Urban Development Institute of Australia VICTORIA

Urban IQ
Economic and Residential Market Update

APRIL 2024

RPM

Executive Summary

- Economic growth has progressively slowed in 2023, with GDP increasing by 0.24% over Q4 and 2.06% over the year.
- Household expenditure growth has stagnated due to rising interest rates and inflation.
- Affordability concerns and elevated construction costs in the residential sector have dampened new dwelling investment, adding pressure to the rental market.

Welcome to our Q4 2023 Economic and Residential Property Market Report. This report examines Australia's economy and property sector performance within the context of Victoria's land and housing market.

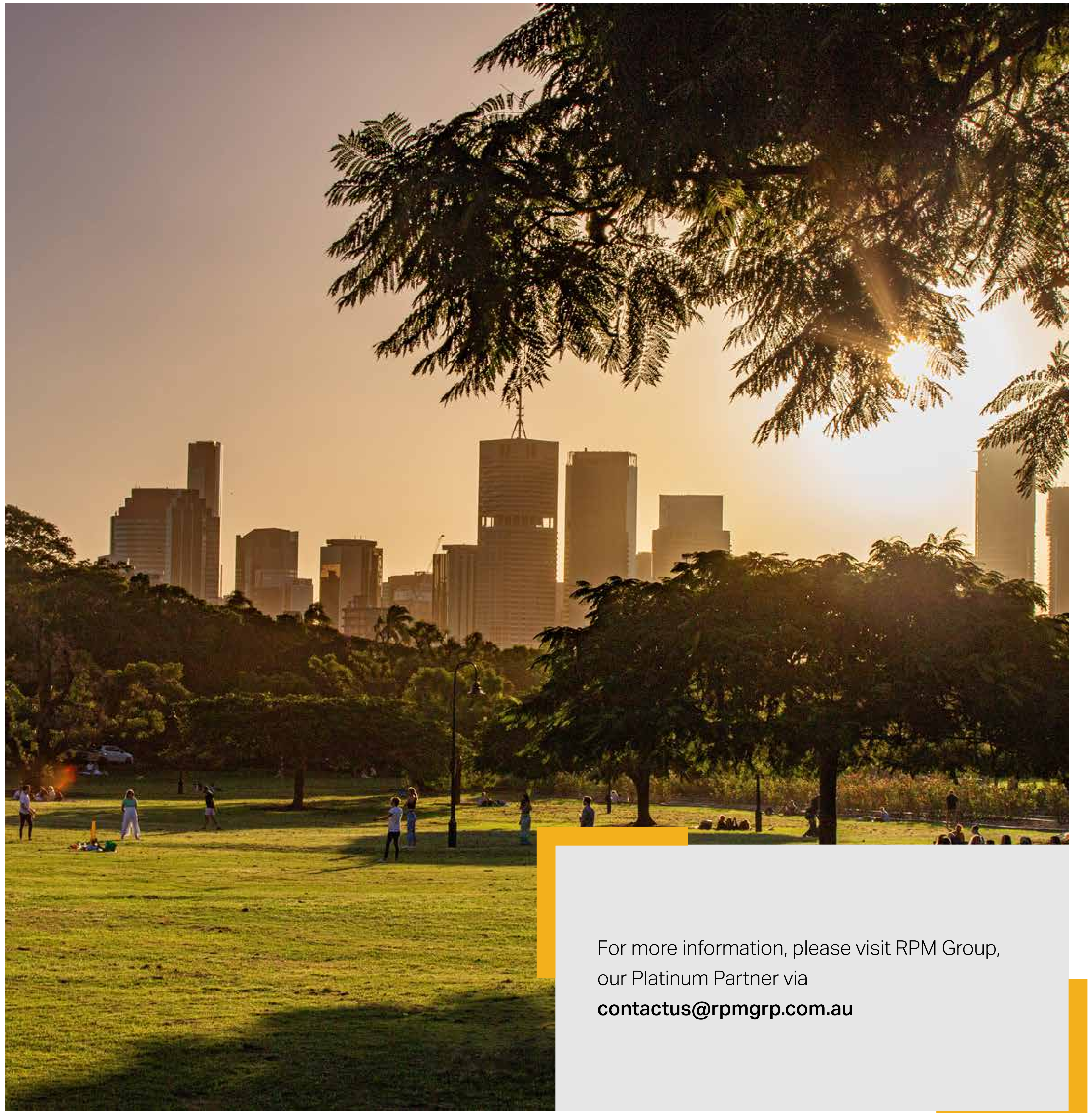
Economic growth has steadily slowed during 2023, with Gross Domestic Product (GDP) increasing by 0.24% over Q4 and 2.06% over the year. Furthermore, economic output is not keeping pace with the nation's population growth, leading to a decline in GDP per capita for the year.

Household expenditure growth has stagnated in response to rapidly rising interest rates and strong inflation growth. With mounting living expenses and higher home loan repayments, households are facing intense budgetary strains, leading them to adjust spending habits. In fact, discretionary spending has decreased by a notable 0.9% in Q4, while essential item expanses have risen by 0.7%.

Wage price index growth outpaced consumer price index in Q4, allowing the household savings ratio to improve from its 15-year low of 1.1% in Q3 to 3.2%. However, despite this uptick, the household savings ratio remains relatively low, indicating that households are continuing to deplete their savings to meet living expenses.

Affordability concerns persist in new dwelling investment, which is being exacerbated by elevated construction costs in the residential sector. This has led to a notable decline in building approval activity, as fewer prospective buyers feel the current market conditions are favourable. Consequently, rental markets are under pressure, with historically low vacancy rates and escalating rental rates.

We welcome any questions about specific market segments or topics covered in this report. Please contact RPM Research, Data & Insights for more information.



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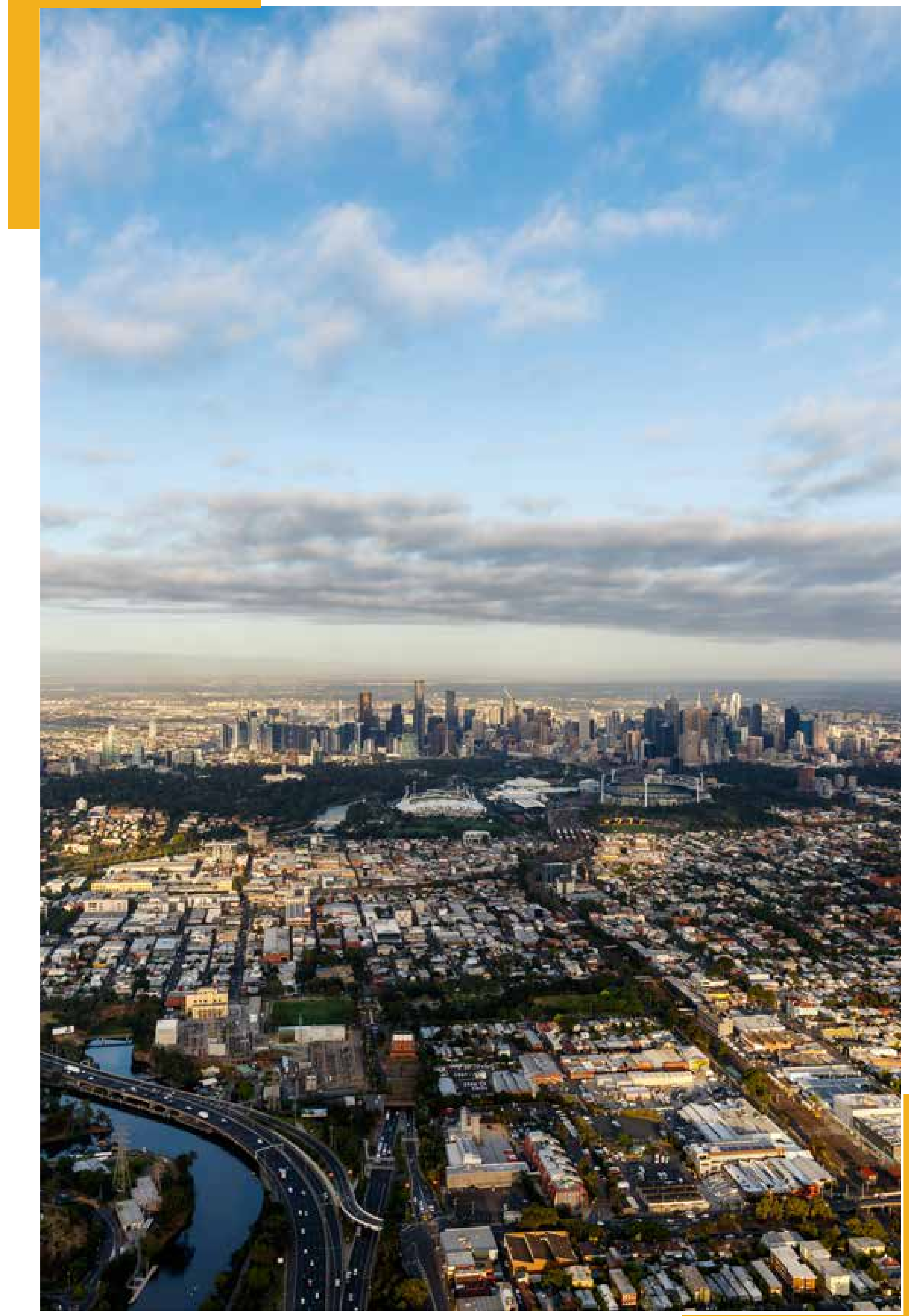
What's Inside



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Gross Domestic Product

GDP increased by a moderate 2.06% over 2023, down from the solid economic growth of 3.81% in 2022.

This easing is attributed to fragile consumer confidence, reflected in slowing household expenditure and dwelling investment activity. Growth is expected to remain subdued through much of 2024, as cautious consumer behaviour persists.

Relief may begin with the July tax cuts, and while the prospect of further interest rate rises is diminishing, reductions are most likely to be seen later in the year.

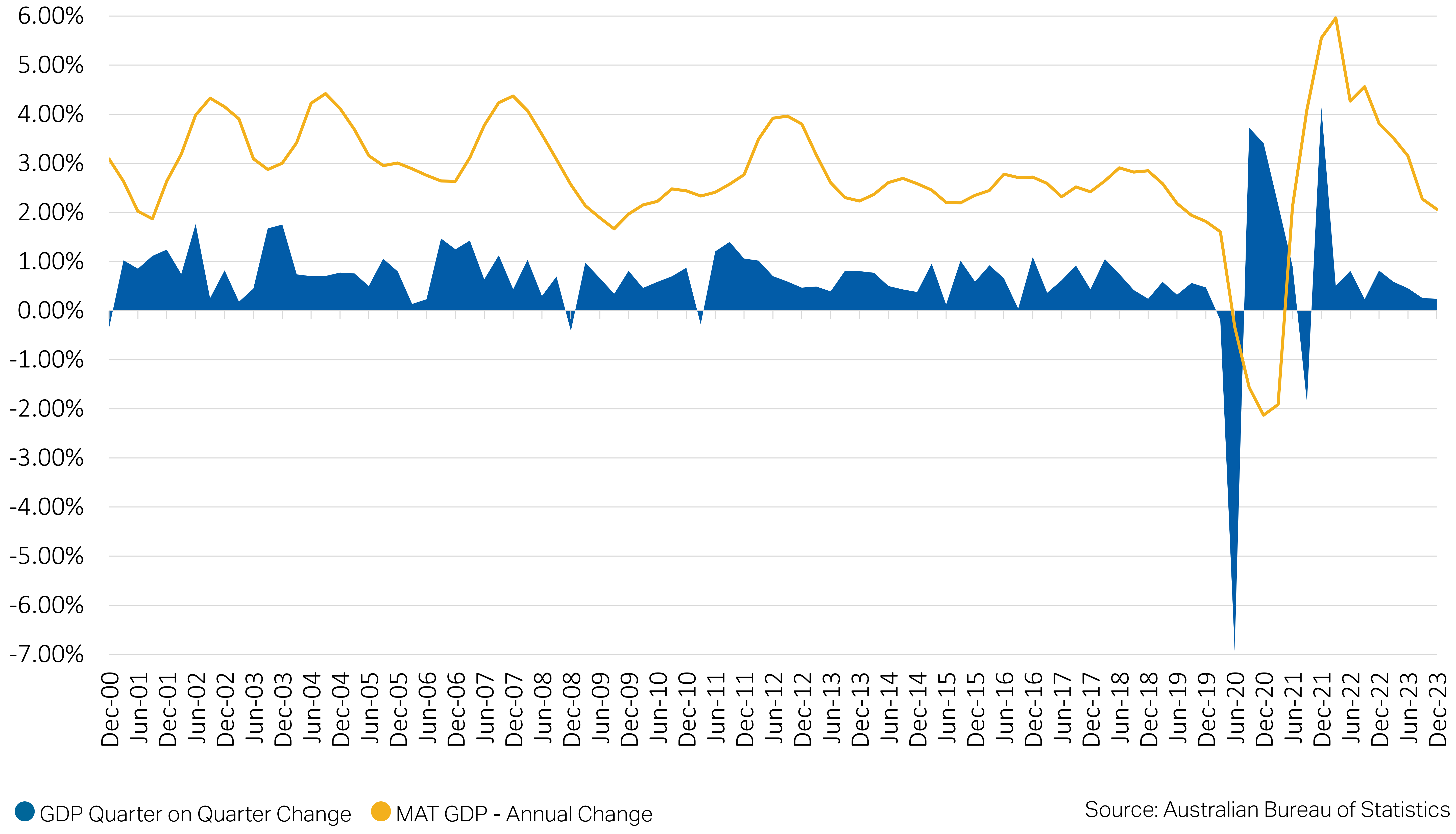
GDP Growth Q4 2023

0.24%

12 months to Q4 2023

2.06%

GDP - % change



Source: Australian Bureau of Statistics

Household Savings & Consumption

The current household savings rate is 3.2%.

