PROPERTY COUNCIL of Australia

Urban Development Institute of Australia
NEW SOUTH WALES

2 August 2017

The Hon. Gladys Berejiklian MP
NSW Premier
52 Martin Place
SYDNEY NSW 2000

Dear Premier,

Re: Infrastructure Development Contributions in NSW and their Impact on Housing Affordability

The Urban Development Institute of Australia (UDIA) NSW and the Property Council of Australia are the leading property industry groups promoting the responsible growth of NSW. In light of the significance of infrastructure contributions and housing affordability our two groups have taken the unusual position of joining together to make this united submission to Government.

Housing affordability is one the NSW Government's three chief priorities announced when you became Premier this year, along with a strong economy and the provision of local infrastructure. Both UDIA NSW and the Property Council have continually advocated that the Government's paramount response to addressing NSW's housing affordability crisis needs to be through increasing supply. Your Government has been focussed on this challenge and we have now reached the lower end of the Greater Sydney Commissions (GSC) long term annualised forecast for supply.

However, there are several recent policy initiatives from the NSW Government that run contrary to achieving this outcome looking ahead, and they are:

- Inclusionary zoning and the provision of affordable housing targets of 5-10% of each development (first raised in the draft District Plans by the Greater Sydney Commission and with no further clarification) that will increase the cost base of housing in the identified locations;
- The creation of up to 15 new Special Infrastructure Contributions (SIC) areas, that will increase the cost base of housing in these locations;
- The imposition of and then the increase to the foreign investor surcharge for stamp duty (from 4% to 8%) and land tax (from 0.75% to 2%);
- Changes to biodiversity regulations that also have the potential to add to the cost base of housing; and
- The uncapping of Section 94 contributions.

The above are all policy changes that will add considerable cost to the provision of new dwellings. Early modelling shows that the biodiversity regulations could add up to between \$20,000 and \$30,000 per lot, while the uncapping of Section 94 could add anywhere between \$30,000 to \$80,000 per dwelling.

Property Council of Australia
ABN 13 00847 4422

Level 1, 11 Barrack Street
Sydney NSW 2000

T. +61 2 9033 1900
E. info@propertycouncil.com.au

propertycouncil.com.au
@propertycouncil

Urban Development Institute of Australia
NEW SOUTH WALES

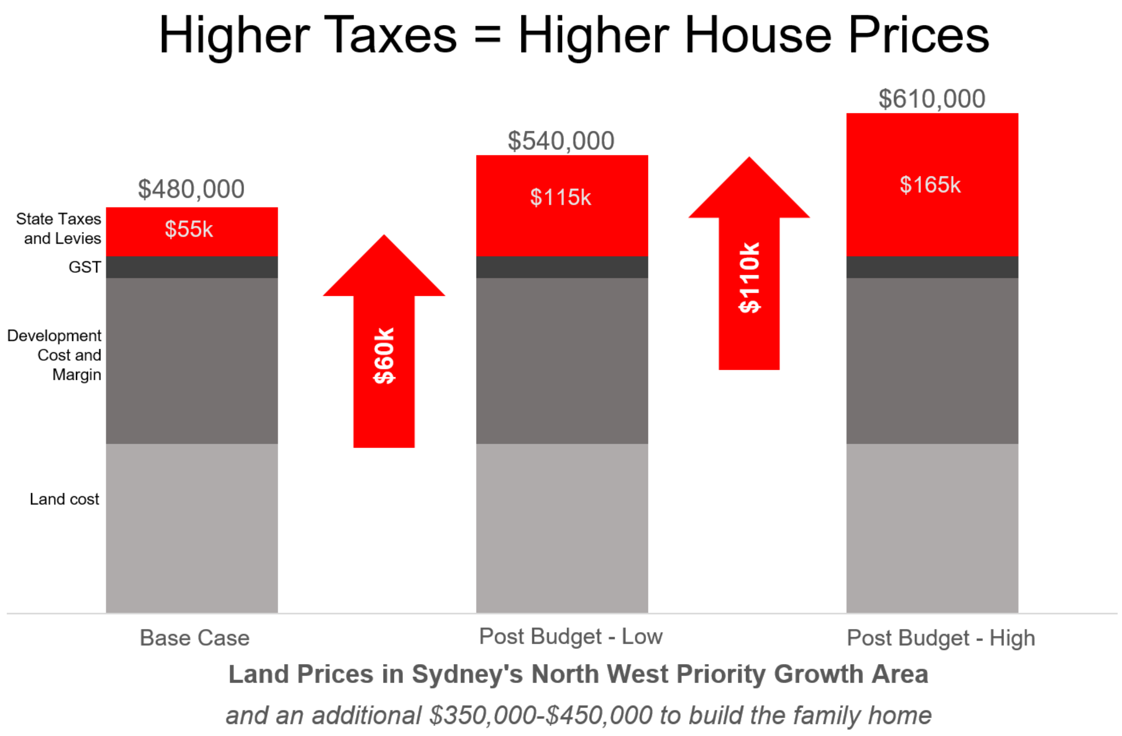
PO Box Q402,
QVB Post Office NSW 1230
Suite 2, Level 11, 66 King Street
Sydney NSW 2000
e udia@udiansw.com.au
t 02 9262 1214
w www.udiansw.com.au
abn 43 001 172 363

