

Shepparton South East Precinct Structure Plan

Land Valuation Assessment – March 2023



On behalf of
Greater Shepparton City Council
Victorian Planning Authority

LAND VALUATION ASSESSMENT AND
MARKET REPORT

Shepparton South East Precinct Structure Plan

FOR

Greater Shepparton City Council

And

The Victorian Planning Authority

Attention:

Brianna Smillie

From:

LG Valuation Services Pty Ltd

Part of the

HMC Property Group

Independent Property Valuers and Real Estate Consultants

27th March 2023

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Introduction

The Victorian Planning Authority (VPA), in consultation with Greater Shepparton City Council and Government agencies, is preparing the Shepparton South East Precinct Structure Plan to guide new urban development in Shepparton.

The Shepparton South East Precinct Structure Plan will provide up to 2,500 homes to accommodate a population of more than 6,000. The Precinct Structure Plan will build upon existing commercial land in close proximity with retail centres and extensive existing aged care accommodation, while improving community facilities and local parks.

The Shepparton South East Precinct Structure Plan is the largest of five proposed major growth corridors in the Shepparton-Mooroopna urban area. The precinct applies to approximately 385 hectares of land and is bounded by the Midland Highway (Benalla Road) to the north, the Shepparton Alternate Route (Doyles Road) to the east, the Broken River to the south and the existing limit of residential development to the west.

Key opportunities for the precinct include:

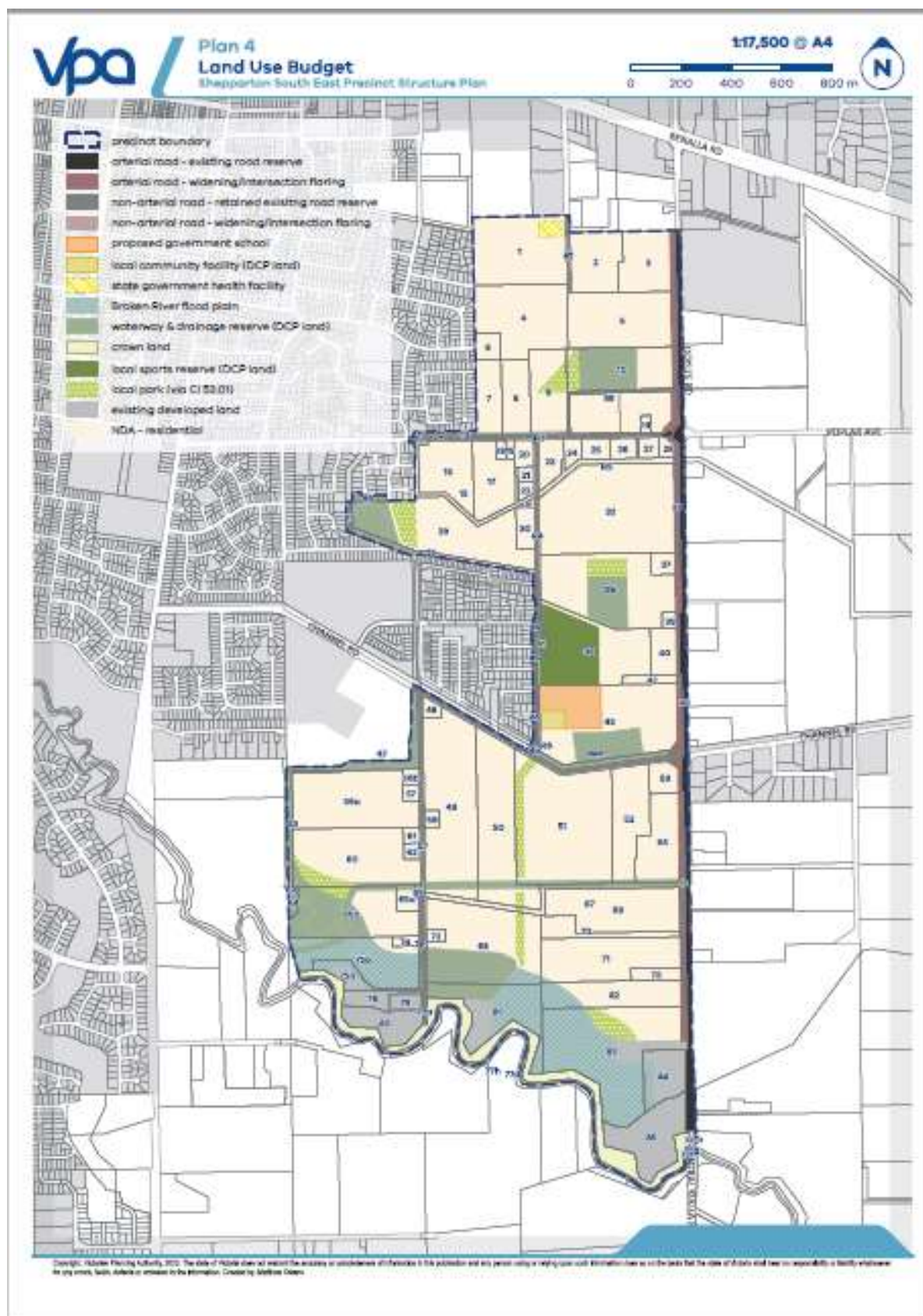
- encourage commercial and aged care facilities
- improvements to open space network
- provision for local town centres and community facilities
- integrate with adjoining Activity Centre and employment areas
- flood mitigation and improvements to drainage
- deliver local road networks.

