THE 2011 UDIA STATE OF THE LAND REPORT

Urban Development Institute of Australia
National Land Supply Study

Contents

EXECUTIVE SUMMARY

A sufficient supply of land to support new housing is essential for ensuring the maintenance of housing affordability in Australia and remains a significant challenge for policy makers across all levels of Government.

This is the third State of the Land Report (2011) produced by the Urban Development Institute of Australia (UDIA). It has been prepared by each Division of the UDIA across Australia with the input from the country's leading urban development practitioners.

The Report examines the supply of new residential lots in the major capital cities (Sydney, Melbourne, Brisbane, Perth and Adelaide) and finds that there is a substantial undersupply of land.

The report also finds that the supply of land is declining in most capitals and has been since 2005.

UDIA has made the following recommendations to start addressing the gravity of the issue and to implement actions to improve lot production and delivery in Australia's cities:

1. **UDIA recommends that the Commonwealth Government implements a long-term national urban strategy.**

- This strategy should: Push for each State to maintain a specified rolling development supply of 25-30 years in a range of growth areas, a 15-year zoned land supply pipeline of serviceable land and 5-10 years supply of approved and practically achievable developments in a range of locations and which meet a range of market needs. An annual monitoring process should be established to track the progress of this goal;
- Encourage the integration of infrastructure provision and land supply pipelines across the nation;
- Include a program which ensures the delivery of major urban renewal projects that would not be possible without significant initial public investment, similar to the previous *Building Better Cities* program.

2. **UDIA recommends that the Productivity Commission be charged with undertaking an inquiry into financing local infrastructure and specifically examine the proliferation and impact of 'development levies'. The scope of the inquiry should also cover an evaluation of alternative methods of financing infrastructure, such as tax increment financing or government borrowing.**

3. **UDIA recommends that the Federal Department of Sustainability, Environment, Water, Population and Communities establish or revise bilateral agreements with all State and Territory Governments in relation to the Environment Protection and Biodiversity Conservation Act.**

- These should create an integrated policy framework between the different levels of government enabling single assessments to take place prior to urban zoning;
- The agreements should endeavour to fully take the triple bottom line into account by consulting with a variety of stakeholders, including all the relevant Government departments.

4. **UDIA recommends that the Federal Government conduct a thorough bi-annual audit of all Commonwealth-owned land in order to regularly update its Register of Surplus Commonwealth Land.**

INTRODUCTION

The 2011 UDIA State of the Land Report highlights the ongoing undersupply which exists in the national housing market. Australia's lack of housing supply is confirmed by the National Housing Supply Council's State of Supply Report 2010 which estimated an undersupply of 178,400 dwellings in Australia in the year to June 2009.

The 2011 UDIA State of the Land Report illustrates the growing gap between land supply and demand throughout Australia. Continuing undersupply will have significant consequences in terms of housing affordability and broader implications for the Australian economy as a result of corresponding inflationary pressures.

DEMAND AND SUPPLY CONDITIONS

The current undersupply of land throughout Australia is a pressing concern. Demand for housing remains strong amid an expanding population driven by high levels of immigration and natural increase. Furthermore, changing patterns in household formation have served to stimulate demand.

Buyers are responding to the relative health of the Australian economy and lending requirements for homebuyers are starting to ease in the wake of the global financial crisis. Supply, however, has clearly fallen well short of demand.

The National Housing Supply Council's State of Supply Report 2010 found that the demand for housing in Australia is expected to grow over the next 20 years with an additional 3.2 million dwellings needed to meet underlying demand by 2029, and that the gap between supply and demand is also likely to continue to grow over this period with a projection of a 640,600 dwelling shortfall. The problem has been highlighted in various states by the trend which has seen desperate buyers camp outside sales offices ahead of land releases.

SUPPLY CONSTRAINTS

Australia does not suffer from a lack of land suitable for development and inadequate housing supply is a manufactured condition. State/Territory and local governments are primarily responsible for generating an adequate level of supply.

There is a range of factors influencing the current level of undersupply. Attempts to unlock land supply are constantly being undermined by significant delays in the planning approval and rezoning processes; the time, costs and complexity of meeting environmental compliance requirements have contributed to an artificially scant supply of land.

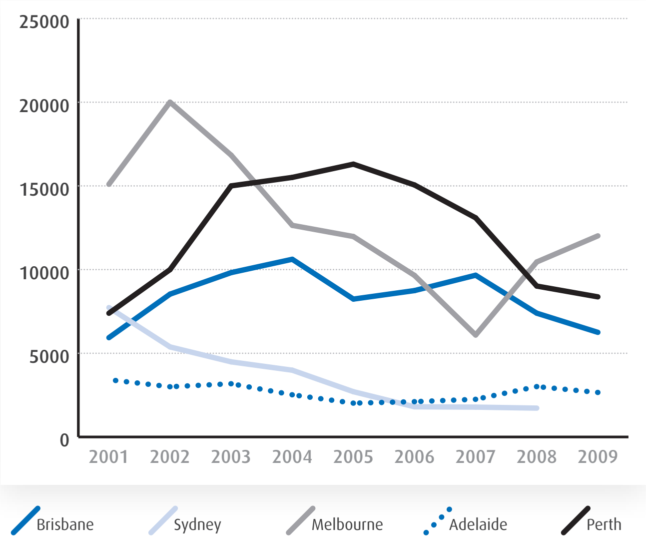
Another common obstacle being experienced is the rising infrastructure charges initiated by local councils and utility companies. These have the ability to make projects unviable as they contribute significantly to the cost structure of development and increase barriers to market entry. Related to the issue of infrastructure provision is the lack of coordination between utility providers and planning authorities which increase project risk through delay and uncertainty.

CONSEQUENCES FOR AFFORDABILITY

Land supply constraints are a significant contributing factor to Australia's current housing affordability crisis. Undersupply creates inflationary pressures in the land market and because the price of land comprises a significant proportion of total housing costs, there is a knock-on effect in the wider housing and rental markets. Furthermore, limited supply not only increases the costs of new dwellings, but also impacts on established dwellings, as there is little market incentive for existing homeowners to sell below the price of a new house. Therefore, while new homes only contribute a relatively small portion of the total housing pool, prices for existing houses are potentially vulnerable to price increases driven by increases in the costs of developing new housing.

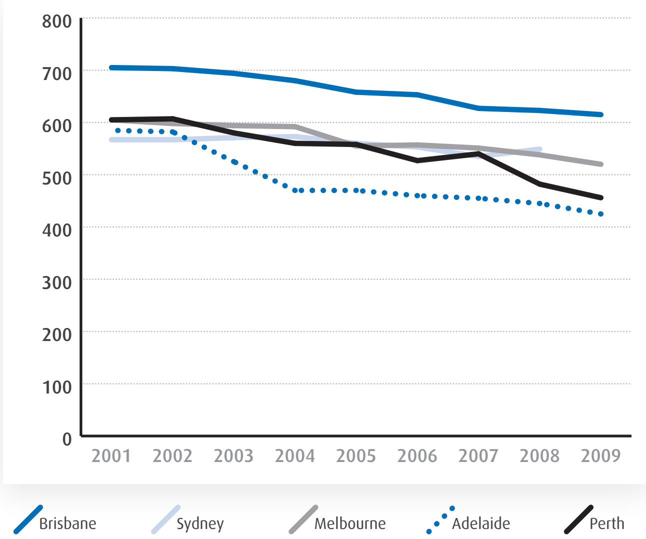
NATIONAL FINDINGS

Lots produced



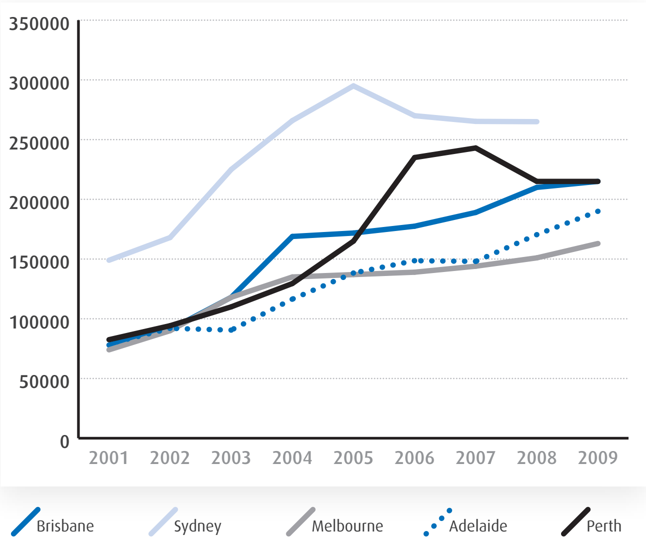
Source: UDIA (National)

Median lot size



Source: UDIA (National)

Median lot price



Source: UDIA (National)

INTRODUCTION

THE RANKINGS

1. **Melbourne** comfortably leads the rest of the capital cities in terms of land supply, but price rises suggest that significant delays remain in the system, meaning that developable land is getting to the market slower than needed. While the steady and consistent rate of lot production has resulted in a relatively well priced market, some analysts suggest that the market may be headed towards a tipping point if prices continue to rise. Although the impact of the Growth Areas Infrastructure Contribution has yet to be felt, the expansion of the city's Urban Growth Boundary should facilitate an adequate level of future supply to accommodate Melbourne's fast-growing population and begin to alleviate price pressures. As a result, the medium-term outlook for the Melbourne market remains positive.
2. **Adelaide** has offered a stable and reliable supply of land for a number of years. However, amid a recent decline in lot production there is concern that supply is drying up, particularly as South Australia is well placed to enjoy future economic growth and steady population growth. The increasingly tight gap between demand and supply is reflected by a significant increase in the median price of lots. Local authorities are expected to explore options to ease the situation, but additional reforms to the planning approvals system are also required. The implementation of the recently released 30 year Plan for Greater Adelaide (May 2009) is expected to ease future supply constraints.
3. Lot production in **Perth** has continued on the downward trend which began in 2005-06. Supply seems to have kept up amid a drop in demand, but there are concerns for the future as demand may pick up on the back of a strong economy and record population growth. Delays in the planning approvals continue to frustrate and reform will be needed to match future supply.
4. The **Brisbane** residential market is currently the most depressed in Australia. The downward trend in lot production continued in 2009, albeit at a lower rate than previous years. Lots coming through to the market are rarely of the affordable type and land prices continue to rise. Unsurprisingly, Brisbane suffers from many of the same problems affecting Sydney with high 'development levies' and lengthy planning processes.
5. In terms of supply **Sydney** has continued its trend of lagging behind the other major cities. Exceedingly high development levies place severe constraints on land supply and Sydney continues to produce the least number of lots of all the capital cities. This long-running period of undersupply has contributed towards Sydney's status as the most expensive city in Australia.

CONSIDERATIONS FOR THE URBAN DEVELOPMENT SECTOR AND POLICY MAKERS

UDIA is the peak representative body for the urban development industry and its 2011 State of the Land report issues a damning verdict on the land supply situation in Australia. Although the difficulties associated with bringing land to market differ from state to state and council to council, there needs to be a greater willingness to tackle the barriers and drivers of supply.

Australia continues to experience high levels of immigration and population growth in cities. With more than 75% of Australians living in cities of 100,000 people or more, urban development is clearly a matter of national importance. The demands placed on cities will need to be reciprocated by an effective strategy to expand housing, upgrade existing urban facilities and seek alternative regional and urban centres.

UDIA recommends that the Commonwealth Government implements a long-term national urban strategy.

- This strategy should: Push for each State to maintain a specified rolling development supply of 25-30 years in a range of growth areas, a 15-year zoned land supply pipeline of serviceable land and 5-10 years supply of approved and practically achievable developments in a range of locations and which meet a range of market needs. An annual monitoring process should be established to track the progress of this goal;
- Encourage the integration of infrastructure provision and land supply pipelines across the nation;
- Include a program which ensures the delivery of major urban renewal projects that would not be possible without significant initial public investment, similar to the previous *Building Better Cities* program.

Infrastructure levies are having a crippling effect on land supply and affordability. In most jurisdictions, the levy framework for new residential development has grown significantly since its inception. There is a great need for a debate about the alternative approaches to financing urban infrastructure to support new housing.

The Productivity Commission be charged with undertaking an inquiry into financing local infrastructure and specifically examine the proliferation and impact of 'development levies'. The scope of the inquiry should also cover an evaluation of alternative methods of financing infrastructure, such as tax increment financing or government borrowing.

The Environment Protection and Biodiversity Conservation Act (EPBC) covers matters of national environmental significance. Although bilateral agreements do exist between some of the Commonwealth and State/Territory governments, duplication between the different levels of government still occurs in the assessment and regulation processes. Lack of coordination between the Commonwealth and State/Territory governments often leads to significant delays which in turn impact on supply. In addition, there is growing concern that environmental concerns are increasingly overriding social and economic considerations. The EPBC Act equips the Federal Environment Minister with a great deal of decision-making power, without the necessity to fully consult with other stakeholders or government departments.

