

SECRET
INSIDE PERSPECTIVE
AGENT

THE SECRET AGENT REPORT

VOLUME 34 - JULY 2015
SECRETAGENT.COM.AU

MID MONTHLY SPECIAL

EOFY Review

The Inside Perspective

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Cover Art

It's that time of the year to reflect, regroup and deal with all that paperwork.

(c) Sheng Yi Lee 2015

Summary

Another financial year has come to a close. The property market over the past year has been interesting to watch. Interest rates have decreased to record lows. At the same time, house prices kept rising as buyers took up the opportunity to lend in the low interest rate environment and stock levels continued to decline. The premium paid for prime property has also grown; in fact, the disparity between quality stock and average or lower grade property has never been greater.

Secret Agent decided to take an in-depth look at the market over the 2014/2015 financial year to determine how it performed in comparison to the previous 2013/2014 financial year. The results are shown graphically in the pages to follow and have been summarised below.

In the 2014/2015 financial year, houses had the strongest annual growth in price and this was seen in all inner Melbourne suburbs. The growth of approximately 12% was driven by a combination of high demand and lower supply than in the previous financial year.

Annual sale prices for apartments saw an increase of 5% on average. Those located in the inner suburbs outperformed CBD apartments, however CBD apartments are still being sold at a slight premium.

Townhouses mirrored the movement of inner Melbourne houses for the first half of the financial year but due to an increased supply in May and June 2015, they ended with moderate average price growth of about 5%.

For all property types, most of the total increase in average prices occurred in the 3rd and 4th quarter of the financial year, which also coincided with the large decrease in supply of stock overall. With stable, low interest rates, supply and demand seemed to have the greatest influence on prices. Looking at houses in individual regions, the inner East and inner South saw the greatest percentage change in prices with 13% and 12% growth respectively. Houses in the inner West had the largest fall in stock levels with a 33% reduction compared to the previous financial year.

Interpreting the Data

The following report sets out to compare movements in the price and supply of Melbourne properties between the financial year ending in June 2014 and that ending in June 2015.

The term “inner suburbs” refers to the following suburbs: Brunswick, Brunswick East, Carlton, Carlton North, Clifton Hill, Collingwood, Fitzroy, Fitzroy North, North Melbourne, Northcote, Parkville, Princes Hill, Abbotsford, Burnley, Cremorne, East Melbourne, Hawthorn, Prahran, Richmond, South Yarra, Albert Park, Middle Park, Port Melbourne, South Melbourne, Flemington, Kensington, Travancore and West Melbourne.

Additionally, in the apartments section, the report singles out properties in Melbourne’s central business district (CBD), which looks at apartments sold in the suburbs Melbourne, Docklands and Southbank exclusively.

Summary graphs in the apartments, houses and townhouses sections overlap the average sale prices and the number of sales for financial years 2014 and 2015, while other graphs will show both years in chronological order. Whenever the latter is the case, the two years are separated by a vertical line and labelled accordingly.

Lines are always used to represent sale prices (use the left hand side axis) and data points are monthly. Columns show the number of sales or supply (use the right hand side axis), and are either shown as monthly or quarterly data points.

Quarters are comprised of the following months:

Q1: July, August, September;

Q2: October, November, December;

Q3: January, February, March;

Q4: April, May, June.

Whenever data is marked as “quarterly”, the data will be displayed in the middle month (namely August, November, February and May) on the respective graph.

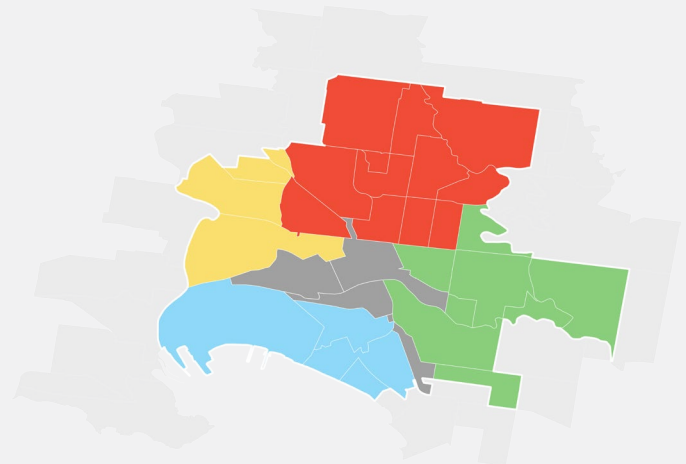
Analysis

Overall, apartments in Melbourne's CBD and surrounding suburbs saw price increases of about 5% over the past financial year. Price growth was steady throughout the year, except for a spike in January. It is often the case that due to Melbourne's seasonal property market, demand during the holiday season is very low, making it hard for many sellers to find the right buyer. This leads many to wait a few months before selling, leaving only the sellers who are unable to wait, many of which will have to settle for a lower price. Additionally, apartments sold in January 2015 were about 10% smaller than those in all other months of financial year 2015.

The total amount of apartments sold has increased by about 2.5%, showing that demand is strong enough to accommodate for additional apartment complex developments. This demand can be broken up into three main parts:

1) Investor capital. While the effects of the recent 3% increase in stamp duty for overseas investors (which will affect off the plan buyers) remain to be seen in coming months, inner Melbourne is still a very desirable area for property investors, due to continuing, strong demand.

2) Immigration. The majority of skilled immigrants coming to Melbourne will find jobs in the CBD, which naturally leads them to find accommodation nearby. With houses in the inner suburbs being some of the most desirable, and thus most expensive properties in Melbourne, apartments become the next best choice.



3) Downscaling. As more houses in the inner city are turned into apartment buildings, many households that value the lifestyle and convenience of the inner suburbs will make the shift and make their next property purchase an apartment.

When separating the apartments into 1, 2 and 3+ bedrooms, we observe that most of the growth is accounted for by larger apartments, with average price increases of 2 bedroom and 3+ bedroom apartments being 5.2% and 6.5% respectively. Average prices of 1 bedroom apartments only grew by about 1%, meaning investors in this property category would be seeking most of their returns through rental yields instead of capital growth.

