



URBAN IQ

Property Market Snapshot

Q1 2022

RPM²

Urban IQ

UDIA RESEARCH AND MARKET INSIGHTS

Q1 2022

URBAN IQ is a quarterly research report for the Victorian urban development industry.

www.udiavic.com.au

Thank you to UDIA platinum partner

RPM[®]

for providing the information contained within this report.

Disclaimer

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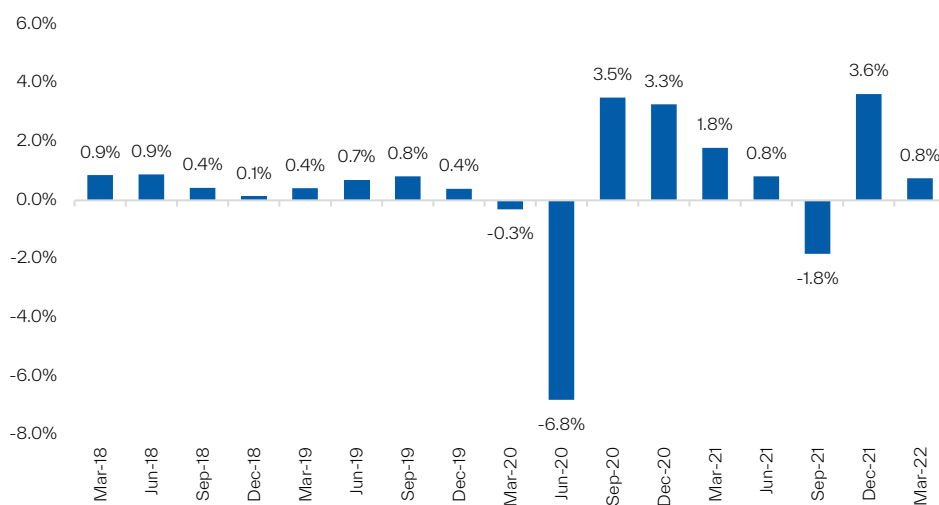
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Economic Overview

Australia's economy remains resilient despite significant headwinds. Gross domestic product (GDP) increased 0.75% in Q1 2022, riding out the Omicron peak in January, severe weather events in NSW, QLD and SA.

