

LAND RELEASE AND HOUSING SUPPLY IN NEW SOUTH WALES

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David Hale
 Secretary, Committee on Environment and Planning
 Legislative Assembly, NSW Parliament
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Dear David,

PIA SUBMISSION - LEGISLATIVE ASSEMBLY COMMITTEE ON ENVIRONMENT AND PLANNING INQUIRY: LAND RELEASE AND HOUSING SUPPLY IN NSW

The Planning Institute of Australia (PIA) thanks the Committee for the opportunity to respond to this inquiry. PIA understands that sound strategic planning and effective development assessment enable infrastructure investment and land use change to occur in an orderly manner. This improves certainty, reduces costs to the public, the development industry and housing consumer – and improves the living and working environment of growing precincts and their communities.

PIA supports improvements in the planning system, process and governance that result in better planning outcomes for liveability, ecologically sustainable development, economically efficient equitable cities and protection of our natural and built heritage. Such improvements result in more efficient land release and housing supply while balancing these with important social, environmental and economic outcomes are welcomed. PIA NSW acknowledges that planning is only one component of improving land release and housing supply, but play a critical role.

This submission outlines some of the key issues under the terms of reference and offers solutions to overcome these issues. PIA would like to emphasize Section (e) Other Related Matters, which contextualises this inquiry and highlights the relationship between planning and housing supply. These points are summarised in Section 1, with the remainder of our submission (Section 2) addressing each of the terms of reference.

PIA would welcome the opportunity to present to the Committee at the anticipated hearings. Please contact myself or John Brockhoff (Principal Policy Officer [REDACTED]) on our response.

Yours sincerely,

[REDACTED]

Jenny Rudolph
 President, PIA NSW

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Section 1: PIA Submission Key Points

The Terms of Reference raise crucial issues for the NSW economic and planning environment - including the need for more comprehensive reform of NSW Planning and Environmental legislation which has major disconnects with Government and professional capabilities to deliver adequate land and housing supply. The enhanced delivery of land and housing supply is also dependent on the broader inter-Governmental working relationships.

Planning is important in the provision of housing, particularly affordable housing, but is by no means the only or most important component. Consideration of improving housing provision should take into account a number of factors which are not always well integrated. These include:

Housing affordability pressure is primarily caused by demand factors and their legislative context, not supply

- Housing affordability is caused by demand factors, and also supply factors. It is a critical balance and a complicated one, as experience has shown in other cities like London, New York or in Europe. Demand factors do play a critical role.
- Housing supply is currently a success story across Sydney and Australia. The affordability pressures facing the housing market arise from demand-side factors, including monetary and fiscal settings and record high population growth, driven mainly by net overseas migration.
- *Fiscal (the tax structure) settings play a crucial role.*
They influence demand for the residential property market and hence the demand for approvals and supply. The taxation settings in Australia make investing in dwellings an attractive option.
- *Level of interest rates significantly affects the purchasing power for dwellings.*
Historically low interest rates have been a significant cause of Australian capital city dwelling price growth. Together with the tax structure, the low interest rates have increased the demand for dwellings by increasing the number of investors in the market as well as the price that purchasers are willing to pay. This, in turn, places upward pressures on prices for owner-occupier purchasers.

Increased housing supply will not solve the affordability crisis in Sydney

- Sydney has high completion rates in relation to other advanced western economies. Moreover, the supply of new housing will only have a marginal impact on housing affordability in markets where housing is regarded as an investment asset (e.g. Sydney) in addition to its role as shelter.
- *Developers cannot afford to sell their homes below current market prices.*
For this reason, housing supply rarely places rapid downward pressure on prices. House prices are set in the established dwelling market (the stock of dwellings) that dominates housing supply so the additional 1-2% of new supply built every year will have little impact.

Market forces have a far greater impact on supply than the planning system

- The recent jump in approvals and completions in Sydney has much to do with the operation of

an asset market for housing in Sydney, in which higher house prices are underpinning development feasibility to a much greater extent than any recent changes in the planning system. The returns on housing investment that are available in Sydney are attracting a strong inflow of capital (offering returns greater than alternative investment classes). PIA nevertheless acknowledges that there are still major improvements and changes needed to planning legislation, governance in planning and processes and systems in State and Local Government as part of delivering more timely and effective land and housing supply.

Urban planning creates value and facilitates efficient and sustainable development

- Planning is critical to providing clarity and confidence for investments by markets so that they are able to deliver orderly and well-designed and development.
- *Growth should be accompanied by improvement in the liveability of a district.*
Planning for housing supply should not be considered in isolation of other planning outcomes. Planners should be pro-active in shaping 'community compacts' – seeking agreements enabling housing supply growth together with the land uses, funding, infrastructure investment and services to deliver an accepted outcome.

The policy vacuum at the Federal Level

- Population policy is a fundamental prerequisite of any rational planning and is sadly lacking. Funding and fiscal arrangements dominate the provision of housing, particularly affordable housing.
- *Federal, State and Local government could do more at the margin*
While, clearly outside the direct responses to the Terms of Reference, it is submitted that in the interests of "getting the bigger picture right", the Federal government should:
 - Develop a national strategy for settlement and integrated infrastructure planning, and prioritisation funding allocations;
 - Establish a governance framework to integrate that infrastructure planning, prioritisation and allocations with State Governments' metropolitan and regional planning.
 - Provide additional financial or other incentives, to the state and local governments, with clear transparent information to assist in housing communities.
- PIA fully acknowledges that State government must co-ordinate better the integration of the planning and delivery of key infrastructure in harmony with land release and housing development. Both State and Local government need to improve procedures for re-zoning, development assessment and growth related infrastructure delivery. Federal Government needs to provide the policy and contribute to infrastructure funding.

Section 2: PIA Response to Terms of Reference

This section responds to the Terms of Reference with commentary on key planning issues for PIA and suggested solutions.

a) State Government Leadership and resources and support needed within the Department of Planning and Environment.

Proposed planning system reform supported

PIA broadly endorses the reforms to the planning system outlined in the draft Environmental Planning and Assessment Bill exhibited earlier in 2017. However, in our submission we advocate for more substantial reform of strategic planning systems, the integration of land use and infrastructure planning and a holistic growth infrastructure funding system. Our key inputs were:

- Ensuring that strategic planning intent has strong effect and is reflected in responsive LEPs where LEPs are strategically reviewed with planning zones or controls changed to reflect the strategic planning intent
- Local Strategic Planning Statements demonstrating Council leadership and setting the vision at a local level that links to the district/regional policy
- Updating LEPs more regularly and aligning to the strategic planning framework
- Standardising Development Control Plans to ensure more consistency and simpler assessment framework
- Consistent community participation plans and consultation with neighbours
- Seeking improved quality and turn-around times for agency referrals which can assist both council and private sector applications and development
- Simplification and review of Exempt and Complying Code
- Expanded use of planning panels and amendment to regional development thresholds for panels and delegation of planning functions to staff
- Implementing reforms proposed for affordable housing via the planning system that provides incentives for its development through a fast tracked process
- Reducing the detail requested at the DA stage in order to deal with design detail at construction certificate stage
- Further improvement of referrals and concurrences processes, or alternatively assume concurrence after 30 days
- Embedding good design in all planning frameworks
- Reinforcing the role of the Greater Sydney Commission for the integration of infrastructure planning and funding
- Holistic infrastructure funding policy

The highest planning industry standard of professional capability is PIA's Registered Planner qualification. This should be recognised in order to build capability to deliver on reform.

Registered Planners will be needed where there is the need for the highest assurance of professionalism and competence for a critical task or decision. PIA recommend Registered Planners sign off on LEP amendments, SoEE and EIS preparation.

i. The delivery of an effective land and housing supply process

ISSUES:

Need for a land and housing supply program and monitor

The NSW DPE used to operate a Metropolitan Development Program (MDP) which assessed stock levels, approvals and completions in Greater Sydney, Illawarra and Central Coast on a rolling annual basis with a view to identifying any necessary actions to ensure benchmark levels of land were available for future development.

In turn, the MDP facilitated the informed implementation and review of the Sydney's land supply strategies. The scope of the MDP also extended to processes for considering new sites; the timing and sequencing of development; benchmarks for key stages in the land supply process, such as unzoned, zoned and serviced (including benchmarks for the stock of land at those stages in the process); processes for land supply assessment; and infrastructure coordination.

