Urban Development Institute of Australia (Victorian Division)

PROPERTY MARKET UPDATE

UDIA URBAN IQ

June 2020 Quarterly Report

Information provided by UDIA 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.

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UDIA URBAN IQ

PROPERTY MARKET UPDATE

JUNE QUARTER 2020

UDIA PARTNER

RPM REAL ESTATE GROUP

RPM REAL ESTATE GROUP SPECIAL REPORT

AN INDUSTRY INSIDER'S VIEW TO HOMEBUILDER

INTRODUCTION

In the face of the growing COVID-19 pandemic, the Federal Government announced that starting from 4 June 2020, $25,000 HomeBuilder grants would be on offer to eligible owner occupiers who wanted to build a new home, buy a townhome or apartment off the plan, or substantially renovate an existing dwelling.

The grant is part of the government's overall attempt to 'invest' its way out of the recession. The program is backing a tradie-led recovery. The program will be uncapped but early government estimates suggest it will cost about $688 million, equivalent to roughly 27,000 grants nationwide.

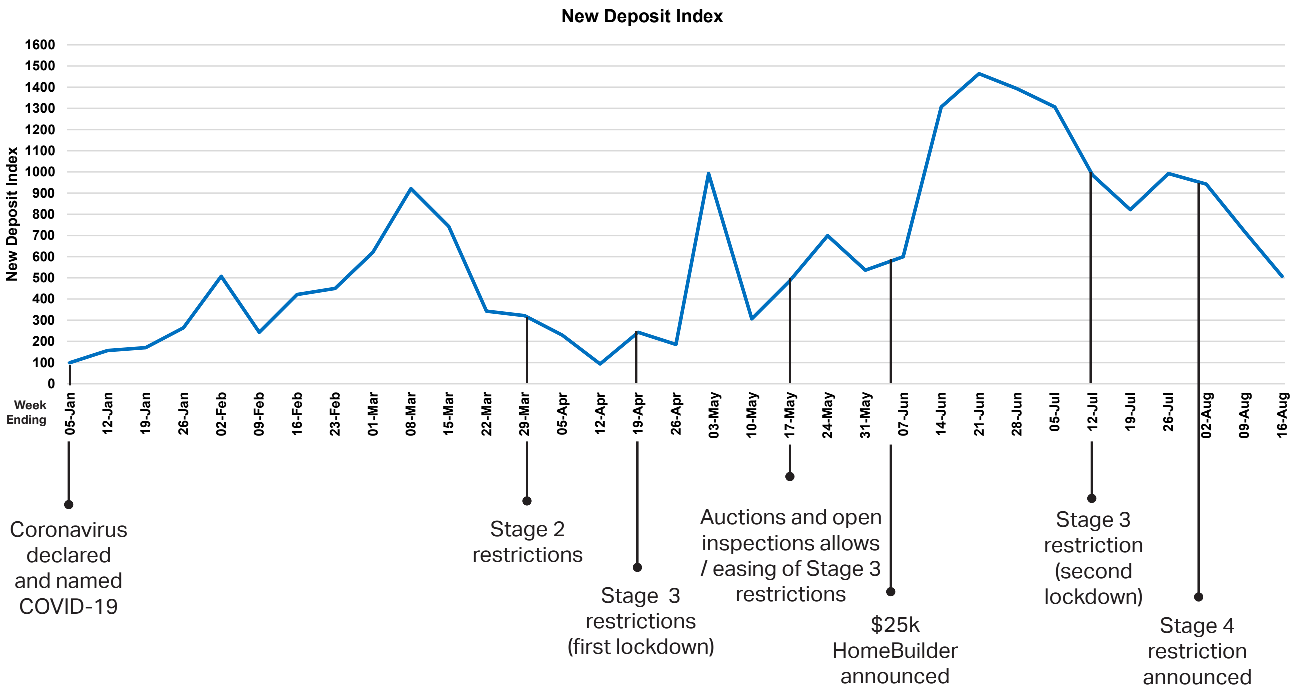
UNDERSTANDING OF THE SCHEME

The temporary HomeBuilder program provides grants to individuals who earned up to $125,000 last financial year (or in 2018/19) or couples who earned up to $200,000.

Construction must be contracted to start within six months of the build contract date to be eligible – with grants distributed via the State Revenue Office – and contracts must be entered into between 4 June and 31 December 2020.

Initially, the timeframe was set at three months to March 2021 to have met Stage 1 of the build process, however the government has since allowed an additional three-month extension to take into account extenuating circumstances. However, by the end of June 2021, commencement of excavation and site preparation works needs to have commenced for new builds to be eligible for the HomeBuilder grant.

In addition, an end date of October 2022 has been put in place for the completion of the build. This is in place to prevent builders from taking on excessive work and then not being able to deliver the buyer's house in a reasonable timeframe. This measure is more so targeted towards apartments and townhomes to allow buyers more certainty regarding delivery date.



EFFECT OF HOMEBUILDER ON THE MARKET

Not since the First Home Buyer Boost in 2009/10 in the middle of the GFC over a decade ago have buyers been given such a level of financial assistance. Currently, between the HomeBuilder scheme and the Victorian Government's first home buyer grant, $35,000 is on offer to first home buyers in metro Melbourne with up to $45,000 available in regional areas. Non-first home buyers have not missed out this time around with the $25,000 also applying to this segment.

The effect of the grant was immediate and swift. Across RPM managed estates, enquiry levels through May and June rose to levels not seen since the peak of early 2018, along with deposits reaching a long-term high in June. This is in keeping with further anecdotal evidence collected from across the market.

In May and June, we saw a spike in consumer confidence which translated into a significant increase in new deposits. These deposits were not all contracted in these months, with some of the June deposits flowing through into July. This is important to note, as activity eased in July as Stage 3 restrictions (second lockdown) came into place in the week ending 12 July. Nevertheless, new deposits through July and August sat above the level achieved in the first couple of months of the year. This highlights that even with significant uncertainty, government cash grant offers are largely taken up by buyers on the cusp of making a buying decision.

That being said, through Stage 4 restrictions we anticipate a further easing in activity due to the lack of mobility of prospective buyers, along with the increased likelihood of job losses and income reductions taking place.

However, with deposits carrying over from the previous month we expect August to be far more robust than what the market arguably would have delivered had HomeBuilder not been introduced. It is worth remembering that even though several sectors have been decimated by the pandemic, others have benefited, enabling a range of buyers within these more secure sectors to enter the housing market with the current government support.

With the grant announced on 4 June, this month saw a significant level of sales with 2,026 lots across Melbourne and Greater Geelong. Of these, 832 were titled (41%), with a further estimated 750 lots (37%) to be titled by March 2021. It should be noted that while the grant allows the buyer to purchase an untitled lot by the end of 2020 (with a build contract signed enabling site preparation to be completed by the end of June 2021), they would not want to still be waiting for their lot to title in that June quarter. Therefore, the assumption is that buyers looking at taking up the HomeBuilder grant will have purchased by the end of 2020 with anticipated titles no later than the end of March 2021.

Although Stage 3 restrictions were put in place in the second week of the month, July recorded 1,693 sales. Of these 621 were titled (37%), with a further 671 lots (40%) to title by March 2021. Combined, this reflects 77% of lots sold that meet the criteria.

Therefore, two months into the period, 2,874 lots meet the criteria out of the 3,719 total lots sold.

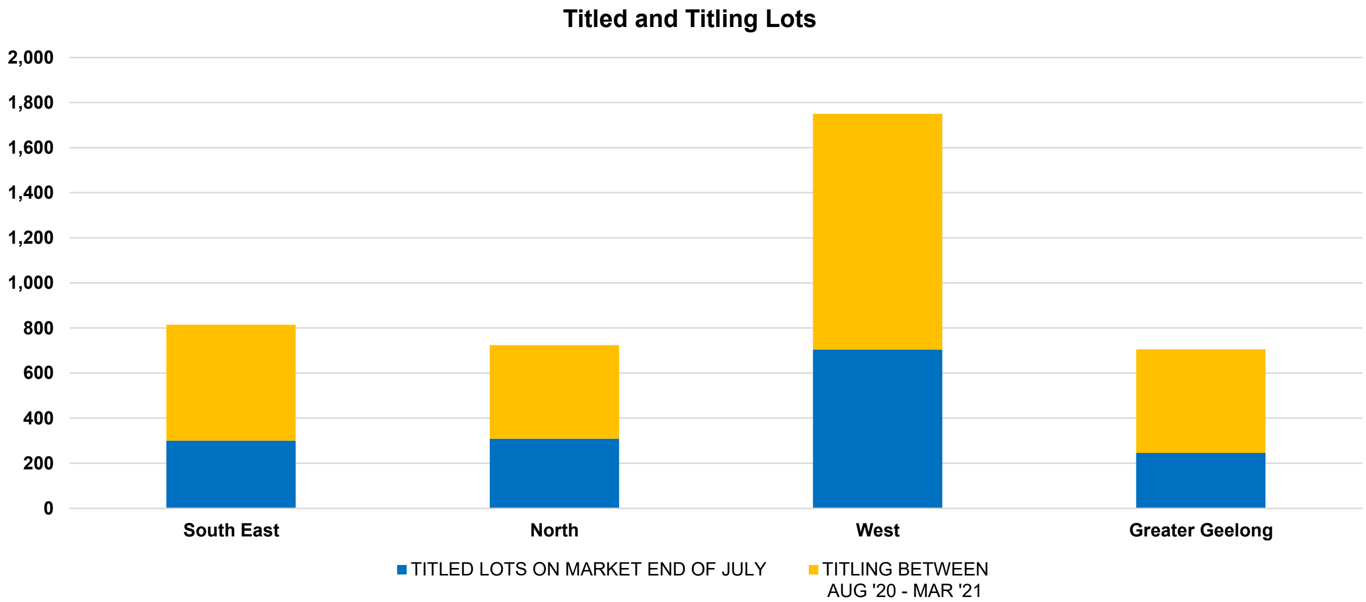
This now poses the question of will there be enough titled / to be titled lots in the market to satisfy demand?

