



Residential Development Council
PROPERTY COUNCIL

Australia's land supply **crisis**

**Supply/demand imbalance and its
impact on declining housing affordability.**



**SUMMARY REPORT: Australian
Broad Hectare Land Supply Study
January 2007**



The **Voice** of Leadership


PROPERTY
COUNCIL
of Australia

KEY FINDINGS

Housing demand (through low interest rates, high employment, or population growth) is only one aspect of what drives house prices. Ensuring adequate supply of land for new housing is equally – if not more – influential on market pricing.

The findings outlined in this summary report prepared for the Residential Development Council shows that current state land release policies are not adequate to meet demand. The result has been a rapid escalation in land prices – and hence housing costs. This has been a key driver of worsening housing affordability.

Further, the research suggests that unless there is substantial policy change, current land release policies could produce a land supply shortfall of 185,000 over the next twenty five years, with calamitous effects on housing affordability.

Since 2001, the failure of planning adequate supply to meet underlying demand for housing has already had an economic impact of \$384 million and increased house prices by 9 per cent, or \$28,900 on average per dwelling.

When combined with escalating government taxes and charges, the chronic undersupply of land for housing is crippling the affordability of new housing. State and Local Government policy failures are adding to the housing affordability crisis and a new focus on land supply is needed if the Australian tradition of home ownership is to survive the current generation.

To help identify and quantify the extent of the land supply crisis, the Residential Development Council – the Property Council’s specialist residential policy leadership group - commissioned MacroPlan Australia to evaluate the provision of land supply over 25 years from 2001-2026, in Sydney, Melbourne, South-East Queensland and Perth, quantify the economic impact, and identify policy solutions. This is a summary MacroPlan’s findings.

Research background

In 2005, the Residential Development Council commissioned high-profile demographer Bernard Salt of KPMG to investigate housing demand across the country to the year 2031. This report, *Australia on the Move*, examined population and demographic trends and identified demand for a net additional 3.791 million dwellings plus 809,000 replacement dwellings through obsolescence. In other words, between 2001 and 2031, of the total 11.580 dwellings in existence, 4.6 million would have been built in the previous 25 years.

This subsequent report by MacroPlan builds on this research and aims to identify how well land supply is being generated to meet this growing demand.

Current land supply shortage

Based on MacroPlan’s modelling

of underlying demand levels and broad hectare land provision in Sydney, Melbourne, South-East Queensland and in Perth, undersupply of land for housing is currently in arrears by 12,052 housing lots.

The greatest shortfalls are in Sydney, which is undersupplied by 18,645 lots, and Melbourne, which is currently undersupplied by 17,439 lots.

This shortfall is partly offset by a current surplus of 24,032 lots in South-East Queensland. Perth is currently marginally undersupplied by 656 lots.

Future land supply shortage

The land shortage is predicted to significantly worsen. Over the next 10 years, the cumulative lot shortfall will reach 55,891 in 2016.

In this period, Sydney will be particularly affected as the shortfall reaches 33,105 lots.

By 2016, the current surplus

in South-East Queensland will have become a deficit of 10,484 lots due to new land release constraints which are not capable of providing adequate supply to meet growth projections.

By 2016, Perth is forecast to have a cumulative shortfall of 25,894 lots. In Melbourne, the current shortfall of 23,700 lots will have narrowed by 2016 to just over 12,000 lots due to improved land supply strategies.

Potential supply crisis by 2026

If current trends continue further, by 2026, there will be a major demand and supply imbalance, fuelled primarily by State government policy-induced land supply shortages.

By 2026, MacroPlan forecast that the east coast land supply shortfall could reach 127,699 lots. The cumulative lot shortfall is expected to double in Perth between 2016 and 2026, reaching 57,377 lots.

KEY FINDINGS

Land markets in disarray

Australia's residential land markets are in disarray. In Sydney, despite underlying demand for 7,600 lots per annum, only 3,500 lots were provided to market in 2003-04. In contrast, 15,000 lots were subdivided in Perth in the same year, despite being 4-5 times smaller than Sydney. Clearly, Australia's land markets are not functioning effectively.

