Strategy for Infrastructure Funding in NSW – May 2020

UDIA NSW understands the critical importance of the development industry in driving the NSW economy. Without urgent interventions the economy is headed for the lowest levels of dwelling completions in Sydney since 1953.

This will have a critical damaging impact on Sydney and regions where growth occurs, but across the State with the development supply chain supporting many regional communities. The focus must be targeted interventions that will enable new housing to be delivered now and a pipeline for growth into the future.

The underpinning principle for infrastructure driving economic stimulus should be that it can commence construction quickly and allow construction of both the infrastructure and the broader property opportunity that it unlocks to commence as soon as possible.

This delivers a double dividend for government with new infrastructure delivering immediate jobs during the construction phase and the subsequent housing delivery bringing jobs now and in the next twelve months. Importantly this boost to housing supply helps to address the ongoing affordability pressures across metropolitan Sydney and the regions.

This is underpinned by certainty for development to proceed with local infrastructure contributions maintained at a reasonable rate, and a focus on enabling infrastructure.

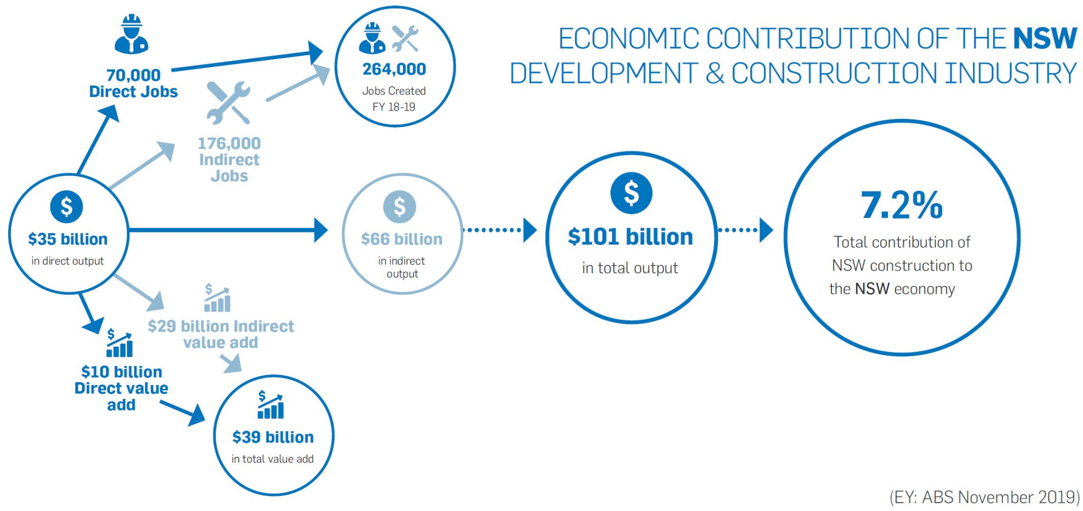
UDIA's recommendations in relation to each infrastructure type are summarised in the table below:

Category	Description	Recommendations
Local Infrastructure	Local infrastructure is delivered by councils and supported by section 7.11 contributions and includes local roads, stormwater, and open space.	1. Create certainty for s7.11 contributions by leveraging the AIF. 2. Work with local government to unlock $2.6 billion in unspent contributions.
Regional Enabling Infrastructure	Enabling infrastructure is a technical pre-requisite for development to occur and includes items such as new regional roads, water, electricity, and waste water.	3. Focus investment here to expedite new housing supply.
Regional Supporting Infrastructure	Regional level infrastructure that provides additional amenity to communities such as hospitals, schools, emergency services, road upgrades that responds to development, but is not pre-requisite to development occurring.	4. Sweat existing assets to focus on achieving the double-dividend These infrastructure items do not provide the 'double-dividend'
City-Shaping Infrastructure	This is transformative infrastructure that provides new connections and unlocks entirely new development fronts, examples include Metro, Rail, and Major Highways	5. Only invest in opportunities that will unlock new development fronts that have been clearly indicated. These infrastructure items often take too long to provide a rapid stimulus.

Economic Context of the Development Industry

UDIA NSW's focus this year was initially on planning reform, with a clear message that planning reform is economic reform. UDIA NSW has been strongly responding to the impact of COVID-19.

