

# 2022 Pre-Budget Submission

**UDIA NSW Submission**

**February 2022**

## CONTENTS

Executive summary .....	2
Background .....	4
Focus #1: Supporting the Greenfield Pipeline .....	5
Focus #2: Removing Barriers to Apartment Supply .....	9
Focus #3: Infrastructure Costs and Red Tape .....	12
Focus #4: Moving Towards Net Zero .....	13
Conclusion .....	14
References .....	15

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## ABOUT THE UDIA

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 400 member companies span all facets of the industry including developers, consultants, local government and state agencies. We have a strong commitment to good growth in the regions. A quarter of our members are based in regional NSW, and we have active Chapters in the Hunter, Central Coast, and Illawarra Shoalhaven. Our advocacy is based on creating liveable, affordable and connected smart cities.

## EXECUTIVE SUMMARY

NSW is facing a deep housing supply and affordability crisis. It has the most expensive housing in Australia and some of the most expensive in the world. NSW is more expensive than other states because of the lack of supply of new homes. Over a long period, NSW has failed to build enough homes for the growing population, resulting in higher prices.

The 2021-22 NSW Intergenerational Report recognised the problem and estimated that we need 42,000 homes per year out to 2060. This is a significant ask, given that we have not sustainably reached this level of construction in over twenty years. However, we are encouraged by the recognition of the issue by the new NSW Premier, reflected in his appointment of a Minister for Homes.

As the leading advocate for residential development in NSW, UDIA has been working with our members to look at what is required to deliver the 42,000 per annum. For the NSW budget, we have identified three areas of focus:

- i. Provide a sustainable level of development ready land to support greenfield housing supply.
- ii. Remove the barriers to the supply of apartments.
- iii. Reduce the costs and red tape that the NSW Government imposes on development that is slowing housing supply and discouraging investment.

In addition, we need to consider the environmental impact of development. The construction, operation and maintenance of buildings accounts for almost a quarter of greenhouse gas emissions in Australia. UDIA and our members are working on how we can reach Net Zero by 2050. However, this needs to be achieved without decreasing supply or worsening affordability, a significant challenge.

Providing development ready land requires a marked uplift in the funding and timely provision of enabling infrastructure by both the NSW Government and Councils, fixing the biodiversity offsets market and a step-change in government co-ordination of land use and infrastructure.

Meanwhile, the apartment market is hampered by a lack of consumer confidence and government taxes (foreign investor charges) that are preventing the financing of projects. In the short term, the NSW Government needs to focus on restoring consumer confidence and supporting the financing of projects.

NSW has the most expensive charges for the development of greenfield housing and the slowest planning system anywhere in Australia. Many of these issues go beyond the scope of a budget. However, there are a couple of areas where the Treasurer can make a difference. The proposed infrastructure contributions levels are too high and would put a significant constraint on supply in NSW in the years ahead. Additionally, several NSW Government departments are ignoring Infrastructure NSW (iNSW) guidance on infrastructure assurance of low risk, low-cost projects and unnecessarily tying projects up in red tape. This is increasing costs to Councils and the NSW Government and delaying the delivery of key enabling infrastructure, holding back the supply of new homes.

To reach Net Zero without reducing supply or housing affordability, the building industry and the NSW Government need to work together to develop an achievable roadmap.

The crisis in housing affordability can be resolved. The following recommendations in this submission will make a significant contribution to helping the housing industry deliver the 42,000 homes a year we need. The NSW Government has recognised the problem. Now it needs to act.

## **Recommendations:**

### **Focus Area #1: SUPPORTING THE GREENFIELD PIPELINE**

RECOMMENDATION 1 – The NSW Government funds \$450m worth of state enabling infrastructure over the next 3 years.

RECOMMENDATION 2 – The NSW Government appoints a cross-departmental team tasked with co-ordinating infrastructure and the supply of new homes assisted by a team of external advisors with the experience of making this co-ordination work.

RECOMMENDATION 3 – The NSW Government creates a \$100m self-replenishing fund to support Councils in bringing forward enabling infrastructure with future infrastructure contributions used to replenish the fund.

RECOMMENDATION 4 – The NSW Government funds a \$100m Regional Accelerated Infrastructure Fund to bring forward regional council enabling infrastructure.

RECOMMENDATION 5 – The NSW Government establishes an industry stakeholder reference group to improve the BC Act and its regulations.

RECOMMENDATION 6 – The NSW Government kickstarts the biodiversity offset credit trading market by setting up a biodiversity offset bank with at least \$100 million earmarked to meet the needs of the urban development sector.

RECOMMENDATION 7 – The NSW Government invests in accelerated strategic conservation planning in high growth regional areas such as the Hunter, Central Coast and Illawarra Shoalhaven.

### **Focus Area #2: REMOVING BARRIERS TO APARTMENT SUPPLY**

RECOMMENDATION 8 - Provide loan guarantees to support feasible apartment projects as the market struggles with lower project pre-sales.