UDIA recommends that the Federal Department of Sustainability, Environment, Water, Population and Communities establish or revise bilateral agreements with all State and Territory Governments in relation to the Environment Protection and Biodiversity Conservation Act.

- These should create an integrated policy framework between the different levels of government enabling single assessments to take place prior to urban zoning.
- The agreements should endeavour to fully take the triple bottom line into account by consulting with a variety of stakeholders, including all the relevant Government departments.

The selling off of Commonwealth land for housing purposes may partly ease the current shortage of supply. The recent introduction of the *Register of Surplus Commonwealth Land Potentially Suitable for Housing* is to be commended. This, however, needs to be subject to regular updating so potential opportunities are not missed.

UDIA recommends that the Federal Government conduct a thorough bi-annual audit of all Commonwealth-owned land in order to regularly update its Register of Surplus Commonwealth Land.

NEW SOUTH WALES

CURRENT MARKET SNAPSHOT

New housing production in NSW continues to track behind the other major states, due in part to prevailing economic conditions, but also as a direct result of an uncompetitive cost structure for new development and a complex and uncertain regulatory framework. In 2009 dwelling completions in NSW accounted for 18.9% of the national total. This is well down on the 25% share of the national total in the 35 years leading up to 2005. This trend appears to have continued in 2010 with dwelling completions 9% lower than the same period of the previous year.

In terms of housing demand, strong population growth, low interest rates, and Government subsidies to first home buyers have contributed to strong demand for new housing. These factors combine with the chronic undersupply condition that has existed in NSW and Sydney in particular over the last 4-5 years to contribute to a strong underlying demand, which if not appropriately catered for through increased supply, will cause price inflation.

On the issue of supply, there are some signs that conditions are gradually improving in NSW. Dwelling finance and approvals data indicate that completions will accelerate in 2011, with the resulting uplift potentially exceeding the previous year's completion total.

The Government has introduced a range of supply-side initiatives which may flow through to increased investment activity over the medium term. The outlook over the next 12 months looks tentatively encouraging, with a number of new release areas coming onto the market over the last six months and translating into reasonable sales rates.

The challenge for policy makers and developers will be in addressing capacity constraints in infrastructure provision and in ensuring that Councils and Government agencies are adequately resourced to process the increased demand from more robust investment activity.

CURRENT LAND SUPPLY

The need for land supply in Sydney to service overall dwelling production has undergone a structural decline as a result of Government policy to increase the supply of infill development. While the need for land supply to service overall dwelling production is not as high as has historically been the case, production levels in Sydney of around 7,500 lots per annum are required on the suburban fringe to meet market demand, address strategic planning policy objectives and maintain housing affordability.

Current lot production is significantly down on the historical average, with a number of factors contributing to poor market performance over a sustained period. These factors include:

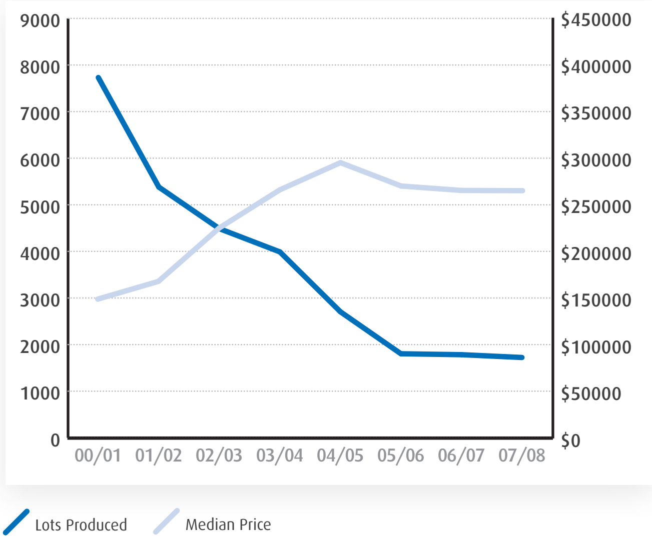
- a lack of new greenfield land acquisition activity due to high vendor expectations for raw land prices;
- an uncompetitive cost structure of development levies relative to other capital city markets which discourages new investment from developers and creates a large disparity between prices for existing and new housing stock; and
- the rezoning and approval process for major new release areas continues to be plagued by delay, complexity and uncertainty.

Metropolitan Sydney Historical Lot Production

Period	Lots Produced	Average Lot Size	Median Price	Median Price per sq metre
2000/01	7731	567	$149,000	$263
2001/02	5380	567	$168,000	$296
2002/03	4488	571	$225,000	$394
2003/04	3989	573	$265,900	$464
2004/05	2704	560	$295,000	$527
2005/06	1803	553	$270,000	$488
2006/07	1783	535	$265,250	$496
2007/08	1723	549	$265,000	$483
2008/09				

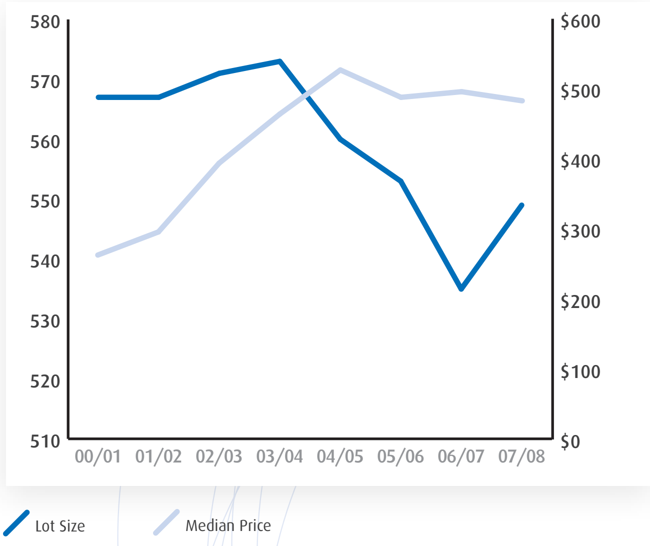
Source: NSW Metropolitan Development Programme.
The NSW Government has not released any lot production figures for 2008/09 or later.

Greenfield Lot Production and Median Price



Source: NSW Metropolitan Development Programme

Median Lot Size and Price Per Square Metre



Source: NSW Metropolitan Development Programme

NEW SOUTH WALES

The Government has recently committed to a range of measures which if implemented correctly, may deliver benefits for housing production on the fringe. The key measures include:

- a $30,000 cap on local development contributions in greenfield locations – while significant if viewed in isolation – still places new release areas in Sydney well above the national average for development levies;
- the creation of a Land and Housing Supply Coordination Taskforce which will be chaired independently and charged with identifying and removing obstructions to the release of land and delivery of infrastructure;
- a program to review and update both land release sequencing in Sydney's growth centres and the existing criteria used when deciding on government support for major new land release outside the growth centres.

These measures are a belated response to market conditions that UDIA NSW has consistently argued are a direct reflection of the Government's policy framework and an acute lack of agency coordination on housing delivery.

It should also be noted that the Government's June 2010 decision to cap development levies at $20,000 could be described as the manifestation of some of the worst aspects of public policy development – a complete lack of communication between the agencies writing the policy and those responsible for implementation, a failure to consult with industry and local government beforehand, significant delays which stalled private and public sector investment, and a humiliating back-down in the interests of political expediency.

After announcing a $20,000 cap on development levies, the Government conceded that it had no strategy to implement the reforms. Local Councils refused to issue development consents for new subdivision work where existing charges were above the cap, and as a result the industry stalled completely for three months.

In September 2010, the Government announced that the levy cap in greenfield areas would be lifted to $30,000 with Councils given the opportunity to levy above that amount, subject to Ministerial consent, and existing projects subject to the levies that originally applied (as high as $65,000 per lot). For a quarter of the year, investment in greenfield development stalled because the Government had failed to develop a sound policy on development levies before announcing it. This is despite years of a seriously underperforming greenfield housing market, sustained advocacy from industry, and pressure from the Federal Government, pointed remarks from the Reserve Bank of Australia, and rapidly deteriorating housing affordability in Sydney.

FUTURE LAND SUPPLY

Through the NSW State Plan, the Government has set a target of achieving 55,000 zoned and serviced lots ready for development by 2009. The Sydney Metropolitan Development Program 2008/09 (MDP), released in April 2010, revealed that the Government believed there to be the following dwelling potential from greenfield land supply in the Sydney metropolitan region:

- Total MDP - 131,057 potential dwellings (79 release areas);
- Zoned - 68,636 potential dwellings (of the 79 release areas 58 have been rezoned);
- Zoned with trunk infrastructure - 56,342 potential dwellings (45 release areas) - there is capacity in the trunk infrastructure to service these areas;
- Zoned with Lead-in Infrastructure - 30,167 potential dwellings (45 release areas) - lead in infrastructure is constructed to the edge of the release area.

The MDP also provides lot production forecasts in the greenfield release areas in Sydney over the coming years. The forecasts show a steady increase in lot production from 4,088 lots in 2009/10 to 5,369 in 2012/13.

UDIA NSW in consultation with its Metropolitan Land Release and Infrastructure Committee has prepared its own forecasts based on consultation with key development industry participants. The forecasts show a steady increase in production in the next two years off a very low base, reflecting expectations of a modest recovery in the overall market and the emergence of several new major estates.

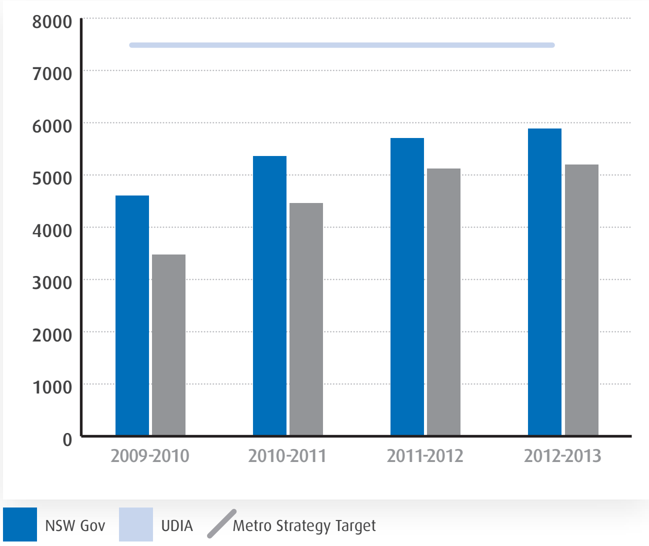
Sydney Metropolitan Land Supply Forecast

		2009/2010	2010/2011	2011/2012	2012/2013	4 year total
Camden	Gov	879	1163	1352	1429	4823
	UDIA	697	1030	1227	1227	4332
Campbelltown	Gov	209	252	276	322	1059
	UDIA	223	246	307	253	1029
Liverpool	Gov	701	636	678	708	2723
	UDIA	443	565	674	848	2530
Wollondilly	Gov	10	0	0	0	10
	UDIA	10	0	50	100	160
Blacktown	Gov	1274	1470	1420	1461	5625
	UDIA	1167	1246	1120	1086	4619
Hawkesbury	Gov	0	0	0	0	0
	UDIA	0	0	0	0	0
Penrith	Gov	347	547	630	694	2218
	UDIA	171	441	641	681	1934
The Hills Shire	Gov	668	861	804	755	3088
	UDIA	320	539	505	507	1871
Wyong	Gov	523	431	552	522	2028
	UDIA	450	400	450	500	1800
Total	Gov	4611	5360	5712	5891	21574
	UDIA	3481	4467	5125	5202	18275

Source: UDIA NSW/ NSW Metropolitan Development Programme

NEW SOUTH WALES

Metropolitan Sydney Forecast Lot Production



Source: UDIA NSW/ NSW Metropolitan Development Programme

Metropolitan Sydney Forecast Lot Production

	2009 -2010	2010 -2011	2011 -2012	2012 -2013
NSW Gov	4611	5360	5712	5891
UDIA	3481	4467	5125	5202
Metro Strategy Target	7500	7500	7500	7500

Source: UDIA NSW/ NSW Metropolitan development Programme

ISSUES/BARRIERS TO DEVELOPMENT

The Government has made some progress on seeking to remove bottlenecks and constraints to the housing delivery process. These measures include:

- the removal of upfront charges for water and sewer infrastructure;
- a temporary reduction in the state infrastructure contribution;
- the introduction of a $30,000 cap on local development contributions in greenfield locations; and
- the establishment of an independent Land and Housing Supply Coordination Taskforce.

