THE 2013 UDIA STATE OF THE LAND REPORT

Urban Development Institute of Australia
National Land Supply Study

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EXECUTIVE SUMMARY

The task of housing Australia's growing population is dependent on our ability to release a steady supply of serviceable land. This is the fifth edition of the annual *State of the Land* report prepared by the Urban Development Institute of Australia (UDIA). The report examines the supply, price and size of residential lots in Australia's five largest cities (Sydney, Brisbane, Adelaide, Perth and Melbourne). *The State of the Land* has been prepared by each state division of the UDIA with input from the country's leading urban development practitioners.

Comparing data between the cities has been compromised by the absence of official up-to-date data from Sydney and Melbourne. UDIA has provided forecasts for missing official data where possible. The New South Wales Government data track two years behind most of its State counterparts and the most recent data for lot production, median price and median size is from 2009/10. The Victorian Government has not provided lot production data for 2011/12.

Since 2005 an alarming trend of declining land supply levels has persisted, although for the past few years the trend has not been evident across all the cities. Land prices continue to rise gradually despite the fact that the median size of lots has decreased across the board.

The factors influencing land release, lot prices and land sizes are of course different in each state and by extension each city surveyed in this report. Nevertheless, there are a number of barriers to supply which transcend state and territory borders. One such barrier is the complex planning approval processes which are riddled with delays across Australia. Furthermore, delays in the provision of infrastructure have been holding up residential development in vast areas. In most cities, the first user pays approach to funding infrastructure is adding significantly to the price of land, rendering many development projects too expensive to pursue.

RECOMMENDATIONS

THE FEDERAL GOVERNMENT TO ESTABLISH A NATIONAL STRATEGIC PLAN, REQUIRING CITIES TO MAINTAIN A SPECIFIED ROLLING SUPPLY OF DEVELOPMENT-READY LAND TO MEET DEMAND DRIVEN BY POPULATION GROWTH

Australia's population is likely to grow strongly with figures from the Treasury's Intergenerational Report predicting the population to reach 35.9 million people by 2050. The majority of new residents will certainly seek accommodation within Australia's urban centres. To cater for the expanding population and to prepare for peaks and troughs associated with demand for land, a plan to maintain an adequate stock of land for future development is essential. By identifying tracts of land suitable for development decades in advance and by keeping such land development-ready, cities across the nation will avoid shortages brought on by sudden periods of strong demand.

FEDERAL FUNDING TO BE LINKED TO STATE GOVERNMENTS ESTABLISHING COMPREHENSIVE LAND-USE PLANS WHICH ARE ALIGNED WITH DETAILED, COSTED INFRASTRUCTURE PLANS AND UNDERPINNED BY DELIVERY TIMEFRAMES

The efficient and timely provision of infrastructure is a critical aspect of the urban development process. Poor coordination between planning and service delivery agencies often delays the development of urban zoned land.

An uncoordinated approach to infrastructure delivery has constrained the delivery of dwellings in new greenfield areas and in existing urban areas, contributing to Australia's housing supply crisis. An integrated approach to infrastructure and land-use planning is a priority to optimise the release of urban land. While there is a need to expand investment in infrastructure, this process should be planned and managed with future growth in mind. All three levels of Government need to work together to implement strategies for infrastructure provision. Future growth areas must be identified early in the planning process with a commitment to provision of the appropriate infrastructure, particularly transport infrastructure, ahead of development.

THE PRODUCTIVITY COMMISSION TO UNDERTAKE AN INQUIRY INTO 'DEVELOPER LEVIES', ASSESS THE IMPACT OF THESE LEVIES ON BROADER BASED TAX COLLECTIONS AND INVESTIGATE ALTERNATIVE METHODS OF FINANCING INFRASTRUCTURE

State governments follow different approaches to funding infrastructure for commercial, industrial and residential development. However, in most jurisdictions the cost of providing urban infrastructure to support new housing is increasingly borne by the developer in the first instance and passed on to the new home buyer, distorting the price of housing and adversely affecting housing affordability. The proliferation in recent years of funding infrastructure by "front loading" the costs onto the new home buyer has also played a significant role in eroding the supply of new dwellings by undermining the viability of countless projects across Australia. In many cases charges do not correlate with the cost of infrastructure and there can be wide variations in charges for the same or similar items of infrastructure between and within jurisdictions. The method of funding infrastructure can lack transparency, is unsustainable and inequitable because it loads a disproportionate share of costs onto those least able to afford it. If changes are not made, this approach will continue to have grave consequences for housing supply and affordability.

THROUGH THE IDENTIFICATION OF LEADING PRACTICE, STATE GOVERNMENTS SHOULD ENCOURAGE LOCAL COUNCILS AND RELEVANT STATE AGENCIES TO REFORM THE PROCESSES INVOLVED IN ASSESSING APPLICATIONS FOR DEVELOPMENT

The approvals process in all states is complex and can result in lengthy and costly delays of the release of land for new development. The planning reform agenda in some states has involved a wholesale review of the planning approval process with a view to streamlining and simplifying the manner in which approvals are delivered. For those states where the reform program has been undertaken by local authorities, best practice should be recognised and promoted and replicated in other jurisdictions.

