Submission No 24

Land Release and Housing Supply in New South Wales

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22 September 2017

Mr Jai Rowell MP
Chair
Legislative Assembly Committee on Environment & Planning
NSW Parliament House
6 Macquarie Street
Sydney NSW 2000

Sent By: Online Submission

Dear Chair,

Re: Inquiry into Land Release and Housing Supply in New South Wales

The Urban Development Institute of Australia (UDIA) NSW is the leading property industry group promoting the responsible growth of this State. We have over 500 company members and more than 3,000 of their employees attend our events, sit on our committees, undertake training or are involved in the activities of the organisation on an annual basis. Our organisation is the oldest property development advocacy group in the country, having been established in 1962. Our advocacy is based on making our cities more liveable, affordable and connected.

We welcome the NSW Legislative Assembly Inquiry into Land Release and Housing Supply in New South Wales. When the Inquiry initially commenced, UDIA NSW submitted our Housing Affordability Action Plan and advised at the time that we would be submitting supplementary papers to specifically address the Inquiry's Terms of Reference.

UDIA NSW recognises the initiatives the NSW Government has taken to increase the supply of new housing since 2011 in response to what has been a perfect storm of market demand.

The level of demand has been driven by several factors including:

1. A pent-up demand for more than 100,000 dwellings due to the under supply of over a decade of underbuilding after the boom of 2002-03;

2. Record low interest rates increasing the amount purchasers can borrow driving up house prices;

3. The ageing effect of the Baby-Boomers looking to downsize as their kids try to become first home buyers and leave home, effectively splitting into two or more households;

4. Property investors (Baby-boomers) in the post GFC looking to the safety of 'bricks and mortar' rather than the volatility of the share market to fund their looming retirement; and

5. Strong levels of immigration resulting in population growth.

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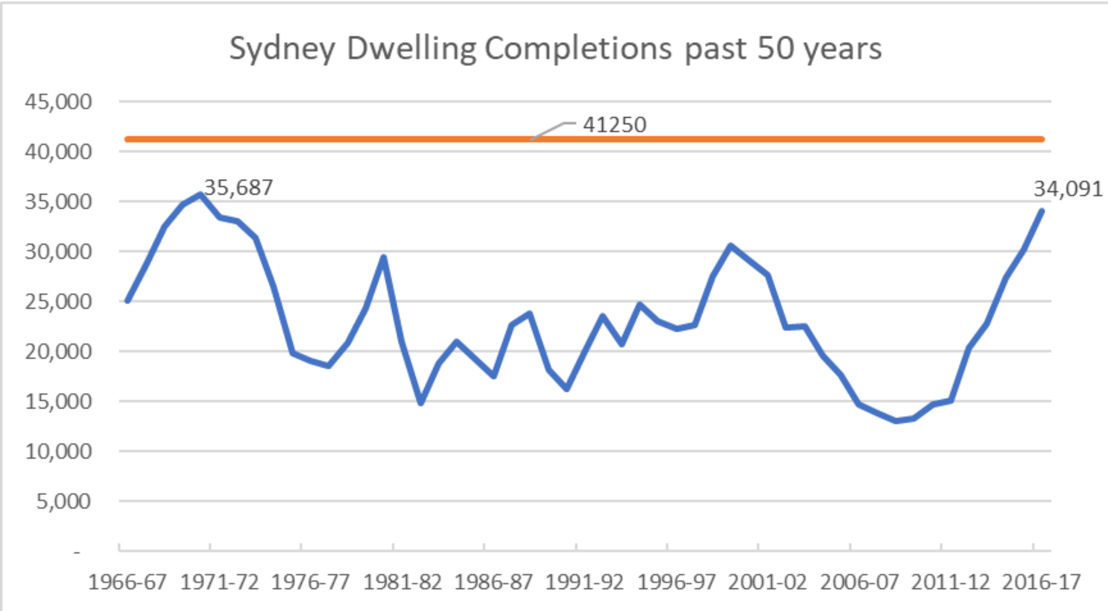
These initiatives combined with rising prices and the market strength has allowed developers to make projects viable and bring supply to market. This has resulted in record numbers of approvals and completions being achieved in Sydney and NSW.

The NSW economy is currently booming on the back of the property industry with record levels of indirect taxes including stamp duty, land tax and GST (Federal tax passed back to the States) being paid into the general revenue to the NSW State and Federal Governments. The development and housing industry is currently contributing record levels of taxes to the NSW State Government Budget.

The New Normal

While record levels of approvals and completions have been reached, it needs to be understood that 40,000 new dwellings per year needs to become the new normal to satisfy Sydney's future growth projections.

Sydney requires an additional 100,000 dwellings now (to satisfy pent-up demand) and at least 725,000 new homes to accommodate 1.7 million people by 2036, or 41,250 annually. Greater Sydney has never achieved this level of dwelling completions.



Given this new normal of supply being 40,000 new dwellings per year, UDIA is very concerned about the sustainability of the development and housing industry's ability to maintain the current record level of housing supply over the next 5 years.

If the learnings from the period from 2003 to 2007 (the last property boom and downturn) are to provide any insights now is the time we need to ensure we maintain supply. History shows (like between 2003 and 2007) that once the industry reaches a peak in supply that the industry then switches off supply due to increased costs and a lack of replacement projects in the housing pipeline.

At the start of the upturn in the cycle there is excess capacity in the housing supply pipeline, there is an oversupply of development ready land in the pipeline and there is also downwards pressure on development costs. However, as prices rise making project feasibilities viable and bankable, investment and projects are switched on releasing additional supply into the housing pipeline.

Maintaining the Record Levels of Housing Supply at the Peak of the Cycle

Having sold out of many projects, developers are looking to 'restock' and invest in new projects to maintain supply and keep their business trading at the current levels.

On the demand side, there is evidence that price growth is finally slowing after several years of very high growth. At the same time, the supply side is experiencing large cost increases due to the demand for labour and materials on the back of record levels of starts and completions in the pipeline.

There is also a lack of 'development ready' land or sites available in the market now. For a site to be 'development ready' it needs to achieve five key criteria before it enters the housing supply pipeline:

1. Land is zoned;
2. Land is serviced;
3. Owned by a developer or a willing vendor prepared to sell at market prices;
4. Developer can get an approval; and
5. Developer can get project funding (equity or debt).

At present, there are several barriers or blockages that are slowing supply of replacement sites for developers into the housing pipeline including:

1) Rezoning - There are many projects with Planning Proposals waiting for rezoning at Gateway.

Recommendation: Prioritise the processing of the backlog of Planning Proposals at Gateway

2) Infrastructure - There is also a lack of services available for many sites that have been rezoned in Priority Growth Areas. Sydney has used up most of the excess capacity in infrastructure and now desperately needs new investment from State Agencies and Utilities Providers in roads, power, sewer and water infrastructure. This needs to be funded from general revenue for the next 2 years to avoid the traditional downturn scenario after the peak where housing supply is turned off by the industry as costs rise.

Recommendation: Government to invest in priority infrastructure immediately so there is more land in Priority Growth Areas that is development ready

3) Willing Vendors - Vendors are holding out for raw land prices that are no longer a market price now there is the additional costs uncapped section 94, biodiversity, Basix, SIC, increased foreign investor surcharges and potentially inclusionary zoning for affordable housing to be passed back to the land vendor.

Recommendation: NSW Treasury should provide additional funding from general revenue (generated by tax collections on the back of the property

sector boom) to pay for infrastructure and social housing and further delay the introduction of new developer charges and costs that seek to pass the costs back to land vendors (value capture) by a further 2 years to allow industry to secure replacement sites and supply into the development pipeline to a level of 3 full years' supply. The current proposal to increase developer contributions and costs to be passed back to land vendors at the top of the cycle when development ready land is in short supply will result in unreal vendor expectations and effectively freeze land supply. Once there is a large supply of development sites and competition between vendors so they cannot 'hold out' for unrealistic prices, the market will then allow contributions and costs for infrastructure to be passed back to land vendors without freezing supply.

4) Development Approvals – The continuous improvement of the Planning System and the delivery of a Plan for Growing Sydney that has been under way from the Department of Planning and Greater Sydney Commission needs to continue and be accelerated. The increasing introduction of an Urban Development Program, ePlanning, CDC and Planning Panels should all produce more efficiency and productivity and result in more certainty and faster approvals. ePlanning will bring the NSW planning system into the 21st Century and deliver enormous increases in productivity for Local Councils, Industry, Services Authorities, State Departments, LPI and the Department of Planning. Many Councils and Authorities still use very inefficient lineal paper based information management systems.

Recommendation: The Department of Planning should reintroduce the Urban Development Program (UDP) and accelerate the introduction of ePlanning to track approvals and better manage information across Sydney. The Department should also continue to make improvements to CDC and Planning Panels to increase certainty and reduce time delays in the process.

With certainty in the delivery of the first four criteria, investment risk tends to be mitigated sufficiently to allow for finance to flow as a matter of fact.

UDIA contends that the NSW Government and the Department of Planning need to focus their resources on providing as much certainty as possible to the delivery of the criteria above.

Other Government Initiatives

In 2010, the Council of Australian Governments (COAG) directed a Housing Supply and Affordability Reform (HSAR) Working Party to examine the '…housing supply pipeline and government policy that may act as barriers to supply or that stimulate the demand for housing'. Part of that examination included research by the Productivity Commission into 'Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments 2011'. The Working Party's examination focused on land supply, infrastructure cost recovery and land use planning and approval process. Their findings remain relevant to NSW today and are referenced in this submission.

