

EDITION 18

# MELBOURNE CAPITAL CITY REVIEW



MELBOURNE



PERFORMANCE  
PROPERTY DATA

# MELBOURNE AT A GLANCE

## Price Parameters - Adjusted for Current Interest Rate

AFFORDABILITY INDEX		PRICE
AI FLOOR	24%	\$550,000
AI CURRENT	35%	\$740,000
AI CEILING	52%	\$1,100,000

3 Year Price Target - \$900,000 - \$1,050,000 - Low Conviction

## In the current stage of cycle

The Melbourne house market has a **Hold Rating**.

If buying, it would be best suited to a **Long Term Hold Strategy**.

We classify the Melbourne house market currently as a **High Risk Investment**, based on the stage of cycle.

### Legend

Medium Term Strategy = **4 to 7 years**

Long Term Strategy = **10+ years**

HOUSE  
YIELD **2.7%**

UNIT  
YIELD **3.6%**

**\$12.0B**

Total infrastructure spending is **\$12** billion or approximately **\$2403** per person in **2020**.

Based on major projects worth \$10 million or more.

## POPULATION



Current: **4,893,870**

Current Growth Rate: **2.3%**

Avg 10 Yr Growth Rate: **2.3%**

VIC NOM: **75,557**

VIC NIM: **10,649**

VIC Natural Increase: **35,955**

## CURRENT MEDIAN

**\$740,000** House

**\$580,000** Unit

UNEMPLOYMENT  
RATE **7.3%**

UNDEREMPLOYMENT  
RATE **13.9%**

LONG TERM COMPOUNDED  
GROWTH PA (1980) IS **7.57%** FOR  
HOUSES & **7.27%** FOR UNITS.

Houses the last 5 years have seen 4.3%  
PA growth, units 3.32%.

**7.57%**

## REPORT

MELBOURNE CAPITAL CITY

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Average Days  
on Market

Houses : **33**  
Units : **39**

# EXECUTIVE SUMMARY

## DEMAND - Slightly Negative Does Demand Exceed Supply?

- Population
- State Population Movement Type
- Victorian Lending By Month
- Victorian Lending Annualised
- Foreign Investment
- Airport Arrivals
- Number of Sales
- Dwelling Approvals V. Population % Change
- Bedroom Approvals V. Population Change
- Vacancy Rate V. Rent
- Stock on Market V. Days on Market

## AFFORDABILITY - Positive Is Property Affordable?

- Affordability Index HOUSE V. Price Movement
- Affordability Index UNIT V. Price Movement
- Price to Income Ratio
- Rent to Income
- FHBs as % of Population

## CONFIDENCE - Slightly Negative Is There Confidence In The Market?

- Retail Turnover Growth
- Unemployment
- Underemployment
- Job Creation Index
- State Job Vacancies
- Business Investment
- Infrastructure Spending

## MONEY SUPPLY - Slightly Positive Will There Be More or Less Money Into The Economy?

- State Budget
- GSP Growth/Net Govt Debt V. Median House Price
- State Government Infrastructure Spend Forecast
- Economic Benefit V Median House Price

## INVESTMENT VALUE - Slightly Negative Is this market showing value?

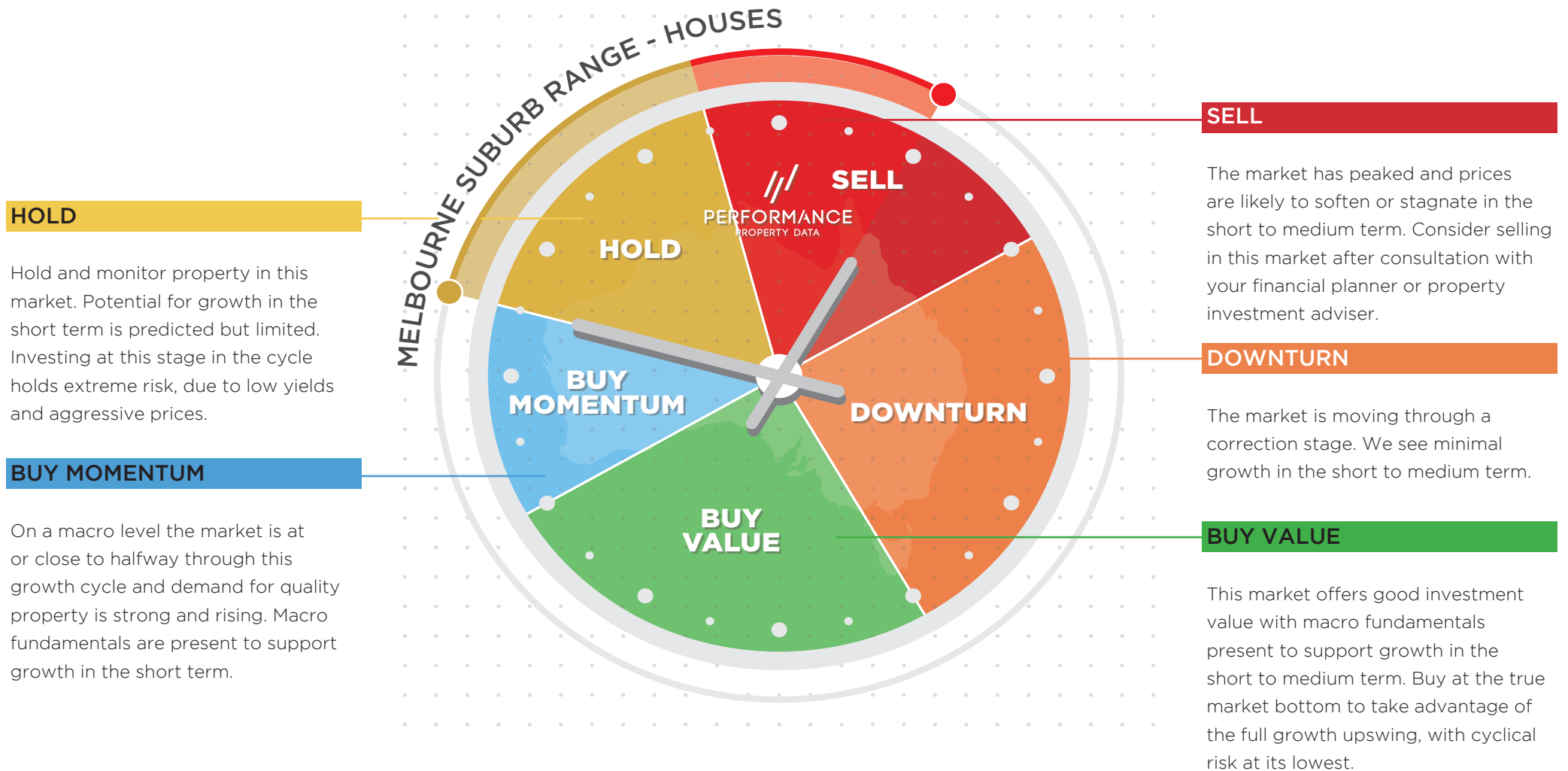
- Current Investment Value - Per Capital City
- Yield V. Interest Rates
- Capital City Long Term Price Comparison House
- Long Term Trends
- Melbourne V. Sydney House Price Movement

## RISK - Neutral Is there potentially downside Volatility?

- Mortgage Arrears
- Industry Value Added
- Population Pyramid



# OUR VIEW OF THE MELBOURNE HOUSE MARKET



For more information on the Melbourne market, including individual property and suburb information, call to speak to one of our professional property advisors on 1300 088 932.

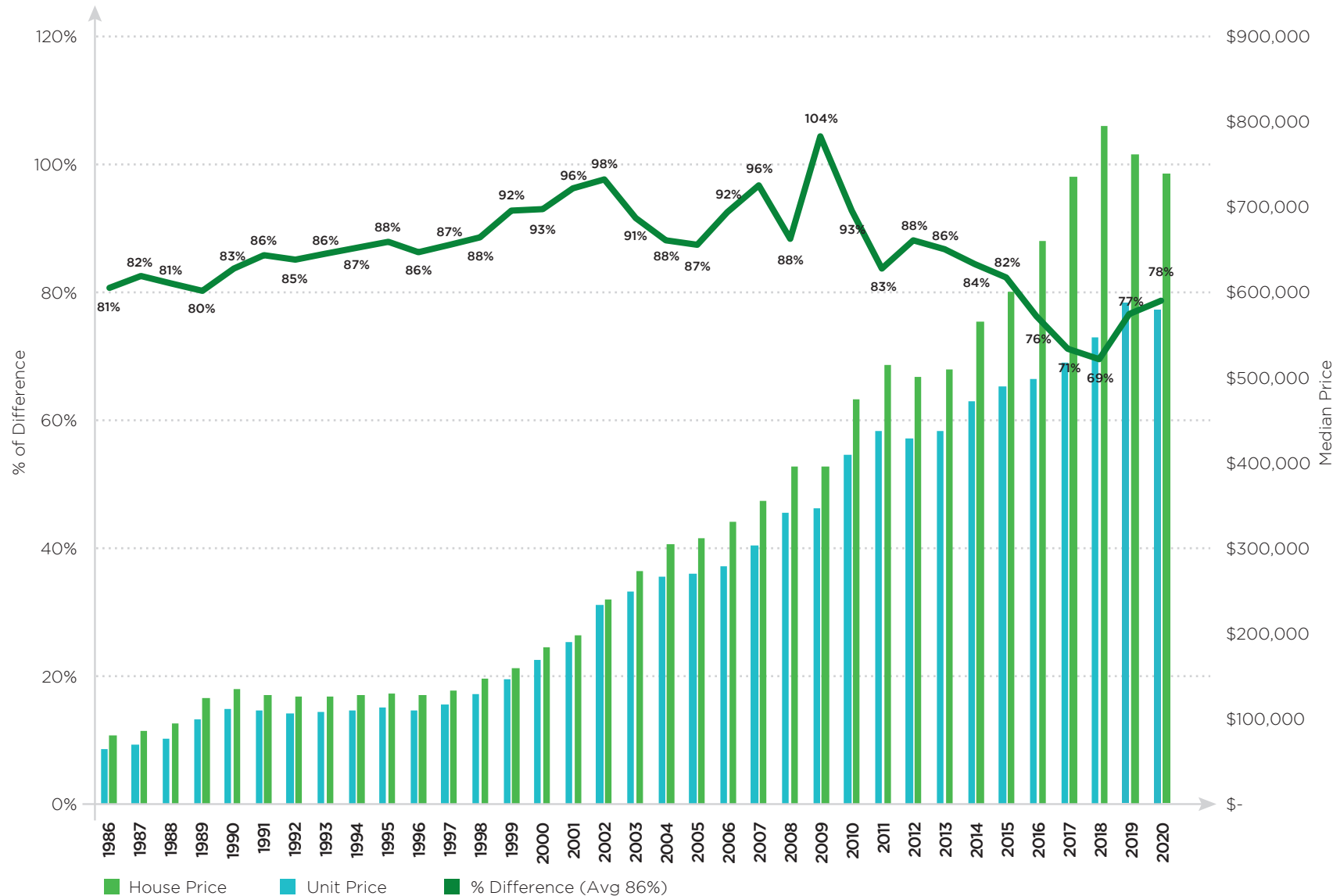


# MELBOURNE HOUSE V. UNIT PRICE COMPARISON

**REPORT**  
MELBOURNE CAPITAL CITY

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This graph shows the comparison between house and unit price movements and the percentage difference for each year.



**NEUTRAL**

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PROPERTY DATA

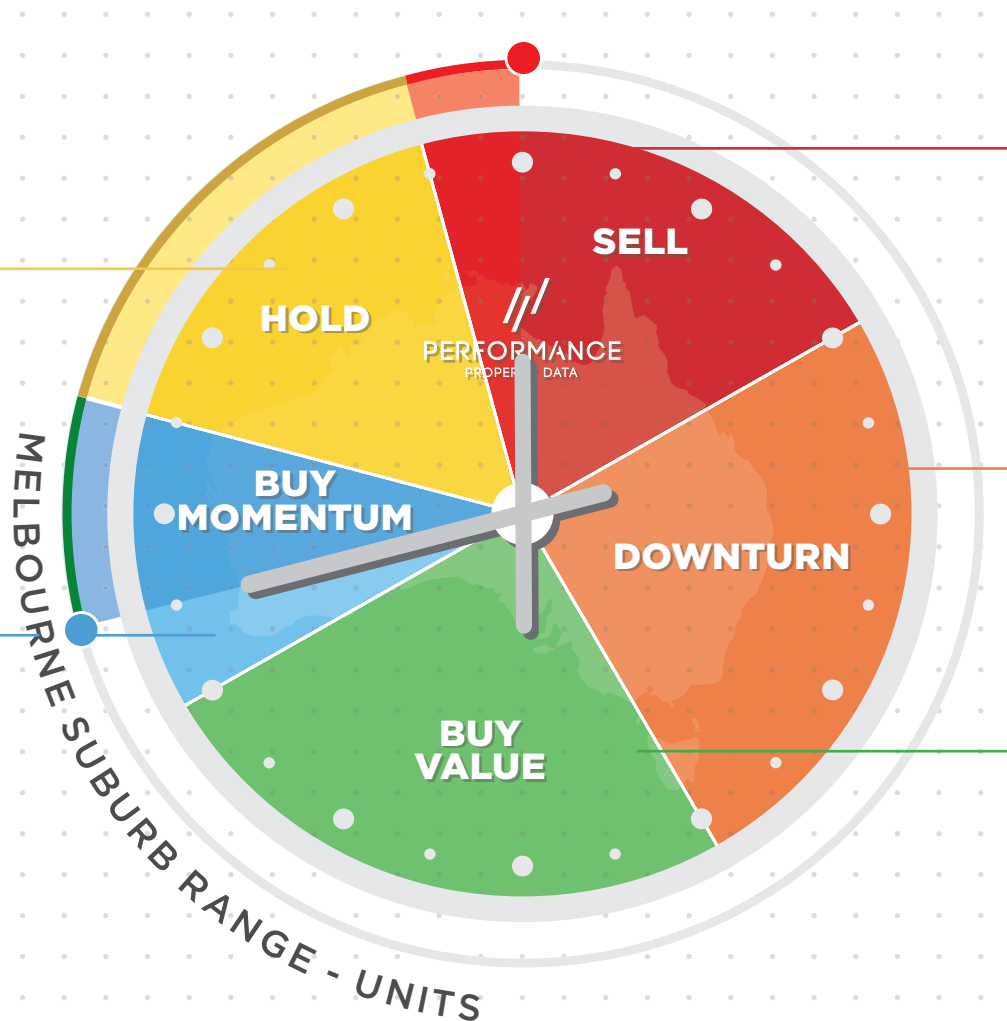
# OUR VIEW OF THE MELBOURNE UNIT MARKET

## HOLD

Hold and monitor property in this market. Potential for growth in the short term is predicted but limited. Investing at this stage in the cycle holds extreme risk, due to low yields and aggressive prices.

## BUY MOMENTUM

On a macro level the market is at or close to halfway through this growth cycle and demand for quality property is strong and rising. Macro fundamentals are present to support growth in the short term.



## SELL

The market has peaked and prices are likely to soften or stagnate in the short to medium term. Consider selling in this market after consultation with your financial planner or property investment adviser.

## DOWNTURN

The market is moving through a correction stage. We see minimal growth in the short to medium term.

## BUY VALUE

This market offers good investment value with macro fundamentals present to support growth in the short to medium term. Buy at the true market bottom to take advantage of the full growth upswing, with cyclical risk at its lowest.

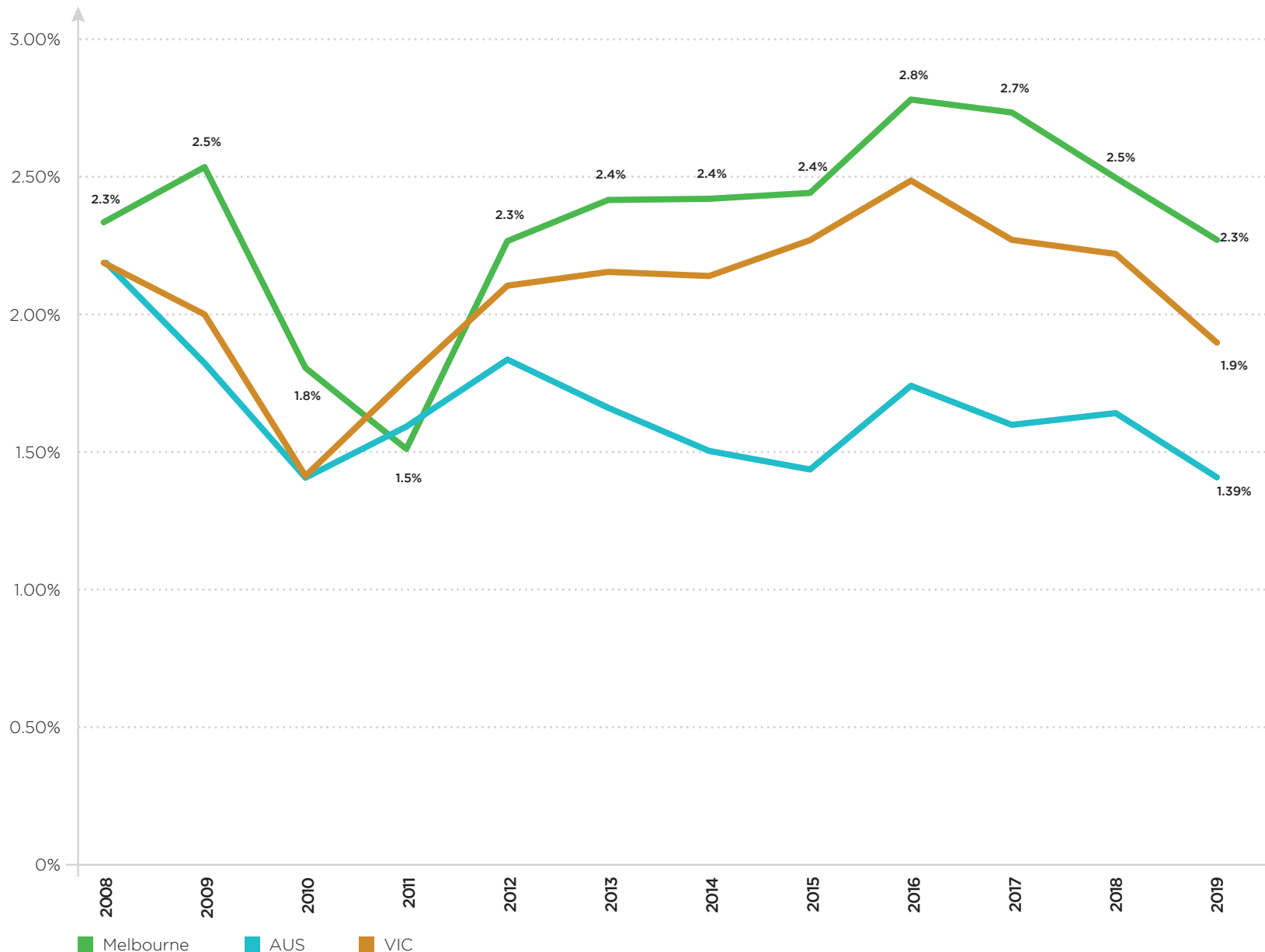
For more information on the Melbourne market, including individual property and suburb selections, call to speak to one of our professional property advisors on 1300 088 932.

# CHANGE IN POPULATION

**REPORT**  
MELBOURNE CAPITAL CITY

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This graph shows the percentage change in the population growth rate for the city, state and Australia.

