

**ECONOMICS AND INDUSTRY
STANDING COMMITTEE**

**INQUIRY INTO IRONBRIDGE HOLDINGS PTY LTD AND OTHER
MATTERS REGARDING RESIDENTIAL LAND AND PROPERTY
DEVELOPMENTS**

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 17 OCTOBER 2011**

SESSION ONE

Members

**Dr M.D. Nahan (Chairman)
Mr W.J. Johnston (Deputy Chairman)
Mr I.C. Blayney
Ms A.R. Mitchell
Mr M.P. Murray**

Hearing commenced at 11.09 am

GOOSTREY, MS DEBRA KAY

Chief Executive Officer, Urban Development Institute of Australia, examined:

PERRIGNON, MR NICHOLAS JOSEPH

Chief Operating Officer, Satterley Property Group, examined:

The CHAIRMAN: Thanks for your appearance before the committee today. This committee hearing is a proceeding of Parliament and warrants the same respect that proceedings in the house itself demand. Even though you are not required to give evidence on oath, any deliberate misleading of the committee may be regarded as a contempt of Parliament. Before we commence, there are a few procedural questions I need to ask. Have you completed the “Details of Witness” form?

Ms Goostrey: Yes.

Mr Perrignon: Yes.

The CHAIRMAN: Do you understand the notes at the bottom of the form?

Ms Goostrey: Yes.

Mr Perrignon: Yes.

The CHAIRMAN: Did you receive and read an information for witnesses briefing sheet regarding giving evidence before parliamentary committees?

Ms Goostrey: Yes.

Mr Perrignon: Yes.

The CHAIRMAN: Do you have any questions relating to your appearance before the committee today?

Ms Goostrey: No.

Mr Perrignon: No.

The CHAIRMAN: The committee has received your submissions. Thanks for your contribution. Do either of you propose any amendments to your submissions?

Ms Goostrey: No.

Mr Perrignon: No.

The CHAIRMAN: Before we ask any questions, do you wish to make an opening statement?

Ms Goostrey: Maybe just a brief one. The issues that have triggered this are quite unique. I do not want to talk about Ironbridge per se, but the incentives program is extremely widespread in the industry. We estimate about 30 000 lots over the last 10 years at least would have been created with incentives with no problems at all. The incentives are not just about getting a sale by providing an uplift on the value; they are actually about the developer making sure that the stages being developed are completed to a high quality so that they get future referrals, and people looking through those subdivision stages will actually judge that as the high-value standard that is going through and then want to live there. It is of benefit not only to the purchaser; it is of benefit to the developer, which is why we have not had any problems with this previously. I just wanted to put that in context.

Mr Perrignon: Chairman, I have been doing land development for 24 years in Western Australia, in Queensland—in fact, in all the east coast states. Two thousand a year is the approximate turnover of the Satterley Property Group in new lots titled, whereas when I previously worked for eight years as the chief operating officer of Stockland, there were over 5 000 lots per annum. I did not ever find any difficulty or complaint or consumer dissatisfaction with the provision of incentives, particularly landscaping and fencing packages. It is well within the interests of developers to generate a second wave of confidence in their projects to present their projects as well as possible to attract referral sales. That is a very important thing when creating a community. If you satisfy your customers, they will refer you to family, friends and people in their peer group. It is a very, very significant part of being a successful developer. Equally, with the opportunity to provide a service to consumers at a very reasonable price because you are able to purchase those benefits with bulk purchasing power, you get increased quality of the materials you are providing and you get surety of service because you are generally using contractors that are linked to the major-scale contract and you are doing projects in any event. Fencing and landscaping are the things that you require to complete the project. It has a benefit both ways. I have never seen a situation where the tardiness or delay in payments has caused a difficulty. An observation around that I would say is that the incidents that brought us to discuss this matter before this parliamentary inquiry are very rare events, and I would not like to see a sledgehammer used to crack a walnut because of their rarity. But there are some opportunities, perhaps through the industry body, to provide some independence to access to fix things very quickly should they ever occur again.

The CHAIRMAN: Thirty thousand blocks were sold with incentives over a period of time—I cannot remember the period. What proportion was that of the total blocks sold in Western Australia over that period?

Ms Goostrey: That is really quite difficult to say. Virtually all the major developers will do this. The proportion of the lots varies depending on how quick the market is. When the market is slow, the major developers probably represent about 70 per cent of the lots being sold. When we are in boom, every mum and dad put lots on the market and it can drop right down. As far as the consistency goes, it is the major developers that predominantly use the incentives because they want to sell from one stage to the next.

The CHAIRMAN: Let us say there is yours and then there are Stockland's and others and then there are middle range ones. I am not going to mention names. Are you aware of those middle range ones giving incentives like this?

