



Quarterly Market Insights

March Quarter 2018

●LIVER ■UME



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Julian Coppini

Chief Operating Officer
j.coppini@oliverhume.com.au

Welcome to Oliver Hume's March Quarter 2018 Market Insights Report

2018 promises to be an important year for the Australian property market with the residential sector across the nation at varying stages of the market cycle.

Some markets are reaching a turning point following years of exceptional price growth and activity levels, while others continue to set new records.

With Australia now experiencing record population growth and the economy continuing to strengthen it is important to understand what comes next and to understand the evolving and rapidly changing property market landscape.

Oliver Hume has a thorough understanding of the Australian residential property market.

Our understanding has been built up over several decades of experience and from dealing with both buyers and sellers of property at all stages of the market cycle.

Importantly, our team of specialist economists, real estate analysts, mathematicians and others work hard to analyse current and emerging market trends using both proprietary data and a wide range of other information sources.

The output of this market intelligence and insights is a competitive advantage for our clients, buyers and all those who we interact with daily.

This report is the latest instalment of our regular Quarterly Market Insights series which is an example of how our research goes behind the numbers to provide you with the latest market insights.

I am sure this update will be a valuable resource for you in better understanding the market and planning for the future.









MARCH
QUARTER 2018

VICTORIA

**George Bougias**

Head of Research
g.bougias@oliverhume.com.au

6

AS UNEMPLOYMENT MOVES TOWARDS LEVELS REGARDED AS 'FULL EMPLOYMENT'... LABOUR MARKET AND OVERALL ECONOMIC SENTIMENT SHOULD CONTINUE TO IMPROVE HELPING TO UNDERPIN RESIDENTIAL DWELLING DEMAND.

Victoria's Strengthening Economy to Underpin Growth

Victoria's land markets continue to be driven by strong property market fundamentals helping to sustain buyer demand.

The Melbourne and Geelong markets remain buoyed by record population growth.

In 2016-17 Melbourne had the largest population growth of all Australian capital cities (125,400) with growth exceeding Sydney (101,600) and more than double that of Brisbane (48,000).

Melbourne also recorded the fastest population growth over the period (2.7%), greater than Brisbane and Sydney (both 2.0%) and significantly more than the national average for all capital cities (1.9%).

Melbourne's land prices continue to increase although price growth now appears to be slowing as affordability constraints are becoming increasingly important.

The reduction in lot size continues, helping to alleviate affordability somewhat, while also meeting the needs of a diverse group of buyers including first home buyers, singles, couples and families with children.

Continued economic growth is increasingly a major driver.

Higher levels of government investment and consumer spending, supported by dwelling investment, are ensuring economic growth remains robust and unemployment continues to decline.

Victoria's level of unemployment in April 2018 was 5.3% (on a seasonally adjusted basis), below the national average of 5.6%.

In April 2018, Victoria recorded the second highest level of trend employment (up 2,100 persons) after New South Wales (up 9,400 persons).

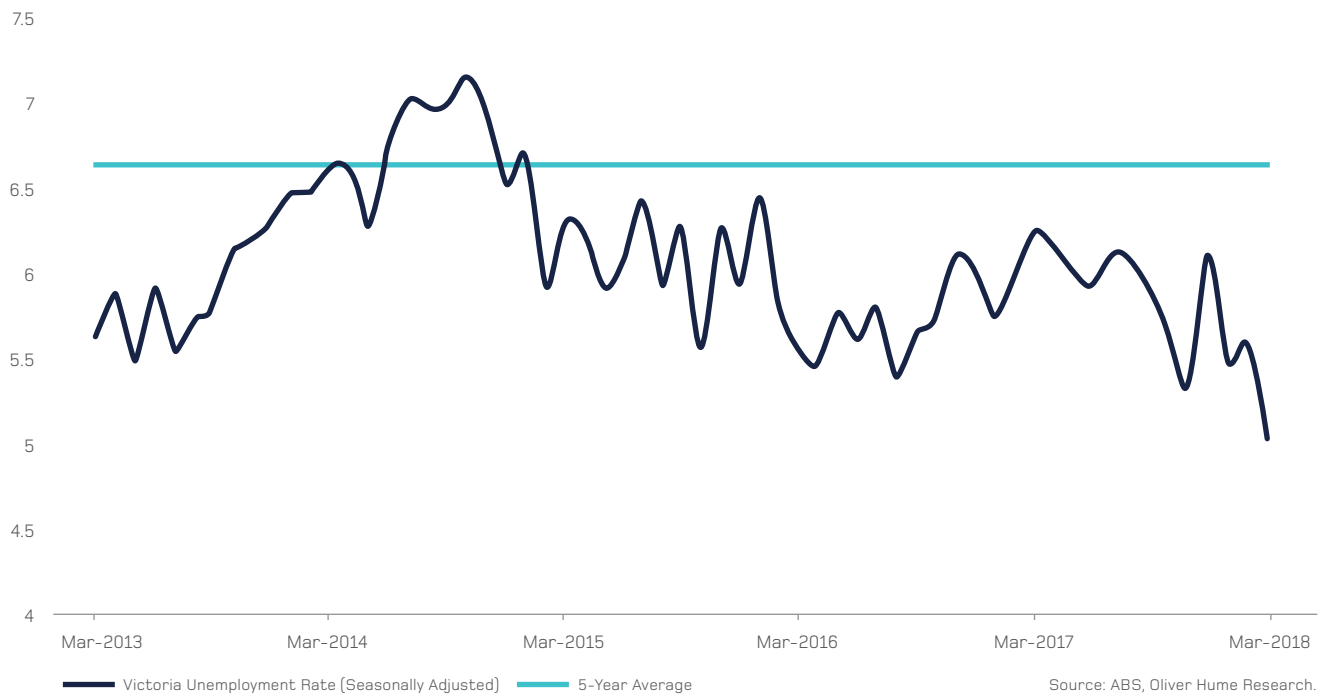
However, sluggish wage growth remains a key challenge with most economists expecting wage growth will remain low. This will cap accessibility to finance especially in the context of continued land price growth.

Labour force participation continues to climb reaching levels well above that achieved in recent decades. Greater labour force participation will help underpin demand in the residential land market.

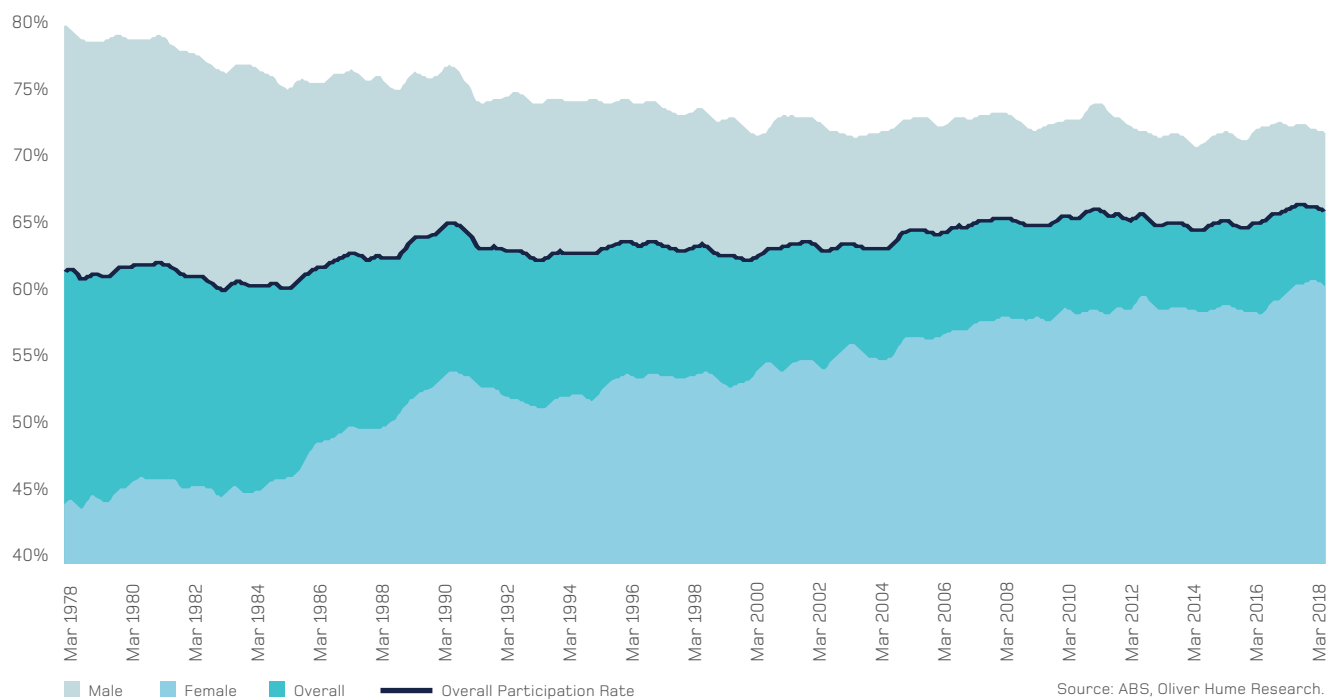
As unemployment moves towards levels regarded as 'full employment' (around 5.0%), labour market and overall economic sentiment should continue to improve helping to underpin residential dwelling demand.

Importantly, interest rates are expected to remain low with any increase now expected sometime away.

Unemployment Rate – Victoria



Participation Rate – Victoria



MARKET OVERVIEW (cont.)

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VICTORIA'S POPULATION HAS NOW EXCEEDED 6.3 MILLION PEOPLE.

Population Growth Remains Robust

Victoria's population growth continues to exceed expectations.

Victoria's population growth in the year ending 30 September 2017 was 147,000 (2.4%) representing over a third of Australia's population growth (37%).

Victoria's population has now exceeded 6.3 million people.

While interstate migration remains important, overseas migration remains the main driver of population growth and the residential land market.