One of the reasons greenfield housing supply fell so sharply from the early 2000s was the decline in development-ready or 'zoned and serviced' land. With the 2005 Metropolitan Strategy target at around 24,000 dwellings per year (640,000 homes over 27 years from 2004 to 2031) and around 35% of this, or 8,250 dwellings per year, planned for new release areas, capacity in zoned and serviced greenfield land was at a little over 20,000 dwellings in 2005 – or about 2.5 years supply. Clearly the stock of zoned and serviced land was insufficient to allow the market to meet demand or the targets.

A lesson from the Sydney experience is that the stock of zoned and serviced land should be sufficient to provide for an appropriate level of competition and contestability, and absorb surges in demand. At least five years supply is probably desirable across multiple development fronts though there is no absolute science to this figure. The National Housing Supply Council suggested that the six development stages that make up the housing supply pipeline, in both greenfield and major brownfield settings, can take anywhere between 6 and 15 years. It therefore makes sense to have a 'rolling supply' of sufficient, serviced land to accommodate short term future demand, recognising that establishing a pipeline of supply can be uncertain and takes time.

In Sydney, the supply of greenfield development is largely based in the nominated Growth Centres in the North-West and South-West. New growth areas have been identified with work being undertaken within them. The precinct planning process has identified infrastructure needs and funding approaches. After a focussed planning effort since the mid-2000s the precinct planning and related servicing of land on Sydney's fringe appears to have increased capacity significantly with zoned and trunk serviced lots well above the targeted level.

In infill areas, representatives from MDP would run workshops to identify speculative development sites and their yields to provide a background understanding of the zoned capacity. At any one time the DPE would roundtable with Sydney Water, RMS and other state agencies to reveal what was on the radar. However, the MDP didn't have a good handle on the last stage of supply: the percentage or likelihood of zoned and serviced land that was going to be realised by the market. Hence the Urban Feasibility Model (UFM) was created.

The State Government and DPE capability to monitor land supply by submarket has potentially eroded with the shelving of the MDP program. This capability was lost but agencies like Sydney Water still needed the information from the MDP for planning.

Lack of state government leadership in greenfield land release sequencing

State Government leadership in rezoning Sydney greenfield areas has pulled back in recent years. It is now less clear as to what the approval path / timing for rezonings is than it was when the Growth Centres Commission took charge of the Growth Centre precincts a decade ago. There was a lot of value achieved in the early Growth Centre rezonings with the GCC / DPE officers project managing the rezonings.

There is a lack of clarity in draft District Plans about where, when and how much development should occur. The role of preparing the local housing strategy to increase opportunities for housing and improve affordability is to be delegated to local councils, many of which do not have the budget, technical expertise or political will to look at genuine opportunities for new housing. The GSC must be, and enabled legislatively and politically to be, bolder in the District Plans in describing where and how much housing is to be provided.

Leadership – political as well as professional management - and resourcing of DPE is also crucial for coordination of State agencies for policy input, resolution of issues and delivery of integrated services and infrastructure.

There is little certainty for development timing and contributions

It takes a long time to rezone and service land for urban development and there is little or no certainty for developers / investors in the time it will take to rezone land or the quantum of the infrastructure contributions that they will need to pay.

No certainty has yet been provided in the Government's expectations about minimum inclusionary zoning requirement for affordable housing (range 5-10%). In the absence of State Government leadership, councils are coming up with their own differing benchmarks for affordable housing and value capture. This increasingly slows down rezoning processes due to negotiations and the outcomes to be achieved.

There is a greater need for medium density housing

There is great demand for older people to move out of larger homes into a terrace or villa with its own Torrens title in the same area. Current policies are not enabling enough of this form of housing.

alternatively the planning framework should allow for large houses to be divided into dual occupancies in order to create housing affordability.

POTENTIAL SOLUTIONS:

Land and Housing Supply Program and Monitor

If we are going to have meaningful land and housing targets in the District Plans and Local Government is going to sign up to targets to guide plan making and coordination of infrastructure, then the government needs capability to implement the targets.

Without the MDP, DPE does not have the capability and structure to monitor targets and a decision-making process to select land release. Therefore, PIA recommends that the MDP should be resourced with clear leadership responsibilities for DPE and with State agencies

committed to support by policy inputs, resolution of issues and budgeting and prioritisation for integrated services and infrastructure delivery.

Medium Density / Missing Middle Initiative

PIA believes the missing middle initiative including the emerging Medium Density Complying Development Code will make a significant contribution to housing supply. The Government needs to adopt and implement the 'missing middle' reforms urgently to promote a diversity of medium density housing choices – including options for separate titling.

The missing middle package is linked to an expansion of complying development. There is currently low and declining public confidence in the private certifier system. The State Government must therefore design and implement a package of actions that will restore public confidence in the accredited certifier system. This also has an urgent priority attached to it.

Improved resourcing for housing supply delivery

Influential levers for housing supply lie with taxation arrangements. To the extent that the land use planning system can influence it, fertile conditions for housing supply will be present in an environment where the full range of small, medium and large developers are able to deliver different product, in different areas, to attract different segments to the market. To this end, DPE should have strategies and teams focused on the three distinct opportunities to provide housing supply in Sydney:

- Greenfield release areas
- Urban renewal precincts and corridors
- Infill areas

DPE or GSC should provide guidelines and assistance for housing character studies to be undertaken by local councils, so that they can inform the local housing strategies. These studies to be completed before amendments are prepared to LEPs that increase housing opportunities to match District Plan targets.

PIA welcomes the Government's intention to reduce minimum residential allotment sizes to provide more housing opportunities in Sydney, but this should only be done only after comprehensive housing character assessments that support lot area reductions have been prepared. This is critical in order that communities retain some confidence in the planning and political environment.

ii. The coordination and funding of enabling infrastructure

ISSUES:

In greenfield areas infrastructure planning is of course particularly important because development cannot commence at all unless key trunk infrastructure is in place. Government has a pivotal role because much of the trunk infrastructure (particularly water, sewerage, electricity and roads) is shared between development areas and is the responsibility of government agencies. A commitment to invest in the infrastructure is often required to signal that land subdivision and development can proceed.

Market signals absent from development contributions regime

The current system of funding growth infrastructure is broken with caps on council rates and (previously) s94 contributions obscuring price signals in the market while distorting the use of a narrow range of other available funding mechanisms. In a broader sense, this distortion favours fringe development over infill development. If the true cost of infrastructure were passed on to developers, then they would be forced to pay a lower price for land to landowners.

New release areas also have to pay a *Special Infrastructure Contribution* (SIC). The cost of the SIC is subsidised in the north west and south west Growth Areas by the NSW Government, with developers only having to pay 50% of the cost of state level enabling infrastructure. The cost of the SIC in Western Sydney is now 30% lower than when introduced in 2011.

Recently the NSW 2017 Budget identified that the *Local Infrastructure Growth Scheme* (funding) to be phased out and replaced with a \$396M package for local infrastructure. The LIGS funded the gap between the artificially capped s94 contributions and the actual cost of delivering local infrastructure.

There is no shared value created from density increases

PIA has noted declining community support and acceptance of higher housing densities partly because of the lack of firm Government commitments to upgrade the infrastructure to support the demands created by the extra populations.

What the community sees happening is land values increase due to rezoning but little return in terms of infrastructure investment. This is particularly acute in inner and middle ring Sydney where extra land for open space facilities is needed, but the land acquisition cost is prohibitively expensive.

Councils' main funding mechanism for new open space – section 94 contributions from developers – has been arbitrarily capped at \$20,000 per dwelling since 2010. No indexing of this figure has been allowed so the amount has been declining in real terms, while land prices have at least doubled. This declining contribution is expected to fund all the road, drainage, parks, recreation and community facility upgrades caused by the extra population. It is obviously insufficient, network and facility congestion is increasing as a result, and the quality of life of Sydney residents is declining. There is an opportunity to investigate the need for a regional levy to fund open space acquisition and certain growth infrastructure that is beyond the capacity of s94 schemes.

State Government has announced that the s94 cap will be removed, but that councils will still be required to pursue a lengthy IPART review process to justify any residual contribution above \$20,000 per dwelling. The list of essential infrastructure able to be levied is also narrow.

There is not a clear process for planning and funding enabling infrastructure for greenfield areas

Priority Growth Areas are released or rezoned without all the key infrastructure commitments and costs agreed. Because of the lack of infrastructure delivery detail, these release announcements fuel land speculation and, in the fragmented ownership areas, little else. Neither GSC or DPE has yet been given the power or authority to coordinate agencies responsible for planning and delivering infrastructure in Priority Growth Areas.

