



URBAN IQ
**Property
Market Snapshot**

JUNE QUARTER 2023

RPM²

Urban IQ

UDIA RESEARCH AND MARKET INSIGHTS

June 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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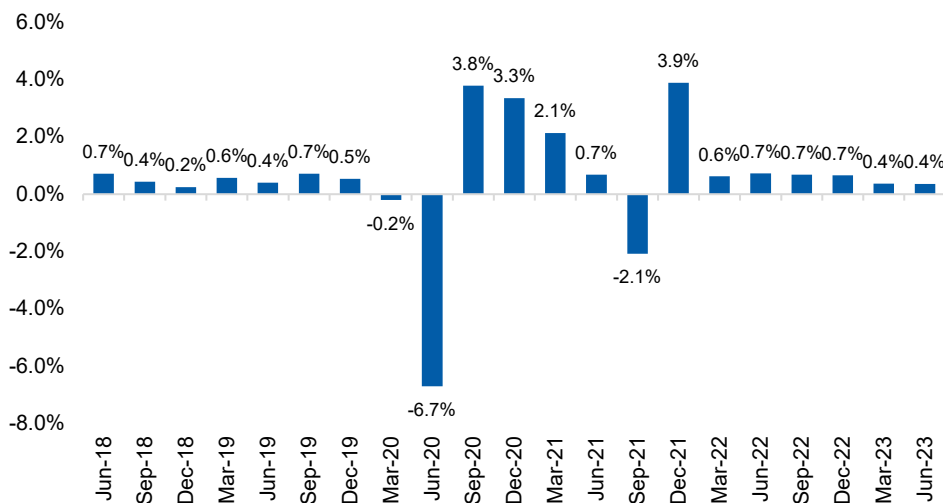
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Economic Overview

GROSS DOMESTIC PRODUCT

Quarterly Growth (%)

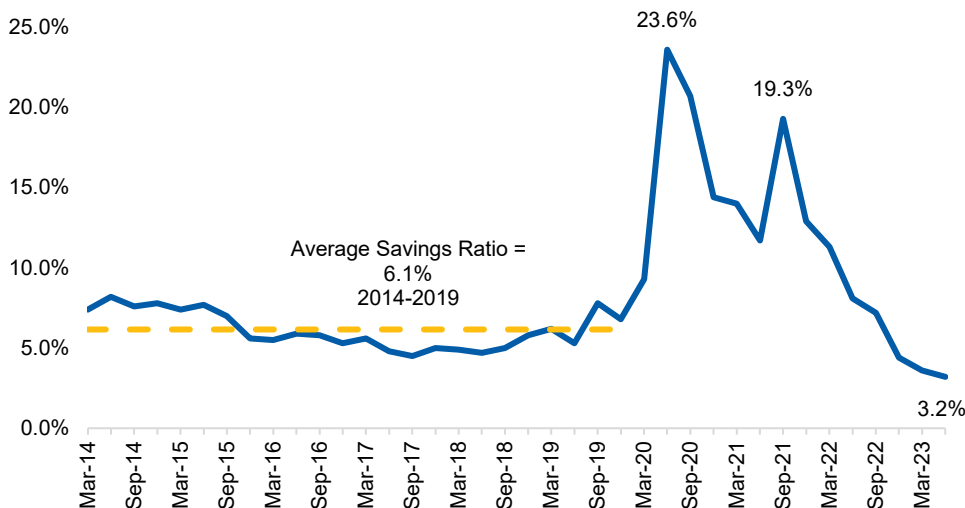


Source: Australian Bureau of Statistics

GDP growth is forecast to be subdued through the second half of the year. While it is more likely that the tightening monetary policy has ended, substantially higher mortgage repayments will continue to impact real disposable income.