RECOMMENDATION 9 - Undertake a communications campaign explaining the extra protections the NSW Government has put in place for purchasers of new build apartments.

RECOMMENDATION 10 - Reduce foreign investor surcharges on new build apartments.

### **Focus Area #3: INFRASTRUCTURE COSTS AND RED TAPE**

RECOMMENDATION 11 – The NSW Government reduces proposed infrastructure contribution rates to a level that will maintain the supply of homes in a cooling housing market.

RECOMMENDATION 12 – The NSW Government undertakes a review of the actual processes being used for tier 3 and tier 4 infrastructure projects and implements changes to reduce costs and speed up delivery.

### **Focus Area #4: MOVING TOWARDS NET ZERO**

RECOMMENDATION 13 – The NSW Government funds an expert commission including industry to develop a roadmap to facilitate the development industry moving towards Net Zero without reducing the supply of new homes or worsening affordability.

## BACKGROUND

NSW has the worst planning system in Australia. According to research on behalf of the NSW Treasury<sup>1</sup> our state has the slowest planning approvals and according to NHFIC<sup>2</sup> has the highest infrastructure contributions for greenfield development. Unsurprisingly, this is contributing to the least affordable homes in Australia and some of the least affordable in the world<sup>3</sup>, undermining the very essence of what it means to give everyone a ‘fair go’ in NSW.

As noted by the NSW Productivity Commissioner<sup>4</sup>, the lack of homes is increasing the cost of living for households and making NSW a less attractive place to live and work. UDIA is encouraged by the recent appointment of a Minister for Homes by the NSW Premier. However, the short-term outlook for supply is not positive. In the past 12 months, UDIA NSW has undertaken two ground-breaking research reports about the supply pipeline in the greenfield housing<sup>5</sup> and apartment markets<sup>6</sup>.

In the past 18 months, the greenfield housing market has been delivering at or near its historic supply peak with 13,600 new house sales in the year to October 2021 according to CoreLogic responding both to increased demand fuelled by the Federal Government’s Homebuilder initiative and to lifestyle preferences because of the pandemic. This has been acutely felt in the regions. Despite industry’s efforts to keep up, demand has outstripped supply with the price of new homes soaring by 21% in 2021 (much higher in some areas) and rental vacancies plummeting to just 2.6% in Sydney and continuing at below 1% since mid-2020 in the regions, leading to 9% increases in house rents. To improve affordability and meet the needs of a growing population, this high level of housing supply needs to be maintained over a sustained period. This requires new development ready land (where the planning, infrastructure and biodiversity requirements have been resolved) to re-fill the supply pipeline. Unfortunately, the pipeline is running out<sup>5</sup>. Without urgent action, the supply of greenfield housing will be insufficient to keep up with demand and affordability will probably further worsen<sup>5</sup>.

The apartment market is going through a supply slump. In the fiscal year, 2021/22, we expect the apartment market to deliver just 6,800 new homes, the lowest level since 2011/12. With low levels of rental vacancies, there is little spare capacity to provide homes for new arrivals into NSW, such as students and overseas or internal migrants. As international borders re-open, and with apartments typically needing a lead time of 2-3 years, we are likely to see significant upward pressure on apartment prices and rents until new supply reaches the market. Unfortunately, the supply of new apartments is in part being held back by the NSW Government. With supply slumping now and borders beginning to re-open it is too late to avoid reduced supply leading to lower affordability. However, by taking action to bring new apartment supply to market as soon as possible the worst effects would be mitigated.

In addition to dealing with the near-term housing supply challenges, as a society we also need to look to the future. In particular, we need to work out how to achieve a pathway to Net Zero carbon emissions. Moving forward, the way we shape cities and the buildings we construct will have a huge impact on our ability to achieve net zero. Unfortunately, the current approach by the NSW Government to reducing carbon emissions in our sector is increasing costs and reducing supply, exacerbating the affordability crisis.

UDIA estimates that the building sector is currently contributing \$30bn of economic benefit and 50,000 jobs to the state. Increasing the supply of new homes and apartments to the level of 42,000 per year that the NSW Intergenerational Report has recommended, has the potential to increase this to \$55bn and 96,000 jobs in the years ahead.

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*Building the 42,000 homes per year NSW needs will help tackle the affordability crisis  
but we need to stop talking and start doing.*

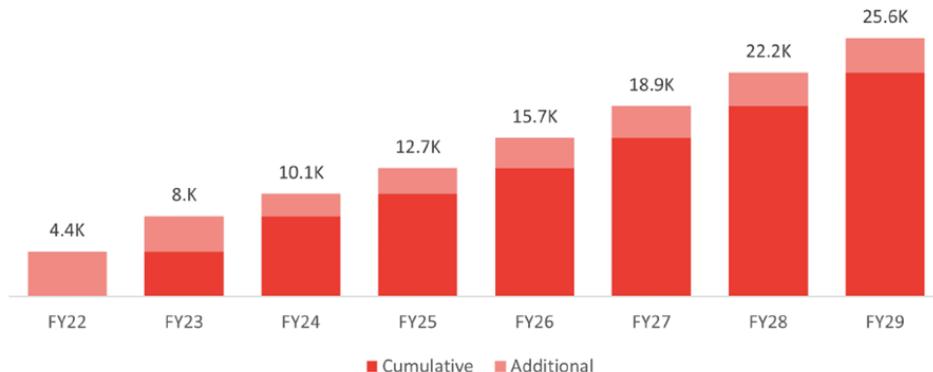
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## FOCUS #1: SUPPORTING THE GREENFIELD PIPELINE

