UDIA
Urban Development Institute of Australia
NATIONAL

NLSP
National Land Survey Program

URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA
NATIONAL LAND SUPPLY STUDY

2016

UDIA STATE OF THE LAND

CONTENTS

INTRODUCTION

"Rising land and housing prices have made many, but not all, Australians better off. They have also changed the distribution of wealth within our society and between generations. And we are still coming to grips with the implications of this. Ever-rising housing prices, relative to our incomes, do increase risks in the economy and are unlikely to make us better off as a nation. Rising housing prices are best matched by rising incomes."

Philip Lowe, Deputy Governor, Reserve Bank of Australia, 12 August 2015

The fundamental driver of housing affordability is the supply of serviced and financially viable englobo land. As our population continues to rise, it is imperative that all levels of government adopt policy settings that ensure that there is a steady increase in englobo serviced land available to meet this demand.

This is the eighth edition of the annual ***State of the Land Report*** prepared by the Urban Development Institute of Australia. This year's report has again been informed by market performance and supply data from the National Land Survey Program, which is undertaken by Charter Keck Cramer and Research 4 (further details are available at the end of this report). This report looks at the greenfield land market which is becoming more diverse around the country and remains a significant source of affordable housing supply notwithstanding the growing importance of infill development.

The development industry was a key pillar of the Australian economy in 2015. It is expected that 2016 will see a continued rebalancing of the Australian economy away from mining activity towards domestic dwelling construction.

While 2015 was a good year on the eastern seaboard, the economic fortunes of the states have varied widely. Releases increased markedly in both Melbourne and Queensland without a prices breakout. At the same time, the Sydney market has experienced a large increase in prices, with strong demand coming through from low interest rates coming up against capacity constraints. Adelaide remained relatively unchanged due to low to negative economic growth undermining demand growth while the end of the mining boom continues to weigh heavily on the Perth market.

Typically, this report has singled out state governments for restricting supply through poor regulation or lack of investment in critical infrastructure. While more needs to be done in these key policy areas, this year state governments have generally done an adequate job.

It is the Commonwealth policy environment that appears to be creating a great deal of uncertainty that may lead to unintended consequences for the industry throughout 2016. Macroprudential changes by the Australian Prudential Regulation Authority (APRA) have forced the major banks to impose tougher loan-to-value ratios, induce a front-ended project payment regime and restrict liquidity for investors. Changes to foreign investor rules have dampened demand from overseas purchasers in the short term. Given these two measures are particularly blunt and indirect policy instruments, there remains uncertainty as to how pernicious they actually are.

The more recent talk from the federal government and opposition of increasing the Goods and Services Tax (GST), changing negative gearing, increasing capital gains tax and imposing "value capture" are all creating widespread investment uncertainty in the industry and are likely to weigh against market performance in 2016, and contrast to the peak conditions experienced in 2015.

The priority for federal, state and local governments in 2016 should be to deliver a stable policy environment which stimulates investment in new supply, supported by increased land supply and government levies and charges that facilitate the efficient delivery of affordable land supply and housing for Australia's growing population.

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 453 square metres, down by 4.3% over 2015, and down 12.2% since 2010.
- The greatest change in median lot size over 2015 occurred in Perth, which fell by 33 square metres to 395 square metres from 427 square metres in 2014, a 7.7% drop.

THE

AVERAGE MEDIAN NEW LOT PRICE

IN AUSTRALIA'S FIVE LARGEST CAPITAL CITIES IS NOW

$250,658

UP 1.4% OVER THE YEAR

AND 14.8% SINCE 2010

- The largest change in new lot price over 2015 was in Sydney, where the median price of a new lot rose by $100,975 to $440,725 from $339,750, an increase of 29.7%.
- The average median price of land paid by new home buyers nationally was $554 per square metre in 2015, up 4.9% from the previous year, and up 30.9% since 2010.
- The largest change in land price was in Sydney, where the price of land increased by $228 per square metre, an increase of 30.6% over 2015.

A RECORD TOTAL NUMBER OF **NEW LOT RELEASES** CAPTURED IN THE NLSP DATA SAMPLE WAS RECORDED IN 2015,

WITH 55,656

NEW LOTS RELEASED

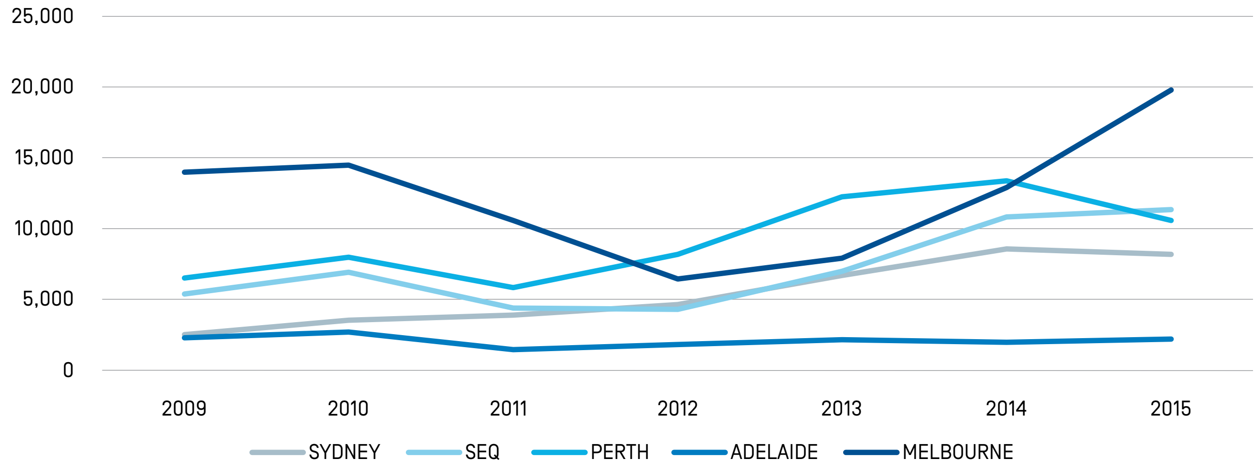
UP 9.9% FROM 50,653 IN 2014

AND 43.6% OVER THE LEVEL FROM 5 YEARS AGO.

- The largest change in lots released over 2015 was in Melbourne with an additional 6,874 lots released, up 53.3% on 2014.

OVERVIEW

LOTS RELEASED



LOTS RELEASED

After showing promising signs of growth in 2013 and 2014, lot release stagnated across the country, except in Melbourne. In Perth and Sydney, lot release fell during 2015 and rose slightly in Adelaide and South East Queensland. In Melbourne, lot releases rose substantially, further building on the momentum since 2012.

Until 2015, Sydney was experiencing a steady increase in lot releases. However, 2015 saw lot releases fall by 4.6% to 8,174. This has further exacerbated the undersupply in the Sydney market, caused by continuing strong population growth and levels of lot production that have failed to keep up with demand.

