

19<sup>th</sup> July 2019

The Secretary  
Select Committee on Housing Affordability  
House of Assembly  
Parliament House  
Hobart, Tasmania, 7000

Please accept my submission for consideration by the Select Committee on Housing Affordability.

As a property developer and someone who transacts property for a living, I see in real time the laws of supply and demand, and the commercial realities in our day to day property market. I believe these are the most critical driver in the housing crisis that greater Hobart is experiencing today.

For the last 3 years, in my capacity as Director for Qapital Investments, I have primarily focussed on identifying and acquiring development sites in the greater Hobart area. The vast majority of which have been focussed around identifying appropriate sites for residential development.

In order to identify a potential site for residential development there are many things that need to be assessed, some of which include;

1. Understanding which suburbs are in demand and have market appeal for a given target market
2. Proximity to Services, Schools and Shops
3. The political realities of the relevant Council;
4. How the zoning of the land impacts the total development capacity of the subject site

Although there are many other factors that need to be considered, for all developers, no matter how big or small, these are some of the fundamentals.

People often say, "there are a lot of development opportunities in Hobart". Before making this statement, one must first understand that just because land or properties are underdeveloped, it does not necessarily make them a viable development opportunity.

Hobart's Central Business Zone covers approximately 480,000m<sup>2</sup>. Most of the properties contained within this area however are not suitable for residential development. Below are some of the reasons why;

**Heritage Listed Properties** – Hobart has more heritage listed properties per capita than anywhere else in Australia. However, there is more than one heritage register. On top of the THC (Tasmanian Heritage Council) register, Hobart City Council also have their own register for properties which they consider to be of Heritage Significance. If a property is Heritage listed there is an extremely low likelihood for any development to occur on the site, therefore rendering the property not suitable for development.

**Properties Sold on Yield, not Rate per m<sup>2</sup>** – Typically there are 2 ways that the value of properties within this area are determined;

- i. Rental Capitalisation
- ii. A rate per m<sup>2</sup> of land

Whichever is the greater of the 2 values, is what the property typically sells for. Properties in Hobart Central Business Zone are typically leased, this means that most of the properties sell on yield rather than rate per m<sup>2</sup>.

Example: Property "A" is a 200m<sup>2</sup> property with Hobart CBD, with an annual rental of \$100k. The rate per m<sup>2</sup> for land on this property is \$3500 giving it a total value of \$700k. However, given there is a lease in place on the property, this particular property will sell on a 7% yield, attributing a value of \$1.42 million, which is twice as much as the economic and feasible value for development.

The land cost is a fixed cost that is absorbed and divided over the total number of dwellings which can be constructed within the site. With values being determined based on rental yield, it typically means properties become unviable for development without a large enough number of dwellings to spread the fixed cost over.

**Tenanted Properties** – Within the Central Business Zone there are multiple different properties, ranging from bulky goods retail, offices, retail and accommodation. With this said, these properties are usually encumbered by a lease of some sort. With many of these ranging from 3 – 12 years (when factoring in all the lease options). This then directly impact's the development potential, because although the site may be underdeveloped, it cannot be developed in the near future because of the restrictions of the lease that is in place.

### **Development Feasibility**

The development potential of a parcel of land is dictated by the planning scheme, meaning there are usually restrictions on how many dwellings can be developed on a site, or restrictions on what massing (height and bulk) can be constructed. Whatever the land cost and other fixed costs are for a given site, is then divided over the number of dwellings that can be constructed. Therefore, the less density achievable, or total number of dwellings, the higher the median cost of the dwellings for that site.

After the calculation of the fixed costs, the construction costs and other professional/ statutory fees are then added, leaving the total development cost of the project. However, in order to ensure banks or financiers will provide development finance a minimum margin of 20% of the total project cost (*Including interest*). This is then added on top of the total cost. As seen in the below diagram, on a hypothetical North Hobart block costing \$1,100,000, the difference between being able to construct 12 dwellings as opposed to 8 means a reduction in the median development cost of \$49,158 per dwelling.

