

# **Real estate development by Local Government in Queensland**

**Eddo Coiacetto and Doug Baker**



**Urban Research Program**

**Research Paper 3  
June 2005**

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## **Abstract**

Real estate development by Local government is common in many parts of the world such as the United States and the Netherlands. However, in Australia, the nature and extent of such development does not appear to be known. This paper presents the results of an investigation into the extent and nature of real estate development by Local Governments in Queensland, a state where private sector values are often assumed to prevail. The study provides an overview of what types of real estate Councils have developed and how much they have developed over the last 10 years. Such development is widespread in Queensland with at least one third of Local governments having developed land. Councils often develop because of a perceived failure of the private sector to provide development adequately or as an entrepreneurial means of achieving public interest goals. However, there is also evidence that Councils are acting like private developers, acquiring land from the private sector and disposing it at open market values. There is a wealth of knowledge to be gathered from the experience of these Councils if local planning is to enter a more proactive approach to shaping urban outcomes.

## Introduction

In market-based economies real estate development<sup>1</sup> – defined here as the production of buildings or lots for residential, commercial, industrial or tourism/accommodation purposes - is usually the domain of the private sector. When one thinks of real estate developers it is typically of private sector players in an industry that is quite diverse in scale and actors. But what about the public sector involvement in real estate development - to what extent does the public sector (Local, State or Federal governments or agencies thereof) become involved in development? Large scale urban and State involvement in real estate development is common, with initiatives such as the Sydney Harbour Foreshore Authority and Landcom defining a public interest in directing and developing land. However, less is known about the involvement of smaller scaled Local governments in real estate. The role of Local government has been traditionally to regulate and shape development using zoning, development approval, and planning schemes. The division between the interests of the private and public sectors becomes blurred when Local government develops its own real estate for revenue.

Over thirty years ago Stretton (1989) argued for greater direct involvement by public authorities in real estate development, and over the last few decades Local governments in Australia have needed to become more business-like in their activities (Robinson 1995). However, little is known about the scale and nature of public real estate development by Local governments, or indeed its very existence, a gap which the present study starts to fill. This paper presents the results of an investigation into the extent and character of public land development in Queensland by local Councils and joint development partnerships with private real estate companies or public sector organisations. Do Local governments in Queensland carry out real estate development? If so, why and what is its extent and nature?

## Public real estate development

Public real estate development by Local government is a topic that has not generated a great deal of scholarly attention either nationally or internationally.

Real estate development by Local government generally has a long history in North America emerging as a response to a variety of pressures affecting municipal governments in the late sixties and early seventies. Decaying urban centres and a push for economic revitalization in the city core forced many cities (Local governments) to take on the role of land developer in order to facilitate urban renewal. Public sector real estate development was generated by several things at once in this context including: responsibility for local economic development, selection of projects that could be finished on time, federal aid packages, and control over the risk of development (Frieden, 1990). In order to facilitate this approach, negotiation-based development was utilized as a means to engage the private sector into

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<sup>1</sup> We prefer use of the term 'real estate development' over 'land development', 'property development' and 'land and property development'. Unlike 'land', 'real estate' denotes both land and buildings and is more succinct than 'land and property'. It is a more specific term, for literature searches, than the other terms which can bring up a great deal of unrelated material. Occasionally we use the term 'land development' where this term was used in its original context.

developing public interests. Thus, city planners negotiated with developers to take on projects that normally would not be undertaken in the private sector.

The trend of Local governments developing their own real estate has increased in North America since the sixties (Dowall, 1990). This has involved two forms of development. First, cities and municipalities have taken on property developments as sole agents and have run the process from start to finish by themselves. Secondly, and more commonly, the public and private sectors have entered into partnerships to develop public land. The expertise of the private sector is combined with the needs of the public sector and the risk is shared between parties. The benefits of this approach for the public sector include an increased tax base, public amenities provided by private development, and more control over what is developed. Private companies often enter into this type of joint development because it can offer choice public real estate, and competition from other developers is suppressed (Dowall, 1990).

The problems associated with public development of real estate are numerous. Simons (1994) suggests that the public sector lags seriously behind in its skill level and expertise resulting in sub-optimal management of public lands, and putting the public sector at a disadvantage when dealing with developers in joint projects. Often cities are seen to have given too much to developers on joint projects (Frieden, 1990). In addition, large public developments or joint projects pose problems for planners in the public sector, with the regulator and developer sometimes being the same entity. The public sector may not be set-up for development and may lack the basic tools for real estate management (Simons, 1993) though this lack of expertise has not stopped the continued support in North America for joint-development projects.

