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Yarrabilba Attracts Diverse Buyer Profile

Located 40 kilometres south-east of the Brisbane Central Business District, Lend Lease's Yarrabilba is one of the largest new estates in South East Queensland. Marketed from around 2012, it has recently achieved a milestone with 1,500 new residents across two villages. The third village, Sunrise Crossing, is currently marketing.

Upon completion in around 2043, it is envisaged Yarrabilba will include some 17,000 dwellings, a town centre, neighbourhood hubs, community, educational and employment facilities.

The town centre is expected to include 40,000 to 50,000 m^2 of core retail space and potentially 50,000 m^2 of bulky goods retail space. An area of over 100 hectares has been allocated for mixed industry and business uses. Around 25% of the 2,012 hectare site will be reserved for open space, conservation and recreational uses.

Major Facilities

Already the first major community facility has been completed in the form of the Darlington Parklands. It includes a water playground, flying fox, climbing dome, rope bridge, basketball court and outdoor gymnasium, as well as barbecue areas, free wifi and a pop-up café. The nearby Shaw Street Oval includes multi-purpose hard courts, a community garden and an off-leash dog park.

While the closest shops are currently at Logan Village, two kilometres north of Yarrabilba (including a Woolworths supermarket), the estate is expected to rapidly increase its facilities over the next two years.

A new childcare centre is under construction for completion in August 2015. A Caltex service station, including convenience retail outlet, is due to open in late 2015. A Coles supermarket-anchored centre and a Catholic Primary School are expected to open in 2017.

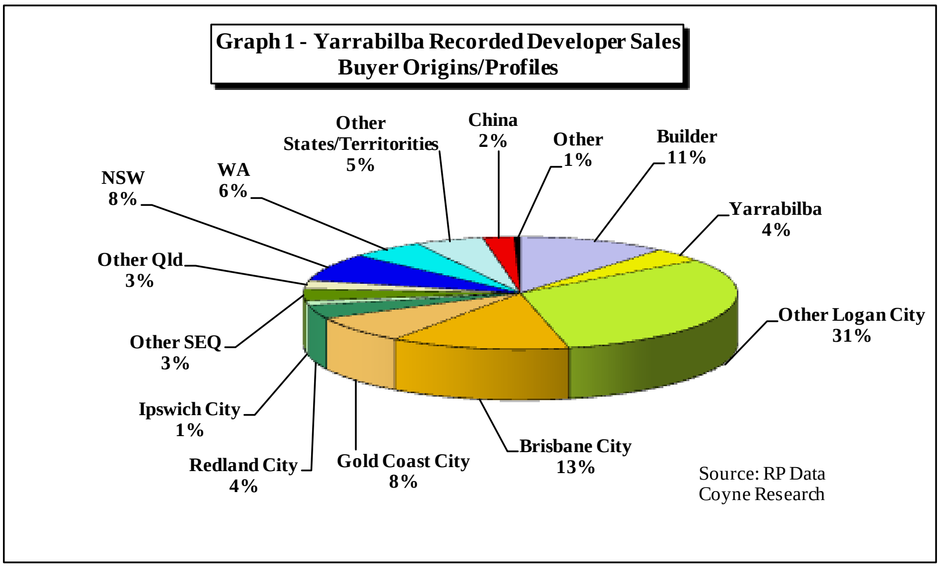
As a master planned community located on the urban fringe of the Brisbane region, Yarrabilba includes a wide range of lot sizes, which suits its family markets.

Typical Yarrabilba house on a 360 m^2 lot sold for $375,500 in January 2015

Lot sizes range from town villa lots of 250 m^2 with 10 metre frontages and premium villa lots of around 400 m^2 (12.5 metre frontages) to larger traditional lots of 576 m^2 plus (18 metre frontages). An analysis of recorded developer sales indicates that 57% of sales to date were for lots of 350<600 m^2, with 24% <350 m^2 and 19% of 600 m^2 plus lots.

Plantation Homes' townhouse with four bedrooms sold for $354,000 on 225 m^2 lot

In the Sunrise Crossing village, typical prices for vacant lots range from $171,892 for a 405 m^2 lot to $203,777 for a 576 m^2 lot. Yarrabilba has a display village of over 40 houses. Builders are offering house and packages on such lot sizes at typical prices of $395,000 and $434,489 (single storey houses with four bedrooms, two bathrooms and a double garage).



Affordable Smaller Lot Products
On smaller lots, some builders are offering entry level products suited to lots of 250 to 320 m^2 (frontages of 10 to 12.5 metres). Burbank Homes' Evo range includes a single storey, two bedroom house with single carport for $270,548 which is readily extendable to the slightly larger three bedroom house with master bedroom and ensuite (priced at $285,622).