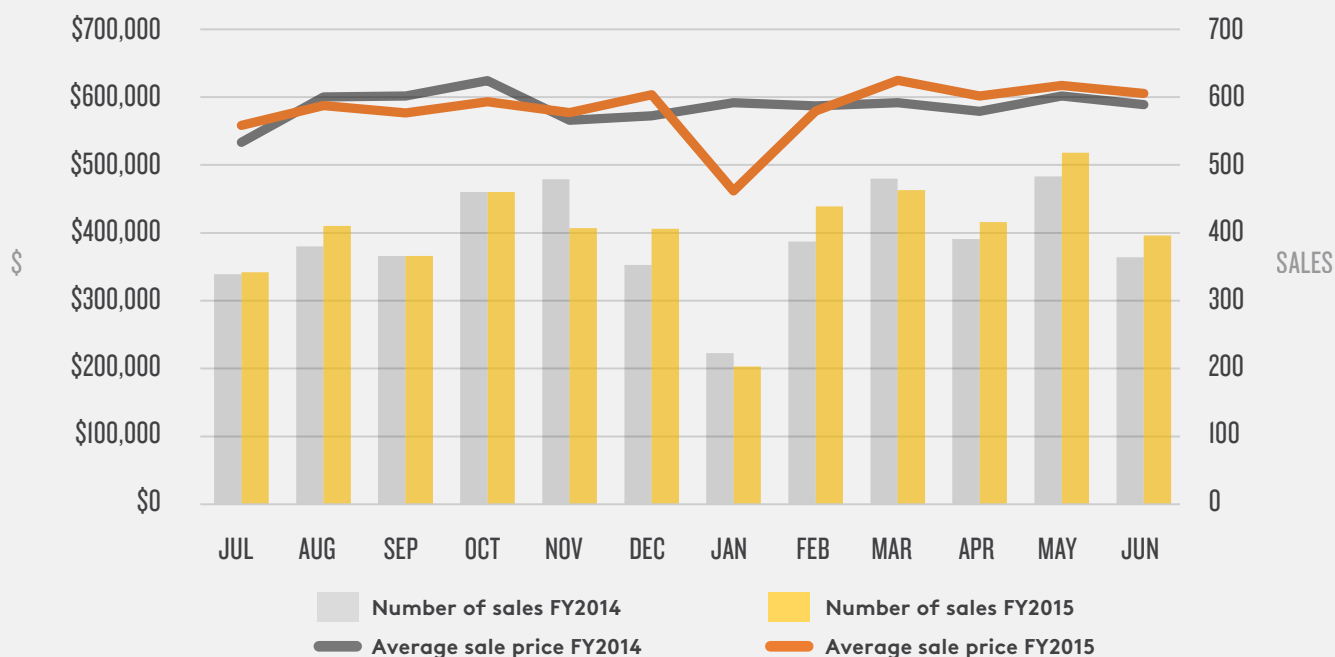
CBD Apartments			
	Financial Year 2015	Financial Year 2014	% Change
Average	\$609,344	\$584,171	+4.31%
Median	\$530,000	\$520,000	+1.92%
No. of sales	1653	1669	-4.35%
Inner Suburbs Apartments			
	Financial Year 2015	Financial Year 2014	% Change
Average	\$580,825	\$550,053	+5.59%
Median	\$514,000	\$499,500	+2.90%
No. of sales	3174	3036	+0.97%

Inner Suburbs & CBD Apartments Total			
	Financial Year 2015	Financial Year 2014	% Change
Average	\$589,843	\$561,252	+5.09%
Median	\$520,000	\$506,250	+2.72%
No. of sales	4826	4705	+2.57%
1 Bedroom Apartments			
	Financial Year 2015	Financial Year 2014	% Change
Average	\$380,610	\$376,888	+0.99%
Median	\$380,000	\$380,000	+0.00%
No. of sales	1750	1576	+11.04%
2 Bedroom Apartments			
	Financial Year 2015	Financial Year 2014	% Change
Average	\$623,361	\$592,622	+5.19%
Median	\$582,000	\$556,000	+4.68%
No. of sales	2461	2511	-1.99%
3+ Bedroom Apartments			
	Financial Year 2015	Financial Year 2014	% Change
Average	\$1,160,054	\$1,089,120	+6.51%
Median	\$950,000	\$886,000	+7.22%
No. of sales	563	484	+16.32%

Note: Some sales did not indicate the number of bedrooms, individual parts do not add up to total.

