

Ballarat West Development Contributions Plan: Assessment of Property Market Impacts.

(Amendment C167 to City of Ballarat Planning Scheme –
Advisory Committee Hearing)

Prepared for

Norton Rose Fulbright.

Date: 13 June 2013

Summary of Expert Opinion.

1. This report considers the potential implications of the proposed Ballarat West Development Contributions Plan upon the property market and urban development industry's capacity to deliver affordable housing supply.
 2. I have found that the area subject to the Ballarat West Development Contributions Plan is adjacent to some of Ballarat's lowest value housing markets, particularly Delacombe and Sebastopol. This finding implies that the achievable prices for new residential lots and housing will be influenced by the prevailing low prices otherwise available in the adjoining established housing submarkets. This situation contrasts to Alfredton West (now Lucas) within the northern part of the Ballarat West Growth Area which is adjacent to higher value established housing submarkets of Lake Wendouree, Lake Gardens and Alfredton.
 3. The currently proposed charge rates in the Ballarat West Development Contributions Plan are very high in absolute and relative terms when benchmarked against other Development Contributions Plans across Regional Victoria and Metropolitan Melbourne. The ratio between Development Contributions Plan costs per lot and achievable lot prices, at 17% in Ballarat West is the second-highest across 30 recently prepared Development Contributions Plans prepared since 2009 across both Regional Victoria (average ratio: 8.7%) and Metropolitan Melbourne (average ratio: 8.8%). This very high ratio clearly highlights a misalignment (and distortion) between costs and achievable prices in Ballarat West.
 4. The compounding impacts of both low achievable prices for greenfield lots and high Development Contributions Plan costs will severely and detrimentally impact the feasibility of undertaking new urban development in the Ballarat West Precinct Structure Plan and result in a significant delay to new supply of more affordable housing.
 5. The infeasibility of urban development at Ballarat West, particularly in comparison to other higher price – lower cost alternative investment opportunities for developers in the Victorian greenfield sector, implies that the rate of urban development within Ballarat West will be severely limited. The resultant reduced, and delayed, development activity will compromise the achievement of various strategic planning and housing related policy objectives and community benefits (such as a more diverse and affordable supply of new housing), that the imposition of the Development Contributions Plan itself is intended to facilitate.
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Expert Evidence Statement

Expert Witness.

The expert evidence statement has been prepared by:

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Director Strategic Research
Charter Keck Cramer
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Professional Qualifications, Experience and Expertise.

Academic qualifications include:

- Bachelor of Planning and Design (Planning) (Hons.) - The University of Melbourne (1994)
- Bachelor of Business (Property) (Distinction) - RMIT (1998)

My experience in strategic planning, economic assessments and property market analysis has been gained at Charter Keck Cramer (since 1997) and Ratio Consultants (1995-1997). My combined understanding of real estate market analysis and experience in this discipline has qualified me to complete this assessment of potential impacts to property development opportunities in the Ballarat West greenfield residential market resulting from the introduction of the proposed Development Contributions Plan pursuant to Amendment C167 to the Ballarat Planning Scheme. Refer to Appendix 1 for my Curriculum Vitae.

Instructions.

I was engaged by Norton Rose Fulbright, on behalf of G & N Closter Pty. Ltd., to undertake an independent assessment of the potential property market impacts associated with the proposed introduction of the Ballarat West Development Contributions Plan.

Reference Documents and Data Used.

Material considered and data relied upon as part of this assessment includes the following resources:-

- City of Ballarat (June 2012) Ballarat West Development Contributions Plan (Version 3.2);
- City of Ballarat (June 2012) Ballarat West Precinct Structure Plan;
- Urban Enterprise (June 2012) *Review of Local Infrastructure Charges for Regional and Rural Councils* prepared for Department of Planning and Community Development;
- Urban Enterprise (May 2012) *Indicative Standard Levies for Local Development Contributions* prepared for Department of Planning and Community Development;
- Urban Enterprise (August 2011) *DCP Levy Analysis* prepared for Department of Planning and Community Development;
- Charter Keck Cramer and Research 4 (various) National Land Survey Program – Quarterly Performance Indicators (primary research);
- Valuer General Victoria – *Property Sales and Valuation* database of property transactions;
- Melbourne Water Land Development Manual database (<http://ldm.melbournewater.com.au/>).

Additional Experts Utilised.

I have been assisted in undertaking data analysis for this assessment by my colleague Mr James Mansour.

Summary of Expert's Opinions.

I have found that the Ballarat West Development Contributions Plan, when benchmarked against other regional and metropolitan Development Contributions Plans, is comparatively high in both absolute and relative terms. It is of great significance that the Ballarat West local housing market will not support the level of prices required to sufficiently offset, and be commensurate with, the high Development Contributions Plan costs as proposed.

I have found that Ballarat West has the second highest ratio (17%) of Development Contributions Plan (on a per lot basis) to land prices across 30 Development Contributions Plan completed since 2009 in Regional Victoria (average ratio: 8.7%) and metropolitan Melbourne (average ratio: 8.8%).

Based upon my research and assessment of various relevant factors I conclude that the introduction of the Development Contributions Plan, at the charge rates currently proposed, will have a severe and detrimental impact upon the propensity (and timing) of the urban development industry to be able to offer new and affordable housing opportunities in Ballarat West. The significantly reduced capacity of the urban development industry to offer affordable housing will be due, in significant part, to the very high Development Contributions Plan costs.

Accordingly, if urban development does not occur, or it occurs at a much lesser rate than projected, a range of envisaged policy objectives and community benefits intended to be facilitated by imposition of the Development Contributions Plan itself, are unlikely to be realised given that payment of levies is linked to actual development activity. The resultant lack, or low level, of actual new supply in Ballarat West will have broader community impacts such as reduced economic activity across the local construction and related industries as well as reduced capacity for more affordable and diverse new housing to be offered.

Expert's Declaration.

I have made all the inquiries that I believe are desirable and appropriate and that no matters of significance which I regard as relevant have to my knowledge been withheld.



**Robert Papaleo, B.P.D. (Planning), B.Bus. (Property),
Director Strategic Research**

13 June 2013

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1. INTRODUCTION.

1.1 Instruction.

Charter Keck Cramer (Charter) was instructed by Norton Rose Fulbright, on behalf of G & N Closter Pty. Ltd., to undertake an independent assessment of the potential impacts that the proposed Ballarat West Development Contributions Plan (BW DCP) would have upon the opportunities for urban development within the area subject to the Ballarat West Precinct Structure Plan (BW PSP).

The ensuing report is an update to Charter's earlier report¹ (dated June 2012) prepared for the same Client and has been undertaken primarily to reflect relevant information relating to DCPs that has become subsequently available. Although the numeric values of some findings have changed since the June 2012 report, the form of analysis, nature of findings and conclusions are largely consistent. The major difference being that the number of DCPs considered as benchmarks to the BW DCP has been expanded.

1.2 Context.

The BW PSP has a number of overarching objectives including to provide high quality, affordable and diverse housing to accommodate the needs of a projected growth of Ballarat's population.

The BW DCP is intended to ensure that adequate and appropriate levels of infrastructure and services are provided to meet the needs of the future population of the BW PSP. A key objective of the BW PSP is to deliver sufficient levels of new residential land supply to the Ballarat housing market so as to put downward pressure on price and increase local market competition to ultimately provide consumers with more diverse and affordable housing options.

Importantly, this assessment considers that identified future land supply, as indicated by the planning policy framework associated with the Ballarat West Growth Area, cannot become actual supply until it is feasible for the urban development industry to achieve a profit that is commensurate with the inherent financial and other risks associated with this form of entrepreneurial activity.

1.3 Methodology.

I have adopted a three-stage methodology for this assessment as outlined below:

- analysis of the fundamentals associated with the local Ballarat housing and greenfield land markets in order to identify pricing hierarchy and scale of market activity;
- analysis of the Ballarat housing and greenfield land market in context of the proximate regional markets that are likely to compete with Ballarat West for future investment from developers. This analysis provided an understanding of how Ballarat compares to other regional markets such as Bendigo, Geelong and Moorabool, as well as metropolitan markets such as Wyndham and Melton in the West Growth Corridor of Melbourne.

¹ Charter Keck Cramer (2012) Ballarat West Development Contributions Plan: Property Market Analysis.

- Benchmarking of the proposed BW DCP against 29 other DCPs completed since 2009 across Regional Victoria (8 DCPs) and Metropolitan Melbourne (21 DCPs). The Full DCPs costs (defined to include Developer Infrastructure Levy, Community Infrastructure Levy and Drainage Levy as well as land costs) were considered and equalised to a constant 2010 price basis to enable fair comparison of the total regulatory costs associated with development at Ballarat West and other residential land markets across Victoria. This methodology is consistent with the approach adopted in the Urban Enterprise report (May 2012).
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2. HOUSING & GREENFIELD LAND MARKET ANALYSIS.