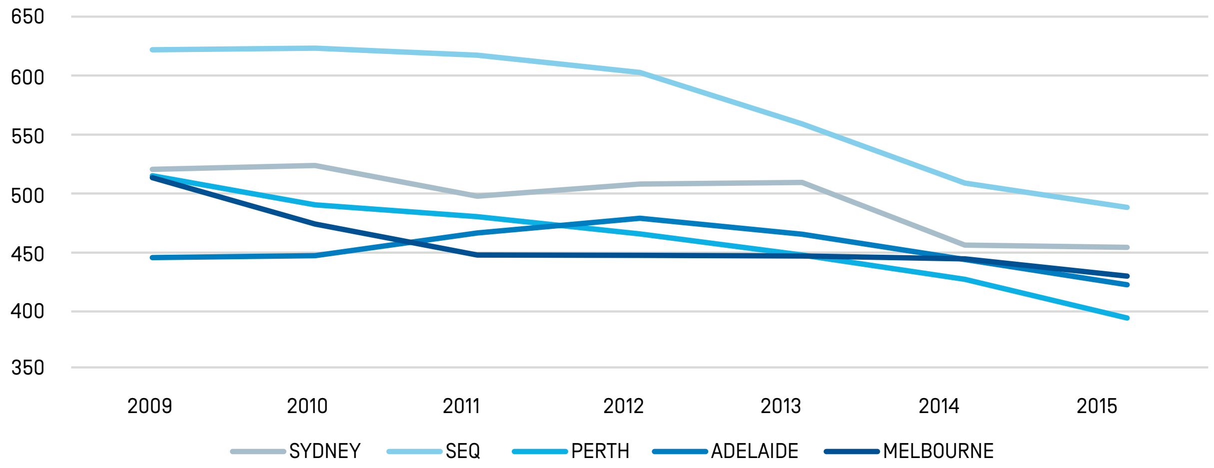
In contrast, the Melbourne market has experienced growing lot releases and relatively stable prices. Lot releases rose by 53.3% on 2014 (to 19,774 in 2015) and a massive 150% since 2013. Melbourne had nearly two-and-a-half times the number of lots released in 2015 compared to Sydney.

The unwinding of the mining boom continues to weigh heavily on the property market in Perth, subduing supply in response to falling demand. Lot releases in Perth fell back to below their 2013 levels, falling to 10,568 in 2015 from 13,373 in 2014, a 21% drop. However, lot releases remain slightly above the five-year average, suggesting that 2016 may be another poor year for the Perth market as effects of the unwinding continue to be felt.

Lot releases in South East Queensland continued to rise, up by 4.8% in 2015 to 11,344 after posting gains in 2013 and 2014. South East Queensland market was the second-strongest in Australia in 2015.

Slow population growth is having a dampening effect on the Adelaide market. In Adelaide, the number of lots released rose to 2,202 in 2015, up from 1,976 in 2014 (an increase of 226 or 11.4%), taking the number of releases back above their 2013 level, following a fall in 2014.

LOT SIZE (M²)



LOT SIZE

Lot sizes continued to fall in 2015, with all five major markets now recording average lot sizes below 500 square metres. Limited supply and high cost of land mean that lot sizes have continued to shrink to maintain affordability for new home buyers. Across the country, there appears to be a convergence towards a sub-450 square metre lot size, as buyers trade-off size for affordability and smaller lots gain more and more acceptance in the different markets. In addition, most states now have policies conducive to smaller lots.

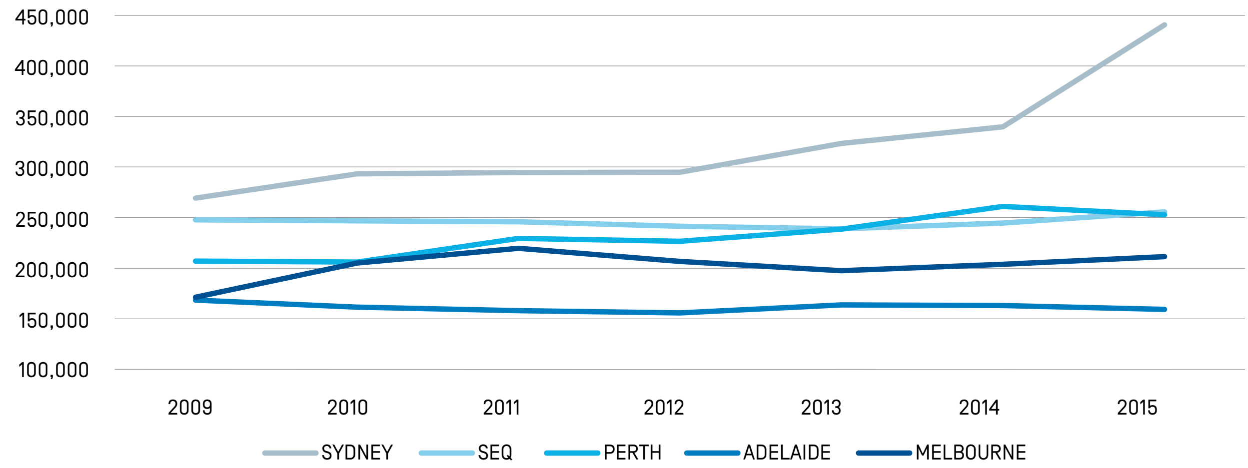
In South East Queensland, average lot sizes fell below 500 square metres for the first time. Lot sizes fell to 488 square metres in 2015, a 4.1% fall compared to the previous year.

In Melbourne and Adelaide, lot sizes fell to 430 and 423 square metres respectively. Despite very different market conditions, lot sizes in these two cities were virtually identical in 2014, with Adelaide experiencing a slightly larger fall in sizes (4.8%) than Melbourne (3.3%) over 2015.

Lot sizes in Perth have fallen dramatically in 2015, down by 7.7% to average 395 square metres.
The Perth market is the first (and so far only) major market with an average lot size below 400 square metres.

Despite sharp price rises, Sydney lot sizes maintained their level above 450 square metres in 2015. Lot sizes were virtually steady, recording a 0.4% fall to 454 square metres in 2015 from 456 square metres in 2014.

LOT PRICE ($)



LOT PRICE

Prices grew in Sydney, South East Queensland and Melbourne in 2015, and fell in Perth and Adelaide. While prices in most markets have experienced low levels of volatility, prices in the Sydney market have continued their upward spiral that began in 2012.

Sydney lot prices exploded in 2015. Sydney lot prices grew by 29.7% to $440,725, breaking through the $350,000 mark for the first time. Prices in Sydney rose in response to high demand in the face of falling releases and stagnant lot sizes. The ongoing rise in prices (prices have risen by 50.3% since 2010) suggests that the undersupply in the Sydney market is chronic and the capacity to lift production to levels that would eat into the imbalance does not exist.

Price rises were more subdued in Melbourne, with a 3.8% increase in 2015 to $211,500. While prices broke out in 2010 and 2011 due to a lagged supply response to booming demand, in 2015 supply kept apace with demand, allowing new home buyers to benefit.

Lot prices in South East Queensland rose by a modest 4.5% continuing the upward trend in lot prices since 2013. At $255,750 South East Queensland prices are just slightly above Perth prices, making the South East Queensland market the second most expensive in the country in 2015.

In Perth, prices fell 3.1% in 2015 to $252,875 in response to weakening demand. Adelaide also experienced falling prices, down 2.3% to $159,156 in 2015. Prices in the Adelaide market are now lower than they were in 2008, reflecting a general weakness in the Adelaide land market.

RECOMMENDATIONS

Uncertainty is a key theme of this year's *State of the Land*. The changes made to macroprudential regulations and foreign investment rules, speculation over the GST and negative gearing and capital gains tax have had a perverse effect along the eastern seaboard, highlighting just how susceptible the property market is to the policy environment at all three levels of government.

At the state level, improvements have been made in recent years to allow the market to better respond to conditions, but it is critical that governments continue to reform land markets and tax and charging regimes to address the underlying barriers to new housing construction and supply.

Taxes and charges remain high and some governments are proposing that even further levies should be charged to development. This can only be self-defeating at a time when new housing construction is one of the pillars of economic recovery as the mining boom continues to unwind.