Development costs	8 Dwellings	12 Dwellings
Total Development Cost	\$ 2,282,872	\$ 3,482,723
Required Margin*	20%	20%
Variable Land Cost **	\$ 917,128	\$ 1,317,277
Fixed Land Cost	\$ 1,100,000	\$ 1,100,000
Total Cost With Variable Land Price	\$ 400,000	\$ 400,000
Total Cost With Fixed Land Price	\$ 422,859	\$ 381,894
Actual Median Sale Price (With Margin)	\$ 507,431	\$ 458,272
Difference	\$49,158.50	
% Difference	-10.73%	
*Minimum margin required by banks to secure development finance		
**Land cost needed to achieve a median cost per apartment of \$400,000		

<sup>1,2</sup>

The economic realities are that these factors drive the end median price up, which is the costs borne by renters and homeowners. As per the below diagram, once other costs such as stamp duty and interest rates are considered, the difference in rental costs for potential occupants between an 8 and 12 dwelling development equates to approximately \$50 per week. This results in nearly an extra 5% of the average Tasmanian take-home income going to rent. For homeowners this means a difference in mortgage payments of \$46 per week.<sup>3</sup>

Costs for occupant	8 Dwellings	12 Dwellings
Dwelling Price	\$ 507,431	\$ 458,272
Stamp Duty	\$ 18,566	\$ 16,475
Deposit Required	\$ 101,486	\$ 91,654
Total Funds Required for Purchase	\$ 120,052	\$ 108,130
Weekly Mortgage Repayments***	\$ 474.66	\$ 428.68
Effective Weekly Rent based on 5% ROI	\$ 505.77	\$ 456.49
Difference in Weekly Rent	\$49.28	
% Difference	-10.80%	
***Calculated with an Interest Rate of 4.5% and an Inflation Rate of 3%		

These commercial realities mean that under current circumstances, political circumstances and settings, it is becoming increasingly difficult to construct residential property at a cost that is accessible to the average Tasmanian. Available land is becoming increasingly scarce, and unprecedented population growth continues to push demand for housing beyond the market's ability to supply. Because of this housing costs are only expected to continue growing into the future unless intervention is made to correct our current trajectory.

<sup>1</sup> Qapital Investments Feasibility Report, 8 Dwelling, Appendix 1

<sup>2</sup> Qapital Investments Feasibility Report, 12 Dwelling, Appendix 2

<sup>3</sup> Curious Hobart: How do wages compare between Tasmania and the mainland?, Michael Dalla Fontana, ABC News Hobart, 10 Jan 19, <https://www.abc.net.au/news/2019-01-10/january-curious-hobart-wages-tasmania/10614430>

It is true and widely accepted that Hobart is experiencing a housing crisis and Input from both the Private and Public housing sectors is needed. So long as we have population increasing at a greater rate than new dwellings being constructed, this will only worsen. If we cannot achieve a healthy balance between sound regulation and the flexibility to allow developers to achieve economies of scale, it is the average Tasmanian occupying these homes who will carry the burden of the increased costs associated with building the housing that we need.

Planning controls surrounding residential development has the capacity to either stagnate and worsen the housing crisis that our state is experiencing or accelerate and help facilitate the development of much needed housing. Tasmania can no longer continue as "business as usual", we are experiencing unprecedented growth and must act. Immediate changes to the planning scheme are required so the needs of Tasmanian's can be reflected as the number one priority.

Thank you for allowing me the opportunity to provide a contribution to this important discussion. If required I would be more than happy to discuss this matter further at the convenience of the Committee.

Yours sincerely,



Quinten Villanueva

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## Property Development Report

1 Mctavish Avenue, North Hobart,



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## Data Sources

Hobart Interim Planning Scheme 2015 - Urban Mixed Use Zone D.15 - [Link](#)

