



# **THE 2014 UDIA STATE OF THE LAND REPORT**

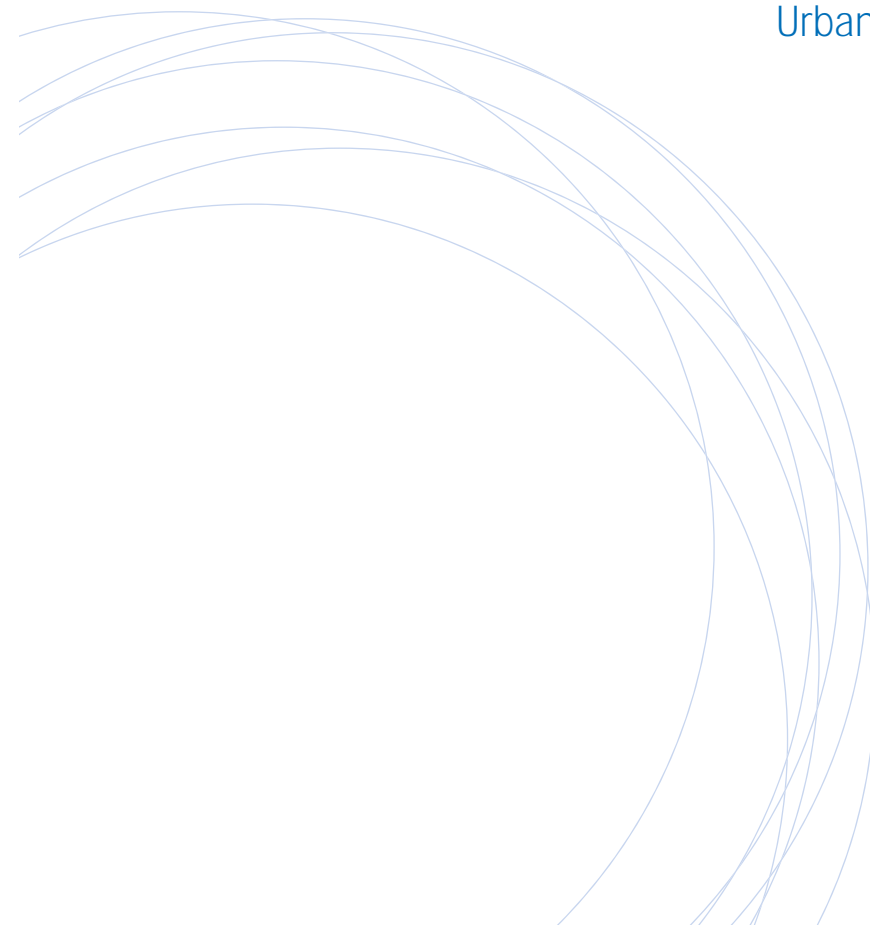
Urban Development Institute of Australia  
National Land Supply Study





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*“There is currently a national housing problem in Australia. It might not be on the front-pages, it might not be the hot media topic of the day, but, as you well know, we’ve got a problem.*

*Put simply, as a nation we do not build enough private dwellings for our growing population...*

*The impacts of the housing shortfall are real. They affect people’s lives; by delaying family formation, due to lack of suitable housing; by making peoples livelihoods uncertain and insecure. The number of people experiencing housing stress is increasing.*

*Promoting housing growth has advantages beyond the obvious social and financial benefits for individuals. At a time when natural growth has slowed, and unemployment is rising, renewed construction development is a worthwhile antidote.*

*Housing construction represents 4.8 per cent of GDP and amounts to 0.7 per cent of national employment, 82,000 people are employed in the residential building construction sector – this part of our economic activity has diminished in recent years and we need to find a way to turn this trend around.”*

**Kevin Andrews**  
*Minister for Social Services*  
1 November 2013

INTRODUCTION

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

This is the sixth edition of the annual State of the Land report prepared by the Urban Development Institute of Australia. The report examines current trends in the supply, price and size of residential lots in Australia’s five largest cities, and provides recommendations for improvement.

Since the last State of the Land report, we have witnessed a modest upswing in the development industry after several years of poor market conditions and weak demand in many states. Sentiment and sales activity have been relatively strong in Perth and Sydney, with conditions now improving in Brisbane, however Adelaide continues to suffer from a soft market.

Lot prices have remained stable or fallen slightly in recent years, however the price of land on a per square metre basis has continued to rise as a result of declining lot sizes. This suggests that current lot prices may be close to the absolute upper limit of what new home buyers are able to afford.

Lot supply continues to be constrained in most jurisdictions by high charges levied on new developments, untimely and inadequate provision of major infrastructure works by state governments, and delays and uncertainty in the rezoning, planning and approvals processes.

Out of the cities examined, Sydney experienced the largest turnaround in performance over the year, registering a significant increase in the number of lots delivered to what has long been a critically undersupplied market. Sydney still suffers from the country’s highest infrastructure charges, an arcane planning system and high land costs. At the other end of the scale, over the year Perth saw the greatest deterioration in performance, with worsening performance on taxation, infrastructure provision and infill.

FAST FACTS

- The average median new lot size in Australia’s five largest capital cities is now 423 square metres (1/10th of an acre), down 8% over the year and down 29% on 10 years earlier.
- The greatest fall in median lot size over 2012/13 occurred in Sydney, which fell by 80 square metres from 510 square metres to 430 square metres, a 16% drop.
- The average median new lot price in Australia’s five largest capitals is now \$213,000, down 5% over the year, and up 78% over the last 10 years.
- The largest change in lot price over 2012/13 was in Sydney, where the median price fell by \$34,000 from \$281,500 to \$247,500, a fall of 12%. Sydney still has the highest median lot price of any capital city in Australia.
- The average median price of land paid by new home buyers across Australia’s five largest capitals is now \$504 per square metre, up 3% over the year and up 148% over the last 10 years.
- The largest change in land price was in Brisbane, which increased by \$55 from \$419 to \$475 per square metre, an increase of 13%.
- The average number of lots produced across Australia’s five largest capitals over 2012/13 was 8,182, down 3% on the previous year, and down 21% compared to 10 years earlier.
- The largest change in lot production over 2012/13 was in Melbourne, which fell by 4631 lots, a fall of 26%.

OVERVIEW

LOT PRODUCTION

After a number of years of declining lot production across most cities, the trend more recently has been mixed. Lot production in Sydney, Perth and Melbourne has increased over the last few years, whilst lot production in Adelaide and Brisbane has continued to decline.

Whilst improving in recent years, Sydney continues to produce far too few lots for a city of its size and population growth, and remains chronically undersupplied after over a decade of extremely low lot production. Melbourne recorded a fall in lot production in excess of 25% over the year, although this was from a relatively high level, and the market remains well supplied. Perth's lot production increased in response to improving market conditions and strong population growth, and is currently above the ten year average.

Adelaide and Brisbane have seen a continuation of recent downward trends, with lot production in both cities now at decade lows. Market conditions have recently been soft in both cities, however there are signs that sentiment is improving, and lot production may increase over the next twelve months. Both cities suffer from localised land shortages, and risk being unable to cope with additional demand for lots in these localised areas when the market improves.

LOT SIZE

The trend of declining lot sizes highlighted in previous State of the Land reports has continued through 2012/13, with lot sizes falling in all the cities examined. Sizes are declining as a result of the limited supply and high cost of land, and are also likely a response to affordability constraints felt by new home buyers.

