
# RESIDENTIAL MARKET REPORT | SEPTEMBER QUARTER 2017

## EXECUTIVE SUMMARY

### RESIDENTIAL LAND MARKET - VICTORIA

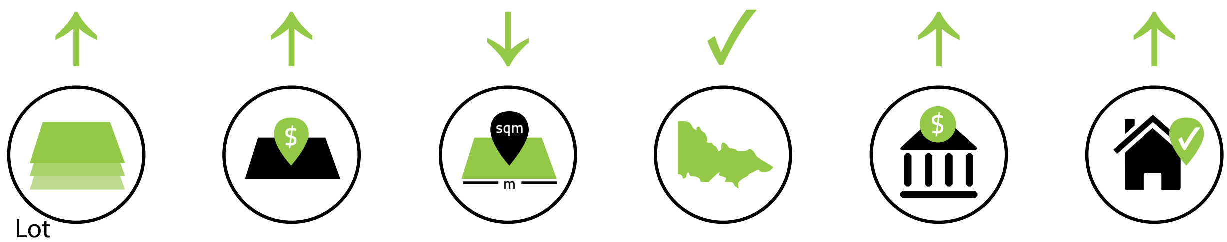
- The established house and vacant land markets across Greater Melbourne continued to remain buoyant in September quarter 2017.
- Metropolitan Melbourne's **median house price of $817,000 in September quarter 2017 represented sizeable growth of 11.5%** from the corresponding quarter a year earlier.
- Gross sales across the growth corridors within Melbourne, Geelong and Surf Coast reached a high **6,747 lots in September quarter 2017 (-0.9% from peak in June quarter 2017, and +25.2% from September quarter 2016).**
- The **median land price** across Greater Melbourne's growth corridors was **$288,000 in September quarter 2017, equating to growth of 6.3% from June quarter 2017 and 26.3% from September quarter 2016.**
- Further highlighting the strength of new house demand that underpinned this solid price growth was that it coincided with the **median lot size** across Greater Melbourne's growth corridors shrinking by 1.7% from the previous corresponding quarter to **416m2 in September quarter 2017.**

### ECONOMIC UPDATE

- **Annual Gross Domestic Product (GDP) to June 2017 increased by 1.98%** on annual GDP to June 2016, with **private consumption expenditure, public consumption expenditure, public investment spending, and exports were all key drivers of economic activity.**
- Growth in the **Victorian economy outperformed the national average, with annual State Final Demand (SFD) at June 2017 being 3.88% higher** than the same period at June 2016.
- The RBA has maintained the cash rate at a historical low of 1.50% through September quarter 2017.

### FINANCE AND BUILDING ACTIVITY - VICTORIA

- Improving economic conditions and strong population growth in Victoria, combined with historical low borrowing costs, has underpinned robust owner occupier demand through 2017.
- The number **loans for the construction of new dwellings or newly erected dwellings** that have not previously been occupied during the twelve months to September 2017 of **31,129 dwellings, was 7.8% higher** than the previous corresponding twelve month period.
- In Victoria, there were **36,217 new detached houses approved** during the twelve months to September 2017, reflecting a marginal **annual decrease of 0.6%.**




Lot Sales | Lot Prices | Lot Sizes | Victorian Economy Performance | Finance Activity | Detached Building Approvals

# VACANT LAND MARKET - VICTORIA

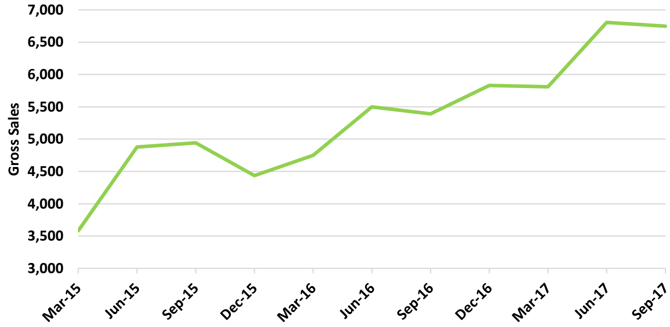
## GROSS SALES

- The number of land sales recorded by the RPM Research Division since the middle of 2014 reflects an exceptionally strong market. **In particular, gross sales have surpassed 6,000 lots in each of the past two quarterly periods, with the growth corridor regions in Melbourne and Geelong recording 6,747 gross lot sales in September quarter 2017**. This represented considerable growth in lot sales of 25.2% from September quarter 2016, although a marginal decline of 0.9% from the long term high of lot sales in June quarter 2017.

