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Australian Markets Transforming

Australia's economy, society and workplaces have altered remarkably over recent years. Under the pressure of international competition for our industry and the rolling impact of financial crises, it is not surprising that households have become more cautious.

Despite the insulation to the global downturn provided by Asian demand for our commodities, many Australians feel that the old certainties have been swept aside.

For property developers too, the Australian marketplace has become a more complex place. With the ageing of the population and the breakdown of traditional patterns of family life, products need to address multiple market segments. The casualisation of work and delayed household formation are also factors creating a more segmented marketplace.

Normal Markets Disrupted
Since 2008, there have been various Federal and State Government incentives offered and withdrawn, official interest rates have fallen, risen and may be still falling. Banks no longer pass on rate cuts automatically.

Disruption to normal market conditions, together with a growing regulatory burden putting pressure on costs, means that developers, investors and homeowners are dealing with a state of constant change. This is the very opposite to uneventful stability that markets need to prosper.

Over recent weeks, the Reserve Bank Governor and others have tried to convince Australians that the glass is indeed half full.

Certainly in comparison with the United States and Europe, our economic situation appears rosy. But for every positive figure on low unemployment, there is another report of job losses and sliding trends in job advertisements (outside of Western Australia).

It may be argued that these conditions are no different from the pain inflicted in past recessions (in fact much better because of the high investment in resources).

I would add that not only are there challenging cyclical influences affecting Australian property markets, but there is a transformation underway that may be more significant.

This is the transformation to the digital economy and the low carbon economy.

As Australia transforms, what can developers do to succeed in this market?

- Be prepared to change the design and price. The goalposts have shifted in terms of what prices the market will support. Affordability may be the key to success;
- Be prepared to cater for multiple markets*;
- Adopt the best technology to ensure market acceptance and reduce ongoing costs;
- Build in flexibility to deal with unexpected shocks; and
- Make sure the market positioning, design and pricing are based on a careful analysis of supply and demand.

* refer to the articles on Fitzgibbon Chase and Victoria Park.

Victoria Park Master Planned Urban Community

As preliminary work commences at Green Square Town Centre (GSTC), the established Victoria Park project is nearing maturity. Located halfway between the Sydney Central Business District (CBD) and Sydney Airport, both precincts are part of the City of Sydney's 278 hectare Green Square Urban Renewal Area.

High density mixed-use living

Victoria Park is a 24.47 hectare site located between South Dowling Street and Joynton Avenue, Zetland, immediately south of O'Dea Avenue.

Originally conceived in the late 1990s as a mixed-use project incorporating 1,800 dwellings and 150,000 m^2 of commercial/retail space, Victoria Park's master plan was changed once it became apparent that the market would not support the scale of commercial development being proposed.

It is now envisaged that over 3,500 dwellings will be included at Victoria Park, as well as over 35,000 m^2 of commercial/retail space. Landcom (soon to be known as UrbanGrowth NSW), has facilitated the development of a range of apartment buildings over more than a decade.

The western part of the site includes residential buildings mainly in the three to nine storey range, in close proximity to leafy Joynton Avenue, Tote and Woolwash Parks and the central, 1.29 hectare Joynton Park.

Development is continuing on the eastern part of Victoria Park in residential apartment buildings of up to 26 storeys between Defries Avenue and South Dowling Street.

Facilities in this part of the project include Nuffield Park and a 10,000 m^2 fresh food market and retail precinct in Payce Consolidated's East Village, currently under construction.

Victoria Park is located a five to ten minute walk east of the Green Square railway station at the junction of Botany Road and O'Riordan Street at GSTC in Alexandria.

GSTC Concept

The GSTC core precinct is a 5.1 hectare site being developed by Landcom in partnership with the Green Square Consortium (a joint venture between Mirvac and Leighton Properties). It involves the development of a major commercial, retailing, cultural and entertainment centre for South Sydney.

The concept incorporates significant public plazas and environmentally sustainable features. One objective is to reduce car dependency through promoting the use of public transport and car sharing schemes, as well as walking and cycling.

