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# Soaring rents lift Melbourne market

## VIC PROPERTY

### Melbourne houses

Median value \$482,000  
 Growth over 12 months 9.74%  
 Growth September 08 quarter 0.53%

Rent return 4.01%  
 Rent amount September 08 \$370/week

### Melbourne units

Median value \$364,500  
 Growth over 12 months 9.37%  
 Growth September 08 quarter 0.74%

Rent return 4.73%  
 Rent amount September 08 \$330/week

Source: Residex, 3 monthly to September 08

**Growth in Victorian property prices has slowed since the highs achieved in 2007, but rental yields continue to rise, as Sarah Megginson reports**

Despite the slowdown in property values, Melbourne's property market has been relatively robust amid the global financial crisis – thanks to its strong fundamentals. "The reason Melbourne remains so resilient is the demand and supply issues," says Paul Smith, marketing director of property research firm Braxton Chase. "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 is likely to be one of the major drivers of capital growth and rental yield in the medium term." Residex data showed that rents in both apartments and houses have increased by \$40 per annum between September 2007 and September 2008 to reach a median of \$330 and \$370 respectively. "Ongoing affordability issues, combined with strong population growth, are continuing to fuel expectations of strong rental growth for 2008

and into 2009 in most areas, particularly in the inner and middle rings," says Chris Coonan, residential director at Landmark White Group. While the undersupply of new dwellings continues to "cause headaches for renters", it's great news for property investors, says Smith. "Vacancy rates remain very low at about 1%, and this is giving investors added confidence," Smith says. "This is not the case in all suburbs, with several inner city localities – Docklands, Southbank, and the CBD, for instance – heading towards a potential glut of new units." The suburbs with the brightest outlook for the year ahead continue to be middle-ring suburbs, he says, particularly the Transit Cities and those undergoing or targeted for urban revitalisation.

**Investor activity down**  
 There's no denying that consumer confidence has been knocked about in the last 12 months,

“Ongoing affordability issues, combined with strong population growth, are continuing to fuel expectations of strong rental growth”

says Janet Spencer, director of Buyer Solutions property consultancy in Melbourne – and real estate buyers in the current market have become increasingly cautious as a result. "I would say it's the real bona fide buyers that are in the market at the moment – people

who have had an extra child and need a larger home, or those who have just moved to the area and need a place to live," Spencer says. "Investor activity is down ... we're mainly seeing people with a real need to buy." This is largely due to the fact that most Melbourne property buyers – both investors and owner-occupiers – are shaken by the uncertainty in finance markets, both here and abroad. "Confidence has been knocked, and people are watching and waiting before making any moves," Spencer says. "In 2007, we had very strong capital growth, so I'm not sure exactly how much of this current slowdown you can blame on the finance crisis – I think that partly, in Melbourne, we've seen a correction of that growth." However, Spencer believes the rash of recent interest rate cuts and the federal government's move to guarantee bank deposits and double the First Homeowners Grant are going to have a real impact on buyer activity. "The feedback that I'm getting on the street already is that it's having a positive effect," she says.

## Sassafras

Houses Median price \$450,000		
Capital growth (3 months to Sep 08)	Capital growth (12 months to Sep 08)	Median yield
5.91%	23.1%	3.5%

Sassafras is a small village located in the Dandenong Ranges, around 45km from Melbourne. Home to approximately 1,500 people, Sassafras remains a popular weekend destination for city dwellers, attracting visitors with its cafes, restaurants and tea rooms, speciality and antique shops, boutique accommodation and scenic drives to national parks and gardens. The median house price in Sassafras has jumped 23.1% in the 12 months to September 2008, according to RP Data, to reach \$450,000. The median rental return is \$300 per week. Trevor Bell, managing director of Bell Real Estate, says rental demand

in Sassafras and neighbouring suburbs is currently mirroring that of Melbourne, with more renters than properties available. "There's quite a few renters, and there's never enough properties available to meet the demand – it's about 1% or less, in terms of the vacancy rate," he says. People choose to live in Sassafras and surrounding suburbs because of the lifestyle on offer, he adds. "It's a lifestyle choice that people make, and we have every type of demographic represented here, from multi-millionaires to blue-collar workers," Bell says. "In comparison with the city, our average turnover time here is about 17 years – there are certain properties that turnover more frequently, but for most people, once they move here they don't want to leave unless they really have to." The recent completion of the EastLink freeway has also made the commute between Sassafras and the Melbourne CBD a shorter and easier journey, with the trip now taking around 50 minutes each way.

Vic State roundup

## Middle Park

Units	Capital growth (3 months to Sep 08)	Capital growth (12 months to Sep 08)	Gross yield
Median price \$591,000	4.2%	28.2%	3.3%

Middle Park is a small neighbourhood situated discreetly between St Kilda and Albert Park, right on Port Phillip Bay and a few kilometres from the Melbourne CBD. "Superbly located between the lake and the bay," says David Wood, real estate agent with Hocking Stuart, of this suburb. It offers the best of inner city living, with ready access to all required amenities, including its own light rail station. Middle Park is a 10-minute journey by tram to the CBD, with Fitzroy Street restaurants, Albert Park Lake and the beach just a short stroll away. Apartment values have climbed 4.2% in the three months to September, according to RP Data, bringing the median unit price up to \$591,000. Capital growth in the 12 months to September was almost 30%, and the median rental return was around \$370. Middle Park is part of the enclave of exclusive suburbs, situated between the Melbourne CBD and the ocean, which even Port Phillip City Council mayor Janet Cribbes admits are unaffordable to the average Australian. "Affordable



housing in the City of Port Phillip is as scarce as rocking horse manure," she says. However, apartments in the area offer investors an opportunity to buy into the prestigious area, without completely breaking the budget. Semi-detached properties and row-houses, many dating back to the Victorian and Edwardian eras, are on the market for \$550,000–750,000, while units in apartment complexes and high-rise towers are priced from \$400,000. Plenty of the properties in the region – particularly those in Beaconsfield Parade – also offer views of the water and the city.

www.rpdata.com.au  
 Apartment values have climbed 4.2% in the three months

However, apartments in the area offer investors an