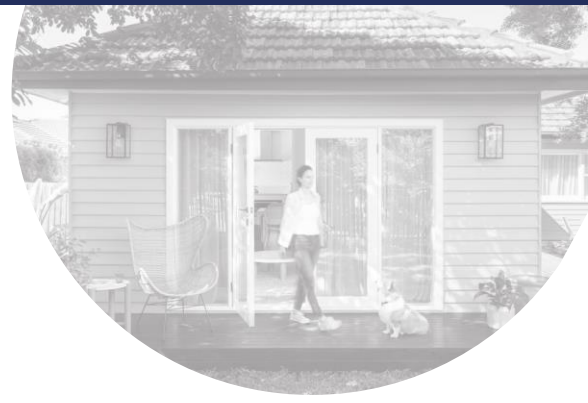




Submission Plan for Victoria

AUGUST 2024







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This submission to Plan Victoria represents a collaborative endeavour between Quantify Strategic Insights and Oliver Hume.

Together, our organisations bring a wealth of experience and deep expertise in greenfield markets, population and demographic analysis, urban development, property research and strategic planning.

By joining forces, we aim to offer a thorough and nuanced perspective that reflects our shared commitment to shaping a sustainable and prosperous future for Melbourne's urban landscape.

Our joint submission is a testament to our dedication to providing informed and strategic insights that will contribute meaningfully to the planning and policy decisions that will guide Melbourne's growth in the years to come.

Julian Coppini

CEO, Project Marketing
Oliver Hume
j.coppini@oliverhume.com.au

Rob Burgess

Principal
Quantify Strategic Insights
rob.burgess@quantifysi.com.au

“

Planning policies must be designed to ensure that two market conditions hold: the market viability of building new housing, and an adequate supply of houses that people can afford.

1. INTRODUCTION

As Melbourne continues to grow rapidly, the need for a strategic and well-balanced approach to delivering the amount of housing required becomes increasingly critical. This submission to the Victorian Government's new "Plan for Victoria" underscores the urgency of ensuring an adequate, ongoing supply of greenfield land to meet the escalating demand for affordable housing, driven by population growth and shifting demographic trends.

Melbourne's housing market is at a crossroads. With the city's population projected to expand significantly in the coming years—largely fuelled by overseas migration—the demand for new dwellings, particularly family-oriented housing, is set to soar.

The 35–49-year-old age cohort, which plays a pivotal role in driving housing demand, is expected to grow more than any other, further intensifying the need for separate houses. However, the current constraints to delivering greenfield land supply pose a significant threat to Melbourne's ability to accommodate this demand.

Without sufficient greenfield land, Melbourne risks replicating the challenges faced by Greater Sydney, where limited land supply has led to skyrocketing house prices, reduced affordability, and a shortage of new homes.

The Victorian Government must take proactive steps to ensure that Melbourne does not follow this path. A balanced approach that provides adequate greenfield land for development, while also addressing rising construction costs and accommodating the preferences of key demographic groups, is essential to maintaining housing affordability and supporting the city's long-term growth.

This submission highlights the critical need for an adequate supply of greenfield land to meet the growing housing demand in Melbourne. By addressing this need in Plan Victoria, the Victorian Government can help ensure that Melbourne remains a liveable, affordable, and economically vibrant city for all its residents.

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**UGBs SET UP A
STATIC PERIMETER FOR
DEVELOPMENT
INDEPENDENT OF
WHAT HOME
PURCHASERS WANT**

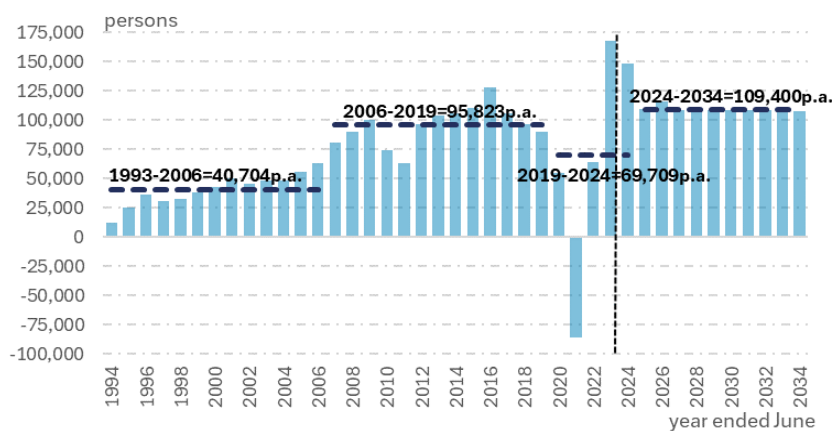
2. MELBOURNE @ 8 MILLION

Forecast to reach a population of approximately 8 million by 2051, Melbourne will continue to experience significant growth over the coming decades.

2.1 Forecast Population

Between 2019 and 2024, Melbourne's average annual population growth rate dropped to 69,709 people, reflecting the significant impact of the COVID-19 pandemic, which caused a sharp population decline in 2021. However, looking ahead from 2024, Melbourne's population will grow at an accelerated average rate of 109,400 people per year. This anticipated surge in growth highlights the importance of strategic urban planning to manage the increasing demands on an already highly constrained housing market.

Figure 1: Greater Melbourne – Population Forecast (2024 to 2034)

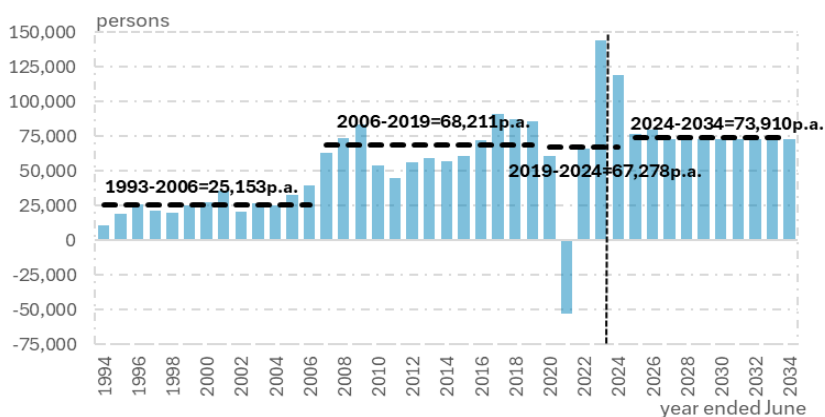


Source: Centre for Population

2.2 Overseas Migration

Due to the impacts of the COVID-19 pandemic, Melbourne experienced a sharp decline in net overseas migration, especially during 2021. However, a recent rebound has seen a spike in overseas migration. Over the coming decade, overseas migration numbers are forecast to grow annually by 73,910.

Figure 2: Greater Melbourne – Net Overseas Migration (2024 to 2034)



Source: Centre for Population

3. MELBOURNE'S HOUSING SHORTFALL

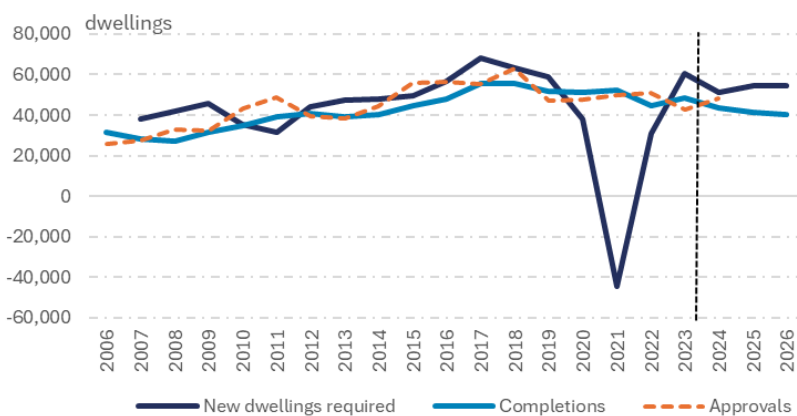
KEY POINTS:

- Melbourne is experiencing a shortfall in new housing supply, with completions falling to the low 40,000 range annually, which is expected to persist in the near term.
- Strong population growth, particularly driven by overseas migration, is intensifying pressure on urban land and housing supply, necessitating an increase in greenfield developments.
- To accommodate this growth, Melbourne needs to ramp up construction to build over 53,000 new dwellings annually, requiring proactive urban planning to avoid exacerbating housing affordability and infrastructure strain.