Project Scope

LG Valuation Services have been requested by the Greater Shepparton City Council to complete the estimates of value of land using two methodologies for the Shepparton South East Precinct Structure Plan. The process will be used to inform the preparation of the Development Contributions Plan (DCP) and the eventual contribution of public land at the time of development. We have also had further discussion and clarifying instruction with the project steering committee and Victorian Planning Authority Staff in completing this project.

Key Assumptions

- The Valuations have been prepared in the **'Shepparton South East PSP – Standard Land Budget Tables Valuers Version 2023 updated Spreadsheet'** provided by the VPA. We have relied on the areas supplied and have not sought to verify the areas of each property or the applied areas to be acquired. If the areas being acquired prove to be inaccurate it will affect the compensation amount overall and for each effected property.
- We have endeavoured to value all land consistently based on size and not had regard to specific attributes or future intended use. For example land with proximity to or for intended commercial use has been assessed as having the same level of overall demand and value as all other similar sized land in the precinct. Some sites that have difficult shape that would not present as development sites without consolidation with adjoining land, have still been valued based on the total area being contributed to public land within the precinct with no discount applied.



We have prepared this report in accordance with the specific scope of our instructions, including the provision of an estimate of value for each property including an undeveloped broad hectare value and site-specific valuations under the Public Land Equalization Method. The assessments are based upon the land identified for DCP Contributions specifically relating to Transport, Drainage and Residential Community and Recreation within the PSP.

As per our instructions the before and after estimates of value have been prepared based on the following assumptions:

- Zoned for an urban purpose and valued at its unencumbered, highest-and-best use within this context. Land in and around town centres identified in the relevant Precinct Structure Plan (PSP) will be assumed to be zoned for residential purposes;
- Readily serviceable and accessible by road; and
- At the development front and market demand exists.

As per our instructions the site-specific estimates of value have been prepared based on the following assumptions:

- Zoned for an urban purpose and valued at its unencumbered, highest-and-best use within this context. Land in and around town centres identified in the relevant PSP will be assumed to be zoned for residential purposes;
- Readily serviceable and accessible by road. It is to be assumed that these sites are regular in shape with two existing road frontages and have DCP rates paid; and
- At the development front and market demand exists.

In line with the above assumptions, we have analysed relevant market data in order to provide the following outputs and advice to inform the Shepparton Southeast PSP Steering Committee.

Valuation Assumptions

In accordance with the reporting criteria stipulated by Greater Shepparton City Council and Victorian Planning Authority, our applied valuations make the following key assumptions effecting the applied values:

- For the purpose of our applied values, we assume all land held within the proposed Shepparton South East Precinct Structure Plan has been rezoned Urban Growth Zone under an approved Precinct Structure Plan as detailed in the project brief.
- All land referenced above within the Shepparton South East Precinct Structure Plan is assumed to be fully developable for residential or other urban purposes. For the purposes of this report and in line with the specific instructions received from Shepparton Council and Victorian Planning Authority, this includes that land which is currently subject to the existing Flood Overlay (FO) and future drainage, waterway or open space and recreation reserve land.
- All parcels have been valued in their existing condition subject to current market conditions. No allowance has been made for any enhancement to value as a result of further subdivision.

- The precinct contains a number of existing improvements, which have been excluded from our assessment.
- We have made the assumption that all parcels in the precinct are unencumbered and valued them on freehold fee simple interest.
- All land is considered to have similar market demand.
- Our assessments are exclusive of GST.
- No adverse impact to the value of properties as a result of Native Vegetation, Fauna or Cultural Heritage Management Plan costs or delays has been taken into account.
- We advise that the valuations contained within this report have been predicated on the basis of the assumptions outlined above. Should there be any variation to the reporting requirements or changes to the physical condition of the land or encumbrances over the land, then this report should be returned to the valuer for additional comment or revision as necessary.
- One site in the precinct at 75 Feiglin Road (Prop 41) includes structural improvements that may add value. The land is being totally acquired to be used for a sports and recreation purpose, requiring the demolition of the buildings. Erected on the site is a circa 1940 WB dwelling and some farm shedding in basic condition. We estimate that an additional allowance of \$100,000 for the added value of improvements should be allowed that has not been included in our current assessment for that property.

Valuation Methodology

The valuation process that has been undertaken is a theoretical exercise to determine the compensation payable to landowners for the purpose of acquisition of land to Transport, Drainage and Residential Community and Recreation. These land areas are itemised within the property specific land budget provided.

The valuations have been undertaken on the following basis:

- 'Before' and 'After', Per Property Broad Hectare compensation for all 36 parcels listed for DCP. The 'Before' assessment is based on the unencumbered area of each property identified and ignores land and infrastructure items to be provided by the DCP. The 'After' assessment is based on the remaining portion of each property after all land required by the DCP has been provided.
- Site Specific Valuation which provides higher than average infrastructure under the Public Land Equalization Method (PLEM). The PLEM considers that some landowners are required to contribute an amount of public land above the precinct average. For each nominated property, a site-specific value of each DCP project identified will be determined.