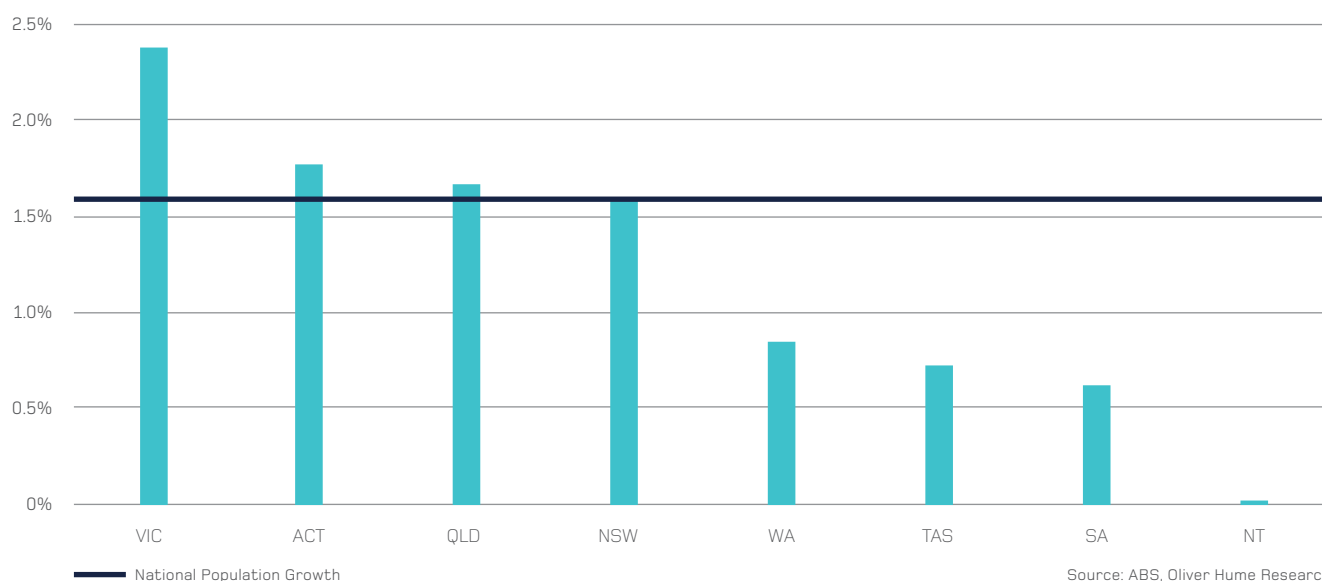
Buyers born in India, China, Vietnam, Sri Lanka and Philippines are amongst the most important and growing buyer segments.

In the year ending 30 September 2017, net overseas migration to Victoria increased by 15.3% (11,700 people) to exceed 88,000 people.

Net interstate migration was nearly 17,000 remaining at near record highs with the state attracting people from across the country.

Despite higher land prices Melbourne's relative affordability, especially when compared to Sydney, remains a key driver of overseas and interstate migration and underlying residential demand.

Annual Population Growth (Year Ending September 2017)



New Communities Market

The trends observed in the second half of 2017 extended into the March quarter 2018 with continued price growth and volumes remaining below recent peaks.

Lower sale volumes are due to a range of reasons including fewer lots being offered to the market by developers and decreasing affordability.

However, increased competition between developers and buyers' preferences for more affordable stock, including smaller lots, has seen price growth slow.

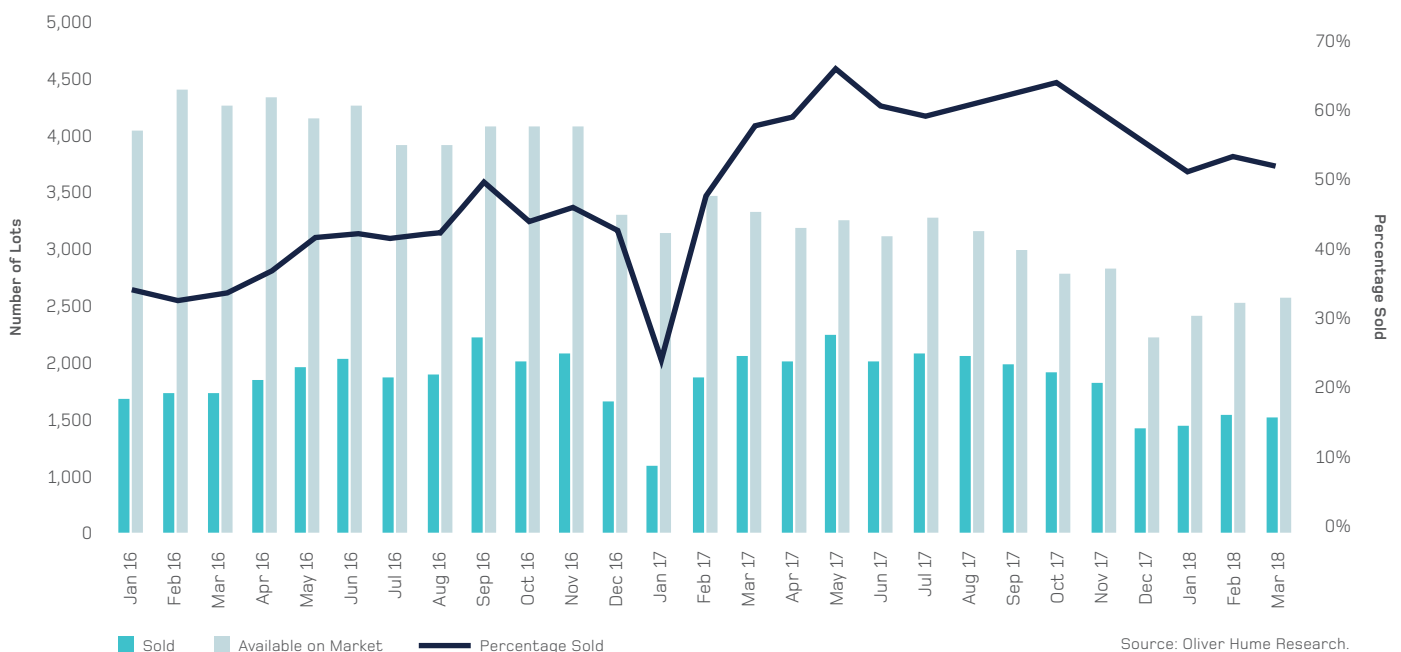
This suggests prices are now softening and that we might be approaching the market's peak.

Nevertheless, market conditions remain robust with clearance rates remaining at record highs and time on market remaining at record lows.

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"...CLEARANCE RATES REMAINING AT RECORD HIGHS AND TIME ON MARKET REMAINING AT RECORD LOWS."

New Lots Sold and Available – Metropolitan Melbourne



NEW COMMUNITIES

**Gerrard Ellis**Director
g.ellis@oliverhume.com.au**Paul Ciprian**Director
p.ciprian@oliverhume.com.auPROJECT AND
CORRIDOR DATA

THE MARCH QUARTER 2018 SAW A DECREASE IN THE TOTAL NUMBER OF SALES ... FROM THE PREVIOUS QUARTER.

Active Projects

The number of active projects in Victoria grew to a total of 177 in the March quarter 2018, representing a 4.1% increase from the previous quarter.

March Quarter 2018

177

↑ 4.1% from previous quarter

Total Lots Released

Lots released onto the market fell in the March quarter 2018 by nearly 4%.

March Quarter 2018

4,596

↓ 3.8% from previous quarter

Total Sales

The March quarter 2018 saw a decrease in the total number of sales by 15.4% from the previous quarter.

March Quarter 2018

4,471

↓ 15.4% from previous quarter

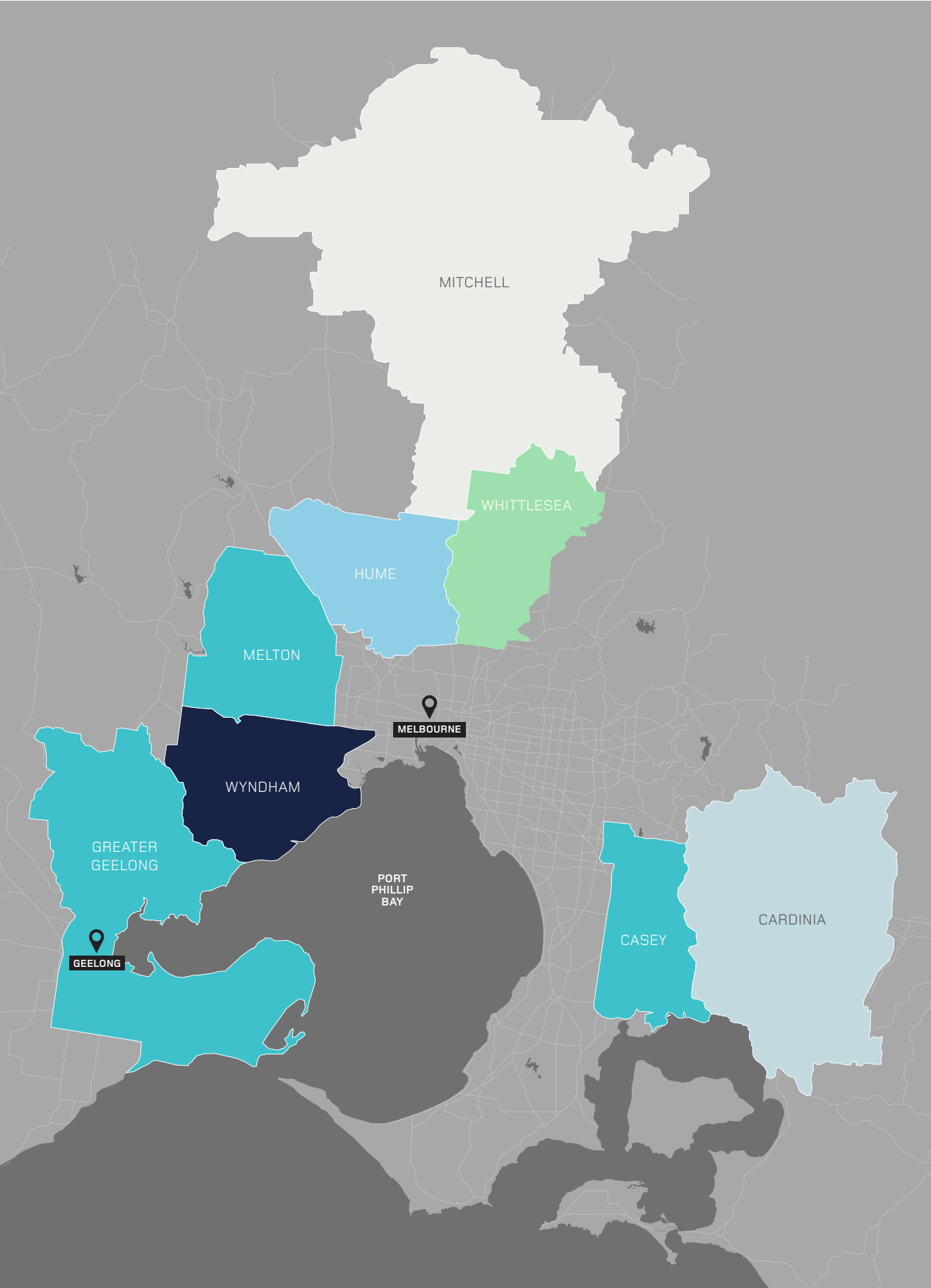
Total Unsold

The number of lots remaining unsold at the end of the March quarter 2018 increased by 13.5% from the previous quarter.