There is currently weak inter-agency decision making and coordination

There is currently a weak inter-agency decision making architecture around planning and delivering enabling infrastructure for nominated growth areas. Despite repeated announcements and attempts to remove the bureaucratic silos, infrastructure delivery is as fragmented and unwieldy as ever. The public expects that all new greenfield and urban renewal development areas / PGAs will be matched by properly coordinated infrastructure investment to meet the demands of the growth. Otherwise there will be further network congestion and further erosion of quality of life.

DPE and now GSC are supposed to be the coordinator of the infrastructure delivery authorities in the planning of PGAs, but this rarely happens. Other agencies are allowed to continue the old practice of politely participating in planning exercises only to put off making decisions on preferred infrastructure options.

The District Plans indicate that the GSC will take a lead role in preparing an Annual Infrastructure Priority List. But this is only a start. The GSC should go further and be accountable for the timely delivery of the Priority Infrastructure List. The District Plan's strategy to use its 'cross-agency Infrastructure Delivery Committee to facilitate collaboration on infrastructure issues across districts' is not enough. The GSC must be the conduit for infrastructure delivery, not just another stakeholder agency.

The absence of a fully-formed and transparent State infrastructure contributions system.

'Satisfactory arrangements' clauses are used in environmental planning instruments to exact opaquely defined contributions through piecemeal VPAs, instead of comprehensive SICs. However, the SIC system is far from perfect, as there is no annual published record of SIC / satisfactory arrangements receipts or expenditure, and no practices or guidelines issued for planning and delivering infrastructure using SIC funds. Neither is the SIC system integrated with local development contributions and the implications for development feasibility for any one development or release area are impossible to determine.

POTENTIAL SOLUTIONS:

Forming a comprehensive district or precinct infrastructure plan setting out what infrastructure is needed is a key step. This enables consideration of what infrastructure is a priority and why and who should pay. It offers the context for how much developers should contribute within a mix of funding sources and mechanisms.

Funding split

Who pays for enabling infrastructure and in what mix is important in how the planning outcomes embedded in an infrastructure plan are achieved. A transparent process involving community, government and property stakeholders is needed to arrive at a position for apportioning the funding investment. There should be comprehensive infrastructure funding and delivery plans for identified growth or renewal areas. These plans should be underpinned by a transparent funding mix, with clarity around the respective contributions of the public and private sectors.

An infrastructure funding regime must balance contributions between those who directly benefit from infrastructure and broader taxpayers. Users and other beneficiaries will need to take a greater share of the funding burden, releasing taxpayer dollars to meet the wider needs of a growing and ageing population. In this search for infrastructure dollars, charges on development especially where additional value is created (and captured) is a key part of a broader 'beneficiary pays' framework.

Value capture is the act of collecting a portion of the benefits from public infrastructure investments that flow to the value of land. Value that is captured or shared by governments should be used to pay for a portion of the corresponding infrastructure investment.

There should be comprehensive infrastructure funding and delivery plans for identified growth or renewal areas. The plan should be underpinned by a funding mix, with the respective roles /shares to be provided by contributions, value sharing/betterment, special rates, grants, other taxes and charges. A comprehensive approach would see State and local infrastructure contributions and infrastructure schedules in the one plan for a growth area. Value sharing should play an important role and PIA would not exclude the opportunity for a broad based regional property levy.

Timing and sequencing

The timing and sequencing of rezoning, utility provision and the delivery of key economic and social infrastructure must be incorporated in an integrated growth plan to achieve the timely supply of the range of housing stock needed to meet the desired land use outcomes.

Contributions obligations need to be made known as a package at the very time growth area structure plans are released for comment. Local, state infrastructure and also any affordable housing contribution imposts need to be known up front to be effective. At least indicative levels of State and local contributions and any value sharing arrangements must be made public at the same time as structure plans for a growth area are publicly released. The charges should be predictable for land purchasers so that the full fair share of any value uplift created by subsequent rezonings is returned to the new community through infrastructure upgrades.

Greater certainty for infrastructure and network planning is provided where agencies can anticipate development patterns. Out of sequence development could be allowed subject to an appropriate amount being paid to address costs arising from the departure from the least cost pattern of development.

Developers should be actively encouraged to deliver infrastructure on behalf of councils through speedy processing of works in kind agreements, full crediting of values under the relevant section 94 plan and cash reimbursement of works values in excess of the section 94 obligation.

Integrated land use and infrastructure planning

Strategic land-use planning and infrastructure planning must be integrated – each informing the other, working off the same data sets to achieve the same planning outcomes for the region or precinct.

The Department commenced the preparation of Growth Infrastructure Plans (GIPs) over the last five years. These plans were to list and cost all the infrastructure required to support the planned growth in designated urban renewal areas (and what are now called Priority Growth Areas). PIA understands that much work on these plans was done but none of the plans were ever publicly released – nor were they influential in the infrastructure prioritisation process across Government.

It is understood that the GIPs appear to be morphing into Land Use and Infrastructure Strategies, or LUISs. The draft LUIS for the Bayside West Priority Growth Area (PGA) is a worthwhile document and it is expected that the other PGAs will have similar details in terms of

infrastructure schedules.

The lack of integration for land use and infrastructure planning is exemplified by the premature release of Priority Growth Area (PGA) draft structure plans for public comment, with no accompanying infrastructure funding plan.

The Sydenham to Bankstown Corridor and Parramatta Road Corridor plans are examples of this. These plans show at a street block level the draft zoning, floor space and height provisions that will allow tens of thousands of extra dwellings. However, there is no detail on what the level of developer contributions that will be needed to pay for the infrastructure required to meet that growth. There have been a few precincts (e.g. Parramatta Light Rail corridor) where a SIC rate has been announced concurrently with the land use plan, but this has been rare. And there are question marks regarding the sufficiency of the amount.

What has tended to happen is that the structure plans are exhibited, and the owners of land proposed to be up-zoned sell land to developers on the legitimate expectation that the Government will not impose more than a token contribution amount on the future developments. The land owners thus pocket all the windfall that comes with up zoning, leaving no room for the developer or community to receive some share of the value uplift to allow it to be reinvested in infrastructure upgrades.

Every element of the metropolitan plan with an implementation horizon of say 5 years should identify the funding sources which will amount to 100% of the estimated implementation cost. This will require agencies such as Treasury and Roads and Maritime Services for example, to be involved in the preparation and 'sign off' of the plans. State Treasury should be required to be involved in costing, review and/ or auditing of funding mechanisms contained in State and Regional Plans. Regional, subregional and local strategic plans should contain the following funding framework:

Outcome Timeframe	Prescribed Funding within Plan
10 - 50 years	No funding mechanism required to be prescribed, but outcomes only included in plan as essential outcomes if there is a reasonable expectation that they can be funded within the prescribed timeframe. Potential funding options may be flagged.
5 - 10 years	Fiscal strategy to be identified for all essential outcomes. Specific funding mechanisms may be identified for any outcomes where known.
2 - 5 years	Funding mechanism must be prescribed for every essential outcome and included in each responsible agency's forward budget estimates.
1 year	Every action must be included in each responsible agency's annual budget.

Inter-agency coordination

The key obstacles remain 'silo' agencies and funding which demand an effective State Government response. The establishment of the Office of Housing Coordinator and Housing Affordability Taskforce is welcomed as it is hoped these actions will finally break down the

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inertia in infrastructure planning in agencies.

For land release there needs to be a simple process for growth infrastructure – a single basis for the prioritisation and sequencing of growth infrastructure. Every agency runs a total asset management program. They develop their programs in isolation. There needs to be a single agreed prioritisation process for growth infrastructure, particularly for growth areas.

The current process includes Treasury receiving budgets from each agency on their capital expenditure. Each needs to be based on a decision upfront that locks growth in common agreement amongst agencies. If the GIPs are the vehicle, then there needs to be a recommendation that infrastructure agencies buy-into the outcomes of the GIPs and to some extent are bound by them in the capital investment programmes. A recent example of a lack of inter-agency coordination occurred for the Ingleside release area, with a revelation that Transport for NSW and the RMS would not be upgrading infrastructure in accordance with the structure plan.

The NSW Government should strengthen the infrastructure integration role of the Infrastructure Delivery Committee of GSC and empower the GSC to take the lead on infrastructure prioritisation in the NSW Infrastructure Plan and State Budget. The GSC should also be charged with facilitating and directing programs and budgetary allocations of other State agencies to align infrastructure and services implementation with the rate, locations and scale of planned development patterns.

