

UDIA NSW Housing Crisis Action Plan

June 2023

"Housing supply needs to be the highest priority of the Premier and Ministers across the new NSW Government and the priority must be shared by every Government Department impacting city making, to ensure the delivery of new housing is enabled where possible across all of government's pursuits"

Steve Mann, CEO, UDIA NSW.



The housing crisis in NSW is now at a tipping point. Without immediate Government intervention the undersupply of housing will become further entrenched and bring with it increasingly destructive impacts for our society. The dream of owning a home will be out of reach for many, homelessness and housing insecurity will increase, as will overcrowding, which will all further the challenges of social inequality.

Our **UDIA Housing Crisis Action Plan** builds upon the recommendations we made in our election campaign manifesto – **Let's Tackle the Housing Shortage in NSW!** and while we acknowledge that progress and alignment with a number of those recommendations have been promised by the new NSW Government, we need immediate action to stem the worst impacts of this crisis and to shore up supply of housing in NSW.

Evidence of a growing housing crisis is defined clearly in the table below, with the proliferation of unfavourable conditions for both producers and consumers of housing has led to an industry-wide collapse in confidence, and threats that this will persist have as yet not been abated.

NSW Housing Indicators	Pre-COVID (H1 – 2020)	Now (H1 – 2023)	Change over 3 Years
Growth in Weekly Rents	-0.6% YOY	+13.8% YOY	+25%
Vacancy Rate	4.2%	1.4%	-67%
Home Price to Income Ratio	13.8	17.6	+28%
Growth in Construction Costs	+1.0% YOY	+12.3% YOY	+26%
Change in New Sales	+20.2% YOY	-47.6% YOY	-34%

Sources: UDIA NSW; CoreLogic, SQM Research, ABS

In the battle to drive down inflation, the RBA has used the only blunt tool available to it and lifted interest rates at a pace never seen before in Australia. This is dramatically impacting the feasibility of development through increased borrowing and holding costs, while at the same time driving down consumer confidence which is critical to deliver new supply.

As part of the Federal Government's Housing Accord target to build one million well located new homes over 5 years, NSW must deliver its share being 315,000 houses for the people of NSW to help Tackle the Housing Shortage. It is now understood that the NSW Department of Planning & Environment (DPE) is forecasting the delivery of just 36,000 new homes a year over the next 5 years. This will amount to just over half of the 63,000pa new homes needed to achieve NSW's share of the National Housing Accord target for 1 million homes across Australia.

Decisions made now will be critical for housing affordability in NSW in the medium term, therefore we must see clear actions to enable new housing supply that will meet the current and growing demand from local and international immigration.

On 3 May Tawar Razaghi wrote in The Sydney Morning Herald – Mortgage Affordability worst since 1990 for house buyers – House buyers are facing the worst mortgage affordability in more than three decades, due to the fastest interest rate rises in a generation. Even though the cash rate is nowhere near the 17.5% it reached in 1990, house prices have soared relative to incomes since then. BetaShares modelling found an average buyer today would need to pay 45.4% of their household income to afford the median house (in Sydney 61.8%), the highest level since the September quarter of 1990.



"We're going to have 2% more people in the country this year. The capital stock is not increasing 2% ... redesigning our cities and solving the housing problem is the single biggest thing we could do, and that we need to build the transportation infrastructure to support that." RBA Governor Philip Lowe giving evidence in Senate estimates.

HOUSING CRISIS AT TIPPING POINT IN NSW

NSW will require in the order of 70,000 building approvals annually, or 350,000 total approvals over the 5-year period, to meet the Federal Housing Accord target. State projections have approvals sitting at about half of this number and expected to deliver just 180,000 new dwellings over the same period. Projections by BIS Oxford Economics show that the historic lag period between annual approvals and completions, which are both currently tracking well below required levels, will again curve down below approvals and perhaps sharper due to capacity constraint delays in the system in the years ahead.

