



# Construction, property markets and housing

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## Construction

### Counts of businesses

The table over shows numbers of businesses in the *construction* sector (defined by the 1993 version of the Australian and New Zealand Standard Industrial Classification - ANZSIC), according to specified employment size ranges. It indicates that in 2006:

- Establishments in the *construction* sector were clearly concentrated in the Lower Hunter local government areas (LGAs). Of all 3,482 establishments in the Hunter Region, approximately 85 per cent were in the Lower Hunter, with 34 per cent in Lake Macquarie and 21 per cent in Newcastle. These LGAs are the most populous in the Hunter (*see the Population and Demography chapter*).
- In the Upper Hunter the LGA with the largest number of businesses in the sector was Singleton, and in the Other Hunter *construction* businesses were most concentrated in Great Lakes, the most populous LGA in this sub-Region.
- In the Region around 97 per cent of all businesses in the sector had less than 20 employees: 54 per cent had no employees (they were run by their proprietors), 31 per cent had 1-4 employees, and 11 per cent had 5-19 employees.
- There were 51 businesses in the sector with 50 or more employees, 18 of which were located in Newcastle and 12 in Maitland.
- In total, the sector accounted for 17 per cent of all businesses in the Hunter.

**No. of construction businesses in local government areas in the Hunter Region,  
in specified employment size ranges, June 2006**

	Non-employing (zero employees)	Employing						Total employing	Total (1)
		1-4 employees	5-19 employees	20-49 employees	50-99 employees	100-199 employees	200+ employees		
<b>Lower Hunter</b>									
Cessnock	246	123	51	6	-	3	-	183	432
Lake Macquarie	1,386	876	291	45	9	-	-	1,221	2,613
Maitland	495	288	117	30	6	3	3	447	942
Newcastle	858	483	177	48	12	3	3	726	1,587
Port Stephens	534	288	99	21	-	-	-	408	942
<b>Lower Hunter total</b>	<b>3,519</b>	<b>2,058</b>	<b>735</b>	<b>150</b>	<b>27</b>	<b>9</b>	<b>6</b>	<b>2,985</b>	<b>6,516</b>
<b>Upper Hunter</b>									
Muswellbrook	57	35	24	-	3	-	-	62	120
Singleton	96	57	24	6	-	-	-	87	183
Upper Hunter Shire	99	48	21	-	-	-	-	69	168
<b>Upper Hunter total</b>	<b>252</b>	<b>140</b>	<b>69</b>	<b>6</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>218</b>	<b>471</b>
<b>Other Hunter</b>									
Dungog	69	36	6	-	3	-	-	45	114
Gloucester	45	18	3	3	-	-	-	24	69
Great Lakes	288	156	48	3	-	-	3	210	498
<b>Other Hunter total</b>	<b>402</b>	<b>210</b>	<b>57</b>	<b>6</b>	<b>3</b>	<b>-</b>	<b>3</b>	<b>279</b>	<b>681</b>
<b>Hunter total</b>	<b>4,173</b>	<b>2,408</b>	<b>861</b>	<b>162</b>	<b>33</b>	<b>9</b>	<b>9</b>	<b>3,482</b>	<b>7,668</b>
<b>All Hunter businesses</b>	<b>24,319</b>	<b>11,601</b>	<b>5,989</b>	<b>1,462</b>	<b>458</b>	<b>139</b>	<b>111</b>	<b>19,760</b>	<b>44,079</b>
<b>Construction as a proportion of all Hunter businesses</b>	<b>17%</b>	<b>21%</b>	<b>14%</b>	<b>11%</b>	<b>7%</b>	<b>6%</b>	<b>8%</b>	<b>18%</b>	<b>17%</b>

Note: This sector has been defined according to the 1993 version of the Australian and New Zealand Standard Industrial Classification (ANZSIC). The data is primarily compiled from the *Australian Business Register* maintained by the Australian Tax Office and, therefore, excludes businesses without a registered Australian Business Number (primarily businesses with an annual turnover of less than \$50,000). Included are single location and multiple location businesses. Also excluded are entities which are not considered to be actively trading in the market sector and, as such, are not considered to be businesses. These entities include charitable organisations, and 'general government' which particularly affects data for the *electricity, gas and water, education and health and community services* sectors.

Source: Australian Bureau of Statistics, *Counts of Australian Businesses, Including Entries and Exits*, Cat. No. 8165.0

(1) To preserve the confidentiality of some businesses, they may be included in the total shown but not specified under an employment category. Therefore, row totals may not sum to the totals shown.

## Employment (1993 ANZSIC)

The table over provides details of employment in the *construction* sector (again using the 1993 ANZSIC) in the Lower Hunter and Hunter Balance sub-Regions (upper section of the table), and the Hunter Region and State (lower section). According to the *Census of Population and Housing*:

- In 2006 there were 19,728 people employed in the *construction* sector in the Hunter, 37 per cent more than 10 years earlier in 1996. In the State, employment in the sector increased by 30 per cent over the decade.
- The bulk of this regional employment (16,542 persons, or 84 per cent in 2006) was in the Lower Hunter.
- Within the sector, 28 per cent of regional employment in 2006 was in *building construction* (lower than the State proportion of 33 per cent). Employment in *building construction* in the Hunter increased by 109 per cent between 1996 and 2006, compared with an increase of 117 per cent in the State. The increase in the Hunter Balance LGAs was higher than in the Lower Hunter LGAs.
- Approximately 19 per cent of regional employment in 2006 was in *installation trade services* (including electrical, plumbing etc.), and 16 per cent was in *building completion services* (carpentry, plastering etc.). Employment in each of these sub-sectors increased over the decade, though the rate of increase for *building completion services* was substantially higher in the Hunter Balance (42 per cent) than in the Lower Hunter (22 per cent).
- The sector accounted for 8 per cent of all regional employment in 2006, a slightly higher proportion than in the State (7 per cent).

*An overview of sectoral employment, and structural change in the regional economy are also discussed in the Labour Force chapter. Details of employment in property services is provided in the Business and Property Services chapter.*

## Employment in construction, Hunter and NSW, 1996 and 2006 (1993 ANZSIC)

	Lower Hunter (1)				Hunter Balance (2)			
	1996	2006	% change 1996-2006	% sector total 2006	1996	2006	% change 1996-2006	% sector total 2006
Building completion services (carpentry, plastering etc.)	2,154	2,620	22%	15.8%	318	453	42%	14.2%
Building construction	2,235	4,662	109%	28.2%	411	879	114%	27.5%
Building structure services (concreting, bricklaying etc.)	1,512	1,671	11%	10.1%	187	243	30%	7.6%
Construction trade services, undefined	52	162	212%	1.0%	20	16	-20%	0.5%
Construction, undefined	1,009	528	-48%	3.2%	235	92	-61%	2.9%
General construction, undefined	163	47	-71%	0.3%	42	8	-81%	0.3%
Installation trade services (electrical, plumbing etc.)	2,725	3,301	21%	20.0%	421	488	16%	15.3%
Non-building construction	745	1,568	110%	9.5%	272	379	39%	11.9%
Other construction services (landscaping etc.)	873	1,176	35%	7.1%	122	252	107%	7.9%
Site preparation services	614	807	31%	4.9%	310	383	24%	12.0%
<b>Total construction</b>	<b>12,082</b>	<b>16,542</b>	<b>37%</b>	<b>100.0%</b>	<b>2,338</b>	<b>3,193</b>	<b>37%</b>	<b>100.0%</b>
	Hunter (3)				New South Wales			
	1996	2006	% change 1996-2006	% sector total 2006	1996	2006	% change 1996-2006	% sector total 2006
Building completion services (carpentry, plastering etc.)	2,472	3,073	24%	15.6%	30,923	35,410	15%	16.7%
Building construction	2,646	5,538	109%	28.1%	32,531	70,628	117%	33.3%
Building structure services (concreting, bricklaying etc.)	1,699	1,910	12%	9.7%	16,900	16,186	-4%	7.6%
Construction trade services, undefined	72	179	149%	0.9%	1,039	1,813	74%	0.9%
Construction, undefined	1,244	617	-50%	3.1%	13,789	6,058	-56%	2.9%
General construction, undefined	205	57	-72%	0.3%	2,631	546	-79%	0.3%
Installation trade services (electrical, plumbing etc.)	3,146	3,792	21%	19.2%	36,820	42,603	16%	20.1%
Non-building construction	1,017	1,945	91%	9.9%	10,980	13,897	27%	6.6%
Other construction services (landscaping etc.)	995	1,425	43%	7.2%	10,081	15,935	58%	7.5%
Site preparation services	924	1,192	29%	6.0%	7,904	8,902	13%	4.2%
<b>Total construction</b>	<b>14,420</b>	<b>19,728</b>	<b>37%</b>	<b>100.0%</b>	<b>163,598</b>	<b>211,978</b>	<b>30%</b>	<b>100.0%</b>

Note: Employment is classified according to the 1993 version of the Australian and New Zealand Standard Industrial Classification (ANZSIC). Historical comparisons are not available using the latest (2006) version.

Source: Australian Bureau of Statistics, *Census of Population and Housing*, 1996 and 2006, Cat. No. 2068.0

(1) Local Government Areas of Cessnock, Lake Macquarie, Maitland, Newcastle and Port Stephens.

(2) Local Government Areas of Dungog, Gloucester, Great Lakes, Muswellbrook, Singleton and Upper Hunter Shire.

(3) There may be slight discrepancies between data shown for the Hunter Region and the sum of data for the Lower Hunter and Hunter Balance sub-Regions.

# Construction and property markets

## Market drivers

Economic activity in the construction and property markets is dependent upon three main factors:

- **Demand**

For the residential sector, demand derives from new household formation and the replacement of dilapidated stock. For the non-residential sectors, this demand is from tenants and owner-occupiers, both public and private sector, for additional and/or more appropriate accommodation, as well as the replacement of redundant stock.

- **Supply**

This factor does not simply follow demand (although demand remains a major driver), but also reflects the cost of construction activity, including building, labour and planning costs, as well as costs inherent in the time seeking planning approval or required for the construction and certification of new buildings.

- **Finance**

Irrespective of trends in demand and supply, construction activity and property market behaviour can be fundamentally shaped by the demand for property as an investment class, and the cost of finance as a component of property development. Recent history provides clear evidence of the significance of finance in shaping the level of activity within this sector.

## Data sources

The following discussion draws upon data from a variety of sources, including data from the Australian Bureau of Statistics, the Reserve Bank of Australia, the NSW Department of Lands, Residex, and industry bodies such as the Property Council of Australia and the Real Estate Institute of NSW. None of these data sources is comprehensive, but each provides insight regarding the profile and trends in the sector. For example, building approvals data is used as a barometer of potential construction activity, acknowledging that not all approvals translate to construction and completions. If data is unavailable for the Hunter Region specifically, inferences are sometimes drawn from wider State or national trends where relevant and applicable to the Region.

## Financial market impacts

There is one major trend that is a consistent factor shaping investment activity across all sectors. Over the past year, problems in the US sub-prime mortgage market and the securities backed by these loans have led to a global reassessment of the risks associated with investing in financial products. The result has been a sharp increase in interest rate requirements for debt and, flowing from this, an increase in the income returns expected for all investments.

This is relevant to the Hunter, for both commercial and residential real estate, because it was the decline in these financial costs and the availability of relatively low cost finance which drove much of the extensive price growth seen through the last property upturn. Accordingly, the higher cost of finance has acted to undermine asset values, increase perceived market risk and increase development costs, independent from any demand and supply pressures. The specific impacts of these financial events upon each market sector are discussed in their respective overview.

# Residential property

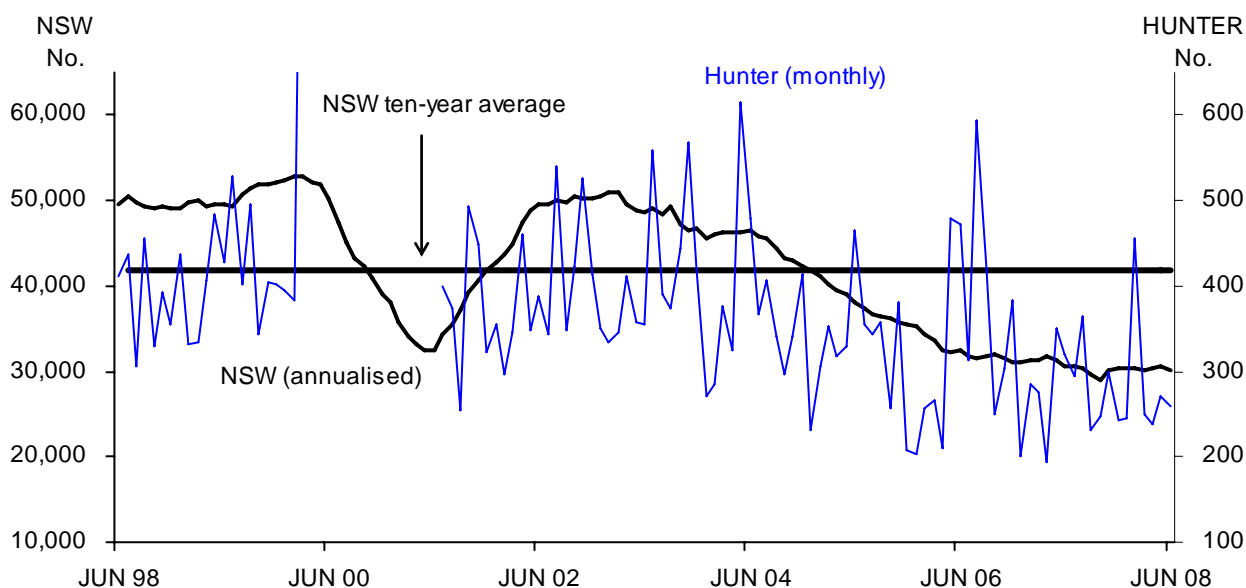
## Housing supply

Data for residential dwelling approvals in the Hunter Region is highly volatile on a monthly basis, but cyclical patterns remain clear over the long-term. Instigated by the interest rate rises that commenced in late 2003, the downturn in residential construction has been extensive across NSW, and the Region has not escaped this weakness.

