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Rise of the high-rise has its downside

SARAH DANCKERT THE AUSTRALIAN APRIL 28, 2012 12:00AM

City Residential managing director Glenn Donnelly says apartment demand in the Melbourne CBD and surrounds has improved. Picture: Stuart McEvoy Source: The Australian

ANOTHER week and another big Melbourne apartment project is announced.

This time Shiavello Group has launched what will become Melbourne's second tallest apartment tower, housing 592 apartments across 71 floors in Southbank.

But questions have been raised during the past 12 months as to whether the capital city of Australia's second most populous state can absorb the thousands and thousands of apartments planned for the inner-city area alone.

Melbourne seems to be making a good fist of absorbing the stock brought on by developers.

According to researcher RP Data, 905 apartments were purchased in the Melbourne CBD across the 12 months to January.

Those figures place the Melbourne CBD as No 1 in RP Data's suburb-by-suburb ranking of apartment and house sales.

"Historically, Melbourne has consistently ranked No 1 on this list due to the large number of apartments located within the suburb of Melbourne," RP Data senior economist Tim Lawless says.

"Despite remaining at the No 1 position again over the year to January ... the volume of unit sales within the suburb of Melbourne was about 46 per cent lower than at the same time in 2011."

According to RP Data, prices on apartments in the Melbourne CBD have fallen 8 per cent in the past 12 months to a median of $375,000.

Average face rents have held steady during the year at $450 a week.

However, RP Data's figures on Melbourne don't account for pre-sales on off-the-plan apartments that have yet to settle.

According to the City of Melbourne, which covers the CBD, Southbank Docklands and adjoining suburbs, the city has a pipeline of apartments that will top 30,000 units by 2016. Sales volumes during the past 12 months in Southbank and the Docklands have been too low to make it into the top 20 postcodes nationwide.

City Residential managing director Glenn Donnelly says demand for apartments in the Melbourne CBD and surrounds, which includes the Docklands, recently improved during the past six months.

"It was probably a bit quiet in the middle of last year. But since January we've been turning over more numbers in terms of sales as an agency than we've ever have. So it's been a remarkable turnaround," Donnelly says.

Donnelly, who assists developers in project marketing, including tapping into networks of financial planners and accountants, says there seem to be more owner-occupiers purchasing apartments in the heart of Melbourne's metropolitan area.

"In the Docklands, there's been a number of projects that have been released and they're selling very, very well," Donnelly says.

But outside the glowing appraisal of the market, other independent project marketers say they're doing it tough and that stock lists of apartments available for sale appear to show little difference from week to week.

BIS Shrapnel senior manager residential property Angie Zigomanis says one of the key reasons sales volumes are lower than average is that during the past two years far fewer apartments have been completed in the wake of the global financial crisis.

Zigomanis says in the 2010 financial year, only 800 apartments were under construction in inner-city Melbourne against a historic average of 2500 apartments a year.

Last year, the number of apartments under construction jumped to 5000, and this financial year a further 7500 apartments are under construction.

"At the moment we're going through a bit of a lull of apartments being completed," Zigomanis says.

"Over the next 12 months, settled sales of new apartments will stay fairly low, but they'll ramp up again next year as the projects are completed."

It's generally investors purchasing new apartments within inner Melbourne, and that carries its own troubles for the market and for those investors, Zigomanis says.

"When they're completed, there's a question mark out there about whether there's going to be enough tenants to occupy them," Zigomanis adds.

From a buyer's point of view, WBP Property Group residential valuations manager Brendan Smith says it is important to keep an eye on body corporate fees, which are often higher on high-rise developments in the Melbourne CBD.

"High-rises with lifts, gyms and pools, the body corporate fees tend to be a lot higher and obviously that has a huge impact on your outgoings, especially for an investor," Smith says.

"Your rent on the surface may look attractive, but when you have huge outgoings that's going to affect your net rental figure on the property."

Smith says to also pay careful attention to where the apartment is located within the development, especially if it is facing an adjoining property that in five years could host its own high-rise apartment development and thus block the apartment's view.

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