

Urban Development Institute of Australia (Victorian Division)

PROPERTY MARKET UPDATE

UDIA URBAN IQ

December 2018 Quarterly Report

Information provided by UDIA's Partner,
RPM Real Estate Group



URBAN IQ

UDIA KNOWLEDGE PORTAL

URBAN IQ is a series of research, news, analysis and market intelligence initiatives for the Victorian urban development industry.

www.udiavic.com.au

THANK YOU TO UDIA PARTNER RPM REAL ESTATE GROUP FOR PROVIDING THE INFORMATION CONTAINED WITHIN THIS REPORT.

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UDIA URBAN IQ

PROPERTY MARKET UPDATE

DECEMBER QUARTER 2018

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UDIA PARTNER



ECONOMIC MARKET UPDATE

ECONOMIC MARKET UPDATE

- **National annual Gross Domestic Product (GDP) escalated by 2.82% over the year to September 2018 (the latest available data).** This growth level remains below the long term trend.
- Public investment continues to be a key driver of economic growth, underpinned by major state infrastructure projects and commonwealth defence projects.
- **However, GDP in September quarter 2018 was just 0.25% above the corresponding figure in the previous quarter,** which was the lowest quarterly growth in two years. Private consumption growth is easing in response to low wage growth, with consumer confidence further weakened by the downturn in housing markets and subsequent impact on personal wealth.
- **Growth in the Victorian economy has outperformed the national average, with annual State Final Demand (SFD) at September 2018 being 4.45% higher than the same figure at September 2017. Significantly, this was also the highest growth rate amongst all states and territories.**



Public Investment



Victorian State Economy



Employment

Source: Australian Bureau of Statistics

INTEREST RATES

- After reducing the cash rate by 25 basis points in both May and August of 2016, the RBA has made no further changes in any following monthly meetings, leaving **the cash rate at a historical low of 1.50%**. This persistent low interest rate environment has been attributed to below trend economic growth and low wage growth resulting in weak inflationary pressures.
- Moreover, with the fall in property prices accelerating in December quarter 2018, the RBA's tightening bias on monetary policy has largely extinguished. Indeed, many forecasters are now predicting that the next movement in the cash rate could be down, as projections the current downturn will persist for longer and result in greater peak to trough declines in median prices.
- Nevertheless, standard variable interest rates have edged higher in recent months in response to short-term borrowing costs increasing for providers of housing finance.
- The official **standard variable interest rate for owner occupiers sits at 5.34% (while investor loans sits at 5.91%)**. However, with some bargaining owner occupiers can obtain a **discounted interest rate of 4.65% (investors can obtain 5.22%)** from the major lenders. Furthermore, some banks outside of the 'big four' currently have introductory rates as low as 3.50% for owner occupiers who pay principal and interest.

1.50%



Cash Rate
(Sep-18)

5.34%



Standard Variable Rate
(Owner Occupiers - Dec-18)

4.55%



Discounted Variable Rate
(Dec-18)

4.07%



3 Year Fixed Rate
(Sep-18)

CONSUMER PRICE INDEX

- **The Consumer Price Index (CPI) increased by 1.78% across Australia in December quarter 2018**, compared to the same quarter in 2017. This continues the trend of CPI remaining below or at the lower end of the RBA targeted range of 2% to 3% since late 2014. Sub-groups that experienced significant annual increases in their respective CPI index were alcohol and tobacco (6.84%), followed by Health (3.32%) and transport (2.82%).
- **Melbourne's Consumer Price Index (CPI) escalated by a higher 2.05% in December quarter 2018**, compared to the same quarter in 2017. The corresponding growth rate for the **CPI housing index of 2.98% continues to outpace overall CPI in Melbourne** despite the weakening property market through 2018. However, much of this growth in Melbourne's housing index was derived from increases in the indexes for electricity and gas charges.

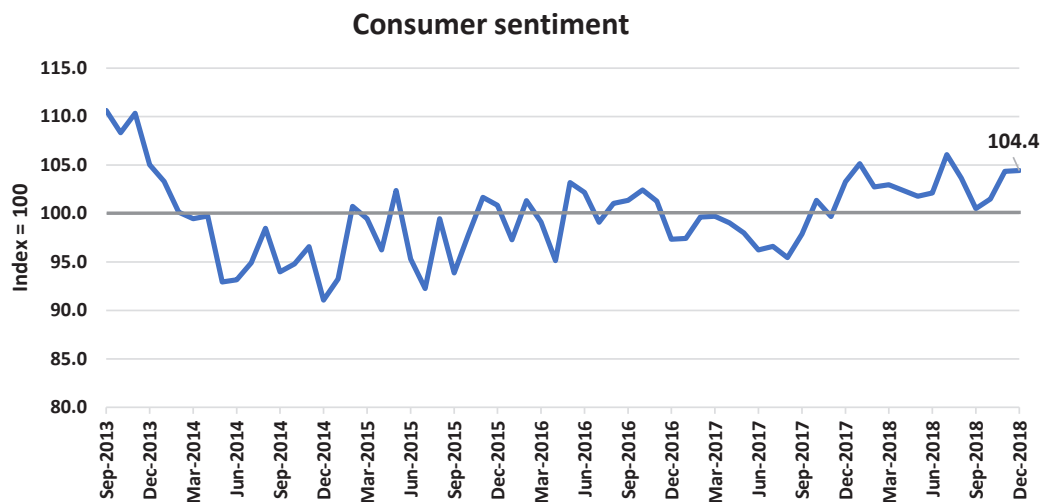
EMPLOYMENT AND WAGES

- **The number of employed persons in Victoria increased by a solid 3.71% over the twelve months to December 2018.** This was above the national annual employment growth rate at December 2018 of 2.16%.
- **Victoria's unemployment rate has improved significantly to 4.2% at December 2018, which was its lowest rate in a decade, and better than the national unemployment rate of 5.0%.**
- **Average weekly earnings for full time adults in Victoria of \$1,613.70 at May 2018, represented annual growth of 2.82%.**