There were 3,400 residential approvals in the Hunter for the 12 months to June 2008, 18 per cent lower than the ten-year average (note that this excludes a period of unavailable data in 2000-01). In NSW, total private residential approvals over the same period were 28 per cent lower than the ten-year average. The slowdown has been less severe in the Hunter for several reasons:

- The availability of residential land is less constrained in the Hunter than in other areas
- The Region is less exposed to investment stock, and therefore investment demand, which has declined most rapidly and undermined the requirement for new supply more dramatically in other markets
- Affordability, while a challenge for the Region, is less of a constraint upon activity than in other markets.

### Trend in private residential development approvals, Hunter Region and NSW, June 1998 – June 2008



Source: Australian Bureau of Statistics, Cat. No. 8731.1

The table over demonstrates the distribution of development activity, across the Region and by type of housing. Building approvals are used as a proxy for the potential distribution of new residential construction. In 2006-07 just under 60 per cent of these approvals were for new houses, with the remaining 40 per cent comprising approvals for non-detached dwellings. This demonstrates that the majority of proposed housing development remains with new houses, although a higher proportion in comparison with the current composition of total housing stock is represented by new townhouses, apartments and other non-detached dwelling forms. Details of the current housing stock are provided below.

Within the Region, the majority of development proposals were in the Lake Macquarie and Newcastle Local Government Areas (LGAs). Proposals for new houses were proportionally highest in Cessnock, Maitland and Port Stephens. Newcastle LGA is not represented in this group because of the diminishing availability of greenfield land for residential subdivision within the council area. Both proportionally and by the number of dwellings, the inner city of Newcastle contained the majority of higher density proposals.

### Dwelling approvals in statistical local areas in the Hunter Region, 2006-2007

	New houses		New other residential building		Total
	No.	Share of LGA total	No.	Share of LGA total	No.
<b>Lower Hunter</b>					
Cessnock	269	78%	78	22%	347
Maitland	374	75%	123	25%	497
Lake Macquarie - East	157	53%	138	47%	295
Lake Macquarie - North	293	55%	234	44%	531
Lake Macquarie - West	195	50%	195	50%	390
Newcastle - Inner City	69	15%	382	83%	462
Newcastle - Outer West	119	49%	125	51%	244
Newcastle - Throsby	68	56%	53	44%	121
Port Stephens	352	72%	122	25%	489
<b>Lower Hunter total</b>	<b>1,896</b>	<b>56%</b>	<b>1,450</b>	<b>43%</b>	<b>3,376</b>
<b>Hunter Balance</b>					
Dungog	17	100%	-	0%	17
Gloucester	38	97%	-	0%	39
Great Lakes	142	76%	44	24%	187
Muswellbrook	64	90%	7	10%	71
Singleton	149	82%	33	18%	182
Upper Hunter Shire	45	61%	29	39%	74
<b>Hunter Balance total</b>	<b>455</b>	<b>80%</b>	<b>113</b>	<b>20%</b>	<b>570</b>
<b>Hunter Region</b>					
<b>Hunter Region total</b>	<b>2,351</b>	<b>60%</b>	<b>1,563</b>	<b>40%</b>	<b>3,946</b>

Source: Australian Bureau of Statistics, Cat. No. 8731.1

The division between approvals sought to replace old dwellings and approvals sought for new houses on greenfield land cannot be distinguished from the above data. However, historical trends suggest that the older urban areas in Newcastle and Lake Macquarie will include a larger component of replacement stock.

Strategic policy shaping the direction of new housing within the Lower Hunter is embodied within the NSW Department of Planning's Lower Hunter Regional Strategy (LHRS). Future local environment plans, which provide the zoning to enable new residential development, will have to be reconciled against the objectives of this strategy (with the exception of those approved at the State level under Part 3A of the *Environment and Planning Act, 1979*).

The LHRS implies that the planning framework will continue to encourage the provision of new detached housing on greenfield land within Port Stephens, Maitland and Lake Macquarie LGAs. The provision of other types of housing, particularly apartments, will be encouraged within Newcastle and Lake Macquarie LGAs.

The LHRS also incorporates substantial upgrades to estimates for future population, and focuses much of the higher growth in the Cessnock and Maitland LGAs. The Strategy specifies an additional 160,000 residents expected in the Lower Hunter, compared with an increase of approximately 74,000 in the Department of Planning's 2004 projections. Moreover, the LHRS plans for 75 per cent of the new residents to be accommodated in 'new release' areas, with 60 per cent of the dwellings in these new release areas to be in Cessnock and Maitland, both of which are identified as two of the six 'major regional centres' in the planning area. It is therefore likely that growth rates in the LGAs of Cessnock, Maitland and Singleton (adjoining Cessnock) will exceed those anticipated prior to the release of the LHRS. *See the Population and Demography chapter for population projections.*

Regional planning strategy for the Great Lakes LGA is established by the draft Mid-North Coast Regional Strategy. No locations are specified for new residential subdivision, but higher density supply will continue to be encouraged in Taree and coastal centres such as Forster.

The Lower Hunter Regional Strategy is available at [www.planning.nsw.gov.au/regional/hunter.asp](http://www.planning.nsw.gov.au/regional/hunter.asp)

The Draft Mid-North Coast Regional Strategy is available at [www.planning.nsw.gov.au/plansforaction/pdf/draft\\_mncrs\\_document.pdf](http://www.planning.nsw.gov.au/plansforaction/pdf/draft_mncrs_document.pdf)

## Major residential projects

There are a number of significant residential projects that are either under development or proposed within the Region in coming years. Following are some of the larger projects that will be either progressing through planning requirements and/or marketing dwellings for sale over the next few years.

### Major residential projects under development in the Hunter Region, 2008

Developer	Description	Location	Development status
<b>Former Royal Newcastle Hospital (Newcastle LGA)</b>			
Joint venture between Mirvac Projects and Landcom	Proposed mixed-use development at the north-eastern corner of the Royal Newcastle Hospital site consisting of five buildings (ranging from five to 16 storeys) including residential, retail, restaurants/cafes and a hotel. The final project will include a public plaza and pedestrian links to Shortland Esplanade	Between King Street and Shortland Esplanade, Newcastle	Planning approval in mid 2008 under Part 3A of the <i>Environmental Planning and Assessment Act, 1979</i> . Demolition of old hospital buildings substantially in progress

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Developer	Description	Location	Development status
<b>North Cooranbong Residential Development (Lake Macquarie LGA)</b>			
Joint venture between the Johnson Property Group and Avondale College	Up to 2,500 low and medium density residential allotments, commercial lands, public recreation/open space lands, environmental conservation lands and associated infrastructure	A 350 ha site north and 14.5 ha site south of the Cooranbong township	Seeking concept plan approval under Part 3A of the <i>NSW Environmental Planning and Assessment Act, 1979</i> . Approval is also required to meet the requirements of the <i>Commonwealth Environment Protection and Biodiversity Conservation Act, 1999</i> .
<b>Murrays Beach/Pinny Beach/Mawsons Ridge on the Wallarah Peninsula (Lake Macquarie LGA)</b>			
Stockland	Adjoining the Wallarah National Park, this project contains three stages: Murrays Beach (560 lots on Lake Macquarie), the North precinct and the Coastal precinct (a combined potential for a further 1,151 lots). The release of land within the North and Coastal precincts will be dependent upon residential demand. Some of these precincts may change ownership in the coming years.	South of Caves Beach/ Swansea	Concept plan approval for approximately 1,150 residential lots over the whole site. Three stages within the whole project: Murrays Beach is substantially under construction (including a cafe and children's park); building approvals pending for Mawsons Ridge; Pinny Beach has current concept approval.
<b>Huntlee, Branxton (Singleton and Cessnock LGAs)</b>			
Huntlee Holdings	7,200 residential dwellings to be built between 2008 and 2025. The project also has the capacity to provide 160 ha of commercial land including over 50,000 sq. m of retail bulky goods	Situated between Branxton and North Rothbury	Concept plan approval sought under Part 3A of the <i>NSW Environmental Planning and Assessment Act, 1979</i> . Preferred Project Report lodged by Huntlee Holdings, awaiting voluntary agreements with State and local government regarding infrastructure provision.
<b>Coal and Allied lands, various locations (Newcastle and Lake Macquarie LGAs)</b>			
Coal and Allied	Approximately 623 residential lots at Gwandalan, 228 residential lots at Catherine Hill Bay (Middle Camp), 90 residential lots at Nords Wharf, and further extensive holdings containing an unspecified development yield	Potential development lands in Gwandalan, Catherine Hill Bay, Nords Wharf, Minmi, fringe Newcastle and Black Hill	Seeking concept plan approval under Part 3A of the <i>NSW Environmental Planning and Assessment Act, 1979</i> . An Independent Hearing and Assessment Panel (IHAP) provided recommendations in August 2008 that the proposed development footprint for the Gwandalan, Catherine Hill Bay and Nords Wharf holdings be reduced to the noted yield. Coal and Allied currently has the option to submit a Preferred Project Report incorporating these recommendations to the planning minister with a view to potential approval.

## Housing demand

Data capable of directly benchmarking housing demand in the private sector is limited at a regional scale. Nevertheless, most of the issues shaping potential demand across NSW are relevant to the Hunter Region.

The demand for housing in the private sector can be segmented between owner-occupier demand and investment demand. Owner-occupier demand can subsequently be segmented between first home buyers (FHBs) and those with current ownership (and probably equity). The key issues relevant to each segment are discussed below.

## Housing demand – investors

The modest levels of housing supply, relative to historic activity, and the strong levels of population growth across most Australian cities has seen vacancy rates decline to cyclical lows as the available rental stock has been absorbed by tenant demand. In February 2008 vacancy rates in the Hunter Region (determined by the real Estate Institute of NSW) were below 2 per cent: 1.0 per cent in the Lower Hunter, 1.8 per cent in the Hunter Balance and 1.3 per cent for the whole of the Region, compared with 0.9 per cent for Sydney. Consequently, the growth in residential rents has been well in excess of inflation across most LGAs. Rental growth in Muswellbrook, Maitland, Lake Macquarie and Cessnock LGAs for three bedroom houses was particularly strong. Lower rental growth in areas such as the Singleton LGA reflects a stabilisation from past increases, as opposed to a softer market.

### Residential rents and rental growth by local government areas in the Hunter Region, March 2008

	Three-bedroom houses		Two-bedroom apartments	
	Median rent (per week)	% change from March 2007	Median rent (per week)	% change from March 2007
Cessnock	220	10.0%	193	13.5%
Dungog	N/A	N/A	N/A	N/A
Gloucester	N/A	N/A	N/A	N/A
Great Lakes	240	0.0%	170	0.0%
Lake Macquarie	280	12.0%	220	10.0%
Maitland	260	10.6%	185	15.6%
Muswellbrook	230	15.0%	173	N/A
Newcastle	300	7.1%	250	4.2%
Port Stephens	250	4.2%	190	5.6%
Singleton	280	0.0%	230	15.0%
Upper Hunter Shire	215	N/A	165	N/A
<b>Hunter total (1)</b>	<b>268</b>	<b>8.1%</b>	<b>219</b>	<b>6.4%</b>
<b>NSW</b>	<b>270</b>	<b>8.0%</b>	<b>300</b>	<b>11.1%</b>

N/A: Not available due to insufficient numbers

Source: NSW Department of Housing, *Rent and Sales Report*

(1) Calculated as a weighted average by the Hunter Valley Research Foundation, with weights determined by the number of bonds lodged for each LGA.

Rising rents imply rising income returns for residential investors, but it is unlikely that investment demand will rise substantially through 2008 to ease the rental under-supply, for the following reasons:

- The higher cost of debt for servicing a residential investment requires a higher expectation for total returns. Current gross income returns are insufficient to attract an extensive level of investment demand back into the residential market, particularly in the absence of any sound expectations for price (capital) growth over the short-term.
- Strong tax incentives from the government continue to encourage alternative investments, particularly in superannuation.
- Members of the baby-boomer generation, who sustained the last boom in residential investment, have moved closer to retirement and, accordingly, will adopt more conservative short-term investment decisions e.g. lower-risk/low-debt investments, superannuation, managed trusts, etc.