Summary Valuation Outcomes

These assessments are based on the areas and average calculation provided by the VPA, we reserve the right to review their assessment if the areas or average calculation change.

The total compensation payable is calculated as follows:

'Under' Compensation	\$4,249,760
'Over' Compensation	\$17,037,228
Total Compensation	\$21,286,988

The above valuations are net or exclusive of any GST which may be payable.

This property was inspected, and the report prepared by Marcus Hann AAPI, Certified Practising Valuer and assisting Valuer James Breen GAPI, LG Valuation Services Pty Ltd.



Marcus Hann AAPI

Certified Practising Valuer



James Breen GAPI

Assisting Valuer

'Before' and 'After' Valuations

Our 'Before' and 'After' and compensation assessments are detailed on the following pages. The total compensation assessed on this approach is **\$21,286,988**.

Property	Before Area (Ha)	After Area (ha)	Total Area acquired (ha)	Average Rate (per hectare)	Total Compensation
3	5.29	4.61	0.68	\$300,000	\$204,054
5	9.52	8.90	0.62	\$260,000	\$160,659
7	2.99	2.96	0.03	\$400,000	\$11,000
8	3.36	3.24	0.11	\$390,000	\$43,828
9	4.99	4.84	0.15	\$350,000	\$51,566
10	14.11	9.23	4.89	\$394,504	\$1,927,150
11	0.09	0.00	0.09	\$1,250,000	\$111,925
12	0.17	0.00	0.17	\$1,025,000	\$170,458
28	0.61	0.36	0.25	\$1,190,178	\$294,760
29	10.43	10.03	0.40	\$260,000	\$103,051
32	18.08	17.77	0.31	\$260,000	\$81,045
33	0.67	0.00	0.67	\$950,000	\$636,529
35	0.83	0.73	0.10	\$800,000	\$77,416
36	13.52	10.08	3.44	\$365,928	\$1,258,362
37	1.00	0.76	0.24	\$980,243	\$232,141
38	10.98	4.48	6.50	\$428,076	\$2,783,152
39	0.43	0.32	0.11	\$1,084,148	\$120,405
40	2.10	1.78	0.32	\$440,064	\$139,126
41	0.40	0.00	0.40	\$1,300,000	\$515,255
42	0.81	0.72	0.09	\$700,000	\$66,038
43	16.29	11.92	4.36	\$388,567	\$1,695,570
44a	1.49	0.00	1.49	\$1,100,000	\$1,637,163
47	0.34	0.00	0.34	\$1,300,000	\$446,823
49	14.56	13.93	0.63	\$260,000	\$163,389
50	10.84	10.24	0.60	\$260,000	\$155,496
51	17.86	17.32	0.54	\$260,000	\$140,197
52	5.93	5.81	0.12	\$300,000	\$35,259
53	1.55	1.26	0.29	\$752,973	\$218,392
54	5.77	4.68	1.09	\$374,125	\$407,782
55	1.09	0.00	1.09	\$1,024,929	\$1,113,708
60	10.82	10.06	0.76	\$260,000	\$196,828
63	0.01	0.00	0.01	\$1,500,000	\$19,875
64	0.43	0.00	0.43	\$1,250,000	\$531,488
65a	0.82	0.68	0.14	\$766,540	\$105,162
65b	9.01	3.93	5.08	\$427,515	\$2,171,319
66	0.10	0.06	0.04	\$1,355,852	\$50,587
67	3.20	1.34	1.86	\$599,003	\$1,113,391

69	8.56	8.42	0.14	\$275,000	\$39,124
70	2.10	2.09	0.02	\$450,000	\$7,339
71	8.54	8.45	0.10	\$275,000	\$26,895
73	1.00	0.96	0.04	\$675,000	\$27,128
75b	1.34	0.70	0.64	\$957,101	\$614,956
81	1.91	1.86	0.05	\$550,000	\$27,352
82	4.85	4.55	0.30	\$325,000	\$96,964
83	6.47	6.09	0.38	\$300,000	\$114,213
86	0.35	0.00	0.35	\$1,025,000	\$363,035
87	0.21	0.00	0.21	\$1,300,000	\$278,603
88	0.59	0.00	0.59	\$850,000	\$501,033
	320.09	278.86	41.22	\$32,289,747	\$21,286,988

Land Equalisation Valuations

The 25 properties listed below provide more infrastructure than the average. Therefore, any land acquired above the average will be compensated at the site-specific rate.

PLEM 'Site Specific' assessment and summarised sites identified that exceed the precinct average public land contribution within the DCP are on the following pages. The total compensation assessed on this approach is **\$17,037,208**.

