Residential Development Review

A monitor of housing development, land supply and transport infrastructure

Melbourne Edition

March 2019

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Urban Land Institute Australia

Directors' Highlight

 

This Residential Development Review aims to provide key statics and growth trends in Victoria over the past five years, and compares these to recent dwelling approval data, future population growth, land supply and infrastructure delivery across Greater Melbourne's central, middle and greenfield growth areas.

Melbourne is currently the fastest growing city in Australia, adding approximately 100,000 people per annum on average, with the majority of that growth coming from overseas migration. Over the past five years, the majority of detached dwelling approvals and growth has been in the greenfield growth areas in the southeastern, northern and western regions. Growth areas in these regions in the second half of 2018 were above the five-year average. There has otherwise been a gradual decline in overall dwelling approvals for Greater Melbourne, led by a decline in apartment approvals and flattening of detached dwelling and townhouse approvals since the end of 2017, and a sharp decline in apartment approvals in the Central Region in the second half of 2018.

After many years of limited investment, Melbourne is experiencing its highest volume of major infrastructure projects under construction. Major projects including Melbourne Metro and Level Crossing Removal, West Gate Tunnel and CityLink Tulla Widening are all under construction and expected to be delivered by 2025, delivering much needed infrastructure improvements across Greater Melbourne. Future projects in planning, such as the Airport Rail Link and Suburban Rail Link are city shaping projects that will have a substantial impact on the efficiency of the city.

We trust that this publication is of interest and provides insight into the growth trends across Melbourne and is helpful when considering future development in Victoria. Should further detail be sought, please contact our office and we would be happy to discuss.

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Growth Outlook

Melbourne to 2031

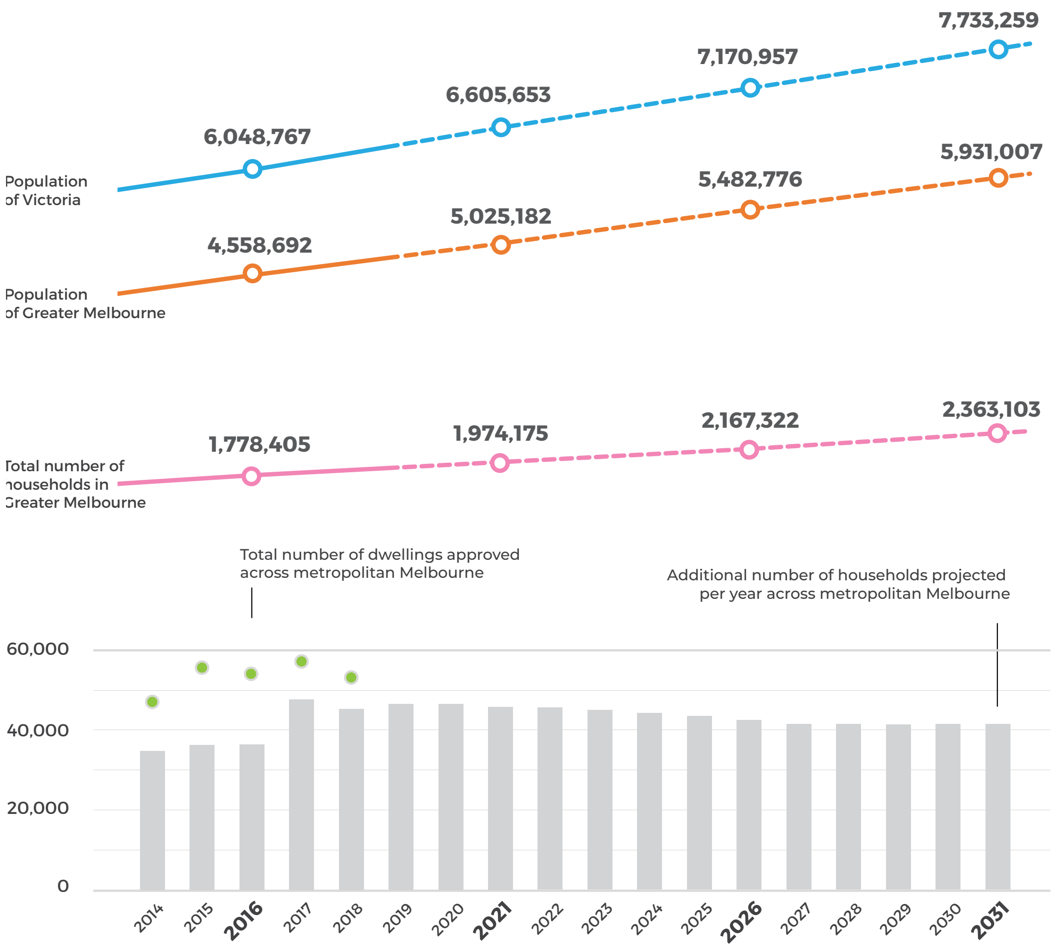
From 2015 to 2031, the population of Victoria is projected to grow by 1.8 million, from 5.9 million to 7.7 million, at a rate of 1.7% per annum. Most of this growth is to occur within the Greater Melbourne Capital City Area, which is projected to reach a population of 5.1 million by 2021, growing to 6 million by 2031.