These measures follow a period of sustained underperformance and are welcomed by the industry. There are a number of issues that UDIA NSW believes require further attention from both this Government, and the new Government elected in 2011 to improve the housing delivery process and these are detailed below:

Fragmented Ownership

The Department of Planning has indicated to the development industry in presenting the findings of the 2008/09 MDP that it believes that fragmented holdings do not present a significant medium term challenge to dwelling production on the urban fringe. This assumption is predicated on the statistics of historical greenfield production, where fragmented lands have typically followed the development of consolidated holdings, with the view that this pattern will be consistent for the development of the growth centres.

UDIA NSW cautions against this conclusion. UDIA NSW members report that there has been little englobo acquisition activity to support the consolidation of fragmented lands for development. This is primarily due to the fact that existing landowners have high expectations for the value of their land, and as a result developers cannot afford to bring housing product to the market at suitable price points.

While this is primarily a commercial problem, it should not be ignored by policy makers. The Government must closely monitor the level of development from fragmented lands and bring additional rural holdings on the MDP and the supply pipeline if dwelling production isn't meeting targets in these locations.

Lack of Coordination on Approvals

The rezoning and approval process for major new release areas continue to be plagued by delays as a result of disparate Government agency involvement in the planning process – issues in regard to the treatment of riparian corridors, indigenous heritage, and threatened species conservation continue to impact heavily on the efficiency of the planning system in delivering urban development outcomes.

UDIA NSW believes that one of the key constraints on the Government's urban growth agenda is that no one agency is explicitly responsible for delivering housing outcomes. UDIA NSW contends that this must be directly addressed by the Government through structural reform to the regulatory framework for development, and through cultural reform of assessment processes. UDIA NSW believes that the Land and Housing Supply Coordination Taskforce should be charged with addressing these issues as a matter of priority.

Infrastructure Servicing

Timely infrastructure provision has proved to be a major constraint to the efficient delivery of new greenfield lot production. There are some agencies within government that are better than others at programming infrastructure to support and facilitate development. Sydney Water Corporation's Growth Servicing Plans align their capital expenditure programs with the land release program, and provide certainty for investment by developers. This program is clear, and transparent and is strongly supported by UDIA NSW.

UDIA NSW recommends that all key infrastructure agencies be required to produce growth servicing plans for capital investment to support future urban development. The agencies should utilise the MDP to understand when and where development and growth will occur and align their capital programs accordingly.

CONCLUSIONS AND RECOMMENDATIONS

The Government's 2008/09 MDP reveals that stocks of zoned and serviced land have increased markedly in recent years, while actual lot production has fallen dramatically to historic lows. UDIA NSW contends that the following issues must be considered by Government to address the chronic problems in greenfield dwelling production:

- the Government must be accountable for delivering actual housing outcomes, not just zoning engolo land;
- there must be much greater coordination on approvals and infrastructure provision; and
- development levies must be reduced and maintained at levels that are competitive with competing greenfield markets in other major capital cities and sustainable for long term dwelling production.

UDIA NSW provides the following recommendations for the consideration of policy makers to assist in providing a regulatory and economic framework that is sympathetic to the delivery of affordable and sustainable urban development outcomes:

1. UDIA NSW recommends that the NSW Government empower the newly established Land and Housing Supply Taskforce to resolve housing delivery issues within existing and proposed release areas in Sydney, with particular focus on addressing issues with timely infrastructure servicing and inter-agency coordination on rezoning and approval processes.
2. UDIA NSW recommends that the NSW Government facilitate the identification of land outside the growth centres to ensure the maintenance of a land supply pipeline for future greenfield development.
3. UDIA NSW recommends that all relevant infrastructure and service agencies be required to produce Growth Servicing Plans or a similar program to provide a clear and transparent program of infrastructure investment and delivery that is linked to the Metro Strategy and Metropolitan Development Program.
4. UDIA NSW recommends that the NSW Government commit to extending the reduction in the State Infrastructure Contribution until at least July 2012 to ensure the sustained recovery of the greenfield lot production market and provide certainty for investment.

QUEENSLAND

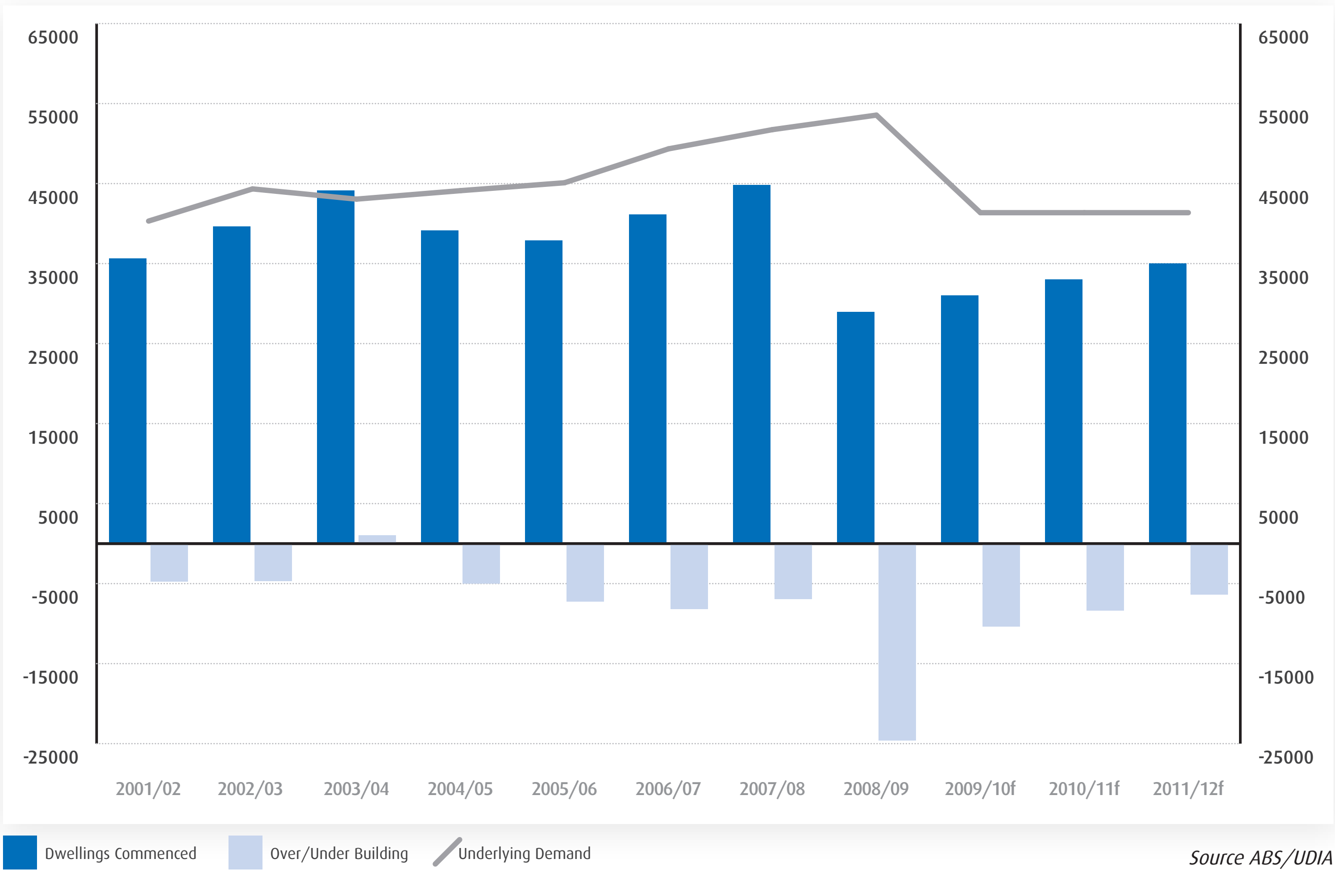
CURRENT MARKET SNAPSHOT

In order to draw a comparison with other Australian states in this report, this analysis concentrates on the Brisbane statistical division area. The Queensland residential market is presently the most depressed market in the country. It is substantially depressed by affordability concerns, high interest rates, uncertainty for buyers, hangover from the removal of earlier first home buyer's grants, limited choice and increasing costs. For developer financing, aversion to property by financiers keen to reduce their property bias coupled with the loss of mezzanine facilities has created substantial concerns. The result of this is that a much higher component of equity must be provided by the developer, higher presale levels and repayment interest rates. In addition, a substantial performance in sales on existing projects is required and is being closely monitored by financiers. Some discounting of residential property is occurring to obtain sales, but this has not reached severe proportions.

Typical sales prices are down and Brisbane's median lot price dropped slightly to $245, 000. The Brisbane market is heavily dependent on second and third home buyers who are seeking to upgrade their properties, with around 80% of land product priced above $200,000.

Traditional supply and demand estimates indicate that overall demand for housing in Queensland has exceeded supply substantially in the last couple of years and more generally (see graph below); this analysis is supported by analysis by the National Housing Supply Council. This would indicate an

Over/Under Building Estimates; Qld



Source ABS/UDIA

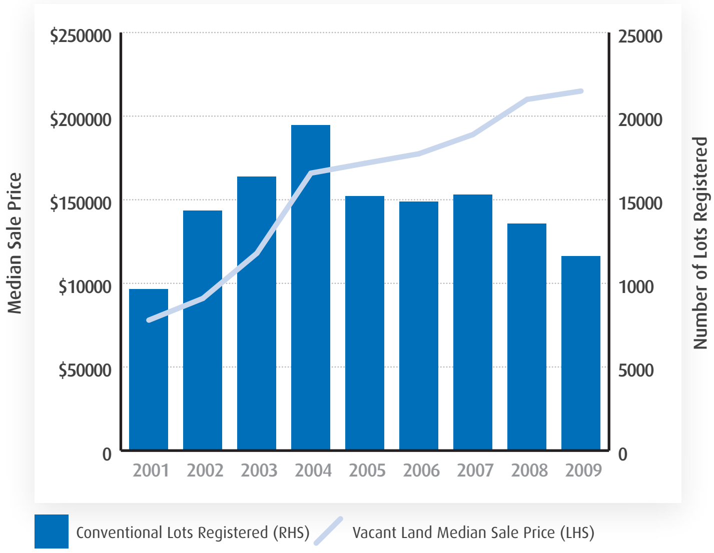
undersupply of around 50,000 dwellings to meet population and household growth. While this assessment is on a state-wide basis, local areas may be over or undersupplied in accordance with local circumstances.

However, at present Queensland is experiencing a situation akin to general oversupply as this fundamental demographic demand is not flowing through into higher sales and prices. Lack of buyer confidence and unaffordable prices have seen almost unprecedented 'tenant hoarding'. Increasingly adult children are living with their parents, people are taking in friends or boarders to fill spare rooms, vacant homes or vacationers are being rented out, tenants are sharing one home in greater numbers and the phenomenon of separate rental agency management of each bedroom of the home is becoming commonplace. The rental vacancy rate in Brisbane and surrounds beyond 5km of the CBD at June was 4.2-4.9% significantly above balanced market rates at 3-3.5%.

CURRENT LAND SUPPLY

Current land supply is limited by new stock coming through, which is often dominated by larger lots and premium product that has been the mainstay of market demand to meet upgraders requirements (this group being most able to afford the higher cost of new housing). In 2009 stronger demand occurred for small lots, in response to the first home buyer grant and buyers seeking to minimise spend in an unaffordable market. The market has relatively small levels of new stock as few projects have strong financial backing and as a result there is significantly higher value stock available but a dearth of more affordable home sites for the average homebuyer. Smaller more affordable stock is currently being taken up quickly.

SEQ New Registered Lots vs Median Sale Price

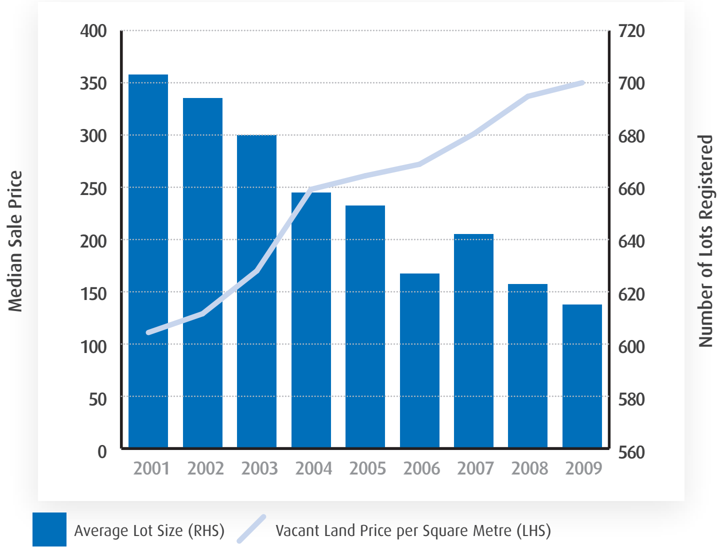


Source: Office of Economic and Statistical Research (OESR) Queensland Treasury

In the Brisbane market the existing major master planned communities at North Lakes (north of Brisbane) was relatively well placed to provide supply with existing approvals for lots down to around 300 square metres. This was supported by some other local projects maintaining recent activity and construction employment in the area. To the west of the city supply has increased in recent months with product changes and improved local confidence. In the south and east available developments are very limited and accordingly higher priced. To the south east (Logan City Council area) very little supply has been available, limited by infrastructure and regulatory process issues as the amalgamated Council reset itself for growth. At present there are few areas with planning in place or alternate land supply options. This has had a substantial impact on local activity and employment. Infill site developments have been severely limited by finance issues and the projects have been unable to compete with existing housing and acreage use values.