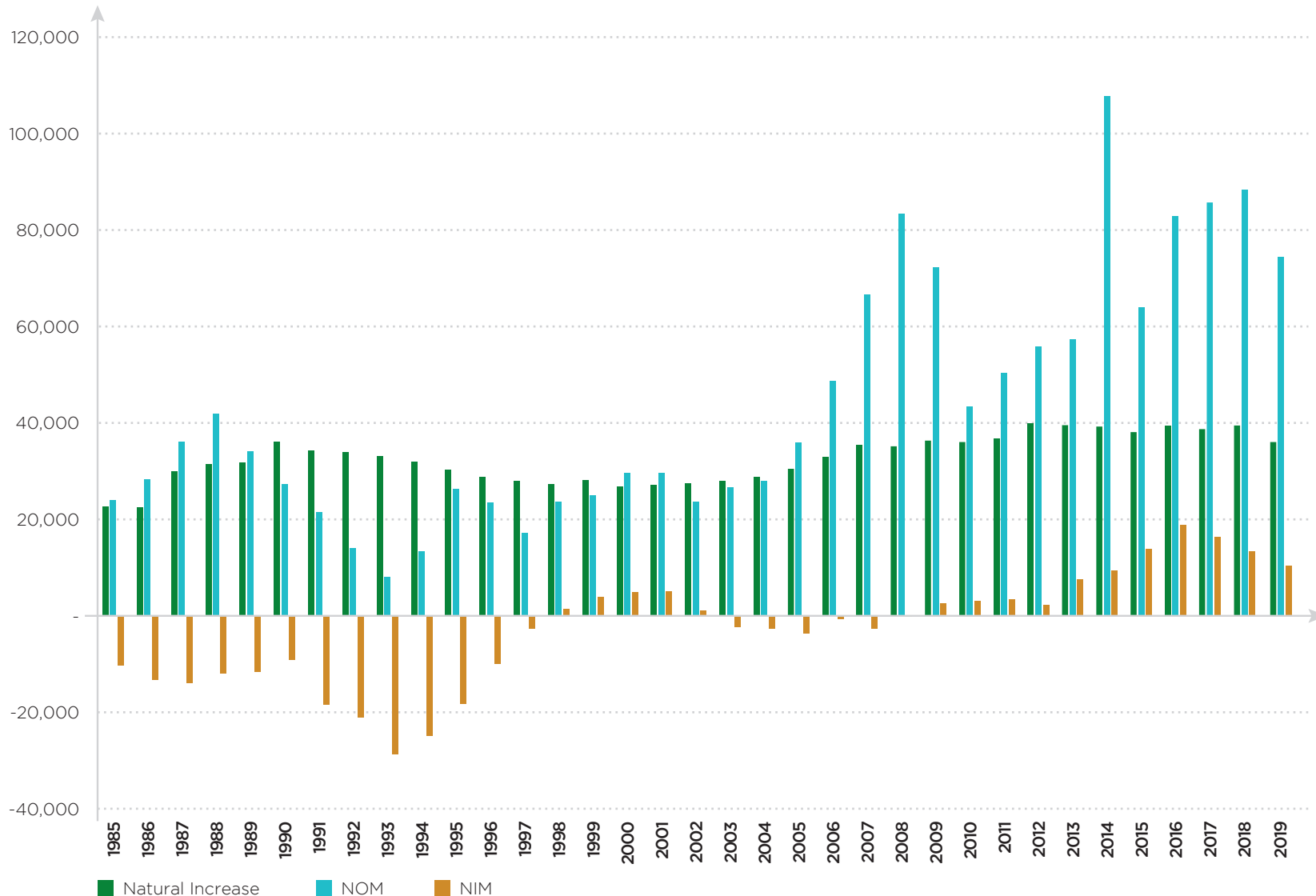


**POSITIVE**

**PERFORMANCE**  
PROPERTY DATA

# VIC POPULATION MOVEMENT TYPE

This graph demonstrates the breakdown of Natural Increase, Net Overseas Migration (NOM) and Net Interstate Migration (NIM) for the state.



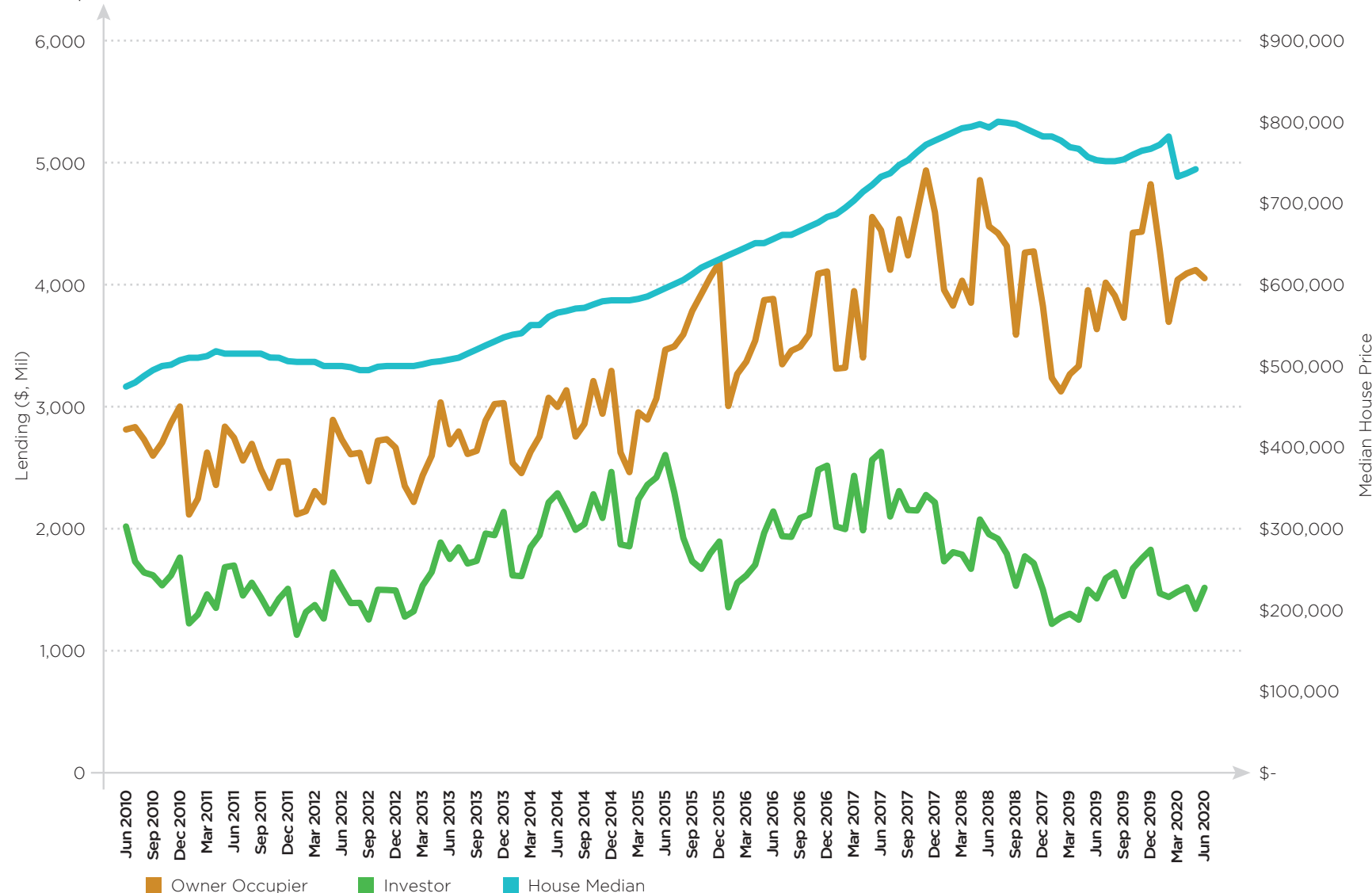
**POSITIVE**



# VIC MONTHLY HH LENDING TO OC V. MEDIAN HOUSE PRICE

**REPORT**  
MELBOURNE CAPITAL CITY  
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This graph displays the value of housing finance for the state each month for owner occupiers and investors versus the median house price.



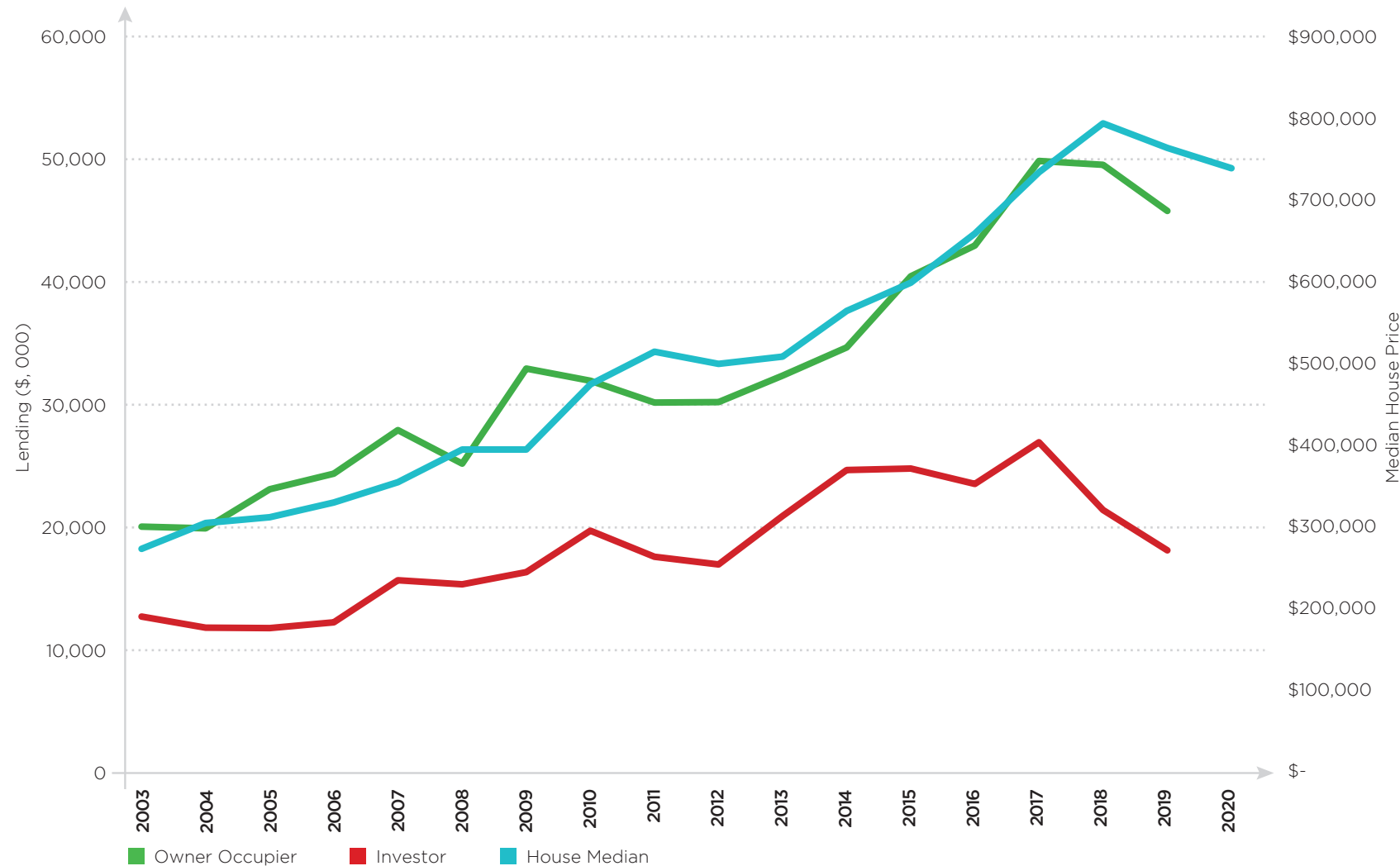
**SLIGHTLY  
NEGATIVE**

**PERFORMANCE**  
PROPERTY DATA

# STATE LENDING TO HOUSEHOLDS V. MEDIAN HOUSE PRICE

**REPORT**  
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This graph displays the value of housing finance for the state annualised for owner occupiers and investors versus the median house price.

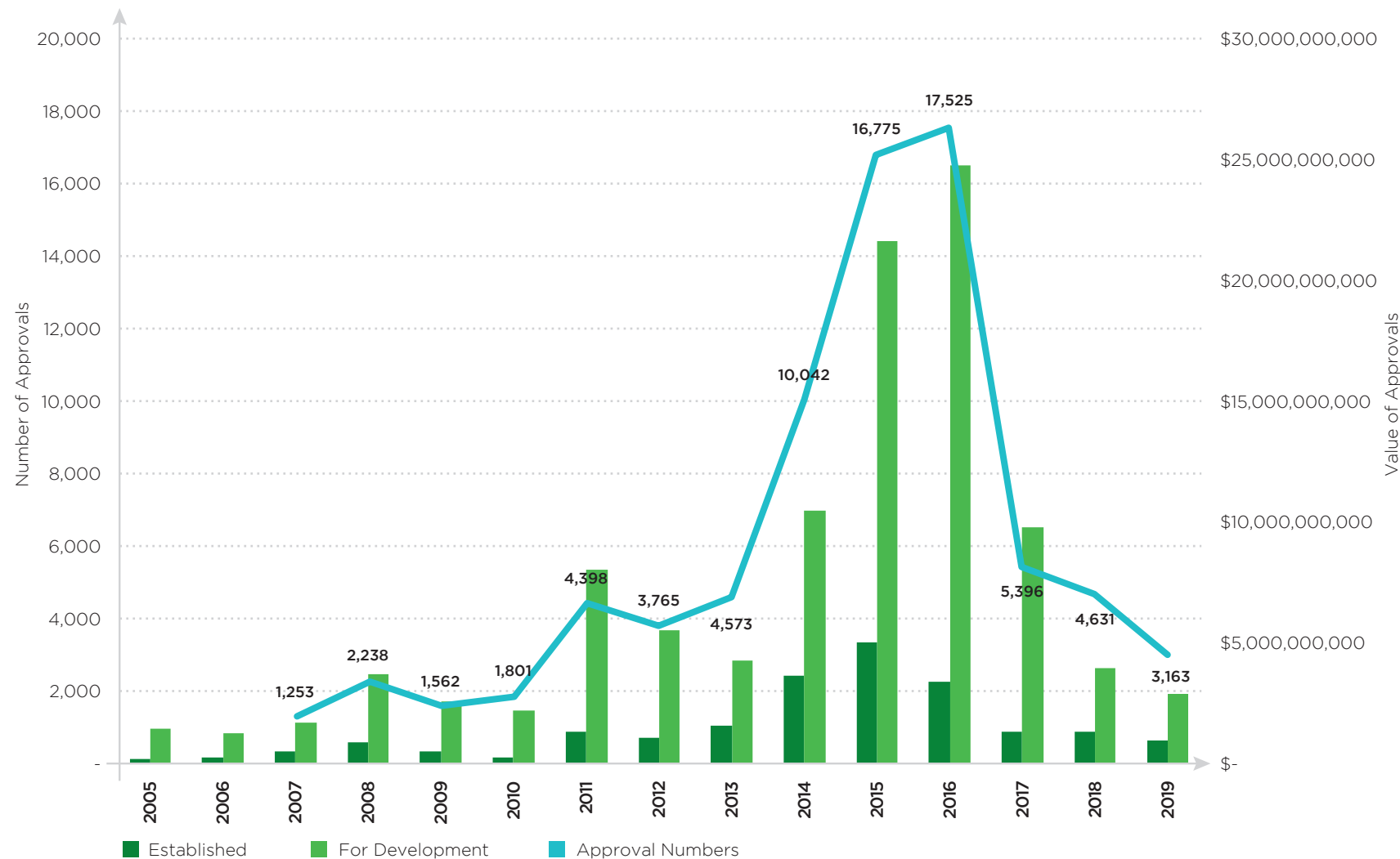


**NEGATIVE**

**PERFORMANCE**  
PROPERTY DATA

# FOREIGN INVESTMENT APPROVALS - NEW V. ESTABLISHED PROPERTY

This graph shows the amount of foreign investment approvals for the state's residential market since 2005. Approvals are broken down into established property and developed/for development.



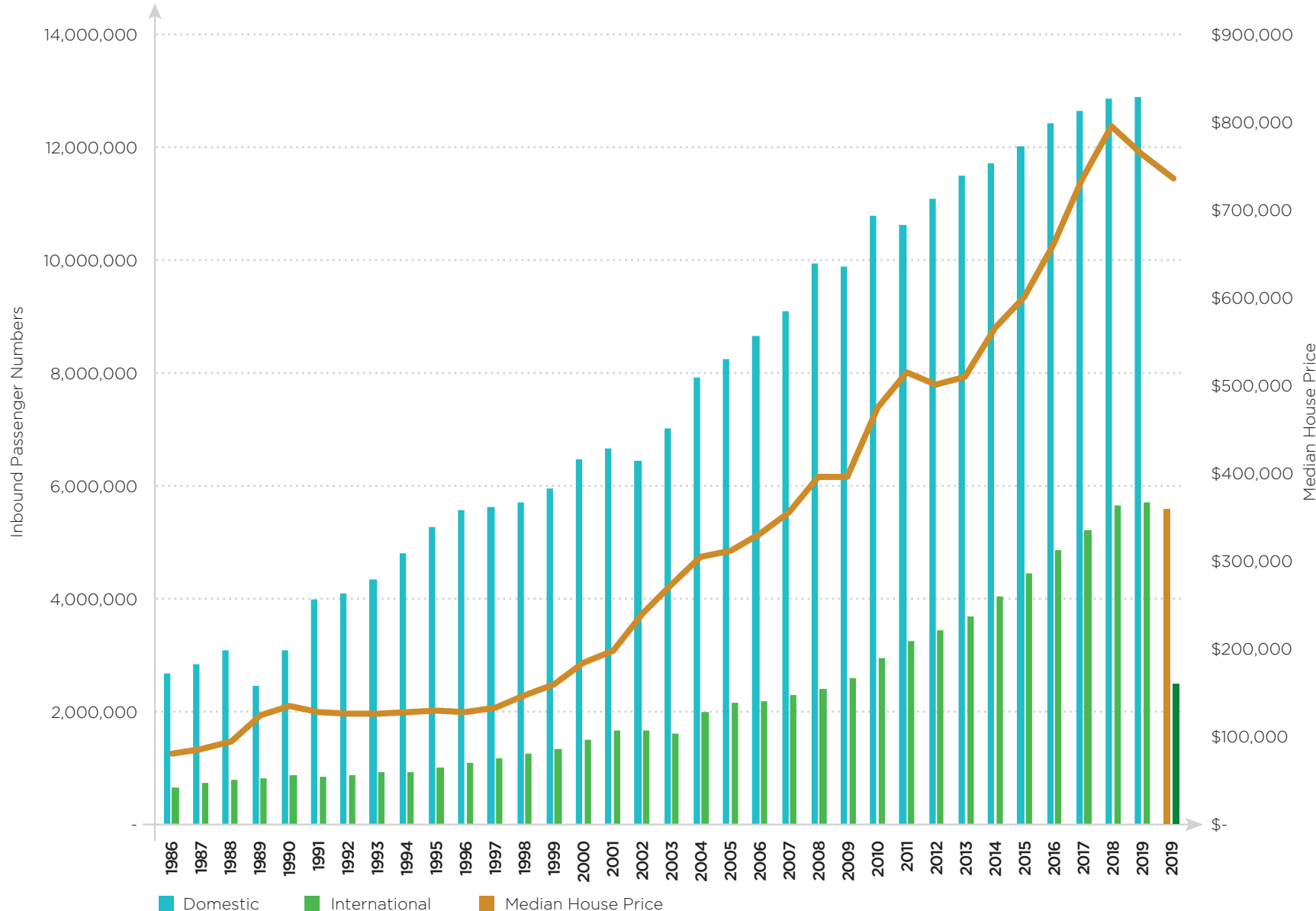
**POSITIVE**

# AIRPORT ARRIVALS

**REPORT**  
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This graph shows the numbers for International and Domestic arrivals into the city's airport from 1986 plotted against the median house price.



