



URBAN IQ

Property Market Snapshot

MARCH 2023

RPM²

Urban IQ

UDIA RESEARCH AND MARKET INSIGHTS

March 2023

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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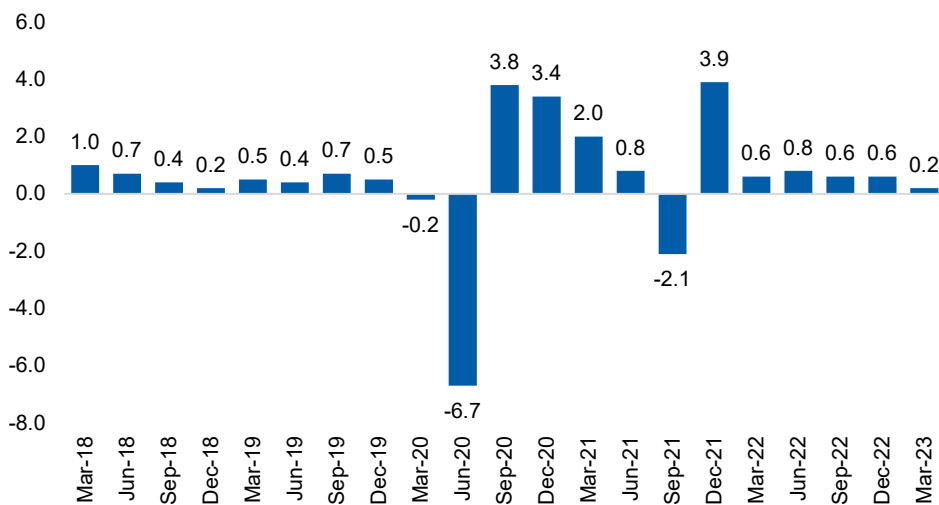
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Economic Overview

GROSS DOMESTIC PRODUCT

Quarterly Growth (%)

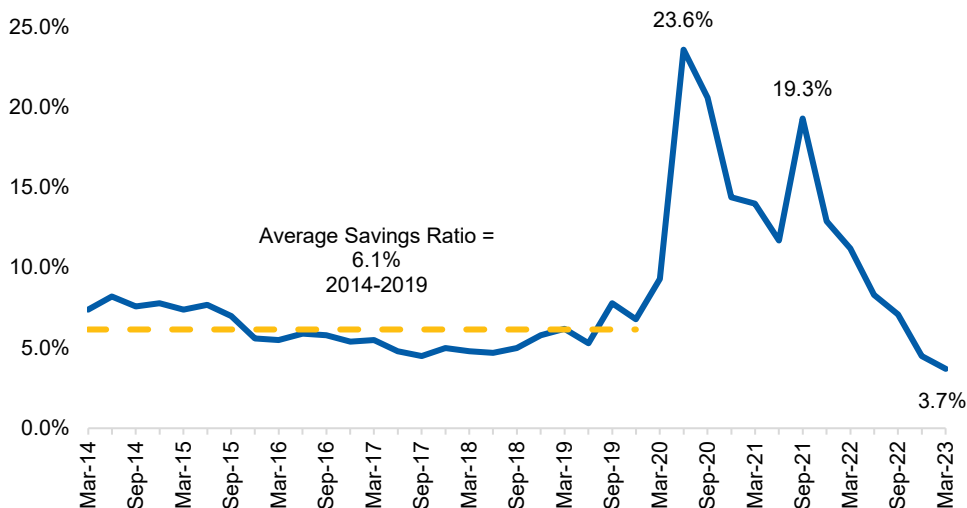


Source: Australian Bureau of Statistics

Quarterly GDP shows a reduction of momentum in the economic growth with the 0.23% result being roughly a third of that achieved in the previous two quarters.

