

LIVE VIRTUAL EVENT | TUESDAY 21 APRIL

RESIDENTIAL MARKET UPDATE

UDIA RESIDENTIAL DEVELOPMENT INDEX (RDI)

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Introduction

Half-Yearly Residential Market Update, Inner and Middle Melbourne

April 2020

It is important to note that this Half-Yearly Residential Market Update is based on data available at the time of publication (April 2020).

Melbourne market conditions are changing dramatically in response to COVID-19 and will continue to change in coming weeks and months.

At this stage in the pandemic, reliable data on these market changes are not yet available. This report is therefore based on data prior to the COVID-19 outbreak. Any commentary related to the impact of COVID-19 should be considered in context of significant market uncertainty, and is speculative in nature.

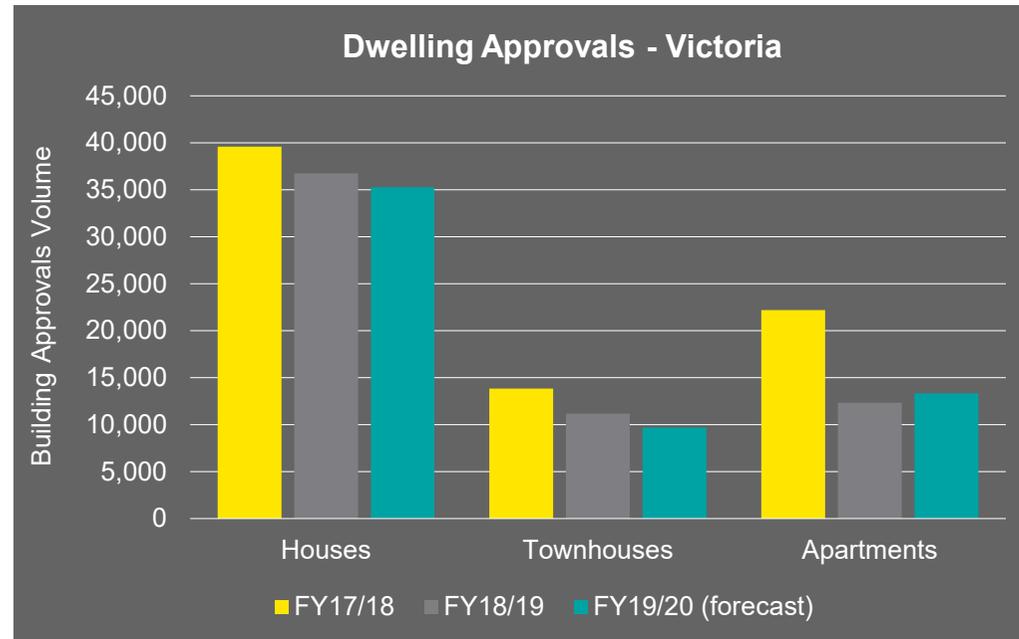


Trends by Region

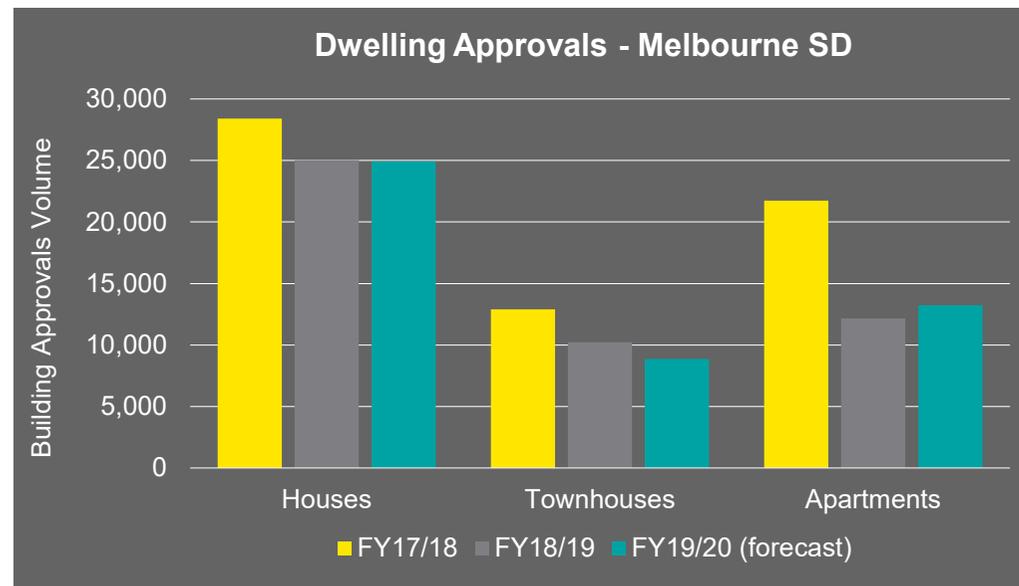


Trends across Victoria & Melbourne

- ▶ Overall, total dwelling approvals in Victoria are expected to decrease by 3% to 58,294 in FY19/20 from 60,257 in FY18/19.
- ▶ Within the Melbourne Statistical Division, total dwelling approvals are expected to decrease by 1% to 47,046 in FY19/20 from 47,434 in FY18/19.
- ▶ The house and townhouse market in Melbourne are exhibiting declining trends in activity, whereas the apartment market is starting to pick up due to a recent increase in approvals of new higher density projects in the central city and Inner Melbourne.
- ▶ However given current circumstances this outcome may change rapidly.



Source: Australian Bureau of Statistics