Property	Over Area	Over Site Specific acquisition rate	Over compensation
10	3.46	\$450,000	\$1,556,171
11	0.09	\$1,250,000	\$111,925
12	0.17	\$1,025,000	\$170,458
28	0.19	\$1,300,000	\$243,385
33	0.67	\$950,000	\$636,529
36	1.92	\$450,000	\$862,741
37	0.11	\$1,250,000	\$136,315
38	5.75	\$450,000	\$2,588,102
39	0.06	\$1,300,000	\$75,124
40	0.02	\$700,000	\$12,123
41	0.4	\$1,300,000	\$515,255
43	2.95	\$450,000	\$1,328,735
44a	1.49	\$1,100,000	\$1,637,163
47	0.34	\$1,300,000	\$446,823
53	0.08	\$1,025,000	\$81,635
54	0.31	\$500,000	\$152,985
55	1.09	\$1,025,000	\$1,113,574
63	0.01	\$1,500,000	\$19,875
64	0.43	\$1,250,000	\$531,488
65a	0.02	\$1,100,000	\$25,104
65b	4.48	\$450,000	\$2,015,046
66	0.03	\$1,500,000	\$39,831
67	1.64	\$625,000	\$1,027,485
75b	0.53	\$1,025,000	\$539,337
81	0.05	\$550,000	\$27,352
86	0.35	\$1,025,000	\$363,035
87	0.21	\$1,300,000	\$278,603
88	0.59	\$850,000	\$501,033
	27.42		\$17,037,228

Market Evidence


Property	150-180 Channel Road, 35 McPhee Road, Shepparton, VIC
Sale Price	\$14,800,000 terms sale. Say \$11,000,000 Cash equivalent
Sale Date	Feb-22
Site Area	43.35 ha
Zoning	Farming
Property Description	The property comprises a tract of 43.35 Hectares of Farm zoned land, on the south east fringe of the Shepparton urban district. The property is within the Shepparton South East Precinct Structure Plan area.


Comprising three properties (150 and 180 Channel Road, as well as 35 McPhees Road), the properties were established with permanent horticultural plantings, as well as several older style weatherboard cottages, and a good quality 2,000 sqm packing shed, with 700 sqm of coolstorage. Although the packing shed & coolstores were maintained in good functional condition, the property was purchased by an experienced developer as a strategic landbank who ultimately saw almost no value in the existing buildings. Located approximately 4 radial kilometres south east of the Shepparton CBD, the holding adjoined existing residential estates to the west and north.

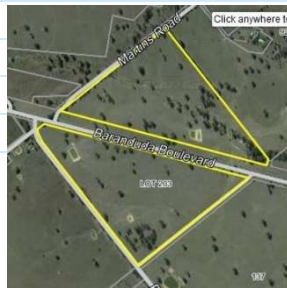
Sold on 2.5 year interest free, but unconditional, terms contract. 20% deposit, balance in two and a half years.

Allowing no added value for the buildings, analysis shows \$253,749/Ha.



Property	481 Stratton Road, Echuca West, VIC	
Sale Price	\$40,000,000	
Sale Date	18-Jul-22	
Sale Status	Unsettled	
Site Area	123.8 ha	
Zoning	Farming	
Property Description	<p>Known as Echuca Park, the property comprises a tract of 123.8 hectares of Farming zoned land, on the western fringe of the Echuca township.</p> <p>Although still zoned Farming, the property is within the designated Echuca West Growth Precinct, which has had the benefit of some significant infrastructure planning. Operated as a beef enterprise, buildings included a c1992 brick veneer dwelling of 220 sqm, and sundry farm sheds, all in good condition. Irregular in shape, and even in contour, the anticipated lot yield was in the order of 1,200.</p> <p>Sold on interest free terms; 10% deposit, \$10,000,000 in 18 months, balance in 3 years.</p>	
Analysis	Analysis reveals \$323,102/Ha, or approximately \$33,333 per raw lot.	

Property	805 Great Alpine Road, Bright, VIC	
Sale Price	\$35,000,000	
Sale Date	23-Nov-21	
Sale Status	Settled	
Site Area	39.9 ha	
Zoning	General Residential	
Property Description	<p>The property comprises a premium quality holding of General Residential zoned land at the gateway entry to Bright, a popular tourist town of sub-regional scale, in north east Victoria.</p> <p>With a total area of 39.9 hectares, the site had approval for a development of approximately 300 lots. Bright has a permanent population of less than 3,000, but year round tourist visitation boosts this number by multiples. The town has long had a very constrained land supply, due to the valley style topography.</p> <p>Purchased by the Deague Group – experienced metropolitan commercial developers, who planned to develop Alpine style house & land packages, featuring stone & log-cabin style facades, with an anticipated entry price point of \$1,000,000+.</p>	
Analysis	Analysis reveals \$877,193/Ha, or \$116,666/raw lot.	

Property	Lot 203 Baranduda Boulevard, Leneva, VIC	
Sale Price	\$10,100,000	
Sale Date	10-Jun-21	
Sale Status	Settled	
Site Area	56.83 ha	
Zoning	Urban Growth	
Property Description	56.83 hectare regular shaped, gently sloping parcel of residential development land. Cleared excluding scattered remnant timber. The land is Zoned Urban Growth Zoned 1 and is within the Wodonga City Council's Leneva – Baranduda Precinct Structure Plan and planned for residential development. Also located opposite a planned Government School.	
Analysis	Analysis reveals \$177,723/ha	

Property	320 Verney Road, Shepparton North, VIC	
Sale Price	\$3,500,000	
Sale Date	21-Apr-21	
Sale Status	Settled	
Site Area	15.84 ha	
Zoning	General Residential	
Property Description	<p>The property comprises the sale of a development site situated within a General Residential zone, in northern Shepparton.</p> <p>Situated on a site of 15.84 hectares, immediately north of an electricity substation, and south of a residential estate limited access due to a main irrigation channel running along the entirety of the northern and most of the front eastern boundary. The subject adjoins 'Grammar Park' estate and is located approximately 4.7 lineal kilometres north of the Shepparton</p> <p>The property was purchased by the Anglican Schools Commission for the development of an Anglican preparatory to year 12 school.</p>	
Analysis	The sale price indicates \$220,960/ha.	

