

## 10 Reasons Why You Should **NOT** Be Selling in Melbourne Anytime Soon

Partly as a result of the Victorian Governments implementation of new housing policies in 2017, the property market has changed considerably.

Here are some of the key facts to consider before you think of selling if you own a good property in Melbourne.

### Reason #1. Melbourne is having a population boom

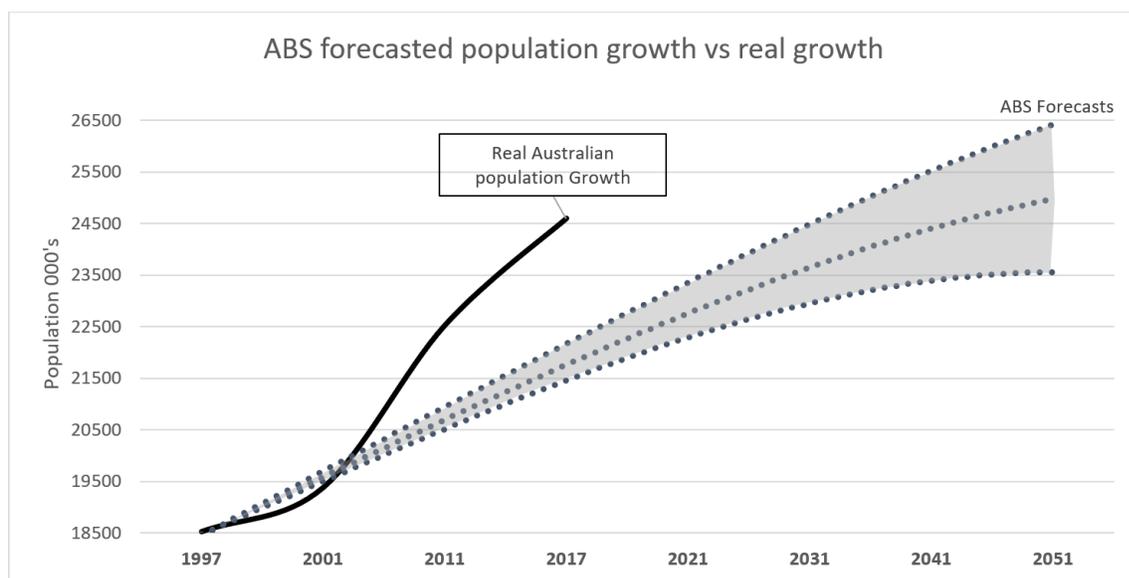
Amongst other factors, real estate prices and rents grow due to **demand relative to supply**.

Demand comes from many factors too, principally population growth.

Australia hit a population of 25 million seventeen years ahead of Australian Bureau of Statistics forecasts.

These incredible levels of growth are the result of one of the world's most efficient immigration systems and the baby boomer generation boosting birth rates to a level never seen before. As a consequence, Australia currently displays the highest rate of population growth out of any medium to large OECD country in the world.

