



WELCOME TO APAA'S SEMINAR

WE WILL START FROM **6:30 PM**

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APAA Workshop

Opportunities in Countercyclical Real Estate in Victoria:

Feasibilites & Reactivation

Wednesday **26th February 2025**, (6:00pm - 9:00pm)

Level 10, Tower 3, World Trade Centre, 18/38 Siddeley St, Docklands VIC 3008

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Guests of Honour



Max Bi

Co-founder of
Parallel Workshop Architects



Ricky Phoon

Founder of Activation Group



Luana Kenny

Managing Director of M3 Property



Australasia Property Advisory Association

Established 2018



AUSTRALASIA
PROPERTY ADVISORY
ASSOCIATION

“We are a not-for-profit organization creating a community of multidisciplinary local and international leaders dedicated to fostering collaborations and contributing to the sustainable growth of Victoria's property industry.”



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Professional Seminar



Social Events



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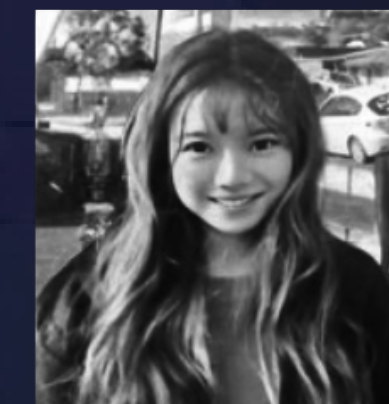
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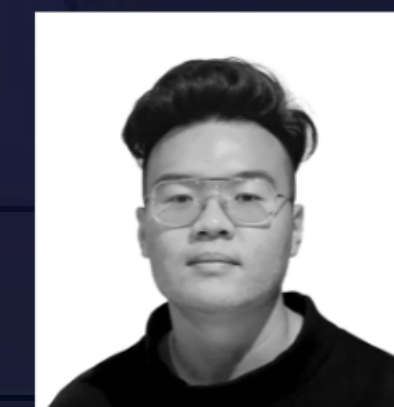
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Our Panellist

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Feasibilities in Valuation

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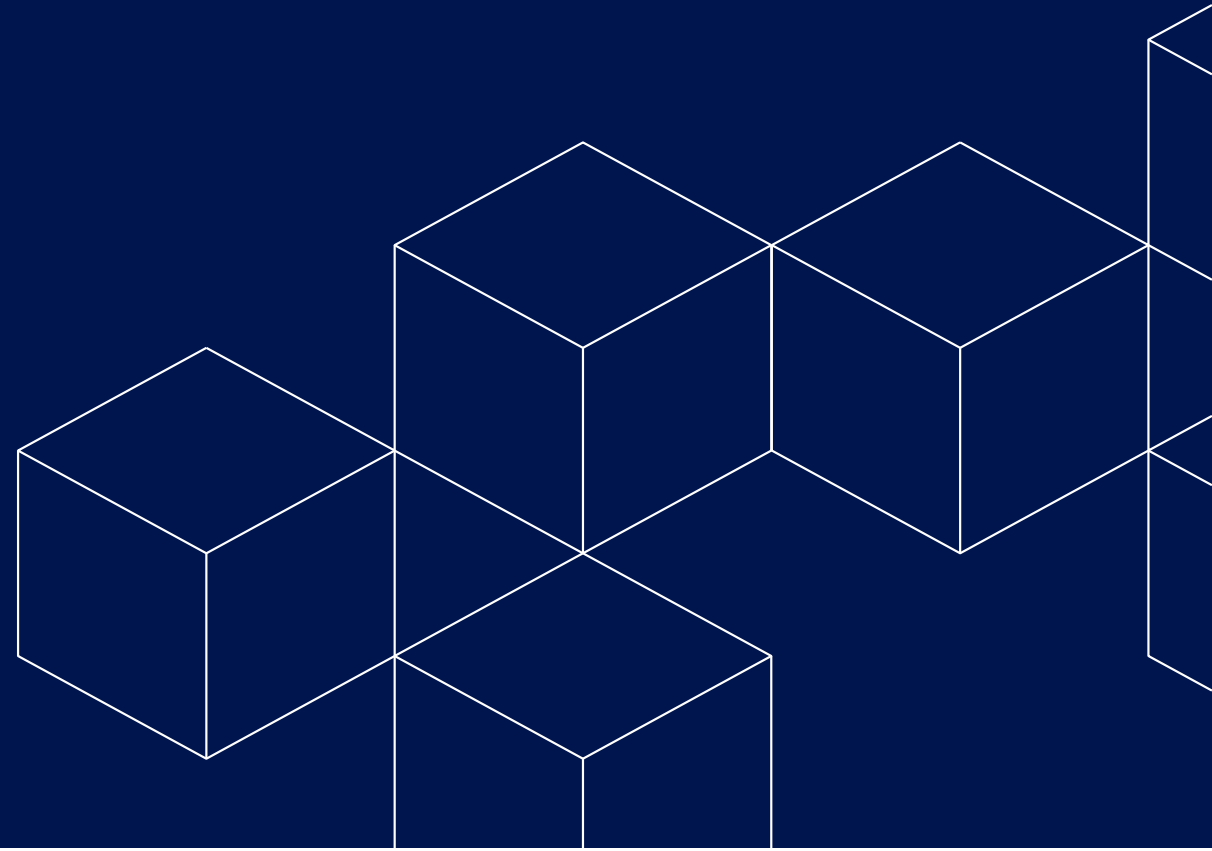
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FEASIBILITIES IN VALUATION

Luana Kenny, Managing Director VIC

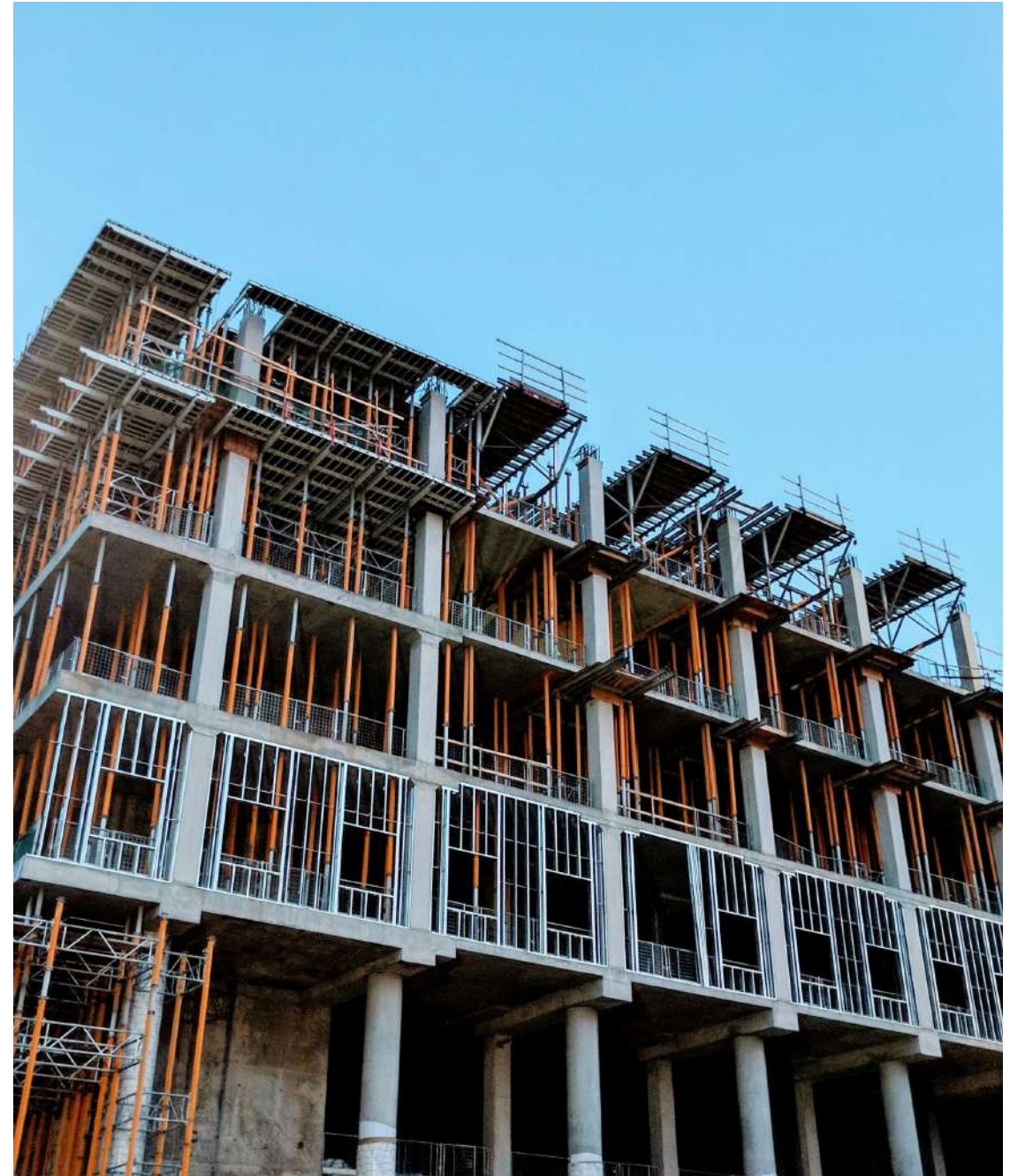
26 February 2025





CONTENTS

- FEASIBILITIES & WHAT WE ARE SEEING
 - WHAT ARE THE OPTIONS
 - TAXES AND THE IMPACTS
 - WHERE TO FROM NOW
-



FEASIBILITIES – THE IMPACT OF GROSS REALISATION

	Moorabbin	Forest Hill	Kew East
Type of Project	High Density Apartment Project	High Density Apartment Project	Boutique Small Scale Townhouse and Apartment Project
Construction Cost \$/m ²	\$5,400 approx.	\$5,700 approx.	\$5,900 approx.
Average Gross Realisation \$/m ²	\$8,800	\$8,400	\$11,000
Current Project Related Site	\$1,350,000	\$1	\$3,700,000
Current Land Value	\$4,500,000	\$9,600,000	\$4,300,000
\$/m ² Required for Market Level Return	\$10,400 approx.	\$10,750 approx.	\$11,500 approx.
Difference	-18%	-28%	-4%

VALUATION METRICS AND THE IMPACT ON FEASIBILITIES FOR VALUATION PURPOSES

Hypothetical Development Approach - Project Related Site Assessment - Vacant Possession				
Gross Realisation				\$159,000,000
Less				
Selling Costs @	1.5%			\$2,448,600
Net Realisation				\$156,551,400
Less Profit & Risk Factor @	17.5%			\$23,353,619
Funds Available for Development				\$133,197,781
Less				
Development Costs		\$117,479,196		
Interest @	8.5%	\$12,111,706		
Purchase Costs	6.6%	\$745,179		
Holding Costs		\$1,900,000		\$132,236,081
Add GST Input Credits				\$10,374,284
Indicated Assessment (inclusive of GST)				\$11,335,984
Less GST on land				\$1,030,544
Indicated Assessment (exclusive of GST)				\$10,305,440
Rounded to (exclusive of GST)				\$10,300,000
Assessment excl. of GST				\$10,300,000
Profit After Interest				\$23,353,619
Developer's Margin			17.50%	
IRR Including Interest			14.81%	

\$551 per square metre of permissible GFA.