2.1 Local Context - Ballarat.

2.1.1 Future Supply.

The Urban Development Program (UDP), published by the Department of Planning and Community Development (DPCD), identified overall levels of identified future supply in Ballarat equated to 28,175 lots in 2010. This estimate includes all land contained within the BW PSP.

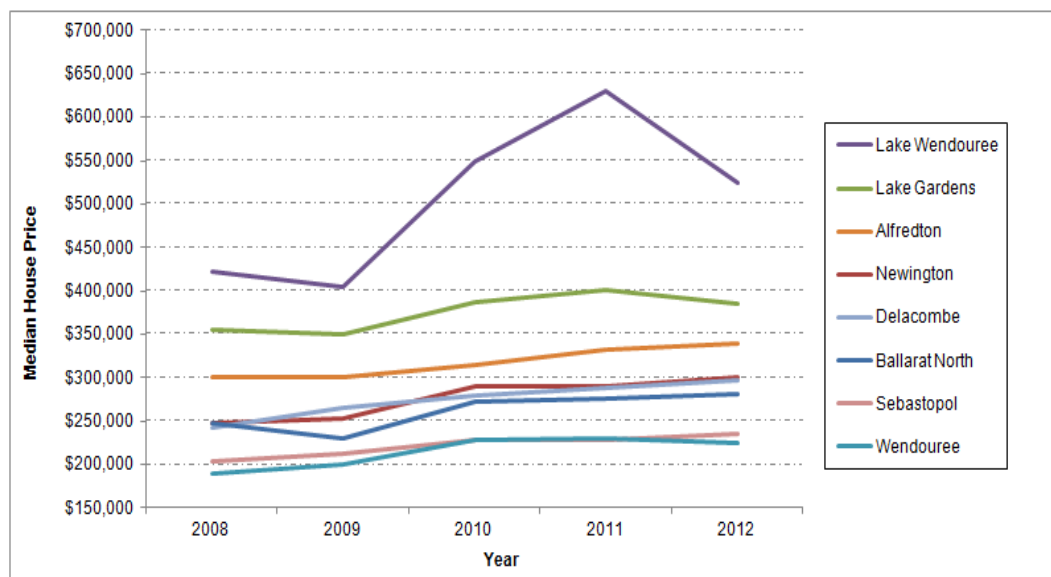
It is evident that Ballarat currently has a significant supply of identified future residential land. However, the UDP highlights that much of this supply is located in remnant sites within established areas across the city with little infrastructure and service coordination. Accordingly, the significance of the BW PSP to the overall Ballarat housing market is amplified because it is one of the few precincts capable of attracting large-scale urban development that has the potential to incorporate community and physical infrastructure to meet the needs of future populations.

2.1.2 Established Housing Prices.

The established housing market is an important factor underpinning the viability of the residential land market given that established house prices influences achievable prices for land in new greenfield estates within proximate corridors. A healthy established housing market implies that households (especially upgraders) are more easily able to transition out of older housing that may no longer suit their functional or lifestyle requirements and into new housing.

Given the size of the established housing market in Ballarat there is a clear house price structure and hierarchy. Lake Wendouree (\$525,000) and Lake Gardens (\$385,000) occupy the upper price bands in this local market followed by Alfredton (\$339,900). These higher priced suburbs are most proximate to the northern-most part of the Ballarat West Growth Area which is the Alfredton West precinct (now renamed to be the suburb of Lucas).

Figure 1: Median House Price Comparison (2008-2012) – Ballarat suburbs.



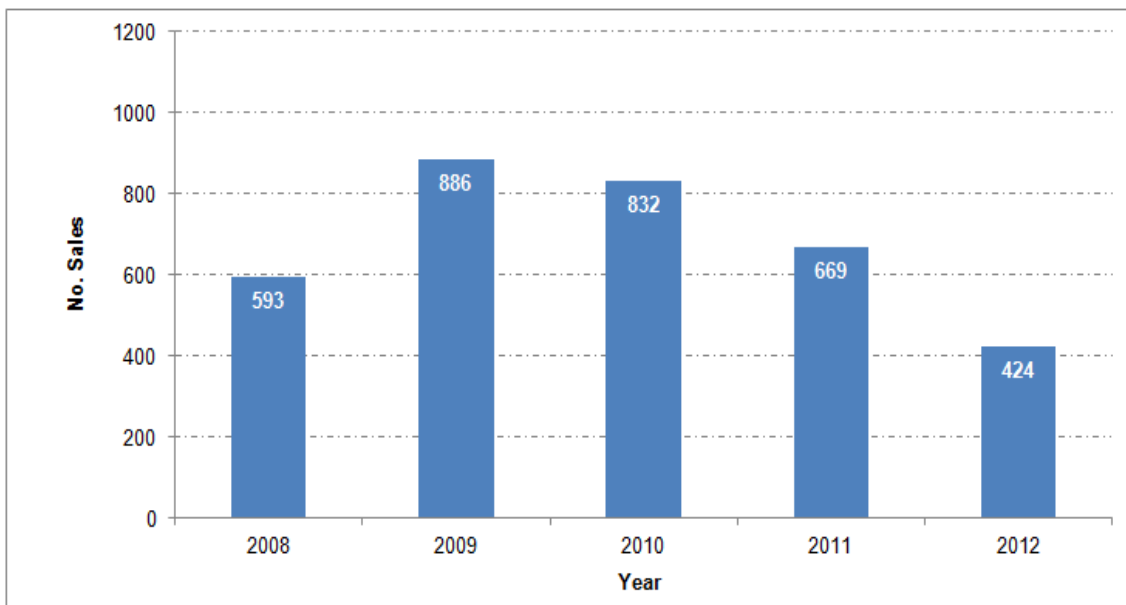
SOURCE - Charter Keck Cramer, VGV.

The lower priced submarkets in Ballarat include suburbs such as Sebastopol (\$235,000), Delacombe (\$297,000). These suburbs represent the primary catchments from which future estates within the BW PSP will draw the majority of future customers from.

2.1.3 Residential Lot Sale Volumes.

Overall residential lot sale volumes within the Ballarat LGA have been broadly consistent with the prevailing cyclical market activity, with a peak in volumes during 2009-10 following introduction of significant grants and incentives by Governments. The recent cyclical peak in 2009 led to almost 900 sales with more normal conditions supporting trading activity of 400 - 600 annual lot sales.

Figure 2: Ballarat LGA Residential Lot Sale Volumes (2008 – 2012).



SOURCE - Charter Keck Cramer and VGV.

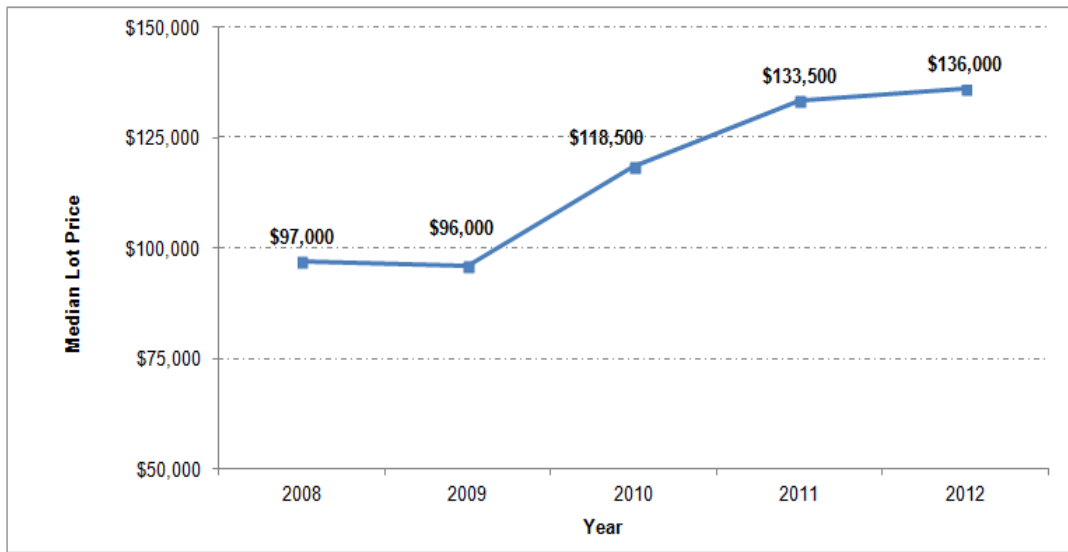
As observed across residential land markets across Victoria, there has been a reduction in residential lot sale activity since 2010.

2.1.4 Lot Prices.

Residential lot prices across the Ballarat LGA increased from \$96,900 in 2008 to \$136,000 in 2012. These price movements are broadly consistent with prevailing conditions in the broader Victorian greenfield market, with strongest price growth observed between 2008 and 2010.

Given current economic conditions, it is expected residential lot prices in Ballarat will stabilise in the near term, having seen a rapid escalation in prices during 2009-2011 and a significant deceleration of price growth in 2012.