The NSW Government's Housing Affordability Action Plan and Budget announced in June introduced funding to support a 25-point Action Plan addressing housing supply and affordability. Whilst there were measures in the Plan that dealt with the demand side, those addressing supply did not resolve the underlying issues and indeed the uncapping of s94 and review of the SIC levy will only compromise supply in the medium term.

Housing supply will be delivered where there is certainty on policy and where planning controls are correctly tuned to enable innovation and attract investment.

The housing supply process lacks efficiency and requires greater productivity. It is currently compromised by:

- a lack of programming and the coordination of supply;
- the provision of enabling infrastructure;
- an absence of clear direction, priority and authority in delivering enabling infrastructure;
- a lack of transparency, predictability, equity and accountability in the funding and delivery of infrastructure;
- inefficient development process with little integration between agencies and providers;
- a planning system that can be unnecessarily complicated and slow;
- requirements for additional concurrencies and approvals that add delays and costs to projects;
- increased taxes and charges that directly affect the viability of projects;
- a lack of housing diversity, innovation and affordability; and
- a void in clear policy, program and innovation in delivering Affordable Housing.

There is no ‘silver bullet’ to fix this crisis. It needs to be addressed on multiple fronts. UDIA NSW has prepared seven (7) supplementary papers (attached) responding to the crisis around land release and housing supply in NSW. These papers align with the Terms of Reference as follows:

Supplementary papers 1 and 2 address:

- The resources and support needed within the Department of Planning and Environment for:

    i. The delivery of a housing supply process; and
    ii. The coordination and funding of enabling infrastructure

Supplementary paper 3 addresses:

- Delivery mechanisms following the rezoning of land through to construction
- The complementary roles of state authorities, local councils and utilities

Supplementary paper 4 addresses:

- The different characteristics of Greater Sydney and non-metropolitan NSW

Supplementary papers 5, 6 and 7 addresses:

- Other related matters.

UDIA NSW makes the following recommendations to the Parliamentary Inquiry and suggests performance measures to better identify and monitor the housing supply process.

1. **Establish an Urban Development Programme (UDP) to identify, coordinate, prioritise, housing supply and the necessary funding and timing for facilitating infrastructure. UDP is reported annually and outlines a rolling 5-year program of the number of lots, those zoned, those serviced and ready for development and those delivered.**

2. **The Department of Planning and Environment establish an Infrastructure Prioritisation Model that aligns dwelling supply targets of precincts with timing and sequencing of facilitating infrastructure. The program inputs are directed to 'unlock' precincts for housing in the most efficient and orderly fashion.**

3. **The establishment of a lead agency to receive, budget and allocate funding, aligning with the Prioritisation Model for enabling of infrastructure.**

4. **Integration of ePlanning into a digital platform with other agencies and service providers driven by the property unique identifier that maps the development sequencing for better coordination and monitoring. That digital platform would provide a range of information to consent authorities, industry, communities and government. This becomes an important benchmarking tool to monitor performance, identify blockages in the system and measure delivery targets. This platform would integrate information into the Urban Development Program (UDP) and Infrastructure Prioritisation Model.**

<u>**Performance Measure**</u>:

- **All planning applications and approvals lodged through the ePlanning program by 1st January 2019.**

- **Annual reporting of application type and approval timing.**

- **The adaption of the digital platform to provide the necessary benchmarking tool to monitor performance, identify blockages in the system and measure delivery targets**

<u>**Performance measure**</u>

- **Annual reporting on the total taxes and charges paid by the developer/builder/purchaser – this reporting must include Federal, State and Local government and differentiate local and regional infrastructure, development type and amount.**

5. **The UDIA recommends the low density 'Missing Middle' typologies transition into R2 land, where appropriate, to achieve housing diversity and supply for ageing in place baby-boomers.**

6. **Explore new innovative housing typologies and build demonstration projects that introduce a variety of price points into the market.**

Performance Measure

- **The Department of Planning and Environment set targets, monitors and reports growth in high, medium and lower densities sectors, targeting a more even distribution.**

7. **Establish an Affordable Housing Program (AHP) that:**

   i. **Sets the policy agenda, the facilitating planning instrument and delivery program;**

   ii. **Works with Government, including Local, State and Federal Government, on identifying surplus Government land suitable land for inclusion in the AHP;**

   iii. **Liaises with Federal Government and accesses the Bond Aggregator model;**

   iv. **Establishes a program to deliver shared equity opportunities, like the Western Australian Key Start Scheme and United Kingdom examples; and**

   v. **Works with the development industry on joint venture opportunities and innovative affordable housing models like 'build to rent'.**

Performance Measures:

- **Set targets and report the number of:**

  I. **dwellings suitable for the first home buyer i.e. a suitable price point;**
  II. **those delivered as Affordable Housing; and**
  III. **those delivered as Affordable Housing on Government owned land.**

UDIA would welcome the opportunity to present to or appear before the committee to expand upon its submission. Should you wish to take up this invitation, please contact Justin Drew, General Manager, Policy and Corporate Affairs on [redacted] or at [redacted] to organise.

We look forward to your earliest reply.

Yours sincerely

[redacted]

Steve Mann
Chief Executive

UDIA NSW Supplementary Paper 1

The Delivery of a Housing Supply Process

a) The resources and support needed within the Department of Planning and Environment for:

i. The delivery of a housing supply process

ii. The coordination and funding of enabling infrastructure

b) Delivery mechanisms following the rezoning of land through to construction

c) The complementary roles of state authorities, local councils and utilities

d) The different characteristics of Greater Sydney and non-metropolitan NSW

e) Other related matters.

The Issue

Due to a backlog of demand outstripping supply in recent years, Sydney requires an additional 100,000 dwellings now and at least 725,000 new homes to accommodate 1.7 million people by 2036. That is, 825,000 homes to be delivered in 20 years, or 41,250 annually. Greater Sydney has never achieved this level of dwelling completions.

Sydney's housing supply process is a dynamic, multifaceted and complex system that is currently working to capacity. It is not a tap that is simply turned on and off. The housing supply process takes years to produce a dwelling, in the case of greenfield development, around 7-10 years.

The supply process has increased production in recent years however the 'low hanging' fruit of the already zoned and serviced greenfield land is almost depleted. The delays accumulating in the planning approval process, coupled with the lack of coordinated and enabling infrastructure may result in a significant supply crisis when Sydney can least afford it.

Currently the housing supply process lacks coordination and there is little surveillance and integration with state authorities, local councils and utilities. Although well intentioned, there are numerous different and independent plans trying to guide and coordinate Sydney's growth. The draft District Plans, Sydney Water's Growth Servicing Plan, Endeavour Energy's Growth Servicing Strategy and each local Councils own growth plans are all well-intentioned but lacking full integration. Until there is an overarching and targeted development program for Sydney the housing supply process will remain inefficient.

Aside from integration with authorities, local Council and utilities, there are several factors limiting the housing supply process, these include:

- Time lag in project start and completion for land and housing (around 7-10 years for land and house packages to reach the Sydney market);

- Considerable delays in the planning rezoning and approval process;
- Timing and delivery of the enabling infrastructure;
- Lack of housing diversity;
- Uncertainty around the statutory and strategic planning processes;
- Cost of development, including taxes, fees, charges and infrastructure cost; and
- Difficulty in amalgamating fragmented sites, including delays due to key land owners over-priced sales expectations effectively freezing land.

The Implications

In 2016, the Commonwealth Parliamentary inquiry into home ownership noted that local and state governments can impede the release of land for housing development. AHURI submitted that, " …a well run and timely land release policy can help with the supply of new houses. When planning controls deliver certainty about what is going to be developed where, and that information is made widely available, then each developer can plan the nature and scale of their developments with confidence." It is critical to the successful ongoing supply of housing that there is a well-run and orderly programming of zoned land and facilitating infrastructure.

Since the early 1970's Sydney maintained the supply of new home sites through an urban development program. In 2001, this became known as the Metropolitan Development Program (MDP) and was used to track and manage housing supply. The MDP maintained an indicative 10-year forecasting program that tracked the likely future available land for housing, trying to ensure demand in the market was met and the affordability of housing maintained. This no longer occurs in Sydney and yet with 825,000 homes required in the 20 years and a median house price of $1,178,417 (Domain: June Quarter 2017), Sydney cannot afford to operate the process without structure, programming, and implementation.

The resources and support required to address the issue

The NSW Government must establish an Urban Development Program (UDP) that is empowered to direct funding and take responsibility to lead and coordinate housing and the necessary enabling infrastructure. This cannot be a static program, rather a live dynamic monitoring, rolling and enabling program to deliver housing supply.

An important component to Program is the Infrastructure Prioritisation Model (IPM) (see Supplementary paper 2). This model is designed to identify enabling infrastructure, sequence its delivery to achieve the most efficient and productive supply of housing. The UDP identifies and coordinates at the macro and the IPM details the sequenced delivery at the micro level.

The UDP would coordinate inputs from other authorities, Councils and utilities and would:

- Coordinate and monitor housing supply and targets in urban renewal areas, infill and new communities in land release areas;
- Coordinate and prioritise the delivery of enabling infrastructure;
- Direct the Infrastructure Prioritisation Model (see paper 2);
- Invite industry to submit projects and land release opportunities for review and inclusion in the UDP;
- Integrate social and affordable housing targets and ensure their programming;
- Signal early identification of blockages; and
- Be reported quarterly enabling monitoring and input back into policy development and housing supply programs.

Importantly, the UDP would integrate the various housing targets of the Greater Sydney Commissions' District Plans, social housing, affordable housing, priority precincts with the timing and delivery of the enabling infrastructure. Alignment of zoned land with enabling infrastructure is fundamental to a successful housing supply process.