The key drivers of this population growth are primarily from net migration and natural increase. Net overseas migration accounts for between 52% and 60% of annual population growth over the projection period. Net interstate migration makes a relatively small contribution to Victoria's population change but has added as much as 13,000 to Victoria's growth in recent years. The second highest driver of population change is fertility rates over the period, accounting for approximately 32% and 40% of annual population growth.

Household formation is related to the age structure of the population, partnering trends, the age at which children leave home and a range of other factors. The older age structure projected for the future contributes to an increased proportion of one and two person households in Victoria. Changes to household formation and aging of the population will create demand for a wider variety of housing types and additional housing to cater for the increasing population together with increasing need for one and two person housing types, retirement living and aged accommodation.

Victoria is expected to add approximately 850,000 additional dwellings to Greater Melbourne and approximately 210,000 additional dwellings to regional Victoria to 2031 to accommodate an additional 1.8 million people. The rate of growth is approximately 100,000 people per annum on average. This makes Melbourne the fastest growing cities in Australia.

Past and projected dwelling approvals data confirms that dwelling approvals in Greater Melbourne have kept up with household formation in recent years, with more approvals generated than households formed, with projections for this trend to continue. While dwelling approvals are higher than household formation each year, these do not all translate to construction commencements and there can also be a lag of up to two years between approval and completion of development.

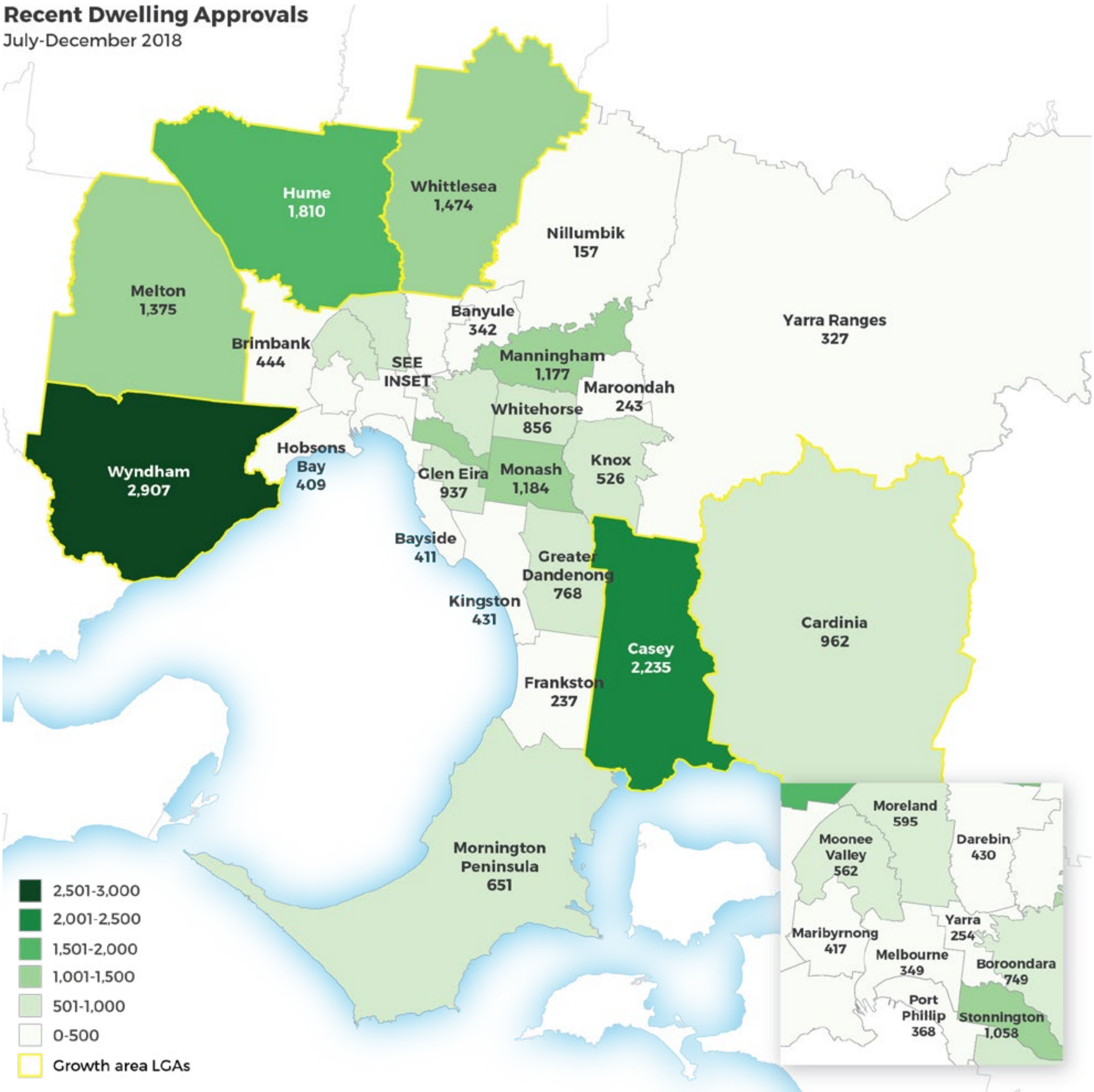


Source: ABS Household and Family Projections (3236.0), 2011 to 2036 and 2016 to 2041. State Government of Victoria, Victoria in Future 2016

Recent Dwelling Approvals

Planning approvals of dwellings per local government area across metropolitan Melbourne over the second half year of 2018

Source: ABS Building Approvals (8731.0), Dec 2018



Dwelling approvals for the second half of 2018 were highest in Melbourne's growth areas, with the three highest dwelling approvals in Wyndham in the south-west, followed by Casey in the south-east and Hume in the north. These coincide with the coordinated release of land for affordable housing in these locations. These regions account for the largest proportion of detached housing across metropolitan Melbourne followed closely by growth area municipalities in Whittlesea and Melton.

