The New House Market in Outer Sydney

"Will the new house market on broadhectare land in Outer Sydney ever recover back to previous peak levels?"

EXTRACT TO INDICATE THE GENERAL NATURE OF THE REPORT

RESIDENTIAL PROPERTY

BIS Shrapnel
BUSINESS RESEARCH AND FORECASTING

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1 INTRODUCTION

BIS Shrapnel's study, ***Sydney House Study*** is a comprehensive study undertaken by BIS Shrapnel to determine the drivers and influences on the new house market in Sydney's outer suburban subdivisions, and the potential for recovery in a market that has been operating at consistently low levels 2003/04.

New dwelling activity in the Sydney residential market has experienced a significant decline since peaking in 2001/02 at 31,900 dwellings. "Other dwelling" approvals declined by 47% between the 2002/03 peak of 20,200 and the low of 10,700 in 20006/07. At the same time, new house approvals deteriorated by 52% from a high of 13,200 in 2001/02, to 6,300 in 2005/06, and remained at this low level in subsequent years, being 6,700 in 2007/08.

While the other dwelling market, which has a high presence of investors, weakened due to rental oversupply and weak rental returns, the detached house market did not experience an oversupply. Indeed, prices were driven up over the 2001 to 2004 period, due to a lack of supply of land for new houses.

Lot production in Outer Sydney fell from 8,800 lots in 1999/2000, to around 4,000 lots by 2003/04. The shortage of supply caused median land prices in Sydney to almost double between June 2001 to June 2004, while new house prices increased by 50% over the same period.

Lot production has since fallen to below 3,000 lots per annum since 2005/06, accommodating around half of the new houses approved. Furthermore, the number of new houses approved in Sydney in 2005/06 was the lowest level for around 50 years. While the deterioration of affordability appears to have triggered the decline, some recent correction in land prices still has not stimulated demand, with only a modest increase in new house activity into 2007/08. Furthermore, new initiatives (such as stamp duty exemption for first home buyers) since the downturn also did not significantly stimulated demand.

With new house approvals having persistently remained at low levels since 2004/05, our study seeks to determine whether the decline in new house production has become a permanent fundamental change in the Sydney residential market, or whether new house construction on broadhectare lots can return to the levels of previous years once the supply side and affordability issues have been ironed out.

This study aims to examine all aspects of the new house building market and demand for broadhectare land. The report enables subscribers to determine the reasons for the weakness in the housing market over the past few years, and the prospect for a recovery in demand.

Issues that are covered include:

- Will the market recover or is there a permanent demographic or a sociological change that is behind the low levels of activity? Who are the purchasers now?
  - Are there any first home buyers left buying new detached houses?
  - Second and Subsequent Home Buyers? What is their impact on the new house market?
  - Is there a market for empty nesters to trade down? Will this be a growing segment? What product are they looking for?

- How is the cost barrier influencing demand?
  - Are land costs too high? If so, is a decline in land prices required, and how far would they have to fall?
  - Is the price differential between existing detached houses and house/land packages in the outer suburbs too large, discouraging demand for new houses?
  - Will the recent reduction in infrastructure charges have any positive impact on demand?
- Is current product failing to adequately meet market requirements?
  - Is the large house that doesn't offer the large block of land significantly less desirable than the traditional 600 square metre block?
  - Has the small lot product on broadhectare subdivisions become so small that the land size doesn't offer an advantage over a typical townhouse/villa?
  - Is new house product on the fringe not seen as a good investment compared to buying further in, even though it will cost more?
- Are the land supply issues permanent?
  - Has land run out, or will it be too difficult to "turn on" land supply as quickly as required through an upturn?
  - Has the supply of "good land" run out—i.e. has a lack of infrastructure and distance/ commute from central Sydney meant that people do not want to live in new subdivisions on the suburban fringes regardless of price and product? What sort of infrastructure are purchasers looking for?

1.1 Methodology

Data will be sourced from desktop research via the 2006 Census, and from specific qualitative and quantitative market research.

1.1.1 Census 2006

The best source of hard data to determine who has been the main market for new dwellings is the recently released 2006 Census of Population and Housing. While the Census does not distinguish between new dwellings and existing dwellings, a feel for households in new dwellings is achieved by focussing on:

- only new Collection Districts that have been created in the growth corridors between 2001 and 2006—which would imply areas where new dwellings have been built; and
- households in separate houses and who were living at a different address five years previous, implying new residents in houses.

Further cross tabulations are mad to provide detailed breakdowns of household types, tenure, income, occupation, place of work, etc.

1.1.2 Primary market research

Specific market research has been undertaken at a number of levels and involving a mix of qualitative and quantitative research.

