

Urban Development Institute of Australia (Victorian Division)

# PROPERTY MARKET UPDATE

**UDIA URBAN IQ**

**December 2019 Quarterly Report**

Information provided by UDIA Partner,  
RPM Real Estate Group



URBAN IQ

## **UDIA KNOWLEDGE PORTAL**

URBAN IQ is a series of research, news, analysis and market intelligence initiatives for the Victorian urban development industry.

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**THANK YOU TO UDIA PARTNER RPM REAL ESTATE GROUP FOR PROVIDING THE INFORMATION CONTAINED WITHIN THIS REPORT.**

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UDIA URBAN IQ

# PROPERTY MARKET UPDATE

DECEMBER QUARTER 2019

RESIDENTIAL MELBOURNE MARKET PRICES	04
ECONOMIC MARKET UPDATE	05
FINANCE ACTIVITY	08
BUILDING ACTIVITY	10
AFFORDABILITY	12
PROPERTY MARKET NEWS	14
ABOUT RPM REAL ESTATE GROUP	15
UDIA PRINCIPLES FOR THE WAY AHEAD	17

UDIA PARTNER



# MELBOURNE RESIDENTIAL MARKET UPDATE

Melbourne’s residential property market has experienced a rebound in both demand and prices through the second half of 2019. There have been several contributing factors including a significant boost to borrowing capacity, after the variable interest rate fell by 57 basis points from June to October. Additionally, APRA allowed the serviceability test for loan applicants to change from a flat 7.25% to a 2.50% buffer above the prevailing interest rate, which has resulted in more buoyant purchaser sentiment and encouraged buyers into the property market. The subsequent escalation in prices, underpinned by the rebound in sentiment, has resulted in both the median house price and median unit price reach a new peak in December quarter 2019. However, land prices have continued to decline in December quarter 2019, as the recovery in the greenfield new home market generally lags that for established dwellings in the inner and middle ring suburbs.