Linking growth to infrastructure

There needs to be acceptance that delivery of adequate infrastructure to maintain liveability is fundamental to the social contract between government and communities to accept urban growth and intensification. This acceptance should be backed up by infrastructure commitments. The recent budget announcements of increased infrastructure spending and providing concessional loans to councils for housing infrastructure are therefore welcomed and must continue.

The availability of funds and the ability to plan, sequence and deliver infrastructure to enable new settlement is often the limiting factor for the expansion of housing supply. Provisioning of infrastructure needs to be better tied to the supply of new housing - particularly significant public transport infrastructure to maximise affordable living outcomes.

Planners should be pro-active role in shaping 'community compacts' – seeking agreements enabling housing supply growth together with the land uses, funding, infrastructure investment and services to deliver an accepted outcome.

The council based housing targets should be refined and calculated on growth demands and infrastructure 'carrying capacity' rather than an extrapolation of short term rates of supply. The targets should be minimum targets and can be adjusted to provide housing diversity to a growing population, but should also be responsive to future living conditions and reflect the availability of economic and social infrastructure to maintain amenity.

Commonwealth and state housing growth enabling infrastructure funds

Enabling infrastructure to unlock potential housing development opportunities can be beyond the scope of any single development proposal. State and Commonwealth funding sources such as the former Housing Acceleration Fund (HAF in NSW) and the recent National Housing

Infrastructure Facility (NHIF) are important for this purpose. These should be included in each jurisdiction and be an element enabling City Deals.

Infrastructure projects seeking Federal funding should be considered as part of independent, clearly justified and long-term infrastructure plans, as well as subject to rigorous business cases that test the right funding solutions suitable to that project.

Projects to be delivered under the \$1.6 billion boosted HAF should be endorsed by the GSC and reflect their Priority Infrastructure List. The funds should be used to bring forward projects that unlock housing development, remove bottlenecks in infrastructure delivery ('meso'-level projects such as arterial roads, water and sewage headworks).

Planning principles to help guide infrastructure prioritisation process

Planning and governance principles should guide the infrastructure prioritisation process and not result in infrastructure projects being conceived and assessed in a vacuum:

- Planning for place outcomes identified in an adopted strategy
- Long term, integrated infrastructure plans linked to the planning strategy
- Options derived to achieve plan outcomes for places – and project alternatives derived subsequently
- Published full project business cases for project evaluation - including wider triple bottom line assessment and consideration of spill-over effects
- Community engagement in plan and option development - and post completion reviews of outcomes.

PIA aspires to an infrastructure funding and delivery system based on the principles of strategic planning, fair cost, nexus and the fair sharing of cost between users. The new infrastructure funding and delivery system based on the principles included in PIA's submission to the reforms to the Environmental Planning and Assessment Act 1979 – see **Attachment A**.

Greater resourcing of IPART to improve the local infrastructure review process

In anticipation of the many contributions schemes and high costs to service the urban renewal Priority Growth Areas, the Government should review, streamline and adequately resource the IPART process for reviewing contributions plans. Each step of the process to gaining approval of above-the-cap plans should have maximum time commitments.

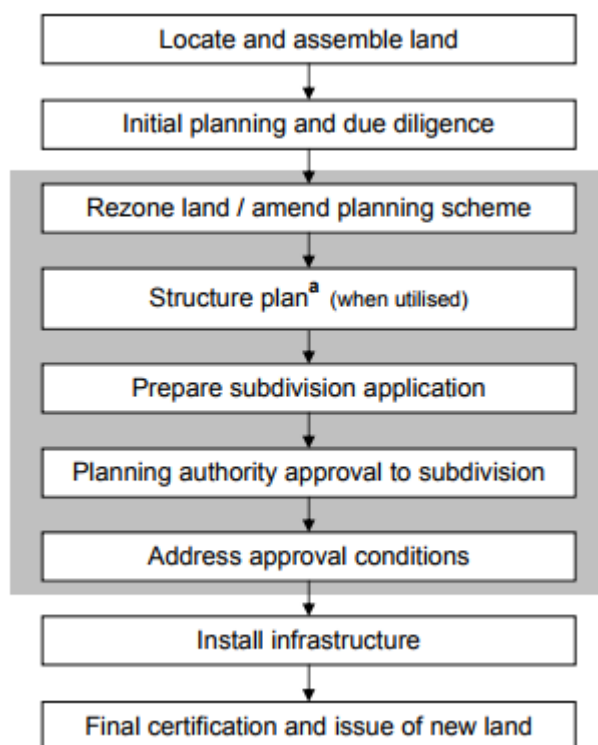
DPE in consultation with IPART should review and update as a matter of urgency the Essential Works List which is the basis of infrastructure that can be funded by s94 contributions. The review is urgent because the current list has a greenfield focus and does not adequately cover the legitimate needs of urban renewal areas. Embellishment that increases the carrying capacity of open space (such as synthetic fields), and public domain projects should be added to the list for urban renewal area contributions plans.

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

ISSUES:

Legislation, existing practice and resourcing all influence the time and the costs required to

deliver land and convert it to housing. The most common causes of delays and extended timeframes in the land supply process are the rezoning and planning scheme amendment process; structure planning process; and overcoming community concerns including addressing objections raised in respect to subdivision applications.



According to the Productivity Commission, it can be 10 years after the commencement of rezoning before a subdivision of that land is completed, infrastructure is installed, and building can commence. If processes outside of planning are included, it can take up to 15 years between site assembly and building construction.

Once land is rezoned, in order to develop that land the developer must traverse a lengthy approval process that typically includes the following:

- Pre-DA meeting or meetings.
- Threatened species assessments which often results in the need to negotiate biodiversity offsets - a separate approval from the Federal Government will also be needed if the proposal includes works impacting a community identified under *Environmental Protection Biodiversity Conservation Act*.
- Referral as integrated development to other state government agencies. Common referrals include NPWS, Office of Water, Rural Fire Service.
- Concurrence from state government agencies in some circumstances.
- Assessment against multiple relevant environmental planning instruments.
- Assessment against the Development Control Plan, which in some instances are over 1,000 pages.
- Assessment to determine the development contributions payable under Section 94 or Section 94A and Special Infrastructure Contributions. In some cases, the contributions

are not formalised or even known (i.e. satisfactory arrangements provisions) and have to be negotiated.

- Determination of the DA under delegated authority, by an Independent Development Assessment Panel, by Council or the Joint Regional Planning Panel
- A determination notice, which if the development is approved, contain conditions requiring that the development is delivered in a certain way, in accordance with certain legislation or Australian Standards, may require the developer to enter into other agreements or submit even further information, or the means to satisfy a developer contribution.
- Negotiation of any works in kind agreements for the developer to deliver section 94 infrastructure.
- Linen plan lodgement and release by, in most cases, the council.

Once a consent is issued, there are also a range of consent conditions and requirements to be addressed which could include:

- approvals under separate legislation, such as for road opening, consent to destroy heritage sites.
- subsequent deeds or agreements where the developer delivers infrastructure on behalf of other agencies (e.g. the RMS). Some of these conditions need agreements in place before construction can commence.
- payment of bonds, charges and contributions.

All the conditions and terms of agreement must be signed off (or bonds in place) before a Subdivision Certificate is issued by the council to allow a land or dwelling title is created.

The following problems are encountered with this process:

Pre-DA meetings:

- Advice provided is often vague and little commitment about interpretation of controls provided.
- Costs for advice from officers can be expensive for the value of the advice provided.
- Some councils demand that a pre-DA meeting be held, even for complying proposals.
- The information required in advance of the meeting is excessive in many cases (e.g. full architectural plans and draft statements of Environmental Effects).

Planning controls:

- Confusing and complicated biodiversity offsets scheme being introduced.
- DCPs are needlessly long and verbose.
- DCPs particularly contain superfluous, unclear and repetitious material.
- The controls often contradict each other – DCP provisions conflict with LEP provisions – the Act was changed to prevent DCP controls overruling planning intent but the Act is not being adhered to in some cases.
- At least one major release area council will not recognise the zone boundary flexibility clause, and requires all of these minor adjustments to go through a rezoning process.

DA lodgement and processing:

- A 'tick the box' mentality when it comes to the information councils require to accompany DAs.

