Research Quarterly – January 2023

A review of external economic and property market factors influencing urban planning

EXECUTIVE SUMMARY

Over 2022 Victoria's urban growth landscape started to recover before becoming more challenged and patchy through late 2022.

Victoria's economy and housing markets were assisted by a return to net positive population growth (annual) in the first half of 2022 following five consecutive quarters of population decline. The turnaround has been largely driven by Established Melbourne which lost significant population in the year prior; a period when greenfield and regional areas were consistently strong.

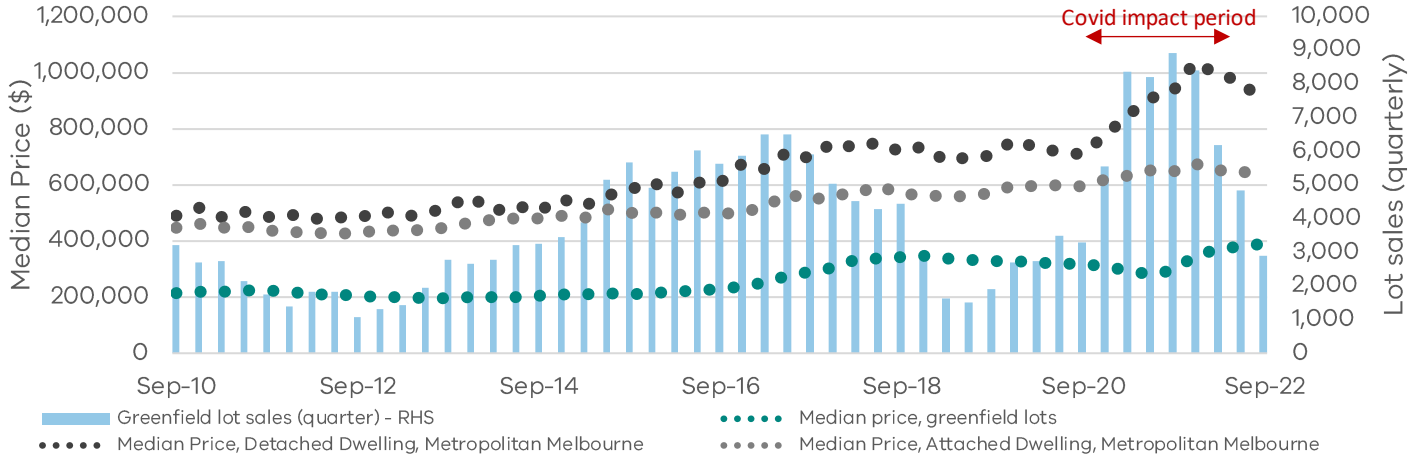
Overall housing activity was robust throughout 2022 and some land supply shortages became evident in greenfield growth areas. However greenfield activity has since become more subdued in the second half of the year as the effects of supply chain challenges, construction cost escalation and interest rates continue to filter through.

As we start 2023 the current state of Victoria's urban and planning economics is varied:

- **Population growth** recovered after a period of population decline that was driven by negative Net Overseas Migration (NOM). Growth has now returned to around 68% of prevailing growth levels and is expected to continue at around 100,000 people per annum.
- **Greenfield growth areas** have been the most active market in 2022 although the record activity levels have now slowed to more sustainable levels. Price escalation is becoming an issue with the median lot price at $390k, up 33% over the past year, but is starting to stabilise.
- **Land supply** in Melbourne's greenfield growth areas is estimated at around 20 years total supply. Current vacant zoned land is estimated at 11 years supply with the future VPA precinct structure program to add a further 9 years land supply until completion. Some corridors will start to experience land supply shortages as Melbourne transitions to a phase of lower greenfield land availability within the UGB. This requires a strong policy and market response for increased development in established and peri-urban areas.
- **Housing markets**:
    - Greenfield growth area (refer Chart 1) dwelling activity peaked at the start of 2022 with 34,000 lots sold annually and has subsequently settled to around 22,000 lots sold per annum and median prices are starting to stabilise.
    - Melbourne's Established areas (refer Chart 1 & 2) observed rapid price escalation during the Covid period, particularly for detached dwellings, while attached dwellings maintained steady growth. Challenging development and construction conditions remain for new projects and dwelling prices are likely to ease or decline as a result of rising interest rates and lower confidence in the market.
    - Regional areas (refer Chart 2) observed very rapid price increases during the Covid period, likely driven by migration from Melbourne placing pressure on local economies and land supply in some towns. However the regional market only forms a small share of Victoria's overall activity.
    - During the Covid period dwelling growth uncoupled from population growth, with strong dwelling growth across most markets despite population declines. With population growth returning, demand for dwellings will likely continue.
- The challenging environment is likely to continue in 2023 although there are signs of more stable and balanced growth.