HOUSEHOLD SAVINGS RATIO

Ratio

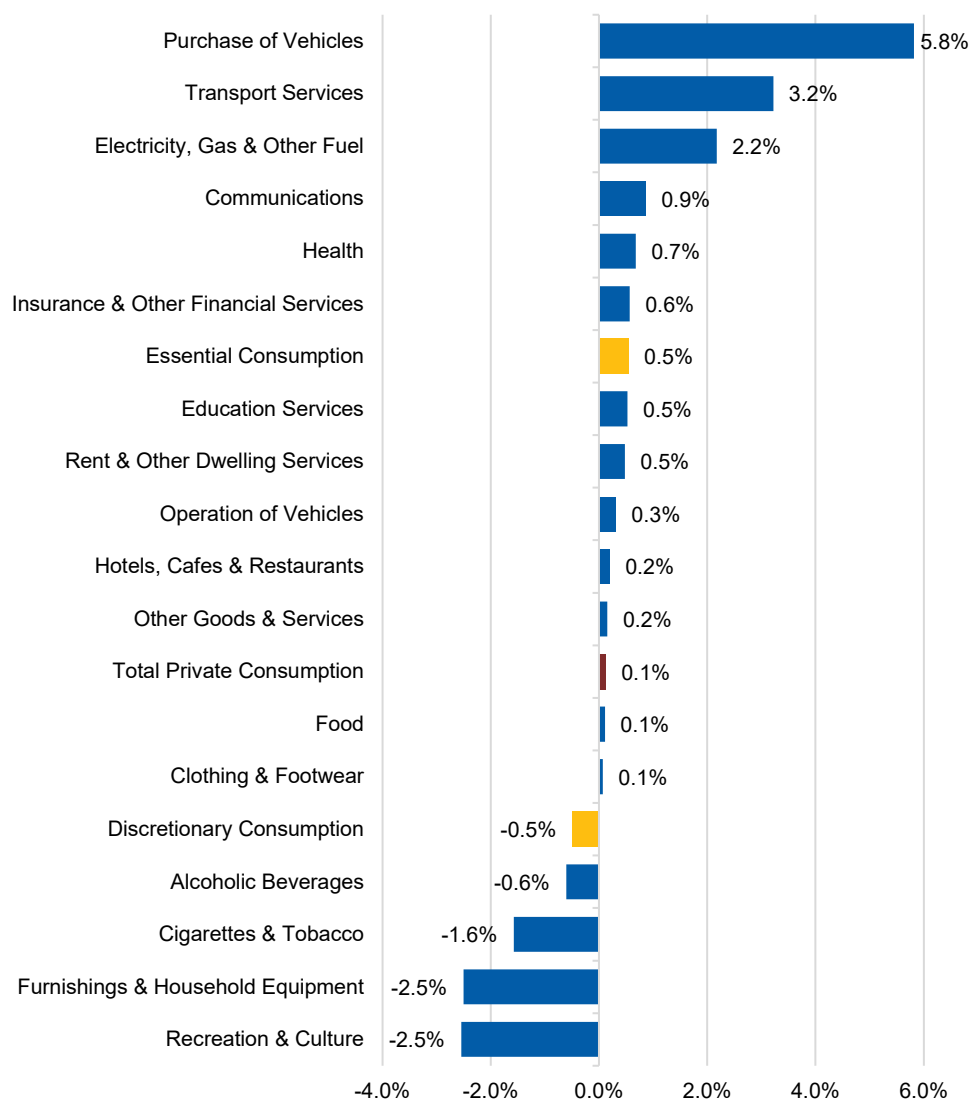


Source: Australia Bureau of Statistics

More and more households are facing financial strain with people needing to dip into their savings at a greater rate. The household savings ratio is now 3.2% for the quarter – the lowest level in 15 years.

HOUSEHOLD CONSUMPTION

Quarterly Change in Household Consumption Expenditure



Discretionary spending continues to fall with recreation and culture (-2.5%), household furnishings and equipment (-2.5%), cigarettes and tobacco (-1.6%), and alcoholic beverages (-0.6%) leading the contraction.

Source: Australia Bureau of Statistics

INTEREST RATES

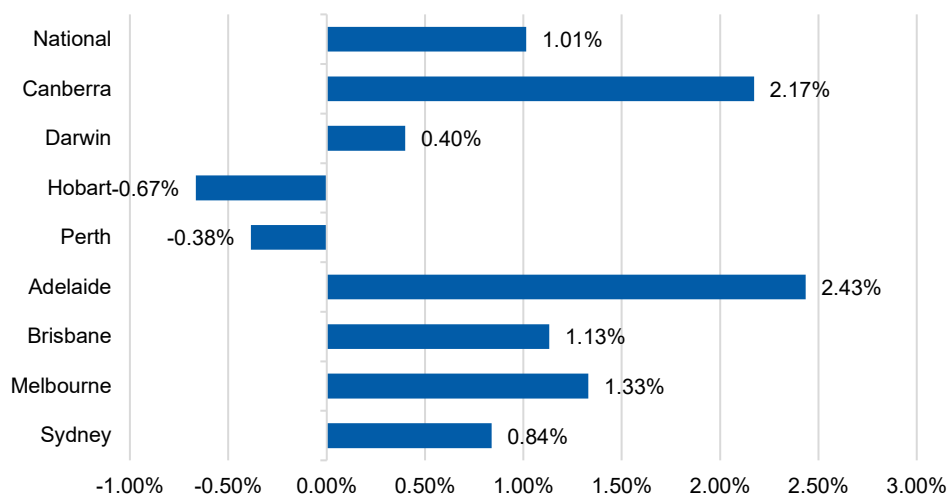


The Reserve Bank of Australia (RBA) has left the cash rate unchanged at 4.10% at its last three meetings to September. However, tight labour markets are persisting and inflation in the services sectors remains a concern. Subsequently, despite the uncertain outlook for the economy, the RBA maintains a tightening bias towards monetary policy.

