



URBAN IQ

Property Market Snapshot

SEPTEMBER 2022

RPM²

Urban IQ

UDIA RESEARCH AND MARKET INSIGHTS

September 2022

URBAN IQ is a 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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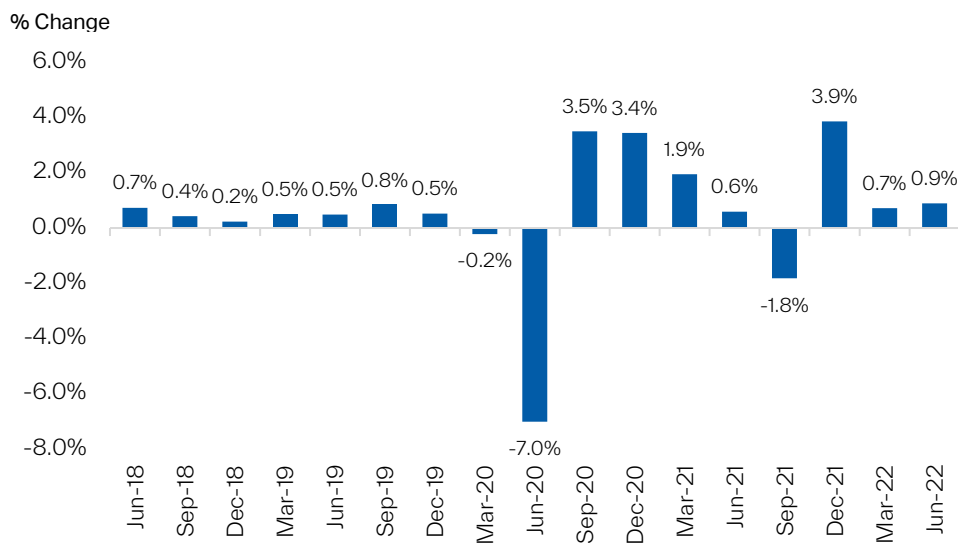
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Economic Overview

Economic discussions across Australia continue to focus on the rising interest rates, and what they mean for household finances and property prices.

GROSS DOMESTIC PRODUCT

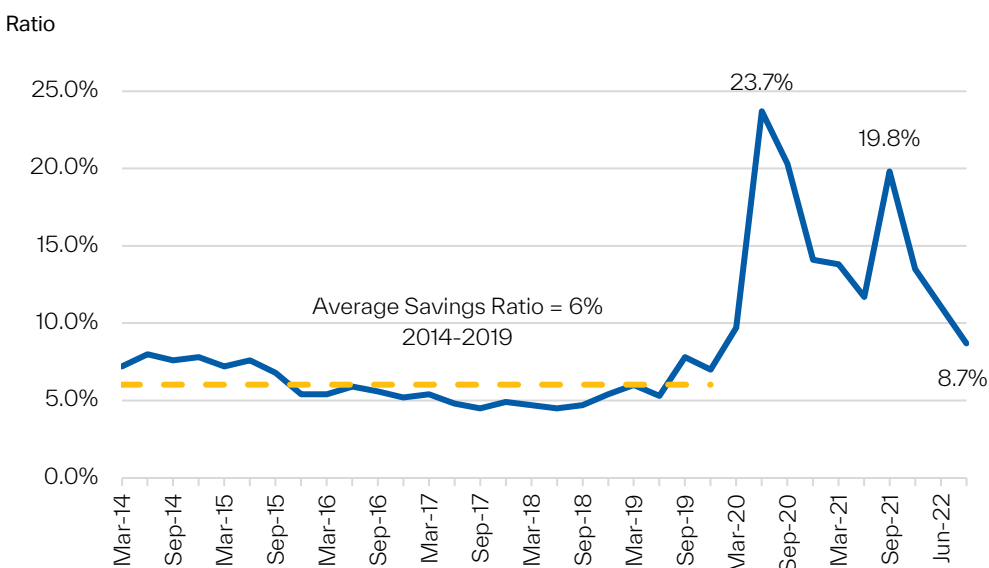


Source: Australian Bureau of Statistics

Australia's GDP increased 0.89% in Q2 2022, leading to 3.88% annual growth.

This remains above the long term average.