The international literature provides four substantive areas of real estate management<sup>2</sup> expertise required in the public and private sectors:

- organisation of a real estate department with staff and expertise;
- real estate information management: a data base of property and land value;
- the presence of explicitly stated objectives, decision rules, and written policies; and
- real estate development activities: leasing, land banking, and joint development.

In Australia, there has been considerable development by public authorities at the State and Territorial level, though little has been written about this from a scholarly perspective. In the early Post WWII period various State housing departments including Queensland's Housing Commission (Hollander 1996) carried out development. The Australian Capital Territory has had active land development agencies through various mutations from the National Capital Development Commission to the present ACT Land Development Agency. More significantly, in the 1970s the Federal Labor Government initiated its Land Commission Program setting up Urban Land Commissions with various Australian States: NSW (1975), South Australia (1973), Western Australia (1975), Victoria (1975) Tasmania (1975). The Program had a strong social agenda that included redressing high housing costs and capturing the unearned increment gained from the conversion of land to higher value uses (Troy 1978). Today most States and the ACT have land development agencies that

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<sup>2</sup> Managing real estate may be a part of developing real estate and vice-versa.

evolved from earlier established agencies through a variety of mutations and/or amalgamation with other authorities. These are now major developers but with more commercial orientations and reduced social agenda compared to the Land Commissions, though with an agenda that includes well designed, coordinated and sustainable development (Gleeson and Coiacetto in preparation). Queensland steadfastly refused to participate in the Land Commission Program and has never established a public land development agency mostly taking a pro-private sector development and anti-interventionist ideological position. However, from time to time the idea re-surfaces. It would be interesting in this context to see if development by Local government in Queensland has occurred or even flourished.

At the Local government level in Australia, not only has public real estate development escaped scholarly attention, but it is not even known if it exists and to what degree. Yet, the impetus to develop at the Local government level exists. Worldwide, there has been an increasing tendency to entrepreneurialism in the public sector which has impacted on management practices in Local government (Ruhil et al. 1999, Pierre 1999, Warner and Hebdon 2001). In Australia, Robinson (1995) sees Local governments becoming more entrepreneurial in their activities in response to a variety of pressures including the decrease of state level funding and the need to provide local facilities. Activities include joint-venture projects for the provision of infrastructure, increased use of market-based mechanisms such as developer contributions to fund urban facilities and infrastructure, and the increased reliance on private construction of public facilities (eg car-parks, libraries, community facilities and council chambers) in exchange for increased development rights. Perhaps such pressure has also led Councils to dabble in real estate development.

In the realm of housing provision similar pressures have led State governments to urge Local government to take on a more active role (Gurran 2003). On the ground, this has seen some Metropolitan Councils undertake more proactive approaches that show innovation and leadership including:

- mechanisms to retain existing affordable housing;
- levying developer contributions for affordable housing;
- inclusionary zoning;
- financial assistance for low cost housing providers to comply with building standards; and finally
- measures to facilitate new housing developments. These include joint development ventures with public entities as in the case of the Brisbane Housing Company (Gurran 2003).

Despite the pressures the modern economy has placed on the public sector to become more entrepreneurial, there are other good reasons for public sector land development. In his seminal work on the Australian city first published in 1970, Stretton (1989) encourages planners to get actively involved in the physical development of cities. He suggests that the public sector needs to actively control and influence the development process in areas of residential, commercial and industrial development. In doing this, the public sector needs to build what the private sector does not, such as low cost housing and urban renewal. Stretton emphasizes that the public sector needs to compete directly with the private sector to influence the quality, price-supply conditions and location of development. He suggests

“they should deal enough in each of these markets to achieve the influence they need on prices, and on the location of work and housing and services” (Stretton, 1989, p. 340).

To what extent has real estate development by Local Government occurred in Australia? A literature review in this area reveals that there is very little written, if anything, on this topic in Australia. Presently, there is no literature evaluating the public land development process by Local governments in Queensland. Placing public deal-making in the broader context of a well developed public property management system can both reduce the costs and increase revenue for Councils. A precursor to such evaluation is a survey of the extent and nature of real estate development by Councils.

