7 April 2025

ATTENTION:
Blue Mountains City Council
Blacktown City Council
Camden Council
Hawkesbury Shire Council
Wollondilly Shire Council
Via Email & Web Submission Form

Mr Luke Nicholls
Director
Western Sydney Planning Partnership
Via Email: nichollsl@ppo.nsw.gov.au

Mr Martin Hill
Director
HillPDA
Via Email: Martin.Hill@hillpda.com

RE: DRAFT WESTERN SYDNEY REGIONAL AFFORDABLE RENTAL HOUSING CONTRIBUTION SCHEME

The Urban Development Institute of Australia NSW (UDIA) is the state's leading development industry body. We represent more than 450 members across the entire spectrum of the industry including developers, financiers, builders, suppliers, architects, contractors, engineers, consultants, academics and state and local government bodies.

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 where people will live for generations to come and in doing so, we are city shapers.

In NSW alone, the property industry creates more than $581.4 billion in flow on activity, generates around 387,000 jobs, provides around $61.7 billion in wages and salaries to workers and their families, and contributes **$22.3 billion through existing taxes to NSW** State and Local Governments, making the property industry the state's largest paying taxpayer and accounting for **52.1% of total state and local government taxes and rates**.

UDIA welcomes the opportunity to make a submission to the local councils participating in the current Draft Western Sydney Regional Affordable Rental Housing Contribution Scheme. Currently, these councils include the Blue Mountain City Council, Blacktown City Council, Camden Council, Hawkesbury Shire Council and Wollondilly Shire Council.

UDIA is particularly concerned that several of the proposed reforms outlined in the Discussion Paper, if adopted, will affect developers' ability to obtain project funding, and increase the cost and risk of developing housing stock in NSW which negatively affects project feasibility and impacts the ability of the industry to respond to the current housing crisis by delivering more homes and suppressing supply at a time when the National Housing Accord is seeking to increase it.

In this context, we believe many of the proposed changes in this discussion paper are unnecessary and place disproportionate responsibility on the development sector, at a time where feasibility is already deeply constrained, and the State is falling desperately behind in delivery of its share of dwellings required to meet the Housing Accord targets.

Ultimately, levies such as these form part of the cost structure for developers, and within a given level of supply, these costs will typically be passed on to customers, directly negatively impacting broader efforts to support affordability. The proposition that they will be absorbed by "original landowners" ignores the likely impact of ongoing land price growth as infrastructure improves in Western Sydney.

Asking home buyers to pay more for their new homes in the middle of a housing crisis is not the way to fund more subsidised social housing. We therefore encourage Council not to adopt this policy.

We are keen to continue to work in collaboration with Council and other levels of government to create policy settings that assist in the supply of affordable housing. UDIA supports more comprehensive and compelling policies which support affordable housing, and in turn driving down cost and opening up new supply of housing, particularly to constrained markets.

We believe that it is inappropriate to require the current generation of home buyers to shoulder the burden of addressing a much broader societal problem around supply and affordability. This is more properly addressed by government through initiatives such as the Commonwealth's Housing Australia Future Fund and the NSW Government's Building Homes for NSW initiative announced in the 2024-25 Budget.

Whilst UDIA fundamentally does not support the proposed levy, we are keen to offer practical alternatives which aim to improve the current proposal and provide council with alternatives to improve housing affordability in Western Sydney. Our detailed response to the consultation paper is outlined below.

A Broader Societal Issue

UDIA and our members agree that the lack of housing affordability in Western Sydney is a major issue that local councils in partnership with the development industry needs to tackle. It is the view of industry that the consequences of not improving housing affordability are deeply concerning. For any product available in an open market, prices are set by the relationship between supply and demand. Real estate prices, including rents, are no different. While the objective of the draft policy is noble, the policy as drafted, works to limit supply and therefore exacerbates the problem it is seeking to alleviate. Any additional levy imposed on the development will further reduce the viability of this type of housing product, meaning that the development would need to be delivered at lower densities or even lower quantities as has been demonstrated internationally over many decades.