GROSS DOMESTIC PRODUCT

% Change

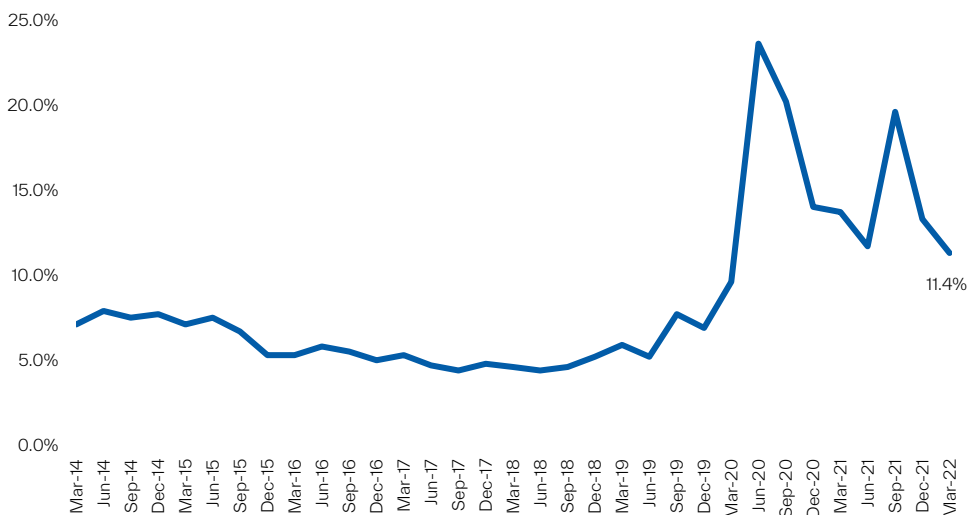


Australia's GDP increased 5.31% in the 12 months to Q1 2022

Source: Australia Bureau of Statistics

HOUSEHOLD SAVINGS RATIO

Ratio

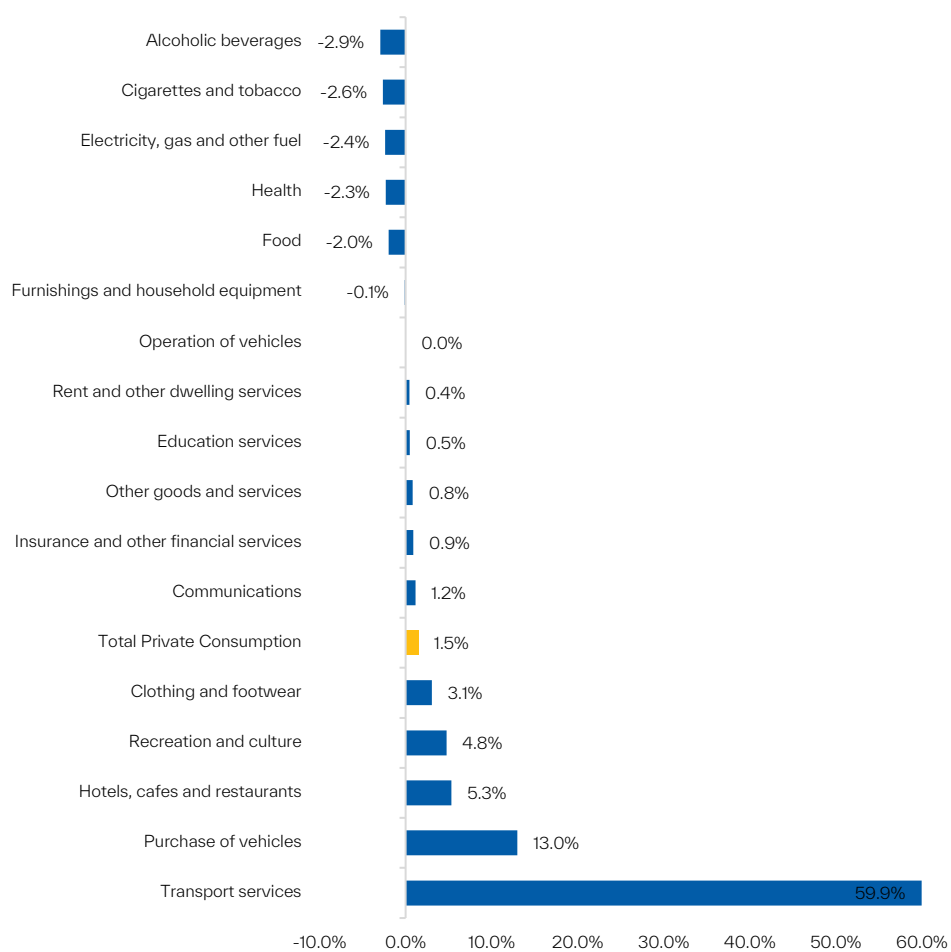


While still relatively high (11.4%), the household savings ratio is well down from the peaks seen through 2020 and 2021.

Source: Australia Bureau of Statistics

HOUSEHOLD CONSUMPTION

Quarterly Change in Household Consumption Expenditure



Overall private consumption, the largest segment of GDP, escalated by a solid 1.49% over the quarter.

Source: Australia Bureau of Statistics

INTEREST RATES

0.85% Cash Rate (June 2022)

4.77% Standard Variable Rate for Owner Occupiers

3.70% Discounted Variable Rate

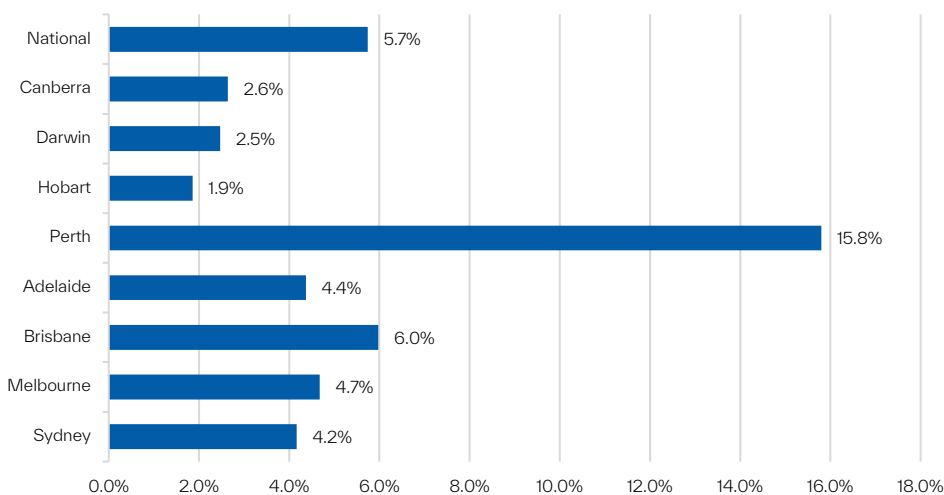
4.72% 3 Year Fixed Rate

The RBA has increased the cash rate by 75 basis points in the last two months. This has been in response to stronger than expected inflation of 5.1% in Q1 2022, double the target band of between 2 and 3%.