HOUSEHOLD SAVINGS RATIO

Ratio

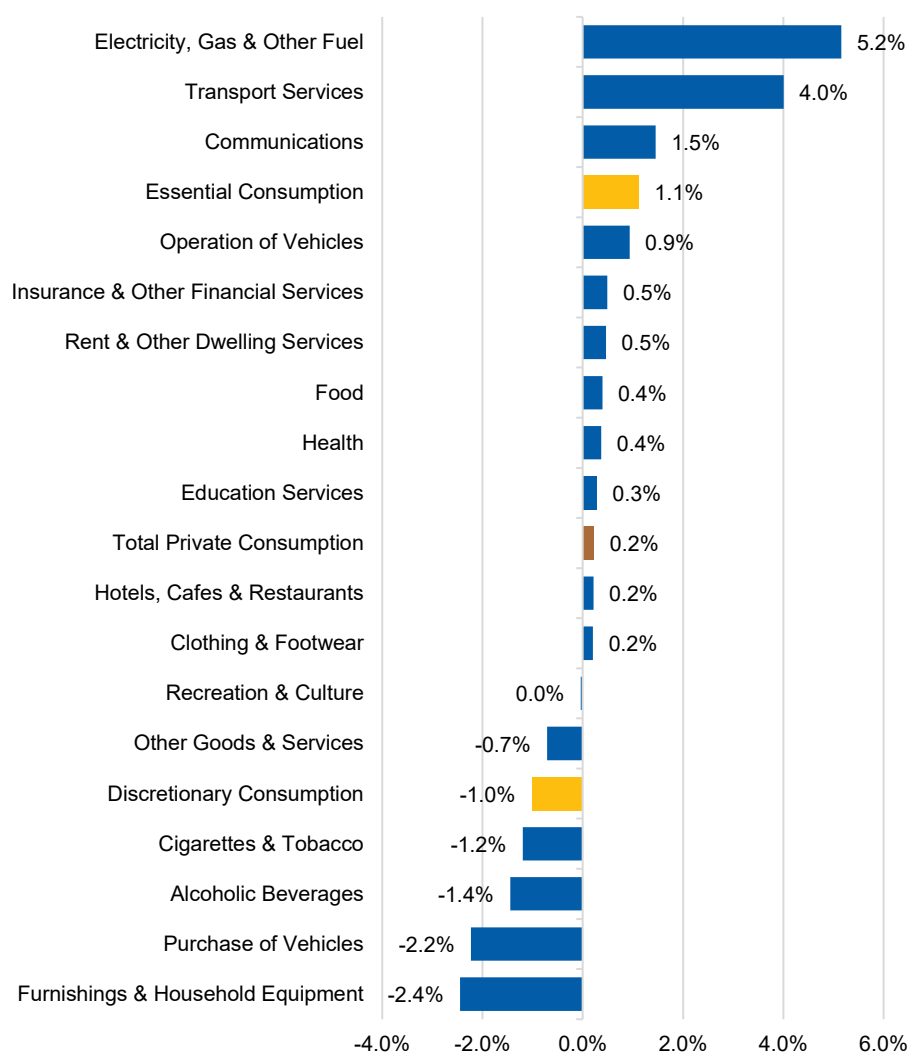


Source: Australia Bureau of Statistics

Wage growth has not matched inflation and the rise in residential lending rates, resulting in a decline in real disposable income. Increasingly, households are dipping into savings to cover expenses.

HOUSEHOLD CONSUMPTION

Quarterly Change in Household Consumption Expenditure



Given the reduction in real wages, it is perhaps no surprise that spending on 'essential consumption' has increased while discretionary items such as household equipment, and the purchase of vehicles saw the largest quarterly declines (-2.4 and -2.2% respectively).

Source: Australia Bureau of Statistics

INTEREST RATES

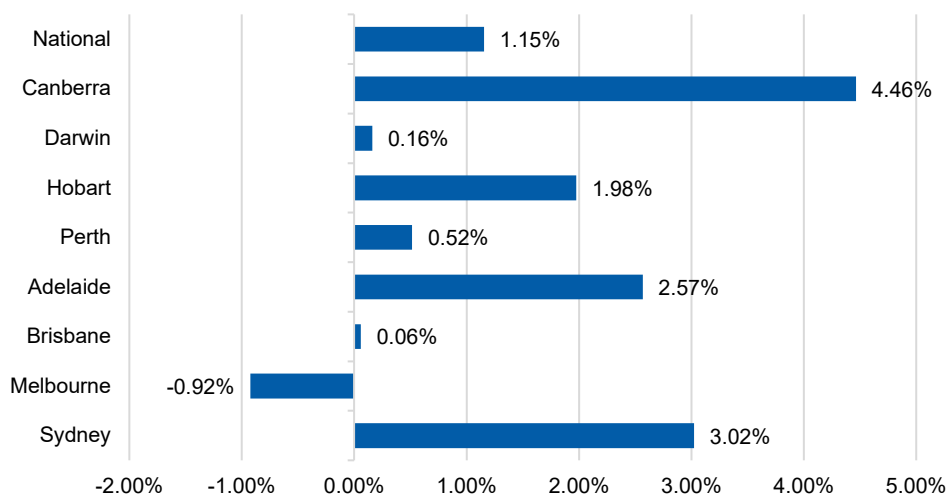


While acknowledging slowing household consumption levels and economic growth, the RBA remains determined to avoid high inflation becoming entrenched, continuing its escalation in cash rate to 4.1% in June 2023.

