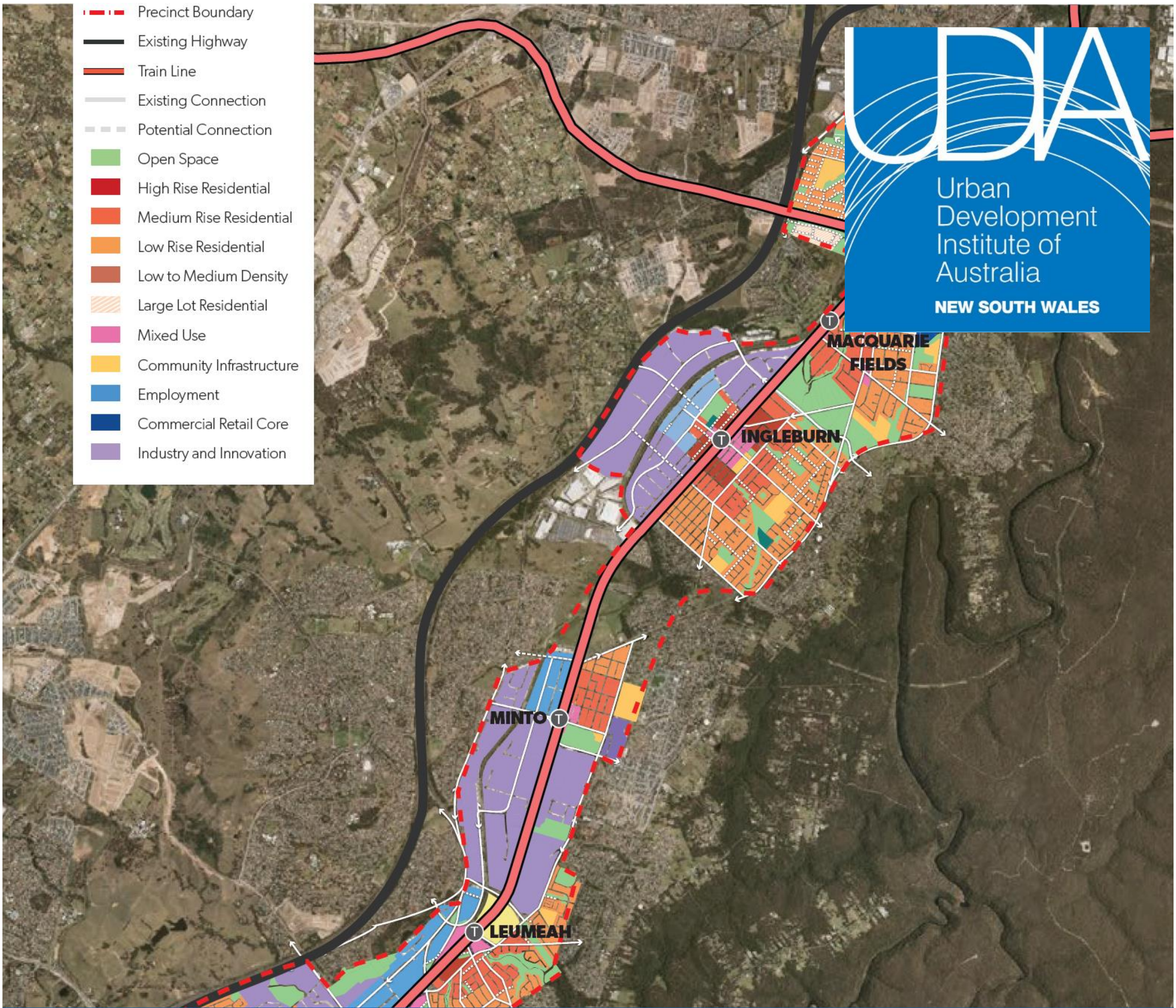

UDIA
Urban Development Institute of Australia
NEW SOUTH WALES

Greater Macarthur Draft SIC

UDIA NSW Response

March 2019

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ABOUT THE UDIA

Established in 1963, the Urban Development Institute of Australia (UDIA NSW) is the leading industry group representing the property development sector. Our 500 members include developers, engineers, consultants, local government, and utilities. Our advocacy is focussed on developing liveable, connected, and affordable cities.

EXECUTIVE SUMMARY

UDIA NSW (UDIA) welcomes the opportunity to provide comment on the draft Greater Macarthur SIC. Many of our members operate in the Greater Macarthur, including both large listed developers and smaller private operators. We proudly count Campbelltown City Council and Wollondilly Shire Council as UDIA members and regularly engage with councils and members in Greater Macarthur.