**74%**  
**AUCTION CLEARANCE RATE**  
 10,925 AUCTIONS Q4-2019



**\$859,000**  
**HOUSE PRICE UP 6.8%**  
 FROM Q4-2018

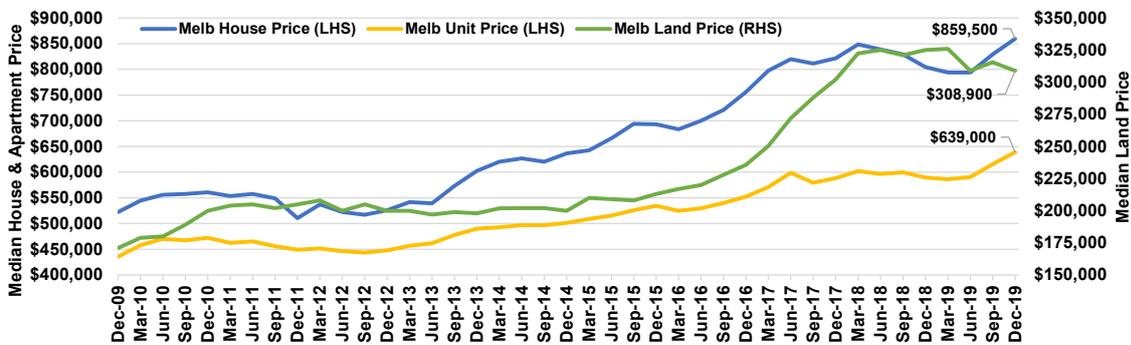


**\$639,000**  
**UNIT PRICE UP 8.4%**  
 FROM Q4-2018

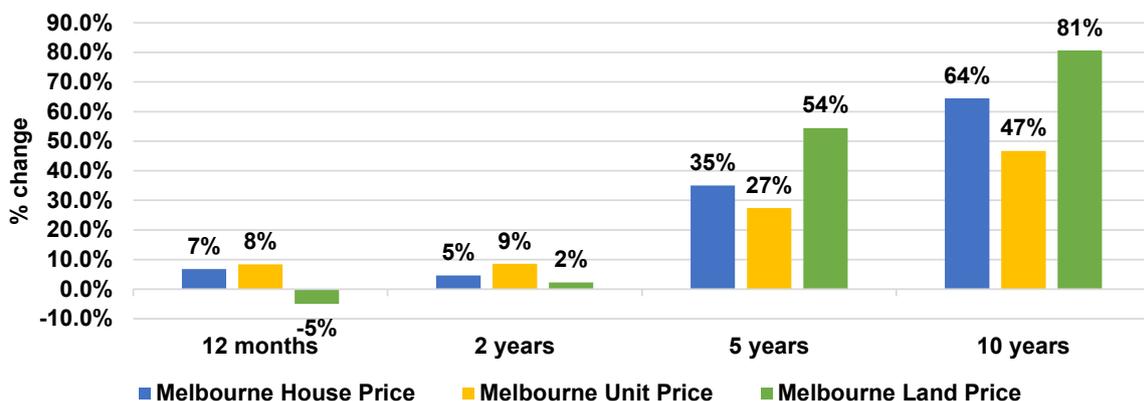


**\$308,900**  
**LAND PRICE DOWN 5.0%**  
 FROM Q4-2018

## MELBOURNE PRICES



## PRICE CHANGE PER PERIOD



# ECONOMIC MARKET UPDATE

## GROWTH / OUTPUT

- **National annual Gross Domestic Product (GDP) escalated by 1.80% over the twelve months to September 2019 (the latest available data).** This continues the slowing trend in economic growth through 2019, with the increase in GDP now at a ten year low.
  - Growth in private consumption, the largest component of the economy, is mirroring that of overall GDP, weakening further in response to ongoing low wage growth.
  - Slowing domestic demand is weighing on non-mining business investment, while the correction in property prices during 2018/19 has resulted in weakening residential building approvals and a fall in dwelling investment.
  - Public demand, both consumption and investment, and exports remain as positives for the national economy.
- **Growth in the Victorian economy has outperformed the national average, with annual State Final Demand (SFD) at September 2019 being 2.76% higher than the same figure at September 2018. Significantly, this was also the highest growth rate amongst the five main states.**



Public Investment



Victorian State Economy



Employment

Source: Australian Bureau of Statistics

## INTEREST RATES

- The Reserve Bank of Australia (RBA) left the **cash rate at a historical low of 0.75%**, after three 25 basis points reductions between June and October.
  - This has been in response to strong rebound in property markets from the second half of 2019, particularly established dwelling prices.
  - However, inflationary pressures remain weak, with the spare capacity in labour markets likely to limit wage growth. Furthermore, short term shocks to the economy from the bushfires and coronavirus outbreak could result in negative GDP growth in early 2020.
- Subsequently, one further cut to the cash rate is expected in the first half of 2020, with another possible reduction during the second half.
  - The official **standard variable interest rate for owner occupiers sits at 4.80% (while investor loans sits at 5.38%)**. However, with some bargaining owner occupiers can obtain a **discounted interest rate of 4.15% (investors can obtain 4.73%)** from the major lenders. Furthermore, some banks outside of the 'big four' currently have introductory rates below 3.00% for owner occupiers who pay principal and interest.

0.75%



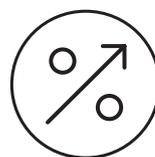
Cash Rate  
(Feb-20)

4.80%



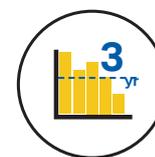
Standard Variable Rate  
(Owner Occupiers - Feb-20)

4.15%



Discounted Variable Rate  
(Feb-20)

3.10%



3 Year Fixed Rate  
(Feb-20)

Source: Reserve Bank Australia

## CONSUMER PRICE INDEX

- The **Consumer Price Index (CPI) increased by 1.84% across Australia in December quarter 2019**, compared to the same quarter in 2018. This continues the trend of CPI remaining below or at the lower end of the RBA targeted range of 2% to 3% since late 2014. Sub-groups that experienced significant annual increases were alcohol and tobacco (6.47%), followed by health (3.22%) and education (2.87%).
- **Melbourne's Consumer Price Index (CPI) escalated by a higher 2.01% in December quarter 2019**, compared to the same quarter in 2018. The corresponding growth rate for the **Melbourne's CPI housing index was lower at 0.48%**, although marked an improvement from September quarter 2019, highlighting the recovery in property markets. Maintenance and repair of dwellings was the sub-housing group to experience the highest index growth.

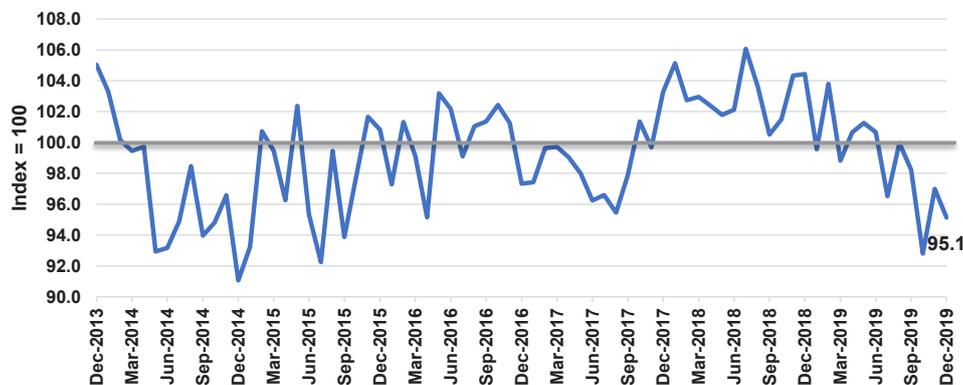
## EMPLOYMENT AND WAGES

- The number of employed persons in Victoria increased by a solid 2.69% over the twelve months to December 2019. This was above the national annual employment growth rate at December 2019 of 2.06%.
- **Victoria's unemployment rate has remained at around decade best levels of 4.9% in December 2019 and is better than the national unemployment rate of 5.1%.**
- **Average weekly earnings for full time adults in Victoria of \$1,669.80 at May 2019, represented annual growth of 3.62%.**



## CONSUMER SENTIMENT

The Westpac-Melbourne Institute Consumer Sentiment Index is the most widely quoted barometer of consumer sentiment in Australia. A score of greater than 100 means that optimists outnumber pessimists, with readings of below 100 indicating that pessimistic consumers are in the majority.