Source: Reserve Bank of Australia

CPI AND THE NEW DWELLING INDEX

Quarterly & Change in New Dwelling Purchase Index



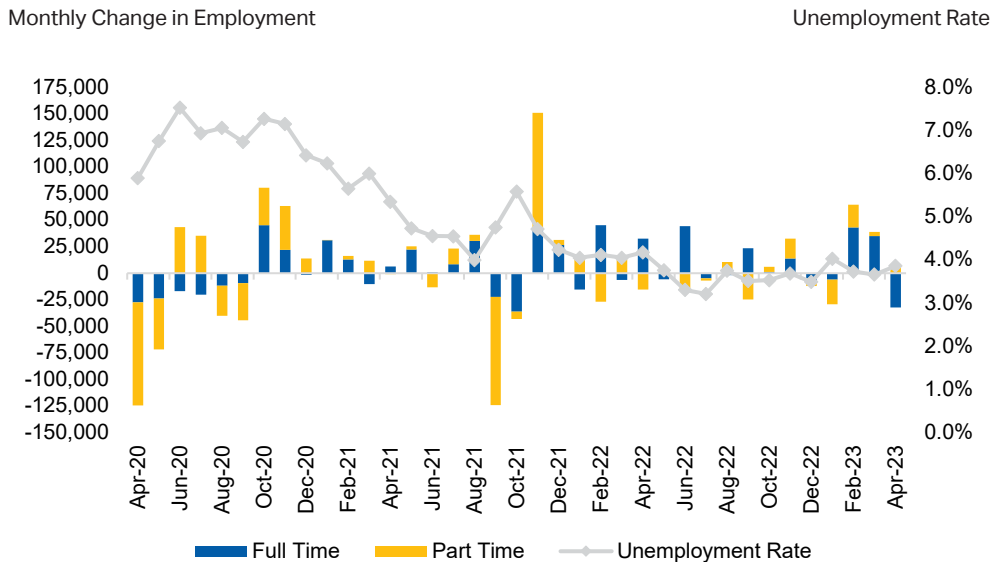
7.0%
CPI Q1 2023 - Y.o.Y

1.15%
CPI Index for New Dwellings
Q1 2023

1.56%
CPI Index for Rents
Q1 2023

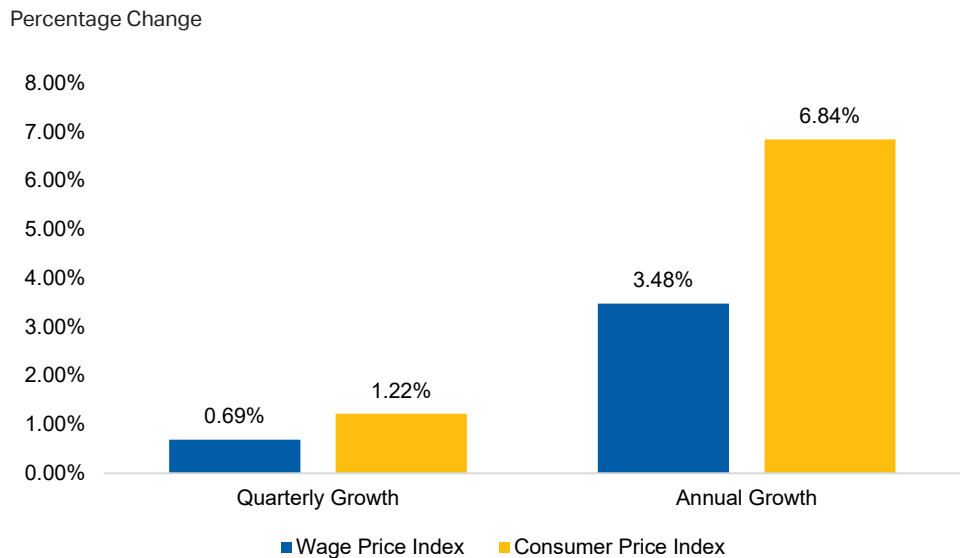
Source: Australian Bureau of Statistics

LABOUR MARKETS



Victorian labour market conditions improved through May, with 26,600 new jobs added and the state's unemployment rate improving to 3.7% in line with national averages.

Wages vs. CPI

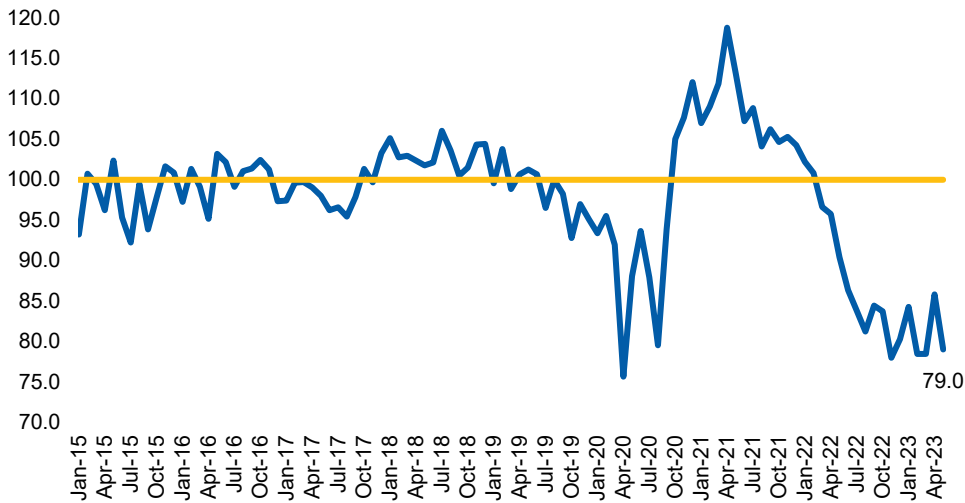


Hourly rates of pay index for Victoria rose by 0.69% quarterly and 3.48% annually representing the highest annual increase in over a decade. Despite this, inflation continues to outpace wage increases resulting in a decline in real household disposable income.

Source: Australian Bureau of Statistics

MARKET SENTIMENT

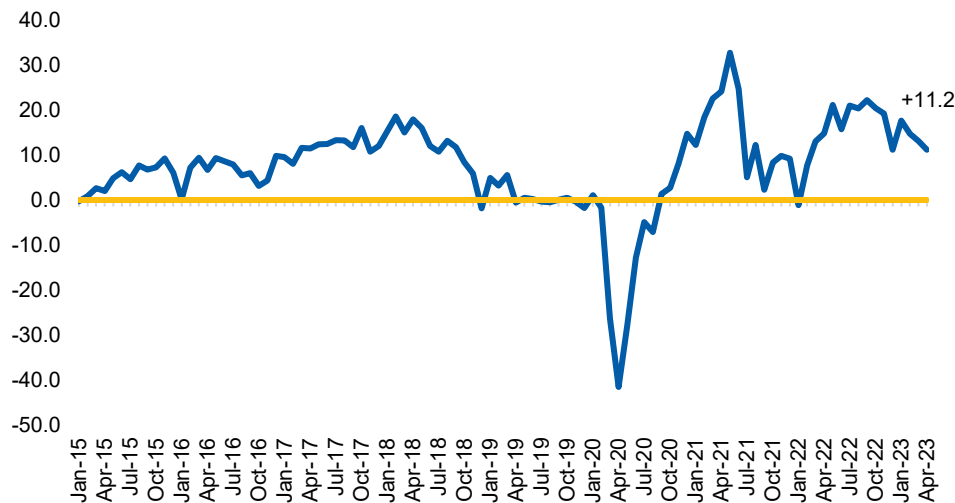
Consumer Sentiment - Index = 100



April's pause on rate hikes gave sentiment a brief lift, but the reading of 79.0 continues to represent pessimism among the marketplace.