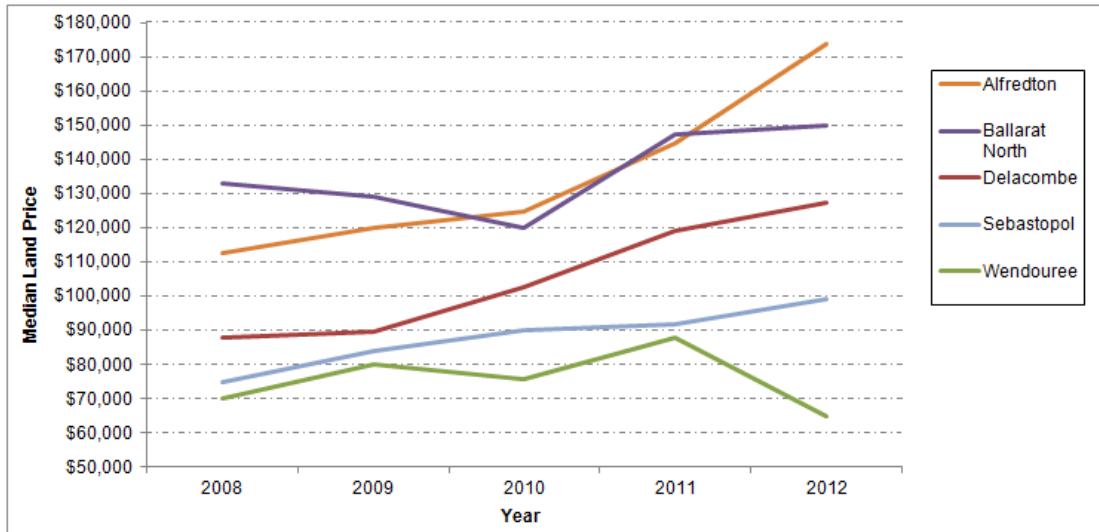
Figure 3: Ballarat LGA Median Residential Lot Prices (2008 – 2012).



SOURCE - Charter Keck Cramer and VGV.

Within the broader Ballarat greenfield land market, Alfredton (\$174,000) has emerged as one of Ballarat’s highest priced submarkets although the rise since 2010 is largely attributable to availability of supply at the Insignia estate (incorporating a golf course). The suburbs most proximate to the BW PSP are at relatively lower price levels with Delacombe (\$127,500) and Sebastopol (\$100,000) forming the lower price segment along with Wendouree (adjacent to Ballarat’s large industrial node).

Figure 4: Median Lot Price Comparison (2008 – 2012) – Ballarat suburbs.



SOURCE - Charter Keck Cramer and VGV.

It is noted that the median lot size of previous greenfield estates have been much higher and at lower density than new estates which are now at an average of 15 lots per hectare as adopted for the BW PSP. Median lot sizes have generally been over 600 sq.m., substantially more than the approximate average of 450 sq.m. required to achieve the minimum 15 lots p.ha. density.

2.2 Regional Context.

Ballarat’s land market is subject to competition both internally (across different submarkets within Ballarat) and externally (other regional markets). Residential estates within these markets compete for market share of sales and also investment by developers for conversion of future zoned land supply to lots (and houses) for consumers .

2.2.1 Sale Volumes.

Across the various regions considered in this assessment, only Moorabool has lower residential trading volume (average 340 p.a. since 2008) than Ballarat (680 p.a.). Bendigo trades at a slightly higher volume premium to Ballarat (740 p.a.) although Geelong is at a substantially higher volume than other regional cities (1,220 p.a.).

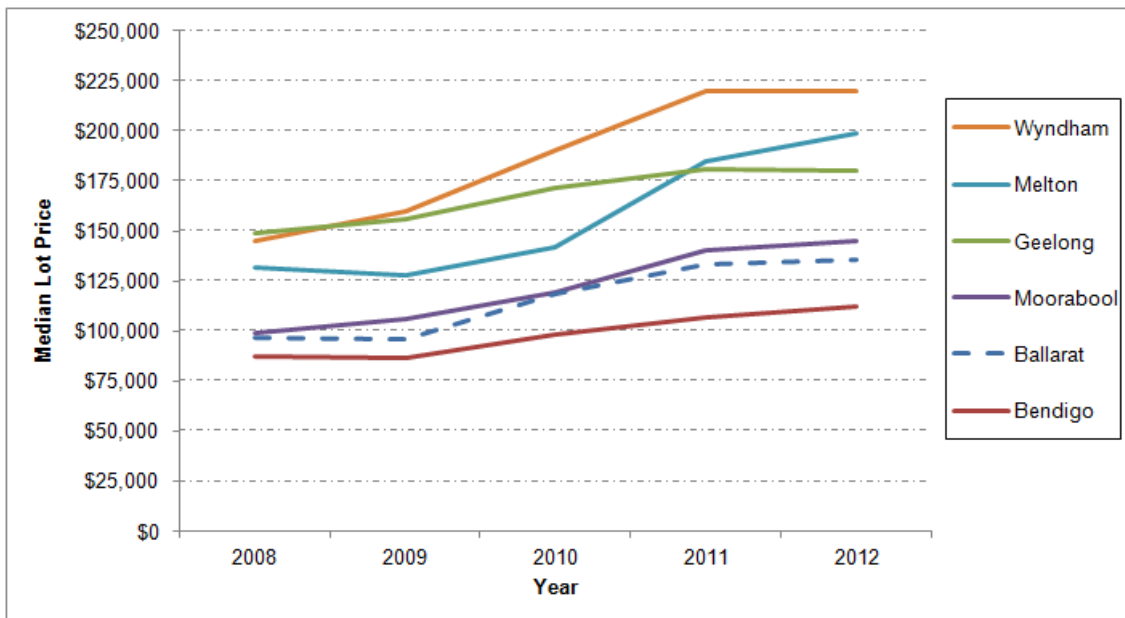
As the Armstrong Creek Growth Area reaches greater maturity and higher lot production in the near term, it is conceivable that lot sales in the Geelong market will continue to grow at a faster rate than Ballarat and other regional cities.

The major metropolitan markets of Melton (1,860 p.a.) and Wyndham (3,760 p.a.) experienced much larger trading volumes than the nearby regional land markets.

2.2.2 Lot Prices.

For the purposes of establishing the regional land market pricing hierarchy, Charter has considered Valuer General sale data. The observed median price of \$136,000 for the Ballarat LGA includes representation of all vacant land sales, including one-off sales from higher value established submarkets areas.

Figure 5: Median Lot Prices (2008-2012).



SOURCE - Charter Keck Cramer, VGV and NLSP.

In relation to median lot prices, Ballarat is higher than only Bendigo (\$112,000). This finding highlights that Ballarat is at a price discount to other regional markets such as Geelong (\$179,000) and Moorabool (\$145,000).

The lower prices being achieved in Ballarat's growth areas compared to other regional markets implies that the Ballarat land market will be of diminished attraction to the development industry, especially non-local corporate developers who seek to be represented across multiple growth areas that provide greatest opportunities for higher financial returns and lower risks.

3. BENCHMARKING OF DEVELOPMENT CONTRIBUTIONS PLAN.

3.1 Methodology.

Development Contribution Plans (DCPs) are an important aspect of growth area planning. The calculation of DCPs however does not have regard to the capacity of the development industry to facilitate development based upon the level of DCP costs relative to achievable pricing for the proposed greenfield land. Lot pricing is significantly influenced by conditions in the surrounding established local housing market.

In order to understand the full impact of DCPs on the development industry, it is important to assess the impact of the Development Infrastructure Levy (including land acquisition), Community Infrastructure Levy and the Drainage Levy, as these are all ultimately development costs associated with the land.



It is noted that DCPs in Metropolitan Growth Areas do not incorporate any allowance for Drainage Levies given that this is a separate levy applied by Melbourne Water (or other relevant water service authority). In contrast, Regional DCPs incorporate the costs of Drainage Levies within DCPs given that the local government is typically also the relevant water authority.

For the purpose of direct comparison in this assessment, the relevant drainage levies for metropolitan DCPs, as identified in the Melbourne Water Land Development Manual database², have been incorporated within the Full Contribution cost to enable a true comparison to Regional DCPs.

Data for this benchmarking assessment was sourced from reports prepared by Urban Enterprise for the DPCD and the Ministerial Advisory Committee considering the standardisation of DCPs. The primary data source were Tables 16 and 17 from the May 2012 Urban Enterprise report that indicated the DCP levy amounts (per dwelling and per ha. net residential area) for residential development across Metropolitan and Regional Growth Areas approved (or near completed) between 2006 and 2012. For the purpose of this assessment, only those DCPs completed since 2009 were considered in order to reflect more contemporary approaches to the DCPs that have emerged since the more widespread involvement of the Growth Areas Authority.