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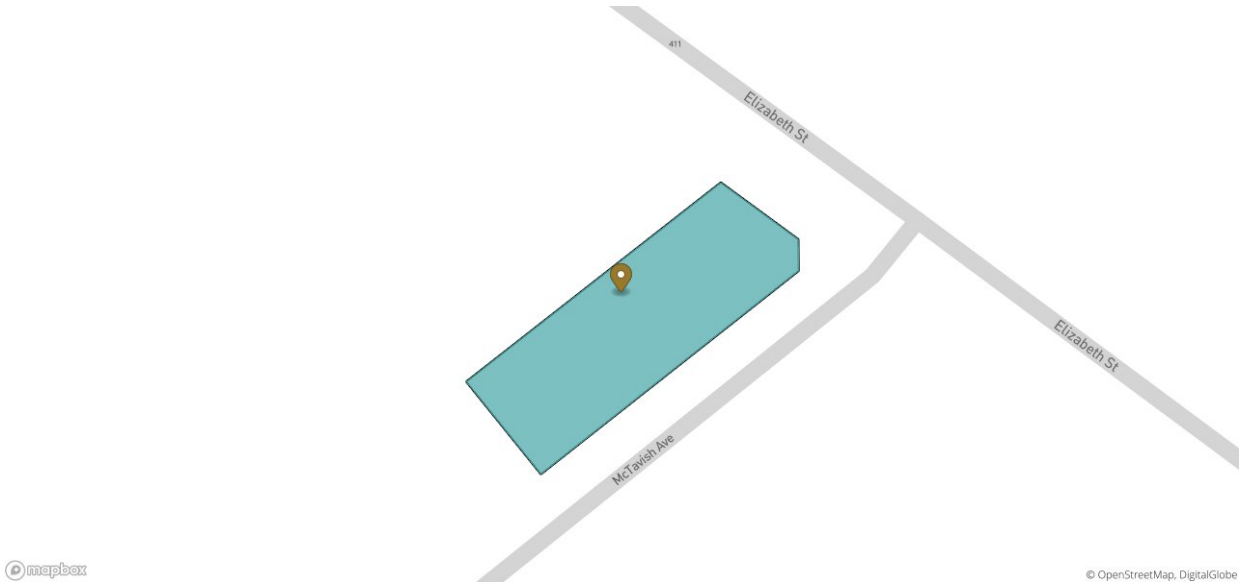
# Property Details

Address

1 Mctavish Avenue, North Hobart,

Total Area

514 m<sup>2</sup>



## Planning Rules

Lot Id	1/30577	LGA	HOBART CITY COUNCIL
Max. Building Height	8.5 - 10 m	Lot Area	514 m <sup>2</sup>
Zones	15.0 Urban Mixed Use		

## Overlays

### Overlay

- Tasmanian Planning Scheme Overlay: Hobart Interim Planning Scheme 2015

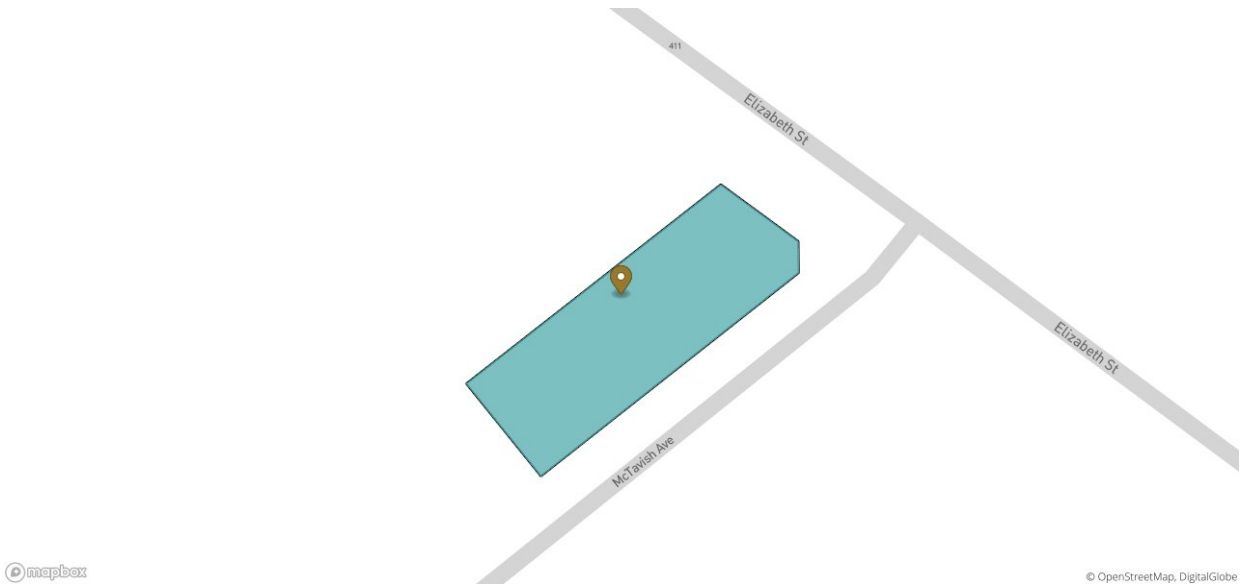
There may be additional overlays that affect this property, please check with your local council.