QUEENSLAND

Brisbane Statistical Division Average Lot Size and Price Per Square Metre (based on median price achieved)



Source Office of Economic and Statistical Research (OESR) Queensland Treasury

In recent years rapidly rising council infrastructure charges for external water, sewer, roads, parks and waterways on projects have had a major influence on supply. Many projects have been rendered economically unviable or requiring unaffordable end land prices. As a consequence supply has been generally constrained. Some locations have, however, reduced charges and these areas, such as Moreton Bay Regional Council (north) (until recently) and Brisbane City Council, have been successful in maintaining broader supply and development activity.

Brisbane Statistical Division

Period	Lots Produced	Average Lot Size sq m	Median Price $	Price per sq m. Based on Median Price $
2001	5,932	705	78,000	111
2002	8,533	703	91,000	129
2003	9,819	694	118,000	170
2004	10,616	680	165,925	248
2005	8,238	658	171,782	261
2006	8,745	653	177,500	272
2007	9,663	627	189,000	301
2008	7,395	623	210,000	337
2009	6,250	615	215,000	350

Source Office of Economic and Statistical Research (OESR) Queensland Treasury

FUTURE LAND SUPPLY

In order to provided a diversity of housing options and completion for affordability the Brisbane market needs a handful of large master planned projects and numerous medium and small projects in a range of growth corridors.

A substantial number of existing subdivision approvals are lapsing at the end of their two or four year life. The approvals are no longer viable in the changed market place. Some significant activity has been occurring to review existing development approvals to convert to smaller stock. However, substantial caution is being taken as a review of approvals is very costly, uncertain and lengthy. Any time delays seem to incur not only time costs but additional infrastructure charges as further Council planning work realises new charges.

Redland and Brisbane potential land supply is limited, though Rochedale in the near east is now underway.

There is substantial pressure on Moreton Bay Regional Council (Brisbane near north), Ipswich City Council (west) and Logan City Council (south east) to meet the demand for family oriented land supply. These areas are critical to unlocking supply in Brisbane's surrounds. Moreton with infrastructure charges restrained is moving, but has increasing infrastructure and coordination barriers; Ipswich is strongly geared up for longer term supply; but nearer to Brisbane options are reducing. Logan has had a drought of supply over recent years. Finished lot output has been low for a considerable period, though long term options are substantial if infrastructure provision is resolved.

Lot Production Brisbane and Surrounds

LGA	2009 actual	2010 est	2011 est	2012 est	Total Estimated 3 year Lot production 2010 - 2012
Brisbane City	2,322	1,900	2100	2,100	6,100
Moreton Bay	2,717	2,600	2900	3,100	8,600
Ipswich City	1,133	1,400	1800	2,500	5,700
Logan City	1,007	1,000	1500	1,800	4,300
Redland City	649	500	650	650	1,800
Gold Coast City	1,138	1,100	1500	1,500	4,100
Sunshine Coast	1,511	1,500	1700	2,300	5,500
Somerset	132	150	250	250	650

Source Qld Government and UDIA (Qld)

Future land supply has been given a major fillip with the Urban Land Development Authority (ULDA) taking over planning, planning approval and preliminary delivery of two large master plan areas at Ripley (west) and Flagstone (south east). This will enhance larger scale land supply in the medium term as well as the supply of local smaller project opportunities. Critical to development of these areas and others has been resolution of affordable infrastructure delivery and payment issues; this will be a major issue for the ULDA.

COST OF PRODUCTION

The industry finds itself between a rock and a hard place. Development costs are high and with an affordability ceiling for the average buyer reached, there will be little activity until something changes. Income growth is only slow and reforms to drive down land development costs are critical. Raw land prices are not responding downward as owners and alternate investors are generally satisfied to hold on knowing the South East Queensland footprint limits are too restrictive and strongly enforced. In addition, many former development option areas are reducing or have substantial infrastructure constraints.

Costs in production of development have been rising strongly in recent years, particularly with regard to infrastructure charges as Queensland has moved to a full cost recovery system for roads, park and community land space, water systems, sewer tank supply and stormwater retention and useful rehabilitation of creeks and waterways. This has led to a long flurry of Council plans, costs and further plans and costs coming through to land development. From a typical cost to development of around $6,000 per lot on top of all the usual internal site development costs (around $50,000 per lot) early in the 2000's the typical Council infrastructure charges are now around $30,000 – $35,000 per house lot and rising.

A further substantial impact on development is coming from environmental compliance. Additional recent costs have come to house and land costs from energy efficiency rating necessities, rainwater tank requirements and dual reticulation, but also from environmental initiatives that impact the yield of lots that can be obtained from the zoned land. Recent issues include increased koala land retention controls, biodiversity requirements, water sensitive urban design, and requirement for recreation parks to be wholly above 1:100 year flood levels. Water sensitive urban design and these other measures now typically require that 35-45% of sites are not building areas where only 25% could not be used for building lots previously.

Hypothetical Development Feasibility - Brisbane Fringe

	Per Lot
Land Acquisition	$ 60,000
Development Works	$ 57,000
Finance Costs	$ 12,000
Development Levies	$ 39,000
GST	$ 20,000
Marketing	$ 7,000
Stamp Duty	$ 4,000
Land Tax	$ 1,200

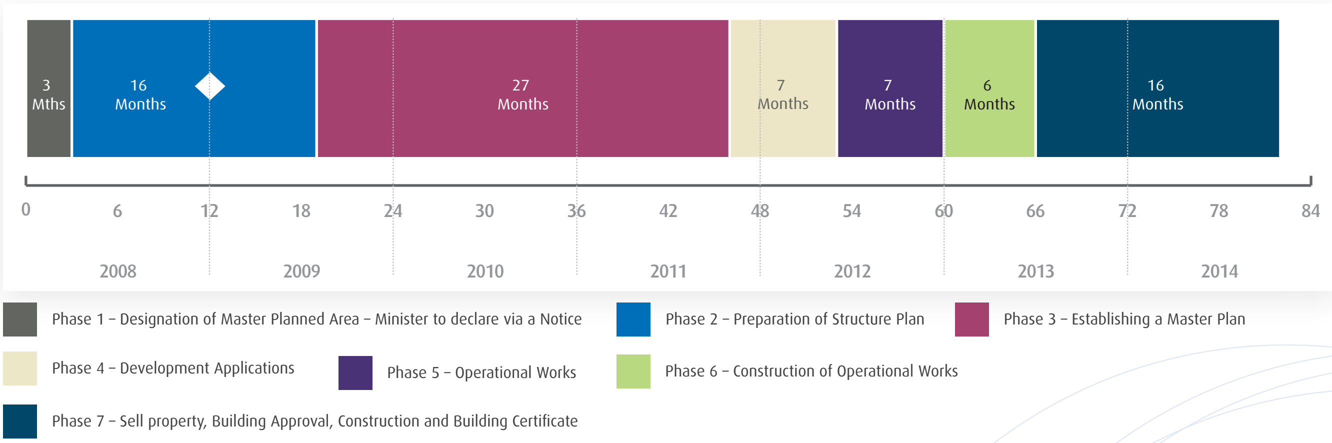
The period for holding of land until approvals are achieved and work can commence has also blown out in recent years. On a typical subdivision where zoning was generally in place to allow for the development a typical time-frame for approvals is two to three years.

Holding costs compound over the length of time until sale of the lots, with estimates that this adds around up to $1,000 per month per lot to the cost and house sale price. Significant reductions in development periods would create substantial savings for home buyers. Recent research by Queensland University of Technology confirms this approach and the substantial consequences to ongoing homebuyer mortgage repayments.

ISSUES/BARRIERS TO DEVELOPMENT

The South East Queensland regional plan has substantial housing supply targets to meet population growth and requires critical land supply flow from Moreton Regional Council, Ipswich, Logan, Redlands and Brisbane City Councils. (Gold Coast and Sunshine Coast Council areas though in SEQ are excluded from this study). Recent activity and particularly infill development is substantially below the regional plan targets. A substantial issue is that smaller developers have exited the market due to difficulties in obtaining finance. Difficulties with economically amalgamating and servicing fragmented land are also an issue as is producing smaller size lots in the face of some Council controls and undifferentiated infrastructure charging costs.

The difficulties of obtaining finance are being adapted to, with higher costs being built into feasibility. This has meant many projects have been shelved or those which have gone ahead require little or no value to be given to the raw land. Recourse to private investors or share market equity is helping some developers and has been critical for significant ongoing work. A major barrier to new growth areas has been the introduction of the South East Queensland Regional Plan in 2005 and subsequent legislative changes requiring detailed master planning and infrastructure resolution prior to any development initiation. The below graph shows the timing for new supply can take up to ten years under the Sustainable Planning Act. Growth areas such as at Rochedale and Ripley have also been delayed as infrastructure requirements and agreements could not be resolved or had to be reworked.



Source: UDIA estimate from Sustainable Planning Bill

Ordinary planning processes for land development are substantial and increasing in complexity. Additional requirements and uncertainty has been created in the past year with relation to increased infrastructure charges, koala protection requirements, native vegetation regrowth clearing controls, wetlands, land valuation, sustainability and land sales covenants. Issues in the near future include, potential additional controls in the area's coastal developments, protection of cropping lands, buffering of land uses, waste and green space. The state Government has set the new Urban Land Development Authority the task of expediting growth areas in Ipswich, Logan, Fitzgibbon (Brisbane) and infill locations and in regional areas. Substantial planning agency coordination power and state imprimatur has been given to the Urban Land Development Authority. The industry is generally encouraging of this move.

QUEENSLAND

CONCLUSIONS AND RECOMMENDATIONS

There are presently a number of severe challenges for many areas of the Queensland market, with the industry between a rock and a hard place – underlying fundamental demographic demand is stilted by an affordability ceiling and high input costs, with compounding lack of buyer confidence, financing issues and limited ability of the industry to respond.

UDIA Qld believes urgent action is required to cap infrastructure charges. In addition, active reform is required to bring down the cost of development, specifically in the areas of delays and rising standards.

UDIA also encourages cooperative thinking on environmental issues to achieve the best outcomes at the least cost. Sometimes concentrating on improvements to regional habitat is preferable to delayed site by site measures in zoned urban areas. The EnviroDevelopment program that allows the developers who have achieved very high standards of environmental sustainability to market the benefits is working well. The State Government has not yet provided significant recent support to the initiative.

Action should be taken to deregulate simple matters, use temporary local planning instruments to facilitate development in some locations, cap infrastructure charges and delay payment, examine procedures to amend and revise approvals and hasten approval and costs subsequent to the planning approval, changes to allow for increased deposit or savings schemes or reduced off the plan duties that can assist project financing or affordability and reform, reform, reform.

SOUTH AUSTRALIA

CURRENT MARKET SNAPSHOT

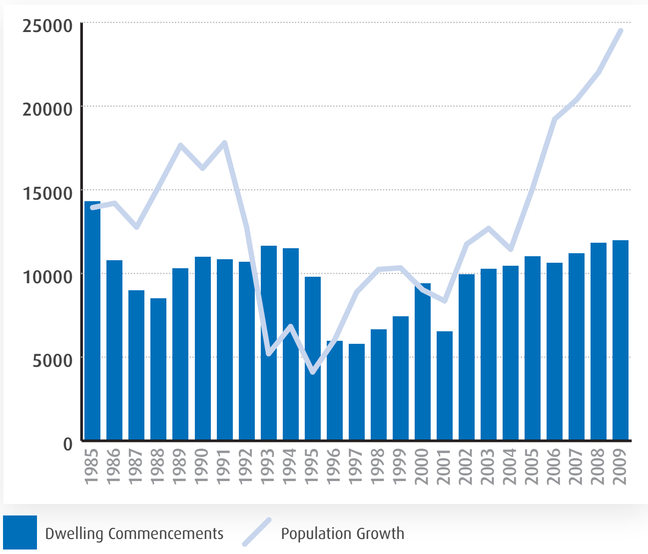
Land Sales

Land sales activity in the first half of 2010 has been slower than previous months. First home buyers who were the strongest in 2009 moved out of the market in response to the reduction of the FHOG boost. Developers have noted that sales have been steady during 2010 but the effects of the State election in February and the Federal election in August subdued the market in South Australia.

