



AUGUST 2012 ENGLOBO LAND

Residential Market Overview
Knight Frank

Aerial view of Meadow Springs, Mandurah.
Mandurah recorded a 57% increase in lot sales in the March 2012 qtr.

HIGHLIGHTS

- Forecasts by the Australian Bureau of Statistics (ABS)¹ show an average of 1.85% annual population growth in the Greater Perth Region (GPR)² over the next 20 years, taking the population to 2.49 million by 2031, an increase of around 727,000 people. Using an estimated 2.6 people per dwelling, a further 280,000 dwellings will be required in the GPR over this time frame.
- The Real Estate Institute of Western Australia (REIWA) recorded the preliminary median price for residential land for the March 2012 quarter at \$265,000 in the Perth metropolitan area, up from \$240,000 in the March 2011 quarter (up 10.4%).
- The developers stock of conditional approval lots proposed is 43,268 in the metropolitan area. Baldivis, Yanchep and Byford are the top 3 suburbs with 7,834 proposed lots. Based on 10-year average sales of 8,500 lots per year (REIWA), there is around 5 years of developers lot supply available.
- A return to tighter lending conditions and lower loan-to-value ratios have impacted upon englobo sales activity over the past four years.

AUGUST 2012

ENGLobo LAND

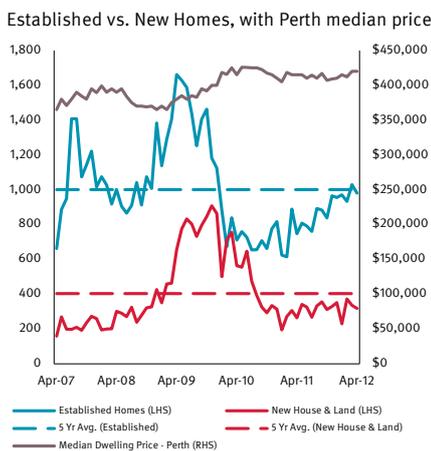
Residential Market Overview

Market Overview

Between 2005 and 2008, strong demand for well-located residential englobo properties, led to increasing sales rates and values for the subdivided product, which consequently led to increasing values for these properties. However, the global financial crisis (GFC) in 2008/09 saw price corrections ensue as a result of tighter lending conditions and softening in the residential land market, with increased costs of borrowing and lower loan-to-value ratios impacting on holders of englobo land.

Despite the GFC, the number of lots sold during this period was buoyed in October 2008 by the Federal Government's boost to the First Home Owners Grant. The boost ended in December 2009, though the WA State Government has continued the First Home Owners grant with \$7,000 going towards properties valued up to \$750,000. To April this year, 25% of all applications received have been for new dwellings, with 1,256 grants paid towards new houses and land.

Figure 1
First Home Owner Grants Paid



Source: Department of Treasury

Whilst underlying demand for housing is primarily driven by demographic factors, such as population growth, market factors, including consumer confidence, interest rates and affordability, have moderated demand in more recent times by purchasers.

POPULATION

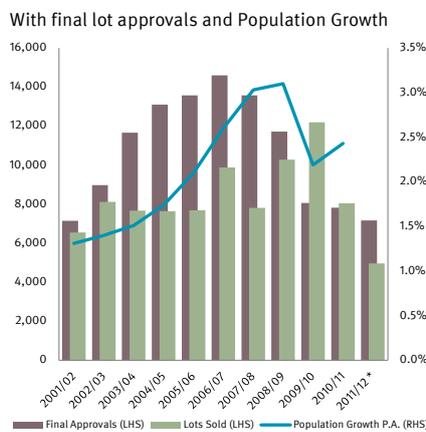
The estimated resident population for Western Australia grew 3.03% to 2,387,232

people for the year to December 2011, with approximately 74% of people in the Perth metropolitan area. Net overseas migration accounted for 58% of the increase in population over the year to December 2011.