After a period of declining demand during COVID-19, Melbourne is now facing a shortfall in new housing supply.

Completions have fallen to the low 40,000 range annually, and this trend is expected to persist in the short to medium term based on current building approvals. Compounding this issue is the fact that emerging demographic trends are pointing to sustained, if not increasing, demand for separate houses.

Figure 3: Greater Melbourne – Housing Shortfall



Source: ABS, Victoria in Future, Quantify Strategic Insights

Forecast robust population growth in Melbourne, particularly driven by overseas migration, has significant implications for greenfield development and future planning. As the city's population expands, pressure on urban land and housing supply will inevitably intensify. This growth will spur increased demand for greenfield developments to accommodate the influx of residents.

3.1 Forecast Dwelling Need

Poised for strong population growth in the coming years, driven primarily by sustained high levels of net overseas migration, Melbourne will need to build around 53,200 new dwellings annually to accommodate this growth. This represents a significant increase over the long-term (pre-COVID) annual average of 48,400 dwellings constructed between 2007 and 2019.

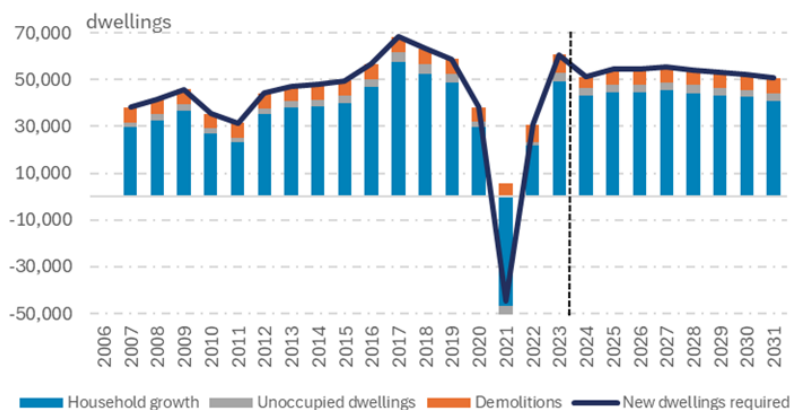
The projected annual dwelling requirement comprises:

Household Growth: Approximately 43,500 households are expected to form each year, each requiring a dwelling.

Vacant Dwelling Allowance: An estimated 3,300 dwellings per year will remain unoccupied as second homes, vacant properties, or those awaiting sale or rental. This estimate is based on the Victoria in Future assumption that vacant dwellings account for 7.5% of all households.

Demolitions: Around 6,400 dwellings per year are expected to be demolished, necessitating replacement. Demolition numbers ranged from 6,084 to 7,617 annually between 2017 and 2023 but are projected to fall to around 4,500 in 2023. Demolition activity is likely to increase as the market recovers.

Figure 4: Greater Melbourne – New Dwelling Requirements



Source: ABS, Victoria in Future, Quantify Strategic Insights

3.2 The Growing Need for Greenfield Development

Melbourne is at a critical juncture where the current shortfall in housing supply is set against a backdrop of strong population growth and increasing demand for separate houses. Melbourne will need to significantly ramp up its housing construction to meet the projected demand of over 53,000 new dwellings annually.

This challenge underscores the importance of proactive urban planning, particularly in greenfield developments, to ensure that the city can sustainably accommodate its growing population. Without decisive action, the pressure on Melbourne's housing market will only intensify, potentially exacerbating affordability issues and straining infrastructure.

4. 35–44-YEAR-OLDS: ON THE RISE

KEY POINTS:

- Melbourne is expected to see a population increase of 241,200 in the 35 to 49-year-old age group between 2022 and 2031, driven by aging Millennials and migration.
- The 35 to 44-year-old segment will drive significant demand for family-oriented housing, especially as Couple Families with Children are projected to grow the most.
- Over 40% of the 35 to 44 age group in Melbourne are migrants, many of whom prefer separate houses, fuelling demand for this type of housing.
- The rising demand for separate houses, particularly among migrants from Southern Asia, poses challenges to Melbourne's ability to meet its 70/30 housing target.

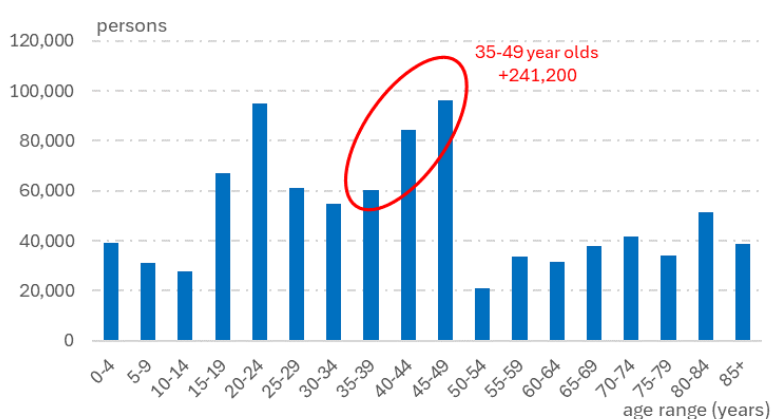
Between 2022 and 2031, Melbourne will experience significant population growth in the 35 to 49-year-old age group as Millennials enter this pivotal stage of life.

During this time, the population in this age bracket is projected to increase by 241,200 people. This growth is driven by the aging of younger cohorts and ongoing migration.

4.1 The Housing Required

From a housing perspective, the 35 to 44-year-old segment is particularly significant, as it is closely associated with the highest number of Couple Families with Children Households, marking a peak in family formation. This age group is also economically significant, as many individuals in their 30s and 40s are in their prime earning years, which further drives demand for housing and broader economic activity.

Figure 5: Greater Melbourne – Population Increase by Age Cohort (2022-2031)



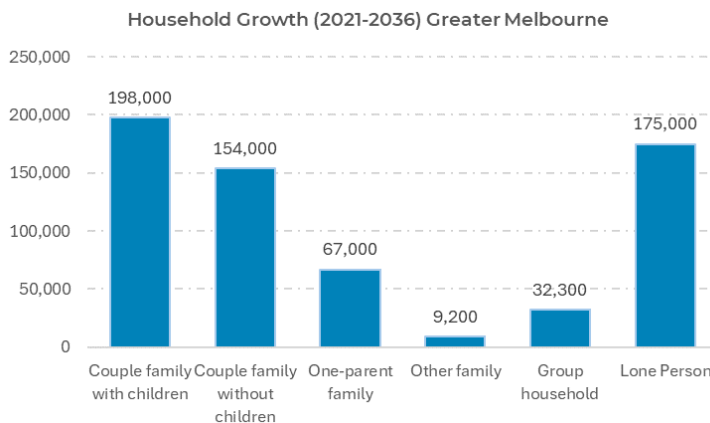
Source: Centre for Population

Projections for Greater Melbourne indicate that Couple Families with Children will experience the largest increase in household numbers between 2021 and 2036, with an additional 198,000 households. This growth surpasses that of all other household

types, signalling a strong and ongoing demand for family-oriented housing and services.

While other household types, such as Lone Person households and Couple Families without Children, are also expected to grow, the substantial rise in Couple Families with Children highlights the continued importance of supporting family formation through planning policy and service provision.

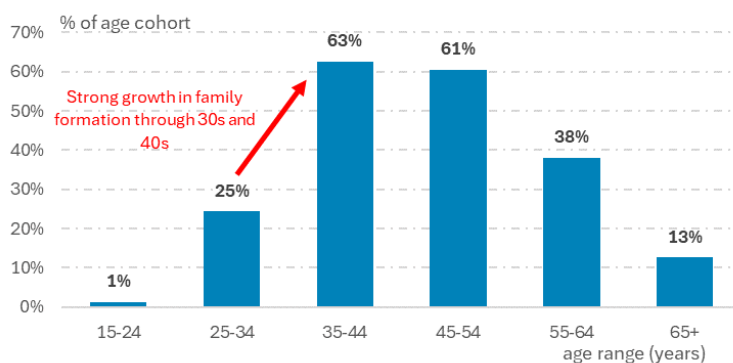
Figure 6: Greater Melbourne – Household Growth (2021-2031)



Source: Victoria in Future 2023

As individuals move through their 30s and 40s, a clear pattern of family formation emerges, with many becoming parents for the first time. This transition into parenthood usually begins in the late 20s as people start forming families, and the trend reaches its peak during the mid-30s to mid-40s when living in households with children becomes more common.