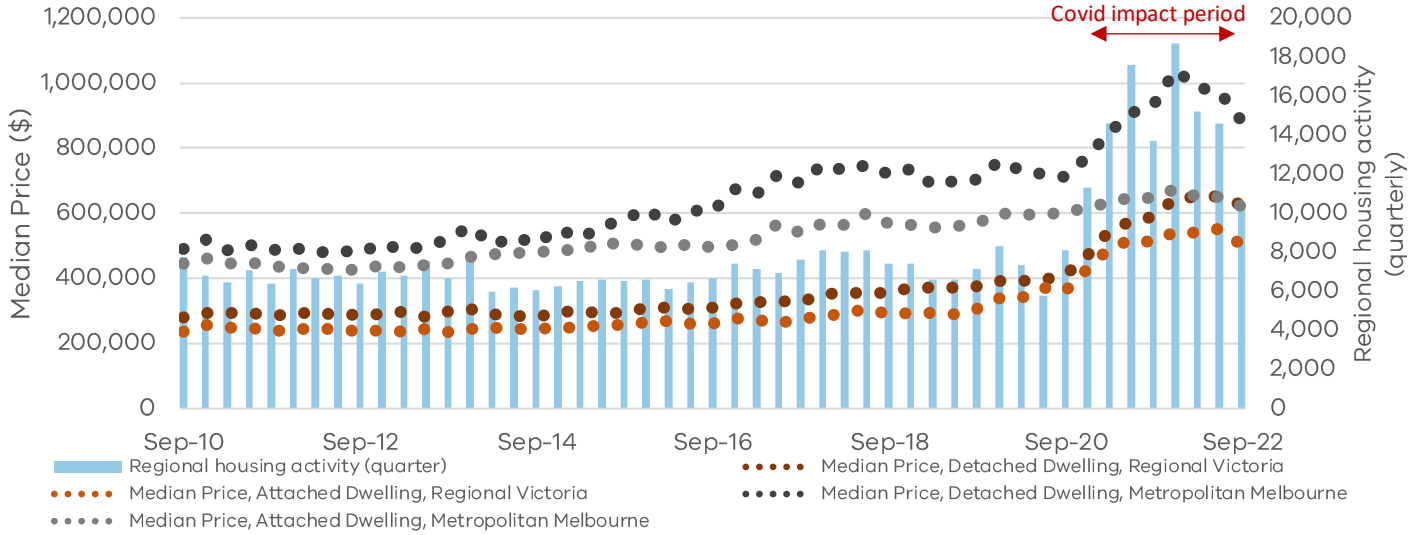
VICTORIAN PLANNING AUTHORITY | Contact: Principal Economist justin.malkiewicz@vpa.vic.gov.au

Chart 1 Housing Market, Melbourne Greenfields



Source : VPA based on ABS, Corelogic, Research 4

Chart 2 Housing Market, Regional Victoria



Note: Regional housing activity refers to a transfer of a title.
Source : VPA based on ABS, Corelogic

