2024 NSW Pre-Budget Submission

We are city-shapers.

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About UDIA NSW

Established in 1963, the Urban Development Institute of Australia NSW (UDIA) is the peak industry body representing the leading participants in urban development in NSW. Our more than 450 member companies span all facets of the industry including developers, consultants, local government and state agencies.

UDIA invests in evidence-based research that informs our advocacy to state, federal and local government, so that development policies and critical investment are directed to where they are needed the most. Together with our Members, we shape the places and cities where people will live for generations to come.

Executive Summary

New South Wales (NSW), like the rest of the country, remains firmly entrenched in a housing supply and affordability crisis which is having dire impacts on our economy and society more broadly. The NSW Productivity Commissioner estimate this cost to be in the order of $10 billion dollars per year. This includes $1.5 billion due to a loss of talent as people leave NSW for other more affordable states, $2.9 billion on reduced innovation, and $6.8 billion on lost productivity ($3.2 billion to compensate workers for expensive housing, $2.5 billion on disposable income lost to housing and $1.1 billion lost to inefficient commutes).

Without a devastating reduction in house values, which would strike at the heart of Australia's collective household wealth, the only option is to address our constraints and increase the supply of housing. However, data released on 1 February by the Australian Bureau of Statistics showed that rather than having turned the corner on increasing housing supply we are still going backwards, with new building approvals having declined in NSW for seven consecutive months. The evidence of the undersupply crisis is most apparent in rents, with vacancy rates consistently below 1.5% statewide and annual rental increases persistently showing double digit growth.

While inflation has begun to stabilise the impact of 13 rate rises since May 2022 continues to take a toll on development feasibilities, consumers capacity to purchase and consumer confidence. Add to this the fact NSW continues to have the most expensive housing in Australia and some of the most expensive in the world. This is a direct consequence of increasing demand and the lack of supply to meet demand for new homes. Over a long period, NSW has failed to build enough homes for the growing population, resulting in higher prices.

The Government's pledge to tackle the housing crisis and commitment to the National Housing Accord target, being 377,000 new homes in NSW, is a welcome step in the right direction, and one that UDIA NSW and industry applaud. However, it is clear these targets are going to be extremely difficult to achieve without significant Government intervention and investment.

UDIA NSW acknowledge that in a fiscally constrained environment we must look to do more with less. That is why this submission includes opportunities to reallocate government expenditure to where it is most needed and where it will have the greatest impact, through improving existing systems, or to defer forward estimates to catalyse private industry investment, deliver housing earlier and bring forward the additional associated economic benefits. Where further capital investment is required to support development that is also highlighted.

This submission is focused on four key areas where budgetary allocations or reprioritisation will have the greatest positive impact for the development industry and society more broadly.

1. Make the planning system work.
2. Unlock enabling infrastructure.
3. Support development feasibilities.
4. Address Biodiversity

Recommendations Summary

Recommendation 1 - $7.5m is allocated to DPHI over 5 years to ensure adequate resourcing of new Housing Accord initiatives, including new assessment staff.

Recommendation 2 - $4m is allocated to the IPC over five years to ensure adequate resourcing of new Housing Accord initiatives, including a new Commissioner and staff.

Recommendation 3 - the NSW Government invest $3 billion in the coming 2024/25 financial year specifically into key roads and water servicing infrastructure such as stormwater and sewer.

Recommendation 4 – Government allocate $1.1B to forward fund the H&PC and create a positive cycle of infrastructure delivery and housing delivery.

Recommendation 5 - Allocate a further $20m over two years to fund the Urban Development Programs long term success and ensure meaningful structural changes for land use planning and infrastructure coordination in NSW.

Recommendation 6 - Create a Regional Growth Infrastructure Fund and commit $500m to the delivery of enabling infrastructure in the Hunter/Central Coast and Illawarra/Shoalhaven to unlock the existing pipeline for the region's housing and jobs.

Recommendation 7 – Government immediately introduce a comprehensive Works-in-Kind framework to enable infrastructure to be delivered by developers earlier than is possible via government agencies thereby unlocking housing sooner, bringing forward development contributions to Government.

Recommendation 8 - Enable Local Councils to borrow against the contributions they have collected and to pool funds across contribution plans, enabling the infrastructure to be delivered earlier and benefits for the community realised.