CONDUCT A THOROUGH BI-ANNUAL AUDIT OF ALL COMMONWEALTH-OWNED LAND IN ORDER TO REGULARLY UPDATE ITS REGISTER OF SURPLUS COMMONWEALTH LAND

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

OVERVIEW

The 2013 *State of the Land* report offers an insight into the land supply performance of Australia's five largest cities. A lack of development-ready serviceable land is a key factor contributing towards Australia's housing supply shortage. The National Housing Supply Council's (NHSC) report, *Housing Supply and Affordability – Key Indicators*, underlines the country's housing shortage. In revising its findings from the 2011 *State of Supply* Report, the Council found that the housing shortfall increased by some 28,000 dwellings in the year to June 2011, taking the cumulative shortfall since 2001 to 228,000 dwellings. Without appropriate action the gap could rise to over 663,000 by 2031. There is a strong correlation between land supply and housing provision. It thus comes as no surprise that two of the cities producing the lowest number of lots, Sydney and Brisbane, are located in the two States which the NHSC identifies as suffering from the greatest housing shortfall.

Demand for land is relatively flat in Brisbane, Adelaide and Melbourne. However, a drop in land sales should not be seen as an excuse for governments to sit on their hands in relation to land supply. Strong population growth and the subsequent increase in household formation should drive all levels of government to strive towards well-planned, land release programmes. In the absence of effective land release policies, Australian housing will continue to be afflicted by issues of affordability.

It is commonly known that Australia's housing shortage is most marked in the affordable housing category. Developers have responded to this demand by developing smaller lots, which has facilitated affordable outcomes as well as the higher density outcomes encouraged by state governments. However, developing smaller lots will only alleviate the high cost of housing to a certain degree. What is desperately needed is a suite of policies which will bring about an accelerated, but more coordinated approach to serviced land release while simultaneously departing from the inequitable first user pays approach to funding infrastructure.

LOT PRODUCTION

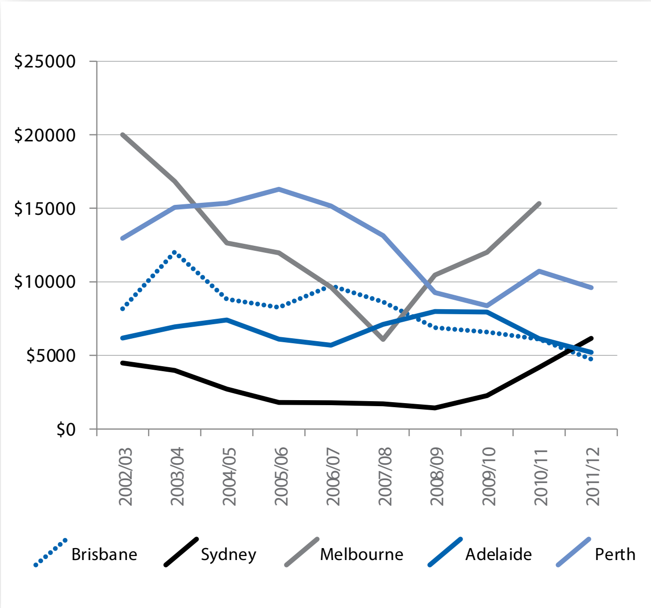
After years of poor performance Sydney has experienced a gradual recovery in lot production. However, Sydney is coming off a very low base after a decade of chronic undersupply and it still produces a relatively low number of lots for a city of its size and growth prospects. Melbourne continues to be the leader in terms of lot production and for the year 2010/11 it produced by far the most lots of all cities surveyed. While no official data is available for 2011/12, Melbourne's lot production remains healthy despite a recent softening of demand.

Aside from Sydney and Melbourne, every other city surveyed in the 2013 *State of the Land* experienced a decrease in the number of lots produced from the previous year. Brisbane produced its lowest number of lots in over a decade in 2011/2012. The Queensland capital city's land creation has been depressed for some time now and is 45% below pre-global financial crisis (GFC) levels. Adelaide has experienced its second year of decline in lot production after experiencing a period of relatively steady growth. In 2011/12 the city produced its lowest number of lots in a decade. Compared to long-run trends, the number of lots produced in Perth remains subdued and is below the ten-year average. Despite a healthy rebound in lot activity during 2010/11, lot production has declined 11% over 2011/12.

MEDIAN LOT PRICE

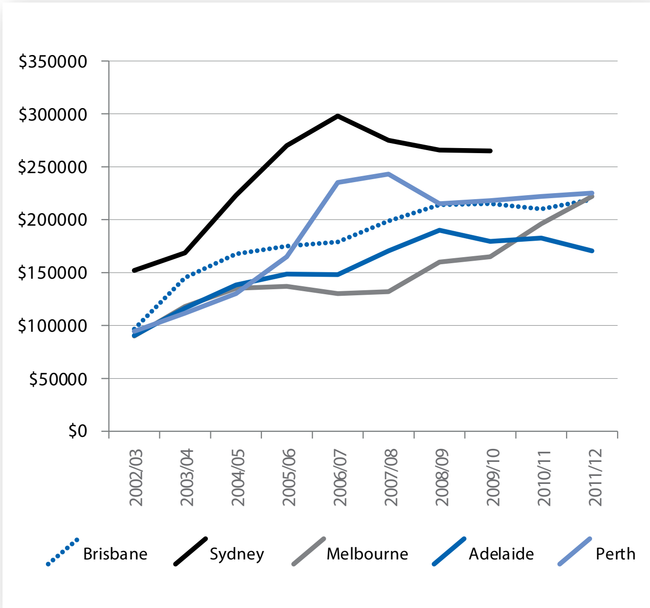
The price of residential land remains a concern in every city surveyed in the 2013 *State of the Land* report. Despite the absence of official data over the past two years, land in Sydney is commonly accepted to be the most expensive of all the cities surveyed, the most recent data showing the median lot price to be $265,000. Melbourne, Brisbane and Perth have all recorded year-on-year increases in the median price of lots and all three cities have a median price of around $220,000. Only Adelaide experienced a decrease in its year-on-year median lot price with lots in the city currently priced at $170,438.