Market evidence shows \$1,900 to \$2,100 per square metre of GFA.

\$3,834 per square metre of site area.

Market evidence shows \$9,760 to \$15,200 per square metre of site area.

So, what's the Market Value of the Site?



SENSITIVITIES OF A FEASIBILITY

- Cap Rate moves by 50 basis points
- Rents increase by \$50 per square metre of Net Lettable Area
- Obtain pre commitments

Adjusting the above, increases the land value in line with Market Value based on sales evidence of circa \$35 million. That's a 240% turnaround.

Sensitivities in Feasibilities

- End Values/Gross Realisation has the greatest impact
- Construction/Project Costs has the second greatest impact.

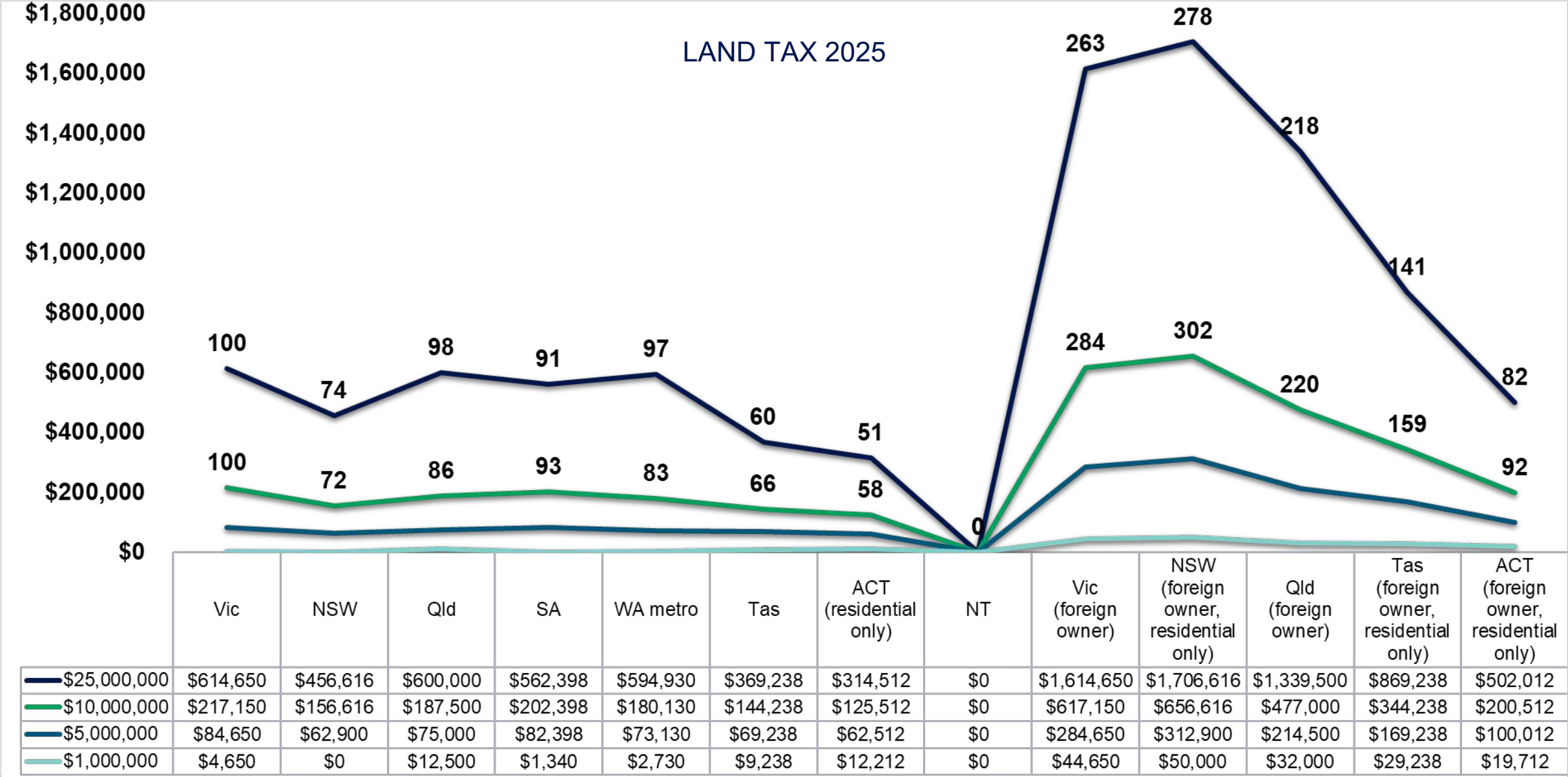
MARKET VS. FEASIBILITY DISCONNECT

- The required increases are not unrealistic in a balanced market.
- Developers continue to show strong interest in shovel ready projects.
- Cost stabilisation, cash rate relief and easing of incentives in the latter part of 2025, will improve feasibilities in the englobo market.

Type of Project	PSP and Permit Approved (West)	PSP and Permit Approved (North)	PSP and Permit Approved (South East)
Construction Cost \$/lot	\$100,000	\$168,046	\$167,000
Average Gross Realisation \$/lot (incl GST)	\$350,000	\$317,830	\$390,000
Cost to Lot Value %	29%	53%	43%
Current Project Related Site Value (\$/ha)			
\$/ha net developable area	\$2,150,000	\$1,400,000	\$1,700,000
\$/lot	\$100,000	\$83,000	\$107,000
Current Land Value			
\$/ha net developable area	\$2,550,000	\$1,650,000	\$2,425,000
\$/lot	\$120,000	\$100,000	\$153,000
Lot Revenue Required for Market Level Return	\$397,000	\$347,000	\$460,000
Increase to Revenue Required	13%	9%	18%



TAXES AND IMPACT ON PROPERTY



VICTORIAN GOVERNMENT'S 10-YEAR PLAN: 800,000 NEW HOMES

- **800,000** dwellings to be delivered over the next 10 years.
- On average **56,978** dwellings were completed per annum over the past 10 years.
- Victoria is estimated to grow by approximately **1,236,572** people over the next 10 years.
- Average Projected Population Growth of **123,000** per annum.
- Over the next 8 years, an estimated **34,000** dwellings are expected to be delivered per annum.