- There is sometimes poor DA documentation but on the other hand, councils have in some instances rejected DAs for unsubstantiated reasons and contrary to the provisions of the EP&A Regulations.
- Delays caused by repeated issue of requests for further information (RFIs), instead of one consolidated RFI.
- Excessive workloads for assessing officers.
- Inadequate number of experienced staff to deal with volume of DAs
- Lengthening of processing times can drive developers to lodge deemed refusal appeals, which combined with vexatious appeals, has in turn led to increases in court processing times.

Post-consent:

- The length of consents, which often run to more than 100 conditions and more than 30 pages, is often not reflective of any particular site complexity and can require modification to address errors, inconsistencies or unintended restrictions.
- Councils are delaying dealing with compliance with subdivision conditions until a section 73 certificate has been issued, when it is unlikely that a s73 certificate would not be issued for a greenfield area.
- Council requirements for bonding works have become excessive - up to \$10,000/lot is being required to facilitate a more expedient release of linen plans.

POTENTIAL SOLUTIONS:

Increased role for Landcom

Best practice might be creating a role for NSW's Government Land Organisation (GLO) Landcom as first developer in new settlement areas, where appropriate, to provide precedent planning decisions to assist other developers and ensure major 'lead in' infrastructure is in place. In practice, this might be difficult given that many major parcels of land have already been purchased by rent-seeking developers who have in some cases been the driving force behind the rezoning of major greenfield areas.

Notwithstanding, there is a role for Landcom to de-risk potential development sites where, due to factors such as contaminated soil and fragmented land holdings, the risks associated with those sites are too great to attract private sector interest, though some of these risks may also be too high to be carried by the public sector. Being a GLO, Landcom have a deeper and wider view, lower financing costs and a stronger balance sheet. They have the market power to deal with the 1-2 hectare orchard growers, assemble sites and bring these to the market. Landcom could reduce risks to a level where it is feasible for private sector developers to subsequently complete projects.

Beyond land delivery and site assembly Landcom could play a greater role in working with state agencies, such as OEH, rather than individual landowners. For example, the Green Square Development Corporation played an essential coordinating role in this area to assist development delivery.

Support a best practice development assessment guide

An efficient and effective development assessment system depends on four interdependent elements: controls, procedures, services and improvement. It must be acknowledged that there

is a wide range of applications, from secondary dwellings to tower blocks, and a great variety of Councils and communities, so that one system will not fit all. Guidelines must allow for diversity.

Clear and easy to understand policies are likely to make assessment more efficient and be seen by the community as open and honest. To achieve this, the controls must be properly researched, reflect local community values and be set within a logical framework. They must then be easily available to users. They should comprise a Strategic Plan, comprehensive Local Environmental and Development Control Plans together with advisory documentation.

Efficient administration is vital to building public and Council confidence in the quality and honesty of the application assessment process. Thorough procedures are needed to ensure consistency and completeness. The DPE's *Development Assessment Best Practice Guide* offer substantial advice on procedures and services. Whilst not comprehensive, for example they give no advice on dispute resolution or training, they do contain a number of good practices that Councils could adopt.

The prime focus for the DPE is delivery timeframes and these are important. However, these are but one outcome of the process. Of greater relevance is the quality of housing when built and also the confidence of both the development industry and the community in the process.

Senior officers should regularly inspect recently completed development to check its quality and the effectiveness of current controls. In any event, controls should be reviewed whenever an application which conflicts with them is approved. Staff, developers or community members should be encouraged to suggest improvements to the system as and when they perceive a problem, or better, on an annual basis. Local annual design awards could also encourage better practice.

Finally, unlike private practice, it is rare in local government for staff costs to be accounted in any detail. If time sheets were to be kept on how much time was spent on different types of applications, it would be possible to allocate resources more efficiently and adjust the fee structure if necessary. It could also be an option, as in the case in New Zealand, that payment for fees are based on how quickly staff will do the assessment. This provides an incentive to speed up the process.

Other potential solutions include:

- Simplifying biodiversity offset arrangements.
- For newly rezoned areas, threatened species investigations to be completed and development limits to be confirmed at the rezoning stage – there should be no need for investigations at DA stage – bio certification to become the standard approach.
- Reform of integrated development:
 - developments that meet agencies' standard guidelines should not be required to be referred.
 - agencies should be always willing to discuss their issues or issue General Terms of Approval prior to DA lodgement – only some agencies currently allow this.
- Reducing the number of SEPPs, or absorbing the SEPP provisions that remain relevant into the LEP through standard clauses.
- Preparing standardised DCPs, at least in format.
- Strategies to deliver best practice in DCP preparation and implementation

- DCPs that only address matters beyond those already addressed in SEPP-endorsed guidelines – e.g. DCPs should not address the same matters that are already dealt with under the Apartment Design Guidelines.
- Standard consent template or standard conditions of consent so that the consents are readable, relevant and are not repetitious.
- Provide opportunity for developer to review draft conditions of consent for say 7 days so that errors, inconsistencies or unintended restrictions can be corrected before the formal consent is issued, thus avoiding the need for a formal s96 modification later.
- Proposed financial support for Sydney councils to update their LEPs to reflect District Plan housing targets is supported. The Government should also provide staff, or financial resources for councils to hire staff, to assess the backlog of housing DAs and Planning Proposals.

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

ISSUES:

As discussed above there needs to be greater inter-agency coordination for funding enabling infrastructure. The below comments highlight that the referrals and concurrences system needs to be improved.

Referrals and concurrences need improvement

Both Councils and the private sector find agency comments or referrals one of the major delays due to limited resourcing in agencies. The proposed EP&A Act reforms offer a stronger project management role by DPE staff via a facilitation team (Referrals Hub) to chase down agency positions in a timely fashion. PIA has supported the regional planning forums approach undertaken in the past.

The addition of a step-in power for the Secretary DPE to act on slow referrals is strongly supported. Referrals and concurrence through the hub should provide clearer criteria as to under what circumstances the Secretary would use ‘step-in powers’, and not just for Integrated Development or State Development. The Act should clarify whether the Secretary is acting with the legal authority and protection of the agency whose powers is being executed via the Secretary of the DPE.

However, PIA support further reform in this area because the facilitation model does not address power imbalances among planning and major infrastructure agencies nor a culture of non-decision making and risk averseness.

PIA note the argument that expert secondments into an empowered referrals hub might not resolve valid agency concerns. However, further monitoring of the quality and timeliness of referrals via transparent reporting of the proposed facilitation approach might indicate the need for more radical reform in the future, such as the full empowerment of seconded hub members.

Resistance to infill development in some inner-city areas

For infill areas, in the absence of sufficient guidance some local councils, with goodwill, have focussed their housing intensification efforts and provided the capacity to meet their targets in

their biggest centres (such as Bondi Junction, Rhodes, Hurstville, St Leonards and Chatswood, Parramatta, around Mascot station and even the Sydney CBD) to avoid having to up-zone lower density hinterland or other centres in their LGA. Typically, the new housing development in these centres is only in high rise apartment forms so this approach is not consistent with providing a mix of housing types, and ignores centres and locations where redevelopment prospects may be appropriate (but where incumbent local resident disapproval may exist). Alternatively, where the goodwill is less apparent, or the local politics more intense, insufficient or inadequate areas are zoned for higher density development, even where the underlying characteristics of the area or precinct would suggest it is appropriate.

POTENTIAL SOLUTIONS:

PIA favour a fully empowered referrals hub with incentives to make rapid and considered decisions. However, this hub must have the capability and authority to safely manage risks of making timely and responsible decisions on behalf of the NSW Government. Where it can manage these risks, it should be empowered to enable the issuing of general terms of approval (GTAs) – even for bushfire protection. This is key to making the hubs successful.

Other considerations for improving the state agency referrals system could be:

- applying binding timeframes, with limited ‘stop the clock’ provisions, to the decisions made by referral bodies.
- treating the failure of an agency to meet the referral time limit as a deemed approval from the referral agency as currently adopted by Queensland and the ACT.
- having clear and concise pro-forma development approval conditions (‘model conditions’) to be used by referral bodies which have been mutually agreed with planning authorities.
- having memoranda of understanding between referral bodies and planning authorities regarding what advice will be provided by referral bodies, how that advice will be dealt with by planning authorities and/or how conditions will be included in development application approvals.

The proposed changes to the Codes SEPP to include the Medium Density Housing Code may facilitate greater supply of infill development in inner-city areas.