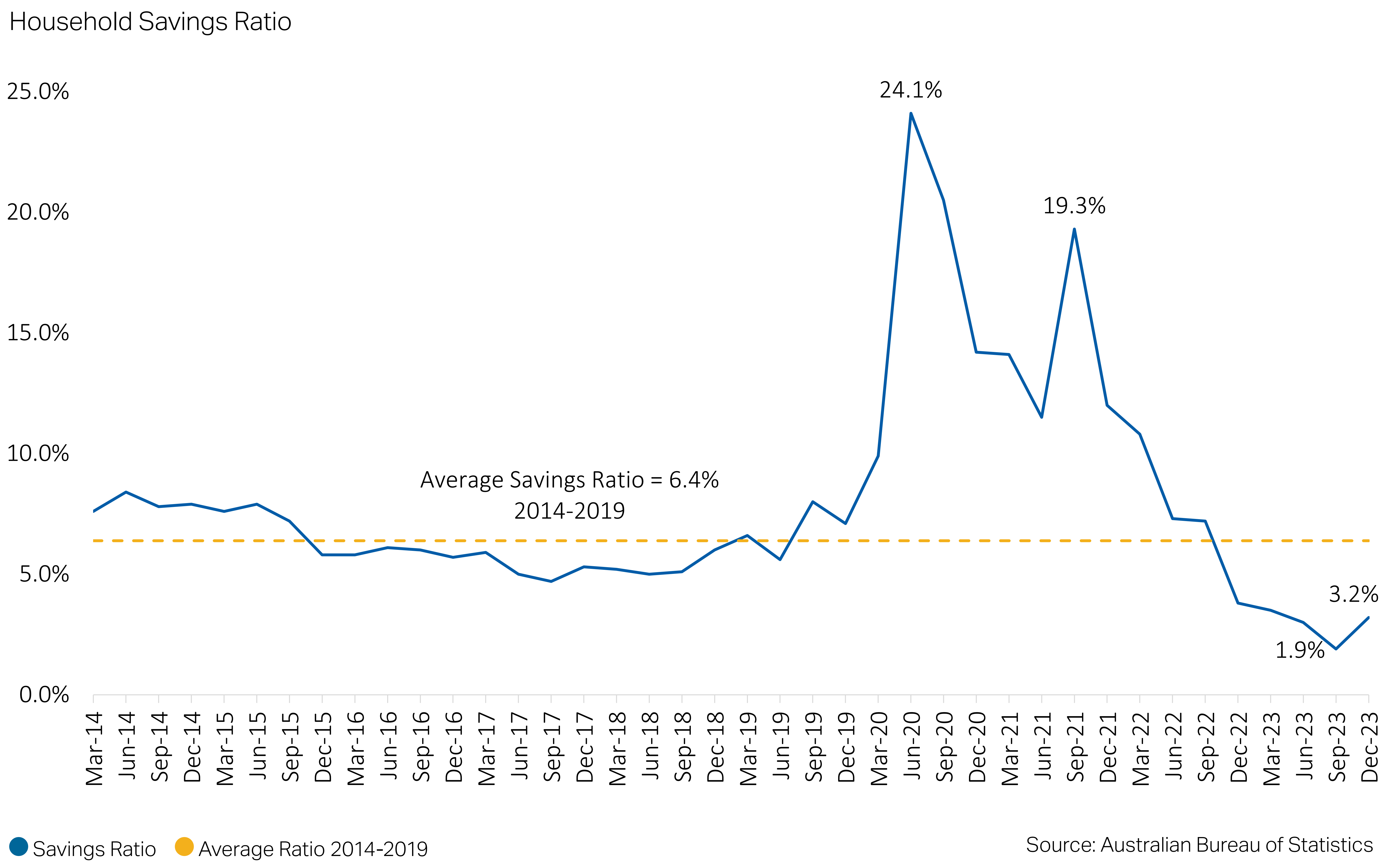
Although improving from the previous quarter, household savings remain relatively low, as higher inflation and home loan mortgage repayments erode savings.

Current Savings Rate

3.2%

Recent Peak (Covid)

24%



Source: Australian Bureau of Statistics

Household Savings & Consumption

Household consumption remained steady in Q4 2023, after declining in Q3. Increased mortgage repayments and higher cost of living expenses are forcing consumers to rein in expenditure, particularly on discretionary items.

Essential Consumption

0.75%

Discretionary Consumption

-0.86%

Cigarettes and tobacco
-6.15%

Electricity, Gas and Other Fuel
+6.93%

Purchase of Vehicles
-3.60%

Hotels, Cafes, and Restaurants
-2.75%

Clothing and Footwear
-2.52%

Furnishing and Household
+1.06%

Health and Well-being
+0.94%

Operation of Vehicles
+0.89%

Other goods and services
+0.73%

Source: Australian Bureau of Statistics

Interest Rates and Inflation

Interest Rates

MARCH 2024		
RBA Cash Rate	Variable Rates	3 Year Fixed Rate
4.35%	**7.31%**	**6.80%**

MARCH 2023		
RBA Cash Rate	Variable Rates	3 Year Fixed Rate
3.54%	**6.43%**	**6.27%**

Following November's 25 basis point increase, the cash rate has held steady at 4.35% in early 2024.

With signs of inflation beginning to ease, there is growing likelihood that the RBA's tightening monetary policy, which saw a total rise of 425 basis points from May 2022, has ended. Despite the RBA easing its tightening bias, it remains wary that inflation is not completely under control, leaving some uncertainty on its next announcement.

Inflation

CPI - DEC 2023	
Quarterly Inflation	Annual Inflation
0.59%	**4.05%**

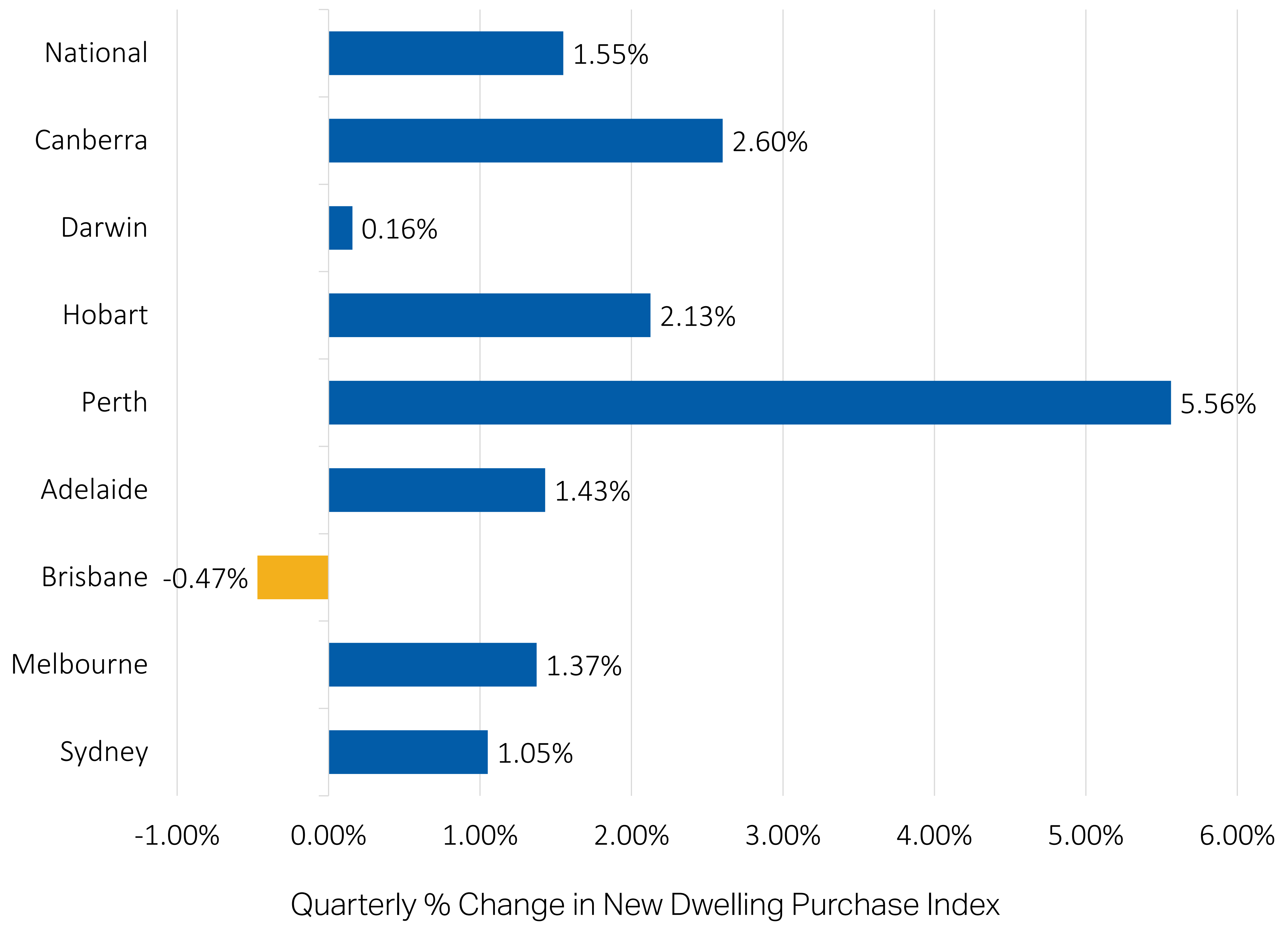
DWELLING AND RENTAL INDEX (MELBOURNE / NATIONAL) - DEC 2023	
New Dwelling Index	Rental Index
1.37% / 1.55%	**0.74% / 0.89%**

Inflation growth has slowed through 2023 but remains above the RBA target range of 2%-3%.

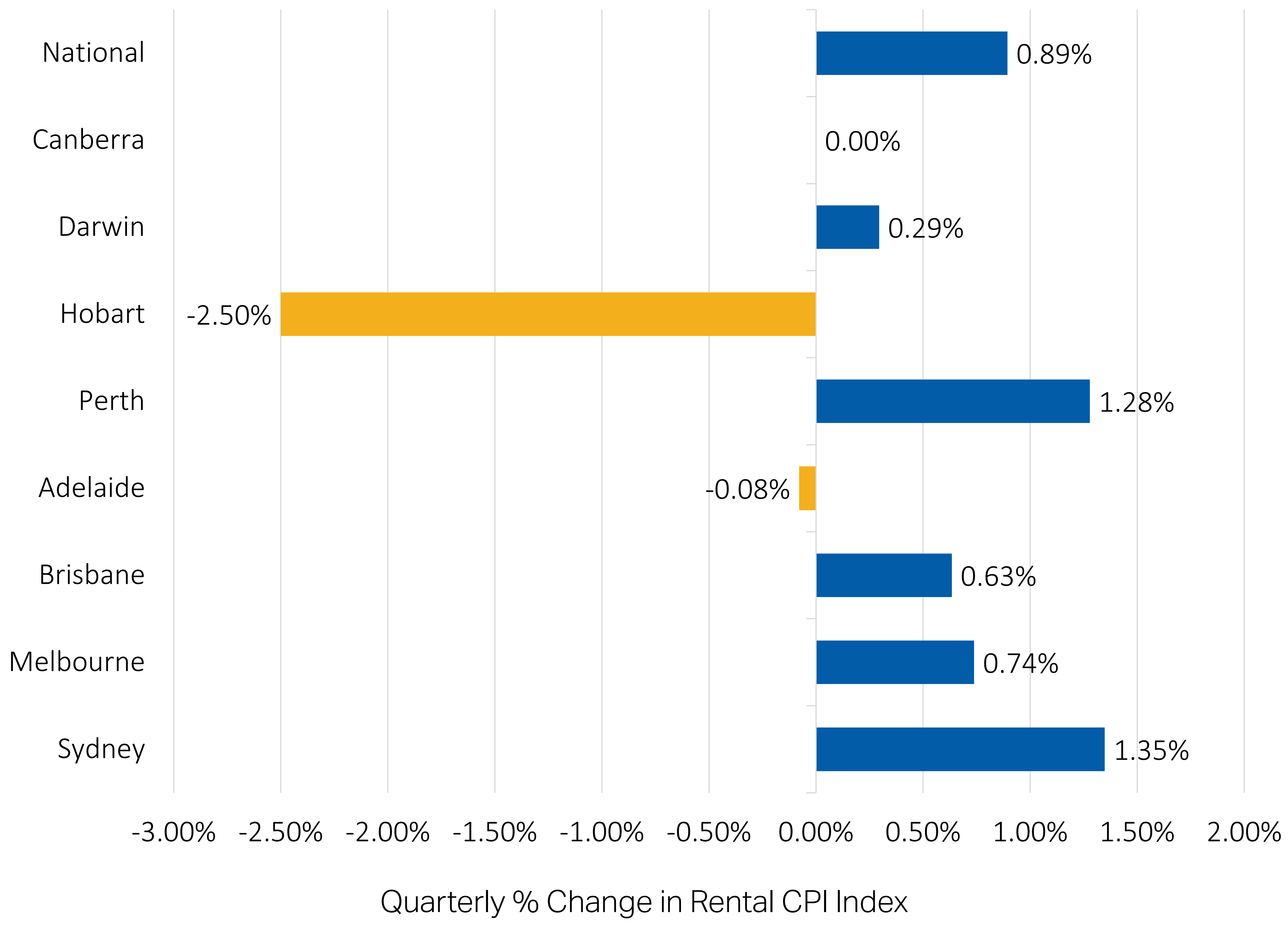
The Consumer Price Index (CPI) increased by 0.59% over the quarter and 4.05% annually – this is almost half the peak annual growth rate of 7.83% over 2022. Housing remains a key contributor to inflation remaining above the target range; as supply constraints on residential construction and rental accommodation apply upward pressure to building costs and rents.

New Dwelling and Rental Index

New Dwelling Index



Rental Index



Victorian Employment and Unemployment

Employment figures saw a notable uptick in February, with 29,300 persons finding employment.

The majority of these were part-time positions with full-time roles comprising only 7%.

Despite the increase in employment, the unemployment rate held steady at 3.9%; attributed to the robust population growth expanding the labour force.