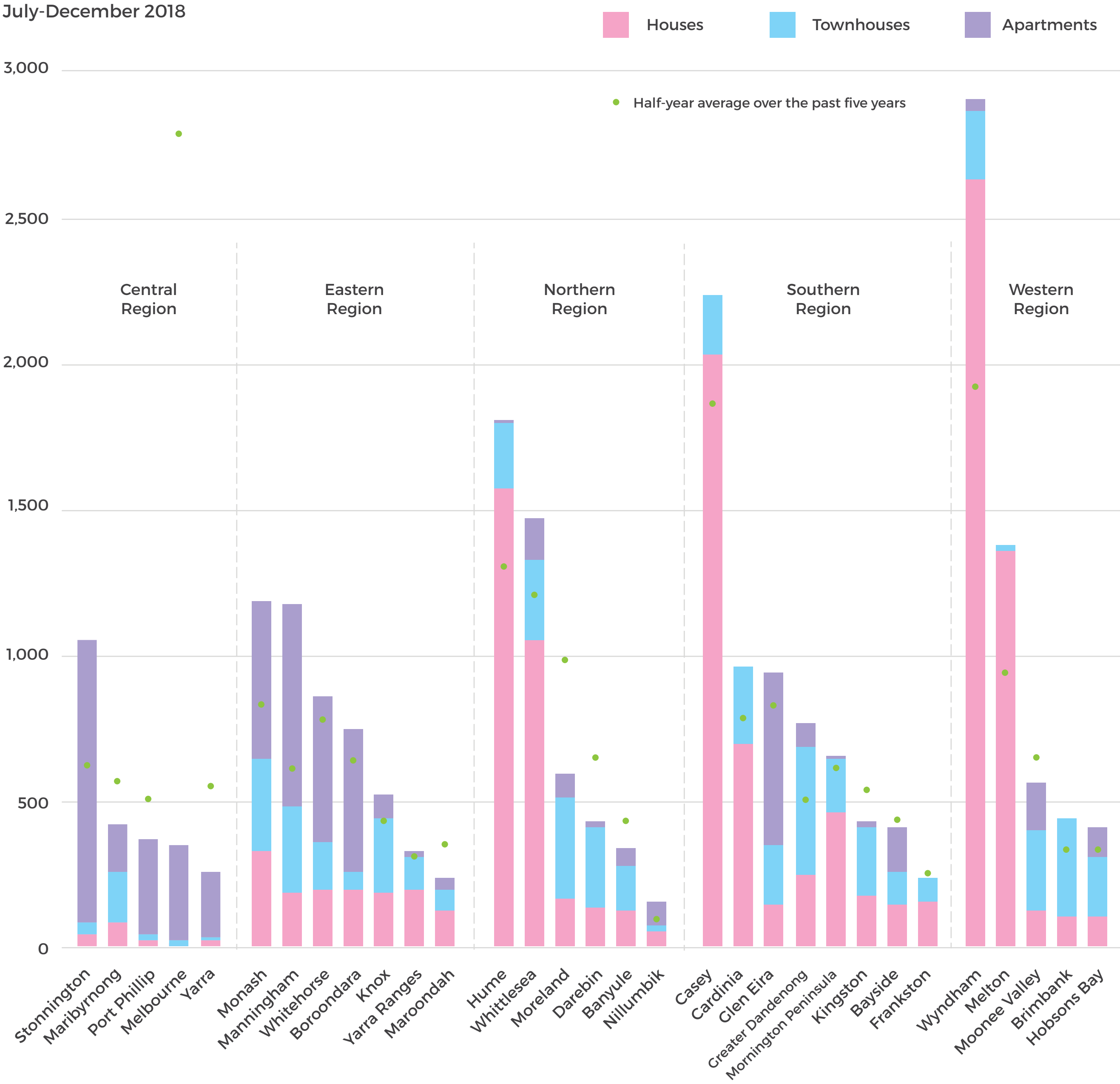
The remaining municipalities with a relatively high proportion of dwelling approvals are found in the south-east and north-east in Stonnington, Monash and Manningham.

Councils with the highest recent dwelling approvals also exceeded their five year average over the past six months.

