

HD High-rise momentum builds
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LP Developers say Perth's apartment market is the most challenging it's ever been, but that hasn't stopped a groundswell of interest in big projects.

Also this week: the big ambitions of new apartment development players, and how developers are turning to technology in a hyper-competitive apartment development market.

TD By the end of the decade, Perth's CBD skyline will truly be representative of the city's maturation into a globally relevant metropolis.

That is, if the state's ever-growing list of apartment developers get their way.

There's no doubt the apartment sector is booming in Perth and a structural shift from big houses to smaller dwellings is under way.

Fresh research from Urbis showed there were 2,384 apartments being built in Perth's inner city and fringe suburbs, while a further 2,581 are being actively marketed.

However, it's the upcoming pipeline that's really going to transform the city.

Urbis's research showed there were 6,767 apartments either approved or in the planning process in Perth, but it's the composition of the projects that's going to be the big game changer.

The average number of apartments among the top 10 projects under construction is around 140.

But of the top 10 projects in pre-sales, that average is around 160.

With the higher yield of apartments come taller buildings - with five project proposals around Perth at or above 38 storeys.

Currently, there are only four buildings in Perth above that height - all of them CBD office towers.

Two of the buildings, the 39-storey Glasshouse, by Westbridge Property Group, and the 38-storey Civic Heart, are proposed for South Perth, while there are proposals of 41 storeys, 49 storeys and a whopping 52 storeys being planned in the CBD.

With that sort of supply in the works, it would be easy to come to the conclusion that the market is about to be flooded with empty apartments.

But Urbis director of economics David Cresp said the unprecedented levels of development weren't out of kilter with demand.

"If you haven't got at least 60 per cent sold by the time of construction, it's not being built," Mr Cresp told Business News.

And rather than causing issues for the property market, and in turn the state's economy, Mr Cresp said the wave of development could only be a positive.

"The level of apartments construction is creating jobs and employment and all of those things that we need at the moment," he said.

"It's really a significant part of the economy."

Record levels of supply are also not having a detrimental effect on the rental market, according to analysis by Y Research.

Across the inner city and all suburbs within a 15-kilometre radius, just 3.6 per cent of apartments were vacant at the end of October, down from 4 per cent at the end of July.

That compares with a rental vacancy rate for the rest of the city's housing stock of 5.6 per cent, according to the latest figures from the Real Estate Institute of WA.

Y Research chief problem solver Damian Stone said the apartment rental statistics were indicative of the changing dynamics of Perth's residential property market, and pointed to an increased acceptance of apartment living.

Mr Stone said the looming wave of supply, set to peak in the second half of next year, was no cause for alarm, as long as the slow but progressive growth in apartment demand continued.

"If we could just change consumer preferences and go from 3.2 per cent to 3.5 per cent of our population living in apartments, that would create demand for 4,000 more apartments," Mr Stone said.

"We don't need to change people's minds dramatically - we need to continue incremental growth and acceptance of apartment living to take up new supply over the next 15 months."

Pre-sales predicament

While the statistics paint a positive picture for Perth apartments, developers across Perth are united on one front - pre-sales are a difficult proposition in today's conditions.

But some developers were more pessimistic than others.

Psaros chief executive Danny Psaros said negative consumer sentiment and job security were both weighing heavily on prospective buyers' minds.

"We've seen people who have got deposits, who want to buy and who love the location, but they have basically talked themselves out of it because they don't know if they'll have a job in two years' time," Mr Psaros said.

Georgiou Living executive director Jon Smeulders had a similar view, describing the market as reasonably slow.

Mr Smeulders said conversion time from inquiry to purchase was certainly a lot longer than it was one or two years ago, but maintained there was still interest in the market.

"We've got an apartment buying market that's getting more and more sophisticated - people now are more discerning," Mr Smeulders said.

"There is more choice, there is more for them to look at and they're taking their time to digest that and work out what the best opportunity is."

Golden Group managing director Andrew Sugiaputra agreed that buyers were simply less willing to commit, as uncertainty stemming from the resources slowdown remained a drag on sentiment.

