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Developers hunker as banks turn off dollar tap

Nicole Lindsay

Developers are hunkering down as the housing sector faces a tsunami of warnings from regulators and banks.

Warnings about apartment oversupply and over-leveraged investors, both domestic and offshore, have gushed from regulators but have failed to stem investment levels.

Developers argue that apartments are renting quickly and settling without much drama. *Photo: Louie Douvis*

While banks have curbed lending to developers, the Andrews government in Victoria has proposed removing stamp duty discounts on off-the-plan sales to investors in a bid to dampen unbridled apartment development.

But developers have defended themselves against the sternest criticism, arguing that apartments are renting quickly and settling without much drama.

Listed developer Mirvac warned in February that settlement defaults had hit 2 per cent as investors struggled to get finance but most of those had resold at a profit.

Sydney-based Matrix Property principal Andrew Antonas said distressed settlements were running at less than 4 per cent in the Sydney market as finance dried up.

"There is a little bit of failing to settle but not much. Even then the units are able to resell. The biggest risk to the market is finance on development sites," Mr Antonas said.

"The things that drove this market a year ago was government policies, overseas investors, low interest rates and banks throwing money at people," he said.

"Well they've banked their profits and now they've changed their tune and the money tap is off," he said.

"We're not going to have any oversupply in two to three years' time. The supply side is being switched off," he said.

In Melbourne, developers are reporting good settlements, especially in developments that have a strong owner-occupier component.

Boutique fund manager Ashley Wain from Forza Capital said "It depends on the quality of your product, how you sold it and who you sold it too.

"If you get a product that doesn't appeal to the owner-occupier market you are probably going to struggle. When we bought in Richmond we paid the equivalent of $45,000 a unit but others have paid more than double that," Mr Wain said.

Forza Capital has only one residential development on its books, the 130-unit Supply Co in Richmond between Victoria Gardens and the Yarra Rivers.

"We have reached 85 per cent pre sales and we sold two-thirds to owner occupiers. We started with 140 apartments but had to change the floor plans to suit the owner-occupier market who want bigger units.

Evolve's Ashley Williams said "We finished a building in January and settled 100 per cent of 65 apartments in February and 15-20 of those were overseas purchasers.

"They all came through with the settlement and all of the apartments sold to investors have been rented," he said.

Gurner director Tim Gurner settled 400 apartments over three projects this year in West Melbourne and Collingwood.

"Earlier this year at our Ikebana project in West Melbourne we placed 150 apartments on the rental market and received over 1500 applications 10 days later. And at 107 Cambridge Street in Collingwood, we had 50 apartments n the rental pool and all were rented within hours," Mr Gurner said.

"Anyone who is talking about an apartment oversupply just needs to visit the rental openings across suburbs like Collingwood, Fitzroy , West Melbourne and Brunswick to understand this is just not the case."

"We have created larger owner-occupier apartments that demand a much higher rent than other apartments in the area and people are still willing to bid against each other to secure one of them," he said.