

Chapter 11 Residential Property Markets

Key Points

- » Residential property, as defined in this chapter, is a key factor influencing residential construction activity and includes the sale and availability of residential land, movements in residential property markets and government public housing initiatives.
- » Residential property markets in the Territory have performed strongly over the past five years.
- » Land sales in the Territory, driven by strong population and economic growth, peaked in 2007 and have been declining since. Nevertheless, a number of new residential subdivisions are planned for release over the next few years that will help to moderate prices growth for land and, in turn, help to alleviate pressures on affordability.
- » Prices growth for houses and other dwellings moderated in most major centres in 2007, reflecting the impact that rising interest rates and falling affordability levels have had on demand.
- » Home loan affordability in the Territory declined to its lowest level on record in 2007. Nevertheless, the Territory continues to have the second highest level of affordability of the jurisdictions.

In this chapter, residential property consists of activities that are closely linked with residential construction.

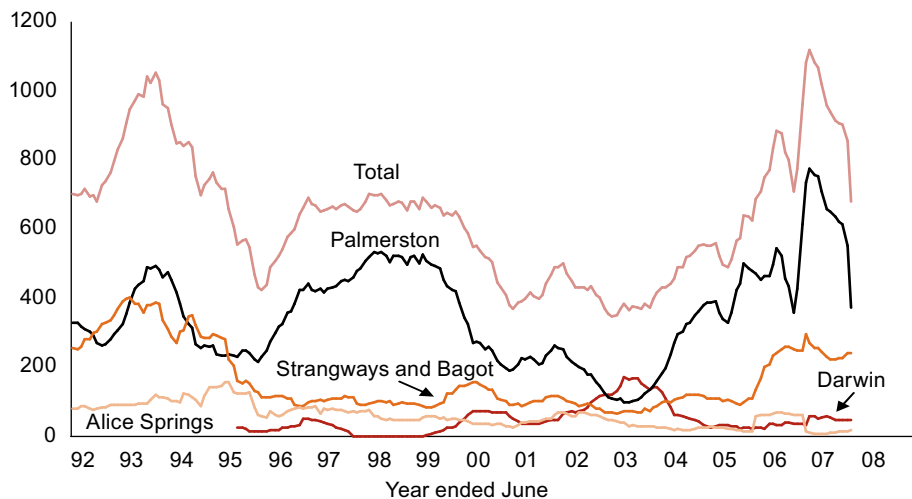
Residential property markets are subject to strong fluctuations in activity, real estate prices and sales volume. Activity in property markets is cyclical, fluctuating to reflect underlying demand that, in turn, depends on economic and demographic factors. The fluctuations in activity are also associated with financial capital flows into and out of investment in real estate.

Residential property market activities include the sale and availability of residential land, movements in residential property market prices and sales numbers and government public housing initiatives.

Land

The completion of the defence build up and a general downturn in the onshore economy from 2000 to 2003 saw land sales in the Territory decline over the period. Land sales began a steady improvement in line with stronger housing demand in 2004 before reaching peak levels in 2007, largely driven by strong property market activity and population growth. In 2007, land sales increased by 27.1 per cent in the Territory. Palmerston accounted for 67.8 per cent of all residential land sales, while the Strangways and Bagot town planning divisions in the Litchfield Shire accounted for 25.1 per cent of sales and Darwin accounted for 5.4 per cent of sales (Chart 11.1).

Chart 11.1: Territory Residential Land Sales (number, moving annual total)



Source: Australian Valuation Office

Darwin Darwin's newest suburb, Lyons, is a joint public-private sector development of approximately 690 residential lots on ex-defence land near Lee Point. Since the first stage release in November 2006, 117 residential lots have been made available by ballot to the general public. A Stage 7 release consisting of over 20 lots was expected to come onto the market in April 2008. If the current take up of lots continues, it is anticipated that the Lyons subdivision will be complete by the end of 2009, at which time Defence Housing Australia (DHA) expects to begin developing the new suburb of Muirhead.

Muirhead is about 152 hectares of land located adjacent to Lyons. DHA plans to develop up to 500 blocks to house defence personnel and their families, with the rest to be sold to the private sector for residential housing.

Development approval has been obtained for a 94 small lot subdivision in the Frances Bay area, as well as a 22 lot infill subdivision within the Parap area. These developments, combined with the continued construction of medium and high density dwellings, will continue to provide a wide array of housing options in the inner Darwin area.