Total Employed

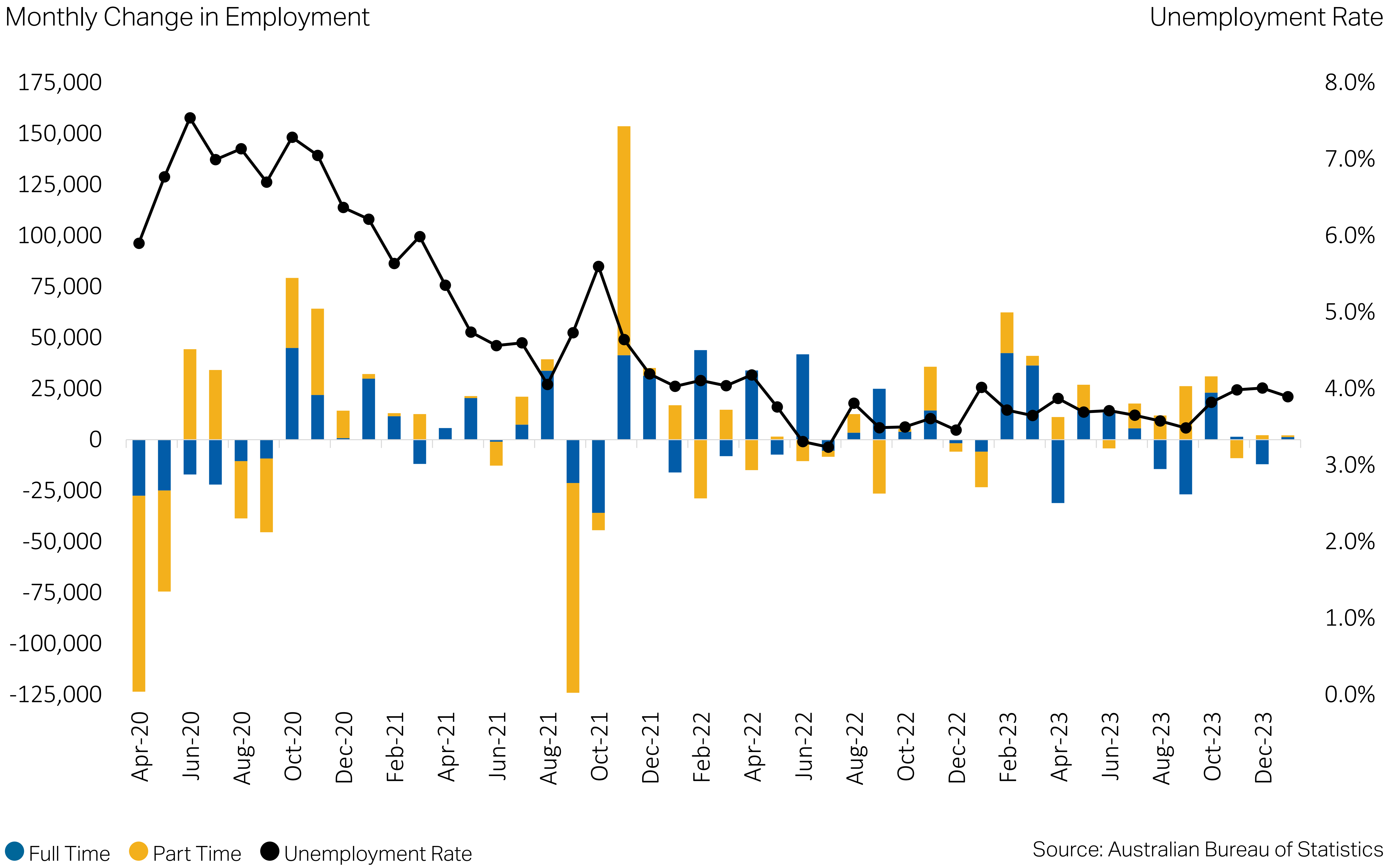
124,200

12 months to Feb 2024

Unemployment Rate

3.9%

12 months to Feb 2024

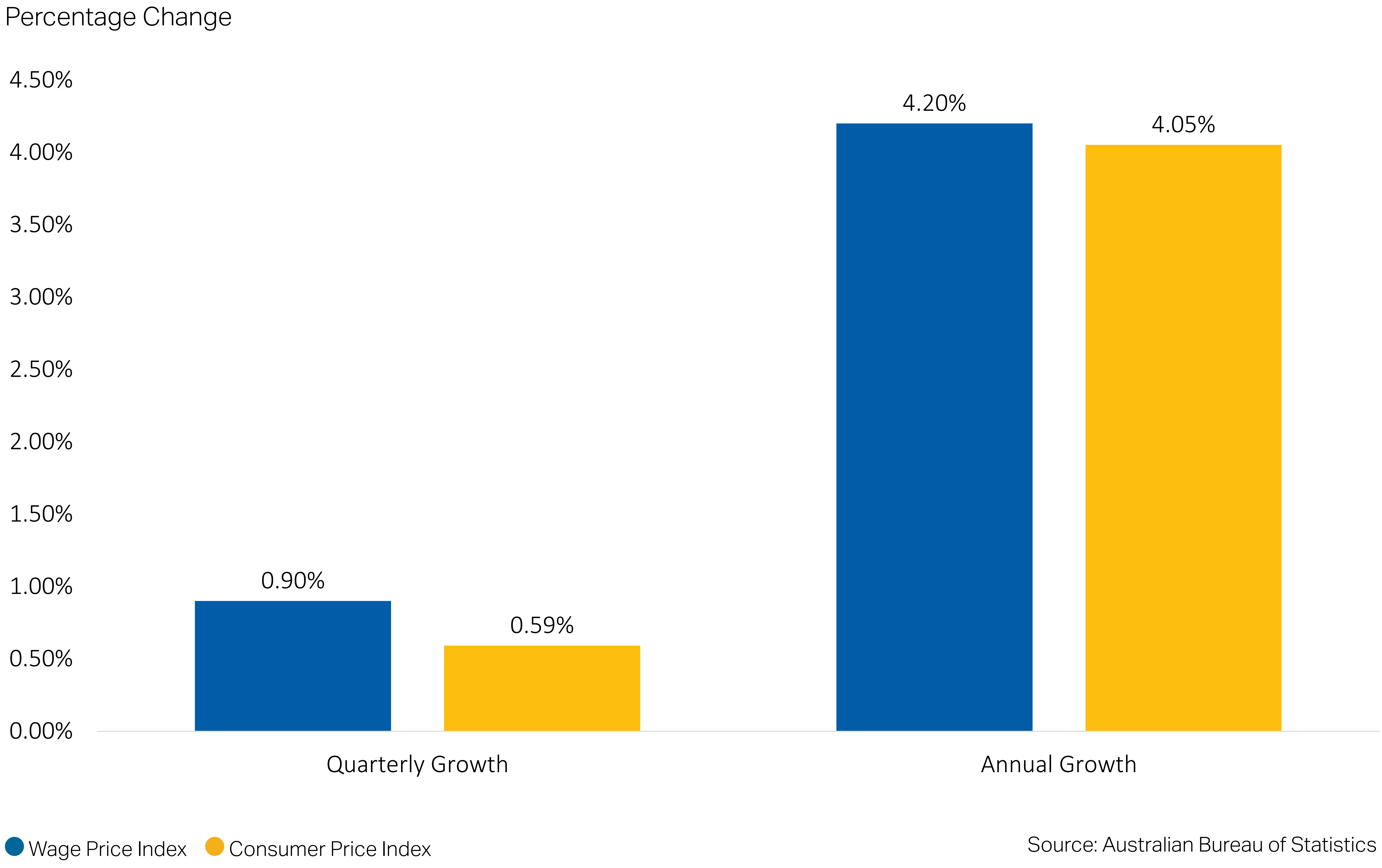


Source: Australian Bureau of Statistics

Wage Growth vs. Inflation

The hourly rate of pay index escalated by 0.9% over Q4, marking a 4.2% annual increase – the highest since Q1 2009.

Additionally, real wages in Q4 saw growth for the first time since Q1 2021, as the wage price index outpaced the consumer price index.



Source: Australian Bureau of Statistics

Consumer Sentiment

The consumer sentiment index, while still in pessimistic territory at 86 in February, showed improvement – marking its highest reading since June 2022.

This uptick coincided with easing inflation and the growing likelihood of interest rate cuts; contributing to a brighter outlook for family finances in the coming year. As a result, households are gaining confidence in major household item purchases, with the index notably rising over February. This is in contrast with the cautious approach seen in 2023, when consumers tightened discretionary spending. However, there remains some hesitancy regarding property investment, as reflected in the marginal increase in the time to buy a dwelling index.

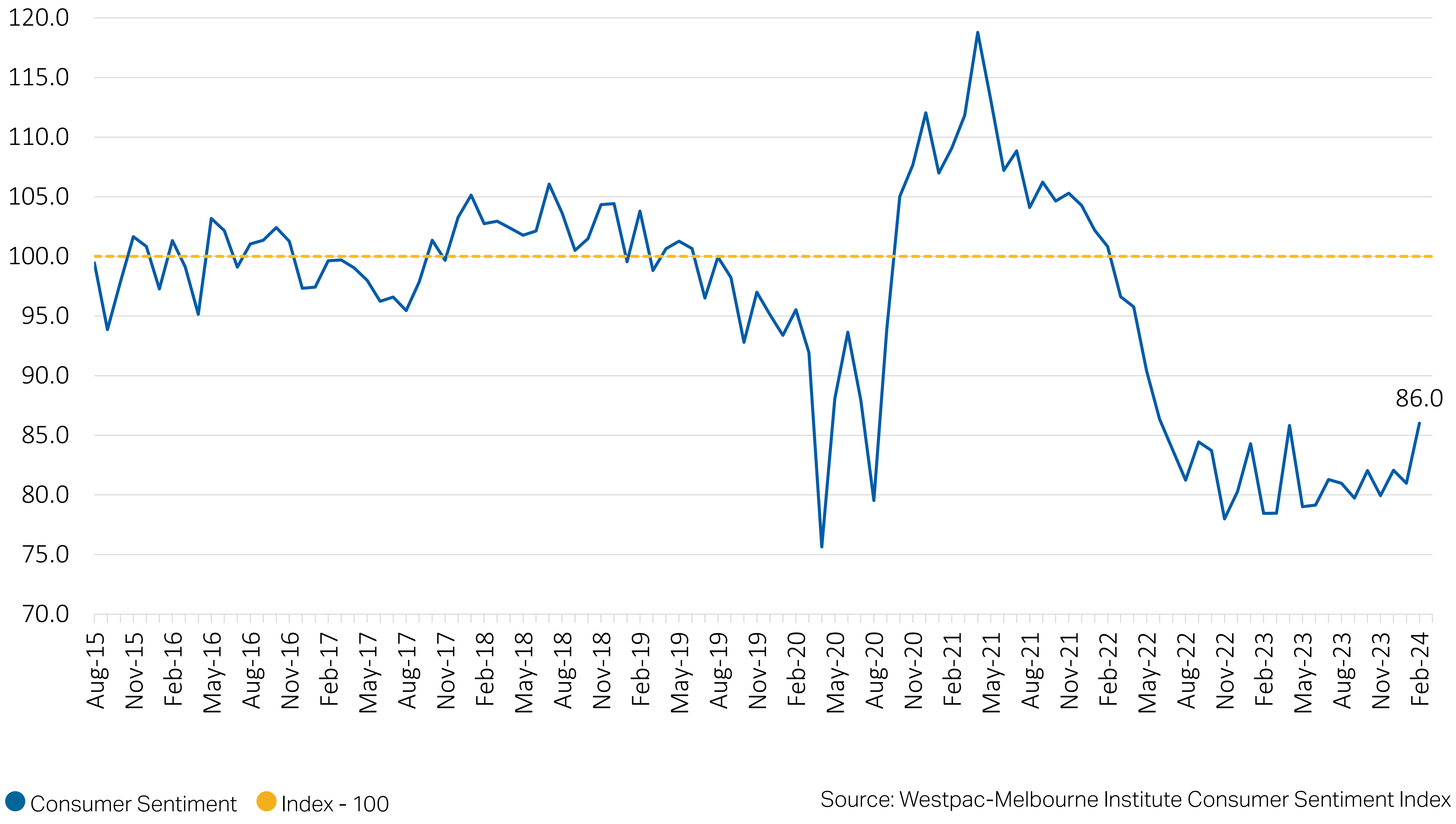
Index Feb-24

86.0

Index Feb-23

78.5

Consumer Sentiment Index (Index-100)



Source: Westpac-Melbourne Institute Consumer Sentiment Index

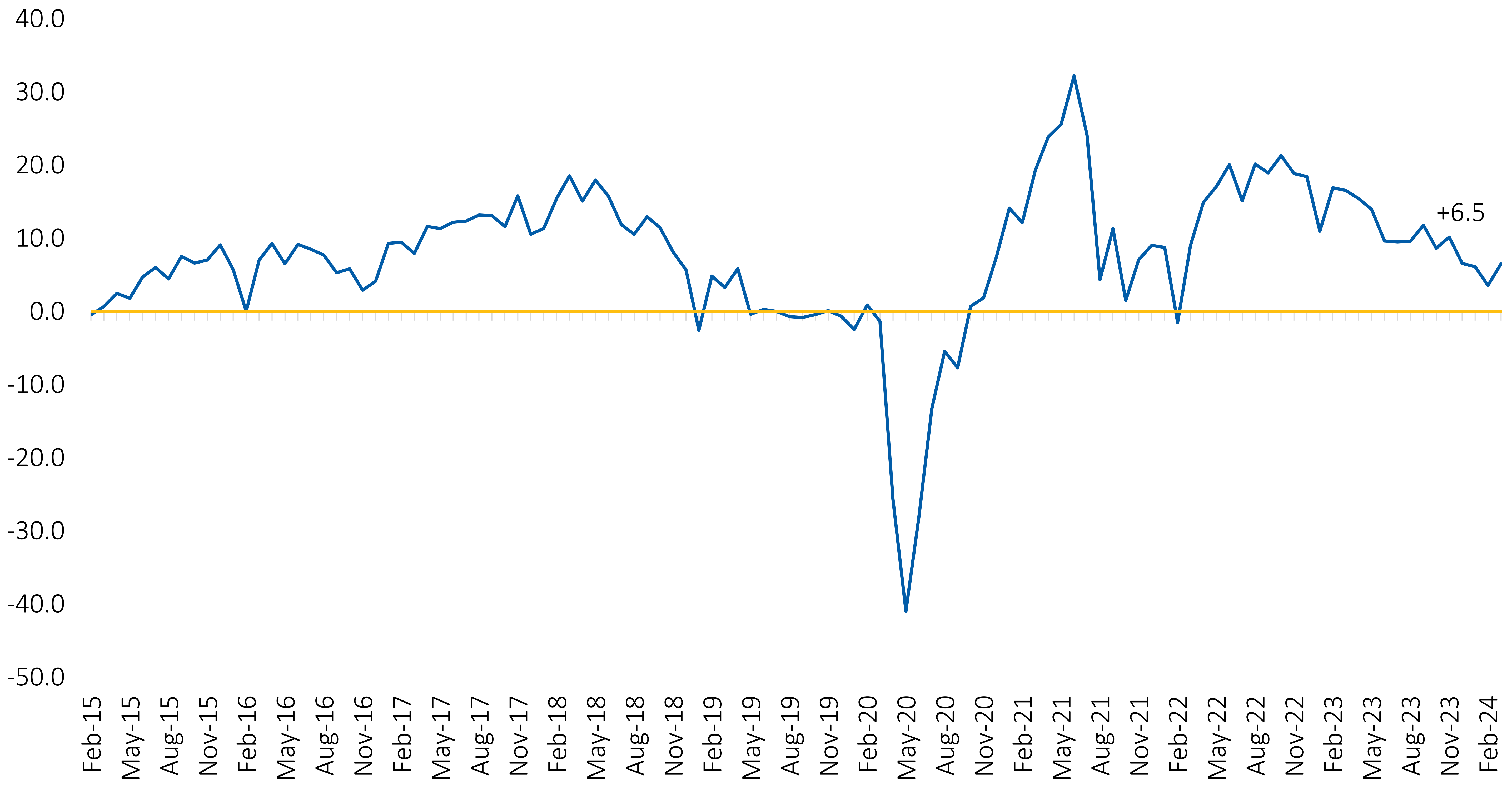
Business Sentiment

Business conditions improved in February, driven by better trading and profitability conditions.

However, the outlook remains uncertain, with business confidence steady and below its long-term average. Supply side pressures persist for businesses, with challenges in both material and labour availability. These factors pose a risk to inflation outlook, especially as increased costs are transferred to consumers through higher prices. Industries sensitive to interest rates, such as retail and construction, saw weakening conditions, while manufacturing saw a solid increase.