In contrast, some factors currently support the provision of new rental stock. These include:

- The release of accommodation into the rental market by financially-distressed households with access to alternative housing e.g. return to family accommodation.
- The widespread uncertainty in the current share market, which has traditionally encouraged investors back towards 'safe' bricks-and-mortar investments.

In summary, while income returns to residential investment will continue to improve, investors are unlikely to return to the residential market in substantial numbers until the prospects for price growth substantially improve and finance costs decline relative to income returns, i.e. until the interest rate cycle turns and mortgage costs improve. The decline in interest rates in September 2008 may signal the beginning of a new rate cycle.

## **Housing demand – first home buyers**

Consistent with market theory, rising rents have historically acted to push a higher number of FHBs into residential ownership as the relative cost of market entry declines. However, despite the availability of the First Home Owners Grant (\$7,000) and stamp duty subsidies, significant affordability challenges (see below) and increases in mortgage rates continue to inhibit demand from potential FHBs. Additional factors acting to constrain potential FHB demand include:

- The challenge of reaching a substantially higher deposit hurdle, including the additional financial burden potentially arising from the Higher Education Contribution Scheme (HECS).
- A growing acceptance of perpetual rental accommodation, even at those life stages traditionally associated with a transition into home ownership, such as birth of the first child.

- An increasing proportion of people in relevant age groups who are electing not to have children and subsequently bypass traditional transition points for entry into home ownership.

Most of these factors are less exaggerated for the Hunter than within major markets such as Sydney, but they still shape potential FHB demand within the Region.

## Housing demand – owner-occupiers

In 2007 there were 8,141 residential sales in the Lower Hunter market, which covers all demand segments but best reflects the majority owner-occupier component, which includes housing transfers and upgrades. This level is 8 per cent lower than the ten-year average and implies that demand from owner-occupiers remains weak. The affordability analysis (see below) demonstrates that for owner-occupiers with a level of current home equity, the financial capability still broadly exists to acquire new or established housing. Reasons for the current relatively low demand from this segment are related to:

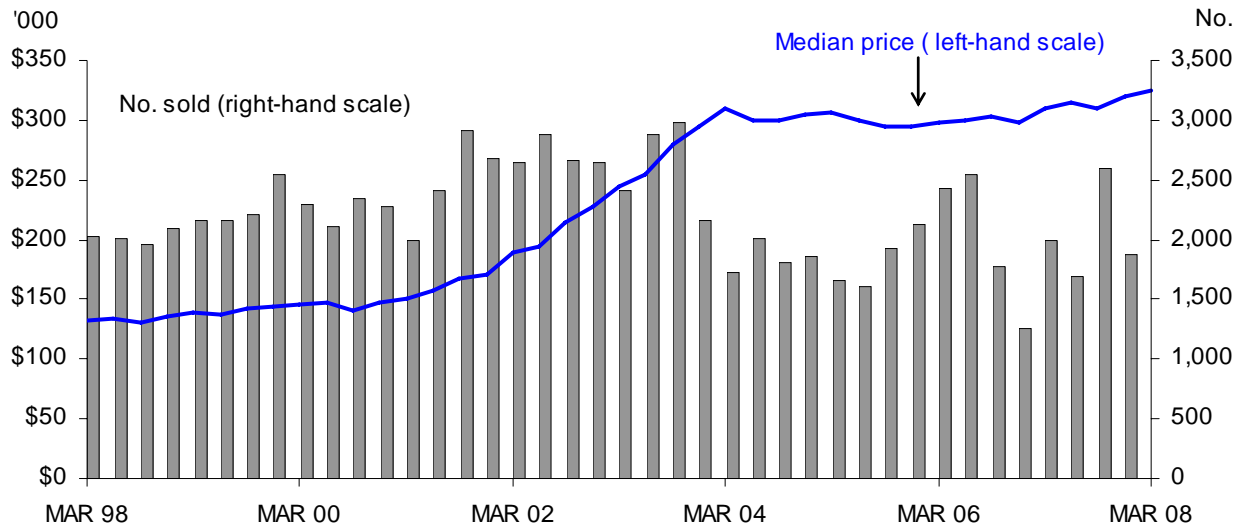
- Interest rate rises – they may be relatively benign for this segment, because the price of a current home will typically vary consistently with the price of any prospective purchase (exceptions would include extensive upgrades and shifts between major markets e.g. interstate). However, homeowners' expectations of their property's worth and the value of any prospective purchase do not adjust consistently, particularly at times of market weakness. For example, homeowners are quick to adjust the assumed value of potential property down, amid market weakness, but are highly resistant to make an adjustment in the perceived value of their own property. The period while these expectations adjust, prior to a new market equilibrium, is representative of the current market status.
- The challenges, highlighted above, to FHB market entry – these imply a lack of purchasers at the start of the sales chain. This undermines the capability of those with current residential equity to sell their current property and make a transition either within the established market or into new housing.

## Housing prices and sales

The residential market across the Hunter has seen an extended period of slower price growth following a peak in the market in October/November 2003. A period of consistent interest rate rises since this time has acted to keep nominal residential price growth close to or below the level of general inflation, and the number of sales markedly below the long-term average.

However, the chart over shows a recent, modest increase in median house prices in the Lower Hunter, by 5 per cent, on average over the year to March 2008, and an increase in the number of sales by 13.5 per cent. The reduction in interest rates in September 2008, and the likelihood of more to follow, may provide some stimulus to the regional market, though at the time of writing general economic conditions in the Region were relatively subdued.

### Median prices and number of sales, detached houses, Lower Hunter, March 1998 – March 2008



Source: Real Estate Institute of NSW

Price growth for residential dwellings across the Region has been highly variable. Except in the Upper Hunter Shire LGA where prices may be more volatile given a small sample base, price growth in March 2008 ranged from a decline of 6 per cent in Great Lakes LGA to an increase of 12 per cent in Cessnock. There appears to be no consistent pattern in these trends, with price growth neither concentrated in the lower or upper prices ranges, nor in any particular area. This probably reflects the diversity of local trends within the Region, with mining employment, prior price surges in coastal areas, interest rate-affected mortgage belts and structural changes in agricultural areas all affecting local trends.

### Residential prices for all dwellings in Hunter Region local government areas, March 2008

	Median price	% change from March 2007
Cessnock	\$235,000	11.9%
Dungog	\$308,000	1.0%
Gloucester	\$192,000	N/A
Great Lakes	\$320,000	-5.9%
Lake Macquarie	\$340,000	5.3%
Maitland	\$295,000	7.3%
Muswellbrook	\$270,000	-1.1%
Newcastle	\$327,000	4.8%
Port Stephens	\$346,000	-1.1%
Singleton	\$338,000	5.6%
Upper Hunter Shire	\$265,000	18.3%

N/A: Not available due to insufficient numbers

Source: NSW Department of Housing, *Rent and Sales Report*

The table below provides more detailed information regarding residential values across the Region. It has been sourced from the Residex organisation, which used a methodology to derive median values and the estimated change in residential values called Repeat Sales analysis. This methodology considers the price changes realised for individual dwellings when they are resold. Its advantage is that it removes large changes in the composition of the dwellings sold, which can affect median prices changes for all sales within a defined period, particularly at a suburban scale. The disadvantage is that as additional dwellings are re-sold, the median value will change for past periods. The table details the top 10 and the bottom 10 postcodes in order of the change in value for a typical house over the 12 months and 10 years to June 2008.

### Highest and lowest increases in house value, June 2008

#### Top and bottom 10 suburbs in the Hunter

Postcode	Representative suburb	Median value*		% change (to June 2008) over the past...	
		June 2008	June 2007	Year	10 years
<b>Highest increases</b>					
2300	Bar Beach	\$1,187,500	\$998,000	19.0%	11.8%
2296	Islington	\$274,000	\$233,000	17.6%	10.6%
2317	Soldiers Point	\$450,500	\$386,000	16.7%	10.0%
2338	Murrurundi	\$151,000	\$129,500	16.6%	10.0%
2315	Fingal Bay	\$534,000	\$458,000	16.6%	11.1%
2284	Argenton	\$269,000	\$235,000	14.5%	4.8%
2290	Tingira Heights	\$346,500	\$303,500	14.2%	9.3%
2264	Morisset	\$342,000	\$300,000	14.0%	12.0%
2290	Redhead	\$579,000	\$508,000	14.0%	11.5%
2326	Abermain	\$221,000	\$194,000	13.9%	10.3%
2283	Coal Point	\$669,500	\$590,000	13.5%	10.5%
<b>Lowest increases</b>					
2423	Bulahdelah	\$228,000	\$231,500	-1.5%	9.4%
2317	Salamander Bay	\$427,000	\$434,000	-1.6%	9.3%
2337	Scone	\$279,500	\$284,500	-1.8%	9.7%
2315	Shoal Bay	\$423,500	\$431,500	-1.9%	8.5%
2324	Raymond Terrace	\$262,500	\$268,500	-2.2%	8.5%
2297	Tighes Hill	\$315,000	\$323,000	-2.5%	10.9%
2295	Stockton	\$401,500	\$412,000	-2.5%	9.3%
2282	Lakelands	\$526,000	\$541,000	-2.8%	9.3%
2322	Tarro	\$254,000	\$261,500	-2.9%	9.3%
2285	Cameron Park	\$417,500	\$435,000	-4.0%	9.1%

\* Median value estimated from the available repeat sales evidence

Source: Residex

The highest value growth was evident in either the higher priced suburbs (Bar Beach, Fingal Bay, Redhead, Coal Point) where demand remained resilient, or the lower priced suburbs which have lagged growth in the wider market. In contrast, suburbs with the lowest price growth are less diverse. It is possible that these suburbs reflect households in the mortgage belt that have been more adversely affected by the interest rate escalations of recent years.

## Residential lot values

A guide to the relative value of residential lots for new housing construction can be sourced from the NSW Department of Land's valuations that are provided for statutory purposes. These valuations are typically conservative (reducing the requirement for costly court cases), but still inform upon the relative price of representative residential lots within the Region and in comparable areas. The change in values from 2006 to 2007 was substantially lower than the long-term annual increase in values over the preceding 11 years. This is consistent with the stagnation in the current market following the boom in activity between 2001 and 2003.

### Value of representative residential lots within selected Newcastle suburbs and relevant benchmark areas, 1996 – 2007

Selected suburbs	Representative lot area sq. m	Valuation of representative site			Valuation (\$ per sq. m) 2007	% change in value	
		1996	2006	2007		1996 – 2007	2006 – 2007
<b>Edgeworth</b>	<b>684</b>	<b>\$46,300</b>	<b>\$128,000</b>	<b>\$115,000</b>	<b>\$168</b>	<b>8.6%</b>	<b>-10.2%</b>
Eleebana	595	\$72,000	\$224,000	\$237,000	\$398	11.4%	5.8%
<b>Mayfield</b>	<b>680</b>	<b>\$55,500</b>	<b>\$184,000</b>	<b>\$186,000</b>	<b>\$274</b>	<b>11.6%</b>	<b>1.1%</b>
<b>Merewether</b>	<b>561</b>	<b>\$154,000</b>	<b>\$415,000</b>	<b>\$415,000</b>	<b>\$740</b>	<b>9.4%</b>	<b>0.0%</b>
Thirroul	608	\$113,000	\$395,000	\$356,000	\$586	11.0%	-9.9%
East Gosford	465	\$71,300	\$228,000	\$233,000	\$501	11.4%	2.2%
Wamberal	780	\$92,400	\$332,000	\$305,000	\$391	11.5%	-8.1%
Wyong	684	\$51,800	\$164,000	\$171,000	\$250	11.5%	4.3%
The Entrance	675	\$110,000	\$315,000	\$331,000	\$490	10.5%	5.1%

Source: NSW Department of Lands, *Blue Book*, 2007

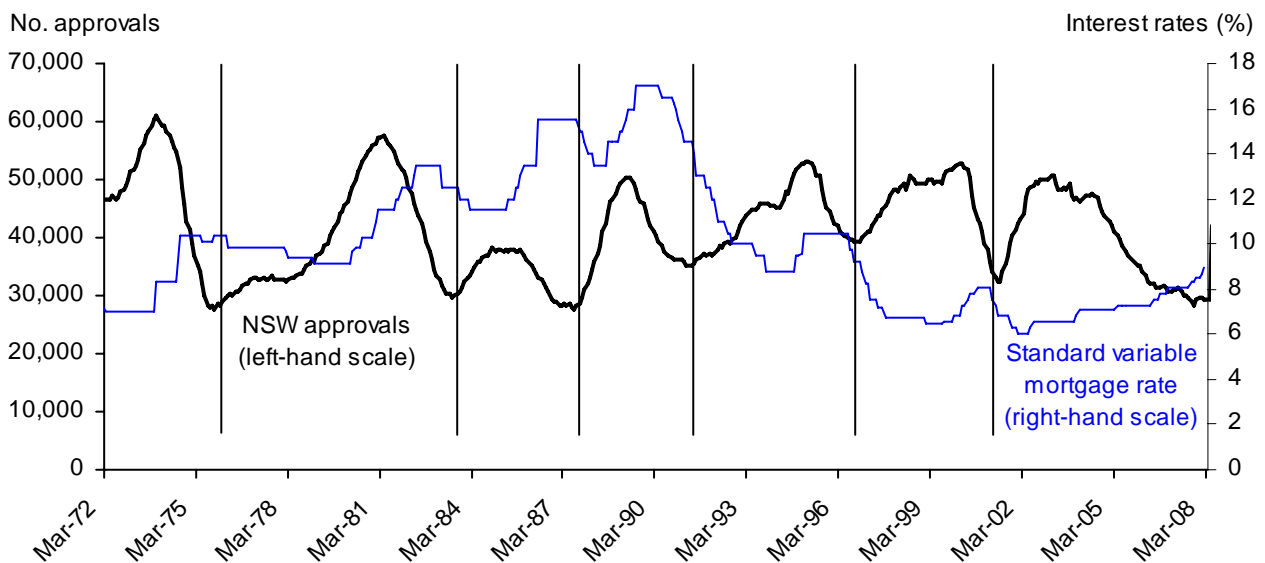
## Residential market outlook

While planning approvals may continue to be sought, residential developers in the Region typically have sufficient stock inventory (at August 2008) and will limit additional commencements until demand signals improve. Home builders are likewise reluctant to increase their capital exposure/investment without sales improving. Ongoing weakness in investment demand is not expected to tighten the established housing market, at least in the short-term. Results from the HVRF survey of Hunter residents in March 2008 also imply that owner-occupiers are still reticent to enter the market. A turnaround in both demand segments is required before new construction activity is likely to pick-up.

