

UDIA – Western Australia

Land Supply Crisis or Beat Up?

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Land Supply – Crisis or Beat Up?

- Is land supply really in crisis?
- What do the numbers tell us?
- Supply is only half the equation ... what about demand?
- Role of the Banks. Where do we play? What have we been doing? What are we doing now? What will we be doing?
- Some suggestions

Crisis? What Crisis?

Are we in Crisis?

- Different people will have different views depending on one's position in the market
- **Home Buyers** – would tend to agree / **Home Owners** – maybe less so
- **Developers** – By & large view land supply as being a critical issue, although undersupply does lead to price & profitability increases ...
- ... but also an increasing cost base – experienced developers have limited land holdings
- **Governments** – Potential for conflict is very real ... rising house prices historically seen to be a political positive ...
- ... but is this changing? Saturday's West Australian front page – "MINISTER DECLARES WAR ON HOUSE PRICE GROWTH" *The West Australian 22 May 2010*
- **Banks** – Lending more to the mortgage market at higher gearing – but default rates remain low (will this continue with interest rates rising?)...
- ... but have suffered losses to development sector with risks exacerbated by extended planning processes

Crisis? What Crisis?

Or is it all just a Beat Up?

- Almost certainly not
- Critical housing shortage risks becoming intractable
- Historically demand and supply have been in relative balance
- This can't be said for the last 5 years though and the impact on prices and affordability has been obvious
- Affordability becoming a major political & (potentially) social issue

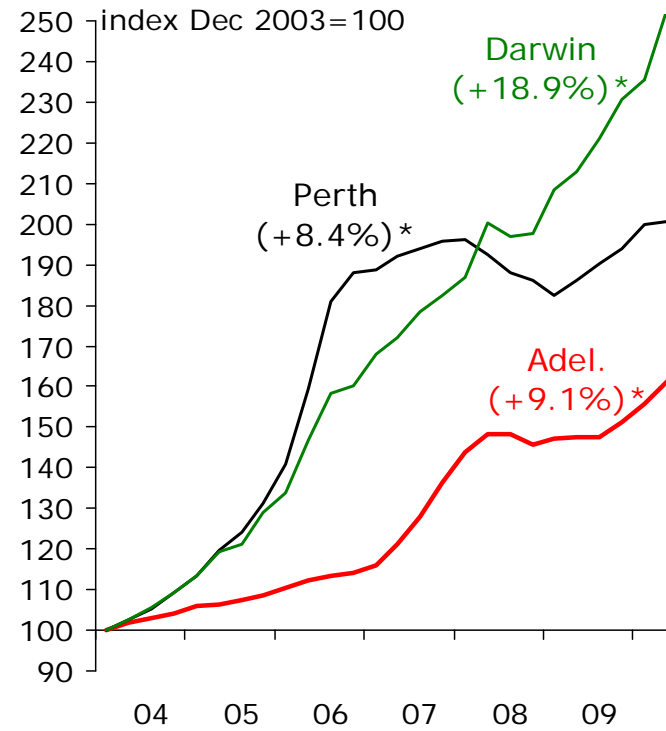
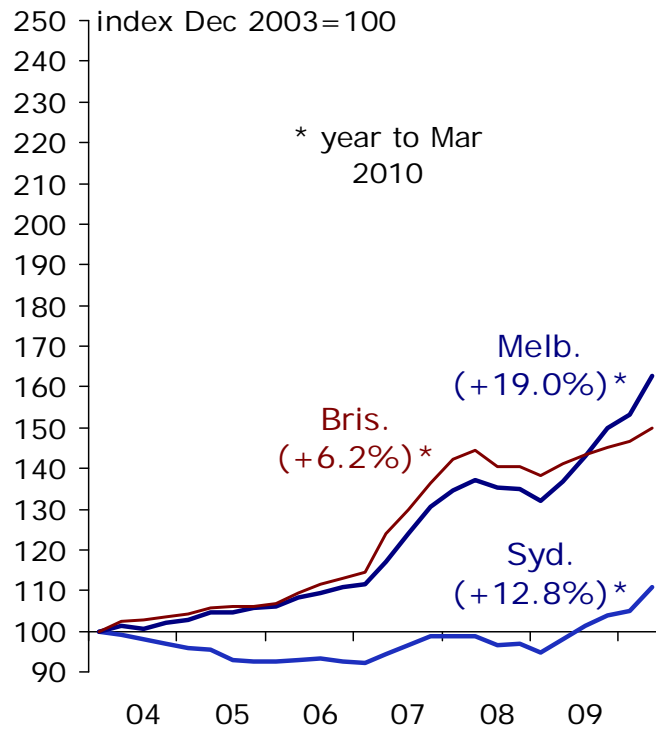
Average Prices per Lot – Perth 2001-2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Ave Price Per Lot	\$91k	\$104k	\$110k	\$132k	\$161k	\$246k	\$322k	\$257k	\$231k	\$250k
+/-		+14.2%	+5.2%	+20.6%	+21.5%	+53.0%	+31.1%	-20.1%	-10.4%	+8.3%