Population Growth and Housing Supply

Population growth in South Australia has continued to exceed projections. The additional people arriving in the state, coupled with the general community expectation for a more active economy linked to the planned investment in mining and resources, and defence industries, are supporting enthusiasm of private investors to invest in residential housing.

The National Housing Supply Council report of February 2009 estimated the current shortage of housing in South Australia at around 5,750 dwellings (June 2008). The relationship between dwelling commencements and population growth is shown in the graph below.



Source: ABS Catalogue No. 8750.0; 3101.0

Current Economy

The South Australian economy is expected to expand steadily over the next few years. The State's economic performance since 2000 has been strong, indicated by:

- Gross State Product was 27.8% higher (2008-09);
- Employment was 18.1% (123,000 persons) higher in January 2010;
- Business investment was 47.8% higher in the year to the September quarter;
- State Final Demand was 39% higher in the year to the September quarter;
- Merchandise exports were 20.3% higher in the year to December 2009;
- Unemployment is at a low rate - 4.9% in January 2010.

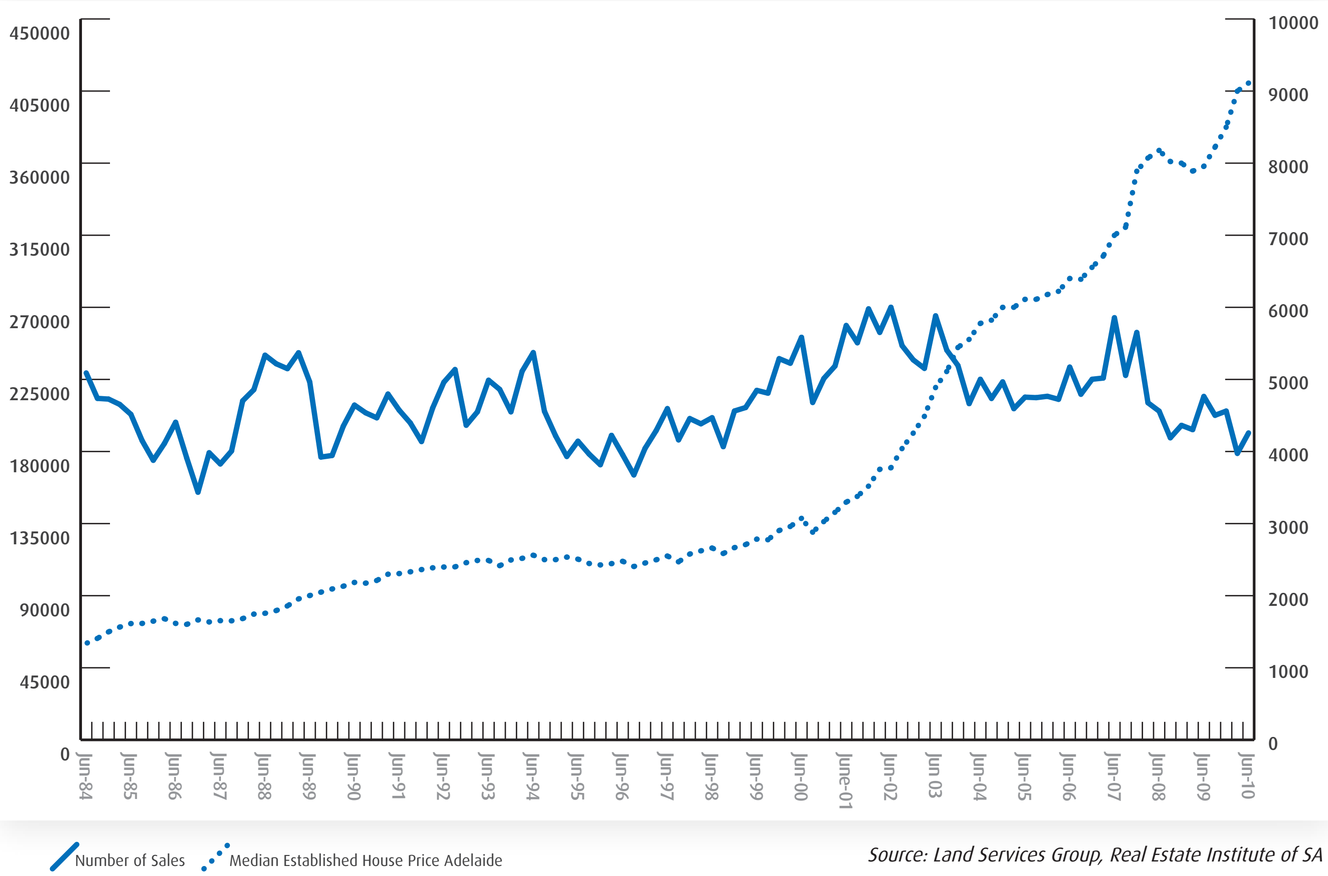
Leading forecasters ANZ Bank, the Department of Treasury and Finance (DTF) and SACES predict Gross State Product growth of 1.5% - 2.25% in 2009-10 and growth of 2% to 2.5% in 2010-11 (all downgraded in light of the global financial crisis).

Adelaide is one of the least costly cities to set up and do business in Australia. The State has significant mining potential - ranked 10th most prospective location in the world by Canada's Fraser Institute, up from 31st place a few years ago.

Housing Affordability

The median house price in Adelaide has risen dramatically in the last decade, as shown in the following graph. The nominal median house price has increased sixfold over the last 25 years. Negative growth in the 2008/09 year (effect of global financial crisis) has been fairly minor, relative to other Australian and international cities. The metropolitan median house price peaked at $368,000 in the June quarter of 2008 and has since declined to $358,000 (June quarter 2009).

SOUTH AUSTRALIA



Source: Land Services Group, Real Estate Institute of SA

CURRENT LAND SUPPLY

Lots sold and lots produced

There were 5,200 lots sold in South Australia in 2008/09, consistent with the average annual sales over the past six to seven years.

For the 2008/2009 year approximately 2,660 lots were produced in Adelaide, down from the 3,010 lots produced in the previous year. This data is based upon the following assumptions:

- Lots connected to SA Water;
- 70% of these lots are associated with Adelaide Statistical Division;
- 43% of the lots are from major developers who provide most of the fringe (non in-fill) development.

The number of lots produced **on the fringe in the Adelaide Statistical Division** in 2009/10 is much higher than for 2008/09, but complete data is not yet available. This data is based upon assumptions that have been used in recent years, allowing a trend to be understood.

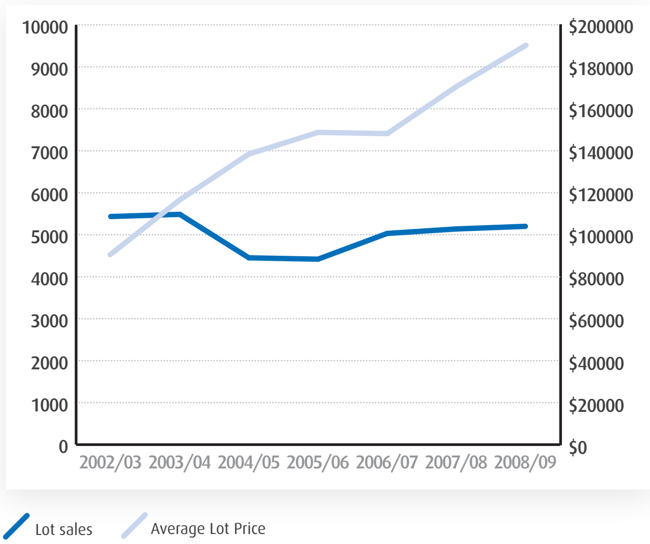
Anecdotal evidence suggests considerably more lots have been produced but with a small percentage connected to SA Water for sale/occupancy.

However, South Australia now collects data in regions, and particularly the Greater Adelaide area which contains several regions. From 2009/10 data will be collected for Greater Adelaide area, and will contain fewer assumptions.

Median price per lot

The average price per lot according to the Australian Bureau of Statistics' Adelaide Statistical Division (representing around 80% of South Australia's population) in 2008/09 was $190,000, which is an annual increase of 15% and 11% since 2006/07. The land price reflects the tight balance between supply and demand. While the 2008/09 data reflects the easing of demand with fewer first home owners entering the market, the overall pent-up demand continues with additional migration increase and a more active local investor market seeking more housing stock.

Adelaide Statistical Division Average Lot Price and Number of Sales



Source: ABS

Median Lot Size

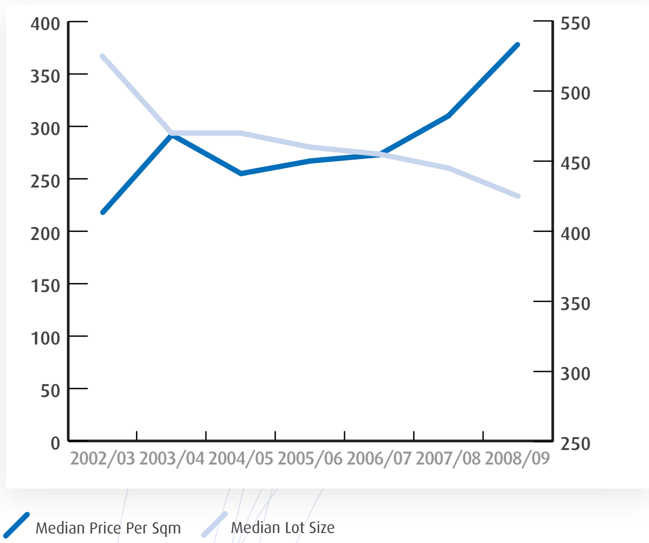
The median lot size in the ABS Adelaide Statistical Division has been declining steadily over the last decade. In 2002/03 the median lot size was 525 square metres and by 2008/09 it had decreased by 19% to 425 square metres.

Several reasons exist for this, including a more flexible approach by inner metropolitan city planning authorities to accommodate smaller footprint dwellings, smaller allotments in new estates and subdivision of existing mature properties. There is increasing support from local councils to the Government's 30 Year plan for Greater Adelaide which seeks more infill development to reduce urban expansion and take advantage of existing infrastructure, including public transport.

Median price per Square Metre

There is an inverse relationship between lot size and the cost per square metre to develop the lot. In 2002/03 a median size lot of 525 square metres cost $218 per square metre to develop, whereas in 2008/09 the median size lot of 425 square metres cost $378 per square metre. That is a substantial increase in median size lot price by 40% from $114,450 to $160,650. The increase in costs can be attributed to the more stringent requirements for development, including additional costs for provision of engineering, planning and environmental services, and holding and financing costs.

Adelaide Statistical Division Median Lot Size and Median Price Per Sqm



Source: ABS

SOUTH AUSTRALIA

FUTURE LAND SUPPLY

Lot Forecast

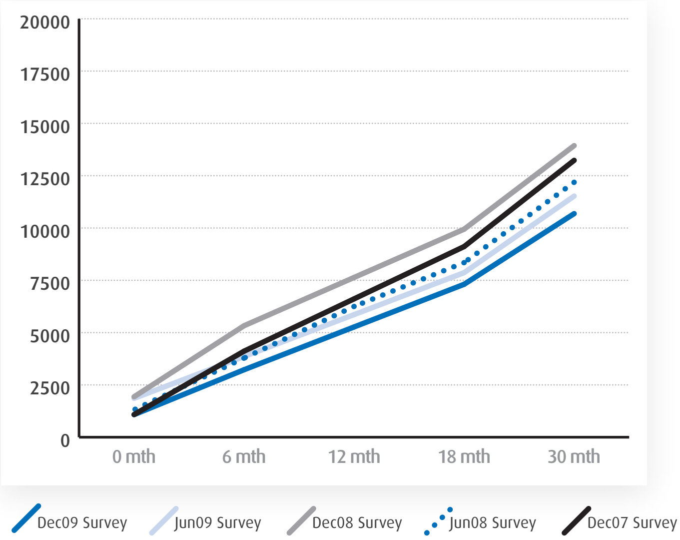
The land supply continues to be of concern to UDIA SA, with only around six years' supply of residential-zoned land ready for development, despite a Government assurance in June 2008 that it would ensure a continuous supply of 15 years of zoned land and 25 years of identified land for residential development. No additional land has been rezoned within the extended urban growth boundary since its announcement in December 2007.

UDIA SA undertakes a survey of major developers in South Australia every six months (30 Jun and 31 Dec) to identify their land available for sale currently, as well as land planned to be released to the market in each of the next three years. Recent data shows these developers contribute land for around 43% of all new dwellings in South Australia.