Lot Production



Source: UDIA (2010/11 and 2011/12 figures for Sydney are forecasts and Melbourne data for 2011/12 not available)

Median Lot Price

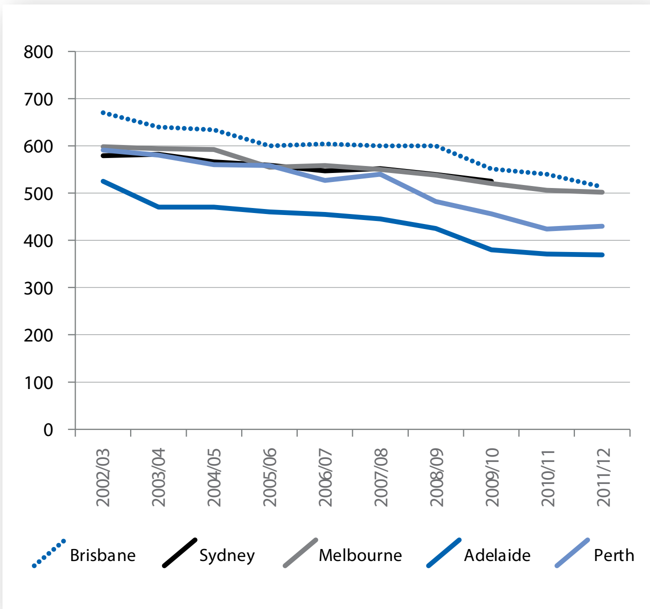


Source: UDIA (Sydney data for 2010/11 and 2011/12 not available)

MEDIAN LOT SIZE

The median size of lots has been gradually declining as a result of the scant supply and high cost of land. Developers have responded to planning paradigms for increased densities in both infill and greenfield areas and have maximised the number of dwellings in a typical broad acre development. This has also provided a smaller, more affordable product that has added to housing diversity in new developments. The smallest lots have been produced in Adelaide with a median lot size of 371m2, the only city with a median lot size under 400m2. Lots in Perth are sized at 430m2 which is smaller than lot sizes in Melbourne and Brisbane (both which have median lot sizes over 500m2). Data for Sydney's lot sizes is not available for the past two years.

Median Lot Size



Source: UDIA (Melbourne and Sydney data based on average lot size) (Sydney data for 2010/11 and 2011/12 not available)

SYDNEY

CURRENT MARKET AND LAND SUPPLY SITUATION

New South Wales is coming off a very low base of new housing production. With historically low housing starts and production of lots from 2005/06 to 2008/09, it appears increased housing and lot production is likely.

NSW continues to track behind the other major states, due largely to a non-competitive cost structure for new development and a complex and uncertain regulatory framework. Factors contributing to poor market performance over a sustained period include:

- a lack of serviced and ready greenfield land, due to poor coordination between government planning and delivery agencies;
- a non-competitive cost structure of development levies relative to other capital cities, which discourages new investment by developers and creates a large disparity between prices for existing homes and new housing stock; and
- the rezoning and approval process for major new release areas continue to be plagued by delays, complexity and uncertainty.

In 2011, the NSW Government called upon owners of large land holdings to nominate potential sites to be fast-tracked through the planning system for release, rezoning and the provision of trunk and lead-in infrastructure. The Review of Potential Housing Sites program and submissions from land owners closed in November, 2011, receiving 43 proposals which were whittled down to 31. The process of site selection was due for completion in the first quarter of 2012. As of 1 February 2013, these sites have not been announced, despite the aim of the program being to boost housing within a short, three-year time frame. On the positive side a new Planning Act is expected in late 2013. In its exhibited documentation on a new planning system, the State Government has identified the importance of long-term strategic planning and the necessary link between infrastructure provision and new lot production. The government has proposed the following plans to create a strategic planning model:

- **Regional Growth Plans** to direct the future growth of a region over a 20-year period. The outcomes of the Regional Growth Plans will be based on the objectives of *NSW 2021: A plan to make NSW number one* and will inform the preparation of Subregional Delivery Plans.
- **Subregional Delivery Plans** will be the principal planning tool for effecting land use and setting development parameters within a region.
- **Local Plans** will comprise of four key parts, including a strategic section, a statutory spatial land use plan, a section on infrastructure and services and a section on development guidelines and performance monitoring requirements.

The State Government will be in a position to offer investment certainty to the industry through proposed **Growth Infrastructure Plans** which will guide the planning and delivery of infrastructure to an area. They will identify the infrastructure necessary to support the future growth of an area and provide a program for the delivery of the infrastructure. A Growth Infrastructure Plan will be prepared in conjunction with a Subregional Delivery Plan, ensuring that the future land use decisions are informed by and aligned with infrastructure planning and delivery. The Growth Infrastructure Plans will have horizons of five to 10 years, be linked to budget funding and be aligned with the outcomes of the State Infrastructure Strategy and NSW Long Term Transport Master Plan.