Monthly Average Sale Price and Number of Sales

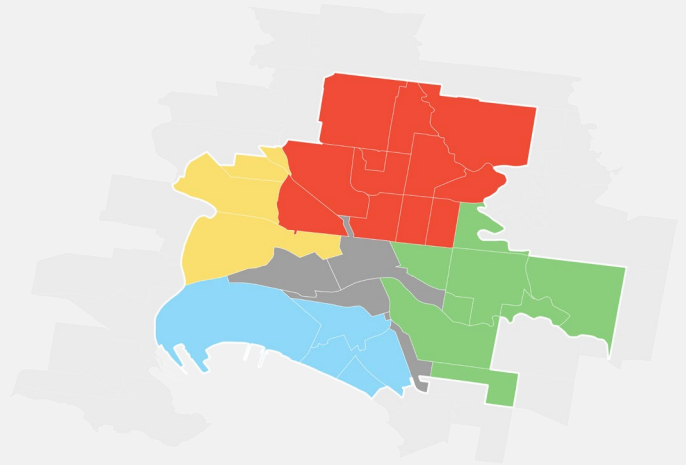
Inner Suburbs & CBD Apartments Total



Analysis

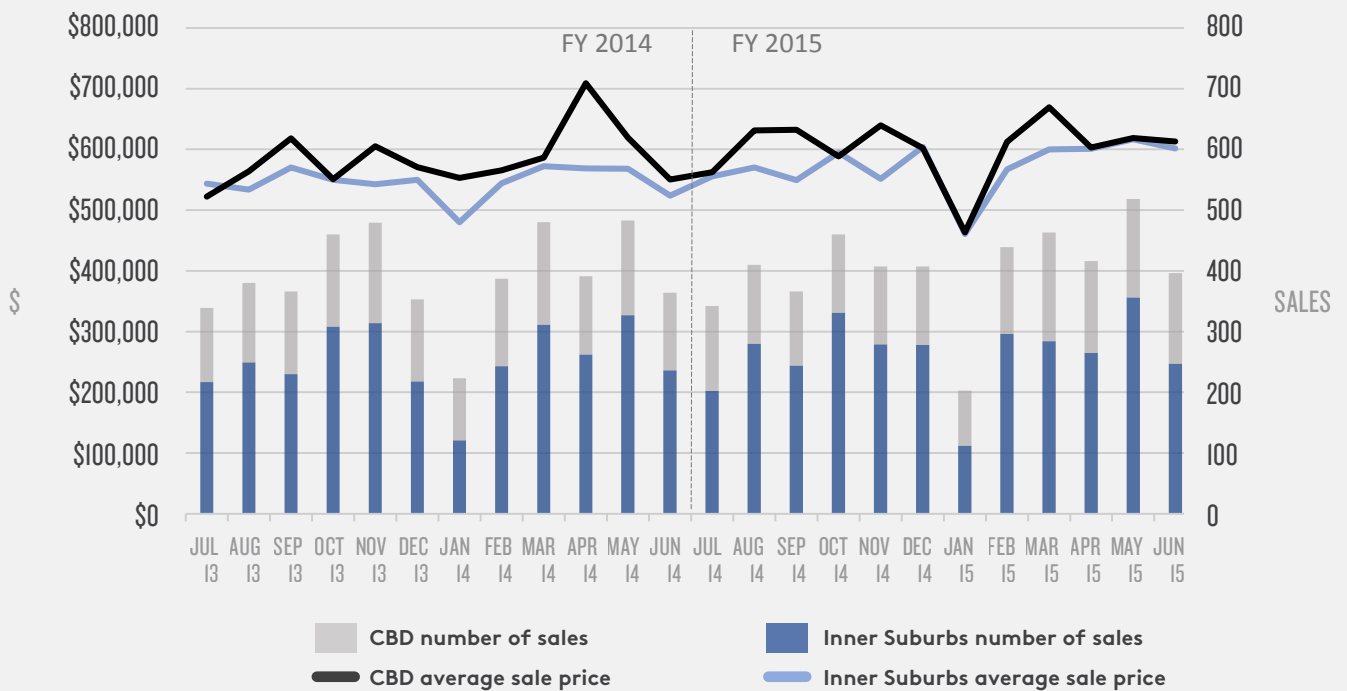
CBD apartments are still selling for a premium, but apartments and units sold in the inner suburbs experienced stronger price growth, closing the gap from \$28,500 in FY2014 to \$24,000 in FY2015. In the inner suburbs, almost the same amount of apartments were sold in this financial year compared to the previous; however, apartment sales in the CBD fell by over 4%. This, and the fact that the average sale price has grown by 4.3%, shows that there is still room for more development in the CBD.

The fact that apartments in the inner suburbs experienced greater price growth (5.6%) and an increase in supply of just under 1% show that these properties are even more desirable to buyers, offering both the convenience of the city and the ability to keep a more close knit community.



Monthly Average Sale Price and Number of Sales

Inner Suburbs Apartments vs CBD Apartments

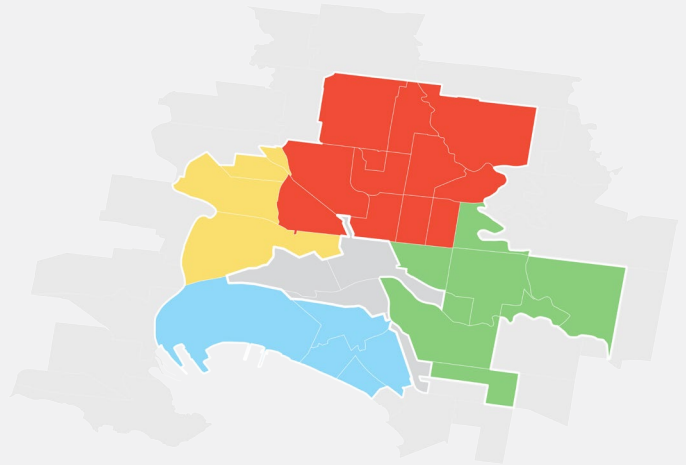


Analysis

Of all property types, houses saw the biggest increase in average sale prices (11.7% in total) and the biggest decrease in number of sales (2263 in FY2015, down from 2652 in FY 2014).

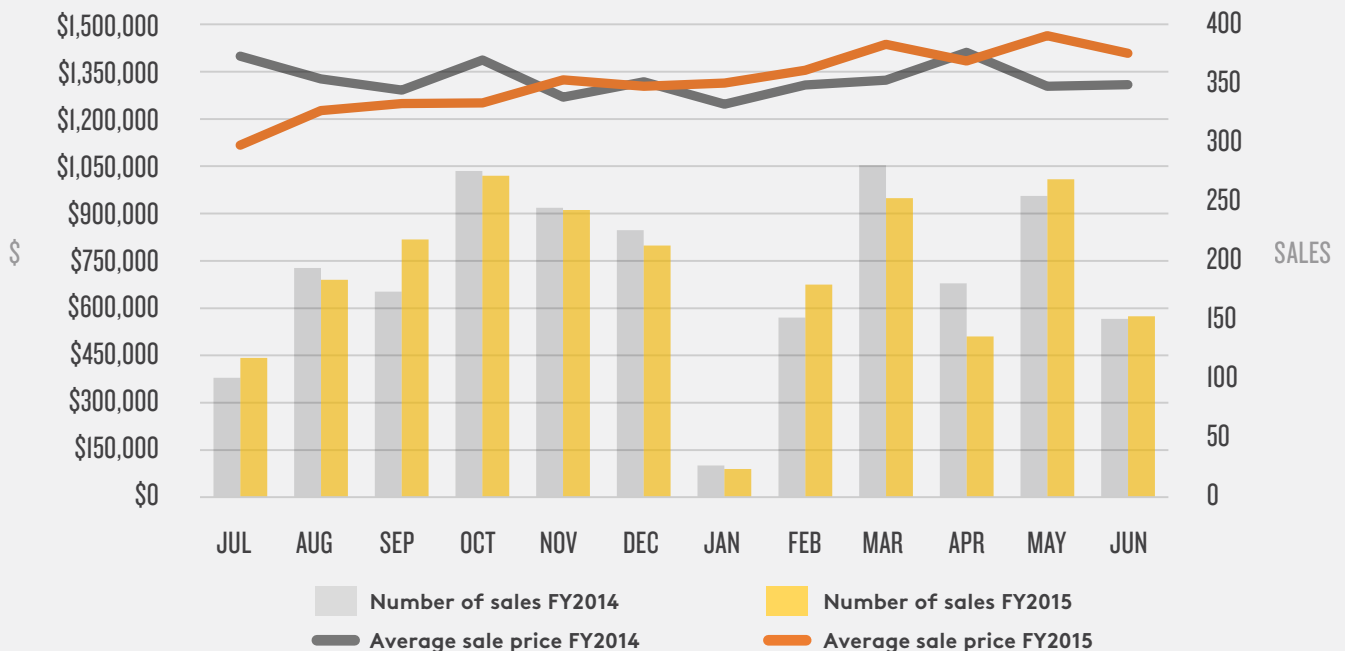
As the trend of subdividing blocks of land continues, the housing supply in the inner suburbs will continue to shrink. However, a decrease in number of sales of almost 15% suggests that there are other factors involved. It is likely that many sellers are waiting to list their property, as not many alternative investments would yield annual returns of over 10%.