Source: Victoria Government Housing Statement, Oxford Economics, M3 Property

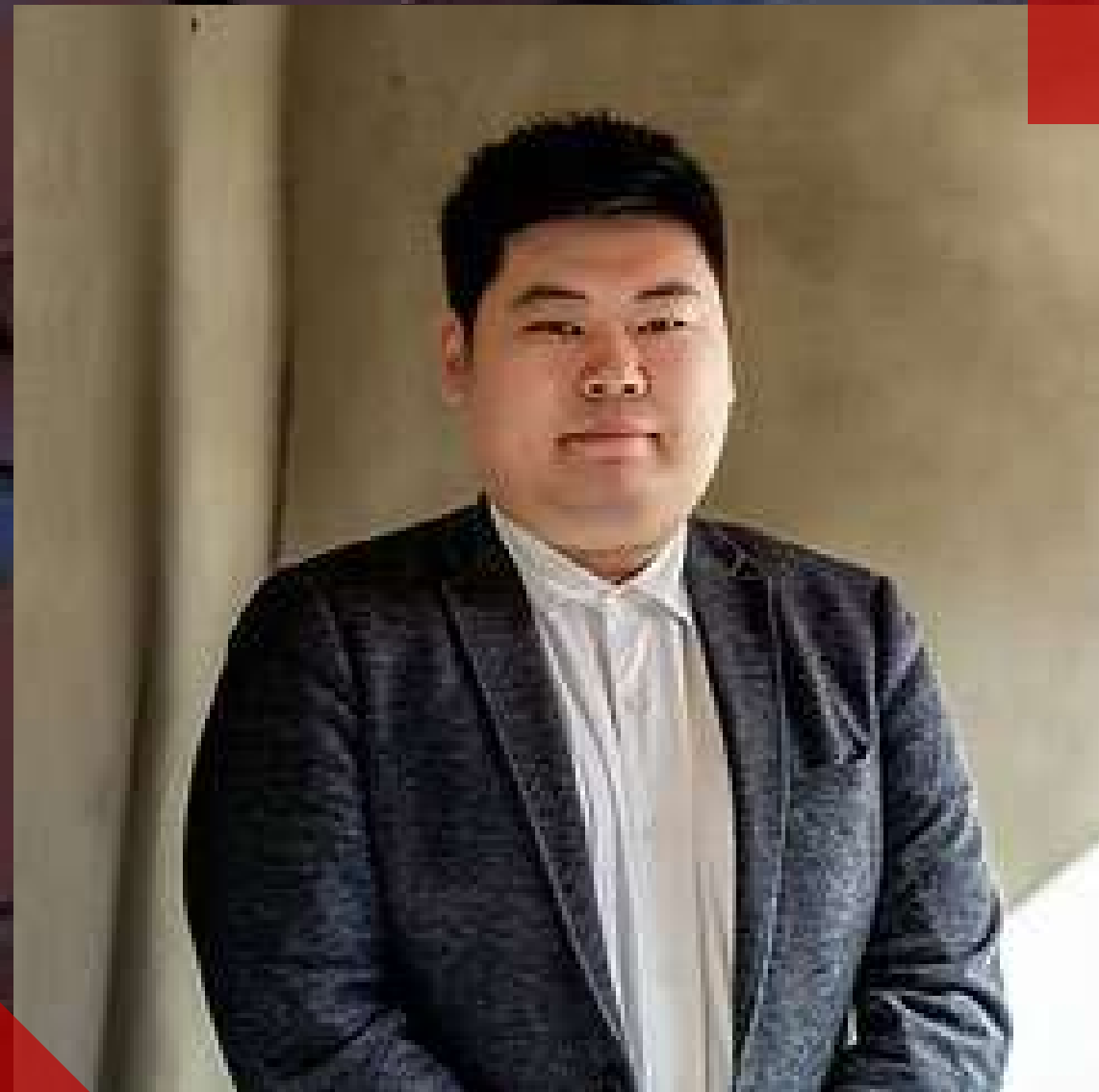
WHAT ARE THE OPTIONS

- Feasibilities don't work now, but future metrics and market changes does result in viable projects.
- If the feasibility is not viable, doesn't mean its not the highest and best use.
- Alternate schemes, alternate uses – is this possible?
- Stamp Duty Off The Plan Incentives is a good step, but is it enough?
- Victoria has the highest taxes, how does this encourage investment and development?



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Our Panellist

Max Bi

Co-founder of PWA

Navigating New Market Conditions



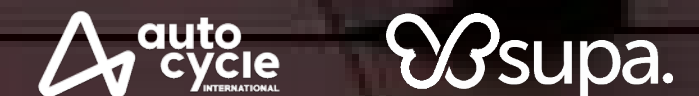
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NAVIGATING NEW MARKET CONDITIONS

Acknowledgement of country

Wurundjeri of the Kulin Nation

"We would like to begin by acknowledging the traditional owners of the land on which we meet today. Wurundjeri of the Kunlin Nation, We would also like to pay our respects to the Elders past and present."

Melbourne Market Conditions

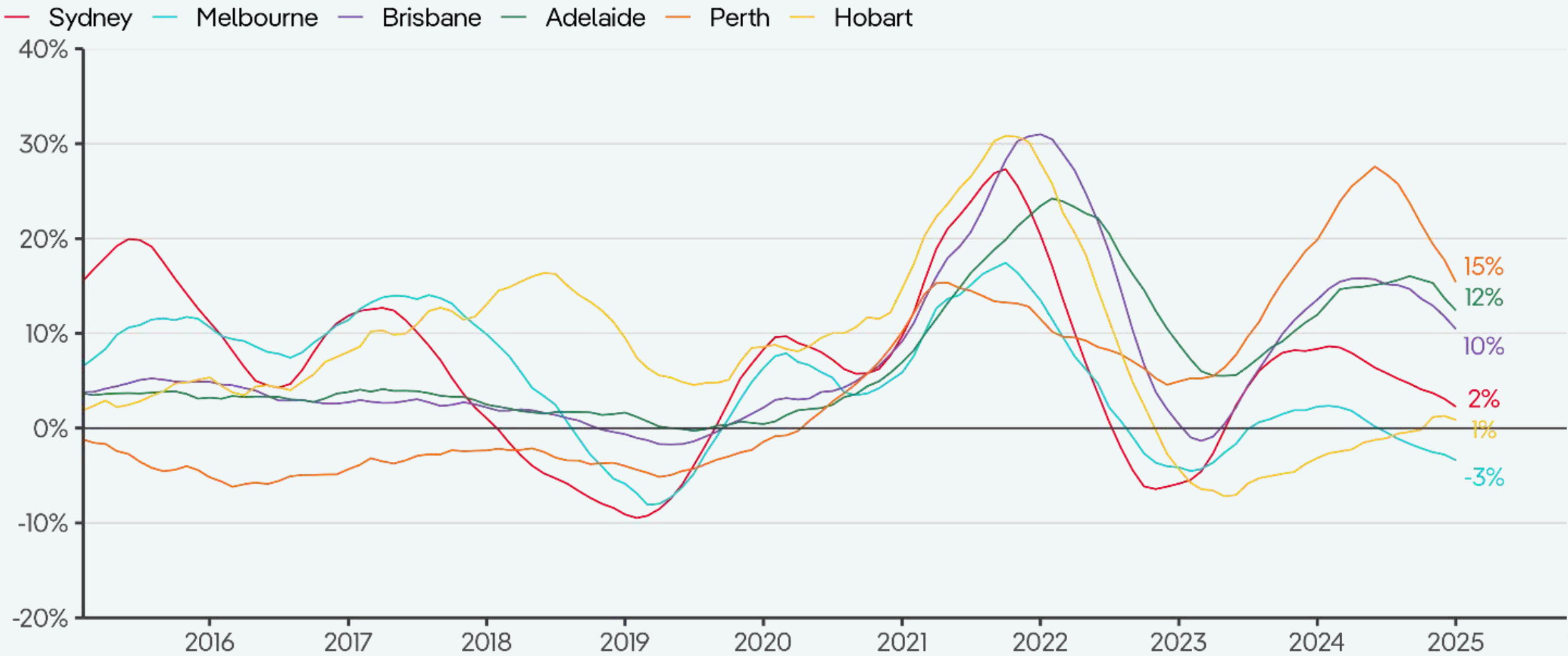
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Melbourne Market