Delays and uncertainty in the rezoning, planning and approvals processes mean that volatility remains in-built in the industry as it remains difficult to respond quickly to changes in demand. Infrastructure provision by state governments remain inadequate and lags development. High taxes and charges levied on new developments also continue to constrain supply.

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:

- Broaden the base but not increase the rate of the GST. The impact of increasing the GST from 10% to 15% would be damaging to housing affordability, economic growth, jobs and state and Commonwealth tax receipts in the short term. As it is a value added tax, we estimate that it would add at least 7.4% to the cost of a new house and land. In Sydney that would represent more than an additional $100,000 on the median house price.
- 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 Commonwealth should assist state governments to phase out stamp duty in favour of more efficient taxes, such as a broad-based land tax and broadening of the GST.

- Retain the current negative gearing and capital gains regimes. Negative gearing and capital gains tax need to be recognised as a perfectly rational economic policy instrument that work in tandem. Negative gearing is applied to assets that deliver long term capital growth and low short term yields. Negative gearing allows an investor to support the low short term yields with preferred tax treatment. However, on disposal of the asset and realisation of profit capital gains tax claws back a large proportion of that yield support. Changes to negative gearing will have a significant impact on investment decision making.
- Not pursue "value capture" policies that increase the price of new housing. The way that "value capture" is being promoted is of major concern and will impact on the way our cities are developed especially around transport oriented developments. Unless designed and specified properly it may have the unintended consequence of stopping development around infrastructure. "Value capture" should be limited to model tax increment financing where the incidence of the tax is incremental rather than upfront and the application is universal within a specified area. The system should be anchored by a bond to fund infrastructure development upfront. As it has been advocated by some so far, "value capture" is simply another upfront tax on new property.
- Take an active role in the development of cities. The Commonwealth should consider ways that it can influence the development of cities, including via competition payments as recommended by the Harper Review. As a start, competition payments to the states and territories should be linked to progress of planning reform and housing delivery, with states evaluated for their performance against factors such as charges, infrastructure costs, and timeliness of rezoning and approvals. High performing states should be rewarded with additional funding.
- Provide additional funding for investment in new urban infrastructure, in order to unlock land. The federal government should provide additional funding from existing and new sources to unlock land that is effectively undevelopable due to non-existent or insufficient trunk infrastructure such as roads, and utilities.
- 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.

- Remedy the unintended effects of Basel III on housing affordability. Macroprudential changes made by APRA in 2015 have had a major impact on investment in the property development industry. UDIA considers that further impacts will be felt throughout 2016 as financial institutions are required to hold more cash on their balance sheets to cover their property loan books (despite the fact that mortgage defaults are at an historical average). The effects are being felt on the ground as payments on property finance are being brought forward and provisions for uncertainty are being increased forcing lending to property developers to decrease. We are concerned that capital available for development and new houses is being constrained and this will place even further downward pressure on housing supply and consequently more upward pressure on prices. The Commonwealth government should immediately look at the market impact of its policies as they relate to capital adequacy ratios and Basel III.
- Promote innovation in cities and regional areas. One of the most important issues confronting cities at the moment is innovation and exponential growth in technology. There are now affordable technological solutions to deliver sustainable outcomes to cities and especially homes. The NBN and driverless cars hold out the hope of reducing the number of people who need to be on our roads and the way in which our transport systems are used. The Commonwealth should consider a specific program for promoting innovation in our cities, regional centres and towns.

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. Some states are further along this path than others, however there are risks that reforms that are underway could increase the cost of new housing. All states should reform their planning systems to improve land supply, reduce delays, and eliminate 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 are opaque and 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. Governments must levy charges transparently, and must shift away from charging up-front for infrastructure to recovering costs through recurrent taxation over long time frames.

SYDNEY

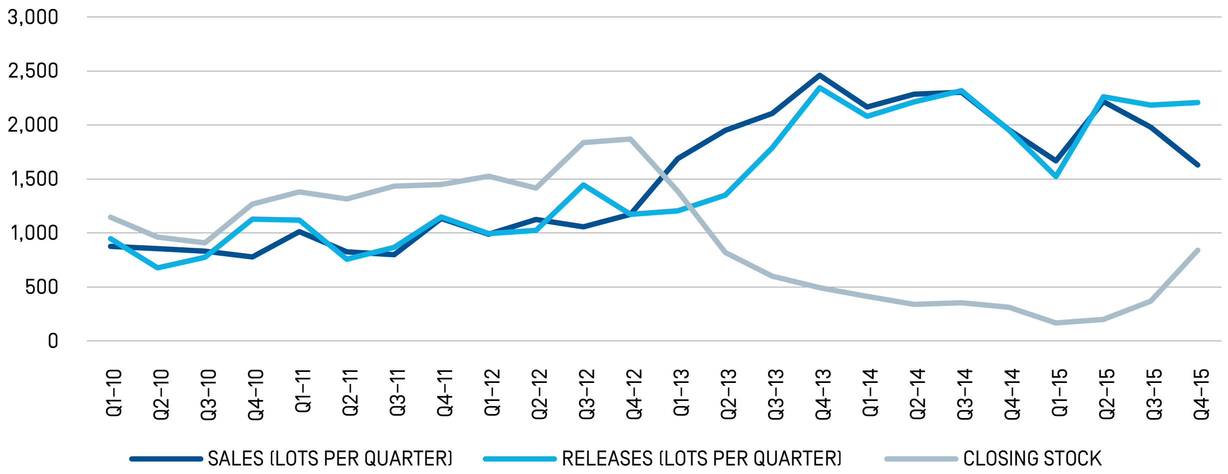
ANALYSIS

Despite a small fall in 2015, Sydney's land market has been at historically high levels over the last three years. In 2015, lots released fell by 4.6% to 8,174, down from 8,565 in 2014.

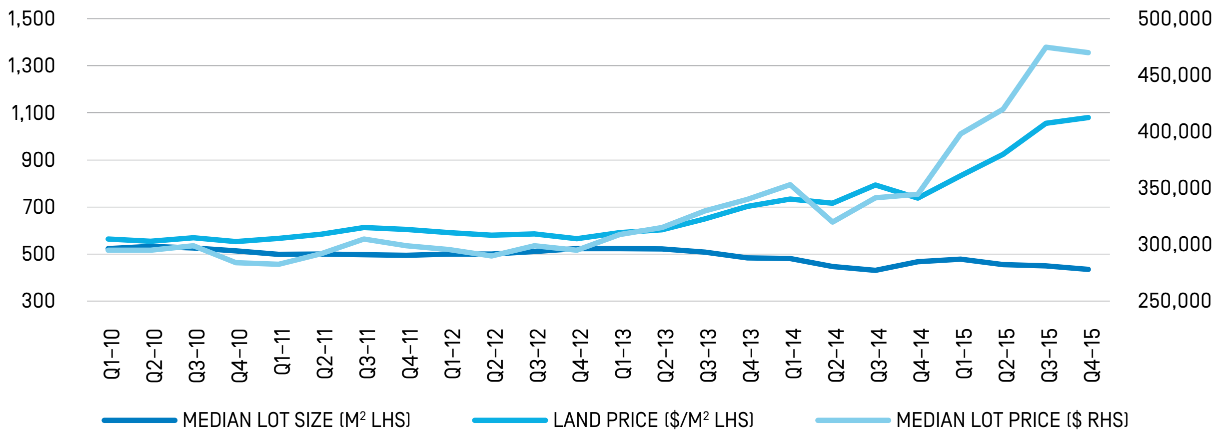
Accompanying the strong activity has been a dramatic increase in prices. The Sydney median lot price increased by 29.7% in 2015 to $440,725, up from $339,750 in 2014. Prices are up by 50.3% since 2010.