Our literature searches reveal no studies documenting the extent or nature of public real estate development in Queensland, yet Queensland provides a pertinent case study because it is a rapidly developing State in which private sector values are prominent and in which, unlike other States, there is no active State public land development agency. Does this mean that there will also be little or no real estate development by Queensland Local governments? If development by local Councils exists in Queensland, what does that mean for the State’s reputed private sector ideology and for its State level aversion to having a public land development agency?

The issues raised provide a basis for the research questions and methodology of this exploratory study. Its aim is to investigate the character of real estate development by Local government in Queensland. Do Local governments in Queensland carry out public land development? If so, what is its extent and nature? Is it done for public interest objectives or to increase Council revenue? The specific research questions this study seeks to answer are:

- Does public real estate development by Local governments occur in Queensland and if so, how common or widespread is such activity? What kinds of real estate are developed?
- What are the reasons real estate is or is not developed?
- What are some of the characteristics of the real estate developments process including the frequency of sole Council developments compared to joint development schemes? How is land acquired? What is the price at which land is disposed of? Do Councils borrow money to develop land?
- Which departments within Council are responsible for conducting the developments and to what extent are skills sourced internally or externally? To what extent is planning involved?
- Do Councils have policies in place to guide the process?
- Have Councils had any reaction, negative or positive from private sector developers?

## Methods

This study is based on a confidential mail out questionnaire survey designed around the research questions set out above. It was sent to all but one of Queensland’s 125 Local governments in 2003. We decided to leave Brisbane out of the survey as it is an exceptional Council in terms of size and complexity for Queensland and its consequent potential to

influence the results of this study. Gurran (2003) has already provided some work on Brisbane's experience with joint venture projects.

An initial telephone survey sought to establish if any real estate development had been carried out by Councils, and preliminary indications from the telephone survey suggested that it was virtually non-existent in the State. Individuals telephoned were reticent to discuss the issue until referrals were made and a snowballing process started which led to further contacts with Council actors who had been involved in development activity. Real estate development is a contentious and sensitive matter and diffidence of any researcher motives may have been involved. Three pilot interviews were conducted and were used to help design and test the questionnaire.

A study of this kind poses other difficulties. For example, Councils vary considerably in size; the staff structures and responsibilities vary in Councils; and the staff length of service, and resulting corporate memory for land development history is also varied. The scale, style, nature of, and reasons for development could vary considerably between Local governments. This complicates finding the correct Council official to send the questionnaire to, and also in the design of the questionnaire. The mail out was preceded by a phone call to establish the best person in each Council to whom to send the questionnaire, though in all cases they were sent via the Chief Executive Officer. The time period coverage for the survey was also limited to the previous 10 years.

Achieving a high response is difficult given the above factors, possible diffidence, as well as the high pressure and limited resources many Council staff are operating under. With follow-up calls and a second mail out, a response rate of 49% was achieved.

The questionnaire was designed to balance brevity and comprehensiveness. To standardise interpretation, 'real estate development' was defined for the study specifically as the production of residential lots and/or buildings, industrial lots and/or buildings, commercial-retail lots and/or buildings and tourist/accommodation lots and/or buildings. Respondents were asked to not include public facilities such as sporting facilities, transport facilities or interchanges, libraries, restrooms and so on. However, the distinction can be fine, and so as to not preclude any other important initiatives, in a separate section of the questionnaire respondents were provided an opportunity to report any other development activities they might consider as development.

To facilitate completing the questionnaire, and thereby maintaining the response rate, respondents were asked to provide approximate estimates (such as percentages on a bar scale), rather than spend time and resources obtaining exact figures. For this reason, and because the response rate was 49%, the results presented here should be seen as indicative only. Percentages are rounded up to whole figures except where small percentages are involved (i.e. less than 5%).

## Results and discussion

### Do Councils develop?

Real estate development by Local governments is common in Queensland and may even be highly underestimated given the 49% response rate to this survey. Of the 61 Councils which responded to the survey, 44 had developed real estate in the previous 10 years. Councils that have developed real estate will be referred to as ‘developer’ Councils and those, which have not, will be referred to as ‘non-developer’ Councils. At the very least then, 35% of Queensland Councils had developed land, a surprising amount given our original assumptions and the initial reticence of Councils to report such development in early casual telephone inquiries. Moreover, there is a latent ‘potential involvement’ in development with almost half (8) of the non-developer Councils’ respondents indicating they thought their Council would be interested in developing real estate in the future. Most of the developer Councils (73%<sup>3</sup>) also indicated a likelihood of further development in the future.