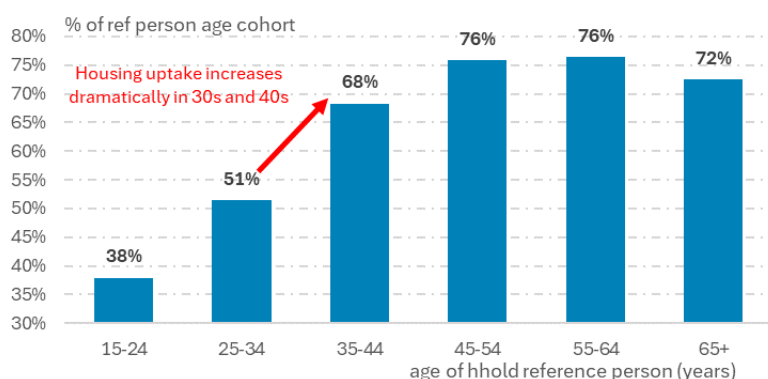
Figure 7: Greater Melbourne – % of Parents in Couple with Children Household (by Age Cohort)



Source: ABS; Census of Population & Housing

This life stage coincides with a sharp increase in house occupancy, with 68% of household reference persons in this age range living in houses which aligns with the needs of a growing family. This pattern highlights the strong connection between family formation and the demand for housing during this key phase of life.

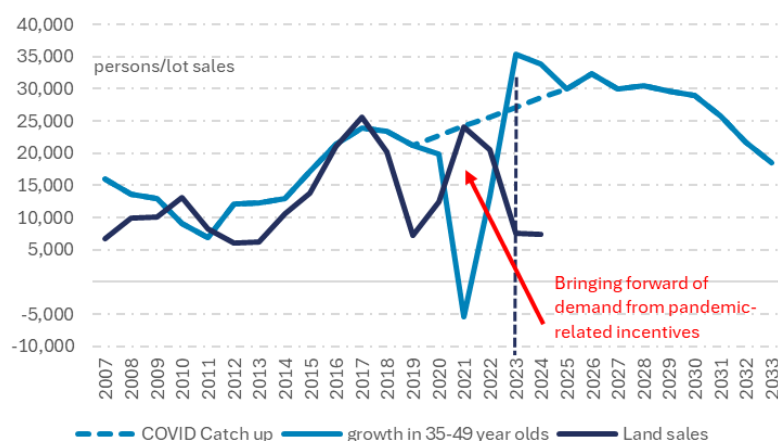
Figure 8: Greater Melbourne – House Occupancy by Age of Household Reference Person



Source: ABS; Census of Population & Housing

As indicated in the chart below, growth in the 35–49-year-old age cohort is a major market for new house and land sales. Forecast to grow more than any other age cohort, an unprecedented level of demand for house and land from this cohort can be expected in the latter part of the 2020s.

Figure 9: Greater Melbourne – Growth in Prime House Buyer Population vs Land Sales



Source: Centre for Population, PriceFinder, Quantify Strategic Insights

4.2 Impact of Millennial Migrants

Notably, more than 40% of individuals in the 35-44 age cohort in Greater Melbourne were born overseas. This represents the peak of overseas-born representation across all age groups, highlighting that a significant portion of the population in this age range are immigrants.

The percentage of migrants in each age cohort rises steadily from younger age groups, reaching its highest point in the 35-44 cohort, before gradually declining in older age brackets. This reflects the impact of migration patterns, particularly among working-age adults, who have settled in Melbourne in recent decades.

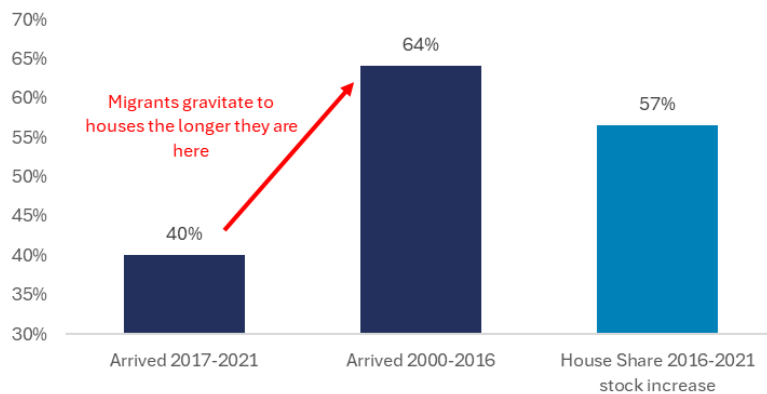
Once settled, many migrants aspire to own homes, tending to prefer houses over other types of dwellings. This preference is evident in the rising rate of home

purchases among the 35 to 49-year-old age group, which has driven significant growth in house and land sales.

As migrants spend more time in Australia, they tend to shift away from other dwelling types, such as apartments or townhouses, and favour separate houses. This trend is also evident in the overall housing stock increase between 2016 and 2021, where 57% of the increase is attributed to houses.

The increasing share of migrants living in houses over time reflects their pursuit of these aspirations and a gradual shift toward more traditional housing preferences.

Figure 10: Migrant Share of Living in Houses (by Year of Arrivals)



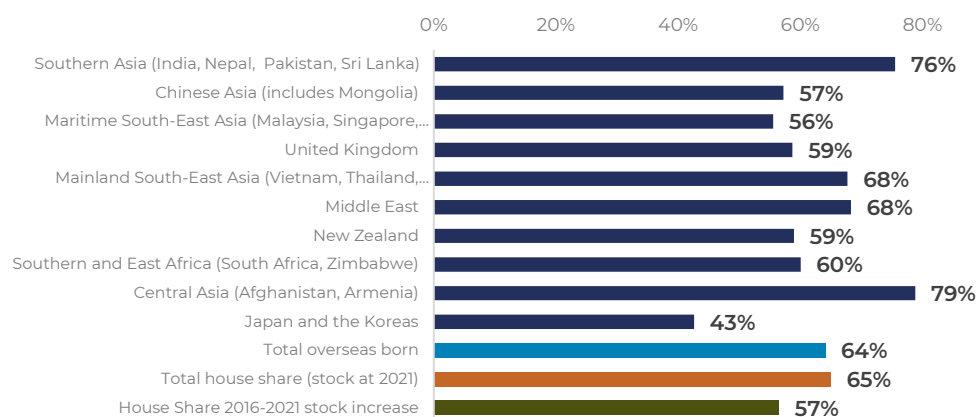
Source: ABS; Census of Population & Housing

Migrants' preference for separate houses, once they become established, contributes significantly to the demand for separate houses. This trend is particularly relevant for the Millennial cohort, many of whom are entering, or are already in the 35-49 age range - a life stage that is associated with family formation and the desire for more spacious housing.

4.3 Preferred Housing Choice

The desire to live in a house varies based on the migrants' region of birth. Notably, migrants from Southern Asian countries (including India, Nepal, Pakistan, and Sri Lanka) who arrived between 2000 and 2016 had a higher percentage of living in separate houses compared to the overseas-born average. Conversely, the percentage of migrants from Chinese Asia residing in separate houses was 57%.

Figure 11: Migrant Share in Houses (by Region of Birth)



Source: Centre for Population, PriceFinder, Quantify Strategic Insights

Given that net overseas migration contributes to over half of Australia's annual population growth, and approximately two-thirds in Melbourne, achieving the desired 70/30 housing target will become even more challenging given the housing aspirations of new migrant citizens. This is especially true as Australia's migration profile continues to shift towards Southern Asian countries following the reopening of borders after the pandemic.

4.4 Millennial Housing Outlook

Melbourne's population growth, particularly within the 35 to 49-year-old age group, will significantly shape the city's housing market over the coming decade.

The increasing number of Couple Families with Children, driven by both the aging Millennial generation and ongoing migration, underscores a sustained demand for family-oriented housing, and new house and land sales.

The preferences of migrants, especially those from Southern Asian countries, further amplify this demand, challenging Melbourne's ability to achieve its 70/30 housing target. As the city's demographic and migration patterns continue to evolve, it will be crucial for planning policies to address these dynamics to ensure that housing supply meets the diverse needs of its growing population.