Mr Perrignon: Not normally, but the landscape for the development industry has changed significantly post-GFC. If we went back 10 years and looked at a five-year average, the production of lots in the Perth metropolitan marketplace would be 65 per cent to major developers and about 35 per cent to much smaller second-tier developers, and that can be anywhere from 43 lots at the back of Spearwood with a single landowner and a real estate agent through to a couple of accountants and a town planner with 120 lots on the edge of the Swan Valley. That used to be a very significant proportion of the supply in the Perth metropolitan market. Presently, though, the opportunity for those participants in the land development industry has been significantly reduced because the banks have changed their structure quite dramatically. That structure is a permanent shift in terms of finance to the industry as a result of directions from APRA, the prudential banking regulation association. APRA took a very, very strong view of the major banks that they needed to control their exposures to land development throughout Australia and they used a number of different mechanisms to control exposure. One of those was to say that where you aggregate your exposure, you will no longer just aggregate by geographical exposure. As a major top four bank, you might have three, four or five development projects you are providing project funding or development finance to in Baldivis. You now need to reduce that to one or two. But it was not only by geographic exposure; they also nominated that where you have the same project managers or principals who are making the commercial decisions in relation to land development projects, they

will also be regarded as aggregation. In other words, if I had ABC Project Management Pty Ltd and I had a project in Wanneroo, one in Spearwood, one in Baldivis and one on the mid-north coast, as far as a bank's exposure is concerned, ABC Pty Ltd would have an aggregation, and they would then be required by APRA to reduce that exposure. So there have been some very significant structural shifts now in terms of what we refer to as second and third-tier developers in the land development industry, which is going to significantly curtail the opportunity for smaller operators to take on the risk of land development activities.

The CHAIRMAN: Do you think that is a medium-term change, not just a short-term change?

Ms Goostrey: It is medium term for sure.

Mr Perrignon: Absolutely. It is not short term; it is a structural shift in the provision of finance and it is going to be very significant overall for the good, orderly supply to the industry, because it is much harder for people to participate now.

The CHAIRMAN: What about the battleaxe issues? That is not relevant here, is it?

[11.20 am]

Ms Goostrey: It is not really relevant because you are talking about somebody chopping up their backyard for a battleaxe or, in the case of somebody knocking down a house and putting three units on, they become strata and it is a completely different scenario.

Mr Perrignon: Generally a strata development has a much higher level of requirements under a development application, and a much higher degree of finesse of the items that will be included as to planning consent, and they cover off a lot of that detail.

The CHAIRMAN: Is there an issue of the mid-range developers hitting what you have described as problems with access to capital and the wider scope of definition of what a developer is and also the slowness in the market? Are we going to see a lot of these small to mid-range developers falling over and struggling to deliver?

Mr Perrignon: I do not think we will see an incidence of that. I do not think they will be able to participate in the industry. The other part of that equation that has changed quite dramatically is the loan to value ratio for acquisition of broadacres. There are much, much higher equity requirements entering into broadacres. Even where those companies do enter into arrangements to buy broadacres, the banks then also put some very significant covenants on their lending arrangements as to performance before they will provide the project finance. Once the project finance is approved and ready to go, they are able to proceed with solid funding behind them. Just their participation from the outset will be the hardest step.

Ms Goostrey: Certainly some of the small to medium developers struggled a while ago when some of these changes started coming through.

The CHAIRMAN: In 2008–09?

Ms Goostrey: Yes, because of the change to the LVRs et cetera. Unlike a decade or so before that where the banks just liquidated and got whatever they could, the banks have been much smarter and worked with those developers to keep the product going and then on-sell it if they needed to as a viable market rather than just dumping the asset. Most of that has washed through the market now so we are not looking at a tidal wave of properties coming onto the market. It is being managed very, very effectively, which is why, to a large extent, when you are looking at the consumers there would not have been virtually a ripple in the market as far as they are concerned to the provision of the land.

The CHAIRMAN: As you mentioned, the change to the banking arrangements can have a significant impact on the flow of predictability and the flow of lots onto the market. It could

accentuate the boom–bust, which happens in the Western Australian housing market. It is very hard to predict.

Ms Goostrey: You could make a counterargument to that and say that we do not have as many medium to small players in there. The large developers who are the very professional developers are the ones who are able to turn on additional stages and meet the market demands. What happened, for example, in the last boom is that everybody was trying to put land onto the market so that it became overheated basically, whereas the way it is structured at the moment, you may find there is a whole lot more professionalism and caution as people are moving forward.

Mr Perrignon: There have been some pretty significant shifts in the way the industry operates in a much tighter market condition. We are operating in a market in which the 10-year average for supply and delivery of vacant title lots in Perth is 10 000 per annum. In the last 18 months we have been cycling about 4 500 new lots per annum—so a 55 per cent reduction on the 10-year average. The way the industry has structured itself in the last five or six years is to make sure that staging and phasing of developments is far better planned from the very outset of a new project such that the ability to produce lots in stages of 35 or 40 lots is the norm. When I started in land development, you would strive to achieve 60 to 100 lots in a stage. The difficulty with that is you cannot switch them off when you might be three or four months through a six-month development cycle and it is apparent that the market has reduced significantly and you cannot switch off. Some very significant effects have flowed on from the proper planning of building stages down to smaller and smaller phases. You can switch a new phase on very easily. You arrange your engineering designs such that you have the plans available and you are ready to increase the stock production if the market warrants it. The flow-on effect has been quite significant to the civil contracting industry. They no longer deliver stages of 100 lots or 60 lots. They have completely changed the size of their crews and the size of the equipment and the scale with which they operate. When we look around town now, we see a lot of smaller, very agile contracting equipment, small excavators and much more nimble multiple-use machines as opposed to the old large-scale scrapers and dozers and big scale machinery. They operate with much smaller crews and much more nimble and smaller civil works equipment. That is now entrenched in the industry. The capacity to operate at this scale is now a structural shift in the contracting industry as well.

