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# Release the pressure:

## Alleviating taxes and charges to build new homes

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## ACKNOWLEDGEMENT OF COUNTRY

Savills acknowledges the Gadigal people of the Eora Nation as the traditional and continuing Custodians of the land on which Savills is located and operates. We pay respect to Elders past, present and emerging and recognise their cultural and ancestral connections to the land, skies and waters of the sites under investigation throughout this report.

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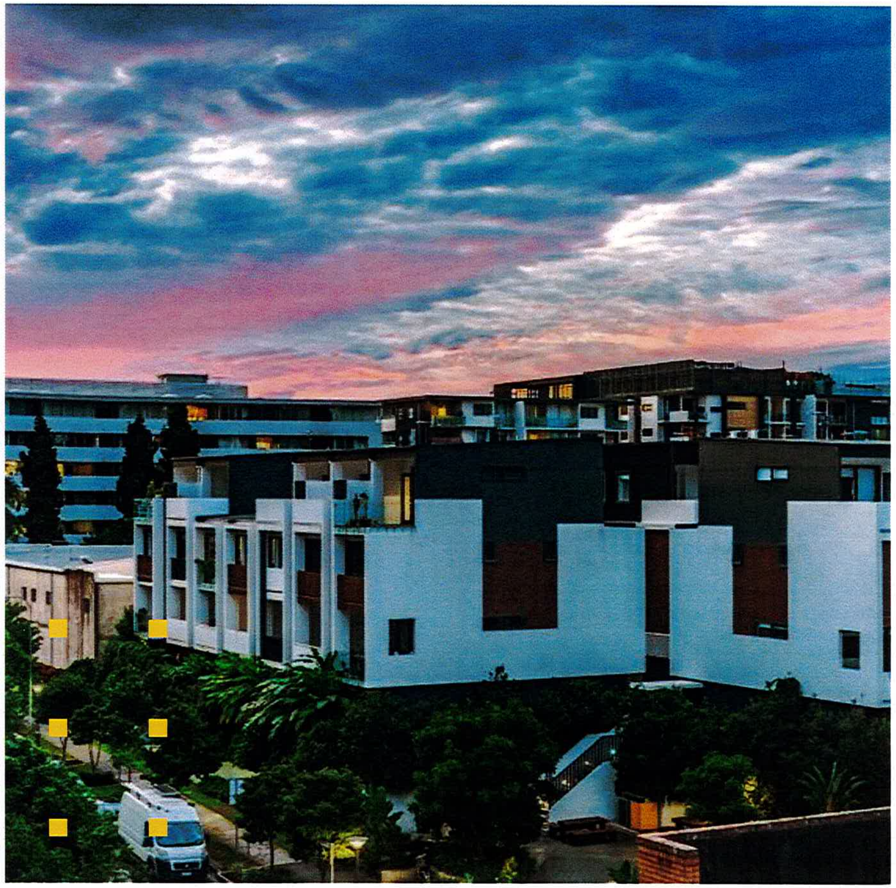
# Table of **contents**





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RELEASE THE PRESSURE

# Executive Summary

# Executive Summary

Everyone deserves access to quality housing and choice to suit their stage of life. Yet, housing is the single biggest cost for most of us. High housing costs mean too many people must live in housing stress which lowers productivity and threatens sustainability.

Many people worry whether they will ever be able to afford their own home. In fact, almost three quarters of young Australians believe they will never be able to buy a home[5].

As home prices and rents have increased sharply, public attention has focused on what governments can do to make housing more affordable and reduce the costs of living. There is broad consensus among experts that the best way to improve housing affordability is to increase supply.

However, there are significant barriers in place constraining the development sector's ability to bring desperately needed homes to market.

To help shine a light on these barriers, the Property Council has engaged Savills to develop a three-part report examining the impacts of increased taxes and charges on housing supply and affordability across the six cities region.

Since 2018, NSW Government has introduced a swathe of new taxes and charges including Sydney Water developer contributions (up to $45,000 per house) and Housing and Productivity Contributions (up to $12,000 for houses). Many Councils have also increased the taxes and charges applied to residential projects with some Councils charging over $60,000 per house.

**In the Western Parkland City alone, Government taxes and charges add up to a staggering 33% to the cost of residential development, acting as a handbrake on new housing supply.**

This first report examines the impact of taxes and charges on residential development feasibility in two locations, which 'traditionally' have been strong contributors to new housing in Sydney:

- Central River City (Parramatta, The Hills, Cumberland, Blacktown and Georges River Local Government Areas)
- Western Parkland City (Blue Mountains, Camden, Campbelltown, Fairfield, Hawkesbury, Liverpool, Penrith and Wollondilly Local Government Areas)

## Key Findings:

- Planned increases in taxes and charges (Sydney Water contributions, Housing Productivity Contributions, or HPC) will make many residential developments unfeasible.
- A typical 250-unit apartment development and a 115-lot greenfield development in both the Central River City and Western Parkland City is no longer financially feasible in 2024.
- Suspending Sydney Water developer contributions and HPCs within the Western Parkland City are the single biggest lever that can be pulled to make residential development feasible.
- Implementing a maximum 12-month planning approval pathway will reduce holding costs, increase developer certainty and further improve development margins, thereby unlocking projects that contribute to supply. Planning reforms that target even faster timeframes (eg: 6-9 months) will further boost developer confidence.

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# Feasibility results Central River City

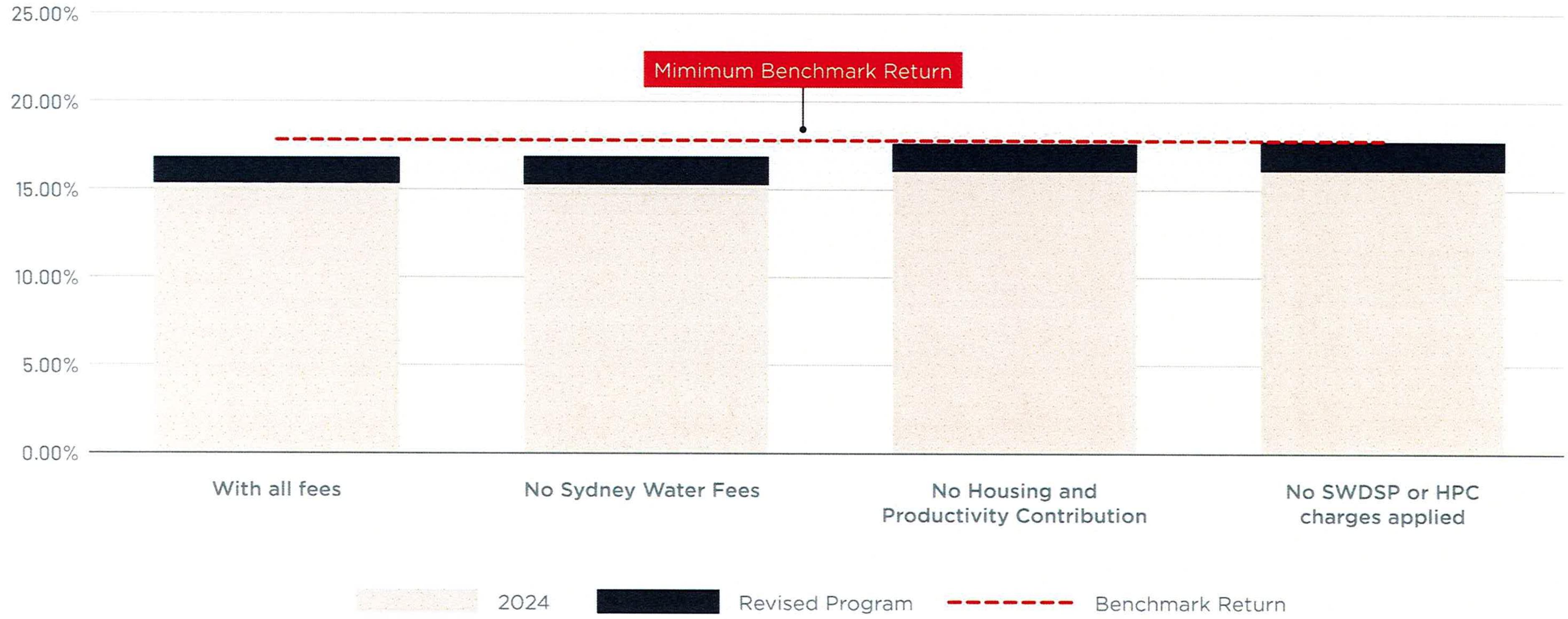


Figure 1 – The impact of changing State Government taxes and charges and faster planning approval timeframes c. 250-unit apartment project in Central River City

# Feasibility results Central River City

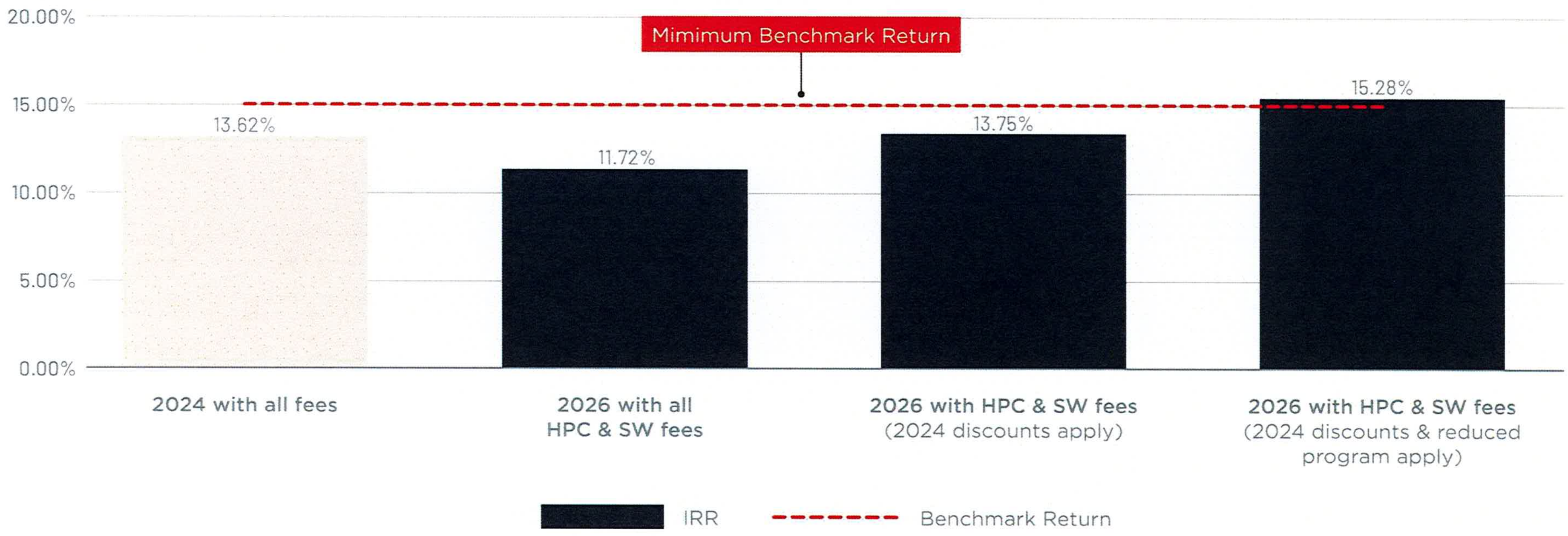


Figure 2 – Impact of changing taxes and charges and approval times in 2026 for a hypothetical Greenfield project in the Central River City

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# Feasibility results Western Parkland City

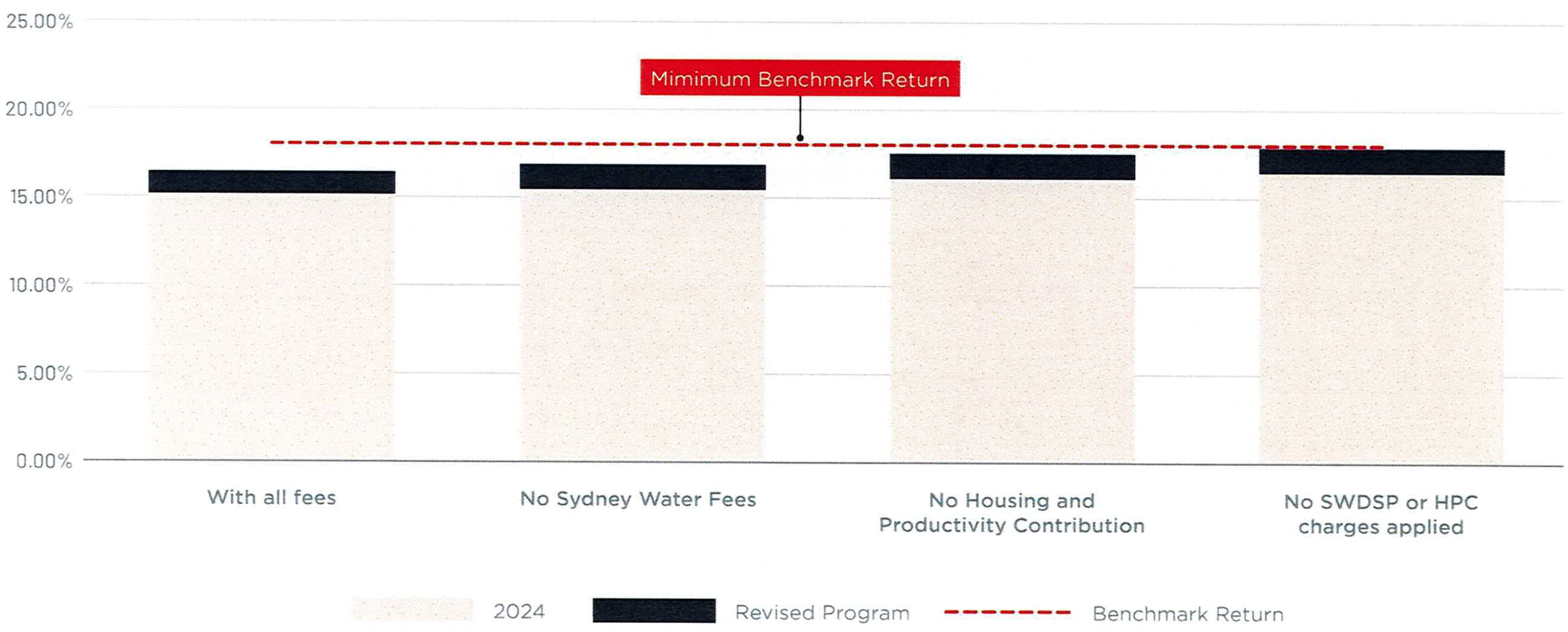


**Figure 3: The impact of changing State Government taxes and charges and faster planning approval timeframes c. 250-unit apartment project in Western Parkland City**

# Feasibility results Western Parkland City

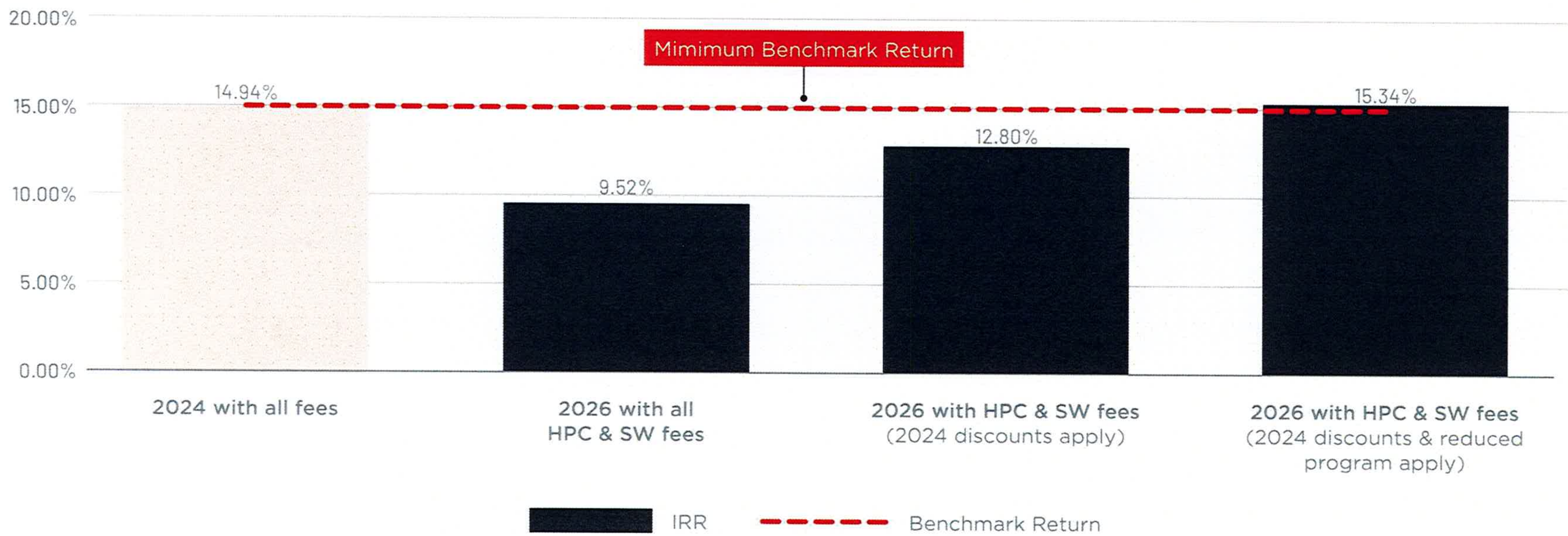


**Figure 4:** Impact of changing taxes and charges and approval times in 2026 for a hypothetical Greenfield project in the Western Parkland City

# The benefit of Government action

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Savills forecasts that having **no increases in taxes and changes and faster approvals would help deliver** almost 190,000 new homes in Sydney in the 5 years to 2029, comprising:

- Around 77,500 new homes in the Central River City;
- Around 50,000 new homes in the Western Parkland City; and
- Around 62,000 new homes in the Eastern Harbour City.

This is almost 60,000 more than the low forecast and 35,000 more than the high forecast in the Sydney Housing Supply Forecast across the Eastern Harbour, Western Parkland, and Central River Cities.