Source: Reserve Bank of Australia

CPI AND THE NEW DWELLING INDEX

Quarterly & Change in New Dwelling Purchase Index



6.03%

CPI Q2 2023 - Y.o.Y

1.15%

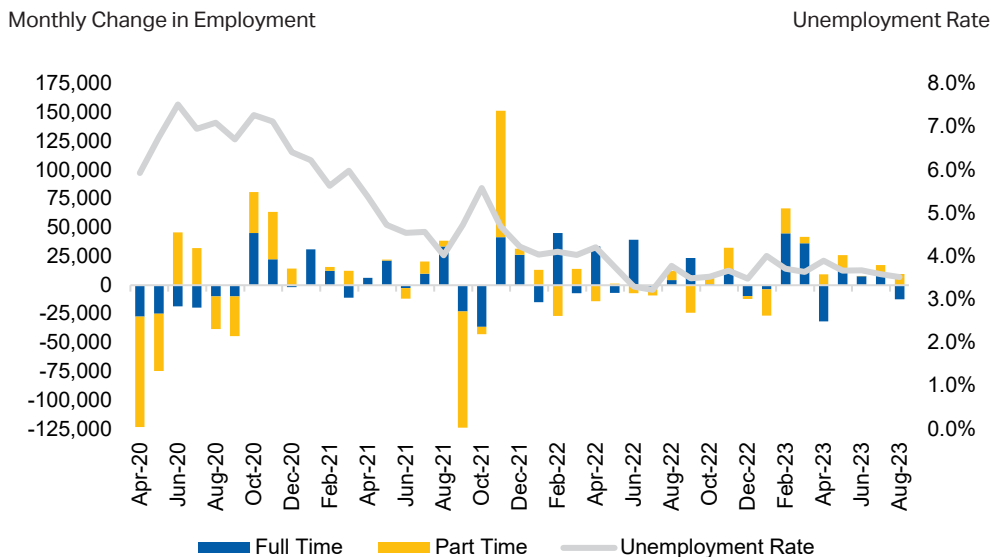
CPI Index for New Dwellings Q2 2023

2.47%

CPI Index for Rents Q2 2023

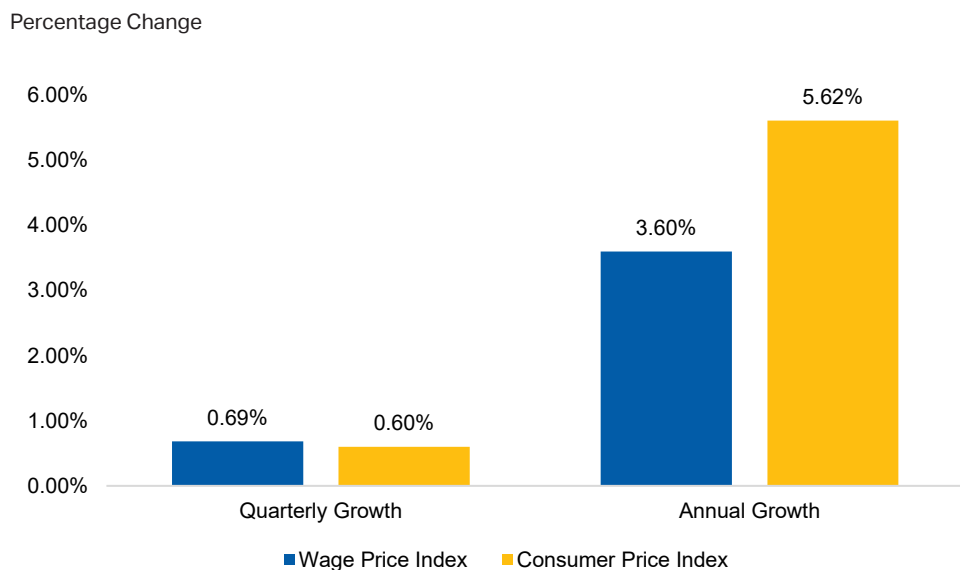
Source: Australian Bureau of Statistics

LABOUR MARKETS



Currently, Victoria boasts a robust employment market with little spare capacity. However, forecasted declines in demand for goods and services in late 2023 is expected to reduce labour needs, softening labour market conditions.

Wages vs. CPI

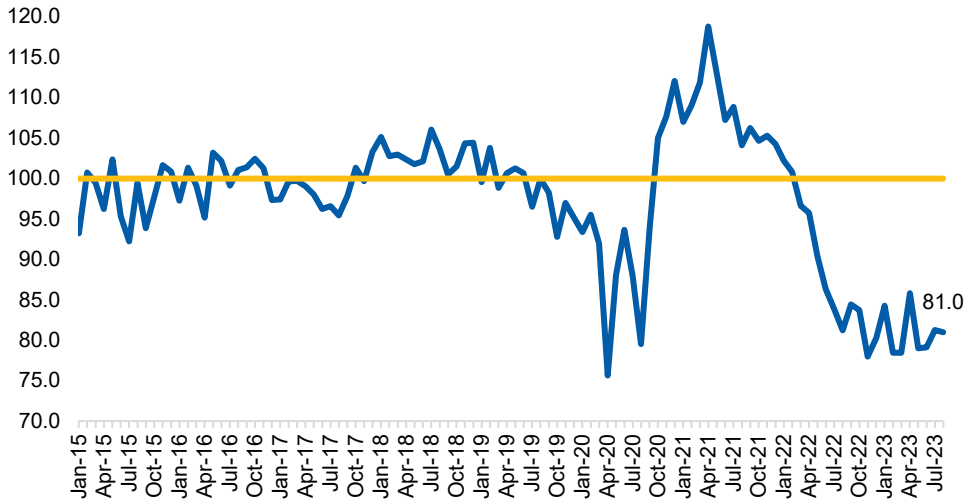


Hourly rates of pay index for Victoria rose by 0.69% quarterly and 3.60% annually representing the highest annual increase in over a decade. Despite this, inflation continues to outpace wage increases resulting in a decline in real household disposable income.

Source: Australian Bureau of Statistics

MARKET SENTIMENT

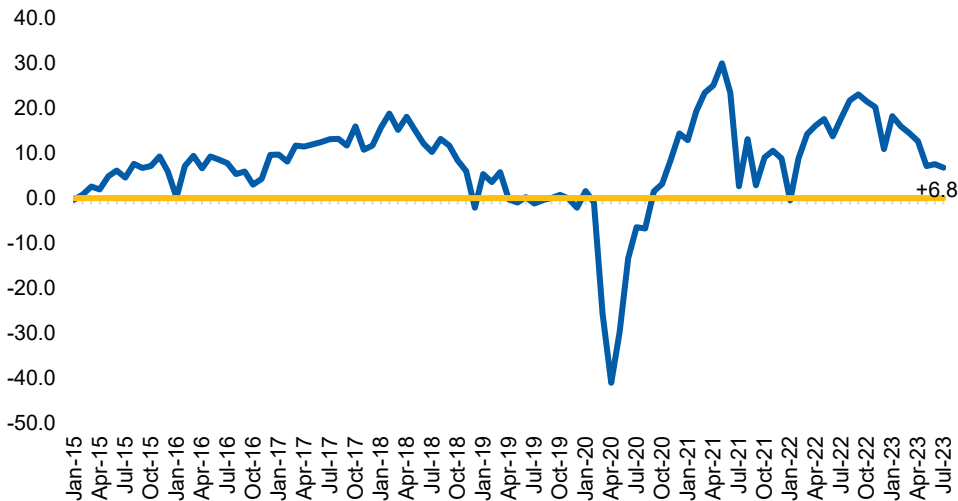
Consumer Sentiment - Index = 100



Source: Westpac-Melbourne Institute Consumer Sentiment Index

Although consumer sentiment has stabilised, it remains restrained. While the current 81.0 reading is an improvement from last quarter, it resembles the cautious atmosphere of the Global Financial Crisis.