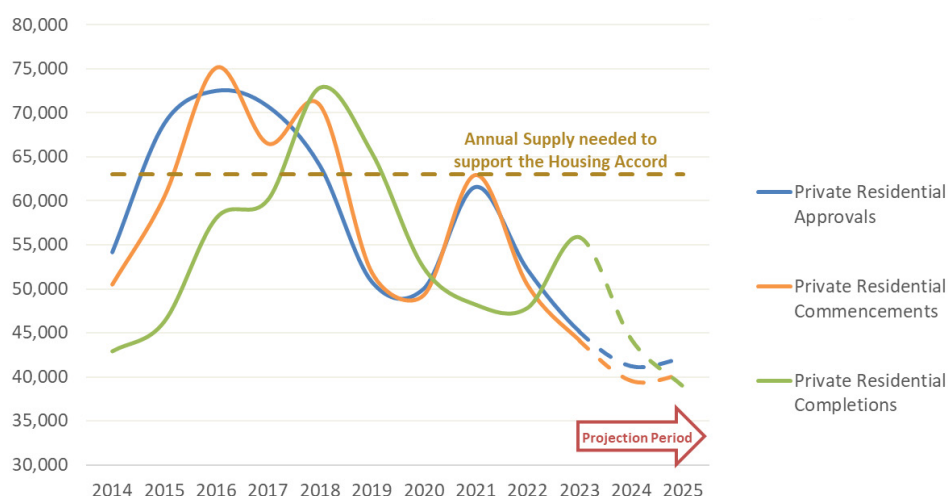
A multitude of factors are continuing to contribute to this crisis. For example, the annual rise in construction costs is more than 4 times the 21st Century average, and 2023 saw the highest consecutive quarters of growth since 1980. These rising costs have filtered

through to declining development feasibility, and hence declining housing supply. **There are also local factors playing a significant role in the worsening state of housing in NSW, including the slow and inefficient planning system, prohibitive policies and controls, lack of coordination between housing supply and infrastructure and competing objectives such as biodiversity. These are within the new Government's wheelhouse to address.**

The NSW planning system is widely recognised as the most overly complex and slow, resulting in significant delays and added costs when developing land and housing. **RBA found in 2020 that costs associated with the planning system accounted for up to \$350k of the sale price of an apartment in NSW. This is a major factor explaining why homes in Sydney are the second least affordable in the world (Demographia International Housing Affordability - 2023).** The planning system fails to encourage and support growth, further contributing to a lack of supply as evidenced by only 8 out of 33 Local Government Areas in metropolitan Sydney are set to reach their housing targets by 2025-26.

The slow delivery of enabling infrastructure continues to hold back housing supply and further add to the cost of new homes. 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.

BIS Oxford Economics - Projections of the Future NSW Housing Pipeline



Source: ABS; Oxford Economics; UDIA NSW

Current Housing Delivery	Detached Houses	Medium Density	Apartments
Approvals (year to Apr 23)	25,300 (-19% from peak)	11,600 (-16% f/p)	11,200 (-70% f/p)
Commencements (year to Dec 22)	27,600 (-14% f/p)	11,700 (-7% f/p)	9,200 (-74% f/p)
Completions (year to Dec 22)	25,900 (-21% f/p)	9,700 (-18% f/p)	10,200 (-68% f/p)

Source: ABS; UDIA NSW

"Australians can't afford the housing crisis deteriorating further. We must build more social and affordable housing immediately."

Wendy Hayhurst, CEO Community Housing Australia

ACTIONS TO SUPPORT HOUSING SUPPLY

'NSW Government must pull on all the levers available now to boost housing supply in the years ahead. UDIA has worked with our members to put together this list of key reforms, firstly to turn the corner on housing approvals and then back to delivering the housing needs of our communities and as immigration grows to bring the workers needed to get NSW back open for business,' said Steve Mann, CEO, UDIA NSW

There is much to be done and government must build a development-ready pipeline of approvals across the continuum of housing supply.



