



URBAN IQ  
*Property*  
*Market Snapshot*

JANUARY 2024

RPM<sup>2</sup>

Urban IQ

# UDIA RESEARCH AND MARKET INSIGHTS

## January 2024

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

[www.udiavic.com.au](http://www.udiavic.com.au)

Thank you to UDIA platinum partner

**RPM**<sup>®</sup>

for providing the information contained within this report.

**Disclaimer**

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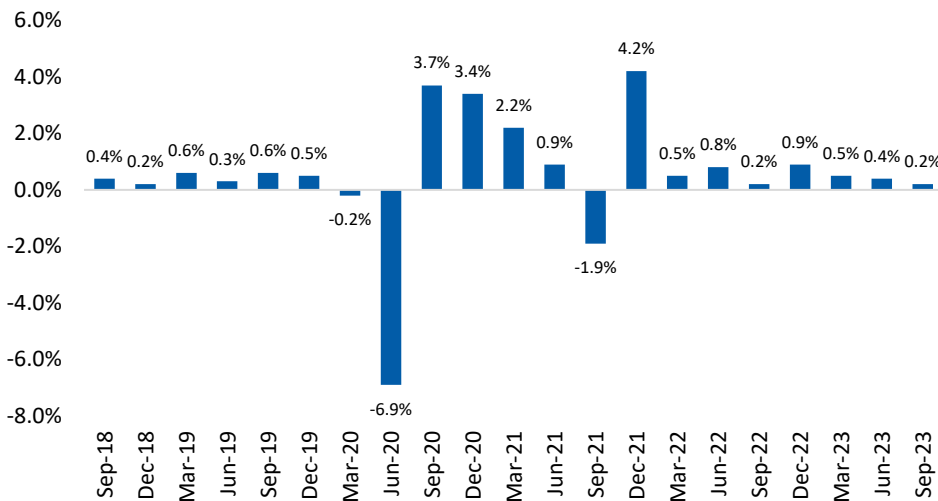
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# Economic Overview

## GROSS DOMESTIC PRODUCT

Quarterly Growth (%)

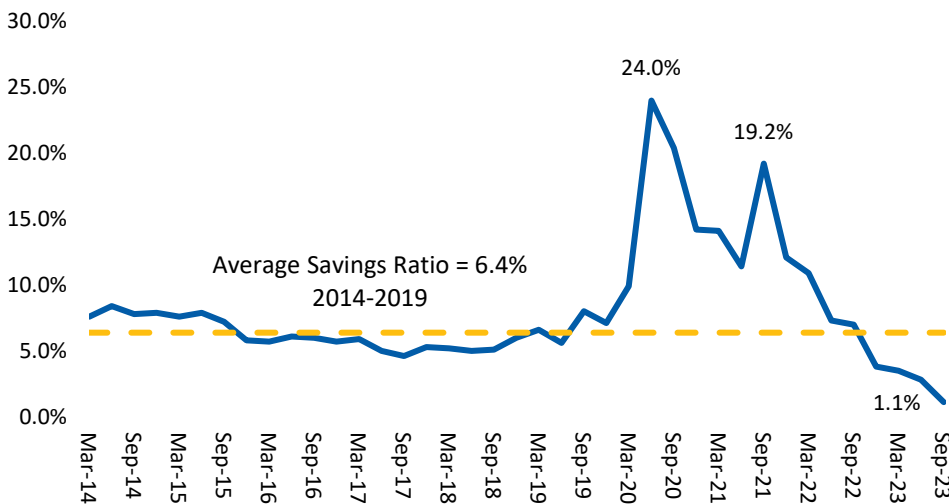


Source: Australian Bureau of Statistics

GDP recorded 2.20% annual growth in the year to September 2023, down from 3.09% in the year to June 2023. This signals a broader slowdown since the onset of cash rate increases in May 2022.