CONSUMER SENTIMENT

The Westpac-Melbourne Institute Consumer Sentiment Index is the most widely quoted barometer of consumer sentiment in Australia. A score of greater than 100 means that optimists outnumber pessimists, with readings of below 100 indicating that pessimistic consumers are in the majority.



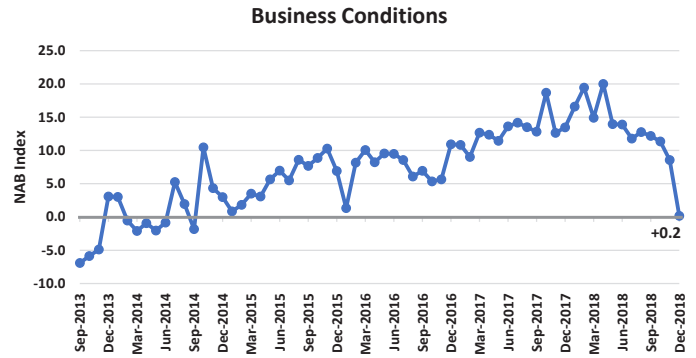
Source: Westpac-Melbourne Institute Consumer Sentiment Index

- **The Westpac-Melbourne Institute Consumer Sentiment Index has remained in cautiously optimistic territory through 2018, edging higher from the previous month to a reading of 104.4 in December 2018.**
- Consumer sentiment remains optimistic about the outlook for the economy during 2019, underpinned by positive labour market conditions.
- However, the contraction in property prices has led to deteriorating sentiment in current and outlook for family finances, despite the likelihood of the next interest rate move being up subsiding and petrol prices falling significantly in late 2018.

BUSINESS CONFIDENCE

NAB's Business Survey has been tracking Australian business confidence levels for more than two decades. Businesses are approached quarterly, with two smaller monthly surveys conducted in the intervening months to capture changes on a more regular basis. The panel now exceeds 2,700 businesses.

- **Growth in business conditions weakened significantly to just a 0.2 percentage point increase in December 2018.** This was the poorest result since business conditions declined in late 2014, and was attributed to deteriorating conditions across all sub-indexes of trading, profitability and employment
- Conditions remain particularly weak in the retail industry, whilst the correction in prices in residential property markets as led to conditions abating in the finance/property/business and construction industries.

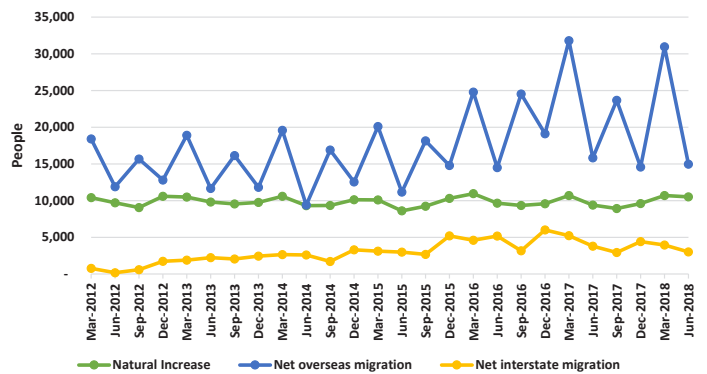


Source: National Australia Bank Business Survey

- The percentage point increase in business conditions in Victoria was the highest amongst all states, although growth is slowing.

VICTORIAN POPULATION

Victoria gained 28,472 people during June quarter 2018 (latest available data), lifting its estimated resident population to 6,459,765 people. This equated to a population increase of 138,159 people or 2.19% growth in Victoria over the twelve months to June 2018, which were both the strongest in absolute terms and percentage terms amongst all states and territories.



Source: Australian Bureau of Statistics

POPULATION COMPONENTS

A breakdown of the three components of population growth shows that in June quarter 2018 Victoria recorded;



+10,502

+11.8% on same quarter in the previous year
Reflects 23% of the national natural increase



+3,018

-20.6% on same quarter in the previous year



+14,952

-5.5% on same quarter in the previous year
Reflects 32% of the national natural increase