The NSW Government's Intergenerational Report<sup>7</sup> identified that NSW needs to build 42,000 new homes per annum, with over 90 per cent in the Greater Sydney Megaregion. This equates to around 14,000 greenfield homes per year. This requires a healthy pipeline of development ready land – i.e., rezoned, enabling infrastructure (roads, water, sewage, etc.) provided and biodiversity issues resolved.

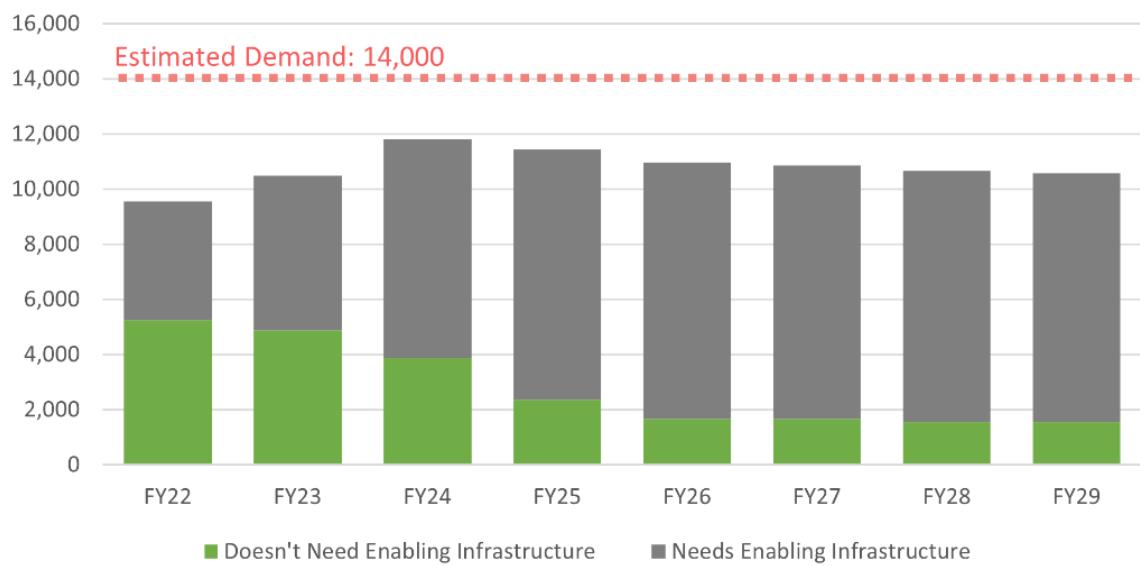
UDIA's Greenfield Land Supply Pipeline Report<sup>5</sup> found that even if all expected lots are delivered up until FY29, including those currently requiring re-zoning or facing infrastructure constraints, supply will still fall short of demand by 3,200 lots per annum. At the current expected rate of land release there will be additional unmet demand of more than 25,600 greenfield homes in the Greater Sydney Megaregion by FY30 (see figure 1). Even this large deficit is probably optimistic. 80 per cent of lots (64,000) that are hoping to be delivered between FY22 and FY29 require enabling infrastructure (see figure 2). Historically, much of this infrastructure has not been delivered in a timely way. If this experience is repeated, then the shortfall in housing supply will be even greater.

**Figure 1 – Cumulative Unmet Demand for Greenfield Lots in the Greater Sydney Megaregion**



Source: UDIA Greenfields Land Supply Pipeline Survey (GLSPS 2021)

**Figure 2 – Forecasted Greenfield Completions by Infrastructure Status – Greater Sydney Megaregion**



Source: UDIA GLSPS 2021

#### **NSW Government Enabling Infrastructure**

Last year, UDIA undertook major research with our members to identify specific enabling infrastructure in Western Sydney<sup>8</sup>, the Central Coast<sup>9</sup>, the Hunter<sup>10</sup> and Illawarra Shoalhaven<sup>11</sup> that was currently a roadblock to supply and could be delivered in the next few years to re-fill the development ready land supply pipeline. Our reports identified over 70 pieces of NSW Government infrastructure that, if all were delivered, could provide 147,000 residential lots at a cost of \$1.3bn. With approximately 14,000 greenfield homes required per year, the NSW Government needs to invest over \$100m per annum to support the pipeline.