## HOUSEHOLD SAVINGS RATIO

Ratio

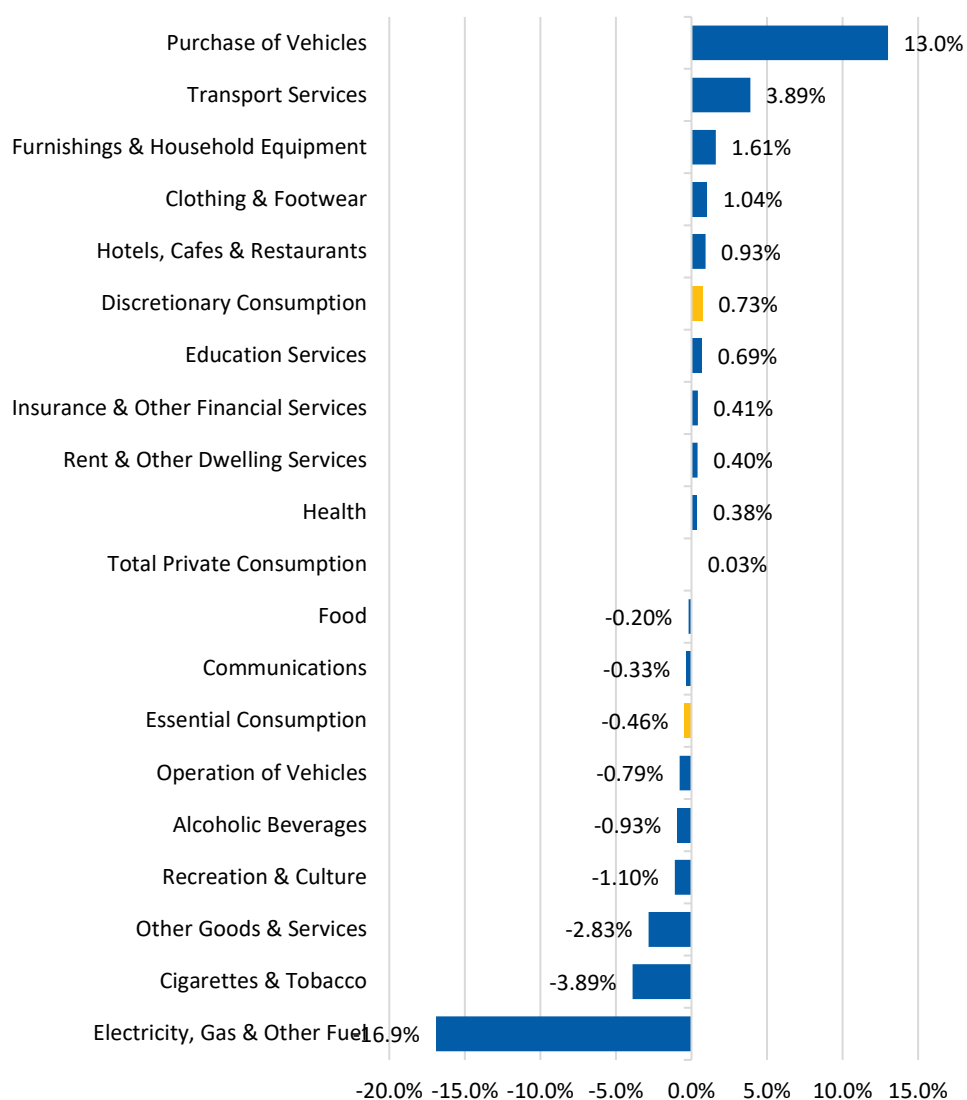


Source: Australia Bureau of Statistics

At 1.1%, the savings ratio is at its lowest level observed in the last 15 years with households feeling the pinch of inflation and drastically higher loan repayments.

## HOUSEHOLD CONSUMPTION

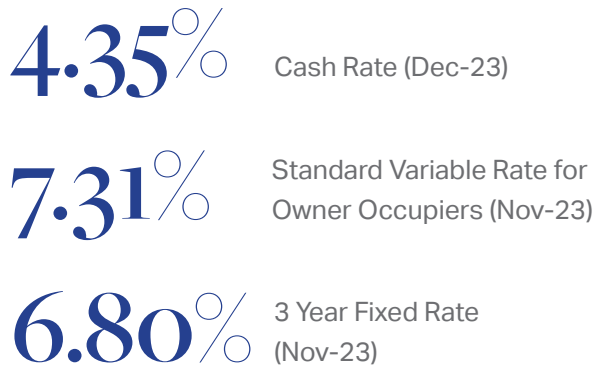
Quarterly Change in Household Consumption Expenditure



Household consumption hit its lowest level since Q1 2021. This slowdown in spending is a result of higher mortgage rates and persistent cost of living pressures.

Source: Australia Bureau of Statistics

## INTEREST RATES



Source: Reserve Bank of Australia

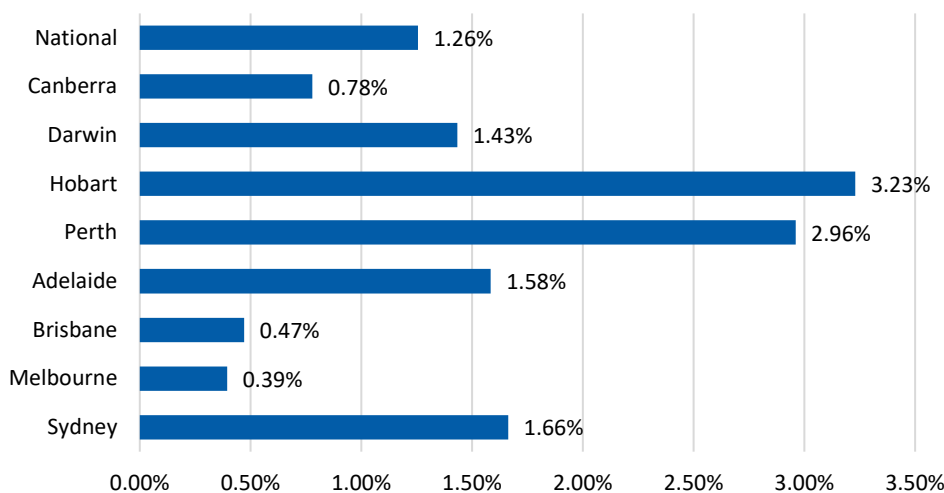
While the RBA maintained the cash rate at 4.1% in Q3, it issued a 25 basis point increase in November to 4.35%. The rate was held steady in December.

Futures markets suggest the cash rate has peaked with declines expected from H2 2024.

The RBA remains open to further rate increases if needed.