### What do Councils develop?

The volume of real estate developed by Councils is, as reported in this paper, is possibly underestimated because 6 of the 44 ‘developer’ Councils were imprecise in specifying the quantity and type of development they had undertaken. Almost all the reported development involved the production of allotments (2054 development units in total). Because of imprecision in reporting it is possible that up to 6 of these developments units were buildings. For this paper no distinction is made between lots and building units and both will be referred to as development units.

**Table 1: Public real estate development: type and output**

<i>Development Type</i>	<i>Total Output (No. of development units)</i>	<i>Percent of Councils developing</i>	<i>Range (No. of development units)</i>	<i>Median</i>	<i>Mean</i>	<i>Percent of total output</i>
Residential	1705	70.5	2-580	32	80	83.0
Industrial	333	59.1	7-48	14.5	16	16.2
Commercial	3	6.8	1	1	1	0.1
Tourist / accommodation	4	9.1	1	1	1	0.2
Rural residential	9	4.5	4-5	4.5	4.5	0.4
<b>Total</b>	<b>2054</b>					<b>100.0</b>

By far most of the developed real estate was residential (Table 1). Seventy percent of developer Councils had carried out some residential development which in total represented 83% of the total reported development output.

Industrial development accounted for 16% of output and 59% of Councils had undertaken this type of development. Commercial, tourist/accommodation and rural residential combined accounted for less than three quarters of a percent of development units.

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<sup>3</sup> Three did not answer this question.

Residential developments ranged in size from 2 to 580 units with the median and mean sizes at 32 and 80 units respectively. Industrial developments ranged from 7 to 48 units with the median and mean at 14.5 and 16 respectively.

Almost half (20) of the developer Councils had carried out more than one type of development.

Some of the reasons cited for developing real estate (Table 2) indicate a perception of the private sector failing in some way. Most Councils developed real estate “to attract growth to the Council” and “to provide development the private sector does not provide any or enough of”. Growth in this context is a common-use term not defined for the study but taken to mean employment, population and business. Councils carrying out a small amount of business-related development in the form of industrial and commercial development is consistent with this goal of attracting growth. Less commonly development was done “to provide cheaper development”. Only one in five Councils reported undertaking development “to generate income for Council” suggesting that purely financial motives are not primary.

**Table 2: Reasons cited for getting involved in development**

<i>Reason</i>	<i>Councils citing reason</i>
TO ATTRACT GROWTH TO THE COUNCIL	70%
TO PROVIDE DEVELOPMENT THAT THE PRIVATE SECTOR DOES NOT PROVIDE ANY OR ENOUGH OF	67%
TO INFLUENCE THE PATTERN OF LAND DEVELOPMENT IN AN AREA (e.g., Building a shopping center to attract other development)	21%
TO GENERATE INCOME FOR COUNCIL	21%
OTHER (to fund community facilities, to provide housing not met by current market, to provide work for employees, to rectify a problem, opportunity to preserve substantial balance areas with environmental values in public ownership at minimal or no costs to the community, to facilitate the provision of a community facility, promote economic development and create jobs, improve quality of residential development, to satisfy a need in the Council)	21%
TO PROVIDE CHEAPER DEVELOPMENT	16%
TO DISPOSE OF PROPERTY ACQUIRED BY VARIOUS MEANS (e.g. rates arrears, severance, remnants)	14%
<b>TOTAL</b> (Respondents were able to cite more than one reason)	<b>230%</b>

There is also evidence of Councils being entrepreneurial for public interest or planning related reasons. Real estate was developed to attract growth to Council, to influence the pattern of development in an area, to provide environmental or community facilities and to provide cheaper development. One in five developer Councils had carried out development as part of a land use planning strategy, that is, to influence the pattern of land development in an area.

Other activities not defined as real estate development that Councils reported also provide evidence of Local government entrepreneurialism in achieving public interest goals (Table 3). Both developer and non-developer Councils are taking proactive approaches to activities such as heritage conservation, community housing, and land use planning. The extent of such activity is probably underestimated as this was not a focus of the questionnaire but an opportunity for respondents to report other activities they thought relevant.