HOUSEHOLD SAVINGS RATIO

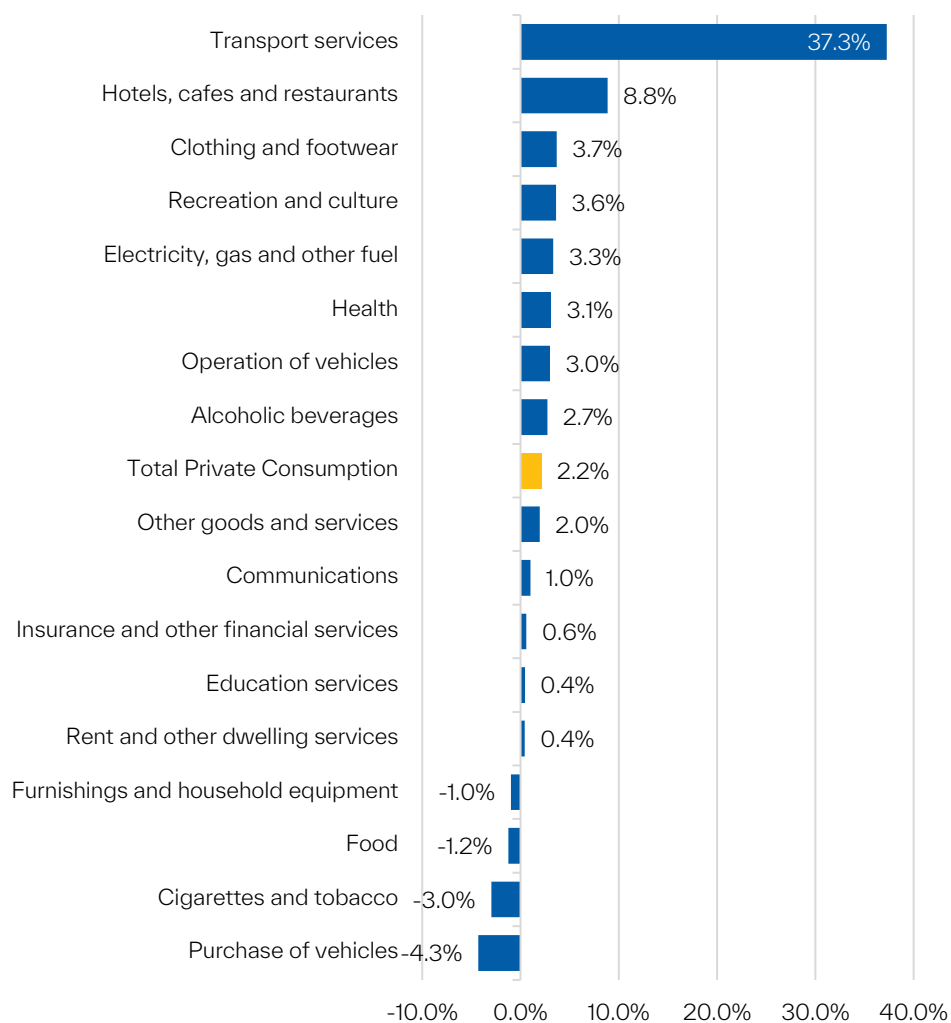


Source: Australia Bureau of Statistics

Household savings ratio remains elevated at 8.7%, but increasing cost of living pressures are leaving an impact.

HOUSEHOLD CONSUMPTION

Quarterly Change in Household Consumption Expenditure



Services expenditure rose 3.6% underpinned by latent spending in sectors impacted by mobility restrictions.

Source: Australia Bureau of Statistics

INTEREST RATES



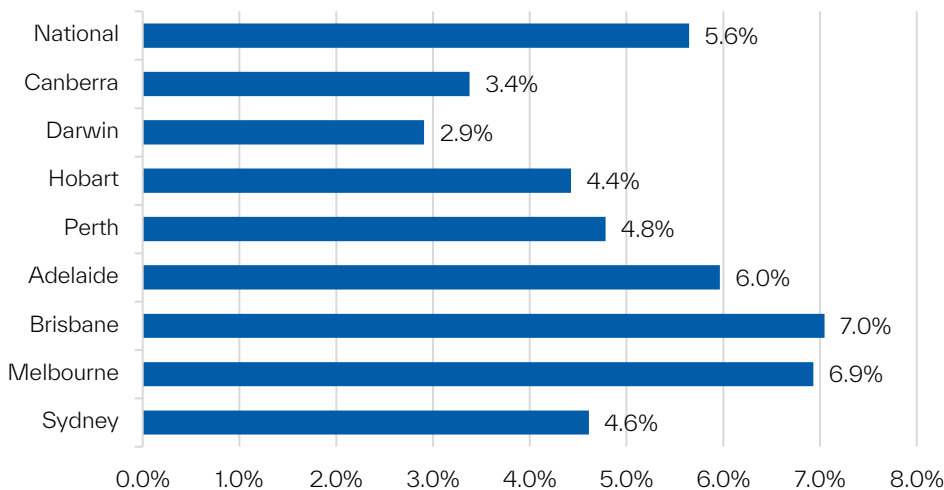
The RBA has now increased the cash rate by 225 basis points in just 5 months. This marks the most rapid increases observed since 1994.

This is in response to persisting inflation, which has jumped 6.14% year on year.

