Urban Development Institute of Australia
NATIONAL

THE 2015 UDIA STATE OF THE LAND REPORT

Urban Development Institute of Australia National Land Supply Study

UDIA NATIONAL PARTNER

NLSP
National Land Survey Program.

THE 2015 UDIA STATE OF THE LAND REPORT

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"If we are concerned about the cost of getting a roof over people's heads, the answer to that problem is more supply of well-located land on which dwellings can be built. And 'well-located' does not mean harbour-side; it means with transport, with proper infrastructure so you can commute to your job quickly and so on.

I think the state governments are aware of this and are trying to deal with it. But those are the things we have to do if we want to go back to the world we once had.

In a country with this much land, it ought to be cheap to get a roof over your head. It ought to be inexpensive to get basic accommodation in this country.

We are not short of land in general, but we are short of developable, well-located land connected with transport.

That is surely what we have to address."

Glenn Stevens
Governor of the Reserve Bank of Australia
13 February 2015

INTRODUCTION

Providing enough new serviced land in our cities and towns is the key to successfully accommodating our growing population, and is a major challenge for policy makers at all levels of government.

This is the seventh edition of the annual *State of the Land Report* prepared by the Urban Development Institute of Australia. Unlike in previous years, this years' report has been undertaken in partnership with Charter Keck Cramer and Research4, which have provided land supply and market performance data from the National Land Survey Program (further details in the last section of this report).

This ground breaking partnership allows data sourced from developers on the ground across the country to bring a new level of reliability, consistency and depth to the Report.

The modest upswing in development industry activity that we saw emerging in 2013 continued to gather momentum throughout last year, and as a result, 2014 was a strong year for industry, and for new land supply. Nationally, the NLSP data sample indicates that 50,150 new greenfield lots were released over the 2014 calendar year, up 31% from 38,350 in 2013, and the highest level of new releases since the global financial crisis.

Despite low interest rates and strong market demand, at the national level, new lot prices have remained largely in check across most cities, with the notable exceptions of Sydney and Perth. As noted in previous years' *State of the Land Reports*, median lot sizes across most cities have continued their downward march, a reflection of changing market preferences, land constraints, and affordability pressures.

2015 is currently shaping up to be another good year for the development industry and for new land supply, with continued strong demand and high levels of market activity, with the exception of South Australia.

However despite recent improvements, most cities across Australia still face major constraints when it comes to new land supply. Governments cannot afford to be complacent. They must undertake the necessary actions to improve planning systems, increase infrastructure investment, and reduce red tape, to ensure the availability of sufficient serviced land to deliver affordable housing, and to support jobs and economic activity in the development industry.

FAST FACTS

Based on the National Land Survey Program (NLSP) survey of new residential land supply:

- The average median new lot size nationally is now 474 square metres, down 3.6% over 2014, and down 11.4% since 2009.
- The greatest change in median lot size over 2014 occurred in Sydney, which fell by 59 square metres from 509 square metres to 450 square metres, an 11.6% drop.
- The average median new lot price in Australia's five largest capital cities is now $246,300, up 4.2% over the year, and up 22.5% since 2009.
- The largest change in new lot price over 2014 was in Perth, where the median price of a new lot increased by $22,500 from $238,500 to $261,000, an increase of 9.4%.
- The average median price of land paid by new home buyers nationally was $527 per square metre in 2014, up 9.5% from the previous year, and up 40% since 2009.
- The largest change in land price was in Sydney, where the price of land increased by $119 per square metre, from $636 to $755 per square metre, an increase of 18.7% over the year.
- The total number of new lot releases captured in the NLSP data sample was 50,150 in 2014, up 30.8% from 38,350 in 2013, the highest level in many years.
- The largest change in lots released over 2014 was in Melbourne, with an additional 4,791 lots released, up 60% on 2013.

OVERVIEW

LOTS RELEASED

Nationally, the recovery in lot production from low levels that began in 2013 continued strongly throughout 2014, with substantial increases in lots released to the market across the majority of the five cities studied.

South East Queensland, Melbourne, and Sydney, all experienced very large increases in lots released relative to 2013, with increases of 55%, 61%, and 29% respectively. The Melbourne and South East Queensland markets have experienced a successful supply response to improved confidence and large increases in demand over the year, which has largely kept pressure off prices.

Carrying on from 2013, Sydney has continued to improve the number of lots supplied to the market, however it remains chronically undersupplied after a prolonged period of combined low levels of lot production and strong population growth.

Perth experienced lower levels of growth in lots released relative to the larger capitals across 2014, with total lots released increasing by 7% over the year, although this is off a high existing base. The slower rate of growth comes as the winding down of mining investment takes heat out of the Western Australian economy, and this is likely to result in a further moderation of lots released to market in the future.

Adelaide was the only one of the five cities examined which saw a decrease in the number of lots released in greenfield growth areas, registering an 11% fall. Stock on the market in Adelaide has been elevated, and demand weak for a number of years, and these conditions have continued to persist throughout 2014.

LOT SIZE

The trend of declining lot sizes highlighted in previous *State of the Land Reports* has largely continued through 2014, with lot sizes falling by large amounts in four of the five cities studied. Sizes continue to decline as a result of the limited supply and high cost of land, and are also a likely response to affordability constraints felt by new home buyers.

Sydney and South East Queensland saw the largest declines in lot sizes, recording falls of 11.6% and 9% over the year respectively. The median size of a new lot in Sydney is now 450 square metres, and 509 square metres in South East Queensland.

Perth and Adelaide saw smaller declines in lot sizes of 4.5% and 4.6% respectively, although new lots in these cities were relatively smaller to begin with. Perth had the smallest new lots in 2014 of any of the urban areas examined at 428 square metres, and Adelaide the second smallest lots at 444 square metres.

The size of new lots in Melbourne remained essentially flat at 445 square metres, a figure that has remained largely unchanged since 2011.

Based on the the NLSP data, the average size of a new block of land across the five urban areas studied is now 474 square metres, down 3.6% over the year, and 11.4% since 2009.

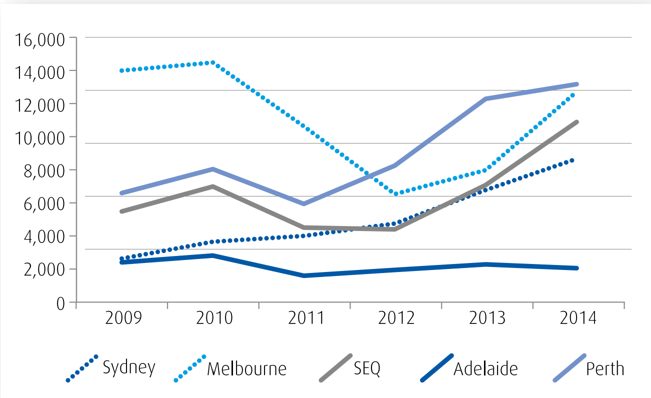
LOT PRICE

Changes in lot prices over 2014 have been mixed between the cities studied, reflecting substantial differences in market confidence, demand, and supply responses.