RESIDENTIAL MELBOURNE MARKET PRICES

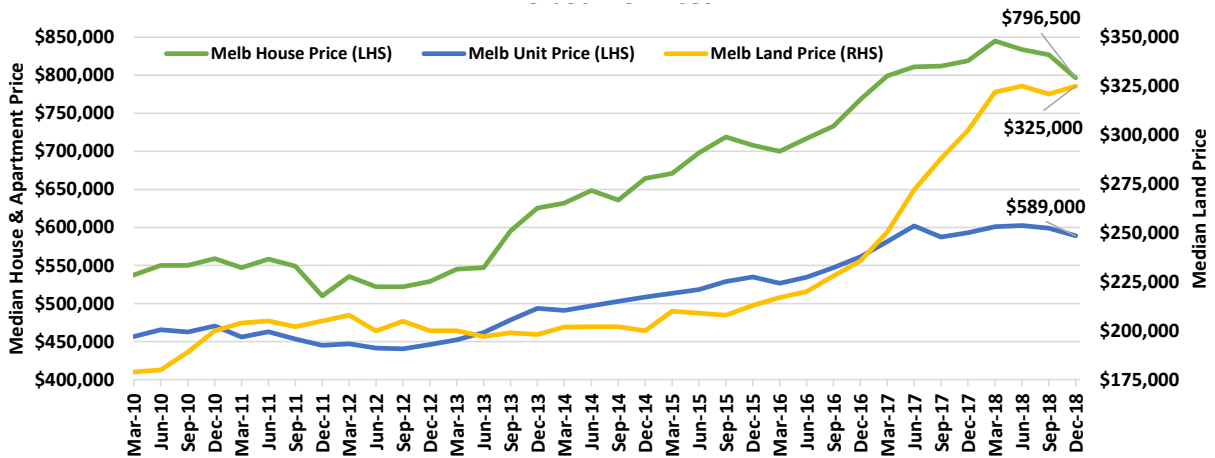
Melbourne’s residential market experienced a correction in property prices over 2018, after strong price growth during the previous four years led to the emergence of poor affordability. Purchaser sentiment further deteriorated as the availability of housing finance increasingly tightened, with investor demand also retreating in response to weak capital growth prospects.

- **The contraction in demand across established housing market in Victoria** is highlighted by the **clearance rate of 62.0%** for the approximately **39,835 auctions held during the twelve months to November 2018**. (REIV)
- Compared to the twelve months to November 2017, **the clearance rate was significantly higher at 75.2%, despite there also being 13.7% more auctions held in Victoria during the period**. (REIV)

Over December quarter 2018, sales recorded a preliminary median;

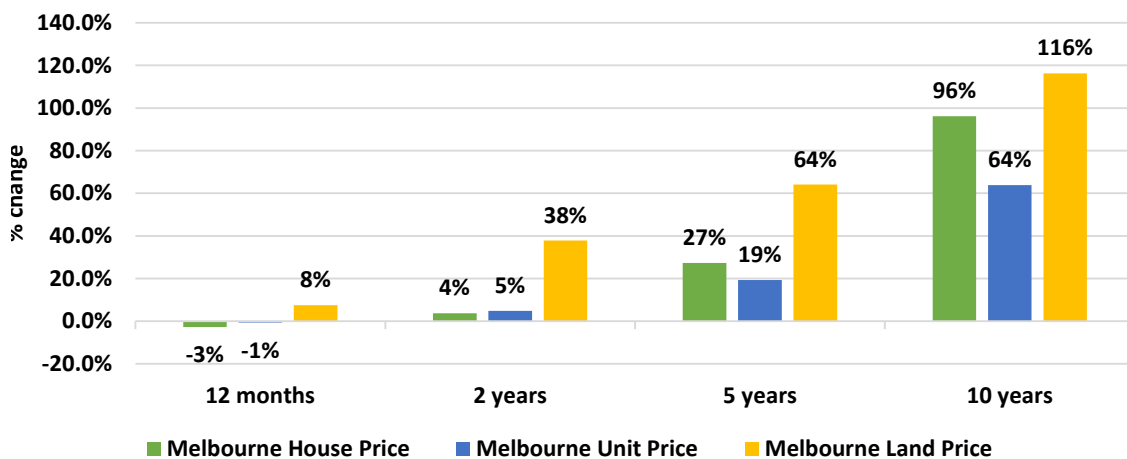
- House price of \$796,500 (-3.7% change from the previous quarter, and -2.7% from the corresponding quarter a year earlier)
- Unit price of \$589,000 (-1.7% from the previous quarter, -0.7% from the corresponding quarter a year earlier)
- Land price of \$325,000 (+1.2% from the previous quarter, +7.5% from the corresponding quarter a year earlier)

MELBOURNE PRICES



Source: Real Estate Institute of Victoria & RPM Research Division

PRICE CHANGE PER PERIOD

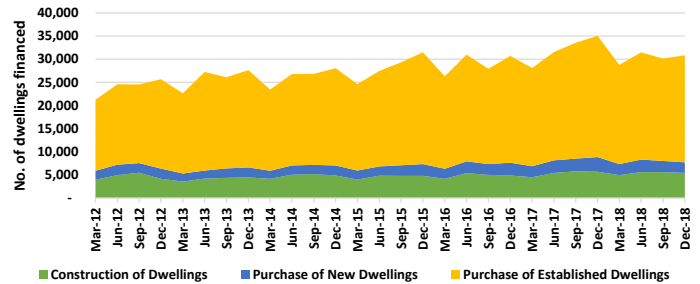


Source: Real Estate Institute of Victoria & RPM Research Division

FINANCE ACTIVITY: VICTORIA

VALUE OF LOANS BY DWELLING TYPE

- **Victoria recorded 30,854 new owner occupation loans approvals (excluding refinancing) during December quarter 2018**, which was 12.0% below the corresponding figure in the same quarter in 2017. This followed the 10.3% annual decline in new owner occupation loan approvals in September quarter 2018 and highlights the more restrictive lending environment that resulted in greater delays and rejections of loan applications.
- In December quarter 2018, the annual decrease in new owner occupation loan approvals was more significant for the **purchase of a newly completed dwelling (-27%) and the purchase of an established dwelling (-12%)**. This is evident through lower turnover activity as shown in the fall in auction clearance rates.
- **Owner occupier loans for the construction of a new dwelling in December quarter 2018 fell by a more moderate 4.4% annually**. These purchases