Implications for the VPA

- With growth trends causing pressure in different settings, there is a case for a re-balancing of growth with clearer and more consistent ways of prioritising where the VPA works and how we support State and Local Government
- Rapid and continued dwelling growth, in addition to some emerging land supply shortages, has placed increased pressure on land availability, pricing and infrastructure. Enhancing alignment and delivery of planning activities, infrastructure co-ordination and development will remain a key focus for the VPA in 2023.
- Established areas will be required to significantly increase market activity and attraction as Melbourne transitions from its reliance on greenfields land.
- Changes to VPA and Ministerial responsibilities supports focused efforts for each of the spatial areas the VPA works in, namely greenfield growth areas, Established Melbourne/urban renewal and Regional Victoria , which have undergone different and nuanced challenges over the past 12 months and this is likely to continue into the future. The recent Government changes supports the VPA to deliver the following across these spatial regions:
    - Changes to the VPA responsible Ministers, including The Hon. Sonya Kilkenny as the new Minister for Planning, in addition to "client Minister" arrangements for the VPA. Under Section 36 of the VPA Act, the VPA can also be directed by the Minister for Transport and Infrastructure and the Minister for Suburban Rail Loop, allowing them to commission advice and services from the VPA.
    - Machinery of Government changes, with the VPA now within the portfolio of the new Department of Transport and Planning (DTP), providing opportunities to better integrate planning and precinct delivery with transport delivery.

Section 1 – Population and dwelling growth overview

Population growth

- Victoria's population declined by approximately 157,000 residents in 2021, but has since rebounded gaining 107,000 people in the first half of 2022. This was largely on the back of the return of overseas migration (refer Chart 3). The outflow of residents to other states has persisted since the onset of Covid.
- Established Melbourne lost 128.6k residents in 2020-21, whilst Greenfield Melbourne and Regional Victoria maintained most of their pre-Covid growth (approximately 68%), underpinned by internal migration, noting that at a regional level, population data is only available to June 2021. Chart 4 highlights the same shift in building approvals as a proxy for more recent growth trends.
- Melbourne is on track to overtake Sydney as Australia's largest city within the next decade according to the Federal Government's Centre for Population projections. The city's population expected to grow by around 1 million people to 6 million by 2031. The Federal Government projection exceeds the latest Victoria in Future (VIF) series which projects growth of 5.84 million over the same period.

Dwelling growth and COVID impacts

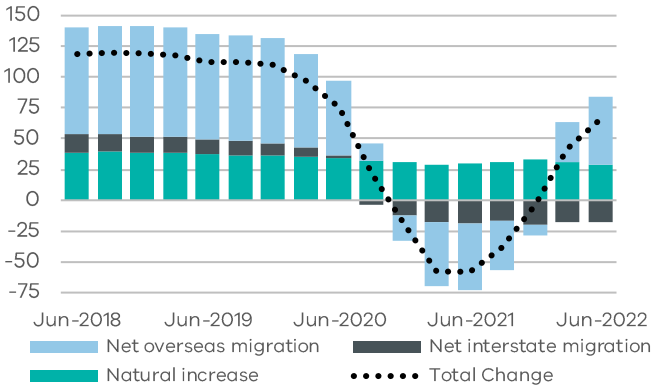
- Overall building approvals (as a proxy for potential dwelling growth) increased by 10% in Victoria during COVID, driven by Greenfield (+30%) and Regional (+46%) areas (refer Table 1 and Chart 4). Conversely Established Melbourne saw a -14% drop in approvals. Heightened demand for housing and lots was in spite of population decline overall.