The delivery of a housing supply process requires a three-phased approach:

1. Establish a UDP;
2. Align zoned land and prioritise its enabling infrastructure (Supplementary paper #2); and
3. Establish a lead government agency to coordinate and deliver the infrastructure (Supplementary paper 2).

UDIA Recommendations:

Establish an Urban Development Programme (UDP) to identify, coordinate, prioritise, housing supply and the necessary funding and timing for facilitating infrastructure. UDP is reported annually and outlines a rolling 5-year program of the number of lots, those zoned, those serviced and ready for development and those delivered.

UDIA NSW Supplementary Paper 2

The Coordination and Funding of Enabling Infrastructure

a) The resources and support needed within the Department of Planning and Environment for:

i. The delivery of a housing supply process

ii. The coordination and funding of enabling infrastructure

b) Delivery mechanisms following the rezoning of land through to construction

c) The complementary roles of state authorities, local councils and utilities

d) The different characteristics of Greater Sydney and non-metropolitan NSW

e) Other related matters.

The Issue

The coordination and funding of enabling infrastructure needs holistic alignment, programming and budget coordination across numerous state authorities, local councils, corporations and utilities. Without this, there will be a lack of equity, efficiency, certainty and productivity in the housing supply process.

Infrastructure is essential to support Sydney's growth but it is a complicated in terms of how its currently coordinated and funded. It remains critical that the alignment of planning and infrastructure is for the orderly release of serviced residential land.

Coordination

In Greenfield areas, Sydney Water, energy and other utility providers deliver infrastructure within their individual sequencing, budgeting and programming requirements. For the most part, this is in Growth Areas. However, in recent times the void in this space has left little coordination, to the point that there are examples in the growth areas where projects have regular sewer pump outs or are simply held in abeyance because critical infrastructure has been delivered.

Funding

HSAR Working Party examined charges imposed on developers and homeowners. It found for example, '….some state and local governments were imposing infrastructure charges on developers (or purchasers in some instances) in a manner that lacked consistency, transparency, and predictability'. The HSAR Working Party recommended Infrastructure charges should, at least, be:

• **efficient** – charges should be for infrastructure required for the proposed development or for servicing a major development;

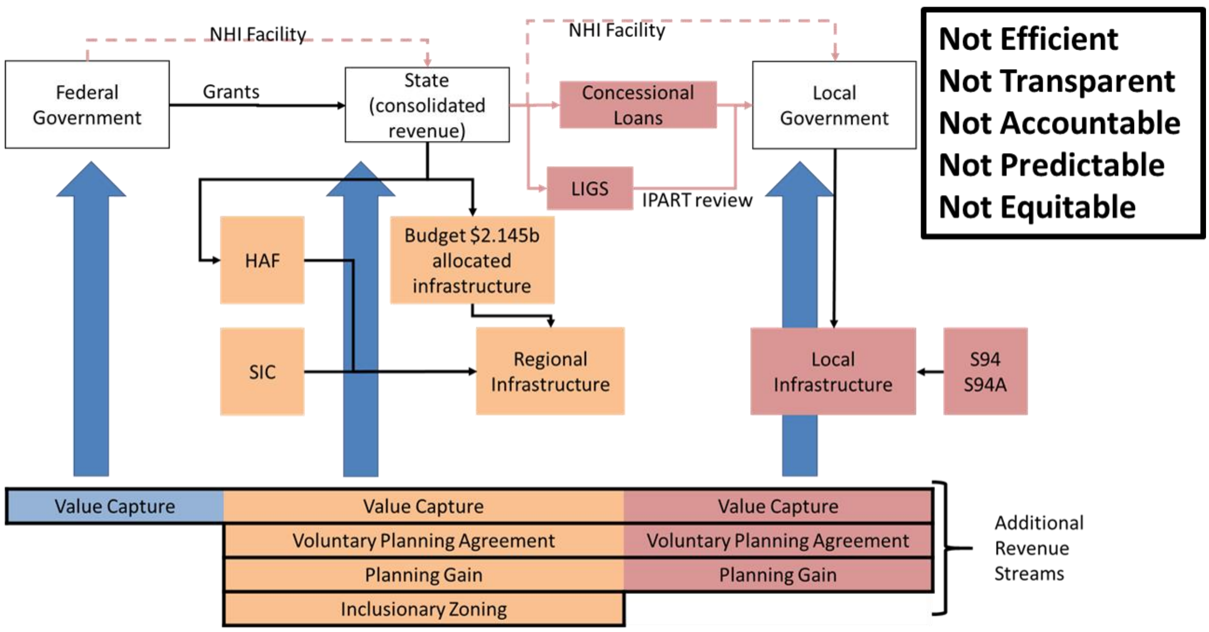
• **transparent and accountable** – charging regimes should be supported by publicly available information on the infrastructure subject to charges, the methodology used to determine charges and the expenditure of funds;

• **predictable** – charges should be in line with published methodologies and charging schedules (with clarity around the circumstances in which charges can be modified after agreement); and

• **equitable** – where the benefits of infrastructure provision are shared between developers (land owners), the infrastructure charges levied on the developer should be no higher than the proportional demand that their development will place on that infrastructure.'

HSAR Working Party also outlined the differences between regional and local infrastructure provision. Typically funding of regional infrastructure is from SIC levies and Housing Acceleration Fund (HAF). Local infrastructure under s.94 or S94A with access and financial support from the Local Infrastructure Grants Scheme (LiGS). Local government also has a myriad of other funding sources and avenues that are used to deliver infrastructure through negotiation or Agreements either through Voluntary Planning Agreements, Planning Gain, Inclusionary Zoning and Value Capture.

The illustration below indicates the various infrastructure funding streams and government roles in sourcing and delivering infrastructure. Noting HSAR recommendations, the system is neither efficient, transparent, accountable, predictable or equitable.



Infrastructure Expenditure Revenue and Relationships

The funding of infrastructure remains contentious. HSAR Working Party "..noted that if new residents subsidise infrastructure (by paying infrastructure charges) for the benefit of the wider community (beyond what is required for the development to occur), the result could be inequitable if existing or future residents benefit from this infrastructure without paying for it".

At the moment, there remains a void in terms of prioritising infrastructure and then delivering it equitably and efficiently.

The Implications

Greenfield housing supply is at risk. Currently there is a vacuum of leadership and coordination of infrastructure. There is real concern that once the initial infrastructure designed and provided for by the Growth Centres Commission is exhausted, the current piecemeal approach will further delay and add cost into the supply chain.

The inefficiency of coordinating and funding infrastructure has resulted in continual pressure on the industry to fund and deliver more infrastructure. Aside from the equity issues of this, a tipping point is fast approaching where the accumulation of more fees and charges will result in supply halting. This is further addressed in Supplementary paper #5.

The resources and support required to address the issue

The Department of Planning and Environment must align suitably zoned land with the enabling infrastructure to meet the needs of the population.

The Government must adopt a three-phased approach to achieve this. It must:

1 Work with Premiers and Cabinet to establish, monitor and lead an Urban Development Program (UDP).

2 Form the UDP then establish its enablement with a working model that identifies what infrastructure is required, its cost and how to maximise the release of land suitable for housing. UDIA NSW proposes an Infrastructure Prioritisation Model.

This Model provides a dynamic and multi-faceted approach that aligns dwelling supply targets (based on ILP or concept layouts) of a precinct with timing and sequencing of enabling infrastructure. The Program inputs include Tier 1 and 2 infrastructure (trunk and local enabling infrastructure), its sequencing order and funding required to 'unlock' precincts in the most efficient and orderly fashion. This Program has been designed as a dynamic and live document.

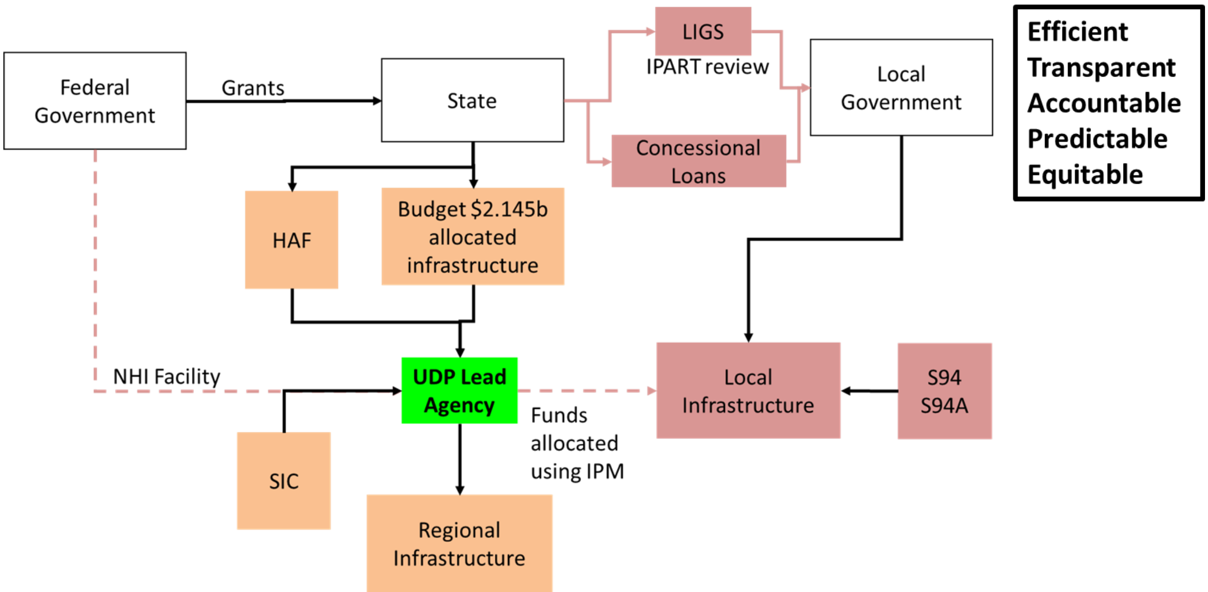
This is the practical allocation of funding to maximise its efficiency in the delivery of infrastructure and ultimately housing supply.