Lot sizes were relatively stable, falling only by 0.4% in 2015 to 454 square metres, from 456 square metres in 2014. However, this follows a 10.4% fall in median lot sizes in 2014. Price per square metre rose by 30.6% in 2015 to $973 per square metre, from $745 per square metre in 2014.

QUARTERLY MARKET ACTIVITY



MEDIAN LAND PRICE AND SIZE



	LOTS RELEASED	YEAR END STOCK	MEDIAN LOT SIZE M²	MEDIAN PRICE $	LAND PRICE /M²
2010	3,526	1,266	524	293,250	560
2011	3,890	1,449	498	294,625	592
2012	4,640	1,870	508	294,875	580
2013	6,690	494	509	323,475	636
2014	8,565	313	456	339,750	745
2015	8,174	839	454	440,725	973

BROADER MARKET TRENDS

By 2031 Sydney's population will grow by 1.6 million people, an average of 80,000 extra people per annum. Based on the government's population growth forecasts and the historical Sydney development split of 70:30 between infill and greenfield, Sydney will need to produce a minimum of 9,960 new lots per annum to meet this demand.

In order to meet this demand, the activity seen in the last three years needs to be produced every year for the next 16 years.

UDIA NSW forecasts, based on consultation with key development industry participants [See table below], show a steady 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* in 2017–18, 2018–19 and 2019–20.

Prices of land and housing are rising in Sydney faster and higher than any other Australian city and Sydney still needs a dramatic increase in affordable land supply to arrest this trend.

In the final quarter of 2015, the NSW Government announced the Greater Macarthur Investigation Area, the first major land release in Sydney for more than a decade. The government estimates that 34,700 lots will be developed in Greater Macarthur by 2036. This land release should have a positive effect on affordability levels as more supply comes to market.

SYDNEY METROPOLITAN LAND SUPPLY UDIA FORECAST

	2015 –2016	2016 –2017	2017 –2018	2018 –2019	2019 –2020	5 YEAR FORECAST TOTAL
A PLAN FOR GROWING SYDNEY TARGET	9,960	9,960	9,960	9,960	9,960	**49,800**
NORTH WEST SYDNEY	2,520	3,550	4,380	4,205	4,325	**18,980**
SOUTH WEST SYDNEY	4,285	5,750	6,415	6,330	5,770	**28,550**
UDIA	6,805	9,300	10,795	10,535	10,095	**47,530**

Source: UDIA NSW Land Development Committee

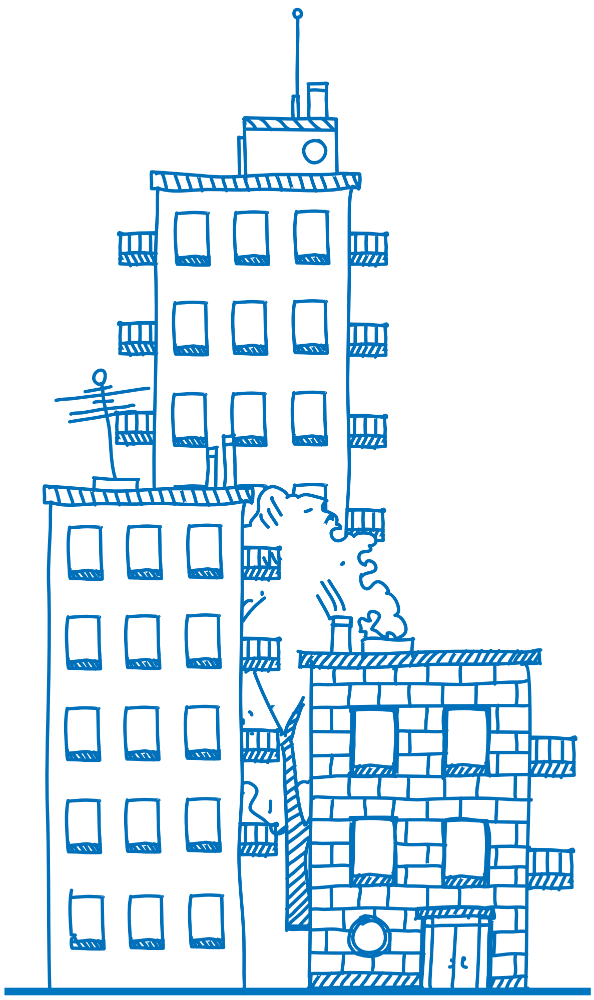
STATE POLICY ENVIRONMENT

Part of the reason for the strange market trends in NSW may be partially explained by the uncertainty around the impacts of federal government policies in the medium term.

On the other hand, the NSW government is undertaking an unprecedented program of infrastructure investment and land release policies to support growth. The Sydney land production market in 2015 was achieving release figures not experienced for decades. In the last quarter of 2015, the impact of price rises started to flow through to lower production volumes. In saying that, the market appears to have stabilised to its "natural" level of production.

The industry welcomes the establishment of the Greater Sydney Commission and its key objectives of depoliticising the planning system and acting as the independent coordinating body for metropolitan planning, prosecuting the Sydney Metropolitan Plan — *A Plan for Growing Sydney.* An independent decision making authority responsible for the long term vision for Sydney's growth is welcomed by industry in order to bring consistency and transparency to the process.

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. The state government should remove rate pegging on local councils to allow them to be responsible and accountable for their own revenue and expenditure and future-proof the Housing Acceleration Fund to drive long term housing growth with its inclusion as a standing line item in the state budget.



MELBOURNE

ANALYSIS

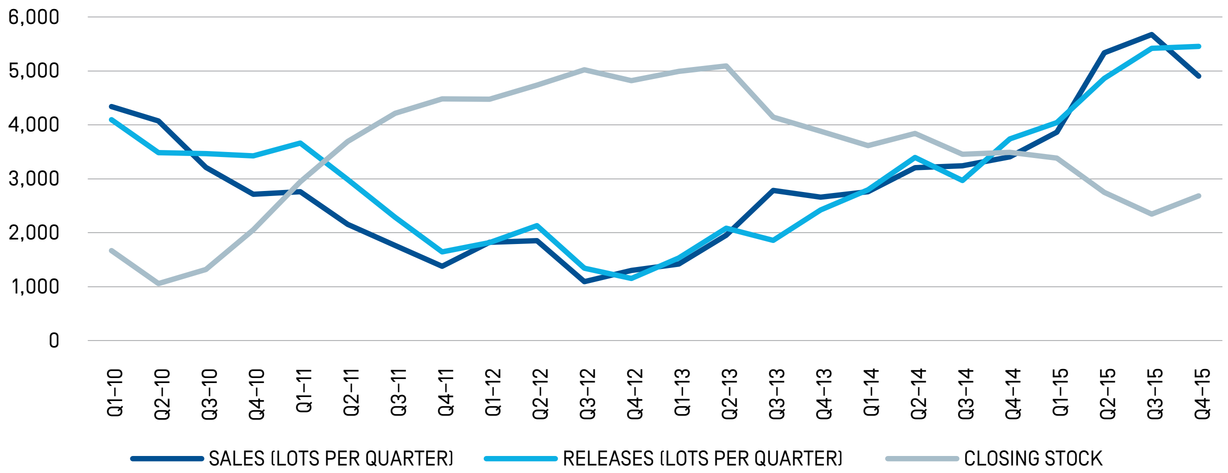
A record number of lots were released in 2015. Despite reaching a high of 12,901 lot releases in 2014, the release of lots in Melbourne increased by a further 53.3% in 2015 (to 19,774 lots).

After a period of little to no change in the size of new lots, the average size of lots decreased in 2015 by 3.3% to 430 square metres from 445 square metres in 2014.

