Ms Sue Higginson MLC
Chair
Portfolio Committee Number 7 – Planning and Environment
Legislative Council

Dear Committee members

I write in relation to the question taken on notice from the Hearings held on Thursday 8th June, 2023. In particular, I refer to page 39 of the uncorrected proof as circulated.

Hon Jacqui Munro asked:

"I'm wondering if you have done any calculations on what the cost of interest on the borrowing is over those, say, three years of repayments. I think you said 15 per cent, perhaps. Is there any figure that you can put forward that might reflect that additional difference in cost?"

Answer:

If you assume an Urban Taskforce member is undertaking a large development of 1,000 new dwellings, the face value cost of this new HPC would be:

a. 1,000 x $10,000 if those dwellings are apartments = $10 Million
b. 1,000 x $12,000 if those dwellings are stand alone homes = $12 Million

If the HPC is payable at CC (prior to the issue of a construction certificate), the developer would need to borrow to fund this additional impost. CC is the point at which the developer is about to undertake the maximum drawdown on funding as construction is about to commence. A development of this size would take at least 3 years to construct. At the end of construction, after the PCA and the NSW Building Commissioner have completed their inspections, an occupation Certificate is issued.

It is reasonable to assume that most developers are unlikely to be able to obtain additional finance (that was not anticipated in the project feasibility analysis used to secure the funding) from the banks. It this circumstance, the developer would need to secure "secondary" or "mezzanine" finance where interest rates charged are typically 15%pa.

The compound interest paid on $10 million over a 3-year loan (assuming that the interest compounds monthly) at 15% is $5.64 million.

The compound interest paid on $12 million over a 3-year loan (assuming that the interest compounds monthly) at 15% is $6.77 million.

As shown, there are significant costs associated with levying the HPC at CC rather than OC. Urban Taskforce predicts that there HPC as proposed, if levied as is currently planned at CC, will have a significant dampening effect on housing supply, resulting in further increases in new home prices and further upward pressure on rents.

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