The length of the current cyclical slowdown in NSW (including the Hunter) is now longer than a conventional cycle (typically 28-32 months following the peak), implying that the market upturn should soon commence. An examination of long-term housing cycles in NSW demonstrates that a pick-up in the housing sector is always preceded by a cut in interest rates. The chart below profiles residential property cycles, as evidenced by the number of dwelling approvals, and the interest rate cycle. The vertical lines highlight the trough for each residential cycle, illustrating that the subsequent upturn is always preceded by a cut in mortgage rates. There is nothing in the prevailing market context to suggest that this cycle will be different.

Relatively slow growth in the national economy in the June quarter 2008 prompted the Reserve Bank of Australia to cut interest rates by one-quarter of one per cent in September 2008, the first reduction in over six years. With further cuts likely in 2008 and 2009, as long as inflation remains within limits acceptable to the Bank, the housing market may improve in 2009. However this will require, as a minimum, an improvement in consumer and business confidence.

### Residential property cycles and interest rates, NSW, March 1972 – March 2008



Source: Australian Bureau of Statistics, Cat. No. 8731.1; Reserve Bank of Australia

*Further details on the nature of housing in the Hunter Region, and housing affordability, are provided towards the end of this chapter.*

## Non-residential property Building approvals

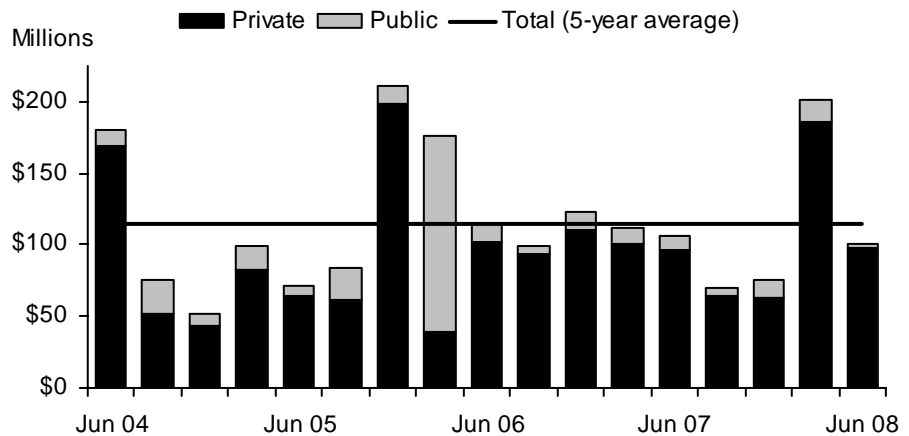
Non-residential building approvals valued at over \$690 million were approved in the Hunter Region for the 12 months to the June quarter 2008. Around 92 per cent of these approvals were sourced from the private sector, with the public sector comprising the remainder.

A guide to the scale and trend in all commercial property sectors (including the retail, industrial and office sectors) can found in the real (inflation-adjusted) value of building approvals.

The chart below demonstrates that quarterly patterns for non-residential approvals are highly variable. This volatility is consistent with the influence of large one-off developments, as well as the disparity between the strength of some sectors of the regional economy. Currently housing, retail and associated industries, and manufacturing are relatively weak, while mining and related industries are strong.

In total, construction activity within the non-residential sectors appears to be softening, trending moderately below the five-year average. With the exception of commodity-related infrastructure, e.g. WesTrac’s Tomago facility, the impression is that many larger private investors lie in hiatus, waiting for the prospects for raising debt/equity, and the potential for return on their prevailing or anticipated equity, to improve.

**Real value of non-residential building approvals by sector, Hunter Region, June 2004 – June 2008 (1998-99 dollars)**



SOURCE: Australian Bureau of Statistics, Catalogue Nos 8731.1 and 6427.0

The table over illustrates the distribution of potential commercial construction activity across the Hunter. In 2006-07 the majority of activity was concentrated in the Newcastle (25 per cent of the total) and Lake Macquarie (32 per cent) LGAs. Port Stephens was also strongly represented (11 per cent), probably reflecting increasing construction in the Tomago industrial precinct. Public sector proposals had a greater concentration in the Newcastle LGA, which is consistent with the city’s role as a regional hub for public sector administration.

Mining operations, concentrated in the Singleton and Muswellbrook LGAs, generally require State Government approval and will not be reflected in these figures. In addition, the majority of the coal operations will be categorised as private investment in engineering works, rather than building construction. Maitland LGA had over \$275 million worth of construction proposed (11 per cent), which suggests that some of the building activity supporting the resources industry might be centred in this growth area.

## Value of non-residential building approvals in Hunter Region local government areas, 2006-07

	Private sector		Public sector		Total	
	Value (\$'000s)	Proportion of Hunter	Value (\$'000s)	Proportion of Hunter	Value (\$'000s)	Proportion of Hunter
Cessnock	\$475,523	6.2%	\$4,989	1.0%	\$480,512	5.9%
Dungog	\$44,634	0.6%	\$4,168	0.9%	\$48,802	0.6%
Gloucester	\$59,471	0.8%	\$200	0.0%	\$59,671	0.7%
Great Lakes	\$513,427	6.7%	\$21,677	4.5%	\$535,104	6.5%
Lake Macquarie	\$2,521,199	32.7%	\$115,417	23.9%	\$2,636,616	32.2%
Maitland	\$843,972	11.0%	\$54,304	11.2%	\$898,277	11.0%
Muswellbrook	\$113,652	1.5%	\$900	0.2%	\$114,552	1.4%
Newcastle	\$1,856,003	24.1%	\$179,285	37.1%	\$2,035,289	24.9%
Port Stephens	\$870,990	11.3%	\$53,497	11.1%	\$924,487	11.3%
Singleton	\$258,616	3.4%	\$17,138	3.5%	\$275,754	3.4%
Upper Hunter Shire	\$147,841	1.9%	\$31,500	6.5%	\$179,341	2.2%
<b>Hunter</b>	<b>\$7,705,330</b>	<b>100.0%</b>	<b>\$483,076</b>	<b>100.0%</b>	<b>\$8,188,406</b>	<b>100.0%</b>

Source: Australian Bureau of Statistics, Cat. No. 8731.1

## Retail property Market issues

The retail property sector in the Hunter continues to undergo significant transition. Favourable fundamentals, such as the relatively strong population and income growth, continues to attract significant investment into the retail assets of the Region, as demonstrated by the significant shopping centre expansions either proposed (e.g. Stockland Green Hills), under construction (e.g. General Property Trust's Charlestown Square) or recently completed (e.g. Westfield Kotara).

Major property investors continue to perceive the Region as a long-term growth opportunity, although prevailing problems in financial markets have introduced challenges. The increasing cost of finance implies that the value of major retail assets has fallen across the Region. For investors, this places a greater focus upon the creation of value through development and retail management, rather than financial asset management. Given the Region's favourable outlook, this trend is positive for continuing investment. In contrast, the higher cost of finance makes the justification for new development harder to realise. Accordingly, some retail proposals in the Hunter may remain on hold until the economic and financial outlook appears clearer. General Property Trust's retail initiative in central Newcastle provides one example, where commercial pressures on the project's viability and financial pressures on the business are likely to delay the progress of such developments.

The expansion of sub-regional and major regional shopping centres in the Hunter continues to provide challenges for local government. The impact of the larger shopping centres can be significant across local government boundaries and the prevailing governance framework provides no incentive to understand how, for example, General Property Trust's expansion of Charlestown Square (approved by Lake Macquarie Council) may impact upon the retail offer in the Newcastle city centre. These concerns can also be applied to the viability of strip-shopping in established centres.

In the short-term, higher interest rates and weaker sentiment are acting to constrain retail expenditure and retail trade. This is particularly true for discretionary expenditure, rather than more resilient household staples. Accordingly, the tenants associated with discretionary spending are unlikely to expand, and may reduce their space requirements in the short-term.

*A profile of major retail centres in local government areas in the Hunter Region is provided in the Wholesale and Retail Trade chapter.*

## Retail property values

The table below provides an indication of the relative value of strip retail property in Newcastle and the Lake Macquarie suburbs of Charlestown and Belmont (both of which lie within the Newcastle urban area). It should be noted that the statutory purpose for these valuations typically leads to a conservative estimate of value. Nevertheless, the data provides insight of relative costs/prices, as well as broad price benchmarks. Properties in the identified Hunter suburbs remain markedly cheaper than both core and suburban retail strips within metropolitan Sydney. It is difficult to place too much significance in the most recent price changes (2006 to 2007), where the valuations have clearly been increased according to step changes.

### Value of single shop in a prime location within selected Newcastle suburbs and relevant benchmark areas, 1996 – 2007

Selected retail strips	Frontage (metres)	Valuation of single shop			% change in value	
		1996	2006	2007	1996 – 2007	2006 – 2007
Sydney	9.7	\$2,660,000	\$3,230,000	\$3,880,000	3.5%	20.1%
Chatswood	6.0	\$1,850,000	\$1,540,000	\$1,540,000	-1.7%	0.0%
Hurstville	6.1	\$715,000	\$1,440,000	\$1,440,000	6.6%	0.0%
Wollongong	8.6	\$760,000	\$1,275,000	\$1,280,000	4.9%	0.4%
Parramatta	5.0	\$720,000	\$875,000	\$955,000	2.6%	9.1%
Newtown	6.0	\$305,000	\$820,000	\$902,000	10.4%	10.0%
Hornsby	6.0	\$335,000	\$729,000	\$802,000	8.3%	10.0%
Blacktown	6.0	\$380,000	\$660,000	\$660,000	5.1%	0.0%
Penrith	7.3	\$544,000	\$566,000	\$594,000	0.8%	4.9%
Liverpool	5.1	\$225,000	\$479,000	\$479,000	7.1%	0.0%
<b>Charlestown</b>	<b>10.0</b>	<b>\$312,000</b>	<b>\$420,000</b>	<b>\$462,000</b>	<b>3.6%</b>	<b>10.0%</b>
<b>Newcastle</b>	<b>9.6</b>	<b>\$435,000</b>	<b>\$350,000</b>	<b>\$420,000</b>	<b>-0.3%</b>	<b>20.0%</b>
Katoomba	5.0	\$125,000	\$296,000	\$367,000	10.3%	24.0%
Gosford	6.7	\$240,000	\$271,000	\$271,000	1.1%	0.0%
<b>Belmont</b>	<b>6.7</b>	<b>\$75,000</b>	<b>\$160,000</b>	<b>\$192,000</b>	<b>8.9%</b>	<b>20.0%</b>

Source: NSW Department of Lands, *Blue Book, 2007*

The increase in long-term values is highly variable within both the Hunter and metropolitan Sydney. Interpretation of a consistent trend through this series is unrealistic, with the performance of these assets highly dependent upon the level of competition from expanding shopping centres, the socio-economic transition of primary catchment areas, and/or the evolution of the strip as a stronger retail destination. The substantial increases in retail values in Newtown would demonstrate the latter two effects.

## **Industrial property**

### **Market issues**

The unimpressive long-term performance of strip retail values in Newcastle (-0.3 per cent) reflects a negative combination of increased competition from shopping centres and the decline of the strip as a retail destination. The value of strip shops in Charlestown has risen marginally above inflation over the long-term (3.6 per cent), reflecting the increased population and income in this catchment, but also the stronger competition from the Charlestown shopping centre. The value of strip shops in Belmont has performed relatively well over the long-term (8.9 per cent). This reflects the population and income growth in the area and the lack of shopping centre expansion in the immediate area through this time. The performance might change when Mirvac's redevelopment of the Belmont shopping centre is finalised in 2009.