Index Feb-24	Index Feb-23
6.5	**16.6**

NAB Business Conditions Index



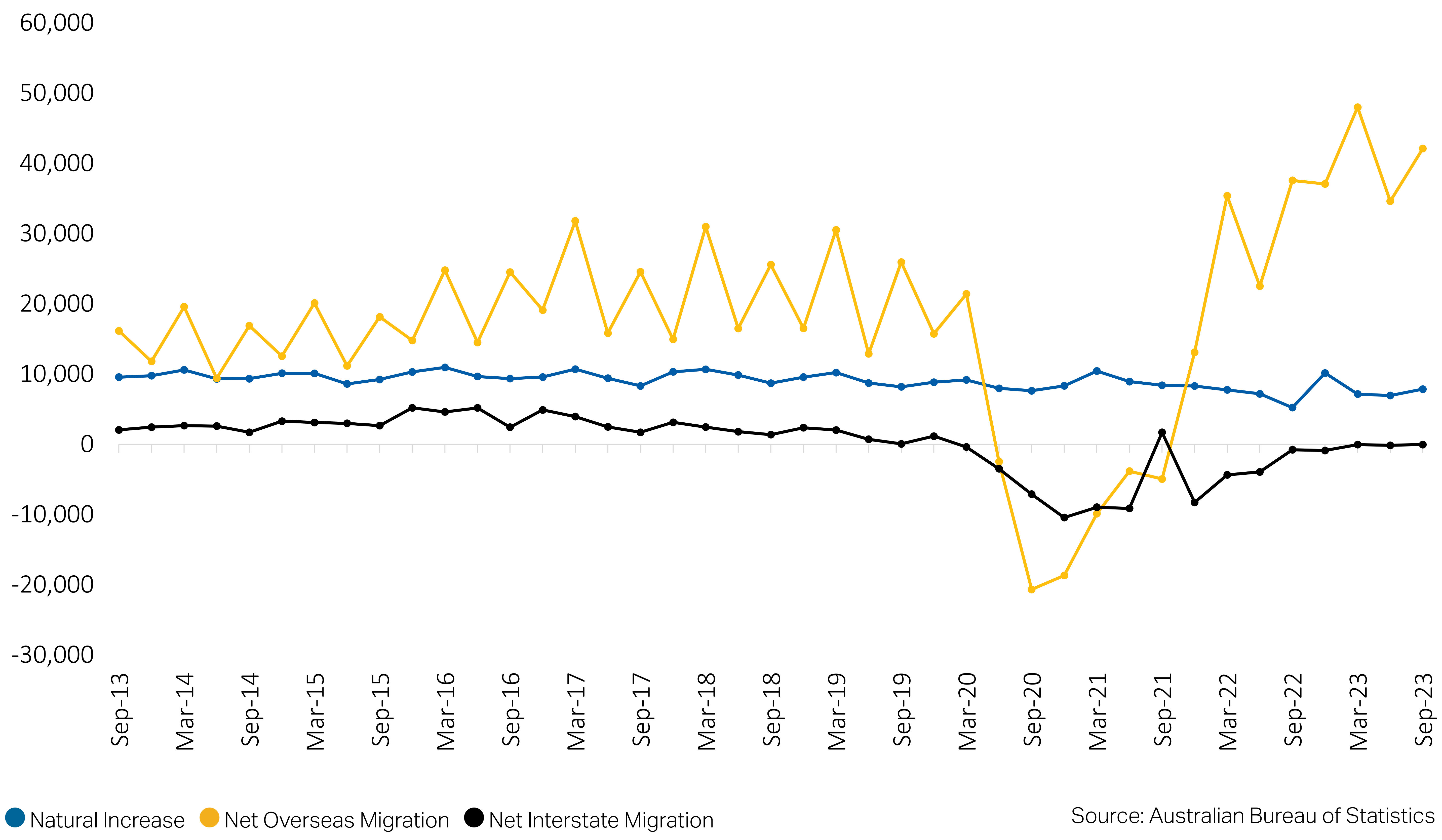
Source: National Australia Bank Business Survey

Victorian Population

Population growth in Victoria remained near historically high levels in Q3, continuing to benefit from the surge in overseas migration after international borders reopened.

The state recorded a net gain of 49,917 persons in Q3. This marks a long-term high increase for a Q3 period. The state's total population escalated by 192,723 persons over the 12 months to September.

Population Components



Source: Australian Bureau of Statistics

Victorian Population

+7,851

Natural Increase

Natural increase improved in Q3 2023, reversing the declining trend during the first half of the year. This is also 50% higher than the corresponding figure in Q3 2022. Over the 12 months to Q3, the net increase from natural increase was 32,084 persons, which equated to 13% annual growth.

+42,105

Net Overseas Migration

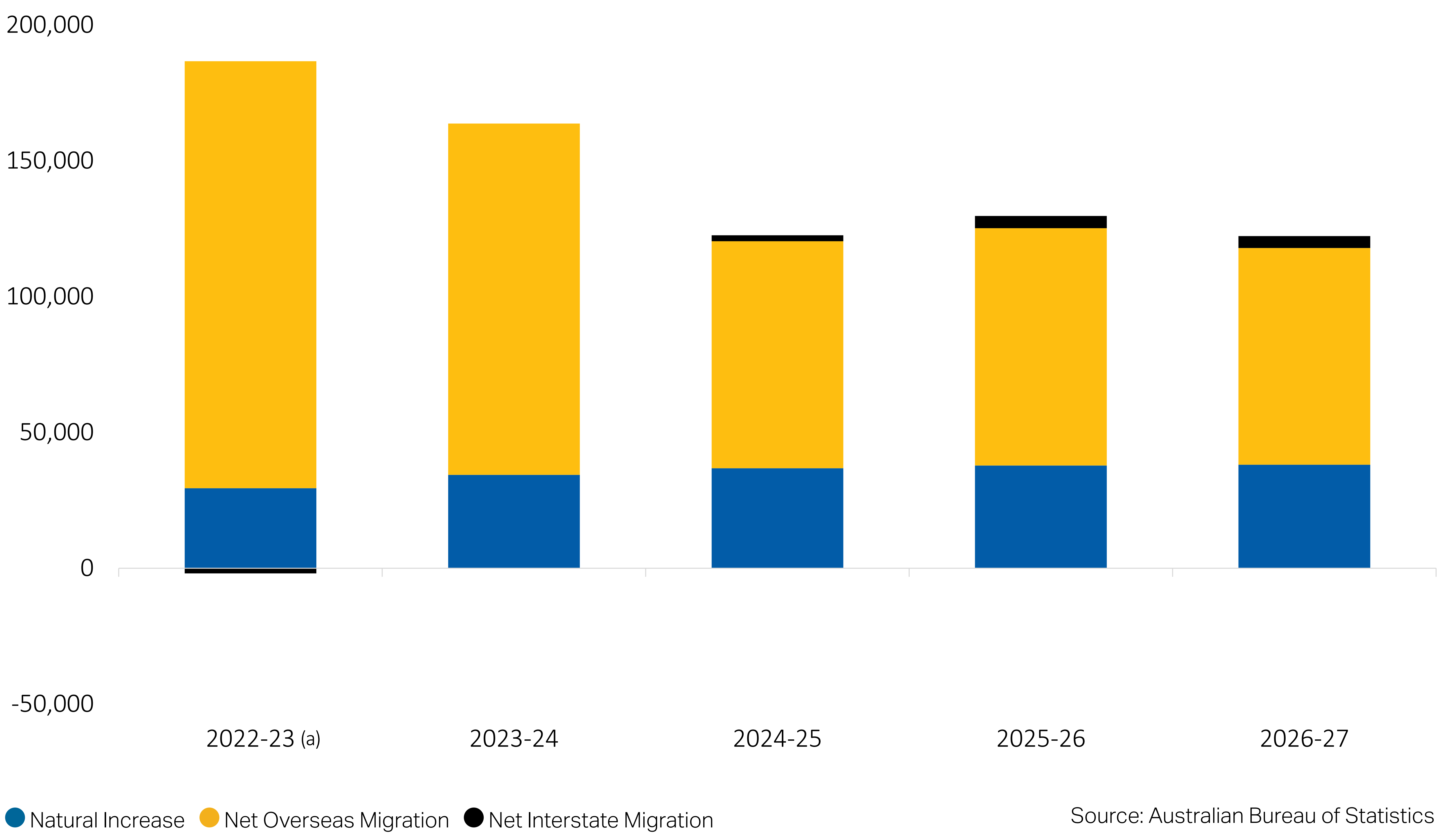
Overseas migration remains the largest driver of population growth, recording a net inflow of 42,105 persons in Q3, which is well above pre-pandemic net inflows for a corresponding period.

-39

Net Interstate Migration

The net outflow from interstate migration was a minor 39 persons in Q3, continuing the trend of minimal net outflows from the first half of the year. This is also a considerable improvement from Victoria's loss of residents to other states during the 2020 and 2021 lockdowns.

Population Projections



Source: Australian Bureau of Statistics

(a) Actual

Economic Outlook

An uncertain year lies ahead for the economy and property market with a host of headwinds and tailwinds fighting it out.

Consumer Confidence

Still characterised as pessimistic, although has started to pick up, in line with improved outlook for inflation and interest rates.

Inflationary Pressures

Although easing, it will likely remain above the target 2% to 3% range over the next 12 months, continuing to impact the standard of living.

Cash Rate

Appears to have peaked with the potential for an increase if necessary. High rates have placed pressure on household consumption and reduced borrowing capacity.

Population Growth

Strong overseas migration is increasing pressure on the occupier market and underpinning rent inflation.

Labour Markets

Wage growth outpaced CPI in Q4, leading to increased purchasing power for households. However, moderating economic growth is resulting in labour market conditions starting to ease.

Melbourne Reputation

Economist Intelligence Unit (EIU) ranks Melbourne the third most liveable city in the world, and the most liveable in Australia.

Compounding Demand

Strong population growth and millennial household formation are increasing demand. High construction and funding costs are underpinning a significant supply gap.

Australian Dream

The great Australian dream of home ownership remains. This is achievable through the supply of a diverse dwelling options.

Melbourne Residential Property Market

Potential buyers became more cautious in Q4 as they grappled with higher interest rates and reduced borrowing capacity – widening the gap between their housing desires and financial realities.

From July to October, interest rate stability hinted at a potential recovery in residential property demand. This was further bolstered by record population growth, supplementing the already moderate local demand. In response, vendors were more willing to list their properties and capitalise on the generally higher selling spring season. As a result, auctions during Q4 2023 were 19% higher than the previous corresponding period.

However, this initial sign of recovery was short-lived – dampened by the 25 basis point rate rise in November. Subsequently, property demand dwindled as prospective buyers grappled with higher interest rates and reduced borrowing capacity, widening the gap between their housing desires and financial realities. Consequently, many opted to postpone their decision to purchase to save up a larger deposit or await more favourable market conditions rather than compromise on their home preferences.

New home demand is weakening after record sales during the 18 months from the start of the HomeBuilder Grant (June 2020). Rising cost of living pressures, higher construction costs, and the rapid 435 basis point rise in the cash rate in a little over one year, are all contributing to cautionary buyer behaviour.

Subsequently, there has been a rise in rebates and discounts, offering 5%-10% off the headline lot prices, to stimulate sales activity and clear inventory of lingering titled and near-titled lots. While the headline median lot price increased by 1.5% over 2023 to $386,900 in Q4, the actual median lot value likely saw a correction when factoring in current buyer incentives.

Median House Price

$909,000

-2.2% vs. last quarter | -5.8% annually

Q4 2023

Median Lot Price

$386,900

-0.5% vs. last quarter | +1.5% annually

Q4 2023

Median Unit Price

$632,500

-0.1% vs. last quarter | +1.7% annually

Q4 2023

Clearance Rate

65%

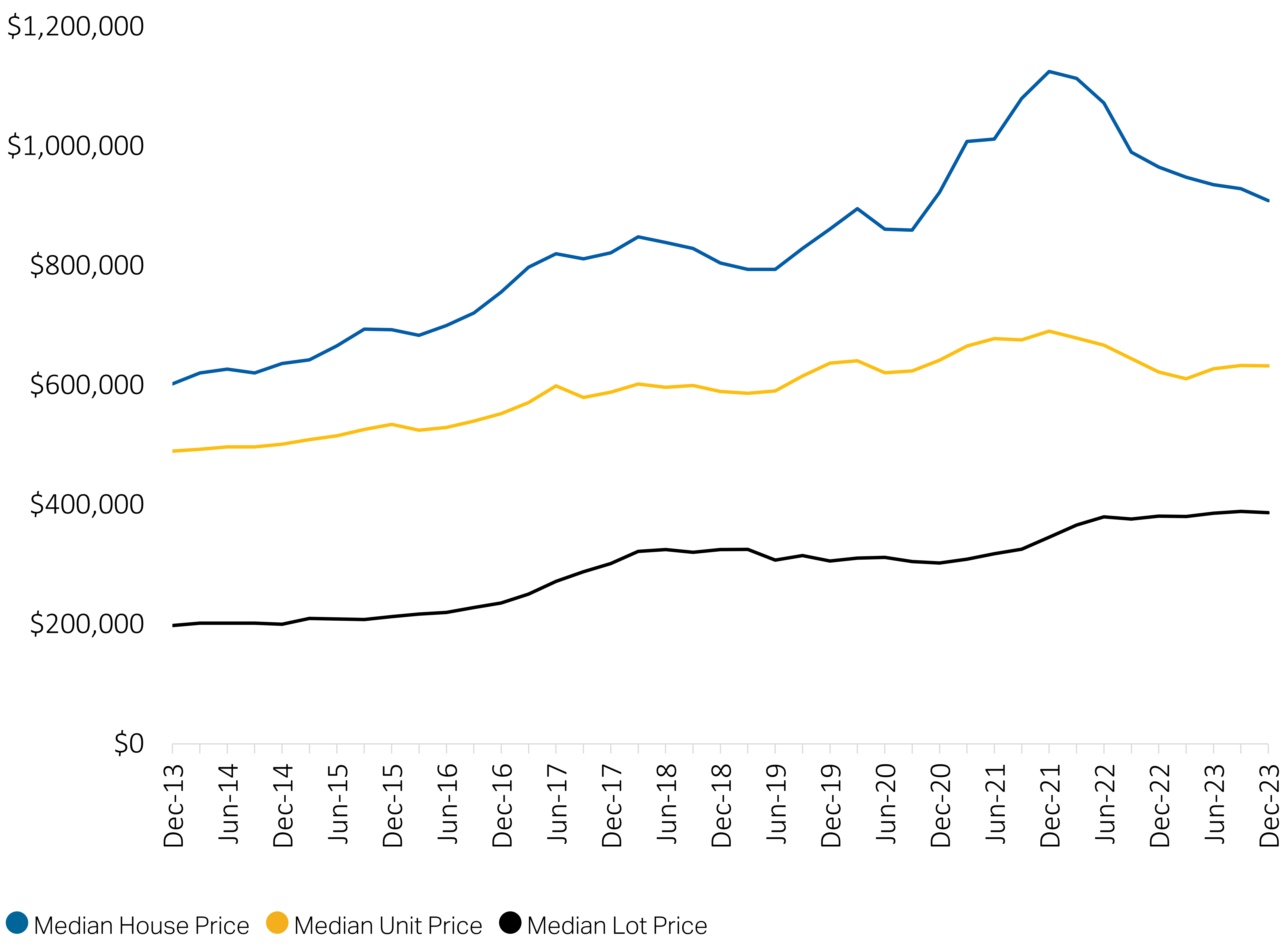
From 41,302 auctions (2023), compared to 44,624(2022)