UDIA's Land Development and Infrastructure Committees includes many developers in the Greater Macarthur. We bring a high-level of industry knowledge and experience on development in the Greater Macarthur and unlocking the potential of greenfield growth in the Greater Macarthur. Our recent Building Blocks report (attached to this submission) identified 2,000 lots that could be unlocked in the Greater Macarthur from coordinated infrastructure delivery within the next three years at a cost of $7,500 per lot.

We welcome the certainty to industry that the release of the draft SIC provides. As the industry body representing the industry we are able to provide advice at developing stages of plans to foster support, collaboration and best practice.

The transformation of the Greater Macarthur supports a globally competitive Sydney and is a key link between the Wilton Growth Area and Campbelltown. Sydney is also experiencing a deep housing affordability crisis, which UDIA believes is one of the most significant social and economic challenges for this generation. Therefore, finding the right balance for infrastructure funding is of critical importance.

UDIA NSW supports user pays models for infrastructure contributions, a 'beneficiary pays' system of 'user pays' promotes fairness by ensuring all those who benefit from infrastructure contribute, instead of the 'impactor pays' approach that places the burden of paying for infrastructure on the user that creates the marginal extra need.

However, we have significant concerns about several aspects of the draft Greater Macarthur SIC. We believe the infrastructure costings are significantly higher than industry standards, and that the nexus of several of the infrastructure items with development in the area is tenuous. The assumptions underpinning the estimated capacity to pay are inaccurate and don't reflect imminent Section 7.11 charge rises and slower market conditions. The per dwelling rate approach is likely to make medium and high density development, which are already marginal, unfeasible in Greater Macarthur.

UDIA NSW recommends that a successful SIC in the Greater Macarthur requires;

1. Adoption of the COAG infrastructure funding approach as it is efficient, transparent, accountable, predicable and equitable.

2. UDIA and Industry provided with information on infrastructure timing and schedule of work streams. Detailed information that shows how the infrastructure proposed links to the demand that the precinct will create. This will give the industry the certainty it needs.

3. Charge the Greater Macarthur SIC using a blended approach between a per dwelling and per hectare rate instead of a per dwelling rate. This would better reflect the principles of nexus and support housing diversity across the precinct.

4. Introduce consistent and realistic assumptions for the feasibility testing of the SIC. The current assumptions are inconsistent between precincts for key inputs such as interest rates and rely upon artificially low section 7.11 charges as we move to an uncapped environment based on current NSW government policy.

5. For Works in Kind agreements the works, scope and budget should be agreed upfront and locked-in at the time the agreement is executed. Charges should be mutually agreed and charged on a per dwelling rate.

6. Provide upfront and transparent transitional arrangements along the lines of enabling any DA lodged within twelve months of the introduction of the new SIC to be charged the previous SIC rate, considering the long development delivery timeframe in NSW.

Getting infrastructure charging right is of critical importance to the state. UDIA commissioned PwC to undertake a review of the impact of infrastructure contributions, taxes and charges on the NSW economy. The report found just a 10% reduction in housing supply would result in significant economic impact on the NSW economy, highlighted below.

UDIA also recognise the continuing housing affordability pressure that is felt across the community. In a 1,500 person survey conducted by Newgate Research Sydney residents identified housing affordability as the second most important issue apart from transport. Further, 73% agreed 'Sydney has a housing crisis'.

UDIA NSW recognises the importance of aligning infrastructure with growth. We consider infrastructure is fundamental to enabling the development of new and growing communities. Unfortunately, successive governments have failed to provide the necessary infrastructure to support the rejuvenation of existing suburbs in Sydney. As infrastructure has traditionally not been aligned with growth, some in the community have lost faith in the planning system. Where there is not a correlation between infrastructure and growth, for many Sydney becomes 'full' and 'overdeveloped' in the mind of the community, and it becomes more challenging to build our future city.

It remains critical for the orderly release of serviced residential land and the rejuvenation of new infill areas that planning and infrastructure is aligned. For the past three years Sydney has been the second least affordable city in the world to purchase a home. Housing supply has not kept up with demand.