In selected locations, Yarrabilba includes a number of attached terrace houses on torrens title. One example is Plantation Homes' townhouses at 13-27 Summerview Avenue opposite parkland, which sold from $354,000 to $371,900 for four bedroom houses with double garages on lots of 225 m^2 (7.5 metre frontages).

They include two bedrooms on the ground floor. Elsewhere Plantation Homes has a two bedroom terrace with single garage available in Darlington Drive for $299,000 and three bedroom terraces with double garages for $335,000.

Graph 1 shows the buyer origin and profile of recorded developer sales at Yarrabilba.

Only 4% of sales can be identified from RP Data records as local to Yarrabilba (probably owner occupiers). It is however considered that a high proportion of those from Logan City and the remaining 29% from elsewhere in South East Queensland (SEQ) may have also been intending owner occupiers.

Burbank Homes' Evo range attracts downsizers and entry level buyers

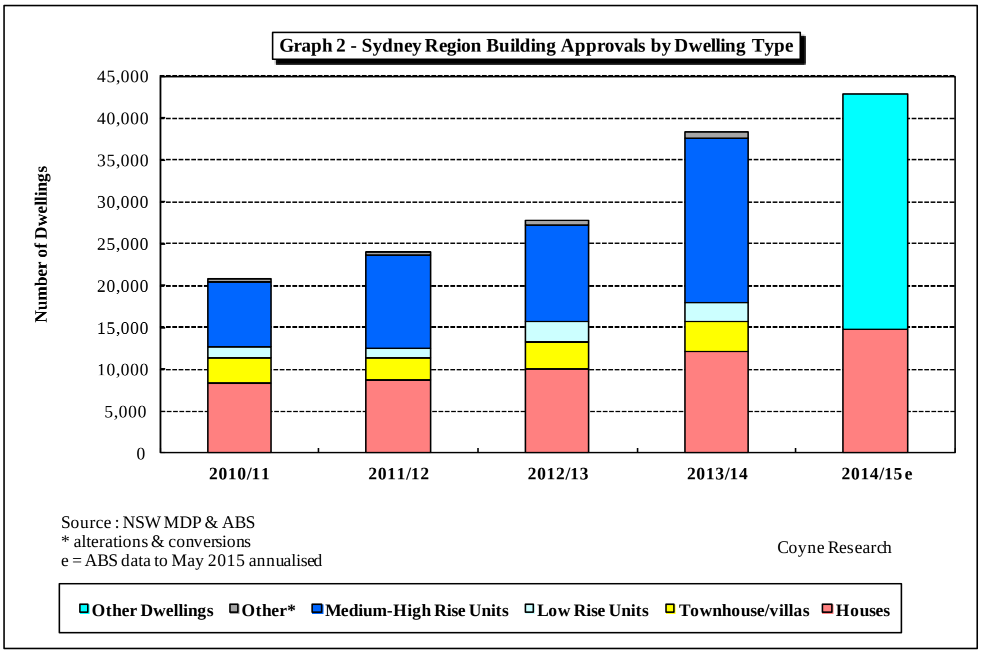
Those from interstate (18%), Other Queensland and China are most likely investors. While it might be thought the smaller lot villas and terraces would appeal strongly to investors, there is some anecdotal evidence that they have also attracted older singles and couples downsizing and first home buyers.

Sydney Market Housing Mix

Over the past two years, the Sydney region has experienced a massive increase in new dwelling construction. Graph 2 shows that while building approvals for new houses have increased, the main factor has been medium-high rise units (four storeys plus).*

* Source: New South Wales (NSW) Metropolitan Development Program (MDP) and Australian Bureau of Statistics (ABS)

Sydney Market Housing Mix Continued



Total approvals in 2013/14 of 38,336 dwellings for the Sydney region were close to double the number in 2010/11 (20,657 approvals). They rose again in 2014/15 to an estimated 43,477 dwellings (up by 13.4%).

Medium-high rise units represented just over half of the 2013/14 approvals (19,710 approvals, up by154% on 2010/11).

New houses accounted for 32% of approvals (12,068 dwellings, up by 46% on 2010/11). This rose to an estimated 14,663 houses in 2014/15 (11 months' data annualised) or 35% of the total, up by 21.5%.

Factors Driving Demand

To a large extent high construction activity has been driven by off-the-plan sales of apartments to local and offshore investors. Release of new land in the North West and South West growth corridors and new and proposed infrastructure in Western Sydney have also contributed.

A stronger economy and low interest rates have also resulted in Sydney's record dwelling activity. To some extent the resurgence represents a catch-up after six years of below trend development.

Affordability issues and traffic congestion have contributed to the increased acceptance of apartment living, especially in Inner and Eastern Sydney. Table 1 shows that from 2010/11 to the September Quarter 2014, 67.8% of approvals in this area were for medium-high rise units.

