



20 September 2005

Mr Charles Johnson
Chief Executive Officer
City of Wanneroo
Locked Bag 1
WANNEROO WA 6946
By email: phil.thompson@wanneroo.wa.gov.au

Attn: Phil Thompson

Dear Mr Johnson,

Draft Local Housing Strategy

The Urban Development Institute of Australia (UDIA) is the peak industry body representing the urban development industry in Western Australia. It is in this capacity that we respond to the Draft City of Wanneroo Local Housing Strategy July 2005.

UDIA supports the stated objectives of the strategy and the majority of the actions proposed to achieve these objectives. In particular we support proposals for:

- Application of minimum rather than maximum densities.
- Preparation of guidelines for achieving different net residential densities across a site.
- Higher urban densities to be achieved around town and mixed use centres and transit nodes.
- Urban design elements consistent with the Liveable Neighbourhoods Strategy.

However UDIA members are concerned about some aspects of the strategy and believe that the City of Wanneroo should give these issues further consideration. This includes the following recommendations:

- Recommendation 9.2.2 (d) – That the City of Wanneroo develop a policy for developer contributions to affordable housing for ‘inclusionary zoning’- to capture part of the value for affordable housing where a rezoning for denser development or a rezoning for a change of use to residential can give substantial windfall profits.
- Recommendation 9.4.1 (c) – That the City of Wanneroo continues to negotiate with developers to ensure that necessary infrastructure is provided to the community. This should be based on previous negotiations where developers have borne the cost of providing infrastructure based on community needs rather than a formula based approach.



Recommendation 9.2.2 (d) Developer Contributions for Inclusionary Zoning

This recommendation appears in the Local Housing Strategy without any background information or rationale for the suggestion being provided within the text of the document. UDIA does not believe that this type of complex proposal should be made by any level of government without detailed consideration of all other options which are available to fund affordable housing and a full and open assessment of the potential positive and negative consequences of the scheme. We therefore strongly suggest that this recommendation is removed from the Local Housing Strategy.

In addition we make the following comments in regards to this recommendation:

a. Not Supported by WA Planning or Legal System and Implementation Difficulty

The implementation of an inclusionary zoning scheme is a complex and legally questionable proposition which we do not believe is supported by the planning or legal system in Western Australia.

Currently the Western Australian planning system does not support the concept of inclusionary zoning or betterment (which in effect seeks to tax a landowner at the time of development for any upzoning that has occurred – basically as a result of the passage of time in a growing area) due to recognition in state government of the substantial limitations of such schemes.

Firstly it is evident that introducing betterment or inclusionary zoning levies has political implications. Secondly, they are very difficult to implement. For example in the case of planning decisions, the difference between before and after valuations is unlikely to be an accurate measure of the actual increase in land values resulting from zoning, since in most situations the change to a more intensive land use is likely to have been anticipated by the market months or even years in advance. Secondly, a betterment levy cannot work in reverse and compensate where land value is lost due to 'down zoning'.

b. Fails to Consider Development Models or Market Complexities

In addition, we believe that the premise that the scheme will '*capture part of the value for affordable housing where a rezoning for denser development or a rezoning for a change of use to residential can give substantial windfall profits*' is fundamentally flawed and fails to properly understand or consider the diversity or complexity of development models which are currently implemented in the state or the realities of the market, particularly in an authority such as the City of Wanneroo.

Firstly, very few and an ever decreasing number of land developers currently operate using the model of long term land banking. This refers to a development model where the time frame of land purchase is typically 10-15 years ahead of development although it can be much longer. The cost of land in these circumstances depends on a number of factors including:

- its current zoning and the expectation of a zoning suitable for development;
- its alternative use; and
- expectations of the timing of development.

Under this model the developer in question purchases the land in advance and takes a risk that the property may or may not be able to be developed for residential use in the future.

Development companies pay less for sites that have less development potential or for which rezoning is unlikely to occur for a long period of time. Any profit that is gained when rezoning occurs is a necessary incentive for the company to bear the risk that rezoning may not occur.



Where rezoning is likely to occur within a shorter timeframe the land obviously costs the developer more to purchase – meaning that the original englobo land owner receives as much or more of the ‘windfall’ profit from rezoning as the development company. Therefore, in theory, there would be a need to charge the englobo land owner as well as the development company in order to capture the perceived ‘windfall profits’ which Recommendation 9.2.2 (d) suggests occur as a result of rezoning.

For land banking developers, the introduction of inclusionary zoning schemes is likely to have one of the following impacts:

- The additional costs will be absorbed with no change in development time frames and end sales prices will “meet the market”. This is especially the case for land owned by Government Agencies; or
- Development timing will be delayed until the overall market adjusts to meet current return expectations. The effect of this will be to reduce the supply of developed land for a period of time until a new (higher) market equilibrium price is established;
- Development companies will refrain from purchasing sites in the local authority where developer contributions apply in favour of purchasing land in alternative local authority areas.

More commonly in today’s market developers work within a model where land is purchased with a short to medium term development time frame. This means that rezoning has either occurred or has a level of certainty prior to land being purchased and land is then purchased at full market rate with the ‘rezoning windfall’ being primarily captured by the englobo landowner.

