

State of the Market

Residential Build to Sell (BTS)
and Build to Rent (BTR)
Apartments

Metro Melbourne

H2 2021

March 2022

charterkc.com.au

Australia's most
trusted & innovative
property group.

ADVISORY.
RESEARCH &
STRATEGY.
VALUATIONS.
PROJECTS.
CAPITAL.

CHARTER.
KECK CRAMER

RESEARCH &
STRATEGY



Angie Zigomanis
Director
Research & Strategy



Richard Temlett
Associate Director
Research & Strategy

State of the Market

BTS and BTR Residential Apartments

Metropolitan Melbourne – H2 2021



RESEARCH &
STRATEGY

The Melbourne housing market performed far better than expected in 2020 and 2021 given the uncertainty (and numerous lockdowns) created by Covid-19. There were several factors that contributed to this strong performance with the primary reasons being low interest rates, various Government incentives and support measures as well as high household savings accumulated during the lockdowns.

This strong performance was however largely limited to the detached housing market. The apartment market for the most part missed out on various incentives and also suffered from the loss of foreign and local investors, building defects issues, cladding issues and then the substantial loss of occupier demand.

There are however various cyclical and structural changes that are occurring in Melbourne which will support the next cycle of BTS apartment projects as well as the emergence of the nascent BTR sector. These include the acceptance of living in apartments, increased detached dwelling affordability constraints, record median house to apartment price gap and the acceptance of long-term renting.

Demand Considerations

There was a substantial demand-side shock to occupier demand in Melbourne due to Covid-19. This was due to international and, at times, domestic borders being closed. This demand-side shock was felt most acutely in the inner-city apartment markets and in locations close to tertiary educational institutions.

Whilst vacancy rates in certain sub-markets (including the inner city) increased and rents decreased, the most recent figures suggest that the rental and purchase markets are recovering.

Demand for apartments is increasing in Melbourne as a result of structural changes that were underway prior to Covid-19. Apartment living and renting is now an accepted form of living – especially in the Millennial and Generation Z age segments which are most often priced out of the established housing market and are also making lifestyle decisions to travel and marry later in life. Baby Boomers are another segment of the market which is prepared to downsize (or rightsize or even upsize) into an apartment and age in the suburb they have been living and close to their children and grandchildren.

Supply Considerations

There were elevated levels of apartment completions in 2020 and 2021 in Melbourne. This was a legacy of the previous investor-driven cycle which is unlikely to be repeated. At present there are elevated levels of unsold apartments (particularly in the Central City Region) but it is anticipated that these will be absorbed in the short term as

demand returns and is driven back into the apartment market due to high established housing prices.

Importantly, there were also very few apartments in projects that have been released to market over 2020 and 2021. This was due to weak occupier and purchaser demand as well as the uncertainty surrounding Covid-19.

Projects that were launched and were met with the greatest market acceptance were smaller, owner-occupier focussed apartment projects.

The outlook from a supply perspective indicates that there will be a shortage of rental apartments in Melbourne when tenant demand returns.

Mismatch between Demand and Supply

Demand, via population growth, will return to Melbourne from 2023 and onwards. Moreover, the rate of growth within different age segments of the population will vary.

With that growth will come the demand for additional and diverse forms of living. At present, supply will not be able to respond as quickly to demand which suggests that vacancies will decrease, and rents and prices will increase.

This will initiate the next cycle of the BTS apartment market and first wave of BTR apartment projects.

BTS Outlook

The BTS apartment market continues to evolve and mature. The typical purchaser and occupier is now more educated and aware of what they require in an apartment. Owner occupier apartments are the product type that will best be able to respond to the needs of these occupiers. This product type is very different to the historical investor-grade apartment product that has been delivered over the last decade across many projects in Melbourne.

BTR Outlook

The BTR segment of the residential housing market is still in its infancy. The investment logic and drivers are in place for this segment to emerge and become entrenched over the next decade. BTR does not rely on presales and there is an opportunity to mobilise BTR supply to meet the increasing demand for secure rental dwellings which will not be met via the BTS apartment market in the short-term (due to presale requirements in BTS projects). There is also demand for long-term rental in purpose-built developments which create a community and have greater levels of amenity than currently offered by the private fragmented residential rental market.

