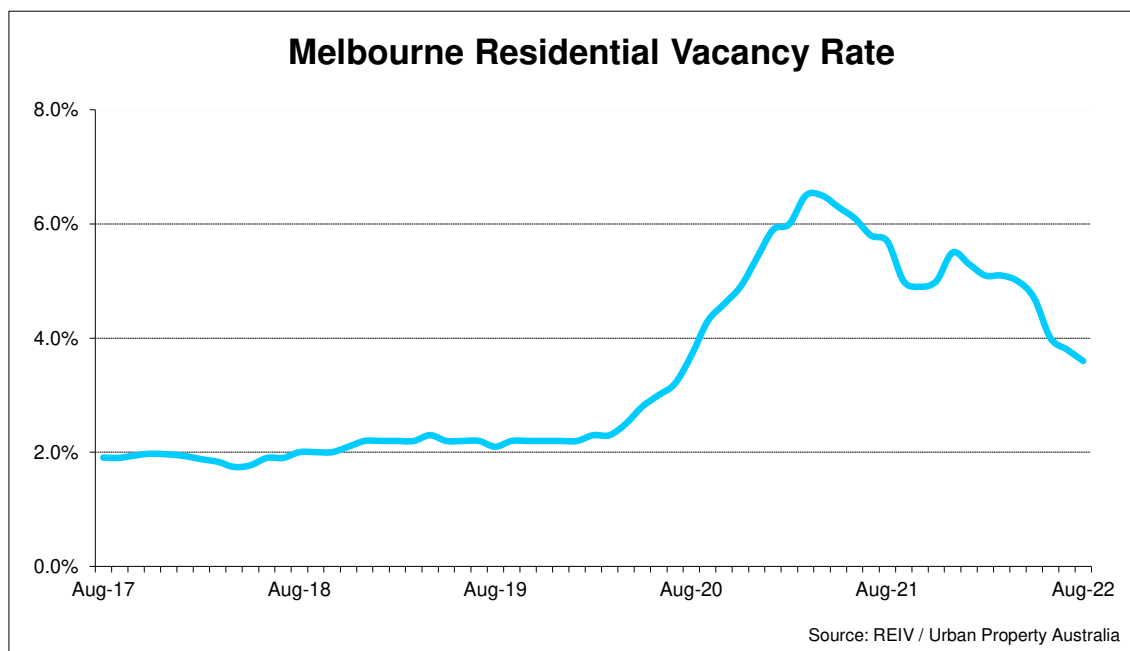


Melbourne Residential Development Site Market Update

According to the REIV, as at August 2022, the vacancy rate for Melbourne residential property fell to 3.6%, down from its peak of 6.5% of March 2021, however remains above its 10-year average of 3.0%. While vacancy rates have trended down since peaking in mid-2021, only the Outer Melbourne region records vacancy below average.

Over the year to August 2022, the residential vacancy rate declined to 4.1% in the Inner (0-4km) precinct, down from 8.0%. The vacancy rate of the Outer precinct has now fallen to 1.6%, with all regions recording declines in vacancy over the year.

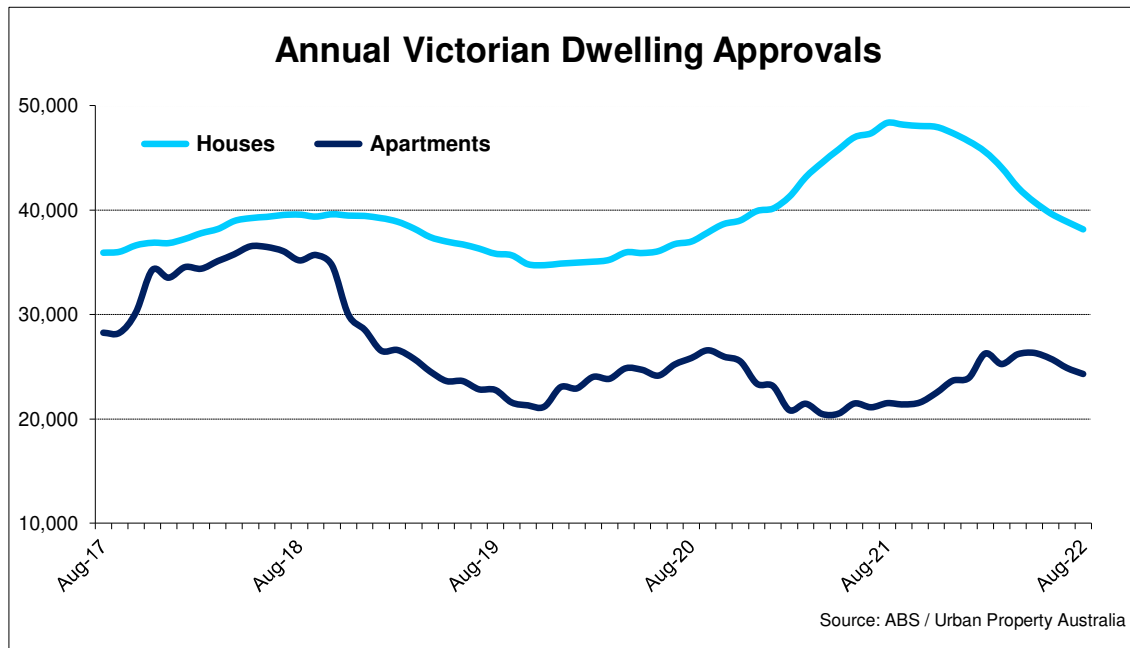
Looking ahead, the vacancy rate for the metropolitan Melbourne area will remain above the long-term average for the remainder of 2022, however the declining pipeline has aided the fall of vacancy as the population of Melbourne continues to recover.