PropTrack Home Price Index Dec 2024

Annual change in home prices

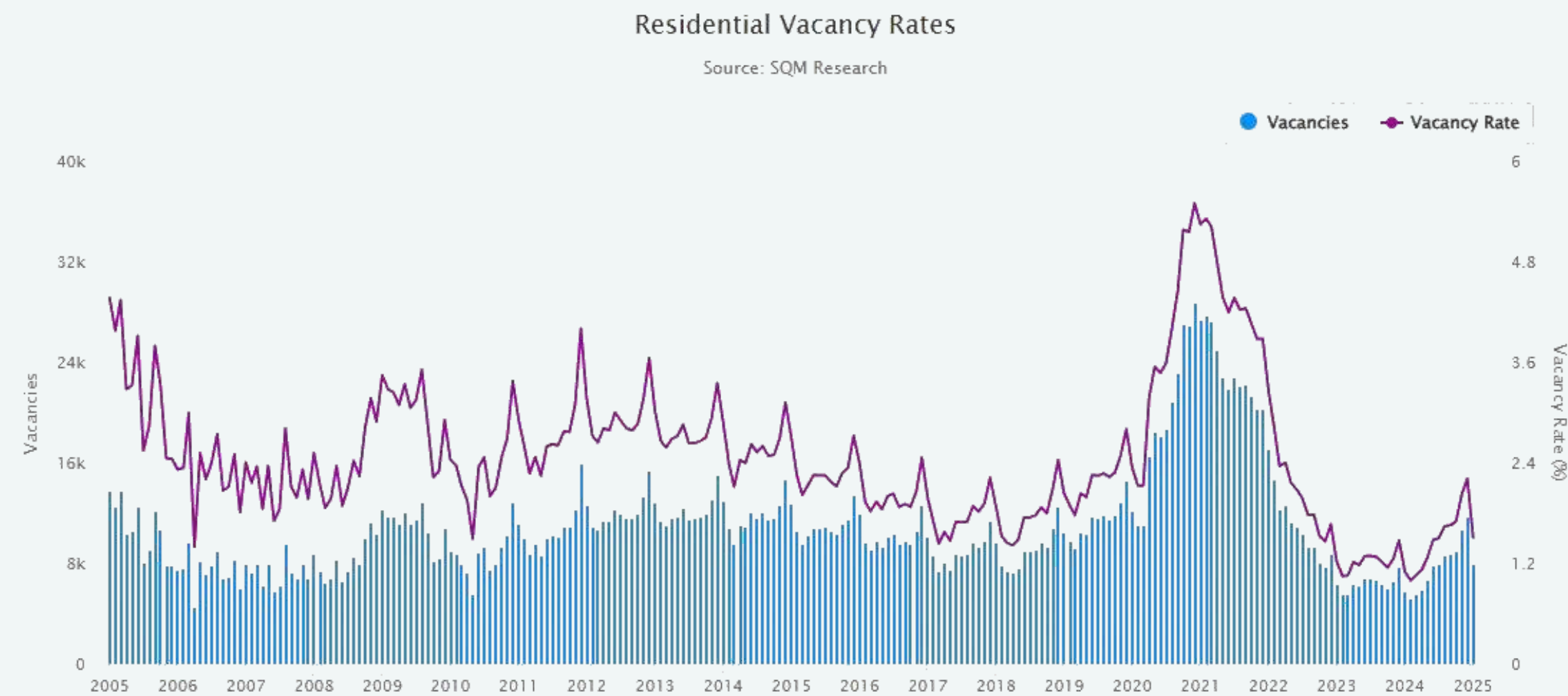
By capital city, all dwellings



Source: SQM Research

Melbourne Market

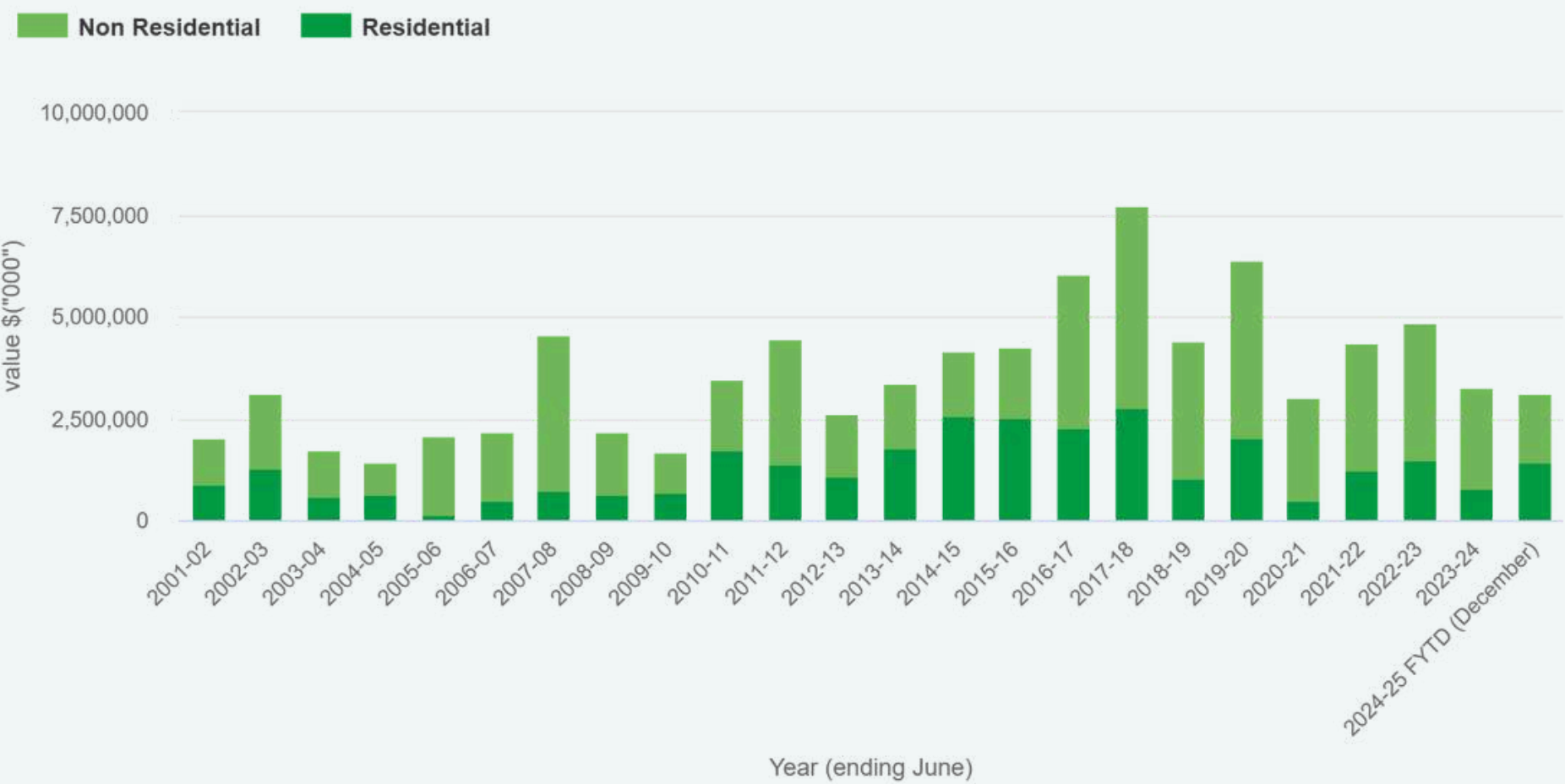
Vacancy rates - Melbourne



Source: SQM Research

Melbourne Market

Building Approvals - City of Melbourne



Source: ABS, Economy.id

Development Objectives

Objectives:

Direct project Investment

Seeking profit via singular projects , with flexibility for JV & other collaborations; there is a fixed end date of the development via sales

Direct Correlation to housing price Index

Typ. Typologies includes:

- Multi-Residential Townhouses
- Multi-Unit Apartments

Objectives:

Curated property portfolio

Seeking to build Net-positive Real-estate Portfolio as well as a Marketing Brand to create local demand.

based on localized market & operator demand.

Typ. Typologies include:

- Multi-Residential Townhouses
- Childcare
- Student Housing PBSA
- Hotels
- Shopping centers
- Mixed-use projects

Window of Opportunity

For next few years:

a golden opportunity for build to hold projects;
Portfolio building projects.

this is due to the following perfect storm:

- High Rental Yields
- High demand from population growth
- Low property supply
- Low building approval pipeline
- High construction costs
- High holding costs (for development)
- low affordability rate
- Property price recovery period typ. takes 2-5 years;

Local Demand

- **Short-stay Demand** is still high, despite the short stay levy, specially around major infrastructure & institutions
- **Childcare Demand** has also increased as new immigrants with kids has pushed demand beyond current infrastructure.
- **Student Housing Demand** has dramatically increased post covid as new apartment pipeline supply is low and slow.

PWA's Strategic Workshop Case Studies

Description

commerciality meets design

Architect's Skillset

"The art of Balancing Creativity & Practicality.

A communicator that bridges vision to reality."

02

Boutique Hotel Flemington Rd

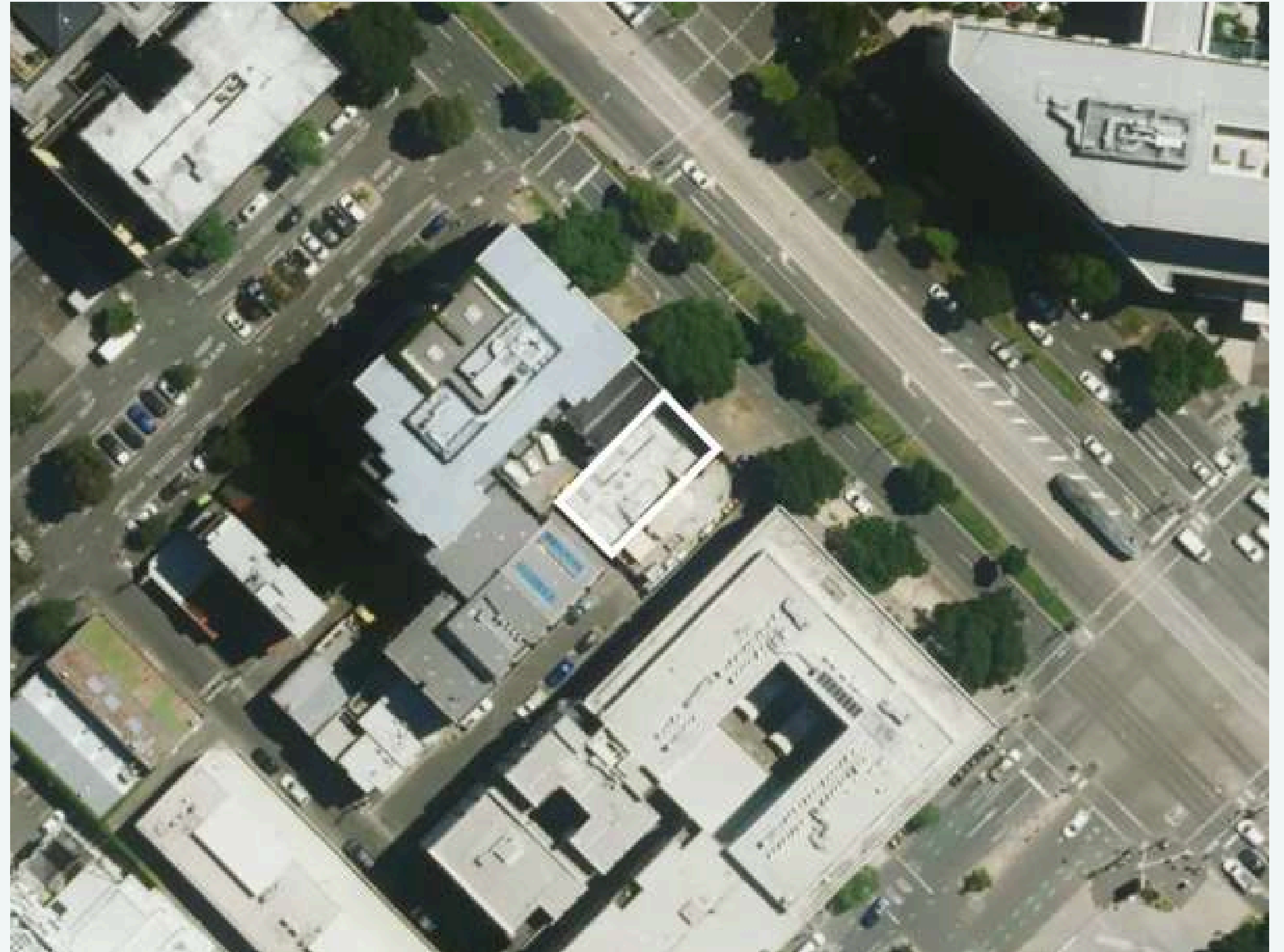
Description

Situated in North Melbourne.

Council: City of Melbourne

Site: 233.67sqm

Zone: Mixed Use Zone / DDO 65&70



Project Initial Position:

TP Permit
55 Key Hotel Rooms
GFA: 2805sqm

EST Construction Cost: \$24,000,000 + GST
Avg Room Size: 28sqm

Est. avg daily rental: \$195

**PWA'S
WORKSHOP**

Discussion with Hospital representatives result
in a variety in product mix.

Demand from hospital rejuvenation & parents
for University as key target audience.

