

In this VPA Research Quarterly

The property market appears to be moderating following a period of high activity levels, however the alignment and delivery of planning activities, infrastructure co-ordination and development remains a challenge across Government and the development industry following a period of prolonged peak demand.

In this Research Quarterly we cover:

- Victorian growth and economic overview
- Construction activity
- Regional growth
- Greenfield market update

SECTION

1

Victorian Growth and Economic Overview

- The Victorian economy and particularly the property and planning sectors have remained buoyed throughout the COVID-19 period with strong levels of housing and land demand while higher density products have remained more challenged, this is despite declining population.
- Confidence in the property sector will likely subside through 2022 with activity levels moderating, continued increasing costs, supply chain challenges and interest rate rises.
- Planning can support economic growth and recovery via optimising supply levers, however demand and infrastructure challenges will continue to become more apparent in light of tighter budgetary constraints.

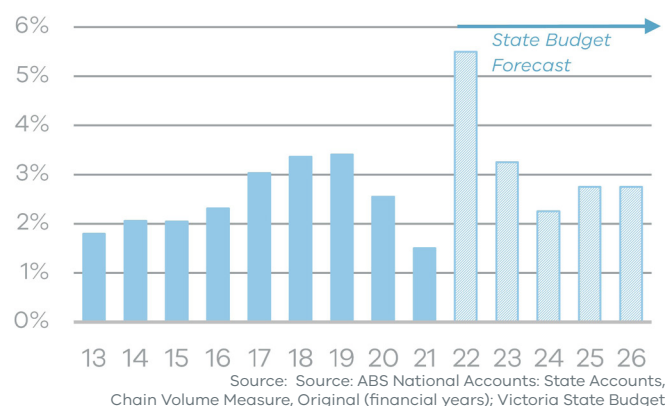
Victoria Budget 2022/23

- The VPA will receive \$6m in funding in 2022/23 to continue delivery of the Unlocking New Communities and Affordable Housing initiative –planning for more than 95,000 residential lots in Melbourne's growth corridors and almost 44,000 lots in regional cities and towns.
- Our partners will receive funding to undertake planning work in the Werribee NEIC and Fishermans Bend, activity centres, regional growth plans and transport and land-use planning in the North-West Corridor.
- The Victorian Government has made significant investment in Melbourne's growth corridors and regional cities, including 13 new schools (six in Wyndham), new hospitals in Melton and Barwon and road upgrades across the state.
- \$2.6b is invested in Commonwealth Games planning, with a focus on the Ballarat, Bendigo, Gippsland and Geelong hubs. VPA will support planning activity for Games venues and accommodation.
- No new property taxes or increases to property taxes were outlined in the budget.

Economy / Labour Force

- Economic recovery and performance in Victoria continues to gain momentum.
- Following a modest -0.4% contraction 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 (Chart 1).

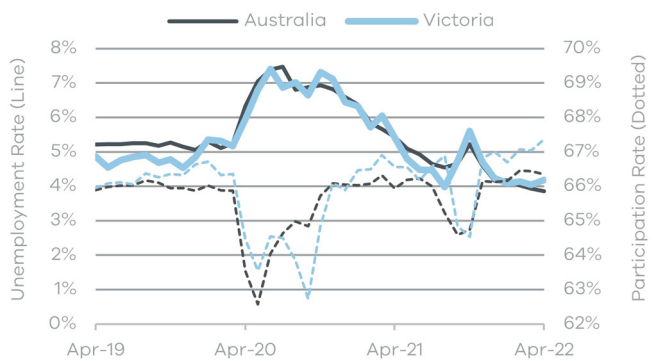
Chart 1 Victoria Gross State Product (Real)



Economy / Labour Force

- Despite the expected recovery, total debt is projected to grow from \$102b currently 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.
- Unemployment increased slightly to 4.2% in April '22, but remains significantly lower than the 5.6% recorded six months ago. The current rate is historically low and not expected to hold outside the short term.
- Labour participation has lifted and at over 67% is now exceeding the national average (Chart 2).