Property	139 Grahamvale Road, Grahamvale, VIC	
Sale Price	\$6,500,000	
Sale Date	03-Jan-21	
Sale Status	Settled	
Site Area	25.05 ha	
Zoning	Urban Growth	
Property Description	<p>The property comprises a tract of strategically located land situated within an Urban Growth zone, containing approximately 25.05 hectares. The property is situated within the Shepparton North East growth corridor.</p> <p>The property is currently utilised as an orchard, however was sold as a residential development site, with adjoining land also owned by developers. Improvements include a grading shed, multiple sundry sheds, and a toilet and shower block.</p> <p>The property was sold inclusive of an active subdivision plan yielding around 240 lots.</p>	
Analysis	On the basis that improvements add no value, and on a 240 lot yield, indicates a rate of \$259,792 per hectare. or \$27,083 per raw lot.	

Property	583 Archer Road, Kialla, VIC
Sale Price	\$1,855,000
Sale Date	02-Dec-20
Sale Status	Settled
Site Area	12.8 ha
Zoning	Urban Growth
Property Description	<p>The property comprises a 12.8 ha holding, zoned Urban Growth, located approximately 5.5 radial kilometres south east of the Shepparton CBD at Kialla, in a rural fringe precinct. The site has good frontage to Archer Road, and is situated immediately opposite the successful Sanctuary Park residential estate.</p> <p>The land is entirely covered by a Land Subject to Inundation Overlay, and is within a Designated Bushfire Prone area.</p> <p>The property included a c1975 brick veneer dwelling of approximately 114 sqm, plus some farm shedding, which continue to add some limited value, until the development potential fully matures.</p>
Analysis	Allowing \$150,000 for the buildings, analysis shows \$133,203/Ha.

Property	31-49 Hawkins Street, Shepparton, VIC
Sale Price	\$2,205,000
Sale Date	09-Sep-20
Sale Status	Settled
Site Area	8.91 ha
Zoning	General Residential
Property Description	<p>The property comprises a regular shaped parcel of General Residential land in north Shepparton, adjoining a recently developed residential estate, known as The Vines.</p> <p>The site contains a total area of 8.91 hectares, and although sold without a Planning Permit in place, the anticipated lot yield was 77 conventional blocks (8.65 lots per hectare).</p> <p>The adjoining estate had almost exhausted its supply, and lots in the final stage were selling around \$145,000 - \$150,000.</p>
Analysis	Analysis reveals \$247,475/Ha or \$28,636 per raw lot.



Property	145 Verney Road, Shepparton, VIC
Sale Price	\$4,200,000
Sale Date	12-May-20
Sale Status	Settled
Site Area	18.23 ha
Zoning	Urban Growth
Property Description	<p>Comprises a well located tract of development land situated within the Shepparton North East growth corridor.</p> <p>Previously utilised as an orchard, the property has been purchased by residential developers.</p> <p>Minor improvements are located on the property including a dated dwelling and various sundry shedding, mostly in fair condition only.</p> <p>This property represents one of a number of larger holdings being sold and prepared for residential subdivision in the area east of Verney Road, south of Ford Road and west of Grahamvale Road.</p> <p>To be known as 'The North Quarter', indicative plans show approximately 150 lots for this parcel.</p>
Analysis	On the basis that improvements add no value, and on a 150 lot yield, indicates a rate of \$230,389 per hectare or \$28,000 per raw lot.

Property	374 Goulburn Valley Highway, Shepparton North, VIC 3631
Sale Price	\$1,620,000
Sale Date	17 December 2021
Site Area	2.651 hectares
Zoning	General Residential
Property Description	<p>Comprises an irregular shaped residential development site with a highly dated dwelling and ancillary shedding which are considered to add no value to the property.</p> <p>The subject has dual access, is surrounded by 'Connolly Park Estate', and is located approximately 3.8 lineal kilometres north of the Shepparton CBD.</p>
Analysis	Allowing \$120,000 for the dwelling and improvements. Analysis: \$565,824/hectare.

Property	21 Marlboro Drive, Kialla, VIC 3631
Sale Price	\$3,400,000
Sale Date	25 October 2021
Site Area	4.506 hectares
Zoning	General Residential
Property Description	<p>Comprises a battle axe shaped residential development site which was purchased by the adjoining owner/developer for the future expansion of 'Sanctuary Park' Estate.</p> <p>The parcel is located in Kialla, approximately 5.2 lineal kilometres south of the Shepparton CBD and includes a neat but dated part two level double brick dwelling with attached double garage and shedding, which has been analysed at \$400,000.</p>
Analysis	Allowing \$400,000 for the dwelling and improvements. Analysis: \$665,779/hectare.