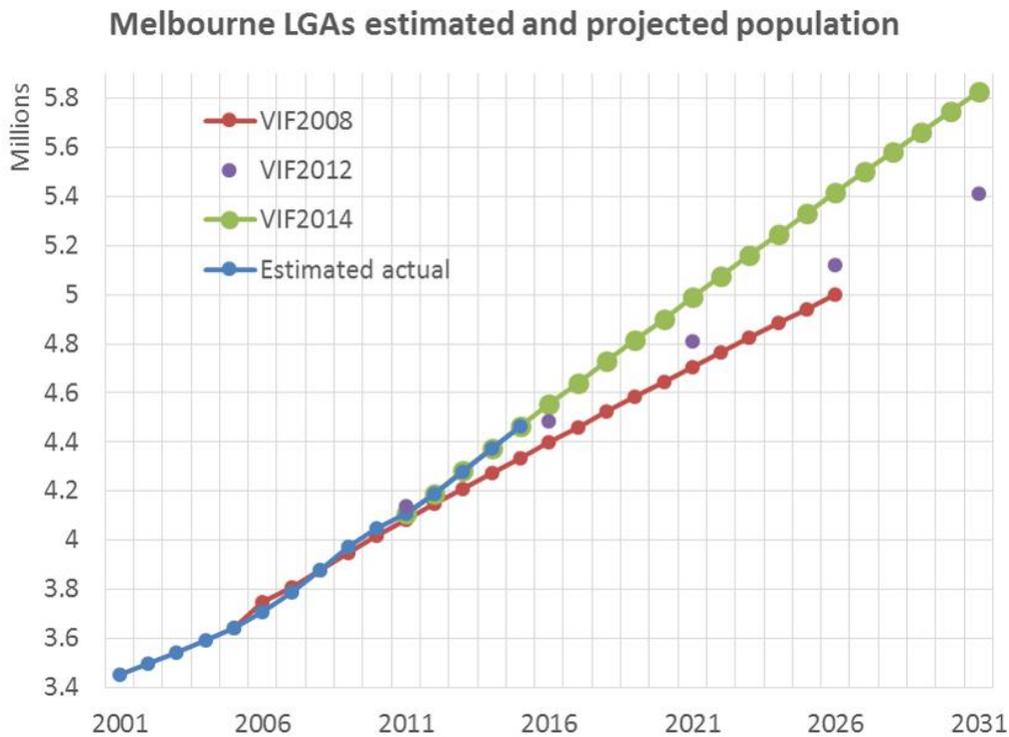
**Thirty-eight million** residents will be the new benchmark by 2050 according to new data forecasts, around twelve million higher than the high-ball forecasts of the ABS



- Australia's average household size is 2.6 people.
- The average age is 37.
- 25 new migrants are arriving every hour.
- 38 new births occur every hour.

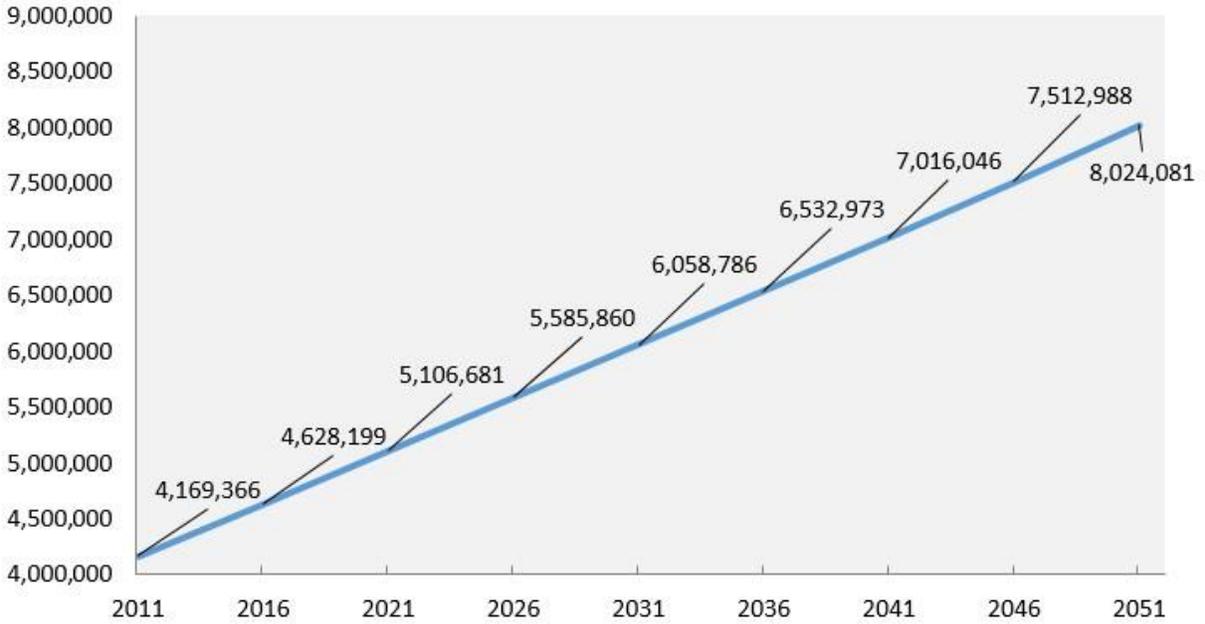
All forecasts show this population growth, from natural increases, interstate migration, and overseas migration, is not going to stop anytime soon, and **Melbourne will grow** to become a bigger city than Sydney.