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

Ultimately, the problem with providing more affordable housing in Sydney is that the price of land is too high. These prices are likely to remain high because of high demand for living near where the jobs are, high immigration levels where new arrivals are drawn to the bigger cities, an extended period of low interest rates allowing people to borrow more, land owner price expectations and the generous taxation system that prioritises housing as an investment over its value as a basic human right.

At the same time, higher land values are a factor that has improved the feasibility of renewal across Sydney in recent years and have underpinned higher supply. Metropolitan Sydney contains diverse housing forms that are a product of different development eras. As Sydney continues to grow and dwelling preferences shift, there is a greater need to focus on renewing existing stock – underpinned by increased feasibility – as opposed to urban sprawl. The benefits of a more compact urban form – greater environmental sustainability and social equity, improved health outcomes as well as vibrant and economically successful places – has become the

orthodoxy of 21st century urban planning.

Across Sydney much of this renewal is occurring in older industrial areas, replacing low-scale industrial with high-rise residential (e.g. Green Square, Mascot, Rhodes), in major commercial centres and along heavy rail stations (Parramatta, Chatswood, Bondi Junction, St Leonards, North Sydney) and increasingly in and around existing business parks (Sydney Olympic Park, Macquarie Park and Norwest) that are being transformed to include residential uses as well as business park uses.

Non-metropolitan NSW is less constrained in terms of the number and amount of sites for redevelopment, particular regional centres. This ensures that there is a sufficient and competitive supply of greenfield development sites coming to market and to meet the relatively lower levels of demand. There are also fewer hurdles to affordable housing supply in the regions because the price of land is relatively low. Although there are still infrastructure blockages in some areas preventing more timely supply.

Until the last 5 years or so a lack of development viability has limited the delivery of large scale infill redevelopment and intensification in the major regional centres such as Newcastle and Wollongong. The most recent property boom – which commenced in 2013 and saw prices over the following years increase rapidly in Sydney and flow on to the major regional centres outside of Sydney – and changing household preferences for apartment living in these areas has increased the rates of infill development in these regions. In particular, Newcastle has a mooted 3,000 apartments in the pipeline for the city centre, including 1,200 in the West End. This represents a 75% increase in housing supply in this area if these dwellings are delivered.

Similar to Sydney, the rapid increase in dwelling delivery in the regions has been driven by changing market conditions, rather than by any changes to planning controls. This reflects the fact that housing supply is heavily driven by market forces, rather than planning laws.

Regional Plans, notably for the Hunter (October 2016) have made significant improvements by including Implementation Plan and related governance arrangements and structure. There has been some concern that Hunter Development Corporation (HDC) is not proceeding rapidly with agency and infrastructure coordination role announced in the Hunter Plan. Those responsibilities have been enacted recently and HDC is now playing a stronger role in coordinating state agencies inputs and contributions to regional plans actions in the terms of land housing supply and related rezonings, prioritisation and infrastructure and services delivery. – focussed on the Newcastle Metropolitan Plan.

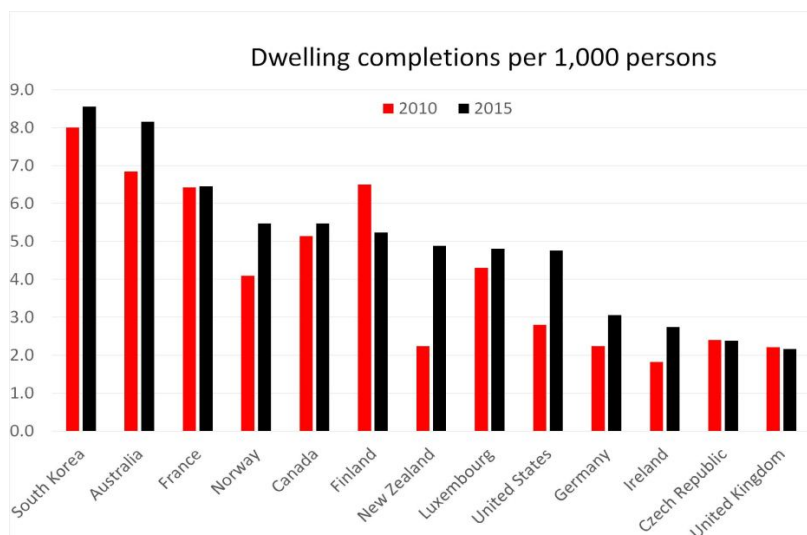
e) Other related matters

There are a number of important points to make about housing supply in general that place the preceding terms of reference in perspective.

Australia and Sydney have among the highest dwelling completions rate in the developed world

The story of housing supply in Sydney is one of great success. Despite rhetoric about a housing shortage, Sydney (and Australia) has one of the highest dwelling completions rates in the developed world. With the exception of South Korea, Australia is now producing housing faster than other OECD nations at 8.2 completions per 1,000 persons; up from 6.8 in 2010 (see below figure).

At 37,000 dwellings per annum, Sydney is currently producing more dwellings than London (32,000), despite having a population less than half the size. At the end of 2016, there were more cranes (528) servicing apartment construction down the east coast of Australia than in major cities across North America including New York, Boston, Chicago, San Francisco, Los Angeles, Toronto and up to Calgary (419 cranes). 50% of all cranes in the east coast of Australia are located in Sydney (258 cranes).¹



Source: <http://www.abc.net.au/news/2017-03-07/graph:-dwelling-completions-per-1,000-people/8331922>

Housing pressure is primarily caused by demand factors, not supply

Housing supply is a success story across Sydney and Australia. The affordability pressures facing the housing market, arise from demand-side factors, including monetary and fiscal settings and record high population growth, driven by net overseas migration.

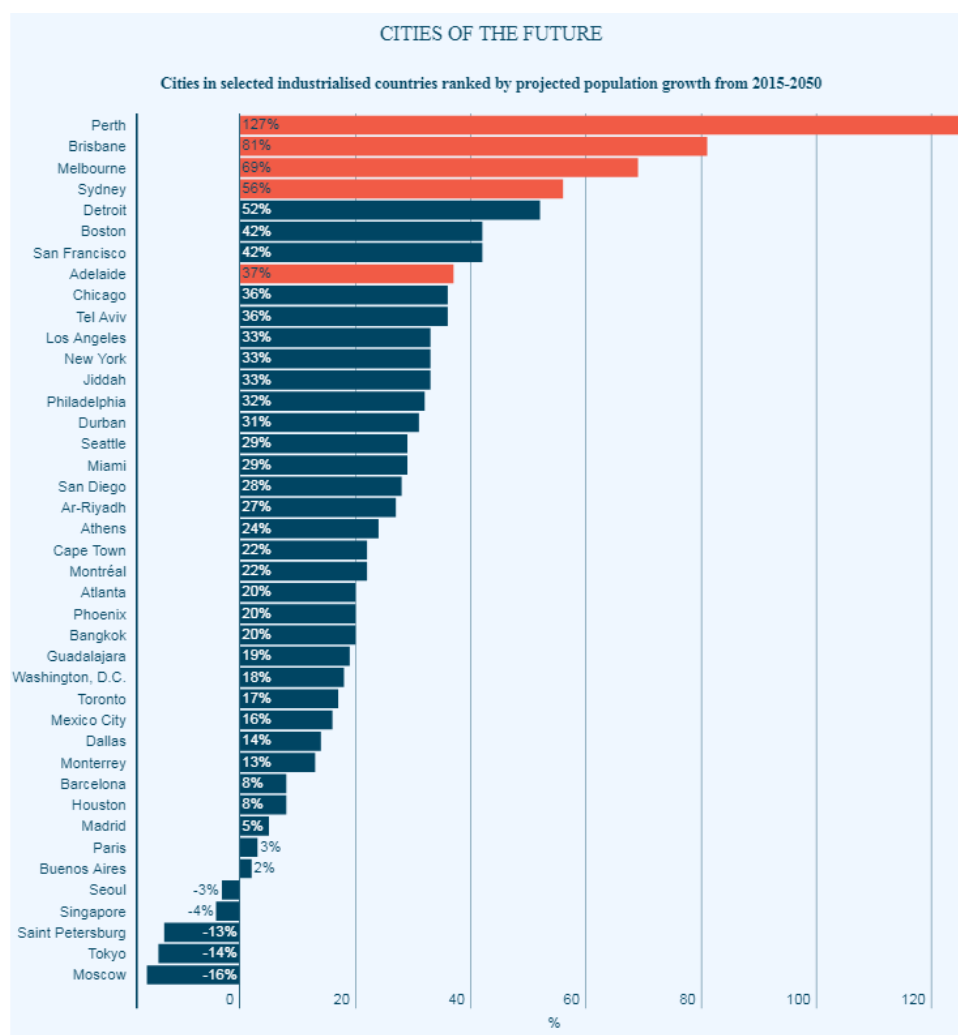
Both fiscal (the tax structure) and monetary policy (interest rates) settings play a role in influencing demand for the residential property market and hence the demand for approvals and supply. The taxation settings in Australia make investing in dwellings an attractive option. At the same time, the level of interest rates affect the purchasing power for dwellings and hence aggregate demand for dwellings. The interest rate level was a significant cause of Australian capital city dwelling price growth over a period of around 20 years. Both factors have increased the total volume of demand for dwellings by increasing the total number of investors in the market as well as the amount that each individual is willing to spend. These factors have increased house prices, which has increased the feasibility of renewal and housing delivery, driving the most recent boom in housing approvals and completions.