In 2007, the Territory Government announced that it would be releasing surplus land at Berrimah Farm for light industrial (20 hectares) and residential development (80 hectares). Around 700 residential dwelling lots are expected to be made available.

Palmerston Strong population growth from 1995 to 1998, combined with the limited supply of land for housing development in Darwin, was the primary stimulus for the rapid growth of Palmerston. Palmerston's ready supply of land has seen unprecedented take up of land in the suburbs of Rosebery, Farrar, Gunn (The Chase) and Durack (Fairway Waters). Demand has recovered rapidly from the low levels experienced in 2002-03, bolstered by owner-occupier and investment demand, and supported by increased home ownership incentives offered through the Territory Government's HomeNorth Scheme.

In response to the high demand, the Territory Government sought expressions of interest for the development of Bellamack in September 2007. Stage 2 of the process is currently under way and involves the submission of detailed proposals to the Government by developers. The approximate development area of Bellamack is 90 hectares, with a potential yield of more than 700 lots. Around 15 per cent of the lots will be retained for first homebuyers and public housing. It is anticipated that the first lots will be released onto the market in mid-2009.

The next area for development in Palmerston is the eastern side of Mitchell Creek. Evaluation and land capability studies of the area are due to begin in 2008 in preparation for future release.

Alice Springs

In Alice Springs, a shortage of residential land for development over the past decade was associated with native title restrictions on the release of Crown land. An Indigenous Land Use Agreement (ILUA) between the Northern Territory Government and the Lhere Artepe native title holders was finalised in April 2004. The agreement led to the release of 40 residential blocks in the subdivision of Stirling Heights.

In November 2007, auction of the second stage release at Larapinta, comprising 39 residential lots including six lots for first homebuyers, was sold to a local development company. Further stages of Larapinta will require additional ILUAs to be negotiated.

An ILUA currently under negotiation with the Lhere Artepe native title holders has progressed with the potential for the release of up to 70 lots at Mt Johns Valley. Into the future, Mt Johns Valley is expected to provide about 600 residential lots.

In the private sector, there remain about 25 urban lots available at the North Edge subdivision. Preliminary works have commenced on a 62 rural lot subdivision in Ragonesi Road, with the developer proposing 256 lots in six stages. Approval has also been obtained for a 94 rural lot subdivision on Stegar Road.

Residential Housing

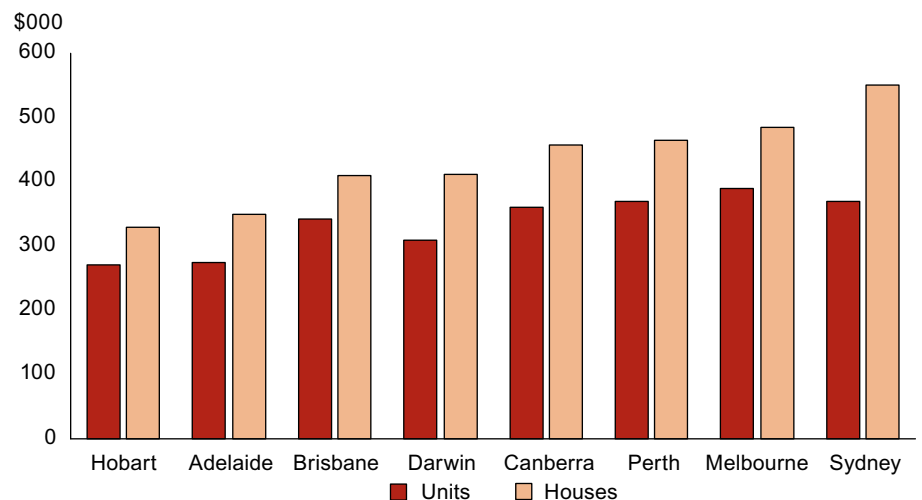
Housing Prices

Movements in property markets continue to be the largest influence on the residential construction sector in the Territory. The residential building industry and property markets are subject to strong fluctuations in activity, real estate prices and sales volumes.

The Territory did not participate in the national housing price boom that occurred over the period between 1998 and 2002. However, since mid-2002, Territory housing prices have experienced strong growth in line with strengthening population and economic growth rates.