Similar to apartments, the larger properties in the housing market saw the biggest average price increase (albeit only by a difference of 0.62% between 1 & 2 bedroom and 4+ bedroom average sale price growth). The midpoint, in this case 3 bedroom houses, saw the biggest decrease in supply.



Monthly Average Sale Price and Number of Sales

Financial Year 2014 & 2015



Inner Suburbs Houses Total			
	Financial Year 2015	Financial Year 2014	% Change
Average	\$1,328,630	\$1,189,342	+11.71%
Median	\$1,100,000	\$972,500	+13.11%
No. of sales	2263	2652	-14.67%
1 & 2 Bedroom Houses			
	Financial Year 2015	Financial Year 2014	% Change
Average	\$949,520	\$849,453	+11.78%
Median	\$875,000	\$800,000	+9.38%
No. of sales	845	936	-9.72%
3 Bedroom Houses			
	Financial Year 2015	Financial Year 2014	% Change
Average	\$1,326,400	\$1,175,185	+12.87%
Median	\$1,200,000	\$1,050,000	+14.29%
No. of sales	932	1172	-20.48%
4+ Bedroom Houses			
	Financial Year 2015	Financial Year 2014	% Change
Average	\$2,092,680	\$1,861,805	+12.40%
Median	\$1,700,000	\$1,590,000	+6.92%
No. of sales	472	533	-11.44%

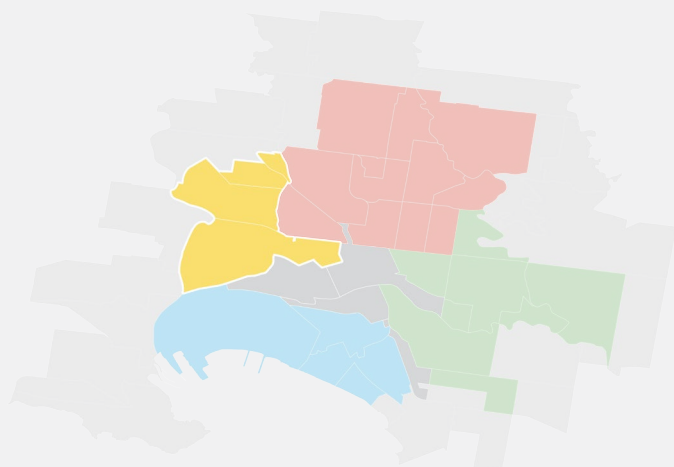
Note: Some sales did not indicate the number of bedrooms, individual parts do not add up to total.

Analysis

In no other region is the disparity between supply and demand in Melbourne's inner suburbs' housing market more clear than in the inner West.

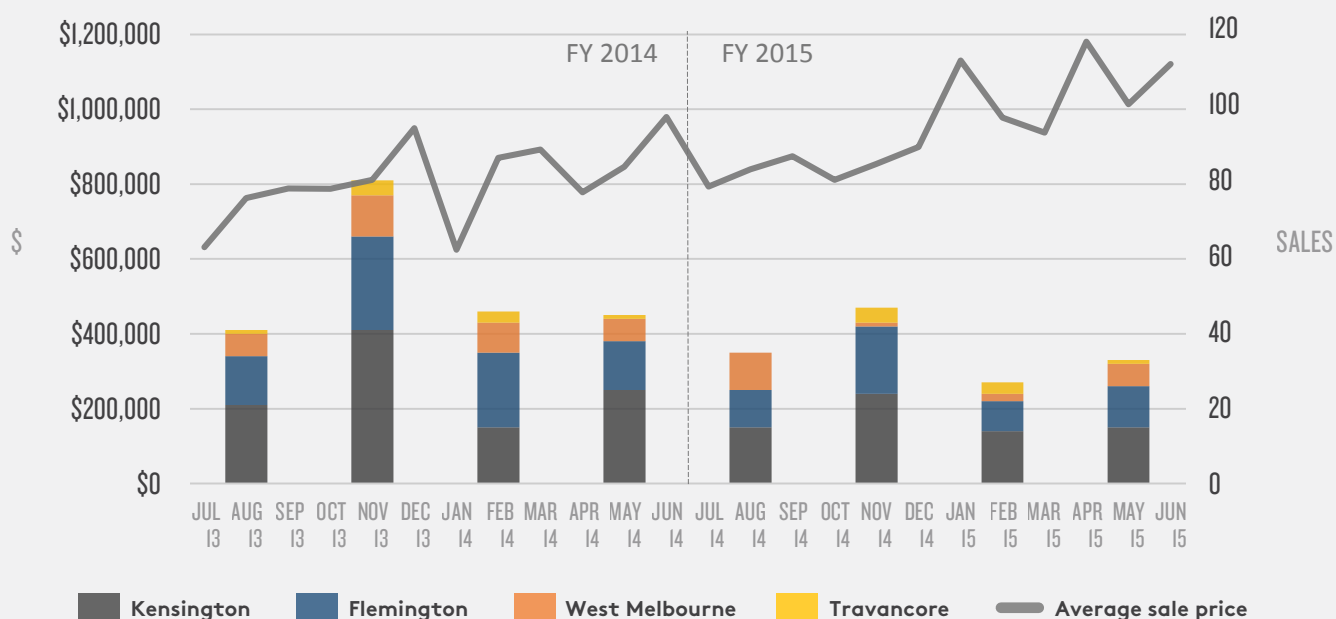
Every quarter in FY2015 saw a lower number of houses sold than the same quarter the previous year. Q2 (Oct, Nov, Dec) saw the biggest difference, with housing sales almost halving from 81 in FY2014 to 47 in FY2015. Average prices rose steadily over the entire period, with some fluctuations in the graph mostly due to individual sales of high notability.