3 The final component is the lead agency. HSAR found that some jurisdictions "….are enhancing housing supply using GLOs (Government Land Organisation) to help facilitate urban renewal and the roll out of infrastructure in specific locations."

The lead agency is responsible for receiving funding, budgeting, allocating and when appropriate, the physical delivery of infrastructure. The lead agency has; the UDP guiding the coordination, the Infrastructure Prioritisation Model to identify the sequencing and costing, the ability to procure the works or direct the enabling works as required.

Funding streams are directed to this lead agency through SIC and HAF funding or direct funding by Treasury or through Federal funding opportunities. The lead agency can work with other service providers to undertake the work or can undertake the work themselves. There is scope for Local Government to also procure this lead agency's service and use their s94/s94A monies to have the agency deliver infrastructure for and on behalf of Local Government.

The illustration below inserts the UDP and its lead agency into the infrastructure framework. The aim is for greater efficiency, transparency, accountability, predictability and equity.



UDIA Recommended Improved Infrastructure Planning

UDIA Recommendations:

The Department of Planning and Environment establish an Infrastructure Prioritisation Model that aligns dwelling supply targets of precincts with timing and sequencing of facilitating infrastructure. The program inputs are directed to 'unlock' precincts for housing in the most efficient and orderly fashion.

The establishment of a lead agency to receive, budget and allocate funding, aligning with the Prioritisation Model for enabling of infrastructure.

UDIA NSW Supplementary Paper 3

Productivity and Efficiency from rezoning to construction

a) The resources and support needed within the Department of Planning and Environment for:

i. The delivery of a housing supply process

ii. The coordination and funding of enabling infrastructure

b) Delivery mechanisms following the rezoning of land through to construction

c) The complementary roles of state authorities, local councils and utilities

d) The different characteristics of Greater Sydney and non-metropolitan NSW

e) Other related matters.

The Issue

Sydney has an inefficient housing supply process. It faces significant delays, uncertain timeframes and unpredictable regulatory frameworks.

Delivering new communities in land release areas takes approximately 7-10 years, as the process map marked Attachment A indicates. The process map indicates timeframes and the interrelationship between the developer, state authorities, local government, utilities and the general public. The planning phase, particularly the rezoning phase of this process is both the longest and least certain.

Attachment B is the interrelationships within the delivery mechanism from rezoning to construction. This process model (produced by Cadastre NSW) indicates the sequencing, variables and pain points from rezoning to land registration. The process model highlights the myriad of complexity and uncertainty, and:

- cross dependency in the process;
- multiple and inconsistent referrals;
- engagement and approval of other agencies e.g. AHIP, Biodiversity, NPWS, RFS, Roads, Heritage;
- complexity of "Subject to" DA conditions;
- changes to referral conditions that cannot be made by Principle Certifying Authority, resulting in s96 and delays;
- differing engineering standards;
- certification and handover process delays with Authorities;
- delays as Councils await all compliance certificates before processing any application;
- manual processes for collecting signatures; and

- No visibility for utilities and other authorities for when a subdivision/strata/occupation certificate is signed off. This can result in problems accessing essential services to a property.

Each step in the process may be necessary, but often there is a lack of consistency, repetition and duplication of information. With multiple sub-routines, each step becomes its own process. There is no time imperative, each authority or agency has their own requirements and increasingly, the process is taking longer. The system is almost at breaking point.

NSW lacks the capability to universally identify and then monitor the end to end process for housing supply from development approval to plan registration.

The Implications

Despite achieving around 36,000 completions this year, the system must produce 41,500 new dwellings every year for the next 20 years. The housing supply process is not efficient or productive enough to achieve this target.

Production needs to improve and whilst there is discussion about a 'skills and resourcing shortage' to support the process, there is much about the process that remains antiquated. The process needs less delays, more certainty around timeframes and a predictable regulatory framework. Till then, the process will be limited in its ability to meet the demand for housing.

The resources and support required to address the issue

The HSAR Working Party recommend that "…*jurisdictions should continue to work to improve the efficiency of (including the time frames involved in) referrals, development assessment and rezoning processes. Among other changes, this could include greater use of code-based assessments and electronic development assessment….*". The Department of Planning and Environment should be congratulated on their *ePlanning* program. The UDIA supports its enhancement and greater use of electronic development assessment and a transparent and simplification of the approval process.

The UDIA sees potential for the ePlanning program to interface with work being undertaken by NSW Department of Finance, Services and Innovation, through Cadastre NSW. They are looking to develop a digital transformation of the land development process from DA lodgement to registration along the lines of Attachment B. If the *ePlanning* program was integrated into this platform, it has the potential to transform the housing supply process.

The new digital platform would track applications and approvals through the process by their unique identifier (lot and deposited plan), hold the necessary information, provide coordination with other agencies and service providers throughout the development process and beyond. This is a significant improvement on the current environment where multiple organisations, such as local government and utility service providers, maintain duplicate proposed records, with multiple revision and data reconciliation cycles.

That digital platform would provide a range of information to consent authorities, industry, communities and government. This becomes an important benchmarking tool to monitor performance, identify blockages in the system and measure delivery targets. This platform would integrate information into the Urban Development Program (UDP) and infrastructure implementation program.

UDIA Recommendations:

Integration of ePlanning into a digital platform with other agencies and service providers driven by the property unique identifier that maps the development sequencing for better coordination and monitoring.

That digital platform would provide a range of information to consent authorities, industry, communities and government. This becomes an important benchmarking tool to monitor performance, identify blockages in the system and measure delivery targets. This platform would integrate information into the Urban Development Program (UDP) and Infrastructure Prioritisation Model.

Performance Measure:

All planning applications and approvals lodged through the *ePlanning* program by 2019.

Annual reporting of application type and approval timing.

The adaption of the digital platform to provide the necessary benchmarking tool to monitor performance, identify blockages in the system and measure delivery targets

Regional Issues

a) The resources and support needed within the Department of Planning and Environment for:

i. The delivery of a housing supply process

ii. The coordination and funding of enabling infrastructure

b) Delivery mechanisms following the rezoning of land through to construction

c) The complementary roles of state authorities, local councils and utilities

d) The different characteristics of Greater Sydney and non-metropolitan NSW

e) Other related matters

The Issue

The Central Coast, Hunter and Illawarra/Shoalhaven regions face much the same inefficiencies in the housing supply chain as the metropolitan area of Sydney. As in the metropolitan area, when the process lacks efficiency and certainty, the costs and risks of development impact supply and affordability. The regions differ from Greater Sydney primarily in their lower capacities to withstand those costs and risks which result from generally lower sales values (per sqm) and lower sales rates than those experienced in Greater Sydney.

The regions will play an increasingly significant role in Sydney's future. Improvements in transport and accessibility coupled with the affordability challenges of Greater Sydney will have the effect of attracting more people to the regions.

It is not possible to apply a sweeping generalisation of characteristics to "non-metropolitan NSW". Each of the regions have their own different characteristics to Greater Sydney in terms of population growth, housing affordability, wage earnings and housing stress. Likewise, within each region, the market can vary considerably between local government areas.

That said, the Illawarra/Shoalhaven, Central Coast and Hunter regions are often intrinsically tied to the Sydney market. This is particularly true of those areas closest to the Greater Sydney metropolitan area. When housing stress affects Sydney, Wollongong and the Central Coast become increasingly attractive. Likewise, the revitalisation of Newcastle and improved connectivity to Sydney are drawing more people to the Hunter. This migration ultimately impacts those markets where job opportunities and wages aren't necessarily commensurate with Sydney, and the increased demand for housing can ultimately force house prices up and out of reach for locals.

Housing supply in the major regions has already fallen below the stated goals of their respective Regional Plans 2036, released by the Department of Planning and Environment, as outlined in Figure 1.

Figure 1. Housing Under-Supply in the Regions

REGION	REGIONAL PLAN ANNUAL DWELLING TARGETS	ESTIMATED ANNUAL SHORTFALL
Central Coast	2,000	958[1]
Hunter	3,500	Estimated 1,000[2]
Illawarra	1,770	12-month dwelling completions add up to over 2,000 from. Based on the annual price growth it is logically to suggest that the regional plan's annual dwelling target is too low.

Without policy intervention to improve the development process and reduce inefficiencies in the system, these shortfalls will be exacerbated, and the regions will fall into a housing supply and affordability crisis similar to Greater Sydney.

Context - different characteristics of the regions:

1. Wollongong and Illawarra Region

1.1. Market

Wollongong is the 20th least affordable city in the world to buy a home (Demographia International Housing Affordability Survey: 2017). Between 2014-2016 the price of greenfield lots rose by 41%. This is greater than the 35% growth in Sydney over the same period.

Affordability in the Illawarra is on par with Sydney with almost 45% of household income being allocated to a mortgage. In terms of the rental market a third of household income is allocated to rent in the Illawarra.

The Illawarra has a long term lack of housing supply and that remains a key contributor to housing that is increasingly becoming more unaffordable in the region. Compared to other regional centres of the same size the Wollongong and Illawarra have very low numbers of projects delivering new land. For example, Townsville, a similar size centre has 30 significant projects, whilst Wollongong and Shellharbour LGA's has just 10 significant projects (i.e. more than 50 blocks) delivering land. The Illawarra faces serious challenges in the medium term to maintain a consistent and affordable land release.