Metropolitan Sydney Historical Lot Production

Period	Lots Produced	Average Lot Size (m^2)	Median Price
2002/03	4,488	579	$223,000
2003/04	3,989	582	$270,000
2004/05	2,704	566	$298,000
2005/06	1,803	559	$275,000
2006/07	1,783	547	$265,750
2007/08	1,715	552	$265,000
2008/09	1,426	539	$262,500
2009/10	2,259	525	$265,000
2010/11	4,176		
2011/12	6,154		

Source: NSW Metropolitan Development Program 2010/11 (2010/11 and 2011/12 lot production figures are MDP forecasts)

FUTURE PROSPECTS

Through the NSW Metropolitan Development Program, the State Government is targeting 55,000 zoned and serviced lots to be ready for development by 2015. The Sydney Metropolitan Development Program 2010/11 (MDP), released in April 2012, reveals the following expected dwelling potential from greenfield land supply in the Sydney metropolitan region:

- Total MDP – 132,745 potential dwellings (74 release areas).
- Zoned – 86,949 potential dwellings (of the 74 release areas, 60 have been rezoned – or 65% of total stock).
- Zoned with trunk infrastructure – 73,744 potential dwellings (60 release areas). There is capacity in the trunk infrastructure to service these areas, representing 55% of total stock.
- Zoned with lead-in infrastructure – 43,845 potential dwellings (51 release areas). Lead-in infrastructure is constructed to the edge of the release area in 33% of total stock.

The MDP also provides lot production forecasts for the greenfield release areas in Sydney in the course of coming years. The forecasts show a strong increase in lot production, from 2,259 lots delivered in 2009/10 to an anticipated delivery of 7,602 lots in 2013/14.

UDIA NSW's Land Release and Housing Delivery Committee prepared its own forecasts based on consultation with key development industry participants. These show a steady increase in lot production in the next three years, which is well below the production level targets identified by the Metropolitan Plan for Sydney 2036 (approximately 9,240 lots per annum).

Sydney Metropolitan Land Supply Forecast

LGA	Source	2012/13	2013/14	2014/15	3 Year Forecast Total
Camden	MDP	1808	1722	1716	5246
	UDIA	1487	1905	2302	5694
Campbelltown	MDP	329	415	386	1130
	UDIA	442	539	963	1944
Liverpool	MDP	827	1010	1116	2953
	UDIA	826	974	1318	3118
Wollondilly	MDP	17	13	0	30
	UDIA	125	125	200	450
Sutherland	MDP	0	0	0	0
	UDIA	50	50	50	150
Blacktown	MDP	1879	2100	1038	5011
	UDIA	1008	1567	1528	4103
Hawkesbury	MDP	0	0	0	0
	UDIA	100	100	100	300
Penrith	MDP	1005	857	951	2813
	UDIA	825	855	972	2652
The Hills Shire	MDP	705	724	657	2086
	UDIA	539	625	847	2011
Gosford	MDP	0	0	0	0
	UDIA	0	0	30	30
Pittwater	MDP	561	147	131	839
	UDIA	0	0	50	50
Wyong	MDP	418	452	463	1333
	UDIA	146	169	299	614
Warringah	MDP	17	1	0	18
	UDIA	0	0	0	0
Total	**MDP**	**7560**	**7441**	**6498**	**21499**
	UDIA	**5548**	**6909**	**8659**	**21116**

Source: UDIA NSW/NSW Metropolitan Development Program 2010/11
N.B. Figures from UDIA include future release areas not covered by the MDP as UDIA forecasts were undertaken in 2013

Metropolitan Sydney Forecast Lot Production

Forecast Source	2012/13	2013/14	2014/15
NSW Government	7560	7441	6498
UDIA	5548	6909	8659
Metro Strategy Target	7500	9240	9240

Source: UDIA NSW/NSW Metropolitan Development Program 2010/11

N.B. Figures from UDIA include future release areas not covered by the MDP as UDIA forecasts were undertaken in 2013

ISSUES/BARRIERS TO DEVELOPMENT

NSW grapples with the barriers to development that have been facing the industry for the last 50 years. UDIA NSW is hopeful that the new planning system will address some of these.

Fragmented Ownership: The Department of Planning and Infrastructure has indicated in its findings in the 2010/11 MDP that it believes fragmented holdings present no significant medium-term challenges to dwelling production on the urban fringe. UDIA NSW's members report that there has been little englobo acquisition activity to support the consolidation of fragmented lands for development. This is primarily due to existing landowners' high price expectations, and as a result developers cannot bring housing product to the market at suitable price points. Therefore, UDIA NSW believes land fragmentation, particularly in Sydney's western Growth Centres that are precinct planned specifically for housing, is a significant barrier to housing supply in dwelling production on the fringe. The Government must closely monitor the level of development from fragmented lands and bring additional rural holdings onto the MDP and the Sydney lot supply pipeline if dwelling production does not meet lot delivery targets in these locations.

Infrastructure Servicing: Timely infrastructure provision is a major constraint to the efficient delivery of new greenfield lots. UDIA NSW welcomes the proposed use of Growth Infrastructure Plans to tie development to the provision of infrastructure. Linking infrastructure provision to strategic land use and to funding from the State Budget is likely to be a highly effective way of targeting supply of lots that are well-connected to infrastructure.

Prohibitive Taxes and Levies: In NSW, the present system of infrastructure taxes and levies has grown from a mutually agreeable system to help share the costs of infrastructure between Government and industry to a system that distorts market performance, generates uncertainty and is inefficient. The prevailing system fails to meet reasonable public policy tests for how taxes and levies should operate. Taxes and levies should be simple, certain and efficient. From a government perspective, they need to raise adequate financial resources for the purposes they are meant to satisfy. From an investment perspective, they should not increase prices to a point where it is uneconomic to produce (unless that is the intention).