The core precinct is expected to include some 1,600 residential dwellings and around 60,000 m^2 of commercial/retail space.

Prominence at 1 Grandstand Parade (Photo: courtesy of Landcom)

Victoria Park Residents

Recently released 2011 Census data from the Australian Bureau of Statistics (ABS) for Victoria Park provides some insights into the nature of the residents attracted to Inner Sydney urban communities. Key findings include:

- The population of just over 3,000 residents had a median age of 30 years (although the more recently developed eastern part of Victoria Park was younger, with a median age of 28 years);

- 93% of households lived in apartments;
- Although the proportion of children aged 5-14 years at 3.5% was low compared with the Greater Sydney region (12%), the proportion of young children aged 0-4 years was close to the regional average at around 6% of the population;
- This reflects a household distribution composed mainly of:
  - couple families without children (34%, compared with 25% for Greater Sydney);
  - lone person households (30%, compared with 22% for Greater Sydney); and
  - group households (15%, compared with 4% for Greater Sydney);
- The couple families with children at Victoria Park accounted for 12% of households, compared with 36% of Greater Sydney households, while one parent families were a low 6%, compared with 12% for Greater Sydney.

The presence of young children at Victoria Park highlights the preparedness of young urban professionals to commence their child rearing in the inner city. It is also a testament to the value of the parks included in the master plan.

Group households have seen significant growth in Inner Sydney since 2006. A slightly larger area, known as Waterloo Beaconsfield, between Crescent Street, Waterloo and Gardeners Road, Rosebery, saw a 73% increase in the number of group households living in units in buildings of four storeys plus.

The above average proportion of group households in Victoria Park partly reflects its location close to employment opportunities in the Sydney CBD and at Sydney Airport.

It is also within a three kilometre radius of Sydney University at Camperdown, the University of Technology Sydney at Haymarket and the University of New South Wales (NSW) at Kensington.

Significant Rental Increases

The popularity of group households also reflects the high rental costs in Inner Sydney. According to the Real Estate Institute of NSW, Inner Sydney's vacancy rate has remained in the 1% to 2% range for over five years (albeit edging up to 1.8% in June).

This has seen significant rental increases, with the median rent of a one bedroom apartment in Zetland/Waterloo increasing from $330 per week in 2006 to $500 per week in 2012 (up by 7.2% per annum). The median rent for a two bedroom apartment increased from $430 per week by 7% per annum to $645 per week (March Quarter data from Housing NSW).

"Young urban professionals are prepared to commence their child rearing in the inner city."