Mr W.J. JOHNSTON: Your submission from the UDIA clearly argues against bonding for fences and other arrangements. Do you have any comments to make about disputes procedures that exist for purchasers of land?

Ms Goostrey: We can certainly take that on notice and get you some information through our legal and legislative partners but basically it happens under contractual law. It is fairly simple. It is one A4 form that you can put in. What UDIA is going to do in response to this is beef up our information for consumers on our website. We have a history of doing this. Previously we have provided information to people on pre-selling and made that information available so developers could give it out. We try to protect our good developers who are doing the right thing by providing the right information for them to distribute on how to deal with a problem when it arises. The way of dealing with this is very simple but it is just a matter of giving the people the right information. Certainly when people ring UDIA on various issues, we try to direct them to the right place so they can easily take the steps they need on whatever the issue is.

Mr W.J. JOHNSTON: Are you satisfied that the current disputes arrangement is satisfactory?

Ms Goostrey: Yes, with one exception to say that we as an industry need to make that information more readily available to people, which is something we have in process at the moment with our legal partners to provide better consumer information in a very useable format that directs people to where they need to go.

Mr W.J. JOHNSTON: Just a final question on this line. What would be the negative consequence of bonding for developers?

Ms Goostrey: You are just simply making the land much more expensive. Every time you add an administrative layer, you are adding to the cost burden for the developers. It is not just that they are putting that money aside—that is fine—but then they have to administer it. You have all the issues that happen around an additional process. It is just contributing another problem in terms of delivering affordable land to the market.

Mr Perrignon: A fairly significant administration burden comes with that in terms of the provision and service of putting money in, bringing it into a trust account and bonding that work. It is very much within the developer's interest to maintain the momentum and have the confidence of the purchasers in a project. It would add to the cost of land development. That flows through to our customers. Perhaps to be a little more specific about Debra's comment on the remedies, because purchasers have a contractual right to any incentive offered that has been listed on their purchase contract, it is a very simple step to lodge a claim at the small claims tribunal. It is virtually an A4 page.

[11.30 am]

It would present a very, very significant issue for developers having that listed against them in court actions, and the attraction of negative publicity to that would be a very strong deterrent. It is a very, very simple remedy for a purchaser, and very inexpensive, to go and lodge a claim in accordance with their contractual right. I spoke earlier with Debra Goostrey and suggested that if that consumer information—"these are your rights, this is what's available to consumers, and here's how to redress any issue very simply"—was made available through the industry website, I think it would be a very significant step and a more effective step than bonding.

The CHAIRMAN: What kind of bonding requirements already exist for property developers, or are there any under the various planning laws?

Mr Perrignon: There is a range of bonding opportunities, but they are generally opportunities that are associated with early production of title, so you are seeking the authorities to give you an approval ahead of time to produce an issue of title and you would lodge to cash bond, maybe on a very large scale; for it might be for a future sewer pumping station or it might be for a road that is not going to be built for five or 10 years—these sorts of issues—to actually produce a title and therefore be able to self-fund, if you like, the cash flow of a development by allowing a developer to sell stages of the project ahead of time for major infrastructure being provided. Ten or 15 years ago, a lot of that infrastructure was provided by state government or local government; that has changed significantly in the industry. The requirement for developers to fund major infrastructure works in residential development projects has risen enormously because governments have shifted the burden of responsibility for that onto the private sector, so there are some very significant imposts already, and we have seen that in the price of land. Most developers look for a 20 per cent return risk-to-reward ratio for land development, and it is a fact that for banks to fund projects, they expect to see that level of return because of the market risk involved, and so therefore those cost imposts have flowed through to the price of land and to the consumer. So if further bonding was required, the same net effect will occur; the costs will flow through to the consumer, which would be very unfortunate because it is actually in both the consumer's interest and the development's interest to provide good, completed, well-finished and uniformly to a high standard of quality—the various incentives that are provided.

Ms Goostrey: Importantly, with the bonding that exists at the moment, it is actually voluntary in that it is to bring the titles on earlier, even to the extent that councils will sometimes bond footpaths, which developers will put down after the titles are issued, for a range of reasons. But they do not have to bond; they can complete all the works. They have bonded because they have worked out that is the best way for them financially, because they can bring forward their cash flow by having the titles; therefore they can settle. So it is quite different from the scenario of a forced bond in relation to something that is actually in the developer's best interest to deliver in the first place,

which is to ensure that the stages that are being sold and built are actually finished in a way that encourages other people to buy property in the area.