Source: Westpac-Melbourne Institute Consumer Sentiment Index

NAB Business Conditions Index



Business conditions remained positive in April, bolstered by solid profitability and employment readings. However, a growing divergence amongst businesses is presenting, suggesting headwinds through to the end of 2023.

Source: National Australia Bank Business Survey

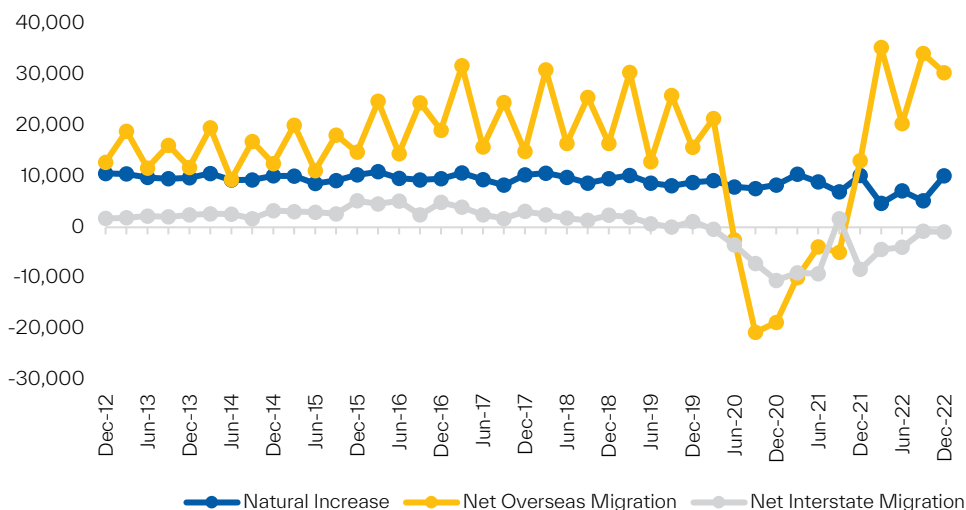
Victorian Population

Victoria's population increased by 39,695 in Q4 2022 (latest available migration data), the highest quarterly increase post the pandemic. Victoria's interstate migration continues to improve with an outflow of 900 persons. This compares to over 6,000 during the height of the pandemic.

+39,695

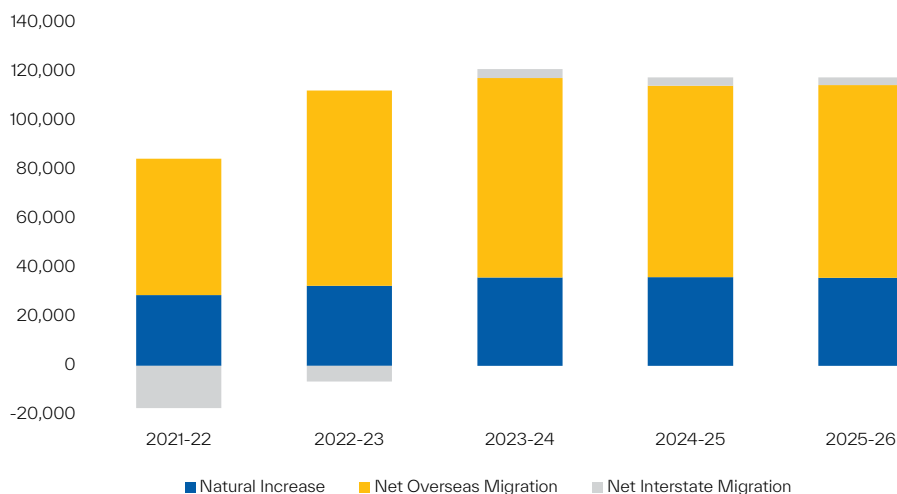
Victorian Population Growth
Q4 2022

Population Components



Source: Australian Bureau of Statistics

Population Projections



Source: Australian Government Centre for Population

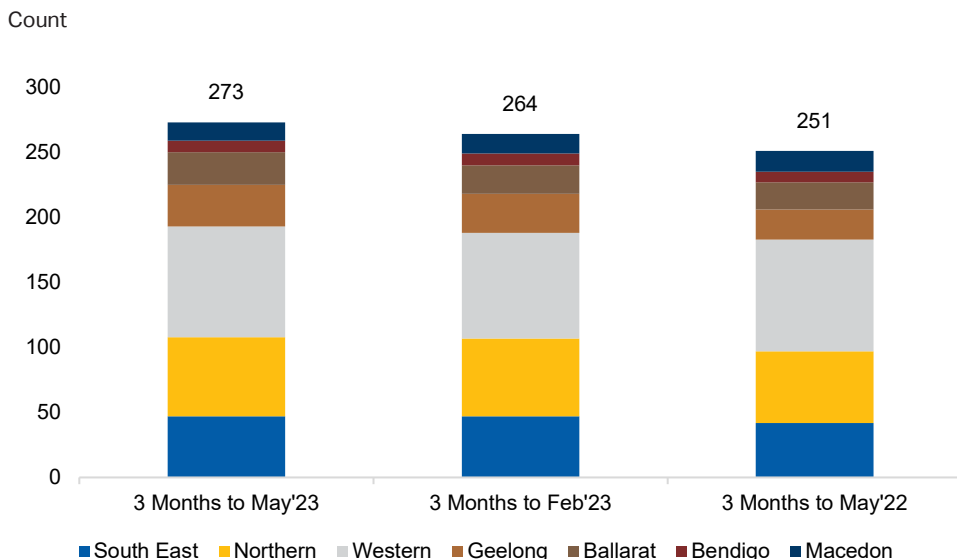
Land Market Snapshot



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))

