# Planning and housing affordability: the good, the bad and the uncertainty.

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# Housing affordability and affordable housing

- Housing affordability – Land; New Housing; Existing Housing; Social Housing etc.

- What is affordable housing?

- Affordable to whom? Suitable for whom?

# How does planning impact on affordability? Positive

- Delivery of amenities – neighbourhood quality

- Transport infrastructure

- Open space

- Quality planning can decrease affordability but is this a bad thing?

  - Resulting from increase in amenities/general quality of an area

  - Do we want cheap, poorly planned subdivisions or to add value to an area?

# How does planning impact on supply?

- Number of factors that determine whether something gets developed
  - Is there a demand for the product?
  - Can the landowner and developer make their required return from this demand?
  - Will the bank provide finance?
  - Can development approval be secured?

# How does planning impact on supply?

- Planning determines what can be developed on land which then determines the revenue

- Land value = Revenue - Costs

- The greater the revenue that can be exploited from a site, the greater the potential land value and profit

- Planning therefore is a major determinant of economic viability

- Planners should understand how their decisions impact on development viability

# Development Feasibility

- Net Revenue                                    $10m
- Physical Construction Costs            $6m
- Developer Contributions                  $0.5m
- Professional fees                            $0.2m
- Finance                                          $0.5m
- Land                                              $1m
- Developer's Profit                          $1.8

- How can planning affect each variable?

# How does planning impact on values?

- Land Values
  - Re-zoning – land value uplift e.g. rural land zoned residential may rise from $200k per Ha to $1m per Ha
  - Sub-division – Increases potential revenue
  - Height bonus – increases potential revenue
  - Anything that increases costs – decreases potential land value/profits

# 3 Storey walk up apartment development

| | |
|---|---|
| Revenue per floor = | $600,000 |
| Total Cost per floor = | $300,000 |
| Total Profit = | $900,000 |

| | |
|---|---|
| Revenue per floor = | $350,000 |
| Total Cost per floor = | $300,000 |
| Total Profit = | $150,000 |

High Value/Demand Suburb

Low Value/Demand Suburb

# But height does not necessarily equal profit
# 5 Storey apartment development

**Floors 1-3**
Total Profit =                           $900,000
**Floors 4-5**
Revenue per floor =                      $650,000
Total Cost per floor =                   $450,000
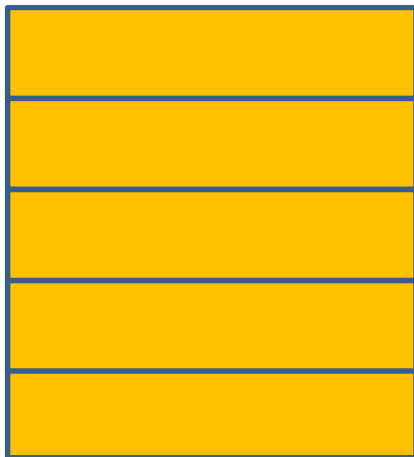Total Profit (Development) =  $1,300,000

**Floors 1-3**
Total Profit =                           $150,000
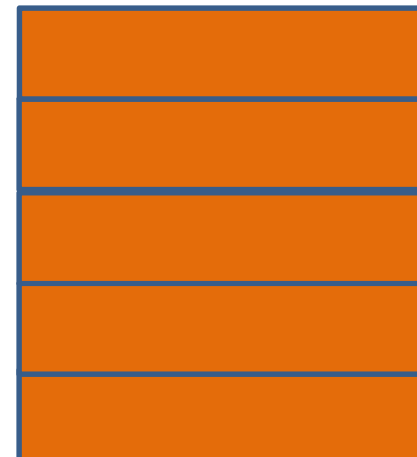**Floors 4-5**
Revenue per floor =                      $350,000
Total Cost per floor =                   $450,000
Total Profit (Development) =  -$50,000

High Value/Demand Suburb

Low Value/Demand Suburb

# How does supply affect affordability?

- Standard economic theory – an increase in supply will reduce prices everything else being equal

- But supply takes time to respond to demand and

- How much supply will make a difference to prices and therefore affordability?

# Existing Housing Market - Stock and Flow

Housing Stock (Existing Dwellings)

| | |
|---|---|
| Total private dwellings | 693,327 |
| Separate house | 78.6% |
| Semi-detached, row or terrace house,   townhouse | 11.9% |
| Flat, unit or apartment | 9.1% |
| Other dwellings | 0.4% |

ABS Census Greater Perth

## Net Additions
Dwelling Completions – Demolitions = Net Addition to Stock
Demolitions estimated at around 2,000pa

## Housing Flow
Dwelling Completions
Around 20,000pa (3% of stock)

# Existing Housing Market

- So how does new supply impact on the existing housing market?
  - It doesn't – prices are driven by demand
  - New housing will take on the price characteristics of existing housing
  - Only in exceptional circumstances will new supply affect existing prices
  - Examples – oversupply of apartments; major land supply in a market with no substitutes e.g. Karratha

