HD City & Country: Cover Story - Investing in Melbourne

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The city's real **estate** market is thriving and offers good investment opportunities for investors and homebuyers, says Ian Chen of Jalin Realty. In which areas should Malaysians **buy** and what should they look out for to own a **property** in the most liveable city in the world?

We arrived in Melbourne, Australia, on a cold winter morning, a welcome relief from the haze and heat of Kuala Lumpur. While there was traffic (it was rush hour) on the highway on our way to the **hotel**, it was light, especially when compared with the kind of traffic we are accustomed to.

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Once we exited the highway, traffic eased considerably and we were surprised to see a good number of people cycling to work in the cold weather of 5C.

Cycling and taking public transport are strongly encouraged by the authorities and highly preferred by the locals, which have helped to ease traffic congestion in the city, says Ian Chen, founder and **group** CEO of Jalin Realty.

"In fact, some office buildings here provide not only shower facilities but also free towels to those who cycle to work," he says.

Together with several other representatives of the media, we were invited by Jalin to witness the opening of its new Australian headquarters in Melbourne. The Malaysia-based privately owned **residential** project marketing and sales **company** specialises in off-the-plan marketing and **sale** of Australian projects.

Jalin has **sold** about 2,000 **residential** properties in Melbourne in the last five years. It has worked with major Australian developers, such as Lend Lease and Salta Properties.

Chen himself is no stranger to Australia - his family migrated to Melbourne in 1989 and he completed his studies there before returning to Malaysia to pursue a career in stockbroking. He later left the stockbroking profession to set up Jalin in 2006.

With an extensive network of public transport, thriving economy, low crime rate and diverse culture, it's easy to see why Melbourne was ranked the most liveable city for four years running by the Economist Intelligence Unit's (EIU) Global Liveability Ranking.

Australia has long been a popular destination for Malaysians for migration, education and investments.

According to Chen, Melbourne's **property** market is thriving and offers good investment opportunities for investors and homebuyers due to the high migration rate, strong demand, and ease and transparency of doing business, among others.

Chen shares his insights into Melbourne's **property** market, the opportunities it presents and what investors should look for.

City & Country: How has the Melbourne **residential property** market performed in the past five years?

Ian Chen: House prices in Melbourne have been on a steady rise. According to a report from Ironfish (an Australian-based property investment company), the median price for houses and apartments has doubled every 10 years in the last 20 years.

The RP Data-Rismark Home Value Index (a provider of consumer, financial and property information, analytics and services in Australia and New Zealand) puts the median dwelling price for Melbourne in June 2014 at A$560,000 (RM1.6 million), up 9.4% year on year. This is the second largest gain among all the different Australian states and is just under the national average of 10.1%.

Meanwhile, in June, weekly asking rents for houses in Melbourne rose 5.6% y-o-y to A$380, and rents for apartments grew 2.8% to A$370.

What should Malaysian investors look out for when buying properties?

At Jalin Realty, we always look for properties that have either good rental yield or potential capital growth to bring to the Southeast Asian market. We also ensure that the properties have a secondary market for investors, which means reselling back to Australian permanent residents (PR) or citizens.

The areas that we usually bring in are those in the inner city, within a 2km to 10km radius of the central business district (CBD), as these locations are more sought after by Australian PR and citizens compared with properties in Melbourne's CBD. This is because Melbournians love their suburban lifestyle, away from the congestion in the city, and lower density living. They also like to spend their free time outdoors.

The properties have to be near public transport, such as trains, trams and buses, which are cheaper modes of travel to work [in the CBD and business parks]. And being located near universities, schools and public amenities will ensure high demand for the properties.

Historically, the Melbourne east and southeast locations/properties see strong demand from Malaysians as the majority of them plan to stay there and send their children for their studies. However, the median price in these areas is higher due to their maturity and high demand. Hence, many investors will need to give it some serious consideration before investing in one.

Due to that, many developers are increasing their developments in the western and northern areas (which have more room for growth and lower median prices) to attract investors and young homeowners. These investors should see significant capital gain from their properties when more amenities and infrastructure, such as shops, schools, roads, trams, trains and bus routes, are built to support the increasing population.

We have projects that caters for both owner-occupiers and investors, and have received great response for both types of properties. The properties are mainly located in inner city areas such as Victoria Harbour, Carlton, Collingwood, South Yarra, Richmond, Abbotsford and St Kilda, and attractive suburbs such as Clayton, Burwood, Blackburn, Maribyrnong, Maidstone and Sunshine West, with more growth areas to be introduced soon.

Where is demand coming from, and is it matching existing and incoming supply?

Malaysians are actively looking for good properties in Melbourne/Australia for investment due to professional property bodies that provide property management services to foreign buyers. This puts the buyers' mind at ease, even if they do not reside in Melbourne.

The migration rate is increasing in Melbourne/Australia as well due to it/its cities being constantly rated as the world's most liveable cities. Travel time to Australia is shorter than that to the UK and the US.

According to the Australian Government Department of Immigration and Border Protection, the total number of migrants to Australia rose from 168,623 in 2009/10 to 190,000 in 2012-14. Another 190,000 are expected to migrate to Australia in 2014/15.

The Australian Bureau of Statistics also project that Melbourne's 1.62 million households in 2014 will increase to 2.11 million by 2031. The city's population is growing so rapidly that it is expected to overtake Sydney as the country's largest city by 2037.

There is great demand coming from foreign countries and regions such as China, India and Southeast Asia, mainly for their children's education and their second home outside their country. They are drawn to Australia's good weather, high quality of living, education, as well as transparent business opportunities. There is also strong demand locally. The EIU ranked Australia as the fifth easiest place to do business globally from 2009 to 2018.