The important consideration is the overall trend, much more easily observed in graphical form: an increasing sales price and a dwindling supply.



	Financial Year 2015	Financial Year 2014	% Change
Average	\$924,850	\$834,732	+10.80%
Median	\$850,000	\$773,000	+9.96%
No. of sales	142	213	-33.33%

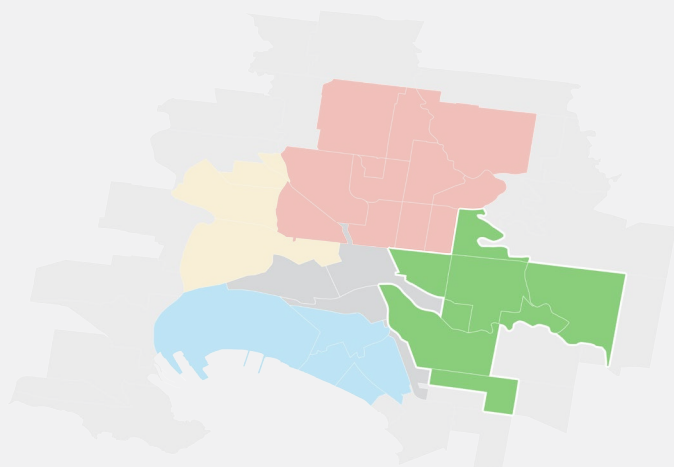
Monthly Average Sale Price and Quarterly Number of Sales Financial Year 2014 & 2015



Analysis

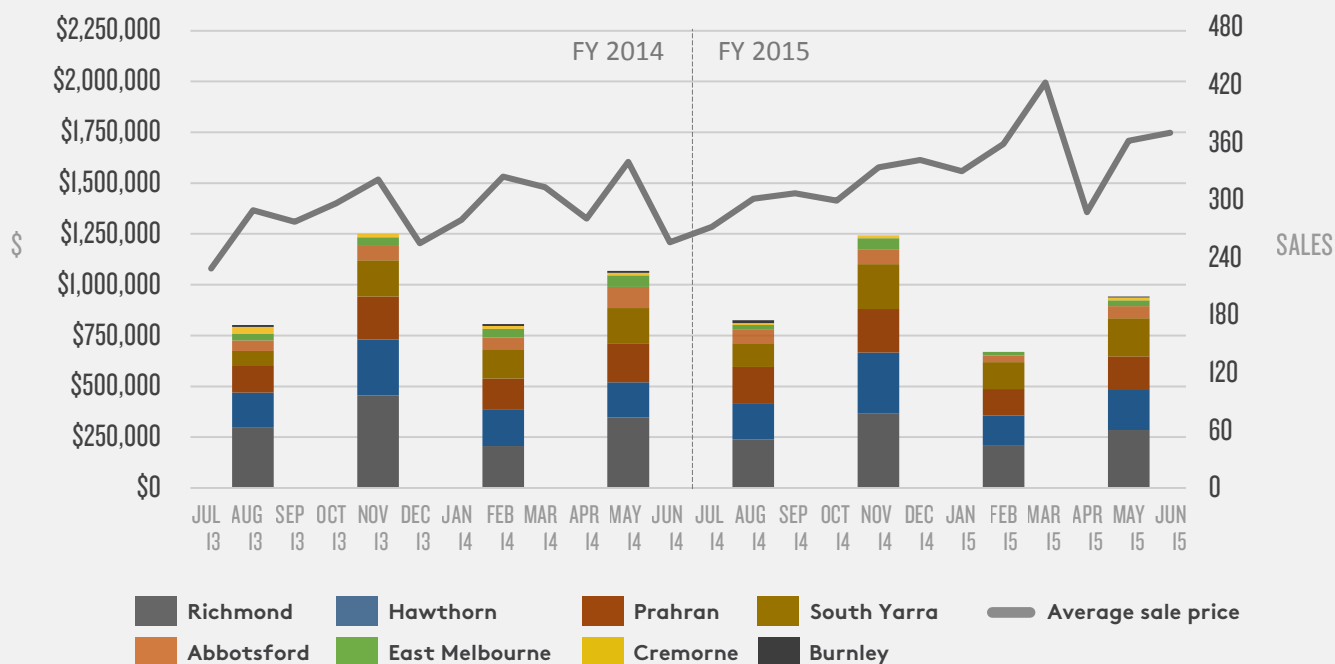
While the housing market in Melbourne’s inner East also saw a lower amount of houses sold this financial year compared to the previous one, the decline was the smallest of all four regions at just over 6.3%. Average sale prices grew steadily in Q1 and Q2, then saw steep increases from January through March where it peaked, averaging out at nearly \$1.6 million – an increase of 13.5%. This was the largest increase in sale price out of all inner Melbourne regions, making it more expensive in terms of average prices than the inner South, previously the priciest region.

2015 saw many smaller houses being sold than in other months, with the average land size being 206m², compared to 353m² for the entire year. This explains the sharp decline in the average sale price.