## CPI AND THE NEW DWELLING INDEX

### Quarterly & Change in New Dwelling Purchase Index



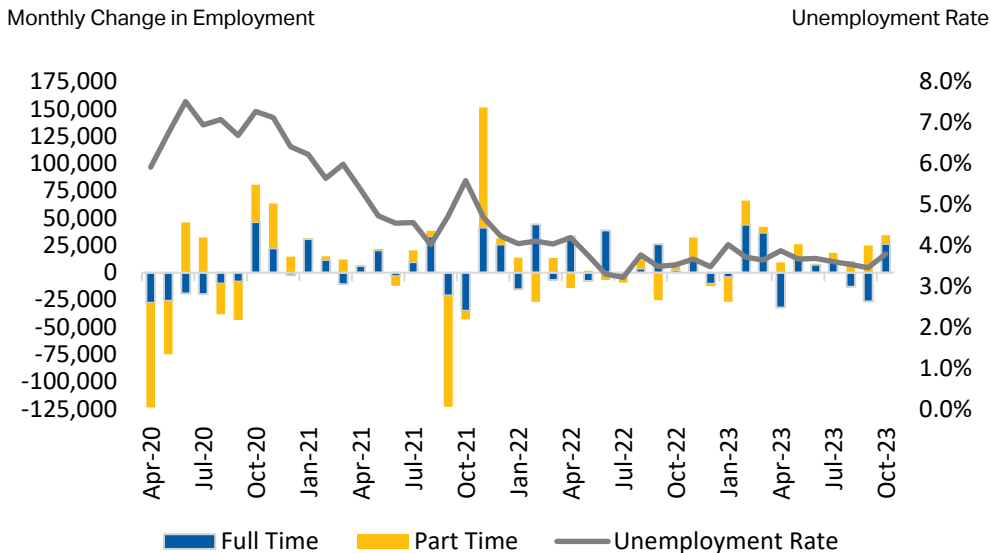
Source: Australian Bureau of Statistics

**5.4%**  
CPI Q3 2023 - Y.o.Y

**1.26%**  
CPI Index for New Dwellings  
Q2 2023

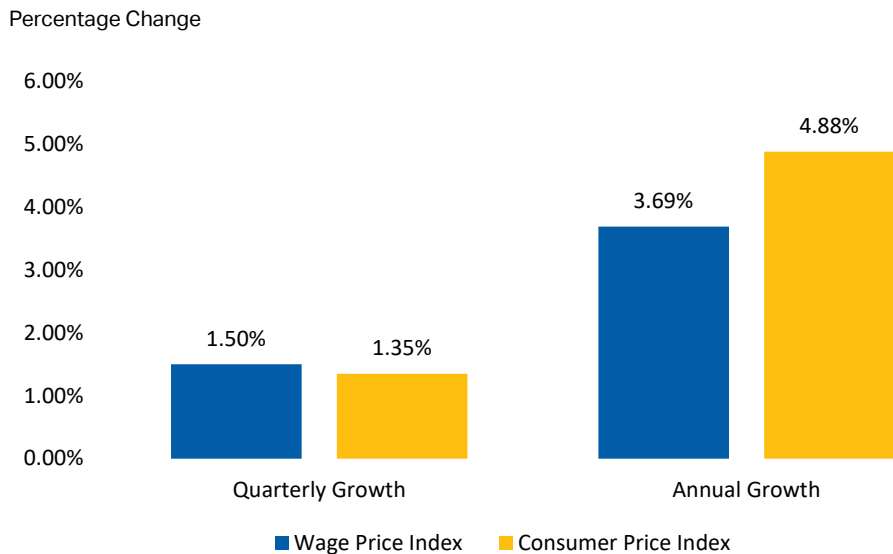
**2.16%**  
CPI Index for Rents  
Q2 2023

## LABOUR MARKETS



Employment rebounded in October with 34,325 workers added, following a slight decline in September (-1,410 workers). Despite this increase, the unemployment rate rose to 3.8%; up from 3.5% in both September 2023 and the same time last year.

### Wages vs. CPI

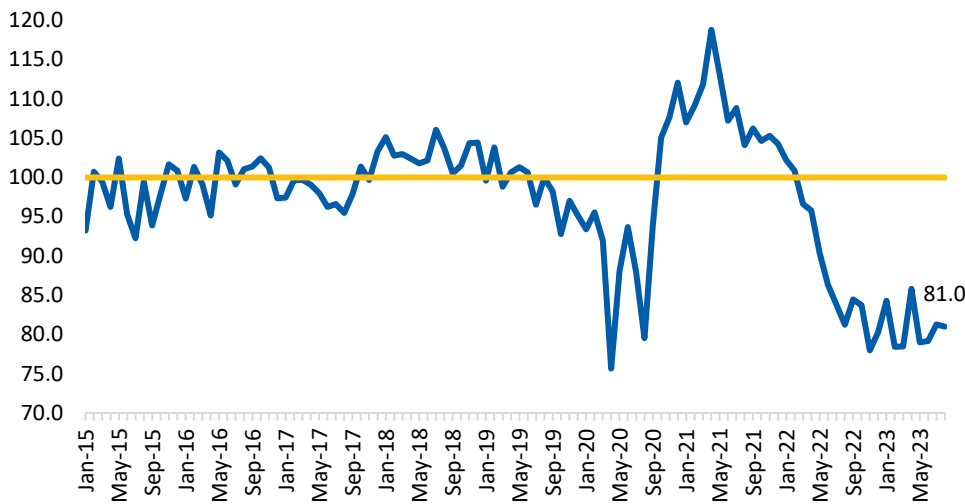


The hourly rate of pay index rose 1.5% in Q3, marking a 3.69% annual increase. Like last quarter, Q3 saw wages continue to increase at a higher rate than inflation but despite this robust growth, was outpaced by CPI growth - resulting in a decline in real wages.