### CENTRAL RIVER CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Central River City would help deliver ~ 77,500 new homes.

- This is ~ 33,500 higher than a continuation of actual completions in 2022/23 (circa 44,000 extra dwellings forecast over 5 years).
- This is ~ 21,000 higher than the Sydney Housing Supply Forecast Low Scenario (circa 56,500 extra dwellings forecast over 5 years).
- This is ~ 11,000 higher than the SHSF High Scenario (circa 66,500 extra dwellings forecast over 5 years).

### WESTERN PARKLAND CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Western Parkland City would help deliver ~ 50,000 new homes.

- This is ~ 16,000 higher than a continuation of actual completions in 2022/23 (circa 34,000 extra dwellings forecast over 5 years).
- This is ~ 19,500 higher than the Sydney Housing Supply Forecast Low Scenario (circa 30,500 extra dwellings over 5 years), which is even lower than a continuation of 2022/23 which had the lowest completions in years).
- This is ~ 16,500 higher than the SHSF High Scenario (circa 33,500 over 5 years), which is around the same as a continuation of the number of completions in 2022/23, which had the lowest completions in years.
- Savills' view is our forecast for the Western Sydney Parkland could potentially be higher, however we are concerned that getting more sites serviced is currently taking a long time.

# The benefit of Government action

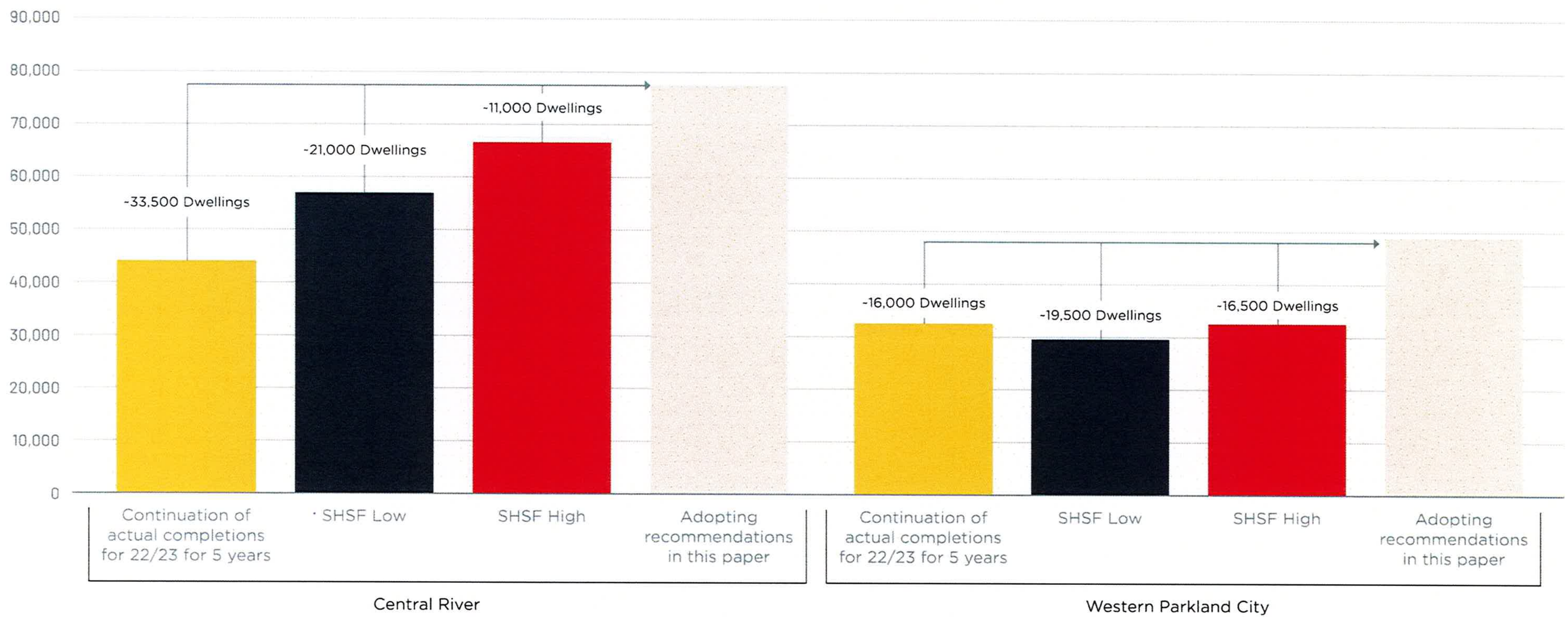


**Figure 5 – The forecast impact on housing supply of reducing State Government taxes and charges and faster planning approval timeframes in Central River City and Western Parkland City**

# The cost of doing nothing

Conversely, continuing under current conditions is untenable. Without suspending taxes and charges and compressing planning timeframes, housing supply in the Central River City and Western Parkland City is likely to remain suppressed, with completions hovering at recent historic lows.

Savills modelling indicates that without undertaking any action:

- There would be around 71,000 dwellings built across Western Parkland City and Central River City combined between June 2024 and June 2029 (the Housing Accord period):
  - Around 44,000 new homes will be delivered in the Central River City during the Accord period; and
  - Around 27,000 new homes will be delivered in the Western Parkland City during the Accord period.

**Suspending taxes and charges and compressing timeframes has the potential to significantly boost housing supply to over 126,000 dwellings in Central River City and Western Parkland City, which is 55,000 dwellings more than if there is no action to reduce residential taxes and charges.** The opportunity loss of suppressing housing supply has negative flow-on impacts to the NSW economy and will contribute to the current housing affordability crisis. The loss of revenue as a direct result of reduced stamp duty will further tighten the NSW Government's spending power.

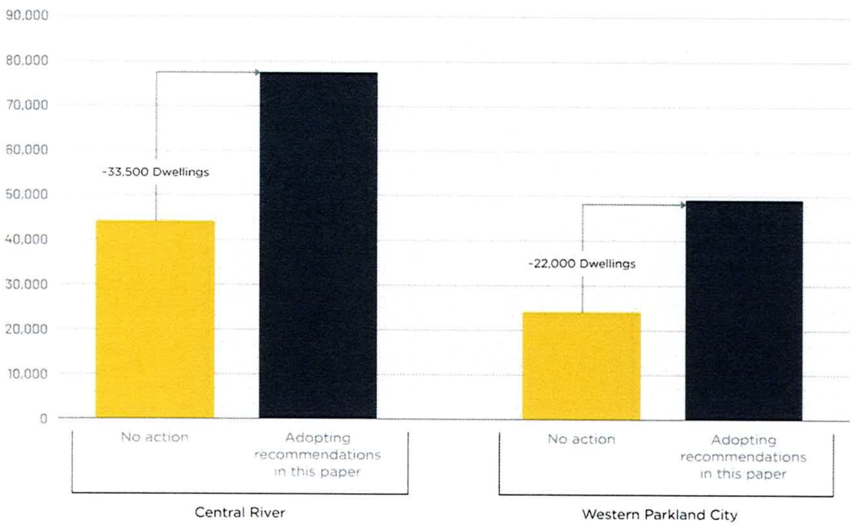


**Figure 6 – Forecasting housing supply in Central River City and Western Parkland City with and without action**

# What **actions need to be taken**

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The Property Council recommends the NSW Government:

1. **Introduce a moratorium on new taxes and charges for the duration of the Housing Accord period**

The feasibility modelling by Savills indicates just the existing taxes and charges make many new residential developments in the Central River City and Western Parkland City unfeasible. The development industry has broadly come to terms with the requirement for 2 per cent contributions for Affordable Housing where development uplift is provided under the Transport Oriented Development State Environment Planning Policy - but have concerns about the practical implementation of this charge. However, there is no capacity to absorb new taxes and charges with many new residential developments already unfeasible.

2. **Suspend Sydney Water DSP and HPC charges for the duration of the Housing Accord period.**

The feasibility forecasting by Savills indicates planned increases in taxes and charges on residential development have impacted present day feasibilities and will make many residential developments even more unfeasible in 2026. The NSW Government is currently discounting Sydney Water developer contributions and HPCs, however the phased introduction of these will result in charges more than doubling by 2026. Suspending Sydney Water contributions and HPCs would help make most apartment developments and more greenfield development in the Central River City and Western Parkland City feasible.

3. **Accelerate the implementation of planning processes that reduce planning approval timeframes by a minimum 6 months.**

It is often taking longer to get a new apartment or greenfield project approved than it takes to build it. Long development approval timeframes in some Council areas and significant delays including getting approvals and infrastructure completed by Transport for NSW and Sydney Water are adding years and substantial costs to projects. Getting planning approvals just 6 months quicker makes a significant difference to development feasibility. Reducing planning approval timeframes by 6 months makes a significant difference to development feasibility.

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# 01

RELEASE THE PRESSURE

# Introduction

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# Introduction

### Background

New South Wales is Australia's premier state – we have the largest economy, the largest population and attract the most tourists[1]. We also have a severe housing crisis. There is not enough housing being built and housing is getting even more unaffordable. These housing problems are particularly bad in Sydney, the Illawarra, the Lower Hunter and the Central Coast (the Six Cities Region) where almost 80% of the population lives[2].

Housing is the single biggest cost for most of us. High housing costs mean too many people must live in housing stress which lowers productivity and threatens sustainability.

As home prices and rents have increased sharply, public attention has focused on what governments can do to make housing more affordable and reduce the costs of living. Many people worry whether they will ever be able to afford their own home. In fact, **almost three quarters of young Australians believe they will never be able to buy a home**[3].

Initial interventions relied on financial levers such as reducing the size of mortgage deposits, increasing stamp duty concessions and expanding eligibility for the First Home Buyers Scheme and directly subsiding purchases through schemes such as the First Homeowner's Grant. At the same time, new taxes and charges on residential development and existing taxes have increased significantly.

Many taxes and charges increase with inflation which has grown at 3.4% per annum **while median prices for units have increased by only 1.5% per annum in the last five years**[4].

New housing completions combined – across 42 Local Government Areas in Sydney, Central Coast, Lower Hunter and Illawarra - Shoalhaven – are at their lowest rate for over a decade and are not keeping up with demand. This has resulted in a housing shortfall of over 40,000 dwellings over the past 5 years[5].

In August 2023, the National Cabinet, including NSW Government, agreed to a new National Housing Accord (Housing Accord) target to build 1.2 million new homes over 5 years from 1 July 2024 to 30 June 2029. Under the Housing Accord, the NSW Government has a goal to deliver:

- 376,000 extra homes or 75,200 each year in NSW; and
- 292,800 extra homes or 58,560 each year the Six Cities Region.

Government forecasts for the Six Cities Region show dwelling completions significantly below the Housing Accord Target. Supply forecast data indicates there is the potential to deliver around 182,000 extra homes or around 36,400 extra homes each year, which is at least **100,000** homes short of Housing Accord targets over the next 5 years[6].

# Introduction

The NSW Government is introducing welcome policies to combat the housing crisis, including Transport Oriented Development and the Low and Mid-Rise Housing reforms. However, given the scale of the historic shortfall and agreed targets in the Housing Accord, urgent additional action is needed to help industry deliver more well-located and more affordable homes in the right locations.

The implementation of the Housing Accord relies on an optimal regulatory and operating environment within which market and affordable housing can be boosted and accelerated. The NSW Government has limited direct impact on construction costs, consultant's fees or interest rates, which are set in a competitive market or via lenders.

The NSW Government can however have a major direct impact on government fees and charges applied to residential property development. These costs on homes have been rising as new taxes are introduced and existing charges increase rapidly with inflation. This is reducing project feasibility and contributing to the state's housing crisis.

To respond to the current crisis, the Property Council has engaged Savills to develop a three-part report examining the impacts of increased taxes and charges on housing supply and affordability across the six cities region.

**Report Purpose**

This is the first report in the series examining the impact of taxes and charges on residential development feasibility.

This report focuses on the:
- Western Parkland City (Blue Mountains, Camden, Campbelltown, Fairfield, Hawkesbury, Liverpool, Penrith and Wollondilly Local Government Areas and
- Central River City (Parramatta, The Hills, Cumberland, Blacktown and Georges River Local Government Areas) which as sub-regions have 'traditionally' been strong contributors in accommodating new housing.

The report aims to:

- identify the process, timing and cost of developing new housing;
- summarise residential activity between 2018 and 2024;
- clearly and simply establish the full extent of development costs and charges; and
- review the impacts of taxes and charges on residential development including impacts within the Housing Accord period under various scenarios such as capping, suspending or discounting costs and charges (temporarily and permanently).

The Property Council plans to release two future reports for:

- Eastern Harbour City and the Illawarra - Shoalhaven City; and
- Central Coast City and Lower Hunter / Newcastle City.

# Our **methodology**

Figure 7 outlines the process and key steps we have undertaken during the preparation of this Report.

| Step | Stage | Description |
| --- | --- | --- |
| 01 | Summarise residential activity | Data collection and validation of forecasts, approvals and completions. Key growth areas/ precincts confirmed. |
| 02 | Define the typical development process | Identify key steps and their duration from site selection to delivery. |
| 03 | Identify applicable taxes and charges | Identify the number, type and amount of taxes and charges. |
| 04 | Determine average costs and revenues | Determine indicative average construction costs and revenues for residential development. |
| 05 | Establish hypothetical development scenarios | Establish the hypothetical developments to be tested in each of the six cities regions and input into Estate Master. |
| 06 | Undertake industry engagement | Engage with residential developers to validate the assumptions adopted under Steps 02 - 05. Refine Estate Master models. |
| 07 | Run modelling scenarios | Run Estate Master models testing different scenarios with and without taxes and charges |
| 08 | Refine modelling results | Address feedback from Property Council and refine models as required |
| 09 | Reporting and publication | Document and assess results |

**Figure 7 - Methodology**

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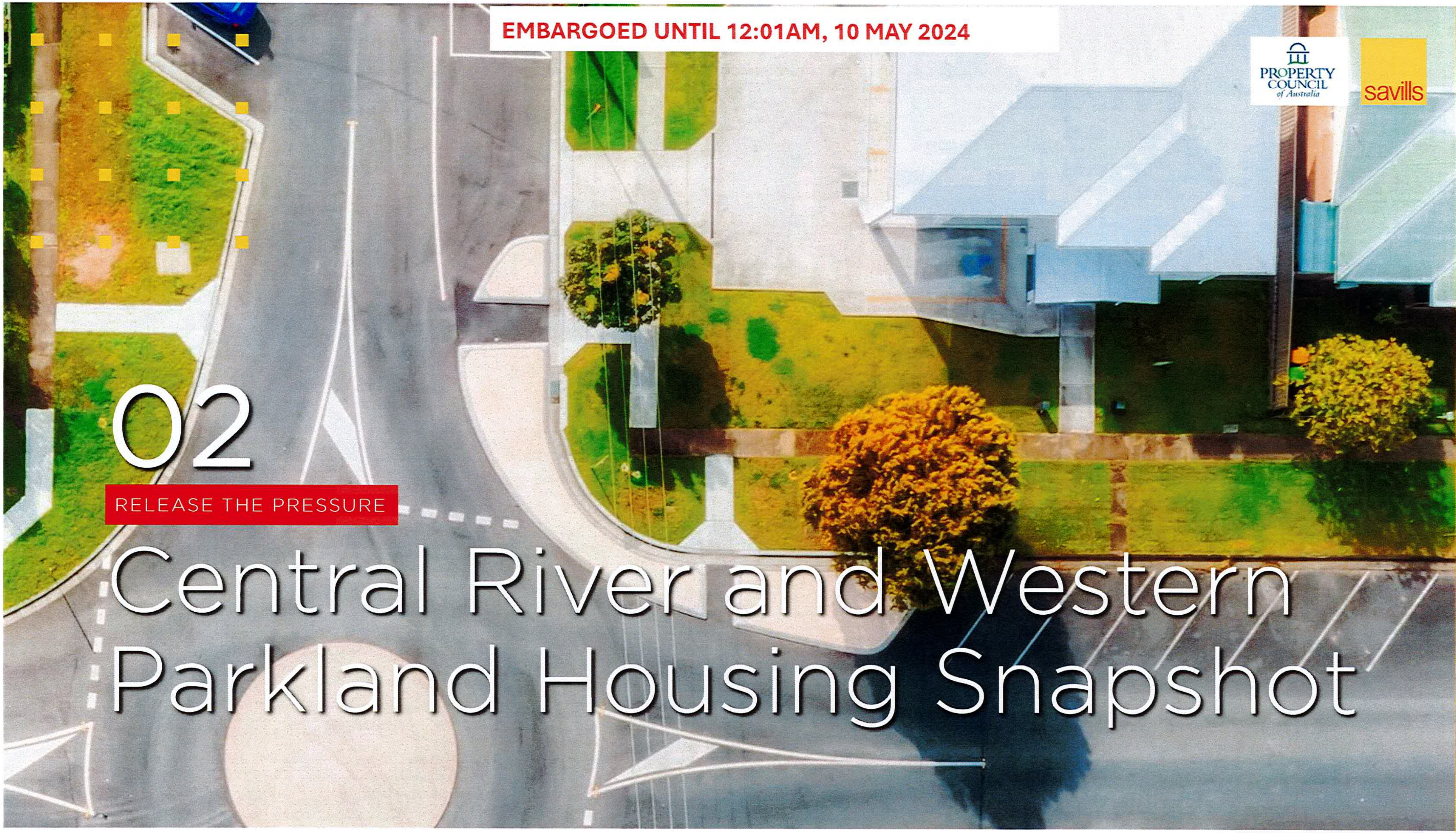

# 02

RELEASE THE PRESSURE

# Central River and Western Parkland Housing Snapshot

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# Central River City **housing supply and demand**

The NSW Government has set the following dwelling targets for the Central River City in recent years:

| Period | Dwellings | Avg per annum |
|---|---|---|
| 5 Year Housing Target (16/17 - 20/21) | 71,550 | 14,310 |
| Housing Accord (estimated target for the Central River City 24/25 - 28/29)* | 89,557 | 17,159 |
| 6-10 Year Housing Target (21/22 - 25/26) | 72,110 to 74,310 | 14,422 to 14,862 |
| 20 Year Housing Target (16/17 - 35/36) | 276,050 | 13,803 |

Source: Greater Cities Commission and Savills adopting % of GCC target to Central River City

The Central River City's most productive year was FY 17/18 when just short of 15,000 dwellings were completed (10,164 multi units and 4,826 dwelling houses). This same 12-month period is the only time that the Central River City met the dwelling target set by the NSW Government - with 680 more dwellings constructed than the target of 14,310 dwellings

The factors contributing to higher completions in FY 17/18 include lower taxes and charges on development than today, a static interest (cash) rate since 2016, lower APRA lending restrictions and lower foreign investment restrictions. However, compared to a few years earlier sales in greenfield areas were typically lower than in 2012 - 2014, as the market became supply constrained.

