HOUSING AFFORDABILITY
a little less conversation
a little more action

Submission of the Urban Development Institute of Australia NSW to the Senate Select Committee on Housing Affordability in Australia

April 2008

SUMMARY

The Urban Development Institute of Australia NSW (UDIA NSW) welcomes the investigation by the Senate Select Committee on Housing Affordability in Australia. UDIA NSW has considered the terms of reference and offers a series of recommendations to restore housing affordability in Australia with particular emphasis on the challenges facing this state.

UDIA NSW contends that the present housing affordability crisis is product of:

i. **insufficient dwelling supply and diversity of supply**
A failure by government to forward invest in infrastructure has constrained supply on both the fringe and in existing urban centres. In NSW this has been aggravated by a shift away from the release of large, active, zoned and serviced land release areas to a reliance on urban renewal which has reduced diversity of supply in the market.

ii. **excessive taxes and charges by all three levels of Government**
Government continues to divest itself of cost and risk. Cost and risk is shifted from the federal to state level, from the state to local level and from all three levels to the initial new homebuyer (via the developer), whilst the GST collected during the development process accumulates consolidated revenue for the Commonwealth; and

iii. **inefficient and complex governance structures**
The current planning system creates delay, imposes cost, increases risk and uncertainty and generally discourages investment. Inefficient and complex governance structures limit the supply of dwellings to the market and resulting in an increase in the cost of housing to the purchaser.

UDIA NSW maintains that subsidies and demand side assistance packages alone cannot alleviate the decline in housing affordability. Policies which encourage demand where supply is constrained will accelerate price rises and further exacerbate the decline in housing affordability.

UDIA NSW offers evidence to support its advocacy. UDIA NSW offers practical supply side solutions.

Housing production in this state has fallen dramatically in the last five years. In the twelve months to July 2007, the number of new dwelling commencements in NSW fell to a near fifty year low of 29,300 (BIS Shrapnel, 2007).

In Sydney, production levels of 8,000 lots per annum are required on the suburban fringe to meet market demand and maintain housing affordability. These production levels have fallen to around 2,000.per annum over the last 3 years. These levels are lower than the production of cities like Adelaide and Darwin with populations of less than 20% of that of Sydney. In fact, some of the major Australian national developers individually generate more land sales than the entire Sydney Metropolitan Development Program in their land development operations in cities like Melbourne and Brisbane.

This level of production is well below the underlying demand of approximately 40,000 new houses per annum and has had deleterious implications for both the economy and housing affordability. (BIS Shrapnel Residential Property Prospects, 2007). This decrease in new dwellings supply is putting increased pressure on the rental market,

where vacancy rates have fallen from 3.8% to 1.4% in the past three years, and a significant building shortfall in 2007 will force vacancy rates to thirty year lows below 1% by end-2007 (ANZ, 2007).

Dwelling supply must meet demand if it is to moderate housing price growth. Increased dwelling supply can only be facilitated if there are adequate opportunities for development or redevelopment. Available land and development opportunities must be provided in a zoned and infrastructure ready status and supported by an appropriate regime of taxes and charges (including mitigating the impact of the GST) that do not disproportionately disadvantage the most vulnerable market participants – the new homebuyer, and in particular the first homebuyer.

State and local government taxes and charges when combined with the GST account for 25% of the cost of new $550,000 house and land package. Over $130,000 plus mortgage interest (of an equivalent amount) is paid by the homebuyer to finance urban infrastructure that will be used by successive generations. This is not the case for previous generations who benefited from direct government investment in infrastructure, paid through general income taxes. This creates significant intergenerational inequities that need to be addressed if housing affordability is to be achieved.

The application of levies (taxes and charges by another name) create significant intergenerational inequities for new homebuyers. Previous generations of homebuyers have benefited from the foresight and enterprise of the public sector that invested in infrastructure that facilitated the creation of residential communities, providing an incentive for investors. It was a fair and equitable approach to creating new communities and it worked. Current governments demand that the investment for infrastructure be borne by new homebuyers, in the disingenuous guise of 'Developer Contributions and Levies'.

These inequities result in an unsustainable differential between the cost (retail price) of a new dwelling compared with the sale price of existing residential products with the affect of effectively subduing consumer demand for new products. If consumers have an inability to transact due to high entry prices, as has been the case now for many years, activity will stagnate.   It is simply unfair. It is not what governments are elected to do. It is an abdication of responsibility for short term political gain.

The GST is the largest single tax applied to the development of new housing. It is the only tax that the Commonwealth Government currently has direct control over in the development process and the benefits back to the community that pays it is opaque at best. There is no clear nexus between the payment of the GST in the creation of new housing and the benefit derived, particularly when existing homes (generally owned by the previous generation) pay no tax and presumably derive the same benefits from the Commonwealth Government. The GST is the largest single impediment to the supply of new dwellings to the market.