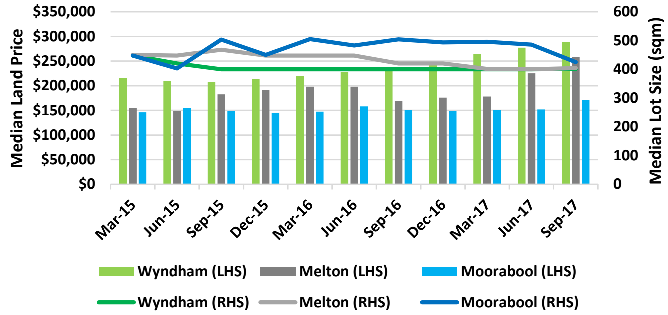
## LAND PRICES AND LOT SIZES

- The **median price of all vacant lots sold across the growth corridors within in Greater Melbourne (excluding Geelong and Surf Coast) was $288,000 in September quarter 2017, representing growth of 6.3% from the previous quarter and a higher 26.3% from September quarter 2016**. Significantly, all Greater Melbourne growth regions experienced double digit annual price growth in September quarter 2017.
- Changes in land price become more relevant when compared to lots sizes. **The median lot size across the growth corridors of Greater Melbourne was 416sqm in September quarter 2017**, which was 1.7% smaller than the same quarter in the previous year. Moorabool experienced the largest decrease in median lot size of 15.7%, although this did not impact on land prices, with the median land value still achieving sizeable annual growth of 13.6%.
- Amongst the Greater Melbourne growth corridors, **Casey recorded the highest median at $347,500, while Moorabool recorded the lowest at $171,500 in September quarter 2017. Mitchell recorded the largest median lot size of 543sqm, with the lowest being 400sqm in Whittlesea, Wyndham, and Melton.** Interestingly, the Surf Coast median lot price of $299,000 in September quarter 2017 was more expensive than the corresponding figure for Greater Melbourne, which is likely attributed to the region's attraction to changeover buyers.

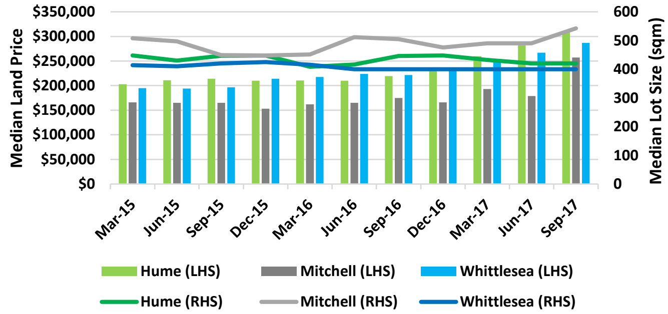
## GROSS SALES



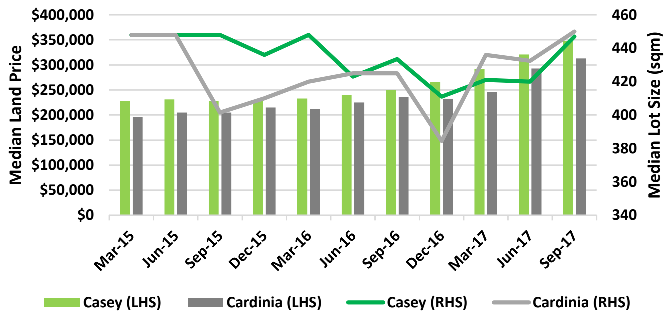

## WESTERN CORRIDOR



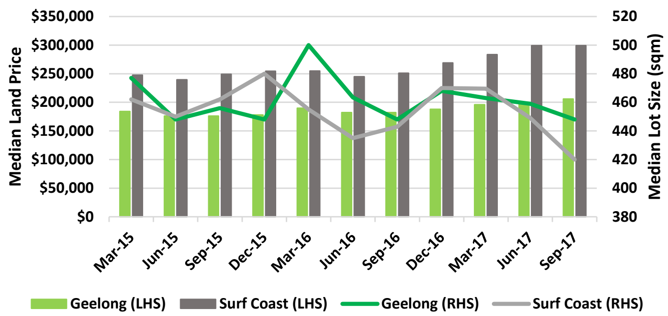

## NORTHERN CORRIDOR




## SOUTH EASTERN CORRIDOR




## GREATER GEELONG & SURF COAST CORRIDOR




Source: RPM Research Division

## TOPIC OF INTEREST – AFFORDABILITY CONSTRAINTS

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 consistently increasing 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 increasing unaffordable to do so.

However, the silver lining for potential homebuyers is the vast range of new land estates available throughout the growth areas of Melbourne and Greater Geelong. This high level of supply (curtesy of an active planning department) has resulted in intense developer competition which has kept prices in check and allowed for not only first home buyers, but also other age cohorts the ability to select from a range of suburbs and lot sizes.

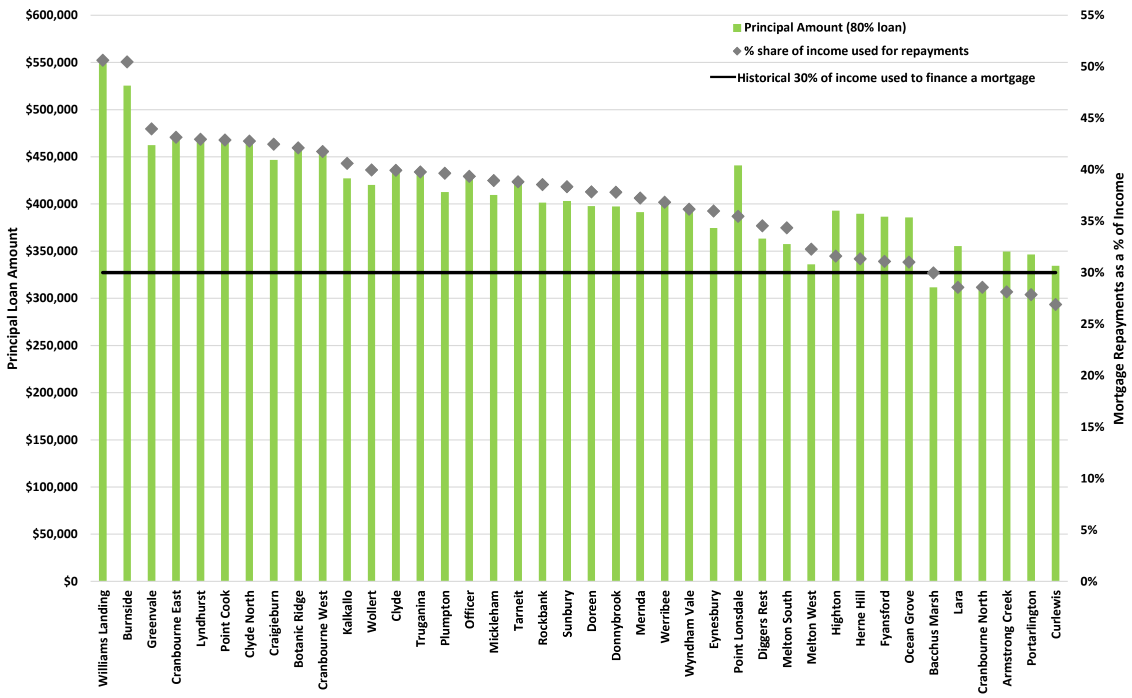
Along with developer competition, there is also a high level of competition amongst builders which has also allowed for potential savings for buyers. These positive variables, coupled with historical low interest rates has improved affordability levels.

