Delfin
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Imagine Create

Illawarra Housing and Land Supply

Calderwood Urban Development Project

by

Delfin Lend Lease

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EXECUTIVE SUMMARY

INTRODUCTION

The Illawarra Land and Housing Supply report has been prepared by Delfin Lend Lease to address the following items in the Director General's Requirements for the Calderwood Urban Development Project:

Strategic Planning
- *Demonstrate consistency with the revised MDP boundary as discussed in the Illawarra Regional Strategy and justification for any variation*

Social and Community
- *Demonstrate that the appropriate housing diversity and affordability are provided*

It also updates the housing affordability analysis in the Justification Report and Preliminary Environmental Assessment.

Inclusion of small adjacent parcels of land in the Calderwood Urban Development Project addresses concerns regarding consistency of the Project with the revised MDP particularly in respect to location, size, shape and development capability.

The Calderwood Urban Development Project will deliver an appropriate mix of housing diversity to match the market and its ability to pay. The Project will deliver approximately 12% of the identified housing needs in the Illawarra and create competitive tension in the market to improve housing affordability in the region.

POLICY FRAMEWORK

Recent pronouncements by Federal and State Government agree that contributing causes to the housing affordability crisis are inadequate housing supply, complex planning systems and high infrastructure levies. All levels of Government have developed policy frameworks to address housing affordability.

National Policy Agenda
- Committed to increase land supply, improved delivery of urban infrastructure and improved efficiency of the planning and approval processes.
- Implementation of funding programs to deliver affordable housing.

NSW Government Initiatives
- Reinforce the need to encourage long term private investment as the principal source of growth in the development of affordable housing stock to allow competitive tension in the supply of land for housing development and to ensure a continuous supply of housing stock in the market.
- Target supply of at least 300,000 new dwellings over the next 25 years in regional areas.
- Reform to infrastructure levies with the aim to boost housing supply and affordability and provide a stimulus to the construction industry.

Illawarra Position
- Housing target of 38,000 new dwellings over the 25 years to 2031 to meet housing demand.
- The Illawarra Regional Strategy is unlikely to deliver the required housing stock within the expected timeframe or in the required numbers due to:
  - heavy reliance on supply from a single new release area (WDRA) and infill development which requires a major shift in market responsiveness,
  - ongoing delays in releasing the WDRA documents and the deferral of the part of WDRA, and
  - higher than expected population growth putting further pressure on housing supply.

- Housing shortage can reach more than 8,000 by 2031 under the current land release framework nominated by the Strategy.
- The Growth Centre Commission review on the WDRA concluded that there is merit in the early release of Calderwood which can put a downward pressure on house prices.
- On 12th February 2010 the State government announced greenfield housing supply benchmarks for the Illawarra. These targets reinforce the need to ensure that Projects are available that can contribute to annual lot production, provide housing diversity, choice and affordability and address implementation and delivery constraints.

Local Response

- There is limited policy response under the Shellharbour Strategy Plan and Social Plan to improve housing affordability in the LGA.

CALDERWOOD URBAN DEVELOPMENT PROJECT

The Delfin Lend Lease Calderwood Urban Development Project will:

- Increase land and housing supply in the Illawarra market to create competitive tension in the market place and deliver housing affordability benefits to the community.
- Deliver a masterplanned community that includes a wide range of housing choices to match housing needs of the market and their ability to pay
- Target specifically at the low to medium income market sector through product development

The Project will deliver a range of housing products to maximise diversity, affordability and choices at the moderate income level end of the market. Housing products will be designed to suit the requirements of the households and match the ability of the market to pay. These will be delivered in a masterplanned community, which will ensure the quality of the housing products is maintained.

About Delfin Lend Lease

DLL has been working with the State Government and community housing providers to deliver housing affordability solutions in its Master Planned Urban Communities and other Projects across Australia. Providing housing choices to the market is DLL's core business. DLL is making significant contributions to improve housing affordability in masterplanned communities across Australia.

TABLE OF CONTENT

This document has been prepared by Delfin Lend Lease for the purpose of informing the Calderwood Urban Development Project. Information contained in this document should not be used for any other purposes. The data is correct at the time of printing.

1.0 Background

This report addresses specific items under the Director General's Requirements.

This report has been prepared by Delfin Lend Lease to address the following items from the Director General's Requirements and review and update the Strategic Justification for the Project:

Strategic Planning

- *Demonstrate consistency with the revised MDP boundary as discussed in the Illawarra Regional Strategy and justification for any variation*

Social and Community

- *Demonstrate that the appropriate housing diversity and affordability are provided.*

This report reviews the following previous research and data. Where necessary, this report updates the data provided in the previous reports:

- *Delfin Lend Lease 2008, Calderwood Release Area Justification Report*
- *Delfin Lend Lease 2009, Preliminary Assessment Report*

This report is structured as follows:

- Section 2 describes the current policy framework that addresses housing affordability at the National, State and local levels
- Section 3 analyses the Illawarra land and housing supply and identifies the current and future housing gap.
- Section 4 presents the housing initiatives proposed by Delfin Lend Lease that would contribute to address housing affordability in Illawarra market.

This report:

Aim of the report

- Examines and updates the housing and land supply and affordability policy framework at the National, State and Regional levels;
- Provides updated analysis of the progress with delivery of Illawarra land and housing supply; and
- Reviews and updates the role of Delfin Lend Lease's Calderwood proposal in delivering a component of Illawarra's land and housing needs.

2.0 Housing and Land Supply and Affordability Policy Framework

2.1 INTRODUCTION

All levels of Government has developed policy framework to address housing affordability in Australia

Housing affordability and supply has attracted a significant level of attention from all levels of Government in the past 2 years. The level of debate is illustrated by the reporting examples included at Attachment 4 to this report. The role of the Government in addressing the issue broadly includes the following:

- National Government – investigate the matter, provide directions to improve housing affordability, provide funding and/or assistance to relevant agencies, individuals and the private sector to increase housing supply and assist in coordinating infrastructure delivery
- State Government – implement land release programs, monitor population growth and housing needs, manage land supply and establish the planning and development contributions framework for housing development
- Local Government – identify local housing needs, establish local planning controls and determine local development contribution requirements

Recent pronouncement by all levels of Government confirm that contributing causes to the housing affordability crisis are the inadequate housing supply, complex planning systems and high infrastructure levies.

This section provides a summary of relevant initiatives by different levels of Government.

2.2 NATIONAL

Federal Government housing and land supply policy agenda

The Federal Government has proclaimed the issue as a crisis affecting major cities and regions across Australia and has introduced the following key initiatives to address housing affordability:

2.2.1 New Direction for Affordable Housing 2007

In November 2007, the Australian Labour Party, now the elected Government, delivered a paper "New Direction for Affordable Housing 2007" as a platform for the election campaign recognising that "housing is less affordable today than at any time in our history". It included a number of directions to address housing affordability issues.

2.2.2 Senate Inquiry into Housing Affordability

The Senate Enquiry into Housing Affordability found that there is currently an annual housing production shortfall of 30,000 dwellings.

In February 2008, a Senate Select Committee was established to inquire into the barriers to home ownership in Australia. The report from the Select Committee, dated June 2008, establishes the framework for the Government to implement policy initiatives to address the issue. The report concluded that *"there is a significant problem with housing affordability in Australia……The problem of affordability in Australia has been a function of both strong demand and limited supply….. It is estimated that there is currently an annual shortfall in housing supply relative to underlying demand of 30,000 dwellings".*

The inquiry concludes that more new dwellings need to be built to improve housing affordability in Australia. The key factors affecting housing supply include:

Factors affecting land and housing supply

- State and local governments planning processes are too complex
- Developer infrastructure charges are excessive and have restricted supply
- Shortage of skilled labour in the construction industry

The Australian Government provided a response to the Senate findings and stated its commitment to improving housing affordability. Critically, the Government recognises the need to improve the efficiency of the planning system to facilitate the delivery of housing supply by the market. *(Australian Government: Government Response to 'a good house is hard to find: Housing Affordability in Australia)*

2.2.3 National Housing Supply Council

The National Housing Supply Council states that there is a housing shortage of 85,000 dwellings as at June 2008.

In May 2008, the Federal Government established the National Housing Supply Council to monitor housing demand, supply and affordability in Australia. Its first report, published in March 2009, provides the following statistics:

- The gap between total underlying demand and total supply is conservatively estimated to be approximately 85,000 dwellings as at June 2008.
- Over the five years to 2013, the overall gap is projected to grow to 203,000 dwellings.
- By 2028, the same projection assumptions will produce a cumulative gap of 431,000 dwellings.

2.2.4 National Affordable Housing Agreement

The National Affordable Housing Agreement (NAHA) is one of the key initiatives by the Federal Government to address housing affordability issue. In November 2008, the Council of Australian Governments agreed to the new NAHA, which included measures at the Commonwealth, State and Territory and Local Government levels to improving housing affordability. A total commitment of nearly $10 billion has been allocated to affordable housing projects across Australia.

2.2.5 Other Commonwealth Initiatives

New Federal Government initiatives that address affordability

Other Commonwealth initiatives presently being implemented to address housing affordability include:

- National Rental Affordability Scheme (NRAS), which involves $1 billion over four years to help build new affordable rental dwellings
- A $512 million Housing Affordability Fund (HAF) to lower the cost of building new homes
- Increase the supply of land for housing by releasing surplus Commonwealth land for residential and commercial development
- Commitment of $1.2 billion in new First Home Saver Accounts to help first home buyers save deposit through low tax savings accounts
- Additional investment of almost $1.5 billion for the First Home Owners Boost.

2.3 INDUSTRY ASSOCIATIONS

Industry associations consistently reinforce the need for action on housing and land supply policies

The Urban Development Institute of Australia (UDIA), Housing Industry Association (HIA) and Property Council of Australia (PCA) are the key national industry bodies that promote the debate on housing affordability and land supply. These bodies undertake analysis on housing demand and supply, monitor the performance of that market and influence Government policies affecting housing affordability such as land release and levies.