Recommendation 9 – defer developer contributions in identified locations under the accord initiatives for three years to support housing delivery in locations with latent infrastructure capacity.

Recommendation 10 – defer local and state contributions until occupation certificate to better support project cash flows.

Recommendation 11 - Exempt Development Corporations from Surcharge Purchaser Duty if the land is being purchased for the purpose of redevelopment into further residential accommodation.

Recommendation 12 – Provide government loan guarantees to support feasible apartment projects as the market struggles with lower project pre-sales.

Recommendation 13 - Double the existing $106.7m investment in the Biodiversity Credits Supply Fund and Taskforce.

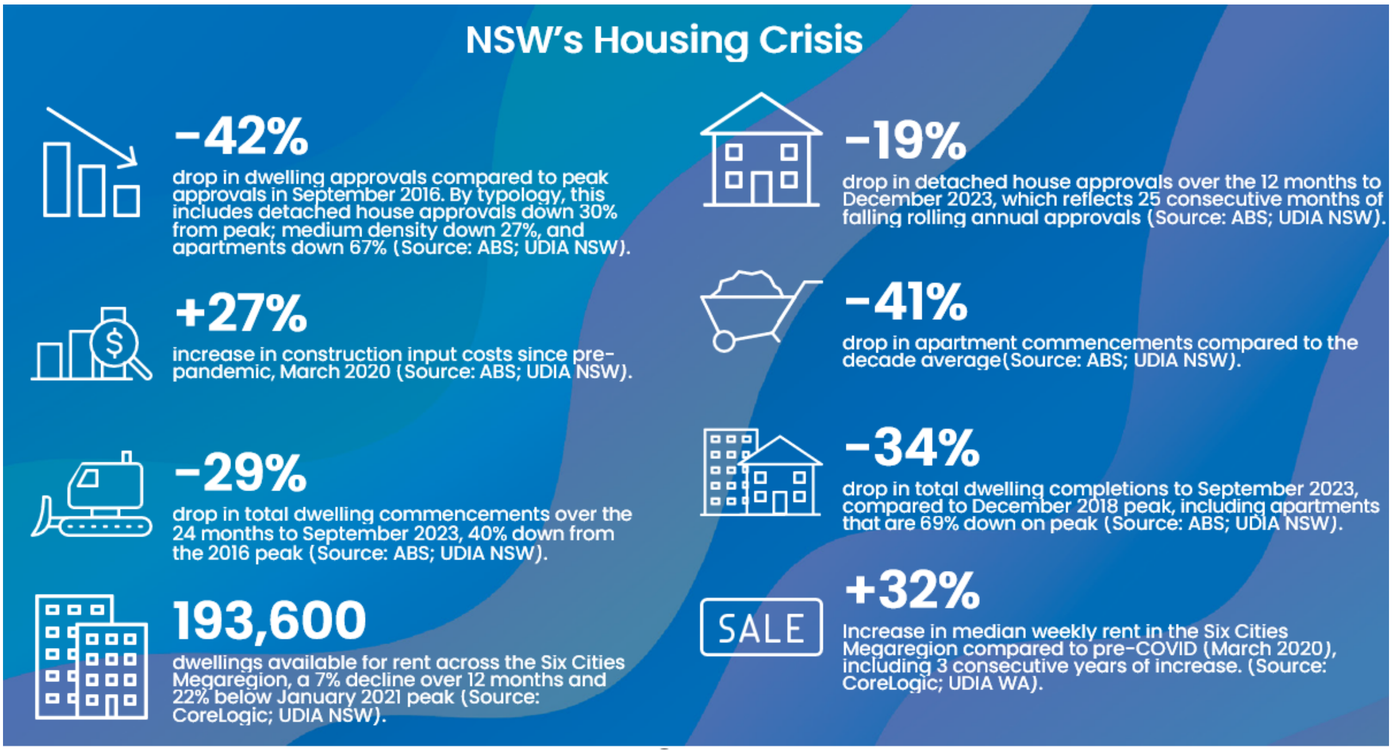
The Housing Crisis in Numbers

All data points and metrics paint a consistent and dire picture of a housing market in crisis in NSW. The image below outlines some of the most alarming statistics about the housing crisis and clearly show that we are yet turn the corner, with the macro-economic conditions, high cost of materials and persistent challenges with financing and resources continuing to impact the industry.

