



Presentation to UDIA Geelong
24.04.09

Housing Affordability & the Way Forward - Armstrong Creek Case Study

Bert Dennis OAM
Chairman,
Dennis Family Corporation

Where are we today?

- Geelong has a block price of around \$150,000
- Recently the Council has approved a contribution of \$12,000/lot
- 50% of the workers in Geelong have a salary of \$40,000pa \$ 3,333/month
- Median household income \$50,500pa \$ 4,200/month
- 2 key questions are:
 - Who is going to pay the contribution; and
 - What percentage of Geelong workers can afford to purchase?

- Developers can't pay as their margin is around 20% of cost, or approx \$20,000/lot, which is needed to run their business and continue to employ people.
- Now that high land prices have already been established, the only way of passing the cost back is to reduce the land component which could cause economic problems for the current land owners.
- The shortage of lots will persist for at least 4 years which will ensure contribution will be passed on to the new home buyer.

- A Development Contribution of \$12,000/lot will increase the retail price of a lot by \$17,000.
- Almost certainly this will raise block prices by \$17,000/lot to \$167,000/lot.
- With a modest house cost of \$150,000 this will mean a house and land package will cost \$317,000.

To purchase a package for \$317,000 on 5% deposit and a 30 year loan at 7%, a couple with 2 children will need:

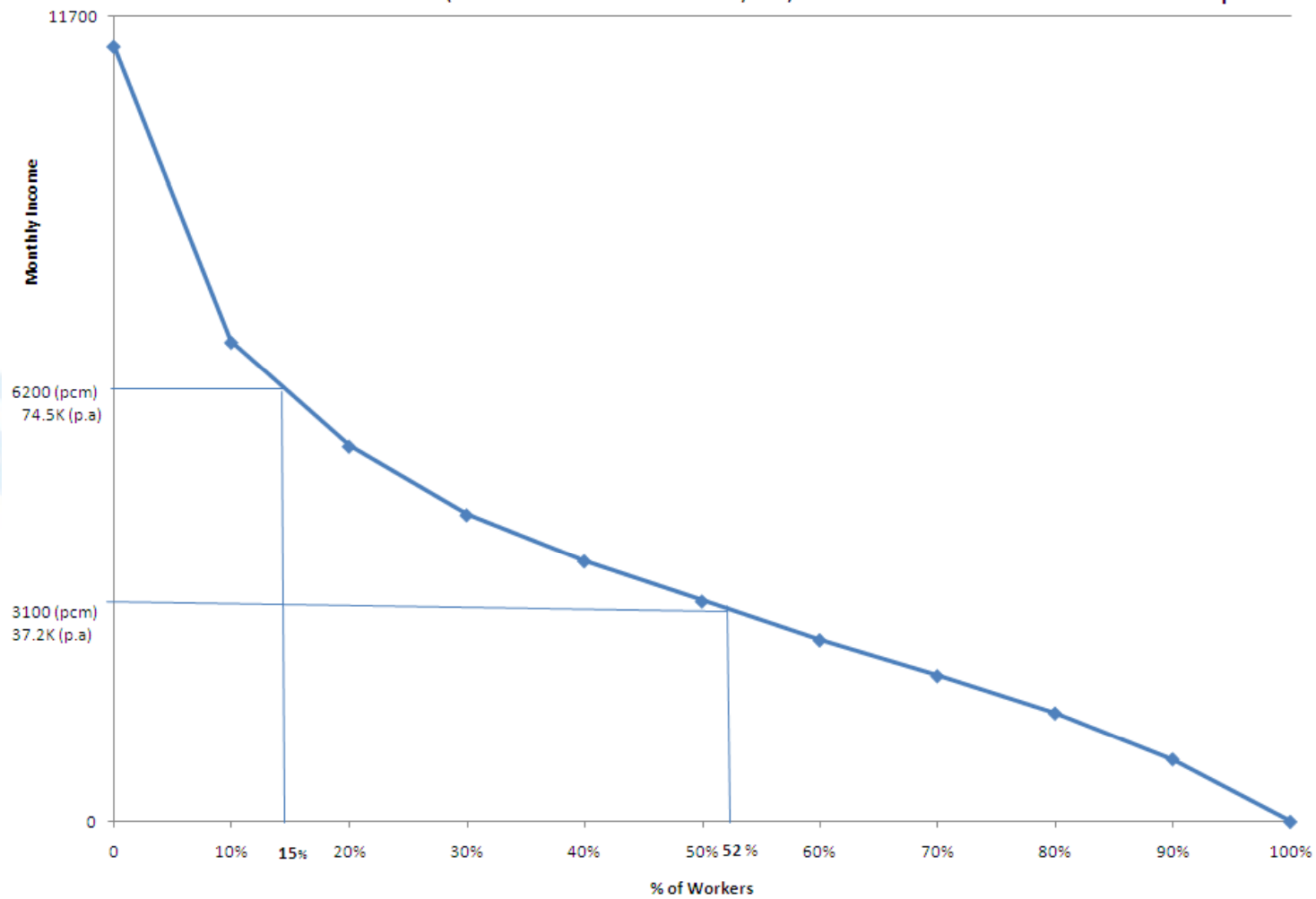
- \$15,900 deposit;
- A single or a combined income of around \$74,500, i.e. \$6,200/month.