Source: RBA - May 2022

CPI AND THE NEW DWELLING INDEX

Quarterly & Change in New Dwelling Purchase Index



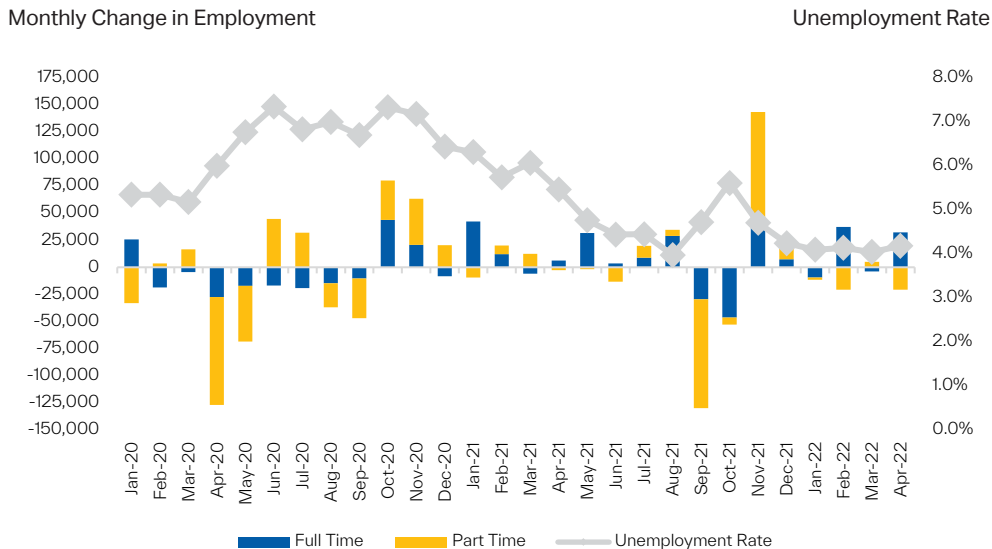
5.09%
Australian CPI Q1 2022

5.7%
CPI Index for New Dwellings
Q1 2022

0.6%
CPI Index for Rents
Q1 2022

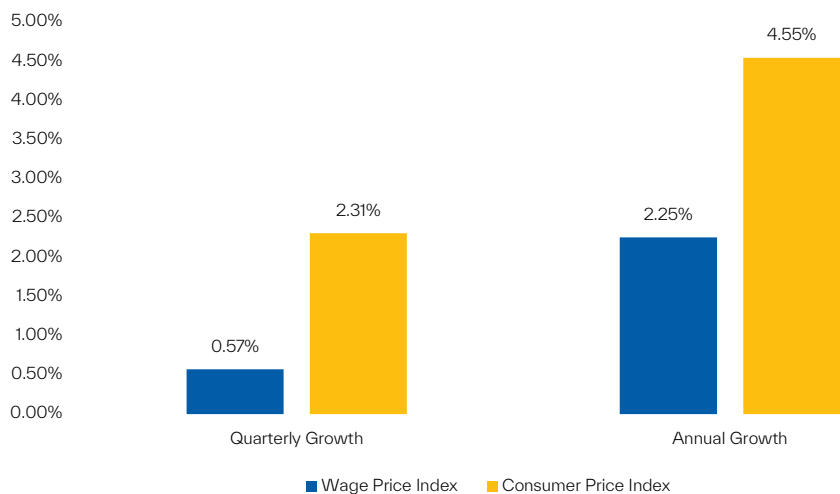
Source: Australian Bureau of Statistics

LABOUR MARKETS



Growth in full time employment has been strong in Victoria, with the state adding 65,500 full time jobs in Q1 2022. Overall unemployment is hovering around the 4% mark.

Wages vs. CPI

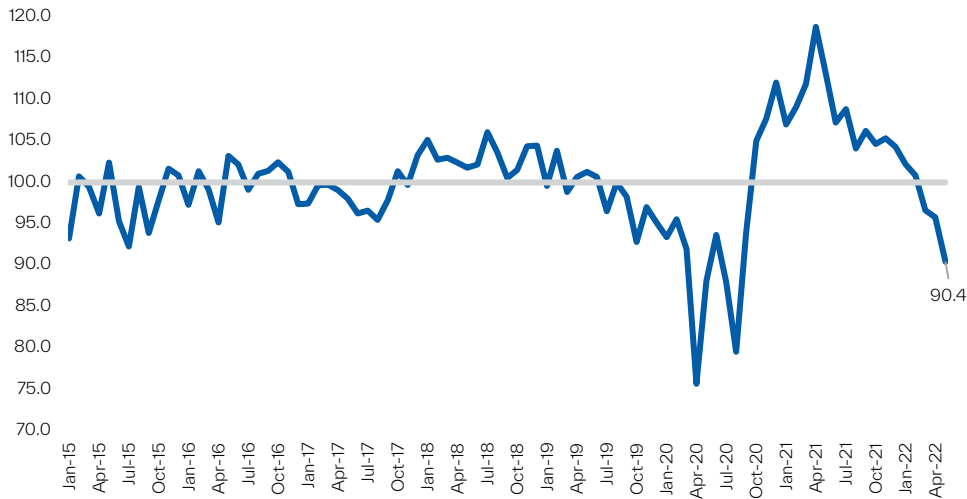


The tight employment market has not yet manifested in higher wages with CPI growth outpacing wage growth.