Table 1 – Population and Building Approval Activity, Victoria

	COVID Period		Pre-COVID Period	
	Pop. Growth (20-21)*	Building Approvals (20-21)*	Pop. Gwth. p.a. (18 to 20)*	Building Approvals p.a. (18-20)*
Established Melbourne	-128.6k	+25.1k	+11.2k	+29.1k
Greenfield Melbourne	+48.8k	+24.5k	+57.8k	+18.7k
Regional Vic.	+21.7k	+18.1k	+25.0k	+12.4k
TOTAL	**-58.1k**	**+67.7k**	**+94.0k**	**+60.2k**

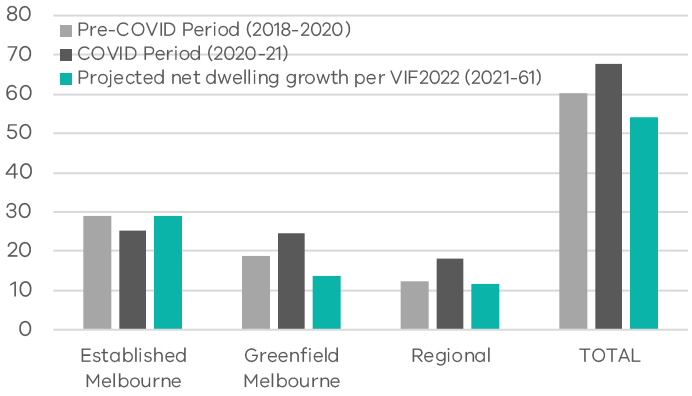
- Strong greenfield demand has continued to result in a move away from the Plan Melbourne's 70% aspiration in Established areas (refer Chart 5). In the five months to November, around 45% of new dwelling approvals were in Melbourne's growth corridors.
- The Covid period saw a spike in demand for detached dwellings; consistent with broader trends observed in greenfield areas (refer Chart 6). There was a corresponding dip in approvals for apartments, although in recent months approvals by housing type appear to be returning to prevailing levels consistent with 5 year averages.

Chart 3 – Population Growth, Rolling Annual, Victoria ('000)



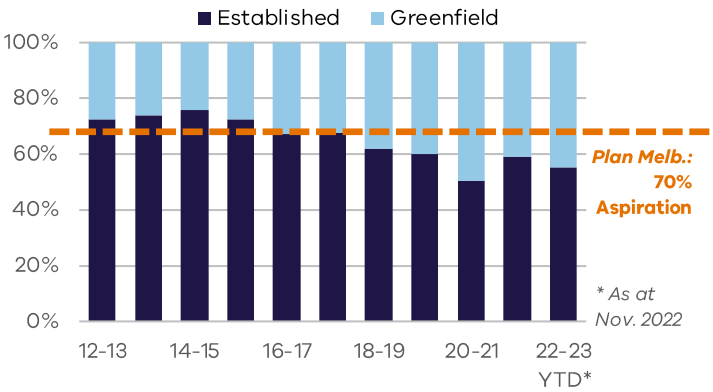
Source : ABS National, State and Territory Population

Chart 4 – Dwelling growth p.a., Building Approvals, Victoria



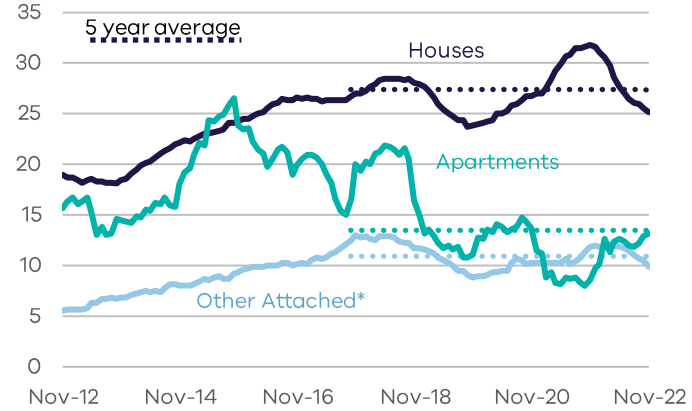
Source: ABS Building Approvals, VIF2022, VPA

Chart 5 –Dwelling Approvals ('000), Greenfields and Established



Source: VPA based on ABS Building Approvals (SA2), Australia

Chart 6 – Dwelling Approvals, Melbourne, Rolling Annual ('000)