UDIA NSW recommends a broad based levy of 2.5% on Capital Investment Value (CIV) of all development over $50,000 in order to more equitably share the burden of cost for critical infrastructure needed for development to occur.

BRISBANE

CURRENT MARKET AND LAND SUPPLY SITUATION

Residential lot production in the Brisbane Statistical Division (BSD) was at its lowest level in over a decade in the year to June 2012. Lot production of 4,738 in 2011/12 is down 22% on 2010/11 levels and 45% below pre-global financial crisis (GFC) levels. Underlying demand for new housing is low by historical standards. Net interstate migration to Queensland, while improving in the year to March 2012 (the most recent available data), still sits at less than half the historical average.

Despite underlying demand for new homes in 2011/12 being just 38,000 (up from 35,000 in 2010/11 but well below the decade average of 45,000), the Queensland market remained undersupplied with only 26,482 dwellings commenced – the lowest level in over a decade. Effective demand for land, and in turn new homes, was severely depressed in 2011/12 due to a number of factors including:

- low consumer and investor confidence;
- overly conservative valuations resulting in lost sales; and
- ongoing weakness in the established home market impacting on the price competitiveness of new homes.

Developers continue to find it difficult to deliver land at prices buyers are willing to pay. As a result, 2011/12 saw a continuation of subdued sales rates and stage deferrals. In a positive sign, however, sales rates and enquiry levels picked up in the second half of 2011/12 and a floor seems to have been put under price discounting and incentives.

Within BSD, Moreton Bay Regional Council area has the highest concentration of current projects and in turn the greatest number of sales, with considerable activity at North Lakes and Caboolture. The next most active Local Government Area (LGA) in BSD was Ipswich with sales concentrated in Augustine Heights, Springfield Lakes and Redbank Plains. Due to ongoing difficulties for small to middle-sized developers in obtaining finance, the majority of zoned and serviceable land in BSD is tightly held by large and publicly-listed developers.

Brisbane Statistical Division Historical Lot Production

Period	Lots Produced	Median Lot Size (m²)	Median Price
2002/03	8,168	670	$96,500
2003/04	12,032	640	$145,000
2004/05	8,821	634	$167,500
2005/06	8,261	600	$175,000
2006/07	9,738	604	$179,000
2007/08	8,645	600	$198,750
2008/09	6,886	600	$213,900
2009/10	6,584	551	$215,000
2010/11	6,097	540	$210,000
2011/12	4,738	513	$219,000

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

FUTURE PROSPECTS

There is sufficient supply of greenfield land in BSD in the medium-term. Queensland Treasury data indicates that as at 30 June 2012 there is approximately 28,060 hectares of broadhectare land (parcels greater than 0.25ha) identified as suitable, potentially available and serviceable for future residential development.

While prospects are good for the medium-term, due to long lead times it is important that new development fronts be identified in the upcoming review by the State Government of the South East Queensland Regional Plan. Unless costs associated with land production and other barriers (see below) are addressed, effective demand for new housing will remain subdued and new land releases delayed.

Presently, of all the LGAs in the BSD, Moreton Bay Regional Council has the greatest number of active projects. In terms of future supply however, Logan and Ipswich dominate (Flagstone, Yarrabilba, Springfield-Ripley Valley corridor), representing almost two-thirds of medium-term lot supply in South East Queensland.

In Brisbane City Council, there is limited availability of large englobo land parcels. Future supply will depend predominantly on infill development on smaller sites and in particular medium and high-density development in the middle and inner-city suburbs. It remains extremely difficult to achieve viable development in smaller infill sites due to market factors and Government policies, such as restrictive built form and density provisions, car parking provisions, high infrastructure charges, and long and costly development assessment processes.

The new State Government elected in March 2012 has made a number of important decisions to reinvigorate the property development sector, including:

- The introduction of a permanent $15,000 first home construction grant (to replace the $7,000 grant for new and existing homes);
- Amendments to the Sustainable Planning Act and planning regulations to reduce red tape and holding costs; and
- A commitment to reform in 2013 the developer infrastructure charging system which has been so problematic for so long.

BARRIERS TO SUPPLY

Industry welcomes these initiatives; however there remains plenty of work to do. Fundamental barriers to land and new housing supply in BSD remain. In 2011/12 these significant barriers included:

Access to Finance/Problematic Valuations:
Accessing developer finance, particularly for small and medium-sized developers remains a significant barrier, with high pre-sales requirements, low loan-to-value ratios and overly conservative valuations impacting on development activity.

Processing Times and Complexity: The holding period of land until approvals are achieved has blown out over the last decade. On a typical subdivision of a zoned area, an average time for approvals is two to three years. For unzoned areas timeframes are five to seven years. Positive steps were taken in 2012 to reduce the number and complexity of State planning instruments and to improve the efficiency of the approval process in general, however, their remains a lot of work to do.

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 the BSD. Developer infrastructure charges in particular have risen considerably over recent years. Despite some new legislation introduced in 2011, the delivery and charging system for infrastructure continues to fail on all counts of economic efficiency, equity, transparency and certainty. Productivity Commission research found that in 2009/10 Brisbane had the second highest average infrastructure charge nationally of $27,000 per greenfield lot in Australia. In a positive sign, the new State Government has promised an overhaul of the developer infrastructure charging system in 2013.