Property	1 Da Vinci Drive, Shepparton, VIC 3630
Sale Price	\$600,000
Sale Date	14 July 2021
Site Area	2.033 hectares
Zoning	General Residential
Property Description	Comprises a vacant irregular shaped residential development site with main channels running along the entirety of eastern and southern boundaries. The property has been purchased for a 28 lot subdivision known as 'The / Nook' and is surrounded by complimentary residential properties. The parcel is located approximately 3.2 lineal kilometres south east of the Shepparton CBD.
Analysis	Analysis: \$295,130/hectare.

Property	7615 Goulburn Valley Highway, Kialla, VIC 3631
Sale Price	\$1,000,000
Sale Date	6 June 2021
Site Area	4.721 hectares
Zoning	General Residential
Property Description	Comprises a vacant slightly irregular shaped residential development site, which was purchased to provide an additional 21 lots as part of the adjoining residential estate to the north. The subject is located in Kialla, approximately 7.1 lineal kilometres south of the Shepparton CBD.
Analysis	Analysis: \$211,820/hectare.

Property	19 - 27 Buckworth Street, Kialla, VIC 3631
Sale Price	\$875,000
Sale Date	24 March 2021
Site Area	1.20 hectares
Zoning	General Residential
Property Description	Comprises a cleared, regular shaped residential development site which transacted with planning approval for a 25 lot subdivision. The subject is surrounded by commercial properties to the east and residential properties to the remaining boundaries. The site is located in Kialla, approximately 3.3 lineal kilometres south of the Shepparton CBD.
Analysis	Analysis: \$729,167/hectare.

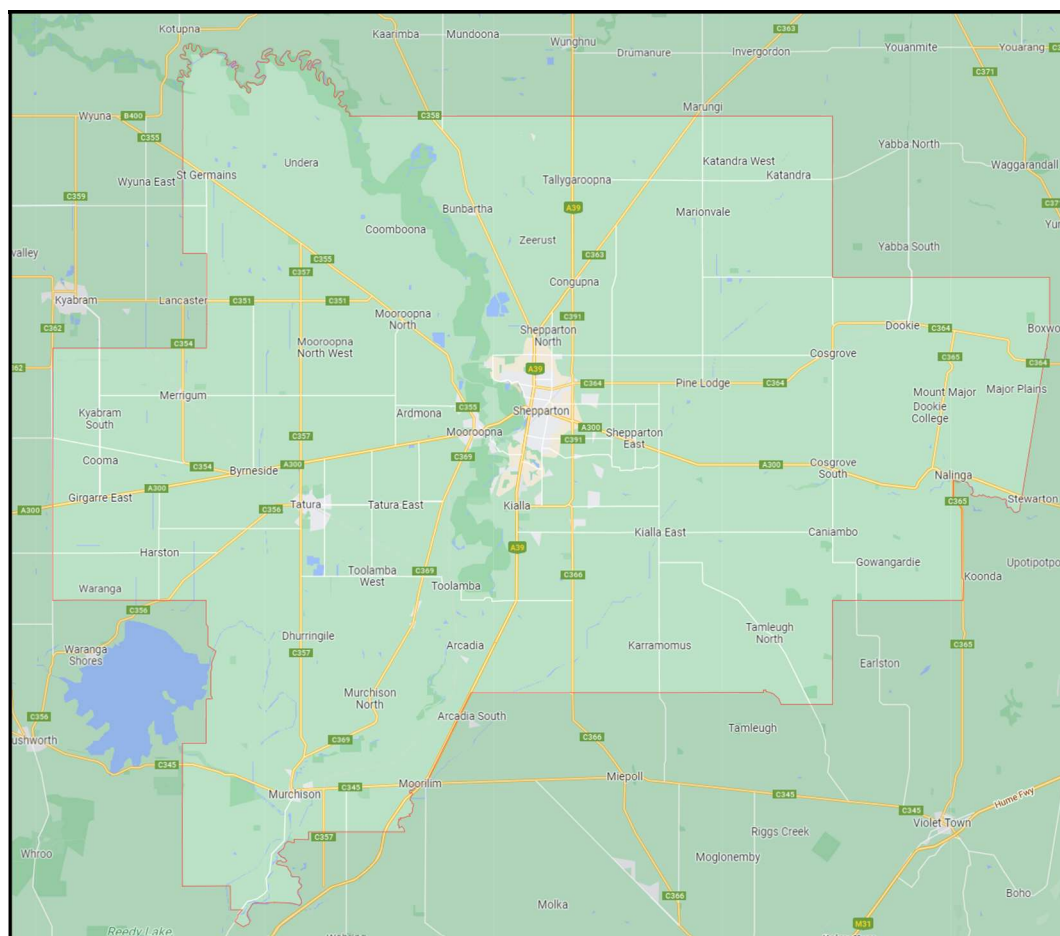
Greater Shepparton City Council Overview

Greater Shepparton is located in the centre of the Goulburn Valley and is the fourth largest provincial centre in Victoria. It covers an area of 2,422 square kilometres and has a population approaching 70,000 people.

Shepparton's main industries are agriculture and associated manufacturing with irrigation critical to agricultural production. Australia's largest processor of preserved fruits, SPC Ardmona, has a production facility in Shepparton. There has also been a significant expansion in premium fresh fruit plantings for export and domestic markets.