In the December quarter 2007, the Real Estate Institute of Australia reported that the median price for a unit in Darwin, at \$309 000, was the third lowest of the capital cities while the median house price, at \$412 500 was the fourth lowest.

Chart 11.2: Capital City Median House and Unit Prices, December quarter 2007



Source: Real Estate Institute of Australia

Territory House Prices

The Real Estate Institute of the Northern Territory (REINT) reports that Palmerston had the largest increase in median house prices over the past five years (up by 103.2 per cent) followed by Darwin (up by 98.3 per cent), Katherine (up by 86.5 per cent), Alice Springs (up by 72.4 per cent) and Tennant Creek (up by 46.4 per cent).

Table 11.1: Median House Prices

December quarter	Darwin		Palmerston		Katherine		Tennant Creek		Alice Springs	
	Median price \$000	Annual change %	Median price \$000	Annual change %	Median price \$000	Annual change %	Median price \$000	Annual change %	Median price \$000	Annual change %
2002	208.0	9.5	187.0	10.5	144.0	3.8	70.0	-17.6	181.0	5.7
2003	230.0	10.6	202.5	8.3	147.0	2.1	74.0	5.7	225.0	24.3
2004	260.0	13.0	240.0	18.5	158.0	7.5	76.5	3.4	250.5	11.3
2005	328.0	26.2	300.0	25.0	169.7	7.4	89.5	17.0	280.0	11.8
2006	370.0	12.8	342.5	14.2	225.0	32.6	100.0	11.7	281.0	0.4
2007	412.5	11.5	380.0	10.9	268.5	19.3	102.5	2.5	312.0	11.0
Average annual growth rate (%)		14.7		15.2		13.3		7.9		11.5
5 year growth rate (%)		98.3		103.2		86.5		46.4		72.4

Source: Real Estate Institute of the Northern Territory

Strengthening economic and population growth, relatively low interest rates and increasing investor confidence were the primary drivers of house price growth in Darwin and Palmerston over this period. Strong growth in house prices in Katherine reflect a number of additional factors such as increased public sector activity (especially following the commencement of the Commonwealth's Northern Territory Emergency Response (NTER) in 2007) and limited releases of new residential land onto the market over recent years.

Relatively low levels of land release and residential construction activity in Alice Springs, coupled with strengthening demand for housing, have been some of the primary drivers of growth in house prices in Alice Springs over the past five years. As with Katherine, the Emergency Response has also led to increased demand for housing in Alice Springs, which in turn has been reflected in the strong growth in house prices reported over 2007.

Annual growth in median house prices strengthened in Alice Springs over 2007, however in other major centres price growth moderated. Despite slowing rates of growth, Katherine recorded the strongest growth in median house prices increasing by 19.3 per cent to \$268 500 followed by Darwin (up 11.5 per cent to \$412 500), Alice Springs (up by 11 per cent to \$312 000), Palmerston (up by 10.9 per cent to \$380 000) and Tennant Creek (up by 2.5 per cent to \$102 000).

Territory Other Dwellings Prices

The 'other dwellings' market (townhouses, apartments and units) tends to be significantly more volatile than the market for houses, with prices fluctuating with the release of major new developments, changes in investor sentiment and distinct cycles of under and over supply.

REINT reports that Katherine experienced the strongest growth (up by 92 per cent) in median other dwelling prices in the five years to December 2007 followed by Palmerston (up by 90.8 per cent), Darwin (up by 85 per cent) and Alice Springs (up by 68.3 per cent).

Table 11.2: Median Unit Prices

December quarter	Darwin		Palmerston		Katherine		Alice Springs	
	Median price \$000	Annual change %	Median price \$000	Annual change %	Median price \$000	Annual change %	Median price \$000	Annual change %
2002	167.0	10.6	141.5	28.6	112.0	n.a.	129.0	7.5
2003	160.0	-4.2	125.0	-11.7	156.5	39.7	124.5	-3.5
2004	175.0	9.4	134.5	7.6	95.5	-39.0	179.5	44.2
2005	242.0	38.3	193.0	43.5	136.3	42.7	200.0	11.4
2006	300.0	24.0	245.0	26.9	170.0	24.8	212.5	6.3
2007	309.0	3.0	270.0	10.2	215.0	26.5	209.5	-1.4
Average annual growth rate (%)		13.1		13.8		13.9		10.2
5-year growth rate (%)		85.0		90.8		92.0		62.4