The common benchmark for identifying 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 35% to reflect the market of today. The chart on the following page reflects 40 suburbs throughout the growth corridors of Melbourne and Greater Geelong. The proportion of household income required to finance a mortgage was around 50% in Williams Landing and Burnside, with their respective median lot price of $455,000 and $438,900 in September quarter 2017 considerably more expensive than that for Greater Melbourne of $288,000.

Another 26 suburbs covered recorded a mortgage to household income ratio of between 35% and 44%, with this level being synonymous with the emergence of constrained affordability. However, the ratio could be far worse if it wasn't for the large level of land supply that has come on line in recent years. Nevertheless, if the roll out of PSPs slow, price pressures will augment and further adversely affect affordability levels.

The proportion of household income needed to service a mortgage was below 35% in suburbs within the Geelong region due to high household incomes, and in suburbs around the Melton Township due to relatively less expensive lot prices. The only anomaly was Cranbourne North in City of Casey, which contained a ratio of 29%. However, this was attributed to the high concentration of small lots amongst total lot sales in the suburb during September quarter 2017, which dragged down the overall median lot price.

# TOPIC OF INTEREST – AFFORDABILITY CONSTRAINTS




# CALCULATION ASSUMPTIONS

The chart depicts the median land price in September quarter 2017 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 $218,092 (Moorabool) to $237,121 (Greater Geelong) 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 September 2017 of 4.50%.

# NEWS AND UPDATES

## VICTORIAN PLANNING AUTHORITY

- Mt Atkinson & Tarneit Plains Precinct Structure Plans were approved and gazetted in September 2017.
- Donnybrook & Woodstock Precinct Structure Plans were approved and gazetted in November 2017.
- In an effort to boost housing supply, the VPA has been set a target to complete 17 Precinct Structure Plans over 2017 and 2018, which will include the rezoning of more than 100,000 lots. The table below contains projections for the number dwellings, people and jobs each of these 17 Precinct Structure Plans are anticipated to support.

| Precinct Structure Plan | LGA | Status | Estimated Dwellings | Estimated Population | Estimated Jobs |
|---|---|---|---|---|---|
| Pakenham East | Cardinia | Council Led | - | - | - |
| McPherson | Casey | Planning Panel | 10,100 | 28,300 | 1,619 |
| Minta Farm | Casey | Community Engagement & Exhibition | 3,000 | - | 10,000 |
| Lancefield Road | Hume | Planning Panel | 8,000 | 22,000 | - |
| Lindum Vale | Hume | Review of Submissions | 1,500 | - | - |
| Sunbury South | Hume | Planning Panel | 11,800 | 33,000 | - |
| Kororoit | Melton | Submitted for Approval | 9,200 | 25,875 | 2,100 |
| Mt Atkinson & Tarneit Plains | Melton | Completed - September 2017 | 6,700 | 19,000 | 18,000 |
| Plumpton | Melton | Submitted for Approval | 10,680 | 29,900 | 12,000 |
| Beveridge Central | Mitchell | Structure Plan Finalisation | 3,640 | 10,193 | - |
| Beveridge North West | Mitchell | Council & State Agency Consultation | 11,290 | 31,611 | 6,165 |
| Donnybrook & Woodstock | Whittlesea | Completed - November 2017 | 16,400 | 46,000 | 3,316 |
| Shenstone Park | Whittlesea | Council Led | - | - | - |
| Wollert | Whittlesea | Completed - February 2017 | 15,060 | 42,168 | 8,040 |
| Quandong | Wyndham | Council Led | - | - | - |

Source: Victorian Planning Authority

- Furthermore, background studies and draft structure preparation for the following Precinct Structure Plans have commenced during 2017:
  - Aviators Field (Point Cook South) and Werribee Junction in City of Wyndham;
  - Craigieburn West and Merrifield North in City of Hume;
  - Wallan South in Mitchell Shire
  - Croskell (Casey Central) and Clyde South in City of Casey; and
  - Officer Employment in Cardinia Shire.

# MELBOURNE RESIDENTIAL MARKET PRICES

Property prices in Melbourne have trended upwards since the middle of 2013, with detached houses achieving stronger growth than units.