March Quarter 2018

1,776

↑ 13.5% from previous quarter



Number of Projects: 1-5 6-10 11-15 16-20 21-25 26-30 31-35

NEW COMMUNITIES (cont.)

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ACROSS METROPOLITAN MELBOURNE, LOT SIZES SHRUNK BY 1.2% ON AVERAGE OVER THE QUARTER AND BY 4.8% COMPARED WITH THE FIRST QUARTER OF 2017.

Lot Sizes

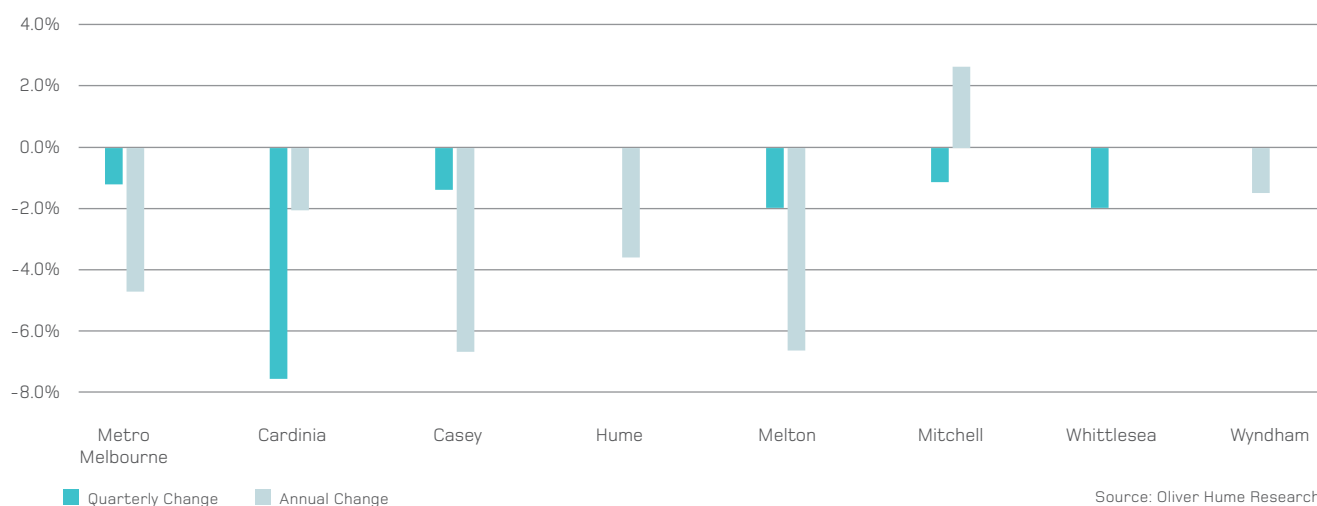
Lot sizes continue to decline across metropolitan Melbourne.

Across metropolitan Melbourne, lot sizes decreased by 1.2% on average over the quarter and by 4.8% compared with the first quarter of 2017.

Large reductions were observed in Melbourne's south-east, where prices are highest, suggesting affordability constraints are leading buyers to purchase smaller lots.

In addition to smaller lots for the traditional house and land package, estates are increasingly including medium density products to cater for preferences.

Metropolitan Melbourne – Change in Median Lot Sizes Sold (March Quarter 2018)



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THE MEDIAN LOT PRICE
IN METROPOLITAN
MELBOURNE NOW SITS
AT \$314,000.

Lot Prices

The median lot price in metropolitan Melbourne is now \$314,000.

Median prices increased by 4.1% in the March quarter 2018 to be around 23% higher over the year.

Land remains relatively affordable in Melbourne's western region while the south-east remains the most expensive market.

Overall, price growth is now softening as affordability constraints become more important and competition intensifies between developers.

Historically there has also been a strong relationship between residential land and established markets.

With the established market now slowing it is to be expected that the greenfield market will also moderate over the short to medium term.



Median Land Price



..... Metropolitan Melbourne Median Price

Source: Oliver Hume Research.

NEW COMMUNITIES (cont.)

PURCHASER
PROFILESFirst Home Buyer
Market Shares

March Qtr 2017	50%
June Qtr 2017	49%
September Qtr 2017	49%
December Qtr 2017	46%
March Qtr 2018	45%

Source: Oliver Hume Research.

First Home Buyer
Segment Falling

Continued price growth continues to challenge first home buyers (FHBs).

The market share of FHBs in the metropolitan Melbourne greenfield market has declined this year despite significant policy commitment by the both Federal and State Governments.

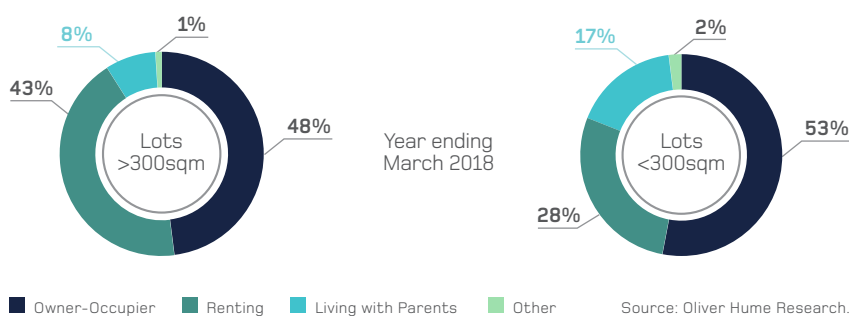
These trends are part of the broader decline in affordability and home ownership we have observed in recent decades.

Over the past two decades home ownership rates have generally decreased in all age categories except those aged 65+.

Greenfield land developers have been adjusting with an increased focus on offering smaller lots to the market with an increasing number of townhouse and other medium density product being offered.

This smaller lot product is attracting a range of market segments including FHBs, renters and others finding it difficult to enter the market. In addition, downsizers and empty nesters are also increasingly attracted to this type of product.

Previous Living Circumstances – Wyndham





Sales Volume by Country of Birth

1. Australia 45.7% ↑ 12.6% from previous quarter	2. India 34.8% ↓ 8.5% from previous quarter	3. Phillipines 5.6% ↑ 2.3% from previous quarter
4. Sri Lanka 4.2% ↓ 0.8% from previous quarter	5. China 3.2% ↓ 0.2% from previous quarter	6. Pakistan 2.0% ↑ 0.7% from previous quarter

Source: Oliver Hume Research.

APARTMENT AND TOWNHOUSES



Christine McCollam

General Manager | Apartments
c.mccollam@oliverhume.com.au

MARKET OVERVIEW

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INNER AND MIDDLE RING TOWNHOUSES CONTINUE TO REMAIN POPULAR WHILE TOWNHOUSES IN GROWTH AREAS AND BEYOND (GENERALLY 20KM FROM THE CBD) ARE NOW EMERGING AS INCREASINGLY POPULAR.

Owner-Occupiers
Filling The Void

Melbourne's medium and high-density market is transitioning following the peak of the apartment supply cycle and the significant increase in overall property prices observed in the current cycle.

Demand for medium density continues to increase as many buyers are priced out of the (separate) housing market. These buyers are opting for low maintenance dwellings with a land component.

Inner and middle ring townhouses continue to remain popular while townhouses in growth areas and beyond (generally 20km from the CBD) are now emerging as increasingly popular.

In terms of buyer segments, townhouses and other medium-density forms of accommodation remain popular with owner-occupiers and, increasingly, with investors with this product often well-located in terms of transport infrastructure, access to employment, retail and other amenities.

The recent decision by the Australian Prudential Regulatory Authority (APRA) to remove the 10% annual cap on investor housing credit growth may provide some stimulus to the market overall but especially the medium density market given the higher yields on this type of product and the lower entry price.

Apartment market conditions remain the softest with the market continuing to digest the above average levels of dwellings delivered in the recent supply cycle.

Nevertheless, various indicators suggest underlying demand and broader market conditions for apartments are now improving. These indicators include tentative signs of an upswing in apartment prices and continued declines in inner city market vacancy rates.

Median Unit and Apartment Prices – March Quarter 2018

	Median Price	Annual Growth	Quarter Growth
Metro Melbourne	\$607,000	8.8%	2.4%
Inner Melbourne	\$600,500	4.2%	0.3%
Middle Melbourne	\$674,000	8.6%	1.6%
Outer Melbourne	\$518,500	13.4%	2.3%

Source: Real Estate Institute of Victoria (REIV).



APARTMENT AND TOWNHOUSES (cont.)

SUBURB
SPOTLIGHTWEST MELBOURNE
/ NORTH MELBOURNE

Active Projects

North Melbourne

31

West Melbourne

21



Source: BCI, Oliver Hume Research.