To answer this, the following implications of the HomeBuilder extension can be taken into account:

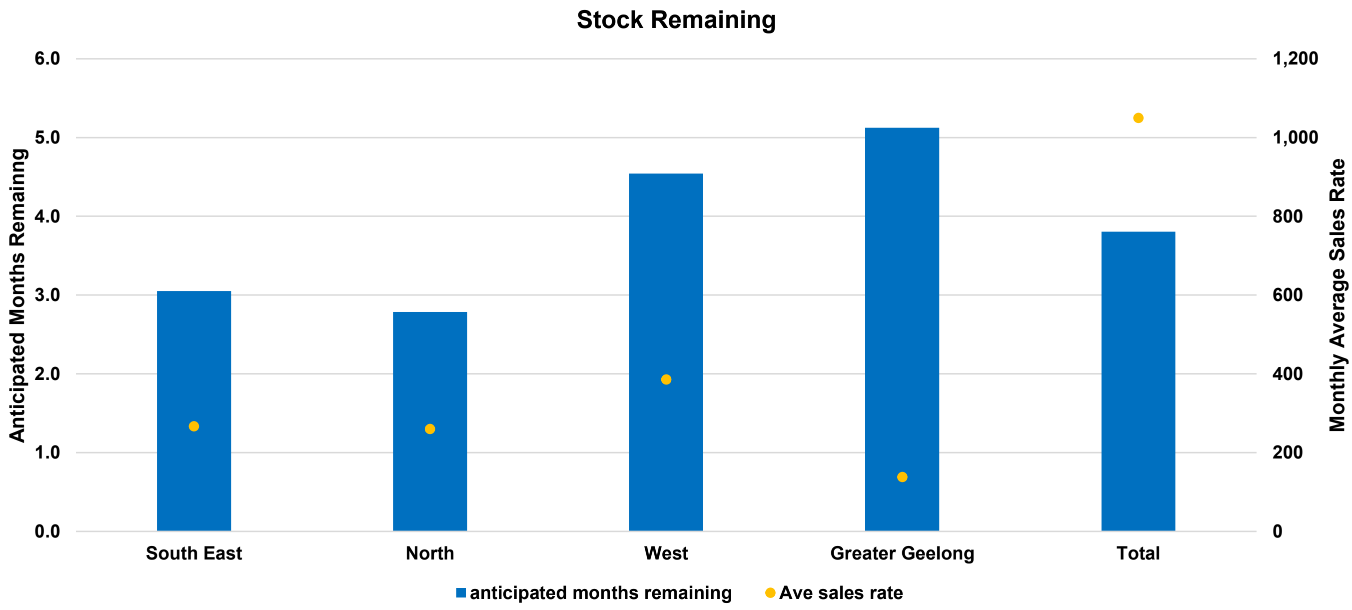
1. More developers can now bring more lots on to the market with titles meeting this extended period
2. Buyers can now actively consider off-the-plan apartments and townhouses as some potential buyers would have been unsure around the tight timeframe pre-extension.

From a supply perspective the assumptions made are;

- At the end of July there were 1,559 lots left as titled stock
- There are an estimated 2,435 lots that are anticipated to be titled between August 2020 and March 2021
- Combined, there is an estimated 3,994 lots that are titled / to be titled.



REGION	TITLED LOTS ON MARKET END OF JULY	TITLING BETWEEN AUG '20 - MAR '21	TOTAL
South East	300	514	**814**
North	309	415	**724**
West	704	1,046	**1,750**
Greater Geelong	246	460	**706**
Total	**1,559**	**2,435**	**3,994**



To assess whether there is enough supply on the market to meet demand we first need to make assumptions around the level of demand. This is not an easy task due to the level of uncertainty in the market. Nevertheless, these assumptions are:

- A monthly average sales rate of 1,500 lots across the market. To put this in perspective, the monthly average sales rate across 2020 has been 1,272 lots. A higher rate of 1,860 lot sales has been averaged across June and July (with HomeBuilder in place). We do not expect the latter to be maintained as there is a defined number of owner occupiers in the market and a sizeable proportion of upgraders / downsizers who are unwilling to sell their existing dwelling in the current market.
- We have also lowered the level of lots that would meet the criteria, recognising that not all lots sold are to buyers wanting to take up the grant. In June and July there were 22% and 24% of lots sold that do not meet the criteria. While relatively small, there will be a gradual increase of this share from buyers who are not able to buy a titled lot in their chosen estate, size and/or price range. They could however meet their desired criteria from a vacant lot that falls outside of the HomeBuilder criteria. This will become progressively more apparent as titled lots are purchased in the final few months of 2020. Therefore, the assumption made is that 70% of all lots sold will meet this criteria (down from the 77% across June and July), meaning that of the 1,500 lots estimated to sell on average each month, 1,050 lots will be assigned to the HomeBuilder grant.

At the average sales rate of 1,050 lots per month, the total number of titled / titling lots can be calculated, equating to 3.8 months of eligible stock left.

As a result, this will leave the market short and an underlying level of demand unfulfilled. Furthermore, we are assuming all titled / to be titled lots will be absorbed. In reality, this will not be the case, as some larger lots are less favoured than sub-400sqm lots. As such we expect there to be some unwanted titled stock remaining on the market.

SOLUTION/CONSIDERATION

	LOTS TITLING		
REGION	**JUNE QTR '21**	**SEP QTR '21**	**TOTAL**
South East	120	47	**167**
North	233	148	**381**
West	257	198	**455**
Greater Geelong	32	62	**94**
Total	**642**	**455**	**1,097**

In RPM's opinion, HomeBuilder is arguably one of the most successful in recent history, in terms of supporting the industry and wider economy. Nationally, the construction industry employs roughly 10% of the workforce and has an enormous economic multiplier effect on the economy.

The HomeBuilder scheme will most likely lose momentum through the six-week Stage 4 lockdown. However the real test will be how the industry and wider economy performs through the construction phase of projects in 2021/22 and 2022/23, following the withdrawal of government stimulus and as the effect of minimal overseas migration through 2020 and a heavily reduced level through to at least the middle of 2021 is felt more broadly.

We therefore believe an argument can be made to extend the grant beyond the December deadline to the middle of next year, with a subsequent extension of the start of construction phase from six months to 12 months to allow for a more natural transition out of the grant (i.e. to end December 2021). By allowing more time, pressure on buyers to either 'buy' or 'not to buy' considering the current uncertain economic conditions will be lifted.

Furthermore, an additional extension will provide a longer period for builders to have their workbooks near capacity which means they are able to employ more people for a longer period. Right now, most builders have a pipeline of new builds already secured for the next quarter. By extending the window a steady stream of work would feed through the system long enough to allow for a 'soft landing' and establish a solid foundation for a future rebound.

With all grants, there is a natural pull-forward of buyers. By providing a further extension, this pull-forward will be tempered, in turn reducing the drop off in activity at the end of the grant period, particularly given there will be limited future demand being contributed by recent migrants as permanent visa holders are excluded from the scheme.