Source: Australian Bureau of Statistics

## MARKET SENTIMENT

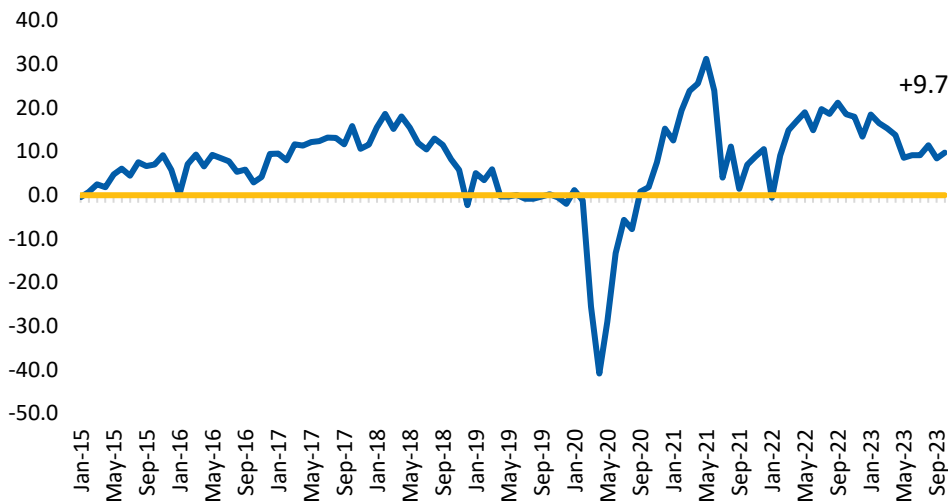
Consumer Sentiment - Index = 100



Sentiment has stabilised by remains pessimistic. The current reading of 82 shows improvement from Q2 but has been sub-100 since March 2022.

Source: Westpac-Melbourne Institute Consumer Sentiment Index

NAB Business Conditions Index



Business sentiment remains resilient, but the outlook is slightly weaker. While business conditions have seen a slight improvement and remain robust, there is a notable softening in confidence – though it does remain above average.

Source: National Australia Bank Business Survey



# Victorian Population

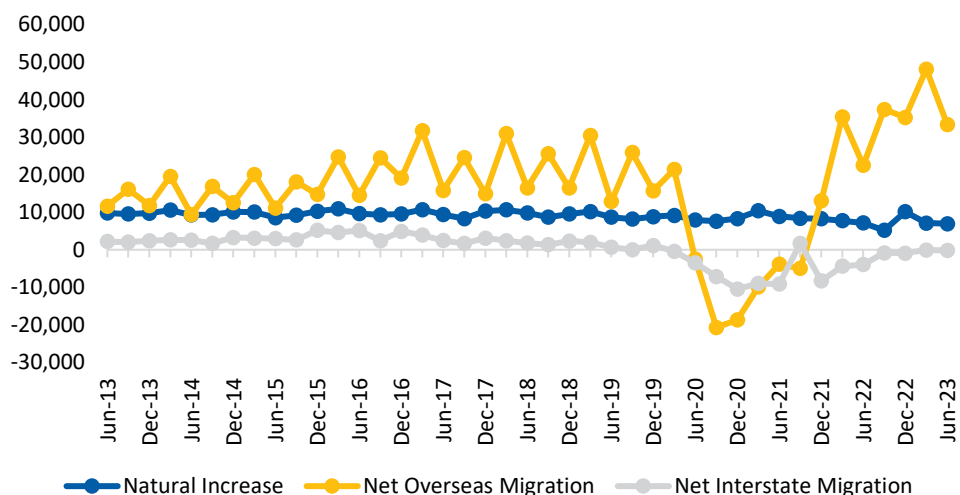
This was the lowest quarterly increase over the last 12 months, but also the highest Q2 increase in recent years.

The total population increased by 181,846 persons annually; signifying a recent peak in population growth.

## +40,198

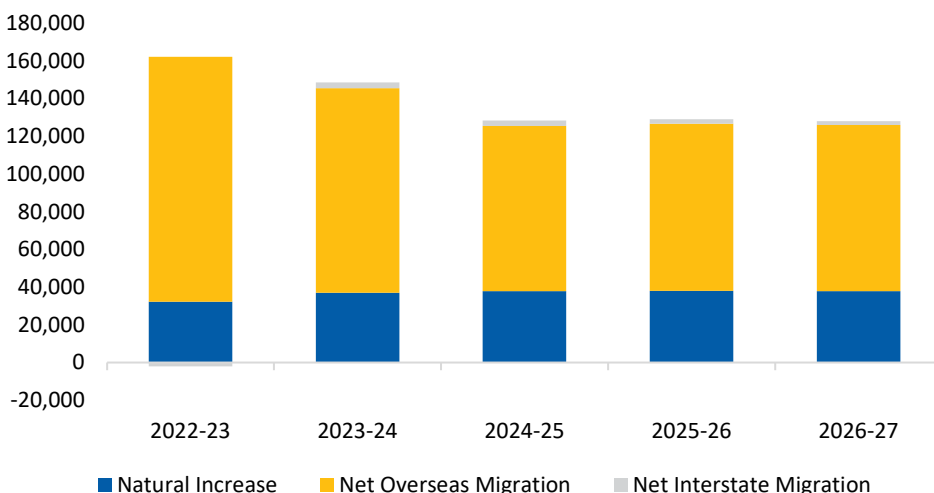
Victorian Population Growth  
Q2 2023

Population Components



Source: Australian Bureau of Statistics

Population Projections



Source: Australian Government Centre for Population

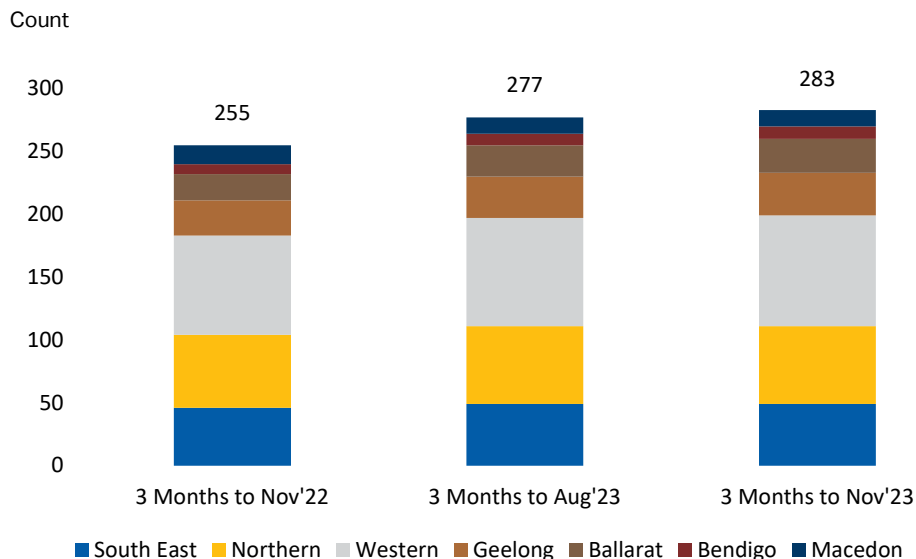
# Land Market Snapshot



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))