Source: RBA - September 2022

CPI AND THE NEW DWELLING INDEX

Quarterly & Change in New Dwelling Purchase Index



6.14%

Australian CPI Q2 Y.O.Y

5.6%

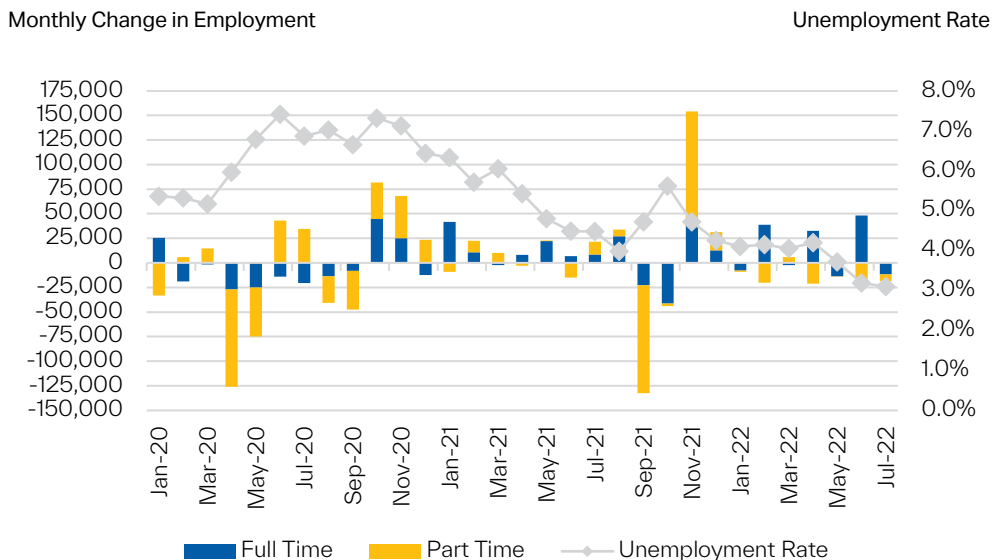
CPI Index for New Dwellings
Q2 2022

0.71%

CPI Index for Rents
Q2 2022

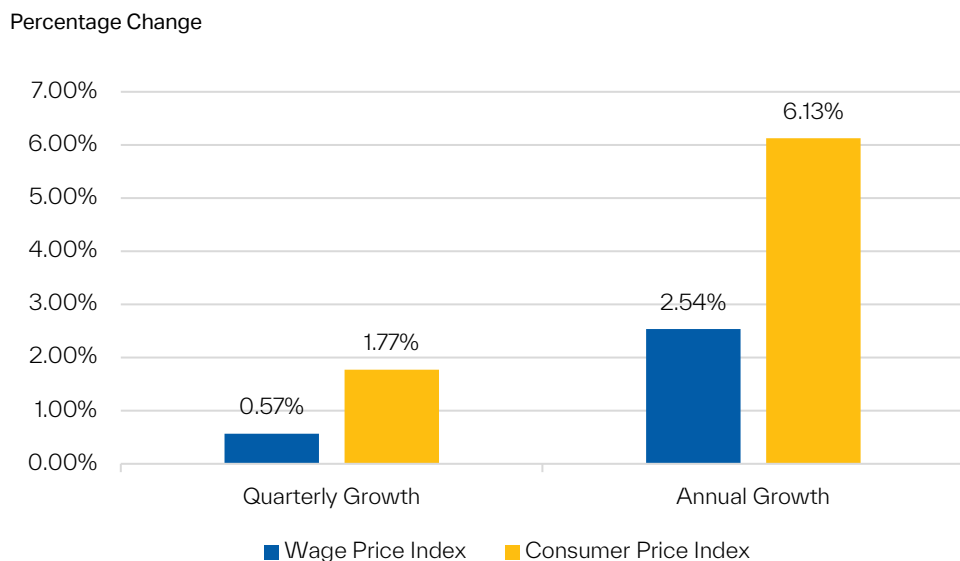
Source: Australian Bureau of Statistics

LABOUR MARKETS



Employment remains a bright spot in Victoria, with the state adding 22,600 full time jobs in Q2 2022, or 64% of all job creation nationally.

Wages vs. CPI

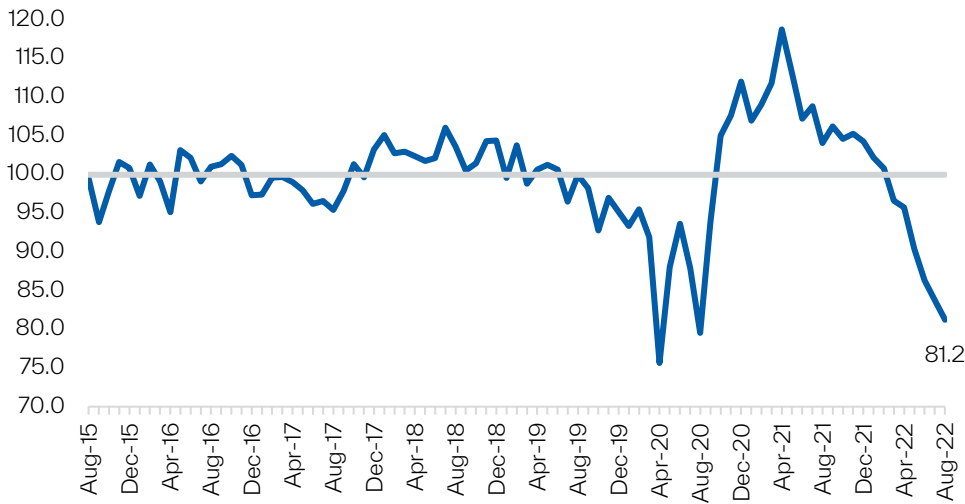


The tight employment market is starting to initiate higher wage growth, however this still remains below CPI.

Source: Australian Bureau of Statistics

MARKET SENTIMENT

Consumer Sentiment - Index = 100

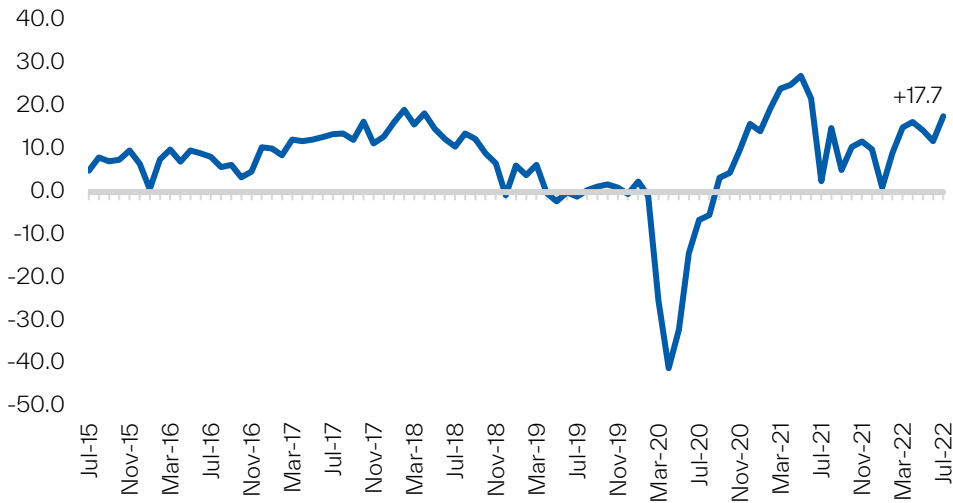


Source: Westpac-Melbourne Institute Consumer Sentiment Index

Consumer sentiment has continued to deteriorate since our last reading in April (90.4) to now sit at 81.2.