- Perth land values the highest in Australia (ave \$521 per sqm)
- Median house price in Perth only 4% less than Sydney and at current growth rates will surpass Sydney by the end of 2010
- Perth's cheapest suburb (by median house price) 27.9% more expensive than the cheapest suburb in Sydney

A Nationwide Issue

Median House Prices

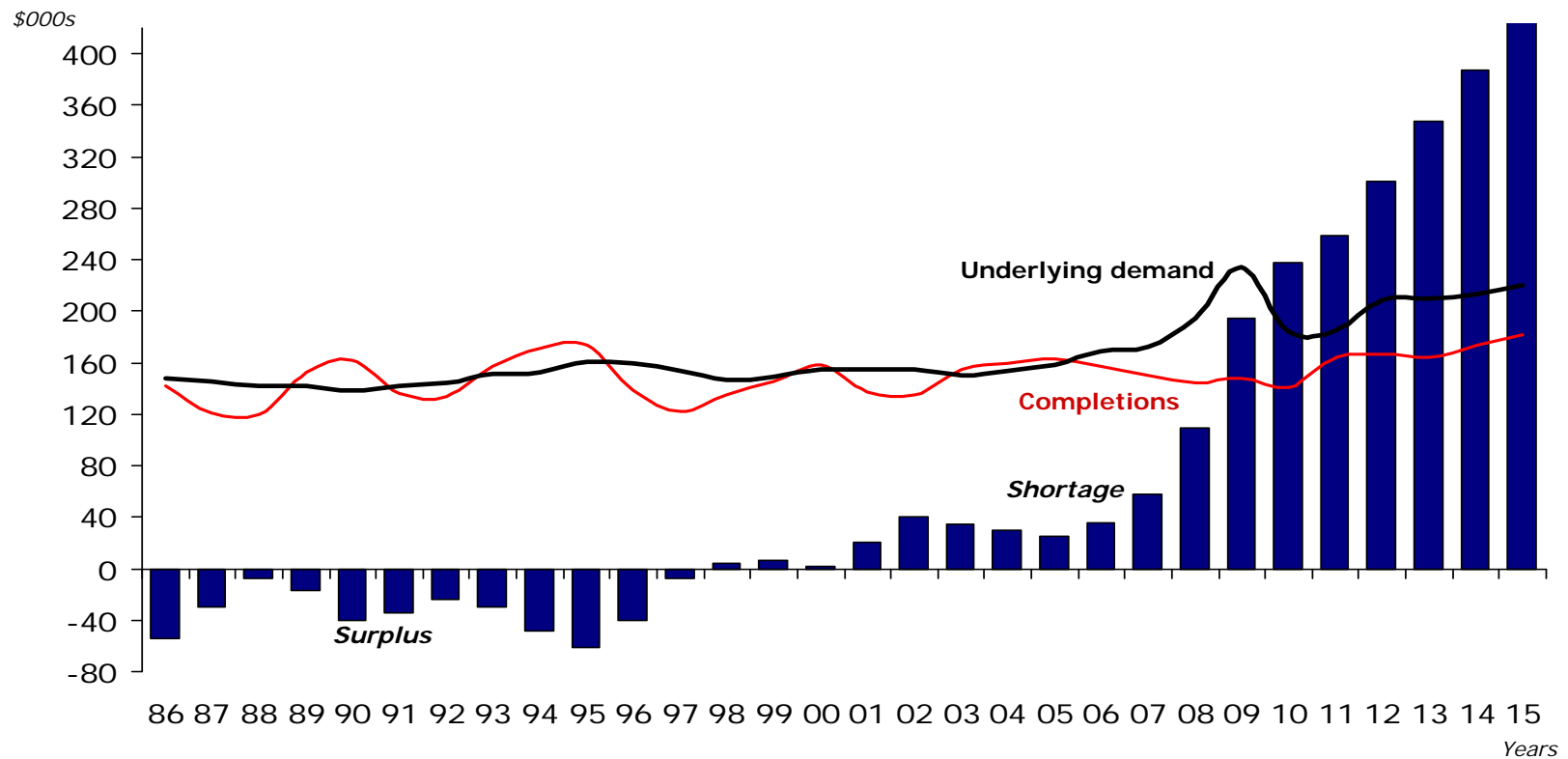


Supply is only one part of the equation ... what of demand?

- Supply can't be viewed in isolation
- Over / Under supply is a direct function of **demand**, which is being driven by...
- ... Australia's growing population ...
- ... An ageing population, and ...
- ... A move to smaller households
- The Australian "dream" of home ownership has become an obsession with the family home now seen as a major source of wealth creation
- Demand for housing funded by a greater number of mortgage providers prepared to take more aggressive lending positions
- Borrowers willing to take on far greater leverage
- Both buyers and lenders encouraged by a low interest rate environment, growing economy and stable employment market since the mid 1990's

What happened to the era of demand and supply balance – and price equilibrium?

Housing Market Balance (Australia)



Where do we all fit into the housing equation?

Planning Authorities

- Deal almost exclusively on the supply side and have significant influence

Developers

- Bring the 2 sides together
- Can influence supply via land release rates but typically aim to respond to demand

Banks

- Actively participate in both the supply (developer) and demand (purchaser) sides of the equation
- Challenge for banks is to act in relative symmetry on both sides of the supply / demand equation at the same time

Role of the Banks

Supply Side

- Participate by lending to developers
- Not as aggressively as pre 2008 with some 2nd tier lenders (& below) withdrawing from the market
- Little appetite for funding long term land holds with the issue exacerbated as the re-zoning / planning approval process becomes longer
- A 5 year plus re-zoning / planning process does not fit with Bank lending appetites / capital constraints
- Finance is available for experienced operators with well capitalised projects / balance sheet and an ability to go to market in the near term
- Key is being able to identify and quantify market risks
- ANZ in WA has approved >\$350M in residential sub-division lending since October 2009

Role of the Banks

But ...

- Circa 40-50% of residential land product delivered by “non professional”, “boutique” or “thinly capitalised” developers
- Difficult for these developers to secure finance
- Many banked with 2nd tier lenders (& below) taking aggressive gearing positions against inflated land values who have withdrawn from the market
- Developers did not have sufficient experience, capital to bring product to market in difficult economic times
- Distressed assets in this segment of the market are significant
- Lenders increasingly conscious of the difference between asset lending and lending for development purposes where cash flows exist
- Timing of a change in appetite?

