GREENFIELD MARKETS AND LAND AFFORDABILITY

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All state planning authorities have stipulated that greenfield development remains important in metropolitan land markets because of its role in providing affordable housing for new home owners. This article analyses the performance of the greenfield industry in Melbourne, Perth, Sydney and South East Queensland (SEQ) according to this criterion. It shows that only in Perth is the greenfield industry now capable of meeting this objective. As a result, the outlook for new home buyers in Melbourne, Sydney and SEQ is bleak.

INTRODUCTION

The primary role of a greenfield market, and the main justification for continued urban expansion, is that greenfield supply will primarily be used to deliver affordable and well-serviced housing for new communities.

In recent times both the Australian Government and most state governments have aspired to locate a greater percentage of future housing in established metropolitan areas. However, in practice, the current difficulties associated with delivering sufficient affordable housing product across infill markets has resulted in added demand being placed on the role of greenfield markets.

The double blow to metropolitan planning comes when both the infill and greenfield markets are struggling to accommodate underlying demand for new housing.

If greenfield markets are unable to deliver affordable land at the required volume then the justification for continued investment in developing greenfield should be questioned. An underperforming greenfield should prompt an assessment of why this is the case and what can be done to ensure that it fulfils the role allocated to it by the Metropolitan Strategic Plans (MSPs).

This study examines the performance of the greenfield development industry through unpublished data collected by the National Land Survey Program (NLSP).[1]

THE STRATEGIC ROLE OF GREENFIELD MARKETS

Planning for metropolitan growth has traditionally distributed future dwelling demand between urban infill and greenfield markets. The MSPs for Australia's four major cities, in aggregate, indicate that demand for new housing will average 112,368 dwellings per year until 2031. Of these, 49,682 dwellings (44 per cent) have been planned to be delivered by greenfield markets and 62,686 (56 per cent) to be delivered across urban infill markets.[2]

With the exception of Sydney, the four other major markets have planned that between 45 and 53 per cent of expected annual demand for new housing will be met using greenfield supply.

Greenfield markets are identified growth regions for each city. Greenfield supply can be a combination of new land sales made by the greenfield industry using land zoned for urban development (known as broadhectare development), higher density product built on existing land parcels, including redevelopment of existing housing if it occurs in the growth region, and/or the building of detached housing on residual vacant allotments. The inclusion of these components is needed for the analysis of the Sydney market because higher density product is an important component in the growth regions of that city. In the other land markets the great majority of greenfield

Table 1: Metropolitan strategic plans—annual demand

Market	Metropolitan Strategic Plan (MSPs)	Expected annual demand for additional housing	Planned greenfield allocation		Planned infill allocation	
		Dwellings	Per cent	Dwellings	Per cent	Dwellings
Melbourne	Melbourne @ 5 million	33,514	45.0	15,081	55.0	18,433
Sydney[1]	Metropolitan Development Plan	29,534	37.0	10,928	63.0	18,606
South East Queensland[2]	SEQ Regional Plan	27,600	45.0	12,420	55.0	15,180
Perth	Directions 2031	13,120	53.0	6,954	47.0	6,166
Adelaide	30 Year Plan for Greater Adelaide	8,600	50.0	4,300	50.0	4,300
Total		112,368	44.0	49,682	56.0	62,686

Notes: [1] includes Illawarra & Lower Hunter
[2] excludes Toowoomba, Lockyer Valley, Sommerset and Scenic Ridge regions

output is new land parcels, supplemented to varying degrees by residual vacant allotments—defined as land which was developed and sold in a past period and has been sitting vacant ever since.

The MSPs enshrine the key attributes of volume and affordability in their aspirations for greenfield output.

South East Queensland's population is projected to grow by more than 1.5 million people over the 23 years to 2031. According to the SEQ MSP:

> Planning for this growth is vital to ensure there is an appropriate supply of *affordable* and well-serviced housing available for our growing communities. While there is a greater emphasis on improving the efficiency of urban development in South East Queensland through infill and redevelopment, the development of broad hectare land will continue to *provide for more than half our future housing needs* [emphasis added].[3]

Even in Sydney, the *Metropolitan Development Plan 2007–08* states that:

> One of the main roles of state government in improving housing *affordability* is to ensure that there is adequate supply of land so that the development industry is able to produce new dwellings to meet housing needs [emphasis added] (Land supply referring to both infill and greenfield markets).[4]

The West Australian Government recently released *Directions 2031*, which outlines the strategic planning for metropolitan Perth. It states that:

> [T]he planned growth of the outer suburbs can meet the needs of most people seeking new and *affordable* accommodation in more peaceful suburban surroundings [emphasis added].

And in Melbourne, the latest metropolitan strategic plan, *Melbourne @ 5 Million*, states:

> A strong pipeline of new land will *promote competition* and choice for home-buyers

and will also help maintain housing *affordability* in Melbourne [emphasis added].

The MSPs for the four major capitals have recently placed greater emphasis on the role of urban infill markets to provide a larger proportion of future housing demand than has been the case in the past. However, there is no guarantee that urban infill markets can shift demand from greenfield markets. For this to happen infill markets will need to be able to deliver dwellings at volume, equipped for family living and at a price point which aligns with entry-level demand.

Partly because of these uncertainties, greenfield developments are still seen as the main provider of affordable family product by the majority of MSPs.

DEFINING AFFORDABILITY

MSPs clearly state that affordability is a major objective for greenfield markets so it is essential that affordability be understood.

First home owner grant data for the Melbourne metropolitan market in 2005 shows that 50 per cent of all home purchases in greenfield markets were made by first-time buyers, 25 per cent of purchases across middle infill markets and 15 per cent of purchases across inner infill markets.[5]

Targeted qualitative research undertaken by VicUrban (Victoria's state developer) revealed that 59 per cent of all land sales made at its Boardwalk estate in Wyndham (south-west Melbourne greenfield) were made to first-time buyers, 25 per cent to second-time buyers and 16 per cent to other buyers. Buyers stated that the overwhelming reason for buying a house and land in the estate was 'affordability'.[6] A post-occupancy survey undertaken at Lynbrook in Melbourne's south-east greenfield markets showed that 68 per cent of people living in the estate were first-home buyers and 20 per cent second-home buyers.[7] In Melbourne's northern greenfield markets a post-occupancy survey of the Roxburgh Park project showed that 82 per cent of residents were first-home buyers.[8]

Further qualitative research shows that in excess of 50 per cent of households in these greenfield markets are aged below 35 years, 25 per cent are aged between 35 and 45 and 25 per cent are above the ages of 45 (age distribution is for heads of households not total person count).[9]

Purchasing capacity is influenced by an array of factors, including the level of equity in the property required by the lender and various attributes of the prospective buying household, notably the savings and income level, employment, education and life stage. In addition, the cost of finance, the availability of government grants and the lending criteria of financial institutions will influence purchasing capacity.

Based on modelling the greenfield customer base using the above array of factors, the upper purchasing price for a dwelling has ranged from $360,000 through to $440,000, depending on the location and the setting of some of the key inputs.

Depending on the build cost, which is subject to a number of site considerations, the upper price point for the land component will be around $200,000. This price point is supported by evidence from both the NLSP (including the impact on demand when the majority of stock goes beyond the $200,000 point) and anecdotal information from the development industry.

With 50 per cent or more of underlying demand for greenfield housing coming from young emerging families with limited purchasing capacity, the performance of greenfield markets will depend on the volume of land stock priced within their reach (that is, up to around $200,000). This market is subsequently referred to as core demand.

Greenfield markets that are unable or unwilling to have the majority of land under the upper price point for entry-level demand will need to rely on selling to other customer groups.

WHAT IS GREENFIELD CAPABILITY?

As at June 2010 there were an estimated 188 greenfield developers operating across the major metropolitan markets. Of the 188 developers, there are an estimated 30 developers (top 30) that can be described as corporate land developers.[10]

Over the past 24 months these 30 developers have operated 355 projects comprising 340,000 dwellings—representing in excess of 65 per cent of total market sales. It is important that a greenfield market has a good representation of Top 30 developers capable of delivering major residential projects.