1.2. Housing Diversity

The Wollongong and Illawarra also suffer from a lack of price and product diversity with 57% of lots ranging in size between 450 m² - 650 m², with a significant market gap below 400m² lot. A key reason for this being the local planning instruments not facilitating the delivery of a diverse housing mix and despite similar levels of affordability issues, especially given recent price growth, many of the housing diversity initiatives that apply to major release

[1] Australian Bureau of Statistics, Sydney Water Connections, Gosford and Wyong Council, 27/7/2017

[2] The Hunter does not currently have a UPD; DPE has stated it will deliver a Hunter UDP as part of the draft Greater Newcastle Metropolitan Plan in 2017. In 2014, the UDIA Lower Hunter State of the Land report estimated an annual shortfall of approximately 1,000 per year.

areas in Greater Sydney do not apply to major release areas in the Illawarra (or other regional areas).

1.3. Governance and Coordination

In the Illawarra, one of the biggest blockages to increasing supply is fragmented land ownership. The region does not have a coordinating or facilitating authority with the power or mandate to assist with this issue. Unlike the Hunter which has a Hunter Development Corporation, Wollongong and the Illawarra has no lead agencies. Since the Illawarra/Shoalhaven Plan was released 18 months ago, there has been little improvement in governance and the problem remains as to whom is charged with fulfilling the objectives in the plan.

1.4. Specific issues with Housing Supply in the Illawarra

Housing supply in the Illawarra faces similar problems to those being faced in the Sydney Metropolitan markets with significant uncertainty pertaining to the Special Infrastructure Contribution and Section 94.

Regarding the SIC, each individual project/application is subject to meeting satisfactory arrangements with the Department of Planning and Environment. This is adding unnecessary time delays and cost.

With Section 94 becoming uncapped there will be anywhere between $50,000 and $80,000 in tax added to every new home. This will do one of two things, either a project will continue with the tax being absorbed into the retail price where the home buyer will pay more or the increased tax will render the project unfeasible and it will not be delivered. It’s impact in the medium term is that the acquisition market has totally dried up whilst the land vendors market expectations recalibrate with the policy shift.

2. Newcastle and the Hunter Region

2.1. Market

Whilst Newcastle the Hunter region are sometimes considered holistically, they are experiencing different investments with considerable government money being spent on roads, education and health in central Newcastle, but not necessarily in the Hunter Region. Whilst that remains true, the Hunter market is generally experiencing a recovery in both housing volume and pricing. This may be due to the close ties between coal price and mining activity and its effect on demand in the region.

On paper, the Hunter has “sufficient” rezoned land to accommodate its projected housing needs over the next 20 years. However, much of the rezoned land is not delivering due to inefficiencies in the planning system. The Hunter has a number of master planned communities or large-scale subdivisions in excess of 300 lots, but many of these are delayed due to system blockages and the resulting financing hurdles.

Compared to the Sydney market, development in the Hunter generally delivers lower internal rates of return for developers. This is due to market conditions wherein development costs are comparable to Sydney, but in the Hunter:

- Yield is lower, with typical minimum lot size 450m^2 and little housing diversity;
- Sales prices are much lower (~$350/m^2 as opposed to ~$1,500/m^2 in metropolitan Sydney); and
- Sales rates are much slower (10 per month would be considered high)

Consequently, any inefficiencies in the housing supply chain tend to have a greater impact on a project's viability and ultimately on housing delivery in the Hunter.

2.2. Diversity

Housing diversity is currently a challenge in the Hunter. Consumer budgets are perceived to be quite tight and smaller product close to amenity has considerable appeal to the market. Some councils' minimum lot size and uncertainty around how to allow for greater housing diversity is constraining the market from delivering. Councils would benefit from assistance in understanding how to apply medium density housing guidelines to their own planning controls.

2.3. Governance and Coordination

The Government has elevated the role of the Hunter Development Corporation to coordinate the implementation of the Hunter Regional Plan 2036, including the development of a Greater Newcastle Metropolitan Plan and Hunter Urban Development Program (UDP). While yet still unproven, the governance structure and emphasis on coordination among Departments, agencies, service providers, industry and other stakeholders is a necessary and positive step to realising the goals of the Regional Plan.

2.4. Specific issues with Housing Supply in the Hunter

All development projects are complex, and development in the Hunter can face additional challenges to delivering lots to the market. There are many examples in the Hunter where zoned land, DA-approved land and even construction-approved land fails to deliver lots for housing. The failure to deliver lots is often directly related to blockages in the development process system, especially those that impact peak debt. These include, but are not limited to, delivering enabling infrastructure; up-front fees, levies, charges and bank guarantees; and delays in responses from referral agencies. UDIA NSW would welcome the Government's assistance in addressing such blockages throughout the land development process within the Department of Planning and Environment, Transport for NSW/RMS and other Government Departments and agencies.

3. Central Coast Region

3.1. Market

Housing stress in Sydney is making the Central Coast more attractive, and the completion of NorthConnex should add to positive market sentiment. The Central Coast Regional Plan identifies a need for 2,000 new dwellings per year. However, the region is only delivering about half of that target. There is a growing optimism toward development in the Central Coast, although process delays frustrate many developers.

3.2. Diversity

As in the Hunter, while there is a need for greater housing diversity on the Central Coast, the planning system is not delivering.

3.3. Governance and Coordination

The Department of Planning and Environment recently created the new role of Co-Ordinator General for the Central Coast, who is responsible for implementing the Central Coast Regional plan. This is a positive step. In addition, the former councils of Wyong and Gosford have been merged into one Central Coast Council, which as the third largest local government area in NSW, oversees the entire region. Central Coast Council is currently undertaking the work of consolidating its planning instruments. The existence of a single council with a state Co-Ordinator General provides the opportunity for streamlined governance and coordination to deliver the growth goals of the region.

3.4. Specific Issues with Housing Supply in the Central Coast

It is currently unclear how, and in fact whether, Central Coast Council will facilitate the goal of 2,000 new dwellings per year. The region is only achieving half its target. The Regional Plan identifies northern and southern growth corridors, but these are stalled due to development process delays within Council on precinct plans and master plans. The region must work to align the visions of the Department of Planning and Environment, and Council.

The Central Coast also suffers from trying to balance total levies on development against delivering the 2,000 annual housing target with dwellings that are affordable for the local market.

The Implications:

One key to delivering adequate housing supply in the regions is addressing the issue of peak debt and project financing. Regional development is required to fund the following enabling infrastructure and credits:

- Lead-in water and sewer infrastructure
- Lead-in electrical infrastructure
- Access roads and surrounding road network upgrades
- RMS roads and intersections
- RMS maintenance bond at 100% of construction cost
- S94 contributions including community infrastructure
- Biodiversity credits
- Special Infrastructure Contributions / State VPA

However, unlike Greater Sydney development, regional projects generally have lower sales values and sales rates meaning that it is significantly more difficult for a regional project to satisfy the requirements to obtain project finance. This can cause extensive delays to project commencement and as a result is a major constraint on supply. The proposed Hunter Water Growth Funding Policy would be extremely positive for development in the Hunter, and the industry is encouraged that it may soon be implemented. Likewise, seed-funding of other infrastructure (with developer payback, e.g., as a new policy through the Hunter SIC) would also have a positive impact on peak debt feasibility and could unlock significant development in the Hunter and if similar policies were adopted throughout other regional areas in NSW. Any reduction in development costs ultimately increases overall land supply by both allowing developers to bring lots to the market sooner, as well as increasing the financial viability of a larger number of development sites. This in turn reduces price pressure in the market for established homes and brings forward stamp duty revenues to the NSW Government, along with a general increase in economic activity.

UDIA Recommendations:

1. **Assist councils in incorporating the Housing Diversity Guidelines into their planning controls.**

2. **Ensure the regions receive their fair share of Government funding under, for example, the Housing Affordability Fund; $1.3b Regional Growth Fund; transportation and other funding avenues.**

3. **Reduce peak debt barriers by providing for seed-funding, low-interest loans, or other means to deliver enabling infrastructure.**

4. **Reduce inefficiencies in the development process, including:**

   4.1. RMS: allow for the Works As Authorised (WAD) process to begin earlier in the process by dividing the application into two parts: design, and construction.
   4.2. RMS: significantly reduce the 100% bank guarantee requirement, or explore alternative means of covering risk such as an insurance model.
   4.3. Allow accredited consultants to assist in the work of under-resourced agencies, including OEH, RMS and Office of Water.

UDIA NSW Supplementary Paper 5

Impact of additional fees, taxes and charges on the housing supply process

a) The resources and support needed within the Department of Planning and Environment for:

i. The delivery of a housing supply process

ii. The coordination and funding of enabling infrastructure

b) Delivery mechanisms following the rezoning of land through to construction

c) The complementary roles of state authorities, local councils and utilities

d) The different characteristics of Greater Sydney and non-metropolitan NSW

e) Other related matters.

The Issue

The housing supply process absorbs considerable development fees, charges, levies and a variety of taxes from all three tiers of Government, Federal, State and Local. These include stamp duty, GST, rates, land tax, Section 94 and Special Infrastructure Contribution (SIC) levies.

These taxes effect the housing market differently. The new home buyer pays considerably more taxes than those purchasing an existing home.

As these taxes, fees and charges increase, it effects supply and affordability. The NSW Government has recently announced the uncapping of Section 94 in twelve (12) priority growth areas of Sydney. The removal of the Section 94 cap by 2020 and the revision of the existing SIC levy have significant implications for the viability of development projects.