Industry is struggling to return to pre-covid productivity much less overcome historic development ready land shortages - Land prices have jumped 28% in the last 2 years & rental grew 37% since 2020 nationally. Approvals must double before the market can deliver a turnaround for completions in 2025, - for the next two years, completions are projected to further decline.

The Housing Australia Future Fund (HAFF), and Housing Accord (Accord) aim to build around 40,000 of the required homes as affordable and social dwellings. The lion's share (96.7%) of the 1.2m target relies on private development and delivery across the entire housing spectrum. We need to ramp up capacity and productivity to hit those targets.

While the development industry is the one tasked with delivering the much-needed housing many of the barriers to delivery are beyond our control. This is where Government must step up to the plate and pull as many levers as available to them to inject life back into the market and crate a sustainable pipeline for years to come.



Make the planning system work

Improving the planning systems was identified as one of the priorities of National Cabinet in August 2023 where all states and territories agreed to support the National Housing Accord target and to implement the National Planning Reform Blueprint (the Blueprint). The Blueprint acknowledges that one of the major impediments to housing delivery is slow and inefficient planning systems. This is especially true for NSW where the planning system restricts housing and drives up costs. A 2020 discussion paper prepared by the Reserve Bank of Australia titled the *Apartment Shortage* noted planning restrictions in NSW are driving up the cost of Sydney apartments by 68 per cent. This is alarming but also encouraging, as improving the planning system is one of the few levers which Government can pull. It does however require adequate investment across the NSW Department of Planning, Housing and Infrastructure (NSW DPHI) as well as subsidiary agencies and local government. While positive changes have occurred over the past year, with a number of significant housing policy announcements made, this needs to be matched by adequate funding to ensure the initiatives are delivered appropriately and that DPHI are adequately resourced to undertake new functions and assess a likely increase in development applications.

UDIA have been strong supporters of the NSW Government's commitment to the National Housing Accord and the ambitious housing initiatives announced to date. We are continuing to work with Government and agencies to ensure the policy settings are drafted to deliver the best possible outcomes. A key component of these reforms has been the introduction of new fast tracked assessment pathways including the State Significant Development (SSD) pathway under the affordable housing bonus and expected future pathways under the Transit Oriented Development program and Government Architects Pattern Book. These are essential new pathways to deliver housing under the initiatives in the allotted Accord period and to ramp up approvals as needed. In this regard it is essential that DPHI is adequately resourced to assess these new applications in a timely manner and not become a further obstacle for applications. It is recommended that $7.5m is allocated to DPHI over five years to ensure adequate resourcing of new Housing Accord initiatives, including new assessment staff. This is equal to 10 dedicated FTE for the five-year accord period.

Recommendation 1 - $7.5m is allocated to DPHI over five years to ensure adequate resourcing of new Housing Accord initiatives, including new assessment staff.

Likewise, a review of SSD applications may be referred to the Independent Planning Commission for their consideration. It is therefore critical that the IPC is also adequately staffed and resourced to account for an expected increase in referrals. It is recommended that an additional $4m be allocated to the IPC over 5 years to account for the expected increase in referrals. This is equal to one fulltime Commissioner and 2 dedicated FTE for the five-year Accord period.

Recommendation 2 - $4m is allocated to the IPC over five years to ensure adequate resourcing of new Housing Accord initiatives, including a new Commissioner and staff.

While DPHI and the Cabinet Housing Office are leading the states response to the National Housing Accord there are several other agencies which have a significant impact on the efficiency and effectiveness of the NSW planning system. While many of these agencies are focused on infrastructure delivery and are addressed later on in this submission, a number play a significant role in the strategic planning of the state or major precincts. The repeal of the Greater Cities Commission and the absorption of the Western Parkland City Authority (WPCA) into DPHI should enable the more efficient use of staff and the reprioritisation of resources to where they are most needed. There are however significant infrastructure challenges which are still impacting the ability of the development industry to deliver the surrounding Western Sydney Airport Aerotropolis precinct and in doing so, realising the vision for a precinct which can support over 17,000 ongoing and 200,000 jobs across the Western Parkland City.