Stonnington has recently approved the most apartments, being the only local government area in the Central Region with a

Recent Dwelling Approvals

July-December 2018



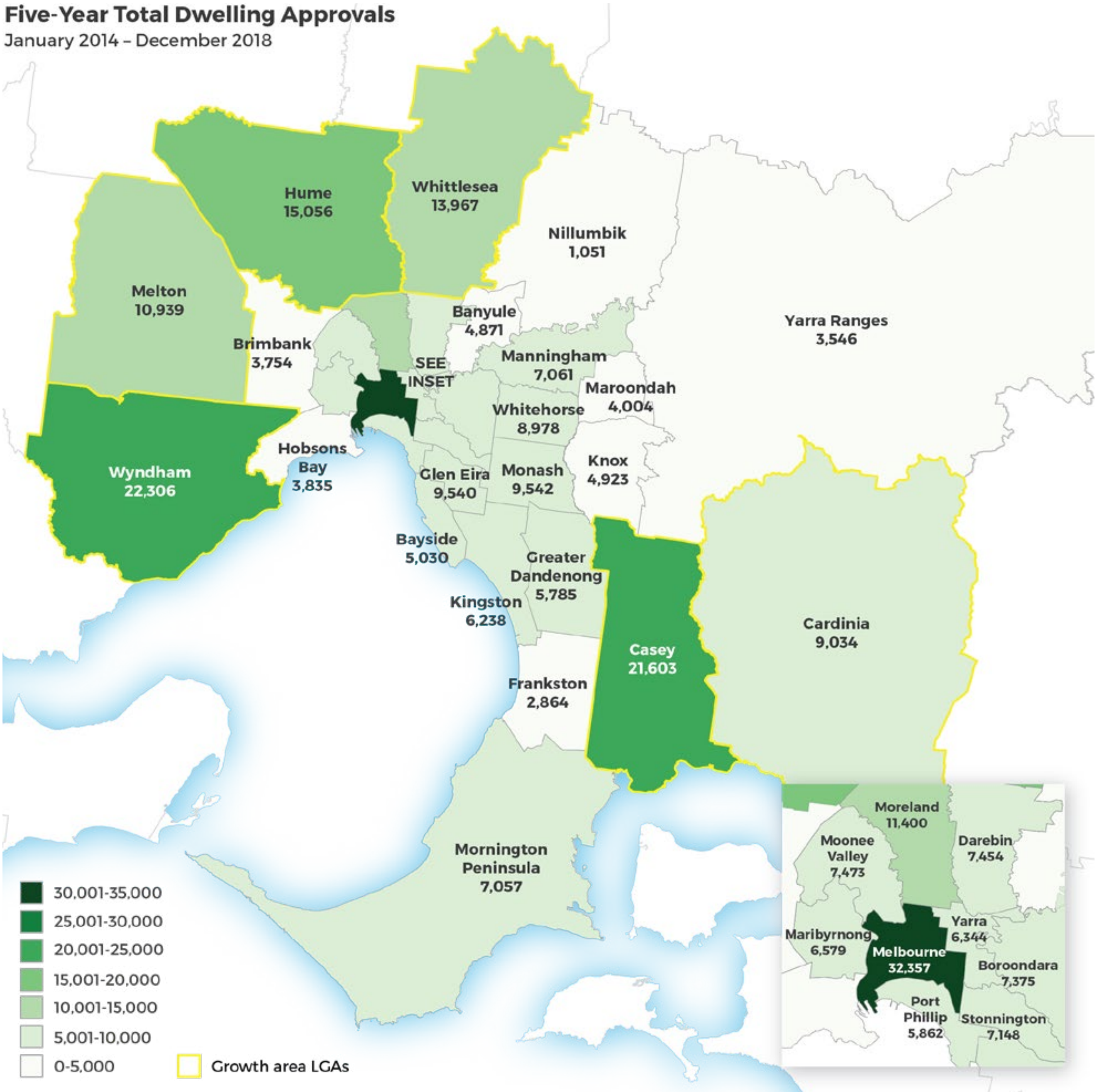
substantial number of apartment approvals. Dwelling approvals generally across the rest of the Central Region was less than 500, with the City of Melbourne approving approximately 3,000 dwellings below their five year average.

Monash Council had the most consistent mix of dwelling approvals by type, with a broad range of detached housing, townhouses and apartments. Manningham, Whitehorse, Boroondara and Glen Eira, Moonee Valley, Moreland and Hobsons Bay also contributed to a broader range of dwelling types, with most of these municipalities containing middle ring suburbs.

Dwelling Approval Trends

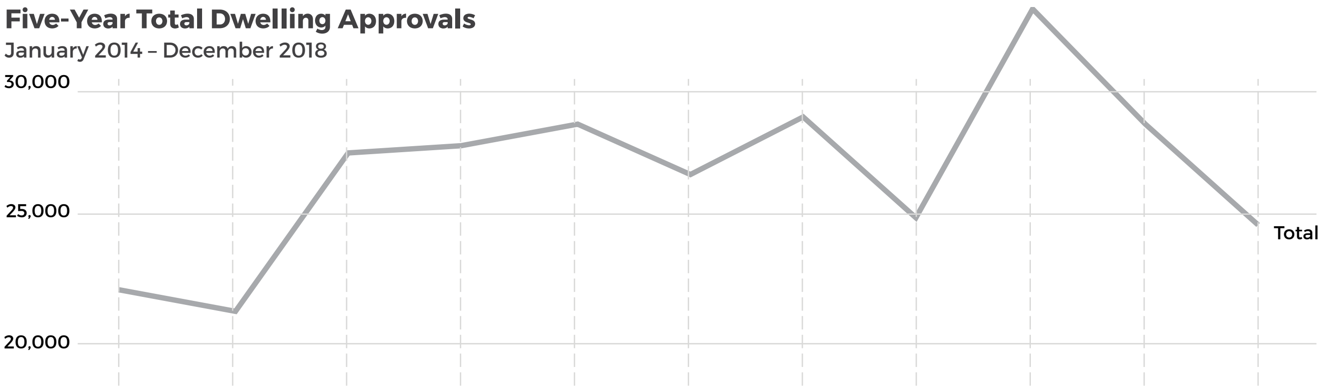
Planning approvals of dwellings across metropolitan Melbourne over the past five years total

