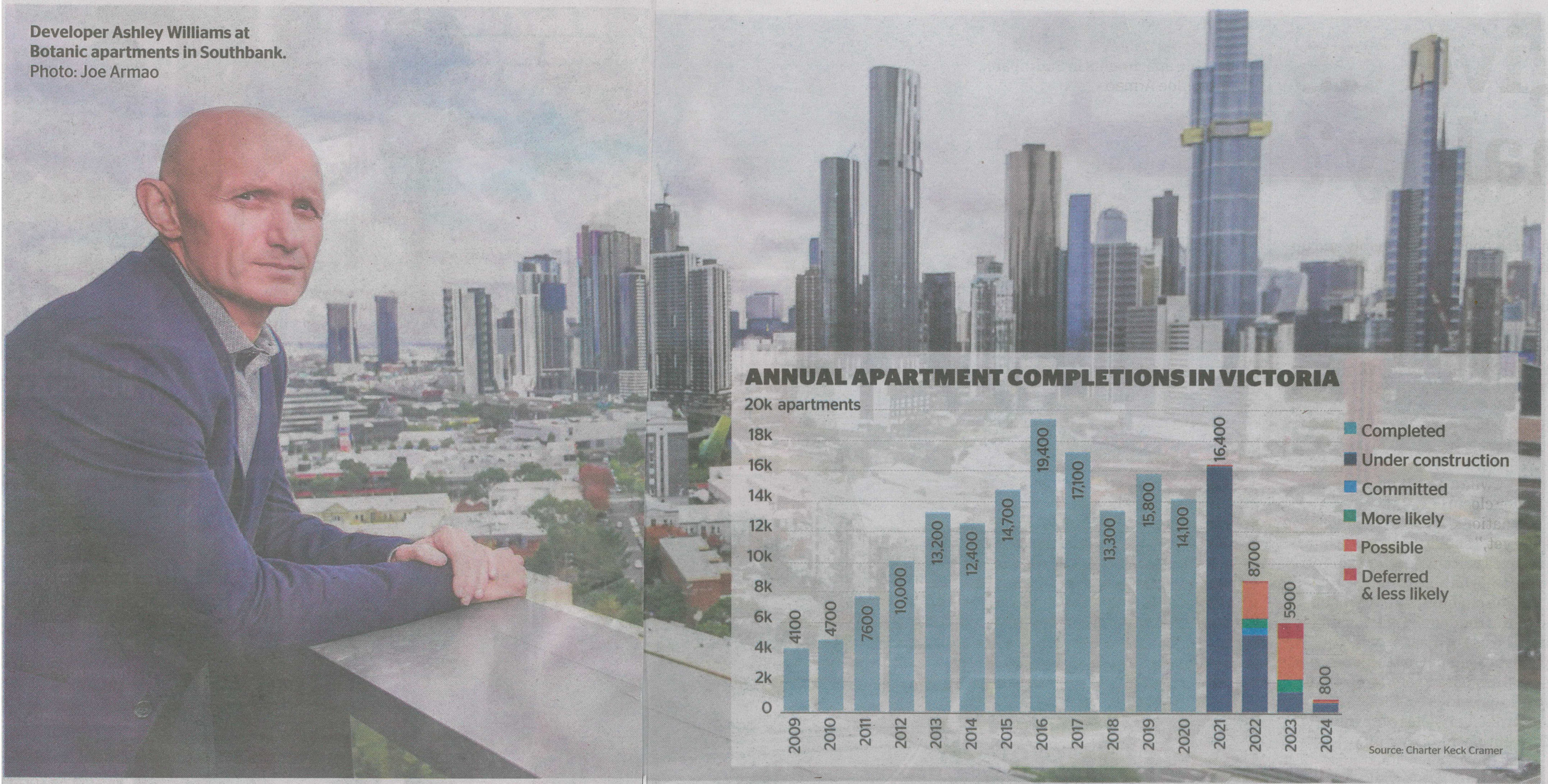

Developer Ashley Williams at Botanic apartments in Southbank. Photo: Joe Armao

Apartment build rates 'heading for a cliff'

Noel Towell
Economics editor

Apartment building in Melbourne is set to plummet, with a respected property research company tipping the number of units completed across Victoria to plunge from more than 16,000 this year to just 800 in 2024.

With lead-in times for a large apartment complex of up to five years, Charter Keck Cramer forecasts that in 2024 Victoria will build just 4 per cent of the number of apartments completed at the sector's 2016 peak, when 19,400 were built.

The Urban Development Institute of Australia says the present glut of apartments in central Melbourne, a result of the COVID-19 crisis, looks set to turn to an acute city-wide shortage in the coming years in an unexpected knock-on effect of the pandemic, costing jobs and making the city's housing supply problem worse.

Rental vacancies in central Melbourne have soared to 8.4 per cent, with desperate landlords cutting rents below levels seen 10 years ago.

Apartment prices too have tumbled, but not as dramatically as rent. In Docklands, the median unit price was down 3.6 per cent in the 12 months to March. In the CBD the fall was 1.4 per cent to $457,450.