2023 Total

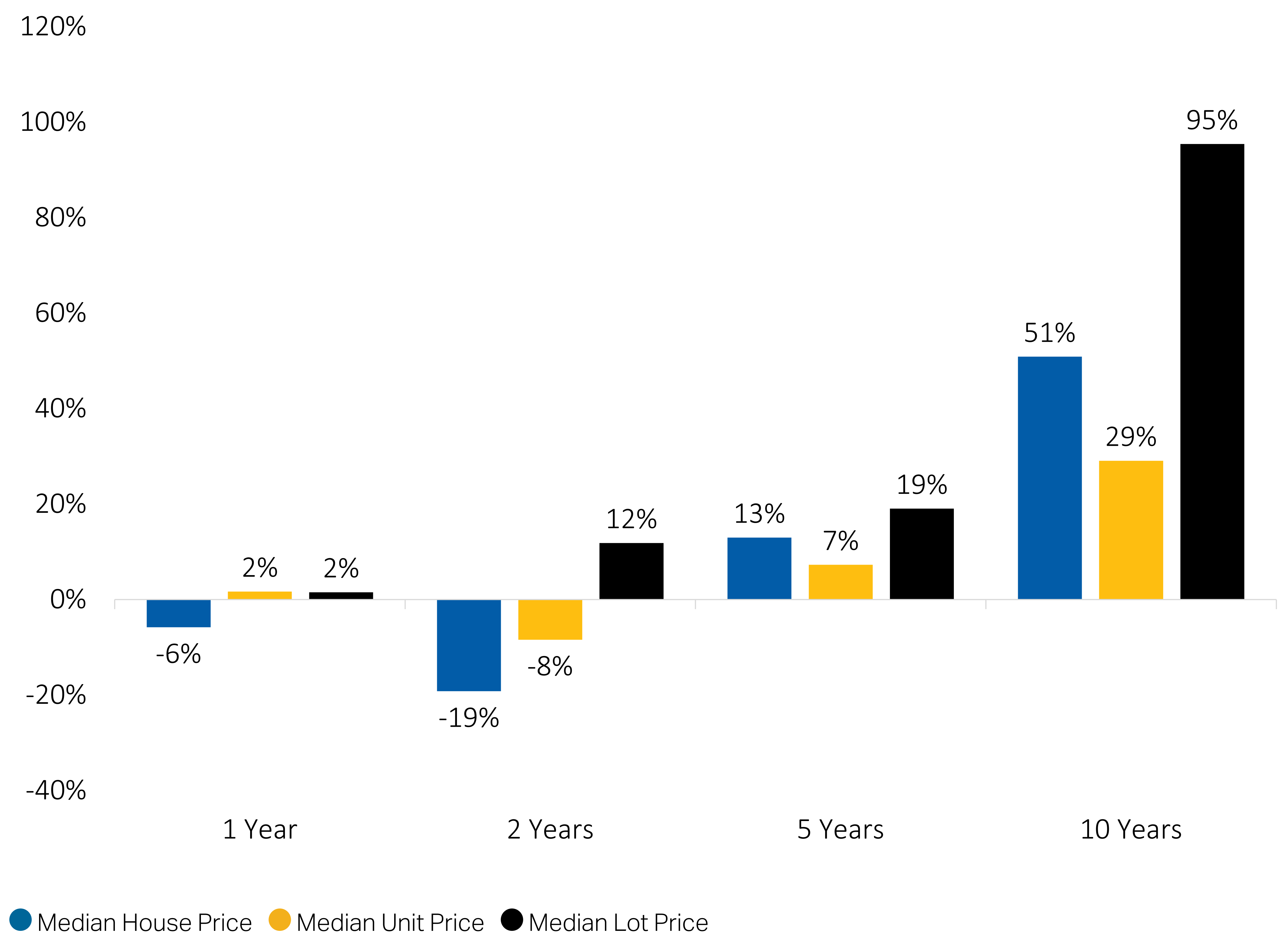
Source: REIV and RPM Research, Data and Insights

Melbourne Residential Property Prices

Median Property Prices

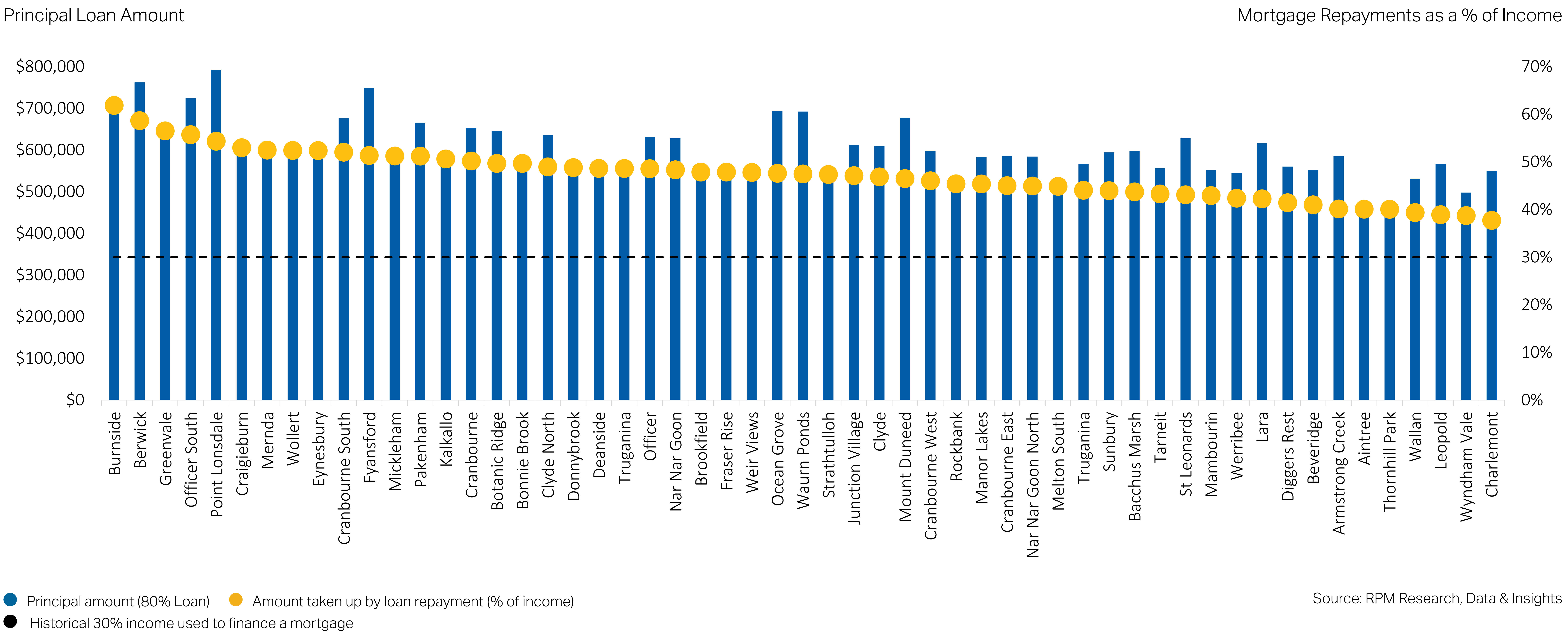


Median Property Price Change



Source: REIV and RPM Research, Data & Insights

Growth Area Affordability



Source: RPM Research, Data & Insights

Victorian Finance Activity

Loans by Owner Occupier Type

Owner occupier loans increased by 12.4% in Q4 to 27,589. Growth in first home buyer loans has been stronger at 16.3%, compared to 10.3% for non-first home buyer loans. Subsequently, first home buyers' proportion of total owner occupier loans rose to 36%, its highest share since Q1 2021 when historically low borrowing rates and the HomeBuilder Grant stimulated demand.

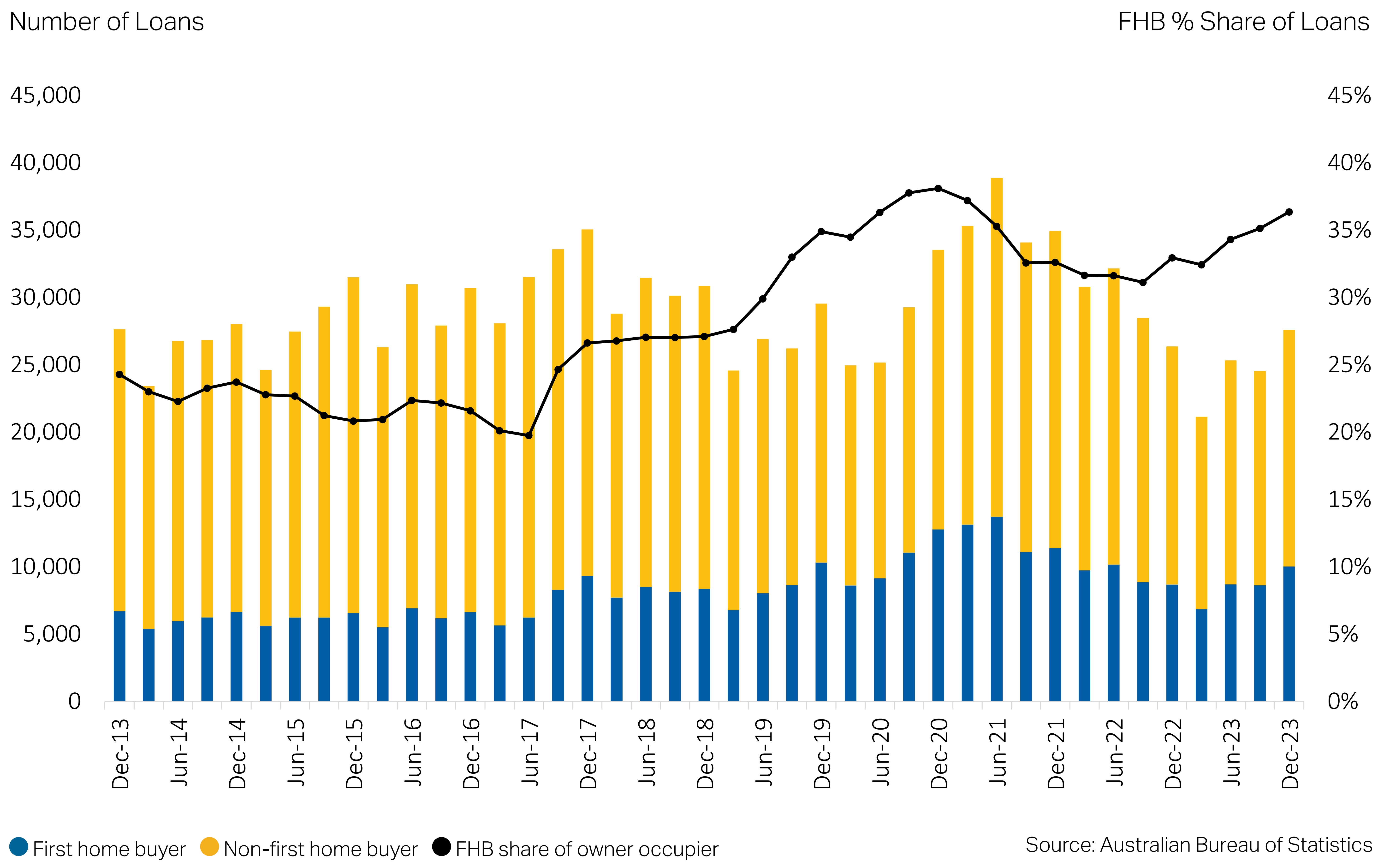
Greater price correction in inner and middle ring suburban residential markets in Melbourne has likely impacted both trade up and trade down activity, as upgrades and downsizers delay their decision to place their property on the market, until prices rebound.

FHB Loans (Q4-23)

10,030

Non FHB Loans (Q4-23)

17,559



Source: Australian Bureau of Statistics

Victorian Finance Activity

Average Loan Size by Buyer Type

The average size of a first home buyer loan increased by 3.1% in Q4 to $511,755, which was also a record high. Despite affordability concerns, moderate demand persists in the sub $600,000 property segment, where full stamp duty concessions apply, offering some support for first home buyers. Similarly, non-first home loan sizes rose by 2.6% to $603,924, yet this figure remains 3.4% lower than its peak in Q1 2022.

Diminishing borrowing capacity and declining established property prices have contributed to this reduction in loan size for non-first home buyers.