NAB Business Conditions Index



Source: National Australia Bank Business Survey

Business conditions remained positive in July, with the NAB Index recording a significant 6.8-point rise, underpinned by robust trading, profitability, and employment conditions.

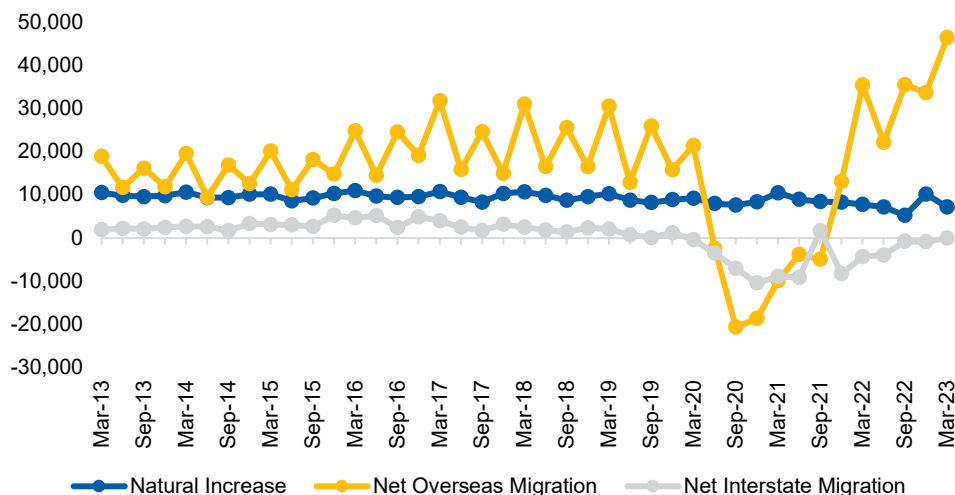
Victorian Population

Victoria's population escalated by 53,484 in Q1 2023, marking the highest quarterly post-pandemic result. The boom is largely attributed to net overseas migration resuming following the 2022 reopening of international borders.

+53,484

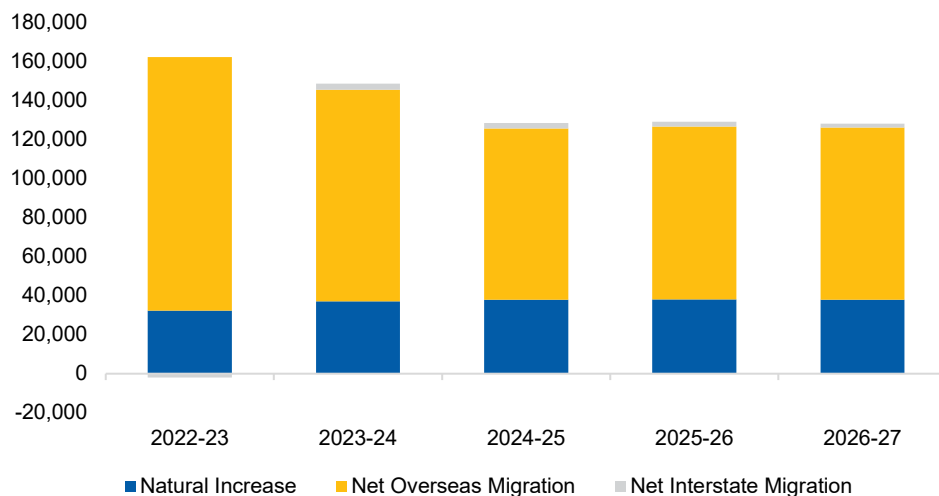
Victorian Population Growth
Q1 2023

Population Components



Source: Australian Bureau of Statistics

Population Projections



Source: Australian Government Centre for Population

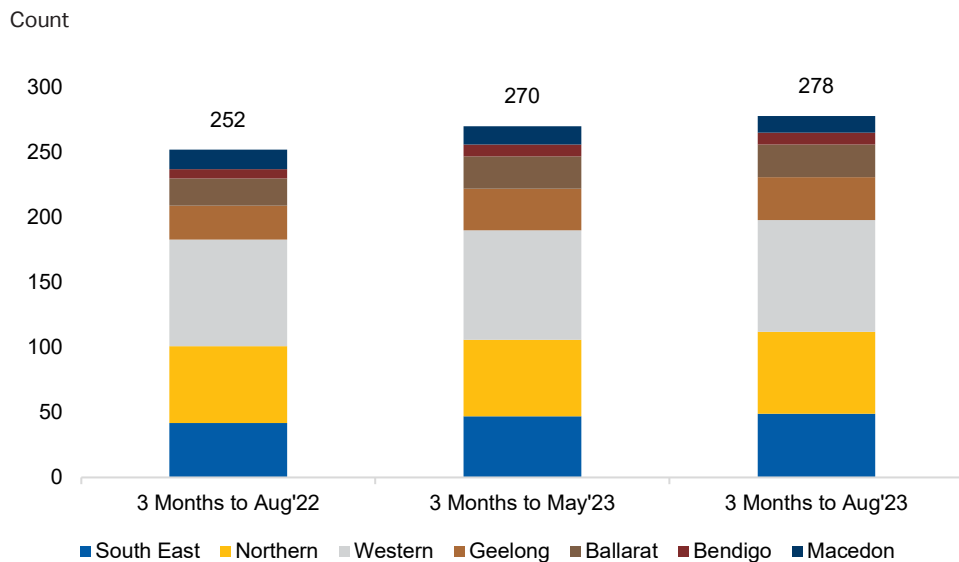
Land Market Snapshot



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))