All these people **need somewhere to live**.



# Melbourne Metro Population Projections

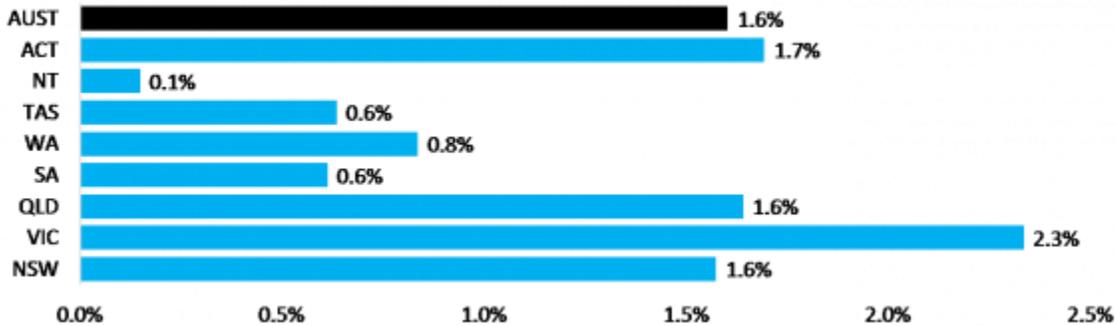
Source: Victorian Department of Environment, Land, Water and Planning



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## Annual change in population, year to June 2017

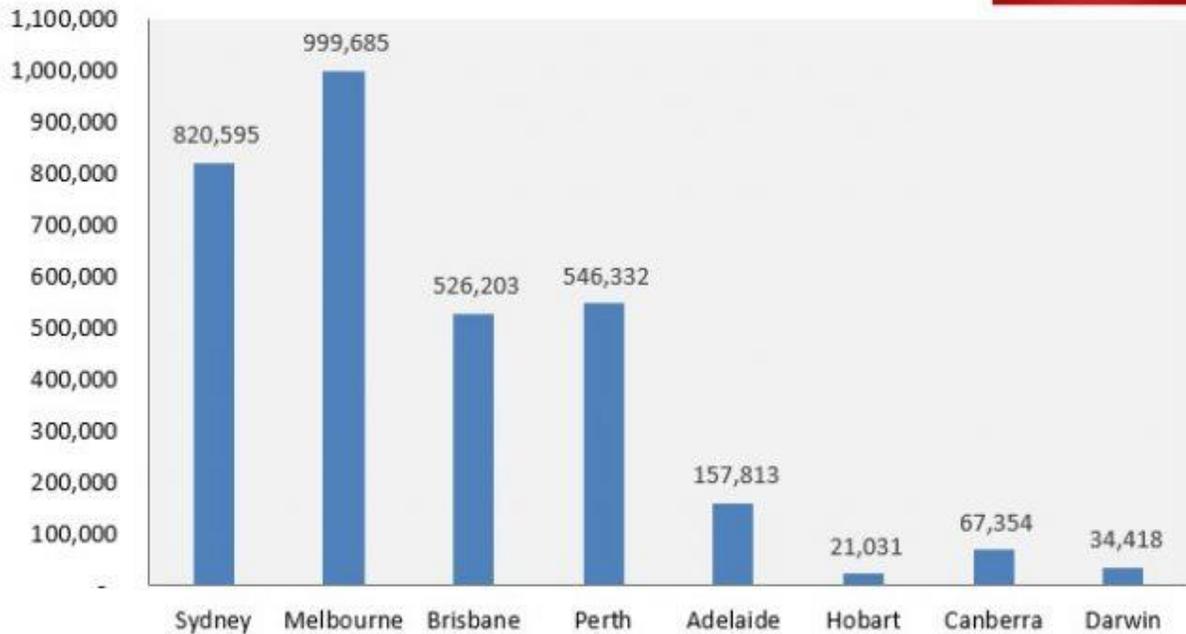


Source: Comptrol, ABS

## Population Change: 2004 to 2016

Source: Australian Bureau of Statistics

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## Reason #2. Supply may be struggling to keep up

According to an Urban Development Institute of Australia (UDIA) 2017 report, **Victoria is underprepared for its booming population and needs to embrace higher density living like apartments** if it is to keep up with demand for new homes.

