

1. EXECUTIVE SUMMARY

1.1 Introduction

This study aims to establish the product potential of manufactured housing as an affordable housing alternative for moderate income households¹ through an analysis of the salient issues associated with the speculative provision of this type of housing in the Sydney region. The study intends to equip Landcom to allow the formulation of strategic short, medium and long term decisions associated with the development of a new market segment for manufactured housing.

1.2 Background

To satisfy Australia's desire for home ownership, the housing industry has traditionally provided housing products across a broad range of prices, allowing lower and medium income households to fulfil their aspiration of purchasing their own home.

In the last decade, Sydney's escalating land prices and a resistance by builders and developers to build lower cost housing has precipitated an affordability crisis. Whereas in past years, low-income households were predominantly excluded from owning their own homes, the situation is currently also enveloping medium-income households. The inability to afford to purchase a home or problems with servicing the mortgage may have substantial negative social and intergenerational impacts on Australian society.

Manufactured housing is a popular "budget" housing alternative in the United States. Its evolution from the caravan and association with mobile home parks have fashioned a negative stereotype which in many cases precludes the product being considered as an alternative to site-built homes.

The challenge is to assess the viability and suitability of a lower cost manufactured housing option in an Australian context that satisfies the aesthetic and functional demands of moderate income households.

1.3 Development Drivers

The important variables impacting on the housing supply/demand equilibrium include population growth, household formation, affordability, business confidence and demographic change. The volatility of these variables can have substantial consequences on the condition of the housing market. Australia's high rates of home ownership, coupled with high dwelling wealth have propagated a climate where home ownership has become a key factor in the creation of household wealth. Many moderate income households have been unable to gain a foothold in the property market and as a result have been excluded from the wealth generation cycle.

The NSW residential market is forecast to grow by at least 5-10% pa over the next 3 years because of a deficit in new land releases and a shortage of existing housing stock. The high demand in the west and south-west will drive

¹ total household income of \$35 000 - \$55 000 per annum (year 2000)

substantial price increases, further eroding affordability in the metropolitan areas of Sydney.

Demographic changes in Australia's population over the next 20 years are projected to have a substantial impact on the type and location of housing. An increasingly older population and the growth in the number of smaller households will see growth in the demand for low maintenance housing in locations with a strong leisure focus.

The demographic and economic changes present a substantial opportunity to deliver a low cost housing product. Strong demand for small lot housing on the north and south coasts of NSW may be satisfied with the use of a customised manufactured housing design.

1.4 Product Assessment

The Australian manufactured housing product is currently sold predominantly for use as holiday homes, in manufactured housing estates and as rural accommodation. The current product range has not been designed for moderate income earners, is not cost competitive and does not have the design attributes being offered by project home builders.

A comparative assessment of the current new prices reveals that manufactured homes are generally dearer than project homes whilst not providing the brick and tile appearance that is favoured by new home buyers. Conversely, the US manufactured homes are on average 50% cheaper than site built housing. The focus groups of prospective new home buyers revealed that a cost advantage over project homes of at least 30% is required for consumers to consider purchasing a manufactured home.

Although the reasons for the cost advantages of US manufactured homes is not clearly evident, it is plausible that the production and procurement economies of scale and cheaper labour sources make it a more cost effective option.

Although the US market has experienced strong demand for manufactured housing over the past 20 years, more recently the market for manufactured housing has contracted, whilst the site built sector has grown. The reason seems to be the substantial stock inventories and loan defaults that have precipitated the flooding of second hand stock onto the market. The result has witnessed extensive factory closures and a reassessment by some firms of their involvement.

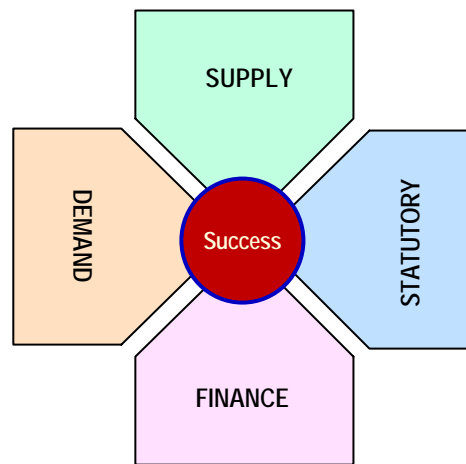
Apart from the USA, international experience of affordable manufactured detached housing is negligible. The European and Asian examples are largely based on high-density construction due to their concentrated town centres and hence do not provide any useful lessons which can be transferred to an Australian context. The USA provides the most pertinent examples which may assist in the development of an Australian manufactured housing product that is competitive with project homes in terms of design, functionality and price.