Finally, good governance can provide certainty, timeliness and transparency to reduce holding costs, increase investment activity and thereby improve affordability. The DAF Leading Practice Model offers a consistent approach for development in all states. Time is money.

The following recommendations are provided to assist the Senate Select Committee on Housing Affordability in Australia:

RECOMMENDATIONS

RECOMMENDATION 1

The Commonwealth Government commit to the expedited release, rezoning and servicing with critical lead in infrastructure of Commonwealth Land to support the supply of new dwellings to the market.

RECOMMENDATION 2

The Commonwealth Government provide additional incentives for private investment in the provision of affordable rental accommodation to encourage the supply of housing in areas of high amenity and good access to employment and public transport.

RECOMMENDATION 3

The Commonwealth Government establish an urban affairs portfolio to coordinate Federal involvement and investment in urban infrastructure to provide for dwelling opportunities in urban areas similar to forward investment, incentives and support provided by the Building Better Cities Program.

RECOMMENDATION 4

That the Commonwealth implement the following two actions to mitigate the impact of the GST on new dwellings and housing affordability:

i. *Hypothecate the GST to fund infrastructure to support the activity that generates the tax.; and*
ii. *Include the existing state and local taxes and charges in the GST margin scheme.*

RECOMMENDATION 5

That the Commonwealth encourage states to apply the Leading Practice Model for Development Assessment consistently across Australia.

INTRODUCTION

The Urban Development Institute of Australia NSW (UDIA NSW) welcomes the investigation by the Senate Select Committee on Housing Affordability in Australia. UDIA NSW has considered the terms of reference and offers a series of recommendations to restore housing affordability in Australia with particular emphasis on the challenges facing this state.

UDIA NSW contends that the present housing affordability crisis is product of:

i. insufficient dwelling supply;
ii. excessive taxes and charges by all three levels of Government; and
iii. inefficient and complex governance structures.

UDIA NSW maintains that subsidies and demand side assistance packages alone cannot alleviate the decline in housing affordability. Policies which encourage demand where supply is constrained will accelerate price rises further exacerbating housing affordability.

UDIA NSW offers evidence to support its advocacy. UDIA NSW offers practical supply side solutions.

The largest impediment to dwelling supply is excessive taxes and charges. The largest discrete tax on new houses is the Goods and Services Tax (GST). The GST is only applied to new housing. UDIA NSW is therefore concerned that Commonwealth Government should exclude the single largest impact on affordability from the terms of reference on housing affordability. Essentially, the terms of reference omit the one thing over which the Commonwealth Government has some influence.

The urban development industry is eager to examine opportunities to establish a comprehensive, holistic approach to housing affordability that recognises the responsibilities and revenue demands of each of the three tiers of Government. Housing affordability demands a coordinated and appropriate response from all levels of government.

UDIA NSW's submission represents an addendum to the UDIA National paper on this subject. It recognises that NSW and Sydney especially are experiencing difficulties that anticipate those that may later be experienced by other Australian states such as a highly distorted user pays system, fragmentation of land, decrepit infrastructure, increasingly diversified market demands for a variety of housing types and tenure and a focus on urban renewal.

UDIA NSW represents the industry which develops new communities. It proudly advocates the interests of the developer and the homebuyer. We purse opportunities for development, encourage the creation of a positive regulatory environment, and seek to moderate the burden of taxes and charges on our customers, the people of NSW. We believe in affordable, sustainable, and liveable communities.

HOUSING AFFORDABILITY IN NEW SOUTH WALES

New South Wales (NSW) is home to more than one third of Australia's population and therefore has a proportional impact on national housing affordability. Sydney as Australia's only truly global city and resident to over 4.1 million people, presents a relatively complex challenge to addressing declining housing affordability.

Sydney retains the unenviable status as Australia's least affordable city. For this reason considerable emphasis will be given to a discussion of Sydney within the context of the broader NSW discussion.

NSW residents continue to pay higher rents and have the highest mortgage repayments in Australia. Given the shortfalls in dwelling supply and decreasing rental vacancy rate, this trend is likely to continue.

	NSW	Sydney	Australia
Median weekly rent	$210	$250	$190
Median monthly loan repayments	$1517	$1800	$1300
Median weekly household income	$1036	$1154	$1027

2006 Census (ABS, 2007)

Economically NSW has been significantly underperforming and this has impacted on urban development markets and investment within the state. Dwelling production typically requires employment growth over 2% to sustain the market.