Variable tenant demand and impacts from the financial market turmoil are the key factors shaping the prevailing industrial property market in the Hunter. Tenant/occupier demand is variable, with manufacturing struggling with a strong Australian dollar and low-cost imports, while resource-related industry continues to surge. WesTrac's major investment at Tomago represents a good example of the latter, with the new facility to provide machinery and equipment throughout the east coast, as well as a training service for mining staff.

The supply of land for industrial development appears sufficient at present, and likely to remain so, with a multitude of new or potential projects capable of providing additional supply to the market. Examples include:

- Mirvac's Hunter Industrial Park in Tomago
- Potential industrial land in West Wallsend
- PacLib/Ferrier Hodgson's land available from redevelopment of the former Pasminco site
- The Intertrade Park.

This land lies in addition to the extensive holdings remaining in projects, such as Valad's Hunter Economic Zone. While land supply may appear extensive, industrial demand can be very location-specific (in relation to, for example, B2B road routes, specific zonings, operational times, port access, proximity to workforce) and the level of demand for alternative sites is likely to vary substantially. Property valuers are reporting that industrial rents are softening, which would imply that the negotiating position of tenants/occupants has increased, particularly for those with strong covenants, amid competition between industrial sites.

At the same time that rental growth is tempering, the problems in financial markets are pushing investment yields (the ratio of income to capital value) higher. Yields for 'typical' industrial property investments currently range between 8.25 per cent and 9.0 per cent for a site in Newcastle, and between 9.0 per cent and 9.5 per cent in Maitland. Despite a lack of evidence, industry professionals believe indicative initial yields have softened (risen) by around 100 basis points over the past year. The combined effect of a static rental outlook and rising yields has caused market sales of industrial property to plummet. Sales numbers will only improve when greater certainty is introduced regarding the new benchmark for rents, rental growth (as negotiated in registered leases), investment yields and, accordingly, industrial asset values.

The introduction of new industrial development has also become more challenging, with the outlook for revenue reduced, the value of end sales less certain and development finance costs higher. In the short to medium-term, this will ultimately constrain further industrial supply and/or place downward pressure on industrial site values.

*A profile of major industrial estates in local government areas in the Hunter Region is provided in the Wholesale and Retail Trade chapter. Further references are provided below.*

## Industrial property values

The table below provides an indication of the relative value of large industrial sites in Carrington, one of the larger industrial areas in Newcastle. It should be noted that the statutory purpose for these valuations typically leads to a conservative estimate of value. Nevertheless, the data provides insight of relative costs/prices, as well as broad price benchmarks. According to this data, the value of large industrial sites in Carrington remains substantially lower than comparable sites in suburban Sydney. When compared on a per hectare basis, the value is markedly lower than fringe Sydney or the Illawarra (Port Kembla).

The annual growth in values over the long term (1996 – 2007) has been significant in all the representative areas. The value of large industrial sites in Carrington increased the least, but still implies capital growth of 12 per cent per annum through this period.

### Value of large industrial sites in Newcastle and relevant benchmark areas, 1996 – 2007

Industrial suburb	Representative site area (ha)	Valuation of representative site (\$)			Valuation (\$ per ha) 2007	% change in value	
		1996	2006	2007		1996 – 2007	2006 – 2007
Botany	2.18	\$3,050,000	\$10,800,000	\$11,300,000	\$5,183,486	12.6%	4.6%
Moorebank	3.85	\$1,890,000	\$9,080,000	\$9,080,000	\$2,358,442	15.3%	0.0%
Blacktown	3.40	\$1,625,000	\$6,800,000	\$7,280,000	\$2,141,176	14.6%	7.1%
Campbelltown	2.90	\$785,000	\$5,080,000	\$5,510,000	\$1,900,000	19.4%	8.5%
<b>Carrington</b>	<b>2.81</b>	<b>\$605,000</b>	<b>\$2,000,000</b>	<b>\$2,000,000</b>	<b>\$711,744</b>	<b>11.5%</b>	<b>0.0%</b>
Port Kembla	0.76	\$425,000	\$1,500,000	\$1,500,000	\$1,973,684	12.1%	0.0%

Source: NSW Department of Lands, *Blue Book*, 2007

The following table summarises the indicative values (for statutory purposes) for small industrial sites in representative areas of Newcastle (Carrington and Cardiff), the Central Coast (Gosford), Wollongong and Sydney. On a site basis, Newcastle again offers some of the lowest industrial land values, particularly compared with metropolitan Sydney. On a value per square metre basis, the Newcastle areas remain highly competitive against comparable areas, with only Gosford presenting similar site values.

## Value of small industrial sites in Newcastle and relevant benchmark areas, 1996 – 2007

Industrial suburb	Representative site area (sq. m)	Valuation of representative site (\$)			Valuation (\$ per sq. m)	% change in value	
		1996	2006	2007	2007	1996 – 2007	2006 – 2007
Alexandria	2,200	\$627,000	\$1,820,000	\$3,000,000	\$1,364	15.3%	64.8%
Artarmon	2,305	\$1,020,000	\$2,050,000	\$2,180,000	\$946	7.1%	6.3%
Dee Why	2,110	\$652,000	\$1,160,000	\$1,045,000	\$495	4.4%	-9.9%
Blacktown	3,142	\$225,000	\$975,000	\$1,040,000	\$331	14.9%	6.7%
Hornsby	2,088	\$460,000	\$822,000	\$822,000	\$394	5.4%	0.0%
Campbelltown	2,004	\$100,000	\$658,000	\$658,000	\$328	18.7%	0.0%
Penrith	2,149	\$146,000	\$482,000	\$482,000	\$224	11.5%	0.0%
Gosford	2,089	\$128,000	\$453,000	\$371,000	\$178	10.2%	-18.1%
<b>Carrington</b>	<b>2,024</b>	<b>\$128,000</b>	<b>\$370,000</b>	<b>\$370,000</b>	<b>\$183</b>	<b>10.1%</b>	<b>0.0%</b>
<b>Cardiff</b>	<b>2,305</b>	<b>\$135,000</b>	<b>\$315,000</b>	<b>\$331,000</b>	<b>\$144</b>	<b>8.5%</b>	<b>5.1%</b>
North Wollongong	1,608	\$99,700	\$290,000	\$319,000	\$198	11.2%	10.0%

Source: NSW Department of Lands, *Blue Book*, 2007

The Cardiff and Carrington valuations imply value growth of between 8 per cent and 11 per cent for small lot industrial sites over the long-term. The extensive value growth evaluated recently for Alexandria most probably reflects the area's transition (or potential) from industrial to higher value office and residential uses. It is probable that Carrington and other inner city waterfront areas will, at some stage, see a similar transition in demand and associated values.

Further details on industrial estates and appropriately zoned land can be found on the websites of local councils in the Region. *Website details are provided in the Government Administration and Defence chapter.* An overview of industrial estates in the Hunter is provided by the Hunter Economic Development Corporation (HEDC) at [www.hunterprospectus.com/hunter.html?page=Land and Real Estate](http://www.hunterprospectus.com/hunter.html?page=Land%20and%20Real%20Estate)

## Office property Market issues

The stock of office space in the Newcastle CBD is estimated to comprise just over 220,000 square metres of net lettable area (at January 2008). Total stock has increased by 39,580 square metres over the last ten years, an average of just under 4,000 square metres of additional net lettable area per annum. This growth has also seen a major transition of the core office market through this period. Honeysuckle (the former Honeysuckle Development Corporation area) has proven particularly successful in attracting new tenants, and development away from Hunter Street and the traditional office core to the waterfront. This evolution represents the tapping of a progressive requirement among Newcastle's tenants for more efficient floorplates and more appropriate accommodation, both with respect to facilities, but also their corporate image. The traditional core has been constrained in its ability to meet these requirements, either because of fragmented ownership or the unappealing context provided by the surrounding public and private domain.

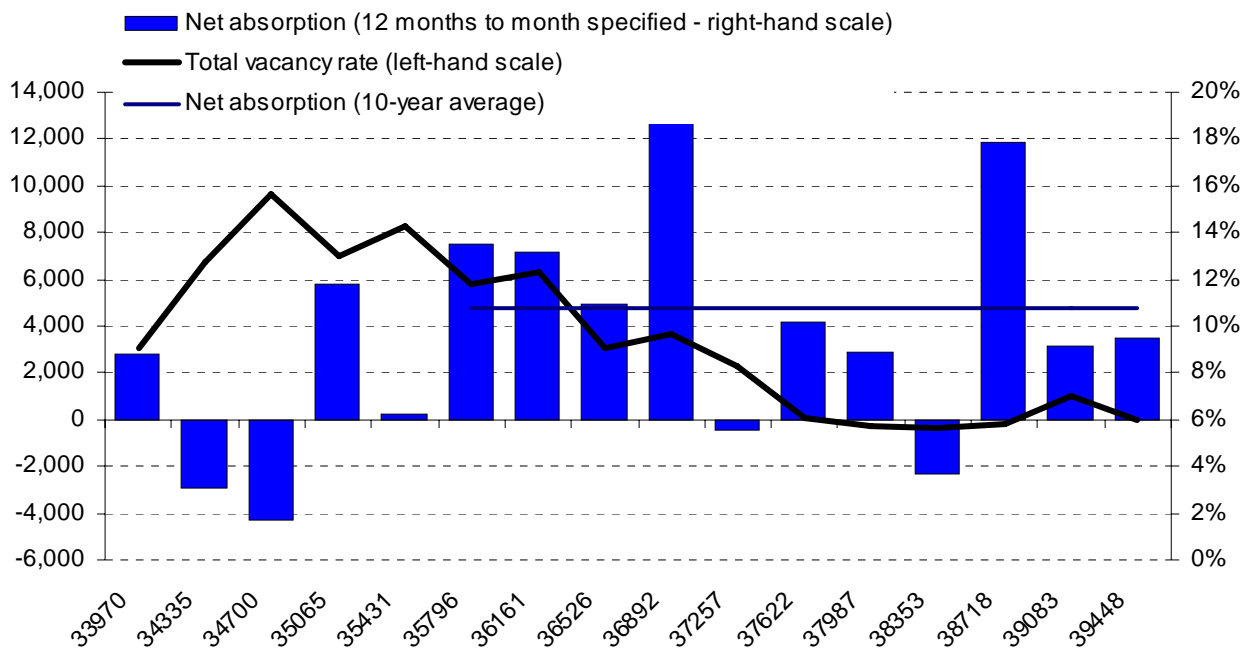
This period has also seen the vacancy rate decline from a peak of 16 per cent following the early 1990s recession, to 6 per cent in January 2008. As the chart below demonstrates, this reflects a volatile but on-going increase in tenant demand (rather than office stock withdrawals), particularly over the last 10 years. According to the Property Council of Australia, the net absorption of office space measured just under 4,000 square metres in the year to January 2008. This is slightly below the ten-year average for net absorption of 4,000 – 5,000 square metres per annum.

The current office market continues to see sound net absorption, with speculative stock (not pre-let prior to construction) progressively absorbed by pent-up demand. However, the financial market challenges have made new development increasingly difficult, with development finance costs higher and end sale values less certain. These events are likely to delay the introduction of any new supply, which already has a planning and construction lag, leading to further pent-up demand within the city.

## Office rents and yields

Office rents (net of outgoing costs) are currently estimated to range between \$125 and \$200 per square metre for typical accommodation in the core of Hunter Street. Net rental rates for the best office buildings in Honeysuckle are estimated at around \$300 per square metre, which places this stock in competition with suburban office markets in Sydney. Investment yields in the Newcastle CBD vary between 7.5 per cent and 10.5 per cent depending upon the quality of the tenant/covenant, the market appeal of the accommodation/floorplate, the location, heritage constraints and redevelopment potential. Income returns (yields) for all office investments are under pressure from the financial market turmoil and the uncertainty engendered into the direction of the office market. Yields are likely to soften further until clarity and confidence returns to the market.

**Commercial office demand and total vacancy rates, Newcastle CBD, January 1993 – January 2008**



Source: Property Council of Australia  
Newcastle and the Hunter Region 2008 – 2009

Note: for the chart above, the Newcastle CBD is defined as the area south of the railway line extending to Church Street between Brown and Watt Street, Pitt Street between Brown and Darby, west to Darby and Merewether Streets and east to Pacific Street (City East), the area bounded by the railway line to the north, to the east by Darby and Railway Streets, to the south by Bull and Parry Streets and to the west by Selma Street (City West), and relevant stock along Honeysuckle Drive.

An overview of some commercial office space currently available in the Lower Hunter is provided by the Hunter Economic Development Corporation (HEDC) at [www.hunterprospectus.com/hunter.html?page=Land\\_and\\_Real\\_Estate](http://www.hunterprospectus.com/hunter.html?page=Land_and_Real_Estate).

## Housing

### Housing stock

In 2006, there were approximately 256,860 private dwellings in the Hunter Region, representing nearly 10 per cent of the housing stock within NSW.