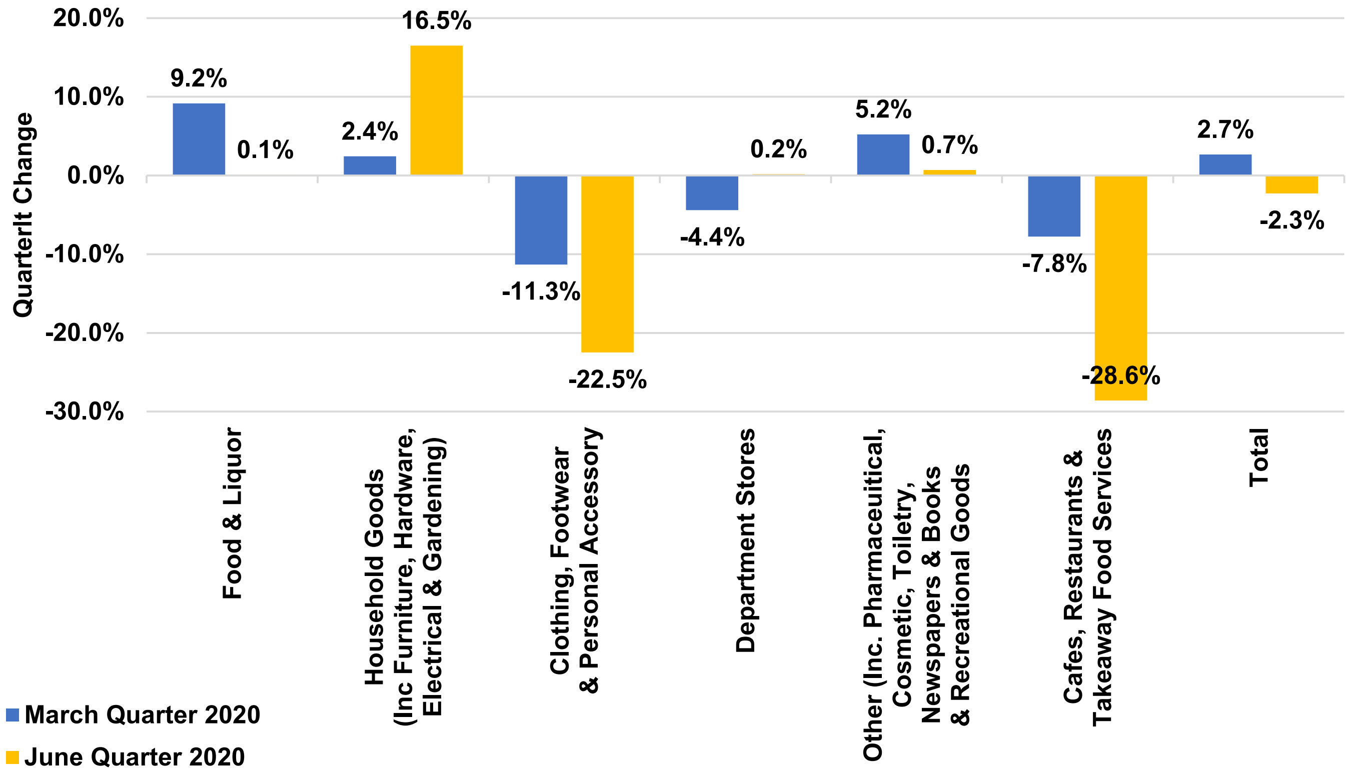
In addition, to stimulate the jobs market in the industry and set a solid foundation for a sustained recovery, the grant could also be opened to local investors. This would further underpin the life blood of the state economy.

An extension of the timeframe will allow developers to have additional stock meet the criteria. At the end of July 2020, there was an estimated 1,097 lots that were currently on the market that fall outside of the March deadline (642 lots in the June quarter 2021 and 455 lots in the September quarter 2021). While this adds at most an additional month of supply, it would have the desired effect of extending the eligibility window and limiting the eventual fall out, post-stimulus period.

ECONOMIC MARKET UPDATE

NATIONAL GROWTH / OUTPUT

RETAIL TRADE



Source: Australian Bureau of Statistics

National Gross Domestic Product (GDP) in March quarter 2020 contracted by 0.31% from the previous quarter, as the economy experienced a seismic shock from the worst public health crisis in century and subsequent restrictive social distancing measures implemented to mitigate its spread through the community.

This confirms that Australia's economy will enter a recession for the first time in almost three decades in June quarter 2020, with the quarterly decline in GDP to escalate to a projected historical fall of around 7%.

Private household consumption, the largest segment of the economy, declined by 1.14% over March quarter 2020. This reflects weakening confidence, as increasing unemployment and reduction in incomes impacted household finances and led to them to rein in expenditure.

This overall decline eventuated despite a 2.7% increase in retail spending over March quarter 2020. There were notably discrepancies between categories, with the panic buying leading to growth in spending on necessary items and other household products that were useful during the lockdown period, with considerable falls in discretionary items and also at businesses forced to close.

In June quarter 2020, private household consumption is will deteriorate further, with falls up to 10% anticipated. **This already showing up in retail turnover, which has declined by 2.3% in June quarter 2020,** with spending on food and liquor remaining steady from last quarter.

Source: Australian Bureau of Statistics

Dwelling investment, which has continually declined on a quarterly basis from the second half of 2018 as the downturn in property markets emerged, **contracted by a further 2.95% in March quarter 2020.** Lower sales volumes of vacant lots and new dwellings through 2019 has led to residential construction activity weakening.

Dwelling investment is set to fall again in June quarter 2020, as restrictions on activity and uncertainty surrounding employment and income led to a collapse in turnover activity and new dwelling sales in April, while benefits from the HomeBuilder scheme on residential construction are not expected to have a positive impact on total investment until the second half of 2020.

Lower private demand is leading to businesses deferring or cancelling discretionary investment to preserve cash flows. **Consequently, non-dwelling construction investment fell by 0.3% and machinery and equipment spending reducing by 1.3% over March quarter 2020.**

The need to preserve liquidity Is highlighted by ABS survey data, which found that 66% of business surveyed expected revenue in June 2020 to be lower than the same time in the previous year, with corresponding proportions of 56% in the construction industry and 71% in the rental, hiring and real estate services industry. This suggests a continuation of declining business investment in June quarter 2020.

Governments both Federal and State are trying to fill the void left by falling private investment by announcing plans to expedite approvals for both public and private construction projects. The Australian Government has announced that approvals for around $70 billion of projects have been prioritised, to allow construction activity for a variety of infrastructure projects to be fast tracked. States have also announced an intention to fast-track smaller 'shovel-ready' projects.

VICTORIAN GROWTH/OUTPUT

Even though Victoria re-entered Stage 3 restrictions during July, the most recent economic update provided by the treasury department during the month forecast for **Victorian real Gross Domestic Product (GSP) to decline by 5.25% over calendar 2020.** This was an improvement on the initial 6.75% fall in real GSP projected during the first lockdown in April.

However, the need to implement more onerous Stage 4 restrictions for six weeks beginning in August is anticipated to result in a further 250,000 people being stood down and reduced output across most industries. As such, the initial steeper projected decline in real GSP is increasingly likely to eventuate.

INTEREST RATES

After two 25 basis point reductions in March, the Reserve Bank of Australia (RBA) has maintained the cash rate at a historic low of 0.25%. Furthermore, the cash rate is expected to remain at this level for the next two to three years, as the economy gradually recovers from the recession in 2020.

Policy measures undertaken by the RBA to bring stability to financial markets have been successful in maintaining low funding costs for Australian banks and the ongoing availability of credit for households and business. This has resulted in interest rates for both housing and business loans remaining at historical low levels.

Subsequently, while the standard variable rate remained steady at 4.52%, the discounted variable rate fell by 22 basis points in June to 3.65% and the 3 year fixed home loan rate declined by 19 basis points to 2.35% in June.

Deteriorating economic and employment conditions has created heightened competition among banks for high quality borrowers with secure jobs and a steady income, which has been partly attributed to the additional declines in the discounted standard variable rate and 3 year fixed home rate in June.

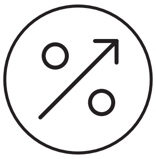
0.25%

Cash Rate
(Jul-20)

4.52%

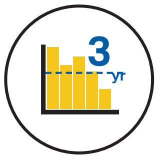
Standard Variable Rate
(Owner Occupiers - Jul-20)

3.65%



Discounted Variable Rate
(Jul-20)

2.35%



3 Year Fixed Rate
(Jul-20)

Source: Reserve Bank Australia

CONSUMER PRICE INDEX

CPI	Childcare	Fuel	Travel	Rents	Healthcare
▼1.89%	▼95%	▼19.3%	▼2.0%	▼1.3%	▼0.2%

The Consumer Price Index (CPI) declined by 1.89% across Australia in June quarter 2020, compared to the previous quarter. This resulted in CPI falling by 0.35% on an annual basis and is significant as deflation is historically not a common occurrence in Australia.

The **substantial 95% reduction in the CPI index for childcare** was the single biggest contributor to deflation emerging. This was in response to the Federal Government making childcare free through the first lockdown.

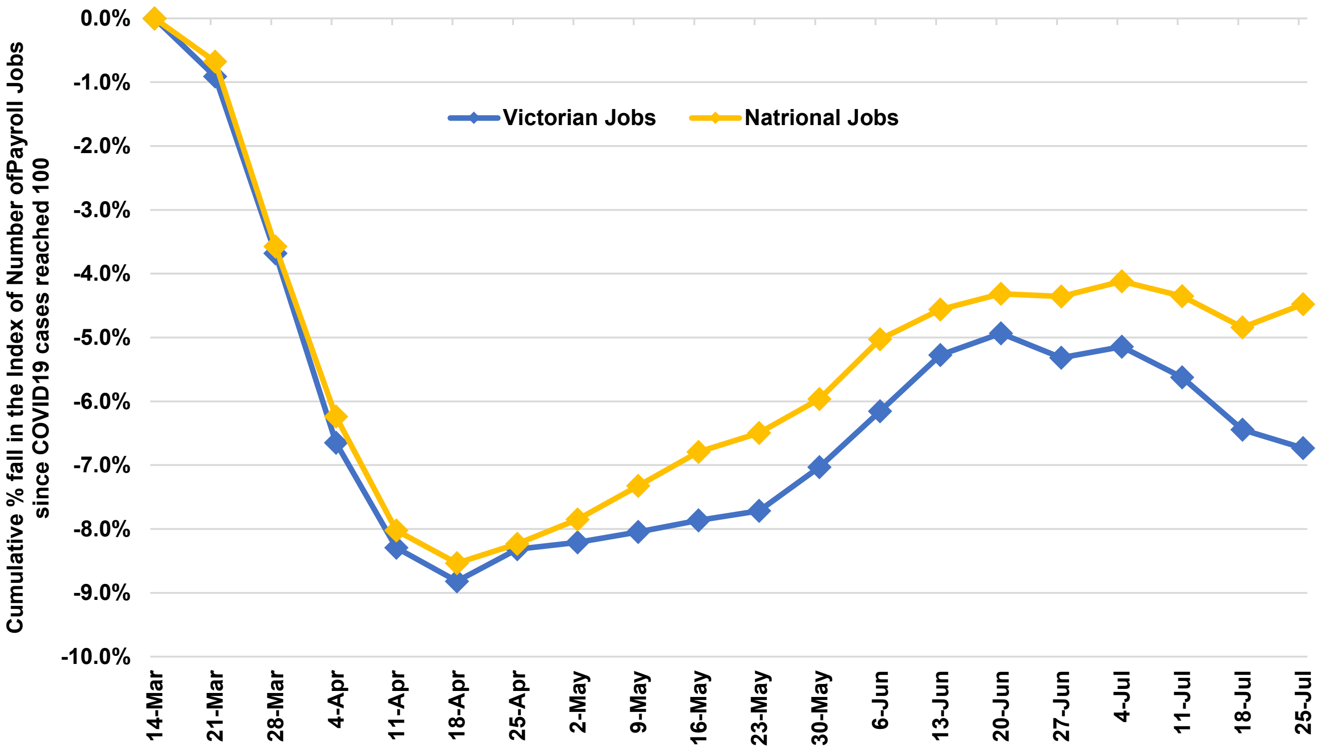
Notably, the **CPI index for rents fell by 1.3%, which was its first reduction since the series began in the early 1970s.** Diminished tenant demand stemming from the temporary travel ban on overseas migrants and increased unemployment, combined with the rental eviction moratorium period that has led to the lowering or completed deferment or rental payments, have both conspired to increase vacancies and considerable weakening rental markets.

