ACCOMMODATING GROWTH
BUILDING BETTER COMMUNITIES
DELIVERING AFFORDABLE HOUSING

Multi-Level Residential
REMOVING THE BARRIERS TO VERTICAL COMMUNITIES

The Voice of Leadership
In February 2010, the State Government launched the 30-Year Plan for Greater Adelaide. This Plan, one of the first of its kind in the nation, clearly outlined the future challenges of population, a growing economy, climate changes and how Adelaide will grow to meet these challenges.

In particular, this Plan drives a shift away from sole reliance on traditional greenfield living by creating greater urban infill through urban walkable villages and increased densities along transport corridors.

The challenges have been welcomed by industry and the broader community, and this paper seeks to create a partnership to enable the Government’s and the State’s targets to be met.

The first urban village has been announced with the release of Bowden Village. This will be the perfect opportunity to make sure we get this new urban form right. To do that we need to reflect the targets and goals of the 30-Year-Plan and South Australia’s Strategic Plan back through legislation to ensure everything is pulling in the right direction.

This paper will outline some key areas that for reform to ensure in the goals and targets are achieved.
Stamp Duty

Stamp duty is one of the major financial obstacles to apartment living. People wanting to buy an apartment pay more in stamp duty for buying a dwelling type that the government is promoting.

In a traditional purchase of a house and land package, stamp duty is generally only calculated on the cost of the land as opposed to the purchase of an apartment where the homebuyer pays stamp duty on the value of the completed product. On a $400,000 apartment a buyer can expect to pay around $11,500 more in stamp duty than when purchasing a house and land package.

In both Victoria and New South Wales, the governments have introduced incentive schemes that promote apartment living, such as stamp duty concessions for “off-the-plan” sales and stamp duty concessions for over 65's wishing to downsize.

These reforms make inroads into making apartments a competitive product to house and land packages as well as driving increased market activity during the current tough times. They must be considered for South Australia.

Open Space Levy

Section 50 of the Development Act 1993 requires that where a division of land involves more than 20 allotments, and one or more allotments is less than one hectare in area, that up to 12.5 per cent of the land area being divided must be vested in the relevant Council or the Crown to be held as open space. In cases where this is not practicable, the applicant must make a direct financial contribution to the establishment or redevelopment of open space. This money is put into a general open space fund rather than directed to the area in which the levy is collected.

The fee currently amounts to an additional $5,430 per apartment.

In contrast to high density developments in inner-city areas, low density developments often have little difficulty allocating the mandated open space into the development package. In most cases the availability of open public space is a marketing advantage to such developments. High density and high rise developments generally do not have the luxury of allocating the mandated space as they are often constructed in built-up and constrained areas.

As the Act stands, any alternative provisions by which a developer could offer purchasers open space - such as streetscape treatments, rooftop gardens or common areas - are not recognised as open space. Inner city developments are particularly disadvantaged in this respect as open space already exists in abundance in the Adelaide Park Lands surrounding the city. Further, funds collected in one area are not necessarily spent in that area, meaning the developer has lost funds with which they could otherwise improve the amenity of the immediate and surrounding area through the existing community.

Environmental Impact

Last year, the State Government introduced a minimum energy efficiency regime for residential dwellings as agreed by COAG. This regime increased the required energy efficiency of dwellings from 5-Star to 6-Star as measured by energy use. However, multi-level residential buildings tend to use more energy as a consequence of ancillary equipment such as lifts and lighting of common areas. In addition, the costs of achieving this higher standard is dramatically higher for apartments than detached dwellings. In some cases, this can add an additional cost estimated to be around $13,000.

This current model for measuring the environmental impact of dwellings does not reflect the Government’s own assumptions of environmental benefits of apartment living in urban villages and on transit corridors.

There is a clear need to move to a system that appropriately reflects the benefits of apartment living without the financial penalty for doing so.

FOOTNOTES

1 Modelling based on apartment cost of $400,000 versus house and land package where the land component is $150,000.

Tough times to grow up

+ stamp duty disincentives
+ open space levy contributions
+ higher construction, financing and marketing costs
+ minimum car park requirements
+ minimum space requirements
+ height restrictions
+ inequitable sustainability requirements
Height Restrictions

Adelaide’s excessive and overly conservative height restrictions form a critical barrier to multi-level communities. They constrain the development potential of underutilised parcels of land and in turn they constrain innovation in design.