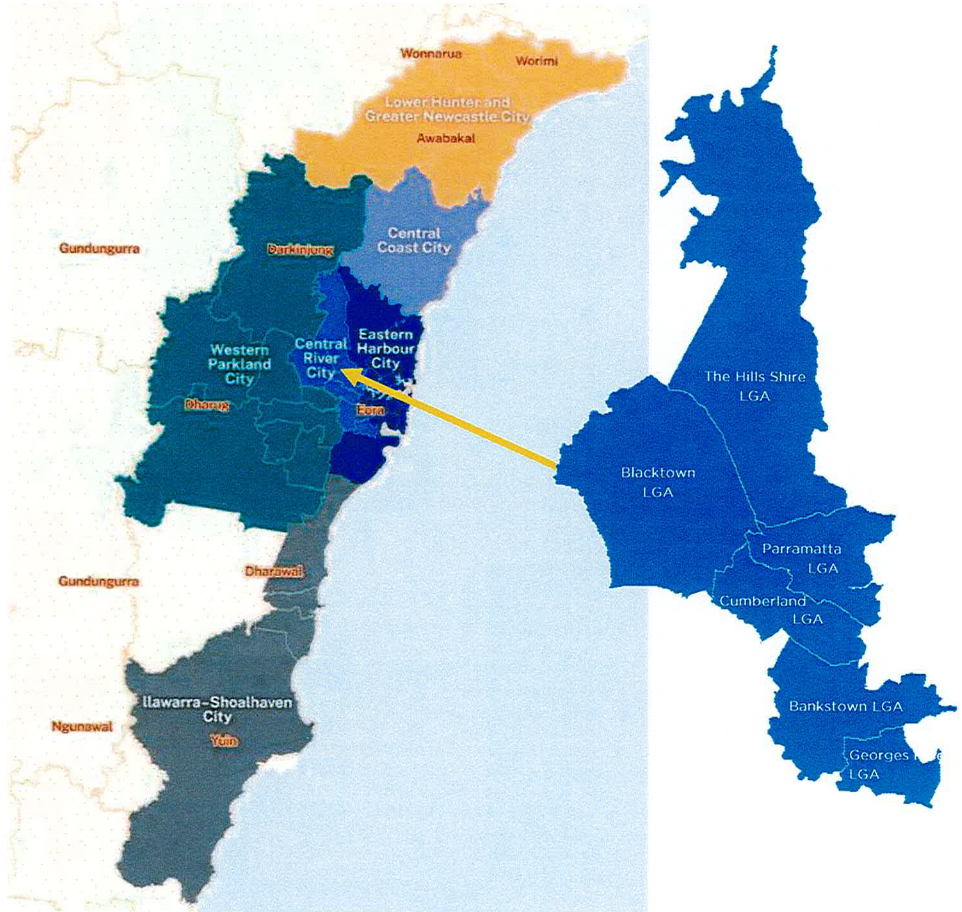


Figure 8 - Central River City

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# Central River City **housing supply and demand**

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Since 2018, **completions in the Central River City have consistently fallen well short of the published dwelling targets, resulting in a cumulative shortfall of over 12,000 dwellings by 30 June 2023** (Figure 9).

The Six Cities share of the Housing Accord Target is 292,800 dwellings, or 58,560 dwellings per annum.

To achieve the Housing Accord, the Central River City would need to contribute 89,557 extra homes, or over 17,900 extra homes each year from 2024 until 1 July 2029.

However, NSW Government forecasts for the Central River City show dwelling completions are expected to be significantly below the Housing Accord target. The Department of Planning, Housing and Industry's (DPHI) Sydney Housing Supply Forecasts (SHSF) projects just over 60,000 net completions or just over 12,000 extra homes each year. **This is a shortfall of over 28,000 dwellings just in the Central River City over the next 5 years.**


Source: ABS, Greater Cities Commission and Savills

**Figure 9 – Housing supply vs Government targets over the past 5 years**

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# Western Parkland City **housing supply and demand**

The NSW Government has set the following dwelling targets for the Western Parkland City in recent years:

| Period | Dwellings | Avg per annum |
|---|---|---|
| 5 Year Housing Target (16/17 - 20/21) | 39,850 | 7,970 |
| Housing Accord (estimated target for the Central River City 24/25 - 28/29)* | 59,856 | 11,971 |
| 6-10 Year Housing Target (21/22 - 25/26) | 39,934 - 49,434 | 7,987 - 9,887 |
| 20 Year Housing Target (16/17 - 35/36) | 184,500 | 9,225 |

Source: Greater Cities Commission and Savills adopting % of GCC target to Central River City

The Western Parkland City's most productive year was FY 18/19 when just over 10,100 dwellings were completed, following a relatively strong 17/18 with over 9,000 extra dwellings.

The factors contributing to higher completions in FY 17/18 and FY 18/19 included lower taxes and charges on development than today, a static interest (cash) rate since 2016, lower APRA lending restrictions and lower foreign investment restrictions. However, compared to a few years earlier sales in greenfield areas were typically lower than in 2012 - 2014, as the market became supply constrained.

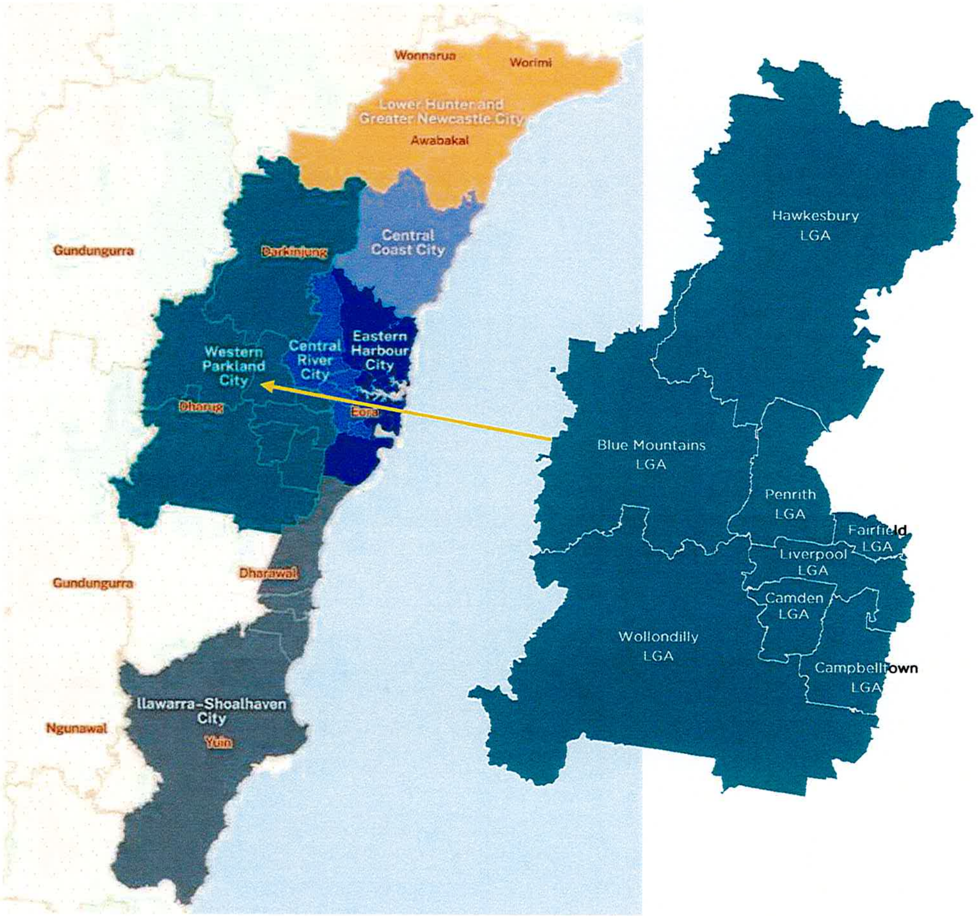


Figure 10: Western Parkland City

# Western Parkland City **housing supply and demand**

**Completions in the Western Parkland City have started to fall below published dwelling targets, resulting in a cumulative shortfall of almost 4,000 dwellings by 30 June 2023** (Figure 11).

The Six Cities share of the Housing Accord Target is 292,800 dwellings, or 58,560 dwellings per annum.

To achieve the Housing Accord, the Western Parkland City would need to contribute 59,856 extra homes, or over 11,971 extra homes each year from 2024 until 1 July 2029.

However, NSW Government forecasts for the Western Parkland City show dwelling completions are expected to be significantly below the Housing Accord target. The Department of Planning, Housing and Industry's (DPHI) Sydney Housing Supply Forecasts (SHSF) projects around 30,000 net completions or just over 6,000 extra homes each year. This is a shortfall of over 28,000 dwellings just in the Western Parkland City over the next 5 years.


Source: ABS, Greater Cities Commission and Savills

**Figure 11 – Housing supply vs Government targets over the past 5 years**

# Boosting **housing supply**

Initiatives to boost housing supply are critical to achieve the Housing Accord targets. Increasing the supply of well-located and well-designed housing is also important for a range of reasons including those put forward by the NSW Productivity Commissioner[7].

Increasing housing supply:

- reduces the price of housing with a 10% increase in housing supply reducing the cost of housing by 25%;
- boosts the economy;
- supports more dwellings that are more affordable for lower- and middle-income households;
- potentially reduces homelessness through improved housing affordability;
- supports more families access good schools;
- boosts wages and innovation; and
- reduces commuting costs and emissions.

New housing will only be developed if it is feasible for developers, banks and occupiers. Developers regard a project as feasible when it generates an appropriate return. Given most developers need to borrow money to fund a new development, banks and financiers also want to ensure they will be repaid, and that a proposed development generates an appropriate return. Larger developers are also required to make a return for their shareholders, and many will compare investments across asset classes.

For both smaller and larger developers there are a range of risks associated with development and the return for a developer seeks to account for these risks and the lending and return requirements imposed by banks.

There are several factors which determine whether a property development is financially feasible:

- project timelines and delays;
- costs, including taxes and charges;
- revenues; and
- project risks.

The Government can directly control taxes and charges and approval and servicing timeframes which are acting as a handbrake to the supply of new housing.

# 03

RELEASE THE PRESSURE

# Time is money

# The typical **development process**



The old saying that 'time is money', applies to property development. A project delay means extra holding costs and interest costs and often an increase in building costs.

There are many stages involved in getting new homes built. In today's environment, delivering homes takes a long time and is subject to arduous planning and approval processes. Over the average project, a developer needs to pay interest costs and land holding costs.

As shown Figure 12, construction costs have increased exponentially. **Since the COVID pandemic building costs have increased by 6.0% per annum[1] and inflation has increased at over 3.4% per annum[2].** It is accordingly critical for Government to help reduce approval times to drive housing supply.

Previous research indicates that on average it takes 5-7 years from when an area is first identified for new houses to when new homes can be built. Given this report focuses on the next 5 years, the hypothetical scenarios assume the sites are zoned and serviced.

**Apartments/Infill**
The typical process for apartments in the Central River City is illustrated in Figure 13 while an extended timeframe, representing a worst-case scenario, is shown in Figure 14.

On average it takes over 4 years for a 250-unit project to be developed assuming the site is already zoned.

- Rezoning: DPHI's LEP Plan Making Guidelines indicate that the typical timeframe for a rezoning seeking a land use change and/or introduction of development controls is approximately 420 days. This would extend the development process if the site was not appropriately zoned.
- Planning / design – A developer needs to prepare DA plans and a host of studies to support the DA.
- Approvals – on average it takes between 200 – 600 days (9 – 18 months) for a local council to assess a development application for a new apartment. This can be longer than it takes to build the new apartments.
- Commencement (pre-sales) – the Australian Bureau of Statistics[3] reports on average it take 6 months from the approval to the start of construction on new apartments in NSW. This varies according to the size of the development with larger projects taking longer to get pre-sales to satisfy lenders, engage the builder and complete site establishment activities.
- Construction - The Australian Bureau of Statistics reports[4] that it takes an average 20 months from the start to the end of the construction stage of a new apartment in NSW. This depends on the size of the development with a longer period for the larger project.

# The typical **development process**

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### Greenfield

The typical process for greenfield development in the Central River City is illustrated in Figure 15 while an extended timeframe, representing a worst-case scenario, is shown in Figure 16.

On average it takes over 2.5 years for a circa 100 lot subdivision to be developed assuming the site is already zoned and serviced.

- Rezoning: DPHI's LEP Plan Making Guidelines indicate that the typical timeframe for a rezoning seeking a land use change and/or introduction of development controls is approximately 420 days.
- Planning and design: This Report assumes the Greenfield development is a single stage in a larger estate / masterplan.
- Approvals: This Report assumes planning approvals take 13 months. This is a conservative assumption, as developers we engaged with advised approvals from Sydney Water are often taking longer.
- Commencement: The project would proceed once the developer has achieved sufficient pre-sales.
- Construction: The construction is assumed to potentially include civil works and internal servicing to make the site ready to sell to build a house.

# Time is money

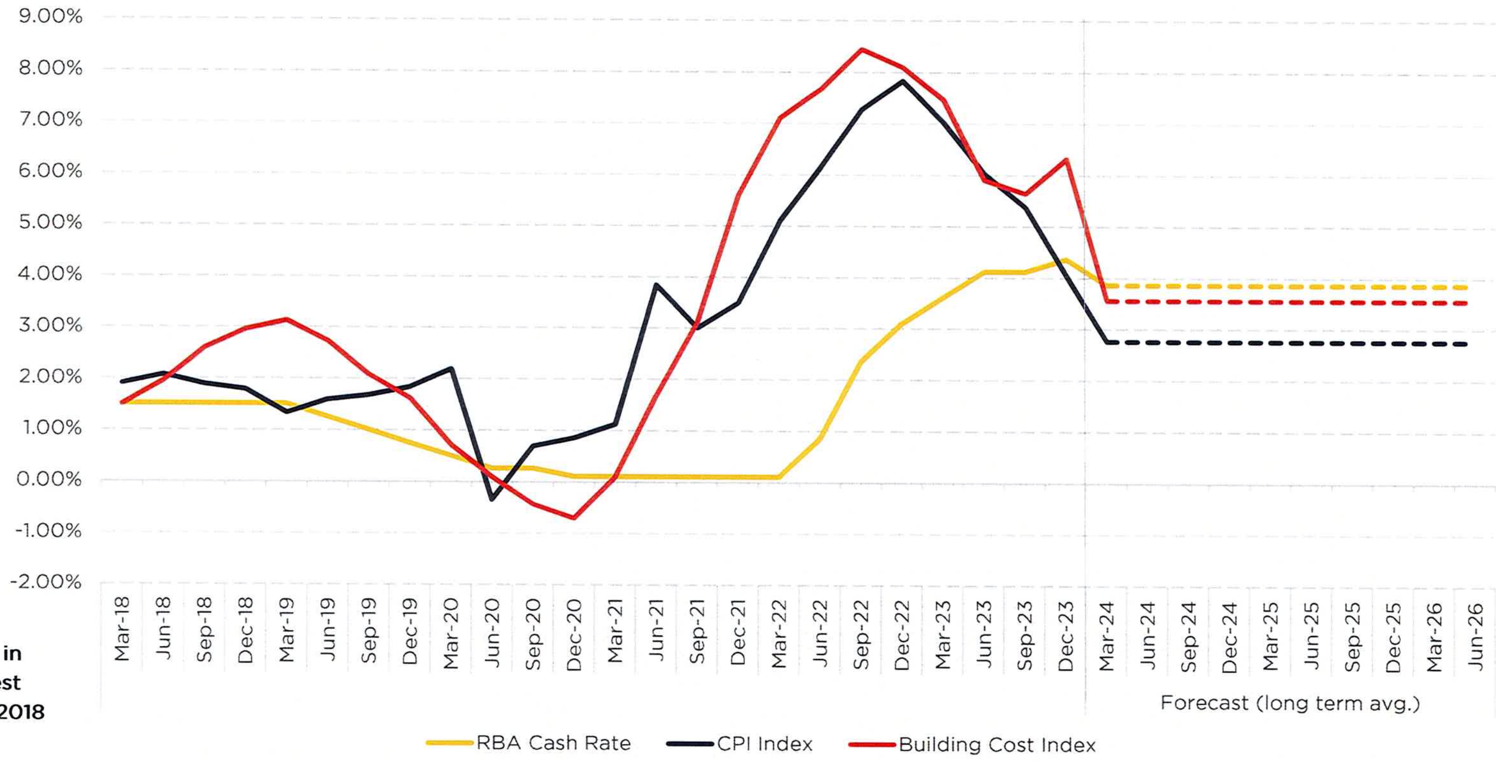


**Figure 12 – Change in construction, interest and inflation since 2018**

Figure 12 shows there has been a significant increase in construction costs and inflation (CPI) over the last couple of years. Interest rates have also increased from historic lows. As such the saying "time is money" applies to residential property development as these costs and taxes and charges, often tied to inflation, have been increasing quicker than the revenues developers receive for new apartments or land for housing.