The freeze on health insurance premiums and falls in pharmaceutical products resulted in the CPI index for the overall health group edging down by 0.2%.

Reduced movement led to the CPI index for automotive fuel declining by 19.3%, while the temporary halt to overseas travel and internal border closures among states saw the CPI index for both domestic and international holiday travel and accommodation reduced by 2.0%.

Melbourne's CPI fell by a similar 1.78% in June quarter 2020, from the previous quarter. However, on an annual basis, the CPI index still increased by 0.35%.

EMPLOYMENT/WAGES



Source: Australian Bureau of Statistics & Australian Tax Office

Official employment data from the ABS shows Victoria lost 198,100 jobs over the two months of April and May, which was the result of Stage 3 restriction s from late March through to mid May.

Approximately 83% of these jobs were part time, highlighting the industries hardest hit in Victoria during the first lockdown were those were part time work was more prevalent. This included industries such as food, accommodation, and tourism.

As social distancing restrictions were eased from mid May, Victoria started to recoup some of the job losses in the previous two months, with employment growing by 29,500 persons in June.

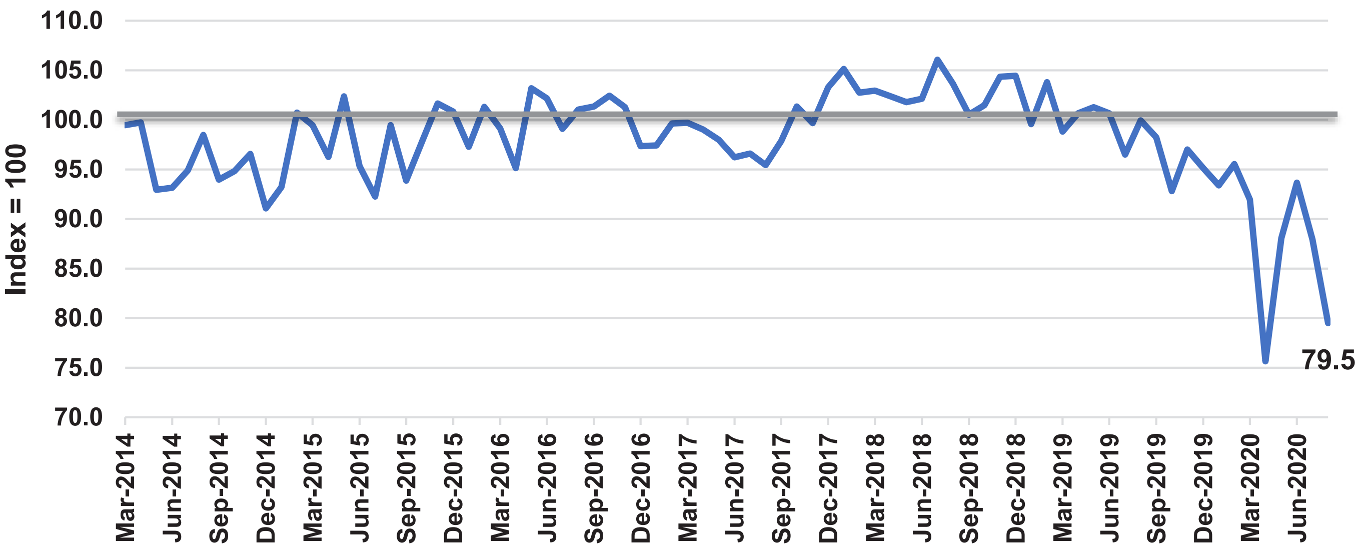
Nevertheless, Victoria still lost 168,600 jobs over June quarter 2020, with the unemployment rate rising from 5.2% in March to 7.5% in June. The increase in the unemployment rate in June is likely attributed to rising participation rate.

However, it should be noted that these job losses and unemployment figures likely don't take into account much of the additional 153,320 persons in Victoria who did not work any hours due to there being no or not enough work or being stood down over June quarter 2020. Many of these people are likely JobKeeper recipients.

Employment indicators released from the ABS in conjunction with the Australian Tax Office (ATO) for show that the recovery in the job market through May and June in Victoria was slower than that at the national level. Furthermore, with Victoria reinstating Stage 3 social distancing restrictions in early July, the number of payroll jobs has fallen again, compared to a stabilisation across Australia.

SENTIMENT

CONSUMER SENTIMENT



Source: Westpac-Melbourne Institute Consumer Sentiment Index

The Westpac-Melbourne Institute Consumer Sentiment Index has deteriorated over the last two months to August, declining by 15.1% during that period to 79.5. Furthermore, the Index is just 5.1% above its previous low in April.

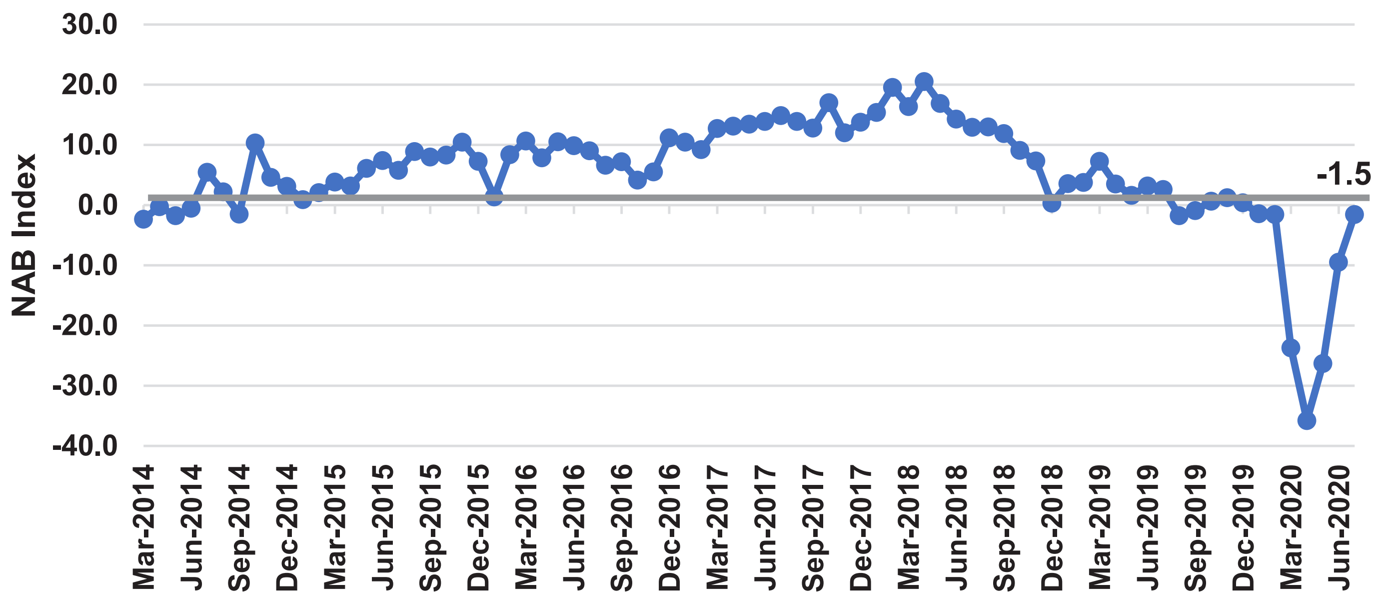
Much of this loss in confidence stems from the second wave of COVID–19 cases in Victoria, which has seen the introduction of unprecedented Stage 4 restrictions, and the subsequent loss of further jobs and incomes.

To a lesser extent the threat of a resurgence in COVID–19 cases in New South Wales has also waned on confidence.