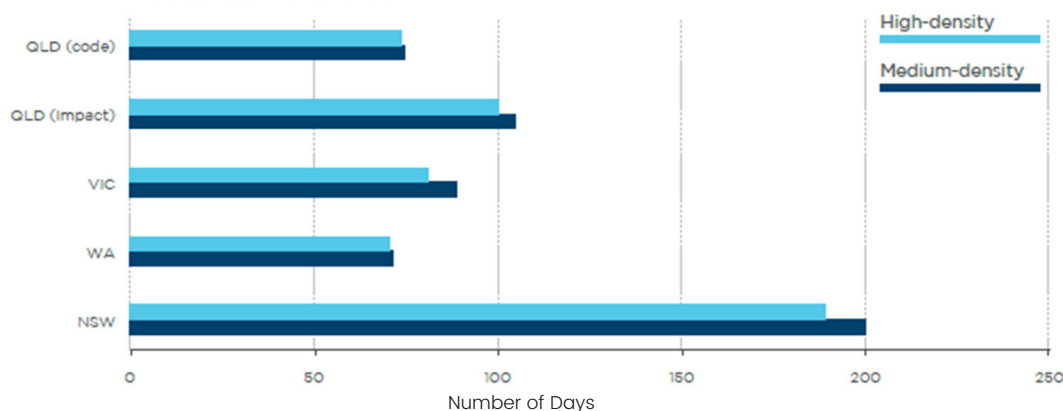
Make the NSW Planning System Work

- 01 -** Urgently progress the State Assessed Planning Proposal (SAPP) process for applications made in January 2023 for projects over 1,000 homes in Sydney and 300 homes in the regions, currently awaiting assessment by DPE.
- 02 -** Introduce a State Significant Development (SSD) pathway for residential development in accessible locations for Transit Oriented Development (TOD) near existing and new Metro, heavy and light rail stations, and rapid bus interchanges, allowing state government to assess housing applications of state importance. This should apply across the Six Cities and will require resourcing of the Department and Independent Planning Commission (IPC) and the establishment of a separate TOD SSD panel.
- 03 -** Introduce a 30% FSR / Height Bonus on major developments in accessible locations to deliver affordable housing at scale by private industry. UDIA modelling shows that one-third of the bonus units can be returned to government working with CHP to apply their tax efficiencies (i.e., a SAPP project in Sydney of 1,000 units, would gain an additional 300 bonus units, of which 100 units would be gifted to a CHP in a separate freehold building(s) with a clear pathway for social license). A site compatibility certificate system could be set up to ensure it is in the right locations and non-discretionary development standards should be imposed. Also, two-thirds of the bonus units could be purchased by the proposed Federal HAFF fund or the NSW Government at less than the cost of government building on their own land.

Make the NSW Planning System Work (contd)

- 04 -** Overhaul the rezoning process to create a quicker, simpler, and fairer system, bringing forward development-ready land for housing. E.g. allow changes to the planning proposal without having to start again.
- 05 -** Expand complying development controls to allow medium-density residential developments (6-8 stories), speeding up assessment times for simple proposals.
- 06 -** Employ technology tools, including Artificial Intelligence, to speed up development assessment, reducing the strain on under-resourced councils.
- 07 -** Charge the Greater Cities Commission (GCC) with supporting councils to achieve their Local Housing Strategy (LHS) targets and increase densities.
- 08 -** Give clearer recognition of Land Lease in NSW planning legislation as a genuine solution to housing affordability and to stop Council's from avoiding this tenure.

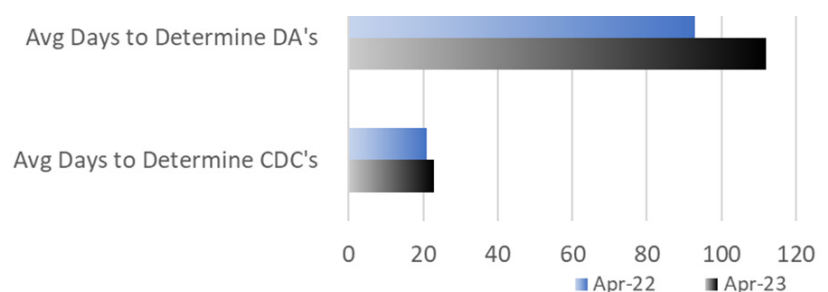
Indicative Approval Timeframes



Source: Mecone

"Sydney's west has been forced to carry too much of the housing burden. The government's current forecasts indicate NSW will fall short of its five-year housing targets by about 134,000. The vast bulk of existing targets have been focused on the western suburbs." The Hon Paul Scully, Minister for Planning and Public Spaces – SMH 31 May