Perth and Adelaide both registered the smallest declines in median lot size, and have essentially remained stable for the last two to three years. They also have the smallest median lots of the five major capitals, confirming the market's ability to efficiently utilise growth lands, but also suggesting there may be resistance in the market to accept further reductions in lot size.

Sydney and Brisbane experienced large falls in median lot size, with each falling by 16% and 12% respectively. The average size of a block of land across Australia's five largest capitals is now 423m<sup>2</sup>, down 8% over the year, and down by 29% compared to a decade ago.

LOT PRICE

After a long period of rapidly escalating lot prices in most cities, prices in recent years have been largely stable. This is likely the result of a combination of factors, including falling lot sizes reducing the cost of producing new lots, higher levels of lot supply in some cities, and the simple inability of new home buyers to afford lot prices higher than current levels.

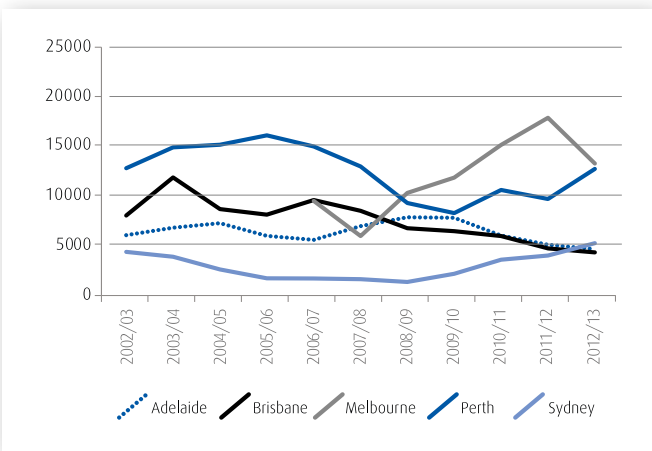
Lot prices in Adelaide, Brisbane and Perth were almost completely unchanged over the year, whilst Melbourne and Sydney experienced moderate falls in median lot prices. Despite falling by 12% over the year, lot prices in Sydney are still the highest of any city in Australia by a large margin as a result of chronic undersupply. Prices in Melbourne fell by 9% over the year, most likely as a result of high levels of lot production the previous year.

LAND PRICE

Unlike moderating lot prices, the price of land on a per square metre basis continues to rise rapidly across most cities. This illustrates that although lot prices are largely stable, new home buyers are getting increasingly worse value for money as a result of falling lot sizes.

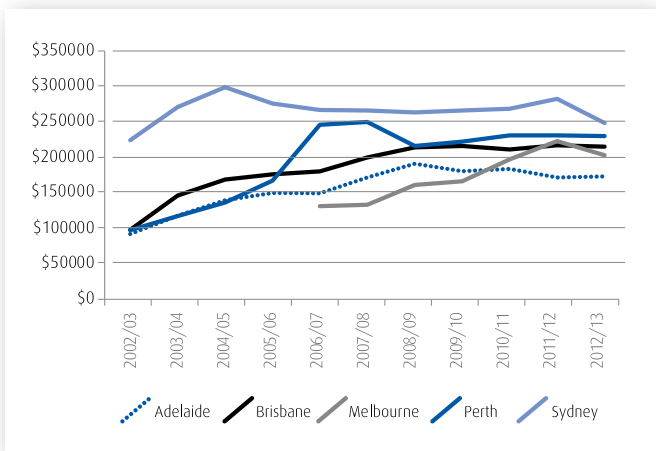
Melbourne was the only capital where the price of land declined over the year, falling by a mere 3% after jumping by 55% over the previous two years. The price of land across the five major capitals on average increased by 3% over the year, and was up an incredible 148% over the last ten years. This shows that both state and federal governments are still failing when it comes to ensuring a sufficient supply of land is available for new housing. Action is desperately needed at both the state and federal level to increase the supply of urban land and provide buyers with better value for money.

Lot Production (lots)



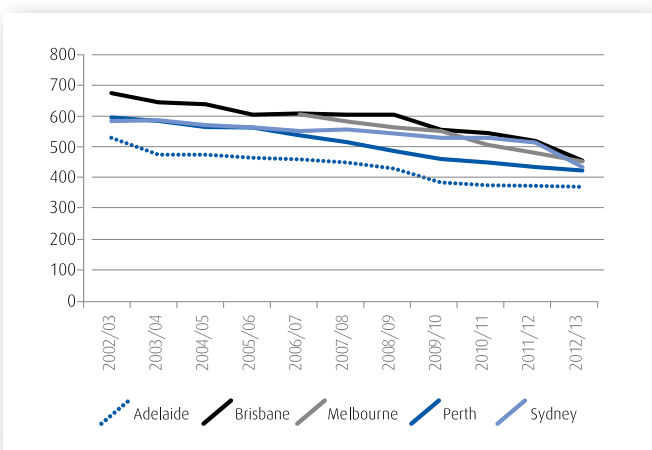
Source: UDIA, Melbourne data prior to 06/07 not available

Lot Price (\$)



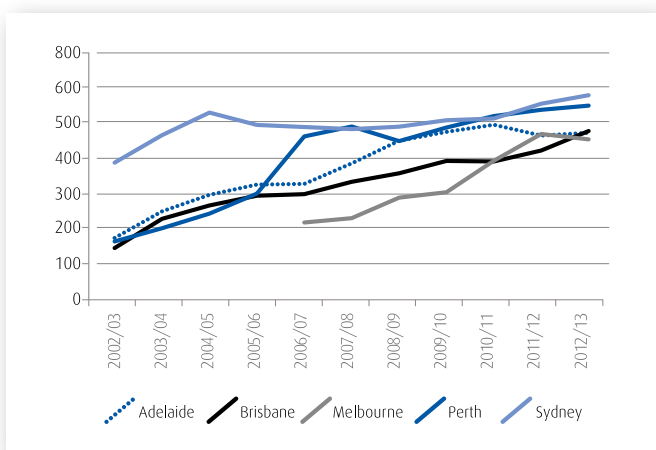
Source: UDIA, Melbourne data prior to 06/07 not available

Lot Size (m<sup>2</sup>)



Source: UDIA, Melbourne data prior to 06/07 not available

Land Price (\$ per m<sup>2</sup>)



Source: UDIA, Melbourne data prior to 06/07 not available



CITY PERFORMANCE SUMMARY

Criteria	Sydney	Adelaide	Brisbane	Melbourne	Perth
Planning and approvals	↓	↑	↑	↓	↓↓
Infrastructure provision	↑	↑	→	→	↓
Taxes and charges	↓	↑	↑	→	↓
Infill performance	↑	↑↑	↑	→	↓
Lot supply	↑	→	→	↑	↑
Affordability	→	→	↑	↑	↑

KEY:

Greatly Improved	Slightly Improved	Unchanged	Slightly Deteriorated	Greatly Deteriorated
↑↑	↑	→	↓	↓↓

ADELAIDE — IMPROVED SUPPLY, UNCERTAIN DEMAND

Considerable progress has been made in Adelaide during 2013, with stamp duty exemptions and housing construction grants available for some new developments, introduction of private certification for code compliant applications, structure plans finalised for major growth areas and extensive rezonings for both greenfields and infill development. The land market remains fairly balanced in supply, with stable prices ensuring ongoing affordability for purchasers. While infrastructure agreements are now in place for most growth areas, the implementation of those agreements to deliver adequate, timely and cost-effective infrastructure remains a major challenge.