As Millennials enter this life stage, characterised by peak family formation and economic activity, the need for appropriate housing and services will intensify. This underscores the importance of strategic planning and policy support to accommodate the growing number of Couple Families with Children and to ensure that Melbourne's housing supply can meet the evolving needs of its expanding population in the coming decade.

5 SEPARATE HOUSES: DOMINATING DEMAND

KEY POINTS:

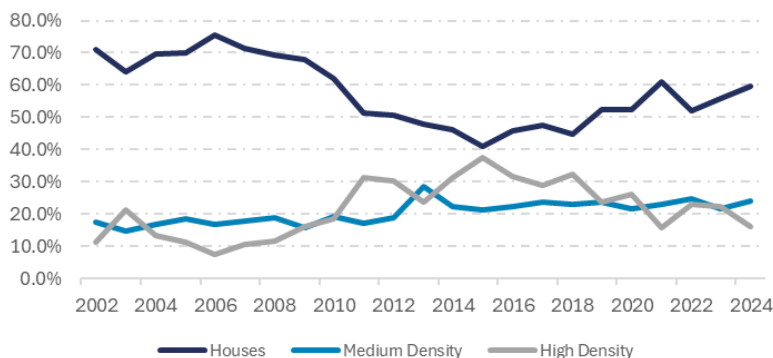
- Over the past decade, separate houses have consistently dominated Melbourne's dwelling approvals, comprising 50% to 60% of total approvals from 2013 to 2024.
- Since 2015, there has been a growing gap between approvals for separate houses and medium or high-density housing, with separate houses becoming increasingly dominant.
- Greenfield development in Melbourne's Growth Areas has consistently exceeded Plan Melbourne's target of 30% for new dwelling supply, while infill and established areas have lagged behind their 70% target.
- Escalating construction and land costs have made new homes in Growth Areas increasingly unaffordable, leading to a significant contraction in land sales and new housing demand.

Over the past decade, houses have consistently provided the largest share of new dwelling types in Melbourne. From 2013 to 2024, houses have maintained a dominant position in dwelling approvals, generally accounting for around 50% to 60% of total approvals.

Since 2015, there is a widening gap between approvals for houses and other dwelling types, such as medium-density and high-density dwellings, in Melbourne.

While the share of approvals for medium and high-density housing initially grew and even surpassed houses around 2015, a noticeable divergence occurred in subsequent years. Starting from 2016, approvals for houses began to increase steadily, while medium and high-density approvals either plateaued or declined slightly.

Figure 12: Share of Approvals by Dwelling Type (2002-2024)



Source: Australian Bureau of Statistics

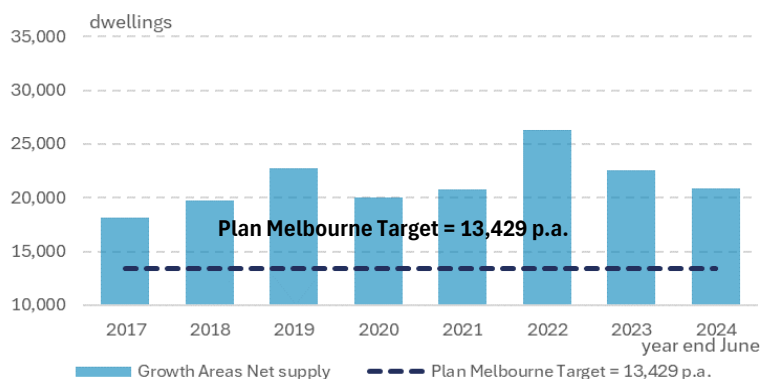
By 2020, the gap had become more pronounced, with houses consistently accounting for a significantly larger portion of total dwelling approvals. This trend continued through to 2024, where houses dominate new dwelling approvals by a substantial margin.

The growing preference for houses over other dwelling types indicates that despite urban densification efforts, demand for separate housing will remain strong, leaving medium and high-density developments with a smaller share of the market.

5.1 Growth Areas Outpace Targets While Infill and Established Areas Lag Behind

Residential development in the Growth Areas has consistently exceeded the Plan Melbourne target of 30% of new dwelling supply. In contrast, the infill and established areas have fallen well below the 70% target outlined in Plan Melbourne, reflecting a stronger focus on greenfield development.

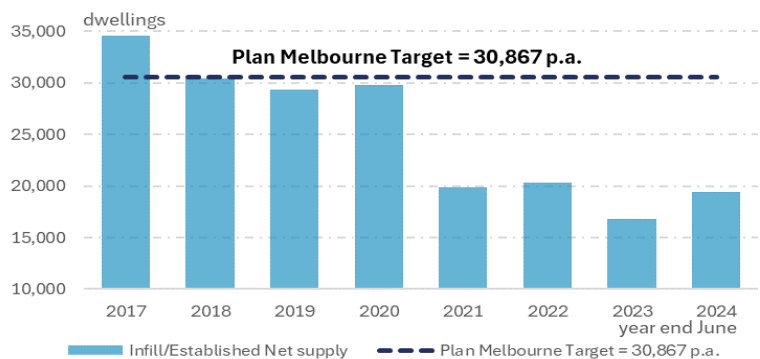
Figure 13: Growth Area Dwelling Supply vs Plan Melbourne Target



Source: Plan Melbourne, Australian Bureau of Statistics, Quantify Strategic Insights

Meanwhile, the supply of new dwellings in infill and established areas has consistently underperformed, lagging the expectations set by Plan Melbourne and contributing to an imbalance in the intended distribution of new housing supply across Melbourne.

Figure 14: Infill/Established Area Dwelling Supply vs Plan Melbourne Target



Source: Plan Melbourne, Australian Bureau of Statistics, Quantify Strategic Insights

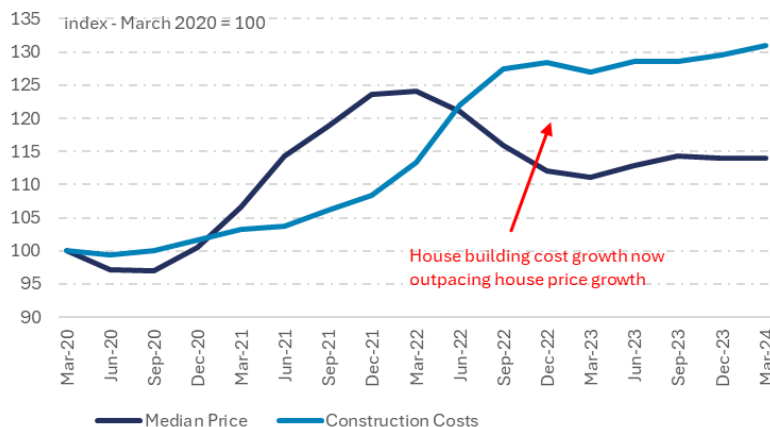
5.2 Rising Costs Impacting Affordability in Growth Areas

New dwelling activity in Growth Areas is facing increasing challenges due to the significant rise in construction costs, which has eroded the viability of many projects. Although house prices experienced a strong surge during the pandemic in 2020-2021, construction costs have since risen sharply and now outpace house price growth.

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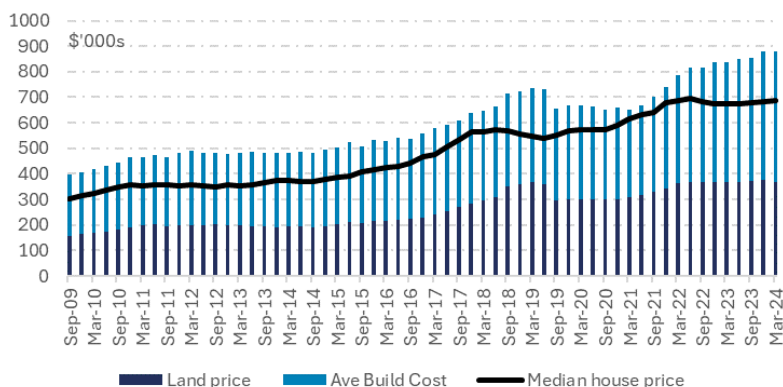
Furthermore, the consistent increase in land prices has further widened the gap between the cost of purchasing a new home and an established home in the Growth Areas, making new homes less accessible for many buyers, in turn making it more difficult to deliver.