The Local Infrastructure Growth Scheme (LIGS) will be phased out and replaced with a new SIC levy. Whilst the Government has announced $369 million to be allocated to the Scheme, there is concern how effective that allocation will be when the Scheme currently spends $400 million annually. The UDIA is concerned that once the LIGS is phased out, what effect will that have on the SIC levy and ultimately, on housing supply.

Further taxation by negotiation and Agreement either through Voluntary Planning Agreements, Planning Gain, Value Capture or Inclusionary Zoning will only continue to add costs that impact housing affordability. The cumulation of these additional fees, taxes and charges ultimately effect a projects viability. With the change in these taxes and significant increase, the development industry is warning the Government that housing supply will be compromised

Seeking more taxes out of development is likely to freeze land production as it did in 2005. At that time, taxes and charges accounted for around 50% of the land sale value which pushed the cost of development beyond feasible levels, effectively stopping supply. This caused a downward slide until 2009, resulting in a decade of under-building in Sydney. Sydney's housing supply chain cannot afford any delays to supply, or additional and increased taxes that will affect affordability

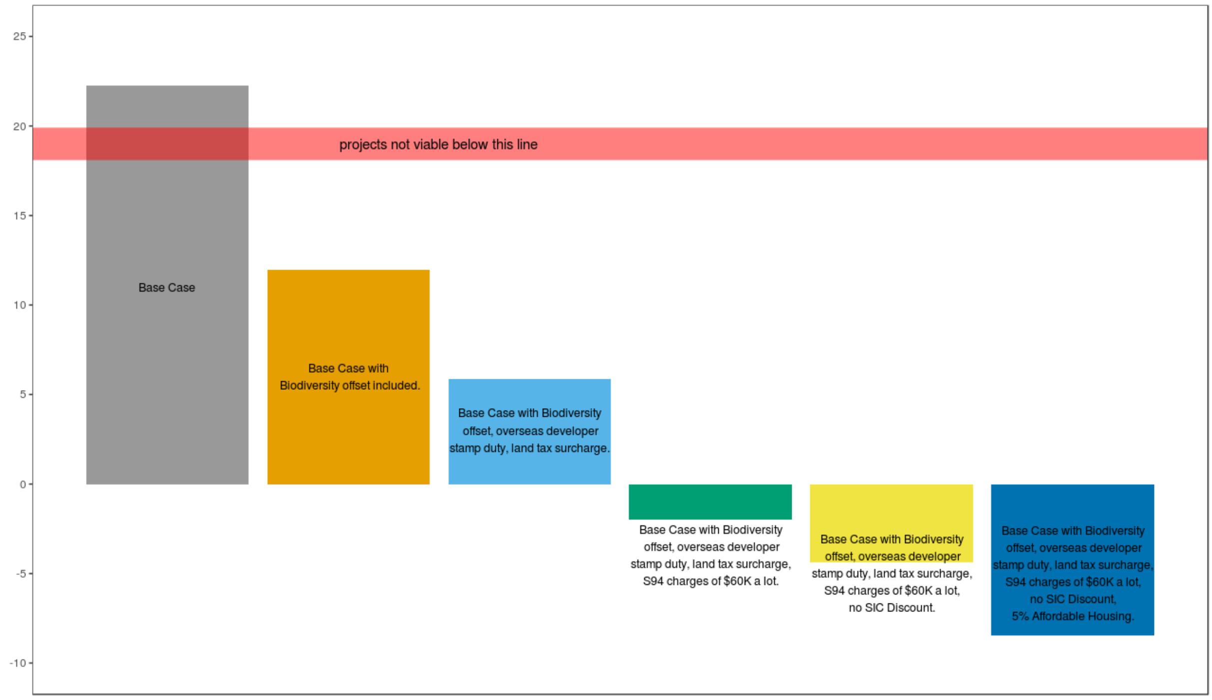
UDIA NSW undertook research to highlight the implications of recent government announcements around uncapping s94, the review of the SIC levies, overseas developer surcharges and land tax and the costs associated with Biodiversity offsets on a generic greenfield projects viability.

That research took a 44-lot subdivision in the North West Growth Area and used an existing base case and compared the projects viability when:

1. Biodiversity offsets of $30k a lot were included;
2. Biodiversity offsets and overseas developer stamp duty and land tax surcharge was added;
3. Biodiversity offsets, overseas developer stamp duty and land tax surcharge was added and the S94 charge was increased to $60k a lot;
4. Biodiversity offsets, overseas developer stamp duty and land tax surcharge was added and the S94 charge was increased to $60k a lot and SIC discount removed;
5. Biodiversity offsets, overseas developer stamp duty and land tax surcharge was added and the S94 charge was increased to $60k a lot, SIC discount removed and 5% inclusionary zoning allowance.

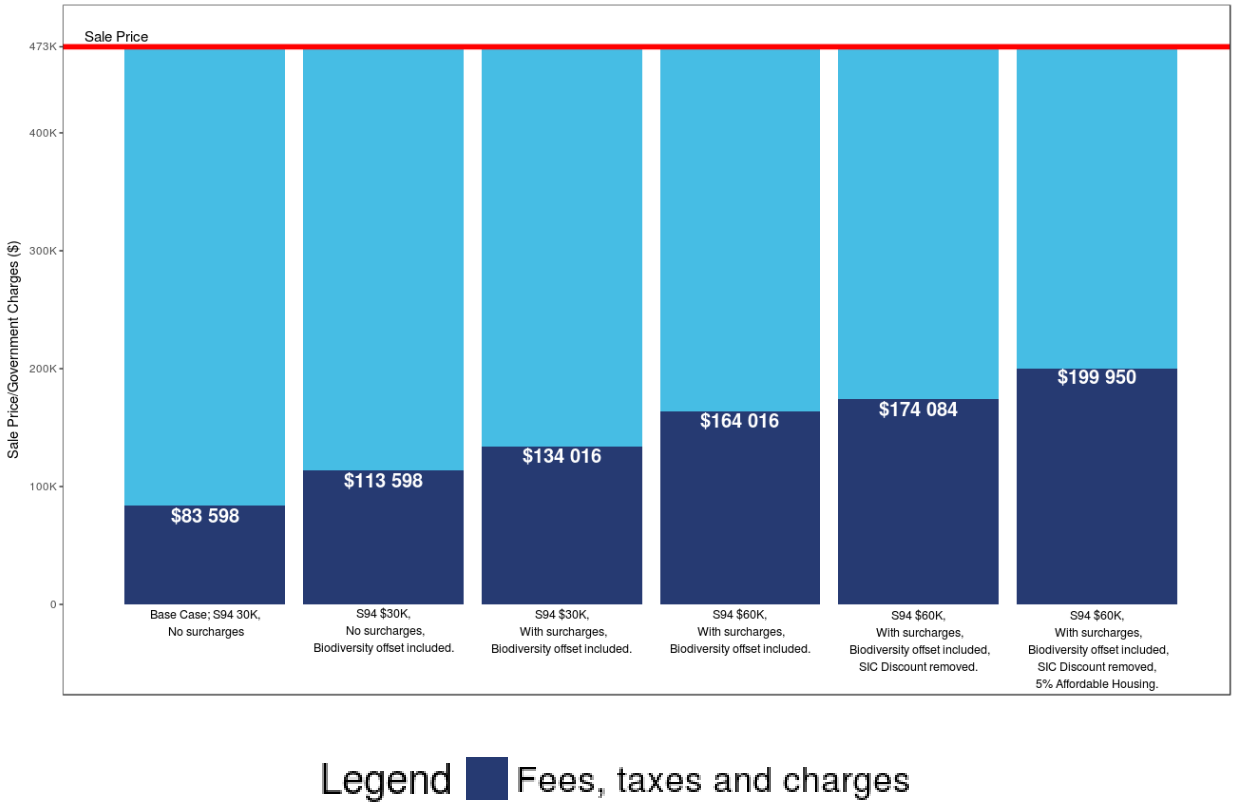
To make a business decision a development margin or internal rate of return is used to measure a development projects viability. Depending on the specifics of the project and appetite for risk, a development margin of around 15-20% is used.

The graph below illustrates the cumulative impact of those announced taxes and charges on the generic projects viability. To illustrate viability, the graph depicts a red line with a developer margin of 17.5%. The graph highlights the only instance a project would proceed is the existing base case. All other scenarios fail to achieve the margin, to the point that the last scenario would actually cost the developer $1.7 million to undertake the development.



The research also used the same scenarios to illustrate the impact of the total cost of those taxes and charges relative to the sale price of the land.

The graph below shows the total dollars paid in government taxes and charges on a block of land in the North West Growth Area with a sale price of $473,031. The final column highlights that once all the proposed levies and taxes are in place, the project would be paying a total of $199,950 in levies taxes and charges, approximately 42% of the sale price, for the land before any houses are built.



The Implications

The removal of the Section 94 cap by 2020, potential for Inclusionary Zoning and the revision of the existing SIC levy will impact on projects viability and may stop development that generates land supply because the margins will be too low to meet the minimum credit hurdles. The result will be less housing supplied to the market and that which is, arguably more expensive.

The UDIA has called for a moratorium on any new charges or taxes, including the uncapping of s94, review of SIC levies, planning gain, value capture, Biodiversity offsets and Inclusionary Zoning until the real cost of these charges and the impact they may have on the cost and supply of housing is better understood.

It is becoming apparent that the industry is not able to restock its supply pipeline because of the increase and uncertainty of developer taxes and charges (as the graphs above are indicating), coupled with vendors failing to adjust their expectation, not fully realising the impost of the increasing development cost. If this is not addressed immediately then supply may halt as it did in 2005, where the industry was only able to supply less lots than Adelaide for 5 years.

