AUSTRALIAN CONGRESS OF NEW URBANISM

Topic: Challenges for the Development Sector
Date: 4th Aug 2005
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President, UDIA - NSW
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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
b. Site Planning
c. Site Design
d. Project Funding
e. Construction
f. Marketing

Challenge 1
Challenge 2
Challenge 3
Challenge 4
A1. Site Acquisition - Greenfields

The Biggest Challenge for Developers

- Fragmentation
- 1.6 – 2 ha parcels
- Vendor expectations
  - Past prices
  - Ethnicity
- Feasibility
  - Valuations
- Superannuation
- Green or White
- 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: <450m²  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. Marketing

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
Demography - 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”
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

- **Land developers**
  - 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
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
- Cottage Building costs $650 – 1200 / m²
  i.e. 300m² 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 (e.g. 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 / m²
      - i.e. 180 m² Town House $270,000
    - High Density $2800 - $3200 / m²
      - i.e. 90 m² 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
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.
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
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<th>Botany</th>
<th>Warringah</th>
<th>Hornsby</th>
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<td>Stamp Duty</td>
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<td><strong>Total Tax &amp; Contribs</strong></td>
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<td>Govts %</td>
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