Source: Westpac-Melbourne Institute Consumer Sentiment Index

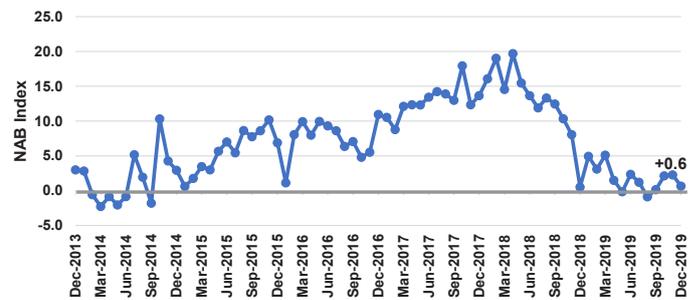
- **The Westpac-Melbourne Institute Consumer Sentiment Index deteriorated further into negative territory through December quarter 2019, with a reading of 95.1 at the end of the period.**
- Significantly, an increasing number of consumers say their family finances position has deteriorated from the previous year, despite three interest rate reductions and income tax relief for low and middle income earners during the second half of 2019. As a result, consumer attitudes towards spending are weakening.
- Weakening economic growth in September quarter 2019 has raised consumers' concerns about the 12 month outlook for economic conditions, highlighted by more consumers expecting unemployment to rise.
- The rebound in property prices and subsequent increase in wealth/equity is yet to provide households with the encouragement to spend more, although has brought about an escalating fall in the time to buy a dwelling index.

## BUSINESS CONFIDENCE

NAB's Business Survey has been tracking Australian business confidence levels for more than two decades. Businesses are approached quarterly, with two smaller monthly surveys conducted in the intervening months to capture changes on a more regular basis. The panel now exceeds 2,700 businesses.

- **Growth in business conditions remained low with a 0.6 percentage point increase in December 2019.** This continues the low growth trend through much of 2019, and highlights subdued conditions across all sub-indexes of trading, profitability and employment.
- In the construction industry, a substantial pipeline of infrastructure projects supported growth in engineering construction conditions. While the rebound in residential property markets during the second half of 2019 has led to residential conditions becoming more buoyant.
- Growth in business conditions in Victoria improved significantly to 6 percentage points over

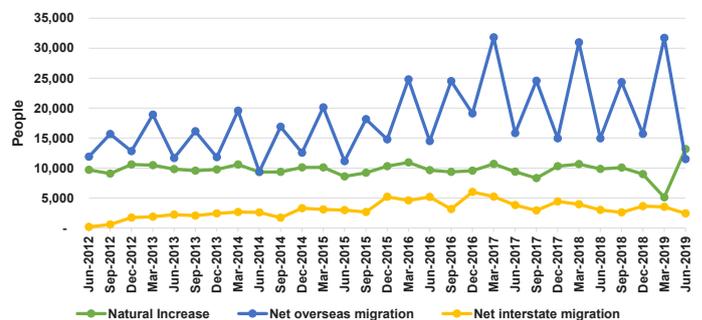
December quarter 2019. Conditions remain most favourable in the services sectors, particularly those related to business, which is a key economic driver for Victoria.



Source: National Australia Bank Business Survey

## VICTORIAN POPULATION

Victoria gained 27,091 people during June quarter 2019 (latest available data), lifting its estimated resident population to 6,594,804 people. This equated to a population increase of 132,785 people or 2.08% growth in Victoria over the 12 months to June 2019, which were both the strongest in absolute terms and percentage terms amongst all states and territories.



Source: Australian Bureau of Statistics

## POPULATION COMPONENTS

A breakdown of the three components of population growth shows that in June quarter 2019 Victoria recorded;



**+13,165**

+33.6% on same quarter in the previous year.  
Reflects 33% of the national natural increase



**+2,436**

-19.3% on same quarter in the previous year

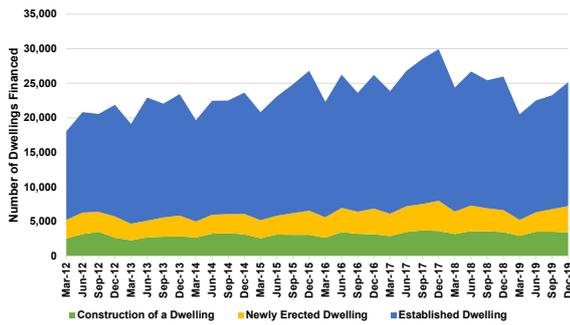


**+11,490**

-23.2% on same quarter in the previous year.  
Reflects 33% of the national net overseas migration