Melbourne, South East Queensland, and Adelaide experienced largely flat lot prices, with Melbourne and South East Queensland experiencing small increases. Despite strong demand for new lots in both South East Queensland and Melbourne, there has been a strong supply response which has kept a lid on prices to the benefit of new home buyers. Prices in Adelaide have been flat for an extended period of time, as weak population growth and confidence has weighed on demand.

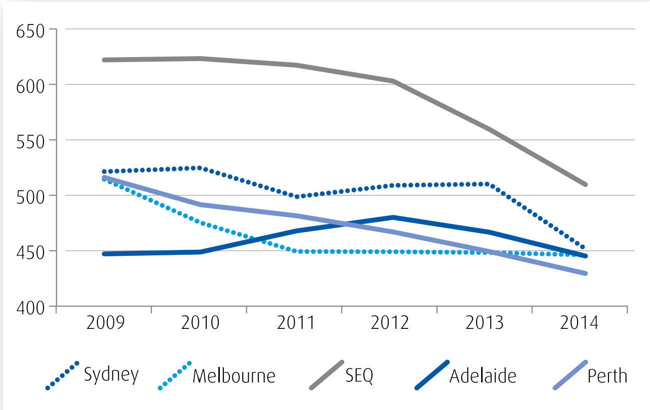
Despite strong increases in the number of new lots released in Sydney, new supply has been unable to keep up with the boom in demand that has taken place over the last two years. Lot prices in Sydney rose by 5% in 2014, and have risen by 15% since 2012. Perth also experienced a large increase in the price of new lots of 9.4% over 2014 as a result of continued strong population growth in Western Australia, which despite having slowed in recent years, is still the highest of any state or territory.

Lots Released



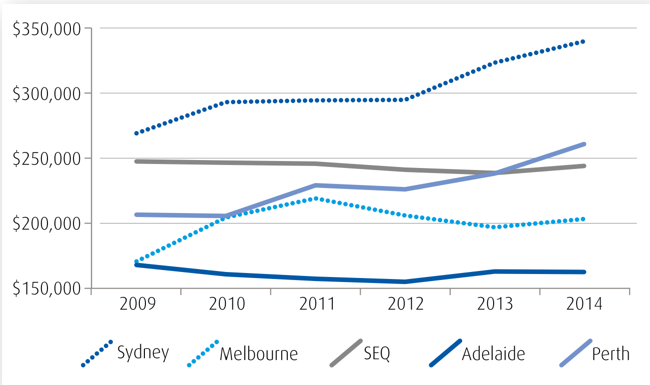
Greenfield growth area lots released to the market
Source: NLSP

Lot Size (m^2)



Median greenfield growth area lot size
Source: NLSP

Lot Price ($)



Median greenfield growth area lot price
Source: NLSP

RECOMMENDATIONS

Whilst the release of residential lots and construction of new housing has improved considerably over the last few years, it is critical that Governments do not become complacent. Whilst market conditions are currently good in most markets, in a highly cyclical industry, that will not always be the case, and it remains extremely important for governments to address the underlying barriers to new housing construction and supply.

High taxes and charges levied on new developments, untimely and inadequate provision of major infrastructure works by state governments, and delays and uncertainty in the rezoning, planning and approvals processes are still major factors constraining the supply of new lots in most capital cities.

The Urban Development Institute of Australia makes the following recommendations to reduce the barriers to residential lot production in our major cities, to improve housing supply, and support jobs and economic growth in Australia's development industry.

The Federal Government must do more to support new land and housing supply as a driver of jobs and growth in the Australian economy. This is particularly important given the current structural adjustments in the Australian economy away from mining led growth, and the expectation that housing activity will continue to pick up to fill the gap. The Government cannot simply rely on the Reserve Bank to keep interest rates artificially low to support activity, it must take action to address the underlying structural distortions and barriers in the market.

The Federal Government should:

- *Assist State Governments with removing stamp duty on property and replacing it with more efficient forms of taxation.* In addition to making new housing more expensive, stamp duties are economically inefficient, damaging for productivity, and unreliable as a source of tax revenue. The Federal Government should assist state governments to phase out stamp duty in favour of more efficient taxes, such as a broadening of the GST.

- *Provide additional funding for investment in new urban infrastructure, in order to unlock land.* Much of the land zoned for development is effectively undevelopable due to non-existent or insufficient trunk infrastructure such as roads, and utilities. The Federal Government should provide additional funding from existing and new sources to unlock this land.

- *Incentivise state governments to improve their performance on key land supply measures with performance linked funding.* States should be evaluated for their performance against factors such as charges, infrastructure costs, and timeliness of rezoning, development approvals and planning decisions. High performing states should be rewarded with additional funding.

- *Cease plans to shift the cost of providing the National Broadband Network to new home buyers through up front connection, network and backhaul charges.* These charges are inequitable, forcing new home buyers to bear the cost of infrastructure that existing households get for free, and will likely discourage housing supply.

- *Continue to encourage foreign investment into residential real estate, by supporting Australia's existing foreign investment policy framework.* Foreign investment into new dwellings is highly beneficial, as it contributes to new housing supply, jobs, and economic activity. In enforcing Australia's existing foreign investment policy, the Government must not discourage legitimate foreign investment by imposing excessive fees or other undue barriers.

State and local governments must improve their performance on planning, infrastructure provision, and charging for new developments. They should:

- *Undertake major planning system reform, to increase the supply of urban land and reduce delays and uncertainty associated with zoning, planning and approvals processes.* State government planning and land use policies strangle the supply of new land, are glacially slow, and contribute unnecessarily to the cost of new housing. State governments around the country must significantly reform their planning systems in order to improve land supply, and reduce delays and uncertainty in zoning, planning and approvals processes.

- *Reduce up front charges and levies on new housing by favouring the recovery of costs over long time frames, rather than up front.* Up front charges add tens of thousands of dollars to the cost of a new home. In some parts of the country infrastructure charges alone can add up to $65,000 to the cost of a new home. Charges are not applied transparently, and as a result can be much more than the cost of the infrastructure they are supposed to fund. Governments must levy charges transparently, and must shift away from up front charging to recovering costs through recurrent taxation over long time frames.

SYDNEY

CURRENT MARKET AND LAND SUPPLY CONDITIONS

From 2012 onwards Sydney has experienced a recovery in its land supply. Lots released have risen more than threefold since 2009 (2,503) to 2014 (8,597).

By 2031 Sydney's population will grow by 1.6 million people, an average of 80,000 extra people per annum, the recent increase in land supply needs to be more than a shot in the arm. We are only approving new dwellings at 50% of the required rate to meet long term delivery targets. A record low cash rate has dramatically improved housing affordability and been the single biggest factor in the rejuvenation of the Sydney market, but questions must be asked as to how sustainable this situation is given that when interest rates rise, so too will levels of unaffordability. Prices of land and housing are rising in Sydney faster and higher than any other Australian city. Greater Sydney still needs a dramatic increase in affordable land supply to arrest this crisis.