**Table 3: Other activities reported by Councils**

<i>Activity</i>	<i>Reports by developer Councils</i>	<i>Reports by non-developer Councils</i>
<b>Heritage Conservation:</b> Restoration of heritage buildings sometimes coupled with economic objectives such as provide employment. One Council provided another party supplementary funding for establishment of local dairy industry heritage centre	6	4
<b>Community facilities:</b> The provision of community facilities was undertaken by several means - direct provision, providing land or funding for, or developing real estate for such purposes. Facilities include airport facilities, child care, entertainment theatres, swimming pools, medical centre, and camping centre redevelopment. Some Councils also developed or provided land for developments that combined community facilities with some commercial use, for example a library and information centre with café and offices	6	2
<b>Land use planning:</b> Purchase appropriately located land for future public facilities to influence the location of future development/land use pattern	2	
<b>Community/Aged housing:</b> Provision of aged housing or retirement villages or land therefore. Funding sources include Grants. Entering agreement with mining company for provision of housing	3	1
<b>Economic development:</b> Purchase land in industrial estate for release to qualifying businesses. Providing land for industrial development		2
<b>Planning for future development:</b> Buying land for future development, making plans for future development	2	
<b>Total Number of Councils reporting activities</b>	<b>17</b>	<b>8</b>

Thirty percent of respondent Councils did not develop real estate in the nominated time frame (last 10 years). The reason most of these non-developer Councils (65%) cited for not developing real estate was that the private sector meets the development needs of the community adequately (Table 4). There is also an attitude that it is not Local government's business to be involved in development, that is, "development should be left to the private sector". Still, only one in four non-developer Councils hold this view, and so it cannot be said that a private sector ideology is prevalent and that this view is a major constrain to Local government involvement.

There are no obvious differences in the reasons given by the non-developer Councils respondents who indicated they thought their Councils were likely to be interested in

developing real estate in the future and those who thought they would not. In both cases the most common reason (62.5% and 67% respectively) given for not developing was that “the private sector provides development adequately”.

**Table 4: Reason cited for NOT getting involved in development**

<i>Reason</i>	<i>Councils citing reason</i>
PRIVATE SECTOR PROVIDES DEVELOPMENT ADEQUATELY	65%
OTHER (no need because of low growth rate, lack of funds, financial reasons)	29%
DEVELOPMENT SHOULD BE LEFT TO PRIVATE SECTOR	24%
COUNCIL HAS LIMITED EXPERIENCE OR LACKS EXPERTISE TO CARRY OUT DEVELOPMENT	12%
THERE ARE TOO MANY RISKS IN DEVELOPMENT	12%
<b>TOTAL</b> (Respondents were able to cite more than one reason)	<b>142%</b>

### Who develops?

The vast majority of Councils (75%) undertook development on their own rather than in partnerships and relied mostly on in-house resources with some outsourcing of skills for specific stages or components of the project.

With respect to joint venture partnerships, one quarter of the Councils had entered into agreements with private or public sectors. Of these, 9% of all developer Councils worked with private sector partners only, 7% with other public sector entities only, while 7% worked with both public and private sector partners (1 respondent did not indicate). Generally, those working with partners carried out only part of their developments in partnership. Only one Council carried out all its development in partnership (with a public sector) and the most of its development any Council carried out with a private sector partner was 80%. In terms of output (number of development units), joint venture partnerships with the private sector take on a more prominent role. Most output (61% of units) resulted from Councils working alone. However, joint-venture partnerships with private sector partners resulted in 38% of output while only about 1.3% of output came from joint ventures with public sector partners.

Development requires the organisation and application of diverse expertise. The development process is complex and highly variable following a variety of individualised paths (Ganderton 1994, Gore and Nicholson 1991). It may involve any or all of many different tasks including land assembly and acquisition, survey, market research, financial appraisal, master planning, engineering design, civil engineering and other construction, approvals, marketing and sales. Many of these have subtasks or may be required at different stages of an individual development. Some stages such as layout of a development may undergo numerous iterations. The importance of any individual task varies with each development and each task requires a range of skills. There is considerable inter-council variation in the way each Council approaches the sourcing of skills for the process. Thirty percent of the Councils undertook all aspects of the development using in-house skills. Another 34% outsourced one task (or part thereof) while a further 18% outsourced two

tasks (or parts thereof). Only 2 (4.5%) Councils outsourced all tasks while another 2 outsourced most of the tasks - one outsourced part of several tasks and one outsourced parts of all tasks.

