

25th November 2014

I commend the ACT government for taking steps to permanently eradicate the presence of loose fill asbestos in our homes. As a resident of a property impacted by loose fill asbestos with two young children I welcome the opportunity to remove my family from this toxic environment.

The current proposal and bill before the committee focuses on the financial impacts (both to residents and to the ACT Government). In keeping with this, my submission attempts to do the same, though indisputably, the lifelong impact of this crisis on the families involved is of course tragic and unquantifiable.

I respectfully submit that the Loose-fill Asbestos Insulation Eradication Scheme (the scheme) that has led to the *Appropriation (Loose-fill Asbestos Insulation eradication) Bill 2014-15* will not deliver the best outcomes for the residents of the ACT or the impacted owners. I believe that the acquisition process needs to declare and fulfil its purpose and principles more clearly. Accordingly, I suggest the following objectives be adopted:

1. Eradicate the presence of loose fill asbestos in ACT residences,
2. Support impacted residents and owners suffering from the anxiety of exposure and prevent them from being disadvantaged as a consequence of the operation of the scheme
3. Minimise the impact on the ACT budget, subject to the first two points.

To this end I submit that the existing proposal should be altered to:

- Allow owners who wish to retain their land to surrender their house only. This would be equitable with the treatment of those who knocked down their houses prior to the announcement and represents significant savings for the Territory.
- Compensate those who were not in a financial position to knock down and rebuild their residence but instead chose to sell out at a loss prior to the announcement of the scheme;
- Allow owners who have chosen to safely knock down and rebuild to apply for a new crown lease to remove the stigma and legacy of "Mr Fluffy" from their properties, ensuring that owners, who remediate their own property, at their own cost, are not disadvantaged compared to those who surrendered their properties to the ACT Government.

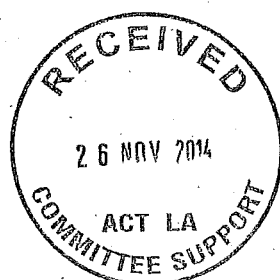
Should the existing proposal not be significantly altered but continue in its existing state, I submit that in executing the scheme, consideration should be given to:


- Avoiding financially disadvantaging and permanently displacing resident home owners by allowing them to reclaim their land in its entirety at the unimproved value without imposing increased costs from subdividing and unit titling blocks.
- Prioritising the demolition of homes where the families are hoping to rebuild their homes to minimise their displacement and the financial impact of appreciating land values.
- Stagger the acquisition of homes and of their valuations to minimise the impact of ejecting resident owners into volatile real estate markets.

Further details on the suggested changes are provided in the attachment,

Thankyou

Pilkington



 A.C.T. LEGISLATIVE ASSEMBLY COMMITTEE OFFICE	
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Significant alterations to the existing proposal

1. Allow owners who wish to retain their land to surrender their house only. The ACT government would be responsible for the demolition process to save costs through a wholesale process. This would ensure equitable treatment compared with those who knocked down their houses prior to the announcement.

The asbestos contamination makes the residence unsafe. The Government should be commended for working to properly remediate these houses and prevent additional asbestos exposure for ACT residents. However to insist on acquiring the house and land, leaving residents who wish to return unsure of whether they can reacquire their entire initial land holding, unsure of the cost of repurchasing that land, and unsure of the timeframe for returning to their neighbourhood is unnecessary and cruel.

I propose that where the owners wish to return to their land and neighbourhoods, the ACT Government could compensate the owner for the value of the house only, at the market value less unimproved value of the property. To allow owners to vacate the contaminated structures, they could make the payment before June 2015 and disallow the resident from entering the structure. Where the owner and the assessors are satisfied that the house does not present a significant health risk, they could delay the acquisition until the house is scheduled for demolition. The demolition of all these properties would be prioritised to minimise the term of displacement.

The addition of this option would demonstrate the ACT Government's commitment to assisting those residents affected through no fault of their own by this disaster, rather than assistance only being provided for the purpose of sub-dividing and developing land. The table below demonstrates that, assuming that 50% of owners¹ would wish to retain their land, this adjustment might be reasonably expected to cost an additional \$34 million dollars as the Government would be unable to benefit from sub-dividing or re-zoning their land. These owners would not be treated more advantageously than those wishing to move on. They would not access the stamp duty waiver, and would save the government a significant amount of interest and payments for security or gardening.