Chart 2 Victoria's Unemployment and Participation Rates



Housing Market

- Throughout the COVID-19 period, detached dwellings continued to perform strongly and observed activity levels above prevailing levels (Chart 4).
- While apartments and higher density product declined during the COVID-19 impact period, New Dwelling Approvals (NDAs) have started to increase in 2022.
- More than 4,300 NDAs were granted in established suburbs in February (73% total Melbourne), which was the highest monthly figure recorded since November 2017.
- The recent increase in metropolitan approvals, and particularly higher density approvals, has supported an improvement in progress towards Plan Melbourne's established and greenfields 70/30 aspiration. (Chart 5).

Population Growth

- Victoria's population continues to decline, although the rate of decline has eased slightly as net overseas migration begins to recover (Chart 3).
- Victoria lost a total of 6,000 residents for the September quarter 2021.
- Throughout 2020-21, Victoria's population losses were largely centred in Melbourne's established suburbs which decreased by -97,100 people (Table 1).
- Melbourne's greenfield growth areas increased by +36,600 and Regional Victoria increased by +15,700.
- The latest State Budget anticipates that population will stabilise in 2021-22 (+0.1%) and recover to +1.7% by 2023-24.

Chart 4 Melbourne New Dwelling Approvals (Rolling Annual, '000)

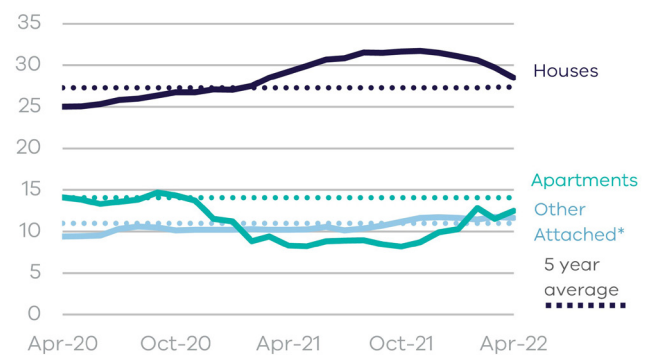


Table 1 Population Growth, Average Annual, Victoria

Regional	16-19	19-20	20-21	Change 16-19 to 20-21
Melbourne	+121.6k	+77.7k	-60.5k	-150%
- Established	+67.9k	+28.9k	-97.1k	-243%
- Greenfield	+53.7k	+48.8k	+36.6k	-32%
Regional Victoria	+19.7k	+19.3k	+15.7k	-20%
Total Victoria	+141.2k	+97.0k	+44.8k	-132%

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

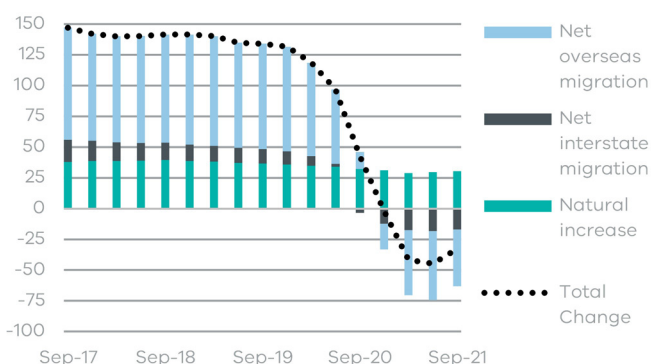
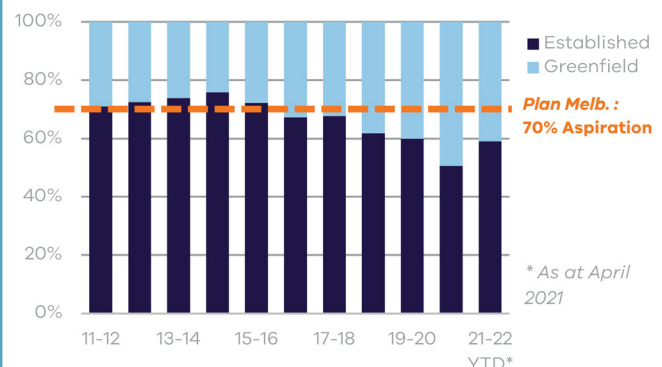


