

the matusik snapshot

A regular focus on the residential property scene

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Land prices

In a country with so much land, why is the price of land here amongst the highest in the western world?

For more than 50 years the average Australian family was able to buy a new home on the average wage. Traditionally, new houses were priced at about three times the annual earnings of the typical family. Today, new house prices in most urban areas exceed six times the average household income and in Sydney, Perth and on both the Gold and Sunshine Coasts they exceed eight times such earnings.

A few years back, former Reserve Bank head honcho Ian Macfarlane asked, "Why has the price of an entry-level new home gone up as much as it has? I think it is pretty apparent now that reluctance to release new land, plus the relatively new approach whereby the purchaser has to pay for all the services upfront – the sewerage, the roads, the footpaths and all that sort of stuff – has enormously increased the price of land and the new, entry level home."

Until the mid-to-late 1970s across much of Australia the actual development of new housing was largely left to the private sector. The public sector – meaning both local councils and often water boards and the like – built the infrastructure which serviced new urban development. In those days infrastructure costs were absorbed in general expenditure accounts, which were covered by council rates. In many ways the real costs of new urban development, and therefore serviced englobo land, were not apparent and most certainly headwork charges were not factored into land prices. Land was abundant back then and very affordable, and yes maybe, in retrospect, a little too plentiful and cheap.

Then came Fred Hilmer's National Competition Policy in the early 1990's, which required local authorities to account for their expenditure by cost centres. They found that the cost to service new urban development was high and began shedding their construction workforces in favour of contractors. Contract work, in turn, became a direct cost which was identified as an overhead which required matching revenue. This revenue became headwork

charges, which can now cost as much as \$150,000 per new allotment in parts of Sydney.

As a result, the government become convinced that new subdivisions were very expensive to build and that they required too much additional infrastructure support – such as schools, hospitals, police stations and the like. Despite escalating headwork charges, stamp duties, land tax and later the levying of GST on new property, providing this new infrastructure would require raising taxes, which of course they were (and still are) reluctant to do. Spurred on by the urban planning cheer squad, governments started pushing urban consolidation as the solution to their planning dilemmas.

The case for urban consolidation was that it was good for the environment; stemmed the loss of agricultural land by curbing city size; encouraged people to use public transport; saved water; led to a reduction in car use and saved on infrastructure costs. Sadly, none of these are true, and whilst a subject for another Snapshot later this year, it is worth debunking the infrastructure cost issue here.

On first reading, urban consolidation or infill development would appear to cost less to service than a new suburban estate. Water pipes and sewers would only need to be upgraded rather than built from scratch. Minor, rather than major road works would be required. Developers would be able to cover these additional costs – on top of course of the high headwork charges! – as buyers were expected to pay a premium to live in the existing urban fabric and especially in or near the CBD. The new residents would also, of course, use the existing facilities in the area rather than the government needing to build new ones.

But in reality the opposite is true. Infill development places considerable additional loading on existing services and facilities which, when it comes to water, sewerage, roads and even public transport are

already at or near capacity. The cost to amplify and then maintain such services in infill locations is much higher than for greenfield locations. Existing water pipe and sewers are often laid deep, located adjacent to existing services and usually cause considerable disruption when being fixed. And of course there is NIMBYism which occurs against nearly every infill proposal, often taking a long time to resolve and adding considerably to the cost.

In short, infrastructure costs for infill development are dreadfully expensive and prohibitive in an increasing number of cases. The raw land in infill locations costs much more when compared to greenfield counterparts and the market's interest and capacity to pay for infill product is much less than government officials (and too many developers as well, for that matter) believe.

In contrast to twenty-odd years ago, today we don't have enough greenfield land available for development. Its availability is artificially constrained by regional plans, local council growth management strategies and the very nature of the greenfield land

earmarked suitable for urban use. The recent Gold Coast broadhectare study is a case in point. This 2008 study identifies 1,300 broadhectare parcels (including the rural residential ones) as suitable for suburban-type development. But only 103 or 8% are over ten hectares in size and a whopping 50% of the sites are under two hectares!

Our review of this work has found that the Gold Coast will use up most of its earmarked greenfield sites within years rather than decades, as has been forecast. Unfortunately, broadhectare studies do not take into account economic and ownership issues when determining potential development yields.

So that is why we have excessive land (and new house) prices today. The table below outlines how much land prices have increased across Qld over the last decade. There has been gross over-reaction against new greenfield development, which is relatively cheap to build and affordable. True, new greenfield development needs infrastructure support, but so too does urban consolidation.

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Vacant land prices Queensland regions		Location						
Years	North Qld (1)	Central Qld (2)	Wide Bay Burnett (3)	South East Queensland	Sunshine Coast	Gold Coast	Brisbane City	Ipswich City
1999	\$67,300	\$67,700	\$37,700	\$95,100	\$106,700	\$102,900	\$101,300	\$52,600
2000	\$69,800	\$64,300	\$60,300	\$101,900	\$128,200	\$11,380	\$104,400	\$52,700
2001	\$66,000	\$59,500	\$48,100	\$100,400	\$113,400	\$116,700	\$107,400	\$52,400
2002	\$84,300	\$76,600	\$53,500	\$123,800	\$135,400	\$152,100	\$141,100	\$58,900
2003	\$96,000	\$83,100	\$71,400	\$158,600	\$194,100	\$221,200	\$186,100	\$79,800
2004	\$113,200	\$100,700	\$121,300	\$194,000	\$250,400	\$231,300	\$238,500	\$120,100
2005	\$129,600	\$129,200	\$126,400	\$207,900	\$240,900	\$241,800	\$238,800	\$143,500
2006	\$139,600	\$156,800	\$132,800	\$217,100	\$241,500	\$244,900	\$256,400	\$157,200
2007	\$174,300	\$180,300	\$144,800	\$230,900	\$253,100	\$277,500	\$273,500	\$162,700
2008	\$201,000	\$207,000	\$162,000	\$265,000	\$313,000	\$330,000	\$318,000	\$177,000
Annual growth								
Last ten years	12.9%	13.2%	17.6%	12.1%	12.7%	13.8%	13.5%	14.4%
Last five years	15.5%	19.8%	7.5%	8.1%	5.7%	9.3%	7.5%	10.2%
Last year	15.4%	15.0%	11.9%	14.8%	23.7%	18.9%	16.3%	8.8%

Matusik Property Insights, September 2008. Matusik database and PIFU. Land sales under 2,500 sqm.
 (1) Municipalities of Douglas, Mareeba, Cairns, Atherton, Eacham, Johnstone, Herberton, Cardwell, Thuringowa and Townsville.
 (2) Municipalities of Whitsunday, Mackay, Livingstone, Fitzroy, Rockhampton, Gladstone, Callope and Emerald.
 (3) Municipalities of Burnett, Bundaberg, Hervey Bay and Cooloola.

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