Mirroring the improving vacancy trends, according to the REIV, metropolitan residential rents across the precincts increased over the past year.

According to the Australian Bureau of Statistics, there are currently 73,000 dwellings under construction across Victoria, its highest level on record. The number of dwellings currently under construction is 21% above the 10-year average having increased by 14% over the year. While the number of houses under construction across Victoria is above the 10-year average, the number of apartments under development remains below the 10-year average, having been adversely impacted by the closure of Australia's international borders and declining population growth.

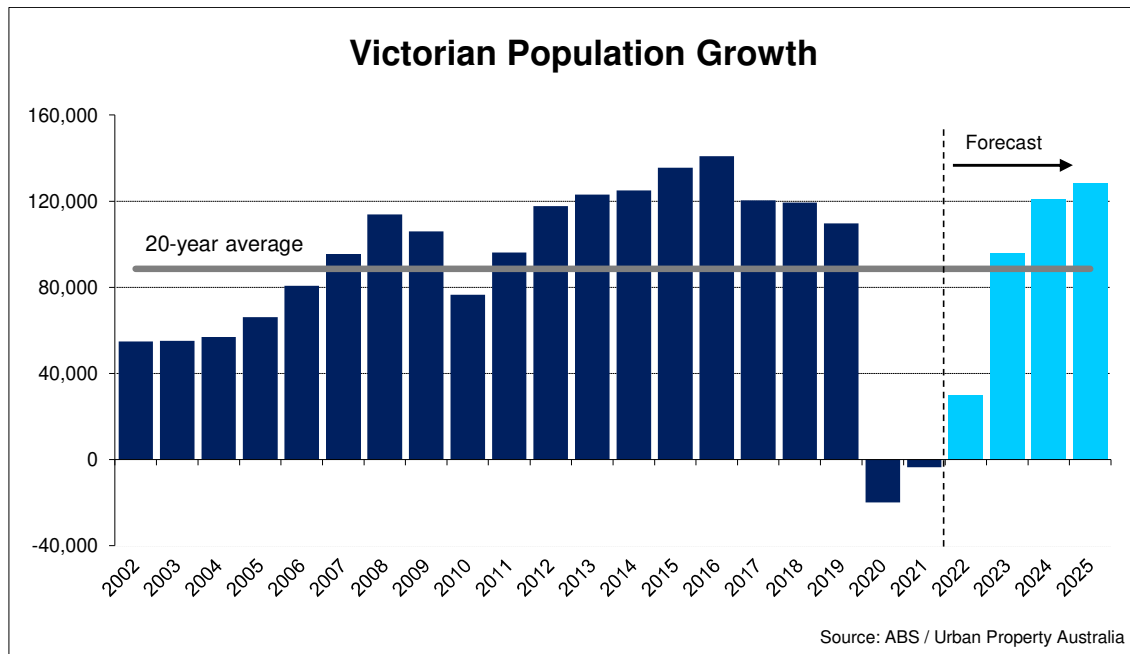
Looking further ahead, in the 12 months to August 2022, a total of 62,400 dwellings were approved in Victoria, down by 11% over the year. There has been a slowdown of apartment approvals with houses now accounting for 61% of all new dwellings approved, compared to 52% as at June 2016.



First home buyers remain active in the market, however demand over the last 6 months has decreased dramatically as a result of tighter lending conditions and escalating interest rates.

In contrast, investor finance continues to strengthen investors now account for 31% of total housing finance commitments in Victoria, compared to their share of 23% two years ago.

Despite Victoria's population declining by more than 3,500 in 2021, with the Metropolitan Melbourne residential vacancy rate and the pipeline of new stock both falling over the last two years, the outlook for further population growth will lead to further pressure on rents and further vacancy declines.



Looking ahead, the increasing costs of labour and materials will be a key driver for development site land values. With the shortage of labour and rising interest rates, developers will become more cautious, deterring many from

commencing construction on new projects. With fewer dwellings to be built in the short-to-medium term coupled with migration increasing again, when projects do commence construction, the homes will come at a premium. Given the ongoing supply chain shortages, many upgrading buyers may also shelve plans to build or renovate and instead purchase an existing “turn-key” property.

Those developers who purchased land through 2020 and into early 2021, may have some buffer against rising construction costs and supply chain issues, given the growth of values through this period. However, where the land was purchased through the peak of the market from mid-2021, the increased construction costs (which has increased by 16.8% in Melbourne over the year) and material delays, may not be offset by a corresponding increase in the end dwelling value which is likely to result in higher equity requirements for developers from financiers. This may lead to downward pressure on underlying land values.

Research by Urban Property Australia

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