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Melbourne's residential real estate market has shown signs of moderate stability in the face of ever increasing global market turmoil, and the recent cuts in interest rates are giving buyers the confidence they need to enter – or stay in – the market.

"Vacancy rates remain very low at about 1%, and this is giving investors added confidence," says Paul Smith, marketing director, Braxton Chase.

"The reason Melbourne remains so resilient are the demand and supply issues. Population continues to grow at a fast rate, with over 60,000 migrating to the city over the last financial year – more than any other capital city – and this trend is set to continue, mostly due to international immigration."

This strong population growth will be "one of the major drivers of capital growth and rental yield" in the medium term, he adds.

Colliers International research analyst David Grima believes Melbourne has strong foundations to deliver "prosperous growth in the future".

"It's anticipated that population growth within the City of Melbourne will exceed the rise in dwelling numbers from 2007 to 2010, which, along with extreme lows in vacancy rates, suggest that supply and demand have become closely aligned."

"In fact, the Melbourne residential apartment market may be in undersupply up until 2011, which is likely to further reduce vacancy rates and continue to place upward pressure on rental rates and median price growth."

Real Estate Institute of Victoria figures show that in properties situated in 'inner Melbourne' the rental vacancy rate has dropped to 25-year lows of, or below, 1%.

"Continued strong population growth, along with a slow-down in dwelling completions, has been the main driver of a general decline in Melbourne vacancy rates since 2002," Grima says.

"This represents unprecedented lows and indicates the strong demand for rental properties in Melbourne, particularly within inner Melbourne."

First homebuyers who have been "sitting on the fence" will be prompted to investigate their home ownership options following the FHOG boost, which will have an impact on the rental market, adds Janet Spencer, director of Buyer Solutions property consultancy in Melbourne.

"They now have \$14,000 plus state initiatives to go towards their property purchase, and if they're in the under \$500,000 market that will offset the costs of stamp duty significantly," Spencer says.

Suburb spotlight: Brunswick

Situated several kilometres north of the Melbourne CBD, Brunswick is a multicultural suburb known for its rich mix of cafes, restaurants and shops. Residents of Brunswick have easy access to the CBD via regular train and tram services.

The European resident mix adds a cosmopolitan atmosphere to Sydney Road, which offers European and Middle Eastern dining, with flavours from all nationalities represented. Brunswick East is also home to a stretch of Lygon Street, the famous dining precinct that is anchored in Carlton but continues through to Brunswick, offering authentic restaurants, bars and entertainment venues, and a less crowded atmosphere.

According to 2006 Census results, roughly half of the dwellings in Brunswick are freestanding homes, with the remaining properties comprising townhouses, semi-detached houses and flats.

Apartment prices in Brunswick increased 4.1% in the three months to September 2008, and climbed a massive 16.2% in the 12 months to September, reports Residex.

The median apartment price is now \$329,500, with an average rental return of \$270 per week, or 4.27%.