Source: Australian Bureau of Statistics

MARKET SENTIMENT

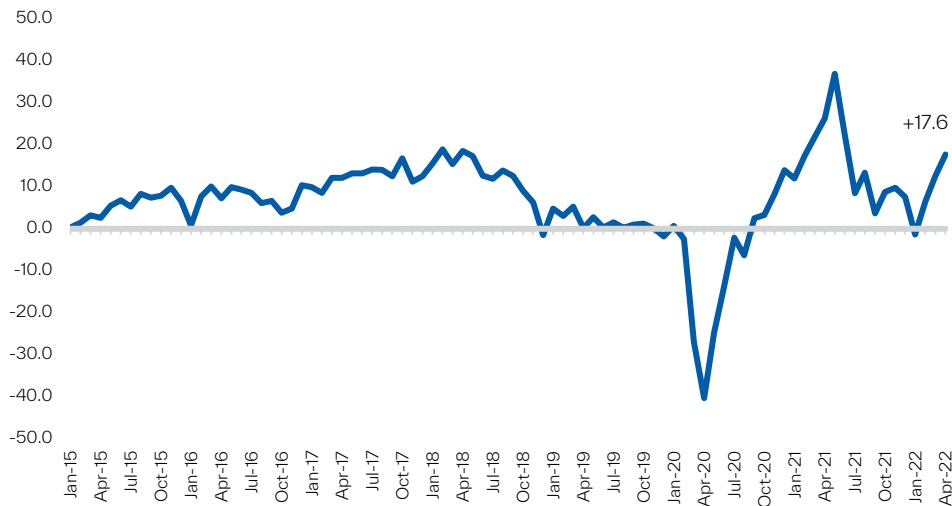
Consumer Sentiment - Index = 100



Rising cost of living expenses and the expectation of escalating interest rates has driven a deterioration of the index to 90.4. It's lowest reading since August 2020 or Victoria's second major lockdown.

Source: Westpac-Melbourne Institute Consumer Sentiment Index

NAB Business Conditions Index



While businesses have encountered higher input costs, trading and profitability conditions remain strong with consumer demand remaining strong and businesses able to maintain profit margins.

Source: National Australia Bank Business Survey

VICTORIAN POPULATION

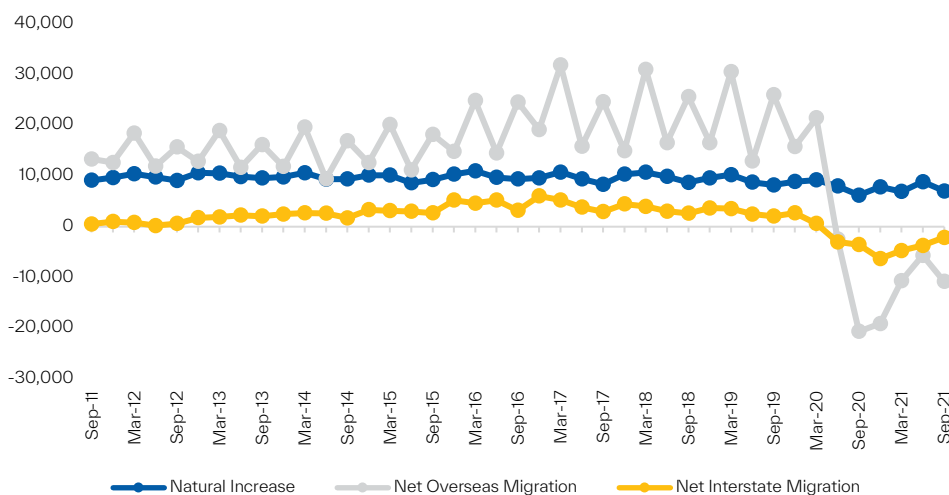
Victoria's population declined by 6,004 during Q3 2021 (latest available data). Natural increase rose, but was offset and then some by both overseas and interstate migration recording outflows of 10,828 and 2,128 respectively.

Latest Australia Government projections released in April 2022 forecast a return to population growth with a net inflow of 11,000 over 2021-22, and escalating to +65,300 over 2022-23.