High inflation the increasing cash rate and subsequent borrowing rate rises are key contributors.

NAB Business Conditions Index



Source: National Australia Bank Business Survey

Businesses have remained optimistic through 2022. Record capacity utilisation and price rises have driven growth in the sub categories of trading, profitability and employment.

Victorian Population

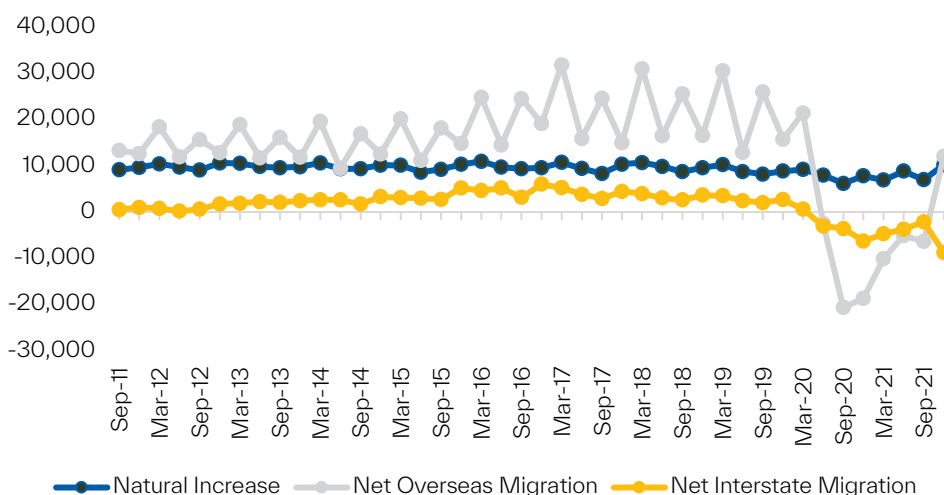
Victoria's population increased by 13,471 in Q4 2021 (latest available data), the first increase observed since June 2020.

Latest Australia Government projections released in April 2022 forecast a return to population growth of +65,300 over 2022-23, before returning to pre-pandemic levels from 2023-2024.

+13,471

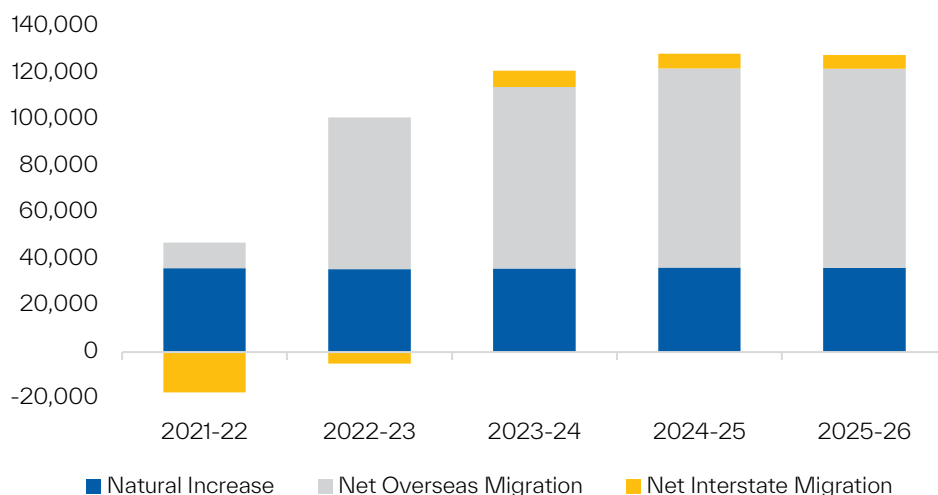
Victorian Population Growth
Q4 2021

Population Components



Source: Australian Bureau of Statistics

Population Projections



Source: Australian Government Centre for Population

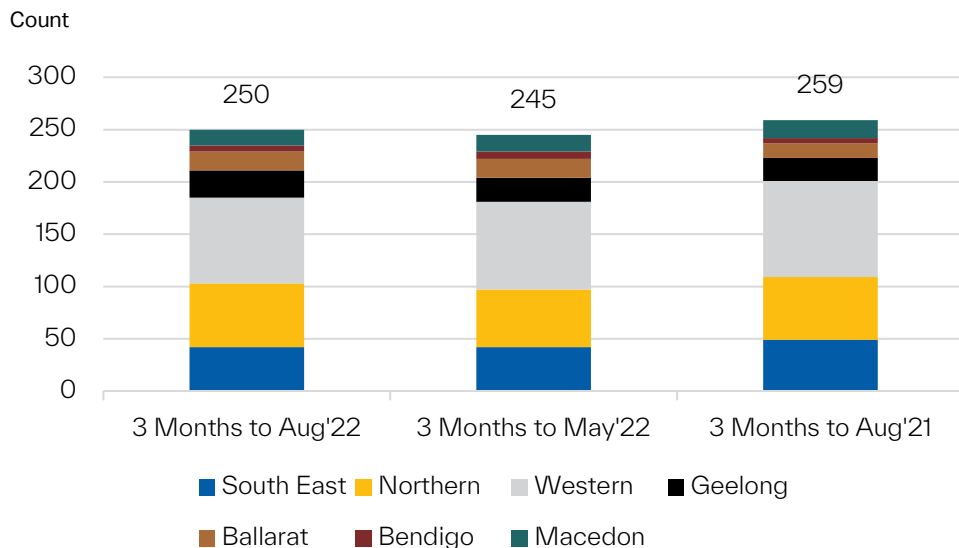
Land Market Snapshot



Growth areas included in land market analysis are:

- South East (LGAs of Casey and Cardinia)
- Northern (LGAs of Hume and Whittlesea, and Beveridge-Wallan area)
- Western (LGAs of Melton and Wyndham, and Bacchus Marsh area)
- Geelong LGA
- Ballarat LGA
- Bendigo LGA
- Macedon (LGA of Macedon Ranges and Mitchell (part))

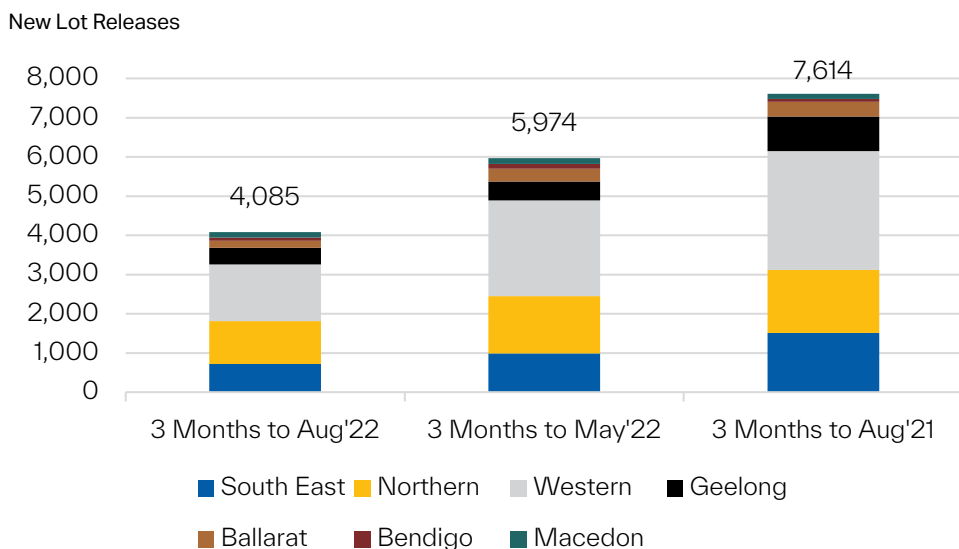
ACTIVE ESTATES



The most recent increase in active estates has occurred in the Northern and Geelong growth areas.

Source: RPM Research & Data Division

LOT SUPPLY

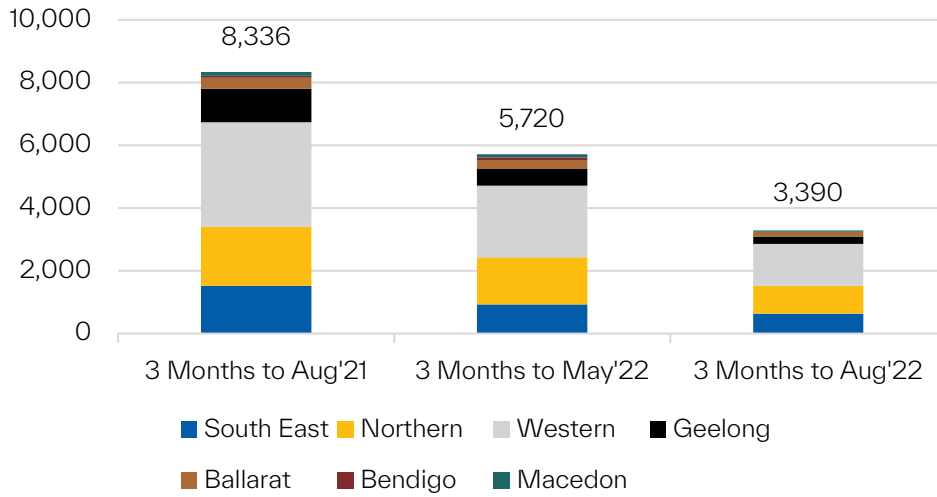


Despite active estates increasing, new lot supply during the three months to August 2022 diminished, compared to the previous three months. This is likely attributed to lower levels of absorption, with the 4,085 lot releases still being 21% above lot sales.

Source: RPM Research & Data Division

LOT SALES

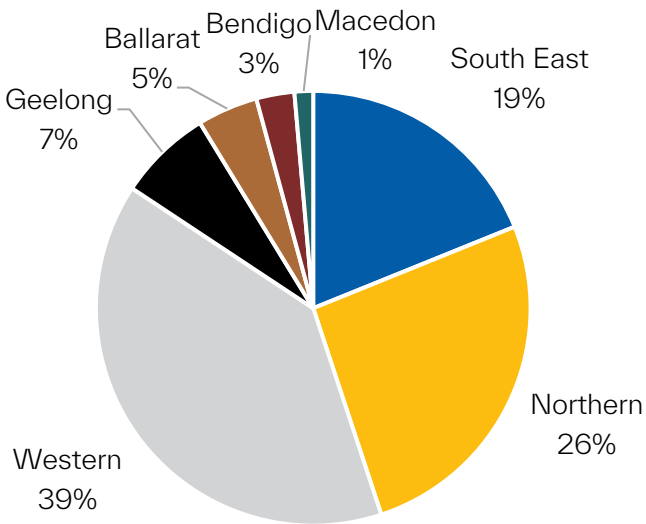
Gross Lot Sales



The combined growth areas experienced a pull forward in demand in 2021, creating a vacuum in demand. This is exacerbated by cost of living pressures, and high construction costs.