1.5 Market Analysis

Australia's residential construction market can be broadly segregated into project homes, custom built homes and manufactured homes. Project homes

dominate the market due to their competitive pricing and the acceptance by consumers of their functionality and aesthetic. To enable a broader acceptance of manufactured housing by consumers, four parameters must be satisfied: -

- ◆ **supply** side (manufacturers) must provide a cost effective, functional and aesthetically acceptable product;
- ◆ **demand** by consumers' must increase to an adequate critical mass;
- ◆ **statutory** constraints must be eased to allow development on small lots and initiate land tenure reform;
- ◆ **finance** constraints by lenders should be modified to include for different land tenure forms.



Existing detached brick dwellings are the predominant housing choice by Australian consumers with 17% of first home buyers purchasing a new home. This translates to a latent demand of almost 17,000 new dwellings in NSW within any given period by households on moderate incomes.

The market analysis of US manufactured homes reveals that the purchasers predominantly locate the homes in rural areas or manufactured home communities. The homes are chosen predominantly for their cost with households earning substantially less than the average weekly income and generally without a savings history.

Although project homes dominate metropolitan areas, the possibility of the success of a manufactured housing option is increased in rural and satellite town communities. The negative perceptions and price disadvantage are mitigated by the facilitated integration of this housing type into the streetscape and the deterioration of price advantages normally enjoyed by project home builders in metropolitan areas.

The consumer focus groups, revealed that the participants' high housing aspirations were incongruent with their incomes. The participants indicated that rather than gaining a foothold in the property market by purchasing a manufactured home which was (say 30%) cheaper than a project home, they would rather rent or save to enable them to buy an existing or project home.

1.6 Lending/Borrowing Assessment

The assessment by lenders of manufactured housing and alternate land tenure forms as having a workable risk profile is an essential factor in ensuring that the development of manufactured housing can be augmented by feasible finance solutions.

Currently, Australian lenders do not have specific policies or guidelines which specifically exclude manufactured housing from their lending profiles. Major banks indicated that the primary assessment criteria are repayment capability, satisfactory credit history and value of security (ie land + improvements). Beyond the satisfaction of these criteria, the type of house construction is irrelevant.

Understandably, Australian lenders are reluctant to expand their involvement into uncertain and potentially higher risk markets. The recent escalation in mortgage defaults by manufactured housing borrowers in the US has precipitated the withdrawal of major lenders from the financing of manufactured housing.

The primary barrier affecting moderate income households is the inability to borrow adequate funds to allow entry into the Sydney property market. The reduced affordability is a factor of the disproportionate escalation between land values and household income. The stark prognosis for the ability of moderate income households to purchase their own home is reflected in the following borrowing limits (repayments are $\leq 30\%$ of income) based on 6%pa:

- ◆ \$35,000pa - **\$130,000**;
- ◆ \$45,000pa - **\$170,000**;
- ◆ \$55,000pa - **\$210,000**.

Based on the maximum repayment capacity, the borrowing capability of households in the upper income range of \$55,000 is inadequate to fund the purchase of a new detached home in Sydney.

1.7 Manufactured Housing Design

An analysis of design needs to consider the issues associated with house as well as urban design. Australian manufactured housing has been traditionally associated with caravan parks and manufactured housing estates leading to the development of negative perceptions by consumers in terms of house and estate design. Poor consumer perceptions are reinforced by the current dominance of cheaper cladding systems and simple external designs of existing manufactured housing.

Currently, there is an absence of manufactured housing communities or integrated manufactured housing developments that can be used as an acceptable benchmark. Existing developments are almost wholly outside metropolitan areas, coastal and generally occupied by retirees. They have many of the negative attributes that would make them unacceptable to consumers seeking to purchase a new home— eg. lot size, density, appearance.

The goal in terms of the developing a more attractive and hence acceptable manufactured housing product is to mimic the appearance of project homes in

order to facilitate the integration of affordable housing into the suburban streetscape. This requires the development of alternate designs that meet the needs of families rather than small household groups combined with the use of innovative materials and design modules.