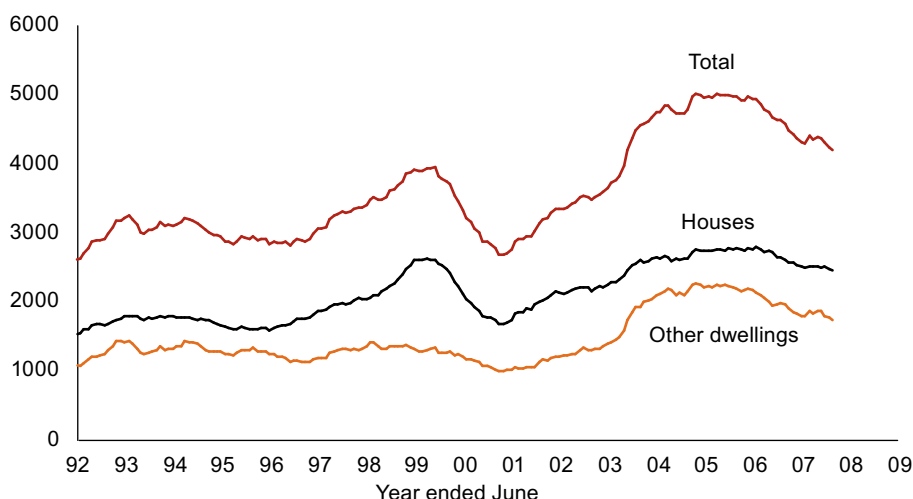
Source: Real Estate Institute of the Northern Territory

Over 2007, Katherine recorded the strongest growth in the median price of other dwellings, increasing by 26.5 per cent to \$215 000, followed by Palmerston (up 10.2 per cent to \$270 000) and Darwin (up by 3 per cent to \$309 000). Alice Springs recorded a decline in other dwelling prices (down by 1.4 per cent to \$209 500) over the year.

Sales Volume

Sales numbers for both houses and other dwellings in the Territory continued to decline in 2007. The Australian Valuation Office reports that the number of house sales declined by around 5 per cent in 2007, following a decline of 4.4 per cent in 2006. Sales of other dwellings fell significantly more than houses during 2007, declining by 8.7 per cent, following an 11.2 per cent decline in 2006. The decline in sales numbers since 2005-06 reflects both the impact of strongly rising prices and six interest rate rises by the Reserve Bank of Australia over this period.

Chart 11.3: Territory House and Other Dwelling Sales (number)



Source: Australian Valuation Office

Vacancy Rates

Territory rental vacancy rates were at relatively high levels for several years until early 2002, reflecting a general over supply of residential properties. Since then, vacancy rates have fallen to historically low levels that indicate demand has significantly outpaced supply. REINT reports the average residential vacancy rates in 2007 as:

- Darwin – 1.4 per cent for houses and 1.3 per cent for units;
- Palmerston – 1.7 per cent for houses and 1.6 per cent for units;

- Alice Springs – 2.8 per cent for houses and 2.6 per cent for units; and
- Katherine – 1.8 per cent for houses and 2.0 per cent for units.

Table 11.3: Overall Vacancy Rates

December quarter	Darwin %	Palmerston %	Katherine %	Alice Springs %
2002	6.8	6.9	7.2	4.9
2003	7.2	4.6	4.1	7.0
2004	4.1	4.7	5.6	8.1
2005	4.4	3.4	3.0	3.7
2006	4.6	2.0	4.2	7.1
2007	2.1	2.2	1.0	2.0

Source: Real Estate Institute of the Northern Territory

Rental Prices

Historically low vacancy rates across the Territory and strong demand for rental properties led to significant growth in weekly rental prices in 2007. According to the REINT, the median rental price for a three-bedroom house in Darwin increased by 42.9 per cent (to \$450 per week) over the year to the December quarter 2007. Palmerston recorded the next highest increase (up by 25 per cent to \$400 per week) followed by Alice Springs (up by 10.9 per cent to \$355 per week) and Katherine (up by 9.1 per cent to \$300 per week). Rental growth for other dwellings followed a similar trend.