The levy as proposed seeks to impose additional costs on buyers who are in the market in the near future. The base for this levy or tax is therefore very narrow by buyer type (buyers of new stock only, with no impact on buyers of existing housing stock) and temporally (only impacting buyers in the period of the operation of the levy). This places an unfair burden on this segment of the community, who are already seeking comparatively affordable housing in Western Sydney. Both the NSW and Commonwealth Governments have recently recognised that the housing affordability crisis needs to be addressed more broadly, rather than narrowly levied.

The Commonwealth's Housing Australia Future Fund commits the Commonwealth to funding the delivery of 40,000 social and affordable dwellings over the five-year National Housing Accord to 2029. First and second round funding has now concluded, and more than 13,000 dwellings have already been funded, a significant proportion of which are to be delivered in Western Sydney. The NSW Government announced its Building Homes for NSW program in the 2024/25 State Budget, committing $6.6bn to social housing and homelessness services in an effort to deliver 8,400 homes over four years, with again a significant proportion of these homes to be delivered in Western Sydney. Both programs have come into existence since the Western Sydney Affordable Rental Housing Scheme was initially conceived, and they represent historic levels of investment in social and affordable housing in Western Sydney. UDIA believes that these types of programs are a more equitable and more efficient method of delivering such housing in Western Sydney, when compared to a new levy which effectively diminishes supply by the private sector in the most affordable market in Sydney.

Government Led Affordable Housing Funding

The legislative basis and justification for this scheme should be fundamentally challenged. The simple statement in section 1.6 of the exhibited Scheme document states that "*all new development in Western Sydney will reduce the availability of affordable housing*" is unreasonable. Western Sydney provides market delivered and CHP managed affordable housing in many locations. The logic used in the Schemes draft exhibition documents seems to disregard the many other ways affordable housing is being provided, both through market led mechanisms and through programs like the Commonwealth Housing Australia Future Fund (HAFF). UDIA encourages the Western Sydney Planning Partnership and local councils to provide justification on the following:

1. Has the draft Scheme been re-examined following the finalisation and impact of the HAFF?
2. What impact has the NSW Government's own social and affordable housing initiatives had on the overall scale of proposed dwellings through this program and is this sufficient to justify the levy when HAFF funding may already be addressing the problem?

The scheme relies heavily on the justifications provided in the SGS Economics report which is now out of date and relies strongly on the low wage growth experienced before and up to 2022 as a key driver in decline in housing affordability. Wage growth has been significantly stronger in recent years.

Recommendation:
UDIA encourages councils to provide detailed justifications of the Scheme in the context of the likely affordable housing output to be generated through the HAFF and other state led affordable housing programs.

Delay introduction of any Scheme until after the Housing Accord Period

UDIA notes the proposal to delay introduction of the Scheme by three years, to March 2028, to allow time for the market to adjust to the additional levy and for it to be passed back to the developers and landowners. The Housing Accord places very ambitious targets for housing production over the Accord period, totalling 377,000 new homes across NSW by 2029, of which the Western Parkland City, in addition to the local government areas of Blacktown, is forecast to contribute 97,300 dwellings toward the NSW housing targets over the coming 5 years. The target of 97,300 homes is split into both planned houses, which are already in the system and projected houses, anticipated to be delivered from new policies such as Transit Orientated Development (TODs) and Low-and Mid-Rise Reforms (LMR).

Nothing which affects development feasibility or certainty should be introduced during the Accord period and UDIA, as well as industry, strongly recommends that if Council intends to introduce this Scheme, or any other like it, its phase-in should not commence until at least the end of the Accord period in July 2029.

Recommendation:
Delay the commencement of the Scheme to commence after the National Housing Accord period - July 2029.

While the intention behind the proposed Scheme is to address the pressing housing affordability crisis, there is a substantial body of evidence that suggests government-led affordable housing programs have faced significant challenges in delivering sustainable, high-quality housing solutions. Prospective purchasers need for a more collaborative, market-driven approach to housing delivery, in order for reliable and affordable housing stock to enter the market. Evidence from across the globe underscores a critical point which is that private sector involvement has proven to be a more effective way to address housing supply issues. The private sector has the expertise, resources, and flexibility to deliver large volumes of housing quickly, while also innovating to meet the diverse needs of different market segments, including low- and middle-income households. UDIA recommends council focus on creating conditions that incentivise private sector participation, rather than imposing additional levies on industry.

Recommendation:
Local Government should therefore focus on creating conditions that incentivise private sector participation, rather than imposing additional levies on industry.