The City of Wanneroo recorded the largest growth in population, with an increase of 6,239 people (up 4.2%). The Shire of Serpentine-Jarrahdale had the fastest growth with 6.9% over the 2010/11 year, mainly attributable to new land development establishing within the Byford locality.

Forecasts by the ABS¹ show that the population for the GPR, in a medium-growth scenario, is forecast to grow on average 1.85% per year for the next 20 years. This will bring the population to over 2.49 million by 2031, an increase of around 727,000 people. With an estimated 2.6 people per dwelling in the GPR, calculations by Knight Frank note that this will require approximately 280,000 new dwellings over this time frame.

Figure 2
No. of Residential Lots Sold



Source: REIWA/UDIA/WAPC/ABS

*Financial Year to March 2012 qtr

LOTS SOLD AND MEDIAN PRICE

The REIWA Market Update – March Quarter 2012 noted that the preliminary number of residential lots sold in the Perth Metropolitan area for the year to March 2012 was 6,776 (an average of 130 per week). This is down 22% yoy compared to March 2011 (8,654).

The median price of land has been relatively steady for the past two years, with the preliminary median residential land price for the March 2012 quarter at \$265,000; up

10.4% from \$240,000 in the March 2011 quarter (REIWA).

The Urban Development Institute of Australia (UDIA) noted that there was an increased proportion in the numbers of lots sold in the \$200,000-\$340,000 range – traditionally noted as 2nd and 3rd home-buyers – in the first four months of 2012, with 51.1% of the total. This could account for the increase in the median price for the March 2012 quarter.

Figure 3
No. of Lots Sold Per Quarter



Source: REIWA/UDIA

The average number of lots sold per quarter in the Perth Metropolitan Region (PMR) over the past 10 years is 2,148 lots (165 lots per week). Over the same period, the median lot price has almost trebled.

Some regional areas outside the PMR have seen strong levels of lot sales for the March 2012 quarter; e.g. the City of Mandurah (57% increase) and the City of Busselton (20% increase). Land developments east of the Perth CBD or in the south-west of Western Australia have been attractive to Fly-in-Fly-out workers. Whilst this is not the rule, the appeal of “lifestyle” blocks and/or proximity to airports has been a draw-card for these areas. For example, Rio Tinto has flights from the regional centres of Busselton, Albany and Exmouth.

LOT SIZES

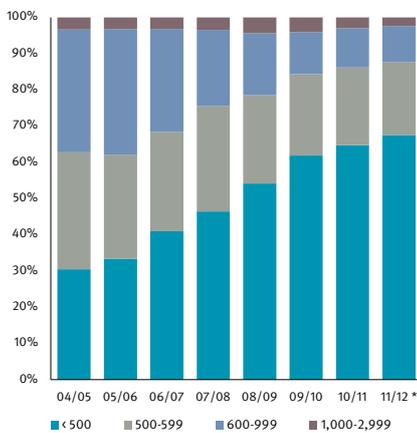
In the 2004/05 year, the median lot size was 560m² in the Perth metropolitan and Peel areas. This median size has gradually decreased where the latest median, as at the March quarter 2012, was 419m². The number



of lots sub-500m², as a percentage of final approvals, is increasing and now sits at 67%.

Reasons cited for the decrease in size include the high cost of developable land, initiatives to increase density in housing estates along Government directives, and a selection of affordable end-product available to the market, particularly within the first homeowner buyer segment.

Figure 4
Final Approvals by Lot Size Range
Percentage sold by lot size range (m²)



Source: WA Planning Commission
*Financial Year to March 2012 qtr

Supply and Development

The WA Planning Commission’s (WAPC) *State Lot Activity* showed that developers stock of conditional approvals for proposed residential lots up to the end of March 2012 was 43,268 in the metropolitan area. Baldvis, Yanchep and Byford are the top 3 suburbs for proposed lots, totalling 7,834.

Based on REIWA statistics, the average number of lots sold per year is 8,500. With developers stock of 43,268 conditional approvals, there is up to 5 years of potential future land supply.