Importantly, because uncertainty remains high regarding other potential policy changes, including a planning gain tax, value capture, and changes to current adopted SICs in the North West and South West Priority Growth Areas, the acquisition market for residential development in Sydney has stalled and more projects are failing to secure development finance.

The infrastructure contributions framework in NSW began as a mutually agreed system to help share the costs of infrastructure where there was a clear connection between development and the demand upon infrastructure that it created. It is now moving towards a system that, on face value, appears to be a cost shifting exercise that places the conventional obligation of Government to provide communally used infrastructure onto new home buyers only. This distorts market performance, generates uncertainty, is inefficient and fuels the housing affordability crisis you have committed to address.

Taxes and charges should be simple, certain and efficient. From a government perspective, they need to raise adequate financial resources for the purposes they are meant to satisfy. Whilst from an investment perspective, they should not increase prices to a point where it is uneconomic to produce.

We have reached a juncture where the infrastructure contributions framework is no longer simple, certain nor efficient and the amount of taxes and charges have risen to the point where it is uneconomic to produce new homes. UDIA NSW modelling (summary example below) suggests that if the Government proceeds with the policy changes discussed above, taxes and levies in NSW could double at a time when Sydney is gripped by a housing affordability and supply crisis, with the second least affordable residential property in the world. Many other rural and regional cities and towns across the State are also facing unaffordability issues beyond what they have seen before.



It is too simplistic to think these increased costs will be passed on through site acquisition prices paid to land vendors. These costs are going to be paid by new home buyers who represent less than 1% of Sydney's population per annum.

Under this new paradigm, the NSW Government's recently updated annual dwelling completion target for Sydney of 41,500 will be unattainable. The market is likely to face a 'cliff fall' of supply in Sydney in the next 12 to 18 months, unless urgent action is taken now to address the recent taxes and levies policy positions in NSW.

Increasing taxes and charges on housing will only exacerbate the housing affordability crisis in NSW. For an average new house and land package in Western Sydney with a sale price of $800,000, over $100,000 is payable by the homebuyer in GST and stamp duty. This tax revenue, rather than directly servicing the growth that is generating it, is going into consolidated revenue.

Whilst both our organisations would as a first position, argue for the ultimate removal of stamp duty, given the scenario the state currently faces, we would suggest a scheme be put in place for the medium term, whereby the taxation revenue from stamp duty on new housing should be hypothecated to infrastructure (soft and hard) to support the responsible growth of the State. This scheme could be initially time limited to five years, while the Greater Sydney Commission develops its Growth Infrastructure Compact model and the possible benefits are able to be determined.

We strongly urge you to implement this as a fairer tax and revenue solution to fund essential infrastructure. Currently, less than 1% of the population pays for the majority of the State's new infrastructure this is neither fair, transparent nor equitable.
Finally, as part of any examination of the issues we have raised, we would also urge the Government to examine, and perhaps recalibrate the balance between amenity and affordability. While we support the provision of a high level of amenity to accompany development, we believe it is timely to assess the cost impact of this amenity on affordability (both in terms of what infrastructure is provided, and how efficiently this infrastructure is provided). We believe adjustments and improvements could be achieved.

At your earliest convenience, we would be pleased to meet to discuss the relevant issues outlined above and to work through some potential solutions.

Should you wish to take up this invitation, please contact Justin Drew, General Manager, Policy and Corporate Affairs UDIA on 9262 1214 or at jdrew@udiansw.com.au.

We look forward to your earliest reply.

Yours sincerely

Steven Mann
Chief Executive Officer
Urban Development Institute of Australia

Jane Fitzgerald
NSW Executive Director
Property Council of Australia

cc.
The Hon. Anthony Roberts MP
NSW Minister for Planning, Minister for Housing & Special Minister of State