Chart 5 New Dwelling Approvals, Melbourne, Established vs. Greenfield Areas

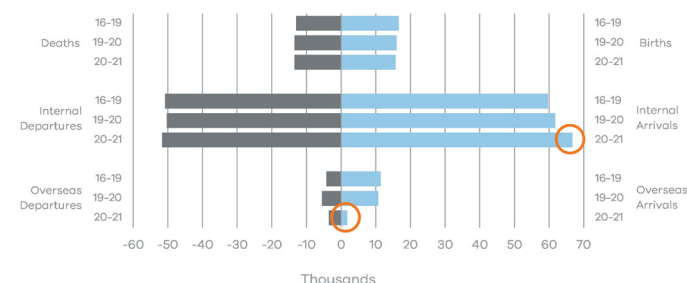


SECTION 2

Population Growth & Migration

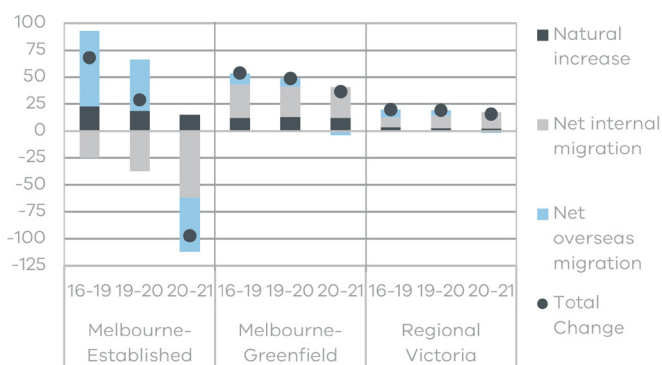
- Regional Victoria and greenfield growth areas maintained similar levels of population growth to pre-COVID-19 levels, with only minor reductions driven by Net Overseas Migration (Chart 6).
- Regional growth occurred in areas in close proximity to Melbourne (within two hours commute), growing by an average 1.8% p.a. from 2019-2021, compared with just 0.3% p.a. for the balance of the regions.
- A significant population decrease is evident in established Melbourne, most notably in LGA's of Melbourne, Monash, Brimbank and Boroondara.
- Total internal movements remained robust, with a spike in internal departures from metropolitan areas and a corresponding spike in internal arrivals to the regions (Chart 7 and Chart 8).

Chart 8 Regional Victoria, Annual Population Change by Component



Source: VPA based on ABS Regional Population

Chart 6 Annual Population Change by Region ('000)



Source: VPA based on ABS Regional Population

Table 2 Annual population growth analysis (Greenfields LGA)

Corridor	16-19	19-20	20-21
Northern	16,097	15,616	11,664
South eastern	16,964	14,206	10,238
Western	20,596	18,948	14,711
Total	53,657	48,770	36,613

Largest annual population GAINS by LGA, 2020-21 (no.)

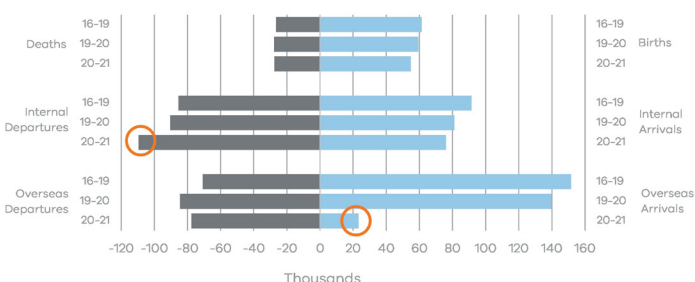
1. Melton +6,710 (+3.9%)
2. Wyndham +6,490 (+2.3%)
3. Gr. Geelong +4,725 (+1.8%)
4. Casey +4,470 (+1.2%)
5. Hume +2,700 (+1.1%)

Largest annual population LOSSES by LGA, 2020-21

1. Melbourne -13,770 (-7.5%)
2. Monash -6,870 (-3.4%)
3. Brimbank -6,470 (-3.1%)
4. Boroondara -6,340 (-3.5%)
5. Gt. Dandenong -5,000 (-3.0%)

