

Melbourne's Growth Area Land Market

June 2010

In recent years much discussion has focused on adequacy of land supply in Melbourne's growth corridors in the light of record population growth.

In addition to the estimated 122,000 lots within the current urban growth boundary, recent State Government announcements will deliver an additional 260,000 lots, based on net densities of around 15 lots per hectare (on developable area).¹

Total land designated for urban development in Melbourne's growth areas will be in the order of 380,000 lots. It will give Melbourne the second largest growth area market in Australia, in terms of yield that's around 38% of the east coast capital city land supply.

More importantly, it will set up the framework for more than 40 additional precinct structure plans - many in corridors where the retail land supply has fallen to historically low levels.

Table 1

East Coast Growth Area Land Markets

	Estimated Lot / Dwelling Yield ²	Median Retail Lot Price
Melbourne	380,000	\$187,250
Sydney (exc. North Wyong Structure Plan)	242,977	\$250,000
Brisbane (inc. higher density, encompassing attached housing and small lot subdivision)	414,936	\$245,000

Importantly, despite recent land price growth, Melbourne's still maintains a favourable median price differential over other east coast capital markets, on average around \$60,000 (even more depending on which data source Melbourne is benchmarked against).

But for how much longer will this remain, let's not forget, that the growth areas are forecast to house a quarter of the city's population or one million people in just 18 months. Unfortunately, record population growth has and will continue to generate increased dwelling demand.

¹ Based on the 2009 Urban Development Program less estimated 12 month take-up.

² Source: DPCD, DIP and MDP.

The Reserve Bank's Assistant Governor for Economics, Philip Lowe, said on the 10th March 2010:

..... that if population growth remained strong, more of the economy would need to be devoted towards housing, presenting challenges both to labour markets and governments. If this does not happen, he warned, Australian house prices could be pushed even higher.

Whilst, on the 18th May 2010, Luci Ellis (Head of Financial Stability Department) with the Reserve Bank concluded:

..... that if the number of dwellings does not expand, more of the adjustment must come as a higher cost of housing - both prices and rents.

Table 2

Forecast Growth Area Population

	Melbourne Statistical Division (MSD) Population	Growth Area Population	Growth Areas as a % of MSD
2006	3.70 million	0.76 million	20%
2012	4.14 million	1.06 million	24%
2026	5.00 million	1.50 million	30%

Source: Department of Planning and Community Development

With that in mind and recognising the need to deliver zoned land and more importantly retail supply to the market, Melbourne's growth areas have been gathering momentum for a number of years with land sales as a percentage of metropolitan Melbourne land sales rising from 56% in 2000 to almost 80% in 2009 (as to be expected).

House sales in Melbourne's growth areas now constitute over 30% of all metropolitan Melbourne house sales compared to 21% in 2000.

Government data shows growth area dwelling approvals comprised around 48% of all metropolitan dwelling approvals over the last four quarters - for the first time peaking at half of all approvals in the June quarter last year.

Graphic 1

Melbourne Growth Area Dwelling Approvals as a % of Metropolitan Melbourne Dwelling Approvals

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Even apartment sales are rising in the growth areas, almost doubling from 5% in 2001 to 9% of all sold in Melbourne so far in 2009 (10% based on preliminary 2010 data) - perhaps a sign of rising growth area affordability or is it simply emerging demographic profiles?

Oliver Hume's 'Medium and High Density Digest' already shows a median 'off the plan' growth area one and two bedroom apartment price of \$290,000 (50 sqm.) and \$345,000 (75 sqm.) respectively.

On the supply side, the second quarter of 2010 delivered eight new residential land projects, adding to the four released in the previous quarter (on average the last few years have delivered around 24 new residential land projects per annum, average 8,750 retail lots, end yield).

The four new projects comprise around 4,500 residential lots, end yield, with three located in the City of Wyndham, two in Casey and Whittlesea respectively and one in Melton.

The median land price across all new releases was \$186,000 - up from the \$175,500 last quarter (around 6% or a quarterly increase of \$117 per day over the quarter). The most affordable lot released was \$125,000 in Melton (township).

The median lot size in the first stage of each of the new projects was 430 square metres, down from 449 square metres last quarter. Each new project achieved a median project sales rate of around 16 per month.

With consideration given to projects which have been withdrawn from the market, completed or released, total end stock has lifted by around 1% to 103,157. In total, 90 land projects, up 3.5% on the previous quarter.

In terms of distribution by projects, Whittlesea and Wyndham each comprise around a quarter of projects, followed by Casey with 17%. Cardinia, Hume and Melton each comprise 10%. Whilst, in terms of distribution by yield, Whittlesea comprises around 26,000 lots followed by Wyndham with around 24,000. Casey comprises the lowest of all municipalities with around 10,900 lots.

A total of five projects sold out during the quarter, three which were in the City of Wyndham. Of note, the median entry stage one price of the five projects was \$115,000, whilst the median last stage was \$172,000.

The retail supply position at the end of June has fallen significantly, almost halving during the quarter. The average growth area municipality retail supply is around 85 lots, or less than 1 month's supply (that's a fall from around 300 lots per growth area municipality in 2008, say 1,800 lots).

It's even more daunting on a project basis, in 2008, growth area estates had an average of 19 blocks for sale; at the end of June this year these averages are in single figures (across the 90 projects).






The growth area retail median land price continues to rise and is now \$187,250 for the June quarter, whilst aggregated available product data at the end of June 2010 delivers a more confronting median of \$207,500.

The debatable median land price of \$200,000 flagged in the March 2010 edition of this publication has well and truly arrived - much early than expected.

The median retail lot size is now 512 sqm. Median lot prices as at the June quarter and 12 months prior are shown in the following table.

Table 3

Median Lot Price and Land Area as at June Quarter 2010³

Municipality	Median Price		Median Land Area (Sqm.)	
	June 2010	June 2009	June 2010	June 2009
Cardinia	\$	\$157,000	586 sqm. 	
Casey	\$220,000  (-1.0%)	\$222,250		610 sqm
Hume	\$181,000  (1.1%)			
Melton		\$112,450		547 sqm.
Whittlesea			512 sqm. 	550 sqm
Wyndham	\$186,000  (10.7%)	\$167,950	512 sqm.	512 sqm.

One again, continued land price growth across all municipalities except Casey this quarter which experienced a marginal decline (-1.0%). Of those which experienced an increase, the most noticeable was the ever fluctuating and tightening Melton (up 21.8%) and Whittlesea (up 17.9%).

In the short term it's onwards and upwards as demand continues to outweigh retail supply adding to short term price pressures.

³ As at the March quarter 2010, this table now represents median price and lot size and variance over a twelve month period. Source: Melbourne Residential Digest ©.

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