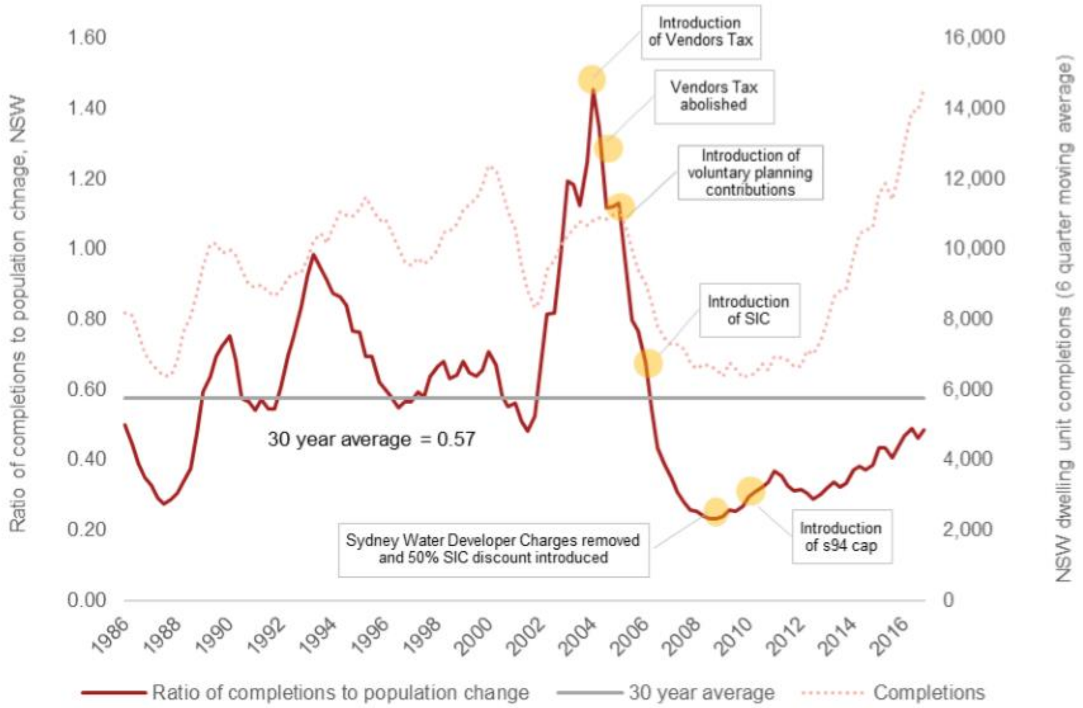
UDIA is keen to work collaboratively with the Department on an alternative approach to infrastructure funding. PwC have costed this alternative model and we would welcome the opportunity to provide a briefing on this approach.

SUPPLY HAS CAUSED THE HOUSING AFFORDABILITY CRISIS

The housing affordability crisis in NSW has been driven by persistent lack of supply for more than a decade. Currently, NSW has a backlog of 100,000 dwellings and requires 36,250 new dwellings each year over the next 20 years to meet demand. When considering the backlog Sydney needs to deliver 41,250 new homes each year or 825,000 total dwellings. NSW has never sustained this amount of annual dwelling supply.

PwC's June 2018 report, *Infrastructure Contributions: review of impact of infrastructure taxes and charges on the NSW economy,* has shown that where taxes and charges are introduced at a high level development becomes unfeasible, supply deteriorates and consequently prices rise:

Figure 5 - Ratio of dwelling completions to population change



PwC, June 2018

The NSW Parliamentary Research Service has determined:

> *…until the supply response catches up to demand, higher house prices are the inevitable outcome*, *demand, deposits, debt…*(Housing affordability in NSW, March 2017)

Only by increasing supply can housing affordability be properly addressed. The imposition of additional taxes and charges on development has two clear negative effects. It will:

1. reduce the rate of housing supply; and
2. increase the cost of new homes.

This has flow on effects onto the market. Already, about a quarter of the cost of a new home in the greenfield areas is made up in cumulative taxes and charges further increasing the cumulative impact of taxes and charges would serve to diminish feasibility and place additional strain on housing supply.

Furthermore, by creating renewed uncertainty, site acquisition cannot occur and there will be inevitable periods of low housing supply. Particularly as residential greenfield development occurs over a 7-10 year horizon.