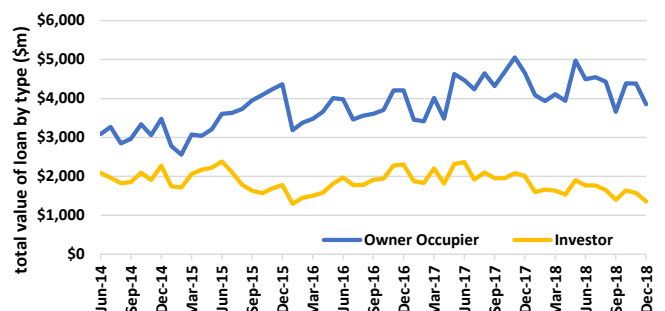
Source: Australian Bureau of Statistics

involve a holding deposit being initially paid and the loan approved closer to settlement of land. Subsequently, with the record lot sales from 2016 and 2017 now entering settlement, it is supporting these loan approvals.

- Overall, the number of **new loan approvals for owner occupation (excluding refinancing) during calendar 2018 in Victoria of 121,234 loans** represented a 5.5% decline on the corresponding figure during calendar 2017.

VALUE OF LOANS BY PURCHASER TYPE

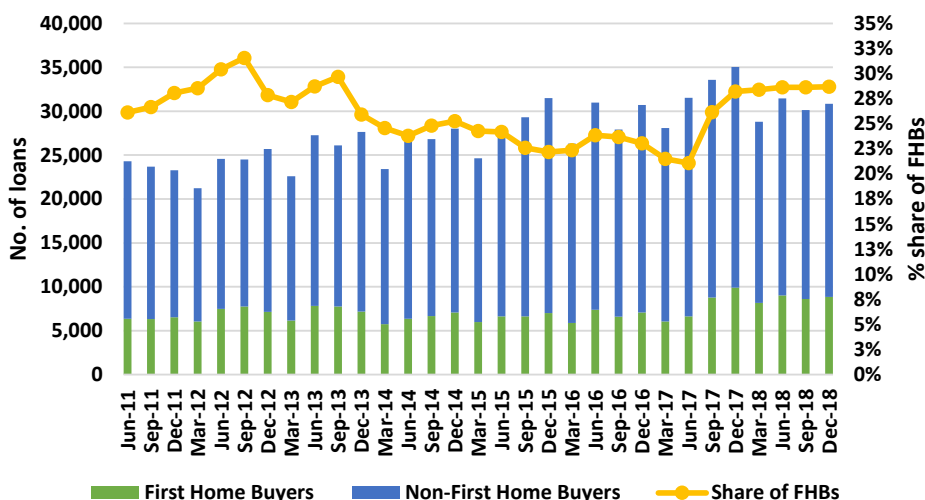
- **The total value of new owner occupier loans (excluding refinancing) in December quarter 2018 declined by 12.3%** compared to the same period in 2017. The fall in established property prices and tighter lending criteria led to sizeable annual reductions in the value of new owner occupier loans for the purchase of new dwellings (-22.3%) and established dwellings (-12.9%). Conversely, with lot prices increasing over 2018, the value of new owner occupier loans for the construction of a new dwelling remained steady. Overall, the value of **new loan approvals for owner occupation (excluding refinancing) during calendar 2018 in Victoria was just 0.5% below** the corresponding figure during calendar 2017.
- **The total value of loans to investors during the three months to December 2018 was 24.4% lower** compared to the same period in 2017. This decline was double that for owner occupiers, with scrutiny on new residential investment loans and further strident. Investor demand has also increasingly