** Includes townhouses, semi-detached, row and terrace houses*
Source: ABS Building Approvals, Australia

Section 2 – Land and Housing Markets

Rental market

- The number of properties available for rent highlights a two speed market, with Melbourne increasing supply back to pre-Covid levels, whilst Regional Victoria has observed a decrease in available properties for rent (refer Chart 7). In total across Victoria there are 654,451 active rental bonds, an annual increase of 2.2%.
- Melbourne rental market has also experienced considerable increases, with the median weekly rent now at $440, an increase of 10% over the past year (refer Table 2).

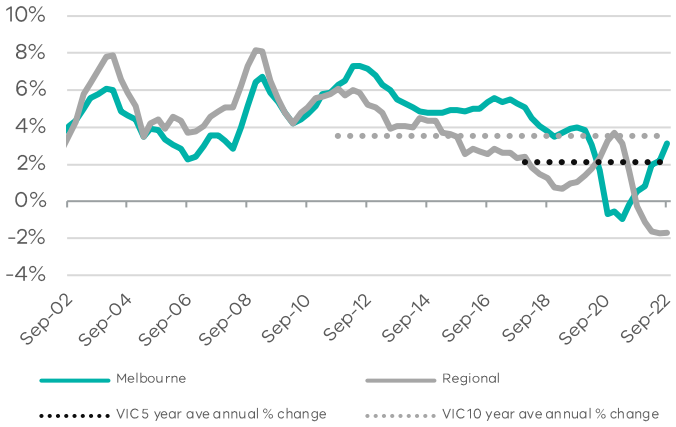
Table 2 –Median weekly rent

Region	Median weekly rent	Annual % change
Melbourne	$440	10.0%
Regional Victoria	$400	7.4%
Victoria	$430	9.4%

Source: VPA based on DFFH Rental Report Sept quarter 2022

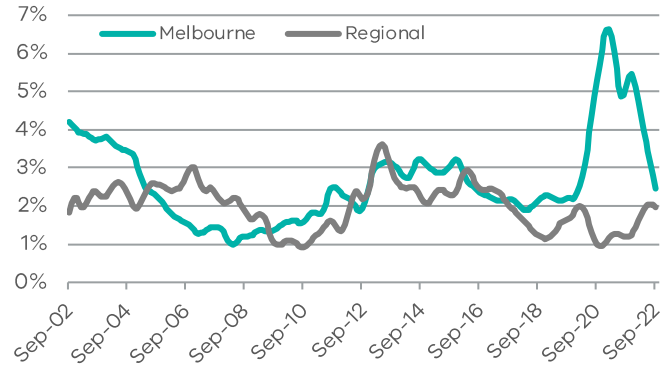
- Vacancy rates have also reduced to concerningly low levels across both metropolitan and regional markets at 2.5% and 2% respectively (refer Chart 8).
- Price increases, low vacancy levels, and reduced stock levels available in regional areas, highlight the importance of ensuring additional housing and rental supply is available, in turn reducing risk of homelessness and housing stress.

