Residential Market Profile
Cheltenham

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KEY POINTS

- Cheltenham is located approximately 20 kilometres south east of Melbourne’s Central Business District. The area is well serviced by both roads and public transport infrastructure. The Super Regional Southland Shopping Centre, the Moorabbin Airport DFO and a number of local shopping strips are located in the region. The Moorabbin airport industrial precinct is a major employment hub. The area also comprises many pre-school, primary and high school education facilities as well as many sporting facilities.

- Although new dwelling activity in Melbourne has eased since peaking in 2011, the decline has been concentrated in detached house demand, with unit and apartment activity showing smaller falls in comparison. At the same time, the location of demand has also shifted, with middle ring Melbourne suburbs accounting for a greater share of unit and apartment demand, and activity holding relatively steady.

- The population of the Cheltenham Catchment is projected to grow by around 1,700 people per annum, or 1.4 per cent per annum, over the three years to 2016. This is stronger than for the surrounding Inner South area of Melbourne (a little under 1.0 per cent per annum). Cheltenham has a higher percentage of population aged 20 to 34 years old compared to the surrounding area, which is likely to contribute to rental demand. Couple without children and lone person household types—one and two person households—are the most prevalent household types overall.

- The dwelling profile at 2011 showed a greater share of medium density dwellings in the Cheltenham region than at the metropolitan level, a correspondingly lower level of separate houses and almost no high density dwellings (apartments in buildings 4 storeys or greater). High density apartments are largely rented, although Cheltenham’s high density apartments had a higher proportion of fully owned dwellings than the typical Melbourne apartment.

- The Cheltenham Catchment has a strong employment base, employing over 52,000 people at the 2011 Census. Major industries in the area are manufacturing and wholesale and retail trade. The region punches above its weight, accounting for 39 per cent of jobs in Melbourne – Inner South (Bayside/Kingston/Glen Eira), while accommodating only 30 per cent of its population.

- Demand for new units and apartments in the Cheltenham Catchment area has increased significantly. An average of 235 townhouses, units and apartments received building approval annually over 2002 to 2010. This has increased to 740 dwellings per annum over 2011 to 2014.

- Unit prices and rents in the suburb of Cheltenham are more affordable than in the surrounding Cheltenham Catchment and Metropolitan Melbourne as a whole. Long term median unit price growth in Cheltenham, at 6.7 per cent per annum on average, has been above Melbourne (5.3 per cent per annum). Rental growth has been similar, at 6.1 per cent per annum. While yields in Cheltenham are slightly below that for Melbourne, they are higher than at their low point in 2010.
Cheltenham Catchment

Cheltenham is well located approximately 20 km south east of the CBD. The area is well serviced by road infrastructure with the Nepean Hwy running through the area and the Princes Hwy, Monash Fwy, and Peninsula Link all within close proximity.

The Frankston train line runs through the region with stations at Moorabbin, Highett, Cheltenham, Mentone and Parkdale. The region also contains the Moorabbin Airport which comprises a large warehouse and industrial precinct and also adjoins the Braeside industrial area.

In terms of retail the Cheltenham region comprises the Super Regional Southland Shopping Centre at 130,000 square metres of gross leasable space and 410 stores as well as the Moorabbin Airport DFO (Discount Factory Outlet) with a further 100 stores. The area is also serviced by a number of shopping strips; Bay Road Shops in Sandringham, Charman, Road, Cheltenham, and Balcome Shops in Mentone. The area also comprises many pre-school, primary and high school education facilities as well as many sporting facilities.

Cheltenham straddles the border of both the Bayside and Kingston Local Government Areas (LGAs). For the purposes of this analysis, as well as the suburb of Cheltenham, we have also provided analysis of a broader region—the “Cheltenham Catchment”—which incorporates the southern part of the Bayside LGA and the northern part of Kingston LGA. The Cheltenham Catchment comprises nine Statistical Area Level 2 (SA2) regions defined by the Australian Bureau of Statistics which are shown in the map below.

![Cheltenham Catchment Map](image-url)
MARKET OVERVIEW

National Economy

While investment in new mining capacity is now easing, concern over the ‘end of the mining boom’ is being mitigated by the recognition that the impact of falling resources investment will be offset by growth in minerals production and exports.

The upturn in residential construction is coming through nationally and will also contribute to economic growth. Meanwhile the dollar has fallen and helped to take a little pressure off Australian industry. Further falls will play a part in rebalancing the Australian economy back towards domestic trade-exposed industries.

Variable housing interest rates, at 5.95% in June 2014, are close to record lows. This is likely to assist consumer spending, while the support for house prices will also contribute to confidence via rising equity. These factors should provide cover for the Australian economy as resource investment tails off, before driving the next round of growth as an expected recovery in business investment outside the mining sector comes through.