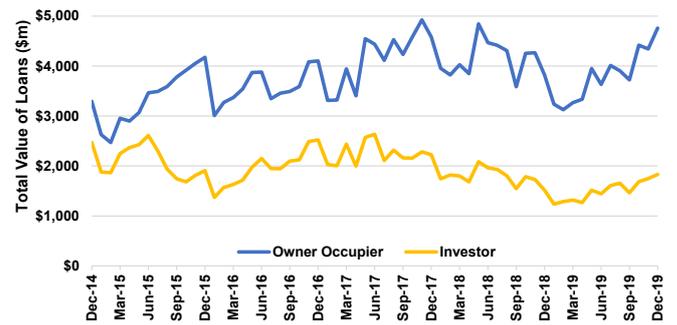
# FINANCE ACTIVITY: VICTORIA

## LOANS BY DWELLING TYPE



- **The number of new owner occupation loans in Victoria increased by 8.1% in December quarter 2019, from the previous quarter, reaching 25,163 approvals.**
- **The number of loans for the purchase of a newly completed dwelling and the purchase of an established dwelling escalated more sharply by 16.7% and 9.0% respectively in December quarter 2019, compared to the previous quarter.** This has been underpinned by a rebound in owner occupier demand, evident by the jump in auction clearance rates and private sales.
- **New owner occupier loans for the construction of a dwelling fell by 3.5% in December quarter 2019 from the previous quarter,** impacted by the decline in new house approvals. However, dwelling construction loans remain relatively high, supported by titled lots increasing the proportion of total sales, which allow purchasers to begin construction sooner.
- Although quickly emerging, the rebound in owner occupier demand is in its infancy, and as a result, **the number of new owner occupiers loans in December quarter 2019 was 3.1% below the corresponding figure in the same quarter in 2018.**

## VALUE OF LOANS BY PURCHASER TYPE



Source: Australian Bureau of Statistics

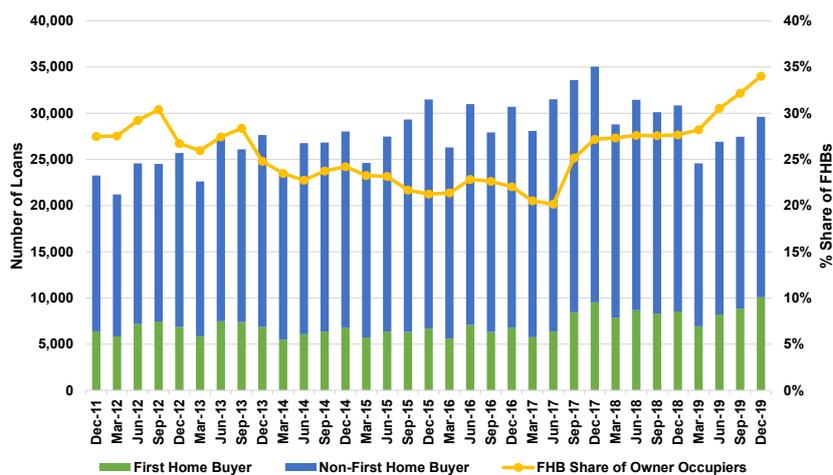
- **The total value of new owner occupier loans (excluding refinancing) in December quarter 2019 increased by 16.1% compared to the previous quarter.** The value of new owner occupier loans for the construction of a new dwelling escalated more moderately by 3.1% in December quarter 2019 as the increasing preference of smaller lots lowers house construction costs. Conversely, sizeable quarterly growth in the value of new owner occupier loans for the purchase of new dwellings (+22.4%) and established dwellings (+17.9%) was supported by accelerating house and unit price growth.
- **The total value of new loans to investors (excluding refinancing) during December quarter 2019 escalated by 11.4% from the previous quarter.** The return of dwelling price growth and improved outlook for capital growth prospects has enticed some investors back to the market, hoping to purchase at the beginning of an upturn cycle in the property market. This has also led to the value of new investor loans in December quarter 2019 being 4.7% higher than the same quarter in 2018.

**Note:** From July 2019, new owner occupation loans have been broken down further to include 2 new categories of residential land and alteration/additions. However, the ABS has not provided a historical time series beyond the last six months for these 2 new categories, so they have not been included. As a result, new owner occupation loans equates to the sum of loans for the construction of a new dwelling, and purchase of a newly erected or established dwelling.

The Australian Bureau of Statistics changed its data source for lending indicators from July 2019 onwards. Consequently, revisions have been made to historical data to align with current reporting procedures. As lenders become accustomed to the new reporting basis and further refine the data, this process is likely to lead to further revisions, including to the historical time series.