State of the Market

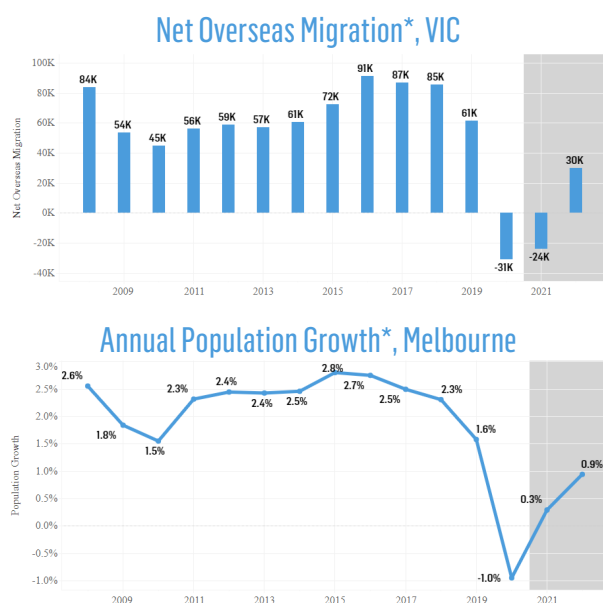
BTS and BTR Residential Apartments

Metropolitan Melbourne – H2 2021

CHARTER
KECK CRAMER

RESEARCH &
STRATEGY

POPULATION INDICATORS



* 2021 and 2022 forecast by Centre for Population
Source: Australian Bureau of Statistics, Centre for Population, Charter Keck Cramer

DEMAND INDICATORS

Median Unit Price (Q4 21)



\$593,387

(up +3.9% on Q3 2021,
up +6.0% on Q4 2020)
Source: Domain

Median Unit Rent (Dec 21)

\$375 p.w.

(up +0.5% on Nov 21,
down -2.4% on Dec 20)

Vacancy Rate (Q4 21)

3.2%

(down from 4.5% in Q4 20)
Source: SQM Research

SUPPLY INDICATORS

Apartment Completions



159,000

Apartments have been
completed in Metro Melbourne
since 2009.

Project Sizes		
	Projects	Apts
1-50	1,815	42,800
51-100	409	29,300
101-150	138	16,900
151-200	96	16,600
201-250	45	10,200
251-300	32	8,800
300+	72	34,400
TOTAL	2,607	159,000

Source: Charter Keck Cramer

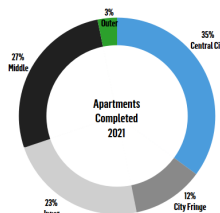
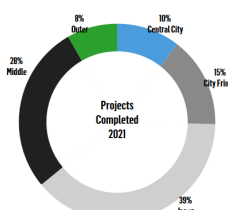
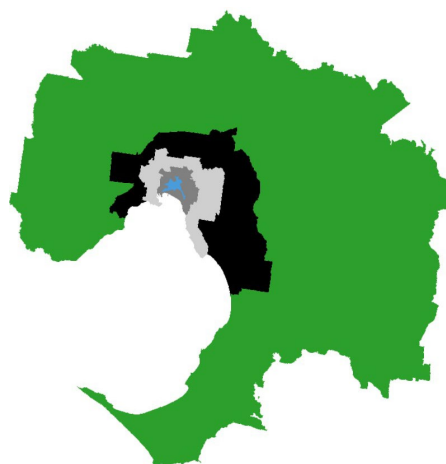
MARKET UPDATE

The most active region in metropolitan Melbourne has historically been the *Central City Region*. This region has been attractive for apartment development because of supportive planning controls and proximity to tertiary educational institutions.

In 2021 there were 12,100 apartments completed across 178 projects. In terms of projects completed, the *Inner Region* was the most active (39% of projects) whereas in terms of completed apartments, the *Central City Region* was the most active (35% of apartments) which is a legacy of the previous investor-driven cycle.