Mr Perrignon: Interestingly, just by way of remedy, the remedy that we talked about earlier—contractual right being picked up by a claim to the small claims tribunal—if that had been available and well notified to the purchasers involved in the project that actually created the reason for this inquiry, if that mechanism had been notified and utilised, I think probably it would have been picked up and dealt with a lot earlier in the cycle. It ran on for a period and the issue became larger. If the mechanism had been in place, I think that remedy would have been much, much quicker.

Mr W.J. JOHNSTON: If I can use Satterley as an example, and the incentives that you are providing to purchasers, is there a time limit on your delivery of the fences or the landscaping to the purchaser?

Mr Perrignon: The agreed time is that the person makes application on completion of the home; we notify the purchaser that we want to know when the building gets to lockup stage so we can program them in. Final handover of the keys and final payment currently can be anywhere between—the building cycle is about 19 weeks, just short of five months, for a single-storey house, and it is about 44 weeks for double-storey house. Depending on whether it is single or double on the scale of home, between lockup and final completion, three weeks or to six weeks, we then program in, because we want those families to be able to move in and feel secure and feel very, very happy, and so do the builders. The pressure is not just on from the end consumer's perspective, but for all land developers—we operate on the basis of having a very strong partnership with the builders, and we want them to have repeat business and come and deliver new housing on our projects, so we would be letting down our business partners as well. Generally, three to six weeks, and we program in. We are often, not always, but often using the same contractors that we are using on the broad scale for delivery of parklands, fencing and other works on the project; we are using the same contractors and we are getting the program, and they can deliver on the domestic scale as well.

Ms A.R. MITCHELL: Can I just confirm that that is a set date that is contracted with the purchaser of the land as well?

Mr Perrignon: Yes, and in the contract it will state that on completion of the home, the developer will move in to complete fencing and landscaping. So that is defined in the contract—as soon as the house is completed, our obligation is to complete the fencing and landscaping.

The CHAIRMAN: What type of services do you provide incentives for in addition to fencing and landscaping?

Mr Perrignon: Those two would be the major ones. In landscaping, I suppose, the next minor addition, whether it is included or not, is whether it is a full reticulation program for front and rear yard. It depends whether the landscaping is for front yard only. Generally, if it is front yard only, the equipment that actually controls that retic system will be on a scale large enough for the landowner to plug straight in to complete the rest of the property. There are other incentives provided, but they are more in the nature of bonuses. Maybe they are whitegoods on completion; maybe they are fixtures in the house, like a venetian blinds package or a carpet package—those sorts of things. They are generally provided through the builder and they are captured, again, in contract, so the building industry routinely provides additional incentives that are listed in the specifications and contract on the house. They are also captured in a contractual form and, again, I have not had any knowledge of any major scale abuse or fault with that system.

The CHAIRMAN: In developing these sites, do you put fencing in place prior to the contracting of the home?

Mr Perrignon: Prior to?

The CHAIRMAN: The construction of the home.

Mr Perrignon: Generally not, because in the construction of a home you will usually see two or three site cleans in operation, and that is generally a bobcat with a rake bucket on it, which moves around the perimeter of the house. Often on the third site clean, they are down to quite finessed detail, where they will be doing the site works for a driveway and outside paved areas. To do that work effectively on a broadacre land subdivision, if the fences are not in, it is much easier for that equipment to move around. When the fences are in, it is much tougher, so you generally leave them until the end so that you can have access to the building and you can work on a scale that lets machinery work safely around that site. If they are in, they are in, and you deal with that on that basis, but it is more efficient when they are not.

Mr W.J. JOHNSTON: If you are building a house, you make progress payments and a final payment on completion. What about an idea that, rather than having a bond, that last payment is made on completion of the incentive package?

Mr Perrignon: Generally you would operate under two separate loan structures, and they are usually at the completion. We are a very unusual industry, in that you do not buy a motor vehicle as to a chassis, wheels, seating and stereo here, and an engine over in another yard over here.

Mr W.J. JOHNSTON: Once upon a time, that is exactly how cars were purchased, but then we got to 1930 and things changed!

Mr Perrignon: So we still operate on the basis that there are two separate contracts. There is a contract to purchase land, and that is quite a simple contract. It settles the land and provides the base security, if you like, to the bank, which then generally allows a five progress payment contract to construct a home, which is with an entirely different party. It could be with Champion Homes, Dale Alcock Homes or any other homebuilder. So there are two separate contracts. Then, at the conclusion, the bank will often aggregate two different forms of loan. One is a construction loan that allows progress payments, and the securitisation of that is quite different to the securitisation of the loan that settles on the land. When the home is fully completed, they will then aggregate those together and have a mortgage agreement with a homeowner that aggregates both those under one mortgage with the bank. So it would be very tricky to ask a completely different contractual party to provide for or control an obligation that is provided by the land developer, not the builder.

Ms Goostrey: You would end up having to restructure the banking industry to allow for a loan of that amount for a payment on land—and then different parts.

The CHAIRMAN: Is there a very high level of arrears in your segment of the market for people buying new houses and new house-and-land packages? Are they often in physical stress now, with a very high rate of arrears or physical stress in the housing market now?