ADELAIDE

CURRENT MARKET AND LAND SUPPLY SITUATION

Residential land sales have continued to fall over the last few quarters in a steady trend reflecting the soft market. The volume of land sales for the 2011/12 year in the Adelaide metropolitan area is the lowest in several years. Lot production is at its lowest point in the Greater Adelaide region (comprising around 82.5% of the State's population) for ten years. A survey by UDIA SA of major developers in the State (providers of around 35-40% of new dwellings) shows a forecast delivery of around 3,300 lots within the next year which is a 12% decline on the previous six month survey. It is likely that most of the lots proposed to be brought to market are not yet committed to construction and will only be delivered if the market recovers.

At current consumption rates there is sufficient rezoned land for around 12 to 14 years of supply, but some of this is unavailable for development because of unresolved infrastructure, provision, coordination and funding issues. 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.

FUTURE PROSPECTS

The balance between supply and demand of land for development is tight. The continued increase in South Australia's population, albeit slower than most other Australian states, will result in additional demand for residential land. The provision of an adequate rolling stock of land would be achieved with the rezoning of land in the growth areas identified in The 30 Year Plan for Greater Adelaide and the provision of necessary core infrastructure in a variety of locations, both fringe and infill, already identified by developers.

In October 2012, the UDIA welcomed the State Government's decision to introduce an $8,500 Housing Construction Grant for all buyers of brand new homes, regardless of whether it is their first home until 30 June, 2013. This applies to properties up to the value of $400,000 and phases out for properties valued up to $450,000. The First Home Owners Grant (FHOG) also increased from $7,000 to $15,000 for new homes. There are stamp duty exemptions in place for purchases of off-the-plan apartments in the City and Riverbank Precincts until 30 June 2013.

The UDIA has also supported Government moves to rezone key areas of inner Adelaide (parts of the inner City and small areas along some major inner-suburban roads) in order to help open up new opportunities for infill development. While the extent of uplift conferred by the rezonings is generally modest, they are a valuable and important step towards opening up the land supply pipeline for infill and redevelopment projects.

Greater Adelaide Region Historical Lot Production

Period	Lots Produced	Median Lot Size (m²)	Median Price
2002/03	6,181	525	$90,513
2003/04	6,934	470	$116,453
2004/05	7,400	470	$138,317
2005/06	6,099	460	$148,610
2006/07	5,698	455	$148,034
2007/08	7,101	445	$170,447
2008/09	7,991	425	$190,000
2009/10	7,944	380	$179,427
2010/11	6,145	371	$182,613
2011/12	5,202	369	$170,438

Source: SA Department of Planning, Transport and Infrastructure

It is difficult to know at this stage whether these incentives will be adequate to counteract the current lack of market confidence and help stimulate the property sector. However, a modest recovery is expected to occur over the next one to two years.

In terms of analysing the contribution of infill development to land and housing supply, the difficulty to date has been poor data availability in relation to apartments and other medium-high density housing, as well as problems with translating vacant land into housing yields. The SA Department of Planning, Transport and Infrastructure intends to provide infill housing data following changes to data collection methods by the Valuer General's Office, which will enable such forms of housing to be better identified and recorded.

ISSUES/BARRIERS TO SUPPLY

Land supply is being constrained by a cautious market, the banks' tight lending policies, slow rezoning processes, 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.

The main constraint to infill and redevelopment continues to be conservative planning rules. This is resulting in developers currently experiencing difficulty in delivering market-acceptable product (location, design and price) with higher intensity sites and sites with multi-dwellings in infill areas. 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.

Several large parcels of fringe / greenfield land have been rezoned, with current zoned land representing around 12 to 14 years' supply (depending on the assumptions used for land consumption). While the industry is gaining some comfort from this land rezoning that has occurred in growth areas identified in the Government's 30 Year Plan for Greater Adelaide (authorised in February 2010), the current level of zoned supply remains less than the Government's adopted 15 year target. Further, 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 / greenfield sites – 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.

MELBOURNE

CURRENT MARKET AND LAND SUPPLY CONDITIONS

The Victorian land market has moved from chronic undersupply of land to a situation where demand-side issues are to the fore. Net overseas migration, the engine room of the 2009/10 boom, has moderated and the end of lavish FHOGs – which brought demand forward – has also dampened activity in Melbourne's growth areas. According to the National Land Survey Program, as at the September quarter 2012, there were 191 projects across Melbourne's growth areas, with 27% of these coming to an end, and 35% in the start-up phase.

Net lot sales per calendar month have fallen in Melbourne, from 1,236 during the 2009/10 boom to an average of 632 since December 2010 to the September quarter 2012. This is below the pre-boom average of 888 sales per calendar month. The stock overhang was around 4,895 in the September quarter 2012, which is up from a little under 1,100 in the June quarter 2010.

Official Victorian government data is only available up to the calendar year 2010. In that year there were 163,776 lots available, with 93,004 of them zoned (that is, with a Precinct Structure Plan). During the height of the recent boom, in 2010/11, 15,328 lots were constructed. At the same time as supply grew, prices continued to rise (to be at $221,900 in June 2011) but at the same time, average lot sizes fell to 502 square metres.

As well as slowing immigration and the end of grants, the drop in demand has been driven by a steep decline in affordability. In the September quarter 2012, only 41% of lots on the market were priced at under $200,000, the general benchmark level at which it is affordable for first home buyers to enter the market. By contrast, in June 2008, over 90% of lots were under $200,000.