Table 1: Do not acquire land where the resident owner wishes to rebuild.	Current proposal	Let 50% of owners keep their land
Taskforce - 30 ppl at 100,000 (incl. super etc.)	-15,000,000	-15,000,000
Improvements to dump	-30,000,000	-30,000,000
Purchasing houses (Tab 1)	-166,030,000	-166,030,000
Purchasing land (Tab 1)	-549,770,000	-274,885,000
Interest on borrowings (\$1B @ 2.5% - Tab 2)	-76,234,305	-55,278,638
Security and gardening for 5 years (Tab 3)	-2,938,560	-1,517,760
Proceeds from sale with re-zoning or subdividing (Tab 4)	658,624,460	333,023,178
Proceeds from land value increase (Tab 5)	41,576,602	20,788,301
Assistance grant (Avg. 12,000 per family)	-12,252,000	-12,252,000
Valuations (2 x \$300) and Legal fees (\$1000) per house	1,633,600	1,633,600
Demolition costs (60,000 per house)	-61,260,000	-61,260,000
Stamp duty waivers @ \$30,000 per home	-30,630,000	-15,315,000
Net cost	-242,280,202	-276,093,319
Difference from current proposal		\$-33,813,117
Benefit to the 510 owners choosing to return		-66,300

The owners would also be paying rent on top of a mortgage on a property they cannot live in, potentially for up to two and a half years while they wait for their house to be demolished. While this would be a financial burden to the resident owners, for many the security of owning their block of land would make facing these financial difficulties preferable to the anxiety and displacement of not knowing if they will be able to afford your block when it is released.

Table 2: Impact of alternative on resident owners		Equity		
		10%	20%	30%
Current situation	Land value	520,000	520,000	520,000
	House value	130,000	130,000	130,000
	Property value	650,000	650,000	650,000
	Current mortgage	585,000	520,000	455,000
	Current monthly repayments	3,140	2,791	2,443
	Equity	65,000	130,000	195,000
Alternative if house only is bought by government	Mortgage maximum to maintain equity level	468,000	416,000	364,000
	Mortgage if house value is paid down	455,000	390,000	325,000
	Equity in land \$	65,000	130,000	195,000
	Equity in land %	13%	25%	38%
	Future repayments	2,443	2,094	1,745
	Future interest only repayments	1,896	1,625	1,354
	Cash flow freed up for rent per month	1,245	1,166	1,088
	Rent per month (\$450 per week)	1,950	1,950	1,950
	Additional cash flow required per month	705	784	862
	Total shortfall over 2 years	16,930	18,805	20,679
Proposal	Increase in land cost from subdivision (20%) (conservative)	104,000	104,000	104,000
	Increase in land cost from UIV increase (2.44% for 2 years)	25,686	25,686	25,686
	Total increase	129,686	129,686	129,686
	Interest on equity for two years	3,291	6,581	9,872
	Possible savings over 2 years based on mortgage vs rent	28,570	20,195	11,821
	Total shortfall in funds required to have some chance of reclaiming your location, your garden, your neighbourhood, your memories	97,825	102,909	107,993
Financially worse off under current proposal by:		\$80,895	\$84,104	\$87,314 ²

Table 2 shows three scenarios to illustrate the impact on owners of this alternative and the current proposal, depending on the level of equity the owner had in the home when they purchased it. This demonstrates that where they wish to return, homeowners will be better off financially by paying rent and a mortgage for two years than they would be under the current proposal to acquire the land.

The counter-argument to this proposal is that the bulk of the value is in the land, and that by acquiring the land, the territory can maximise their return by charging the owner the highest value use to reclaim their land. This argument is faulty. It puts government finances first and disregards the impact on the resident owners from being exposed to asbestos and displaced from their homes. It reduces the acquisition process from a genuine and compassionate assistance program to finally properly address the 'Mr Fluffy' asbestos crisis for families, to an unambiguous land grab by Government.

² Home owners with higher equity when they purchased their properties are worse off because their repayments are lower, making the impact of renting higher.

It is a question of where the cost is borne. The existing proposal has a \$34 million dollar financial benefit to the ACT government over this alternative, however this does not take into account the approximately \$41 million dollar (\$81,000*510 owners) burden placed on home owners wishing to return. The net cost to the community would actually be \$6 million dollars less under this alternative.

2. Compensate those who were not in a financial position to knock down and rebuild their residence but instead chose to sell out at a loss;

It has been publicly stated that the program aims to be fair and equitable. Consider the circumstances of two "Mr Fluffy" home owners. Both seek to move on from their contaminated residence. One is financially in a position to demolish their home and plan to re-build, the other cannot afford this, and so must sell up at a loss. Both take a risk, both deal with the "Fluffy" situation, the first by demolishing it safely, the second by declaring its status to potential purchasers. Under the current proposal, those who demolished will be compensated, while those who were unable to are not.

