Melbourne’s off-the-plan apartment prices to rise 25pc

Nila Sweeney*Reporter*

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Off-the-plan apartment prices in some Melbourne suburbs could go up by as much as 25 per cent over the next year as developers adjust pricing amid rising costs and increasing demand, property advisory firm Charter Keck Cramer says.

“Prices will recalibrate upwards, and I think in about 12 months, it’s going to be across the entire Melbourne apartment market,” said Richard Temlett, Charter Keck Cramer’s national executive director.

“In certain areas, depending on the developer and project, buyers can expect to pay between 15 per cent and 25 per cent, even more in some cases. That’s certainly where the market is going and evolving.”

Developers will have to increase prices to offset the rising land values and construction costs so they can continue delivering apartment projects. But many remained reluctant to raise prices amid low consumer sentiment and higher interest rates, Mr Temlett said.

“Many developers are still very worried about increasing prices. And I’m encouraging them to be a bit more brave because there are sound fundamental reasons to support price increases,” he said.

“The development industry needs to realise that over the next six to 12 months, they can increase prices in a lot of areas and will still be met with a deeper pool of buyers. In fact, it’s already happening in some projects.”

Charter Keck Cramer’s analysis of a sample of off-the-plan apartment projects across various locations in Melbourne shows that several of those released this year have increased their prices by 15 per cent to 25 per cent compared to pre-COVID prices of apartments in earlier stages of the same development or in comparable projects in the same locations.

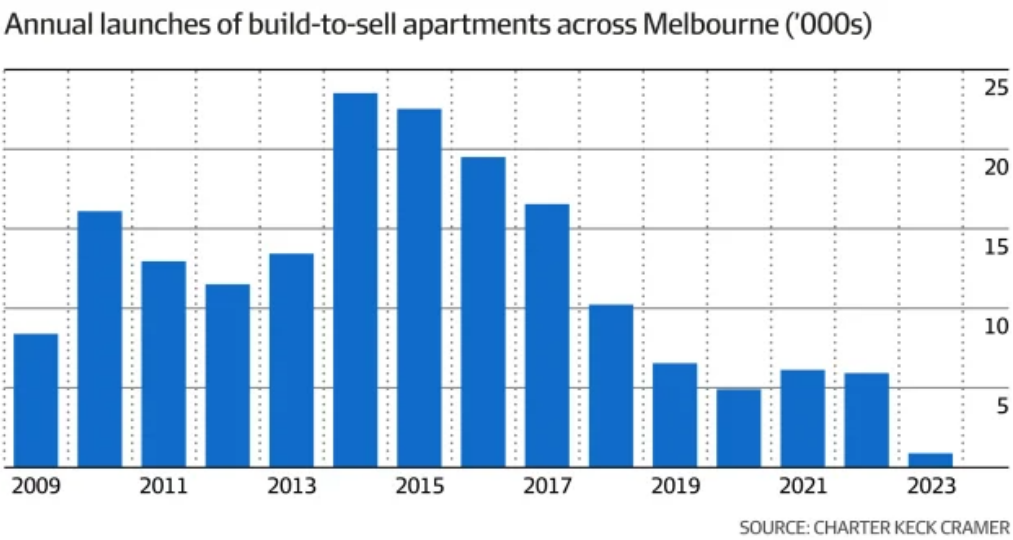
The study spanned 10 suburbs in the middle ring areas, and consisted of three apartment projects on average.

“The price gains were submarket specific, but those that posted large increases were not high-end landmark projects, they were quality owner-occupier stock in the suburbs,” Mr Temlett said.

“Interestingly, the market is accepting those price increases, albeit at a slow rate. Buyers understand what’s happening with costs and what’s happening in the market, and they are prepared to pay a higher rate.

“So these are demonstrable examples of apartment prices reverting upwards. I think there’s going to be an increase in demand for such dwellings because we’re not building enough houses or apartments.”

The advisory firm predicts that Melbourne’s apartment supply is set to slump by 7900 units, or 65.3 per cent, by 2025.



Mr Temlett said the rapid interest rate increases, substantial rise in construction costs and volatile consumer sentiment have made many apartment projects unfeasible and led to very slow sales rates.

Meanwhile, the 4 percentage point interest rate rise since May last year has slashed buying power by more than 40 per cent.

However, these factors also opened up a very large but slightly different buyer and renter pool over the next 12 months, he said.

"With rapid rate rises, there is anticipated to be a 'shuffle' downwards or trade-off, where many buyers are forced to trade into medium- and higher-density dwellings as dictated by their revised finances," Mr Temlett said.

"Many people are still willing to buy, but they can't afford to buy a standalone house because of affordability, so more will either be forced to live in apartments or will embrace apartment living."

The price premium of houses over apartments has widened to 60 per cent despite a 9 per cent house price drop from the peak. Since March 2022, house prices are still 15 per cent higher than pre-COVID and are poised to continue rising.

"With rapidly rising rents, some renters may decide to buy and pay off a mortgage given that rental repayments may be similar to mortgage repayments in some markets and across various product types," Mr Temlett said.

"These potential buyers are likely to seek the most affordable product type, which will be apartments."

Mr Temlett said while conditions in the build-to-sell apartment market were arguably the toughest they have ever been, the sector will continue to improve.

"We believe that the RBA is close to the top of the rate-tightening cycle. When rates stabilise, we expect market demand will start to be expressed and sales rates will accelerate," he said.

"When rates start to be cut, there is anticipated to be an extremely elastic response across the entire housing market, with the apartment market well poised to benefit."