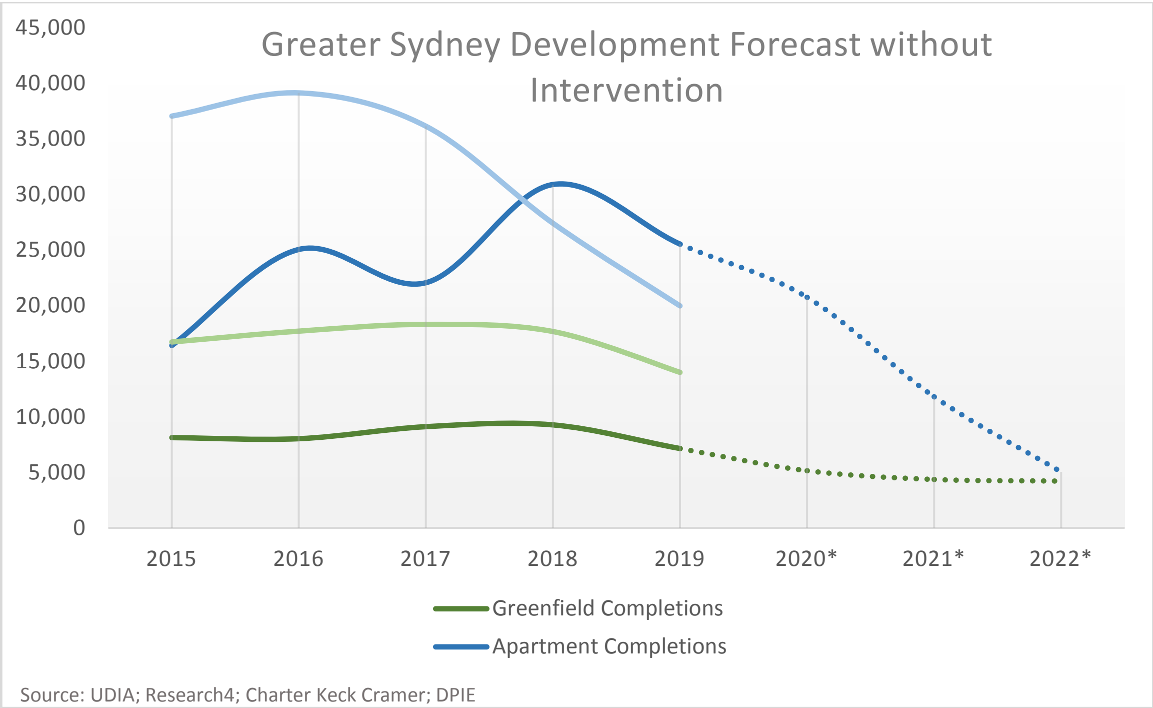
The NSW Development Sector already contributes 7.2% of the NSW economy and it is an essential industry, which has the potential to contribute even greater amounts over the next few months and lead the State's recovery from the broad ranging impacts of COVID-19. This will require concerted actions from the government to keep the sector moving and setting up the sector to deliver the kick-start towards recovery.



There is a choice for NSW, based on the current pipeline (prior to COVID) – Sydney was headed for a best case of 6,400 apartment supply in 2022.

Our residential greenfield market has typically been robust through market fluctuations; however, it is facing increased pressures through increased taxes and charges and a lack of clarity of the forward plan for enabling infrastructure. A focus on restocking this market and supporting interventions to rebuild the apartment sector will help ensure we can reverse the hollowing out of forward supply pipeline that we are observing.

In 2017 the Sydney greenfield market delivered 9,227 lots and these have since halved to 4,219 in 2019 with a similarly low completions outlook. UDIA forecasting based on Research4, and Charter Keck Cramer data shows that Sydney is head for completions of greenfield dwellings and apartments in infill locations of circa 9,250 in 2022.