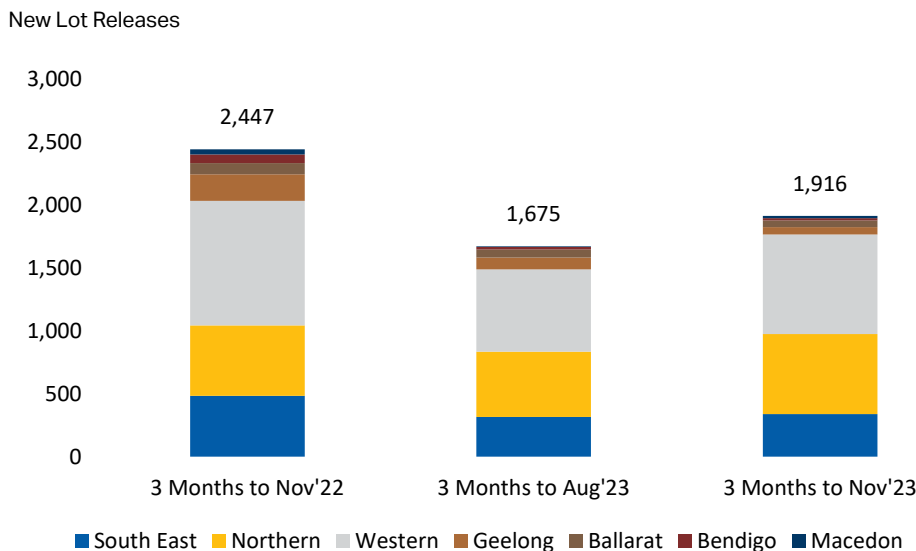
### ACTIVE ESTATES



New housing developments in greenfield areas have continued to climb, rising by 28 over the twelve month period to November, to a total of 283 active estates.

Source: RPM Research, Data & Insights

### LOT SUPPLY

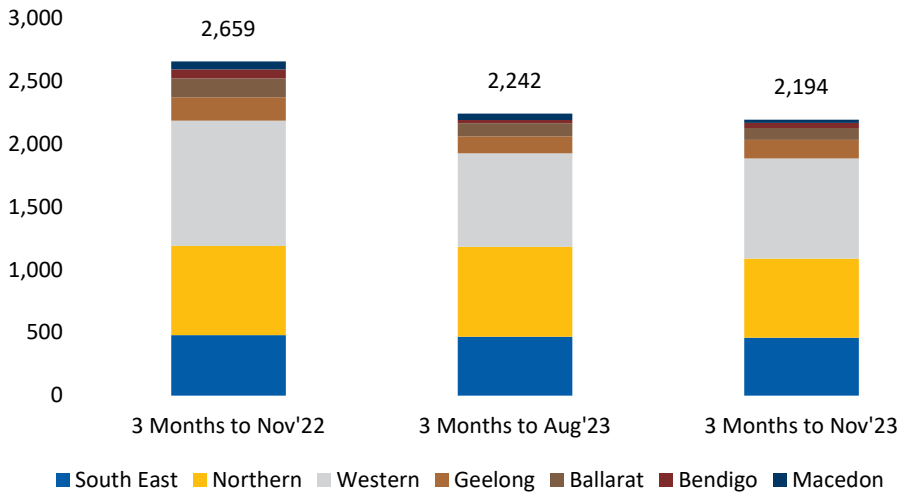


New supply has escalated by 14% over the three months to November 2023, attributed to increased lot releases across Melbourne growth areas.

Source: RPM Research, Data & Insights

## LOT SALES

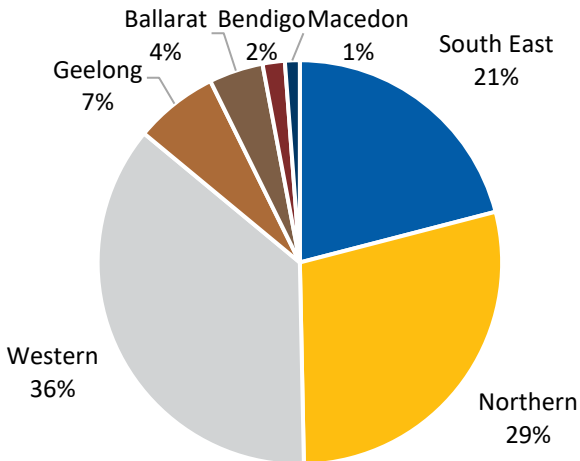
Gross Lot Sales



Gross lot sales remain on a downward trajectory. However, the rate of decline is slowing, highlighted by the more marginal 2% in sales activity over the three months to November 2023.