BRISBANE — ISSUES ON THE HORIZON

Brisbane saw improved performance in its planning processes over the year, with the State Government introducing a simplified single State Planning Policy (replacing 14 complex and inconsistent policies), creating a single State assessment and referral agency (SARA) for all development application, and declaring a significant number of Priority Development Areas where fast tracked planning and assessment processes apply.

However the greater Brisbane area still struggles with an underlying undersupply of serviced lots, and risks being unable to respond adequately to changes in market demand.

MELBOURNE — IMPROVING AFFORDABILITY

Melbourne has been a good performer on lot supply in recent years, and despite a considerable reduction in the number of lots produced over the past year, the market remains well supplied and affordability is improving. A very slow approvals and rezoning process continues to be a major barrier to development in Melbourne.

PERTH — TAKING A TURN FOR THE WORSE

Perth performed well on affordability and lot supply, with affordability increasing as a result of stable land prices and income growth, and lot production above historical averages. Unfortunately increasing delays in the planning approvals system, rising land taxes and subdivision application fees, and worsening performance on infill and infrastructure provision is putting Perth on the path to poorer performance.

SYDNEY — CRITICAL NEED FOR REFORM

Sydney is recovering from the depths of underperformance over the last decade. While lot production is increasing and lots are getting cheaper, the city is only developing the same quantum of land as in previous years. Without the take up of small lot production the recovery would not exist. The much awaited structural reforms that would free up more land have not materialised – planning reforms have stalled and worryingly a new legislative strategy for strata reform has been adopted. Sydney has seen increases in infrastructure provision but without much needed policy reforms the recovery could be short lived

RECOMMENDATIONS

It is important to note that easing lot prices are not a sign that problems with the supply of new residential lots have been resolved. Rather, it has more often been the case that low confidence and poor market conditions have simply disguised these underlying problems in recent years through reduced effective demand. High charges levied on new developments, untimely and inadequate provision of major infrastructure works by state governments, and delays and uncertainty in the rezoning, planning and approvals processes are still major factors constraining the supply of new lots in most capital cities.

There is a severe risk that as market conditions improve in the coming months and years, the supply of new lots will fail to keep up with the large increase in demand, and households and businesses will suffer as a result.

The Urban Development Institute of Australia makes the following recommendations to reduce the barriers to residential lot production in Australia’s major capitals.

- **The Federal Government must take greater action to address the shortage of housing in Australia’s major cities.** Ensuring a sufficient supply of urban land and housing in Australia’s major cities is a matter of national importance. Our current critical shortage of land and housing is putting households through undue financial and social hardship, limiting jobs growth and damaging productivity. The Federal Government must keep its promise to take action to improve land and housing supply, and not simply defer this responsibility to State Governments.  
**The Federal Government must:**
  - *Provide additional funding for investment in new urban infrastructure, in order to unlock land.* A lot of land zoned for development is effectively undevelopable due to non-existent or insufficient trunk infrastructure such as roads, and utilities. The Federal Government should provide additional funding from existing and new sources to unlock this land.
  - *Audit Commonwealth land holdings to identify surplus land, and where suitable, make it available for new housing development.* Many Commonwealth sites such as military instalments and CSIRO facilities are underutilised or surplus to requirements. They are typically located in prime major city locations, and should be audited to determine if they can be better used for new housing.
  - *Assist State Governments with removing stamp duty on property and replacing it with more efficient forms of taxation.* In addition to making new housing more expensive, stamp duties are economically inefficient, damaging for productivity, and unreliable as a source of tax revenue. The Federal Government should assist state governments to phase out stamp duty in favour of more efficient taxes, such as a broadening of the GST.

- **State and local governments must reform their planning systems and reduce taxes on new housing. They must:**

- *Undertake major planning system reform, to increase the supply of urban land and reduce delays and uncertainty associated with zoning, planning and approvals processes.*

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

- *Reduce up front charges and levies on new housing by favouring the recovery of costs over long time frames, rather than up front.*

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

ADELAIDE

CURRENT MARKET AND LAND SUPPLY SITUATION

The volume of land sales for the 2011/12 year in the Adelaide metropolitan area was the lowest in several years. In 2012/13 there was a modest increase in sales of just over 15%.

Lot production in the Greater Adelaide region (comprising around 82.5% of the State's population) is at its lowest point for ten years. Data provided by the Department of Planning Transport & Infrastructure (DPTI) shows that lots produced declined by 8.5% to 4761 in 2012/13.

There are some signs that lot production will increase in the next 12 months. This extends the optimism shown with DPTI's figures for proposed lots within subdivision plans across the State increasing by 33% to 10,749 in 2012/13 from a 10 year low in 2011/12. This is supported by the UDIA SA survey which shows an increase in lots intended to be brought to the market in the next 1-2 years compared to the last survey.

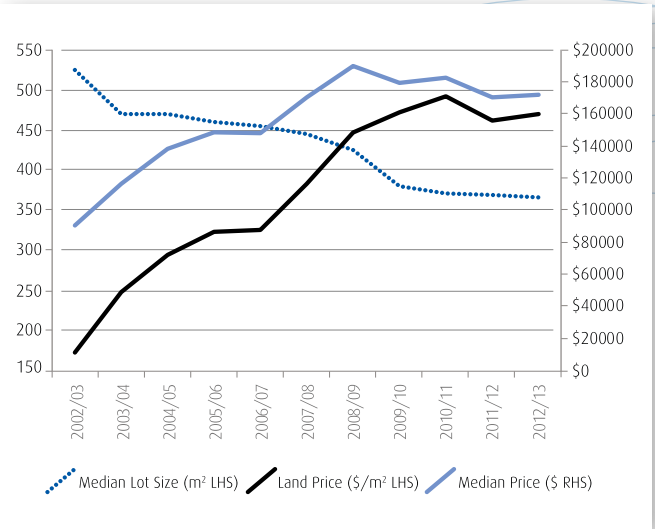
The last year saw very significant progress in structure planning, rezoning and infrastructure agreements for fringe release areas. By early 2014, land at Two Wells, Playford Extension, Virginia and Angle Vale had been rezoned, comprising the vast majority of the land required for Adelaide's urban expansion over the next 30 years. While challenges remain in bringing this land to market, the certainty provided by zoning gives the industry a good platform upon which to build as the market demands.

At current consumption rates there is more than sufficient rezoned land to meet the industry's target (and the Government's policy) of 15 years of supply. However much of this is unavailable for development because of unresolved infrastructure, provision, coordination and funding issues. While the overall land supply outlook is positive, there is a shortage of land supply (zoned and identified) in Adelaide's much sought-after southern suburbs that will hamper development when market conditions become more favourable. The trend toward smaller lot sizes in all projects continues.

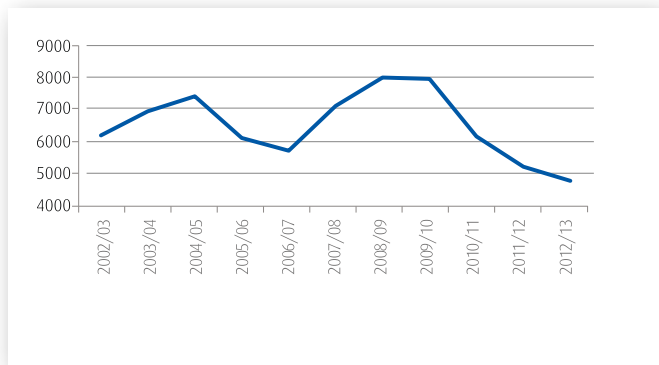
GREATER ADELAIDE REGION HISTORICAL LOT PRODUCTION

Period	Lots Produced	Median Lot Size (m²)	Median Price	\$ per m²
2002/03	6,181	525	\$90,513	\$172
2003/04	6,934	470	\$116,453	\$248
2004/05	7,400	470	\$138,317	\$294
2005/06	6,099	460	\$148,610	\$323
2006/07	5,698	455	\$148,034	\$325
2007/08	7,101	445	\$170,447	\$383
2008/09	7,991	425	\$190,000	\$447
2009/10	7,944	380	\$179,427	\$472
2010/11	6,145	371	\$182,613	\$492
2011/12	5,202	369	\$170,438	\$462
2012/13	4,761	366	\$172,000	\$470

SNAP SHOT – ADELAIDE



Lots Produced



Over the past 12 months there has been significant progress on structure plans, investigation and rezoning for key infill areas in Greater Adelaide. Two of the most noteworthy initiatives are the Capital City Development Plan Amendment (DPA) and the Inner Metropolitan Growth DPA's.