Knowledge gaps

Around Australia there are a myriad of different land supply planning policies and processes, resulting in a significant knowledge gap about the true state of land supply. Each of the State Governments have a different way of monitoring and managing land supply, limiting the reliability and understanding of the land supply and demand imbalance.

Notwithstanding these shortcomings, MacroPlan have modelled known provisions of broad hectare land supply and have undertaken detailed reviews of the Sydney, Melbourne, South-East Queensland and Perth housing markets. These findings are in the full version of the report.

Supply constraints

There are a number of constraints which have restricted land supply in Australia's urban areas. These include:

- ▶ limiting growth boundaries and reducing development fronts,
- ▶ new sustainability measures and a push for greater biodiversity protection which has limited developable land,
- ▶ an inability to fund new infrastructure which forces new development into existing areas rather than on the urban fringe,

- ▶ rising government charges and taxes on land development,
- ▶ a failure to respond adequately to growing demand for housing,
- ▶ onerous planning controls and slow land release policies.

The cost of consolidation

Many State Government planning policies now favour urban consolidation at the expense of suburban growth. However, these policies are failing to achieve their desired planning effect because there has not been a 'demand transfer' of housing choice by consumers.

In short, new home buyers do not favour medium to high density housing product to the extent predicated in many State government planning strategies. For example, the NSW Government's Metropolitan Strategy for Sydney sets an ambitious target of 60% to 70% of all new housing as infill – a target at odds with typical consumer demand.

At the same time, suitable infill sites are difficult to acquire, they are prone to greater risks of political intervention (NIMBYISM and Save our Suburbs) and attract almost the same level of new housing taxes as detached dwellings.

The result has been an escalation of housing prices across the board, and a stagnation of the market as consumers resist both the artificially inflated price of housing and the limitations on choice. This is most stark in Sydney, where new housing activity is said to be at its lowest point in over 50 years.

Eroding housing affordability

The fact that the supply of land has not been allowed to meet underlying demand has eroded housing affordability.

As a proportion of the total housing package, the cost of land has increased from 24 to 37 per cent in Melbourne, from 21 to 49 per cent in Brisbane, and most alarmingly in Sydney, where it has increased from 32 to 60 per cent.

The sharp decline in housing affordability since 2001 has persisted for an extended period and has not bounced back into balance like previous housing cycles because of the restricted supply of residential land.

This market restriction - imposed by state government policies - has had a real price impact estimated by Macroplan at around \$29,000 per dwelling.

Winners and losers

The irrationality of Australia's residential land markets as a result of poor planning and high transaction costs means that buyers and sellers of land are unable to transact.

The winners are retirees, speculators, outward migrants and landowners. But more importantly, the losers are young home buyers, home owners wanting to trade up and new migrants.

Economic impact

MacroPlan estimate the loss to the economy of restricting housing supply since 2001 to be in the order of \$384 million. This is estimated by calculating the impact of fewer housing transactions.

Housing affordability will also impact on the nation's economy as real disposable incomes decline, reducing consumer spending and increasing the cost of living, higher incidences of housing stress and reduced dwelling approvals and housing construction.

KEY REGIONAL FINDINGS

Sydney

Historic rates of provision (2001-05)

- ▶ Trend current practice: 22,415 lots were provided
- ▶ Trend underlying demand: 37,219 lots were required
- ▶ Demand supply balance: **14,804 lot shortfall**

Recent rates of provision (2005-06)

- ▶ Trend current practice: 3,150 lots were provided
- ▶ Trend underlying demand: 5,784 lots were required
- ▶ Demand supply balance: **2,634 lot shortfall**

Forecast rates of provision (2006-26)