## NUMBER OF LOANS TO FIRST HOME BUYERS AND NON-FIRST HOME BUYERS

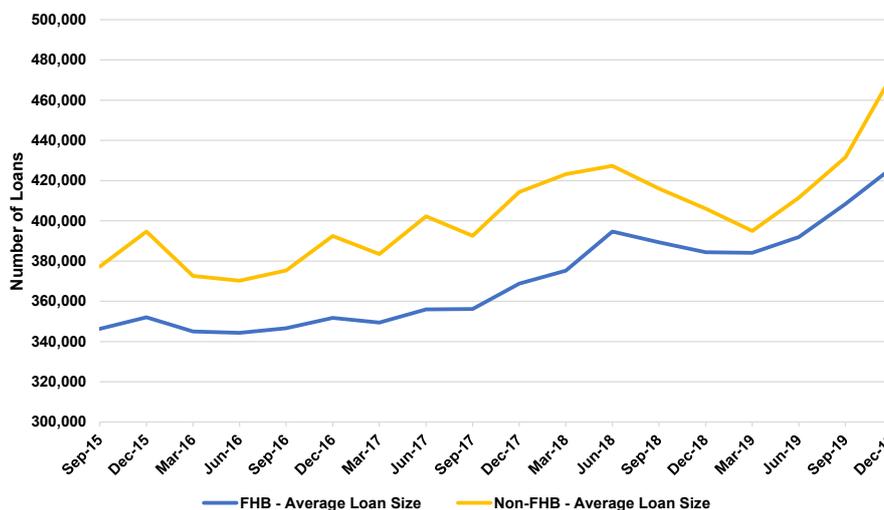
- The number of **first home buyer loans improved to 10,073 loans in December quarter 2019, escalating by 14.1%** on first home buyer loans in the previous quarter. Solid first home buyer demand is being supported by the abolishment of stamp duty when purchasing a dwelling for owner occupation up to \$600,000. Although the rebound in property prices has only been for a short period, fear of being priced out of the market is already emerging for first home buyers, enticing some to bring forward their purchasing decision.
- **In December quarter 2019, non-first home buyers recorded 19,537 loans (excluding refinancing), reflecting an increase of 4.9%** from the previous quarter. The return of solid price growth is increasingly encouraging both trade up and trade down buyers to sell their existing dwelling. However, the volume of loans in the three month period is still relatively low and 12.5% down on the same quarter in 2018.
- As a result, **first home buyers increased their share of total new owner occupier loans to 34% in December quarter 2019.** This was its highest proportion since the post GFC period when first home buyer stimulus was at its greatest.



Source: Australian Bureau of Statistics

## AVERAGE LOAN SIZE – FIRST HOME BUYERS AND NON-FIRST HOME BUYERS

- **The average loan size to first home buyers in December quarter 2019 increased by 4.4%** from the previous corresponding period, while the **average loan size to non-first home buyers accelerated at a faster pace of 9.4%.**
- **At December 2019, the average loan size attributed to a non-first home buyer was \$46,000 above the average loan size to a first home buyer (\$426,300).**
- This divergence in average loan size between first home buyers and non-first home buyers has increased through the second half of 2019, after being just \$11,000 in earlier in the year.