Data summary by region

- ▶ The tables below outline the building typography breakdown for each region including the Melbourne Statistical Division, Inner Melbourne and Middle Melbourne. This data has subsequently been graphed and commented upon on the following slides.
- ▶ Additionally, a further split of 4+ storey apartments has been isolated in order to gain an understanding of the trends within this area of the market.

Region dwelling approvals by building typography

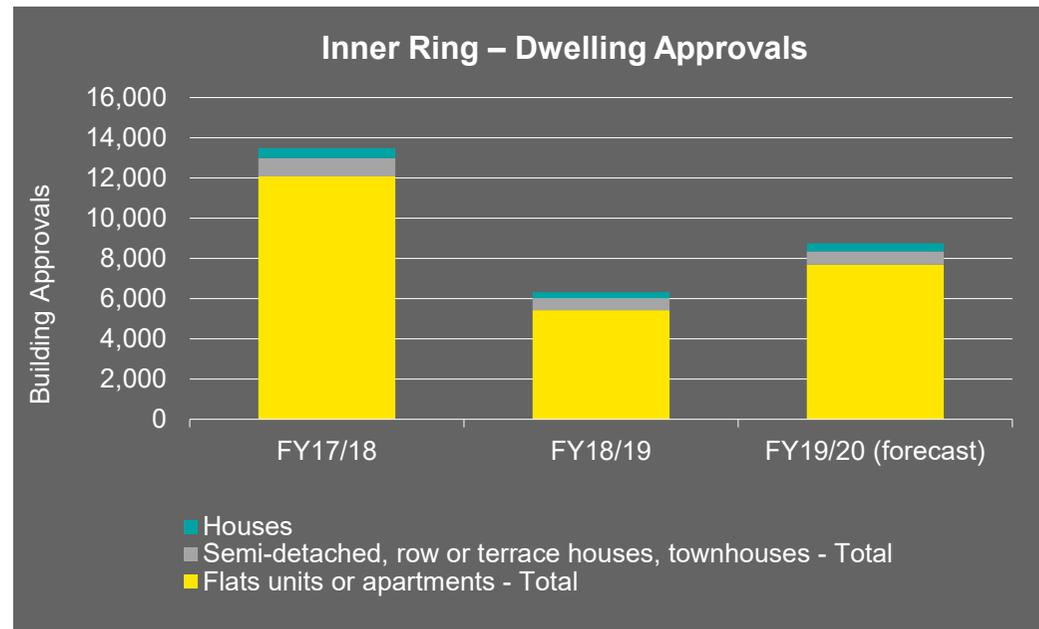
Melbourne Statistical Division					Inner Melbourne					Middle Melbourne				
Melbourne Total Dwelling Approvals	FY18/19	Half year to Dec 19	Forecast FY19/20	FYoY Growth	Inner Melb Total Dwelling Approvals	FY18/19	Half year to Dec 19	Forecast FY19/20	FYoY Growth	Middle Melb Total Dwelling Approvals	FY18/19	Half year to Dec 19	Forecast FY19/20	FYoY Growth
Houses	25037	12466	24,932	0%	Houses	310	203	406	31%	Houses	3,460	1,538	3,076	-11%
Semi-detached, row or terrace houses, townhouses – Total	10232	4433	8,866	-13%	Semi-detached, row or terrace houses, townhouses – Total	585	329	658	12%	Semi-detached, row or terrace houses, townhouses – Total	4,928	2,554	5,108	4%
Flat units or apartments – Total	12,165	6,624	13,248	9%	Flat units or apartments – Total	5,429	3,845	7,690	42%	Flat units or apartments – Total	5,275	2,057	4,114	-22%
TOTAL	47,434	23,523	47,046		TOTAL	6,324	4,377	8,754		TOTAL	13,663	6,149	12,298	
Flats, units or apartments – Four Levels +	11,220	5,903	11,806	5%	Flats, units or apartments – Four Levels +	5,246	3,729	7,458	42%	Flats, units or apartments – Four Levels +	4,698	1,666	3,332	-29%