Source: ABS Building Approvals (8731.0), 2013/14 - 2018/19

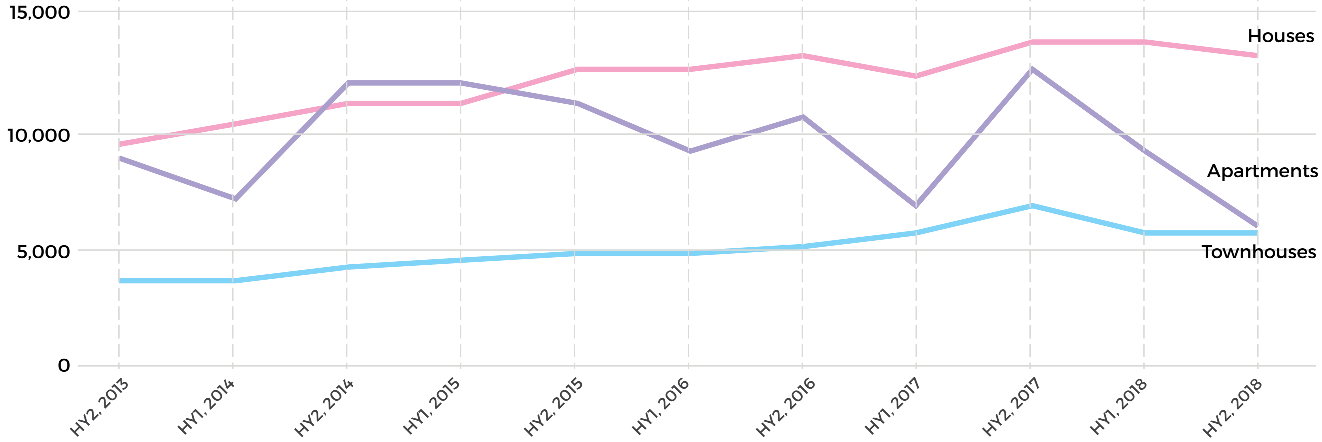


Five-Year Total Dwelling Approvals

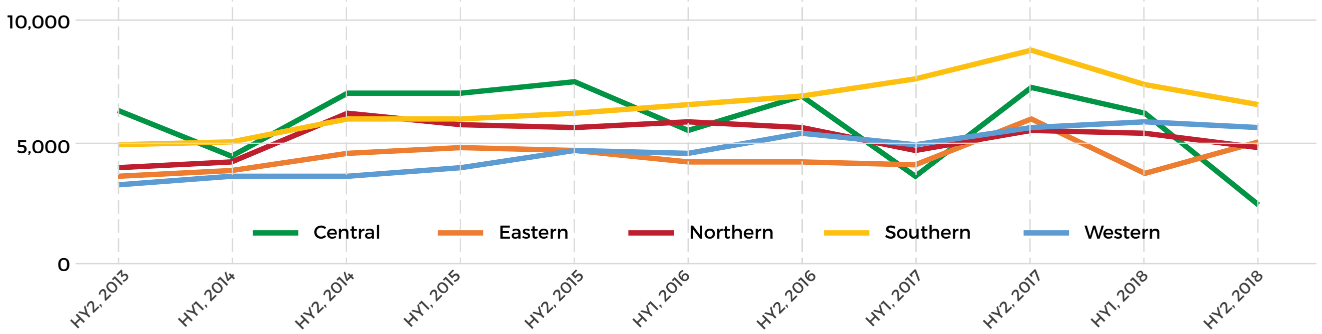
January 2014 – December 2018



By Type



By Region



Total dwellings approvals increased sharply in the second half of 2014 before stabalising between 25,000 and 30,000 dwellings through to the end of 2017. In the second half of 2018 there was a gradual decline in approvals down to just below 25,000 dwellings, led by a sharp decline in apartment approvals and flattening of detached dwelling and townhouse approvals since the end of 2017.

The Central Region is driving a sharp drop in dwelling approvals in Melbourne's inner ring which closely follows the drop in total apartment approvals over the period.