Industry Association submissions to the Government reinforce the need for action on the housing affordability policy framework. These consistently submit that housing affordability is significantly affected by:

- Insufficient dwelling supply and constrained land supply
- Excessive taxes and charges by all levels of Government
- Inefficient and complex planning systems

A consistent theme of industry association reports is the need to expedite release, rezoning and servicing of land to support the supply of new dwellings to the market. They also advocate additional funding and involvement by the Government in the provision of urban infrastructure to support housing in areas of high amenity and good access to employment and public transport.

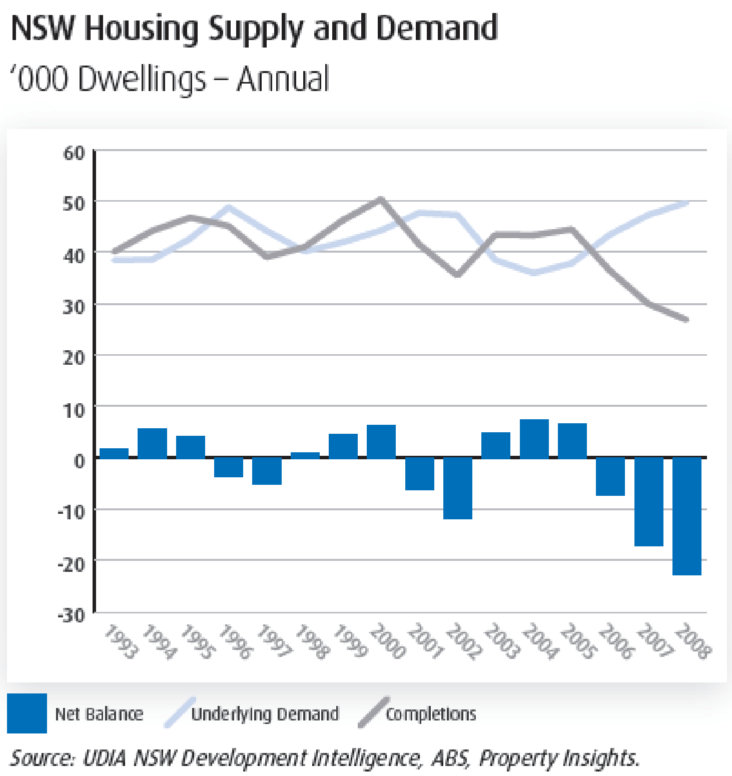
2.3.1 UDIA State of Land Report 2009

UDIA 2009 State of Land Report shows that production of new Greenfield land for housing has been at record lows for five years.

UDIA has reported a significant shortage of housing production across NSW. Their 2009 State of the Land report presents a quantitative review on the supply of land to meet housing demand. The report notes that housing production across NSW has dramatically fallen since 2003. Sydney is the worst performer of all major capital cities in terms of housing production. Sydney's development levies are the highest in the country and because of the chronic undersupply condition, the median lot prices are far above all other major capital cities.

UDIA reported that the production of new Greenfield land for housing has been at record lows for five years. Production is 70-75% below the average levels of housing demand and Greenfield land supply now accounts for only 10% of all new dwellings even given the Government's own policy requirement of 30-35%.

The following chart shows the extent of housing gap between 1993 - 2008.



Source: UDIA (2009) State of The Land

The report concludes that even with Government's effort to increase housing supply, viability and affordability remain key challenges. High levies, taxes and servicing charges are adding significant costs to the final housing prices, reducing the level of affordability in the market.

2.4 NSW

State Government initiatives to address housing affordability

The NSW Government plays a key role in addressing housing affordability. It is responsible for identifying and releasing land for housing development and establishing a planning and development contributions framework for the delivery of quantity, quality and affordable housing across the State.

2.4.1 NSW State Plan

The NSW State Plan notes that increase in the supply of land will introduce competitive tension in the market place and promote affordability

The NSW State Plan (2006) acknowledges that one of the levers affecting affordability is land supply and recognises that there is a need to ensure there is competitive tension in the supply of land so that there is a continuing flow of new properties into the market.

The State Plan nominates long term private investment as the "principal source" of growth in the development of new affordable housing stock.

The 2009 review of the NSW State Plan further reinforces this direction. It provides a target of at least 300,000 new dwellings over the next 25 years in regional areas. On a pro rata basis the Illawarra would be expected to provide more than 13% of the State's Regional target.

The State Plan provides the following commitments to streamline the planning approval process to make it easier to deliver affordable housing:

- Increase availability of zoned lots so there is enough land for future supply when needed;
- Promote expanded supply of land for housing in existing urban areas via local targets for each LGA; and
- Deliver housing growth around regional centres to ensure access to infrastructure services, as outlined in Regional Strategies.

2.4.2 Development Contributions Policy Framework

State Government reforms reduce development contributions for housing developments on Greenfield sites.

In December 2008, the NSW Government announced a package of reforms to infrastructure levies. The aim of the reforms was to ensure that *"infrastructure levies are consistent with the Government's Plan to boost housing supply and affordability as well as support business and provide a stimulus to the construction industry."*

The reforms consist of the follow key elements:

- Changing the way that State infrastructure contributions are calculated, by removing rail infrastructure and bus subsidies leading to a reduction in the charges.
- Allowing for the deferral of the point at which developers pay the State infrastructure contribution to the point of sale of a new residential lot (to improve cash flow).
- Establishing a $20,000 threshold for local government contributions applying to residential dwellings. Councils will only be able to charge above the threshold if they have the approval of the Minister for Planning.
- Requiring councils to provide existing contributions plans that would allow for contributions above the $20,000 threshold to the Government for an evaluation of the plan.
- The immediate cessation of water infrastructure charges imposed by Sydney Water and Hunter Water.

The Planning Circulars (PS 07/018, superseded by 08/017) and the Question and Answer issued by the Department of Planning provide details of the reform.

2.5 ILLAWARRA REGION

2.5.1 Illawarra Regional Strategy

Illawarra Regional Strategy housing target is 38,000 new dwellings

The Illawarra Regional Strategy 2006-2031 acknowledged that housing stress is a continuing problem in the Region. According to the Strategy, purchase and rental prices in the Region have *"reached a point where many local residents are being excluded from participating in the housing market."*

Based on the population forecast, the Strategy provided an overall housing target of 38,000 new dwellings in the 25 year period to 2031 to cater for the growing population with a suggested mix of housing being required to cater for the needs of future households. West Dapto was nominated as the priority new release area, with a stated capacity for approximately 19,350 dwellings over 30 to 40 years. It was expected that West Dapto would deliver an annual lot production of 500 dwellings per year starting 2010/2011. The Strategy identified Calderwood as an investigation area if demand for additional supply arises.

Population growth is higher than expected

The 2009 Illawarra Regional Strategy Update provides the latest data on population growth. It notes that the growth rate in 2008 was above the original regional strategy forecasted projection and suggests that there is clearly an ongoing need to provide an affordable housing supply in the Illawarra. However, the Strategy Update does not offer further policy directions to address the additional housing demand. Nor does it reference the ongoing delay in implementing the WDRA.

2.5.2 Growth Centres Commission Review of WDRA

Wollongong Council adopted the Growth Centres Commission recommended deferral of 3 of the 5 stages of WDRA.

Following an extended exhibition of the West Dapto Release Area (WDRA) planning documents, in May 2008 Wollongong City Council engaged the NSW Growth Centres Commission (GCC) to review a number of key aspects of the WDRA proposal. The following GCC recommendations have specific relevance to housing supply and affordability in the region:

- Reduce the overall dwelling yield of WDRA from 19,000 to 16,000 dwellings
- Proceed with planning of Stages 1 and 2 comprising approximately 6,100 dwellings
- Defer the release of Stages 3, 4, East Horsley and Yallah-Marshall Mount until further studies and revised Structure Plan are prepared to address flooding, infrastructure, access and vegetation constraints affecting these areas.

In December 2008, Wollongong City Council adopted the recommendations of the GCC Report. At the time of this report, WDRA has not produced any land and house stock, Stages 1 and 2 have not been formally gazetted and other important elements of the Project such as the Contributions and Implementation Plans have not yet been publicly exhibited.

The Growth Centres Commission recognised the housing affordability benefits arising from the early release of Calderwood.

The GCC review also assessed the impact of the early release of Calderwood, noting that:

> *"In the context of the average land supply in the Illawarra region over the last 9 years of 817 greenfield dwellings per annum and the State Government policy to release as much land to the market as quickly as possible, the early release of land in the south of West Dapto/Calderwood could be considered subject to ensuring timely delivery of local infrastructure in the West Dapto Release as a whole. Such additional and early supply of land to the market may also have benefits for housing affordability putting a downward pressure on house prices."*

2.5.3 Metropolitan Development Program

The MDP identifies Calderwood as an area for urban development

The Metropolitan Development Program (MDP) is the program implemented by the NSW Department of Planning to manage land and housing supply and coordinate infrastructure delivery. The annual MDP report includes an assessment of land supply and dwelling production and provides short, medium and long term dwelling production forecasts.

The latest MDP 2007/08 Report provides the following land supply data for the Illawarra region:

Table 1 – MDP Land Supply Data (2007 data)

LGA	Zoned and Serviced	Zoned and not serviced	Not Zoned and Not Serviced	Total Potential
Kiama	113	150	750	1,013
Shellharbour	4,332	0	8,700	13,032
Wollongong	685	0	20,650	21,335
Illawarra Total	**5,130**	**150**	**30,100**	**35,380**

Source: Department of Planning (2009) MDP 2007/08 Report

The two supply sources of scale are West Dapto and Calderwood.

GCC confirms that early release of Calderwood can deliver a mix of affordable products.

Calderwood is identified as an investigation area in the 2007/08 MDP. The MDP pre-dates the Growth Centres Commission report on WDRA and the Ministerial declaration of Calderwood Urban Development Project as a Major Project.
The GCC review is the latest publicly available land supply assessment for the Illawarra. In this respect, it:

- Confirms that early release of Calderwood can create a higher dwelling production rates delivering a mix of affordable product, putting a downward pressure on housing prices.
- Overrides the initial UDP projection by deferring parts of the WDRA subject to furhter investigations.

The recently released benchmarks reinforce the need to ensure Projects are available that can contribute to lot production and deliver housing diversity choice and affordability.