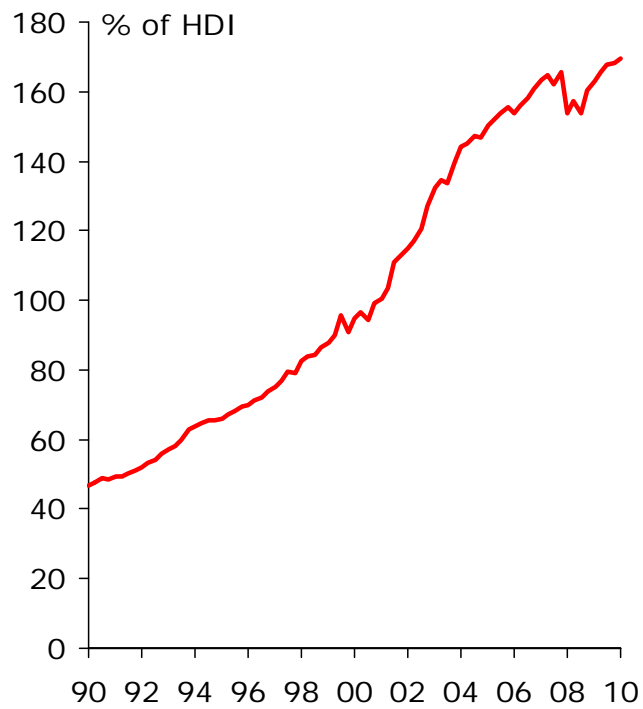
Role of the Banks

Demand Side

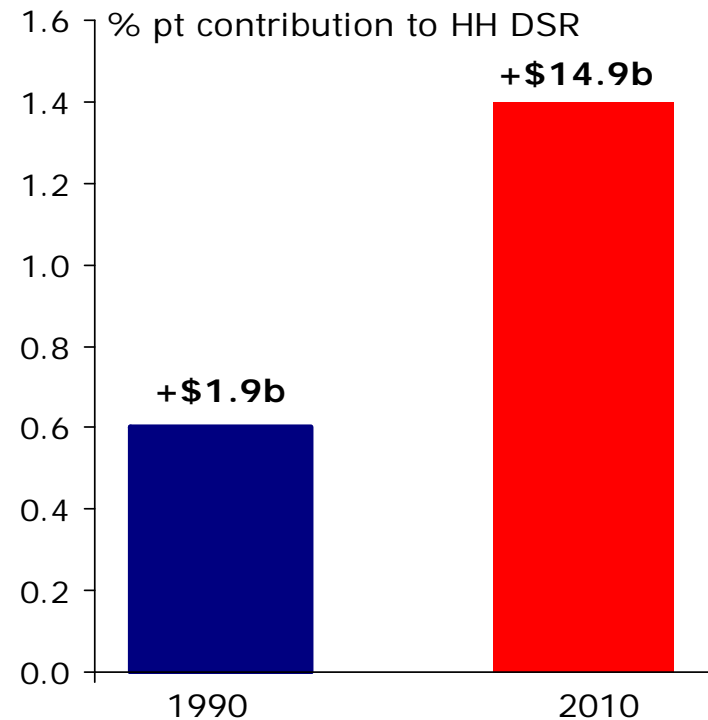
- Participate via mortgage lending to purchasers
- Has grown significantly in last 15 years – both in volume and gearing
- Bank's providing, and households taking on, leverage at higher levels than ever before
- Aggressively competitive market where changes in rates and / or gearing levels drive market share