Data from the UDIA found that despite high levels of housing development, the state had a shortfall of 9,000 new properties in the past two years.

It said if that trend continued it would lead to an undersupply in excess of 50,000 houses by just 2020.

The UDIA's Victorian chief executive Danni Addison, said there had **been a lack of proper planning** for Victoria's population boom by federal, state and local governments.

"The worrying thing is that we have a population growth forecast that is constantly growing and has constantly been under-represented by government agencies and even the ABS," she said.

"We're simply **not building enough** to meet the demands of the population growth we're seeing here in Melbourne."

Professor Jago Dodson, the director of RMIT's Centre for Urban Research said continually expanding at the fringe would not solve Melbourne's problems.

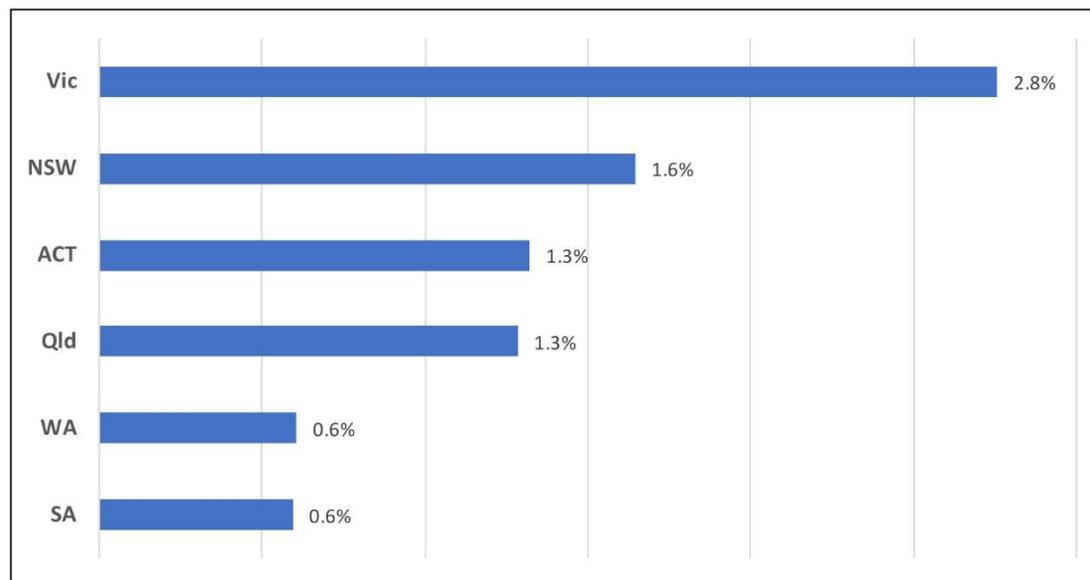
"Long commutes from a far-flung outer suburb won't necessarily enhance people's productivity and they contribute to other kinds of social stress," he said.

He said Melbourne **needed to build more properties** closer to good employment, which was often based in the inner city.

## Reason 3. Victoria's thriving economy

There is a reason so many people are arriving in Melbourne.

Average Annual Employment Growth 2014-2017



Source: ABS

In In

Victoria is a mid-sized economy that is larger than Singapore, New Zealand and most of South East Asia.

The Victorian state economy has experienced strong growth over the last decade, increasing by an average of 2.2% annually.

Job growth is another factor underpinning the performance of housing market performance. Consideration of recent employment data highlights that while the stronger performing capital city markets have all been attracting robust employment growth, the weaker housing markets exhibit relatively benign employment growth. The contrast between the average annual job growth in Victoria (2.8% per annum) versus Western Australia (0.6%) starkly reinforces this point.

The Victorian economy is a significant exporter of goods and services and was responsible for A\$16.7 billion or over 24.4% of Australia's export of services in 2015-16. In total, the state economy generated A\$373.6 billion in Gross State Product (GSP) in 2015-16.

## Reason #4. Melbourne is the world's most liveable city

The Economist Intelligence Unit have ranked Melbourne **as #1 most liveable city** in the world for a record 7 consecutive years in a row.