On 12 February 2010 the State government announced the following Greenfields housing supply benchmarks for the Illawarra (refer attachment 2):

- 15 years supply (about 11,400 dwellings) in the IRS – this represents an annual supply of 760 dwellings;
- 8 years supply (about 6,080 dwellings) of zoned land; and
- 7.3 years' supply of serviced land (about 5,548 dwellings) which can be connected to trunk water, sewer and power infrastructure.

Existing zoned and serviced land has been estimated at 5,457 lots, and an estimated delivery of 6,600 lots from Stages 1 and 2 of the WDRA is anticipated.

As part of the announcement, the Minister for the Illawarra stated that whilst continuing to work to rezone the first stages of the WDRA, the State government is continuing to investigate other appropriate release areas.

Whilst in gross terms the delivery of a potential 6,600 lots from the WDRA area, combined with the existing estimated 5,457 zoned and serviced lots appears to meet the 11,400 supply benchmark, it does not take into account two matters that are critical with respect to capacity to deliver housing stock to market:

- Commencement dates for each release area / development;
- Annual lot product rates for each release area / development;
- The need to satisfy the full range of housing demand and meet the market's capacity to pay; and
- Implementation and delivery constraints of the various projects, including the market's expectations of what is to be delivered.

2.6 SHELLHARBOUR LGA

The Shellharbour demographic shows that housing choice, diversity and affordability are critical factors affecting the local residents.

Demographic indicators presented in Shellharbour Social Plan 2009-2011 shows that housing choice, diversity and affordability are critical factors for residents of the Shellharbour LGA. In particular:

- Median income is lower than the NSW and Sydney averages
- Housing prices are generally less expensive.
- Mortgage payments are generally lower than the NSW average.
- Shellharbour is a relatively young community compared with the average NSW age profile.
- Lower levels of tertiary qualifications.
- Shellharbour has a relatively high level of community stability – people remain in the area.

The recent analysis undertaken by the Department of Housing (reported in 2009) on the Shellharbour Housing Market suggests that:

NSW Department of Housing reports that there is a significant lack of housing at affordable prices for purchase in the Shellharbour housing market.

- Shellharbour has a high number of residents in housing stress. There is a rapidly growing proportion of low and moderate income purchasers in housing stress in Shellharbour.
- Vacancy rates are low, rents are rising strongly.
- There is a significant lack of affordable housing for purchase by low and moderate income earners. The proportion of housing for purchase that is affordable for lower income earners has significantly reduced.
- Demand is increasing and the number of people in housing stress is increasing. There is a need for affordable purchase opportunities to be targeted.

The Regional Strategy has identified only limited land supply to satisfy this demographic. The supply is further restricted due to the following reasons:

- West Dapto and other release areas are characterised by the high cost of production due to the amount of infrastructure required to manage the environmental constraints and service the sites.
- High levies requried by both the local and State Government add to the cost of the housing product.

The above costs will be reflected on the prices of the housing products. It is expected that the final dwellings being sold on the market is unlikely to be affordable for first home buyers.

The constrained supply in this market adversely affects affordability, diversity and choice for Shellharbour residents.

Shellharbour Strategy Plan and Social Plan contain limited initiatives to address housing affordability.

Shellharbour City Council recently released its Social Plan 2009-2011. However it does not contain any strategic initiatives to address housing affordability.

Council's Strategic Plan 2009 – 2019 contains an initiative to prepare and implement a strategy for the provision of appropriate housing to meet the needs of existing and future residents of the city. However, there are no specific actions against this initiative.

3.0 Illawarra Land and Housing Demand and Supply Analysis

The gap between housing demand and supply continues to grow. This section reviews and updates the housing and land supply gap in the Illawarra region against the Regional Strategy target.

3.1 POPULATION GROWTH

Summary of population growth projection for the Illawarra

The Illawarra Regional Strategy 2006-2031 (IRS) provides the following growth data:

- As at 2006, the IRS reported an estimated 281,000 people living in the Illawarra. The projected growth to 2031 was 328,600, which represented an additional 47,600 people between 2006 – 2031 and an average annual growth rate of 0.7% or 1,904 per year.
- 38,000 new dwellings will be needed to cater for the growth and declining occupancy rates.

The NSW Household and Dwelling Projections 2006 – 2036 (Oct 2008 Release) published by Department of Planning identified the following population growth rates for the Illawarra:

- The population of the Illawarra region was projected to increase by 61,000 persons from 278,000 in 2006 to 339,000 in 2036. This represented a 0.7% average annual growth rate per year.
- It was estimated that the projected growth rates would decline, falling from 0.78% in 2006-07 to 0.5% by 2035-36.
- Average household size is projected to decline from 2.52 persons per household in 2006 to 2.32 by 2036.
- Housing demand was expected to increase from 110,100 in 2006 to 145,200 by 2036.

The Growth Centre Commission (GCC) on the Proposed WDRA report (Nov 2008) reviewed the demographic projections and demand for dwelling types within the regional context:

- GCC suggested that the recent population growth across the region was below the long term average of 0.8% or 2,223 persons per annum. Accordingly it considered that DoP's 2004 projection adopted in the IRS as optimal (1,808 persons or 0.6% per annual on average to 2031).
- The appropriate mix of dwellings to meet the demand in West Dapto was considered to be 75% of separate houses and 25% of medium to high density dwellings.

Higher population growth

The 2009 Illawarra Regional Strategy Update provides the following data:

- The region has grown by an additional 6,200 people between 2006 and 2008. This represents an average annual growth rate of 1.1% per year.
- The growth rate is significantly above the regional strategy's forecast projection of 0.7% average annual growth rate.

The above data is summarised in the following table.

Table 2 – Population Growth

Source	Population				Dwellings			
	2006	2031	Change		2006	2031	Change	
			No.	%			No.	%
IRS 2006	281,000	328,600	47,600	17	^	^	38,000	
IRS 2009 Update*	278,000	284,200 *(to 2008)*	6,200	2.2	^	^		
DoP 2008 Projection	278,000	326,650#	48,650	19	110,100	143,640#	33,540	30.5
GCC Dec 2008	277,840	323,040	45,200	16	^	^		

** The IRS 2008 Review does not contain population/dwellings projections. It only updated the latest population/dwelling data. In 2008, there were 284,200 people, which represented a growth of 3,200 since 2006. This represents an average annual growth rate of 1.1% which is significantly higher than the IRS projection of 0.7%. It should also be noted that the IRS 2007 and IRS 2008 used different population base data for 2006 – 281,000 and 278,000 respectively.*

If the annual growth rate of 1.1% continues, the population will reach 349,500 by 2031, way beyond the initial projection suggested in the 2006 IRS.

^ No data

 # The DoP projections were up to 2036. The figures shown here are estimates up to 2031, based on the growth rates provided in the DoP projections.

The latest IRS review show that population growth has exceeded the 2006 population projection

The above analyses show that different reports adopted different growth rates. Even within the Department of Planning, different documents provide different growth rates based on different projection years. It is evident from the latest IRS review that population growth has significantly exceeded the initial 2006 projection. However, this revised population growth has not been translated to dwelling requirements. With the above growth rates, it is considered that housing demand as initially assumed in the IRS would either be maintained or have increased.

3.2 LAND SUPPLY

Based on the latest data from MDP, the GCC report and the IRS, the housing supply status can be summarised in Tables 3 and 4 below.

Table 3 – Land Supply

Location Release Area	Total	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26-FY31
Wollongong LGA																					
Horsley 1 & 2	**32**	10	10	12																	
Western Suburb	**159**	100	59																		
Haywards Bay	**318**	20	20	75	75	75	53														
Brooks Terrace	**30**	30																			
Redgum Figtree	**247**	15	15	20	35	35	35	35	35	22											
Lantara Estate Figtree	**29**	3	10	10	6																
Woonona	**320**	50	50	50	70	50	50														
WDRA					100	100	150	250	250	300	300	300	300	300	300	300	300	300	300	300	300 pa
Sub Total	**8,375**	228	164	167	286	260	288	285	285	322	300	300	300	300	300	300	300	300	300	300	300 pa
Shellharbour LGA																					
Albion Park South	**26**	6	10	10																	
Albion Park West	**93**	10	20	20	20	23															
Shellharbour City Centre	**282**	50		58	58	58	58														
Tullimbar	**1,978**	20	20	100	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125	88	
Dunmore	**184**			46	46	46	46														
Lakeview	**195**	50	50	50	45																
Shellcove	**1,135**	195	195	195	100	100	100	100	100	50											
Sub Total	**4,019**	331	295	479	394	353	329	225	225	175	125	125	125	125	125	125	125	125	125	88	
Annual Supply	**12,394**	**559**	**459**	**646**	**680**	**613**	**617**	**510**	**510**	**497**	**425**	**425**	**425**	**425**	**425**	**425**	**425**	**425**	**425**	**388**	**300pa**

Table 4 – Cumulative Housing Shortfall

Location Release Area Total	FY07	FY08	FY09	FY10	FY11	F12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26-FY31
Annual Greenfield dwelling requirements	780	780	780	780	780	780	780	780	780	780	780	780	780	780	780	780	780	780	780	780pa
Annual Supply (from Table 3)	559	459	646	680	613	617	510	510	497	425	425	425	425	425	425	425	425	425	388	300pa
Deficit	221	321	134	100	167	163	270	270	283	355	355	355	355	355	355	355	355	355	392	480pa
Cumulative deficit	**221**	**542**	**676**	**776**	**943**	**1,106**	**1,376**	**1,646**	**1,929**	**2,284**	**2,639**	**2,994**	**3,349**	**3,704**	**4,059**	**4,414**	**4,769**	**5,124**	**5,516**	**8,396**

3.3 LAND AND HOUSING SUPPLY STATUS 2010

IRS will not deliver the regional land supply target within the expected timeframe or numbers.

It is apparent that the regional land supply target identified in the IRS is not being delivered within the expected timeframe or numbers. The key factors restricting delivery can be summarised as:

- Only one of Greenfield housing supply within the Region (WDRA) was nominated in the IRS while depending heavily on continuing high annual rates of production from that single source. These rates are rarely achieved in Australia even under the most favourable implementation and market conditions. To date, no lots have been delivered within WDRA.
- The reliance on high levels of multi-unit and infill development to meet housing demand, which requires a major shift in market responsiveness of significant proportions. This remains untested and therefore at risk.
- There are ongoing delays in the release of the WDRA documents and the exhibition of the West Dapto LEP and DCP. The latest assessment by the Growth Centre Commission on the WDRA recommended that significant part of the release area be deferred pending additional investigation and the preparation of a Structure Plan. This uncertainty continues to affect land production in the region.
- Other existing release areas are not meeting market expectations, providing market presence or addressing affordability concerns.