Victorian Economy

In line with the national economy, the Victorian economy is also in a soft patch. The strong Australian dollar over the past few years has been felt by some of Victoria’s key industries, namely agriculture, manufacturing, finance and business services, international student education, and tourism. Meanwhile, cuts in government investment and slowing building activity are also having an impact.

Nevertheless, the longer term outlook is positive, and these conditions are likely to be temporary. Low interest rates should contribute to stronger public consumption expenditure, while non-mining business investment will begin to pick up as capacity is absorbed. The depreciation of the Australian dollar and the subsequent shift back towards trade-exposed industries should also benefit Victoria, where the cost-effectiveness and other factors that made the state strong last decade are still in place. Continued strong population growth will also maintain additional demand for goods and services.

Migration

Net overseas migration is a major component of growth in population and consequently in new household formation, which, in turn, is the key driver of demand for new dwellings. In particular, overseas migration contributes to demand for apartments, as the first place to live for overseas migrants is often a rental dwelling.

After a post-Global Financial Crisis decline over 2010 and 2011, net overseas migration inflows nationally have rebounded strongly, rising from around 180,000 in 2010/11 to just over 244,000 in 2013—only slightly below the record of 299,000 in 2008/09. The growth has largely been driven by long term visitors arriving on working visas, and to a lesser extent, growth in migration from New Zealand. With Australia’s economy outperforming that of many other countries, departures have also slowed.
**Market Trends**

**Home loan activity**

Although the recovery in first home buyer demand appears to be stalling as first home buyer incentives are being wound back, demand from both investors and upgraders has been strengthening.

In particular, year to March 2014 lending for residential investment was up by 6.1 per cent on the previous twelve month period. Moreover, this trend has been strengthening, with the value of finance for residential investment in March quarter 2014 up by 29 per cent on March quarter a year earlier. This demand has been reflected in new apartment activity, with investors typically favouring the apartment sector.

**Housing affordability**

Housing affordability in Melbourne (as measured by mortgage repayments on 75 per cent of a median priced house as a percentage of household disposable income at the prevailing standard variable rate) has become more challenging in 2014 in response to strong growth in house prices over the previous year.

Despite this change, low interest rates mean that housing remains considerably more affordable than at its worst points in 2008 and 2010, and is similar to the levels that were consistent over the early to mid 2000s—a period that was still consistent with residential price growth.
Dwelling activity

Demand for other dwellings, including townhouses, units and apartments, has steadily increased in recent years (2011 to 2014 inclusive). Other dwellings have accounted for around half of new dwelling building approvals.

This shift towards other dwellings has been underpinned by a number of factors including lifestyle preferences amongst the young adult population, greater affordability constraints in inner and middle suburbs that have increased the propensity to rent or live in smaller dwellings, and rising demand from investor purchasers to accommodate the rental demand.

In the high density sector (apartments in buildings four storeys and above), it has normally been in inner Melbourne where demand has been concentrated. However, since 2009, there has been a growing demand for high density dwellings in middle ring Melbourne suburbs.

After averaging around 1,000 new high density dwelling approvals per annum over 2002 to 2008, there have been around 4,000 high density dwellings approved annually in middle ring Melbourne since 2010. Moreover, while approvals in inner Melbourne fell sharply between 2011 and 2013 before recovering in 2014, approvals have remained relatively steady in middle Melbourne, suggesting more stable demand.

DEMAND PROFILE

Population

Population growth

The estimated population of the Cheltenham region was 122,100 at June 2013. This represents 30 per cent of the Melbourne – Inner South region and 3 per cent of the total Melbourne metropolitan area.

The Cheltenham region is projected to grow by 1,700 people per annum, and reach 127,200 persons by June 2016. The population growth rate of 1.37 per cent per annum is greater than that projected for the Melbourne – Inner South region over the following three years to 2016, and reflects the increasing infill activity taking place.

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Cheltenham region</th>
<th>Melbourne - Inner South</th>
<th>Metro Melbourne</th>
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<tbody>
<tr>
<td></td>
<td>Population</td>
<td>% inc. pa</td>
<td>Population</td>
</tr>
<tr>
<td>2001</td>
<td>107.0</td>
<td></td>
<td>353.5</td>
</tr>
<tr>
<td>2006</td>
<td>111.8</td>
<td>0.88</td>
<td>370.2</td>
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<tr>
<td>2011</td>
<td>118.7</td>
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<td>395.2</td>
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<tr>
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<td>122.1</td>
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<tr>
<td>2016p</td>
<td>127.2</td>
<td>1.37</td>
<td>416.4</td>
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Average annual growth (No.)

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<td>959</td>
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</table>

Source: Australian Bureau of Statistics, BIS Shrapnel, Victoria in Future – DPCD, id Consulting
p = projected

Population growth (’000s).
Age profile

Cheltenham has a roughly similar age profile to Metropolitan Melbourne, although when compared to the broader Cheltenham Catchment as well, the suburb of Cheltenham has a greater percentage of population aged 20 to 24 years old, who are likely to be a driver of the rental market in the area.