This means population growth is **not likely to stop** anytime soon.

With a strong economy, excellent schools, good public transport system, expansive green spaces and lifestyle amenities, it's easy to understand why Melbourne **is such an attractive city for investors** to buy property in. With some stunning new developments with exceptional 5-star hotel-style facilities now being created, the range of new apartments Melbourne has really taken a step up from the rest.

## Reason #5. Record low rental vacancy rates is the key indicator

Melbourne's rental vacancy rate has plummeted to just 1.4% in March 2018, **the lowest ever** recorded by SQM Research since they began recording the data back in 2005.

And **lower than even Sydney** which recorded 2.3% at March.

That means that through all of Melbourne, out of every 100 rental properties, just over 1 is vacant at any point of time.

As people are always moving around and in and out, this really means it a **FULL HOUSE**.

And look at the Melbourne Central Business District (CBD) vacancy rate below! The CBD has just hit its **lowest ever** figure, at just 1.1%, with only 210 available apartments to rent.

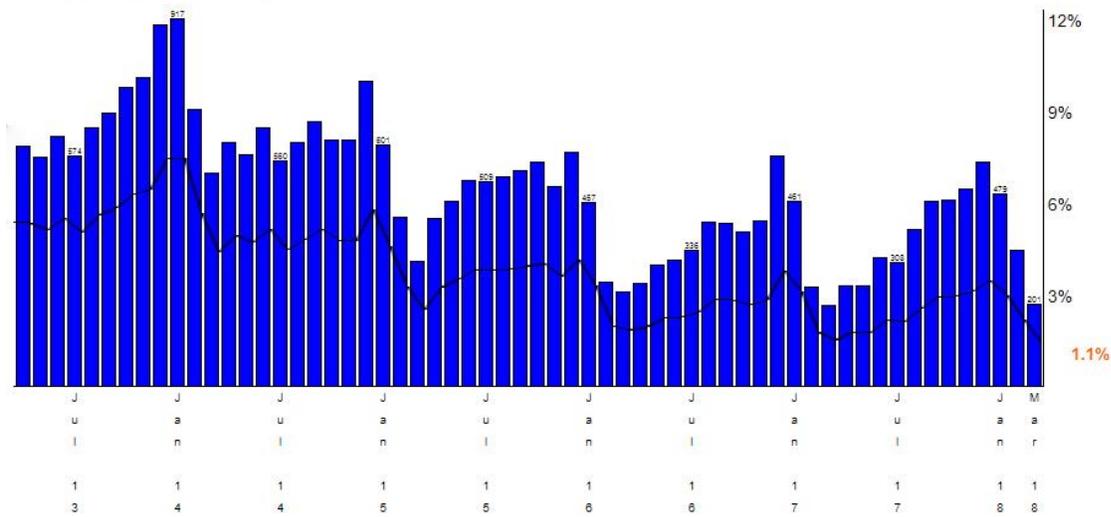
The vacancy rate has plummeted in the CBD from **over 7% in 2014 down to 1.1%**, with just a total of 201 properties available to rent, down from over 900!

**Why is this so important?** Because it means **the much talked about** "oversupply" simply doesn't exist. Vacancy rates are **the absolute best indicator**.

In simple terms, if too many apartments have been supplied, then investors cannot find tenants. The CBD did have an oversupply back in 2014, with 7% plus vacancy, but not now.

# Residential Vacancy Rates

Postcode 3000



The City of Melbourne's Daily Population Estimates and Forecasts reveal that expansion in the city will continue, and is expected to hit 266,455 residents by 2037 due, largely, to births and immigration

## Reason #6. The state government is helping first home buyers get into the market

In 2017, the state government introduced a series of initiatives to help more buyers get into the market below \$750,000.

They completely scrapped all stamp duty for first home buyers up to \$600,000 with concessions from \$600,000 – \$750,000.

And they introduced a new program of joint ownership with the Government, where first home buyers can co-own a property with the government as long as they have a 5% deposit. The Government will “lend” the buyer the rest of the required deposit to get a bank loan.

And it is interest free, and never has to be repaid unless they sell the home. This naturally has the effect of **further fuelling demand**.