Project scale on its own does not guarantee market performance, but it does increase the opportunity for greenfield markets to deliver the key ingredients for the development of successful communities. Projects that are greater than 1000 lots have tended to deliver a wider range of supporting community attributes that contribute to the development of a well-serviced local community.[11]

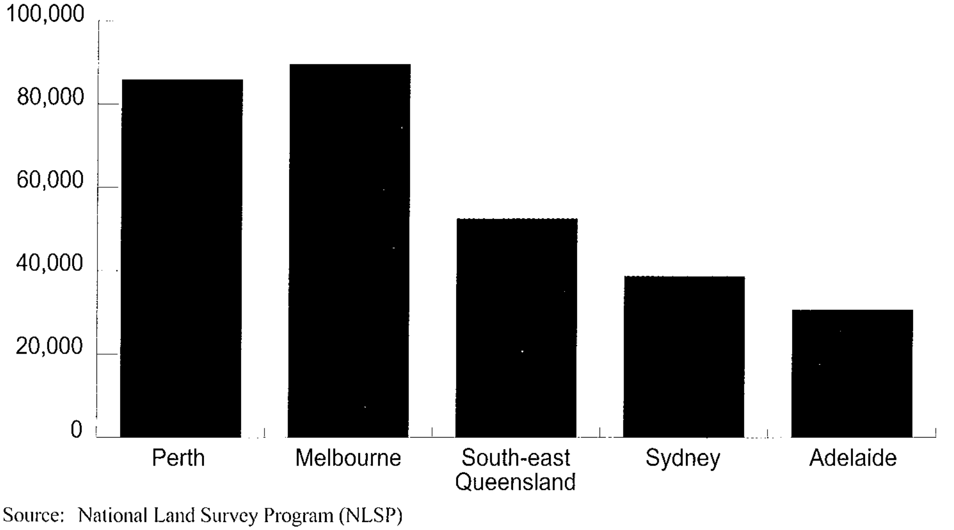
Smaller projects have a number of limitations that impact on their effectiveness. These include:

- greater interruptions to the local supply line—smaller projects are in and out of the market more quickly, meaning that it is difficult to maintain a level of supply certainty
- smaller projects generally target a select customer group such as second- or third-home buyers
- smaller projects find it commercially difficult to deliver high-level amenities such as retail, commercial, health, education and advanced open spaces
- smaller projects find it difficult to deliver smaller allotments due to lack of supporting amenity.

A major attribute of the top 30 developers is their ability to align price to changing market conditions through discounting or other incentives, the introduction of different product and leveraging their wider portfolio of projects.

The performance of a greenfield market, in being able to deliver affordable product that goes beyond being the minimal cut-and-carve variety (the provision of lots with minimal community facilities), is dependent

Figure 1: Top 30 greenfield developers (total lot yield in active projects)



Source: National Land Survey Program (NLSP) on having the right mix of project types and developers. Also, in order to ensure that the industry has the capability to supply the market, there must be an adequate wholesale land supply and an efficient planning process.

The rest of this study explores the capability of each greenfield market to provide affordable land (as defined above).

THE PERFORMANCE OF THE MELBOURNE GREENFIELD MARKET

Expected annual greenfield demand for Melbourne is 15,081 new dwellings a year or 1,256 additional dwellings per month. The 2009–10 financial year saw 90 per cent of greenfield supply being sourced from new land sales, five per cent of supply in the form of higher density and five per cent of supply coming from miscellaneous vacant allotments.

Melbourne greenfield projects have averaged 1,053 lot sales per month since June 2008, which is equal to 84 per cent of the expected underlying monthly demand of 1,256 as set out in the MSP.

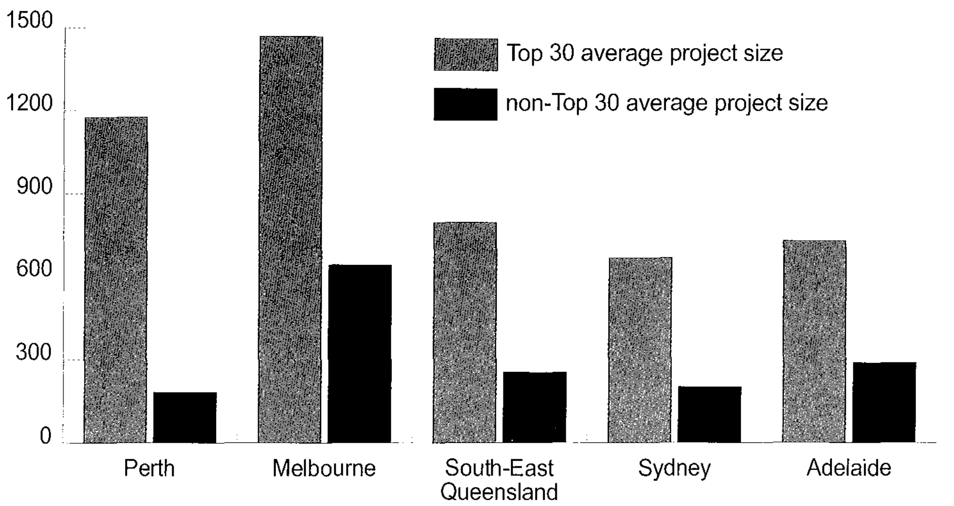
The Melbourne greenfield development industry has been able to address close to 100 per cent of expected underlying greenfield demand since June 2009. This success has largely been driven by a combination of competitively-priced lots and a good representation of master-planned communities.

The average project size for top 30 developer projects in Melbourne has been 1,469 dwellings while the average project size for non-top 30 developers has been an impressive 643 dwellings (see Figure 2). With the average project size being in excess of 1000 dwellings, developers have been able to deliver a diversified product range with multiple price points. The large scale of projects has also meant that they have been able to provide good quality supporting community amenities.

In late 2008 the local market fundamentals changed in a way that would see the Melbourne greenfield industry move from being the most affordable to being largely unaffordable for the core demand.

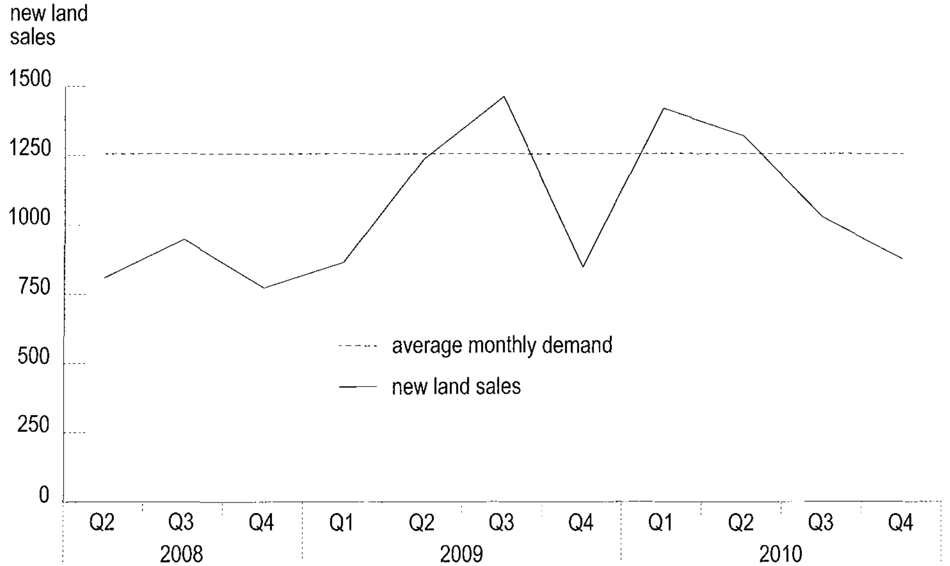
In 2006 net overseas migration into Melbourne began to rapidly increase, peaking in 2009. The result of this sustained period of

Figure 2: Average project size for Top 30 and non-Top 30 developer projects



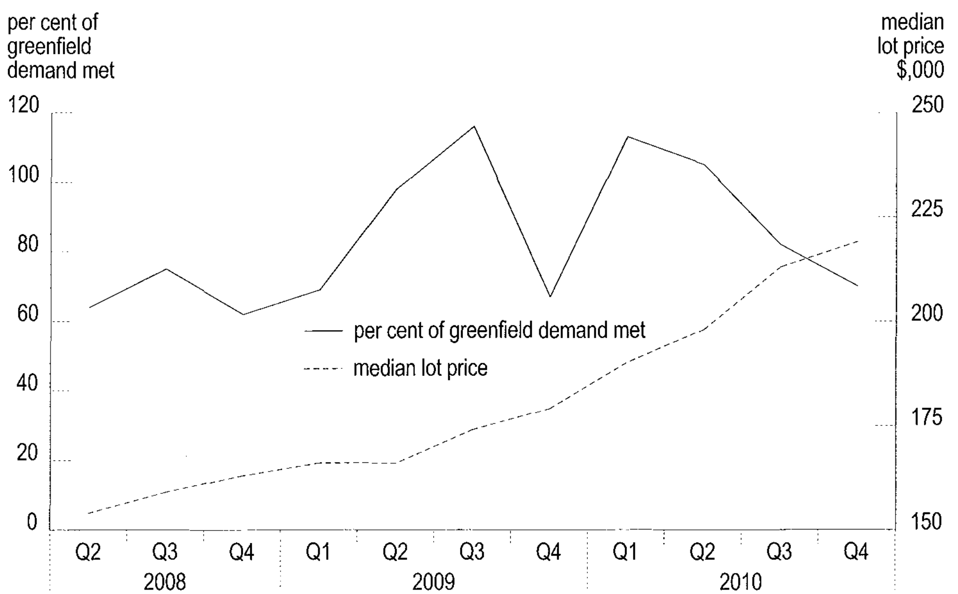
Source: NLSP

Figure 3: Greenfield project land sales and underlying monthly demand, Melbourne, Q2 2008 to Q4 2010



Source: NLSP

Figure 4: Median lot price and per cent of greenfield demand met by developer lot sales, Melbourne, Q2 2008 to Q4 2010



Source: NLSP

growth in underlying demand was to push the median house price for existing properties past the $400,000 barrier in mid-2008. With the majority of housing stock across infill markets now being at or beyond the purchasing capacity of first-home buyers, demand shifted to the greenfield. This increased pressure is shown in Figure 4, which details the median lot price for Melbourne alongside the per cent of greenfield demand (as specified in the MSP) met by new land sales.