Persons aged 65 years old and over also have a higher presence in the suburb of Cheltenham than total Melbourne.

Otherwise, the relatively high percentage of population aged 0 to 19 years old and 35 to 49 years old suggests a high presence of families with children.

Household type

Couple families without children and lone person households are the predominant household type in Cheltenham, with both having a greater presence than the broader Cheltenham Catchment and total Metropolitan Melbourne. These smaller household types are conducive to occupancy of smaller dwellings such as apartments.

In addition, family households in Cheltenham are less prevalent than across the broader Cheltenham Catchment and Metropolitan Melbourne, with the exception of families with all non-dependent children. Group households also have a more limited presence compared to Metropolitan Melbourne.

Employment

The Cheltenham Catchment has a strong employment base, employing over 52,000 people at the 2011 Census. The region punches above its weight, accounting for 39 per cent of the jobs in the Melbourne – Inner South region (Bayside/Kingston/Glen Eira), while only accounting for 30 per cent its population.

The predominant industries in Cheltenham are manufacturing and wholesale and retail trade, reflecting the influence the Moorabbin Airport industrial precinct and the Southland Shopping Centre have on employment in the area.

The Cheltenham employment profile is similar to that of Metropolitan Melbourne, with a slightly higher prevalence of managers and professionals and other white collar employment. Around 40 per cent of employed persons in Cheltenham can be classified as either managers or professionals.

After professionals (26 per cent of employed persons), clerical and administrative workers (17 per cent) and technician and trade workers (14 per cent) represent the next most prevalent types of occupation.
Dwellings

Type

High density developments (apartments in buildings of four storeys and above) are under represented in Cheltenham, as well as the broader Cheltenham Catchment, compared to Metropolitan Melbourne. Across all markets houses are the dominant dwelling type, although medium density dwellings (attached dwellings in buildings up to three storeys) are more prevalent in Cheltenham and the broader Cheltenham Catchment compared to Metropolitan Melbourne.

Tenure

High density apartments in Cheltenham are predominately rented (55 per cent), indicating solid rental demand. However, both Cheltenham and the broader Cheltenham Catchment have a higher percentage of owner occupiers (both fully owned and being purchased) in high density dwellings than total Melbourne. This indicates a broader occupier and purchaser base for apartments in the Cheltenham area.

Tenure of apartments 4 storeys and greater (%), 2011.

SUPPLY PROFILE

New building activity

After being relatively steady over 2002 to 2010, total new dwelling activity in the Cheltenham Catchment has ramped up over 2011 to 2014, reflecting increased demand for new dwellings. In particular, the rise has come from growth in demand for medium density dwellings (semi detached, terraces, townhouses and flats/units/apartments in buildings up to three storeys) and high density dwellings (flats/units/apartments in buildings four storeys and above).

On average the number of medium density dwelling approvals rose from 186 per annum between 2002 and 2010 to 432 approvals per annum in the last four years. High density dwelling approvals have risen substantially from 49 per annum over 2002–2010 to 308 per annum in the last four years. The 2012 to 2014 period was a record in the Cheltenham Catchment with the total number of dwelling approvals exceeding 1,100 annually.
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Prices

Median unit prices in Cheltenham are more affordable than for the greater Cheltenham Catchment (which includes higher priced dwellings in the Bayside LGA) and Metropolitan Melbourne. The median unit price in Cheltenham was $480,000 based on sales so far in the year to June 2014. This compares to the median across Metropolitan Melbourne of $499,000 and across the Cheltenham Catchment of $545,000.

Across all markets, unit prices accelerated in the last two years after a pause in price growth over 2010 to 2012. Long term median unit price growth (2002 to 2014) in Cheltenham, at 6.7 per cent per annum, has been above Metropolitan Melbourne (5.3 per cent per annum) and slightly below the broader Cheltenham Catchment (6.9 per cent per annum).

Rents

Rental growth

Median rents for two bedroom units in Cheltenham are only slightly below that of Metropolitan Melbourne and have shown less volatility on the whole since 2001. In this period, the gap between Cheltenham rents and Metropolitan Melbourne rents has also narrowed.

The narrowing gap reflects the slightly stronger rental growth that has taken place in Cheltenham. Over the 14 years to March quarter 2014, Cheltenham median two bedroom unit rents have risen by an average 6.0 per cent per annum, compared to 5.9 per cent per annum for Metropolitan Melbourne.

Yields

Indicative rental yields in Cheltenham—defined as the median two bedroom unit rent divided by the median unit price—are higher than their low in 2010, although have tightened again since peaking in 2013.

Outside of 2013, Cheltenham’s indicative yield has typically been slightly lower than total Melbourne since 2006. This reflects the stronger capital growth in Cheltenham relative to Melbourne. Investors typically trade off a tighter yield for the stronger capital growth environment, as appears to have been the case in Cheltenham in recent years.
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  - Demographic analysis and projections
  - Suburb/catchment profile
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