Source: Australian Bureau of Statistics

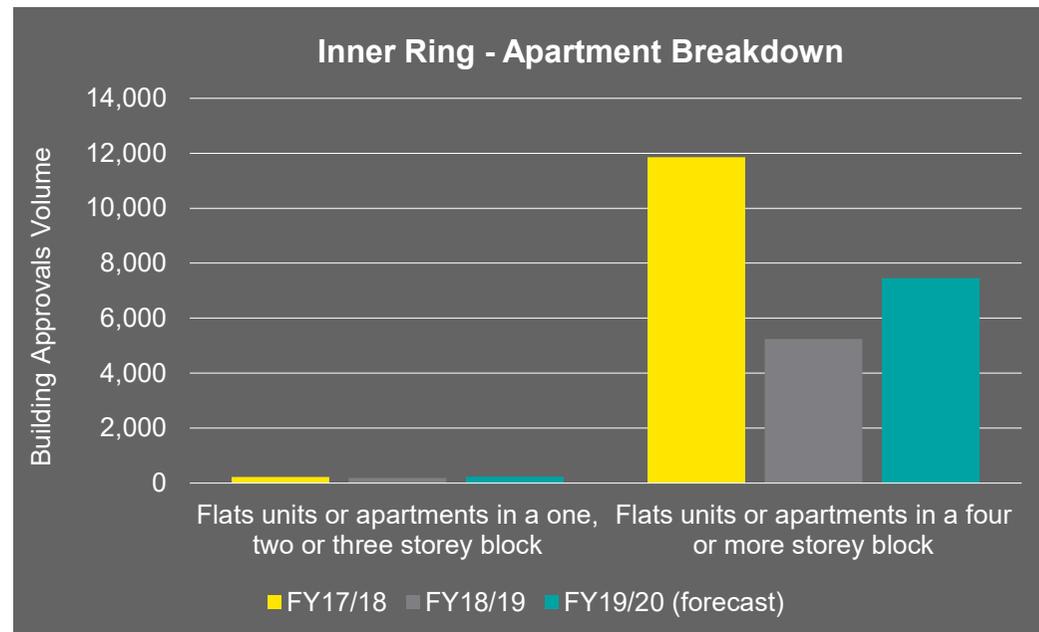
Inner Ring - Melbourne

Melbourne's inner ring is expected to exhibit a positive trend in FY19/20 in comparison to FY18/19.

- ▶ Total dwelling approvals for the inner ring of Melbourne are expected to reach 8,754 in FY19/20, up from the 6,324 approvals in FY18/19.
- ▶ This is still well below longer term activity trends. While many projects are completing construction the reduced activity in 18/19 and 19/20 will influence supply in the coming 2 years.
- ▶ Total flats, units or apartments increased from 5,429 in FY18/19 to a forecast of 7,690 in FY19/20. This displays a 42% increase and was driven by large approval volumes in November and December of 2019.
- ▶ Higher density apartment approvals (4 storey +) for the inner ring of Melbourne is forecast to increase from 5,246 in FY18/19 to 7,458 in FY19/20.
- ▶ Key locations that have seen significant increases in activity include Melbourne CBD, Docklands / Southbank, South Melbourne / St. Kilda, Fitzroy / Richmond and Footscray.