Impacts on Greenfield Development
In greenfield areas, the proposed levy may prove unfeasible, as many developers may struggle to make their projects financially viable if the levy is implemented. As a result, the anticipated income outlined in the draft scheme may not be generated. The NSW Governments and agencies inability to deliver large enabling infrastructure projects needed to unlock greenfield land development outside the Aerotropolis, Northwest, Greater Macarthur, Wilton and Southwest Growth Centres. The Scheme must account for these restrictions when determining the impact on development viability in greenfield areas. Greenfield developments, particularly those outside of the government-designated growth centres, face unique challenges due to land availability and government land-use restrictions.

To avoid further stalling these projects, greenfield developments should either be exempt from the levy or benefit from a reduced levy rate to reflect the higher development costs associated with these areas. The Scheme should factor in the additional costs and delays associated with greenfield development, especially in areas where land supply is restricted, or development timelines are uncertain due to government policies. These factors should be considered when setting the levy amount for greenfield projects.

Greenfield housing areas of Western Sydney are the largest source of market provided, relatively affordable housing. While there are challenges in delivering sufficient stock of affordable housing in Western Sydney generally, there is no logic in making it more expensive to deliver this relatively affordable market delivered housing, about a third of which ends up in the rental stock. A rental subsidy by government to enable entry into this privately provided stock, complemented by the existing initiatives from NSW and Commonwealth social housing programs, plus the density and height bonuses for developments which incorporate affordable housing, is a more appropriate approach than asking one narrow sector of the market new home buyers to shoulder the burden.

Recommendation:
To avoid further stalling these projects, greenfield developments should either be exempt from the levy or benefit from a reduced levy rate to reflect the higher development costs associated with these areas.

Payment Methods & Other Contributing Levies

The Scheme should account for the cumulative impact of other levies and contributions, including Housing and Productivity Contribution (HPC), Sydney Water Development Servicing Plans (DSP), Section 7.11 Local Contributions, Voluntary Planning Agreements (VPAs) requiring additional land and infrastructure provisions, escalating construction costs and prolonged planning delays, which significantly impact feasibility, as well as other environmental levies depending on the location of the development site.

These existing levies significantly affect the financial feasibility of development and must be considered in the context of the proposed affordable housing contribution levy. UDIA and our members estimate the proposed charge will add $8,000 to the cost of an average 375sqm lot in greenfield developments which is aimed at delivering affordable housing supply for sale to the private market.

Alternative commercial arrangements direct between developers and CHPs should be allowed as offsets against cash or land contributions. To reduce the overall burden of a new levy on industry, UDIA proposes the introduction of greater flexibility and payment method arrangements for the Levy. UDIA recommends the introduction of options which would allow a developer to either pay the contributions as proposed in the Draft Scheme **OR** deliver the affordable housing and sell them to Community Housing Providers (CHPs). This would allow flexibility in cashflow requirements prior to development costs being incurred and approvals sought and would ensure that developers have options available to them during cash intensive stages of development.

Another concern raised by members pertains to the timing of the levy payment. According to the draft scheme, councils anticipate collecting the levy at the sub-certification stage (or equivalent). However, this timing difference is significant for developers but relatively irrelevant within the context of this model, where dwellings are delivered long after the contribution payments are made to satisfy approval and construction certificate requirements. UDIA recommends that councils consider collecting the levy upon completion and certification instead, thus not interfering in cashflow requirements of developers early into planning and constructions works.

Recommendation:
UDIA recommends the introduction of options which would allow a developer to either pay the contributions as proposed in the Draft Scheme OR deliver the affordable housing and sell them to Community Housing Providers (CHPs).

UDIA recommends that councils consider collecting the Levy upon completion and occupation certification of works, rather than at the sub-certification stage (or equivalent).

Economic Analysis Review

UDIA notes that the HillPDA report identifies the rates are benchmarked to median strata residential dwelling price. The reason that Camden's median strata residential price is higher is that this product is virtually non-existent in Camden LGA due to the lack of viability. The stock that is available are new units in areas of very high amenity such as Narellan and Oran Park Town Centres. This lack of supply is distorting the median figure. SGS report notes a fundamental position that renewal of older stock housing in Western Sydney is likely to lead to elimination of cheaper housing. A more sophisticated response would be acknowledging the value of improving the quality of the housing stock and blending affordable stock in with new private stock via Joint Venture deals in projects like Landcom's Minto housing estate renewal.