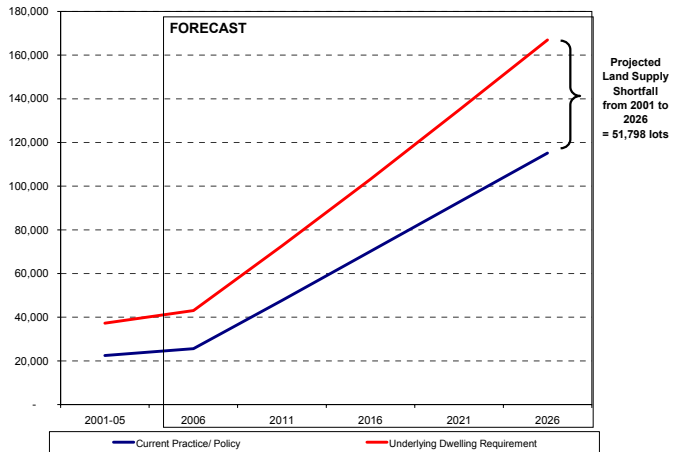
- ▶ Trend current practice: 89,600 lots to be provided
- ▶ Trend underlying demand: 123,959 lots will be required
- ▶ Demand supply balance: **34,359 lot shortfall**

There is a worsening level of demand supply imbalance in the Sydney market.

This is due to a number of factors: there is a lack of long term supply which has dented confidence in the Sydney market and price 'holding' has driven consumers away; the Metropolitan Strategy for Sydney has directed 60+ per cent of future housing growth to established areas; the planning framework for Sydney's twin Growth Centres have been delayed and ongoing problems with infrastructure provision and the imposition of development levies has restricted supply; and social, environmental and economic issues and community and political opposition to housing growth remain ongoing problems.

Figure 40. Sydney: Land Supply Adequacy Model (2001-2026)

	Current Practice/ Policy		Normal Market Conditions		Demand/ Supply Balance	
	(A) Net Additions	(B) Cumulative Net Additions	(C) Underlying Dwelling Requirement	(D) Cumulative Dwelling Requirement	(A) - (C) = (E) Land Supply Surplus/ Shortfall	(B) - (D) = (F) Cumulative 2001-2026
Historic Rates of Provision (2001-2005)						
Total: 2001-2005	22,415	22,415	37,219	37,219	-14,804	-14,804
Recent Rates of Provision (2005-2006)						
Total: 2005-2006	3,150	25,565	5,784	43,004	-2,634	-17,439
Forecast Rates of Provision (2006-2026)						
2006-2011	22,100	47,665	29,626	72,629	-7,526	-24,964
2011-2016	22,500	70,165	30,551	103,180	-8,051	-33,015
2016-2021	22,500	92,665	31,702	134,882	-9,202	-42,217
2021-2026	22,500	115,165	32,081	166,963	-9,581	-51,798
Total 2006-2026	89,600	115,165	123,959	166,963	-34,359	-51,798



Melbourne

Historic rates of provision (2001-05)

- ▶ Trend current practice: 46,553 lots were provided
- ▶ Trend underlying demand: 70,242 lots were required
- ▶ Demand supply balance: **23,689 lot shortfall**

Recent rates of provision (2005-06)

- ▶ Trend current practice: 16,789 lots were provided
- ▶ Trend underlying demand: 11,744 lots were required
- ▶ Demand supply balance: **5,044 lot surplus**

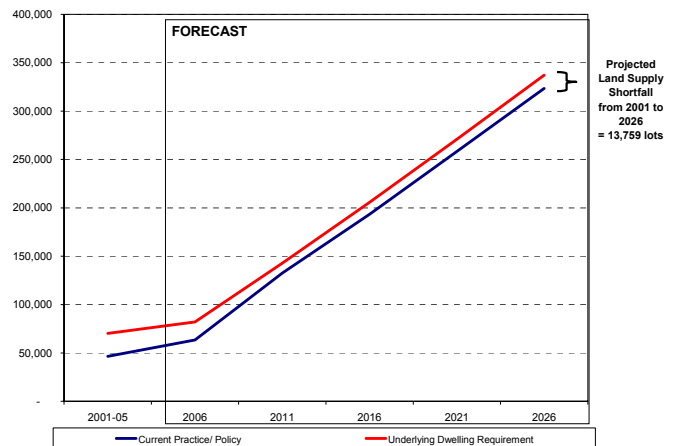
Forecast rates of provision (2006-26)