Height restrictions have one of the greatest impacts on city developments, where the Adelaide City Council has imposed excessive restrictions in areas that have a high demand for residential living. These areas have been identified as:

- along West/South/East Terraces;
- around Hurtle and Whitmore Squares;
- along Morphett and Pulteney Streets (south);
- across the northwest corner of the City (to capitalise on the new hospital and medical research institute precinct);
- along Greenhill Road, Fullarton Road and Dequetteville Terrace (to create opportunities for Park Lands-facing apartment living); and
- within the expanded Mixed Use Zone (to the southwest and southeast of the existing zone boundary).

Minimum Space

The issue of minimum space requirement has been a source of great and ongoing conflict between the development industry and councils over the last few years. On one side of the argument, smaller apartments are more affordable and sought by segments of the market; on the other are antiquated notions of minimum space standards. In order to remove minimum space requirements as a barrier to multi-level higher density living, a balance between the two must be struck.

Particularly in the case of student and serviced apartments, the lifestyle requirements of occupants is vastly different to that of those accustomed to a suburban lifestyle. Planning requirements should recognise this disparity and provide a variety of options to meet the diverse needs of home buyers in South Australia.

Car Park Requirements

Most councils demand a minimum of one to two car spaces per apartment (dependant on size). High car parking requirements in new residential developments where they may not be necessary - the CBD being a case in point - lead to reduced affordability. It is estimated that the cost for providing a single car park can be up to $40,000.

At the same time, the minimum car parking requirement is a direct contradiction to the State Government’s commitment to increasing public transport usage and reducing traffic in the CBD. There must be a compromise between providing consumers with the choice of buying an apartment with a car park at a higher price or a cheaper apartment without a carpark.

Student and serviced apartments should be exempt from the car park requirements, to ensure the continual supply of affordable student and short stay serviced accommodation.
THE COSTS OF DOING BUSINESS

Project Finance

Due to the nature of project financing and banking regulations, developers of high-density residential properties face significantly higher financing cost than their low-density counterparts. Low-density developers benefit from the ability to draw on purchaser finance to fund the project with ‘off-the-plan sales’. Banks funding the purchase of higher density developments will not forward on lending to developers until completion of the project, requiring developers to fund the entire project until completion.

In addition, with the current financing environment some institutions are requiring up to 120 per cent pre-sales to obtain finance in recognition of the risk of some purchasers reneging on their contracts.

This all leads to significant holding costs, meaning only those developers with significant financial liquidity will make such investments. In a market where multi-level residential living is seen as the poor cousin to broadacre developments, the number of players in this field is severely reduced.

Resolutions such as ‘progressive payments’ systems could allow a developer to request payments at staged points along a development, as occurs with greenfield developments.

Construction Costs

Construction of higher density developments can be as much as three times the cost of low density developments due to the nature of construction (see below).

The major cost disparity reflects the relative strength of Adelaide’s traditional low-density construction sector. Adelaide has the lowest cost of construction for low-to-mid density developments in the country and the highest in the country for high-density development.

However, more must be done by the industry to integrate new and cheaper forms of construction such as unitised and pre-fabricated construction techniques to reduce these costs.

<table>
<thead>
<tr>
<th>Project</th>
<th>Cost (per sqm)</th>
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<tbody>
<tr>
<td>Project House- Medium</td>
<td>$1075-1250</td>
</tr>
<tr>
<td>standard. 120/140sqm,</td>
<td></td>
</tr>
<tr>
<td>Brick Veneer</td>
<td></td>
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<tr>
<td>Town House- two storey</td>
<td>$1350-1480</td>
</tr>
<tr>
<td>full brick with tiled roof</td>
<td></td>
</tr>
<tr>
<td>Medium standard</td>
<td></td>
</tr>
<tr>
<td>Walk-up apartments</td>
<td>$1780-1990</td>
</tr>
<tr>
<td>Medium standard</td>
<td></td>
</tr>
<tr>
<td>Multi-unit, high density</td>
<td>$2550-2850</td>
</tr>
<tr>
<td>apartments. Medium</td>
<td></td>
</tr>
<tr>
<td>standard with balcony</td>
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</tbody>
</table>

Source: Davis Langdon

Stamp Duty $11,500
Open Space $5,627
Inconsistent Energy Regulations ≈ $13,000
Car Parking ≈ $40,000

DIRECT COSTS TOTALING up to $70,127
GETTING THE BALANCE RIGHT

Consumer Preferences

Historically, the vast majority of the Adelaide’s residents have expressed a lifestyle preference for detached housing in suburban areas. Therefore it can not be assumed that the lack of existing multi-level stock will provide sufficient demand for developers to deliver the high density dwellings that will be required to achieve the targets set in the 30-Year Plan for Greater Adelaide.

While it will be possible to deliver a significant increase in the supply of attached dwellings by 2040, the public perception of insufficient social benefits in this lifestyle preference presents a significant risk to achieving the targets.