Since June 2008 the median lot price has increased by 32 per cent. The escalation of the median price was enabled by the fact that, until recently, Melbourne land prices were well below the upper purchasing capacity of first-home buyers. This allowed projects to keep increasing their prices without losing demand. Customers saw greenfield as the land of opportunity in the sense that they could secure a new house and land for well under $400,000. However, the prolonged period of high demand (five years) has in turn placed the greenfield market under pressure, which has now resulted in a market landscape that is very different from the one in 2008. The changes have placed the Melbourne greenfield market in a position that could see its strategic role of delivering affordable land supply being significantly damaged.

Market accessibility

The first major manifestation of this outcome is the percentage of lots sold by the greenfield projects that are below $200,000 or within the purchasing capacity of first-home buyers. By Q4 of 2010, only 29 per cent of Melbourne greenfield product was sold at prices below $200,000, compared with 78 per cent in the third quarter of 2009 and 90 per cent in the third quarter of 2008 (Figure 5). The ability for projects to continue to increase prices suggests a structural problem in the underlying fundamentals of demand and supply.

Stock of lots ready for sale

The deterioration of the greenfield capability in Melbourne can be seen in the running down of the 'stock of lots ready for sale' (Figure 6). The stock of lots ready for sale represents the number of lots that have been registered on a price list for active projects. Stock of lots ready for sale is what active projects are currently able to offer to the market for purchasing. The stock of lots ready for sale will include titled lots and also lots yet to be titled but have construction approval. It does not include the balance of a project's supply nor the supply not yet activated by being in a project.

As at December 2010, there were only 1,722 lots available for sale—less than two month's worth of market activity. As is evident from Figure 6, the stock level has steadily deteriorated from December 2005. The reduction in the volume of lots ready to address customer demand reflects the impact of a prolonged period of rising demand on the capability of greenfield projects.

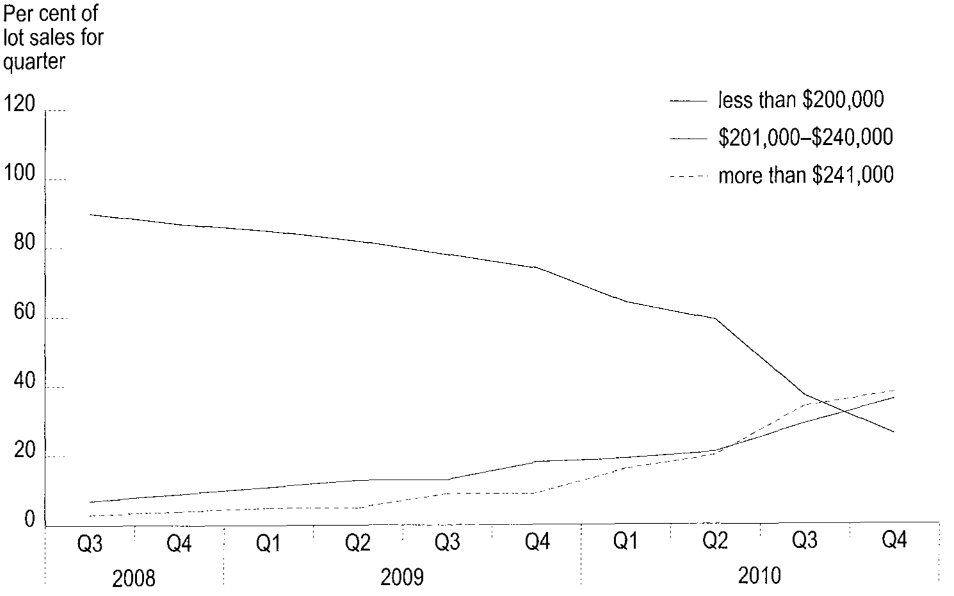
Loss of development capability

Over the past three years the Melbourne market has seen a steady rundown in stock ready for sale, sharply increasing price growth and, as a result, a reduction in the percentage of product that is accessible to first-home buyers. There are locations where one project dominates, as at Craigieburn, and this may be contributing to a slow rate of supply. But for the most part the problem is the timing of replacement projects, a problem which has been caused by a combination of planning and market factors that have moved too slowly.

The seven projects listed below, along with their overall size, are a sample from 32 large-scale projects that have low stock levels or are now complete:

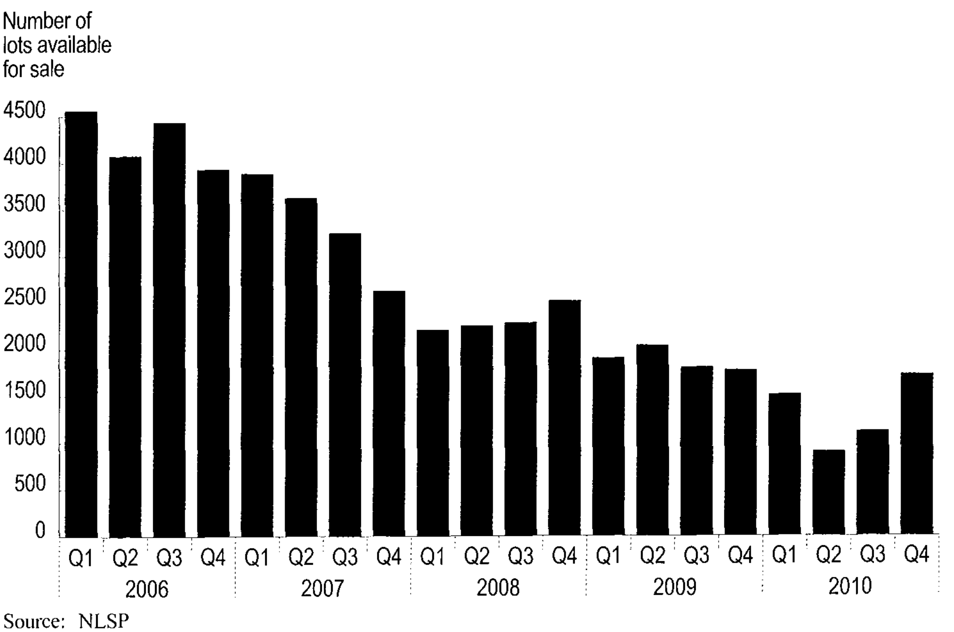
Delfin Craigieburn	3,300 lots
Delfin Caroline Springs	8,000 lots
Delfin Lakeside	2,800 lots
The Hunt Club	2,200 lots

Figure 5: Market accessibility for Melbourne showing per cent of lots sold by price category, Q3 2008 to Q4 2010



Source: NLSP

Figure 6: Stock of lots ready for sale in Melbourne, Q1 2006 to Q4 2010



Source: NLSP

Heritage Springs	1,130 lots
Taylors Hill	2,100 lots
Moorookyle	1,360 lots

Many of the top 30 developers who have had large-scale projects in Melbourne are now becoming concerned about running out of stock. This concern is driven by a high level of uncertainty regarding the timing, cost and scale of future supply. These structural issues are a direct result of delayed or slow (relative to the speed of demand) planning process. The capacity of Melbourne planning bodies to process the Precinct Structure Plans (PSP) within a time frame that addresses the rundown of stock has come under significant pressure due to the growth in demand. The greenfield development industry has also experienced greater difficulties in securing new broadhectare supply to meet demand. This has been compounded by recent delays concerning the 2010 extension of the urban growth boundary (UGB).

Life of supply in current projects

As at June 2010, Melbourne had an estimated 55,011 lots remaining in 80 active projects. Based on the 2009–10 annual sale rate, the expected life of the remaining 55,011 lots is just 3.6 years (Figure 7).

In addition to the supply remaining in the active projects, there is further supply which is at various stages within the PSP process. As at December 2009 there was an estimated 65,000 additional dwellings within the PSP process. Depending on where in the process each PSP was, the 65,000 lots could take anywhere from one to five years to get to market. Figure 8 details the likely impact that the PSP supply, in conjunction with the existing active projects as at 2010, will have in terms of greenfield development capability over time. It should be noted that the estimates are based on 100 per cent of PSP supply being controlled by developers and 100 per cent of PSPs being taken directly to market. In reality this is unlikely to be the case.

The bars represent the number of estimated active projects, including active projects as at 2010 and estimated new active projects sourced from PSP supply, and the rundown of the active projects based on sale rates. As at the close of 2009 there were an estimated 77 active projects which are estimated to reduce to 50 projects by 2015. In summary the greenfield development capability is expected to remain under pressure due to a reducing number of active projects. The 65,000 additional lots contained in PSPs are unlikely to replenish depleted greenfield capability let alone improve the overall capability.

The land development industry estimates that the 2010 shift of the UGB could supply an additional 367,000 dwelling opportunities. However, this land will need to be secured by developers. It would then spend at least five years in planning before it would begin to see the light of day. This means that supply, in addition to the 65,000 lots in PSPs, is unlikely to impact the market until 2015. When it does enter the market in 2015 there will be only an estimated 50 active projects across Melbourne greenfield. This means that the 2010 UGB supply will have minimal impact on improving overall greenfield capability up to 2018 (Figure 9).

