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New homes

We are building the wrong homes!

Here's a good question...."Despite developers throwing up to \$50,000 at first-home buyers, why do close to 90% of them buy a second-hand property instead?"

The answer is rather simple, really: price.

At last count, the average new house was 35% more expensive than an older one (built under five years ago) in the same vicinity. One would expect a 10% to 15% differential given all the goodies in a new dwelling today, but at 35% more, new residential property is way too expensive relative to second-hand stock.

Why is this the case? Well, the old chestnuts still apply – limited land supply; taxes and charges on new development and restrictive town planning practices. But the development industry needs to take some of the blame too. They build the wrong homes. Also, their marketing campaigns often don't hit the right buttons when it comes to today's first-home buyer.

This Snapshot, whilst touching on land supply and so on, will mostly focus on new building and a potential new marketing solution.

To make new housing more affordable in Australia, there are two basics points. The first point is we need to supply more land. The current land supply policies are completely inadequate and it is this lack of available land that has pushed house prices up. Thirty years ago, the land content of a home's value was around 40%. Today it is approximately 80%. Real building costs have remained fairly constant. It is the price of land that has increased dramatically.

The second point is we need to increase our building rate. Historically, Australia has low building rates, adding at best 2% per year to our existing housing stock. Local governments in Australia don't have the right set of incentives to say "yes" to development. At present, state governments get the economic upside from new development in the form of land tax; GST receipts and stamp duties. Essentially, the one

level of government that has the power to make decisions about development should be the same level of government that receives incentives for development. Apart from abolishing state governments – which many of us don't think is such a bad idea - maybe a guaranteed proportion of the GST derived from new development should go to the relevant local council. This more direct linkage might induce councils (and their planning staff) to approve residential development applications in months rather than years, which increasingly has become the norm.

Pigs might fly, I hear you say. Well, exactly. So, as we are unlikely to see wholesale changes to regional planning; taxes decline on new development or the transfer of power or wealth from one level of government to another, how can the development industry build more homes and at lower price points?

Before we provide our opinion consider these facts:

➤ Of the 300 display homes in Queensland, only eight are under 200 square metres. It is a similar situation in other states. With building costs at around \$1,000 per square metre (for detached houses) and when including the cost of land, very few of these display homes can be purchased for under \$400,000. Low to moderate income earners cannot afford to buy a new home. Nor can most first-home buyers.

➤ Most of the residential land estates across south east Queensland have house size covenants that start at 180 square metres. Many have covenants over 225 square metres.

➤ The average size of a new house in the mid-1950s was half the size of a new house today. Between 1985 and 2008, the average floor area of new houses increased from 170 to 250 square metres. This expansion in the size of houses has been occurring at a time when the average number of people in first-home households is shrinking. In 1970 an average new house had 40 square metres of floor space for each occupant, whereas today each occupant has 85 square metres.

➤ According to the 2006 census, 42% of Australian households have two or more spare bedrooms.

➤ Contrary to popular belief, there has been little overall change in suburban allotment sizes across south east Queensland over the last ten years or so. In the late 1990s the average suburban allotment was 660 square metres. Last year the average lot size was 630 square metres. Whilst there are a higher proportion of allotments approved under 450 square metres (12% today versus 5% a decade ago), the proportion of allotments sized between 450 and 800 square metres has not changed.

➤ Allotment frontages are unnecessarily wide. The reason why they often exceed 20 metres is to accommodate cars. Historically, cars entered the block from the rear or side. Today, most new homes have front-loaded car accommodation. This requires a significant amount of land, as most councils require the garage to be set back six metres from the street. In fact, developers are designing houses around the car rather than the occupants.

So what can be done?

Well, firstly let's relocate the car accommodation from the front of the property to the side or better still the rear. Placing cars at the front of a property is the most expensive option. In contrast, placing cars at the rear of the house is not only cheaper, but allows more backyard space, as rigid street set backs are no longer required.

A traditional 600 square metre allotment has a 20 metre frontage and is 30 metres deep. But by placing the cars at the rear, it is possible to halve the allotment size to 10 metres by 30 metres. This, in some locations, can save buyers up to \$150,000 off the purchase price. If first-home buyers can also accept a carport rather than a garage – remember, it is their first home, after-all – it is much cheaper to build, as a carport is not part of the home's structure. Potentially, this can shave between \$30,000 and \$50,000 off the construction cost of a new home.

Rear loading car accommodation makes it possible to have not only smaller allotments, but a wider variance in housing styles too. A subdivision with rear loading can feature allotments ranging in size from six, eight, ten and twelve metre frontages – all with 30 metre depths, giving four different lot sizes under 400 square metres. This provides the first-

home buyer with a range of affordable options.

The second thing needed to be done is to shrink the actual size of the house. Three-bedroom houses, using innovative designs, can be built from between 120 and 150 square metres. Gone are formal lounge rooms, large kitchens and long hallways. Multi-function rooms, which double as media and study areas, are in. Kitchens, whilst more compact, have a strong interplay with the outside patio/deck. Outdoor dining and entertaining feature too. Think *smart* not *big*, *tailored shoe boxes*. McMansions are out. Small will be the new black. And it is already happening in the USA, where 89% of the new homes built last year were smaller than those homes built by the same builder the year before.

There is no reason why new detached houses, targeting the first-home buyer, cannot be provided for between \$275,000 and \$300,000 across most Australian urban growth areas.

Most readers would know about Generation Y or X, but many, we guess, would not have heard about Generation G. Yes Gen G, where the G stands for Generosity. This group captures the growing importance of generosity as a leading societal and business mindset. Whilst exacerbated by the recent sub-prime crisis, this trend was gaining momentum before financial markets started to go belly up. Its gaining strength can be witnessed by the monumental rise in the use of flickr; wikipedia; youtube; tripadvisor.com and blog websites in general. Recent research found that 38% of people aged in their mid-twenties to late 30s identify themselves more as Gen G than the more traditional generational characteristics.

So how does this apply to the sale of a new home? Well, lots. Throwing money directly at the first-home buyer, of course, has appeal, but maybe such spending could be better redirected. How? Well, think about donating. For every home sold using the FHOG, the developer could contribute money to a worthy cause. Better still, try to get the buyer to co-donate. Another innovative way to plug into Gen G is to match your house sales with funds to build homes in the more impoverished corners of the planet. In addition, there are numerous *green* ways to attract the attention of Gen G.

To date, too few developers have embraced generosity in their marketing campaigns.

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