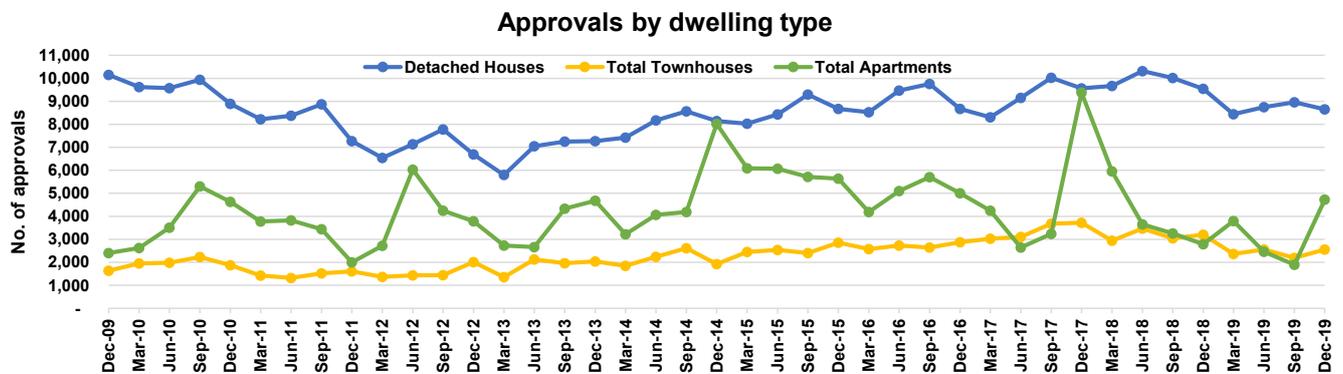


Source: Australian Bureau of Statistics

# BUILDING ACTIVITY: VICTORIA

## APPROVALS

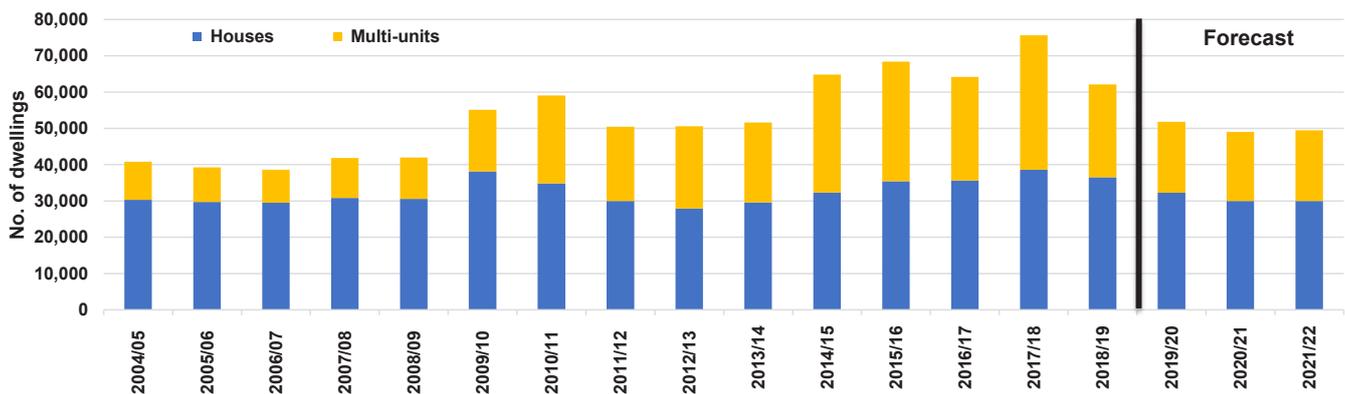
- **Victoria recorded 15,938 dwelling approvals in December quarter 2019**, equating to a 2.5% increase on dwelling approvals in the same quarter in 2018. Notably, this result also arrested the declining trend in approval activity in the previous seven quarters. However, **total approvals during the twelve months to December 2019 of 57,358 dwellings remain 15.5% below** the twelve months to December 2018.
- **New detached houses recorded 8,654 approvals in December quarter 2019**, which represented a 9.4% decrease on corresponding approvals in the same quarter in 2018. Despite improving during the three month period, lot sales remain relatively weak, leading to lower house approvals. Overall, the 34,805 new detached house approvals in Victoria over calendar 2019 decreased by 12.0% from calendar 2018.
- **Approvals of semi-detached/row/terrace houses and townhouses contracted by 20.2% annually in December quarter 2019 to 2,559 dwellings.** This is the sixth consecutive quarter where townhouse approvals have recorded a double-digit annual fall, leading to the 9,678 semi-detached/row/terrace house and townhouse approvals over calendar 2019 falling by 23.6% from calendar 2018. The use of medium density dwellings in greenfield areas has become more prevalent in 2019, suggesting that infill townhouse development is likely more responsible for the overall decline in these approvals.
- **Victoria recorded 4,250 approvals of flats/units/apartments in buildings of 4 storeys of higher in December quarter 2019, which was a substantial increase of 66.5% on approvals in the same quarter in 2018.** This was the strongest quarterly result since early 2018, supported by increased downsizer activity. Nevertheless, weak approval activity in the previous nine months resulted in the calendar 2019 total of 11,640 approvals of flats/units/apartments in buildings of 4 storeys of higher being the lowest since 2013.



Source: Australian Bureau of Statistics

## COMMENCEMENTS

- **Detached house commencements declined by 5.4% over 2018/19 to 36,510 starts.** This is still a relatively strong level of detached house starts, highlighted by the decline coming off a long term high of 38,610 starts in the previous year, and was underpinned by a cyclical peak in detached house approvals through 2018.
- **Construction levels are forecast to decrease by a further 18% over the following three years to 2021/22, lowering to 29,960 detached house commencements.** This will be similar to house starts activity during the three year period from 2011/12 to 2013/14.
- After a record 37,010 starts in 2017/18, **multi-unit dwelling commencements experienced a considerable decline over 2018/19 of 30.8%, dropping to 25,620 starts.**
- **Over the following two years to 2020/21, multi-unit dwelling commencements are projected to decrease by a further 25.8% to 19,020 starts.** This will be the lowest level of construction activity in more than a decade, since 2009/10, before a projected recovery in 2021/22.



Source: Housing Industry Association

**Notes:** HIA defines a building is commenced when the first physical building activity has been performed on site in the form of materials fixed in place and/or labour expended (this includes site preparation but excludes delivery of building materials, the drawing of plans and specifications and the construction of non-building infrastructures, such as roads). HIA collects data from their membership base of over 40,000 industry professionals who are responsible for over 80% of Australia's residential construction work.