There is a new dynamic emerging in land development in Sydney. While lot production has increased significantly over the past two years the average lot size has undergone a sharp decline. From 2009–2013 average lot size ranged between 498m² and 524m², however in 2014 it was down to 450m². Small lot housing has helped affordability but lots can only get so small before requiring alternative housing choice solutions. From 2013 to 2014 lot production increased 28.5% (1907 lots) while at the same time the size of total developable land only increased by 13.6% (463,662m²). This increase in lot yields has turned developments that would otherwise have had borderline feasibility models into profitable projects whilst maintaining affordability for the homebuyer.

Factors contributing to recent increased market performance include:

- Strategic infrastructure investments by the government notably through the Housing Acceleration Fund, which have unlocked large parcels of land for development. Since its introduction by the NSW Government in 2012 the Housing Acceleration Fund has allocated more than $500 million to key infrastructure works with the objective of driving housing growth.
- Smaller lot housing attracting a wider range of consumer market segments both from an affordability and choice of lifestyle viewpoint. The introduction of the Housing Diversity Package in 2014 has freed up the supply of land around the new railway stations in the North West and South West Growth Centres by making R3 medium density land viable with split contracts. As the supply of small development sites in the fragmented North West and South West Growth Centres rises we are seeing the emergence of new second and third tier developers in Sydney.
- UrbanGrowth NSW's 10,000 homes program has now finished. This program involved the provision of 10,000 home sites in Western Sydney over a four year period.

There is growing investment in development projects from interstate, off-shore and private equity as the demand for new sources of non-institutional capital grows to produce the additional supply. However, demand continues to heavily outstrip supply in Sydney by more than 50%. The median lot price for Sydney hit a record high in 2014 of $339,750, with 97% of stock sold valued greater than $251,000. Without the demand vs supply imbalance being rectified Sydney will continue to face further price rises in the future.

The NSW Government spent three years reforming the planning system. The new system was to have upfront strategic planning, a streamlined approvals process and less red tape. Infrastructure spending was to be clearly linked to catering towards the areas willing to accommodate growth. *The Planning Bill 2013*, which was materially altered by the Upper House, has remained dormant since being returned to the House of Representatives in early 2014 and the Government has indicated it will not be revisited before the State Election in March 2015.

Sydney Greenfield Lot Production

Year	Lots Released	Year End Stock	Median Lot Size (m^2)	Median Price ($)	Per m^2 land price
2009	2503	1076	520	$269,000	$518
2010	3526	1266	524	$293,500	$560
2011	3890	1449	498	$294,500	$592
2012	4640	1870	508	$295,000	$580
2013	6690	494	509	$323,500	$636
2014	8597	342	450	$339,750	$755

Source: NLSP

INFILL PERFORMANCE

The key infill performance indicators of dwelling approvals and completions have seen a sharp increase from 2012/13 to 2013/14, indicating a flourishing infill market. ABS figures show that from 2012/13 to 2013/14 dwelling unit approvals are up in New South Wales by 37% (from 21,812 to 29,875) while at the same time dwelling unit completions have jumped 15% (from 32,628 to 37,360). Sydney's infill market continues to do its fair share of heavy lifting when it comes to delivering new housing.

FUTURE PROSPECTS

The NSW Government has recently decided to turn its Metropolitan Development Program into a monitoring device and subsequently is no longer publishing detailed forecasts. Released in December 2014, *A Plan for Growing Sydney* is the NSW Government's final strategy for Metropolitan Sydney up to 2031. *A Plan for Growing Sydney* has set a minimum housing target of 664,000 new dwellings for Sydney by 2031. Using the historical Sydney development split of 70/30 between infill and greenfield that equates to an additional 9960 new lots that need to be produced annually to meet the Government's target (this is assuming that the 70% delivery in the infill areas is actually achievable and delivered).

UDIA NSW, through its Land Development Committee, has prepared forecasts based on consultation with key development industry participants. (See Table 2)

UDIA's forecasts show a major increase in lot production in the next five years with Sydney in line to exceed lot production targets identified by *A Plan for Growing Sydney* to 1% in 2014/15 and 24% by 2018/19 (See Table 3).

The NSW Government has announced the formation of the Greater Sydney Commission, a dedicated new body charged with steering delivery of *A Plan for Growing Sydney*. The objectives, charter, membership and powers of this Commission will be vital to its effectiveness. These must be defined in a transparent and inclusive manner with key stakeholders in NSW or this new body will struggle for meaning and support. It is UDIA's hope that the primary purpose of the Commission will be to facilitate the formation of a Greater Sydney Vision and the drive the delivery of this vision. Sydney's greatest challenge for delivering growth and quality of lifestyle will be to turn the combative and divisive debate in to a "majority Vision". So while the formation of the Commission is welcomed, UDIA calls for the NSW Government and Opposition to place the formation of a Greater Sydney Vision and the supporting planning reform at the top of its agenda following the March election — UDIA's forecasts are conditional on this bi-partisan approach occurring.

With UrbanGrowth NSW's recent completion of their 10,000 homes program they are now transitioning out of the retail market. Only time will tell what effect this has on the land market as UrbanGrowth NSW had built a reputation of troubleshooting development impediments and coordinating provision of key infrastructure works to unlock supply. Furthermore, the larger National land developers have experienced difficulties in restocking in Sydney due to the fragmentation of the land in the Growth Centres and increasing vendor expectations.

BARRIERS TO DEVELOPMENT

With planning reform shelved and no set date on when it may be revisited, NSW faces an uncertain future. The Metropolitan Development Program has been stripped of its forecasting function, the Land Release Policy which was due to be implemented in February 2014 has vanished and we have been waiting more than 12 months for Sydney's subregional plans. The one thing Sydney is seemingly not missing is uncertainty.

Infrastructure Servicing

While a number of major infrastructure projects have been committed to and are underway, it is vital that key local infrastructure is also delivered to activate new housing areas. UDIA recommends the following:

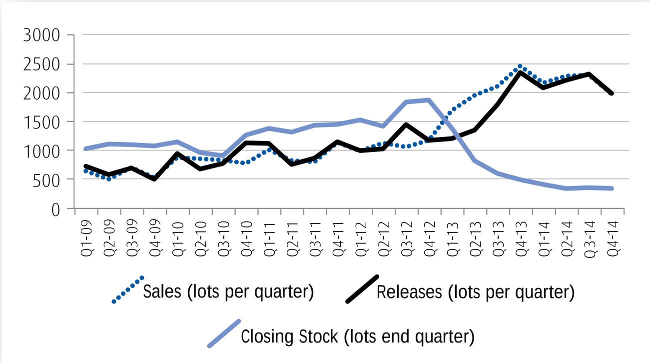
- Boost infrastructure funding for local infrastructure.
- Future proof the Housing Acceleration Fund to drive long term housing growth.
- A commitment to release all sub-regional plans within the first 100 days of Government.