Engineering departments most often take a lead role in the development process while planning is less prominent (Table 5). For example, seven Councils indicated that engineering was solely responsible for development while planning was solely responsible in one case only. More commonly however responsibility was shared across departments, that is in 57% (25) of cases. Engineering played a role in 20 of the cases and planning in 14, suggesting that planning nevertheless makes an important contribution in team situations. A separate real estate section within the Councils is rare or non-existent: In a few cases the property management section takes a role and in one there was a steering team from all departments.

**Table 5: Departmental responsibility for developments: share of responsibility in development**

<i>Department</i>	<i>Mean share of responsibility (percent)</i>	<i>Range of share of responsibility (percent)</i>	<i>Number of times indicated as solely responsible (i.e. 100% share of responsibility)</i>
PLANNING	15	0 - 100	1
ECONOMIC DEVELOPMENT	19	0 - 100	3
PROPERTY MANAGEMENT	9	0 - 100	2
ENGINEERING	44	0 - 100	7
OTHER (Sport & Recreation, Executive, Works, Finance, Legal, Customer & Community services, Corporate services, Commercial Activities, Administration)	24	0 - 100	6

### **Why do they develop?**

Councils differed in the way they acquired the land they developed (Table 5). Two out of three Councils acquired all their land by one means only while about a third used two or more ways to acquire land. Relatively small amounts of land are acquired as arrears on rates fragments of open space contributions, compulsory acquisition and other means. In some instances the disposal of land so acquired is the reason for their development (Table 2). In general, Councils tend to be entrepreneurial when it comes to land acquisition for development, purchasing it directly from either the public or private sector (Table 6). About 27% of Councils purchased all their land from the private sector while about 32% purchased all their land from the public sector<sup>4</sup>. In terms of output however, most of the real estate output (64%) is on property purchased from the private sector. Though purchasing land from the public sector is more common than from the private sector, developments thereon are smaller with only 26% of production happening on land acquired from this source. It would seem also that most land developed through partnerships with the private sector

<sup>4</sup> Probably mostly State-owned Crown (public) land given that States are major public landholders within State boundaries.

occurs on land acquired by the Council rather than land acquired by the partner implying that the Council acquires the land but seeks the expertise of the private sector in developing it. It does not seem to be that Councils are seeking a partner and their expertise to develop land they already hold in public ownership.

**Table 6: How Councils acquired land for development – proportion of land acquired by various means**

<i>Method of acquisition</i>	<i>Mean percent acquired by method</i>	<i>Range of percent acquired by method</i>	<i>Percent of output</i>
ARREARS ON RATES	4	0 - 70	(0) 0.0
FRAGMENTS OF OPEN SPACE CONTRIBUTIONS	1	0 - 20	(0) 0.1
PURCHASE FROM PRIVATE SECTOR	37	0 – 100	(64) 63.6
PURCHASE FROM PUBLIC SECTOR	43	0 – 100	(26) 26.7
COMPULSORY ACQUISITION	3	0 – 100	(4) 4.0
ACQUIRED BY DEVELOPMENT PARTNER	1	0 - 25	(1) 1.3
OTHER (already owned, development lease, reclamation)	16	0 – 100	(4) 4.3

Stretton (1989, p. 340) suggests public interest operators may be able to attract lending more readily than profit seeking enterprises. However, the vast majority of Councils (86%) did not borrow money to fund their developments. There is no indication, either that borrowing is more likely to occur for larger scale developments since the 14% of Councils which did borrow were responsible for only 12% of the output. This is probably because developments can be staged and funds reinvested. The pattern of those which borrowed seems random – not related to other factors indicated so far.

While developing land “to attract growth to the Council” and “to provide development that the private sector does not provide/provide enough of” are the most often cited reasons for developing land, the product is, nevertheless, usually sold at open market value. Values are subjective estimates of worth (Adams 1994, p. 18) and so statements about the disposal value of land must be treated with some caution. One respondent even noted on the questionnaire form that there is ‘no market’, meaning no market activity occurs, in their Local Government Area. Fifty nine percent of developing Councils<sup>5</sup> sold all their development output at open market value. When examining the total output, the picture is more startling. Ninety percent of lots were reportedly sold “at open market value”, 7% were sold at “somewhat below market value” and about 3% at “far below market value”.