As well as supporting the provision of homes, enabling infrastructure produces a double dividend for the economic recovery, providing jobs and economic activity from the provision of the infrastructure and then supporting the jobs in the development sector.

Historically, even when funding is available, the attempt to integrate infrastructure and the supply of homes in NSW has a long history with few successes and many failures. Successes were achieved when both the political and departmental parts of the government had a can-do attitude that removed barriers such as bureaucratic processes that were getting in the way of delivery without adding significant value. Unfortunately, the current range of excuses on why infrastructure cannot be delivered in a timely way is long. Having discussed the problem with those who have been involved with successes, we believe that a handpicked team of agency staff from across the NSW Government, tasked with removing these barriers, needs to be pulled together reporting into the Minister for Homes and the Treasurer. We would also recommend creating a team of external advisors who have been involved in the few NSW successes in this space, who can provide guidance to both Ministers and agency staff.

**RECOMMENDATION 1 – The NSW Government funds \$450m worth of state enabling infrastructure over the next 3 years.**

**RECOMMENDATION 2 – The NSW Government appoints a cross-departmental team tasked with co-ordinating infrastructure and the supply of new homes assisted by a team of external advisors with the experience of making this co-ordination work.**

## Local Council Enabling Infrastructure

Last year, UDIA undertook research<sup>12</sup> into the funds being held by Councils from section 7.11 and 7.12 contributions. At the end of FY20, the Councils were holding \$3bn. We understand that this is now closer to \$3.5bn. At a time when we have a housing crisis and need to look beyond the pandemic and support the economic recovery, it is ridiculous that this money is not being used to support home building, create jobs or provide the local services our communities need. UDIA estimates that council enabling infrastructure should be providing around one third of the greenfield pipeline, around 5000 homes.

Most Councils do not spend their infrastructure contributions because they are waiting for almost all the contributions to be received before building the infrastructure. The provision of infrastructure could be significantly sped up if Councils borrowed the balance of the money earlier. Unfortunately, many Councils do not want to borrow despite having access to low interest rates via TCorp. This issue was recognised by the NSW Productivity Commissioner's report into Infrastructure Contributions<sup>4</sup>.

Historically, the NSW Government has provided one off grants to bring forward Councils spending on infrastructure such as the Housing Acceleration Fund (HAF) and the Accelerated Infrastructure Fund (AIF). These funds have been successful in the short term but have not provided the ongoing funding that is required to ensure that we continually build the council enabling infrastructure to support the supply of new homes. Therefore, UDIA believes that a self-replenishing Council Enabling Infrastructure Fund is required to provide ongoing funding. UDIA believes that a fund can be created that:

- Pays the outstanding balance of the enabling infrastructure to Councils so they can bring forward the delivery of the enabling infrastructure. For example, infrastructure where a Council has accumulated 70% of the funds would have the remaining balance (30%) paid for by the NSW Government's Council Enabling Infrastructure Fund.
- Would be replenished through the payment of infrastructure contributions from developers earmarked for the paid for infrastructure into the fund.

Based on UDIA research, to deliver the 5000 homes needed every year, we have estimated that a total fund of \$100m which paid out \$50m per annum would be self-sustaining with the outstanding contributions repaying the funds provided over 3 years.

### **RECOMMENDATION 3 – The NSW Government creates a \$100m self-replenishing fund to support Councils in bringing forward enabling infrastructure with future infrastructure contributions used to replenish the fund.**

Given that the self-sustaining fund will take time to be implemented and the need for new homes as soon as possible, UDIA believes that it also makes sense for the NSW Government to provide one last round of AIF focused on regional councils.

### **RECOMMENDATION 4 – The NSW Government funds a \$100m Regional Accelerated Infrastructure Fund (AIF) to bring forward regional council enabling infrastructure.**

## Biodiversity

Delivering a healthy pipeline of development ready land requires biodiversity issues to be resolved in a way that protects and enhances the biodiversity of NSW. Research<sup>13</sup> carried out by ecology firm EMM on behalf of UDIA, has shown that the current biodiversity offset system is holding back the supply of homes and failing to deliver good biodiversity outcomes.

Resolving biodiversity issues is becoming increasingly difficult as the Biodiversity Conservation Act 2016 (BC Act) is applied to more land. Much of the housing supply delivered last year was approved under the previous biodiversity legislation and had minimal or no interaction with the BC Act. However, as those older projects are completed, the supply of homes is under threat as new development proposals encounter significant problems in navigating the Act.

Fundamentally, the BC Act in its current form, is an obstacle to meeting the Megaregion's housing and jobs targets, due to relying on site-by-site assessment and like-for-like offsetting. Biodiversity is a major constraint particularly in the Hunter, Central Coast and Illawarra Shoalhaven. The biodiversity regulatory system under the BC Act is overly complex and creates enormous uncertainty for ecologically sustainable development, undermining housing supply as well as biodiversity conservation. Although the issues are too numerous to outline here, the research<sup>13</sup> by EMM identifies substantial changes necessary to fix the system.