## Reason #7. Projects are being shelved, cancelled and simply not going ahead

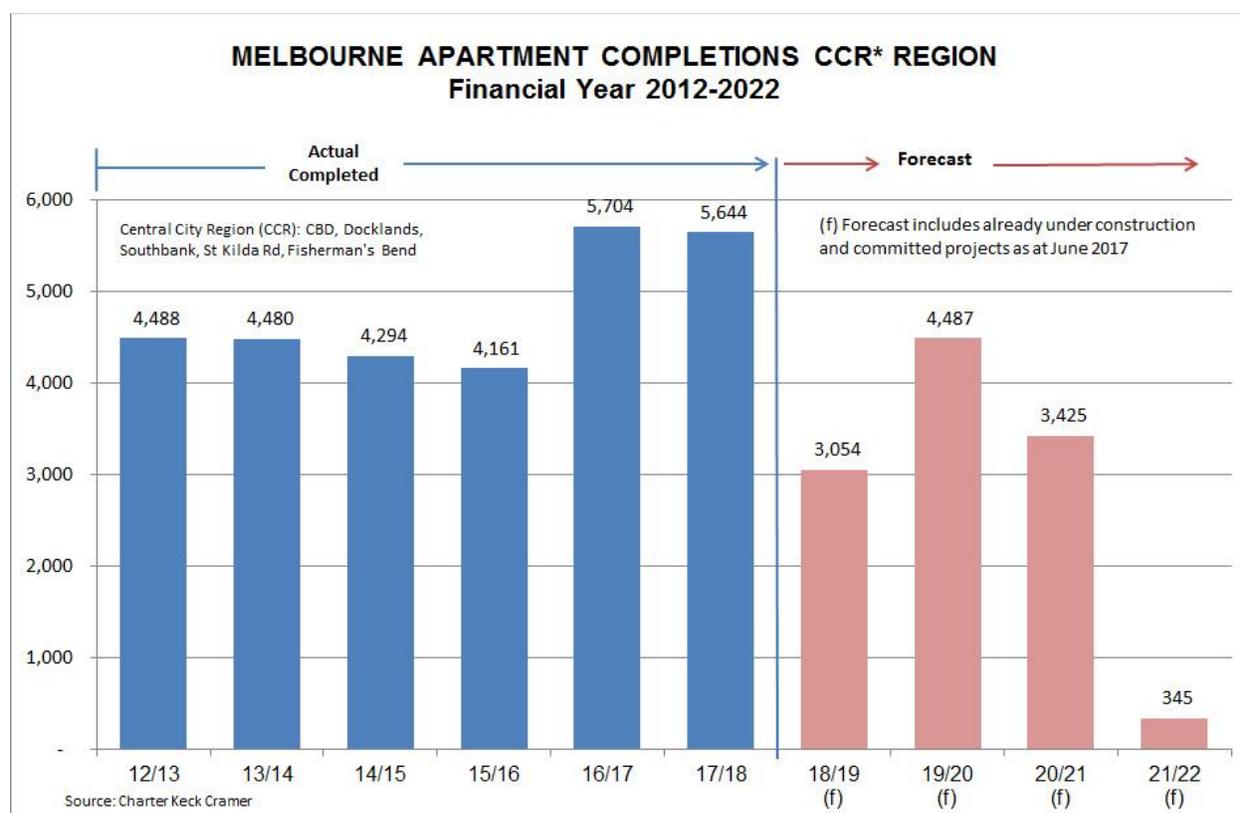
Between 2016 to 2018, many things changed, that have caused **numerous projects to be cancelled**, “delayed” or simply abandoned, including the Better Apartment Policy, strict new

height restrictions in the CBD limiting most buildings to 24 stories, difficulties in developers getting funding, and new Foreign Investment laws restricting sales in any large project to no more than 50% of the total.

Another reason is that some developers acquire permits for apartments, but will never build them.

Only a **small % of applied for permits** ever get built.

Here are the **actual apartment completions** in inner Melbourne, and the latest forecasts based on projects committed to go ahead and /or under construction. Where ARE the “tens of thousands of apartments” are the media would have us believe are coming?



**And here is another key point.** The **Better Apartments Design Standards** policy has been introduced to improve the liveability and sustainability of apartments across Victoria, again meaning projects that don't meet these standards won't go ahead.