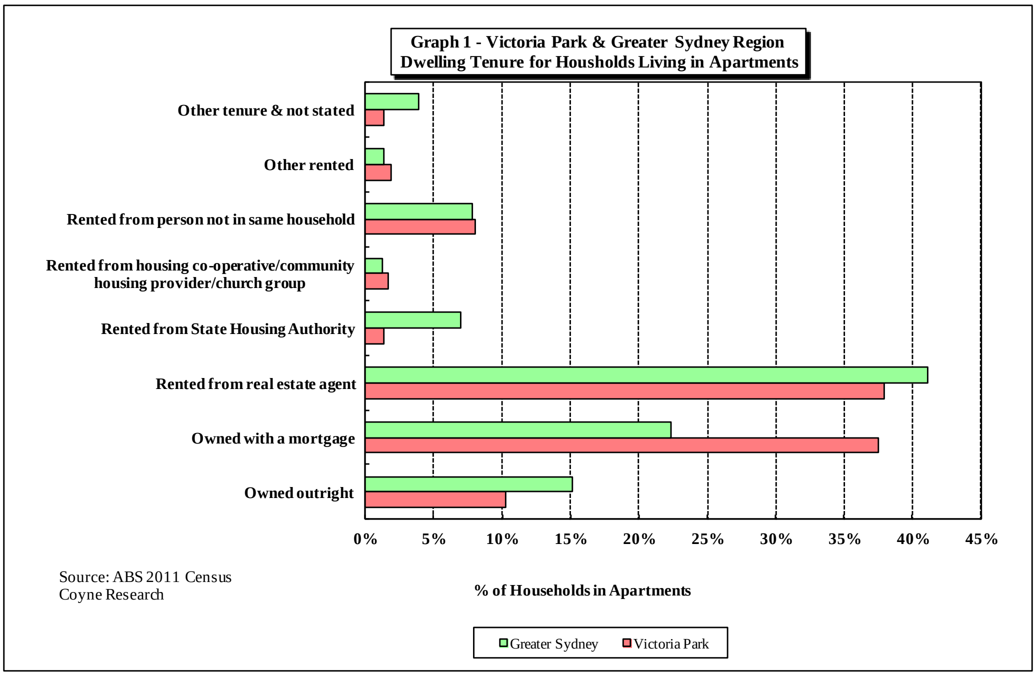
Dwelling Tenure of Apartment Households

Graph 1 on the next page shows dwelling tenure for households living in apartments, with 38% renting from a real estate agent and 8% from someone not in the same household (often a parent or relative who has purchased an apartment for student use).

The Census found that 22% of rental households at Victoria Park were experiencing rental stress (paying 30% plus of their household income). This compared with 13% of rental households in the Greater Sydney region. Similarly 16% of Victoria Park households with a mortgage were in housing stress, compared with 12% for Greater Sydney.

The rejuvenation of this part of South Sydney with a high quality urban environment and architect-designed buildings has attracted around 48% of owner occupiers to Victoria Park (above Greater Sydney with 38% of apartment households).

The proximity to the more expensive Eastern Suburbs subregion has seen young couples and singles move across to gain entry to home ownership.



It is not considered that very many of the owner occupiers at Victoria Park would be empty nesters downsizing from larger houses. Only 7% of the population was aged 55 years plus at the 2011 Census, compared with 24% for Greater Sydney.

Affordable Housing Component
Graph 1 shows that 3% of apartments at Victoria Park were rented from a State Housing Authority or a housing co-operative/community housing provider.

This reflects the two City West Housing Company developments in Grandstand Avenue, with a total of 72 apartments. This part of the site had a 2011 median rent of $200 per week, based on Census data.

The inclusion of an affordable housing component at Victoria Park reflects the City of Sydney's Green Square Affordable Housing Scheme. This requires 3% of the total residential floor area to be provided as affordable housing.

Fitzgibbon Chase Addresses Affordability

The Queensland Urban Land Development Authority (ULDA) was established in 2007 as part of the former Queensland Government's Housing Affordability Strategy (refer to our newsletter from 25 July 2007). The ULDA works with local and State Government, local landholders, community and development industry representatives to help deliver commercially viable developments.

The objective is to create diverse, affordable and sustainable communities, using best practice urban design. For declared Urban Development Areas (UDAs), the ULDA is both the planning and assessment authority, working with private sector partners to deliver a range of housing densities.

The new State Government has commenced the process of delegating the ULDA's development assessment and relevant administration powers to Brisbane City Council (BCC). The State Government is working with ULDA and BCC to develop an instrument of delegation for the four UDAs within Brisbane City (Bowen Hills, Northshore Hamilton, Fitzgibbon and Woolloongabba).

Other UDAs in South East Queensland and regional cities such as Gladstone remain as ULDA projects.

Diversity of dwellings and tenures
The Fitzgibbon Chase project, 13 kilometres north of the City, provides an insight into the approach undertaken by the ULDA. It includes a mix of freestanding and attached dwellings, as well as the Core Apartments, a five storey building of 64 units.

The Core Apartments were developed as a mix of social housing, National Rental Affordability Scheme (NRAS) and market units by the Brisbane Housing Company. It is one of three projects undertaken at Fitzgibbon Chase by this community housing provider.

Eventually some 1,300 dwellings are proposed at Fitzgibbon Chase, which will also include 42 hectares of conservation area and 2.7 kilometres of walking trails. It is understood that around 300 dwellings have been completed since 2009.