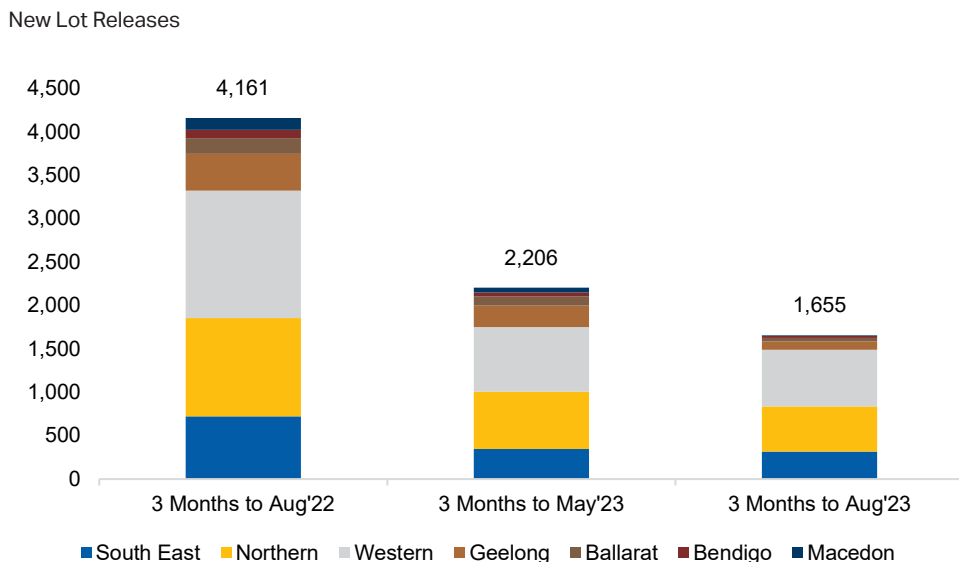
ACTIVE ESTATES



New housing developments in greenfield areas have continued to climb, rising to 26 over the twelve month period to August, to a total of 278 active estates.

Source: RPM Research, Data & Insights

LOT SUPPLY

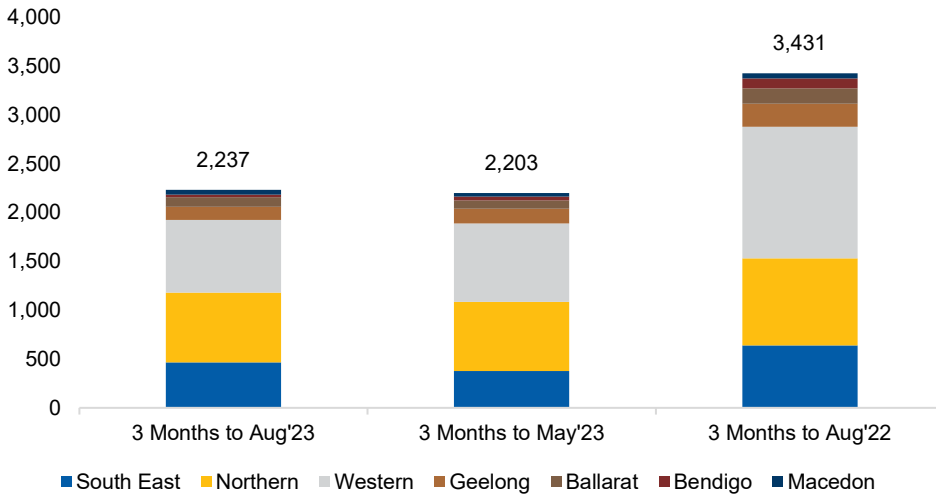


New supply has contracted again, with low absorption and increased lot supply in the secondary market discouraging the release of new lots.

Source: RPM Research, Data & Insights

LOT SALES

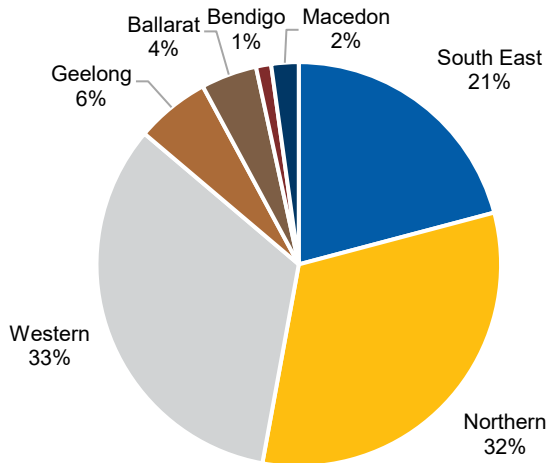
Gross Lot Sales



Gross lot sales edged higher over the three months to August, however, remain relatively weak as evident by their 35% annual decline.