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# Typical timeline **infill residential development**

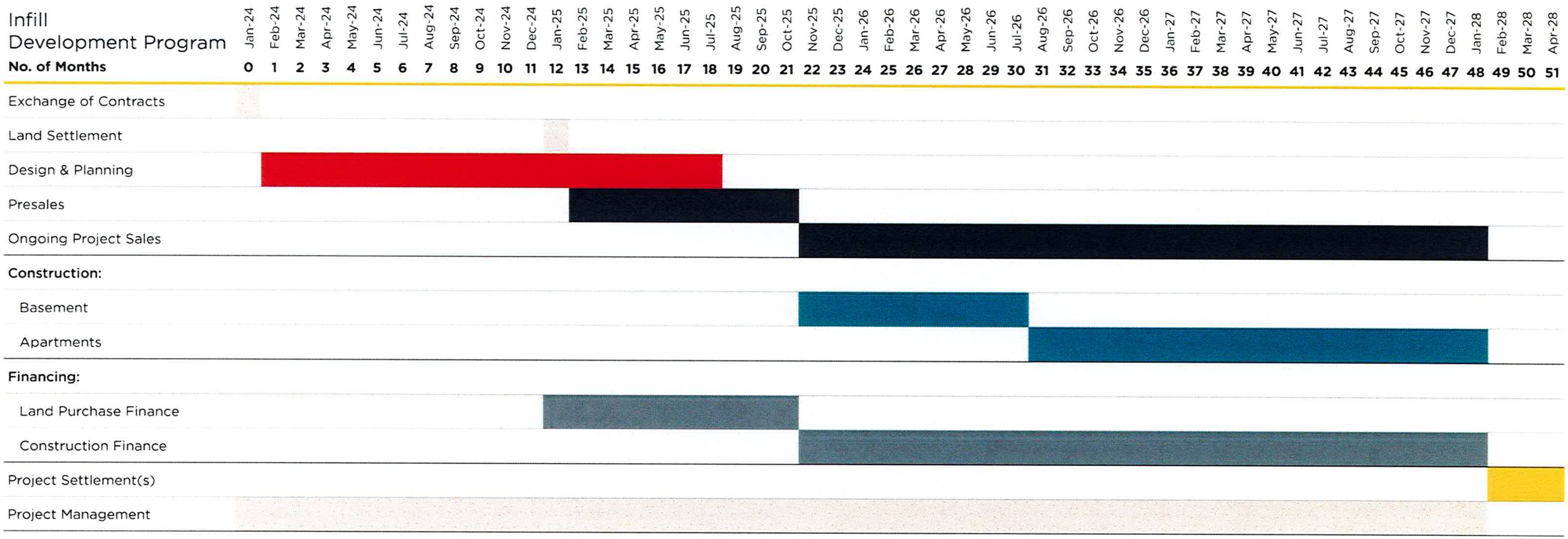


**Figure 13 – Typical infill development timeline**

# Extended timeline **infill residential development**

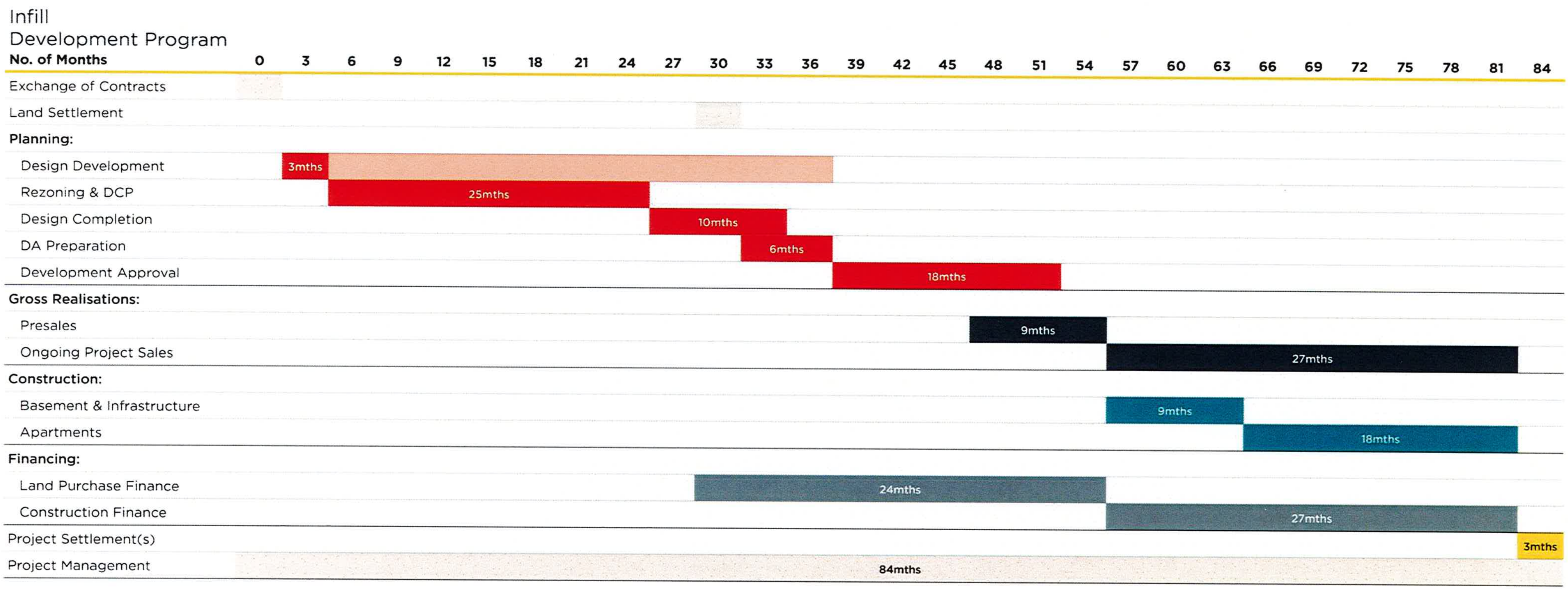


**Figure 14 – Typical infill development timeline**

# Typical timeline **greenfield development**



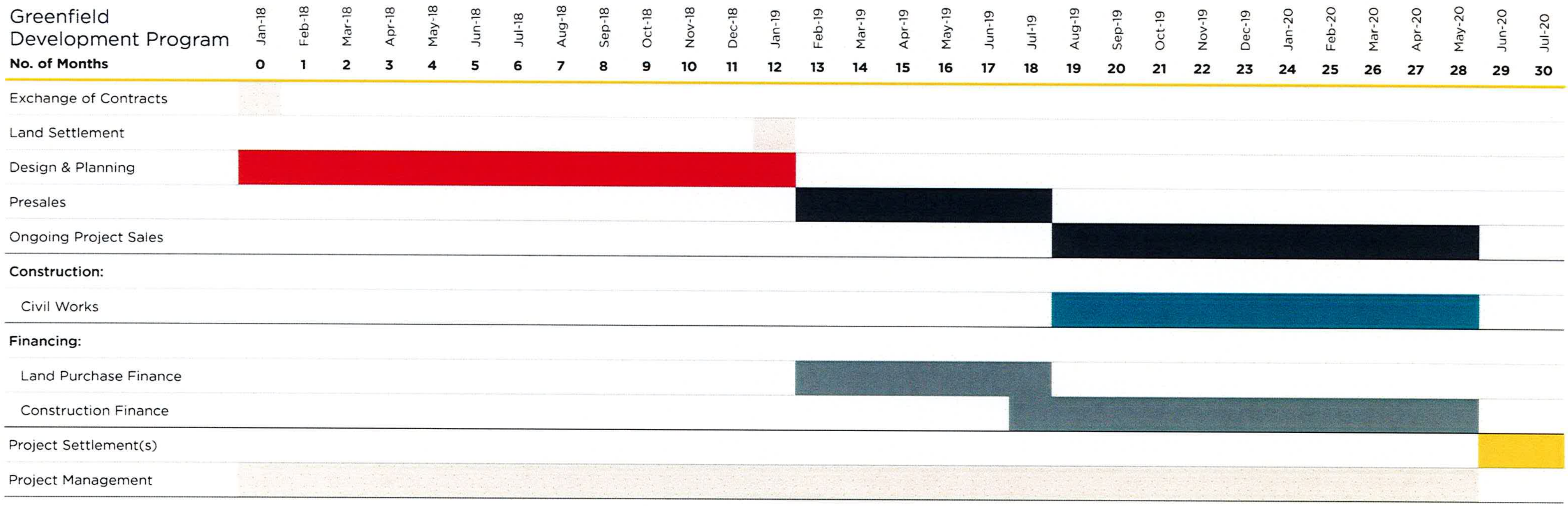


**Figure 15 – Typical greenfield development timeline**

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# Extended timeline **greenfield development**

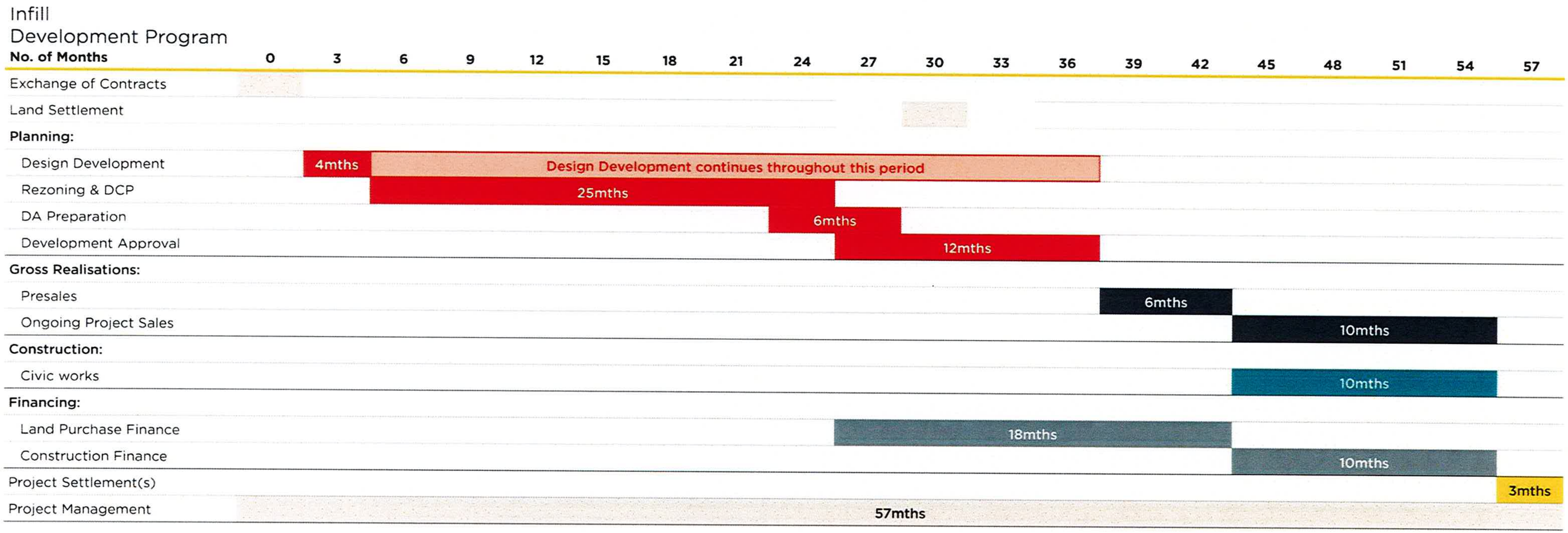


**Figure 16 – Typical greenfield development timeline**

# 04

RELEASE THE PRESSURE

# Residential Taxes and Charges

# Residential development **taxes & charges**

**Residential development in NSW can attract up to 15 different charges and taxes, which collectively reduce development feasibility.**

Historically, taxes and charges were limited to Stamp Duty, Section 7.11 and GST, however, the introduction of new and increasing taxes and charges such as the HPC and Sydney Water Development contributions are reducing the viability of residential development across the Six Cities region. A Housing Australia report states "*funding a much wider array of social infrastructure through developer contributions deliver broader community benefits but confer fewer clear, direct and immediate private benefits to new home buyers. This means developer contributions increasingly act like a tax on new housing, which can impede new housing supply and reduce housing affordability for buyers and renters*"[8].

Many taxes, duties, and levies are calculated as a percentage of either the purchase price, construction costs and/or increase in line with inflation, which has been growing faster than revenues. Residential development viability consequently falls foul of compounding costs.

The key taxes, duties and charges applying to residential development are illustrated in Figure 17 and described in Appendix A.

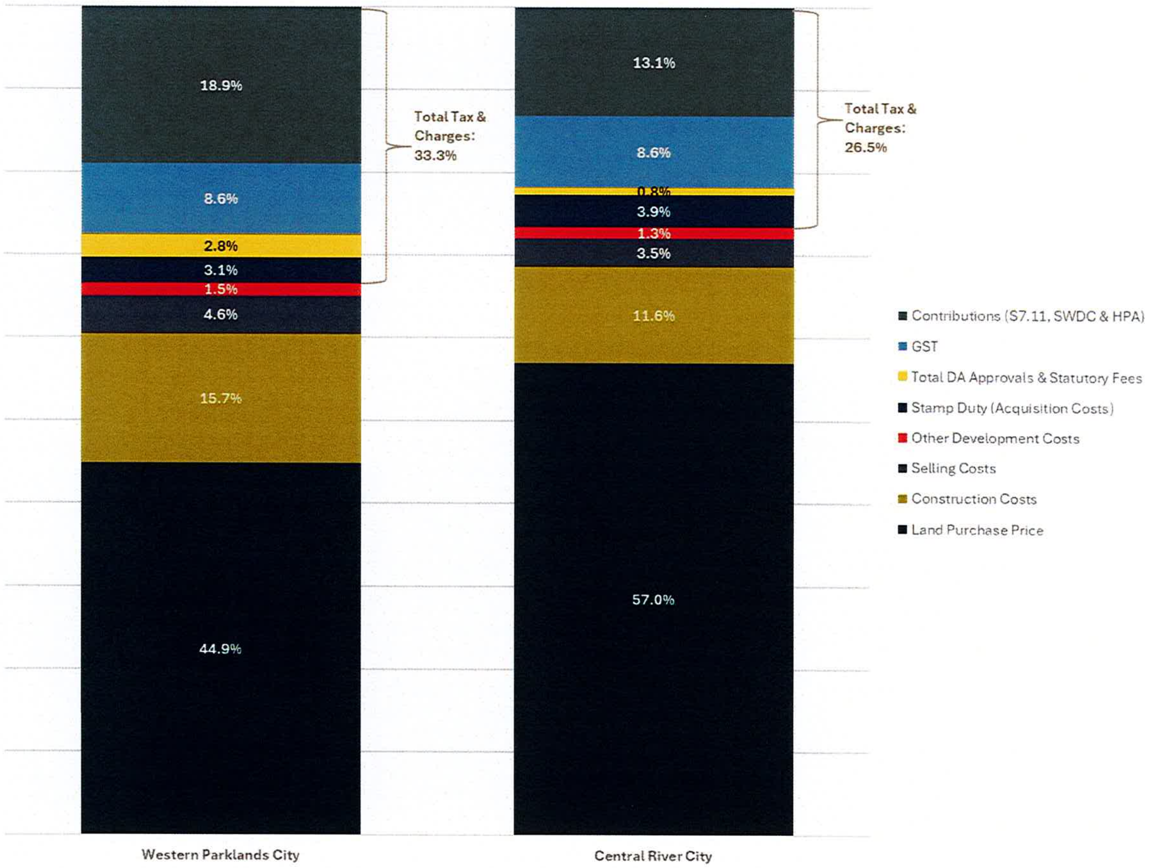


**Figure 17 - Central River and Western Parkland City example 2026 taxes and charges (Greenfield Development)**

# At least **25%** of **housing costs are taxes and charges**

In the Western Parkland City taxes and charges in 2026 will make up a staggering one third (33.3%) of the total greenfield development cost.

In the Central River City, taxes and charges will make up more than a quarter (26.5 per cent) of total greenfield development costs.

These costs are passed onto home purchasers and directly affect affordability and purchasing power. As taxes and charges continue to increase, affordability will continue to decrease and home ownership will become unattainable for an increasing proportion of the community.