The Government cannot afford to ignore this risk and adopt a “build it and they will come” approach to future development.

The Government must support a programme that showcases the social, educational, cultural and recreational benefits of this type of lifestyle and helps diminish the negative public view of high density development. The Bowden Urban Village provides an excellent opportunity to showcase the benefits of this lifestyle to the public, similar to the program run by the Land Management Corporation at Lochiel Park.

Lifestyle

The 30-Year Plan for Greater Adelaide aims to significantly increase the percentage of high-density dwellings in the CBD and other activity centres over the next 30 years. This will considerably improve the lifestyle choices available to residents into the future. However, for higher density living to be an attractive and affordable lifestyle choice for consumers, the government must resolve the disparities between low- and high-density living.

Within the CBD, identified as a major growth area, the Government and the Adelaide City Council must make city living more attractive by activating the Park Lands, improving shopping and entertainment precincts and providing fast and reliable public transport in and around the city.

Community Acceptance

There is a predominance in Adelaide of anti-development or “not-in-my-backyard -and-not-over-there-either” views in areas earmarked for change. This has the potential to significantly slow planning and approval process, and ultimately challenge the capacity of the region to achieve the infill targets.

Within the CBD the major contributor to these views are councilors who represent a small number of local residents; their views do not represent the desires of many South Australians.

The Property Council has previously suggested the CBD be declared a zone of state significance in recognition of its importance to the state and in achieving many of the State’s planning and population goals. Doing so would balance the broader interests of the State in the CBD.
SOLUTIONS THAT WORK

Stamp duty concessions

The Victorian Government has achieved significant homebuyer support for apartments through its Stamp Duty Concession Scheme for “off-the-plan” sales, while the New South Wales Government offers similar incentives as well as further incentives for over 65’s to downsize to smaller dwellings freeing up bigger detached dwellings in well serviced neighbourhoods for young families.

Revenue reductions are offset by the increase in the volume of transactions. South Australia should investigate and introduce a similar scheme in order to create demand for this product to assist in achieving the Government’s targets.

Reducing costs

State, Local Government and industry will need to work in partnership to reduce the cost of producing higher density infill dwellings to make these developments more affordable for homebuyers. In particular, issues such as open space, whole-of-life energy efficiency and car parking should be targeted for reform.

Streamline Development Assessments

Councils must remove some of the roadblocks that slow the development assessment process for infill development. This could be achieved by making this type of development code assessable in nominated redevelopment areas and through the establishment of priority teams focused on ensuring infill development applications are progressed in a timely manner.

Promote the benefits of higher density living

To achieve any meaningful increase in the uptake of high density living, State and Local Governments will need to actively promote this lifestyle choice. Currently the market will struggle to deliver the quantity of units required to deliver the 30-Year Plan targets for infill at the prices at which they are likely to be in demand. State and Local Governments will need to play a leadership role in promoting greater demand for this type of dwelling. This should be similar to the work of the Land Management Corporation at the Lochiel Park Development.
RECOMMENDATIONS

1. Undertake a review of all Government legislation and regulation to resolve policy misalignments with the 30-Year Plan for Greater Adelaide.
   Suggested Responsibility: GPCC (Government Planning and Coordination Committee)
   Target Completion Date: 30 June 2012

2. Introduce new Stamp Duty incentives for all “off-the-plan” apartment sales to remove the disincentive to purchase this product.
   Suggested Responsibility: Department of Treasury and Finance
   Target Completion Date: State Budget 2011/2012

3. Conduct a review of the Open Space Levy (Section 50 of the Development Act 1993) with the aim of maximising community outcomes.
   Suggested Responsibility: Department of Planning and Local Government
   Target Completion Date: 30 June 2011

4. Investigate new environmental rating schemes that recognise the whole of life emissions of all dwelling types.
   Suggested Responsibility: Development Industry
   Target Completion Date: 31 December 2011

5. Ensure barriers inhibiting building conversions are removed from the Adelaide City Council Development Plan.
   Suggested Responsibility: Adelaide City Council with support from the Property Council.
   Target Completion Date: 30 September 2011

6. Invest in research into alternative housing measures such as drop-top housing, shop-topping and flat pack housing.
   Suggested Responsibility: Development Industry (Property Council + MBA + HIA), UniSA, Land Management Corporation and Adelaide City Council
   Target Completion Date: 31 December 2012

7. Develop and deliver a marketing program to promote the 30 Year Plan and the new paradigm
   Suggested Responsibility: Department of Planning and Local Government, Housing SA, Land Management Corporation
   Target Completion Date: 30 June 2011