The Capital City DPA unlocks the development potential of the Central Business District by supporting greater building heights and activating the city's squares and main streets. The DPA is expected to increase the population capacity of the city centre over the next 30 years to as many as 60,000 people, and increase the potential number of dwellings to as many as 33,000. The DPA also introduces catalyst sites as a key development incentive (greater density is allowed for amalgamated sites).

The Inner Metropolitan Growth DPA's have rezoned strategic corridors adjacent to the City of Adelaide to help achieve the objectives and infill targets of The 30 Year Plan for Greater Adelaide. An initiative of the State Government and four inner Councils, it is estimated that these policy changes could yield up to 8700 additional dwellings by 2038. The Government has accompanied these rezonings with stamp duty concessions and development assessment improvements, adding appreciably to the prospects of success.

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

FUTURE PROSPECTS

The market in all segments is currently soft. Caution abounds in all aspects of consumer spending patterns; although very recently there have been signs of growing confidence and modest market recovery. Irrespective of market conditions our experience tells us that we need 15 year's supply of residentially zoned land in a variety of locations to meet the demand over a period of time. Otherwise the cost of land will sky-rocket when market demand rises. With the exception of southern Adelaide, current stocks are more than adequate to meet this challenge.

The continued increase in South Australia's population, albeit slower than most other Australian states, will result in additional demand for residential land. While an adequate rolling stock of zoned land has been achieved with the rezoning of land in the growth areas identified in The 30 Year Plan for Greater Adelaide, the provision of necessary core infrastructure in a variety of locations, both fringe and infill, will be a challenge.

In October 2012, UDIA SA 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) is set at \$15,000 for new homes. There are stamp duty exemptions in place for purchases of off-the-plan apartments in the City and in the suburbs in a 5 kilometre ring around the city until 30 June 2016.

These incentives have helped counteract the current lack of market confidence and resulted in some stimulation of the property sector. This has resulted in a modest recovery in land sales and a strong response to higher density products in the City.

ISSUES/BARRIERS TO SUPPLY

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

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

Strong progress has also been made in regard to fringe growth, with structure planning, rezoning and infrastructure agreements for the Playford Growth Area (Northern Adelaide) now completed. Current zoned land now represents well in excess of 15 years' supply (depending on the assumptions used for land consumption). However, zoned land is sometimes unavailable for development because developers are experiencing much difficulty in negotiating arrangements for provision of core infrastructure — roads, potable water and stormwater, sewer, telecommunications, open spaces — as well as 'soft infrastructure' (and accompanying legal documentation) that is being increasingly sought by local councils.

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

The increasing cost of infrastructure borne by home buyers on the fringe — via charges on land development projects — is slowing 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.



BRISBANE

CURRENT MARKET AND LAND SUPPLY SITUATION

Whilst there is growing evidence of a significant improvement in land market activity in late 2013, residential lot production in the Brisbane Statistical Division (BSD) was at its lowest level in over a decade according to official statistics for the year to June 2013. Lot production of 4,440 in 2012/13 is down 8.2% on 2011/12 levels and 49% below pre global financial crisis (GFC) levels. Lot production appears to have turned the corner however with a significant pick up in the final quarter of 2012/13 and preliminary unpublished data suggesting further improvement in Sep-13. Underlying demand for new housing is low by historical standards. Net interstate migration to Queensland in 2012/13 was 9,460 — 50% above the cyclical low of 2009/10, but still less than half the historical average.

Despite underlying demand for new homes in 2012/13 being just 39,070 (up from 38,587 in 2011/12 but well below the decade average of 45,000), the Queensland market remained undersupplied with only 29,343 dwellings commenced — up just 3.7% on the decade low experienced in 2011/12.

Effective demand for land, and in turn new homes, remained depressed in 2012/13 due to a number of factors including:

- Tight lending covenants by the major banks with Loan-To-Valuation levels below that required traditionally.
- Low consumer and investor confidence exacerbated by political uncertainty and rising unemployment;
- 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, 2012/13 saw a continuation of subdued sales rates. On balance, conditions were slightly improved compared to 2011/12 with less aggressive price discounting and fewer incentives on offer.

In a positive sign, however, sales rates increased strongly in the Jun-13 quarter with preliminary unpublished data suggesting further improvement in Sep-13.

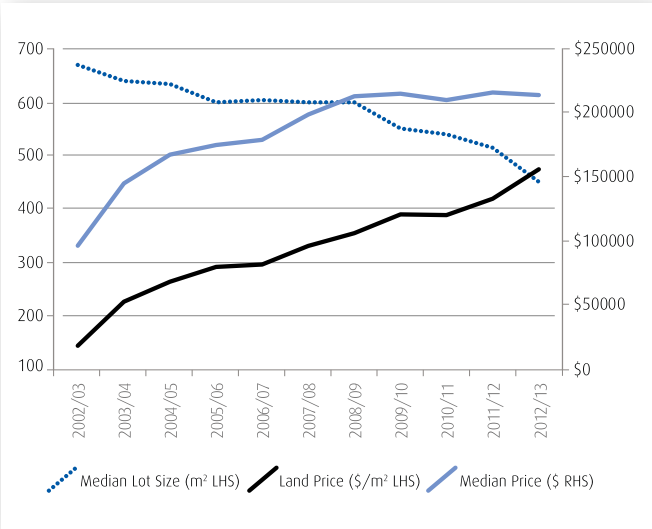
Within BSD, Moreton Bay Regional Council area has the highest concentration of current projects and in turn the greatest number of sales, with considerable activity at North Lakes and Griffin. The next most active Local Government Area (LGA) in BSD was Ipswich with sales concentrated at Springfield Lakes.

BRISBANE STATISTICAL DIVISION HISTORICAL LOT PRODUCTION

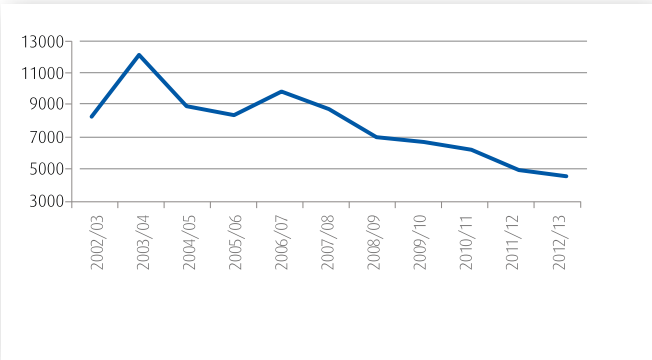
Period	Lots Produced	Median Lot Size (m²)	Median Price	\$ per m²
2002/03	8,168	670	\$96,500	\$144
2003/04	12,032	640	\$145,000	\$227
2004/05	8,821	634	\$167,500	\$264
2005/06	8,261	600	\$175,000	\$292
2006/07	9,738	604	\$179,000	\$296
2007/08	8,645	600	\$198,750	\$331
2008/09	6,886	600	\$213,000	\$355
2009/10	6,584	551	\$215,000	\$390
2010/11	6,097	540	\$210,000	\$389
2011/12	4,834	515	\$216,000	\$419
2012/13	4,440	451	\$214,000	\$475

Source: Queensland Treasury

SNAP SHOT – BRISBANE



Lots Produced



FUTURE PROSPECTS

Queensland Treasury data indicates that as at 31 March 2013 there was approximately 27,830 hectares of broadacre land (parcels greater than 0.25ha) identified as suitable, potentially available and serviceable for future residential development. Whilst this is a sufficient supply for the medium-term in BSD, there will be challenges in attracting people to the locations where the land is available.

