Submission No 14

INQUIRY INTO ENVIRONMENTAL PLANNING AND ASSESSMENT AMENDMENT (HOUSING AND PRODUCTIVITY CONTRIBUTIONS) BILL 2023

Organisation: Urban Development Institute of Australia - NSW Division

Date Received: 7 June 2023

7 June 2023

Susan Higginson MLC
Chair, Portfolio Committee No. 7 – Planning and Environment
NSW Legislative Council

Via email: PortfolioCommittee7@parliament.nsw.gov.au

RE: Inquiry into Environmental Planning and Assessment Amendment (Housing and Productivity Contributions) Bill 2023

Dear Ms Higginson MLC,

The Urban Development Institute of Australia NSW (UDIA) is the leading development industry body, representing more than 450 member companies and public agencies across the development sector. We invest in evidence-based research to inform our advocacy to Government, which enables our members to create liveable, affordable, and connected smart cities.

UDIA welcomes the opportunity to formally respond to members of the NSW Legislative Council's Portfolio Committee No. 7 as they conduct an Inquiry into the recently tabled Housing and Productivity Contributions Bill 2023 (H&PC), and ahead of their report due 27 June 2023.

UDIA has worked closely with the Productivity Commission and the Department of Planning and Environment (DPE) over the last 3 years to develop a comprehensive reform agenda for infrastructure contributions. As the Commissioner Peter Achterstraat identified, our industry could yield $12bn of productivity gains for the NSW economy on the back of comprehensive reforms. UDIA is supportive, at a high level, of the timely and efficient provision of regional infrastructure, such as transport, open space, and health facilities. In isolation, the H&PC intends to create these outcomes, and we are supportive on this objective.

NSW is gripped by a deep housing crisis. Industry and home buyers have been weathering the fastest ever increases in interest rates in Australia's history, several years of double-digit growth in construction materials costs, an energy price crisis, labour and supply chain capacity constraints and now we have record levels of builders collapsing.

The slow delivery of enabling infrastructure continues to hold back housing supply and further add to the cost of new homes. Yet, at the same time, increasing developer contributions, taxes and levies are making projects unfeasible, meaning further increases in house prices could create a development stalemate in NSW.

There are elements of the H&PC Bill that our members contend will add costs in the development process that will ultimately be passed on to purchasers. If the market cannot sustain higher prices, these increased costs will make projects economically unviable, delaying the delivery of new market and affordable housing supply and exacerbating the affordability challenge further.

We need to be exploring solutions that can unlock housing quickly, not onsetting the opposite. Given the perfect storm of factors already impacting housing, UDIA contends that any changes that further add to the cost of delivering new housing will be counterproductive to Federal and State government priorities.

UDIA strongly urges a broader review of all development charges, costs and contributions to ensure a detailed understanding of their impact on the supply and the affordability of housing. Currently the combination of the H&PC Bill, Water & Sewer Development Servicing Plans (DSPs) and the introduction of the National Construction Code (NCC) delivered through BASIX, will bake in increases to housing costs of up to $100,000 in the coming years. This need to be carefully weighed against productivity gains to ensure affordability is not further exacerbated. Further, UDIA recommends that any new charges that may be determined as necessary are introduced over a sufficient period of time to allow industry to price the changes into the acquisition process, and ensure projects do not become unviable.

UDIA acknowledges that we supported the Productivity Commission's Review of Infrastructure Contributions finally announced in 2020, but also wishes to highlight that we maintained that any reintroduction of development contributions must be accessible, consistent, and simple. These principles were taken directly from the Review. Further it was recommended that any reintroduction of state charges must be comprehensive to adequately prepare industry, with piecemeal approaches avoided.

Currently the combination of impending and proposed charges threatens significant increases to housing costs over the coming years. We comment as follows:

- Sydney Water and Hunter Water are proposing new DSP charges, which in isolation will add up to $46k in costs per lot in key growth areas. This is significantly higher than the $5-12k proposed by the Productivity Commission.
- For apartments, the $10,000 per unit H&PC proposed is a new cost for an industry already struggling to deliver, with commencements down 74% from the peak and is at the centre of the Premier’s strategy to deliver growth through transit-oriented development.
- The additional Biodiversity and Transport components of the charges are, as yet, unknown, with industry concerned that it may add yet another $25k per lot. While we again support the merit of these charges, at present they add both uncertainty and the threat of further exacerbating affordability.
- New BASIX standards to be introduced later in 2023 will add, on average, another $30k per lot to the cost of development to ensure compliance, and UDIA recommends a further 12-month deferral, as is already the case in three other states.
- The higher H&PC and DSPs charges are being introduced without reforms to local contributions. Currently, local contributions in many growth areas exceed $100k per lot.

As stated above, in some instances, the cumulative impact of the proposed charges could be in the magnitude of an extra $100k a lot. This endangers housing viability, constraining the types of medium and high-density dwellings that could most benefit the growth regions.

Additionally, the Bill lists Affordable Housing (AH) under ‘Regional Infrastructure.’ It is proposed that the Fund will intend to make provisions for AH, but there’s no further detail as to how this will be made possible. Further, AH is then not included in the DPE explanatory brochure for the H&PC. As AH already has an independent contributions scheme, inconsistencies like these only further add to a common thread of uncertainty.

What can be done?

In consideration of the above, UDIA would support the HP&C with the following conditions:

- There must be a minimum 3-year transition period to 100% of the contribution to ensure that feasibility is not materially impacted and that industry is adequately prepared. This is particularly true for apartments, as explained above, adding further costs to the recovery of a sector that is a key focus of the new Government.
- The charge should only be implemented after system wide reforms to NSW infrastructure contributions have been publicly demonstrated. This will include DSP charges being both deferred and wound back to a simpler system, reforms to local contributions that are aligned with the Productivity Commission's Review being implemented and having the Transport and Biodiversity charges openly revealed to the market.
- We commend the government for adopting the Urban Development Program (UDP) reforms UDIA has long advocated for. The proposed governance methods reaffirm our Empowered UDP recommendations, but without these being oversighted by establishing a new Cabinet Housing and Infrastructure Committee, chaired by the Premier, we believe the process could fail to achieve the productivity industry is needing.
- Allow contributions to be paid at Occupation Certificate rather than construction commencement to improve cash flow during the current housing supply crisis.
- Also, UDIA see some key opportunities to improve the productivity outcomes the Bill needs to embrace:
    - Reset the approach to Works-in-Kind in NSW and move away from the impactor-pays approach to create more pathways, enabling developers to deliver infrastructure supported by a simple credit trading system for surplus credits and next cash in the systems pays outstanding credits.
    - Look for greater efficiencies in the Voluntary Planning Agreement (VPA) process.

Without paying heed to the above, the desire for new market and affordable housing will stop in its tracks. Creating even more pressure on an undersupplied market will force prices and rents even higher than their already record highs in NSW. This could come at a great economic cost to our state and social impacts on our communities.

If the new Labor Government in NSW is serious about fixing the housing crisis, then we would strongly urge that Portfolio Committee No. 7 reports back to Parliament on the severe implications that piecemeal infrastructure contributions reform will have on housing affordability.

We thank you for this opportunity to comment and look forward to further engagement on this important matter.

Yours Sincerely,

Steve Mann

CEO, UDIA NSW