#### Private dwelling stock in the Hunter Region and NSW, 2001 and 2006

	Hunter		NSW	
	2006		2001	2006
	No.	%	%	%
<b>Separate houses:</b>				
<b>Total separate houses</b>	<b>190,591</b>	<b>74.2%</b>	<b>74.4%</b>	<b>63.1%</b>
<b>Semi-detached, row or terrace house, townhouse etc. with:</b>				
One storey	11,430	4.4%	4.4%	4.5%
Two or more storeys	5,507	2.1%	2.2%	4.4%
<b>Total</b>	<b>16,937</b>	<b>6.6%</b>	<b>6.7%</b>	<b>8.8%</b>
<b>Flat, unit or apartment:</b>				
In a one or two storey block	12,582	4.9%	4.4%	6.0%
In a three storey block	2,763	1.1%	1.1%	5.4%
In a four or more storey block	1,840	0.7%	0.5%	5.7%
Attached to a house	411	0.2%	0.3%	0.2%
<b>Total</b>	<b>17,596</b>	<b>6.9%</b>	<b>6.4%</b>	<b>17.2%</b>
<b>Other dwelling:</b>				
Caravan, cabin, houseboat	2,794	1.1%	1.4%	0.9%
Improvised home, tent, sleepers out	148	0.1%	0.1%	0.1%
House or flat attached to a shop/office etc.	707	0.3%	0.4%	0.3%
<b>Total</b>	<b>3,649</b>	<b>1.4%</b>	<b>1.9%</b>	<b>1.3%</b>
<b>Other</b>				
Dwelling structure not stated	136	0.1%	0.7%	0.1%
Unoccupied private dwellings	27,951	10.9%	10.0%	9.5%
<b>Total private dwellings</b>	<b>256,860</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Note : Private dwellings exclude non-private commercial arrangements, such as serviced apartments, hotels, etc.

Source: Australian Bureau of Statistics, *Census of Population and Housing*, 2001 and 2006, Cat. No. 2068.0

The Region had a higher proportion of separate houses than the State (74 per cent compared to 63 per cent respectively), although this State benchmark is heavily influenced by a high level of non-detached dwellings in Sydney. Housing composition in the Region can more accurately be reflected as comprising a higher proportion of detached housing than Sydney, but a higher level of density (non-detached) housing than rural or more remote regional areas.

The following table provides data at the LGA level for the Hunter in 2006. Newcastle and Lake Macquarie LGAs contained the majority of the dwelling stock in the Hunter (56 per cent combined). The Great Lakes and Port Stephens LGAs had a high share of unoccupied dwellings, reflecting their appeal as coastal locations for holiday homes/weekenders. Dungog, Gloucester and the Upper Hunter Shire LGAs are also had a proportion of unoccupied dwellings above the State average, reflecting their appeal as rural retreats/second homes.

Separate houses represented the predominant form of housing stock across all LGAs, with only Newcastle, Great Lakes and Port Stephens comprising a significant level (albeit a minority) of higher density dwellings. This reflects Newcastle's role as the higher order centre for the Region, and the coastal tourism prevalent within Great Lakes and Port Stephens.

Household size in the Hunter was lower than the NSW average (2.68 persons per occupied private dwelling compared with 2.81 respectively), reflecting the Region's older age profile. Differing household sizes across the Hunter LGAs typically reflect different skews across household profiles. For example, Maitland has a greater proportion of families with children, and this translates to an above average household size.

### Private dwelling stock in local government areas in the Hunter Region, 2006

	Total dwellings	Occupied dwellings	Un-occupied dwellings (% total)	Population	Household size (persons per occupied private dwelling)	% total dwellings		
						Separate houses	Other dwellings	Not stated
Cessnock	19,113	16,665	12.8%	46,206	2.77	93.3%	6.5%	0.2%
Dungog	3,607	2,920	19.0%	8,062	2.76	95.3%	4.5%	0.2%
Gloucester	2,395	1,927	19.5%	4,800	2.49	91.0%	9.0%	0.0%
Great Lakes	20,188	13,421	33.5%	32,764	2.44	70.3%	29.5%	0.2%
Lake Macquarie	74,740	67,443	9.8%	183,139	2.72	86.6%	13.3%	0.1%
Maitland	23,906	21,811	8.8%	61,881	2.84	88.4%	11.6%	0.0%
Muswellbrook	6,208	5,301	14.6%	15,236	2.87	86.9%	12.9%	0.2%
Newcastle	63,277	55,991	11.5%	141,752	2.53	72.4%	27.6%	0.0%
Port Stephens	28,879	22,133	23.4%	60,484	2.73	76.7%	23.3%	0.0%
Singleton	8,373	7,288	13.0%	21,940	3.01	87.7%	12.3%	0.0%
Upper Hunter Shire	6,172	4,997	19.0%	12,976	2.60	90.7%	9.3%	0.0%
<b>Hunter</b>	<b>256,858</b>	<b>219,888</b>	<b>14.4%</b>	<b>589,240</b>	<b>2.68</b>	<b>81.7%</b>	<b>18.2%</b>	<b>0.1%</b>
<b>NSW</b>	<b>2,728,722</b>	<b>2,328,218</b>	<b>14.7%</b>	<b>6,549,179</b>	<b>2.81</b>	<b>69.1%</b>	<b>30.8%</b>	<b>0.1%</b>

Note : Private dwellings exclude non-private commercial arrangements, such as serviced apartments, hotels, etc.

Source: Australian Bureau of Statistics, *Census of Population and Housing*, 2006, Cat. No. 2068.0

Further details of household and family structure are provided in the *Population and Demography* chapter.

## Housing tenure

Home ownership in the Hunter Region remains above the State average. In 2006 dwellings either fully owned or being purchased represented 70 per cent of occupied homes in the Hunter, in comparison with 67 per cent for NSW. However, between 2001 and 2006 the share of fully owned dwellings declined, while the share of dwellings being purchased rose, in all LGAs within the Region as well as in the State as a whole. The Great Lakes, Gloucester and Dungog LGAs retained a relatively high composition of fully owned dwellings. The highest share of dwellings being purchased was in the Maitland and Singleton LGAs, reflecting the provision of new housing in these areas and the growth of mining-related employment.

As a proportion of total housing stock, rental tenure was most common in the Newcastle LGA, associated with a younger urban and student profile, and Muswellbrook, which probably reflects the recent progression of mining activity further into the Upper Hunter sub-Region. As the emerging employment opportunities within reach of Muswellbrook LGA mature, this LGA's profile could be expected to gravitate towards that exhibited by the Singleton LGA: that is, with a higher proportion of dwellings being purchased and lower proportion of rental stock.

### Housing tenure in the Hunter Region and NSW, 2006

	Fully owned		Being purchased		Rented		Total*	
	No.	%	No.	%	No.	%	No.	% fully owned or being purchased
Cessnock	6,565	39%	5,729	34%	3,722	22%	16,665	74%
Dungog	1,274	44%	1,028	35%	500	17%	2,920	79%
Gloucester	958	50%	459	24%	430	22%	1,924	74%
Great Lakes	6,672	50%	2,889	22%	3,228	24%	13,421	71%
Lake Macquarie	26,625	39%	23,094	34%	15,054	22%	67,442	74%
Maitland	7,051	32%	8,511	39%	5,582	26%	21,811	71%
Muswellbrook	1,619	31%	1,696	32%	1,724	33%	5,301	63%
Newcastle	18,743	33%	16,605	30%	18,518	33%	55,991	63%
Port Stephens	8,624	39%	6,715	30%	5,930	27%	22,133	69%
Singleton	2,392	33%	2,827	39%	1,876	26%	7,288	72%
Upper Hunter Shire	1,916	38%	1,416	28%	1,468	29%	4,997	67%
<b>Hunter</b>	<b>82,441</b>	<b>37%</b>	<b>70,959</b>	<b>32%</b>	<b>58,030</b>	<b>26%</b>	<b>219,888</b>	<b>70%</b>
<b>NSW</b>	<b>810,706</b>	<b>35%</b>	<b>742,157</b>	<b>32%</b>	<b>687,430</b>	<b>30%</b>	<b>2,328,218</b>	<b>67%</b>

\* Includes *Other tenure types* and *Not stated*

Source: Australian Bureau of Statistics, *Census of Population and Housing, 2006*, Cat. No. 2068.0

## Public housing and government support

Public housing in the Hunter (excluding community housing) is managed by the Northern NSW Division of the NSW Department of Housing, with head offices in both Coffs Harbour and Newcastle.

In 2006 the Newcastle and Lake Macquarie LGAs together accounted for over 60 per cent of total public housing tenure in the Hunter Region. The more remote LGAs of Dungog, Gloucester, Great Lakes and the Upper Hunter Shire contained fewer renters residing within public housing stock as a proportion of their total rental housing. There was a marginally higher share of public housing in the Hunter Region (4.9 per cent) than in NSW (4.7 per cent). This regional figure declined from the 2001 Census (5.2 per cent) as the provision of new private housing increased faster than new opportunities for tenure within the State system.

### Distribution of public housing in the Hunter Region, 2006

	Total occupied dwellings No.	Total rented No.	Rented public housing			
			No.	Share of all occupied housing	Share of rental housing	Share of public housing
Cessnock	16,665	3,722	554	3.3%	15%	5.2%
Dungog	2,920	500	34	1.2%	7%	0.3%
Gloucester	1,924	430	43	2.2%	10%	0.4%
Great Lakes	13,421	3,228	225	1.7%	7%	2.1%
Lake Macquarie	67,442	15,054	3,372	5.0%	22%	31.4%
Maitland	21,811	5,582	1,315	6.0%	24%	12.3%
Muswellbrook	5,301	1,724	353	6.7%	20%	3.3%
Newcastle	55,991	18,518	3,474	6.2%	19%	32.4%
Port Stephens	22,133	5,930	828	3.7%	14%	7.7%
Singleton	7,288	1,876	361	5.0%	19%	3.4%
Upper Hunter Shire	4,997	1,468	152	3.0%	10%	1.4%
<b>Hunter Region*</b>	<b>219,888</b>	<b>58,030</b>	<b>10,724</b>	<b>4.9%</b>	<b>18%</b>	<b>100.0%</b>
<b>NSW</b>	<b>2,328,218</b>	<b>687,430</b>	<b>108,793</b>	<b>4.7%</b>	<b>16%</b>	

\* Note: Components do not sum to the total shown

Source: Australian Bureau of Statistics, *Census of Population and Housing, 2006*, Cat. No. 2068.0

The table over provides an indication of the waiting list for public housing in the Hunter Region. While variances exist, the distribution of housing applicants is largely consistent with the distribution of public housing. A major update of the applicant database was undertaken between 2006 and 2007 using the available contact details. This resulted in a substantial decline in the number of applicants across the Region. The NSW Department of Housing believes that the increased number of applicants across the Region to 2008 may reflect an increasing awareness of the applicant list update, and the requirement to update contact and eligibility details to retain a position upon the list.

## Number of applicants for public housing in the Hunter Region, 2005 – 2008

	June 2005	June 2006	June 2007	June 2008	Distribution of public housing applicants (% of Hunter total, June 2008)	Distribution of public housing (% of Hunter total, 2006)
<b>Lower Hunter</b>						
Cessnock	260	230	124	170	4.3%	5.2%
Maitland	935	853	470	491	12.3%	12.3%
Port Stephens	505	510	335	334	8.4%	7.7%
Newcastle	2,568	1,734	1,236	1,377	34.5%	32.4%
Lake Macquarie	1,723	1,739	1,141	1,225	30.7%	31.4%
<b>Lower Hunter total</b>	<b>5,991</b>	<b>5,066</b>	<b>3,306</b>	<b>3,597</b>	<b>90.1%</b>	<b>89.0%</b>
<b>Hunter Balance</b>						
Dungog	14	11	10	10	0.3%	0.3%
Gloucester	22	36	25	28	0.7%	0.4%
Great Lakes	352	377	231	157	3.9%	2.1%
Muswellbrook	81	100	118	117	2.9%	3.3%
Merriwa	1	0	N/A	N/A	N/A	N/A
Murrurundi	1	1	N/A	N/A	N/A	N/A
Scone	39	50	N/A	N/A	N/A	N/A
Singleton	132	149	90	84	2.1%	3.4%
Upper Hunter Shire	N/A	N/A	41	46	1.2%	1.4%
<b>Hunter Balance total</b>	<b>642</b>	<b>724</b>	<b>515</b>	<b>442</b>	<b>10.9%</b>	<b>10.9%</b>
<b>Hunter Region</b>						
<b>Hunter total</b>	<b>6,633</b>	<b>5,790</b>	<b>3,780</b>	<b>3,993</b>	<b>100.0%</b>	<b>100.0%</b>

Source: NSW Department of Housing

The update of the applicant database has accompanied broader changes in public policy regarding the provision of social housing. Recent policy with implications for the Hunter Region includes greater focus upon demand-side solutions and the support of alternative models for the provision of housing services. Specifically, these changes include:

- The increasing role of community housing associations under the Office of Community Housing, which provides an alternative model for the provision of social housing. The provision and unmet demand for accommodation through regional associations is not recognised in the Department of Housing's applicant numbers. Within the Region, some public housing stock and development sites for potential social housing has been transferred to these bodies from the NSW Department of Housing. The NSW Federation of Housing Associations includes the following community housing associations within the Hunter:
  - Compass Housing Services; based in Newcastle; controls 750 properties across the Hunter Region
  - Pacific Link Community Housing Association; based in Gosford, office in East Maitland; controls 904 properties across the Hunter and the Central Coast.