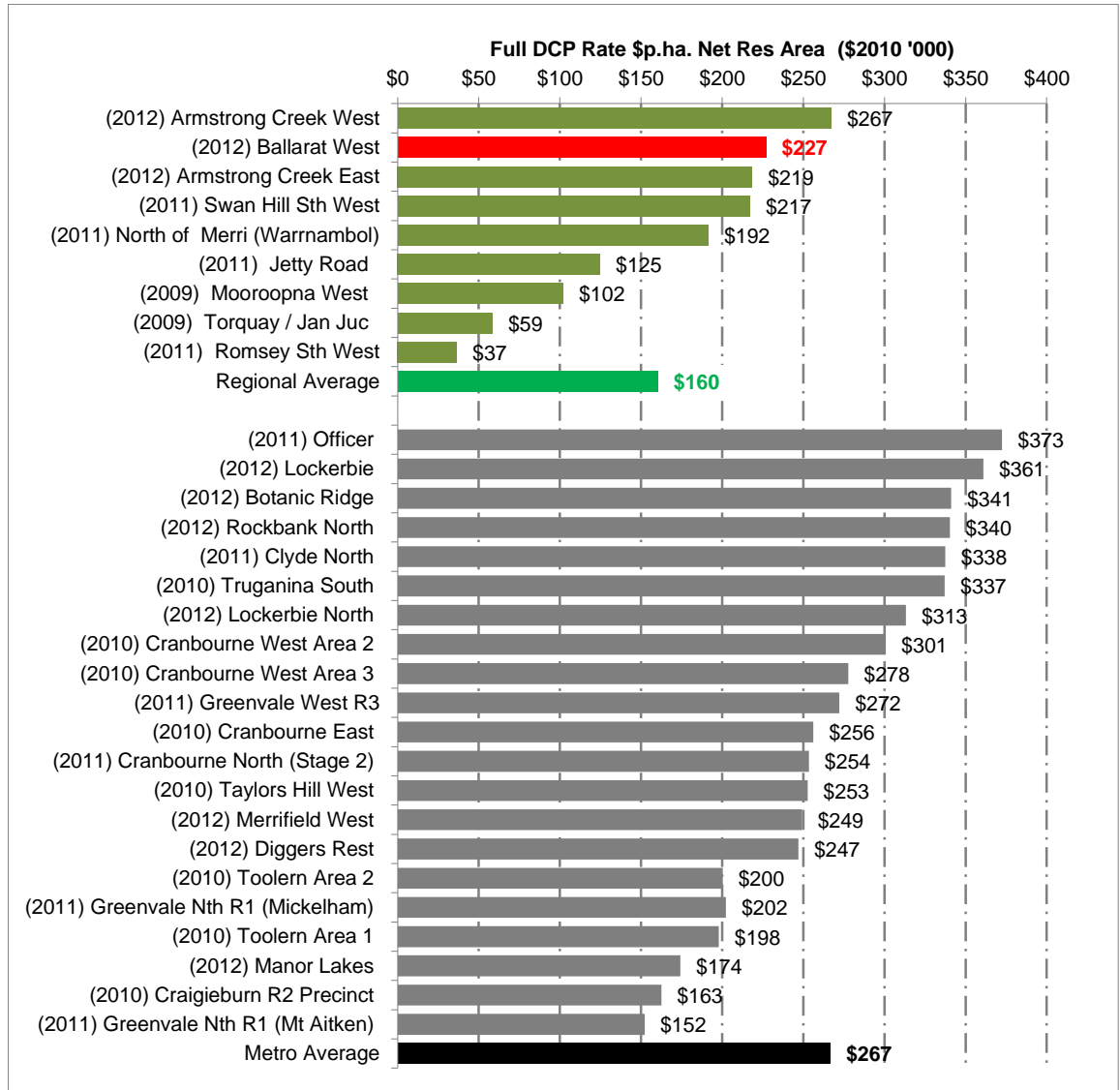
Consistent with the methodology applied in the Urban Enterprise analysis, all DCP and drainage levy costs are indexed to constant 2010 dollar terms (by inflating or deflating by 5% per annum from the date that the relevant cost was set, or updated for drainage levies) so as to enable more meaningful cost comparison. To maintain consistency and more meaningful analysis, all lot price data also represents the prevailing situation as at 2010.

² <http://ldm.melbournewater.com.au/>

3.2 Full DCP Rates Comparison (Cost per ha).

In relation to other identified DCPs in Regional Victoria, the BW DCP (\$226,900 per ha. in \$2010 terms³) is at the second highest rate and most comparable to the Armstrong Creek DCPs and Swan Hill South-West DCP. The BW DCP is also +41% higher than the average rate (\$160,400 per ha.) for Regional DCPs. Interestingly, the BW DCP is at a higher rate than a number of Metropolitan DCPs.

Figure 6: Full Residential DCP Costs (including Drainage) p.ha Net Residential Area (Year of DCP Approval) - Constant \$2010 Terms.



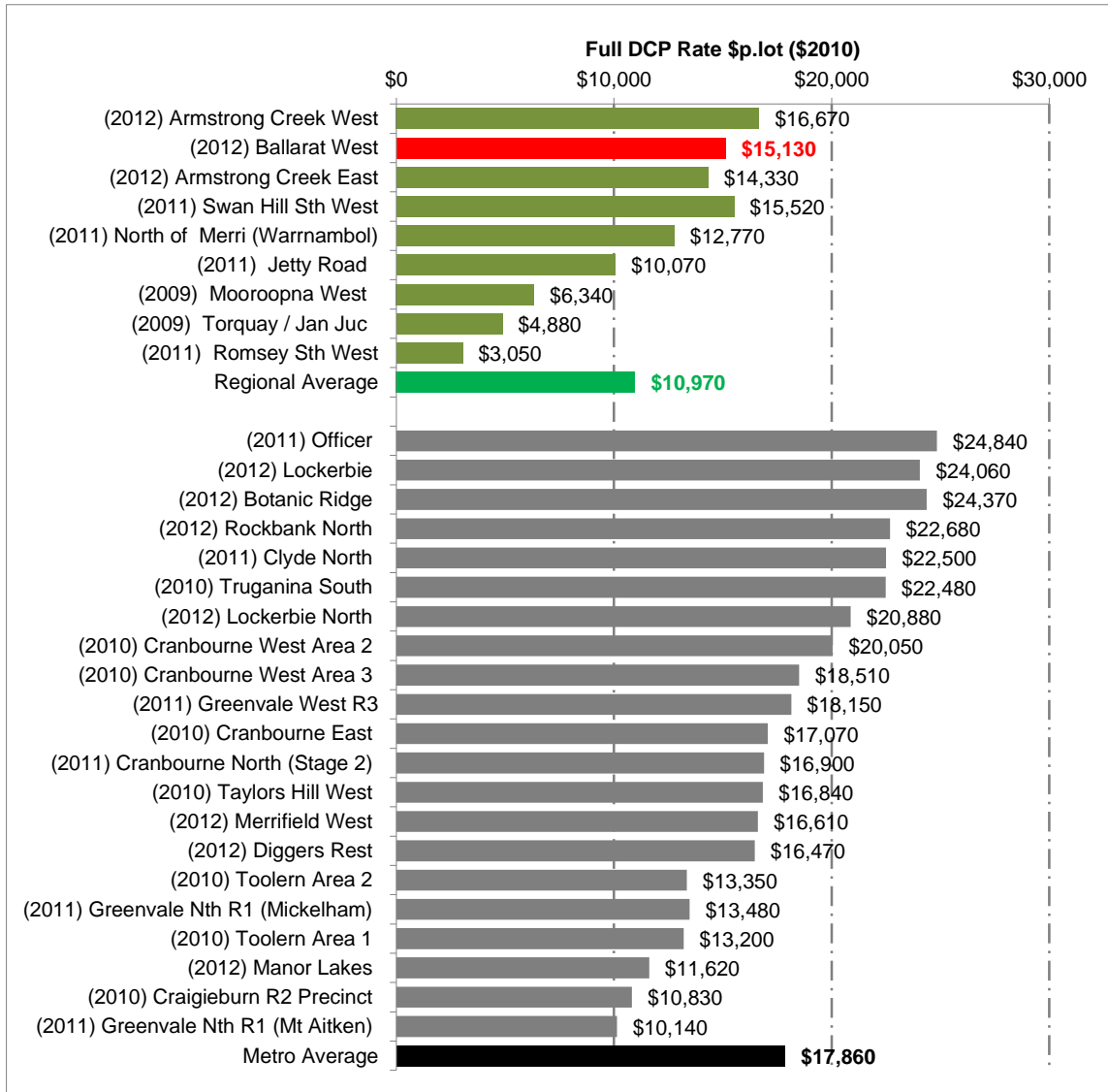
SOURCE - Charter Keck Cramer, Urban Enterprise (May 2012), Melbourne Water.

³ In current (2012) terms, BW DCP for Residential development (capped) is \$230,065,454 across 909.74 ha which equates to a per hectare cost of \$261,686 which is indexed back to 2010 by a rate of 5% deflation p.a..