Average DA and CC Times in NSW



Source: DPE Performance Dashboard

Remove Prohibitive Development Controls

- 09 -** Review and amend the **Apartment Design Guide (ADG)**, including allowing offices to transition to residential in CBDs and charging Government Architect NSW (GANSW) with reducing costs.
- 10 -** Introduce a New Zealand style policy to allow 1 single dwelling to be redeveloped into three 3 story townhouses as a right, supporting missing middle and housing diversity in appropriate locations.
- 11 -** Remove the **GCC Retain and Manage Industrial Lands Policy** in Sydney's Central and Eastern Cities to allow housing and mixed-use solutions. This policy has been recommended for reform by the NSW Productivity Commissioner as is not needed with good strategic planning and has clear unintended consequences holding back housing supply.
- 12 -** Remove maximum and minimum parking rates from council DCPs that restrict consumer choice, reduce feasibility and increase costs and **compel TfNSW to collaborate and expedite the review of the Guide to Traffic Generating Development.**
- 13 -** Overhaul state, regional and local planning panels to reduce the amount, speed up the process, remove bias and uncertainty and allow an appeals process and an objections threshold for the applicant.
- 14 -** Top up council **Financial Assistance Grants**, for Councils which out-perform housing approvals and in partnership with the Federal Government deliver enabling infrastructure for that housing as part of a 50/50 stimulus initiative.
- 15 -** Establish a **Housing and Infrastructure Committee of Cabinet**, chaired by the Premier and serviced by Planning/GCC and iNSW and with capacity to call in all infrastructure delivery Secretaries/CEOs.

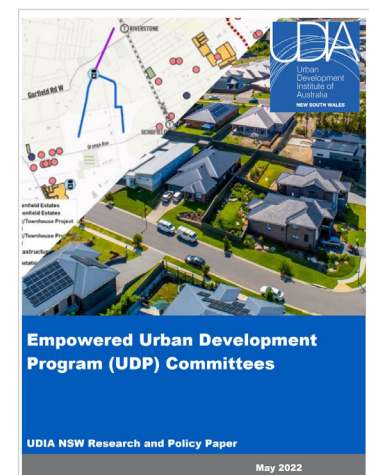
"Sydney's housing affordability crunch is the result of a decades-long failure to keep pace with new developments in Brisbane and Melbourne, the NSW productivity commissioner has found, while also warning the city's most affluent suburbs must become higher and denser to ease home prices." SMH – 30 May



Coordinating Infrastructure Delivery

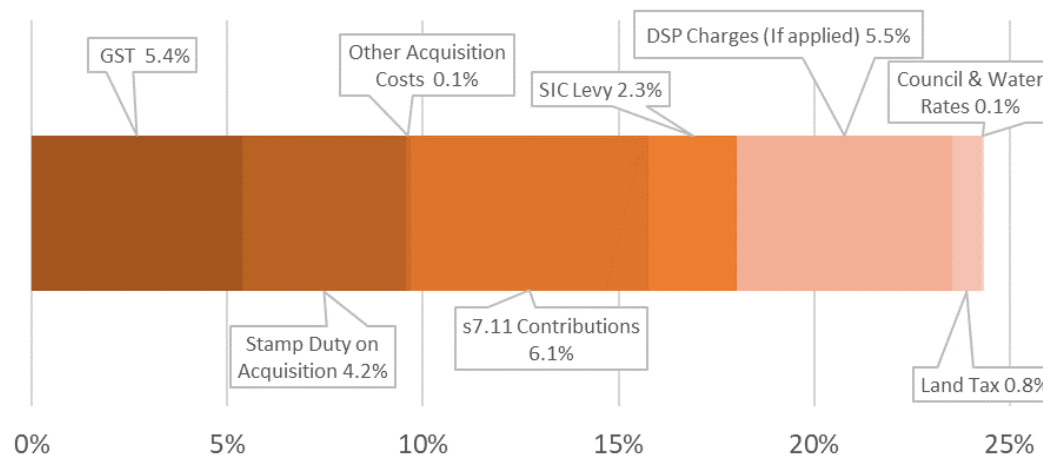
- 16 - For the current INSW review of the infrastructure portfolio, prioritise projects which are unlocking housing and determine if existing projects could unlock housing without major adjustment. Change the business case approach for the future, to ensure a much stronger link with this key and ongoing need for our communities. (e.g., regional roads currently only consider getting from A to B, but an off ramp could unlock housing in the middle; and railway business cases should include city-planning TOD to build accessibility and the integrated planning needed to ensure we deliver a city for its people!)
- 17 - Implement UDIA's Empowered Urban Development Program Committees in each of the Six Cities, as outlined in UDIA's May 2022 policy paper.
- 18 - Use the proposed Housing and Productivity Contribution to reset the approach to Works-in-Kind in NSW and move away from an impactor-pays approach to create more pathways, enabling developers to deliver infrastructure supported by a simple trading system for excess credits.
- 19 - Invest in another round of the Housing Acceleration Fund (HAF) for regional enabling infrastructure which unlocks housing. Alternatively, Government could use its' proposed Housing and Productivity Contributions and invest alongside industry to build capacity in the transition phase.
- 20 - Implement UDIA's recommendation for a Self-replenishing Accelerated Infrastructure Fund (AIF) to galvanise developer contributions held by councils, and speed up the delivery of local infrastructure which unlocks housing.