Ms Goostrey: Are you talking about the purchasers?

The CHAIRMAN: Purchasers, yes.

Mr Perrignon: Presently in the market, I think there has been a slight increase, but my understanding of that—I follow it reasonably carefully—is that that is for people who have completed a home in the last one to two years and may have had changed circumstances. I am not aware of any level of distress for people who are currently entering the housing market and completing a first home. There have been some very, very significant changes by banks post 2008–09, where they have very, very strictly limited the prudential lending requirements for individual home purchases. The first bar, which is uniform across all the major banks, is that you cannot borrow more than 30 per cent of your gross income. We look at the median household income in Western Australia, which is currently \$84 000 per annum per household. I suspect that was from previous census data, not the most recent one, which we will not see for two years. I suspect it is now about \$90 000 per household, and 30 per cent of \$84 000 is \$25 200, and that lets you be in a position to service a mortgage with around \$480 a week. That comfortably services a house-and-land package, after the deduction of a five cent deposit, of \$325 000 total mortgage, so that is

actually quite compressed. For people starting off in the market that is a good thing; it has actually quite significantly reduced the aspiration of gen Ys and gen Xs. We have also seen the average age of a first-time buyer move in the last three years from about 25.5 years to 29 years, so that is another very significant shift structure in the industry.

[11.45 am]

When purchasers present themselves to banks now to receive approval for lending for a home loan they do it in two phases. They get a preapproval—that is a computer-generated program. They present all their details verbally and they are asked to warrant that the information that they have provided is correct. They will get a preapproval or a short-form review of their circumstances and if they receive that approval they are in a position to consider the purchase of a home. The far more significant approval step comes when they put in a formal loan application and present in detail with documentary support for every part of their financial circumstances. The credit scoring apparatus that banks now use to qualify for home mortgage lending is far more stringent and far more detailed, particularly in the documentary evidence that they have to provide to support their application. The other very important thing is that those home loans have a life span of only 90 days. When a developer pre-sells land and says that the title is six, nine or 12 months out, every 90 days, for that contract to stay on foot, there needs to be a new loan approval reissued and the banks will recheck the circumstances of the purchasers at that time.

The CHAIRMAN: What happens if their circumstances have changed; that is, they find a new job and are on a lower income?

Mr Perrignon: So they put off the purchase subject to finance approval. If that finance approval revolves through and is declined, the contract is cancelled. That is a very significant change in the industry. For a period of time, cancellation rates climbed quite significantly, but both builders and developers now spend a lot more time in the qualification process so that they do not go through that very significant and time consuming administrative process in which they receive a deposit and a contract, and have it all in their administration, only to have it backed out of and they have to return the deposit and cancel the contract. It is quite expensive. You need people on board to do it. You have to move funds in and out of a trust account. It is quite some administrative effort. Cancellation rates are gradually returning to a normalised level because people are being far more careful about checking. So, as far as arrears for people now entering into the purchase of a new home, the stringency of the qualification process for the right to move into homeownership is far, far higher than it was four or five years ago. It is much more controlled.

The CHAIRMAN: In your business, do you largely sell to repeat buyers? You are not necessarily in the first home market, are you?

Mr Perrignon: We are. Our purchaser segments range from first home buyers—that will generate anywhere between 20 per cent and 35 per cent of our business in a given year; currently it is quite reduced—to second and third homebuyers and investors. Every segment of the market from single income, no kids to double income, no kids and young families—which represent the highest proportion of our purchasers —

The CHAIRMAN: Did you say young families?

Mr Perrignon: Young families are the highest proportion of our purchasers, and then mature families and pre-retirees. We do not service retirees; that is done by other more specialised property providers.

The CHAIRMAN: Stockland has gone into the retiree end of the market.

Mr Perrignon: It did. It is gradually building in to that end of the space. It is quite interesting that the statistical data from the research preceding that move indicated that only three per cent of Australians at retirement age choose to live in a specific retirement product or a retirement village.

They give some very, very interesting reasons for not doing it: I do not want to live with the old people!

The CHAIRMAN: Is that share changing?

Mr Perrignon: I think that it is gradually changing. It is changing at a very slow pace because a lot of Australians still enjoy the independence of living in their own home. Downsizing and lock-up-and-leave with very low maintenance-type properties are increasing. It is also good from a sustainability point of view because people are adopting properties that have almost zero external water usage because they are not dealing with gardens.

The CHAIRMAN: This is a little off the topic, but are you seeing changing demand patterns away from four-by-two and three-by-two homes and others?

Mr Perrignon: Yes; very significant changes. They are linked to that stringent 30 per cent cap on mortgages. However, products are now available—that include fully completed, two-bedroom homes—at \$268 000, sitting on a zero lot line; that is, boundary to boundary. They have a common wall on both side boundaries on a five-metre wide by 29-metre deep lot. It is single story and includes 78 square metres of living area, an outdoor courtyard and a single garage at the rear. They are being produced in close proximity to parklands so the outdoor living space is in the public realm. I think that we will see a significant increase in properties that are five metres, 6.35 metres or 7.5 metres wide to accommodate both people entering the market who need control over price entry and pre-retirees who want lower maintenance or who want to unlock cash out of the existing equity of their home will go into those smaller properties. They will effectively still be living in an independent living unit and not living in a village.