The current system is built on an offset credit trading market that assumes transparency of offset credit demand and adequacy of credit supply. Unfortunately, a functioning offset credit trading market has not been established under the BC Act. There is no transparency of credit demand, and there are many disincentives to setting up a Biodiversity Stewardship Agreement (BSA) to enable land to be used for offsets. The cumulative upfront costs to establishing a functioning income-generating BSA and the uncertainty of credit demand, work to severely constrain the supply of offset credits. Again, these are outlined in the research.<sup>13</sup>

As a consequence, UDIA believes that government should create a biodiversity offset bank to provide a healthy kickstart to the offset credit trading market. Under this suggestion, government could purchase credits up front from BSAs, warehouse those credits and on-sell them to credit-seeking purchasers including the urban development sector, mining, infrastructure and government projects. We estimate that an investment of \$100 million could cover the short-term needs of the urban development sector alone, noting we have estimated that more than \$3 billion in biodiversity offsets are going to be required for housing and employment land development in the years ahead across NSW.

Kickstarting the offset credit trading market is a critical step but there are many issues that must be addressed to remove the barriers to housing supply and conservation that the biodiversity regulatory system is currently imposing. With the BC Act's five-year review due this year, the NSW Government should convene a stakeholder reference group, including the development industry, to improve the BC Act and its regulations. Ultimately, the NSW Government must take a more strategic approach to deliver the state's biodiversity, economic and social needs. UDIA is keen to work collaboratively with Government to achieve better outcomes.

**RECOMMENDATION 5 – The NSW Government establishes an industry stakeholder reference group to improve the BC Act and its regulations.**

**RECOMMENDATION 6 – The NSW Government kickstarts the offset credit trading market by setting up a biodiversity offset bank with at least \$100 million earmarked to meet the needs of the urban development sector.**

**RECOMMENDATION 7 – The NSW Government invests in accelerated strategic conservation planning in high growth regional areas such as the Hunter, Central Coast and Illawarra Shoalhaven.**

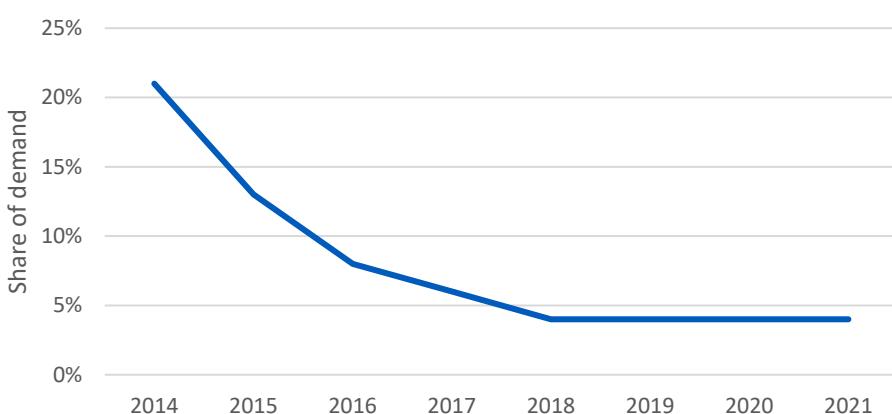
## FOCUS #2: REMOVING BARRIERS TO APARTMENT SUPPLY

Over the last decade, the apartment market has represented most of the housing supply across the Sydney Megaregion, making up approximately two thirds of new homes. Apartments play a critical role in the housing market, particularly for those who are trying to get on the housing ladder, as apartments often provide that important first step. Meanwhile, for those who will be renting in the long term, especially those on lower incomes, apartments play a critical role in providing affordable places for rent.

The new apartment market has been facing a significant reduction in apartment completions, falling from 32,000 in 2018 to 27,000 in 2019, and continuing to fall to 23,300 new units in 2020. The drop off in completions has been primarily caused by two factors:

1. The imposition of the foreign investor surcharge. In 2016, the NSW Government imposed a foreign investor surcharge on property. This significantly reduced foreign investor activity in the new property market, which fell from a peak of 21% of demand in 2014 to 8% in 2016 according to NAB. Foreign investor activity has remained weak, with foreign investors accounting for only 4% of demand in October 2021 (see figure 3).

**Figure 3 – Decline in Foreign Investment in NSW New Property Market**



Source: UDIA; NAB Residential Property Survey

2. The highly publicised problems in the construction of new build apartments, leading to reduced consumer confidence in purchasing new apartments.

Both these factors made it much harder for developers to achieve pre-sales (see box) and therefore obtain finance for their projects, resulting in the major drop off in apartment completions.