The most notable increase in the proportion of such dwellings has been in the Central West region.[#] In the decade to 2010, less than 20% of new dwelling approvals in this area were in buildings of four storeys plus; in 2013/14 it was 44%.

In contrast, construction activity in the North West, South West and Central Coast regions continues to be dominated by detached houses.

Net Overseas Migration a Factor

Recent analysis by the ABS on components of population change shows that natural increase and net overseas migration were the main factors contributing to population growth in the Sydney region from 2006 to 2014.

The exception was the Central Coast, which also benefited from net internal migration, perhaps highlighting its role as a retirement destination, characterised by greater affordability and lifestyle appeal.

[#] Central West includes the Local Government Areas (LGAs) of Auburn, Bankstown, Fairfield, Holroyd and Parramatta.

The Inner West-Parramatta, City-Inner South-East, Southern Sydney and Northern Sydney regions had the highest levels of **net overseas migration**.

At a smaller area level, the leading destinations were Sydney-Haymarket-The Rocks (15,000 persons), Parramatta-Rosehill (10,700 persons) and Auburn (8,500 persons). These are all areas where medium-high rise apartments continue to be developed in significant numbers.

From 2006 to 2014, the main small areas benefiting from **net internal migration** were Parklea-Kellyville Ridge (11,400 persons), Concord West-North Strathfield (4,000 persons) and Elderslie-Harrington Park (3,800 persons).

Many inner and middle ring areas within the Sydney region lost population as a result of net internal migration (source: ABS regional migration data work in progress 31 May 2015).

Mismatch Between Preferences & Supply
In 2011, the Grattan Institute undertook a study that indicated 25% of Sydneysiders would prefer to live in semi-detached, townhouse/villa or terrace housing.

This was based on a combination of focus group research and an on-line survey and after adjustment for real-world trade-offs made for housing costs and household incomes. A further 15% indicated a preference for low rise apartments (source: *The Housing We'd Choose*).

Table 1 shows that across the Sydney region, townhouse/villas accounted for 11.2% of recent approvals and low rise units 6.2%. This confirms the Grattan Institute finding that there is an ongoing mismatch between housing preferences and new supply.

Only the Central West region, with 21.7% of townhouse/villa approvals came close to the 25% preference indicated by the Grattan Institute.

One factor in the failure of the market to respond to this preference for medium density housing may be that the price and amenity differentials between townhouses and detached houses have declined.

This was highlighted in a recent paper by the Housing Institute of Australia. It pointed to the reduced amount of outdoor space associated with detached housing than in the past (source: *The Changing Composition of Australia's New Housing Mix*).

Table 1 – Sydney Region – Building Approvals by Dwelling Type 2010/11 to September Quarter 2014

Subregion	Detached Houses	Townhouse/ villas	Low Rise Units	Medium-High Rise Units	Other*	Total Dwellings
Inner &Eastern Sydney						
Number	9,613	3,389	4,160	39,036	1,366	57,564
% of Total	16.7%	5.9%	7.2%	67.8%	2.4%	100.0%
Central West						
Number	5,669	4,675	1,494	9,358	342	21,538
% of Total	26.3%	21.7%	6.9%	43.4%	1.6%	100.0%
North West						
Number	13,097	3,332	908	3,414	203	20,954
% of Total	62.5%	15.9%	4.3%	16.3%	1.0%	100.0%
South West						
Number	11,794	1,368	461	1,603	83	15,309
% of Total	77.0%	8.9%	3.0%	10.5%	0.5%	100.0%
Central Coast						
Number	2,390	659	435	512	71	4,067
% of Total	58.8%	16.2%	10.7%	12.6%	1.7%	100.0%
Sydney Region						
Number	42,563	13,423	7,458	53,923	2,065	119,432
% of Total	35.6%	11.2%	6.2%	45.1%	1.7%	100.0%

Source: ABS & MDP to Sep Quarter 2014 * Other includes alterations & conversions

Many of Sydney's suburbs now have median house prices exceeding $1 million. In Inner and Eastern Sydney, it is not hard to find both two bedroom units and three and four bedroom townhouses in new developments priced in excess of $1 million. This is also occurring in Parramatta.

Townhouses Enable Trade-off
Nevertheless, it is considered that townhouses may be enabling buyers to trade-off closer proximity to employment opportunities and public transport nodes in exchange for somewhat smaller courtyards.

The townhouse option remains a better choice for having some outdoor space, as well as offering some degree of individuality conveyed by having a separate street frontage (compared with most apartments).

Price points for new townhouses in the Sydney region are however still high.