INFRASTRUCTURE FUNDING PRINCIPLES AND TRANSPARENCY

Infrastructure is essential to support Sydney's growth, but it is complicated in terms of how its currently structured, coordinated and funded. The 2012 COAG Housing Supply and Affordability Reform Working Party (HASR) examined charges imposed on developers and homeowners. It found:

> *some state and local governments were imposing infrastructure charges on developers (or purchasers in some instances) in a manner that lacked consistency, transparency, and predictability.*

The HSAR Working Party recommended infrastructure charges should, at least, be:

- **efficient** – charges should be for infrastructure required for the proposed development or for servicing a major development;
- **transparent and accountable** – charging regimes should be supported by publicly available information on the infrastructure subject to charges, the methodology used to determine charges and the expenditure of funds;
- **predictable** – charges should be in line with published methodologies and charging schedules (with clarity around the circumstances in which charges can be modified after agreement); and
- **equitable** – where the benefits of infrastructure provision are shared between developers (land owners), the infrastructure charges levied on the developer should be no higher than the proportional demand that their development will place on that infrastructure.

Currently it is clear that these principles are not being followed in infrastructure delivery.

The *Commonwealth Inquiry into The Australian Housing Affordability Challenge* 2015, amongst other things, found:

> *Developer contributions are frequently opaque and unjustified in their application, and there may be no clear connection between the cost of the infrastructure provided and the contribution, to the extent that the contribution may be well in excess of the cost of the infrastructure it is supposed to pay for. Additionally, in many cases developer contributions are used to pay for infrastructure that benefits the wider community (for example trunk roads and utilities infrastructure upgrades). In this case, developers and ultimately new home buyers are being forced to subsidise the rest of the community.*

In the aforementioned report to the Premier on housing affordability, former RBA Governor, Glenn Stevens questioned if infrastructure could be delivered at a lower cost, asking "is the infrastructure being unnecessarily 'gold plated'?".

UDIA supports the government's move toward greater transparency in the SIC. We believe the release of the draft SIC along with the feasibility report has provided some greater transparency. However, there are some steps that could be taken to improve transparency with the SIC and the SIC process. We recommend as a starting point reporting on the SIC is modelled on Section 7.11 reporting, although we believe there are greater opportunities for transparency, some key steps include:

1. Providing a schedule of works with indicative timing of works or triggers for work requirements
2. Providing a schedule of completed works so industry can understand what work has been completed and what work is upcoming.
3. The costing of infrastructure items separated between land and works.
4. Further detail relating the infrastructure items to demand created by the precinct to support a beneficiary pays approach.

We believe by releasing this information there would be greater opportunity for industry to work with the Department of Planning and Environment to develop innovative and lower cost solutions for infrastructure.

SIC INPUTS

UDIA has significant concern about the technical assumptions of the draft SIC. We do not believe there was sufficient work to understand how the need for the infrastructure has been supported by the technical documents.

We do not believe there has been sufficient information provided to adequately confirm the need for a range of the items and their apportionment for the new development.

As an example we do not have sufficient detail on the transport modelling and where the justification for certain roads has been derived.

USE OF PER DWELLING RATE

UDIA NSW notes that the SIC is proposed to be charged on a per dwelling basis. We do not believe this is an equitable approach because it does not reflect the lower infrastructure impact associated with each medium or high density dwelling. We consider this will lead to lower residential population in the growth centre as townhouses and apartment projects, which are already marginal will diminish further. Without this typology it will be more challenging to develop vibrant centres in Greater Macarthur.

UDIA recommends a blended approach to the SIC. We consider there could be a flat rate per dwelling, which is then blended with a per hectare rate. This would better reflect the principles of nexus and more would support a mix of typologies to be feasible. We are happy to meet and provide further information on this approach.

REASONABLE NEXUS

UDIA sees it as a long-established principle and a necessary pre-requisite to any charging regime that there is a clear nexus between the development and infrastructure. Infrastructure that is unrelated to the development should not be included in the SIC.

While it is clear and fair to say that precinct development alone generates the demands for some infrastructure items, such as school sites. Other items such as roads and public transport attract patronage from a much broader area. There should be a greater consideration of the apportionment of these items, similarly with bio-certification the protection of the natural environment is of state-wide significance so would be better spread across a broader cohort such as the residents of the state.

Specifically, the draft Macarthur SIC currently allows for a number of major infrastructure upgrades that are partially unrelated to the Greater Macarthur Rezoning. For example, the Appin Road upgrade to two lanes is a long standing upgrade requirement irrespective of the rezoning. The Appin Road has had regular fatalities for decades and requires upgrading outside of the SIC.