Source: RPM Research & Data Division

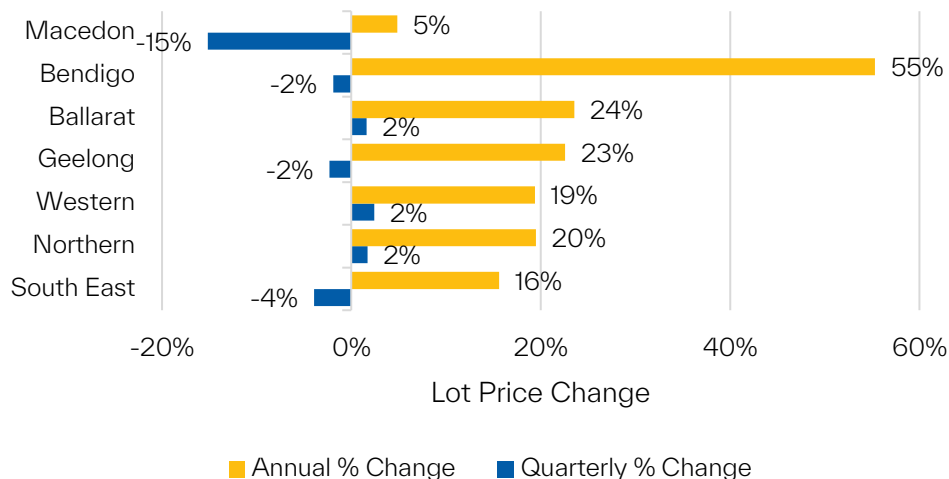
SHARE OF SALES BY CORRIDOR



Source: RPM Research & Data Division

LOT PRICE CHANGE

Percentage Change

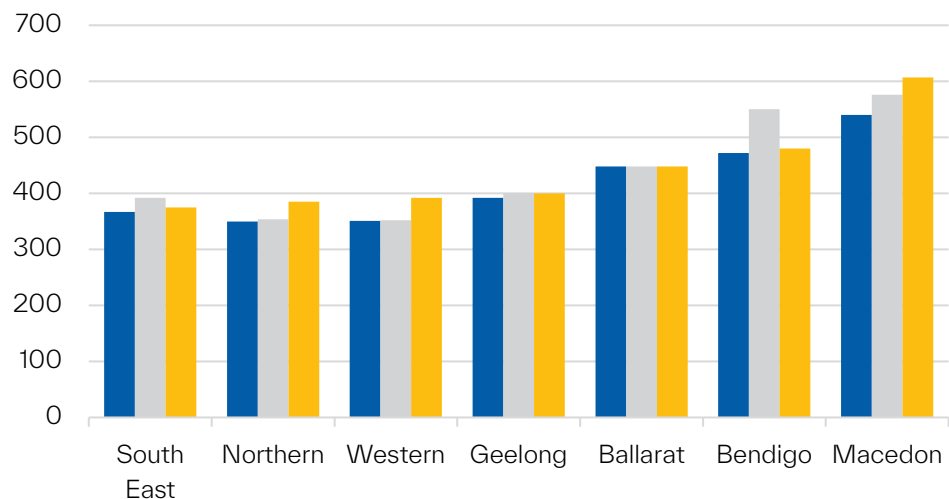


While annual lot price growth rates remain significant, median lot prices across the growth areas are now stabilising, with higher interest rates and construction costs leading to affordability concerns intensifying

Source: RPM Research & Data Division

LOT SIZES

Median Lot Size (sqm)



New home demand has shifted markedly through 2022, with buyers increasingly favouring smaller lots to compensate for higher build costs and increased borrowing repayments