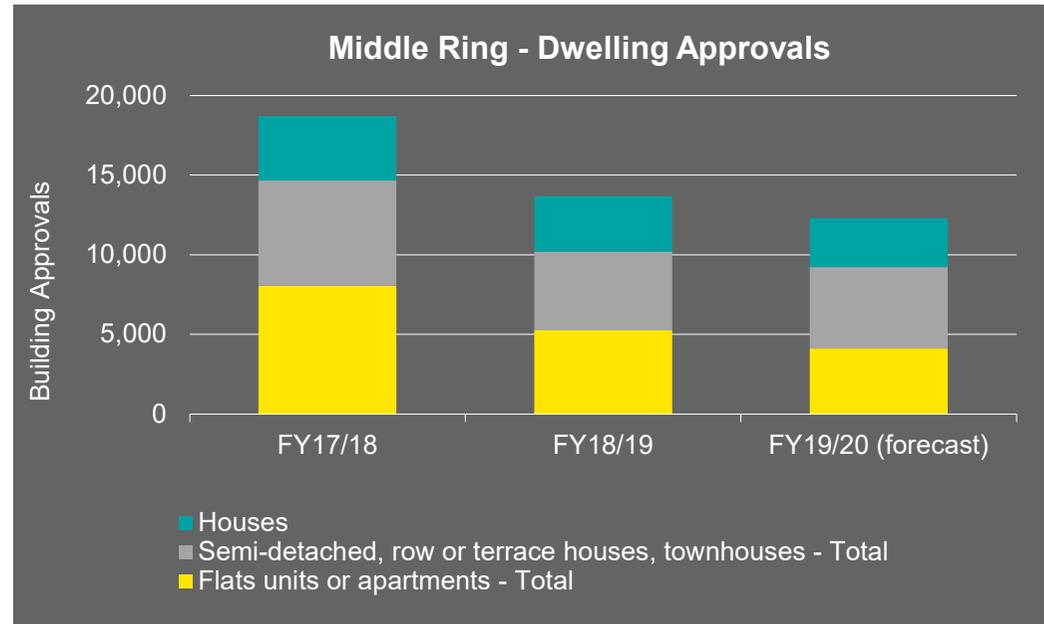
Source: Australian Bureau of Statistics



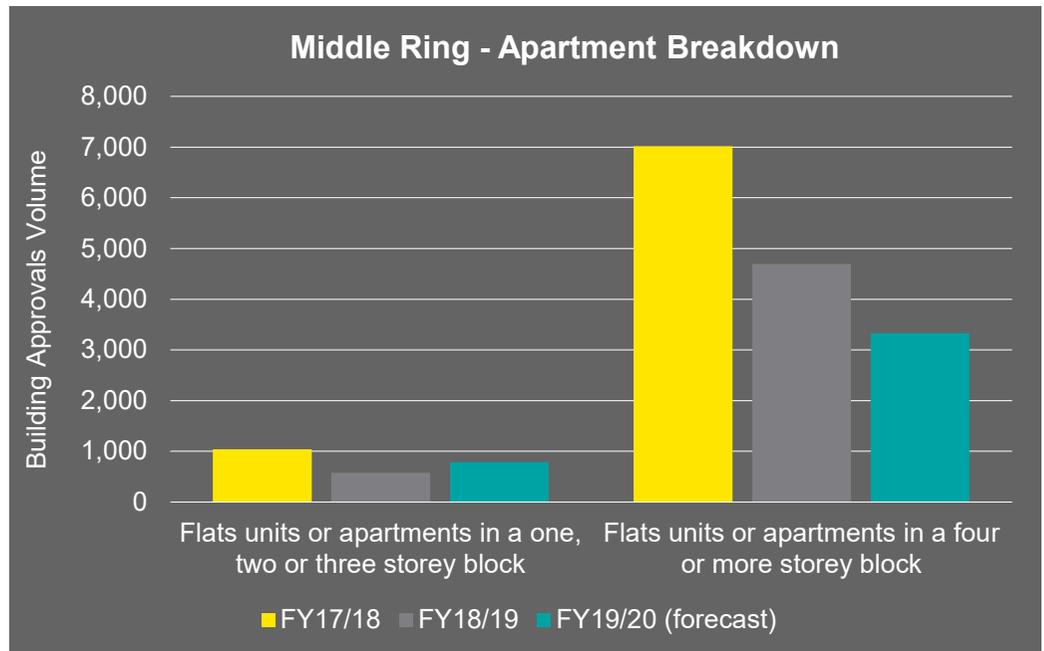
Middle Ring - Melbourne

Melbourne's middle ring is expected to face a continuing decline in activity in FY19/20 in comparison to FY18/19 and previous years.