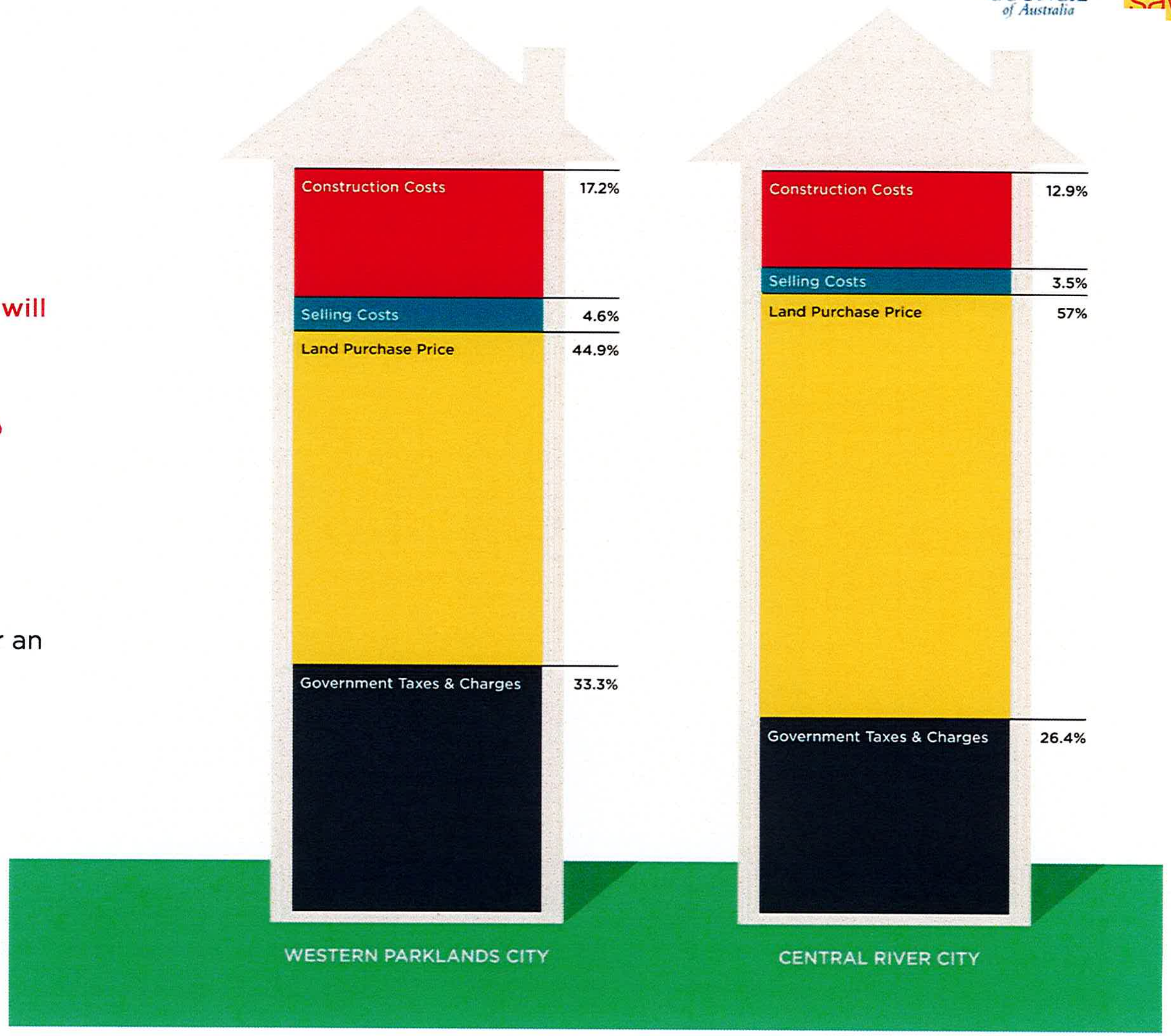


Figure 18 –NSW Government taxes and charges as a proportion of housing costs in the Central River and Western Parkland City

# There are **large variations** in developer charges

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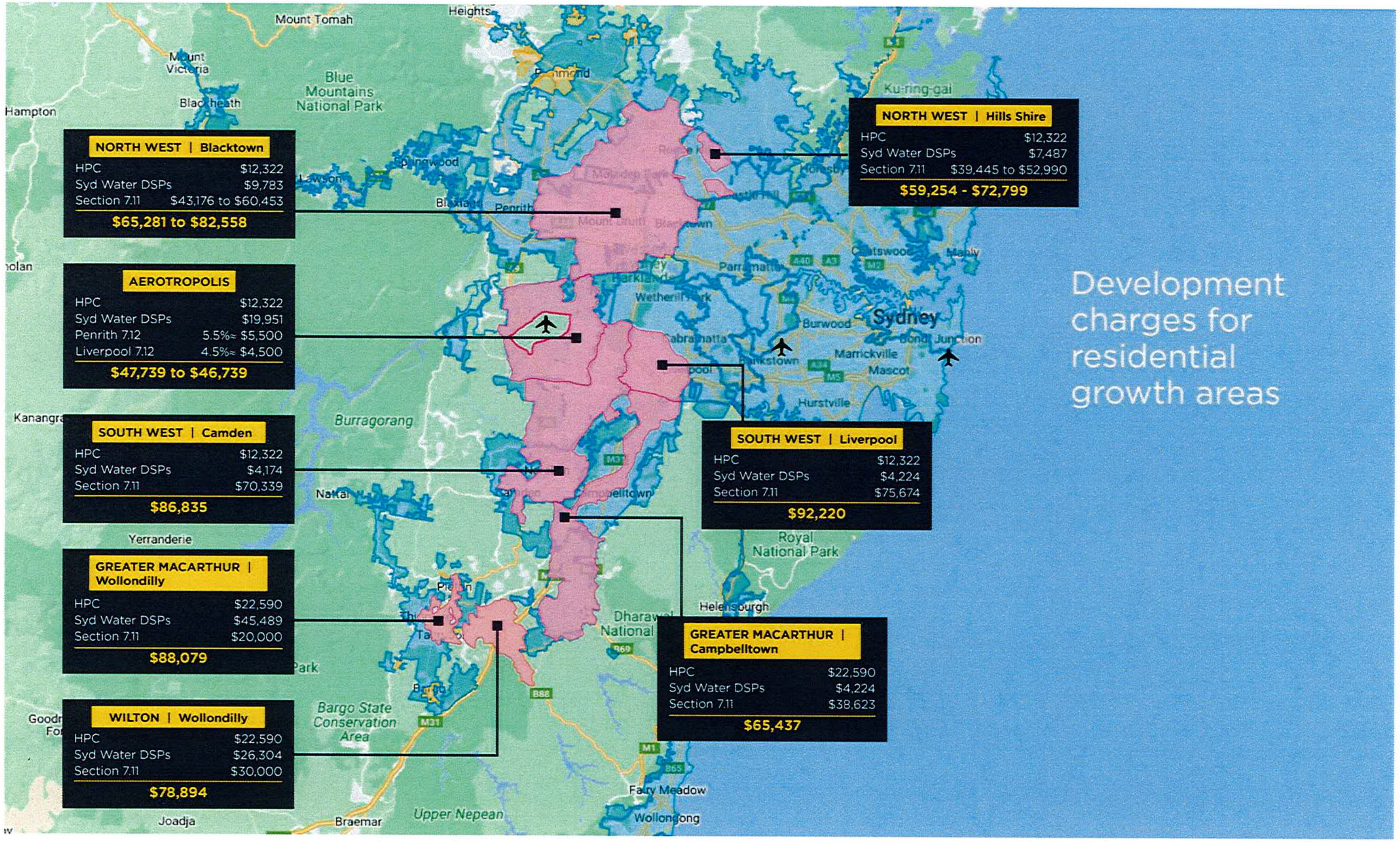


Figure 19 – Sydney Water DSP charges in the Central River City and Western Parkland City

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# 05

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# Investment Metrics

# Residential development **investment metrics**

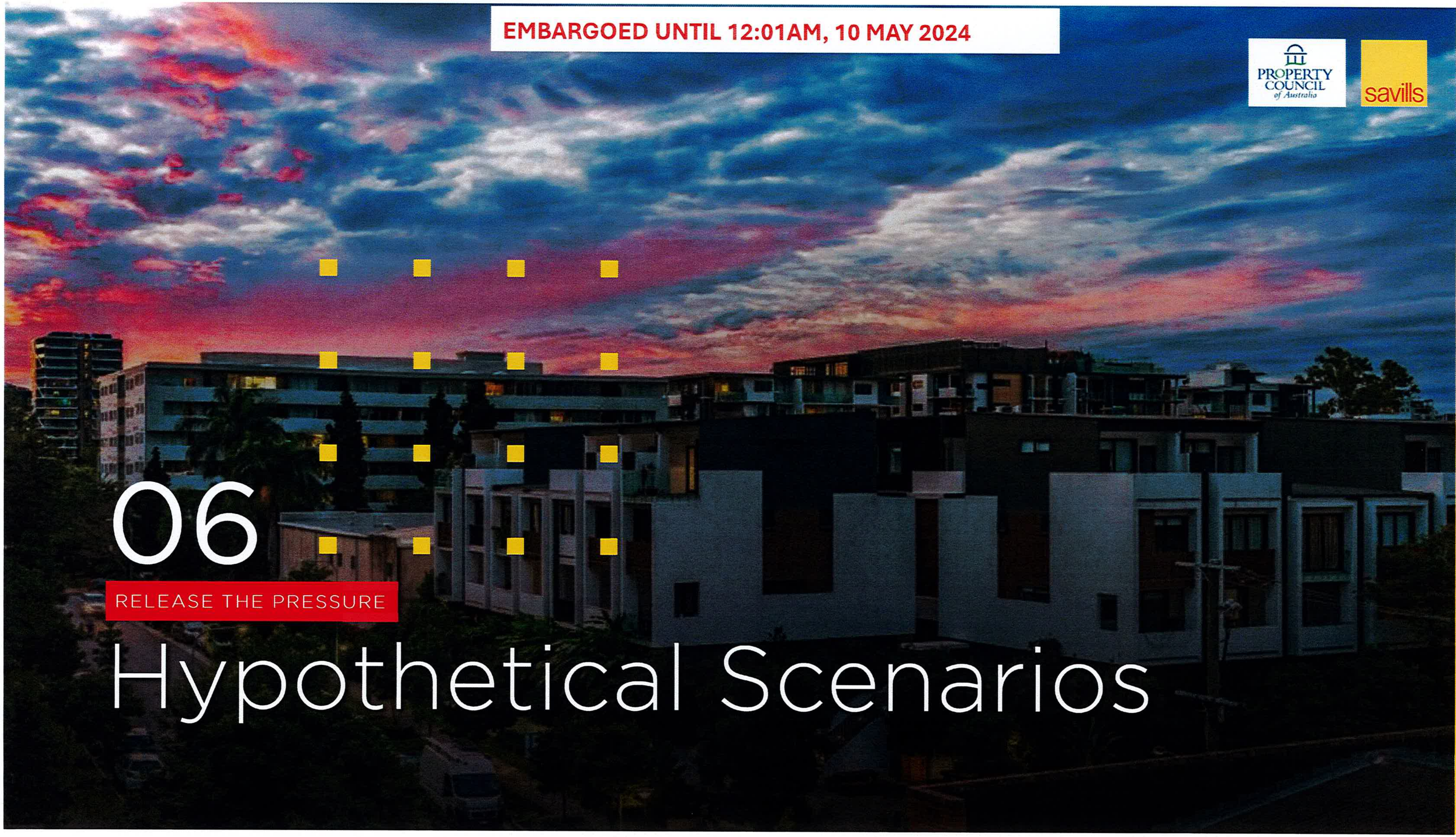
There is misconception that developers make significant profit when undertaking development. The reality is development has many risks and is a business underpinned by a range of external factors such as planning approvals, material and labour cost changes and market trends. Development is also reliant on numerous third parties, such as financiers, consent authorities, regulators responsible for providing infrastructure, and community and resident action groups who often do not want to change in their local area.

To manage and mitigate these risks, developers, investors and particularly banks adopt a set of investment metrics to reflect the degree of development risk they are willing to take on. Often these target returns are not the profit a developer makes but a target at the start of a project before the developer is sure of approval timeframes, pre-sales rates and construction costs which some builders now only want to lock in for 30-90 days.

A critical step in determining whether to proceed with development is to establish the minimum acceptable rate of return that an investment project must achieve to be considered a financially viable and acceptable project, otherwise known as hurdle rates. The two most common indicators of hurdle rates are:

- **Internal rate of return (IRR)** - a metric used to calculate the return on funds invested. The IRR is the discount rate at which the net present value of all cash flows of an investment become zero. The forecast return has to be higher than a developer's target return for a project to start. The IRR is commonly used for projects of over 2yrs to account for the time value of money. An IRR of 15-25% is typically acceptable at the early stage of a project by developers, financiers and investors, depending on risk, and has been adopted for the hypothetical scenarios tested in Section 6 of this Report.
- **Development margin (DM)** - the development margin is the profit divided by the total development cost. It is not discounted to factor in the time value of money. Expressed as a percentage, a development margin of around 20% would typically be adopted and has been adopted for the hypothetical scenarios tested in Section 6 of this Report. Development margins are adjusted as the risk profile changes with higher margins adopted for risker projects, and lower margins adopted for less risky projects 'develop and hold' where there is potential for strong investment covenants. Development margins are typically used to assess shorter term projects of less than 2 years.

A project will not start if the developer cannot achieve these target returns and/or the existing use value of a site is higher than what a developer can pay for the site.



06

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# Hypothetical Scenarios

# Our **hypothetical** development scenarios

To assess the potential impacts from the various taxes, charges and duties on development feasibility, we have modelled two (2) hypothetical developments in both the Central River City and Western Parkland City. The hypothetical developments have been modelled under four scenarios in 2018, 2024 and 2026. The scenarios are:

- Base Case – application of all taxes and charges, including the phased introduction of Housing Productivity Contributions and Sydney Water Developer Contributions as per current NSW Government commitments.
- HPC Scenario – suspension of Housing Productivity Contributions charges only for the Housing Accord period (mid 2024-mid 2029). Sydney Water Development contributions are phased in as per NSW Government commitments.
- Sydney Water Scenario – suspension of SWDSP charges only for the Housing Accord period (mid 2024-2029). HPC charges are phased in as per NSW Government commitments.
- Shorter planning scenario – where a project can be approved in 12 months rather than 18 months for the apartment development and in 9 months rather than 13 months for the stage of the Greenfield development.

Under all scenarios:

- standard development approval processes are assumed, with no rezoning, design competition or similar processes required;
- the cost and revenue inputs are informed by averages and feedback from Property Council members who are active in the Central River and Western Parkland City;
- while all developments and developers are different and the scenarios are hypothetical, they are based on market prices, sales rates and construction costs;
- s7.11 and/or s7.12 contributions are retained; and
- Affordable housing contributions are retained where an Affordable Housing Contribution Scheme is in place or there is another mechanism to levy for Affordable Housing.

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# Our **hypothetical** development scenarios

| | Development 1 | Development 2 |
|---|---|---|
| Type | Residential apartment building | Greenfield subdivision (single stage) |
| Yield | 250 apartments | 115 lot subdivision |
| Height | Between 10 and 20 storeys | n/a |
| Density | Floor space ratio 3:1 | 22 lots / ha |
| Parking rates | 368 | n/a |
| Lot size | Not applicable | $154m^2$ - $576\ m^2$ (with most lots in the $300m^2$ - $400m^2$ range) |
| Staging | 1 stage | 1 stage |

# Central River City infill assumptions

The hypothetical residential flat building development scenarios for the Central River City adopt the following major average costs and revenues. It is important to note there are a range of prices across the suburbs in the Central River City and the examples are indicative averages for locations which have accommodated apartment developments recently.

| | 2018 | 2024* |
|---|---|---|
| Land values ($per unit) | E.g. Parramatta / Carlingford / Castle Hill: $100,000 - $150,000 per unit | E.g. Parramatta / Carlingford/ Castle Hill: $100,000 - $150,000 per unit |
| Gross Realisable Value / Price (blended $ per unit) | $10,000 - $10,500m² (Net Saleable Area) | $11,000 - $12,000m² (Net Saleable Area) |
| Unit construction (base) per Gross Floor Area | $3,500m² (with location allowance) | $4,500m² (with a location allowance)** |
| Parking construction | $60,500 per space | $75,000 per space |
| Balcony construction | $1,125m² | $1,600m² |
| Statutory | Savills averaged rates used in several former Development Contribution Plans published on the Parramatta Council web-site + DA fees | Adopted Outside CBD Contribution Plan (Amendment 1) by Parramatta Council, Housing Productivity Contribution (discounted) and Sydney Water Contribution (discounted) as per Government phase-in provisions + DA fees |

- Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and Sydney Water DSP charges
- Both financial models include a range of other costs and charges. The costs and revenue noted are some of the material inputs adopted.
- ** Building costs can vary significantly. The RLB Riders Digest 2024 provides a cost range per GFA for 10-20 storeys of $4,100 - $5,500 per square metre. Increasingly, owner-occupier expectations are driving higher specifications and finishes, leading to increased construction costs9.

# Central River City Greenfield assumptions

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The hypothetical greenfield development scenarios have adopted the following average costs and scenarios. It is important to note there are a range of prices across the suburbs in the Central River City and the examples are indicative averages for locations which a couple of locations have accommodated Greenfield developments in the recent past.

| | 2018 | 2024* |
|---|---|---|
| Englobo land values ($m² GFA or per unit) | Circa Riverstone: $275,000 per lot | Circa Riverstone: $450,000 per lot |
| Retail land value | Circa Riverstone: $420,000 per lot | Circa Riverstone: $780,000 per lot |
| Civils (per lot) | $50,000 | $70,000 |
| Professional fees/development management | $15,000 | $20,000 |
| Sales and marketing | $15,000 | $20,000 |
| Statutory fees | Adopted historic s7.11 from Blacktown City Council and SIC from Growth Centres Commission | Adopted s7.11 from Blacktown City Council, Housing Productivity Contribution (discounted) and Sydney Water Contribution (discounted) as per Government phase-in provisions. |

* Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and SWDSP charges

# Western Parkland City infill assumptions

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The hypothetical residential flat building development scenarios for the Western Parkland City adopts the following major average costs and revenues. It is important to note there are a range of prices across the suburbs in the Western Parkland City and the examples are indicative averages for locations which have accommodated apartment developments recently.

| | 2018 | 2024* |
|---|---|---|
| Land values ($per unit) | E.g. Liverpool / Leppington / Penrith: $80,000 - $100,000 per unit | E.g. Liverpool / Leppington / Penrith: $80,000 - $100,000 per unit |
| Gross Realisable Value / Price (blended $ per unit) | $6,000 - $8,000m² (Net Saleable Area) | $7,000 - $9,500m² (Net Saleable Area) |
| Unit construction (base) per Gross Floor Area | $3,500m² (with location allowance) | $4,500m² (with a location allowance)** |
| Parking construction | $60,500 per space | $75,000 per space |
| Balcony construction | $1,125m² | $1,600m² |
| Statutory | Savills averaged rates used in several former Development Contribution Plans published on the Liverpool City Council web-site + DA fees | Adopted Leppington North/Austral Precincts Contribution Plan (2021) by Liverpool City Council, Housing Productivity Contribution (discounted) and Sydney Water Contribution (discounted) as per Government phase-in provisions + DA fees |

- Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and Sydney Water DSP charges
- Both financial models include a range of other costs and charges. The costs and revenue noted are some of the material inputs adopted.
- ** Building costs can vary significantly. The RLB Riders Digest 2024 provides a cost range per GFA for 10-20 storeys of $4,100 - $5,500 per square metre. Increasingly, owner-occupier expectations are driving higher specifications and finishes, leading to increased construction costs9.

