AUSTRALIAN CONGRESS OF NEW URBANISM

Topic: **Challenges for the Development Sector**

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The Planning & Development Objective

- To deliver the Principles of New Urbanism in Greenfields & Revitalisation Developments in the Sydney context.

Challenges

The usual business challenges of development with additional overlays

- Greenfields Challenges
- Revitalisation Challenges

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Common threads of NU N'hoods

- Passionate Developer
- Cheap land - substantial Equity
- Researched Master Plan for surety of product
- Reasonable site development costs
- Long term vision with discipline
- Project staff living on site
- Patience – hold key sites
- Long Term Profits
- Provide high quality public domain
- Win-win-win outcomes

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Specific Challenge Phases

STRUCTURE PLAN AREAS

a.	**Site Acquisition**	**Challenge 1**
b.	Site Planning	
c.	Site Design	
d.	**Project Funding**	**Challenge 3**
e.	**Construction**	**Challenge 4**
f.	**Marketing**	**Challenge 2**

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A1. Site Acquisition - Greenfields

The Biggest Challenge for Developers

- Fragmentation
- 1.6 – 2 ha parcels
- Vendor expectations

  - Past prices - Superannuation
  - Ethnicity - Green or White
- Feasibility

  - Valuations - Funding

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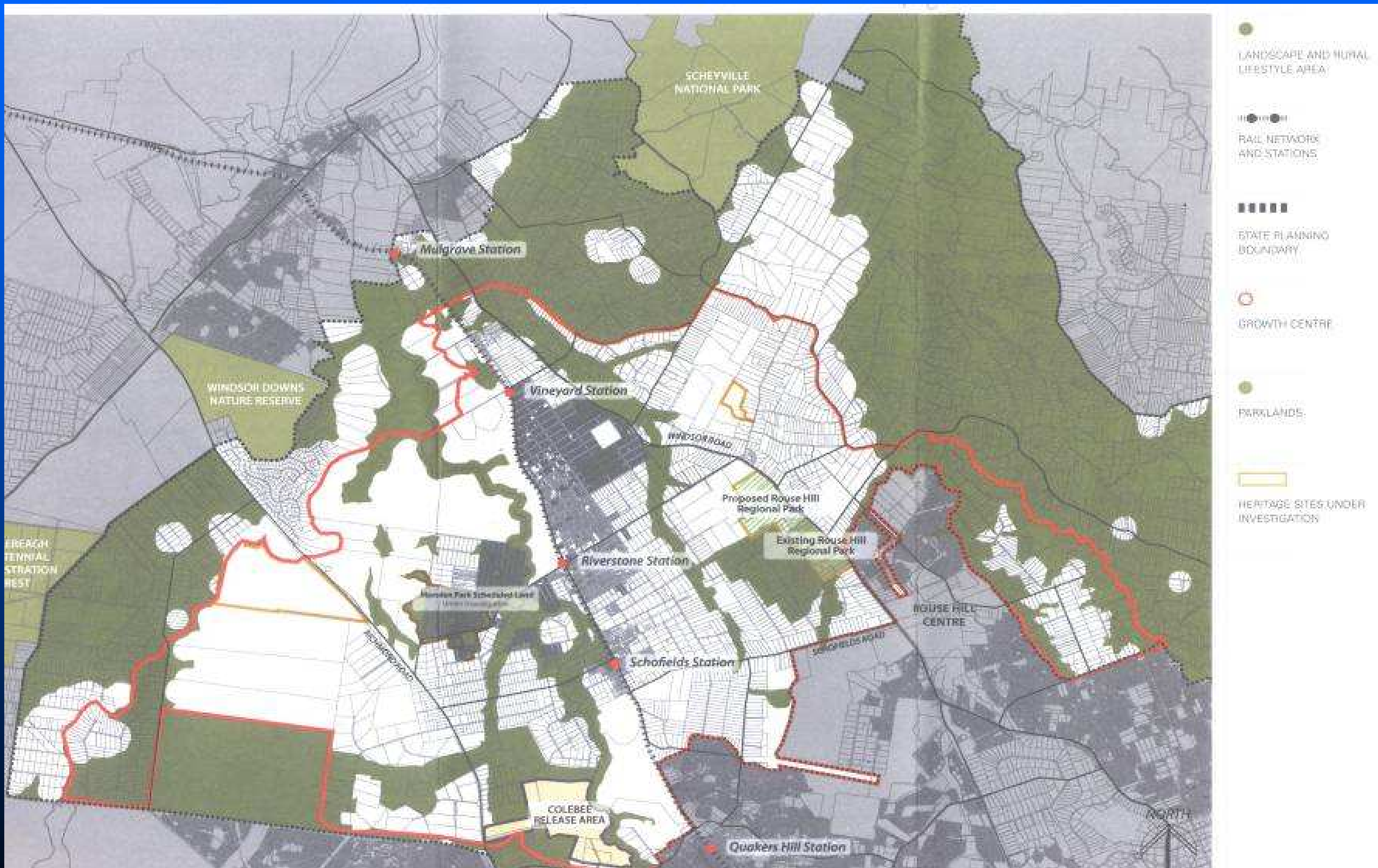
North West Growth Centre