The NSW Government should create a whole of government mechanism to expedite solutions to existing issues facing the community, industry and local government in realising jobs and housing in the Aerotropolis. The fast tracking of strategic delivery and servicing of existing zoned land around the Aerotropolis must be prioritised. UDIA recommends that the NSW Government invest $3 billion in the coming 2024/25 financial year specifically into key roads and water servicing infrastructure such as stormwater and sewer. The above-mentioned figure represents an average yearly spend in line with the Governments total infrastructure spend for the Aerotropolis and broader Western Parkland City, which is currently estimated at $120 billion over the next 20-30 years.

Recommendation 3 - the NSW Government invest $3 billion in the coming 2024/25 financial year specifically into key roads and water servicing infrastructure such as stormwater and sewer.

Unlock Enabling Infrastructure

The prioritisation, funding and delivery of enabling infrastructure remains the biggest single roadblock to housing delivery in NSW. In a fiscally constrained environment, we must develop a framework to do more with less. UDIA have released a number of signature "Building Block" reports which identify individual infrastructure projects which are holding back development across the Sydney Mega Region and the funding required to bring forward the infrastructure and subsequent housing outcomes. While the business cases for major infrastructure projects demonstrate the cost benefit we still have a difficult time reconciling those numbers, committing to funding and timeframes and delivering the long term benefits. The focus must be moved away from the initial capital cost and reframed to highlight the housing, employment and place opportunities that are unlocked and the long-term economic return, including the contributions and charges that Government will receive by unlocking new housing.

The implementation of the Housing and Productivity Contribution (H&PC) has created a framework which should be leveraged to better support infrastructure delivery across the mega region. Removing the nexus allows contributions pooled to be used where they are most needed and where they deliver the best housing outcomes. However, the process is still constrained as Government must wait for land to subdivided or apartments built before contributions are collected and funds allocated to infrastructure projects. This fails to acknowledge that the infrastructure is required upfront to allow the land to subdivided or the apartments built. To address this shortfall the Government should forward fund the H&PC fund allowing the infrastructure to be built, the subsequent housing delivered, and contributions collected. This first monetary injection will create a positive sustainable cycle where infrastructure is built which supports more housing and where more housing supports more contributions, allowing more infrastructure to be built.

Government should reprioritise the $400m announced for the Restart NSW Fund in the 22/23 Budget and the forward fund H&PC with a further $700m, the amount which is expected to be derived from forward contributions.

It is also noted that strategic planning work which was previously paid for through State Infrastructure Contributions (SIC) can no longer be funded out of the H&PC. This funding gap must be appropriately considered to ensure necessary strategic planning work can continue to be carried out, with the forward funding of H&PC able to be allocated for this purpose.

Recommendation 4 – Government allocate $1.1B to forward fund the H&PC and create a positive cycle of infrastructure delivery and housing delivery.

UDIA has long called for improved alignment between strategic land use planning and infrastructure planning. That is why we have been strong support of the empowered Urban Development Program (UDP) which seeks to dramatically improve this process. It is only by bringing all stakeholders to the table and agreeing on a set of defined metrics, data sources and projections that we can seek to agree on a plan for the future. UDIA have been encouraged by the progress of the UDP to date however we note that that program relies heavily on resourcing from DPHI to coordinate the respective UDPs and drive outcomes. In this regard it is critical that the UDPS are adequately resourced into the future to ensure that the work being undertaken now is not squandered and that the best possible long-term outcomes are delivered. UDIA Recommends that the UDP be allocated a further $20m over the next two years to fund their long term success, with the improved coordination of land use planning and infrastructure likely to bring returns many multiples of tis investment.

Recommendation 5 - Allocate a further $20m over two years to fund the Urban Development Programs long term success and ensure meaningful structural changes for land use planning and infrastructure coordination in NSW.

While much of the rhetoric around housing has focused on metropolitan infill locations, we must not discount the role and opportunity that the regions have to play in our future housing pipeline. UDIA NSW released a report in 2023 which outline how unlocking the Hunter Region has the potential to house an additional 1 million people even earlier than 2041 which is the date the NSW Government's Hunter Regional Plan 2041 expects this growth to occur by. However, for this to be achieved an additional 100,000 new dwellings needs to be built and aligned with new or expanded infrastructure. That is why UDIA are calling Government to create a Hunter Growth Infrastructure Fund and commit $500m to the delivery of Hunter enabling infrastructure to unlock the existing pipeline for the region's housing and jobs.