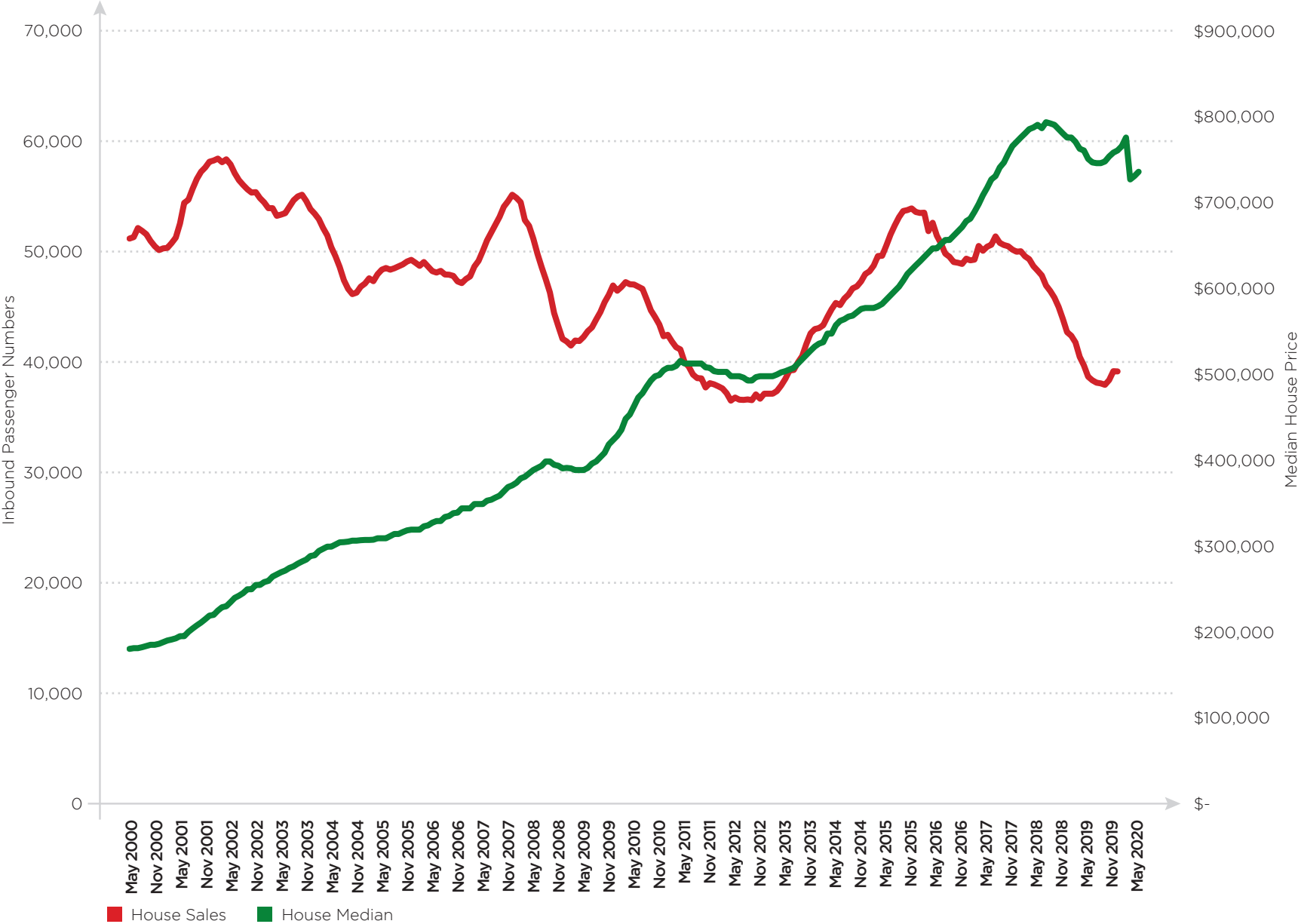
**NEGATIVE**

**PERFORMANCE**  
PROPERTY DATA



# DWELLING SALES

This graph displays the number of unit and house sales.



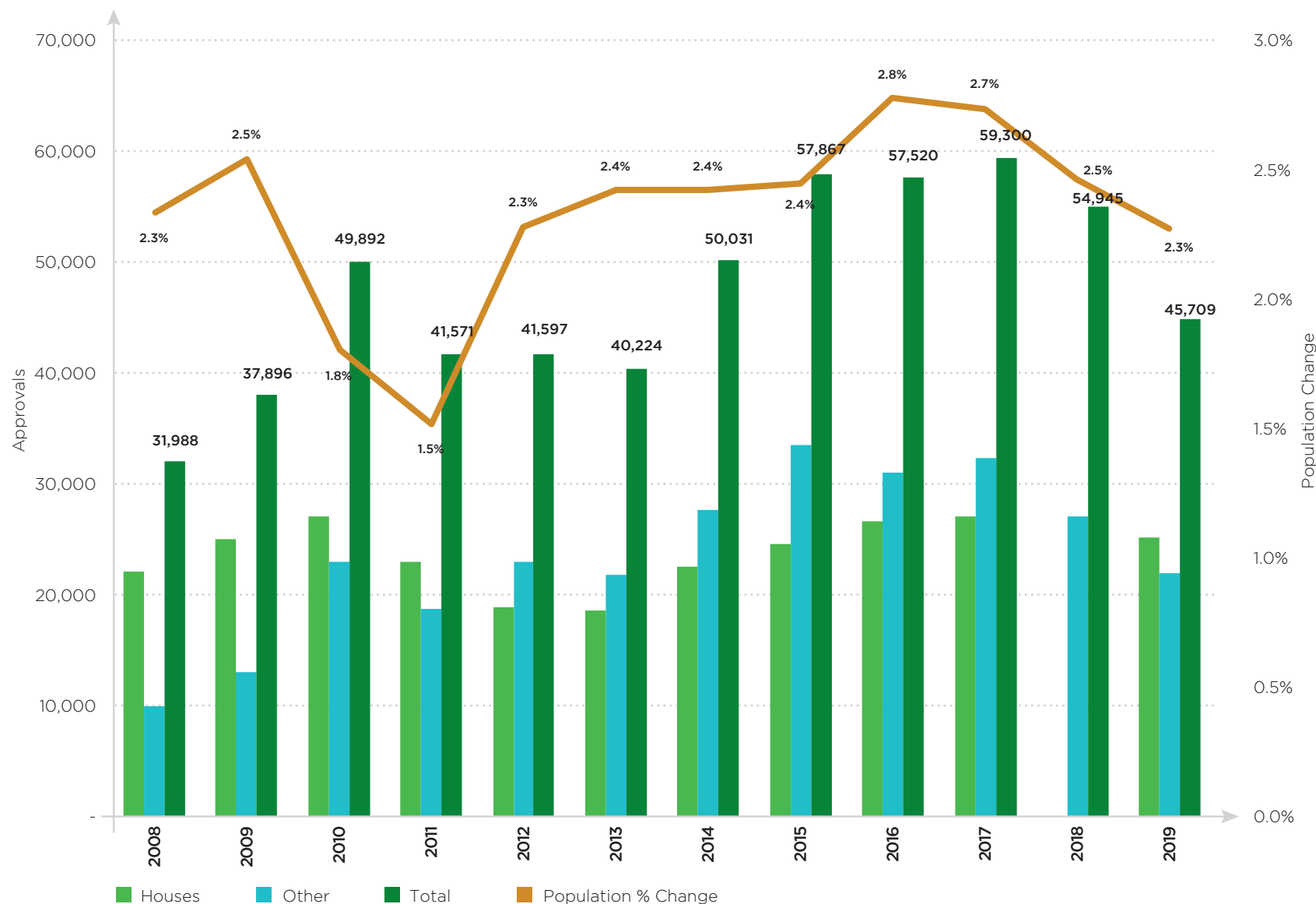
NEGATIVE

# DWELLING APPROVALS V. POPULATION

**REPORT**  
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This graph shows the relationship between population growth and dwelling approvals in the Greater City region.

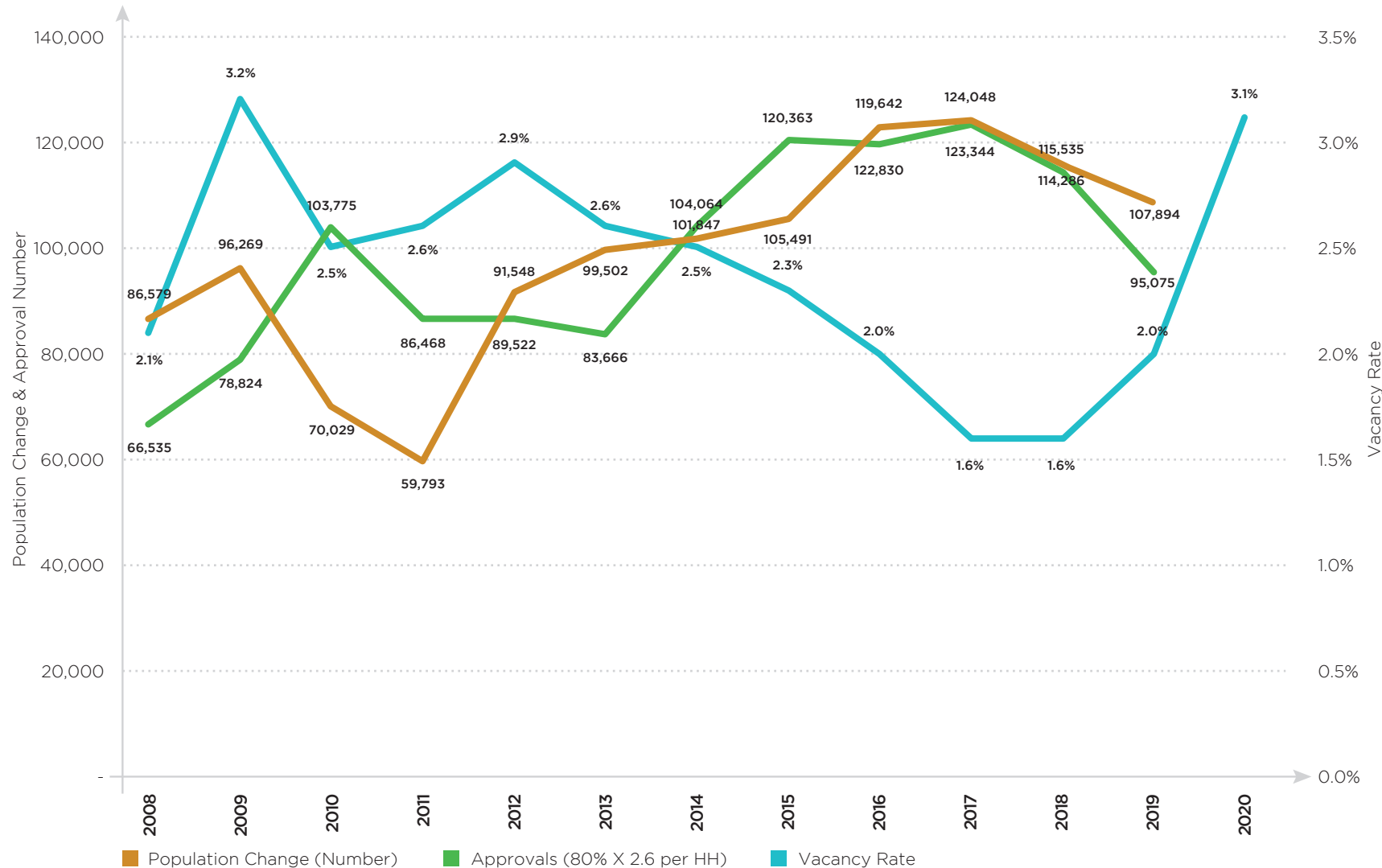


**POSITIVE**

**PERFORMANCE**  
PROPERTY DATA

# BEDROOM APPROVALS V. POPULATION CHANGE

This graph shows the relationship between the assumed number of bedrooms being commenced, the change in population numbers and the vacancy rate. PPA calculates this assuming 80% of approvals commence, and multiplying by the average household size of the city.



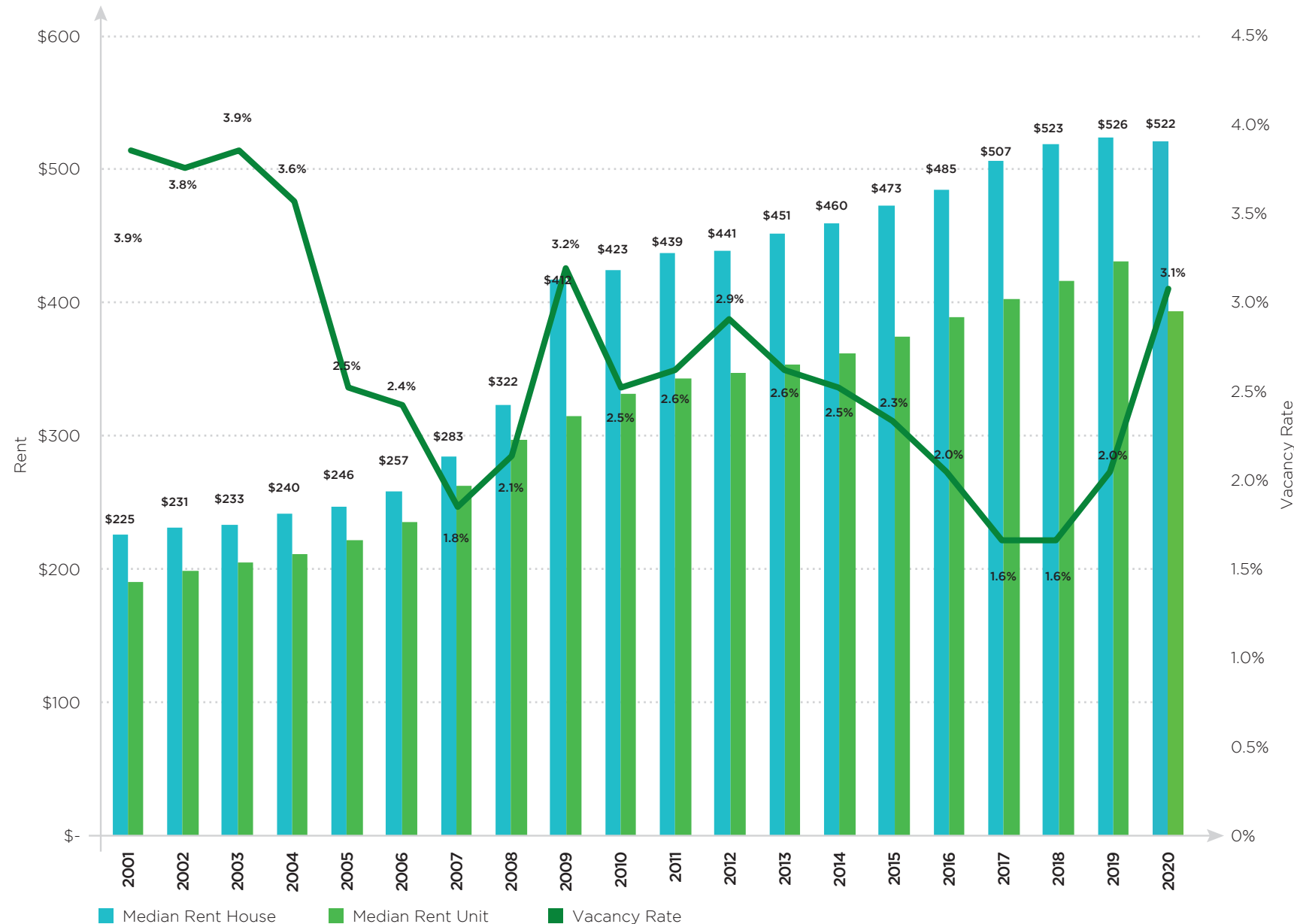
**NEUTRAL**

# VACANCY RATE V. RENT

**REPORT**  
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This graph displays the relationship between rental growth for both houses and units and the vacancy rate.



**NEGATIVE**

**PERFORMANCE**  
PROPERTY DATA

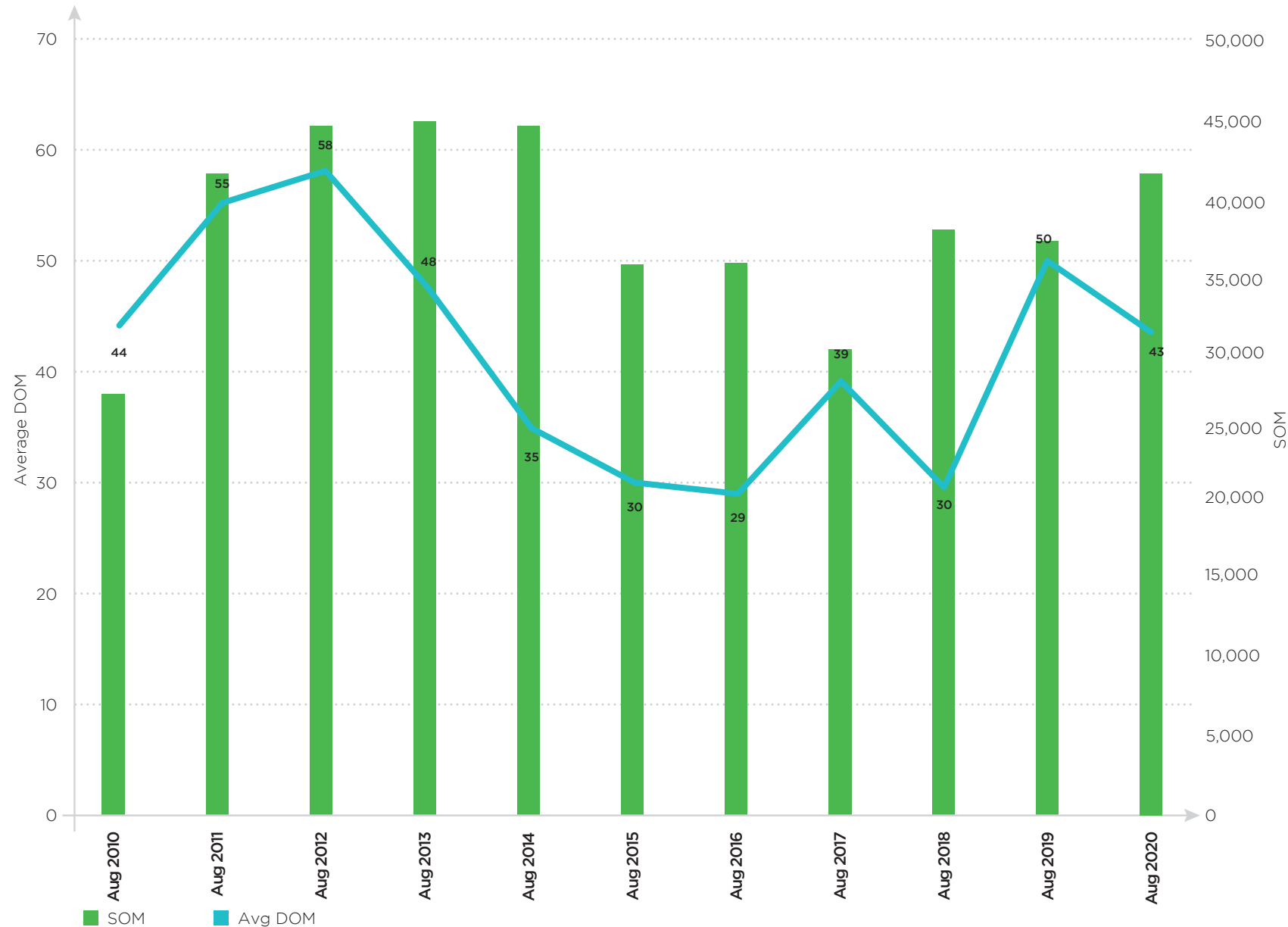


# STOCK ON MARKET

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This graph displays the average days on market and stock on market.