Taxes and Levies

NSW remains the most expensive State or Territory in Australia to do business. Taxes and levies make up 30% of NSW house prices. Bringing down these costs will make new housing more affordable, project delivery more viable and boost supply. UDIA recommends the following:

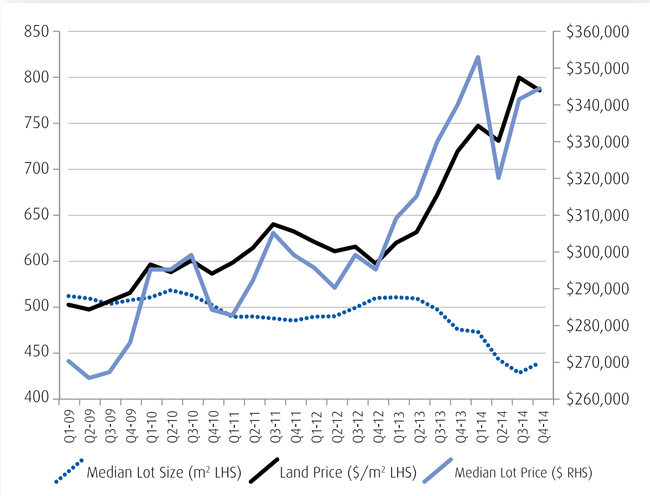
- Use the land tax system to introduce tax increment financing to pay for new community infrastructure. In the medium term, a revamped land tax system should replace levies imposed on the new homebuyer.
- Improve transparency around infrastructure delivery processes and the charges borne by households by scrapping Voluntary Planning Agreements.
- NSW needs Councils that are financially viable. Rate pegging must be scrapped to allow Councils to better fund recurrent and planned capital expenditure.

Quarterly Market Activity



Greenfield growth area lot sales, lots released to the market, and closing stock at the end of the quarter
Source: NLSP

Median Land Price and Size



Source: NLSP

Table 2 – Sydney Metropolitan Land Supply UDIA Forecast

LGA	2014/15	2015/16	2016/17	2017/18	2018/19	5 Year Forecast Total
Camden	3150	3620	3430	3760	3800	17760
Campbelltown	1095	1220	995	1080	1165	5555
Liverpool	945	1000	1400	1400	1400	6145
Wollondilly	390	710	950	950	800	3800
Fairfield	0	100	100	100	100	400
Sutherland	50	50	65	50	0	215
Hawkesbury	150	250	350	200	200	1150
Blacktown	1940	2230	2550	2770	2950	12440
The Hills Shire	1090	1305	1260	1125	1080	5860
Penrith	1260	550	500	600	860	3770
Total:	**10070**	**11035**	**11600**	**12035**	**12355**	**57905**

Source: UDIA NSW

Table 3 – Metropolitan Sydney Forecast Lot Production

	2014/15	2015/16	2016/17	2017/18	2018/19
A Plan for Growing Sydney Target	9960	9960	9960	9960	9960
UDIA	10070	11035	11600	12035	12355
Percentage Difference Between Forecasts	1%	11%	16%	21%	24%

Source: UDIA NSW/A Plan Growing Sydney

MELBOURNE

CURRENT MARKET AND LAND SUPPLY CONDITIONS

Over the past 6 years, the number of lots released in Melbourne has generally declined, but started to pick up considerably in 2014 with 12,690 lots released. This is an increase of 60% on 2013, although this is still significantly below the 2009 figure of 13,984. Lot sales increased in line with the additional releases, jumping by 43% to 12,672, reflecting strong market conditions.

Melbourne experienced another positive year in 2014 with a median established house price growth of 6.9%, to $649,000 (REIV). This is however slower than the price growth of 8.5% in 2013. Whilst the property market provided a good return overall in 2014, this was variable across the city. The strongest annual growth at 12.7% occurred in inner Melbourne, followed by the middle North at 11.4%. Price growth in outer Melbourne has been limited at 4.4% (REIV).

Median lot prices in 2014 were fairly flat relative to previous years, with a marginal increase in prices over the year by 3.2% to $204,800. The yearly average was pushed higher by a spike in lot prices in the last quarter of 2014, to $210,000.

Annual price growth for land suggests that the south east corridor of Casey and Cardinia has recorded land price rises, while to the west, Melton land prices have declined and in Wyndham they have been flat. To the north, only Hume (+6%) has recorded an annual price rise, while prices have been flat in Whittlesea and Mitchell–Wallan-Beveridge.

Median lot sizes in Melbourne remained essentially flat, falling by less than 1% in 2014 to 445m², although they have decreased by a significant 13.4% since 2009, when the median lot was 514m². This trend has been driven primarily by a decrease in the proportion lots over 500m², and a large expansion in lots between 350 to 499m², with the proportion of lots smaller than 350m² growing at a slower rate.

Victoria recorded net population growth of 1.86% over 2013/14, slightly up from the previous year, and the second highest growth rate in Australia behind Western Australia. This reflects strengthening net interstate and overseas migration, both in absolute terms, and relative to other states.

Melbourne Greenfield Lot Production

Year	Lots Released	Year End Stock	Median Lot Size (m²)	Median Price ($)	Per m² land price
2009	13984	1959	514	$171,250	$334
2010	14475	2056	474	$205,000	$435
2011	10579	4480	448	$219,500	$490
2012	6439	4822	448	$206,500	$461
2013	7899	3883	447	$197,500	$442
2014	12690	3463	445	$203,800	$458

Source: NLSP

Land has become less affordable in the growth areas of Melbourne over the past 7 years, with fewer than 50% of lots less than $200,000 compared to 90% in 2008. This is a direct result of greater taxes and developer contributions being applied to land development. Costs have also increased from local government "gold plating" infrastructure requirements.

Statutory authorities have also increased costs by requiring greater areas of land for biodiversity conservation and drainage facilities that decreases yield, and utility installations for power and water services have also increased.

The outlook for Melbourne is for land development projects to start testing the current price point across the market. The market is trending toward a scenario where price growth is becoming more possible due to a lower stock level and sustained levels of higher demand.

FUTURE PROSPECTS

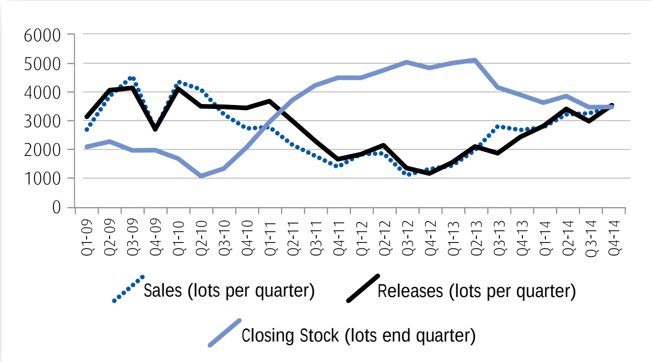
It is estimated that within the Growth Areas of metropolitan Melbourne (including southern component of the Mitchell Shire), there is an approximate broad hectare lot capacity of 360,000 to 400,000. Based on dwelling projections contained in the *State Governments Population and Dwelling projections (VIF2014)*, it is estimated that there is sufficient broad hectare land to satisfy between 25 to 29 years of demand.

New dwelling activity in Victoria strengthened during 2014, with the state recording 55,222 dwelling commencements in the year to September, up 15% on the previous year. Building approvals were also strong during 2014, rising by 19% to 59,337 dwellings approved, and suggesting that building and construction activity will remain strong throughout 2015 (ABS).