Recommendation 6 - Create a Regional Growth Infrastructure Fund and commit $500m to the delivery of enabling infrastructure in the Hunter/Central Coast and Illawarra/Shoalhaven to unlock the existing pipeline for the region's housing and jobs.

While infrastructure by its very nature is costly Government must begin to reframe business cases to focus on the direct and wider economic benefits that are derived and through better fiscal and project management realise those outcomes which in turn create more tax revenue for the state. An effective way of doing this is through a more expansive and consistent Works In Kind (WiK) program which allows private industry to deliver infrastructure in lieu of an monetary contributions obligations or on behalf of Government to bring forward housing outcomes, and to be reimbursed in an agreed timeframe and for an agreed amount. While UDIA acknowledge that a WiK program is being considered as part of the H&PC reforms this must be prioritised and expanded to allow WiK for all minor and major infrastructure works in accordance with an agreed framework. This allows for infrastructure to be delivered earlier, to agreed standards, supporting housing delivery which in tuns brings forward additional taxes and revenue for the Government. If managed appropriately it creates a positive cycle of infrastructure delivery and housing growth.

Recommendation 7 – Government immediately introduce a comprehensive Works-in-Kind framework to enable infrastructure to be delivered by developers earlier than is possible via government agencies thereby unlocking housing sooner, bringing forward development contributions to Government.

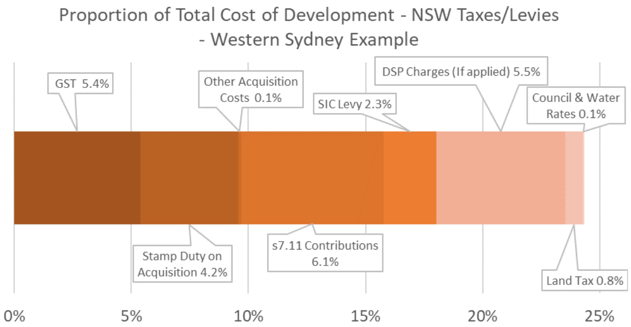
UDIA NSW 22/23FY Council Performance Monitoring report has identified more than $3.5B is being held by local councils in unspent contributions. This is a 9% increase on the previous year and represents a considerable pool of funds which has huge potential to deliver local infrastructure but is just being wasted. Local councils, however, are hamstrung by a restrictive framework which does not allow them to borrow against these funds or move funds between alternative funding streams. This means that the council are reliant on waiting for the full value of their contribution towards infrastructure works to be collected through local contributions before the funds can be spent and outcomes delivered. This is a flawed process which results in funds being quarantined and infrastructure delivery being severely delayed. A process should be put in place to enable Local Councils to borrow against the contributions they have collected and to pool funds across contribution plans, enabling the infrastructure to be delivered earlier and benefits for the community realised. A similar measure was introduced as a response to the global pandemic and was successful in stimulating infrastructure spending and delivery.

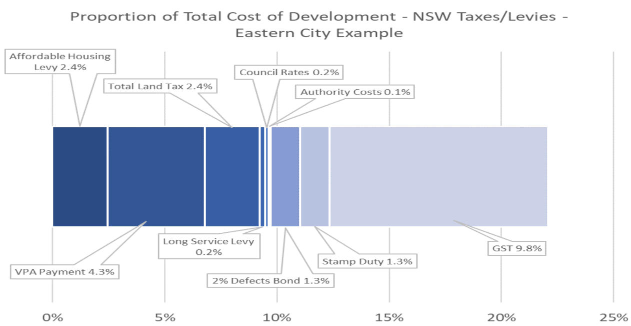
Recommendation 8 - Enable Local Councils to borrow against the contributions they have collected and to pool funds across contribution plans, enabling the infrastructure to be delivered earlier and benefits for the community realised.

Support Development Feasibilities

The Government are relying on the private development industry to deliver the vast majority of housing under the National Housing Accord targets. Unfortunately, this challenge also comes at a time when the broader macro-economic conditions including inflationary pressures, financing, construction costs and resourcing is having a major impact on development feasibilities resulting in many projects being rejected or deferred.