Relative Performance of Sydney's Employment Growth

Nos. are in millions.	Dec Qtr '07FTWF & YOY Growth	Dec Qtr '06FTWF & YOY Growth	Dec Qtr '05FTWF & YOY Growth	Dec Qtr '04FTWF & YOY Growth	Dec Qtr '03FTWF & YOY Growth	Dec Qtr '02FTWF
Brisbane 5yrs=0.132	0.742 3.78%	0.715 5.61%	0.677 1.80%	0.665 6.06%	0.627 2.79%	0.610
Melbourne 5yrs=0.130	1.383 3.83%	1.332 0%	1.332 1.29%	1.315 4.9%	1.253 0%	1.253
Perth– 5yrs=0.106	0.592 4.04%	0.569 4.79%	0.543 5.03%	0.517 2.58%	0.504 3.70%	0.486
Sydney 5yrs=0.088	1.647 3.20%	1.596 (0.44%)	1.603 1.07%	1.586 0.89%	1.572 0.83%	1.559

FTWF=Average Full-time Work force for Dec. Qtr.

The above graph describes an employment growth rate consistently below 2%. Accordingly, housing production in the state has fallen dramatically in the last five years. In the twelve months to July 2007, the number of new dwelling commencements in NSW fell to a near fifty year low of 29,300 (BIS Shrapnel, 2007). Inherent in this statistic is greenfield lot production in Sydney at 75% below the underlying demand.

This level of production is well below the underlying demand of approximately 40,000 new houses per annum and has had deleterious implications for both the economy and housing affordability. Current estimates are a shortage of supply, or pent up demand for 22,200 new dwellings (BIS Shrapnel Residential Property Prospects, 2007). This decrease in new dwellings supply is putting increased pressure on the rental market, where vacancy rates have fallen from 3.8% to 1.4% in the past three years, and a significant building shortfall in 2007 will force vacancy rates to thirty year lows below 1% by end-2007 (ANZ, 2007).

Urban development currently contributes approximately $15 billion worth of activity to the State economy each year, while construction and property and business services combined account for around 20% of NSW employment (UDIA NSW, 2006). UDIA NSW estimates that the underproduction of housing is costing around $4 billion to the NSW economy annually.

In the decade from 1996, population in NSW grew 9%, more than two percentage points below the national average and more than 50% less than Queensland. Despite population growth in the last decade below the National average, NSW is still the major population centre, with just under 30% more people that the second most populated state, Victoria.

	Sydney	Melbourne	Brisbane	Adelaide	Perth
Median weekly rent	**$250**	$200	$220	$165	$180
Median monthly loan repayments	**$1800**	$1300	$1300	$1083	$1300
Median weekly household income	**$1154**	$1079	$1111	$924	$1086

2006 Census (ABS, 2007)

Sydney is where the housing affordability issue is most pronounced. The table above highlights below the dramatic disparity between the cost of housing in Sydney and the other major capital cities. Mortgage repayments in Sydney are 40% higher than the national median and rents 31% more, even through incomes in the city are only 12% higher.

From the 2006 Census Sydney's median home loan repayment reached $1800 a month, 42 per cent more than in the last census in 2001 and 77 per cent higher than 1996. The median rent in Sydney has risen by 50 per cent in the decade to $250 a week.

The influence of Sydney in the supply of housing in NSW cannot be understated. Despite population growth of only 10.8%, more than 8% less than Brisbane over the last decade, Sydney remains a highly influential financial and creative centre. It is also a leading indicator of cultural changes within Australia. *"Sydney is the epicentre of tectonic shifts in the Australian social landscape, with an increasingly diverse ethnic and religious mix, an ageing population, a continuing decline in the traditional family unit and big changes in the way we live and house ourselves"* (SMH, 2007).

Sydney is often perceived to be a victim of is own success. Sydney as a dynamic financial and creative centre creates considerable demand by attracting a proportionally high number of talented and comparatively affluent workplace participants. There is therefore a commonly held belief that the city's status as a global competitor automatically dictates declining housing affordability commensurate with other internal experiences such as Tokyo, London, New York and San Francisco.

UDIA NSW acknowledges that this may require a change in perceptions by first homebuyers such that a large house may no longer be a realistic option as a first home for many buyers. Nevertheless, it should not preclude access to housing market including the rental market. UDIA NSW believes that home ownership in NSW and especially Sydney should be a reality for everyone.

UDIA NSW contends that the supply of affordable housing must not just be concentrated at the most remote and least desirable locations in the city. Particularly if there is limited employment opportunity in those areas. It is acknowledged that it would be unrealistic to provide genuine affordable housing options in the most affluent areas of the city, but there are opportunities in areas of high amenity that provide good access to public transport nodes and employment.

DWELLING SUPPLY

In the mid 1990s the NSW Government adopted a largely ideologically driven and widely contentious policy of urban consolidation. Pursuant to this policy objective, the supply of greenfield land was constrained and price signals established to deter fringe development.

The policy had an unprecedented impact. Today nine dwellings are being constructed in Sydney's existing urban footprint for every new dwelling on the fringe. The policy though has exacerbated the decline in housing affordability as infill dwelling production alone has not proved capable of satisfying the underlying demand nor the price points required to be classified as affordable.