Also, skyscraper **height limits** have been introduced in the CCR region, which have put a brake on inner-city apartment development, with the era of super-tall towers on tiny sites in central Melbourne over

**PLUS** developer's costs to build projects have gone up because of these improvements required to apartments. **New projects will cost more to build in the future**, meaning you

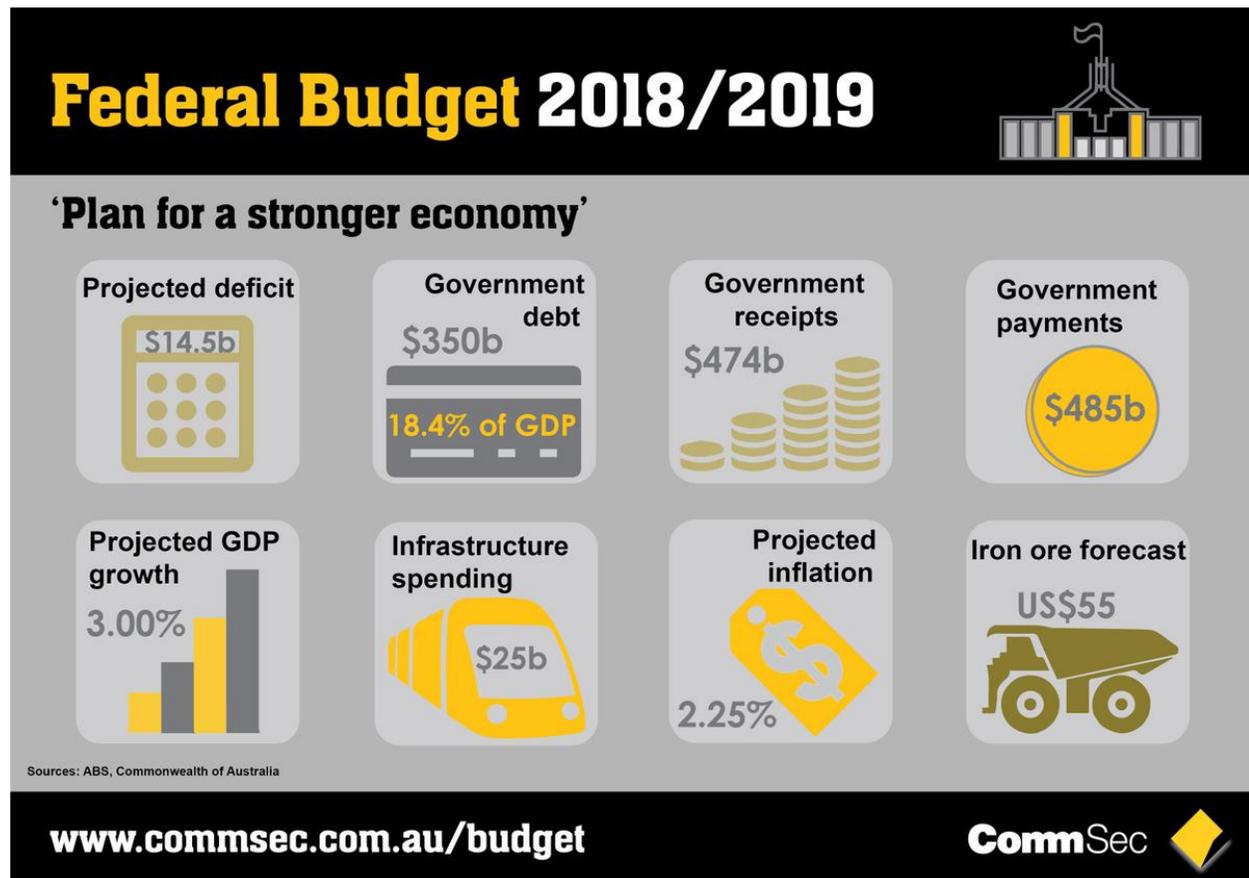
may never see these prices again. If you sell now, you may never be able to buy back in again, not only because of higher prices, BUT also because you may have to pay higher taxes and stamp duties when purchasing in the future, AND get a lower % of bank loan.

