

Melbourne rents rise as supply plunges

Nick Lenaghan

Apartment rentals in the Melbourne CBD are growing strongly, but not enough to drive price growth or major new construction, according to a report.

Economic forecaster BIS Shrapnel expects low interest rates and very low vacancy rates will drive rents even higher and entice investors back into the market from late 2009.

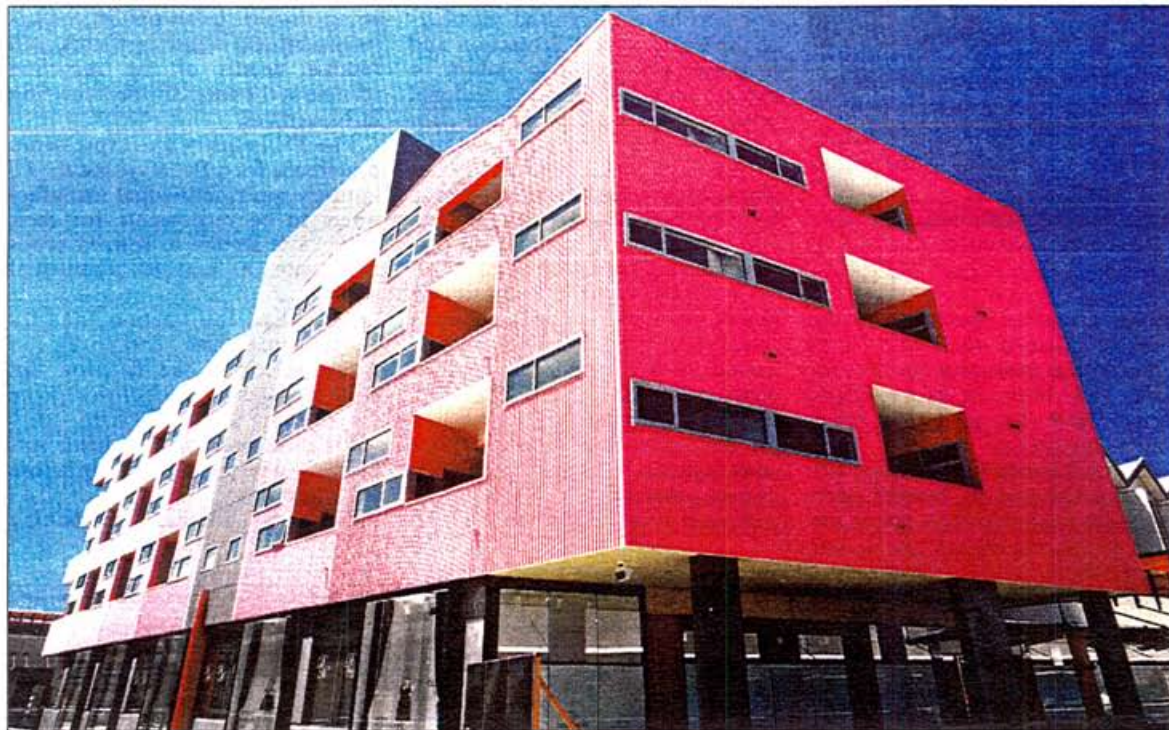
In a report on the inner city market, BIS Shrapnel's Angie Zigomanis said a shortage of rental apartments had followed after the boom in apartment construction levelled out in 2006.

The vacancy rate was hovering at around 1 per cent, underpinning rental growth of 10 per cent annually on average over the past three years.

"Despite these conditions, an upturn in prices and construction is being delayed," he said. "Investors currently remain reluctant to re-enter the market and purchase off-the-plan apartments."

"Residential prices declined over 2008 and, although there have been signs of stabilisation in 2009, we believe that investors need to be confident that prices have bottomed out and growth is returning before they dip their toe into the apartment pool."

Strong rental growth is forecast to continue after apartment completions fell from a peak of close to



BIS Shrapnel expects investors to re-enter the apartment market from late 2009.

Photo: JAMES DAVIES

4000 in 2005-06 to fewer than 1000 in 2007-08.

"The credit crisis has constrained the availability of funds for developers to start new projects, which will limit any quick turnaround in apartment construction," Mr Zigomanis said.

BIS Shrapnel expects an average

of 1500 apartments a year to be completed over the three years to 2010-11 – well below the previous 10-year average of 2650 apartments annually.

The shortfall will drive rent rises of between 5 and 10 per cent annually over the period.

Investor demand and apartment

pre-sales will show some signs of life towards the end of 2009 as residential prices bottom, according to the forecaster.

Yield-seeking investors will lead the upturn and demand will pick up in 2010 as the economic outlook becomes more positive.

Tony Crabb, the investment strat-

KEY POINTS

- Low vacancies underpinned rental growth of 10pc a year over the past three years, says BIS Shrapnel.
- Rents are expected to keep rising after apartment completions fell to fewer than 1000 in 2007-08.
- But lack of investors will delay a rise in prices and construction.

egy director at commercial agency Savills, said rental demand had remained strong due to CBD employment levels – so far solid – and the city's strong international education sector.

"We've got a record number of international student enrolments. The currency dropped so dramatically, it just made it so attractive," he said.

However, potential rises in inner city unemployment from 2010 would impact vacancy rates, Mr Crabb warned.

"Seventy per cent of the stock is owned by investors. They are relying on the rental market," he said.

"Looking backwards at a lot of the figures, in 2008 and 2009, we have not built anything but demand is yet to fall away because unemployment has not yet hit.

"As unemployment grows and there are more apartments coming up for lease, that will be the pressure valve that will eventually pop rents and bring them down."