3.3 Full DCP Rates Comparison (Cost per dwelling).

The BW DCP is the third highest (\$15,130 per dwelling⁴) DCP on a per dwelling basis across the Regional DCPs and is +38% higher than the average rate (\$10,970 per lot). The BW DCP is also somewhat higher than a number of Metropolitan DCPs which are derived from the per hectare rate (see Section 3.2) divided by an assumed yield of 15 lots p.ha..

Figure 7: Full Residential DCP Costs (including Drainage) per dwelling (Year of DCP Approval) - Constant \$2010 Terms.



SOURCE - Charter Keck Cramer, Urban Enterprise (May 2012), Melbourne Water.

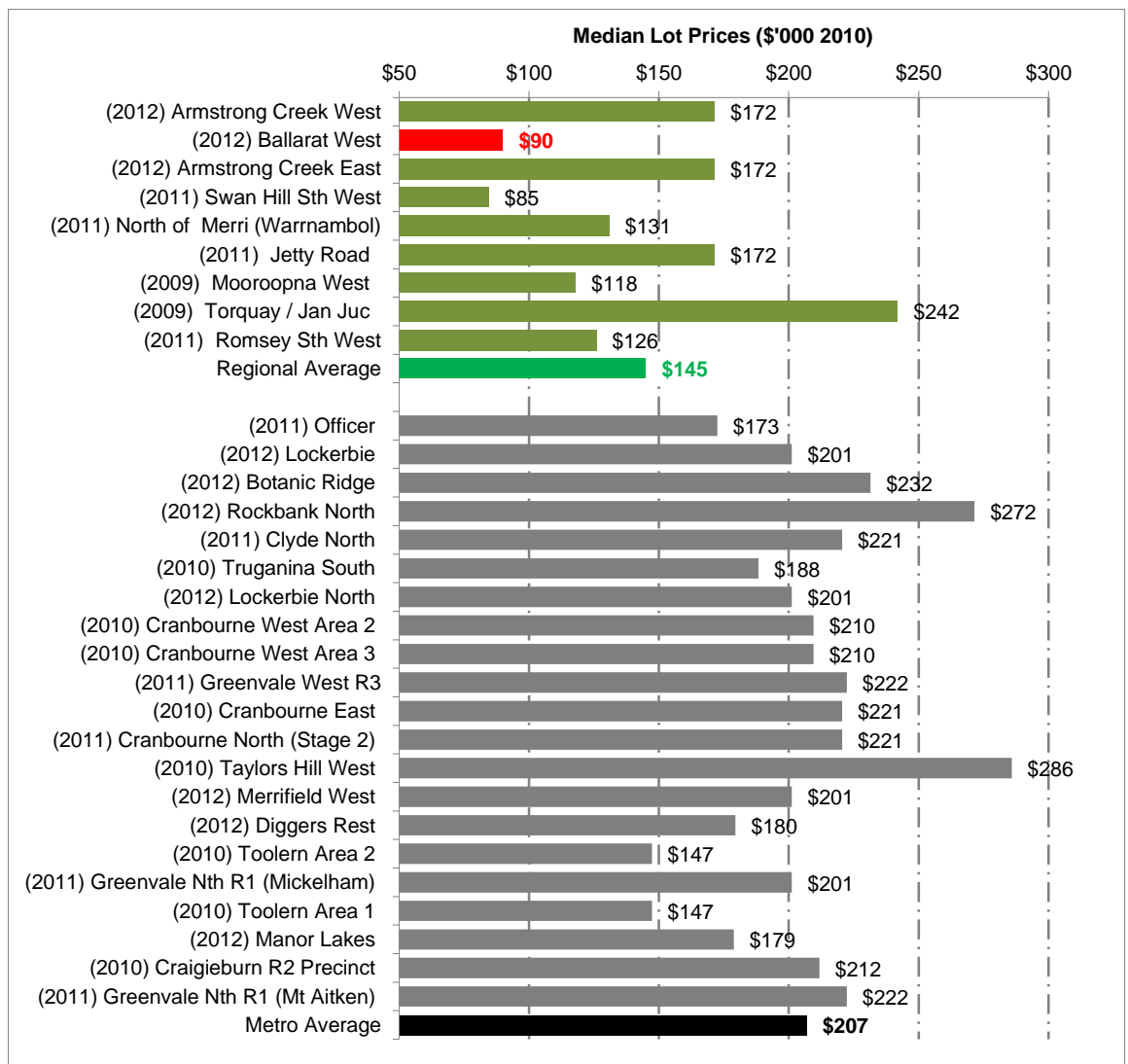
⁴ 2012 current equivalent of \$16,676 per dwelling which is indexed back by 5% deflation p.a.

3.4 Lot Prices in DCP Submarkets.

Consideration of the median price of vacant residential lots as at 2010 across the submarkets within which the DCPs are located, indicates that Ballarat West is one of the lowest priced submarkets at \$90,000 per lot (refer to Section 2.1.4 and following page for discussion about the rationale for adopting this price). The adopted Ballarat West lot price is -38% lower than the mean average (\$145,000) across the sample for Regional submarkets. Lot prices in Ballarat West were also significantly lower than observed in the Metropolitan submarkets.

The adopted figure of \$90,000 per lot in the BW PSP reflects that approximately 80% of its land area relates to the Delacombe and Sebastopol submarket with only a small proportion relating to Alfredton. Higher land prices achieved in Alfredton (and now Lucas) cannot be applied to the BW PSP because of the inherently different market dynamics of these locations' established housing markets.

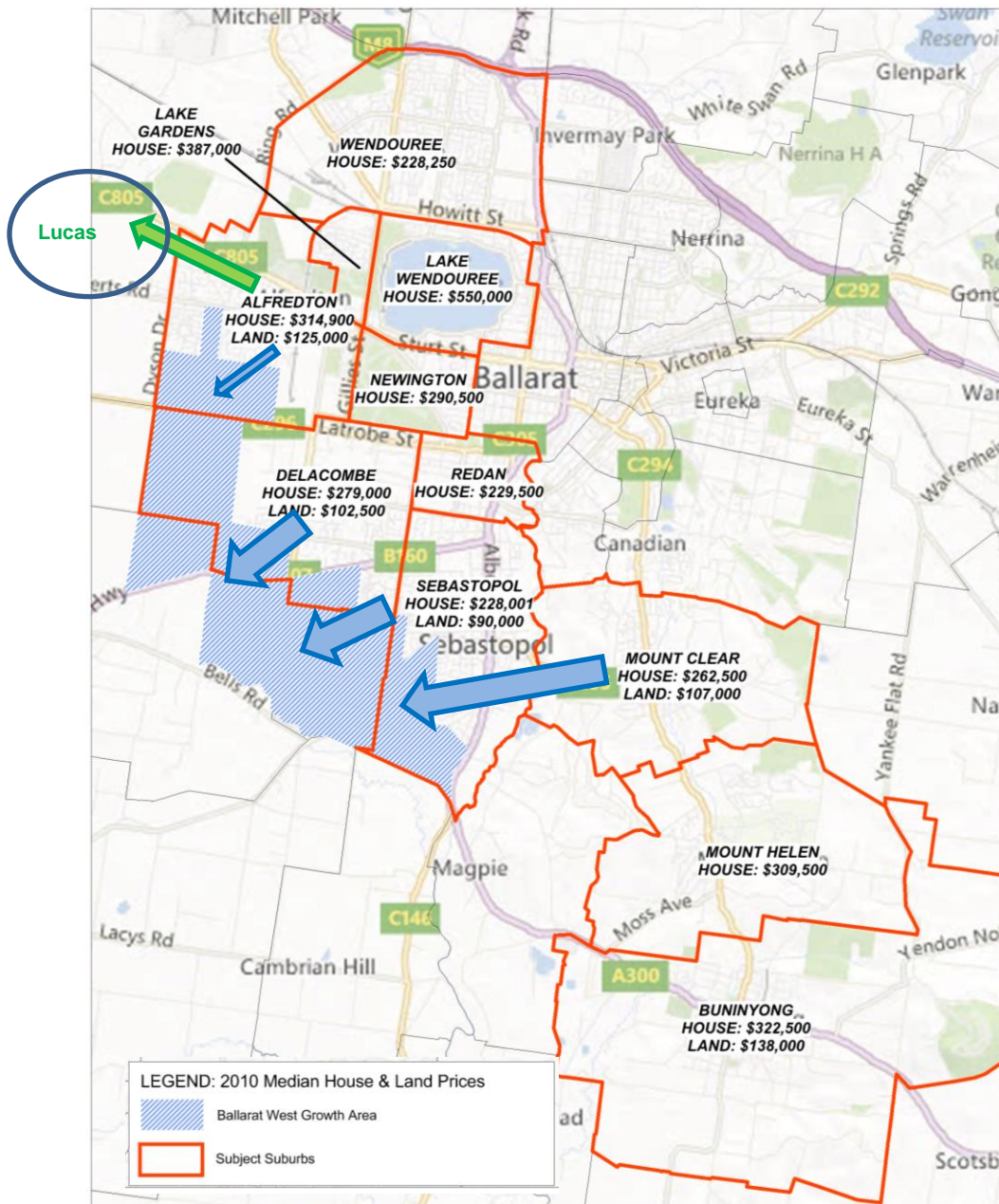
Figure 8: Median Lot Prices in DCP Submarkets as at 2010 (Year of DCP Approval).



