

# Apartments and inner-city living

Advertising feature

Increased values of around 30 per cent over 2009-2014 period: BIS Shrapnel

## Apartments set to shoot up in value

It's rare for experts to agree, but when it comes to Melbourne's apartment market the city's leading property gurus seem to be of the same mind – describing apartments as a promising investment.

One such leading authority is BIS Shrapnel senior project manager Angie Zigomanis, author of the authoritative *Inner Melbourne Apartments, 2009 to 2016* report.

Mr Zigomanis says the low interest rates and very low vacancy rates that are driving rising rents and high rental yields are enticing investors back into the market.

The BIS Shrapnel report forecasts that demand will pick up in 2010 as the economic outlook becomes more positive, and will then gather momentum in 2011 as the improvement in demand results in stronger capital growth.

Ultimately, investor demand will continue to increase on the back of stronger price growth over the following two to three years, with BIS Shrapnel forecasting total growth in apartment values of around 30 per cent over the 2009 to 2014 period.

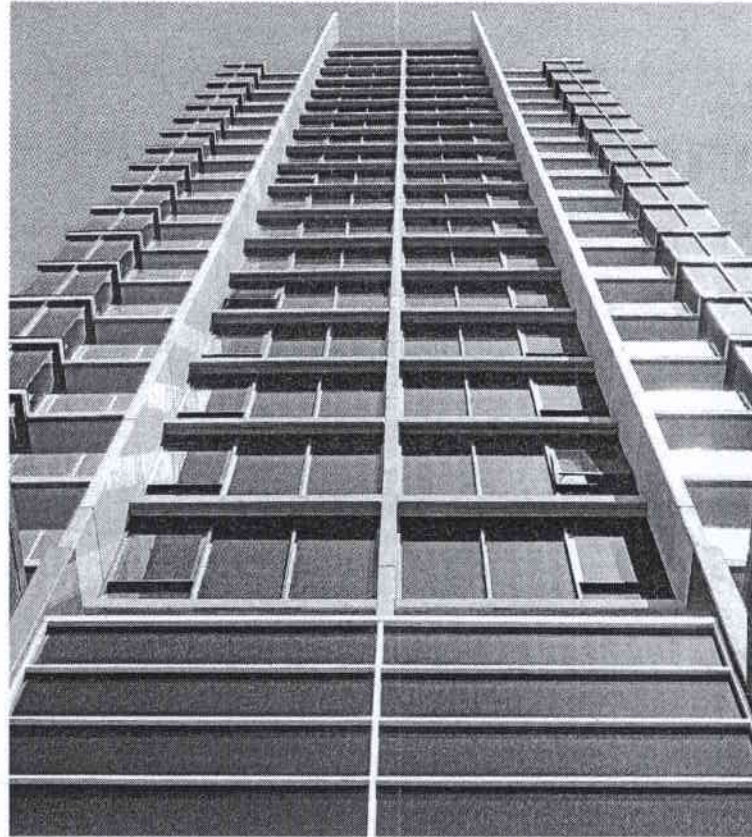
Investment advisors, Melbourne

Property Investment, say local apartment prices have historically been around 20-25 per cent more affordable than Sydney's, however the current price difference with Melbourne's inner city apartments is more than 45 per cent – meaning that “there is plenty of upside potential in Melbourne”.

“Rents look set to continue to rise in Melbourne as we see interest rates fall, a somewhat rare occurrence, which most likely will stir up activity and investor demand as lower interest rates contribute to strong cash flows,” the company says. “The city has very low vacancy rates and experienced double digit rental growth in 2008”.

Buyer advocate Eddie van Pamelen of Metropole says his company is currently finding some great apartment investments for clients who can see past the recession and are getting set for the next property cycle.

“We have hand picked a small number of premium suburbs within 10-12 kilometres of the CBD, or near water, or those that have scarcity and are likely to perform well,” Mr van Pamelen says. “The best predictor for future property price growth is past growth.”



LEFT: Low vacancy rates, a booming population and shortage of accommodation are making apartments a promising investment.

cent per annum over the past three years, outpacing price growth and resulting in improved yields for investors. “We are forecasting an average of 1,500 apartments per annum to be completed over the three years to 2011,” says Mr Zigomanis.

“This is well below the previous ten year average of 2,650 apartments per annum, with the shortfall likely to lock in further rises in rents of between five and ten per cent per annum.”

“The purchase equation is becoming more appealing to investors,” Mr Zigomanis says. “Low rates and rising rents are closing the gap between rental income and mortgage repayments.”

“For investors buying a new apartment, the additional tax deductions available will likely result in some apartments being cash flow positive on an after tax basis.

“Unlike the past few years, it will be investment-grade apartments that will lead the upturn, as demand for these apartments benefits from improved rental returns and lower interest rates.”

A report released last month by Savills Research Australia, a company that specialises in commercial, industrial and retail property research, says that investors in inner-city apartments could enjoy low vacancy rates and rentals maintained at – or increasing from – current levels until such time as housing affordability changes.

The BIS Shrapnel report says sharp reductions in interest rates over 2008/09 to well below six per cent has seen the gap between

rental income and mortgage repayments narrow dramatically, which has significantly improved the equation for investors.

Report author Angie Zigomanis says a deficiency of rental apartments has rapidly emerged since the apartment boom from the start of the decade levelled out in 2006.

The vacancy rate is now hovering at around one per cent, which has underpinned rental growth of, on average, 10 per