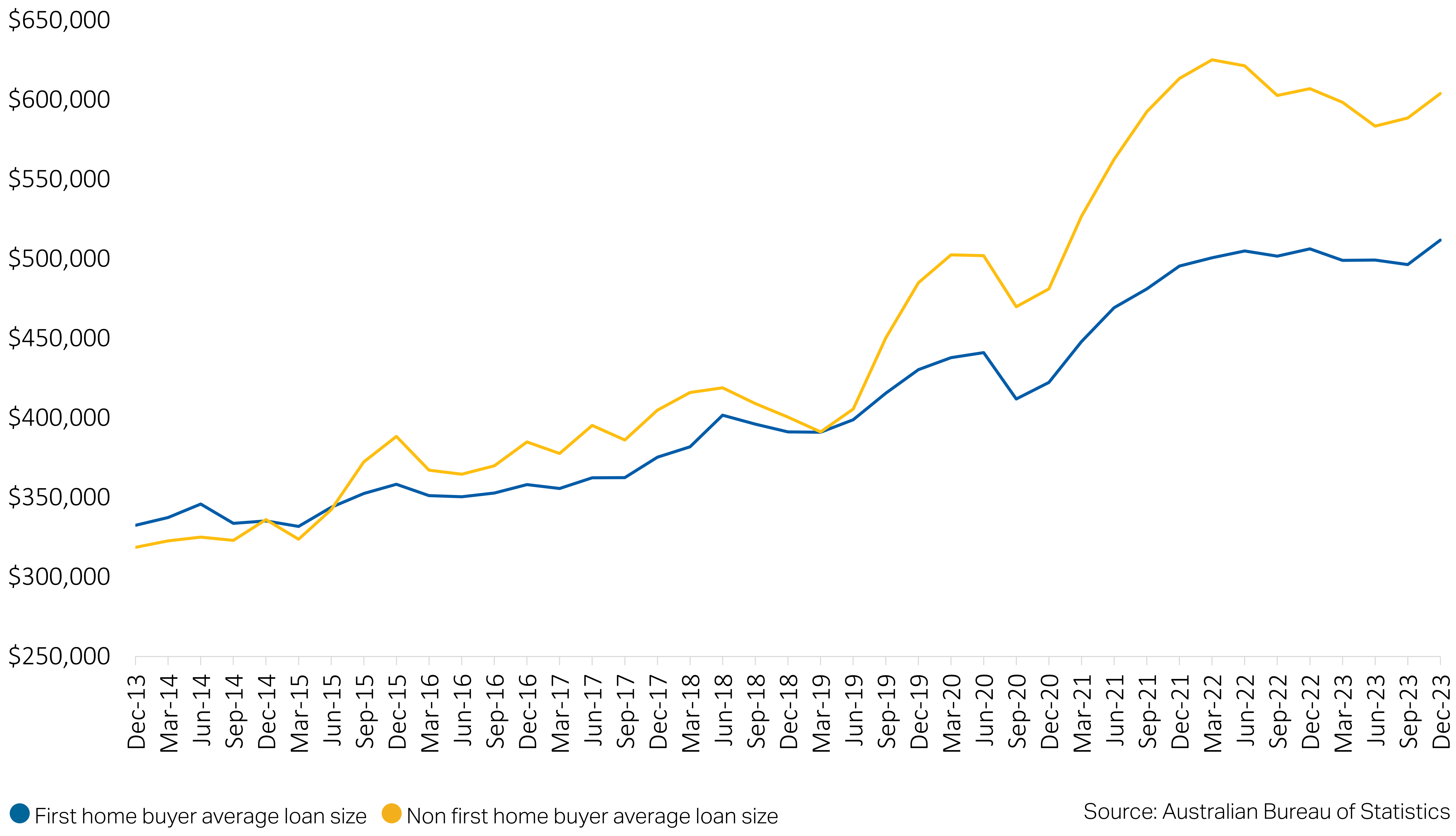
FHB Loan Size

$511k

Non FHB Loan Size

$603k

Average Loan Value



Source: Australian Bureau of Statistics

Victorian Finance Activity

Total New Loan Applications

26,029

Established Loan Applications

+13.7%

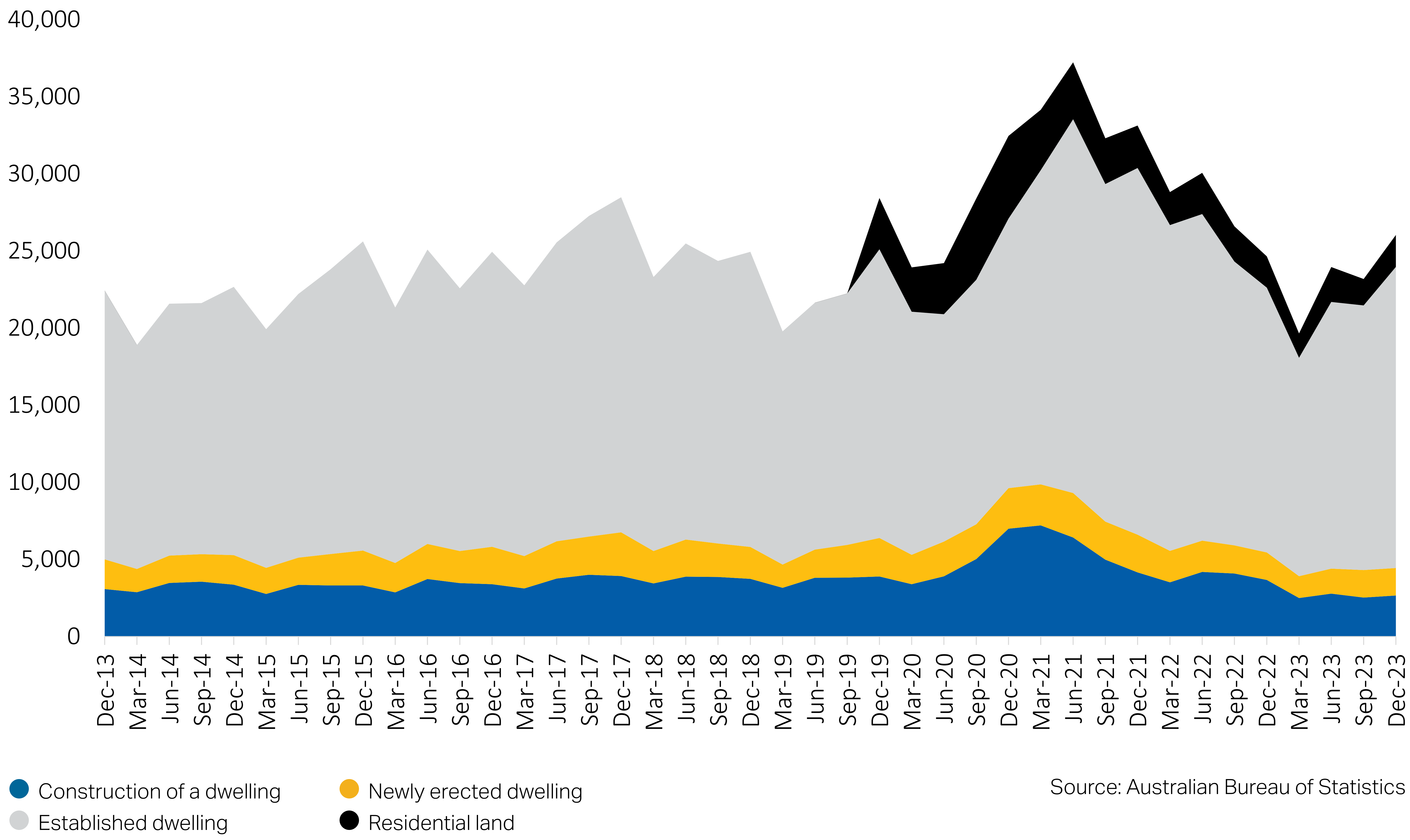
Newly Erected Dwelling Applications

-0.1%

Construction of a New Dwelling Applications

+5.3%

New Loan Applications



Source: Australian Bureau of Statistics

Victorian Building Activity

Approvals and Commencements

Victoria recorded 13,778 dwelling approvals in Q4; this is a slight 0.8% increase from the last quarter but 16.3% lower than the same quarter in 2022. Approvals also remain below long-term averages, with supply likely to remain a key issue through into the medium term.

Detached houses were the only dwelling type to record growth in approvals in Q4, lifting to 8,718 houses, and constituting 63% of total approvals. Townhomes fell by 1.5% to 2,673 approvals, which accounted for 20% of activity. Apartments saw the largest fall of 12.1%, declining to 2,387 approvals.

Total commencements declined by 19% over FY23, with both detached house and multi-unit starts experiencing a sizeable reduction in construction activity. This was in response to challenging market conditions, where diminished borrowing capacity and cost of living pressures adversely impacted demand, while escalating building and funding costs impacted the supply side.

Commencements are forecast to edge down slightly over FY24 and FY25, falling by 2.6% over the two years to 53,110 dwellings. Weak lot sales activity since the start of the rapid increase in interest rates from May 2022, has resulted in further declines in detached house construction. This is projected to decrease 20% to 28,240 starts in FY25. Despite recovering in FY26 and increasing by a forecast 7%, resultant detached house commencements will remain more than 11% below average annual starts over the 20 years to FY23.

Conversely, over the same two-year period, multi-unit starts are estimated to increase by 30%, as persistent affordability concerns boost new housing demand towards relatively inexpensive townhomes and apartments. This is also expected to support an additional 9% growth in multi-unit starts during FY26.

Detached Home Approvals

8,718

+5.8% over the quarter | -2.2% over the year

Townhome Approvals

2,673

-1.5% over the quarter | -5.8% over the year

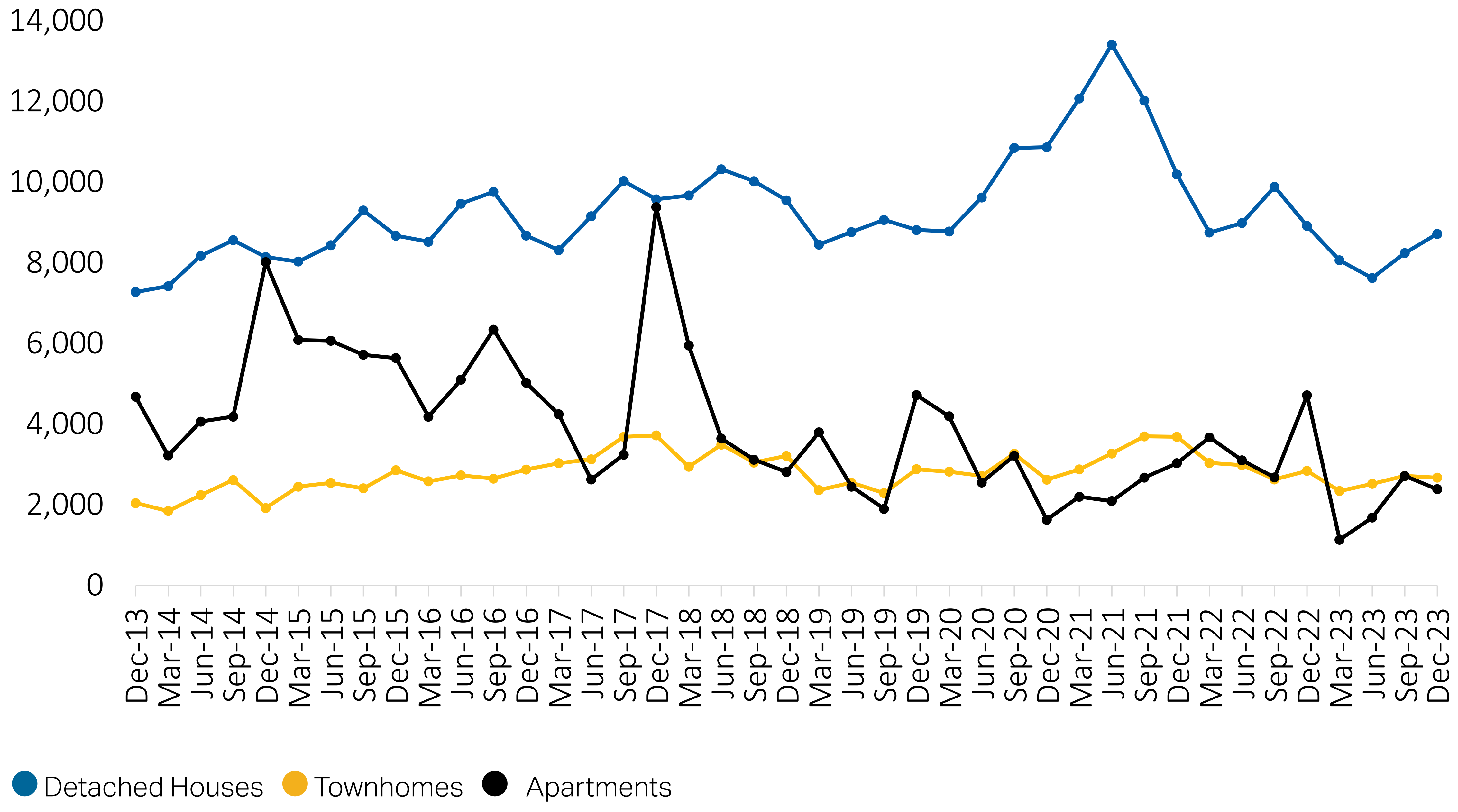
Apartment Approvals

2,387

-12.1% over the quarter | -49.4% over the year

Victorian Building Activity

Approvals by Dwelling Type

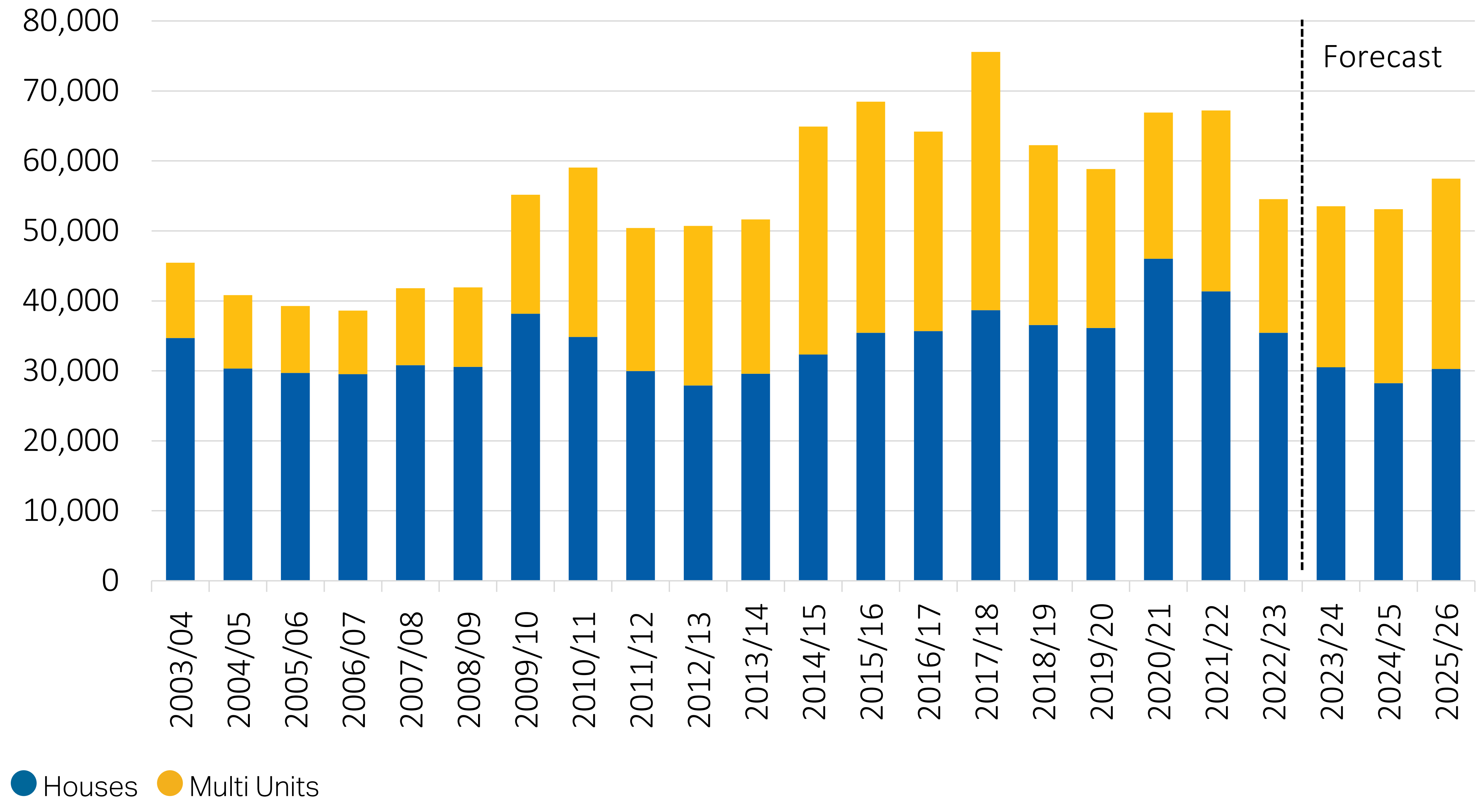


Total Approvals

13,778

+0.8% over the quarter | -16.3% over the year

Commencements by Property Type



Total Commencements (FY22/23)

54,550

-18.9% over the year

Construction Costs

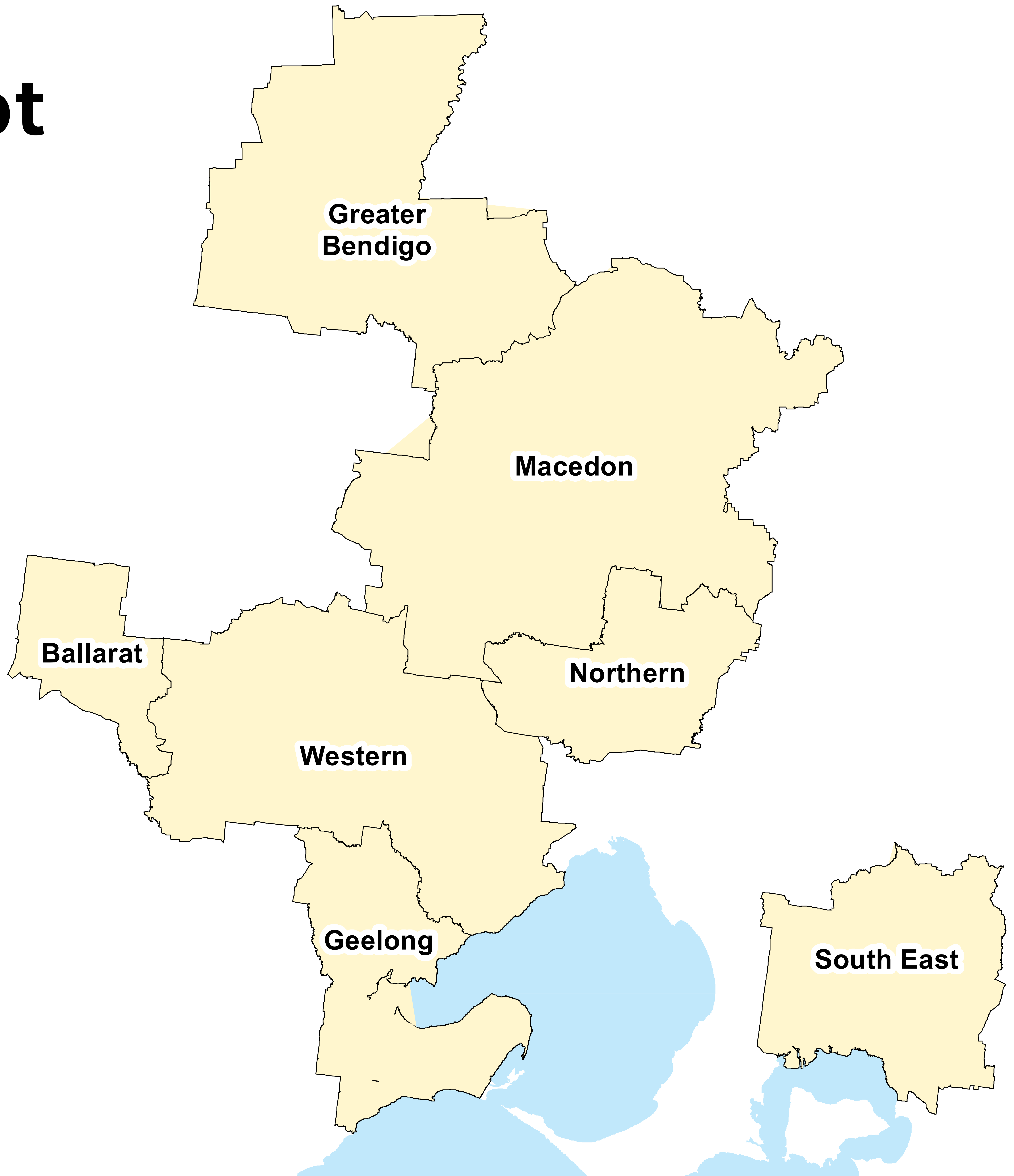
Inputs to Construction	Melbourne	National
Quarterly	**0.0%**	**0.3%**
Yearly Change	**1.3%**	**2.4%**