Consequently, the index measuring consumers expectation of economic conditions in the next twelve months decreased by 19.2% over August, with expectations on family finances in the next 12 months also dropping by 7.3%.

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.

BUSINESS SENTIMENT



Source: National Australia Bank Business Survey

Business conditions have largely recovery over the three months since crashing in April and have broadly returned to pre COVID–19 levels, with the index in marginal negative territory at -1.5 points at July 2020. However, this survey was conducted prior to the introduction of Stage 4 restrictions in Melbourne.

All three components of business conditions improved, with profitability and trading returning to positive territory. However, employment remains in negative territory, highlighting that the return to more active jobs market is some way off.

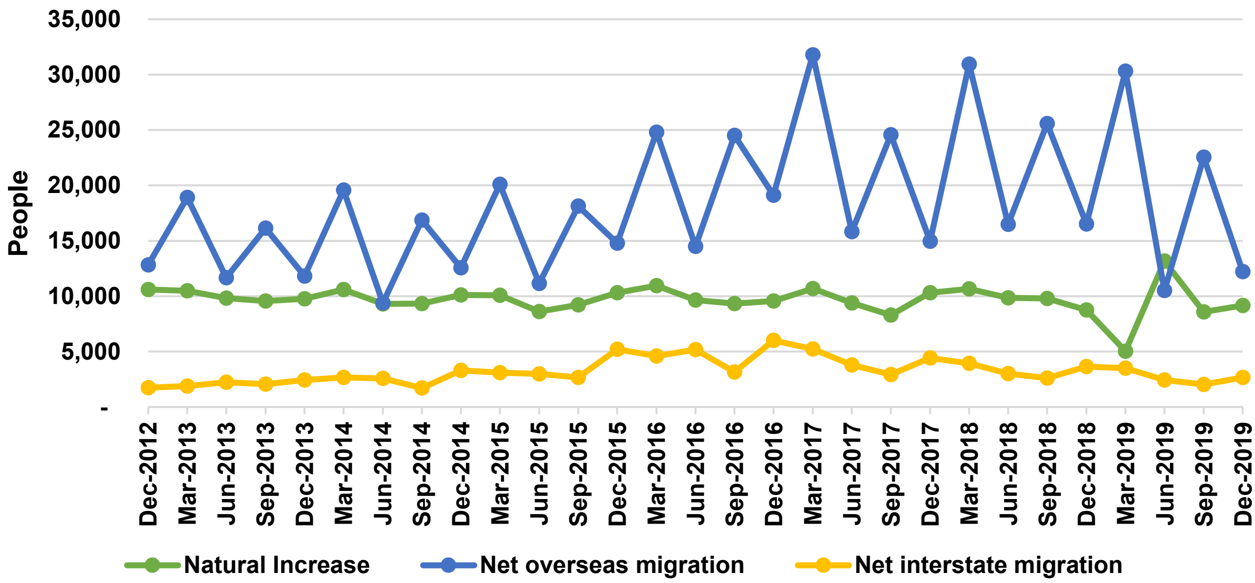
Conditions in the construction industry remain relatively weak compared to other industries, although the a pick up in lot sales over late 2019 and early 2020 followed by the introduction of the HomeBuilder scheme in early June has resulted in conditions in residential construction being more favoured compared to non–residential.

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.

VICTORIAN POPULATION

Victoria gained 24,032 people during December quarter 2019 (latest available data), lifting its estimated resident population to 6,651,074 people.

This equated to a population increase of 122,161 people or 1.87% growth in Victoria over the twelve months to December 2019, 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 December quarter 2019 Victoria recorded;

+9,162

+4.5% on same quarter
in the previous year
Reflects 27% of the
national natural increase

+2,665

-26.9% on same quarter
in the previous year

+12,205

-26.1% on same quarter
in the previous year.
Reflects 34% of the
national natural increase

IMPACTS OF TRAVEL BAN ON OVERSEAS ARRIVALS

Source: Australian Bureau of Statistics

The travel ban on all non–citizens or non–permanent residents entering Australia has led to a collapse in short term (less than 1 year) visitor arrivals entering Victoria through June quarter 2020 to just 2,390 persons. This reflected a seismic 99.5% decrease on the corresponding figure during June quarter 2019. Similarly, the number of long term (more than 1 year) visitor arrivals people entering Victoria has declined by 99.4% over the year to June quarter 2020.

MELBOURNE RESIDENTIAL MARKET PRICES

MELBOURNE PRICES

$864,000
HOUSE PRICE DOWN 3.5%
FROM Q1-2020

$621,000
UNIT PRICE DOWN 2.5%
FROM Q1-2020

$313,500
LAND PRICE UP 0.9%
FROM Q1-2020

69%
AUCTION CLEARANCE RATE
2,455 AUCTIONS Q1-2020 *(REIV)*

Melbourne's residential property market encountered considerable headwinds heading into June quarter 2020. The introduction of restrictive social distancing measures in late March, in response to the COVID-19 pandemic, impacted supply as the subsequent banning on street auction through April and May led to many planned auctions being pulled from the market. Property demand was also impacted, with the lockdown considerably weakening economy conditions and resulting in mass job losses, further inducing vendors to take their property off them market.

Consequently, the Real Estate Institute of Victoria (REIV) reported just 2,455 auctions were held during June quarter 2020, which was 63% lower than the number of auctions held in the previous two months of February and March. While clearances rates held up relatively well at 69% over June quarter 2020, auctions only accounted for 9% of total sales, compared to their corresponding proportion of 27% in March quarter 2020. This was primarily attributed to market conditions enticing vendors to accept reasonable offers pre–auction rather risk losing the sale by going through to an online auction.

Over June quarter 2020, sales recorded a preliminary median;

- House price of $864,000 (-3.5% change from the previous quarter, and +8.8% from the corresponding quarter a year earlier)
- Unit price of $621,000 (-2.5% from the previous quarter, +5.2% from the corresponding quarter a year earlier).

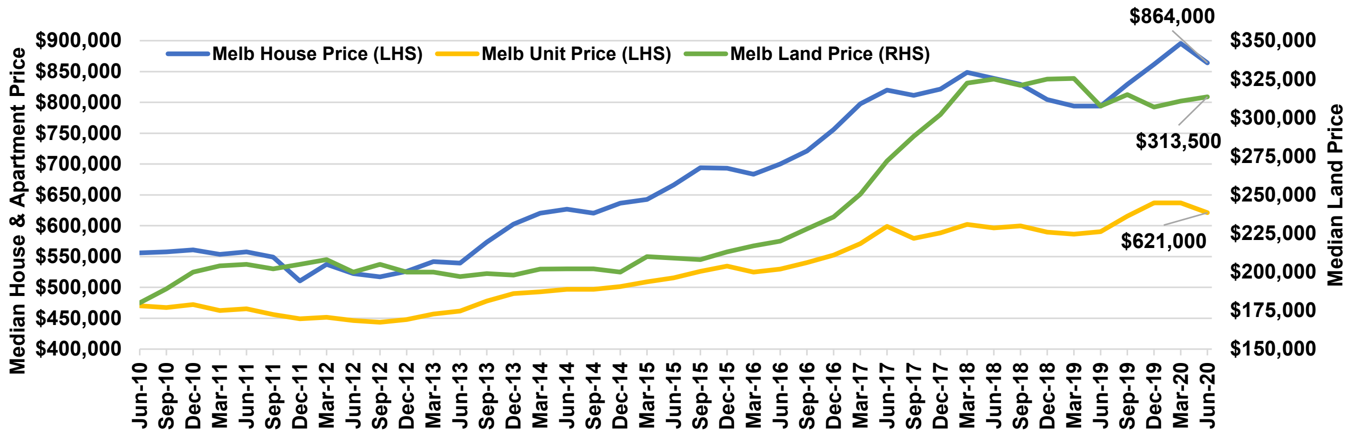
Despite a rapid deterioration in economic conditions, the correction in dwelling prices so far has been more orderly. It is likely that the leniency provided by lenders to distressed borrowers through holiday repayment periods has insulated the property market from a larger contractions in dwelling prices by minimising the incidence of properties entering the market due to home owners being forced into selling.

The land market has performed better from a price perspective in June quarter 2020, with a preliminary median;

- Land price of $313,500 (+0.9% change from the previous quarter, and +2.0% from the corresponding quarter a year earlier).