Median Size Comparison

West Melbourne



One Bedroom Two Bedroom Three Bedroom Combined

North Melbourne



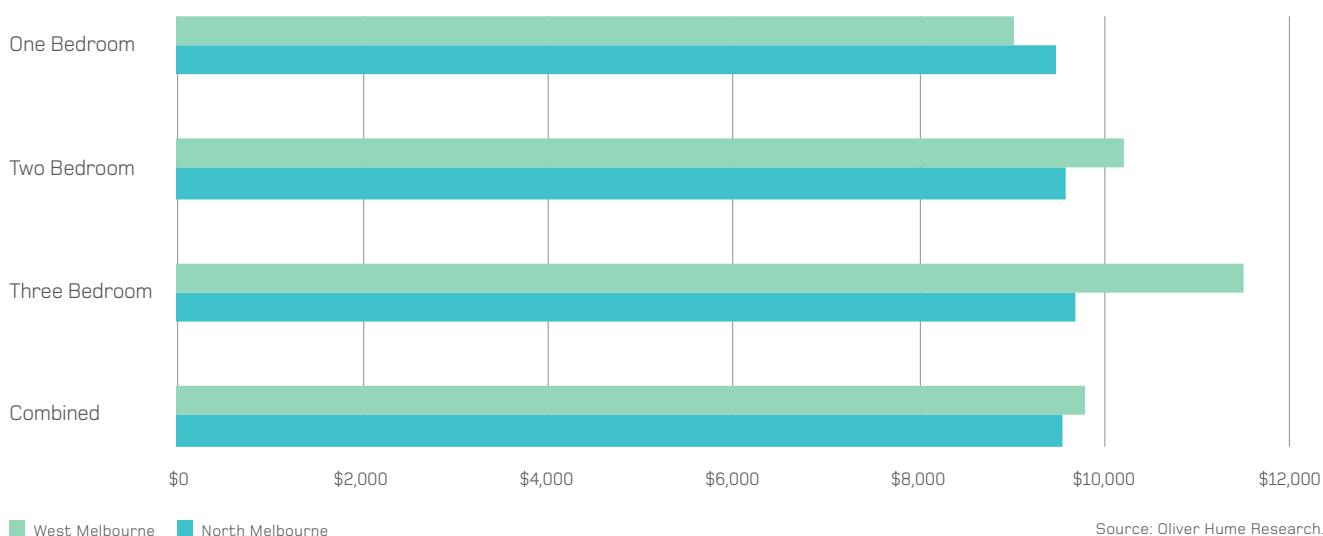
Source: Oliver Hume Research.

West and North Melbourne Livability

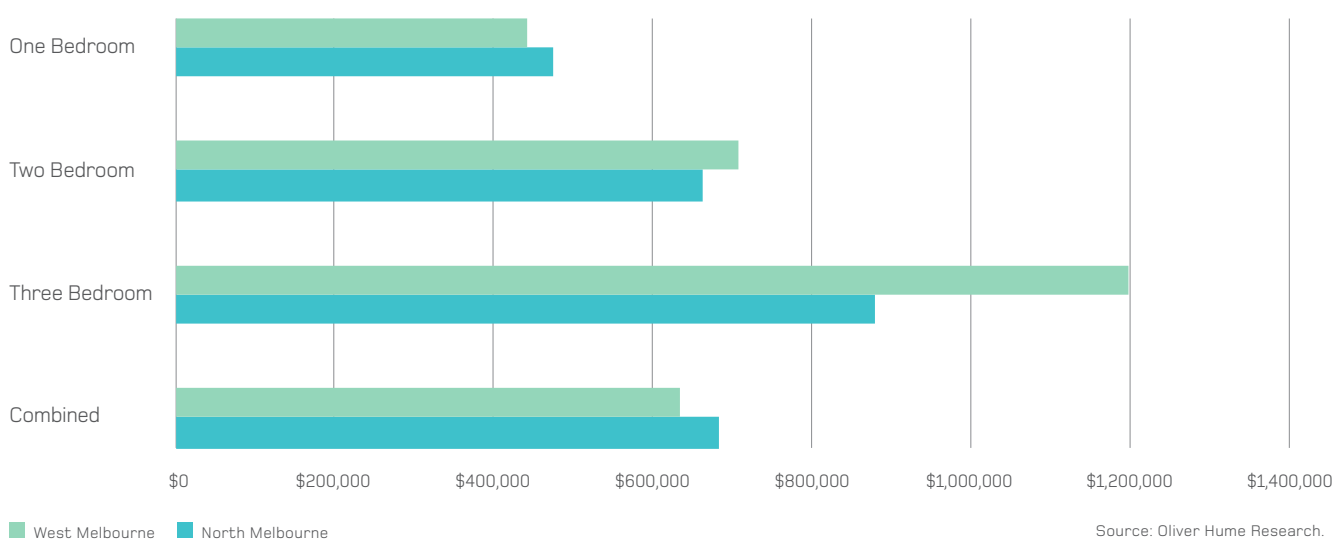
West and North Melbourne are increasingly important markets continuing to see both medium and high density development. Demand drivers include prime location with proximity to the CBD, access to

employment, excellent transport and infrastructure, local retail and entertainment amenities, whilst providing a mix of lifestyle and dwelling options.

Median \$/m² Comparison



Median Price Comparison



**Peter Vassallo**

Managing Director | Development Sites
p.vassallo@oliverhume.com.au

Competition For Greenfield Sites Remains High

Apart from the general factors influencing property markets, competition for greenfield sites is also driven by conditions in the inner and middle ring medium and high-density markets both of which are substitute markets for some greenfield developers.

It is worth recalling that the Melbourne apartment market, especially in the inner city, remains weighed down by the dual challenges of retail finance availability (that is, investors are increasingly unable to obtain finance for off-the-plan purchases) and developers are unable to get the required number of sales to secure funding.

Although the Australian Prudential Regulation Authority's recent decision to remove the 10% investor loan growth benchmark may see a partial rebound in investor activity, there are few factors of sufficient weight to suggest the apartment market will return to more balanced conditions in the short or medium term.

In addition, the medium density development site market continues to undergo a resurgence, itself driven by a shift in developer attention from the inner-city apartment market and by fundamental shifts in consumer demand and demographics (for example: the retreat of investors and emergence of owner-occupiers, the move to lower maintenance dwelling options, ageing and downsizing).

However, here too competition for medium-density sites (and middle-ring apartment projects more broadly) remains intense.

This is especially the case for well-located sites with access to transport, infrastructure and amenities.

Melbourne's greenfield market remains a key focus for both domestic and overseas developers with the latter attracted to the city's continued strong economic and population growth, international status as a gateway city to the rest of Australia and, importantly, rapid growth in lot prices observed in recent years.

Overseas developers represent a large and increasing buyer segment in the greenfield market despite various challenges such as stricter capital measures from the Chinese Government.

While Melbourne remains a key focus, overseas developers are increasingly considering options outside of Melbourne and Sydney, for example in large regional cities and in Queensland, as their confidence and understanding of other markets increases.

Competition for Melbourne greenfield sites is expected to remain strong, buoyed by many of the factors that have played a significant role to date.

These factors include record population growth, the greenfield market's relative affordability, record low interest rates and a policy framework favouring first home buyers and home ownership.

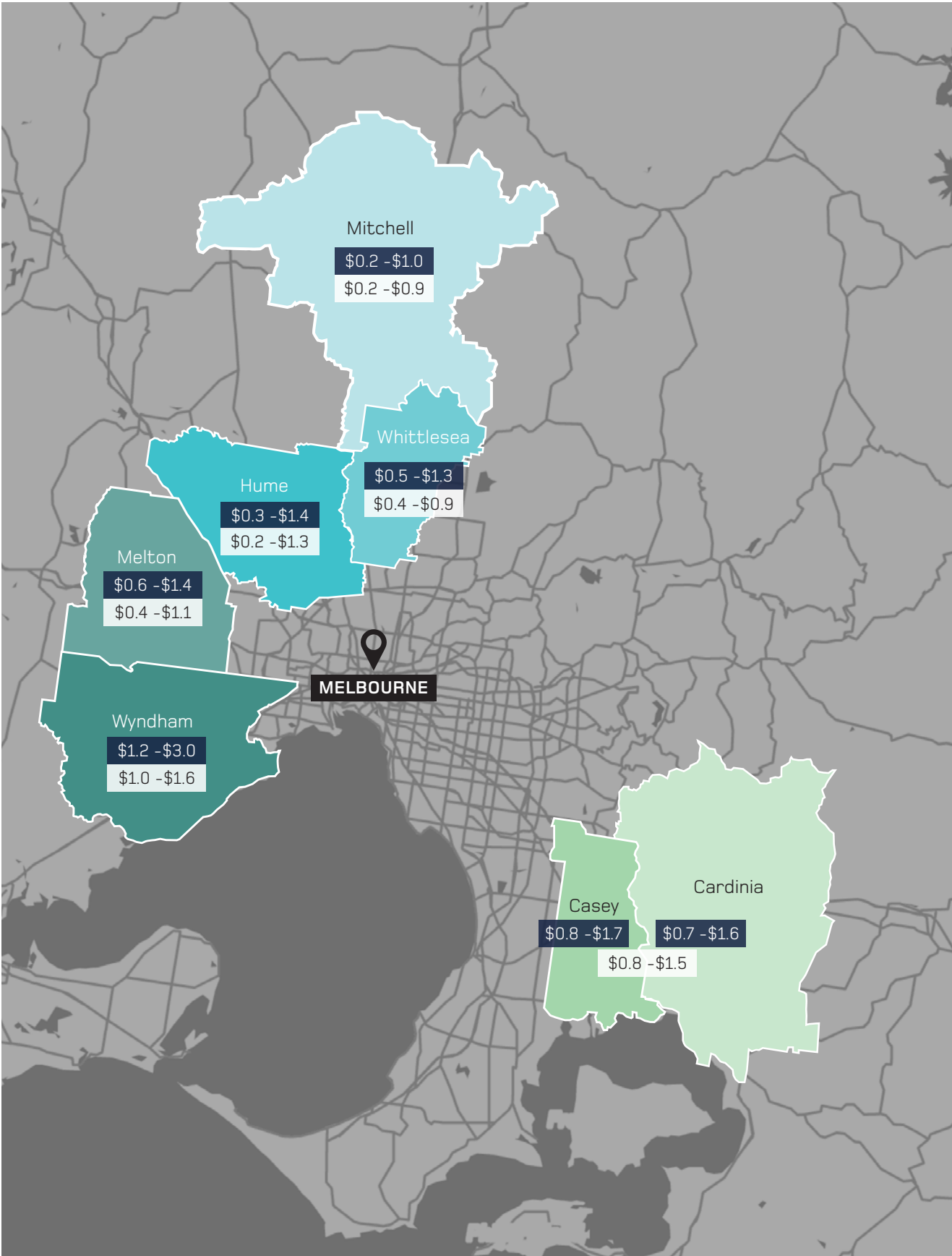
The new wave of record infrastructure investment, much of it directly or indirectly affecting Melbourne's outer suburbs and therefore the greenfield market, will also play an increasingly significant role in ensuring high levels of developer interest.