Figure 9 details the likely timing of the 2010 UGB supply alongside the estimated life of total supply sourced from the current batch of active projects and supply from PSPs.

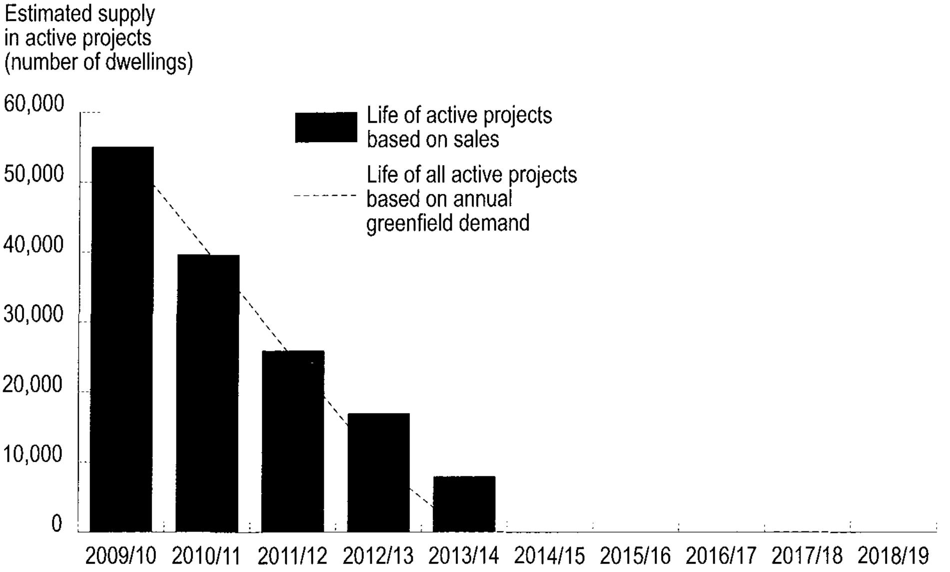
Supply is reduced by the expected sales capacity of the industry at each year which is determined by the number of projects operating. The outlook for total greenfield supply is for supply to continue to run down over the next five years in line with a general deterioration in greenfield capability.

Outlook

Having wholesale supply or land which is identified via the urban growth boundary as being available for development is in itself not enough, the real issue is ensuring that the supply of land promotes the building up of overall greenfield capability. Melbourne's greenfield supply is now in catch-up mode with existing and planned supply estimated to simply replace lost capability instead of enlarging greenfield capability.

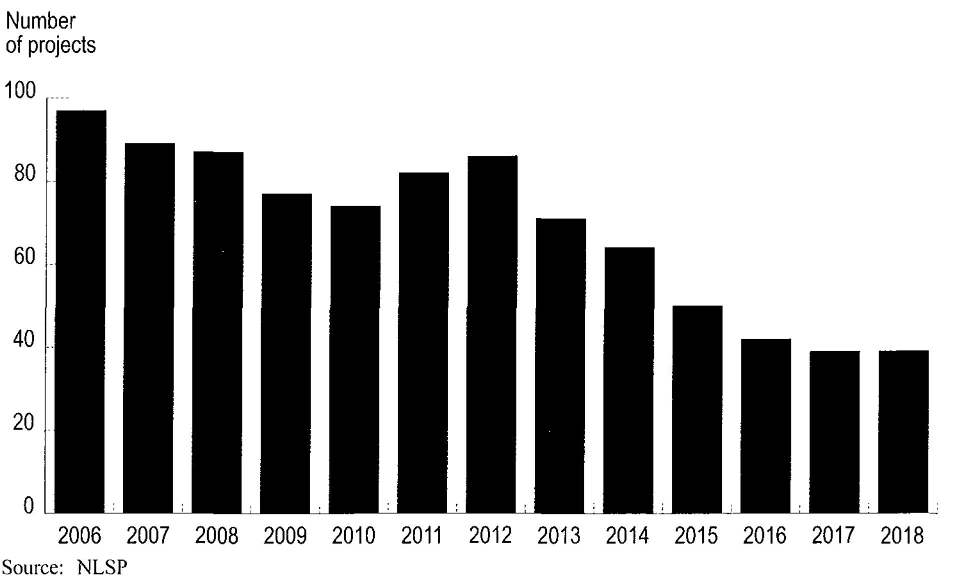
Melbourne's greenfield needs are for, on average, 88 active projects of different scale distributed evenly around the city if the stated objectives set out in the MSP are

Figure 7: Estimated life of supply for active projects, Melbourne, 2009–10 to 2019–20



Source: NLSP

Figure 8: Estimated number of active projects inclusive of PSP supply, Melbourne, 2006 to 2018



Source: NLSP

to be met. The outlook for the number of active projects is to be significantly fewer than 88, as well as a greater proportion of smaller projects. This scenario combined with the fact that the Melbourne median lot price is now $219,000 and only 26 per cent of product is accessible to first-home buyers suggests a greenfield market that will be under sustained pressure.

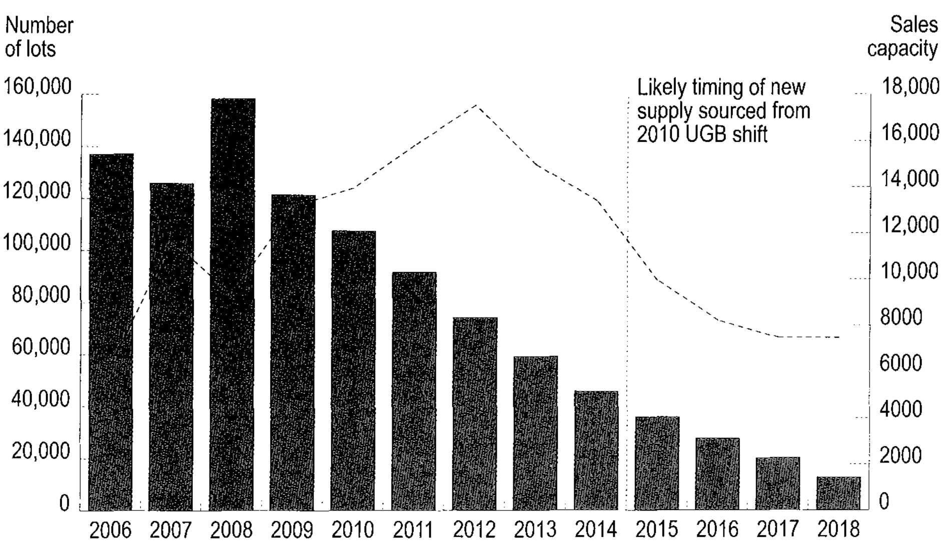
The only respite would be if underlying demand fell away, which could happen if net overseas migration to Melbourne continues to decline from its 2009 peak. In summary, the Melbourne greenfield market capability has been seriously depleted, exposing the Melbourne market to structural problems that may not be able to be repaired over the next five to 10 years.

THE PERTH GREENFIELD DEVELOPMENT INDUSTRY

Expected annual greenfield demand for Perth is 6,954 new dwellings or 580 additional dwellings per month. The 2009–10 financial year saw 27 per cent of greenfield supply being sourced from new land sales, 14 per cent in the form of higher density and 59 per cent coming from miscellaneous vacant allotments. The total 2009–10 greenfield supply of 17,371 dwellings exceeded the expected underlying demand of 6,954 dwellings. Separate from the supply of new land from projects, the Perth greenfield market in 2009–10 was also building on a large supply of vacant residual building allotments. This implies that the greenfield market in years past has been selling a significant proportion of new land to customers who were either speculative or not yet ready to build. Perth greenfield projects have averaged 474 lot sales per month since June 2008 which is equal to 81 per cent of the expected underlying monthly demand of 580 as set out within the MSP.