And while the broader macro-economic conditions cannot be addressed by the NSW Government alone there are measures that can be taken to support the development industry during this challenging time and realise the desperately needed housing outcomes. One of the major impediments to feasibilities at the moment is this cumulative impact of contributions, fees and charges on development which can be up to 30% of the total costs of a project based on primary evidence from UDIA members.





Source: UDIA NSW 2023

This is severely limiting housing supply and ultimately reducing the states ability to collect contributions and in turn deliver more infrastructure. We have the system backwards in NSW. By deferring developer contributions for the first 3 years of the Accord we can turbo charge applications in the areas which are the focus of the accord initiatives and create a positive feedback loop where more applications are submitted, approved and built. This will support housing in the locations where Government have stated there is latent capacity in the existing infrastructure. In this regard a deferral of contributions will not impact infrastructure capacity in the identified locations but will bring on the desired housing. Contributions will still be collected for area outside of the accord initiatives, further incentivizing development in the locations that Government has earmarked for growth. Increased housing supply will offset the reduced contributions through improved economic outcomes and increased revenue for the State.

Recommendation 9 – defer developer contributions in identified locations under the accord initiatives for three years to support housing delivery in locations with latent infrastructure capacity.

Managing cash flow is critical for any development project. Property development is a high risk endeavor where a large amount of debt and capital is deployed early with returns not guaranteed and not realised until very late in the process. This means that delays in the process or payments required early can have a material impact on a development's feasibility and whether or not a project is completed. During the COVID- 19 pandemic the Government introduced measures to assist development projects. One of the most successful measures was the deferral of contributions from construction certificate or strata certificate to later in the process at occupation certificate. This was a meaningful change that did not divest developers of their obligation but rather assisted developments during the construction process and further ensured projects were realised and contributions ultimately received. This measure should be reintroduced now to assist projects during the challenging economic period and to drive applications and approvals during the Accord period.

Recommendation 10 – defer local and state contributions until occupation certificate to better support project cash flows.

Surcharge purchaser duties are charged if you are considered a foreign person and acquire residential-related property in NSW. This is inadvertently capturing Australian developers who are a subsidiary of an overseas multi-national and as such are being charged an additional charge when purchasing residential sites for development into apartments. This negatively impacts the supply of housing in NSW as it creates an additional charge on development. While exemptions exist for commercial purposes the same exemption does not apply for residential purposes.

Recommendation 11 - Exempt Development Corporations from Surcharge Purchaser Duty if the land is being purchased for the purpose of redevelopment into further residential accommodation.

UDIA research has identified that one of the biggest risks to apartment projects proceeding remains the difficulty in achieving pre-sales and finance. Governments around the world, including NSW, regularly provide loan guarantee schemes. Indeed, as part of the response to the pandemic, the NSW Government provided up to $750m via a loan guarantee scheme to help universities through the COVID-19 pandemic. We believe that an equivalent scheme for apartments could play a significant role in reducing risks to the apartment pipeline. This guarantee could be provided to certified developers approved by the NSW Building Commissioner for feasible projects which have achieved a base level of sales. This supply side solution would support the work of the Commissioner and help bridge the time delay for completions, whilst maintaining significant jobs in the construction sector as we look to support the post pandemic economic recovery in NSW.

Recommendation 12 – Provide government loan guarantees to support feasible apartment projects as the market struggles with lower project pre-sales.

Address Biodiversity

Uncertainty across the legislative and regulatory framework for Biodiversity in NSW is having a detrimental impact on development and the delivery of much needed housing. It is in turn reducing the economic productivity of the state and resulting in poor environmental outcomes as well as social outcomes. Furthermore, the system for the conservation of high biodiversity value land and establishment of credits is not delivering the and Biodiversity Credits Supply program is inadequate and unsustainable. And while UDIA are working constructively with Government at both the State and Federal level to address the regulatory challenges there are immediate opportunities to improve the process through further investment in the Biodiversity Credits Supply Fund and Taskforce to work with private landholders to conserve their land and generate biodiversity credits which in turn supports housing delivery, jobs and infrastructure in strategic growth areas.

Recommendation 13 - Double the existing $106.7m investment in the Biodiversity Credits Supply Fund and Taskforce.