All of Melbourne's growth corridor locations are currently receiving strong interest from developers especially those where a broader product mix can be offered (for example medium-density).

Finally, the emerging realisation amongst market participants and policy makers alike that a greater number of dwellings are required throughout Melbourne and that we are 'playing catch up' in the greenfields market (despite recent record house construction) will help ensure developers maintain a positive view and interest in the market for the medium-long term.

DEVELOPMENT SITE TRANSACTIONS

Value Rate Per Hectare (Millions) – 2017 and 2018 Y.T.D.



\$/ha (NDA) \$/ha (NDA) Cash Equivalent (CE)

Source: Oliver Hume Research.





MARCH
QUARTER 2018

QUEENSLAND

**Amanda Bittenbinder**

Senior Research Analyst
a.bittenbinder@oliverhume.com.au

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*THE SOUTH EAST
QUEENSLAND
PROPERTY MARKET
HAS CONTINUED
TO STRENGTHEN.*

People and Jobs Point To Positive Future

The South-East Queensland property market has continued to strengthen as a result, primarily, of increased underlying demand from a growing population.

After many years in the shadow of its southern counterparts, Queensland's improving property fundamentals will see it continue to take more of the spotlight in 2018 and beyond.

Queensland's population grew 1.7% over the year to September 2017, with growth of over 81,000 residents bringing the number close to five million. Net interstate migration contributed over 19,300 new residents while around 31,000 new residents migrated to Queensland from overseas.

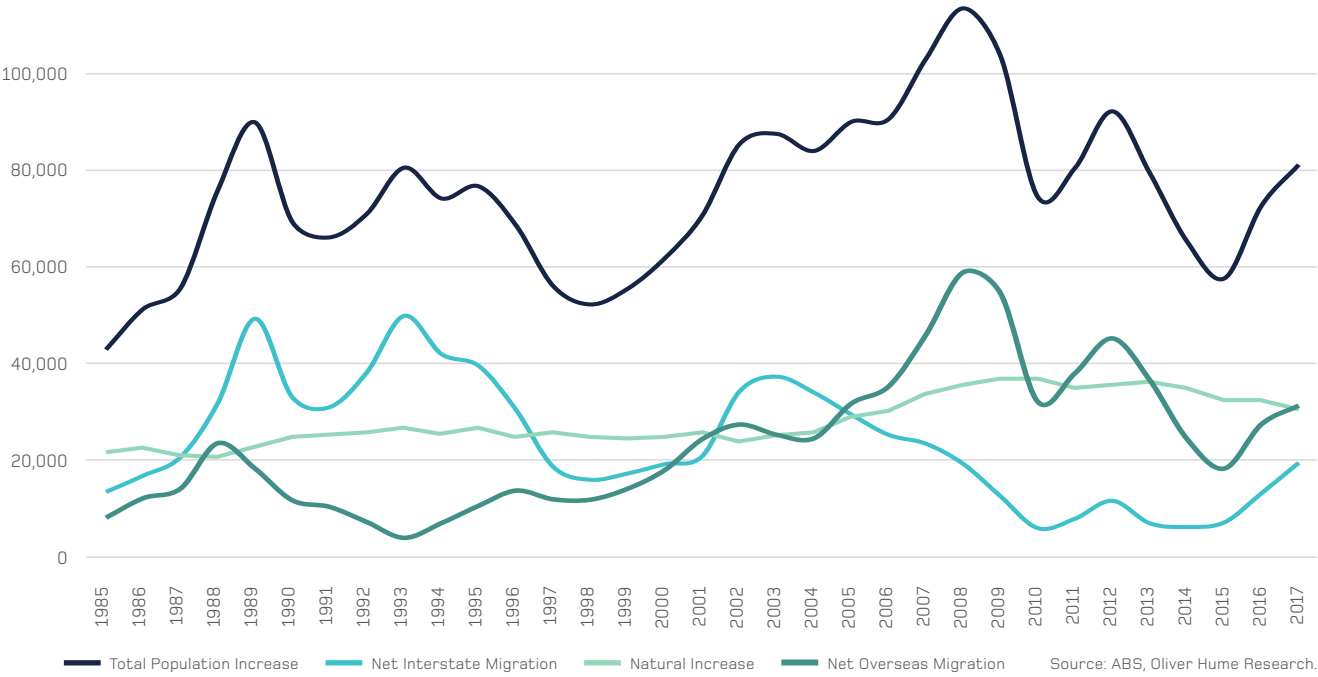
Queensland experienced the highest level of net interstate migration of any State or territory in the country.

The surge in new Queensland residents over the year to September 2017 was fuelled by the state's improving economy, with employment growth rising strongly reflecting the sharp increase in demand for labour and growth in job opportunities. Above average employment growth is expected to remain strong in the short to medium term as economic conditions improve.

A range of big budget infrastructure projects ramping up across Queensland will also ensure economic growth continues to strengthen.

Jobs and population growth are helping to underpin new separate home building approvals with the number of new separate housing approvals now outpacing attached dwelling approvals for the first time since early 2017.

Annual Population Growth – Queensland



Annual Employment Growth (Year Ending March) – Queensland





Matt Barr

Project Director- QLD
m.barr@oliverhume.com.au

PROJECT AND CORRIDOR DATA

Active Projects

The number of active projects in all South-East Queensland municipalities in the March quarter rose to 130, representing an increase of 1.6% compared with the previous quarter. Despite multiple projects selling out in the quarter, there were a number of new projects launched, bringing the overall total of active land estates up to 130.

March Quarter 2018

130

↑ **1.6%** from previous quarter

Total Sales

The March Quarter 2018 saw reduced sales across South-East Queensland, as the market comes off the back of the quietest quarters of the year (December and March quarters). Lots sales decreased by 33% within the March quarter. This may also be attributed to a reduction of saleable lot supply within the market, which is likely to ramp up as the market heads into the middle of the year.

Ipswich and Logan recorded the highest quarterly sales rate within SEQ (22% and 24% respectively), with sales in Moreton Bay slowing down as stock begins to dissipate.

March Quarter 2018

1,312

↓ **33%** from previous quarter

Total Lots Released

The number of lots released over the quarter decreased significantly compared to the previous quarter. The 39.4% drop in released stock was in part due to an active effort to absorb the stock released late in the December quarter 2017. Late stock registration also kept many developments from releasing stock over the quarter.

March Quarter 2018

1,164

↓ **39.4%** from previous quarter

Total Unsold

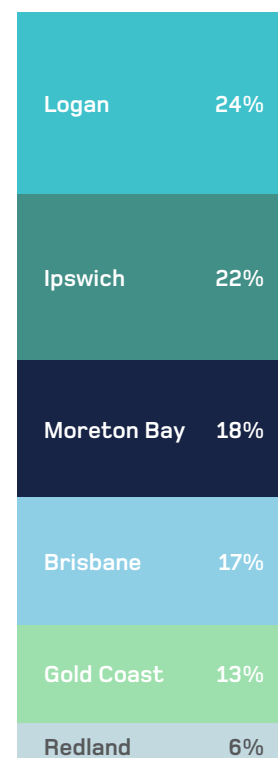
Total lots available at the end of March quarter 2018 is 3.2% less than that of the previous quarter. The reduced number of lot released over the quarter has allowed the market to correct and absorb the residual stock from some major releases late 2017.