Chart 7 –Active rental bonds, percentage change



Source: VPA based on DFFH Rental Report September quarter 2022

Chart 8 –Rental vacancy rates

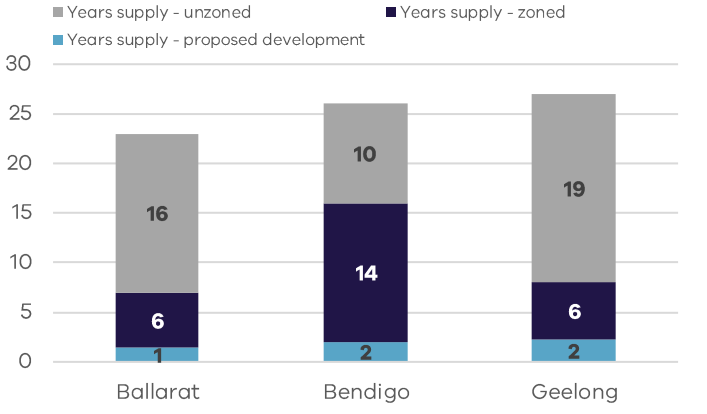


Source: VPA based on DFFH Rental Report September quarter 2022

Regional Victoria

- Housing demand is outstripping housing supply in many regional cities and peri-urban towns, with current and planned land supply additions varying.
- In 2022, the new Regional Urban Development Program (UDP) identified some major towns with low levels of land supply that need planning attention (refer Chart 9).
- In particular, Ballarat, Bendigo and Geelong all have identified future land for planning activities to unlock supply, but each have some land supply constraints in the short term, including low overall supply or lower.
- Lots currently available for development, referred to as 'proposed development' are lots in subdivision processes that have not yet received a title. This is low across all regions which is further exacerbated where low zoned supply exists such as Ballarat and Geelong.

Chart 9 –Years greenfield land supply (select regional areas)



Source: VPA based on UDP

Melbourne – greenfield growth areas

- Melbourne greenfield activity reduced by 40 percent in the September quarter, down 67 percent on the same time last year. The median price is showing signs of stabilising accordingly (refer Charts 10 and 11). The decline in lot sales is evident across Melbourne's three growth corridors, and also Geelong where following a spike in 2021 market activity has eased considerably.
- Prices also increased rapidly over the past 18 months (refer Chart 11), although prices appear to be easing in late 2022.
- As a ratio of land to house price, the greenfield median price has increased considerably in recent years to a current ratio of 51%, compared with normal levels at 41% (refer Chart 12). However, greenfield lots remain comparable to Brisbane and SEQ, whilst significantly more affordable in Melbourne than in Sydney, both in dollar terms and as a ratio of the metropolitan area (Sydney lot prices are a significant 62% of the median house price).

Land supply

- Land supply in Melbourne's greenfield growth areas is estimated at around 20 years total supply, with zoned greenfield land now estimated at 11 years supply. (refer Chart 13)..
- Current VPA greenfield PSPs on program will add 4 years zoned residential supply, with PSPs yet to commence adding a further 5 years supply.
- Some corridors will start to experience land supply shortages as Melbourne transitions to a phase of lower greenfield land availability within the UGB, requiring a strong policy and market response for increased development in established and peri-urban areas.

Employment

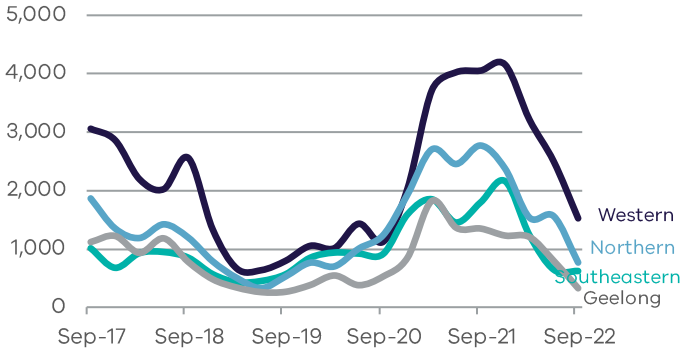
- The VPA PSP Guidelines aim to deliver one additional job per dwelling. Based on the ABS Census for 2016-2021, all growth area LGA provided a higher level of jobs than dwellings (refer Table 3).

Table 3 – Jobs and dwelling change – intercensal 2016-2021

LGA	Job change 2016-21	Dwelling change 2016-21	Job to dwelling ratio
Cardinia	13,098	8,729	1.5
Casey	33,670	21,725	1.5
Hume	20,657	16,737	1.2
Melton	20,318	13,555	1.5
Mitchell	4,870	3,306	1.5
Whittlesea	17,943	12,261	1.5
Wyndham	35,074	23,904	1.5

Source: VPA based on ABS Census

Chart 10 – Greenfield growth area lot sales by corridor, quarterly



Source: VPA based on Research 4.