Demand for land on the urban fringe in Sydney is driven by the population in the west, and a preference for detached housing on individual lots. The supply of land to this market has been constrained yet underlying demand remains at around 8,000 lots per annum.

The establishment of the Growth Centres Commission and a commitment by the NSW Government to increase zoned and serviced stocks on Sydney's fringe and in the regions may serve to alleviate housing affordability in Western Sydney and regional NSW. The problem for those areas is more an issue of levies, taxes and servicing charges that erode the capacity to meet englobo land vendor expectations. The current level of costs are bringing the offer price to englobo land vendors to below rural values thereby discouraging land coming onto the market. Where it does come onto the market, it is often a disparate distribution throughout the release area and driven by the personal needs of the vendor rather than a reflection of sound commercial sense. This process compromises the objective of orderly planning and appropriately staged development.

Sydney remains a large and complex system. The release of more land alone cannot solve housing affordability across the entire city. Any solution needs to look more broadly at dwelling production and the diversity of supply.

Sydney is appropriately described as the City of Cities. The disparity between housing markets in east and west Sydney presents essentially two different cities and a further challenge to addressing affordability. Housing prices in eastern Sydney are not dependent on land supply, but are a product of amenity and access. In addition, there is a further divide between the aspirational demand of the north western sector as against the more localised demand of the south western sector.

Premium property values are generated by amenity and access to the harbour. Similarly access to employment, entertainment, and creative networks are broader drivers of Sydney's real estate prices. Housing prices typically fall as a function of their distance from the harbour and CBD or centres that offer high levels of amenity as described above. The demand for housing is therefore not just a product of constrained land supply on the urban fringe.

Sydney therefore requires a more sophisticated approach to addressing housing affordability beyond simply releasing more land. . Many professions are location dependant and workplace participants must be given opportunity to housing and accommodation that is affordable and with good access to employment.

For example it is necessary to provide for nurses, teachers and bus drivers. Measures such as rental assistance or a living allowance may be appropriate measures to ensure that people who work in lower income jobs are not confined to fringe suburbs. The *London Nurses Living Allowance* provides a suitable example of a measure that should be considered to ensure greater access to housing in the east for lower income earners.

Furthermore, the *National Affordable Rental Scheme* as proposed by the Commonwealth Government should assist in providing some stimulation for private investment in affordable rental accommodation. UDIA NSW supports initiatives to increase the supply of dwellings but contends that the cost of supplying housing to the market at affordable rates varies significantly between cities and this must be recognised through a degree of flexibility in the way the proposed scheme is operated.

The emphasis on the proposed Rental Scheme must be on supplying dwellings to the market to meet demands manifested through access to and opportunity for employment and social infrastructure. In this regard, incentives should be increased for Rental Scheme development that is close to areas of high amenity with good access to transport and employment.

The NSW Government has a Strategy to provide between 360,000 to 420,000 new dwellings in the existing urban area of metropolitan Sydney over the next 25 years. To achieve this target the NSW Government has adopted a polycentric model that concentrates development in designated areas. Implicit in the polycentric model are dwelling targets for each of the six regional city centres which are predicated on the construction of apartments to meet those targets.

UDIA NSW developed a hypothetical development scenario to examine the feasibility of developing apartments in each of the city centres within the polycentric model. The development feasibility was prepared using the construction costs for the specific hypothetical design and accounted for design controls within the city centre plan and the local developer contributions prescribed for the area.

Using the present design rules and levies contained in the Penrith City Centre Plan, it is evident from the feasibility (overleaf) that a two bedroom apartment cannot be delivered to the market for less than $305,000. Furthermore, a townhouse in this scenario cannot be offered to the market for less that $395,000 without the developer incurring a loss.

UDIA NSW engaged a market analyst to examine the Penrith market. The analysis revealed that the current value for new product corresponding to the following building typologies is:

Apartments	**Townhouses:**	**Houses:**
1 Bedroom $250,000	3 Bedroom $325,000	3 Bed $330,000 -
$500,000		
2 Bedroom $275,000		
3 Bedroom $325,000		

The Penrith market is price sensitive and favours detached dwellings. It is clear from the following development feasibility that the present regulatory and financial environment precludes apartments being constructed outside inner and coastal Sydney. A buyer can purchase a detached house for the same price that a developer could deliver an apartment in this area.