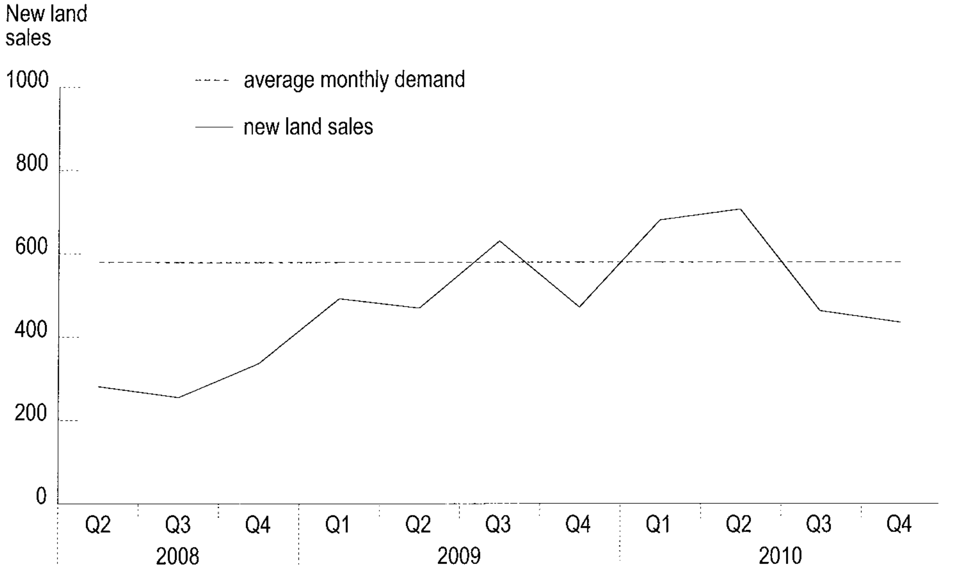
The average project size for top 30 developer projects has been 1,117 dwellings while the average project size for non-top 30 developers has been 183 dwellings. The Perth greenfield market has a good representation of larger scaled master-planned communities, second only to Melbourne. However, unlike Melbourne, Perth has a

Figure 9: Estimated supply of lots inclusive of new supply from PSPs, Melbourne, 2006 to 2018



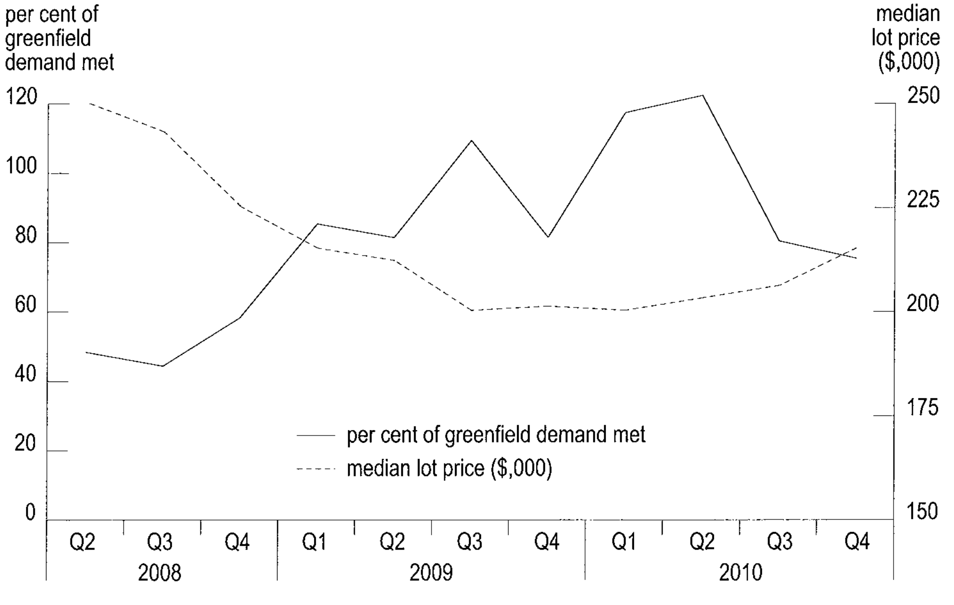
Source: NLSP and Growth Areas Authority (Vic)

Figure 10: Greenfield project land sales and underlying monthly demand, Perth, Q2 2008 to Q4 2010



Source: NLSP

Figure 11: Median lot price and per cent of greenfield demand met by developer land sales, Perth, Q2 2008 to Q4 2010



Source: NLSP

better outlook in terms of being able to continue to deliver larger scaled projects.

Over the past three years the Perth greenfield development industry has demonstrated an ability to respond to changing market conditions. This does not imply that the industry was willing to change or was in control of the change. Figure 11 details the relationship between per cent of annual greenfield demand being met at each quarter and the associated median price for new land. Figure 11 shows that the Perth greenfield development industry reduced the median lot price from $250,000 down to $206,000, which in turn opened up the range of greenfield customers who could participate in the market. By the time the median lot price reduced to $200,000 in Q3 2008 the percentage of greenfield demand being met by land sales exceeded 100 per cent.

Pre Global Financial Crisis (GFC) when the local market was booming, the greenfield development industry focused on extracting a greater premium from land sales. This approach meant that the market excluded a large proportion of core greenfield demand but this was offset by a greater profit margin per sale. Buyers could still access a block because deposits were very small and were aware that they could easily walk away from the sale. This combined with a widespread mindset that the Perth residential property market was going to be a gold mine attracted a high level of investors (private buyers) who built up the size of residual vacant land stocks.

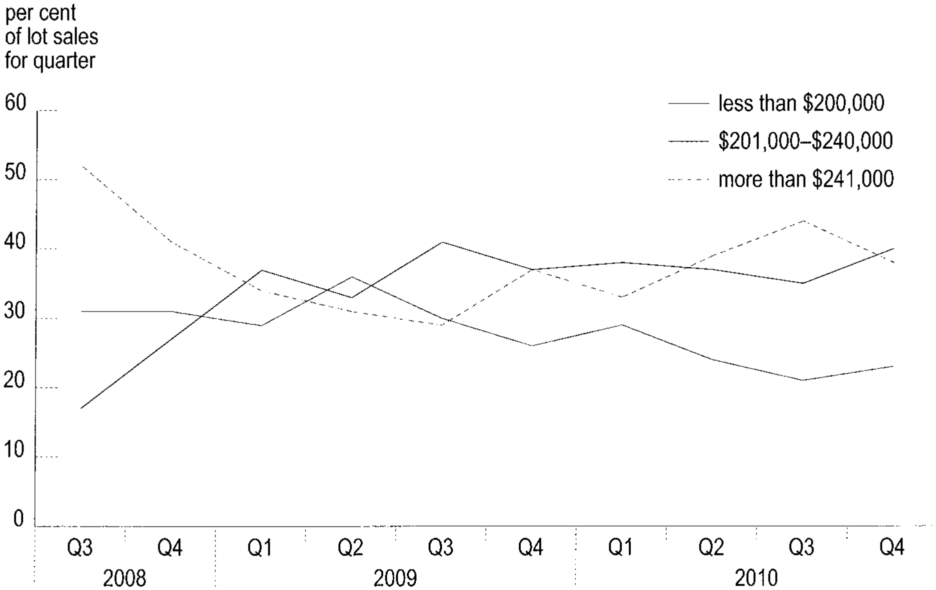
The boom-time period was interrupted by the GFC which resulted in a drying up of the target customer (second-plus home buyer and investor) who had driven price growth. The development industry had to either reconfigure the product offering or suffer a collapse in sale volumes. Unlike SEQ and Sydney, which faced similar problems, but for different reasons, the Perth market, due to its strong representation of top 30 developer, large scale projects, was able to achieve price reduction, albeit reluctantly. This in turn resulted in an increase in the proportion of land sales in the less than $200,000 category from 17 per cent in the third quarter of 2008 to 40 per cent in the fourth quarter of 2010 (Figure 12).

The Perth market has seen the stock of ready-for-sale lots increase since June 2010 which coincided with an attempt by the industry to push prices up again. The current stock of 3,020 lots is equal to seven months worth of market activity. It is suggested that the industry is unaware of the supply/demand position for greenfield and as a result may go down the same path it did in 2008, chasing higher lot prices. The industry has been able to produce more lots than what has been recently required. If this continues then it is likely that the industry will be forced to consider price discounting or greater levels of incentives.

The development industry in Perth is equipped to deal with significantly stronger levels of demand. New supply is being delivered by top 30 developers using large scaled master-planned projects. The greenfield development industry has an estimated six years of supply remaining in active projects, with new projects expected to enter the market each year and thus replenish total supply and capability.

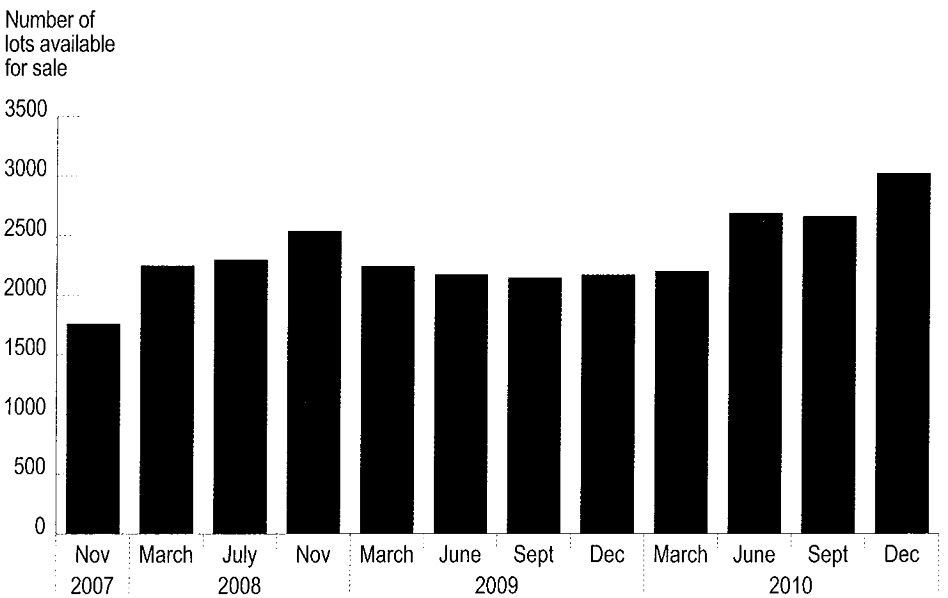
In summary, the Perth supply position can be considered the best of all markets. The industry has enough supply in active projects to address any spike in demand (unlikely because demand is already being met) and Perth has significant levels of new or future supply. The overarching issue facing greenfield in Perth is whether industry will maintain an alignment between product and customer. The stated role of the greenfield set out in *Directions 2031* clearly identifies the delivery of affordable accommodation that is set 'in more peaceful suburban surroundings'. The Perth greenfield market has been able to

Figure 12: Market accessibility for Perth showing per cent of developer lots sold by price category, Q3 2008 to Q4 2010



Source: NLSP

Figure 13: Stock of lots ready for sale, Perth, November 2007 to December 2010



Source: NLSP

address its core stated objective; however, it has also demonstrated that in periods of investment booms the industry can forget who it is primarily setup to serve.