Source: Australian Bureau of Statistics

NUMBER OF LOANS TO FIRST HOME BUYERS AND NON-FIRST HOME BUYERS

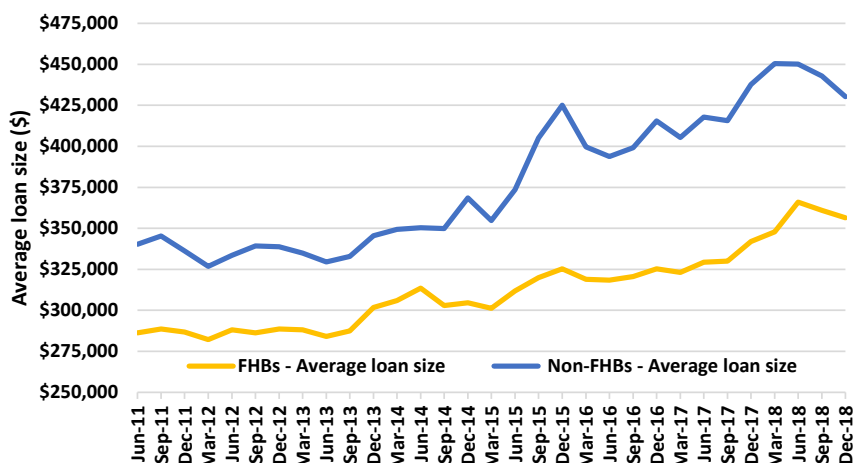
- The number of **first home buyer loans for new dwellings reached 8,855 loans in December quarter 2018, which was 10.5% below** first home buyer loans in the same period in 2017. However, this is still a relatively high number of loans, with the December quarter 2018 result being 2.7% higher than the previous quarter. First home buyer demand is being supported by the abolishment of stamp duty when purchasing a dwelling for owner occupation up to \$600,000, and to a lesser extent the doubling of the Regional First Home Owners Grant to \$20,000 for new dwellings.
- Non-first home buyers for new dwellings (excluding refinancing) recorded 21,999 loans during December quarter 2018, reflecting a larger 12.6% decline** on the same quarter in the previous year. The decline in prices for established houses in Inner and Middle Melbourne during 2018 has discouraged trade down buyers in particular, and trade up buyers from entering the market, since these non-first home buyers would be selling their existing dwelling in a weak property market.
- As a result, the **proportion of total owner occupier loans for the purchase of a dwelling accounted for by first home buyers increased to 29% in December quarter 2018**, which was its highest share in six years.



Source: Australian Bureau of Statistics

AVERAGE LOAN SIZE – FIRST HOME BUYERS AND NON-FIRST HOME BUYERS

- The average loan size to first home buyers in December quarter 2018 increased by 4.2% from the previous corresponding period, while the average loan size to non-first home buyers declined by 1.7%.
- At December 2018, the average loan size attributed to a non-first home buyer was \$73,920 above the average loan size to a first home buyer (\$356,440).
- While this divergence in average loan size between first home buyers and non-first home buyers remains relatively large, it closed during 2018, to its lowest gap since the middle of 2015.