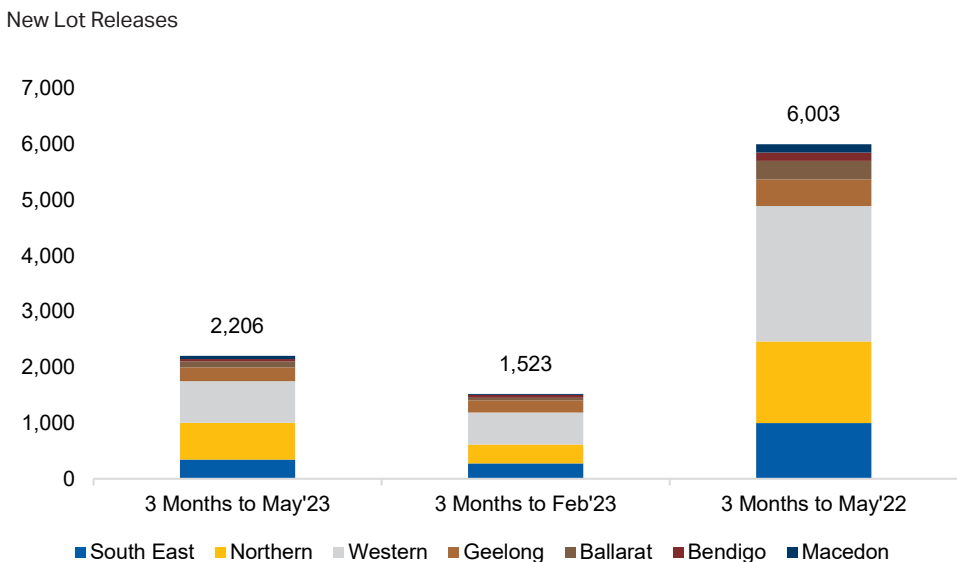
ACTIVE ESTATES



Active estates have been on an upward trend across most growth corridors over the last twelve months, recording a net gain of 22 estates overall.

Source: RPM Research, Data & Insights

LOT SUPPLY

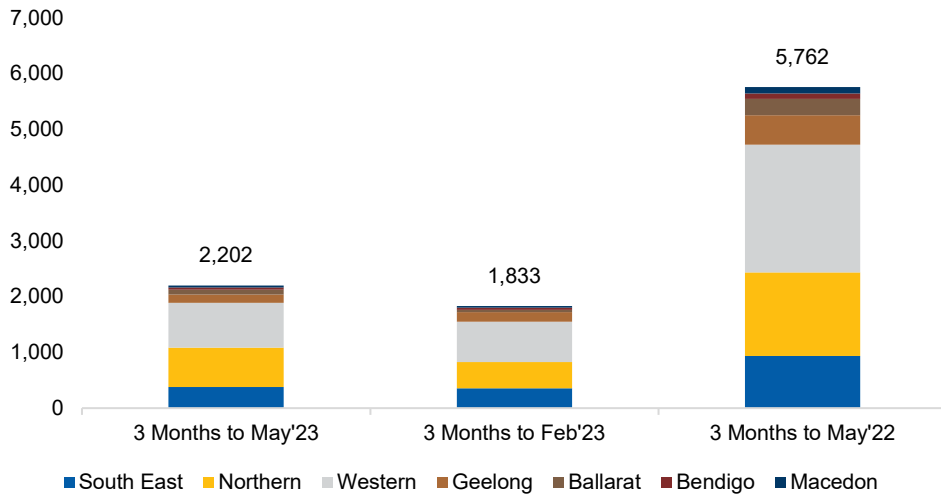


New supply has improved through 2023, with releases during the three months to May 2023 escalating by 45% on the previous three-month period.

Source: RPM Research, Data & Insights

LOT SALES

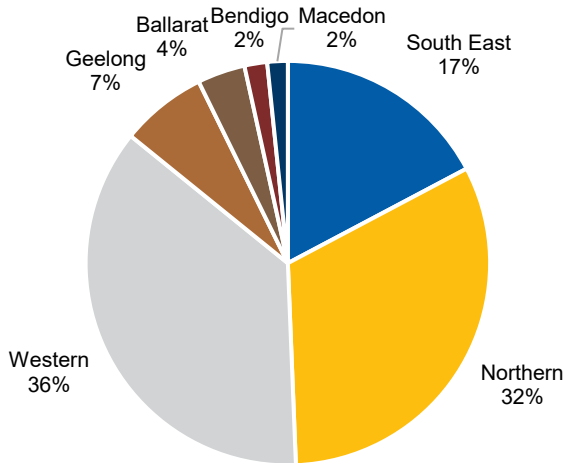
Gross Lot Sales



Gross lot sales have picked up during the three months to May 2023, increasing by 20% on the previous three-month period, although remain relatively low as evident by the 62% annual decline.

Source: RPM Research, Data & Insights

SHARE OF SALES BY CORRIDOR

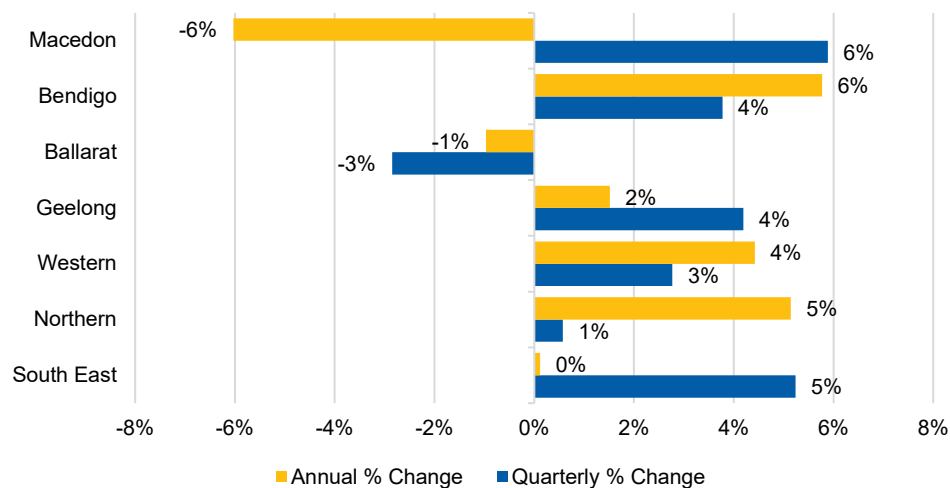


The Northern Growth Corridor's proportion of lot sales converged on that of the Western Growth Corridor, while new home demand struggles for momentum in regional areas.