The State Government is currently undertaking a review of the statutory South East Queensland Regional Plan (SEQRP). The planning horizon for the new SEQRP will be to 2041 and the review has highlighted that there is insufficient land in the existing statutory urban footprint to accommodate long-term growth in the region.

On paper there appears to be sufficient land available for the medium term. However, due to long lead times, planning constraints and other barriers (see below), land supply and housing will continue to be insufficiently responsive to sudden changes in demand, with serious implications for availability and affordability of housing.

Presently, of all the LGAs in the BSD, Moreton Bay Regional Council has the greatest number of active projects (more than 40%). 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. Redlands is chronically under-supplied.

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 provisions, minimum car parking requirements, and long and costly development assessment processes.

The State Government has continued to roll out planning reform and red tape reductions with important decisions to reinvigorate the property development sector, including:

- The introduction of a new simplified and balanced single State Planning Policy to replace 14 existing complex policies.
- The creation of a Single Assessment and Referral Agency (SARA), making the Department of State Development, Infrastructure and Planning the single lodgement point for all development applications triggering State interests. Developers will no longer need to juggle proposals through multiple state agencies or manage the conflicts between agencies.
- Review of the infrastructure charging framework to deliver greater certainty and fairer local government charges for trunk infrastructure.
- A commitment to repeal the inefficient and ineffective Sustainable Planning Act (2009) and introduce brand new planning legislation into the Queensland Parliament by mid-2014.

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 2012/13 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 continuing to impacting on development activity.

- **Local Government Culture and Processes:** 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 2013 by the State Government to deliver a more efficient and effective system yet improvements will not occur unless these reforms are matched by reforms and cultural change at the local government level. There is a clear need for a change in attitude and reform to planning and development assessment processes at the local government level so that land and housing can be brought to market in a timely way at affordable price points. Mechanisms other than relying on rezoning by local government need strengthening to help bring land to market.
- **Planning and environment constraints:** Significant amounts of land zoned urban or identified for future urban uses remains effectively sterilised or not feasible to develop due to a multitude of constraints ranging from vegetation management requirements, environmental offsets, stormwater quality controls and other onerous conditions of development.
- **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. The State Taxation system needs reform to ensure that over time we move to a system that relies more heavily on broad-based efficient taxes where concessions and exemptions are targeted at encouraging the production of new housing stock and job creation.

MELBOURNE

MARKET AND LAND SUPPLY CONDITIONS

The past year has proven a turnaround in the property market with net lot sales and the median house prices going up from the slump of 2011 and 2012. Median price for land has however declined.

The median land price is now \$202,000, down from the previous financial year. The median house price is now at almost \$600,000, up from approximately \$520,000 for 2012.

For the year ended 30 June 2012, Australia's population reached 22,683,573 persons. This represented a growth of 359,640 or 1.6%. In terms of absolute numbers, Victoria recorded the largest growth (88,966 persons). Greater Perth was the fastest growing state capital, increasing by 3.6%, or 65,434 persons. However, the volume of growth was largest in Greater Melbourne (77,242 persons) — 1.8% growth rate. The municipal areas within metropolitan Melbourne with the highest volumes of population growth were all on the urban fringe: Wyndham (12,649), Whittlesea (8,593), Casey (6,487) and Melton (5,252)<sup>1</sup>.

From 2004 to 2010, net dwelling construction rapidly increased across metropolitan Melbourne, increasing from 25,600 dwellings to 35,400 dwellings, a 38% increase. In 2011, net dwelling construction declined to 30,100.

Within this context of a rapidly increasing demand for dwellings from 2004 to 2010, dwelling construction remained relatively constant within the established urban areas at around 14,400 dwellings per annum.

Whereas, broadhectare dwelling construction for this period increased by 91%, increasing from 10,405 dwellings to 19,900 dwellings in 2010.

The table below summarises key broadhectare lot construction trends within the growth area municipalities across metropolitan Melbourne. In comparison to the previous financial year, lot production has declined by 26%, down to 13,450 lots.

The median lot size produced continues to illustrate increasing lot densities decreasing from 601m<sup>2</sup> in 2006/07 to 448m<sup>2</sup> in 2012/13. It is estimated that the median sale price for vacant broadhectare allotments in 2012/13 was approximately \$202,000, down 9% from the previous financial year.

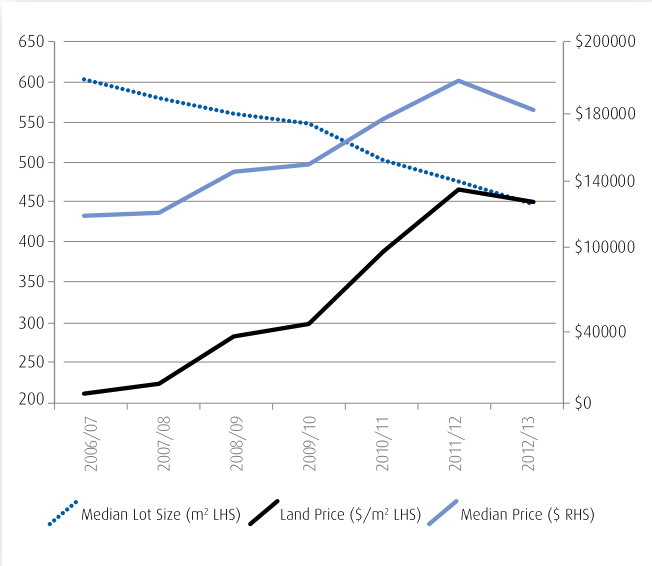
MELBOURNE HISTORICAL LOT PRODUCTION

Period	Lots Produced	Median Lot Size (m <sup>2</sup> )	Median Price	\$ per m <sup>2</sup>
2006/07	9,651	601	\$130,000	\$216
2007/08	6,090	578	\$132,000	\$228
2008/09	10,456	559	\$160,000	\$286
2009/10	12,015	547	\$165,000	\$302
2010/11	15,328	502	\$196,000	\$390
2011/12	18,078	476	\$221,900	\$466
2012/13	13,447	448	\$202,000	\$451

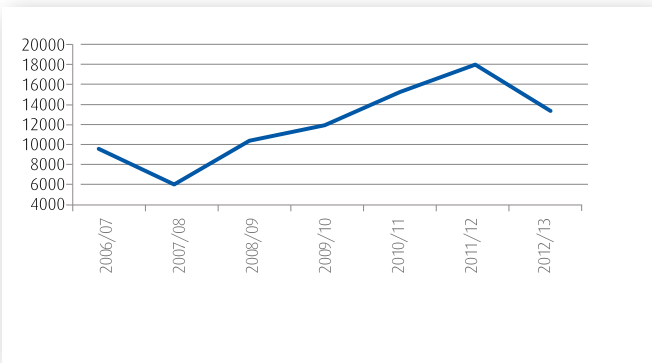
Sources: Urban Development Program – DPCD/DSE, Residential Land Bulletin – DPCD, Research 4, Oliver Hume and Spatial Economics.