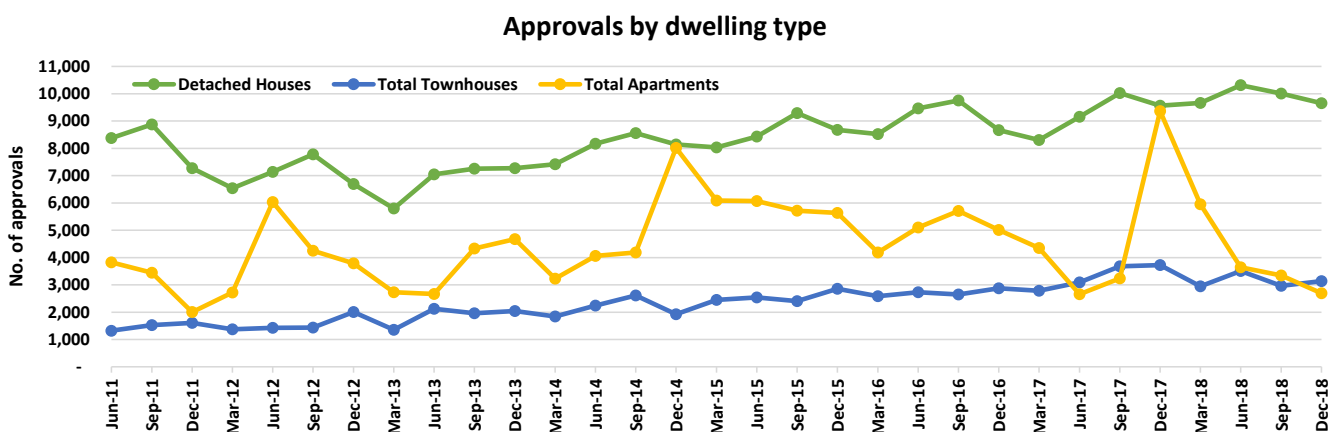


Source: Australian Bureau of Statistics

BUILDING ACTIVITY: VICTORIA

APPROVALS

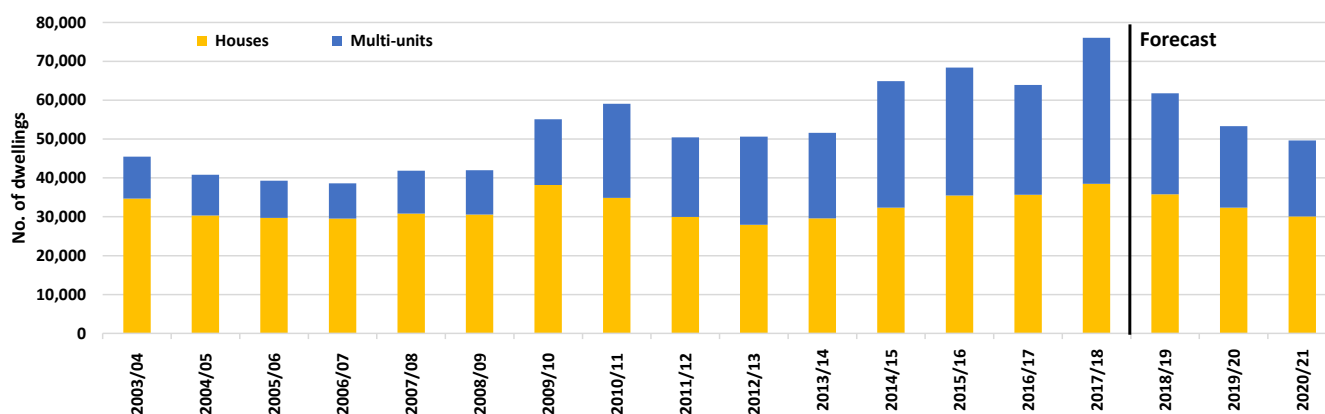
- **Victoria recorded 15,486 dwelling approvals in December quarter 2018**, representing a decrease of 32% on record dwelling approvals in the same quarter in 2017. This decrease occurred exclusively in the other dwelling sector, particularly in approvals of apartments in buildings of four storeys or higher. **Total approvals during calendar 2018 of 67,824 dwellings were a more moderate 3.0% lower** compared to calendar 2017.
- **New detached house recorded 9,655 approvals in December quarter 2018**, which was a slight increase of 0.9% on corresponding approvals in the same quarter in 2017. Strong approval activity is being sustained by the increasing amount of lot settlements coming through after record lot sales volumes during 2016 and 2017. As a result, the 39,639 new detached house approvals in Victoria over calendar 2018 equated to a 7.0% annual increase.
- **Approvals of semi-detached/row/terrace houses and townhouses contracted by 15.8% in December quarter 2018 to 3,134 dwellings**, compared to the same quarter in 2017. Following on from another double-digit annual fall in the previous quarter, semi-detached/row/terrace house and townhouse approvals in calendar 2018 were 5.5% below the previous year, totalling 12,551 dwellings. Significantly, the use of medium density dwellings as an affordable option in established suburbs has spread more notably into greenfield estates through 2018, which should be a positive for approval activity in coming years.
- **Victoria witnessed 2,468 approvals of flats/units/apartments in buildings of 4 storeys of higher in December quarter 2018. This equated to a substantial decline of 72.9% on record approvals in the same quarter in 2017**, highlighting the significant impact the timing of approvals for large developments has on overall quarterly approvals. However, high rise dwelling approvals have been trending down through 2018, in response to the slowdown in investment lending and contraction in demand from overseas purchasers. Consequently, approvals over calendar 2018 of 14,275 flats/units/apartments in buildings of 4 storeys and higher were 20.7% lower than 2017, and the lowest calendar year total since 2013.



Source: Australian Bureau of Statistics

COMMENCEMENTS

- **Growth in detached house commencements in Victoria strengthened in 2017/18 by 7.9%, lifting starts to a long term high of 38,490 detached houses.** Notably, this surpassed the previous high of 38,170 house commencements in 2009/10.
- However, construction levels in 2017/18 will be a cyclical peak, with **detached house commencements forecast to decline by 22% from its peak over the following three years, contracting to 30,100 starts by 2020/21.** This will be slightly above house starts activity during the three year period from 2011/12 to 2013/14.
- **Multi-unit dwelling commencements rebounded in 2017/18, after declining by 14% in 2016/17, escalating by 32.9% to 37,570 starts.** Significantly, this will be a record level of activity in multi-unit dwelling commencements.
- However, this recovery is expected to be short lived, **with multi-unit dwelling starts forecast to contract by a considerable 48% over the three years to 2020/21, to 19,510 starts.**



Source: Housing Industry Association

Notes: HIA defines a building is commenced when the first physical building activity has been performed on site in the form of materials fixed in place and/or labour expended (this includes site preparation but excludes delivery of building materials, the drawing of plans and specifications and the construction of non-building infrastructures, such as roads). HIA collects data from their membership base of over 40,000 industry professionals who are responsible for over 80% of Australia's residential construction work.

URBAN IQ

AFFORDABILITY

Over the past decade housing affordability has received an increasing share of media attention. Generally, first home buyers are noted as the age cohort that bears the brunt of consistently increasing house prices. However, in more recent times the dialogue has shifted to include all age cohorts who particularly have a desire to reside in the middle ring of Melbourne but find it increasingly unaffordable to do so.