- ▶ Trend current practice: 260,012 lots to be provided
- ▶ Trend underlying demand: 255,126 lots will be required
- ▶ Demand supply balance: **4,885 lot surplus**

The recent production lot shortfall is due to a number of factors: metropolitan planning guidelines that have discouraged suburban growth on the urban boundary in favour of infill activity; the introduction of an infrastructure levy; the significant fragmentation of land holdings and limited supply of high quality land within the Urban Growth Boundary; undersupply of land in the Northern and Western corridors; major reductions in density/concessions and development 'lag' in some fringe areas (due to slow infrastructure provision); and doubts that theoretical supply will actually be delivered, (particularly in the Western Corridor in areas such as Caroline Springs and in the Northern Corridor (such as Craigieburn and Mernda).

Figure 41. Melbourne: Land Supply Adequacy Model (2001-2026)

	Current Practice/ Policy		Normal Market Conditions		Demand/ Supply Balance	
	(1) Net Additions	(2) Cumulative Net Additions	(3) Underlying Dwelling Requirement	(4) Cumulative Dwelling Requirement	(1) - (3) Land Supply Surplus/ Shortfall	(2) - (4) Cumulative 2001-2026
Historic Rates of Provision (2001-2005)						
Total: 2001-2005	46,554	46,554	70,243	70,243	-23,689	-23,689
Recent Rates of Provision (2005-2006)						
Total: 2005-2006	16,790	63,343	11,745	81,988	5,045	-16,645
Forecast Rates of Provision (2006-2026)						
2006-2011	69,285	132,628	60,832	142,820	8,453	-10,192
2011-2016	60,727	193,355	62,927	205,747	-2,200	-12,392
2016-2021	65,000	258,355	65,225	270,972	-225	-12,617
2021-2026	65,000	323,355	66,142	337,114	-1,142	-13,759
Total 2006-2026	260,012	323,355	255,126	337,114	4,886	-13,759



KEY REGIONAL FINDINGS

South-East Queensland

Historic rates of provision (2001-05)

- Trend current practice: 114,037 lots were provided
- Trend underlying demand: 88,408 lots were required
- Demand supply balance: **25,629 lot surplus**

Recent rates of provision (2005-06)

- Trend current practice: 23,000 lots were provided
- Trend underlying demand: 24,597 lots were required
- Demand supply balance: **1,597 lot shortfall**

Forecast rates of provision (2006-26)

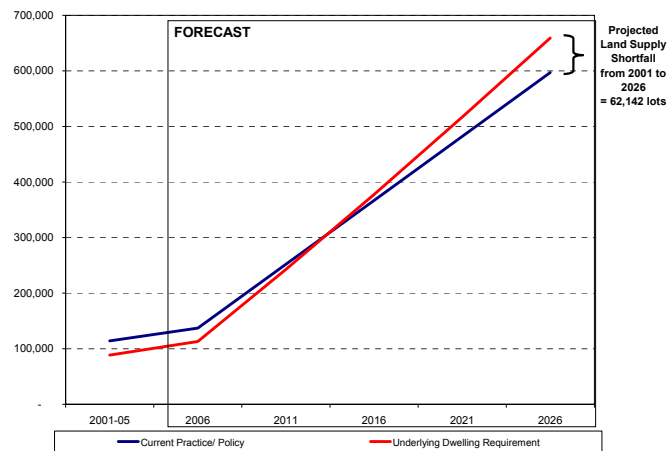
- Trend current practice: 460,000 lots to be provided
- Trend underlying demand: 546,174 lots will be required
- Demand supply balance: **86,174 lot shortfall**

There is a growing level of demand supply imbalance in the South-East Queensland housing market. Current land supply volumes are predicted to dry up by just after 2011 and the market will then move into deficit, due mainly to recently-imposed urban growth boundaries under the South East Queensland Regional Plan, plus the time delay of bringing new stock to the market.

The imposition of new housing taxes by local authorities, delays in the development of Local Growth Management Strategies by local government, and infrastructure constraints will also contribute to a widening supply:demand gap.