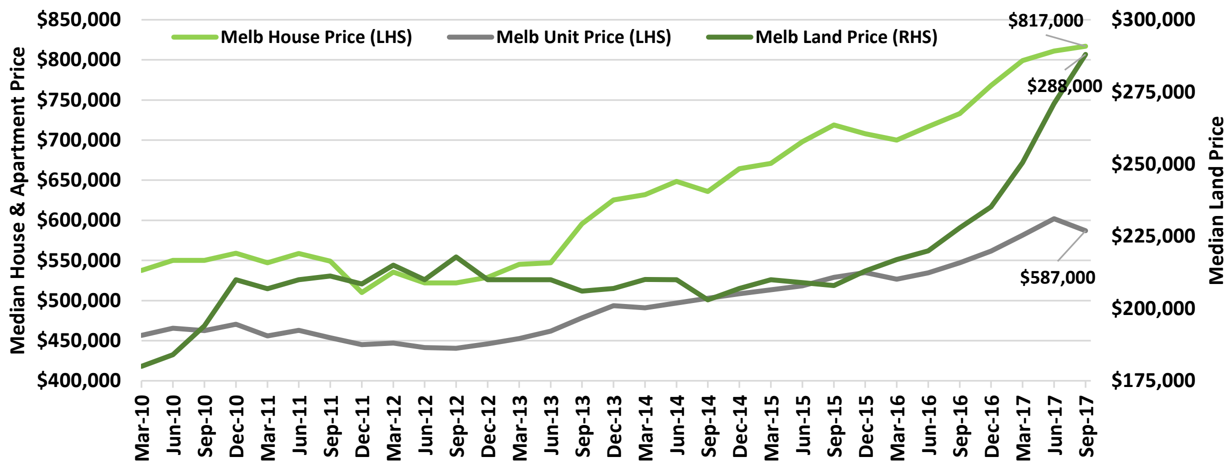
- **The established housing market to date remains robust** when compared to other states with approximately 43,168 auctions held in Victoria during the twelve months to September 2017, with a clearance rate of 77.0% (REIV).
- The number of **auction sales during the twelve months to September 2017 is 13.9% higher than the corresponding period a year earlier, where the clearance rate was 71.5% (REIV).**

At Septemer quarter 2017 preliminary data recorded;

- House price of $817,000 (+0.7% from the previous quarter, and +11.5% from the corresponding quarter a year earlier)
- Unit price of $587,500 (-2.5% from the previous quarter, +7.3% from the corresponding quarter a year earlier)
- Land price of $288,000 (+6.3% from the previous quarter, +26.3% from the corresponding quarter a year earlier)

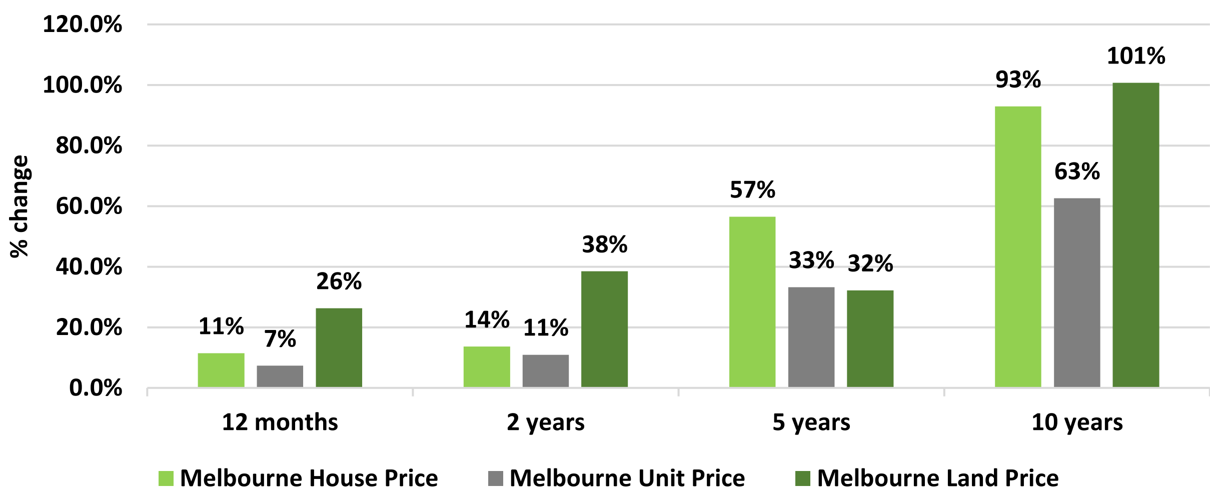
The 26.3% growth recorded in September quarter 2017 takes into account all growth corridors of Greater Melbourne. The overall gain consists of corridors recording rates between -3.7% (Moorabool) to above 30.0% in Hume, Casey and Cardinia, which is largely dictated by the fundamentals of supply and demand for land in the corridor.