Source: RPM Research, Data & Insights

SHARE OF SALES BY CORRIDOR

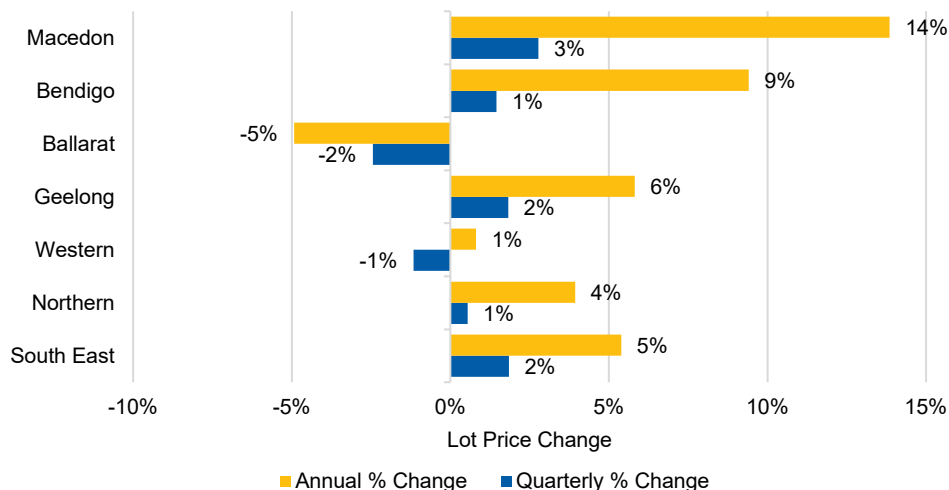


Sales activity continues to be heavily concentrated in Melbourne growth areas, with the proportion of lot sales in regional areas diminishing through 2023.

Source: RPM Research, Data & Insights

LOT PRICE CHANGE

Percentage Change

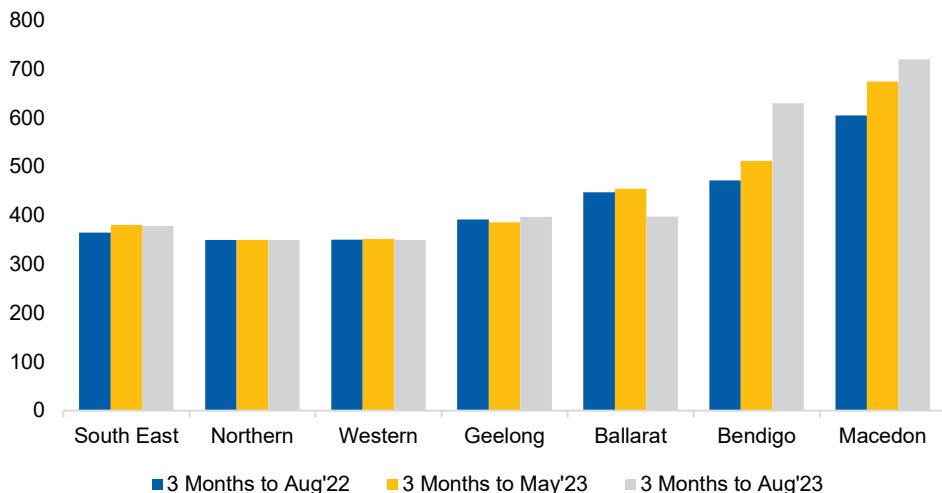


Based on headline figures, most growth areas have experienced annual lot price growth. Although much of this increase is being eroded by rebates and discounts.

Source: RPM Research, Data & Insights

LOT SIZES

Median Lot Size (sqm)



Lot sizes are steady at a level that for purchasers is both affordable and allows for the build of the preferred home size.