- What percentage of Geelong workers have an income of \$6,200/month to be able to purchase a package of \$317,000?
- Using the 2006 ABS gross individual weekly incomes for Geelong and indexing these figures up by 10% to 2009, then converting them to monthly, gives the following graph.

Geelong monthly employment incomes (June 09)

(Source: ABS CAT NO 2068 - Indexed by 10%)

Bert Dennis April 09



- With a package price of \$317,000 then;
 - only 15% of single income families or
 - around 52% of dual income families will be able to purchase.
- The higher the price the lower the volume. Price targets should be established that match affordability targets.
- Planning for Armstrong Creek should focus on market and economic considerations as well as process.
- Expert advice is needed from experienced developers such as Brendan Crotty (ex Australand) or Greg Paramor (ex Mirvac) on production and affordability issues.

It does not make commercial sense to be basing long term plans for the development of Armstrong Creek on only around 50% of the population being able to afford to purchase.

Who Gains and Loses

Package \$317,000
- \$167,000 land and \$150,000 house.

Who gets what:

Land owner		\$35,000/lot
Developer's margin		\$20,000/lot
State Gov GST	\$29,000	
Land Stamp Duty	<u>\$ 2,000</u>	
	\$31,000	\$31,000/lot
COGG Rates		\$ 1,000/annum

Who Gains and Loses

Funds required/lot

- Developer up front \$12,000
- Council over 20 years \$ 1,500
- State Government
over 20 years \$12,800

Source: Armstrong Creek Infrastructure & Costs COGG



Who Gains and Loses

Developer profit & risk will remain the same		Neutral
Land owner value will remain the same		Neutral
Purchaser A \$12,000 cost will lift selling prices by \$17,000/lot which means additional repayments on the loan at 7% for 30 years	\$39,000	Loss
Council receives rates on day one of Council's outlay of \$1,500 is not committed but could be expended over 20 years.	\$ 1,000/lot	Gain
The State will receive up-front from the home buyer for an expenditure of \$12,800/lot over 20 years.	\$31,000/lot	Gain

It does not make economic sense to be imposing so much up-front cost on one section of the community – the new home buyer.

Social Equity Considerations

- Unless houses are affordable to the majority, this will lead to:
 - Wealth redistribution;
 - Transfer of resources from would-be home buyers to existing home buyers.
 - A widening of the wealth gap between home owners and others.
- A weak supply of housing contributes to macroeconomic instability and hardens labour market flexibility, constraining economic growth.

Social Equity Considerations (cont.)

- Total market is not only for affordable homes.
- Those who can afford it will pay the higher price, but the volume will be lower.
- Those who can't afford it go on the Government social housing waiting list.
- New home buyers should not have to pay cash up-front for all services and then pay the same rates as all other rate payers.
- Where are our key workers - the police, the nurses, the firemen, the bus drivers going to live?

**Social equity should be for all purchasers,
not just for the well off.**

Summary

- The market will determine what achievable outcomes should be set for production and affordability at the entry level.
- Whatever is adopted should be referenced back to those two issues.
- If what is proposed is not achievable, nothing sustainable will happen.
- Instead of focussing on process, focus should be on the market, affordability and outcomes.
- Production and affordability targets should be set and performance against targets regularly measured.

My 3 Thoughts:

- The outcome will be disappointing unless the development makes commercial sense, is economically equitable for all parties as well as socially equitable.
- Set production targets and affordability targets based on ability to pay and regularly measure performance against the targets.
- Seek expert advice on production and affordability targets.