Source: RPM Research, Data & Insights

LOT PRICE CHANGE

Percentage Change

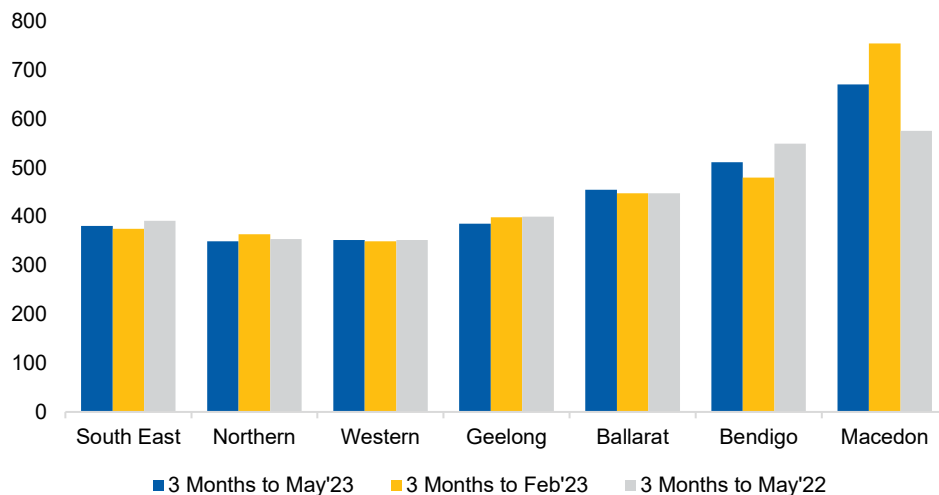


Most growth corridors experienced both quarterly and annual lot price growth, although these gains will have been eroded after deducting rebates and incentives from headline values.

Source: RPM Research, Data & Insights

LOT SIZES

Median Lot Size (sqm)



Median lot sizes have stabilised, with limited scope to decrease further without beginning to impact on desired home size, particularly within Melbourne growth corridors.

Source: RPM Research, Data & Insights

Melbourne Residential Market



\$955,000

Median House Price

-1.0% change from Q4 2022
-14.2% from Q1 2022



\$611,000

Median Unit Price

-1.8% change from Q4 2022
-10.0% from Q1 2022

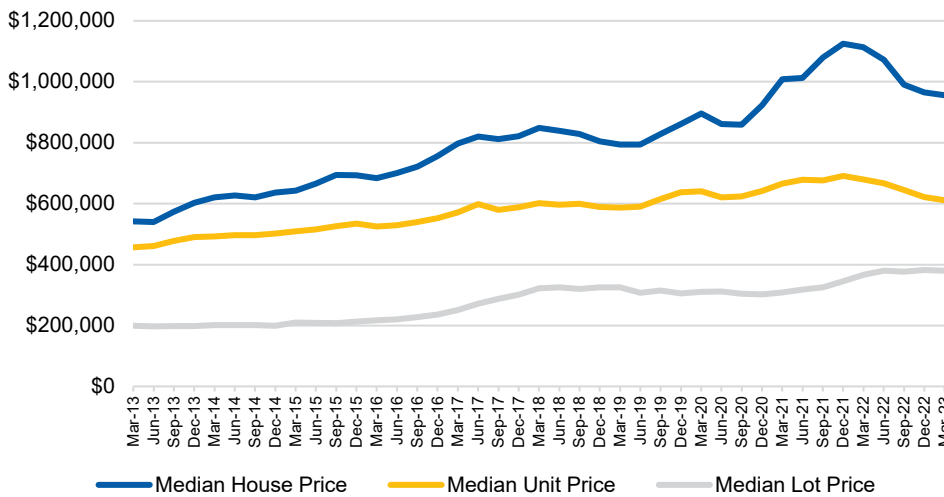


\$380,000

Lot Price

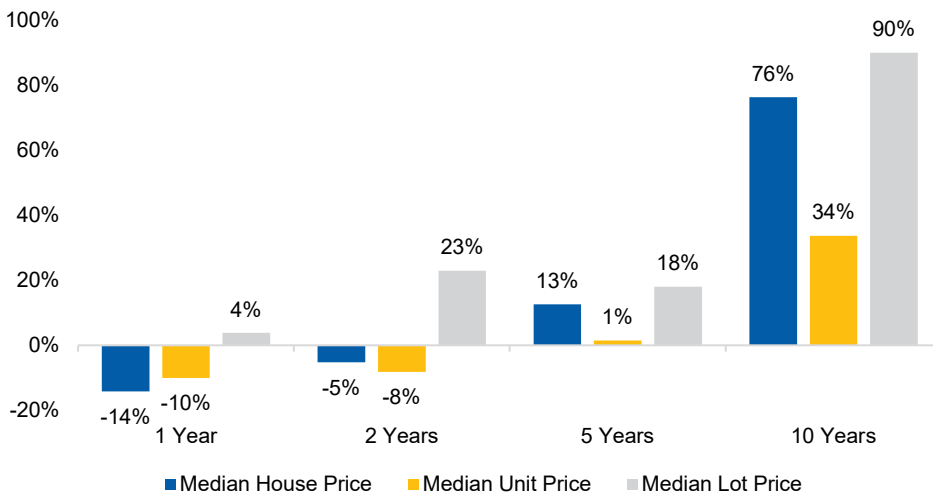
-0.5% change from Q4 2022
+3.8% from Q1 2022

Median Price



Lot prices have so far continued to defy market conditions, with the median lot value edging down for the first time by a modest 0.5% in Q1 2023 to \$380,000. This still represents the second highest figure on record, and it should be noted that while prices edged down, median lot sizes fell by 2.2%, resulting in a higher per square metre price.