Source: RPM Research, Data & Insights

Melbourne Residential Market



\$937,500

Median House Price

-1.1% change from Q1 2023
-12.6% from Q2 2022



\$630,500

Median Unit Price

+3.2% change from Q1 2023
-5.5% from Q2 2022

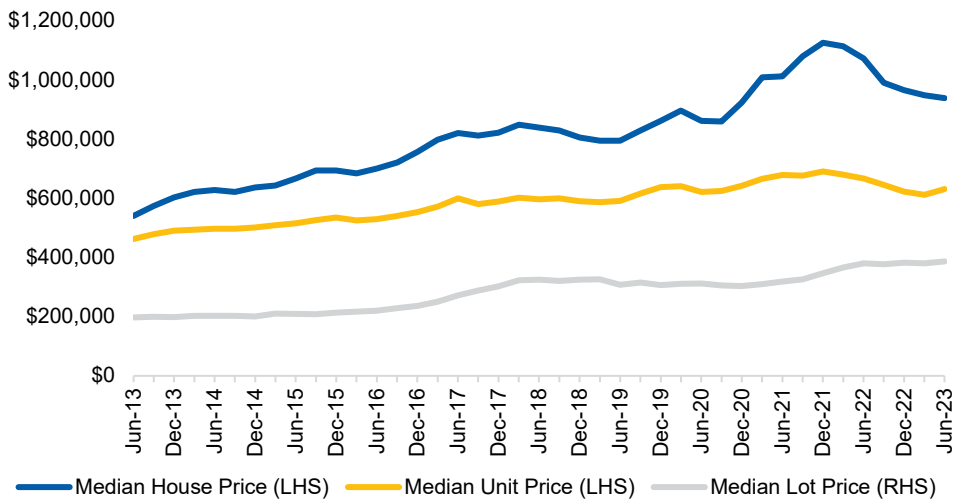


\$386,000

Lot Price

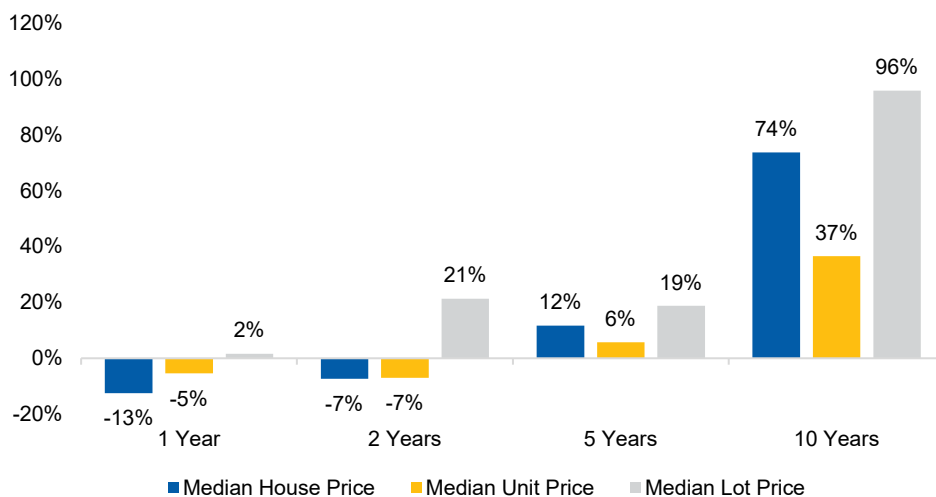
+1.6% change from Q1 2023
+1.6% from Q2 2022

Median Price



Weaker demand in the new home market has not impacted headline lot prices, with the median lot value edging higher by 1.6% over June quarter 2023 to a new record of \$386,000.

Price Change



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

Building Activity

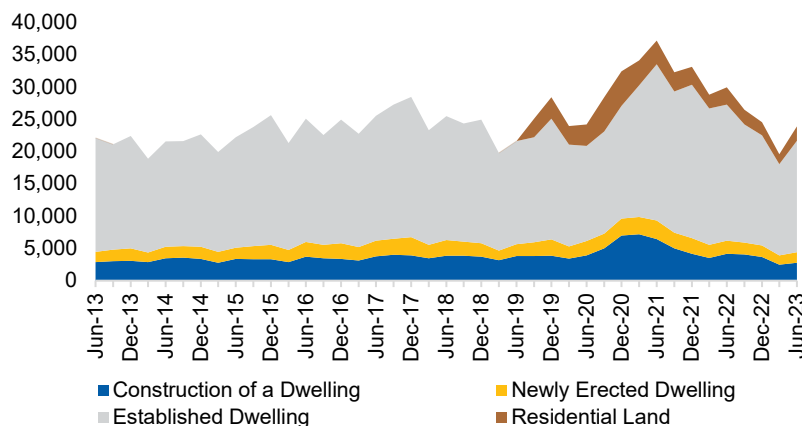
VICTORIA BUILDING AND FINANCE ACTIVITY



56,220

Commencements over FY23 (-16% vs. FY22)

New Loan Applications



Source: Australian Bureau of Statistics



\$494,963

Average FHB loan size (-1.5%)

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

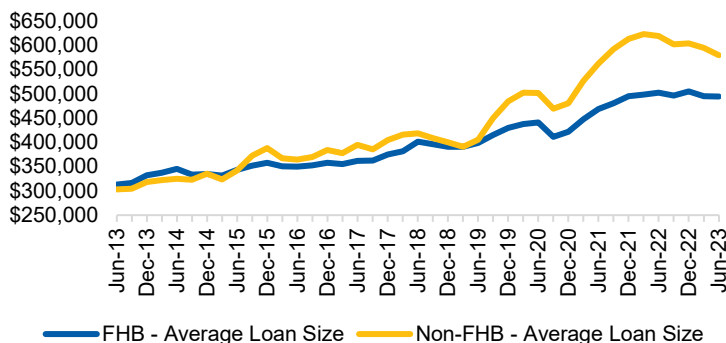
Non-first home buyers average loan size sits at 17% greater than the average FHB.

Total Approvals

Q2 2023

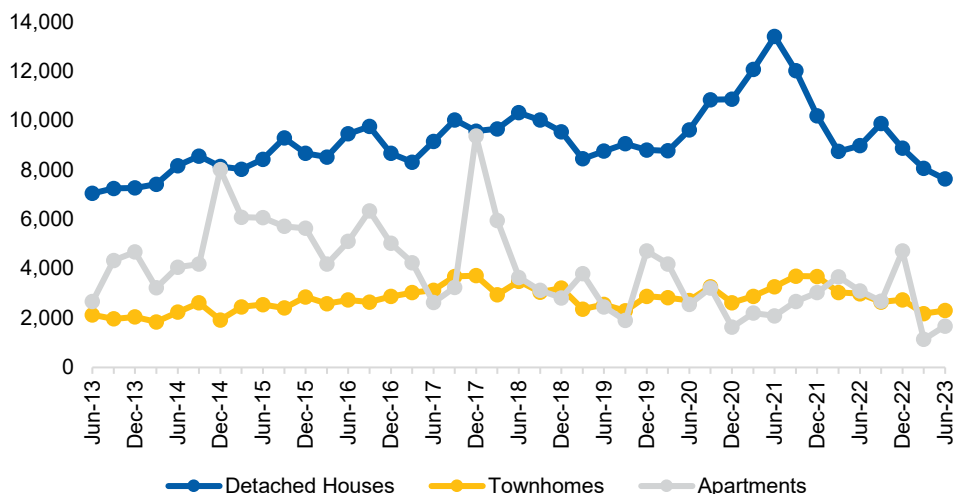
11,610 approvals, or a 23% reduction from Q2 2022.