Only a small number of people sold out at a loss while declaring their property to be a "Mr Fluffy", so the increase in cost would be small. Surely the need to be just and fair to all impacted owners would allow for this.

3. Allow owners who have chosen to safely knock down and rebuild to apply for a new crown lease to remove the stigma of "Mr Fluffy" from their properties.

In her ministerial statement on the 30th of October 2014, while giving an update on the ACT Government response to the issue of Mr Fluffy loose fill asbestos, Katy Gallagher indicates that the Mr Fluffy legacy must end. The current acquisition proposal will not achieve that. Owners who choose to "go it alone" and self-fund the demolition process will not be able to apply for a new crown lease, or to have the "Mr Fluffy" letters removed from their building file. This creates anxiety for present and future owners, and may result in financial loss. It also creates a disparity between the treatment for Government acquired residences and those remediated by the owner, furthering the impression that the Government prefers to acquire the home owner's land than allow them to deal with the issue at their own expense.

Erasing the "Mr Fluffy" history from the property would involve a minimal administrative cost. The fact that the current proposal will remove this history from the Government acquired properties seems to acknowledge that this process is necessary to remove the "Mr Fluffy" stigma.

I submit that those who have dealt with the "Mr Fluffy" issue effectively through demolishing their houses either before or after the announcement should be granted new crown leases, so that the impact of the Mr Fluffy legacy can be fully erased from Canberra's future.

Comments on adjustments to the existing proposal:

1. Avoiding financially disadvantaging and permanently displacing resident home owners by allowing them to reclaim their land in its entirety without imposing increased costs from subdividing and unit titling blocks.

I respectfully submit that where the impacted owner wishes to return to their land the ACT government should not be seeking to sub-divide or rezone the land which will either impose significant costs on the

owner or effectively permanently displace them. Instead they should be allowed to return to the land at the unimproved value of the land at that time.

Table 3: Allow owners to return at UIV	Current proposal	Let 50% of owners buy back land at UIV
Taskforce - 30 ppl at 100,000 (incl. super etc.)	-15,000,000	-15,000,000
Improvements to dump	-30,000,000	-30,000,000
Purchasing houses (Tab 1)	-166,030,000	-166,030,000
Purchasing land (Tab 1)	-549,770,000	-549,770,000
Interest on borrowings (\$1B @ 2.5% - Tab 2)	-76,234,305	-76,234,305
Security and gardening for 5 years (Tab 3)	-2,938,560	-2,938,560
Proceeds from sale with re-zoning or subdividing (Tab 4)	658,624,460	604,197,230
Proceeds from land value increase (Tab 5)	41,576,602	41,576,602
Assistance grant (Avg. 12,000 per family)	-12,252,000	-12,252,000
Valuations (2 x \$300) and Legal fees (\$1000) per house	1,633,600	1,633,600
Demolition costs (60,000 per house)	-61,260,000	-61,260,000
Stamp duty waivers @ \$30,000 per home	-30,630,000	-30,630,000
Net cost	-242,280,202	-296,707,432
Difference from current proposal		\$-54,427,230
Benefit to the 510 owners choosing to return		-106,720

This adjustment may reasonably be expected to increase the cost of the program by \$54 million dollars. This only reflects the assumed differences between subdividing or unit titling blocks, and re-selling them at UIV. None of the costings included in this document take account of the market value of the blocks. This is difficult to calculate. What is the market value of a clear block of land in an established suburb where it is not uncommon for wealthy house hunters to pay the value of an established house simply to obtain a block to build on.

The difficulty in calculating the market value, or the increase from sub-dividing or unit titling blocks serves to illustrate the anxiety that many owners may face for up to 5 years. They may rent for that period, hoping to return to their neighbourhoods, only to discover when the block is valued that it is beyond their means.

The residents of these toxic houses already have an uncertain and anxious future ahead, it would be cruel to add to that the anxiety of not knowing if they will be able to return to their blocks, their neighbourhoods, their locations and their memories.

2. Prioritising the demolition of homes where the families are hoping to rebuild their homes to minimise their displacement and the financial impact of growing land values;

It would be cost neutral to the territory and of significant benefit to the impacted owner who wishes to return to the land to prioritise the demolition of the residence.

Where prioritisation of homes would result in an increase cost for demolition from moving equipment, impacted owners could be offered the option of contributing towards the move of equipment to avoid being displaced for up to 5 years.

e.g. Where the land is worth \$500,000 growing at 2.44% per year the impacted owner could be reasonably expected to pay an extra \$64,050 to reclaim the property at the end of 5 years (assuming the owner could acquire the property at UIV rather than at a sub-divided or unit titled market value). They may prefer to contribute \$3,000 to compensate the ACT government for moving the equipment.