SOURCE - Charter Keck Cramer, VGV, NLSP.

In 2010, the median lot prices ranged between \$125,000 in Alfredton, \$102,000 in Delacombe and \$90,000 in Sebastopol although it is noted that vacant lot sales in this period would have reflected larger lots than will be available in the BW PSP given the envisaged density of 15 lots p.ha. (equating to an average of approximately 450 sq.m.). Based on these considerations, an average value of \$90,000 is adopted for the BW PSP (in 2010 dollar terms) given that they are expected to be less attractive to higher value established suburbs whose residents are more likely to support higher prices at Lucas.

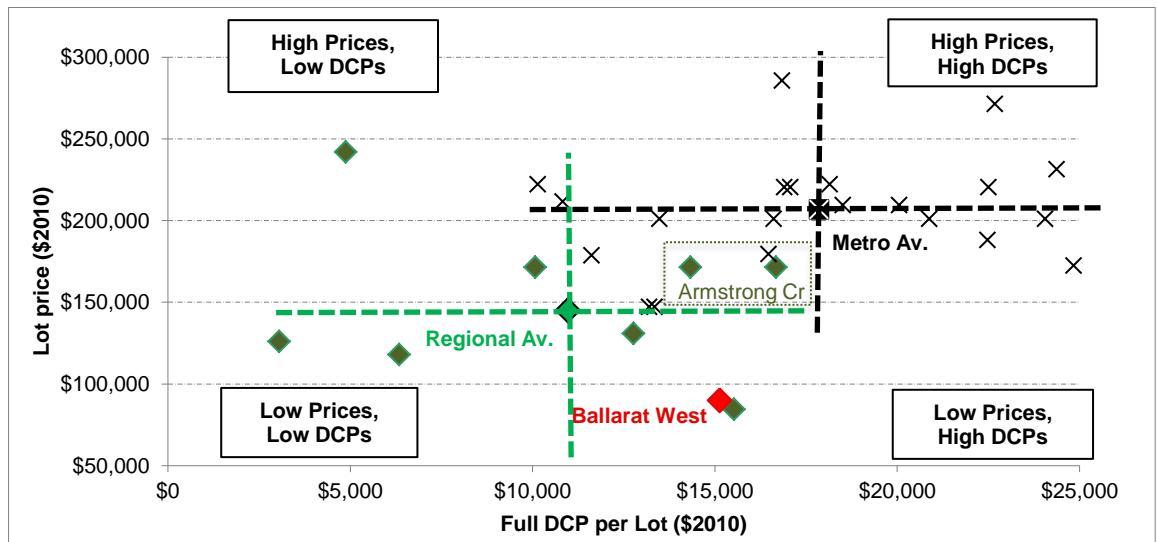
Figure 9: Ballarat Suburbs: Median House and Lot Prices (2010).



SOURCE - Charter Keck Cramer, VGV.

Consideration of the relativity between lot prices and DCP costs across the Regional and Metropolitan DCP areas clearly highlights that the BW PSP is one of the most extreme examples of a low price / high DCP cost per lot proposition (bottom right quadrant) for intending developers. From a development feasibility perspective, higher DCP costs need to be supported by the potential to achieve commensurately high prices for lots to enable profitable development to occur which is evidenced for the Armstrong Creek DCP areas (located in top right quadrant for Regional DCP areas).

Figure 10: Comparison of Median Lot Prices and DCP Costs per Lot.



SOURCE - Charter Keck Cramer, Urban Enterprise, Melbourne Water, VGV, NLSP.

The BW PSP is subject to a DCP cost of \$15,130 (per lot) against an achievable lot price of \$90,000 compared to the Regional average scenario of DCP costs of \$10,970 (per lot) relative to an average lot price of \$145,100.

3.5 Full DCP Cost to Lot Price Ratio in DCP Submarkets.

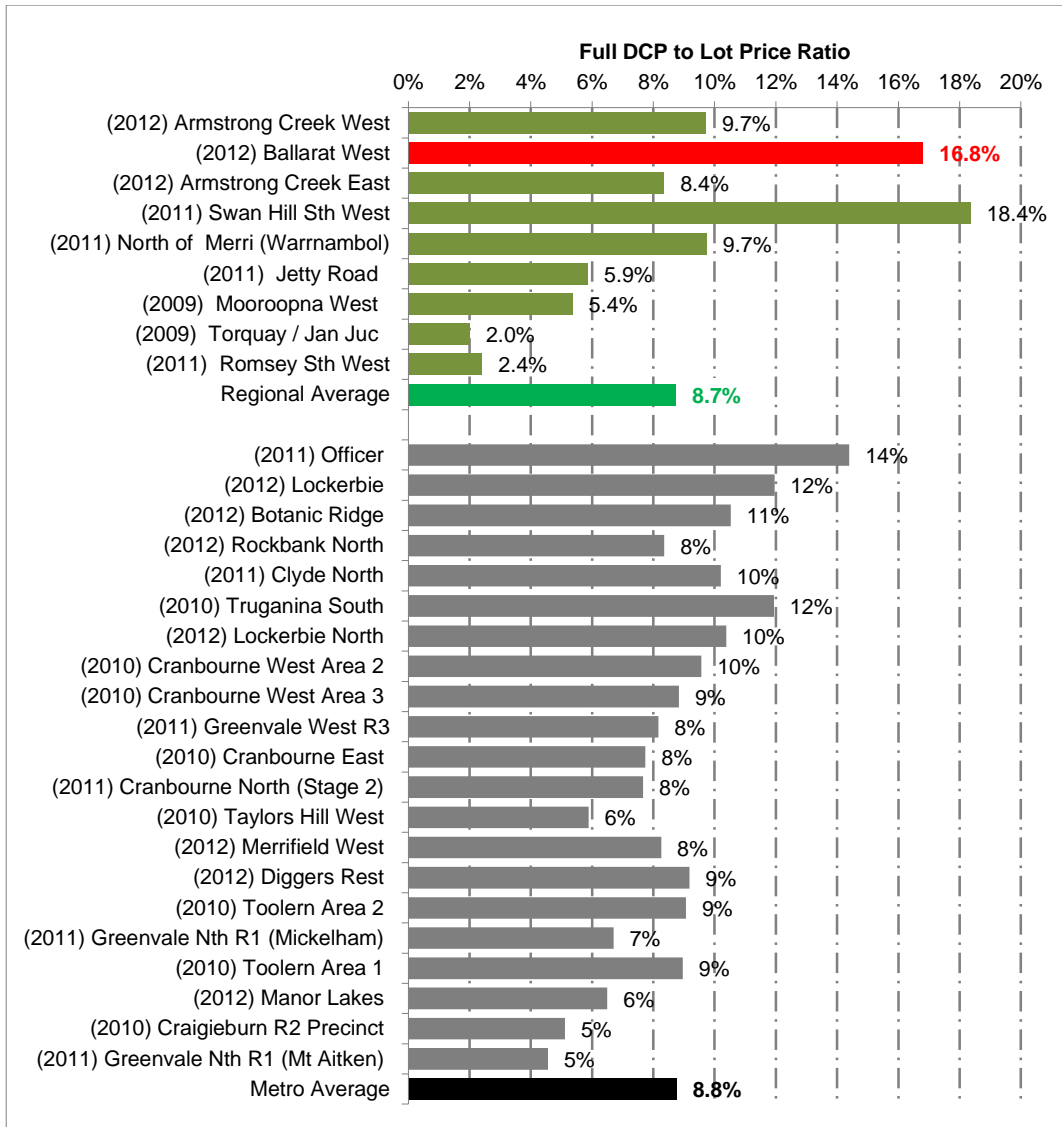
The ratio of DCP cost per lot to achievable prices in the BW PSP is calculated to be 17% which is the second highest ratio across the 30 DCPs in the sample and only less than the 18% ratio observed in Swan Hill South-West.

Interestingly, the average DCP lot cost to lot price ratio is equivalent in Regional and Metropolitan DCPs at 8.7% and 8.8% respectively. These average ratios are reduced to 8.0% and 8.7% respectively when the two top and bottom outliers⁵ are removed from consideration which implies that the Ballarat West ratio is effectively double the average (trimmed) ratio observed across the sample of Regional and Metropolitan DCPs.

This statistic clearly highlights a fundamental problem with the proposed DCP rate for the BW DCP which will detrimentally impact the ability to attract investment from developers who will be less prepared to undertake development in Ballarat West compared to other growth areas that provide higher achievable prices and lower development costs.

⁵ Outliers in Regional DCPs were Romsey South West (2.4%) and Torquay / Jan Juc (2.0%) with Ballarat West (16.8%) and Swan Hill South West (18.4%). Outliers in Metropolitan DCPs were Greenvale North R1 Mt Aitken Neighbourhood (4.6%) and Craigieburn R2 (5.1%) with Lockerbie (12%) and Officer (14.4%).