Price Change



Source: Real Estate Institute of Victoria & RPM Research, Data & Insights

Building Activity

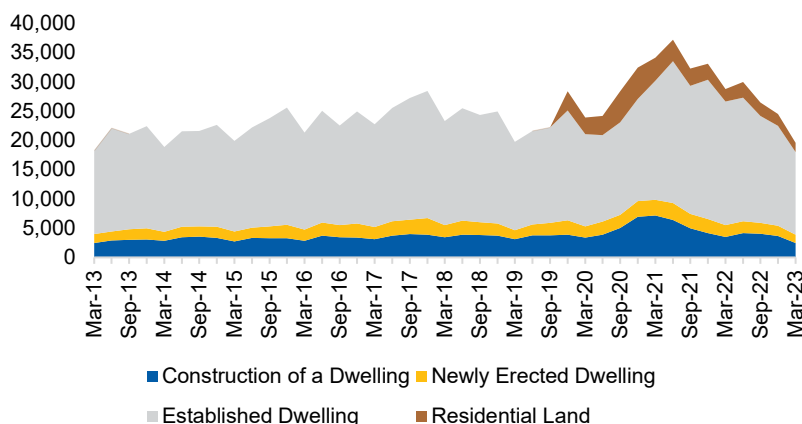
VICTORIA BUILDING AND FINANCE ACTIVITY



21,098

Total Owner Occupier Loan Approvals (-20% vs. Q4 2022)

New Loan Applications



Source: Australian Bureau of Statistics



\$495,643

Average FHB loan size (-1.9%)

Reflecting a withdrawal of buyers who traditionally transact at the more affordable price brackets.

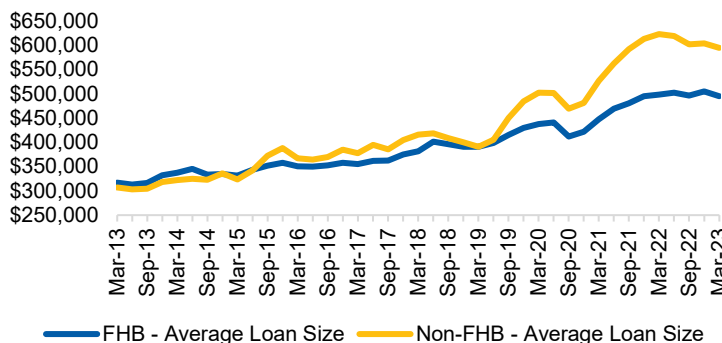
Non-first home buyers average loan size sits at \$594,754 or 20% greater than the average FHB.

Total Approvals

Q1 2023

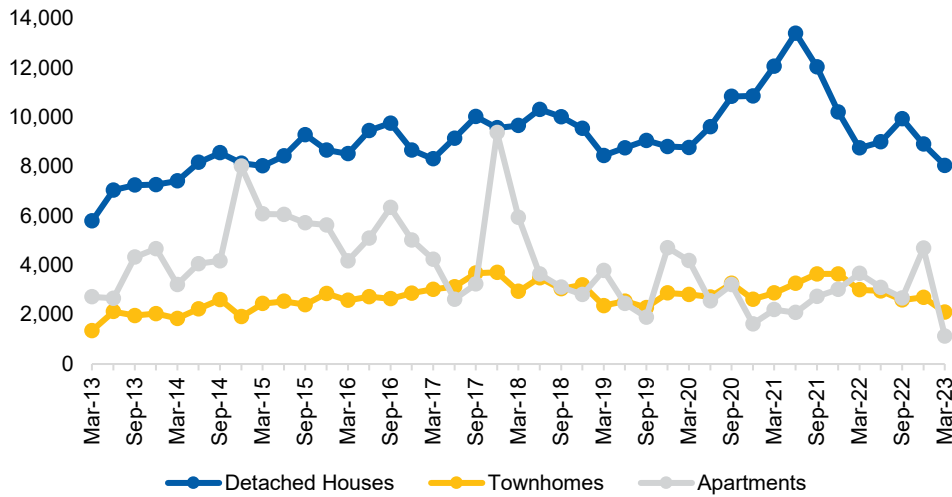
11,283 approvals, or a 30.8% reduction from Q4 2022.