Dwelling approvals (2006-2010) per 1000 dwellings in 2006

| 12 - 37 | 38 - 59 | 60 - 81 | 82 - 118 | 119 - 192 | 193 - 319 | 320 - 621 |
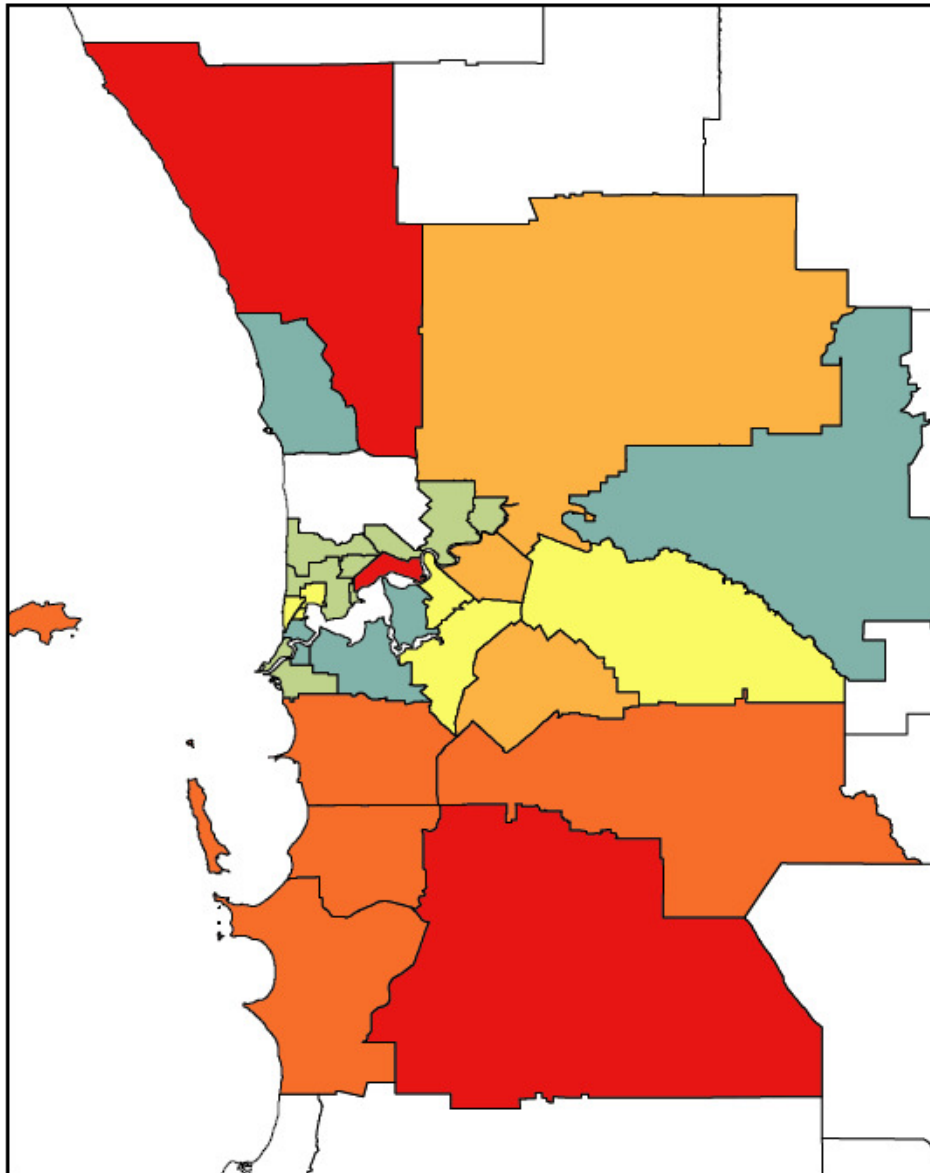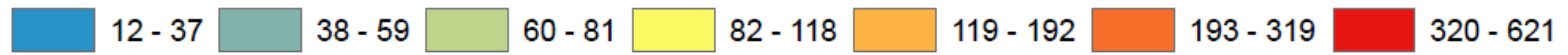
# So how can planning make a difference?

- Accept that the market will determine prices
- New supply has little impact on existing sub-market prices
- BUT Planning can deliver opportunities for affordable housing within new development
- Increase the range of affordable accommodation options available to those who cannot afford to access the private market

# Planning and the provision of affordable housing – Dept Planning Discussion Document

- Diversity does not equal affordability
- 1 bed apartments of limited demand
- Mandatory contributions already in place in some areas (e.g. MRA) but limited impact to date
- Some LGAs have already entered into voluntary agreements
- Must generate maximum affordable housing contributions from govt owned land
- Ensure contributions are affordable in perpetuity

# Mandatory Contributions

- I would like to see mandatory contributions across all sites but this would need to be embedded within policy for a number of years before it would deliver results

- Effective at re-zoning stage where land value uplift occurs – landowner should pay

- Mandatory policy requires certainty and ability for developers to pass AH contributions to landowners

# UK Experience

- Affordable housing contributions within local plans
- For example 30% of all units must be affordable – material planning consideration
- Affordable units – shared equity, social rent, affordable rental
- At peak delivered 60% (around 32,000) of all affordable units in 2009 in England
- AH funded through uplift in land values resulting from granting of planning permission
- Planners negotiated AH contributions with developers based on feasibility
- Required significant up-skilling of planners

# Summary

- If a developer can make a profit from a site then they will do whatever they can to get through the planning process

- Quality planning will increase prices - that is not a bad thing

- Planning cannot tackle affordability in the existing housing market

- Provision of affordable housing within new developments is essential to ensure delivery of affordable housing

- Dept planning consultation a step in the right direction