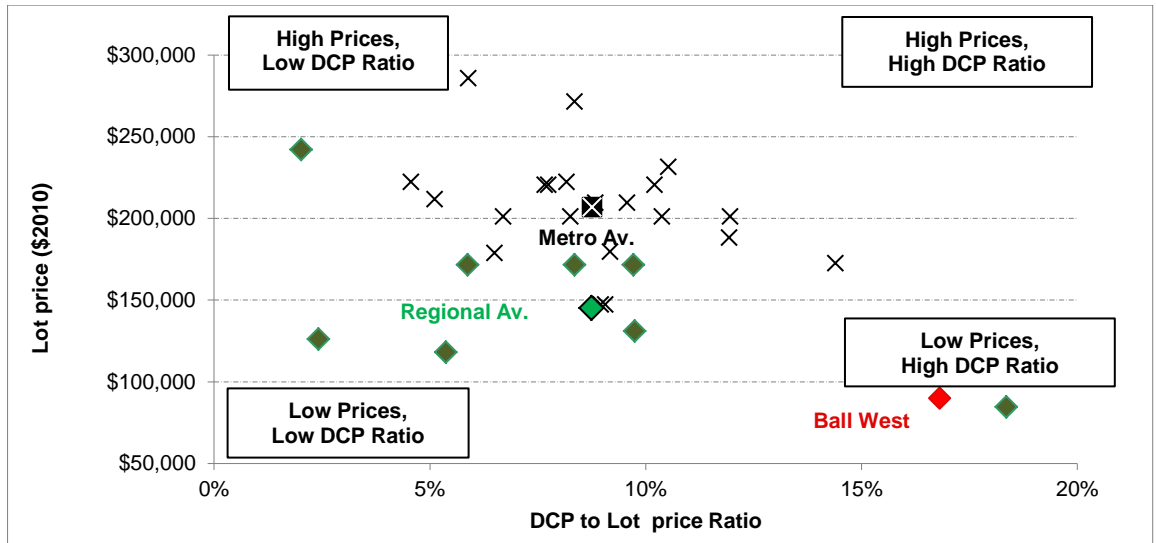
Figure 11: Full DCP Costs (Year of DCP Approval) to Lot Price ratio.



SOURCE - Charter Keck Cramer, Urban Enterprise (May 2012), Melbourne Water, VGV, NLSP.

It is generally observed that there is a direct relationship between lot prices and the DCP Cost per lot and Lot price ratio with a clustering of the ratio between 6% and 10% which contrasts with the observation of the Ballarat West ratio at 17% and underscores the significant challenges it will face in attracting new residential development to actually commence notwithstanding its PSP approval and zoning status.

Figure 12: Comparison of Median Lot Prices and DCP Costs to Lot Price ratio.



SOURCE - Charter Keck Cramer, Urban Enterprise, Melbourne Water, VGV, NLSP.

4. IMPACTS OF BALLARAT WEST DEVELOPMENT CONTRIBUTIONS PLAN.

4.1 Competition for Investment.

Ballarat's new housing and greenfield land markets must compete for private capital investment from the development industry against a number of other regional and metropolitan land markets.

Given that Ballarat is already a lower priced land market, with a substantially lower volume of residential land transactions than occur in the nearby Geelong market, there is already a perceived limitation upon the attractiveness to large developers (primarily listed corporates) to invest in Ballarat. Accordingly, private developers, especially those that are locally-based, are the most likely group of developers to participate in the BW PSP given their generally higher risk tolerance and longer investment timeframes.

Large developers typically have interests across a number of potential projects, which requires an evaluation of the most effective use of their scarce capital. Projects that do not meet required financial hurdles may be delayed or abandoned in preference to more profitable opportunities.

Larger developers are important to major identified growth areas because of their greater financial capacity to deliver large-scale projects although such developers are not attracted to greenfield locations such as Ballarat West that offer higher-risk returns over the long term that do not satisfy their shareholders' expectations.

The benchmarking of the BW DCP highlights and reinforces that it is one of the lowest price but highest cost submarkets for developers. This finding is especially evident when it is compared to the major regional competition such as Armstrong Creek which is a comparatively more attractive development opportunity.

Accordingly, the comparatively higher BW DCPs are a significant disincentive to investment, especially given that land prices are not commensurately higher. It is worth noting that Armstrong Creek has a long-term 30 year pipeline of supply and holds a number of fundamental advantages over Ballarat West, besides its lower DCP rate per hectare, from a property development perspective including it being a larger sales market and higher price submarket. The setting of DCP rates to the proposed levels will act as a further barrier to investment in Ballarat West.

4.2 Feasibility and Timing of Development.

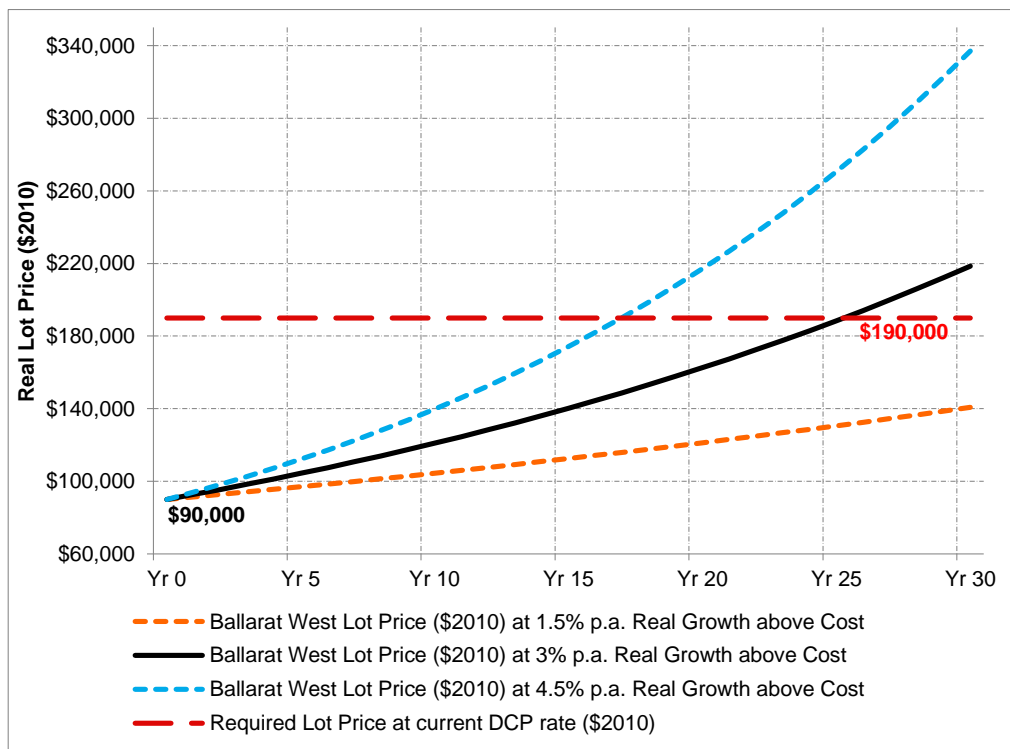
DCP rates that do not reflect the local property market context are likely to delay residential projects as developers will be forced to either wait for property prices to inflate sufficiently to return appropriate profit and be commensurate with the DCP cost (noting that DCP rates are also indexed over time). Alternatively, developers will abandon projects by selling sites and reinvesting in alternative and more profitable projects.

The observed significant deviation of the BW DCP rates from averages across the sample of Regional and Metropolitan DCPs implies that it represents an unattractive development opportunity because of the relatively higher cost but lower price context. In order for the BW PSP to align with observed industry-average ratios of DCP cost to lot prices, the following changes would have to eventuate:

- **Scenario 1:** Assuming that the lot price of \$90,000 remains constant (in real terms), the BW DCP will need to reduce to \$107,500 per ha. or \$7,170 per lot (in \$2010 terms) which represents a -53% reduction from currently proposed levels in order for the DCP Cost to Lot Price ratio be at the Regional (trimmed) average of 8% which would underpin more feasible development; OR
- **Scenario 2:** Assuming that the current DCP cost of \$226,900 (or \$15,130 per lot) remains constant in real terms, it will dictate that the economic-cost driven lot price threshold will have to be \$190,000 (in \$2010 terms) before development will be sufficiently feasible to justify commencement of activity. This threshold represents a 111% increase from the \$2010 market-evidenced price of \$90,000.

Assuming that the BW DCP rate is not recalibrated and prices must increase over time (as described in Scenario 2), there will be an excessive period before which development becomes feasible. The time required for prices to escalate to the required threshold level of \$190,000 (\$2010) is 25 years if prices increase by 3.0% p.a. (real terms over and beyond the DCP escalations). Even if lot prices escalate by 4.5% p.a. in real terms, the threshold will not be reached for 17 years but at a lower rate of 1.5% p.a. growth in real terms, the threshold will not be achieved for another 50 years. This analysis highlights the significant risk that urban development in the BW PSP is likely to be significantly delayed.