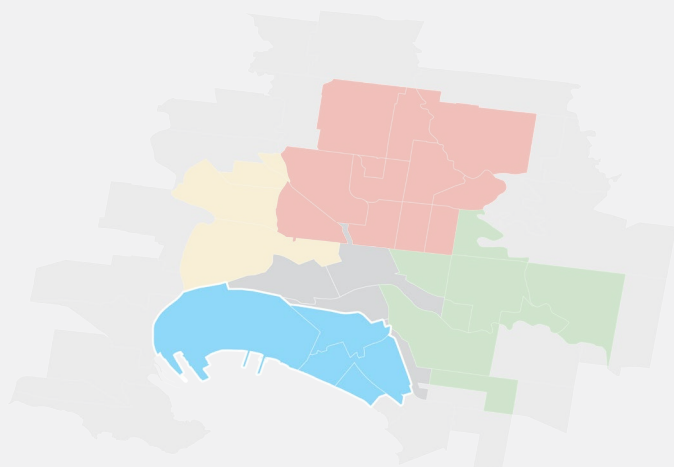
	Financial Year 2015	Financial Year 2014	% Change
Average	\$1,591,690	\$1,403,264	+13.43%
Median	\$1,260,000	\$1,080,000	+16.67%
No. of sales	785	838	-6.32%

Monthly Average Sale Price and Quarterly Number of Sales Financial Year 2014 & 2015



Analysis

While in 2014 the average sale price of houses in Melbourne's inner South did not change considerably, in 2015 this region experienced the second highest increase in average prices of all the inner regions, at 12.3%. At the same time, 22.5% less houses were sold in FY2015 compared to FY2014 – only the inner West saw a sharper decline in housing supply over the same time period. On average, only about 30 houses are sold each month in the four suburbs in the inner South. This means that the average price in each individual month is exposed to differences in property size and quality of individual houses much more than other areas. An example is the steep decline from May 2015 to Jun 2015. Here, a better indicator may be price per square meter. The table below shows what happens when we factor in land size.



Inner South Average Price per Square Meter

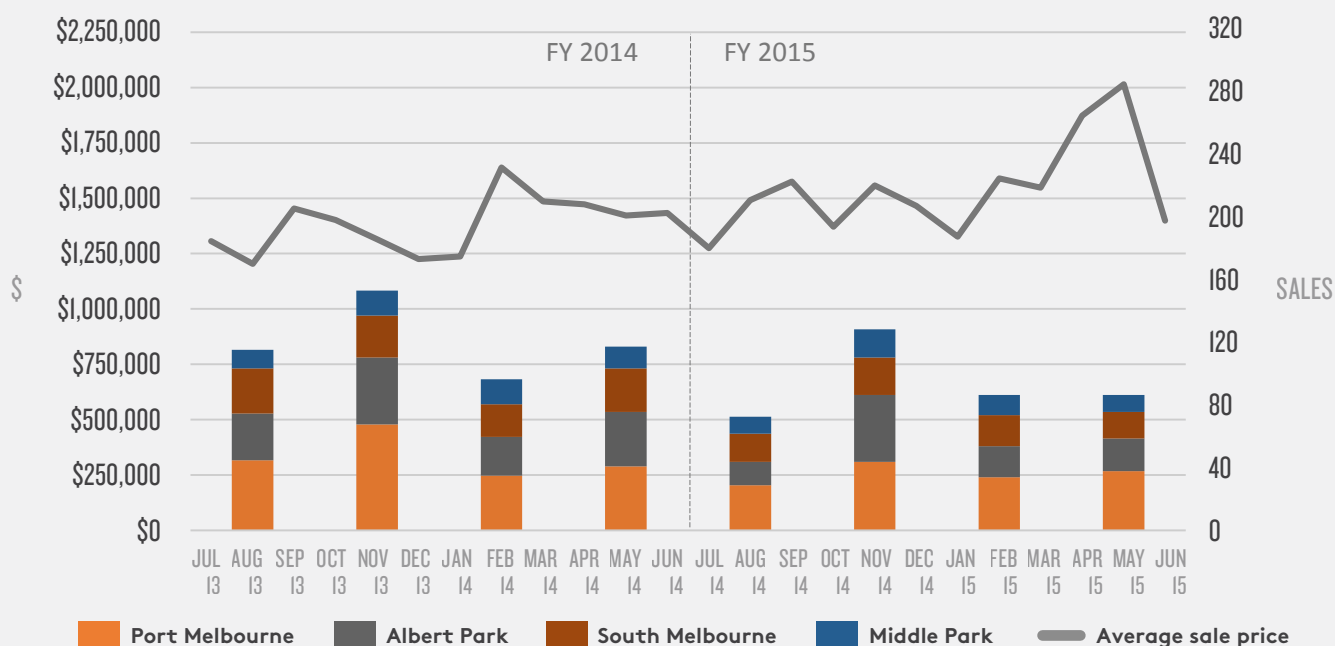
July 2013 to June 2015	\$6,908
May 2015	\$7,557
June 2015	\$7,261

Although the price per square meter in June 2015 was about 4% lower than in May 2015, it was still over 5% above the average since July 2013.

	Financial Year 2015	Financial Year 2014	% Change
Average	\$1,562,939	\$1,391,794	+12.30%
Median	\$1,340,000	\$1,250,000	+7.20%
No. of sales	376	485	-22.47%

Monthly Average Sale Price and Quarterly Number of Sales

Financial Year 2014 & 2015

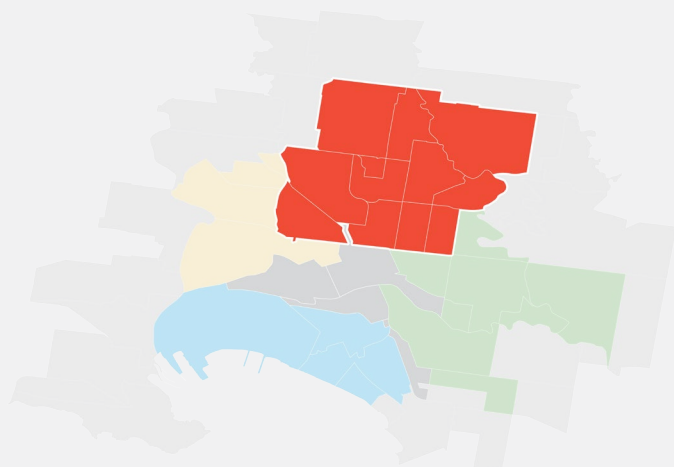


Analysis

While suburbs in Melbourne's inner North saw the most modest increase in average sale prices, at 7.56%, it still surpassed the apartment and townhouse market sales growth by a significant margin.