**This is an important point. See note #1 below.**

## Reason #8. Huge infrastructure spending

All Australian cities have a lot to be excited about with \$75 billion in funding over the next 10 years aimed at rail, road and air.

However, the **May 2018 Budget** announced some \$24.5 billion in infrastructure, with the clear winner being Victoria, which is getting \$7.5 billion, with NSW (Sydney) getting just 1.5 billion. Queensland was the **other big winner** with getting around \$5.2 billion.



## Reason #9. FIRB changes

From 7:30pm on 9 May 2017 new projects which are approved by the Australian Government of more than 50 dwellings “will be subject to a condition that the developer may **only sell a maximum of 50 per cent of the total dwellings** in the development to foreign persons.”

This is another reason many foreign developers are not proceeding with projects, as they (may have) intended to sell the majority overseas.

Now, 50% MUST be sold locally to Australians. **This is a great benefit** to supporting good quality owner occupier type projects and restricting huge new towers, **further reducing supply.**

## Reason #10. Australians are Rich!

Australian are amongst the world’s wealthiest people measured both as by median wealth and actual wealth per adult.

List by [Credit Suisse \(2016\)](#)<sup>[1]</sup>

Rank No.	Country	Total Wealth (in billions USD)	Wealth per adult (USD)	Median wealth per adult (USD)
1	 Switzerland	3,478	561,854	244,002
2	 Australia	6,428	375,573	162,815
3	 Belgium	2,293	270,613	154,815
4	 Japan	24,070	230,946	120,493
5	 United Kingdom	14,150	288,808	107,865
6	 Italy	9,973	202,288	104,105
7	 France	11,891	244,365	99,923
8	 Canada	7,564	270,179	96,664
9	 Netherlands	2,412	184,378	81,118
10	 South Korea	6,278	159,914	64,636
11	 Taiwan	3,199	172,847	63,134
12	 Spain	4,396	116,320	56,500
13	 United States	84,784	344,692	44,977

# Conclusion

It can be confusing with so much media attention focusing on sensationalist stories, meaning many investors sell at the wrong time.

Based on the facts presented above, if you own a good, owner occupier style apartment in the Melbourne CBD and /or inner suburbs, particularly if valued under \$750,000 it would seem to be very prudent to hold, as today's values will be tomorrow's bargains, with potential strong rental growth coming. Once rents rise, and investors returns increases, values also then rise.\*

**Over the long term, this is a given.**

It has been reported that less than six percent of Australians, or roughly 1.3 million people, actually own one investment property, and just 118,000 investors have three or more, in part because so many believe or are scared of some of the "reporting."

**Finally, you should be aware that the proportion of stock sold for all projects Under Construction at the end of 2017 was 92%. That means you do NOT have much choice!**

If you wish to **de-risk your purchase**, but buying something that is ready, or nearly completed, so you know you can get finance, and take advantage of immediate rental income, with some 92% presold off the plan, you **don't have a huge amount of choice**, particularly in good projects, **so it would be prudent** to make your move **sooner** rather than later.

Even off the plan projects that are being marketed, **but have not yet started building**, are reported to be **already 62% sold** already at the end of H1-2017, and many of these will not be completed for years to come **and may not even get built.**

## Note #1

The Victorian Government, like many other places, (Hong Kong is a good example) is putting more taxes and duties on properties when purchasing. Meaning that going forward it is likely to cost you **more in fees and taxes** than today.

In addition, bank loans are getting harder to get, and at **lower % amounts** of the price. Previously, you may have been able to get 90% or defiantly an 80% loan. TODAY, 60% to 75% is the normal. In the future this may even come back to 55% to 60% tops. (Again, look at Hong Kong)

**Won't this restrict the number of buyers? And maybe affect my resale prospects?**

Yes and no. It certainly hasn't affected prices in Hong Kong! But in Australia and in Melbourne, if there are less buyers, **then simply put** developers build less projects, which

creates scarcity. And as the population keeps increasing relentlessly, rental occupancy rates keep increasing, and eventually rents rise as all apartments are full, **which creates even more demand as the higher the rent return, the greater the demand from investors-**



So, while it is true there are could be less buyers able to qualify for a loan, the scarcity and rent returns attract more investors with deeper pockets, greatly helping potential price rises.