Assumptions	100 Apartments 42 Townhouses	245 Apartments	472 Apartments
Staging	One stage	Two stages	Four stages
Land value per dwelling	$30,000	$27,000	$25,000
Construction costs **1 bed (55m^2)** **2 bed (90m^2)** **3 bed (105m^2)** **Townhouse (140m^2)**	 - $205,000 $250,000 $255,000	 - $205,000 $250,000	 $160,000 $205,000 $250,000
Section 94 per dwelling	$9,900	$9,900	$9,900
Revenue **1 bed** **2 bed** **3 bed** **Townhouse**	 - $305,000 $360,000 $395,000	 - $305,000 $360,000 -	 $250,000 $305,000 $360,000 -
Interest	8%	8%	8%
Equity	$5.6M (15% of total project costs)	$9.8M(15% of total project costs)	$16.7M (15% of total project costs)
Margin **(15% industry min.)**	**6.72%**	**1.38%**	**8.03%**
Profit per dwelling	$19,550	$4,039	$20,560
Project IRR **(25% industry min.)**	**11.72%**	**5.78%**	**8.03%**

A combination of increased developer contributions, extended DA processing times, design competitions and the lack of forward investment in city centre amenity collectively compromise development feasibilities to the extent that the price of bringing a new apartment in these centres onto the market will generally exceed the market ceiling. Unless changes are made that will improve the fundamentals for residential development in the city centres, apartments will remain uncompetitive in these markets for the short to medium term.

Sydney is now reliant on increasingly fragmented, less predictable land parcels to account for its dwelling production including the redevelopment of apartment buildings that have reached the end of their life cycle. A forward investment by Government in critical infrastructure and amenity is necessary to stimulate urban renewal activity.

Urban renewal occurs where demand has been exhausted due to deterioration in the urban landscape. It is therefore logical that forward investment is required to lift the local amenity and create demand for dwellings in the locale. Private investment and urban development is therefore dependant on the revitalisation of civic spaces and this requires innovative financing and forward investment by either Government or private equity partners.

The *Building Better Cities* Program of the Commonwealth Government from 1991 to 1996 provides a suitable case study for successful federal investment in urban renewal projects. There is an acute need for similar Commonwealth Government involvement to stimulate dwelling production in metropolitan Sydney.

The Commonwealth Government must look beyond the release of greenfield land to meet the housing supply demands of the growing NSW population. UDIA NSW recommends that the Commonwealth consider the establishment of an urban affairs portfolio to coordinate federal investment and involvement in urban infrastructure delivery.

RECOMMENDATION 1

The Commonwealth Government commit to the expedited release of land including surplus Commonwealth Land to support the supply of new dwellings to the market.

RECOMMENDATION 2

The Commonwealth Government provide additional incentives for private investment in the provision of affordable rental accommodation to encourage the supply of housing in areas of high amenity and good access to employment and public transport.

RECOMMENDATION 3

The Commonwealth Government establish an urban affairs portfolio to coordinate Federal involvement and investment in urban infrastructure to provide for dwelling opportunities in urban areas similar to forward investment, incentives and support provided by the Building Better Cities Program.

TAXES AND CHARGES

A considerable proportion of urban infrastructure is funded through levies. This is having a significant impact on housing affordability.

The intent of the levies is value capture. Otherwise known as a Betterment Tax, a widely acknowledged failed initiative of the 1970s. Value capture is where the Government seeks to internalise the lift in land value resulting from a decision to rezone land for residential or employment purposes. The reasoning is that the vendor should not benefit financially from a government decision to provide more housing.

This reasoning fails to acknowledge the role that vendor plays in the development process. Unless the government wants to only make its own surplus holdings available for development, it must allow conditions in the conversion process for developers to meet the market and compensate the vendor adequately for their investment and caretaking activities of the vendor. This can occur over a long period of time and with little or no control over the future zoning of their land. The selection of their land for release is usually driven by servicing and development capability and/or proximity to adjacent urban areas.

In other words, the government nominates the site but does not want to compensate the landowner for the true value as dictated by the government's own objectives. It would be reasonable for the vendor to call the government to account by not selling and making it move on to a less ideal location where it would be more costly to provide the infrastructure. This would highlight why the government should meet the market.

The levy is expressed as a developer contribution but is either transferred to the homebuyer in an upward market or expressed through a reduced residual value paid to the vendor in a downward market. When the former occurs, the price exceeds the markets capacity to buy. When the latter occurs the price does not meet expectations and the supply of the englobo land is either restricted or is made available in an ad-hoc and disjointed fashion leading to a lack of order in the provision of infrastructure and in the development process.

Levies are an unsophisticated tax as they are not market responsive. They do not account for changes in market conditions and create a further disincentive to investment.

Levies demand that the cost of local and regional infrastructure be borne by new homebuyers, those who in many cases have the least capacity to pay. This infrastructure was previously provided for earlier previous generations by governments and funded through consolidated revenue. A fair tax is a broad and efficient tax. Levies are narrow taxes that seek to absolve the responsibility of government to utilise consolidated revenue to facilitate the provision of housing.