Monetary policy has significantly increased leverage in the housing sector

Household Debt to Income Ratio

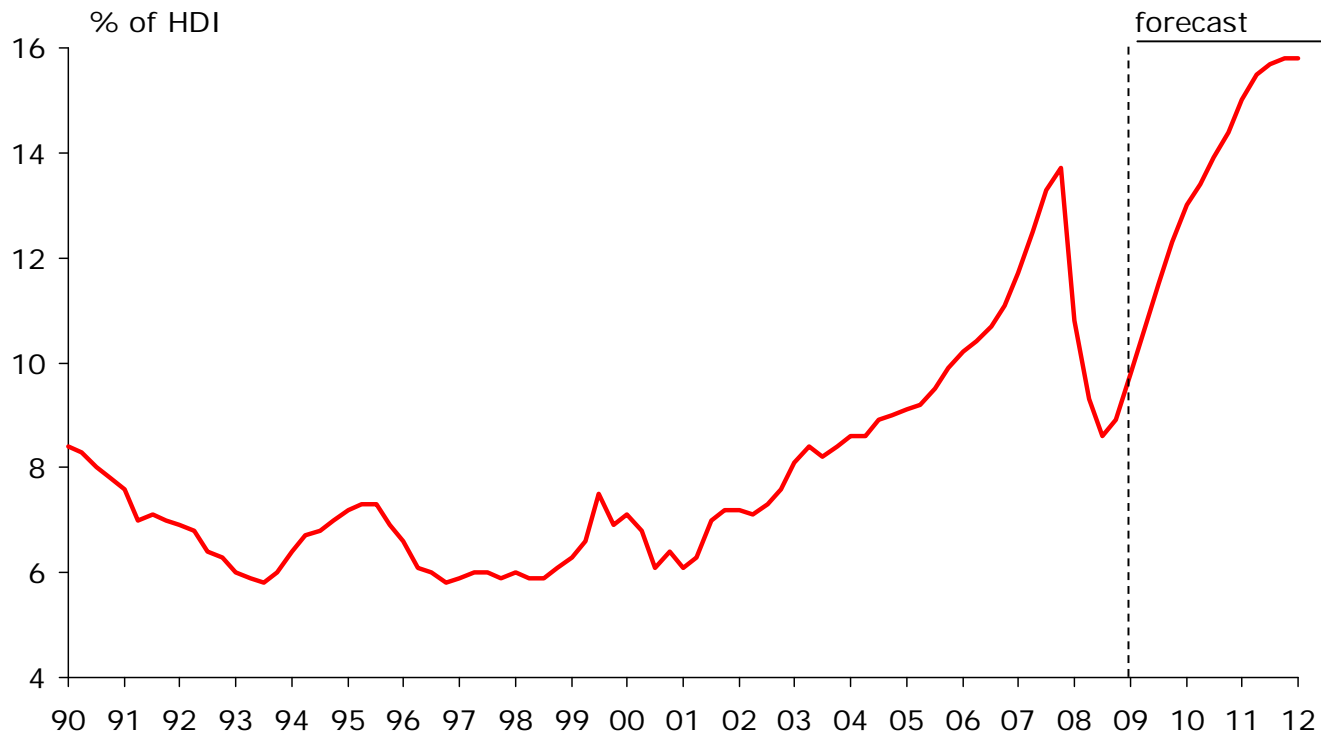


Impact on HH DSR of a 100 bps shift in Monetary Policy



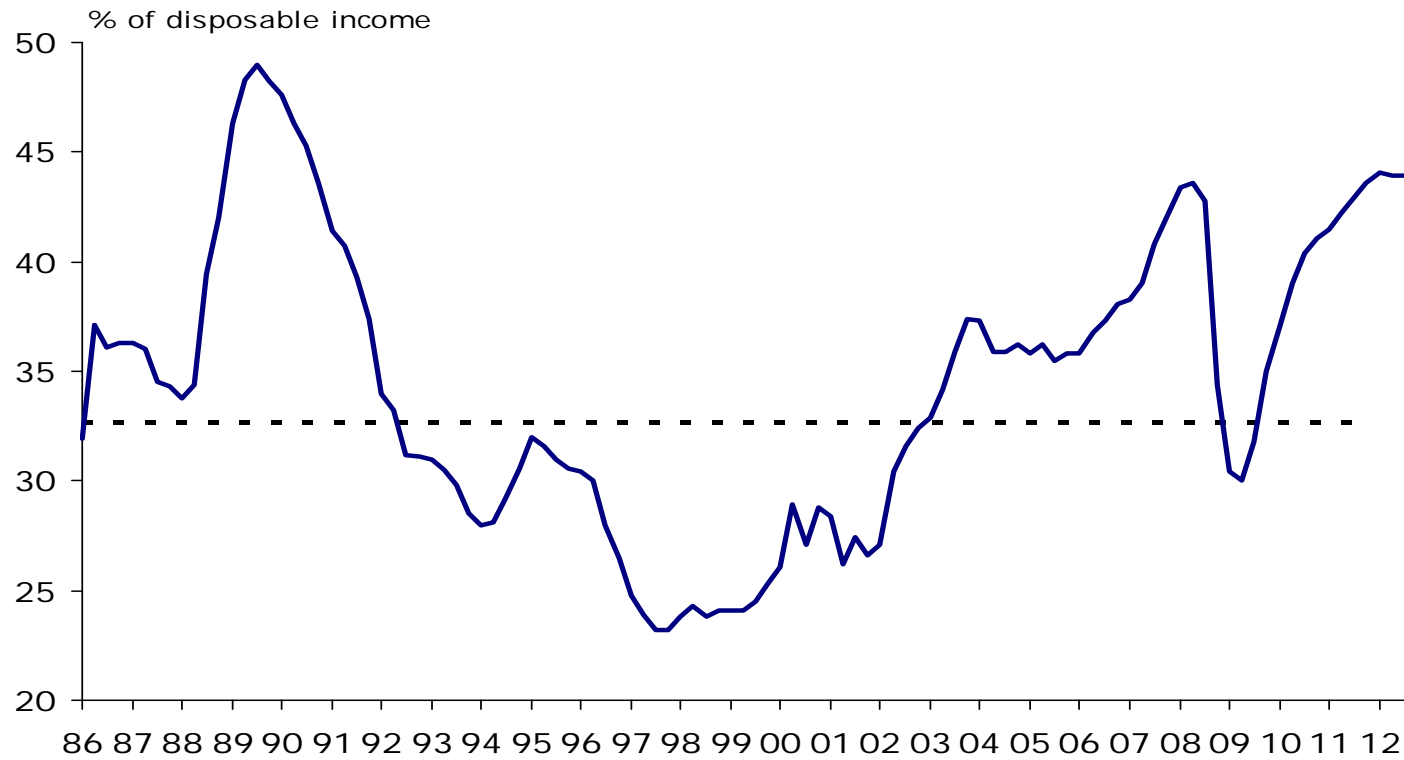
The household sector will face a *record high* debt servicing burden in years ahead ...

HH Debt Service Ratio



... and the affordability of housing will get worse

Housing *purchase* affordability



Moving Forward

- Proposed WA planning reforms welcome – Development Assessment Panels
- 5 year + re-zoning / planning timeframes are not sustainable
- Minister for Housing - "The Department of Land is looking at this issue very closely. It owns land and is looking at its land stocks and will release as much land as possible." *The West Australian 22 May 2010*
- Bring state & federal authorities together – running concurrent processes
- Increase emphasis on other housing forms – eg: apartments. But project feasibility is a major issue in WA
- Developers may need to consider other forms of finance for land holdings if re-zoning / planning timeframes aren't significantly reduced
- Role for Super Funds?
- Banks to find greater symmetry in their approaches to the supply (developer) and demand (purchaser) sides of the equation

What will it take?

- All parties need to look for solutions, not scapegoats
- Must work together – can't be done without co-operation
- No one party is to blame for the current situation
- Responsibility / opportunity falls to all of us to deal with it
- Political will is needed to make the changes necessary – conflicting interests will compete
- Dealing with supply issues is difficult – but the alternative is addressing demand – where the solutions are more apparent, but much more controversial
- Demand very elastic, supply much less so
- Addressing the Land Supply Crisis, whilst difficult, is not impossible, but it will require long term commitment from all parties