

Reply to

16th September 2008

Get Set, Go! - Real Estate Rush
By Scott Keck - Managing Director
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Cynicism about the share market, and aversion to indirect real estate through Fund Managers, was already strongly stirring renewed interest in direct investment in real estate. Now with the Wall Street "meltdown" and as happened immediately after the 1987 crash, there will most certainly be a huge flight to direct ownership of real estate. This will be particularly so in Melbourne where the population growth and demographic factors are creating overwhelming demand for affordable housing and inner urban townhouses and apartments.

Already, in the past six months within Melbourne's inner urban eastern sector, 45 transactions of development sites, have accounted for \$285.197M in addition to which an estimated \$2.0B full development costs will follow to produce an array of residential accommodation from low density townhouses to medium density flats, affordable housing, and high rise and luxury apartments. The analysed average land value rate across these transactions of \$3,380 p.s.m. is a little misleading as the value range is from a low of \$2,000 p.s.m. up to \$12,000 p.s.m. but an analysis of which accounting for development yield indicates rates on average of about \$5,000 p.s.m. about the city fringe and Docklands, \$5,000 - \$7,000 p.s.m. variously in St Kilda Road, South Melbourne and Southbank, \$8,000 - \$10,000 p.s.m. around South Yarra, and \$2,500 - \$4,000 p.s.m. around Richmond. Savvy developers have picked sites up cheaply but one thing is certain, in the Eastern suburbs beyond the city fringe, and including areas such as Abbotsford, Richmond, Brunswick and Fitzroy, sites are currently cheap and can be expected to increase in value enormously in the short term.

Inner urban residential development sites in Melbourne represent a bright spot for relatively low risk and secure entrepreneurial activity where the added spark of lowering interest rates is set to revive purchaser demand and lower the costs of development. This market is galloping, and wealthy individuals and development corporations with strong balance sheets are lining up to acquire landbanks in this "safety zone". Understanding the importance of affordability, new product is focussing to smaller size and more simple specification as a means of reducing costs and improving affordability. Amenity is important and proximity to major retail and entertainment focal points or developments themselves of a mixed use nature will guarantee market acceptance.



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