1.8 Planning Review

The NSW planning framework for residential developments is defined by a combination of enforceable and voluntary legislation, guidelines and controls. The bulk of the planning responsibility rests with local councils through the enforcement of Local Environmental Plans and Development Control Plans. The controls defined by local councils have a substantial impact on the character and affordability of local areas.

The recent shift from prescriptive to performance based codes has allowed an increased level of flexibility and the ability to implement innovative design solutions. The paradigm change may allow the development of manufactured housing solutions in areas where this was not previously feasible.

Small lot developments reduce the amount of land per dwelling, increase density and hence reduce purchase costs. Although the NSW Government has driven the development of affordable housing initiatives, a certain degree of implementation resistance is evident at the Local Council level. Whilst a handful of councils have adopted the state government recommendations, many consider that the support of affordable housing initiatives will somehow detract from the amenity of their LGAs. A substantial policy change is required at Local Government level to propagate the development of higher density urban environments.

1.9 Manufactured Housing Development Model

A wider acceptance of manufactured housing amongst moderate income groups will require the product to be cheaper than a project home, have an attractive and appropriate design and utilise building materials which are reflective of the consumers' wants.

The development of designs that allow the location of manufactured houses on small lots (approx 250sqm) needs to be one of the primary goals of any new design model. Product success in a suburban setting can only be achieved if the house and land package are within the affordable borrowing ranges (see section 6.5) of moderate income households.

In conjunction with individual house design, a rethink of the urban context needs to be undertaken. International examples illustrate that an increase in urban density and clustering of dwellings is a successful design concept that creates a sense of community whilst reducing the land cost. Clustering needs to be implemented with sensitivity and consideration of scale to prevent the formation of community "ghettos". On this basis, the use of clusters as part of an infill development is important to achieve community integration and cohesion.

Land tenure plays an important role in defining and shaping communities as well as dictating the price premium placed on land. It is clear that the existing land tenure forms do not have positive attributes that improve affordability. The

existing land tenure system in NSW has had little change since it was established in the 18th century and it is envisaged that any attempts to initiate reforms will be resisted by various stakeholders. Land tenure reform should be part of a long-term change agenda and should be championed by a body with considerable influence of government and industry.

1.10 Key Findings and Recommendations

This study has generated a number of findings that generally indicate that the market for manufactured homes as an affordable housing option is limited in the short to medium term. Negative consumer sentiment and reluctance by manufacturers to develop and promote suitable products constitute the major restraints that currently prevent the growth of manufactured housing.

At present, a number of factors prevent manufactured housing being considered as an affordable housing choice:

- At the moment it is more expensive than project homes in metropolitan Sydney;
- There are strong negative consumer perceptions of current manufactured housing;
- The available designs generally do not address the functional needs of families;
- Current designs are unsuitable for small lot developments;
- Existing manufactured houses do not integrate into the streetscape as a result of their external appearance;
- Current manufacturers are satisfied with their existing market and production levels and hence have little motivation to pursue and develop new markets;
- Limited land tenure options restrict the development of affordable land ownership alternatives.

It is evident that without some form of intervention, the market will remain in its current status quo and will lack the impetus to develop the critical mass required to initiate innovation, competitiveness and growth. It seems that in the short to medium term, product and market development can only be initiated through the allocation of a R&D budget by Landcom to facilitate the growth.

The speculation of seed capital by Landcom would clearly be a high-risk endeavour with uncertain consequences. The benefits to Landcom from such an effort cannot be gauged at this stage, however, it would be inherently difficult to shift the manufactured housing industry into a position which is comparatively different to what it is today.

In its current form, manufactured housing is not feasible as an affordable housing solution. If however, Landcom decides to allocate seed capital to the evaluation of the medium and long term potential of developing and evolving the product and the related peripheral constraints (ie finance and statutory) into a marketable package, it is recommended that the following actions are pursued:



- Encourage State Government to develop a SEPP for small lot housing and lobby Local Councils to initiate implementation;
- Implement strategy to drive land tenure reform to improve land affordability;
- Examine the commercial feasibility of utilising manufactured housing in non-metropolitan areas;
- Develop manufactured housing designs for small lot developments;
- Refine manufactured housing designs to appeal to a broader range of households such as families and baby boomer couples;
- Introduce the use of new building materials to allow manufactured homes to mimic project homes;