BARRIERS TO SUPPLY

The biggest issue for development remains the same as previous years in that there is still the very slow approvals process for both greenfield and established areas, and the inconsistent requirements between local authorities adding confusion and increased costs. The UDIA is working with government to address some of these issues related to infrastructure requirements and engineering standards.

Quarterly Market Activity



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Source: NLSP

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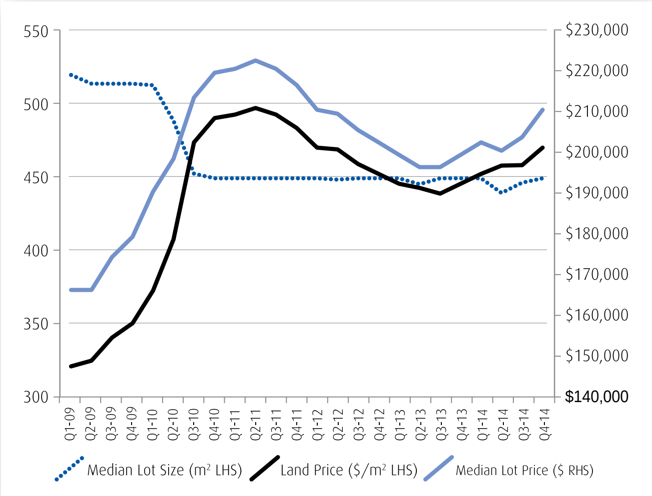


Source: NLSP

SOUTH EAST QUEENSLAND

CURRENT MARKET AND LAND SUPPLY CONDITIONS

The recovery in land markets stepped up a gear in 2014 in South East Queensland with the number of vacant residential lots released rising 55% to 10,833. The market more than soaked up this increased supply, with sales exceeding the number of new lots released. Sales of vacant lots increased strongly in 2014 — up 44% to 11,172. This is the best result since prior to the Global Financial Crisis, however there is still scope for further improvement.

Looking at greenfield and infill development as a whole across Queensland, new housing supply has improved significantly in the past year. There were 38,528 dwellings commenced in the year to September 2014. In the Sep-14 quarter, 11,515 dwellings commenced — the highest quarterly figure in six years. Queensland is now on track to build more than 40,000 dwellings in the 2014/15 financial year.

Population growth (a driver of underlying demand for land and housing) was, however, disappointing in 2013/14 coming in at 1.5% — well below State Budget predictions of 2%. Weak population growth was predominately due to poor interstate migration levels. Ordinarily annual population growth of 1.5% would not generate sufficient demand to support the building of more than 40,000 dwellings in Queensland. Due to many years of undersupply, however, a prolonged period of dwelling commencements exceeding 40,000 per annum is absolutely necessary to absorb pent-up unsatisfied demand (notwithstanding weak population growth).

Effective demand for land, and in turn new homes, improved in 2014 due to a number of factors including:

- Continuing low interest rates and the expectation that rates will stay low for some time.
- Some improvement in affordability, with land prices stable over a number of years resulting in real falls in the price of a block of land (facilitated by a reduction in average lot size).
- Some improvement in confidence following a long period of pessimism fed by political instability and rising unemployment.
- Less constrained lending criteria resulting in increased liquidity within the home lending market.

All of these factors have unlocked pent up demand.

Within South East Queensland, Moreton Bay continues to post the greatest numbers of sales in the region. The largest percentage increases in sales in 2014 occurred on the Gold Coast, however this was off a low base and was particularly concentrated around the Coomera and Pimpama areas.

South East Queensland Lot Production

Year	Lots Released	Year End Stock	Median Lot Size (m²)	Median Price ($)	Per m² land price
2009	5383	1916	622	$248,000	$398
2010	6908	3225	623	$247,000	$396
2011	4389	3601	617	$246,000	$399
2012	4291	3255	603	$242,000	$401
2013	6988	2696	559	$239,000	$428
2014	10833	2057	509	$244,000	$480

Source: NLSP

FUTURE PROSPECTS

Latest Queensland Treasury data indicates that there is approximately 39,140 hectares of broad hectare land (parcels greater than 0.25ha) identified as suitable, potentially available and serviceable for future residential development. This is equivalent to around 14 years' worth of available residential land supply. On paper, it would appear that there is enough supply in the medium term to meet demand without harming affordability. This is, however, not the case nor is there sufficient planning in place to meet long term demand (i.e. out to 2041).

Whilst the Western and South-Western Corridors (Ipswich and Logan) have generous supply in comparison to demand with projects such as Yarrabilba, Ripley and Flagstone gathering momentum, the rest of the region does not have sufficient supply to meet demand in the medium to long term.

Put simply, land supply in the South East Queensland region does not match the locational preferences of buyers when considering historical settlement patterns. Without addressing existing barriers to supply, affordability pressures will emerge in many parts of South East Queensland, in particular in Moreton Bay and on the Gold Coast.

Focussing on the Capital, Brisbane City has very limited availability of large englobo land parcels and its future supply will rely almost entirely on infill development on smaller sites (as a consequence of deliberate planning policy and land fragmentation).

Recent policy changes will have the effect of facilitating land and housing development into the future. In 2014, the State Government continued on its reformist path with further planning reform and red tape reductions building on the positive policy changes outlined in last year's *State of the Land Report*. Over the last few years, the creation of the Single Assessment and Referral Agency (SARA) is most frequently cited by developers as the most positive reform resulting in reduced risk and cost for development.

In late 2014, the then Queensland Government was well advanced in a review of the *South East Queensland Regional Plan (SEQRP)* and had indicated a desire to increase land supply by expanding the statutory urban footprint and by removing barriers to developing land within the existing urban footprint. Further, the *Planning and Development Bill 2014* was also introduced into Parliament in late 2014. This Bill would have had the effect of repealing the *Sustainable Planning Act (2009)* and replacing it with more efficient and effective planning legislation. The January 2015 Queensland election resulted in a change in Government and the status of the *Planning and Development Bill* and the review of the SEQRP is now unclear and discussions are underway with the new Labor Government to progress these issues.

BARRIERS TO SUPPLY

Industry has welcomed recent Government reforms, however there remains plenty of work to do. Fundamental barriers to land and new housing supply in South East Queensland remain. In 2014 significant barriers included:

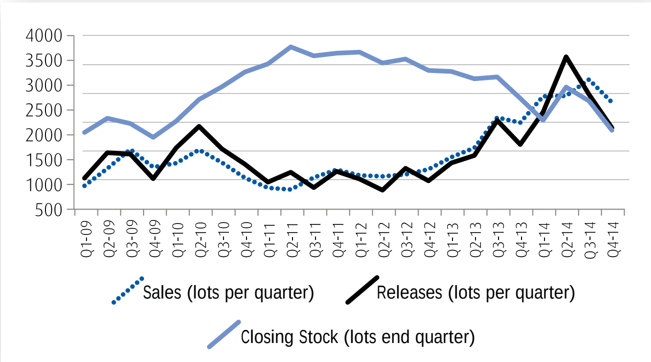
- **Infrastructure deficits:** Local and State Governments have not invested sufficiently in leading infrastructure to areas that have good development potential. This reluctance to fund infrastructure has been the key motivator of local and state government decisions to constrain their 'urban footprints'. Negotiations between the private sector and government over infrastructure are often lengthy and add cost and risk to the development process rendering many potential developments unviable.