6,643,062

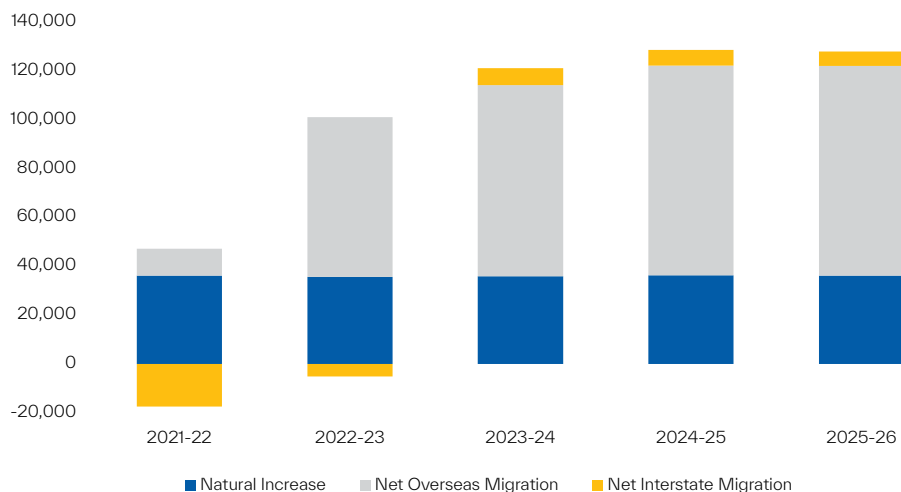
Victorian Population
Q3-2021

Population Components



Source: Australian Bureau of Statistics

Population Projections



Source: Australian Government Centre for Population

MELBOURNE RESIDENTIAL MARKET



\$1,121,500

Median House Price

-0.3% change from Q4 2021
+11.3% from Q1 2021



\$684,000

Median Unit Price

-0.9% change from Q4 2021
+2.8% from Q1 2021

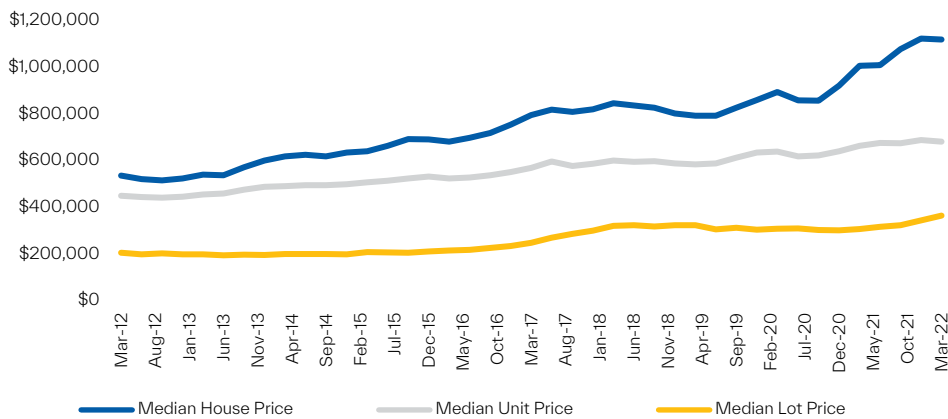


\$366,000

Lot Price

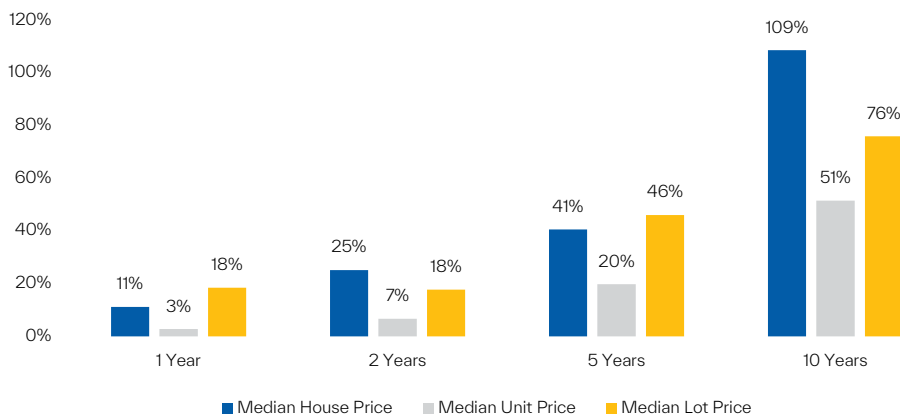
+5.9% change from Q4 2021
+18.4% from Q1 2021

Median Price



Source: Real Estate Institute of Victoria & RPM Group

Price Change



Source: Real Estate Institute of Victoria & RPM Group

The relative affordability advantage of new homes in growth areas over established dwellings is pushing buyers out from middle rings suburbs, and promoting lot price growth.

Building Activity

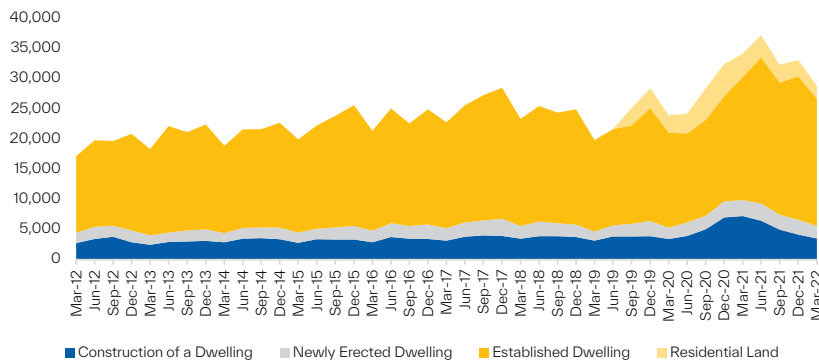
VICTORIA BUILDING AND FINANCE ACTIVITY



28,814

Total Owner Occupier Loan Approvals
-13% vs last quarter

New Loan Applications



Source: Australian Bureau of Statistics



\$498,585

Average FHB loan size (+0.6%)