- ▶ Total dwelling approvals for the middle ring of Melbourne are expected to be 12,298 in FY19/20, down from the 13,663 approvals in FY18/19.
- ▶ Townhouse activity has been a strong driver for some time, increasing marginally from 4,928 in FY18/19 to reach an expected 5,108 in FY19/20.
- ▶ However apartment dwelling approvals are expected to decline from 5,275 in FY18/19 to a forecast of 4,114 in FY19/20. There has been an ongoing decline in higher density apartment projects in the middle ring over the past 2 years.
- ▶ Activity is holding up in Box Hill, increasing significantly in Ringwood and holding up in Clayton, and Cheltenham / Mentone. However most other precincts are experiencing declines including Bentleigh and Carnegie in Glen Eira, Bayside including Sandringham and the Boroondara corridor.



Source: Australian Bureau of Statistics



Market Demand and COVID-19



Demand / Supply Gap

The assessment of a relative DSG in Victoria, reveals the following:

- ▶ The latest estimate of the market demand / supply gap in Victoria estimates a shortfall of nearly -7,900 dwellings in FY19/20. This follows a shortfall of -4,558 dwellings in FY18/19.
- ▶ Pre COVID-19 in we were expecting a demand supply gap to persist in FY19/20,
- ▶ The gap was expected to be driven by stable building approvals combined with ongoing forecasted population growth. The updated VIF population forecasts still expect population growth of nearly 140,000 people in Victoria over the year to June 2020.
- ▶ We now expect a dramatic reduction in international and interstate migration from COVID-19
- ▶ On the flipside returning expat Australian citizens may offset some population growth losses

Current estimates of DSG in Victoria

Year End	FY17/18	FY18/19	FY19/20 (forecast)	Average
Supply estimate				
Dwelling approvals	75,637	60,257	58,294	
Assumed DBA yield total	0.8	0.8	0.8	
Estimated net supply of total dwellings	60,510	48,206	46,635	
Demand estimate				
Population growth	140,413	134,020	138,517	
Household size	2.54	2.54	2.54	
Household growth	55,281	52,764	54,534	
DSG all dwellings	5,229	-4,558	-7,899	-2,409

Source: Australian Bureau of Statistics, VIF

COVID-19 and the Victorian economy

Other broader impacts to consider include:

- ▶ Population growth - typically 140,000 per annum drives demand for could be cut to 60,000 – 70,000 over next 2 years
 - ▶ International migration 60,000
 - ▶ Interstate migration 15,000
 - ▶ Loss of demand could equate to 30,000 dwellings per annum over 2 years
- ▶ May be offset by expat returns and immigration – how many Australians overseas and will they return?
- ▶ Skilled migration – can it return in early 2021?
- ▶ State Budget and population growth?
- ▶ Price escalation – take it out of your model for the next 2 to 3 years
- ▶ New commuting patterns and remote working what will it mean?
 - ▶ Access to CBD – less relevant?
 - ▶ activity centre with good entertainment may be just as attractive in middle / outer ring
- ▶ Dwelling design tweaks & working from home

Methodology and Assumptions

Data sources and glossary

Abbreviations

ABS	Australian Bureau of Statistics
EY	Ernst & Young
BA	Building Approvals
DA	Dwelling Approvals
LGA	Local Government Area
UDIA	Urban Development Institute of Australia
VIF	Victoria in Future
DSG	Demand and Supply Gap
DBA yield	Estimated yield of dwellings to dwelling approvals (used to forecast supply)
Census	Census of population and housing

Study Areas & Usage of Data

For the dwelling approvals analysis we have made the following assumptions:

1. Each geographical catchment has been referenced against defined LGA's.
2. For the Melbourne geographical catchments (also shown on the following page's map):
 - ▶ Inner Ring: This term throughout the Report refers to Melbourne's inner ring LGA's (<10km from CBD). LGA's within inner ring Melbourne include; Melbourne, Port Phillip, Yarra, Maribyrnong and Stonnington.
 - ▶ Middle Ring: This term throughout the Report refers to Melbourne's middle ring LGA's (10-20 kms from CBD). LGA's analysed within middle ring Melbourne include; Moreland, Darebin, Banyule, Boroondara, Glen Eira, Whitehorse, Monash, Bayside, Kingston, Moonee Valley, Brimbank and Hobsons Bay.