The short-term future pipeline in metropolitan Melbourne will continue to diminish with only 5,600 apartments commencing construction in 109 projects and a further 4,300 apartments being launched in 68 projects in 2021.

METROPOLITAN MELBOURNE APARTMENT REGIONS



Source: Charter Keck Cramer

METROPOLITAN MELBOURNE BTS APARTMENT SUPPLY SNAPSHOT – 2021

12,100

Apts. Completed
[178 Projects]
2021

5,600

Apts. Commenced Construction
[109 Projects]
2021

4,300

Apts. Launched
[68 Projects]
2021

Source: Charter Keck Cramer

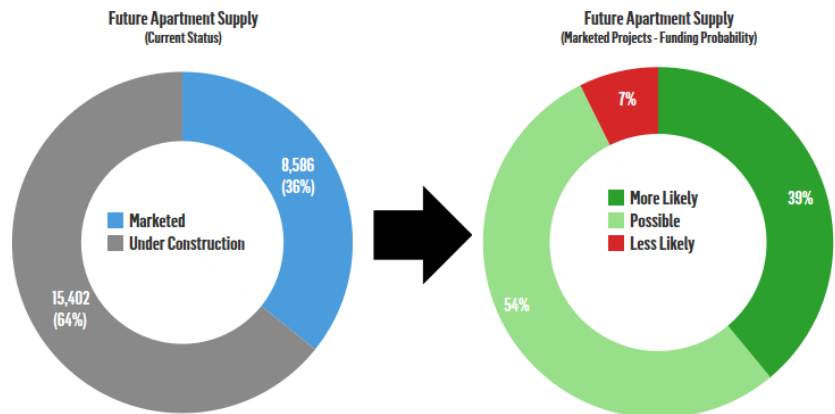
BTS FUTURE SUPPLY

There are currently 15,402 apartments under construction in metropolitan Melbourne, with a further 8,586 apartments currently being marketed.

It should be noted that not all marketed projects will necessarily reach completion given the requirements to reach pre-sales targets before attracting construction finance.

Charter Keck Cramer forecasts 7% of those apartments currently marketed are less than likely to secure construction funding.

FUNDING PROBABILITY – ACTIVE PROJECTS



Source: Charter Keck Cramer

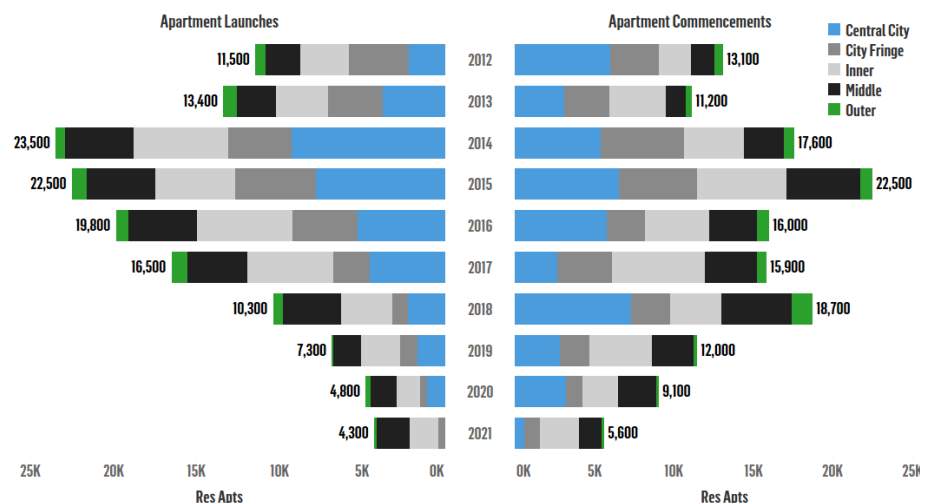
BTS APARTMENT LAUNCHES

In 2021, there were a total of 4,300 apartments launched (for sale) to market. This was the lowest number of launches recorded over the past decade and was -82% lower than the peak of 23,500 apartments in 2014. The most active region in 2021 was the *Middle Region*. There has been little activity in the *Central City Region* (historically the most active region) due to a change in planning controls in 2016 as well as the loss of domestic and foreign investors.