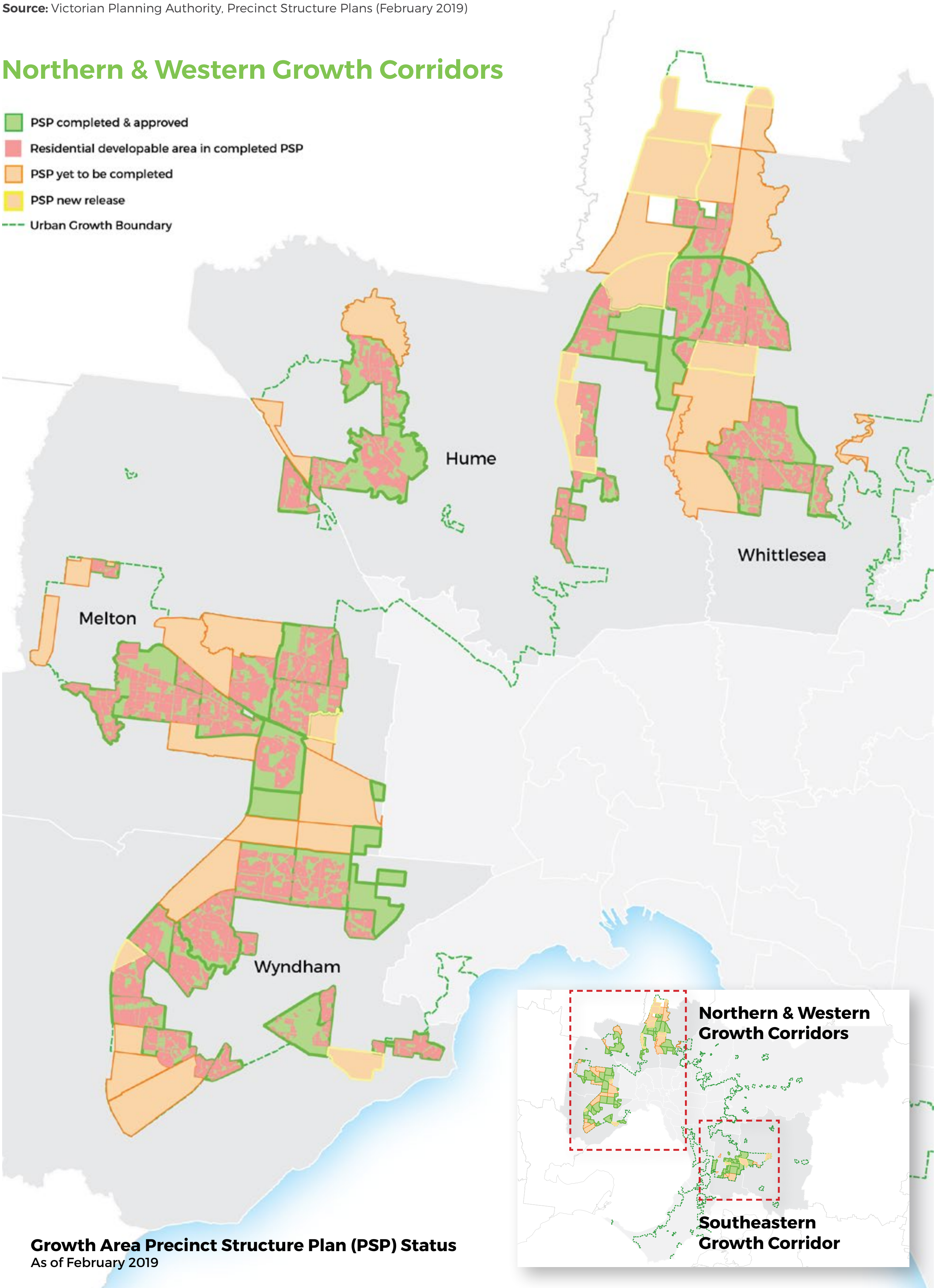
The Central Region accounts for the majority of apartment approvals. With a projected increase in demand for one and two-person households over the longer term to 2031, and dwelling approvals tracking closely with household composition over the period. Further reduction in apartment approvals in the short term may point to reduced supply and increasing demand in future years.

Growth Area Development Capacity

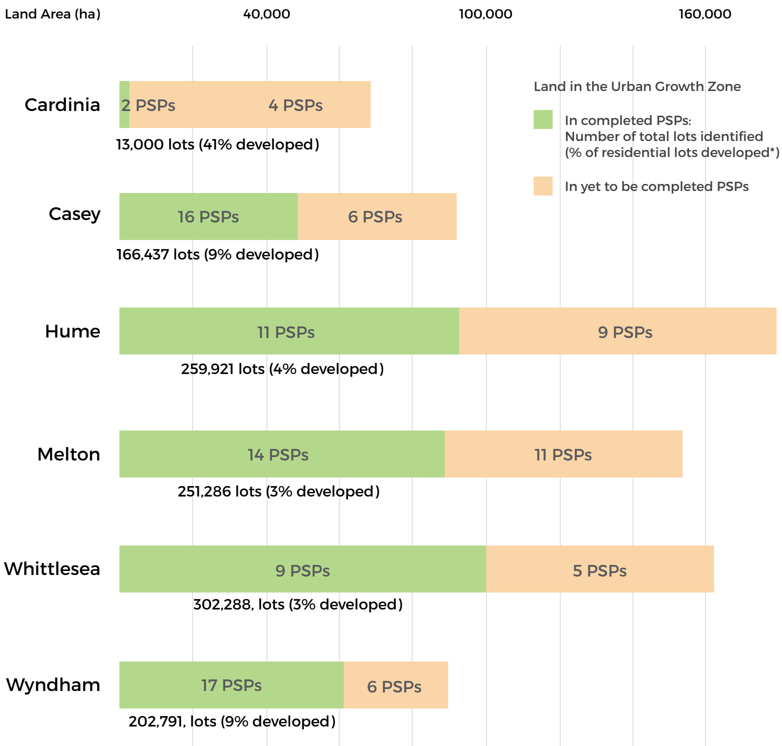
The status of Precinct Structure Plans and development capacity in Melbourne's urban growth areas (in the Urban Growth Zone)