The Australian government is trying to approve more developments and expand the cities' infrastructure to accommodate the high immigration traffic; either entering as a skilled worker or family members of new migrants. It was reported that there was an increase of 106,800 people from end-2012 to end-2013 in Victoria alone. However, the building approvals for Victoria remain at a conservative rate.

According to the Australian Bureau of Statistics, the trend estimate for the total number of dwelling units in Victoria fell 0.8% in June and has fallen for four months. The trend estimate for the number of private sector houses, which has fallen for three months, dipped 0.2% in June.

Australia's Foreign Investment Review **Board** (FIRB) gave permission for 11,668 **residential property purchases** by foreigners in 2012/13, to a value of A$17 billion, an increase of 19% from the previous financial year.

What are some of the issues unique to the Australian/Melbourne **property** market that a foreign investor should be aware of?

Foreign investors who are looking to **purchase** an Australian **property** should be aware of the **property** type they intend to **purchase** as they can only resell to Australian citizens or PR, which is different from UK investment properties. We aim to market locations and **property** types that suit the Australian market more than the Asian preference due to this reason.

If you are looking to take a mortgage to finance your investment **property**, do ensure that the size of the **property** you intend to **purchase** is more than 40 sq m in total. Otherwise, it will be quite difficult to secure a loan for your **property** and you will have to settle fully in cash.

There is a significant difference between purchasing **residential** and **commercial** properties as the banks' loan margin will differ depending on the type of **property**. It's always good to check with the relevant parties before committing to one.

Melbourne is the only state in Australia that allows **purchasers** to **buy** off-the-plan homes with minimal stamp duty. This means **purchasers** only pay the percentage of stamp duty based on the stage of construction of the development. All foreign investors are required to submit their **purchase** to FIRB.

What and where are the investment opportunities for the **residential** and **commercial** segments? Why?

If you are looking for rental yield in the **residential** segment, apartments or townhouses in inner city Melbourne (within 2km to 10 km of the CBD) are the best options due to their close proximity to the CBD and ample public transport.

In the **residential** segment, investors looking for higher capital gain will have to look farther at new upcoming suburbs in the west and north (at a range of 20km to 30km from the Melbourne CBD). The majority of the developers develop houses in these areas. They cater more for new families or those looking for a bigger space to accommodate their expanding families.

Investors who are looking to **purchase commercial** properties can either choose from a range of office suites, retail or even a whole building. **Commercial** properties can be resold to Australians and non Australians. It is an open market for anyone who wants to **buy**. However, **commercial** properties usually require a longer time to lease and the period of **purchase** is longer due to the higher commitments for these types of properties.

As for offices in the CBD, there is an increasing number of SMEs (small and medium enterprises) in Victoria to support bigger firms with their operations. There is also an increasing number of designers, agencies, accounting firms and educational institutions that require smaller working spaces (lesser rent) to operate their business.

Finally, for retail, business opportunities such as restaurants, caf supermarkets, banks, boutique shops or any kind of services that are suitable for the area can be a good retail investment. Areas to look out for are the CBD, the inner city retail precinct and **residential** areas.

With a good number of choices for **property** investment in the region, why should investors consider Australia/Melbourne?

Investors can diversify their investments and take advantage of different market, economic and currency performance. There are services such as ours, where we assist foreign investors from end to end even if they are not living in Australia.

In August, Melbourne was voted the most liveable city for the fourth year running by the EIU. It also bagged the world's friendliest city title as well. Australia has four cities in the top 10, more than any other country.

Properties in Melbourne have been enjoying a steady growth due to consistent migration and strong demand for education and healthcare. Melbourne also offers stable rental yields of 3.5% to 5%, depending on the location and type of **property**, and stable capital gains of about 7.6% annually.

The majority of properties in Melbourne are worth purchasing off the plan as, like the rest of Australia, investors enjoy lower upfront commitments. Unlike Malaysia, which practises the progressive built scheme where payments are paid in instalments progressively until the project is completed, Australia practises the 10/90 payment scheme.

Under this scheme, buyers are required to put down 10% of the **property** price upfront while the balance is required only after the project is completed (this may take two to three years), allowing investors to consider other investments in the meantime. The 10% deposit is also placed in a trust fund until the project is completed, which protects the investors' or homeowners' deposit.

This only applies to Melbourne - **purchasers** who buys off the plan get to save a huge amount of stamp duty as they only pay a percentage of the **property**'s construction progress. This means if the construction has not started, you pay the most minimal stamp duty, which is only calculated based on land value.

Currently, Australian cash rates are at their lowest. It's a good time for homeowners or investors to consider refinancing or investing in new properties.

What are some of the challenges that the Melbourne **property** market will face next year?

So far, there are no known major challenges for the Australian **property** market. However, there is increasing competition from **property** markets in other countries, such as the UK, Canada and Thailand.

It's also important to note that there are not many completed projects in Melbourne, which means that the needs of those looking for last-minute or instant accommodations will not be met. This is because demand is stronger than supply and stock get **sold** off-plan quickly.

With Jalin Realty offering end-to-end services and a strong experienced team well-versed in their respective markets, coupled with support from our international offices, we are able to provide ongoing advice and guide the clients along the way. With this, buyers can avoid the challenges or even take advantage of them.

CO aubos : Australian Bureau of Statistics

NS ereal : Real Estate Markets | e11 : Economic Performance/Indicators | ecat : Economic News

RE austr : Australia | malay : Malaysia | melb : Melbourne | victor : Victoria (Australia) | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | seasiaz : Southeast Asia

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