Source: RPM Research & Data Division

Melbourne Residential Market



\$1,081,000

Median House Price

-2.9% change from Q1 2022
+6.8% from Q2 2021



\$670,500

Median Unit Price

-1.3% change from Q1 2022
-1.1% from Q2 2021

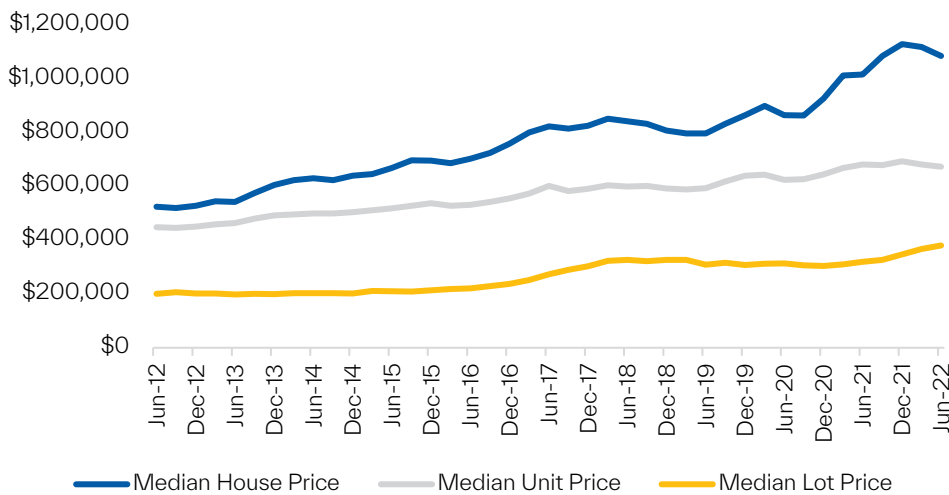


\$379,000

Lot Price

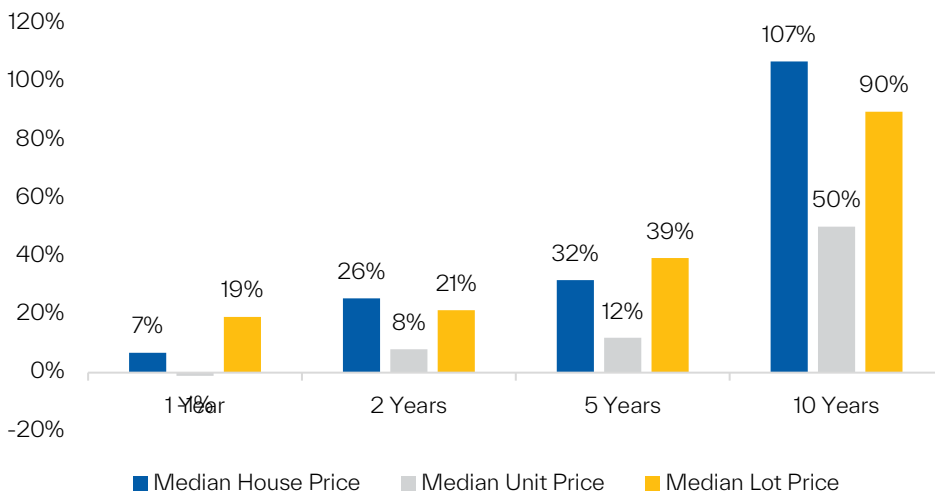
+3.6% change from Q1 2022
+19.2% from Q2 2021

Median Price



Purchasers are becoming increasingly cautious, as ongoing interest rate rises take their toll.

Price Change



Source: Real Estate Institute of Victoria & RPM Group

Building Activity

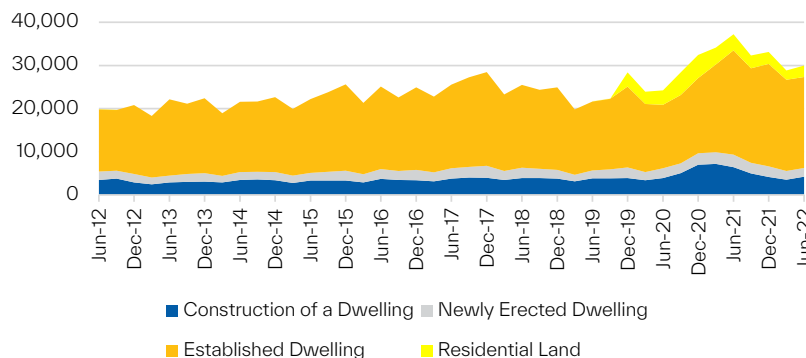
VICTORIA BUILDING AND FINANCE ACTIVITY



29,969

Total Owner Occupier Loan Approvals
+4% vs. last quarter

New Loan Applications



Source: Australian Bureau of Statistics



\$502,629

Average FHB loan size (+0.8%)

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

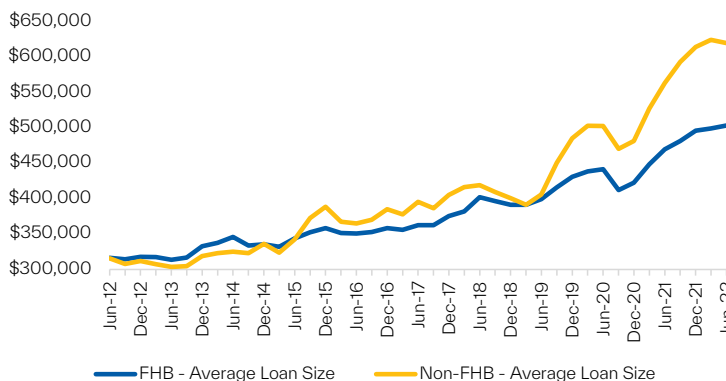
The total value of new owner occupier loans (excluding refinancing) increased by 3.9% over the quarter, but is down 9% year-on-year.

Townhome Activity

12,814 townhome approvals were recorded in the 12 months to Q2.

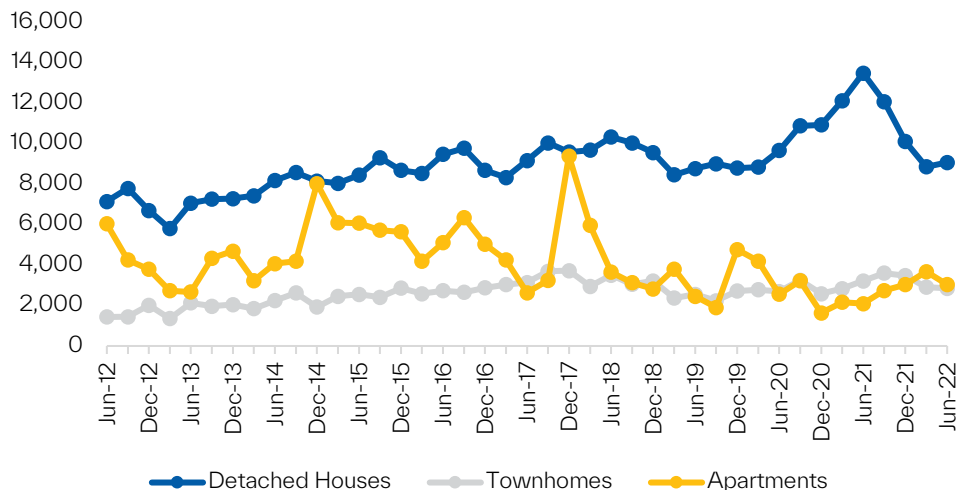
Up 8% year on year.