APARTMENT COMMENCEMENTS

In 2021, construction commenced on 5,600 apartments. This is the lowest number of apartment commencements recorded over the past decade and represents a decrease of -75% from the peak of 22,500 apartments in 2015.

LAUNCHES AND COMMENCEMENTS OVER TIME



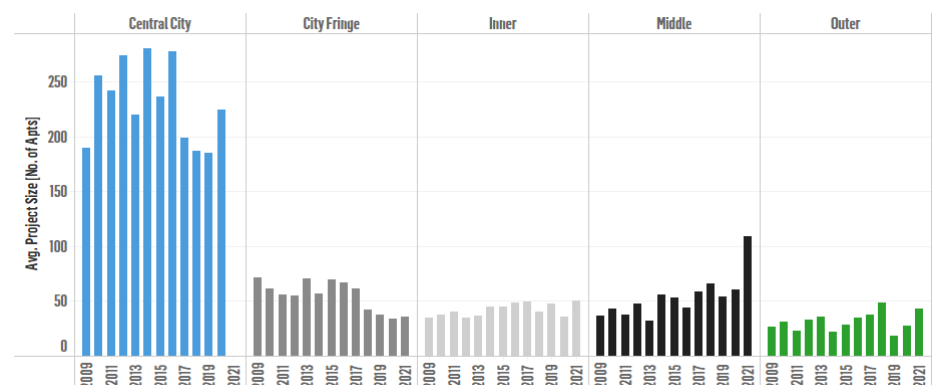
Source: Charter Keck Cramer

HISTORIC BTS APARTMENT LAUNCHES

Over recent years, the average size of new apartment projects within the *Central City Region* (the most active region) has trended downwards. An explanation for this is the change in various planning controls in the *Central City Region* in 2016 & 2017.

By way of contrast, the average size of new apartment projects within the *Inner & Middle Regions* has trended upwards. Much of this activity has occurred in and around activity centres and transport hubs which have planning policy to support larger projects.

APARTMENT LAUNCHES BY PROJECT SIZE



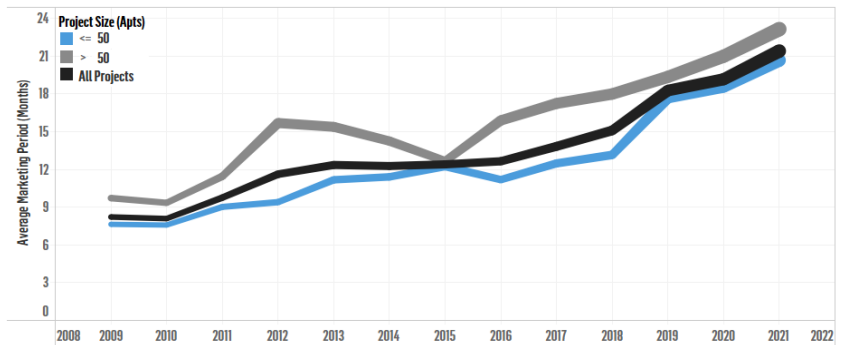
Source: Charter Keck Cramer

BTS APARTMENT PIPELINE

The average time taken to commence construction (from the date of launch) on new apartment projects in 2021 was 21 months. This increase reflects the difficulty in obtaining presales to obtain construction funding.

Larger projects (50+ apartments) are taking an average of 23 months whereas smaller projects (less than 50 apartments) are taking an average of 21 months to proceed to construction.