Table 11.4: Median 3-bedroom House Weekly Rental Prices

December quarter	Darwin		Palmerston		Katherine		Alice Springs	
	Median Rent	Annual change	Median Rent	Annual change	Median Rent	Annual change	Median Rent	Annual change
	\$	%	\$	%	\$	%	\$	%
2002	230	-2.1	220	10.0	235	-6.0	260	4.0
2003	260	13.0	250	13.6	245	4.3	260	0.0
2004	270	3.8	260	4.0	250	2.0	270	3.8
2005	300	11.1	300	15.4	260	4.0	280	3.7
2006	315	5.0	320	6.7	275	5.8	320	14.3
2007	450	42.9	400	25.0	300	9.1	355	10.9
Average annual growth rate (%)		14.4		12.7		5.0		6.4

Source: Real Estate Institute of the Northern Territory

REINT reports that weekly rental prices for a two-bedroom unit in Darwin increased by 50 per cent to \$360 per week over the year to the December quarter 2007. Palmerston recorded the next highest increase (up by 36 per cent to \$340 per week), followed by Katherine (up by 12.5 per cent to \$270 per week) and Alice Springs (up by 12 per cent to \$280 per week).

Table 11.5: Median 2-Bedroom Unit
Weekly Rental Prices

December quarter	Darwin		Palmerston		Katherine		Alice Springs	
	Median rent \$	Annual change %	Median rent \$	Annual change %	Median rent \$	Annual change %	Median rent \$	Annual change %
2002	180	-5.3	150	-3.2	185	-15.9	185	2.8
2003	180	0.0	160	6.7	185	0.0	190	2.7
2004	210	16.7	173	7.8	200	8.1	210	10.5
2005	220	4.8	200	15.9	190	-5.0	220	4.8
2006	240	9.1	250	25.0	240	26.3	250	13.6
2007	360	50.0	340	36.0	270	12.5	280	12.0
Average annual growth rate (%)		14.9		17.8		7.9		8.6

Source: Real Estate Institute of the Northern Territory

The relative strength of growth in rental incomes compared to housing prices over 2007 has seen a recovery in rental yields in most regions across the Territory.

Rental Yields

The gross rental yield for a 3-bedroom house in Darwin gradually declined over the past five years, to a multi-year low of 4.1 per cent in the September quarter 2006. This reflects growth in median house prices outstripping the growth in median rental prices over this period. Since then, yields have steadily recovered to 5.7 per cent in the December quarter 2007, as rental prices have increased at a significantly faster rate than house prices.

Rental yields for the other regions have followed a similar trend with the exception of Katherine, where they continue to decline. The decline in Katherine reflects the impact of the booming property market driven by factors previously highlighted.

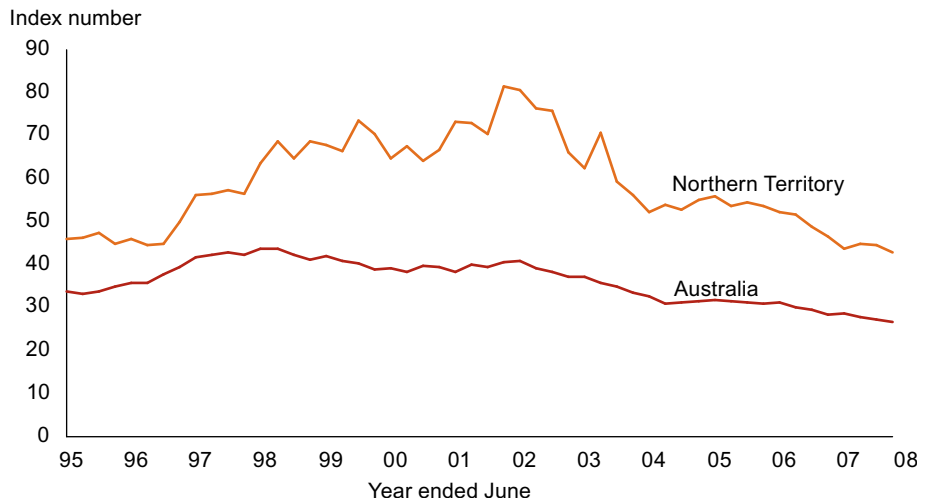
In the December quarter 2007, Alice Springs recorded the highest gross rental yield for a 2-bedroom unit in the Territory at 6.9 per cent, followed by Katherine and Palmerston (both at 6.5 per cent) and Darwin (6.1 per cent).

