

5 December 2008

General Manager
Graeme Faulkner
Byron Shire Council
P O Box 219
Mullumbimby NSW 2482

By email: council@byron.nsw.gov.au

Dear Mr Faulkner,

Re: Draft Byron Shire Direct Contributions Plan 2008

The Urban Taskforce is an industry organisation representing Australia's most prominent property developers and equity financiers. Our membership also includes key infrastructure providers, economists, planners, architects and lawyers involved in responsible and sustainable property development. We are pleased to provide the following comments for your consideration.

As you would appreciate, there is a chronic shortage of land for urban development. This is making existing land available for residential development more expensive, which in the end is making housing in NSW less affordable. Council is in the process of completing its Affordable Housing Strategy and would be well aware of some of the affordability challenges experienced in Byron Shire. The Urban Taskforce supports the view that the problem of housing affordability in Australia is a function of strong demand and limited supply.¹ To make housing more affordable, we need to get more houses built and onto the market. Unfortunately, unless significant initiatives are put in place so that there are improvements on the cost and availability of land, housing prices will continue to escalate.

In this regard, Byron Shire Council must be mindful of the impact that increases in developer contributions will have on land and housing affordability. If Council is really concerned with housing affordability it must look at the cumulative total of developer fees and charges, not just section 94 contributions in isolation. Council must recognise that if it makes land too expensive to develop, developers will simply look for an alternative market. This may seem attractive to the anti development lobby, but without an appreciable increase in development, housing affordability will continue to be a challenge.

Those within the community and council who argue for increases in development levies are mistaken if they believe that the developer ultimately bears the costs of new or increased developer charges. It is the land or homebuyer who must pay. This is because modern capital is mobile. It flows to wherever it gets the best return. [A local developer will not be able to secure equity for a development unless the rate of return is consistent with investments of a similar risk profile in other areas.](#)

In order to ensure that a market rate of return is achieved, a developer will either reduce the amount of money paid for undeveloped land, or increase the price paid by the home buyer. However, often the home buyer cannot afford an increase in land price due to a new or increased levy because there is a ceiling on the price that home buyers are able to pay, i.e. their borrowing capacity. The maximum amount that home buyers are able to borrow is in turn based on their income. Without increases in income, home buyers are unable to pay more for new homes. As a result, any project, which cannot be delivered at a price home buyers currently can afford, simply doesn't get built.

¹ Commonwealth of Australia (2008) A good house is hard to find: Housing affordability in Australia, June 2008.

That's why, in part, the supply of new houses in NSW has almost completely dried up. State, federal and local council charges cannot be afforded by anyone – land owners, developers or home buyers. So the homes simply don't get built.

The Urban Taskforce has made numerous submissions to Government on the importance of ensuring development fees and charges are reasonable. In this regard, we strongly argue for an element of market reality when determining development charges, particularly when preparing a section 94 contributions plan. We are of the belief that this approach has not been adopted when preparing the Byron Shire Contributions Plan. For instance, in the Byron Bay/Suffolk Park area it is noted that the proposed section 94 contribution per dwelling is up to \$31,759. The Urban Taskforce must express grave concern with the imposition of such a tax on development. This exorbitant charge, when added to existing development services plan charges, possible housing affordability contributions, the high acquisition cost of undeveloped land and the numerous other charges will result in the cost of producing lots being higher than the market value. This simply means that no land is developed; demand for housing continues to outstrip supply and hence housing remains out of reach of those in greatest need.

Council cannot both espouse the need to provide more housing at an affordable price while at the same time is prepared to support a massive increase its section 94 contributions. For example, Council is suggesting an increase of approximately 38 per cent for each detached dwelling above existing section 94 contribution, taking the section 94 contribution rate from \$19,497 to \$31,759 for a single detached dwelling in the Byron Bay/Suffolk Park precinct. This will surely guarantee that development does not proceed and housing will remain unaffordable to a great majority of the community.

The Urban Taskforce is also concerned with the lack of information provided in the exhibited draft contributions plan. The works schedules are little more than wish lists with dollars assigned. Council cannot expect the community to accept significant project estimates without some detail to justify the cost. For example, the library resources and project management cost estimate is \$5.9 million dollars, but there is nothing in the plan that properly explains what this is actually for. Community centre improvement programs costing in excess of \$5 million and public domain improvements of \$5 million are listed without the inclusion of the scantest project detail. Loosely worded generalisations are not sufficient. Council must exhibit summary details of improvements upon which cost estimates were developed. Without appropriate project specification and justification Council is not being transparent and the community is unable to hold Council accountable for project quality or delivery.

The Urban Taskforce is not alone in expressing concerns with local council cost shifting. Evidence and submissions presented to the Senate Select Committee on Housing Affordability in Australia supports our concerns. That is, because infrastructure costs are being transferred to the developer, local authorities may have a tendency to "gold-plate" excessively expensive infrastructure. For example, in his evidence to the Committee, Professor Troy stated that "we are very generous about what we do with road supplies.....one of the reasons that we do this is that now we have the developer paying for it....".²

Council may think that its section 94 plan and contribution rate is justifiable. However, if the charges on the developer included in the plan increase the selling price of each lot to a level that it is above the market value of land, no new lots are produced. The developer is unable to recover the cost of producing land and putting lots on the market, which in reality means no new housing in the areas where demand is at its highest.

² Commonwealth of Australia (2008) *A good house is hard to find: Housing affordability in Australia*, June 2008. pp. 110

Reducing infrastructure charges will increase supply of land coming onto the market. An increase in supply must result in an overall reduction in cost.³

The Urban Taskforce implores Council to carefully consider the contents of this correspondence and apply an element of market reality when setting section 94 contribution rates. Furthermore, Council must place on exhibition summary project details with sufficient information to justify project costs stated in its draft plan.

Thank you for providing us with the opportunity to offer our comments and should you require any further clarification of the content of this correspondence, please feel free to contact me.

Yours sincerely

Urban Taskforce Australia

A handwritten signature in black ink that reads "Aaron Gadiel". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

Aarón Gadiel
Chief Executive Officer

³ BIS Shrapnel (2008) *Is there a housing crisis?* Summary of talk by Frank Gelber at the Melbourne Institute and the Australian 2008 Economic & Social Outlook Conference, 'New Agenda for Prosperity' 27 March 2008.