Source: ABS Regional Population

Chart 7 Greater Melbourne, Annual Population Change by Component



Source: VPA based on ABS Regional Population

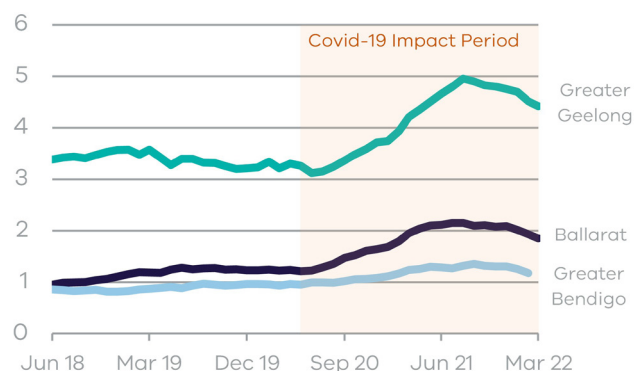
SECTION

3

Regions continue robust growth with some supply challenges emerging

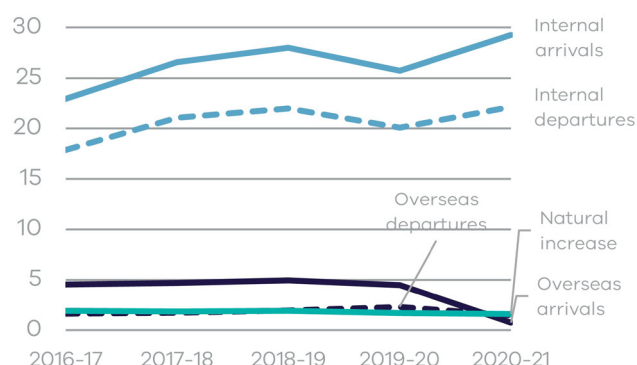
- Many property and demographic commentators suggest there is a regional renaissance or surge of population growth to the regions. Whilst regional areas have held strong throughout the COVID-19 period, the total numbers are not significant at a state level. However, areas experiencing existing housing shortages are being further challenged.
- Ballarat, Bendigo and Geelong represent the vast majority of growth in regional Victoria, accounting for 44% of total approvals on an annual basis, or around 7,400 approvals (Chart 9).
- Whilst the increase in activity within Ballarat, Bendigo and Geelong represents a 27% increase, this represents a relatively small increase of 2,000 dwellings for the years across the three cities, relative to the state that records 69,000 NDAs per annum. However, where zoned land supply is limited, particularly in Ballarat and Geelong, this presents a more pressing challenge.
- In the January 2022 Research Quarterly we outlined the Urban Development Program status of key regional cities prepared by the Department of Environment, Land, Water and Planning (DELWP), with Ballarat and Geelong both having around 7-9 years land supply available or less given recent demand increases.
- The source of total population movements including natural increase, Net Internal Migration (NIM) and Net Overseas Migration (NOM) (Chart 10) highlight NIM to Ballarat, Bendigo and Geelong has increased in the COVID-19 impact period, with internal arrivals increasing at a faster pace than departures.

Chart 9 New Dwelling Approvals, Rolling Annual ('000)



Source: ABS Building Approvals, LGA

Chart 10 Ballarat, Bendigo and Geelong total population change by component ('000)



Source: ABS Regional Population

Race to the regions a social phenomena

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The big shift into the regions is indisputably on, with regional Australia growing by 76,000 people in the year to 2021 while the capital cities overall population fell by 26,000.

Melbourne suffered the biggest population decline. Australian Bureau of Statistics figures show down 60,500 across the year.

Sydney had a small loss of 5,200 while Brisbane (11,900) and Perth (16,200) recorded population increases.

It marked the first time in more than 40 years that population growth to the regions outstripped that of the capital cities.