THE SYDNEY GREENFIELD DEVELOPMENT INDUSTRY

Expected annual greenfield demand for Sydney and its two supporting regions (Illawarra and Lower Hunter) is 10,928 new dwellings or 910 additional dwellings per month. In the 2009–10 financial year 12 per cent of greenfield supply was sourced from new land sales, 40 per cent of supply from higher density development and 48 per cent from miscellaneous vacant allotments. The total 2009–10 greenfield supply of 16,514 dwellings exceeds the expected underlying demand of 10,928 dwellings.

Sydney planners have to put up with outsiders remarking on the greenfield market as being a non-performer and, depending on how you look at the numbers, this may be correct. In terms of total supply of additional dwellings across nominated greenfield markets the result in 2009–10 has exceeded expected demand. However, as noted, 48 per cent of this supply across greenfield markets has been in the form of higher density product sourced from redevelopment opportunities across greenfield locations. Sydney greenfield projects have averaged 264 lot sales per month since June 2008—equal to 28 per cent of the expected underlying monthly demand of 911 lots as set out in the MSP.

The average project size for top 30 developer projects is 668 lots and 202 for the non-top 30 developer projects. The Sydney greenfield projects are the smallest of all the four major greenfield markets. The scale of the projects highlight the difficulties developers have in obtaining large-scaled land parcels, the high costs of such land and of developing greenfield supply. The fact that the Sydney market cannot easily deliver large scaled master-planned projects undermines its capability to provide an adequate supply of affordable building opportunities located in master-planned communities.

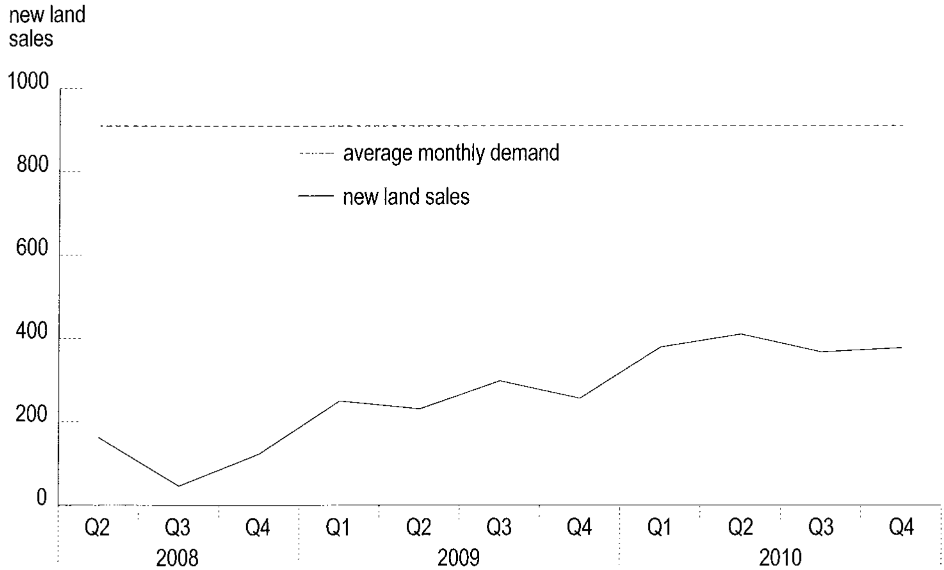
Sixty-four per cent of greenfield projects are less than 500 lots in total, with only 13 per cent of projects greater than 1000 lots. The Perth greenfield market has 27 per cent of projects greater than 1000 lots, while 36 per cent of Melbourne projects are greater than 1000 lots. The best performing projects across Sydney have generally been the larger projects, which have been able to consistently deliver a diversified product range. These include Jordan Springs (2,450 lots), The New Rouse Hill (1,800) and The Ponds with 3,200 lots.

The Sydney greenfield development industry has seen very little change to its pricing structure over the past three years, but has seen a pick-up in the percentage of greenfield demand being satisfied, albeit off a very low base. Nevertheless, the development industry has struggled to find product solutions for first-home buyers with the median lot price well over the $200,000 price point. The inability to respond to first-home buyer demand is the net result of years of structural problems pertaining to the development of greenfield supply.

The cost of developing land in Sydney is significantly higher than anywhere else in the country and, as noted, it is extremely difficult for developers to secure large parcels of new supply at a reasonable price. There are also issues of topography, infrastructure requirements and cost of development. As a consequence, it is likely that the Sydney greenfield development projects have been largely responding to second-plus home buyers.

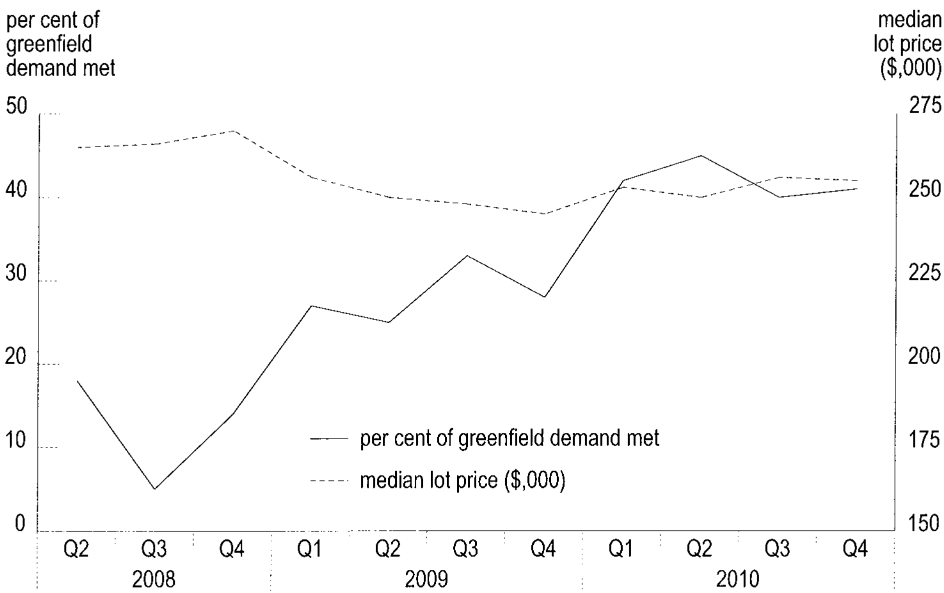
The main issue facing the Sydney greenfield development industry is how to overcome the cost barriers and supply complexities associated with development that prevent it from delivering on its core objective: the supply of affordable family living

Figure 14: Greenfield project land sales and underlying monthly demand, Sydney, Q2 2008 to Q4 2010



Source: NLSP

Figure 15: Median lot price and per cent of greenfield demand met by developer sales, Sydney, Q2 2008 to Q4 2010



Source: NLSP

product. The Sydney market represents the furthest point to date in the evolution of the national greenfield market. It indicates what happens when the supporting planning and supply processes begin to price or lock out first-home buyers. Out of commercial necessity, the industry has had to reduce in scale and focus on targeting those customers who can participate in the market. Business planning and marketing are curtailed, stage releases are smaller and expectations on outputs and performance shrink. In short, the industry capability withers.