Figure 45. South-East Queensland: Land Supply Adequacy Model (2001-2026)

	Current Practice/ Policy		Normal Market Conditions		Demand/ Supply Balance	
	(A) Net Additions	(B) Cumulative Net Additions	(C) Underlying Dwelling Requirement	(D) Cumulative Dwelling Requirement	(A) - (C) = (E) Land Supply Surplus/ Shortfall	(B) - (D) = (F) Cumulative 2001-2026
Historic Rates of Provision (2001-2005)						
Total: 2001-2005	114,037	114,037	88,408	88,408	25,629	25,629
Recent Rates of Provision (2005-2006)						
Total: 2005-2006	23,000	137,037	24,597	113,005	-1,597	24,032
Forecast Rates of Provision (2006-2026)						
2006-2011	115,000	252,037	129,765	242,770	-14,765	9,267
2011-2016	115,000	367,037	134,750	377,521	-19,750	-10,484
2016-2021	115,000	482,037	139,535	517,056	-24,535	-35,019
2021-2026	115,000	597,037	142,123	659,179	-27,123	-62,142
Total 2006-2026	460,000	597,037	546,174	659,179	-86,174	-62,142



Perth

Historic rates of provision (2001-05)

- Trend current practice: 43,795 lots were provided
- Trend underlying demand: 43,605 lots were required
- Demand supply balance: **190 lot surplus**

Recent rates of provision (2005-06)

- Trend current practice: 8,108 lots were provided
- Trend underlying demand: 8,954 lots were required
- Demand supply balance: **846 lot shortfall**

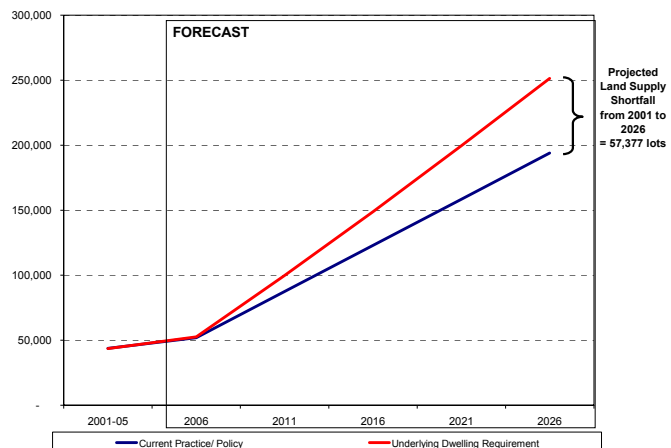
Forecast rates of provision (2006-26)

- Trend current practice: 142,069 lots to be provided
- Trend underlying demand: 198,790 lots will be required
- Demand supply balance: **56,721 lot shortfall**

There is a growing level of demand/supply imbalance in the Perth housing market. MacroPlan believe this imbalance can be explained by the following factors: the introduction of a new planning strategy without a plan for infrastructure, meaning many of the directions cannot be achieved; and accelerated economic growth which has led to increased population growth, resulting in land being demanded at a faster pace than anticipated.

Figure 46. Perth: Land Supply Adequacy Model (2001-2026)

	Current Practice/ Policy		Normal Market Conditions		Demand/ Supply Balance	
	(A) Net Additions	(B) Cumulative Net Additions	(C) Underlying Dwelling Requirement	(D) Cumulative Dwelling Requirement	(A) - (C) = (E) Land Supply Surplus/ Shortfall	(B) - (D) = (F) Cumulative 2001-2026
Historic Rates of Provision (2001-2005)						
Total: 2001-2005	43,795	43,795	43,605	43,605	190	190
Recent Rates of Provision (2005-2006)						
Total: 2005-2006	8,108	51,903	8,954	52,559	-846	-656
Forecast Rates of Provision (2006-2026)						
2006-2011	35,569	87,472	47,246	99,805	-11,677	-12,333
2011-2016	35,500	122,972	49,061	148,866	-13,561	-25,894
2016-2021	35,500	158,472	50,779	199,645	-15,279	-41,173
2021-2026	35,500	193,972	51,704	251,349	-16,204	-57,377
Total 2006-2026	142,069	193,972	198,790	251,349	-56,721	-57,377



LAND SUPPLY ADEQUACY MODELS

There is insufficient land planned for released to service future housing demand and this situation is predicted to worsen.