**MELBOURNE PRICES**




Source: REIV, RPM Research Division

**PRICE CHANGE**




Source: REIV, RPM Research Division

## ECONOMIC MARKET UPDATE

- **Economic activity picked up in June quarter 2017, highlighted by quarterly growth in Gross Domestic Product (GDP) increasing to 0.82%.** This was attributed to improved growth in private consumption, public consumption, public investment, and exports.
- **However, growth in annual GDP to June 2017 deteriorated to 1.98%.** Significantly, this was the lowest annual growth rate for GDP since March 2010. Business investment continues to remain weak, while dwelling investment is also beginning to taper off, after strong growth through calendar year 2015 and 2016.
- **Nevertheless, growth in the Victorian economy has outperformed the national average, with annual State Final Demand (SFD) at June 2017 being 3.88% higher than the same figure at June 2016. This places Victoria third,** behind Northern Territory (8.75%) and Australian Capital Territory (5.13%).
- **Victoria experienced annual growth of 3.74%** in the number of employed persons at September 2017. However, **the unemployment rate at September 2017 of 6.0%** was above the national rate of 5.5%, likely attributed to the closure of the car manufacturing industry.

| Private Consumption | Victorian State Economy | Employment |
|---|---|---|

Source: Australian Bureau of Statistics

## INTEREST RATE

- After reducing the cash rate by 25 basis points in both May and August of 2016, the RBA has made no further changes in following monthly meetings, leaving **the cash rate at a historical low of 1.50%.**
- Below trend economic growth, and low wage growth have both resulted in weak inflationary pressures, which has led to the current low interest rate environment.
- Inflation remained below the RBA target band of 2% to 3% in September quarter 2017. However, additionally cuts to the cash rate are unlikely, with the RBA seeking to avoid encouraging further strong dwelling price growth in Sydney and Melbourne and residential investment demand.
- APRA's directive for banks to limit he flow of new interest only lending to 30% of new residential mortgage lending and subsequent strict criteria for allowing interest only loans to have a LVR of above 80%, resulted in higher borrowing rates for interest only loans for both owner occupiers and investors to entice borrowers to move to principal and interest loans.
- The **official standard variable interest rate for owner occupiers sits at 5.20% (while investor loans sits at 5.80%).** However, with some bargaining owner occupiers can obtain **a discounted interest rate of 4.45% (investors can obtain 5.05%)** from the major lenders, while first home buyers can currently take advantage of promotional offers of sub 4.0% variable rates from some banks.

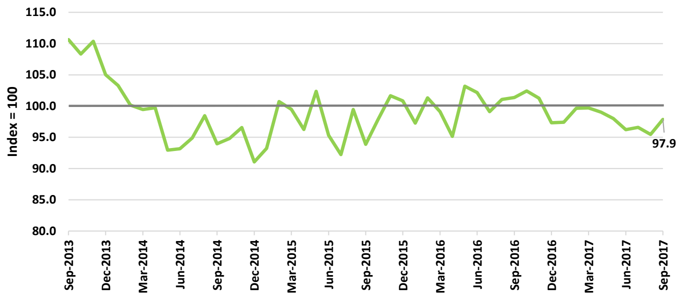
| 1.50% | 5.20% | 4.45% | 4.10% |
|---|---|---|---|

| Cash Rate (Sep-17) | Standard Variable Rate (Owner Occupiers) (Sep-17) | Discounted Variable Rate (Sep-17) | 3 Year Fixed Rate (Sep-17) |
|---|---|---|---|

Source: Reserve Bank Australia

## 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.**

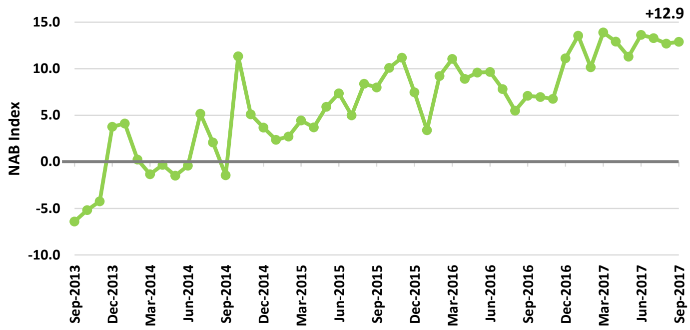



Source: Westpac–Melbourne Institute Consumer Sentiment Index

- **The Westpac-Melbourne Institute Consumer Sentiment Index has improved in September 2017, rising to 97.9.** However, this still indicated that pessimists outnumber optimists, with September 2017 being the tenth consecutive month of this occurrence.
- Subdued annual economic growth to September 2017, combined with increased pressure on family finances in response to limited growth in household incomes, rising electricity costs, and deteriorating housing affordability have all augmented consumer sentiment.