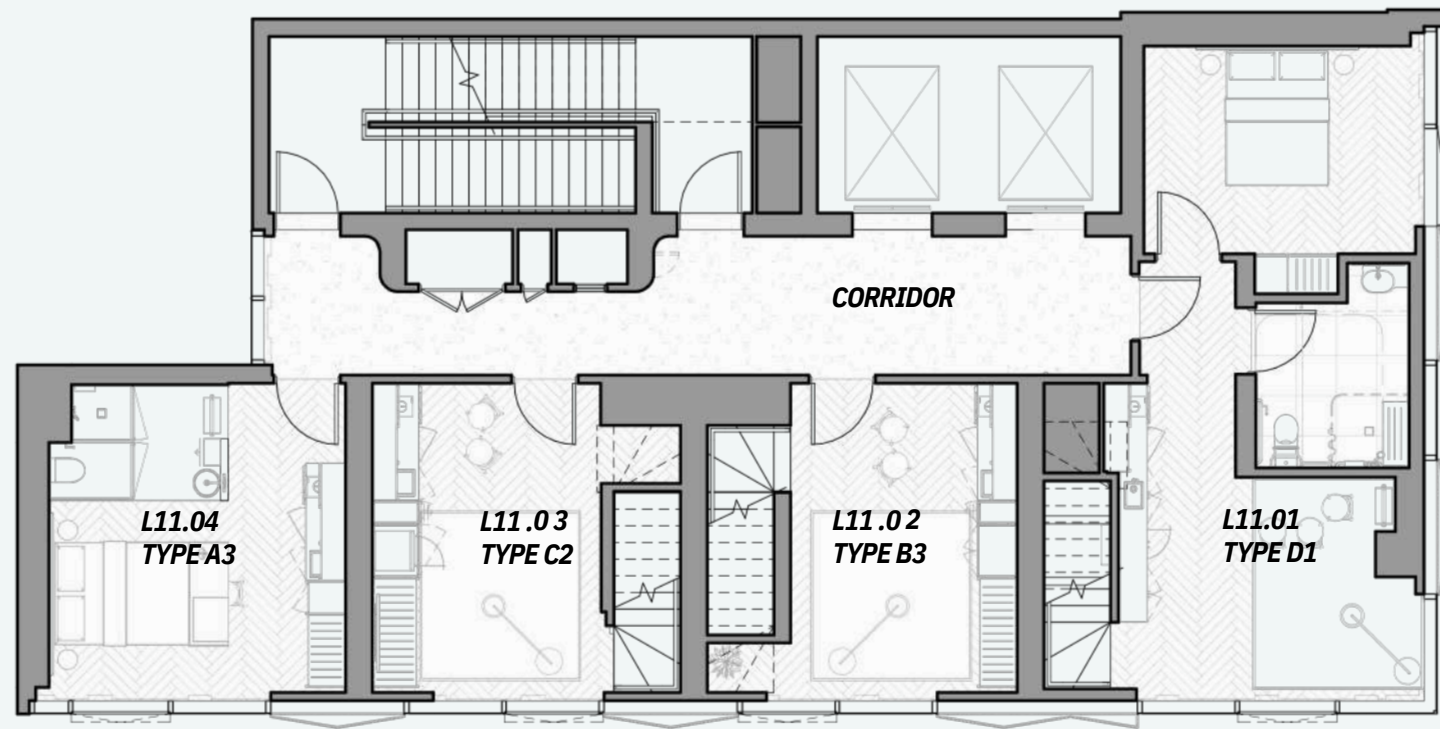
facade re-rationalised for cost efficiency.

Project Proposed Scheme:

41 Bed + Lounge style Rooms
GFA: 2805sqm

Est. Construction cost: \$20,000,000 + GST
Avg Room Size: 37sqm

Est. avg daily rental: \$300



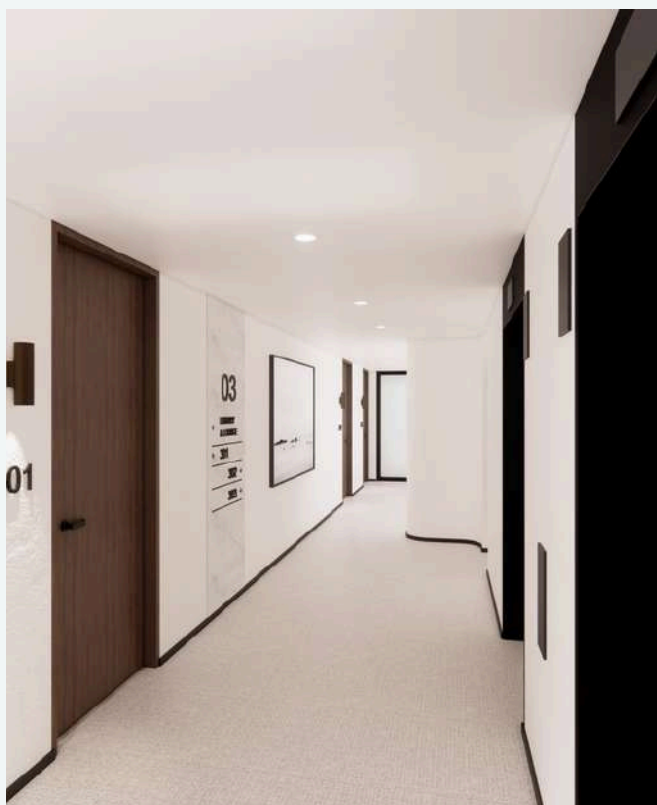
New Proposed Scheme:

41 Bed + Lounge style rooms
Equity: \$8,300,000
Development Cost: \$27,500,000
Est. Daily Rental: \$300pw

Development

Program: 2.5 Years
Est. Evaluation: \$32,000,000
ROE: 52.5%





In Construction, Est. Completion: June 2026

Childcare Grimshaw Street

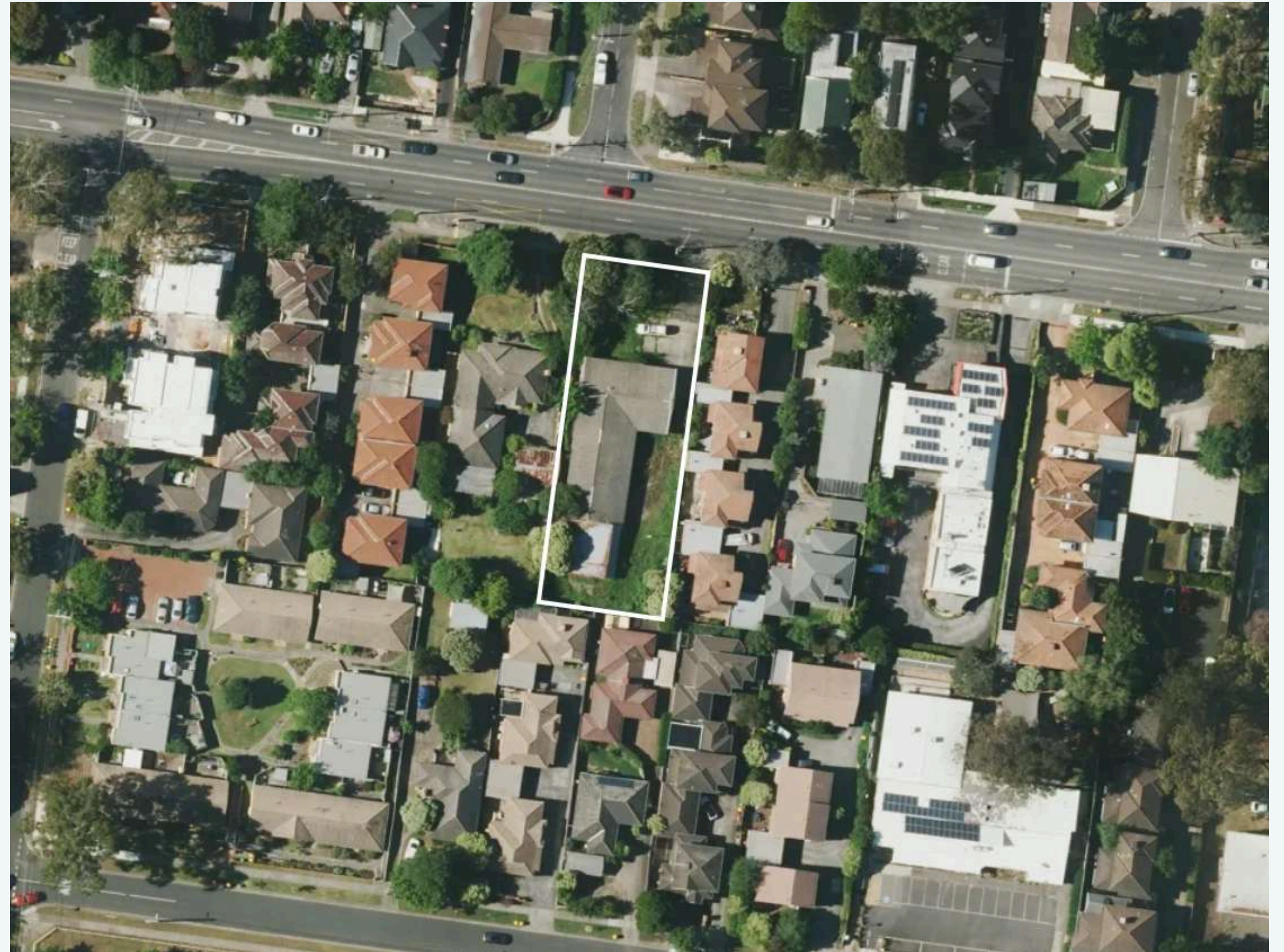
Description

Situated in Greensborough.

Council: Banyule City Council

Site: 1338.73sqm

Zone: General Residential Zone



Project Initial Position:

TP Permit
5 Townhouse Development
GFA: 1060sqm

EST Construction Cost: \$3,000,000 + GST

Est. Rental: \$620pw
Est. Evaluation: \$4,625,000

**PWA'S
WORKSHOP**

Discussions with Childcare Operator resulting
in an offer of \$4000+ p child.