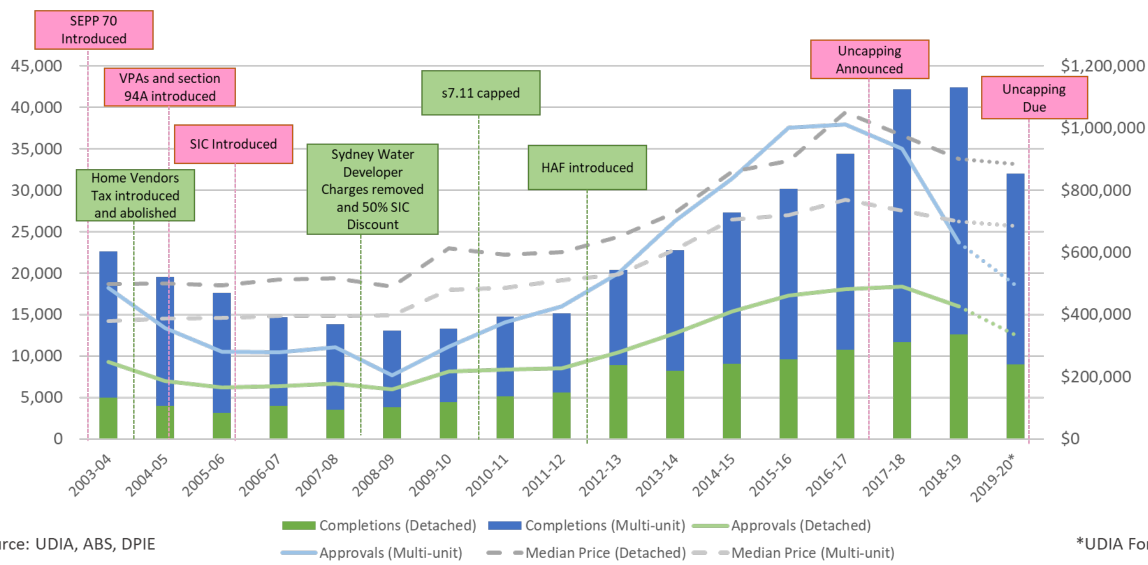


Without urgent intervention we will be risking the lowest levels of housing supply in Greater Sydney since 1953 and below the 13,041 which was delivered in 2008-09 Financial year at in the middle of the Global Financial Crisis and following increasing taxes and charges on development.

The housing supply delivered during what NSW Treasury referred as the 'seven-year slump' set up an undersupply of 100,000 dwellings in NSW driving an affordability crisis (2016 Intergenerational Report).

This development market only recovered with subsequent actions to eliminate charges, discount the SIC, and introduce the cap on local contributions as illustrated by the chart below.

Greater Sydney Price (whole of market), Dwelling Approvals and Completions



Source: UDIA, ABS, DPIE

*UDIA Forecasts

Leverage the AIF to provide certainty for housing supply

<u>Objective:</u>

Leverage the Acceleration Infrastructure Fund (AIF) so that it delivers infrastructure, while supporting a reasonable contribution rates to provide certainty for housing supply.

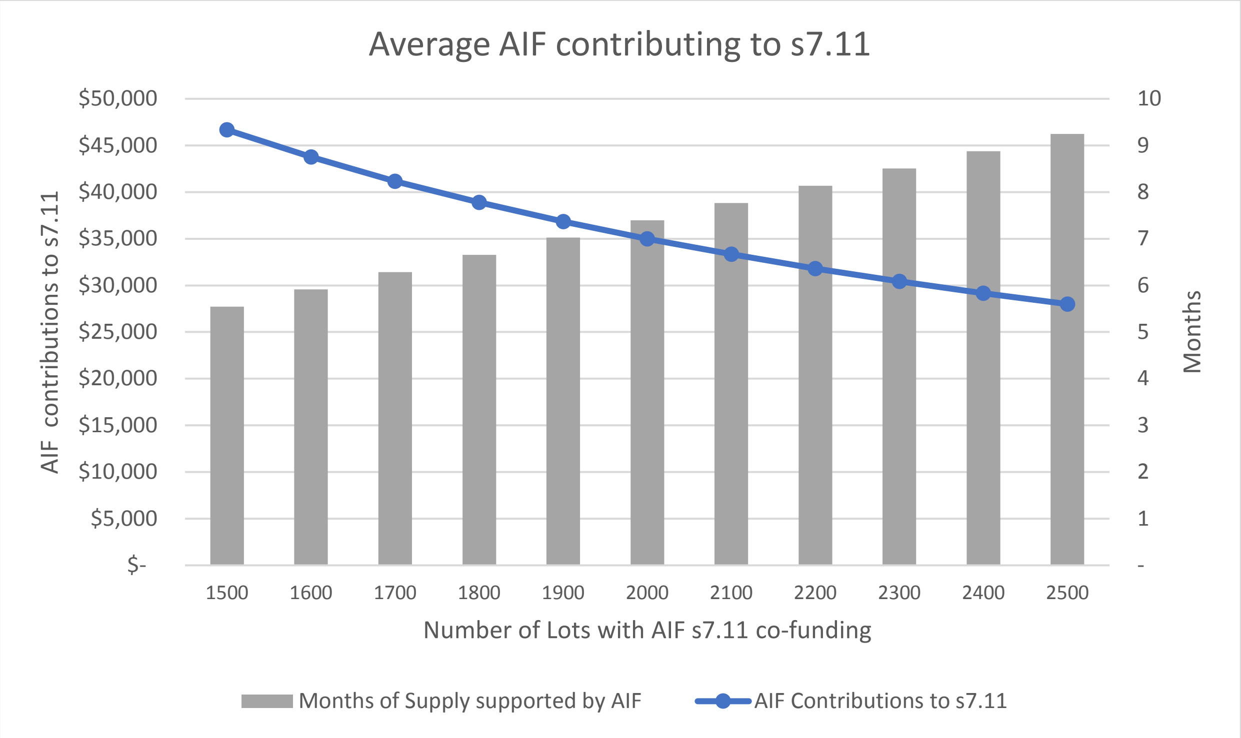
<u>Proposed Model</u>:

For the first 1,500 dwellings (as a minimum) approved in North West Growth Area precincts within The Hills and Blacktown from 1 July 2020 a portion of the AIF contribution will be accounted as a 'works-in-kind' contribution to support the Section 7.11 contribution. This will effectively 'discount' the Section 7.11 contribution.

The AIF fund can support the delivery of a minimum of 1,500 dwellings at an average AIF co-funding of $46,667 per lot applied to the IPART assessed contribution rate.

If the developer contribution is held at the current $45,000 per lot cap, the total lot output would depend on the overall density of the precincts supported. However, we believe the likely result will be at least 1,500 lots and possibly up to ~2,500 lots.

The Chart below shows the level of contribution the AIF could provide at a given level of dwellings to support, and the period of support this would likely provide (based on the completions in the North West Growth Sector since 2016).



Key Benefits for all stakeholders:

- Industry receives an immediate benefit from the bringing forward of projects, as to ensure the investment in that infrastructure delivers a housing dividend as well via a reduction in the per lot contribution payable. The difference between this and the now closed LIGS scheme is that the State government is directly funding the infrastructure, importantly though the benefit of the spending is immediately available to discount the cost to the developer.
- The benefit of the savings is consolidated to support the COVID-19 recovery, instead of being amortised over the life of the plan. This will mean they are more likely to be realised as new housing supply and government could come up with a 'use it or lose it' policy within a 6 to 12 month period and any other appropriate governance requirements to ensure that only those that are able to move quickly benefit from the scheme, creating equity and transparency.
- This model is an accounting approach that will help spread the benefits of funding infrastructure beyond the affected plan to the broader growth area.
- From the Council's perspective and for their communities AIF would still provide funding to accelerate infrastructure, but it would also enable development to proceed by offsetting development contributions and deliver the same infrastructure in the plan, but at an accelerated rate with developer contributions.

Key Challenges:

The current contributions regime is extremely rigid and this scheme would rely on credits to be able to be traded between plans to properly account for the contributions and ensure that the infrastructure across all plans are properly allocated.

This is achievable and could be supported with a Ministerial Direction that seeks to provide this initial flexibility.

Modelling the Industry Benefit:

As an example, we have applied the model to Blacktown City Council's Contribution Plan CP22 for Rouse Hill (Area 20 and Riverstone East), Second Ponds Creek Catchment, this model provides certainty for industry to continue to deliver:

	IPART Assessed Contribution Rate	AIF Co-Contribution	Developer Contribution
Low Density (15 dw/ha)	$93,186	$48,186	$45,000
Medium Density (20 dw/ha)	$82,624	$37,624	$45,000
Medium Density (25 dw/ha)	$64,939	$19,939	$45,000
High Density (45 dw/ha)	$57,155	$12,155	$45,000

More dwellings could be supported by AIF funding, however this would provide a lower overall level of support for development. This needs to be considered against the development feasibility impacts of a sudden increase in contribution rates, as we seek stimulate the economy through COVID-19. UDIA modelled the impact of uncapping contributions to development feasibility and it is shown below:

Project Returns Impact - higher 7.11							
S7.11 Charges	**RLV ($M)**	**Margin (%)**	**Margin ($)**	**IRR (%)**	**RLV Impact (%)**	**AVE Lot Price ($) change***	**AVE Lot Price (%) change***
$30,000 in 2017/18	$24.9	19.3%	$10.1	20.0%	0.0%	$436,500	0.0%
$55,000	$21.0	8.7%	$5.0	10.8%	-15.5%	$475,800	9.0%
$65,000	$19.5	4.9%	$2.9	7.0%	-21.7%	$491,500	12.6%
$75,000	$17.9	1.4%	$0.9	3.2%	-27.9%	$507,200	16.2%
$85,000	$16.4	-1.8%	-$1.2	-0.7%	-34.1%	$522,900	19.8%

It is clear the industry cannot afford significant increases to development contributions/the cost of infrastructure, and therefore to get the economic benefit of accelerating planning we need a solution to infrastructure funding.