## BUSINESS CONDITIONS

**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.**

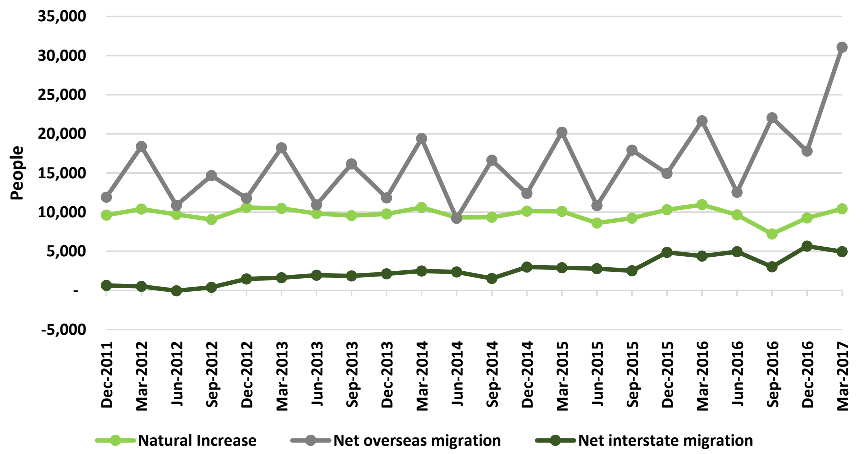



Source: National Australia Bank Business Survey

- Growth in business conditions has largely remained solid from the middle of 2015, with the **September 2017 result of a 12.9 percentage point increase continuing the double digit monthly rises since December 2016.**
- Business conditions are looking relatively solid across most industries and states, suggesting the recovery is becoming more entrenched. However, the authors of the index highlight their cautiousness given the apparent divergence between business conditions and household sentiment.
- The lift in overall business conditions in September quarter 2017 was attributed to stronger trading conditions and profitability. Within industry sectors, those that experienced the largest increase in business conditions included mining and manufacturing, while retail conditions were poor.

## VICTORIAN POPULATION

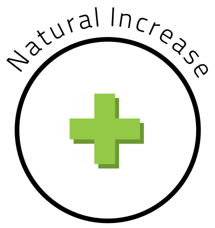
**Victoria gained 46,447 people during March quarter 2017 (latest available data), lifting its estimated resident population to 6,290,674 people.** This equated to a population increase of 149,374 people or 2.43% growth in Victoria over the twelve months to March 2017, which were both the strongest in 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 March quarter 2017 Victoria recorded;




**-4.7%** *

+36,556 persons over the 12 months to March 2017 (-6.4%). Reflects 25% of the national increase


**+13.0%***

+18,557 persons over the 12 months to March 2017 (+27.7%).


**+43.4%***

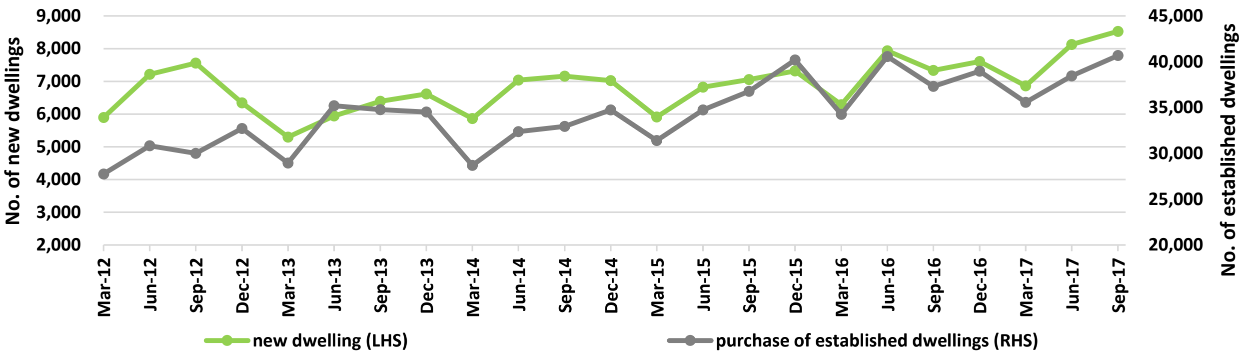
+83,446 persons over the 12 months to March 2017 (+27.7%). Reflects 40% of the national intake

* Increase on same quarter of the previous year

## FINANCE ACTIVITY - VICTORIA

### LOANS BY DWELLING TYPE

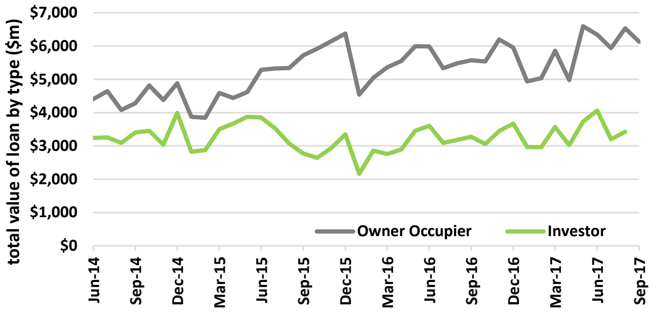
- **Victoria recorded a considerable 49,201 new loans for owner occupation during the three months to September 2017.** Buoyant owner occupation demand has been underpinned by strong population growth and historical low borrowing costs. Subsequently, the number of new owner occupier loans escalated by a solid 10.2% from the same period in 2016.
- In the three months to September 2017, compared to the previous corresponding period, new owner occupation loans for **newly constructed dwellings and recently constructed dwellings (but have not been lived in) increased by a sizeable 16.3%, and by 9.0% for established dwellings.** Established dwellings still accounted for a relatively high 83% of total new owner occupation loans in the three month period.
- Overall, the number of **new owner occupation loans during the twelve months to September 2017 in Victoria totalled 184,804 loans**, which was 2.0% above the number of similarly financed dwellings in the twelve months to September 2016.