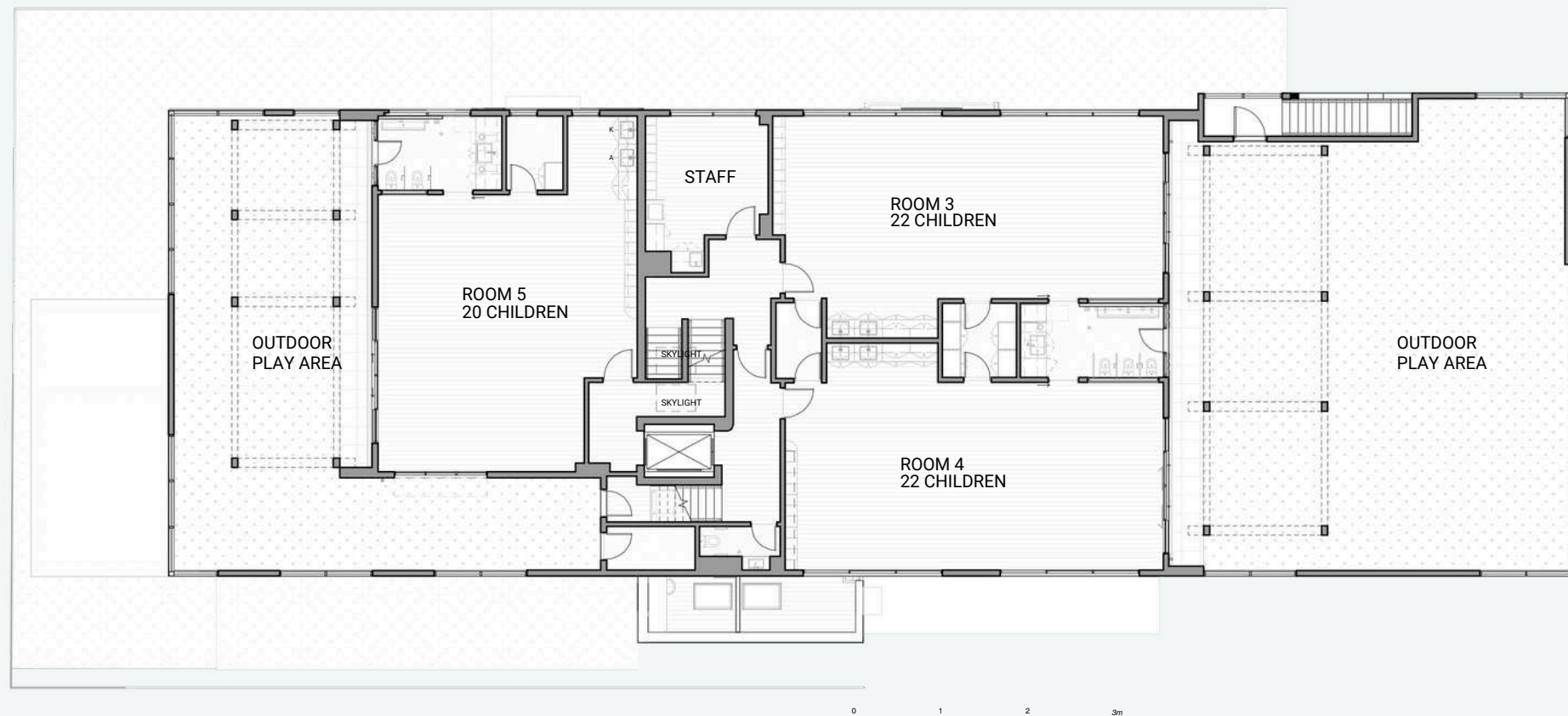
when the client did the permit, the childcare
operator bought the site off the developer

Project Proposed Scheme:

86 Kids Childcare
GFA: 670sqm + 300sqm outdoor play area

Est. Construction cost: \$3,500,000+GST

Est. Rental: \$4100 per child
Est. Evaluation:\$7,052,000



New Proposed Scheme:

86 Kids Childcare Center

Equity: \$2,100,000

Development Cost: \$5,950,000

Development

Program: 2.5 years

Est. Evaluation: \$7,052,000

ROE: 53.2%

Rental Yield - 6%

Pre- Construction, Est. Completion: June 2026

Clayton Rental Market



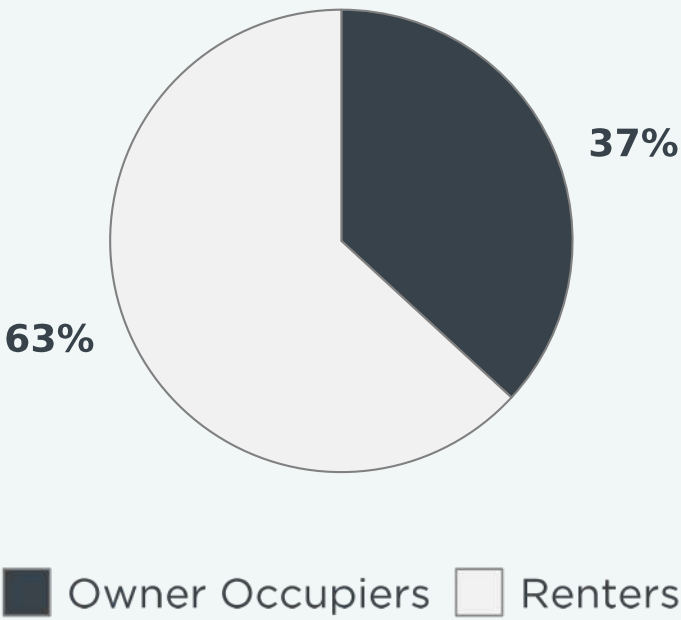
18km
Distance from GPO



19.3k
Population
↑24.5%
5 year population change

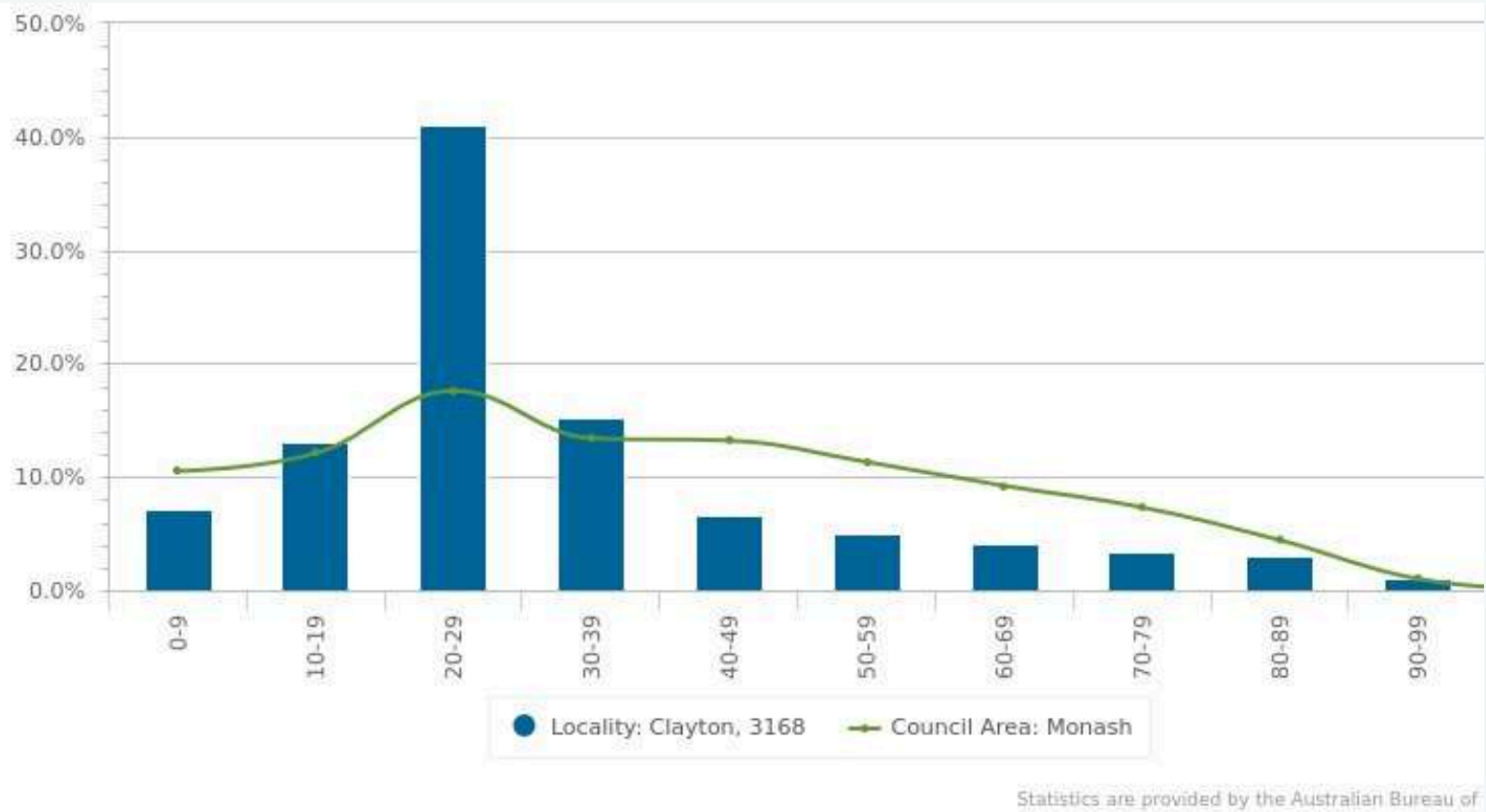


14 years
Average length of ownership

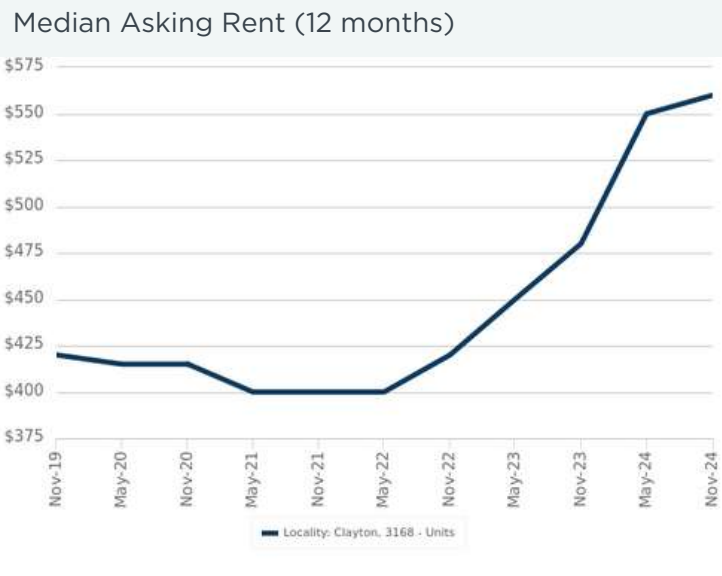


PropTrack Suburb Summary Dec 2024

Population Age



Units: For Rent



PBSA Stockdale Ave, Clayton

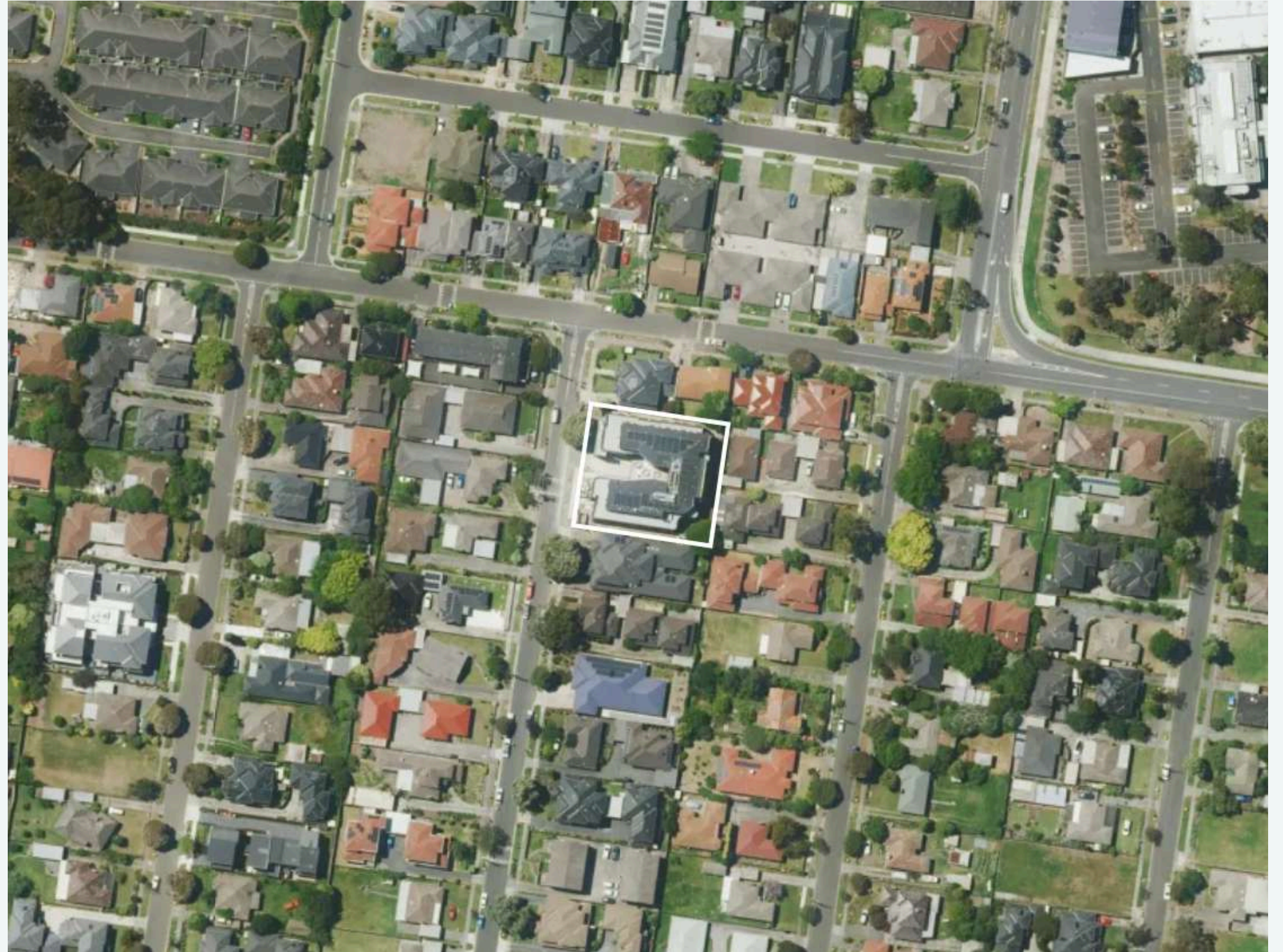
Description

Situated in Clayton.

Council: Monash City Council

Site: 1516 sqm

Zone: General Residential Zone



Project Initial Position:

Discussions
36 Room Housing (6 TH)
GFA: 1800sqm

EST Construction Cost: \$5,100,000
+ GST
Avg Room Size: 12-15sqm
(Bedroom)

Est. Rental: \$350pw
Est. Evaluation: \$8,350,000

**PWA'S
WORKSHOP**

New Product based on Monash student housing Policy
branding & pioneering PBSA in the area.

Self-Sufficient Units will generate more evaluation per
\$ of construction

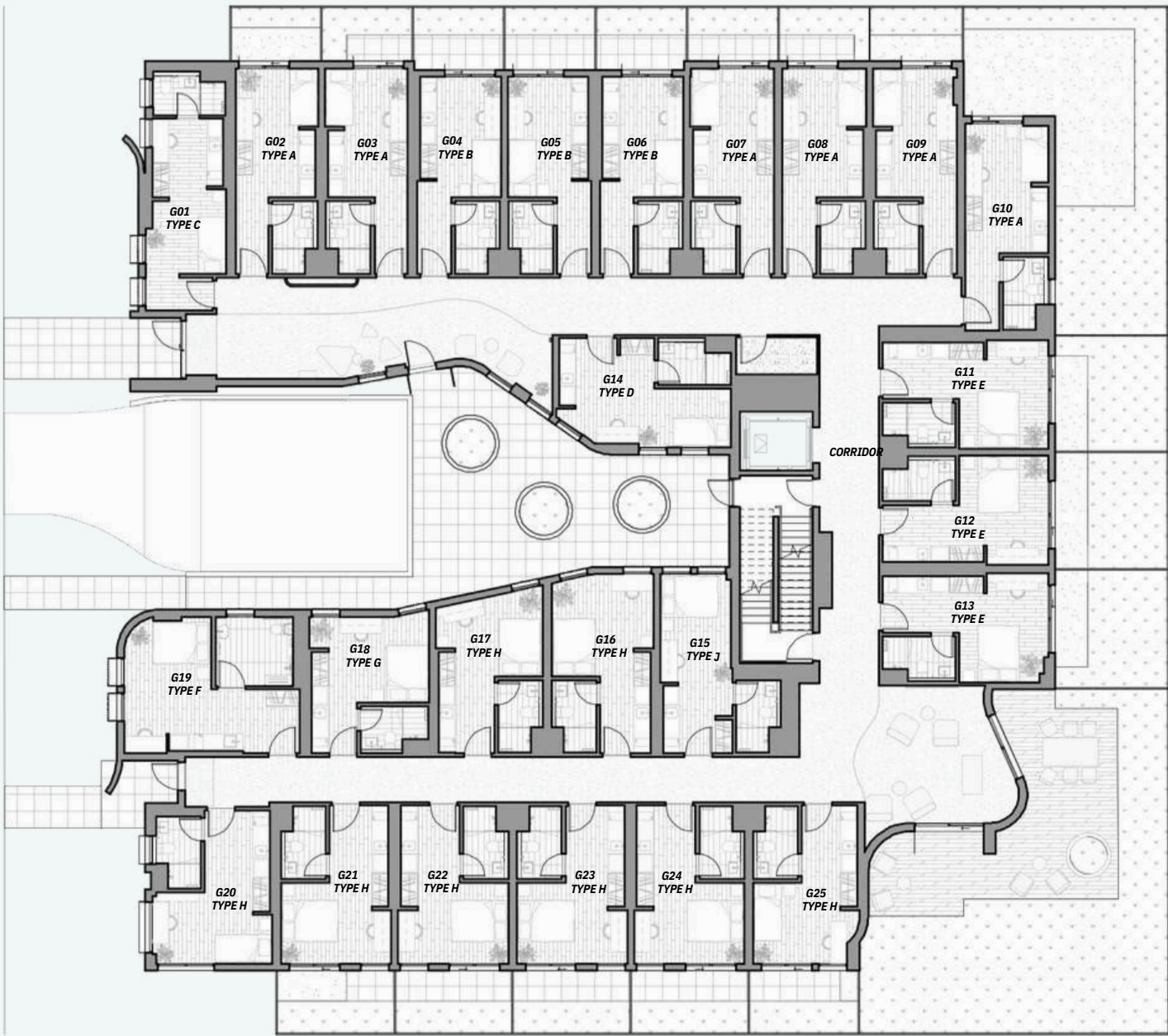
foreign demand for high quality PBSA near university is
high

Project Proposed Scheme:

New Scheme
65 Room Student housing
GFA: 2942sqm

Est. Construction cost: \$11,600,000
+ GST
Avg Room Size: 25sqm

Est. Rental: \$480pw
Est. Evaluation: \$21,000,000



New Proposed Scheme:

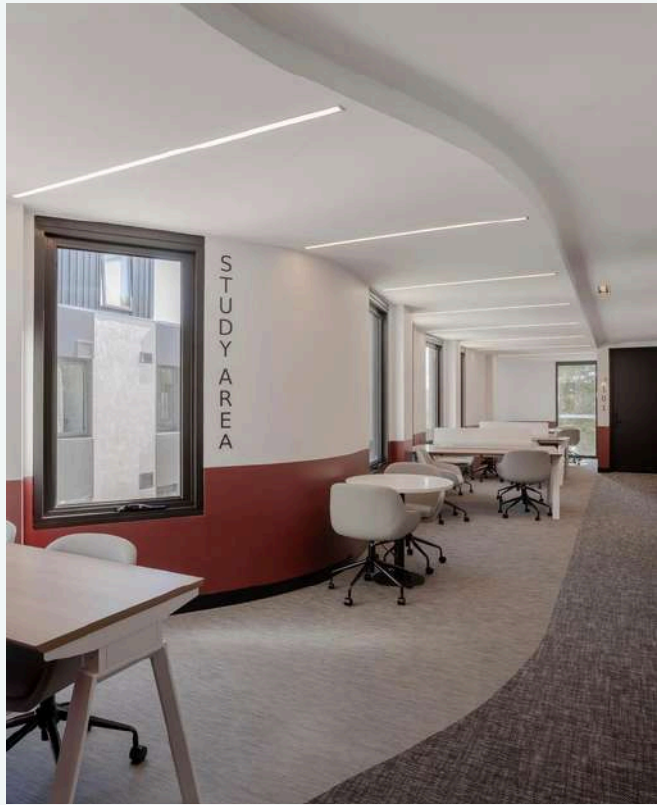
65 PBSA Student Housing
Equity: \$5,000,000
Development Cost : \$17,300,000
Avg Rental: \$550 pw

Development

Program: 3 years
Evaluation: \$24,500,000
ROE: 111%
IRR: 26.04%

Operation PBSA

Operating Profit: \$505,788
Operating Profit on Equity: 8.2%



Construction Completed, Jan 2025



Lessons learnt

03

Architect's Skillset

"The art of Balancing Creativity & Practicality."