“UDIA’s Building Blocks - 2021 reports (Hunter; Central Coast; Illawarra; Greater Western Sydney) showed that an infrastructure investment of \$1.2bn could unlock 140,000 housing lots in the Six Cities Sydney Megaregion” Steve Mann, CEO, UDIA NSW



Address Feasibility, Taxes, & Levies

Proportion of Total Cost of Development – NSW Taxes/Levies – Western Sydney Example



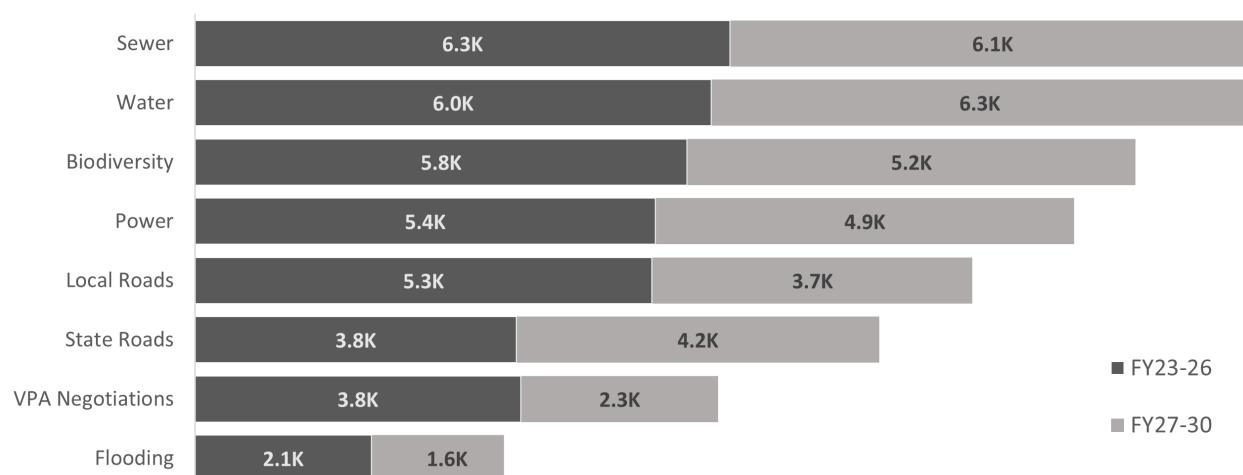
- 21 -** Do not impose new developer charges (such as Water, Wastewater and Stormwater DSPs) that negatively impact on development feasibility and without any commitment to productivity gains.
- 22 -** Reinstate the COVID measures used to accelerate housing, allowing contributions to be paid at Occupation Certificate rather than construction commencement, and apply a corresponding measure to land subdivision, to align with infrastructure demand and to improve cash flow.
- 23 -** Do not introduce rent controls which disincentivise investment into housing.
- 24 -** Defer the introduction of NCC 2022 and the increased BASIX standards by 12 months, allowing more time to transition to new materials and techniques and for costs to be reduced.
- 25 -** Continue the COVID 7-year lapsing period to give more time for projects to be viable without having to start again.