The manufacturing industry has evolved to cater for the needs of local primary producers. Other major manufacturers in the City include Visy, Campbells Soup, Furphy Engineering, Rubicon Water, and Pental. There are a number of large dairy processing facilities located in and around Shepparton, providing products for both export and domestic consumption.

Shepparton is a major regional commercial and shopping centre and service economy for the Greater Shepparton area with the majority of major national retailers are present. Shepparton is a major centre for infrastructure and civic services. The majority of the region's emergency response facilities are located in the city and the administrative headquarters for the Country Fire Authority (CFA) District 22 and one of only two Independent Rescue Agencies in Victoria are located in Shepparton.



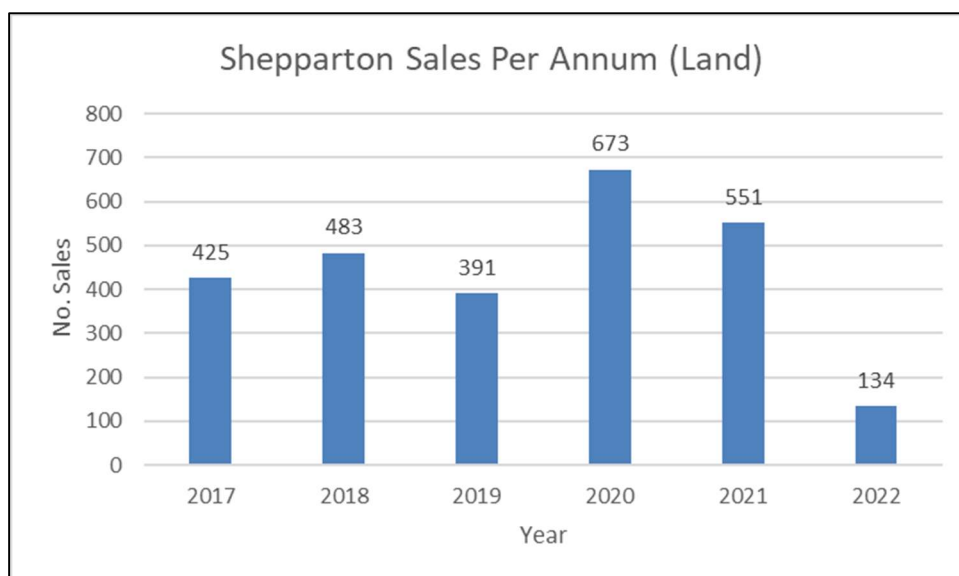
Residential Market Overview

The regional residential property market has experienced a significant demand spike over the past 24-30 months, resulting in a substantial increase in prices, market participants and volume of sales. The impact of these factors, together with a low interest rate environment, has resulted in dramatic improvements in the financial feasibility of residential subdivisions/developments. This optimism and reduced risk outlook has fuelled strong competition for appropriately zoned, and well located development sites. We note that there are foreseeable factors which could impact on the value and viability of future developments. These are primarily domestic economic conditions impacted by a high inflation environment with rapidly rising interest rates. Such risks always form part of the commercial risk of the developer in most projects.

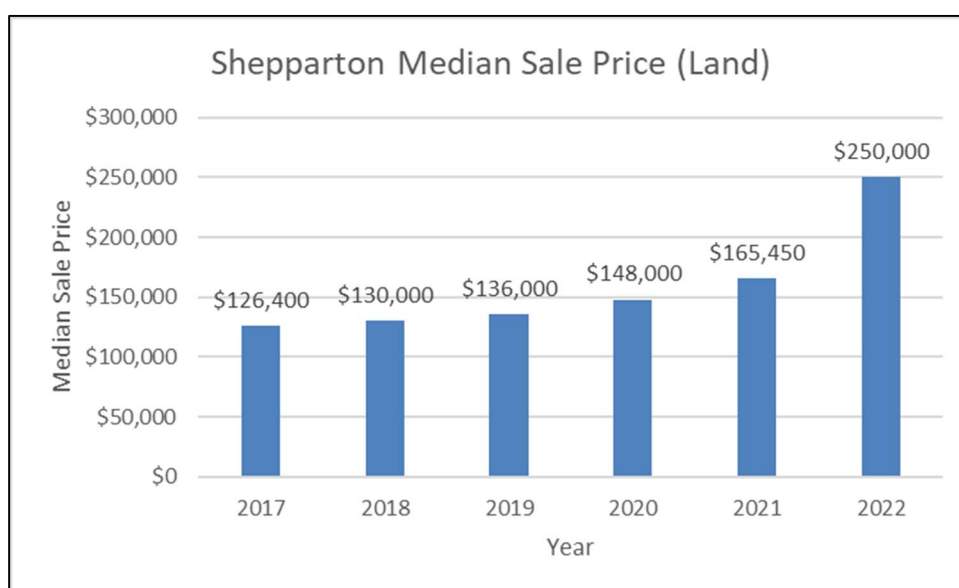
More specifically, Shepparton and Kialla continue to enjoy a buoyant period of demand, with a notable run down of fully developed lots available for sale. This has also resulted in significant uplift in values. The full impact of the spike in demand has been obscured for normal reporting channels, by delays with construction and settlements, with a multitude of unsettled lot sales in the pipeline.