- **The South East Queensland Regional Plan (SEQRP):** The existing SEQRP contains a statutory urban footprint that effectively prohibits residential development outside of that footprint. The existing SEQRP is under review and unless changed significantly will act as a barrier to new supply in the future. If we are to accommodate the expected 1.1 million new households between now and 2041 without harming affordability, the amount of greenfield land identified in the existing SEQRP needs to at least double. It is important that a new SEQRP identifies significantly more land than is projected to be required to accommodate population growth as this will allow for more competition and reduces the risk of localised land shortages if settlement patterns do not occur as predicted. Further, it also protects against the risk that land supply can be easily overestimated by Government, both in terms of the net quantity available and the achievable density. In particular, unless significant new tracts of land in the corridors north and south of Brisbane are made available for development, there will be upward pressure on pricing that will harm affordability.

- **Local Government Culture and Processes:** The holding period of land until approvals are achieved remain too long despite some recent improvements in planning processes. On a typical subdivision of a zoned area, approvals can take up to three years. For unzoned areas timeframes can be seven years or more. For infill development, despite many new planning schemes being released or adopted by local governments in 2014, planning controls in those schemes continue to be somewhat onerous and appear to be motivated by the preferences of some existing local residents and not sufficiently motivated by broader community interests such as delivering diverse and affordable product.

- **Taxes, Fees and Charges:** Queensland's property and development industry carries among the highest burdens of any industry in terms of taxes and charges, acting as a barrier to new supply in South East Queensland. The State Taxation system needs reform to ensure that over time we move to a system that relies more heavily on broad-based efficient taxes where concessions and exemptions are targeted at encouraging the production of new housing stock and job creation.

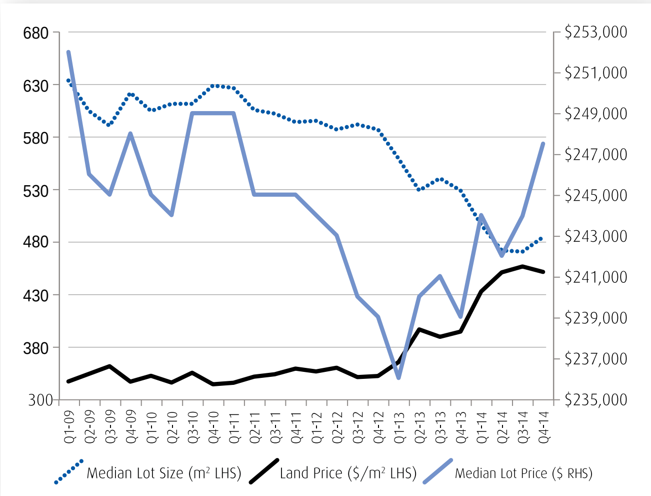
Quarterly Market Activity



Greenfield growth area lot sales, lots released to the market, and closing stock at the end of the quarter

Source: NLSP

Median Land Price and Size



Source: NLSP

PERTH

CURRENT MARKET AND LAND SUPPLY CONDITIONS

2014 has seen a marked change in the Perth market, with conditions cooling on the back of a slowing economy.

During 2013 stock shortages impeded sales in the new dwelling market with timelines between contract and settlement of the lot blowing out to nine months. The record lot sales in 2013 converted to record building approvals in 2013/14, up 21% on the previous year with dwelling commencements reaching a record high of 28,966, an increase of 20 per cent over the previous year. The Housing Industry Forecasting Group estimates that dwelling commencement will contract 14% in 2014/15 to 25,000 which remains well above the rolling five year average and a more sustainable level for the industry which has been suffering from labour shortages.

New lots released in Perth were higher over the year, increasing by 7.3% on 2013 to 13,151 lots. New lot sales struggled to keep up with new releases, with sales falling by 13% to 11,935 lots. This is partly due to a decrease in the rate of population growth, although at 2.16% over 2013/14, it remains strong, and is still the highest in the nation. Perth's rental vacancy rate has increased to 4.1%.

Housing affordability remains a key challenge in the Perth market. To purchase a dwelling, a Perth household on the estimated median income of $85,600 would be able to afford a property valued at $400,000 if repayments were contained to no more than 30% of their income. This was well below the median house price of $542,000 recorded in January 2015. This affordability gap has driven the size of new product down to meet the threshold demands of the market, where both new entrants and downsizers were looking for cheaper, value for money product.

Median lot prices in Perth increased considerably over 2014, rising 9.4% to $261,000, which is considerably higher than the national average of $246,300. The price of land on a per square metre basis increased by 14.6%, reflecting both the higher lot price, and 4.5% fall in median lot sizes, to 428 square metres.

Lot sizes have decreased significantly over the last five years, driven not only by the affordability imperatives outlined above, but the growing demand for a lock-and-leave lifestyle by both first home buyers and downsizers. In 2008/09, 11 per cent of lots receiving final approval by the WAPC were less than 320sqm, by 2013 that proportion had grown to 29% with the total number of lots less than 500sqm growing from 48 per cent to 75 per cent.

Whilst this has improved affordability, it has created a need for a radical rethink of the product that is being delivered to the market. Initially long thin lots, many rear-loaded, were developed as developers sliced the existing developments into thinner slices to meet the growing demand for smaller product. Currently front loaded, "squat lots" are popular. These have several advantages including street presence, lower development costs and lower housing construction costs as a square house is cheaper than a rectangular house with the same internal area.

Considerable work is being undertaken by government and industry to develop a medium density residential design code which will enable a more efficient approvals process for this product as well as ensuring positive streetscape and liveability outcomes.

The north western metropolitan corridor continues to dominate lot sales with a massive 31% of sales in the December 2014 quarter, with Peel on nine per cent with the balance divided fairly evenly between the remaining three corridors: north-east, south-west and south-east.

BARRIERS TO SUPPLY AND FUTURE PROSPECTS

It is anticipated that the residential market in Perth will contract marginally over the next couple of years as population growth stabilises however that will vary from corridor to corridor. In the December quarter 2014, the developer lot sales in the north western metropolitan corridor rose a marginal 1.2%, the south eastern corridor enjoyed a significant 12.4 per cent rise whilst sales in the other three corridors fell.

Regional markets did not experience the same uplift as Perth, although the South West had rallied then stabilised over the last year and represented 55 per cent of all non-Perth final approvals by the WAPC in September 2014. Regions directly impacted by the mining sector have been affected by the contraction of that industry with the Pilbara falling to 2% of all non-Perth final lot approvals.

Collaborative work by industry, state and local government is improving the operating environment for residential development however rapidly changing products and fresh consideration of matters such as the bush fire management, is creating new policy pressures.