- The qualitative research explores households' reasons for their dwelling choice, any barriers to purchase, and opinions on product type, location, infrastructure, etc.
- Questions for the quantitative research were drawn from the views gathered from the qualitative research and allow us to determine the magnitude of the issues raised regarding the new house market.

1.1.3 Qualitative research

Face to face interviews

A series of face to face interviews of potential purchasers was initially undertaken, to talk through what they are seeking in a new house. This includes any issues, constraints, and perceptions of the new housing market, as well as any positives and negatives.

The interviews were undertaken over two weekends at the end of August 2008 and start of September 2008 at Home World display village, which allowed us direct access to those people who are looking to buy a new house. There were 29 interviews in total, with a mix of home seekers from the South West and North West sectors both covered.

The results of the interviews are not included in this report, as they were done to highlight the issues facing purchasers in the new house market. The responses were then used to frame the other research in the study, including focus groups, questionnaire, and developer interviews.

Focus groups

The focus groups consisted of renters who were expecting to purchase a home for owner occupation within the next two years. Two groups were undertaken on 10 December 2008—one of renters in middle ring suburbs of western Sydney, and one of renters in the outer ring suburbs of western Sydney.

The aim was to explore the issues they are facing in buying a new house. This may include both actual constraints, such as affordability, as well as any perceived negatives, such as location of new housing estates, types of houses being offered, services to these regions, etc.

Developer interviews

With the residential land developers and/or house builders operating at the 'coalface', our aim was to get their views on what is influencing the new house market, particularly from a production perspective, as well as a marketing perspective. Interviews were undertaken in the December 2008, and views were sought on development costs versus affordability, as well as the marketability of various product types and particular market niches.

1.1.4 Quantitative research

Given that the volume of people spoken to in the qualitative research was insufficient to provide a sample size large enough to make definitive statements about the market for new houses, we also undertook a larger survey to quantify aspects of purchaser perceptions and determine how prevalent they are. The questionnaire for the survey was drawn from the findings of the qualitative research undertaken.

The survey consisted of two groups:

- Those who had purchased a dwelling to live in over the past two years ('recent buyers'); and
- Those who were intending to purchase a dwelling to live in over the next twelve months ('intenders').

The survey focussed on the outer Sydney growth areas and surrounds, as our Census analysis highlighted that the main market for new houses was in the surrounding area.

The survey covered those who recently purchased or were looking to buy new houses and new other dwellings, as well as their established counterparts. In the case of established dwelling purchasers, the reasons why they did not/are not opting for a new house were also explored:

- A total of 646 respondents were surveyed, comprising 285 recent buyers (44%) and 361 intenders (56%).
- Recent buyers and intenders were split into three geographic regions:
  - ***South West Sydney*** (257 responses—107 recent buyers, 150 intenders);
  - ***North West Sydney*** (268 responses—108 recent buyers, 150 intenders); and
  - the ***Central Coast*** (121 responses—60 recent buyers, 61 intenders).

For the purposes of cost and efficiency, an internet survey was undertaken, with the survey going into the field in November 2008. As those who have recently purchased a home or are in the market to purchase comprise a small segment of the population, an internet survey was considered the most cost effective way to reach this population. In addition, respondents to internet surveys come from a volunteer panel, and they are consequently more likely to answer some of the more sensitive questions on price paid and income, than a random survey such as telephone survey.

1.2 Report outline

The ***Executive Summary*** highlights the main findings of the ***Sydney House Study***.

Chapter 2, Demographics, covers the Census analysis and profiles the population that has recently moved into the new growth areas of outer Sydney.

Chapter 3, Summary Results of Survey of Recent and Intending Home Buyers provides a broad overview of the results of our quantitative survey, highlighting the differences across regions of Sydney, household types, income, etc

Chapter 4, The Dwelling Decision, undertakes a more detailed analysis of the survey, looking at the main issues for new home versus established home purchasers, reasons for buying/not buying new dwellings, etc.

Chapter 5, ***Land Cost Issues,*** examines the prices paid for new dwellings versus established dwellings, as well as the economics of land development in terms of realisable land prices versus development costs.

Chapter 6, Focus Groups, shows the results of our focus groups on renters, highlighting why they haven't purchased, and their though processes in looking for a dwelling to live in.

Chapter 7, Developer Interviews, looks at the issues facing developers through the development process, including land acquisition, planning, construction and sale. This includes the current market conditions, development costs, realisable values, and the market for various products.

1.3 Geography

In this report, we refer to the three Outer Sydney growth corridors, as originally defined within the New South Wales Metropolitan Strategy. These are as follows:

North West Sydney—Baulkham Hills, Blacktown, Blue Mountains, Hawkesbury, Penrith LGAs;

South West Sydney—Wollondilly, Camden, Campbelltown, Liverpool LGAs; and

Central Coast—Gosford and Wyong LGAs.

These regions encompass the main greenfield release areas in Outer Sydney.

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