<sup>1</sup> Victorian Population Bulletin: DTPLI

SNAP SHOT – MELBOURNE



Lots Produced



FUTURE PROSPECTS FOR LAND SUPPLY IN GROWTH AREAS

It is estimated that within the Growth Areas of metropolitan Melbourne (including southern component of the Mitchell Shire), there is an approximate broadhectare lot capacity of 360,000 to 400,000. Based on dwelling projections contained in the State Government’s Population and Dwelling projections (VIF2012) and the recent trend in the spilt of broadhectare versus established urban area dwelling construction, it is estimated that there is sufficient broadhectare land to satisfy between 26 to 29 years of demand.

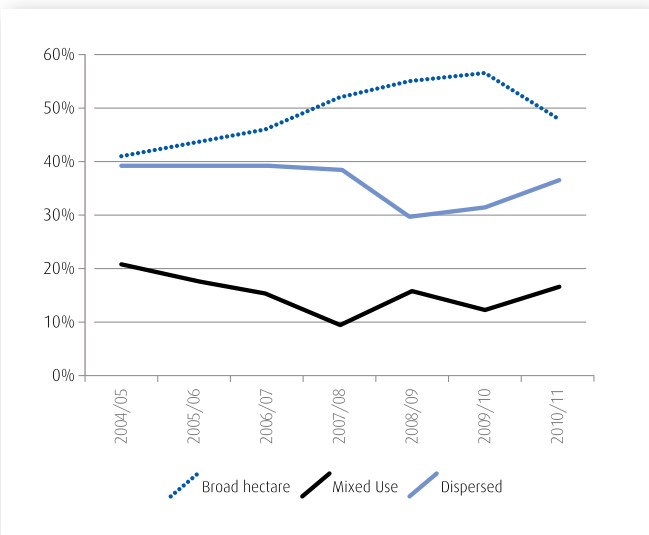
However, the ‘years of supply’ of broadhectare residential land can readily diminish via increases in overall demand for dwellings and shifts in demand for dwellings by supply type. Specifically the application of Neighbourhood Residential Zone across the established urban area of Melbourne, is likely to cause spatial shifts in demand for dwellings, moving demand to areas designated Residential Growth Zones, Mixed Use Areas and to growth area/broadhectare areas.

INFILL DEVELOPMENT

A sufficient stock of residential broadhectare land is necessary to accommodate increases in the demand for dwellings — a surge tank for the total housing market. The established urban area housing market does not have the capacity to absorb rapid increases in demand. The dispersed infill market is largely characterised by a cottage type industry – which has significant limitations of industry structure. Large high density projects are limited due to long planning processes and relatively complex finance arrangements.

From December 2004 to 2011, the share of new dwellings (net) on broadhectare estates has steadily increased, from 41% in 2004-05 to 56% in 2009/10, but fell to 48% in 2010/11. Whereas, even within the context of increasing demand and construction of dwellings — the volume of net dwelling construction within dispersed infill locations remained relatively constant at 10,500 dwelling per annum. In comparison, dwelling construction within Mixed Use areas also remained relatively constant at approximately 4,250 dwellings per annum.

The graph below illustrates Greenfield versus infill development:  
Annual Net Additional Dwelling Growth by Supply Type



Source: Spatial Economics, Housing Development Data

ISSUES/BARRIERS TO DEVELOPMENT

The biggest issue for development is still the very slow approvals process for both Greenfield and established areas and the inconsistent requirements between local authorities adding confusion and increased costs. UDIA Victoria is working with government to address some of these issues related to zoning, infrastructure requirements and engineering standards.

A recent concern is the number of Councils seeking to apply the Neighbourhood Residential Zone, in some cases to as much as 80% of all land currently zoned for residential development, without any justification and without any analysis on the impact this would have on the provision of new housing, within the middle suburbs in particular. UDIA Victoria has voiced its strong opposition to this, and has welcomed the Victorian Government’s decision to appoint an advisory committee to receive submissions and provide recommendation to the Minister to ensure the transition to the new residential zones is done sensibly.



PERTH

CURRENT LAND MARKET AND SUPPLY CONDITIONS

The residential land market in Perth improved from a low point in the second half of 2011, increasing in line with the Reserve Bank's rate cutting cycle which began in November, 2011. Declining mortgage costs and strong population growth drove first home buyer and investor activity and this translated into increased demand for new dwellings in Perth; fuelling land development and residential construction activity.

Land sales improved throughout 2012 and 2013, with land developer sales volumes of more than 40 per cent above historical averages putting further pressure on declining land supplies. Developers brought forward new land releases but many of these releases sold quickly. The number of lots on the market in Perth declined 39 per cent over the year to September 30, 2013, and 60 per cent from mid-2011 levels.

The number of lots produced in Perth surged 31 per cent over 2012/13 and is just above the ten-year average. Amid strong new dwelling market conditions and low levels of stock, the majority of lots in Perth are being sold more than five months before final subdivision approval. Lot production is, therefore, expected to increase in 2013/14. According to UDIA WA's research of the 31 largest developers in Perth, lot construction intentions — a predictor of lot production over the next 12 months — increased for the last seven consecutive quarters.

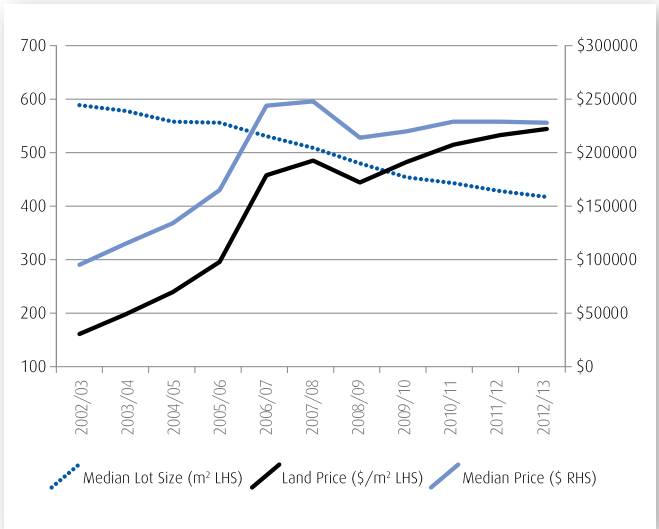
The median vacant land price in Perth has not increased despite large declines in the number of lots on the market. Price growth, however, has been masked by declines in lot sizes. Government policy, innovation in the development industry and increased market acceptance resulted in the median lot size of new residential subdivisions declining to 419m<sup>2</sup> in 2012/13. Over the last five years, the proportion of newly subdivided blocks smaller than 320m<sup>2</sup> has lifted from 16 to 27 per cent. Residential design code changes that allow blocks as small as 100m<sup>2</sup> in some circumstances will further encourage the development of affordable entry-level products in the state.