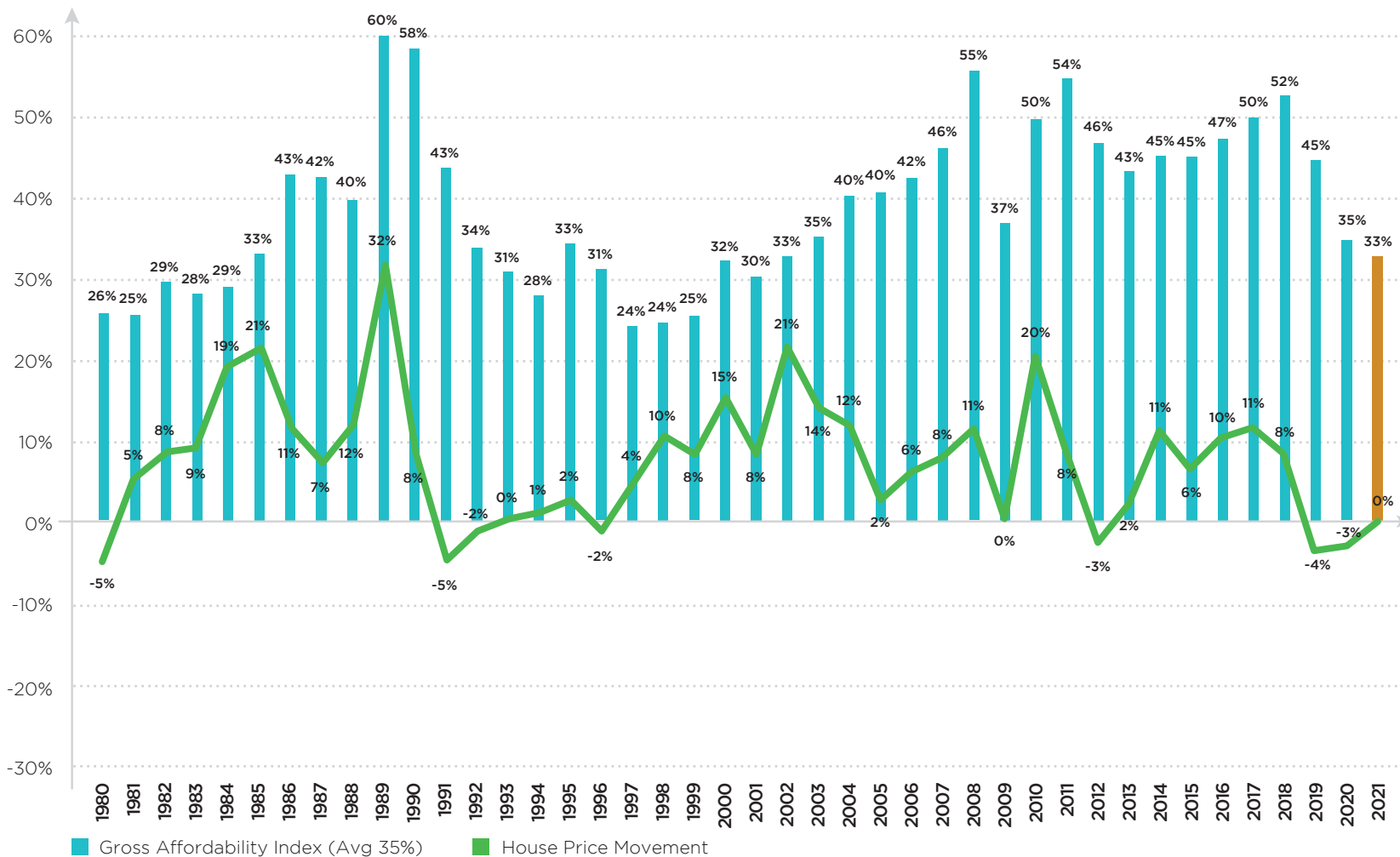


**NEUTRAL**

**PERFORMANCE**  
PROPERTY DATA

# AFFORDABILITY INDEX V. PRICE MOVEMENT - HOUSE

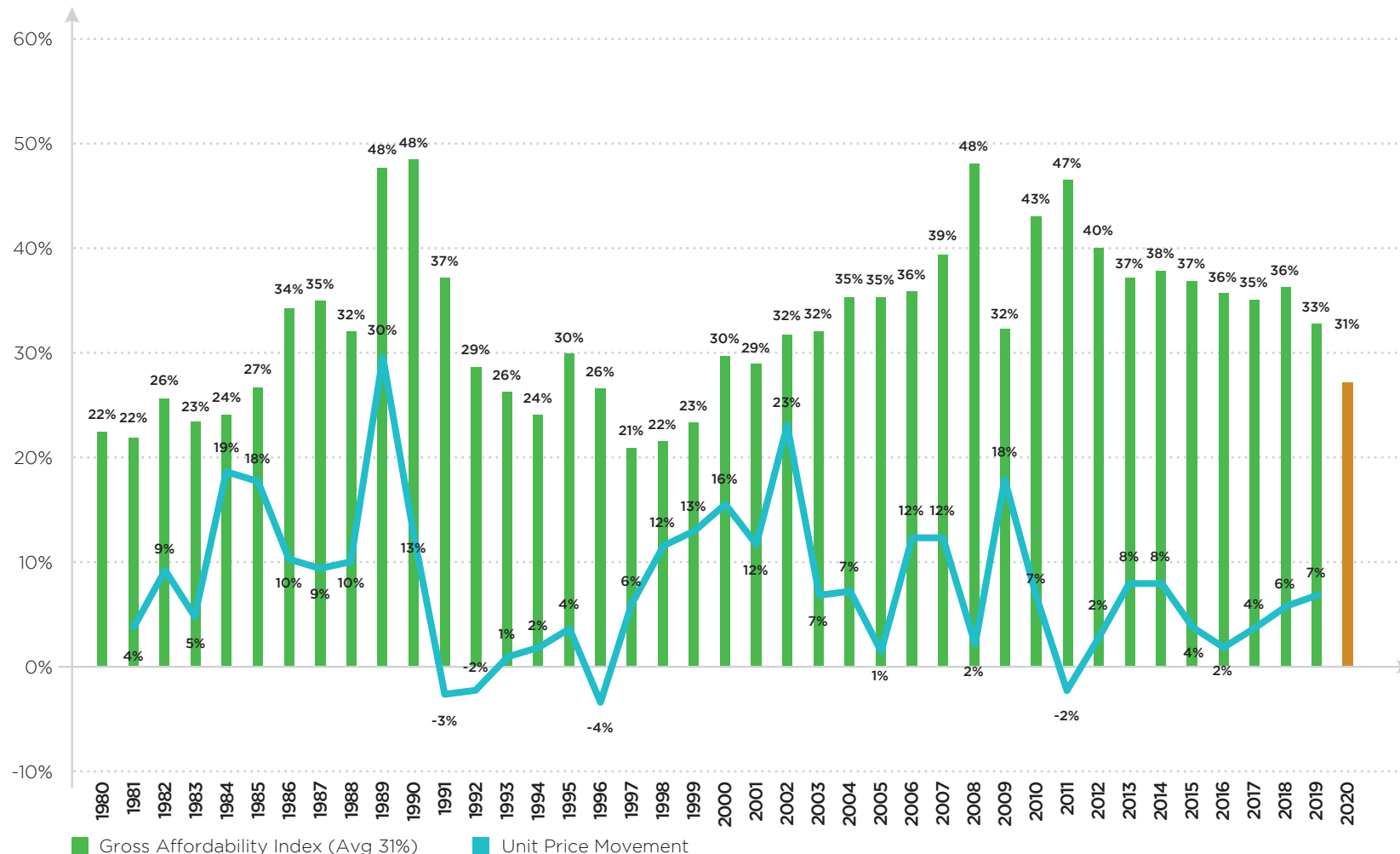
This graph displays the impact interest rates have on house price movements. PPA's Gross Affordability Index (AI) is a measure of the average mortgage repayments versus the average income. The AI is calculated using the median price, average wage (before tax), assumes a 20% deposit, the current variable interest rate and Principle & Interest repayments over a 30 year loan term. The futures market forecast for a 25bp fall has been factored into the forecasted 2020 AI and assumes 0% price growth and 3% wage growth.



**POSITIVE**

# AFFORDABILITY INDEX V. PRICE MOVEMENT - UNIT

This graph displays the impact interest rates have on unit price movements. PPA's Gross Affordability Index (AI) is a measure of the average mortgage repayments versus the average income. The AI is calculated using the median price, average wage (before tax), assumes a 20% deposit, the current variable interest rate and Principle & Interest repayments over a 30 year loan term. The futures market forecast for a 25bp fall has been factored into the forecasted 2020 AI and assumes 0% price growth and 3% wage growth.



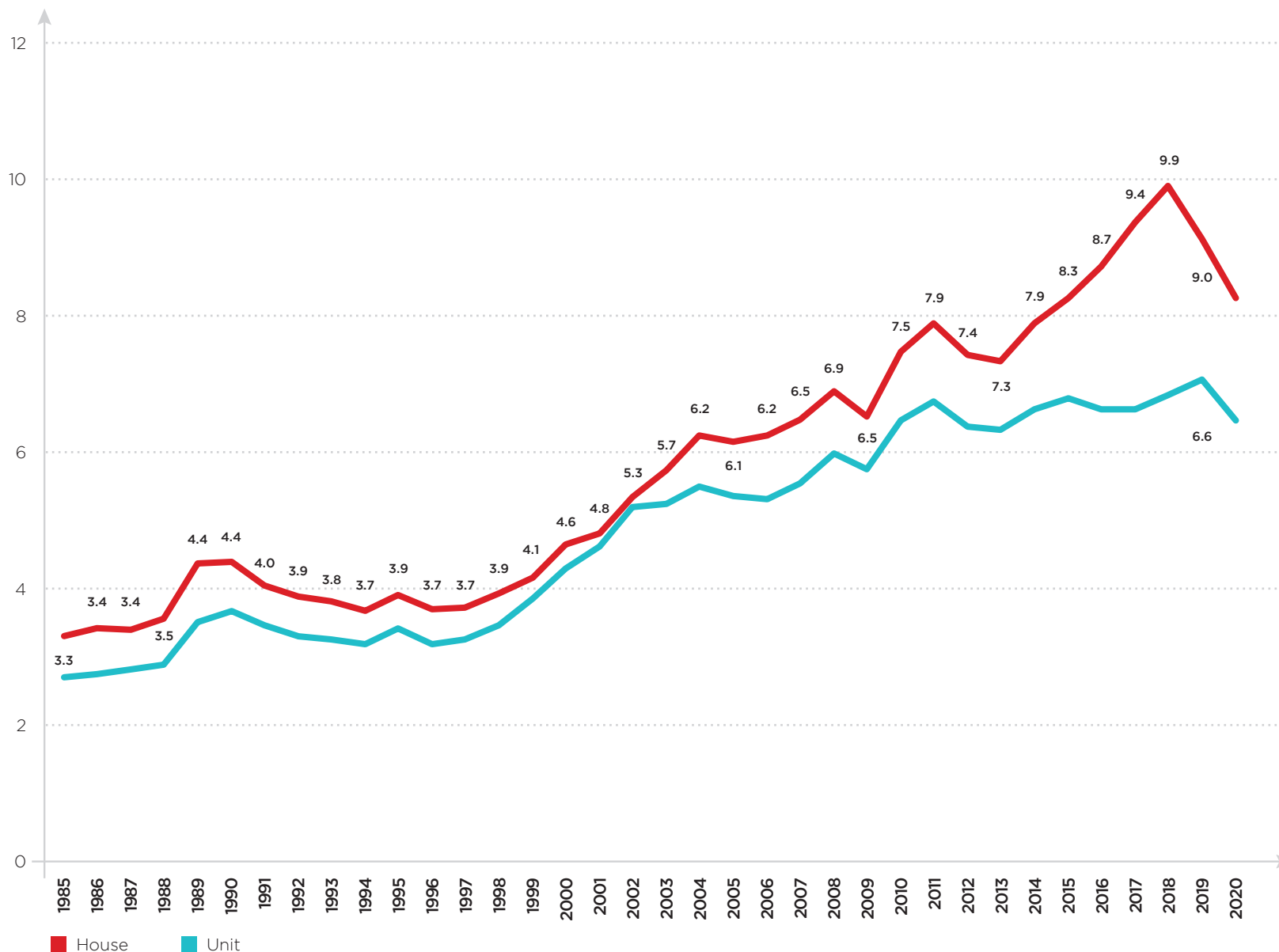
**SLIGHTLY  
POSITIVE**

# PRICE TO INCOME RATIO

**REPORT**  
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This graph displays the price to income ratio which is the relationship between the median house price and the average annual income. This also represents the average time taken to save a 20% deposit when assuming 20% of the average wage is saved.



**NEUTRAL**

**PERFORMANCE**  
PROPERTY DATA

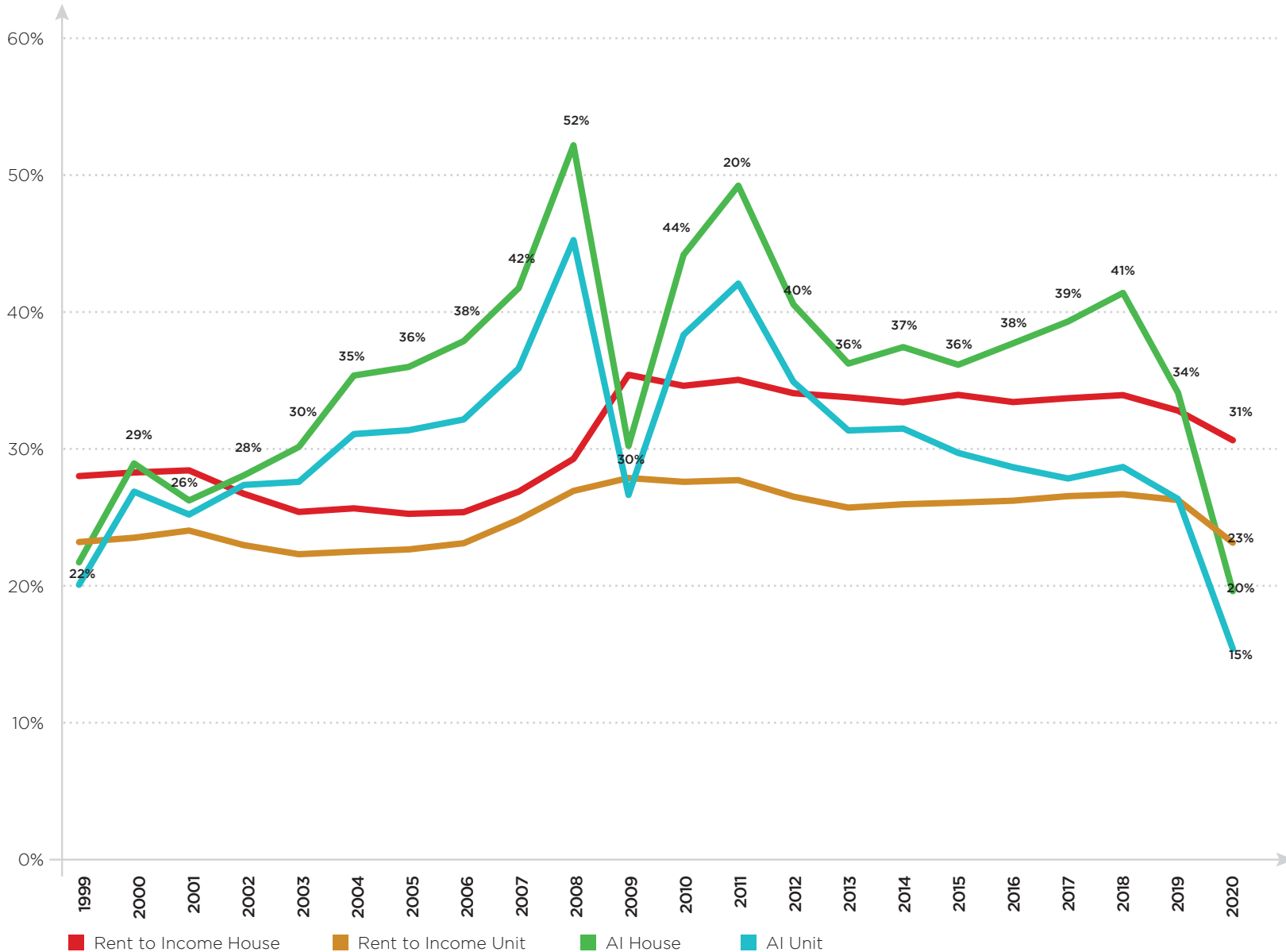


# INCOME TO RENT

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This graph displays the percentage of the average wage that pays the median house rent versus the PPA Affordability Index for houses, calculated using an Interest only loan.



**POSITIVE**

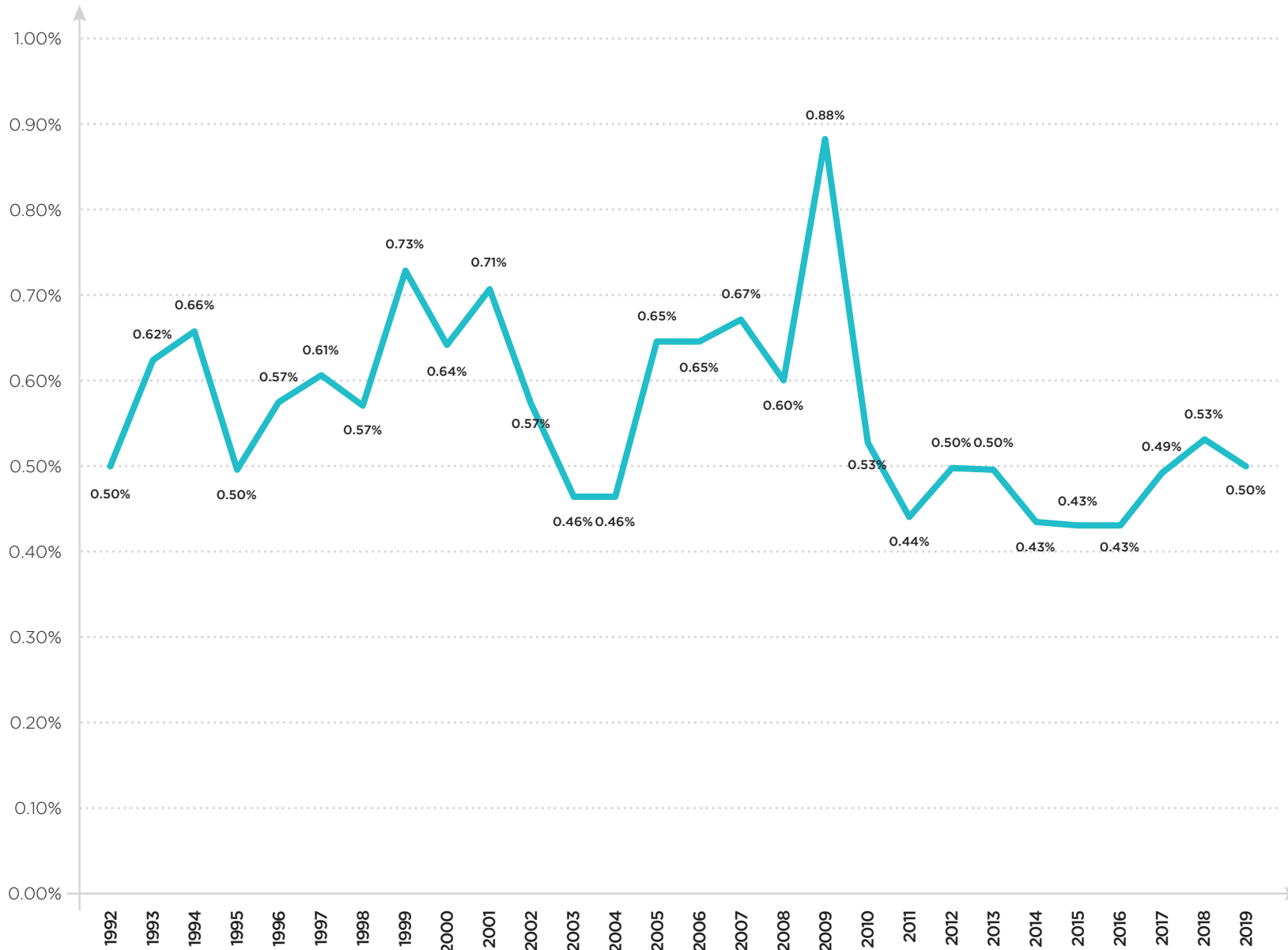
**PERFORMANCE**  
PROPERTY DATA

# FHBS AS A % OF POPULATION

**REPORT**  
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This graph shows the percentage of first home buyers (FHB) relative to the state population.