As currently proposed, councils are being dedicated the land and then transferring it to Homes NSW or a Community Housing Provider. This would entail a double transfer (with costs) and add a significant time delay, and little certainty about delivery. We recommend giving greater flexibility to developers to meet requirements through works in kind and partnerships with Tier 1 CHPs. This could be done by a developer partnering with a Tier 1 CHP to dedicate the land and build the home, either as a full offset of their contribution, or where developer provides the land and CHP the capital for construction. This could be accelerated through participating in the HAFF.

The requirement to only allow cash contributions or direct dedication of floorspace rather than enabling alternative mechanisms to be used by developers (by way of provision via partnership with a CHP) should be more flexible. For levies payable for RFBs and any commercial development, timing of payment should be on issuing of occupation certificate to assist in managing cashflow.

Recommendation:
UDIA encourages local council to introduce alternative commercial arrangements directly between developers and CHPs, which allows offsets of the Levy against cash or land contributions.

Another feature of the scheme is the distribution plan, which allows adjoining councils to pool contributions to fund affordable housing projects. The scheme is set to commence in March 2028, applying to all development applications approved from that date onwards. UDIA firmly believes that the Scheme should introduce a "Grandfathering" provision for existing residentially zoned lands, which are currently undergoing development application reviews by Council or state agencies and/or VPA's should be excluded from inclusion in the Scheme following its proposed commencement in March 2028.

Recommendation:
UDIA recommends the Scheme be amended to include a "Grandfathering" provision for existing residentially zoned lands, which are currently undergoing development application reviews by Council or state agencies and/or VPA's.

HillPDA, which conducted the economic testing for the scheme, has highlighted the potential impact of these financial contributions on development viability, emphasising the need to balance economic concerns with political and social objectives. While HillPDA asserts that the scheme will not significantly affect commercial development feasibility and that industrial projects can absorb the contributions within typical contingency amounts, several issues remain unresolved. First, the definition of Gross Floor Area (GFA) used to calculate contributions is unclear, raising concerns about whether it aligns with local council definitions. Moreover, HillPDA has suggested the need for further studies to assess the impact of the scheme on Community Housing Providers (CHPs) versus non-CHP providers in terms of how contributions are utilised.

UDIA wishes to express concerns regarding the application of exemptions, particularly for greenfield areas like Appin, where the existing requirement to provide 5% of attached dwellings as affordable housing may conflict with the new scheme's requirements. The consensus among developers is that achieving housing diversity in the region is already a challenge, with viability concerns around medium and high-density developments. This raises doubts about whether the scheme will deliver the intended funds and housing outcomes. While greenfield developments are generally viable, the added contribution could undermine their feasibility.

We also note concerns that the feasibility modelling is based on unrealistic contribution rates and construction cost estimates. For instance, the assumed S7.11 contributions of $85,000 are considerably lower than the actual rates observed in recent greenfield development areas, where contributions range from $100,000 to $130,000.

Furthermore, as detailed in Table 1 below, assumptions regarding apartment construction costs are outdated by several years, with actual costs being between $230,000 to $250,000 higher than those considered in the feasibility analysis. These discrepancies cast doubt on the accuracy of the financial assumptions that underpin the scheme.

Table 1 (A2 + A3)- HillPDA contributions and construction costs assumptions

A.2 Fees and contributions

Table 14: Adopted fees and contribution rates

Fid	Centre type	Type	Parking rate (avg)	Contribution	Contribution rate	SIC ($/dwelling)	H&P ($/dwelling)	Sydney Water DSP (rate)	Sydney Water DSP ($)
18	Growth Area	Dual occupancy	2.0	7.12	1%	15,426	12,000	$2,366	$28,234
16	Growth Areas	Subdivision		7.11	$85,000	-	12,000	$11,036	$331,094
29	Growth Areas	Subdivision		7.11	$85,000	-	12,000	$4,826	$144,767
30	Growth Areas	Subdivision	1.0	7.11	$85,000	250,577	12,000	$4,826	$144,767