At the time of the 2011 Census, there were 318 residents in 151 occupied private dwellings at Fitzgibbon Chase. The average household size of 2.0 persons was below that of the wider Fitzgibbon suburb of 2.3 persons.

This reflects the emphasis on smaller dwelling types that are partly a response to the need for greater housing affordability.

Fitzgibbon Chase had only 50% of traditional three and four bedroom plus dwellings, mostly in the form of freestanding houses.

This compares with the suburb of Fitzgibbon, (53% of three bedroom dwellings and 23% of four bedroom plus dwellings).

However, 75% of attached houses in 2011 at Fitzgibbon Chase were two bedroom dwellings. The Core Apartments are predominantly one and two bedroom units, with a few studios and three bedroom units.

Houses mainly owner occupied
The vast majority of separate houses at Fitzgibbon Chase were owner occupied, with 10% owned outright, 68% with a mortgage and 17% rented from a real estate agent. This compares with 28% of separate houses in the suburb of Fitzgibbon owned outright, 42% with a mortgage and 20% rented from a real estate agent.

Of the attached townhouse/villa style dwellings at Fitzgibbon Chase, 41% were owner occupied, 37% rented from a state housing authority and 22% rented from a community housing provider.

"The focus on affordability and smaller dwelling footprints has attracted a significant proportion singles and couples to Fitzgibbon Chase."

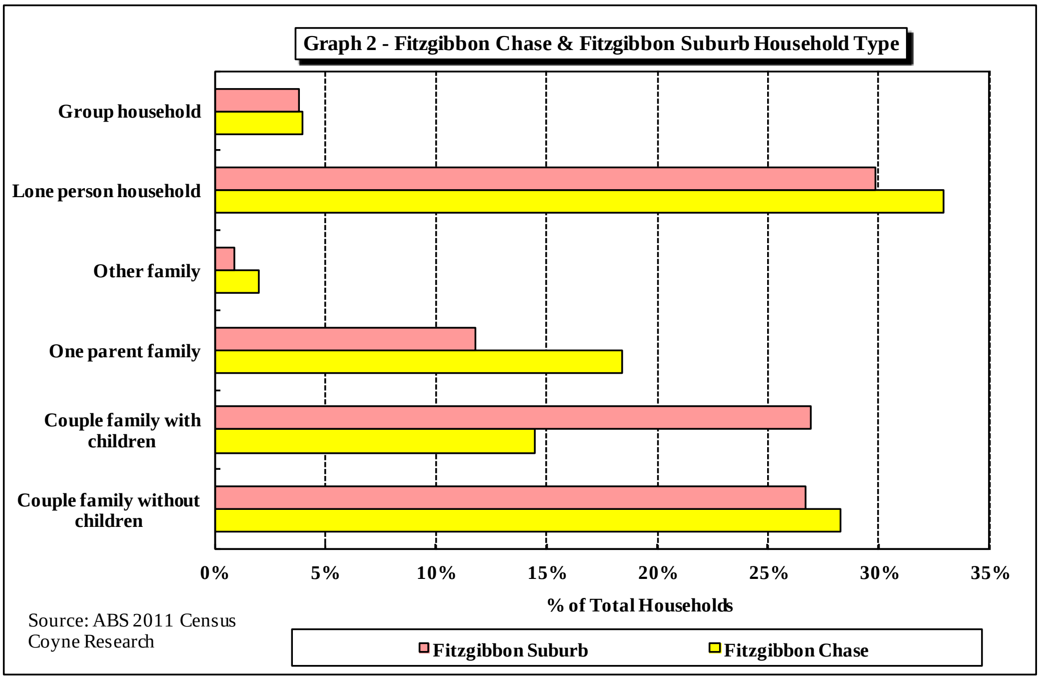
Graph 2 on the next page shows that only 14.5% of households at Fitzgibbon Chase were the traditional two parent families with children (compared with 26.9% for Fitzgibbon suburb). The focus on affordability and smaller dwelling footprints has attracted a significant proportion (32.9%) of lone person households to Fitzgibbon Chase.