The CHAIRMAN: So we are going back to the future.

Mr Perrignon: I think that we are because these are the terrace houses all through the streets of Paddington and Mosman in Sydney that are now a top-notch properties—Subiaco, the miners cottages and all those sorts of things.

Ms Goostrey: What we are seeing is a normalisation of the market. If you look at why everybody was buying the four-bedroom and five-bedroom homes, it was because we were developing on easy-to-develop land. It was sandy and flat, and we had a great project-home building market that was able to deliver product very affordably compared to the rest of Australia. Now we are developing in much more complex areas with clay soils and that has pushed up the price of land considerably. We are now starting to have product that is more reflective of what every other state has in the two and three-bedroom product as well as the larger product for those who are upgrading. We have also had some government policy changes that have facilitated the smaller product.

Ms A.R. MITCHELL: Going back a little bit—I accept the fact that some of these questions mean that this may not occur too much—you said that many of the incentives were completed because it was in the developer's best interest to be able to onsell further developments. How does someone understand what could happen if the developer does not have somewhere else that you can knock back on? That is, it is their first development. How does a purchaser —

Ms Goostrey: When you are looking for land, there are really two types of developers. First, those who do one-off developments and who come in and out of the market; and second, the companies like Satterley, Peet and Stockland who have been developing for years and years and years, whose previous developments you can look through. The developers understand that it is not just about the product that they are selling in a particular geographical location for which they are trying to sell the next stage, and that people will have a look through the other developments that they have delivered. For developers, reputation is paramount because people associate a name with a particular product over 50 or more years. So it is very, very important to them.

Ms A.R. MITCHELL: But what about the others? It is the others that I am really quite concerned about—the ones with the single, one-off development and —

Ms Goostrey: But they are unlikely to be offering the incentives in the same way because they will be selling that and not necessarily looking —

Ms A.R. MITCHELL: But what if they do?

Ms Goostrey: Then it is under contractual law. It is one of those things; people need to be aware of who they are buying from. The vast majority of the industry are extremely good developers, but, as in every industry, you will get some who are not doing the right thing. They are not normally the ones who will offer incentives or anything else. They will be very small part-time people who are just starting to develop. But as far as this inquiry, those people are very unlikely to be offering incentives because they will be trying to sell the land pretty much at cost-competitive, rather than at quality-competitive.

Mr Perrignon: I think the track record for the past five years is that a lot more research goes into a developer behind the development because people have fast and wide-ranging access to information on the internet.

The CHAIRMAN: That is—the purchasers?

Ms Goostrey: Yes.

Mr Perrignon: That is from the purchasers' perspective. We see a lot of traffic on our website—registration of interests and visits—that will be there for months before the person might engage at the level of a professional salesperson. I think a parallel might be to look at how people have now become highly educated to the other highest discretionary expenditure that they have—the motor vehicle. If we went back 15 years ago, and the questions asked of other first-time entrants—it is very difficult for them to survive in the industry; they virtually do not exist anymore. They do not have access to finance. It is very, very difficult for them to be structured and more often than not the smaller parties who come in and out of the market are not using incentives because they do not see any need for long-term referral sales in a master plan community or a larger estate.

Ms Goostrey: The other thing is that the smaller operators are functioning more in the area of infill at the moment. They will buy a property or two, knock down the house and put three or four units on the land. Again, it comes back to the strata, which operates quite differently. Those people looking to become property developers, tend to move into the built form outcome of units.

The CHAIRMAN: Do you do infill?

Mr Perrignon: We operate at the urban infill level, mainly through our government joint ventures with the Department of Housing. They are quite specialised. As a rule, we do not generally operate in that space. Again, I think Debra's observation is correct—smaller scale developers that you might want to worry about or question their capacity, are operating at a scale in which the detail of their development applications is so thoroughly finessed by local government authorities, that what they are providing is actually borne out in the DA. They do not get sign-off, they do not get certificate of occupancy, and therefore cannot move to settlement with the purchaser without delivering all the finesse of that detail. That has been around for quite a few years.

The CHAIRMAN: Local governments regulate very tightly.

Mr Perrignon: Very tightly. In my experience, I now see, on large-scale land developments, some very strict conditions about the types of trees, the size of the bag they come in, how many litres the pot they come in is, the height et cetera. Going back 24 years, there were no conditions to require the upgrade of public open space. Now it is not just parklands, it is the streetscape and the detail that the actual finessing of conditions provided is very, very tightly scrutinised.

The CHAIRMAN: The biggest issue in my electorate is trees. When the electorate—the suburbs—was built in the 1960s and 1970s, they put in fast-growing gum trees that are now losing their branches, which is leading to community warfare.

Mr Perrignon: Trees are very prevalent in the urban landscape and when they are not the right tree they can cause havoc. I think the questions are very valid because good fences can make good neighbours, and I can tell you that bad fences can make very unfriendly neighbours. It is a good thing that developers do a lot of good standard uniform fencing and pre-fit it or provide it as a commitment from the outset. Good fences do make good neighbours and where there is any dispute, it can get very difficult and very emotional.

