

GREENFIELD RESIDENTIAL LAND MARKET

OCTOBER 2011

Melbourne has returned to “Normal” but where to now?

Melbourne’s greenfield residential land market has consistently commanded around 40% of lot sales activity across the urban growth areas of Australia’s major capital cities to be the clearly dominant city. As a result, Melbourne’s greenfield market is a significant, albeit often overlooked, part of the overall property market which has already attracted plenty of interstate developers over the past decade and more recently, witnessed the beginnings of international interest and investment.

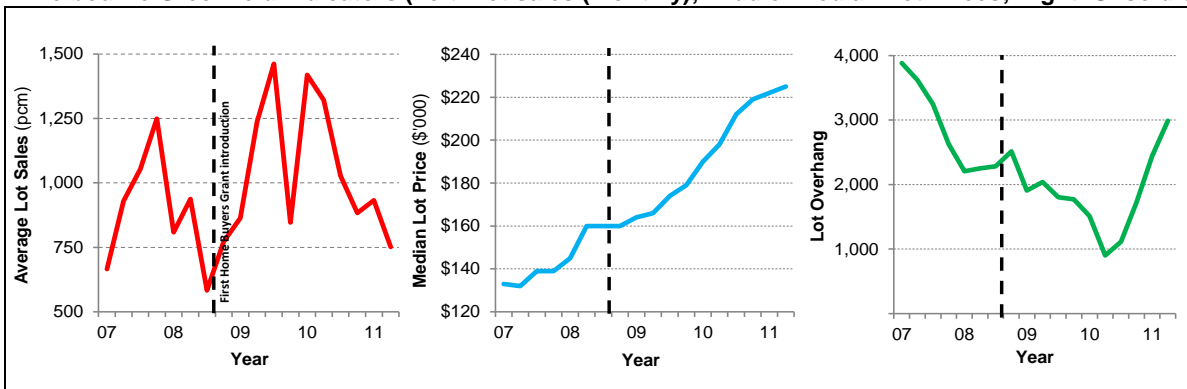
Through the GFC affected period, the Melbourne greenfield market has been the clear outperformer primarily because it was the best placed city to take advantage of the Federal Government’s First Home Owners Grant Boost (introduced in late 2008). At the time, Melbourne already had significantly cheaper land than other markets with its median lot being \$163,000 compared to between \$225,000 - \$270,000 in Perth, South-East Queensland (SEQ) and Sydney respectively. Melbourne maximised its ride on the first-home owner wave that was caused by the government incentive with massive prices along the way too.

By the time that the major incentives were removed in 2010, Melbourne’s median lot price escalated by 21% compared to falls of between -3% and -10% in other cities. At the same time, Melbourne’s lot sales grew by 50%. Further evidence of Melbourne’s outperformance is that since mid 2010, its median price has grown by another 14% to now stand at \$225,000 despite lot sizes falling by 10%. Over the same time, prices elsewhere (except for Perth) have not moved.

At face value, these statistics represent quite an impressive set of numbers for Melbourne. The observed sales volume was driven by strong population growth, government incentives and a corresponding upswing in the established housing market but price growth was caused more by land supply constraints than simply demand side pressures in isolation.

A concern however is that this recent episode of high growth in development activity and price appreciation cannot be sustained, especially given the strong headwinds that now face the economy and housing markets more generally. Already, lot sales have fallen by 30% since peaking in June 2010 in response to both lower purchaser demand caused by both slower population growth as well as declining affordability for a high number of aspiring market entrants. Price growth has also tightening rapidly through 2011 as overhang of unsold stock begins to stockpile again.

Figure1: Melbourne Greenfield indicators (Left: Lot sales (monthly); Middle: Median Lot Prices; Right: Unsold Stock Overhang)



SOURCE - National Land Survey Program (ResearchFour and Charter Keck Cramer)

Various market indicators clearly confirm that Melbourne’s market has slowed with competition also having intensified. The return to more normal conditions from the 2009-10 peak was clearly foreseeable with the key consideration now being about when the market will stabilise and then resume growth.

Preliminary evidence from the National Land Survey Program* for the September 2011 quarter suggests that market has continued to slide through what should have been an inherent baseline level of sales activity. The current uncertain economic environment and slowing population growth suggest a further erosion of conditions before the market can at least regain stability in early-mid 2012 due partly in response to anticipated interest rate cuts.

The key to returning sales activity back to normal volumes however will be the developers' ability and capacity to lower prices to again align with the affordability thresholds of mainstream purchasers so as to be able to induce demand, especially in a challenging economic environment.

With recent positive reforms to the Growth Area Infrastructure Contribution, Precinct Structure Plan process and greater direction from the (long-promised) Growth Area Framework Plans it is anticipated that lower pricing and competitive sub-market environments, which have traditionally been Melbourne's key comparative advantages over other land markets, can again become defining attributes of Melbourne's land market. It must however be recognised that this aspiration is being stifled by other policies, especially native vegetation and heritage controls, that are decreasing certainty and increasing costs and risk for the development industry.

Robert Papaleo
Director
Strategic Research

* This market commentary is derived from results of the National Land Survey Program (NLSP), which is undertaken by ResearchFour in conjunction with Charter Keck Cramer. The NLSP monitors over 550 residential estates across Australia's urban growth areas and reports upon market performance on a quarterly basis. Reports about individual land markets are available on a subscription basis.

For further information about the NLSP please visit <http://www.charterkc.com.au/research/nlsp.aspx>.