Figure 15: Price Growth vs Construction Costs (Houses)



Source: PriceFinder, Australian Bureau of Statistics

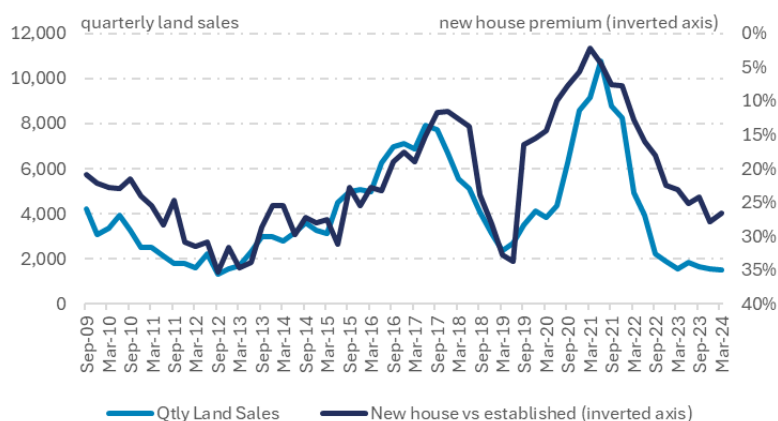
Figure 16: New House (land & build) Cost vs Median House Price – Growth Areas



Source: PriceFinder, Australian Bureau of Statistics

As indicated in the following chart, the demand for land closely tracks housing affordability. As a result, land sales have decreased significantly in response to rising land and house prices. As affordability has diminished, the market for new housing in growth areas has contracted, reflecting the direct impact of escalating costs on demand.

Figure 17: Land Sales vs New House Premium (Growth Areas)



Source: PriceFinder, Australian Bureau of Statistics

5.2 Declining Dwelling Activity Despite Demand

Melbourne's housing landscape is undergoing a significant transformation. The demand for separate houses contrasts sharply with the goals set by Plan Melbourne, which aimed for a more balanced distribution of new dwellings across Growth Areas, and infill/established regions.

However, escalating construction and land costs are increasingly constraining new housing activity, particularly in Growth Areas where affordability challenges have led to a contraction in the market.

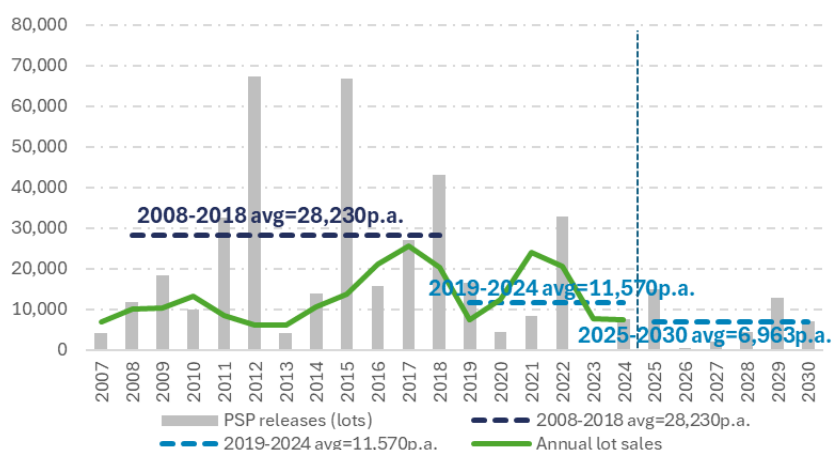
As Melbourne navigates these evolving dynamics, the interplay between housing preferences, affordability, and urban planning objectives will be crucial in shaping the city's future development patterns, and importantly, providing the housing required by the rapidly growing population. .

6 MELBOURNE'S DIMINISHING LAND SUPPLY

The delivery of land through Precinct Structure Plans (PSPs) in Melbourne has experienced a significant slowdown in recent years, raising concerns about future housing supply in the city's growth areas.

Between 2008 and 2018, the rate of Precinct Structure Plan (PSP)-approved land delivery averaged 28,230 lots per annum. However, this has dropped to just 11,570 lots per annum between 2019 and 2024. The delivery of new PSP-approved lots is projected to fall further, with only 42,000 lots expected to be completed by 2030, equating to just under 7,000 lots per year.

Figure 18: Annual PSP Growth Area Releases vs Land Sales



Source: PriceFinder, Oliver Hume, Quantify Strategic Insights

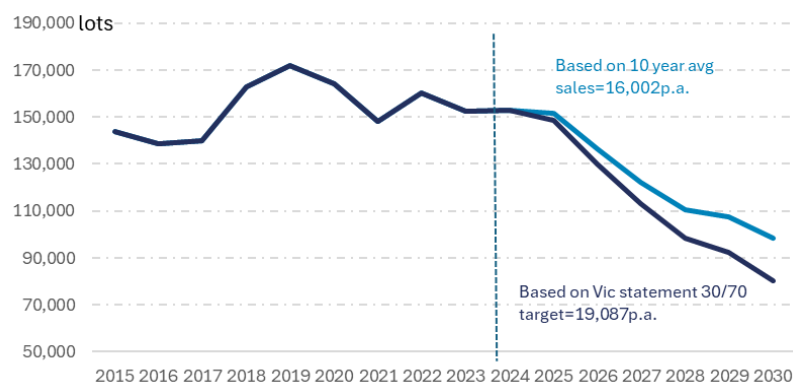
6.1 Diminishing Land Supply

The projected availability of lots within Precinct Structure Plans (PSPs) in Melbourne is expected to decline significantly over the coming years. Based on a 10-year average sales rate of around 16,000 lots per annum, the supply of PSP-approved land will steadily decrease from 2024 onwards.

If the Victorian Government's more ambitious 70/30 housing target is pursued, which anticipates the need for approximately 19,000 lots per year, the depletion of available PSP lots could happen even more rapidly. This indicates a looming shortfall in land supply that could impact Melbourne's ability to meet future housing demand by 2030.

With the current supply already under pressure and projected to diminish further, the gap between demand and available land is expected to widen, potentially leading to increased housing affordability issues and strain on infrastructure.

Figure 19: Remaining PSP Capacity (Lots)

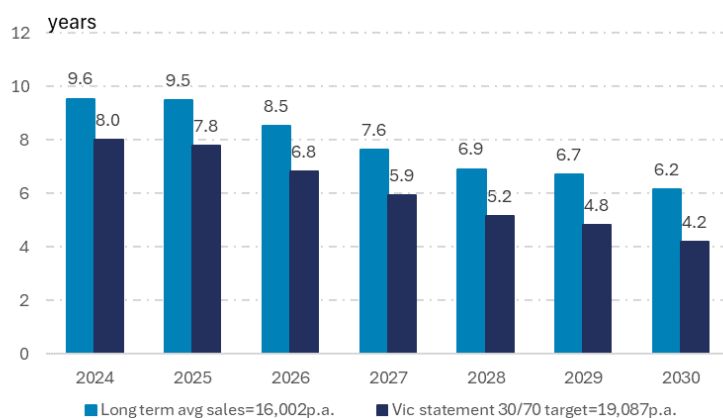


Source: PriceFinder, Oliver Hume, Quantify Strategic Insights

At present, there are approximately 153,000 lots in PSP-approved land, which equates to around 9.6 years of supply based on the average sales rate of the past decade but just 8 years if the government's target is applied.

By 2030, the remaining PSP capacity is projected to cover only 6.2 years under the long-term average sales rate and just 4.2 years under the more aggressive government target, highlighting a significant potential shortfall in available land if higher demand levels are sustained.

Figure 20: Remaining PSP Capacity (Years)



Source: PriceFinder, Oliver Hume, Quantify Strategic Insights

6.2 Urgent Action Required

The significant reduction in PSP-approved land delivery in Melbourne's growth areas poses a critical challenge to meeting Melbourne's future housing needs.

As Melbourne continues to grow, addressing this shortfall will be essential to ensuring that the city can accommodate its expanding population while maintaining liveability and economic stability. Urgent action is needed to accelerate land delivery and align it with the forecast housing requirements to prevent a worsening of the crisis in the housing market.