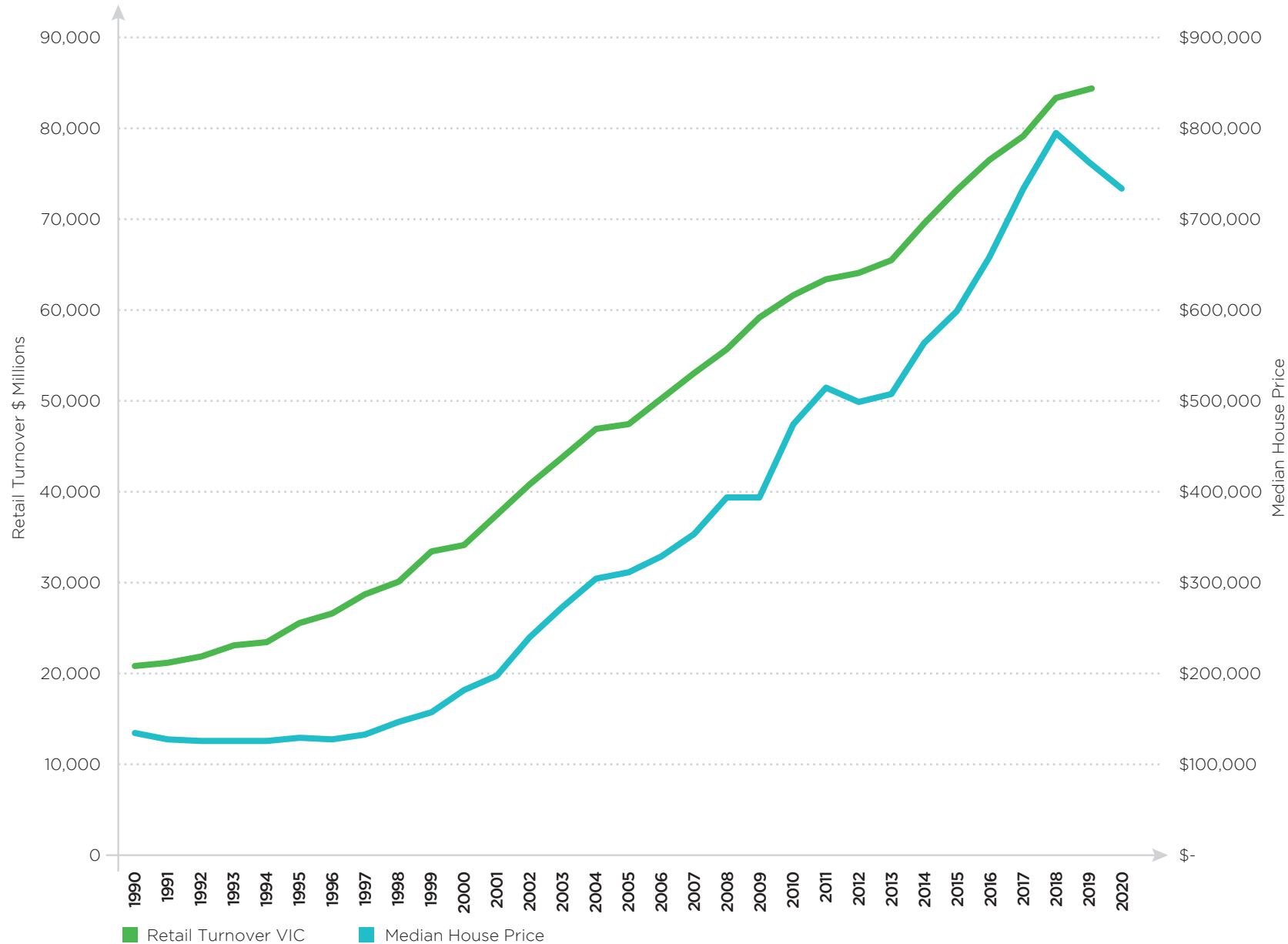


**SLIGHTLY  
POSITIVE**

**PERFORMANCE**  
PROPERTY DATA

# RETAIL TURNOVER GROWTH

This graph displays levels of retail turnover for the state charted against the median house price.



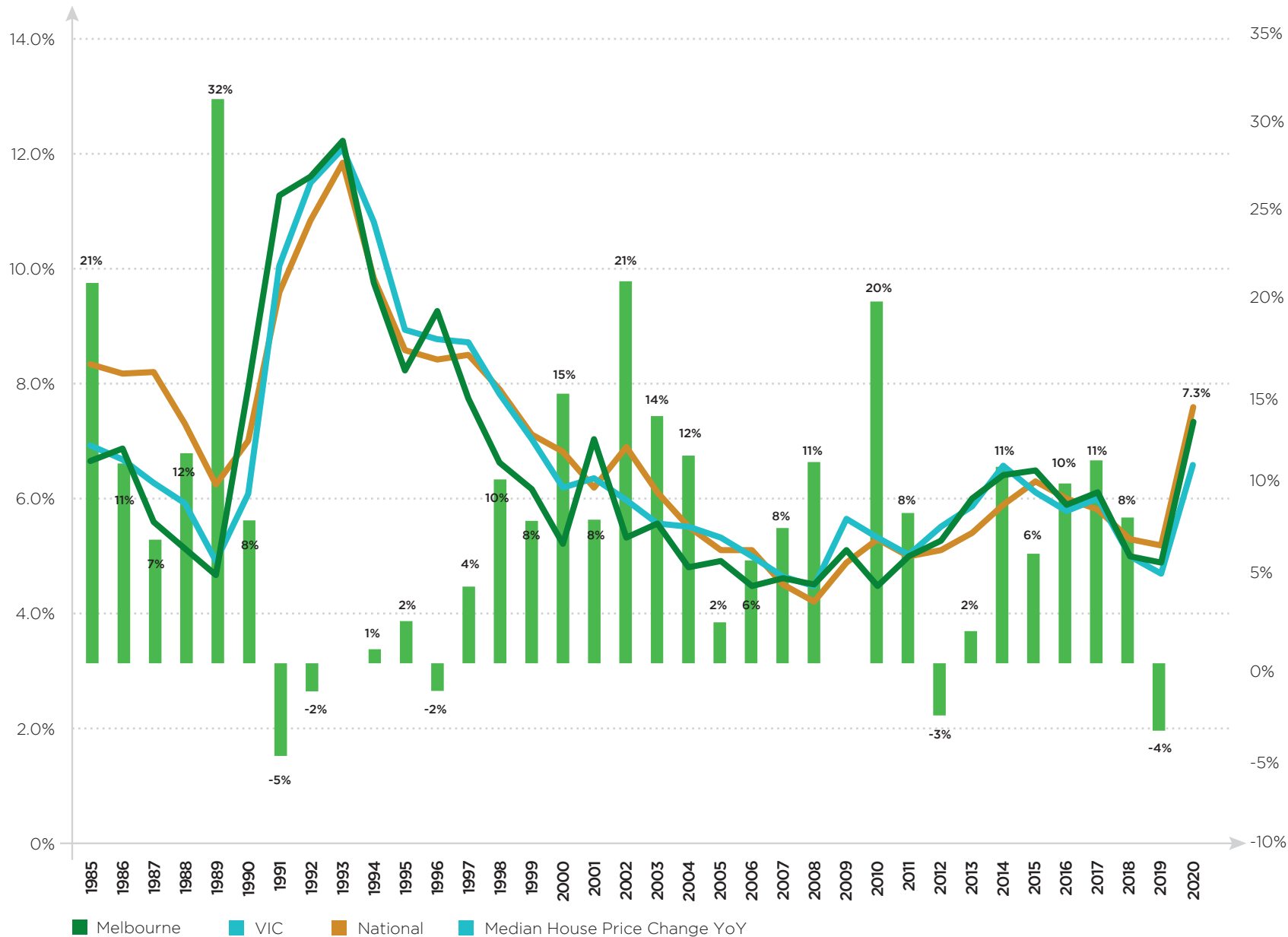
**POSITIVE**

# UNEMPLOYMENT RATE

**REPORT**  
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This graph displays the unemployment rate for metro, state and national as a yearly average and the current, most recent rate.



**SLIGHTLY  
NEGATIVE**

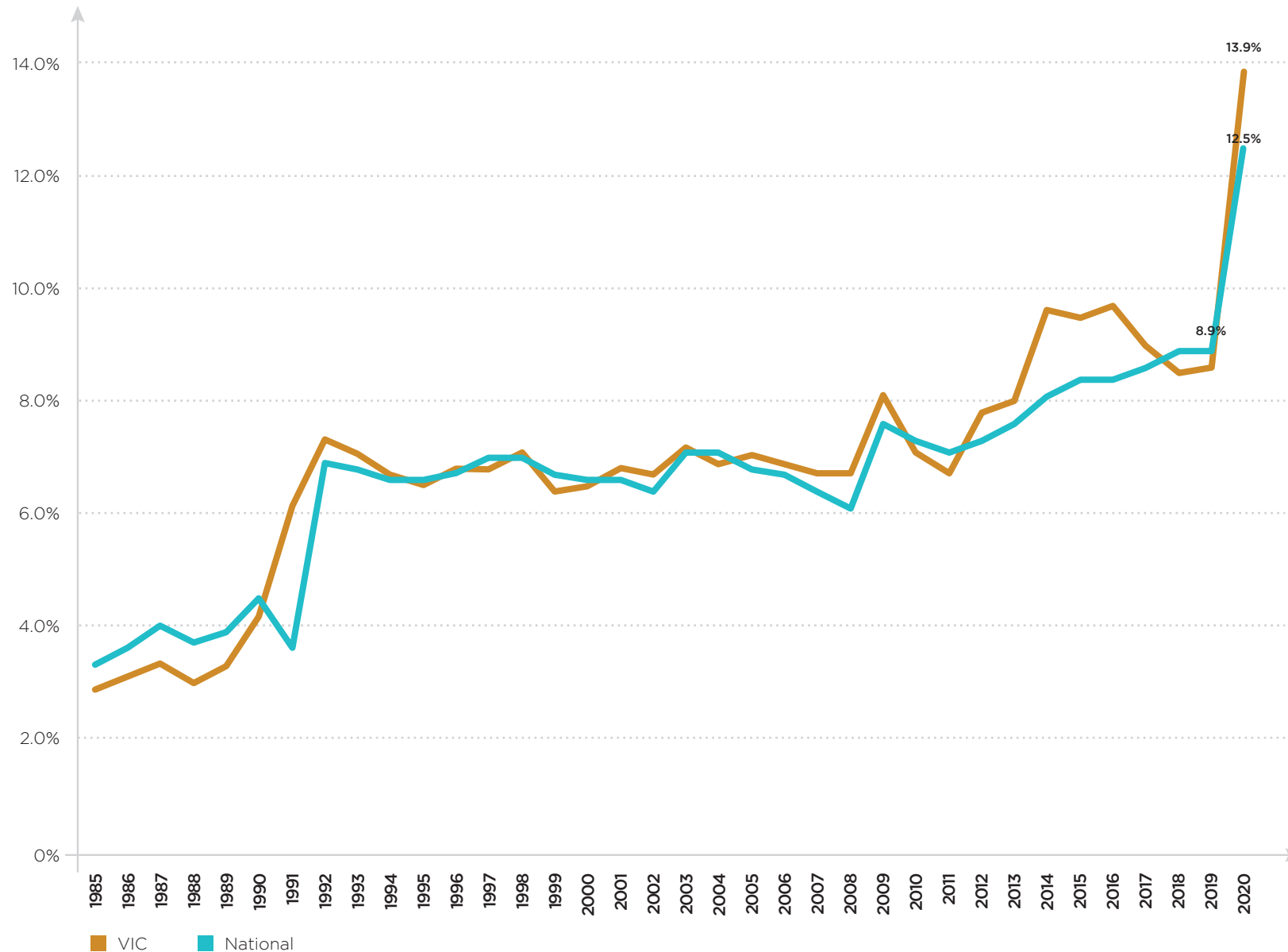
**PERFORMANCE**  
PROPERTY DATA

# UNDEREMPLOYMENT RATE

**REPORT**  
MELBOURNE CAPITAL CITY

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This graph shows the relationship between the state and national underemployment rate as a yearly average from 1985 and the current, most recent rate.



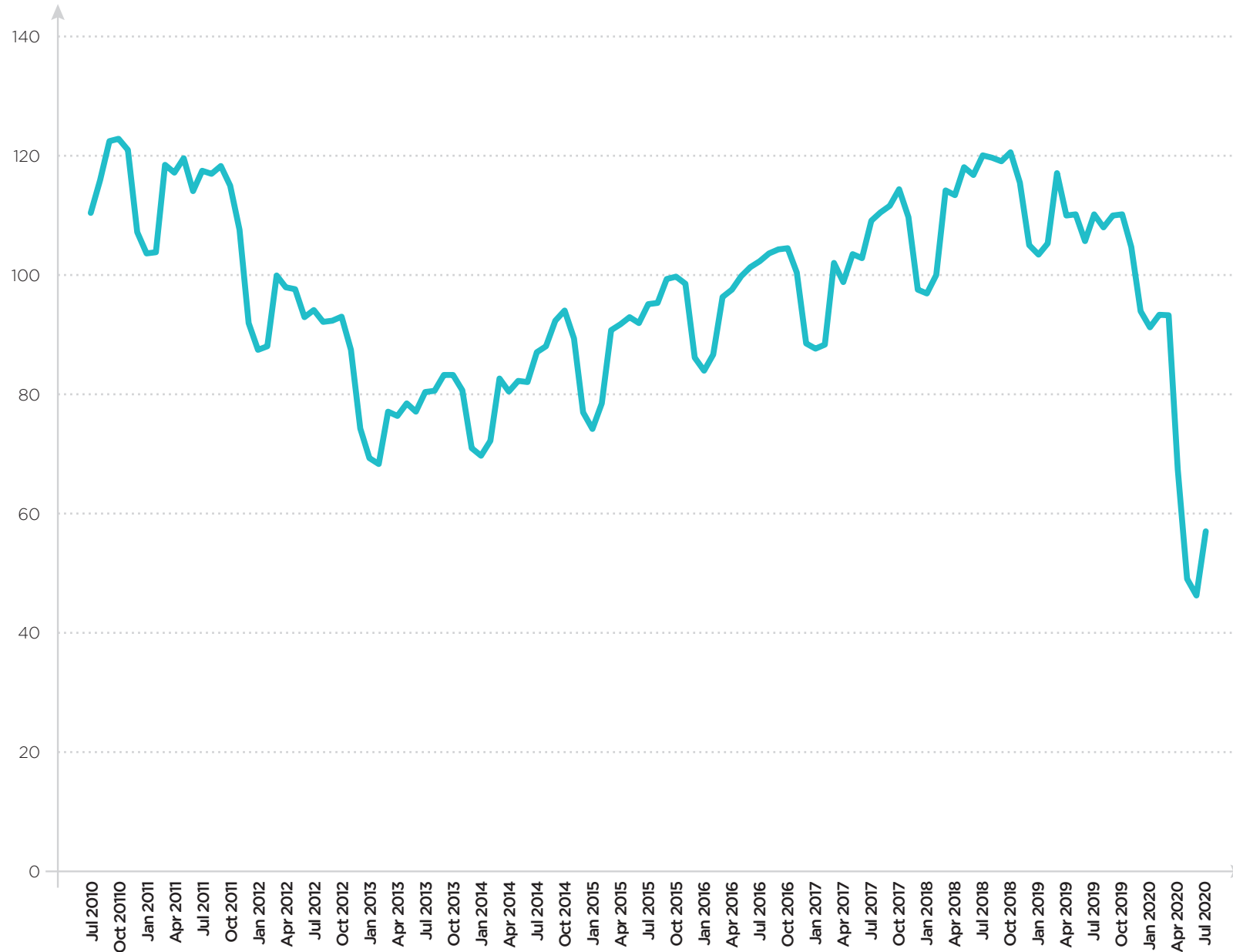
**NEGATIVE**

**PERFORMANCE**  
PROPERTY DATA



# JOB CREATION

This graph shows the internet vacancy index for online job advertisements on the three major job boards.

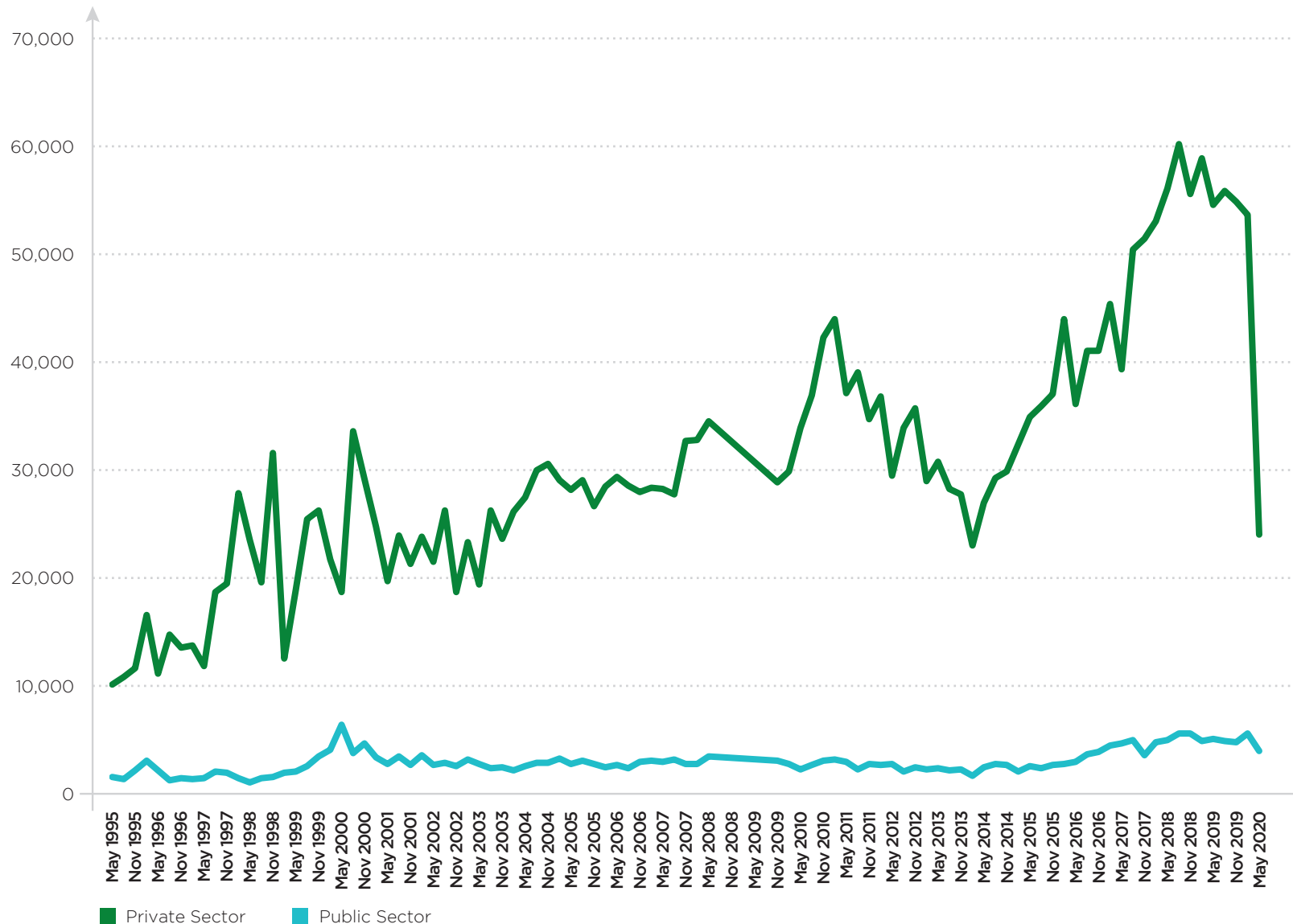


**NEGATIVE**

# STATE JOB VACANCIES - PRIVATE & PUBLIC

**REPORT**  
MELBOURNE CAPITAL CITY  
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This graph displays the ABS figure for the number of jobs created in the private and public sectors state wide.