There were also 28.5% of couple only families at Fitzgibbon Chase, and 18.4% of one parent families (the latter higher than the suburb on 11.8%).

Fitzgibbon Chase Key Metrics

- 30 dwellings per hectare on average;
- individual attached dwelling projects around 60 to 70 dwellings per hectare;
- 80% of dwellings sold below the Brisbane median house price;
- vacant land prices $90,150 to $240,950 (median $213,595) for typical lot sizes of 70 to 480 m^2 (median 320 m^2).

Sources: ULDA & RP Data



The household and tenure data on Fitzgibbon Chase reflects its appeal for young singles and couples just entering the housing market. It has also catered to a mix of households attracted to more affordable options, including divorcees and one parent families.

Shift to smaller households
According to the Queensland Office of Economic and Statistical Research (OESR), over the decade to 2021, Brisbane City is expected to accommodate an additional 62,619 households.

Of these, almost 70% are projected to be lone person households and couple families without children.

Only 15% are projected to be couple families with children. This shift towards smaller household sizes is a product of our ageing population.

It is one factor in the national household size of 2.6 persons remaining static over the decade to the 2011 Census (instead of increasing since 2006, as some commentators expected).

Future dwelling supply in South East Queensland, and indeed throughout much of Australia, will need to cater for the shift to smaller household sizes and also address the affordability issue. Fitzgibbon Chase provides a demonstration project of how this might be achieved in a suburban setting.

Is the Writing on the Wall for Office Space Demand?

The internet has been referred to a "disruptive technology". Much discussion has been focused on the impact on retail property. This article raises questions about the impact on office space demand, especially of the widespread adoption of mobile devices.

When market analysts undertake projections they consider a range of factors, including where we are in the economic and property cycles, the balance between demand and supply and longer-term structural changes.

There is also some attempt to identify the X factor. This is the unexpected "out of left field" occurrence that means one cycle is never the same as the ones in the past.

In recent times the retail sector has seen the impact of the internet on bricks and mortar shops.

The high $AUD, combined with tech-savvy buyers in their 20s and 30s, has seen internet shopping take market share from retailers. Some in the property industry have begun to question how long investments in regional and subregional shopping centres can withstand the impact on department stores and specialty shops.

These are also the retailers most dependent upon discretionary spending, so affected by cyclical downturn influences.

My question is: W*ill office space demand ultimately follow retail?* The traditional driver of office space demand was growth in white collar employment. Economic growth has often been associated with significant white collar employment, resulting in vacant offices filling.

Resources Drive Net Absorption

Brisbane and Perth, as the main beneficiaries of the resources sector, have seen office space absorbed and vacancies fall to a much greater extent than was thought possible at the onset of the Global Financial Crisis (GFC).

Over the six months to July 2012, the Property Council of Australia's *Office Market Report* found Perth CBD saw the highest level of net absorption (115,503 m^2), followed by Sydney CBD (45,309 m^2), Brisbane CBD (39,916 m^2) and Melbourne CBD (34,085 m^2).

Graph 3 shows comparative vacancy rates for selected markets as at July 2012. Vacancy rates in Brisbane CBD, Brisbane Fringe and Perth CBD edged upwards over the past six months.

Brisbane CBD's vacancy rose from 6.2% in January 2012 to 7.9% in July 2012, reflecting the completion of 111 Eagle Street. Sydney CBD's vacancy fell from 9.7% in January 2012 to 8.2% in July 2012, mainly due to stock withdrawals for refurbishment.