Source: Australian Bureau of Statistics

## VALUE OF LOANS BY PURCHASER TYPE

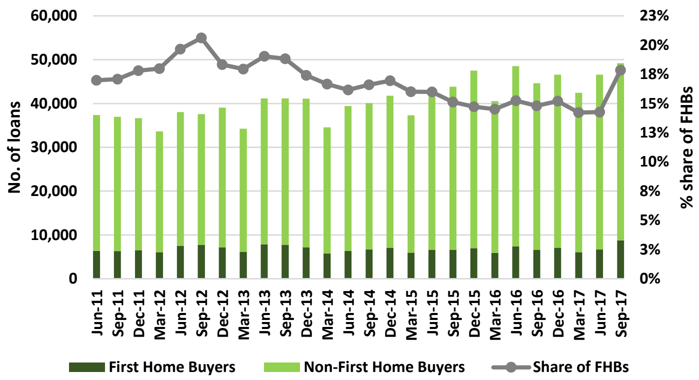
- **The total value of new owner occupier loans in the three months to September 2017 escalated by a 13.5%** compared to the previous corresponding period, and was also higher than house price growth of 11.5%. This was attributed to the rebound in owner occupier loans for generally more expensive established dwellings. Nevertheless, owner occupier loans for new dwellings increased at a greater rate, reflecting a shift in demand to the relatively more affordable outer metropolitan areas, and also to new housing in broadhectare subdivisions.
- The **total value of loans to investors during September quarter 2017 was 3.7% higher compared to the same period in 2016.** This growth rate has eased through 2017, in response to Australian Prudent Regulation Authority (APRA) directives of ensuring residential investor lending growth remains below the 10% cap and to limit the number of new interest only lending to 30% of new residential Mortgage lending. However, the value of investor loans is still increasing, with investors being able to obtain finance through second tier banks, and also major banks feeling more comfortable to lend to investors whilst complying with APRA directives.




Source: Australian Bureau of Statistics

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

- The number of loans attributed to first home buyers reached 8,786 loans over September quarter 2017, which was a substantial 33.0% higher than first home buyer loans in September quarter 2016. This was the highest quarterly total of first home buyer loans since December quarter 2009 when the Federal Government's first home owner boost scheme was in place.
- This surge in first home buyer demand was attributed to the two Victorian Government initiatives beginning July 2017 of abolishing stamp duty for first home buyers when purchasing a dwelling of up to $600,000 in value, and for owner occupation, and the doubling of the first home buyer grant to $20,000 when purchasing a new dwelling outside of Greater Melbourne.
- Dwellings financed to non-first home buyers recorded 40,415 loans during September quarter 2016, reflecting a 2.6% increase on the same quarter in the previous year.

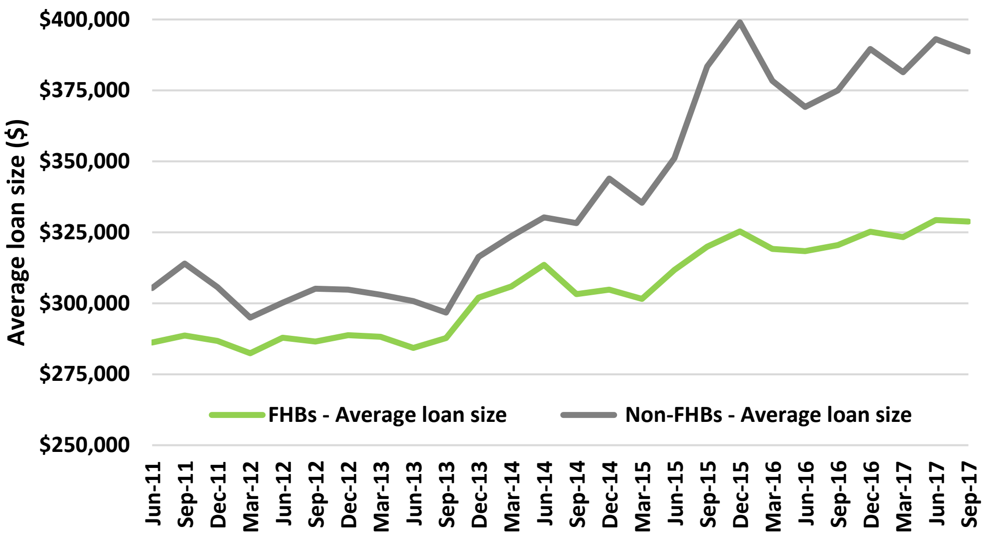



Source: Australian Bureau of Statistics

- The escalation in first home buyer demand resulted in their share of total loans improving to its highest proportion in four years of 18%. Considering the number of dwellings financed to non–first home buyers also increased, this further highlights the significant boost the two Victorian Government initiatives have had on first home buyer demand.

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

- **The average loan size to first home buyers in September quarter 2017 increased by 2.6% from the previous corresponding quarter, while the average loans size to non-first home buyers escalated by 3.6%.**
- After narrowing during the first half of calendar 2016, the divergence between the average loan amount to first home buyers and non-first home buyers has widened again through financial year 2017, with this difference being relatively large.
- **At September 2017, the average loan size attributed to a non-first home buyer was $59,900 above the average loan size to a first home buyer ($328,800).**