Ms Goostrey: And that relates also to the retaining walls; that is, getting the retaining walls in exactly the right space so that you can put in the fences in the first place. That is another advantage of the developers doing this.

The CHAIRMAN: Do you generally do the retaining walls?

Mr Perrignon: Yes, we do. They are always done under civil works. They are quite a significant structural engineering component—so that you can build a house in proximity and know that you have the right compaction. But the exact positioning of those and having surety that the retaining wall is always inside one owner's boundary and not split between two is, for future maintenance, very important. That also positions exactly where a dividing fence will sit as well.

[12.00 noon]

The CHAIRMAN: One of the issues that you are arguing is that your brand name is very important in terms of repeat sales. If it was just a first home buyer, they do not care; they can just buy a product and stay there forever. Can you describe how you market product using your brand name? Why is it in your incentive to make sure that your product will deliver as agreed on time and quality? That often applies to repeat sales characteristics.

Mr Perrignon: Well, that is true; that is the outcome of managing your business very well and responsibly, because you do generate repeat sales. But with the mechanisms that are available now for people in society to register their dissatisfaction with something, they can move very, very fast and damage that brand. I refer you then to Facebook, Twitter and YouTube, which can build a very, very rapid and wide-ranging notification to a lot of people who are right in our target audience as consumers. There can be a very, very rapid dissemination of information, and exact information, about the quality of the product provided. So, the digital age has brought with it some real threats to brand, and it is incredibly important. We have to work at it all the time—to make sure that you keep a very, very tight performance and quality assurance so that you do not get into that sort of difficulty with consumers.

Ms Goostrey: One of the things that happens, certainly we get calls every now and again from consumers who are dissatisfied in the short term over something that has happened. Usually, I will hop straight onto the phone and ring the head of that company, or the senior person in the company, and say, "I've got a complaint about X, Y, Z", and they will fix it in a heartbeat. I have had a number of those come through, and it is simply a miscommunication because the person has not actually articulated properly what the issue is. When I have talked to them and then passed it through, every single time it has been resolved. So, when Nick is talking about the issues with communication, sometimes people go to Facebook before they actually even talk to the developer to say that there is something that has occurred, which the developer will fix immediately that they are made aware of the problem. When you are talking about first home buyers in the context of repeat buyers, it is important to remember that first home buyers talk to a heck of a lot of people before they finally commit to a decision, so that the word of mouth for a developer, such as if somebody says, "I had a fantastic run. They looked after me the whole way through. It is just great; the community is fantastic", the chances are that they are going to go out to that development and have a look for themselves. We also see intergenerational movements, so the family with a couple of kids will move there, and then mum and dad will move there and a sister or a brother will move there, and so you have people going there through that word of mouth. They may be a first home buyer, but they are actually moving where other people they know are living.

Ms A.R. MITCHELL: Debra, do you receive calls from people within, let us say, The Tuarts area at all about their concerns?

Ms Goostrey: We did, and we referred them through to take the contractual action. What we did not have on our website, and we are working that up now, is to be able to direct them to our own website and say, "Click here for the information that you need." So, we were referring them on, rather than giving them the information and having the website et cetera available to them. As I have said before, we are very keen to give people the right information. We did not have a lot of people—maybe two or three—ringing through. The first one, we contacted the developer, but that did not actually provide the normal response that we get. I do not want to talk too much about Ironbridge, but that was the process. Then we just provide them with the correct legal information to the best of our ability. As I said, we are getting that more formally written up now, and we will get that up on our website so that people can be directed: "If you have a problem, these are the steps specifically you need to take."

Ms A.R. MITCHELL: I also do not want to go into the detail here, but can I just confirm that you said that normally you would just ring the developer and things get fixed up fairly quickly; this time, you rang, but it was not quite the same response?

Ms Goostrey: We had alerted them that there was a complaint, but our understanding is that they were well and truly aware. But, as I said, I am not going to go into that detail, but I need to say that they were not members of UDIA at that time, so it was simply a courtesy thing to say that we had had somebody contact us, but we had referred them through the system because they were not members of UDIA.

Ms A.R. MITCHELL: Are they members of UDIA now?

Ms Goostrey: No.

The CHAIRMAN: To clarify, what kind of impact would it have on property developers if they were prevented from offering incentive packages?

Ms Goostrey: I think I would like to answer that more in what type of impact would that have on the consumer, which is that you would have a much more expensive process for them putting in their landscaping and their fencing, and you would have many more problems and small claims and disputes between neighbours in relation to fencing. The negatives for the consumer would be significant if they were not able to get it done professionally and in a very, very cost-effective way. On the second side of that is that from the developers' perspective, they would not be able to get the high standards guaranteed by delivering the work themselves.

The CHAIRMAN: Do you have battles between neighbours about type and size and material of the fence? Do you kind of settle those?

Ms Goostrey: Because they are contractually known right from the beginning, we do not have those arguments.