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AN UNDERSUPPLY
WILL MEAN
MELBOURNE
IS UNABLE TO
ACCOMMODATE
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7. WHY APARTMENTS ARE NOT THE ANSWER

KEY POINTS:

- *Various market barriers and regulatory constraints limit the ability to develop apartment projects in Melbourne's established suburbs, making it difficult to meet the Victorian Government's 70/30 housing target*
- *Increasing the supply of apartments does not improve affordability.*
- *The surge in construction costs and the concentration of viable apartment development locations in high-priced areas have significantly reduced the feasibility of new apartment projects, leading to a sharp decline in apartment building approvals.*
- *Melbourne's high-density housing market is dominated by investors rather than owner-occupiers, and the role of foreign buyers has diminished significantly due to policy changes, impacting the dynamics of apartment development post-2018.*

7.1 Apartments: Undersized, Undesirable & Unaffordable

Fundamental to delivering the Victorian Government's 70/30 housing target, is the need to develop a significant number of apartment projects throughout Melbourne's established suburbs. However, the reality is, is that there are a variety of market barriers and regulatory constraints that limit the ability to achieve this.

Planning constraints, financial risk, market volatility, and project acceptance, are just some of the challenges to delivering high-density projects in metropolitan Melbourne. Understanding these factors is crucial when developing a policy intended to accommodate unprecedented levels of population growth.

The idea that increasing the supply of apartments will address affordability is inherently flawed. The market's supply of high-density housing is concentrated in and around the inner city, where prices far exceed the median house price, further exacerbating the affordability issue. Alternatively, apartments tend towards a smaller product that may meet price points but do not properly service a range of households across a variety of demographic segments.

Market prices for new apartments are significantly higher than equivalently sized and specified houses, making it particularly difficult for apartments to be an attractive and affordable living option for family households seeking a sufficiently sized home, comprising at least three bedrooms. Consequently, developers concentrate their efforts on inner-city locations where high purchase prices are feasible, catering primarily to more affluent buyers. This concentration of high-density housing in the inner city and expensive suburbs fails to contribute to improving affordability.

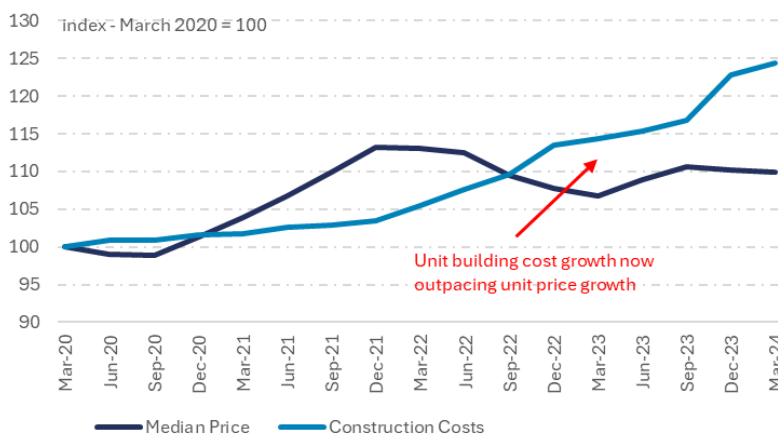
Relying on new apartments to solve the housing supply and affordability problem is not a viable solution. The exorbitant costs associated with building apartments, coupled with prevailing market dynamics, make them an expensive housing option, beyond the capacity and/or willingness of many home purchasers to pay.

7.2 Rising Construction Costs

Although unit and apartment prices haven't risen as sharply as house prices, the surge in construction costs has made apartment development increasingly unviable.

In 2006, Melbourne's median house price was just 10% higher than the median unit/apartment price, but by 2024, this premium had expanded to 57%. This difference reflects an annual growth rate of 5.8% for houses compared to 3.9% for units/apartments. However, while unit prices have remained relatively flat since the end of 2021, the costs of constructing units—including both materials and labour—have surged, making unit/apartment development increasingly unviable.

Figure 21: Price Growth vs Construction Cost Increase (Units)



Source: PriceFinder, Australian Bureau of Statistics

Currently, the median unit price is \$643,000. However, to make new developments feasible, a compact two-bedroom apartment of around 60 square meters would need to sell for approximately \$720,000 (equivalent to around \$12,000 per square metres). For a more spacious, family-friendly three-bedroom apartment of over 90 square metres, the selling price would need to exceed \$1 million to be viable.

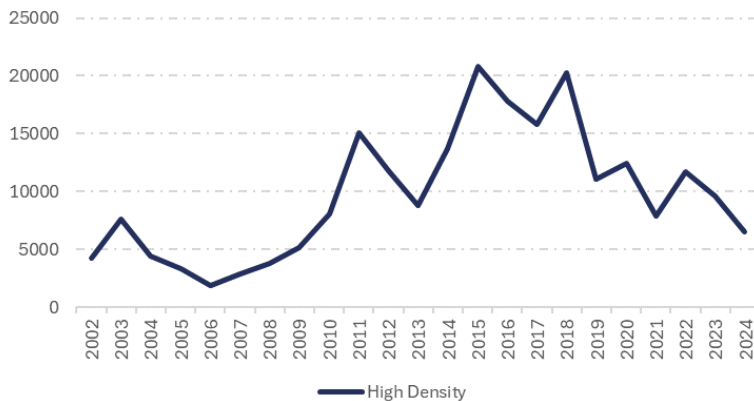
Notwithstanding the fact that apartments are the least desired form of dwelling type, the price of a new, suitably sized apartment is prohibitive to a significant portion of the population.

7.3 Decline in Viable Apartment Development Locations

Apartment development is only occurring in areas where prices are high enough relative to house prices to support new projects. In fact, from FY2023 to FY2024, only 22 out of Victoria's 522 Statistical Area 2 (SA2) regions saw more than 200 apartments approved for construction. Most of these areas had median house prices of over \$1 million.

The decline in viable apartment development locations has resulted in a significant drop in total apartment building approvals, which have halved from an average of 20,000 per annum between 2015 and 2018 to just 6,100 in FY2024.

Figure 22: Apartments (4+ Storey) Building Approvals



Source: PriceFinder, Australian Bureau of Statistics

7.4 Off-the-Plan and Market Shifts

Moreover, the model for apartment development, which relies heavily on off-the-plan sales to secure construction financing, is not conducive to owner-occupier buyers, particularly younger buyers who prefer greater certainty around completion dates. As a result, investors and rental properties dominate Melbourne's high-density dwelling market, with owner-occupiers more likely to be empty nesters or retirees.

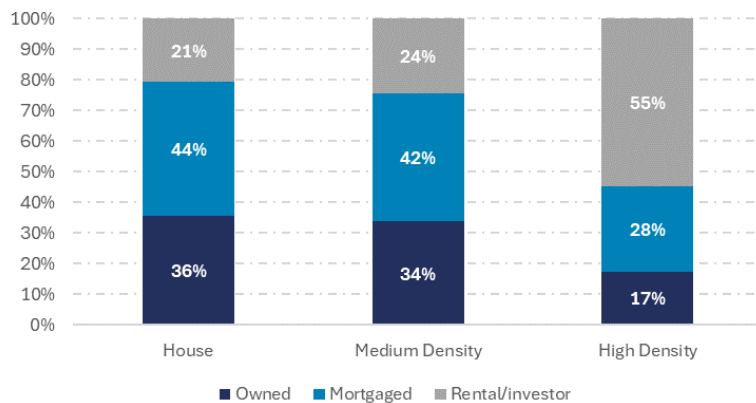
The decline in viable locations for apartment development is evident in the total number of apartment building approvals. From an average of around 20,000 per year between 2015 and 2018, the number of approved apartments has dropped significantly in recent years, with only an estimated 6,100 apartments approved in FY2024.

The profitability of residential development projects is a crucial factor in determining the willingness of developers to engage in such projects. There are several constraints in metropolitan Melbourne that hinder the feasibility of high-density residential developments, resulting in their limited presence in the housing market.

The lengthy pre-selling and construction periods create uncertainty around completion and settlement, which discourages younger owner-occupiers from purchasing off-the-plan.

Consequently, investors and rental properties make up the majority (55%) of occupied high-density dwellings in Melbourne, with an even higher share likely among new builds. Owner-occupiers in this market are more often empty nesters or retirees, who typically have less need for certainty regarding the timing of apartment development.