Examples include a torrens title four bedroom townhouse with double garage in Botany for $1.45 million; two to three bedroom townhouses with two car spaces at Croydon Park from $895,000; three and four bedroom townhouses in duplex and triplex formats at Blacktown and Seven Hills priced from around $690,000 to $730,000; and four bedroom townhouses with two car spaces, priced around $550,000 in Penrith. Most are strata-titled and many are in small complexes with low strata levies.

The new townhouse prices are often fairly similar to the relevant LGA's median house prices, and generally above the residential unit median prices. This is indicated by the May 2015 median prices for the relevant LGAs as follows: Botany Bay houses $1,297,500, units $620,000; Canterbury houses $1,115,000, units $476,500; Blacktown houses $662,500, units $440,000; and Penrith houses $602,000, units $426,000 (source: RP Data). Note medians include resales.

Higher Density Living Without Parking

It has become common is Australia's inner city areas for recently developed apartment projects to include some studios and one bedroom apartments sold without an on-site parking space. This responds to the need for affordability.

It is also recognition of the dominant resident profile of young adults aged 20 to 34 years, many being students or young professionals. The immediate proximity to shops, dining and recreational facilities and employment, as well as public transport, means these residents have less need of a car.

Car sharing schemes like the GoGet are credited with reduced need for cars and reduced vehicle kilometres (vkm) travelled. A report for the City of Melbourne indicated one car share vehicle can support approximately 20 members and each car share vehicle reduced vkm by 40,000 kms per annum.*

* quoted in Cameron Jewell *Is Melbourne about to kill car share?* in *The Fifth Estate* 16 July 2015

Sydney's Central Park Apartments near Central Station and the University of Technology Sydney, with 2,100 apartments and 2,000 parking spaces, has 44 GoGet on-site pods.

Some Renters Don't Need a Car Space
An online interview study of 1,008 Sydneysiders by Seonaid Chappell in association with Research Now and the Urban Taskforce in March 2015 found that there was a significant difference in car ownership between renters (62%) and owners (83%). Over two-thirds of renters were aged <45 years, with a similar proportion of owner occupiers aged 46 years plus (source: *Who Lives in apartments... ...and what do they want?*).

Balconies (68%) and secure private parking (65%) were nominated as the top facilities that an apartment "must have" by all respondents. A further 29% said these facilities were "nice to have".

Significantly, the perception that a car space was necessary was higher among investors (81%) than renters (56%).

Implications for Development Costs
Given how expensive basement parking is for developers, it is significant that such a high proportion of renters considered they did not need a car space. The Place Design Group's 2011 study undertaken for the South East Queensland Council of Mayors found that construction costs were about $50,000 per basement car park and $20,000 to $25,000 per at-grade and podium level car park – these costs may now be higher.

According to a 2013 article on www.drive.com.au by Matt Wade, more onerous licensing rules in NSW and connectivity by mobile phone and social media have contributed to the falling proportion of young adults with drivers' licences.

Entering the family formation life stage may be the trigger for some young adults to get a licence.[#] This is also likely to be the trigger for 72% of apartment dwellers to move to a townhouse or detached house, according to the Chappell survey.

Perhaps the 81% of investors in the study who considered a car space to be a "must have" were considering factors like lettability during periods of oversupply; and ability to resell when one wants to be able to appeal to as many prospective buyers as possible.

Consider Options Carefully
Owner occupiers should consider carefully before purchasing an inner city apartment without parking. Once it might have been possible to readily obtain a residential parking permit for nearby street parking. This option is being closed.

[#] source: Adam Shand *Driving Me Crazy* in *The Australian* 26 August 2013

In Brisbane City, residents of units, apartments or student accommodation will no longer be eligible for residential parking permits, if they occupy a building developed as a result of a development application lodged after 31 March 2015.

Similarly, under the provisions of the recently released NSW *Apartment Design Guide*, it is recommended Councils should not provide on-street resident parking permits where reduced parking provisions apply.

Within 800 metres of a railway station or light rail stop in the metropolitan area, the Department of Roads and Maritime Services' (RMS) 2002 *Guide to Traffic Generating Developments* will apply, or the relevant Council's requirements, whichever is less.

In a high density apartment building in the Central Business District, the RMS requirement is 0.4 spaces per one bedroom unit, 0.7 spaces per two bedroom unit and 1.2 spaces per three bedroom unit, plus one space per seven units for visitors. Marginally higher requirements apply in subregional centres. (Some Sydney Councils already specify lower parking requirements than this).

Looking forward, with one and two person households expected to be even more prevalent, high density living will also increase. This is already evident in the supply pipeline of Australia's Eastern Seaboard cities. It seems likely that better public transport, active transport (walking, cycling) and car sharing will allow reduced parking.

Developers should however consider the anticipated mix of residents in each project, with lifestyle destinations like the Gold Coast and suburban projects that appeal to older buyers downsizing likely to require better parking provision.