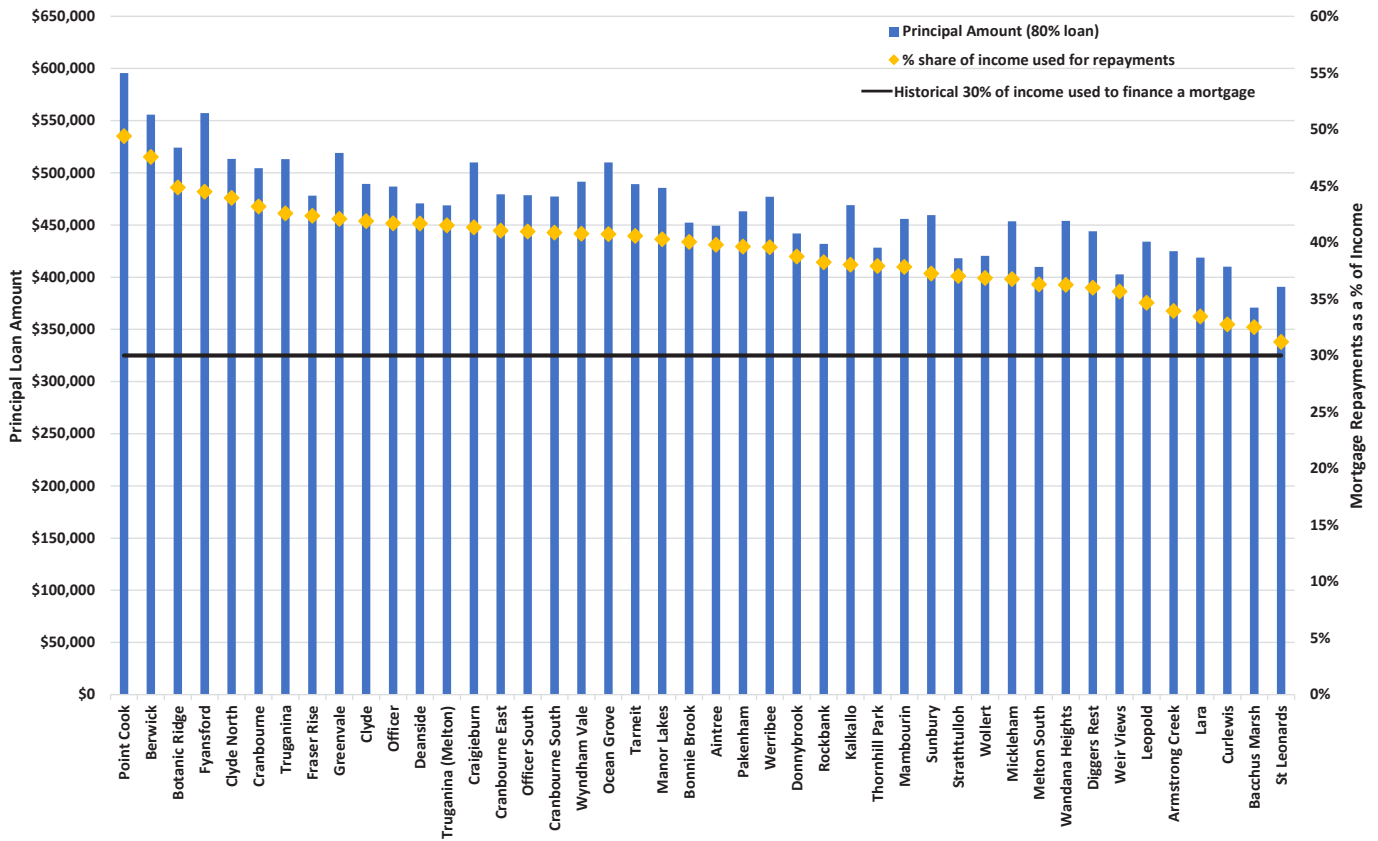
The common benchmark for identifying housing stress in Australia has historically been identified as those households that allocate at least 30% of disposable household income to finance their mortgage. This ratio has been in place for decades and in recent times there is a growing view that the ratio should be closer to 40% to reflect the market of today.

In the chart examining the ratio of mortgage repayments to household income for 44 suburbs throughout the growth corridors of Melbourne and Greater Geelong, not one of these suburbs has a ratio below 30%—the traditional percentage when determining mortgage stress. If the ratio to determine mortgage stress was lifted to 40% then 30 suburbs would be considered as not under mortgage pressure.

Within this group, 18 suburbs recorded a mortgage to household income ratio of above 35% and up to 40%, with this level being synonymous with the emergence of constrained affordability. These suburbs were generally located further out within their respective municipality and characterised as larger development fronts containing an abundance of greenfield land, which kept lot prices more affordable.

Another 18 suburbs recorded a mortgage to household income ratio from 41% to 45%. Most of these suburbs were located relatively closer to the Melbourne CBD within their respective municipality and were a mixture of established suburbs and new development fronts. There were some exceptions, with limited competition or subdued new lot supply applying upward pressure to lot prices in Wyndham Vale, Clyde, and Officer South.

The proportion of household income required to finance a mortgage was approaching 50% in Point Cook and Berwick. These two suburbs also contained the most expensive median lot prices in December quarter 2018, which were also greater than 30% more expensive than the corresponding figure for Greater Melbourne of \$325,000.



Source: RBA, ATO & RPM Research Division

CALCULATION ASSUMPTIONS

The chart depicts the median land price in December quarter 2018 by suburb, along with a median anticipated construction cost and net income by corridor. The median construction costs and incomes are taken from RPM's Internal Buyer Surveys. The construction cost ranges from \$237,300 (Moorabool) to \$276,500 (Wyndham) while income levels reflect net levels to provide a more accurate level of disposable income. In addition, the chart also assumes a 20% deposit has been paid and mortgage repayments are based on a 30 year loan at the discounted standard variable rate at December 2018 of 4.65%.

VICTORIAN PLANNING AUTHORITY UPDATES

To boost housing supply, the VPA has been set a target to complete the below Precinct Structure Plans over 2017 and 2018, which will include the rezoning of more than 100,000 lots. The table below contains projections for the number dwellings, people and jobs each of these Precinct Structure Plans are anticipated to support.