Figure 23: Tenure by Dwelling Type



Source: Australian Bureau of Statistics Census of Population and Housing

7.5 Changing Dynamics in Melbourne's Apartment Market Post-2018

The surge in apartment approvals between 2015 and 2018 represented a unique period driven by a combination of factors that are unlikely to occur again to the same extent.

During this time, overseas buyers were a significant force in the market, making up nearly 20% of new dwelling purchasers from 2014 to 2018. However, the introduction of stamp duty and land tax surcharges has since reduced the share of overseas buyers to 8.6%, in what is now a much smaller new home market.

It is crucial to recognise that increasing the supply of apartments does not lead to improved affordability but can worsen it. In many middle and outer suburban markets, the prices that home buyers are willing to pay fall well below the cost at which developers can feasibly deliver the product, making it economically unviable.

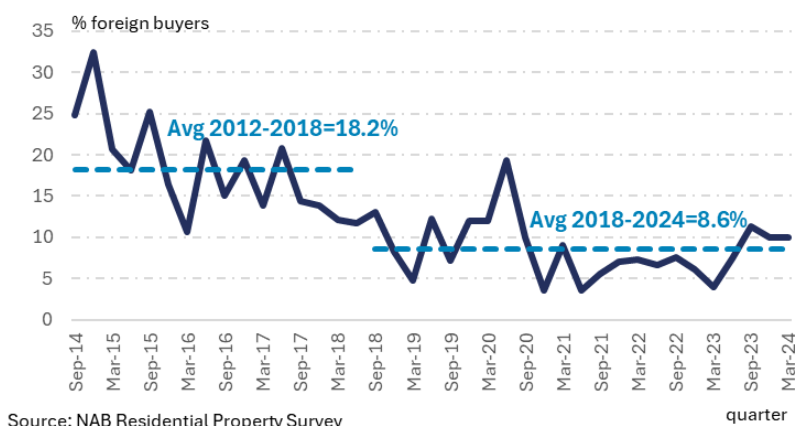
Similarly, investor loans in Victoria averaged around 60,000 per year from 2014 to 2018, peaking at 68,000 in FY2015. While investor loans briefly reached 60,000 again in FY2022, this level has not been maintained.

The peak in investor activity during 2014-2018 was largely driven by Baby Boomers investing ahead of retirement. However, this trend is shifting. The Generation X cohort following the Baby Boomers is smaller in number, and the subsequent Generation Y cohort is likely to be more financially burdened, making property investment less feasible for them compared to previous generations.

Initially, foreign buyers played a significant role, accounting for over 30% of new dwelling purchases in Victoria in September 2014. However, after reaching this peak, the share of foreign buyers began to decline steadily. By September 2018, the average share had dropped to 18.2% over the period from 2012 to 2018, reflecting a reduced influence of foreign buyers in the market.

The decline became even more pronounced after 2018, with the share of foreign buyers continuing to decrease sharply. From 2018 to 2024, the average share of foreign buyers fell to 8.6%, suggesting that policy changes, such as the introduction of stamp duty and land tax surcharges, significantly curtailed foreign participation in the new dwelling market. In the most recent years, from 2021 to 2024, the share of foreign buyers appears to have stabilized at around 8-10%, indicating that while foreign buyers still play a role in the market, their influence has diminished considerably compared to earlier years.

Figure 24: Foreign Buyer Share of New Dwelling Purchasers (Victoria)



7.6 Melbourne's Apartment Outlook

Relying on new apartments to solve the housing supply and affordability problem is not a viable solution. The exorbitant costs associated with building apartments, coupled with prevailing market dynamics, make them an expensive housing option, beyond the capacity and/or willingness of many home purchasers to pay.

Furthermore, long lead times and construction periods mean that delivering high-density dwellings to the market in a timely manner is challenging when the market is in an upturn phase, consequently placing pressure on rents and prices.

The idea that increasing the supply of apartments will address affordability is inherently flawed. The market's supply of high-density housing is concentrated in and around the inner city, where prices far exceed the median house price, further exacerbating the affordability issue.

Alternatively, apartments tend towards a smaller product that may meet price points but do not properly service a range of households across a variety of demographic segments. It is imperative to explore alternative approaches and adopt a comprehensive housing strategy to effectively address the pressing issue of affordability.

8. THE IMPACTS OF CONSTRAINED LAND SUPPLY: SYDNEY – A CASE STUDY

KEY POINTS:

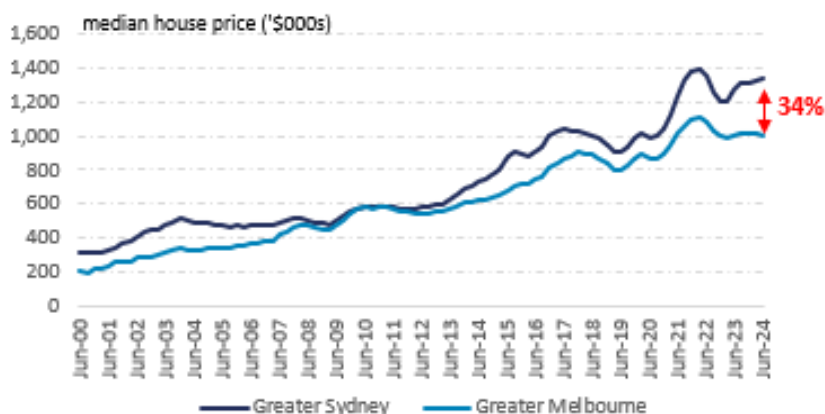
- *If greenfield land is restricted, Melbourne could face a housing market crisis similar to Sydney, where constrained land availability has driven land and house prices significantly higher.*
- *Constrained land supply in Melbourne will reduce the overall housing supply, making it difficult to meet the city's growing housing needs, particularly for affordable homes, and exacerbating housing inequality.*
- *Constrained land supply limits Melbourne's ability to adapt to changing housing demands, risking the city's ability to provide suitable housing options for its growing population, especially for family-friendly housing.*

If Melbourne's Urban Growth Boundary (UGB) continues to constrain greenfield land supply, the city could face a housing market crisis similar to that of Greater Sydney.

Sydney's housing market is naturally constrained by national parks, resulting in lower land sales activity and significantly higher land prices than in Melbourne. This is best summed up by the fact that between 2011 and 2024, around 340,000 new houses were approved for construction in Melbourne, compared to just 201,000 in Sydney. Consequently, house prices in Sydney are also higher than in Melbourne.

Without the outlet of affordable land for new housing, Sydney's house prices have climbed significantly higher than Melbourne's. Greater Sydney's median house price is now 34% above that of Greater Melbourne.

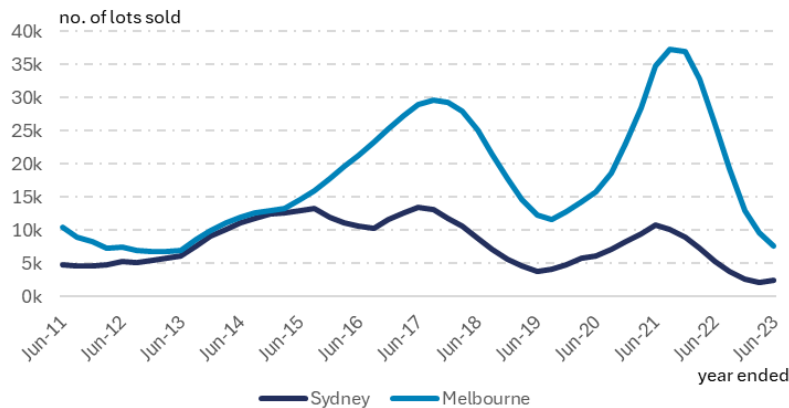
Figure 25: Median House Price (Greater Sydney v Greater Melbourne)



Source: Australian Bureau of Statistics, Domain, CoreLogic, Quantify Strategic Insights

Sydney's constrained land market has resulted in much lower land sales than in Melbourne. For example, Melbourne's Growth Area land sales peaked at 30,000 in 2017 and 35,000 in 2021, while Sydney's highest peak was only 13,400 land sales in 2017—less than half of Melbourne's peaks.