Average Loan Value



APPROVALS AND COMMENCEMENTS

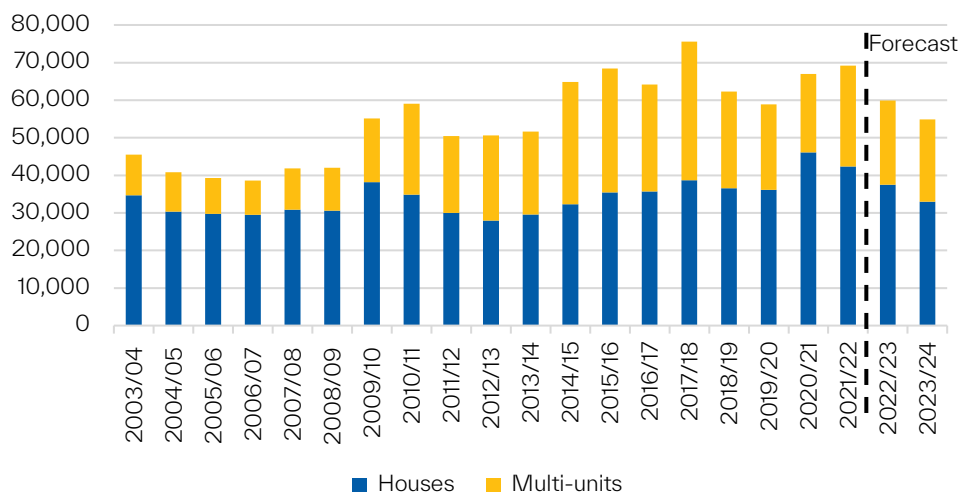
Approvals



Victorian dwelling approvals were down 3.2% in Q2 to 14,932 with the fall in detached house approvals the greatest contributor. This reflects a return to pre-HomeBuilder levels.

Source: Australian Bureau of Statistics

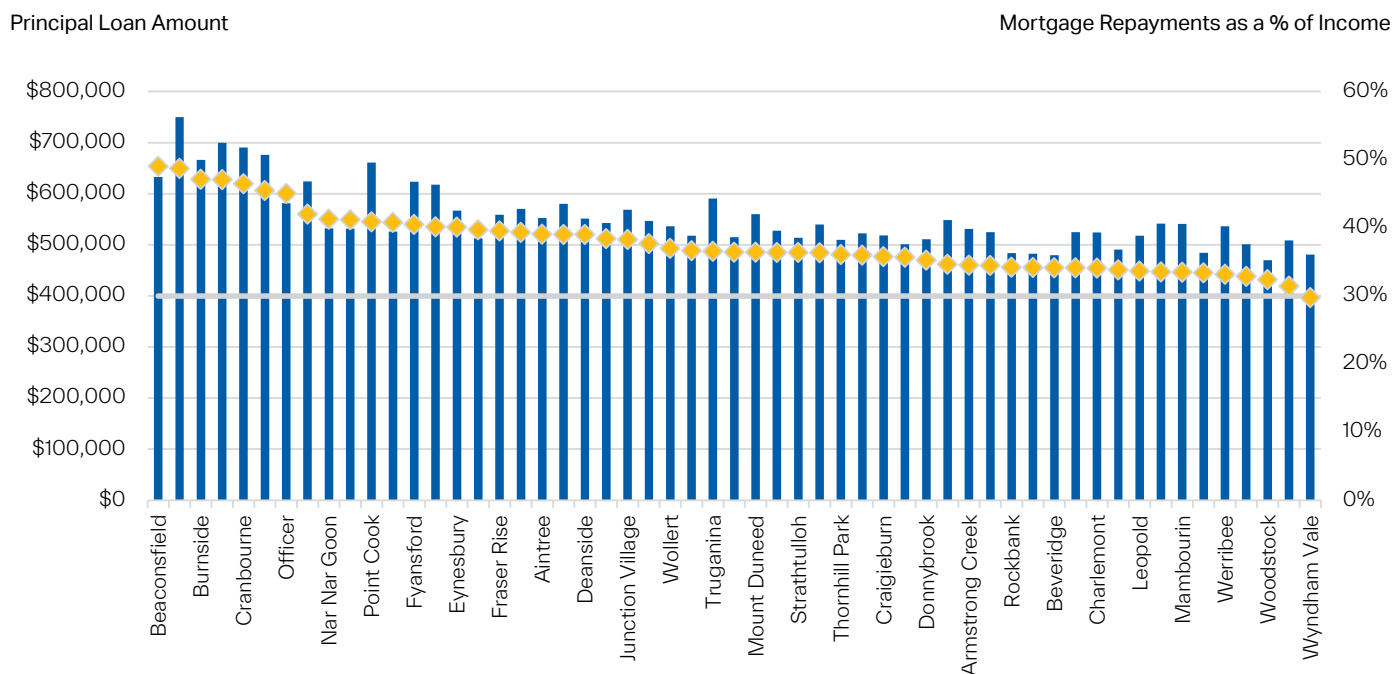
Commencements



House commencements have increased to a record 40,060 over 2020-21 on the back of extremely strong lot sales activity through the HomeBuilder period. Due to this pull forward in demand, commencements are anticipated to soften in 2022-23.

Source: Housing Industry Association

Growth Area Affordability



Source: RBA, ATO & RPM Group

Historically, the common benchmark for identifying housing stress in Australia has been identified as those that allocate at least 30% of disposable household income to finance their mortgage. This ratio has been in place for decades but recently, there is a growing view that the ratio should be closer to 35% to 40% to reflect today's market.

Overall, just 16 suburbs recorded a mortgage to household income ratio of below 35%.

Up from 10 last quarter, 22 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.

This chart depicts the median lot price in Q2 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 \$265,625 (Cardinia) to \$325,000 (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 in June 2022 of 4.20%.

Outlook

Tailwinds



REMOVAL OF LOCKDOWNS AND RESTRICTIONS WITH TOTAL BOARDERS OPENED

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 3.4% nationally at July-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.



EXPECTATION FOR INFLATION TO PEAK LATER IN 2022

Continued reduction in 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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