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# Property developers risk $100,000 loss per apartment as default risk builds

The Secret Agent's Paul Osborne said developers who have settlements due in the next 18 months are worried. **Jesse Marlow**

by **Larry Schlesinger**

As market conditions get tougher and tougher for high-rise developers, a new report warns they could lose more than $100,000 per apartment if a buyer defaults on their purchase.

The report, by buyer advocates Secret Agent, comes as Macquarie Bank tightened lending to high-rise apartment buyers across 120 post codes and follows the major banks' pullback from lending to foreign buyers amid concerns of an over-supply of apartments in places such as the Melbourne CBD and Docklands.

Default rates remain relatively low, typically between 1 and 5 per cent per project, but could rise as a record number of new apartments settle over the next two years.

Using the hypothetical example of a Chinese buyer who defaults on their $714,000 off-the-plan purchase of a typical two-bedroom Melbourne CBD apartment, Secret Agent calculated the loss at over $100,000, once professional fees and commissions had been paid and after the 10 per cent deposit had been recouped.

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### Risky deals

**Typical loss on a two bedroom CBD apartment ($)**

| | |
|---|---|
| Contract price | 714,000 |
| Price per sq m | 10,500 |
| 10% deposit paid | 71,400 |
| Current market rate per sq m | 8,463 |
| Market price | 575,484 |
| True price at settlement | -138,516 |
| Recoup deposit | +71,400 |
| Off the plan expenses | -21,420 |
| Marketing fees/commissions | -11,510 |
| Revised developer proceeds | 613,954 |
| **Loss of profit** | **$100,046** |

SOURCE: SECRET AGENT

Impact of a default on a typical CBD apartment

The main reason for this loss is the lower price the developer would get in the secondary market where the apartment would have to be re-sold. Secret Agent calculated that apartment values were 19 per cent lower in this market based on average sale over the past three months.

## Increased anxiety

"The development space in inner Melbourne and Sydney is set to be severely challenged," Secret Agent director Paul Osborne said. "Conversations between Secret Agent and various developers over the past month have revealed their increasing anxiety about potential settlement issues.

"These developers, who have settlements due in the next 18 months, are worried that many of their apartments may not be able to settle due to the restrictions placed on foreign buyers by local banks. This is likely to have substantial implications."

Darkening the scenario further will be the new 7 per cent stamp duty levy imposed in Victoria on foreign buyers from July 1, adding tens of thousands of dollars to purchase prices.

But Andrew Leoncelli, head of residential projects at CBRE, called the modelling "doomsday at best".

"We have had practically no defaults from international buyers over the past 10 years. The international purchasers we deal with are very savvy and are targeting opportunities here for three key reasons: migration, capital preservation and education," Mr Leoncelli said.

"We would estimate that 90 per cent of the offshore buyers we deal with are well above middle-class and have significant means at their disposal."

Jamie Kay, a director at Melbourne-based project marketers Oliver Hume, said the industry needed to find ways to "reduce risk and reduce the scale of the peaks and troughs that we experience in a cyclical market".

"There should be the capacity to move deposits up and down in a wider band [above 10 per cent], as is already the case in Queensland," Mr Kay said.

Figures from market researchers CoreLogic show the number of new apartments due to settle over the next two years have hit record highs in Australia's capitals, raising the risk that some buyers will not make good on their purchases.