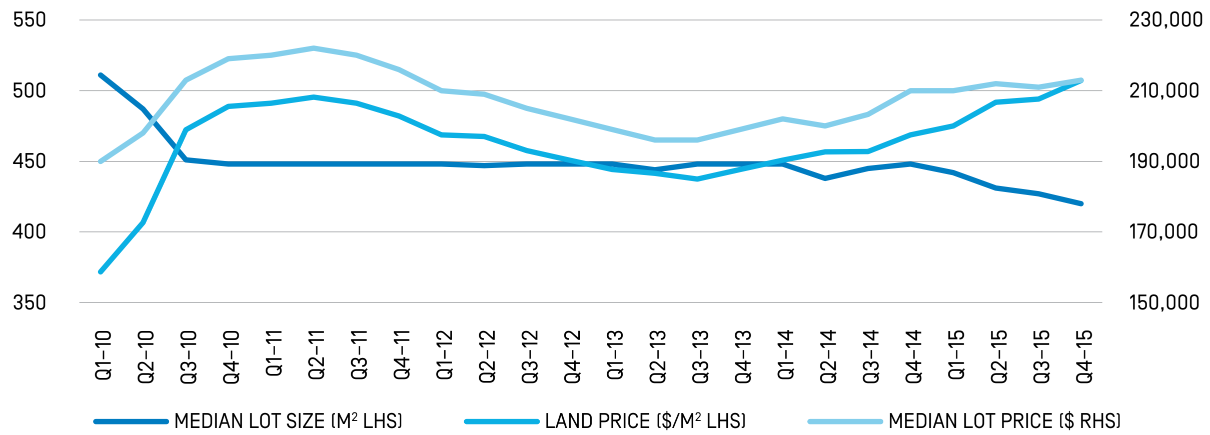
This has coincided with a 7.4% increase in the land price per square metre to $492 per square metre in 2015, up from $458 per square metre in 2014.

The increase in lot releases and reduction of lot sizes has ensured that the median price growth in Melbourne was modest, with the median price rising by 3.8% in 2015, to $211,500 from $203,825 in 2014.

QUARTERLY MARKET ACTIVITY



MEDIAN LAND PRICE AND SIZE



	LOTS RELEASED	YEAR END STOCK	MEDIAN LOT SIZE M^2	MEDIAN PRICE $	LAND PRICE /M^2
2010	14,475	2,056	474	205,000	435
2011	10,579	4,480	448	219,500	490
2012	6,439	4,822	448	206,500	461
2013	7,899	3,883	447	197,500	442
2014	12,901	3,490	445	203,825	458
2015	19,774	2,682	430	211,500	492

BROADER MARKET TRENDS

According to the Victorian government's population figures identified in *Victoria in the Future 2015*, approximately 50% of metropolitan Melbourne's population growth of 1.9 million to 2031 is expected to be housed by the designated growth areas. This translates to an average population growth of 55,882 people per year, or 22,716 new households per year with an average household size of 2.46.

Current strong supply levels are supported by strong demand coming through population growth and fairly subdued prices.

STATE POLICY ENVIRONMENT

The Victorian government released its *Plan Melbourne Refresh* discussion paper in late 2015. The discussion paper proposes a number of strategies which, if implemented, would lead to the introduction of restrictive land supply policies. These include among other things, the fixing of a permanent urban growth boundary and a housing target ratio of 70:30 for established areas to growth areas. Active discussions are continuing between the industry and government to implement sensible land use strategies and to promote the importance of choice and market preferences on affordability and market activity.

Delays in the approval and audit process for a statement of compliance and the escalating costs resulting from gold-plated infrastructure standards add to the cost and timeframes of lot production. The increasing number of different private and government infrastructure providers and owners with varying and conflicting standards and process increases the difficulty and cost of lot production.

Taxes and charges remain too high. On average, the tax and charges cost component for producing a lot in Melbourne is $36,156. However, this figure understates the true level of taxes and charges for new development, as it includes active estates with no Precinct Structure Plan that have an average Growth Area Infrastructure Contribution, local Development Contribution Plan, Community Levy, and drainage charge of less than $18,000 per lot.

The implementation of the Non-Resident and Absentee surcharge for foreign owners, corporations and trusts is also of concern applying a 3% stamp duty and 0.5% land tax surcharge on foreign owners, corporations and trusts. Implementation issues with the exemption guidelines for developers have been identified to be addressed. Initial discussions suggest an openness to address implementation issues and streamline the exemption process.

SOUTH EAST QUEENSLAND

ANALYSIS

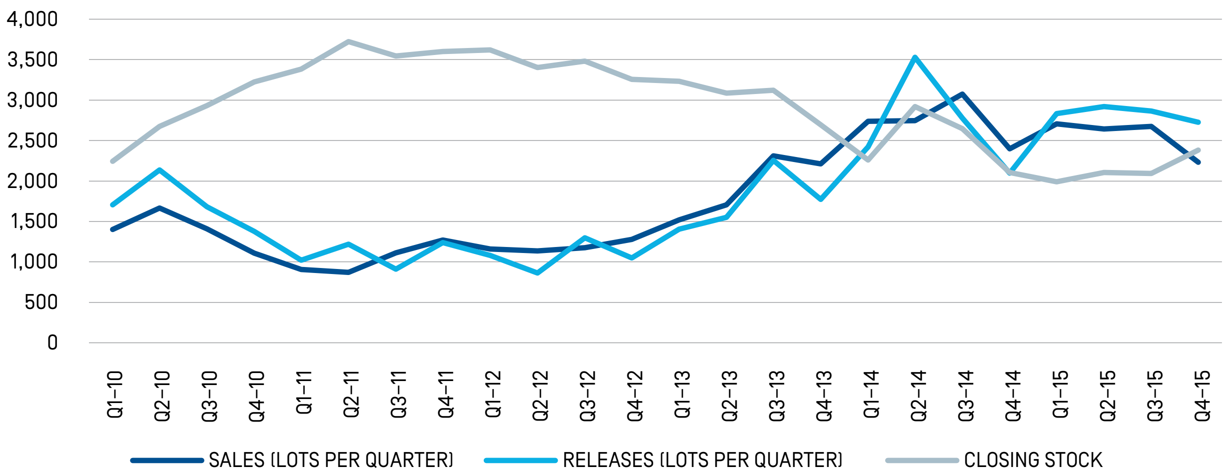
After jumping more than 50% in 2014, lot releases continued to be strong in 2015. Lot releases in South East Queensland rose to 11,344 in 2015, up by 4.8% from 10,822 in 2014.

At the same time, the median lot price rose by 4.5% to $255,750, up from $244,739 in 2014.