The result of the survey of land supply at 31 December 2009 reveals:

- 16% drop in the number of residential allotments currently available in the SA market compared with the survey six months earlier (which was a 27% drop from the survey 12 months ago);
- This survey reveals 7% decrease in the number of lots to be brought to market over the next 18 months compared with the 30 June 2009 survey (which had revealed a 21% drop over that period from the previous survey of 31 December 2008);
- Continuing and increasing drop in provision of lots in regional areas over the last six months;
- The Northern Adelaide region has fewer lots for sale currently (likely to be associated with recent demand from first home buyers), but the last two surveys reveal the same number of lots expected to be brought onto the market within the next two years;
- Long term land supply has remained the same as revealed six months earlier, but both the past two surveys show a decline in the 'pipeline' of land supply over the next two to three years compared with earlier surveys;
- Around 65% of the land identified as possible part of the long term supply is not yet zoned for residential use (this was 55% in the June 2009 survey).

Lots for future release in SA from major developers



Source: UDIA SA

The 'shortened pipeline of land', which has seen land brought forward for development and stocks shrinking, is likely to result in a shortage against expected consumer demand. Ultimately this will impact buyers of new homes by placing upward pressure on affordability.

If the shortage of allotments continues it will be difficult to realise the predictions and forecasts outlined in the State Government's 30 Year Plan for Greater Adelaide (released in June 2009). The plan identifies the need for 10,100 new dwellings to be built annually on both infill and fringe land, and although one allotment does not equal one dwelling the two are certainly intertwined.

The balance between supply and demand of land for development is tight. The continued increase in South Australia's population, albeit slower than most other Australian states, will result in additional demand for residential land. The provision of an adequate rolling stock of land for residential lots would be achieved with the rezoning of land already identified by developers.

Most of this land is within the growth areas identified in the recently published 30 Year Plan for Greater Adelaide.

Most recently the Land Management Corporation has released its program of land release from the bank of Government-owned land that is 'next in line' for release to the non-Government developers. Also the Department for Planning and Local Government has announced its program of 'land rezonings' associated with several local councils' schedules for decisions on their development plan amendments. That program has given the development industry expectation that 15 years of zoned land will be available to the market for residential land development by December 2011.

The Department for Planning and Local Government is expected to release the Government's inaugural Housing and Employment Land Supply program in the first quarter of 2010/11. This report on land supply from the various local councils is expected to be in support of the Government's 30 Year Plan for Greater Adelaide which sets a target of 70% infill and 30% fringe developments by year 2038; it indicates that zoned land supply will need to average 430 hectares of fringe land, 250 hectares of township land and 510 hectares of infill land per annum.

ISSUES/BARRIERS TO DEVELOPMENT

UDIA SA is not only concerned with the shortage of allotments available state-wide, but the lengthy processes required by developers to ensure allotments transform into dwellings. These delays will only contribute to the shortfall in supply of land to meet the demand in the market.

Substantial changes are currently being implemented by the South Australian Government to address policies and processes that inhibit economic growth. These include:

- The development of a 30 Year Plan for Greater Adelaide and five new Regional Plans for Country areas to guide long term growth;
- The introduction of the Residential Development Code;
- Streamlining zoning and state significant development processes;
- Improving governing arrangements to assist the delivery of reforms;
- Creating better Government and governing arrangements to ensure delivery of all the initiatives in a coordinated way.

UDIA SA is optimistic that these reforms will reduce planning barriers to economic growth and competitiveness in South Australia.

Two issues of key concern to UDIA SA that have not been adequately addressed in the planning reforms implemented or proposed to date are:

- The impact of land supply constraints in the short-medium term; and
- The absence of a clear process for infrastructure planning and funding for growth areas.

CONCLUSIONS AND RECOMMENDATIONS

South Australia is in a strong position to enjoy steady population growth resulting from a stronger economy, particularly related to mining and resources, and defence industries. The recent decline in lot production and the shortened pipeline of lots expected by developers to be brought to market will result in land supply shortage and increase in lot prices.

However the recently announced efforts by Land Management Corporation and the Department for Planning and Local Government to release Government-owned land and speed up the rezoning of land identified as growth areas in the Government's 30 Year Plan for Greater Adelaide is expected to ease the situation.

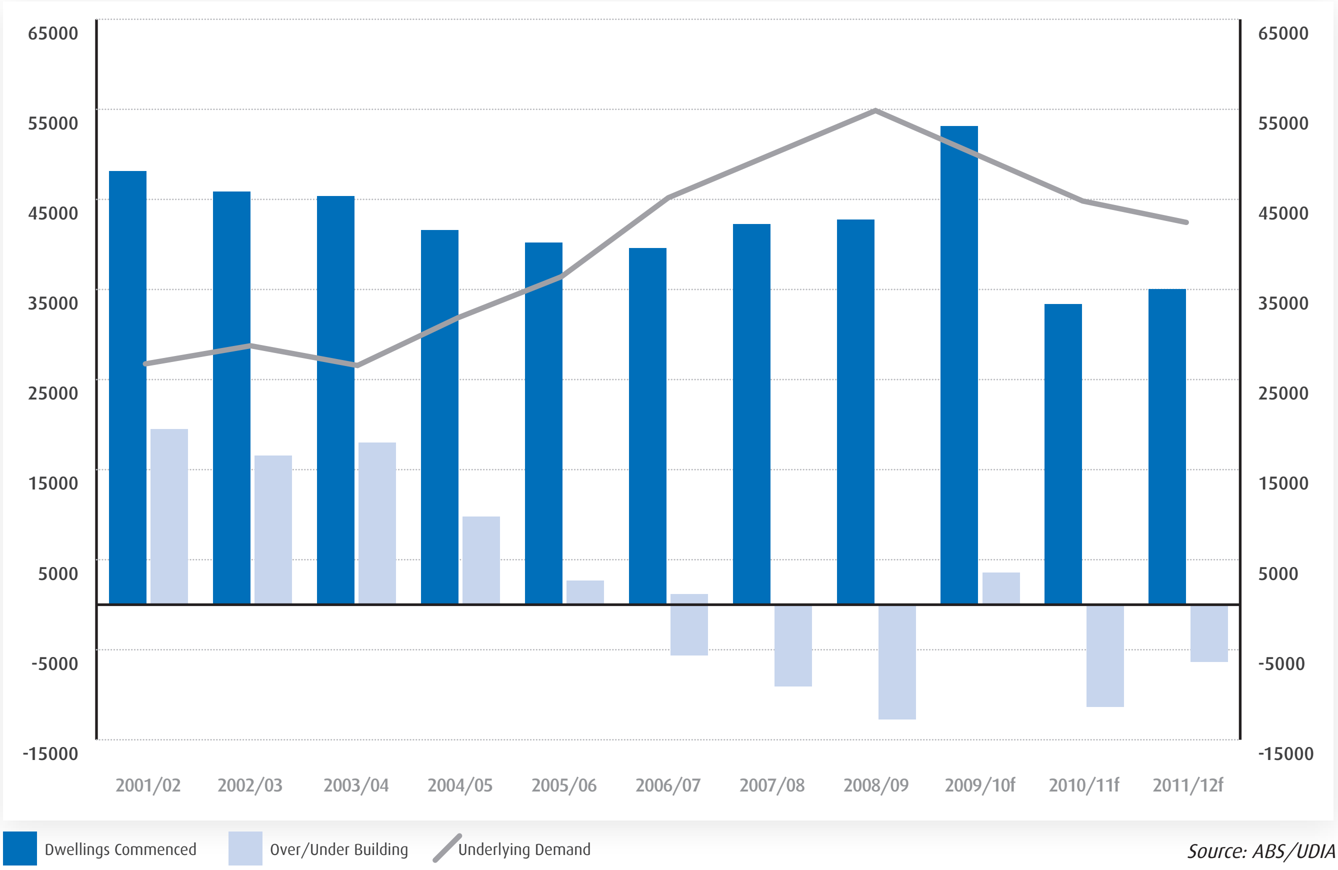
Reform of the planning approvals system is required to allow developers greater opportunity to deliver land in a time-efficient manner without excessive cost increases.

The responsibilities for providing core infrastructure to new land release for residential development must be clarified thus removing uncertainty in timing for release of land and immediate cost to the first buyer of the land.

VICTORIA

CURRENT MARKET SNAPSHOT

Over/Under Building Estimates; Vic



Source: ABS/UDIA

Victoria continues to face mounting population pressures. In the year to June 2009, the Victorian population rose by 116,250 – an average of 2,235 people arriving from interstate, overseas or as newborns every week. The year 2009-10 is expected to mark the high point of population growth for the foreseeable future, as policy changes on immigration take effect. However, population growth is expected to remain very high by historical standards.

The Victorian Government's **Melbourne @ 5 Million** report projected a need for an additional 600,000 dwellings in Melbourne over the next 20 years, with 284,000 of that growth to be accommodated in the growth areas.

Based on yield estimates supplied by developers to the Victorian Department of Planning and Community Development, there were 138,462 lots available for construction in 2009.

While the Victorian Government has committed to a 15 year land supply pipeline, with ten years of zoned supply, the 2009 Urban Development Program reveals that this has fallen to ten years of total supply and five years of supply that has a Precinct Structure Plan (PSP) in place for it (that is, ready to be developed). The Victorian Government has recognised the need to maintain housing affordability and livability by expanding the Urban Growth Boundary by around 40,000 hectares, 25,000 hectares of which will be available for development, and 15,000 hectares of which will be grasslands reserve. As a result of the expansion, it is expected that there will be 20 years of total supply in Melbourne's growth areas. However, the Precinct Structure Planning process remains slower than is necessary to maintain an adequate pipeline of zoned land. Until the PSP process can happen faster, it is likely that the amount of zoned land will remain at around five years of supply.

In 2010, the Growth Areas Infrastructure Contribution (GAIC), an $80,000 per hectare charge on land that was brought into the UGB in 2005 and a $95,000 per hectare charge on land brought into the UGB in 2009, was passed with development industry support.

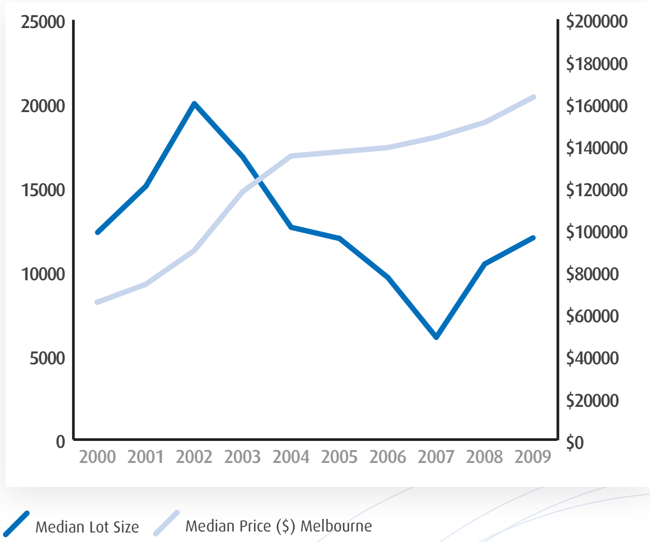
CURRENT LAND SUPPLY

In the designated growth areas of metropolitan Melbourne, the Government is committed to maintaining a minimum 15 year residential broadhectare land supply, of which ten years supply should be available for development. Approximately 138,462 potential lots of broadhectare land exist across Melbourne's growth areas, equating to approximately ten years of land to meet projected demand. Of this total stock, five years of supply is located on land available for residential development. Both of these measures fall below the Government's commitment on supply in the growth areas.

Across the Melbourne metropolitan area, there are approximately 152,821 lots identified as broadhectare residential supply, 138,462 of which are within Melbourne's growth areas. This means that 90% of broadhectare development will take place in Melbourne's growth areas. There are 76,001 lots which are available for residential development (that is, have PSPs) within the growth areas. This constitutes around 55% of total stock.

The median lot size of constructed broadhectare residential lots for growth area municipalities dropped from 655m² in 2000 to 520m² in 2009. At the same time, the median price of vacant house blocks have risen substantially from $65,500 to $163,000 – a rise of 2.5 times. Over the last year, prices of vacant house blocks rose by 7.9 per cent in Melbourne.