REASONABLE COST

The costs in the SIC seem to beyond the industry standard of development. They are higher than the cost in VPAs. The Department has a database of historical greenfield VPAs and delivered costs, which we believe should guide the costing of roads in Greater Macarthur, and would put downward pressure on the costs.

The cost in the SIC should be the efficient cost of delivering the most efficient solution to an issue, if for a reason unrelated to the development there is a requirement for a higher cost solution, then government should contribute that cost.

We believe highly conservative estimates have been used followed with a 40% contingency applied, which indicates these are very high-level costs that significantly over-price the cost of the infrastructure. In principle, we consider the cost in a VPA and the cost in a SIC should be the same for the same infrastructure item.

We would be pleased to participate in an ongoing discussion about how to establish the efficient costs for the plan.

IMPACT ON HOUSING SUPPLY - FEASIBILITY

UDIA has significant concerns about the feasibility of the SIC on development. The 'affordability' justification appears to be based on a number of flawed assumptions on dwelling density, sales rates, sales prices, and professional fees.

We consider the rate is generally unaffordable, we believe there are a number of issues with the feasibility, we would be pleased to walk you through our concerns with the feasibility in detail at a workshop.

The EPS feasibility study allowed for a \$20k/lot Section 7.11, which was used as justification for the eventual \$39-44k/lot SIC. This appears to be making a claim that the market can afford a combined SIC and Section 7.11 of \$59-64k/lot. Yet we already know that the Section 7.11 charge in the Menangle Park area is proposed to be \$43k/dwelling, and likely to increase to \$56k/dwelling. In the remaining areas, Section 7.11 is going to be uncapped and highly unlikely to be \$20k/lot for long.

A further example of our concerns is that the EPS study scenario allowed for 100% of the land to be developed for housing with no allowances for open space, access denied roads, schools, asset protection zones etc. These losses are about 25% in Greater Macarthur. In addition, it assumes 18 lots per ha which would result in an average lot size of 388m2 but uses 450m2 (i.e. 15 lots per ha) in adopting a sales price for lots. The sample size for sales is too small and predicts a sale price approximately $40k higher than the market is currently experiencing.

It also ignores the requirement for large upfront SIC and Sydney Water infrastructure funded by landowners. That is, it overstates the yield, ignores timing of funding and overprices the income.

By not considering a proper feasibility this would improperly impact housing supply and cost and add to Sydney's growing housing supply crisis, we consider it is critical the SIC is set at a reasonable level based on the principles of nexus, affordability and efficient costs.

A PATHWAY FORWARD

UDIA seeks to work collaboratively with the Department, landowners, the community and other stakeholders to outline our concerns more fully, we have particular concerns about the lack of information to make an informed decision about many of the cost items.

A workshop between UDIA and the Department would help alleviate some of these concerns and resolve some issues. Following a detailed review of the draft Greater Macarthur SIC there should be a re-exhibition that enables the community and industry to understand the key changes before the SIC is finalised.

Most importantly, we believe this needs to include explanation of why items have been removed from the SIC, particularly those for which there is no nexus and explanation to the community that these items are needed regardless of the development, and therefore would be funded through mechanisms other than the SIC.

IMPROVED WORKS IN KIND ARRANGEMENTS

Where opportunities exist for developers to deliver infrastructure as 'works in kind' there needs to be certainty around the scope and budget. Very simply, the works scope and budget are to be agreed up front and locked in at the time the agreement is executed.

The risk on the delivery of the agreed works scope from that point on should rest with the developer to manage, without needing to revisit or audit the costs post-delivery. In many cases the developer can deliver these works slightly cheaper than the budget. They can use economies of scale on the larger projects, if undertaken with an accompanying stage of their subdivision works. In this way minor variations can be absorbed by the developer.

These 'works in kind' can be used to offset any SIC payments the developer may be required to pay the delivery of their release. Where the cost of the works exceeds the developer's apportionment or SIC debt, there should be an option for the works to be credited against another project owned by the developer, or a refund/payment mechanism triggered upon delivery.

CONCLUSION

UDIA NSW looks forward to working with the Department in promoting certain and fair contributions for the development industry. UDIA looks forward to working with the Department on improving the Greater Macarthur SIC and the broader SIC process to promote housing diversity, nexus, transparency, and housing supply.

Please contact Elliott Hale, General Manger, Policy, Media, and Government Relations, on 02 9262 1214 or ehale@udiansw.com.au to continue to discuss how we can collaborate on improving the charging framework in the Greater Macarthur.

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