Land and housing supply has a long development pipeline, around 7-10 years. Supply is not a tap, simply turned on and off. Housing supply will be delivered where there is certainty on policy and where planning controls are correctly tuned to enable innovation and attract investment. Investment will not be undertaken when it can't realise a profit. That is where the industry is placed now and supply will suffer.

UDIA Recommendations:

UDIA NSW has called for a moratorium on any new charges or taxes, including the uncapping of s94, review of SIC levies, planning gains, value capture, Biodiversity offsets and Inclusionary Zoning until the real cost of these charges and the impact they may have on the cost and supply of housing is better understood. This paper demonstrates the impact these costs are having on the supply of housing. The Government must now address this.

Performance measure

Annual reporting on the total taxes and charges paid by the developer/builder/purchaser. This reporting must include Federal, State and Local government and differentiate local and regional infrastructure, development type and amount.

UDIA NSW Supplementary Paper 6

Housing Innovation and Diversity

a) The resources and support needed within the Department of Planning and Environment for:

i. The delivery of a housing supply process

ii. The coordination and funding of enabling infrastructure

b) Delivery mechanisms following the rezoning of land through to construction

c) The complementary roles of state authorities, local councils and utilities

d) The different characteristics of Greater Sydney and non-metropolitan NSW

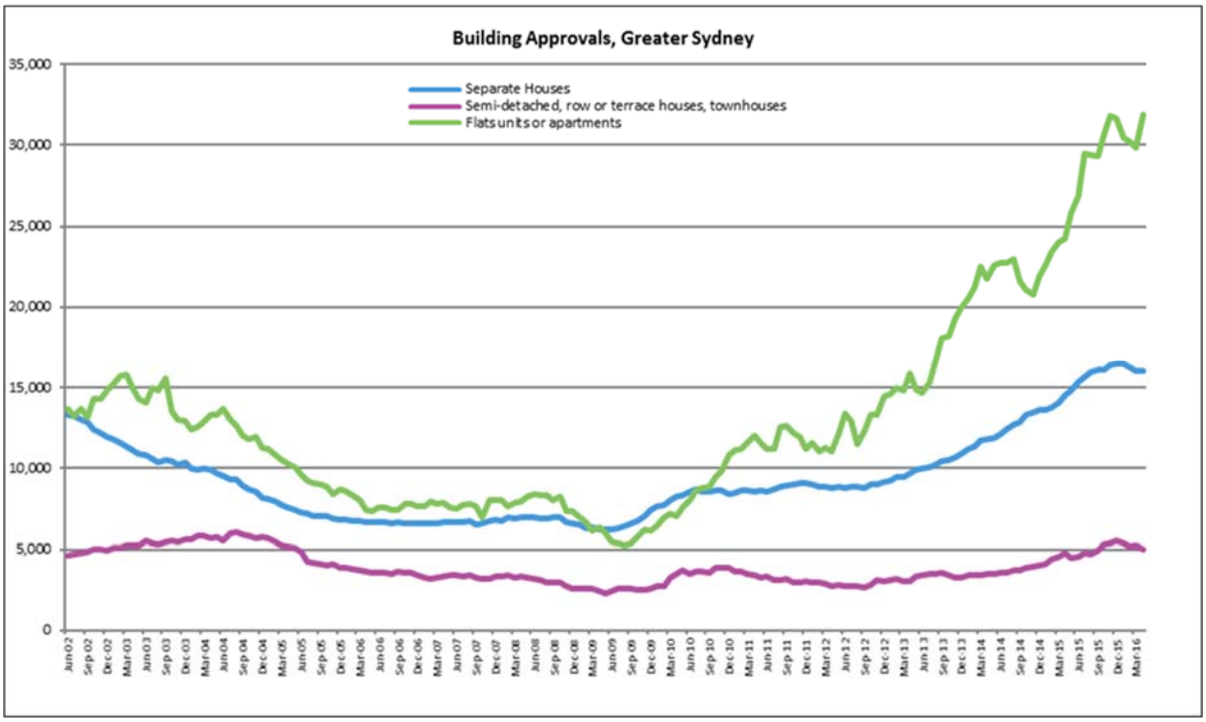
e) Other related matters.

The Issue

Sydney's housing supply requires diversity, innovation and a variety of price points to meet the needs of the population.

A Plan for Growing Sydney emphasises the need to accelerate housing supply by delivering; a series of urban renewal corridors, medium density infill and new communities in land release areas. However, Sydney remains a city of apartments and detached housing. "There is an increasing divergence between inner and outer Sydney, with the former experiencing significant apartment development and the latter seeing predominately detached housing construction." (The NSW Parliamentary Research Service 'Demand, deposits, debt: Housing affordability in Sydney'(NSWPRS) March 2017).

The graph below identifies building approvals (2002 – 2016) for apartments, medium density and detached housing. It indicates a strong increase in the approvals of apartments, with six times more apartments approved than medium density. A minor increase in detached housing and a negligible change in the approvals for medium density housing.



All three sectors need to be efficiently and productively supplied to meet Sydney's anticipated growth, accommodate the current under-supply and deliver affordability. Medium density is important component in supplying housing diversity and meeting the various changing housing needs of the population. Current Government policy works towards a 70:30 spilt between infill and greenfield development however, this fails to adequately address housing diversity. The Department of Planning and Environment should target and monitor growth in low, medium and high-density sectors, targeting a more even distribution.

The distortion between the three sectors is largely due to the Government's initiatives over recent years investing in traditional separate houses or strata-titled apartments. What has been missing has been a concerted focus on the 'Missing Middle' – the housing that transitions the scale between low density detached houses and strata titled apartments, as depicted in the illustration below:

The Department of Planning and Environment's (DPE) have had undertaken two important initiatives in targeting diversity, supply and quality. The Housing Diversity Package rolled out in the North West and South West Growth Centres to enable more diverse housing options and the 'Missing Middle – Medium Density Guidelines' to increase the supply and quality of medium-density housing. However, neither are achieving their full potential.

The UDIA is concerned that the Diversity Package may be compromised by the Explanation of Intended Effects (EIE) that supported the North West Priority Growth Area Land Use and Infrastructure Implementation Plan. The EIE that accompanies the proposed amendments to the Growth Centres SEPP outlines, amongst other things, its intention to set minimum and maximum densities for all residential areas and minimum subdivision lot sizes in all residential areas that have been rezoned under the Growth Centres SEPP. This may have the effect of limiting housing diversity in Priority Growth Areas. Attachment A is the UDIA submission to the DPE on that document.

The other recent initiative, the 'Missing Middle – Medium Density Guidelines' enables more diverse housing options to increase the supply and quality of low scale medium-density housing on land already zoned for medium density and provides a complying development pathway. The full potential of this initiative would be to encourage more innovative medium density and to extend the low scale density forms into R2 zoned land, where appropriate. Then diversity begins to be targeted where it is most needed.

Innovative housing that meets the changing needs of the population and is price sensitive is produced in other Australian States. Western Australia's LandCorp has recently completed a development in Fremantle. The three demonstration homes respond to the "..problem of the 'missing middle' of medium density housing, whereby housing stock in Australia (and internationally) is increasingly either low density single family homes or higher density apartments, with little choice in between." (GenY Demonstration Homes Publication - WA LandCorp).

There is real opportunity for the government to deliver planning instruments that promote innovation and lead with demonstration projects, similar to the WA example. HSAR noted a role for government to ensure "..planning regimes do not constrain the capacity of the market to respond to changes in demand for land and dwelling types and by supporting innovative design..". This includes the promotion of innovative housing design, including smaller affordable housing options.

The Implication

Sydney's anticipated growth will require solutions to both ongoing housing supply and affordability. This supply needs to meet the changing household trends, including housing for the first home buyer, affordable rental stock, suitable pathways to home ownership for 'key workers', shared equity opportunities, down sizers and those wishing to 'age in place'. It is essential that housing typologies that meet these needs are located within existing communities for people to remain relevant and connected to their social infrastructure.

Population projections show the 65+ age groups are forecast to grow by the strongest rates, highlighting the need for heightened supply of smaller dwelling typologies. The 65+ age group are reaching retirement and have limited options to 'downsize' and 'age in place'. There is a strong preference to remain in their home and community close to friends, doctors, family and other social connections. Further, the number of people with a mortgage between the ages of 50-65 years has increased from 10% to 35% over the past 20 years. These people often have their 20+ year old children at home and are using their superannuation as a lump sum to pay off the mortgage, creating an equity trap for their superannuation savings in their home. This superannuation money, intended to fund their retirement, is becoming more likely to be used to fund the cost of maintaining the large family detached home. Recent Federal Government announcements incentivising those 65+ to move from their 'family home' by putting $300,000 into their superannuation recognise this issue however, there remains the need to supply a suitable housing alternative for the incentive to be realised.

UDIA Recommendations:

Sydney's housing supply requires diversity, innovation and a variety of price points to meet the needs of the population. UDIA NSW recommends three key actions.

1. Target a more equal delivery of high, medium and lower density residential built form.

To ensure the Department of Planning and Environment set targets and monitors growth in high, medium and lower densities sectors, targeting a more even distribution.

2. Permit more housing diversity

There are existing areas of low density housing that have the potential to transition or be renewed with new housing typologies and diversity that meet Sydney's changing demographic, social and financial needs. Approximately 80% of metropolitan Sydney's residential land is zoned R2 Low Density Residential.

UDIA NSW recommends the low density 'Missing Middle' typologies transition into R2 land, where appropriate, to achieve housing diversity and supply.

3. Permit more innovative housing options

HSAR noted a role for government was to ensure "..planning regimes do not constrain the capacity of the market to respond to changes in demand for land and dwelling types and by supporting innovative design..". The development industry can produce more compact and innovative housing for around half the median house price in Sydney. This generally means smaller dwelling types on smaller lots. There is real opportunity for the government to work with industry to develop new suitable new housing typologies fit for 21st Century lifestyles. Explore new innovative housing typologies that introduce a variety of price points into the market.