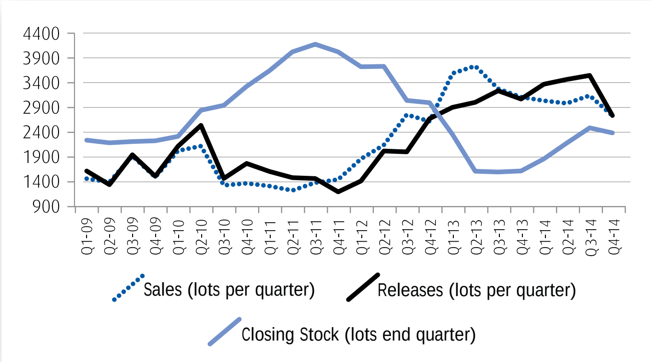
The imminent release of the subregional structure frameworks and the strategic assessment process may also significantly impact on development in the Perth Peel region, with uncertainty about whether land previously identified for development will be included in planning going forward.

Perth Lot Production

Year	Lots Released	Year End Stock	Median Lot Size (m²)	Median Price ($)	Per m² land price
2009	6496	2242	515	$207,000	$402
2010	7966	3333	491	$206,000	$420
2011	5838	4023	481	$229,500	$478
2012	8182	3007	466	$226,500	$486
2013	12252	1639	448	$238,500	$532
2014	13151	2401	428	$261,000	$610

Source: NLSP

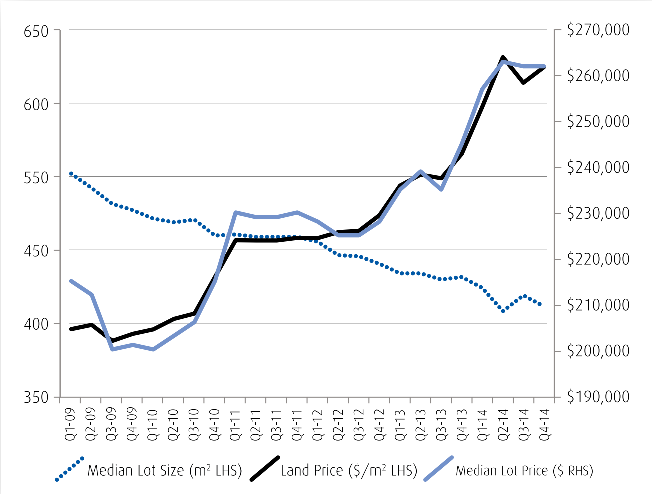
Quarterly Market Activity



Greenfield growth area lot sales, lots released to the market, and closing stock at the end of the quarter

Source: NLSP

Median Land Price and Size



Source: NLSP

ADELAIDE

CURRENT MARKET AND LAND SUPPLY CONDITIONS

The property market in Adelaide of recent times can best be described as subdued. The volume of land sales for developers in the key growth areas for the 2014 year in the Adelaide metropolitan area was down on the previous year, recording the average rate of the last 6 years. Sales over the last three quarters have remained steady. Typically Adelaide's sales rates do not experience the extreme highs and lows that some other cities experience.

Other than the First Home Buyers Grant for new homes there are no other current or proposed incentives that are likely to stimulate sales further in the short term. Data provided by the Department of Planning Transport and Infrastructure (DPTI) shows that lots proposed for subdivision are at their second lowest point in the last decade.

Lots released to market in greenfield growth area areas covered by the NLSP sample declined slightly over the year to 1911, from 2141. However this does not include lots generated from inner metropolitan locations including the CBD, small scale infill development, private vendors, and resales, which are a significant part of lot supply in the Adelaide region.

Total lot production in 2013/14 across metro Adelaide was 5641 lots, up by 18% from the 2012/13 figure of 4761 (SA Department of Planning, Office of the Valuer General). Total lots sales over this period increased by 8% from 3710 to 4010 lots, reflecting the significance of the lot supply being generated in inner metropolitan locations and from small scale infill development.

At current consumption rates there is sufficient zoned land for almost 20 years of supply, but some of this is unavailable for development because of unresolved issues over infrastructure provision, coordination and funding.

The lack of different locations to enable buyer choice is a concern, particularly the shortage of land supply (zoned and identified) in Adelaide's much sought-after southern suburbs.

The trend toward smaller lot sizes in all projects continues and recent policy amendments support smaller lot sizes in both greenfield and infill locations.

Adelaide retains the most affordable land prices of all the mainland cities (lowest median lot price).

Following the recent rezoning of a significant growth area in the northern region of Adelaide, no further large scale rezoning is proposed by the Government in the foreseeable future.

Infill development opportunities have been facilitated through the *Capital City Development Plan Amendment (DPA)* and the Inner Metropolitan Growth DPAs. The Capital City DPA unlocked the development potential of the Central Business District by supporting greater building heights and activating the city's squares and main streets. The Inner Metropolitan Growth DPAs have rezoned strategic corridors adjacent to the City of Adelaide to help achieve the objectives and infill targets of *The 30 Year Plan for Greater Adelaide.*

However, more policy reform is needed to assist urban renewal and infill development in many of the middle ring suburban areas of Adelaide.

Minor infill is also an important component of the overall land supply equation. The replacement rate on demolition sites is 1.7 (Department of Planning Transport and Infrastructure Feb 2013) for every dwelling demolished. This form of urban renewal as well as the number of new sites created by subdivision has generated a net annual increase of 1920 dwellings over the past 10 years, representing around 30% of total annual lot supply.

Adelaide Greenfield Lot Production

Year	Lots Released	Year End Stock	Median Lot Size (m²)	Median Price ($)	Per m² land price
2009	2275	933	446	$168,000	$378
2010	2682	1317	452	$161,500	$361
2011	1455	1357	475	$158,000	$339
2012	1815	1504	482	$155,750	$325
2013	2141	1240	462	$163,500	$352
2014	1911	1026	444	$163,270	$368

Source: NLSP

FUTURE PROSPECTS

The market remains soft in many areas and sales continue to hover around the long-running average. Prices have also remained stable and caution abounds in all aspects of consumer spending patterns. Contract cancellation rates have been significantly higher in Adelaide compared to the other capital cities over the last 12 months. Irrespective of market conditions our experience tells us that we need a minimum of 15 years' supply of residentially zoned land in a variety of locations to meet the demand over a period of time. Otherwise the cost of land will sky-rocket when market demand rises.

The balance between supply of and demand for land for development has tightened as lot production has slowed. Although the Government has rezoned locations in the Playford Growth Area in the northern region negotiations are still continuing regarding infrastructure provision and funding.

The Housing Construction Grant of $8,500 for all buyers of new homes, which commenced in 2012, finished at the end of 2014 with no proposal for extension. There are still stamp duty exemptions in place for purchases of off-the-plan apartments in the City and in the suburbs in a 5 kilometre ring around the city until 30 June 2016. These incentives have helped counteract the current lack of market confidence and resulted in some stimulation of the property sector. This resulted in a modest recovery in land sales over 2013–14 and a strong response to higher density products in the City.

In late 2014, the government approved changes to the management of public housing assets so that there is now a single agency, Renewal SA, responsible for the renewal of suburbs and sites formerly developed by the South Australian Housing Trust. Renewal SA is currently considering a range of significant development opportunities that are likely to include:

- Construction of dwellings as public or community housing;
- Partnership opportunities on larger sites; and
- Sale of land for private development.