A communicator that bridges vision to reality."

Development 101

Lessons from the Workshops

Market is a dynamic new strategies & risks need to be considered

It cannot be resolved or executed by a fixed Solution.
Bold Innovation and Risk taking to achieve Success

Mixed diversity of typologies in portfolio

A mixed portfolio creates a more solid foundation in an event where a certain market conditions change.

Execution is just as valuable as the development feasibility.

Cost control, programme, product mix & positioning, dealing with constraints, are factors in precision

Time is the biggest factor in Development.

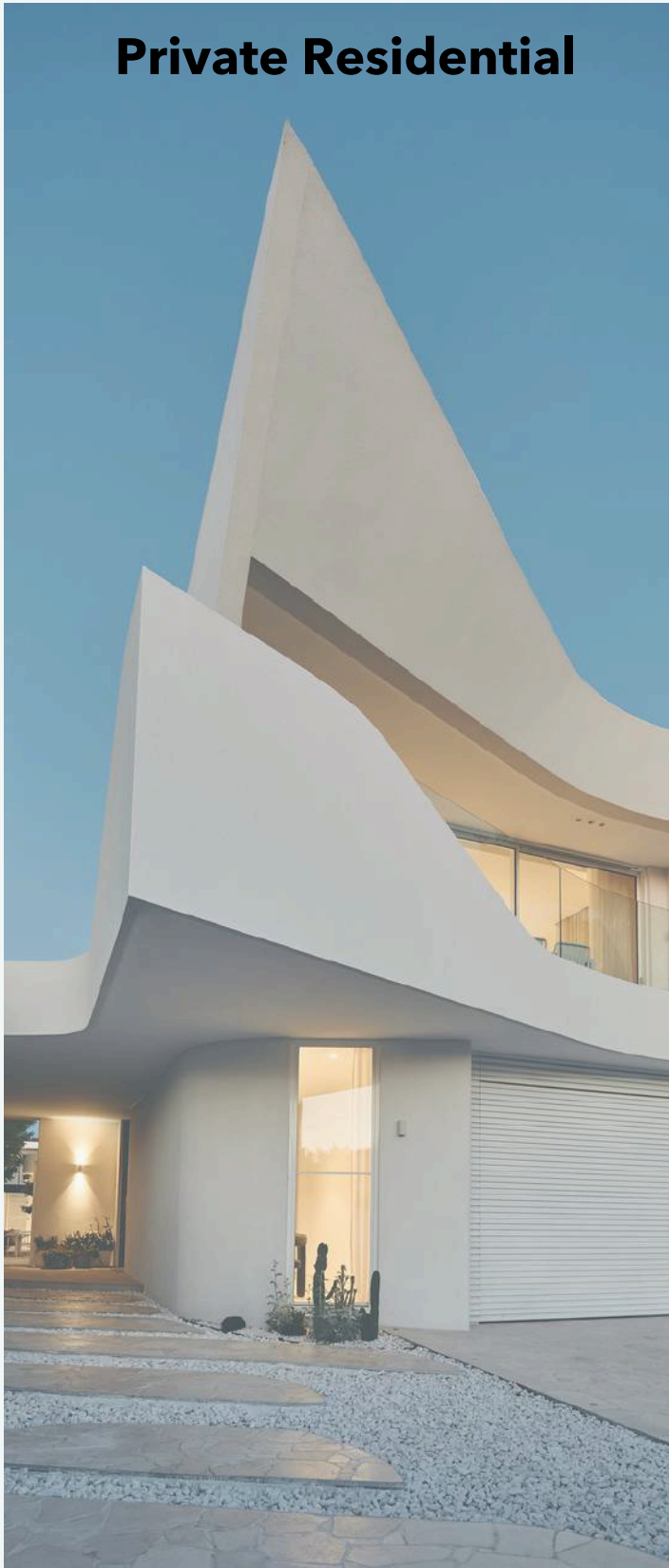
You only get one go at the strategy before the optimization & precision is lost.

Every Project requires a collective team of like-minded Professionals

As project demands more control & restraint & execution, a like minded team is required to execute with precision

Parallel Workshop Architects

04



Book your PWA Workshop today

Our Panellist

Ricky Phoon

Founder and Director at Activation Group

Navigating The Challenging Market

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Navigating the Challenging Market

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The Current Market Landscape

Interest Rates

High interest rates are pressuring valuations and affordability, making it challenging for buyers to secure financing.

Construction Costs

Rising construction costs and finance costs are squeezing profit margins for developers and impacting project viability.

Borrowing Capacity

Reduced borrowing capacity limits the number of potential buyers in the market, impacting demand for new properties.

Tax Changes

New taxes and regulations are discouraging a "wait and see" approach and further impacting market sentiment.



The Affordability Crisis

\$650,000

One-bedroom

\$845,000

Two-bedroom

\$13,046.03

Monthly Income

\$4,342

Victorian Average

These factors have created an affordability crisis, making homeownership unattainable for many. This trend is expected to continue in the near term, driving further interest in the BTR sector.



A Shift in Focus: Build-to-Rent (BTR)

Challenges

The build-to-sell (BTS) apartment market faces increasing challenges due to rising costs and affordability issues.

BTR Sector

This shift towards BTR is driven by growing demand for rental accommodation in sectors such as hotels, multi-family housing, and student accommodation.

Advantages

BTR offers strong rental demand, stable income streams, and a counter-cyclical investment strategy, making it a more resilient option in a challenging market.



CIRCLE
STUDENT COMMUNITY

Case Study: Circle Student Community

Circle Student Community is Activation's purpose-built student accommodation brand, designed by Parallel Workshop. Our focus is on providing high-quality, student-focused living environments that cater to the unique needs of today's students.

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Clayton Project Highlights

Rooms

The Clayton project comprises 65 rooms, offering a range of accommodation options to suit different student needs.

Price Leader

Circle is a price leader in the area, offering competitive rates that attract discerning students looking for value and quality.

Average Room Size

The average room size is 23 sqm, providing comfortable and spacious living areas for students.

Average Weekly Rate

The average weekly rate is \$546, with the highest rate reaching \$750 for premium rooms.

Circle's Value Proposition to Student

Enhanced Living

Enjoy hotel-like comfort and convenience in a student-focused environment, with amenities designed to support student life.

Strong Community

Connect with fellow students and integrate into the local community, fostering a sense of belonging and connection.

Personal Growth

Access resources and support to thrive academically and personally, with opportunities for personal development and skill-building.

Peace of Mind

Live in a safe and secure environment with easy access to amenities and transport, providing peace of mind and convenience.



Circle's Value Proposition to Developer/Investor

Premium Asset

Attract discerning students willing to pay for quality and convenience, ensuring high occupancy rates and strong rental income.

Positive Social Impact

Support students' success and contribute to the local community, creating a positive social impact and aligning with ESG principles.

Strong Rental Income

Achieve higher yields through premium pricing and high occupancy rates, maximizing investment returns and providing a stable income stream.

Long-Term Investment

Benefit from the growing demand for quality student accommodation, ensuring long-term value and a secure investment opportunity.



Financing

PBSA's growing recognition by financial institutions makes it easier to secure funding, with strong valuations, clear exit strategies, and lower risk of achieving target returns.

Asset	SYD Cap Rate	MEL Cap Rate	BRIS Cap Rate	ADE Cap Rate	PER Cap Rate	CAN Cap Rate
PBSA	5.00% - 5.25%	5.25% - 5.50%	5.50% - 6.00%	6.00% - 6.50%	6.00% - 6.50%	6.00% - 6.50%

- **Growing Recognition by Major Banks** – PBSA is now seen as a strong institutional-grade asset, attracting financing from leading banks.
- **Straightforward Financial Model** – Predictable income streams with high occupancy rates make PBSA an easier asset to underwrite.
- **Clear Exit Strategies** – Strong institutional demand for stabilized PBSA properties enhances liquidity and exit options.
- **Higher Valuation, Better Financing Power** – Low cap rates compared to other asset classes translate into higher property valuations, improving borrowing capacity.
- **Lower Risk in Achieving Target Returns** – PBSA has proven resilience in downturns, driven by strong demand fundamentals and a global student market.

Recommended Sectors and Markets for 2025

Income-generating real estate with operational value-add remains the key investment theme for 2025.

Active management and strong market fundamentals will drive long-term success.

Opportunities in Countercyclical Real Estate in Victoria |
Feasibility & Reactivation



Ricky Phoon

Founder & Director
Activation Group



Max Bi

Co-founder
Parallel Workshop
Architects



Luana Kenny

Managing Director
M3 Property

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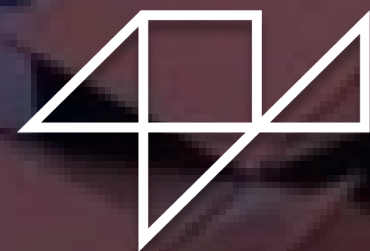
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Join APAA Upcoming Workshop

Co-hosting with AMBC
**Championing Women
at Workplace**

Workshop Facilitator



Josh Chye

Partner at HLB Mann Judd

Guests of Honour



Belinda Coates

CEO at ADP Consulting



Carolyn Falcone

Partner at
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