Source: RPM Research, Data & Insights

## SHARE OF SALES BY CORRIDOR

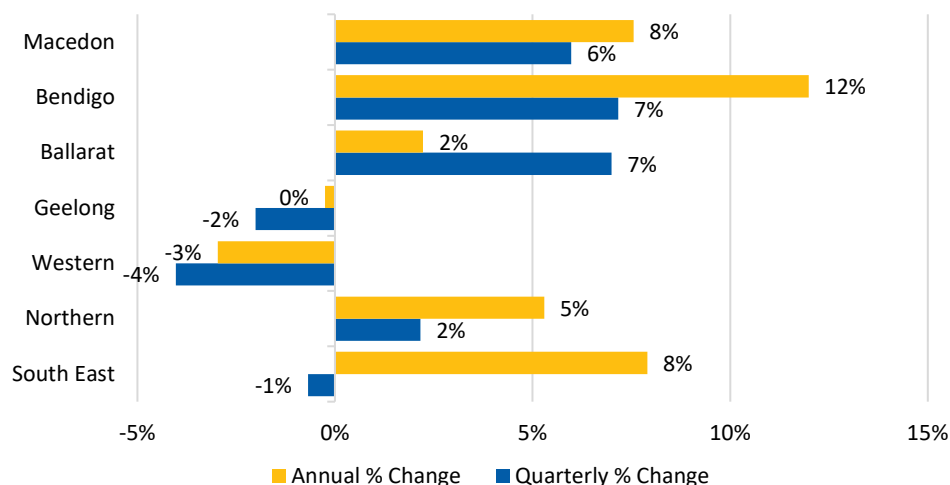


Sales activity continues to be heavily concentrated in Melbourne growth areas, although the proportion of lot sales in regional areas is starting to stabilise after diminishing through much of 2023.

Source: RPM Research, Data & Insights

### LOT PRICE CHANGE

Percentage Change

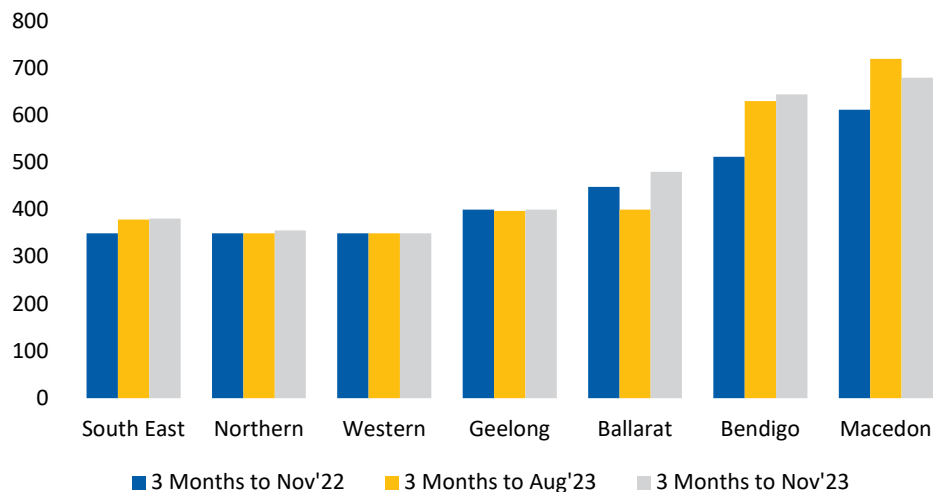


Based on headline figures, most growth areas have experienced annual lot price growth. Although much of this increase is being eroded by rebates and discounts.

Source: RPM Research, Data & Insights

### LOT SIZES

Median Lot Size (sqm)



Lot sizes are steady to a level that is both affordable and allows for choice in preferred home size for purchasers.