The population in Sydney has been growing rapidly, with annual change in Sydney significantly higher than the long run average. Annual growth in Sydney has averaged around 65,000 people since 2005, with a peak of almost 80,000 in 2009. This represents a marked shift from the longer term average of around 40,000 people through the 1980s, 1990s and early 2000s. Changes in national immigration levels, combined with the relative strength of Sydney's economy, tend to have a big impact on Sydney's population growth from a demand perspective. Furthermore, Sydney's forecast population growth rates (and those of other Australian capital cities) are expected to grow

¹ <http://www.abc.net.au/news/2016-10-21/real-estate-warning-more-cranes-in-australia-than-us/7954108>

at a faster rate than any other major OECD city (see below figure).

Therefore, the success of housing supply and delivery in Sydney is being masked by record high demand driven by fiscal and monetary settings and rapid population growth.



Source <http://media.theaustralian.com.au/multimedia/interactive-container/?id=1vPRMuxMxCiOTqb1zK88Sq3nJrUUmlGS7sodCS85b9ig>

Urban planning creates value and facilitates efficient and sustainable development

The rhetoric paints planning as a barrier – or even as a ‘tax on development’ and without evidence regards supply as a panacea for improving housing affordability. The importance of balancing other factors behind achieving a sustainable and productive city is ignored.

PIA disagrees and sees planning as a solution, but recognises we need to reframe the debate to demonstrate the value of planning. The planning industry works to improve access to housing - and is an enabler of sustainable growth and change. Our decision-making systems are not a barrier or tax on development.

Without good planning housing supply growth would lead to unsustainable costs and ultimately fall. Planning is critical to providing clarity and confidence for investments by markets so that they are able to deliver good development. It can improve the quantity and quality of land for

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development, ready land for construction, resolve ownership constraints, and bring forward investment by ensuring that the right infrastructure is in place. In these and other ways, planning can lower the overall cost of new development, open-up opportunities for development, and contribute to the creation of successful places over a long-term.

Growth should be accompanied by improvement in the liveability of a district. Planning for housing supply should not be considered in isolation of other planning outcomes. Our settlements integrate employment, housing and social and economic infrastructure needs in ways that promote the economy, liveability and sustainability of regions. Planners are well equipped to manage trade-offs, engage communities and achieve the over-arching objectives set out in our national best practice planning principles.

Planners should be pro-active role in shaping 'community compacts' – seeking agreements enabling housing supply growth together with the land uses, funding, infrastructure investment and services to deliver an accepted outcome.

Increased housing supply will not solve the affordability crisis in Sydney

Urban developer advocacy groups have traditionally emphasised the role that limited supply has in increasing house prices to advance their own agendas. Much of this messaging suggests that local zoning and planning policies have played a prominent role in protracted supply-side rigidities.

However, research focussing on the relationship between supply and affordability has found that increasing supply has a limited impact in increasing affordability in the short to medium-term and that the effects are generally localised. The supply of new housing will only have a marginal impact on housing affordability in markets where housing is regarded as an investment asset (e.g. Sydney) in addition to its role as shelter. There is a tendency for demand to increase as house prices increase at the start of the housing price cycle, as both first home buyers and investors are attracted into a rising market.

Developers cannot afford to sell their homes below current market prices, which means that housing supply rarely places any downward pressure on prices. Moreover, house prices are set in the established dwelling market (the stock of dwellings) that dominates housing supply, not just the additional 1-2% of new supply built every year. Related to this is that many sub-markets exist and one sub-market may be relatively unaffected by spikes in new supply in other sub-markets. Expert commentators have shown that the private sector cannot raise its delivery radically beyond what it is achieving at the moment – let alone a number that has any serious downward impact on prices.

Detailed econometric modelling on regional housing markets commissioned by the UK *Department of Communities and Local Government* examined the effects of different levels of housing supply on long-run affordability. The evidence from this research showed that "large increases in construction produce modest improvements in affordability" and that by simply increasing supply "it may be difficult, or impossible, to achieve affordability targets at sub-regional levels".² The reason being that increasing housing supply in small areas "generates strong population inflows, offsetting any improvement in affordability"; a phenomenon known as 'induced demand'.

The evidence shows that the proportional relationship (coefficient) between housing affordability

² Meen, G. *A Long-Run Model of Housing Affordability*, Housing Studies, Vol 26, 2011, 7-8.

and supply is around 1:5. In other words, an increase of housing supply by 20% would only increase affordability by 4%. In Sydney, annual dwelling completions increase housing supply by around 1-2% each year. If housing supply was geographically uniform (which it isn't), then this increase in supply would increase affordability by around 0.4%. Based on this relationship, it follows that even a doubling of housing supply won't have a significant impact on housing affordability in the short to medium-term (although it will in the longer term). This relationship is borne out in the evidence for Sydney, where annual housing supply doubling since 2011 was accompanied by an *increase* in houses prices by 40%. So, despite dwelling completions being at record high levels, house prices have continued to accelerate rapidly and are also at record highs. Housing supply is important to place downward pressure on prices in the long-term, but does not meaningfully decrease prices in the short or medium term.

House prices in Sydney have become unaffordable with evidence indicating that increasing supply alone, has little impact on house prices in the short or medium-term. Given that general increases in housing supply have only a limited trickle-down effect in making housing more affordable, there is a need for a more targeted approach to redress 'market failure' – via the delivery of dedicated affordable housing – especially for low income groups. While schemes such as inclusionary zoning don't represent a solution for the housing affordability challenge (the evidence points to demand side factors), they can play a supplementary role in improving the spatial distribution of affordable housing for low and very low income households.

Improving access to 'affordable housing' for very low to moderate income earners is a policy priority. The planning industry has a supporting role in enabling and promoting the supply of 'affordable housing' through inclusionary zoning, design innovation, funding mechanisms and development assessment processes.

Market forces have a far greater impact on approvals (and hence supply) than the planning system

Since 1950, the long run annual average dwelling completions in Sydney has been 20,000 dwellings per annum. Dwelling completions spiked at the end of the Long Boom in the late 1960s / early 1970s, again in the late 1990s / early 2000s and now most recently dwelling completions have reached record highs; at around 35,000 dwelling completions in the 2015/16 financial year. What is apparent from the data is that dwelling completions peak and trough. Although causality isn't clear the changes are likely to be a combination of market forces – the end of the Long Boom in 1972 corresponding with the OPEC Oil Crisis, microeconomic reform and financial deregulation leading to a low and stable interest rate environment throughout the 1990s – and regulatory/policy factors, such as the introduction of the *Conveyancing (Strata Titles) Act 1961*. Most recently record low interest rates and favourable tax concessions (negative gearing and capital gains tax concessions) to investment property have spurred the most recent boom in housing approvals.

To put this long-term aggregate dwelling supply into context, the housing target in the DPEs metropolitan strategy *A Plan for Growing Sydney* is 41,500 new dwellings per year (target of 664,000 new dwellings up to 2031) – double the long run trend for housing. Housing supply has generally hovered between 15,000 and 30,000 dwellings per year over the last 60 years, depending on market forces and cycles. There is no evidence to suggest that marginal changes to urban planning rules greatly affect the rate of supply. For instance, the recent jump in approvals and completions in Sydney has more to do with the higher house prices underpinning development feasibility than any recent changes in the planning system.