Outputs to 'Other Residential' Construction	Victoria	National
Quarterly	**5.7%**	**2.6%**
Yearly Change	**8.3%**	**6.3%**

Land Market Snapshot

Growth areas included in this land market analysis

- **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 Land Estates

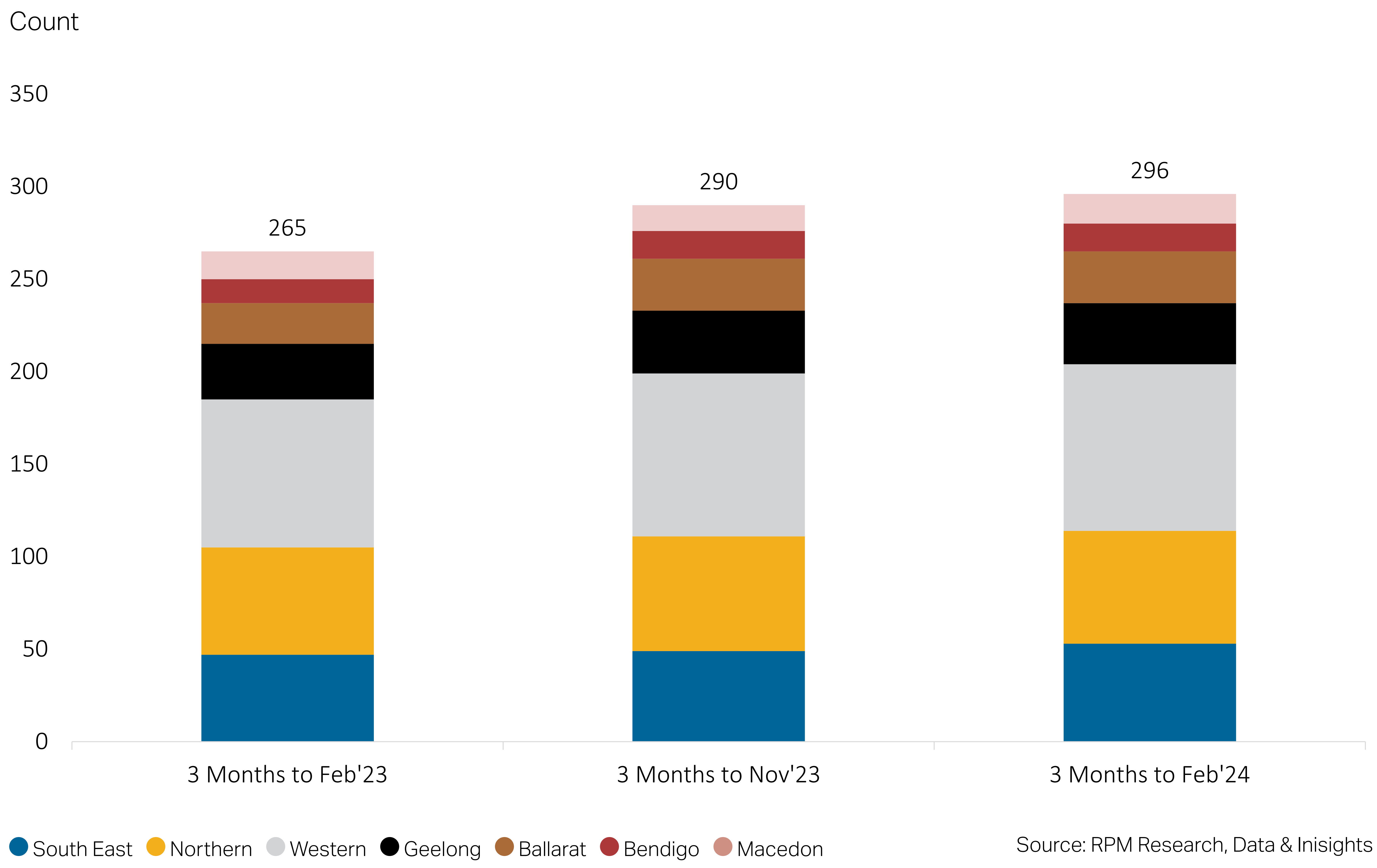
New housing developments in greenfield areas have continued to climb, rising by 31 over the twelve month period to February 2024, to a total of 296 active estates.

Active estates

296

12 month change

+31 estates



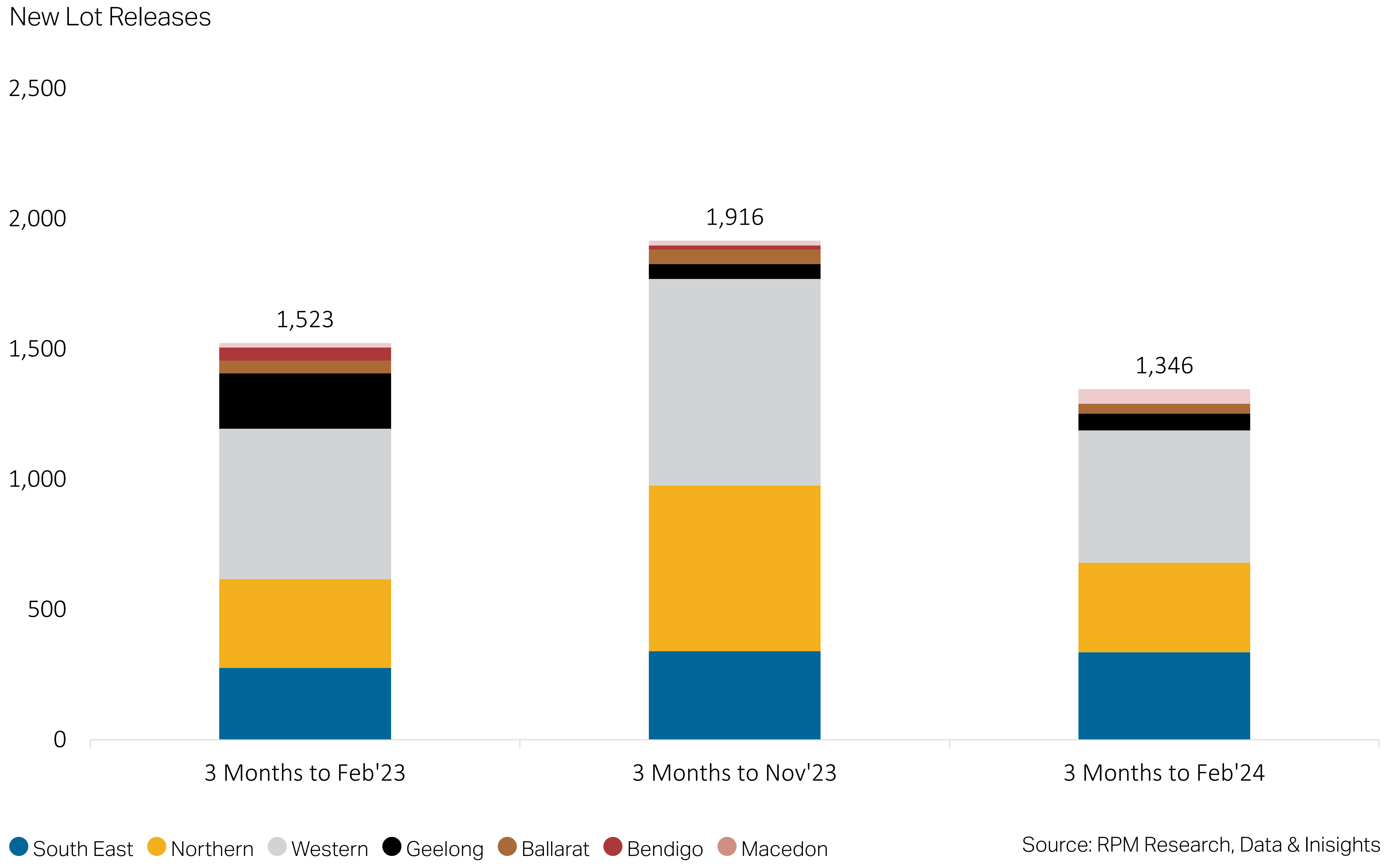
Source: RPM Research, Data & Inisights

Lot Supply

New supply declined by 12% over the twelve months to February 2024 primarily attributed to significant reduction in lot releases in Geelong.

New Supply - 3 months to February 2024

1,346 lots



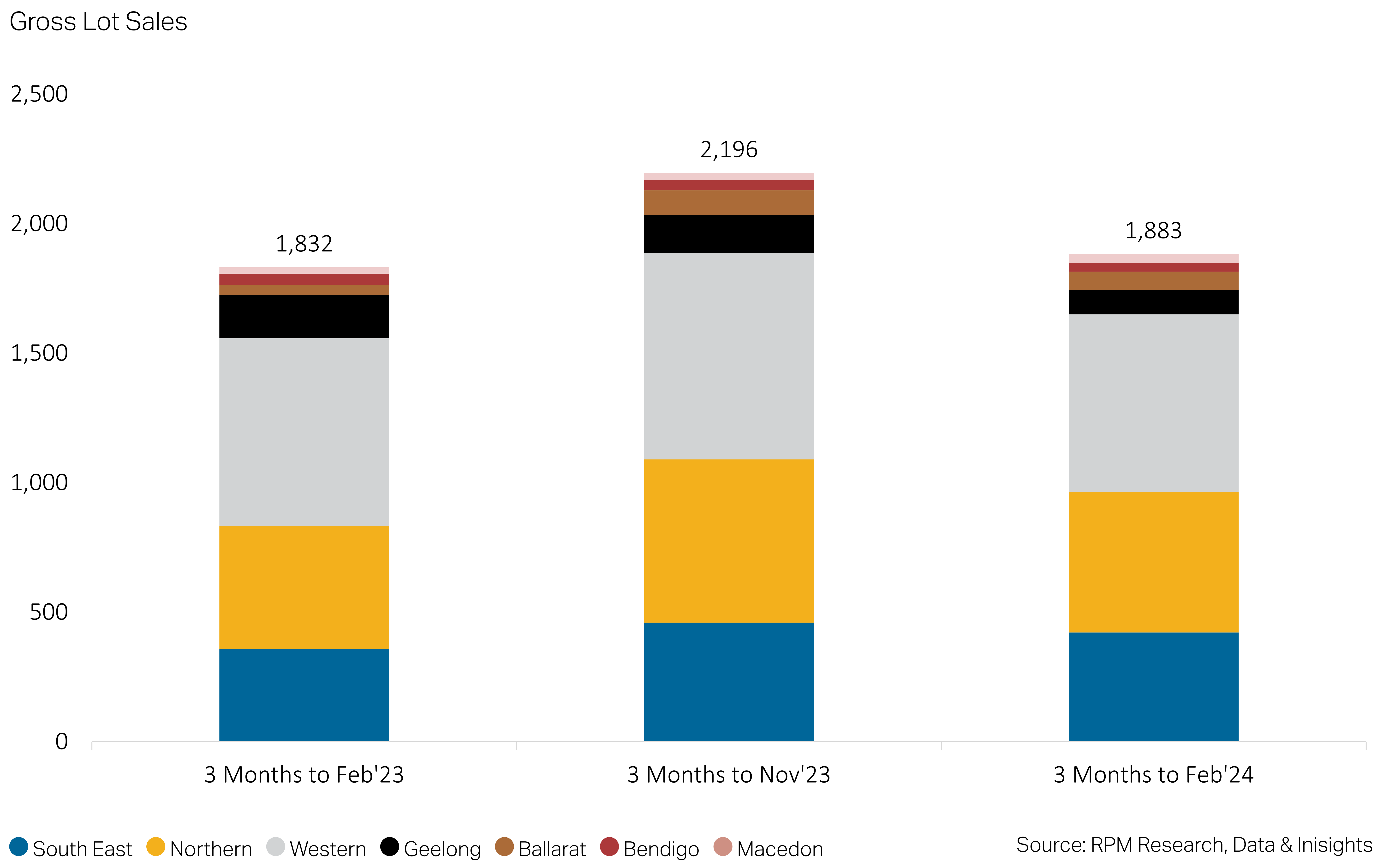
Source: RPM Research, Data & Inisights

Lot Sales

Gross lot sales over the three months to February 2024 were 3% higher than the previous corresponding period, with increased sales activity most notably in the South East, Northern, and Ballarat regions.