There is some evidence that developing small amounts of property at below market value is a strategy at least partially intended to promote economic development. All of the 14

<sup>5</sup> One Council only did not complete this section of the questionnaire.

Councils which sold part, or all, of their developed property at “somewhat below market value” or “far below market value” cited “to attract growth to the Council” or “to promote economic development” amongst the reasons they carried out development.

Most developer Councils (86%) did not have an official policy or strategic plan for property purchase and development. Most (5) of the 7 policies that were reported to exist were linked to Council’s Planning Scheme.

### Managing development risks

Among the risks of development by local authorities are the community reactions and also those of private developers who may feel there is unfair competition or perhaps conflicts of interest within Council. The respondents were asked to gauge the extent to which private real estate developers have reacted (positively or negatively) to Council developing real estate. The survey indicates that the respondents’ perceptions are that there is little or no negative reaction, and there is a moderate amount of positive reaction from private developers. For the purposes of the survey reaction was defined to include letters to newspapers or Council, gossip, comments, telephone calls and so on.

Negative reaction was gauged on 5-point scale from “No negative reaction” (1) to “A great deal of negative reaction” (5). Responses ranged from 1 to 4 with the mean at 1.4. Eleven respondents reported some negative reaction (point 2 or over) and 4 respondents reported at point 3 (moderate amount) or over.

Positive reaction was also gauged on a 5-point scale from “no positive reaction” (1) to “A great deal of positive reaction” (5). Responses ranged from 1 to 5 with the mean at 2.5 or just under “a moderate amount of positive reaction”. Twenty five reported some positive reaction (point 2 or over) while 20 respondents reported at point 3 (moderate) or higher.

There is some data to tentatively suggest that a negative reaction by developers may influence the decision to not develop again (Table 7).

**Table 7: Relationship between respondent Council’s perceptions of private developer reactions and whether Councils would develop again. (n= 44)**

<i>Council</i>	<i>Percent likely to develop again</i>	<i>Percent not likely to develop again</i>	<i>No response</i>
All developer Councils (n= 44)	73	20	07
Councils with 2 or more points on the negative response scale (n = 11)	54	36	09
Councils with 2 or more points on the positive response scale (n= 25)	68	24	08
Councils with 3 or more points on the positive response scale (n = 20)	70	20	10

## Conclusions

Real estate development by Councils in Queensland is common; at least 35% of Councils had developed real estate in the 10 years prior to the survey. Furthermore, most of these Councils indicated they were likely to develop real estate again in the future and almost half of those which had not developed real estate indicated an interest in developing in the future.

Almost all the real estate produced was in the form of allotments rather than buildings or land and buildings. Residential land was the most common product with industrial land a considerably distant second: Seven out of ten Councils had produced some residential development and this accounted for 83% of total output of development units while 59% of Councils had undertaken some industrial development but this represented only 16% of total output. Other types of development were much less common.

The main reasons cited for carrying out real estate development were 'to attract growth to the Council' and 'to provide development that the private sector does not provide any or enough of'. Twenty percent of the respondents suggested that their Councils developed real estate 'to generate income for Council', and the actions of Councils suggest that much development occurs for revenue raising rather than for 'public interest' reasons. The evidence suggests that Councils are acting in a manner similar to private developers; buying land from the private sector and developing it alone or more rarely with private sector partners, mostly for residential purposes, and then disposing it at open market value. In fact, only ten percent of development output was sold at less than open market value. This is not to say that development for public interest reasons does not happen. Some Councils are taking entrepreneurial approaches to achieve their objectives. They may undertake real estate development or other entrepreneurial activities to attract growth, or to fund facilities or to influence the pattern of development in an area.

One in four respondents from 'non-developer' Councils indicated a Council view that development should be left to the private sector. However, this pro-private sector ideology does not seem to be a major obstacle to the involvement of Councils in the future. Most Councils that did not develop real estate indicated that this was because the private sector was seen to provide development adequately.

Three quarters of the developer Councils worked alone (as opposed to undertaking joint ventures with public or private sector partners) producing 61% of the output. Partnerships with the private sector, though engaged in only by 15% of Councils, were responsible for 38% of the output. Councils mostly used their own funds rather than borrowing money.