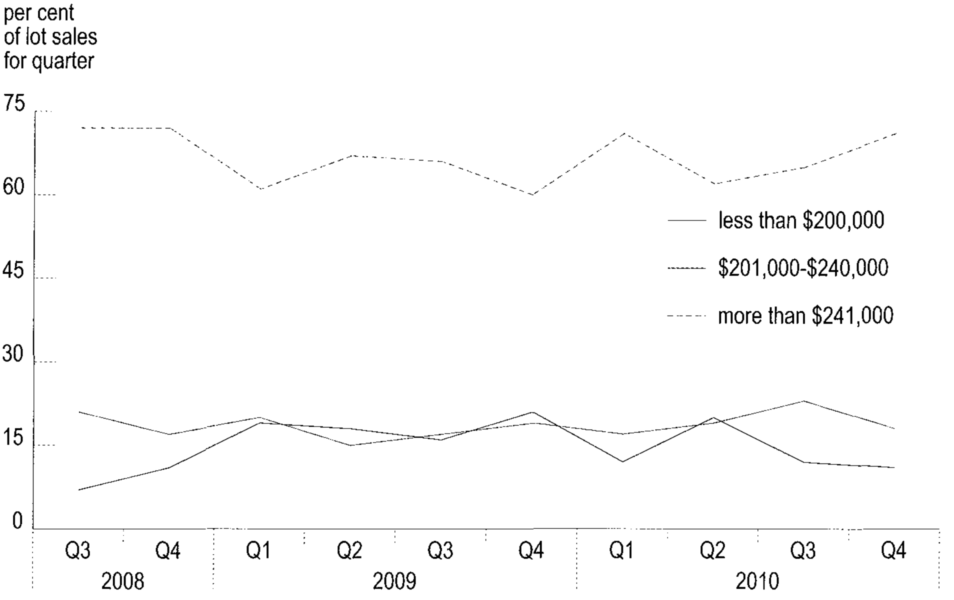
The Sydney greenfield can be viewed as the final stage of what happens when planning policies reflect the view that greenfield is an unsustainable urban development strategy. The intention in most MSPs is to see infill take on a greater role in addressing underlying demand and it can be argued that Sydney has been doing this with 48 per cent of greenfield supply being in the form of higher density.

The reduction in greenfield development capability across Sydney should be complemented by an urban infill strategy which ensures that there is adequate supply of affordable family housing opportunities supported by the required level of amenity. If this transition cannot be achieved then Sydney may lose even more aspiring home owners to other state markets than is already the case.

THE SOUTH-EAST QUEENSLAND (SEQ) GREENFIELD DEVELOPMENT INDUSTRY

Expected annual greenfield demand for SEQ is 12,420 new dwellings or 1,030 additional dwellings per month. The 2009–10 financial year saw 22 per cent of greenfield supply being sourced from new land sales, 22 per cent in the form of higher density and 56 per cent coming from miscellaneous vacant allotments.[12] The total 2009–10 greenfield supply of 16,154 dwellings ex-

Figure 16: Market accessibility for Sydney region showing per cent of lots sold by price category, Q3 2008 to Q4 2010



Source: NLSP

ceeded the expected underlying demand of 12,420 dwellings.

SEQ greenfield projects have averaged 431 lot sales per month since June 2008, which is equal to 41 per cent of expected underlying monthly demand of 1,033 as set out in the MSP.

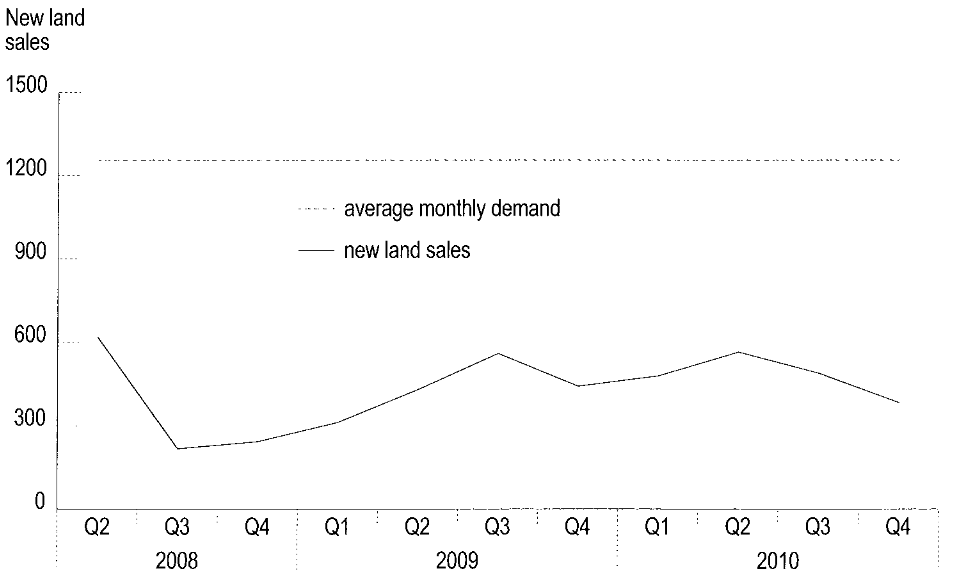
The SEQ greenfield market has been relying on the stock of residual vacant land (56 per cent of 2009–10 greenfield supply) to satisfy annual demand. The level of contribution made by the greenfield development industry has been well below the expected annual demand level. There is a question mark over whether the stock of residual vacant land is addressing current demand or past demand. Either way, the high stock levels suggest a greenfield market that has, in the past, been delivering more supply than what has been required to satisfy underlying demand (similar to the Perth market).

Eighty-five per cent of greenfield projects across SEQ are less than 1000 lots, with 42 per cent less than 150 lots. The industry profile is similar to that found in major regional cities such as Ballarat or Geelong in Victoria. Regional cities tend to have a large number of projects but the vast majority are small, with developers entering and leaving the market over a short time frame. SEQ greenfield sites share a similar profile suggesting that the industry capability in SEQ is not set up to respond to the levels of demand the SEQ market is required to address. The main issue with smaller projects is that they tend to focus on the highest paying customer and neglect other customer groups. Smaller projects are run by businesses with low cost and high margin objectives, resulting in cut-and-carve type projects.

The median lot price for the SEQ market has shown very little variance over the past three years. Currently, the median lot price is sitting on $249,000, which is $7,000 below the Sydney median lot price.

Despite the global financial crisis, the median lot price did not move much, which suggests that the industry was un-

Figure 17: Greenfield project land sales and underlying monthly demand, Sydney Wollongong and Newcastle, Q2 2008 to Q4 2010



Source: NLSP

able or unwilling to reposition product. Figure 19 shows that the repositioning that did take place saw the per cent of high valued product reduce from highs of 60 per cent to 40 per cent. Since Q1 of 2010 the trend has been for projects to have a greater representation of product priced above $240,000 and consequently fewer products under $200,000. The repositioning of product was largely undertaken by projects where the scale was large enough to allow the developer to introduce a greater proportion of smaller lots with an associated lower price tag. The smaller projects could not introduce smaller lots due to a lack of capacity to deliver the required supporting amenity.

The local market is very much geared to delivering housing opportunities to those looking to upgrade or to secure the SEQ lifestyle. With the majority of product being beyond the reach of first-home buyer demand, the only customer groups remaining are those who are looking to upgrade.

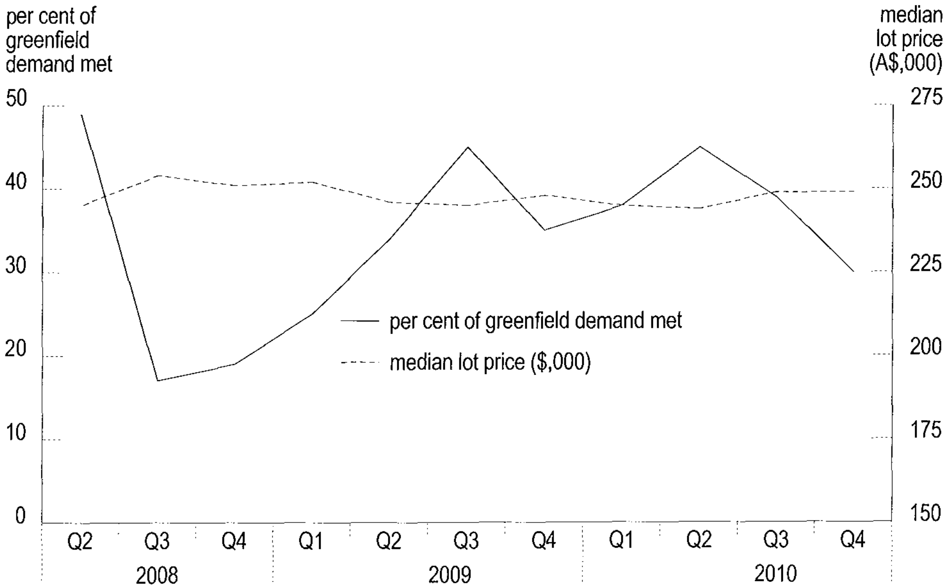
The stock of lots ready for sale has been increasing since Q3 2009. The current stock level is equal to eight months of market activity.

The role of the SEQ greenfield market, according to the state MSP, is to deliver affordable land to address strong population growth in a format that promotes the SEQ lifestyle. The three aspects of the role—affordability, volume and lifestyle—are slightly different to the more conventional platforms of affordability, volume and liveability.

The SEQ market has been unable to deliver affordability and volume but has been able to deliver lifestyle. The focus on beach living and large allotments to carry an array of domestic living add-ons has been at the expense of ensuring that there is sufficient affordable supply supported by the required community infrastructure.