Prices and Average Lot sizes – Growth Area LGAs



Source: Urban Development Program, Valuer General (Vacant House Blocks)

VICTORIA

Prices and Average Lot sizes – Growth Area LGAs

Year	Lots Produced [Lots constructed in previous year (no. lots)]	Average Lot Size (m²) Melbourne	Median Price ($) Victoria	Median Price ($) Melbourne	Median Price ($) Rural Vic	Average Price per Square Metre ($) Melbourne
2000	12,338	655	57,715	65,500	39,500	100.00
2001	15,096	605	65,000	74,000	44,000	122.31
2002	20,004	598	76,000	90,000	52,500	150.50
2003	16,836	594	98,000	118,000	65,000	198.65
2004	12,643	592	112,000	135,000	75,000	228.04
2005	11,976	555	120,000	137,000	85,000	246.85
2006	9,651	557	125,500	139,000	92,000	249.55
2007	6,090	551	134,950	144,000	99,000	261.34
2008	10,456	538	140,000	151,000	101,002	280.67
2009	12,015	520	147,500	163,000	105,000	313.46

Source: Urban Development Program, Valuer General (Vacant House Blocks)

Land and Lot Supply

	2006	2007	2008	2009
Total supply (no. lots)	182,640	168,599	150,610	138,462
Total zoned supply (no. lots)	80,981	77,052	74,431	62,461
Total future supply (years)	25-26	15-16	10-11	10
Total zoned future supply (years)	9-10	7-8	5-6	5
15 year average annual projected dwellings (no.)	9,283	12,703	14,545	14,174
Lots constructed in previous year (no. lots)	9,651	6,090	10,456	12,015
Average lot size (sqm)	558	550	538	520

Source: Urban Development Program

FUTURE LAND SUPPLY

Industry expects in excess of 11,934 lots per year to be constructed over the next two years. It is expected that this level of construction will continue over the next five years, with an average of just under 10,000 lots per year to be constructed.

Until the calculations of potential yield are done on the new expanded UGB, an accurate picture of Melbourne's future land supply is difficult to quantify. However, the Government has said that, over the next 20 years, the boundary expansion will accommodate an additional 284,000 dwellings.

Proposed Lot Construction

SLA/LGA/Region	1 to 2 Years	3 to 5 Years	1 to 5 Years (Annual average)
Melton	3001	3178	1235
Wyndham	5989	6870	2572
Hume-Craigieburn	3156	2003	1032
Whittlesea	5268	7770	2608
Cardinia	2547	2705	1050
Casey	3904	3346	1450
All Growth Areas	23865	25872	9947

Source: Urban Development Program

VICTORIA

ISSUES/BARRIERS TO DEVELOPMENT

Melbourne remains the most affordable mainland capital city. The main challenge for the residential development industry in Victoria is maintaining affordability. There are several issues that need to be resolved to ensure that broadhectare developments in Victoria remain affordable.

The emergence of the golden sun moth as a critically endangered species (under the Commonwealth Environment Protection and Biodiversity Conservation Act) has had a major effect on the amount of land that is allowed for development across much of the growth areas. The prescription for its protection reduces the amount of land available for homes. The Department of Sustainability and Environment requires developers to reserve remnant areas of moth habitat, although it is unlikely that some of these areas can be practically managed, and in spite of the setting aside of the 15,000 hectare native grasslands reserve.

While the UGB expansion is very welcome, the PSP process needs to ensure that it is fast enough to keep pace with demand.

In the short term, it is likely that there will be some disruption caused by the introduction of the GAIC, although the market has been anticipating its introduction for a number of years and should adapt quickly. The Victorian Transport Plan will be partially funded by GAIC revenue, including the Regional Rail Link. This will bring vital rail services to some of the new suburbs that will be created within the new Urban Growth Boundary. It is important that infrastructure delivery across the whole of Victoria keeps pace with demand.

The capacity for local Government to do all of the work that it is delegated to do is a concern for the development industry. Councils often lack the resources and skills to undertake proper strategic work. This affects the ability to bring land to market in a timely way and contributes to rising land prices.

CONCLUSIONS AND RECOMMENDATIONS

The release of more land in the new Urban Growth Boundary will go a long way to relieving the land supply pressures that have begun to build in Melbourne over the last five years. The population of Victoria over the last five years has continued to surprise policy makers and developers, putting a squeeze on prices. It is imperative that the GAIC is used effectively to build transport and other critical infrastructure. The Government has said that it aims to build communities rather than dormitory suburbs, and the GAIC revenue will help with that.

It is critical that the state Government deals effectively with the issue of the golden sun moth and other threatened species. An assessment of the population of moths, and more effective ways to deal with the practical management of habitat are important steps. The establishment of the 15,000 hectare native grasslands reserve should be seen as the area to which golden sun moth habitat will be offset, so that native grasslands within the UGB can be cleared for housing.

Planning processes, particularly those surrounding the PSP process should be streamlined. A form of private certification for planning approvals should be considered to help local Government deal with their resourcing issues while at the same time allowing proponents to progress their proposals.

WESTERN AUSTRALIA

CURRENT MARKET SNAPSHOT

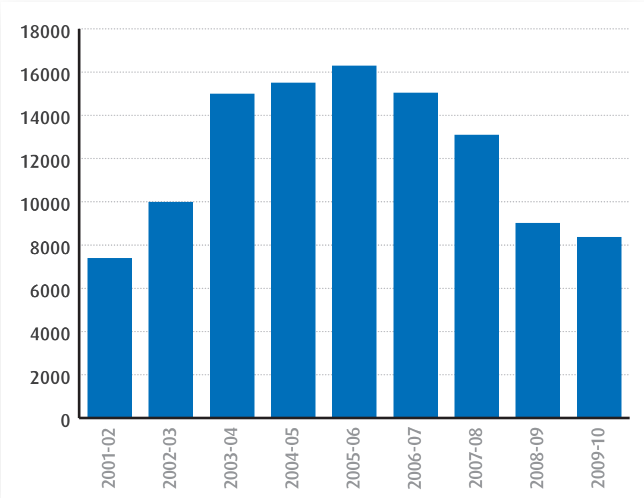
Land sales activity in the first half of 2010 has been slow as first home buyers, who were the dominant market players in 2009, moved out of the market in response to the reduction of the FHOG boost. Sales in the middle and upper sectors of the property market are expected to increase throughout 2010 with an anticipated increase in sales over the year.

Population growth in Western Australia is projected to remain high and is fuelled by a relatively strong state economy underpinned by committed major resource projects in oil and gas developments, iron ore and other commodities. The Western Australian economy is expected to rise steadily over the next few years, reaching 6.25% in 2012-13.

UDIA is concerned that a land shortage may occur in Perth and Peel as development struggles to keep up with demand. The residential lot final approval data from the Western Australian Planning Commission indicate a disturbing decline since 2005-06 despite record population growth in recent years. The official data are supported by UDIA WA's own Urban Development Index (UDI)[1] which indicates an index of 65.2 for lots on the market in the June quarter 2005 just 12 months prior to the last land supply crisis. This dropped to an all time low of 9.7 in the June quarter 2006 at the peak of the crisis. UDIA WA's fears of a land shortage are based on the fact that the index for lots on the market for the June quarter 2010 is just 37.4 with not enough in the pipeline to sustain an increase in demand. The below graph indicates almost half the number of lots reached final approval in 2009-10 as 2005-06.

The slowdown in production is a result of delays in the approvals process and the difficulty the development industry has with securing lending finance to complete projects or to bring new projects on stream. There is real concern in the industry that banks are limiting their exposure to property by introducing "caps" which will affect the viability of some projects. The banks are still keen to invest in the retail market through mortgages but this stimulation of demand, without funding supply, will create challenges for both industry and government.

Residential Lots with Final Approval in Perth and Peel



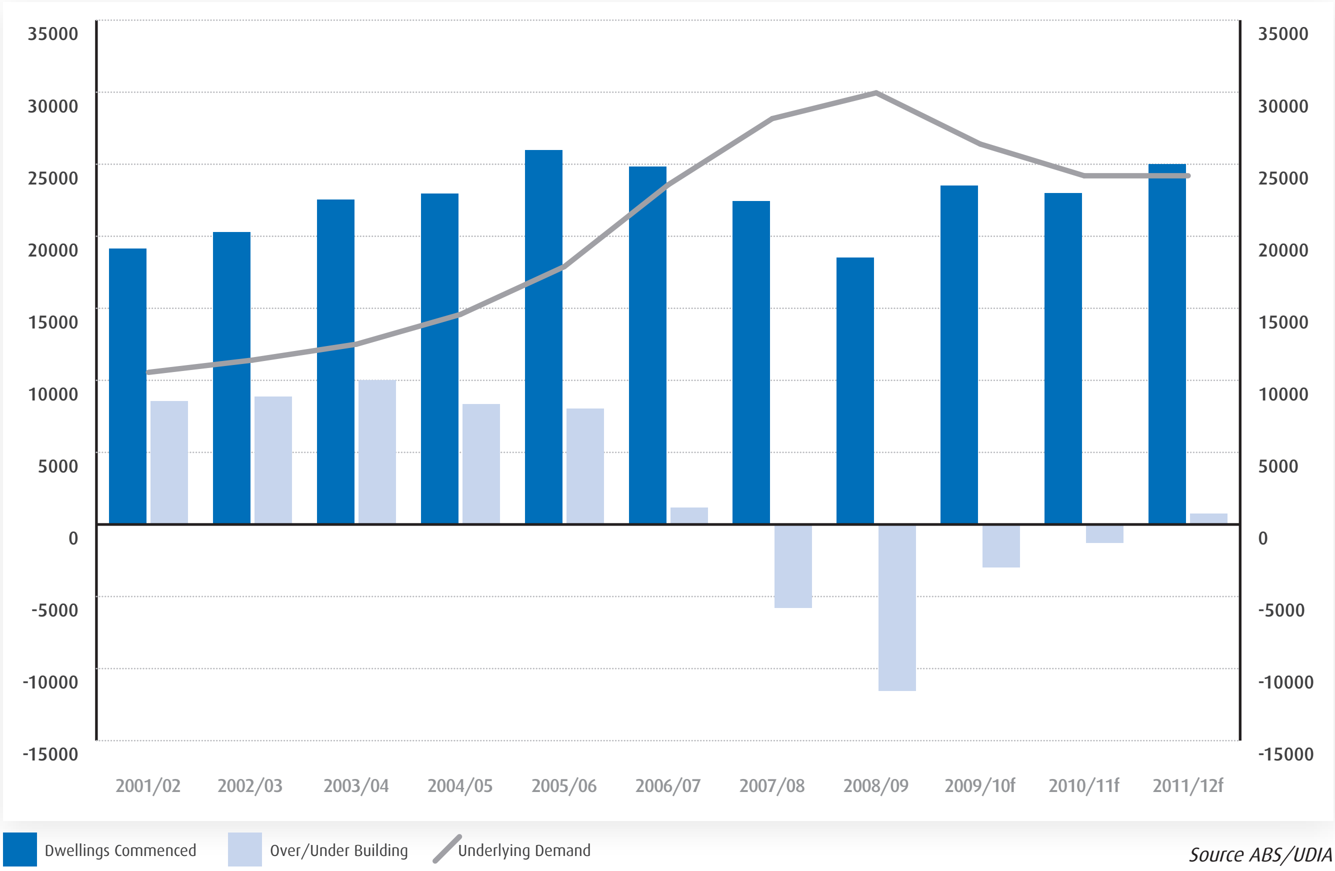
Source: State Lot Activity, Residential Final Approvals, WAPC
From 2003/04 data include Perth and Peel

The following graph shows actual and forecast dwelling production related to estimated demand based on Western Australia's population growth. The housing market was able to meet demand when the population growth was relatively low but has been undersupplied as growth accelerated. The housing system is projected to be in virtual equilibrium from 2009/10 onwards. The decline in lot production and the increase in housing starts suggest lots that have been vacant are now being developed. This will reduce the buffer of lots available in a pending supply shortfall.

1 The Urban Development Index is a survey of 38 developers conducted by UDIA (WA)

WESTERN AUSTRALIA

Over/Under Building Estimates; WA



Source ABS/UDIA

CURRENT LAND SUPPLY

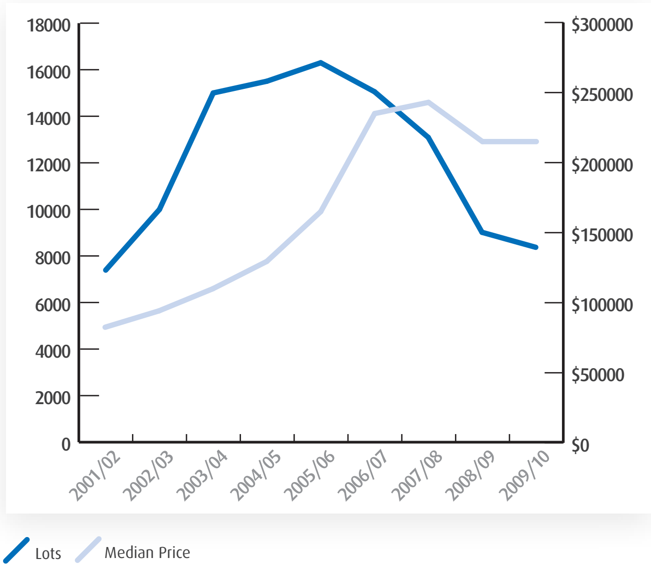
Number of lots produced

In Perth and Peel there were only 8,371 residential lots that reached final approval in 2009/10. Lot production peaked in 2005/06 with nearly 16,300 lots having final approval at the height of the land supply crisis in WA when purchasers were camping out to secure the lot of their choice. Since that time lot production has been in steady decline due to the impact of the global financial crisis which saw the market drop away for all but first home buyers buoyed by the grant boost and the ongoing difficulty developers have to secure finance to complete projects. Camp outs are occurring again in WA with purchasers fearful of not securing a block when they reach the market.