“Research by UDIA members has shown that the proposed DSPs, on their own, could add an extra 5% onto the total development cost in certain projects. This is considering taxes and charges that already comprise 25% of the total development cost.” Steve Mann, CEO, UDIA NSW

Activating the Regions

- 26 -** Unlock the regional housing supply pipeline and support ecologically sustainable development by **amending the Biodiversity Conservation Act to include, as a fundamental consideration, the delivery of state-endorsed strategies and plans.** For recent rezonings, don't require a second round of "avoidance" at DA stage.
- 27 -** Ensure that regional Place Delivery Groups are fully resourced from relevant NSW Departments and agencies.
- 28 -** Implement an interim and transparent risk-adjusted approach to flood **assessment** until the NSW Reconstruction Authority finalises its recommendations.

Number of Lots Impacted by Constraints, Lower Hunter & Central



Source: UDIA NSW Greenfield Land Supply Pipeline Report - 2022

Now that the borders have reopened, migration has come roaring back. Treasury estimates there will be an influx of 650,000 migrants over the course of this financial year and next. More people means we need more houses – and we are adding people a lot faster than we are adding houses.
Grattan Institute – April 2023

THE OPPORTUNITY

By taking immediate and decisive action, on a broad array of policy reform across the housing continuum recommended in this **Housing Crisis Action Plan**, the new NSW Government can reverse the course on the housing crisis and fend off the worst of the projected social and economic impacts.

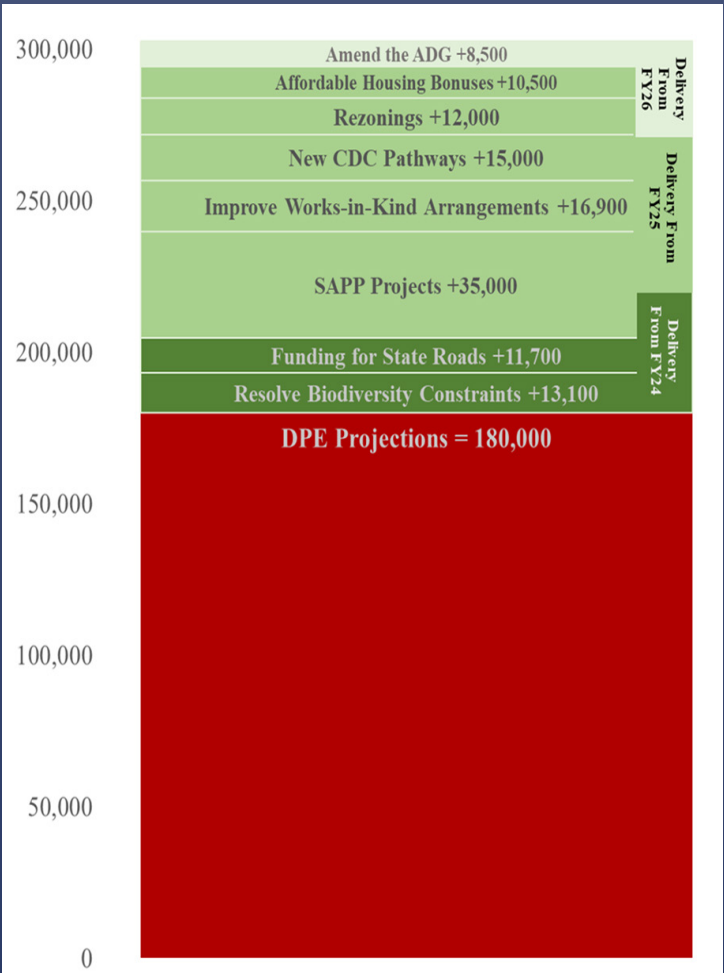
UDIA NSW has done extensive modelling of the housing supply pipeline across the Sydney Megaregion, working with our members to study the constraints to supply. This puts us in a unique position to provide modelling that demonstrates the potential supply that could be unlocked with policy reforms, targeted funding and the likely cumulative impact that can boost housing supply and work toward meeting our obligations under the National Housing Accord of 315,000 over the next 5 years (needing approximately 350,000 housing approvals over the same period).

A simpler and more efficient planning system, better infrastructure coordination, activated regions and a moratorium on increases in taxes, levies and charges whilst we are in a housing crisis, will support better housing outcomes across all typologies, while at the same time delivering better places.

UDIA NSW has conducted extensive research over the last 12 months into the constraints on delivering housing across the continuum, and across the state.