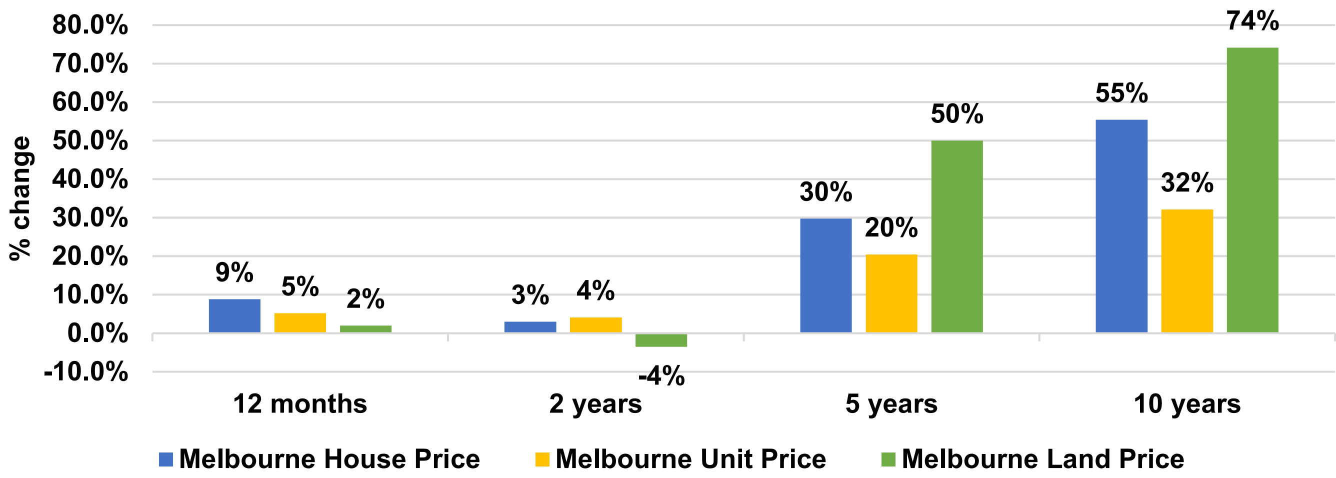
Land prices heading in to the three month period were already around cyclical low levels, unlike prices for houses and units, which experienced sizeable growth in late 2019 and early 2020. As such, there was less scope for land prices to decline having not recorded solid recent gains. Further support for current land values emerged with the introduction of the $25,000 grant under the HomeBuilder scheme, which has incentivised property demand towards new housing with the aim of promoting residential construction activity.

MELBOURNE PRICES



Source: Real Estate Institute of Victoria & RPM Research Division

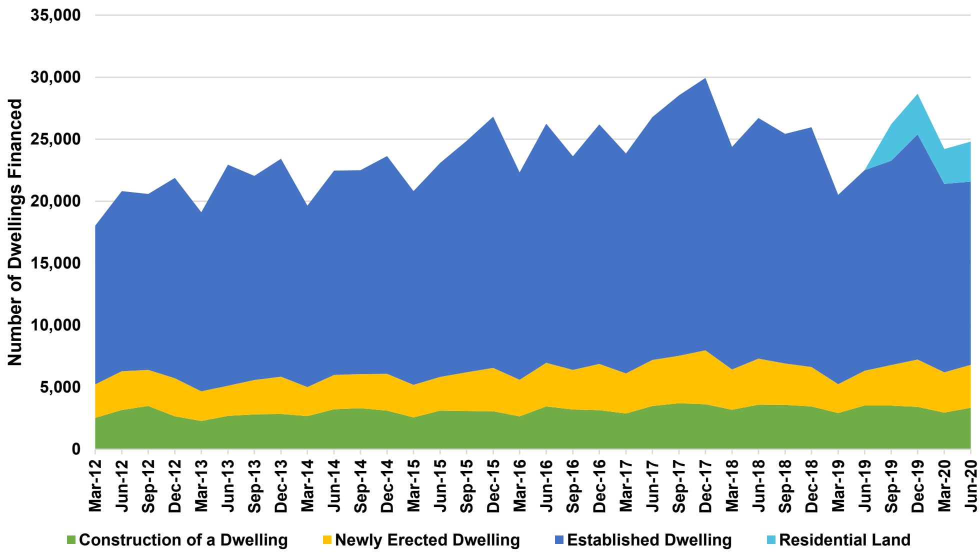
PRICE CHANGE



Source: Real Estate Institute of Victoria & RPM Research Division

FINANCE ACTIVITY: VICTORIA

LOANS BY DWELLING TYPE



Source: Australian Bureau of Statistics

New owner occupier loans for the purchase of residential land has been added to the chart, with the series beginning in July 2019.

The **number of new owner occupation loans in Victoria increased by 2.5% in June quarter 2020**, from the previous quarter, **reaching 24,212 approvals.**

New loans for residential land (14.9%) and the construction of a new dwelling (13.3%) experienced the highest quarterly growth in June quarter 2020. This is primarily attributed to the introduction of the $25,000 grant as part of the HomeBuilder scheme from the start of June, with the shift in demand towards titled lots leading to the immediate boost in new residential loans. Furthermore, those who purchased a vacant lot in previous months would be eligible for the HomeBuilder grant so long as they signed their building contract after the scheme was announced.

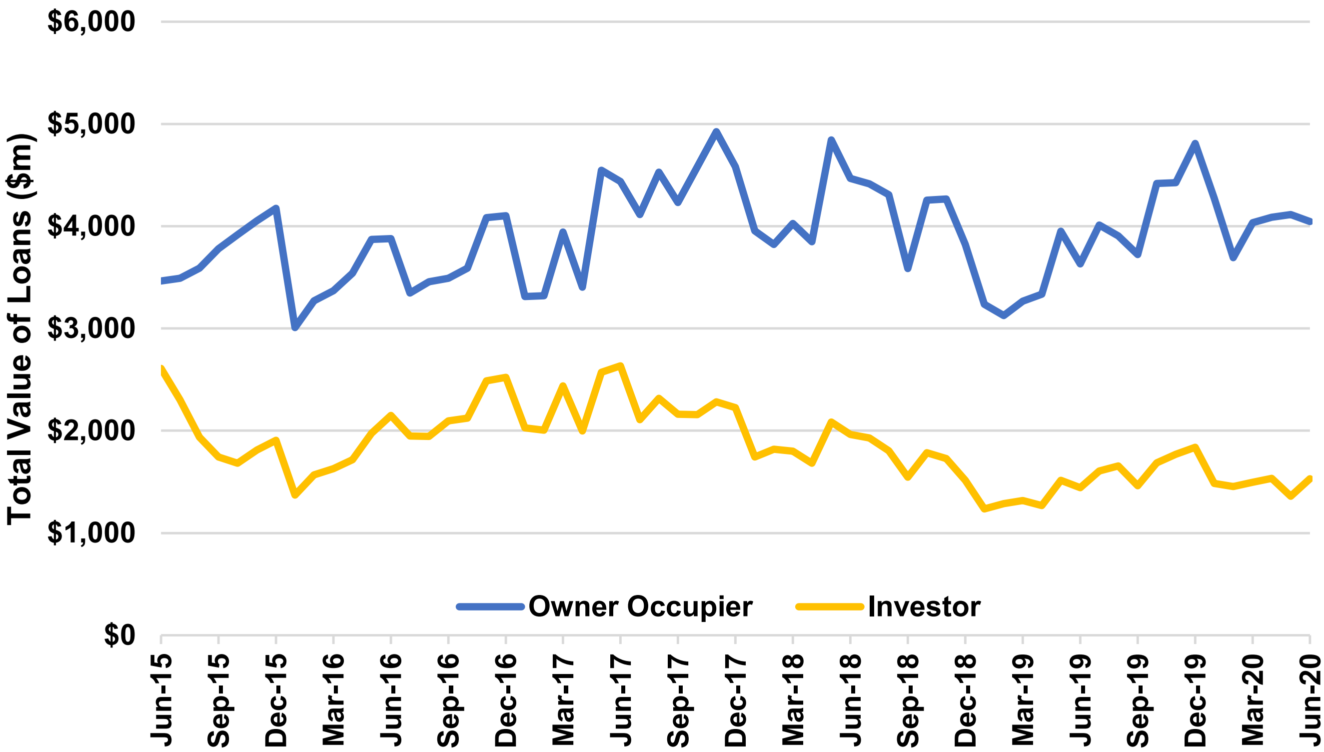
While newly erected dwellings are not eligible for the HomeBuilder grant, they still attract the first home buyer grant and substantial stamp duty savings for first home owners. Subsequently, loans for **newly erected dwelling loans rose by 6.1% in June quarter 2020.**

Conversely, new loans for established continued to decline in June quarter 2020, falling by 2.8%. This reflects the collapse in turnover activity during April and May, with vendors pulling their property from the market and leading to the number of auctions diminishing substantially, after street auction were banned through the first lockdown.

Note: From July 2019, new owner occupation loans have been broken down further to include 2 new categories of residential land and alteration/additions. However, the ABS has not provided a historical time series beyond the last six months for these 2 new categories, so they have not been included. As a result, new owner occupation loans equates to the sum of loans for the construction of a new dwelling, and purchase of a newly erected or established dwelling.

The Australian Bureau of Statistics changed its data source for lending indicators from July 2019 onwards. Consequently, revisions have been made to historical data to align with current reporting procedures. As lenders become accustomed to the new reporting basis and further refine the data, this process is likely to lead to further revisions, including to the historical time series.