# AFFORDABILITY

Over the past decade housing affordability has received an increasing share of media attention. Generally, first home buyers are noted as the age cohort that bears the brunt of high house prices. However, in more recent times the dialogue has shifted to include all age cohorts who particularly have a desire to reside in the middle ring of Melbourne but find it increasingly unaffordable to do so.

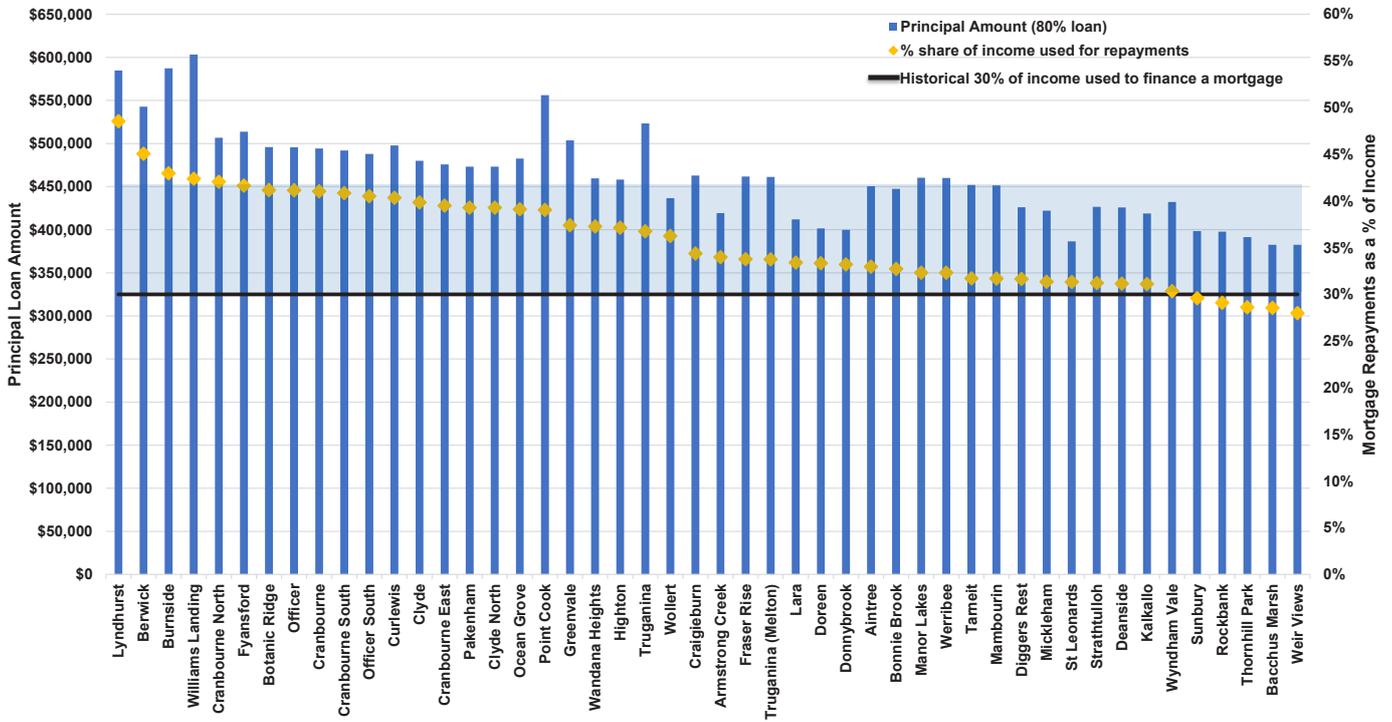
The common benchmark for housing stress in Australia has historically been identified as those households that allocate at least 30% of disposable household income to finance their mortgage. This ratio has been in place for decades and in recent times there is a growing view that the ratio should be closer to 40% to reflect the market of today.

The chart on the next page examines the ratio of mortgage repayments to household income for 48 suburbs throughout the growth corridors of Melbourne and Greater Geelong. Most suburbs have experienced a significant improvement in this ratio through 2019, attributed to median lot prices falling in response to weak purchaser demand, and also the changing composition of lot sales to an increasing proportion of small lots.

Overall, 25 suburbs recorded a mortgage to household income ratio of up to 35%, slightly more than half of all identified suburbs. Median lot prices in most of these suburbs were more affordable as a result of being a larger development front and containing an abundance of greenfield land, or containing a relatively higher composition of medium density lots amongst total lot sales. High household incomes in Wyndham and Hume reduced the mortgage to household income ratio for many of the municipality's suburbs into this bracket.