The application of levies creates significant intergenerational inequities for new homebuyers. Previous generations of homebuyers have benefited from the foresight of the public sector that invested in residential communities, providing an incentive for investors. It is a fair and equitable approach to creating new communities and it worked. Current governments demand that the investment for infrastructure be borne by new homebuyers. It is unfair and it is not working.

The fifty year low in dwelling commencements in NSW from 2006-2007 resulted from a structural change rather than cyclical shift. Only 2,800 lots that were produced in Sydney last year. These two figures are testament to a taxes and charges framework that is prohibitive to the supply of new dwellings to the market.

The collective application of taxes and charges by all three levels of Government is compromising the feasibility of new development and exacerbating affordability in Sydney. With respect to greenfield development, the excessive taxes and charges reveal a residual value (the amount the development can afford to pay the vendor) below the rural value of the land. In Sydney it is more profitable to sell land for vegetables than houses.

The image below provides an example of existing housing stock in Camden and the market value. This provides an indication of the market ceiling for that area.

The hypothetical feasibility provided overleaf demonstrates the extent to which the application of levies and charges by all three levels of government has contributed to the lack of dwelling supply on the urban fringe. The feasibility is for a new modest single storey dwelling on a residential lot in the South West Growth Centre of Sydney. The following assumptions apply:

- developer buys land 3 years before the DA;
- englobo land value of $750,000 (current rural residential value – note that many vendor expectations are considerably higher.) There must be an incentive for a land holder to sell their holdings at above the rural value. Market conditions remarkably different to those know have created the expectation amongst many land holders that their land is worth considerably more than they are being offered. Peer pressure, dwelling quality, and the inability for the land holder to replace their asset at the price being offered provide further constraints).
- net density of 15 lots/ha;
- approx lot size of 467sqm.

Acquisition	$59,118	10.7%
Holding costs	$1,226	0.2%
Development works	$56,940	10.3%
Finance costs	$25,684	4.7%
Margin (Risk return): land	$45,893	8.3%
Selling costs-land	$7,868	1.4%
Dwelling package	$192,000	34.8%
Builder margin	$28,800	5.2%
State Levies and Taxes (Stamp Duty, Land Tax, Sydney Water Connection, State Infrastructure Contribution, Fees)	**$56,839**	**10.3%**
Council Levies and Fees (incl. s94)	**$33,375**	**6.1%**
GST	**$43,361**	**7.9%**
Lot price	**$297,344**	
Total cost of occupancy	**$551,104**	**100.0%**
Median house price of new dwellings in Camden LGA	**$450,000**	

The preceding demonstration identifies the gap between market price and delivery cost as about $100,000. The quantum of government tax and charges total approximately $135,000. The cost of developing new housing above the market price increases as a result of additional taxes and charges, the capacity of the market to pay diminishes. The median household income in the Camden LGA at the 2006 Census was $70,356. The borrowing capacity of a family with the median household income and one dependant child is roughly $320,000 for a 30 year mortgage.

The hypothetical feasibility demonstrates the cost of supplying new residential development to the market in the existing economic and regulatory framework. The combined house and land price of $551,000 is well in excess of the median house price in the same LGA and beyond market expectations for both first and second home buyers.

The most significant variable in the equation is the taxes and charges as the market price and construction costs are either constrained or fixed. Taxes and charges on new dwellings have to be reduced to achieve housing affordability.

STATE TAXES AND LEVIES

The terms of reference provided for the Inquiry seek comment on '*the taxes and levies imposed by state and territory governments'* yet the Commonwealth Government has no explicit control over how State Government's manage their economic and regulatory frameworks for the development process. UDIA NSW would expect however that the Labor incumbency at both State and Federal level confers a responsibility on the Governments to ensure appropriate cooperation in addressing housing affordability.

The current approach of the NSW Government to funding regional infrastructure with a demonstrable nexus to new urban development is through an upfront State Infrastructure Contribution (SIC). Many elements of the implementation of the SIC are not yet publicly known but when released will include arrangements for works in kind negotiations where a developer will provide the infrastructure in lieu of credits on the final contribution paid.

Some of the key elements of the draft arrangement as proposed are of great concern to the development industry and will have impacts on affordability. There are a myriad of concerns but one example follows; where a developer carries out infrastructure works in kind, any savings made from the work undertaken against the 'plan value' of those works as provided by the Government, must be equally shared between the Government agency and the developer. In other words, if a developer can provide infrastructure with greater financial efficiency than the Government, 50% the savings made on that work must be paid to the relevant Government agency.

This results in developers reaching the point where cash contributions, as distinct from works in kind, are required sooner in the development phase, with obvious cash flow implications. Cash flows are what developers need to bring the supply of dwellings to the market. A lack of cash flow at the start of a project increases the risk for a developer and therefore drives the price of housing that a developer

There is little appreciation in the government of the need for cash flows in the development process and the impact of high, upfront charges have on the risk of a developer investing. If a developer assumes the risk of supplying housing to the market and undertaking works in kind to provide infrastructure, they should not be financially penalised for doing so.