PERTH HISTORICAL LOT PRODUCTION

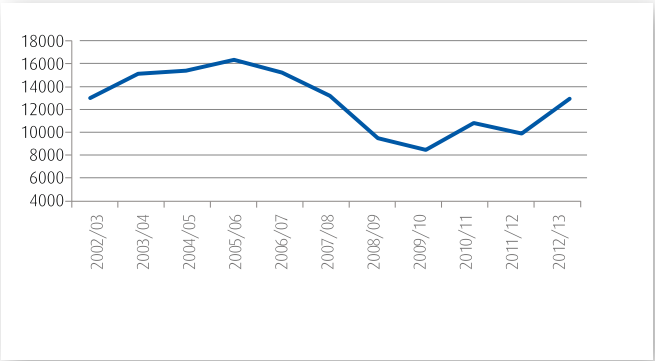
Period	Lots Produced	Median Lot Size (m <sup>2</sup> )	Median Price	\$ per m <sup>2</sup>
2002/03	12,959	591	\$96,000	\$162
2003/04	15,077	580	\$116,000	\$200
2004/05	15,356	560	\$135,000	\$241
2005/06	16,303	558	\$166,000	\$297
2006/07	15,178	533	\$245,000	\$460
2007/08	13,150	511	\$249,000	\$487
2008/09	9,441	482	\$215,000	\$446
2009/10	8,421	456	\$221,000	\$485
2010/11	10,762	445	\$230,000	\$517
2011/12	9,845	430	\$230,000	\$535
2012/13	12,894	419	\$229,000	\$547

*\*Lots produced refers to final subdivision approval*  
*Sources: Western Australian Planning Commission; UDIA; and Landgate*

SNAP SHOT – PERTH



Lots Produced



FUTURE PROSPECTS FOR LAND SUPPLY

Perth's population has increased significantly in recent years, led by record levels of interstate and overseas migrants moving to the city. Perth's population increased 3.9 per cent over the year to June 2013 — more than Sydney's population on aggregate terms, which is a city of 4.7 million.

Perth's population is forecast to have surpassed two million in early 2013, but easing migration is then expected to see population growth fall to between 2.4 and 3.4 per cent per annum by the end of the decade. Moreover, Perth is forecast to be the fastest growing capital city in Australia over the next 50 years.

The State Government's Urban Growth Monitor reports that if all of the remaining non-urbanised urban and urban deferred land was to be consumed (without addition to the stock of land zoned for development), as per the trends of the past 20 years, it is estimated that stocks could accommodate a city of approximately 2.76 million residents. If the increased densities of the Directions 2031 and Beyond planning framework are achieved, existing stocks of urban and urban deferred land could theoretically support a population of 3.62 million.

According to the State Government, housing density targets are on track. A comparison with 2011 data shows that there has been a slight increase in the gross housing density of the Perth and Peel region.

In the shorter-term, although land supply pressures are not as severe as land shortages experienced in 2006, there is pressure on serviced lot supply. The industry is fearful that it might not be able to respond to sudden increased demand as it is providing lots for immediate demand rather than adding to stock numbers. Labour and capital constraints coupled with ongoing delays in infrastructure provision and an unresponsive approvals process, could jeopardise land supply and cause a destabilising overshooting of land prices.

ISSUES/BARRIERS TO SUPPLY

Planning approval delays and uncertainties:

The approvals system remains a major barrier for developers and the broader industry, with delays continuing to have a significant impact on project costs and housing affordability. Barriers in the form of increasingly onerous conditions, lack of consistency in their application, and delays in both the setting and clearing of conditions create unnecessarily restrictive conditions.

Industry reported that the planning and approvals system has not adequately responded to the significant lift in market conditions and increased land supply concerns. Delays and clearance issues worsened greatly compared to last year, with delays accentuated by the loss of resources at the Department of Planning in key statutory sections and the limited ability of the planning system to be proactive and responsive to the 39 per cent increase in subdivision applications over 2012/13.

Recent changes to Residential Design Codes were largely supported by industry as they recognise the importance of the delivery of smaller blocks and increased density. The R-Codes help establish the density of housing by detailing the minimum size of the lot and then the average lot size in an area.



Furthermore, additional planning reforms proposed as part of the state government’s ‘Planning Makes it Happen: Phase Two’ were released for discussion in Sept 2013, with a view to streamlining planning process and promoting best practice. The proposed reforms contain a number of positive changes, however, the potential benefits will not be felt until reforms are implemented.

**Lack of coordinated infrastructure planning and under investment:**

The provision and funding of infrastructure received the most significant negative rating in 2013, according to the Institute’s survey of urban development professionals in Western Australia, with both public and private sector respondents highly concerned.

The failure of the State Government to provide the necessary leadership to deliver coordinated infrastructure planning, budgeting and delivery is a major barrier to achieving the objectives of Directions 2031 in both infill and greenfield areas. The vision set in Directions 2031 can only be achieved where the provision of all major infrastructure is carefully coordinated to avoid delays which also impact on housing affordability.

SYDNEY

CURRENT MARKET AND LAND SUPPLY SITUATION

New lot production in New South Wales is restoring to pre-2003 levels after the state endured one of the most barren land supply runs in recorded history, after the then Premier Bob Carr declared that ‘Sydney was full’.

This is a welcome reprieve for the industry and puts the state in a better position to meet the housing needs of an estimated 1.3 million people over the next 20 years. Time will tell whether the current increase in lot production is an emerging trend as a result of effective government policies or historically low interest rates combined with the production of lots less than 300m².

New South Wales is slowly shedding its poor cousin image relating to land supply in Australia. Lot production is on the up and with the average lot size decreasing to 430m² in 2012/13 (from 510m² in 2011/12), it appears that smaller lot housing is becoming more common place in Local Government Areas. Smaller-lot housing has a two-fold benefit of increasing supply and in turn affordability. Factors contributing to recent increased market performance include:

- An increase in serviced, development-ready greenfield land, assisted by improved coordination between government planning and delivery agencies.
- Strategic infrastructure investments by the government which have unlocked large parcels of land for development.
- Smaller lot housing attracting a wider range of consumer market segments both from an affordability and choice of lifestyle viewpoint

New South Wales remains hamstrung by an uncompetitive regulatory regime for land development. After 2½ years of public consultation involving a Green Paper and a White Paper, a Planning Bill with companion legislation was presented to Parliament in late 2013. The Bill promised to make New South Wales number 1 again. However, after slight tweaks to the Bill it was sent to the Upper House where it was materially altered by Labor, the Greens and the Shooters and Fishers Party, with a significant reform — Code Assessable Development — being removed from the Bill. The Bill is now in a state of flux and its immediate future is uncertain.

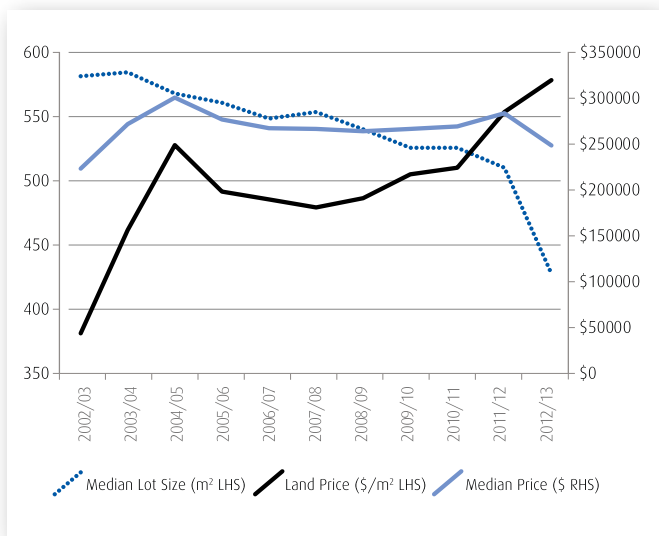
Due to reform inertia and increasing industry uncertainty, Sydney’s recovery may be short lived. Without major structural reforms, the only thing saving Sydney is record low interest rates and the availability of capital. If Governments do not implement new planning and strata regimes, when interest rates rise Sydney and its developers are in for a substantial demand induced shock.