# Western Parkland City greenfield assumptions



The hypothetical greenfield development scenarios have adopted the following average costs and scenarios. It is important to note there are a range of prices across the suburbs in the Western Parkland City and the examples are indicative averages for locations which have accommodated significant Greenfield developments recently.

| | 2018 | 2024* |
|---|---|---|
| Englobo land values ($m$^2$ GFA or per unit) | Circa Austral: $130,000 per lot | Circa Austral: $230,000 per lot |
| Retail land value | Circa Austral: $360,000 per lot | Circa Austral: $570,000 per lot |
| Civils (per lot) | $50,000 | $70,000 |
| Professional fees/development management | $12,750 | $17,000 |
| Sales and marketing | $10,000 | $17,000 |
| Statutory fees | Adopted historic s7.11 from Liverpool City Council and SIC from Growth Centres Commission | Adopted s7.11 from Leppington North/Austral Precincts Contribution Plan (2021) by Liverpool City Council, Housing Productivity Contribution (discounted) and Sydney Water Contribution (discounted) as per Government phase-in provisions. |

- Escalated for the 2026 scenario by increasing costs and revenues based on historic trends and applying full HPC and Sydney Water DSP charges
- Both financial models include a range of other costs and charges. The costs and revenue noted are some of the material inputs adopted.

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07

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# Feasibility Results

# Infill apartment feasibility
# **Central River City**

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The feasibility outcomes for the tested infill apartment scenarios illustrates the impact of Government fees and charges. In summary, the tested scenarios reveal:

- The feasibility modelling indicates apartment development was feasible in 2018.
- In 2024, the same apartment development is not feasible.
- **In 2024, the same apartment development becomes closer to being feasible when Sydney Water developer contributions and HPC charges are suspended.** Some developers would proceed as the development margin is acceptable, but due to a long planning period, the Internal Rate of Return is low, and some would not start the project.
- **In 2024, if the apartment development could be approved in 12 months rather than 18 months, and Sydney Water developer contributions and HPC charges were suspended, development would be feasible for most developers.**
- We note the impact of removing the Sydney Water developer contributions is lower in Parramatta/Carlingford than in many other areas as the discounted charge is $967 per equivalent tenement (per house) + CPI. In other areas in the Central River City, the Sydney Water developer contributions are over $9,465 per house.

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# Infill apartment feasibility **Central River City**

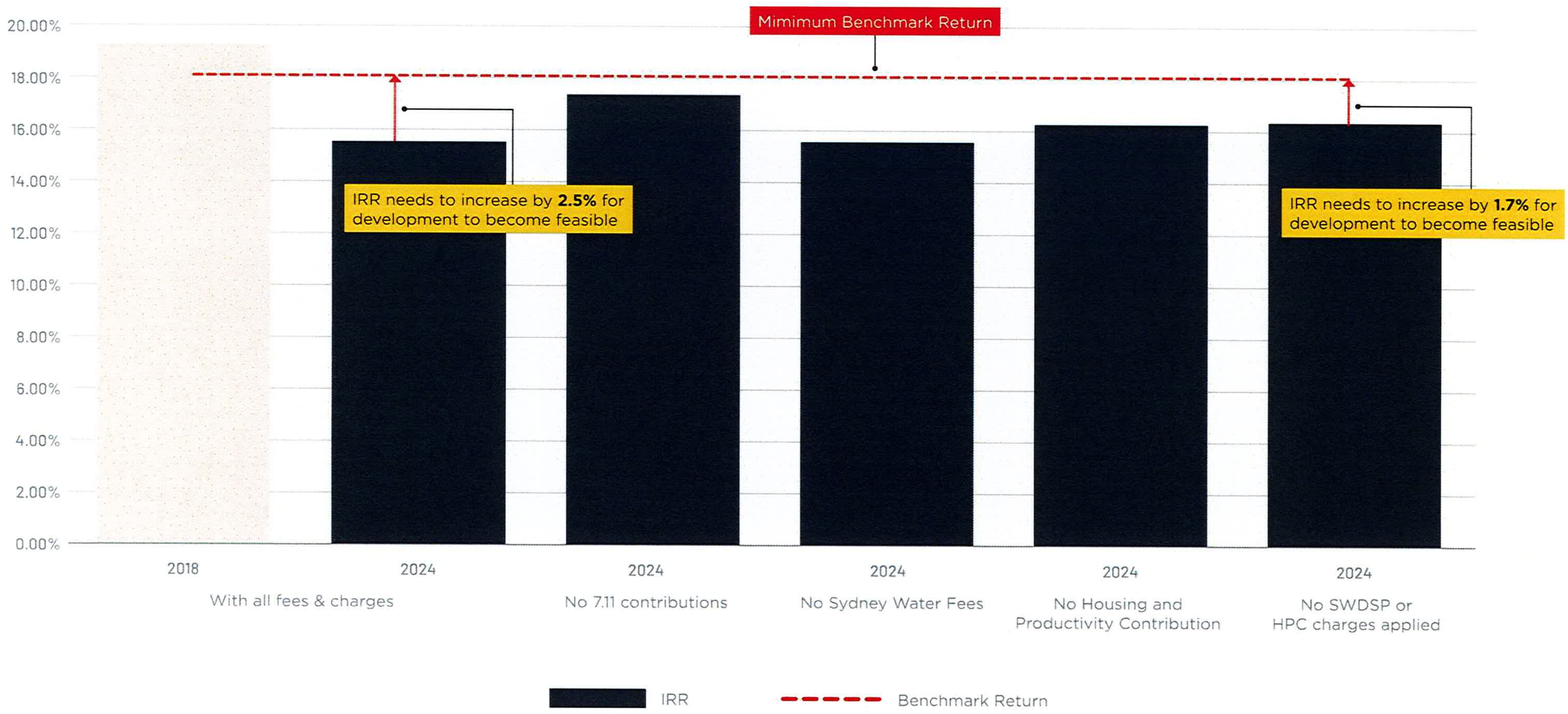


**Figure 20 – Impact of changing State Government taxes and charges**

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# Infill apartment feasibility **Central River City**

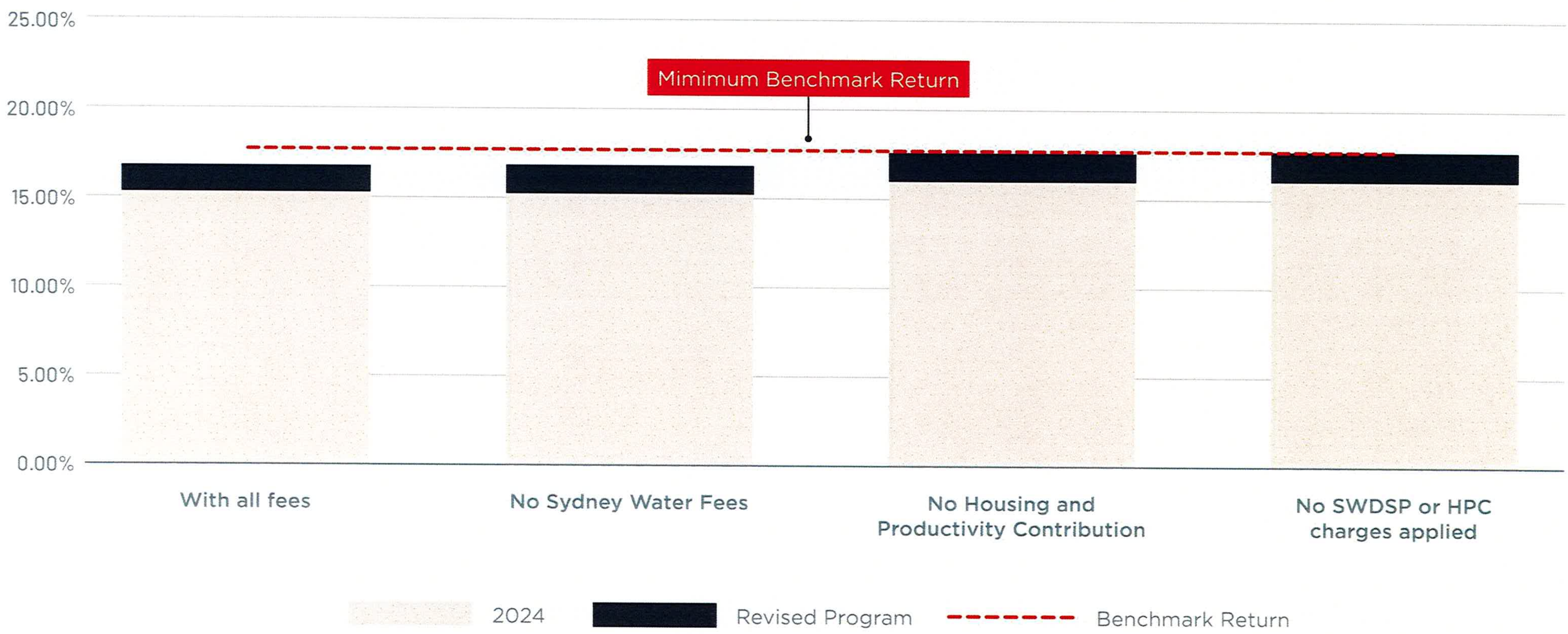


**Figure 21 – Impact of changing State Government taxes and charges and faster planning approval timeframes**

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# Greenfield development feasibility **Central River City**

savills

The feasibility outcomes for the tested Greenfield scenarios illustrates the impact of Government fees and charges. In summary, the tested scenarios reveal:

- Typically, a zoned and serviced greenfield development of circa 115 lots has less risk and requires a lower return than a 250-unit apartment development, but these sites are very hard to find. There can be substantial delays with zoning and servicing (including roads and water and sewer) which increases risk.
- The feasibility modelling indicates greenfield development was feasible in 2018.
- In 2024, the same greenfield development is not feasible.
- **In 2024, the same greenfield development becomes feasible if Sydney Water developer contributions and HPC charges are suspended.**
- **By 2026, with full Sydney Water developer contributions and HPC charges, the greenfield development is very unfeasible (circa 11.7% IRR).**
- If current discounts (25% HPC) and (50% Sydney Water developer contributions) were maintained to 2026, Savills forecasts the project would be more feasible than in 2024. **To help the project achieve benchmark returns, the Government could fast-track planning approvals. By also reducing the planning timeframes by 4 months, the development becomes feasible and would proceed.**

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# Greenfield development feasibility **Central River City**

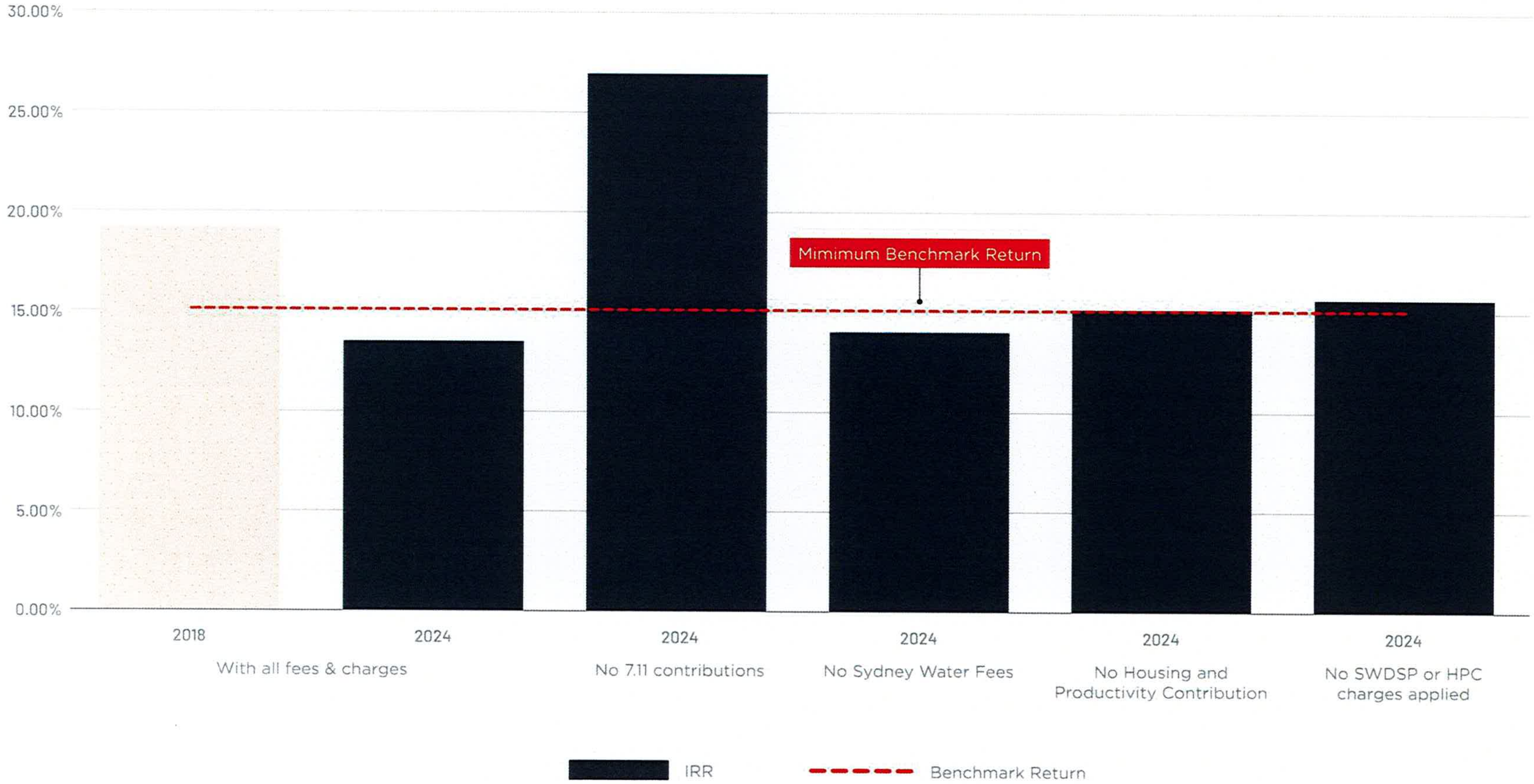


**Figure 22 – Impact of changing State Government taxes and charges 2024**

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# Greenfield development feasibility **Central River City**

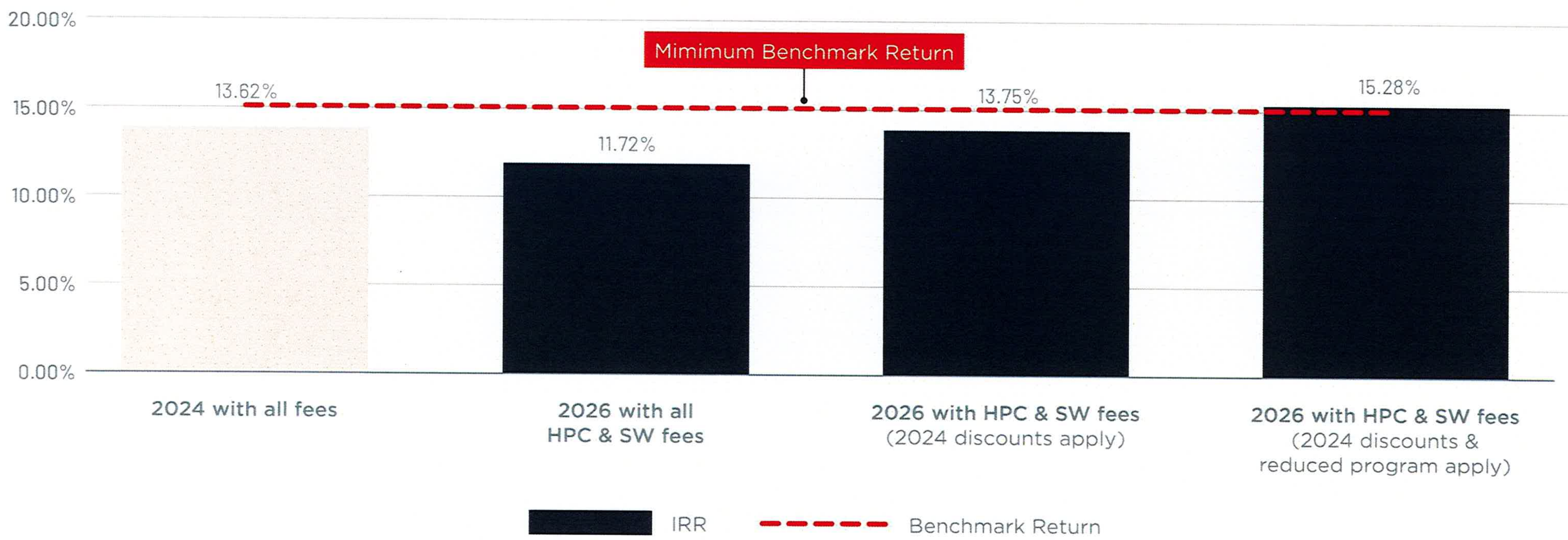


Figure 23 – Impact of changing taxes and charges and approval times in 2026

# Infill apartment feasibility
# **Western Parkland City**

The feasibility outcomes for the tested infill apartment scenarios illustrates the impact of Government fees and charges. In summary, the tested scenarios reveal:

- The feasibility modelling indicates apartment development was feasible in 2018.
- In 2024, the same apartment development is not feasible.
- **In 2024, the same apartment development becomes closer to being feasible when Sydney Water developer contributions and HPC charges are suspended.** Some developers would proceed as the development margin is acceptable, but due to a long planning period, the Internal Rate of Return is low, and some would not start the project.
- **In 2024, if the apartment development could be approved in 12 months rather than 18 months, and Sydney Water developer contributions and HPC charges were suspended, development would be feasible for most developers.**
- We note the impact of removing the Sydney Water developer contributions is positive in Liverpool at is $4,988 per equivalent tenement (per dwelling) + CPI. There are a range of Sydney Water developer contributions across the Western Parkland City from around $1,000 per house to over $45,000 per house.