COMMONWEALTH TAXES – THE GST

A significant difference between the cost of new housing stock and stock developed prior to 2000 is that application of the GST to the development process. The development of new residential communities has delivered substantial GST revenue to the Commonwealth Government yet there is no evidence that it is being explicitly redistributed to these areas through the provision of infrastructure.

The GST is the only tax over which the Commonwealth Government has explicit control and it is a tax that is applied only to the development of new housing, rather than transactions of existing housing stock. The application of the GST and its impact on housing affordability is notably absent for the terms of reference for this Inquiry.

The application of the GST for only new housing disadvantages new entrants into the housing market at a time when dwelling commencements in this state are at near fifty year lows. It is highly inequitable that the tax only be applied to new housing as this market sector has traditionally attracted first home buyers, characterised in many cases by the young and geographically marginalised.

The GST is the largest single tax applied to the development of new housing. It is the only tax that the Commonwealth Government currently has direct control over in the development process. The GST is the largest single impediment to the supply of new dwellings to the market.

UDIA NSW recommends that the Commonwealth implement the following two actions to mitigate the impact of the GST on new dwellings and housing affordability:

i. Hypothecate the GST to fund infrastructure to support the activity that generates the tax; and

ii. Include the existing state and local taxes and charges in the GST margin scheme.

Returning the GST revenue to facilitate the activity which generates the tax is a transparent and equitable method of financing infrastructure. This substantial contribution will both service the new growth and deliver significant benefits to the metropolitan region, its people and economy.

In Sydney's Growth Centres the forecast expenditure on state infrastructure is $7.8 billion over 25 years. Target dwelling production in the Growth Centres is 160,000 dwellings over the same period. The average complete house and land package of $550,000 will generate around $45,000 in GST. Multiplied by 160,000 new dwellings in the Growth Centres this equates to GST revenue of over $7 billion, a substantial contribution to the state infrastructure costs.

The application of the GST in the development process creates a disincentive for investment. For example the GST margin scheme provides for the double dipping on the taxes levied on the development of residential land. As the GST applies under the margin scheme currently, GST is paid on all state and local government fees, levies and taxes. New homebuyers are therefore forced to pay a tax on a tax. The figure below demonstrates how new homebuyers are forced to pay thousands of dollars of GST on the value of a tax they have already paid to both the state and local government.

	Current GST Margin Scheme	**Broadened GST Margin Scheme**
Land Selling Price	$297,344.00	$297,344.00
less		
Land Acquisition	$58,824.00	$58,824.00
Stamp Duty		$3,325.00
State and Local Government Levies and Charges (SIC, S73, S94 etc)		$70,530.00
Total	$238,520.00	$164,755.00
GST Payable	**$21,683.64**	**$14,977.73**
GST paid on State and Local Taxes and Levies	**$6,705.91**	**0**

The basic principle of the margin scheme is that the raw land value is not taxed, it is removed from the margin. Using the same logic, all state and local government taxes should be considered part of the land cost and removed from the GST margin.

RECOMMENDATION 4

That the Commonwealth implement the following two actions to mitigate the impact of the GST on new dwellings and housing affordability:

i. Hypothecate the GST to fund infrastructure to support the activity that generates the tax.; and

ii. Include the existing state and local taxes and charges in the GST margin scheme.

GOVERNANCE

Unreasonable delays and complex decision making processes have eroded housing affordability and created a serious disincentive for investment in NSW. The supply of new dwellings to the market is dependant on the provision of a regulatory framework that ensures certainty, transparency and efficiency to attract investment.

Decision making delays are detrimental to housing affordability. Urban development is sensitive to holding costs where holding costs are principally interest on loans to complete the project.

The NSW Government's *Local Development Performance Monitoring: 2006-2007* recently revealed that 76 days on average were taken to assess development applications across all councils. The Monitor also documented that 97% of all development applications assessment were less than $1 million in value. For development applications that make a more substantial contribution to the housing stock such as a standard subdivision of 150 lots or more, development proponents would have to wait close to a year for an assessment.

Apartment production is particularly vulnerable to delays. This has consequences in NSW where an emphasis on urban renewal in regional cities such as Liverpool and Newcastle which are dependant on medium to high density residential construction.

UDIA NSW recognises that urban renewal projects are often controversial at the local level. Nevertheless, if there is intent in a council's environmental planning instrument and strategic policies to facilitate such development then the development assessment process needs to reflect that objective in practice and yield consents in a timely manner. This becomes evidently more critical as dwelling production is increasingly provided in existing urban areas.

