Big Bad Wolf of the Melbourne CBD Apartment Collapse in 2016

Towers of Melbourne apartments made of straw are tipped to collapse as the big bad wolf of oversupply and APRA hits the CBD and Southbank real estate markets

There are three little pigs of circumstances that has created a unique set of market conditions that will force investors into financial duress.

1. Piggy One - Mammoth over supply effecting occupancy and rentability
2. Piggy Two - APRA finance conditions reducing LVR's for overseas investors
3. Piggy Three - Bank valuers reducing purchase prices by up to 20%

To understand the Melbourne CBD and Southbank property market, supply and demand, immigration and birth rates, valuations and Government reports is critical due-diligence to prepare the canvas prior to painting a picture of the real estate market.

In this discussion, we look at the matrix of the Melbourne CBD and Southbank: Approvals - Supply - Immigration - Rental

Read the full article here: http://uchkconsulting.com/big-bad-wolf-melbourne-apartment-market.html

During the GFC, Victoria was building about 8000 to 9000 apartments a year. In 2015, Victoria's 38,208 approvals of new apartments and other denser dwellings accounted for nearly a third of the national total of 187,115 the highest for the first time in Australia's history. Melbourne CBD approvals for 6 months of 2015 was a enormous 12,516. The scale of Melbourne's high-rise boom, can best be demonstrated when you add unit approvals for inner city Brisbane, Sydney and Perth over the same period, was only 11,524.

Considering Australia has one of the lowest birth rates in the world (308,100 or 1.88 birth rate), immigration only increased (barely) by 1% between 2008-2009 when compared to 2013-2014, the old argument of supply and demand is become a weak justification for the number of apartment approvals in the Melbourne CBD. In particular, many are speculating that the Melbourne CBD has reached critical over supply levels.

The city is already heading for a glut of apartments, which researcher BIS Shrapnel says by June 2016 there will be a surplus of 15,000. Are we heading towards a ghost city were there is so much stock under construction that they lay empty ?

In an article published by domain.com.au. "Get out as soon as possible [otherwise] it will take 10 to 15 years before you get your money back."

http://www.domain.com.au/news/no-stopping-melbourne-cbd-oversupply-get-out-as-soon-as-possible-20150908-gjhbqi/

Planning approvals are still coming through the pipeline and would keep adding to the apartment supply.

"This financial year we will reach an oversupply". In the next financial year, 2016/2017 he said there would be a "significant excess" of apartments. Said, Paul Nugent, Wakelin Property Advisory

The property valuers (the banks canneries) can already smell the gas. [Piggy Three] Overseas purchasers will be devastated when their valuations prior to settlement come back between 5-20% lower than the purchase price. Bank valuers are the oracles of the real estate market and so they should be, their own professional indemnity insurers are clamping down and warning their property valuer customers to be very cautious. Combine this market sentiment with the banks conservative approach to property values in the CBD and Southbank, valuation firms that wish to maintain their accreditation and avoid litigation with major banks, will surely be slashing property values.

[Piggy Two]
APRA and the effect the new policies is having property investors. The LVR bondage. The tighter LVR credit standards by APRA and higher rates is not just a speed limit to deter property investors but, has a possible motive to prepare the banks for an economic shock. Tighter credit standards across the board with loan-to-value ratios (LVRs) on investor loans from 95% down to 80%. Overseas investors, slashed from 80% down to 70%. Basically, all Australian banks are sitting on the same APRA bus, and are preparing themselves for any future shocks by increasing the capital applied to mortgages, reducing LVR's and increasing their ROE.

[Piggy One] Melbourne's rental market in 2009 was a modest 23,192 and in 2014 and has increased to 34,612. If a very modest 50% of the new apartment constructions are purchased by investors (More likely 80%) and are released to the rental market, there will be an estimated flood of 20,000+ apartments to hit the Melbourne CBD market.

Existing Dwellings 2015	58,733
Under construction	13,451
Construction 0-2 years	11,726
Construction 3-5 years	13,031
Total by approx. 2017	**96,941**

Source: http://www.melbourne.vic.gov.au/AboutMelbourne/Statistics/Documents/Small_area_profile_Southbank_2013.pdf

Source: http://www.dhs.vic.gov.au/about-the-department/documents-and-resources/research,-data-and-statistics/rental-reports-2014

House Hold Types	87% High-rise
Country of Birth	66% Born overseas
Ownership	50% Rented

Source: http://www.melbourne.vic.gov.au/AboutMelbourne/Statistics/Documents/Demographic_population_Infographic_Melbourne_CBD.pdf

Is the Melbourne CBD now a ghetto for overseas students and transient residents ? With the broader Melbourne tenancy population opting to live outside the CBD.

Immigrants from China and India combined represented 11% of the municipality's residential population in 2011 and accounted for around one third (32%) of the overall growth of 17,480 residents between 2006 and 2011. The proportions of immigrants from the more traditional destinations England and New Zealand also continued to increase (23% and 31% respectively), suggesting that immigration has not declined from these nations, but been surpassed by the newer immigrant nations in Asia.

Population Change 17,480 (2006 - 2011)
2006 76,147
2011 93,627

Country of birth	2008–09	2013–14
Oceania & Antarctica	32,628	29,539
North-West Europe	39,813	33,540
Southern and Eastern Europe	6,059	7,561
Africa and the Middle East	13,173	16,098
South-East Asia	30,199	31,500

North East Asia	33,212	35,490
Southern and Central Asia	38,832	61,742
Americas	7,957	9,916
Sub - Saharan Africa	20,348	12,908
Sup Country Codes	171	342
Not Stated/NEI	2,227	400
Grand Total	**224,619**	**239,036**

Immigration Source: https://www.border.gov.au/about/reports-publications/research-statistics/statistics/live-in-australia/historical-migration-statistics

The mistakes made by developers will be born by the individual investors when bank valuations sort out the risk with divesting low valuations or LVR's and will identify the many high-rise buildings built to a poor standard and design.

Melbourne City Council published a report that over 40% of the city CBD'S developments are "poor" quality, contain design flaws such as cramped layouts. These sub size apartments have been predominantly purchased by investors and most are from overseas.

The report stated that overseas investors who buy 85% of apartments in the Melbourne CBD were not bothered as long as there was someone willing to rent the property, but this will not be the case for many.

If you've been following investment advice, for a good decade now I have recommending my clients to **steer clear** from buying CBD apartments.

The madness is receding. Each month for a year now more than half of all the dollars lent for buying and building homes went to investors. The insanity is apparent when you consider that until the mid-1990s only 10 to 20 per cent went to investors. People bought houses to live in.

In May this year as prices in Sydney and Melbourne soared to once-unimaginable heights the proportion lent to investors hit an all-time high of 53.5 per cent. And then it slipped, in August sliding below 50 per cent for the first time in a year.