# Solution Summary

Solution  
Apartment

Total Units  
8

Total GFA  
497 m<sup>2</sup>



Solution	
FSR	0.97:1
Num Stories	2
Open Spc (%)	31%



# Feasibility Review

Net Realisation  
**\$4,000,000**

Desired Margin  
**20.0%**

Net Return  
**\$800,000**

Residual Land Value  
**\$917,128**

## Income

Residential	Rate/unit	Total
Studio ( 4 Units )	\$450,000	\$1,800,000
2 Bed ( 4 Units )	\$650,000	\$2,600,000
<b>Total Residential</b>		<b>\$4,400,000</b>
Cost of Sales		
Gross Realisation		\$4,400,000
Less GST	10.0%	\$400,000
<b>Net Realisation</b>		<b>\$4,000,000</b>

## Costs

Development cost	Rate/unit (or %)	Total
Residential ( 497 m <sup>2</sup> )	\$3,000	\$1,490,313
Subtotal Development		
Add Builder Margin	20.00%	\$298,062
<b>Total Development</b>		<b>\$1,788,372</b>
Other		
Agent Fees	2.50%	\$110,000
Professional Fees	10.00%	\$178,837
Contingency	5.00%	\$89,419
Simple Interest	6.50%	\$116,244
<b>Total Other Fees</b>		<b>\$494,500</b>
<b>Total Expenses</b>		<b>\$2,282,872</b>



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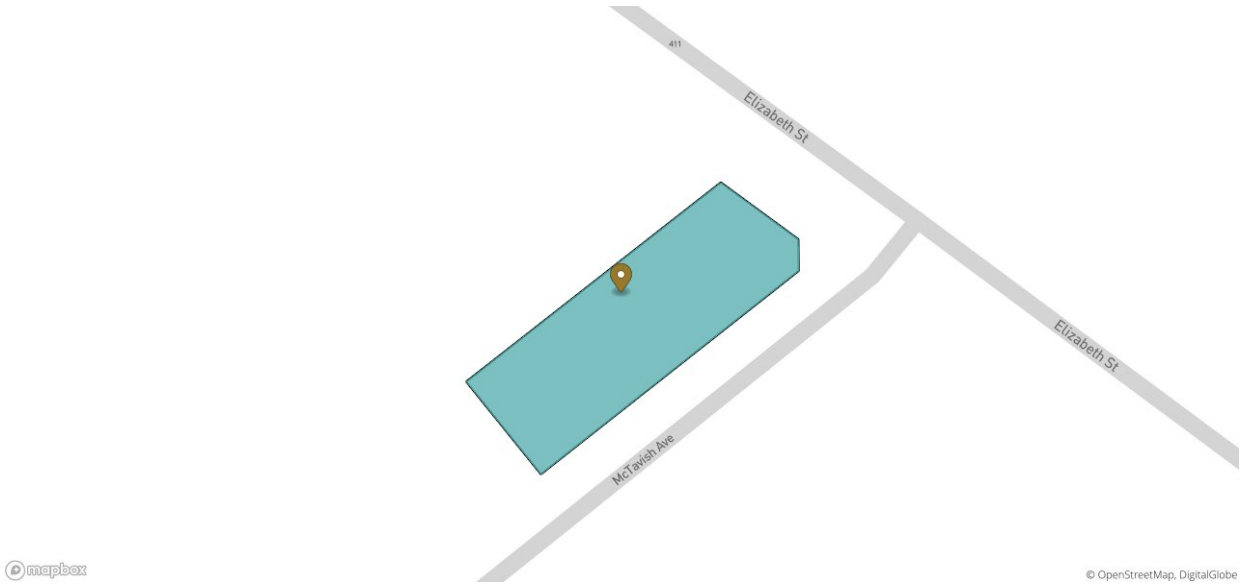
# Property Details