# Infill apartment feasibility
# **Western Parkland City**

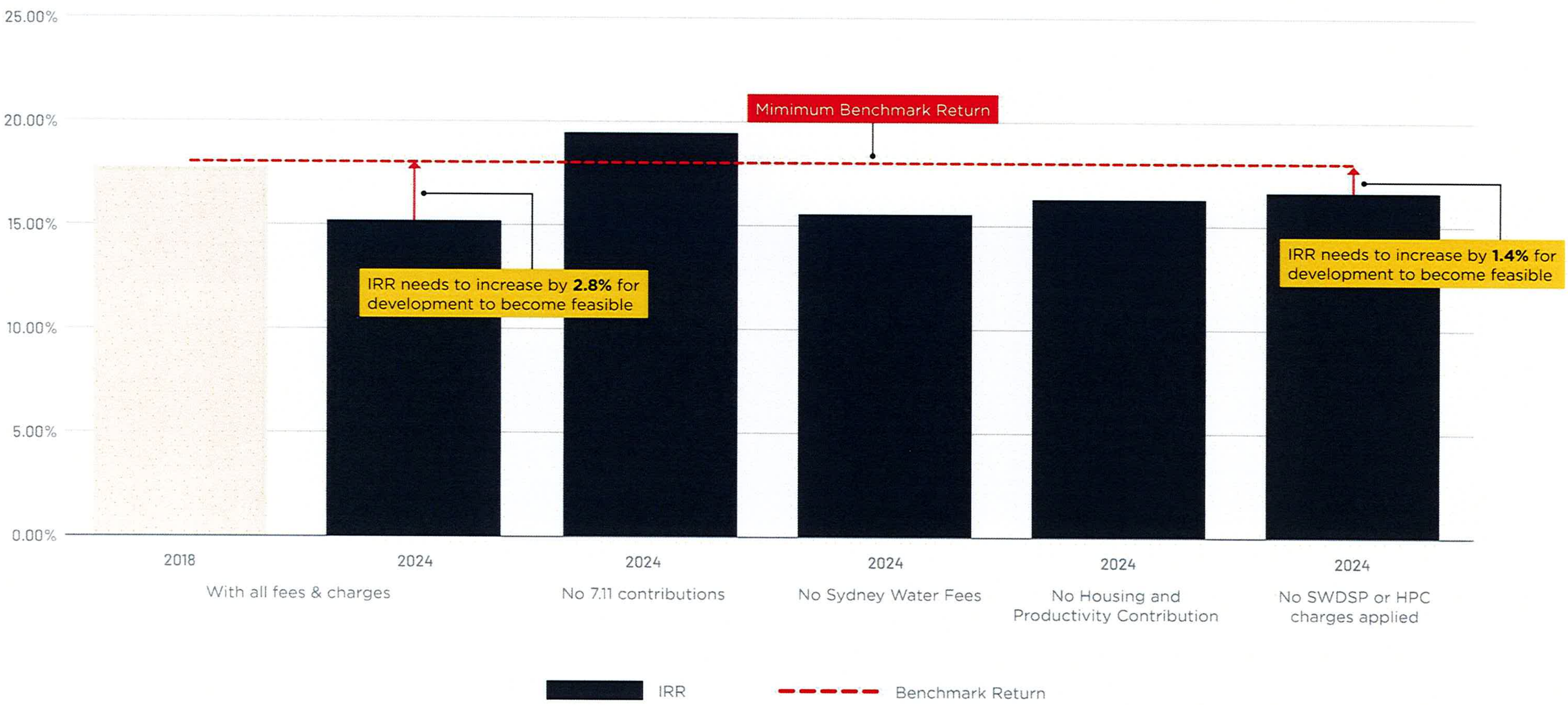


**Figure 24 – Impact of changing State Government taxes and charges**

# Infill apartment feasibility
# **Western Parkland City**

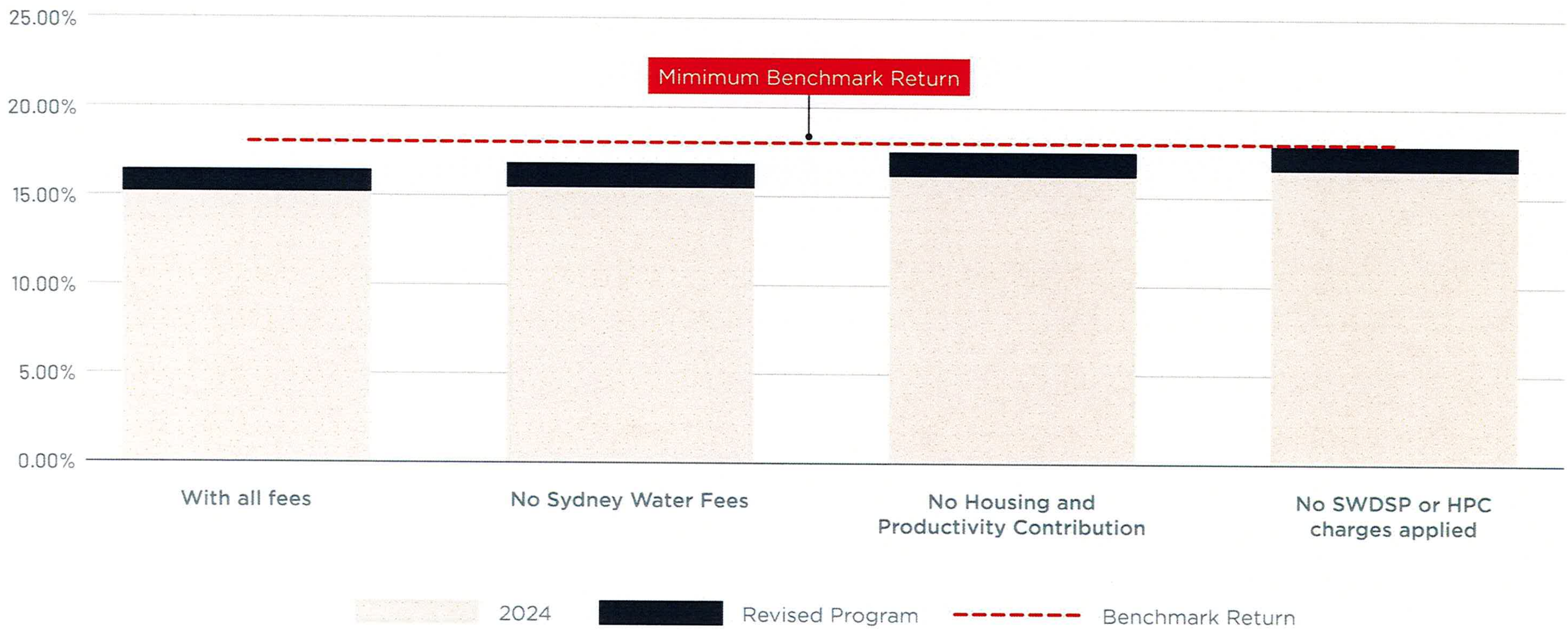


**Figure 25 – Impact of changing State Government taxes and charges and faster planning approval timeframes**

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# Greenfield development feasibility **Western Parkland City**

The feasibility outcomes for the tested Greenfield scenarios illustrates the impact of Government fees and charges. In summary, the tested scenarios reveal:

- Typically, a zoned and serviced greenfield development of circa 115 lots has less risk than a 250-unit apartment development, but these sites are very hard to find. There are substantial delays with servicing (including roads and water and sewer) especially in new growth areas.
- The feasibility modelling indicates greenfield development was feasible in 2018.
- **In 2024, the same greenfield development is not feasible.**
- **In 2024, the same greenfield development just becomes feasible if Sydney Water developer contributions and HPC charges are suspended.**
- **By 2026 with full Sydney Water developer contributions and HPC charges the greenfield development is very unfeasible.**
- If current discounts (25% HPC) and (50% Sydney Water developer contributions) were maintained to 2026, Savills forecasts the project would be more feasible than in 2024. **To make the project achieve minimum benchmark returns, the Government could fast-track planning approvals. By also reducing the planning timeframes by 4 months, the development becomes feasible and would proceed.**

# Greenfield development feasibility **Western Parkland City**

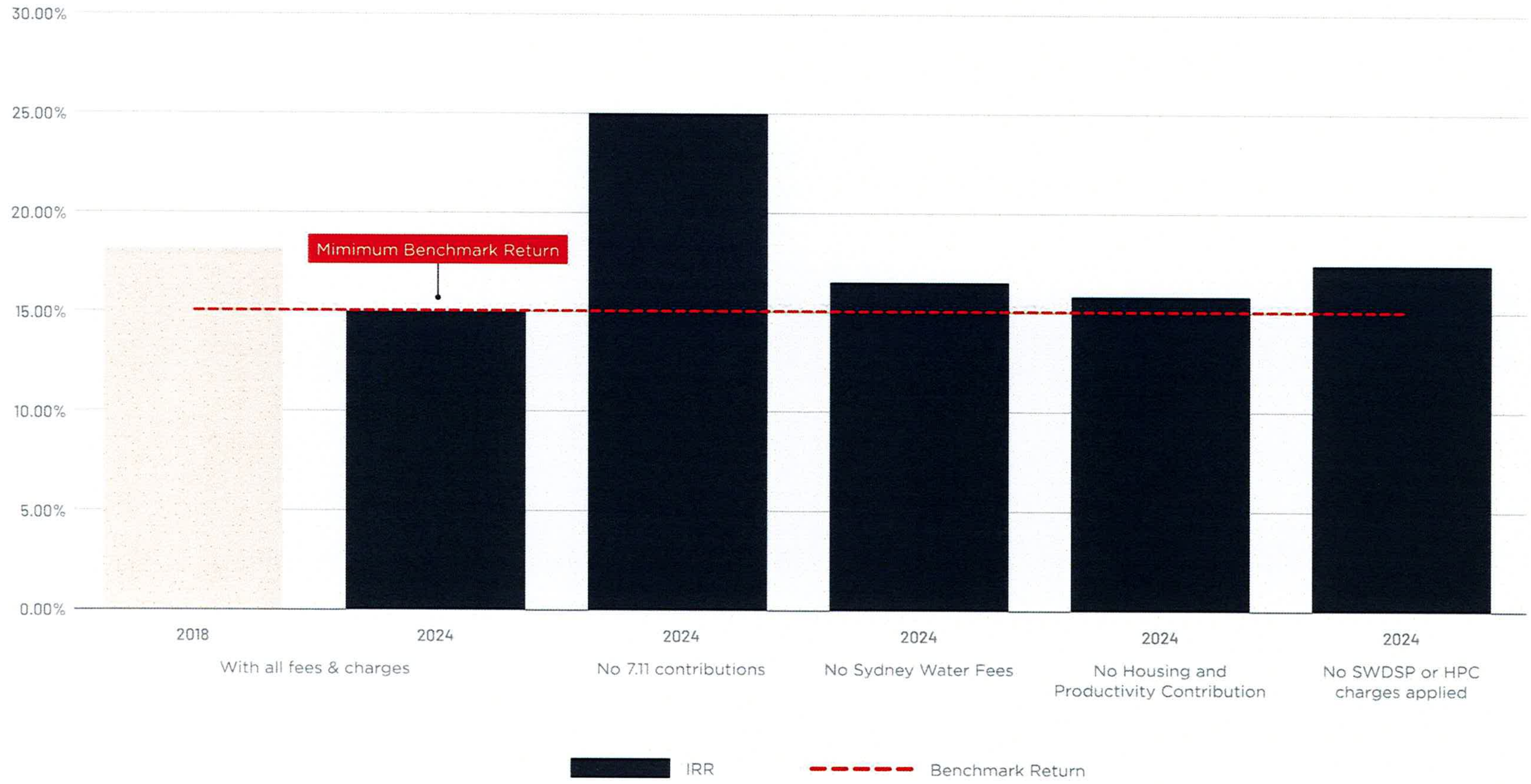



**Figure 26 – Impact of changing State Government taxes and charges 2024**

# Greenfield development feasibility **Western Parkland City**

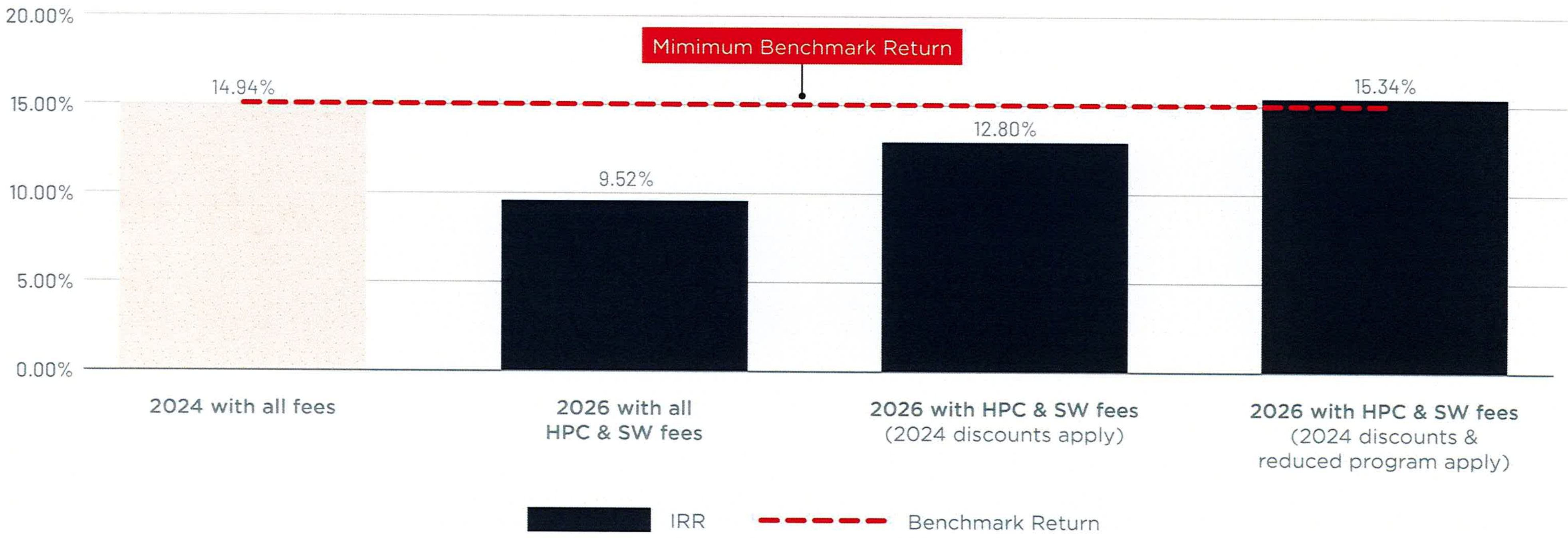
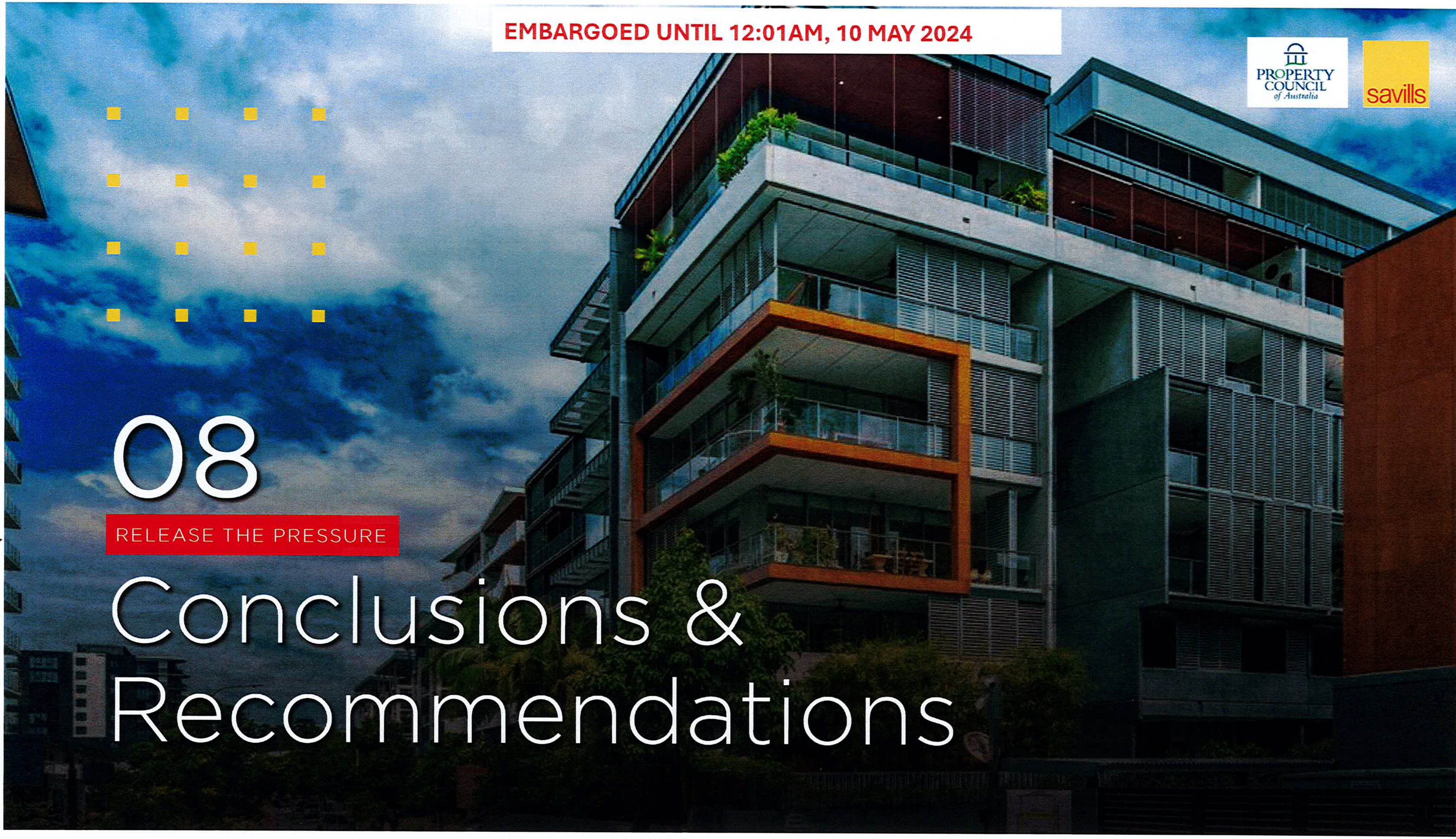



**Figure 27 – Impact of changing taxes and charges and approval times in 2026**



# 08

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# Conclusions & Recommendations

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# Conclusions

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Savills forecasts that having **no increases in taxes and changes and faster approvals would help deliver** almost 190,000 new homes in Sydney in the 5 years to 2029, comprising:

- Around 77,500 new homes in the Central River City;
- Around 50,000 new homes in the Western Parkland City; and
- Around 62,000 new homes in the Eastern Harbour City.