The level of final lot approvals (Figure 2) has dropped since the GFC, a reflection of lower developer confidence in the short-term outlook. The WAPC has noted the 20-year average for final approvals in the PMR is 9,930 per year (2,482 per quarter). However, the March 2012 quarter totalled 1,390 final approvals, with Harrisdale (129), Byford (108) and Baldvis (72) being the top 3 suburbs – significantly down on average levels.

There were 408 applications to the WAPC in the March 2012 quarter relating to 11,174

LGA	Developers Stock Conditional Approvals	Final Approvals (March 2012 Qtr)
Wanneroo (NW)	11,539	144
Armadale(SE)	5,732	154
Rockingham (SW)	4,386	98
Swan (E)	4,193	135
Stirling (I)	1,414	162
Balance of PMR	16,004	697

Source: WAPC
NW North West I Inner E East
SW South West SE South East

proposed lots in the metropolitan area. The north-west and south-east regions accounted for 60.9 % of proposed lots being assessed, with Butler (1,445), Piara Waters (1,141) and Alkimos (743) the top 3 suburbs for proposed lots.

As highlighted by lower sales numbers over the past 2 years, the number of lots on the market for the March 2012 quarter was 1,995 in the PMR (UDIA). There are currently another 1,173 lots not actively being marketed which are being held back by developers until the current stock is absorbed.

DEVELOPMENT ISSUES

Supply-side constraints have hindered the ability to supply new land for residential development in Western Australian. Several issues are fronting the developers of englobo land at present, including:

- ◆ developer contributions – variations between councils;
- ◆ constrained sand supply;
- ◆ environmental considerations and

approvals – State and Federal;

- ◆ rising costs associated with infrastructure – in terms of pricing and time; and
- ◆ access to reliable water supplies – in some parts of Perth, licences to take water from aquifers are not available because maximum sustainable allocations have already been issued.

Englobo Land Activity

A return to tighter lending conditions and lower loan-to-value ratios have weighed upon englobo sales activity over the past four years. Additionally, values for englobo land have been impacted by zoning restrictions, time-frames to develop and local infrastructure costs, with these variables being factored into the price per hectare paid for englobo land in recent times.

There continues to be a demand for englobo land extending out along the coastal plain, with the emergence of land in proximity to the City that was formally rural land, e.g. Caversham.

Outlook

Tight financing conditions have slowed capital growth for englobo land in the short-to-medium term, with high holding costs continuing to inhibit englobo sales that have medium to long-term development potential.

A rapid increase in population into the State will see a rapid rise in the demand for housing. Upward pressure on rents and decreasing rental vacancy levels in the PMR may lead to increases in building approvals and commencements as purchasing a property becomes a more affordable and attractive proposition. Affordability and changing demographics may continue to impact the size and type of lots transacted.

Address	Price (\$m)	Area (Ha)	\$/ha of site	LGA Zoning	MRS Zoning	Purchaser	Sale Date
29-63 Harvey Rd, Karnup	4.50	20.4072	220,510	Dev	UD	Landcorp	Apr 12
225 Baldvis Rd, Baldvis	20.10	76.554	262,560	Rural	UD	Perron	Dec 11
L50 Galvin Rd, Mundijong	2.35	28.6846	81,925	U Dev	Urban	Private	Jun 11
275 Abernethy Rd, Byford	11.50	31.3152	367,234	U Dev	Urban	Private	Jun 11
509 Kingsway, Landsdale	7.50	5.2599	1,425,883	U Dev	Urban	Private	May 11

Source: Knight Frank UD Urban Deferred Dev Development U Dev Urban Development



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¹ The Greater Perth Population (GPR) is based on the most recent ABS 2011 Census 1st release data (released June 2012). As at the census night (9th August 2011) there was 1,728,867 people in the GPR, based on the "Place of usual residence" series. Census 2nd release data is due for release during September 2012.

Population forecasts are based on Series B of the most recent ABS Population Projections. (released Sep-2008).

² The Greater Perth Region includes the Perth Metropolitan Region and the Peel Region (including Mandurah).

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