The large increases in rents and property prices recorded in the Territory over the past few years have significantly outpaced the growth of wages and salaries. Consequently, both home loan and rental affordability have also declined significantly.

Housing Affordability Measures

After peaking in late 2001, home loan affordability (as reported by the Real Estate Institute of Australia [REIA] and Deposit Power) in the Territory has been in steady decline, reaching record low levels in the December quarter 2007 (Chart 11.4). In annual terms, home loan affordability in the December quarter 2007 declined (that is, worsened) by 7.9 per cent in the Territory, with approximately 23.3 per cent of average family income allocated to loan repayments. Nevertheless, the Territory continues to have the second most affordable housing of the jurisdictions, behind the Australian Capital Territory.

Chart 11.4: Home Loan Affordability

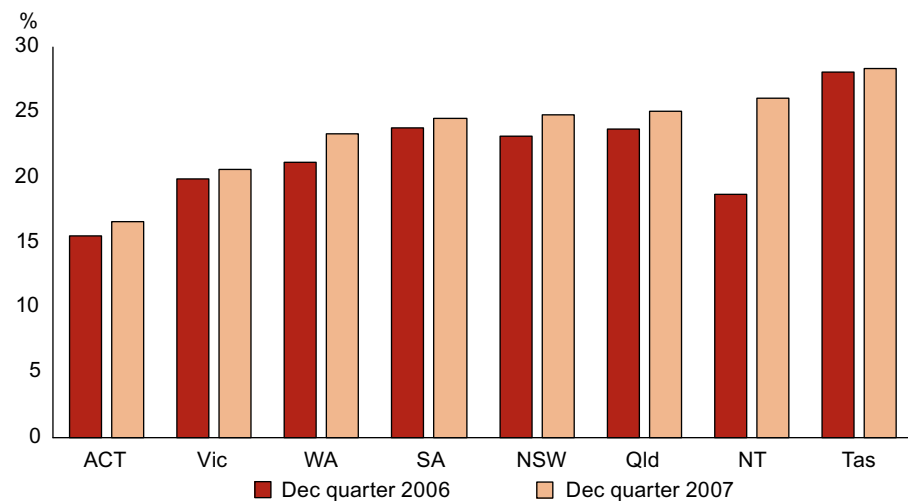


Source: Real Estate Institute of Australia and Deposit Power

The 4th Annual Demographia International Housing Affordability Survey: 2008 reports that Darwin’s median house price is equivalent to 5.9 times median Darwin household income. The Demographia publication ranked Darwin’s housing affordability the 171st lowest of the cities in the survey (227 cities in Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States). Nevertheless, of the 28 cities surveyed in Australia, Darwin ranks as the ninth most affordable.

Strong increases in rents over the past few years have seen rental affordability also decline significantly in the Territory. According to REIA and Deposit Power, 26.1 per cent of a family’s income was required to meet rent payments in Darwin in the December quarter 2007, compared with 18.7 per cent in the December quarter 2006. This is the second highest proportion in the capital cities behind Tasmania and represents a significant turnaround in rental affordability over 2007. In the December quarter 2007, 23.3 per cent of a family’s income was required to meet average loan repayments for the purchase of a home compared to 26.1 per cent to meet rental payments. This indicates that it was cheaper to purchase a home in the Territory in the December quarter 2007 than to rent.

Chart 11.5: Proportion of Income Needed to Meet Rent Payments



Source: Real Estate Institute of Australia and Deposit Power

Dwelling Size

The ABS publication Australian Social Trends 2001 (the most current year that data is available) reports that between 1993 and 2000 the size of both new public sector and private sector houses increased. Over this time period, the size of new private sector houses increased by 20.9 per cent to 220m² in the Territory, while the size of

new public sector houses increased by 38.1 per cent to 163m². At the national level, the size of new private sector houses increased 22.2 per cent to 231m² while the size of new public sector houses increased 31.5 per cent to 171m². These figures indicate that while the level of house prices has increased substantially, the size of newer homes has increased relative to the size of existing dwellings, and this 'quantity effect' accounts for some of the price growth.

The 2006 Census reported that in the Northern Territory, the proportion of dwellings with four or more bedrooms increased to 18.2 per cent, up 2.4 percentage points from the proportion reported in the 2001 Census (Table 11.6). Nationally the proportion of dwellings with four or more bedrooms in the 2006 Census was 28.1 per cent, an increase of 2.9 per cent on the proportion reported in the 2001 Census.