Lending on this evidence-backed research, particularly our flagship Greenfield Land Supply Pipeline Report – October 2022 and Apartment Supply Pipeline Report – November 2022 we have been able to justify how our proposed solutions can create a progressive uptick in housing over the National Housing Accord timeframe, and ensure NSW contributes its fair share above and beyond current Department projections. See Graph to the right.

UDIA’s Proposed Policy Solutions To Increase Supply 2024–2029



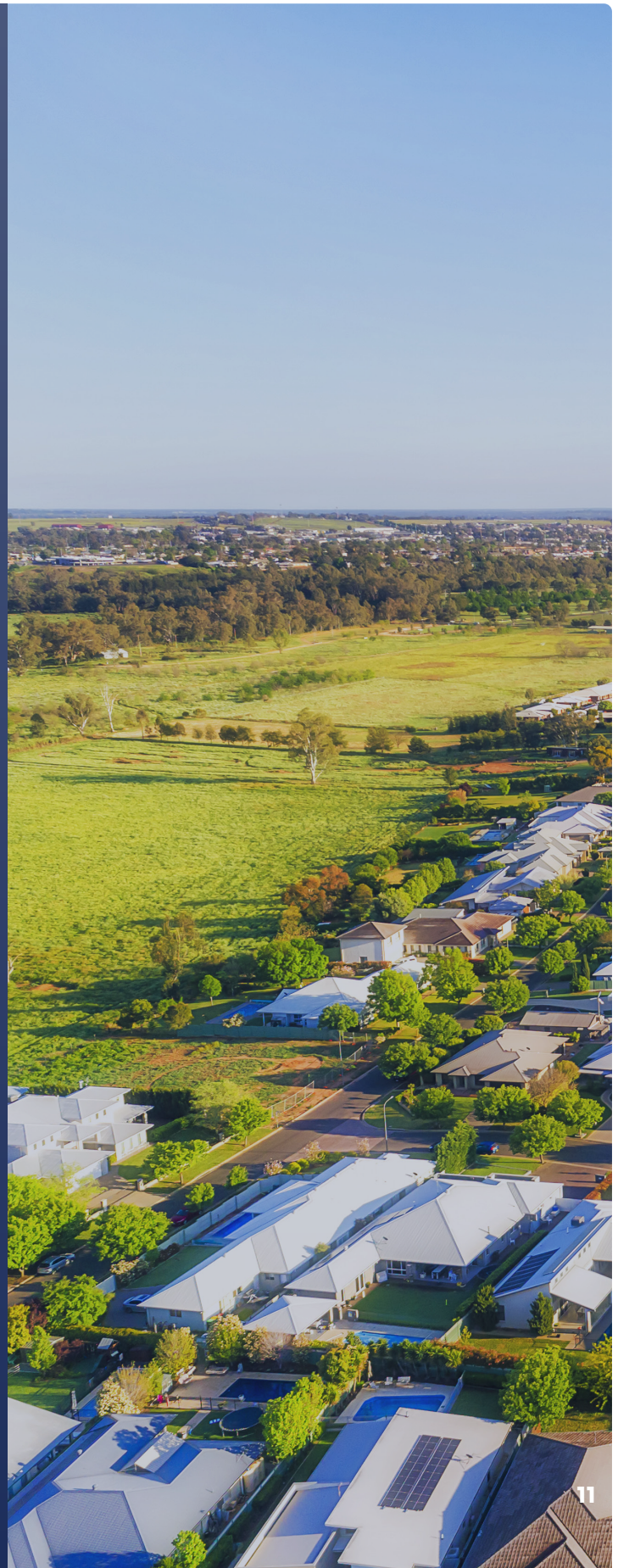
Source: UDIA NSW; DPE

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Steve Mann, CEO, UDIA NSW.

“The federal government’s target for 1 million new homes over five years was “not that ambitious”, and a much bigger expansion was required to make up for past undersupply and future population growth.” Former Reserve Bank of Australia economist Tony Richards – AFR
– 29 May

What is the answer to the housing crisis? It seems that it is not one answer alone, but a combination of solutions and investment at the state level in infrastructure that provides the basic services to meet demand. Network 10 – 30 May

“Transport modes need to be better used, it will make the commute quicker, it will reduce congestion and will make a more vibrant facility for people to live in.” Peter Archestratt, Productivity Commissioner
– 31 May





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