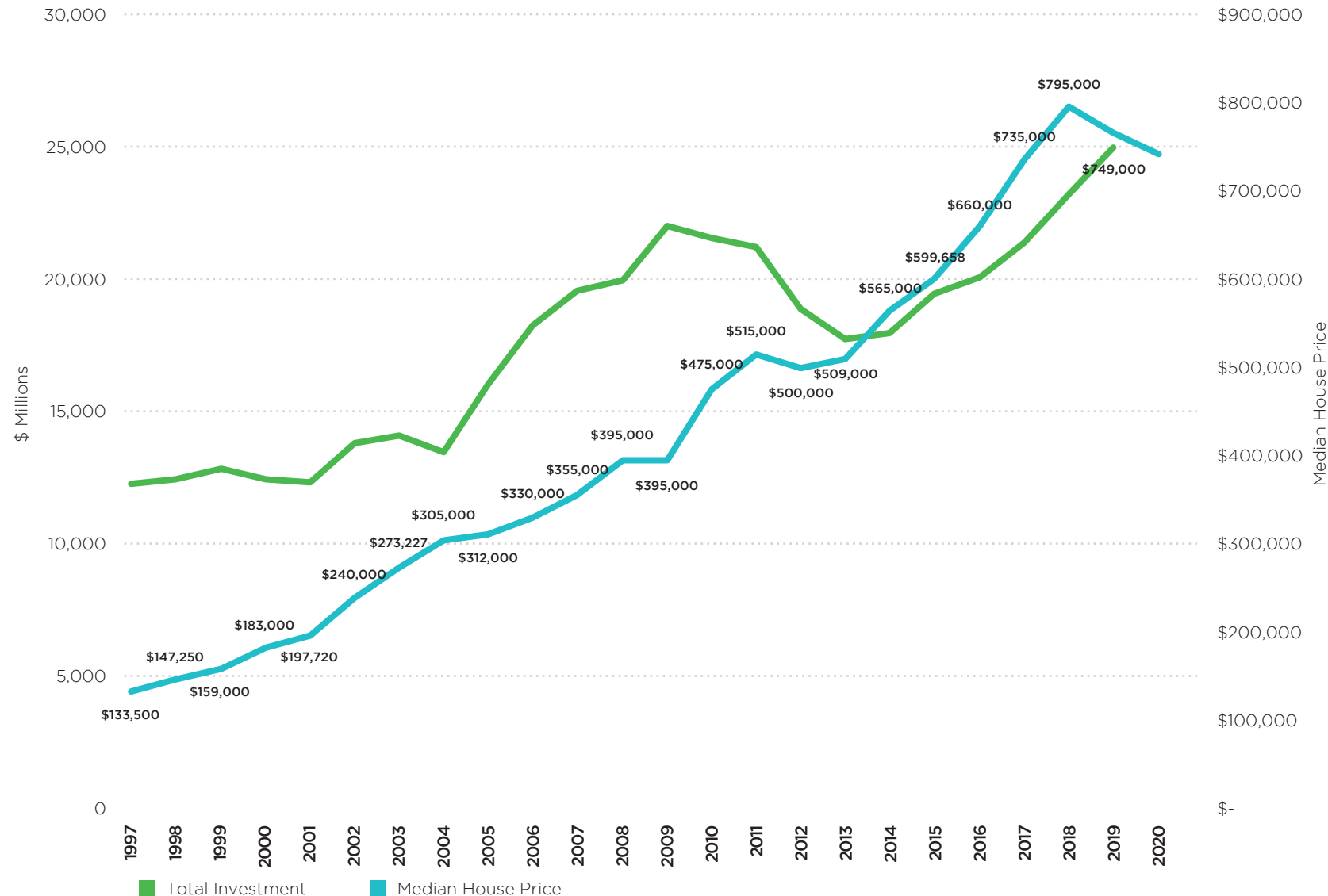


**NEGATIVE**

**PERFORMANCE**  
PROPERTY DATA

# VIC PRIVATE BUSINESS INVESTMENT

This graph displays private business investment into the state charted against the median house price.

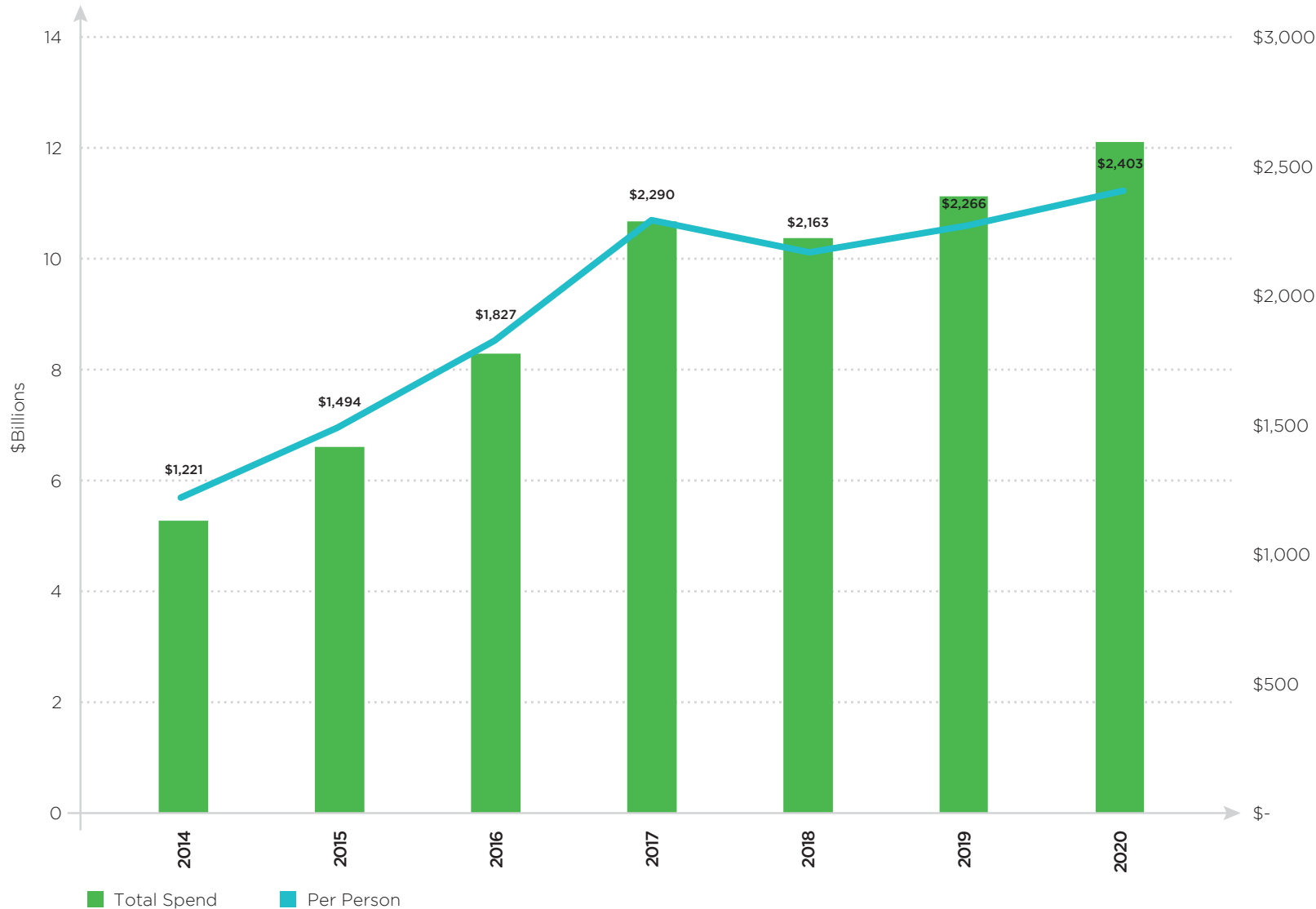


**POSITIVE**

# INFRASTRUCTURE SPENDING V. SPEND PER PERSON

**REPORT**  
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This graph displays the total infrastructure spend on projects over \$10 million, in the public and private sectors in Melbourne and the spend broken down into a per person figure. The average spend per person in Australia is just under \$3,000.

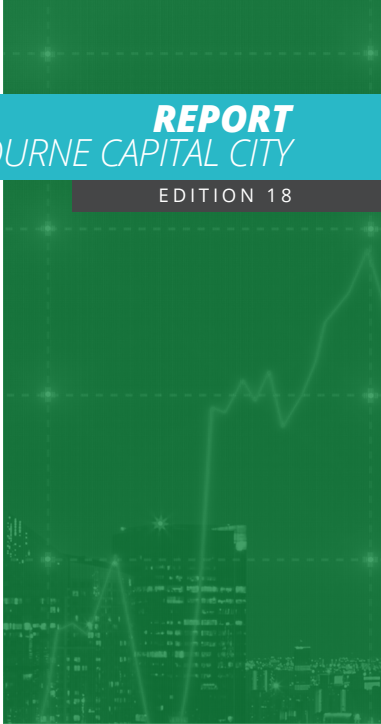
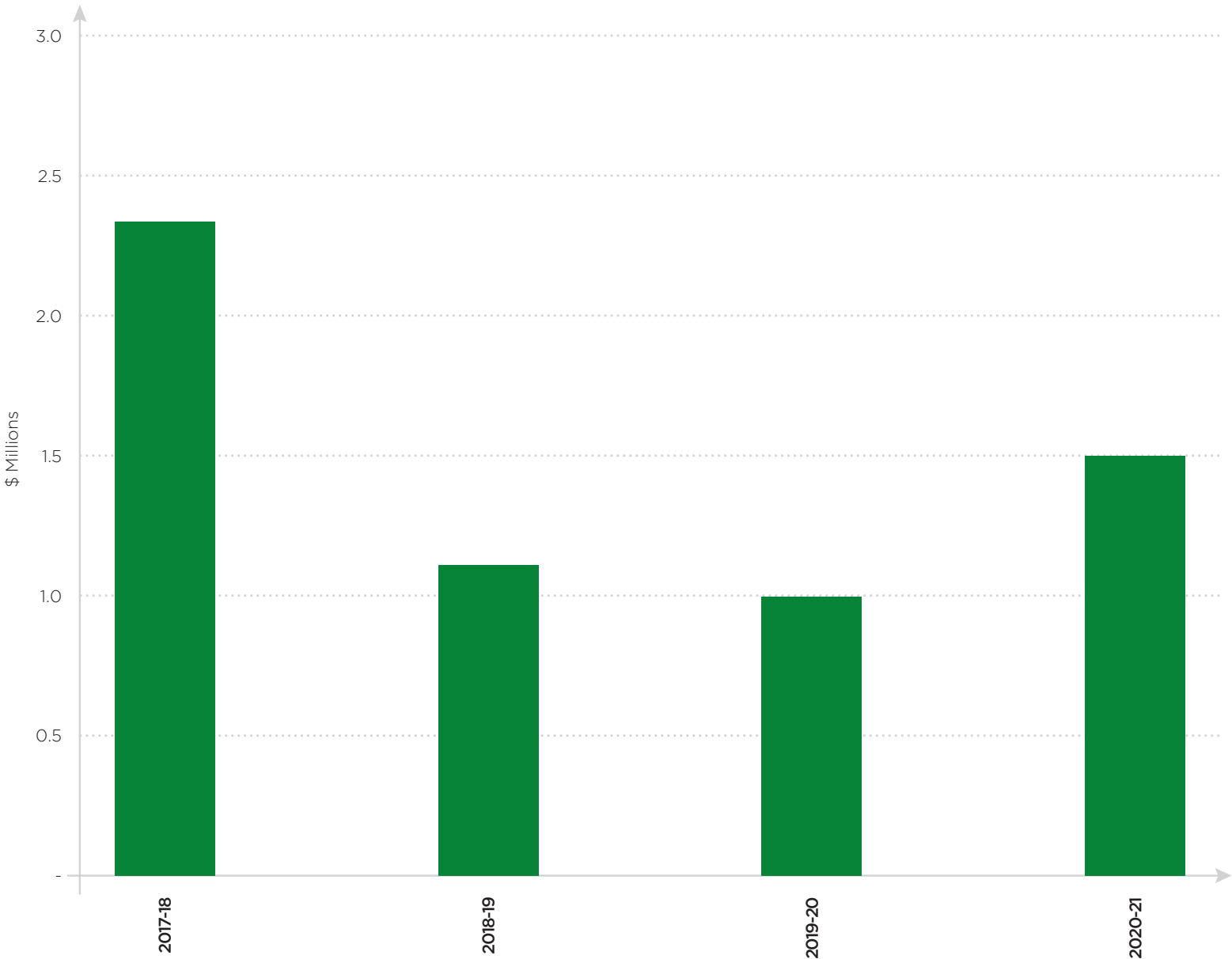


**SLIGHTLY  
POSITIVE**

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# STATE BUDGET

This graph displays the State Government position of either a surplus or deficit.



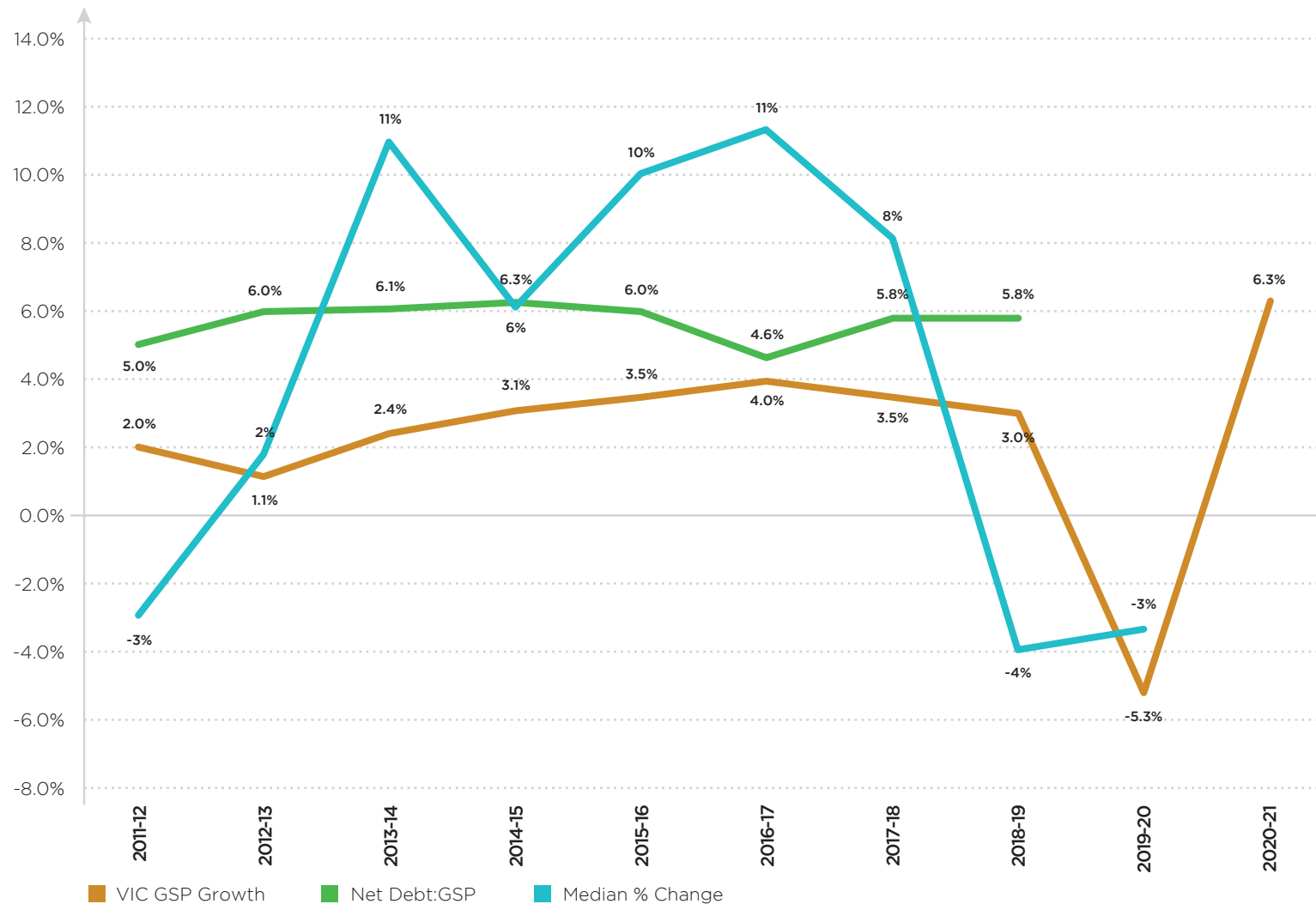
POSITIVE





# GSP GROWTH/NET GOVT DEBT V. MEDIAN HOUSE PRICE CHANGE

This graph displays the actual and forecasted Gross State Product (GSP) growth and Net Debt as a percentage of GSP, from the latest Victorian Budget and the change in the median house price.

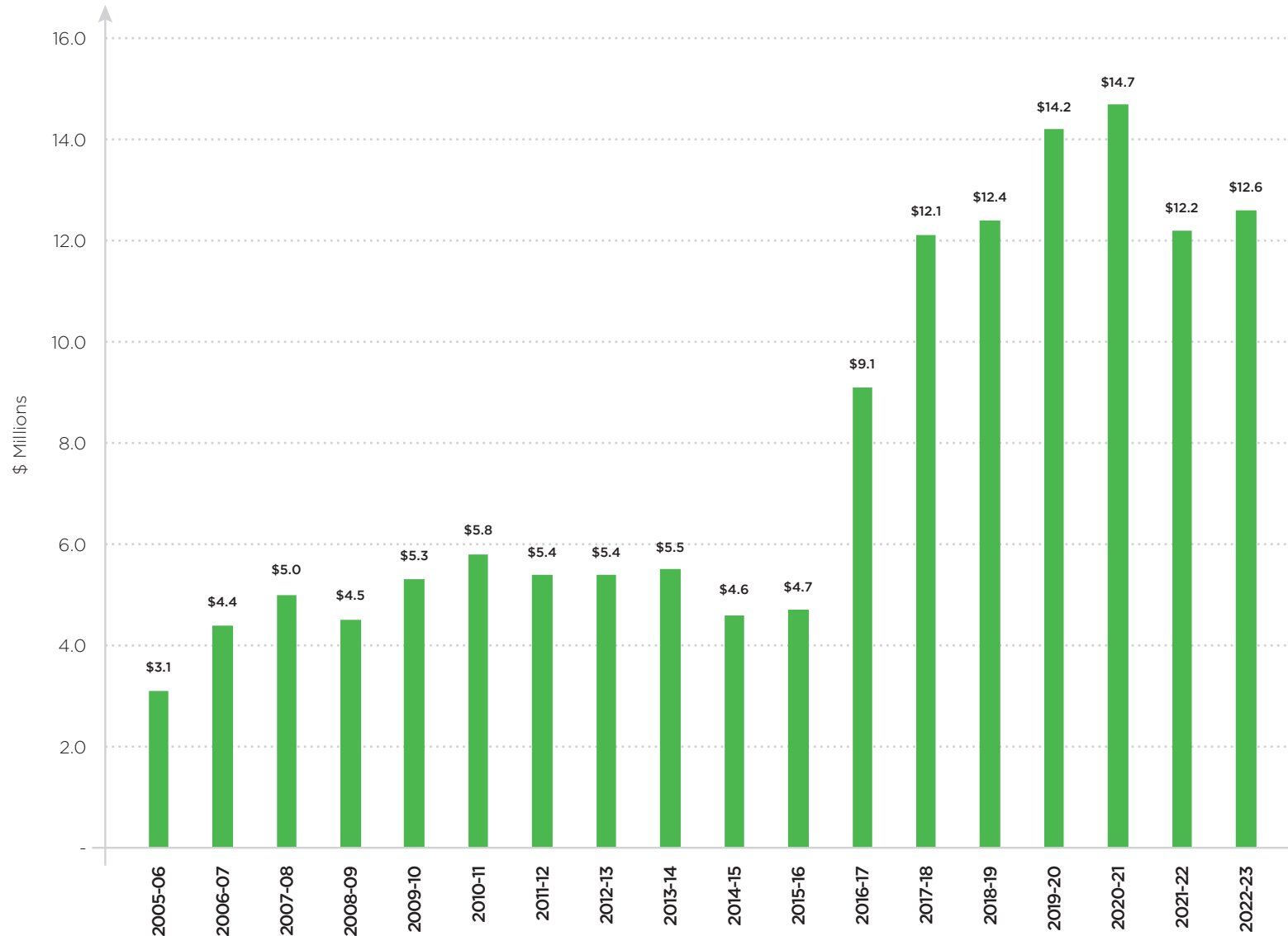


**SLIGHTLY  
NEGATIVE**

# STATE GOVT INFRASTRUCTURE SPEND FORECAST

**REPORT**  
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This graph displays the actual and forecasted Government Infrastructure investment at a state level.