VALUE OF LOANS BY PURCHASER TYPE

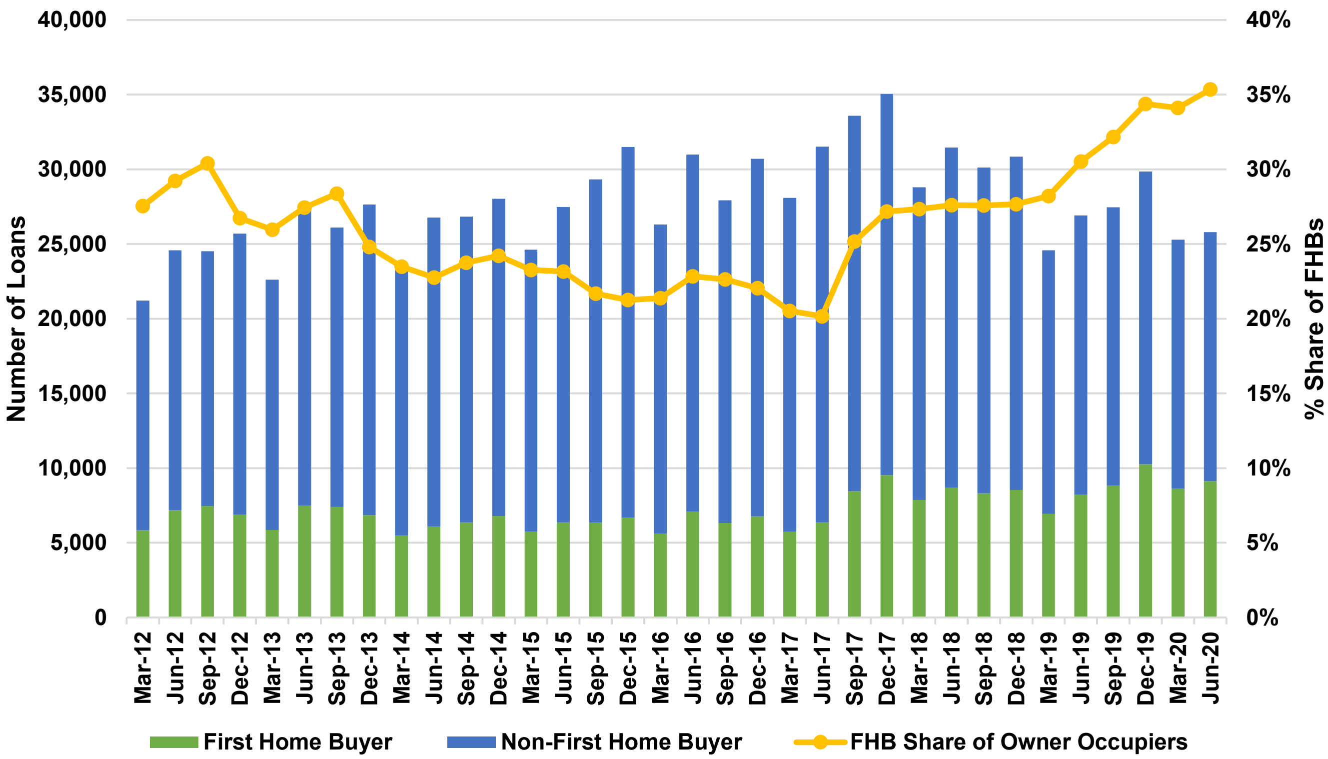


Source: Australian Bureau of Statistics

The total value of new owner occupier loans (excluding refinancing) in June quarter 2020 increased by 2.1% compared to the previous quarter. While the value of new established dwelling loans fell in response to both the median house and unit prices contracting in June quarter 2020, lower sales volumes reduced their impact on the total value of loans. This was also offset by increasing sales activity of house/land packages, where values held up and improved slightly over June quarter 2020.

The total value of new loans to investors (excluding refinancing) during June quarter 2020 edged lower by 0.4% from the previous quarter. Although this small decline was coming off a low base, it highlights the continual retreat of investors from the residential property market as weaker tenant demand and increased vacancies apply downward pressure to rents and overall yields.

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



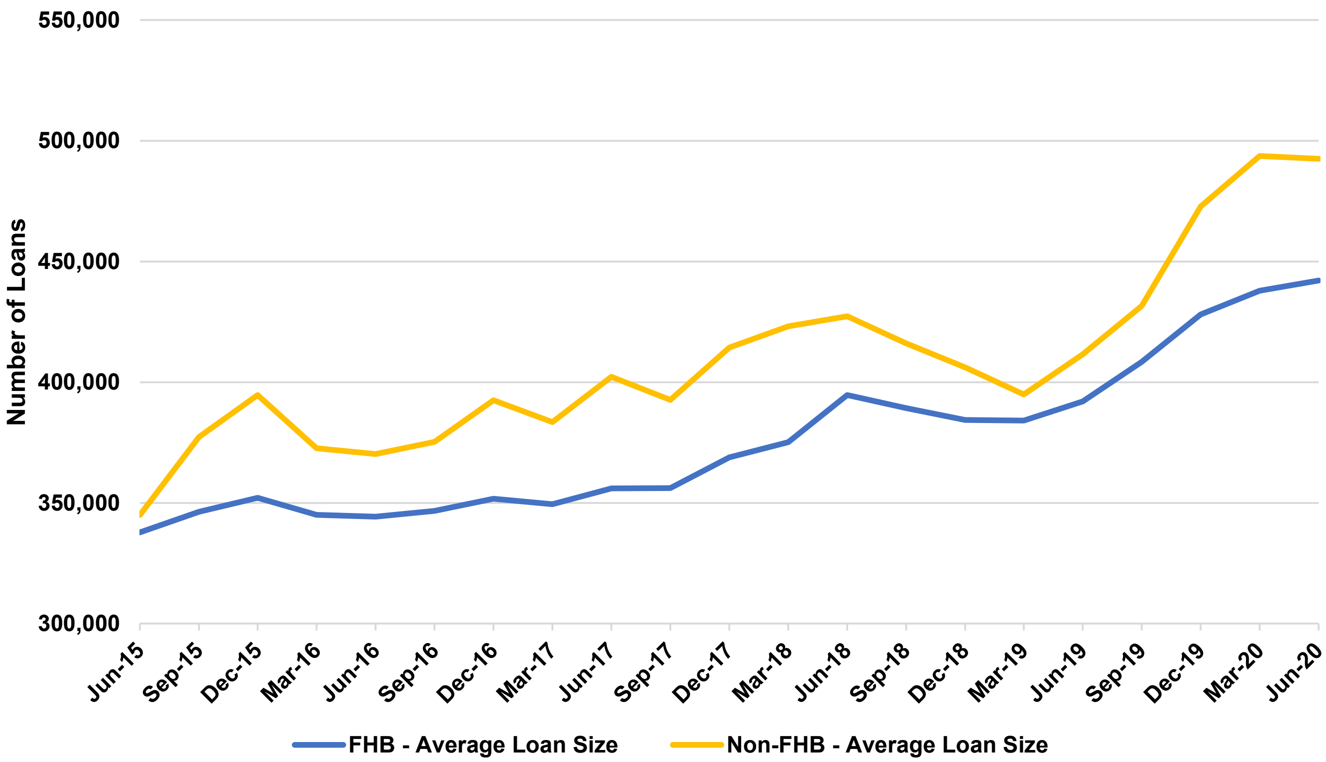
Source: Australian Bureau of Statistics

The number of **new first home buyer loans escalated by 5.7% over June quarter 2020 to 9,119 loans.** Low borrowing costs and the abolishment of stamp duty when purchasing a dwelling for owner occupation up to $600,000 continued to support first home buyer demand, evident by loans also being 11% higher compared to the same quarter in 2019.

In June quarter 2020, non-first home buyers recorded 16,681 loans (excluding refinancing), reflecting a marginal increase of 0.1% from the previous quarter. Significantly, this volume remains relatively low, as weak demand for established dwellings was exacerbated by the ban on street auctions in April and May and discouraged trade up and trade down buyers to sell their existing dwelling. However, with non–first home buyers also eligible to receive to the $25,000 HomeBuilder grant, it is hoped this will promote dwelling demand from this segment of the property market.

As a result, first home buyers share of total new owner occupier loans edged improved to 35.3% in June quarter 2020. This was its highest proportion since the post GFC period when first home buyer stimulus was at its greatest.

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



Source: Australian Bureau of Statistics

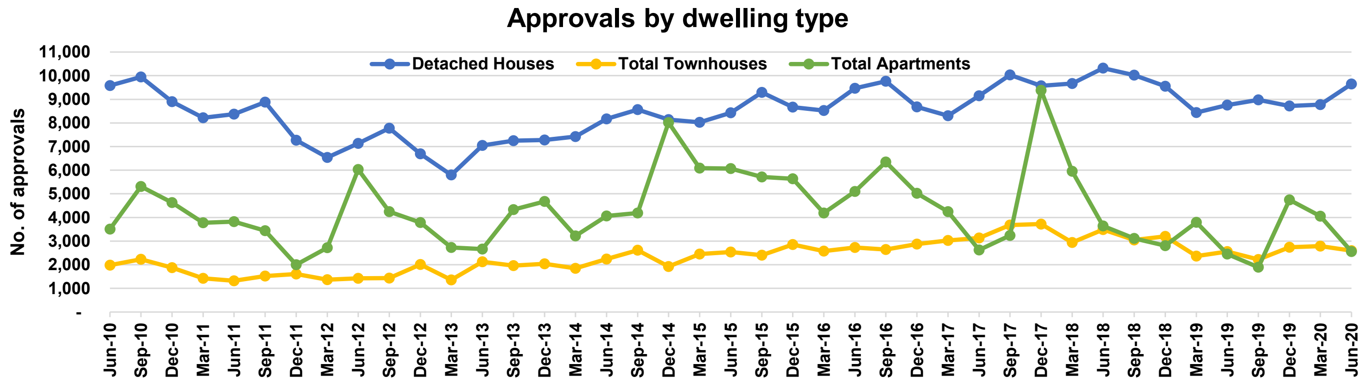
The average loan size to first home buyers in June quarter 2020 increased by 12.8% from the previous corresponding period, while the **average loan size to non-first home buyers accelerated at a faster pace of 19.7%.**

At June 2020, the average loan size attributed to a non-first home buyer was $50,420 above the average loan size to a first home buyer ($442,100).