Precinct Structure Plan	LGA	Status	Estimated Dwellings	Estimated Population	Estimated Jobs
Pakenham East	Cardinia	Submitted for Approval	7,150	21,000	1,310
Cardinia Creek South	Casey	Completed - January 2019	10,030	28,100	1,615
Minta Farm	Casey	Completed - January 2019	3,050	8,500	11,450
Lancefield Road	Hume	Completed - January 2019	7,935	22,000	1,670
Lindum Vale	Hume	Submitted for Approval	1,500	-	-
Sunbury South	Hume	Completed - January 2019	11,470	32,100	4,570
Kororoit	Melton	Completed - February 2018	9,200	25,875	1,400
Mt Atkinson & Tarneit Plains	Melton	Completed - September 2017	8,000	22,400	19,000
Plumpton	Melton	Completed - February 2018	10,800	30,100	12,750
Beveridge Central	Mitchell	Completed - January 2019	3,400	9,500	-
Donnybrook & Woodstock	Whittlesea	Completed - November 2017	17,050	47,700	2,140
Wollert	Whittlesea	Completed - February 2017	15,060	42,200	8,040

Source: Victorian Planning Authority

Furthermore, the PSPs in the table below are currently underway or will be commenced during 2019.

Precinct Structure Plan	LGA	Status
Officer Employment	Cardinia	Background Studies & Context
Casey Fields South	Casey	Background Studies & Context
Croskell	Casey	Background Studies & Context
Craigieburn West	Hume	Background Studies & Context
Merridfield North Employment	Hume	Background Studies & Context
Kororoit Part 2	Melton	Background Studies & Context
Beveridge North West	Mitchell	Council & State Agency Consultation
Wallan South & Wallan East	Mitchell	Background Studies & Context
Shenstone Park	Whittlesea	Background Studies & Context
Aviators Field	Wyndham	Not Started
Quandong	Wyndham	Review of Submissions
Werribee Junction	Wyndham	Not Started

ABOUT

RPM REAL ESTATE GROUP

RPM Real Estate Group is Victoria's most successful residential development sales, marketing and advisory agency. We specialise in sales within master-planned communities, medium and high density developments, greenfield and infill development sites and international investment sales. We advise our clients on all aspects of the sales process from site due diligence, acquisition, planning and risk mitigation through to product mix, pricing, launch, sales and settlement. Our research-backed strategies deliver higher revenues, faster sales rates and better returns for our clients.

FULL SERVICE OFFERING

Research: in-depth analysis on current economic and housing conditions, future supply and demand assessments, and buyer demographics to enable clients to make the most informed decisions.

Communities: the market leader in sales and marketing of master-planned estates, we offer unparalleled expertise in the management of an estate, product mix and design, pricing, market dynamics and matching product to demand to ensure faster sales rates and maximum yield.

Project Marketing: specialising in sales and marketing of medium density and mid-rise apartment infill sites throughout Melbourne. Backed by unrivalled inhouse research to help clients develop the best product and sales strategy to drive maximum return in this burgeoning market.

Transactions & Advisory: specialising in development site transactions across greenfield and infill residential, commercial and medium density sites. The team's philosophy is based on not just selling, but adding value to the selling process and unlocking the value of sites.

RPM International: helps clients including property owners, developers and investors diversify and maximise their property portfolio by connecting an expansive network of offshore buyers keen to invest in high quality residential estates and medium density projects throughout Melbourne.

Property Management: providing full service property management services for both Australian and international clients to ensure their property assets are protected and maximised.



THANK YOU TO UDIA PARTNER **RPM REAL ESTATE GROUP** FOR PROVIDING THE INFORMATION CONTAINED WITHIN THIS REPORT.

RPM REAL ESTATE GROUP

- Victoria's leading residential development sales and marketing agency
- Full-service sales and marketing, research and advisory capability
- Unsurpassed track record of delivering outstanding returns for clients
- Unparalleled breadth and depth of research to optimise client decision making
- \$1.4 billion englobo land transactions
- 4,300 property sales over financial year 2017/18
- 44 active projects
- 36,000+ total yield of current projects
- Year to date group sales totals \$3.7 billion

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UDIA PRINCIPLES FOR THE WAY AHEAD

THESE PRINCIPLES WILL GUIDE UDIA AS WE CONTINUE ON OUR JOURNEY OF GROWTH AND AS WE FURTHER SOLIDIFY OUR LONG TERM, SUSTAINABLE POSITION AS THE URBAN DEVELOPMENT INDUSTRY'S ASSOCIATION OF CHOICE.

LEADERSHIP

Drive the thought leadership agenda and exercise tangible influence with government and other stakeholders

EXPERTISE AND INNOVATION

Offer innovative membership services that respond to the changing needs of our industry

INFLUENCE

Be known as the pre-eminent expert organisation on housing and urban development

INDUSTRY SUCCESS

Advance and support the industry in the public arena and facilitate industry recognition and promotion

KNOWLEDGE

Be the go-to organisation for industry knowledge and business building insights

DEEPLY CONNECTED

Facilitate a fruitful business environment by connecting industry and government stakeholders

LOYALTY

Possess a deeply loyal membership base as a result of consistently providing solid member services

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