Mr Sugiaputra warned prospective purchasers to choose carefully when considering buying into an apartment project.

"Buyers need to do their research and homework and make sure they get the best value for money and make sure the developers can perform and construct," Mr Sugiaputra said.

"Otherwise, they could lock themselves out of the market if they realise two years down the road that the project is not going to be developed, and if the market has already turned by then, they'll miss out."

But Finbar Group managing director Darren Pateman said the more subdued market conditions were not necessarily a bad thing.

"The fine weather-only developers will recede from the market and we'll go back to cyclical strategy for the main players, where there will be moderating sales levels, but also opportunities for future growth," Mr Pateman said.

However, contrary to developers' views of tough conditions, Urbis's sales statistics showed demand for apartment product in Perth remained high.

In the three months to the end of October, Urbis recorded 404 apartment sales, the highest level since it began tracking the numbers midway through last year.

Devwest Group director Chad Ferguson said the sales were encouraging, but that didn't make things any less challenging for developers.

"The number of presales in the market seems to be relatively steady, but the whole environment has become a lot more competitive and developers have to fight a lot harder," he said.

"You need to sell the benefits of your project and location, but a lot of it comes down to price at the end of the day."

Blackburne Property Group managing director Paul Blackburne was less perturbed by sales activity, instead saying the market had returned to normal after being largely overheated for the past few years.

"It feels tough because people have had it so good for so long, when actually it's just a return to the norm," Mr Blackburne told Business News. "We're actually selling really good volumes at the moment because good projects with good designs and good value for money are selling well."

"But if you miss the mark slightly on design or you're a bit too aggressive on the pricing, then the market is unforgiving and sales will be very slow."

Pressing go

Despite the increased battle for sales, apartment developers remain absolute believers in the shift to apartment living.

Real Estate Institute of WA president Hayden Groves said it was important, even in tough times, for developers to keep advancing new projects to ensure they remained relevant in the market.

Mr Groves is involved with the marketing of LandCorp's WGV project, on the old Kim Beazley school site near Fremantle, a development he said piqued significant interest despite a stringent request for a proposals process.

"The actual proposals that they needed to complete were very onerous and it would have been very expensive, with no guarantee they're going to get it," Mr Groves said.

"Yet we had four proponents falling over themselves to get it."

"The appetite for developers to acquire key sites in and around the metro area remains very strong, which seems counter-intuitive to the way the market is behaving."

Mr Blackburne said he remained extremely bullish about the prospects for further growth in the apartment market, with his company expecting to both acquire a new site and launch a new project every three months for the foreseeable future.

"We've bought four new sites in the past six months, and we're looking at more of the larger two bedroom and three bedroom owner-occupier stock," he said.

"There's just not enough apartments in Perth to meet the demand that's coming."

National development giant Lendlease is also confident in Perth's long-term potential, having recently lodged the first development application at its Waterbank development in East Perth, a project ultimately forecast to yield 1,000 apartments.

Lendlease urban regeneration managing director Jonathan Emery said he believed there remained a need for greater diversity in housing stock.

"There is also an increasing acceptance of apartment living," he said.

"The fundamentals of apartment development in Perth remain largely unchanged - there will be increased demand for apartment living that will see a progressive transition to a larger share of the overall housing

market."

Another developer showing confidence in Perth is M/Group, formerly Match, which recently began raising capital for a fresh site in Mindarie and settled on a new plot in South Fremantle.

M/Group managing director Lloyd Clark said Perth was following a global trend towards apartment living.

"More and more people are embracing and moving towards apartment living to take advantage of better amenity and transport services, and shying away from moving out to large-scale subdivisions in the suburbs," Mr Clark told Business News.

"I think there's a new Australian dream which is more focused around inner-city living or living in near-city areas that provide the amenity."

Site scarcity

One of the biggest limiting factors for apartment developers is the availability of appropriate development sites.

The western suburbs, according to Mr Blackburne, are a particular flashpoint.