Chart 11 – Greenfield growth area lot sales and price

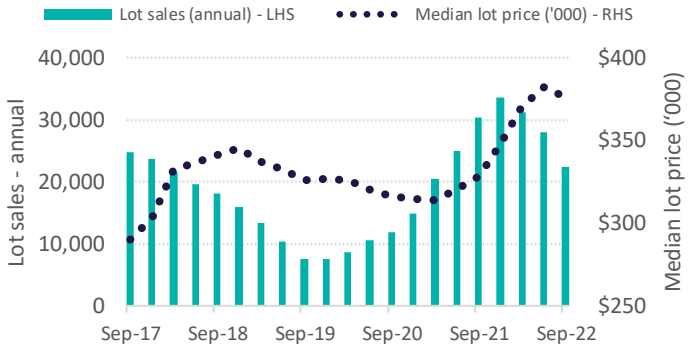
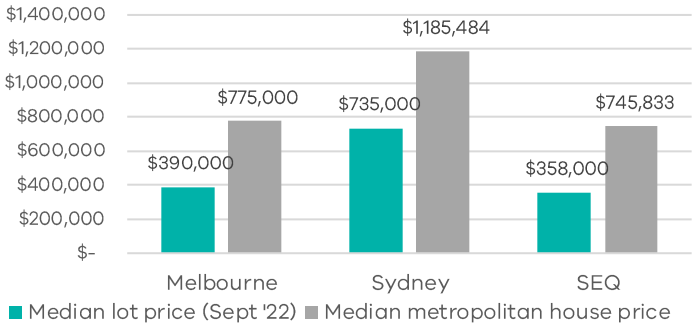
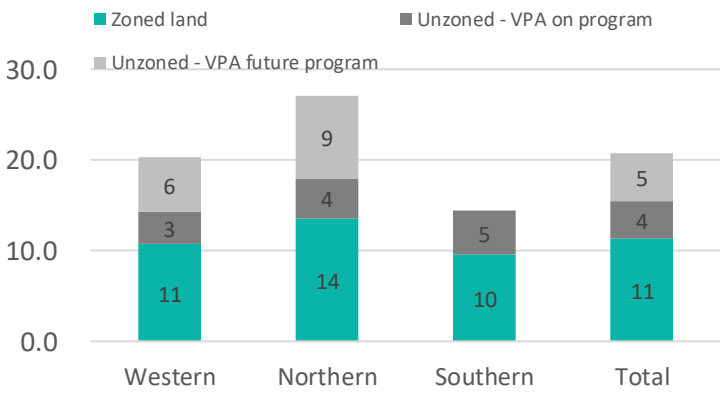


Chart 12 – Greenfield lot vs metropolitan median house price



Source: VPA based on Research 4.

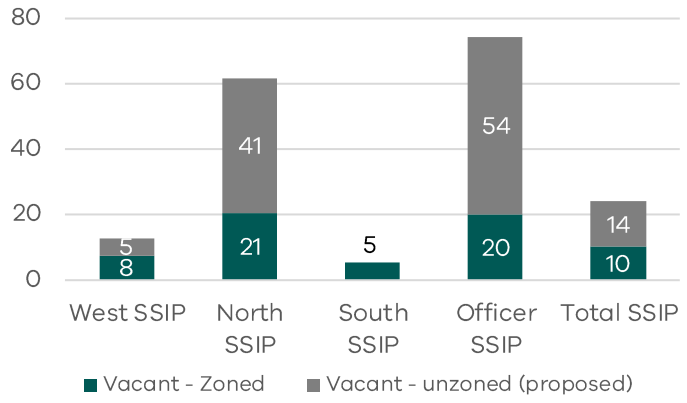
Chart 13 – Greenfield estimated years of land supply by corridor



Source: VPA

- There is an estimated 2,500 hectares of zoned and vacant State Significant Industrial Precinct (SSIP) land across Melbourne, with a further 3,300 proposed to be rezoned to industrial and employment uses.
- Regionally significant industrial land add a further 2,900 hectares of vacant employment land.
- Total SSIP are estimated at 10 years zoned land supply with a further 14 years yet to be zoned (refer Chart 14). The southern and western corridors have lock available land stocks and are starting to be constrained.