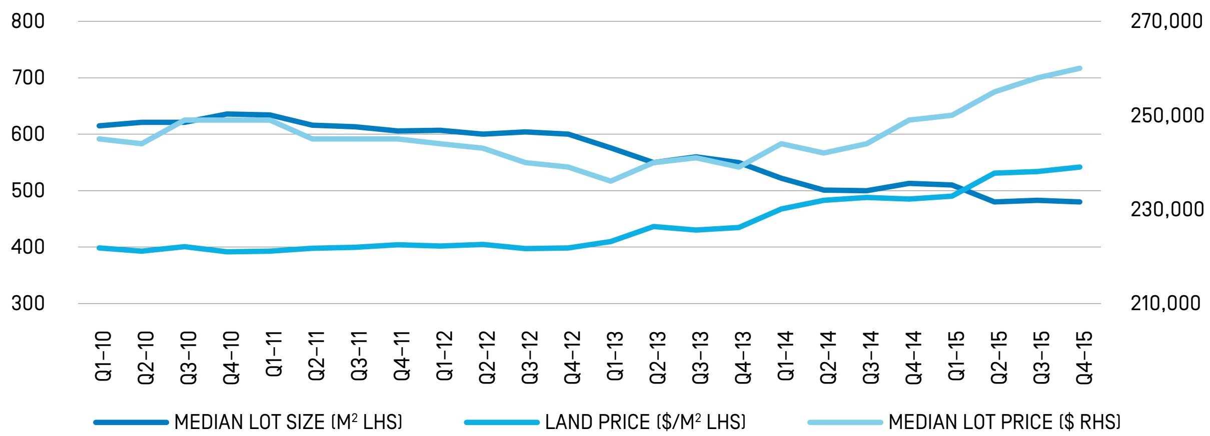
The median lot size continued its long-term downward trend trajectory in 2015 to a record-low of 488 square metres, down by 4.1% from 509 square metres in 2014.

Despite the increase in lots released and the fall in median lot size, the price per square metre of land continued to rise, up by 9.0% in 2015 to $524 per square metre, from $481 per square metre in 2014.

QUARTERLY MARKET ACTIVITY



MEDIAN LAND PRICE AND SIZE



	LOTS RELEASED	YEAR END STOCK	MEDIAN LOT SIZE M^2	MEDIAN PRICE $	LAND PRICE /M^2
2010	6,908	3,225	623	246,750	396
2011	4,389	3,601	617	246,000	399
2012	4,291	3,255	603	241,500	401
2013	6,988	2,696	559	239,000	428
2014	10,822	2,104	509	244,739	481
2015	11,344	2,383	488	255,750	524

BROADER MARKET TREND

Latest Queensland Treasury data indicates that there is approximately 38,150 hectares of broad hectare land (parcels greater than 0.25ha) identified as suitable, potentially available and serviceable for future residential development. On paper, this is equivalent to more than 10 years' worth of greenfield residential land supply and could meet medium term needs. However, this supply is not located to meet the preferences of buyers of historical growth areas. Whilst the Western and Southern Corridors (Ipswich and Logan) have generous supply potential 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.

Without greenfield supply close to existing population centres, affordability pressures will emerge in places like Moreton Bay and on the Gold Coast. For example, on the Gold Coast, significant new zoned land supply opportunities have been almost exhausted. Land supply with the exception of a few existing operating estates is severely constrained. Few englobo land parcel opportunities exist in Brisbane City as well. More action must be taken to facilitate remaining non zoned resources and progress options such as the cane field lands in a timely way.

The lack of leading infrastructure continues to hamper private sector investment and place pressure on housing affordability. With recent strong demand, good land supplies, efficient approval, development and release is now critical to avoid further pressure on land prices.

STATE POLICY ENVIRONMENT

The state government is continuing with major planning reform. The legislation offers good potential for productivity improvements in streamlining the development assessment process when it commences in 2017 and could set a strong basis for a more efficient planning system. The existing cap on maximum infrastructure charges applying to development has been of major assistance to an industry previously impacted by rapid and uncertain rises.

The state government has also moved to facilitate infrastructure opportunities using its very limited state budget and private investment, and has established a new entity, Building Queensland, to provide the government with advice on major infrastructure and funding models. However, Queensland's property and development industry carries among the highest burdens of any industry in terms of taxes and charges. The taxation system needs reform to encourage the production of new housing stock and job creation.

The development industry continues to await the release of the revised South East Queensland Regional Plan (SEQRP) now expected in mid–2016. It is critical that the review responds to the population and economic growth estimated to occur over the next 20 years which will equate to the need for an extra 800,000 dwellings in South East Queensland. A major visionary increase in land supply is required as well as tools to roll out timely land supply.

The current process of local government rolling out new zoning to meet demand is inadequate, and site approval processes remain too long. On a typical subdivision of a zoned area, approvals can take up to three years, while for unzoned areas timeframes can be seven years or more. Infill redevelopment opportunities are limited, and codes and conditions continue to expand to constrain delivering diverse and affordable product.

Restrictive environmental overlays based on desktop analysis are often applied. These overlays can disrupt core urban areas, identified as key areas for future housing for marginal environmental values. An improved approach is needed that preserves the corridors with high ecological value, enables sustainable urban growth and supports effective investment in rehabilitation and protection away from conflicting urban areas.

PERTH

ANALYSIS

The Perth market has been badly affected by the economic slowdown associated with the end of the mining boom.

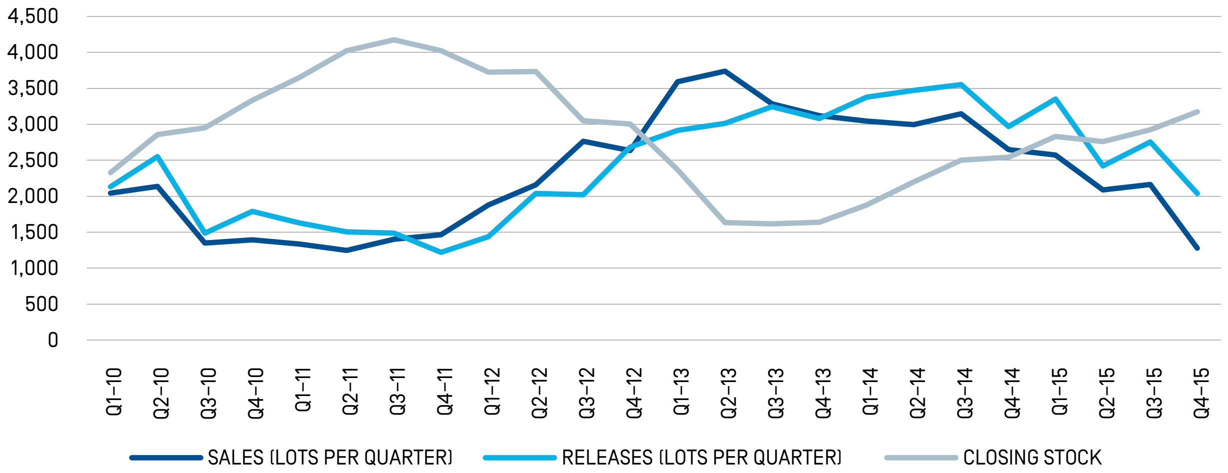
In Perth, the number of lots released fell by 21.0% in 2015, down to 10,568 in 2015 from 13,373 in 2014.

Lot sizes in 2015 were the smallest on record as developers sought to find an affordable price point to attract first home buyers back into the market.

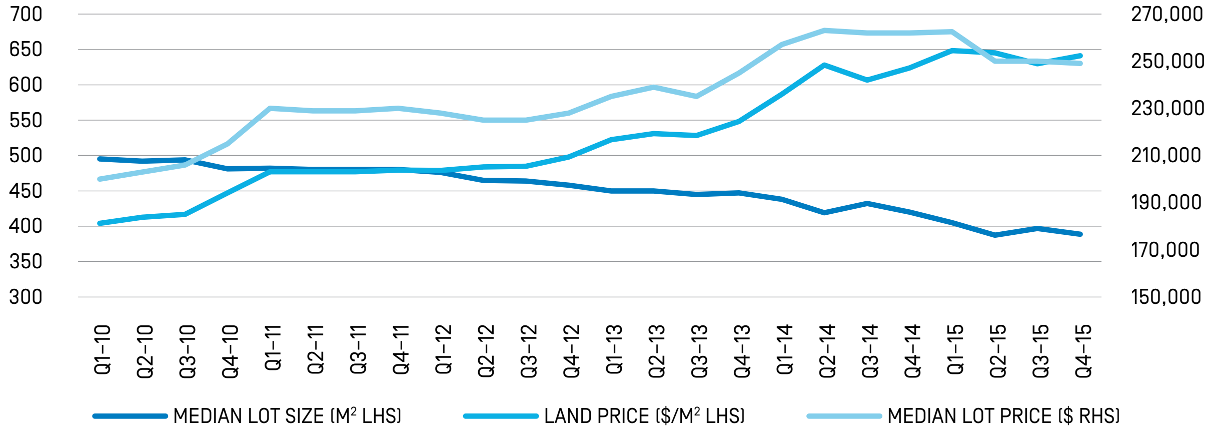
The fall in lot sizes has been consistent and dramatic over the last seven years. In 2015, lot sizes fell a further 7.7% to 395 square metres, down from 427 square metres in 2014.