- An increased focus within the eligibility criteria towards those households in most desperate need. This policy transition includes a broader focus upon temporary provision of accommodation during times of duress, and away from permanent housing provision. Periodical reviews of current tenants' eligibility will implement this policy.
- A transition of policy toward assistance from the Department, in the form of bond provision, brokerage, tenancy guarantees and general facilitation into the private market.

The predominant demand-side policy application lies with rental support for eligible tenants in the private rental market. The table below provides the number of recipients according to Centrelink offices located within the Hunter.

**Number of recipients (individuals) of Rent Assistance Benefits in the Hunter by Centrelink office, 2003 and 2008**

	2003	2008	% Change 2003 - 2008
Cessnock	1,549	1,795	16%
Charlestown	5,757	5,619	-2%
Kurri Kurri	912	1,125	23%
Maitland	3,517	3,822	9%
Mayfield	3,664	3,473	-5%
Muswellbrook	1,157	1,174	1%
Nelson Bay	2,155	2,380	10%
Newcastle	5,046	4,347	-14%
Raymond Terrace	2,373	2,771	17%
Singleton	555	640	15%
Toronto	3,400	3,555	5%
Wallsend	3,840	4,316	12%
<b>Total</b>	<b>33,925</b>	<b>35,017</b>	<b>3%</b>

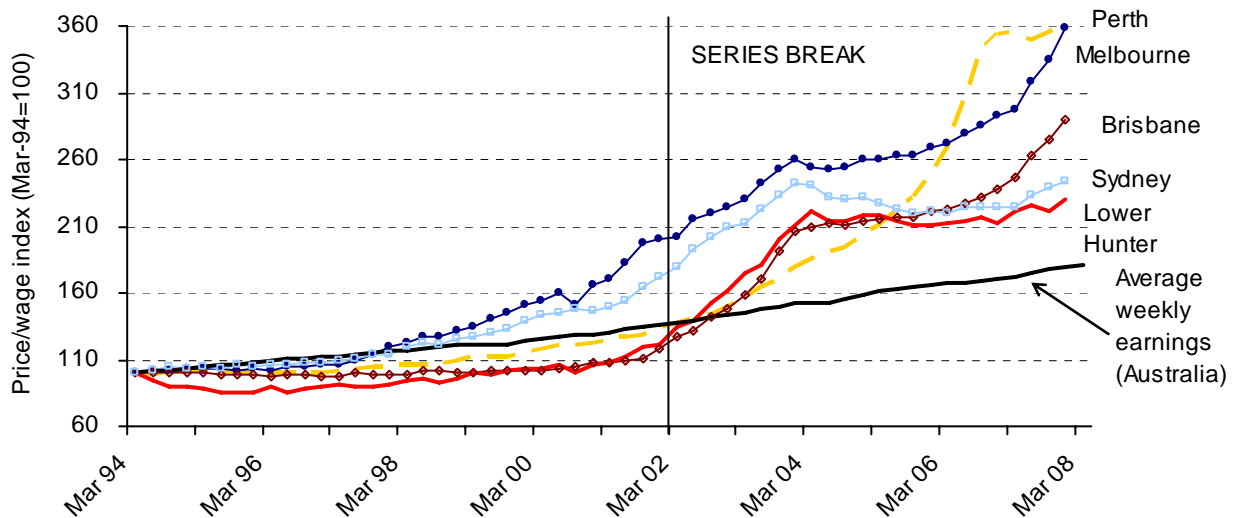
Source: Centrelink

**Housing affordability – the issues and causes**

Housing affordability is a complex issue that holds significant implications for the Hunter Region. This issue affects not just low income renters and prospective first home buyers, but holds broader implications for social cohesion and individuals' retirement funds within the Region. National changes to macroeconomic stability and access to affordable housing could also indirectly affect the Hunter over the coming years.

The chart below shows that the value of houses, and accordingly the cost of accommodation, over the past 15 years has surged at a far greater rate than wages or household income. The Lower Hunter has not escaped this structural change, but the effects are not as extreme, with residential prices in the Lower Hunter rising from a lower base than Sydney and increasing less (on an annual basis) than Brisbane, Perth and Melbourne over the past ten years.

**Growth of house prices and average weekly earnings, Lower Hunter sub-Region and capital cities, 1994 – 2008**



Source: Australian Bureau of Statistics Cat Nos. 6416.0 and 6302.0

The problems regarding housing affordability are not just a function of the interest rate rises since 2002 (prior to September 2008), but deeper structural issues that are compounded by these cyclical considerations. The drivers of housing affordability problems are largely consistent across the country, even across developed nations. They arise from both the supply-side and the demand-side, and from step-changes to government policy along with traditional cyclical elements. None of these trends are unique to the Hunter Region, but they all explain recent and foreseeable issues regarding housing affordability.

In general, the key reason underpinning affordability problems, both in the Hunter and across the country, is the success of low-inflation, low-interest rate policy, which enabled baby-boomers, in particular, to borrow extensively, driving up residential values in areas of high demand and limited supply. Specific influences include:

**Supply-side drivers**

- A shift away from the provision of infrastructure through the general budget to a user-pays system for State and local infrastructure through infrastructure levies and Section 94 (*NSW Environmental Planning and Assessment Act, 1979*) charges respectively. This transition increases the relative cost of new housing and acts to reduce supply, while increasing the prices of established housing stock. New dwelling supply in the Hunter Region is currently subject to Section 94 charges. The Region has been nominated for the potential application of State Infrastructure Charges, but their introduction has yet to be implemented (as at August 2008).

- In central urban areas with high demand, new supply could not be readily introduced (in comparison with greenfield locations), which led to rapid price growth. Planning approval and building costs for higher density development require land values to rise to sufficient levels to make this form of new dwelling supply financially viable. The concentration of demand in affected areas produces this problem.
- Supply-side constraints can also emerge through the cost of greenfield land (development sites). This is prevalent on the fringe of metropolitan Sydney where the last cyclical upturn generated substantial price expectations amongst vendors. Despite the subsequent downturn in the residential market, these price expectations often remain, making housing development commercially unviable, limiting the provision of new supply in affected markets and entrenching demand pressures onto price growth.

#### **Demand-side drivers**

- The emergence and entrenchment of two-income households increased the capacity of households to bid for housing, thereby escalating price growth.
- The deregulation of the mortgage market enabled new competition to push mortgage costs lower, though this has since retreated with the US sub-prime mortgage crisis. In response, rather than benefiting from lower repayments, purchasers borrowed more, pushing house prices higher.
- The success of monetary policy in sustaining low inflation and low interest rates, which again resulted in mortgagors borrowing more and pushing house prices higher.
- The cyclical upturn that generated the affordability problem also coincided with the peak in growth of the baby-boomer generation. This generation has been passing through the relatively high wealth, high income phase of their life cycle leading them to place significant investment into the competition for higher quality housing in better locations, as well as the residential investment market.

#### **Step-change events**

- The ability to 'negatively-gear' residential investments (i.e. to claim a tax deduction on debt repayments that exceed income returns) was briefly removed in the late 1980s by the Hawke-Keating government. It was promptly reinstated when the available stock of rental accommodation declined sharply and generated social problems at the lower end of the rental market. Access to this deduction effectively subsidised and boosted demand for investment housing, thereby contributing to the problems.
- The introduction of the Goods and Services Tax, which applies to new dwellings but not established dwellings, increased the relative cost of new stock and indirectly led a proportion of demand into the established residential market.

- The sharp improvement in the terms of trade (higher prices for Australian exports and lower prices for imports) acted to bolster household incomes and the capacity to pay higher residential prices.
- The Howard-Costello government halved Capital Gains Tax in 1999, which encouraged further residential investment demand within the Region and adjoining markets.
- Demand-side policy initiatives, such as the First Home Owners Grant and various stamp duty exemptions, contributed to additional demand at a time, or in markets, where supply could not respond. Consequently, these policies largely boosted prices and effectively transferred the subsidy to the vendors.

#### **Cyclical trends**

- Residential demand was bolstered through the period of substantial residential price rises by strong population growth, largely driven by high immigration levels.
- Residential investment demand was bolstered by a relatively poor performance in the equities market (the 'dotcom' collapse), which redirected capital to alternative assets such as housing.
- The residential property cycle has a natural momentum in the late upturn founded upon speculative investment. This phase was exaggerated in the last cycle due to the excessive price growth generated by the factors outlined above.
- Supplementing these factors was the trend in the business cycle, which drove 12 consecutive increases in official interest rates between May 2002 and March 2008. This trend subsequently acted to exacerbate the affordability problems arising from the extensive price increases and historically high debt levels.

The key challenges arising from housing affordability relate to the exclusion of first home purchasers from the owner-occupier housing market, and the cost of rental accommodation for members of the community with lower incomes. The following sections outline the nature and extent of affordability problems from these different perspectives.

## **Housing affordability – the effects on owner-occupiers**

Housing affordability with regard to a capacity for home ownership can be measured using numerous methods depending upon the focus of the analysis. Following are two different approaches which provide insights to affordability, both within the Hunter and across comparable regions.

The first approach measures housing affordability by the number of dwellings sold that could have been purchased by those earning 80 per cent of the median household income. The results summarised in the table over demonstrate that:

- Over the six-year period shown, there has been a sharp decline in the volume of dwellings sold that were financially accessible to low-income households across all LGAs in both the Hunter and Central Coast Regions.

- In 2001 approximately two-thirds of the dwellings sold were unaffordable to low-income households in only the Port Stephens, Great Lakes, Gosford and Wyong LGAs. By 2007, two-thirds of the dwellings sold were unaffordable to low-income households in all LGAs within the Hunter and the Central Coast, with the exception of Cessnock and Upper Hunter Shire. The proportion of dwellings deemed affordable in these two LGAs also declined markedly over this period.

**Percentage of dwellings sold (in the two quarters prior) which were deemed to be affordable, local government areas in the Hunter and Central Coast Regions, June 2001 – June 2007**

	June 2001	June 2002	June 2003	June 2004	June 2005	June 2006	June 2007
<b>Lower Hunter</b>							
Cessnock	87.0	87.4	72.6	27.9	31.2	33.8	34.4
Lake Macquarie	50.7	36.4	11.2	2.4	2.0	1.0	1.8
Maitland	74.7	72.0	48.3	17.0	13.0	12.0	9.5
Newcastle	59.6	41.8	15.0	3.4	2.0	1.7	1.8
Port Stephens	38.2	37.1	13.2	4.0	3.0	4.7	4.1
<b>Hunter Balance</b>							
Dungog	42.9	46.3	34.1	17.9	4.5	11.9	9.7
Gloucester	64.3	71.0	64.6	18.6	4.2	13.7	20.0
Great Lakes	29.8	27.2	7.9	4.6	5.0	3.7	5.3
Muswellbrook	60.0	72.2	62.8	37.5	23.6	14.3	10.1
Singleton	49.7	52.7	23.5	17.6	6.5	6.4	4.8
Upper Hunter Shire	73.4	82.3	64.0	48.6	43.8	30.0	34.6
<b>Central Coast</b>							
Gosford	8.1	3.1	0.2	0.3	0.3	0.3	0.6
Wyong	33.6	22.9	3.1	0.6	0.6	2.5	1.8

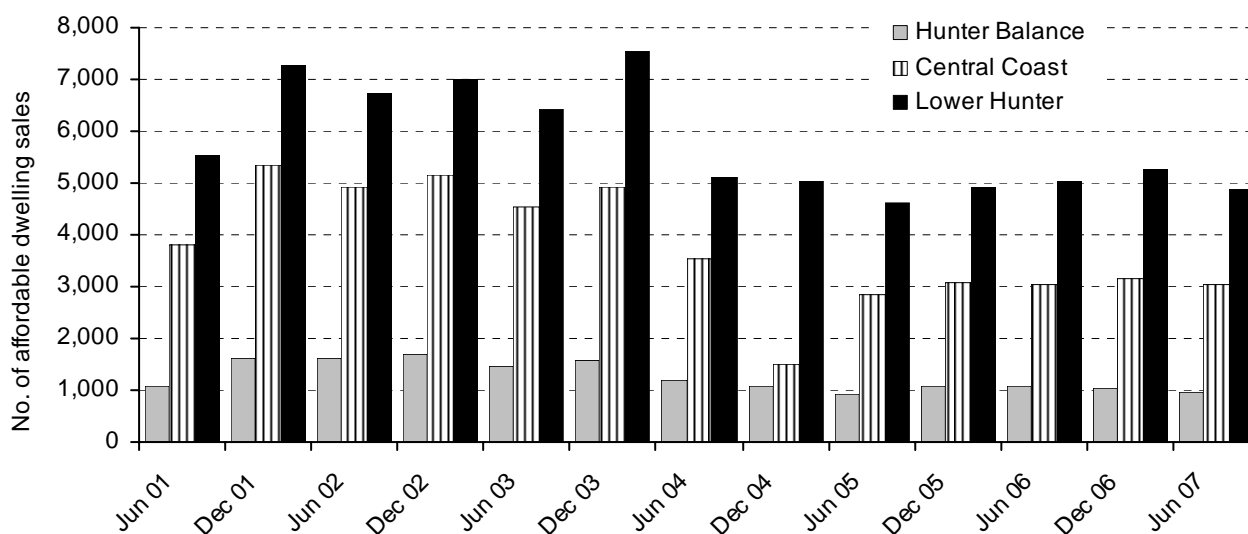
Source: Centre for Affordable Housing

Notes:

- Based on sales transferred in the last two quarters as per data from the NSW Valuer General.
- Low incomes is defined as 50%-80% of Census household income.
- For low income earners a property is regarded affordable if the loan repayment is less than 30% of 80% of census household income.
- The income benchmarks are different for Greater Metropolitan Region and the Rest of NSW. They were estimated on the basis of Sydney and NSW weekly household income (Census 2006) and NSW Average Weekly Earnings index published by the Australian Bureau of Statistics.
- The most recent interest rate during the last 2 quarters is used.
- Loan term of 30 years.
- Deposit of 10% of property price.
- Affordability calculated only where the number of sales exceeds 30.