Until 30 June 2012, the maximum FHOG were: $7,000 for established homes; $20,000 for new homes in metropolitan areas; $26,500 for new homes in rural areas. Reduced stamp duty of 50% is being phased in over four years, with a 20% reduction applying since 1 July 2011, then a further 10% from 1 January 2013, 1 January 2014 and 1 September 2014. From July 2012, only $7,000 is available for first home owners as a grant (in addition to the stamp duty concession).

Developers have faced an addition of around $50,000 to the cost of a new residential lot since the peak of the 2009/10 boom. The Growth Areas Infrastructure Contribution (GAIC) (ranging from $84,960 to $100,890 per hectare depending on the location of the land), much higher local government developer contributions, biodiversity offsets, native vegetation offsets and increased creek corridors, bushfire overlay costs, higher new customer contributions for water, higher telecommunications costs and the impact of the carbon tax have all increased the cost of providing land to the market.

Melbourne Historical Lot Production

Period	Lots Produced	Average Lot Size (m^2)	Median Price
2002/03	20,004	598	$90,000
2003/04	16,836	594	$118,000
2004/05	12,643	592	$135,000
2005/06	11,976	555	$137,000
2006/07	9,651	558	$130,000
2007/08	6,090	550	$132,000
2008/09	10,456	538	$160,000
2009/10	12,015	520	$165,000
2010/11	15,328	506	$196,000
2011/12		502	$221,900

Sources: 2002/03 – 2005/06 Urban Development Program, Valuer General (Vacant House Blocks); 2006/07 – 2011/12 Research 4

In 2012 the government began the planning work for the expanded Urban Growth Boundary (UGB) with the release of the high-level Corridor Plans (which provide planning guidance for the next 30 to 40 years of growth) and added nearly 600 hectares to the UGB through the "logical inclusions" review. Six new communities were announced through the approval of Precinct Structure Plans at Diggers Rest, Lockerbie, Lockerbie North, Manor Lakes, Merrifield West and Rockbank North. These new suburbs comprise almost 35,000 lots, accommodating more than 100,000 people over the next 30 to 40 years.

FUTURE PROSPECTS FOR LAND SUPPLY

The increase in land supply over the last two years means that when demand does pick up, the Victorian land market will not be caught out as it was in 2008-09, when a shortage of supply led to a marked increase in prices. While the land has been zoned for development, much of it is many years away from being serviced and "development-ready".

However, despite lower population growth, large increases in land supply and a market at below-normal levels of activity, housing affordability remains poor (relative to the past) in Melbourne. While the government is acting to speed up the planning system and is working on a new system for local developer contributions, these will take time to influence the underlying cost of lot production.

ISSUES/BARRIERS TO SUPPLY

High Taxes and Charges on New Homes: The cumulative impact of recent cost imposts on the development industry should be reviewed and the GAIC and "developer contributions" reformed so that, combined, they are no more than $10,000 per lot in Growth Areas.

Removal of First Home Owner Assistance:
The withdrawal of first home owner assistance coincides with historically low levels of activity in Melbourne's greenfields land market. Re-establishment of these grants would serve to make land more affordable for first home buyers.

Slow Delivery of Serviced Land in Growth Areas:
Structure planning only starts the process. Authorities, such as local government, the water businesses and VicRoads, need to work more closely with developers to ensure land with a structure plan can be developed quickly.

Unresponsive Planning System: Comprehensive planning system reform needs to be undertaken through implementation of the findings of the Underwood Review. Long wait times at the Victorian Civil and Administrative Tribunal need to be reduced to less than three months, and the Department of Planning and Community Development should re-establish a development facilitation unit for major developments and establish a "front door" for the development industry within DPCD and a Housing Affordability Commission should be established.

Lack of Coordination between Growth Area Planning, Infrastructure Planning and the Budget:
The government should ensure timely building of train stations on the Regional Rail Link, and expedite VicRoads projects and services from servicing authorities. A commitment needs to be made to infrastructure projects close to high population growth areas to promote confidence and employment. In the May budget, the government should establish a programme of infrastructure works that meets demographic projections.

Urban Consolidation: The government should implement code assessable infill development to allow reasonable development on infill land and lift zone restrictions. Local governments should be required to prepare plans within six months showing how they will cater for growth in the next five years, adopt the plans into the planning scheme then allow development under the scheme as-of-right. Where councils fail to do so, the state should nominate the areas.

PERTH

CURRENT MARKET AND LAND SUPPLY CONDITIONS

The established property market in Perth is slowly recovering with demand for housing loans strengthening, prices stabilising and the number of listings falling steadily since 2010. Loan demand by upgraders has gradually increased towards the end of 2012 and reached a 32 month high in the September quarter. Mortgage figures indicate that housing loans for the construction and purchase of new dwellings have increased for the fifth consecutive month to September.

Throughout 2012 increased loan activity has been principally driven by first home buyer demand both for existing housing stock and increasingly for new homes.

Perth and Peel Historical Lot Production

Period	Lots Produced*	Median Lot Size (m²)**	Median Price^
2002/03	12,959	525	$94,500
2003/04	15,054	470	$111,500
2004/05	15,351	470	$130,000
2005/06	16,296	460	$165,000
2006/07	15,165	455	$235,000
2007/08	13,138	445	$243,000
2008/09	9,263	425	$215,000
2009/10	8,371	380	$218,000
2010/11	10,730	371	$222,000
2011/12	9,598	369	$225,000

**Perth Metropolitan Region and Peel Sector Residential Final Lot Approvals (Source: State Lot Activity, WAPC)*

***Perth Metropolitan Region and Peel Sector Estimated Median Lot Price (Source: State Lot Activity, WAPC)*

^Western Australia Median Land Price (Source: Landgate)

There are tentative signs that investors are returning, however, with little capital growth investor activity is well below long-term averages.