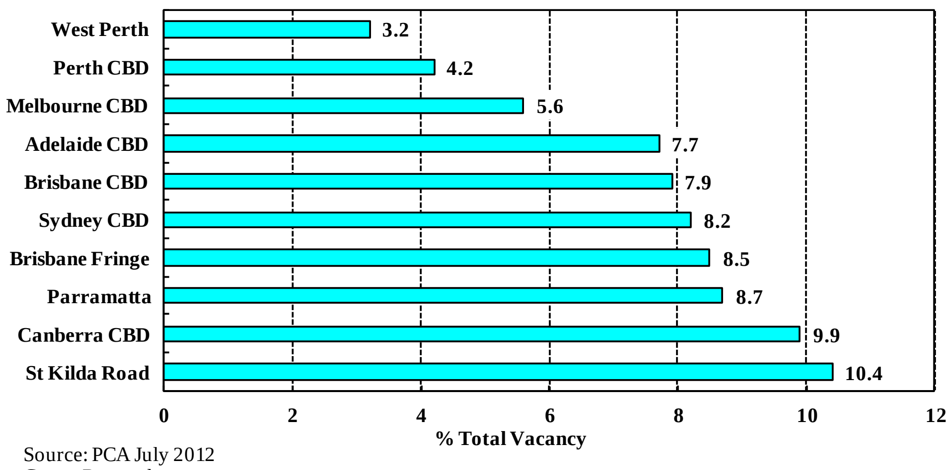
Threats to Future Demand

The threat to future office space demand comes from several sources. The cutback in Government jobs (particularly in Queensland) might be thought of as a cyclical event tied to a change in Government. It also reflects an outworking of the need to reduce debt that ultimately finds its root cause in the GFC.

One of the largest users of office space historically has been the financial sector. Sydney is particularly reliant on this sector, which is also experiencing the ongoing impact of the GFC through more conservative investor behaviour resulting, for example, in low transaction volumes for equities.

The increased regulatory burden and capital adequacy provisions are also contributing to rationalisation and consolidation.

Graph 3 - Selected Australian Office Precincts - % Vacancy July 2012



Source: PCA July 2012
Coyne Research

The questions to be asked are: *Will the financial sector ever again require the same amount of office space as in the past?"* and *Will the space required be located in the core CBD at premium rates?*

Already in the 1990s there was a clear trend of shifting back office functions to less expensive suburban localities (for example Westpac to Homebush). The NSW Government is currently re-examining decentralisation to western Sydney centres as a means of cutting costs.

Meanwhile over the past two decades, there has been the gradual decline in workspace ratios, more so in the private sector. The latest move to Activity Based Workplaces (ABW) is accelerating this trend. The Queensland Government has recently revised its benchmark target to 12 m^2 per person, down from 15 m^2 per person. New green buildings in the private sector have already achieved ratios of around 10 m^2 per person.

Shift to Mobile Devices - Factor X?

The game changer for the coming decade is likely to be the shift to mobile devices and the global economy with its need for 24/7 responsiveness.

It is possible to look forward to time when organisational change has so evolved that employees do not report to a central workplace, except for perhaps weekly or monthly meetings.

This goes way beyond the practices of ABW and hot desking that are increasingly common, and which have already reduced the space requirements of many corporations.

The workplace is where the employee is with their iPad or android device. This might be at home, their car, in a local café or a client's workplace.

If the cultural shift to trusting employees and measuring outcomes rather than attendance can occur, the implications for future office space demand could be profound.

Implementation of mobile device capabilities by real estate agents has seen the increasing adoption of Quick Response (QR) Codes on signage and in advertisements. These can give potential buyers immediate access to interactive data on the property (refer to the *REI NSW Journal* July 2012 for a more complete description).

"The mobile device enables the user to accomplish more and to do so from a location remote from the office."

The point is that the mobile device enables the user to accomplish more and to do so from a location remote from the office. This is an example of how mobile technology could undermine the need to bring large numbers of employees together in one space.

It does not require all companies and Government agencies to implement radical changes for their entire workforce to impact the future demand for office space. Only enough that the total bank of space we have already is sufficient, or indeed surplus.

I do not see the future demand for new green buildings with high speed connectivity diminishing, but the future for an increasing number of older buildings may be some form of recycling or adaption to different uses.

So this is why I am asking: *Is the writing on the wall for office space demand? Will the tablet be factor X that overrides the cyclical and structural influences to change the workplace forever?*