Source: RPM Research, Data & Insights

# Melbourne Residential Market



**\$933,500**

Median House Price  
-5.7% from Q2 2022



**\$633,500**

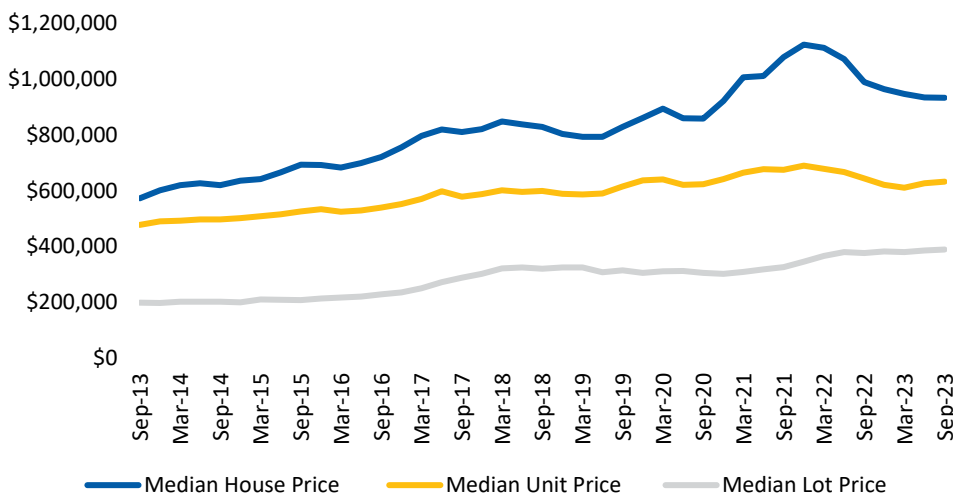
Median Unit Price  
-1.7% from Q2 2022



**\$389,000**

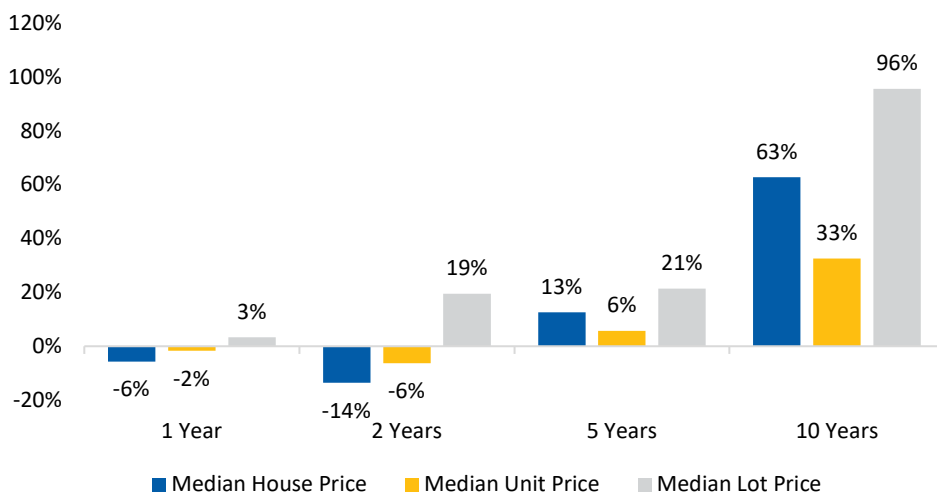
Lot Price  
+3.4% from Q2 2022

Median Price



As a result, prices are still struggling for momentum, although the annual rate of decline is slowing, and the more affordable unit market has recorded a small uptick on recent prices.

Price Change



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

# Building Activity

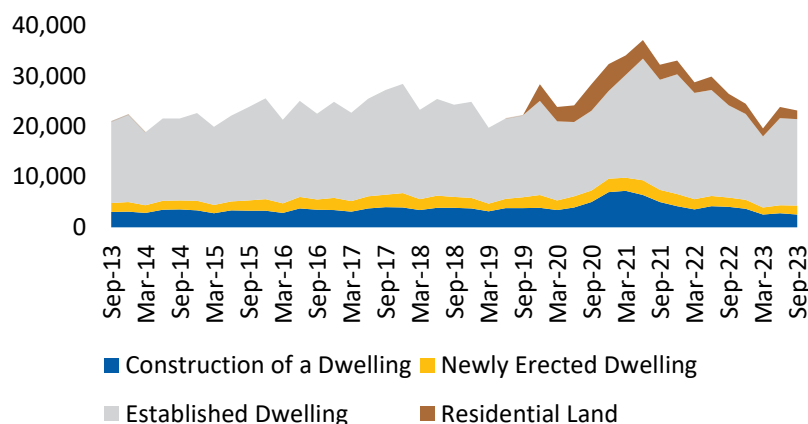
## VICTORIA BUILDING AND FINANCE ACTIVITY



# 54,100

Commencements over FY23 (-19.5% vs. FY22)

New Loan Applications



Source: Australian Bureau of Statistics



# \$494,417

Average FHB loan size (-0.6%)

Influenced by diminishing borrowing capacity and a softening of prices in the established housing market.

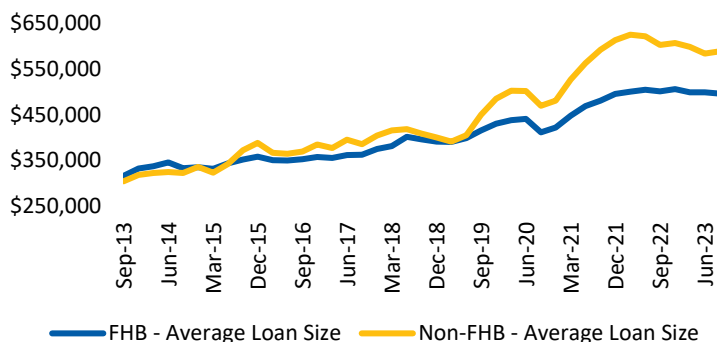
Non-first home buyers average loan size sits at 19% greater than the average FHB.

## Total Approvals

### Q3 2023

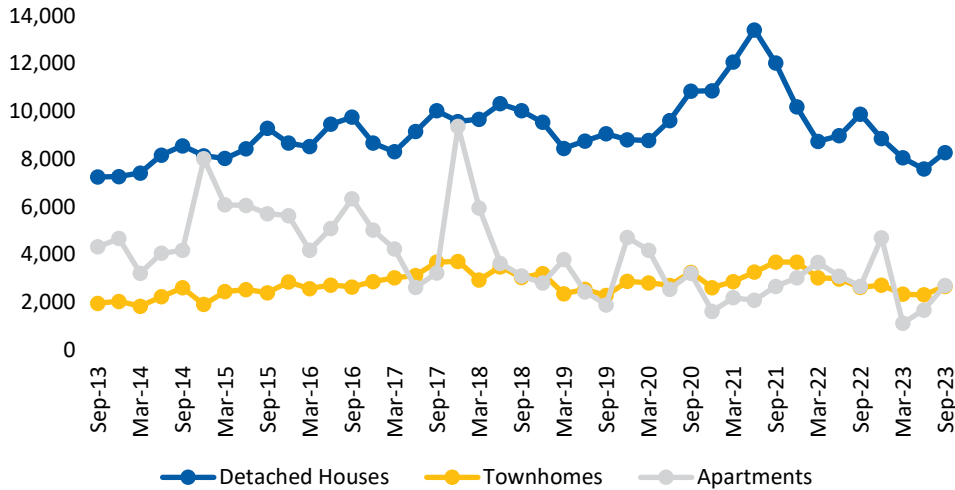
13,671 approvals, or a 18% increase from Q2 2022.