Source: Victorian Planning Authority, Precinct Structure Plans (February 2019)

Northern & Western Growth Corridors

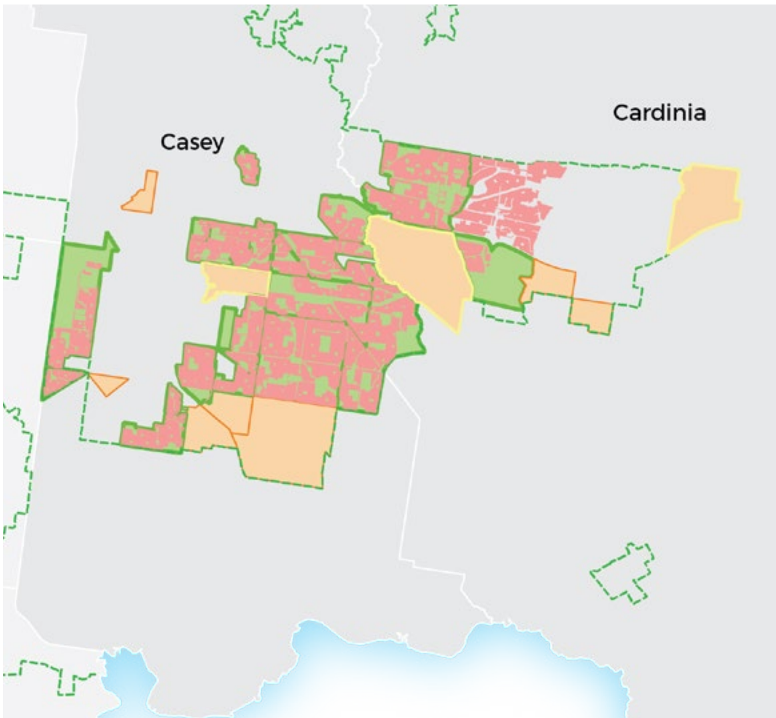


Growth Area Precinct Structure Plan (PSP) Status
As of February 2019



* Percentage of lots developed (dwellings constructed or under construction) between 2015 and November 2017
Source: Department of Environment, Land, Water and Planning, Urban Development Program 2017 Report

Southeastern Growth Corridor



Growth Area Precinct Structure Plan (PSP) Status
As of February 2019

Melbourne's growth areas are expected to accommodate 30% to 35% of Melbourne's new housing (Plan Melbourne) and currently deliver approximately 22,000 new lots annually over the past few years. Recently, Wyndham and Hume have been Victoria's leading growth areas experiencing the highest growth in housing. Detached housing within the growth area municipalities continues to grow, representing relatively affordable housing within the Melbourne residential market.

Compared to other growth area regions, the south-east growth area has less supply of Precinct Structure Plans (PSPs) either approved or yet to be approved. This is largely due to the more mature market in the south-east compared to the north and western regions. Cardinia and Casey council have only 10 PSPs that are yet to be approved.

The northern growth region, Hume and Whittlesea, have 14 PSPs yet to be approved and the western growth region, Melton and Wyndham, have a combined 17 PSPs to be approved.

As of November 2017, 41% of lots within the approved PSP areas in Cardinia have already been developed which is clearly the highest percentage across all growth areas followed by Casey with 9%. The other growth areas typically have only 3% to 4% of approved PSP land developed. This suggests that the supply of approved PSP land in the south-east growth region is limited and additional zoning will need to occur.

Within each of the growth areas, land that has already been approved and developed typically occurs adjacent to established townships and suburbs where infrastructure is available.

The delivery of housing in the growth areas is dependent on infrastructure availability and civil construction, with typically a considerable lag between the pre-sales of lots and settlement of land.

Both sides of Parliament have indicated support to lock away Melbourne's Urban Growth Boundary in perpetuity. This will place pressure on the timing and delivery of housing within the nominated growth areas.

Infrastructure Pipeline

An overview of the current transport infrastructure projects under planning or construction across metropolitan Melbourne