METROPOLITAN SYDNEY HISTORICAL LOT PRODUCTION

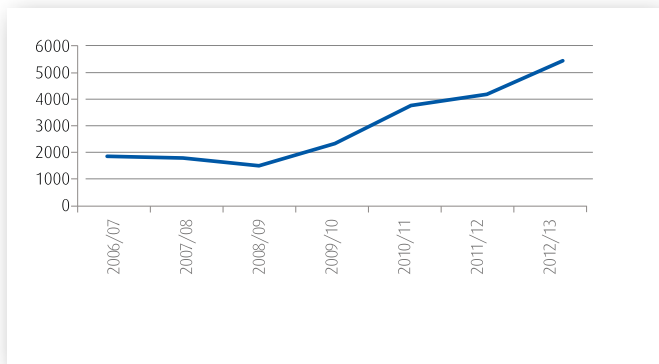
Period	Lots Produced	Median Lot Size (m²)	Median Price	\$ per m²
2002/03	4488	579	\$223,000	\$385
2003/04	3989	582	\$270,000	\$463
2004/05	2704	566	\$298,000	\$527
2005/06	1803	559	\$275,000	\$492
2006/07	1783	547	\$265,750	\$486
2007/08	1715	552	\$265,000	\$480
2008/09	1426	539	\$262,500	\$487
2009/10	2259	525	\$265,000	\$505
2010/11	3688	525	\$267,500	\$510
2011/12	4106	510	\$281,500	\$552
2012/13	5367	430	\$247,500	\$576

Source: NSW Metropolitan Development Program 2010/11, June 2013 Quarterly Monitor MDP and RP Data

SNAP SHOT – SYDNEY



Lots Produced



AFFORDABILITY GLASS CEILING

Sydney may have reached its affordability glass ceiling. Examining the last three years of Sydney's lot production shows that average lot size reduced slightly from 2010/11 to 2011/12. However the median price increased by \$14,000 (\$42 per m²). Interestingly the following year, 2012/13 saw a drastic reduction in the average lot size (by 16%) to 430m² while the median price lowered to \$247,500 equating to \$576 per m², the highest median price per m² in history. Remarkably, in the final quarter of 2012/13 1,897 lots were produced at an average size of 340m².

The next few years will be fascinating, as we will see whether this is a new trend in land supply or merely an outlier. One thing is for certain though, the planning regime, regulatory constraints and a crippling levy system which have hamstrung the industry in recent times has been met head on by the market. Where the system has remained largely static the market has proved more malleable by the acceptance of reducing lot sizes and the resultant increase in lot yields. It is interesting to note that from 2011/12 to 2012/13 lot production increased by 31% (1,261 lots) while at the same time the size of total land developed increased by only 10% (213,750 m²). This data rallies against the commonly held views of expert commentators that consumers do not have an appetite for smaller lot housing. There are issues with some Councils rejecting small lot housing. If this occurs, recovery will stall.

INFILL PERFORMANCE

The key infill performance indicators of dwelling approvals and completions have seen a sharp increase from 2011/12 to 2012/13, indicating a flourishing infill market. ABS figures show that from 2011/12 to 2012/13 dwelling unit approvals are up in New South Wales by 16% (from 18,673 to 21,752) while at the same time dwelling unit completions have jumped 16% (from 28,258 to 32,678).

This rise in infill activity can be attributed to the government's focus on unlocking large urban renewal projects in and around Sydney's CBD and Parramatta, a growing market confidence and a steady cash rate. This trend for infill will need to continue in order for Sydney to reach its target of 40,000 new homes per annum.

FUTURE PROSPECTS

The NSW Government is no longer publishing detailed forecasts through its Metropolitan Development Program. The Draft Metropolitan Strategy for Sydney to 2031 has set a minimum housing target of 545,000 new dwellings for Sydney by 2031. Using the historical Sydney development split of 70/30 between infill and greenfield that equates to an additional 8175 new lots that need to be produced annually to meet the Government's target (this is assuming that the 70% delivery in the infill areas is actually achievable and delivered).

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

UDIA's forecasts show a strong increase in lot production in the next three years with Sydney in line to exceed lot production targets identified by the Draft Metropolitan Strategy for Sydney to 2031 (which are approximately 8,175 lots per annum – see Table 3). However, these forecasts are predicated on a bold assumption — that the Planning Reforms in their original form pass through Parliament.

The government is in the process of developing a new land release policy which aims to simplify and provide greater transparency in the release of land. This process is welcomed and should facilitate levels of production necessary to at least meet underlying demand in a way where infrastructure is able to be funded in a coordinated, structured and timely manner with the ultimate goal being the delivery of sustainable communities at affordable prices.

In order to be effective, this policy should not just be about what land is considered developable, but also about a robust and regularly monitored and updated infrastructure planning process, so that land can move from the Zoned category to the Zoned and Serviced category in a predictable and timely manner. This policy will play a key role in Sydney's future lot production in coming years.

SYDNEY METROPOLITAN LAND SUPPLY UDIA FORECAST

LGA	2013/14	2014/15	2015/16	2016/17	2017/18	5 Year Forecast Total
Camden	1,825	2,700	2,550	2,650	2,500	12,225
Campbelltown	500	860	1,020	770	770	3,920
Liverpool	655	595	600	820	820	3,490
Wollondilly	302	609	645	583	670	2,809
Sutherland	80	50	100	100	50	380
Blacktown	1,520	2,015	1,460	1,520	1,360	7,875
Hawkesbury	150	150	150	150	150	750
Penrith	800	900	800	780	780	4,060
The Hills Shire	770	870	880	775	1,000	42,95
Gosford	0	170	0	0	0	170
Pitwater	0	50	50	130	130	360
Wyong	184	799	1,105	805	*	2,893
Warringah	0	0	0	0	0	0
Total	6,786	9,768	9,360	9,083	8,230	43,227

Source: UDIA NSW  
\*Lot Production Estimates Not Available

METROPOLITAN SYDNEY FORECAST LOT PRODUCTION

	2013/14	2014/15	2015/16	2016/17	2017/18
Metro Strategy Target	8,175	8,175	8,175	8,175	8,175
UDIA Forecast	6,786	9,768	9,360	9,083	8,230

ISSUES/BARRIERS TO DEVELOPMENT

NSW continues to grapple with the same barriers to development that have been facing the industry for the past 50 years — strata reform, reductions in developer levies and a continued commitment to infrastructure investment. UDIA NSW is hopeful that the government will address and counter these issues with the new planning system.

INFRASTRUCTURE SERVICING

In the past two years, the Government has made a concerted effort to link infrastructure provision to strategic land use with funding from the State Budget. UDIA NSW fully supports this strategy as it is a highly effective way to encourage lot supply close to infrastructure. There is no doubting the fact that the increased focus on infrastructure has assisted the significant rise in housing production.

TAXES AND LEVIES

The Government is in the process of rewiring its developer infrastructure levy contributions. After the Government announced in 2013 that developer contributions will no longer be capped there is the potential for taxes and levies to reach prohibitive heights.

Unless there is a commitment to planning reform and a concerted effort to benchmark taxes and levies then UDIA NSW will find it difficult to support the removal of the cap due to material escalation risk.

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 six state offices around Australia.

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