AVERAGE PERIOD FROM LAUNCH TO CONSTRUCTION COMMENCEMENT



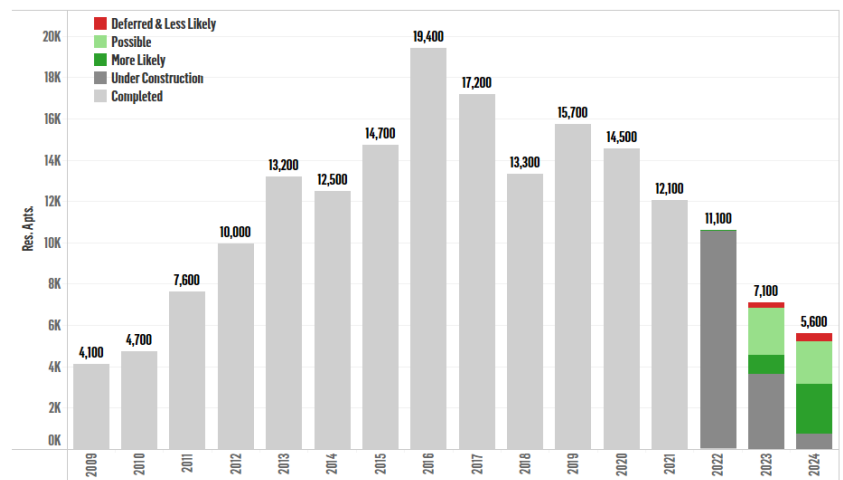
Source: Charter Keck Cramer

BTS APARTMENT COMPLETIONS

There were 12,100 apartments completed in metropolitan Melbourne during 2021. This is a -38% decrease from the peak year of supply (19,400 apartments in 2016) and is the lowest level of annual supply since 2012 (10,000 apartments).

Assuming all marketed stock proceeds, around 7,100 apartments are anticipated to be completed in 2023 and 5,600 apartments in 2024. Whilst these numbers may increase by a small amount due to smaller projects launching and reaching practical completion within the next three years, there is likely to be a shortage of supply of BTS apartments over the next 2-3 years.

COMPLETIONS OVER TIME



Source: Charter Keck Cramer

BTS FUTURE COMPLETIONS BY REGION

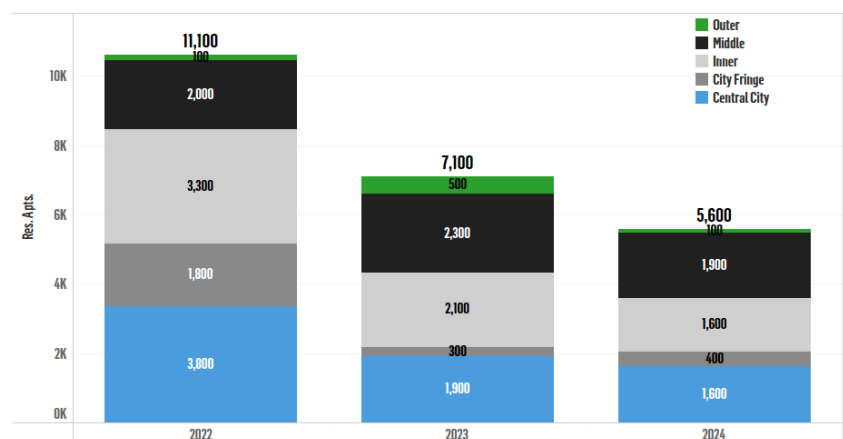
In 2022, there are projected to be 11,100 apartment completions in metropolitan Melbourne.

The *Central City Region* (3,800 apartments) will account for the greatest volume followed by the *Inner Region* (3,300 apartments).

Over 2023 and 2024 the *Middle* and *Inner Regions* are forecast to be the most active.

The metropolitan Melbourne apartment market is maturing and spreading out from the *Central City Region* as house prices increase and apartment delivery becomes feasible in many of these sub-markets.

FUTURE COMPLETIONS – REGIONS OF METROPOLITAN MELBOURNE



Region distribution figures are rounded and therefore may differ from stated grand total
Source: Charter Keck Cramer

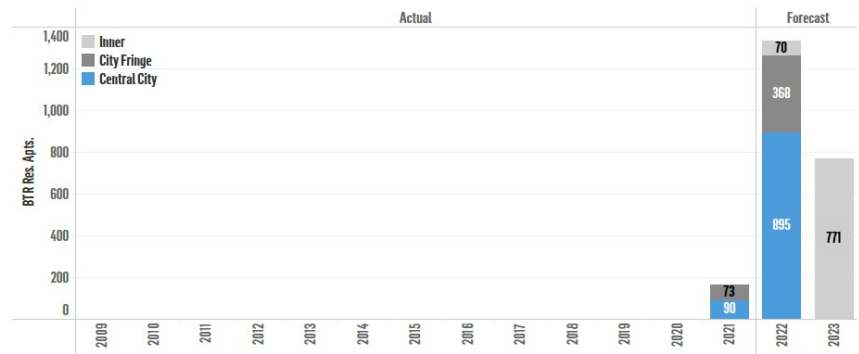
BTR COMPLETIONS

Build to Rent (BTR) is an emerging residential asset class in Australia. Whilst BTR has not yet been officially defined* in Australia, Charter Keck Cramer is tracking all projects that are held by developers for long term rental.