Gross Lot Sales - 3 Months to Feb 2024

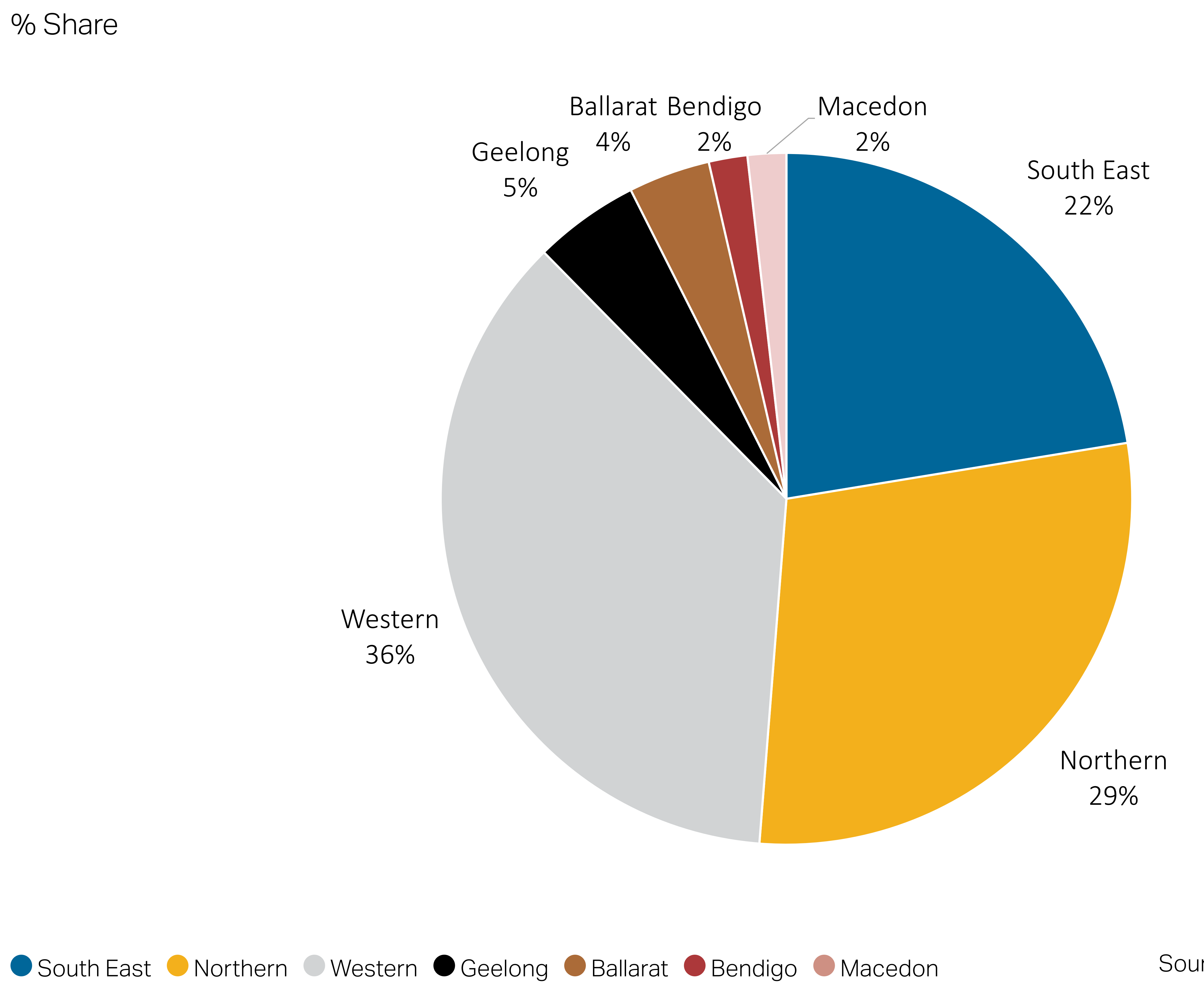
1,883 lots



Source: RPM Research, Data & Inisights

Share of Sales by Corridor

Sales activity continues to be heavily concentrated in Melbourne growth areas, while the proportion of total lot sales for Geelong and Ballarat converges.



Source: RPM Research, Data & Inisights

Lot Prices

An increasing number of growth corridors experienced a quarterly correction in lot prices, after the November interest rate rise placed further downward pressure on prices to combat deteriorating borrowing capacity.

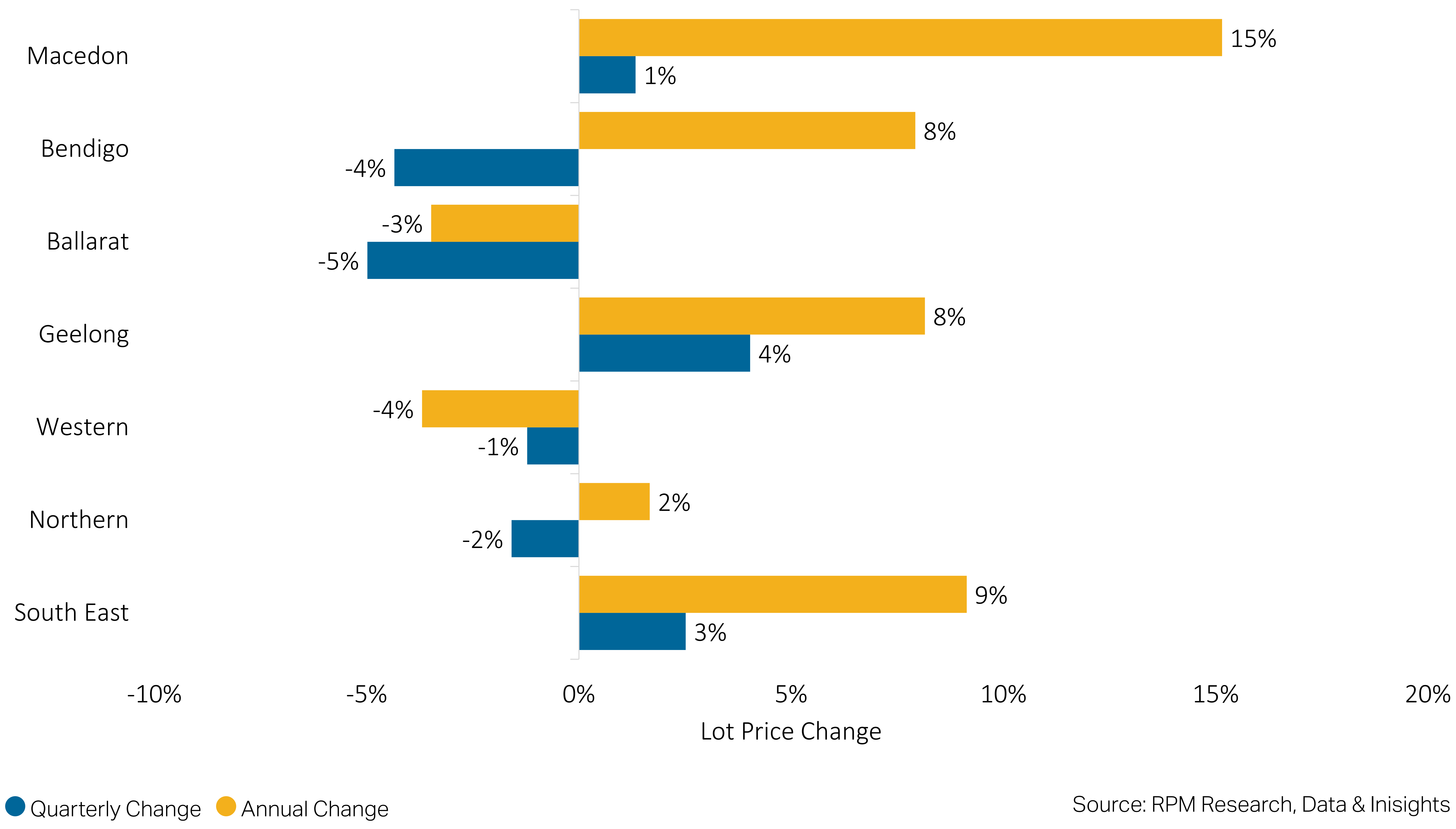
Median Lot Price

$386k

Overall Annual Change

+2.7%

Lot Price Percentage Change



Source: RPM Research, Data & Insights

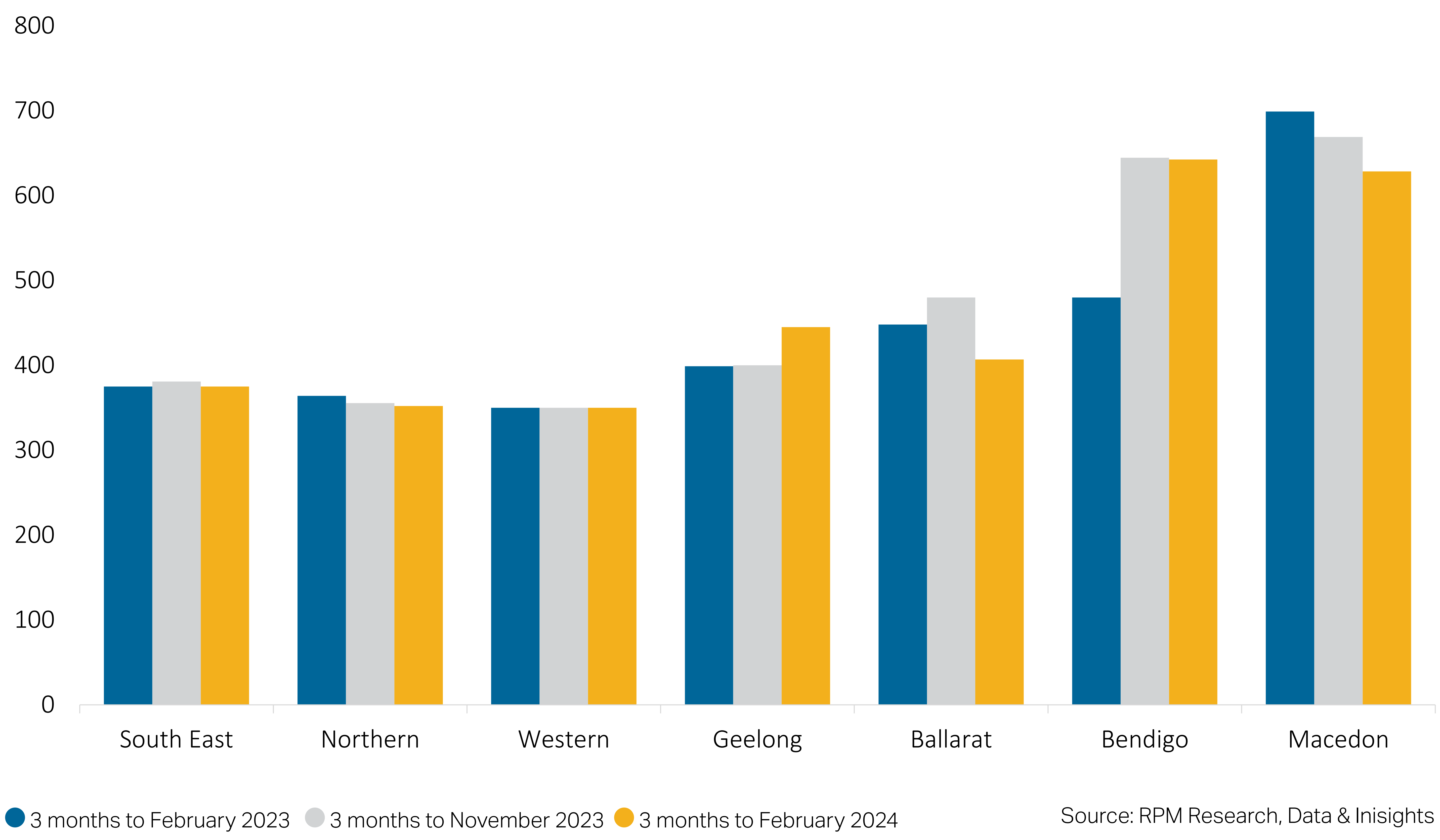
Lot Sizes

With the exception of Geelong, all other growth corridors saw their median lot size shrink over the three months to February 2024, likely in response to challenging affordability.

Median Lot Size

365sqm

Median Lot Size (sqm)



Source: RPM Research, Data & Inisights

Market Outlook

While the RBA has relaxed its tightening bias, it remains wary that inflation is not completely under control.

Australia's economic outlook for 2024 remains uncertain, with inflation easing at an unexpected rate since late 2023. This suggests that November's cash rate increase may have been the end of the RBA's tightening monetary policy cycle. Furthermore, household consumption is likely to remain subdued with labour market conditions starting to ease.

The path to bringing inflation within the 2%-3% target range is anticipated to face challenges, including weaker productivity outcomes or continued supply disruptions. These factors can lead to increased business costs and subsequent upward pressure on consumer prices.

Elevated construction and funding costs are likely to constrain new housing supply, affecting affordability and reducing purchaser activity. Strong population growth is expected to fuel continued demand for rental accommodation, leading to solid rental price growth due to the rental supply shortage.

Expected improvements in wage growth, along with the legislated tax cuts from July 2024, may increase households' spending confidence despite low savings rates; supporting moderate consumption expenditure growth.

While the RBA has eased its tightening bias, the possibility of another interest rate rise has not been entirely ruled out.

RPM

Unlocking Australia's property landscape

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.

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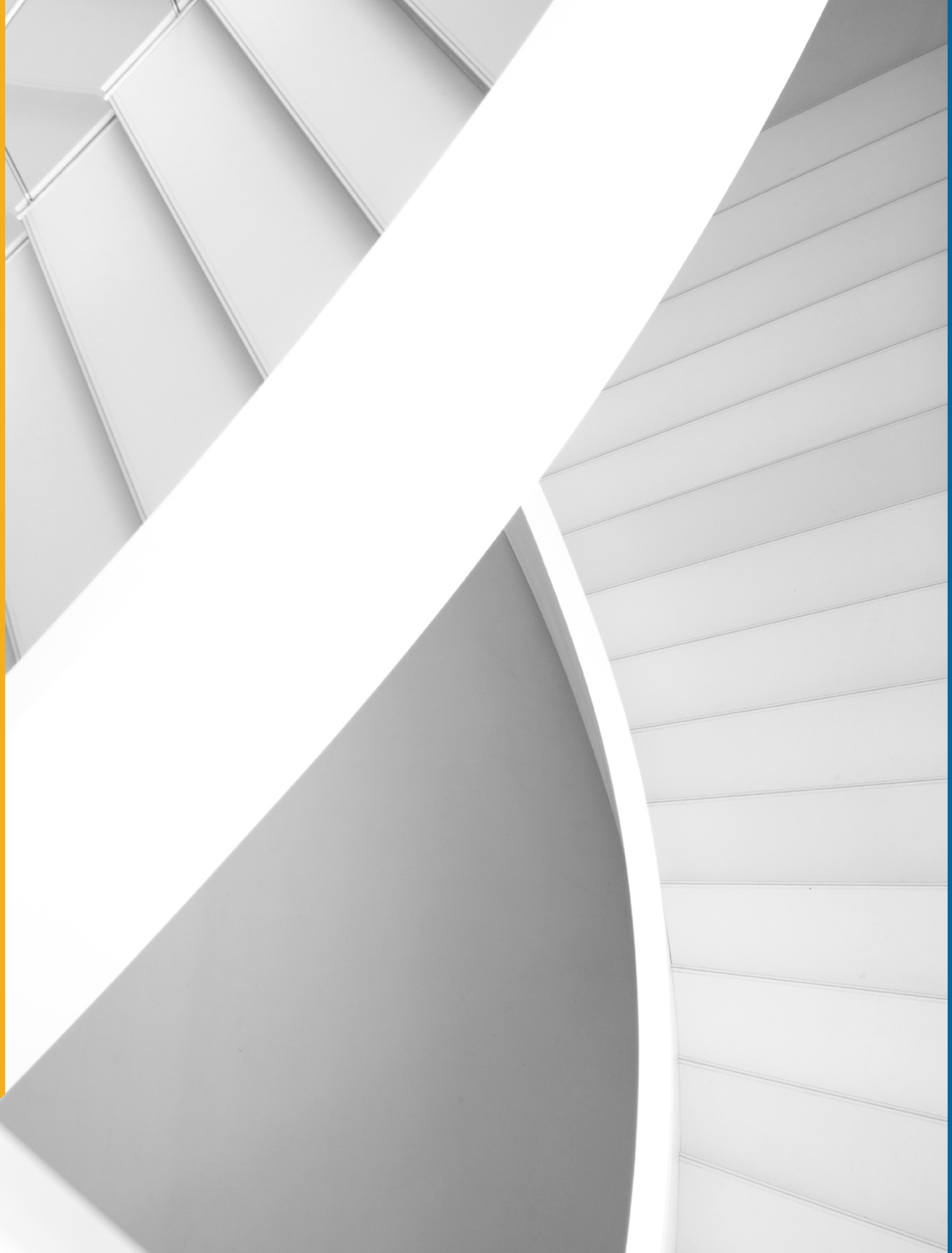

Urban Development Institute of Australia
VICTORIA

The voice of urban development

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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