ESCAPE TO THE COUNTRY

Capital city	Change 2020-21	Population 30 June 2021	Metropolitan	Change 2020-21	Population 30 June 2021
Sydney	-5,200	5,081,500	NSW	25,000	7,600,000
Melbourne	-60,500	5,000,000	Vic	12,700	1,726,000
Brisbane	11,900	2,501,000	Que	31,100	2,639,200
Adelaide	1,500	1,379,400	SA	1,800	391,500
Perth	16,200	2,141,000	WA	1,900	540,400
Hobart	-300	231,400	Tas	1,100	302,500
Darwin	-300	147,000	NT	0	141,500
Cairns	400	111,000			
All capitals	-36,000	13,770,000	Regional Australia	20,000	8,342,000

Source: Australian Bureau of Statistics

and a gradual shift among urban populations that they can live and work in cheaper regional areas.

This is the first time since 1981 that Australia's regional population grew more than the capital cities.

area migration, along with 49,200 from people migrating from the regions to the cities. This was offset by a natural increase of 197,500 babies born in the year.

The outer suburbs of Sydney and Melbourne recorded the largest growth, while inner city areas had big falls. In Sydney, Maroubra Park in the outer northwest grew by 7,400 people and Cranbourne East in Melbourne had a population increase of 4,000.

The largest declining area was inner Melbourne, with a population fall of 9,900 or 11 per cent of the total, while Sydney Haymarket lost 1,700.

Carlton in inner city Melbourne had a 10 per cent population decline, losing 26,000 people. One reason for the flight to the regions is a shortage of housing in the cities.

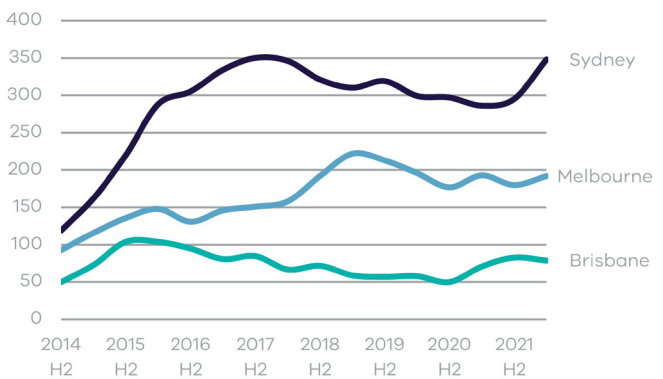
SECTION 4

Construction Activity

Crane activity

- Crane activity across Melbourne has remained relatively steady with a total of 192 cranes currently active.
- The majority of cranes (some 47%) are located in inner city areas, noting that historically inner areas have accounted for 60%+ of crane activity (Chart 11).
- This highlights the continued emergence of larger scale and higher density construction projects in middle and outer suburbs, in addition to supporting major civic works.

Chart 11 Crane Counts, Major Capital Cities



Source: Rider Levett Bucknell Crane Index

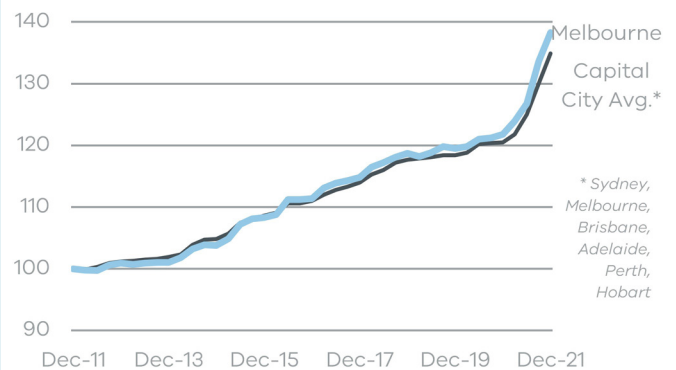
Rising construction costs continue to plague the housing industry. The ABS recently reported growth of more than 15% in construction costs in the past year (Chart 12), on the back of:

- higher material costs, including timber, board and joinery (+21%) and 'other metal' products (+16%)
- labour shortages
- supply chain constraints.

In Melbourne, cost growth has slightly exceeded the capital city average. Cost is expected to remain a key issue for the property sector this year in line with current uncertainty around global disruptions.

In addition to cost increases, supply chain impacts are also delaying development timeframes, further placing development cost pressures.

Chart 12 Construction, Producer Price Index



Source: ABS Producer Prices Index, Input to the house construction industry