The institute says developers are responding to the collapse in the market for central Melbourne apartments, driven by the closure of international borders to overseas students and tourists, by placing existing projects on hold and putting the brakes on new builds.

Georgia Warren-Myers, senior lecturer in property at Melbourne University, told *The Age* that general dwelling construction in Victoria

was already behind what was needed, but the absence of the key international students and short-stay apartment operators, and the uncertainty surrounding their return, was the key factor for the central Melbourne apartment market.

She agreed the present glut could well turn into a shortage within years, but said the forecast completion rate seemed overly pessimistic, with uncertainty around the resumption of international travel making predictions very difficult.

UDIA Victorian chief executive Matthew Kandelaars said 800 new apartments in a 12-month period was not enough to keep pace with housing demands, particularly if Victoria's population begins to grow again when borders are finally reopened, and that tens of thousands of construction workers might be out of a job.

"There's no doubt that 2020 saw a shift in demand from inner-city living to our suburbs and regions, but apartment completions are fast heading towards a cliff," Mr Kandelaars said.

"There's simply no way that the forecast level of apartment completions can cater for a city of the size and scale of Melbourne."

Dr Warren-Myers said she would not be "crying doom and gloom" over the Charter Keck Cramer analysis. "If everything bounces back to 'normal', yes there will likely be a period where vacancy will drop and rents will increase generating an affordability issue," she said.

"However, I would say that once normal is back and vacancy rates drop, you will see a flurry of activity happening as this recovers and there will be subsequent increase in supply in later years."

Developer Ashley Williams, who is also the UDIA's Victorian president, said his company Evolve had faced a challenge selling all the apartments in its recently finished Botanic project in Southbank, unlike its house-and-land packages on Melbourne's northern fringe, which were "selling like hotcakes".

"We've been working with purchasers to settle those apartments and it's been a very slow and a very tough process," he said.

June jaw-dropper: Median house price nudges $1m

Melissa Heagney

Melbourne's median house price is expected to hit $1 million by June, with new data revealing house and unit prices have skyrocketed to record highs.

Across the city, house prices jumped by 4.8 per cent – or nearly $45,000 – over the March quarter to a record-breaking $974,397 median, the latest Domain House Price Report, released today, showed.

Apartment prices also soared to a median of $567,793 – a rise of 2.2 per cent, or more than $12,000 – over the same period.

Domain senior research analyst Nicola Powell said although Melbourne's house price growth was expected to slow in coming months as more homes hit the market, she was confident the city would crack the million-dollar median by mid-year. "It will take just over half of the growth recorded over the March quarter to achieve this milestone," Dr Powell said.

It's not the first time house prices have rushed towards a million-dollar median in Melbourne. They were initially predicted to reach that mark by mid-2018. However, tougher lending rules introduced by the Australian Prudential Regulation Authority, which tightened the number of approvals for mortgages for owner-occupiers and investors, saw prices fall dramatically in 2018 and the first half of 2019.

Dr Powell described Melbourne's price rises in the first quarter of 2021 as remarkable, particularly as it was the only capital to break records for house and unit medians.

The recent bounce-back was in part due to pent-up demand after last year's COVID lockdowns, she said, with the inner-east region and suburbs such as Balwyn and Templestowe leading the way. House prices in the inner-east rose by 7.1 per cent over the March quarter to a median of $1.615 million.

Mornington Peninsula also had huge jumps in house prices, up by 6.7 per cent over the quarter and 16.6 per cent across the year, to a median $845,000. Apartment prices in the Mornington Peninsula recorded the largest rise for the quarter, jumping by 6.2 per cent to a median of $540,000, as people flocked to make a sea change.

Despite Melbourne's overall unit price growth, the data showed apartments in the inner-city fell by 2.6 per cent over the quarter to a $570,000 median, with the lack of international students weighing heavily on the market.

Barry Plant Manningham auctioneer Stuart Rooke said the jump in house prices in the inner-east had been very noticeable since the start of the year. "We've seen the typical home in Doncaster, which was worth between $1.1 million and $1.2 million late last year, now being worth between $1.3 million and $1.4 million," Mr Rooke said.

While the property price rises will sit well with existing homeowners, the frenzied market conditions have caused a lot of heartbreak and frustration for first-home buyers like Shaun Jezdimirovic.

Mr Jezdimirovic said he had been looking to buy a two-bedroom, art deco-style apartment in St Kilda since late last year.

Frustrated, he recently hired a buyer's advocate to help him.

"It's a really disheartening process you have to go through . . . the danger is you get really emotionally attached to the property easily and you think, 'I'll just bid another $10,000 more', but it's too much to pay," Mr Jezdimirovic said.

He said he was now considering buying a property further away from the city.

Westpac senior economist Matthew Hassan said there may be more pain for buyers like Mr Jezdimirovic this year, with the bank predicting house prices across the country would rise by 15 per cent.

Mr Hassan believed APRA and the Reserve Bank would be keeping a close eye on affordability and buyers' ability to repay their mortgages.

"We think there will be a macroprudential response in the middle of next year," he said.