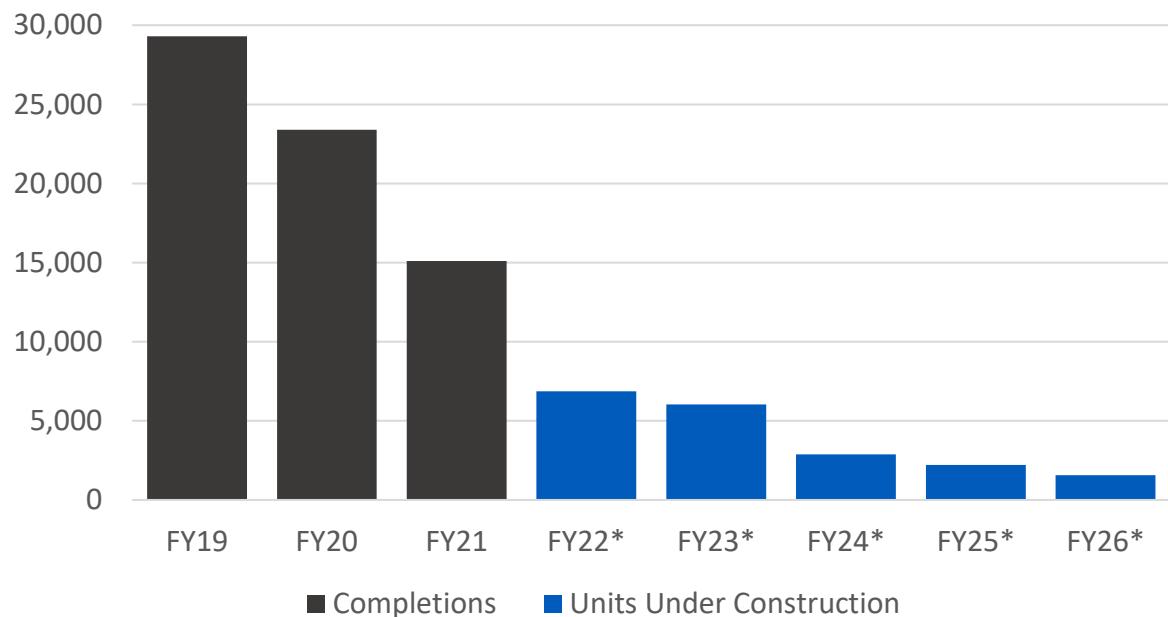
### APARTMENT FINANCE AND PRE-SALES

Most apartment builders do not have access to the capital or the balance sheets to build apartments without external finance. They usually go to banks for their finance who require a level of pre-sold apartments, typically between 40-60% of the total dwellings in the development before they will provide the loan for construction to reduce their risk exposure. Therefore, if pre-sales are difficult to achieve, finance is hard to obtain and less apartments get built.

If immigration had continued at historic rates rather than stopping during the pandemic, a reduction in supply would likely have led to a significant increase in rents, exacerbating the housing affordability crisis.

During the first 18 months of the pandemic, the new apartment market continued its rapid downward trend (see figure 4) down nearly 50% since the peak and UDIA estimates a further 50% reduction for FY2022, with apartment completions to be down as low as 6,800 completed dwellings.