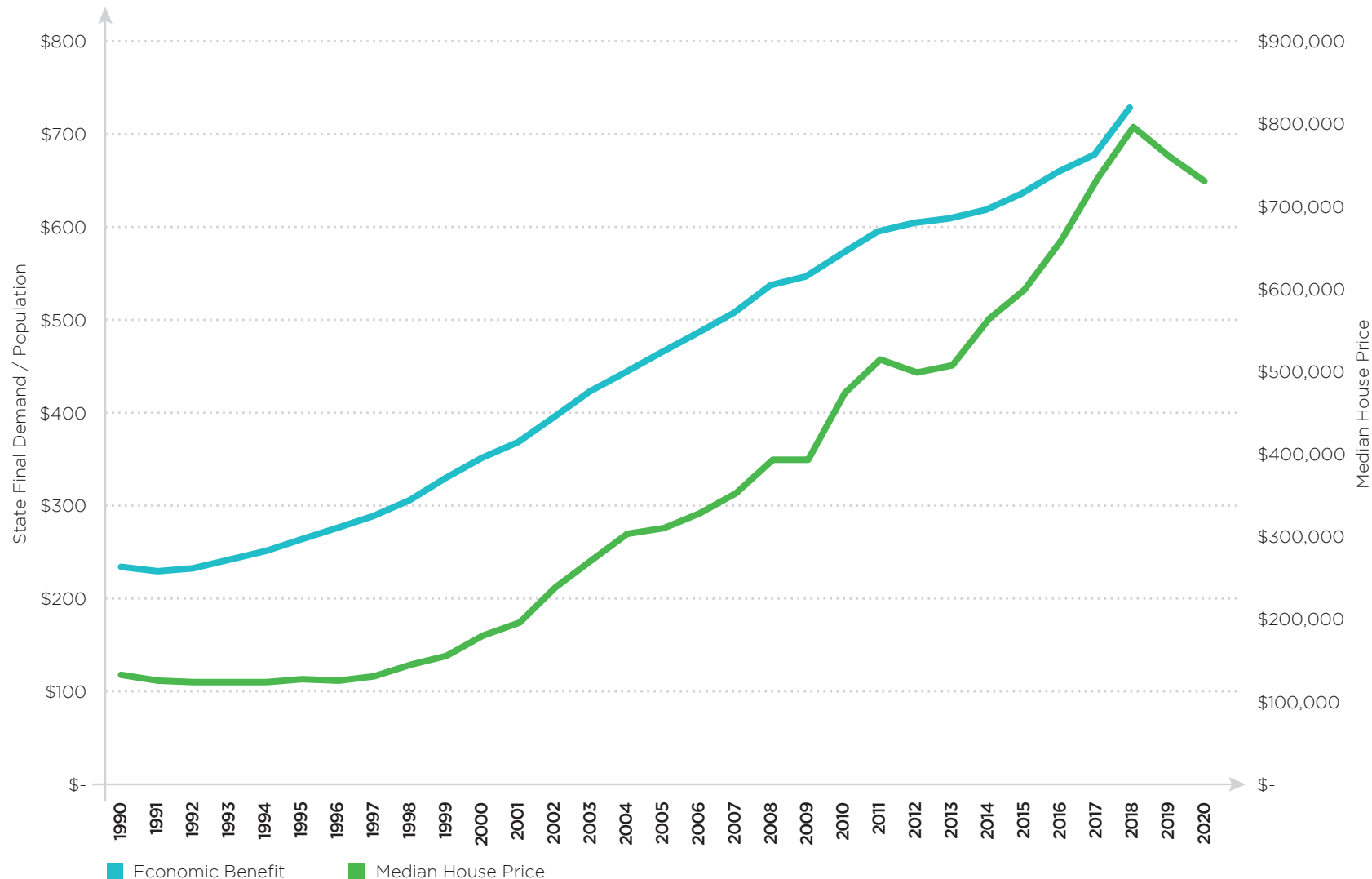
**SLIGHTLY  
POSITIVE**

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# ECONOMIC BENEFIT V. MEDIAN HOUSE PRICE

**REPORT**  
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This graph displays the economic benefit per person against the median house price. Economic benefit is the ratio between State Final Demand for the state and the state's population. State Final Demand measures the total value of goods and services that are sold in the state and is a measure of the state's income.



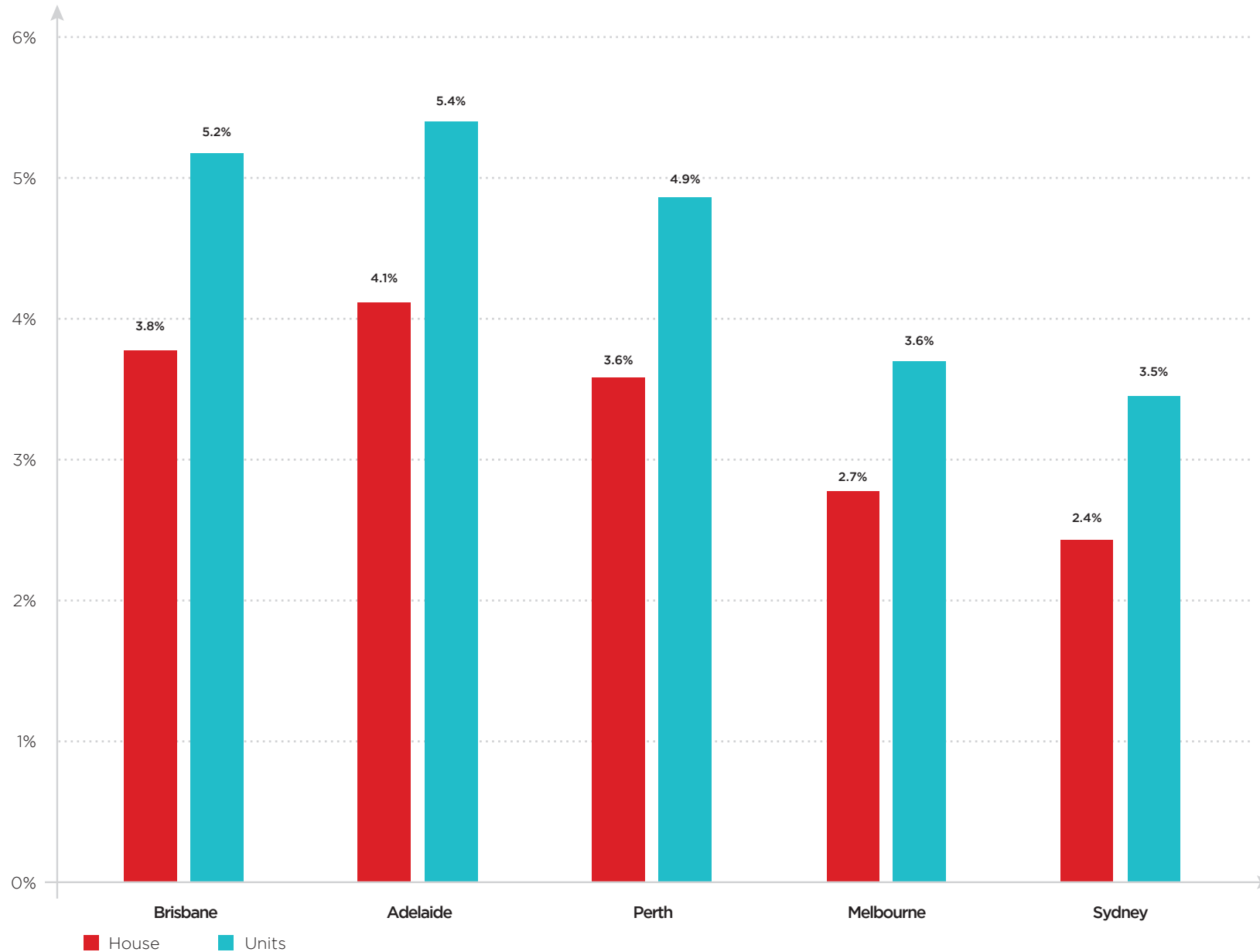
**NEUTRAL**

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# CURRENT INVESTMENT VALUE

**REPORT**  
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This graph compares the gross yield for houses and units in each of the five major capital cities.



**SLIGHTLY  
NEGATIVE**

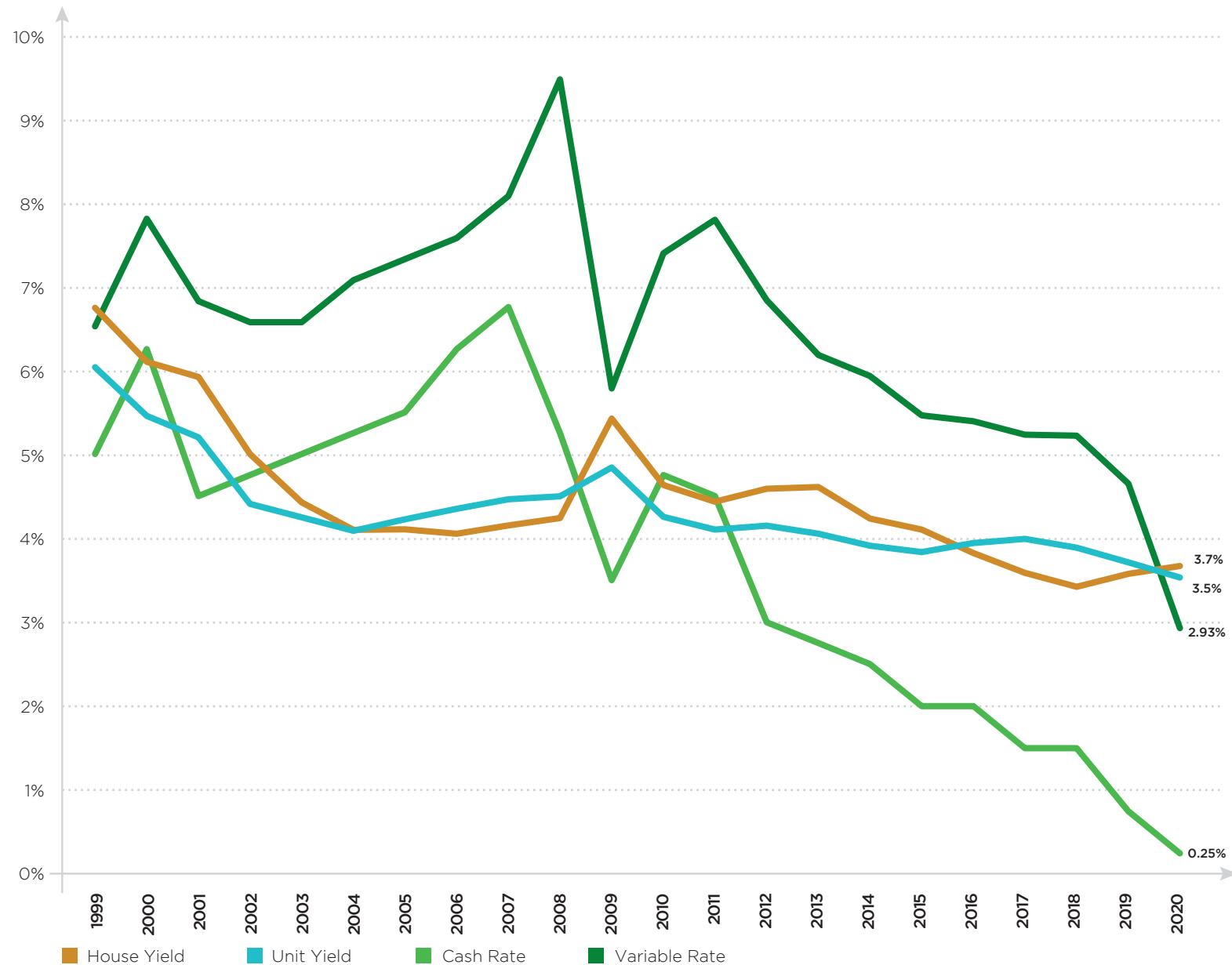
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# YIELD V. INTEREST RATES

**REPORT**  
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This graph displays house and unit yields against the variable and cash rates.



**NEUTRAL**

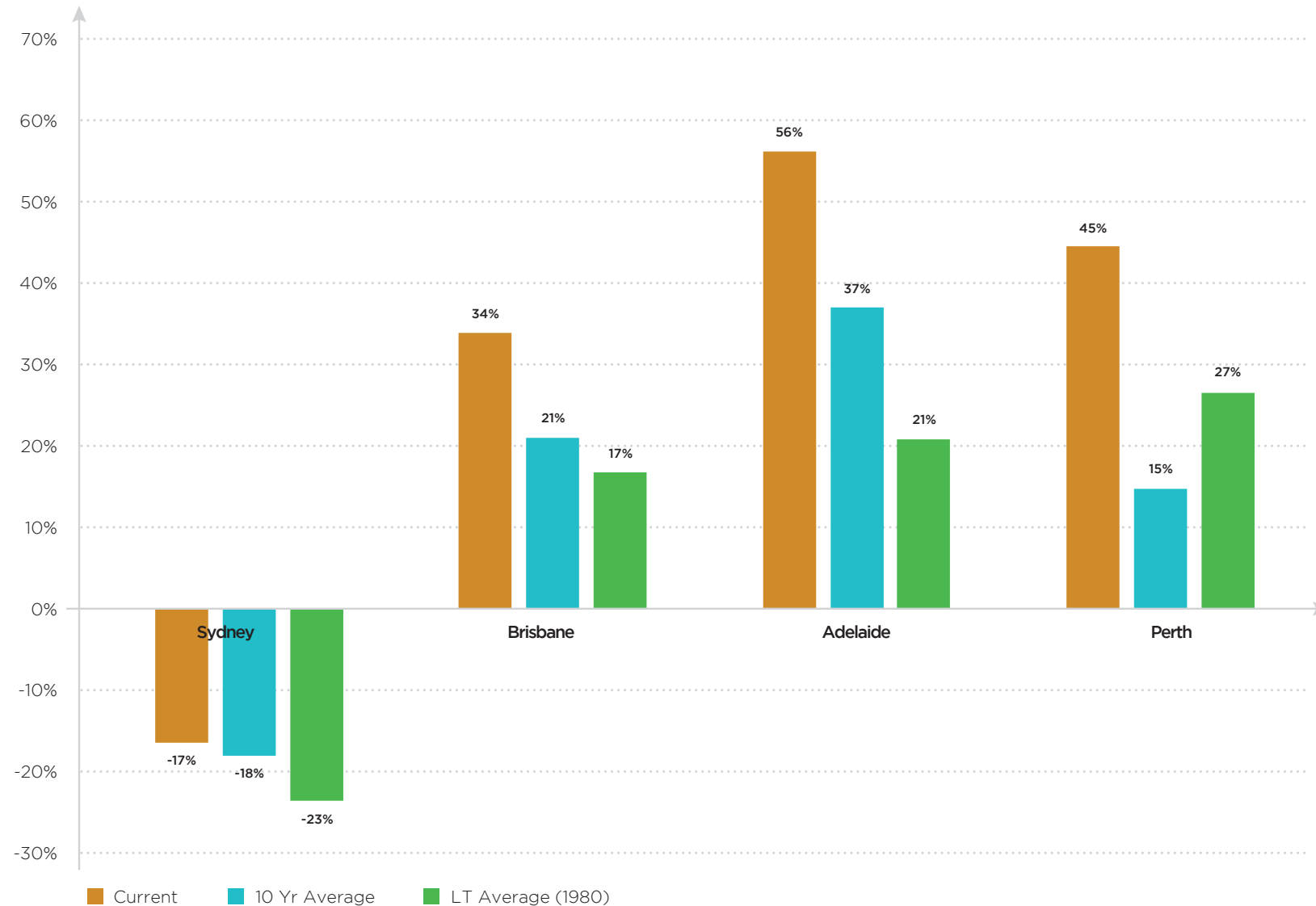
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# CAPITAL CITY LONG TERM PRICE COMPARISON

**REPORT**  
MELBOURNE CAPITAL CITY  
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This graph displays the median price relationships between the five major capital cities in Australia over the last 10 years and since 1980.



**SLIGHTLY  
NEGATIVE**

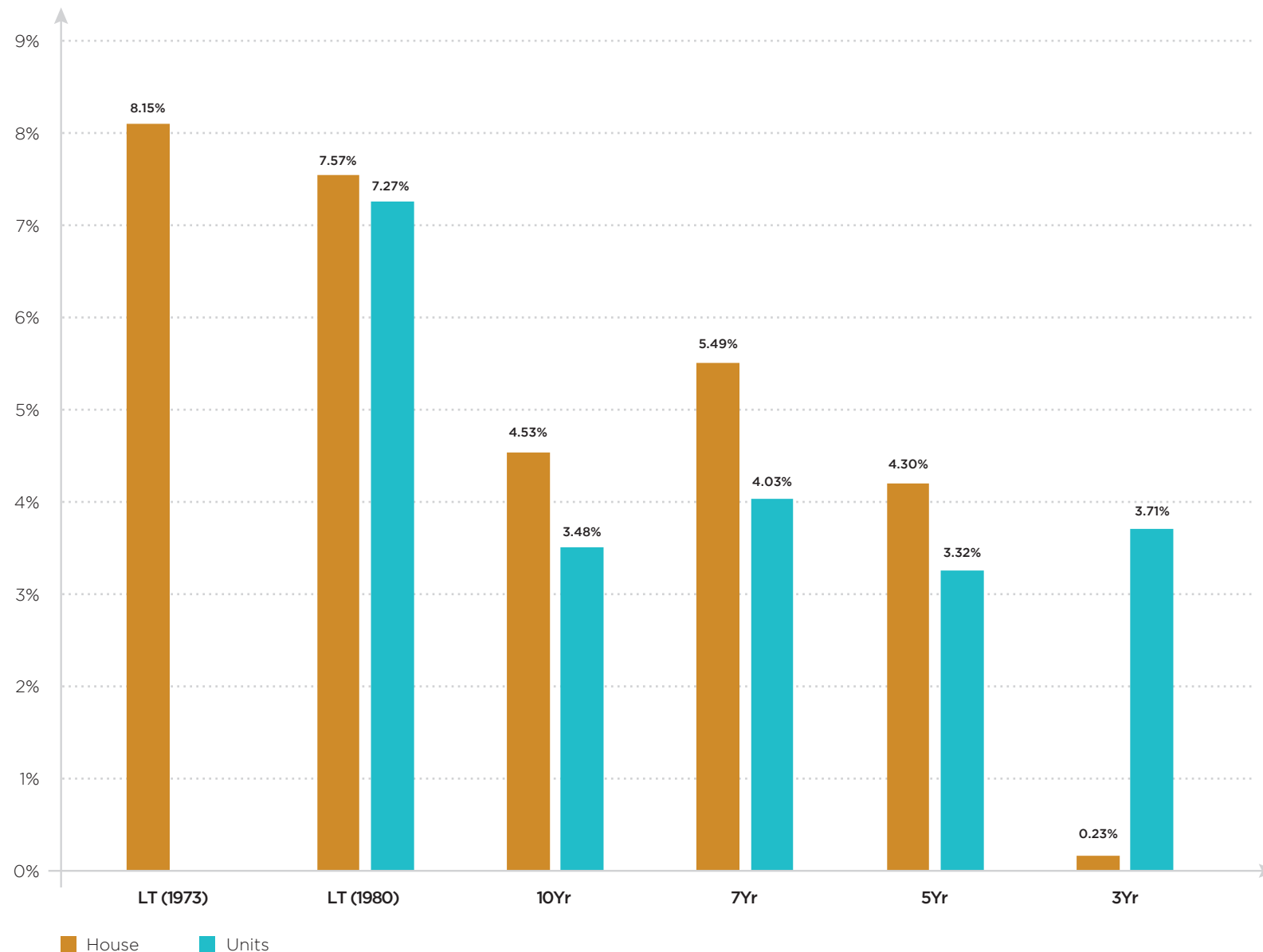
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# LONG & SHORT TERM TRENDS

**REPORT**  
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This graph displays the annual compounded growth rates for houses and units over the long term, and the last 10 years, 7 years, 5 years and 3 years.