There were 90 apartments in 1 project completed in 2021 in the *Central City Region* and 73 apartments in a further project completed in 2021 in the *City Fringe Region*.

Based on projects that are under construction, there are 2,100 apartments across 6 projects forecast to be completed over 2022 and 2023. Of these projects, 2 are located in the *Central City Region*, with 3 in the *Inner* and 1 in the *City Fringe Region*.

COMPLETIONS OVER TIME – METROPOLITAN MELBOURNE



Source: Charter Keck Cramer

* For the purposes of the charts in this section, Charter Keck Cramer has defined BTR apartment projects that are (1) purpose built for rental with single ownership and management, (2) larger than 50 apartments. Charter Keck Cramer has also included projects that are classified as Built to Rent to Own as well as Co-Living but has excluded projects with apartments retained for long term rental (and then later sell down).

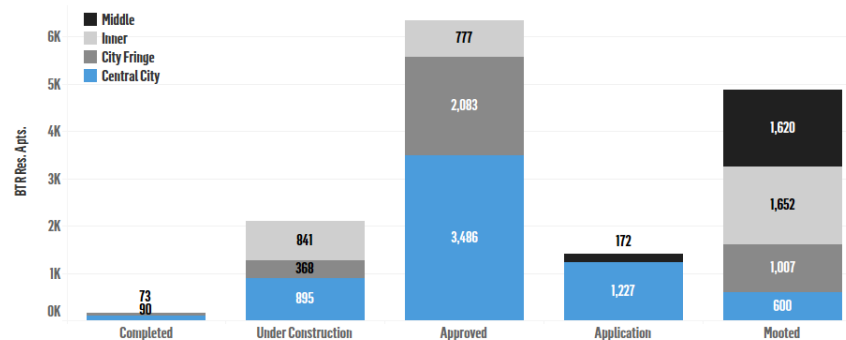
BTR SUPPLY BY REGION

There are approximately 6,340 apartments in 18 projects at the Approved stage in metropolitan Melbourne with the largest number within the *Central City Region* (3,486 apartments).

There are also approximately 6,000 apartments in 14 projects at the Application or Mooted stages across metropolitan Melbourne. The *Central City Region* (1,830 apartments) followed by the *Inner* (1,650 apartments) and the *Middle* (1,790 apartments) contain the majority of the supply.

Charter Keck Cramer observes that these BTR schemes in these various regions will need to be designed differently to meet the distinct segments of the customer market these projects are seeking to attract.

CURRENT AND FUTURE COMPLETIONS – REGIONS OF METROPOLITAN MELBOURNE



Source: Charter Keck Cramer

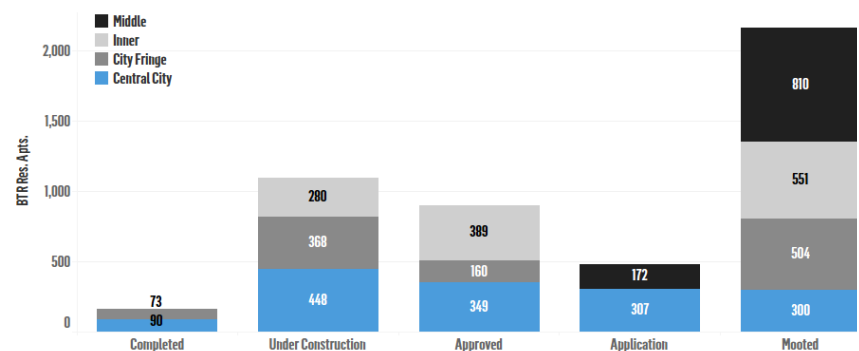
BTR AVERAGE SIZE OF PROJECT

There are BTR projects in various regions across metropolitan Melbourne that have different project sizes. Projects that are under construction have average project sizes ranging from 280 apartments (*Inner Region*) to 368 apartments (*City Fringe Region*) to 448 apartments (*Central City Region*).