Chart 14 – State Significant Industrial Precinct (SSIP) Estimated years supply 2023



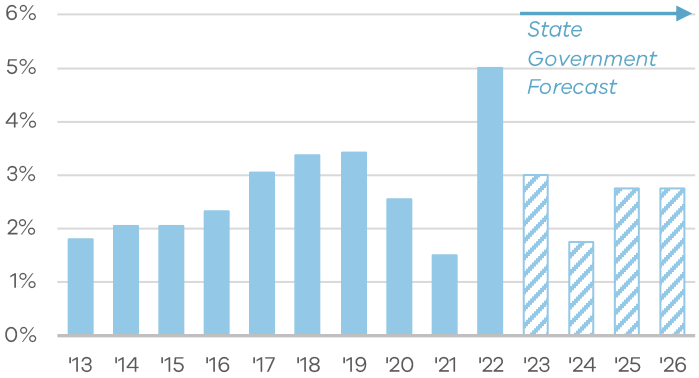
Source: VPA based on UDP

Section 3 – Victorian economic overview

Economic Growth

- Whilst severely impacted during Covid, the Victorian economy has rebounded and was ranked the best performing state / territory in July 2022 (source: Commsec State of States Report). In the latest October rankings, however, the state's ranking had declined to second last.
- Following modest growth of 1.5% in 2020/21, the latest State Budget is forecasting a strong bounce back of 5.5% for GSP in 2022/23 then follow pre-pandemic levels (refer Chart 15).
- Despite the expected recovery, total debt is projected to grow from $102b in 2021/22 to $168b by 2025/26, when the annual budget is expected to return to surplus. Budget repair will be a key focus for many years to come highlighting the importance of efficient infrastructure and planning co-ordination.

Chart 15 –Victoria Gross State Product (Real)

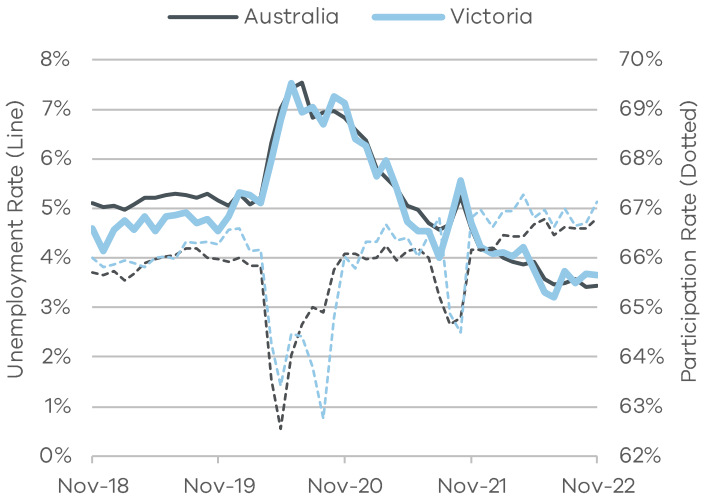


Source: ABS National Accounts: State Accounts, Chain Volume Measure, Original (financial years) Department of Treasury and Finance/Victorian Pre-Election Budget Update

Labour Force

- The labour market remains very tight with record low unemployment and high participation recorded throughout 2022. In July, Victoria's unemployment decreased to just 3.2% - the lowest rate since monthly records began in 1978. Labour force participation is at near record high levels at 67% in November (refer Chart 16)

Chart 16–Victoria Unemployment and Participation Rates



Source : ABS Labour Force, Australia, Seasonally Adjusted