3. Stagger the acquisition of homes and of their valuations to minimise the impact of ejecting resident owners into volatile real estate markets.

The current scheme is likely to see almost 1000, families seeking homes in their existing suburbs before June 2015. This is expected to increase house prices³ and in effect create a temporary property bubble. These impacted owners, already anxious from the potential exposure, will be bidding for a home in a much more expensive market than the one that their home was valued in.

The head of the Asbestos Response Taskforce, Andrew Kefford stated⁴ that the settlement on properties could be delayed, which would allow for a staggered release of buyers into the market. This does not recognise that if the valuation date is frozen at the 28th of October, and the funds for the property are not paid until settlement, mortgagees are essentially paying very expensive rent to live in a property that does not appreciate. This puts them at a financial disadvantage, as does entering the real estate Fluffy frenzy predicted for 2015.

To minimise the impact on the property market and consequently on the homeowners, the taskforce should take a more flexible approach to valuations where the medium term risks are acceptable to the resident owner and the assessors.

³ 2014, Meridith Clisby, "The "Mr. Fluffy effect" set to hit the market in early 2015", Canberra times, Available: <http://canberratimes.domain.com.au/real-estate-news/mr-fluffy-effect-set-to-hit-the-market-in-early-2015-20141121-11r3yp.html>

⁴ 2014, 666 ABC Canberra, "Mr Fluffy asbestos homeowners already opting in to ACT government buy back scheme", ABC, Available: <http://www.abc.net.au/news/2014-11-11/mr-fluffy-asbestos-home-owners-opt-in-to-act-government-buyback/5882940>

Appendix

Assumptions and calculations behind costings

Costing estimates	Current proposal	Let 50% of owners buy back land at UIV	Let 50% of owners keep their land
Taskforce - 30 ppl at 100,000 (incl. super etc.)	-15,000,000	-15,000,000	-15,000,000
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Benefit to the 510 owners choosing to return		-106,720	-66,300

Embedded is the excel file with calculations:



Submission
supporting calculator

Tab 1: Property acquisition	House as a percentage of market value:														
	Poor condition	Original condition	Standard condition	Some renovations	Extensive renovations										
	10%	15%	20%	30%	40%										
Property value	Number of houses					Cost of houses					Cost of land				
400000	4	3	3	2		160000	180000	240000	240000	0	1440000	1020000	960000	560000	0
450000	3	5	8	14		135000	337500	720000	1890000	0	1215000	1912500	2880000	4410000	0
500000	2	15	30	15		100000	1125000	3000000	2250000	0	900000	6375000	12000000	5250000	0
550000	1	20	80	20		55000	1650000	8800000	3300000	0	495000	9350000	35200000	7700000	0
600000	1	20	90	20		60000	1800000	10800000	3600000	0	540000	10200000	43200000	8400000	0
650000	1	20	70	20	10	65000	1950000	9100000	3900000	2600000	585000	11050000	36400000	9100000	3900000
700000	1	10	65	25	9	70000	1050000	9100000	5250000	2520000	630000	5950000	36400000	12250000	3780000
750000	1	10	60	25	8	75000	1125000	9000000	5625000	2400000	675000	6375000	36000000	13125000	3600000
800000		10	60	25	7	0	1200000	9600000	6000000	2240000	0	6800000	38400000	14000000	3360000
850000		15	40	30	6	0	1912500	6800000	7650000	2040000	0	10837500	27200000	17850000	3060000
900000		15	20	30	5	0	2025000	3600000	8100000	1800000	0	11475000	14400000	18900000	2700000
950000			10	25	4	0	0	1900000	7125000	1520000	0	0	7600000	16625000	2280000
1000000			5	10	3	0	0	1000000	3000000	1200000	0	0	4000000	7000000	1800000
1050000			2	2	2	0	0	420000	630000	840000	0	0	1680000	1470000	1260000
1100000		1	1	1	1	0	165000	220000	330000	440000	0	935000	880000	770000	660000
Column Total	14	144	544	264	55	720000	1452000	74300000	5889000	1760000	6480000	82280000	29720000	13741000	2640000
Section Total	1021					166030000					549770000				
Total cost	\$715.8M														

NOTE: Without access to the professional costing resources many assumptions have had to be made.

I have tried to demonstrate the impact of these assumptions on the costs I have calculated.

The assumptions have been made consistently when costing the different alternatives, so while they are not defensible for budgeting purposes, they are useful as a tool for comparison.