Based on Macroplan’s analysis, the combined shortfall in the major east coast markets is currently sitting at around 12,000 lots. Without substantial change of policy direction, this is predicted to blow out to over 50,000 lots by 2016 and over 127,000 lots by 2026.

On the west coast, the Perth region’s shortfall is predicted to increase to over 25,000 lots by 2016 and by 2026, the Perth region will be undersupplied by more than 57,000 lots.

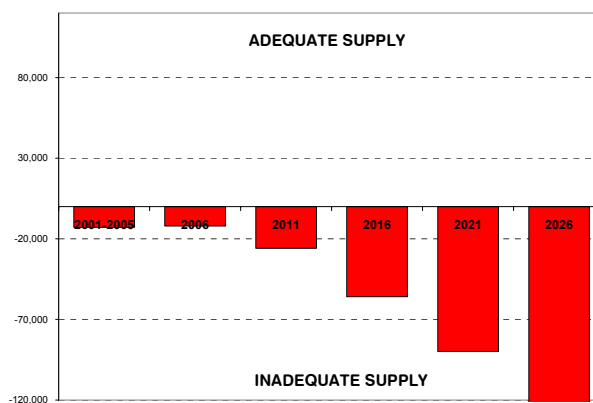
Combined, the Macroplan analysis means the major housing markets could be potentially undersupplied by over 180,000 lots by 2026.

In reality, this is unlikely to happen: put simply, something’s going to give. A shortfall in land will maintain pressure on housing prices, and if housing becomes unaffordable for an even greater proportion of the community, entirely different patterns of settlement and growth may occur. Children could stay at home much longer into their adult lives and delay starting families of their own. Even population growth may stall (population growth relies on immigration but potential migrants could be deterred by excessively high housing costs – worsening the skills shortage and stunting economic growth).

In reality, any number of outcomes are possible but none of them offer positive economic or social results for Australia: substantial changes need to be made to land release and growth management policies, and they need to be made now.

Figure 47. Land Supply Adequacy – Australian Eastern Sea Board

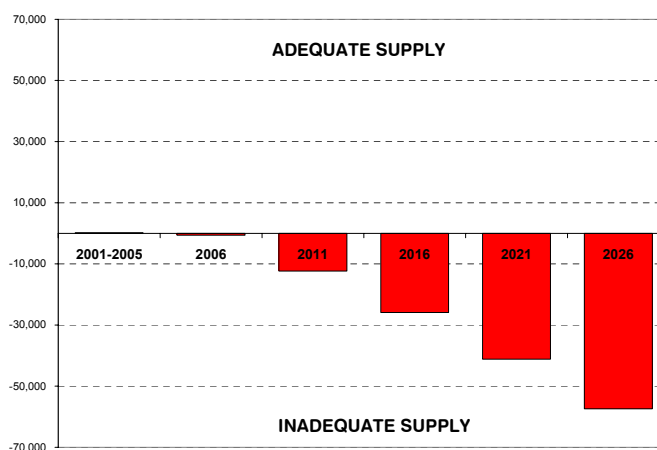
EASTERN SEBOARD	2001-2005	2006	2011	2016	2021	2026
Melbourne	-23689	-18645	-10192	-12392	-12617	-13759
VIC Balance	na.	na.	na.	na.	na.	na.
Sydney	-14804	-17439	-24964	-33015	-42217	-51798
NSW Balance	na.	na.	na.	na.	na.	na.
SEQ	25629	24032	9267	-10484	-35019	-62142
Demand/ Supply Balance	-12864	-12052	-25890	-55891	-89853	-127699



Source: MacroPlan Australia (2006)

Figure 48. Land Supply Adequacy – Perth

PERTH	2001-2005	2006	2011	2016	2021	2026
Perth	190	-656	-12333	-25894	-41173	-57377
WA Balance	na.	na.	na.	na.	na.	na.
Demand/ Supply Balance	190	-656	-12333	-25894	-41173	-57377



Source: MacroPlan Australia (2006)

RECOMMENDATIONS

This report has found that there is already an undersupply of land for housing which is expected to grow strongly over the next twenty years. This shortage is brought about mainly by state government policies which limit urban growth. The shortage of land relative to demand has been a key factor in worsening housing affordability.