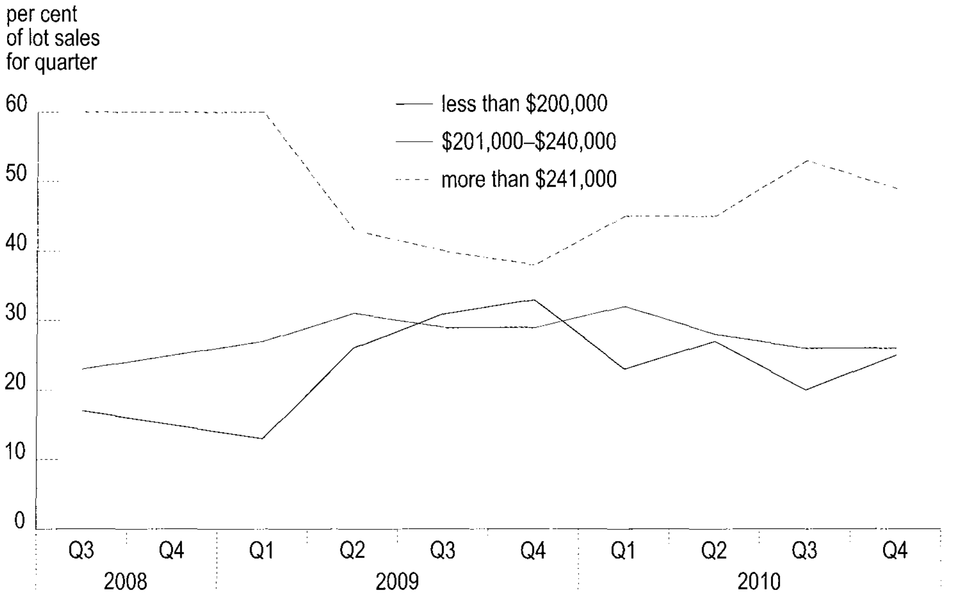
Sub-markets, such as the Sunshine Coast, Gold Coast and North Brisbane, have numerous projects promoting the lifestyle

Figure 18: Median lot price and per cent of greenfield demand met by developer land sales, South East Queensland, Q2 2008 to Q4 2010



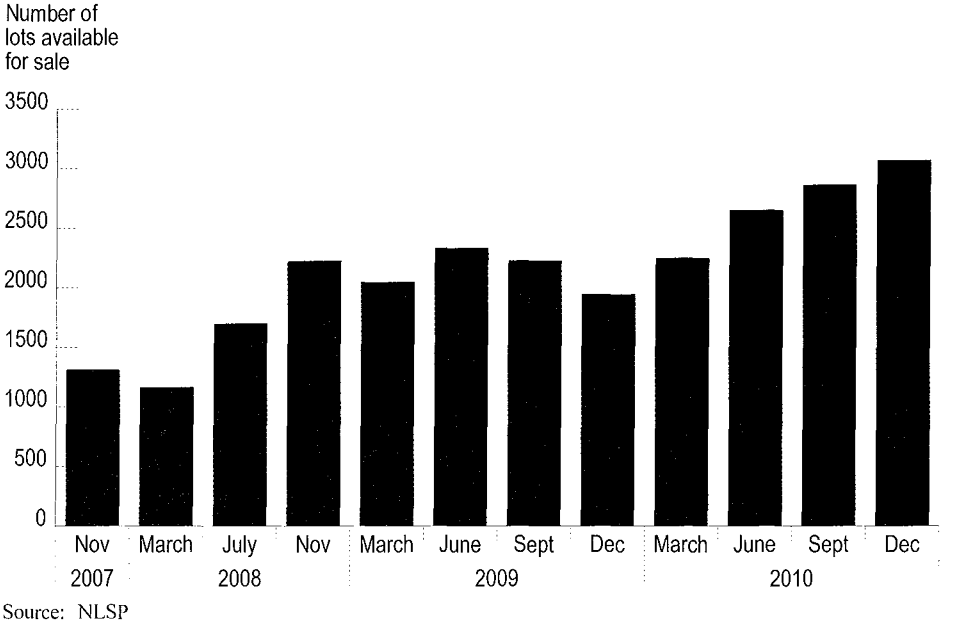
Source: NLSP

Figure 19: Market accessibility for South East Queensland showing per cent of lots sold by price category, Q3 2008 to Q4 2010



Source: NLSP

Figure 20: Stock of lots ready for sale, South East Queensland, November 2007 to December 2010



Source: NLSP

component with associated price tags. Sub-markets such as Ipswich, which is the great hope of SEQ strategic planning, have large scaled projects and supporting amenity, but struggle to attract demand away from buyers desiring a beachside sub-market.

In summary, the performance of the SEQ greenfield market has too much exposure to smaller high-valued projects aiming to cash in on lifestyle aspirations. This setup works when a market is booming and investment money is flowing, but it does not work for addressing local first-home buyer demand. SEQ is in desperate need of more projects that are large scale and can respond to the everyday needs of a domestic household population. These projects need to be able to deliver a range of product solutions with a range of price tags. Sub-markets such as the Gold Coast currently do not have enough large scaled projects, while the North Brisbane market is seeing its major projects dry up.

Currently, the life of supply in active projects is less than four years and, with new supply taking on average five years to deliver, the ability for the SEQ greenfield market to fulfil its role will be further compromised.

CONCLUSION

All of the metropolitan strategic plans state that the role of greenfield markets is to deliver affordable housing opportunities at volume in order to address expected household population growth. Greenfield markets are seen as the front line in supplying affordable living opportunities—the bread and butter of any housing market. It is clear that there needs to be an adequate industry capability that can ensure delivery of affordable product. Industry capability is not simply having zoned land but also having a representation of developers who can convert the supply into master-planned communities that deliver on the strategic targets set out in the MSPs.

If a country has a food shortage, the provision of more land for cropping will not guarantee a solution. An associated investment in the processing and production capability will also be required. The greenfield market has been facing a similar problem, driven by strong population growth. The debate regarding housing solutions has primarily centred on ensuring there is adequate wholesale supply. It is fair to say that all markets have identified sufficient wholesale land supply as a problem, but what has been lacking is complementary investment in building up or retaining local industry capability.

Out of the four major greenfield markets—SEQ, Sydney, Perth and Melbourne—only two currently have the capability to deliver affordable, well-serviced housing opportunities at volume. As is well known, the Sydney greenfield industry lost this capability decades ago. The industry now accounts for 12 per cent of total greenfield supply with only 11 per cent of lots priced under $200,000. At the other end of the spectrum is Perth. There, the greenfield industry is well placed via ample zoned land and a development industry notable for the number of large developers capable of producing master-planned estates of 1,000 lots or more. The median price of land in Perth has been around $200,000 since Q3 2009 and thus within the range of most prospective first-home buyers. The challenge now facing the industry is to refrain from escalating lot prices and to maintain a healthy proportion of product that is accessible to first-home-buyer demand.

The greenfield industry in SEQ appears to be heading down the same pathway as Sydney. The market has a lack of large scaled projects with the majority of projects being less than 500 lots and positioned to deliver lifestyle product. Planning issues associated with smaller lots, combined with higher land and development costs, have meant that only 25 per cent of product is priced below $200,000. Active projects have less than four years of supply remaining and, with planning timelines extending past five years, the outlook for greenfield remains more of the same. The ability to improve the capability of greenfield in SEQ is now dependent on the timing and location of new major master-planned communities. If the next batch of broadhectare supply fails to include sufficient larger scaled projects then the capacity of greenfield developers to respond will continue to be limited.

The Melbourne greenfield industry has been faced with a sharp increase in demand for its product in recent years due to population growth and the inability of infill markets to supply affordable housing. This study shows that, in the process, the industry's capability has diminished as the output from a number of top 30 developer estates has begun to decline. Such is the tightness of the greenfield market now that there is very little by way of a buffer of vacant land held by investors or prospective home owners. As a consequence, stocks of finished blocks (not yet sold by developers) by the December Quarter 2010 were reduced to less than two month's supply. The median price of new land by this quarter reached $219,000, with only 26 per cent of all lots on offer now under $200,000.

The outlook in Melbourne is bad. The pipeline of large projects is unlikely to impact on the market until 2015. Developers are finding it difficult to purchase zoned land in parcels large enough for 1000-lot estates and, to the extent that they do obtain such land, they face a planning process that typically lasts five years before product can reach the end customer. Current supply in active projects is equal to 3.5 years of selling, while additional supply in PSPs (65,000 lots) will be unable to replenish depleted greenfield capability.

The supply earmarked with the 2010 UGB shift is expected to begin to enter the market in 2015, which will mean that from 2011 to 2015 the Melbourne market will continue to lose greenfield capability.

As a result, Melbourne is about to lose one of its key advantages in its recent record of sustained high economic growth. This was its comparative advantage in providing affordable housing relative to Sydney and, at least in recent years, to SEQ as well.

Until recently, greenfield land developments have provided the foundation for housing affordability in Australia. Such developments provided the traditionally highly prized house and land that most new home buyers expected as their birthright, at prices most could afford. It is now understood that the family house does not come with a quarter acre, but rather with a 14m by 32m allotment. Yet, despite the rationing in land sizes, the main issue now is whether new home buyers can find something they can afford.

The role of greenfield markets is to provide affordability, volume and liveability. The main reason why markets such as Melbourne and SEQ are struggling to sell homes to first-home buyers is because of the difficulties developers have in the delivering supply to market. This is not widely understood in commentary about the land market in Melbourne or SEQ.

Author's declaration

This study derives from the work of the National Land Supply Program. The conclusions do not necessarily reflect the views of VicUrban.

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