Average Loan Value



APPROVALS AND COMMENCEMENTS

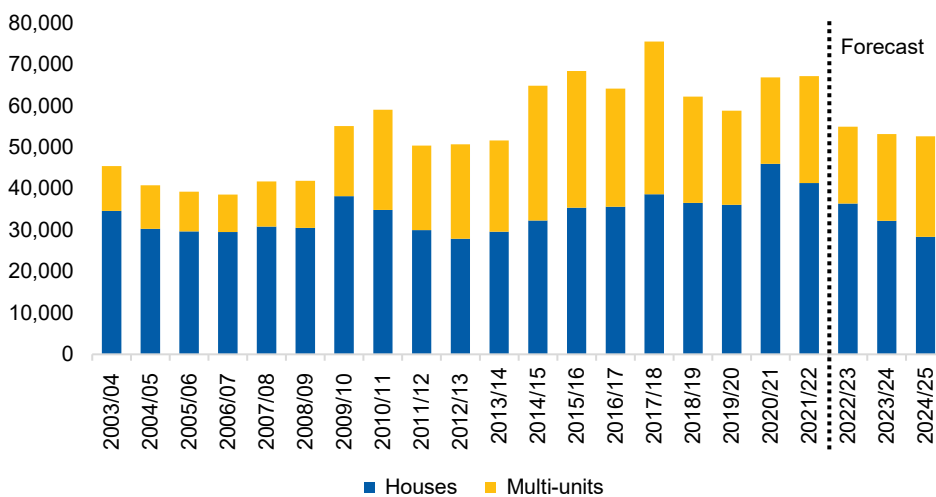
Approvals



There were 11,283 dwellings approved in Q1 2023, down 31% quarterly and 27% year-on-year.

Source: Australian Bureau of Statistics

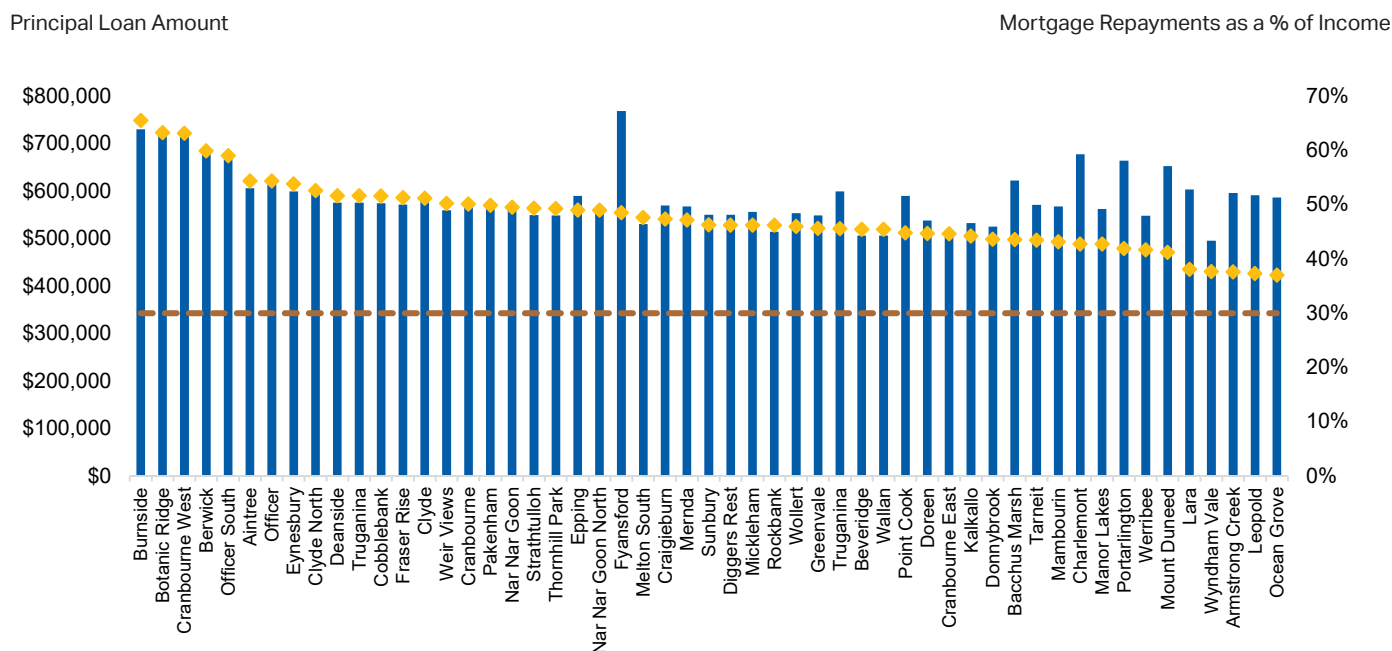
Commencements



Total commencements are projected to reach 54,990 dwellings over FY23, which would be an 18% annual reduction. Commencements are anticipated to continue their decline, albeit at a slower rate of 3% in FY24 and 1% in FY25.

Source: Housing Industry Association

Growth Area Affordability



Source: RBA, ATO & RPM Research, Data & Insights

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.

Even with this revised ratio - there are now just 5 suburbs across the Melbourne and Greater Geelong growth corridors with a household income ratio between 35% and 39%, highlighting constrained affordability and interest rate rises pushing additional suburbs into less affordable brackets.

The above chart depicts the median lot price in March 2023 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 costs range from \$293,750 (Mitchell) to \$400,000 (Moorabool) while income levels reflect net levels (i.e. after tax income) 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 rate.

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 across industries.



TIGHT LABOUR MARKET TO UNDERPIN WAGE GROWTH

Wage growth is on the rise - up to the low 4.0%'s.



MELBOURNE'S REPUTATION

Melbourne's reputation has remained in place. Students and investors are coming back.

Headwinds



CONSUMER CONFIDENCE

Now at a lower level than during the pandemic, with affordability concerns at the centre of focus.



ONGOING CONFLICT IN EASTERN EUROPE

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



FURTHER CASH RATE RISES

RBA maintains tightening bias towards interest rates with inflation remaining well above target range of 2-3%.



CONSTRUCTION COSTS

Although growth in construction costs is slowing, they will remain elevated and not go backwards.





RPM Group is a true industry leader, pioneering new benchmarks in market intelligence, know-how and innovation. With a proven track record since 1994, 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
- 50+ 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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