March Quarter 2018

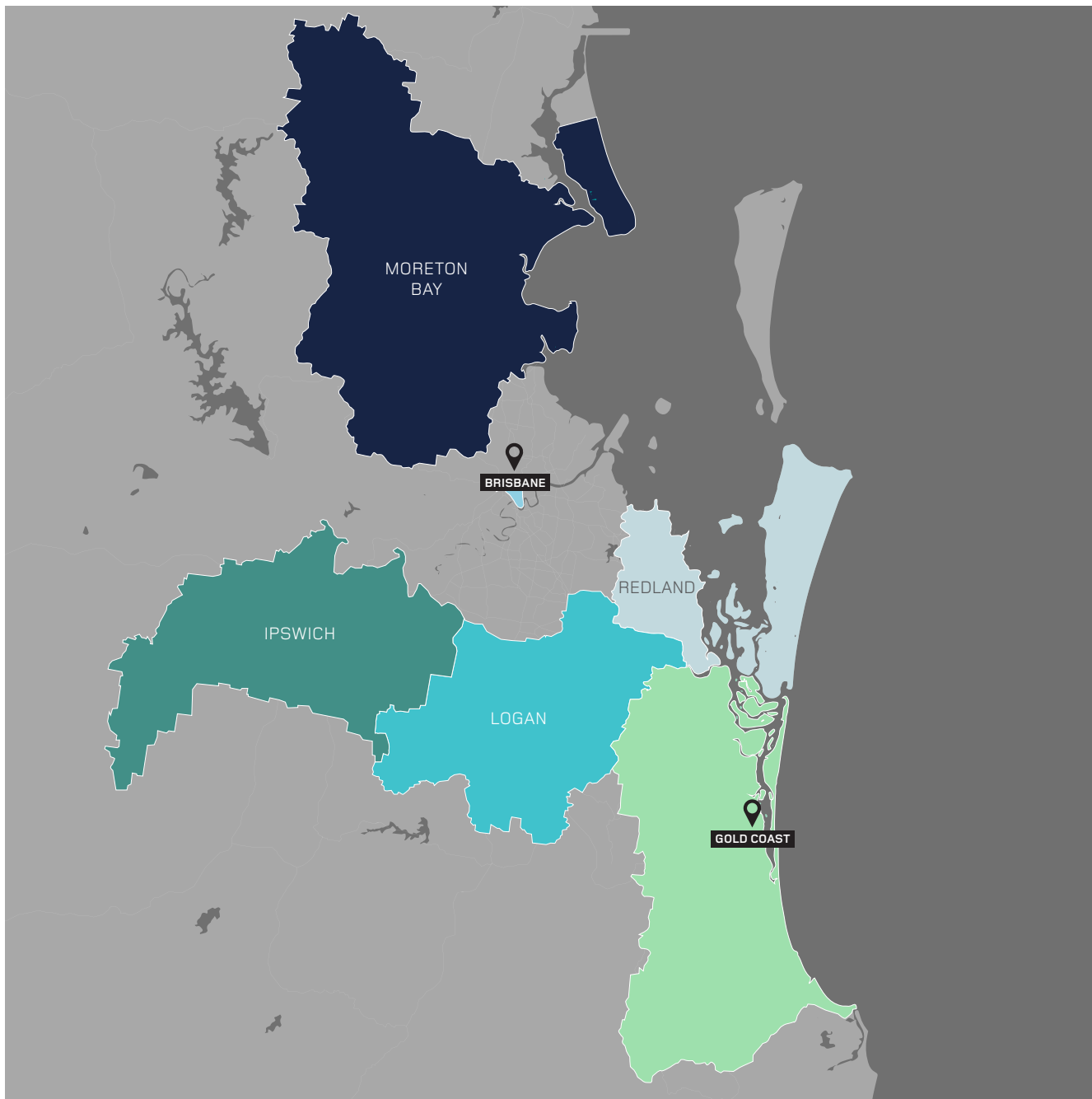
1,933

↓ **3.2%** from previous quarter

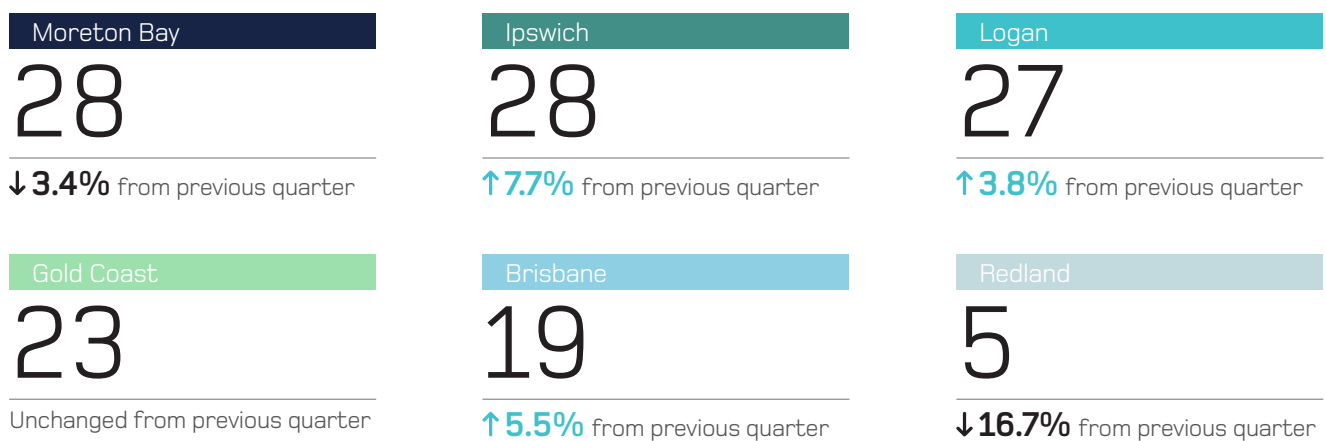
Project Land Sales



Source: Oliver Hume Research
(Land sales between 0 - 1,000 Sq.m.)



Key Corridors – Number of Active Projects



Source: Oliver Hume Research.

NEW COMMUNITIES (cont.)



THE SOUTH-EAST QUEENSLAND MARKET OFFERS A DIVERSE RANGE OF LOT SIZES SUITING A RANGE OF MARKET SEGMENTS.

Lot Sizes

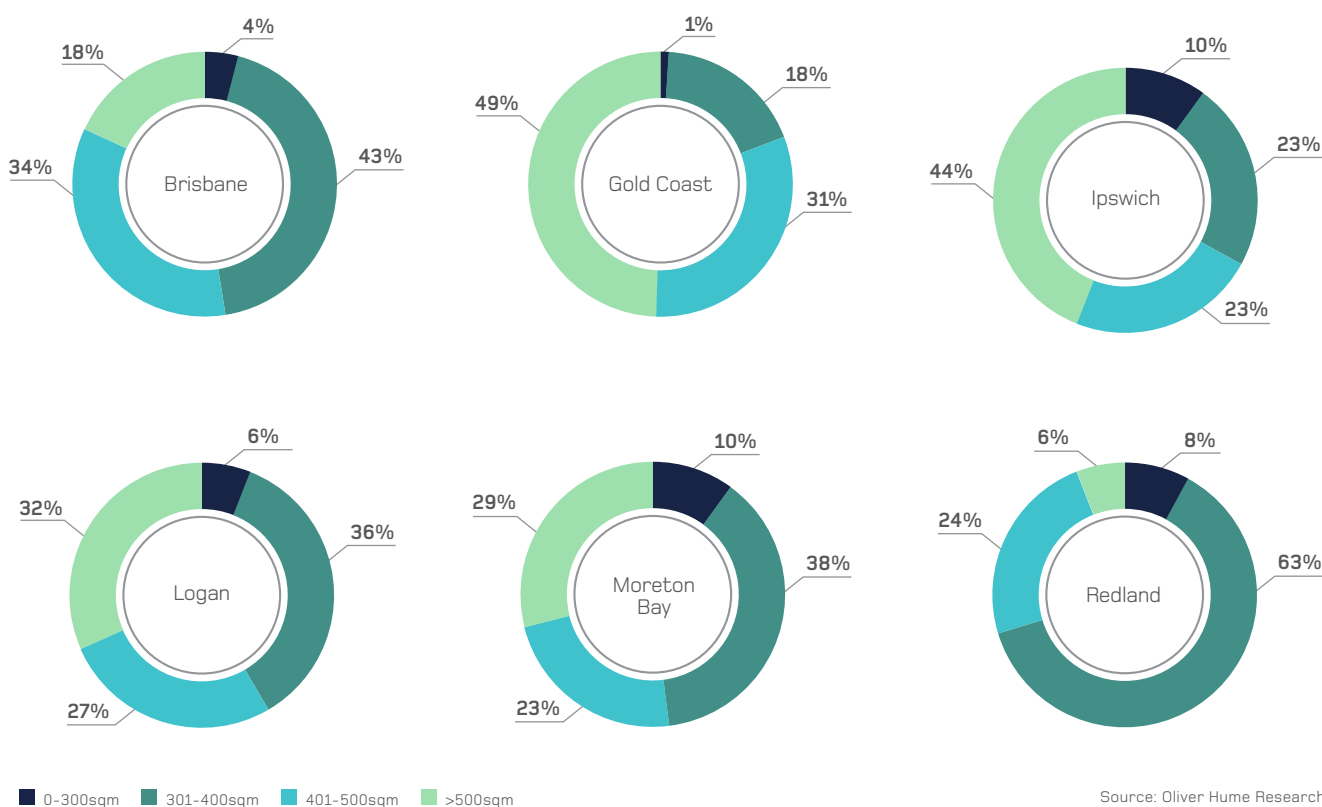
The South-East Queensland market offers a diverse range of lot sizes suiting a range of market segments.

The Brisbane and Redland markets are typically made up of small to medium sized products.

The Gold Coast market on the other hand is characterised by premium products, either being waterfront or acreage, as affordable stock supply within the region dwindles.

The Ipswich and Logan markets remains two of the most affordable regions within South-East Queensland, primarily due to the fact that all product ranges are reasonably priced to match growing demands.