The targets announced by the NSW government in February 2010 targets reinforce the need to ensure that Projects are available that can contribute to annual lot production, provide housing diversity, choice and affordability and address implementation and delivery constraints.

3.4 REGIONAL STRATEGY AND ILLAWARRA URBAN DEVELOPMENT PROGRAM BOUNDARY

The Calderwood Urban Development Project is consistent with the revised MDP boundary in terms of its location, size, shape and constraints.

The Regional Strategy states that long term urban development program sites at west and north west Albion Park are not required to meet regional housing demand given their location, size, shape and constraints and are not proposed for inclusion in the new Illawarra Urban Development Programme. The Strategy further states that part of the north west Albion Park area may be considered for some developments in conjunction with the future consideration of Calderwood.

The DLL Calderwood proposal consolidates a number of the areas identified and they form an important component of the proposal. The justification for inclusion of these areas in the DLL proposal can be summarised as:

- As noted, the GCC review of WDRA recognised that there is merit in the early release of Calderwood to create a higher dwelling production rate and meet State government policy to release as much as to the markets as quickly as possible. Given the demonstrated shortfall in land supply in the Illawarra Region and the WDRA implementation difficulties highlighted in the GCC report, the release of Calderwood for urban development now conforms to its strategic role under the IRS as a source of supply triggered by on-going delays in regional lot supply.
- In terms of location, the land is an extension of the existing urban footprint at Albion Park and Tullimbar, facilitates provision of access via the Illawarra Highway and provides ready access to utilities and services;

- Concerns expressed regarding size, shape and constraints are addressed by inclusion of the land within the DLL Master Planned Urban Community proposal; and
- As demonstrated in the DLL Justification Report, Preliminary Environmental Assessment and Environmental Assessment Report for the Concept Plan the land is urban capable and is contained within a proposal that meets the Sustainability Criteria detailed in the Regional Strategy.

3.5 OVERCOMING THE LAND AND HOUSING SUPPLY DEFICIT

The release of Calderwood is required to cater for the increasing housing demand and address housing affordability in the Illawarra Region.

The release of Calderwood was nominated in the Regional Strategy as contingency for stronger than expected population growth and/or failure to meet the supply targets. Both circumstances have occurred. The IRS did not provide for competitive tension for the Illawarra land supply market, contrary to the objective identified in the NSW State Plan.

The DLL Calderwood proposal responds to changed circumstances affecting investment, delivery certainty and housing supply and affordability.

4.0 The Delfin Lend Lease Land Supply and Housing Solution

Delfin Lend Lease's housing solution provides a diversity of housing choices and a range of affordable options for different income groups

All levels of Government agree that Australia has an urgent need for innovative mechanisms that help people enter into home ownership. The Calderwood Urban Development Project can assist with delivery of housing affordability by:

- Increasing land and housing supply in the Illawarra market,
- Delivering a masterplanned community that includes a wide range of housing choices to match housing needs of the market and their ability to pay, and
- Targeting specifically at the low to medium income market sector through product development

4.1 INCREASE LAND AND HOUSING SUPPLY IN THE ILLAWARRA MARKET

The Calderwood Urban Development Project can deliver 12% of the Illawarra identified housing needs and increase the supply of affordable housing.

As discussed above, Government and Industry Associations agree that one of the main factors affecting housing affordability is the continued delay in delivering housing diversity and choice within identified growth areas.

DLL's Calderwood proposal can deliver approximately 12% of the Illawarra identified housing needs and consistent with the State Plan (2009) the Calderwood proposal will increase the supply of affordable housing.

The Calderwood Urban Development Project will create competitive tension in the market place; this delivers housing affordability and choice to the community. It can provide a source of housing to the market to address the immediate housing shortfall. The Project is not restricted by large scale infrastructure and servicing requirements and fragmented land ownership which impacts viability of development. The Project can deliver an urban structure that responds to the housing needs of the residents, and housing affordability in the Illawarra.

4.2 MASTERPLANNED COMMUNITY WITH A WIDE RANGE OF HOUSING CHOICES

Delfin Lend Lead can provide a diversity of housing choices in Calderwood

A diversity of housing products will be delivered in the Calderwood Urban Development Project to provide affordability and choice in housing at the lower and median end of the market. The aim is to provide multiple pathways to home ownership for the broadest cross section of the community.

Examples of the DLL housing products for low to moderate income earners are provided as follows. They would be complemented by more expensive housing choice to meet distinct market segments.

Studio 51 – young families, empty nesters, sole parents.

Studio 51 is a single storey terrace style house type on 'Terrace' allotment. The Studio 51 design is owned by DLL and built under licence. The single storey design for the 1 bedroom + study home allows for easy living. Studio 51 was released at Mawson Lakes (South Australia) in 2006, priced under $200,000. It is also released in Nelsons Ridge and priced at $355,000. The market demand has been very strong for these houses.

Concept 150 – young families, first home buyer.

The C150 designs provide 2 and 3 bedroom options and are delivered in groups of 2 – 4 to provide quality streetscapes that blend with the surrounding residential areas. Their efficient use of land and effective design of the home delivers an affordable and comfortable home. The design is owned by DLL and built under licence.

Demonstration product at Ropes Crossing (NSW) and construction will commence shortly. Target pricing in Ropes Crossing is $299,000 to $349,000. In Nelsons Ridge, the target pricing for this product is $475,000.

Adaptus – all households.

The Adaptus home was developed by Delfin Residential to address the need for flexible spaces for different life stages. The Adaptus can be configured to allow 2 bedrooms plus study or a bedroom plus study with larger living and dining areas.

Adaptus was released to the market in April 2005 at Caroline Springs (Victoria), with a starting price of $199,000 for house and land. Lot sizes range from 260-325m^2.

Axis – one and two person households.

The Axis range of homes were also developed by Delfin Residential to cater for the growing range of one and two person households and target the need for more Affordable Housing options. There is also flexibility in designs to allow for the possibility of home office use.

The Axis homes provide 2 to 3 bedroom housing solutions. All are free standing and offer the chance to own a quality designed home that helps create a quality streetscape. Axis is available at the Nelsons Ridge project starting from $355,000.

Delfin Warehouse – young couples, singles.

Delfin Lend Lease recognised the growing demand in the housing market from one and two person households, and released a warehouse product in 2000 at Caroline Springs (and subsequently other Projects) aimed at people in their 20s and 30s. The sizes varied from 118m^2 to 175m^2 and prices ranged from $199,000 to $245,000 for house and land.

T7 – young couples and young families.

Terrace 7 provides a three bedroom, 2 bathroom, two storey house which appeal to young couples and young families. It is designed for people who want convenient living with a bit more space and an urban feel. It has a two car garage either at the front or back, and a courtyard garden which adds to its low maintenance appeal.

Queensland – Woodlands

At this Project west of Burleigh in the fast growing Brisbane – Gold Coast Corridor, Delfin Lend Lease is working with the Gold Coast Housing Company to deliver affordable rental accommodation to key service workers via the development of Gallery Collection product.

4.3 TARGET AT THE LOW TO MEDIUM INCOME MARKET SECTOR

Illustrated below are the potential housing options at Calderwood. These products are designed and priced to suit the particular market segments in terms of the ability of the market to pay for the housing. By providing a range of products in different price brackets, the Calderwood Urban Development Project can provide housing choices to a broad range of demographic groups.

The existing median house price is $339,500 and land price is $205,000 in the Shellharbour LGA (IRIS September 2009).

Shellharbour LGA	Maximum Repayment Per Week Without Entering Housing Stress	Housing Options	
Moderate Income $65,200 Maximum Loan $245K	$376	Trc 3 $275K	3 bed + study Terrace
		C150 3 $275K	3 bed Concept 150 2 bed + study Axis
		C150 2 $257K	2 bed Concept 150
		G 2 $252K	2 bed Gallery
		2 $252K	2 bed Adaptus
Low to Moderate Income $54,300 Maximum Loan $200K	$313	G 1 $215K	1 bed Gallery
		1 $215K	1 1/2 bed Adaptus
		S-51 1 $210	1 bed + study Studio 51

Note: Indicative prices subject to overall yield in masterplanned community project.
Income levels quoted are based on 2006 Census adjusted for AWE index to February 2009.
Assume 25 year mortgage period at current interst rates.

4.4 HOUSING AFFORDABILITY CASE STUDIES

Delfin Lend Lease works with State Government and community housing providers to meet affordable housing commitments across Australia

Delfin Lend Lease is working with Federal and State Government and community housing providers to meet affordable housing commitments and aspirations on both outer urban and inner urban sites. Case studies are described below.

NSW – St Marys Project – Delfin Lend Lease and the NSW Government have a contractual agreement that 3% of all residential allotments in the 4,500 lot development at St Marys in Sydney's west, will be delivered at no cost to Government for use as affordable housing.

NSW – Ropes Crossing – As a successful applicant under Round 1 of the Australian Government Housing Affordability Fund, Delfin Lend Lease is passing on savings of $21,500 to 240 new home buyers at the Ropes Crossing Project. Under the terms of the Fund, the Australian Government assists with the cost of delivery of new infrastructure in the form of the Community Resource hub and the savings are passed on the purchasers of new homes. At the date of this report, more than 100 homes have been delivered under this initiatives in just 4 months.

NSW – St Marys Western Precinct – As a successful applicant under Round 1 of the Australian Government Housing Affordability Fund, Delfin Lend Lease is passing on savings of $22,600 to 250 new home buyers at the St Marys Western Precinct Project. Under the terms of the Fund, the Australian Government assists with the cost of delivery of new infrastructure in the form of the Stage 1 Northern road upgrade and the savings are passed on the purchasers of new homes.

NSW – Rouse Hill – North West Sydney - The New Rouse Hill is a regional centre with a major retail and entertainment hub as well as diverse range of housing. A total of 3% of all residential lots, representing all housing typologies, will be developed for affordable housing.