Tab 2: Govt interest	Current proposal	Let 50% of owners buy back land at UIV	Let 50% of owners keep their land
Rate = The interest rate on the government loan,	2.5%	2.5%	2.5%
Nper = The number of payments over which the loan is amortized,	5	5	5
Pv = The original principal value of the loan,	1,000,000,000	1,000,000,000	725,115,000*
Start_period = The beginning payment number for which total interest will be computed,	1	1	1
End_period = The ending payment number for which total interest will be computed, and	5	5	5
Total interest payable	-76,234,305	-76,234,305	-55,278,638

*The total loan has been reduced by 50% of the cost of acquiring land, assuming that 50% of home owners will want to stay and re-build.

Tab 3: Security and gardening		Current proposal	Let 50% of owners buy back land at UIV	Let 50% of owners keep their land	
Year	Holdings (#)	Cost*	Cost*	Holdings	Cost*
0	1021	980160	980160	510	489600
1	816	783360	783360	408	391680
2	612	587520	587520	306	293760
3	408	391680	391680	204	195840
4	204	195840	195840	102	97920
5	0	0	0	0	48960
TOTAL		2938560	2938560		1517760

Service required and cost per house	Monthly	Annual
*Gardening at \$30 per hour for 1 hour a month	30	360
*Security at \$50 per month for 12 months	50	600

Tab 4: Increase from re-zoning	Original land cost	Break up of properties				Expected increases			Proceeds
		PPL to return at UIV	Unsuitable for dividing*	Unit title	Subdivide	Assumption range	Unit title increase	Sub divide increase	
Current proposal	549770000	0%	12%	44%	44%	Low	20%	15%	634434580
	549770000	0%	12%	44%	44%	Medium	25%	20%	658624460
	549770000	0%	12%	44%	44%	Higher	30%	25%	682814340
Let 50% of owners buy back land at UIV	549770000	50%	6%	22%	22%	Low	20%	15%	592102290
	549770000	50%	6%	22%	22%	Medium	25%	20%	604197230
	549770000	50%	6%	22%	22%	Higher	30%	25%	616292170
Let 50% of owners keep their land	274885000	0%	6%	47%	47%	Low	20%	15%	320103583
	274885000	0%	6%	47%	47%	Medium	25%	20%	333023178
	274885000	0%	6%	47%	47%	Higher	30%	25%	345942773

Assumption = informed guess		
Unit title increase range:	Low	20%
	Medium	25%
	Higher	30%
Sub divide increase range:	Low	15%
	Medium	20%
	Higher	25%

These calculations seems reasonable when including the approximately \$40m increase from land value based on the public statement that:

"Once the homes have been demolished, the ACT Government is expected to use the proceeds from the sale of some of the vacant blocks to repay up to 70 per cent of the loan."

<http://www.abc.net.au/news/2014-10-28/mr-fluffy-billion-bailout-to-demolish-homes-with-asbestos/5845944>

The medium estimates have been used in the above costing scenarios

Tab 5: Land increase		Current proposal		Let 50% of owners buy back land at UIV		Let 50% of owners keep their land		
Year	Holdings (#)	Holdings (\$)	Increase	Holdings (\$)	Increase	Holdings (#)	Holdings (\$)	Increase
0	1021	549770000	13414388	549770000	13414388	511	274885000	6707194
1	816	450547510	10993359	450547510	10993359	408	225273755	5496680
2	612	346155652	8446198	346155652	8446198	306	173077826	4223099
3	408	236401233	5768190	236401233	5768190	204	118200617	2884095
4	204	121084712	2954467	121084712	2954467	102	60542356	1477233
5	0	0	0	0	0	0	0	0
TOTAL			41576602		41576602			20788301

Average Canberra growth rate 2010 - 2014*	2.4%
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*Based on the average from ABS catalogue 6416.0 - Residential Property Price Indexes: Eight Capital Cities, Sep 2014 Available:

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6416.0Main+Features1Sep%202014?OpenDocument>

EXTRACT		Residential Property Price Index ; Canberra ;	Residential Property Price Index percentage change from corresponding quarter of previous year ; Canberra ;
Unit		Index Numbers	Percent
Series Type		Original	Original
Data Type		INDEX	PERCENT
Frequency		Quarter	Quarter
Collection Month		3	3
Series ID		A83728446K	A83728452F
Sep-2010		101.6	10.3
Sep-2011		98.7	-2.9
Sep-2012		99.5	0.8
Sep-2013		101.1	1.6
Sep-2014		103.5	2.4
		AVERAGE	2.44