Mr Blackburne said there was significant demand from residents wishing to downsize in the suburb they live in, but limited opportunities to do so.

"It's so hard to get sites and not many sites get approvals through the councils there," he said.

"They're really doing a disservice to their local residents, because the demand mostly comes from the local residents.

"They've got these big old houses, their kids have left home and they want to downsize but they don't want to leave the area and there's not many downsizing options."

Georgiou's Mr Smeulders also called on local governments to streamline planning regimes to make things easier for developers.

He said there were some local government areas developers were more than happy to work with, but others where they would not even consider purchasing a development site.

"Having said that, councils are finally responding to a need for planning schemes with greater density and height in some of those near-city locations," Mr Smeulders said.

"More councils are slowly getting on board and understanding the density argument."

Psaros managing director Mike Enslin said there was plenty of land available for development in suburban locations, but not all of it was primed for apartments.

"There are plenty of sites around and in time they'll all be built out, but to be successful in this market you have got to have an A-grade site," he said.

"They are there, but you just have to be patient to find them.

"Landowners never drop their expectations in terms of the value of their land, and that is also a constraint of successful developments because the margins are tighter and if landowners aren't prepared to recognise that, it just makes the whole process a lot slower.

International aces

The fierce competition among apartment developers in Perth has also been stoked by a host of major international players making their presence felt in the local market.

One of the bigger emerging international developers is Singapore's Fragrance Group, which has made a series of high-profile acquisitions in the city centre, including 374-396 Murray Street, Milligan Square and the St Andrews Church development site on St Georges Terrace.

Another big international player coming to Perth is ICD Property, a Chinese-backed development firm that has breathed life into a project many pundits thought may not get past the approvals stage - the Megamart redevelopment on Beaufort Street on the outskirts of the CBD.

ICD Property paid landowner EG Funds Management \$33 million for a 75 per cent stake in the 9,579 square metre site earlier this year, and is understood to be poised to lodge a fresh development application, with the proposed project expected to have an end value of \$670 million.

ICD has a strong portfolio of projects in the eastern states, most notably a 63-level tower proposal in Melbourne - Eq Tower.

But new players aren't the only internationals shaking up the Perth market.

Chinese developer Sunlong Corporation has been operating in Perth since 2011, having most recently been selected by the City of Canning to develop up to 500 apartments at the old Bentley swimming pools site.

Sunlong, which also operates in Perth under its subsidiary, Sunshine Light Property, helped revitalise the corner of Newcastle and William streets with its Zen apartments, where the commercial component of that development is now filling up following completion of the building last year.

Another Chinese group, Zone Q Investments, is rapidly making progress on its Pinnacle luxury apartment development in South Perth, which is being built by local construction firm JAXON.

Zone Q is also marketing apartments in Northbridge, at 108 Beaufort Street, while it is also understood to be close to lodging plans for another site in South Perth.

Mr Sugiaputra said the presence of the international developers would not only shape the design of apartment buildings, but also help to enhance the reputation of Perth as an investment destination.

"International developers will provide a more diversified product offering to the market," he said.

"Some of these developers are offering a substantially larger product, which is something the Perth market hasn't seen and it's something that's worked in other markets and hasn't been tested here.

"No doubt they will increase the level of prominence of Perth city itself, but there is still a need for developers to educate potential investors what Perth is really about."

Mr Smeulders shared Mr Sugiaputra's view that Perth needed to be promoted more to challenge Sydney and Melbourne in the eyes of overseas investors.

But Mr Smeulders said he expected more interest from overseas developers, which typically weren't subject to the same financing constraints as locals, as Perth's apartment market evolved.

"We had a group here last week, which had never set foot in Perth before," he said.

"They are an experienced developer out of China which is dipping its toe in the water.

"Those sorts of visits are starting to happen with a lot more regularity.

"We're yet to really start to glow bright red on their radar, certainly there are some early adopters like Zone Q and Sunlong and so forth that are leading the pack, but I think there are some more to come."

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