A.3 Construction costs

Table: Benchmark construction costs

	$/sqm	Average size GFA (sqm)	$/unit (avg)
Townhouse	2,800	125sqm	350,000
Apartment 3-5 Storey	3,000	90sqm	270,000
Apartment 6-10 Storey	3,200	90sqm	288,000
Apartment 10-15 Storey	3,800	90sqm	342,000
Dual Occupancy	2,900	120sqm	348,000

Source: Rawlinson's Construction Handbook 2023

Source: Appendix B Western Sydney Affordable Rental Housing Contribution Scheme- Economic Testing (HillPDA updated February 2025

UDIA analysis of three recent greenfield release areas in Sydney shows contributions rates inputs should be more in line with table 2 below:

Table 2 Recent Contributions for detached homes in Western Sydney

Recent Growth Area	Detached Dwelling S7.11 Rate	DSP Rate	HPC Rate	SBC
WSPP Assumption	*$85k*	*$4k – $11k*	*$12k*	*$0*
Appin	$85,000	$4,233.67	$12,748	$10,124
Orchard Hills North	$136,946	$19,997.13	$12,748	$10,124
Glenmore Park Stage 3	$105,705	$19,997.13	$12,748	$10,124
Blacktown CP20	$94,795	$9,805.91	$12,748	$0

Source: IPART, DPHI and Sydney Water

UDIA's members believe HillPDA's assumption and inputs into the feasibility analysis regarding other contributions developers have to pay are flawed, because the $85k assumption for S7.11 contributions should be around $100-130k, the CPCP component of the HPC has not been considered, which is equal to the base component of the HPC for residential and is double the base component for non-residential development and that the charge considered for DSP is too low; actual contributions are between two to four times greater than the assumption in most Western Sydney areas. Apartment construction costs assumptions are outdated by about five years. The average apartment construction costs in Western Sydney are between $600k-$650k per apartment, around $230k more than WSPP assumptions.

Recommendation:
UDIA recommends the modelling used to support the introduction of the Scheme is updated construction costs estimates and contributions costs as outlined above.

Legislative Basis

Housing diversity is being actively encouraged to assist in the delivery of various housing types that improve affordability and availability to the market. The exhibited policy works against these objectives. The policy identifies that a contribution may only be applied to a development application where:

a. the consent authority is satisfied that the proposed development will or is likely to reduce the availability of affordable housing within the area; or
b. the consent authority is satisfied that the proposed development will create a need for affordable housing within the area.

In relation to point (a); to argue that the supply of housing in Western Sydney reduces the availability of affordable housing, is nonsensical. Whilst it may be argued that proportion of affordable housing may be reduced, this misinterprets the intent of the SEPP. It also ignores the application of the fundamental laws of supply and demand. For point (b), it is not the development that is creating the need for the affordable housing, it is the population growth. Without the development, the need for affordable housing would be even higher.

Section 7.32 of the Act also requires that new developments be assessed in terms of their potential impact on affordable housing availability. While this can be argued for residential developments, applying this principle to non-residential development is problematic, as it does not reduce the availability of affordable housing nor directly contribute to its provision. Non-residential developments, particularly those that provide employment, should not be subject to these contributions, as they do not conflict with the goal of increasing affordable housing.

Recommendation: Section 1.7 titled "Affordable Housing Need in Western Sydney" Second paragraph, first sentence should be amended as follows: When not enough affordable housing is available, housing stress occurs.

Conclusion

The proposed Western Sydney Regional Affordable Rental Housing Contribution Scheme, as drafted, poses significant risks to housing supply and affordability. The imposition of additional levies on developers, without addressing the broader issues of planning delays, zoning restrictions, and regulatory burdens, will only serve to exacerbate the housing affordability crisis. Instead of introducing another unsustainable levy, we recommend adopting market-driven policies that incentivise the private sector to deliver affordable housing. We urge local councils to reconsider the approach outlined in the draft Scheme and adopt more effective and sustainable solutions that will increase the supply of affordable housing in Western Sydney.

UDIA's Director – Greater Wester Sydney, Charles Kekovich is available to work with your team should you have any additional queries regarding the above submission. Charles can be contacted on 0409 776 588 or ckekovich@udiansw.com.au.

Yours sincerely,

Hon Stuart Ayres
Chief Executive Officer
UDIA NSW