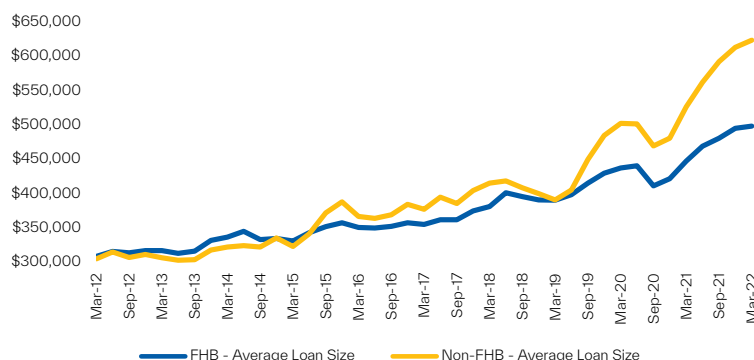
Attributable to better performance of properties at the affordable end of the market.

The total value of new owner occupier loans contracted in Q1 2022, down 10.2% from the previous quarter.

Apartment Activity

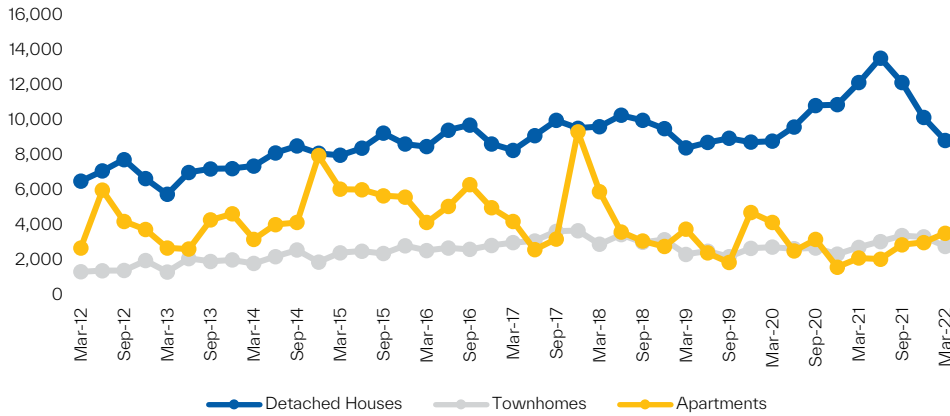
3,408 apartment approvals were recorded, a quarterly rise of 20.9% and a doubling year-on-year.

Average Loan Value



APPROVALS AND COMMENCEMENTS

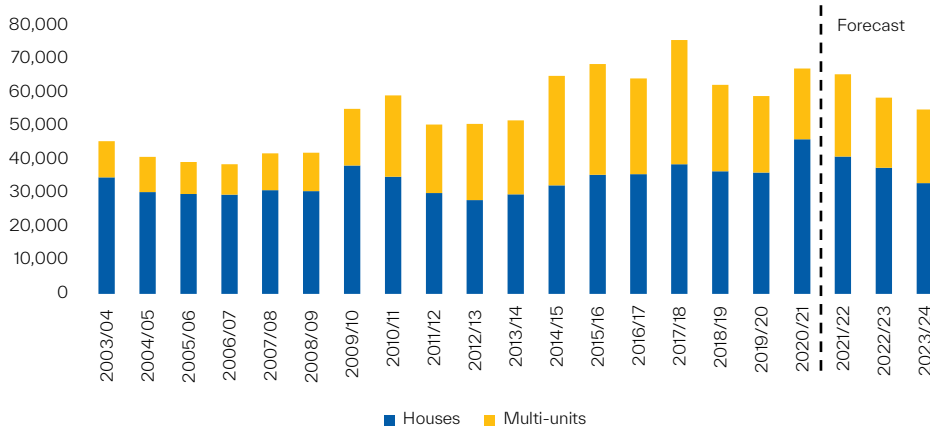
Approvals



Source: Australian Bureau of Statistics

Victoria recorded 15,260 dwelling approvals in Q1 2022, down 8% from last quarter, but up 8.5% year on year. HomeBuilders impact on numbers is largely now exhausted, with approvals back to the same levels before its introduction, and recent sales activity reflecting lots with longer title time-frames.