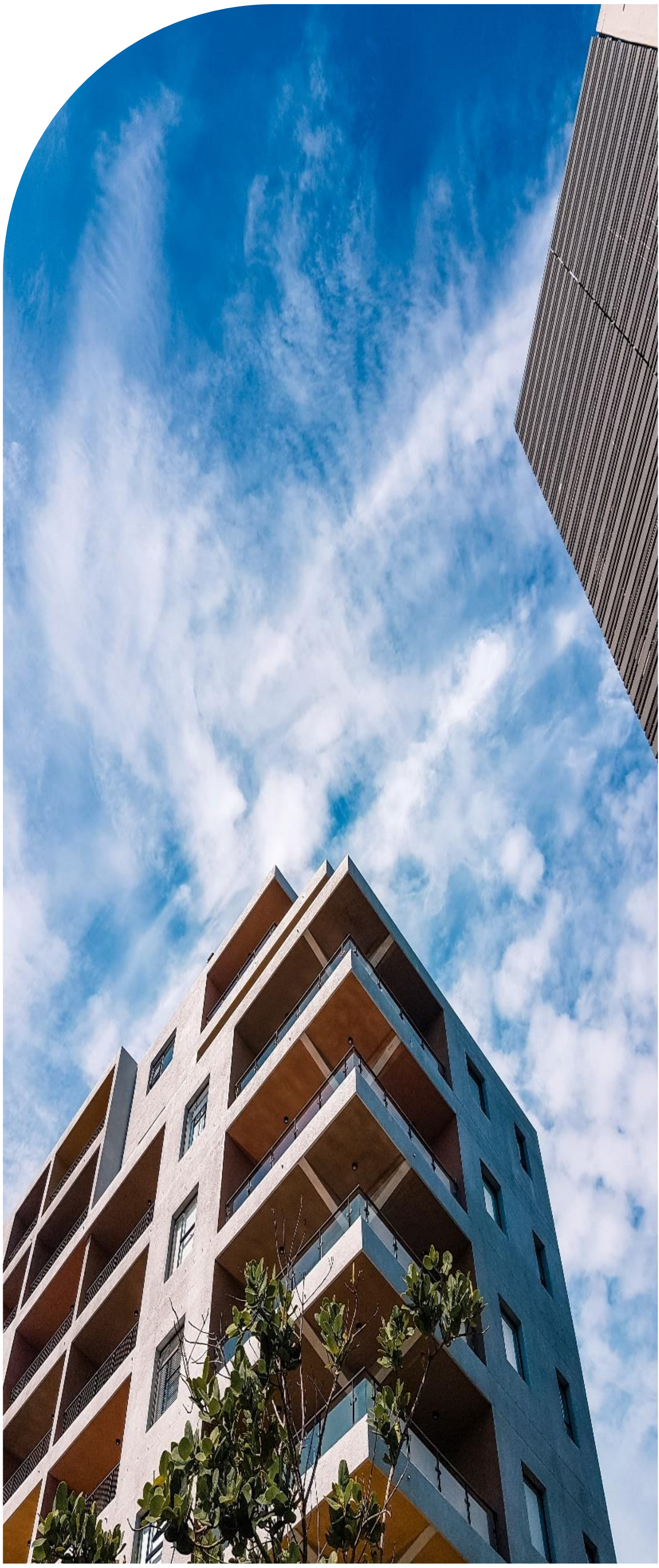
Conclusion

Meeting NSW's fair share of the National Housing Accord, being 75,000 new and well-located homes every year for the next five years, is a significant challenge made more difficult by broader macro-economic conditions and increased costs which is making development in NSW marginal at best.

With private industry tasked with delivering the majority of housing under the Accord efforts must be taken to ensure development is viable or capital will be reallocated to more secure lower risk endeavors. Resulting in a worsening of our housing crisis and continuing to cost the economy circa $10B a year.

Government must take a longer-term investment focused view of the economy. With a view that establishing a sustainable development pipeline and increasing housing supply will return a 2.8 times multiple of the amount spent or deferred through direct revenue, stamp duty, and the wider economic benefits, safe and secure housing and reduced reliance on Government support.

The development industry can build the new homes that NSW needs to ease the housing affordability crisis. The recommendations in this submission will go a long way in enabling that to happen.



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