Vendor Expectations

Expectation: Land value $2,000,000 / ha

$ 135,000 per lot

Developer Feasibility Assumptions:

Lot size: <450m^2 Density: 15 Dw / Ha

Inf Contrib: $40,000. S94: $45,000. GST:$33,000

Sydney Water S73: $15,000 **Sub-Total:$133,000**

Development Costs: $45,000. Int & Hold: $32,000.

Selling Costs: $17,000. **Dev Profit: $76,000**

Selling Price: $440,000

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A2. Site Acquisition - Revitalisation

- Fragmentation
- Community objections
- Previous development
- Taxes and Contributions

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F1. <u>Marketing</u>

The Second Most Challenging

- Build it & they will come
- But if they don't, developer goes broke
- Marketing is therefore the **second biggest challenge**
- Demographic tidal wave
  - Minimal increase in nuclear families
  - Big increase in 2 person households
  - Big increase in 1 person households

The Demographic Tsunami

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<u>Demography</u> - Greenfields

- 2 & 1 person households unlikely to buy in new areas until facilities & amenities established. (Could be 5 – 10 years).
- Many 2 & 1 person households already have real estate – what will entice them to the greenfields?
- Nuclear families are the “aspirational” mortgage belt economic & social climbers.

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McMansions

- In a growing economy, fuelled by migrants wanting to make good, the aspirants will want to show off their success.
- Display means a big house on a big block.
- Individual “wants” VS sustainability “needs”

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Housing Satisfaction

- Gwyther, UWS, Mar 2005: outer suburban resident satisfaction “was drawn predominantly from the **social homogeneity** and **status** of the estate”
- Poole, “The Great McMansion Debate”, July 2005: “so much of the thinking behind **urban design**..views diversity and heterogeneity, **not** homogeneity, as the (goal) of suburban harmony”.
- Knowles, Metro Strategy Forum, Dec 2004: “85% of residents of Greater Sydney, across all suburbs, like living where they live now.”

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D1. Project Funding – Greenfields

The third biggest challenge

Old Style Subdivision

2 Industries

- Land Development
- House Building

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OLD STYLE SUBDIVISION

3 Industry Players

a. Land Developers

b. Builder Developers

c. Builders

- Cottage Builders
- Medium Density Builders
- Apartment Builders

OLD STYLE SUBDIVISION

➢ <u>**Land developers**</u>

- Financial expectations 25% + (I.R.R.)
- High Risk
  - Rezoning Risk
  - Planning Risk
  - Yield Risk
  - Construction Risk
  - Market Risk
- Time Risk
- Funding
  - Developer Equity
  - Developer Finance

Backed by Valuation, Mortgage Secured

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OLD STYLE SUBDIVISION

- Builder Developers
  - Leverage off land development to extract extra profit from contract building & added value.
  - Funding
    - Equity - Development Finance
    - House Purchaser (Bank finance)