Data & Information Sources

In completing components of this report we have utilised existing sources of data including the following:

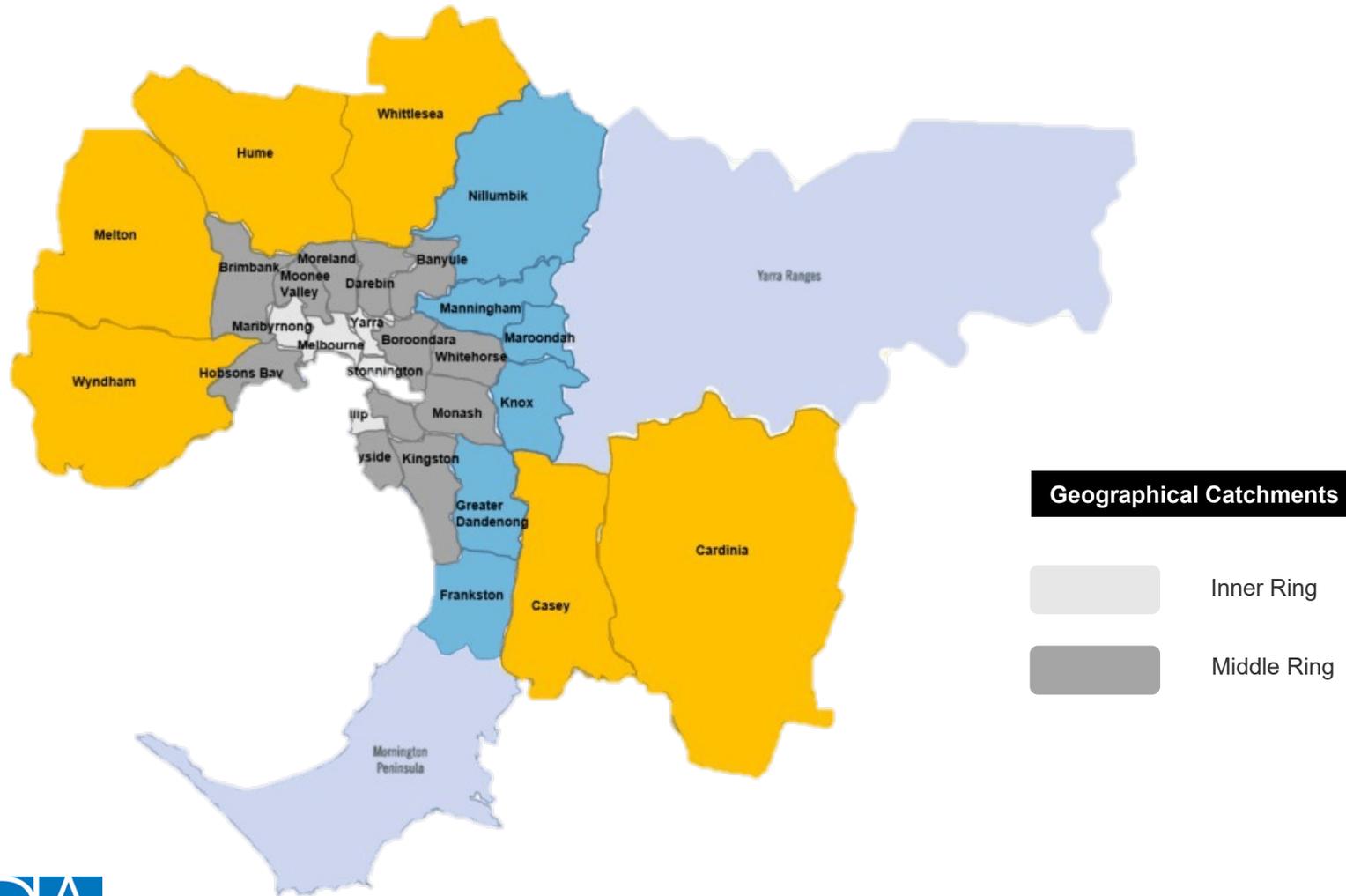
Australian Bureau of Statistics

Victoria in Future

EY proprietary data and research

Geographical study areas

Geographical Study areas utilised throughout the Report



Summary of Demand & Supply Gap approach

Estimates of a demand supply gap (DSG) are made based on a series of assumptions. The following steps are undertaken in calculating a current and future DSG in Victoria:

Update to underlying demand:

1. Estimate **household demand** between FY17/18 to FY19/20 using demand drivers including population growth and estimated household sizes.

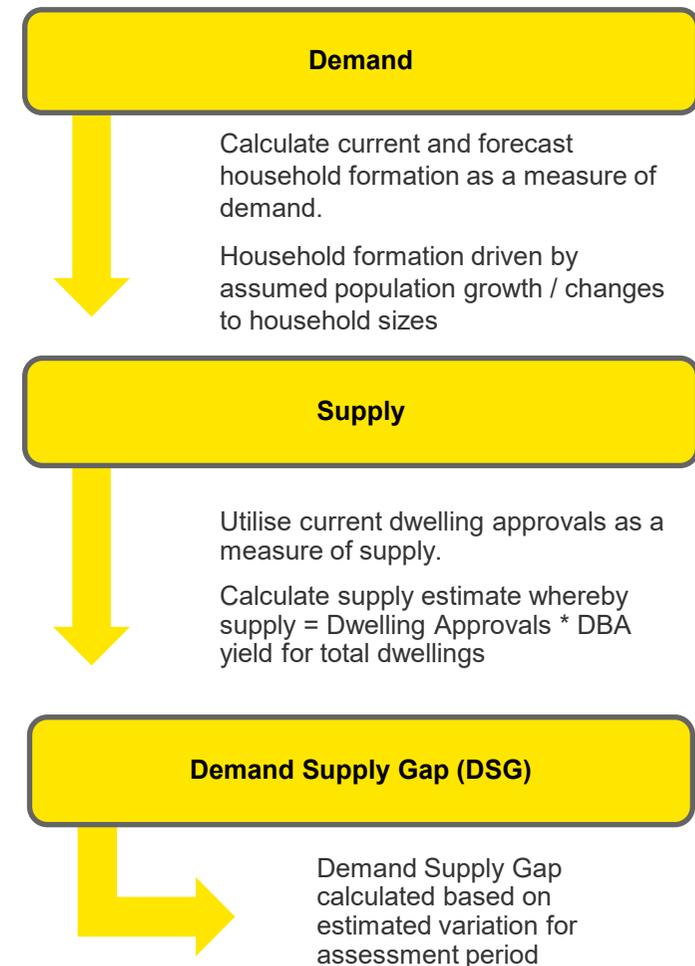
Supply:

1. Calculate the historical growth in **supply of dwellings** using census data on actual supply of dwellings.
2. Compare the historical supply of dwellings with dwelling approvals to allow for the calculation of an average ratio of supply to dwelling approvals (DBA yield)
3. Utilise the historical **DBA yield** over the assessment period to forecast current and future levels of **supply** based on current trends in dwelling approvals.

Demand Supply Gap

1. Compare the estimated supply of dwellings with forecasts of demand based on household formation.
2. The variation between Demand and Supply = the DSG (undersupply or oversupply).

Summary of Methodology



Disclaimer

The contents of this report are based on secondary research using a variety of sources and research partners including EY, UDIA members and publicly available databases including the Australian Bureau of Statistics.

These sources are believed to be reliable. The information obtained from such sources, however, was not independently verified and was relied upon in performing the analysis. Accordingly, no representation or warranty is provided regarding the accuracy or completeness of the information contained in this report.

The information contained in this report includes certain forecasts that are based on certain assumptions and qualifications which are outlined in this report. Readers are cautioned that the actual results are often different than as forecasted, because events and circumstances frequently do not occur as expected, and those differences may be material. UDIA (including its research partners) disclaim any responsibility whatsoever in relation to the contents of this report and have no obligations to provide any updates or corrections to the recipient of this report. The key points and conclusions contained in this report represent UDIA views.

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