This is almost 60,000 more than the low forecast and 35,000 more than the high forecast in the Sydney Housing Supply Forecast across the Eastern Harbour, Western Parkland, and Central River Cities.

### CENTRAL RIVER CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Central River City would help deliver ~ 77,500 new homes as currently forecast to be completed.

- This is ~ 33,500 higher than a continuation of actual completions in 2022/23 (circa 44,000 extra dwellings forecast over 5 years).
- This is ~ 21,000 higher than the Sydney Housing Supply Forecast Low Scenario (circa 56,500 extra dwellings forecast over 5 years).
- This is ~ 11,000 higher than the SHSF High Scenario (circa 66,500 extra dwellings forecast over 5 years).

### WESTERN PARKLAND CITY

No increases in taxes and changes, reductions in current state taxes and faster approvals in the Western Parkland City would help deliver ~ 50,000 new homes as forecast to be completed.

- This is ~ 16,000 higher than a continuation of actual completions in 2022/23 (circa 34,000 extra dwellings forecast over 5 years).
- This is ~ 19,500 higher than the Sydney Housing Supply Forecast Low Scenario (circa 30,500 extra dwellings over 5 years), which is even lower than a continuation of 2022/23 which had the lowest completions in years).
- This is ~ 16,500 higher than the SHSF High Scenario (circa 33,500 over 5 years), which is around the same as a continuation of the number of completions in 2022/23, which had the lowest completions in years.
- Savills' view is our forecast for the Western Sydney Parkland could potentially be higher, however we are concerned that getting more sites serviced is currently taking a long time.

# Conclusions

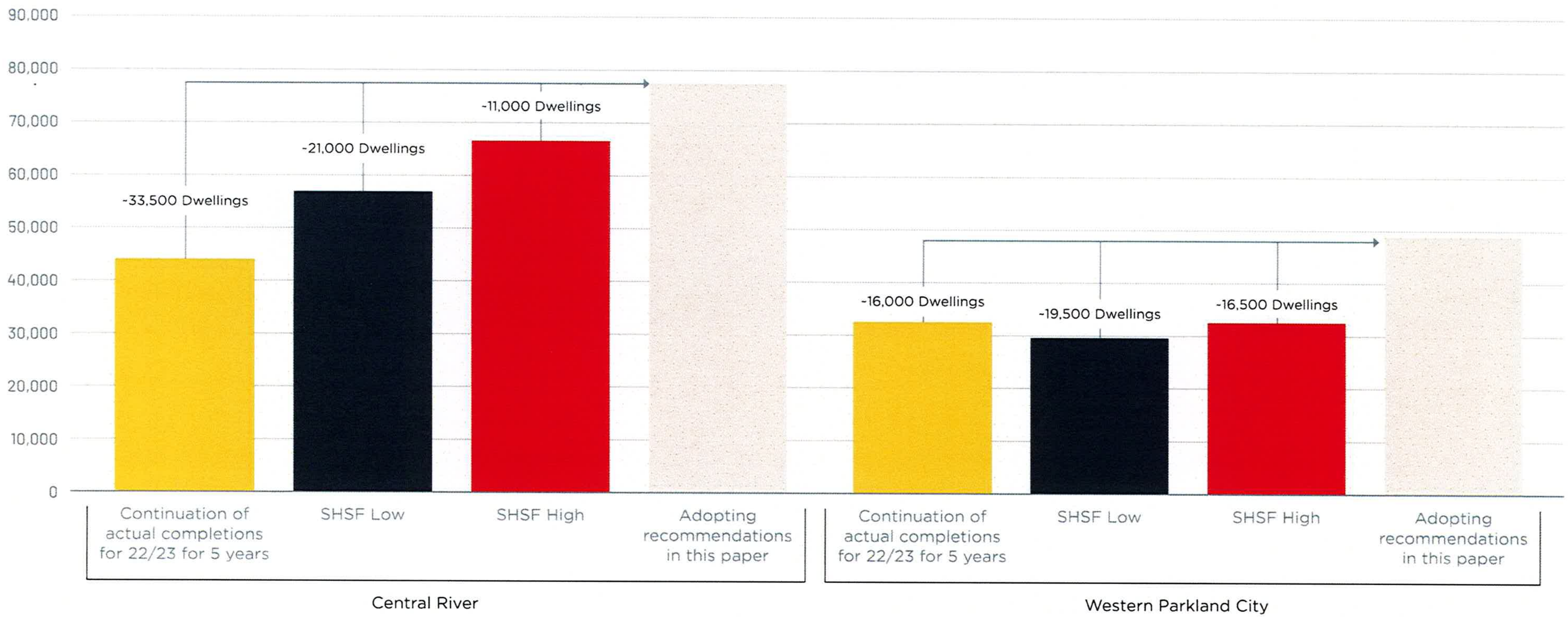


**Figure 5 (reproduced) – The forecast impact on housing supply of reducing State Government taxes and charges and faster planning approval timeframes in Central River City and Western Parkland City**

# Conclusions

Conversely, continuing under current conditions is untenable. Without suspending taxes and charges and compressing planning timeframes, housing supply in the Central River City and Western Parkland City is likely to remain suppressed, with completions hovering at recent historic lows.

Savills modelling indicates that without undertaking any action:

- There would be around 71,000 dwellings built across Western Parkland City and Central River City combined between June 2024 and June 2029 (the Housing Accord period):
  - Around 44,000 new homes will be delivered in the Central River City during the Accord period; and
  - Around 27,000 new homes will be delivered in the Western Parkland City during the Accord period.

**Suspending taxes and charges and compressing timeframes has the potential to significantly boost housing supply to over 126,000 dwellings in Central River City and Western Parkland City, which is 55,000 dwellings more than if there is no action to reduce residential taxes and charges.** The opportunity loss of suppressing housing supply has negative flow-on impacts to the NSW economy and will contribute to the current housing affordability crisis. The loss of revenue as a direct result of reduced stamp duty will further tighten the NSW Government's spending power.

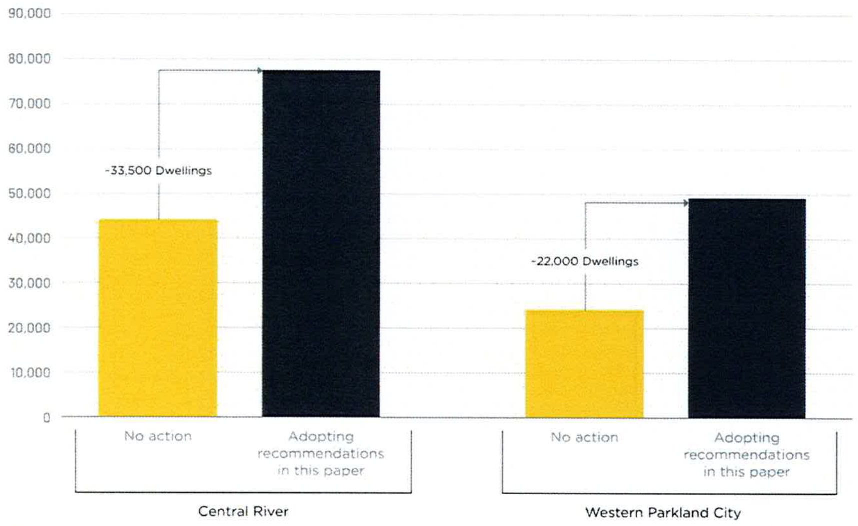


**Figure 6 (reproduced) - Forecasting housing supply in Central River City and Western Parkland City with and without action**

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# Recommendations

The Property Council recommends the NSW Government:

1. **Introduce a moratorium on new taxes and charges for the duration of the Housing Accord period**

The feasibility modelling by Savills indicates just the existing taxes and charges make many new residential developments in the Central River City and Western Parkland City unfeasible. The development industry has broadly come to terms with the requirement for 2 per cent contributions for Affordable Housing where development uplift is provided under the Transport Oriented Development State Environment Planning Policy – but have concerns about the practical implementation of this charge. However, there is no capacity to absorb new taxes and charges with many new residential developments already unfeasible.

2. **Suspend Sydney Water DSP and HPC charges for the duration of the Housing Accord period.**

The feasibility forecasting by Savills indicates planned increases in taxes and charges on residential development have impacted present day feasibilities and will make many residential developments even more unfeasible in 2026. The NSW Government is currently discounting Sydney Water developer contributions and HPCs, however the phased introduction of these will result in charges more than doubling by 2026. Suspending Sydney Water contributions and HPCs would help make most apartment developments and more greenfield development in the Central River City and Western Parkland City feasible.

3. **Accelerate the implementation of planning processes that reduce planning approval timeframes by a minimum 6 months.**

It is often taking longer to get a new apartment or greenfield project approved than it takes to build it. Long development approval timeframes in some Council areas and significant delays including getting approvals and infrastructure completed by Transport for NSW and Sydney Water are adding years and substantial costs to projects. Reducing planning approval timeframes by 6 months makes a significant difference to development feasibility.

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# Appendix A - Taxes and charges

1

## LOCAL CONTRIBUTIONS (s7.11 and s7.12)

Local contributions are financial levies imposed on developments that will lead to a net increase in population within a specific area. Local contributions are intended to address increased infrastructure demand resulting from development.

Expressed as either a rate per lot, dwelling or square meterage, local contributions are typically allocated to projects supporting the local community such as roads, parks, and community facilities.

Section 7.11 contributions are set rates, while S7.12 contributions are a proportion of development cost typically ranging from 1-5%.

Local contributions are payable prior to construction certificate.

2

## HOUSING AND PRODUCTIVITY CONTRIBUTION

The Housing and Productivity Contribution (HPC) is a development charge intended to fund infrastructure delivery in high-growth areas. The HPC applies to residential development which intensifies land-use where new dwellings are created, such as houses, apartments, terraces and dual occupancies.

In the Central River City, HPC rates are:

- $12,000 per dwelling/lot for detached, semi-detached and townhouse dwellings; and
- $10,000 per dwelling for all other forms of residential development (residential flat buildings and units).

The HPC's implementation is phased with rates discounted for a period of two years from its introduction in October 2023. Full contributions apply from July 2025 and will be payable prior to construction certificate.

3

## SPECIAL INFRASTRUCTURE CONTRIBUTIONS

Special infrastructure contributions (SICs) are used by the NSW Government to fund infrastructure such as state and regional roads, open space, schools and health facilities in growth areas. They are intended to allow priority infrastructure to be delivered at the same time as development.

SICs are determined under the *Environmental Planning and Assessment Act, 1979* and apply to designate areas. A SIC is paid by a developer within a mapped Special Contributions Area to support to the cost of infrastructure delivery.

SICs are payable prior to construction certificate.

4

## GOODS AND SERVICES TAX (GST)

Goods and services tax (GST) applies to the supply of vacant residential land and new residential premises if the supplier (vendor) is registered or required to be registered for GST purposes.

GST is payable at settlement and most purchasers are required to pay a GST withholding amount from the contract price at the date of settlement. This impacts a project's Gross Revenue and subsequent Development Margins.

Developers registered for GST can claim GST throughout the construction program offsetting some of their GST liability.

5

## SYDNEY WATER DEVELOPER CONTRIBUTIONS

Effective from 1 December 2023, the NSW Independent Pricing and Regulatory Tribunal (IPART) has registered 14 wastewater infrastructure contribution prices and four drinking water prices to be levied by Sydney Water.

The water and wastewater infrastructure contributions will be implemented gradually from 1 July 2024. In 2024-25, prices will be capped at 25 per cent of the full price registered with IPART, rising to 50 per cent in 2025-26, with full contributions from 1 July 2026.

Water and wastewater infrastructure contributions are proposed to be paid prior to construction commencing.

6

## AFFORDABLE HOUSING CONTRIBUTIONS

Several councils across the Six Cities region have adopted Affordable Housing Contributions Schemes (ACHS). An AHCS requires developers to make financial or floor-space contributions towards new rental housing where there is a demonstrated affordable housing need.

The ACHS charge varies across LGAs ranging from 5-15%. Under the NSW's Transit Oriented Program, the NSW Government proposes to mandate a minimum 2% affordable housing contribution on new developments in 37 locations. The affordable housing contribution will gradually increase over time to make sure essential workers live closer to work.

Contributions are payable prior to construction certificate.

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# Appendix A - Taxes and charges

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## BUILDING COMMISSION BONDS

Since 1 January 2018, developers have been required to lodge a building bond for the building work that is 4 storey's or higher which is paid to NSW Fair Trading.

Building bonds are intended to secure funds up to the amount of the bond to pay for the costs of rectifying defective building works.

Building bonds equate to 2% of the contract price and are payable prior to application for occupation certificate.

8

## LONG SERVICE LEVY

The NSW Government charges a levy on all building and construction works of $250,000 or more to fund long service to eligible building and construction workers.

The Long Service Levy (LSL) is 0.25% of the total cost of the work.

The LSL is payable prior to construction certificate.

9

## DA ASSESSMENT FEES

Developers are required to pay development assessment fees at the time a development application is submitted to a local council or the Department of Planning, Housing and Industry.

A consent authority must, when determining the assessment fee, use the estimated development cost specified in the application, unless, in the consent authority's opinion, the specified estimated development cost is not genuine or accurate.

The development assessment fee is approximately 1% of the estimated development cost.

10

## LAND TAXES

Land tax is an annual tax levied at the end of each calendar year on all landholdings that are above certain land tax thresholds, which are not owned by a foreign person and not the landholders' primary place of residence.

Land tax is calculated on the unimproved value of all landholdings over a certain threshold. The unimproved value is essentially the value of the land, without any dwellings or other improvements.

Land tax is calculated annually based on total land value and ownership status.

11

## TRANSFER DUTY

When purchasing a property or transferring ownership of a property in NSW, transfer duty (stamp duty) must be paid on the purchase price. If the property is vacant land or new residential premises, stamp duty is payable on the GST inclusive price.

A foreign person and purchaser acquiring residential-related property must pay surcharge purchaser duty. Surcharge purchaser duty is calculated on the dutiable value and is paid in addition to the transfer duty payable on the acquisition of residential-related property.

12

## FOREIGN BUYER SURCHARGES AND TAXES

A foreign person or corporation may have to pay surcharge purchaser duty on a variety of property transactions involving residential-related property. These include but are not limited to:

- Transfer Duty on agreements for sale of land
- property transfers
- declarations of trust
- Land Tax

# Appendix A - Taxes and charges

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## LAND OR STRATA REGISTRATION FEES

NSW Land Registry Services (LSR) operates the NSW land titles registry for the State Government and is the governing body responsible for the fees charged for products and services involving land titles, plans, property information and Water Access Licence Registers.

Registration of a land subdivision or strata plan is subject to a number of Registration Fees with the LSR. These fees can vary depending on the complexity of the subdivision and number of registrations required.

14

## CONSTRUCTION CERTIFICATE FEES

A Construction Certificate is an approval that certifies that a proposed development is certified to commence construction. The certificate confirms that the construction plans and development specifications are consistent with the Development Consent (DA) and comply with the Building Code of Australia (BCA) including relevant associated structural standards, codes and other council requirements.

Construction Certificate fees are typically assessed as a percentage of construction cost and typically range from 0.2%- 0.5%.

15

## OCCUPANCY CERTIFICATE FEES

The Occupation Certificate authorises the occupation and use of a new building once development is completed. The certificate confirms that the building was constructed as per the plans and development specifications and complies with the Building Code of Australia (BCA) and any other relevant codes.

Occupancy Certificate fees are typically assessed on a per a lot basis and typically range from $1,000 to $2,000 per a lot.

# Appendix B - Factors influencing **hurdle rates**

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## COST OF CAPITAL

The cost of capital measures the cost a developer incurs to finance its development. It measures the cost of borrowing money from creditors, or raising it from investors through equity financing, compared to the expected returns on an investment or IRR.

In assessing a project's viability, the resultant IRR should exceed the cost of capital to deliver a profit for equity investors or the developer.

2

## PROJECT RISK PROFILE

The Project Risk Profile is determined by assessing the level of risk within a project and influences the return a developer seeks to achieve.

A project in the early stages with no development approval is considered riskier than a project under construction. Therefore, a developer would typically be willing to accept a lower return for a development under construction then a development with no development approval.

Timeframes heavily influence the overall return on a project.

3

## PREVAILING MARKET CONDITIONS

Prevailing market conditions can refer to macro and micro economic factors or events that can have a direct influence on a development project both financially and on a time basis.

An example of this is the recent changes in interest rates and sales rates. Other global events such as wars and pandemics also increase the price of building materials and confidence in the market.

4

## OPPORTUNITY COST

Typically, when assessing a development's feasibility, a developer will want to achieve a return that outweighs investing in alternative asset classes that might have a lower risk profile.

For example, industrial development can be less risky than residential development due to the limited barriers of entry, typically single tenant occupancy profile and shorter development timeframes.

Conversely residential development is considered a more complex and risky development project and therefore requires a higher internal rate of return.

5

## PROJECT SPECIFIC FACTORS

Several project specific factors or assumptions can negatively impact development feasibility and can extend timeframes, subsequently impacting a project's achievable Internal Rate of Return. Some of these include:

- Confidence in sales rates and achieving presales;
- No builder or construction contract locked in
- No development approval
- Unforeseen ground conditions (contamination/artefacts);
- Risk of financial market movements impacting presales and affordability (such as interest rates)
- Sufficient connections to Sydney Water or appropriate electricity connections; and
- Traffic impacts or potential upgrades required.

An experienced developer should be able to foresee and mitigate a many of these through experience working within a preferred location or building type.

6

## SENSITIVITY TO COSTS (ESCALATION)

During initial feasibility assessments, developers can allow for additional escalation and contingencies to mitigate any future price risk in relation to professional fees or construction costs.

Typical escalation allowances are between 3-5%.

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# Sources

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