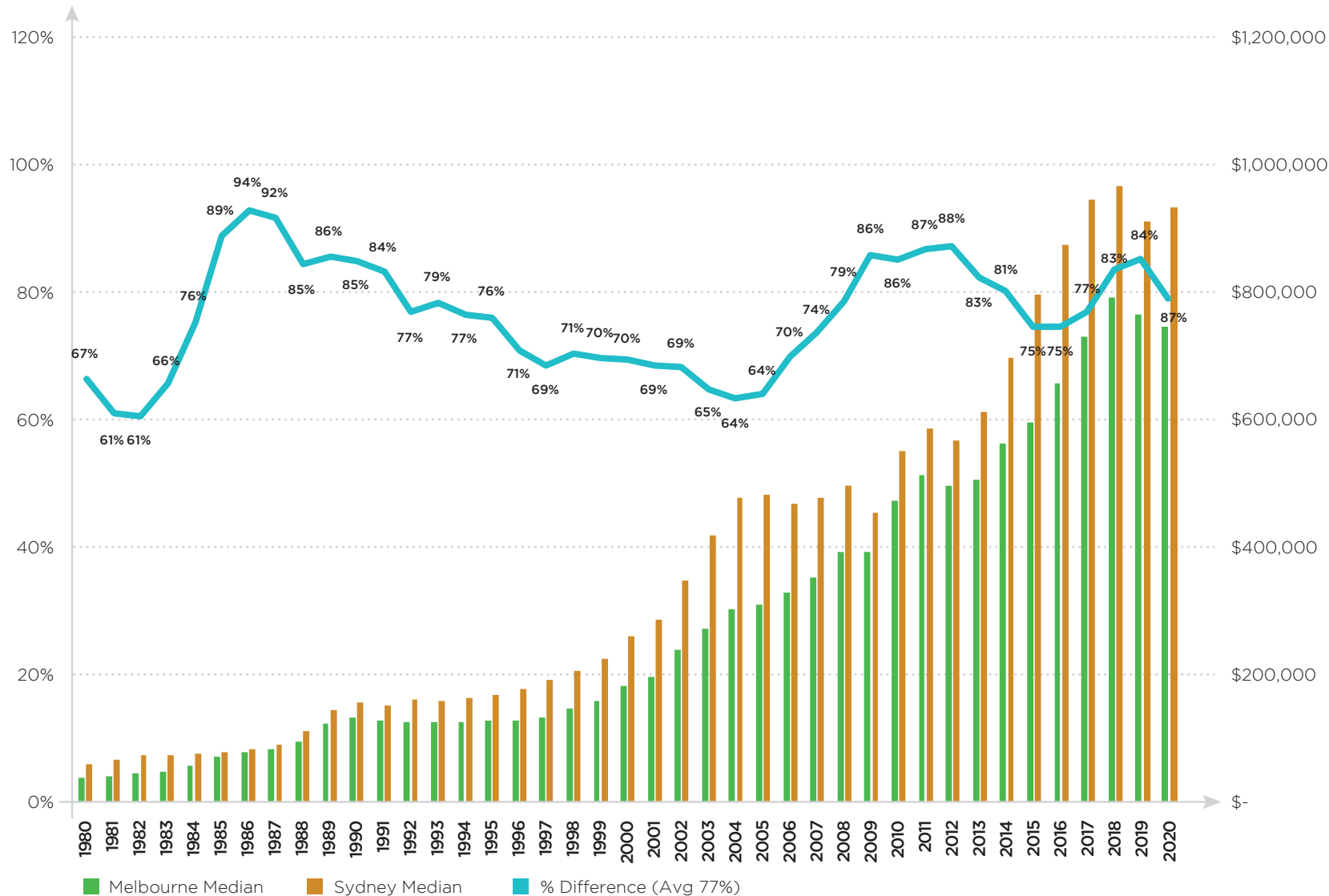
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# MELBOURNE V. SYDNEY PRICE MOVEMENT

**REPORT**  
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This graph shows a relationship between the Melbourne median and the Sydney median and the percentage difference between them for each year.



**NEUTRAL**

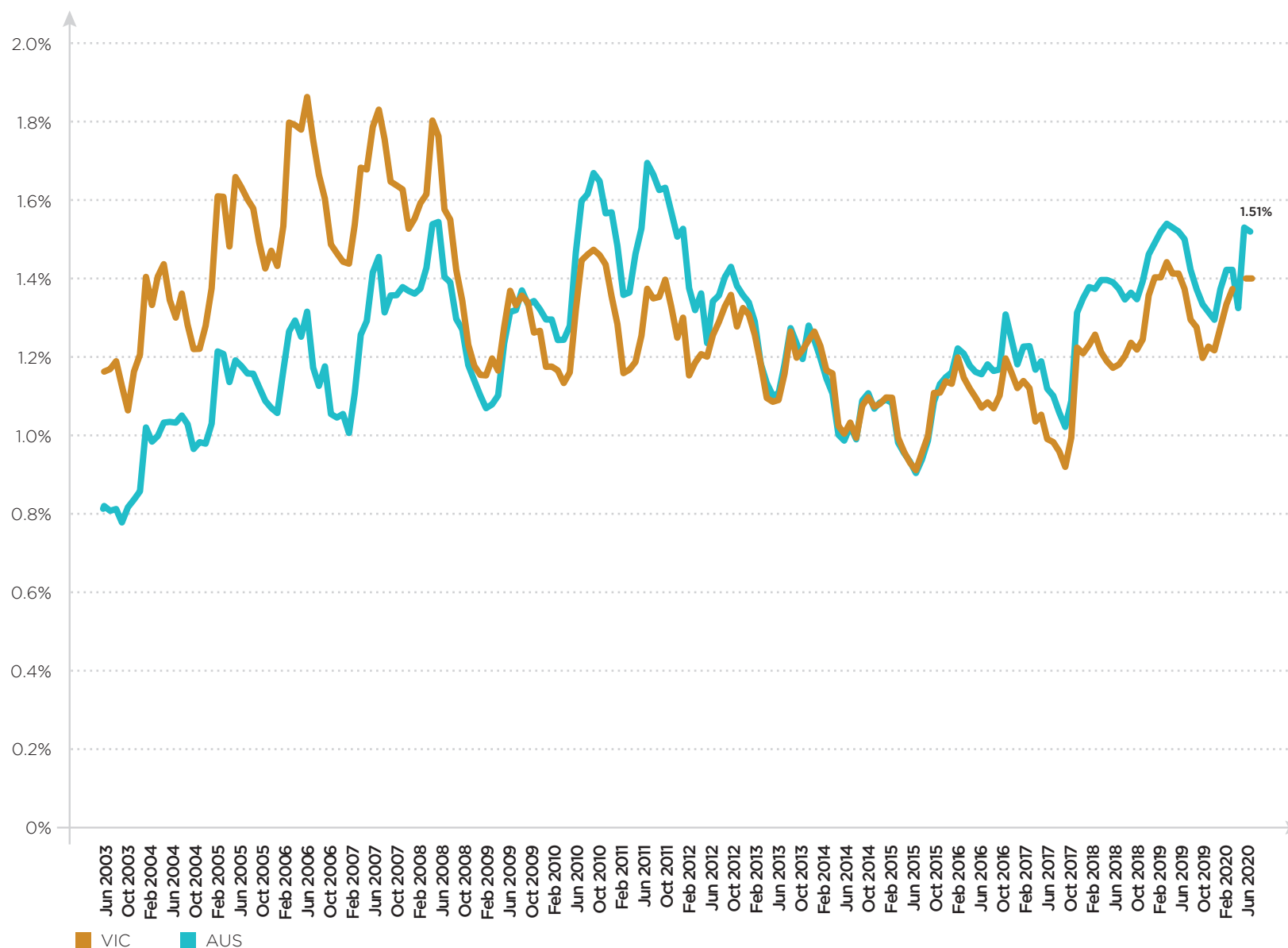
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# VIC MORTGAGE ARREARS

**REPORT**  
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This graph displays the percentage of mortgages that are 30+ days in arrears in the state and Nationally. Supplied by Standard and Poor's Global Ratings.

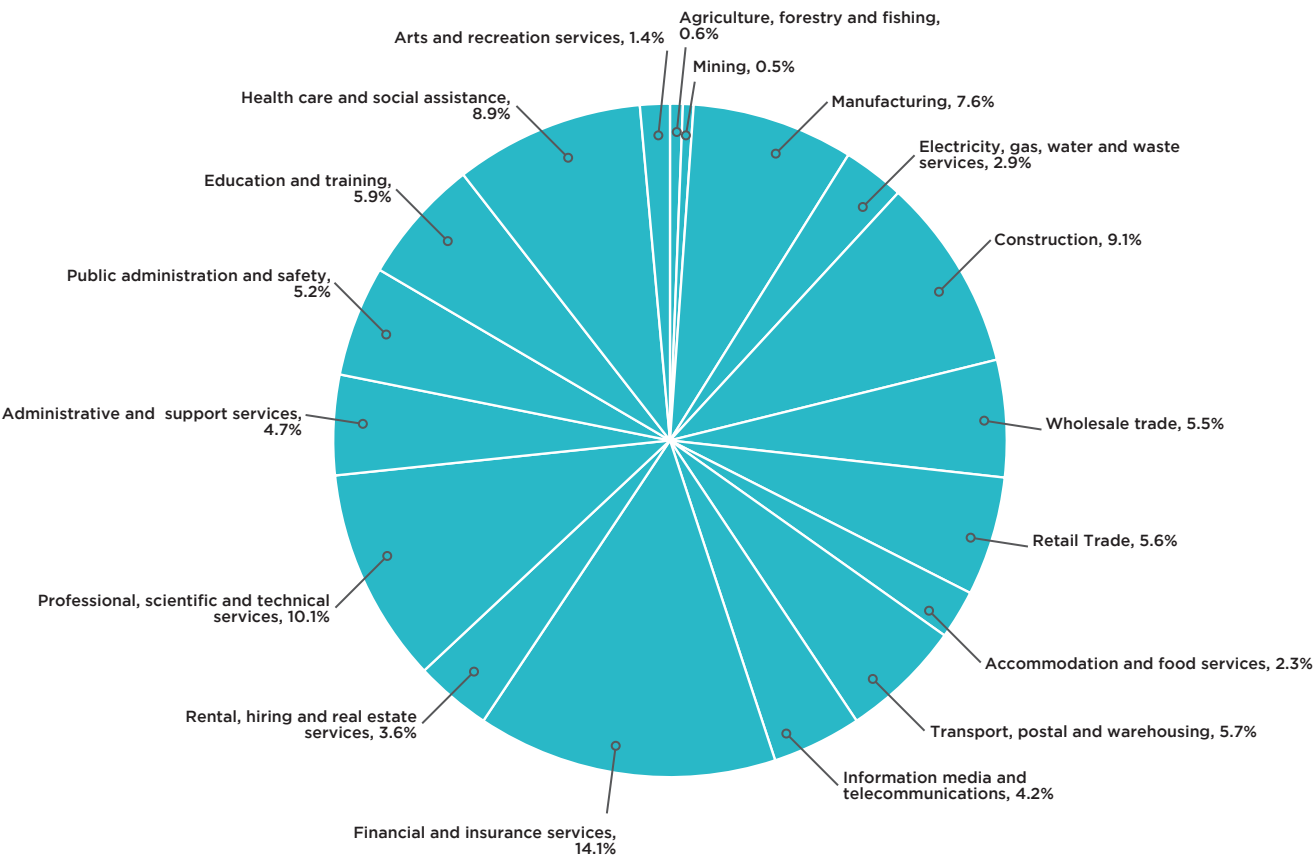


**SLIGHTLY  
NEGATIVE**

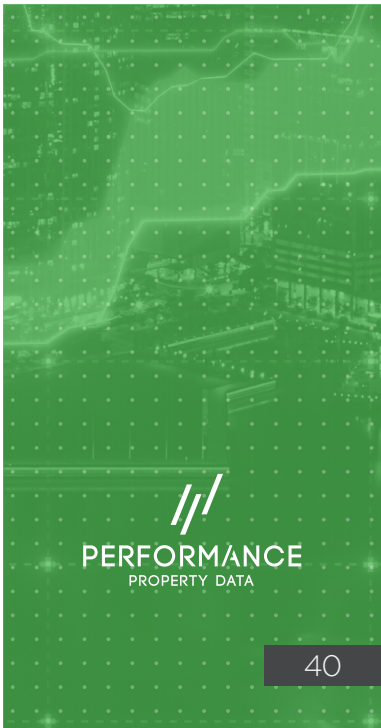
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# INDUSTRY VALUE ADDED

INDUSTRY BREAKDOWN



SLIGHTLY  
POSITIVE



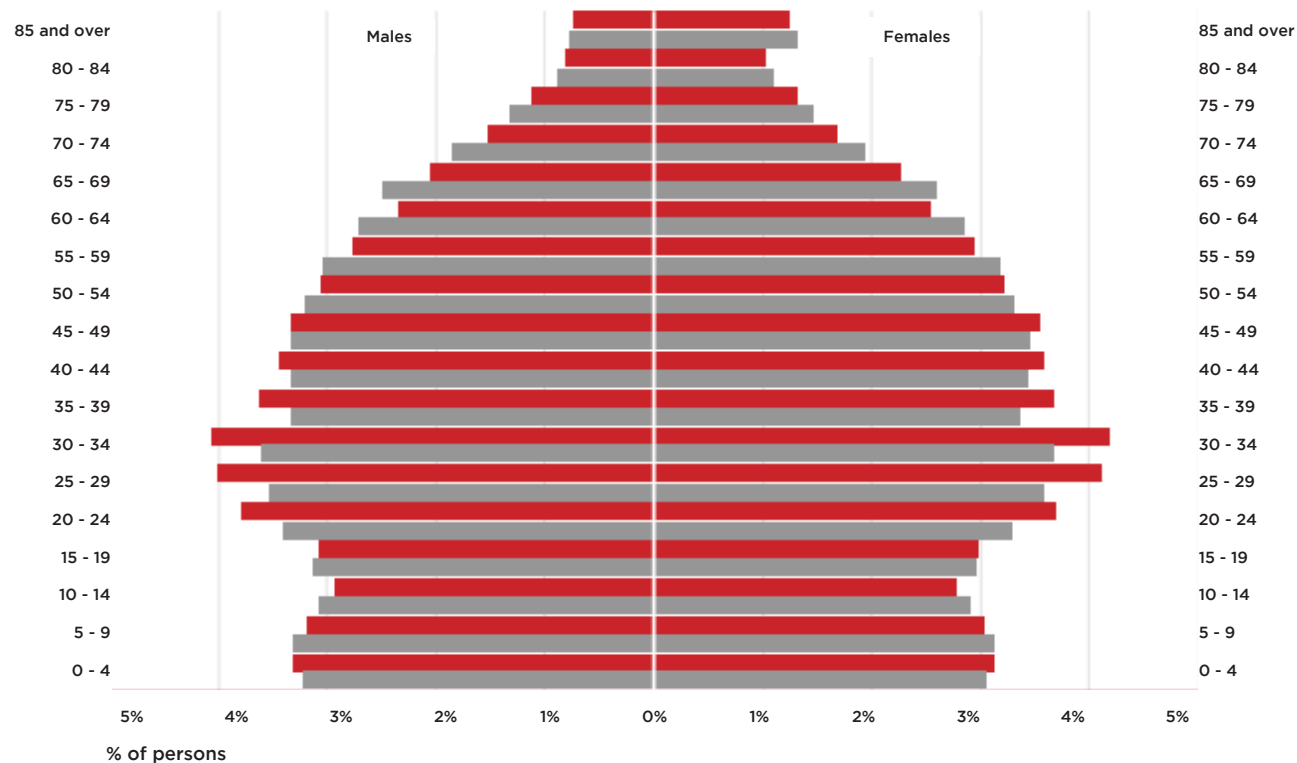


# POPULATION PYRAMID

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The population pyramid demonstrates the breakdown of the different ages and sex percentages of the population. The dominant consumer base of a population is the 35 to 49 age brackets and ideally we like to see the preceding age brackets larger as they age to replace the existing group.



Source: Australian Bureau of Statistics, Census of Population and Housing, 2016 (Usual residence data)  
Compiled and presented in profile.id by .id, the population experts.

■ Greater Melbourne ■ Australia

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# WHY USE US?

## INVESTMENT PHILOSOPHY

PERFORMANCE PROPERTY ADVISORY IS A DYNAMIC PROPERTY FIRM PROVIDING PROPERTY ACQUISITION SERVICES ACROSS AUSTRALIA. OUR FIRM IS COMPLETELY RESEARCH DRIVEN AND WE APPLY A SOUND COUNTERCYCLICAL INVESTMENT APPROACH.

All property must pass our stringent investment criteria and is subject to a thorough due diligence process. Our low risk approach excludes 99% of all properties currently on the market. We never source properties direct from developers and we don't buy properties off the plan or in new housing developments. We have a strict no commission policy preventing us from ever taking commissions from agents or referrers. We believe in providing quality ethical advice and exceptional customer service. We pride ourselves on delivering successful outcomes every time, guaranteed.

Our objective is not to buy you a property. Purchasing a property is the last step in our considered and thorough process. Our mission is to understand and satisfy your needs – financial or emotional, in a low risk and efficient manner. Our objective is to build you wealth through sophisticated property investment. We believe in everything we do because we treat your investment portfolio like it was our own.

## OUR PROCESS

### RESEARCH

Macro Micro Property

### ACQUIRE

Find Assess Negotiate

### MANAGE

Property Management

### REVIEW

Annual Portfolio Review

### ADVISE

Hold Improve Dispose

### PERFORMANCE PROPERTY ADVISORY SERVICES

- Property Acquisition
- Property Management
- Portfolio Review
- Sales Advisory / Vendor Advocacy

### DATA SOURCES:

- Australian Bureau of Statistics
- BIS Shrapnel
- Residex
- SQM Research
- CoreLogic RP Data
- Foreign Investment Review Board
- Australian Trade & Investment Commission

# IMPORTANT INFORMATION



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