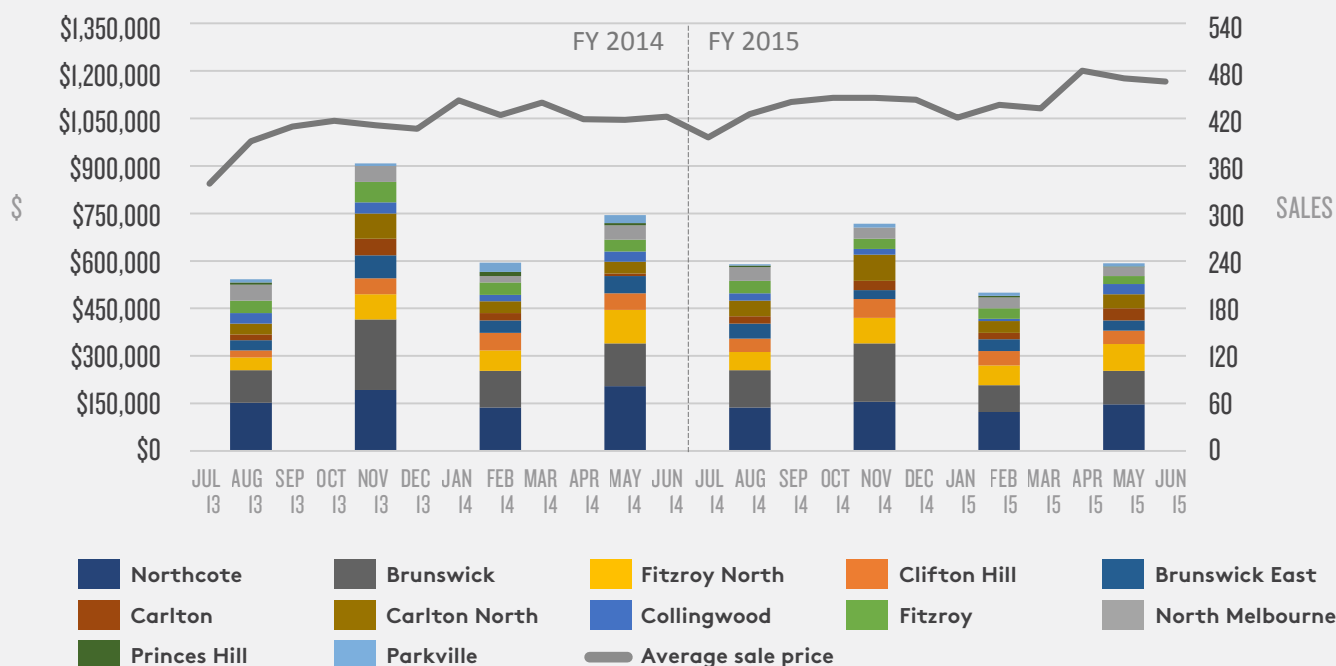
Northcote and Brunswick make up the majority of sales, sometimes up to a third of the total for the region.

Overall, 960 houses were sold in the inner North in FY2015, compared to 1116 the previous financial year. Housing sales in the area, in terms of volume, will most likely continue to decrease, as more and more blocks of land are subdivided and sold as townhouses, or developed into apartment complexes.



	Financial Year 2015	Financial Year 2014	% Change
Average	\$1,111,493	\$1,033,379	+7.56%
Median	\$980,000	\$905,000	+8.29%
No. of sales	960	1116	-13.98%

Monthly Average Sale Price and Quarterly Number of Sales Financial Year 2014 & 2015



Suburbs

This section looks at the housing market in each region by singling out the most interesting suburbs.

The highest price increase and smallest price increase/biggest price decline show the two suburbs in each region that experienced the most extreme annual changes in average sale prices. This does not necessarily make them the best and worst regions to invest in.

To give a better insight, the most affordable and most expensive suburbs show the highest and lowest average price per square meter in each region. This shows that while overall the sale prices in East Melbourne decreased by 8%, houses here are still worth more per square meter than anywhere else in inner Melbourne at \$10,100/m².

Note that suburbs with less than 60 sales over the past two financial years were excluded, as with such a low amount of sales, results are very volatile and would not yield the insights Secret Agent was after.

From the list of "inner suburbs", the following suburbs were excluded: Parkville, Princes Hill, Burnley, Cremorne, Travancore and West Melbourne.

	Highest Price Increase	Smallest Price Increase/ Biggest Price Decline	Most Affordable Suburb	Most Expensive Suburb
Inner West				
Suburb	Flemington	Kensington	Flemington	Kensington
Average Price 2015	\$947,267	\$854,460	\$2,785/m ²	\$3,708/m ²
% Change	+19.32%	+4.64%	-7.72%	+3.18%
Inner East				
Suburb	Hawthorn	East Melbourne	Hawthorn	East Melbourne
Average Price 2015	\$2,232,448	\$2,464,957	\$3,934/m ²	\$10,109/m ²
% Change	+22.58%	-8.04%	+29.35%	+45.65%
Inner South				
Suburb	Middle Park	South Melbourne	Port Melbourne	Albert Park
Average Price 2015	\$2,560,441	\$1,349,552	\$5,580/m ²	\$8,862/m ²
% Change	+35.71%	+4.75%	+2.44%	+12.00%
Inner North				
Suburb	Clifton Hill	Brunswick East	Brunswick	Carlton
Average Price 2015	\$1,242,772	\$922,265	\$3,018/m ²	\$8,279/m ²
% Change	+21.55%	-3.58%	+16.54%	+25.97%

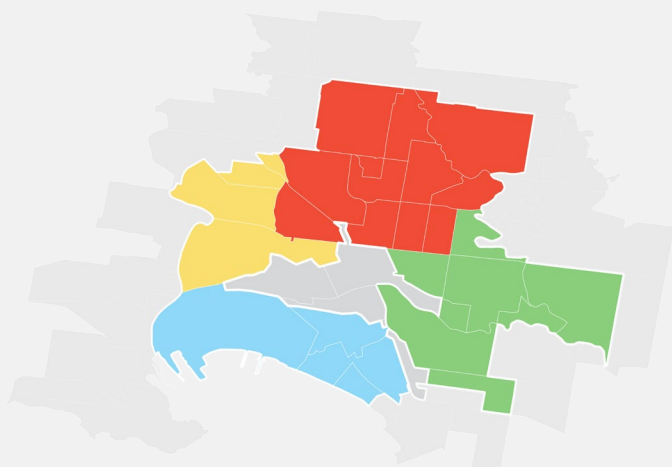
Inner Suburbs

TOWNHOUSES

Analysis

Average prices of inner Melbourne suburb townhouses grew by 4.77% over the 2015 financial year. While out of all property types this may be the smallest growth, combined with a steady supply (627 townhouses were sold this financial year, compared to 617 in financial year 2014) it shows that townhouses are increasingly entering both the affordable and luxury housing markets as great inner city alternatives to standalone houses.