Average Loan Value



## APPROVALS AND COMMENCEMENTS

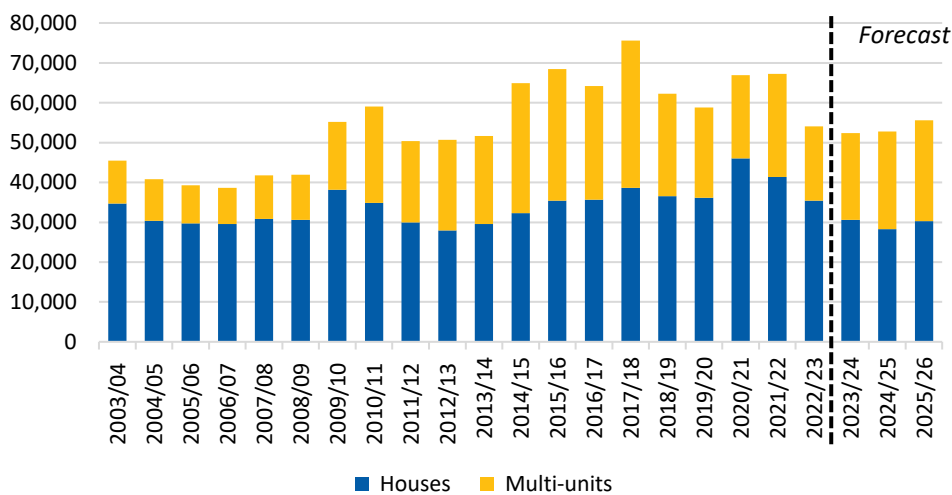
### Approvals



13,671 dwellings were approved in Q3, marking an 18% increase from Q2 (11,588 dwellings), yet a -10% decline from the same time last year (15,190 dwellings). Of these, 60% (8,278) were for detached houses, while townhomes (2,677) and apartments (2,716) constituted around 20% of approvals.

Source: Australian Bureau of Statistics

### Commencements

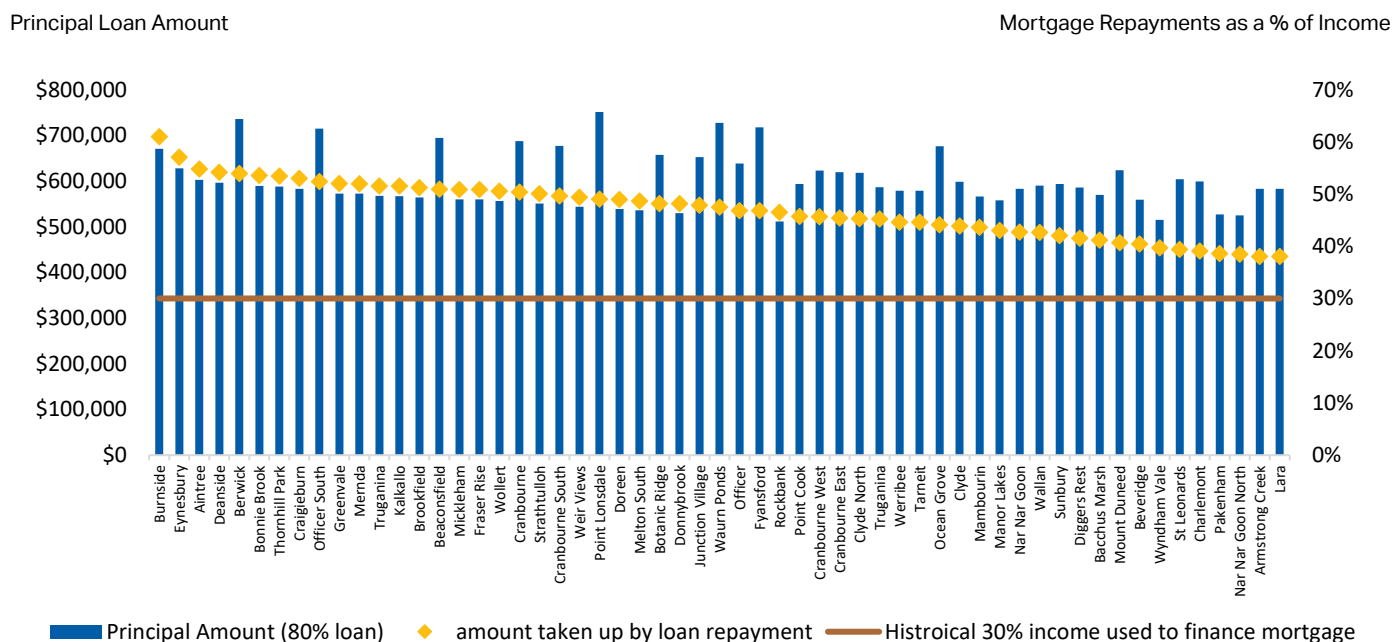


Total commencements are expected to reach 52,390 dwellings in FY24; a -3.2% decline from last year. FY23 saw a significant -19.5% drop (54,100 dwellings) from FY22 (67,230 dwellings).

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.

Income ratios in all growth area suburbs have increased, ranging from 38% in Lara and Armstrong Creek to 61% in Burnside.

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 Q3 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

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### 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.



### IMPROVING WAGE GROWTH AND TAX CUTS

Disposable income to increase as wage growth surpasses inflation, with tax cuts from SH24 further boosting household income.



### COMPOUNDING DEMAND

Existing built up demand and future demand from record migration will create accelerating housing demand as they look to enter the market.



### FORECAST INTEREST RATE REDUCTIONS

Major banks currently forecast interest rate reductions to begin in the second half of 2024, which will drive sales activity as consumers have increased borrowing power.

## Headwinds

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### CONSUMER CONFIDENCE

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



### INFLATION PRESSURES

Inflation growth to remain above target range of 2% to 3% in FH24, maintaining cost of living pressures for households.



### NEW HOME PREMIUM

Larger correction in established house prices has led to unattractive relative affordability for new homes.



### 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.



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