There has been a wave of speculative market activity for small and medium sized parcels of land generally between 2 to 20 hectares in size within many regional Victorian areas. This is particularly so in the major regional centres of Ballarat, Bendigo, Albury/Wodonga, Geelong, Warrnambool and Shepparton. We note that regional residential development land markets within these major centres has gained momentum due to extremely competitive market conditions in the urban growth areas of Melbourne. The COVID-19 pandemic has further accelerated this market segment with the 'sea change' and 'tree change' trend spurred on by new working from home and lifestyle changes. This has encouraged regional population growth. The relatively low acquisition cost and increased demand for developed blocks has resulted in regional development land becoming favourable to a wider range of developers, many who had previously been only active in metropolitan markets, therefore increasing the value of land capable of development.

It is increasingly common for development land to transact using protracted settlement periods (over 24 months), using nominations of existing contracts and option arrangements. Thereby most sales are not being transacted on conventional cash-settlement terms. So, while there are good volumes of market activity there is limited sales evidence of conventional cash-term sales and also relatively limited recent settled sales. Further to this we comment there is evidence of a two-tier market wherein it is common for syndicates of purchasers paying premium nominal prices for the benefit of favourable settlement terms (in some instances up to 5-year settlements). These sales transactions are occurring through off-market investor real estate channels and achieving sale prices often far in excess of that achievable through conventional local real estate agents on conventional settlement terms. Transactions are completed by speculators, often with no intention to develop the land but instead intending to on-sell the land at a profit after rezoning. This is often via a nomination or assignment before settlement so as to never outlay more than the deposit. This has caused substantial nominal transaction price increases, for these medium to long-term small parcels of englobo land in urban growth areas. Land speculator market prices regularly surpass the existing developer purchaser market value levels, and as such this sub-market is considered to represent a higher-than-normal risk of downturn. It is our practice to be aware of these transactions, however to place less weight on them until they settle, and a clear body of completed transactions as evidence can be observed.



The above graph shows vacant land sales in Greater Shepparton over the past 6 years have been relatively subdued with 425 sales occurring in 2017 and only 391 in 2019. Relatively low supply of suitable residential land had negatively impacted the number of sales. The 2020 government stimulus package 'HomeBuilder' combined with low interest rates showed a positive impact on vacant land sale in the short term with the sale numbers totalling 673 in 2020 and 551 in 2021. Only 134 properties were transacted in 2022 with a notable run down of fully developed lots available for sale.



Residential vacant lots sold over the past 4 years have experienced increasing growth over this period from 2018 to 2022. The largest change in growth occurred during 2022 which encountered a 33% increase in value from 2021 as a result of the government stimulus, low interest rates and shortened supply of developable land.

More recently, (1st QTR 2023) market conditions are easing, with market confidence weakening on a broader scale. This is partly due to the Reserve Bank of Australia increasing the official cash rate multiple times, and commentary surrounding further increases in the near future, flowing through to increased cost of funds for both developers and home buyers. Additionally, the well-known problems with construction supply chains and trades workforce availability have led to a lack of confidence for homeowners/builders. Many are finding that builders will not provide a fixed quote, sometimes for a build more than 2 years into the future. This dynamic means that highly geared home owners, builders and developers cannot budget with confidence about overall project costs, increasing the market focus more strongly on established homes rather than vacant land.

Although demand has undoubtedly slowed, at this stage, we are yet to see any evidence of significant downward price pressure, attributable to the slowly correcting demand/supply imbalance experienced during the last two years. However, as evidenced by several major regional transactions within the last several months, this easing is reflected in a stalling rate of capital uplift, not downward repricing.

The wider market is considered to have passed the peak of its cycle. Markets are cyclical and it is anticipated the likely next market phase is a softening in transaction activity and a decline in market values in some sectors.

We also caution a further risk factor facing the residential development land market is, surging material and development costs. This combined with delays in obtaining materials, which impacts holding costs, may reduce the feasibility of development sites, potentially reduce demand and consequently value.

Windfall Gains Tax

The Windfall Gains Tax (WGT) is a new Victorian Tax that will commence from 1 July 2023. It is triggered when there is an uplift of more than \$100,000 in the value of land due to a rezoning of the land. The maximum tax payable is 50% of the uplift in value. The owner of the land at the time of the rezoning takes effect is responsible for the WGT. Payment of the liability can be deferred until there is a dutiable transaction (typically a market sale) of the holding, or under some other circumstances, for up to 30 years. The Tax is not imposed on land rezoned by a WGT event which occurred or was underway before 15 May 2021.

The impact of this new Tax has not yet had a consistent impact in values of residential development land in regional Victoria. The extent to which it impacts will depend on a case-by-case basis, particularly having regard to the timeframes until development. The obvious dynamic is that the vendor will seek to recoup the cost impact of the new tax from a buyer, however the buyer in most cases will not happily take responsibility for the impost. All other things being equal, this will ultimately be likely to put upward pressure on the value of greenfield sites, albeit with vendors likely having to recalibrate their profit expectations.

Appendix 1 – Land Use Budget