Land supply conditions are a growing concern given a continuing lift in sales while lots on the market continue to fall. Data from UDIA (WA)'s Urban Development Index (UDI) indicate a 95% increase in lots sold and a 35% decrease in the number of lots on the market over the last 12 months (from 2,500 in Q3 2011 to 1,650 in Q3 2012). After falling for the last two years, the number of lots under construction for release in the next 12 months in Q3 2012 is 20% higher than 12 months earlier. However, analysts predict there could be pressure on serviced lots if demand increases as construction companies have shed workers and equipment and will be unable to respond sufficiently. When coupled with ongoing delays in infrastructure provision and an unresponsive approvals process, land supply could be jeopardised.

Compared to long-run trends, the number of lots produced remains subdued and is below the ten-year average. Despite a healthy rebound in lot activity during 2010/11 when final lot approvals increased 28.2% to 10,730, lot production has declined 11% over the 2011/12 financial year to a total of 9,598 lots. This suggests that developers are sceptical that the upturn has been strong enough to justify higher lot production. Landgate data indicate the median price per lot in metropolitan Perth in 2011/12 has remained flat at $225,000 ($222,000 in 2010/11). There has been little change in the median lot size over 2011/12 and it now sits at 430 square metres.

FUTURE PROSPECTS FOR LAND SUPPLY

The government's Urban Development Program – Perth & Peel Development Outlook 2011/12 (WAPC, August 2012), reports that existing stocks of zoned land in Perth and Peel are adequate to meet demand for between 22 and 44 years depending whether it is business as usual development (22 years) or if the increased densities of the Directions 2031 planning framework are achieved (44 years).

There has been a steady decline in number of lots produced per annum since the peak of 2005/06 and with continued restrictions on access to finance, the industry is providing lots for immediate demand rather than adding to stock numbers. Industry is fearful that it might not be able to respond to sudden increased demand. In the 12 months to the end of March this year Western Australia's population grew at 3.1% for the period, a significantly faster rate than national rate of 1.5%.

According to the National Housing Supply Council, Western Australia had a deficit of 32,000 dwellings in 2011 and recent analysis by ANZ concludes the state is likely to have a deficit of 90,000 dwellings by the middle of this decade. The consequences of undersupply are evident: Perth's median rent increased 10.5% to $450 per week in the year to September quarter 2012 with a vacancy rate of just 1.9%. UDIA data indicate the number of lots expected to be constructed and available for sale over the next 12 months is up 21% on 30 September 2011 survey result with 4,602 lots to be released in Perth and Peel over the next 12 months. However, over the shorter-term, lot construction expectations are steady with the number of lots under construction and expected to be available for sale over the next six months (2,837 lots) unchanged over the previous quarter and are significantly below pre-GFC levels.

ISSUES/BARRIERS TO SUPPLY

The planning approvals system is yet to demonstrate improved efficiencies and reduced timeframes to respond quickly to increased demand. Problems with securing finance and infrastructure provision persist and supply is being threatened by a shortage of labour and construction equipment re-allocated to mining projects.

The planning reform agenda initiated in 2009 still has projects that are yet to be completed or remain partially completed and there has been little improvement in approval timeframes. The revised Structure Plan Guidelines cannot be fully functional until the General Provisions for Local Planning scheme Regulations are completed.

Similarly, the Sub-Regional Strategies of Directions 2031 are embedded in the strategic assessment of Matters of National Environmental Significance for the Swan Coastal Plain, an extensive undertaking that covers the entire area of Directions 2031, some 100,000ha. Structure plans continue to be assessed by WAPC and local authorities sequentially rather than concurrently resulting in protracted approval timeframes.

Other ongoing barriers include:

Sand Supply and Lot Classification: There has been no progress made on sand supply since the 2011 State of the Land Report. With some basic raw materials (including sand) in critical supply it is becoming increasingly costly to develop A Class lots and lots created in developing areas will require more and more fill to achieve an A Class classification. This will potentially cost in excess of $30,000 per lot for upgrading land from S Class to A Class.

Alternate Water Delivery: Current practices impede the ability for new water providers to enter the market in Western Australia. There is a need to remove the requirement for the water provider to be identified at re-zoning which is often years ahead of delivery. The delay to the re-zoning of over 3,000 lots due to the protracted approvals process for the East Rockingham Waste Water Treatment Plant highlights the problems with identifying the waste water treatment provider at rezoning.

Lack of Coordinated Infrastructure Planning and Under Investment: The Infrastructure Coordinating Committee appears to be failing the required leadership and strategic approach to the coordination of land and infrastructure planning and delivery.

About UDIA

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

UDIA represents more than 4,000 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 five state offices around Australia and has recently established a National Office in Canberra.

For further information about UDIA and our activities please contact:

UDIA National

T – 02 6230 0255
W – www.udia.com.au

UDIA New South Wales

T – 02 9262 1214
W – www.udia-nsw.com.au

UDIA Queensland

T – 07 3229 1589
W – www.udiaqld.com.au

UDIA South Australia

T – 08 8359 3000
W – www.udiasa.com.au

UDIA Victoria

T – 03 9832 9600
W – www.udiavic.com.au

UDIA Western Australia

T – 08 9321 1101
W – www.udiawa.com.au

UDIA Northern Territory

T – 08 8943 9977
W – www.udiant.com.au

UDIA National Congress

W – www.udiacongress.com.au