Queensland Lot Sizes – Sold

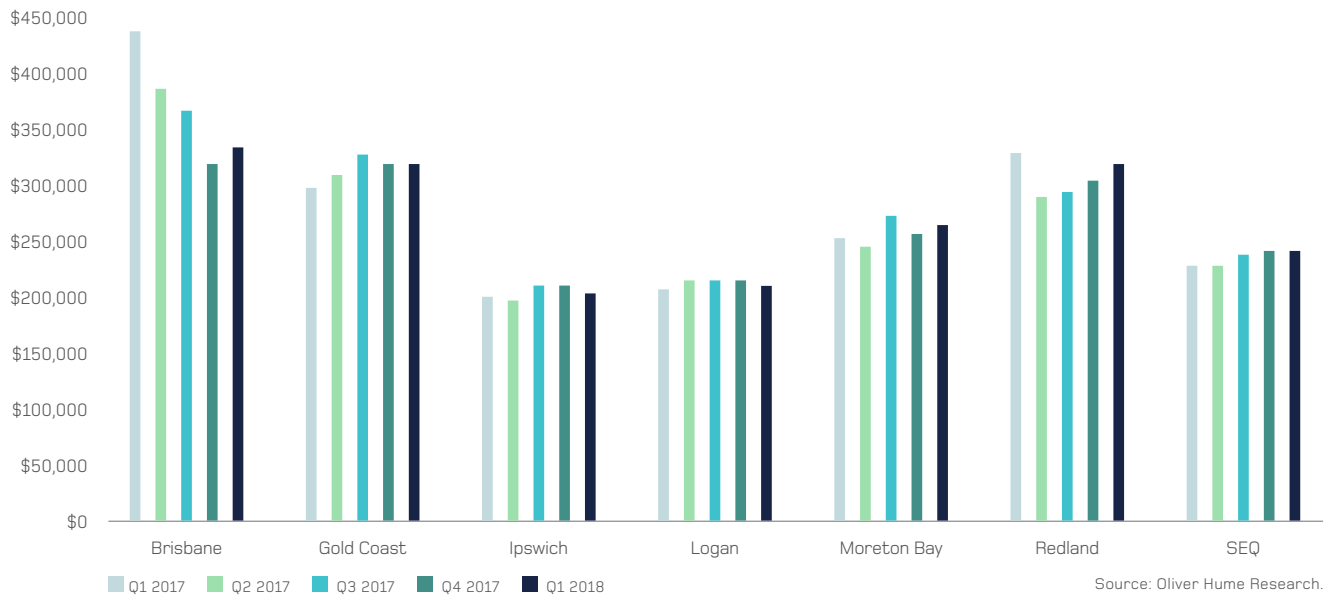


Lot Prices

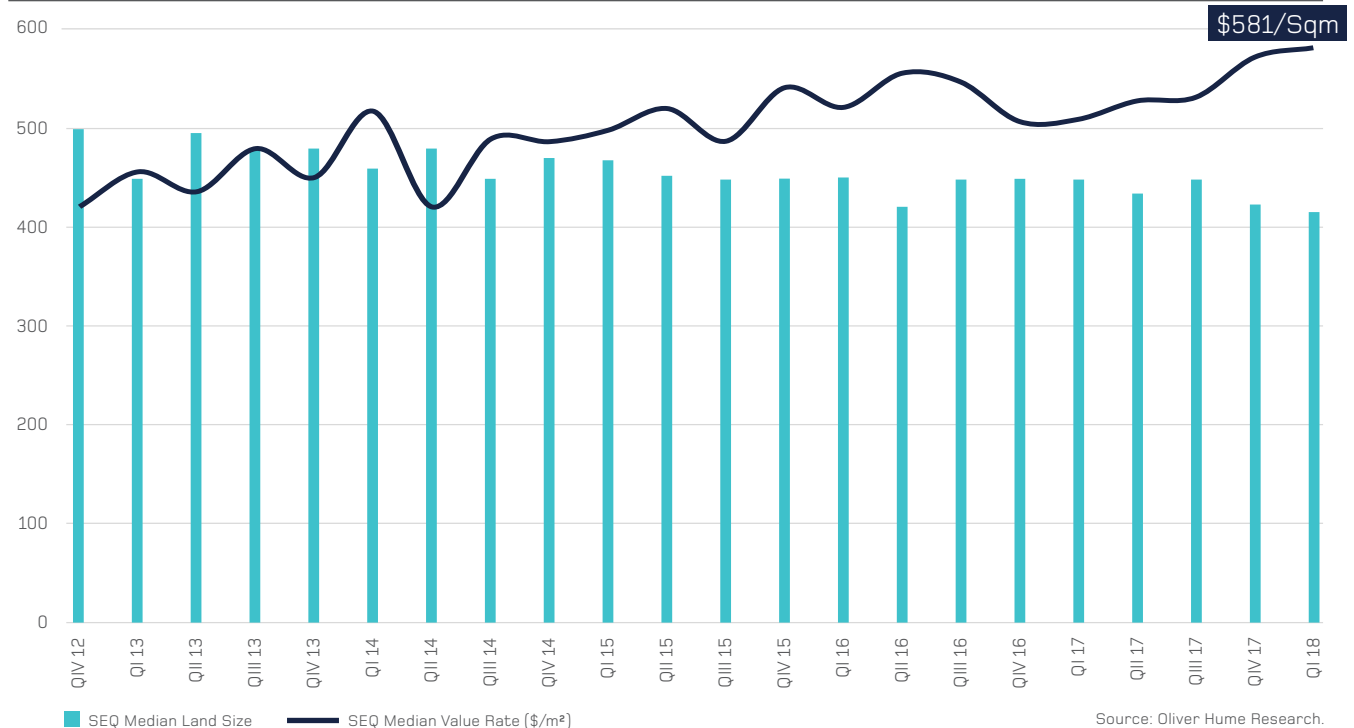
Low retail land supply coupled with strengthening demand has driven retail lot prices higher. Overall, the median retail land price currently sits at \$242,000 (annual growth +6.1%).

The growth in median price and shrinking lot size continues to characterize the South-East Queensland market, with the average value rate continually increasing. The average value rate in South-East Queensland has risen 14.3% when compared to the same period in 2017.

South East Queensland Median Land Price (Retail Lots)



South East Queensland Median Land Size and Value Rate (Retail Lots)



NEW COMMUNITIES (cont.)

PURCHASER
PROFILES

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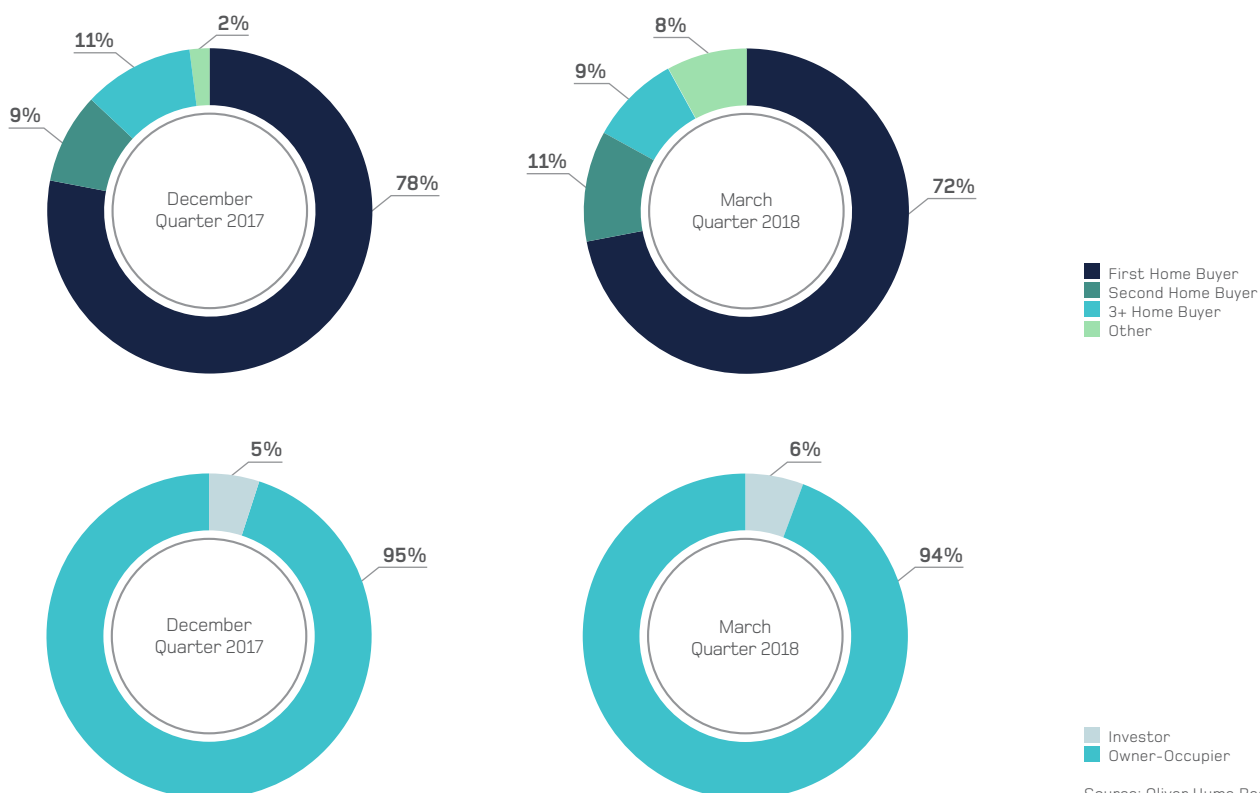
*OWNER-OCCUPIERS
REMAIN THE KEY
BUYER SEGMENT.*

Queensland
Purchaser Profiles

Owner-occupiers remain the key buyer segment in the South-East Queensland greenfield market, with only a slight decrease from 95% to 94% over December and March quarters. The proportion of

first home buyers, though accounting for the majority of the buyer pool, also decreased slightly from 78% to 72% in the December and March quarters respectively.

Current Purchaser Profiles



Source: Oliver Hume Research.

APARTMENT AND TOWNHOUSES

MARKET OVERVIEW

Queensland's apartment market has seen significant levels of new supply delivered in recent years leading to softer property market conditions - a situation which has been exacerbated by the retreat of investors and offshore buyers given changes to lending and overseas investment policy.

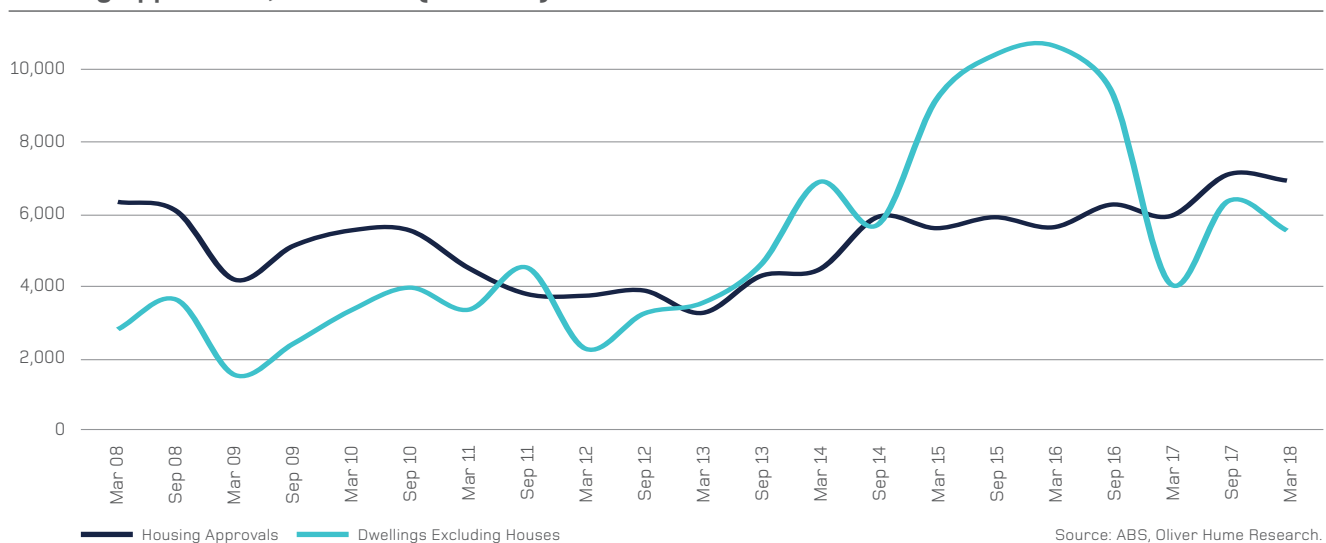
Queensland is expected to see 8,300 apartments completed over the 2017-2018 period with an additional 5,000 in the pipeline for 2019. However, concerns around supply levels and continued increases in construction costs

could see the number of apartments to be completed decline. Over 50 projects have already been recorded as being deferred or abandoned over the 2017-18 period.