A further 12 suburbs recorded a mortgage to household income ratio of above 35% and up to 40%, with this level being synonymous with the emergence of constrained affordability. The more expensive median lot price was attributed to their location being relatively closer to the Melbourne CBD within their respective municipality (Wollert, Truganina), or limited competition or subdued new lot supply applying upward pressure to lot prices (Greenvale, Point Cook). Four of these suburbs also came from Greater Geelong, with all being boutique areas located on the outskirts of the city centre (Highton, Wandana), or in the Bellarine Peninsula (Curlewis, Ocean Grove).

The ratio of mortgage repayments to household income was above 40% in 11 suburbs. Almost three quarters of these suburbs were in the south east growth areas of Casey and Cardinia, highlighting their relatively more expensive lot prices. Williams Landing and Burnside are well established development fronts, with new housing more so resembling infill rather than greenfield development, while larger lot sizes in Fyansford elevated its median lot price.



Source: RBA, ATO & RPM Research Division

### CALCULATION ASSUMPTIONS

The chart depicts the median lot price in December quarter 2019 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 \$237,500 (Moorabool) to \$270,000 (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 at December 2019 of 4.15%.

# PROPERTY MARKET NEWS

## VICTORIAN PLANNING AUTHORITY UPDATES

- To boost housing supply, the VPA had been set a target to complete the below Precinct Structure Plans (PSPs) over 2017 and 2018, which will include the rezoning of more than 100,000 lots. By early 2019 all PSPs in this program had been approved.
- The PSPs in the table below are currently underway or will be commenced during 2020. These PSPs are estimated to support the addition of more than 50,000 new dwellings. This target is considered sufficient enough for the VPA to achieve their objective of supply an adequate level of new housing through the PSP pipeline.

Precinct Structure Plan	LGA	Status
Officer Employment	Cardinia	Pre-Commencement Project Scoping
Casey Fields South	Casey	Background Studies & Context
Croskell	Casey	Background Studies & Context
Craigieburn West	Hume	Background Studies & Context
Merridfield North Employment	Hume	Background Studies & Context
Kororoit Part 2	Melton	Background Studies & Context
Beveridge North West	Mitchell	Review of Submissions
Wallan South & Wallan East	Mitchell	Background Studies & Context
Shenstone Park	Whittlesea	Review of Submissions
Aviators Field	Wyndham	Background Studies & Context
Quandong	Wyndham	Review of Submissions
Werribee Junction	Wyndham	Not Started

Source: Victorian Planning Authority

ABOUT

## RPM REAL ESTATE GROUP

RPM Real Estate Group is Victoria's most successful residential development sales, marketing and advisory agency. We specialise in sales within master-planned communities, medium and high density developments, greenfield and infill development sites and international investment sales. We advise our clients on all aspects of the sales process from site due diligence, acquisition, planning and risk mitigation through to product mix, pricing, launch, sales and settlement. Our research-backed strategies deliver higher revenues, faster sales rates and better returns for our clients.

### FULL SERVICE OFFERING

**Research:** in-depth analysis on current economic and housing conditions, future supply and demand assessments, and buyer demographics to enable clients to make the most informed decisions.

**Communities:** the market leader in sales and marketing of master-planned estates, we offer unparalleled expertise in the management of an estate, product mix and design, pricing, market dynamics and matching product to demand to ensure faster sales rates and maximum yield.

**Project Marketing:** specialising in sales and marketing of medium density and mid-rise apartment infill sites throughout Melbourne. Backed by unrivalled inhouse research to help clients develop the best product and sales strategy to drive maximum return in this burgeoning market.

**Transactions & Advisory:** specialising in development site transactions across greenfield and infill residential, commercial and medium density sites. The team's philosophy is based on not just selling, but adding value to the selling process and unlocking the value of sites.

**RPM International:** helps clients including property owners, developers and investors diversify and maximise their property portfolio by connecting an expansive network of offshore buyers keen to invest in high quality residential estates and medium density projects throughout Melbourne.

**Property Management:** providing full service property management services for both Australian and international clients to ensure their property assets are protected and maximised.



THANK YOU TO UDIA PARTNER **RPM REAL ESTATE GROUP** FOR PROVIDING THE INFORMATION CONTAINED WITHIN THIS REPORT.

## **RPM REAL ESTATE GROUP**

- 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
- Over 1,500 lots sold over Financial Year 2019
- 40 active projects
- 37,000+ total yield of current projects

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# UDIA PRINCIPLES FOR THE WAY AHEAD

THESE PRINCIPLES 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.

## LEADERSHIP

Drive the thought leadership agenda and exercise tangible influence with government and other stakeholders

## EXPERTISE AND INNOVATION

Offer innovative membership services that respond to the changing needs of our industry

## INFLUENCE

Be known as the pre-eminent expert organisation on housing and urban development

## INDUSTRY SUCCESS

Advance and support the industry in the public arena and facilitate industry recognition and promotion

## KNOWLEDGE

Be the go-to organisation for industry knowledge and business building insights

## DEEPLY CONNECTED

Facilitate a fruitful business environment by connecting industry and government stakeholders

## LOYALTY

Possess a deeply loyal membership base as a result of consistently providing solid member services

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