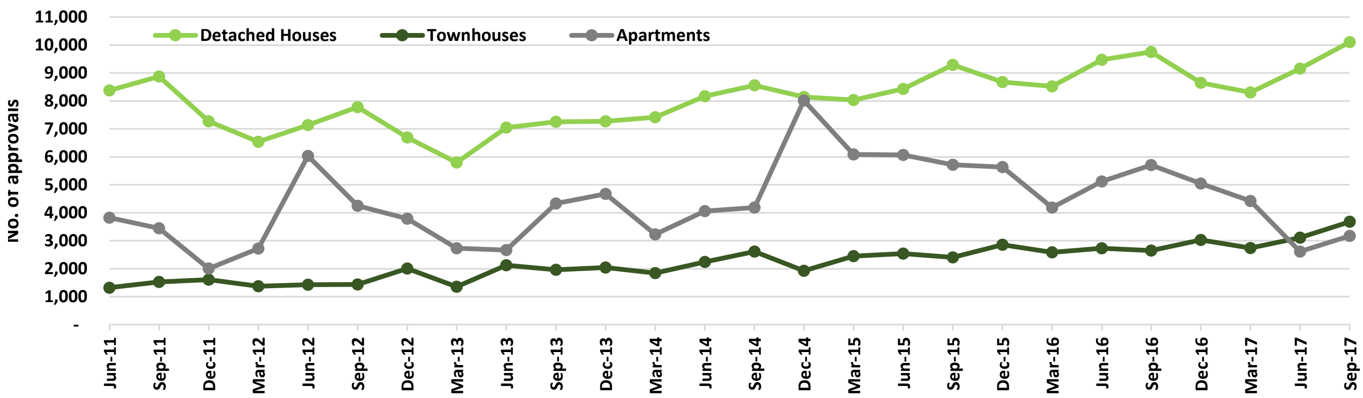



Source: Australian Bureau of Statistics

## BUILDING ACTIVITY - VICTORIA

### APPROVALS

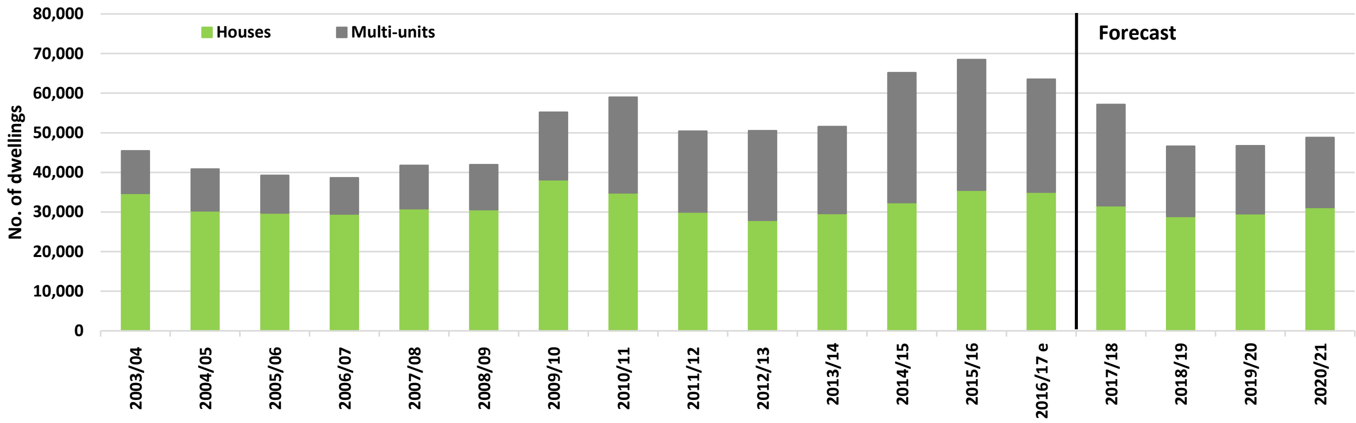
- **Victoria recorded 10,105 new detached house building approvals in September quarter 2017**, which equated to a 3.6% increase on corresponding approvals during the same quarter in 2016. Moreover, this volume new detached house building approvals in September quarter 2017 was the highest since December quarter 2009.
- **Total approvals in September quarter 2017 of 16,954 dwellings represented a contraction of 6.4%** on total dwelling approvals during the same period in the previous year. This decrease was primarily attributed to the **sizeable 47.1% reduction in approvals of flats/units/apartments in buildings of 4 storeys and higher.**
- **During the twelve months to September 2017, there were 36,217 new detached houses approved, marginally (-0.55%) below** house approvals during the twelve months to September 2016. Over the same period, approvals of semi-detached/row/terrace houses and townhouses increased by a sizeable 16.1%, although flat/unit/apartment approvals declined by 26.2%.
- Overall, a total of **64,019 dwellings were approved in Victoria during the twelve months to September 2017**, resulting in an annual decline of 5.7%.




Source: Australian Bureau of Statistics

## COMMENCEMENTS

- Over the 2016/17 financial year in Victoria, it is estimated **detached house commencements declined by 1.4% to 35,010 starts, while multi–unit dwelling commencements fell by 13.4% to 28,540 starts.** As a result, total commencements were approximately 7.2% below the cyclical peak in 2015/16, decreasing to an estimated 63,550 dwellings in 2016/17.
- Total dwelling starts in Victoria are expected to witness a more substantial contraction during the two years to 2018/19, falling to a projected 26.7% to 46,610 commencements. This will be the lowest level of annual dwelling starts since 2008/09. Over this two year period, house commencements are forecast to decline by 17.5% to 28,900 starts, with a more sizeable 37.9% reduction forecast for multi–unit starts to 17,710 commencements.
- In 2019/20, dwelling starts are forecast to stabilise, before beginning to rebound in 2020/21.
- **Nevertheless, average annual dwelling commencements in the four years to 2020/21 in Victoria will be around 2011/12 to 2013/14 levels, which should still support solid residential construction activity.**




Source: Housing Industry Association