<u>Performance Measure</u> **The Department of Planning and Environment set targets, monitors and reports growth in high, medium and lower densities sectors, targeting a more even distribution.**

UDIA NSW Supplementary Paper 7

Providing more Affordable Housing

a) The resources and support needed within the Department of Planning and Environment for:

i. The delivery of a housing supply process

ii. The coordination and funding of enabling infrastructure

b) Delivery mechanisms following the rezoning of land through to construction

c) The complementary roles of state authorities, local councils and utilities

d) The different characteristics of Greater Sydney and non-metropolitan NSW

e) Other related matters.

The Issue

The NSW Government has announced affordable rental housing targets of 5% to 10% (subject to viability) for urban renewal and land release areas through Inclusionary Zoning. The development industry is concerned that without the correct incentives in place, the industry cannot deliver this target. The cost of land will mean that the balance of the development absorbs the cost of delivering the affordable rental housing stock. The HSAR report noted that those cities in the United States of America that adopted Inclusionary Zoning had prices rise 2-3% faster than the cities that didn't.

This current policy has several shortcomings. Aside from the void of incentives in place to deliver the affordable rental housing, the policy:

- will link supply to the cyclical nature of development;
- by seeking affordable housing in urban renewal and land release areas may create some supply but not necessarily where the real housing need is;
- only addresses rental accommodation and not shared equity or other ownership pathways;
- doesn't reflect the business model of home builders and land developers. The home building industry tends to deliver homes on a site by site basis, and the land developer doesn't ordinarily construct homes; and
- does not provide for a long term, continuous and sustainable affordable housing supply.

The Implications:

NSW needs a long term, continuous and sustainable affordable housing supply. The current policy of Inclusionary Zoning will not deliver this. However, there is an opportunity to now work with the Federal Government and their investigations into a bond aggregator model. This model would provide the necessary vehicle for the sector to source funding and deliver Affordable Housing through a well-considered Program led by the State.

If this is not actioned, then the implications are that the Government's current policy of Inclusionary Zoning will not provide that long term, continuous and sustainable supply it requires.

An Affordable Housing Program (AHP) is required to ensure the necessary coordination, consistent policy and practise and appropriate planning initiatives are in place to deliver affordable housing to address both the current backlog and forecast demand. The Program would establish targets, monitor demand and supply, prepare policy framework and statutory planning mechanisms for the delivery of affordable housing.

The AHP would:

- Program the ongoing delivery of affordable housing;
- Coordinate the required planning regimes and incentives to deliver;
- Assist NSW Land and Housing Corporation with the '*Communities Plus'* program;
- Ensure there is a relevant planning instrument, e.g. a 'Housing Affordability and Diversity' SEPP or amend existing planning instruments to deliver necessary housing outcomes;
- Work with Local Government to investigate opportunities for delivery of affordable housing on Local Government assets;
- Arrange Joint Venture opportunities with State and Local Government owned land, Community Housing Providers and Industry to deliver affordable housing;
- Work with the Commonwealth Government to secure financing through the National Housing Finance and Investment Corporation;
- Investigate new long term institutional investment models like 'build to rent' products; and
- Establish a program to deliver shared equity opportunities, like the Western Australian Key Start Scheme and United Kingdom examples.

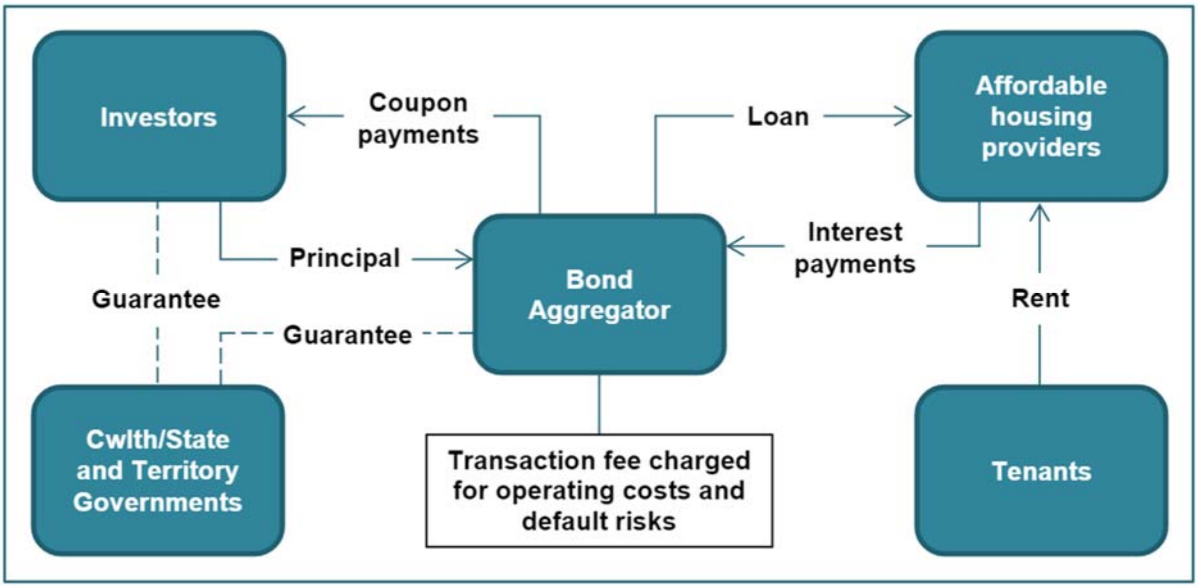
The development industry is willing to work with Government and can contribute meaningfully to the supply of affordable housing but needs the appropriate products and incentives to deliver. There are numerous examples overseas of products that could be adapted to suit the Australian market. 'Multifamily Residential' is a potential asset class that could be transferred into the Sydney market with the right regulatory and economic changes. Well accepted in USA, Europe, Japan and more recently in the UK, these multi-unit residential buildings owned by a single entity have the potential not only provide affordable rental housing, but create billions of dollars of institutional investment into a space that also supports government outcomes.

Financing Opportunities with Federal Government – Affordable Housing Bonds

The commitment of the Federal Government to proceed with the Bond Aggregator Model and provide low-cost long-term debt to the Community Housing Sector though Housing Bonds represents a huge opportunity for State and Local Governments to provide affordable housing on government land. Affordable Housing Bonds, backed by the Federal Government, has the potential to attract institutional funding and provide much needed capital to provide affordable housing. It would perform much like the Stimulus Program, with the State Government taking the leadership role to 'make it happen'.

Low cost, long term investment capital from Housing Bonds would provide the NSW State Government and NSW Local Governments the opportunity to turn under-utilised land into income producing affordable housing with an enormous social benefit. The added value of the improvements to the Government land required to develop affordable housing will be funded by this new source of low cost long term debt with no net effect on the government's balance sheet or credit rating.

Affordable Housing Bond Aggregator



Source: Council on Federal Financial Relations -Innovative Financing Models to Improve the Supply of Affordable Housing (October 2016)

Utilising Government Land

HSAR agenda included providing principles for assessing underutilised government land. Transport for NSW, Housing NSW, NSW Health and the NSW Department of Education all own significant 'underutilised' landholdings close to transport and other infrastructure, services and facilities. Similarly, UrbanGrowth NSW has projects that include State Government land holdings suitable for residential (affordable) housing.

Many Local Governments also have significant landholdings that could also be utilised in the Affordable Housing Program. Some local governments own 'at grade' car parks that could be redeveloped, replacing the parking whilst delivering affordable housing close to facilities, services and transport. There is considerable opportunity for the NSW Government to build a large portfolio of affordable housing dwellings through the Affordable Housing Program.

The Delivery Model

Once a potential site is identified it would be assembled into the Affordable Housing Program (a pipeline of projects). The site could be offered to the market seeking proponents to develop and bring the development capital to fund the development phase.

Once completed some units could be sold to reduce the project debt so the remaining units can be managed and sold or vested to Community Housing Providers (CHPs). The acquisition of these units would be financed with debt provided by the Bond Aggregator and backed by Housing Bonds.

The ownership of the dwellings may remain with the State or Local Government and a CHP appointed to manage the assets and tenants. Alternatively, the units could be sold or vested to CHPs with them funding the acquisition of the dwellings.

The great benefit of the establishment of a NSW Affordable Housing Program is that is scalable and the NSW Government has the option of holding onto or selling the dwellings to CHPs and 'not-for-profit' organisations. NSW State Government must act immediately to establish an Affordable Housing Program. The Program must establish the necessary policy, planning initiatives and delivery of a long-term supply of affordable housing for NSW.

Successfully executed, the AHP will address both affordable housing at scale now and build a portfolio of publicly owned assets for the next generation.

UDIA Recommendations:

Establish an Affordable Housing Program (AHP) that:

- **I. Sets the policy agenda, the facilitating planning instrument and delivery program;**
- **II. Liaises with Federal Government and accesses the Bond Aggregator model;**
- **III. Works with Government, including Local Government, on identifying suitable land for inclusion in the AHP;**
- **IV. Establishes a program to deliver shared equity opportunities, like the Western Australian Key Start Scheme and United Kingdom examples; and**
- **V. Works with the development industry on joint venture opportunities and innovative affordable housing models like 'build to rent'.**

<u>**Performance Measures**</u>:

Set targets and report the number of:

- **I. dwellings suitable for the first home buyer i.e., a suitable price point;**
- **II. those delivered as Affordable Housing; and**
- **III. those delivered as Affordable Housing on Government owned land.**