This initiative has the potential to provide a range of development opportunities at varying scales and locations which will not only assist in renewing public housing stock but also stimulate the construction industry and the economy more broadly.

BARRIERS TO SUPPLY

Land supply is being constrained by a cautious market, the banks' tight lending policies, the uncertainty of some local council planning approval processes and the requirement for home buyers to incur more costs for infrastructure in support of a project area (via development charges). Furthermore, the practice by developers to maintain minimum stock levels so as to avoid extreme land tax impost on land value holdings at 30 June (the rate in South Australia is the highest in the nation), means that the 'delivery' of developed land — from identification of suitable land to completed works ready for dwelling construction — to the market place is slow.

Some progress has been made in regard to new planning policies for infill areas close to the CBD. However, much remains to be done to change policies in the middle ring suburbs that are still well serviced with public transport. The high cost to bring developable land and housing product to the market needs to be overcome. The uncertainty in the planning approval processes and the provision of core infrastructure is also a significant concern to the UDIA.

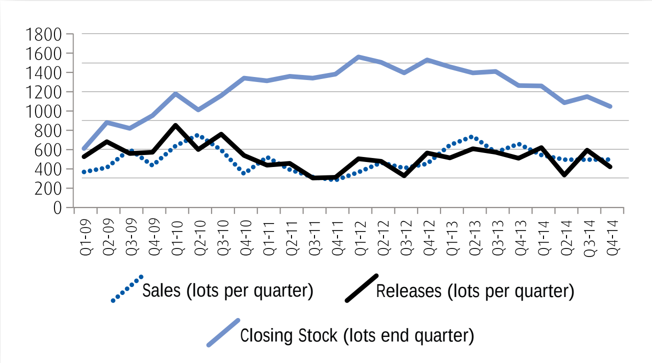
The Minister appointed *Expert Panel on Planning Reform* has recently delivered its final report outlining 22 recommended reforms to improve the efficiency and effectiveness of the planning system. These reforms, and particularly those related to standardised zoning and independent professional development assessment, have the potential to have a profound positive impact on the development sector and economic development in Adelaide. The challenge for government is to implement the reforms, many of which require legislative change, given the unpredictable Parliamentary process.

The northern region of Adelaide now has a significant supply of land zoned for development. However, zoned land is sometimes unavailable for development because developers are experiencing much difficulty in negotiating arrangements for provision of core infrastructure — roads, potable water and stormwater, sewer, telecommunications, open spaces — as well as 'soft infrastructure' (and accompanying legal documentation) that is being increasingly sought by local councils.

The imbalance between the supply of land for development in the south and north of Adelaide continues to be a concern for the urban development industry, and a pronounced shortage of land in Adelaide's south is now having particular implications for housing affordability.

The increasing cost of infrastructure borne by home buyers on the fringe — via charges on land development projects — is threatening to stall delivery of land to the market, with rezoning now contingent upon the developer's willingness to charge home buyers excessive upfront costs for core infrastructure in new developments. UDIA(SA) continues to liaise with the Government regarding the need for a fair and transparent system for the planning, funding and delivery of infrastructure in urban growth areas so that the cost of new infrastructure can be shared over time rather than "front loaded" onto the first purchaser.

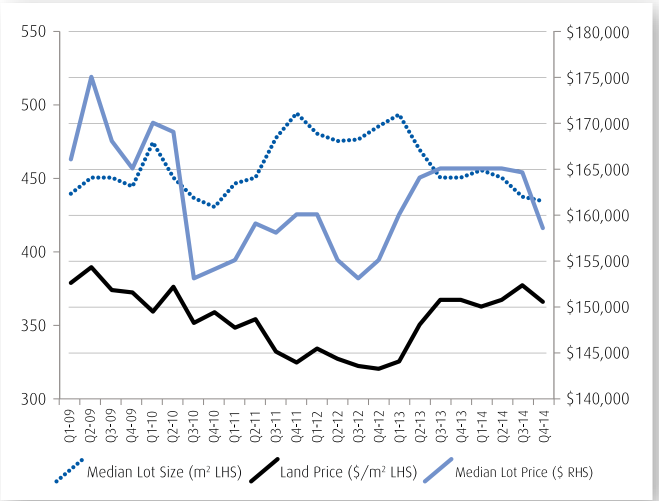
Quarterly Market Activity



Greenfield growth area lot sales, lots released to the market, and closing stock at the end of the quarter

Source: NLSP

Median Land Price and Size



Source: NLSP

About UDIA

The Urban Development Institute of Australia (UDIA) is the peak body representing the urban development industry in Australia.

UDIA represents more than 2,000 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 six state offices around Australia.

For further information about UDIA and our activities please contact:

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About the National Land Survey Program

The National Land Survey Program (NLSP) is a research initiative established in 2006 that has the express objectives of understanding and quantifying the dynamics of the residential land industry and market in Australia.

The defining attribute of the NLSP is its aspiration to provide independent, timely and accurate data and insight about this major property industry and market sector to better inform both the development outcomes and policy debate about the myriad of issues that residential land, as an essential input into the housing industry, has the potential to effect.

The NLSP is jointly undertaken by Charter Keck Cramer and Research4.

COVERAGE

The following growth area corridors and LGAs have been covered in the NLSP data for the 2015 State of the Land Report.

Melbourne

- South East (Pakenham & Casey)
- North (Wallan, Beveridge, Mernda, Epping, Craigieburn & Sunbury)
- West (Brimbank, Melton Township, Point Cook, Hoppers Crossing, Tarneit & Werribee)

Sydney

- South West Sydney (Camden, Elderslie)
- Middle Sydney (Prestons, Hoxton Park)
- West Sydney (Penrith, Glenmore Park)
- North West Sydney (Kellyville, Rouse Hill)

SEQ

- Brisbane
- Ipswich (Redbank Plains, Moggill, Doolandella)
- Gold Coast (Coomera, Beenleigh, Mt Cotton)
- Sunshine Coast (Beerwah, Caloundra, Maroochydore, Nambour, Noosa Heads, Eumundi)
- Moreton Bay (Strathpine, Redcliffe, Caboolture)
- Brisbane (Underwood, Rochedale,Tingalpa)
- Logan (Edens Landing, Greenbank, Logan Village)
- Redland (Redland Bay, Cleveland, Wynnum West)

Adelaide

- North Adelaide (Paralowie, Elizabeth, Munno Para West, Gawler)
- Central Adelaide (Northgate)
- East Adelaide (Mt Barker, Murray Bridge)
- South Adelaide (Seaford, Aldinga)
- Barossa (Freeling, Nuriootpa, Lyndoch)

Perth

- North Coastal (Landsdale, Darch, Joondalup)
- North Eastern (Ellenbrook)
- South Eastern (Canning Vale, Armadale, Byford)
- South (Fremantle, Aubin Grove)
- South Coastal (Baldivis, Secret Harbour, Mandurah)

Please visit www.nlsp.com.au for further information.