The median lot price fell 3.1% in 2015 to $252,875, from $261,000 in 2014. However, the fall in lot sizes has not been dramatic enough to prevent the price per square metre from rising — up 4.9% in 2015 to $641 from $611 in 2014.

QUARTERLY MARKET ACTIVITY



MEDIAN LAND PRICE AND SIZE



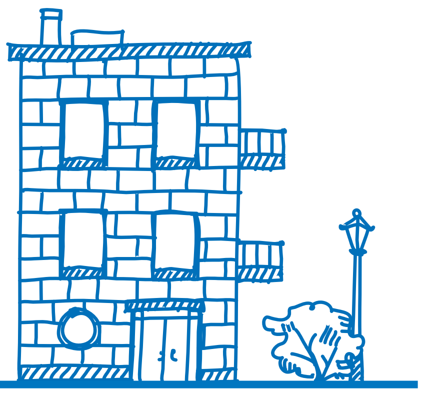
	LOTS RELEASED	YEAR END STOCK	MEDIAN LOT SIZE M²	MEDIAN PRICE $	LAND PRICE /M²
2010	7,966	3,333	491	206,000	420
2011	5,838	4,023	481	229,500	478
2012	8,182	3,007	466	226,500	486
2013	12,252	1,639	448	238,500	532
2014	13,373	2,544	427	261,000	611
2015	10,568	3,175	395	252,875	641

BROADER MARKET TRENDS

The economic slowdown in Western Australia has been noticeable with the Treasurer declaring in the 2015-16 budget that Western Australia has entered "the most challenging economic and fiscal environment the State has faced in at least three decades." Gross State Product has now slowed from an average growth rate of 5.9% in the three years to June 2014 to a forecast of 2 percent in 2015–16 when the unemployment rate is expected to peak at 6.25 percent. It is little wonder that the tough economic conditions, when combined with a 55% fall in population growth in 2014–15 when compared to 2012–13, has led to a subdued property market.

Whilst industry sentiment reflects the conditions, many regarded the record period of growth from 2013–2015, which was triggered by demand for resources by China, as an anomaly in the market with the current activity level more akin to the long term experience. In an effort to stimulate new construction the First Home Owners Grant for established houses was removed late in 2015, however there has been no corresponding uplift in new home construction. With average rents falling and rental vacancies high, there is little motivation for first home buyers to enter the market.

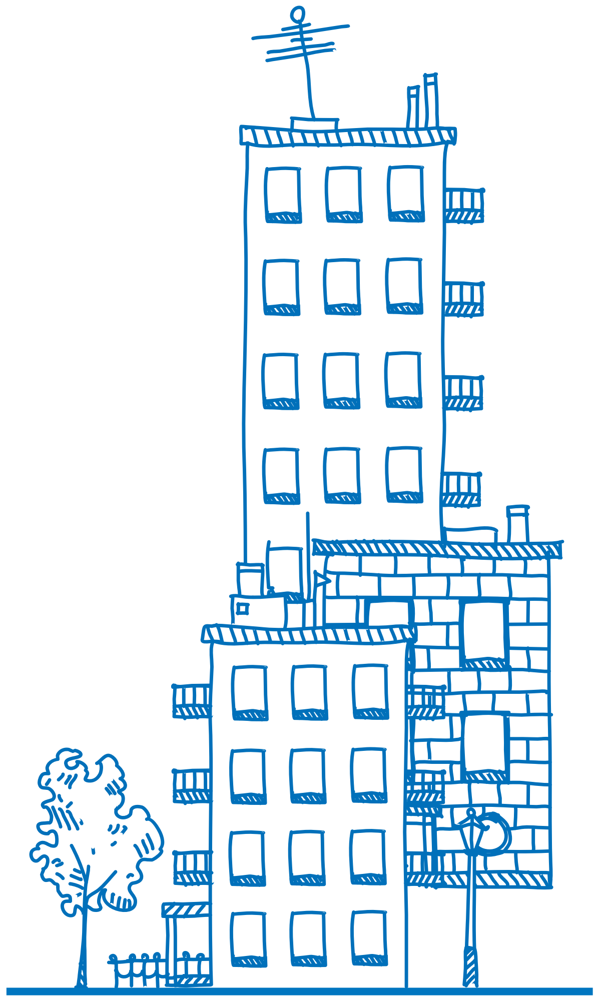
The Western Australian economy continues to be underpinned by the resources sector, which in turn impacts on the property market. The fundamentals still appear to be strong with $171 billion of resource projects under construction or in the committed stage of development in Western Australia as of September 2015. A further $110 billion is identified for planned or possible projects in coming years. Whilst the property market in 2016 is likely to remain subdued, it is likely to begin to recover throughout 2017 and 2018.



STATE POLICY ENVIRONMENT

The market constraints have stimulated renewed interest in reform with the state government progressing a number of projects including the Planning and Development (Local Planning Schemes) Regulations 2015 as well as the review of key policies such as Liveable Neighbourhoods, the Residential Design Codes and assorted technical papers relating to buffers, waste and sewerage. The state government has also released for public comment "Perth and Peel @ 3.5 million" and the associated Subregional Frameworks, which provides mapping of areas that will be allowed to be developed (and when). The documentation was not positively received by industry, and uncertainty about investment decisions remains whilst the submissions are assessed and consideration given to adjustments prior to gazettal.

The effect of the new Bushfire Regulations and associated mapping on urban development is yet to be fully assessed but may have considerable impact on yields for some projects. Legislation in relation to water resources has also been reviewed along with a tranche of environmental policies in the lead up to the release of the "Green Growth Plan," which is the overarching documentation for the Strategic Assessment of Perth and Peel. Whilst some of the reforms being undertaken have not been well received by industry, the review of the Strata Titles Act has been warmly welcomed.