The CHAIRMAN: Do Satterley or other developers' contracts contain any specific redress for the late or non-delivery of items under incentive packages?

Mr Perrignon: No, they do not. I guess you would not be putting into your contract something for a redress if you were not writing a contract that you had every intention to complete and carry out to the letter of the agreement, so we do not, and we do not have any difficulty.

The CHAIRMAN: You do not have any need for it, essentially.

Mr Perrignon: No. I think in the letter that I lodged to the inquiry, I actually identified that in my two years at Satterley Property Group I think I have dealt with four consumer complaints, and they certainly were not about this issue. There is a very low incidence in the industry.

The CHAIRMAN: I would just like to confirm that your standard contracts do not stipulate a maximum time limit in which you are obliged to complete the delivery of fencing and landscaping.

Mr Perrignon: No; they stipulate a date on which the provision of the incentive will be made, which is the completion of the home. So, we have not stipulated a date for completion.

The CHAIRMAN: Just on a side issue, you are really indicating, in some of this data on first home buyers and the banking requirements, that unless first home buyers have a larger deposit than has traditionally been the case, you have a maximum limit on a dwelling, whether it is a flat or a home, of about \$325 000 to \$350 000?

Mr Perrignon: Yes, depending on whether they are getting any gifted assistance or assistance on the deposit, parents' support, or any mechanism they might have.

The CHAIRMAN: The median house price is \$450 000, so under these circumstances you are seeing the difficulty of new entrants coming into the market, and that is why I say the gen Ys are struggling.

Mr Perrignon: Yes, the median house price is \$450 000 for the established market. If we went back and did a median of new packages available, we would find that that is considerably lower, because there are many instances in the Perth metropolitan area now where land is available between \$135 000 and \$160 000, and there are many instances where houses are available between \$140 000 and \$160 000. So, that is telling you that packages are available between \$285 000 and \$325 000 reasonably regularly, and of course segmentation of the market will stepladder up from there. I always ask our young development managers who they think our biggest competitor is, and they might name one of the other commercial entities to Satterley—it could be Stockland, it could be Peet, it could be Mirvac—and I say, “No, actually our biggest competitor is the established market.” We have to show that we are providing a value proposition that is more attractive than where people can choose to buy. You could go to realestate.com.au and do some searches as to what is available under \$350 000, and there is quite a significant level of stock in the Perth metropolitan area now after seven successive quarters of about 1.5 per cent reduction in the median house price. It has been very controlled, and the market is a very efficient, dynamic and exacting forum, and we have seen seven successive quarters of reduction because the pricing had got ahead of itself, and it has now almost normalised. There might be a little bit more reduction to come in the median house price, but I think we are probably at about the bottom of the market. When you do search in realestate.com.au for properties under \$350 000, you will see a very large amount of choice available in the market.

The CHAIRMAN: What about apartments—do you see those as competitive to the new entry?

Mr Perrignon: Not specifically, and I follow it very carefully. People tend to forget that what is advertised every weekend in the new home market or in the newspaper, that is just advertising—well, it actually costs a lot of money to do that. At present, the market is so competitive that developers are putting their very best package structures forward for availability. Presently, you can buy one-bedroom apartment stock at around \$340 000; it very quickly moves into \$470 000 and above \$500 000 for two and three-bedroom stock. So, as a comparative to building a new three-bedroom, one-bathroom home that you can comfortably purchase at around \$320 000, anything in the \$470 000 to \$500 000 range for an apartment is a completely different class of product and a completely different proposition in terms of the amount of mortgage you are going to take up to service that.

The CHAIRMAN: That says a lot about the potential for infill—at least for that segment of the market.

Mr Perrignon: It does, and I think the expectations and targets in the “Directions 2031” for seeing 47 per cent of Perth’s housing stock provided out of urban infill and apartment-style stock is a very, very high aspiration. It is a good aspiration; I think the city needs to embrace it and we need to

provide better public transport. But with the price point presently in the building and construction industry, it is very unlikely that that percentage of the market is going to service the people who have price points at an affordable level.

Ms Goostrey: We actually find that in Western Australia the cost of building apartments is somewhere between 30 and 50 per cent higher than on the east coast.

The CHAIRMAN: In Melbourne, that is what I have heard, yes.

Ms Goostrey: Yes. It is very challenging over here to deliver that product affordably. We do fantastic high-end apartments, but it is very difficult to deliver it affordably.

The CHAIRMAN: I have heard from some of the major developers that they would struggle to build a three-bedroom apartment for less than \$600 000 —

Ms Goostrey: That is average.

The CHAIRMAN: — without a view or something; there is nothing there.

Ms Goostrey: That is right.

The CHAIRMAN: That makes the target for infill high-rise extremely difficult.

Mr Perrignon: Very difficult.

The CHAIRMAN: Thank you very much; very good.

Thank you for your evidence before the committee. A transcript of this hearing will be forwarded to you for correction of minor errors. Please make these corrections and return the transcript within 10 working days of the date of the covering letter. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be introduced via these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on a particular point, please include a supplementary submission for the committee's consideration when you return your corrected transcript.

Hearing concluded at 12.13 pm