As the market matures, and the value proposition of BTR is understood by the renter market, it is likely that there will be projects of different scale and amenity that are delivered.

Developers need to continue to be aware that a balance needs to be achieved between the scale of the development (for operating efficiencies) and the ability to create a community (with sticky tenants) in a project.

BTR APARTMENTS BY AVERAGE PROJECT SIZE – METROPOLITAN MELBOURNE



Region distribution figures are rounded and therefore may differ from stated grand total
Source: Charter Keck Cramer

Detailed and comprehensive data forms the basis to a reliable understanding of the residential market. Charter Keck Cramer's Research & Strategy group maintains a proprietary national apartment supply database across Australia's major capital cities and selected regions that has been continuously updated since the early 2000s.

The database comprises:

- Tracking of over 5,500 currently live apartment projects and over 24,000 complete apartment projects
- Tracking of associated residential apartment uses, including Build-to-Rent, student accommodation, serviced apartments and retirement apartments, and
- Expansion of the database in recent years to include major townhouse developments.

Charter Keck Cramer's proprietary national database is an invaluable tool for stakeholders in the residential development industry, with major benefits including:

- Simple and Clear outputs
- Buildings and Multi-Stage Projects
- Indicators of Actual & Real Activity
- Reliable & Dynamic Forecasts
- Spatially Referenced
- Optimised for Complex Analytics

Key metrics monitored within the national apartment database are as follows:

Item	Comment
Geographic Coverage	All capital cities (full metro: Sydney, Melb and Bris + Core regions: Perth, Adelaide, Canb)
Data Coverage	
Location / address	Street number, Street Name, Suburb, LGA, Region, City
Building scale	Number of apartments & Number of levels;
Development Status	Completed (2017, 2018), Under Construction, Marketed, Approved & Application
Project Delivery Team	Developer and Builder entities
Forecast Completion	Recently Completed, Under Construction and Marketed projects (to nearest quarter)
Milestone dates	Acquisition, Planning, Marketing, Construction, Completion (to nearest quarter)
Outputs	Spreadsheet (.xls or .csv file format) + Basic standard charts & tables (suburb)
Frequency of updates	Monthly (with quarterly audits)

For more information about Charter Keck Cramer's proprietary apartment database and how it can help you, contact:



Rob Burgess
National Director
Research & Strategy
+61 (0) 417 708 925



Angie Zigomanis
Director, Residential
Research & Strategy
+61 (0) 402 323 843



Richard Temlett
Associate Director
Research & Strategy
+61 (0) 424 257 440



Jonathan Mayes
Senior Analyst
Research & Strategy
+61 (0) 418 133 071



Ben Carter
Consultant
Research & Strategy
+61 (0) 421 103 359

Melbourne
Sydney
Brisbane
Gold Coast
Singapore

admin@charterkc.com.au
T 1300 242 787
charterkc.com.au

Charter Keck Cramer Pty Ltd
ACN: 618 794 853

This Report has been carefully prepared by Charter Keck Cramer. This Report does not render financial or investment 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 February 2022 and should not be relied upon to replace professional advice on specific matters. Charter Keck Cramer is not providing advice about the suitability of investment in any specific project or financial product 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.

© 2022 Charter Keck Cramer

Visit charterkc.com.au

Sources: Charter Keck Cramer, Australian Bureau of Statistics, SQM Research, Domain.com.au

DOCUMENT
PREPARED BY
CHARTER
RESEARCH



**Australia's most
trusted & innovative
property group.**

CHARTER.
KECK CRAMER

ADVISORY. RESEARCH & STRATEGY. VALUATIONS. PROJECTS. CAPITAL.



CHARTER.
KECK CRAMER

RESEARCH &
STRATEGY