ADELAIDE

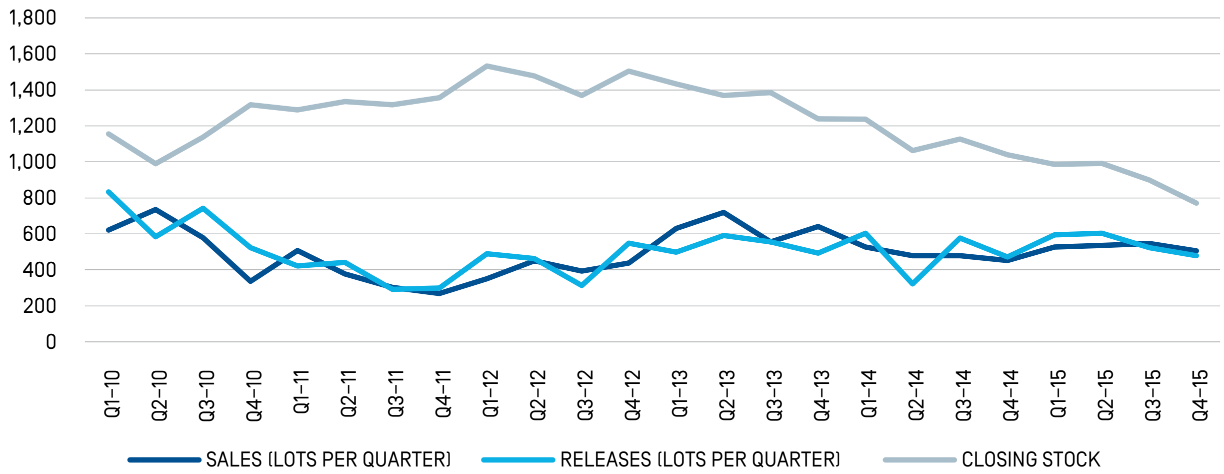
ANALYSIS

Historically, Adelaide is a generally steady-state market. Although the number of lots released was up by 11.4%, it was off a low base compared with the rest of Australia. There were 2,202 lots released in 2015, up from 1,976 in 2014.

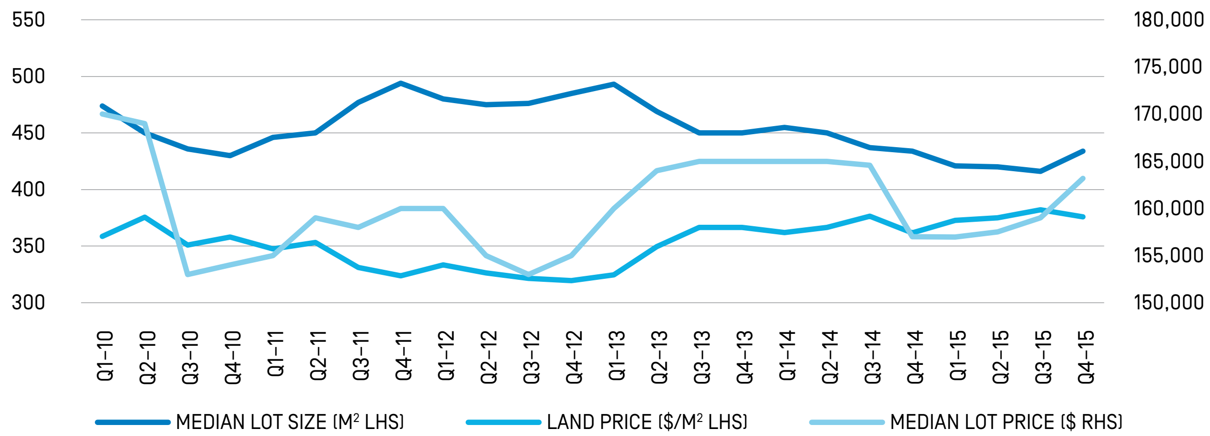
The trend towards smaller lot sizes in projects continued in 2015. The median lot fell by a further 4.8% in 2015 to a record low of 423 square metres, down from 444 square metres in 2014.

The modest increase in supply, combined with the influence and smaller lot sizes, have allowed the median price to fall slightly. In 2015, the median lot price fell by 2.3%, to $159,156 in 2015 down from $162,894 in 2014. This is a lower lot price than existed in 2010, although the median lot size is smaller in 2015 than in 2010.

QUARTERLY MARKET ACTIVITY



MEDIAN LAND PRICE AND SIZE



	LOTS RELEASED	YEAR END STOCK	MEDIAN LOT SIZE M²	MEDIAN PRICE $	LAND PRICE /M²
2010	2,682	1,317	448	161,500	361
2011	1,455	1,357	467	158,000	339
2012	1,815	1,504	479	155,750	325
2013	2,141	1,240	466	163,500	352
2014	1,976	1,040	444	162,894	367
2015	2,202	772	423	159,156	376

BROADER MARKET TRENDS

Adelaide's population growth is very dependent on overseas migration levels which are currently at half the level they were in 2008–2009. Without a recovery in population growth the state will continue to experience a low growth rate.

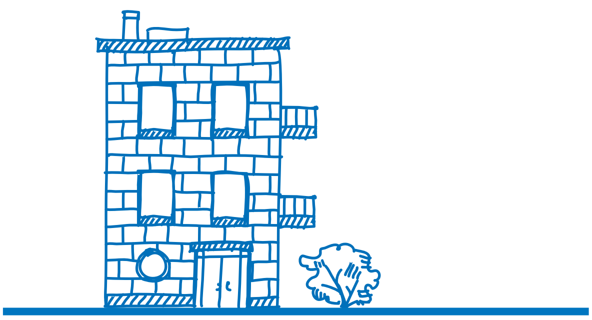
At current consumption rates there is sufficient zoned land for around 25 years of supply, but some of this is unavailable for development because of unresolved issues over infrastructure provision, coordination and funding. Except in the south of Metropolitan Adelaide where supply and demand is fairly balanced, the market is currently well supplied.

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 difficulty in negotiating arrangements for provision of core infrastructure — roads, potable water and stormwater, sewer, telecommunications and 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. There is now approximately a 15% price differential between the north and south which is partly a result of substantial oversupply in the north and minor undersupply in the south.

Given the extent of zoned land supply in Metropolitan Adelaide no further large scale rezoning is proposed by the government in the foreseeable future.

The state government has also recently exhibited the Development Plan Amendment to rezone a 550 hectare expansion of the Roseworthy Township on the very northern fringe of the Greater Adelaide area. This land will provide approximately 4,000 dwellings over the next 20 years.



STATE POLICY ENVIRONMENT

The South Australian government has over the past two years undertaken a significant review of the state's planning system. This has resulted in the drafting of a new Planning, Development and Infrastructure Bill which is currently before Parliament. The majority of aspects of this legislation are supported by industry, particularly the improvements to development assessment, zoning arrangements and removing local councillors from Development Assessment Panels.

However, at the time of writing two significant components of the legislation remain a concern: the proposal to introduce a legislated urban growth boundary, and the proposed provisions relating to infrastructure funding schemes. The development industry opposes outright the concept of a legislated growth boundary which will require a resolution of both houses of Parliament for change to occur. This has the potential to have a significant impact on land supply and affordability in to the future.

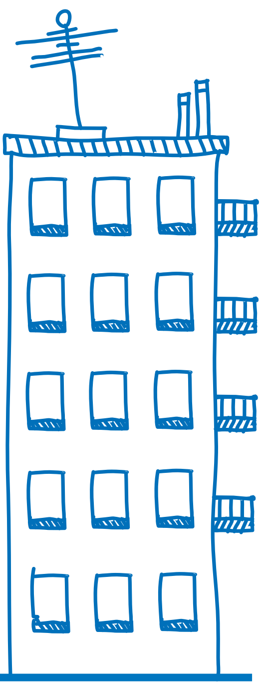
The Planning, Development and Infrastructure Bill also proposes an infrastructure funding scheme. While the industry supports the introduction of a fair, equitable and transparent framework which does not harm housing affordability, the model proposed by the Bill requires a significant number of amendments to achieve this.

The final outcome of negotiations in relation to the Bill, and whether or not it will be passed by Parliament, have significant implications for the industry, both positive and negative.

ABOUT UDIA

THE URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA (UDIA) IS THE PEAK BODY REPRESENTING THE URBAN DEVELOPMENT INDUSTRY IN AUSTRALIA.

UDIA represents more than 2,500 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.



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UDIA NATIONAL CONGRESS

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ABOUT NLSP

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)

SOUTH EAST QUEENSLAND

- 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 nlsp.com.au for further information.