High levels of new supply has been positive for FHBs with many capitalising on opportunities to enter the market at a more affordable price point and in an environment where developers are increasingly eager to move stock. Generous government incentives targeting first home buyers has also supported this buyer segment.

“
*GENEROUS
 GOVERNMENT
 INCENTIVES
 TARGETING FIRST
 HOME BUYERS HAS
 ALSO SUPPORTED
 THIS BUYER SEGMENT.*

Building Approvals Queensland (Biannual)



APARTMENT AND TOWNHOUSES (cont.)

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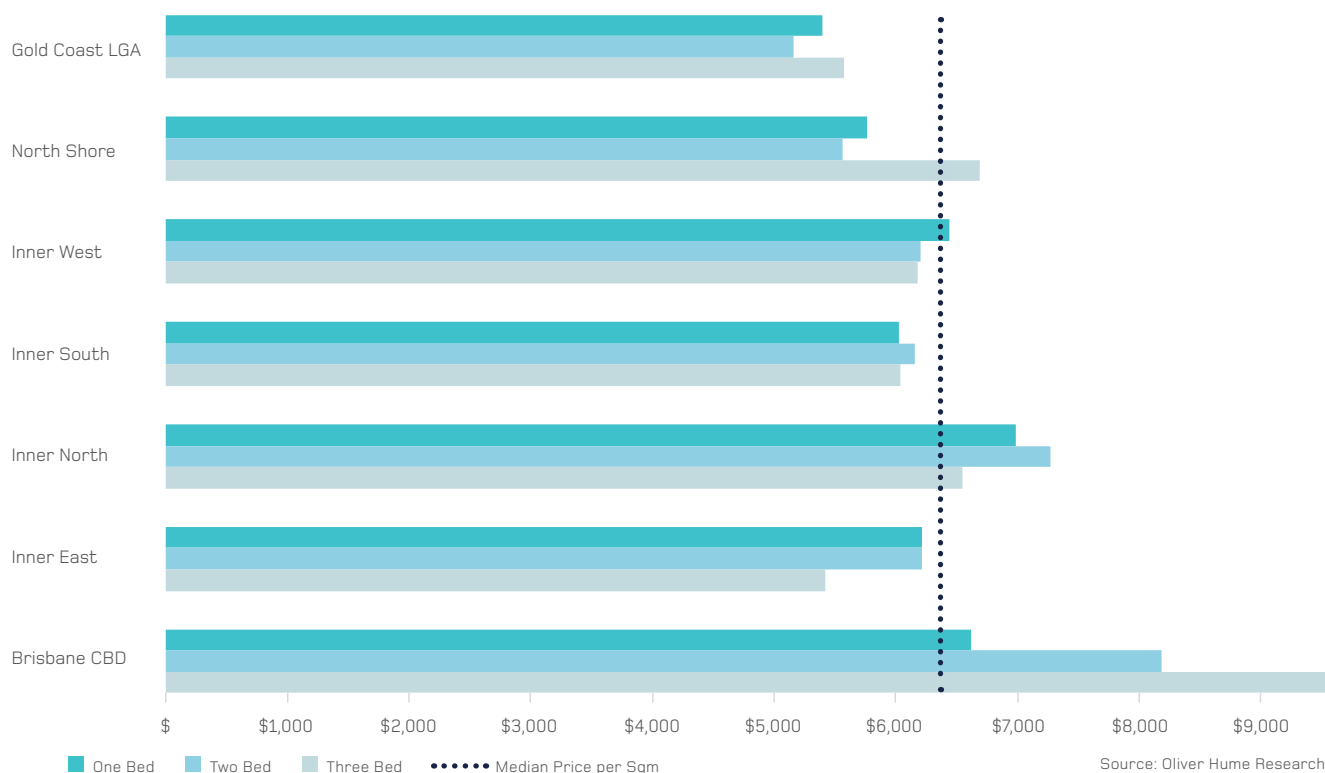
THERE IS CURRENTLY CLOSE TO 220 PROJECTS EITHER AT PRE-CONSTRUCTION, UNDER CONSTRUCTION OR COMPLETED WITH RESIDUAL PRODUCT.

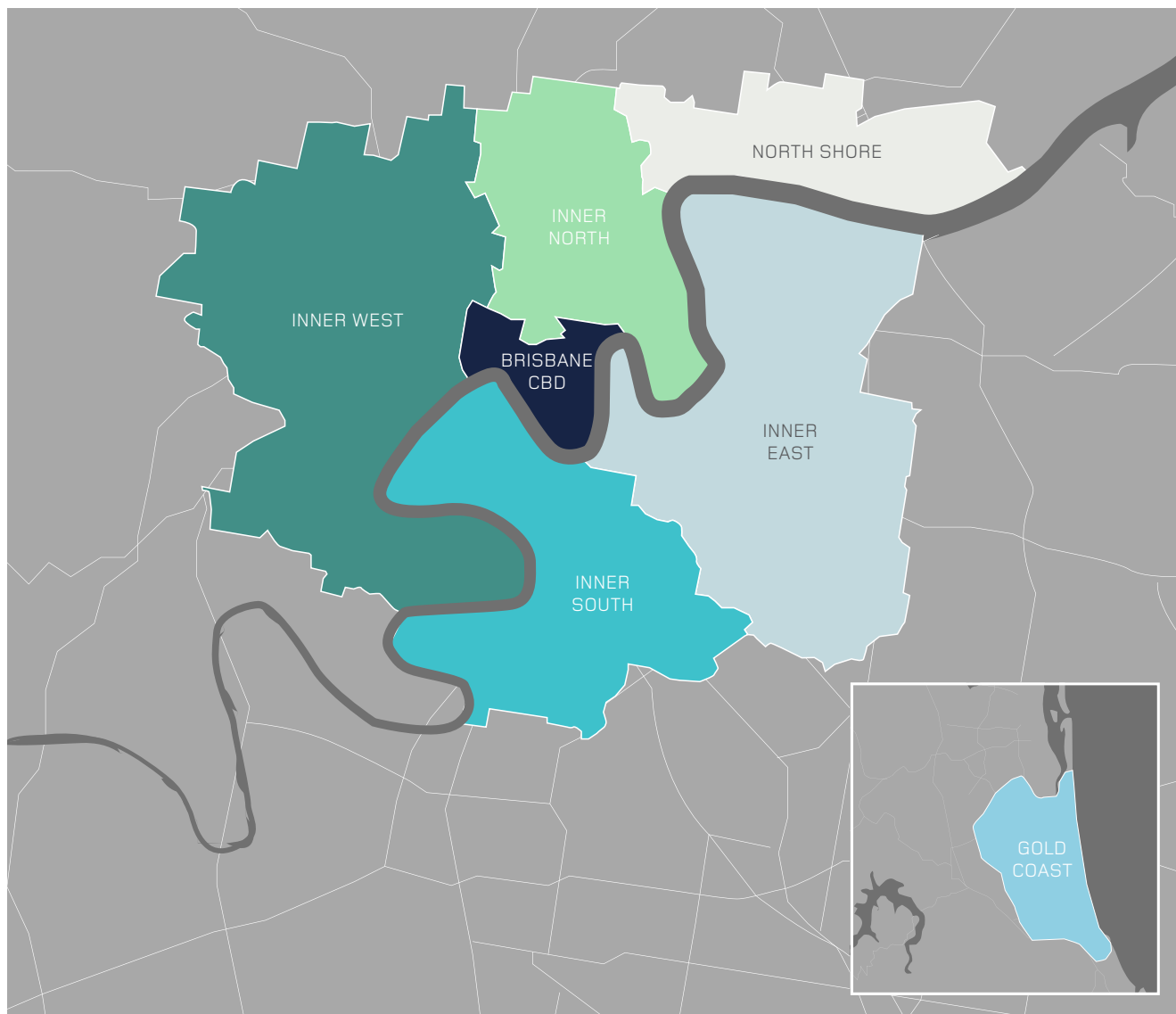
Active Projects

Moderate conditions in the off-the-plan apartment market has seen a decrease in the number of new projects released and number of projects currently active in the Brisbane and Gold Coast markets.

There is currently close to 220 projects either at pre-construction, under construction or completed with residual product. This represents a 20% decrease in the number of active projects monitored, compared to the March quarter 2016. Across all projects, there will be around 25,000 units upon completion.

OTP Bedroom Breakdown and Value Rate (Price per Sqm.)





OTP Median Price and Value Rates

Brisbane CBD		Inner East		Inner West	
Apartment Price	\$613,000	Apartment Price	\$470,000	Apartment Price	\$585,000
Price per Sqm	\$8,173	Price per Sqm	\$5,802	Price per Sqm	\$6,158
Active Projects	3	Active Projects	9	Active Projects	15
Inner South		Inner North		North Shore	
Apartment Price	\$477,000	Apartment Price	\$530,500	Apartment Price	\$464,500
Price per Sqm	\$6,403	Price per Sqm	\$6,890	Price per Sqm	\$5,401
Active Projects	33	Active Projects	19	Active Projects	12
Gold Coast					
Apartment Price	\$509,900				
Price per Sqm	\$5,203				
Active Projects	76				

Source: Oliver Hume Research.



NATIONAL HEAD OFFICE
Level 2, 4 Riverside Quay
Southbank VIC 3006

+61 3 9669 5999
oliverhume.com.au