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OLD STYLE SUBDIVISION

- Builders
  - Margins 10-15% on houses
  - I.R.R. boosted with contract package housing
  - Cottage Building costs \$650 – 1200 / m^2 i.e. 300m^2 McMansion **\$270,000**
  - Funding - Purchaser (bank) finance

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E1 Construction - Greenfields

Fourth Most Challenging

- **New Urbanist Areas**
  - 2 x Industries must work together
- Risk Allocation Changes
  - Rezoning Risk is low – SEPP & GCC
  - Planning Risk is lower – GCC
  - Yield risk is low – SEPP LEP specify densities
  - Construction Risk is higher – complications, costs
  - Market Risk is very high – product acceptance, purchaser financing
  - Time Risk is variable

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- Construction - Funding
  - Financiers & Valuers Understanding of Product, Risk & Market
  - Developers may need to speculate buildings
  - Builders as equity partners
  - Developers spread equity risk, mezzanine funding, superannuation funds
  - Developers & GCC need to move Infrastructure Costs off balance sheet.

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- Profit
  - Profit expectations must reflect risk
  - Developers, valuers & financiers will still be expecting a substantial gross profit & internal rate of return.
  - If expectations not being met, development will not happen.

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Construction Challenge - Greenfields

- Subdivision construction complicated by
  - Complex road geometry
  - Landscaping requirements
  - Streetscape requirements
  - Privatised amenities & services **(eg Telecommunications)**
  - Infrastructure works-in-kind
  - Riparian & green corridors provisions
  - Co-ordinating services provisions
  - Co-ordinating with builders

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- Building Construction complicated by
  - Mixed use – new product
  - Mixed densities – detailed design & execution
  - Co-ordinating with developer, landscaper, services providers
  - Extra costs of construction & common property for non-cottage dwellings
    - ✓ Medium Density \$1250 - \$1800 / m^2
      i.e. 180 m^2 Town House **\$270,000**
    - ✓ High Density \$2800 - \$3200 / m^2
      i.e. 90 m^2 2 Bedroom Apartment **\$270,000**

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Revitalisation

- Construction challenges include:
  - Managing existing traffic & neighbours
  - Latent conditions
  - Site contamination
  - Access
  - Drainage
  - Services upgrade

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Conclusion 1

- Developers and Builders need to morph into a structure that can provide a product range that the market wants.
- Within a framework of what planning and construction can provide, at a competitive but profitable price.

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Conclusion 2

- For Governments to achieve their outcomes, (from GST, Stamp Duties, Land Tax, Infrastructure Contribution, S94 Contribution, S73 Contribution), a change in relationships with financiers, developers, builders and service providers is necessary.

Karantonis, UTS, Risk Free Profit – the Government, March 2005 Table 4 - Case Studies (without Infrastructure contribution)

Table on Following Page

Taxes on Property Development

Project :	Botany	Warringah	Hornsby
Profit	**$ 736,727**	**$2,104,780**	**$ 15,692,248**
Corp Tax on Profit	$ 221,018	$ 631,434	$ 4,707,674
Net Profit	$ 515,709	$1,473,346	$ 10,984.574
Taxes & Contributions			
Stamp Duty	$ 58,640	$ 307,990	$ 780,490
S/Duty (mort)	$ 10,121	$ 2 7,085	$ 114,241
Council Rates	$ 6,000	$ 4,000	$ 37,440
Land Tax	$ 1,996	$ 7,009	$ 221,300
Sect 94	$ 20,000	$ 224,185	$ 3,090,000
GST	$ 467,272	$ 1,161,818	$ 8,077,379
Corp Tax	$ 221,018	$ 631,434	$ 4,707,674
Total Tax & Contribs	**$ 785,047**	**$2,363.521**	**$17,028,524**
Profit + Tax	**$1,300,756**	**$3,836,867**	**$28,013,098**

Taxes on Property Development

Project:	Botany	Warringah	Hornsby
Govts %	60.4%	61.6%	60.8%
Developers %	39.6%	3 8.4%	39.2%