The process of rezoning land in NSW has proved unnecessarily constraining and consent authorities have endeavoured to stymie proposed land use changes on the basis of their own often misguided assessment of demand. It is very easy to misinterpret the market's motives if the observer does not have a financial interest in satisfying the demands of the market. This action was criticised in the much lauded *Barker Review of Land Use and Planning* (2006) in the United Kingdom;

> *"It is not the role of local planning authorities to turn down development where they consider there to be a lack of Markey demand of need for the proposal. Investors who are risking their capital and whose business it is to assess likely customer demand are better placed than local authorities to determine the nature and scale of demand."*

The NSW Government has recently exhibited a broad scope of proposed reforms to the NSW Planning System with a draft exposure bill with changes to the *Environmental Planning and Assessment Act 1979* expected to be released soon. The proposed reforms seek to minimise the volume of applications that require comprehensive assessment, thereby allowing Councils to allocate greater resources to the assessment of larger investment applications. This is desirable for improving housing affordability as the applications that contribute most to housing supply of the same applications that are taking up to a year to be assessed.

Similarly the establishment of the Growth Centres Commission (GCC) in Sydney's west has proven to be a reasonably effective model. There is an opportunity to expand the application of organisations such as the GCC to other regions.

The importance of good governance in addressing housing affordability however is not the responsibility of one government department. The urban development industry in NSW has suffered significantly from the actions of disparate government agencies that are involved in the development process and are characterised by single issue agendas rather than an appreciation of the myriad of issues to consider in the provision of new housing for the community.

The Development Assessment Forum (DAF) created the Leading Practice Model for Development Assessment. UDIA NSW believes that these guidelines and in particular the initial recommendations prepared by the University of Canberra in 2003 provide a suitable model for good governance for development assessment in Australia.

Many developers operate nationally. Consistency of planning regulation would reduce costs and assist affordability.

The solution to housing affordability is in the supply of dwellings to the community. This requires investment from the private industry. Investment requires an understanding of risk. Investment will only be facilitated where government can provide an improved level of certainty, transparency, and efficiency.

RECOMMENDATION 5

That the Commonwealth encourage states to apply the Leading Practice Model for Development Assessment consistently across Australia.

RECOMMENDATIONS

RECOMMENDATION 1

The Commonwealth Government commit to the expedited release of surplus Commonwealth Land to support the supply of new dwellings to the market.

RECOMMENDATION 2

The Commonwealth Government provide additional incentives for private investment in the provision of affordable rental accommodation to encourage the supply of housing in areas of high amenity and good access to employment and public transport.

RECOMMENDATION 3

The Commonwealth Government establish an urban affairs portfolio to coordinate Federal involvement and investment in urban infrastructure to provide for dwelling opportunities in urban areas similar to forward investment, incentives and support provided by the Building Better Cities Program.

RECOMMENDATION 4

That the Commonwealth implement the following two actions to mitigate the impact of the GST on new dwellings and housing affordability:

- *iii. Hypothecate the GST to fund infrastructure to support the activity that generates the tax.; or*
- *iv. Include the existing state and local taxes and charges in the GST margin scheme.*

RECOMMENDATION 5

That the Commonwealth encourage states to apply the Leading Practice Model for Development Assessment consistently across Australia.

UDIA NSW

Who We Are

UDIA is the voice of development. We represent the industry which develops new communities and proudly advocate for its interests. We pursue access to land for development, encourage the creation of a positive regulatory environment, and seek to moderate the burden of taxes and charges on our customers. We believe in affordable, sustainable, and liveable communities.

Urban development contributes $15 billion worth of activity to the State economy each year. UDIA NSW represents the leading industry participants with over 520 corporate members.

UDIA was established in New South Wales in 1963 and operates as a non-profit institute for the benefit of its member's throughout Australia, with divisions in New South Wales, Queensland, South Australia, Victoria and Western Australia.

UDIA NSW is a progressive organisation driven by its members. Our President, Council, Chapters and Committees, Executive Director and staff ensure that we give members and sponsors maximum value for their investment.

UDIA NSW's goals are to:

- Promote high standards for the urban development industry;
- Promote respect for the inherited and natural environment while creating quality, dynamic built environments;
- Ensure the skills which make up the membership of the Institute will be applied to principles of good planning, efficient land utilisation and sustainability of resources for future generations;
- Institute a continuing education and research program to support and assist the industry and for the benefit of others associated with urban development; and
- Promote greater understanding in the community on the role and achievements of the urban development industry.

What We Do

UDIA NSW engages in a range of activities which include:

- ***Advocacy*** - Lobbying government so that urban development can be undertaken positively and creatively for the widest benefit;
- ***Learning*** - Keeping members and associates up to date on critical industry issues and best practice through seminars, conferences and communications. Our regular UDIA journal;
- ***Innovation*** - Encouraging innovation and excellence through the annual *UDIA NSW Awards for Excellence* and giving exposure to the best in contemporary development throughout the year; and
- ***Better Business*** – Providing opportunities for business networking and learning.