Engineering often took the lead role in land development with diverse departments being involved. Separate real estate departments within Councils are rare. Planning departments rarely took the lead role in the land development process, although it sometimes formed part of a team. In only one of the 14 developer Councils in which a planning department played a part did the planning department take the lead role. Engineering, on the other hand, played a lead role in seven Councils. In our opinion, this secondary role for planning may be for several reasons, or a combination thereof. First, of course, some small and/or remote

Councils do not have planning departments. However, two thirds of the developer Councils which have planning sections did not involve the planning department. Second, the role of Council planners in the development process (to evaluate development on its merits) may be seen as a conflict of interests if the planner is fronting the development (Frieden 1990). Thus, planners could be excluded to avoid potential conflicts of interests in the assessment of development. However, such conflict could happen at any stage, for example in the assessment of engineering plans, by Council engineers. Moreover, some of these potential conflicts could be avoided were Councils to have an official policy or strategic plan for the development of real estate. In this regard, it is significant that 86% of Councils did not have such a policy. Third, engineering departments may dominate as land development may be seen as a largely technical engineering matter. Planning is not regarded as part of the process; thus, in those Councils the profession may be viewed in terms of an administrative or bureaucratic function.

Fourth, the exclusion of planners may have something to do with the nature of the reasons for which Councils develop real estate. As already indicated, there is reason to believe that to some extent Councils are acting like private real estate developers, buying land and developing it for resale at open market value. Planning may not be seen to have a role in this.

This study indicates that sometimes Councils are being entrepreneurial in order to make money, just like private developers. But it also seems that some Councils are being entrepreneurial to achieve planning related goals. If at both the Local government level and at the Queensland State level, we are to move further towards a more proactive planning approach of the kind envisaged by Stretton (1989), then it is significant that much of the practical groundwork already exists. While we are mindful of Simons' (1993, 1994) concern about public sector skill base and preparedness for executing development, the presents study shows that many Councils are already developing real estate and this means there is a wealth of experience to share. Councils have tested their skills, have dealt with the risks and pitfalls and some already have policies in place to guide the process. In the field of housing provision local Councils already show leadership and skill (Gurran 2003). There are lessons to learn not only from examples of innovative approaches to achieving public interest goals but also from the expertise developed by those involved in development for financial gain. Thus, one important need for future research is to uncover and disseminate knowledge from such experiences.

A second need is to expand on the findings of and questions raised by the present study. How prevalent is real estate development by Local Government Australia-wide? If it is prevalent in a supposedly public development averse State then is it likely to be prevalent elsewhere? While Council respondents to this survey suggest there is little negative developer reaction and moderate positive reaction to public real estate development, what do developers think about this? Why are planners not more involved in the public real estate development process?

A third and final need is in the area of development of policies to guide Local government real estate development. Such policies could deal with issues such as potential conflicts of interest, engagement with joint venture partners, acquiring land and disposing of real estate.

The study has several broader policy implications.

To the extent that revenue-driven development has been generated by the withdrawal of State funding (Robinson 1995) driven by a non-interventionist, neo-liberal agenda, it is ironic that it has driven Councils to be more interventionist and pro-active in how they carry out their activities, even competing with the private sector.

This study shows that for some Councils at least, planning is conceptualized more broadly than merely the regulation of private sector development and have accordingly been highly proactive in using real estate development to achieve public interest goals. We consider that this broader conceptualization of Local government planning and planning generally needs to be adopted more widely both at the Local government level itself and at the State level.

Conversely, it is a bit disturbing that planners are largely not involved in the development process. To the extent that may be because the profession may be viewed in terms of an administrative or bureaucratic function, then it too points to the need to broaden the conceptualization of what planning is about and what it can do.

The findings of this paper should also allay some of Queensland's long-lived trepidation towards the establishment of a State level public real estate development agency as exists in other States. This study shows that development, far from being an abnormal activity for governments is almost the norm and a quite natural function. Private sector developers do not appear to be opposed to public real estate development. Moreover, this study puts the lie the myth that private sector, anti-intervention values prevail in Queensland when such interventionist initiatives are undertaken by at least 35% of the Councils across the State, often on the basis of some perceived private sector failure. The wealth of Local government experience and expertise both in commercial terms and in terms knowledge of means to achieve public interest goals lies untapped for any future such agency.

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