NSW – Jackson's Landing - As part of Lend Lease's Jackson's Landing development at Pyrmont, contributions are made progressively to the City West Development Corporation. This is expected to total $4.5m by end of the development.

VIC – Victoria Harbour – A 133 unit building, of which 57 units retained as long term community rentals to key workers in the heart of Melbourne. This building includes retail and office space, and the components of the deal included: land discount, developer contributions, pre-sales, Melbourne Affordable Housing grant funding, use of tax status to minimise GST and stamp duty, Victorian Property Fund grant funding and an NAB debt facility.

ACT – Forde – At the Forde development in the ACT, up to 5% of all housing lots are to be suitable for moderate income earners.

ACT – Springbank Rise – At the Springbank Rise development in the ACT, a minimum 15% of all housing lots are to be suitable for affordable housing.

Prospective Projects such as Lockerbie in Victoria – This project involves collaborating with Community Housing Providers to create moderate income housing for sale and use any "profit" to create portfolios of dwellings which are then rented to key service workers at below market rents, to help with pathways to greater economic prosperity and home ownership.

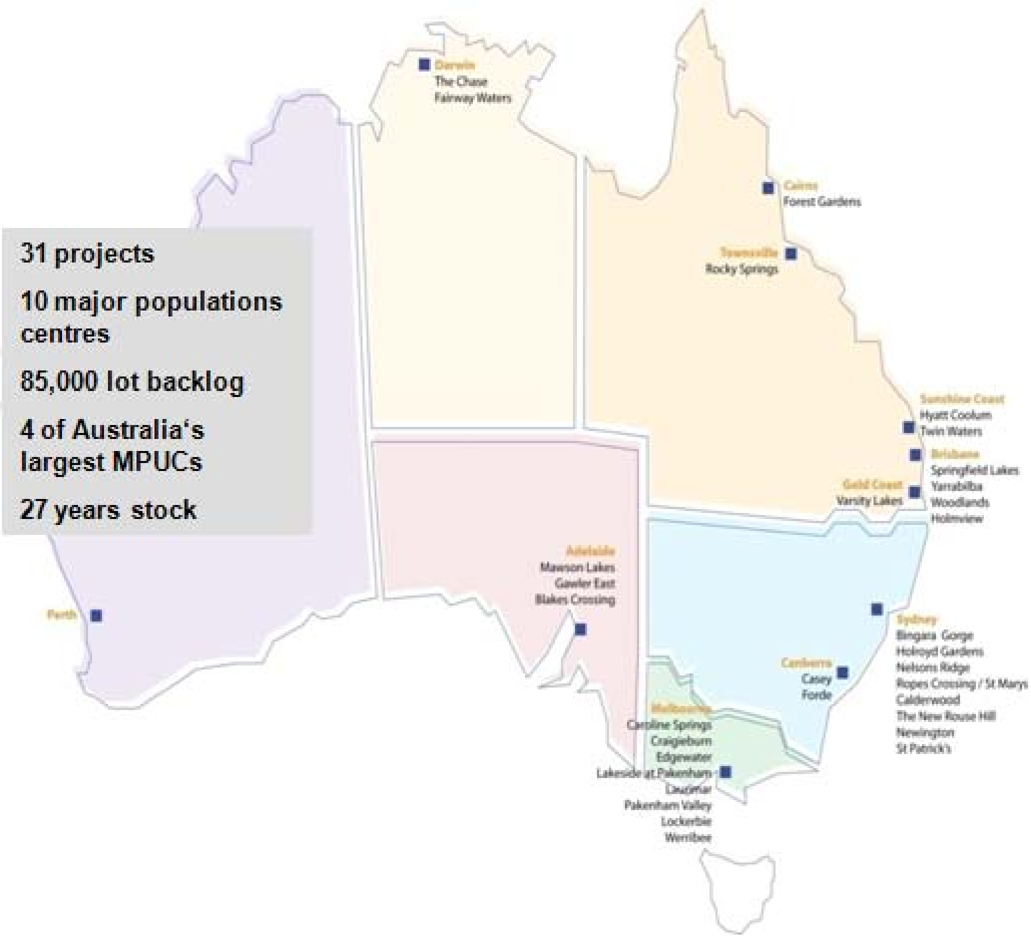
4.5 ABOUT DELFIN LEND LEASE

Delfin Lend Lease is one of the world's leading development companies that create masterplanned communities based on the principle of sustainability.

Delfin Lend Lease is one of the world's leading real estate and development companies. In a highly fragmented market, Lend Lease provides a full spectrum of real estate and development related services across all major markets and sectors. In Australia, Delfin Lend Lease creates communities and delivers homes for 10,000 to 12,000 people per year. DLL's appreciation of housing affordability concerns is based on a profound understanding of the planning, development, marketing and commercial framework for urban development projects and masterplanned communities. Masterplanned Communities deliver:

- Efficient and sustainable masterplan design.
- Delivery of an effective housing strategy embracing diversity, choice and affordability.
- Frameworks for optimising densities.
- Housing forms that are market responsive.
- Built form and landscape design guidelines.
- Early and integrated delivery of facilities.

Lend Lease's view is that sustainable communities need a wide housing choice for people on different incomes and with different occupations, because diversity is an essential component of sustainability.



5.0 Conclusion

The National policy agenda focuses on implementing funding programs to address housing affordability across Australia.

National Policy Agenda

- Recognises that housing affordability and delivery are significant issues affecting all major cities and regions across Australia. .
- Government has made commitments to increase land supply, reduce the cost and improve the delivery of urban infrastructure and improve the efficiency of planning and development approval processes.
- Implementation of initiatives funding programs to deliver affordable housing.

The NSW State Plan states its objective to encourage long term private investment as the principal source of growth in the development of new affordable housing stock.

NSW Government Initiatives and Plans

- The State Plan reinforces the need to encourage long term private investment as the principal source of growth in the development of new affordable housing stock. There is a need to ensure there is competitive tension in the supply of land to ensure a continuing flow of new properties into the market.
- The State Plan (2009) targets supply of at least 300,000 new dwellings over the next 25 years in regional areas. The Illawarra will accommodate approximately 13% of the State's target.
- Introduced development contributions reform to reduce State infrastructure contributions, defer the timing of the payment, limit the amount local government can levy on new developments for infrastructure and the cessation of water infrastructure charges imposed by Sydney Water and Hunter Water.

The Illawarra Regional Strategy has not nominated sufficient Greenfield source to meet the housing supply target of 38,000 in the next 25 years.

Regional Position

- The Illawarra needs at least 38,000 new dwellings in the next 25 years to meet the ongoing housing demand.
- Population growth in 2008 has exceeded the 2006 projections.
- The Illawarra Regional Strategy has nominated the West Dapto Release Area as the priority Greenfield site to accommodate majority of the Region's growth – at the time of this Report the Release Area continues to suffer extensive implementation delays.
- There is a lack of alternative Greenfield source to meet the acute housing demand in the Illawarra market. The Strategy does not provide for competitive tension for the Illawarra land supply market.

There is a lack of policy response in the Shellharbour strategic documents to address housing affordability.

Local Response

- A large number of Shellharbour residents are experiencing housing stress.
- There is a significant lack of affordable housing for purchase for low and moderate income earners. Purchase affordability is tight in Shellharbour and is rapidly growing.
- Limited policy response under the Strategic Plan and Social Plan to improve housing affordability in the LGA.

Based on the land supply program provided in the Illawarra Regional Strategy, housing shortage can reach more

Illawarra Land and Housing Demand and Supply Status

- Housing supply in the Illawarra is severely restricted because of the limited number of release areas identified in the Regional Strategy. The Growth Centres Commission report recommended deferral of parts of the WDRA. This imposes further uncertainty *than 8,000 by 2031.*

on the ability of the WDRA to meet land supply requirements.

- Based on the latest information available, the Illawarra can experience a cumulative housing shortage of more than 8,000 homes by 2031. There is an immediate need to identify an alternative source of land supply to satisfy housing demand and moderate housing prices.
- Illawarra greenfields housing supply benchmarks released by the NSW government in February 2010 reinforce the need to ensure that Projects are available that can contribute to annual lot production, provide housing diversity, choice and affordability and address implementation and delivery constraints.

The Calderwood Urban Development Project can address land and housing supply and affordability in the Illawarra market.

Delfin Lend Lease Land Supply and Housing Solution

- The Calderwood Urban Development Project can address land and housing supply and affordability in the Illawarra market as follows:
  - Increasing land and housing supply in the Illawarra market,
  - Delivering a Master Planned Urban Community that will deliver a wide range of housing choices that match the market's ability to pay, and
  - Specifically target the low to medium income market sector through product development
- The Calderwood Urban Development Project meets a demonstrated strategic need that delivers and maintains housing choice, diversity and relative affordability levels for Shellharbour residents.
- The scale of the DLL landholding permits a multi-disciplinary approach to urban design and sustainable development that is based on superior urban design, architecture and place making.
- Proven infrastructure and servicing strategy.
- Private sector expertise capital and resources available now.
- DLL has a track record of delivering affordable housing commitments on the ground in partnership with State Governments and community housing providers.

Summary

About Delfin Lend Lease

- Urban development is core Lend Lease business. This provides implementation certainty. The proposal is a realistic investment carried out by a proponent with financial resources and core business skills in urban development.
- Calderwood will be designed as a masterplanned community which encompasses the following features:
  - Efficient and sustainable Master Plan design.
  - Effective housing strategy embracing diversity, choice and affordability.
  - Frameworks for optimising densities.
  - Housing forms that are market responsive.
  - Built form and landscape design guidelines.
  - Early and integrated delivery of facilities.

Attachment 1

Press Reports on Housing Affordability

Swan urges faster land release

David Crowe
Chief political correspondent

Property planning laws must be reformed to speed up new housing developments and ease pressures on housing affordability, Treasurer Wayne Swan told industry executives and state officials yesterday in a call backed by industry executives.

Mr Swan sought to accelerate the Rudd government's housing agenda by outlining four ways to overhaul existing rules long blamed by developers for making it more expensive for new buyers to own their first homes.

The comments were made to a meeting in Canberra with state government officials and industry associations, amid business fears the Rudd government was taking too long to deliver on the reform it promised at the 2007 election.

Putting pressure on the states, Mr Swan made the case for faster planning processes, better land release policies, lower charges on developers and audits to find more land for development.