Table 11.6: Proportion of Dwellings with Four or More Bedrooms (%)

Year ended December	2001	2006
Northern Territory	15.8	18.2
Australia	25.2	28.1

Source: Census 2001, Census 2006

Public Housing

In the Territory, the main provider of housing assistance is Territory Housing, which manages the Territory Government's Indigenous, public and government employee housing stock. DHA manages defence housing. These organisations provide partially or fully subsidised accommodation to eligible low-income earners, Indigenous Territorians, public sector employees and defence personnel.

The number of households in public housing in the Territory is relatively high, with 2006 Census data reporting that 8.3 per cent of dwellings were identified as public housing.

Territory Housing

Territory Housing owns and manages more than 6850 dwellings throughout the Territory, consisting of public housing, government employee housing (GEH) and industry housing. Public housing is located in urban and town centres, while GEH and industry housing is predominantly in remote Indigenous communities.

Public housing dwellings occupied by government employees in urban areas are currently being sold off, with the proceeds earmarked for upgrading police GEH in remote areas. As at January 2008, a total of 51 houses had been sold, raising \$15 million towards the program. A further 16 houses and 14 units are earmarked for sale over the year.

In 2006-07, Territory Housing invested a total of \$42 million in the building and construction industry to support economic activity throughout the Territory through construction, repairs and maintenance of housing. Significant projects included the investment of \$2.5 million in the construction of nine new government employee dwellings in remote localities and the completion of a \$2 million renovation and upgrade of the Stuart Lodge complex in Alice Springs. In addition, \$0.93 million in grants to community organisations were awarded to construct, purchase, upgrade and repair buildings under the Community Housing Program and the Crisis Accommodation Program.

HomeNorth

Territory Housing supports home ownership in the Territory through the HomeNorth Xtra Scheme. The scheme provides assistance to low and middle income households which are unable to obtain finance through private sector financial institutions.

Since the inception of the scheme on 1 July 2005, Territory Housing has funded 625 loans and shared equity purchases to the value of \$120.5 million. In May 2007,

the scheme was reviewed and amended to better target low and middle income clients in larger household structures.

Indigenous Housing

There are currently more than 6900 dwellings in Indigenous communities across the Territory.

In 2005-06, a new Indigenous Housing and Infrastructure Agreement and Common Policy Framework were finalised and signed by respective Commonwealth and Northern Territory Government ministers. Under the Agreement, the Territory Government will deliver the housing and housing-related infrastructure components in accordance with a broad framework agreed with the Commonwealth.

In late 2006, the Territory Government announced the investment of an extra \$100 million in remote housing over the next five years, and that Territory Housing would assume responsibility for remote housing provision. This will include extending a public housing management framework to remote areas. Subsequently, the Commonwealth committed \$140 million to strategic housing and infrastructure projects in several major communities and town camps. This was complemented in May 2007 by another Commonwealth announcement that a new Indigenous housing program would begin from 1 July 2008, to be known as the Australian Remote Indigenous Accommodation program (ARIA).

During 2006-07, \$25.2 million was invested in the construction of 64 new dwellings, while 66 dwellings were upgraded and renovated in remote areas.

The Territory Government provides support to Indigenous community housing organisations (ICHOs) to increase their capacity to train and employ Indigenous people in all roles related to providing Indigenous housing, infrastructure and essential services. In 2006-07, \$16.7 million of Territory funding was provided to 70 of the 73 ICHOs for Indigenous housing repairs and maintenance.

In September 2007, the Territory Government and the Commonwealth signed a Memorandum of Understanding for a funding commitment of \$793 million over four years. This included all existing commitments and \$513 million in new funding, to be utilised for Indigenous housing and essential infrastructure.

The program will deliver:

- around 750 new houses including new subdivisions;
- over 230 new houses to replace houses to be demolished;
- over 2500 housing upgrades;
- essential infrastructure to support new houses; and
- improvements to living conditions in town camps.

Defence Housing

DHA provides housing for defence personnel through its ownership of dwellings, development activity, and through the leasing of properties from the private sector. DHA-managed stock in the Territory increased from about 1250 dwellings in 1992 to 2248 dwellings in June 2007.