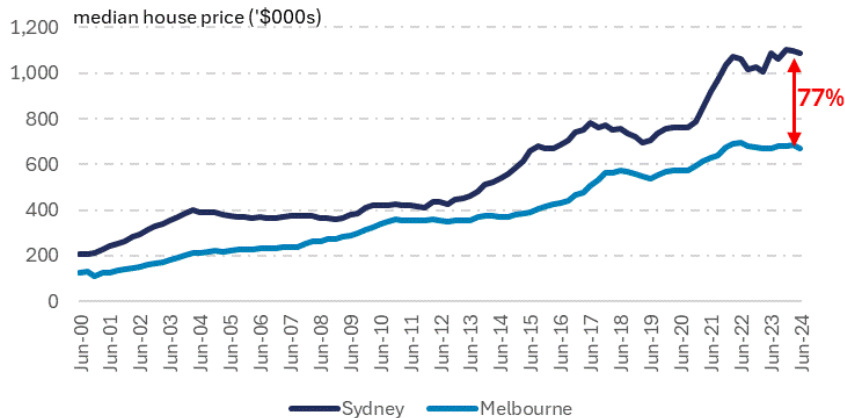
Figure 26: Volume of Land Sales (Sydney vs Melbourne Growth Areas)



Source: Australian Bureau of Statistics, Domain, CoreLogic, Quantify Strategic Insights

However, the constraints on new land supply have been most felt in Sydney's Growth Areas. Outer Sydney's median house price sits at around \$1.1 million, which is a substantial 77% premium on the Melbourne Growth Area median house price of \$672,000.

Figure 27: Median House Prices (Sydney vs Melbourne Growth Areas)

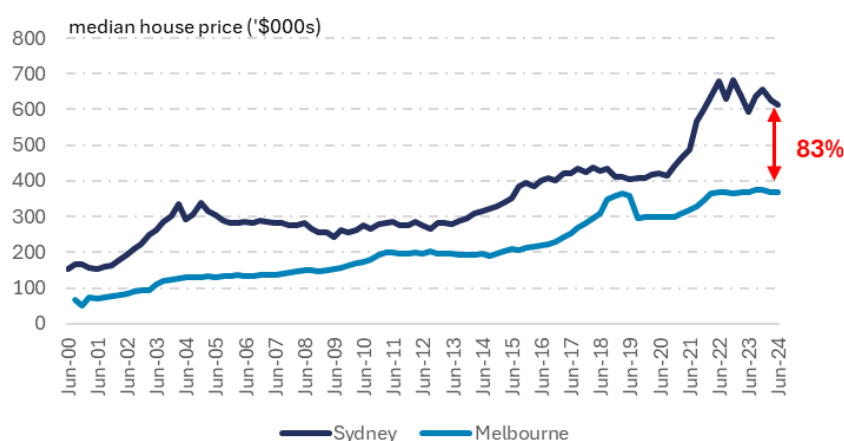


Source: Australian Bureau of Statistics, Domain, CoreLogic, Quantify Strategic Insights

Sydney's constrained land market is a key driver behind its significantly higher land costs, contributing to the overall higher cost of housing in the city compared to Melbourne.

Sydney's land prices have consistently been higher than those in Melbourne, with the gap widening significantly over time. By June 2024, Sydney's median land prices are 83% higher than Melbourne's, highlighting the substantial cost difference. In contrast, Melbourne's more abundant land have helped to keep land prices relatively lower.

Figure 28: Median Land Prices (Sydney vs Melbourne Growth Areas)



7.1 A Constrained Land Market: Lessons for Melbourne

If Melbourne were to follow Sydney's model of constrained land supply, it will have far-reaching implications for the city's housing market, affordability, and overall urban development.

Sydney's housing market, constrained by natural geographic limits and restrictive land policies, has resulted in significantly higher land prices and house costs. This is starkly illustrated by the fact that Sydney has approved far fewer new houses than Melbourne over the past decade, leading to a median house price that is 34% higher than Melbourne's.

However, Melbourne faces the risk of a housing market crisis akin to Greater Sydney if it continues to artificially restrict greenfield land supply. One of the consequences of this will be the continued steep increase in land and house prices, similar to what Sydney has experienced.

7.2 Significant Increases in Land and House Prices

With limited new land available for development, competition for available lots in Melbourne will intensify, driving prices higher. Sydney's Growth Area median land price is already 83% higher than Melbourne's, and if Melbourne's land supply were similarly constrained, prices could quickly escalate. This would make homeownership even more difficult for first-time buyers and middle-income families, exacerbating Melbourne's housing affordability crisis.

7.3 Reduction in Housing Supply

Constrained land supply would limit the capacity to build new homes, reducing the overall housing supply in Melbourne. This would make it challenging to meet the city's projected housing needs, particularly as population growth continues to be fuelled by migration.

Sydney's constrained land supply has led to significantly lower levels of new house development compared to Melbourne. If Melbourne were to follow suit, it could face similar shortages, leaving a growing number of households struggling to find suitable accommodation, particularly in affordable price ranges.

7.4 Increased Housing Inequality

Constrained land supply would likely deepen housing inequality in Melbourne, as wealthier households are better positioned to afford rising property prices, while lower- and middle-income households are priced out of the market.

This could result in a more polarised housing market, where only the affluent can access desirable locations and housing types. In Sydney, the constraints on land supply have contributed to significant disparities in housing affordability across different regions, with outer suburbs becoming increasingly unaffordable for many residents. A similar trend in Melbourne would lead to greater social and economic divides.

7.5 Limited Flexibility in Responding to Demand Shifts

Constrained land supply reduces a city's flexibility in responding to shifts in housing demand. In a market with a limited amount of land available for development, it becomes more difficult to adapt to changing demographics, economic conditions, or housing preferences.

For instance, as Melbourne's 35–44-year-old age cohort grows, demand for family-friendly housing will increase. If land supply is too constrained, the city may struggle to meet this demand, forcing families into less suitable housing options or driving them to other regions.

The need for a balanced approach that provides adequate greenfield land to accommodate this growing demand is therefore crucial to Melbourne's future housing strategy.

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**CONTAINMENT MEASURES,
COMBINED WITH A HIGHLY
RESTRICTIVE ZONING REGIME
AND INEFFICIENT APPROVALS
PROCESS, DISTORT THE LAND
MARKET BY REDUCING
COMPETITION AMONG
LANDOWNERS AND
DEVELOPERS**

7 MELBOURNE: THE WAY FORWARD

Melbourne is projected to experience significant population growth, particularly driven by overseas migration, which will substantially increase the demand for new housing.

The 35-49 year old age cohort, a key driver of demand for family-oriented housing, is expected to grow considerably over the coming years, further intensifying the need for new dwellings, especially separate houses.

There is a clear and growing preference for separate houses over medium and high-density dwellings in Melbourne, driven by the needs of families, including and many migrants.

The high proportion of overseas-born individuals in the 35-44 age cohort underscores the significant impact of migration on housing demand. As this cohort continues to grow, the preference for separate houses is likely to persist, driving further demand for family-oriented housing in Melbourne's growth areas.

Urban densification efforts have not fully addressed the demand for separate houses, leaving other dwelling types with a smaller market share.

The availability of greenfield land is crucial for meeting Melbourne's housing demand. However, the current constraints posed by the UGB could limit the supply of new land, leading to higher land and housing prices, similar to what has been observed in Sydney.

Melbourne needs a balanced approach that ensures an adequate supply of land for new housing development, while also encouraging a diverse mix of housing types to meet the needs of a growing and changing population.

The key will be to manage growth in a way that maintains affordability, supports economic competitiveness, and preserves Melbourne's reputation as one of the world's most liveable cities.

Melbourne faces a substantial risk of replicating Sydney's housing market challenges if it continues to constrain land supply. The experience of Sydney, with its higher land and housing prices, reduced housing supply, and increased inequality, serves as a cautionary tale for Melbourne. Without sufficient greenfield land, Melbourne could see similar issues, including higher house prices, reduced affordability, and increased social and economic divides.

If greenfield land supply is not adequately managed, Melbourne risks facing a worsening of the housing market crisis characterised by reduced affordability and a shortage of new homes.

To avoid the pitfalls of constrained greenfield land supply, Melbourne must adopt a balanced approach that ensures an adequate supply of greenfield land while supporting a diverse mix of housing types. This approach will be critical to maintaining housing affordability, supporting economic growth, and meeting the needs of a rapidly growing population.

Plan Victoria must address these challenges by ensuring sufficient land supply is provided to accommodate continued strong population growth. Failure to do will lead to a worsening of the housing crisis, with far-reaching consequences for the city's liveability and economic vitality.



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