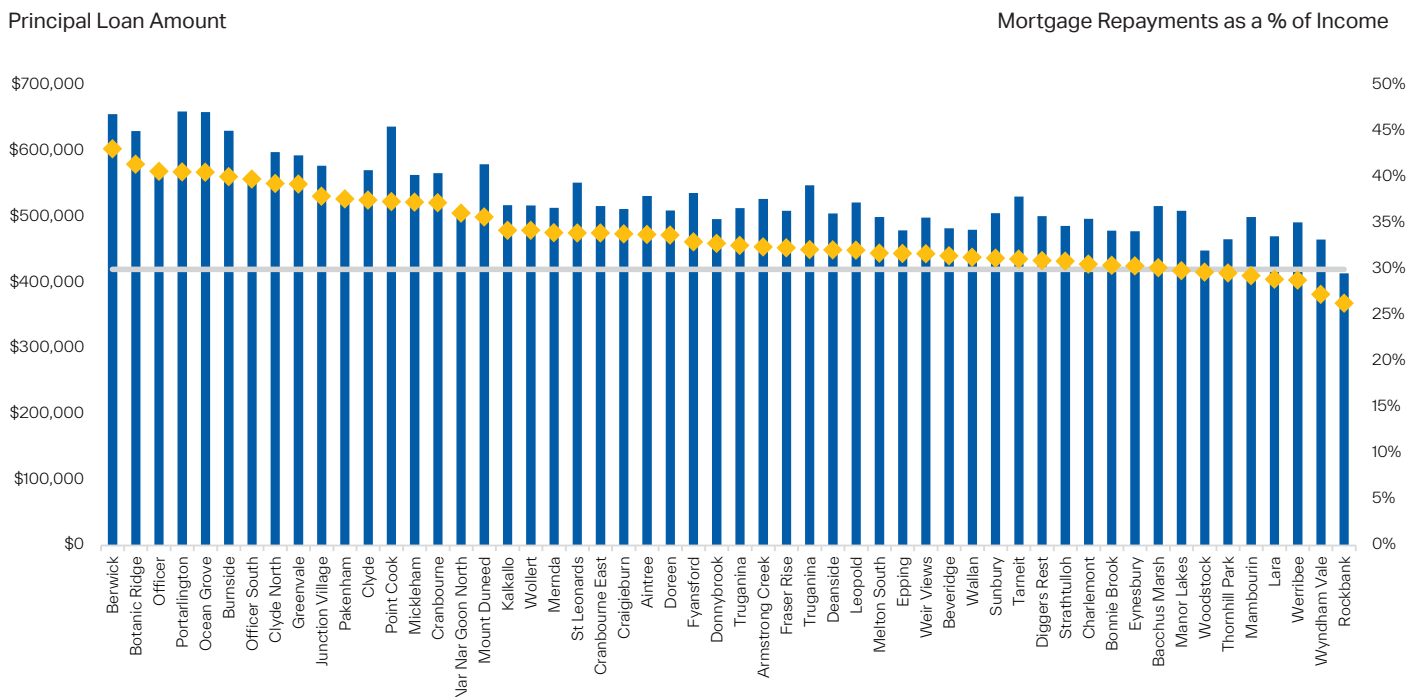
Commencements



Source: Housing Industry Association

The pull-forward of demand over the last two years means new house demand is anticipated to weaken from 2022-23, exacerbated by interest rate rises.

GROWTH AREA AFFORDABILITY



Source: RBA, ATO & RPM Group

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 35% to 40% to reflect the market of today.

Overall, 37 suburbs recorded a mortgage to household income ratio of below 35%.

A further 10 suburbs recorded a mortgage to household income ratio from 35% to 39%, with this level being synonymous with the emergence of constrained affordability. Many of these suburbs are established development fronts with low stock levels, allowing estates to push up prices.

The chart depicts the median lot price in Q1 2022 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 \$262,500 (Mitchell) to \$315,625 (Moorabool) 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 in March 2022 of 3.45%.

Outlook

Tailwinds



RE-OPENING OF STATE AND INTERNATIONAL BORDERS

Net overseas migration is a key driver of economic growth. Its return will boost economic activity and alleviate staff shortages currently experienced across industries.



TIGHT LABOUR MARKET TO UNDERPIN WAGE GROWTH

Low unemployment (currently 3.9% nationally at April-22), is expected to persist, with anticipated wage growth somewhat offsetting stronger inflation and interest rate rises.



CONSIDERABLE PIPELINE OF RESIDENTIAL CONSTRUCTION PROJECTS

The success of homebuilder and the record breaking year that was 2021 will continue to feed public and private dwelling investment.



AUSTRALIAN ENERGY TO BENEFIT

Australia is set to post larger energy revenues as a result of the conflict in Eastern Europe.

Headwinds



ONGOING CONFLICT IN EASTERN EUROPE

May exacerbate supply chain issues, resulting in further inflationary pressures, particularly on oil.



INTEREST RATE RISES AND STRONG INFLATION THROUGH 2022

To reduce buyer capacity and household expenditure.



ONGOING RISK OF FURTHER COVID-19 VARIANTS





RPM Group is a true industry leader, pioneering new benchmarks in market intelligence, know-how and innovation. With a proven track record spanning almost 30 years, our unsurpassed market knowledge and data-driven insights have ensured our partners achieve excellent outcomes, and our clients, exceptional returns.

A full-service property business, we pride ourselves on customer service through every step of the process, from site diligence, acquisition and master-planning, through to launch, marketing and sales strategies. Our continued expansion and re-investment into our research services mean we offer unsurpassed market intelligence and data-driven insights to our clients, to help drive the continued growth of their projects and asset portfolio.

AT A GLANCE

- 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
- \$3 billion englobo land transactions
- 3,000 property sales in the last 12 months
- 40+ active projects
- 40,000+ total yield of current projects

UDIA

These values 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.