Figure 13: Time to meet required lot price threshold – Ballarat West PSP.



SOURCE - Charter Keck Cramer.

4.3 Residual Land Values and Highest and Best Use.

An alternative outcome within the BW PSP - if lot prices do not increase sufficiently or if DCP rates are not recalibrated to a lower level - is that underlying wholesale land values reduce to a point of enabling this input cost to offset the higher DCP costs.

Whilst lower wholesale land prices – and reduced gains for landowners from rezoning - may be considered as a desirable policy outcome, it must be appreciated that there are significant corresponding risks to the industry's inherent viability.

The highest and best use of land is determined by a combination of zoning, physical and economic factors. Currently, it is understood that the land within the BW PSP is generally degraded and unsuitable for continuing intensive agricultural uses implying that the highest and best use should not be for this purpose.

If however, the residual land value required to underpin new urban development (after allowing for embedded development related costs and charges such as the DCP) is below the value of land for alternative land uses (such as rural or low-density rural residential) there is no impetus for higher-density development to occur even though the Ballarat West Precinct Structure Plan and zoning now potentially allow for higher-order urban uses.

Accordingly, new land supply (and housing) will not be offered to consumers, notwithstanding any strategic planning designation of land as future zoned supply, because of the infeasibility of development whereby the potential profits available to (financially rational) developers will be less than what is required to deliver appropriate risk-adjusted returns.

The potential for zoned residential land within the BW PSP remaining vacant into the long term is primarily due to a misalignment in the highest and best land use from the planning and economic perspectives. This misalignment is caused by the distortionary impacts of the level of DCP costs relative to the underlying achievable land prices which renders any development to be infeasible. This situation is not considered to be in the best interests of land owners nor developers nor the City of Ballarat nor the community given that the planned future housing supply will not be forthcoming to meet future needs.

It must be recognised that the private development industry represents Government's agents for delivery of new housing. The private sector however operates most efficiently when there is the incentive of an appropriate profit margin to compensate for the inherent risks of its entrepreneurial activity. The proposed rates of the BW DCP however are set at such a level so as to act as a disincentive to private investment given the reality that this growth corridor will not be able to support the economic-cost driven prices (\$190,000 per lot compared to the market evidenced price of \$90,000) that will have to be sought in order to offset the high costs of the DCP.

4.4 Economic Impacts.

A delay in the development of land within the BW PSP, because of the misalignment in the level of achievable prices and DCP costs, will result in a reduced level of rates, taxes, stamp duties and development charges being collected by council and other levels of Government.

Reduction in the collection of revenue from the reduced level of development and real estate transactions, that would otherwise occur if DCPs were lower and less cost-prohibitive, is likely to also impact on the provision of other facilities, infrastructure and services elsewhere across the community.

In addition, the potential economic benefits of job creation through the land development and housing construction industries, which are primarily local, will also be delayed and significantly reduced. Reduced employment opportunities will imply lower income taxes and employment related revenues being generated.

4.5 Housing Affordability.

One of the foundation objectives of Growth Area planning, also evident in long-term planning for the BW PSP, is the creation of more land supply to deliver more affordable housing supply to meet the needs of a growing population base.

The ability to offer affordable housing has been a key factor in Ballarat's continuing strong rates of population growth and also provides for wider social benefits to existing and future residents. Benefits associated with the provision of affordable housing are dependent on residential development being feasible for developers to enable identified long term future supply to be efficiently converted to actual supply.

If supply is reduced, or the cost of it is distorted by the imposition of excessive costs such as a DCP, prices for the end housing will be subject to upward pressure as the underlying level of demand cannot be fully satisfied. The BW DCP implies that the economic-cost prices required to be achieved by developers to satisfy risk-adjusted return hurdles and align with alternative investment opportunities (\$190,000) are more than double the prevailing existing market-evidence price of \$90,000. This significant misalignment between cost of delivery and price will imply that the espoused benefits associated with the developer-funded contributions will not lead to new supply nor more affordable housing with the projected level of new residents having fewer but more expensive housing choices.

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Robert Papaleo is a Director of Charter Keck Cramer, a leading Australian strategic property consulting firm. He joined Charter in 1997 establishing Strategic Research and becoming a Director in 2002.

Robert has undertaken major engagements for both Private and Public sector Clients. Robert's diversity of experience provides an appreciation of wider issues impacting upon the performance of property markets at both the macro and site-specific levels.

Professional Background.

Qualifications and industry associations experience:

- Bachelor of Planning and Design (Planning) (Hons.) - The University of Melbourne (1994).
- Bachelor of Business (Property) (Distinction) - RMIT (1998).
- Member Economic Development Taskforce and Committee - Property Council of Australia (2012 – Present).
- Member Residential Developer Committee - Property Council of Australia (2009 - 2010).
- Member Planning Committee - Property Council of Australia (2006 - 2008).
- Member Research Committee - Property Council of Australia (1999 - 2003).
- Member of Reference Group - Victorian Retail Planning Policy Review, representative of Property Council of Australia (2007 - 2009).

Specialisation.

- Strategic Property Market Research.
- Project Assessment & Advice.
- Urban Economic & Planning Policy Analysis.
- Expert Witness.

Whilst undertaking research across all property market sectors, particular expertise in specific sectors includes:

- Mixed Use.
- Infill Residential (apartments & medium density).
- Greenfield Residential Estates.
- Commercial.

Industry Experience.

A selection of major projects undertaken for Public Sector clients include:

- Metro One Rail - Assessment of Station Locations and Development Opportunities.
- Future Housing Supply in Established Areas – Strategic Considerations.
- Industry Liaison –Infrastructure Projects.
- Office Relocation Strategy for State Government Agency - ERC Gateway Business Case Analysis.
- Review of Central City Accommodation Plan - Victorian State Government.
- Impact of Global Financial Crisis on Victoria's New Housing Supply.
- Urban Renewal Strategy - High Street & Plenty Road (Darebin).

- Activities Centres: Future Development Opportunities – Residential and Commercial (Dandenong, Box Hill, Footscray Frankston, Ringwood, Glen Waverley, Southland, Moonee Ponds, Coburg).
- High Rise Public Housing Estates - Feasibility Assessment of Redevelopment Options.

A selection of major projects undertaken for Private Sector clients include:

Property Research & Strategic Market Analysis.

- Due Diligence and Review of Investment / Development Strategies (several).
- The Coburg Initiative - Property Market and Strategic Economic Advice.
- Identification of Strategic Residential and Mixed Use Landbanking Opportunities.
- Docklands: Opportunities in Commercial, Retail, Hotel, Residential Apartment.
- Identification of Trends in Residential Living Preferences and Development Opportunities.
- Economic Benefits of the Victorian Residential Land Development Industry.
- State of Market - Residential Apartments in Central City Region (since 2001).
- State of the Market - Residential Apartments in Melbourne's Suburbs (since 2008).
- Business and Industrial Parks - Future Prospects.

Project Assessments & Advice.

- Identification of Market Opportunities for Major Strategic Sites (several including Carlton Brewery Site; Waverley Park, Kew Cottages site; Kodak site, Coburg; Orica site, Deer Park; Moonee Valley Racecourse, Moonee Ponds; P15 Altona North).
- Victoria Harbour / New Quay / Yarra's Edge, Docklands - Identification of Apartment Market Segment Opportunities.
- Estate One Business Park, Dandenong South - Economic Assessment.
- Burwood Square, Burwood - Residential, Serviced & Student Apartments: Demand and Supply Study.

- University Hill - Development Prospects & Economic Impact Assessment.
- Travancore Mixed Use Project - Market Assessments and Project Recommendations.
- Plenty Valley Central, South Morang - Assessment of Development Opportunities.
- Residential Apartment Project Assessments & Development Recommendations (various).
- Student Apartment Project Assessments & Development Recommendations (various).
- Residential Estates Project Assessment & Development Recommendations (various).

Expert Witness & Economic Planning Policy Analysis.

- Making the Numbers Stack Up: A study into Major Residential Urban Renewal in Melbourne (authored on behalf of Property Council of Australia)
- Before and After Assessment of Property Market Opportunities: Compensation Claims for Compulsory Acquisition (industrial, residential, mixed use, commercial).
- Residential Apartments in Outer Suburban Activity Centres - Craigieburn Town Centre.
- Sanctuary Lakes Shopping Centre - Economic Assessment of Proposed Extension.
- Yarraville Gardens (Bradmill site) - Economic Assessment of Proposed Rezoning.
- Warrnambool Retail Strategy - Proposed Rezoning Assessment.
- Cranbourne West Growth Area PSP: Assessment of Office and Industrial Development Prospects.
- Glenferrie Place, Hawthorn - Student Apartments: Demand and Supply Study.
- Nova Centre, Clayton - Proposed Mixed Use Development: Economic Impact Assessment.