Aggregating the data into regions (the chart over) demonstrates that the number of affordable dwelling sales fell (as well as the proportion) from the peak of the market in late 2004. Modest real price growth since this time has not produced a recovery in general house sales to previous levels, which is consistent with rising interest rates and modest income growth through this period. The trend was consistent across the Lower Hunter, Hunter Balance and the Central Coast, with the majority of affordable dwelling sales located within the Lower Hunter.

## No. of affordable dwellings sold in the Hunter and Central Coast Regions, June 2001 – June 2007



Source: Centre for Affordable Housing

There are two limitations to this method of analysis. Firstly, the income levels that determine the housing price that is affordable for low-income households are grouped according to the Sydney Greater Metropolitan Region (including the Lower Hunter and the Central Coast) and the rest of NSW (including the Hunter Balance). The median income available to households in the Cessnock LGA, for example, is lower than for metropolitan Sydney, and this may act to exaggerate the stock that is deemed affordable in areas such as Cessnock. Secondly, the stock composition of residential sales is not consistent over time and through property cycles. For example, at a time of rising mortgage rates indebted segments of the market will withdraw properties from sale more rapidly than less indebted markets. Accordingly, some of the profiled trend may reflect a change in sales composition, although this is unlikely to account for the over-riding decline in affordability.

The Hunter Valley Research Foundation analysis detailed below adopts a reverse approach, which aims to derive the income and deposit requirements for a household to enter the general housing market. This approach aims to complement the above analysis, but also allows estimates to be derived for the number of households included/excluded from regional housing markets.

The table over indicates the relative affordability of a typical established house (as benchmarked by the median house price) for first home buyers and current home owners (upgraders), and compares the differences between regions. North West Sydney, South West Sydney, the Central Coast and Illawarra are included for comparison, as they either represent source regions for migration into the Lower Hunter or alternative destinations for intra-urban emigrants. The Lower Hunter was chosen rather the broader Hunter Region because the general trends and implications are difficult to apply to the Upper Hunter due to the unique influences in various local markets e.g. Singleton, Dungog or the Great Lakes LGAs.

This analysis demonstrates that:

- A housing deposit now represents a significant hurdle for first home buyers (FHBs). The Lower Hunter required the lowest deposit at \$62,000, but even with the First Home Owners Grant (\$7,000) a significant period of saving is required to meet this basic requirement.
- Entry into home ownership is substantially harder for those without equity – generally those outside of current home ownership. For all the regions analysed, the gross household income required to purchase a median-price house was substantially lower for those who were assumed to have acquired a property 10 years ago, than for those without any additional equity. As a result, the ability to become a FHB will be a viable option for a smaller proportion of households across all of these regions.
- Considering the relative affordability of owner-occupier housing between the regions, the Lower Hunter remains substantially more affordable with respect to the deposit hurdle and the gross household income required to purchase a typical house. In comparison with suburban Sydney markets, the requirements for both the deposit and income are between 15 to 33 per cent lower in the Lower Hunter.

#### Household income required to acquire a median priced house, by region and home equity status, 2007-08

	Median house price (Sep-07)	Deposit required	Gross Household income required	
		First home buyer (20%)	First home buyer (20% deposit only)	Upgrader (10 years equity)
North West Sydney	\$411,099	\$82,220	\$116,000	\$61,000
South West Sydney	\$354,000	\$70,800	\$99,000	\$49,000
Central Coast	\$337,500	\$67,500	\$94,000	\$51,000
Lower Hunter	\$310,000	\$62,000	\$86,000	\$39,000
Illawarra	\$361,000	\$72,200	\$101,000	\$54,000

Source: Hunter Valley Research Foundation, Real Estate Institute of NSW, Reserve Bank of Australia

#### Notes:

- Available equity derived from median price growth in ten years prior to September 2007
- Single taxable income for each household
- Loan repayments = 35% of net salary
- 30-year home loan at the RBA's standard variable home loan rate (bank lenders) in March 2008
- NW Sydney – Weighted average of Baulkham Hills, Blacktown, Penrith LGAs
- SW Sydney – Weighted average of Liverpool, Camden, Campbelltown LGAs
- Central Coast – Weighted average of Wyong, Gosford LGAs
- Lower Hunter – Newcastle statistical subdivision
- Illawarra – Wollongong statistical subdivision

This analysis does not account for differing income levels in the respective markets. To reflect this consideration the table over shows estimates of the number of households with sufficient reported income (at the last Census, August 2006) to purchase a median-priced house. These figures are presented both in nominal terms and as a proportion of all resident households within the respective region. The analysis shows that:

- For those with housing equity, the proportion and number of households with sufficient income to purchase a median-priced house remains relatively high for North West Sydney (62 per cent) and South West Sydney (60 per cent), compared with the regions outside the immediate metropolitan area. This reflects the higher earning capacity of residents in these markets.
- For those without housing equity (FHBs), the number and proportion of households with sufficient income declines markedly to a maximum of 28 per cent in the Lower Hunter. The difference in the accessibility of the market for those with equity-modest debt, as against those with a substantial debt requirement, serves to emphasise that the Lower Hunter is not exempt from this disparity. It should also be noted that the majority of these higher-income households will already have entered the residential market and do not represent FHBs. This leaves a small proportion of households within each region that have the income capacity to purchase a median-priced house, which holds substantial implications for the function of the housing markets in these locations.
- While the prior table shows that the income requirements to purchase a dwelling are relatively favourable in the Central Coast, this Region's access to higher-income employment is more constrained. Subsequently, the number and proportion of households with sufficient income to either upgrade with their current equity or, more significantly, to enter the market as FHBs, is relatively low.

### Number and proportion of households capable of purchasing a median-priced house, according to Region, 2006

	Estimated no. of households with sufficient income*		Estimated proportion of households with sufficient income	
	FHB	Upgrader	FHB	Upgrader
North West Sydney	38,736	116,804	20%	60%
South West Sydney	27,222	68,880	24%	62%
Central Coast	17,135	57,399	15%	51%
Lower Hunter	51,455	104,151	28%	56%
Illawarra	21,605	38,490	22%	40%

Note: Estimates based on the number of people residing in occupied private dwellings, at August 2006; assumes no equity available to FHBs beyond initial deposit.

Source: Hunter Valley Research Foundation; Australian Bureau of Statistics, *Census of Population and Housing*, 2006, Cat. No. 2068.0

Overall, the Lower Hunter demonstrates an owner-occupier affordability pattern consistent with adjacent and comparable residential markets. These affordability problems represent a significant challenge for economic activity in the housing sector and challenges in meeting the aspirations of young families and new households trying to enter the housing market.

This stated, the situation in the Lower Hunter is relatively favourable in comparison with other regions. The proportion of households with sufficient income to enter the market as FHBs is relatively high (28 per cent), implying that the employment opportunities relative to the cost of housing are relatively favourable. The proportion of households with sufficient income to upgrade their property also remains relatively high.

Finally, with respect to the scale of the market, the number of households capable of entering the Lower Hunter residential market is relatively large in comparison with alternatives such as Illawarra and the Central Coast.

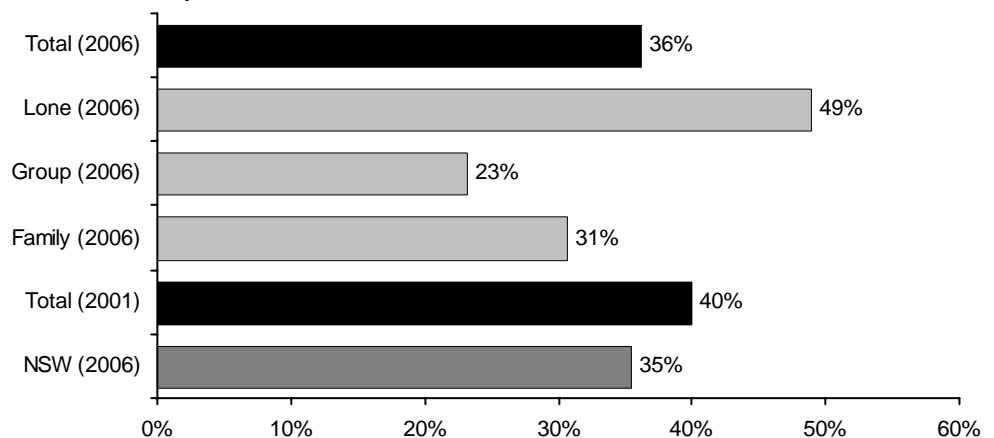
Without sufficient funds to purchase a median-price house in North West or South West Sydney, it remains possible for FHBs to purchase a low-rise apartment or possibly an older townhouse. However, the relative affordability of the Lower Hunter provides a significant opportunity to appeal to those still seeking a traditional family home, either through a lower deposit hurdle and/or a lower household income requirement. When compared with western Sydney, the Central Coast and the Illawarra, entry into home ownership in the Lower Hunter is potentially more accessible across most product types. This is not only advantageous for current residents, but will potentially boost immigration into the Region over time.

## Housing affordability – rental affordability

The common definition of housing stress refers to households in the four lowest income deciles for whom primary accommodation costs account for more than 30 per cent of household income. While this definition does not specify the tenure of housing, it typically relates to the rental market. Data calculated for this definition is unavailable for the Hunter Region. However, analysis of the proportion of rental households paying at least 30 per cent of their income for housing suggests that rental affordability actually improved from high levels in the period leading up to 2006, falling from 40 per cent of rental households in 2001 to 36 per cent in 2006. This improvement is consistent with the strong investment demand and associated supply of rental accommodation seen through the housing market upturn, particularly prior to 2004.

Compared with Family and Group households, Lone households contained the highest proportion of members (49 per cent) paying greater than 30 per cent of their income in housing rent. However, it is possible that some of these comprise higher income households using their discretion to pay relatively high rents.

### Proportion of occupied rental households paying more than 30 per cent of their income in rent, Lower Hunter and NSW



Source: Australian Bureau of Statistics, *Census of Population and Housing*, 2001 and 2006, Cat. No. 2068.0

The period of modest rental growth due to strong supply has now been replaced by a profound stock shortage (see above). With minimal rental vacancies, low levels of new supply, and modest but consistent growth in household demand, rental rates are anticipated to surge through 2008. This will continue to increase the number of rental households suffering housing stress.

In response to this challenge, the Federal Government and NSW State Government launched a National Rental Affordability Scheme in August 2008. The scheme provides an annual refundable tax offset or payment for 10 years for new rental dwellings (implying additional rental stock) that are leased at a rate of 20 per cent below market rents. The objective of the policy is to provide additional rental stock for moderate income households (with tenants' eligibility targeted accordingly) to alleviate pressure on the lower end of the rental market. The secondary purpose is to grow the stock of rental housing held by large owners to ultimately encourage the development of an institutional market for residential rental property across Australia.

The Hunter Region is well placed to benefit from this policy because:

- For the purpose of this policy, Newcastle LGA is identified as an area of high housing need, while Maitland and Port Stephens LGAs are identified to be of moderate-high housing need. These classifications suggest that applications submitted for the funding will be well-positioned to achieve priority.
- The funding levels are consistent across Australia and NSW. Accordingly, the potential significance of the funds will be greater in areas of relatively low development costs (land and construction) and market rents.

The successful provision of new formats of moderate-income housing will not resolve the challenges for rental affordability in the Region, but they should act to mitigate against these challenges before they progress to the extent of Inner Sydney or Melbourne. Further details on this and other Federal housing policies can be found at [www.facsia.gov.au/internet/facsinternet.nsf/housing/nav.htm](http://www.facsia.gov.au/internet/facsinternet.nsf/housing/nav.htm)

## Community perceptions of housing affordability

Conclusions from the above analysis are supported through the results of the Hunter Valley Research Foundation's *Wellbeing Watch* research program. Details of the study design and methodology are available at <http://www.hvrf.com.au/pages/design/links/uploaded/wellbeingwatch2008emailversion.pdf>.

The survey data indicated that, in the Hunter, respondents in older age categories, particularly those aged 60 years plus, had a substantially higher belief that housing is affordable. To the contrary the younger age groups, particularly those aged 18 to 29 years, had a substantially higher belief that housing is not affordable in their area. Results for this age group in the remainder of the State were even more profound. Since this sample is dominated by residents within metropolitan Sydney, the analysis suggests that, while housing affordability is a real challenge within the Hunter, it is seen as an even greater challenge in metropolitan Sydney.