**Figure 4 - Historical and Forecasted Apartment Completions: Projects Currently Under Construction**

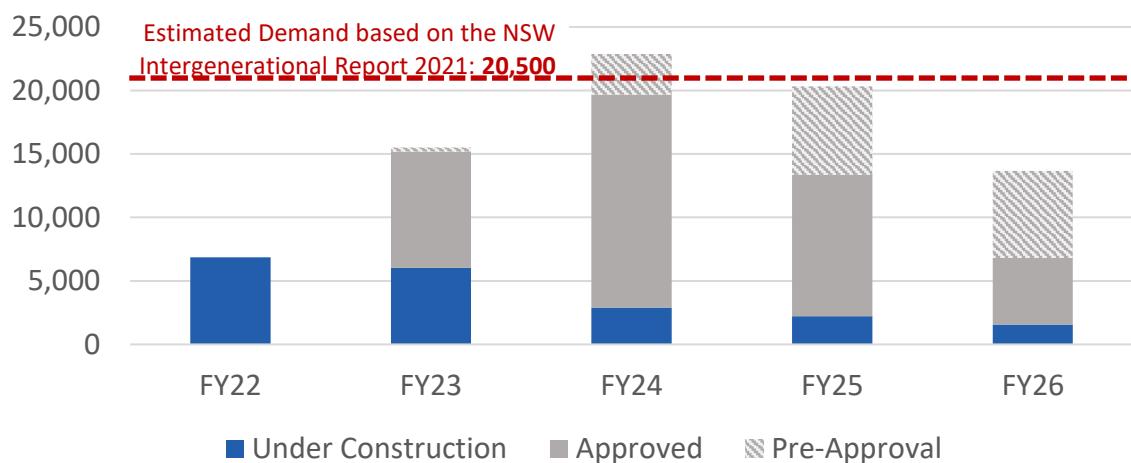


Source: UDIA; CoreLogic; Charter Keck Cramer

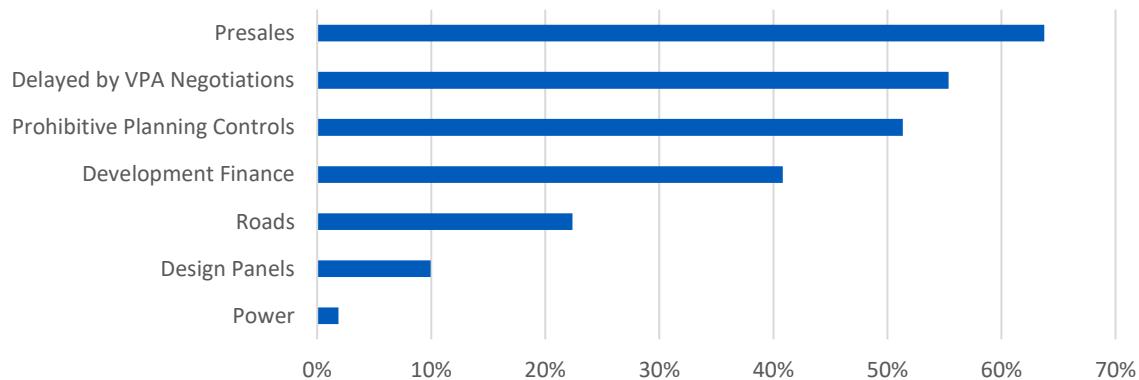
The NSW Productivity Commission White Paper 2021<sup>14</sup> identified a backlog of 40,000 dwellings at the start of 2021. Assuming all currently forecasted apartments are completed without delays, supply will still fall short of the estimated increases in demand between now and mid-2026, with cumulative unmet demand estimated to reach at least 60,000 (see figure 5).

With 75% of the apartment pipeline to 2026 still to commence construction and facing constraints due to pre-sale requirements, financing difficulties, controls impacting feasibilities and lengthy and unpredictable VPA negotiations, there are significant risks that completions will be lower than expected (see figures 6 and 7).

**Figure 5 - Forecasted Apartment Completions by Current Project Stage – Greater Sydney Megaregion**

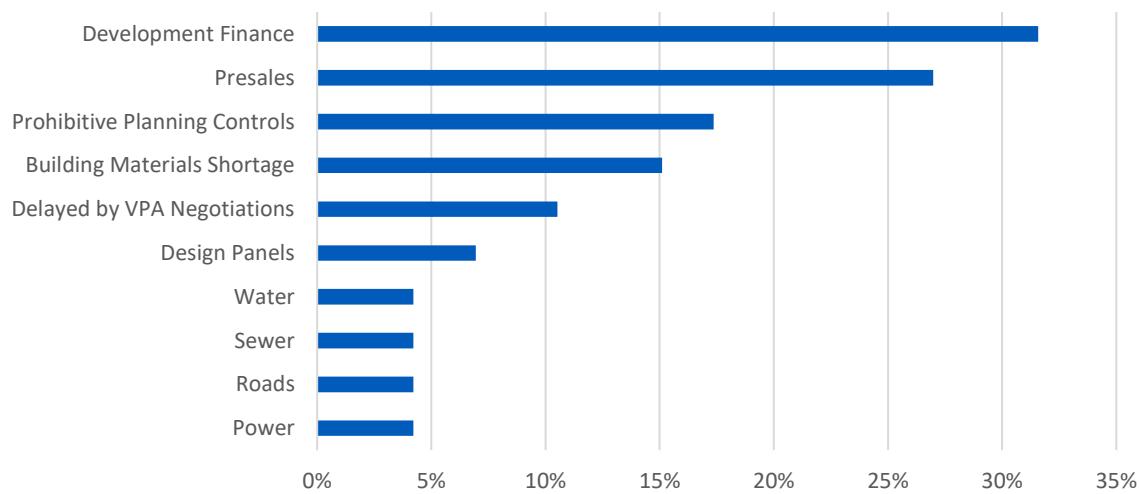


**Figure 6 – Estimated Proportion of Units in Large Projects Impacted by Constraints**



Source: UDIA

**Figure 7 – Estimated Proportion of Units in Small Projects Impacted by Constraints**



Source: UDIA

## **Construction Finance**

UDIA research clearly identified that the biggest risks to apartment projects proceeding was 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 8 - Provide loan guarantees to support feasible apartment projects as the market struggles with lower project pre-sales.**

The work of the NSW Building Commissioner and the NSW Government's legislation changes has positioned NSW as the leading state for new build apartments. Unfortunately, this is virtually unknown to consumers who might consider buying a new build apartment. This lack of information is holding back a restoration of consumer confidence, the recovery of pre-sales and financing and a reduction of risks on projects. A communications campaign to restore consumer confidence could make a significant impact to the apartment sector.

### **RECOMMENDATION 9 - Undertake a communications campaign explaining the extra protections the NSW Government has put in place for purchasers of new build apartments.**

Foreign investor surcharges on new build apartments are making it much harder to achieve pre-sales and this is increasing risks on projects. Lowering or removing the charges would reverse this problem and facilitate increases in supply.