Average Loan Value



APPROVALS AND COMMENCEMENTS

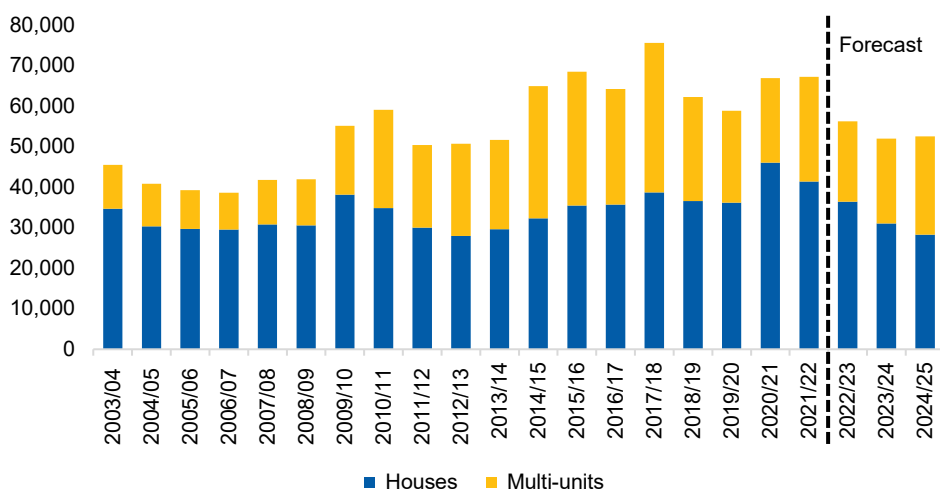
Approvals



11,610 dwellings were approved in Q2, which is a 2% quarterly increase but 23% annual decrease – the decline largely attributed to the fall in apartment approvals over the last year.

Source: Australian Bureau of Statistics

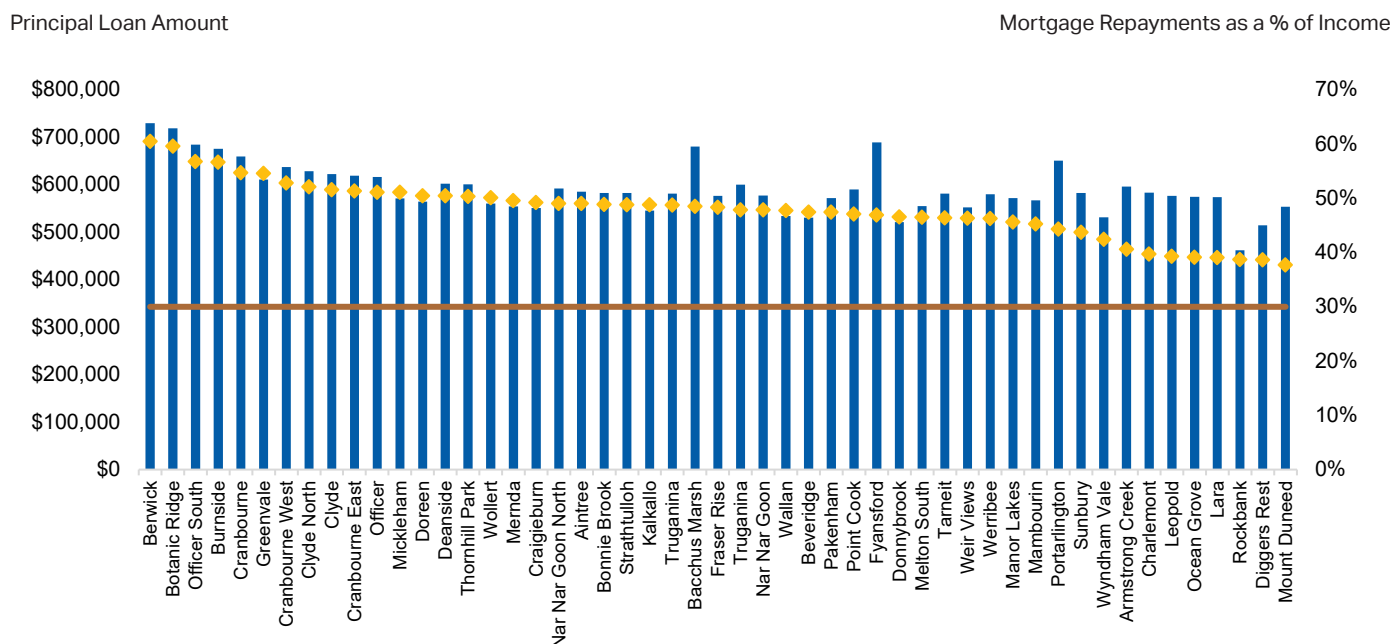
Commencements



Although interest rates look to have stabilised to a degree, the heightened levels are set to remain for some time. House starts are projected to be just 28,250 by FY25, which would be the lowest level since FY13.

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.

All growth area suburbs now have mortgage-to-income ratios above 35%, indicating the impact of heightened interest rates on housing affordability and loan serviceability.

There are only six suburbs with a mortgage-to-income ratio between 35% and 39%, highlighting the impact constrained affordability and interest rate rises have had on residents.

The chart examines the ratio of mortgage repayments to household income for 51 suburbs throughout the growth corridors of Melbourne and Greater Geelong.

Calculation assumptions: The chart depicts the median lot price in Q2 2023 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 costs range from \$313,000 (Mitchell) to \$412,500 (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 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.



AUSTRALIAN DREAM

The Australian dream is still alive with people wanting to own their home

Headwinds



CONSUMER CONFIDENCE

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



INFLATION PRESSURES

Supply chain issues, overseas conflict and the increased cost of living is contributing to inflation.



POTENTIAL 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
- \$4 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.

An aerial photograph of the Melbourne skyline at sunset. The sky is a mix of teal and orange. In the foreground, the Victorian State Parliament Building is visible, featuring a prominent dome. Behind it, a dense forest of trees separates the building from the city center. The city skyline is composed of numerous high-rise buildings, some with construction cranes on top. The overall scene is bathed in the warm, golden light of the setting sun.

RPM²

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