"Unless constraints to the supply side of the market are addressed, our cities will not adapt to meet the needs of a growing population and we will see continued problems of affordability for ordinary Australians," he told the meeting, which was also attended by Housing Minister Tanya Plibersek.

One week after issuing a Treasury report projecting a population of 36 million by 2050, the Treasurer said that he had been told that in the worst examples it could take 15 years from developing land to completing a new house.

Existing rules have long been blamed by developers for hurting housing affordability. Photo: ROB HOMER

"What is clear to me is that we are not building enough houses, and if this continues then we will all be paying increasingly more and more for our housing whether it be in terms of repayments or in terms of rent," he said.

Industry sources endorsed the Treasurer's suggestion that planning and zoning laws should be changed to make it faster to develop and build homes. They also backed the idea of greater land release and changes to developer charges.

"We're just seeing unbelievable increases in infrastructure charges," said Urban Development Institute of Australia president Peter Sherrie.

Urban Taskforce chief executive Aaron Gadiel also backed the commonwealth proposals and said there was a strong case for greater land release of public land such as that at the former airport site of Badgerys Creek west of Sydney.

"The commonwealth can do a lot more to dispose of its surplus land and make it available for urban development," he said.

There was also scepticism about the government's ability to deliver on its commitments, however. Some industry sources said the federal plan to fund local councils to speed up planning had borne mixed results because many councils did not want to find ways to approve projects more quickly.

The government's idea of auditing its holdings to find land for new housing did not seem to have led to a noticeable increase in land release.

"Progress has been a little slow," one figure said of the overall government policy.

Fund below benchmark

The annual return from the $65 billion commonwealth Future Fund this year was below its mandated benchmark return but its conservative risk approach had resulted in its having little exposure to troubled European economies, general manager of the Future Fund Management Agency Paul Costello told a Senate estimates committee. Mr Costello said the annual return for the fund was running at 2.3 per cent, which was below the benchmark return of inflation plus 4.5 per cent. **Marcus Priest**

Reform consultations

Electoral funding reform was under active consideration by the Rudd government but wide consultation with affected parties was still occurring, Special Minister for State Joe Ludwig said. Sections of the union movement and Labor are resisting parts of the proposed reform, which is listed for introduction into the parliament in the next three sitting weeks. Mr Ludwig's comments came as the Australian Electoral Commission revealed it was preparing a brief on two late third-party returns and one late donor return by the Health Services Union. **Marcus Priest**

Swank offices panned

The federal government has been accused of spending almost $1 million a year for office space in Sydney's CBD just so it can impress potential investors. Department officials told a Senate estimates hearing the Major Cities Unit was located in the Deutsche Bank building in Phillip Street, Sydney, to attract investment from the top end of town. "The Australian taxpayer is forking out $950,000 a year just so public servants can impress the socks off likely investors," Nationals senator Fiona Nash said. **AAP**

Attachment 1

The Australian Financial Review
Tuesday 23 February 2010 • www.afr.com

Home affordability tumbles

Ben Hurley

Housing affordability for first-home buyers took a plunge in the December quarter due to a cocktail of higher prices, rising interest rates and a drop in government incentives, according to a new report.

The tumble was the worst quarterly drop in affordability ever recorded by the joint Housing Industry Association/Commonwealth Bank of Australia index.

But buying could still beat renting this year, given that rents are tipped to rise faster than house prices.

The Housing Affordability Index dropped by 18.4 per cent in the December quarter and ended 22.3 per cent lower than it was 12 months ago.

The largest falls were in Sydney, Brisbane, Hobart and Canberra.

HIA senior economist Ben Phillips said multiple factors were working against first-home buyers in the quarter, including three successive interest rate rises, capital growth exceeding 10 per cent in most capitals and the removal of most first-home buyer incentives. Income growth was close to zero over the year.

"It was the biggest quarterly fall we've ever had," Mr Phillips said. "Every factor that could have gone wrong went wrong, so that's why you've got record falling home affordability."

An ongoing shortage also played a role, along with population growth and insufficient building.

"The necessary boost to housing supply is being held back by increased regulation, a slow and increasingly restricted building approvals process, and the same debilitating problems related to land supply, new home taxation, and skilled labour shortages that afflicted the industry last cycle," Mr Phillips said.

HIA is predicting a "moderate housing recovery" over 2010 which will see about 152,000 building starts, but that will fall short of the 190,000 that it said Australia needs.

The Housing Affordability Index showed affordability moving towards its previous low in June 2008, when mortgage rates hit 9.5 per cent.

But BIS Shrapnel economist Jason Anderson doesn't see affordability reaching its 2008 depths.

"You probably need to see price increases of 10 to 15 per cent, for values relative to income, to be back where they were at the start of 2008, and that's not our expectation," he said.

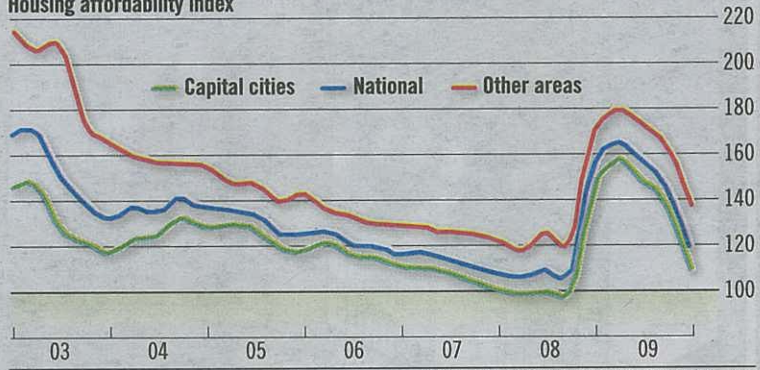
But Mr Anderson sees little relief in sight for those looking to buy their first home. "The average increase in rentals nationally was about 7 per cent over the past two years," he said.

"That would be slightly ahead of property prices. Rent growth this year will be higher than price growth again."

First-home buyers will also be competing against investors, who are tipped to become more active this year. Investors often buy up lower-priced properties.

First-home buyers have made up a declining portion of the real estate market since peaking in May 2009 at 29.5 per cent of the total number of dwelling commitments. By December they made up just 21 per cent of buyers, according to the Australian Bureau of Statistics.

Budget buster



SOURCE: HIA COMMONWEALTH BANK AFFORDABILITY REPORT

KEY POINTS

- The fall was the sharpest quarterly drop in the history of the index.
- BIS Shrapnel expects rents to rise faster than home prices in 2010.
- First-home buyers make up a declining portion of the market.

Trust to sell ABC child-care centres

Lisa Carapiet

The listed Australian Education Trust is progressing with a vigorous marketing campaign for the freeholds of a swag of leased child-care centres and development sites.

The Austock-managed fund, which suffered substantial losses when its former main tenant, ABC Learning Centres, fell into receivership, has new tenants, including the GoodStart syndicate.

Colliers International is handling the sale of a $40 million portfolio of child-care assets for Australian Education Trust.

The 30 properties are being marketed on an average 10-year lease term and will go under the hammer in late March.

"The properties provide an institutional grade investment opportunity, with an entry-level price and attractive yields," Colliers associate director of investment sales, Tim Grant, said.

Colliers associate director of special projects, Jeff Dolan, said that while the resilience of the child-care sector was tested last year, the sector was "emerging with flying colours".

Separately, Jones Lang LaSalle has sold North Lakes Childcare Centre in Queensland to a private investor for $1.6 million on behalf of Austock Funds Management.

The agency is marketing five "strategic development sites with child-care approval" for Austock.

GoodStart, a consortium of four charities, intends to revive the ABC Learning Centres brand and pay $100 million for 678 child-care centres previously leased to ABC Learning.

But the group was also reportedly looking to retain the same terms extended to ABC Learning when it was placed into administration in late 2008, complicating the deal.

Despite this, McGrathNicol has deemed GoodStart a viable purchaser of the child-care centres.

New tower planned for Southbank

Scott Elliott

Melbourne-based developer Central Equity is planning a 43-storey residential tower in the city's riverside Southbank precinct.

The $125 million project will incorporate 513 apartments with mainly one or two bedrooms.

Central Equity bought the development site at 141-155 City Road, Southbank from Crown Casino. It paid $13.5 million for two adjoining parcels of land in a deal brokered by CB Richard Ellis.

The sale set a new benchmark for a Southbank development site at $5342 a square metre.

Under a scheme before the department of planning, a section of the property's historic buildings will be demolished, although original facades will be maintained.

Development sources said the 2527 sq m site might have been suitable for two buildings or a larger skyscraper.

But Central Equity has had success with the medium-sized tower.

Central Equity benefits from strong marketing channels into South-East Asia's investment market.

Southbank is bordered by the Yarra River and has been steadily growing since its inception in 1990.

Elsewhere in Southbank, India-based developers Wadhawan Holdings have plans for a $500 million hotel/apartment building. A report from Reed Construction Data shows that $1.9 billion worth of new development is either planned or under construction in Southbank.

Oliver Hume national general manager research, Andrew Perkins, said the area was undergoing a "mini-boom".

"After a number of years whereby the Southbank market could be termed as flat, we have seen growth in the appetite for apartment product," he said.

"In particular, specific developers appear to have re-entered the market with enquiry level at its highest for a number of years."

Southbank is considered Central Equity's heartland, but it also has plans for 842 apartments on *The Age* site in Melbourne's central business district.

The Sydney Morning Herald

JOIN THE DEBATE

Comment on these pieces at: smh.com.au/nationaltimes
Send your article to: smhopinion@smh.com.au

Home buyers hit brick wall, again

JESSICA IRVINE

IT departments don't have computer problems, only "issues" or "challenges". In the media, it goes the other way around: we don't have problems, we have *crises*.

Before the global financial crisis, it was the housing affordability crisis. OK, so it never achieved the acronym immortalisation the GFC received. The HAC consumed reams of news print and hours of air time in 2007 and early 2008 as interest rates climbed to decade highs, at least until the GFC silenced the HAC.

With interest rates tipped to rise and house prices scaling record highs, the affordability issue is set to make a comeback this year. The HAC is back.