Compared to the base case of removing the cost of an item from a plan, The UDIA model provides a substantial saving to promote development within the next 6 to 12 months, while still delivering the infrastructure in the plan. In addition, it will help the industry transition to an uncapped environment or a new infrastructure funding policy framework which is being considered by the Productivity Commission.

<u>Further expansion:</u>

This scheme could be further expanded if seen to be successful, through either additional State or Federal Funding that seeks to deliver local infrastructure followed closely by housing, that will leave a legacy in the community.

Work with local government to unlock $2.6 billion in unspent infrastructure contributions

UDIA NSW analysis has revealed that there is $2.6 billion in unspent local infrastructure contributions in Council accounts across Greater Sydney, Hunter, Illawarra and the Shoalhaven regions. Investing in local infrastructure supports tier two and three contractors who are not positioned to bid for major infrastructure projects during this time.

There are several barriers to unlocking this infrastructure including partial collection of funds, strict rules for the use of the funds, and limited council resources to progress procurements.

The Minister has indicated he is willing to use his powers to remake plans to get money out of the door, and his preference is to collaborate with councils instead of directing councils to remake plans.

UDIA NSW supports the Minister's willingness to ensure infrastructure is delivered. We are supportive of council and industry collaborating to prioritise the infrastructure delivery and smoothing that process by remaking plans. This would help address some of the strict rules in the use of the funds.

Focus investment on regional enabling infrastructure to further the development frontier

The focus on regional enabling infrastructure unlocks new development opportunities, UDIA and its partners have a unique ability to provide data driven insights into the regional enabling infrastructure that can unlock future opportunities.

The Urban Development Program provides clear data insights as well as an infrastructure frontier, which can be informed through a 'building blocks' approach to catalytic infrastructure.

The UDIA's Urban Development Program (UDP) Stage 1 - Blacktown Pilot was completed in 2018/19 and shows how to identify the enabling infrastructure gaps needed to deliver the next five year forecast of residential and employment land. The geospatial model shows the missing piece in the delivery of enabling infrastructure – water & sewer, roads and electricity, linked to the delivery of housing and jobs. The model can enable the prioritisation of where to invest in enabling infrastructure to maximise a double delivery into a shovel ready development pipeline for housing and employment.

The UDP – Stage 1 Blacktown Pilot was completed with the collaboration of Blacktown City Council, major utility providers and the development industry, based on the following process:

- Established a robust and efficient collaborative methodology to uniformly track the take up and forward supply of greenfield residential land supply
- Consulting with the development sector on project scale forecasts of yields and timing and the missing piece needed for enabling infrastructure requirements

- Growth sequencing and service agency coordination - Identify & help coordinate and prioritise the enabling servicing infrastructure required to realise supply in each project/precinct.

- 3D future city digital communication platform - Urban Pinboard is tailor-made for communicating large scale and complex development proposals to a variety of stakeholders.

- Establish a collaborative monitoring of the pipeline of redevelopment projects across all established urban areas.

The UDP model can be used to show shovel ready enabling infrastructure, which will then provide a double delivery into what will then be shovel ready development of housing and employment land. This investment will create momentum in the development pipeline providing a second wave of return as the economy moves into recovery. The model can be calibrated to look at different time periods in order to identify the infrastructure funding frontier and the ROI for, economic impact, jobs, housing, employment land and other public benefits.

UDIA NSW has assembled a UDP Taskforce to spearhead the development of a 'best-in-breed' UDP Stage 2 for Sydney's South West with key collaborators being DPIE, Sydney Water, Endeavour Energy, plus Camden, Campbelltown and Liverpool Councils. We have had discussions with the NSW Spatial Digital Twin and have in-principle agreement to have integration and data-sharing with this new platform.

UDIA is a part of the existing UDP programs in the Hunter and the Illawarra and has completed its' Building Block report (including the Central Coast), which prioritised infrastructure through cost per new lot that can be delivered quickly. UDIAs Building Blocks reports in the regions provide the platform to be leveraged in developing the Urban Pinboard UDP.