### **RECOMMENDATION 10 - Reduce foreign investor surcharges on new build apartments.**

## **FOCUS #3: INFRASTRUCTURE COSTS AND RED TAPE**

The NSW planning system already imposes the highest costs on development of any Australian state or territory through charges, red tape, delays and uncertainty. Proposed planning reforms could make this worse. These costs are reducing investment and supply of new homes as developers naturally look to build homes in other jurisdictions where they can achieve higher returns. It will continue to be difficult to supply the homes NSW needs if the government continues to undermine incentives for investment.

### **Reducing Proposed Infrastructure Charges**

UDIA supports the proposed NSW Government's reforms to Infrastructure Contributions. The current regime is a source of significant uncertainty for developers and is undermining investment. However, the feasibility work undertaken by the Government as part of the reform and the proposed level of infrastructure contributions was predicated on the assumption that house prices would continue to rise in the coming years. However, CBA, ANZ, NAB and Westpac are all predicting falls in house prices over the next couple of years. If the banks are right, this will significantly reduce feasibility and in turn reduce the supply of homes. Whilst some short-sighted people would argue that if house prices fall, affordability to buy a house will improve and so the issue of supply is therefore less important, this ignores the impact that supply has on long-term house prices and the impact on rents, which

disproportionately hits people on lower incomes. Sustaining supply in a slowing housing market will improve affordability over the long term and support jobs. Therefore, we believe that it is essential that the proposed level of infrastructure contributions is reduced, so that the supply of homes is not impacted by a slowing housing market.

**RECOMMENDATION 11 – The NSW Government reduces proposed infrastructure contribution rates to a level that will maintain the supply of homes in a slowing housing market.**

#### **Business Case Bureaucracy**

The bureaucratic costs that the NSW Government imposes on development is not just a problem for developers. It also impacts on local Councils and the NSW Government itself. UDIA appreciates the importance of oversight and accountability in managing public funds to deliver infrastructure and we welcome the guidance on assurance processes as set out by iNSW in their Infrastructure Investor Assurance Framework (IIAF)<sup>15</sup>.

However, UDIA research<sup>16</sup> has shown that parts of the NSW Government are ignoring iNSW guidance and insisting on overly bureaucratic assurance processes to fund critical enabling infrastructure, significantly increasing time and costs for infrastructure delivery without commensurate benefit, especially with low-risk projects.

**RECOMMENDATION 12 – The NSW Government undertake a review of the processes being used for tier 3 and tier 4 infrastructure projects and implement changes to reduce costs and speed up delivery.**

### **FOCUS #4: MOVING TOWARDS NET ZERO**

The construction, operation and maintenance of buildings accounts for almost a quarter of greenhouse gas emissions in Australia<sup>17</sup>. UDIA welcomes the NSW Government's commitment to Net Zero by 2050 and our members are undertaking significant steps to move towards that target. However, the current approach by the NSW Government to move the industry towards Net Zero is poorly thought out and will reduce the supply of homes and worsen affordability. Research<sup>18</sup> undertaken by UDIA has shown that the NSW community is supportive of moving towards Net Zero in the development of new homes but is unwilling to pay a significant amount extra to achieve it. Given that NSW has some of the most expensive housing in the world this is unsurprising. If we are to achieve Net Zero, whilst avoiding reductions in the supply of new homes and increased housing costs to the homeowner, it is essential that the industry and NSW Government work together. UDIA believes that a jointly developed roadmap that looks at how we can move towards Net Zero without reducing the supply of homes or worsening affordability would encourage investment and jobs into NSW and act as an exemplar for the world.

**RECOMMENDATION 13 – The NSW Government funds an expert commission including industry to develop a roadmap to facilitate the development industry moving towards Net Zero without reducing the supply of new homes or worsening affordability.**

## CONCLUSION

Building the 42,000 new homes that NSW needs every year is a significant challenge made more difficult by the need to also tackle climate change and achieve Net Zero by 2050.

To meet the challenge, the Greenfield Housing Market needs a consistent supply of development ready land with re-zonings approved, enabling infrastructure provided and biodiversity issues resolved. This will require investment in enabling infrastructure by the NSW Government and Councils, fixing the biodiversity offsets market and significantly improving government co-ordination of infrastructure and land use.

The apartment market faces very different challenges with expected completions for FY21/22 at or near record lows. The market faces a double whammy from a lack of consumer confidence and government charges that are holding back pre-sales. Restoring consumer confidence and giving financing a boost are essential to getting construction going again sooner rather than later and minimising the increases in prices and rents that could occur as international borders re-open.

A step change in supply also requires NSW to become a more attractive place for developers to invest, even in a weaker housing market. Reducing government red tape and the level of proposed infrastructure charges would encourage investment.

Reaching Net Zero in the building industry without undermining supply and affordability requires a collaborative approach between the government and industry to identify the best approaches and set out a roadmap that provides the certainty the industry needs.

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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