Given Sydney's urban footprint is physically limited and that housing supply and demand is

focused on sub-markets (i.e. additional dwellings on the urban fringe doesn't satisfy inner city demand), providing new dwelling supply each year becomes more difficult as the 'low hanging fruit' of easier development sites get picked off. There are also 'natural' constraints for housing supply. For example, the limitations and unresponsiveness of labour supply (apprenticeships taking years to complete) as well as the 'inelasticity of supply' (i.e. the lag between a market boom and site acquisition and dwelling completions, etc.). The long run trend also underscores the 'step-change' that would be required to deliver a rapid increase in supply, especially in the context of diminishing development sites.

The impact of planning costs on affordability is low

There has been a long-held position by the development industry that planning policy has a direct and unreasonable impact on development costs. Policies relating to development contributions, value capture and inclusionary zoning are often blamed for an increase in house prices with many arguing that these costs are 'passed on' to future home buyers. However, as compelling as this argument is, it is not borne out in the evidence and does not reflect the determinant of house prices.

The price of dwellings is determined by the market – the balance of supply and demand. In other words, house prices are not determined by costs, but by how much the market is willing to bear. Additional development costs cannot be 'passed on' to the end user beyond the achievable market price for a particular dwelling. So, the price of new dwellings will reflect the price of nearby existing dwellings, rather than the cost of construction. An important nuance to this argument is that planning policies that require physical changes to the built form – such as minimum dwelling sizes or minimum car parking requirements – can and will increase the price of a dwelling. However, this increase in price is driven by an increase in demand, rather than the higher development costs. That is, consumers are willing to pay a premium for larger apartments and car parking. For example, car parking can add between \$20,000 (undercroft - ground floor parking under a building) to \$60,000 (underground) to the cost of an apartment,³⁰ but in high value areas can typically add up to \$150,000 to the end price.

To assume that developers could pass on additional costs associated with the planning system, that don't impose built-form changes, implies that developers are currently selling houses below their market price; an unlikely proposition. In the short-term, if a developer had not accounted for a cost (such as value capture or an inclusionary zoning mandate), then these costs would be borne by the developer. In the medium to long-term, the expectations of these costs would be built into the development cost profile before a site is purchased and would therefore reduce the price landowners could achieve for development sites (effectively shifting the windfall 'planning gain' from private to public interests). Land values are, after all, a construct of the permitted uses for the site concerned. Therefore, it is the prevailing market rate that influences house prices, not planning costs and this important point should be made when responding to calls that planning is increasing the cost of housing.

Land taxation levers that can increase supply in land release areas

Costs or taxes that are applied to incentivise the land owner to sell into the market place will have a benefit increasing the supply of en globo land to market without impacting on demand for housing.

Taxation measures have a valuable role to play in increasing housing supply. The Government could consider removing land tax exemptions for agricultural enterprises or where land is held as the owner's principal place of residence, and increase the land tax rate to ensure land is not

withheld from the market, but only on land announced for release. This is reasonable given the cost of infrastructure invested in release areas and the benefit of facilitating large un-fragmented supply of development parcels required to produce an economic and efficient land release. If the land tax regime is to be reviewed, it should be acknowledged that developers are often forced to hold land for extended periods waiting for rezoning proposals to be gazetted or while staging the development of larger land parcels. Some set up agricultural enterprises or allow agistment and other agricultural uses to offset the hefty burden of land tax incurred in these periods. To deal with this, developers could be exempt from land tax if development is commenced on the property within (say) 12 - 18 months after rezoning and confirmation of lead-in services being available.

Supply of social housing has dropped off

Against the backdrop of a cyclical housing supply across Sydney, social housing delivery has fallen dramatically from 1970 when approximately 1000 social housing dwellings were commenced annually, to now where less than 100 social housing dwellings are completed annually.

Housing supply competing against other urban land uses

Planning for housing supply should not be considered in isolation of other planning outcomes. Our settlements integrate employment, housing and social and economic infrastructure needs in ways that promote the economy, liveability and sustainability of regions.

(Attachment A: Key elements of an effective infrastructure funding & delivery regime - overleaf)

ATTACHMENT A

KEY ELEMENTS OF AN EFFECTIVE INFRASTRUCTURE FUNDING & DELIVERY REGIME

Amendment to local infrastructure and state infrastructure levies is only a first step in towards comprehensive infrastructure funding reform. A holistic infrastructure funding regime related to development and property is required for Regional and District Plans to be integrated with infrastructure strategies and effectively implemented. It should address State Infrastructure Contributions, Section 94 / 94A contributions, Voluntary Planning Agreements, value capture, land tax, stamp duty and rate capping.

- (a) The overriding principle of any development contributions / infrastructure delivery scheme must be that it strikes an effective balance between:
 - (i) Consistent, certain and reasonable infrastructure contributions for developers
 - (ii) Certainty that the new communities will be provided with an acceptable standard of baseline infrastructure
- (b) The infrastructure needed to support development growth can be effectively achieved by:
 - (i) a properly researched infrastructure plan
 - (ii) a balanced funding mix
 - (iii) a nexus-based development contributions plan
- (c) There should be comprehensive infrastructure funding and delivery plans for Priority Growth Areas. The delivery plan should be underpinned by a funding mix, with the respective roles / shares to be provided by contributions, value sharing/betterment, special rates, grants, other taxes and charges. A comprehensive approach would see State and local infrastructure contributions and infrastructure schedules in the one plan for a Priority Growth Area.
- (d) At least indicative levels of State and local contributions and any value sharing arrangements must be made public at the same time that structure plans for Priority Growth Areas are publicly released. The charges should be predictable for land purchasers so that the full fair share of any value uplift created by subsequent rezonings is returned to the new community through infrastructure upgrades.
- (e) The State Government should be subject to at least the same level of accountability in contributions planning and management as that expected of local government. This includes basic reporting of receipts, expenditure and interest earned.
- (f) Suspension of the operation of all 'satisfactory arrangements' clauses in EPIs where the nature and extent of the satisfactory arrangements have not yet been determined. There should be no local or regional contributions requirements or 'gateways' imposed on development unless there is a costed and properly apportioned plan prepared.
- (g) DPE commit to a policy of converting all other satisfactory arrangements contribution rates to SICs. The current situation where residential subdivisions of just a few lots trigger the need for the applicant to enter into a VPA with the Minister for Planning, just so that the contribution toward State infrastructure can be authorised, is unacceptable.

- (h) Practice notes and / or training on the timely delivery of infrastructure contained in contributions plans. Matters include budgeting, programming, internally borrowing, promoting best practice in works in kind agreements, winding up plans, and minimising funding risk throughout the life of the plan.
- (i) Timely application of contributions: to address perceptions of hoarding the Government could look at encouraging all councils to pool funds (i.e. borrow between funds). For example, a Ministerial direction could require all councils in a given timeframe (say 5 years) to have their contributions expenditure at least match the total contribution amount received.
- (j) Government should retain but integrate s94F affordable housing contributions and SEPP 70 into a new holistic system potentially via a model affordable housing code. This should be the vehicle for delivery of developer-funded affordable housing that picks up the GSC's 5-10% inclusionary zoning target.
- (k) A major priority is to get the affordable housing inclusionary zoning standard embedded / locked into all Planning Proposals that enable extra development potential on a site. The future availability of key worker housing in accessible locations should not be left to vagueness. There is vagueness around the feasibility test. In principle, there should be no reason why more than 10 or 20% of the extra unearned development potential available to a landowner through rezoning in an inner or middle ring area cannot be returned to the community through affordable housing.
- (l) Either increasing or removing of the section 94 cap (and s94A amounts), so that clear pricing signals about the cost of developing land can be sent to the development industry. The industry cannot sustain the overnight removal of the cap, and so a phasing-in of the cap increase (or outright removal) needs to be implemented. *[PIA notes that the government has announced the gradual phase-out of the section 94 cap and looks forward to working with DPE on the transitional arrangements]*
- (m) Once an array of contribution requirements (State and local) are adopted for a particular area, they should remain in place for some years so as to provide certainty for development. Any significant change to the contributions regime should be phased in.
- (n) Clearer guidance for councils wanting to increase the maximum rate of section 94A levies they wish to apply to development in their area.
- (o) Practical guidance / best practice examples given to councils of implementing a properly planned value sharing scheme in their area.
- (p) State Government should support initiatives aimed at more efficient use of infrastructure, including strategies that minimise the acquisition of expensive land while maintaining the level of service to the populations of new development (e.g. joint use of school assets and retrofitting existing open space in high density areas to increase its carrying capacity).