Australian home prices rose 11 per cent in the first 11 months of last year, and 12 per cent in Sydney, according to RP Data and Rismark. A Sydney home that cost $500,000 at the start of last year cost about $560,000 by the year's end. Prices have recouped their losses from the previous year.

In a speech late last year, the deputy governor of the Reserve Bank, Ric Battellino, estimated the typical deposit first-home buyers needed to get a loan was now equal to more than one year's income, up from a little over half a year's income 15 years ago.

It is possible 2010 will bring some relief, as interest rates rise and the removal of the first-home buyers boost dampens activity. Bumper retail sales figures released yesterday only add to the argument that interest rates should be less stimulatory.

Markets expect the Reserve to raise interest rates next month, the first of several moves that will take borrowing rates more than 1 percentage point higher over the year.

The end of the first home buyer's boost on January 1 might also dampen prices by reducing demand. Many first-time buyers will have already entered the market, leaving a lull in activity, but the well-publicised, staggered withdrawal of the boost should smooth things.

Most analysts tip there will be continued growth in home prices this year. The main culprit? A large and worsening shortage of new homes. We are not building enough to keep up with population growth. The Federal Government's National Housing Supply Council predicts a shortfall of more than 200,000 homes by 2013.

The Reserve Bank governor, Glenn Stevens, last year called on the states to free up new land for housing. "If we fail to do that – if all we end up with is higher prices and not many more dwellings – then it will be very disappointing, indeed quite disturbing."

Arguably no other government has tied its colours to the mast of improving housing affordability as Kevin Rudd's has. The Howard government dismissed affordability as a state land supply problem.

But as part of its "I feel your pain" pitch to working families, Labor went to the election armed with an array of policies to ease the squeeze.

Warning: more acronyms ahead. Labor promised a HAF (housing affordability fund) to plough more than half a billion dollars into local infrastructure such as sewerage and libraries; an NRAS (national rental affordability scheme) to give tax breaks to investors who build rental properties and rent them out at below-market rates; FHSAs (first-home saver accounts) to top up savings for a first home; the NHSC (National Housing Supply Council) to identify land available for new housing. You get the picture.

The Government also devoted billions to buying assets from small bank and non-bank lenders to keep them alive, competing with the big banks and keeping downward pressure on bank mortgage interest rates.

Why should we pay tax on windfall gains on shares, investment properties and other sources of income, but not on our principal residence?

But, to paraphrase Frank and Nancy Sinatra, then they went and spoilt it all by doing something stupid like raising the first-home buyers grant. The official spin was that it would stimulate activity in the flagging housing construction industry. Behind closed doors, Treasury officials conceded that if it stopped a precipitous fall in house prices, all the better. In the event, a frenzy among first-home buyers helped drive the double-digit price gains of last year. The result is an impression among punters that the Government can and should do something to alleviate their housing stress. Will voters reward Rudd for trying, or blame him for failing?

In reality, national governments have limited power to influence a private – and at times irrational – housing market. Perhaps the biggest thing the Federal Government could do would be to remove the tax-exempt status of the family home. Why should we pay tax on windfall gains on shares, investment properties and other sources of income, but not on our principal residence? But don't hold your breath waiting for that little loophole to close.

In the absence of such intervention, it is state governments and individuals who must shoulder most of the blame for expensive housing. We want bigger homes, with more kitchens and bedrooms, and we've been happy to invest in them, bidding up prices as we go. We adopt a "not in my backyard" attitude to urban infill.

Parents wring their hands about their children never being able to afford a home, while at the same time rattling around in the same house they brought their kids up in, with a multitude of spare rooms going begging. Hefty state stamp duties discourage these parents from moving into more suitable accommodation.

States also extract their pound of flesh through infrastructure charges and levies.

Ken Henry's review of taxes – his report is now with the Government – may recommend some overhaul of property taxes.

One thing is clear. Every month in which interest rates and house prices rise, calls will only escalate for more solutions to improve affordability. It may not be a crisis yet, but it's certainly a problem.

Jessica Irvine is the Herald's economics writer.

Population boom to push prices

An influx of migrants and tight supply will buoy Sydney's housing market, writes **Ben Hurley**.

For those who think Sydney property is too expensive, Brian Haratsis is the bearer of bad news. The managing director of property consultancy MacroPlan Australia believes the nation's largest city is on the verge of a population boom that will lift prices further, and those who stand to benefit are the people who can afford to buy now.

Haratsis tells *The Australian Financial Review* that Sydney is about to see the fastest population growth in 15 years, owing to two factors. Firstly, climbing house prices in south-east Queensland have made it too expensive for Sydneysiders to migrate there, meaning fewer people are leaving.

"You're getting the same share of international migration and the same historic levels of birth rates but you're not getting the same levels of outward migration," Haratsis says.

Secondly, Sydney will see employment-generated population growth, as young brains from around the world come to work in Sydney-based financial services. They will be information technology, finance and property services employees on high incomes, happy to share a two-bedroom apartment close to the city.

"Eighty per cent of the world's financial services are within 10 kilometres of the General Post Office," Haratsis says.

These two factors will drive higher demand for Sydney property, and are likely to see increased interest in greenfields areas as families look for cheaper options on the urban fringe. Those who invest into "super suburbs" like Oran Park stand to make good returns.

At the same time, the apartment market will be starved of stock, owing to tight lending practices that restrict the use of leverage by developers.

"The loan-to-value ratios the banks are offering are still maxing out at 55 per cent," Haratsis says. "That means you have to share the same amount of equity over fewer projects."

Banks are also requiring 50 per cent of the dwellings in a proposed apartment development be sold off the plan – a tough requirement likely to reduce the scale of developments.

"That is limiting the size of many developments, so it's like we're drip-feeding the economy."

He says the winners will be people who can afford to buy now. "Your rate of return will be very good, you're looking at good capital growth and there will be high demand."

Rents are poised to soar even higher due to the shortage of rental accommodation, particularly with rising interest rates deterring some people from buying property.

At the prestige end, he predicts prices will remain flat for another 24 months. But a growing commodities boom could flow through to Sydney's financial sector, lifting sentiment and driving up premium property prices in coming years.

Rob Ellis, managing director of property research consultancy Property Insights, says some factors will actually ease the demand pressures in Sydney in 2010.

The resources boom increases the demand for labour and building supplies and also draws workers to the resource-rich states, slightly easing population pressures in Sydney.

Rising house prices and interest rates will also lower affordability as the year goes on.

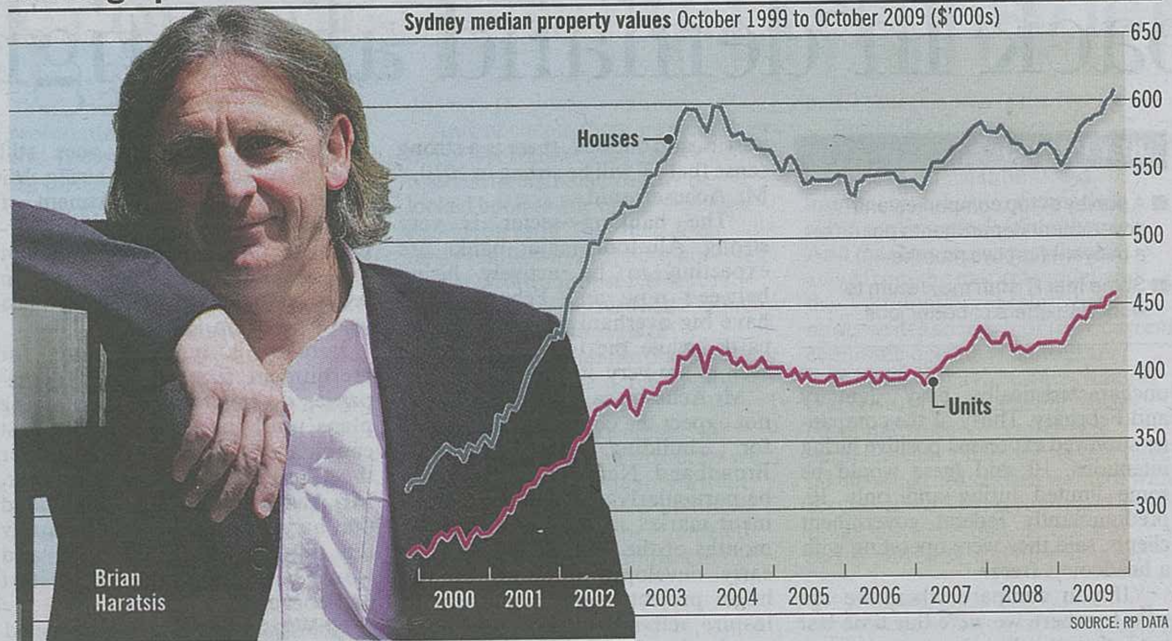
However, he says the chronic undersupply of housing in NSW will keep demand high.

"It's unlikely the increase in supply for NSW will go anywhere near enough to eradicate the undersupply that already exists," he says.

"The risk is you end up with far greater house price appreciation than you expected. Ten per cent certainly wouldn't surprise me."

■ *The Australian Financial Review's city by city housing outlook continues tomorrow with Brisbane.*

Holding up



SYDNEY MARKET TIPPED TO GROW

Sydney real estate is set for steady growth over 2010, with a tight rental market and good investor returns likely to ensure healthy demand.

Louis Christopher, managing director of SQM Research, is tipping 6 to 8 per cent growth in Sydney house prices in the next 12 months, compared with 4 to 6 per cent nationally.

"Nothing in the recent indicators, such as days on the market, NSW government housing finance numbers, and auction clearance rates, are suggesting the trend of buying activity will dry up," he says.

RP Data figures to November show Sydney house prices rose by 11.6 per cent in 2009, but Christopher says affordability was at its best level since 2002.

He believes Sydney's house prices will grow more than any other Australian capital and his projections for prestige property are bullish.

"I wouldn't be surprised if we saw between 12 and 15 per cent in 2010 for real estate over $2 million," he says. "The prestige end of the market in 2009 did not recover, it remained a very soft part of the market, while other sectors of the market eventually switched on."

Jason Anderson, senior economist with BIS Shrapnel, says Sydney will face an "extreme" shortage of rental properties, worse than any other capital city.

This would boost demand for outer-ring suburbs, leading to growth as high as 10 per cent in those areas.