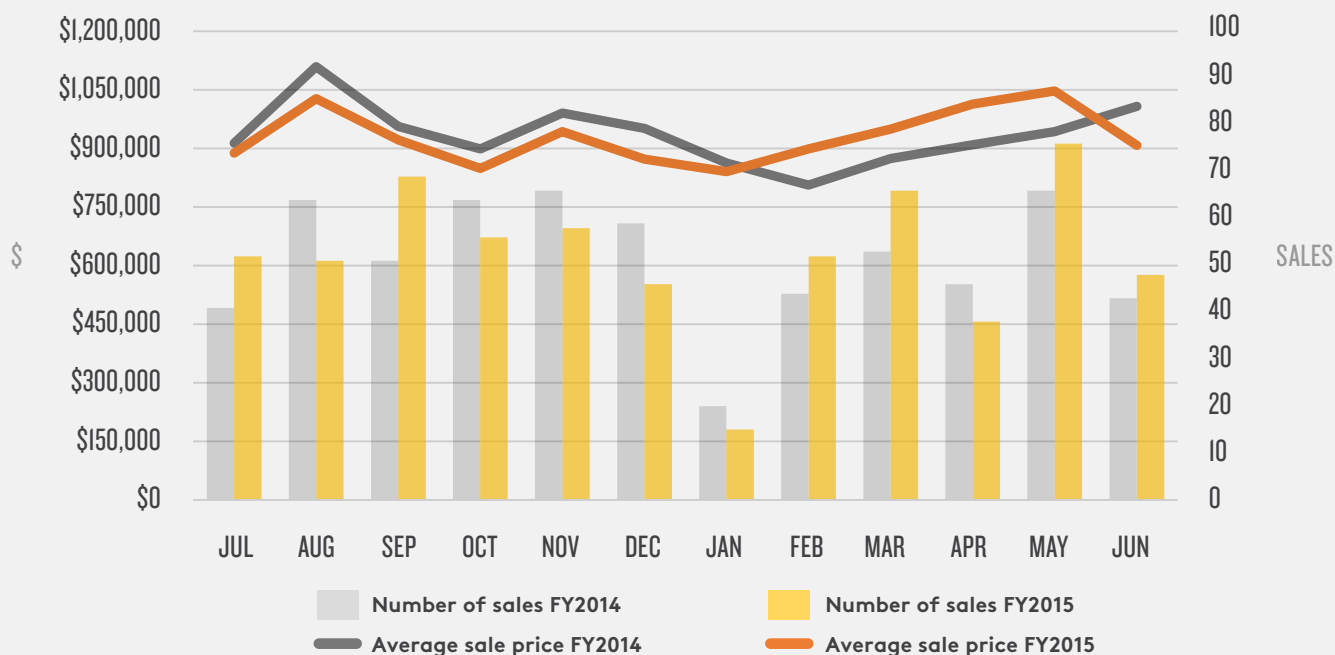
After a weak first half, with both number of sales and average sale prices down from their levels at the same time in FY2014, January served as a turning point, with listings up in four out of six months in Q3 and Q4 this financial year compared to the last. This brought the average sale price over the entire year to \$941,000.



	Financial Year 2015	Financial Year 2014	% Change
Average	\$940,999	\$898,179	+4.77%
Median	\$850,000	\$785,000	+8.28%
No. of sales	627	617	+1.62%

Monthly Average Sale Price and Number of Sales

Financial Year 2014 & 2015



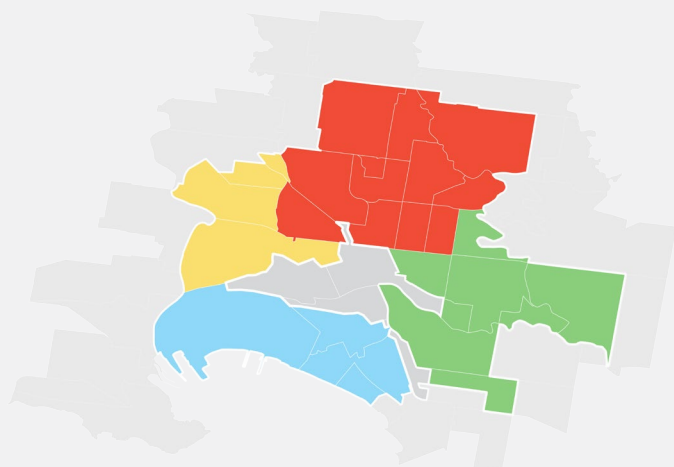
Inner Suburbs

TOWNHOUSES

Analysis

The below table highlights some key suburbs for townhouses in the inner suburbs, determined by the number of sales.

All suburbs with 60 or more sales in FY2015 saw positive growth in price levels. In terms of price per square meter, results were mixed, with South Yarra and Northcote offering more 'bang for buck', i.e. a lower price per square meter, to buyers, while all other suburbs offered higher sale prices relative to land size for sellers. Out of these suburbs, Port Melbourne had the highest growth in average sale prices, while Brunswick East had the biggest increase in price per square meter.



	FY2015 Number of Sales	% Change	FY2015 Average Sale Price	% Change	FY2015 Price per Square Meter	% Change
Kensington	57	+11.76%	\$703,485	+7.49%	\$5,724	+11.76%
Richmond	109	-19.26%	\$1,006,438	+6.62%	\$8,557	-19.26%
South Yarra	42	+5.00%	\$1,333,106	+0.47%	\$5,945	+5.00%
Port Melbourne	47	+23.68%	\$1,244,338	+19.02%	\$8,084	+23.68%
Brunswick	59	-4.84%	\$695,924	+1.26%	\$5,422	-4.84%
Brunswick East	41	+10.81%	\$717,474	+8.38%	\$6,899	+10.81%
Northcote	44	+15.79%	\$725,015	+3.37%	\$3,829	+15.79%

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The data upon which this report is based was sourced from:
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