Address

1 Mctavish Avenue, North Hobart,

Total Area

514 m<sup>2</sup>



## Planning Rules

Lot Id	1/30577	LGA	HOBART CITY COUNCIL
Max. Building Height	8.5 - 10 m	Lot Area	514 m <sup>2</sup>
Zones	15.0 Urban Mixed Use		

## Overlays

### Overlay

- Tasmanian Planning Scheme Overlay: Hobart Interim Planning Scheme 2015

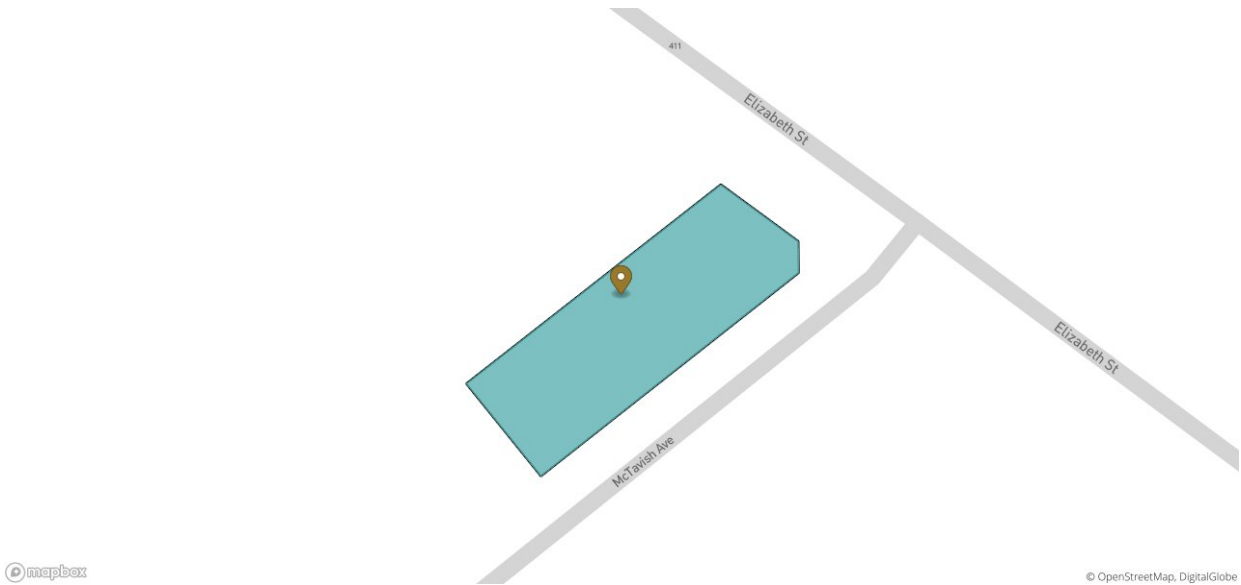
There may be additional overlays that affect this property, please check with your local council.

# Solution Summary

Solution  
Apartment

Total Units  
12

Total GFA  
759 m<sup>2</sup>



## Solution

FSR	1.47:1
Num Stories	3
Open Spc (%)	30%

# Feasibility Review

Net Realisation  
**\$6,000,000**

Desired Margin  
**20.0%**

Net Return  
**\$1,200,000**

Residual Land Value  
**\$1,317,277**

## Income

Residential	Rate/unit	Total
Studio ( 6 Units )	\$450,000	\$2,700,000
2 Bed ( 6 Units )	\$650,000	\$3,900,000
<b>Total Residential</b>		<b>\$6,600,000</b>
Cost of Sales		
Gross Realisation		\$6,600,000
Less GST	10.0%	\$600,000
<b>Net Realisation</b>		<b>\$6,000,000</b>

## Costs

Development cost	Rate/unit (or %)	Total
Residential ( 759 m <sup>2</sup> )	\$3,000	\$2,275,523
Subtotal Development		
Add Builder Margin	20.00%	\$455,106
<b>Total Development</b>		<b>\$2,730,636</b>
Other		
Agent Fees	2.50%	\$165,000
Professional Fees	10.00%	\$273,064
Contingency	5.00%	\$136,532
Simple Interest	6.50%	\$177,491
<b>Total Other Fees</b>		<b>\$752,087</b>
<b>Total Expenses</b>		<b>\$3,482,723</b>