He predicts 5 per cent growth for Sydney generally, but in contrast with Christopher, believes prestige property will remain flat over 2010.

Ben Hurley

North Shore entices PPK into housing

Ben Hurley and Ben Wilmot

Small investment company PPK Group has bought a major land parcel in Sydney's North Shore for a $110 million housing project.

The listed group successfully tendered for more than four hectares of undeveloped residential land in the suburb of Willoughby, in a deal worth $28.5 million.

The group plans to develop about 76 dwellings on the prominent site, known as Willoughby Market Gardens. The area has been master planned and extensive earthworks have been undertaken.

PPK Group will lead a syndicate of investors, who together contributed $17.5 million to the purchase. External financiers will fund the balance.

An unlisted trust managed by PPK plans to complete the purchase on January 20, then subdivide the land and build project homes over the next three to four years. PPK estimates the gross end value of the project will be about $110 million.

PPK has transformed itself into an investment company after disposing of a plastics manufacturing business. PPK non-executive director Jury Wowk said the group had a number of industrial properties but it was "now also looking to expand into other aspects of property utilising our balance sheet and contacts".

Mr Wowk said the site, next to Shore school's playing fields, had been held by the NSW Roads and Traffic Authority.

He said PPK would work with an experienced property developer who had brought the project to the company.

Mr Wowk said the main appeal of the project was the nature of the property but added that it also had "more attraction than an acreage somewhere out west". He is bullish about the North Shore market.

"I think there's every indication that the middle to upper end of the market is moving in a positive direction," he said. PPK will undertake the project in eight stages.

Guillaume Volz and Peter Krieg of Knight Frank marketed the property.

Infrastructure levies push up home bills

Ben Hurley

The NSW government has failed to implement the full suite of recommendations from a review of infrastructure levies, adding about $40,000 to the cost of new homes, according to a new audit released by the Property Council of Australia.

Launched in December 2008, the review promised to cap developer contributions under section 94 at $20,000 per lot, with all contributions exceeding that to require ministerial approval from an independent review panel. These contributions could previously exceed $57,000 per lot. It also sought to abolish water levies of up to $15,000 per lot.

NSW acting executive director of the Property Council of Australia, Glenn Byres, said home buyers ended up paying the fees and would be frustrated that up to 15 councils have been given temporary relief from the cap.

"Some councils have been allowed to maintain levies and charges that are triple the amount of the cap – with contributions as high as $60,000," Mr Byres said.

"The NSW government should be forcing councils to stick to the deadline to secure a better deal for home buyers."

The property council said 34 of 152 councils in NSW had been levying over $20,000 per lot, and the independent review panel resulted in only 12 lowering their contributions below $20,000.

"This is hardly a significant or comprehensive outcome," the audit says.

Five councils were given exemptions on the condition of a further review of their contribution plans by December 2009 (being City of Sydney, Pittwater, Leichhardt, Wollondilly and Penrith). The council said the NSW Department of Planning had not released any information about the status of these reviews, but a call to several councils revealed they are at different stages of completion, with some months from being finalised.

The government had promised to increase its contribution to the cost of infrastructure provision from 25 per cent to 50 per cent until June 2011, but the property council found that no information had since been released on how much money was saved or spent as a result.

Details of a tradeable infrastructure scheme were to be released in early 2009, applying to works provided in kind or when additional capacity was required, but to date no information on the scheme has been provided.

Promised reforms to part 5B of the Environmental and Planning Assessment Act that were meant to be delivered in the first quarter of 2009 are still in draft form.

The promise to abolish water levies was put in place immediately.

FBA 044

FIN REVIEW 8.1.10

Attachment 1

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The Australian Financial Review
Thursday 26 November 2009 • www.afr.com

No growth without houses

Scott Elliott

Leading property analysts are warning that a shortage of housing will thwart Australia's projected population growth and immigrants and expatriates will turn away from our shores.

National Housing Supply Council chairman Owen Donald holds grave concerns about the impact that land supply, finance, planning reforms and local governments will have on the supply of new homes.

Speaking at a national housing conference in Melbourne yesterday, Mr Donald said Australia would fall short of providing the 153,000 dwellings required each year until 2028.

"If we're going to grow our population, workforce, demand and increase the wealth of the nation, then we need to meet our population projections and the capacity of the housing market to do that will be an important issue," he said.

Mr Donald said Australia's capital cities were planning on 50 to 90 per cent of future housing supply to be positioned on infill – existing vacant or underdeveloped – sites.

"There are some very significant constraints on infill land that will undoubtedly impair the capacity of every state government to achieve its infill projections," he said. The provision of greenfield development land was key to the success of increasing Australia's housing capacity, he added. Mr Donald said a culture of local resident activism, or NIMBYs [Not In My Backyard] was impairing new supply.

Owen Donald holds fears about meeting population targets. Photo: GLEN McCURTAYNE

Matusik Property Insights director Michael Matusik suggested a scheme of pilot developments in middle-ring suburbs to thwart the NIMBY trend.

"To achieve a movement [of new population] from the outer ring to middle-ring suburbs there needs to be what I call a number of demonstration projects, not necessarily governmentally driven, but government approved and fast-tracked," he said.

Australia's population is expected to grow at near-record levels of 330,000 people a year.

But Mr Matusik said demand equation might not reflect this as more children stayed at home and fewer first-home buyers were able to afford property.

He predicted Queensland's population growth would slow as Victoria attracted more domestic and international arrivals, based on access to cheaper land, better infrastructure and lower fees and levies.

Financial Review
10 Nov 2009

Attachment 1

Photo: GLENN HUNT

$80m more funds for urban planning

Nick Lenaghan

The federal government is allocating up to $80 million in the second round of its $512 million program aimed at slashing the planning and infrastructure costs of housing developments.

The funding, announced by federal Housing Minister Tanya Plibersek yesterday, comes just two weeks after Prime Minister Kevin Rudd unveiled a grand plan to sort out the nation's urban planning logjams.

Under the proposal, which the Council of Australian Governments will consider at its December meeting, federal infrastructure funding will be linked to a new national plan for major cities, using planning benchmarks.

Developers have warned that hefty infrastructure charges, along with planning bottlenecks, are slowing down the release of land and contributing to the housing shortage.

Ms Plibersek said $120 million had already been allocated to 37 projects under the first round of the program, which will form a key plank in the Rudd plan.

"The Housing Affordability Fund is basically the carrot part of that discussion between the commonwealth, the states and local government," Ms Plibersek said.

"We'd be looking for more projects that demonstrate a strong reform component and we're also looking for projects that facilitate urban infill projects."

The fund helps provide affordable new homes by contributing to infrastructure costs such as water, sewerage and roads as well as funding reforms at local government level. Quicker processing of plans reduces the holding costs for developers who can then pass those savings on to home buyers.

"With each project, we said to the proponent of the project, 'You have to demonstrate to us the quantum of the savings and how you will ensure that they are passed on'," Ms Plibersek said.

Tanya Plibersek: we need more homes.

said. Each infrastructure project under the second round of the program must provide savings on at least 50 new homes, with preference given to housing for low and moderate income earners.

Priority will also be given to greenfield and infill projects with access to public transport, and public housing estate redevelopments which create mixed communities by building affordable homes for private ownership.

In an address to the Residential Development Council yesterday, Ms Plibersek said Australia was facing a serious housing shortfall of about 85,000 homes.

"That means that we need 85,000 homes over and above those coming onto the market this year to adequately house our population," she said. "With our population growth now the highest since the 1960s, the lack of housing supply will remain a problem for some time yet.

"Industry has told me that to keep up with demand, Australia should be building around 180,000 homes a year, yet even in a good year, we would typically build only 150,000 new homes."

Attachment 2

NSW Government Press Release – Illawarra Housing Benchmarks

Paul McLeay MP

Minister for Ports and Waterways
Minister for the Illawarra

M E D I A R E L E A S E

Friday, 12 February 2010

Illawarra housing benchmarks released

Greenfield housing supply benchmarks have been released for the Illawarra today, to help ensure an adequate housing supply for one of the fastest growing regions in NSW.

Minister for the Illawarra, Paul McLeay, announced the benchmarks at the Property Council of Australia's Illawarra Outlook Lunch.

"Following our recent removal of the 1% development levy these benchmarks for the Illawarra are an important step to ensuring housing supply and land is available for development," Mr McLeay said.

"Minister for Planning, Tony Kelly, has been working hard with the Illawarra MPs, David Campbell, Noreen Hay, Lylea McMahon, Matt Brown and myself, to provide the region with enough land with associated infrastructure to meet demand," Mr McLeay said.

The benchmarks are to have:

- 15 years' supply (about 11,400 dwellings) in the Illawarra regional strategy or endorsed local strategy
- 8 years' supply (about 6,080 dwellings) of zoned land and
- 7.3 years' of serviced land (about 5,548 dwellings) which can be connected to trunk water, sewer and power infrastructure.

Following discussions with developers in 2008, areas with significant amounts of currently zoned and serviced land include:

- Shell Cove (1,845 dwellings)
- Tullimbah Village (1,700 dwellings)
- Shellharbour city centre (1,000 dwellings)
- Flinders (420 dwellings)
- Sandon Point (285 dwellings) and
- Haywards Bay (207 dwellings)

Mr McLeay said there is clearly the need to be vigilant to ensure available land supplies.

"The NSW Government is currently preparing an Illawarra Urban Development Program Update which will be available shortly," Mr McLeay said.

"It will provide additional information on housing supply figures and report against the benchmarks."

"The update will give a comprehensive analysis of the Illawarra's land supply and demand issues, along with a summary of dwelling and subdivision potential in each of the three council areas."

Mr McLeay said the NSW Government is continuing work to rezone the first stages of the regionally significant land at West Dapto, along with investigating other appropriate land release areas.

"The West Dapto Release Area is a key site identified for residential development in the Government's Illawarra Regional Strategy, with stages 1 and 2 delivering around 6,600 new dwellings and 175 hectares of employment land," Mr McLeay said

Earlier this month, Minister for Planning, Tony Kelly, announced an interest free loan of more than $26 million had been allocated to Wollongong City Council to provide road access to those stages of development in West Dapto.

This is the largest amount out of the $179 million allocated by the Local Infrastructure Fund and will provide a major boost to the delivery of housing in the Illawarra.

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