TRUST

Trusted by governments, regulators, industry, media and the public.



COLLABORATION

Engage in genuine collaboration to yield positive community outcomes.



RESPECT

Ethical conduct, and respect for people and the environment.



RECOGNITION

Celebrate the good, hard work of Victoria's urban development industry.



IMPACT

Work that makes a meaningful impact.



INNOVATION

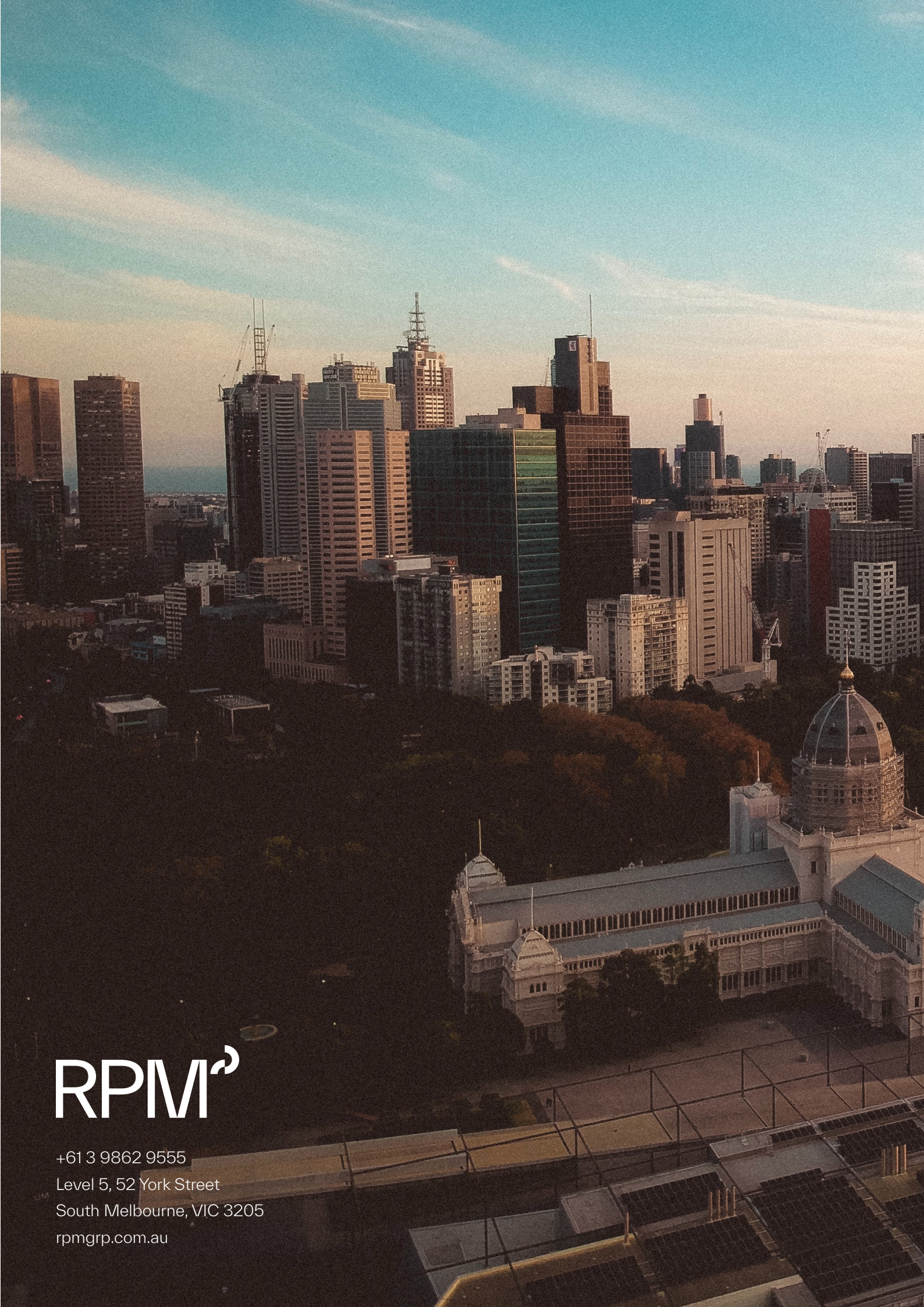
Embrace innovation while maintaining respect for our history.

The Victorian division of the Urban Development Institute of Australia (UDIA Victoria) is a non-profit, peak industry body. We are supported by a membership of land use and residential property development organisations, across the private sector and Victoria's public service.

Since 1975, UDIA Victoria has given industry a voice in the policy-making process. We tackle the issues having the biggest impact on Victoria's liveability – spanning topics such as the planning system, housing affordability, infrastructure, sustainability, employment and the economy.

Our suite of research and education initiatives ensures the urban development industry is best-placed to meet Victoria's housing, employment, and social needs.

Our events and annual awards program connect and celebrate the people who breathe life into Victoria's urban heartbeat.



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