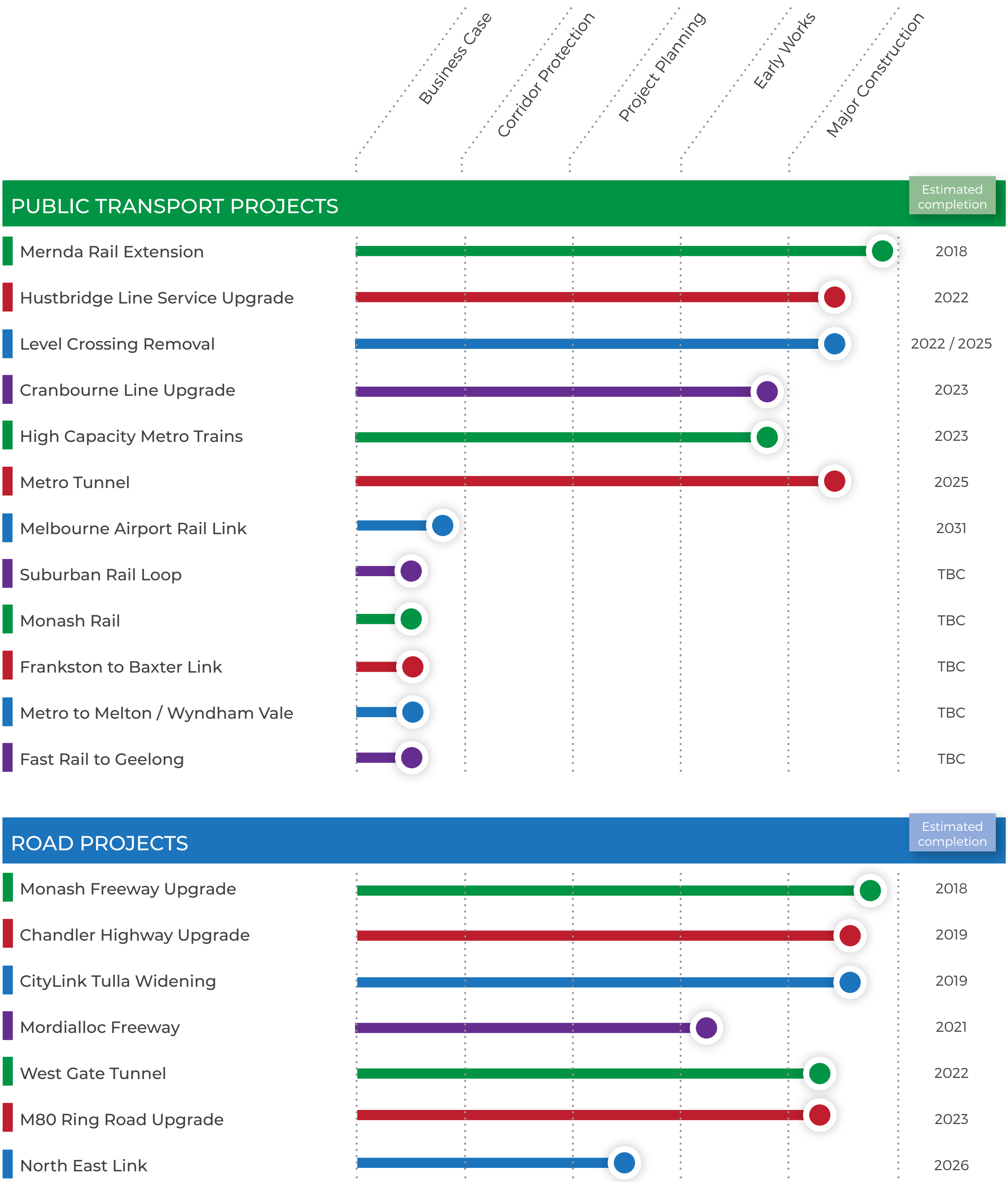
Source: Australian Government, Build Our Future. State Government of Victoria, Victoria's Big Build

Committed public transport infrastructure projects

After many years of limited investment in major infrastructure projects, Melbourne is experiencing its highest volume of major infrastructure projects under construction. Major projects including Melbourne Metro and Level Crossing Removal, West Gate Tunnel and CityLink Tulla Widening are all under construction and expected to be delivered by 2025, delivering much needed infrastructure improvements across the metropolitan Melbourne area.

Melbourne Metro includes the construction of a new metro tunnel and upgraded stations including twin 9km rail tunnels from the west of the city to the south-east, construction of five new underground stations at North Melbourne, Parkville, State Library, Town Hall and Domain. The project has a value of over $11 billion and is expected to be developed by 2025. The outcome will result in increase in capacity across the rail network.

The **Level Crossing Removal** project continues to remove a total of 75 level crossings across metropolitan Melbourne, with 29 already removed from the original tranche of 50 crossings. The project seeks to improve safety, movement and frequency. The cost of the 50 highest priority crossings is estimated at $8.3 billion.



The **West Gate Tunnel** is under construction and will create a new tunnel connecting from the West Gate Freeway to City Link to ease traffic congestion on the West Gate Bridge which, due to the substantial growth occurring in the west, currently has more than 200,000 vehicles a day. The Tunnel is due to be completed by 2022.

Planning is also underway for a number of further major infrastructure projects with the Suburban Rail Loop, Tullamarine Airport Rail Link and the North East Link in the planning and business case stage. The projects are expected to continue Melbourne's infrastructure program for an extended period.

The **Airport Link** project is a rail link to Tullamarine Airport from the CBD, currently under planning. Melbourne Airport is Australia's second busiest airport and is proposed to be expanded under a current master plan.

The **Suburban Rail Link** is a major project in planning which is expected to commence construction in 2022. The project will include 12 new stations and connections to the proposed airport link.

The proposed **North East Link** connecting the M80 Ring Road to the Eastern Freeway will complete a long term missing link in the north-east with the $16 billion project due to be completed by 2027. The project is still in planning stage.

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