The introduction of additional developer contributions will have one of the following impacts on developers operating through this model (these are dependent on the timing of the announcement on developer contributions):

- If there is knowledge of developer contributions prior to land being purchased, the assumption is that it will result in a lower value for the raw land. However, developer experience is that land sellers will not necessarily accept a lower price than the current market. A large proportion of land in this category either has an alternative use (eg a market garden) or very long term land owners who feel no pressure to sell at a reduced price. The general effect is not a reduction in the price of raw land but for the vendor to hold the land for a further period. This effectively reduces the supply of raw land for development.
- If developer contributions are announced after land is sold and the development process has commenced, then the developer will either:
 - delay development;
 - abandon development;
 - attempt to increase general price levels (this may be possible in a rising market); or
 - concentrate on a higher yielding product for a period.

c. Limited Capacity for Implementation in City of Wanneroo

In regard to the ‘upzoning’ of land to allow for higher density development UDIA is concerned that there is very limited capacity in the City of Wanneroo to implement this type of incentive because the market for higher density product is relatively limited (particularly when lot sizes have already substantially reduced in recent years) and primarily exists around town centres or transit nodes.

In regards to these areas feedback from the development industry indicates that higher density development in areas like Wanneroo is still perceived by industry to be higher risk than standard single residential product. UDIA does not believe that it would be prudent for the City of Wanneroo to discourage developers from producing more diverse and higher density product in the City by introducing an inclusionary zone levy or contribution to act as a further disincentive for



developers, particularly when encouraging this type of development is a key objective of the Local Housing Strategy.

d. Weaknesses of Inclusionary Zoning Schemes

Furthermore, international research on the effectiveness of inclusionary zoning schemes has found that, in many cases, they are not highly effective in producing affordable housing units and, where successful require a wide range of incentives to be provided to the developer to encourage participation in the scheme rather than simplistically charging developers for residential zoning or 'up zoning'.

For example, a report recently released by the Reason Public Policy Institute in the United States has found that inclusionary zoning is only one avenue available to local authorities to encourage provision of affordable housing product and assessment of examples in the United States suggests that on its own, the initiative does not come anywhere near providing the amount of affordable housing necessary to meet the demand of the community. In fact the report found that inclusionary zoning schemes can actually increase the overall costs of housing for the wider community due to costs being passed on to the purchaser by the developer and reduced housing supply.

In this regard the study found that inclusionary zoning drives away builders, makes landowners supply less land for residential use, and leads to less housing for homebuyers—the very problem it was instituted to address.

In the 45 cities in the United States where data is available, the study found that new housing production drastically decreases the year after cities adopt inclusionary zoning. The average city produced 214 units the year before inclusionary zoning but only 147 units the year after. Thus, new construction decreases by 31 percent the year following the adoption of inclusionary zoning. In the 33 cities with data for seven years prior and seven years following inclusionary zoning, 10,662 fewer homes were produced during the seven years after the adoption of inclusionary zoning. By artificially lowering the value of homes in those 33 cities, \$6.5 billion worth of housing was essentially destroyed.

In addition the study found that over a period of 30 years in the United States inclusionary zoning has only yielded 6,836 affordable units, a very small return particularly when considering the negative impacts outlined above.

e. Need for Incentive Based Scheme Developed Through Industry Consultation

UDIA believes that, if the City of Wanneroo wishes to encourage the provision of more diverse and affordable housing products within the local authority area then, rather than seek to apply developer contributions as a disincentive to industry, the City should work with industry to develop appropriate types of incentives which could act as a real trade off to the increased risk and cost that will be borne by the private sector in these types of projects. These should be developed through an open and transparent process with substantial industry consultation. These types of schemes have been developed around the world and include incentives such as:

- density/height bonuses;
- fee waivers;
- relaxation of regulatory requirements;
- expedited approval processes;
- tax abatement.

Recommendation 9.4.1 (c) Developer Contributions for Infrastructure

UDIA has some concerns regarding the wording of this recommendation on the basis that it suggests that developer contributions will be applied on an ad hoc basis without a transparent process through which a developer can identify what types of infrastructure the Council is likely to require them to fund and how the contribution amount has been determined.

It is evident that developers already make significant contributions to the provision of infrastructure for urban development in the City of Wanneroo. Based on current data this contribution can equate to over 40% of the total potential market price of a lot of land. UDIA does not support any additional levies being applied by Council through the development process.

We believe that it is essential that the City clarify precisely what infrastructure Council intend developers to contribute towards (as standard practice) and what changes (if any) they intend to propose to the current arrangements. In particular, the timing and magnitude of such contributions need to be carefully considered as these issues will impact directly on housing affordability.

In this regard UDIA is strongly of the view that it is the role of state and local government to plan for new urban development and ensure that infrastructure to support this development is provided in a timely and efficient manner. We would not support initiatives by Council to charge developers for the provision of regional infrastructure which is the responsibility of government and which residents pay for through taxation and rates revenue. We believe that requiring a single developer or residents in a single residential estate to pay for this type of infrastructure for the benefit of all residents in the local authority or region is unfair and inequitable.

Conclusion

UDIA supports the majority of recommendations outlined in the Draft City of Wanneroo Local Housing Strategy, however we have a number of concerns regarding recommendations relating to developer contributions, particularly Recommendation 9.2.2 (d) which we request the City of Wanneroo removes before the Strategy is finalised.

UDIA would be happy to assist in facilitating a development industry response to the City of Wanneroo in regards to the types of incentives that we believe may be appropriate to encourage housing diversity and affordable product in the City as alternatives to developer contribution schemes.

Thank you for the opportunity to comment on this Strategy. If you would like to discuss any of the issues raised, please contact Gemma Davis or myself on 9321 1101.

Yours sincerely,



MARION FULKER
Executive Director