To avert a national crisis in housing affordability and land supply, governments need to revisit their policy settings now. A first step would be to adopt improved land supply reporting and monitoring frameworks, because the current disparate approaches are not even capable of providing useful and reliable information for policy makers.

Putting land supply on the national agenda

A national approach to land supply is needed because the land supply shortage is national in scope and is causing significant 'drag' on the national economy. Responsibility for release of land would remain with the states, but some national agreement on consistency and supply buffers could be brokered by the Commonwealth and States, perhaps as part of ongoing COAG discussions.

This national approach should be guided by sound urban development principles such as:

- ▶ understanding and acknowledging the real levels of underlying demand for residential land,
- ▶ ensuring equitable responsibility for regional

demand drivers such as 'sea change' and the implications of regional infrastructure, and

- ▶ more transparent reporting of demand and supply for land (i.e. high level population indicators no longer adequately capture the impacts of human settlement).

Planning for land supply

Adopt a consistent and transparent reporting process for land supply and demand at a national level which:

- ▶ acknowledges underlying demand for new dwellings,
- ▶ the supply of land at affordable price points, and
- ▶ the difference between theoretical as opposed to practical supply of land at a given point of time.

Finding the right balance

An appropriate balance is urgently needed between supplying land to meet housing demand and the policies which aim to promote consolidation, restrict coastal development and protect biodiversity. This should be reflected in settlement policies and urban growth plans.

Reforming development assessment

The development approval process is becoming more complex and as a result it is delaying the completion of new houses and is adding to the cost of new housing and reducing affordability. Excessive development assessment red tape limits housing growth and

restricts supply due to the time it takes to navigate the myriad of complex and costly development assessment regimes. The development assessment process needs urgent national attention. Development assessment should be standardised and reformed as recommended by the Development Assessment Forum (DAF), providing for independent assessment panels and other fast tracking incentives.

Funding urban infrastructure

Previous research prepared for the Residential Developmental Council revealed that nationally government taxes, charges and compliance costs make up 25% to 33% of the cost of new housing.

This report echoes these concerns and highlights the damaging impact on the housing market that these taxes, levies and charges cause, as they are ultimately passed on to the consumer and reduce affordability.

The requirement to provide infrastructure also results in a development lag which restricts supply. A large amount of theoretical land supply trumpeted by governments is unlikely to eventuate for at least 5 years, given the time it takes to build the infrastructure required. Even once such infrastructure is provided, the corresponding land market distortions may take 5-10 years to resolve, particularly with respect to land owners expectations.

About the Residential Development Council

The Residential Development Council represents Australia's leading development companies. It was established within the Property Council of Australia in mid 2005 to promote an improved understanding of the issues affecting residential development nationally, and to promote solutions on behalf of the industry and Australian community. Its leadership group consists of leading people within blue chip development companies.

This report builds on research commissioned in 2005 by the Residential Development Council which investigated housing demand across the country to the year 2031. *Australia on the Move* was prepared by high-profile demographer Bernard Salt, of KPMG. Further studies in key areas of interest to the development industry are underway and planned for the future.

More information: www.propertyoz.com.au

About Macroplan Australia Pty Ltd

Macroplan is a leading consultancy firm of multi-disciplinary specialists, including economists, town planners, community infrastructure specialists, financial analysts, tourism and property research analysts.

Macroplan was established by Managing Director Brian Haratsis in Melbourne in 1986, and has since expanded with an additional office in Sydney. Macroplan has completed a large variety of work across a wide spectrum of specialist fields, and has serviced clients from Local Councils to State Governments and many of Australia's blue chip firms.

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