This divergence in average loan size between first home buyers and non–first home buyers has increased from its narrowest margin of just $10,800 At March 2019.

BUILDING ACTIVITY: VICTORIA

APPROVALS



Source: Australian Bureau of Statistics

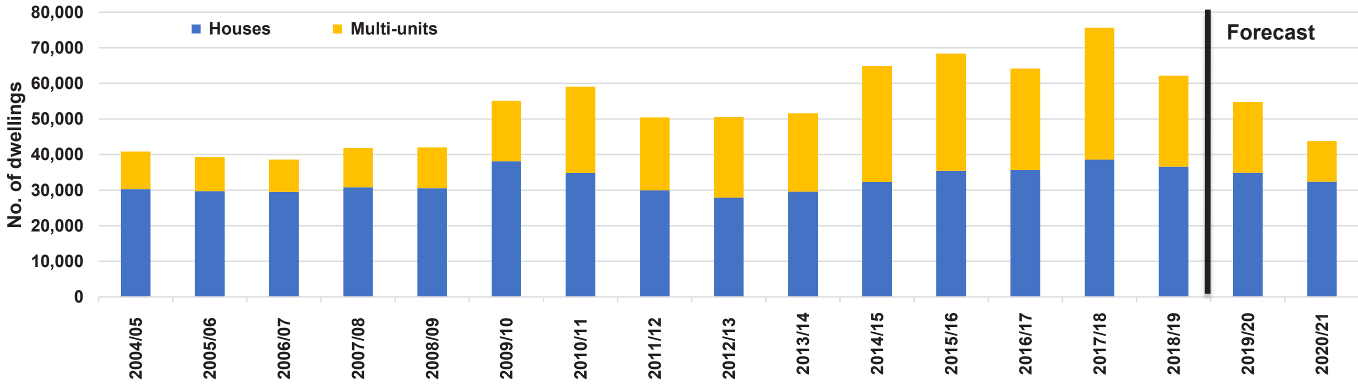
Victoria recorded 14,800 dwelling approvals in June quarter 2020, equating to a 7.6% increase on dwelling approvals in the same quarter in 2019. This has also lifted **total approvals during the twelve months to June 2020 to 59,721 dwellings and be less than 1% below** the corresponding figure twelve months to June 2019.

New detached house recorded 9,648 approvals in June quarter 2020, which represented a solid 10.2% increase on house approvals in the same quarter in 2019. The higher incidence of titled lot sales among increase lot sales through the new house market upturn in late 2019 and early 2020 has supported this growth. Nevertheless, the 36,127 new detached house approvals in Victoria over twelve months to June 2020 still reflect and annual decline of 1.7%. Detached house approvals are expected to be the biggest beneficiary of the HomeBuilder scheme and are likely to increase further through 2020/21.

Approvals of semi-detached/row/terrace houses and townhouses rose by 1.5% annually in June quarter 2020 to 2,594 dwellings. The use of medium density dwellings in greenfield areas has become more prevalent and are contributing to the rebound in medium density dwelling activity. The lengthened six month timeframe between contract signing and construction commencements and the allowance for a townhouse purchaser to access the HomeBuilder as long they are on the registered title by October 2022, should further boost demand for medium density dwellings.

Victoria recorded 2,380 approvals of flats/units/apartments in buildings of 4 storeys of higher in June quarter 2019, which was an increase of 12.4% on approvals in the same quarter in 2018. However, this figure represents a considerable 40% decline from March quarter 2020, and suggests that surging vacancies among inner city properties, due to falling overseas student demand and short term rentals servicing the tourist market reverting to long term rentals with the temporary ban on overseas tourists is leading to approval activity for high density dwellings contracting.

COMMENCEMENTS



Source: Housing Industry Association

Detached house commencements are projected to have declined by 4.6% in 2019/20 to 34,870 starts, with a further 7.1% reduction anticipated over 2020/21 to 32,400 starts.

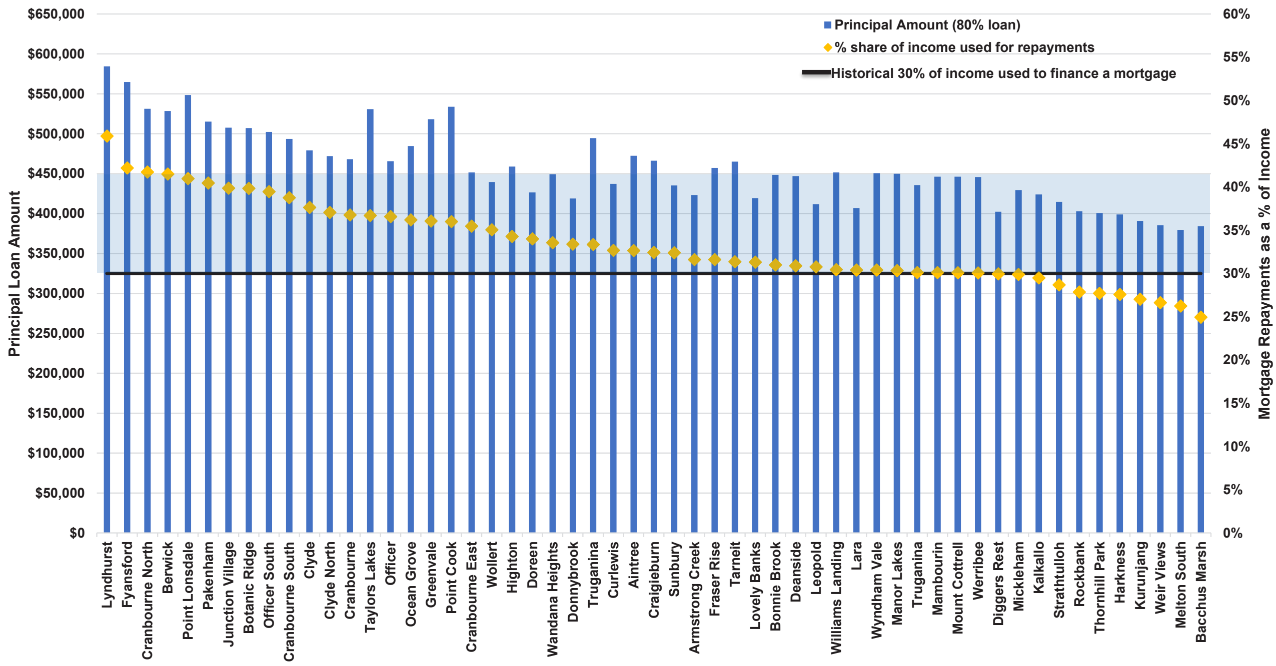
This level of house construction will still be relatively high, supported by the HomeBuilder grant and an increased desire from people for lower density living that affords them more internal space for home offices and storage and their own private outdoor space.

The **declines in multi–unit dwelling commencements are expected to be more substantial, at a projected 22.1% over 2019/20 and 42.7% in 2020/21. As a result, multi–unit starts will fall to 19,930 dwellings in 2019/20 and just 11,410 dwellings in 2020/21.** This will be the lowest level of construction activity since 2007/08.

Falling rents and unattractive yields, stemming from weaker tenant demand and higher vacancies is expected to lead to investors increasingly staying out of the higher density residential market. This sector will not receive much boost from the HomeBuilder scheme as many development s will not meet the tight construction timeframes.

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.*

AFFORDABILITY



Source: Reserve Banks of Australia, Australian Tax Office & RPM Research Division

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 increasing 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.

The chart examines the ratio of mortgage repayments to household income for 55 suburbs throughout the growth corridors of Melbourne and Greater Geelong. Most suburbs have experienced a significant improvement in this ratio through 2019 and into 2020, attributed to median lot prices remaining steady during the initial phase of the upturn in the new house market, and also the changing composition of lot sales to an increasing proportion of small lots.

Overall, 37 suburbs recorded a mortgage to household income ratio of up to 35%, two thirds of all identified suburbs. Median lot prices in most of these suburbs were more affordable as a result of being a larger development front and containing an abundance of greenfield land, or containing a relatively higher composition of medium density lots amongst total lot sales. High household incomes in Wyndham and Hume reduced the mortgage to household income ratio for many of municipality's suburbs into this bracket.

A further 13 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. Over two thirds of these suburbs were in the south east growth areas of Casey and Cardinia, highlighting their relatively more expensive lot prices. The more expensive median lot price in other suburbs was attributed to limited competition and subdued new lot supply applying upward pressure to lot prices (Greenvale, Point Cook, Taylors Lakes, Ocean Grove).

The ratio of mortgage repayments to household income was above 40% in just 5 suburbs. Lyndhurst, Berwick and Cranbourne North are well established development fronts, with new housing more so resembling infill rather than greenfield development, while larger lot sizes in Point Lonsdale and Fyansford elevated its median lot price.

CALCULATION ASSUMPTIONS

The chart on the previous page depicts the median lot price in June quarter 2020 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 $225,500 (Whittlesea) to $259,000 (Casey) 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 June 2020 of 3.65%.

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 in house 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.

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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
- Over 1,500 lots sold over Financial Year 2019
- 40 active projects
- 37,000+ total yield of current projects

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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.

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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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