Median price per lot

The median price per lot in Perth and Peel in 2009/10 was $215,000 (data include new sales and resales) which was a substantial drop from the 2007/08 median price of $243,000. The lower median price reflects investors leaving the market and the relatively large number of first home buyers entering the market in response to the First Home Owner Grant boost in 2009. The median price has remained low for the first half of 2010 as second and third homebuyers have been slow to return to the market.

Lots Produced and Median Price of Lots in WA 2000–2009



Source: State Lot Activity, WAPC
Median Land Price State of WA, Landgate
Data are for new sales and resales

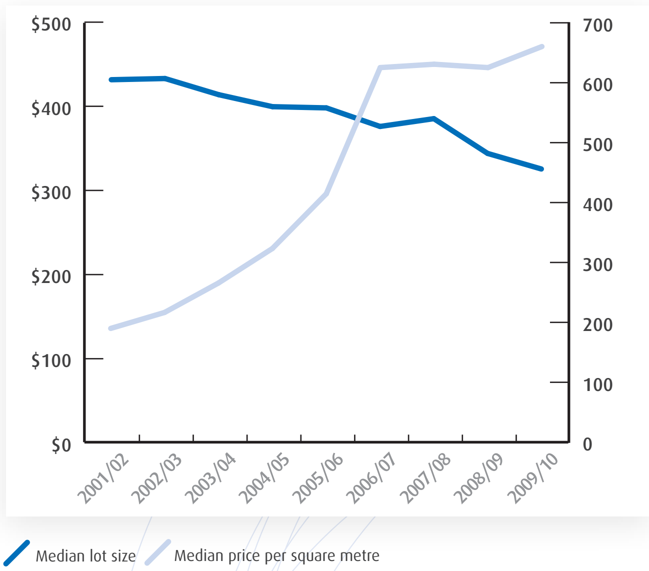
Median Lot Size

The median lot size in WA has been declining steadily over the last decade. In 2001/02 the median lot size was 605 square metres and by 2009/10 it was 456 square metres or 25% smaller in area. The reasons for the decline largely rest with the planning system which has sought to limit urban sprawl and energy use by reducing the urban footprint by promoting infill development in suitable locations. Smaller lot sizes, particularly in the form of cottage lots, are also a response by the development industry to declining housing affordability with the intention being to reduce the land cost component of new housing. While the land cost is minimised the actual cost of construction on cottage lots can be higher and has had a variable response from the market as purchasers have a preference for the traditional sized lot.

Median Price per Square Metre

There is an inverse relationship between lot size and the cost per square metre to develop the lot. The following graph illustrates that the cost per lot has steadily increased as the lot size has decreased. In 2001/02 it cost $136 per square metre to develop a median sized lot of 605 square metres. By 2009/10 the cost had increased to $471 per square metre for a 456 square metre lot. The increase in costs can be attributed to the characteristics of the land being developed being more constrained and subject to greater environmental scrutiny and engineering inputs than a decade earlier.

Perth and Peel- Median Lot Size and Median Price per Square Metre



Source: State Lot Activity, WAPC March quarter 2010
Median Land Price State of WA, Landgate

Perth and Peel Historical Lot Production

Period	Lots	Median Lot Size	Median Price	Median Price per sq metre
2001/02	7391	605	$82,500	$136
2002/03	9998	607	$94,200	$155
2003/04	15001	580	$110,000	$190
2004/05	15507	560	$129,500	$231
2005/06	16299	558	$165,000	$296
2006/07	15055	527	$235,000	$446
2007/08	13092	540	$243,000	$450
2008/09	9015	482	$215,000	$446
2009/10	8371	456	$215,000	$471

Source: State Lot Activity, WAPC March quarter 2010
Median Land Price State of WA, Landgate

FUTURE LAND SUPPLY

Perth's future dwelling needs

The WA State Government's Urban Growth Monitor which identifies lot forecasts for Perth and Peel is currently under development and is unavailable for inclusion in this publication. Discussion of Perth and Peel's future housing needs are set out in *Directions 2031 and Beyond,* the planning framework for Perth and Peel. By 2031 the population of Perth and Peel is expected to have grown by 35 and 40% with a need for an additional 328,000 dwellings. The preferred model is the connected city model where 47% of the required dwellings will be delivered as infill development and in new development areas and a target of 15 dwelling units per hectare is anticipated to be achieved. To reach these targets will require a 50% increase in infill development and in the case of greenfield developments a 50% increase in the average residential density. The following table indicates the housing targets for each of the Perth and Peel planning regions.

Dwelling Targets for Perth and Peel by

Planning Region	2008 Dwellings	2031 Dwellings
Central	319,400	440,400
North West	106,700	171,700
North East	73,400	113,400
South East	64,800	99,800
South West	82,000	123000
Peel	38,200	64,200
Total Dwellings	684,500	1,012,500

Source: Directions 2031 and Beyond, WAPC August 2010

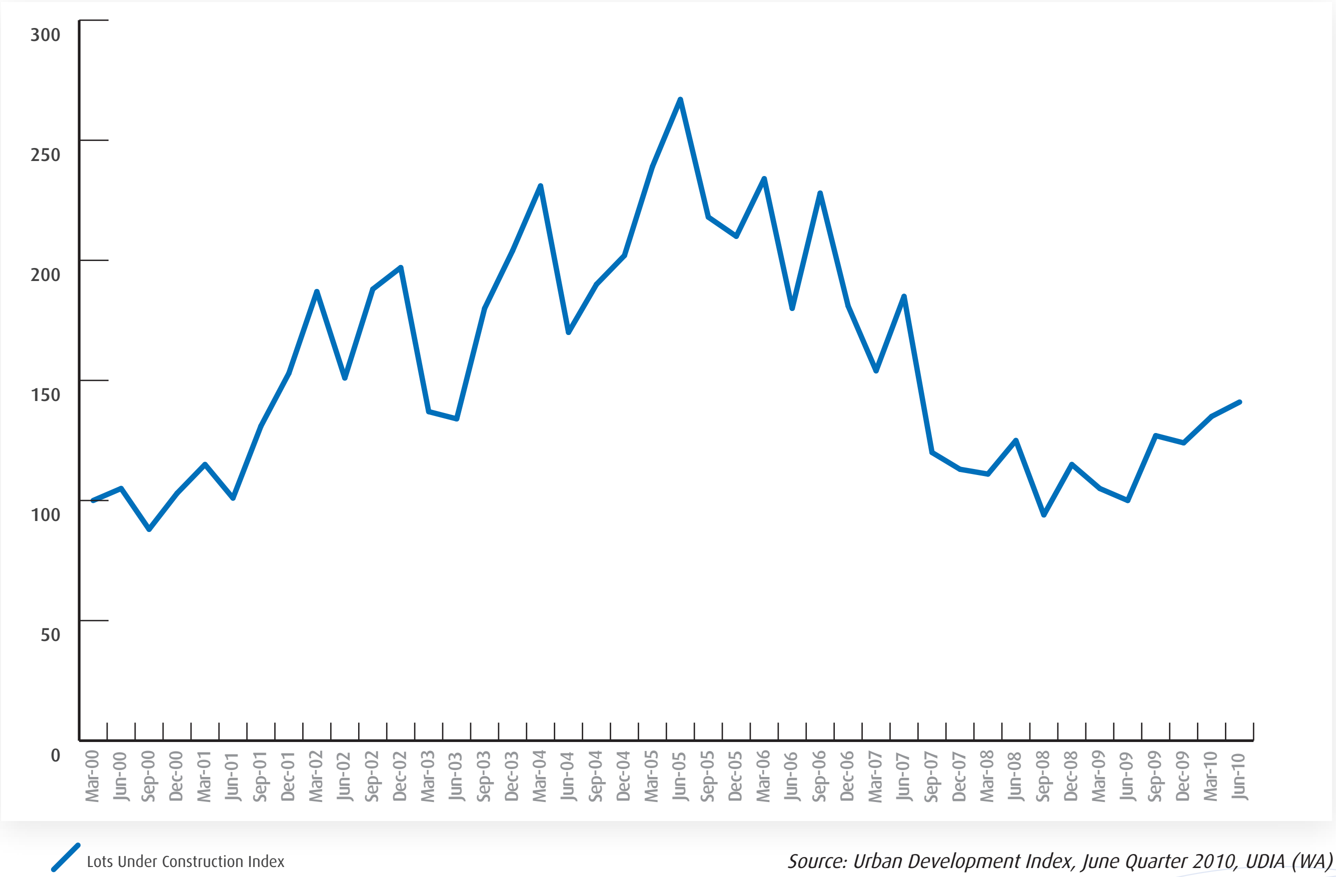
Lot forecast production

To provide an indication of current lot production in Perth, the following discussion is based on the Urban Development Index (UDIA WA) of lots under construction in the Perth Metropolitan Area for release in the next 12 months.

The following graph indicates a steady decline in the index of lots under construction and adds to concerns of a potential land shortage. Lot construction peaked in June 2005, 12 months prior to the land supply crisis in 2006, and has not been able to meet the same level of production since that time. The decline in lot production will inevitably impact on affordability and force first home buyers out of the market as fewer lots are made available to the market in a period of high and sustained population growth.

Forecast lot production is focused on the City of Wanneroo in the North West growth corridor with the other major centres of activity being the Cities of Rockingham and Cockburn in the South West Corridor. In regional areas, most construction activity is focused in the City of Mandurah in the Peel region located less than one hour south of Perth.

Perth and Peel Lots Under Construction - Release in 12 Months



Source: Urban Development Index, June Quarter 2010, UDIA (WA)

BARRIERS TO DEVELOPMENT

In early 2009 the WA State Government recognised that the planning system was struggling to keep pace with a prolonged period of strong economic and population growth. Inefficiencies in the planning system were manifest in lengthy delays in obtaining planning approvals, uncertainty, a lack of strategic capacity and poor infrastructure coordination. In order to streamline and improve the approvals system, a review of the approvals process began in mid-2009 and is still under way. Unfortunately, the review is not taking effect quickly enough, or going far enough, to avoid land supply shortages and the industry is still struggling with a system that lacks coordination and policy alignment between the various government departments and levels of government.

The key issues are:

- The need for strategic planning at the regional and sub-regional level;
- The precedence of environmental approvals over all other planning matters;
- The need for a strategic approach to infrastructure provision;

- The need for coordination between utility providers and land use planning such that the provision of major service infrastructure will service the development fronts as they are developed;
- Innovation being hampered by delays in approvals which result in crippling holding costs.

A whole of government approach at the highest level is needed to facilitate change but the silo approach to decision making persists.

A further barrier to the timely development of urban land is the impact of the Federal Government's Environmental Protection and Biodiversity Conservation Act (EPBC Act). The absence of a bilateral agreement with the WA State Government and a lack of policy or guidelines around the species in question result in projects being subjected to lengthy delays and significant additional costs, particularly where offsets are required. UDIA (WA) is working to facilitate improved outcomes for the industry.

CONCLUSION AND RECOMMENDATIONS

Western Australia is in a strong position enjoying sustained population growth fuelled by a strong economy. The high rate of growth puts pressure on roads, schools and other community facilities and creates a significant increase in demand for land and residential accommodation. Industry fears that the ongoing decline in lots under construction in the context of strong population growth will result in a land supply shortage. Transport, utility, and social infrastructure constraints are among the state's most acute challenges today and they will be compounded by future population growth.

Reform of the planning approvals system will potentially relieve some of the pressure on developers' capacity to deliver land in a time efficient manner that does not result in cost blowouts, however it is not occurring fast enough to shorten development timelines. Approvals for structure plans can take up to three years. Reduced timelines can only be achieved by a whole-of-government approach at the highest level. Financial institutions also have an important role to play in freeing up finance to support urban development.

The key tasks are to:

- Expedite the review of the planning reform agenda to reduce development timelines;
- Establish a bilateral agreement between the State Government and the Federal Department of Sustainability, Environment, Water, Population and Communities in relation to the EPBC Act so as to accelerate approvals in subject areas;
- Coordinate infrastructure planning and land use planning to reduce upfront costs of development and to achieve sustainable urban development, both in infill areas and new development areas;
- Position the Office of Land and Housing Supply within Premier and Cabinet and give it a mandate to work across government departments at the highest level.

ABOUT UDIA

The Urban Development Institute of Australia (UDIA) is the peak body representing the urban development industry in Australia. UDIA represents more than 4000 companies directly employing more than 400,000 Australians including developers and a range of professionals involved in the development industry including lawyers, engineers, town planners and contractors. UDIA has five state offices around Australia and has a National Office in Canberra.

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